Knight Frank

Retail Investment

Knight Frank analyses the French retail investment market

What is the outcome for 2019?

One of the best years ever?

The high street, driven by luxury brands and flagship stores

Shopping centres are back in the spotlight

Retail parks: mixed results

1

ONE OF THE BEST YEARS EVER?

After 4.7 billion euros in 2018, almost 5 billion should be invested in the French retail market in 2019, an increase of 11% compared to the average of the last ten years. **Volumes could even exceed five billion euros as a few large-scale transactions are in the process of being finalised.** The results would then be outstanding, as this threshold has only been exceeded four times ever.

2

THE HIGH STREET, DRIVEN BY LUXURY BRANDS AND FLAGSHIP STORES

High streets is the market category favoured by investors: while their share was «only» 30% on average between 2009 and 2014 (compared to 50% for shopping centres and galleries), it has risen to 49% of total retail investment volumes since 2015, and could even reach 54% for 2019 as a whole.

3

SHOPPING CENTRES ARE BACK IN THE SPOTLIGHT

While high street assets will still account for the majority of investment volumes in 2019, **one of the most significant developments in recent months has been with shopping centres.** After a sluggish 2018, they have returned to the forefront in 2019, with 900 million euros expected to be invested in this type of asset in France this year, compared to just 450 million last year.

4

RETAIL PARKS: MIXED RESULTS

Although the last four years have been exceptional, with volumes in excess of €1 billion, **investments in this market sector are expected to fall sharply in 2019**, back to levels close to the average seen between 2009 and 2014 (around €600 million).

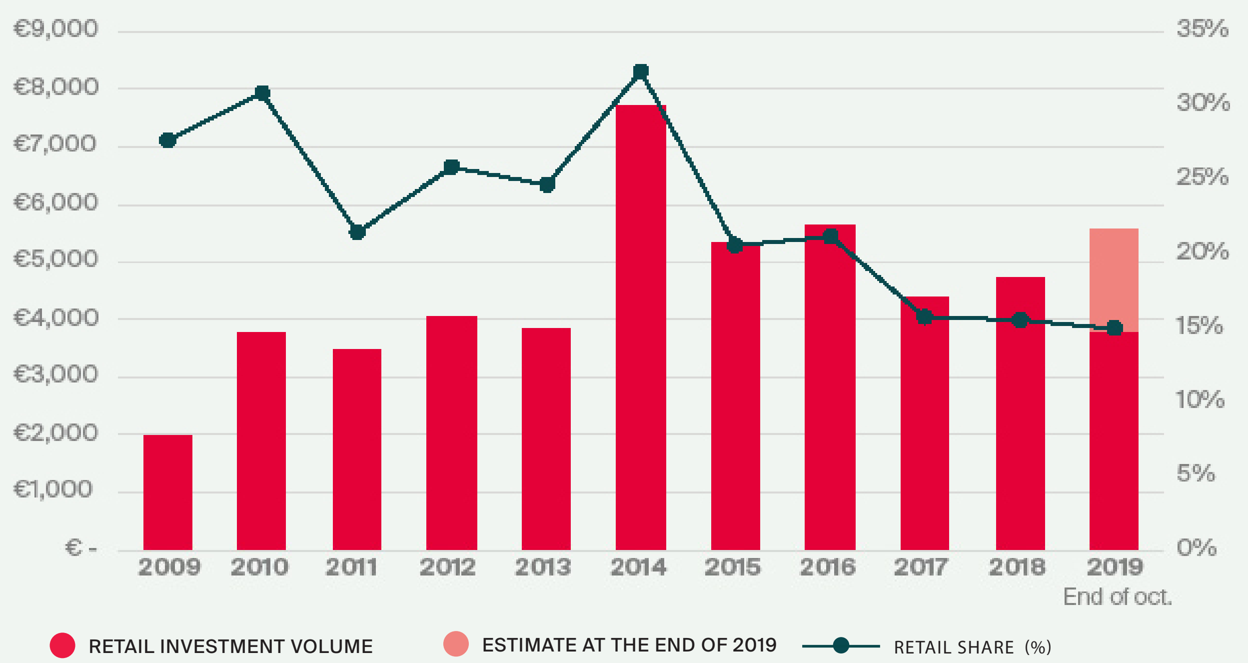
1

ONE OF THE BEST YEARS EVER?

