LET’S TALK RETAIL

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What is happening in retail in 2018?

As e-commerce sales grow year after year, retail is constantly evolving. Street-level stores, shopping centres, retail parks, retail warehousing, outlets, e-commerce, retail intelligence, contributions from new information and communication technologies, new emerging concepts, hybrid stores, etc.

Retail is protean by nature and adapts continuously to the different components and changes in its environment. Physical and online retail are becoming blurred and part of an overarching retail strategy. It is no longer a matter of physical retail and e-commerce being in contention, as the two complement each other: omnichannel strategies are of the essence. Although footfall and location are still two key factors for the development of a retail activity, there are also many other parameters to consider if your project is to succeed. To better understand these facets of the retail universe, the French Research department works daily alongside various professionals dedicated to retail to assist you and meet your needs.
ECONOMIC BACKDROP

THE EUROZONE CONTINUES TO FLOURISH

Growth should continue in 2018: in addition to the solid and self-sustaining cyclical recovery, the monetary environment remains particularly favourable despite the reduced purchases of the European Central Bank in the context of its quantitative easing (QE).

Stubbornly low inflation suggests that European growth is not yet about to stall due to supply constraints and justifies keeping monetary policy quite accommodative.

Maintaining the steady pace of job creation should continue to boosting household purchasing power in 2018, which is also enjoying a slight acceleration in real salaries.

FRANCE: GROWTH IS ACCELERATING

French growth is robust - at slightly over 2% since end 2016 - and shows no signs of slowing, quite the contrary.

Signs of tensions on production capacities as well as the supply and recruitment difficulties reported by companies also illustrate healthier growth, even though these signs can be uneven at this stage in the cycle.

Growth is also on a promising trend in 2018. It should reach an annual average of 2.3%.

RETAIL SALES

ACCELERATION IN RETAIL BUSINESS

Retail sales are on the rise in 2018. With about € 530bn forecast, France is catching up with Germany (€ 540bn), and is still ahead of the UK (€ 460bn).

€530bn
2018 RETAIL SALES (FORECAST)

+2.6%
2017/2018 GROWTH (FORECAST)

25%
OF EUROZONE SALES

Source: INSEE, BNP Paribas Real Estate

Source: INSEE
TRENDS - NEWS

E-COMMERCE CONTINUES TO GROW IN FRANCE

With € 81.7bn in 2017, e-commerce continues to grow very considerably in France. Sales increased by 14% in 2017.

The number of transactions has climbed by 20.5%.

Although there has been a decline in the average basket, to € 65.5, this erosion has been easily compensated by the greater frequency of purchases.

The average annual basket per shopper increased in 2017 to about € 2,200, i.e. an increase of about 190% in 10 years.

The French e-commerce should continue to grow in 2018 and break through the symbolic € 100bn threshold in 2020.

Consumers are increasingly turning to M-commerce (mobile phone or tablet) for their shopping. Sales have grown constantly and are expected to increase significantly again in 2018.

E-COMMERCE IN FRANCE IN FIGURES

KEY FIGURES FOR E-COMMERCE IN FRANCE IN 2017

- € 81.7bn
- Average basket: 65.5%
- Sales: +14%
- 33 Orders/year
- € 2,184/year
- 9% of e-commerce in total retail

Share of e-commerce in total retail

87% of global sales

+38% in one year

€ 100bn of sales

This is the symbolic threshold that should cross e-commerce by 2019-2020

E-commerce by sector in billion euros (2016 data)

THIRD PLACE" RETAIL: SHIFTING TOWARDS NEW FORMS OF URBAN RETAIL

Stores are tending to diversify their activities to offer services and experiences associated with products and the brand. Consumers are no longer seeking just to buy. They want experiences. The emphasis is on individuals and customised living spaces that have a particular ambiance, an atmosphere specific to the brand.

Third Place retail spaces therefore represent an opportunity to bring the brand universe close to the consumer’s universe, to integrate their social and cultural circle, their imagination, through recurrent visits motivated by activities other than purchases (discovery of new products, meetings, lessons, workshops, relaxation, etc.). A strong personal bond is created between the brand, the place and the visitors. It involves retailers positioning themselves in the everyday life of inhabitants, assisted by new technologies that enhance the experience offered and the personalisation of the client journey. Third space retail places thereby become a space to live, share, relax and create. The client has a central place, joins a community and participates in the brand.

Sport with Reebok is an example of third Place retail spaces: at the crossroads between sport, fashion, art and culture (gym, events, conferences and think-tank, team building, exhibitions, café, meeting rooms… but also a Reebok store, collection launches etc.)
TRENDS-NEWS

DlUSRUPTION OF FOOD RETAIL IN THE CITY CENTRE

Often located on the outskirts or at the entrance of the city, the drive is today very little present in city centres largely pedestrian. The idea is simple: apply the concept of pedestrian click & collect. After having made shopping on the internet, the customer will pick up his shopping in a dedicated pick-up point to recover his order.

