

FRANCE

Retail Market Snapshot

Third 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 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 for small units, but demand is weakening in second tier and secondary markets and medium sized units.	▼

Prime Retail Rents – September 2019

HIGH STREET SHOPS (100 SQ M UNIT)	ZONE A €		US\$		GROWTH %	
	SQ.M YR	€ SQ.M	SQ.FT YR	1YR	5YR CAGR	
Paris (Av Champs Elysees)	19,000	13,992	1468	0.0	1.1	
Lyon	2,800	2,062	216	12.0	4.9	
Marseille	1,400	1,031	108	0.0	-6.9	
Bordeaux	2,400	1,767	185	0.0	1.8	
Lille	1,700	1,252	131	0.0	-3.2	
Toulouse	2,200	1,620	170	0.0	0.0	
Nice	2,200	1,620	170	0.0	0.0	
OUT OF TOWN RETAIL (RETAIL PARKS) >1,500 SQ M UNIT)	€		US\$		GROWTH %	
	SQ.M YR	€ SQ.M	SQ.FT YR	1YR	5YR CAGR	
Paris Region		220	23.1	0.0	4.1	
SHOPPING CENTRES (100 SQ M UNIT)	€		US\$		GROWTH %	
	SQ.M YR	€ SQ.M	SQ.FT YR	1YR	5YR CAGR	
Regional shopping centre		2,000	210	210	0.0	

Prime Retail Yields – September 2019

HIGH STREET SHOPS (100 SQ M UNIT) (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Paris (Av Champs Elysees)	2.50	2.50	2.50	5.00	2.50
Lyon	3.85	3.85	3.85	6.25	3.85
Marseille	5.00	5.00	5.00	6.25	4.75
Bordeaux	3.85	3.85	3.85	6.25	3.85
Lille	4.50	4.50	4.25	6.25	4.25
Toulouse	4.00	4.00	4.00	6.50	4.00
Nice	3.85	3.85	3.80	6.25	3.80
OUT OF TOWN RETAIL (RETAIL PARKS >1,500 SQ M) (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Paris Region	4.50	4.50	4.25	7.25	4.25
SHOPPING CENTRES (100 SQ M UNIT) (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Regional shopping centre	3.75	3.60	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

Growth in the 2nd quarter ended in France in line with the forecasts and results for the first quarter (+0.3%). This is also what economists expect for the 3rd and 4th quarters, with growth estimated at 1.3% at the end of the year, driven mainly by domestic demand. This corresponds to a decline of -40 bps compared to 2018 and 110 bps compared to the exceptional performance in 2017. At the same time, employee job creation continued to expand, albeit at a more modest pace in the second quarter (+0.2% vs. +0.4% in the first quarter). This slight slowdown, visible in all sectors of activity, helped to reduce the unemployment rate by 0.2 points in the second quarter to reach 8.2% in June 2019, a level not seen in 10 years.

Occupier focus

The stability of economic fundamentals in the first part of the year and the growth prospects have led households to regain their spirits and return to consumption (+1.1% estimated for 2019 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 an average of +2.5% between January and July 2019. Consumers returned to town centers, encouraged by favorable summer weather (+2.9% in July and +3.6% in August). On the other hand, the out-of-town retail lost 2 points in August, mainly due to shopping centers results (-1.4% in August). Rental values for small units are stable for the best locations in high streets 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 centers.

Investment focus

More than €2.6 billion were invested in retail real assets at the end of September 2019, a volume 10% higher than recorded for the same period in 2018. Thanks to this excellent 3rd quarter, the share of retail in the total amount invested in real estate recovered one point to reach 13% of the total volume invested year to date. This performance is partly due to the return of large volume transactions exceeding €100 million.

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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