

Q2

THE LISNEY RETAIL REPORT



The Difference

The Market in Numbers

Retail Sales



7.3%

The volume of retail sales continued to grow over the 12 months to May

Sentiment



16

The June reading was the highest level in 16 months

Shutter Count



6

The number of unoccupied units on Grafton Street

Future



2027

Retail in 10 years' time will be entertaining, social, interactive and, most importantly, fast moving



Overview



The opening half of 2017 was quieter than anticipated in the retail property sector. Although there are new entrants seeking stores and some existing retailers looking to expand, uncertainty around Brexit and other external factors has influenced retailers' decisions and postponed any plans in the short-term. Despite this, the main statistics are generally pointing in a positive direction.

The latest figures from the CSO reveal the volume of retail sales rose by 7.3% in the 12 months to May 2017 (motor trades excluded), while the value increased by 4.1% in the same period. The sectors showing the largest annual improvements are bulky goods such as furniture and lighting, electrical and hardware with annual increases of 16.2%, 12.0% and 9.3%. These rises are stemming from an increased level of housebuilding and greater DIY activity.

The KBC Bank/ESRI consumer sentiment index improved in June and was at its strongest level in

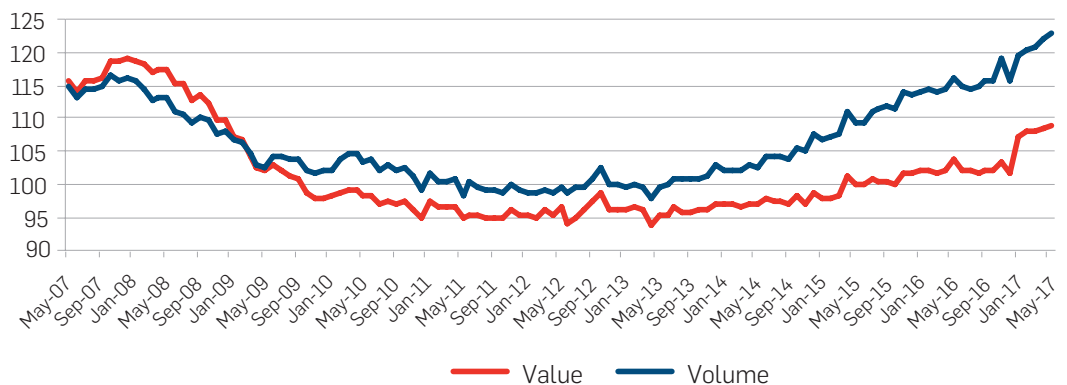
16 months. The survey showed that consumers recognised strength in the Irish economy but were not feeling improvements in their own finances.

In terms of activity on the main streets in the city centre, Urban Decay opened in June on Grafton Street and Sisley has rebranded as its sister company the United Colours of Benetton. On Henry Street, BT2 has closed as has Parfois and Wallis, which will make way for a new flagship Topshop – Topman store in Jervis Street Centre.

In the suburbs, Smiggle, the Australian teen stationary and accessories company, has opened its doors in both Dundrum and Blanchardstown. Also in Blanchardstown, the Disney Store and Ann Summers have started trading. In terms of closures, Carraig Donn and Name It in Dundrum have closed, as have Premodonna, Reload and Tiger in the Pavillions.

Retail Sales Value Vs Volume

Retail Sales Exc. Motor



Source: Lisney



In Focus

The Changing Nature of Retail



Artificial Intelligence in Retailing

Retail has changed forever and with the rapid evolution of Artificial Intelligence (AI), the transformation is only gathering momentum. To date, it has been the retailer who has had to tackle the virtual and online world. However, as technology and AI are rapidly advancing, it is the retail and shopping centre landlords who need to be aware.

In the US, Amazon announced its intention to purchase Wholefoods for \$13.7 billion. Wholefoods is a well-known natural and organic grocery store with over 460 locations across North America and the UK. Its customers tend to live in urban locations and are generally affluent. This purchase not only provides Amazon with the opportunity to tap into a new business model with higher margins but more importantly, acquire vast amounts of personal customer data. To succeed in retail now, knowledge about your customers is key.

