



RESEARCH



**AT A GLANCE
Q2 2022**

RETAIL MARKET IN FRANCE

GROWTH IN Q2 2022, BUT CONCERNS ABOUT AN ECONOMIC SLOWDOWN

+2.3%

GDP GROWTH IN 2022

(BNP Paribas Forecast - June 2022)

+5.5%

INFLATION IN 2022

(BNP Paribas Forecast - July 2022)

82

HOUSEHOLD CONFIDENCE IN 2022

(BNP Paribas Forecast - June 2022)

+2.1%

HOUSEHOLD CONSUMPTION IN 2022

(BNP Paribas Forecast - July 2022)

+5.2%

2022 COMMERCIAL RENT INDEX

(BNP Paribas Forecast - July 2022)

UNCERTAIN ECONOMIC CONTEXT

The optimism associated with early 2022 was badly undermined by the Omicron variant, the invasion of Ukraine and a relentless rise in prices.

After bouncing back in 2021 with growth of +7.0%, GDP contracted slightly in Q1 22 but is expected to grow by +2.3% over the full year, dampened by the economic fallout from the conflict in Ukraine.

Despite less dependence on fossil fuels than the European average, France is expected to experience unusually high inflation this year (+5.5% forecast), although this should ease from 2023.

Notwithstanding the uncertain economic and geopolitical backdrop and rising costs, purchasing managers' indices remained positive in Q2 2022, supported by unemployment at a 10-year low of 7.1% in Q1.

Doubts about the development of the war in Eastern Europe, the ongoing pandemic and rising inflation are taking their toll on consumer confidence. The household confidence index fell by 16 points over the first six months of 2022. By June it stood at 82, its lowest level since 2013.

INCREASE IN THE COMMERCIAL RENT INDEX

The significant rebound in the Commercial Rent Index (CRI) in 2021 has continued into 2022. As such, it increased by 3.32% over one year and could rise by 5.2% in 2022.

After years of stagnation, the index gradually increased in 2017 and continued to rise in 2018 and 2019. However, the recessionary shock in

France (with a slump in GDP and retail sales) caused it to fall in 2020.

For investors, growth in these indices means higher rental income. However, for tenants, it means higher rents.

SALES BOUNCED BACK BEFORE STABILISING

Retail sales grew by 10.9% year-on-year in Q1 2022, compared with 11.1% in Q4 2021. This upswing and then near-stagnation can be linked to the end of health restrictions.

However, the national and international situation could dampen sales in the coming quarters. As prices rise, the demand shock will be compounded by the supply shock caused by the zero COVID-19 strategy in China and the war in Ukraine.

The effects of the measures proposed by the government to protect purchasing power (a major concern of the French) are expected to be felt in the coming weeks.

INCREASE IN ALL SECTORS, PARTICULARLY CATERING

As during the previous quarter, sales increased for all sectors in Q1, thanks to the end of health restrictions.

Catering sales increased by over 62%, bouncing back from the periods of 2020 and 2021 disrupted by COVID-19. The same was true for the clothing sector, up by some 22%, after so-called non-essential stores endured months of closure, which had a huge impact on their sales.

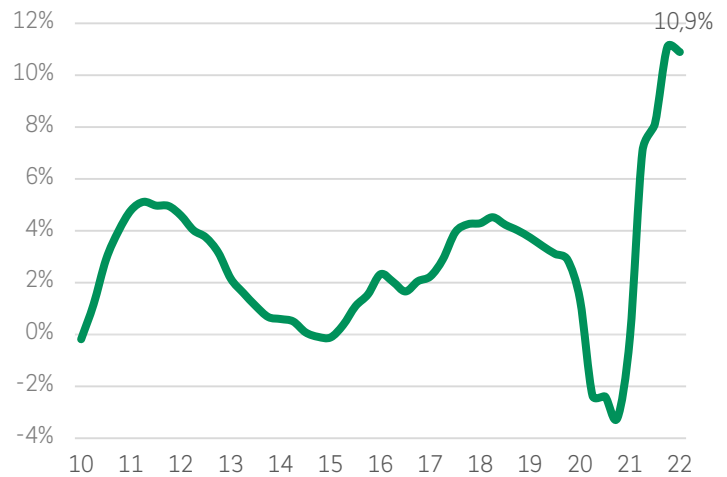
The culture & leisure sector grew by a further +17.4%, helped by the reopening of venues.

E-COMMERCE GROWTH CONTINUES

The Fevad trade association reported growth of 11.9% for Q1 2022 vs the year-earlier period, back to first-quarter levels before the COVID-19 outbreak.

