Quarter 1, 2017

Q1

THE LISNEY RETAIL REPORT

Lisney

The Difference

The Market in Numbers

Article 50

50

Brexit became official when article 50 was enacted

Lettings

TO LET

18

Elverys agreed to take the former HMV store on 18 Henry Street

New Construction

10k sqm

An Bord Pleanala granted permission for a new hotel in Waterford

Retail Sales

6%

The volume of retail sales increase by 6% in the year to March

Overview

The opening months of 2017 were slower than anticipated in the retail property sector. Brexit was on retailers minds, particularly in March when Article 50 was enacted. In spite of this, demand remained from both national and international retailers who were seeking stores. The continued lack of prime, good quality opportunities was evident and resulted in a considerable slowdown in the number of transactions being completed.

Demand for retail units in the Dublin suburbs outside of the key shopping centres is primarily from national operators, those in the restaurant, convenience and discount sectors. Outside of Dublin, there was some demand for strong towns. However, the era of retailers rolling out stores in multiple towns across the country has gone. The impact of omni-channel shopping, particularly the internet, and brand recognition has seriously impacted this approach in recent years.

Dublin City Centre

In Dublin city centre, there were a limited number of transactions in Q1. The refurbishment works on 72 Grafton Street (former Karen Millen / HMV) are completed and while there are ongoing reports of interest from retailers such as Zara at Home, no letting has taken place. At the bottom of Grafton Street (No. 114 – 116), American Apparel closed after the High Court appointed a liquidator and it was found to be insolvent. The fit-out of Victoria's Secret (No. 28/29) is well under way and is due to open in the autumn. At 50 Grafton Street (previously O2), the final planning grant for cosmetics company L'Oreal was provided in March. The fit-out works are likely to commence immediately, where the Urban Decay brand will operate. Closed since February 2015, Bewleys renovation continues with no confirmed reopening date.

Zizzi opened its second Irish restaurant in January, in the former Pizza Hut premises on Suffolk Street and nearby, terms are reportedly agreed to Wrights on the former St Andrews Church. These lettings and the pedestrianisation of Suffolk Street will further enhance it as a retail and restaurant destination.

On the north side of the city, very little activity occurred in Q1. Elverys agreed to take the former HMV store at 18 Henry Street, relocating from Arnotts. Elverys is reportedly paying a Zone A rent of €4,360 psm (€405 psf) on a 10 year lease with a landlord break option in 2020. The most notable development in the area was the agreement reached between former staff of Clerys and OCS Properties in March. This resulted in Siptu's appeal to the €150m redevelopment being withdrawn. The works on the former department store to create a mix of offices, retail, restaurants and a hotel are reportedly due to start shortly and take up to three years to complete.

Luas Cross City works are nearing completion and is expected to be operational by the end of 2017. It was recently confirmed by government that the €2.3bn Metro North scheme between St Stephen's Green and Swords, via the airport, is to be fast-tracked. This would open up a number of sites for retail and residential development.

Zizzi, Suffolk Street, Dublin 2

Shopping Centres

In Dundrum, formal menswear retailer Moss Bros took the former FCUK unit on Level 2 while terms are agreed with Australian brand Smiggles. The new landlord of the centre, Hammerson and Allianz, is focusing on evolving the store line up, particularly on Level 3 as a number of units have become available in line with the completion of the food hall rejig, which is now operated by Aramark. Negotiations are taking place on a number of other units in this mall.

In terms of new construction, An Bord Pleanála refused a planning application to extend Liffey Valley Shopping Centre in February. The plans included a 22,000 sqm extension together with an Olympic-sized ice skating arena. An Bord Pleanála ruled the larger centre would further add to traffic congestion to the area.

At The Square Tallaght, plans to extend the centre moved a step closer following the positive High Court ruling between the management company and anchor tenant Dunnes Stores. Redevelopment plans are also in the pipeline in the Blanchardstown Centre and Phibsboro Shopping Centre.

In Waterford, An Bord Pleanála has granted permission for the construction of a new shopping centre of 10,030 sqm on a site bounded by Alexander Street, Michael Street, St Stephen's Street and New Street. The Fawaz Alhokair Group from Saudi Arabia are behind the development and are also involved in a mixed use scheme at North Wall Quay in Dublin.

In Focus

The Changing Nature of Retail

Retailers are now much more location sensitive and cautious in their acquisitions.

We have increasingly found that demographic and socio-economic statistics are heavily relied upon when making property decisions with considerable cognisance taken of a location's footfall and catchment profile. The nature of the property market is such that once a retailer identifies a location for a store, it can take up to 12 months for an acquisition to be concluded. In the rapidly changing world of retailing, this slow and tedious process can be an issue. There can also be a mismatch between landlords and retailers on not just rent, but also the future of retail and what is required of a store.

