# RETAIL MARKET COMMENTARY

Q1 | 2018


bannon

# Q1 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 |

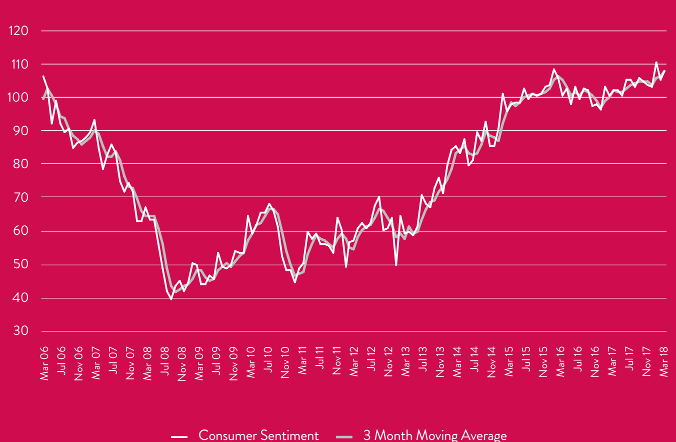
## OCCUPIER ACTIVITY
KEY LETTINGS IN Q1 2018

MILANO | FALLON & BYRNE DUBLIN | THE WHITE COMPANY LONDON

smiggle | FIVE GUYS BURGERS and FRIES | Superdrug

PRESS UP ENTERTAINMENT GROUP | LE PAIN QUOTIDIEN | stradivarius

## CONSUMER SENTIMENT INDEX
Q1 2006 TO Q1 2018




## OCCUPANCY (UNITS)

| | |
|---|---|
| HENRY/MARY STREET | 100% |
| GRAFTON STREET | 96% |

## KEY ECONOMIC INDICATORS

| INDICATOR | PERIOD | ANNUAL % CHANGE |
|---|---|---|
| GDP | 2017 | 7.8% |
| TOTAL EMPLOYMENT | 2017 | 3.1% |
| FULL-TIME EMPLOYMENT | 2017 | 5.4% |
| UNEMPLOYMENT RATE (MONTHLY) | March 2018 | 6.0% |
| DISPOSABLE INCOME | 2017 | 5.3% |
| AVERAGE WEEKLY EARNINGS | Q4 2017 | 2.5% |
| CONSUMER SPENDING | 2017 | 3.2% |
| CONSUMER SENTIMENT | March 2018 | 6.1% |
| OVERSEAS VISITORS | 2017 | 3.6% |
| RETAIL SALES VOLUMES (EX. MOTOR) | February 18 | 6.3% |
| RETAIL SALES VALUES (EX. MOTOR) | February 18 | 3.8% |

## RETAIL SALES – ANNUAL GROWTH
YEAR TO FEBRUARY 2018


Data sources: Bannon Research, CSO, KBC/ESRI Consumer Sentiment Index

# Strong economic performance driving retail recovery in Ireland

## ECONOMY

The Irish economy continues to exceed expectations, with GDP growth of 7.8% in 2017 making Ireland the fastest growing economy in the European Union for the fourth consecutive year. Personal consumption remains a key driver of growth, supported by favourable market dynamics, continued increases in disposable income and an upward trend in consumer confidence.

The pace of employment growth remains robust, with **66,800 new jobs created in 2017** to bring total employment to 2.23 million – a level not seen since 2008.

This has impacted on the unemployment rate, which has fallen from a peak of over 15% in 2012 to 6% by March 2018. Irish unemployment is now well below the current euro area average of 8.6%.

Tourism growth has also provided a boost to the Irish economy with 9.9 million overseas visitors to Ireland in 2017 representing annual growth of 3.6%.

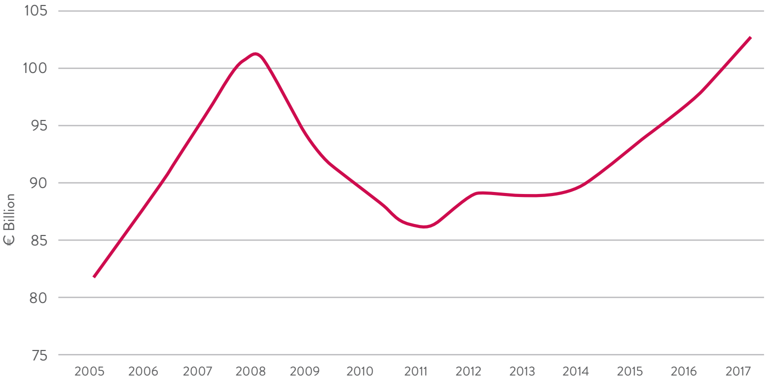

Chatham Court (CGI), Dublin 2

## CONSUMER ECONOMY

An improved outlook on household finances and an easing of initial fears regarding Brexit drove steady gains in consumer confidence last year with the consumer sentiment index reaching 108.1 in March 2018. This represents an annual increase of 6.1% or a rise of 173% since sentiment reached its lowest point in 2008.

