

RETAIL REPORT

Q3 2022

The Lisney logo consists of the word "Lisney" in a white, sans-serif font, enclosed within a white rectangular border. This logo is positioned in the top right corner of the page, set against a solid orange square background.

Lisney



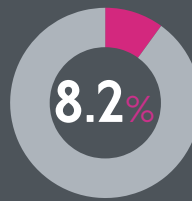
CONSUMER SENTIMENT INDEX

42.1

SEPTEMBER 2022

Source: Economist Austin Hughes

INFLATION

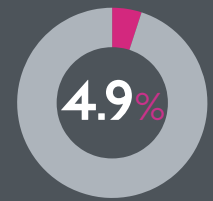


THE TWELFTH CONSECUTIVE MONTH WITH THE CPI HIGHER THAN 5.0%

Source: CSO

ONLINE SALES

PORTION OF TOTAL SALES COMPLETED ONLINE IN AUGUST 2022



Source: CSO - Only Enterprises Registered in Ireland

GRAFTON STREET VACANCY

11 UNITS VACANT

AT THE END OF SEPTEMBER

DOWN FROM 16 LAST QUARTER

NEW STORES ON GRAFTON STREET

SCULPTED BY AIMEE
LEGO
RUSSELL AND BROMLEY
ECCO
SQUARE (a pop up store)

HENRY / MARY STREET VACANCY

11 UNITS VACANT

AT THE END OF SEPTEMBER

NO CHANGE IN THE QUARTER

OVERVIEW

Consumer sentiment has fallen to its lowest level in 14 years. Despite this, the Irish retail property market - remained relatively resilient in Q3 with a number of new openings in Dublin city centre and suburbs. There was an improvement in retail sales, employment levels continued to grow, and Budget 2023 introduced some welcome supports for businesses and households dealing with significantly higher costs. Interestingly, household savings continued to rise, albeit at a slower pace.

SAVINGS

Despite the global economic headwinds, Irish household savings remained strong with €7.7bn extra on deposit at the end of August compared to 12 months previous. In June, €1.3 bn was saved followed by a further €1.6 bn in July. Deposits fell in August, but a decline also occurred in August 2021 and therefore may reflect the end of summer and back to school. To assess if the decline relates to the cost-of-living crisis, it will be important to monitor data over the coming months particularly as we enter the winter period with increased energy costs.

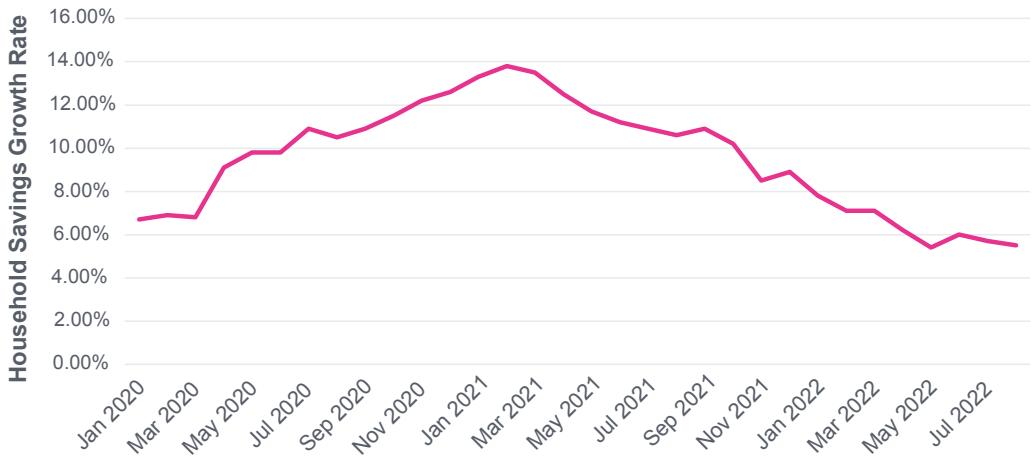
CONSUMER SENTIMENT & INFLATION

According to analysis by economist Austin Hughes, the consumer sentiment index fell to 42.1 in September from 53.4 in August 2022, the lowest level in 14 years (October 2008). With concerns about the impact of higher energy costs and rising interest rates as well as the release of Budget 2023, it is no surprise that Irish consumer confidence dropped significantly in September.