Contrary to the retail bashing trend, the forecasts for investment volumes over the whole of 2019 confirm that retail assets remain key. Retail's share of investment has admittedly been steadily declining since the mid-2010s, falling from 32% of French investment volumes at the 2014 peak to 16% in 2018, with between 15% to 20% expected for 2019. This can be explained by the strong growth in the office sector and investors' enthusiasm for certain diversification assets such as logistics and managed residential properties. The amounts invested in the retail market were also limited by investors' caution, and they became even more prudent due to the difficulties of retail brands and formats that were disrupted by the revolution in purchasing methods.

CHANGE IN FRENCH RETAIL INVESTMENT VOLUMES

In million euros

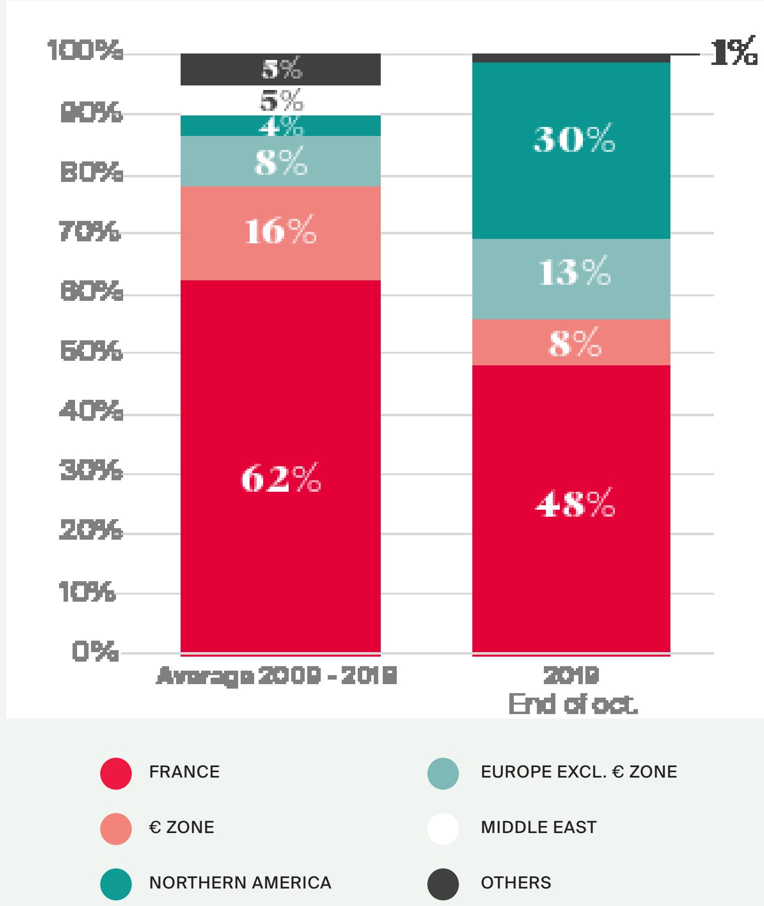


Source: Knight Frank

2019 will nevertheless be a good year for retail investment. After 4.7 billion euros in 2018, almost 5 billion should be invested in the French retail market in 2019, an increase of 11% compared to the average of the last ten years. Volumes could even exceed five billion euros as a few large-scale transactions are in the process of being finalised. The results would then be outstanding, as this threshold has only been exceeded four times ever: in 2007, when activity was driven by a few major sale and leaseback transactions (Quick, Jardiland and Casino portfolios), in 2015 and 2016, and above all in 2014 when five major shopping centre sales alone totalled 4.5 billion euros. These five sales included both individual asset sales («Beaugrenelle») and portfolios (Unibail-Rodamco, Westfield, Klepierre and Carrefour).

Although less numerous than in 2014, large-scale transactions still largely drove activity in 2019. Since January, transactions in excess of €100 million have accounted for half of all French retail investment volumes, compared to an average of 46% over the past ten years. Among the most recent large-scale transactions, it is worth mentioning the sale to Norges Bank of the future Nike flagship on the Champs-Élysées, and the sale to Apollo Global Management of a new Casino portfolio, following the one that was acquired by Fortress in the 1st quarter of this year. These examples illustrate foreign investors' interest in French assets. Foreign investors accounted for 52% of all retail investments in France in 2019, compared with an average of 38% over the past ten years. The French are therefore now in the minority, even if they remain present throughout France and across all market categories (high streets, shopping centres, retail parks etc).

