BNP PARIBAS REAL ESTATE

Real Estate for a changing world

RESEARCH

AT A GLANCE Q2 2023

RETAIL MARKET IN FRANCE

INVESTORS IN LIMBO

+0.6%
GDP GROWTH IN 2023
(BNP Paribas estimate – July 2023)

+5.0%
INFLATION IN 2023
(BNP Paribas estimate – July 2023)

+0.0%
HOUSEHOLD CONSUMPTION IN 2023
(BNP Paribas estimate – July 2023)

+5.0%
COMMERCIAL RENT INDEX Q4 2023 YEAR-OVER-YEAR (EXCL. SMES)
(BNP Paribas estimate – July 2023)

HESITANT GROWTH BUT DISINFLATION UNDERWAY

There has been a cautious return to optimism in 2023. After economic prospects deteriorated throughout 2022 and recessions were expected, economies proved more resilient than anticipated and forecasts were upgraded.

Despite the tough economic backdrop, French GDP grew slightly in H1, and is expected to do so again in H2, with full-year growth estimated at 0.6%. Meanwhile, inflation has started to fall again. After plateauing at around +6% between October and April, the CPI (consumer price index which measures inflation) is expected to show an annual rise of +4.5% in June. The crest of the wave appears to have passed, and food prices are slowing, although they are still up by 14%. Disinflation is expected to continue gradually over the year.

Household consumption, which fell in Q2, is still being held back by rising prices and is limiting economic growth. Consumer confidence has failed to recover since mid-2022, hit by geopolitical, economic and social uncertainties.

The Eurozone should grow by an average of +0.5%, underpinned by record low unemployment (6.5 % in May). Year-on-year inflation stood at +5.5% in the Eurozone in June, a significant fall compared to +10.6 % in October. Disinflation should continue slowly in H2 and the European Central Bank raised its key rates again in June to ensure that this occurs. The deposit rate has risen from -0.5% in July 2022 to 3.50% in June 2023. One or two further hikes of 25 basis points are expected before it stabilises.

INCREASE IN THE COMMERCIAL RENT INDEX

A large proportion of retail rents are indexed to the CCI (cost of construction index) or the CRI (commercial rent index). The CCI is generally the benchmark for shops in the city centre.

This rose sharply in 2022, largely due to higher commodity prices and shortages caused by the conflict in Ukraine.

Like the CPI, the CCI should fall back towards more normal levels by the end of 2023.

Almost all shopping centre rents are indexed to the French Consumer Rent Index (CRI).

The sharp rise in inflation in 2021 and 2022 prompted the government to cap indexation to the Consumer Rent Index at +3.5% for SMEs from Q2 2022. This rent relief scheme has been extended until Q1 2024.

In Q1 2023, the CRI stood at 128.68, up 6.69% year-on-year according to INSEE.

AIR TRAFFIC IN THE PARIS REGION HAS RECOVERED SIGNIFICANTLY

Air traffic at Paris-Charles de Gaulle and Orly airports is getting back to pre-Covid-19 levels.

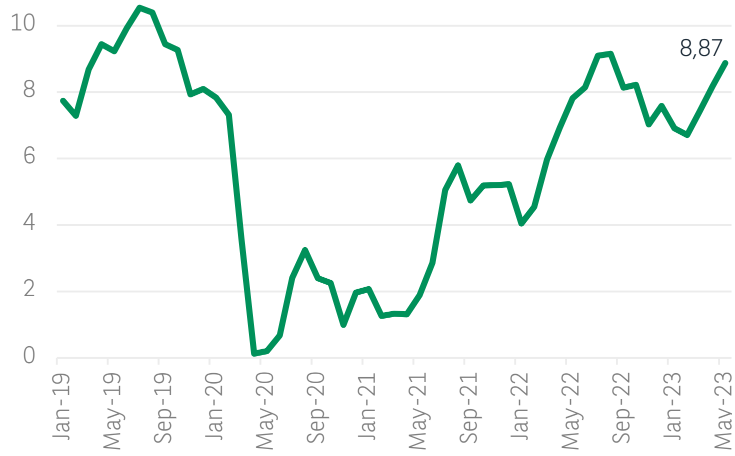
Their were 9.2 million air passengers in May 2019, but the figure dropped to 0.2 million in May 2020 (-98%) following the outbreak of COVID-19. Recovery has been gradual since then.