Strong economic fundamentals are driving a remarkable increase in the amount of money circulating in the economy, with gross household disposable income rising by 5.3% in 2017, supported by healthy growth of 2.5% in weekly earnings. Aggregate disposable income reached over €102 billion in 2017, surpassing the previous 2008 peak of €101 billion.

## GROSS HOUSEHOLD DISPOSABLE INCOME



Blanchardstown Centre

## RETAIL SALES

In the year to February 2018, core retail sales volumes (ex. motor) surged by 6.3% while core values increased by 3.8%.

Following several years of decline associated with the economic downturn, the household goods sectors are now seeing the strongest growth in retail sales as the recovery in disposable income allows people to undertake home improvements and construction levels rise. As such the furniture and lighting category remains a top performer, registering an increase of 12.2% in sales volumes, while hardware, paints & glass posted similarly strong growth of 9.5% annually. As housing supply is anticipated to increase dramatically the prognosis for household goods is strong.

Department stores are also performing well with volumes up 7.2% annually, while sales of electrical goods saw impressive growth of 13.3% in the year.

A significant **boost was recorded in November** as a result of the increasingly popular Black Friday and Cyber Monday retail initiatives.

Whilst retail sales remain buoyant, sentiment continues to be impacted on a macro level as Brexit negotiations continue. Despite some initial market volatility, the effect on the retail sector has been moderate with the main impact coming from exchange rate fluctuations.

## ONLINE SHOPPING

Online spending is growing rapidly with Central Bank figures estimating total e-commerce expenditure to have reached €15.8 billion in 2017 – an increase of 19% from €13.2 billion in 2016.

While growth in online shopping certainly plays a key role in this trend, e-commerce is defined by the Central Bank as any transaction where the physical card is not present during payment and as such also includes the payment of bills, insurance, food delivery services, travel, gym memberships, event tickets, etc.

Surges in e-commerce spending are also being driven by online spending complementing offline consumption. For instance, subscriptions to online content providers such as Netflix and Spotify have now taken over from the offline purchase of DVDs and CDs. A recent announcement that the CSO will soon be broadening the scope of the retail sales data it collates to better capture online retailers is welcome, as it will provide a clearer picture of trends in this regard.

It must be noted that e-commerce spending represents just 16% of total consumer spending and therefore the physical store remains very important. The key challenge for retailers will be finding a balance between in-store and online activity and capitalising on changes in consumer behaviour on that basis.

The disctinction between online and offline is being further blurred by the emergence of omni-channel retailing, whereby physical stores are used in conjunction with online sales platforms to create a unified shopping experience. Despite the inexorable rise of e-commerce over the past number of years, Irish retail performance has remained resilient with gains in sentiment and disposable income contributing to steady offline retail sales growth recorded by the CSO throughout 2017.

## OCCUPIER ACTIVITY

Impressive economic performance has impacted on consumer spending and sentiment with employment growth and rising wages driving steady growth in retail sales. This has been driving considerable occupier and investor demand for retail space in Dublin and across Ireland in recent years, evident in the strong competition present among highly sought-after brands for prime opportunities coming to the market.

Tenant demand and activity has strengthened in prime locations with three significant deals announced on Grafton Street during the quarter. Demand remains strong in suburban retail schemes as well with several key lettings agreed.

"The past year has seen remarkable growth in the food and beverage sector with many existing retailers expanding and several new entrants to the Irish market. We are now seeing strong competition for the short supply of restaurant and café opportunities."

