Knight Frank

2020-2021

REVIEW & OUTLOOK

French Property Markets


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INVESTMENT
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OFFICES
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RETAIL

2020 REVIEW
AND 2021 OUTLOOK

INVESTMENT

INVESTMENT

WHAT WE SAID **A YEAR AGO**

ECONOMIC SITUATION: STILL UNCERTAIN

- Economic slowdown
- Risks still numerous (Brexit, elections in the USA, social tensions in France, etc.)

SUPPORT FOR ACTIVITY

- Growing interest in the future hubs of the Grand Paris Express and in regional cities
- Interest rates: durably low
- Dynamism of international capital flows
- Raising of funds: from record to record?
- Investors' search for diversification

QUESTIONS

- Continued decrease of prime yields?
- Shortage of office space: what will the impact be on sums invested and investors' acquisition criteria?
- Will investors take more risk?
- Confirmation of renewed interest in retail?

WHAT **ACTUALLY** HAPPENED

ECONOMIC SITUATION: EVEN MORE UNCERTAIN

- Covid-19: one of the worst crises in recent history
- Global economic recession
- Risks still numerous (social tensions in France and around the world, new outbreaks of diseases, etc.)

FEWER SUPPORTS

- Continued interest in the future hubs of the Grand Paris Express and in regional cities
- Interest rates: durably low
- Dynamism of international capital flows but some investors are less present
- Fund-raising slowed down by the crisis
- Increased investors' search for diversification

QUESTIONS

- Continued decrease of prime yields in the logistics sector
- Continued competition for the best assets, keeping pressure on prime yields
- Will investors take more risk? Increased selectivity of investors... but some are seizing opportunities for value creation
- Decrease in retail volumes after an excellent year in 2019

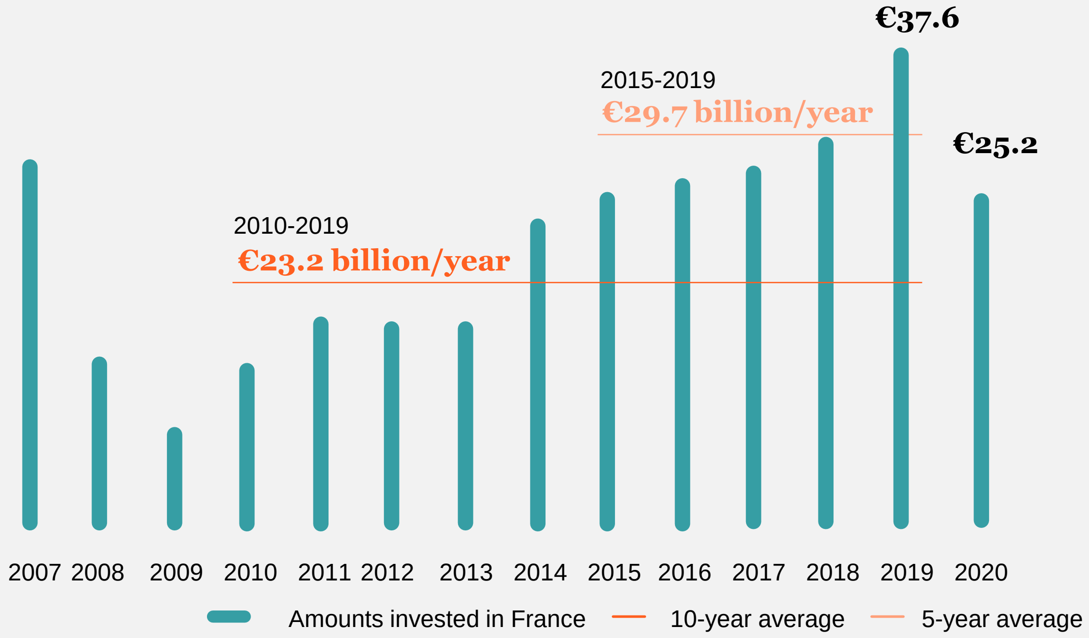
RESILIENCE OF THE FRENCH INVESTMENT MARKET

Prior to 2020, the French commercial property market remained on a six-year upward trend, which peaked in 2019 with an investment volume of almost €40 billion. The Covid-19 epidemic has broken this momentum, but has not stopped activity. **With 25.2 billion invested in 2020**, investment volumes in France have therefore dropped by 33% compared with the record performance of 2019, but are still **slightly higher by 8% than the ten-year average**.

Above the ten-year average

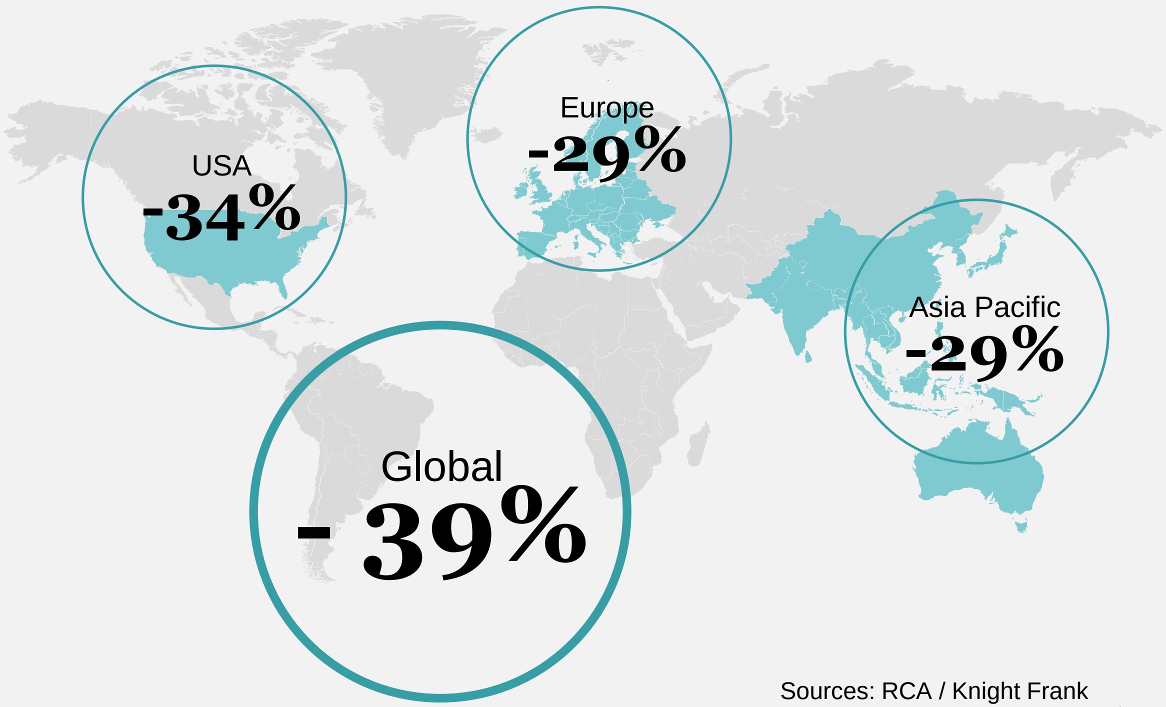
Change in investment volumes in France,

All asset types (offices, retail, industrial), in billions of euros



Source: Knight Frank

Change in investment volumes year-on-year



Sources: RCA / Knight Frank

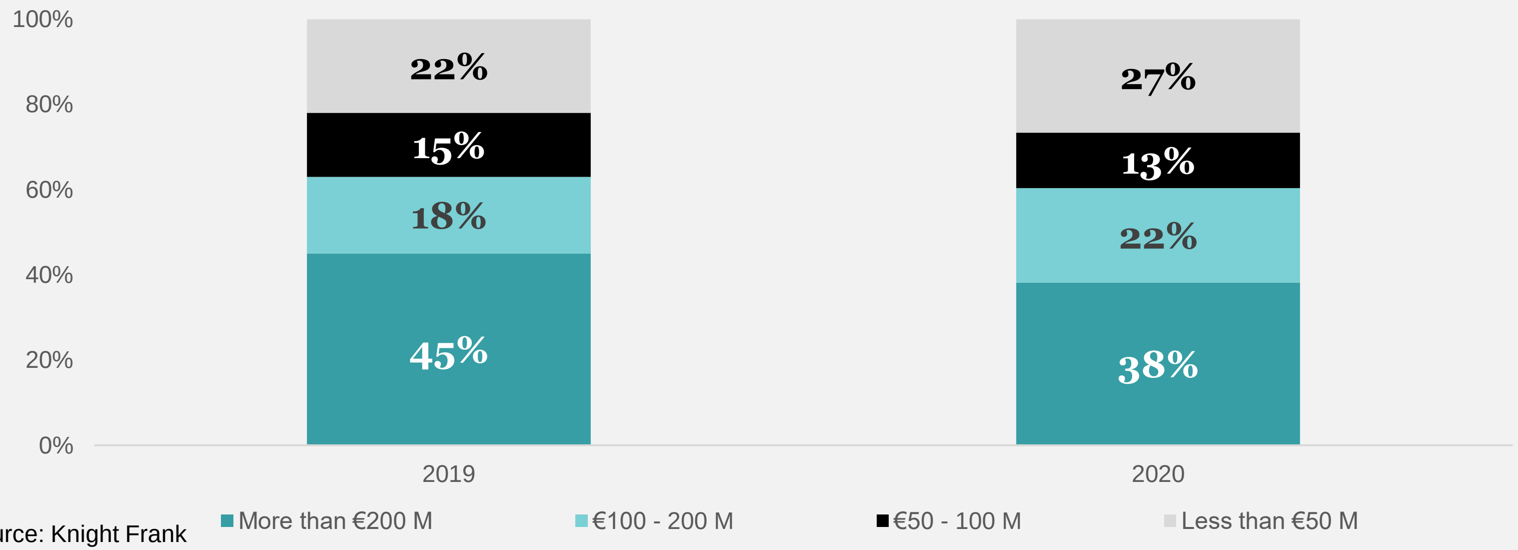
LESSER ROLE OF **VERY LARGE** TRANSACTIONS

In 2019, the dynamism of large transactions directly contributed to the exceptional performance of the French market. **In 2020, there were fewer such transactions: 66 transactions over €100 million and totalling €15.1 billion were recorded in France**, compared with 88 totalling almost €24 billion in 2019.

Partially mitigated by the year-end signing by SWISS LIFE to buy the future ENGIE campus at La Garenne-Colombes, **the decrease was particularly significant in the largest transactions category (those in excess of €500 million)**. Similarly, portfolio sales played a less decisive role, accounting for 19% of volumes invested in France in 2020 compared with 24% a year earlier.

A slightly more balanced market

Breakdown of investment volumes in France by amount category



Source: Knight Frank

700
transactions
(920 in 2019)

27 **> €200 M**
(37 in 2019)
=
€9.5 B
(16.8 in 2019)
=
38%
of volumes
(45 % in 2019)

19%
Share of investment volumes in portfolios
(24 % in 2019)

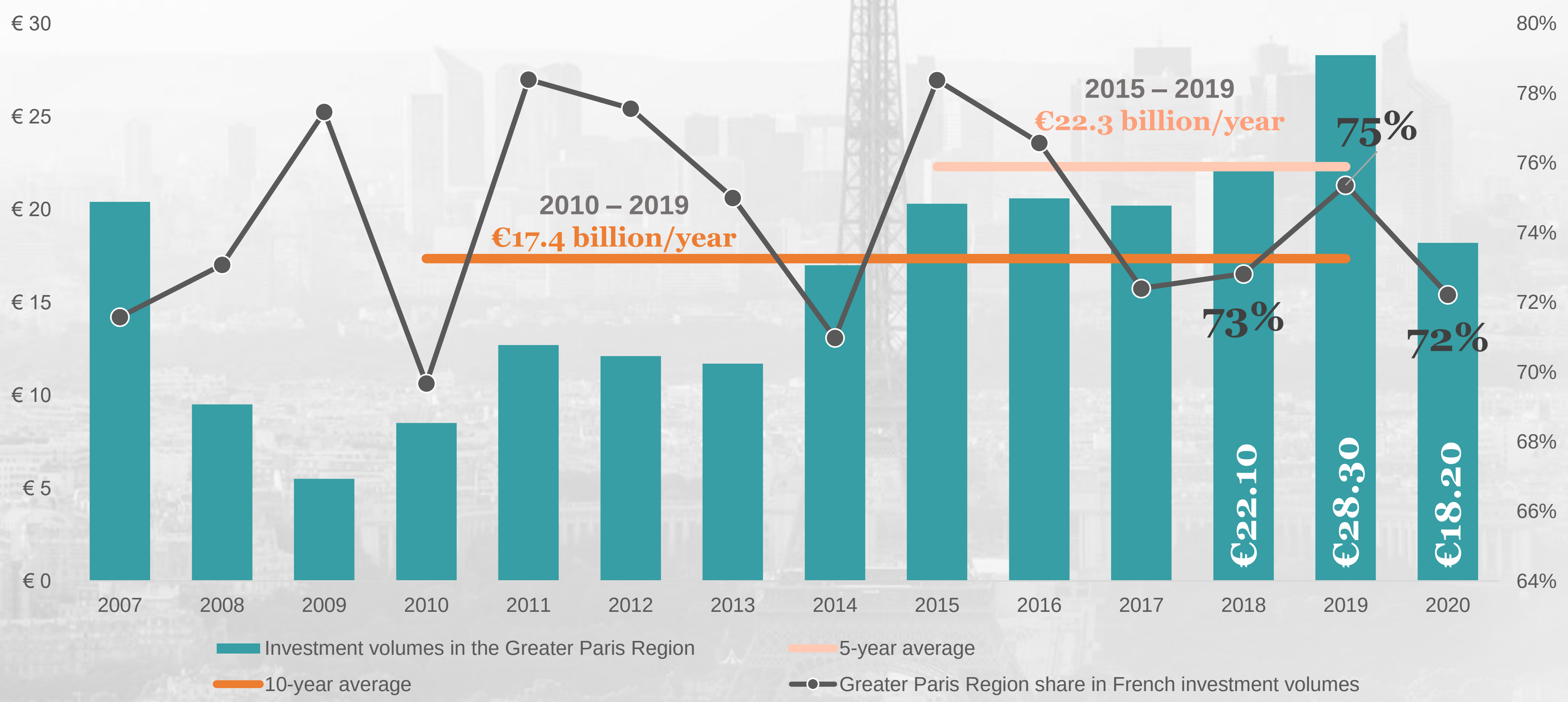
THE GREATER PARIS REGION LOSES SOME OF ITS SHINE

The Greater Paris Region, which usually accounts for the vast majority of transactions in excess of €100 million, has logically suffered a greater drop in activity than the regional markets. **Consequently, 18.2 billion euros were invested in the Greater Paris Region in 2020, a 36% decrease year-on-year** compared with -24% in the regions.

Return to less extraordinary levels

Change in investment volumes in the Greater Paris Region, all asset types

In billions of euros



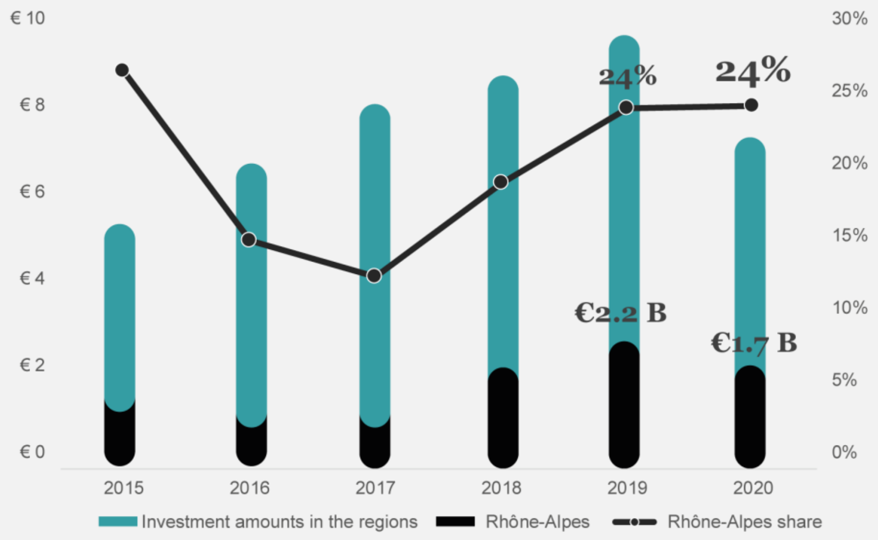
Source: Knight Frank

RESPECTABLE PERFORMANCE FOR **THE REGIONS**

Lyon achieves its 2nd best year ever

Change in investment volumes in the regions, all asset types

In billions of euros

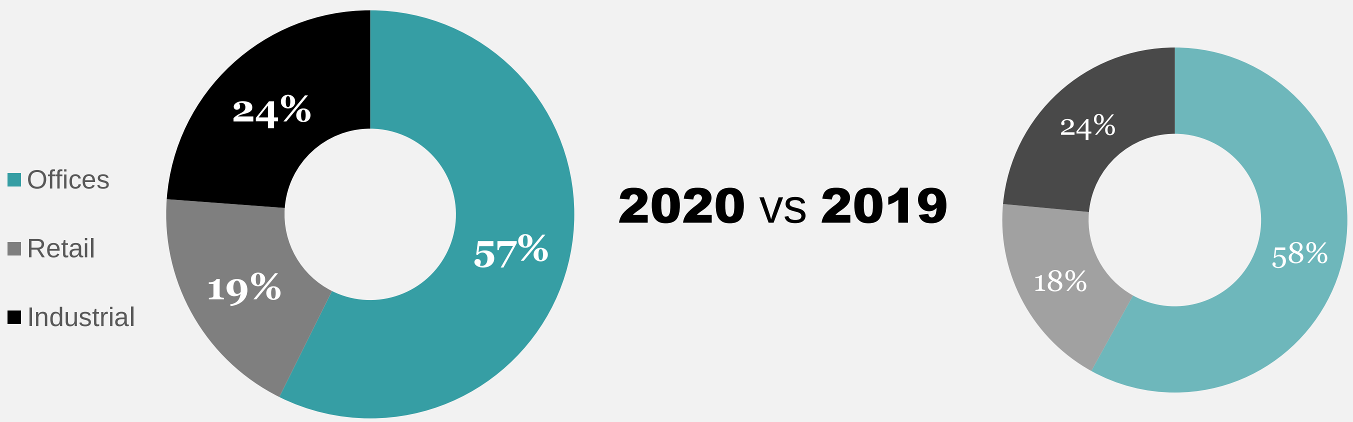


With a decrease of 24% compared with 2019, the regional markets record a more limited correction than the Greater Paris Region. The Rhône-Alpes region remains the most sought-after: almost €1.7 billion was invested there in 2020, a volume that has fallen over the year but **which is still the second best performance in its history.**

Investment volumes remain much lower in the other regions of France, with a reduced number of large transactions and a lesser presence of foreign investors, even if a few large transactions of offices or retail properties have been recorded in cities such as Lille, Marseille or Toulouse.

Breakdown of investment volumes by asset type

Rhône-Alpes region, in 2020



Source: Knight Frank

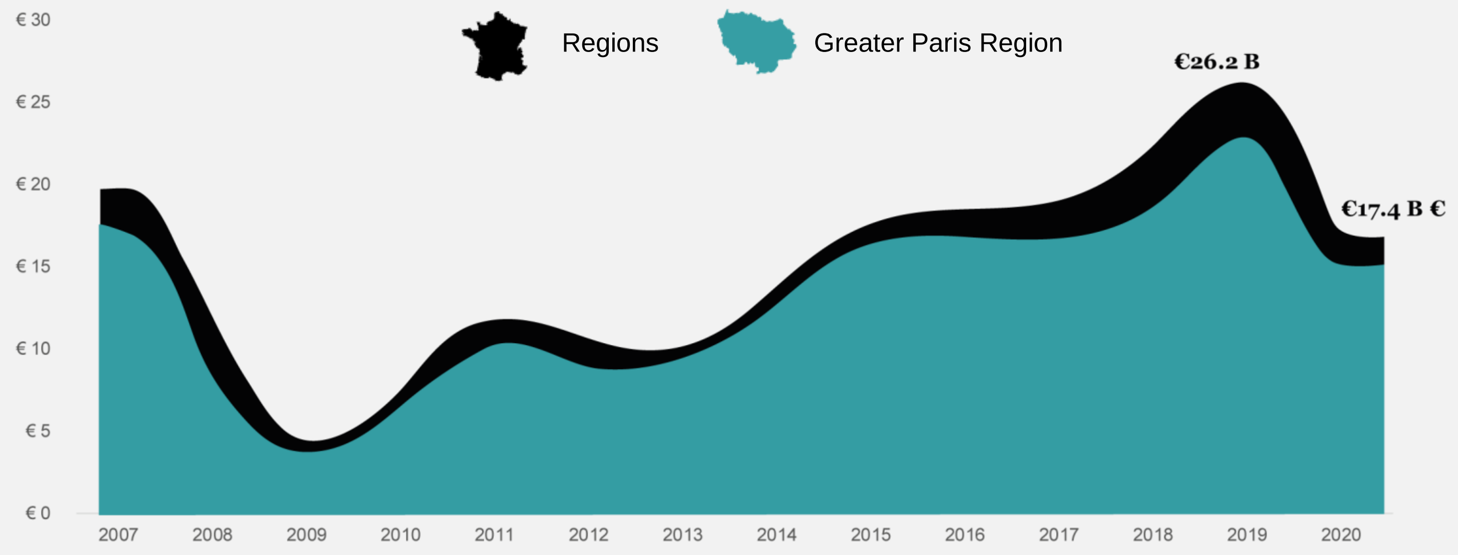
OFFICES HOLD ONTO THEIR SHARE

In 2019, offices smashed their record, with €26.2 billion invested in France. In 2020, this market sector was particularly impacted by the health crisis, **which exacerbated investors' caution** due to the deterioration of the lettings market and questions related to the boom in remote working.

As a result, **volumes fell sharply by 34% last year**: 17.4 billion euros were invested in this asset type, representing 69% of the entire French market. Despite this decrease, the share of office space is almost the same as the previous year, and is even slightly higher than its ten-year average.

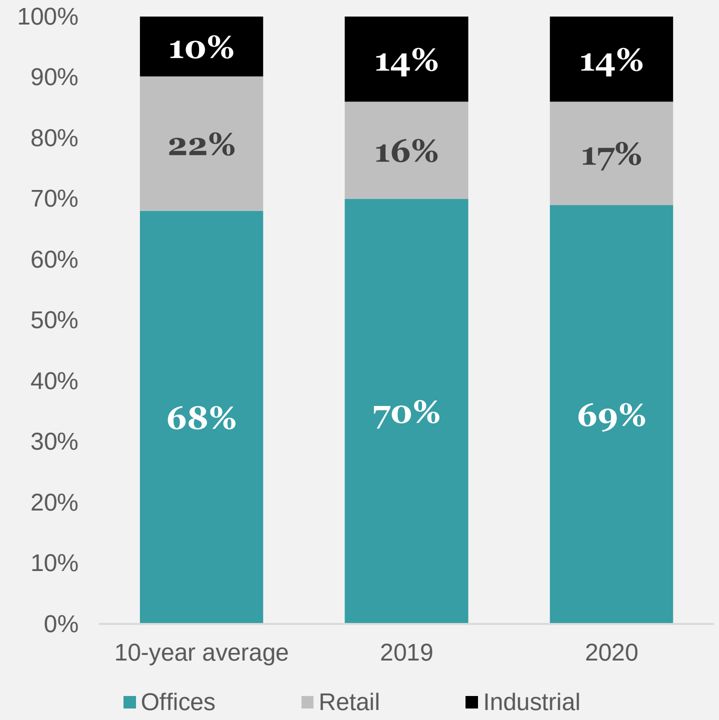
End of the upward cycle

Change in investment volumes in offices in France, in billions of euros



Source: Knight Frank

Breakdown of investment volumes in France, by asset type



EXAMPLES OF **OFFICE TRANSACTIONS** IN 2020

Swiss Life | Harmony, La Garenne-Colombes

Allianz | CityLights (1 & 3), Boulogne-Billancourt

DTZ Investors | Aquarel, Issy-les-Moulineaux

La Française REP | 173-175 bd Haussmann, Paris 8

Ivanhoé Cambridge | Joya, Fontenay-sous-Bois

Primonial | M Campus, Meudon

La Française REM | 55 bd Charles de Gaulle, Malakoff

Amundi | #Curve, Saint-Denis

Source: Knight Frank

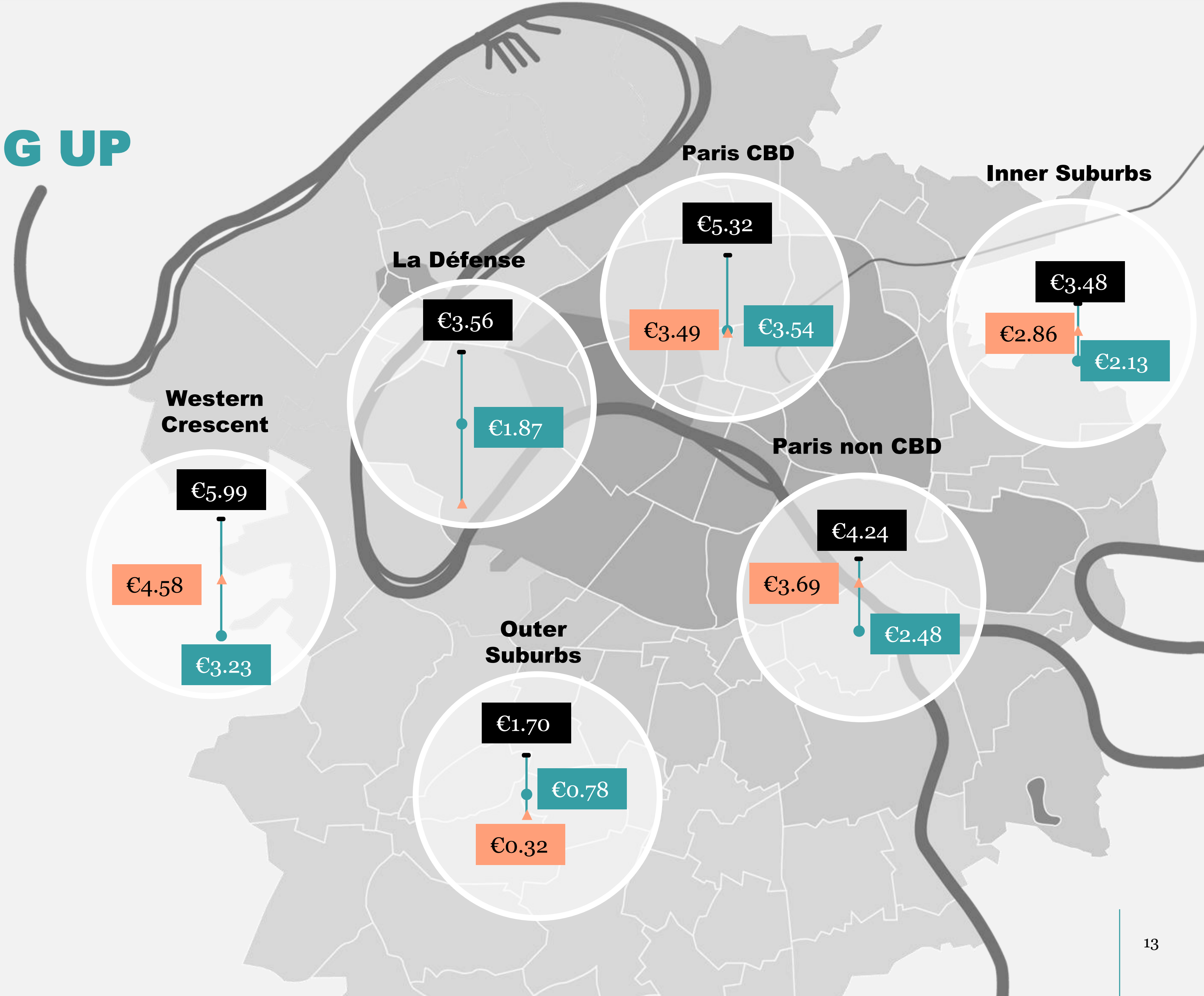
OFFICES:
SEVERAL MARKETS **HOLDING UP**

Paris is about average

Office investment volumes by geographical sector, in billions of euros

While the decrease in volumes concerned almost all the office sectors, the only exception was **the Southern Loop, with a net increase of 50% year-on-year** as a result of 7 transactions worth over €100 million, involving assets that were secured or due to be upgraded, such as "Espace Lumière", recently acquired by TISHMAN SPEYER.