The increase over the first 5 months of 2023 is 30% compared with May 2022. In May 2023, 8.9 million passengers passed through Paris airports, up 13.5% on May 2022. This represents 96.2% of the 2019 figure.

Travellers from Asia are returning (up 122.5%), but they are only back to 63.5% of their 2019 traffic level.

Air traffic at Paris airports (ORLY+CDG)

Passenger numbers in millions



Source : ADP

CONSUMER GOODS PRICES ARE FALLING AT LAST

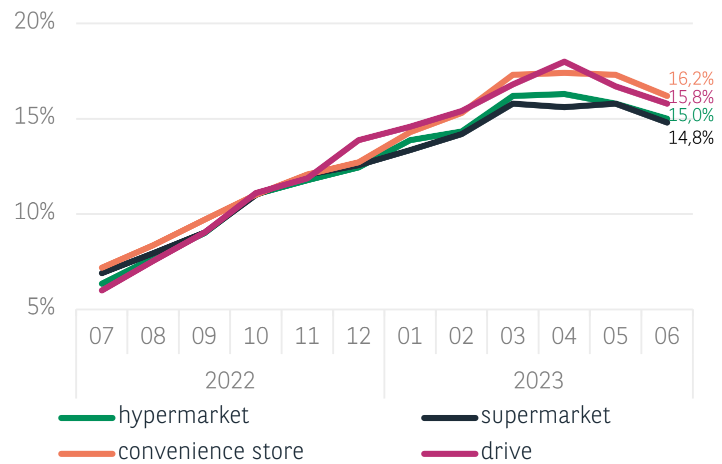
Average inflation rose throughout 2022 and in Q1 2023.

It now seems to have peaked and is trending downwards, averaging +15.1% over one year in June 2023 for all channels combined (food and small retail outlets), and +20.7% in cumulative terms over 2 years.

Prices are falling across all distribution channels. In convenience stores, year-on-year inflation stands at 16.2%. Click-and-collect prices have risen by 15.8%. Hypermarket prices are up 15% year-on-year, and supermarket prices are up 14.8%.

Inflation over one year - Price changes in 2023 by format

Prices have risen for all circuits



Source : Circana

E-COMMERCE GROWTH DRIVEN BY SERVICES

Fevad (the French federation for e-commerce and distance selling) estimates e-commerce growth of 20.6% for Q1 2023 vs. the year earlier period, with sales of € 39.2bn.

The increase in the average basket is mainly related to purchases of higher-priced services, and particularly the upswing in tourism, transport and leisure (up 52% in one year). Sales of goods are flat-lining due to inflation, leading to trade-offs, particularly in favour of food products, which are less often bought over the internet.

Whereas e-commerce had seemed to be levelling off back in 2019, its potential was further stimulated by the health crisis, and it now accounts for 12.5% of retail goods sales. Nevertheless, the market is gradually reaching maturity, with growth that is less dramatic but still steady.

E-commerce sales

Value growth in Q1 2023 (quarterly figures)

Source : Fevad

FALL IN RETAIL SALES VOLUMES

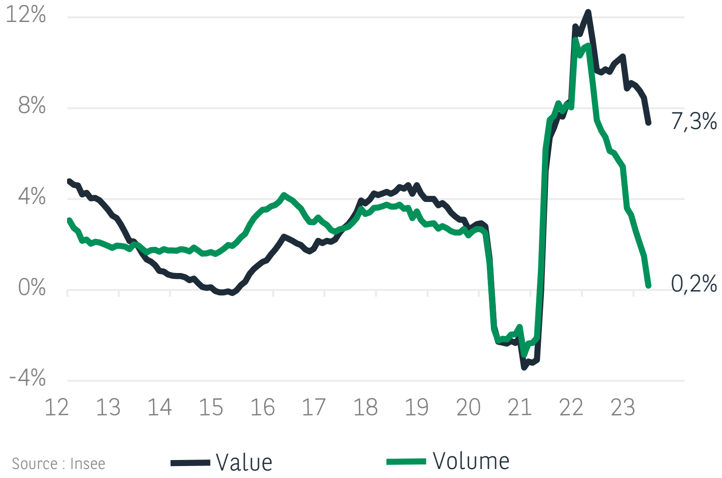
Year-on-year retail sales rose by 7.3% in value terms in April 2023, vs 9.1% in Q4 2022. Sales are being squeezed by the domestic and global environment. As such, the volume growth rate was only 0.2% in April, implying that the growth rate is deceptive.