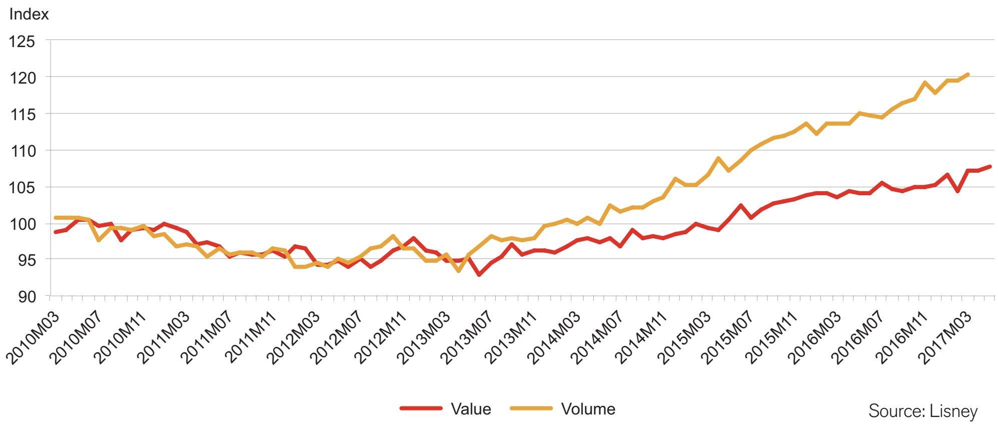
Many of the shopping centres around the country have been sold in the last three years. New landlords are focused on asset management and driving rents in order to improve the return on their investment. With the introduction of open rent reviews (i.e. the rent can go up or down) in 2010, we have found that Zone A rents are at best moving in an upward direction, at worst remaining consistent and as such, pending rent reviews are not necessarily impacted.

For retailers, Zone A rents are a thing of the past. Their focus is the new connected consumer and how best to reach them. They place emphasis on enriched experiences, convenience and high quality personal interactions. The days of packing and stacking the first six metres of your store (i.e. the Zone A space) and offering every possible style, size and colour is gone. Increasingly, retailers have limited stock in store, utilising the space for experience and creativity, thus encouraging consumers to pick up desired sizes or styles online. These purchases are then delivered to homes and workplaces across the country. While this has been evolving in recent years, the real implications are now only taking affect as consumers are progressively more convenience driven. Anecdotally, the change has been so dramatic in the past year that many companies have had to restrict staff from getting online purchases delivered to their premises as post rooms were full.

These changes are unfolding so quickly, the implications are not fully understood by all in the world of bricks and mortar. There is no doubt that in the main, retailers' turnover is improving. The volume of retail sales continues to grow faster than the value of sales. This indicates that retailers are persistently discounting prices in order to attract shoppers into stores and compete with online sales and cross boarder shopping. The core volume of retail sales (i.e. excluding motor trades) increased by 6.0% in the year to March, while the value increased by 3.5%. This variance has been notable since mid-2013. Up until that point, both measures were running at relatively the same pace but since then, the volume has increased by 27%, whereas the value has increased by 14%.

The turnover that can be generated by certain types of retailers (i.e. restaurant, fashion, music and homewares) is becoming more and more divergent. However, for successful shopping centres and high streets, a good mix of these is required. The issue then arises that some retailer types can pay higher rents than others, but lettings and rent reviews are based on all evidence. What then happens, particularly on high streets, is that numerous operators from one sector dominate and the retailing pitch becomes less attractive and successful.

Retail Sales 2010 - 2017



Source: Lisney

The Lisney Office Team

Emma Coffey
Divisional Director

Hugh Markey
Consultant

Jennifer Prunty
Surveyor

The Lisney Research Team

Aoife Brennan
Director of Research

Tanya Duffy
Property Analyst

Our Offices

DUBLIN
St. Stephen's Green House,
Earlsfort Terrace, Dublin 2
D02 PH42
T: +353 1 638 2700
E: dublin@lisney.com
PSRA No. 001848.

CORK
1 South Mall,
Cork
T12 CCN3
T: +353 21 427 5079
E: cork@lisney.com

BELFAST
Montgomery House, 29-33
Montgomery Street, Belfast,
BT1 4NX
T: +44-2890-501501
E: belfast@lisney.com

LONDON
33 Cavendish Square,
Marylebone, London
United Kingdom, W1G 0PW
T: +44-203-714-9055
E: london@lisney.com

Lisney
@LisneyIreland
Lisney Ireland

lisney.com