Other sectors recorded a limited decrease in volumes. **This is the case of the Inner Northern Suburbs**, with a 7% drop year-on-year but a **22% increase compared to the ten-year average**. In Paris, activity also slowed, even if the completion in the 4th quarter of some large transactions, such as the sale by INVESCO of 173-175 boulevard Haussmann, limited the decrease in investment volumes (-13% year-on-year, all Parisian sectors included).



Record investment over the decade

2020

10-year average

Source: Knight Frank

OPPORTUNITIES TO BE SEIZED

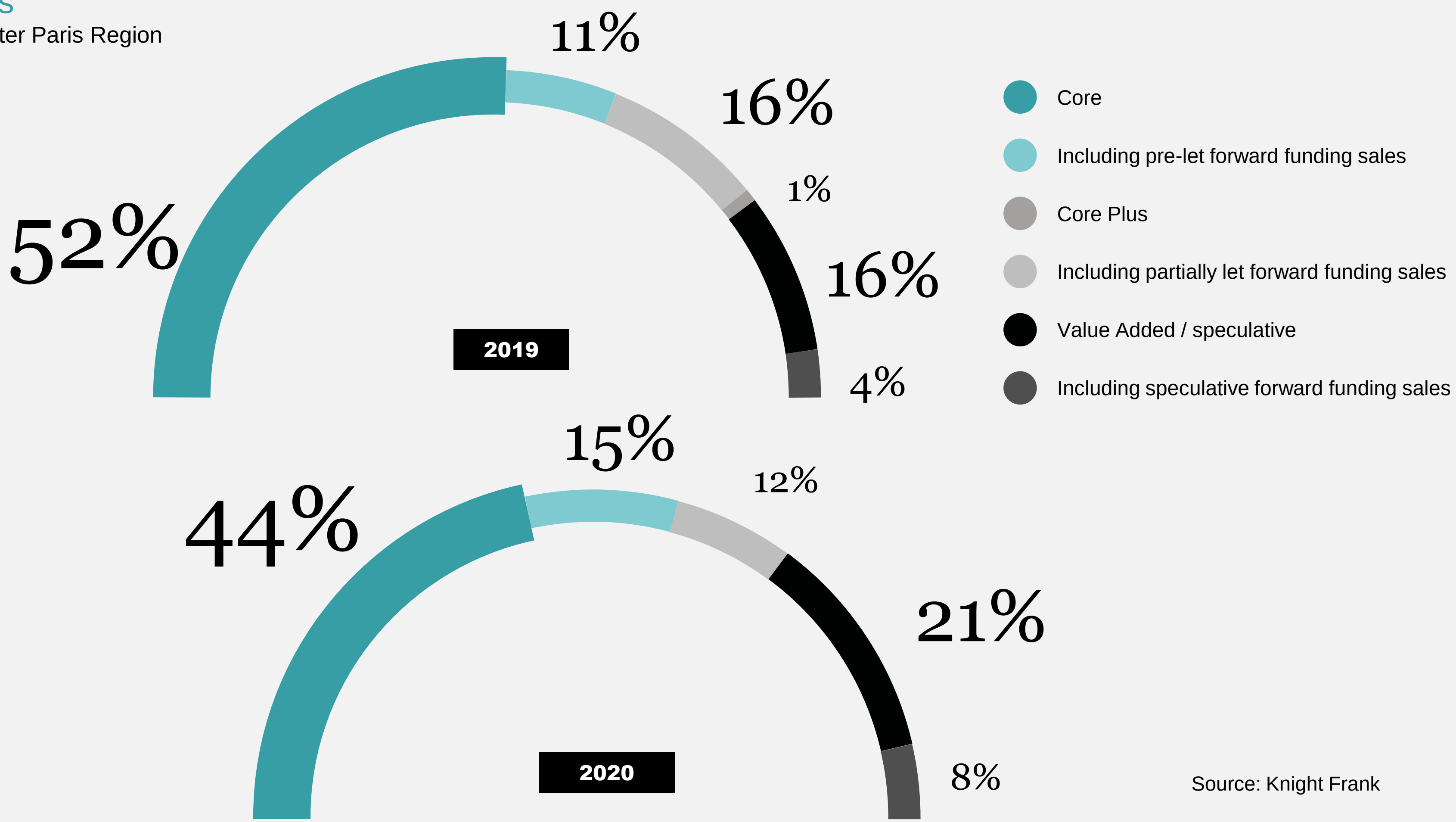
A decrease in core, reflecting the lack of products

Breakdown of investment volumes in offices by risk type in the Greater Paris Region

Transactions ≥ €20M

Investor caution has increased as a result of the health crisis, explaining the **appetite for quality assets secured by long leases**. As in 2019, however, activity was hampered by the limited number of core properties available for sale. The latter accounted for 59% of office investment volumes in the Greater Paris Region, a slight decrease compared with the previous year (63%).

Some players are willing to take more risk due to the readjustment of values or strong fundamentals in some markets. In Paris, for example, vacancy rates are much lower than in most other Greater Paris Region office hubs, and a significant proportion of projects under construction are pre-let, enabling investors to plan more comfortably for the future and to embark on major value creation projects. For example, TISHMAN SPEYER recently acquired the "Carré Saint-Germain" in Paris' 6th district, and the "Tour Cristal" in the 15th district.



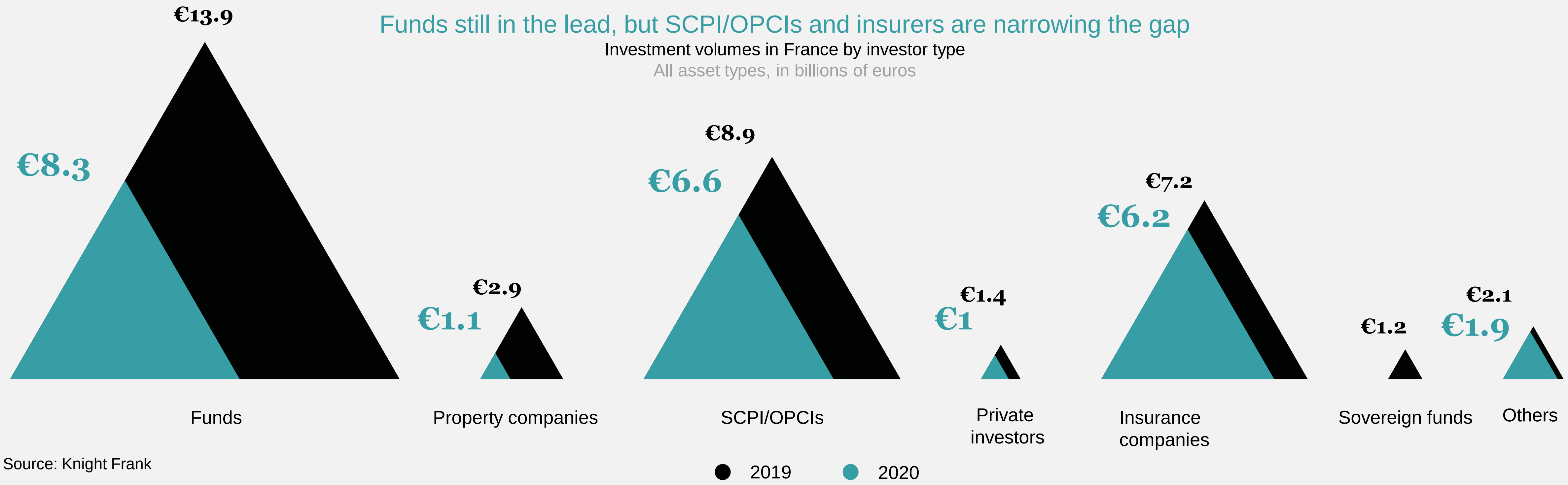
Source: Knight Frank

TYPES OF INVESTORS: **HIERARCHY UNCHANGED**

Although sums invested and fund-raising fell sharply from one year to the next, **SCPIs and OPCIs were very active, accounting for 26% of total investment volumes in France in 2020**, after 24% in 2019 and 19% in 2018. Nevertheless, investment funds remain the leading players in the market (33%).

Leading French insurers (CNP, UNOFI, COVEA, etc.) have also stood out by completing large transactions in the office and retail market.

Funds still in the lead, but SCPI/OPCIs and insurers are narrowing the gap
Investment volumes in France by investor type
All asset types, in billions of euros



Source: Knight Frank

FOREIGNERS: LESS PRESENT, BUT **STILL ACTIVE**

The French market remained the target of many foreign players in 2020. The latter accounted for a significant proportion of the sums committed in France, even if their share decreased (41% compared with 44% in 2019) due, in particular, to the **withdrawal of Asian investors**, who were directly impacted by **travel restrictions**.

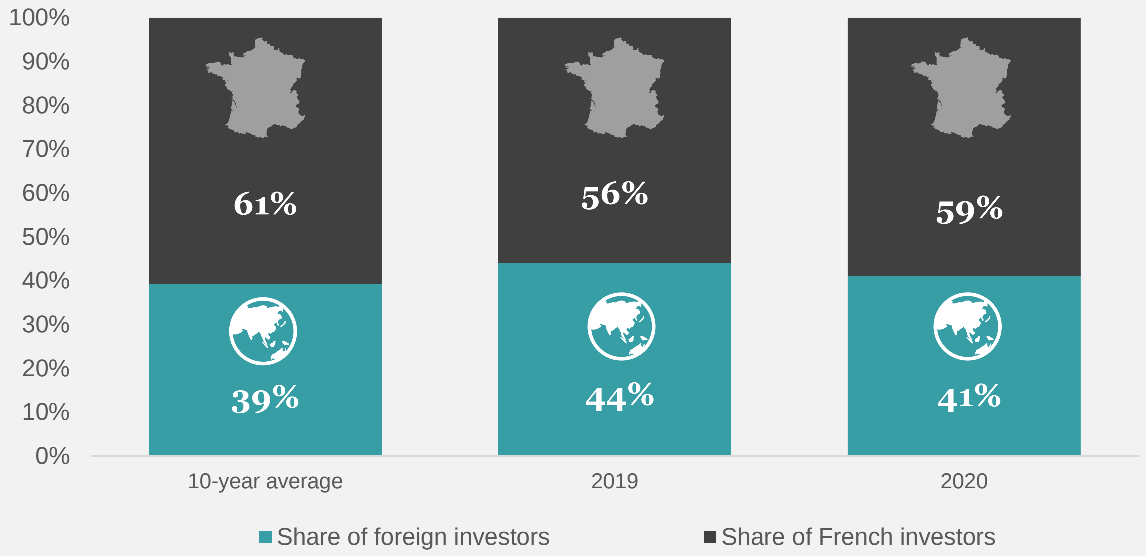
It should be remembered that South Koreans accounted for nearly 10% of the volumes invested in 2019, whereas they were virtually absent in 2020. Other nationalities, by contrast, were at the origin of several major transactions, like the **Americans in the logistics and office sector**, or the Germans who are still fond of secure assets.

The French, for their part, have increased their dominance, with a share of 59% compared to 56% in 2019.

The French increase their dominance slightly

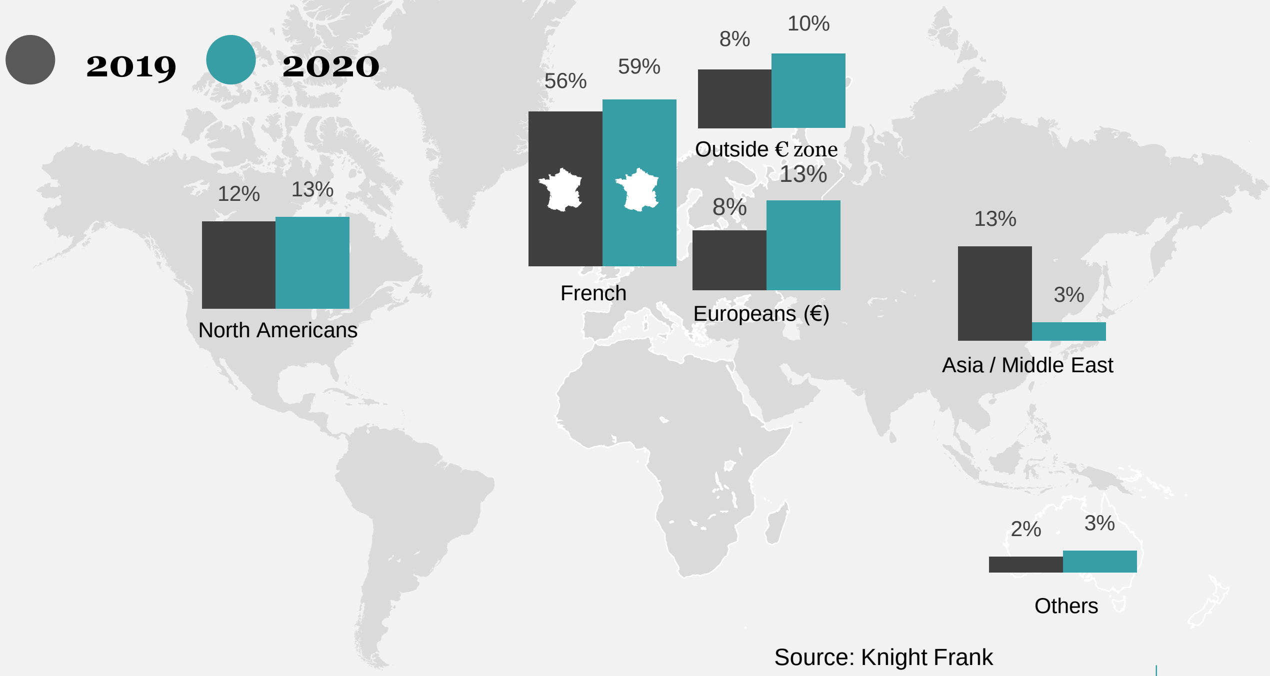
Change in the share of French and foreign investors

Out of the total volume invested in France, all asset types



Breakdown of investment volumes by nationality

Out of the total volume invested in France, all asset types



Source: Knight Frank

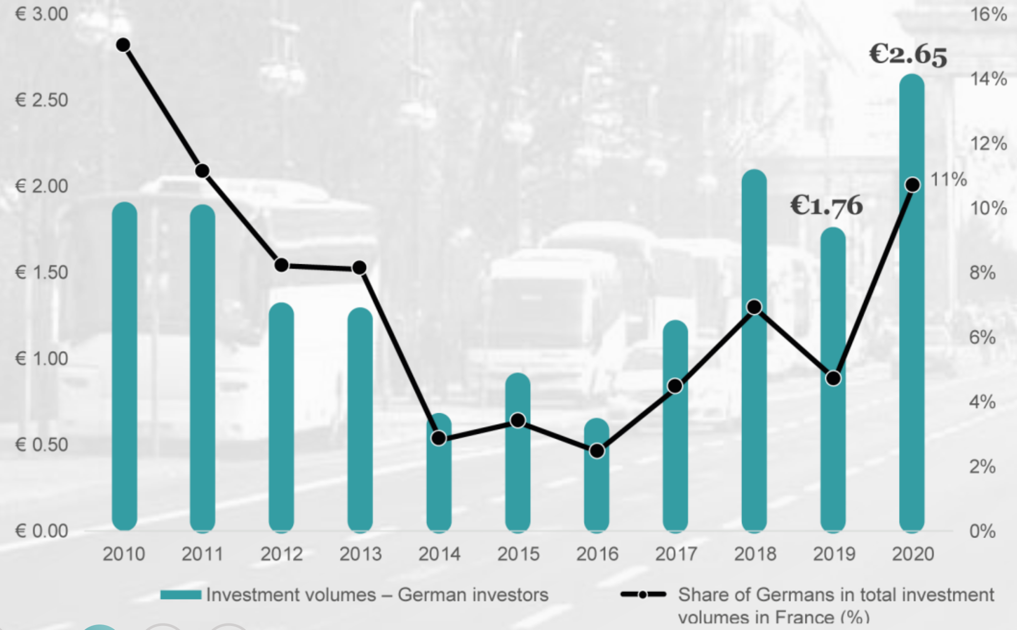
GERMANS TAKE CENTRE STAGE

German investors are a historical player in the French investment market, and in 2020 **they achieved their highest level of investment volume since 2007**. German investors acquired more than €2.6 billion of assets in France last year, a sharp increase of 51% compared with 2019. While Greater Paris Region offices remain a prime target, the **Germans significantly increased their allocations to the logistics sector**, with several large transactions including the recent purchase by REAL IS of a logistics portfolio near Orleans.

Volumes at their highest level since 2010

Volumes invested by Germans in France

All asset types, in billions of euros



	2020	10-year average
Asset type		
Offices	55%	67%
Retail	17%	26%
Industrial	28%	7%
Geographic sector		
Paris	44%	44%
Greater Paris Region	29%	34%
Regions	27%	22%

Source: Knight Frank

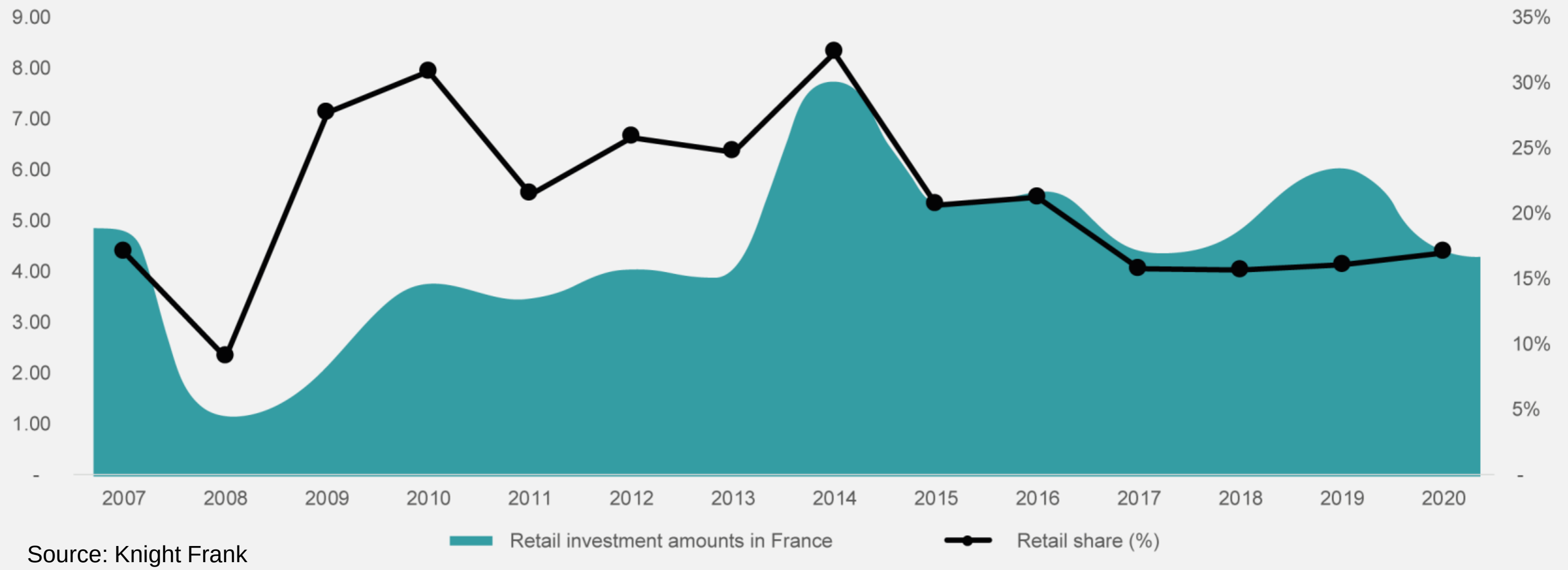
RETAIL: AT A CROSSROADS

Volumes invested in the French retail market **totalled almost €4.3 billion in 2020, down 29% year-on-year** and 12% compared with the ten-year average. This decrease was due to the sharp drop in the total number of transactions, which was offset by the completion of nine transactions in excess of €100 million. Two of these - the sale to BATIPART and COVEA of the ADEO portfolio and the sale of 54.2% of the shares in a shopping centre portfolio belonging to UNIBAIL-RODAMCO-WESTFIELD - accounted for almost a third of the total amount invested in retail. Although investors were already cautious before the health crisis, it has accelerated the ongoing transformations and exacerbated the questions about the future of certain retail assets. As a result, investment suffered from a shallower market, due to the **smaller number of potential buyers** and tighter financing conditions. Faced with a lack of visibility and less favourable negotiating conditions for sellers, **large offers were also withdrawn from the market.**

Relatively stable share

Change in retail investment volumes in France

In billions of euros, all retail formats included



Source: Knight Frank

-29%
Year-on-year

-12%
10-year average

Source: Knight Frank

EXAMPLES OF **RETAIL TRANSACTIONS** IN 2020

Crédit Agricole Assurances / La Française | URW portfolio, France

Batipart / Covéa | ADEO portfolio, France

BMO REP | 71-73 av. des Champs-Élysées, Paris 8

Invesco RE | 6-12 rue du Faubourg St-Honoré, Paris 8

Mata Capital | CIFA, Aubervilliers

Tishman Speyer / PSP | Carré Saint Germain, Paris 6

AEW Ciloger | Portfolio of 4 Monoprix shops, France

Unofi | Printemps, Lille

Source: Knight Frank

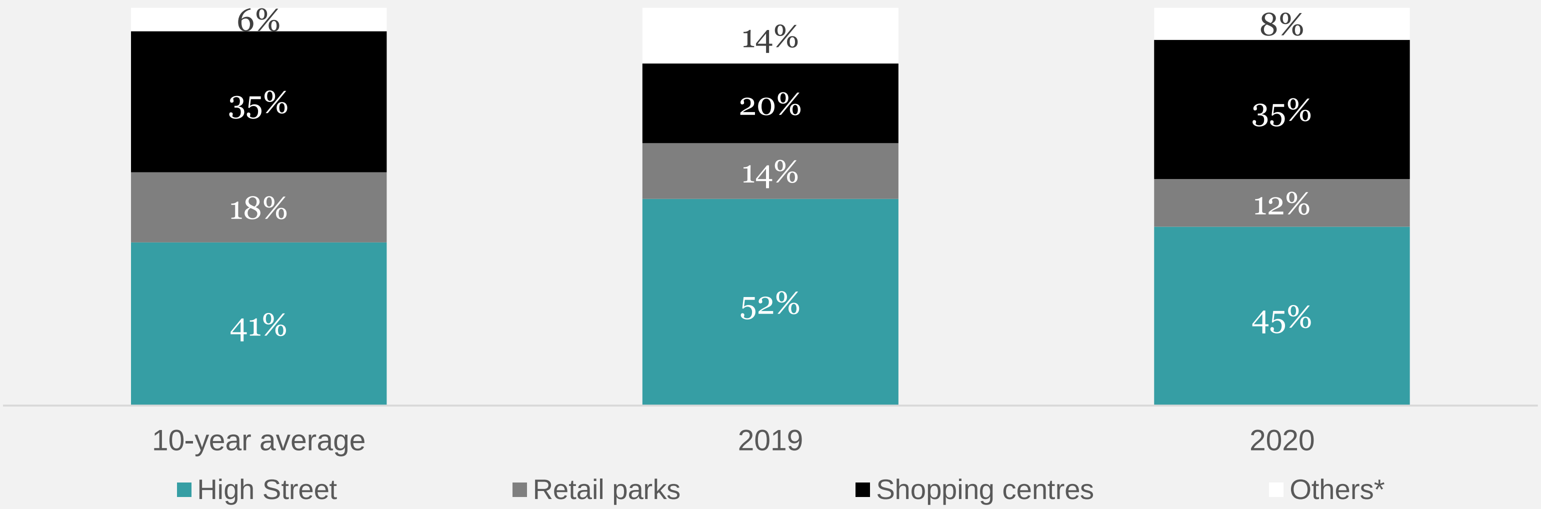
SHOPPING CENTRES: INCREASE IS **MISLEADING**

The shopping centre sector was driven exclusively by acquisitions from French investors, with volumes up 18% year-on-year due to the disposal of the URW portfolio. Other centres were sold, but for smaller amounts, confirming **the interest of some specialist investors for properties in need of repositioning**. For example, SOCIETE DES GRANDS MAGASINS bought the "SQY Ouest" centre in Montigny-le-Bretonneux from HAMMERSON, as well as a portfolio of eight assets in the regions. Sales have been rarer in the retail park market. Despite relatively low volumes, this market sector will continue to be closely watched by investors in the coming months due to being well adapted to the consequences of the health crisis and to consumer expectations.

