

Intelligent Investment

UK Retail Parks Market View 2024

REPORT

CBRE RESEARCH
JUNE 2024



Key takeaways

- The macroeconomic backdrop continues to improve, and consumer confidence is following suit. After two consecutive years of decline, retail sales volumes are forecast to grow in 2024.
- Retail Parks remain popular amongst occupiers, and the sub-sector's vacancy rate has narrowed in the last year. With tight supply and demand dynamics, rental growth is being achieved in key locations.
- The breadth of occupier demand also continues to grow. Occupiers that had previously only considered in-town locations, are now on the expansion trail for out-of-town locations. New international market entrants are also targeting the sub-sector.
- Investment into the sub-sector continues to be dampened by elevated debt costs. However, the assets that have been launched in the first half of the year have benefited from a relatively captive audience, driving competitive tension and pricing.



Consumer Trends

In the 12 months to May 2024 inflation rose by 2.0%, falling from 2.3% in the month before. This is the first time the metric has hit the Bank of England target rate since July 2021. The combination of slowing inflation, weak economic growth, and a softening labour market points to the first Bank of England base rate cut being made in summer. However, the pace and scale of cuts made are likely to be relatively modest, falling 50bps to 4.75% by the end of the year.

Mirroring the improving macroeconomic picture, consumer confidence continues to rise. At -17, the latest GfK results edged further forward, 10 points ahead of the same time last year. Moreover, the measure of personal finances over the next 12 months now sits in positive territory at +7, up from -8 last year. Considering the above, we anticipate retail sales volumes will grow 1.1% this year, following two consecutive years of decline. But where do we expect the greatest opportunities?

Following a challenging trading period, we anticipate DIY sector performance will start to improve. Housing market activity is a key driver for the sector, and the latest RICS Residential Market Survey points to a stronger outlook for the year ahead. This said, we do not expect growth will be consistent across all segments of the market. Despite improvements to the Consumer Confidence Index, the major purchase component of the Index remains subdued. At -25, the metric is currently only slightly up from -28 last year. As such, consumers are likely to focus on lower-ticket purchases, with sales in the ‘do-it-for-me’ segment expected to remain subdued.

FIGURE 1: UK Consumer Confidence Index



Consumer Trends



Given consumers' continued cost sensitivity, it is unsurprising that CBRE's recent Consumer Survey highlighted the continued strength of the value proposition. 15% of respondents plan to switch to cheaper alternatives to save money this year; this is more likely in younger generations, with one in five consumers aged 16-34 planning to make the switch. Despite the improving macroeconomic outlook, we anticipate the value sector will continue to appeal to consumers and perform well in the year ahead.

Although athleisure sales have slowed versus their peak in the pandemic, the sector's performance remains robust. This looks set to continue in the year ahead, with CBRE's Survey highlighting that of all product categories, consumers are most likely to maintain or increase their spending on hobbies. This prioritisation of spend is also likely to benefit occupiers that cater to other hobby activities such as gardening, crafting, or cooking. Following a similar trend of prioritising experiences, we expect leisure activity operators such as gyms or competitive socialising will continue to trade well in 2024.

Looking ahead – and accounting for drivers such as demography, internet usage, culture, and infrastructure – we expect online penetrations will continue to see moderate rises. Despite this growth forecast, we anticipate occupiers will continue to focus on delivering a cohesive omnichannel retail experience for the consumer. And so, channel segments such as Click & Collect are expected to grow at a faster pace than the online average. Given their key attributes, including accessibility and free parking, Retail Parks are well positioned to support occupiers in fulfilling these types of orders.

Property Outlook: Occupational

Retail Parks continue to attract high levels of occupier demand. Value retailers such as Home Bargains, The Range, and B&M remain key drivers of demand for Retail Parks. Food retailers including Lidl, Aldi, and M&S have also been very active with their Retail Parks store openings during the first half of 2024. Within the leisure sector, the Gym Group and Pure Gym continue to show robust levels of demand for Retail Parks. Additionally, food & beverage operators continue to bring forward requirements for smaller units either sitting in Retail Parks terraces, pod units, or in the drive-thru format. New names including Popeyes, Wendy's, Wingstop, and Taco Bell are now actively expanding alongside well-established names such as McDonalds. The occupier is currently acquiring order and collect points for takeaway deliveries to relieve pressure from their busy drive-thru restaurants.