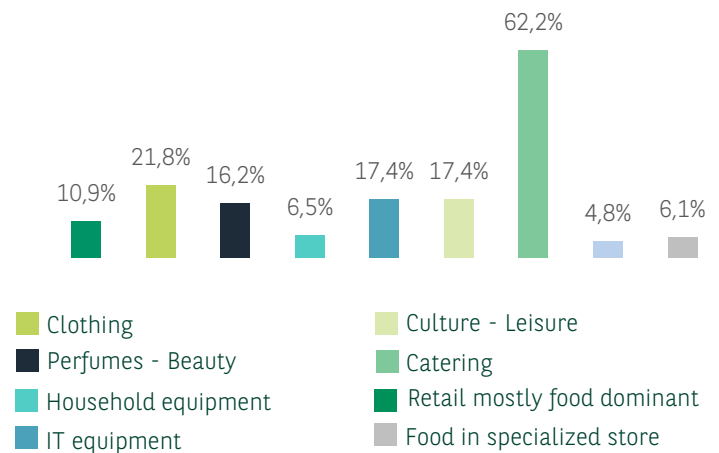
Online sales came to € 32.5bn over the first three months of 2022, higher than the quarterly average of the last five years. This figure was spread over more than 520 million transactions, a record for Q1, with a higher average shopping basket of € 62, an increase attributable to the rise in sales of services, which are back in the majority and account for 56% of e-commerce sales. This was mainly thanks to the revival of the tourism and entertainment industries.

Retail sales
Growth in value terms (rolling year)



Source : Insee

Retail sales
Growth in value terms (rolling year)



Source : Insee

Online retail sales
Growth in value terms in Q1 (by quarter)



Source : Fevad

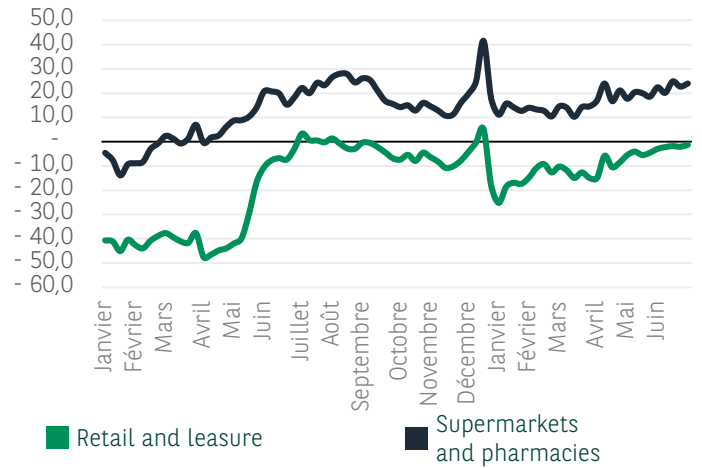
FOOTFALL LEVELS RETURNING TO NORMAL

Since the beginning of 2022, footfall in stores and leisure facilities has been gradually rising, returning to its pre-health crisis level, the baseline period for Google Mobility.

However, this improvement may be seasonal in nature, with summer weather favouring leisure facilities. Yet Google finds that the variation between the number of visitors to shops and leisure facilities has remained stable.

Footfall

Number of pedestrians on seven rolling days



Source : Google mobility report

SHARP INCREASE IN SHOPPING CENTRE FOOTFALL

The recovery in shopping centre footfall was confirmed in Q2, in the absence of health restrictions, with the footfall index increasing by 5.6% between 2021 and June 2022. However, it remains to be seen what impact inflation will have on shopping centre footfall in the coming months.

Nevertheless, we note that footfall between January and June 2022 was still -15.6% lower than it was between January and June 2019.

Footfall index - shopping centres

On a rolling year basis



Source : CNCC

PRIME PARISIAN RENTS DRIVEN UP BY THOROUGHFARES WITH LUXURY RETAILERS

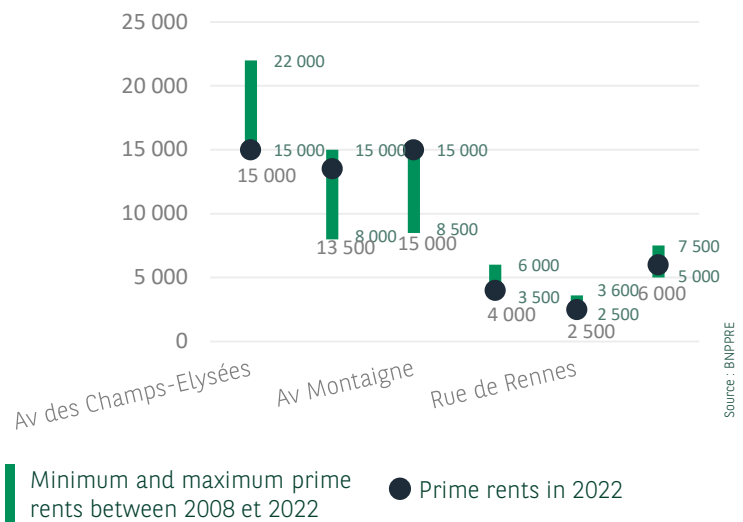
Prime rents on the Champs-Élysées have fallen in recent years to a low point of € 15,000/sqm, despite visitors returning and the average monthly footfall doubling.