No upheaval

Retail investment volumes in France

Breakdown by asset type

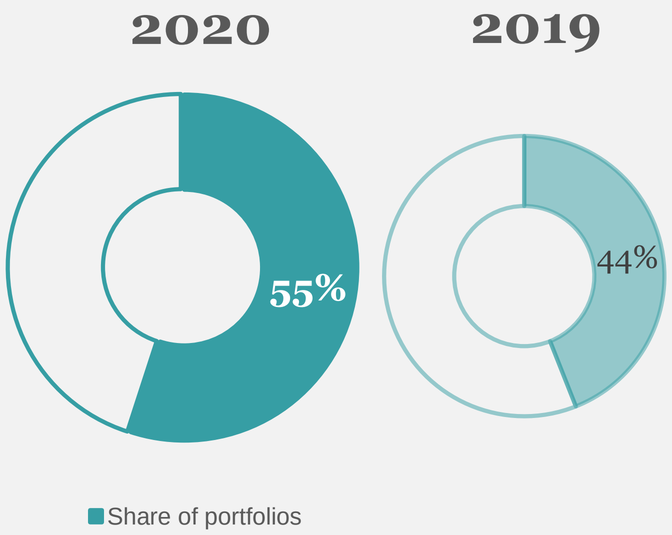


Source: Knight Frank **Outlet centres, hypermarkets and supermarkets, non-divisible portfolios*

The leading role of portfolios

Share of volumes in portfolios

Out of all retail investment volumes in France



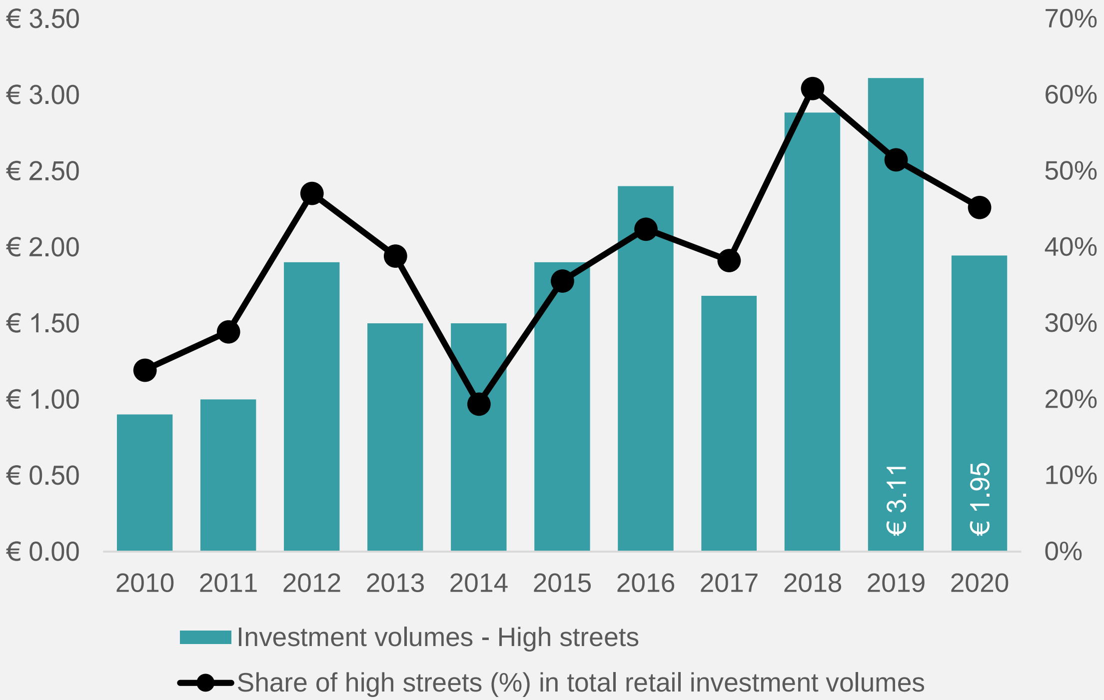
HIGH STREETS: STILL **ON TOP**, BUT…

The greatest drop was in the high street retail sector. The sums invested there fell by 37% compared to 2019, in a context that is currently unfavourable to prime streets as a result of the sharp decrease in the number of foreign tourists. At the end of the year, however, the sale of two large mixed-use Parisian assets - 71-73 avenue des Champs-Élysées bought, by BMO REP, and 6-12 rue du Faubourg Saint-Honoré bought by INVESCO - helped boost volumes. These transactions also demonstrated the confidence of major international investors in the long-term appeal of the Paris market.

Outside of Paris, **the largest sale of a single asset was completed in Lille**, with the sale to UNOFI of the PRINTEMPS on rue Nationale for almost €100 million.

Less exceptional year for high streets

High street investment volumes in France, in billions of euros



TRANSACTIONS
> €100 M

7
In 2019

6
In 2020

Source: Knight Frank

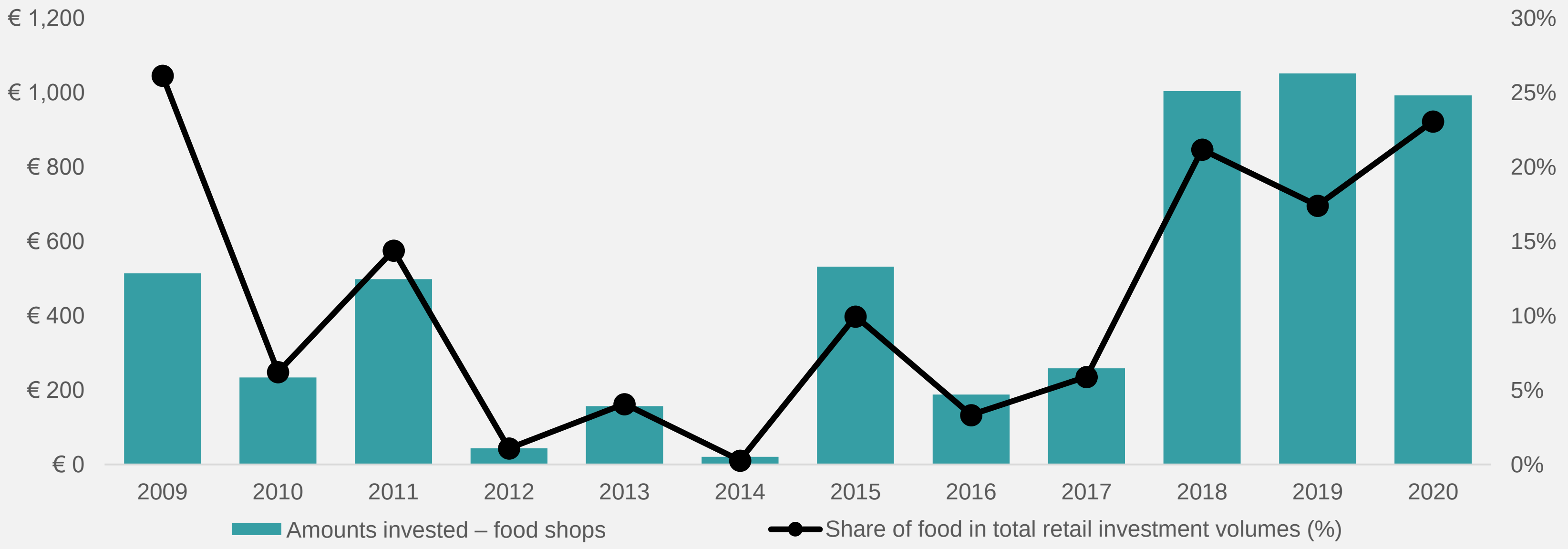
CONVENIENCE AND FOOD SHOPS ARE VERY POPULAR

Highly sought-after in recent years, local shops have also enjoyed **increased interest since the outbreak of the Covid-19 pandemic**. Following those undertaken in 2018 and 2019, new CASINO and MONOPRIX shop sales have thus boosted the French market in 2020, bringing the retail chain's total asset sales over the past five years to more than €3 billion.

Market enthusiasm

Change in food shops investment volumes in France, in millions of euros

All retail formats included



Source: Knight Frank

AMOUNT OF THE CASINO GROUP'S ASSET SALES

OVER THE PAST 5 YEARS IN FRANCE

Total, all asset types combined

€3.2 B

MONOPRIX

Casino

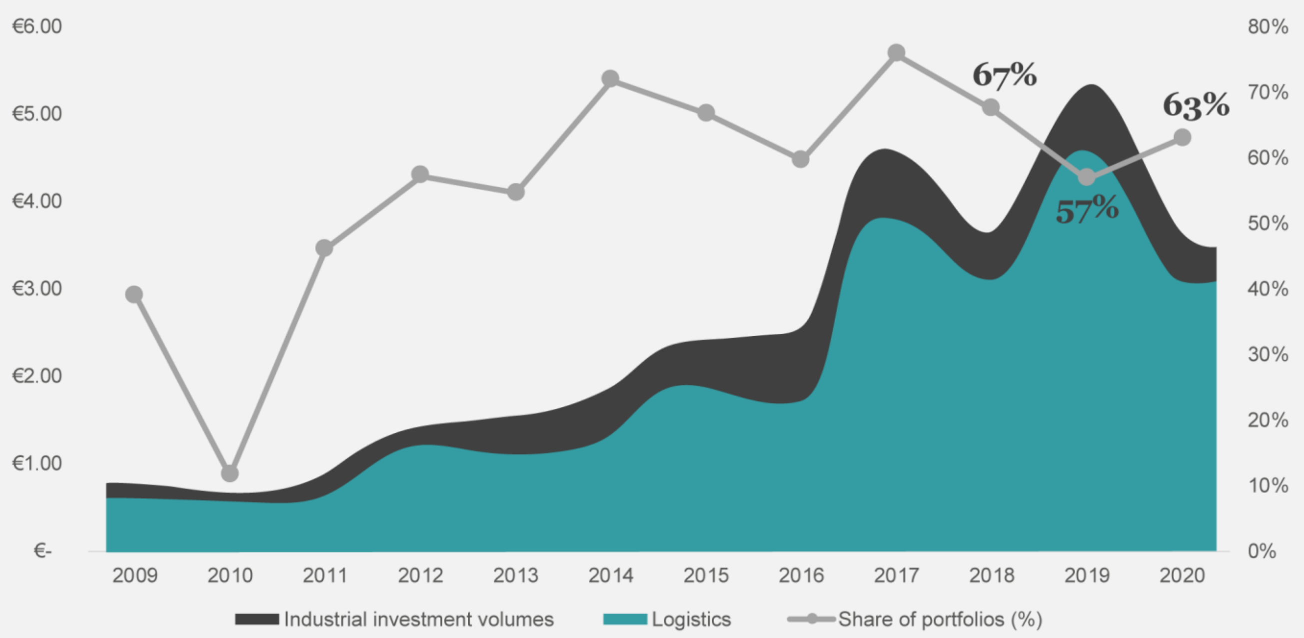
LOGISTICS: STILL VERY MUCH IN DEMAND

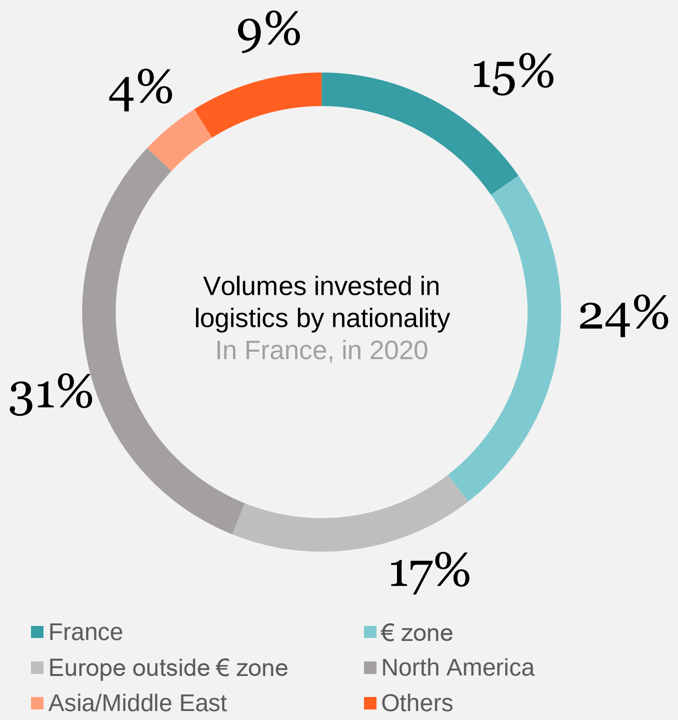
With almost €3.5 billion invested, **investment volumes in the industrial premises market in 2020 fell by 35% year-on-year**, but needs to be put into perspective given the record level recorded in 2019 (€5.4 billion), which benefited in particular from an exceptional sale: the sale of the CARREFOUR portfolio to ARGAN for almost €900 million. In the light of the impact of the health crisis, the 2020 result is **more than respectable**. It is 116% higher than the ten-year average and is based on a **high number of large transactions**: 8 transactions in excess of €100 million were recorded, compared with 10 in 2019. The large transactions in 2020 exclusively involved logistics assets, most of which were sold to North American, British or German funds.

A very respectable result

Change in industrial investment volumes

In France, in billions of euros





Source: Knight Frank

STRONG COMEBACK OF **RESIDENTIAL**

With uncertainty at an all-time high, the health crisis will have a lasting impact on allocation strategies, raising investors' awareness of the need to focus on adaptation to new uses and the reversibility of buildings. Furthermore, investors will increasingly target those assets that are assumed to be the most resilient. This trend heralds an **acceleration of the diversification strategies already implemented in recent years in favour of logistics and, above all, residential properties (traditional or managed)**, whose share of total investment volumes is growing steadily in Europe.

RESIDENTIAL

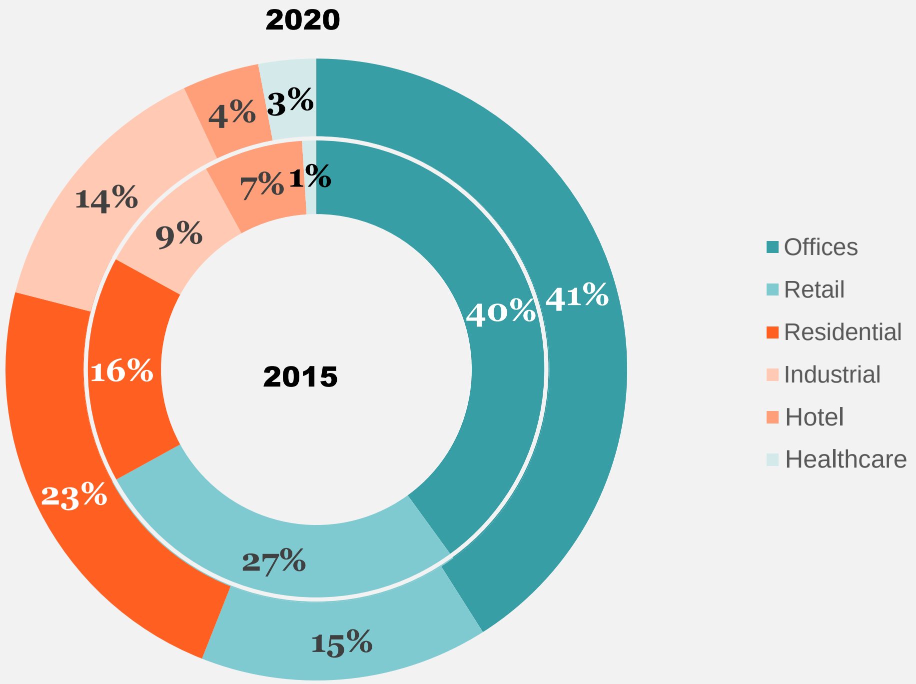
CLINICS / EPHAD*

*Residential facility
for dependent elderly persons

DATA CENTRE

Investors accelerate their diversification strategy

Breakdown of property investment volumes by type in Europe



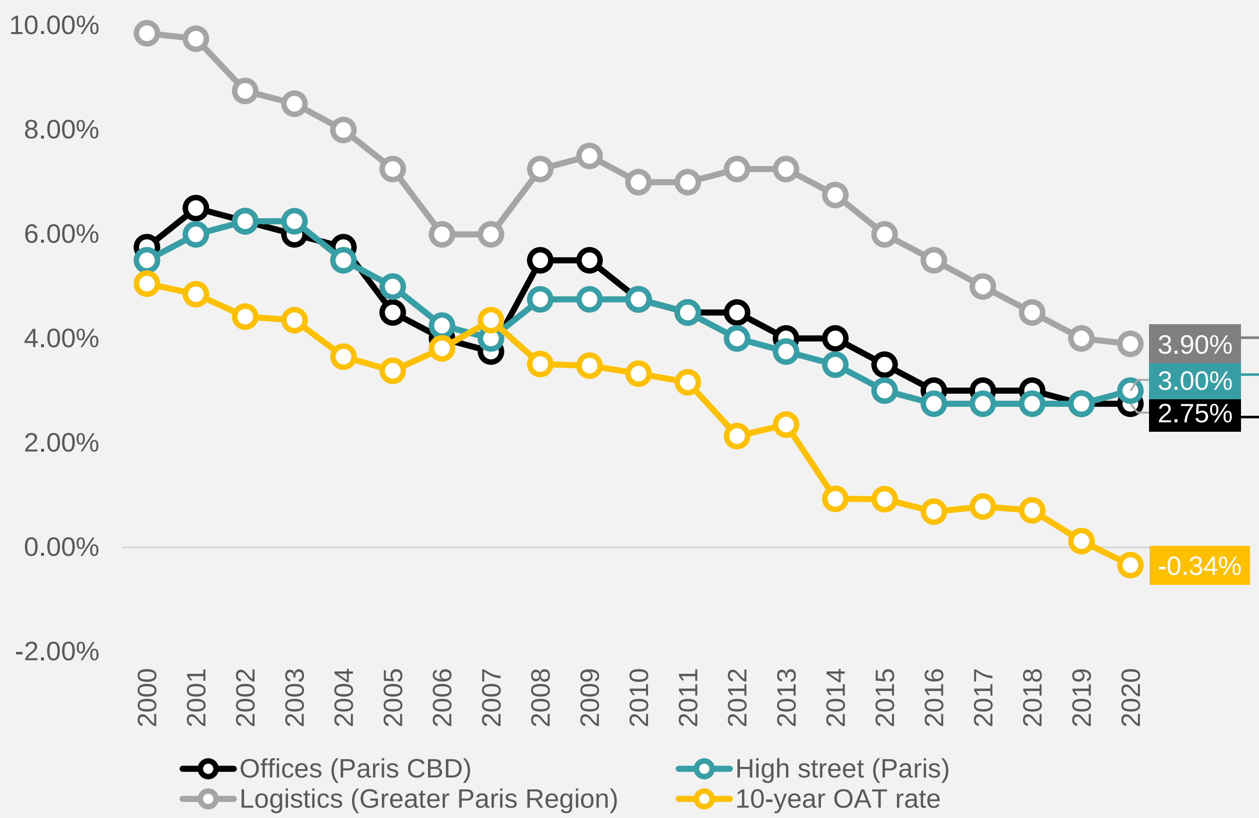
Source: RCA / Knight Frank

YIELDS: CONTINUED PRESSURE

In 2020, the correction of prime yields was relatively limited and mainly seen in the retail sector. In the logistics sector, strong competition from investors and a lack of prime supply even led to **a further compression of yields, which fell below the symbolic threshold of 4.00%**.

In 2021, investors will remain very selective, **favouring the most established geographical sectors and assets offering stable and secure rental income**, which will sustain pressure on prime yields. In the Paris office market, prime yields could consequently remain below 3.00%.

Change in prime yields



2009-2020 change

LOGISTICS

-48%

HIGH STREET

-37%

OFFICES

-50%

Source: Knight Frank

THE OUTLOOK FOR 2021…
AND BEYOND

- **LIMITED ACTIVITY** IN THE 1ST HALF OF 2021
- **WAIT-AND-SEE** APPROACH BY INVESTORS
- **DISCREPANCY** BETWEEN THE EXPECTATIONS OF SELLERS AND BUYERS
- **LACK OF CORE PRODUCTS** AND DIVERSIFICATION ASSETS
- FUND-RAISING COULD DECREASE... BUT **LIQUIDITY REMAINS HIGH**
- NO OR VERY **FEW FORCED SALES**
- EVER INCREASING ATTENTION PAID TO **ENVIRONMENTAL AND SOCIAL ISSUES** (ESG)

2020 REVIEW
AND 2021 OUTLOOK

OFFICES

OFFICES

WHAT WE SAID **A YEAR AGO**

ECONOMIC SITUATION: STILL UNCERTAIN

- Slowdown in global growth
- Resilience of the French economy?
- Risks still numerous (Brexit, elections in the USA, social tensions in France, etc.).

THE MAIN DRIVERS OF DEMAND

- New ways of working
- Increased search for flexibility and services
- Attracting and retaining talent (accessibility, wellness, etc.)
- Continued expansion of digital companies
- Continuation of streamlining initiatives for more "traditional" occupiers

FUTURE SUPPLY AND MAIN AREAS OF DEVELOPMENT

- Renewal of office stock in established office hubs (Paris, Western Crescent)
- Dynamism of areas on the edge of the capital (Parisian address, accessibility, quality of supply)
- Development of the Grand Paris hubs (Saint-Denis, Saint-Ouen, Fontenay-sous-Bois, Villejuif, etc.)

WHAT ACTUALLY HAPPENED

ECONOMIC SITUATION: STILL UNCERTAIN

- Covid-19: one of the worst crises in recent history
- Global economic recession
- Resilience of the French economy thwarted by the health crisis
- Risks still numerous: new waves of the pandemic, company debt, social tensions in France and around the world , etc.),

  but vaccines give hope

THE MAIN DRIVERS OF DEMAND

- New ways of working
- Increased search for flexibility and services
- Attracting and retaining talent (accessibility, wellness, etc.): something that needs to be put into perspective given the deterioration of the job market?
- Expansion of digital companies in question
- Acceleration of streamlining initiatives for more "traditional" occupiers

FUTURE SUPPLY AND MAIN AREAS OF DEVELOPMENT

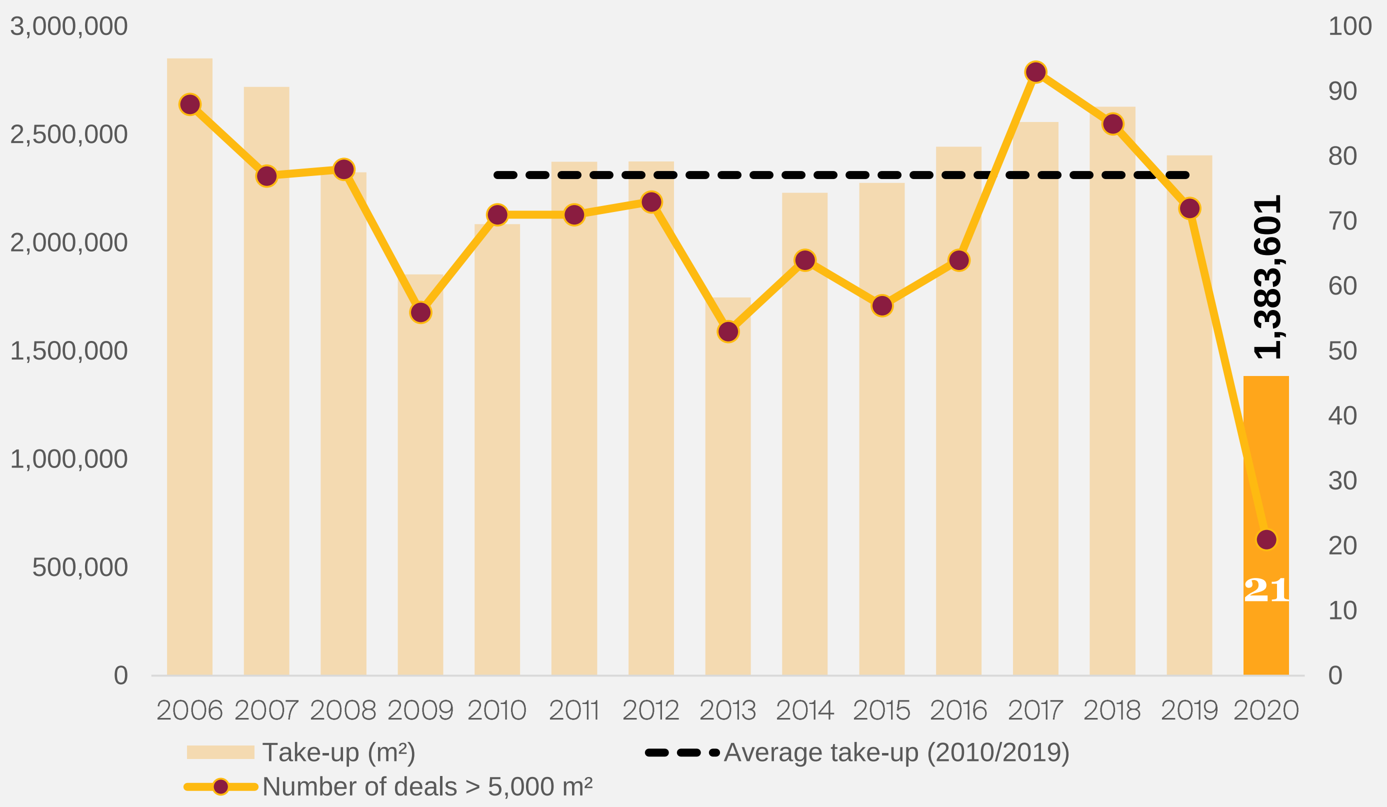
- Renewal of office stock in established office hubs (Paris, Western Crescent)
- Dynamism of areas on the edge of the capital (Parisian address, accessibility, quality of supply)
- Development of the Grand Paris hubs (Saint-Denis, Saint-Ouen, Fontenay-sous-Bois, Villejuif, etc.)
- Increases in future deliveries, but building permits and building starts are beginning to decrease

AT ITS LOWEST LEVEL FOR 20 YEARS

After a 9% year-on-year fall in 2019, **take-up fell by 42% in 2020**, with barely 1.38 million sq m of office space let or sold to occupiers in the Greater Paris Region. This result, down 40% compared with the ten-year average, is **the worst in the last 20 years**.