Specialist retailers have been hit by the decline in household purchasing power, which has been in turn been affected by food price hikes. Household confidence stands at 84; it was 82 in Q4 2022.

These conditions limit the ability of non-food retailers to raise the prices they charge consumers, even though their costs (payroll, energy, rent, etc.) remain high. Discount chains are at an advantage, as are premium brands, which target more affluent consumer segments and are less affected by inflation.

Retail sales

Value growth to Q1 2023 (rolling year)



Source : Insee

SALES INCREASE IN VALUE TERMS

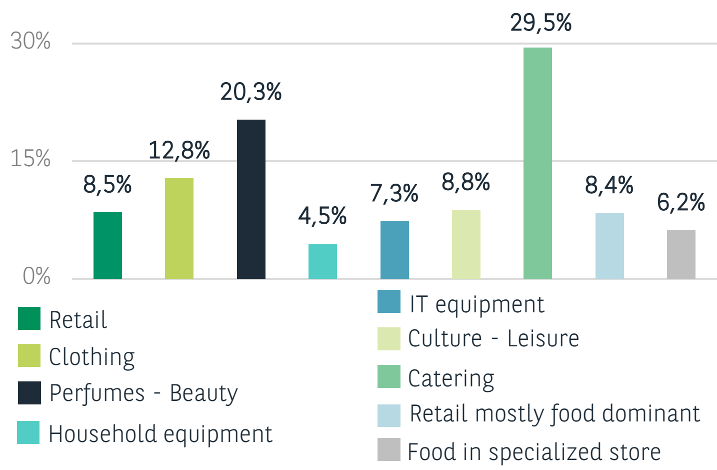
As in previous quarters, sales rose in all retail sectors in Q1. Total retail sales rose by 8.5% year-on-year in value terms.

The restaurant sector grew by more than 29% in value terms, picking up from the disruption caused by COVID-19 in previous quarters.

The same trend can be seen in perfumes & cosmetics, up 20.3%, and clothing, up 12.8%. Sales are rising in value terms for each sector, but this is partly due to inflation. However, volume growth is not following the same trajectory.

Retail sales

Value growth to Q1 2023 (rolling year)



Source : Insee

PRIME PARIS RENTS REMAIN STABLE

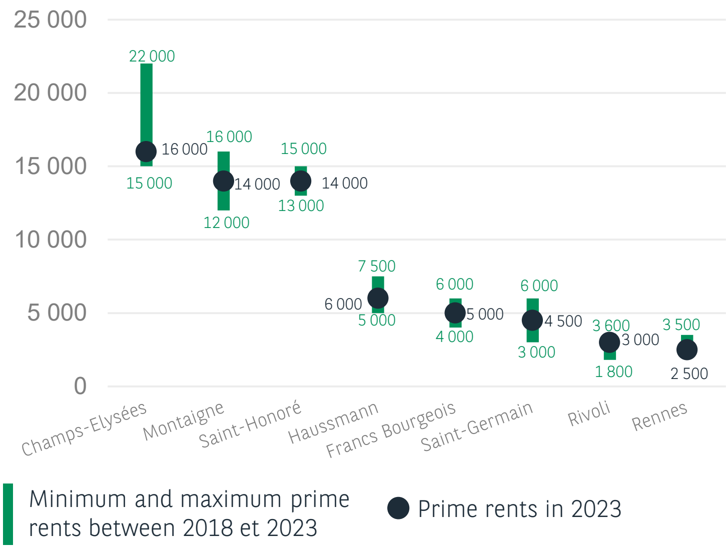
Three Parisian thoroughfares saw their prime rents stabilise at between € 14,000 and € 16,000/sqm in Q2 2023: the Champs-Elysées, Avenue Montaigne and Rue Saint-Honoré. These are still the streets with the highest prime rents in our coverage.

The Champs-Élysées is extending a warm welcome to returning Asian tourists, in the run-up to major events that will attract big crowds in late 2023 and in 2024. The upper end of the world's finest avenue has become the location of choice for luxury brands. Premium and sportswear brands are moving in too. Demand has also picked up at the lower end of the avenue.

The Paris "Golden Triangle" remains as appealing as ever to retailers. Avenue Montaigne is in high demand, with a prime rent of €16,000 / sqm, similar to that on Rue Saint-Honoré.

Prime rents - 8 thoroughfares – Paris

In € / sqm / year



Source : BNPPRE

DARK STORES: EXITING THE STAGE?

