



RESEARCH

**AT A GLANCE
Q4 2022**

RETAIL MARKET IN FRANCE

**OUTSTANDING YEAR FOR INVESTMENT IN 2022 DESPITE A SLOWDOWN
IN Q4**

+2.6%

GDP GROWTH IN 2022

(BNP Paribas estimate - January 2023)

+5.2%

INFLATION IN 2022

(BNP Paribas estimate - January 2023)

+2.4%

HOUSEHOLD CONSUMPTION IN 2022

(BNP Paribas estimate - January 2023)

+4.9%

2022 COMMERCIAL RENT INDEX

(BNP Paribas estimate - January 2023)

2023: A PIVOTAL YEAR

After a year of weakening economic prospects throughout 2022, there are some grounds for optimism in 2023. The marked economic deterioration in H1 was followed by a more resilient second half of the year than expected, and French GDP is projected to rise by 2.6% in 2022. However, real growth is very limited. It could be zero in 2023, while interest rates and prices stabilise, before starting to rise again in 2024 and 2025.

Inflation peaked in Q4 at +6.2% y/y in November and the CPI is expected to average +5.2% for the year. Disinflation is likely to be slow in 2023, especially with government support being scaled back.

In Europe, lower energy costs,

inflation that has passed an inflexion point and an improvement in December's survey data suggest that the recession forecast for 2023 (-0.5% in the Eurozone) may be milder than expected.

However, even though the energy shortages that had been feared this winter have been staved off for now, inflation, estimated at +10.1% in the Eurozone in November, remains very high. It should start to ease off in 2023 before falling back to more normal levels from 2024.

To combat widespread price increases, the European Central Bank raised its key interest rate by 250 basis points in H2, bringing the refinancing rate to 2.0%.

INCREASE IN THE COMMERCIAL RENT INDEX

A large proportion of commercial rents are indexed to the CCI or CRI. The CCI is generally used for city centre shops. The latter surged in 2022, largely driven by rising commodity prices and shortages related to the conflict in Ukraine.

Just like the CPI, the CCI began to rally in 2021 and continued to rise throughout 2022. It is expected to fall back from next year.

The rents of almost all shopping centre units are indexed to the CRI.

This gradually returned to growth in 2017; a trend that was confirmed in 2018 and 2019.

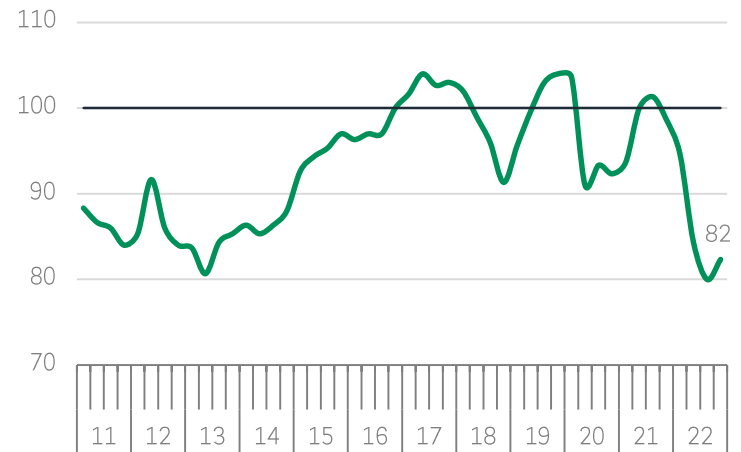
However, the recessionary shock in France (with a fall in GDP and retail sales) caused this index to fall in 2020. There was a substantial rebound in 2021 and 2022, prompting the government to cap rent indexation to the CRI at +3.5% for SMEs between Q2 2022 and Q1 2023.

INFLATION HAS SHAKEN HOUSEHOLD CONFIDENCE

After over a year at subdued levels, the two main household and business surveys recovered in Q2 2021, once the vaccination campaign picked up pace and the economy recovered. However, they plunged again with the outbreak of the conflict in Ukraine.

Rising inflation, potential loss of purchasing power (down in the first two quarters) and uncertainty over the Ukraine-Russia war drove household confidence to an all-time low, after four consecutive quarters of decline, before staging a very weak recovery in Q4, up to 82 points.