This downturn is obviously linked to the Covid-19 pandemic and the lack of visibility on the health and economic situation. Companies have been very cautious since the first lockdown, and remain **focused on preventing health risks and preserving their activity** rather than redefining and implementing a real estate strategy.

Take up change in the Greater Paris Region



-42% year-on-year

-40% 10-year average

Source: Knight Frank

LARGE TRANSACTIONS: VOLUME **FELL BY MORE THAN HALF**

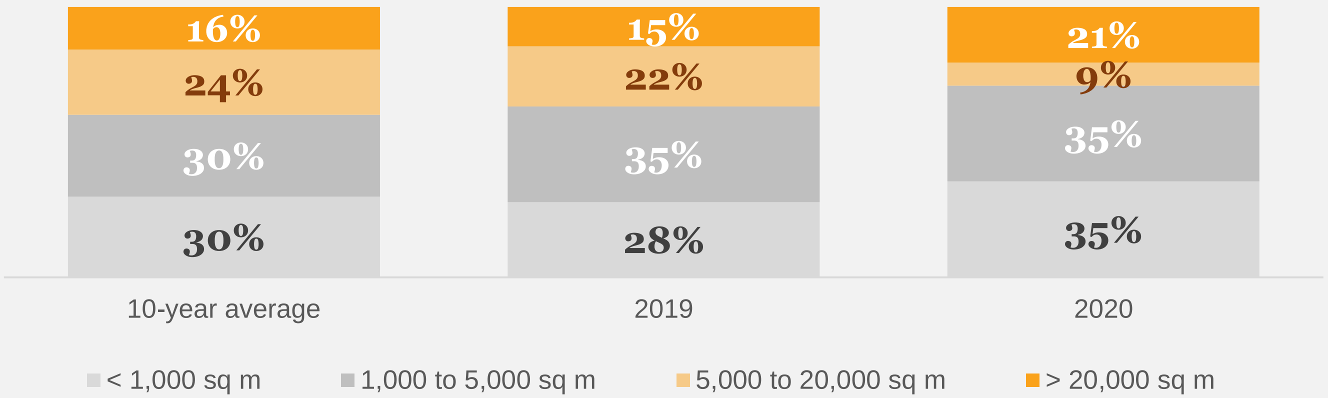
Small areas (< 1,000 sq m) have fared best, with a 27% decrease year-on-year compared with -42% for medium-sized areas (1,000 to 5,000 sq m). The fall is even more marked for large areas, both in number, with 21 transactions over 5,000 sq m (compared with 72 in 2019), and in volume, with take-up of 404,000 sq m in 2020 compared with 887,000 sq m in 2019, and nearly one million sq m in 2018!

Large transactions account for just 29% of total take-up in 2020 compared with 40% on average over the last ten years. The decrease would have been much greater without two large transactions: TOTAL's lease of 125,000 sq m on "The Link" in La Défense and ENGIE's letting of a new 94,000 sq m campus in La Garenne-Colombes, which together account for 55% of the take-up volumes over 5,000 sq m in 2020.

Smaller areas fared better

Take-up by area category in the Greater Paris Region

Out of total volume in sq m



Source: Knight Frank

21 transactions
> 5,000 sq m
(72 in 2019)

=

404,000 SQ M
(**887,000 sq m** in 2019)

=

29%
of take-up
(**37%** in 2019)

2020 LARGE TRANSACTIONS

Examples of transactions > 5,000 sq m

PARIS

BOSTON CONSULTING | L1VE
PARIS 16th (20,000 sq m)

VYV | 62 RUE JEANNE D'ARC
PARIS 13th (9,700 sq m)

WEBHELP | TOKO
PARIS 17th (7,400 sq m)

GOLDMAN SACHS | 83 Av. MARCEAU
PARIS 16th (6,500 sq m)

MORNING | HÔTEL DE LA MARINE
PARIS 8th (6,100 sq m)

SUBURBS

TOTAL | THE LINK
LA DÉFENSE (125,000 sq m)

ENGIE | RUE DES FAUVELLES
LA GARENNE-COLOMBES (94,300 sq m)

NEXITY | REIWA
SAINT-OUEN (25,000 sq m)

SOPRA STERIA | LATITUDE
LA DÉFENSE (21,600 sq m)

VERSPIEREN | #CURVE
SAINT-DENIS (5,980 sq m)

Source: Knight Frank

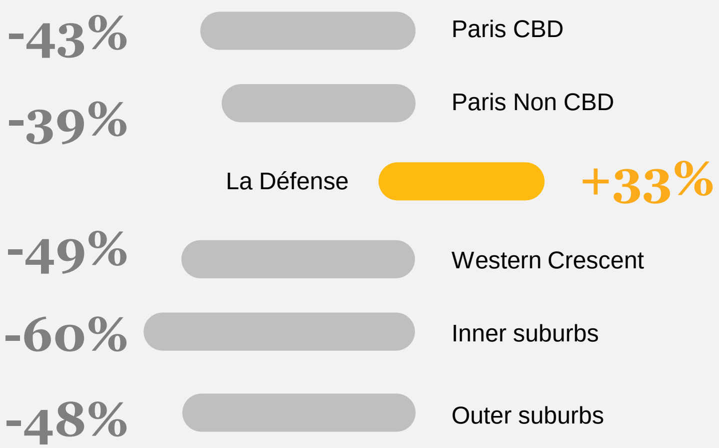
THE **EXCEPTION** OF LA DÉFENSE

With just over 200,000 sq m let, up 33% year-on-year, La Défense achieved an excellent performance, which needs to be **put into perspective by the weight of TOTAL's letting of "The Link"**. Without this, the business district's performance would have been negative, although 32% higher than its low point in 2002. The other office sectors show volumes down by 15 to 79% compared to 2019. **In Paris, take-up fell by 43% in the CBD**, but remains 29% higher than its low point in 2002. This relative resilience is based on the **continued letting of small areas**. The effects of the health crisis on real estate demand were also cushioned by the **wide diversity of Parisian occupier profiles**.

Virtually across-the-board decreases

Change in take-up, in volume of sq m

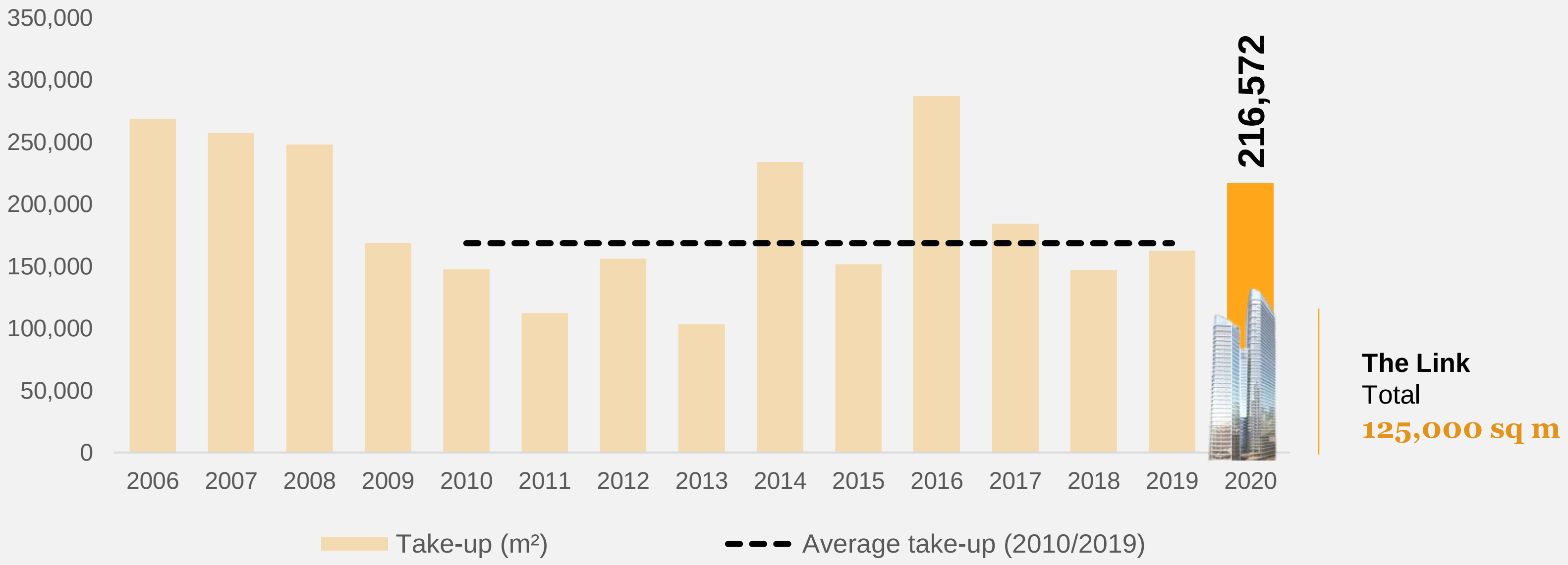
Between 2019 and 2020



Source: Knight Frank

One of La Défense's best years

Change in take-up, in volume of sq m



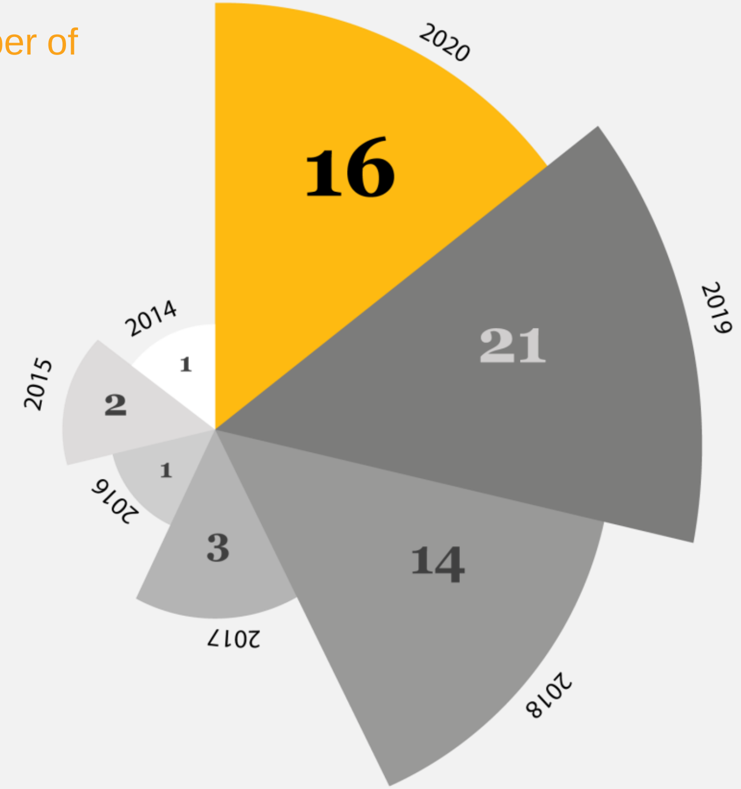
PRIME RENT: NEW **RECORD**

In 2020, **several consulting and finance companies** let some of Paris' finest assets, pushing up the prime rent. As a result, the prime rent stands at €940/sq m/year and is **10% higher than its previous record of 2019**.

The increase in prime rent contrasts with the stabilisation of the average rent. While the latter remains high, the growing gap between prime and average rents provides a better measure of the impact of the health crisis, and illustrates the **growing distinction between exceptional assets and the rest of the market**.

Continued high number of prime transactions

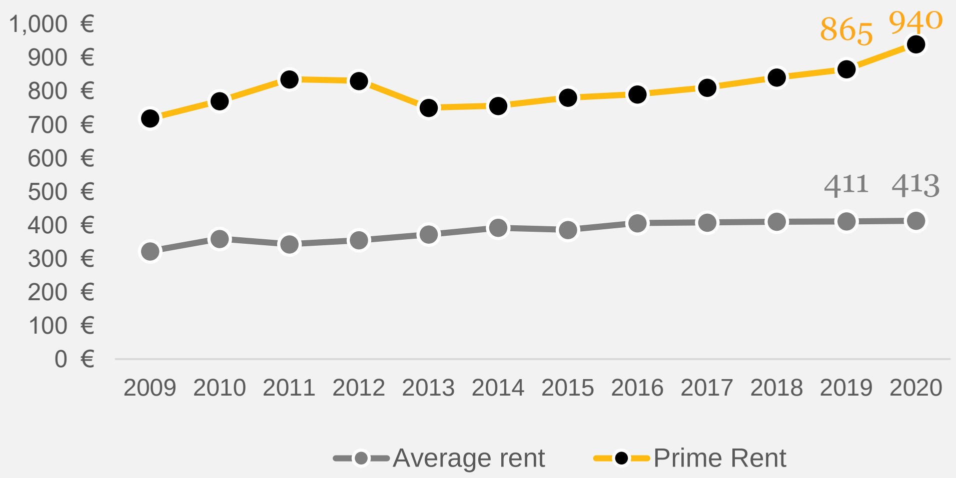
Number of transactions
≥ €800 /sq m/year
In Inner Paris,
on areas ≥ 500 sq m



Source: Knight Frank

Increasing gap between prime and average

Change in prime and average rents in the Greater Paris Region
In €/sq m/year



Average rent: weighted average of all transactions over the last 12 months (all areas and qualities combined)
Prime rent: weighted average of 5 transactions >500 sq m at the highest rents for the last 12 months (of all grades)

IMMEDIATE SUPPLY: **FIVE YEARS OF DECREASE WIPED OUT**

The volume of immediate supply in the Greater Paris Region totalled 3.57 million sq m at the end of the 4th quarter 2020, a vacancy rate of 6.5% and **an increase of 31%** year-on-year due to the acceleration in properties being vacated and the drop in demand. Nevertheless, availability remains **11% below the previous high point in 2014**.

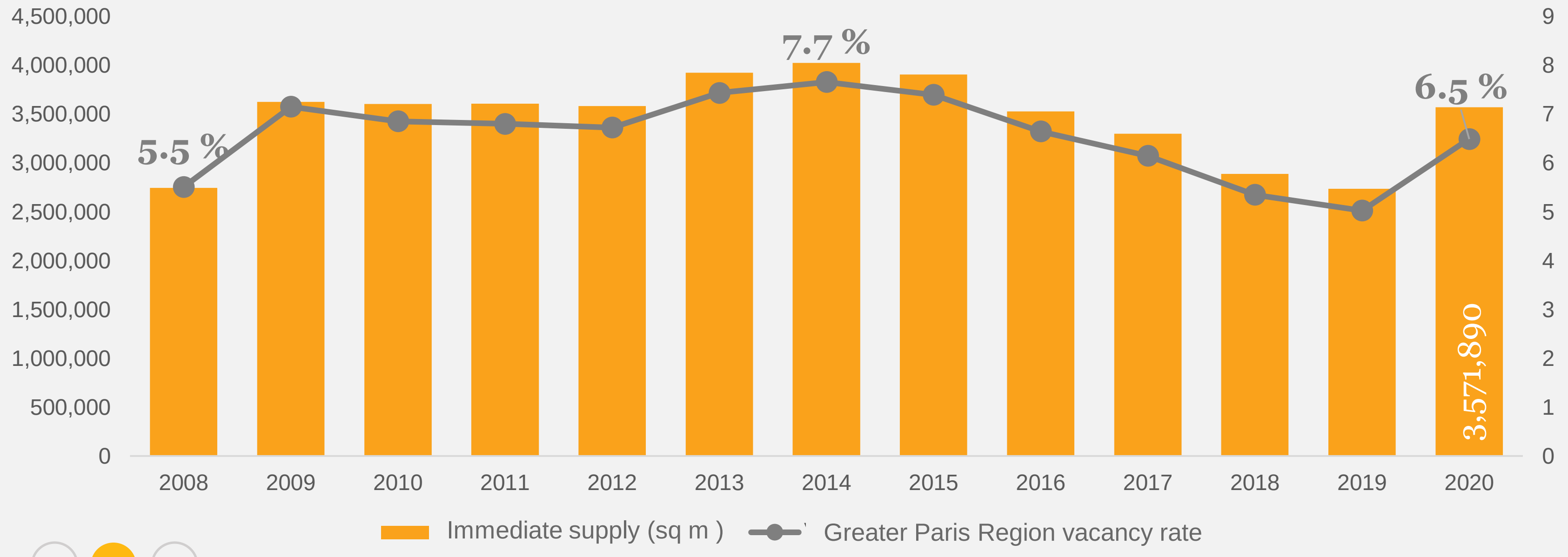
Supply doubled in Paris, pushing the vacancy rate from 2.1% in the 4th quarter of 2019 to 4.1% one year later. The vacancy rate in the CBD rose from 1.4% to 4%.

Outside of Paris, the immediate supply has increased the most in La Défense, with a vacancy rate of almost 10% compared with 4.9% a year ago. Elsewhere, the volume of immediate supply is progressing more moderately, with an increase of between 18% in the Western Crescent and 31% in the Inner Suburbs.

31% increase in immediate supply in 2020

Change in available supply and vacancy rate

In the Greater Paris Region, as a %



6.5%
Vacancy rate in the **Greater Paris Region**
End 2020

4.1%
Vacancy rate in **Inner Paris**
End 2020

Source: Knight Frank

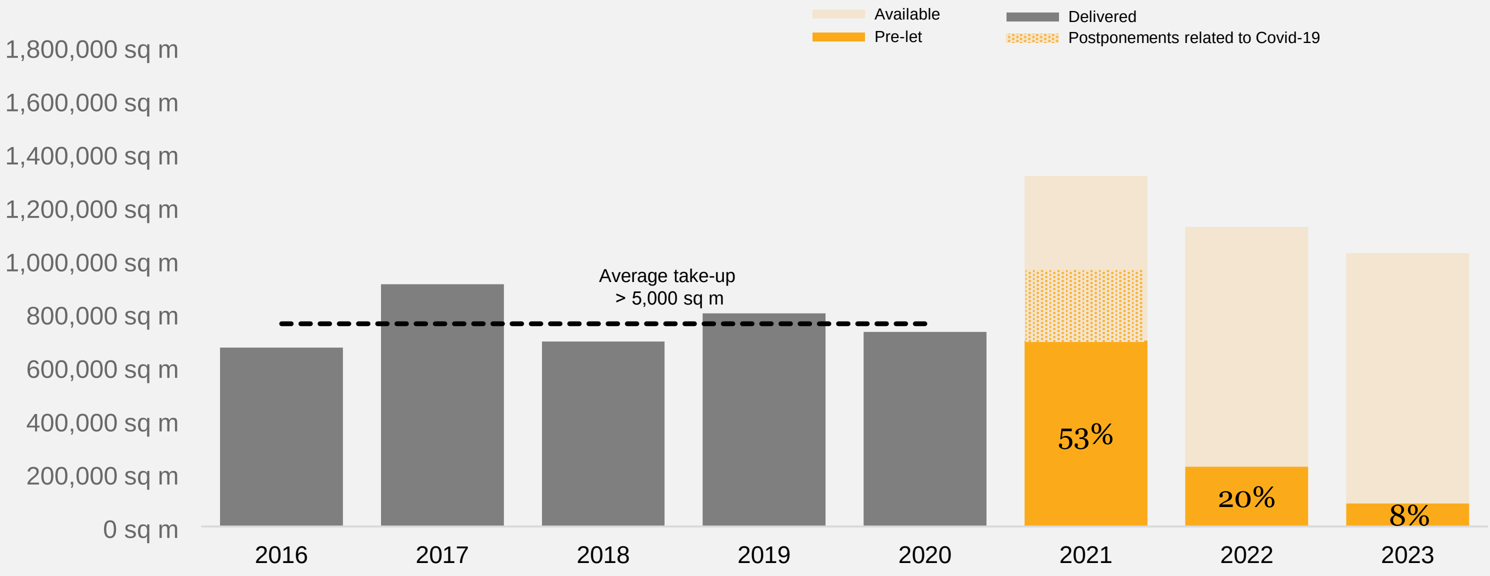
FUTURE SUPPLY: SHARP INCREASE IN THE SHORT TERM

More than 130 projects > 5,000 sq m are currently under construction in the Greater Paris Region for a total of 2.5 million sq m, **63% of which is still available**. Future supply is fairly contained in Paris CBD, with a 55% pre-letting rate, and in sectors such as Paris South or the Southern Loop. **Other office hubs are much better supplied, such as La Défense** (more than 250,000 sq m of office space still available) **and the Inner Northern Suburbs** (342,000 sq m). Given the current lack of visibility, it is difficult to predict how long it will take for the Greater Paris Region market to return to balance. That said, the last few months have already seen **a decrease in building starts and building permit applications**, as well as a scaling down of certain development projects.

Delivery peak in 2021

Delivery of new or redeveloped areas

> 5,000 sq m in the Greater Paris Region



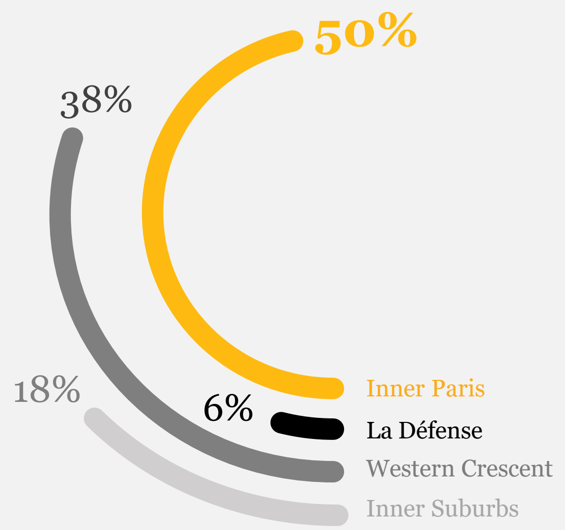
Source: Knight Frank

Paris in balance

Pre-letting rate by geographical sector

Office supply to be delivered by the end of 2023

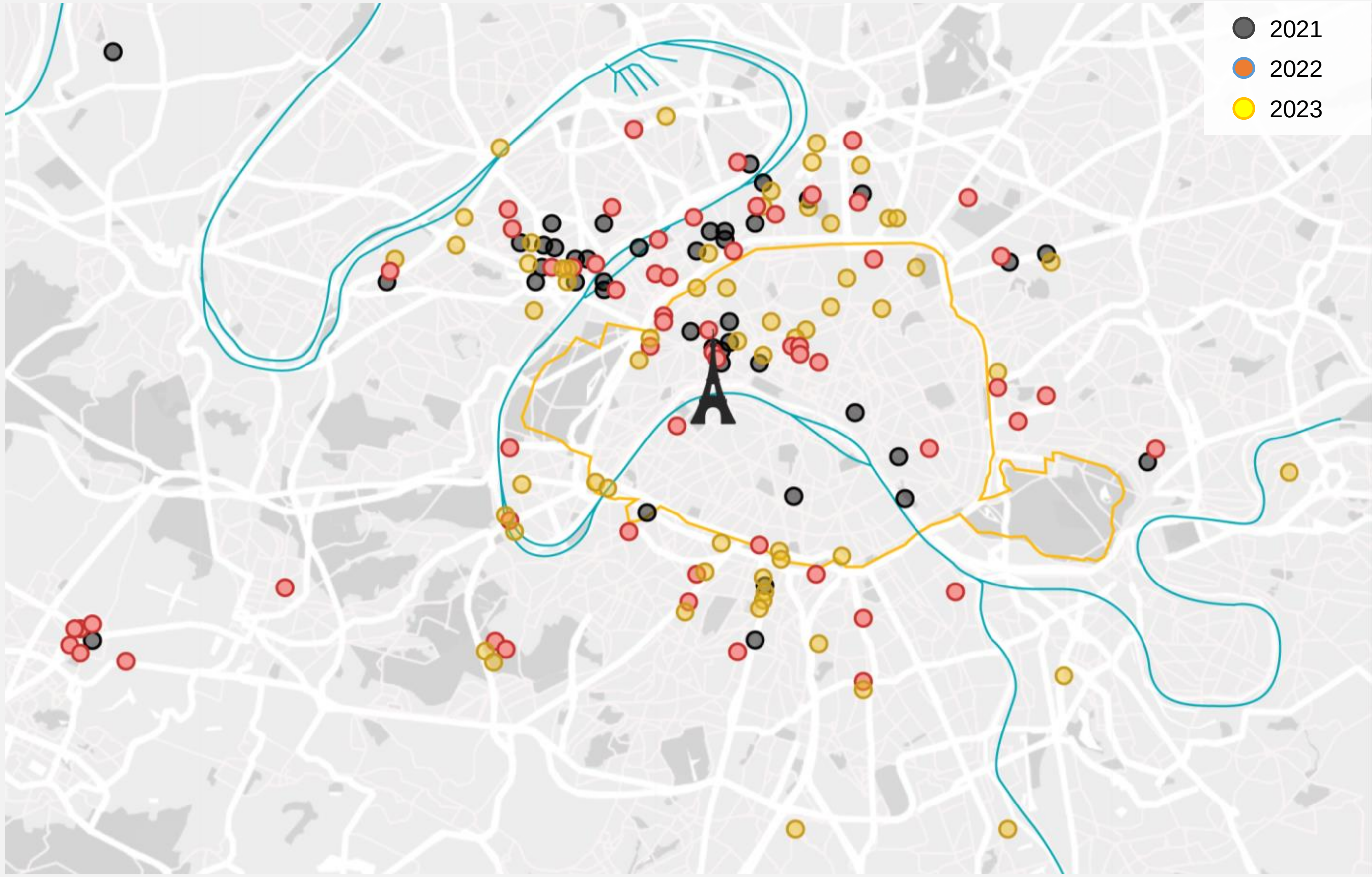
(building permits submitted / building permits accepted / under construction)



BUT **BALANCE** IN THE LONGER TERM

Development areas

Map of new/redevelopments projects > 5,000 sq m to be delivered in the Greater Paris Region between 2021 and 2023



Future trends:

Decrease in building starts
(with the exception of certain future Grand Paris Express hubs)

Resizing of office projects
(growth in remote working, search for savings, etc.)

