



Retail Market in Minutes December 2017

Savills Research | Ireland

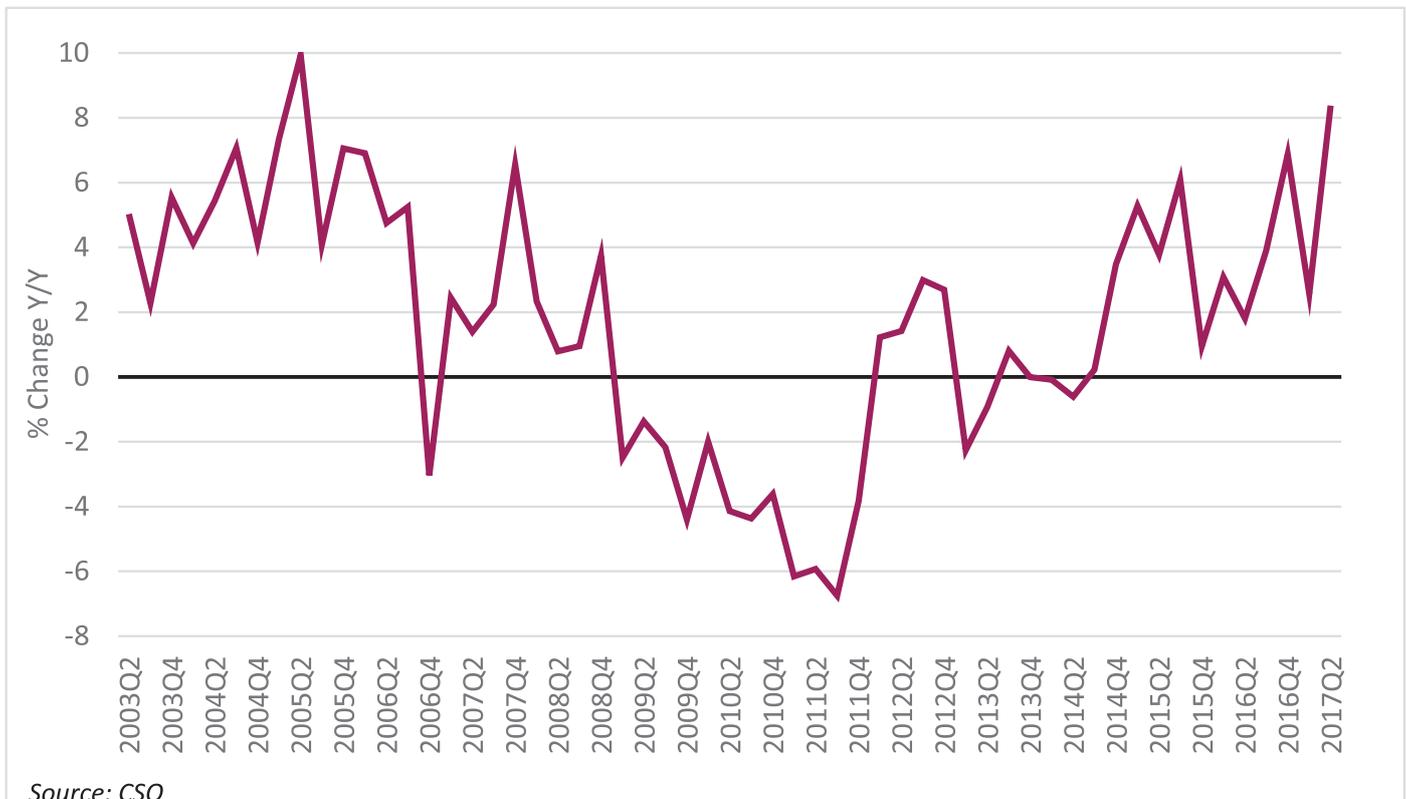


Economic Overview

Ireland's economy continues to perform well with total output expanding by 5.8% per annum – a considerably stronger growth rate than the 2% being experienced across the EU as a whole. Underpinning this is the continued improvement of the labour market. Almost 50,000 additional jobs are being created annually. In turn, this has helped drive down the unemployment rate to 6.1%. As a result, average earnings have been rising for three straight years. Greater numbers at work, coupled with increased earnings and modest tax cuts, have led to 8.4% growth in real

aggregate disposable incomes over the past twelve months – the fastest growth rate since Q2 2005 (see Figure 1). Looking ahead, legislation to refund domestic water charges has now passed and payments to almost one million households are underway. It is estimated that 90% of the €173m liability will be refunded before the year is out, a timely cash injection for consumers over the Christmas period. Looking beyond 2017, a further round of tax cuts arising from Budget 2018 will kick in. These measures will add an additional €335m to workers' spending power next year.¹

