Knight Frank

2018 Review & 2019 Outlook

French Property Markets

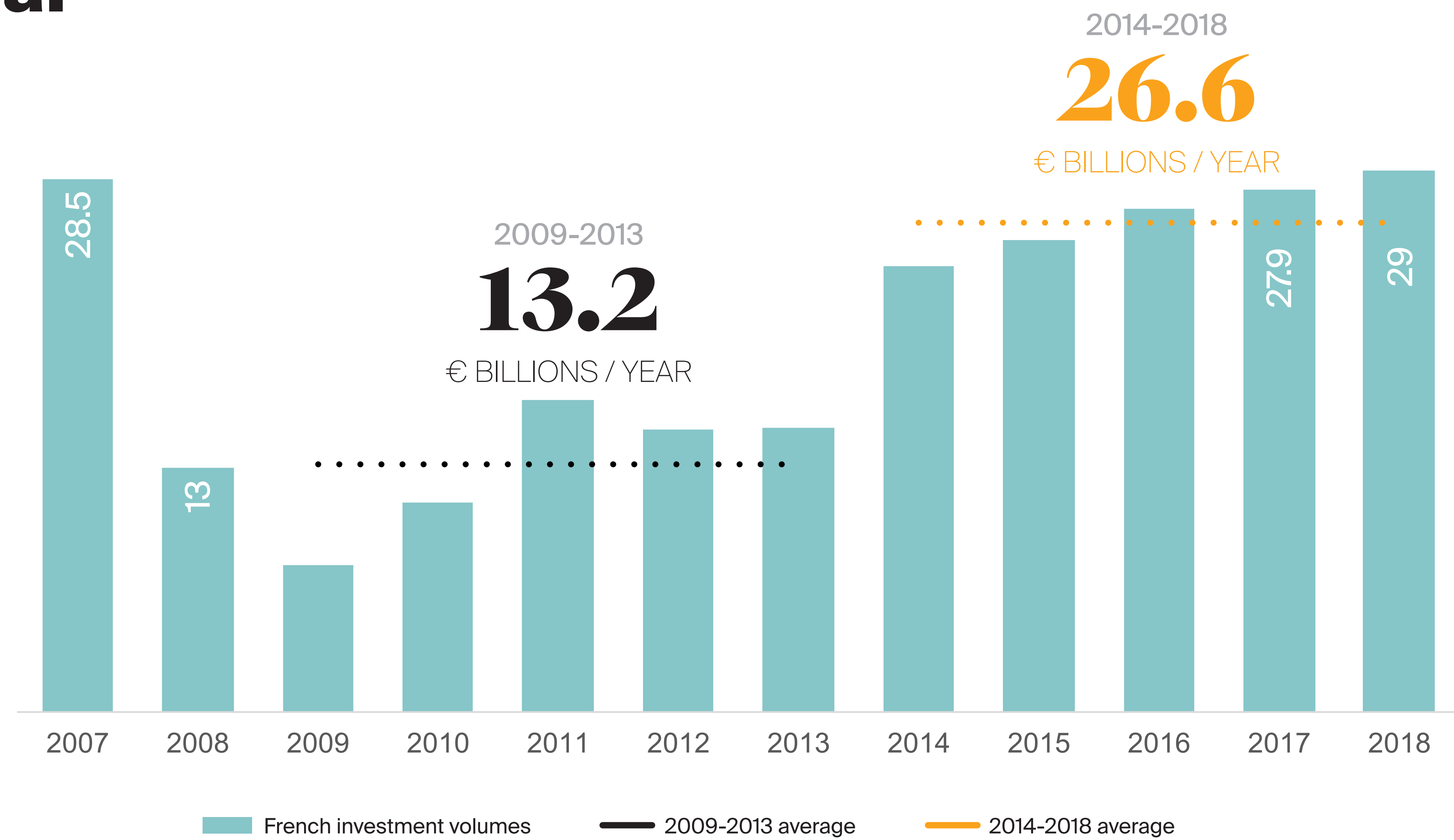
Investment

A record year

At its highest level

After an excellent first half to the year and a sharp slowdown in the third quarter, activity picked up again in the fourth quarter. 12.3 billion euros were invested in France over the period, bringing the total amount invested in 2018 to 29 billion euros, compared with 27.9 billion euros in 2017 (+4%). After a fifth consecutive year of growth, the French market recorded a historic performance, 2% higher than the previous record set in 2007.

Change in French investment volumes, all asset types
In billion euros



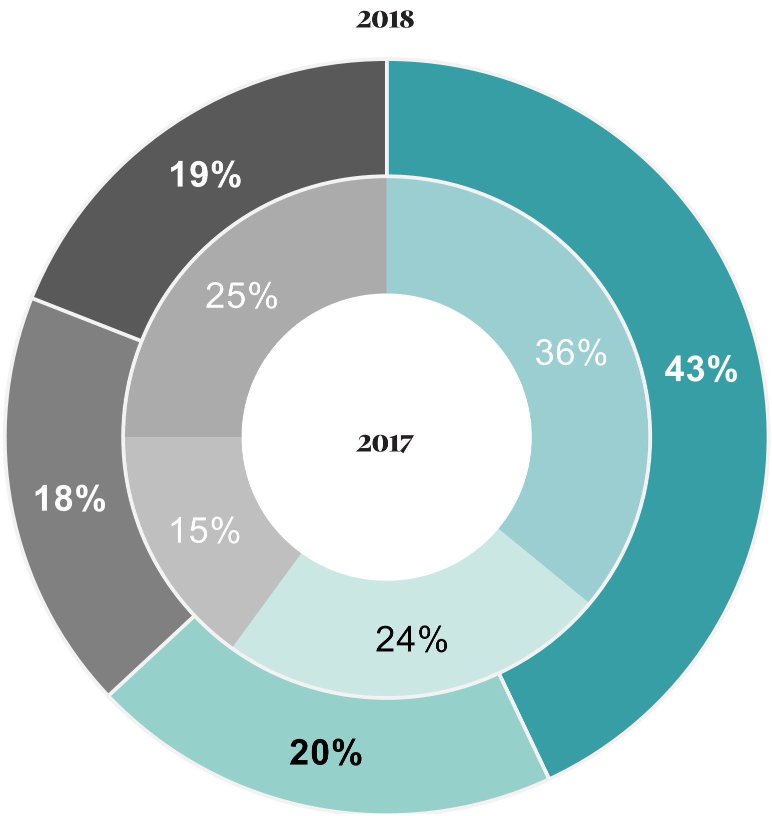
Source: Knight Frank

A polarized market

Key role of large transactions

Breakdown of French investment volumes
by amount category

The 2018 result is all the more remarkable given that the market did not benefit from the impact of any exceptional transactions, whereas the sales of «Cœur Défense» and the Logicor logistics portfolio accounted for a total of €3.5 billion in 2017. This was compensated by the sharp increase in the number of transactions over 100 million euros, which increased from 67 deals in 2017 to 77 in 2018. The increase in volumes is also significant, and these 77 deals totalled 18.3 billion euros, an increase of 9% year-on-year.