Stagnation of the Greater Paris Region **office stock**?

Source: Knight Frank

VARYING IMPACTS DEPENDING ON THE AREA

An analysis of the distribution of take-up > 5,000 sq m by activity makes it possible to identify **the sectors potentially most exposed to variations in business demand** and to the shock of the Covid-19 pandemic.

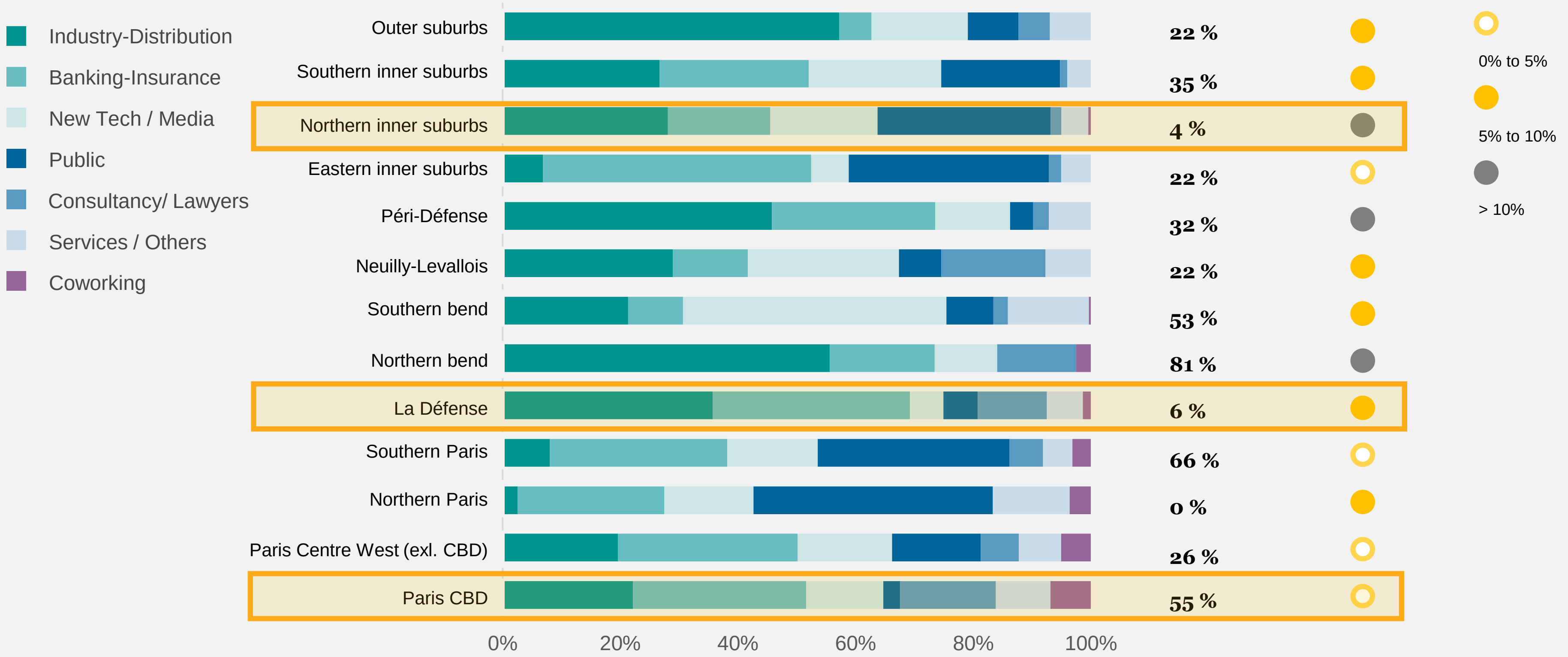
In addition to having a fairly limited future supply, Paris CBD is characterised by the wide variety of its occupiers, which protects it from sectoral crises and should enable it to **maintain a certain appeal despite the health crisis**.

The question of the absorption of supply arises more for sectors with **less varied occupier profiles** and with a **low proportion of pre-lettings** of new projects.

Supply/demand imbalance: sectors with varying degrees of exposure

Share of each activity sector in take-up > 5,000 sq m

In the Greater Paris Region, by geographical sector, as a % of total volume between 2000 and 2020

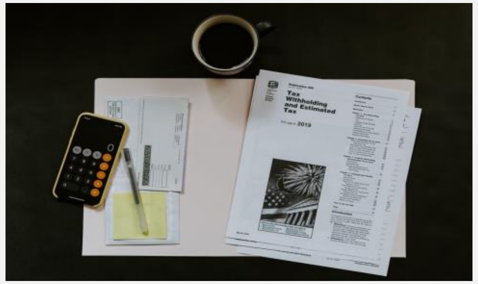


Source: Knight Frank

WHAT SUPPORTS THE DEMAND?

A crisis does not mean the end of real estate movements. While the outbreak of the Covid-19 pandemic virtually paralysed the large areas market in 2020, and although rental activity will remain fairly weak in the first half of 2021, **companies should gradually implement their new real estate strategy** that takes into account the impact of the health crisis.

Despite the health and economic uncertainty, the Greater Paris Region office market has **several mainstays, both fairly traditional** (search for savings, growth in certain activities, transport projects, etc.) **and more novel** (changes in lifestyles and working methods).



SEARCH FOR SAVINGS

Immediate needs for streamlining
Mergers / Consolidations

BREXIT EFFECT

New movements
Implementation of ongoing projects

RESILIENT SECTORS

New technologies, finance, consulting, public sector, etc.

GRAND PARIS EFFECT

Project progress (L14, Eole, etc.)
Quality/price of the real estate supply

SEARCH FOR FLEXIBILITY

Coworking / Flex-office
Solutions offered by landlords

NEW LIFESTYLES

Bringing living and working places closer together
New residential pathways

Source: Knight Frank

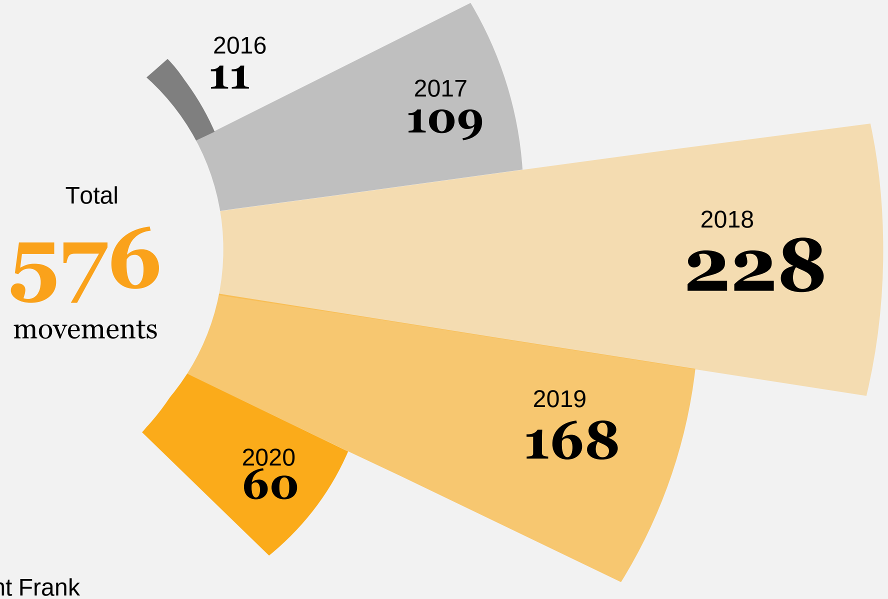
BREXIT: FEWER MOVEMENTS IN 2020

Following the peak in 2018, and a slight slowdown in 2019, **Brexit-related movements were much rarer in 2020**, with 60 definite or potential projects. This sharp decrease is not surprising. Between the referendum in 2016 and the end of 2019, many companies had already made arrangements to continue to access the European market after Brexit. The decrease in the number of movements observed in 2020 can also be explained by the Covid-19 outbreak which, adding to the uncertainty surrounding negotiations between London and the EU, forced some players **to postpone their Brexit-related setting-up or relocation projects**.

Sharp decrease in the number of movements

Chronological changes in Brexit-related movements in Europe

Announced, actual or potential movements

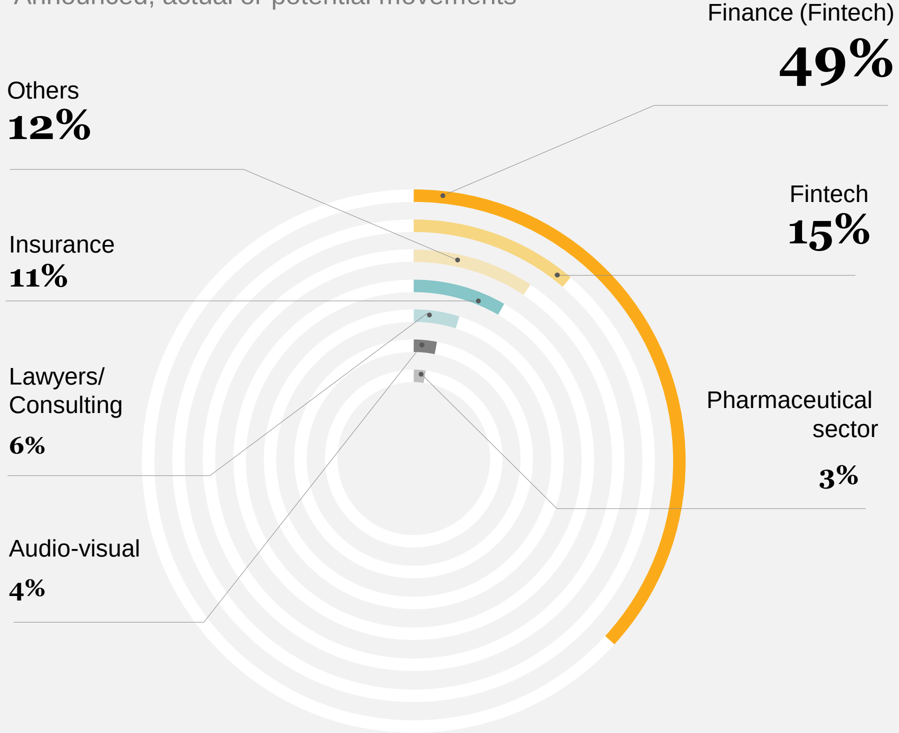


Source: Knight Frank

Finance: two thirds of movements

Breakdown of movements by activity sector in Europe

Announced, actual or potential movements



BREXIT: ALMOST **100 MOVEMENTS** IN PARIS

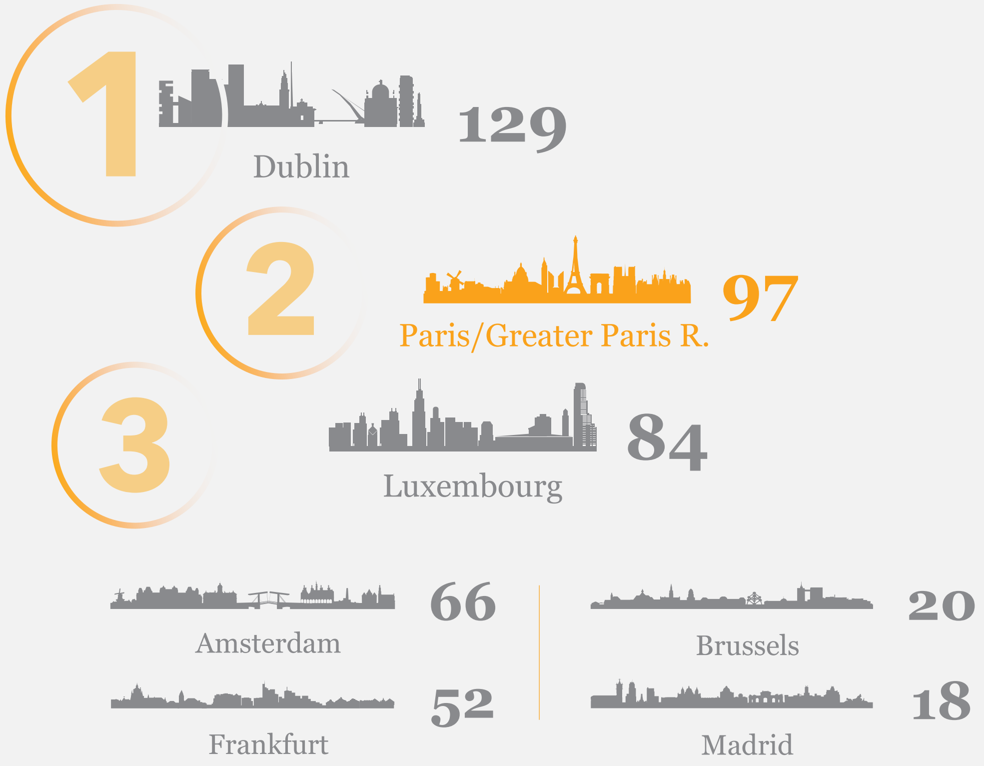
Paris has around thirty fewer movements than Dublin but has **confirmed its second place and widened the gap with Luxembourg in 2020**. 18 new projects were identified in 2020, bringing the total number of Brexit-related movements since 2016 to 97.

A traditional and almost exclusive target of international finance and major Anglo-Saxon law firms, **the CBD remains the preferred destination** for Brexit-related movements in France. This sector accounts for 84% of the number of relocation, setting-up or expansion projects registered since 2016 in the Greater Paris Region, far ahead of La Défense (6%) and other Parisian districts outside the CBD.

Paris confirms its second place

Geographical distribution of Brexit-related movements in Europe

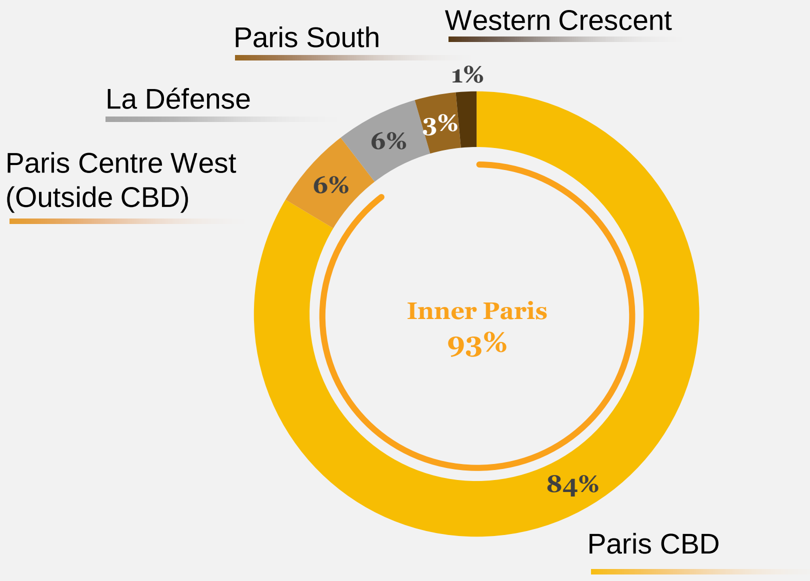
Announced, actual or potential movements, by city



The CBD first and foremost

Breakdown of movements by geographical sector

In number of movements in the Greater Paris Region



Source: Knight Frank

COVID-19: **CHANGE OR REVOLUTION?**

Before the outbreak of the health crisis, some major structural changes had already begun to profoundly transform companies' demand and expectations in terms of office space design. Among these factors, **the digital revolution played a key role**, bringing flexibility to companies and contributing to the growth of remote working and the emergence of more collaborative ways of working. The effects of this revolution are likely to be amplified by the health crisis, even if other structural or cyclical factors also need to be taken into account. **In the very short term**, companies will thus be focused on the continuity of their activity and streamlining their real estate.

UNDERLYING TRENDS	DIGITALISATION RISE OF TECH	NEW WAYS OF WORKING	UNCERTAIN CONDITIONS	IMPLEMENTATION OF GRAND PARIS
EFFECTS ON COMPANY DEMAND		MORE FLEXIBILITY **PRODUCTIVITY**	ATTRACTION **OF TALENT / CSR**	**SURROUNDINGS ACCESSIBILITY**
EFFECTS ON OFFICE PROPERTY		**FLEX OFFICE** BOOM	WELL-BEING **AT WORK**	PRIORITY GIVEN TO **WELL SERVED DISTRICTS**

Source: Knight Frank

COVID-19: **CHANGE OR REVOLUTION?**

UNDERLYING TRENDS	DIGITALISATION RISE OF TECH	NEW WAYS OF WORKING	UNCERTAIN CONDITIONS	IMPLEMENTATION OF GRAND PARIS	COVID 19
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EFFECTS ON OFFICE PROPERTY		**FLEX OFFICE** BOOM	WELL-BEING **AT WORK**	PRIORITY GIVEN TO **WELL SERVED DISTRICTS**	**REDUCTION / MERGING?**

Source: Knight Frank

COVID-19: CHANGE OR REVOLUTION?

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EFFECTS ON OFFICE PROPERTY		**FLEX OFFICE** BOOM	WELL-BEING **AT WORK**	PRIORITY GIVEN TO **WELL SERVED DISTRICTS**	**REDUCTION / MERGING?**

Source: Knight Frank

MORE COMPLEX **ORGANISATION**

While the French remain attached to the office, many of them have been able to experiment with remote working on a large scale, and it is likely that after the pandemic employees will want to keep this flexibility in their daily lives. Such a development would signal the end of the "one size fits all" office, a standardised space that all employees have to live with, in favour of a **more complex organisation offering much more flexibility to employees**. Within this new framework, employees would alternate between different work settings, adapted to different roles and professional relationships, and to **more blurred boundaries between the "professional" and "personal".** Once the crisis is over, some tasks would continue to be carried out at home or in third places close to the employees' homes; other types of space – company headquarters, local or regional offices, coworking areas, etc. – being favoured for tasks or moments involving more social interaction (training, work in project mode, etc.).

PRE COVID-19

90%

OFFICES

One size fits all, or nobody ?

10%

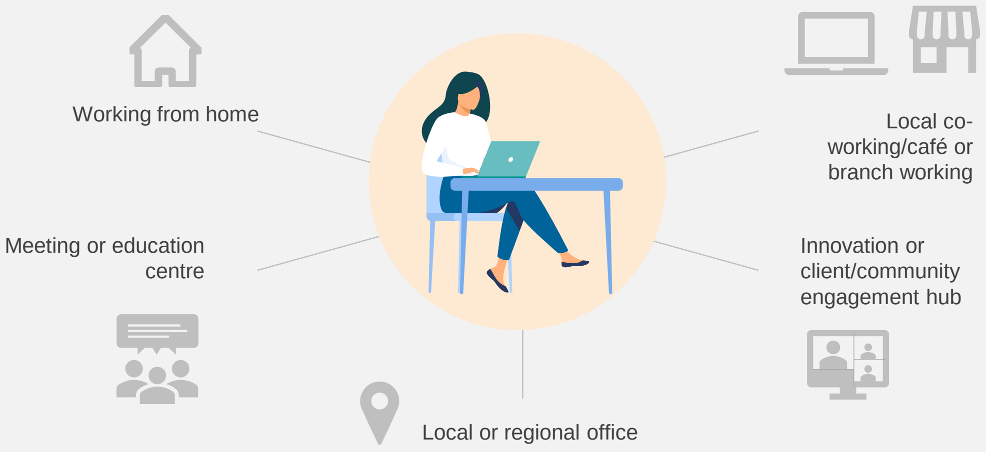
REMOTE WORKING

POST COVID-19

More choices

offered to employees

Workplace as a service



Source: Knight Frank / Images: Freepik

COWORKING: **THWARTED DYNAMICS**

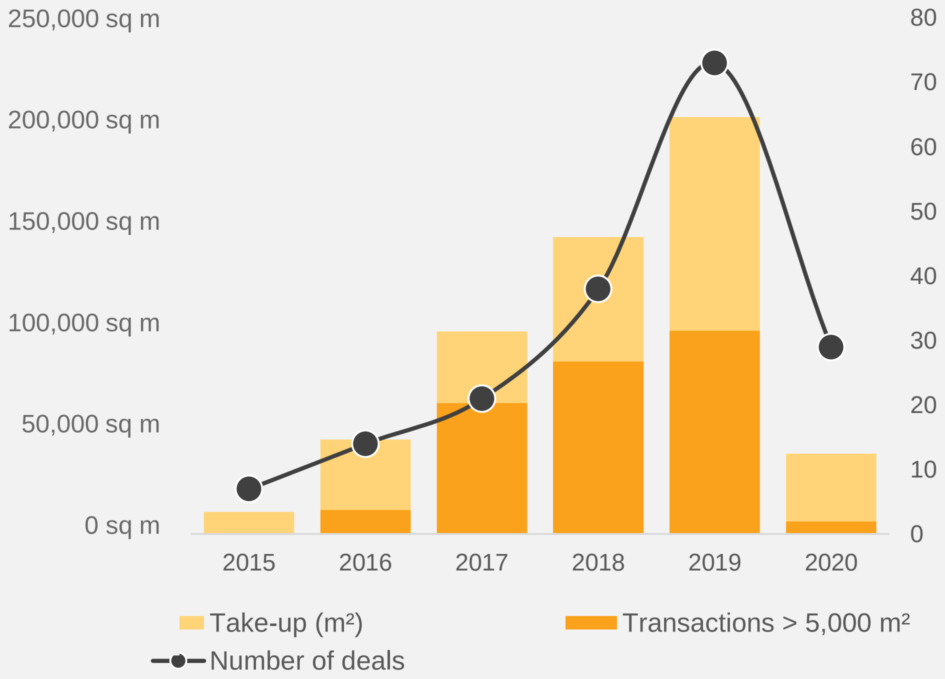
While long-term trends are quite favourable to flex-offices, **the areas rented by coworking space providers fell sharply in 2020** (-81% year on year), following a record year in 2019. In addition to the difficulties associated with the health situation, market players have had to "digest" the large number of square metres leased in recent years.

Only one movement > 5,000 sq m was recorded in 2020 in the Greater Paris Region (MORNING in the "Hôtel de la Marine"), compared with 11 in 2019. Small and medium-sized areas therefore accounted for the bulk of coworking transactions in the Greater Paris Region, explaining the **sharp 52% decrease in the average size of let** space.

Decrease in volumes absorbed

Change in take-up by coworking space providers

In the Greater Paris Region



Sharp decrease in areas

Average area of coworking space providers leases

In the Greater Paris Region

1,341 sq m

Average area let in 2020

-52% year-on-year

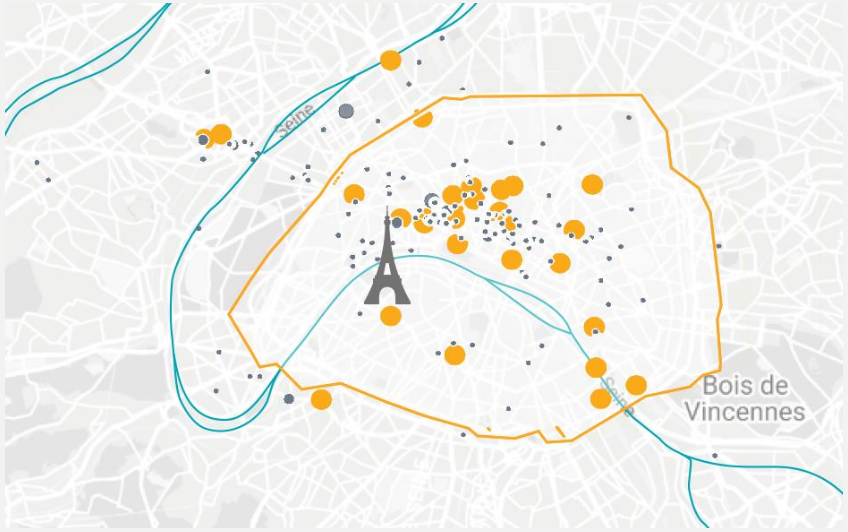
Source: Knight Frank

COWORKING: SUPPLY STILL **LIMITED IN THE SUBURBS**

Paris accounts for 73% of the volumes let by coworking operators since 2015, including a dominant share (40%) in Paris CBD. The trend remained the same in 2020 due in particular to several DESKEO leases in the capital. With the exception of La Défense and a few Western Crescent towns, the other markets remain for the time being relatively unaffected by the coworking phenomenon. With the health crisis and the boom in remote working, **could the trend be reversed and see the development of third spaces as close as possible to where employees live?**

A very Parisian phenomenon

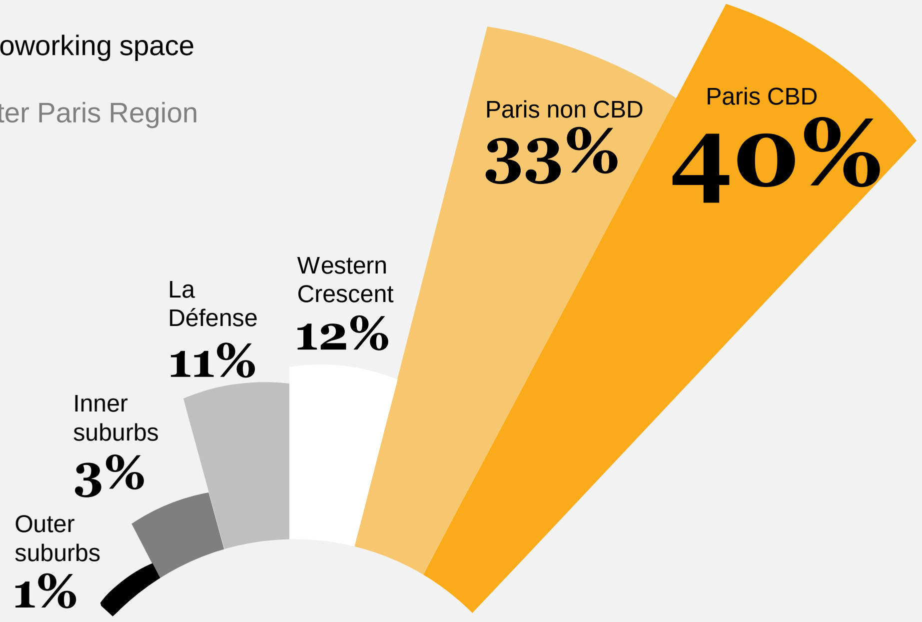
Map of coworking space providers leases since 2015



Source: Knight Frank

Geographical distribution of coworking space providers leases since 2015

% of total volume in the Greater Paris Region



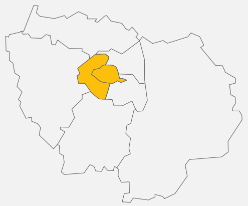
WHAT IS THE IMPACT ON **OFFICE GEOGRAPHY**?