In Ireland, we are familiar with data collection. Supermarkets have been tracking habits for a long number of years through loyalty cards, debit and credit card data and till receipts. As a customer's loyalty is established, so too are their spending habits. Products can then be adjusted accordingly to ensure more is spent at each visit and offers or incentives promoted if visit numbers are reducing. This form of tracking is not overly intrusive, however, with AI this is about to change. Features that have already been tested or recently introduced internationally include facial recognition, 'Shop & Go' and personal assistants.

Facial recognition allows data to be gathered through the facial expressions and movements of shoppers. This information provides data on how consumers are feeling about products such

as happy, annoyed, surprised or dissatisfied. Products can be introduced accordingly, thus impacting sales revenue.

With 'Shop & Go', Amazon recently introduced a trial where shoppers could download an app that allowed them to browse stores, select items and simply walk out of the store. Computer vision and sensors track what items are selected and your Amazon account is later charged so no physical money changed hands. The first self-check-out appeared in New York in 1992 and it was first used in Ireland in 2003. It appears as though it is only a matter of time before consumers will have the option to shop-and-go and cashiers will be a thing of the past.

The most fascinating and futurist evolution has to be Alexa and Siri. Alexa and Siri are intelligent personal assistants developed by Amazon and Google respectively. On the face of it, these can assist in everyday life and behind the scenes they are rapidly changing the face of retailing. They are a smart speaker but through voice interaction can carry out an array of tasks; control the temperature in your house; adjust your lights; stream music; prepare you for the weather; plan your diary and commute; provide cooking instructions and as new platforms are being added can now order food and products directly to your house on a simple request. You no longer need to interact with the outside world or visit a town or shopping centre. As Alexa and Siri gather information on your requirements each day, data about you and your family's needs and wants is being gathered. Soon Alexa and Siri will know what you require before you do. For example, as a daughter's fifth birthday approaches, Alex will already know that you need a pink bicycle and advertisements will have appeared on your smart phone before you have even thought about going shopping. As the advertisement says 'sometimes Alexa helps out when you least expect it'.

It is likely that landlords will find themselves competing with the rapidly evolving world of technology quicker than anticipated. There is no doubt retailers have already started to adjust to the changes required through online sales and an omni-channel presence. From a property point of view, it is clear that they are no longer rolling out stores across towns and cities as before. It is now the turn of the landlord to consider the future of AI and technology in terms of retailing. The world of property has

been slow to adjust to this rapidly changing world of retailing.

Having purchased large scale property investments, the focus of landlords has been on maximising the value of their return through the usual channels of long lease terms, driving rents and attracting stronger covenants. Unfortunately looking across the water and to the future, this no longer appears to be the answer as malls across the US lie vacant. The range of fashion operators who once lined the malls are no longer taking the number of physical stores they once did. Shopping centres need to reinvent themselves and for some landlords this is already happening.

Amazon recently filed for a patent for 'multi-level fulfilment centres, which are beehive-like structures that will accommodate the landing and take-off of drones in dense urban areas. It seems inevitable that day-to-day shopping can and will be done through our personal assistants who will order online and deliver via drones within a matter of hours. Shopping centres and town centres increasingly need to become places of experience and a place for people to gather and socialise. This transition is already starting to take place with a vast number of F&B operators taking space.

If we accept that the shopping experience of

the future needs to be interactive, interesting and engaging, then retail tenants that simply offer the best covenant and pay the highest rent will not meet the mark and their success and survival will be limited. In the US and Europe, landlords of shopping centres are reacting. A vast array of interesting experiences are being attracted to centres, such as ice skating rinks, aquariums, go kart tracks and ski slopes. Leases that offer some flexibility will encourage pop-ups. These are driven by social media marketing and often attract vast numbers of followers and interest. With all of the technological progresses, retail in 2027 will be entertaining, social, interactive and, most importantly, fast moving.

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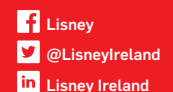
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