French retail market

Snapshot Q1 2023

Cushman & Wakefield Research

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Snapshot Q1 2023

1. Economy
2. Consumption and turnovers
3. E-commerce
4. Rents
5. Stock
6. Investment

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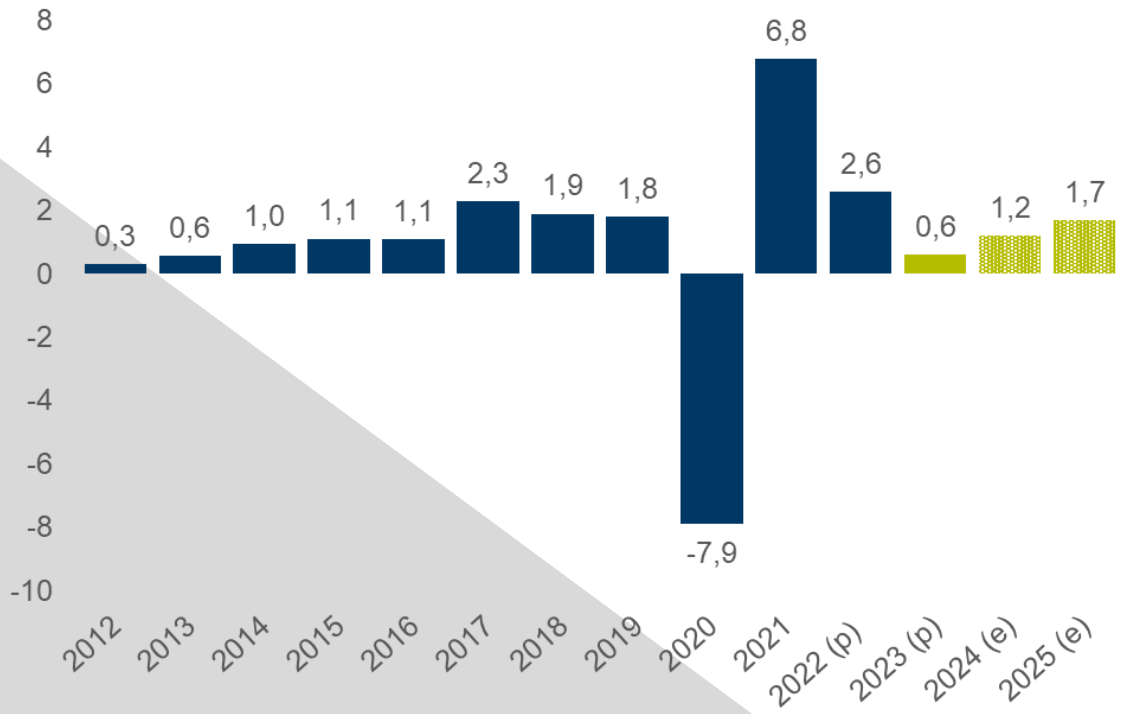
1. Economy: recession no, stagflation yes

+0.1%
Q1 2023
GDP Growth

Change in GDP (%)