The annual inflation rate fell to 8.2% in September 2022, easing from the 38-year high of 9.1% in the previous three months. While the rate remains high, August recorded the first decrease in the pace of price growth since January 2022. Inflation slowed for various sub-categories on a monthly basis in September including transportation (-3.6%) and restaurants & hotels (+1.4%). However, costs continued to increase for clothing & footwear (+4.0%) and housing, water, electricity, gas & other fuels (-0.3%) compared to the previous month. Consumer prices remained unchanged in the month between August 2022 and September 2022, easing from the 0.4% rise in the previous month. While there was a slowdown in inflation, energy companies have announced further price hikes in response to a surge in wholesale gas prices, suggesting this slowdown might be temporary.

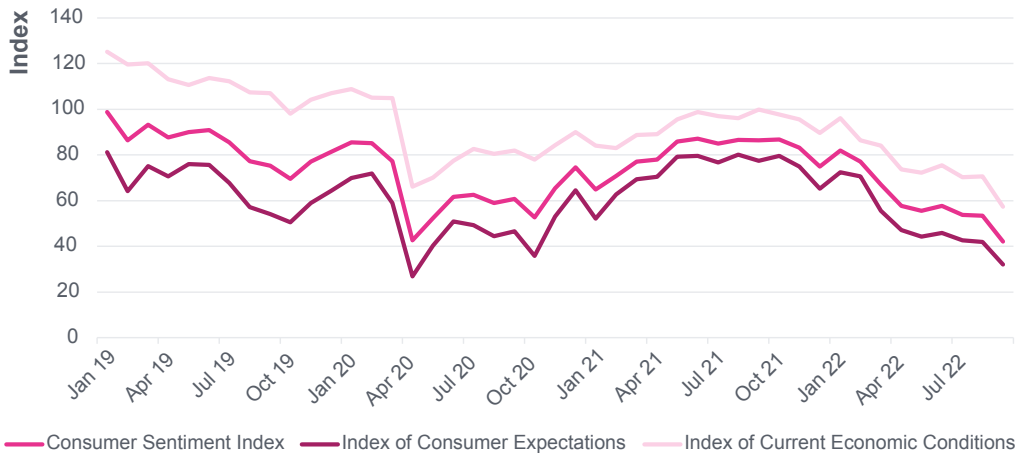
RETAIL

HOUSEHOLD DEPOSITS – ANNUAL RATE OF CHANGE (JANUARY 2013 – AUGUST 2022)



Source: Central Bank of Ireland

CONSUMER SENTIMENT INDEX (JANUARY 2019 – SEPTEMBER 2022)

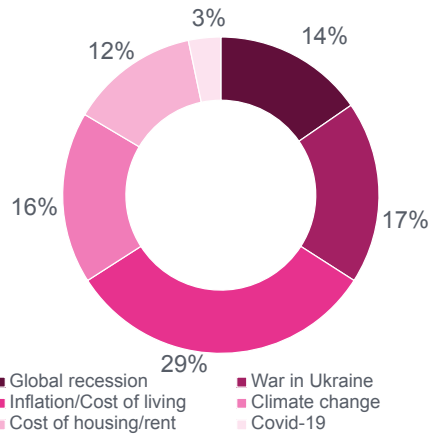


Source: Central Bank of Ireland

Russia's invasion of Ukraine has had significant impacts on the Irish economy. Commodity prices across the board have sharply increased particularly in raw materials. Oil and gas prices have surged since the invasion on 24 February exceeding \$139 per barrel for the first time since 2008 in March. The war in Ukraine has also affected consumer prices across the sectors. The most significant monthly price changes between February 2022 and September 2022 were increases in Housing, Water, Electricity, Gas & Other Fuels (+13.7%), Food and non-alcoholic beverages (+7.8%) and Restaurants and hotels (7.4%).

In Q3 2022, a survey carried out by Bank of Ireland showed that overall, inflation is the highest concern amongst Irish households as 29% fear for their finances. This is followed by the war in Ukraine (17%), climate change (16%), global recession (14%) and the

CONSUMERS' CONCERNS (BOI SURVEY Q3 2022)

