

RETAIL MARKET COMMENTARY

Q2 | 2018



Q2 2018 AT A GLANCE

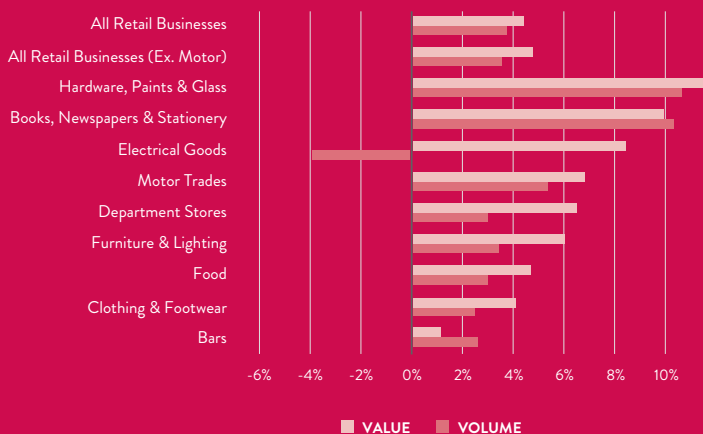
PRIME RENTS CURRENT PRIME ZONE A RENTS (€ PER SQ. M.)

GRAFTON STREET	€7,000
HENRY STREET	€4,500
DUNDRUM TOWN CENTRE	€4,500
BLANCHARDSTOWN CENTRE	€3,300
LIFFEY VALLEY SHOPPING CENTRE	€2,800
PAVILIONS SHOPPING CENTRE	€2,500
THE SQUARE TALLAGHT	€1,500

OCCUPIER ACTIVITY KEY LETTINGS IN Q2 2018



RETAIL SALES – ANNUAL GROWTH YEAR TO MAY 2018



Sources: Sources: Bannan Research, CSO, KBC/ESRI Consumer Sentiment Index

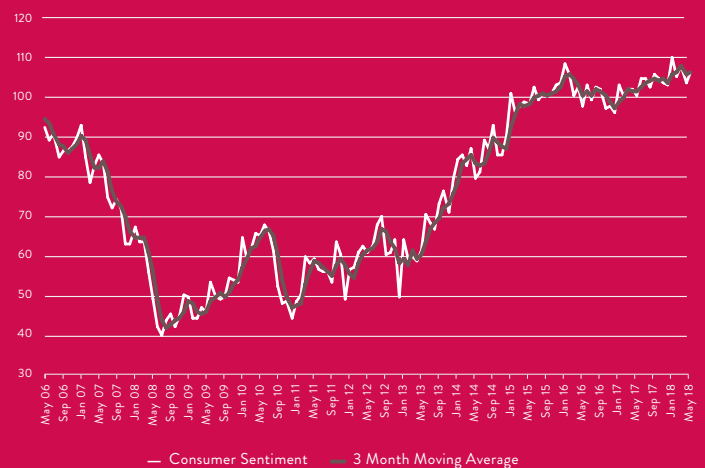
OCCUPANCY (UNITS)

GRAFTON STREET	98%
HENRY/MARY STREET	98%

KEY ECONOMIC INDICATORS

INDICATOR	PERIOD	ANNUAL % CHANGE
TOTAL EMPLOYMENT	Q1 2018	2.9%
FULL-TIME EMPLOYMENT	Q1 2018	4.3%
UNEMPLOYMENT RATE (MONTHLY)	June 2018	5.1%
CONSUMER SENTIMENT (NATIONAL)	May 2018	6.2%
CONSUMER SENTIMENT (DUBLIN)	Q1 2018	9.8%
OVERSEAS VISITORS	Q1 2018	6.9%
AVERAGE WEEKLY EARNINGS	Q1 2018	2.4%
RETAIL SALES VOLUMES (EX. MOTOR)	May 2018	4.7%
RETAIL SALES VALUES (EX. MOTOR)	May 2018	3.5%
NEW HOME COMPLETIONS	Q1 2018	26.9%
RESIDENTIAL PROPERTY PRICES (NATIONAL)	April 2018	13%
RESIDENTIAL PROPERTY PRICES (DUBLIN)	April 2018	12.5%

CONSUMER SENTIMENT INDEX



— Consumer Sentiment — 3 Month Moving Average



ECONOMY

Irish economic growth has continued at pace with the European Commission now predicting strong growth of 5.7% in 2018 with personal consumption and investment remaining key drivers.

The first quarter of 2018 saw an increase of 15,700 jobs or 0.7% in employment (seasonally adjusted) relative to Q4 2017, with total employment standing at 2.2 million at the end of March.

