



RESEARCH

**AT A GLANCE
Q3 2022**

RETAIL MARKET IN FRANCE
A RECORD THIRD QUARTER FOR INVESTMENT

+0.5%

GDP GROWTH IN 2022

(BNP Paribas Forecast – October 2022)

+5.7%

INFLATION IN 2022

(BNP Paribas Forecast – October 2022)

-0.3%

HOUSEHOLD CONSUMPTION IN 2022

(BNP Paribas Forecast – October 2022)

+5.8%

2022 COMMERCIAL RENT INDEX

(BNP Paribas Forecast – October 2022)

TROUBLED ECONOMIC BACKDROP

After recovering significantly in 2021 and growing by 6.8%, French GDP contracted slightly in Q1, before turning positive again in Q2. It is expected to grow by +2.3% over 2022, slowed by the economic fallout of the war in Ukraine. However, the scope for growth next year is limited, and could be just +0.5% in 2023.

Despite being less dependent on fossil fuels than the European average and government policies to limit energy prices, France will see unusually high inflation this year (+5.7% expected). This should start

to edge back slowly from 2023.

Given the unsettled economic and geopolitical backdrop, purchasing managers' indices fell in Q3, despite easing supply difficulties and a still low unemployment rate (7.2% in Q2).

In Europe, the inflation peak, exacerbated by supply chain disruptions and rising commodity prices, could reach +8.3% in 2022 before slowly subsiding to +6.0% in 2023. The main reason behind this shock is energy costs, with energy supplies potentially being limited this winter in Europe.

INCREASE IN THE COMMERCIAL RENT INDEX

A large portion of commercial rents are now indexed to the Cost of Construction Index (CCI) or the Commercial Rent Index (CRI). The CCI is generally the benchmark for city centre shops and this index rose sharply following the pandemic, largely due to the rise in commodity prices.

Like the CPI, the CCI started rising again at the beginning of 2021; this trend has gathered momentum in 2022 but should start to fall again from next year.

The rents of almost all units in shopping centres are indexed to the CRI. The recessionary shock in France (with a slump in GDP and retail sales) caused this index to fall in 2020. There was then a strong recovery in 2021 and 2022, prompting the government to cap rental increases for SMEs indexed to the CRI at +3.5% between Q2 2022 and Q1 2023.

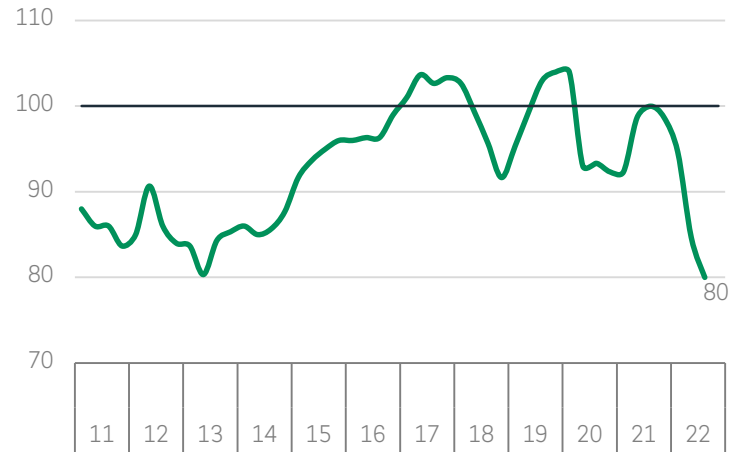
The Cost of Construction Index rose by +5.8% for other stores.

HOUSEHOLD CONFIDENCE AT A HISTORICAL LOW POINT

After over a year in the doldrums, the two main household and business surveys rose in Q2 2021. This was thanks to an acceleration in the vaccination campaign and the economic recovery. However, both indices nosedived again with the outbreak of the conflict in Ukraine.

Rising inflation, risks of a loss in purchasing power (down in the first two quarters of 2022), and doubt about how the war between Ukraine and Russia will develop have driven household confidence down to an all-time low of 80, following four consecutive quarters of decline.