Certain retailers act as a driving force on some streets, attracting other names and pushing up prime rents. One such example is Dior on Avenue Montaigne.

Rue Saint Honoré has seen its prime rent rise to € 13,500/m², trending upward near the intersection with Rue de Castiglione, while the section of the street leading to Place Colette is less expensive.

Prime rents in Paris

€/sqm



Source : BNP/PRÉ

The Mairie de Paris intends to strictly apply town planning law to dark stores

The Mairie de Paris intends to strictly apply town planning law to dark stores, from as early as this July. These dark stores are small, inner-city premises used as logistical bases for "quick commerce" companies, enabling home delivery in less than 15 minutes at all hours to customers who have become used to deliveries and going out less since the COVID-19 outbreak. Quick commerce accounts for 1/4 of the Paris home delivery market for food products, and 12% in France.

There are about a hundred of these dark stores in Paris. These premises are considered to be warehouses by the local authority, which does not allow such buildings near residential areas. Yet, over half of them are in former retail premises, some replacing businesses that failed due to the pandemic and its economic consequences. The city hall and local residents complain that this type of activity generates problems, particularly noise pollution, due to the constant comings and goings of the delivery drivers and clusters of people in front of the buildings. It also detracts from neighbourhoods as these businesses prevent local shops from moving in and make the area less liveable.

In an attempt to curb the practice, the local authority wants to introduce a fine of up to € 25,000 per dark store.

Source : BNPPRE

New ways to revive retail activity in medium-sized towns

Medium-sized towns have been regaining their appeal in recent years, for reasons that are both cyclical (health crisis) and general (underlying trend, overcrowded cities, etc.). Indeed, the quality of life and accessibility of these smaller towns are highly valued by the French. Consequently, the volume of real estate sales in the EPCIs (établissement public de coopération intercommunale (*public inter-municipal cooperation establishments*) participating in the national Action Cœur de Ville programme has increased by almost 21% since 2018, particularly in the suburbs, triggering a virtuous circle affecting retail, the economy, entertainment, etc.

The Action Cœur de Ville initiative launched in 2018 aims to improve living conditions in medium-sized hub cities, notably by encouraging the development of retail and residential functions in city centres. Momentum has been generated: real estate sales are increasing, new residents are moving in, retailers are expanding, etc. Nevertheless, retail vacancy remains a key concern. In May 2022, Villes de France and CCI France decided to join forces at the CCI France AGM to revitalise the city centres. This collaboration aims to achieve "economic revival and the relocation of productive activity", one of the three main objectives of Act II of the Action Cœur de Ville programme.

The issues identified include:

- "Supporting retail transformation in city centres";
- "Digital transformation of local shops";
- "Balanced development of retail given the emergence of dark stores and quick stores".

Source : BNPPRE

Inflation nudging the French towards hard discount

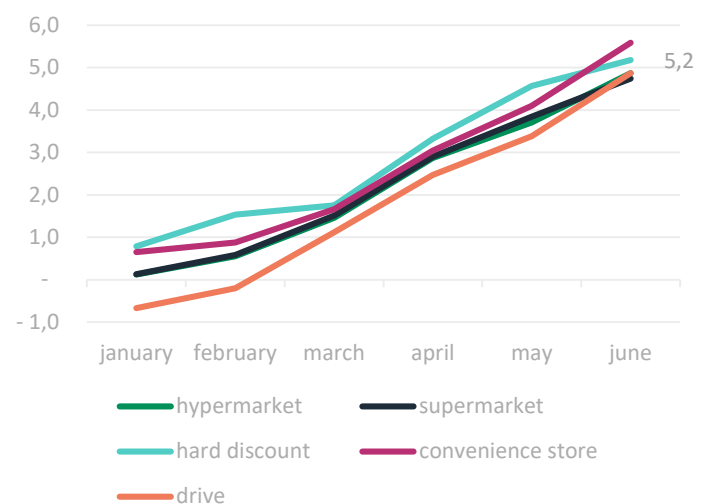
Rising prices are affecting French food consumption habits and they are looking for savings.

They are looking to make savings on 'secondary' needs (going out, clothes, high tech, drinks, holidays, etc.), but do not expect to save on 'primary' needs, particularly in the food and personal care departments. 75% of French people still want healthy and balanced diets, and therefore try to reconcile more responsible consumption with a discount approach.