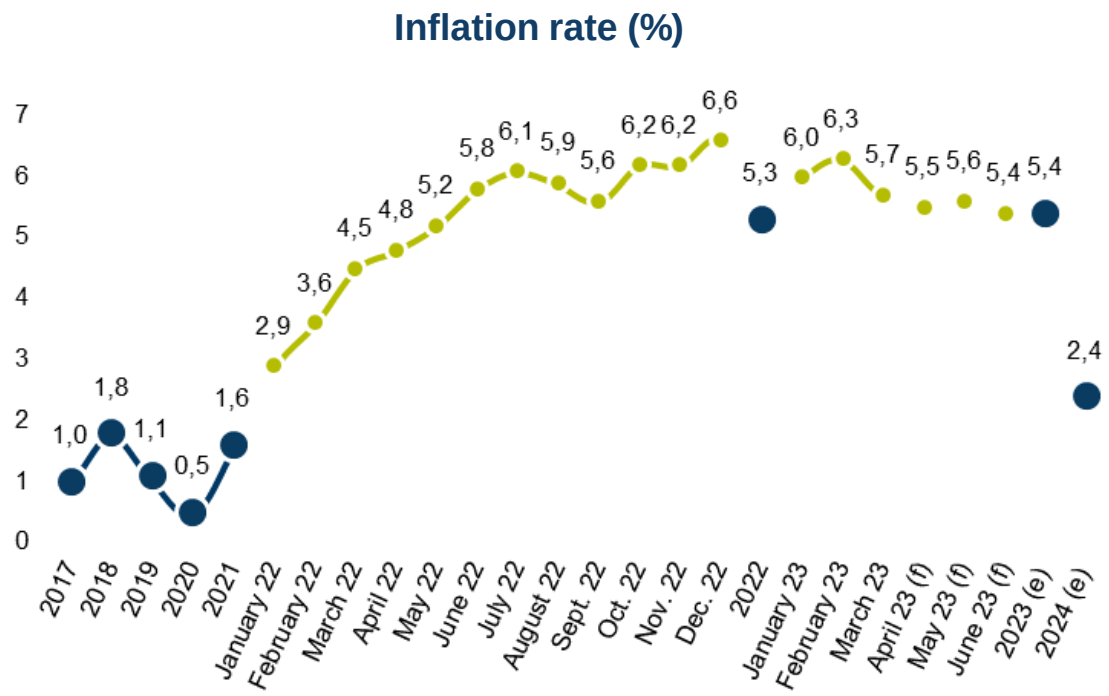


- Manufacturing output and the fragile nature of the social climate shaped **Q1 growth forecasts with INSEE predicting +0.1% and +0.2% for Q2** with current full-year estimates of +0.6%.
- The **labour market** appears to be resilient despite a slightly lower level of job creations (+0.1% in Q1 2023 vs +1.3% in 2022).
- The **unemployment rate remained stable at 7.2%**, its lowest level for over 10 years. Unemployment could start to rise towards the end of the year due to reduced activity and an increase in bankruptcies.

Source: INSEE, Banque de France

1. Economy: waiting for inflation to fall

+5.7%
March 2023
Inflation rate



- A further considerable increase in **consumer prices** was seen **with +5.7% in March;** this was mainly driven by foodstuffs (+15.9% in March 2023), although there has been a clear decline in energy prices (+4.9% vs. +14.1% in February).
- INSEE forecasts that inflation will stabilise in 2023 although will remain high at the mid-year point (+5.4%). Levels are not expected to fall until 2024.

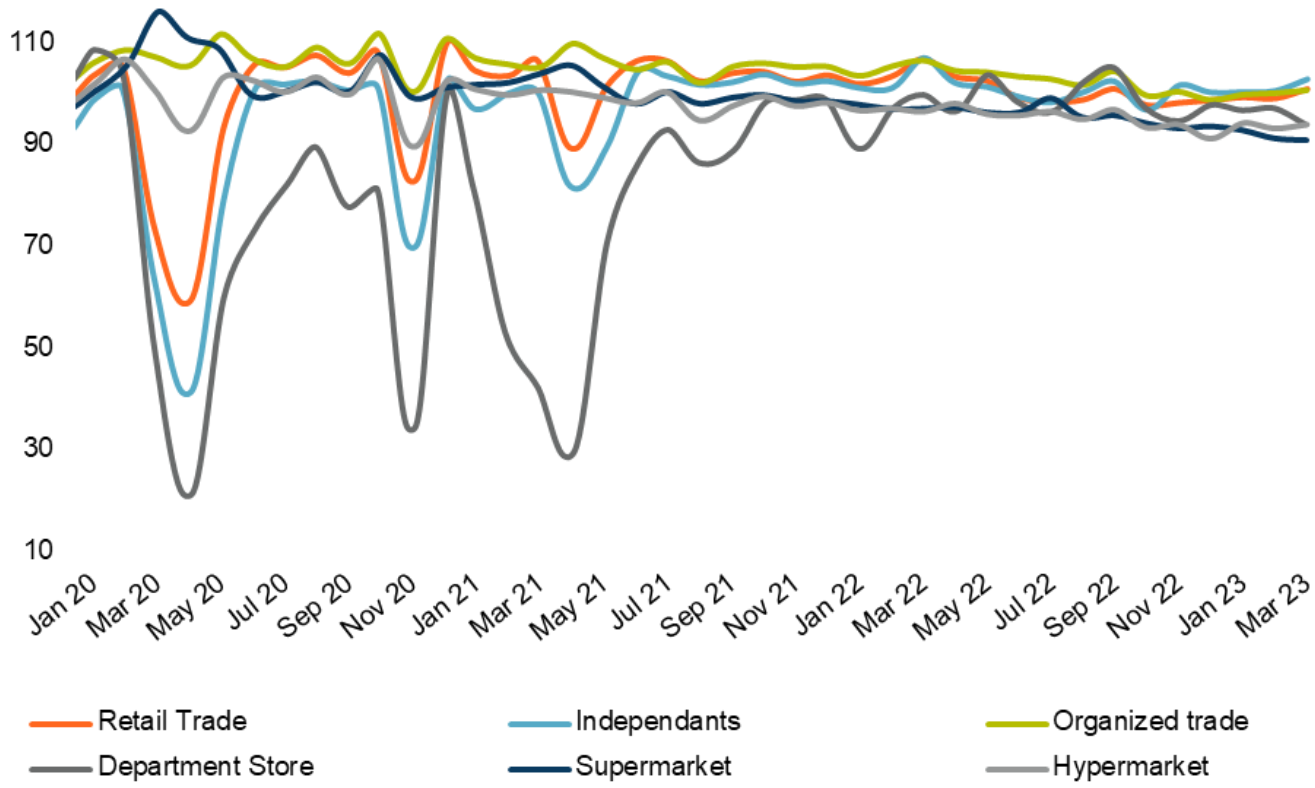
Source: INSEE, Banque de France (HICP estimates)

