Knight Frank

PARIS VISION

Retail

Gotan Eterno

♫ 2018 ♫

EDITO

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Dear friends,

I am pleased to present *Paris Vision 2018*.

This is a very special edition since we are celebrating the 10th anniversary of the publication, which was first produced in 2008 in a quite different market environment – in fact, almost another era.

The original aim was simple: to produce a different kind of study, a vibrant report that reflected the real experiences of the Knight Frank teams, as well as of our clients, who each year have been keen to share their vision with us and to tell us more about their strategy. I would like to sincerely thank them all.

The second aim of *Paris Vision* was to provide a forward-looking analysis over the long term. This has not always been easy in the last decade, particularly as the global economy faltered in the wake of the 2008 financial crisis, followed by the Eurozone crisis. At that time, uncertainty and a lack of visibility were at their peak, yet what stands out above all is the resilience and depth of the Paris region market.

Ten years on, in a new era, *Paris Vision 2018* describes a corporate real-estate market boasting excellent results and exceptional strength.

In 2017 the investment market recorded its second-best year ever. This performance was boosted by the proliferation of large transactions, the domination of French investors and record property investment inflows. The Chairman of Swiss Life REIM (France) and ASPIM[1], Frédéric Bôl, one of the key commentators in *Paris Vision 2018*, gives us some clues to understanding the coming months.

As the digital economy grows, stores have an important role to play in web business models. The retail market is benefiting from a sharp upturn in consumer confidence, the return of tourists and the arrival in France of new foreign retailers. One of the most dynamic of these is Five Guys, operating in the very buoyant restaurant sector. In this issue, its Development Director, Philippe Cebral, sets out the real-estate strategy adopted by the new king of burgers and its ambitions for the coming years.

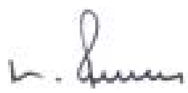
The office rental market in the Paris region is also buoyant, with take-up at its highest level since 2007 and particularly intense activity in the large-transactions segment. The acceleration in economic activity has no doubt played a role. French growth is now in line with the European average, the business world has regained confidence and Paris has been chosen to host the Olympic Games in 2024 against the backdrop of completion of the Grand Paris Express. This "French moment" is examined by Daniel Cohen in greater depth at the start of this new issue of *Paris Vision*.

Finally, never has corporate real estate experienced such transformation, as investors, developers and occupiers constantly innovate to create working spaces tailored to new habits. The development of Spaces is an excellent illustration of this and, in a third section of the report, Paulo Dias, the CEO of Southern Europe, Africa and Brazil at Regus, sets out the vision of this pioneer in coworking spaces.

We are without doubt seeing a French moment and certainly a new era – which looks set to be an exciting one for corporate real estate.

I would like to take the opportunity of this 10th anniversary to thank you for your confidence and loyalty, in the hope that *Paris Vision 2018* will help you to make your plans a reality, this year and beyond.

I hope you enjoy reading this issue.



[1] Association des Sociétés de Placement Immobilier (French Association of Real Estate Investment Companies).

OPINION

DANIEL COHEN

Professor and Director of the Economics Department of the École normale supérieure de Paris
Founding member of the École d'Économie de Paris
Director of CEPREMAP (Centre pour la recherche Économique et des Applications).

Philippe Perello: Dear Daniel, you've worked with us for 10 great years on Paris Vision, enlightening us on the general economic climate. Last year, for the first time, your analyses of the French economy were cautiously optimistic. I imagine that this optimism is now confirmed, with the pace of the French economy now aligned with that of the other OECD countries?

Daniel Cohen: Confidence is certainly high and we can now say that the decade lost as a result of the financial crisis is coming to an end. All indicators are good, and in all countries, which is rare. The OECD is forecasting global growth of 4%, growth in global trade of 5% and Eurozone growth of almost 2%. The latest indicators from Insee show that France is also predicted to comfortably achieve growth of around 2%, for 2018. Investment by companies and households is robust and employment and salaries are picking up. There may be a slight slowdown in the growth of consumer purchasing power in France in the first half of the year, due in part to the short-term increase in inflation and partly as a result of taxation, but this shouldn't have a long-term impact. I am therefore optimistic for 2018, as are most observers.

THE DECISION TO AWARD THE 2024 OLYMPIC GAMES TO PARIS ALSO REFLECTS FRANCE'S ASCENDANCE TO THE INTERNATIONAL STAGE

PP: Without wishing to give way to excessive optimism, aren't we experiencing a "French moment", as our country gains special influence and appeal due to the current geopolitical context? The organisation of the Olympic Games in 2024 is part of this movement. Do you expect a significant impact from the Games on investment in the city or its appeal?

DC: France is undoubtedly finding its feet on the international stage. After an annus horribilis in 2016, during which Brexit and Trump's election appeared to indicate an unstoppable rise in populism around the world, the election of Macron, on an explicitly pro-European ticket, elicited surprise. Many factors obviously came together to make his election possible, particularly the collapse of the traditional parties, but he successfully seized the opportunity, and there have also been comments showing admiration for his personal achievements in the international press. Macron may embody the new face of a more ambitious Europe, although at the end of the day, everything will depend on the quality of the Franco-German relationship. The good news is that Germany's grand coalition, if confirmed, gives him a fantastic opportunity to advance his European agenda.

The decision to award the 2024 Olympic Games to Paris also reflects France's ascendance to the international stage... What is most interesting is that the Games will come at the same time as the expected completion of the Grand Paris projects. Paris and its suburbs may emerge totally reinvented from this dual stimulus.

PP: In your opinion, what are the main challenges our country must tackle to support vigorous and sustainable growth? Do you think that the reforms that have been implemented or announced are heading in the right direction?

DC: All developed countries have faced the same dilemma in the last 30 years – how to revive their economies' structural growth. We have entered an upswing in the cycle, which will unblock all sorts of initiatives. For French growth to be sustainable, it needs to be inclusive, which means that young people looking for their first job and a career, the long-term unemployed and those who have lost out to new technologies must benefit from this upswing to become firmly rooted in economic life. It's not just about finding a job, but about contributing to overall economic productivity, improving quality, making the best use of new technologies to include as many people as possible in the growth cycle. The government is backing radical reform of vocational training, which is indeed vital, but universities and career paths need to be completely overhauled if we want France to fully embrace the 21st century digital economy.

PP: Brexit, which has entered the second phase of negotiations, appears more as an opportunity for Europe to reinvent and strengthen itself. Do you agree? What impact do you think it will have on the French economy? We are seeing the first effects of Brexit on our corporate real-estate markets with the announcement of relocations to Paris, which appear to me to show Paris clearly becoming more appealing to large international companies, compared with other global cities. What do you think are the levers to continue along this path and take advantage of this success?

DC: Overall, I found that Europe's reaction to Brexit was weak. No momentous idea has yet emerged, apart from a promise to do better. From an institutional perspective, everyone knows what they need to do: complete the banking union, overhaul the European Stability Mechanism and, as proposed by President Macron, give the Eurozone its own budget, approved by a parliamentary vote in which only Eurozone MEPs are eligible to take part. But, if we look in greater detail, we see that everything is very complex. Will the ESM be reformed according to the German idea of, in practice, strengthening its inter-governmental dimension? Will the budget be a minor gadget or will it actually have macroeconomic importance, capable of withstanding crises as severe as the one we have just been through?

In terms of the City's role, it will obviously be reduced after Brexit. But I don't think that one city in particular will take over the leadership it held. Frankfurt is in a good position, but Paris, Dublin and even New York will also benefit, while London will also long continue to host part of the global financial activity.

PP: Since spring 2016, the Haut Conseil de Stabilité Financière (HCSF - High Council for Financial Stability) has issued several warnings about the level of prices for commercial property. From our perspective the market fundamentals remain healthy, with controlled supply and a positive trend in demand from both occupiers and investors. What is your analysis in this respect?

DC: Real estate in general, and commercial property in particular, remains very dependent on the question of future interest rate movements. For several years, as a result of the crisis and incredibly weak inflation, we have benefited from a very loose economic policy in both the United States and Europe. Mario Draghi will hand over to a new head of the ECB in 2019. If a moderate successor is appointed, like Mr Powell in the United States, I think we can avoid major disruption to asset values. One parameter I think it is vital to monitor – which could prove a fly in the ointment – is movements in the euro. Europe has immense trade surpluses and, from the point of view of the rest of the world, the euro generally appears undervalued. Avoiding excess strengthening will be one of the ECB's (implicit but important) targets post-Draghi…

ETERNAL GOTAN

THE RETAIL MARKET

The tango may well be eternal. In any case, there is no better translation to describe the close-knit relationship between Paris and retail, relations between brands and consumers, the interplay between prime sites and all the rest.
Although little is known about the tango's origins, it was able to successfully transform itself and merge with other styles of music into forms dreamt up by musicians such as the Franco-Swiss-Argentine trio known as the Gotan Project[1] . Gotan means Tango but with the syllables reversed, according to a sort of Castilian equivalent of cockney rhyming slang. Success was immediate and the tango worked its way into our playlists, the cinema and television whenever it was necessary to invoke passion, attraction or a heated duel between two partners. For tango is a dance as much as a style of music. A dance for couples, in which each partner is dependent on the other, improvising steps which lead each of them in a spontaneous direction.

Life for Parisian retailers is indeed a tango – an eternal tango.

OVERVIEW OF 2017

- The improvement in the French economic climate and the strong recovery in tourist numbers visiting the Paris region are creating an environment which is now more favourable to retail activity.
- This backdrop makes Paris and its region a vital market, which has grabbed retailers' attention.
- Retailers' location strategy is undergoing profound changes which are transforming the retail sector in inner-city Paris and the rest of its region.
- While 2017 was a very active year, it did not stand out for record rents: the trend is towards stabilisation, with retailers demonstrating caution and greater selectivity.
- As a result of this selectivity, valuation differences are emerging within the same shopping street, including occasional falls in rent.
- The outlook looks positive for 2018, heralding strong retail activity.

[1] The titles in this section are taken from albums and tracks by the Gotan Project

TRENDS

Tango 3.0

How was 2017 for retailers in the Paris region? The hint of a breeze. That's the impression that emerges from a comparison with 2016, impacted by the repercussions of the terrorist attacks suffered by France. Impacts which gradually faded, providing a less volatile environment for retailers.

For no pauses last long in the tango, they are often simply precursors to new movements…

#01 - CUSTOMERS

Strength to love

The strength to love: Gotan Project borrowed this title from Martin Luther King's most famous book for one of their tracks. A title which explains the situation well. Stronger than shock, stronger than fear, the strength to love Paris and to love in Paris won the day. It took just a few months to restore the population's determination and reassert the city's indomitable appeal.