BREAKDOWN OF FRENCH RETAIL INVESTMENT VOLUMES BY NATIONALITY



Source: Knight Frank

Retail, like offices and logistics, benefits from the abundance of cash available for investment, a very favourable risk margin and investors' desire to diversify their allocations in favour of the real estate sector, which is seen as a guarantee of security and stability in a more unpredictable world. Although there is no denying the difficulties encountered by certain retail formats, it should be remembered that the retail investment market is based on solid fundamentals specific to this asset class. For example, the traditional role of consumption as a driving force, linked to France's redistributive model, contributes to the resilience of the French economy in the face of the global economic slowdown. Household spending is even expected to increase due to recent purchasing power support measures and the gradual improvement of the labour market. Finally, while several brands are in difficulty, the French retail landscape is constantly being renewed as a result of the constant influx of new players. Reflecting the appeal of the French market, 46 new foreign brands, including Eataly and Icicle, were identified in 2019, compared with an average of 41 over the last five years. Other less «traditional» players are also helping to stimulate the retail market, such as DNVBs (Digitally-Native, Vertical Brands), which, like Jimmy Fairly, Balibaris and Le Slip Français, are gradually spreading throughout France with their own shops.

2

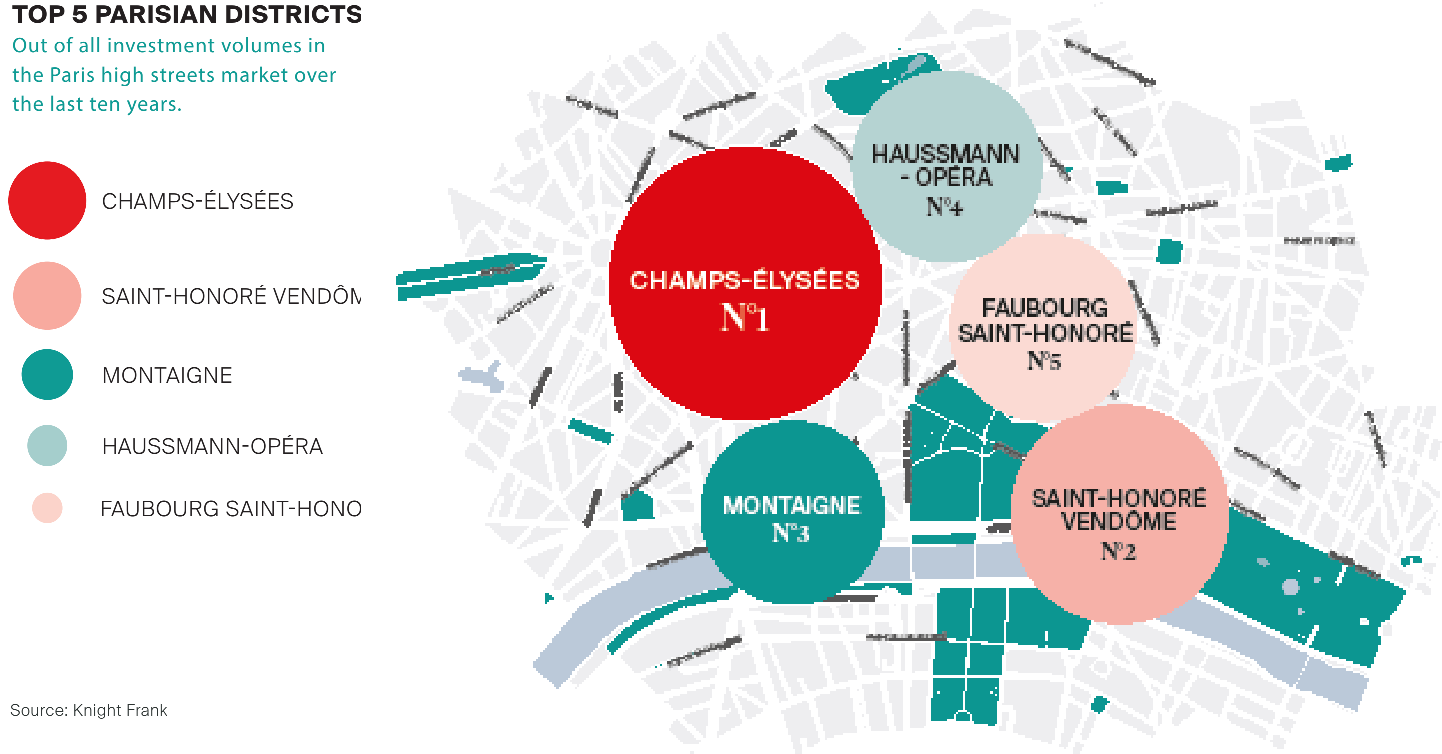
THE HIGH STREET, DRIVEN BY LUXURY BRANDS AND FLAGSHIP STORES