743
Transactions
(828 in 2017)

33 > €200 M
(20 in 2017)

=

€12.4 B
10.2 en 2017

=

43%
36% in 2017

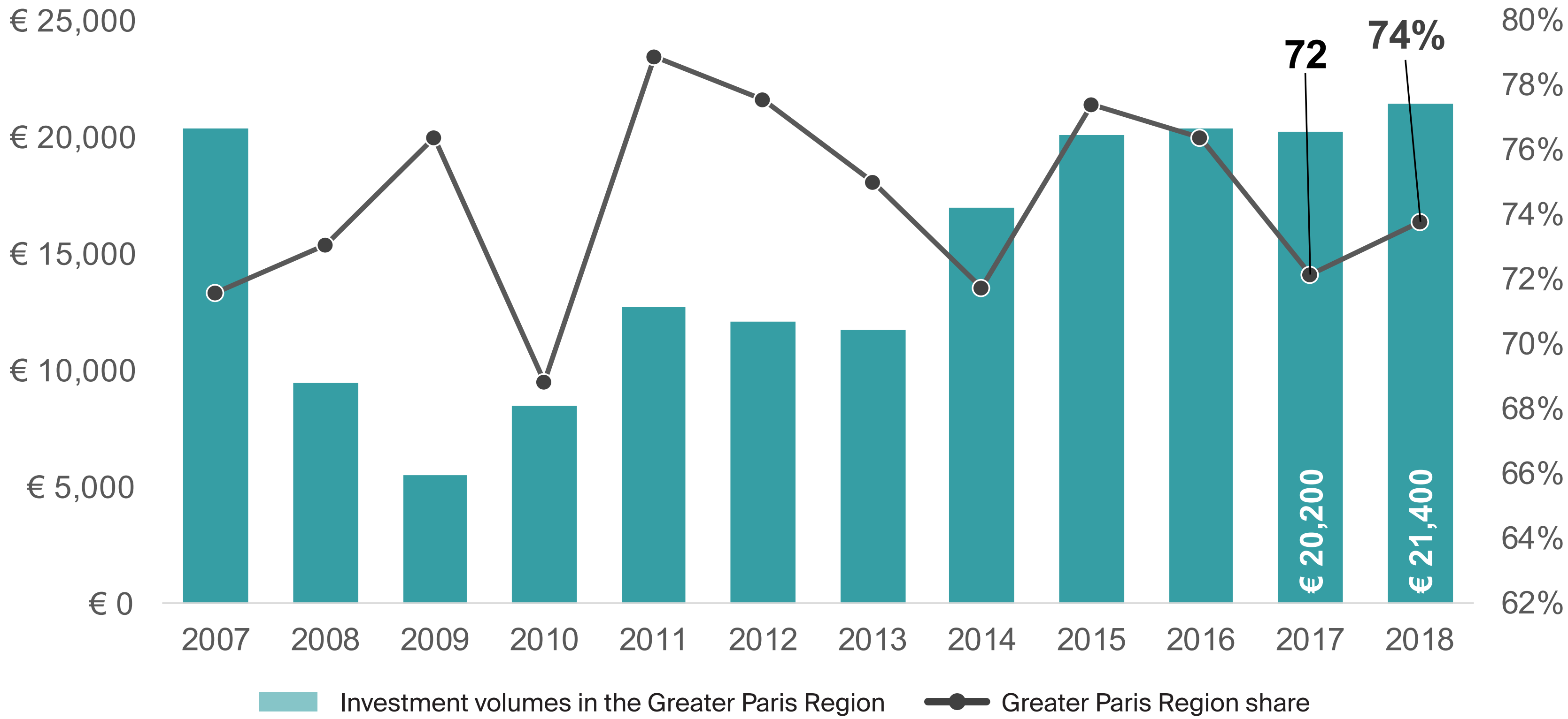
Source : Knight Frank

A polarized market

The Greater Paris Region: domination confirmed

Breakdown of investment volumes in the Greater Paris Region, all asset types
In million euros

21.4 billion euros (+6% year-on-year) were invested in the Greater Paris Region in 2018, 85% of which was in the office sector. The Greater Paris Region is thus increasing its leading position and accounted for almost three-quarters of investment volumes in France, after 72% in 2017.



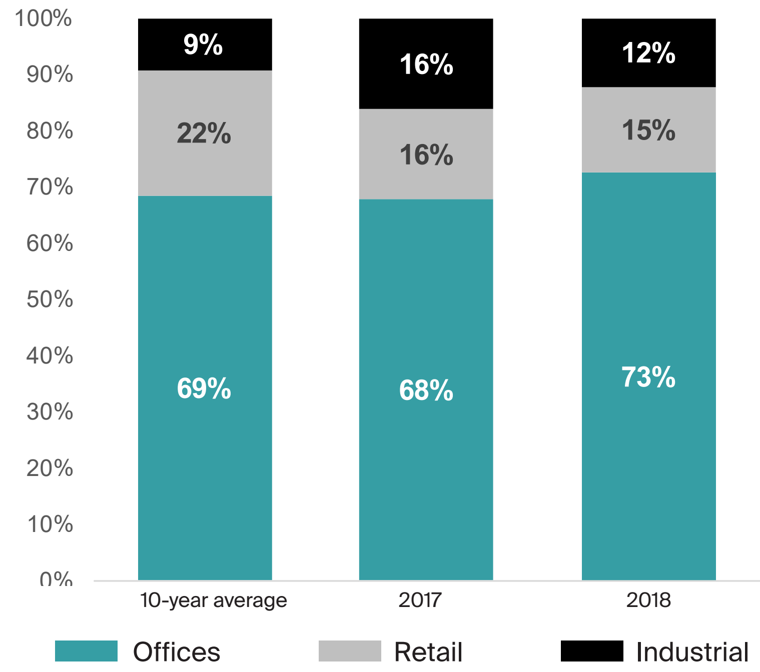
A polarized market

Historic record for offices

Another record was broken in 2018, that of volumes invested in the French office market. Totalling more than 21 billion euros, this exceeds the peak level of 2007. These amounts are 87% concentrated in the Greater Paris Region, a share fairly close to that of 2017 but whose stable level masks significant disparities between the various office sectors.