Strong jobs growth has impacted on the unemployment rate, which reached a new post-crash low of **5.1%** in June.

Tourism continues to contribute positively to the Irish economy with just under two million overseas visitors to Ireland in Q1 2018 representing an annual increase of 6.9%. Total tourism earnings from overseas visitors to Ireland increased by 14.2% annually to reach €1.079 billion, with Tourism Ireland now expecting this figure to reach a record €6 billion by year-end.



CONSUMER ECONOMY

Consumer confidence remains high with the KBC/ESRI Consumer Sentiment Index reaching 106.7 in May despite considerable global uncertainty. This represents an annual improvement of 6.2% or a rise of 170% since sentiment reached its lowest point in 2008.

Growth in Irish consumer sentiment contrasts with declines in similar indicators for the US and Euro area, however the UK market also experienced a slight upturn in May.

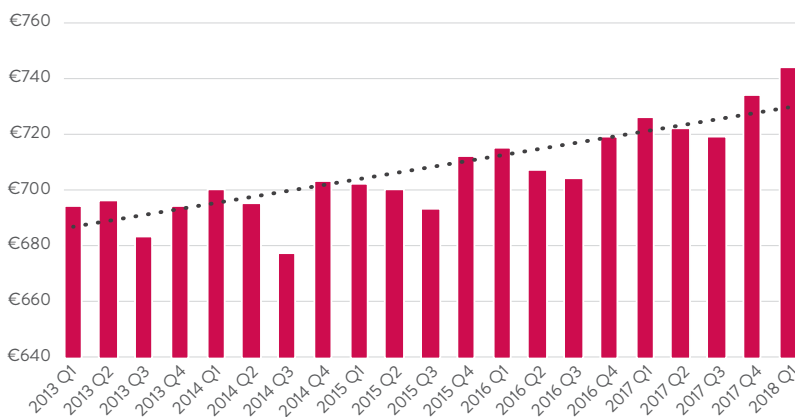
Average weekly earnings (seasonally adjusted) reached **€742.19 in Q1 2018**, a rise of **2.4%** from €725.05 one year earlier.

Earnings increased in 12 of the 13 employment sectors in the year, with the largest increase recorded in the information and communication sector (7.6%).



Grafton Street, Dublin 2

AVERAGE WEEKLY EARNINGS





Blanchardstown Retail Park

RETAIL SALES

Rising employment has continued to boost disposable incomes and support retail sales growth, with the latest data showing overall retail sales volumes (seasonally adjusted) to have risen by 4.3% in the year to May 2018 while sales values rose by 3.7%. When motor trades are excluded, sales volumes saw annual growth of 4.7% with sales values up 3.5% year-on-year. This is despite a sharp decline in sales in March due to adverse weather conditions. The sectors with the largest annual increases in volume terms were hardware, paints & glass (12.6%), books, newspapers and stationery (9.8%) and electrical goods (8.4%).

The books, newspapers and stationery sector is also seeing a return to growth in sales values, which rose by 10.2% annually following several years of decline associated with the economic downturn and a move towards electronic media. The growth in popularity of stationery and related goods is evidenced by the rapid expansion of retailers like Smiggle, who launched their first Irish store in April 2017 and have since grown their Irish presence to 8 stores with more in the pipeline before year-end.

New data from the Central Bank shows total e-commerce expenditure to have reached €1.4 billion in March, an increase of 10% relative to March 2017. As previously noted a significant proportion of this is likely attributable to non-retail purchases such as online media subscriptions, bills and travel expenses.

In terms of face-to-face spending, debit card point of sale transactions in March 2018 reached €2.9 billion – 5% higher than the same month in 2017. Of this, €1.4 million was attributable to retail, €663,720 to services and €312,105 to food and leisure. Consumer spending in restaurants saw particularly strong growth of 23% year-on-year.

Recent data from the CSO has provided clarity on the true level of new home construction, which totalled 14,446 units in 2017. While this is lower than previously thought due to the inclusion of previously unfinished or non-dwelling properties, it represents an annual increase of 45.7% demonstrating housebuilding activity to be growing strongly again. A further 1,091 new homes were created in 2017 through the completion of previously unfinished properties. This, coupled with gains in employment should further bolster consumer demand for DIY and household items with the retail park sector expected to benefit greatly.

UK STORE CLOSURES – SHOULD WE BE WORRIED?

Despite the continued strong performance in the Irish consumer market, there has been a deluge of bad news filtering through from the UK retail sector.