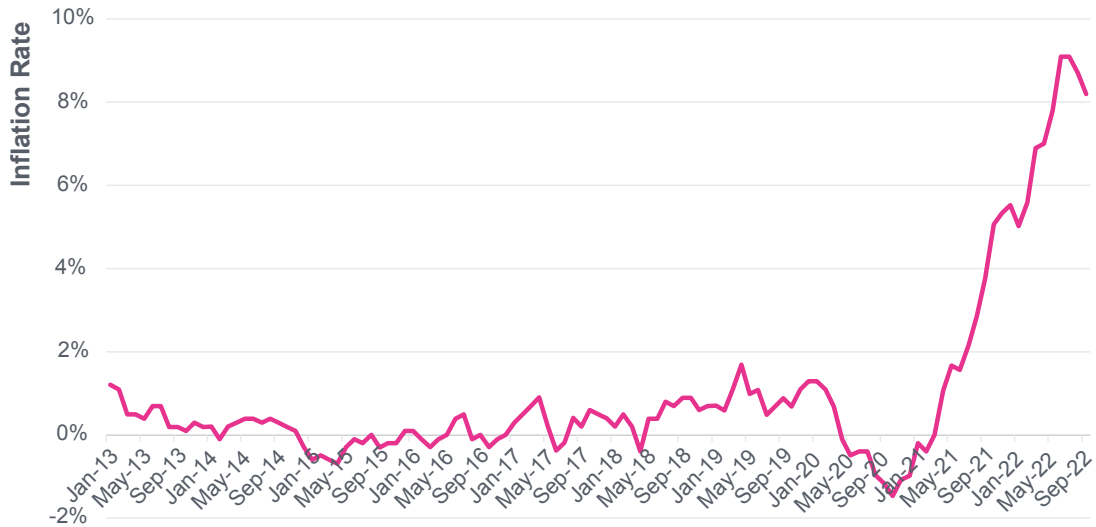


Source: CSO, Lisney analysis

cost of housing (12%), while COVID-19 was the lowest concern among households, at just 3%. The war in Ukraine has dropped back considerably in the list of top concerns (from 32% in May 2022 to 17% in August), along with COVID almost completely falling off the list at just 3%.

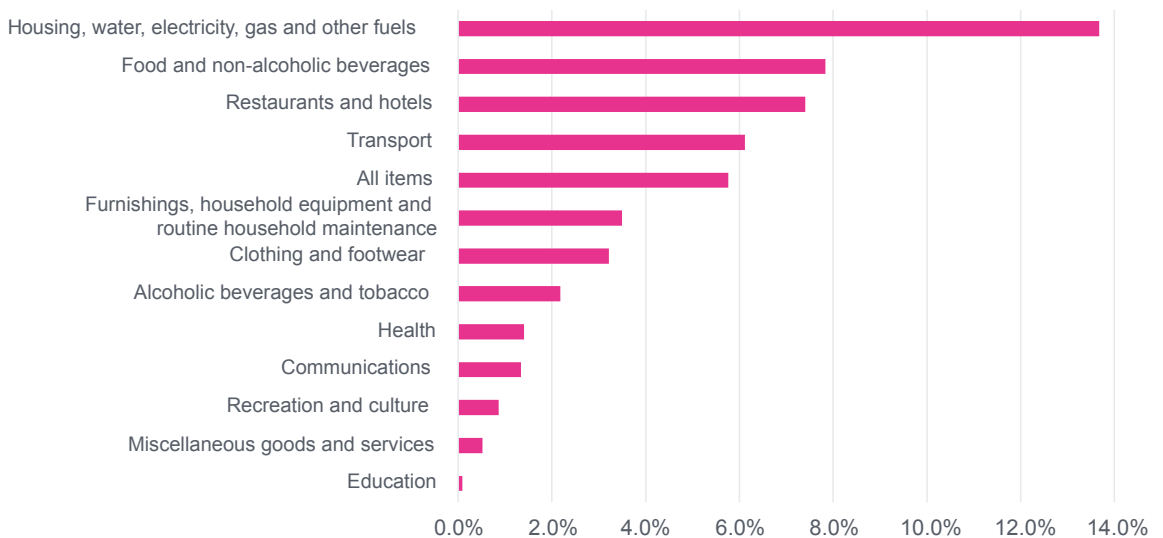
The survey also illustrated the different fears faced by different age groups. Inflation and the cost-of-living rank highest amongst both the 30-59 year old and 16-29 year old categories and while it increased significantly amongst the 60+ age group, this age bracket was alone in ranking the war in Ukraine top of their concerns.