FIGURE 1: **Real Aggregate Household Disposable Incomes**



Retail Economy

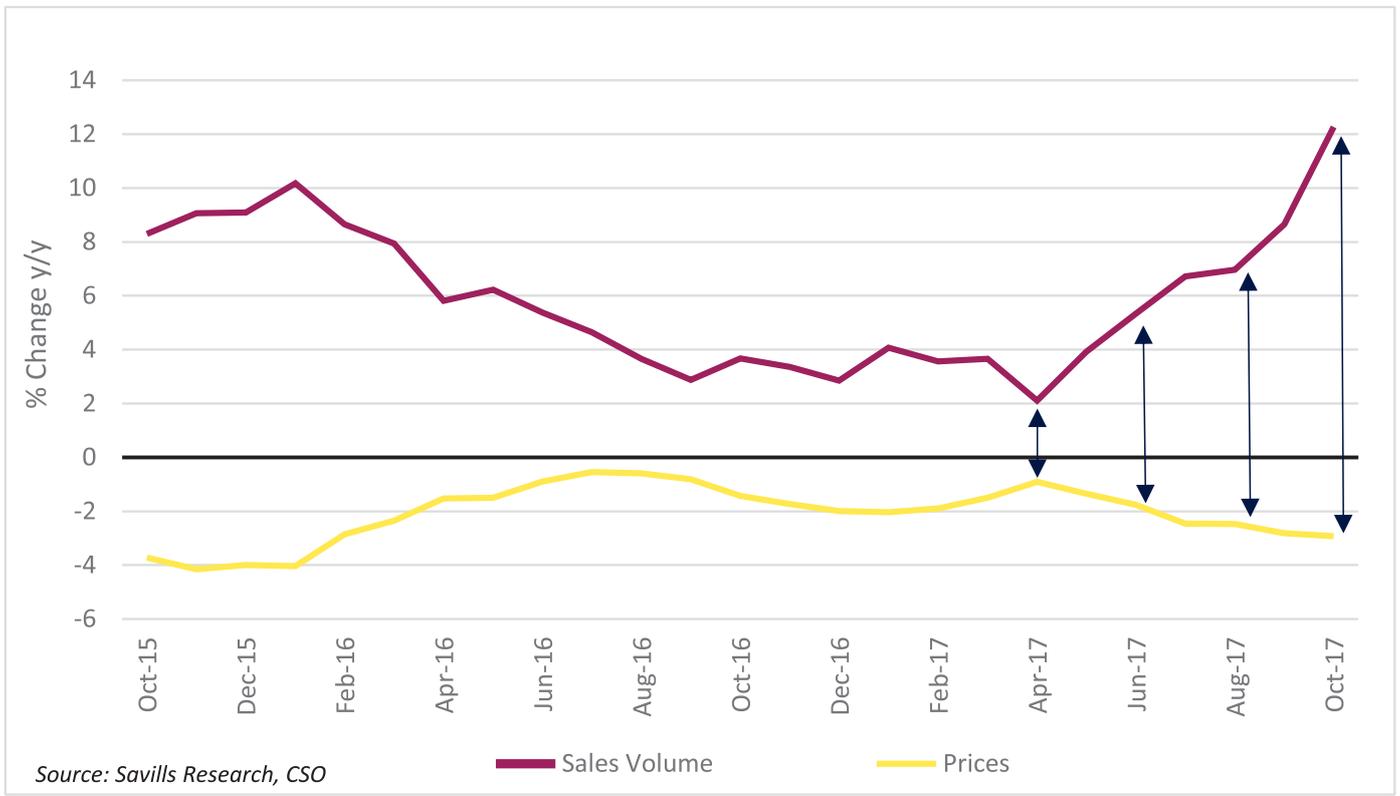
Latest data reveal a cooling in annual consumer spending growth from 3.1% to 1.7% over the past twelve months. It is natural for the growth rate to slow due to a rising base after two years of compounding growth. However, falling new car sales – which continue to suffer competition from second-hand UK imports on foot of the weaker Pound – are dragging the rate lower. As this begins to fall-out of the yearly comparison, the contraction in new car sales will become less of an issue. However, for now at least, this dynamic is creating a wedge between overall spending growth and growth in core (ex. Motors) retail sales. The latter metric portrays a much more positive picture, with sales volumes rising by 6% in the three

months to October. Within this, all sectors except motor fuel are enjoying annual sales growth in volume terms. Stores commonly associated with housing – i.e. furniture (14.5%), electrical goods (8.4%) and DIY (7.7%) – continue to outperform on the back of increased residential investment. Bank of Ireland, for instance, reported a 47% increase in the number of home improvement loan applications in the first nine months of 2017.