Most notably we have heard news of several large retailers who are active in the Irish market either entering into administration/liquidation or closing a significant number of their stores as part of restructuring arrangements. It is important to note however that up to now, the majority of these store closures have been confined to the UK, where retail has been badly affected by post-Brexit sterling devaluations and a weak consumer economy.

News of major restaurant chains, including Jamie's Italian and Prezzo, struggling in the UK is also in part due to the fact that 20% VAT is paid in the UK, whereas in Ireland the reduced hospitality rate of 9% applies. This, coupled with the current momentum in the Irish consumer economy, has meant that the food and beverage sector in Ireland is now experiencing extraordinary growth. There is strong demand from established operators and new entrants alike, with many shopping centres now repurposing retail space to enhance their food and leisure offering.

The Irish retail market continues to perform well on the back of **strong economic fundamentals**, with **positive developments** in both the labour market and household finances contributing to **continued growth in retail sales**.

Despite being our closest neighbour, we believe it is not appropriate to directly compare the Irish market in its current state with the Brexit-influenced UK market. Nevertheless, the growth of online retail in recent years is forcing retailers to examine their business models, adopting an omni-channel approach and embracing technology where possible.



OCCUPIER ACTIVITY

FOOD AND BEVERAGE

- Offbeat Donuts launched a new store in The Square Tallaght in Q2.
- Krispy Kreme commenced fitting out their new drive-thru outlet at Blanchardstown Centre, due to begin trading later this year.
- Press Up Group opened a new 70-seater restaurant called Stella Diner next to the Stella Theatre in Rathmines.
- Costa Coffee opened new stores in Manor Mills Shopping Centre, Malahide Road Retail Centre and Tesco Liffey Valley this quarter.
- Five Guys opened its second Dublin restaurant in George's Street this quarter.
- Le Pain Quotidien opened its first Dublin outlet on Molesworth Street, with The Ivy Restaurant currently fitting out next door for a Q3 launch.
- Gino's Gelato opened in Dundrum Town Centre.
- The Natural Bakery opened its 13th store in Manor Mills Shopping Centre in Maynooth.
- Milano and Five Guys have signed for two restaurants in Swords Pavilions.

CLOTHING AND FOOTWEAR

- Next confirmed to be relocating to the redeveloped 7-9 Henry Street, with fitout due to commence next quarter. The four-storey flagship store will have a floor area of 3,300 sq. m. (35,521 sq. ft.) on completion.
- JD Sports confirmed to lease 3,251 sq. m. (35,000 sq. ft.) flagship at Jervis Shopping Centre in units formerly occupied by Forever 21 and Next.
- Both JD Sports and River Island have announced plans to upgrade to larger stores in Swords Pavilions.
- House of Ireland is now open and trading at 114 Grafton Street.
- Urban Outfitters closed its Dundrum store this quarter.
- Trespass have taken two new stores this quarter in Trinity Street, Dublin 2 and Stillorgan Shopping Centre.
- VT2, which carries ladies' brands including Vero Moda and Vila, opened in Dunganan Shopping Centre.
- Gant are relocating to an internal unit at Dundrum Town Centre.
- New Look agreed a restructuring plan with creditors which will involve the closure of 60 stores. It has been confirmed that store closures will be confined to the UK market with the company's Irish branches remaining unaffected.

GROCERY

- Tesco opened a new €30m retail centre in Liffey Valley this quarter – their 151st Irish outlet – as Irish Tesco stores continue to outperform their UK counterparts despite sterling devaluations.
- Lidl opened a new store at Gullivers Retail Park, Santry.
- Aldi opened a new 'Project Fresh' store in Leixlip this quarter with a further 12 store openings planned before year-end.
- Iceland continues to expand its presence in Ireland with the opening of its 22nd Irish store in Portlaoise this quarter.
- Marks & Spencer have reduced prices across a range of items in their "biggest-ever price investment in the Republic". The move comes amid difficulties in the UK business, however the company have confirmed that there are no closures planned for Ireland where stores are currently trading well.

RETAIL PARK MARKET

- Decathlon has agreed plans with Dublin City Council to purchase a site next to Ikea in Ballymun for its first Irish store, with a planning application expected this summer.
- The Range launched a new standalone superstore in North Dublin this quarter.
- Carpetright secured a £60m (€69m) lifeline through an equity raise, following approval of a restructuring plan in April involving 92 store closures. Five stores in Northern Ireland are due to close, however it has been reported that the company's 20 stores in the Republic will not be affected.
- Right Price Tiles opened in Sligo Retail Park.
- Currys PC World began fitting out a new 1,200 sq. m. store at Waterford Retail Park with plans to open in August.
- Homebase has been sold by Australian owners Wesfarmers to retail restructuring firm Hilco. It is unclear at this stage whether Hilco will embark on a store closure programme, however it is likely that as with other struggling retailers the restructuring programme will be primarily focused on UK stores.

