MARKETBEAT

Retail

H1 2023

July 2023

CUSHMAN & WAKEFIELD

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Economic Overview Q2 2023

+0.1%
GDP
Q2 2023 (f)

+4.5%
Inflation
June 2023
(+5.2% av. 2022)

100.7
Business climate
av. Q2 2023

82.7
Household confidence
av. Q2 2023

-0.3%
Household consumption
Q2 2023 (f)

7.1%
Unemployment
France (excl. Mayotte)
Q2 2023 (f)

18%
Savings rate
Q2 2023 (f)

2.99%
TEC 10 OAT
30/06 2023

(f) forecasts

Recent trend

Sources: INSEE, Banque de France

Endlessly on a knife edge

End of the crisis: a glimmer of light at the end of the tunnel?

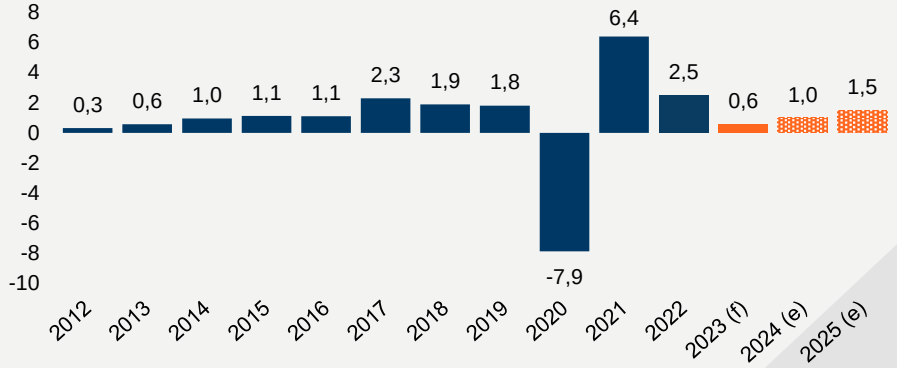
Still on a knife-edge, the French economy is close to recession but remained in positive territory over H1 2023 with +0.2% in Q1 and +0.1% in Q2. Business activity was penalised by persistently high inflation, which is hampering domestic demand (the key driver of growth) and a worsening business climate (down 7pts on average year on year). The year is set to end in a similarly sluggish manner, with +0.2% expected in Q3 and +0.1% in Q4. INSEE is therefore forecasting growth of +0.6% for 2023; this is below expectations (1%) and also lower than last year's performance, which was bolstered by the compensatory effect of post-Covid gains due to soaring prices from spring 2022.

Inflationary pressures appear to have slowed since April when levels reached +5.9% year-on-year, with a rise of "only" 4.5% in June due to recent fall in energy prices (oil and gas) and, more recently, a slight lull in the food sector (+7.4% expected in December vs +15% in April). The lull in prices for these two strategic household expenses should stimulate purchasing power (which was also muted at -0.6% over Q2 2023), and breathe some life into consumption (-0.2% estimated in 2023). INSEE is therefore forecasting that inflation will stand at 4.4% by the end of the year, a high level which could continue for several months. The timid reduction in underlying inflation from the April peak (+6.3%) is also prompting caution over the medium term.