Household confidence
Anxiety about inflation



Source : Insee

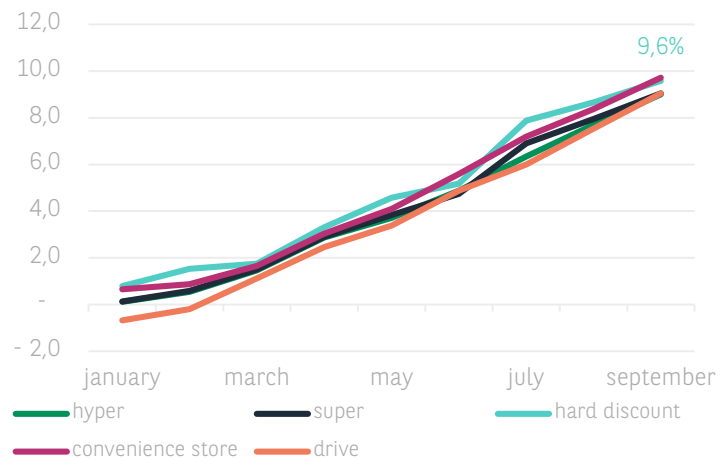
ALL FORMATS HAVE SUFFERED FROM THE YEAR-ON-YEAR RISE IN PRICES

There has been no slowdown in the pace of inflation over one year (September 2022 vs September 2021). While average monthly inflation in 2022 is +4.2%, 1-year inflation has now reached +9.1% across all food retail channels.

Convenience store prices have risen by 9.7% since September 2021, while hard discount prices are up 9.6%. Hypermarket, supermarket and click-and-collect prices are up 9.1% year-on-year.

Prices are up 9.1% across all products combined. However, the swiftest increase has been for basic price products (+15% in one year). Of the various product categories, frozen meats show the steepest increase (+29.9% in one year).

Inflation over one year - Price changes in 2022 by format
Hard discount prices up 9.6% in September



Source : IRI

THE E-COMMERCE MARKET HAS MATURED

Fevad reported e-commerce growth of +10.2% in Q2 2022 compared to the same period in 2021, somewhat lower than in Q2 prior to the outbreak of COVID-19. Indeed, although sales are still increasing, the market is gradually maturing, resulting in less impressive but steady growth.

E-commerce sales came in at € 68.2bn over the first six months of 2022, compared to € 61.4bn over the first six months of 2021, an increase of 11%.

The average basket rose to € 67; an increase directly related to higher sales of services.

E-commerce had seemed to be plateauing in 2019, but its potential was rekindled by the health crisis, to the extent that it accounted for 14.1% of retail sales in 2021.

E-commerce sales
Value growth in Q2 2022 (quarterly figures)



Source : Fevad

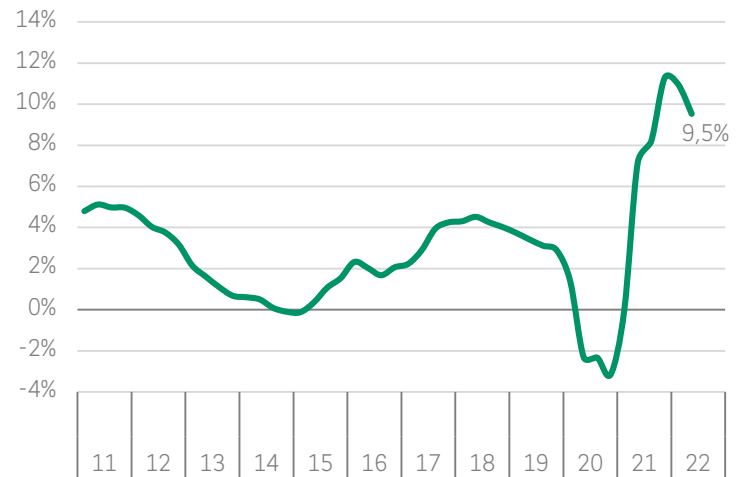
SLIDE IN GROWTH FOLLOWING SALES RECOVERY

Retail sales rose by 9.5% in Q2 2022 on a rolling-year basis, whereas the figure was 10.9% for the first quarter of this year.