Pharmacies (12.3%) are also enjoying exceptionally buoyant trading. While the rate of discounting has trebled since April (yellow line in Figure 2), volumes growth (red line) has increased six-fold over the same period.

¹ Dept. of Finance Budget 2018 Economic and Fiscal Outlook – Page 20, Table 9

FIGURE 2: **Annual Retail Sales and Price Growth – Pharmacies (3-mth Mov. Avg.)**



Deflation remains a consistent theme in Irish retail with three-in-four sectors registering lower average prices over the past twelve months. This reflects both the ongoing compositional shift towards mid-market and value brands as well as the extent to which retailers must go in order to maintain market share in a fiercely competitive environment.

There is no doubt that e-commerce is increasingly impacting on the traditional retail model in Ireland.² However in the absence of official data on internet sales it is difficult for analysts to accurately measure the extent

of this. The Central Statistics Office (CSO) is in the process of broadening its retail sales data capture. At present, only online sales from retailers with a physical store in Ireland are included in the monthly basket. However these data are buried in the total sales figure meaning the share of turnover from e-commerce cannot be isolated. Going forward, the CSO plans to separate out internet sales and also include sales from online retailers legally based here but who have no physical store presence. However it is likely to be 2019 before any of this additional information is available.



River Island at Liffey Valley Shopping Centre

² For more on the impacts of e-commerce on traditional retail please see our August 2017 Report.

Lettings and Activity

While imponderables posed by Brexit, and a stronger focus by some firms on investment into online platforms, have led to fewer lettings in 2017 than in recent years, Ireland's strong domestic performance continues to support a steady flow of activity from both international and indigenous operators.

Clothing and Fashion

The highly anticipated opening of Victoria's Secret on Dublin's Grafton Street finally took place in early December. Around the corner on Duke Street, Dr. Martens is opening its first store in the capital. High street fashion giant River Island is now trading from its new store in Liffey Valley S.C.. Elsewhere in the country, Life Style Sports is now in its new 1,850 sq m flagship in the Capitol Building on Patrick Street, Cork, while US clothing company Gap has opened an outlet in the Crescent S.C., Limerick.

Other

UK pharmacy chain Superdrug has opened in the Pavilions S.C., Swords. Australian stationery specialist Smiggle is now trading in Dublin's Ilac Centre. Finally, cosmetics specialist Inglot has opened two new stores, one in Cork and the other in Foyle side, Derry.

Food and Beverage

One of Dublin's most iconic retail landmarks, Bewley's Café, has reopened its doors on Grafton Street after completing a €12m refurbishment. Fast food joint Wowburger continues to expand with the opening of two new Dublin stores (on Parnell Street and in the Square, Tallaght). Two additional stores, one on Wexford Street in Dublin and the other on Cork's Main Street, are due to open soon. Italian pizza chain Milano has opened in Whitewater S.C. in Newbridge. Australian chain Zambrero, which specialises in healthy Mexican food, has opened its fourth Irish restaurant in Beacon South Quarter, Sandyford. Canadian coffee and doughnut chain Tim Hortons is expanding into Northern Ireland with its first store due to open in Belfast city centre in early 2018.

Retail Development

The strength of Ireland's consumer economy has resulted in Irish retail property becoming a particularly attractive target for capital in recent years. Twenty-one shopping centres traded across the country in 2016 and, where the space exists, landlords are actively seeking to extend to maximise potential returns. Blanchardstown Shopping Centre in west Dublin has recently been granted permission for a €40m redevelopment and extension of its Red Mall. This will add 9,300 sq m of retail space. Permission is also in place for a 5,575 sq m extension of its Central Mall. Having recently completed a 16,000 sq m extension, Liffey Valley Shopping centre, also in west Dublin, is seeking permission for a further 2,500 sq m of retail and

