

FRANCE

Retail Market Snapshot

Second Quarter | 2019



MARKET INDICATORS

Market Outlook

Prime Rents:	Stability for prime small unit and decrease for medium and large units. An upward trend can be noted on luxury high street and new generation retail parks.	▶
Prime Yields:	Stability for super prime assets and upward trend for secondary shopping centres which are suffering from decreasing footfalls.	▶
Supply:	Good development pipeline, although future supply has been readjusted downward due to restrictive planning laws and strong competition between retail locations e.g. out-of-town.	▶
Demand:	Stable in core locations, but demand is weakening in second tier and secondary markets.	▼

Prime Retail Rents – June 2019

HIGH STREET SHOPS (100 SQ M UNIT)	ZONE A €		US\$		GROWTH %	
	SQ.M YR	€ SQ.M YR	SQ.FT YR	US\$ SQ.FT YR	1YR	5YR CAGR
Paris (Av Champs Elysees)	19,000	13,992	1570		0.0	1.1
Lyon	2,800	2,062	231		12.0	4.9
Marseille	1,400	1,031	116		0.0	-6.9
Bordeaux	2,400	1,767	198		0.0	1.8
Lille	1,700	1,252	140		0.0	-3.2
Toulouse	2,200	1,620	182		0.0	0.0
Nice	2,200	1,620	182		0.0	0.0
OUT OF TOWN RETAIL (RETAIL PARKS) >1,500 SQ M UNIT)	€		US\$		GROWTH %	
		SQ.M YR	SQ.FT YR	US\$ SQ.FT YR	1YR	5YR CAGR
Paris Region		220	24.7		0.0	4.1
SHOPPING CENTRES (100 SQ M UNIT)	€		US\$		GROWTH %	
		SQ.M YR	SQ.FT YR	US\$ SQ.FT YR	1YR	5YR CAGR
Regional shopping centre		2,000	2,000		224	0.0

Prime Retail Yields – June 2019

HIGH STREET SHOPS (100 SQ M UNIT) (FIGURES ARE NET, %)	CURRENT		LAST		10 YEAR	
	Q	Q	Q	Y	HIGH	LOW
Paris (Av Champs Elysees)	2.50	2.50	2.50	2.50	5.00	2.50
Lyon	3.85	3.85	3.85	3.85	6.25	3.85
Marseille	5.00	5.00	5.00	5.00	6.25	4.75
Bordeaux	3.85	3.85	3.85	3.85	6.25	3.85
Lille	4.50	4.50	4.25	4.25	6.25	4.25
Toulouse	4.00	4.00	4.00	4.00	6.50	4.00
Nice	3.85	3.85	3.80	3.80	6.25	3.80
OUT OF TOWN RETAIL (RETAIL PARKS >1,500 SQ M) (FIGURES ARE NET, %)	CURRENT		LAST		10 YEAR	
	Q	Q	Q	Y	HIGH	LOW
Paris Region	4.50	4.50	4.25	4.25	7.25	4.25
SHOPPING CENTRES (100 SQ M UNIT) (FIGURES ARE NET, %)	CURRENT		LAST		10 YEAR	
	Q	Q	Q	Y	HIGH	LOW
Regional shopping centre	3.60	3.50	3.50	3.50	5.50	3.50

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Overview

Faced with the uncertainties weighing on the global and European economy (intensification of the international trade and technological war, Brexit, rising oil prices), France should do well in 2019, thanks to the support of its domestic demand. This situation, which contrasts with 2018, is fuelled by linear growth prospects, estimated at 0.3% until the end of 2019. At this rate, average annual growth is expected to reach 1.3% in 2019, a decline of -40 bps compared to 2018 and 110 bps compared to the exceptional performance in 2017. At the same time, employment creations continue to increase, particularly in the private sector (+0.4%). Unemployment stands at 8.4% and could reach 8.3% by the end of the year.

Occupier focus

The stability of economic fundamentals in the first half of the year and the growth prospects have led households to regain their spirits and return to consumption (+1.3% estimated against 0.9% in 2018 according to INSEE). The increase in purchasing power fueled household savings on the one hand, but also the retail sector, whose sales increased by +1.4% between January and May 2019. Out-of-town facilities were the main beneficiaries of this upturn, while high street retail still showed a negative trend over the first 5 months of the year (-1.7%). Rental values for small units are stable for the best locations in high street and prime regional out of town schemes. Rents are expected to decline in the other categories of retail formats above all for medium and large units for which vacant space is more important than demand. The development pipeline is significantly lower than estimated at the beginning of 2019, particularly for shopping centres.

Investment focus

The volume invested in commercial real estate amounted to €1.4 billion in H1 2019. This result marks a significant decline compared to 2018 (-27%), and thus reduces the share of retail to 12% of the total amount invested in commercial real estate (15% in 2017 and 2018). Volumes over €50 mainly composed of high streets assets represented more than 40% of the total amount transacted in retail in the second quarter. Activity on other asset types is expected to resume in the coming months.

Outlook

Occupier and investor demand for core retail stock is forecasted to remain steady. However, demand for second tier and secondary markets is becoming much more selective, which may generate significant adjustments in terms of rental values and yields for the most vulnerable assets.

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