The home food delivery market had been consolidating following a period of easy growth for quick commerce companies. Even though their profitability was uncertain, these companies and their dark stores carved out a place for themselves in major cities.

One of the market leaders, Flink, is now in receivership and had plans to withdraw from the French market in June 2023.

Getir, the sector leader, likewise announced that it was withdrawing from France the same month, leaving the quick commerce market mired in uncertainty.

Specialists believe that there could be hybridisation. First-generation players (traditional retailers) and second-generation express operators (platforms such as Uber Eats or Deliveroo) could collectively dominate the fast food delivery market, alongside third-generation express pure players.

Source : BNPPRE, INSEE, press

THE CHANGING CONSUMER

Retail is the barometer of society, with household consumption taking the country's economic pulse.

The current turbulent backdrop is leading to changes: the average consumer is suffering. Although high-end and budget segments are thriving, operators between these poles are struggling. The mid-range is becoming narrower. While this positioning previously fared well, it is now the luxury and discount segments that are outperforming. This can be seen from the many mass-market, ready-to-wear names that are currently in difficulty.

On the one hand, the luxury sector is prospering, less affected by the economic climate and boosted by the return of foreign tourists. Fierce competition for the best locations in Paris is a clear example of this.

At the same time, discounters are making inroads among all socio-economic groups. They are moving into both suburban and city-centre locations, with formats engineered to get closer to customers.

INCREASED FOOTFALL ON THOROUGHFARES SURVEYED*

Paris	Streets (number)	Average June 2022 - June 2023	Average June 2021 - June 2022	Year-on-year change	Average June 2022 - June 2023 change vs Pre-Covid Average
Right Bank	Champs Elysées (88)	4 550 000	3 150 000	44%	↗
	Haussmann (64)	2 600 000	2 060 000	26%	↗
	St-Honoré (235)	778 000	664 000	17%	↗
	Montaigne (45)	250 000	198 000	26%	↗
	Rivoli (98)	695 000	730 000	-5%	↘
	Francs-Bourgeois (10)	528 000	563 000	-6%	↘
	Opéra (36)	647 000	637 000	2%	↘
Left Bank	Rennes (52)	596 000	549 000	9%	↘
	Sèvres (14)	539 000	598 000	-1%	↘

Cities	Streets (number)	Average June 2022 - June 2023	Average June 2021 - June 2022	Year-on-year change	Average June 2022 - June 2023 change vs Pre-Covid Average
Bordeaux	Ste-Catherine (11)	2 690 000	2 320 000	16%	↗
Montpellier	La Loge (25)	1 780 000	1 520 000	17%	↗
Toulouse	Alsace-Lorraine (30)	1 130 000	828 000	36%	↘
Nice	Jean Médecin (46)	1 130 000	1 080 000	5%	↘
Lyon	République (42)	868 000	766 000	13%	↘
Marseille	St-Ferréol (57)	1 110 000	790 000	41%	↗
Nantes	Crébillon (14)	662 000	710 000	-7%	↘
Lille	Béthune (31)	877 000	772 000	14%	↗
Cannes	Antibes (49)	734 000	726 000	1%	↗

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

A SLUGGISH SECOND QUARTER

After an excellent Q1, when € 1.4bn was invested, retail investment has slowed sharply.

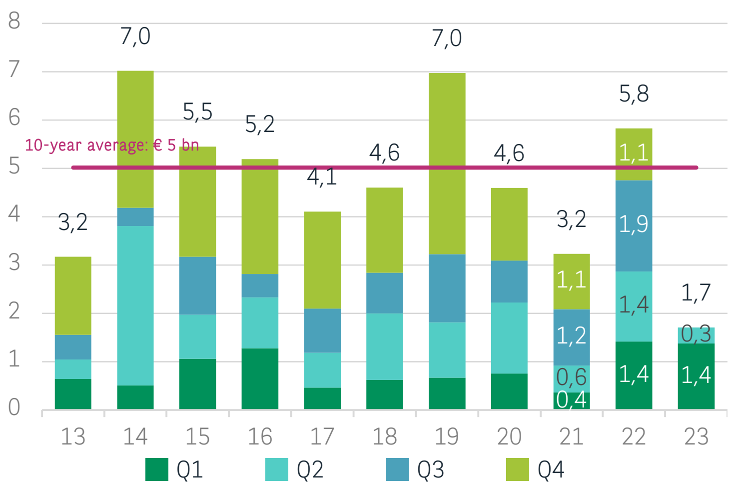
A total of € 1.7bn was invested in retail in H1 2023, down 41% on H1 2022. This falls short of the 10-year average for the asset category over 6 months (€ 2bn). The market was driven by a few major deals. Five transactions accounted for 63% of overall investment.

