

**RETAIL
REPORT**

Q4 2022

Lisney



CREDIT UNION CONSUMER SENTIMENT INDEX

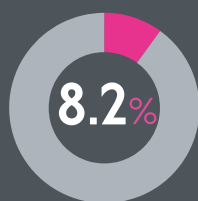
48.7

DECEMBER 2022

Source: Credit Union

INFLATION (CPI)

DECEMBER 2022

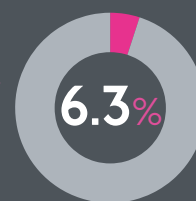


THE FIFTEENTH STRAIGHT MONTH WITH THE CPI HIGHER THAN 5.0%

Source: CSO

ONLINE SALES

PORTION OF TOTAL SALES COMPLETED ONLINE IN NOVEMBER 2022



Source: CSO - Only Enterprises Registered in Ireland

GRAFTON STREET VACANCY

7 UNITS VACANT

AT THE END OF DECEMBER

DOWN FROM 11 LAST QUARTER

NEW STORES

GRAFTON STREET
NEW DIMENSIONS
CALENDAR CLUB
TRINITY OASIS

HENRY / MARY STREET
KINGDOM OF SWEETS
CALENDAR CLUB
HAN ELECTRICAL & GIFT

HENRY / MARY STREET VACANCY

8 UNITS VACANT

AT THE END OF DECEMBER

DOWN FROM 11 LAST QUARTER

OVERVIEW

In the latter months of 2022, there appeared to be more of an acknowledgement and acceptance that there has been a change in the city centre footfall, particularly regarding office workers and hybrid working. Tuesday, Wednesday and Thursday are the busiest weekdays in the city centre and while there is a push from employers to increase the number of staff coming into the office, retailers report that footfall is ultimately down two days a week.

The impact of this on retailers is being exacerbated by the squeeze in discretionary spending as overall household costs continue to rise with inflation at 8.2% in December 2022. This is also evidenced by the CSO's data on core retail sales where a gap has emerged between the volume and value of sales, particularly since last April. While the value of sales (or how much money is taken in at the tills) increased by 3.6% in the year to November 2022, the volume of sales (or the number of goods sold) decreased by 4.2%. This may also be down to people now taking the time to do online research before committing to spending, resulting in less impulse buying – highlighting the more cautious approach being adopted around discretionary spending.

CONSUMER SENTIMENT

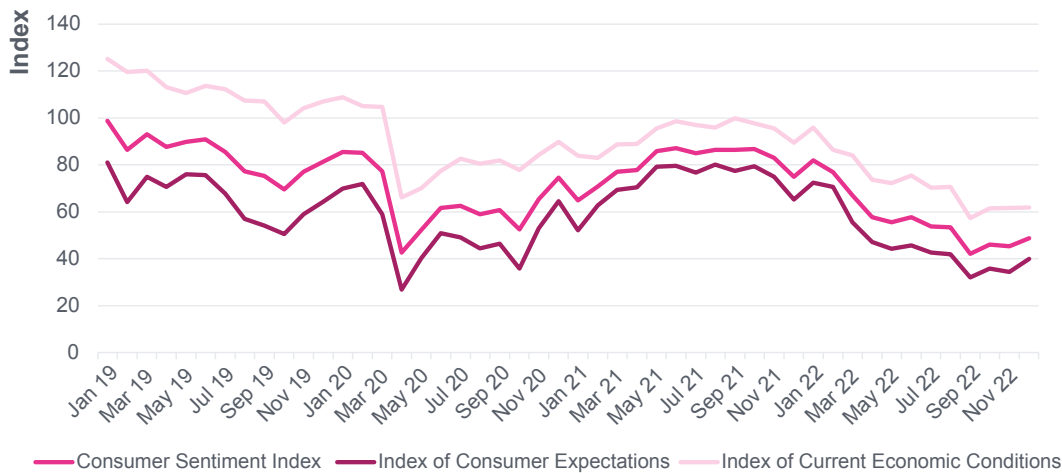
The Irish League of Credit Unions Consumer Sentiment Index improved to 48.7 in December from 45.3 in November 2022, the highest level since August 2022. The modest rise in consumer confidence, however, implies that although caution still prevails, sentiment and expenditure have not been completely disrupted by a challenging 2022. This was predominantly driven by low unemployment figures, slowing consumer and property price inflation and buoyant tax revenues as well as strong economic growth.