During H1 2024, Primark and Flannels opened flagship stores at Teesside Park, demonstrating the diversity of the Retail Parks tenant base. The range of occupier demand is widening with occupiers such as Mango, Skechers, and Rituals having active requirements for fashion dominated Retail Parks. In addition, there is a new wave of international occupiers entering the sector, including Australian retailer Nick Scali. The retailer recently acquired the Fabb Furniture business, which has 21 Retail Parks stores. Turkish baby and parent retailer, Ebebek, has also recently announced plans to expand in the UK and is actively targeting Retail Parks for new store openings.



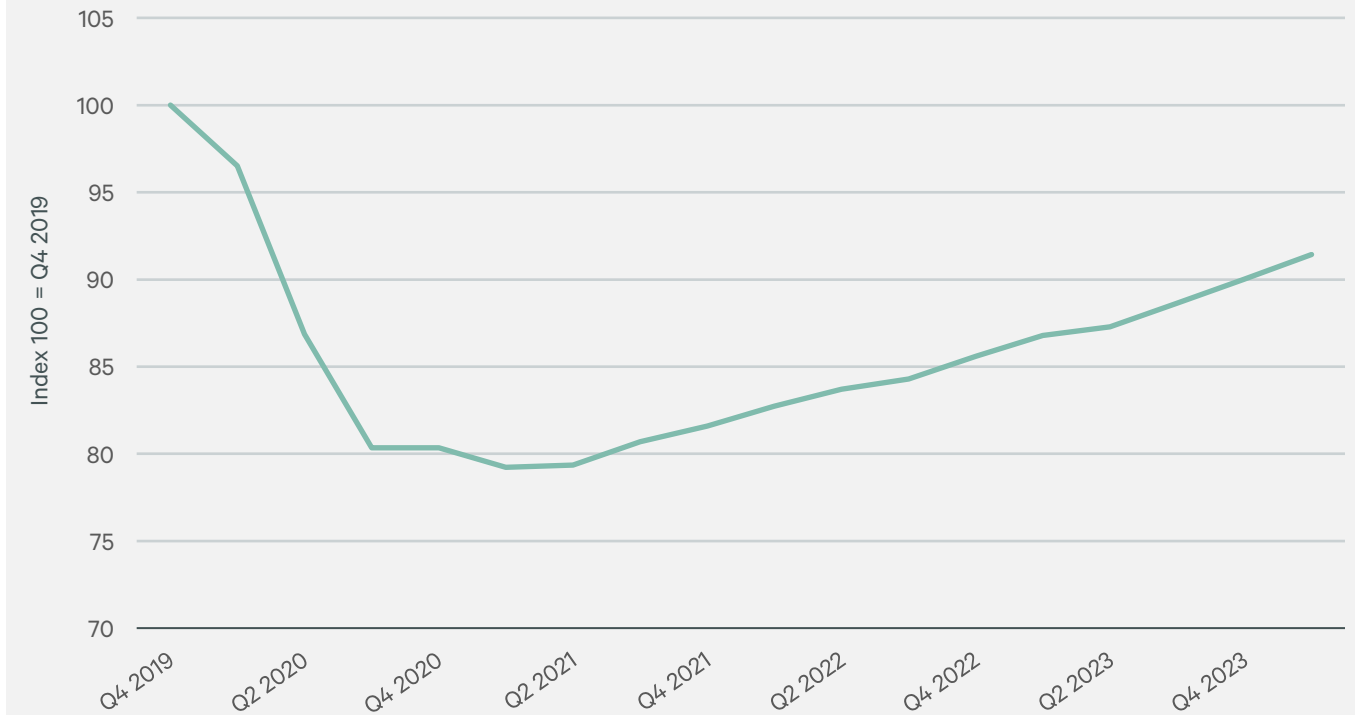
Property Outlook: Occupational

As well as a healthy pipeline of new requirements, existing Retail Parks tenants have so far managed to navigate the current macroeconomic headwinds. Apart from Wilko, there have been no notable corporate failures or restructures in the market. With strong demand and little supply returning to the market, the sub-sector’s vacancy rate has continued to narrow, now standing at 5.6%, according to Trevor Wood Associates. This is even more acute in well-positioned prime Retail Parks, where the vacancy rate trends to sub 2%.