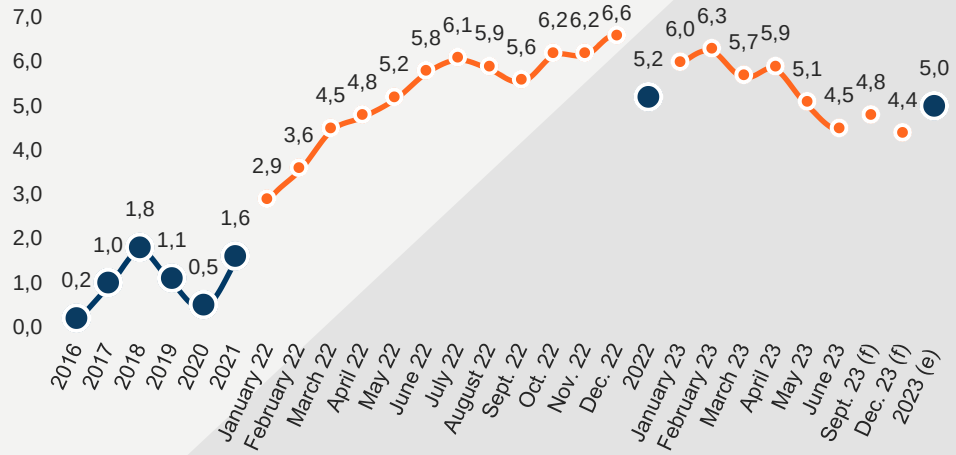
The state of public finances remains worrying, with debt still running at 110% of GDP and the public deficit at 5%, well below the government's 2.7% assurances to Brussels. However, the desire to bring a definitive end to temporary State aid is also confronted by the current social tension and the real estate crisis triggered by interest rates hikes that are also amplifying factors weighing on household confidence.

There are some signs of a slowdown in the job market: in addition to the growing number of business failures (+45% year-on-year at the end of June), job creations have slowed with INSEE estimates for 2023 at -60% compared with 2022. Most of these losses are in construction, hospitality and retail - the sectors most affected by rising costs and which are suffering from falling demand. However, due to a proportional reduction in the active population, the unemployment rate is expected to remain at around 7.1% this year.

GDP Growth France (%)



CHANGE IN INFLATION France (%)



Sources: INSEE, Banque de France

Consumption and turnovers

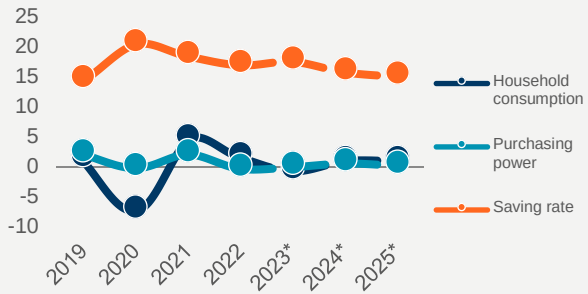
Sales slowdown...

Despite a slight rise in the business climate over H1 (+1.6 pts over 6 months), the economic slowdown was reflected in household consumption (+0.1% in Q1 and -0.3% in Q2), and in sales, which were artificially inflated by rising prices. Excluding inflation, the +3% growth in specialised retail sales announced by PROCOS for H1 would in fact equate to a fall in volumes of between -0.5% and -1%. The BANQUE DE FRANCE announced a -4.8% (vs. Q2 2022) reduction in the average retail sales index over Q2; this was particularly marked for supermarkets (-6.0%) and department stores (-5.8%), while hypermarkets (-3.6%) and, at the opposite end of the distribution spectrum, small retailers (-3.5%), fared better.

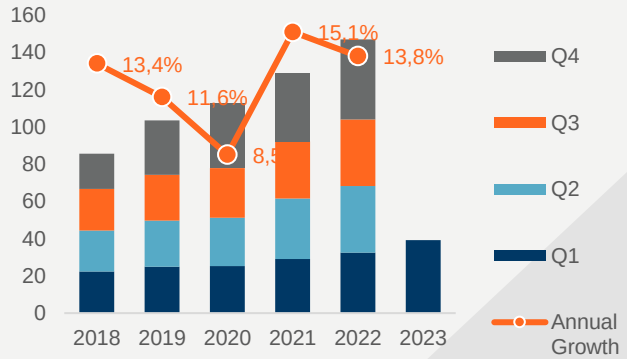
The latest indices also reveal many disparities between business sectors. At the top of the list this quarter, there was a significant reduction for household goods, particularly in electrical goods (-11.1%) and furniture (-9.3%), followed by food (-9.7%) - a sector heavily impacted by rising prices - and finally clothing (-6.8%). The sector has been struggling for many months and has been hard hit by the competitiveness of fast fashion. It has suffered a series of setbacks with receiverships and closures, particularly in the mid-range segment (CAMAÏEU, JENNYFER, KOOKAÏ, GAP, BURTON, etc). The latest data published by ALTARES showed a +35% year-on-year rise in insolvency proceedings in the retail sector over Q2 (compared with a +49% rise in Q1), with a +38.6% increase in the food sector, a +44.8% rise in household goods and a +72% increase in clothing, the highest level recorded for 5 years. The restaurant sector was also affected this quarter, with a +62% rise in insolvencies and a fall of more than -20% in the June sales index.