2. Consumption and turnovers: growth supported by rising prices

▲ **+5%**
January-March vs 2022
Specialised retail activity (stores+online)
= equivalent volume due to inflation

▼ **-5.6%**
March 2023 vs 2022
Sales index for the retail trade

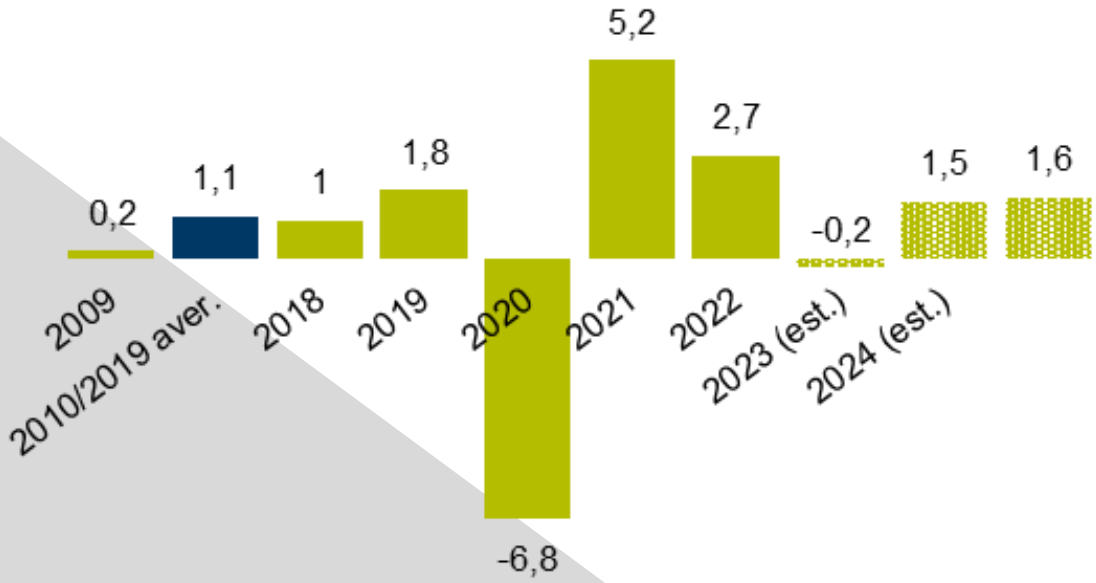
Sales index for the retail trade (base 100 in 2010)



Source: INSEE, Banque de France, PROCOS

2. Consumption and sales: Purchasing power weakens

Household expenditure (CVS-CJO data, base 2014)



Household consumption is not expected to rise before H2 2023 (+0.2% in Q1 and +0.1% in Q2), this is due to inflation which is lasting longer than expected and having an impact on **household purchasing power (-0.8% estimated for Q1 and Q2).**

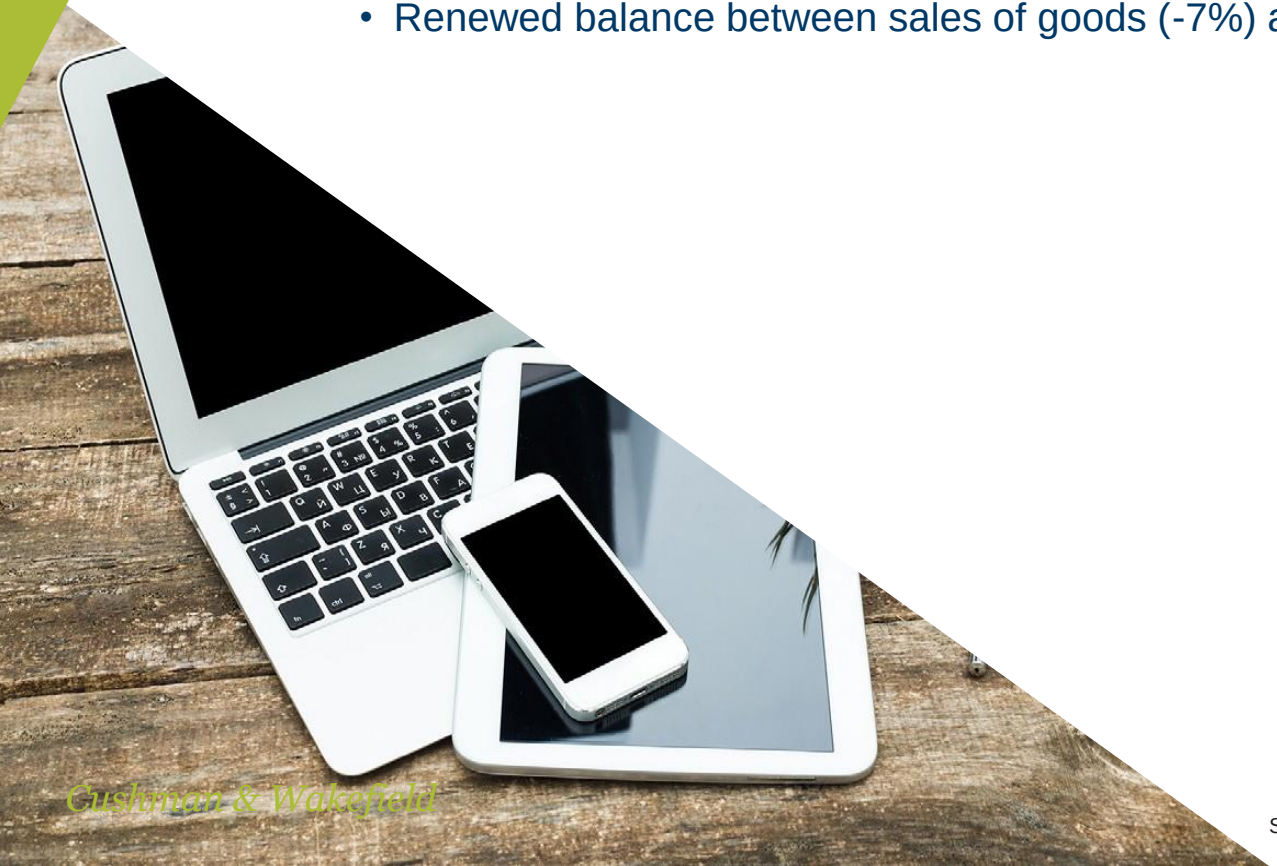
INSEE expects levels to stand at **-0.2% in 2023** and the Banque de France is forecasting +1.5% for 2024.