The expansion of coworking outside the most central areas of the conurbation would be a sign of the beginning of a **decentralisation of the office market**, which is still very concentrated in Paris and the major office hubs of the Hauts-de-Seine department. In the long term, other factors could encourage a moderate rebalancing of the office geography of the Greater Paris Region (growth of remote working, improved public transport in the suburbs, demographic growth in the Inner and Outer Suburbs, etc.).

From a very polarised market...

Share of Paris and Hauts-de-Seine in the Greater Paris Region, all areas combined

PRE-COVID SITUATION



57% of office stock

73% of 2000-2020 take-up

61% of future new and refurbished available supply

Projects started or not started, with or without building permit (2021-2025)

Source: Knight Frank

…to a more balanced situation?

POST-COVID TRENDS

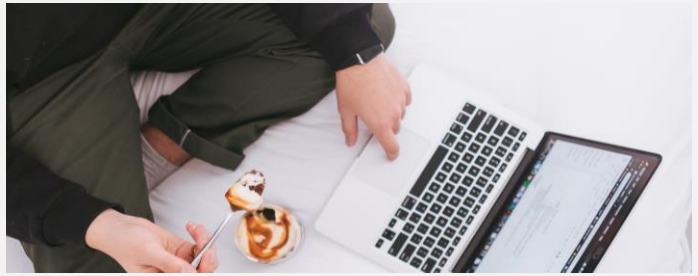
- Rise of **remote working / more autonomy** given to employees
- New **aspirations** (flexibility, local, etc.)
- Demographic dynamics of the **peri-urban area**
- **Traffic** restrictions **in Paris**
- **Public transport improved** in the suburbs
- Search for **cost reduction** by companies
- Development of **third places** outside Paris

A SOURCE OF CONVERSION INTO HOUSING?

While the health crisis is driving up the vacancy rate, the new market context seems more favourable to the **transformation of obsolete offices into housing**. This type of project seems particularly appropriate in towns that are **less central or less well connected to public transport**, which have a large office stock that is partly unsuited to the needs of companies.

NEW RESIDENTIAL PATHS

HOUSING CRISIS



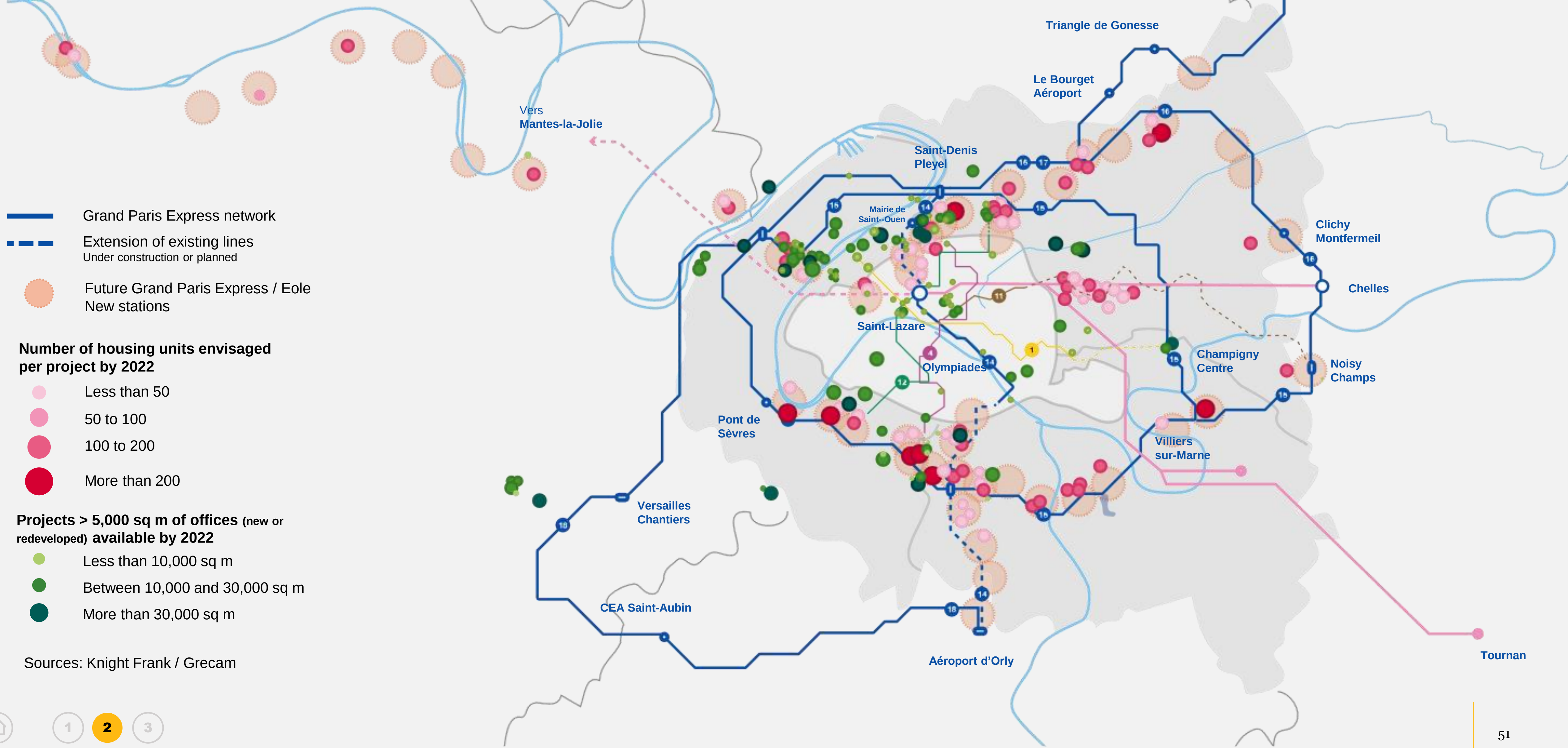
GROWTH IN REMOTE WORKING

	Office stock	Vacancy rate	Average demand (> 5,000 sq m) 2015-2019	Demographic change*
Paris	16,937,516 sq m	4.1%	314,530 sq m	-5% to 0%
Nanterre	1,389,981 sq m	12.4%	50,630 sq m	0% to 5%
Saint-Denis	1,371,120 sq m	8.9%	33,091 sq m	0% to 5%
Boulogne-Billancourt	1,180,600 sq m	7.1%	39,420 sq m	0% to 5%
Issy-les-Moulineaux	969,700 sq m	7.5%	81,680 sq m	0% to 5%
Levallois-Perret	929,600 sq m	8.3%	13,390 sq m	-5% to 0%
Rueil-Malmaison	805,180 sq m	11.8%	24,040 sq m	-5% to 0%
Guyancourt	674,200 sq m	4.4%	11,100 sq m	0% to 5%
Vélizy-Villacoublay	660,000 sq m	14.9%	7,340 sq m	0% to 5%
Montreuil	639,100 sq m	2.5%	13,010 sq m	5% and +
Neuilly-sur-Seine	596,920 sq m	3.5%	15,750 sq m	-5% to 0%
Montrouge	575,600 sq m	6.1%	27,500 sq m	0% to 5%
Clichy	538,200 sq m	13.2%	10,445 sq m	0% to 5%
Massy	452,200 sq m	12.9%	12,380 sq m	5% and +
Montigny-le-Bretonneux	433,800 sq m	16.2%	12,371 sq m	-5% to 0%
Tremblay-en-France	395,200 sq m	10.3%	3,688 sq m	5% and +

5% and +
0% to 5%
-5% to 0%

Sources : Knight Frank / INSEE (*Average population change between 2012 and 2017)

Summary map



Sources: Knight Frank / Grecam

THE OUTLOOK FOR 2021…
AND BEYOND

- COMPANIES GIVE PRIORITY TO THE **CONTINUITY OF THEIR ACTIVITY**
- **SUSTAINED SLOWDOWN** IN TAKE-UP
- EMPLOYEES STILL WANT TO RETURN TO THE OFFICE, BUT WANT **MORE FLEXIBILITY**
- WHAT DOES THE FUTURE HOLD FOR THE **3/6/9** LEASE?
- NO REVOLUTION, BUT AN INTENSIFICATION OF THE TRENDS ASSOCIATED WITH THE **DIGITALISATION OF WORK**
- **COST-CUTTING** STRATEGIES FAVOURING CERTAIN SUBMARKETS IN THE INNER SUBURBS
- **CUSHIONED SHOCK IN PARIS (**DIVERSITY OF COMPANIES, MORE RESISTANT SECTORS OF ACTIVITY, “FLAGSHIP BUILDINGS”, ETC.)
- MODERATE REBALANCING OF THE **OFFICE GEOGRAPHY**
- HEALTH CRISIS: NEW OPPORTUNITIES FOR **OFFICE TRANSFORMATION**?

2020 REVIEW
AND 2021 OUTLOOK

RETAIL

RETAIL

WHAT WE SAID **A YEAR AGO**

A CONTEXT THAT REMAINS UNCERTAIN

- Social tensions
- Economic slowdown
- Increase in purchasing power: consumption potential limited by consumer choices?

RETAILERS / LETTINGS MARKET

- Winning sectors: catering, sport and leisure (climbing, virtual reality, etc.), low-price retailers, second-hand, urban formats, etc.
- Dynamism of the luxury market
- A street to watch: rue de Rivoli
- Continued arbitration of the least profitable sites
- Moderate correction of rental values

RETAIL PROJECTS

- Mixed uses
- Continued slowdown in the creation of new shopping centres
- Start of a slowdown in deliveries of retail parks?
- Municipal elections, moratoriums and retail bashing: what are the impacts on developments?

WHAT **ACTUALLY** HAPPENED

A CONTEXT THAT REMAINS UNCERTAIN

- Social tensions exacerbated by the health crisis
- Economic slowdown exacerbated by the health crisis
- Decrease in purchasing power: a consumption potential limited by consumer choices, the downturn in the job market and household caution

RETAILERS / LETTINGS MARKET

- Winning sectors: fast food, sport and leisure (climbing, virtual reality, etc.), low-price retailers, second-hand, urban formats, etc.
- Luxury: virtual disappearance of the international clientele and a decrease in the number of openings
- A street to watch: rue de Rivoli, awaiting the opening of IKEA and the Samaritaine
- Continued arbitration of the least profitable sites, exacerbated by the health crisis
- Sometimes significant correction of rental values in all market categories

RETAIL PROJECTS

- Mixed uses
- Continued slowdown in the creation of new shopping centres
- Marked slowdown in deliveries of retail parks
- Municipal elections, moratoriums and retail bashing: increasing impact on developments

MACRO-ECONOMIC CONTEXT

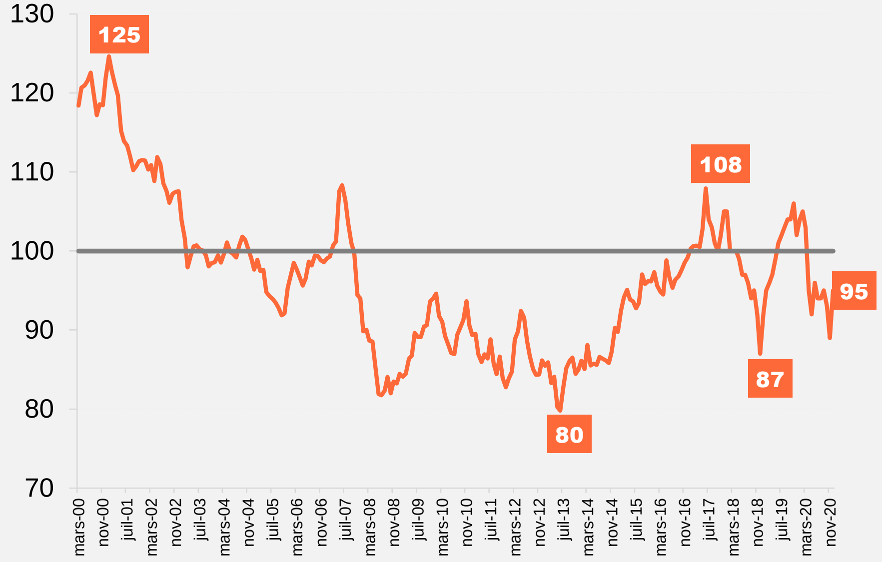
The current pandemic and economic forecasts do not point to a rapid and general recovery of retail activity.

Nevertheless, there are signs of a gradual improvement, starting with the launch of vaccination campaigns, the success of which could help to restore household confidence which was shaken at the end of 2020 by the increase in the number of infections. Indeed, improved consumer confidence and a significant drop in Covid-19 cases are the prerequisites for any lasting recovery in consumption, **which could be boosted by the use of savings accumulated by the French in 2020**.

Consumer confidence: halting change

Consumer opinion

Synthetic indicator - CVS-CJO data

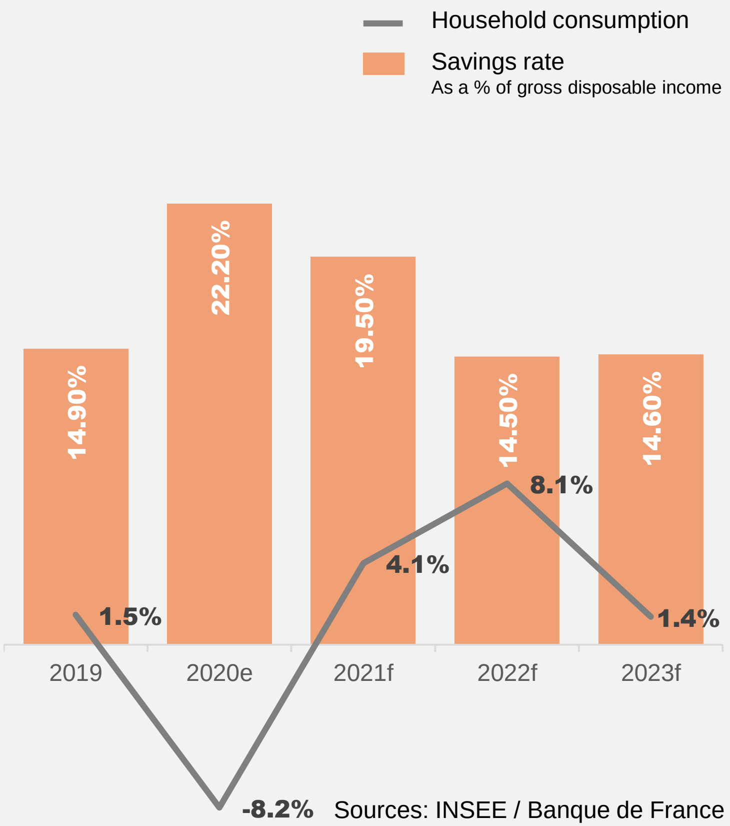


Source: INSEE

Savings: a key factor in the recovery

Household consumption and gross disposable income

As a %, annual average



Sources: INSEE / Banque de France

TOURISM **AT A STANDSTILL**

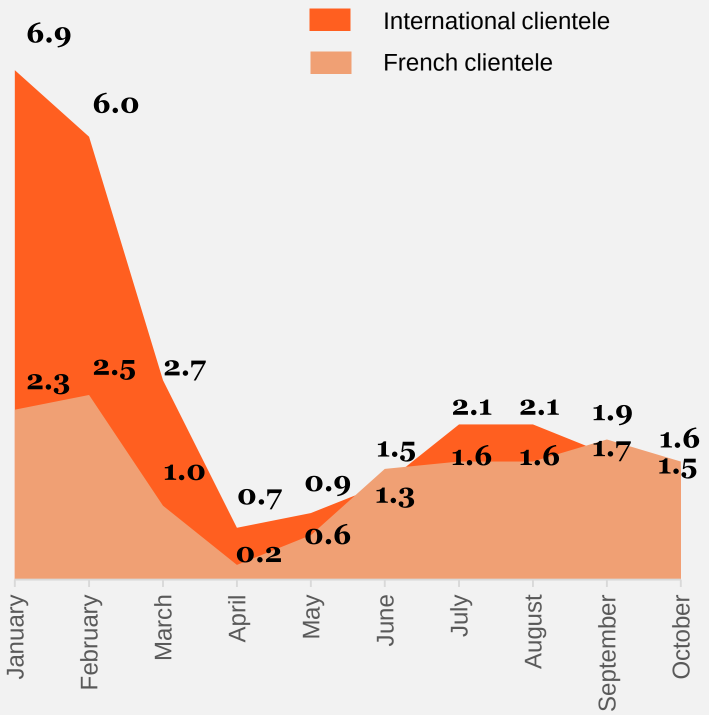
A clientele has been missing since the outbreak of the health crisis: that of foreign visitors, who accounted for **nearly half of the tourists in Paris in 2019** and often generate the majority of sales for retailers in the centre of the capital.

Non-Europeans, who are usually the most high-spending tourists, have accounted for a particularly significant loss of income for the luxury sector, **which will still have to do without a good part of this lucrative income in 2021**.

Sharp drop in international tourism

Number of tourist overnight stays in the Greater Paris Region in 2020

In millions

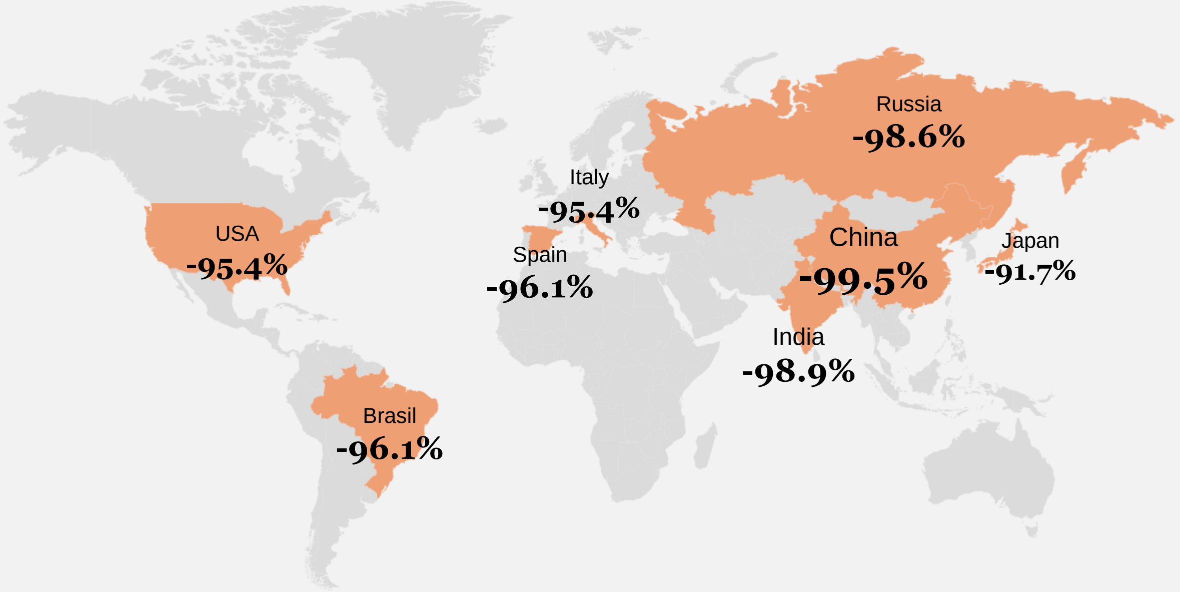


Sources: Flux Vision Orange, Comité régional du Tourisme d'Île-de-France

No improvement in the short term

Forecasts of flight bookings at Paris airports, by origin, January to March 2021

Year-on-year change as a %



Source: ForwardKeys (données mises à jour le 30 novembre 2020)

WHEN WILL TOURISTS RETURN?

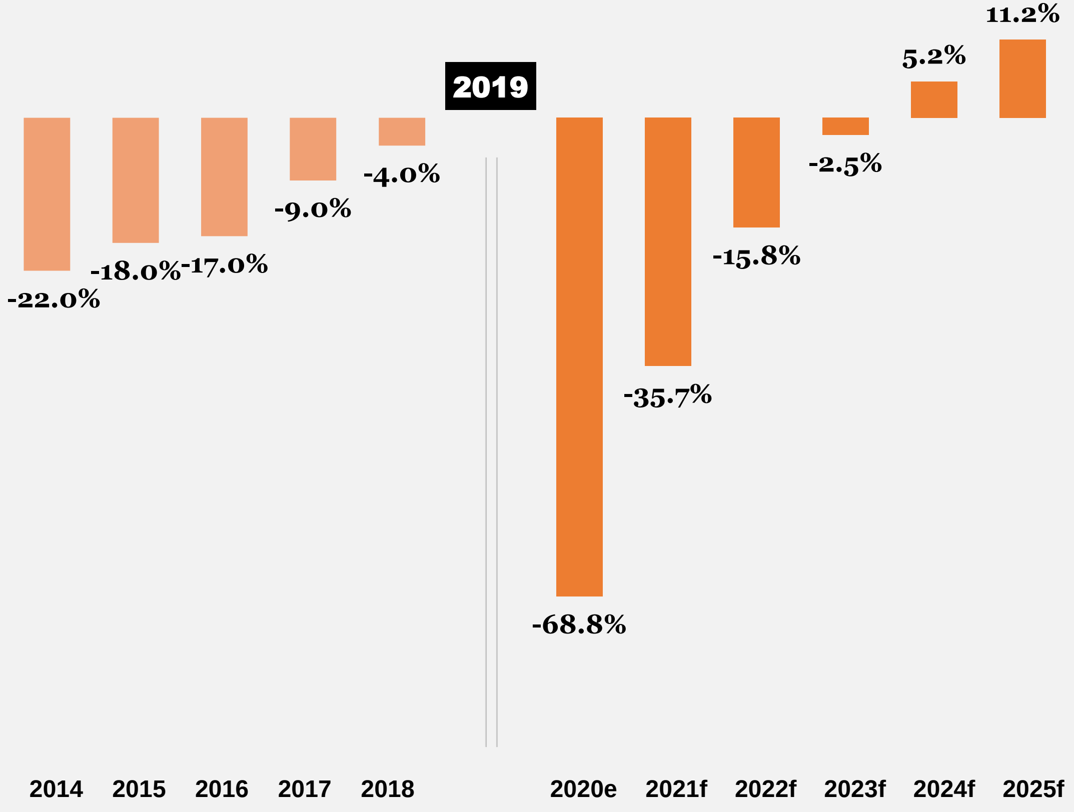
Despite the launch of vaccination campaigns, the health situation will not return to normal for many months, especially as the sharp rise in the number of infections worldwide has imposed new travel restrictions in some countries.

The resumption of international passenger movements is therefore expected to be slow and laborious, with a still very low number of arrivals in Europe in 2021, and **a gradual recovery in 2022 and 2023.**

A very gradual recovery

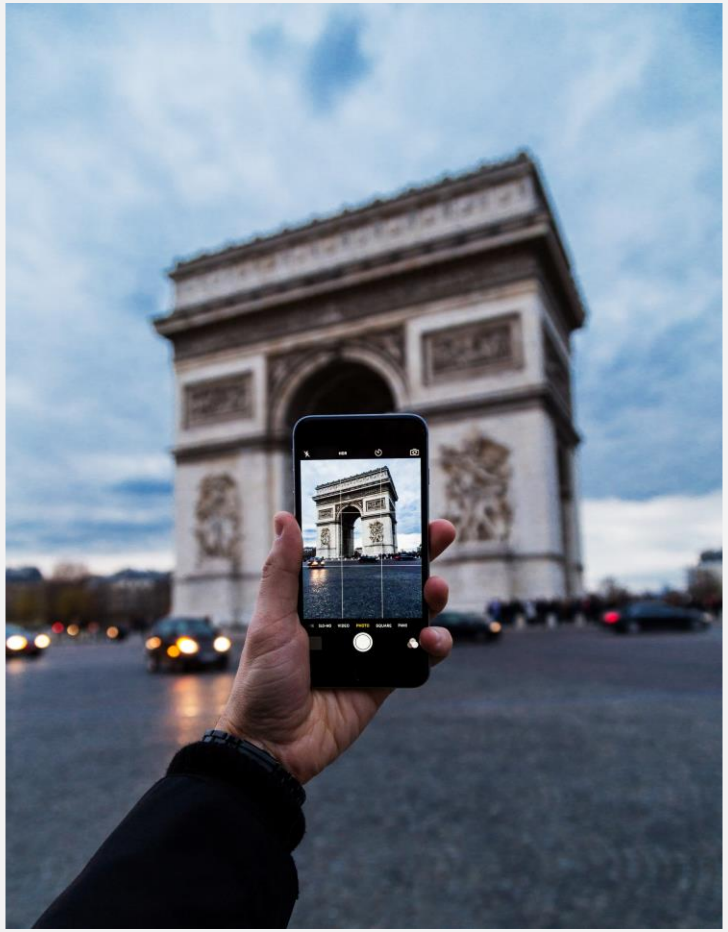
Change in international tourist arrivals in Europe

Difference with 2019 level as a %



Source: UNWTO

Source: Oxford Economics



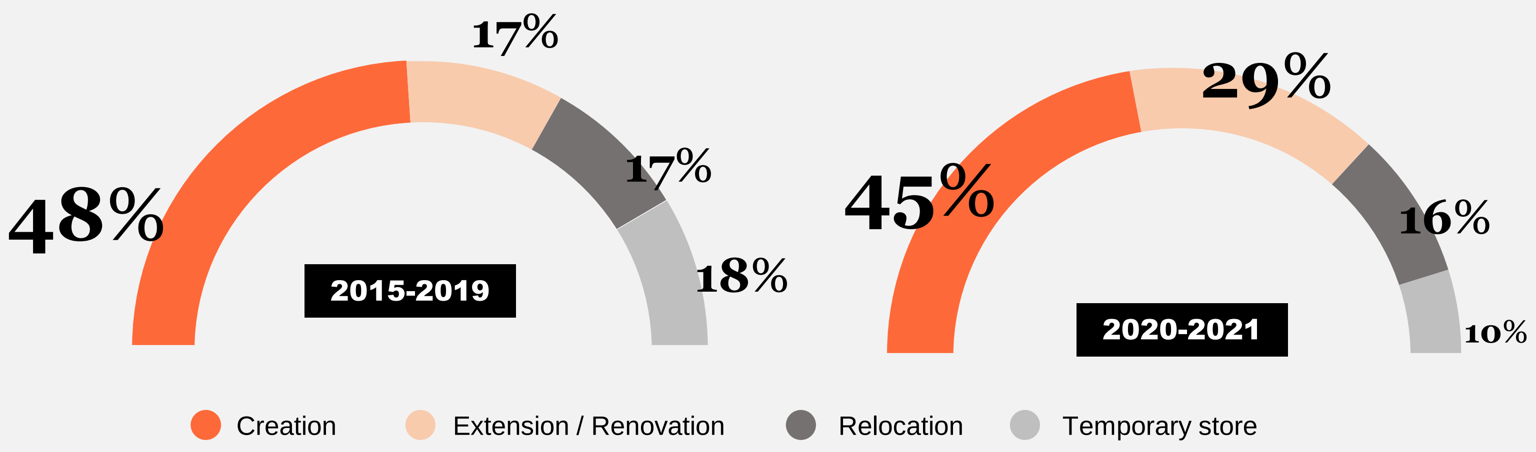
LUXURY: **A MODERATE DECREASE**

In 2020, 29 luxury shops opened in Paris, compared with 34 in 2019, and 42 on average over the last five years. Given the impact of the health crisis, this predictable decrease has nevertheless remained moderate due to the **completion of projects begun well before the outbreak of the pandemic**.