OTHER

- Smyths Toys announced plans to buy out rival Toys R Us in Germany, Austria and Switzerland. The deal will add a further 90 stores to the group's network of 110 outlets. All of the outlets acquired will be rebranded. This is a positive move for an Irish-owned company and is in stark contrast with the Toys R Us entity in the UK which closed its remaining 75 stores this quarter after failing to find a buyer in Q1.
- Specsavers relocated from its Grafton Street store to a new flagship premises in Dawson Street following a €1 million investment in the store.
- Hamleys in Dundrum closed its doors after 10 years in Dublin. We understand the owners are now seeking planning permission for change of use and reconfiguration of the unit to create four new restaurants.
- Dealz opened its 65th store in Market Cross Shopping Centre, Kilkenny. This store includes Dealz's sister brand, discount clothing store Pep&Co, which is currently in the process of rolling out across Ireland.
- Søstrene Grene confirmed to open a 7th Irish outlet in the store formerly occupied by Waltons on South Great George's Street.
- The Works opened a new store in Swords Central with plans to open at least 25 more stores in Ireland over the next five years.
- Mothercare have announced that Irish stores will be unaffected as 50 stores in the UK to shut as part of a CVA process.



DEVELOPMENT ACTIVITY

We are now seeing a resurgence in retail development and improvements with an increasing number of projects either on site or in planning following many years of little to no activity. Below is a sample of recent activity, however it must be noted that much of this involves planned schemes that are not yet on site or the reconfiguration of existing stock. As such the quantum of new retail space delivered is likely to be limited for some time.

DEVELOPMENT	DETAILS
ADAMSTOWN	Developer Quintain has been appointed by Lone Star to lead the design, planning and development of a new €200m town centre for Adamstown. In total, the development will see up to 85,000 sq. m. developed, of which 15,000 sq. m. will reportedly be allocated to retail and childcare facilities, civic and pedestrian spaces.
BLACKROCK SHOPPING CENTRE	Construction has commenced on a €10 million upgrade involving a major internal refurbishment and the addition of a new glazed roof.
BLANCHARDSTOWN	<ul style="list-style-type: none"> Plans granted for Kiosk Zone in the mall area of Levels 1 and 2 of the Blanchardstown Centre to accommodate up to 54 retail/commercial units in a range of sizes to a maximum cumulative total of 979 sq. m. Owners recently submitted a planning application for the change of use and subdivision of unit 452 to provide two new café/restaurant units, each measuring 169 sq. m.
CENTRAL PLAZA	Hines have been granted planning permission by An Bord Pleanála to proceed with the redevelopment of the Central Bank's former HQ on Dame Street. On completion, the Central Plaza scheme will include some 3,270 sq. m. of retail and 1,460 sq. m. of food and beverage at ground floor level along with 8 floors of office space which will be occupied by WeWork.
CHATHAM STREET	Construction is underway on the final phase of the Chatham & King development which will deliver over 1,500 sq. m. of new retail space across 5 units.
CHERRYWOOD TOWN CENTRE	Hines have been granted planning permission to build a town centre development worth €1 billion in Cherrywood. The proposed development will comprise a total of 191,115 sq. m. in 15 blocks including 1,269 apartments, 20,284 sq. m. retail space, 22,946 sq. m. office space and associated leisure and amenity space. Construction is expected to commence in the autumn and finish by early 2020.
DAWSON STREET	<p>A number of retail opportunities have opened up in the Dawson Street area in recent months thanks to significant redevelopment projects and the opening of the Luas Cross City line in December.</p> <ul style="list-style-type: none"> Construction underway at Royal Hibernian Way to provide two new restaurants. Newly built office buildings near the junction of Molesworth Street have provided substantial retail space at ground floor level. Press Up Group outbid several developers to purchase the New Ireland Assurance HQ this quarter. It is believed the group plans to convert the ground floor into restaurant and other retail uses. Meyer Bergman and BCP received planning permission for the redevelopment of a high-profile retail and office block at the corner of Dawson and Nassau Street to include four new retail units and one restaurant unit totalling just under 7,500 sq. m. over three floors.