In terms of internet sales, following growth of +1% in product sales over Q1 according to FEVAD (+36% for sales of services), PROCOS posted an increase of +0.1% over H1, driven mainly by household goods (+7.3%) and jewellery.

MAIN CONSUMPTION INDICATORS - FRANCE



QUARTERLY E-COMMERCE SALES FIGURES IN FRANCE (€ billion)



+3%
(YTD 2023 vs 2022)
Specialised retail activity

+3.7%
(YTD 2023 vs 2022)
Shopping centre footfall

-4.8%
(Q2 2023)
Sales index for the retail trade

+20.2%
E-commerce sales (products and services) Q1 2023

54%
Proportion of retail parks in 2023 pipeline

43%
Proportion of new creations in 2023 pipeline

Sources: Cushman & Wakefield, Banque de France, FEVAD, PROCOS, FACT

High streets

…but good footfall

The reduction in purchasing power has not dampened the appeal of high streets for consumers. Figures published by FACT/MYTRAFFIC point to an +11.2% increase in high street footfall over H1 (compared with +6.8% in 2022), which should be encouraging for retailers and chain stores who have often been on the front line of the social unrest and conflicts seen in recent months.

Footfall figures continued to stimulate high-street rental activity, where vacancy fell to 9.11% by the end of 2022 (9.61% in 2021), according to CODATA. Paris is in a good position, with a vacancy rate below the national average and while its international profile is improving due to the forthcoming Olympic Games. With an average of over 1 million visitors per month and a vacancy rate of just 7%, numerous retail transactions were recorded on the Avenue des Champs-Elysées, mainly in the sports and luxury sectors (NIKE, ADIDAS, LULULEMON). Le Marais, which continues to be in great demand from a wide range of retailers, from mass-market to luxury and premium brands, also saw strong activity, despite the lack of availability. NEW BALANCE will soon be opening on Rue des Archives, and ARC'TERYX on Rue des Franc-Bourgeois.

Rental values have therefore evolved with supply/demand, with some upward adjustments on the most sought-after high streets. Levels remained stable in the more secondary markets in Paris and the regions, as well as for large and medium-sized units for which there is less demand. Retailers are keeping a close eye on their effort rates, which are heavily dependent on indexation and inflation.

Avenue des **Champs-Elysées**: 3rd busiest European high street (+15% over the last 12 months)
(Mytraffic/Cushman & Wakefield report)

Source: Cushman & Wakefield, FACT/MyTraffic

PRIME RENTS

Market	Prime rent (€/sq m/ZA)*	Recent trend
Avenue des Champs-Elysées	15,500	▶
Rue de Rivoli	3,300	▶
Boulevard St Germain	4,700	▲
Rue St. Honoré	13,500	▶
Rue des Francs-Bourgeois	6,200	▲
Rue de la République Lyon	2,500	▶
Rue St Ferreol Marseille	1,300	▶
Rue St Catherine 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.

Luxury retail

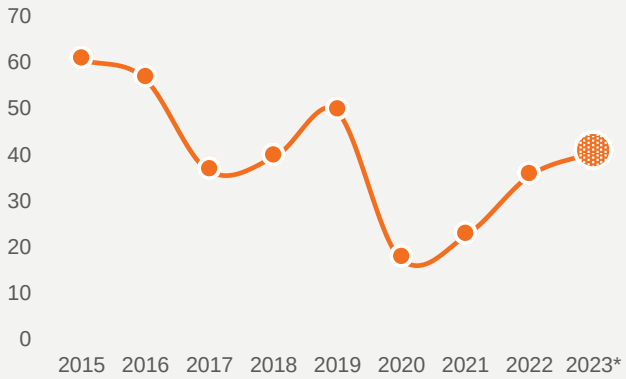
At a crossroads

The uptick in activity seen in the luxury retail market in 2022 is set to continue into 2023 with around forty openings identified at the end of June (36 in 2022), thanks to the record number of new transactions completed in recent months; this is in line with the 10-year average. It is likely that the 2024 Olympic Games will prompt an acceleration in the rate of transactions and opening schedules between now and the end of 2023, driven by the constraints associated with the forthcoming Games, particularly in terms of the completion of works.

