



**RESEARCH**

**AT A GLANCE  
Q1 2023**

**RETAIL MARKET IN FRANCE**

A DECEPTIVE INVESTMENT MARKET WITH MAJOR DEALS EMERGING

**+0.5%**

**GDP GROWTH IN 2023**

(BNP Paribas estimate - April 2023)

**+4.8%**

**INFLATION IN 2023**

(BNP Paribas estimate - April 2023)

**+0.1%**

**HOUSEHOLD CONSUMPTION IN 2023**

(BNP Paribas estimate - April 2023)

**+5.6%**

**2023 COMMERCIAL RENT INDEX**

(BNP Paribas estimate - April 2023)

**2023: A PIVOTAL YEAR**

After the economic downturn throughout 2022, there is room for optimism in 2023. Despite the invasion of Ukraine and continuously rising prices in 2022, the French economy is resilient and shows subdued but positive growth. After +2.6% in 2022, GDP may come in at +0.5% in 2023.

Nevertheless, inflation remains very high and reached its peak since the beginning of the crisis in February, at +6.3% y/y. Gradual disinflation is expected over the year, but higher prices are squeezing French purchasing power and consumption, both of which fell in 2022. This is keeping household confidence at historic lows.

Nevertheless, the strong job market (with unemployment at 7.0% in Q4

2022) is supporting the economy, resulting in purchasing managers' indices remaining at neutral levels despite the uncertainties.

Inflation in Europe stood at +6.9% in March, and has fallen for 5 consecutive months. Its drivers have meanwhile changed, as energy now stands at -0.9% y/y. Disinflation will be slowed by core inflation (+5.7%) and food prices (+15.4%).

The European Central Bank is still raising interest rates to tackle this stubborn inflation. Between July 2022 and March 2023, the refinancing rate was hiked by 350 basis points to 3.5% in April. Depending on how inflation develops in the coming months, it could be raised by a further 25 to 50 basis points in Q2 2023.

**INCREASE IN THE COMMERCIAL RENT INDEX**

These days, a high proportion of commercial rents are indexed to the Cost of Construction Index or the Commercial Rent Index. City-centre stores are generally indexed to the CCI. This surged in 2022, largely driven by rising commodity prices and shortages due to the conflict in Ukraine.

Like the CPI, 2021 marked the start of a rise in the CCI, which continued to climb throughout 2022 but is expected to fall back this year.

The rents of almost all shopping

centre units are indexed to the CRI. This gradually started to rise again in 2017, and continued to do so in 2018 and 2019.

However, the recessionary shock in France (with both GDP and retail sales falling) led to a drop in this index in 2020.

There was a strong rally in 2021 and 2022, prompting the government to cap rent indexation to the CRI at +3.5% for SMEs between Q2 2022 and Q1 2023, vs the 6.3% CRI for large retailers in Q1.

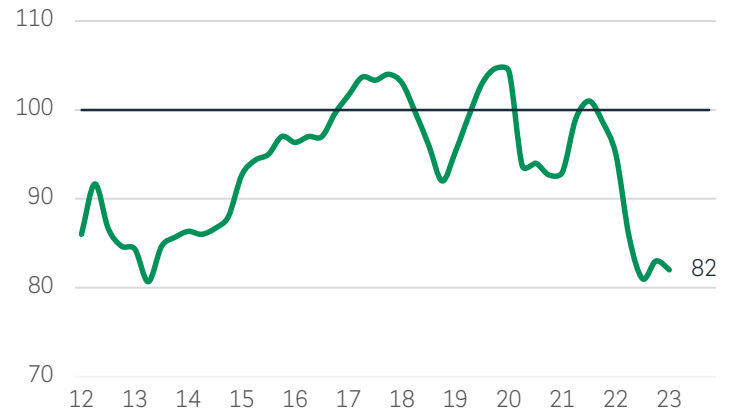
## INFLATION WEIGHING ON HOUSEHOLD CONFIDENCE

After over a year in the doldrums, the two leading household and business surveys recovered in Q2 2021, once the vaccination campaign intensified and economic activity picked up, but plummeted again with the outbreak of the conflict in Ukraine.