+0.2% Q1 2023 (INSEE estimate)
Household expenditure

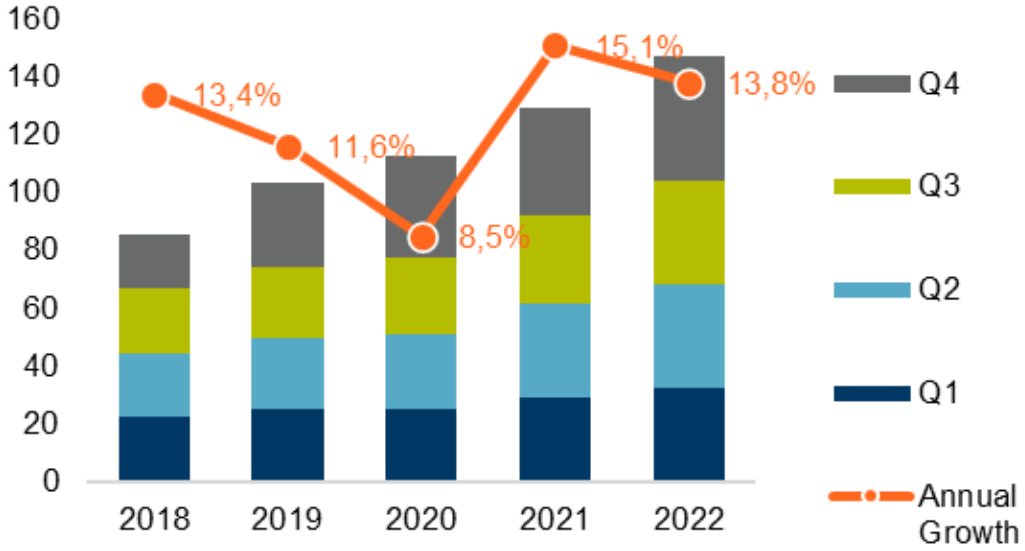
Source: INSEE, Banque de France

3. E-commerce: a more balanced market

- Online sales rose in 2022 **(€147 billion)** although the Covid effect waned with growth of +13.8% over the year compared with +15.1% in 2021.
- As physical retail recovers, the market share for e-commerce fell to **12.5% of retail sales** (14.1% in 2021).
- Renewed balance between sales of goods (-7%) and services (+36%) due to recovery in tourism and leisure.