Though rents rebased during the pandemic, this supply and demand dynamic is leading to rental growth in key locations. Figure 2 compares CBRE’s Retail Parks prime rent to Q4 2019. In the last year, prime rents have grown 5.3% and are now only 8.6% below pre-pandemic levels.

Looking ahead, while the macroeconomic outlook is improving, it still poses challenges to the occupier, and this may lead to some space returning to the market. Despite this, given the continued raft of new occupiers seeking space, we expect rental growth in the year ahead will be consistent with the levels seen in recent years.

FIGURE 2: Prime Retail Parks rent index



Source: CBRE

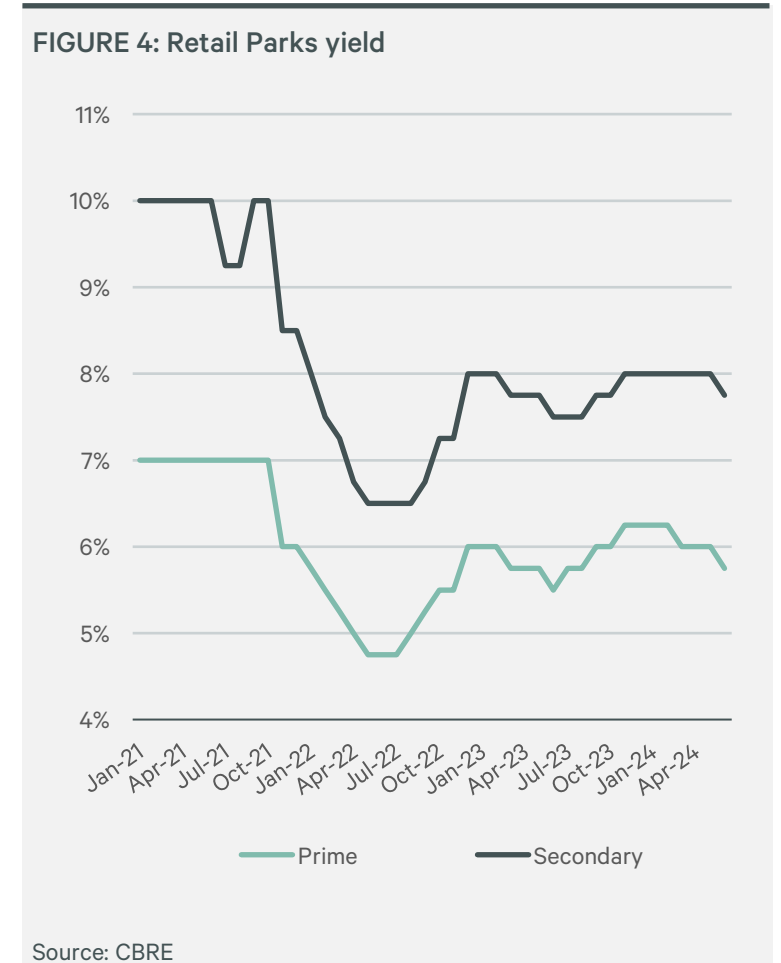
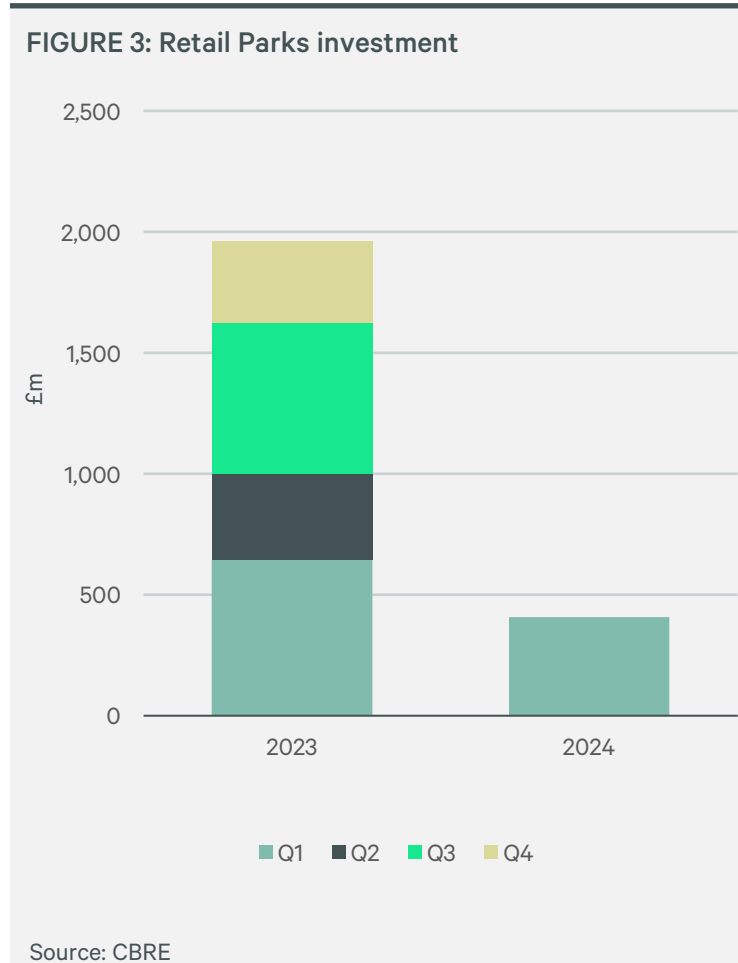
Property Outlook: Investor