Rising inflation, the risk of loss of purchasing power (down in 2022), and concerns about the war brought household confidence to its lowest ever level, standing at 81 in Q3 2022 after four consecutive quarters of decline, and 82 in Q4 2022.

The lack of good news and the tense social climate have prevented it from recovering so far this year. The index lost 13 points over the year to Q1 2023.

### Household confidence Anxiety about inflation



Source : Insee

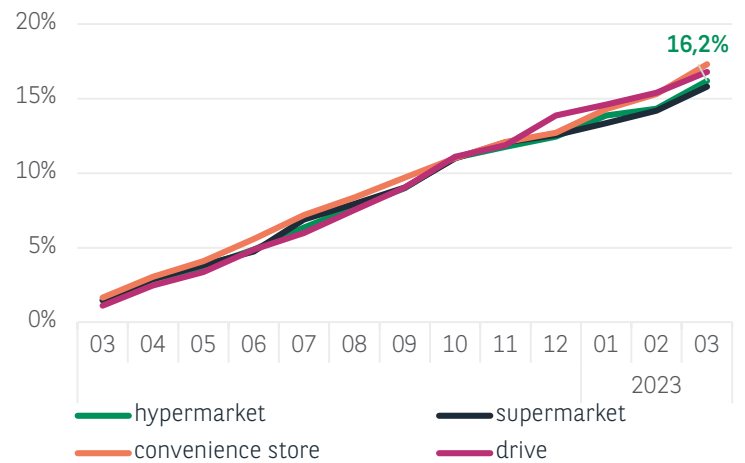
## OVERALL RISE IN CONSUMER GOODS PRICES

Average inflation rose throughout the year to reach an annual average of +16.2% for all products combined (food and small items) in March 2023, and +18% cumulatively over two years. It climbed +1.8% in March 2023.

The increase in convenience stores has been 17.3% since March 2022. Drive-through prices have risen by 16.8%. Hypermarket and supermarket prices are up 16.2% and 15.8% year-on-year.

The biggest price increases over the year have been for budget products (+21.1% in one year), ahead of private labels (+19.3%) and national brands (+14.7%).

### Inflation over one year – Price changes in 2022 by format Prices have risen for all circuits



Source : IRI

## GROWTH IN E-COMMERCE DESPITE INFLATION

In Q4 2022, Fevad reported e-commerce growth of +15.8% compared to the same period in 2021.

Sales continued to grow by a record € 42.8bn in Q4 to reach a cumulative €146.9bn for the full year 2022. This represents an increase of 13.8% on 2021 sales. The average basket also rose over the year to €65.

The increase in service sales continued, +36% year-on-year, notably driven by online sales in the tourism, transport and leisure sectors. Sales of goods are down 7% year-on-year, but still up 33% compared to before COVID.

The potential of e-commerce was boosted by the health crisis and accounted for 12.5% of retail goods sales in 2022.

### E-commerce sales Value growth in Q4 2022 (quarterly figures)



Source : Fevad

## SLIGHT RECOVERY IN RETAIL SALES

Retail sales rose by 9.1% year-on-year in Q4 2022, vs 10.9% in Q1 2022, dampened by the national and international context.

French consumption fell in 2022 due to rising prices and declining purchasing power, as well as economic uncertainty. It may hold steady in 2023 before recovering next year.

Rising prices will continue to squeeze the purchasing power and consumption of the French. Household confidence therefore remains historically low.

## SALES GENERALLY ON THE RISE

As in previous quarters, sales rose across all retail sectors in Q4. Overall retail sales increased by 9.1% year-on-year.

The restaurant sector grew by over 46%, rebounding from those quarters in 2020 and 2021 that were disrupted by COVID-19.

The same was true for the perfumes and cosmetics sector, up 21.6%, and clothing, up by more than 16% after months of closures for so-called "non-essential" shops in France that severely impacted sales figures over the previous couple of years. Sales by sector in value terms are higher in 2022 than in 2019, with inflation accounting for part of the increase.