DOMESTIC CUSTOMERS

The long-term recovery in household consumption, which began in 2015, was confirmed in 2017. The movement remains moderate and subject to significant monthly fluctuations, partly dependent on the weather. It has also been limited by the modest rise in inflation[1], mainly tied to energy prices, and the increase in the rate of household savings. However, the recovery is now irrefutable.

> Contradicting stories of "deconsumerism", household spending is up, having increased by an average of €620m a month since the start of 2015.

For the period from January to November 2017, monthly French household spending on goods stood at €44.5 billion, having increased by an average of €620m a month since the start of 2015. Consumers have decisively shaken off their lethargy, after a long winter, lasting almost seven years, which saw an unprecedented stagnation in levels of spending between 2008 and 2014. There is still some way to go to achieve pre-crisis levels. Spending increased by an average of almost €1bn a month for the decade from 1998/2007, but the current recovery contradicts stories of "deconsumerism" and of a paradigm shift in the consumer or well-being economy

These figures refer to the country as a whole. It is therefore very likely that developments are slightly more favourable in Paris and its surrounding region, which has a younger population and higher spending power than the average for France. The Paris region accounts for 2% of the country's surface area but 19% of the population and 30% of gross domestic product (GDP)[2]. Although Parisians are bigger users of the internet and e-commerce, the latest CROCIS indicator of Parisian business leaders' attitudes to the economic climate shows a surge of optimism in the retail sector[3].

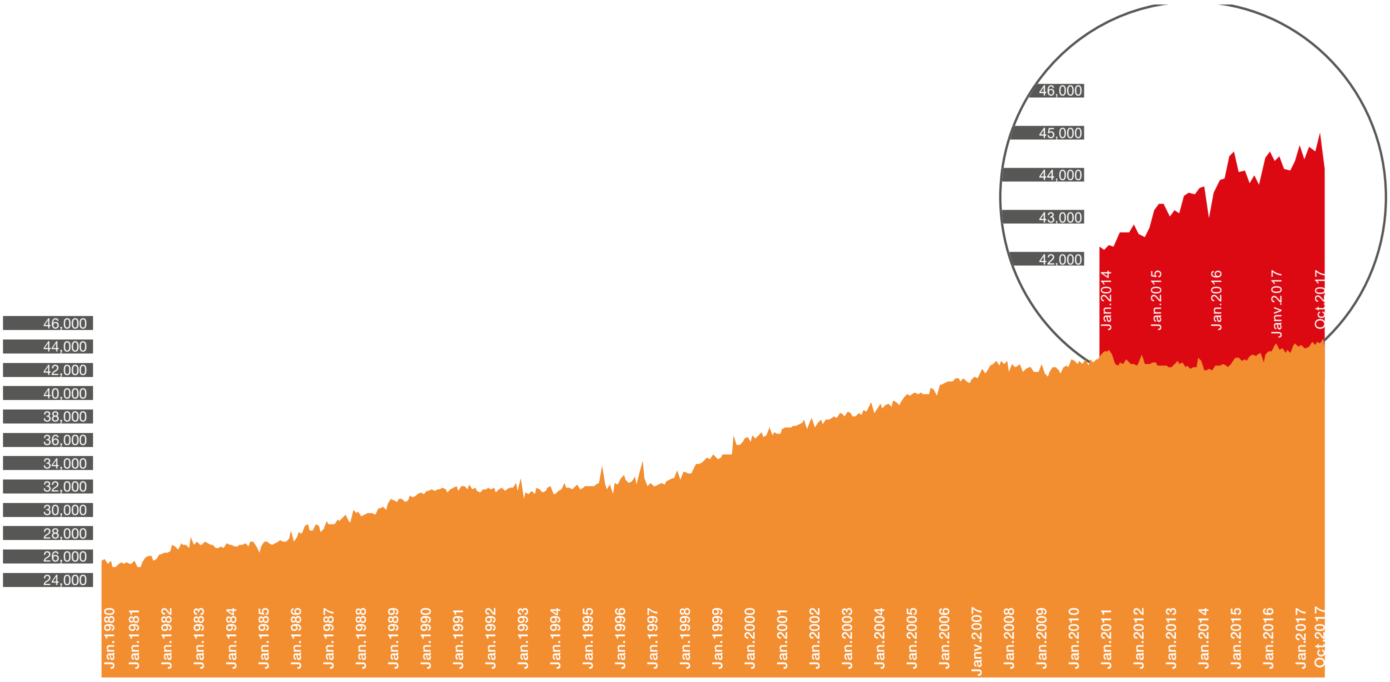
So while the climate may not be breath-taking, it is once again promising for retailers. This is a welcome change in itself. It shouldn't, however, obscure the new state of play currently emerging: there are significant disparities in growth between the various business sectors.

[1] In November 2017, the consumer price index rose 1.2% in France, against 0.5% a year earlier (source: INSEE).

[2] CCI Paris Ile-de-France, IAU and INSEE, key figures for the Paris region in 2017.

[3] CROCIS, CCI Paris Ile-de-France, L'Opinion des Chefs d'Entreprise Franciliens sur la Conjoncture, October 2017.

Monthly household consumption (Chain-linked volumes in €bn / reference year 2010 – Data adjusted for seasonal and working-day variations) - Source: INSEE



In 2017 alone, results were positive for the perfumery and personal hygiene sector and, for the first time in nearly 10 years, for the clothing and textiles sector. It has begun to recover despite fierce competition from e-commerce, unpredictable weather and downward pressure on prices as a result of consumer choices. The same is true of furniture, with a strong performance by some of its sub-sectors pushing up overall results.

Some of these movements are contrary to the medium-term trends observed, reflecting varying degrees of success depending on players and some isolated downturns. Or at least sectors in which competition between specialist retailers is likely to become fiercer due to a lack of global growth. A sector in crisis can therefore generate considerable activity in terms of stores, with the emergence of new concepts, repositioning by existing brands and downsizing by other players. In the last five years, in addition to the clothing and furniture sectors mentioned above, the magazine, stationery, book publishing and footwear sectors have begun to restructure.

Conversely, clear progress has been made in the household appliance, consumer electronics, pharmaceuticals, automotive and bicycle and motorcycle sectors. These movements reflect the new appeal among French consumers of equipment linked to the use of digital in their everyday lives, and of travel and health[4] .

The coming months will reveal whether the trends seen in 2017 represent a new state of play or were just fleeting. The outlook is far from certain as we enter 2018.

TOURISTS

They came, they're all here. Or nearly. Having fallen sharply in 2016, Paris visitor numbers are back to strength, demonstrating the French capital's appeal as a tourist destination. Results for 2017, which have yet to be confirmed, indicate an excellent year, undoubtedly one of the best ever for Paris and its region.

> Hotel arrivals were up by 10%, indicating an excellent year for tourism in 2017 — undoubtedly one of the best ever.

In the first 10 months of the year, 28.2 million hotel arrivals were recorded in the Paris region, up 10% compared with the previous year. The increase was particularly sharp for foreign tourists (+14.1%) but also applied to domestic visitors (+6.1%)[5] . The increase corresponds to a rise in tourist spending of €1.1bn (+€837m by foreign tourists and +€224m by French tourists) in the first half of 2017.

This is a boon for Parisian retail, since many retailers on the capital's major shopping streets report that 50% of their sales come from foreign customers.

Parisian department stores have long understood this and pamper that category of visitors. Galeries Lafayette, for example, whose popularity is assured by its reputation abroad, opened its Shopping & Welcome Center at 21 Boulevard Haussmann in March 2017. Galeries Lafayette has created a 4,200 sq m space for Chinese tourists on the former site of Surcouf and La Halle, redesigned by Ora-Ïto. All the goods most popular with Chinese tourists – leather goods, jewellery, luxury pens, sunglasses, beauty and parapharmaceuticals, delicatessen and kitchen accessories – are available

[4] Banque de France, monthly business survey, 15 November 2017.

[5] INSEE, DGT, Paris Regional Tourism Committee, Preliminary Tourist Activity Report for 2017 (results from January to October).

Tourism activity in the Paris region from January to August 2017

Top 10 international customers in Greater Paris (by number of hotel arrivals, compared with the same period in 2016)

Source: Paris Convention and Tourism Bureau, key figures from the Parisian tourism economic observatory, December 2017

Country	Share	Change in number of hotel arrivals
United States	18.4%	↗ +18.6%
United Kingdom	9.5%	↘ -3.1%
Germany	6.6%	↗ +22.7%
China	5.6%	↗ +20.7%
Spain	5.0%	↗ +12.3%
Italy	4.1%	↗ +7%
Belgium	3.5%	↗ +14.4%
Japan	3.2%	↗ +40.1%
Netherlands	2.8%	↗ +16.6%
Switzerland	2.6%	↗ +15.5%

duty-free, with Asian sales staff and signs in Mandarin.

This seduction campaign is understandable considering that the Chinese alone account for 25% of Galeries Lafayette's sales, with an average spend of €1,400[6].

BHV Marais, which is less advanced in terms of internationalisation, has stepped up its efforts and made solid progress among foreign visitors, who now account for 18% of sales, up from just 6% in 2013. BHV aims to increase this share to 35% by 2020.

The increase in hotel arrivals recorded in 2017 benefited inner-city Paris (+11.3%) as well as the inner rim (12.3%). This is no doubt down to the increase in tourists from Asia and particularly China (+20.7%). These visitors, from the well-off middle class, prefer to cut costs by choosing three-star hotels slightly away from the centre in order to treat themselves shopping and be able to take home articles reflecting their idea of Paris (luxury, art of living, romanticism and heritage) and their own upward social mobility.

The Japanese, another group of Asian customers particularly keen on products “made in French”, made a return to Paris in 2017. Although their numbers are down over the long term (10 years), their hotel arrivals increased by 40.1% for the first 10 months of the year.

[6] *Le Parisien*, 23 March 2017.

Asia is not alone in contributing to the sharp rise in Parisian tourist activity in 2017. Americans, Germans and Spanish visitors also played their part, not to mention Russians, whose numbers increased by 60%. In fact, only Britiish visitor numbers fell, due to the weak pound.

The global reputation of “Paris” as a destination is certainly increasing in countries with high or fast-growing spending power. Over a 10-year period, the most spectacular increases can be attributed to China (+225%), the Middle East (+158%) and the United States (+43%)[7].

> Customers like the fact that stores are open on Sundays, which became widespread in 2017, with initial estimates predicting an increase in turnover of around 10%.