High streets, which account for the largest share of DNVB shops and the vast majority of new foreign entrants, are the market category favoured by investors: while their share was «only» 30% on average between 2009 and 2014 (compared to 50% for shopping centres and galleries), it has risen to 49% of total retail investment volumes since 2015, and could even reach 54% for 2019 as a whole.

The main driver of this increase is the appeal of the Parisian market, with the capital alone capturing 78% of high street investment volumes in France since the beginning of 2019, compared to 63% on average over the last ten years. Among the most favoured districts is naturally the Champs-Élysées, with a limited number of transactions but often for a very large investment volume. Indeed, seven transactions of more than €200 million have been identified over the past ten years, including the Apple and Nike flagships in 2018 and 2019. The most beautiful avenue in the world therefore, not surprisingly, dominates the ranking of streets with the highest amounts invested in high street retail property over the past ten years, ahead of the rue Saint-Honoré / place Vendôme sector, avenue Montaigne and the Opéra / Haussmann district.

TOP 5 PARISIAN DISTRICTS

Out of all investment volumes in the Paris high streets market over the last ten years.



Source: Knight Frank

The Marais district, which is highly appreciated by consumers, retailers and investors, is far behind due to a market structure that limits both the supply and size of transactions.

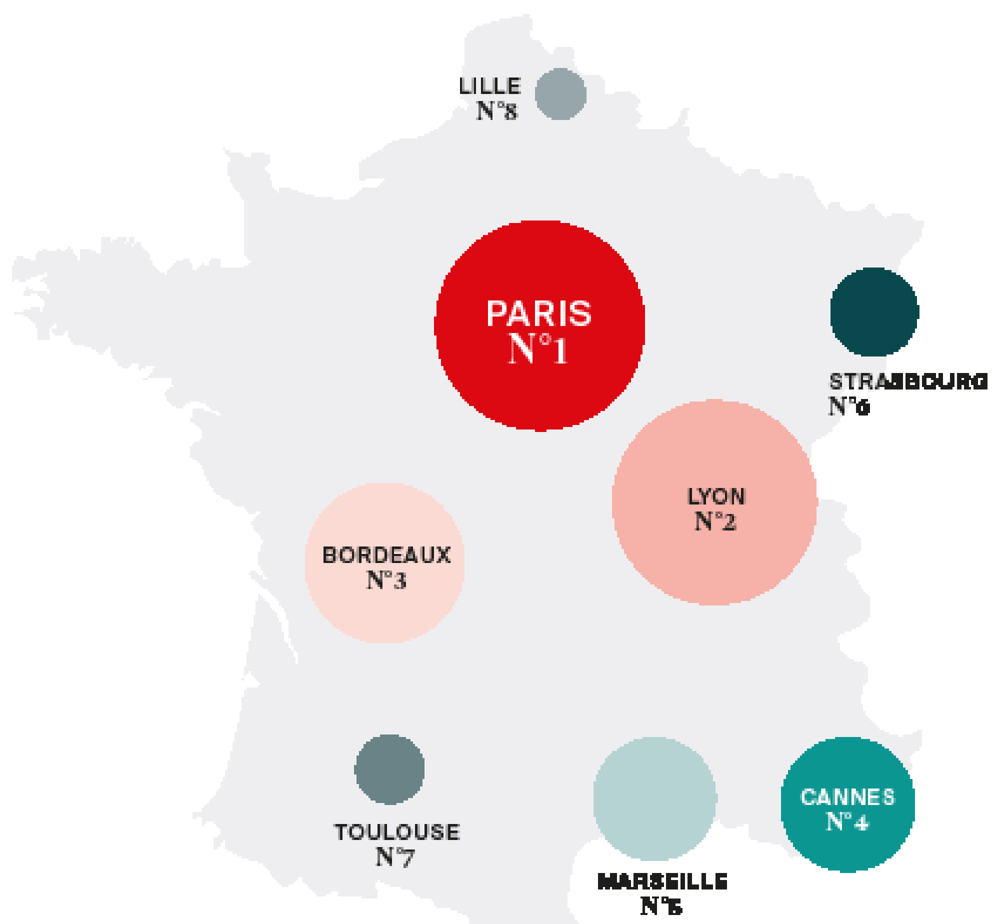
The ranking of the most popular streets confirms investors' strong appetite for luxury boutiques. These account for 25% of all retail investment volumes in Paris over the last decade, a share that rose to 23% last year and could reach nearly a third in 2019 due to several large-scale transactions, including the sale of the Saint Laurent flagship to Invesco at 53 avenue Montaigne, the purchase by UBS of a portfolio of three assets located on the same avenue, and the recent acquisition by AEW of a building housing the Berluti flagship store at 9 rue du Faubourg Saint-Honoré. Investors' appetite for luxury reflects the desire to favour the most prestigious streets and the most stable assets, in a market context that benefits in particular from the strength of tourist activity. After a record year in 2018, French and foreign visitors numbers remained high, up 0.7% over the first eight months of 2019. This therefore contributes to the many brand movements. Nearly 50 luxury boutiques are expected to open in Paris in 2019, compared to 48 last year and an average of 40 over the last five years.