Leclerc opened its first pedestrian click & collect in Lille in early 2017, offering some 12,000 SKUs (vs. about 6,000 for rival city centre spaces). In order to be profitable, his new style of store generally opts for small premises (controlled rents), with longer opening hours. Some pedestrian click & collect also seek partnerships with local stores in order to gain a local foothold and unlock synergies.

Another complementary notion is the development of cold rooms. These strategically-located cold rooms enable clients to come and collect their orders delivered in connected pick-up points. Architects are also thinking about how to integrate chilled cupboards in the communal areas of apartment blocks so that deliveries can be grouped.

RETAIL IN MEDIUM-SIZED TOWNS: FROM THE PERIPHERY TO THE CENTRE?

Many centres of medium-sized towns (between 20,000 and 100,000 inhabitants) are currently experiencing difficulties, notably in terms of their retail and services. According to Procos, the average vacancy rate in the city centre rose from 9.5% in 2015 to 11.1% in 2017. 62% of the city centres observed have vacancy rates of over 10%, considered to be a critical threshold. Only 10% of them exceeded this threshold in 2001. There are many reasons: urban sprawl and streamlining that are polarising business, facilities and public services in the biggest cities, accessibility to urban cores, the lack of public transport as an alternative to the car, the scarcity of land in central sectors, more restrictive regulation than in the suburbs, etc.

As part of the draft ELAN law (housing, planning and digital transformation law), the government is to launch its city centre action plan aiming to revitalise the city centres of medium-sized towns. 222 cities are covered by this contractual initiative in 2018-2019 (see map opposite). Over €5bn is to be allocated to this measure over five years by way of ORT (territorial revitalisation operations) that will concern numerous stakeholders. As a reminder, about a quarter of the population lives in a medium-sized town.

This plan could be an opportunity to shake things up in terms of retail urban planning, at a time when a national moratorium on the construction of large out-of-town shopping units is gathering pace in public debates.
Prime rents have held up or increased, while other sites, particularly in medium-sized cities, have tended to stagnate or even decline. This is particularly the case for those medium-sized cities whose economic fabric appears to be fraying.

Indeed, an analysis of vacancy rates in the city centre shows a mixed situation for the retail market in France. Some medium-sized cities in particular have been heavily affected with vacancy rates of over 10%.

However, other cities still have a thriving retail scene with vacancy rates of less than 5%. As such, the socioeconomic context of the territory, the balance of competition between different formats and the quality of the environment generally go hand in hand with the health of high street retail.

At the top of the list: Paris. Street-level stores are the most common. One of the trends observed in the capital is the increase in so-called convenience stores (small food stores and supermarkets in particular). Local stores, organic food shops and specialized food shops (pastry shops, chocolatiers, wine merchants) are also experiencing strong growth. Train stations and new urban neighbourhoods that will emerge in the wake of the new metro lines of the Grand Paris Express are also likely to attract a new retail offering.

The Champs-Elysées, a fully-fledged international showcase for retailers, is at the pinnacle with a prime rent of €22,000/m²/year. “The most beautiful avenue in the world” is one of the most expensive thoroughfares globally, alongside 5th Avenue in New York.

Cannes takes second place with a prime rent of €8,000/m²/year. The presence of many luxury brands along the Boulevard de la Croisette and the attraction of the French Riviera to many tourists with high purchasing power explain this high figure.

Next come the big regional cities (Lyon, Lille, Bordeaux, Toulouse, Nice, Strasbourg) with a prime rent of over €2,000/m²/year excl. VAT.
OCCUPIER MARKET

SHOPPING CENTRES: NEW CENTRES ALONGSIDE WITH THE EXTENSION/REFURBISHMENT OF EXISTING SITES

The shopping centre stock is estimated at 18.5 million m² in 2017 and over 37,600 retail units for a turnover of about €130bn (including hyper and supermarkets). In 2017, about 250,000 m² were built. Île-de-France accounted for half of this new space. These centres are mostly between 10,000 and 45,000 m².

Footfall is still a decisive strategic factor for shopping centres. To win over retailers and attract consumers, landlords waste no time in rolling out more services, calling upon renowned architects or drawing in new names (such as Five Guys at Bercy Village, Primark in Evry 2 and even Lego in Forum des Halles).

SHOPPING CENTRE STOCK IN FRANCE

![Graph showing shopping centre stock in France]

RETAIL WAREHOUSING AND RETAIL PARKS: CONTRASTING PERFORMANCE

The success of retail parks stems from their moderate occupancy costs and the roll-out of new concepts that are more in keeping with consumer demand. Players with little presence in this market, such as city centre and shopping centre retailers, are becoming increasingly interested (H&M, C&A, Naf Naf, San Marina and Sephora).

With respect to retail warehousing, it was the US retailing behemoth Costco that made the news in early 2017 with the opening of its first warehouse club in Villebon-sur-Yvette with 14,000 m². The brand hopes to open 15 stores in France within 10 years, including 4 to 6 around Paris.