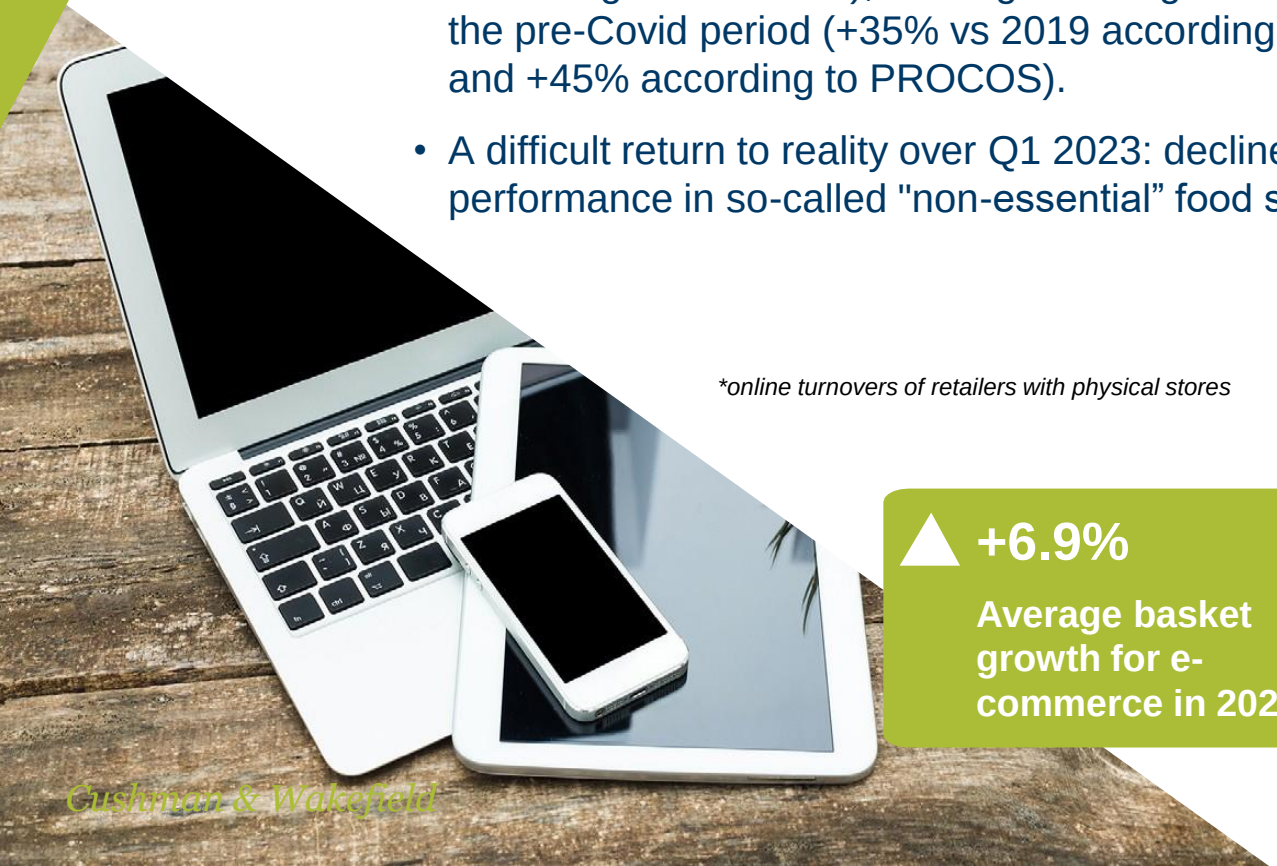
Quarterly e-commerce sales figures (€ billion)



Source: FEVAD

3. E-commerce: moving towards a lasting synergy with physical retail

- The average basket stabilised at **€65,** the highest annual average since 2017.
- Slowdown in sales for retail chains over 2022 (-12% vs 2021 according to PROCOS), although at a higher level than over the pre-Covid period (+35% vs 2019 according to FEVAD and +45% according to PROCOS).
- A difficult return to reality over Q1 2023: decline in sales performance in so-called "non-essential" food sectors.

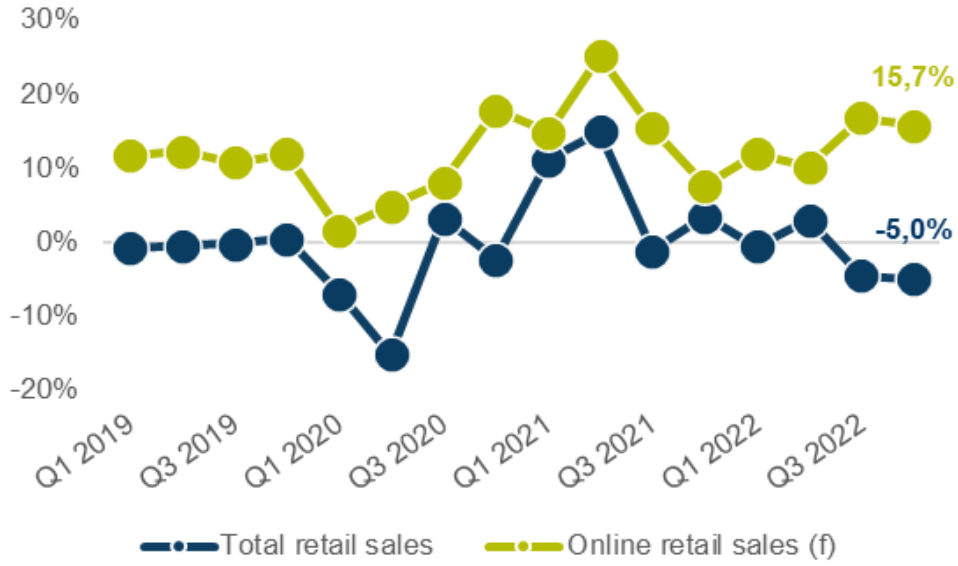


**online turnovers of retailers with physical stores*

+6.9%

Average basket growth for e-commerce in 2022

Quarterly sales growth: online vs retail trade



Source: Banque de France, FEVAD, PROCOS

4. Rents and rental values: high streets constantly evolving

High streets

- Very strong activity in the Paris rental market, driven by sports retailers seeking to secure locations prior to the Olympic Games.
- Pop-ups offer an alternative to long-term leases, used by retailers (particularly online retailers) to test new markets.
- The luxury market is building on the momentum gained in 2022 by structuring asset allocations and making a mark on the sales-to-occupiers market in Paris.
- Following a post-Covid adjustment, rental values are stabilising.
- Main high-streets in regional cities remain attractive.