While luxury and large flagship stores dominate the capital's market, activity has also benefited in recent months from an increase in the number of sales of portfolios of shops located in good secondary locations, reflecting the enthusiasm of certain categories of investors for convenience stores. This taste for convenience stores was also illustrated by Mata capital's recent acquisition of Monoprix shops in two Greater Paris Region towns (Saint-Germain-en-Laye and La Garenne-Colombes) for almost €100 million. In 2018, 67 shops of the same brand, located in the Paris region and in the regions, were sold by Casino to Generali and AG2R La Mondiale for nearly 800 million euros.

Outside the Greater Paris Region, some dynamic medium-sized cities are doing well, even if investors continue to favour the best streets in the larger cities. The latter are taking advantage of the phenomenon of metropolisation, the good state of tourism and local consumption, and the streamlining strategies of brands favouring their most profitable points of sale. Lyon is France's second largest city and is also the most active high street market in the regions, ahead of Bordeaux, Cannes and Marseille. In 2019, for example, Primonial REIM acquired a portfolio of mixed assets in Lyon for €85 million, mainly located on rue de la République, having purchased the 5,200 sq m former Banque de France building for €38 million in 2017.

TOP 5 CITIES

Out of all investment volumes in the French high streets market over the last ten years.



Source: Knight Frank

SHOPPING CENTRES ARE BACK IN THE SPOTLIGHT

While high street assets will still account for the majority of investment volumes in 2019, one of the most significant developments in recent months has been with shopping centres. After a sluggish 2018, they have returned to the forefront in 2019, with 900 million euros expected to be invested in this type of asset in France this year, compared to just 450 million last year. This increase is quite significant, even if we are still far from the record set in 2014 (5.5 billion euros invested in shopping centres), and the high level recorded in 2017 (1.6 billion), which saw the completion of several significant transactions, including the sale of «Place des Halles» in Strasbourg to LIM for almost 300 million euros.