INFLATION

The annual inflation rate (measured by Consumer Price Index) stood at 8.2% in December 2022, down from 8.9% in November. December was the fifteenth straight month where the annual increase in the CPI was at least 5.0%. On an annual basis, 'housing, water, electricity, gas & other fuels' (+25.9%) and 'food & non-alcoholic beverages' (+11.7%) saw the largest increases in the year to December

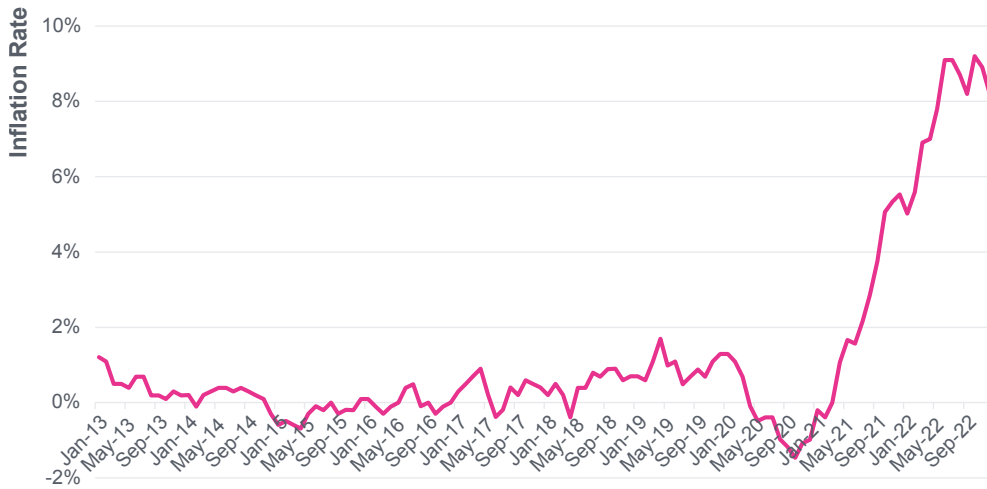
RETAIL

CONSUMER SENTIMENT INDEX (JANUARY 2019 – DECEMBER 2022)



Source: Credit Union

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

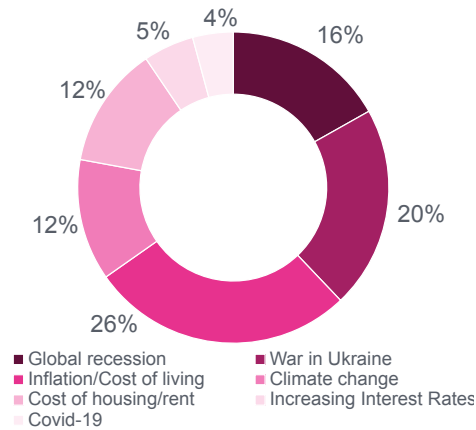


Source: CSO, Lisney analysis

while 'education' (-7.1%) and 'miscellaneous goods & services' (-0.4%) were the only divisions to show a decrease over the same time period. Growth in energy costs continued with electricity up by 62.7%, gas by 86.5%, liquid fuels (home heating oil) by 39.9% and solid fuels up by 46.9% in the year. The annual change in 'food & non-alcoholic beverages' reflects a rise in prices across a range of products such as fresh whole milk (+33.3%), sugar (+30.0%), eggs (+23.5%), butter (+23.1%) and bread (+16.3%) 21.

Consumer prices fell by 0.2% in the month between November 2022 and December 2022 with the largest decreases in 'transport' (-2.6%) and 'alcoholic beverages & tobacco' (-0.7%). The largest increases in the month were 'furnishings, household equipment & routine household maintenance' (+1.3%) and 'food & non-alcoholic beverages' (+1.0%).

CONSUMERS' CONCERNS (Q4 2022)