[7] Paris Regional Tourism Committee, Tourist Activity Report, 2017: results for the first half of the year and the summer season.

Business tourism, another driving force for retail in the Paris region, is also increasing again with 1.2 million additional nights generated by business travel.

Tourism figures for the second half of 2017 have not yet been confirmed. However the forecasts appear promising, since on the basis of hotel reservations, 72% of professionals anticipate continued improvement in the medium term[8]. This statistic dates back to the summer of 2017, but appears to be confirmed by the 70% of professionals who reported being satisfied with their level of business in October[9].

The tourist clientele appreciates that Parisian stores are open on Sundays, which became widespread in 2017 within International Tourist Zones established by the Macron law and which cover all of the capital's main retail areas. All department stores have now signed agreements allowing them to open on Sundays. The same goes for some business sectors, including clothing, in which 22,000 sales outlets representing 120 retailers have been allowed to open on Sundays under the agreement.

Although it is still too early to judge the economic impact, initial assessments are encouraging. BHV Marais, the first Parisian department store to open on Sunday, announced a 10% increase in sales, with Sunday emerging as its second busiest day of the week. This performance is in line with that recorded by Le Bon Marché, which reported a 9% increase in sales[10].

This is all good news, but it only partially reflects tourism's contribution to the local economy and the renewed growth seen in 2017 since these figures do not include the alternative tourist accommodation offered by online platforms. The difficulty of quantifying the phenomenon presents a challenge for the administrative and tax authorities. From December 2017, the mandatory registration of owners offering accommodation via sites such as Airbnb and HomeAway should provide a clearer picture.

[8] Paris Regional Tourism Committee, ibid.

[9] Paris Regional Tourism Committee, Tourism Survey, October 2017.

[10] *Les Echos*, 8 November 2017.

For the time being, we can only work on a range of assumptions: Airbnb – which has named Paris the “top destination in the world for home sharing” – reports 600,000 arrivals in the Paris region for summer 2017, almost 120,000 more than the previous summer[11]. In total, the specialist site AirDNA estimated that there were 41,722 entire homes offered for private letting in inner-city Paris in June 2017. This represents a 127% increase compared with 2015[12]. INSEE estimates that entire homes let to tourists account for 2.5% of all Parisian real-estate – a proportion which rises sharply in the city centre, since in the first four arrondissements the share of homes that are vacant or with temporary occupancy (i.e. let via tourist accommodation platforms) is now estimated at 26% of all properties. That is certainly not a fleeting trend! Hence the incessant to-ing and fro-ing throughout Paris of wheeled suitcases and the necessary adaptation of the retail sector in the districts in question, since the needs of these transient customers are not the same as those of permanent residents.

[11] *Le Parisien*, 17 September 2017.

[12] *Le Monde,* 4 August 2017.

#02 - RETAIL BRANDS

Tu Misterio

Which direction will the Parisian tango head in next? Retail brands like to retain an air of mystery. For them it's a question of survival. While they continue to be drawn to the French capital's most famous streets and large out-of-town retail parks, their approach to them has changed, since consumer expectations change rapidly and staying put still risks their attention wandering elsewhere.

The mystery remains intact although a few trends can be identified. Let's try to decipher them…

CUSTOMER LOYALTY

«We need to reinvent ourselves, move on to the next stage»[1]. Questioned by *Le Monde* recently as part of a survey on trends in Parisian bistronomy, a young chef gave a frank summary of the challenges facing most retailers – and by no means limited to the catering sector. He went on to explain: "Yesterday's non-conformism has become today's conformism. We need to change before we're labelled (…) and become has-beens."

Surprise. Renew. The keys to success? There are several.

Partnerships between retailers are all the rage, allowing them to amalgamate their customer bases, expand their respective reach and share costs.

One involves setting up partnerships between retailers in different sectors to amalgamate their customer bases and expand their respective reach. They're enticed with the unexpected and invited to venture off the beaten track. And, as an added bonus, the financial cost of a shop can be split between the partners. One of the best examples of this collaborative strategy is the recent opening, on the Champs-Elysées, of a large L'Occitane en Provence store in partnership with Pierre Hermé Paris. In the midst of the beauty and well-being products, essential oils and ingredients from the south of France, the confectioner will undoubtedly want to offer his olive oil and vanilla or mandarin biscuits, along with other concoctions, some no doubt specially created for this outlet… Expect aromas, delicious treats and exclusivity!

L'Occitane and Pierre Hermé are not the only ones to be exploring these possibilities. On 26 June 2017, Máncora opened a ceviche pisco bar in the middle of Leclaireur on Rue Boissy d'Anglas. The menu includes fish marinated in leche de tigre, Peruvian carpaccios, piqueos and other traditional, ultra-fresh Latin American dishes. This taste of South America is yet another example of the constant game of seduction between retailers and with customers. The tango is never far away…

Pop-up stores are becoming far more common in many areas, from the Champs Elysées to the Marais, as part of promotional strategies as well as to test the markets.

Another way of keeping customers hungry for more and retaining their loyalty is to put on a show, particularly by opening pop-up stores. This is not a new trend (for example Uniqlo launched a pop-up store in the Marais in 2009), but it is gaining momentum and sometimes taking on spectacular dimensions. Established brands are embracing it, using it to refresh their existing ranges and test sectors before moving into them.

Chanel made a big impression in 2016 with the opening of its pop-up store in the Hôtel des Ambassadeurs de Hollande, in the heart of the Marais. It wasn't such an ephemeral pop-up, as it's still there today. Other big names followed its example in 2017, including Zenith in Place Vendôme and Kenzo, which launched its new line of unisex Kenzo Move sneakers with a pop-up store on the edge of the Haut Marais, at 16 Boulevard des Filles du Calvaire. This was also the case for games and toy maker La Grande Récré, which opened a pop-up on Rue de Rivoli and on the Champs-Elysées. Further down the Champs-Elysées, at 118, Etam and Undiz opened a joint pop-up store to test new formats which could become permanent. The trend has spread to the food & beverage segment, with supper clubs (pop-up restaurants) launched by trendy young itinerant chefs.

With a raft of interactive workshops, training courses, services and product personalisation options, retailers are rolling out a range of value-added services to form unprecedented links between the brand and its customers. Stores now offer events and opportunities to socialise. Leroy-Merlin and Levi's, in totally different sectors, are good examples. Inditex, meanwhile, is rolling out a service allowing web-users to collect online purchases in-store. This has the advantage of generating traffic in stores and encouraging additional purchases.

The movement goes further than this however. Winning customer loyalty involves identifying a brand or retailer with its target customers, the development of a bond and a sense of belonging. I am yours because I am like you, because I am you.
The opening of the Galeries Lafayette Shopping & Welcome Center, mentioned above, at 21 Boulevard Haussmann

[1] *Le Monde*, 8 December 2017.

is part of this ambition. It is about pampering a group of customers essential to the department store – Chinese tourists. To do this, a space has been designed specifically to cater to their needs, based on their identity and aspirations. A space which not only speaks to them, but also responds to them.

> Retailers are looking to form new bonds with customers as retail expands to include value-added services.

This dedicated duty-free outlet also enables Galeries Lafayette to kill two birds with one stone. Chinese tourists travel in groups and those groups were monopolising the dome of the main store and hindering the other customers.

This is a development that at first sight could appear paradoxical: increasingly, brands and retailers are creating different spaces, dedicated to separate customer groups and specific targets. In the time of globalisation, the customer loyalty strategy involves segmentation and specialisation. The paradox is only superficial – globalisation is not universally applicable.

CONTROLLING THE BRAND IMAGE

The trend was started several years ago by luxury brands, notably high-end watchmakers. It is now becoming more widespread and being adopted in new sectors. The trend in question is single-brand stores.

These are retail outlets opened by a manufacturer to offer their products directly to customers and sometimes used to offer exclusive products or products not yet commercially available. The stores are clearly designed as showcases to promote the brand's image and contribute to its commercial positioning or repositioning in a previously unoccupied niche. K-Way, for example, is in the process of transforming itself into a chic, trendy brand… Gone are the cheap nylon windcheaters you could roll up and clip at your waist!

These stores allow the brand to reach urban customers and tell the brand "story" without interference from the demands of the retailers that distribute them. It's no coincidence that the launch of brand stores is particularly popular in growth sectors and/or those in which a small number of distributors occupy a dominant position.

> Brand stores are allowing brands to reach urban customers, tell their story and manage their positioning.

For example, this is the case with sports equipment, in which significant power is held by Décathlon, whose strategy involves promoting its own-brand products. A large number of manufacturers in this sector are opening their own stores, from Asics to New Balance, as well as Fusalp, Rossignol and Vuarnet.

The cosmetics segment has also seen an increase in the number of own-brand outlets. This trend is still in full swing, since 2017 saw Marius Fabre and Nuxe take the plunge, along with L'Oréal.

This is also true of manufacturers of household appliances and electronic equipment. Apple has been a prime example for many years with its Apple Stores, followed by Orange. Vorwerk, Dyson, Samsung and Huawei have followed their lead to a lesser extent and opened their own stores.

They act as brand "embassies", helping to control the brand image. Control is essential to proactively meet customers and stay in touch with them.

RESTRUCTURING NETWORKS AND SALES OUTLETS

In an increasingly open, shifting and competitive retail sector, attracting and retaining customers, particularly in Paris, is an ongoing – and expensive – task. Some no longer feel able to justify the investment and risk involved. One example is the famous chef Pierre Jancou, who decided to move to the Drôme after 30 successful years in Paris, recently explaining: "I don't have much to say in Paris any more. I don't have anything original to contribute. Everything there has become (…) so cutting edge."[2] The same could be said by some retailers who decided to throw in the towel and leave the Paris market.

Several retailers, some present for a very long time, have chosen instead to downsize by closing outlets. Either because their situation requires cost-cutting, like the Vivarte group which hit the headlines in 2016 and 2017 or because some outlets are no longer deemed to correspond to the retailers' strategy. Such moves are not necessarily the result of financial difficulties, but may simply reflect a desire to consolidate and divert resources to more priority locations. Several retailers have sacrificed outlets in this way, sometimes even flagship stores, as in the case of Promod on the Champs-Elysées and Boulevard des Capucines and Lancel (Champs-Elysées).

Orange, meanwhile, has closed its store on Place de la Madeleine to relocate to Rue Halévy, a stone's throw from the Opéra, where it can admire its own reflection in Apple's flagship store.