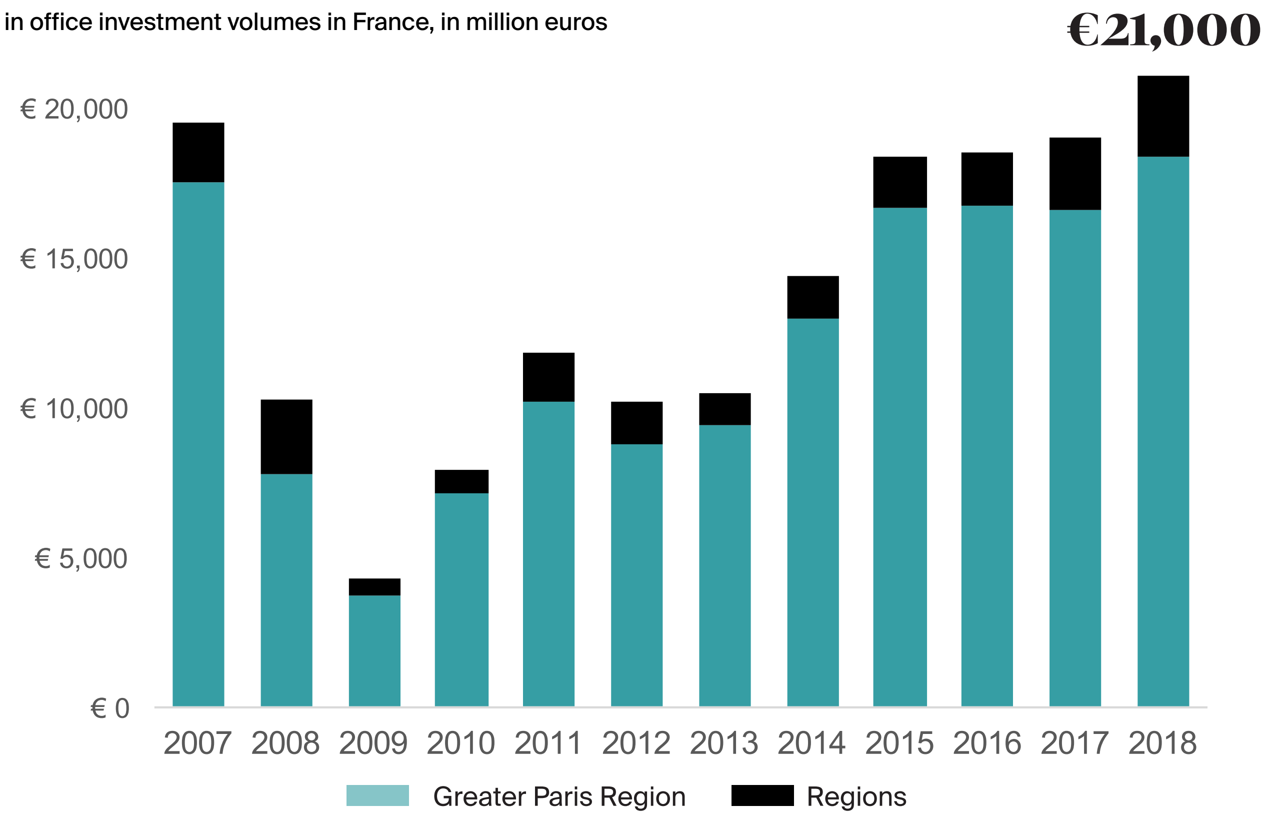
Activity also benefitted from the dynamism of the regions where Gecina, for example, sold two office portfolios for a total of almost €800 million.

Breakdown of French investment volumes, by asset type



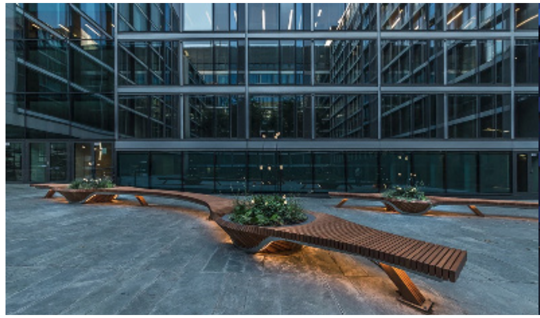
Source: Knight Frank

Change in office investment volumes in France, in million euros



Source: Knight Frank

Examples of office transactions > €400 million in 2018



Invesco Capital 8, Paris 8th

CNP Assurances 85-89 Richelieu, Paris 2nd

Primonial Reim Quadrans, Paris 15th

Batipart Office portfolio, Provinces

GIC Ariane Tower, La Défense

Oxford Properties Window, La Défense

Sogecap Kosmo, Neuilly-Sur-Seine

Société Générale Insurance Pacific Tower, La Défense

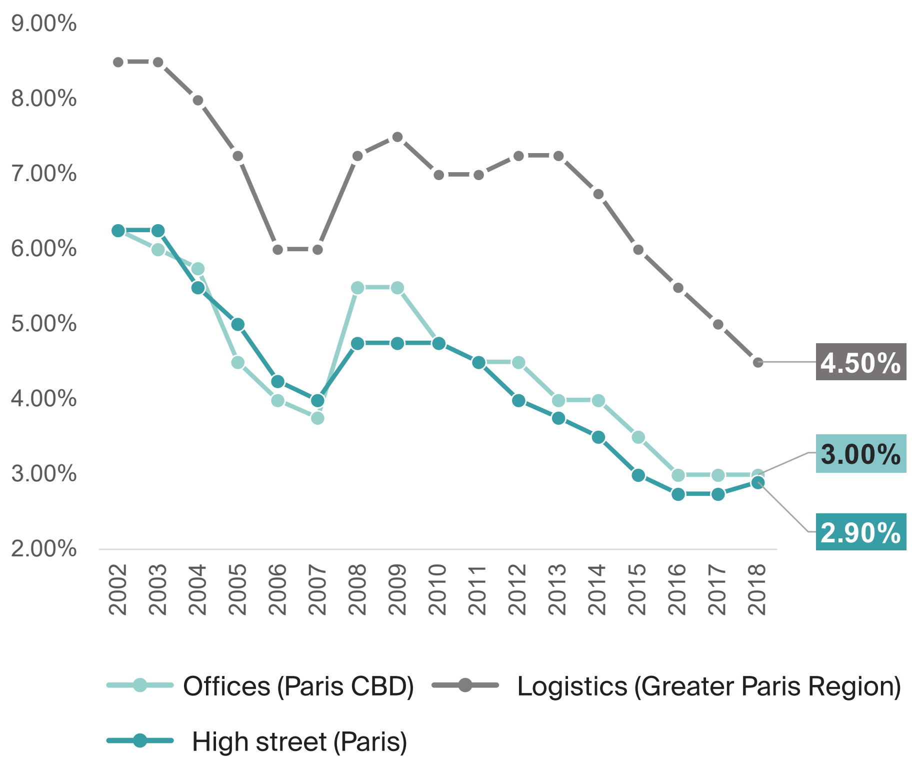
Prime yields at their lowest level

The trend is generally one of stability in the office segment, with prime CBD office yields remaining around 3%.