Footfall in organic and local shops has fallen (local grocery shops, markets, etc.) to the benefit of supermarkets, whether traditional or with hard or soft discount formats. Entry-level hard discount products are those most affected by inflation after convenience store products (price increase of +5.2% in June compared to +4.9% on average for all stores), but they are still the most accessible.

A law on purchasing power was submitted on 7 July to address the concerns of the French people.

Inflation at 1 year - Evolution of prices %



Sources : BNPPRE / IRI

Quarterly evolution of invested volumes in retail

After a record first quarter, investment in Retail continued its trend. As such, € 1bn was invested in retail in France between April and June, bringing the total for H1 to € 2.5bn. Investment more than tripled if H1 2022 is compared to H1 2021. This outstanding performance means that the sector accounts for 20% of investment in commercial real estate in France (vs. an average of 16% over the last 10 years).

The market is mainly driven by French players (82% of investments). However, in H1 several Anglo-Saxon funds also invested in retail assets in France, such as Tristan Capital Partners, which acquired a portfolio of six Casino supermarkets, and the Ares Management Limited fund, which bought the Fast portfolio.

Breakdown by asset typology is fairly balanced

We have counted over 100 transactions finalised since the beginning of the year, vs. under 70 in H1 2021. Six of these deals exceeded € 100m.

The breakdown of investment according to the type of retail unit is fairly balanced. Highlights included:

The sale of the Carré Sénart shopping centre in Q1 for € 450m.

The Olympie portfolio made up of 17 Decathlon stores was bought by BNP Paribas REIM.

The Carmila portfolio, comprising 45,000 m² of retail parks and shopping malls, was bought by Batipart and Atland Voisin.

Retail yields remain stable

The very steep increase in the 10-year OAT in recent weeks has substantially reduced the risk premium for real estate assets. Prime yields have shifted in this context.

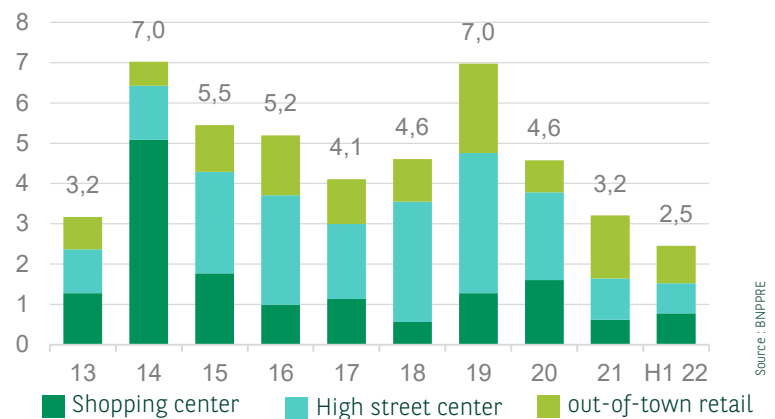
Unlike other asset categories, for which yields stabilised or narrowed further in 2020 and 2021, retail yields expanded in the wake of the crisis. They may therefore remain stable in the coming months.

Consequently, the prime yield for Paris street-level stores is now around 3.20%. Prime deals in shopping centres are very rare. There is a keen appetite for retail parks with yields of around 5.00% for the best assets.

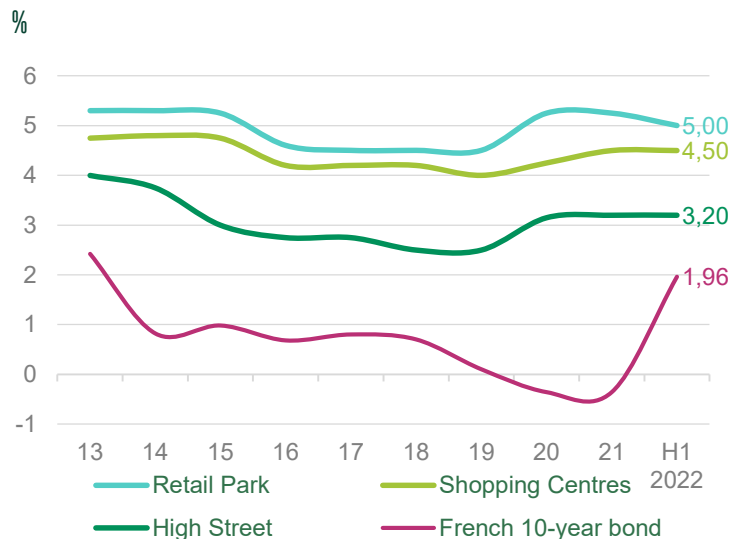
Retail investment by quarter
In euro billion



Investment in retail - Breakdown by asset category
In euro billion



Prime retail yields



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(JULY 2022)

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