These closures are not a disaster for retail in Paris and its region. In prime locations at least, they have not led to the levels of vacant retail space seen in some other French and foreign cities. Instead they are an opportunity for turnover and renewal of the retail sector, while no doubt heralding a rebalancing of relations between landlords and retailers.

Restructuring strategies are not restricted to store locations. They also affect the approach to designing the stores themselves. Locations and the stores themselves are therefore affected, although often inversely, with one consolidating while the other expands. "Less is more" is a phrase now returning to the retail sector. This is in line with the trends identified above. For a store

[2] *Le Monde,* 8 December 2017.

to be an embassy, it needs to be large and spectacular. Special attention is paid to its presentation, requiring significant investments. A visit to Louis Vuitton's new flagship store on the corner of Place Vendôme and Rue Saint-Honoré provides ample evidence of this. Chanel is sure to give it a run for its money when it opens its new store a few blocks from there between Rue Cambon, Rue Saint-Honoré and Rue Duphot.

This phenomenon also applies to existing stores, with some brands seizing market opportunities to expand their outlets. Dolce & Gabbana, for instance, has expanded its premises on Rue du Faubourg Saint-Honoré and will soon do the same on Avenue Montaigne, while Adidas has expanded its store on Avenue des Champs-Elysées.

You need to aim big, but you can't do that everywhere…

SUSTAINED INTERESTS IN STORES

These factors all help to explain why brands and retailers remain so interested in having physical stores. They are perceived as vital ingredients in retail success. This observation may be surprising at a time when the news is full of the rise of the digital economy and e-commerce.

Particularly since the overall performance of city-centre stores is not great in France. They are not the main beneficiaries of the slight recovery in French household consumption.

> As the digital economy grows, stores continue to be just as vital to commercial success.

Near-stable sales figures for small retailers[3] should not be misinterpreted however. Those figures, which apply to the country as a whole, primarily reflect the restructuring of networks of city-centre stores and their increased presence in some large cities, accompanied by a corresponding withdrawal of retailers which is increasingly afflicting small and medium-sized towns. The size of the cake remains the same, but it is shared between fewer guests. Procos and Codata recently released some interesting figures revealing the distinct nature of large cities, whose vacancy rate stood at 7% in 2017, compared with an average of 11.7% for France as a whole[4]. Although Paris was not included in the panel studied, it is a pretty safe bet that the capital is among the best performers.

In parallel, the performance of e-commerce is undeniably impressive. In 2017, it has increased 14.3% year-on-year in France[5] – a result which would make many companies green with envy. However, e-commerce's share continues to be small in France and in most countries around the world. In its latest "e-commerce Index" survey, Kantar Worldpanel estimated that e-commerce accounted for 5.5% of spending on mass consumer products

[3] According to INSEE's definition of small retailers ("*petit commerce*").

[4] *Le Monde*, 9 December 2017.

[5] Ice/Fevad.

in France in 2016, compared with 5.1% the previous year.

E-commerce grows and continues to offer further potential for improvement. But can this go on indefinitely? At the European level, the UK boasts a higher penetration rate than France, at 7.3%, while at a global level only South Korea achieves a much higher market share, at an impressive 19.7%. The prevailing model at the moment would therefore appear to be complementary development, rather than the end of physical stores. Could a new form of tango be about to emerge?

It's certainly possible given the decision by several e-tailers to take the plunge and open physical stores. Recent examples include Spartoo in Carré Sénart and Birchbox on Rue Montmartre, along with Sensee, which has opened corners in some FNAC stores. Feedback on e-commerce has shown that the model also has its limitations, as all the technical progress achieved still has not overcome one fundamental disadvantage – sensory deprivation. On the internet, it's impossible to touch products, to smell them, to see them as “in real life”. Neither is there the human interaction or advice offered by experienced salespeople. Consumers stand alone in the face of a deluge of products. They place their order… but then often return the product, generating logistical costs and increased management requirements for e-commerce specialists, which they are attempting to overcome by investing in stores which also serve as showrooms.

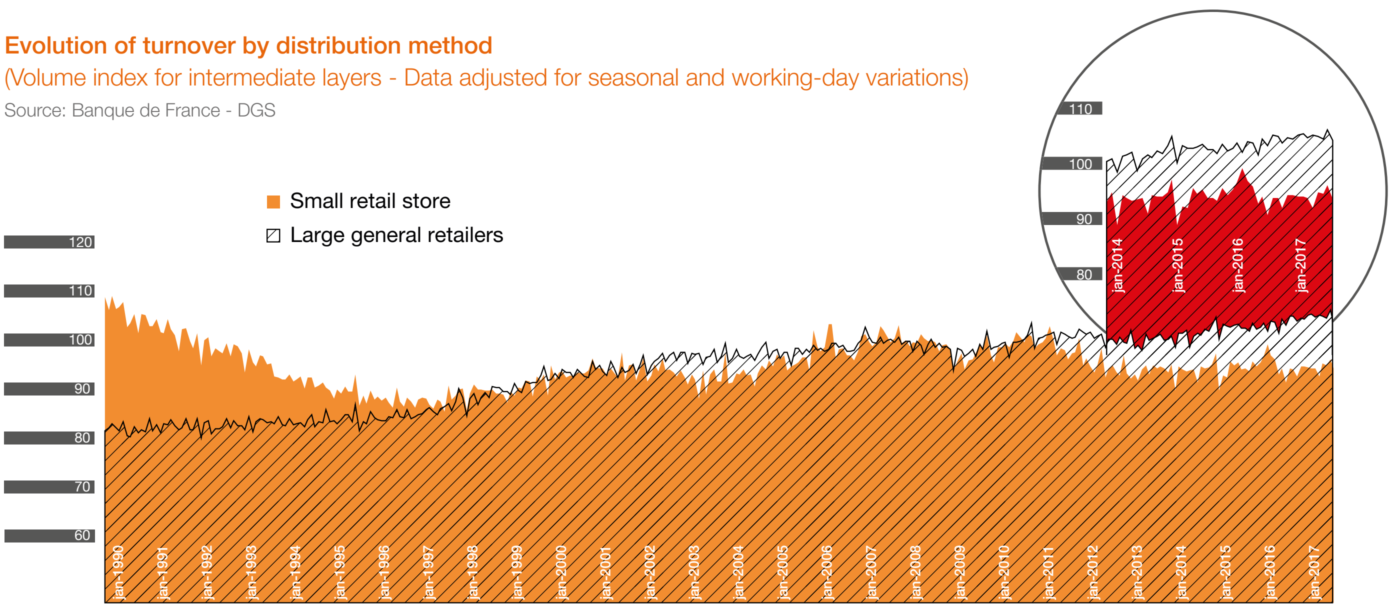
The e-commerce business model has its limitations and needs physical stores to address them.

This is an amusing reversal, as physical stores emerge as the key to success and efficiency, in parallel with, and complementary to, the internet.

Evolution of turnover by distribution method

(Volume index for intermediate layers - Data adjusted for seasonal and working-day variations)

Source: Banque de France - DGS



REACHING OUT TO CUSTOMERS

Meticulous management of a sales network does not necessarily mean a brand or retailer needs to withdraw into itself and specialise in a particular type of premises. On the contrary, it may mean proactively seeking out target customers, by setting up shop in the spaces they frequent – in all spaces – and so taking a risk by exploring new territories.

It is up to retailers to proactively seek out their target customers, wherever they may be, even if it means exploring new destinations.

That is the reason why we are seeing names previously associated with the high street now taking an interest in shopping centres, at least the busiest and most prestigious among them. For example, Beaugrenelle, Les Quatre Temps and Bercy Village have benefited from opening completely new stores, with the arrival of Ladurée, Balibaris, Armani Exchange, Bensimon and Scotch & Soda. The phenomenon is therefore impacting a very wide range of brands, although it is being particularly felt in the high-end segment.

Conversely, some retailers that have previously been almost exclusively located in shopping centres and retail parks are beginning to explore city centres and attempting to gain a foothold there. This is not a completely new phenomenon. It was started several years ago by Conforama and Leroy Merlin, but has now taken on a new dimension. Boulanger joined those two pioneers at the end of 2015 with the opening of a first store on Boulevard des Capucines. In 2017, it was Truffaut's turn to develop its new 1,500 sq m urban concept store in Boulogne-Billancourt, while Weldom has chosen 1,000 sq m opposite the renovated Secrétan market to test its first local store, combining DIY, hardware and services aimed at busy, non-practically minded Parisians. This trial has proved a success, since Weldom now aims to open 25 to 30 similar shops. Gifi – the home, interior design and gifts specialist – is also in on the act, having launched its bid for the city centre from a 990 sq m store on Rue d'Alésia.

The two trend-setters, Leroy Merlin and Conforama, are upping the stakes by opening stores on Boulevard Macdonald and Boulevard de Sébastopol, respectively.

Retail definitely has similarities with music…Their simplicity is only superficial. The counterpoint may be invisible, but it is often responsible for creating the most moving melodies and the greatest successes.


BIG IS BEAUTIFUL
TANGO
SHOW

FOCUS ON RETAIL COMPLEXES

Retail in the Paris region is not limited to high-street players and their locations. Shopping centres and retail parks also play a key role. This is particularly important to the sector as it allows retail to break out of the tight confines of central Paris.

Different dynamics are at work depending on whether we examine shopping centres or retail parks.

Shopping centres have been around longer, having first appeared in the universe of Paris region retail at the end of the 1960s. That universe is dominated by well-established giants drawing in customers from a vast catchment area and sucking in the light. All of the light. In professional jargon, they're called jumbos. The extreme dominance of these jumbos makes it more difficult for new shopping centres to emerge. It often takes a new name from three to five years to assert its commercial legitimacy and 10 to 12 years to become fully established. It is only then that maturity is reached, meaning that the backers of new projects need deep reserves of patience and to be prepared to make significant investments long before they reap the benefits. This time-scale is out of the reach of most retailers, increasing rotation and levels of vacancy in many shopping centres – particularly in smaller cities – which are still too young or too small to play in the grown-up playground. This produces a vicious circle making commercial failures more likely.

In recent times this has led shopping centres to turn to consolidation, modernisation and extension of existing jumbos, increasingly working with what is already there. Beaugrenelle and Les Halles have undergone particularly impressive transformations. Others soon chose to follow their lead and in 2017, Carré Sénart gained 30,000 sq m of extra space while Val d'Europe extended over 17,000 sq m. The more modest Parly 2 extension added 3,000 sq m, although that is only the first phase in a modernisation programme for the centre which was the largest in France when it opened in 1969, along with Cap 3000 in Nice.