SHARE OF THE DIFFERENT TYPES OF RETAIL ASSETS

In total French retail investment volumes

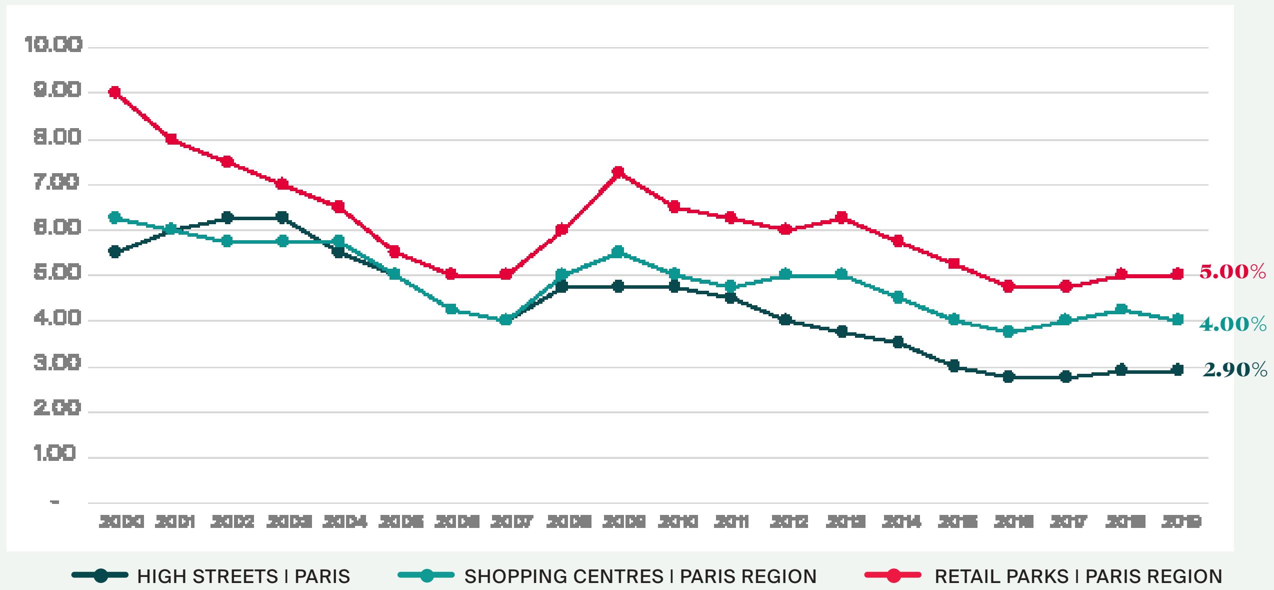
Source: Knight Frank / *Factory outlets, hypermakets and supermarkets, non-divisible portfolios.

In 2019, the upturn in investment volumes was mainly due to AXA's purchase of 50% and 75% of the shares in the «Passage du Havre» and «Italie 2» shopping centres. This double transaction is important, not only because of its price (just under €700 million), but also because it marks the return of large institutional investors in the shopping centre category. In 2018, they exclusively targeted high street retail assets, such as the sale to Generali and AG2R La Mondiale of two Monoprix portfolios for almost 800 million euros. The return of institutional investors to the shopping centre market is a positive indicator: it shows a certain confidence in the resilience of the model, even if AXA's two acquisitions concern large, high-performance shopping centres that are well established in the Parisian retail landscape. In 2020, however, institutional investors' appetite for core assets, the abundance of cash available to invest and opportunities related to the sale of certain property companies should also drive the market outside the capital. As with the acquisitions undertaken by AXA, large transactions are expected to take the form of equity investments, enabling buyers to rely on the work and expertise of co-investors to manage and enhance the value of their assets.

Outside the core sector, activity remains limited by investors' prudence. Shopping centres in medium-sized or small urban areas are the most penalised and, in particular, those sites that depend on the performance of formats or sectors exposed to consumer disengagement (hypermarkets, fashion). The increasing segmentation of the retail asset market is reflected in the change in yields. These remain stable in the prime sector, ranging from 4% to 4.25%, even if the small number of transaction references hinders market clarity. On the other hand, the secondary sector remains on an upward trend, with rates sometimes exceeding 8%. This reassessment of risk, and opportunities related to asset upgrades, has helped to drive the shopping centre market, with a greater number of transactions outside the core segment. Altarea Cogedim thus sold two centres to the Societé des Grands Magasins in 2019 («Okabé» in the Kremlin-Bicêtre and the «Galerie de l'Hôtel de Ville» in Châlons-en-Champagne), following those already sold in 2018.