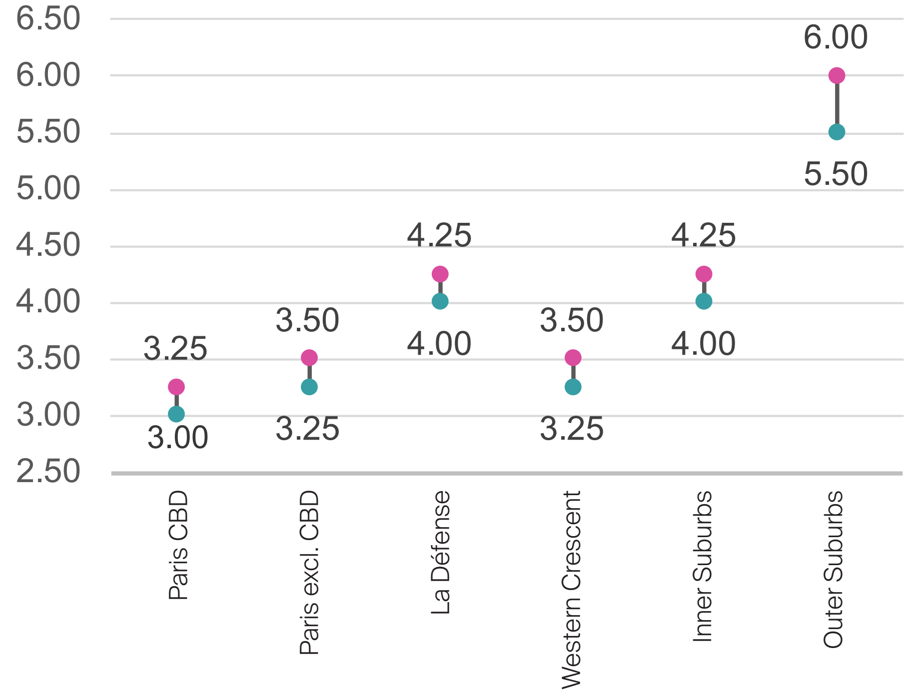
In the high street retail market, yields for the best Parisian locations are on a slight upward trend and now stand at 2.90%.

Finally, the logistics market, driven by strong investor demand, experienced a further compression in yields in 2018, with rates reaching a low of 4.50%.

Change in prime yields
As a %



Range of prime office yields, by geographic sector
As a %



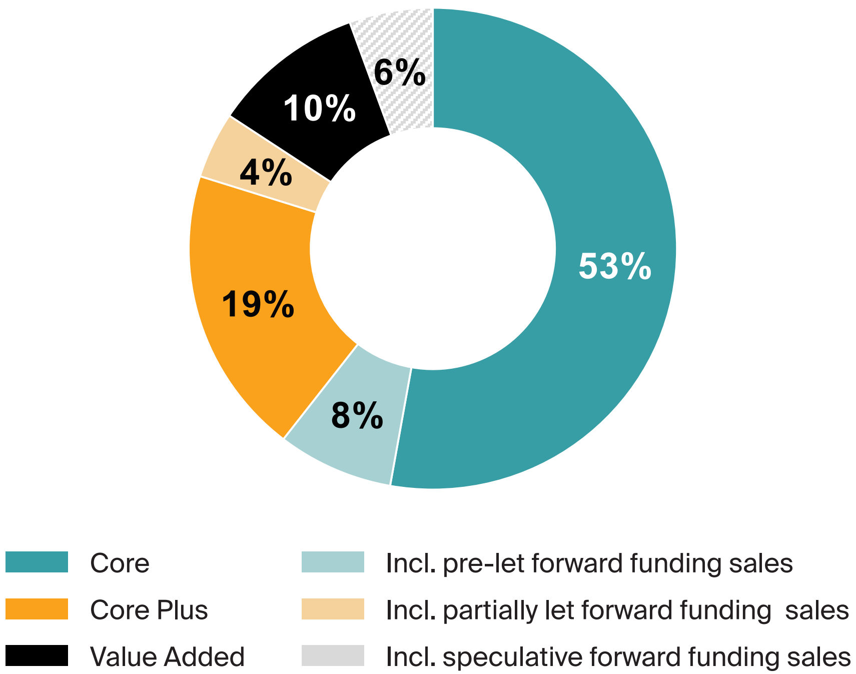
Source: Knight Frank

A measured risk

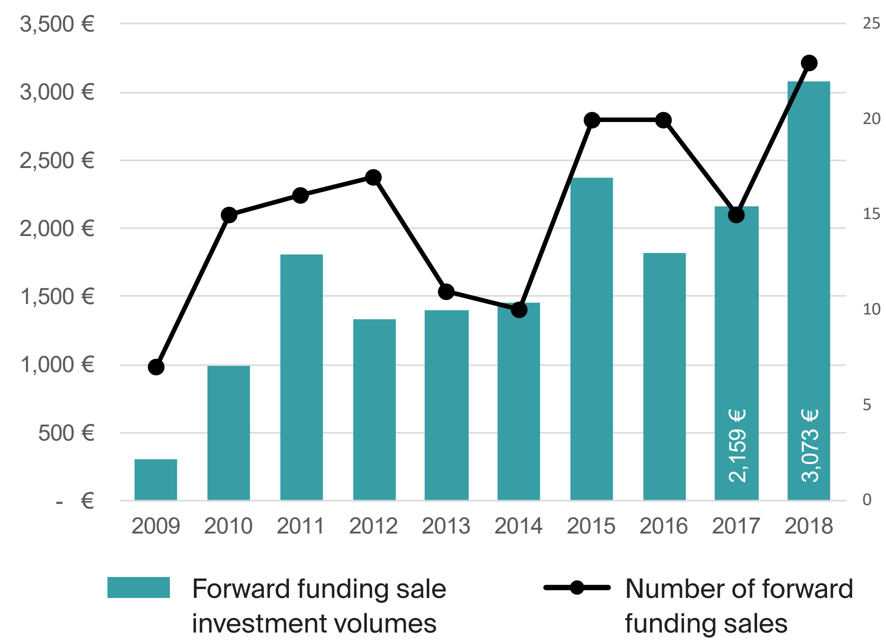
The breakdown of investment amounts by risk profile confirms the appeal of secured assets to investors. Core assets represent more than 60% of the volumes invested in offices in the Greater Paris Region, a share that has risen sharply over the past year (45% in 2017).