Retail Parks* transaction volumes were impacted by the macroeconomic environment in 2023, with elevated debt costs leading to a mismatch of pricing expectations between buyers and sellers. Totalling £1.96bn, last year's Retail Parks transactions were 32% below 2022 levels. While the market began to improve in March and April, with the prime yield sharpening by 50bps to 5.5%, this shift was based on a limited number of transactions. And with growing caution around the macroeconomic outlook, pricing softened again over summer. By the end of 2023, the prime yield rose to 6.25%, the highest level since May 2021.

Following a quiet end to 2023, investment in the first quarter of 2024 remained relatively subdued, totalling to £407.5m. Most of the quarter's activity was driven by recycled stock that was carried over from the prior year, along with a handful of new sales. Although volumes remained muted, of the transactions that did proceed, all saw improved levels of investor interest when compared with last year, culminating in competitive bid processes and keener pricing levels. As a result, prime yields moved in 25 bps to 6.00% in March 2024, with secondary yields remaining stable at 8.00%. Key transactions within the quarter include:

- Parc Troste, Llanelli – Sale on behalf of M&G. The multi-let scheme extending to 267,500 sq ft was acquired by Realty Income in March 2024 for £56m, reflecting 9.00% NIY.
- Birstall Shopping Park, Leeds – Sale on behalf of L&G was sold in February 2024 to Realty Income for £60m, 9.45% NIY. The park extends to c.166,000 sq ft of space across 18 units and produced a WAULT of 4.5 years to tenant breaks.

*CBRE Retail Parks investment volumes include Retail Warehouses



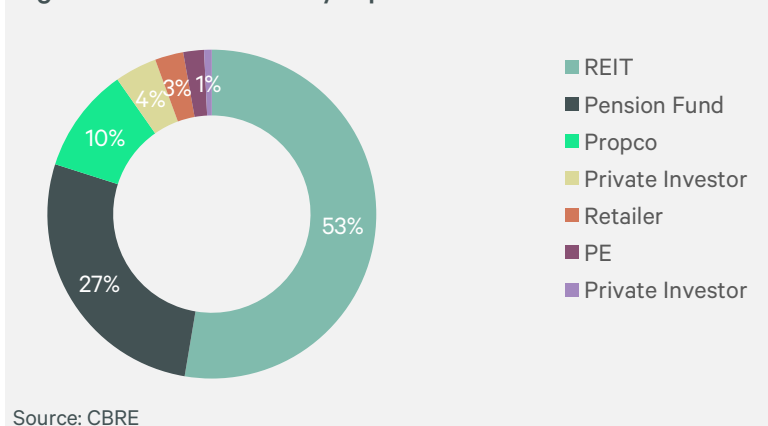
Property Outlook: Investor

The sector continues to attract a wide range of investors, including UK Institutions, REITS, PropCos, and private wealth groups. Retailers have also become an emerging buyer group for the sector. With a tight occupational market, several leading retailers are purchasing freehold investments to help support store openings and, in some cases, to build investment portfolios outside their own requirements. As well as remaining active buyers – accounting for 38% of Q1 2024 volumes – UK Institutions also remain the most active vendor for the sector.