Large retail distribution property companies also play a key role. Some of them still buy centres on an occasional basis, such as the purchase by Galimmo from Klepierre of «Creil Saint-Maximin» in Oise at the beginning of 2019. These acquisitions are part of value creation transactions carried out by the property companies to boost their hypermarkets within a particularly turbulent market context. These companies are also active in sales: this is the case with Mercialys, or Ceetrus who, a few months ago, sold a portfolio comprising several retail galleries to Carlyle. Nevertheless, foreign funds remain relatively few in number, even if a further correction of values could lead to more opportunistic investments.

CHANGE IN PRIME YIELDS (%)

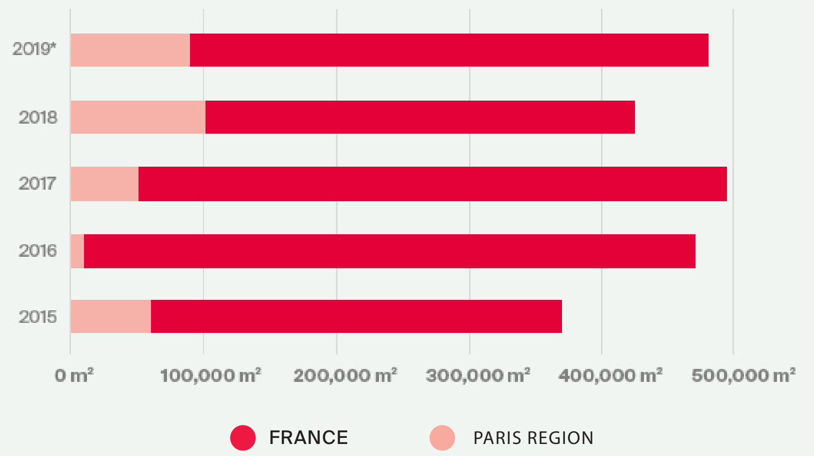


Source: Knight Frank

RETAIL PARKS, FACTORY OUTLETS AND OTHER TYPES OF ASSETS

Size and flexibility of premises, access and parking facilities, lower occupancy costs than high street retail units and shopping centres: retail parks meet the requirements of convenience and proximity to a growing out-of-town customer base, as well as the streamlining logic of brands. For several years, out-of-town retail has also been changing: in addition to the diversification of the types of brands and products offered to customers, this market has been characterised by the production of new, more qualitative products to complement a stock that still mainly consists of retail «boxes», and by the growing number of projects to refurbish existing retail zones. This strong growth is reflected in an increasingly dense network across the country. In fact, while the creation of shopping centres has clearly slowed down, the pace of development of retail parks has not, indeed quite the opposite. Following the 480,000 sq m that were opened in 2017 and the 420,000 sq m in 2018, more than 500,000 sq m could be inaugurated in 2019.

CHANGE IN DELIVERIES OF NEW SQ M OF RETAIL PARKS



Source : Knight Frank / *At end of October.

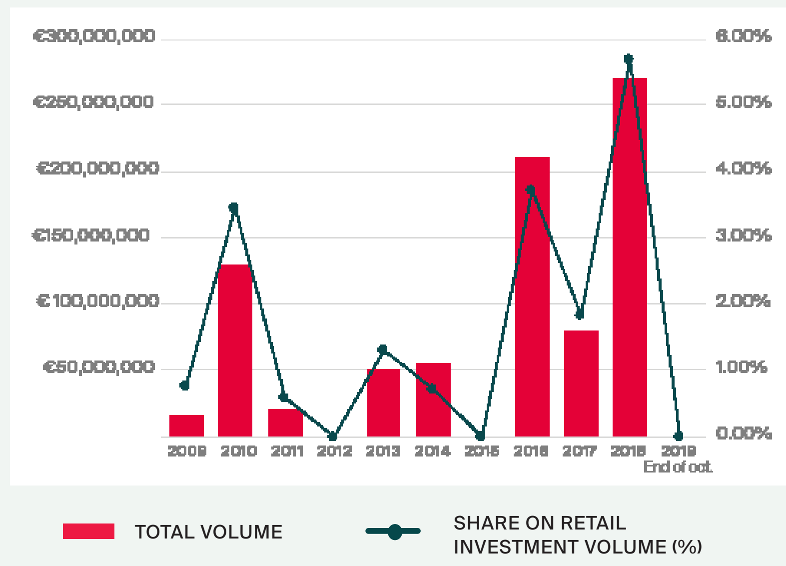
In contrast to buoyant development activity, the investment situation is a little more contrasting. While the last four years have been exceptional, with volumes in excess of €1 billion, investments in this market sector are expected to fall sharply in 2019 and to fall back to levels close to the average seen between 2009 and 2014 (around €600 million). These mixed results are mainly due to the absence of transactions exceeding €100 million. There is nothing exceptional about this: they are traditionally quite rare in the retail parks market, and volumes are historically well below those invested in the shopping centres market. Between 2009 and 2018, the latter thus generated an average of €1.75 billion each year, compared to only €800 million for retail parks.