Forward-funding sales accounted for a little under 4 billion euros of investment in France in 2018 (of which 3.1 billion was in the Greater Paris Region), an increase of 35% year-on-year. This increase is not necessarily a sign of greater risk taking by investors, as 60% of this volume was for partially or fully pre-let assets.

Breakdown of Greater Paris Region investment volumes, by risk type
Greater Paris Region offices, individual asset transactions ≥ €20 M



Change in investment volumes of forward funding sales
Greater Paris Region offices, individual asset transactions ≥ €20 M
In millions of euros



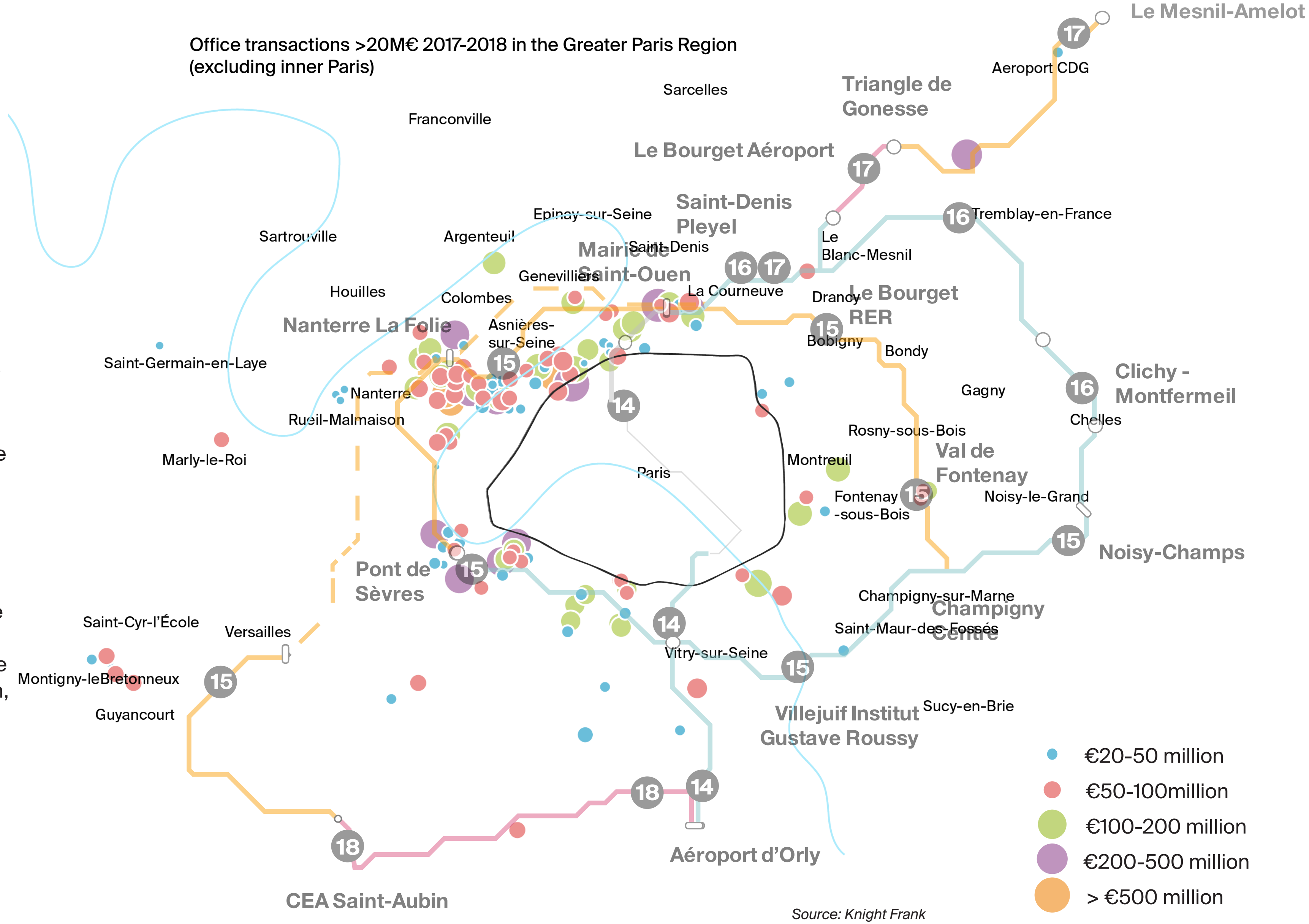
Source: Knight Frank

A Grand Paris effect ?

Within the context of a shortage of prime offices and yield compression, the search for returns remains an important driver of investment activity. Many investors have thus focused on office assets that need to be restructured and are located in established markets or in proximity to the future Grand Paris Express stations. The increase in volumes invested in 2018 in the Inner Northern Suburbs (+105% year-on-year) is a good illustration of the attractiveness of certain development areas.

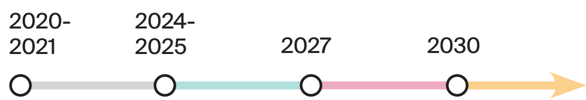
Ivanhoé Cambridge notably purchased the 90,000 sq m Cap Ampère building there: a symbolic deal because it is the largest office property sold in 2018 in France, but also because it perfectly illustrates investors' appetite for the major Greater Paris Region development areas. The Pleyel site is benefiting from both the future commissioning of the Grand Paris Express and the organisation of the 2024 Olympic Games; others have been targeted in Saint-Ouen, Clichy or outside the Inner Suburbs (South, East).

Office transactions >20M€ 2017-2018 in the Greater Paris Region (excluding inner Paris)