Coming into the second quarter of 2024, pricing has continued to improve, with a further 25bps of compression in prime and secondary yields. Although stock levels remain relatively low, the assets that have been formally launched have benefited from a captive audience, which has driven competitive tension. Several buyers have also begun to target assets ‘off market’, however the deliverability of these opportunities is currently unclear. Key transactions that have taken place in Q2 2024 so far include:

- Phoenix Retail Park, Corby – The park was sold by Peel Investments to Columbia Threadneedle in May 2024 for £26m, reflecting a 7.48% NIY. Totalling 118,200 sq ft, the park has a range of tenants including; M&S Foodhall, Matalan, The Range, Currys, Next, and The Food Warehouse.

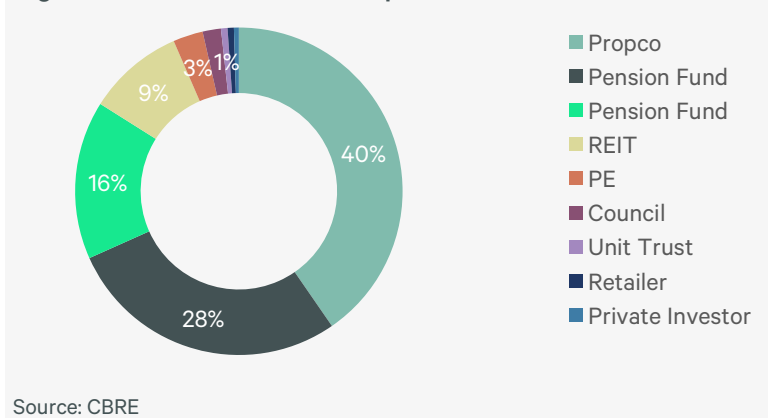
Figure 5: Retail Parks buyer profile



- B&Q, Milton Keynes – The 117,000 sq ft unit was sold to NFU by the Duchy of Cornwall for £29.5m, reflecting a 7.1% NIY.

Looking ahead, we expect investor confidence will continue to improve, which will result in growing transaction volumes. While some yield compression is anticipated, this will likely be limited by the scale of the Bank of England’s base rate cuts. With elevated debt costs, the market remains largely driven by cash buyers – this is expected to remain the case throughout the year ahead.

Figure 6: Retail Parks vendor profile



Contacts

Out of Town Retail

Martin Supple

martin.supple@cbre.com

Research

Jennet Siebrits

jen.siebrits@cbre.com

Miranda Botcherby

miranda.botcherby@cbre.com

ESG

Edoardo Ruggeri

edoardo.ruggeri@cbre.com

Sarah Dillon-Leetch

sarah.dillonleetch@cbre.com

Leasing

Russell Homer

russell.homer@cbre.com

John Witherell

john.witherell@cbre.com

Adrian Hanley

adrian.hanley@cbre.com

Josh Ford

josh.ford@cbre.com

Stephen Proudley

stephen.proudley@cbre.com

Chris Thomas

chris.thomas3@cbre.com

Investment

Andrew Hulme

andrew.hulme@cbre.com

Drew Moore

drew.moore@cbre.com

Suzie Lisle

suzie.lisle@cbre.com

Richard Bashford

richard.bashford@cbre.com

Development Management

John Marsh

john.marsh1@cbre.com

Data & Analytics

Martin Summerscales

martin.summerscales@cbre.com

Matt Hallett

matt.hallett@cbre.com

Property Management

Alison McDonald

alison.mcdonald@cbre.com

Craig Sackfield

craig.sackfield@cbre.com

Building Consultancy

Toby Handley

toby.handley@cbre.com

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