Household confidence
Anxiety about inflation



Source : Insee

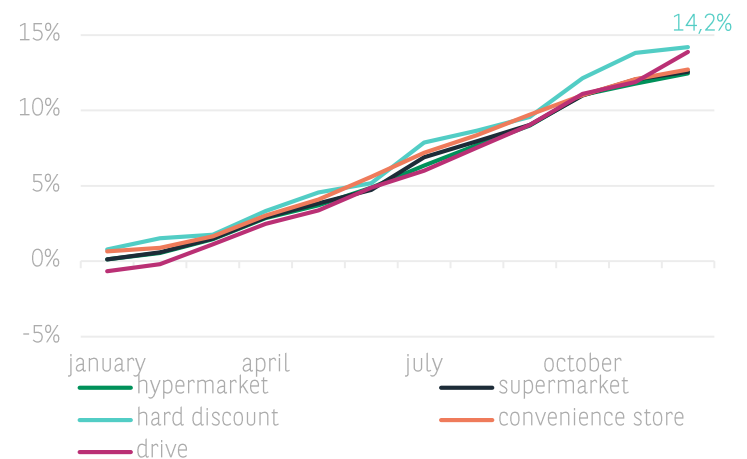
ALL CIRCUITS AFFECTED BY THE RISE IN CONSUMER GOODS

Average inflation rose throughout the year reaching +12.6% for all products combined by the end of 2022, although there was a slowdown. Inflation could continue in H1 2023.

Hard discount prices are up 14.2%, while click-and-collect prices are up 13.9%. Convenience store prices have risen by 12.7% since December 2021. Prices in hypermarkets and supermarkets are up by 12.5% and 12.6% respectively over one year.

Entry-level products saw their prices increase the most during the year (+18.2% in one year), ahead of private labels (+16.6%) and national brands (+10.8%).

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



Source : IRI

GROWTH FOR E-COMMERCE DESPITE INFLATION

FEVAD reported e-commerce growth of 16.8% in Q3 2022 compared to the same period in 2021.

Sales continued to grow by € 35.9bn, reaching a cumulative € 104.1bn over the first three quarters of 2022. This represents an increase of 13% vs the first nine months of 2021.

The average basket has also increased year-on-year, mirroring the inflation in its figures. However, inflation on the web is more contained than in physical stores.

The growth in sales of services continues, +34% year-on-year, notably driven by online sales in the tourism and travel sectors.

The potential of e-commerce was boosted by the health crisis, and it now accounts for 14.1% of the retail share (2021 figure).

E-commerce sales
Value growth in Q3 2022 (quarterly figures)



Source : Fevad

SLIGHT UPTURN IN RETAIL SALES

Retail sales grew by 9.9% year-on-year in Q3 2022, vs 10.9% in Q1 2022.

Sales in August recovered well after a steep decline in July. However, the national and international environment is likely to dampen sales in the coming months.

In view of the uncertain economic and geopolitical backdrop, purchasing managers' indices have fallen over the last two quarters, despite a very buoyant employment market (unemployment at 7.1% in Q3).

Price hikes will continue to hamper French people's purchasing power and consumption. As such, household confidence remains at a historically low level.

AN INCREASE IN OVERALL SALES FIGURES

As in previous quarters, all retail sectors saw sales increase in the third quarter.

Catering grew by over 65%, recovering from the disruption of those quarters in 2020 and 2021 that were affected by COVID-19.

This phenomenon was also evident in the clothing sector, up by more than 25%, and in the perfumes & cosmetics sector, up by over 22%, after months of closures of so-called non-essential shops which hit sales hard.

PARIS PRIME RENTS REMAIN STABLE

Three Parisian thoroughfares saw their prime rents stabilise at between € 15,000 and € 16,000 per sqm in Q4 2022: the Champs-Élysées, Avenue Montaigne and Rue Saint-Honoré. These streets have the highest prime rents of our coverage.

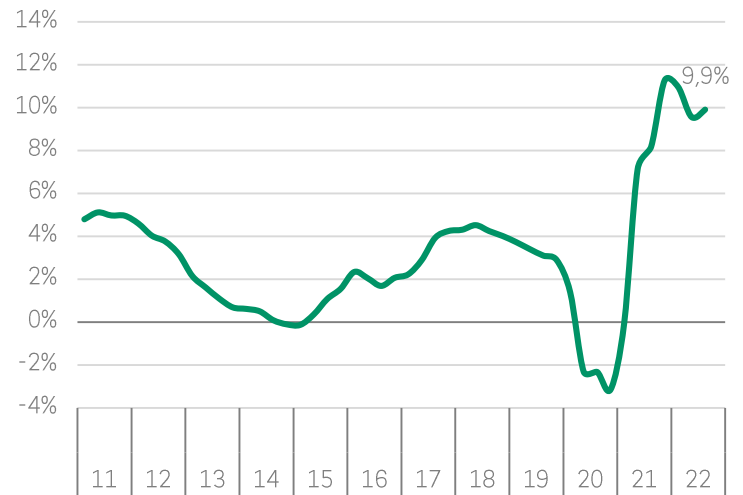
The prime rent on the Champs-Élysées is € 16,000 / sqm. Major retail premises have been taken up, such as 88 Champs-Élysées (former H&M), a strategic location that may be occupied by a sports equipment name.