ANNUALISED RATE OF IRISH INFLATION (JANUARY 2013 – SEPTEMBER 2022)



Source: CSO, Lisney analysis

ANNUALISED RATE OF IRISH INFLATION – PRE & POST WAR IN UKRAINE (FEBRUARY 2022 – SEPTEMBER)



Source: CSO, Lisney analysis

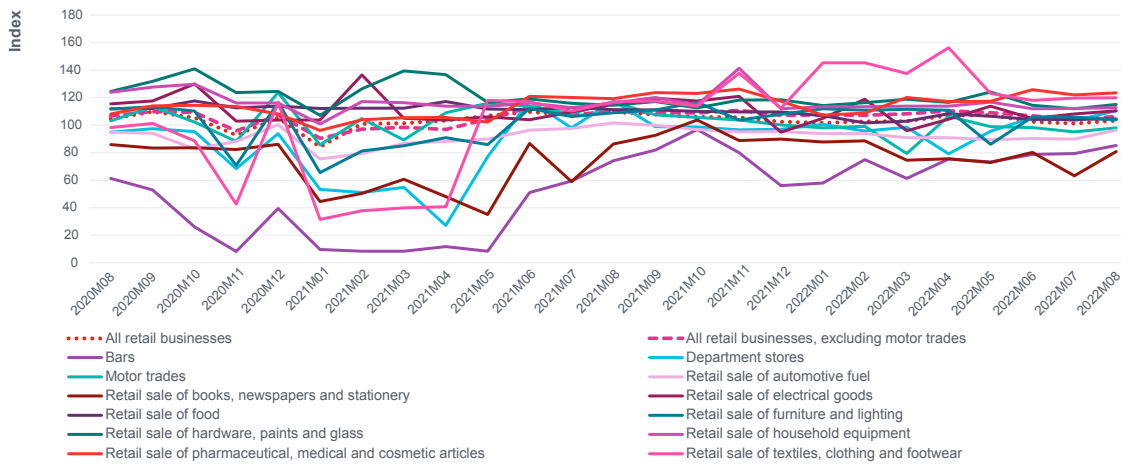
RETAIL SALES

The volume of retail sales rose slightly in August, increasing by 2% according to the latest figures from the CSO, but remained 5.8% below levels recorded in the same month last year. 'Books, newspapers and stationery' accounted for the highest growth in sales across all categories increasing by 28% ahead of back to school. 'Bars' also increased sales towards the end of the summer (in August), rising by 7% compared to July. However, the CSO noted the 18% increase in bar sales in the year was likely on account of COVID-19 restrictions impacting the sector in August 2021.

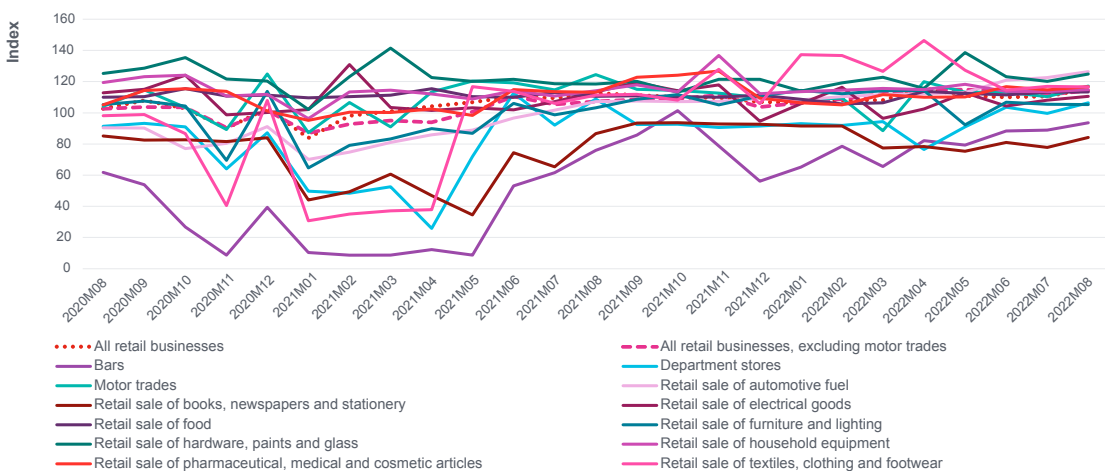
Online retail sales within Irish registered companies (excluding motor trades) averaged 4.9% of all retail sales this quarter. While this level is well below levels reached at the height of the pandemic, it is still above pre-pandemic times even with the current economic situation. In reality, the move to online shopping by Irish consumers is significantly larger given that much online spend is with non-Irish registered companies. By way of comparison, approximately 24.2% of sales in the UK are online.