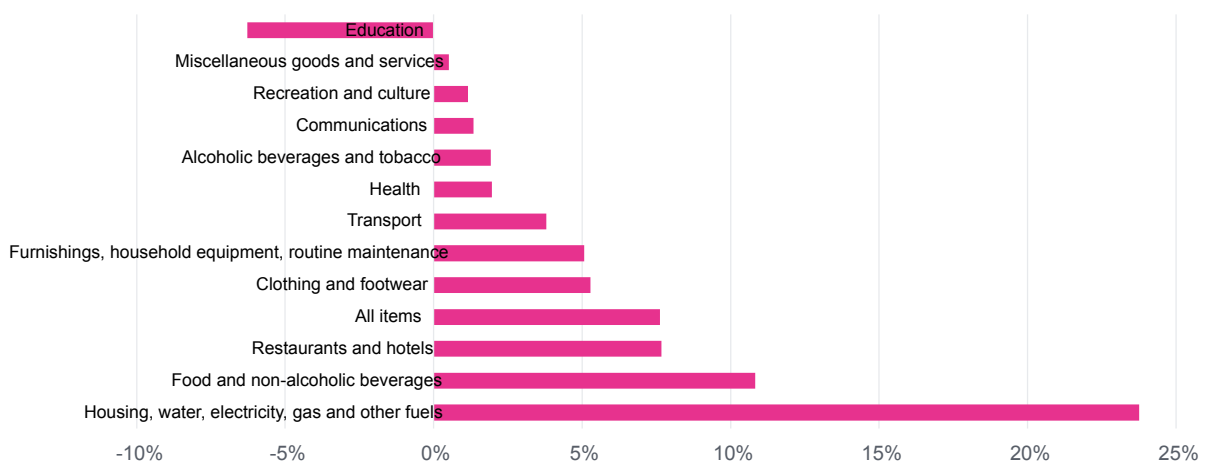


Source: Bank of Ireland



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 price changes between February 2022 and December 2022 were increases in 'housing, water, electricity, gas & other fuels' (+23.8%), 'food and non-alcoholic beverages' (+10.8%) and 'restaurants and hotels' (7.7%).

ANNUALISED RATE OF IRISH INFLATION - PRE & POST WAR IN UKRAINE (FEBRUARY 2022 - DECEMBER 2022)



Source: CSO, Lisney analysis

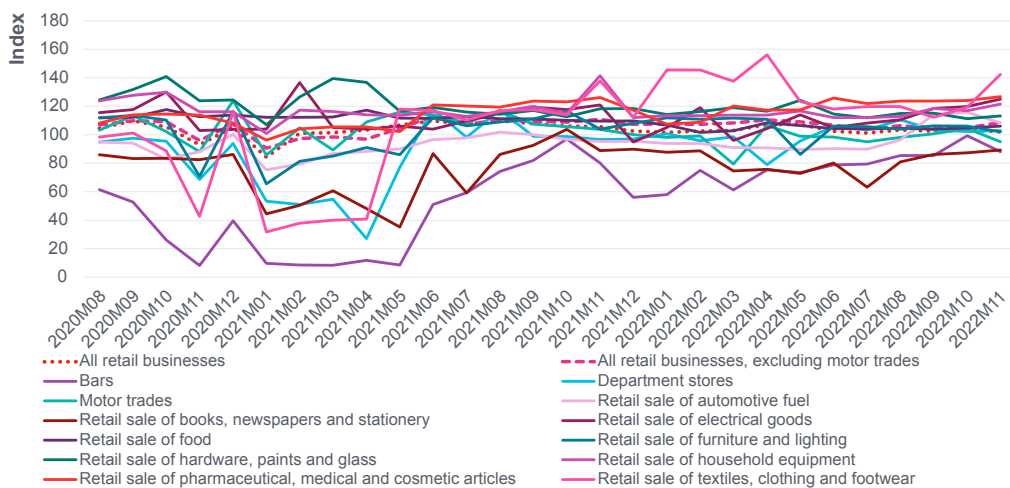
In Q4 2022, the Savings and Investment Index survey carried out by Bank of Ireland showed that overall, inflation remained the highest concern amongst Irish households as 26% fear for their finances (down from 29% in the previous quarter). This was followed by the war in Ukraine (20%, up from 17% in Q3), a global recession (16%, up from 14% in Q3), the cost of housing (12%, same as in Q3) and climate change (12%, down from 16% in Q3). Increasing interest rates (5%) and Covid-19 (4%) were the lowest concerns among households. Both, however, increased from the 3% in the previous quarter.