Source: Knight Frank

Timetable for the commissioning of the Grand Paris Express

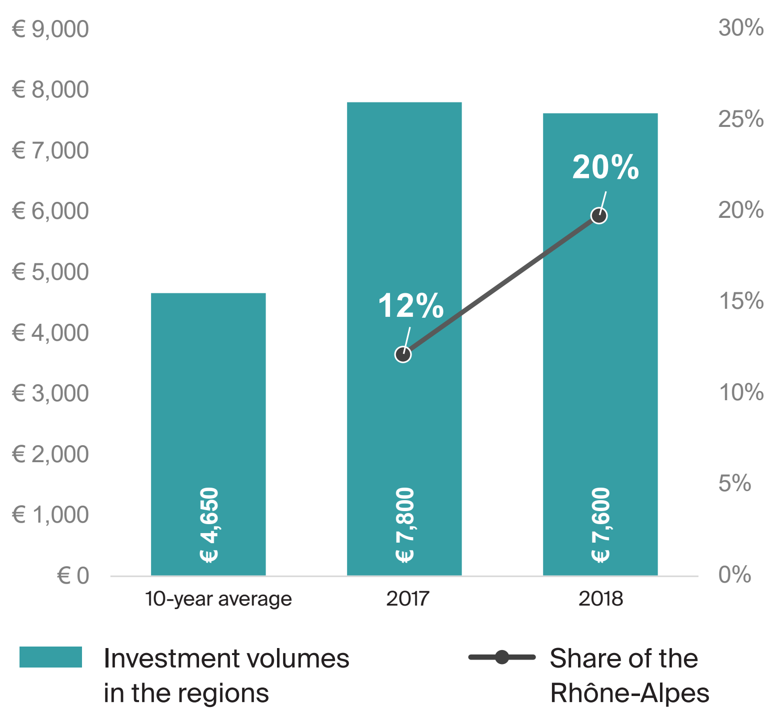


The regions and the international spotlight

Whilst some players have focused on office assets that need to be restructured or assets that are located in the Greater Paris Region development areas, others have also increased their exposure to regional markets, but have favoured new or recent assets, generally secured on long leases. Furthermore, the largest metropolitan areas have been targeted as a priority, with the Lyon region alone accounting for 40% of office investment volumes outside the Greater Paris Region.

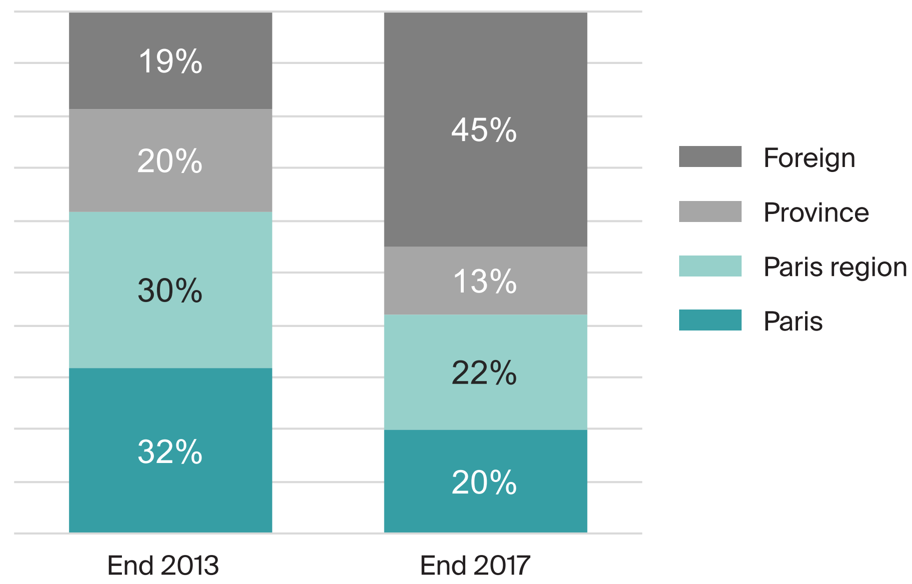
Diversification and the search for returns also require greater exposure of French investors to foreign markets, as shown by the change in geographical distribution of the SCPI/OPCI assets.

Change in regional investment volumes
All asset types, in million euros



Source: Knight Frank

Geographic distribution of General Public OPCIs
By value, share as a %



Sources: ASPIM / AFG

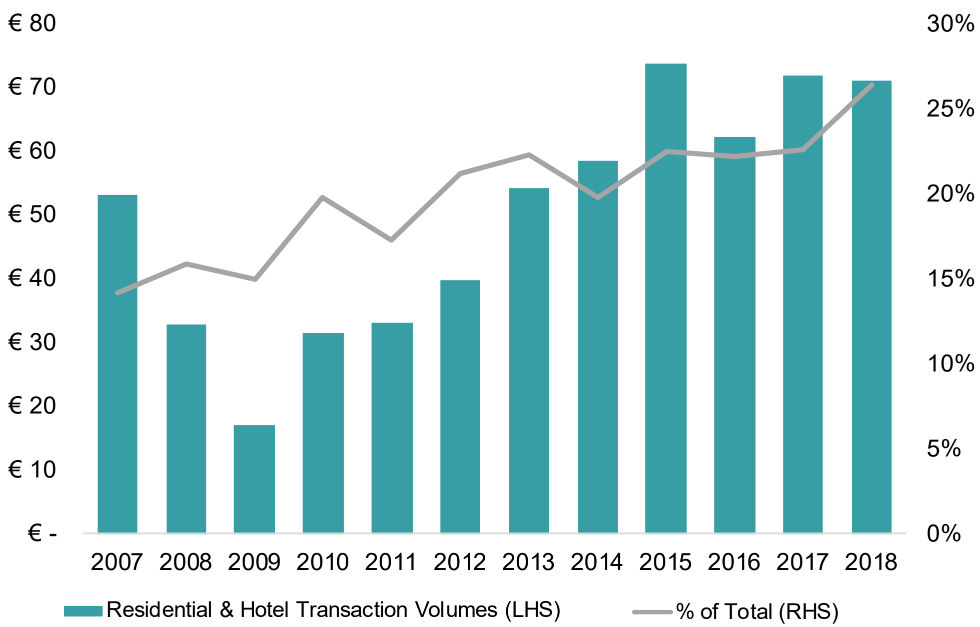
The appeal of the residential sector

In addition to strategies favouring greater investor exposure to assets to be restructured, development areas or the regions, there has also been a significant increase in interest in residential assets.

The latter (including hotels) thus accounted for more than 26% of investment volumes in Europe in 2018, compared with 15% just ten years earlier.

In France, activity was notably driven by a few major transactions, including the acquisition by Ampère Gestion and Swiss Life AM of a portfolio valued at 1.4 billion euros.

Change in residential and hotel transaction volumes
In billion euros



Sources: Knight Frank / RCA

Some significant examples in France

Year	Asset	Purchaser	Price
2018	**80%** Vesta portfolio	cdc habitat AMPERE Gestion; SwissLife Asset Managers	**€1.4 billion**
2017	**Powerhouse portfolio** France	BNP PARIBAS CARDIF; SOCIETE GENERALE Insurance	**€1 billion**
2017	**Heritage portfolio**	PRIMONIAL	**€200 million**