Furthermore, openings at the end of 2020 and the relatively large number of ongoing projects (nearly thirty) indicate that the luxury players are managing to project themselves into the post-Covid future and remain relatively **confident about the appeal of the Parisian market in the long term**.

Tendency to improve what is already in place

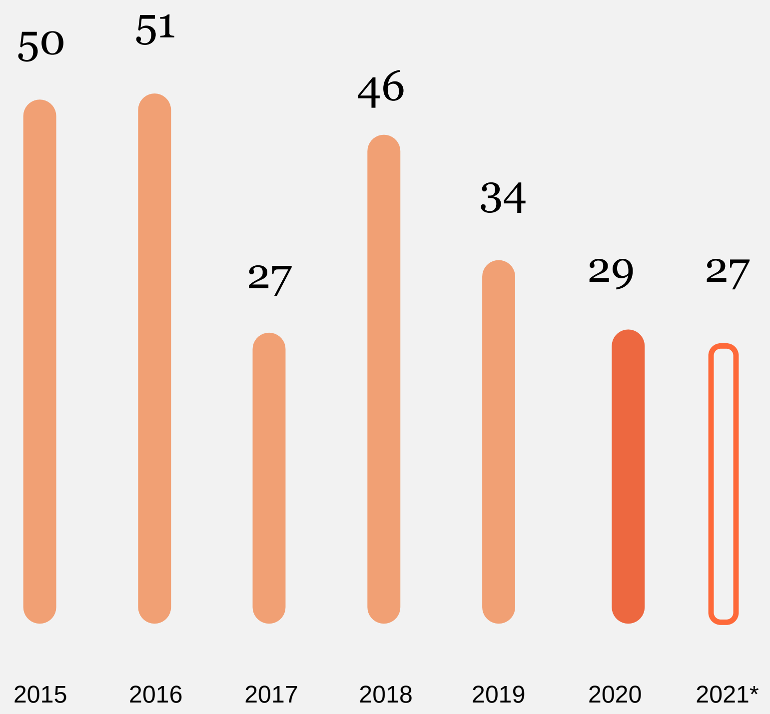
Breakdown of luxury shop openings in Paris, by type



Source: Knight Frank

Almost 30 openings in 2020

Number of luxury shop openings in Paris



Source: Knight Frank

* Estimate as at 31st December 2020.

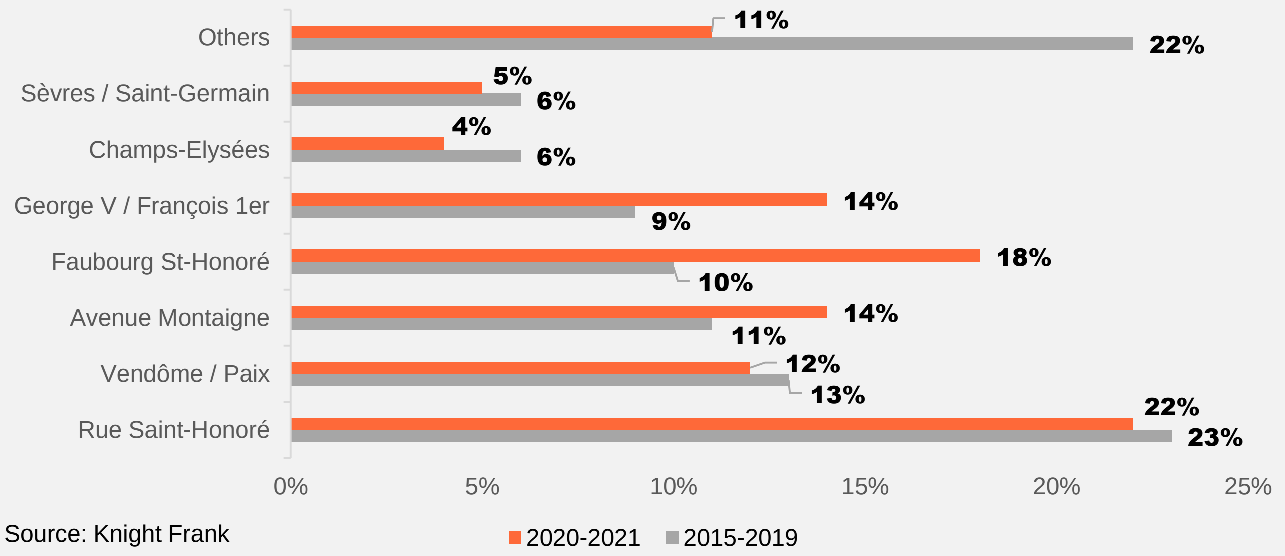
LUXURY: PRIORITY GIVEN TO HISTORICAL STREETS

After hitting a peak number of openings in 2019, rue Saint-Honoré remained the main target for luxury retailers in 2020, with 7 openings compared with 11 the previous year. The coming months should enable this street to strengthen its appeal, even though it has largely completed its move upmarket and there will be fewer openings in the coming years.

Other streets will see an increase in the number of openings, such as rue du Faubourg Saint-Honoré, which has been neglected for some time in favour of rue Saint-Honoré, but which nevertheless benefits from its status as a historic Parisian luxury street, **larger areas and more advantageous location costs for retailers as a result of revised rental values**.

Rue Saint-Honoré remains on top

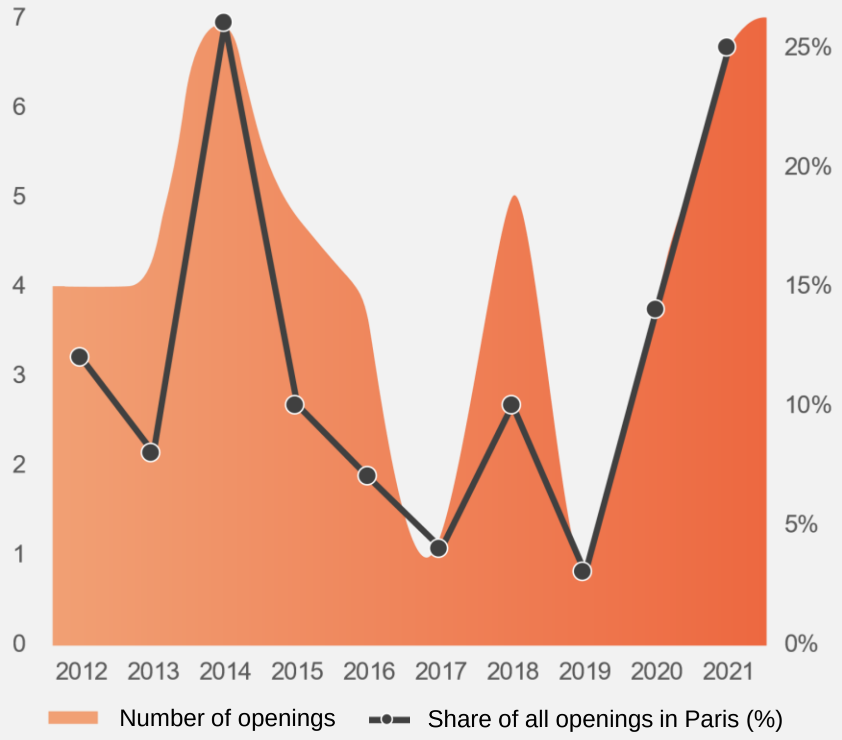
Share on the total number of luxury shop openings in Paris



Source: Knight Frank

Faubourg's awakening?

Change in luxury shop openings on rue du Faubourg Saint-Honoré



Source: Knight Frank

FOCUS ON **SOME PARISIAN** STREETS

Certain Parisian districts are doing well. This is the case of streets **frequented by residents with high purchasing power**, such as rue de Passy or some of the streets in the west and on the Left Bank that are popular for their food shops (rue Poncelet, rue de Lévis, rue Cler, etc.).

The demand for retail premises remains relatively sustained, contrary to the streets which are more exposed to the boom in working from home or the drop in tourist numbers. The impact is particularly significant for districts also characterised by a high share of shops in sectors directly affected by the health crisis, such as restaurants, or those in decline, such as fashion. The health crisis has accentuated the difficulties of streets such as avenue de l'Opéra, rue de Rennes and boulevard Saint-Michel, where **the vacancy rate is now close to 13%**, even though several premises were already empty before the health crisis.

Rue de Passy

Immune to the crisis?

Vacancy rate

End 2019 **1.2%**

End 2020 **0.6%**

Recent / expected openings
Balibaris, De Fursac, Altermundi, Guerin, Cyrillus, Jimmy Fairly, etc.

Recent / expected closures
Manfield, Kookai, Celio, San Marina, etc.

Rue Saint-Honoré

Waiting for tourists to return...

Vacancy rate

End 2019 **2.0%**

End 2020 **6.1%**

Recent / expected openings
Dior, Versace, Delvaux, Loewe, Burberry, David Yurman, Ermenigildo Zegna, Maje, etc.

Recent / expected closures
Tom Ford, Dsquared2, Tumi, Baldinini, Manoush, Sportmax, Kiehl's, etc.

Boulevard Saint-Michel

One of the most affected

Vacancy rate

End 2019 **4.3%**

End 2020 **12.9%**

Recent / expected openings
Sephora, Normal, Carrefour Express, CBD Store, Haagen Dazs, King Jouet, Pita Pit, etc.

Recent / expected closures
Gibert, Promod, Boulinier, Mac, Gap, etc.

Source: Knight Frank
NB 1 : Rue Saint-Honoré (between rue Royale and rue des Pyramides), rue de Passy (between rue de Boulainvilliers and place du Costa Rica), boulevard Saint-Michel (between place Saint-Michel and place Edmond Rostand).
NB 2 : the vacancy figure does not include shops temporarily closed due to the health crisis, but takes into account pop-ups and premises open on the date of the survey but that are known to be vacant in the very short term.

RENTAL VALUES: **DOWNWARD PRESSURE**

Although the number of prime transactions is limited, recent transactions and ongoing negotiations have shown that **rents were adjusted on certain key streets** in the second half of 2020. The trend is expected to continue in 2021, and will be more or less depending on the positioning of each street and its dependence on international customers.

While a further increase in vacancies is expected on certain streets, a more or less significant adjustment in rental values could nevertheless **facilitate the take-up of empty premises**.

- Tourists
- Commuters
- Locals

Source: Knight Frank
NB : Rental value = decapitalised rent + assignment (right to lease/business)

RETAIL STREET OR AREA	TARGET CLIENTELE: Tourists	Commuters	Locals	PRIME RENTAL VALUE PRE-COVID €/SQ M/YEAR ZA	LEVEL OF CURRENT DEMAND	2021 ADJUSTMENT RISK
Avenue des Champs-Élysées	●	●		20,000	●	●●●
Avenue Montaigne	●			15,000	●	●●
Rue du Faubourg Saint-Honoré	●	●	●	15,000	●	●●
Rue Saint-Honoré	●	●		15,000	●	●●
Boulevard Haussmann	●	●	●	6,000	●	●●
Marais	●		●	5,000	●●●	●
Rue de Sèvres / Boulevard Saint-Germain	●		●	3,500	●	●●●
Boulevard des Capucines / Madeleine	●	●	●	3,500	●●	●●
Rue de Rivoli	●	●	●	3,500	●●	●
Rue de Rennes			●	3,000	●	●●●
Rue de Passy			●	3,000	●●●	●
"Food" streets (Poncelet, Cler, Lévis, etc.)			●	500 - 1,000	●●●	●

Level of current demand: Low – High
2021 adjustment risk: Low – High

MAJOR OPENINGS

Examples of openings in paris

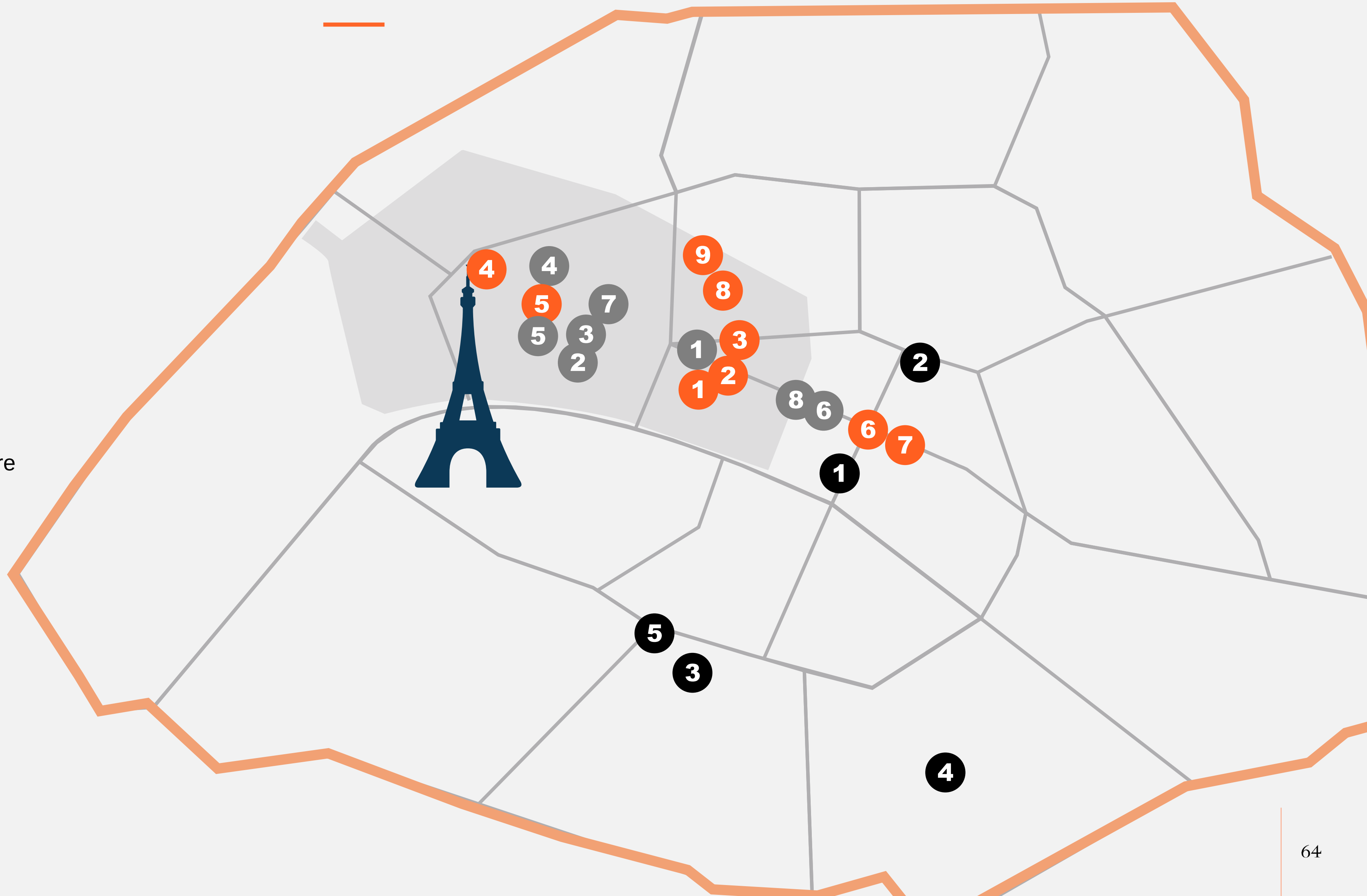
2020

1. Dior
2. Versace
3. Bulgari
4. Moncler
5. Nike
6. JD Sports
7. Skechers
8. Huawei
9. Sephora

2021

1. Burberry
2. Dior
3. Dolce & Gabbana
4. Lacoste
5. Kith
6. Ikea
7. Restauration Hardware
8. Uniqlo

1. Samaritaine
2. Poste du Louvre
3. Ateliers Gaité
4. Italik (Italie 2)
5. Gare Montparnasse



Source: Knight Frank

A LANDSCAPE **IN TURMOIL**

The safeguard and administration procedures recorded since the start of the health crisis concern players in a wide range of sectors, whose shops cover all types of area (from small towns to large cities) and all formats (from city centre high street to shopping centres to retail parks). **No market sector has therefore been spared by the closures**, which demonstrates the severity of the impact of the health crisis. Nevertheless, most retailers and a majority of shops have been taken over for the time being. Out of the 4,200 shops that have been taken over since the start of the crisis, 73% are expected to remain open, according to reports. **This high rate confirms the relevance of the physical distribution model**, even if the future is precarious or uncertain for around 1,100 shops, with significant consequences in terms of jobs.

Examples of retailers that have been taken over, liquidated or are under safeguard procedure since the start of the health crisis

> 400 | > 200 | > 100 | > 20 | > 10

RETAILERS	STATUS	NUMBER OF SHOPS**
LA HALLE	TAKE OVER	> 400
CAMAÏEU	TAKE OVER	> 400
celio*	ADMINISTRATION	> 400
KIDILIZ	LIQUIDATION***	> 400
ORCHESTRA	TAKE OVER	> 200
COURTEPAILLE	TAKE OVER	> 200
NAF NAF	TAKE OVER	> 200
CONFORAMA	TAKE OVER	> 100
CASA	RESTRUCTURING	> 100
UN JOUR AILLEURS	LIQUIDATION	> 100
MAXI TOYS	TAKE OVER	> 100
ANDRE	TAKE OVER	> 100

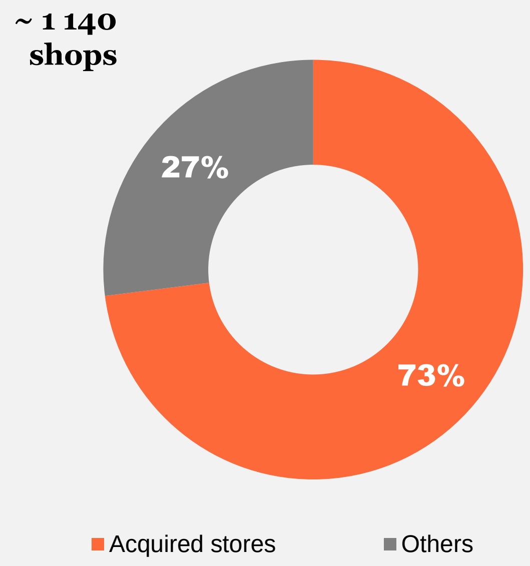
RETAILERS	STATUS	NUMBER OF SHOPS**
BIO C BON	TAKE OVER	> 100
AGATHA	ADMINISTRATION	> 100
PHILDAR	TAKE OVER	> 20
PARASHOP	TAKE OVER	> 20
DEVIANNE	TAKE OVER	> 20
PACIFIQUE PÊCHE	TAKE OVER	> 20
ALINEA	TAKE OVER	> 20
TIE RACK	TAKE OVER	> 20
ATELIERS NA	LIQUIDATION	> 20
ACCESSORIZE	TAKE OVER	> 10
JB MARTIN	LIQUIDATION	> 10
PAULE KA	ADMINISTRATION	> 10

*Situation as at 31st December 2020. **In France, before safeguard proceedings, administration, liquidation or takeover. ***Assets taken over by seven companies.

Sources: Knight Frank / Codata

Three quarters of shops taken over

Breakdown of shops of brands/retailers that have been taken over, as a %



Sources: Knight Frank / Others

KEY STREAMLINING **FACTORS**

The number of closures is expected to increase in 2021. The increase will be primarily due to the growing difficulties of retailers, which will also be fuelled by streamlining measures implemented in the context of acquisitions. Indeed, the last few months have concentrated the French retail market into the hands of a smaller number of players, **encouraging them to reduce the number of duplicate shops and favour the best locations**.

This restructuring of the retail stock will also be accentuated by **the trade-offs related to the boom in online sales**, and by the solutions found by certain players to optimise their network through associations between brands, whether or not they are part of the same group.

MARKET CONCENTRATION

Retailer difficulties
Take overs / Acquisitions

RETAILER CAUTION

Short-term leases
Measured expansion

ONLINE RETAIL BOOM

RETAILER ASSOCIATIONS

Shop-in-shops
Bi-stores

NEW CONSUMPTION PATTERNS

Thriftiness
Second hand
Rentals / Subscriptions

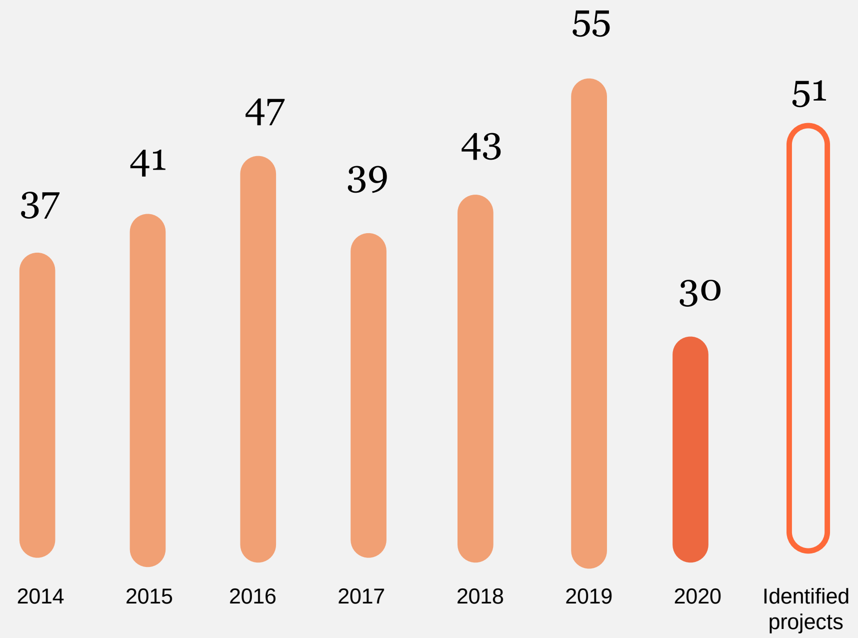
FEWER **NEWCOMERS**

The health crisis has forced many players to curb their international expansion, with only 30 foreign brands opening their first shop in France in 2020, after 55 in 2019. **The decrease was greater in Paris** than in the rest of France: only 14 newcomers were counted, compared with 37 in the previous year.

In 2021 and 2022, the improvement in the health situation and the gradual return of foreign tourists could, however, allow a rebound in the arrivals of new players, especially as **the number of projects identified is significant**.

Sharp decrease in 2020

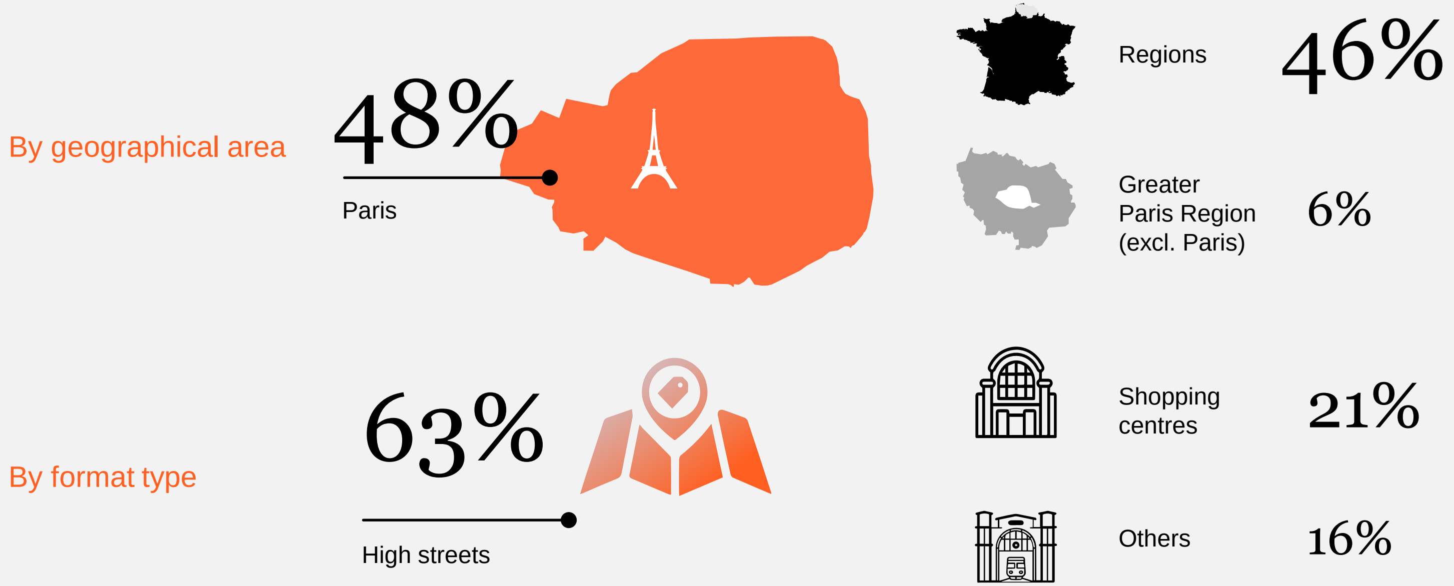
Number of first arrivals in France, all formats included



Source: Knight Frank

Paris (temporarily) loses ground

In France, out of the total volume of new arrivals in 2020, as a %



Source: Knight Frank

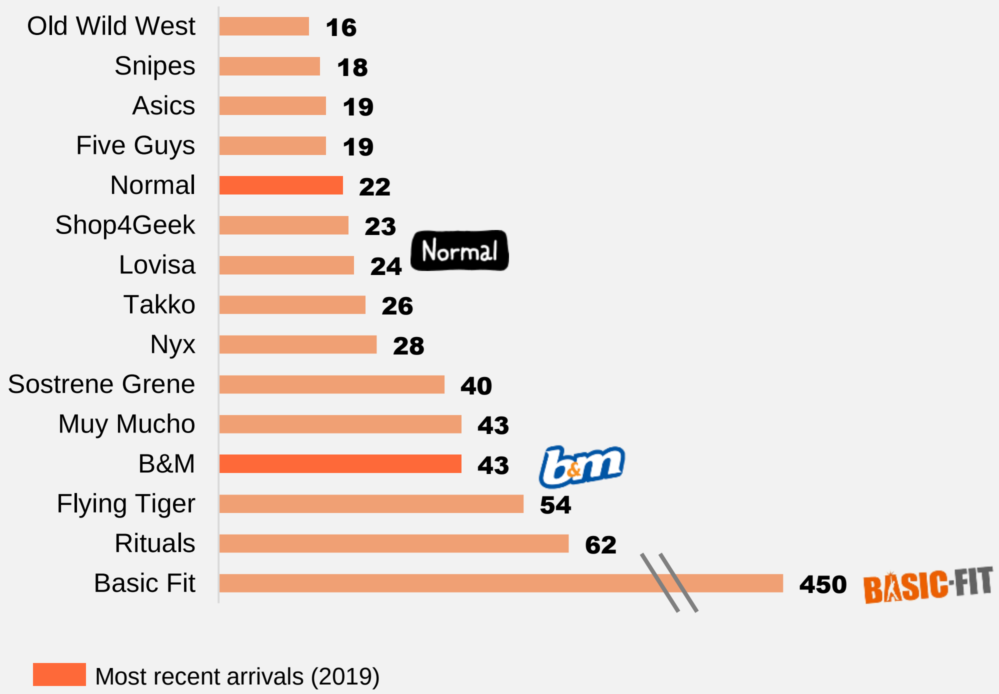
FEWER **NEWCOMERS**

Among the new foreign brands arriving in France since 2014, Basic Fit is the one whose network has developed the most. More recently arrived in France (2019), two brands stood out in 2020 due to their sustained rate of openings: B&M and Normal, whose expansion confirms the success of low-cost concepts.