Prime rents

Market	CITY/REGION	OVERALL AVG PRIME RENT (€/m² ZA)*	Recent Trend
HIGH STREET		**15,500**	
Avenue des Champs Elysees	Paris	15,500	
Rue de Rivoli	Paris	3,300	
Boulevard St Germain	Paris	4,500	
Rue St. Honoré	Paris	13,500	
Rue des Francs-Bourgeois	Paris	6,000	
Rue de la Republique Lyon	Lyon	2,500	
Rue St Ferreol Marseille	Marseille	1,300	
Rue St Catherine Bordeaux	Bordeaux	2,500	

*Rents per sq m in Zone A (using the general space weighting formula). These values, which exclude taxes and service charges, including lease transfers (droit au bail), decapitalised and written back.

Source: Cushman & Wakefield

4. Rents and rental values: suburban locations remain attractive

- Inflationary effect on rental charges is having an impact on retailer **effort rates** and eroding margins.
- **Incentives** are becoming widespread.
- **Falling vacancy** in 2022: -0.6 points for shopping centres and -1.1 points for out-of-town retail (Codata).

- **Out of town** (retail parks and shopping districts): resilient format, stable rental values due to continued demand and the flexibility this format offers.
- **Shopping centres:** return to stability following post-Covid adjustments, increase in some renewals for the most attractive centres.

Prime rents

Market	CITY/REGION	OVERALL AVG PRIME RENT (€/m²)	Recent Trend
SHOPPING CENTRES*		**2,200**	
Centres super régionaux	Paris/Regions	2,100	▶
Centres régionaux	Paris/Regions	1,100	▶
Grands centres	Paris/Regions	775	▶
Petits centres	Paris/Regions	500	▶
RETAIL PARKS		**450**	
Big Boxes	Paris/Regions	250	▶
New Generation Retail Parks	Paris/Regions	450	▶

*based on units from 150 to 200 sq m for personal goods

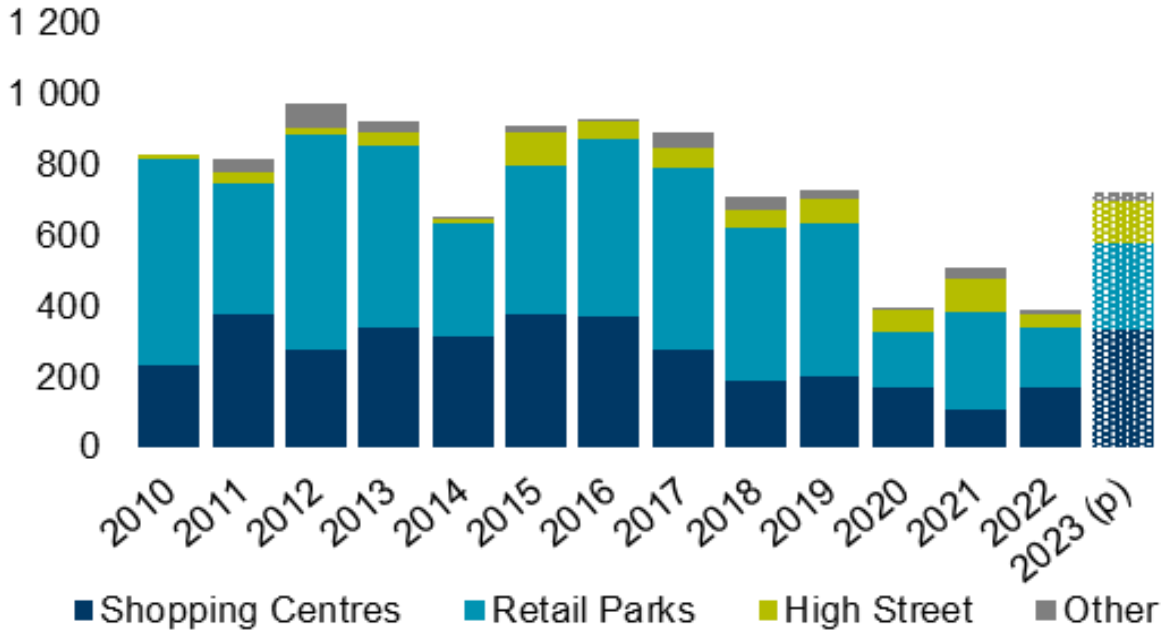
Source: Cushman & Wakefield

5. Stock: ambitious pipeline for 2023

- Projects underway show a strong return for shopping centres (46% of the space scheduled for completion in 2023), most of these are **extensions and refurbishments.**