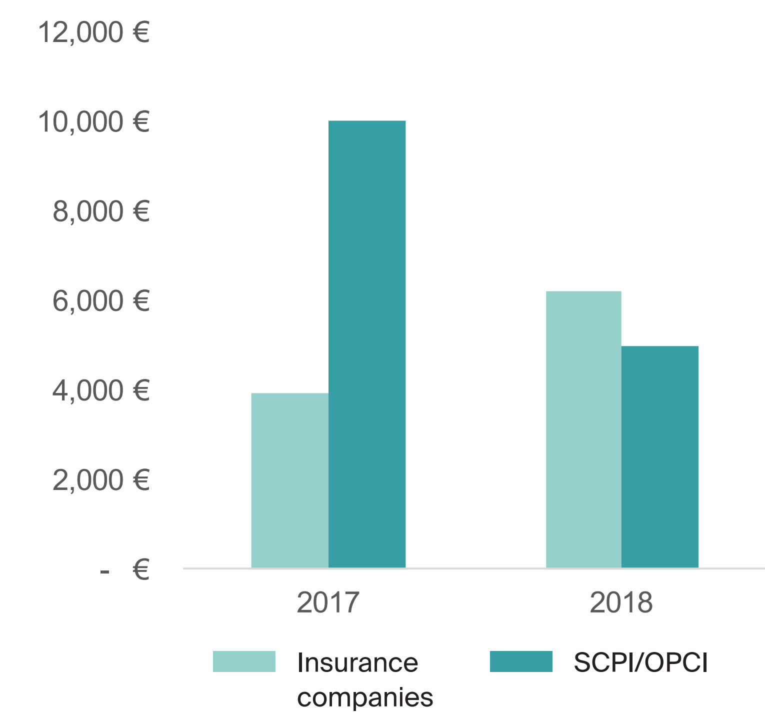
Source: Knight Frank

SCPI/OPCI and insurance companies: contrasting results

The large savings collectors remain very active, even if the activity of SCPI/OPCIs, based on a much smaller number of large transactions and benefitting from lower collection levels in 2018, is on a downward trend. These players accounted for 18% of all volumes invested in France last year, after 36% in 2017.

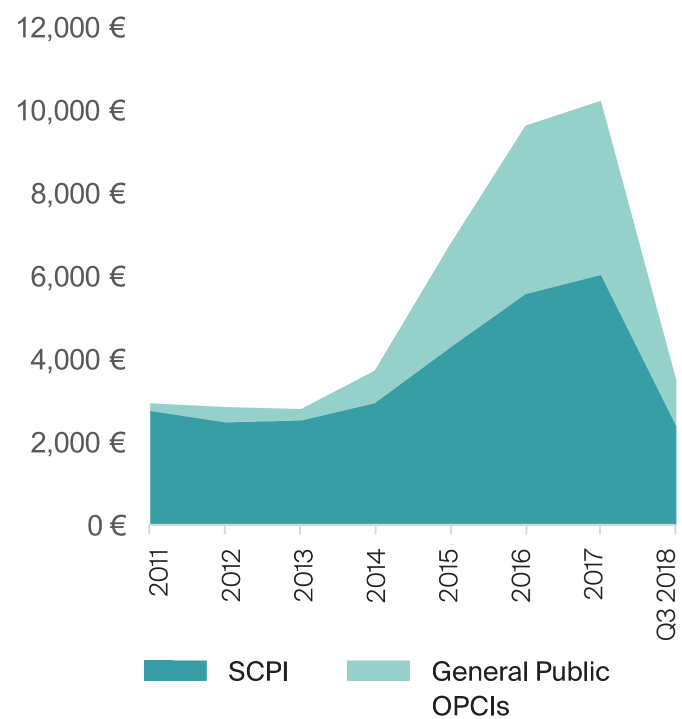
On the other hand, the share of insurers rose from 14% in 2017 to 24% in 2018, boosted by the few large or very large acquisitions made by Generali, Sogecap, CNP Assurances and Covea.

French investment volumes by investor type
All asset types, in million euros



Source: Knight Frank

Change in net fund collection
In million euros



Source: ASPIM

Life insurance net fund collection

2017
€8.4 bn

2018
€22.4 bn

+167% year-on-year

Source: FFA

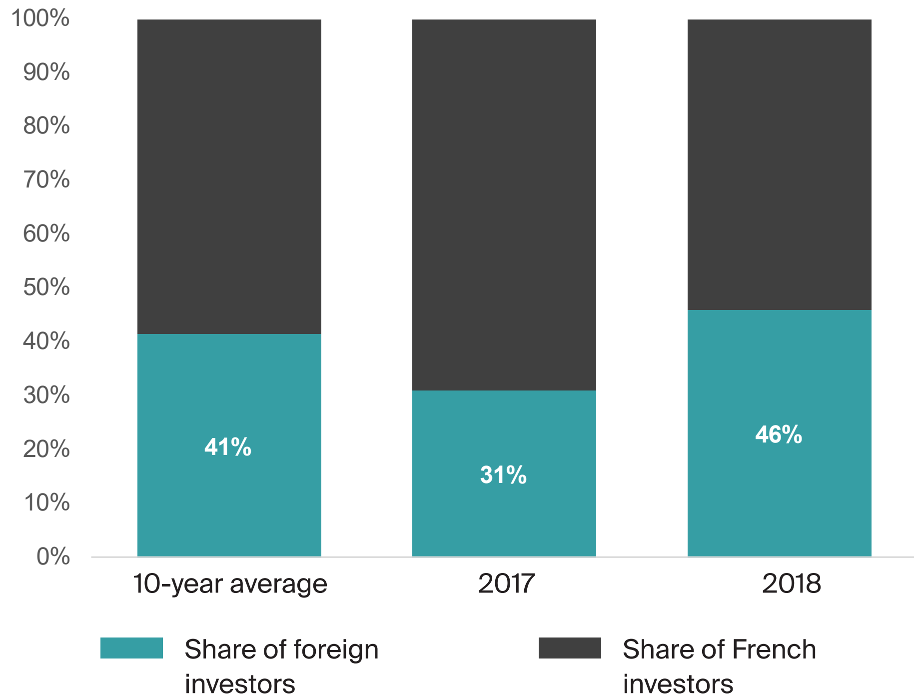
Foreigners more present

Above average

The large deals of the 4th quarter, including the sale of Capital 8 to Invesco, the sale of Ariane Tower to GIC and Ivanhoe Cambridge's acquisition of Cap Ampère, confirmed the return of foreign investors to the forefront. While their share is still far from that of the early 2000s, they accounted for 46% of investment volumes in France in 2018, compared with 31% in 2017 and an average of 40% over the past five years.