Visitors are definitely returning. Moreover, retailers are keen to occupy top locations in the run-up to the 2024 Olympic Games.

Avenue Montaigne in the Parisian "Golden Triangle" is highly sought after. It also has a prime rent of € 16,000 / m². Other main streets in the "Golden Triangle" are picking up again, such as rue Pierre Charron, where the vacancy rate has fallen considerably.

Retail sales

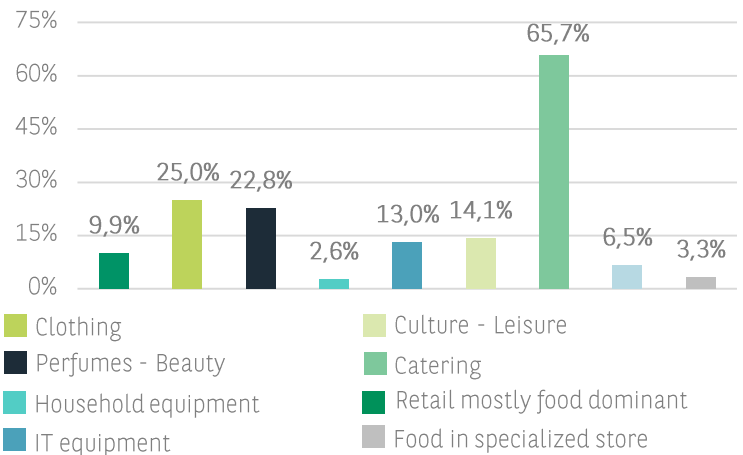
Value growth to Q3 2022 (rolling year)



Source: Insee

Retail sales

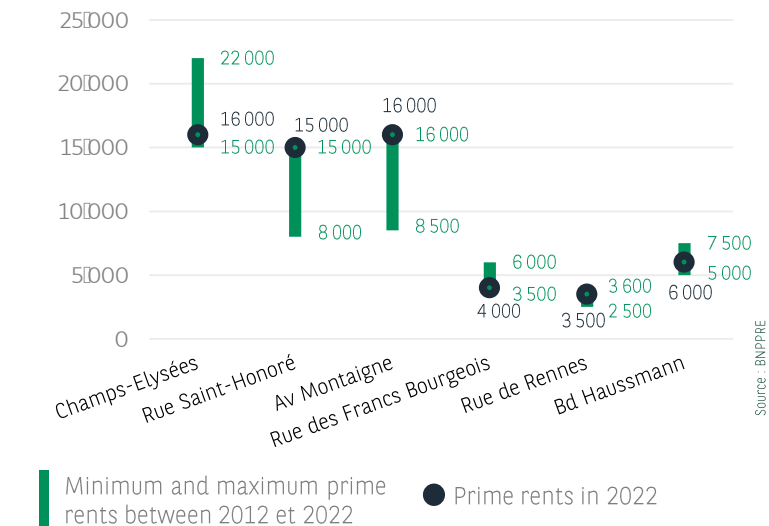
Value growth to Q3 2022 (rolling year)



Source: Insee

Prime rents - 6 thoroughfares - Paris

In €/sqm / year



Source: BNPPIRE

CREATION OF THE CONSEIL NATIONAL DE COMMERCE (NATIONAL RETAIL COUNCIL)

Olivia Grégoire, Minister for SMEs, Retail, Craft and Tourism, has announced the creation of the Conseil national du commerce (CNC) on 1 December 2022. This gives operational expression to the "Assises du commerce" of December 2021. Thierry Mandon, former State Secretary for Simplification, will take the helm.

€24 million will be allocated to the CNC in 2023 "to run 10 to 30 demonstration projects". Companies and associations may be asked to contribute. In partnership with local authorities, this body will help business stakeholders through a number of priority missions, i.e.:

- **Represent, promote retail** and draft proposals by June 2023;
- **Help retailers** to adapt their businesses to current environmental challenges.