725,000 sq m
Estimate of openings in 2023
(all format types)

Changes in completions by asset type (sq m)

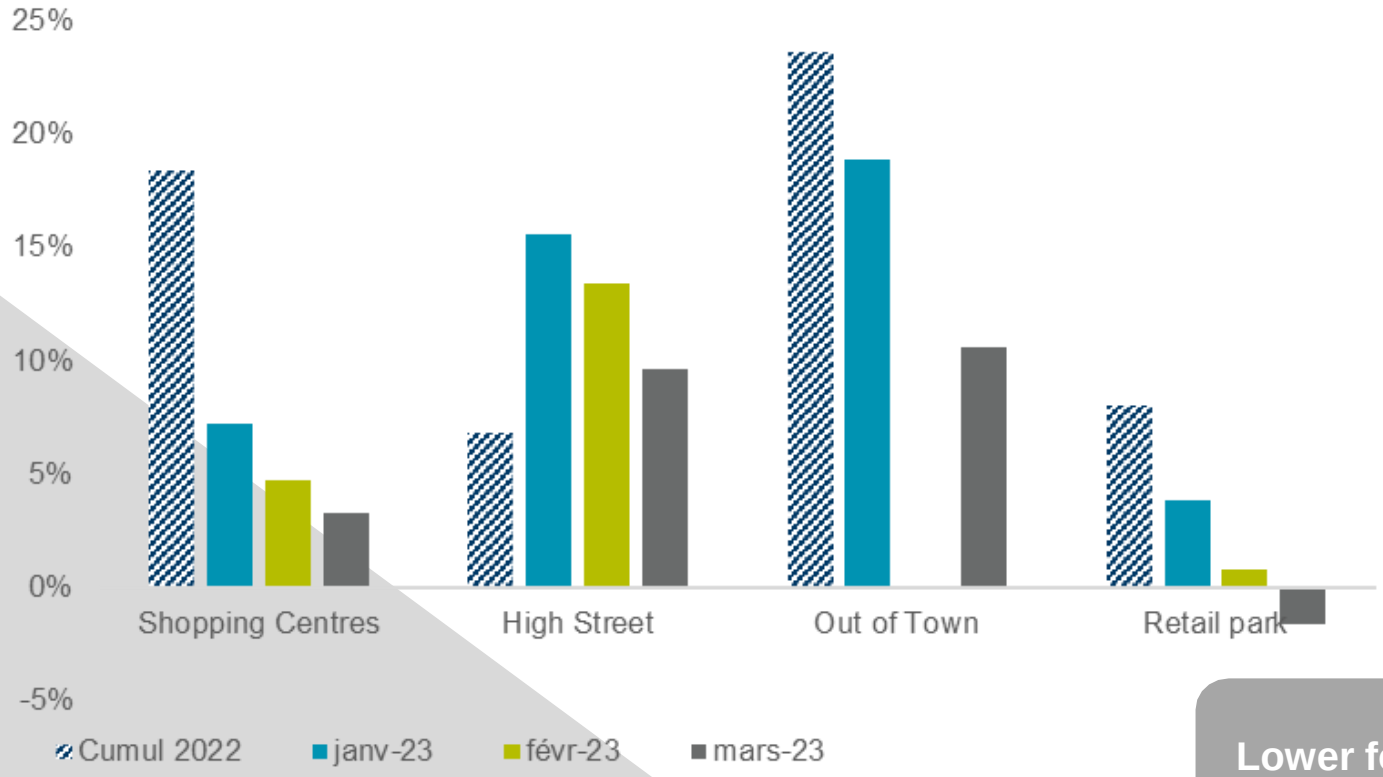


- An ambitious pipeline due to authorisations acquired before the moratorium was implemented. Some of these projects will be postponed or cancelled due to the combined impact of difficulties in sourcing supplies and securing finance.
- Mixed-use is becoming the norm with hybrid projects incorporating offices, housing and leisure.

Source: Cushman & Wakefield

5. Retail footfall: levels falling since the beginning of the year

Change in footfall indices by retail type



Source: FACT/Quantaflow/MyTraffic indices

Lower footfall for all types of retail due to reduced purchasing power and social tension linked to city-centre demonstrations in March

A year of tension in 2023

Current highlights:

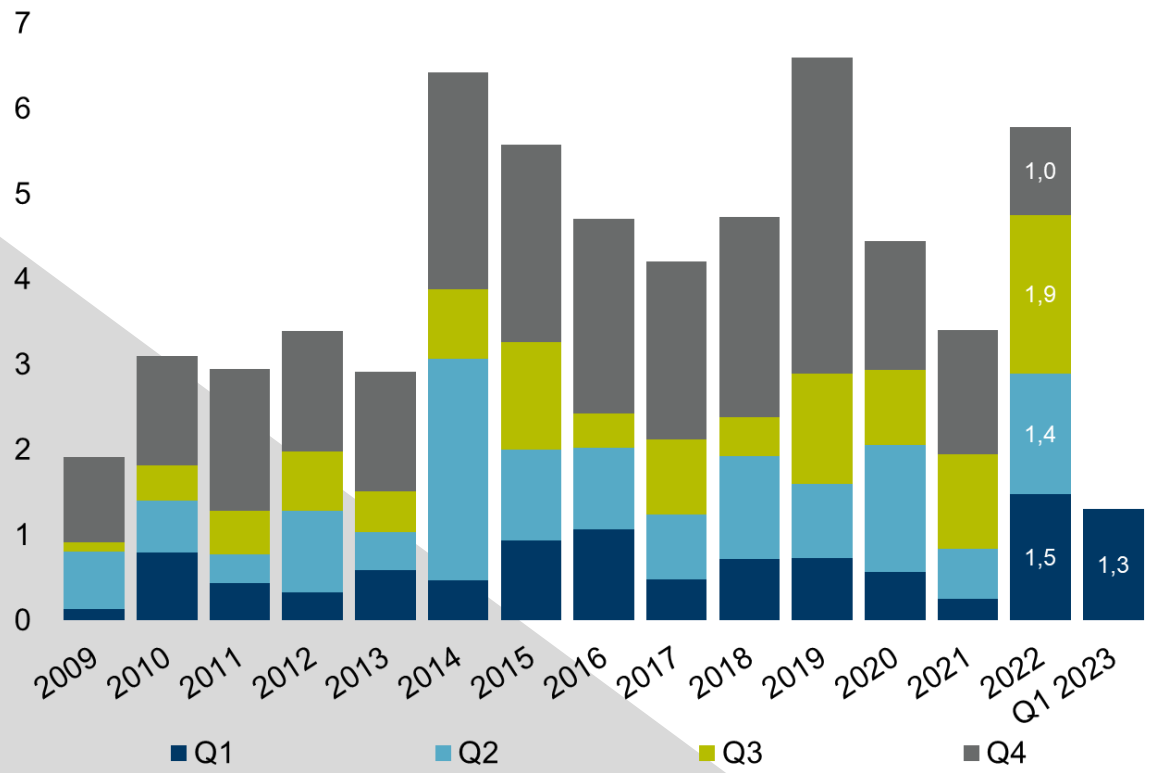
- Olympic Games will continue to drive high-street activity in Paris for several more months
- Some sectors actively developing all types of retail (sport, discount, food & beverage)
- Post-Covid rent adjustments have been concluded, re-energising activity in the rental market

Issues to watch:

- Falling purchasing power, tense social climate and flagging household confidence
- Persistent inflation, especially for food and consumer goods
- Tighter financial conditions
- Increase in indexation (ILC +6.29%)
- Increase in bankruptcies (+43.6% in Q1 2023-Altares)

6. Investment: new retail record

Retail investment volume in France (€ billions)



40% Q1 2023

Share of investments in retail
(10-year average 18%)

- **€1.3 billion** in investments over Q1 2023: -12% lower than the record set in 2022 but +78% higher than the 10-year average for the Q1 period.
- Rising market share for retail at the expense of a slowdown in the office market since 2020 (69% vs 50% over Q1 2023).
- Volumes bolstered by 3 transactions for very large lot sizes (≥€200 million), some of which were initiated in 2021, highlighting the prolonged negotiation process.
- Q1 dominated by shopping centres (41%) and a comeback by high-streets (34%).

Source: Cushman & Wakefield

6. Investment: repricing effect

Prime retail yields

Prime Yields France		Q1 2023	Trend +/- 12 months
Mall of hypermkt challenger in medium cities	Max	12,25%	▲
	Min	8,00%	
Mall of hypermkt dominant in big cities	Max	7,85%	▲
	Min	5,75%	
Regional Shopping Centre		5,50%	▲
Super regional Shopping Centre		4,75%	▲
Retail-parks new generation		5,00%	▶
High street Paris		3,75%	▲

▼ **55%** Q1 2023

Share of national investments in retail
(10-year average 63%)

- Activity over the next few months will be shaped by changes in financial conditions.
- Yields should follow interest rates with gradual increases for most assets.

Source: Cushman & Wakefield

Retail market
The 10 trends for spring 2023

1. Continued high inflation is weighing both on charges and household consumption

2. Renewed balance between physical and online retail

3. Another busy Q1 for the investment market which remains attractive due to the yields on offer

4. Rental supply is higher than demand, particularly in the large-format segment

5. Slight reduction in footfall since the beginning of the year

6. Retailers addressing all markets (high street/out of town) and adapting to various formats

7. Stability in rental values with widespread use of incentives

8. Out-of-town retail more attractive than ever

9. Olympic Games driving activity, particularly in Paris and for pop-ups

10. Shift towards a wider range of uses for developments underway and future projects

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