### FOOD AND BEVERAGE

- Following a successful opening in Swan Centre, Rathmines, Fallon & Byrne have announced plans for a new specialty food hall in the Pembroke Square area at Dundrum Town Centre.
- Milano and Five Guys have signed to take space in Swords Pavilions introducing further casual dining offers to an already impressive retailer mix.
- Owners of London restaurant The Ivy have commenced fitout of an 850 sq. m. restaurant at One Molesworth Street, which we understand will trade as The Ivy Café. Le Pain Quotidien will also take space in the building having reportedly agreed a rent of €250,000 per annum for a ground floor shop and restaurant unit extending to 232 sq. m.
- Press Up Entertainment Group have acquired a number of new bar/restaurant locations in the city including the Residence and Restaurant Forty One Venue on St. Stephen's Green which is currently undergoing significant refurbishment before being relaunched as a bar and restaurant under a new name. The group are also fitting out a 362 sq. m. restaurant unit in the redeveloped Royal Hibernian Way.
- Five Guys have taken a portion, 400 sq. m., of the former Dunnes Home on Georges Street with Neon taking the remaining approx. 500 sq. m. Five Guys have also agreed to take space in the expanded Frascati Centre in Blackrock.
- Boojum continue to expand with the the announcement of their 13th outlet in Limerick City Centre this quarter. This follows openings in Grand Canal Dock and Smithfield Square last quarter with another unit fitting out on George's Street.
- American Doughnut company Krispy Kreme have announced their first Irish store in Blanchardstown Centre, likely to open in August 2018.

### CLOTHING AND FOOTWEAR

- Luxury UK clothing, homewares and fragrance retailer The White Company has agreed to lease the reconfigured 72 Grafton Street at a reported rent of close to €750,000 per annum.
- We understand that terms have been agreed with JD Sports and a homewares retailer for the Forever 21 space in the Jervis Centre.
- Stradivarius have taken a flagship store in the former Aeropostale unit in Liffey Valley Shopping Centre.
- In Limerick, lettings have been agreed with Gap, Superdry and Selected in the Crescent Shopping Centre extension.
- Next are rumoured to have agreed terms for approx. 3,700 sq. m. in the reconfigured Arnott's 'Blue Building'.

### OTHER

- Australian stationery giant Smiggle opened a new store at Swords Pavilions this quarter with terms agreed for a 8th outlet on 32 Grafton Street. Further announcements are likely in the near term as Smiggle continues its ambitious expansion across Ireland.
- Thérapie Clinic opened at Blanchardstown Centre this quarter with openings planned in Dundrum Town Centre, Liffey Valley and Henry Street in the coming months.
- Superdrug have continued their Irish expansion trail opening their fifth Irish store in Drogheda in Q1. This follows openings in Liffey Valley and Swords Pavilions last quarter.
- Spanish health brand Natur House have taken their first store in Swan Centre, Rathmines with more to follow.
- Fast-Fix and Newbridge Silverware have opened new stores in the Blanchardstown Centre.

### RETAIL PARK MARKET

- The retail park market continues to show signs of recovery, with strong increases in sales of household equipment driving occupier demand and sustained rental growth in many locations.
- News of French sports retailer Decathlon preparing to launch its first Irish store is positive, with a total of nine outlets planned for Dublin, Cork and Galway in the coming years.
- News of potential Carpetright and Maplin store closures was not so positive with the latter unable to find a purchaser via the administration process in February.
- EZ Living opened a new outlet in Kilkenny Retail Park this quarter with further store openings planned.
- Scandinavian home furnishings retailer JYSK is looking for a number of outlets to launch their Irish expansion.
- Bulky goods retailers including DFS, Homestore + More, The Range and HomeSense are currently actively seeking space, while existing retailers such as DID Electrical and Halfords are seeking to upsize in certain locations.

## RENTS

Continued demand from both international and domestic retailers has led to steady rental value growth on Dublin's Grafton and Henry Street, while prime suburban shopping centres are also showing strong signs of improvement.

Zone A rents in Grafton Street have reached €7,000 per sq. m. while on Henry Street rents have stabilised at €4,500.

The latest SCSI/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.

| CURRENT PRIME ZONE A RENTS (€ PER SQ. M.) | |
|---|---|
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## AVAILABILITY

Vacancy levels in prime locations remain low with the final four units on Grafton Street now let and due to be fitted out in the coming months to bring the street back to 100% occupancy. This leaves just one available unit on the street, No. 4, which is currently occupied by Vodafone but being marketed for sub-lease. On Henry Street there are just two available units, Nos. 24 and 45, which are currently occupied by JD Sports and Fat Face. All of the main out-of-town shopping centres are also trading at close to 100% occupancy.

Across the Bannon portfolio[1] of shopping centres and retail parks **we are currently recording an average of 93% occupancy**. This figure is expected to rise with several significant deals in the pipeline for Q2 and Q3.