Avenue Montaigne and Rue Saint-Honoré will remain at the heart of the Paris luxury market in 2023. Transactions are set to continue on Avenue Montaigne over the coming months with the recent opening of VALENTINO's new flagship store, and the renovation/extension of BOTTEGA VENETA and LOEWE. No significant openings are planned for Rue Saint-Honoré over the short term, but a number of deadlines and flagship store openings should be seen from the end of 2024.

In addition to rental transactions, some luxury groups have been very actively buying premises. This trend, which has been seen for several years, is being driven by major retailers seeking to consolidate their position in the market by gaining control of their assets, whether these be production, administration or distribution premises. In recent months, luxury brands have invested several billion euros in acquiring premises on the most iconic high streets, including Avenue Montaigne, Avenue des Champs-Elysées and Rue Saint-Honoré, where rental activity is already buoyant.

LUXURY STORE OPENING FORECASTS - NEXT 6 MONTHS



EUROPEAN HIGH STREET RANKING (average premium rent)

Rank 2022	City	Street	YOY change
1	Milan	Via Montenapoleone	+7.1%
2	London	New Bond Street	-7.0%
3	Rome	Via Condotti	0.0%
4	**Paris**	**Av. des Champs-Elysées**	**-4.3%**
5	**Paris**	**Rue St Honoré**	**0.0%**
6	**Paris**	**Avenue Montaigne**	**+3.2%**
7	Zurich	Bahnhofstrasse	-1.1%
8	**Paris**	**Rue du Fbg St Honoré**	**-5.7%**
9	**Paris**	**Pl. Vendôme/Rue de la Paix**	**-13.9%**
10	Rome	Piazza di Spagna	0.0%

Source: Cushman & Wakefield – Main Streets Across the World 2,022

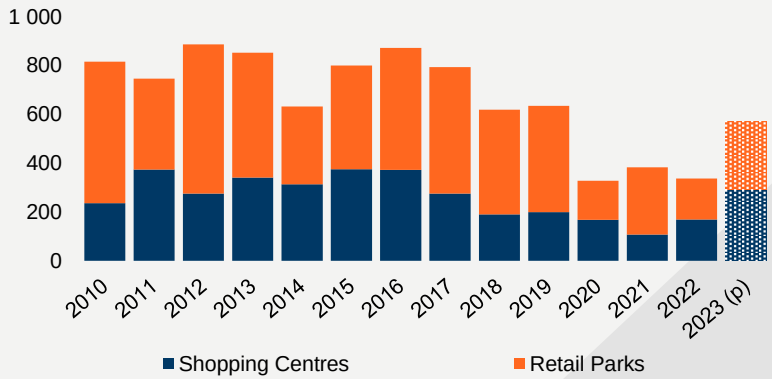
Shopping centres and out-of-town retail

Change of pace

With the combined effect of recent crises (Covid-19, the war in Ukraine, inflationary pressures) and a clear political will to curb retail expansion on the outskirts of towns, the rate of growth in shopping centre and retail park stock has halved since 2020. Also suffering from operational delays (labour, supply and financing difficulties), many projects are being postponed year after year, leaving a pipeline of almost 600,000 sq m to be opened in 2023. However, given the average historic completion rate of around 45% and with less than 50,000 sq m in completions for these 2 asset types (evenly split between shopping centres and retail parks) by the end of June, all of this space is unlikely to be completed in 2023.