A market analysis carried out by eCommerceDB found that the Irish online shopping market in 2021 was worth US\$4.3 billion. It showed an increase of 18% from the previous year (2020). The biggest contributor to the Irish eCommerce market in 2021 was amazon.co.uk generating a revenue of \$485 million. Tesco.ie and currys.ie followed Amazon.co.uk as the second and third largest stores with US\$376 million and US\$248 million, respectively.

CHANGE IN VOLUME OF RETAIL SALES BY SECTOR (FEBRUARY 2020 – AUGUST 2022)



CHANGE IN VALUE OF RETAIL SALES BY SECTOR (FEBRUARY 2020 – AUGUST 2022)



Source: CSO, Lisney analysis

RETAIL PROPERTY MARKET TRENDS

New store opening

There has been significant activity on Grafton Street in recent months with the vacancy level dropping to 12%, from 17.4% in Q3. New stores on the street are across all sectors and include Sculpted by Aimee, Lego, Sketchers, Ecco and a pop-up store, Square. Russell and Bromley opened their first Irish store at 76 Grafton Street, the former site of Fitzpatricks Shoes.

Unlike the Grafton Street area, vacancy levels on Henry Street remained at 17.7%. Holland & Barrett opened its new store at 45 Henry Street in September after closing its store at No. 17. The former Debenhams Department store at 54-62 Henry Street was launched to the market for sale in August at a guide price of €55m, having remained vacant since the controversial closure in May 2020.

On more secondary streets in the central retail core, UK coffee shop chain Pret A Manger opened its first Irish premises on Dawson Street in August, while luxury brand Mulberry has taken the former Dr Martens store on Duke Street. Tapped opened in the former Judge Roy Beans and Porterhouse on Nassau Street and Krispy Kreme opened in Central Plaza (former Central Bank building) on Dame Street. A number of other transactions are in the pipeline.

In the suburbs, Penneys opened a store in The Square, Tallaght in September, while Zara and Flannels are opening in Blanchardstown Shopping Centre in October/November 2022. Lush recently agreed a letting in Dundrum Town Centre.



New challenges

Retailers have faced significant challenges in recent years with COVID-related closures, staffing shortages - supply chain issues and now rising energy costs. All of the above have put enormous pressure on businesses who are having to constantly adapt and change in order to survive. Whilst the covid supports put in place by the Government helped keep businesses up and running, a number have closed their doors in recent weeks including The Vegan Sandwich Company, Circa, Spatched, and Dorian.

As part of Budget 2023, the Government announced a new €1.25bn Temporary Business Energy Support Scheme (TBESS) to help businesses survive the winter of rising bills. However, with the hospitality VAT rate returning to 13.5% in February 2023 from its prevailing 9% rate, this could lead to the closure of more restaurants and other hospitality businesses in the first half of 2023.

Retailers taking action on ESG

Irish retailers have launched a new sustainability initiative, Sustainable Irish Retail Action (SIRA) to support Irish retail businesses to take practical steps in becoming more sustainable. The initiative is sponsored by high profile retailers including Vodafone, AIB, SuperValu and Tap Creative. The SIRA has launched the SIRA e-guide, a practical step-by-step guide to making a retail business sustainable. It contains advice, tips, ideas, and case studies, and provides direct links to further information and support.

There are already examples of businesses such as Brown Thomas offering rental services amid the ongoing cost-of-living crisis and to offset environmental issues. There are also retailers engaging in social policies. For example, IKEA has strengthened its commitment to reduce inequalities and advance human rights, while fashion brands such as H&M and Zara are introducing genderless fashion.

OUTLOOK

1

Retail property transactions will continue to be softer than pre-pandemic levels with landlords continuing to offer more flexible lease terms and contributions to assist tenants with store and restaurant openings. With landlords and tenants working cohesively, this will anticipate further demand and activity for stores in the months ahead.

2

Government covid supports have now finished and the anticipated closures did not come to fruition. While many retailers and restaurants are trading well with improved footfall, rising operational costs are now a factor. The TBESS may mask some struggles over the winter months. However, in the more medium term, those businesses that were struggling before COVID-19 are likely to continue struggle when all government assistance has ended, particularly those impacted by the change in VAT rate.

3

The UK economy and the value of Sterling has been severely impacted in recent weeks by the UK Government's mini-budget. This may lead to retail closures and CVAs (company voluntary arrangements) being reignited, something that has been absent from the news in the last two to three years.

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