Ile-de-France accounted for 73% of the total, including a major deal in Paris in Q2: AEW's acquisition of Passy Plaza from Generali for around € 130m.

Note that a substantial amount is not taken into account because it is classified as Occupier Sales, including major transactions by the luxury giants.

Retail investment by quarter

In euro billion



Sources : Immostat / BNPPRE

INVESTEMENT EVENLY DIVIDED BETWEEN ASSET TYPES

Investors were attracted to all types of retail premises in H1 2023.

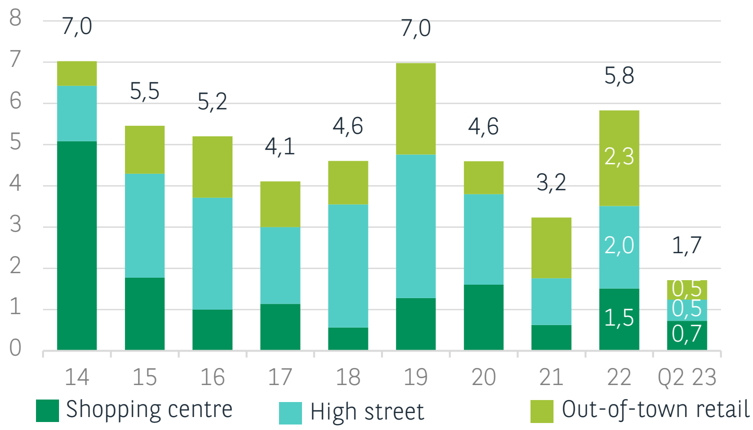
Shopping centres drove the market, representing 43% of total investment, boosted in Q1 by major deals such as INGKA's acquisition of Italie 2, and in Q2 by the Passy Plaza transaction.

City-centre stores account for 30% of overall investment. One highlight in Q2 was the acquisition of a building on Boulevard Haussmann in Paris by an SCPI belonging to the FIDUCIAL Group.

The suburbs have fallen back since their excellent performance in 2022 (-58% over 6 months vs. 2022). This asset class accounts for just 28% of overall investment, with most assets changing hands for less than € 15m, mainly conducted by SCPIs.

Investment in retail – Breakdown by asset category

In euro billion



Sources : Immostat / BNPPRE

PRIME YIELDS HAVE WIDENED

The French 10-year government bond (OAT) was estimated at 2.93% in Q2 2023 and as such is squeezing the risk premium for real estate assets. Prime yields are therefore expanding.

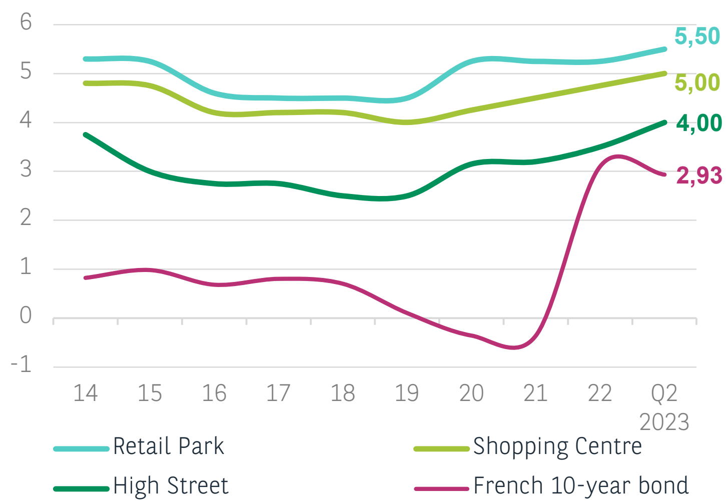
The prime yield for street-level units has expanded by 25 basis points, from 3.75% to 4%.

The prime yield for shopping centres has risen by the same amount to 5%.

Retail parks are still sought after by investors, with prime yields also up 25 basis points to 5.5% for the best assets.

Prime retail yields and French 10-year bond

%



Source : BNPPRE

LOCATIONS

(May 2023)

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Immeuble Tennessee
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