## PARIS PRIME RENTS REMAIN STABLE

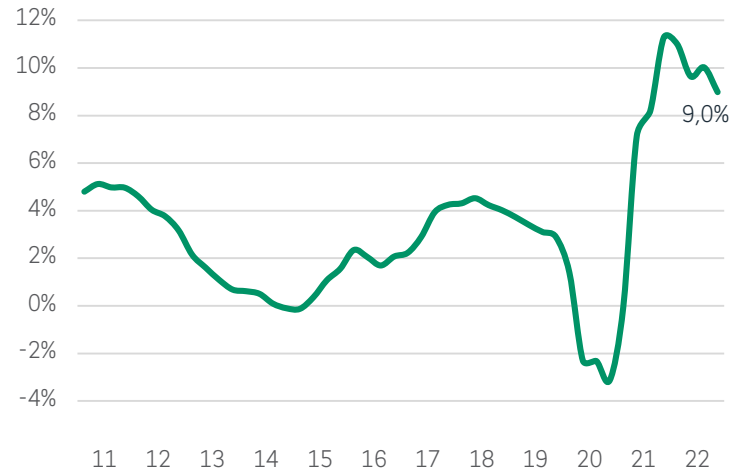
Prime rents on three Parisian thoroughfares stabilised at between €14,000 and €15,000/sqm in Q1 2023: the Champs-Élysées, Avenue Montaigne and Rue Saint-Honoré. They still have the highest prime rents of our sample, driven up by luxury retailers.

The prime rent on the Champs-Élysées is €15,000/sqm. Some significant units have been taken up, such as 52 Champs-Élysées, 73 Champs-Élysées, and 120 Champs-Élysées. Some players are currently opting for locations on the even-numbered side of the Avenue, which is sunnier but historically less targeted than the odd-numbered side.

The prime section of the Champs-Élysées is still the top end, from Place Charles de Gaulle to Avenue George V, but there has been a shift further down as far as Avenue Franklin D. Roosevelt.

### Retail sales

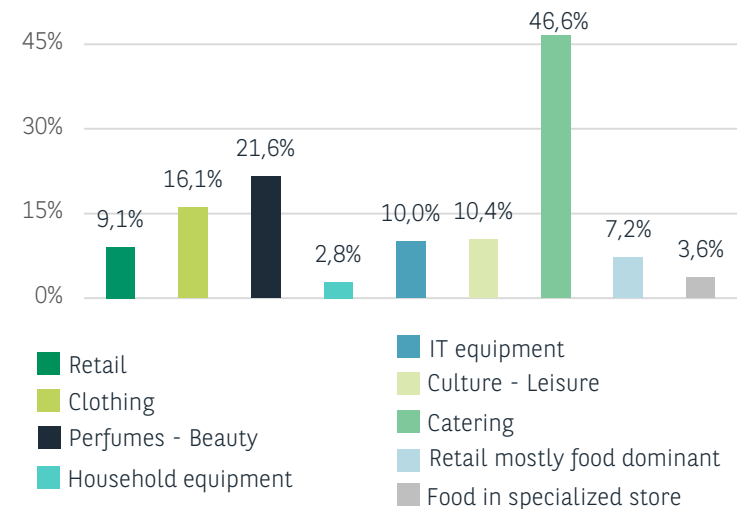
Value growth to Q4 2022 (rolling year)



Source : Insee

### Retail sales

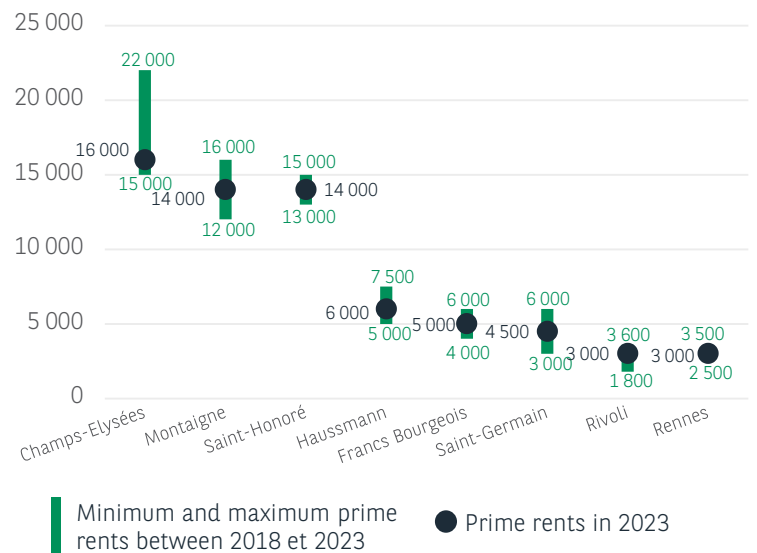
Value growth to Q4 2022 (rolling year)