The coming years are likely to confirm this movement. The next three years, for instance, will see the extension of Créteil Soleil and the redevelopment, as already mentioned, of SQY Ouest. These will be followed by phase 2 of the Parly 2 expansion (adding 7,600 sq m) and the renovation and extension of Vélizy 2 (adding 35,000 sq m of retail and leisure space). Italie 2, in Paris 13, will gain 7,000 sq m for Italik, a project resulting from the Réinventer Paris call for bids, which will combine culture, events and retail, led by Hammerson. This work on existing premises is not limited to the modernisation and extension of buildings, but also affects their interiors. It's a safe bet, for instance, that Unibail Rodamco will take advantage of its recent acquisition of Westfield to expand the portfolio of retailers present in its Paris region centres.

Retail parks, meanwhile, are a more recent phenomenon in the Paris region. There are fewer existing premises, making it more feasible to develop new spaces.

Defined as an open-air retail complex, including at least five rental units, the retail park concept has proved popular as it offers an alternative to the anarchic and highly criticised retail areas blighting the edge of cities and the urban sprawl they generate. In contrast, retail parks are coherent, consistent and carefully managed, making them more sustainable. They are also often attractively designed, with consideration given to their integration into the surrounding landscape.

Looking to the future, the big news in the Paris region will be the creation of several new-generation retail parks, including Aren'Park in Cergy (20,000 sq m), Open Sky in Plaisir (32,000 sq m), Eden in Brie-Comte-Robert (35,000 sq m) and Les Promenades de Brétigny in Brétigny-sur-Orge (46,000 sq m).

These retail parks, like the recently renovated shopping centres, aim to offer living spaces. They therefore allow plenty of room for restaurants and leisure activities (this will be the positioning of Aren'Park for example), promote creative concepts and attract retailers that have long been absent from these types of spaces. They are also gaining increasing control over rotation, which has now become something to be organised rather than avoided – an approach which is fundamentally not so different from what happens in city centres.

#03 - LOCATIONS

Club Secreto?

Is Paris a private club? You'd think so from the all-out offensive by luxury brands and large national and international retailers who are constantly jostling for the best sites on the capital's main shopping streets. The reality is not quite so cut and dried however. There is still room for newcomers, creative concepts and the younger generation.

These new names should also be grateful for the competition between the large groups. By encouraging them to fight over the prime locations, it has pushed up prices and led them to be increasingly selective. There is therefore an increasing distinction between prime and not-quite-prime locations. Not-quite-prime? This refers to sites which do not, or no longer, tick all the boxes for large retailers. This leads to a decline in demand and scarcer retail proposals. It may also push down values, providing opportunities to those who may not have had the resources to move to a Parisian street.

> There is no telling what would have become of Rue Saint-Honoré without Colette and the presence of these disruptive stores is being encouraged by big names.

The presence of these gently disruptive stores is also encouraged by the big names. They provide the touch of spice they need. For example, there is no telling what would have become of Rue Saint-Honoré without the presence of colette (no capital letter please). The announcement of the closure of this concept store, "due to retirement", which had become the epicentre of Parisian cool over the past 20 years, has also raised a number of questions. What is needed to continue to stand out from other established luxury stores? In any case, it is certainly important to maintain the fine balance which, thanks to the presence of colette and places such as the Hôtel Costes, draw in the wealthy, fashion-conscious millennials who account for a decisive share of luxury brands' sales figures. Several former colette employees are responding to this need by opening a concept store, Nous, a short distance away on Rue Cambon.

The Marais's current success can be seen in this light. As can questions over the shelf-life of its novelty value. BHV Marais, the district's top player, has fully grasped this and supports commercial creativity by encouraging the installation of concept stores.

> There are no main roads without smaller roads leading off them, generating their own ecosystem of not-quite-prime and secondary sites.

It is also important to remember that Paris is a village. This isn't Los Angeles, New York or even London. Distances are short and can be walked. Prime locations are therefore likely to generate their own ecosystem of not-quite-prime and secondary sites – there are no main roads without smaller roads leading off them. The situation we have touched on in previous editions of Paris Vision, concerning specialisation of space, is therefore becoming established. This means that the best locations are occupied by major brands and powerful retailers, particularly those involved in fashion and personal goods, while others are occupied by young creative concepts, "food & beverage" and local shops.

However, this specialisation cannot work without complementarity. Follow the big names and you will often find the others.

SAINT-HONORÉ/VENDÔME/ FAUBOURG SAINT-HONORÉ

Rue Saint-Honoré was undeniably one of the shining stars in Paris in 2017. The main event occurred on 4 October, with the opening at the corner of Place Vendôme of 1,700 sq m, on four floors, of Louis Vuitton's new temple. The façade, temporarily adorned with a gilded sculpture drawing inspiration from the Sun King, makes its message crystal clear – King Louis is also Louis Vuitton. Chanel will no doubt aim to rival it following the current restructuring of an entire city block, between Rue Cambon and Rue Duphot, which will house its new flagship, due to open in 2018.

After a complete makeover, Boucheron's historic store on Place Vendôme will also reopen.

Dior, not to be left out, has come to nip at the heels of Chanel on its home ground (with a pop-up which will be enlarged and made permanent) while Guerlain has moved a few metres, to reopen a modernised version of its century-old shop on Place Vendôme. Saint Laurent will wait a while, but will have the privilege and responsibility of taking over colette's 800 sq m.

In the wake of these illustrious names, less established names have raised the shutters of new store-fronts, including David Morris, Stella McCartney and Kate Spade. Zenith watches have set up shop on Place Vendôme in a pop-up created at number 23, in the former Louis Vuitton Joaillerie building.

Clergerie has confirmed its renaissance by moving into 326 Rue Saint-Honoré, just opposite colette. Next door, at 221, Christofle has opened a store designed to promote its products other than traditional silver cutlery.

Rue Saint-Honoré was one of the shining stars in 2017. The main event took place on 4 October, with the inauguration of Louis Vuitton's new temple.

New names are also establishing themselves, like the jeweller Goossens at number 416 Rue Saint-Honoré. But they usually manage to establish themselves in adjacent streets, as in the case of Elisabetta Franchi at Rue de Castiglione and Ole Lynggard at Rue du 29 Juillet. Neither is the “food & beverage” sector absent from the “Saint-Honoré ecosystem” since Maison Plisson has announced its intention of moving into 1,200 sq m on Place du Marché Saint-Honoré.

Demand is therefore very strong, more than on Rue du Faubourg Saint-Honoré, which suffers as a result of the security measures imposed due to the presence of the Elysée Palace, the British Embassy and the Interior Ministry. La Maison Moreau, the historic leather goods manufacturer, which had disappeared, has nevertheless opened a store at number 49, immediately next to the presidential palace. It was important for the niche brand to gain the benefit of the “luxury” image conferred by the address. But retail activity has now contracted to the area around the Hôtel Bristol for specialist retailers and to an area the size of a postage stamp between Rue Royale and Rue d’Anjou, around the emblematic Maison Hermès, for luxury brands. At number 3, for example, Dolce & Gabbana has expanded its location by taking over the former Paul Smith store.
Previously very strong, this street has, at least temporarily, been eclipsed by its little sister, Rue Saint-Honoré. Moschino and Paul Smith recognised this by moving to sites more in line with their commercial positioning.

MARAIS

The Marais is another successful district. Its success has been built up over the past 20 years on similar foundations to that of the Rue Saint-Honoré – a subtle blend of luxury and hipness.

The Marais has long been trendy, with stores from leading-edge brands and young designers. These have recently been joined by big names in luxury, including Gucci, Moncler and Fendi in 2015, followed by John Galliano and JM Weston, which are now all to be found on Rue des Archives. Meanwhile, Lancel and Chanel Beauté have opted for Rue des Francs-Bourgeois. Chanel has also opened a spectacular space on Rue Vieille-du-Temple, in what was intended as a pop-up, but is still there over a year later...

This would seem to indicate a groundswell under way. However, a closer examination of retail news in the Marais in 2017 reveals that luxury brands were not the most active. Although Royal Quartz Paris has announced its arrival, it is taking over from Valentino, which has handed back the keys to its store on Rue des Archives to BHV. Concept stores and innovative designers are still present, however, although their positioning is resolutely high-end. 14 Temple and BapeStore have moved into Rue du Temple and Rue de la Verrerie, in premises belonging to BHV. Rue du Roi de Sicile has meanwhile attracted Inventive Citi and Maxime Simoëns, the designer for Azzaro, who is launching MX Paris.

Retailers new to France have also been drawn in, including Tiger, Scalpers, Happy Socks and Ipanema, as well as much more recognisable names which boost the district's footfall, including K-Way, Petit Bateau and Nespresso.

A close examination of news in the Marais in 2017 reveals that luxury brands were not the most active. Concept stores and new retailers were very prominent however.

This activity reflects a high level of diversity, which is welcome considering that it's exactly why many of these names moved into the area. And a further boost will soon come with the opening of France's first Eataly, at a 4,000 sq m site on Rue Sainte-Croix-de-la-Bretonnerie, along with the future Galeries Lafayette Foundation.

CHAMPS-ÉLYSÉES

Avenue des Champs-Elysées did not experience its most impressive year in terms of openings in 2017. The largest projects are still to come however, with a total of 60,000 sq m to be redeveloped by 2022[1] and the conclusion of several transactions, many of them significant. These projects include the conversion of the former Gaumont cinema (at number 50), which will create 2,800 sq m of retail space, as well as development at number 123 to make 1,500 sq m of brand new space available. Not to mention the anticipated opening at number 52 – previously occupied by the Virgin Megastore – of the new 9,000 sq m Galeries Lafayette concept store in 2019, on the exact site where Théophile Bader, co-founder of Galeries Lafayette, had planned to build a department store, before being forced to abandon his plan following the 1929 crisis. The Champs-Elysées is worth waiting for and 90 years is sometimes what it takes for fate to play its hand.

By 2021, a new five-star hotel with around 100 beds and a roof-top swimming pool, will open at number 144-150, under the SO Sofitel brand. This is a sign of the "premiumisation" of the famous avenue, as noted by Jean-Noël Reinhardt, chairman of the Champs-Elysées Committee[2], which is sure to have repercussions in terms of its retail sector, since the location of luxury retailers is intimately linked to that of luxury hotels.