However, the difficulties of many sites cannot be overlooked. Indeed, they may be hit by the moves of retailers optimising their networks to the advantage of the new retail parks or better laid out units in the same retail area.
With some €500m over the first three months of 2018, investment in retail increased by 6% vs. Q1 2017, to €467m. In Q1 2018, retail represented 13% of overall investment in commercial real estate in France, vs. an average of 18% since 2013. Investors’ attraction to assets in Ile-de-France has been undeniable in recent years. Similarly, acquisitions in the regions have been significant, notably thanks to the investments in the out-of-town stock (shopping centres, retail warehousing and retail parks).

Cash-rich players are the main protagonists. Funds have been very active so far in 2018 (40% of investment). Carrefour Property bought the Grand Vitrolles shopping centre for about €200m; this was the biggest deal of the quarter. SCPI and OPCI took third place in the rankings: their high inflows notably enabling them to invest in retail assets. The market is still mostly driven by French investors. Over the first three months of the year, 87% of investors in retail were French, with La Française AM in particular driving investment over the quarter. We noted the presence of Canadian BMO Real Estate Partners, which invested in a core asset on Rue du Faubourg Saint Honoré in the 8th arrondissement of Paris.

The 5% attributed to UK funds correspond to the acquisition of an out-of-town store in Pessac by Tristan Capital Partners.

THE MARKET IS MOSTLY DRIVEN BY FRENCH INVESTORS
DOMINATION OF LARGE-SCALE DEALS; DECLINE FOR OUT-OF-TOWN RETAIL

Large-scale deals (over €100m) accounted for 60% of investment over the quarter. This is a high proportion, well above the 5-year average of 56%. Conversely, there were no medium-sized deals (€50m–100m) recorded over the first three months of 2018.

Thanks to the high-quality supply, high street remains a sought-after asset type. In Q1 2018, we noted the acquisition of the ERMENEGILDO ZEGNA store on Rue du Faubourg Saint Honoré in the 8th arrondissement of Paris for €38m.

Shopping centres represented 43% of investment over the quarter. This high proportion was notably thanks to the sale of the Grand Vitrolles shopping centre for €200m. Conversely, out-of-town retail struggled to get off the ground in Q1 2018, accounting for just 13% of investment.

Yields were general stable for the three types of retail asset.

The prime yield for street-level stores is now 2.75%. This rate is nevertheless likely to narrow in 2018, with a deal expected at a yield of around 2.50%. With respect to shopping centres, a historical floor of 4.20% has been reached. With respect to out-of-town retail, the prime yield stands at 4.50%.

There is still a keen appetite for retail, which shows that this asset category is reaching beyond its safe-haven status to become a strategic holding in investors’ portfolios.

After a slow start, 2018 should be another buoyant year for the three asset types. With a slight decline vs. 2017, we may nevertheless draw close to the 10-year average of €3.6bn.

INVESTMENT FORECASTS

INITIAL PRIME YIELD

- Retail (€50-100M): 4.50%
- Retail (€10-20M): 4.20%
- Retail (€5-10M): 2.75%
- Shopping centre: 4.00%
- Street-level store: 1.30%

INVESTMENT FORECASTS

- Out-of-town: 1.30%
- High street: 1.70%
- Shopping centre: 5.20%

10-year average €3.6bn
RETAIL: A FULL RANGE OF SERVICES

TRANSACTION
INVESTING, LEASING, SELLING
An ideal location negotiated at the best prices is strategic to allow the success of your retail project. As a true local partner, BNP Paribas Real Estate studies all the opportunities of locations responding to your needs and your current or future location.
Our investment teams also support investors wishing to diversify their real estate portfolio during sales and research of properties to acquire.

VALUATION
VALUING YOUR RETAIL ASSETS
Are you looking to invest in retail, lease a store, sell or acquire a leasehold or find out the value of your assets for accounting or financial reasons? BNP Paribas Real Estate provides you with a comprehensive analysis of your assets resulting in an accurate valuation. With their know-how and their knowledge of market developments, our valuation team estimate the market or rental values of your assets.

PROPERTY MANAGEMENT
MANAGING YOUR ASSETS ON A DAY-TO-DAY BASIS
We support you in an optimized and value-creating property management allowing you to focus on your core business. Do you want to improve the profitability and long term future of your retail properties? Our Property Management teams help you meet all of your property issues, whether they involve commercial, technical, financial, regulatory, administrative, security or environmental aspects.

INVESTMENT MANAGEMENT
FINDING CUSTOMIZED SOLUTIONS FOR YOUR PROPERTY INVESTMENT
Our Investment Management teams offer a range of property funds and tailor-made investment solutions, with funds for every type of investor and customized asset management services.

RESEARCH
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Thanks to our databases and reports covering the main European markets, we can provide you an in-depth understanding of key market trends as well as the forecast of the commercial real estate market.
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