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OUTLOOK 2024

7 RETAIL

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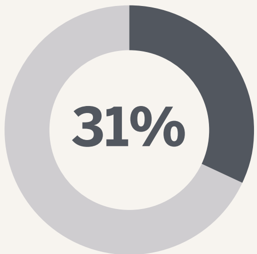
GLOBAL CONTEXT

PERIOD OF IMMENSE CHANGE

The retail industry continues to contend with a rapidly evolving landscape, not just in terms of accelerated technological change but also economic, geopolitical and ecological impacts. E-commerce and an omni-channel offering has become a reality for almost all traditional bricks-and-mortar retailers, while many of the larger brands are looking towards artificial intelligence and augmented reality to meet shoppers' needs. Brexit, COVID and the various ongoing conflicts around the world have forced retailers to adapt quickly in terms of supply chains, but also in terms of the impacts of rising inflation on their customers. Since the pandemic, there is a heightened awareness in society on the environmental impacts across all sectors, and the retail industry is no exception. Brands' sustainability credentials and how they are adapting to fast fashion and embracing the circular economy, among other concerns, will be key to their competitiveness into the future.

Despite these wider headwinds, there remain many positive indicators in the Irish retail sector. In terms of the consumer, household savings continue to grow and are at historic highs (€153.1bn – up from €148.6bn 12 months ago and €110.5bn at the end of 2019); there is full employment with the numbers employed also at historic highs (2.66m people) and many sectors still dealing with labour shortages; the volume of retail sales is steady when compared to the last two years; and inflation (CPI) has eased by over four percentage points in the last year (to 5.1%). Consumer sentiment in December 2023 was significantly higher than 12 months previous, but it was notable that while some pressures on households were easing (such as reducing energy costs and hopes that interest rates have peaked), others remained (including worries about a softening jobs market and a slowing economy). That said, not all consumers' lived experiences are alike, and there are many continuing to struggle with a higher cost of living and limited discretionary spending budgets. This is a concern for the ongoing health of the retail industry, which is the largest indigenous sector of the economy, employing over 320,000 people nationwide and generating about €7bn in tax revenue (12% of GDP) annually.



OF IRISH CONSUMERS REPORTING PURCHASES MADE THROUGH SOCIAL MEDIA PLATFORMS IN THE PAST YEAR

Henry Street, Dublin 1.

ONLINE SHOPPING

THE CONTINUED RISE OF SOCIAL COMMERCE

CSO data provides an overview of online retail sales in Ireland, which has been fluctuating between 5% and 8% of all core retail sales since early 2022. It had reached highs of 15% during COVID lockdowns. However, as this only accounts for Irish companies, it does not provide the full story and a large portion of Irish consumer spending is unaccounted for. Data from Statista (an independent specialist in surveys and data gathering) show that online purchases in Ireland accounted for 16.1% of all transactions in 2022, totalling US$5.32bn (about €5.1bn) with expectations that 2023 to reach US$5.78bn (or €5.4bn), an 8.6% growth but with the market share staying at 16.1%. By 2027, online purchases are expected to exceed US$8.63bn (over €8bn).

In recent years a large part of online shopping has been facilitated through social media – or 'social commerce'.

Social commerce refers to the use of social media platforms and networks to facilitate buying and selling products online. Platforms such as Instagram, Facebook, Pinterest, YouTube, TikTok, and X have already introduced features that support social commerce, such as shoppable posts and live streaming.

Social commerce is a trend that has surged in recent years and is now an integral part of the broader e-commerce landscape globally. With 91.7% of the Irish population over 18 using one or more social media platforms, social commerce is set to continue to impact the Irish retailing landscape in 2024 and in the years ahead. Statista has highlighted some notable figures:

- Spending on social media platforms represented 4.0% of total online spending in Ireland in 2022, up from 2.4% in 2021 and 1.8% in 2018. Projections indicate continued growth, reaching 5.3% in 2027.
- Global comparisons highlight the continued room for growth in Ireland – social commerce accounted for about 13% of global e-commerce in 2022 and is forecasted to grow to about 17% in 2027.
- The rise of social commerce is evident in consumer behaviour, with 30.9% of Irish consumers reporting purchases made through social media platforms in the past year. However, only 17% of businesses consider driving revenue through social media as a goal.

PROPERTY MARKET

CAUTION BY THOSE CONSIDERING PROPERTY MOVES

Vacancy levels across the key Dublin city centre high streets and suburban shopping centres continued to fall over the course of 2023 with mainly international brands entering (or re-entering) the market and taking space. There was also an element of expansion in the market with some well-performing retailers growing their footprint. The vacancy rates on Grafton Street (pedestrianised section) and Henry Street / Mary Street were at 7.7% and 12.9% respectively in December 2023. There was also good demand for accommodation in retail parks with many schemes around the country now fully occupied.

There is likely to be a more cautious start to this year by retailers and F&B operators considering property moves. They will continue to analyse the ongoing viability of their business, focusing on income generation and costs. There are many factors that could impact viability, including footfall patterns, potential further reductions in consumers discretionary spending, business debt (including warehoused tax liabilities) and rental affordability. One or more of these factors could result in some retailers going out of business and in turn, an increase in vacancy rates.

For existing tenants, especially smaller indigenous retailers, many will continue to work with their landlords, particularly as the repayment of warehoused Revenue liabilities fall due in May (the retail sector had the second largest outstanding liability of €28.8m in November 2023). Any agreements will be on a case-by-case basis taking account of location and business specifics. Where deals cannot be reached or business models no longer make sense after several difficult trading years, stores will close. Encouragingly, there are several retailers with active requirements and new deals will continue to be done this year if terms are acceptable to both tenants and landlords. It appears that headline Zone A rents on key trading pitches have stabilised, which is positive for the year ahead.

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