Sales picked up again in August after the steep fall in July. However, figures will likely be dampened by the domestic and international context in the coming months. Ordering intentions are falling, as are sales forecasts and general business outlooks.

Retail sales

Value growth to Q2 2022 (rolling year)



Source : Insee

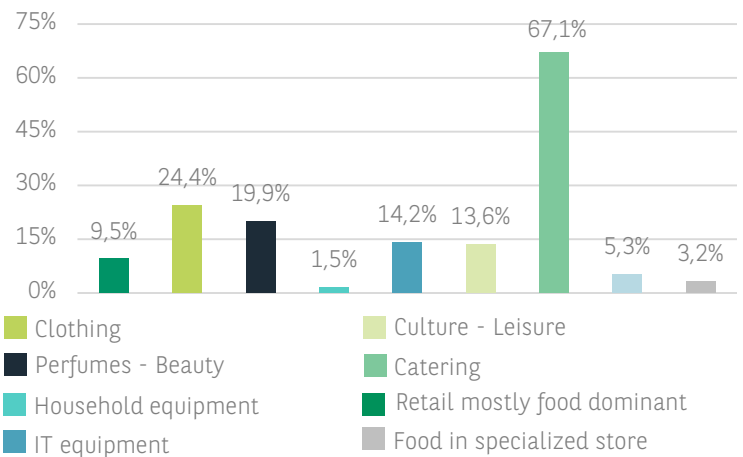
INCREASE FOR ALL SECTORS, PARTICULARLY CATERING

As in the previous quarter, sales increased in all sectors in Q2.

Sales for the catering sector grew by over 67%, recovering from the disrupted quarters of 2020 and 2021 due to COVID-19. The same applied to the clothing sector, up by more than 24%, as well as perfume and cosmetics, after so-called non-essential stores were closed for months, greatly impacting sales.

Retail sales

Value growth to Q2 2022 (rolling year)



Source : Insee

PRIME PARIS RENTS BOOSTED BY LUXURY

Three Parisian thoroughfares stand out from the crowd, with prime rents ranging between €15,000 and €16,000 per sqm in Q3 2022: the Champs-Élysées, Avenue Montaigne and Rue Saint-Honoré.

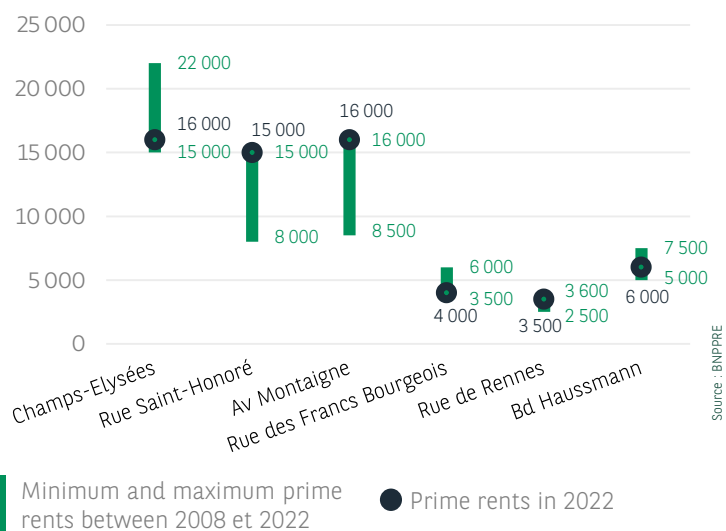
Prime rents on the Champs-Élysées have declined in recent years. However, the figure has risen slightly to € 16,000 / sqm for the upper section of the avenue, where rents vary. Shoppers are returning, average monthly footfall has doubled and retailers are vying for the best locations on this key street in the run-up to the 2024 Olympic Games.

The Avenue Montaigne has been in great demand since LVMH and Kering moved in. Prime rents are also up to € 16,000 / sqm.

International investors are increasingly interested in the Rue Saint-Honoré, where prime rents have risen to €15,000/sqm, boosted by the arrival of Gucci.