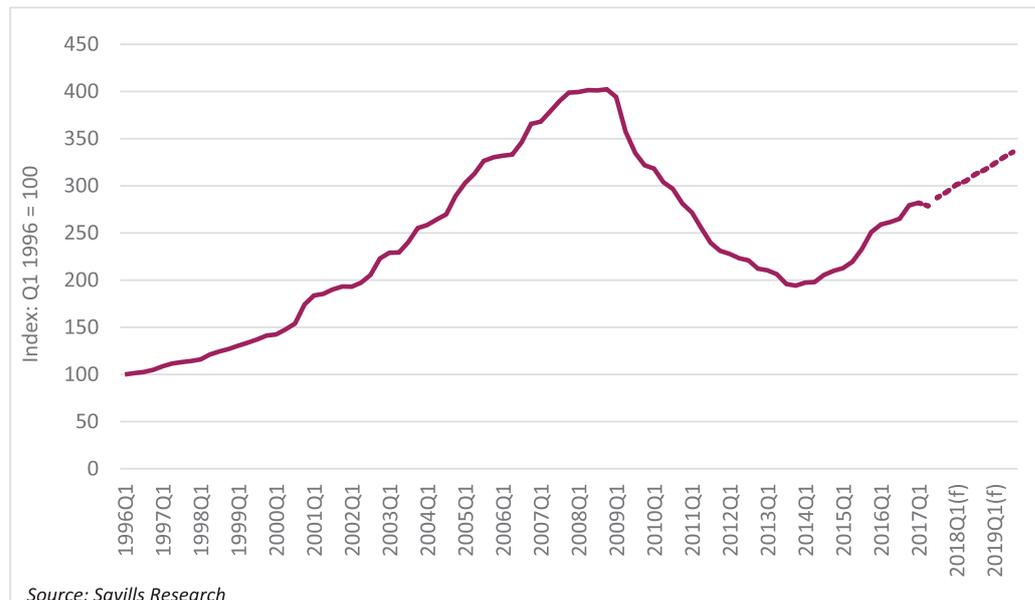
restaurant space. A decision on this is due early next year. Elsewhere, the Square Shopping Centre in Tallaght – which is currently under offer – has planning in place for 12 new units and a new anchor store. Frascati Shopping Centre in Blackrock is undergoing a substantial redevelopment which will see the centre's footprint almost double in size from around 9,000 sq m to 16,000 sq m. Across the road, Blackrock Shopping Centre has received the green light for a €10 million upgrade.

Rents

With occupier demand remaining robust, and development only beginning to re-emerge, rents continue to rise. The MSCI overall retail ERV index has increased by 5.1% over the past twelve months. As has been the case for thirteen straight quarters, stronger rental growth continues to be recorded in prime locations. Back in May our econometric model predicted that rents

on Grafton Street would rise by 8.5% in the year to September and this forecast has subsequently proved to be identical to the actual outcome. Looking ahead, our forecasting model predicts further cumulative rental growth of 16.8% on Grafton Street over the period Q4 2017 - Q3 2019 inclusive (see Figure 3).

FIGURE 3:
Grafton Street Rents Forecast Q4 2017 – Q3 2019



Outlook

The economic backdrop remains favourable for retail property with every window into the consumer economy currently revealing a positive picture (see Table 1). Ireland's benign cycle of jobs creation, which has been in place for more than four years now, is expected to continue with consensus forecasts pointing to further robust growth of 2.3% in 2018. Savills analysis shows that jobs growth, in particular, is a strong leading indicator of growth in retail rents, with a 1% increase in total employment associated with a 1.43% increase in rental growth on Grafton Street two years later.

The new LUAS Cross City extension is also set to enhance shoppers' access to Dublin's high streets. With works likely weighing on foot traffic for much of 2017, the opening of the new line – which connects north and south Dublin city – comes just in time for the Christmas season. Looking beyond the festive period, it is estimated that LUAS Cross City could add up to ten million additional passenger journeys per year. Together, these tailwinds should continue to support demand for retail property and further rental growth – albeit at more moderate rates than those recorded earlier in the cycle.

TABLE 1:
Consumer Economy Dashboard

Indicator	Period	% Change Y/Y
Live Register	Nov 2017	-14.6
Real VAT Receipts	Nov 2017	+6.9
Core (ex. Motors) Retail Sales	Oct 2017	+6.0
Real GDP	Q2 2017	+5.8
Consumer Sentiment (3mma)	Nov 2017	+5.8
Consumer Credit Outstanding Balances	Oct 2017	+4.8
Total Employment	Q2 2017	+2.4
Real Personal Consumption Expenditure	Q2 2017	+1.7
Real Average Gross Earnings	Q3 2017	+1.5
Overseas Trips to Ireland	Q3 2017	+1.1

Sources: CSO, CBI, KBC Bank Ireland/ESRI, Dept. of Finance.



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