This significant difference is also due to a structurally undersupplied retail park market: the most qualitative assets - those likely to be of interest to large institutional investors and international players - constitute only a small proportion of the French stock and are rarely put up for sale. The most recent example concerns the sale by Altarea to AEW of the 14,200 sq m of «14th Avenue», opened in 2002 in Herblay in the Val d'Oise. This transaction illustrates the hierarchy of yields in the suburbs, with the sale reflecting a yield below 5%, compared to a range generally comprised between 6 and 9% in the rest of the market. In this investment properties market category, activity remained modest in 2019, hampered by the low number of sales of large portfolios of retail «boxes». Activity is still concentrated in the hands of a small number of French specialised players, such as Etixia, Patrimoine & Commerce and ImocomPartners, who have recently bought three complexes located in Charleville-Mézières, Maurepas and Saint-Quentin for €80 million.

The volumes invested in retail are not limited to high streets, shopping centres and retail parks. Essentially made up of factory outlet centres, hypermarkets and supermarkets, as well as non-divisible portfolios, other types of assets have accounted on average for 5% of the amounts invested in the French retail market over the past ten years. This share has risen to 23% since the beginning of 2019. In 2019, the sales undertaken by CASINO as part of its debt reduction plan boosted activity, with the two portfolios sold to Apollo Global Management and Fortress totalling €860 million. Since 2017, sales of this French distribution group's properties – all types of properties combined (retail galleries, hypermarkets, Monoprix shops, etc.) and excluding assets sold to other large distribution retailers – have totalled €2.2 billion, representing 17% of all amounts invested in retail in France over this period.

The volumes invested in the factory outlet centres market are much smaller. Over the past ten years, this type of asset only accounted for 2% of all French retail investment amounts. The sale to Savills IM of two «MacArthur Glen» centres in Troyes and Roubaix for almost 300 million euros at the end of 2018 is the latest significant transaction. Before that, Unibail-Rodamco-Westfield sold «L'Usine» in Roubaix and the Channel Outlet Store in Coquelles to Primonial REIM for just over 80 million euros. Sales of factory outlet centres are quite rare. While the market is concentrated in the hands of a few specialised players, the latest transactions reflect the growing interest of new types of players, which should result in new transactions and a possible reduction in prime yields, which currently stand between 5.00% and 5.50%. The rent to turnover ratio of brands, the quality of the catchment area, potential competition from other retail sites: this niche product is nevertheless subject to increased selectivity on the part of investors, in a context where the acceleration of developments, albeit contained, the growth of e-commerce and the multiplication of private sales increases the risks of competing supply taking market share from existing sites. As with all other types of retail assets, the fundamentals are therefore being examined with even greater attention, as changes in consumption accelerate and disrupt distribution formats. While it can slow down decision-making, this analytical work is the price that must be paid to ensure the success of transactions, and thus perpetuate investors' enthusiasm for retail assets.

CHANGE IN INVESTMENT VOLUMES IN THE FACTORY OUTLET CENTRES MARKET BETWEEN 2010 AND 2019 IN FRANCE



Source: Knight Frank

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About Knight Frank

Founded more than 120 years ago in Great Britain, the Knight Frank group today provides its expertise as an international real estate advisor, with more than 19,000 employees operating from 512 offices in 60 countries. Its French branch was established more than 45 years ago and operates in the commercial real estate market, mainly in the office sector, but also in the retail, industrial and logistics sectors. It targets two distinct clients: owner-investors and corporate users.

Knight Frank has 70 employees working from their Paris office, which is structured around 4 service lines: office lettings and user advisory (Occupier Services & Commercial Agency), including workspace design (Design & Delivery), Capital Markets, Retail Leasing and valuation with their Knight Frank Valuation & Advisory subsidiary.

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