The Tascom, a tax on retail floor space that affects the entire retail sector, is apparently not mentioned.

While presenting this entity, Olivia Grégoire spoke about retail zones, where she believes 72% of French people's spending takes place and which will have to be reassessed.

The CNC will be required to examine its use of agricultural and forestry land, while expediting discussions on mixed uses. This should make **retail more resilient, by being better integrated within communities rather than peripheral to them.**

Limiting the siting of stores in the suburbs is also one of the priorities of "Action Cœur de Ville 2" for 2023-2026. It has a budget of € 5bn for medium-sized towns, of which 20% is for retail players.

LSA RANKING OF FRENCH RETAILERS SHOWS RETURN TO NORMAL

LSA's Top 100 French retailers by sales in 2021 shows a return to normal following the disruption caused by the pandemic in 2020. Nevertheless, several retailers are yet to return to their pre-crisis levels.

The combined sales of the 100 largest retailers in France are expected to **increase by 5.8% in 2021, to € 344bn**. E.Leclerc remains comfortably in the lead with sales of € 51.2bn in 2021 from 734 points of sale (+€ 3.4bn vs 2020).

Two thirds of the combined sales of the list are generated by large and medium-sized stores. The E.Leclerc group, Intermarché, Carrefour Hyper, Super U, Carrefour Market, Lidl and Auchan take the top seven places respectively, and account for half of the combined sales of the 100 largest retailers.

Sectors boosted by the pandemic (e-commerce, DIY/garden, etc.) have continued their momentum. For example, Leroy Merlin, in 9th place, achieved sales of almost € 9bn (+12.67%).

However, these increases should be seen in perspective. Although the sales increases are considerable, they come on the heels of a year of decline with the pandemic; **a catch-up effect is therefore underway.**

Factors that disrupted business in 2021 included fewer tourists for certain types of shops, such as department stores (Printemps, Galeries Lafayette, Le Bon Marché).

Source : BNPPRE

Source : BNPPRE

FOOTFALL RISING ON SAMPLE THOROUGHFARES *

Cities	Streets (number)	December 2022	Evolution / 2021	Evolution / pre-Covid average
Paris	Haussmann (64)	4 470 000	19%	↗
Paris	Champs Elysées (88)	1 630 000	6%	↗
Paris	St-Honoré (235)	1 470 000	23%	↗
Paris	Rivoli (98)	766 100	-8%	↘
Paris	Rennes (52)	694 800	11%	↘
Paris	Francs Bourgeois (10)	546 000	-14%	↗
Paris	Montaigne (45)	401 700	18%	↗

Cities	Artères (numéro)	December 2022	Evolution / 2021	Evolution / pre-Covid average
Bordeaux	Ste-Catherine (11)	4 150 000	17%	↗
Montpellier	La Loge (25)	2 700 000	39%	↗
Toulouse	Alsace-Lorraine (30)	2 130 000	67%	↗
Nice	Jean Médecin (46)	1 530 000	16%	↗
Lyon	République (42)	1 500 000	16%	↗
Marseille	St-Ferréol (57)	1 470 000	36%	↗
Nantes	Crébillon (14)	1 400 000	5%	↗
Lille	Béthune (31)	1 140 000	-4%	↗
Cannes	Antibes (49)	900 900	15%	↗

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

OUTSTANDING YEAR FOR INVESTMENT IN 2022 DESPITE A SLOWDOWN IN Q4

Total investment in retail since the beginning of the year stands at € 5.6 billion (+76% year-on-year). € 0.9bn was invested in Q4 2022, the lowest figure for a Q4 since 2014 (-26% vs Q4 2021). The sector will account for 20% of investment in 2022 (compared to an average of 17% over the last 10 years and just 11% in 2021).

The number of major transactions during the year was unprecedented. Deals for over € 100m accounted for more than 50% of the investment in retail assets. Portfolios represent a smaller proportion of investment (36%) as investors were more selective.

The market was largely driven by French players (78%). Among the other main nationalities, 12% were from Canada, 5% from the UK, 3% from the US and 1% from Germany.

GROWTH FOR ALL TYPES OF RETAIL ASSETS

Out-of-town retail continued to attract the most investment. City centre retail accounted for 35%, but was largely driven by a few major deals.