And the luxury segment has been present there for a long time, as have luxury hotels. The movement continues with the reopening of the Mont Blanc store next to the Etoile, the arrival of Dior Beauté in 2017 and the forthcoming arrival of Al-Jazeera Perfumes at number 97. Shoe company JM Weston has moved a few doors down, to take over a former bank, and has been replaced by Apple. Luxury luggage manufacturer Tumi, meanwhile, is preparing the opening of its second Parisian store, following its first one on Rue Saint-Honoré.

Luxury brands do not appear to have a monopoly on the Champs-Elysées, however. In the same building as SO Sofitel, MK2 will pick up the baton for the cinema segment, in which the Champs-Elysées has long held a strong position. Culture remains in the mix, as does cool and mass market retail. Following the expansion of the Adidas store, 10 years after its opening in 2006, to 3,700 sq m (the brand's largest in Europe), the arrival of Etam (with a 500 sq m pop-up in association with Undiz), Foot Locker (1,500 sq m) and Citadium (1,700 sq m) in 2017 confirm that the avenue is not the sole preserve of luxury stores.

Nevertheless, the Champs-Elysées is still undergoing what is undoubtedly one of the most profound transformations in its history.

PASSY

Unlike the Champs-Elysées, Rue de Passy had fallen into the habit of keeping a low profile, especially after the reopening of Beaugrenelle. This discretion is also part of its charm in the eyes of the area's regular clientele, who are generally from the very highest social-professional categories and live in Paris 16 or western Paris. The street is not classified as an International Tourist Zone and it is therefore not possible for stores to open every Sundays.

However, an exception was made to this obligatory discretion in 2017. The event was significant with the opening in November of the first Grande Epicerie store outside Le Bon Marché, at number 80 Rue de Passy. Over 2,600 sq m and three levels, customers can enjoy top-quality food and forget Franck & Fils, the "small department store" which had presided there since 1937.

In any case, it will certainly wake up the area's retail sector. In fact, 2017 saw numerous new arrivals on Rue de Passy, with lingerie brands Maison Lejaby and Women's Secret, cosmetics firms Rituals

[1] *Les Echos*, 25 October 2017.

[2] *Le Parisien*, 10 March 2017.

and Bobbi Brown, as well as Erborian ("Herbs of the Orient") which is inspired by Asian medicinal ingredients to create hybrid products, at the intersection between health and medicine. Naturalia, Uniqlo and Bialetti (the two latter ones in Passy Plaza) complete the roll call.

HAUSSMANN/OPÉRA/MADELEINE

For the Grands Boulevards and Opéra district, 2017 ended in line with the previous year. This traditionally powerful area for Parisian retail, which would normally make its presence felt more, has entered a transition phase. Opportunities to acquire large surface areas, which are rare in Paris, were created following trade-off decisions by several retailers, including Benetton (Boulevard Haussmann) and C&A (Boulevard de la Madeleine). Interest has been shown by potential successors, although they're proving to be astute and cautious, carefully weighing up decisions to be made. Retailers are showing themselves to be much pickier over these mass market premises, even very high-end ones, than they have been in the past, particularly in terms of rental values and relocation opportunities from a brand positioning perspective. This caution shouldn't prevent the first decisions being finalised over the coming months, restoring the district's momentum and top-billing.

> This traditional retail area has entered a transition phase, as opportunities come up to gain a foothold in large surface areas. Interest has been expressed and we will need to wait and see what is finalised.

The pace of new openings and relocations did not completely stop in 2017, however. For example, Galeries Lafayette opened their 2,800 sq m Shopping & Welcome Center at 21 Boulevard Haussmann. Reebok, which had already created its first French fithub on Avenue de l'Opéra in 2013, remained loyal to the district by opening a new 1,750 sq m combined store and gym at 12 Boulevard de la Madeleine, in premises vacated by La Pinacothèque art gallery. La Pinacothèque's remaining surface area of just under 500 sq m has been taken over by Prêt-à-Manger to create its 20th restaurant in France.

Nocibé has also set its sights on the Opéra district to consolidate its Parisian network with a store on Boulevard des Capucines. With greater secrecy, cosmetics brand Le Panier des Sens has chosen 24 Avenue de l'Opéra to open its first Parisian store. Not far away, La Compagnie des Petits, the leader in baby wear, has confirmed its strategy of acquiring premises in city centres by opening its second Parisian store. Vorwerk, in another first reserved for the Opéra and Grands Boulevards district, has opened its brand store at 5 Boulevard des Capucines. Finally, the "food & beverage" segment is also present, with American burgers from Five Guys following Chez Clément on Boulevard des Capucines, while Café Pouchkine has expanded its Tsarist Russian-inspired concept to Place de la Madeleine.

The district is therefore certainly still on retailers' radar. From the New World to Old Europe, many still come here to dance a tango. Aroma-Zone, for example, has chosen the district to open its second Parisian store, due to become the capital's aromatherapy temple. It will soon take over more than 650 sq m from Trousselier at 73 Boulevard Haussmann. The district's failure to shine in 2017 can be attributed to narrowly failing to finalise a few key deals. Its moment in the spotlight has undoubtedly simply been deferred.

SAINT-GERMAIN-DES-PRÉS

The shopping heart of the Left Bank is being given a new lease on life following the reopening in 2016 of the Marché Saint-Germain, with its new generation Apple Store, along with Uniqlo and Nespresso. This movement may still be fragile, but 2017 saw the arrival of several new brands in the district. Shoe manufacturer Ecco moved in at 127 Boulevard Saint-Germain, while Fusalp took possession of number 155. The ski-wear specialist is directly across the street from Seville-based clothing retailer Scalpers, which has set up shop at number 154. This hot and cold combination is joined by the fragrant collections of Molinard, the historic perfumery, which is marking its return to Paris after a 30-year absence with the opening of a store at 72 Rue Bonaparte.

The other retail hub of Saint-Germain-des-Prés, located around the intersection of Boulevard Raspail, Rue de Sèvres and Rue de Babylone, was less active in 2017. The strong growth of luxury stores apparent there has slowed down. That can no doubt be attributed to the closure of the Hôtel Lutetia for works, depriving the district of a very well-off tourist clientele. For the time being, luxury brands wishing to gain a foothold in the district tend to be concentrated around Le Bon Marché, via corners and pop-ups.

The emblematic Rive Gauche luxury hotel is due to reopen soon. This should provide a welcome boost to the retail sector, which is also set to benefit from some unprecedented new opportunities. These include the marketing of premises previously occupied by Banque de France, on Boulevard Raspail.

RIVOLI/HALLES/VICTOIRES

The opening of the Canopée des Halles, overlooking the largest Parisian shopping centre, following its recent expansion and modernisation, represented a major retail event for the district. It will be the first step in its renaissance following the successive negative impacts of the closure of La Samaritaine in 2005 and the long period of works required to transform the Les Halles district (begun in 2010). These are expected to be completed by September 2018, with the opening of the entire garden and the resurfacing of the surrounding roads.

La Samaritaine will open its doors to the public a few months later. Completion of the project will have taken 13 years and several hundred million euros of investment by the site's owner LVMH

Group. The project will be finalised with the opening of the Cheval Blanc luxury hotel on the banks of the Seine and the delivery of almost 24,000 sq m of retail space, largely devoted to duty-free purchases by foreign tourists. The project is being led by Japanese architects from the Sanaa agency, the 2010 winners of the Pritzker Prize (the Nobel Prize for Architecture), who are promising a spectacular store-front on the Rue de Rivoli.

A few hundred metres away, the conversion of the 35,000 sq m of the Poste du Louvre, with the creation of another high-end hotel and shopping space, is due to be completed in 2019. In the same year, François Pinault will complete his plan to transform the Bourse de Commerce (former commodities exchange) into a contemporary art museum. The building, at the Rue du Louvre end of the Jardin des Halles, is currently being converted under the leadership of architect Tadao Ando, another Japanese Pritzker Prize-winner… The Land of the Rising Sun is certainly doing its bit to bring a new dawn to the heart of Paris.

This will make SFL a lot more confident about undertaking the retail repositioning of the Louvre des Antiquaires. The project will aim to upgrade this vast building which was previously a Parisian department store known as Les Grands Magasins du Louvre, with 52 departments and counters whose unrivalled quality and luxury were the stuff of dreams from Algiers to Buenos Aires thanks to its various branches.

The gift basket will have come at a cost, not least in terms of patience, but it is impressive and few central, well-connected Parisian districts can boast of such enormous renovation potential. The plan is to create an urban continuum linking Les Halles, Rue de Rivoli, the Louvre, Place des Victoires and Rue Etienne Marcel.

Urban Outfitters has responded by locating its first French store at 146 Rue de Rivoli. The American brand is not alone in backing this district since 2017. Adidas joined the Forum des Halles while simultaneously opening a 280 sq m store entirely dedicated to football on Rue Berger. This is a world first. Monki, an H&M Group brand, positioned itself on 610 sq m at 148 Rue de Rivoli in order to open its second Parisian store in 2018. It is taking over the premises from Bershka, which belongs to the Inditex stable and isn't abandoning the district, but moving to a new store at number 65. There it will be neighbours with another Inditex brand, Pull and Bear.

Further north, towards Rue Etienne Marcel, Sweet Pants has moved into number 24, American Vintage number 32 and Antony Morato number 44.

In all, a very positive movement, which should gain momentum over the coming months with the marketing of premises currently under construction or being restructured. The tango has every chance of becoming increasingly frenetic.

#04 - PRICES

Lunàtico

Another Gotan Project title that happens to reflect the current state of Parisian retail…Lunatic – fluctuating, subject to circumstances, sometimes capricious. This adjective is fairly apt to describe values on the Parisian market, those at which new commercial leases were agreed in 2017 or at which vacant premises were offered.

Retailer attitudes have changed. They are less willing to see their names posted on the leader board of Parisian prices to secure a prestigious address. This has led to a stabilisation of prime values in Zone A, after several years of continuous and sometimes impressive rises on the Champs-Elysées, Rue Saint-Honoré and in the Marais. Even where demand remains very high, 2017 stayed in the same ballpark as the previous year's prices.

> Retailer attitudes have changed. This has led to a stabilisation in prime values after several years of rises.

Yet once again, this stabilisation is slightly misleading, since prime values only concern a small number of transactions. In an elite category, they are used to calibrate the various streets and cities without providing the true temperature of the market. And that is the whole difficulty when speaking about prices – a market does not have a temperature. With retailers tightening their budgets, they are assessing the potential of each site and the quality of its footfall on a case-by-case basis. Differences are therefore emerging within the same street, with a growing distinction between prime and not-quite-prime locations. This sometimes results in decreases in value, which owners are increasingly accepting..

> Sporadic falls in value are creating new opportunities for retailers to move in.