The other significant development is the reduction in the share of fashion retailers among new arrivals, while home furnishings and restaurant and food concepts remain very dynamic.

The most developed recent retailers

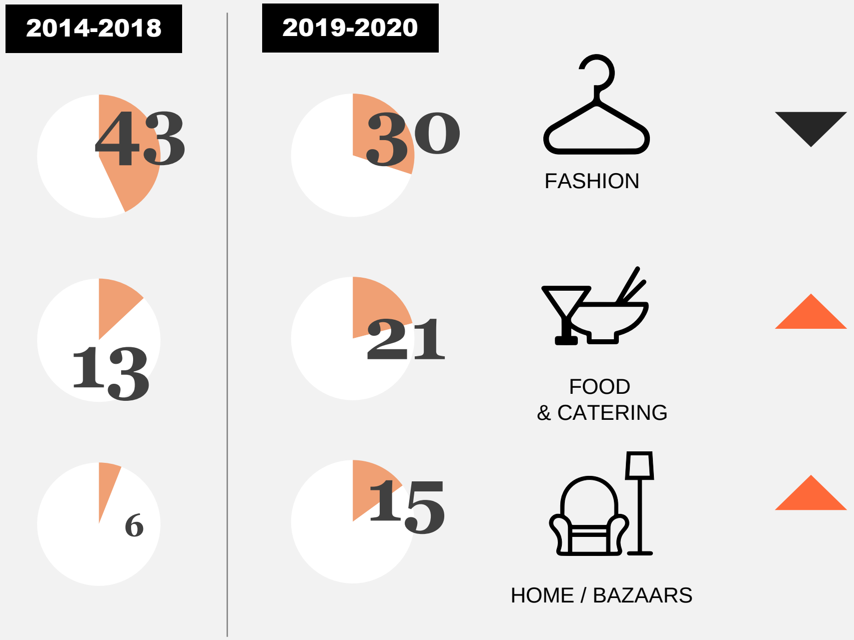
Top 15 since 2014 by number of shops* opened in France



Sources: Knight Frank / Retailer websites (*Number at the end of 2020)

Fashion less represented

Change in the share of each activity sector in the number of new brands arriving in France



Sources: Knight Frank / Retailer websites

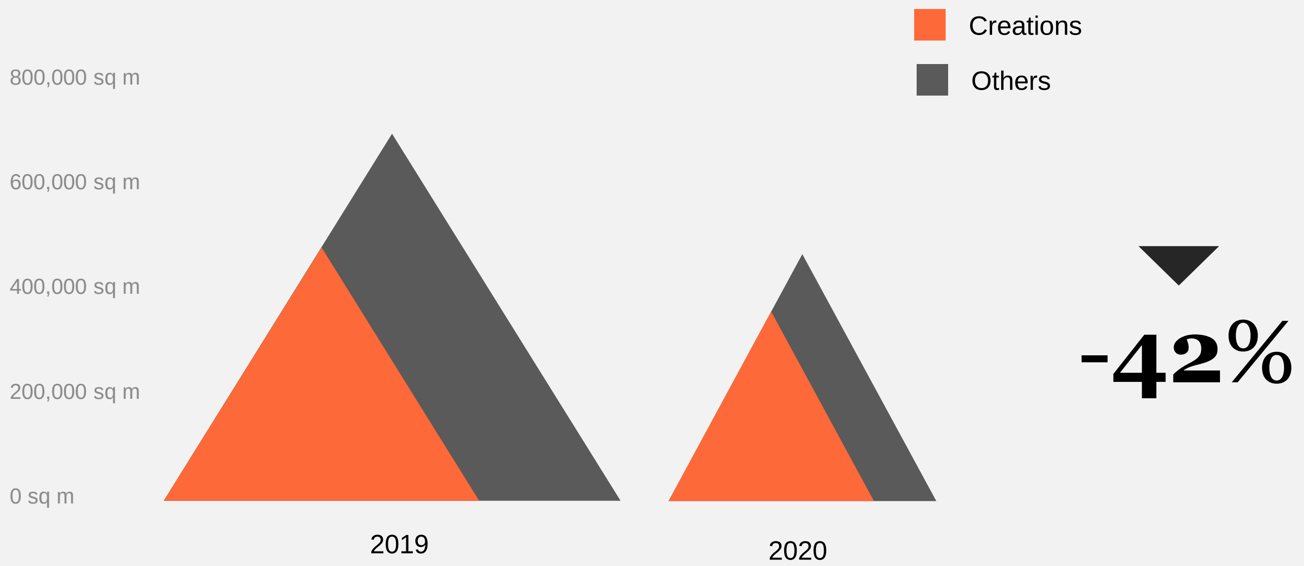
FEWER **NEW SQ M OF RETAIL**

The current context is less favourable to the marketing of retail space, which, in addition to the **delays in works due to the first lockdown**, and a **political and legislative context** that is more unfavourable to soil artificialisation, explains the sharp decrease in the opening of new projects in 2020.

Taking all formats together (shopping centres, retail parks, town centre clusters, outlet centres, etc.), just over 420,000 sq m were inaugurated last year in mainland France, representing a sharp 42% decrease compared to 2019.

Sharp decrease in openings

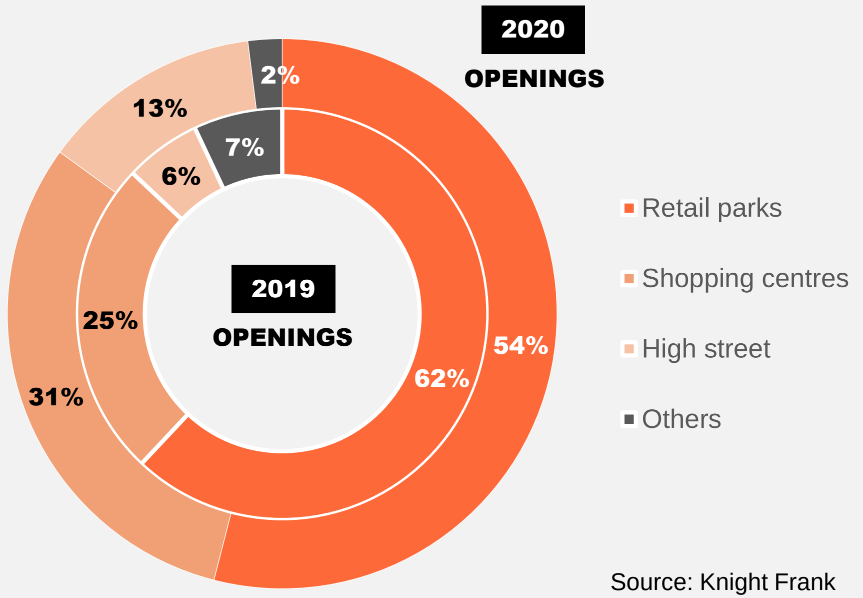
Openings in France, all formats included, volume in sq m



Source: Knight Frank

Decrease in the share of retail parks

Breakdown by opening format in France, out of total volume as a %



Source: Knight Frank

FEWER **NEW SQ M OF RETAIL**

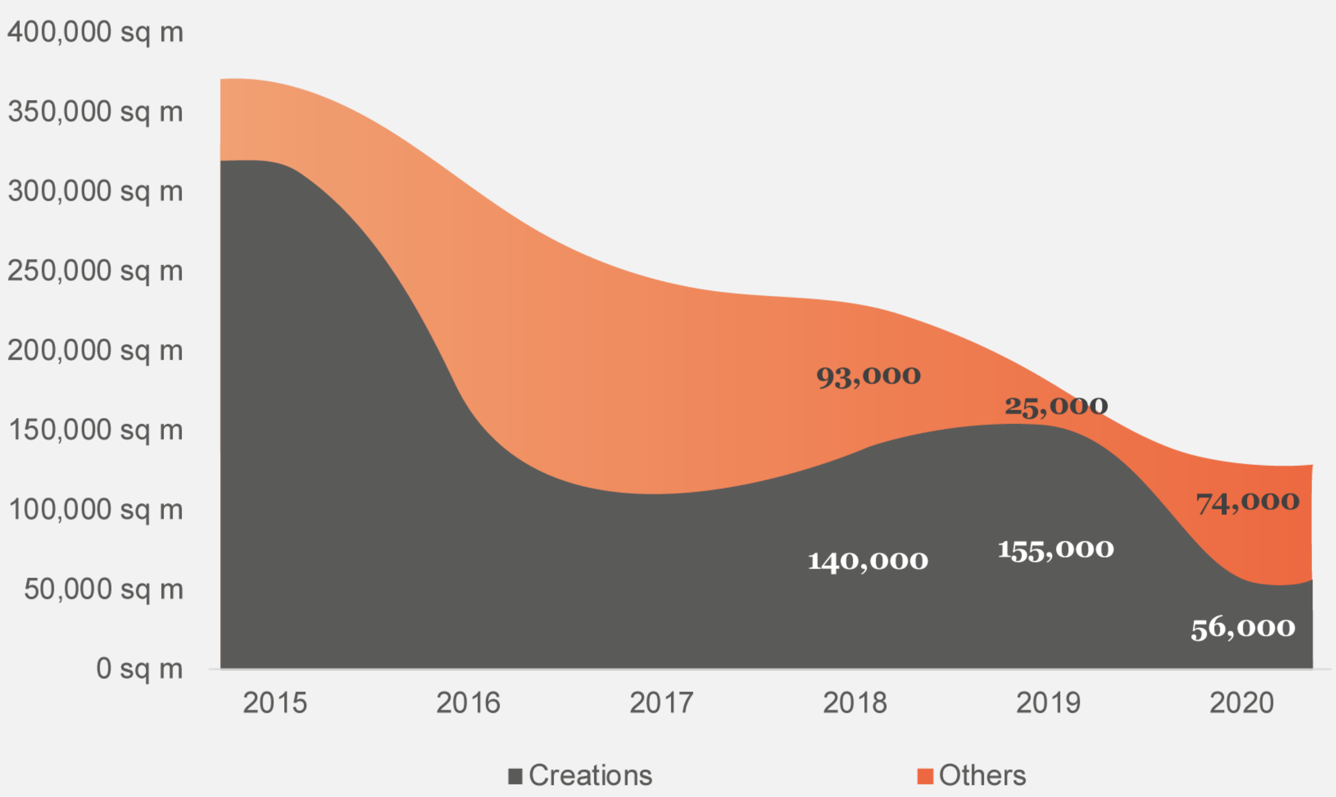
With 130,000 sq m inaugurated in 2020, **down 28% year-on-year and 51% compared with the average over the last five years**, production of new shopping centre sq m's continued to decrease last year.

2020 also confirmed the decrease in the total number of projects, as well as **the drastic reduction in the number of creations from scratch**, mainly represented in 2020 by the opening of Lillenium in Lille.

New threshold reached for shopping centres

Shopping centre openings in France

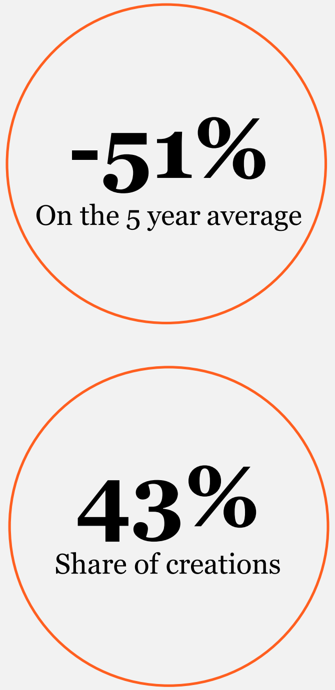
In sq m



Source: Knight Frank

2020 openings in France

Out of the total volume, in sq m



FEWER **NEW SQ M OF RETAIL**

In 2021, the inauguration of new areas could be higher, but will be inflated by the delivery of several projects initially planned for 2020, **the vast majority of which will again consist of refurbishment and extension projects**, such as Ateliers Gaité and Italik (Italie 2) in Paris, the completion of the extension of La Part-Dieu in Lyon and the extension of the Carrefour centre in Nice Lingostière.

Examples of shopping centre openings and projects in France

YEAR	CENTRE	CITY	TYPE	AREA (SQ M)
2020	LILLENIUM	Lille (59)	Creation	56,000
2020	MON GRAND PLAISIR	Plaisir (78)	Extension / Redevelopment	37,000
2020	LA PART-DIEU (LA LANTERNE)	Lyon (69)	Extension	19,000
2021	ÉVRY 2 (LE SPOT)	Évry (91)	Extension / Redevelopment	33,000
2021	LES TROIS FONTAINES	Cergy (95)	Extension / Redevelopment	33,000*
2021	LES ATELIERS GAITÉ	Paris (75014)	Extension / Redevelopment	27,800
2021	CARREFOUR NICE LINGOSTIÈRE	Nice (06)	Extension / Redevelopment	12,000
2021	LA PART-DIEU (FOOD COURT)	Lyon (69)	Extension	10,000
2021	CAP 3000 (CORSO)	Saint-Laurent-du-Var (06)	Extension	8,600
2021	ITALIK (ITALIE 2)	Paris (75013)	Extension	6,400
2021	SHOP'IN PACÉ	Pacé (35)	Extension	3,800

2020 opening

2021 opening

Opening planned for 2020 but postponed to 2021

Source: Knight Frank /* Opening in 2020 of a 3,600 sq m food court

FEWER **NEW SQ M OF RETAIL**

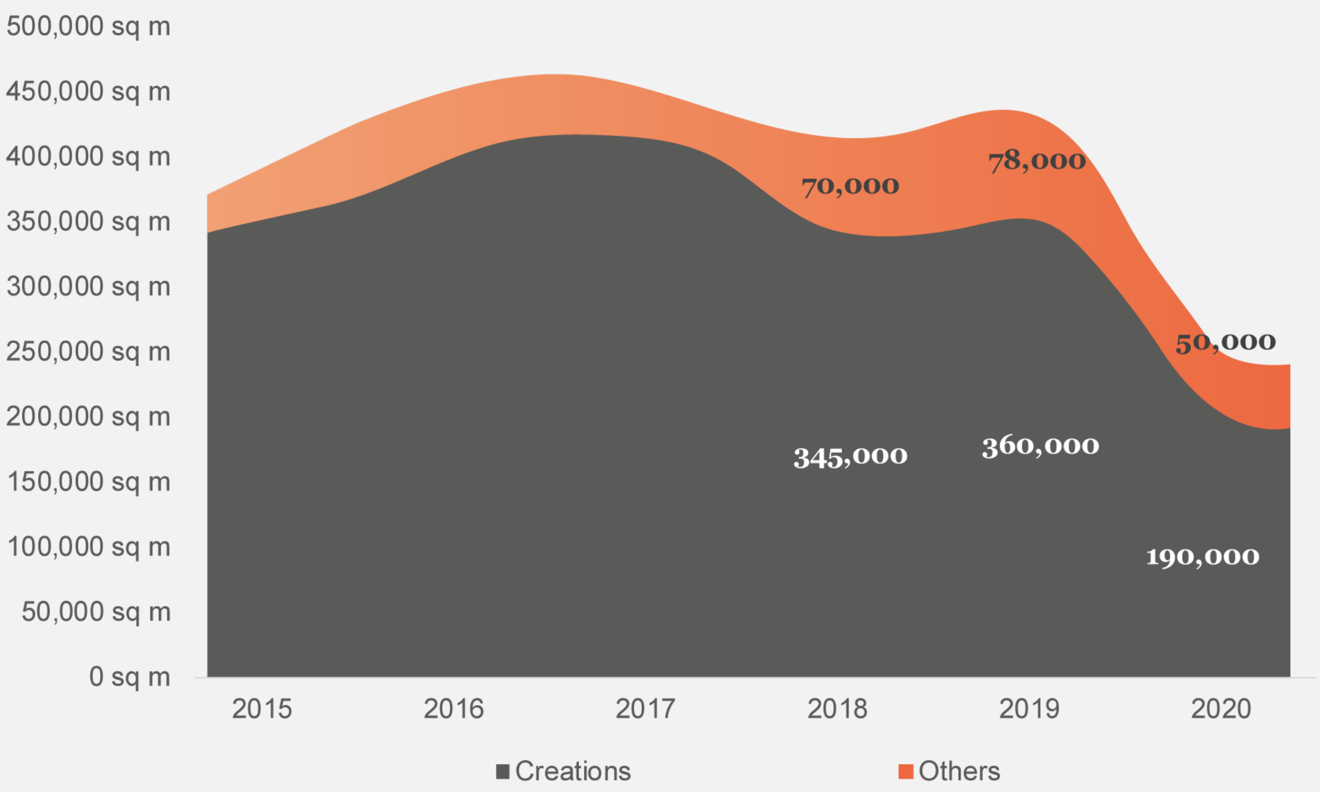
While retail park openings have averaged between 350,000 sq m and 600,000 sq m annually for the last ten years, **less than 250,000 sq m were opened in 2020**. It is necessary to go back to the very beginning of the 2000s to find a lower volume, but that time was the beginning of this open-air retail complex format.

The abrupt halt in 2020 was the result of a combination of factors, including **increased letting difficulties**, **delays in works related to the first lockdown**, and a **political and legislative context** that was much more unfavourable to the artificialisation of the land and the creation of new projects on the outskirts of towns.

An unprecedented slowdown in the retail park market

Retail park openings in France

In sq m



Source: Knight Frank

2020 openings in France

Out of the total volume, in sq m

-46%
On the 5 year average

78%
Share of creations

FEWER **NEW SQ M OF RETAIL**

The sharp decrease in openings recorded in 2020 may not continue into 2021, especially as major projects have been announced, a significant portion of which nevertheless concern **the redevelopment or extension of existing retail zones** ("Shopping Promenade Cœur d'Alsace" near Strasbourg, "Maine Street" near Le Mans, "Zone des Gravières" near Metz, etc.).

The trend is therefore towards a slowdown in new developments, which could also be accelerated by **new project cancellations following those already recorded in 2020**.

2020 opening

2021 opening

Opening planned for 2020 but postponed to 2021

Examples of retail park openings and projects in France

YEAR	CENTRE	TOWN	TYPE	AREA (SQ M)
2020	STEEL	Saint-Étienne (42)	Creation	70,000
2020	FRUNSHOPPING	Pollestres (66)	Creation	23,000
2020	L'ÎLE ROCHE	Sallanches (74)	Creation	12,500
2020	L'ESCALE	Hautmont (59)	Creation	12,000
2020	LE CHAUDRON	Pornic (44)	Creation	12,000
2020	POP'A AUTUN	Autun (71)	Creation	10,900
2020	ORGEVAL 2 / PARC DE LA PRAIRIE	Coulommiers (77)	Extension	8,500
2021	SHOPPING PROMENADE COEUR D'ALSACE	Vendenheim (67)	Redevelopment	66,000
2021	SHOPPING PROMENADE CLAYE-SOUILLY	Claye-Souilly (77)	Creation	46,000
2021	MAINE STREET	Ruaudin (72)	Redevelopment	27,000
2021	LA SABLIÈRE	Aurillac (15)	Creation	25,000
2021	ACTISUD / ZONE DES GRAVIÈRES	Moulins-lès-Metz (57)	Extension / Redevelopment	17,700

Source: Knight Frank

SUPPLY **IS BEING RENEWED**

Despite its difficulties, **fashion remains a key pillar of the retail property market**. In particular, it accounts for **a significant proportion of the tenant mix of new retail projects**. Other sectors are playing an increasingly important role, such as **food and catering, and household goods and bazaars**, which is reflected in the expansion of retailers and concepts that are relatively new.

Action continues their expansion

Breakdown of the tenant mix of projects opened in 2019 and 2020

All retail formats, in number of retailers in France

14 Openings

Action

Majority / totality of openings in **retail parks**

Majority / totality of openings in **shopping centres**

More than **10** Openings

Armand Thierry
Intersport
Maxi Zoo
Bleu Libellule
Chaussea

More than **5** Openings

Stokomani
Gemo
Jennyfer
Tape à l'Œil
Basic Fit
Besson
Columbus Café
Mango
Blackstore
Coiff & Co
Darty
Generale d'Optique
Maisons du Monde
Optical Center
Jysk
La Halle
Vapiano

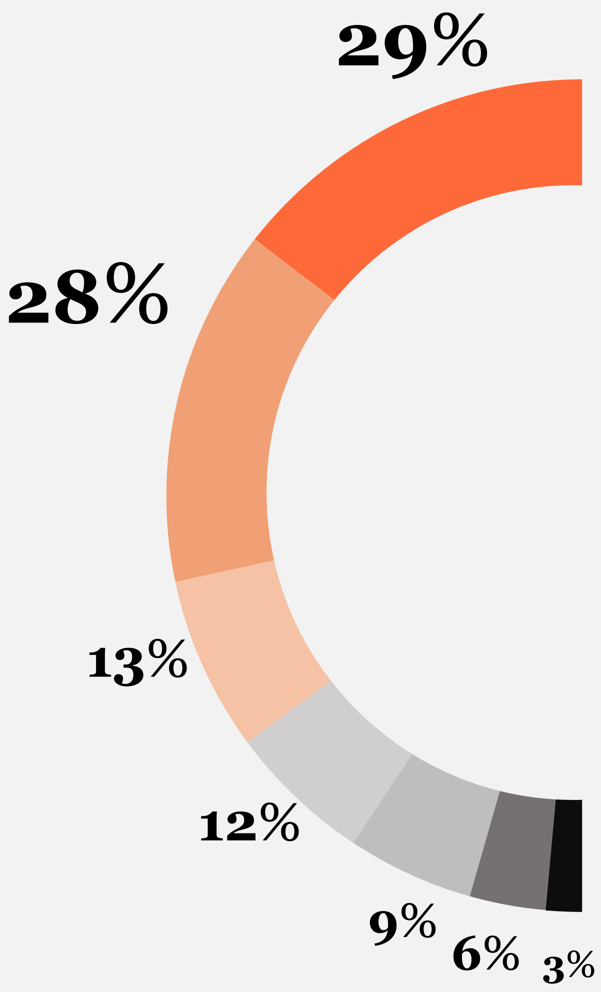
Sources: Knight Frank / Shopping centre websites

Breakthrough of catering

Breakdown of the tenant mix of projects opened in 2019 and 2020

All retail formats, in number of retailers in France

- Fashion and accessories
- Food - Catering
- Home - Bazaars
- Services
- Health - Beauty
- Culture – Leisure – Sport*
- Others



Sources: Knight Frank / Retailer websites/ * Including sportswear brands.

SUPPLY **IS BEING RENEWED**

Examples of retailers continuing to expand*

Source: Knight Frank /*All types of retail sites, existing or new

THE OUTLOOK FOR 2021…
AND BEYOND

- WILL THE FRENCH USE THEIR **SAVINGS ACCUMULATED** IN 2020?
- **WHEN** WILL TOURISTS **RETURN**?
- WILL **CONSUMPTION HABITS ASSOCIATED WITH THE HEALTH CRISIS** PERSIST?
- DESIRE TO CONSUME = **DESIRE TO GO SHOPPING**?
- CONTINUATION OF THE **POINT OF SALE REVOLUTION** (DELIVERY, COLLECTION POINT, PREPARATION, COMMUNICATION, ETC.)?
- WHAT IS THE FUTURE FOR **LARGE AREAS** (RESIZING OF RETAIL PROJECTS, FLAGSHIPS, ETC.)?
- WHAT ARE THE PROSPECTS FOR **FUTURE RETAIL WASTELANDS** (CHANGES OF USE, REGULATIONS, ETC.)?

Knight Frank

488 OFFICES
20 000 PEOPLE
57 COUNTRIES

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 20,000 employees operating from 512 offices in 57 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 5 service lines: office lettings and user advisory (Occupier Services & Commercial Agency), workspace design (Design & Delivery), Capital Markets, Retail Leasing and valuation with their Knight Frank Valuation & Advisory subsidiary.

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