The biggest deals of the year included:

- the acquisition of the "150 Champs Elysées" building for €650 million by BROOKFIELD ASSET MANAGEMENT from GROUPAMA, a record for the famous Avenue
- the Carré Sénart shopping centre sold for € 450m by UNIBAIL-RODAMCO-WESTFIELD to SOCIÉTÉ GÉNÉRALE ASSURANCES and BNP PARIBAS CARDIF

EXPANSION IN PRIME YIELDS

Following the trend of previous quarters, the surge in the French 10-year OAT, to 3.1% in Q4 2022, has greatly squeezed the risk premium for real estate assets. Prime yields are therefore rising.

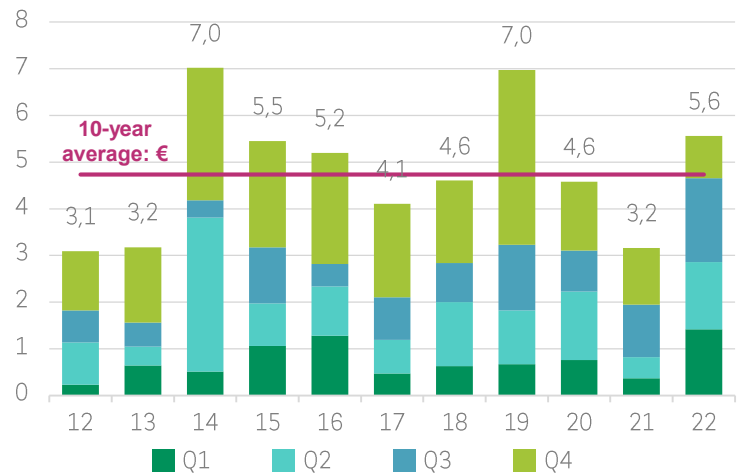
Retail prime yields have risen since the health crisis. The prime yield for street-level stores was flat in Q4 at 3.50%, but it could rise further in the coming quarters.

The prime yield for shopping centres stood at a theoretical level of 4.75% as of January 1, 2023.

Meanwhile, retail parks are still highly sought-after by investors, although prime yields still widened to 5.25% for the best assets.

Retail investment by quarter

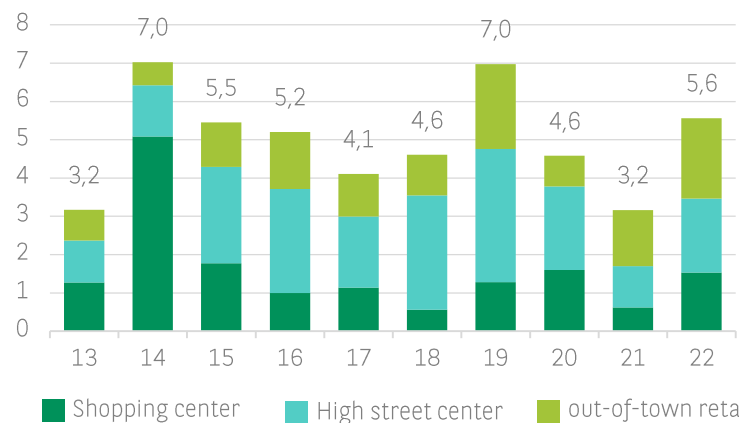
In euro billion



Sources: Immostat / BNPPE

Investment in retail - Breakdown by asset category

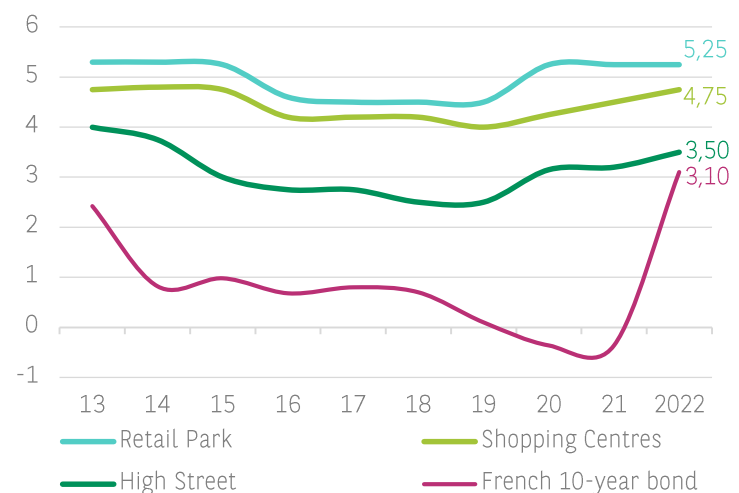
In euro billion



Sources: Immostat / BNPPE

Prime retail yields and French 10-year bond

%



Source: BNPPE

LOCATIONS

(JULY 2022)

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