Decreases are no longer occasional for secondary locations, spurned by major high-street retailers. The decreases are becoming more common, without constituting a collapse, since such decreases also result from new demand, which would not have emerged in a more buoyant market…In fact, this decline in values could well be a driver of market renewal.

OUTLOOK

Mil millones

Without going so far as promising wealth as a result of these thousand millions, it should be noted that Parisian retail will benefit from an increasingly positive economic environment in 2018.

The tango is gathering pace – an acceleration which bodes well for turnover and increases the appeal of Parisian streets for retailers. Volume and pace – a heady combination…

ECONOMIC CLIMATE

It is almost becoming a familiar sight to observers...Throughout 2017, INSEE, along with Banque de France and other economic bodies, continuously announced upward revisions to their growth forecasts for the French economy. In the most recent example, Banque de France now expects growth of 1.9%. These revisions lead to an average consensus of +1.8% for France in 2017. That remains below the Eurozone average (+2.2%) and well below the growth rates recorded by some Asian countries and the United States (3% year-on-year since the end of Q3 2017). However the improvement is significant compared with the results previously recorded in France. The figure at the end of 2016 was a modest +1.2%, which appeared almost satisfactory at the time given international political and monetary uncertainties. If confirmed, 2017's results will be the best since 2011.

The outlook has certainly changed significantly in a year, with French growth for 2017 (+1.8%) expected to be the highest since 2011.

In any case, the outlook has certainly changed significantly in a year. The shock of the Brexit announcement has now passed and uncertainty over its implementation conditions now seem to have crossed to the other side of the Channel. Meanwhile, the decision by British voters is seen almost as an opportunity for Paris to attract skills and companies previously based in London. The recent decision to install the new headquarters of the EBA (European Banking Authority) in Paris is one example of this.

While political uncertainty grips Parliament on the banks of the Thames, the election of a new president in France, backed by a large parliamentary majority, provides a sense of stability and clarity for the coming years. This feeling is clearly an advantage, especially when combined with the implementation of a political programme identified as favourable to the business climate. France is far more frequently perceived as pro-business, which could help to improve its growth prospects.

The trend should remain favourable beyond 2018, confirming current levels of growth, with France edging closer to the Eurozone average. And these expectations do not yet incorporate the potential effects of reforms under way in France.

France: Percentage change in GDP (estimates and forecasts)

	2017	2018	2019
Government (a)	1.7	1.7	NC
IMF (b)	1.6	1.8	NC
European Commission (c)	1.6	1.6	1.6
OECD (d)	1.8	1.8	1.7
Banque de France (e)	1.9	1.6	1.6
Insee (f)	1.9	NC	NC
Average	**1.8**	**1.7**	**1.6**

(a): Draft budget bill for 2018 and the rectified 2017 act.
(b): WEO October forecast 2017.
(c): Autumn forecast, November 9, 2017.
(d): Economic forecast November 2017.
(e): Macroeconomic projections in the Eurosystem framework, June 2017.
(f): INSEE situation report, October 2017 and revised December 2017.

Eurozone: Percentage change in GDP (estimates and forecasts)

	2017	2018	2019
ECB (a)	2.2	1.8	1.7
IMF (b)	2.1	1.9	NC
European Commission (c)	2.2	2.1	1.9
OECD (d)	2.4	2.1	1.9
Average	**2.2**	**2.0**	**1.8**

(a): Macroeconomic projections in the Eurosystem, September 2017.
(b): WEO October forecast 2017.
(c): Autumn forecast, November 9, 2017.
(d): Economic forecast November 2017.

Retailers are therefore likely to continue to see strong demand from the domestic and tourist markets over the coming months. The impacts of stronger growth will also affect the redistribution capacity of the French economy and that of its neighbours, encouraging the improvement already seen in employment figures.

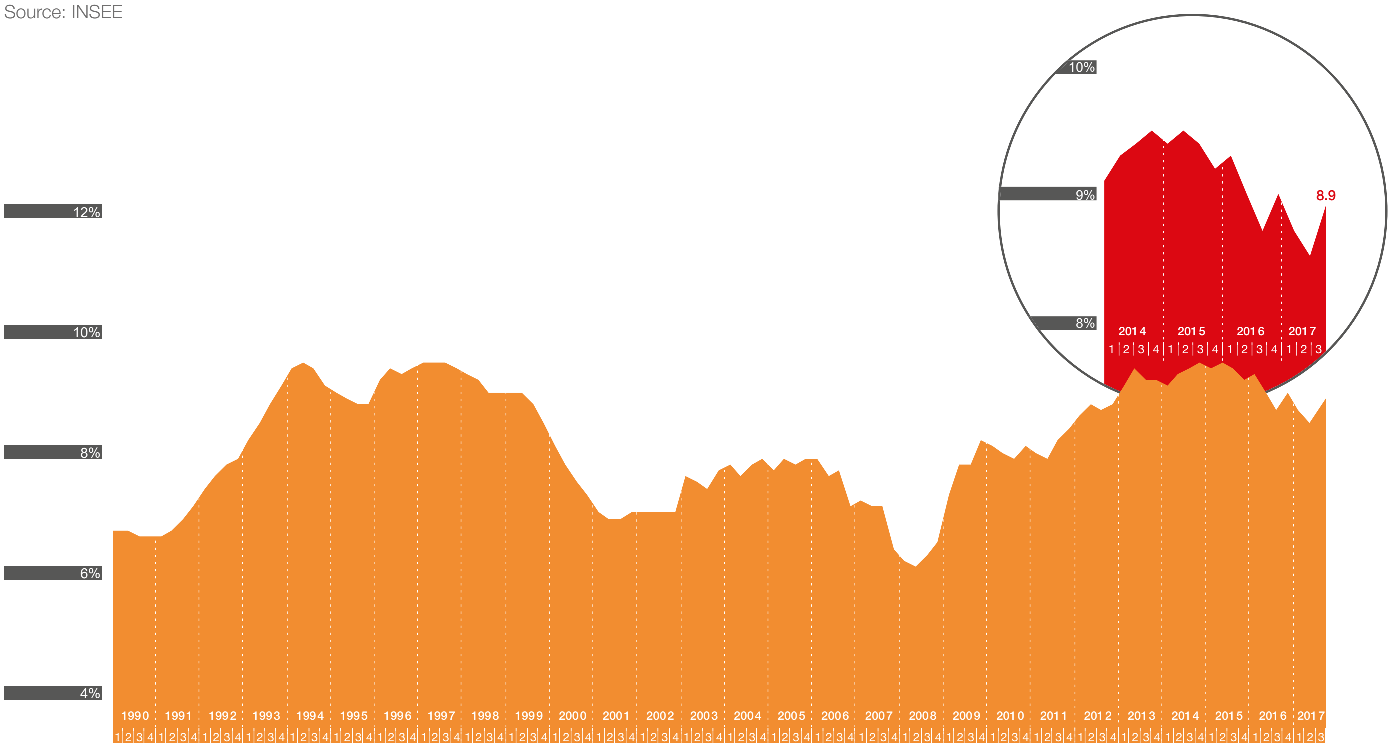
France confirmed its entry into a phase of net job creation in 2017.

Despite volatile monthly changes, France confirmed its entry into a phase of net job creation in 2017. In Q3 2017, the unemployment rate, as defined by the International Labour Organization (ILO), fell from 9.7% to 8.9% of the active population in a year. This remains far higher than levels often seen elsewhere in Europe, but the improvement is significant. This has a direct impact on retailers, since fewer unemployed people and more jobs mean more customers and more purchasing power to potentially attract.

Unemployment rate in metropolitan France

(As defined by the ILO - Data adjusted for seasonal variations)

Source: INSEE



CONSUMPTION

For the first time in more than 10 years, the confidence of households about their own situation, measured via the INSEE summary index, rose above the long-term average (100) recorded since 1972. Despite a major dip at the end of the summer, the trend has been confirmed and is accelerating from the low point in mid-2013, when the confidence level fell to 80. The French have not miraculously become big optimists, but at least they have shaken off their lassitude.

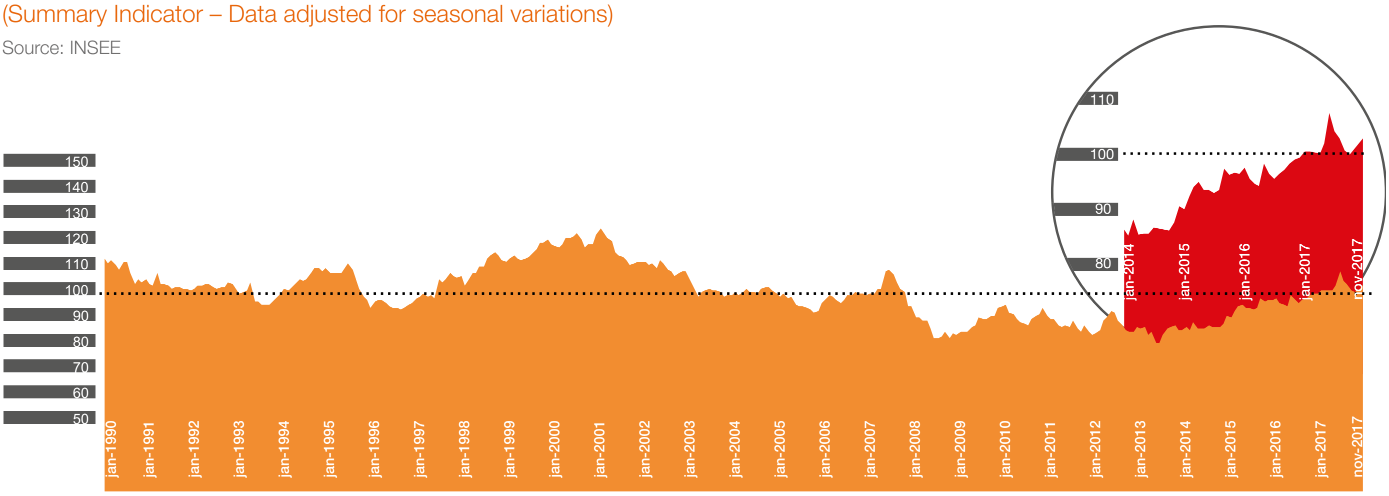
> For the first time in 10 years, household confidence rose above its long-term average.

Improvements in employment figures, income distribution and consumer confidence naturally mean a greater ability to achieve personal projects and willingness to spend. Which all helps to improve the outlook for retailers, who will be quick to respond. Mil Millones – a good reason to dance another tango!