There has been a distinct lack of prime retail space in Dublin in recent years, particularly for larger requirements with many retailers opting to move away from the main thoroughfares to find suitable space (e.g. H&M Dame Street). Demand from retailers on the prime retail streets has been catered for primarily through the recycling or repurposing of existing stock, as evidenced by the subdivision of the Forever 21 unit in Jervis, the redevelopment of Clerys and the carve out of part of the Arnott's department store to provide approximately 3,700 sq. m. of MSU space, which as mentioned is under negotiation with Next.

We are now also beginning to see retail development plans in regional locations, demonstrating the spread of the retail recovery.

## DEVELOPMENT ACTIVITY

| DEVELOPMENT | DEVELOPER | DETAILS | NEW RETAIL SPACE (SQ. M.) |
|---|---|---|---|
| CHATHAM COURT, CHATHAM STREET, DUBLIN 2 | Hudson / Lone Star | The final phase of the Chatham & King development will deliver an additional 1,521 sq. m. of retail space across 2 units and 160 sq. m. of food and beverage space across 3 units. | 1,681 |
| CENTRAL PLAZA, DAME STREET, DUBLIN 2 | Hines / Peterson Group | Proposed redevelopment of former Central Bank HQ and surrounding buildings will provide over 3,000 sq. m. of retail space across four retail units, along with 9 new F&B units. | 5,574 |
| FRASCATI SHOPPING CENTRE, BLACKROCK, CO. DUBLIN | Frascati Investments / Invesco | Upgrade and refurbishment of existing shopping centre to create an additional 6,662 sq. m. of lettable retail and restaurant/café floorspace. Due for completion late-2018. | 6,662 |
| BLANCHARDSTOWN CENTRE, DUBLIN 15 | Blackstone | Planning granted for Red Mall extension to add a further 2,270 sq. m. of retail space to the centre over two levels. Planning granted for Central Mall extension to create an additional 2,666 sq. m. retail space. | 4,936 |
| GATEWAY SHOPPING PARK, KNOCKNACARRA, GALWAY | TIO/Sigma | New owners have announced plans to spend more than €20 million on Phase 2 of the park which will include an additional 11,148 sq. m. of retail space to accommodate eight to twelve new traders. | 11,148 |
| DAWSON STREET / NASSAU STREET | Meyer Bergman | Planning granted and due to commence on site in 2018. The scheme will comprise 7,728 sq. m. of retail space over three levels. | 7,728 |

[1] Representative sample of Bannon-managed/let assets across Ireland. At present Bannon manage over 6.6 million square feet of retail assets with a total annual rent and service charge income of €125 million and annual footfall of 100 million. The portfolio is made up of a range of retail assets, from large regional shopping centres to small local neighbourhood schemes.

Chatham & King, Dublin 2

## FOOTFALL

Heavy snowfall and blizzard conditions in early March had a significant impact on retailers this quarter, with many stores closed for business on March 1st and 2nd across the country. This led to a sharp fall in footfall levels in all locations, with weekly totals falling by close to 50% relative to the previous week as a result.

The first quarter of 2018 saw footfall across Dublin City Centre (as recorded by Dublin City BID) fall by 6% relative to Q1 2017, while footfall on Grafton Street fell by 9% during this period. This drop in footfall was also recorded across the Bannon portfolio of shopping centres and retail parks with footfall declining by over 8% annually. Interestingly, Henry Street saw an increase in footfall of 1.5% year-on-year.

## OUTLOOK

The outlook for retail is broadly positive, with continued employment and wage growth as well as strong consumer confidence likely to boost retail sales in the coming months. Consumer spending is now forecast by the ESRI to rise by a further 2.4% in 2018 which is welcome news for retailers.

The retail sector is currently undergoing rapid change, facilitated by technology in most cases. Retailers will need to decide how to take advantage of these changes and remain on top of current trends or risk being left behind.

Technology is now making the retail equation more complex, with the level of information available online allowing consumers to control and shape the entire purchasing journey. Experience therefore becomes a key dimension, and the physical store is instrumental in this process.

Given that there is very little large-scale retail development due for delivery in 2018 and a low level of supply of retail units from existing stock, we expect further occupier demand and rental growth to lead to stronger footfall and turnover in established locations in the coming months.

### KEY TRENDS:

- More emphasis on leisure and entertainment and on experiential retail offers to attract customers to bricks and mortar stores
- Linking up of retail with other asset classes such as logistics to support increases in online sales, click and collect and returns
- Further new entrants to the food and beverage sector, particularly through bars and restaurants expanding into Ireland from the UK

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