The introduction of the zero land-take policy (ZAN) and the moratorium on new retail development means that existing sites need to be renovated through extensions or refurbishments, rather than developing new sites from scratch. Of all the shopping centre and retail park openings scheduled for 2023, less than half will involve the creation of new floorspace, with a much lower proportion for shopping centres (23%) than retail parks (62%), as the stock of this asset type is more recent. In addition, new retail developments sometimes encounter local resistance that can call into question or delay development; this applies to the planned 45,000 sq m "ZAC Innovation" shopping centre in Ferney Voltaire, due to open in 2023, which opponents consider to be oversized. Given this climate, developers are adapting to new urban planning constraints by creating hybrid centres where the reduction of purely retail space allows for the inclusion of complementary activities such as services, leisure facilities, residential or office space. This new situation is gradually changing the face of out-of-town retail centres, and is blurring the boundaries between different asset types.

OPENINGS OF SHOPPING CENTRES AND OUT-OF-TOWN RETAIL PARKS (sq m thousands)



BREAKDOWN OF PLANNED OPENINGS IN 2023 BY TYPE (in thousands of sq m)

Source: Cushman & Wakefield

Shopping centres and out-of-town retail

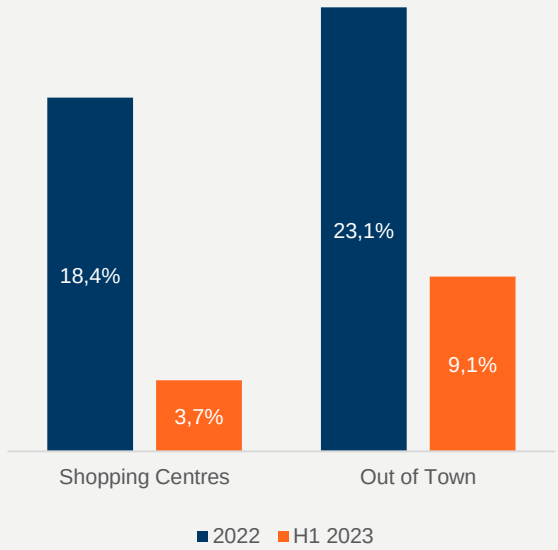
Inflation reflected in rental values

Despite a slowdown at the end of H1, the footfall figures published by FACT showed a positive trend for the last 6 months, both for shopping centres (up 3.7% on a cumulative basis in 2023) and for out-of-town retail (up 9.1%, including retail parks). After a spectacular uptick in footfall in 2022 (+23.1%), retail parks continue to benefit from their outdoor layout, easy access and parking.

Vacancy figures for out-of-town assets appear to be holding at a relatively low level for both asset types. The tenant mix in shopping centres is diversifying with the arrival of new players such as health centres and the development of a range of sports and leisure brands, with a variety of concepts that can also be adapted to out-of-town retail parks.

Apart from the impact of price rises on retailer sales (a cumulative +5.2% by the end of May for shopping centres, according to FACT), the surge in inflation is driving lease renewals and new leases that are more or less in line with index-linked rents (ILC at +6.69 in Q1, capped at +3.5% for SMEs), alongside existing levels of incentives. This trend has pushed effort rates up to relatively high levels, particularly for those sectors most affected by reduced purchasing power and sales (personal and household goods).

CHANGE IN FOOTFALL FOR OUT-OF-TOWN RETAIL



Source: Cushman & Wakefield, FACT/Quantaflow

PRIME OUT-OF-TOWN RENTS (in sq m)

Market	Prime rent (€/sq m)
SHOPPING CENTRES*	▲
Super-regional centres	2,200
Regional centres	1,150
Large centres	825
Small centres	525
Retail parks	▲
Sheds	260
New-generation retail parks	470