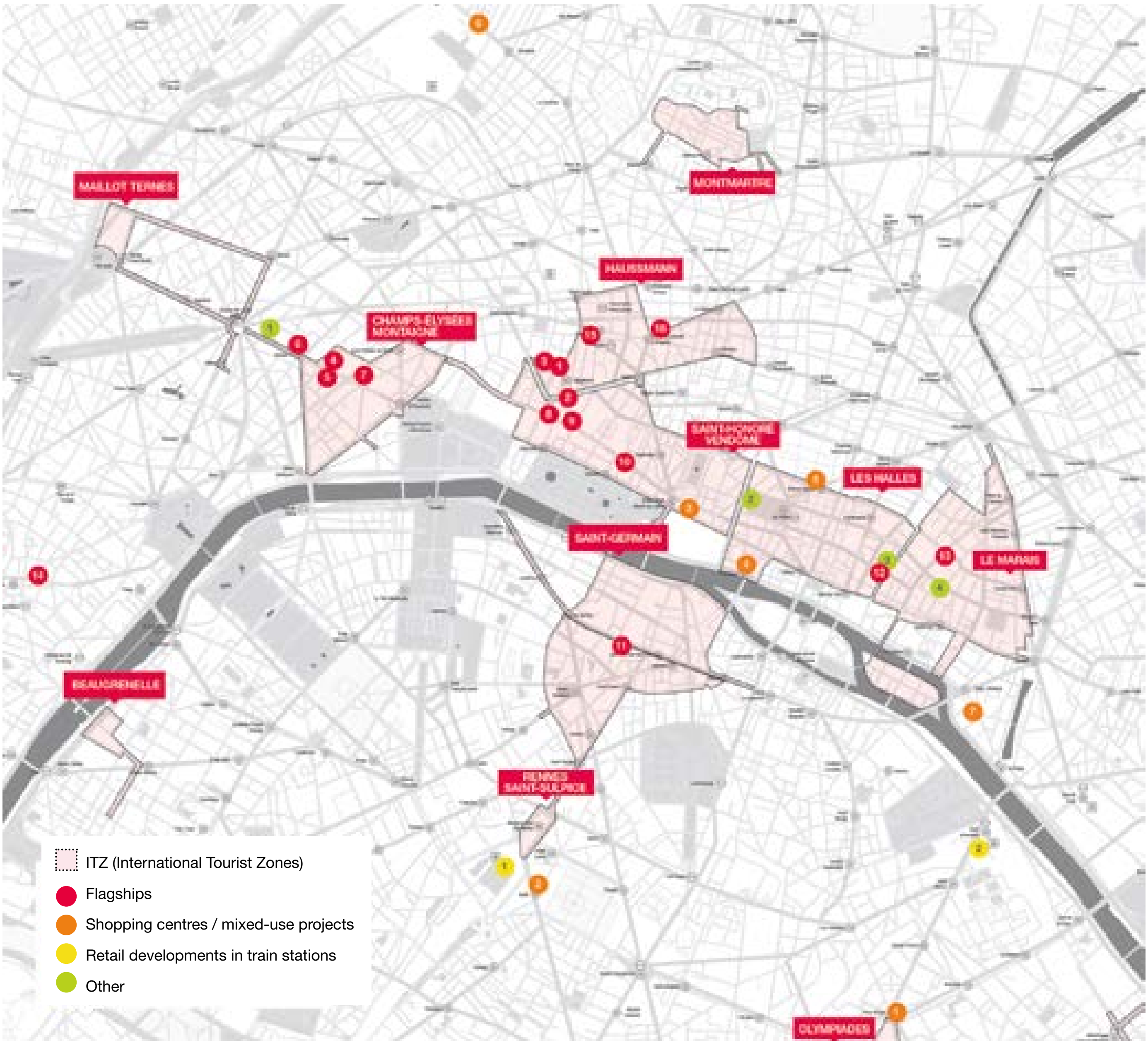
Household confidence

(Summary Indicator – Data adjusted for seasonal variations)

Source: INSEE



Significant projects between 2018 and 2021



1. **Leroy-Merlin** Place de la Madeleine
2. **Former C&A** Boulevard de la Madeleine
3. **Hédiard** Place de la Madeleine
4. **Kiko** Avenue des Champs-Élysées
5. **Nike** Avenue des Champs-Élysées
6. **Apple** Avenue des Champs-Élysées
7. **Galeries Lafayette** Avenue des Champs-Élysées
8. **Dior** Rue Saint-Honoré
9. **Chanel** Rue Saint-Honoré
10. **Saint Laurent** Rue Saint-Honoré
11. **Former Infinitif** Boulevard Saint-Germain
12. **Eataly** Rue Sainte-Croix-de-la-Bretonnerie
13. **Former G20** Rue Vieille du Temple
14. **Urban Outfitters** Rue de Rivoli
15. **Former Benetton** Boulevard Haussmann
16. **H&M** Rue Lafayette

1. **Italik** Place d'Italie
2. **Gaîté-Montparnasse** Avenue du Maine
3. **Louvre des Antiquaires** Place du Palais-Royal
4. **Samaritaine/DFS** Quai du Louvre
5. **Poste du Louvre** Rue du Louvre
6. **ZAC Clichy Batignolles**
7. **Morland Mixité Capitale** Boulevard Morland

1. **Gare Montparnasse**
2. **Gare d'Austerlitz**

1. **MK2 Cinema** Avenue des Champs-Élysées
2. **Fondation Pinault** Rue de Viarmes
3. **Lafayette Anticipations** Rue du Plâtre
4. **Hôtel de Coulanges** Rue des Francs Bourgeois

QUESTIONS FOR

PHILIPPE CEBRAL

Development Director France
France - Five Guys

OUR AIM IS TO STEP UP OUR EXPANSION TO EVENTUALLY REACH 80 RESTAURANTS IN FRANCE, MAINLY IN PREMIUM LOCATIONS.

Knight Frank: Five Guys will have opened five restaurants in France in little more than a year. What led to the decision to expand in France and what are your ultimate ambitions there?

Philippe Cebral: France is a key country on the European market. In the past year, French consumption has broken through the one billion burger mark. The premium segment was underdeveloped in France when we arrived, meaning there was significant potential. On this basis, our aim is to step up our expansion, as we did in the UK, to eventually reach 80 restaurants in France, mainly in premium locations.

KF: Your first restaurants were an instant hit. How do you explain that success and what do you think are the distinguishing features of the French market?

PC: Our results have been even better than we hoped since our arrival in France. Our first four sites are among the Top 10 Five Guys in the world. This success can be explained in two words: experience and quality – product quality of course, but also the quality of the welcome and service, with an emphasis on satisfaction at all costs. To achieve this, we build a close relationship with our customers, particularly on social networks, where we now have almost a million followers on Facebook. In terms of the experience we offer our customers, we embody an American lifestyle which is aspirational for many people and foster an atmosphere and approach which is popular with French consumers, in other words, eating good products in a relaxed environment.

KF: In view of the explosion of the burger market in France, how does Five Guys stand out from its competition?

PC: 1° The quality and freshness of our products. A mystery shopper system unique in the world has also been implemented to check the consistency of quality, service and cleanliness.

2° The welcome and the experience: You can always find a piece of America at Five Guys. The language and the welcome are casual and friendly, the music has an upbeat, rock theme and the atmosphere is lively.

3° Transparency: Our open kitchen allows us to showcase our concept. We have nothing to hide and the customer appreciates that. This direct contact with the customer creates a unique experience.

4° The choice: At Five Guys, there are more than 250,000 ways of creating your own burger. You can therefore eat in our restaurants every day of the year without having the same burger twice.

KF: Having opened four restaurants in four prime locations in the Paris region, you have chosen Rue de Béthune in Lille for your first regional restaurant. What led to this choice?

PC: Lille is at the centre of one of the largest agglomerations in France. It has a varied range of consumer profiles and an attractive city centre, the type of location which perfectly matches our development strategy in France and whose quality offers the potential for further sites in the city. Also, in addition to the fact that other restaurant chains are already present in the area, this part of the Rue de Béthune is in the process of a commercial transformation, with a definite emphasis on the premium end of the market.

KF: So far, you have opted for the best areas in large French cities and sites benefiting from significant footfall (Champs-Elysées, Disneyland Paris, etc.). Is this your only development model or will your expansion in France include a more varied range of openings?

PC: This initial model will account for the majority of our growth over the next few years. But in fact we are already examining the possibility of opening a different type of small restaurant (stand-alone) in environments where we are not currently present (retail parks, leisure facilities, etc.). However, there is currently no question of us adopting a franchise model.

KF: As a company which is also growing in other countries, what are the main constraints of the French market in terms of real-estate expansion?

PC: Each European country has its own constraints. Adapting to them, as well as to constant regulatory changes, is part of what we do. These constraints take many forms and are not restricted to real estate, but also relate to hygiene regulations and employment law. The French market is characterised by long administrative turnaround times, particularly compared with the UK and the US. But that will not prevent our expansion. It is simply a constraint which we factor into our development strategy.

KF: How do you incorporate new technologies into your restaurants and into your expansion strategy?

PC: Five Guys likes things simple and authentic. We favour human contact and new technologies are not a big part of the experience we offer our customers. That said, click & collect is an option available to them on our website, although it accounts for small fraction of our sales. We are also looking at our delivery methods. With operators in this sector offering an increasingly high-quality service, these new delivery methods could eventually be incorporated into our premium range, as well as enabling us to open smaller restaurants in secondary locations. This strategy could be part of a second development phase, although nothing is set in stone as the sector is constantly changing.

KNIGHT FRANK

Knight Frank is an international real estate advisor.

In France, the company operates in the corporate real estate market, mainly comprising offices, retail premises and industrial or logistics buildings.

Knight Frank France serves two separate groups of clients: owner investors and tenant companies.

Knight Frank France was founded over 40 years ago and is organised into six business lines: Offices, Retail, Capital Markets, Property Management, Knight Frank Valuation and L'Atelier Knight Frank (a spatial design consultancy).

The Knight Frank France team includes 80 professionals working from Paris. Historically specialising in the real estate market in the centre of the capital, the company has gradually widened its field of expertise and is now a recognised consultant in areas including La Défense and the Western Suburbs of Paris. The Capital Markets department, along with the independent subsidiary Knight Frank Valuation, also support their clients throughout France.

Knight Frank France is the French branch of Knight Frank LLP, a British company founded more than 120 years and now operating in 60 countries. It offers its clients the skills of its 15,020 professionals, working from 418 offices worldwide.

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