Source : Insee

### Prime rents - 8 thoroughfares - Paris

In € / sqm / year



Source : BNPPRE

## THREE-MONTH ANTI-INFLATION INITIATIVE

The French are cutting back on their spending, with the consumer price index up 6.2% year-on-year and food prices up 14.5% over the same period, according to the INSEE.

The Banque de France expects food inflation to peak "towards the end of H1" 2023.

The government reacted on March 15, 2023, by launching an **anti-inflation initiative among leading supermarket players**. This follows price negotiations between supermarkets and producers, which have resulted in significant price increases on the shelves. In exchange for taking part in this initiative, Bruno Le Maire, Minister for the Economy, Finance and Industrial and Digital Sovereignty, wants to reopen these negotiations in May, so that retailers can benefit from the fall in raw material prices.

The initiative aims for "French people to have affordable prices for their everyday shopping", according to Olivia Grégoire, Deputy Minister for SMEs, Trade, Crafts and Tourism, by restricting prices on selected products. A **shared "trimestre anti-inflation" logo** indicates the products associated with the initiative across all the retailers.

The **number and type of products are decided by the retailers**, who are free to choose. Between 150 and 500 products are displayed with prices held for 3 months or for an indefinite period. These are mainly **sanitary and food products**. There has been criticism of some retailers who have hiked their prices before blocking them, or promote their private labels, or fail to offer a balanced product selection.

E.Leclerc was initially unwilling to take part, as it already offers low prices. It is now joining the inflation-fighting initiative with its Eco+ products.

Source : BNPPRE, INSEE, press

## INCREASED FOOTFALL ON THOROUGHFARES SURVEYED\*

Paris	Streets (number)	Average March 2022 - March 2023	Average March 2021 - March 2022	Year-on-year change	Average March 2022 - March 2023 change vs Pre-Covid Average
Right Bank	Hausmann (64)	2,540,000	1,730,000	+47%	↗
	Champs Elysées (88)	1,070,000	804,000	+33%	↗
	St-Honoré (235)	783,000	585,000	+34%	↗
	Rivoli (98)	704,000	637,000	+11%	↘
	Montaigne (45)	226,000	175,000	+29%	↘
	Francs-Bourgeois (10)	552,000	499,000	+11%	↗
	Opéra (36)	633,000	580,000	+9%	↘
Left Bank	Rennes (52)	607,000	487,000	+25%	↘
	Sèvres (14)	548,000	502,000	+9%	↘

Cities	Streets (number)	Average March 2022 - March 2023	Average March 2021 - March 2022	Year-on-year change	Average March 2022 - March 2023 change vs Pre-Covid Average
Bordeaux	Ste-Catherine (11)	2,660,000	2,090,000	+27%	↗
Montpellier	La Loge (25)	1,720,000	1,370,000	+26%	↘
Toulouse	Alsace-Lorraine (30)	1,070,000	730,000	+47%	↘
Nice	Jean Médecin (46)	1,160,000	1,040,000	+12%	↘
Lyon	République (42)	839,000	718,000	+17%	↘
Marseille	St-Ferréol (57)	995,000	707,000	+41%	↗
Nantes	Crébillon (14)	718,000	645,000	+11%	↘
Lille	Béthune (31)	842,000	683,000	+23%	↗
Cannes	Antibes (49)	746,000	655,000	+14%	↗

Source : Mytraffic \* the indicator does not show footfall along the full street but passing a fixed address

### Q1 2023 WEAKER THAN Q1 2022

Retail investment continues to grow, illustrating its appeal: € 1.3bn was invested in retail in France in Q1 2023, above the ten-year average for the category (€0.8bn). The sector was driven by major deals, with transactions over €200m accounting for two thirds of investment.