DEVELOPMENT	DETAILS
DUBLIN CENTRAL	Hammerson have appointed architectural practice ACME to develop a new vision for the Dublin Central development in Dublin's north inner city.
DUNDRUM TOWN CENTRE	Hammerson have submitted a planning application for changes to the unit formerly occupied by Hamleys. This will involve internal reconfiguration and change of use from retail to provide four restaurant units with ancillary bar use totalling 1,223 sq. m., along with a remodelling of external façades.
FLORENTINE SHOPPING CENTRE, BRAY	Wicklow County Council has selected Oakmount to develop the long-awaited Florentine Shopping Centre project in Bray. The development will consist of two anchor stores, 8 retail units, 3 restaurant units, offices and a 5-screen cinema complex. Construction is due to commence this year and is expected to take in the region of 18 months to complete.
GRAFTON STREET	A planning application has been submitted at 70 Grafton Street (formerly occupied by Permanent TSB) for 18 self-catered short stay apartments and a ground floor reception/lobby. If approved this will reduce overall retail floorspace on Grafton Street by approximately 150 sq. m.
HENRY/MARY STREET	<ul style="list-style-type: none"> Selfridges have announced plans for an €11 million investment in Arnotts department store. Construction is underway on the redevelopment of part of Arnotts to provide a new independent retail unit at 7-9 Henry Street totalling 3,783 sq. m. across four floors. The unit will be occupied by Next on completion later this year. 49-50 Mary Street is currently being redeveloped to create one new restaurant unit measuring 361 sq. m. over two floors and one retail unit measuring 80 sq. m.
KILDARE VILLAGE	Planning permission has been granted for Phase 3 of Kildare Village outlet centre which will see the addition of 6,212 sq. m. across 29 units at the scheme. The application is currently in the process of being appealed to An Bord Pleanála with a decision expected shortly.
SWORDS PAVILIONS	Hammerson, IPUT and Irish Life have announced the launch of a new €3.3 million 'restaurant quarter' later this year.
STILLORGAN SHOPPING CENTRE	Redevelopment underway with plans recently granted for the addition of mall kiosks to the scheme. Extension to Tesco retail unit at the scheme now complete.
THE PARK CARRICKMINES	IPUT submitted planning for Q3 at the Park including 130 residential units, 7,983 sq. m. retail space, 11,154 sq. m. retail warehouse space, 3,210 sq. m. restaurant/café space and substantial office and leisure space as part of an integrated town centre style development.
WATERFORD	Tenders now being sought by Waterford City and County Council for demolition works required to facilitate the redevelopment of 17 acres along the quays as a major retail, office and hotel location. The development will include a two-storey shopping centre to be known as the Applemarket Centre with a stated gross retail floor area of 10,030 sq. m. and cafés/restaurants with a stated gross floor area of 635 sq. m.



AVAILABILITY

- There is just one vacant unit on Grafton Street, No. 3, currently being marketed for assignment. We understand that this unit is now under offer.
- There is currently one vacant unit on Henry Street, No. 1 GPO Buildings which was formerly occupied by Barratts. A further 4 units including two occupied by JD Sports are available but occupied and trading at present.
- Occupancy across the Bannon portfolio of shopping centres and retail parks stood at 93% in June.
- A number of changes have taken place in Dundrum Town Centre resulting in some vacancy. We understand the owners will soon be seeking food and leisure occupiers for the former Hamleys unit while the external unit formerly occupied by Urban Outfitters is also vacant at present.
- There is a vacant unit on first floor of the Jervis Centre which is believed to be of interest to three traders.
- The DAA has put fashion and jewellery concessions at Dublin Airport Terminal 1 up for tender with 5 outlets available. Outlet sizes will range from 60-134 sq. m.



RENTS

- Rents were largely unchanged this quarter as demand remained static across the main shopping centres and retail parks.
- Zone A rents on Grafton Street remain at €7,000 per sq. m. with no new deals completed this quarter. Similarly, rents remain in the region of €4,500 per sq. m. on Henry Street.
- The latest SCSII/IPD Quarterly Property Index figures show retail rents for Grafton Street to have increased by 3.3% in the 12 months to March 2018, while Henry Street saw rental growth of 0.4% annually.
- Overall shopping centre rents, as recorded by the IPD index, increased 6.1% in the year to March, while retail warehouses are seeing sustained rental inflation of 2.8% annually.



OUTLOOK

- We expect to see further high-profile restructuring arrangements in the UK as retail models continue to shift, however in an Irish context we expect closures to be minimal, often related to outdated business models (e.g. Maplin and Clerys) as opposed to issues at a consumer level.
- Further retail development activity is expected in the form of scheme reconfigurations in particular as landlords respond to changing retail trends and consumer shopping habits.



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