RETAIL SALES

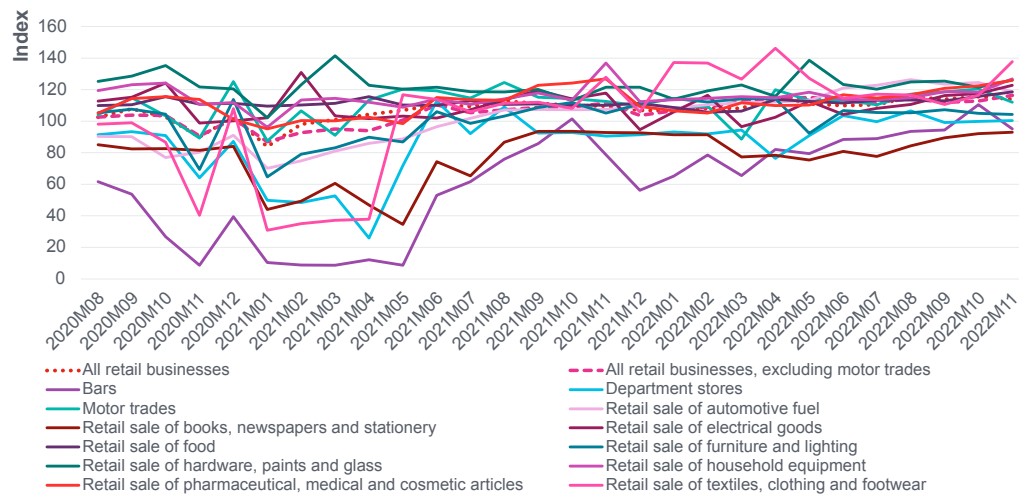
The volume of retail sales decreased in November by 1.4% and by 4.2% on an annual basis according to the latest figures from the CSO. The largest annual volume increases were seen in 'bars' (+13.6%), 'department stores' (+6.5%), and 'electrical goods' (+5.1%). The largest annual decreases were in 'other retail sales' (-25.8%), 'motor trades' (-11.0%), 'food, beverages & tobacco (specialised stores)' (-6.3%), and 'furniture & lighting' (-4.3%).

Online retail sales within Irish registered companies (excluding motor trades) stood at 6.3% in November (preliminary results), up from 4.6% in the month prior. 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 30.2% of sales in the UK were online in November.

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



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



Source: CSO, Lisney analysis

RETAIL PROPERTY MARKET TRENDS

Renegotiated terms & supply

In the property market, the changing trends in footfall and spending are affecting rental affordability for many operators. Landlords who offered abatements during the pandemic want to revert to pre-pandemic levels while some tenants do not foresee the same level of turnover being achieved going forward. Negotiations between the parties will happen in 2023, which will be location and business specific. Where deals cannot be reached or business models no longer make sense after three difficult trading years, stores will close and the vacancy rate will rise.

The CVA process in the UK has not gone away. While the number of retailers going into voluntary arrangements declined over COVID, some high-profile brands entered CVA last year including Poundstretcher, AMT (Coffee specialist), Joules, Misguided e-commerce fashion and TM Lewin. With changing businesses models as noted above, further retailers are earmarked to enter CVA this year. While this relates to UK multiples, it will impact their operations in Ireland.

Notwithstanding, Grafton Street had a very good year in 2022. The vacancy rate (based on the number of units) fell to 12% with seven new operators taking stores. These retailers were mainly from overseas and agreed deals on adjusted terms to those sought prior to the pandemic. While the vacancy rate is higher on Henry Street (close to 18%), there will be further interest in this area during the year. The mixed-use scheme at Clerys Quarter on O'Connell Street, along with the sale of the former Debenhams store (if concluded in early 2023), will bring new life to this northern shopping core.



NEW DIMENSIONS, 47 GRAFTON STREET, DUBLIN 2



GRAFTON STREET



SKECHERS, 13-14 GRAFTON STREET, DUBLIN 2

Omni channel food offering

Similar to fashion and household retailing, there is now an omni channel expectation from operators in the food business. This includes click-and-collect, online delivery or eating on the premises are all now demanded by the consumer. Experiential dining will grow further this year, but with prices rising, there will be a greater expectation from consumers that they are getting service and value for their money. Those less impacted by rising costs and with a greater ability to spend, will have higher expectations. Those with more constrained spending will still seek good quality food at a reasonable price point, while those operators in the middle may suffer.

Sustainability

As with all parts of the economy in 2022, sustainability moved up the agenda for retailers. Larger operators in the market are keeping a close eye on their social and environmental responsibility whilst also considering their operational ability. Supply chain resilience, circular economy and eco light packaging are terminology being increasingly used. This will continue to move up the agenda for both big and small retailers over the year as consumers, particularly younger consumers, focus on brands that align with their values.

OUTLOOK

1

There will be a cautious start to 2023. Retailers, restaurateurs, coffee shop and leisure operators will continue to analyse the ongoing viability of their business, focusing on income generation and the prevailing challenges of the increased cost of goods, fluctuating consumer sentiment, rising energy costs, labour shortages and supply chain issues.

2

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 mean further demand and activity for stores in the months ahead.

3

Government COVID supports finished in 2022 and the anticipated wave of store 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 struggling when all government assistance has ended, particularly those impacted by the change in VAT rate.

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