Prime rents - 6 thoroughfares - Paris

In € / sqm / year



Source : BNPPIRE

DARK STORES WILL NOW BE CONSIDERED AS WAREHOUSES

The French government has just taken a landmark decision regarding this young market in the midst of consolidation, whose profitability is not always guaranteed.

On September 6, 2022, the government declared that these establishments were to be considered as warehouses, rather than shops, as it considered that the legal status of a shop was unsuitable for storage and delivery premises that are closed to the public. These premises could therefore be forced to close if the local authority's planning regulations forbid this type of business on the sites they currently occupy.

Local authorities will then be able to decide on the locations.

Quick commerce players that fail to make the necessary changes may be forced to shut their premises.

Urban logistics locations identified in advance by local authorities (e.g. in underground car parks or existing warehouses) could enable retailers to keep trading in city centres. For example, Paris city hall hopes to pass amendments to its planning regulations in early 2023, to be applied in 2024.

This move, eagerly awaited by local politicians and dreaded by quick commerce stakeholders, may transform the sector once it is implemented.

A guaranteed 15-minute delivery time would become impossible, as the key to ensuring such speed is a location in the middle of residential areas.

On 7 October 2022, Gorillas and Frichti, who had been given several official warnings, won their appeal before the Paris Administrative Court. The ruling indicates that according to Parisian town planning regulations, "urban logistics spaces are considered as premises or buildings as well as and facilities required for public services or in the public interest" and that both companies can claim this status.

INTERNATIONAL TOURISTS GRADUALLY RETURNING TO HOTELS IN ILE DE FRANCE

In the first half of 2022, the Paris and Ile-de-France region reported 7.4 million international tourists, 30% fewer than in 2019 but still 6 million more than in 2021. As regards the French clientele, 10.8 million tourists were counted, i.e. 6.5 million more than in 2021. A total of 18.2 million tourists were recorded in Ile-de-France in the first half of 2022, up 218% on 2021, but down 23% on 2019.

Paris and the Ile-de-France region accounted for 32% of foreign tourists in July 2022 and 39% in August 2022, predominantly from Europe. These are not yet pre-Covid levels, but the gap is narrowing. International tourism in 2023 is looking promising, despite doubts about COVID-19, the war in Ukraine and inflation. Americans are capitalising on the strength of the dollar against the euro to book for 2023, while Asian and Indian tourists are expected to return.


COULD FOOD SHOP SUBSCRIPTIONS ALLEVIATE THE PURCHASING POWER PROBLEM?

Inflation is squeezing household budgets and food purchasing behaviour is adapting to the environment. Monthly subscription schemes in food stores, giving a discount for each purchase, could to some extent protect against rising prices.

- The subscription is profitable for the customer once a certain amount has been spent in the month. Automatic delivery, free or otherwise, may be available, depending on the customer's purchasing habits, at a predetermined frequency for products to which they have subscribed.
- For the retailer, the aim is to secure repeat purchases from its customers, while increasing its monthly income with the subscription fee. In the competitive food retail market, once a customer is acquired, the goal is to do whatever it takes to retain them and keep them coming back. The subscription makes shopping smoother, especially in urban areas, which could restore competitiveness with food delivery companies and the emergence of a new offering.

Subscriptions are popular and are estimated to be worth € 6.47bn in France, a figure that is expected to double in three years according to a 2021 report by Telecoming. However, this model may have some limits.

A customer may opt not to subscribe so as not to be obliged to choose products based on their subscription, or be restricted to a single segment or retailer. A consumer could also be tempted to consume more to make their subscription more profitable, an obstacle in times of inflation. Lastly, given the number of subscriptions each consumer already has (telephone, internet, streaming, car leasing, etc.), will they want to add yet another monthly expense?

	International tourists	French tourists
August 2018	64%	36%
August 2019	56%	44%
August 2021	25%	75%
August 2022	 39%	61%

Source : BNPPIRE

Source : BNPPIRE

Source : CRT

A RECORD THIRD QUARTER

Investment in retail has continued its record-breaking run. Investment in Q3 2022 came to € 1.6bn. The nine-month figure is the highest since 2014, with total investment since the beginning of the year standing at € 4.3bn.