The market was mainly driven by French players, such as Kering, Mata Capital and BNP PARIBAS REIM, with its acquisition of the L'Île Roche retail park. Swedish investors represented 40% of investment in retail in Q1 2023. However, this figure is misleading as it concerns a single transaction: the acquisition of the Italie 2 shopping centre and the Italik extension by Ingka Centres, the Ikea group's property company.

Q1 2023 stood out for the finalisation of major occupier sales, accounting for almost €800m not included in these figures (such as Kering's acquisition of 12-14 Castiglione).

### STRIKING DEALS ACROSS ALL ASSET CATEGORIES

Investors were attracted to all types of retail asset in Q1 2023:

- Shopping centres led the way thanks to the sale of Italie 2 and the Italik extension for €520m.
- The main high street deal was the sale of 35 Avenue Montaigne to Kering for €230m (only the part leased to Valentino is counted)
- A noteworthy out-of-town deal was the sale of the Marques Avenue portfolio to Mata Capital for €200m. This consisted of 5 properties, 4 of which are in the Paris region.

### PRIME YIELD EXPANSION

Following the trend of previous quarters, the French 10-year OAT, estimated at 2.8% in Q1 2023, exerted great upward pressure on the risk premium for property assets. Prime yields are therefore increasing.

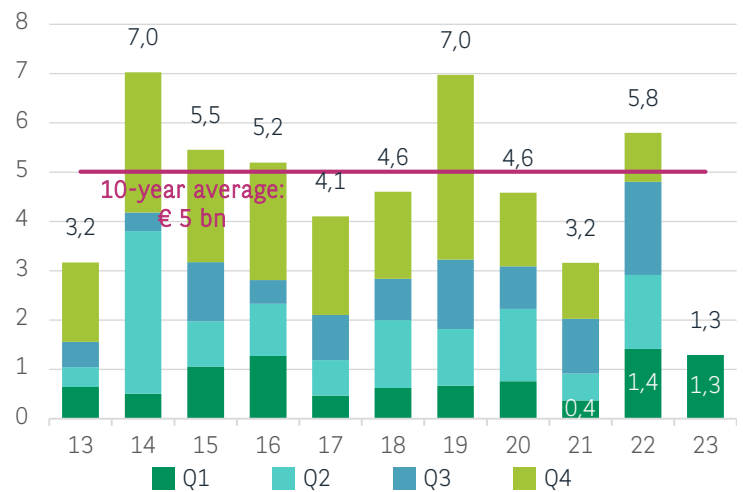
Prime yields for retail have been rising since the health crisis. The prime yield for street-level premises has expanded by 25bp, from 3.50% to 3.75%, and could rise again.

The prime yield for shopping centres stood at 5% on April 1, 2023.

Retail parks remain very popular with investors, as are suburban retail premises, with prime yields stabilising at 5.25% for the best assets.

### Retail investment by quarter

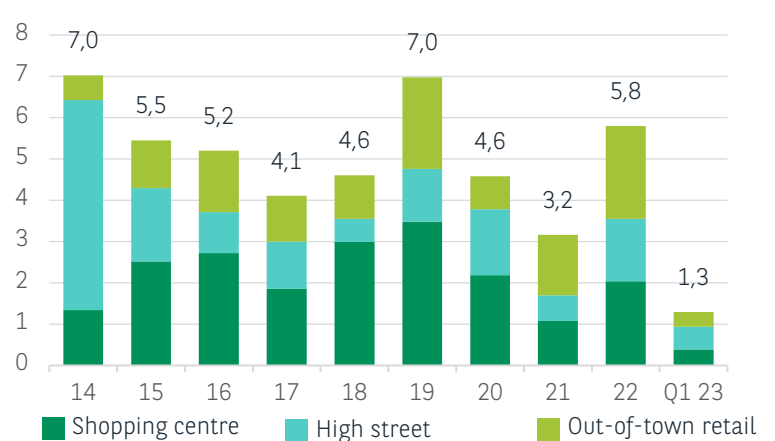
In euro billion



Sources : Immostat / BNPPRE

### Investment in retail - Breakdown by asset category

In euro billion



Sources : Immostat / BNPPRE

### Prime retail yields and French 10-year bond

%



Source : BNPPRE

# LOCATIONS

(JULY 2022)

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### BORDEAUX

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