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

Investment market

Disappointing Q2 following an exceptional start to the year

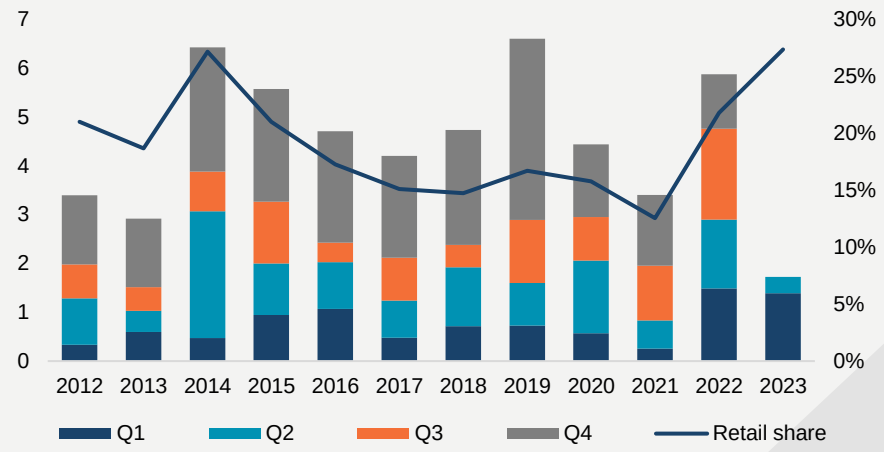
With just over €330 million over Q2, the investment market has set new records with the lowest amount invested for the H1 period and the lowest quarterly volume since 2012. Thanks to the investments seen over Q1, H1 performed well with a total of over €1.7 billion. This performance is slightly below the 5- year average (-7%) but well below that seen in 2022 (-40%), which was an exceptional year with €2.9 billion invested in retail by the end of June. Against a backdrop of a general slowdown, and despite the contraction in volumes seen in Q2, the retail segment is holding its own with a solid market share of 27%; this is significantly higher than both the 5- and 10-year averages (16% and 18% respectively).

Only one transaction was recorded in the large transactions segment (> €100m) this quarter: AEW's acquisition of Passy Plaza shopping centre in Paris from GENERALI. This transaction accounted for over a third of the Q2 investment volume and took the overall number of transactions in this segment to 4 over the H1 period (10 over H1 2022), a performance fully in line with the 10-year average. The remainder of the transactions recorded over Q2 were for lot sizes <€20m, which are more liquid and easier to finance at a time when credit is becoming more scarce.

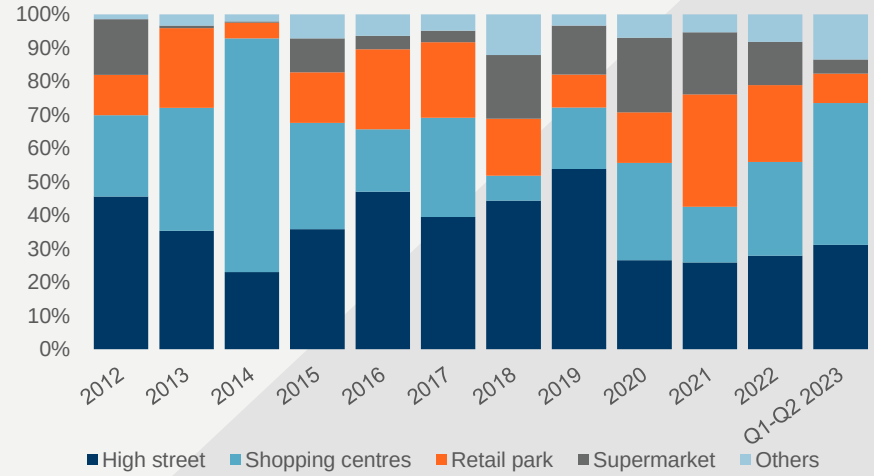
Accounting for almost ¾ of the total H1 investment volume, shopping centres and high streets clearly dominated the market; this was largely due to 2 major acquisitions over Q1 (the "Italie 2" shopping centre and the VALENTINO boutique at 35 Avenue Montaigne). In light of the transactions currently underway, 2023 could end on the same note with retail in a strong position in a very slow market for commercial real estate investment.