The role of retail investment is growing in France, representing 20.2% of commercial real estate transactions in Q3 2022, 8 points above the ten-year average.

The market is mainly driven by French players (73%), with 17% of the other major players coming from Canada, 4% from the US, 4% from the UK and 2% from Germany. Around a third of the amount invested is by funds and a third by SCPI, ahead of insurers/mutual funds.

GROWTH FOR ALL TYPES OF RETAIL ASSETS

The jump of +129% in Q3 compared to 2021 highlights a particularly buoyant retail market, notably driven by retail park sales, demonstrating their appeal and the resilience of their business model.

Although most deals were below €5m (47.3% in Q3 2022), there were several major transactions over the quarter. In particular:

the acquisition of the "150 Champs Élysées" building for € 650m by BROOKFIELD ASSET MANAGEMENT from de GROUPAMA, a record on the avenue;

the sales by URW of the "V2" shopping centre in Villeneuve d'Ascq to CEETRUS for around € 250m and the Carré Sénart "Shopping Parc" to AMUNDI IMMOBILIER for around € 130m.

EXPANSION IN PRIME YIELDS

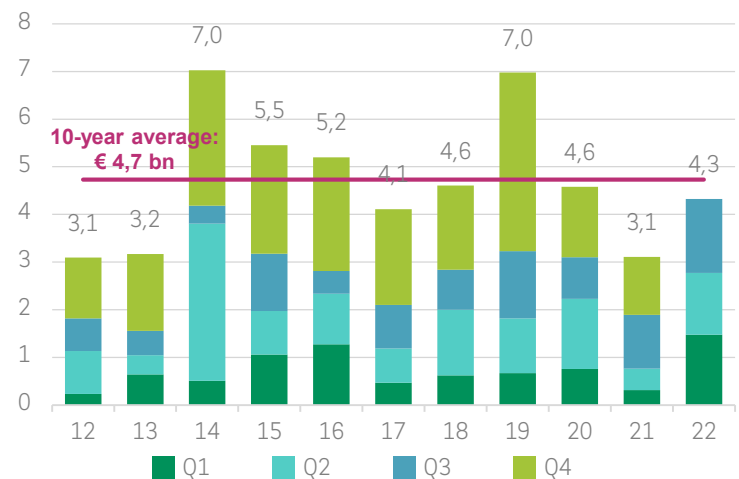
In keeping with the trend already seen in previous quarters, the surge in the French 10-year OAT to 2.71% in Q3 2022 is now squeezing the risk premium for real estate assets. As a result, prime yields are rising for all asset classes.

The prime yield for retail has expanded by 30 basis points to 3.5%.

The expected increase in the 10-year OAT in Q4 suggests that prime yields should continue to rise until the end of 2022.

Retail investment by quarter

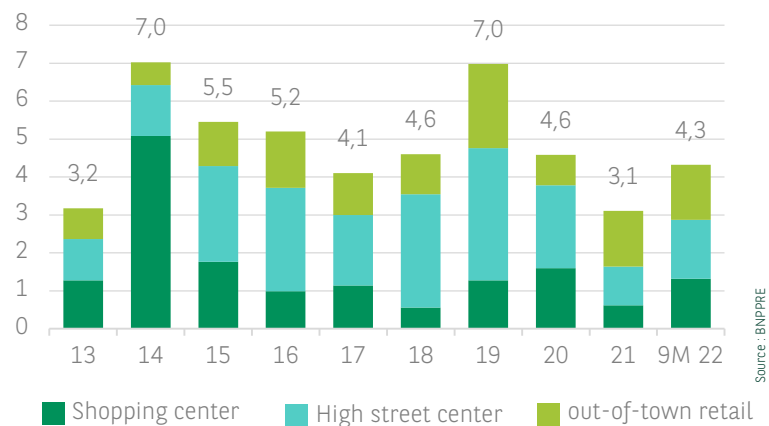
In euro billion



Source : BNPPRE

Investment in retail - Breakdown by asset category

In euro billion



Source : BNPPRE

Prime retail yields and French 10-year bond

%



Sources : BNPPRE

LOCATIONS

(JULY 2022)

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