The reduction in transactional activity seen in recent months draws a line under the post-Covid boost seen in the market until Q1 2023. This change in pace is a delayed sign of market paralysis associated with the impact of soaring inflation and tighter financing conditions from spring 2022. As for prime yields, levels remained stable over Q2 at 3.75% for high streets, 4.75% for shopping centres and 5% for retail parks. With no easing in financial tensions expected over the short term, yields should resume their gradual rise between now and the end of the year, returning to the levels seen before the sub-prime crisis in the late 2000s.

RETAIL INVESTMENT VOLUME, € billions



INVESTMENT VOLUME BY ASSET TYPE, €bn



Source: Cushman & Wakefield

MAIN RETAIL INVESTMENT TRANSACTIONS IN 2023

Deal	Type	Vendor	Purchaser
Italie 2 + Italik	Shopping centre	AXA/HAMMERSON	INGKA
35 Avenue Montaigne (retail unit)	High streets	FONCIERE DU TRIANGLE D'OR	KERING
Marqus portfolio	Outlet Centres	CNP ASSURANCES (VIA AEW EUROPE)	MATA CAPITAL
Passy Plaza shopping centre	Shopping centre	GENERALI	AEW
62 Avenue des Champs-Elysées	High streets	PRIVES	FINAMAS
11 Boulevard de Grenelle	High streets	CAISSE ALLOCATION VIEILLESS INGENIEURS	CLUBFUNDING GROUP / BLACK SWAN REAL ESTATE CAPITAL
Ile Roche Sallanches Retail Park	Retail park	GROUPE V&P IMMOBILIER	ACCIMMO PIERRE

Définitions

Co-tenancy clause : specific clause in commercial leases that allows tenants of a shopping center to obtain financial compensation in the form of rent reduction, in the case that some identified flagship stores leave the center, generating a possible loss of traffic.

Factory Outlet centre: originally a store adjacent to the factory selling at discounted prices, end-of-series products, past collections or over-storage products.

The name “Factory Outlet” has been precisely defined by the Article L310-4 of French Code du Commerce: « the name of Factory Outlet may be used only by producers selling directly to the public the part of their production which has not been sold in the distribution channel or which has been sent back to producer. This direct sales relate exclusively to the productions of the previous season, thus justifying a sale at a lower price ».

Specialist shopping centres tend to forgot the factory outlet name in favour of designer outlet centre or outlet village, a retail definition that has no legal standing, thereby assimilating the latter into traditional retail.

Floor area : replace the SHON since March 2012. Sum of closed and covered floor areas with a ceiling height above 1.80 meters. It is calculated from the interior part of the facades.

GLA: Total space leased to shopkeepers including the whole of the space (sales + storeroom) with no deduction for shafts or pillars and calculated from measured from the centre of joint partitions to outside wall surfaces (Usage for shopping centres).

Large shopping centres: Shopping centres with a GLA over 20,000 sq. m and/or at least 40 shops and services.

Out-of-town retail: Group of stores sited in suburban locations. These may be shopping centres, themed centres, retail parks, specialised stand-alone medium spaces or medium-sized food stores. Out-of-town retail competes with city-centre retail.

Prime yield: Expressed in %, a ratio of rents exclusive of charges and the AEM acquisition price of the asset (New or refurbished building, on long lease terms). The lowest level of profitability seen over a given period, after eliminating abnormal values (less than two occurrences).

Regional shopping centres: Shopping centres with a GLA over 40,000 sq. m and/or at least 80 shops and services.

Retail park: An open-air grouping of retail units that were built and are managed as a whole. A park is over 3,000 sq. m SHON (built area) and consists of a minimum of five rental units.

Shopping centre: Defined as a grouping of at least 20 shops and services with a minimum GLA of 5,000 sq. m, conceived, built and managed as one entity.

Small shopping centres: Shopping centres with a GLA of over 5,000 sq m and/or at least 20 shops and services.

Super-regional shopping centres: Shopping centres with a GLA over 80,000 sq. m and/or at least 150 shops and services.

ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in approximately 400 offices and 60 countries. In 2022, the firm reported revenue of $10.1 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), Environmental, Social and Governance (ESG) and more.

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LIFE IS WHAT WE MAKE IT

CUSHMAN & WAKEFIELD RESEARCH
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