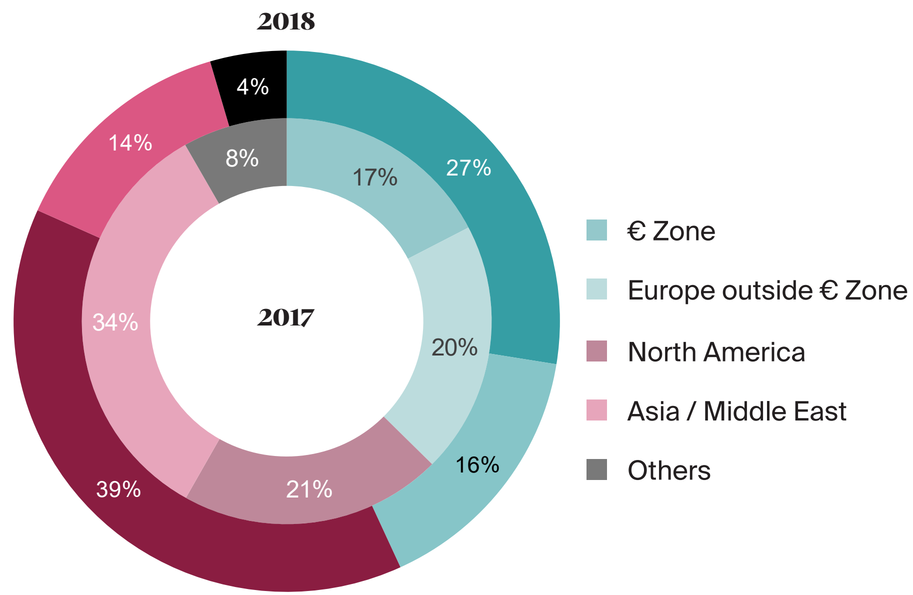
French investors are still in the majority, but their share has been falling for the past three years. They accounted for 54% of the volumes invested in France in 2018, after 67% in 2016 and 69% in 2017.

Change in the share of foreign investors
Out of all French investment volumes, all asset types



Europeans in the lead

Breakdown of foreign investment volumes
Out of all French investment volumes, all asset types



Source: Knight Frank

Foreigners more presents

A targeted appetite

With a strong presence in the logistics sector, North American investors have also made a name for themselves in the office and retail sectors, such as Oxford Properties' recent acquisition of Window in La Défense and the Valentino flagship on rue Saint-Honoré. They accounted for 39% of the volumes invested by foreigners in 2018, ahead of Germans (16%), who are fond of prime shops and offices in the Greater Paris and Lyon regions.

Asians accounted for 14% of investment volumes, due to a few logistics and office transactions of more than €100 million signed on behalf of South Korean, Singapore and Hong Kong investors.

	North America	Europe	Asia	Others
OFFICES	34%	45%	18%	3%
INDUSTRIAL	67%	19%	10%	4%
RETAIL	19%	71%	0%	10%

Key trends in 2019

INCREASED RISKS

- Economic slowdown
- Social and geopolitical tensions

QUESTIONS

- Standardisation of monetary policies / Yield changes
- Collection levels (SCPI/OPCI, life insurance)
- Changes in the equity markets
- Change in investor acquisition criteria (risk level, asset types, etc.)
- Will the lettings markets remain buoyant?

ACTIVITY DRIVERS

- Strength of international investment flows
- Investor's search for diversification

Offices

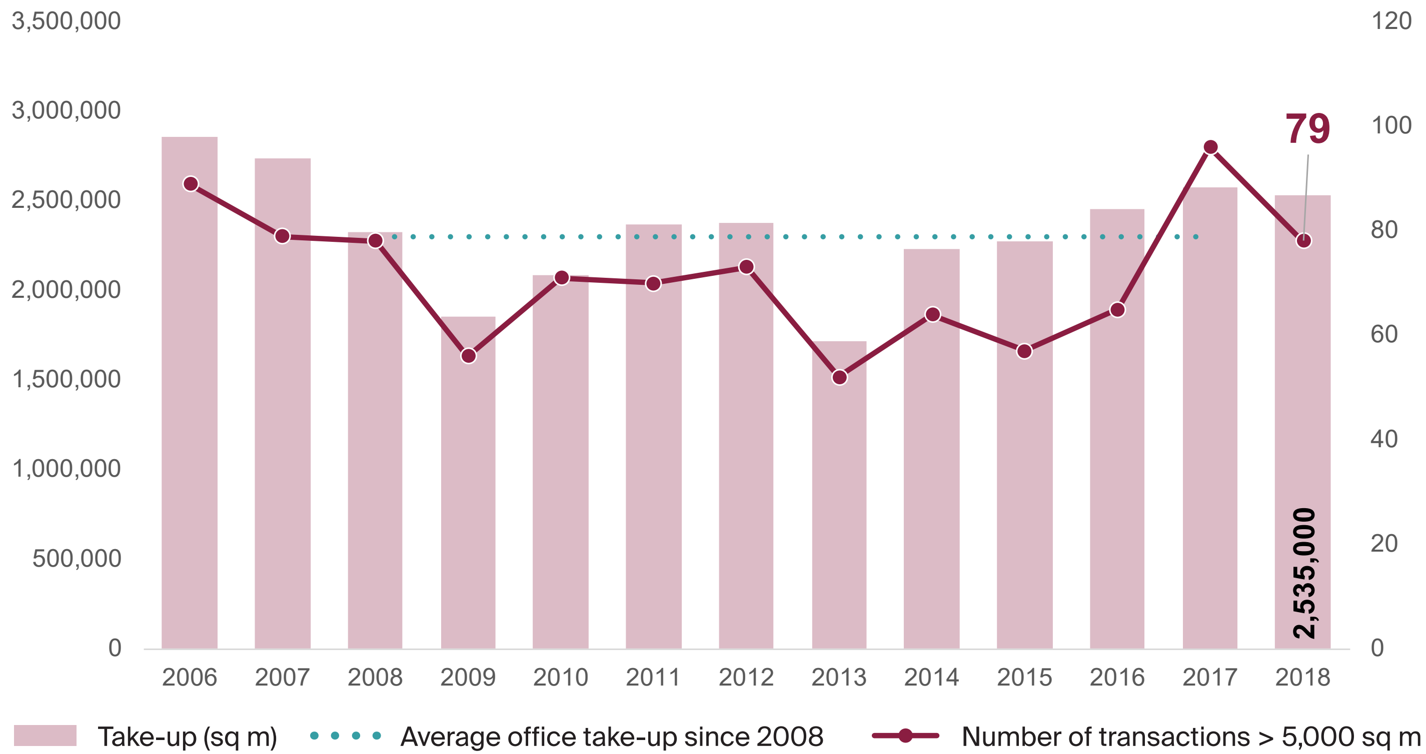
Sustained activity

A good year

The Greater Paris Region office market experienced a robust end to 2018, although it did not reach peak levels. Take-up amounted to 629,000 sq m in the 4th quarter, a decrease of 19% compared to the same period in 2017.

Over the whole of 2018, take-up volumes totalled almost 2.54 million sq m, compared to 2.56 million sq m a year earlier. The overall trend remains positive: 2018 results are almost equal to the very good results of 2017, and are more than 14% higher than the ten-year average.

Change in take-up in the Greater Paris Region



Source: Knight Frank

-1%

Year-on-year

+14%

10-year average

Large transactions: less of a key role

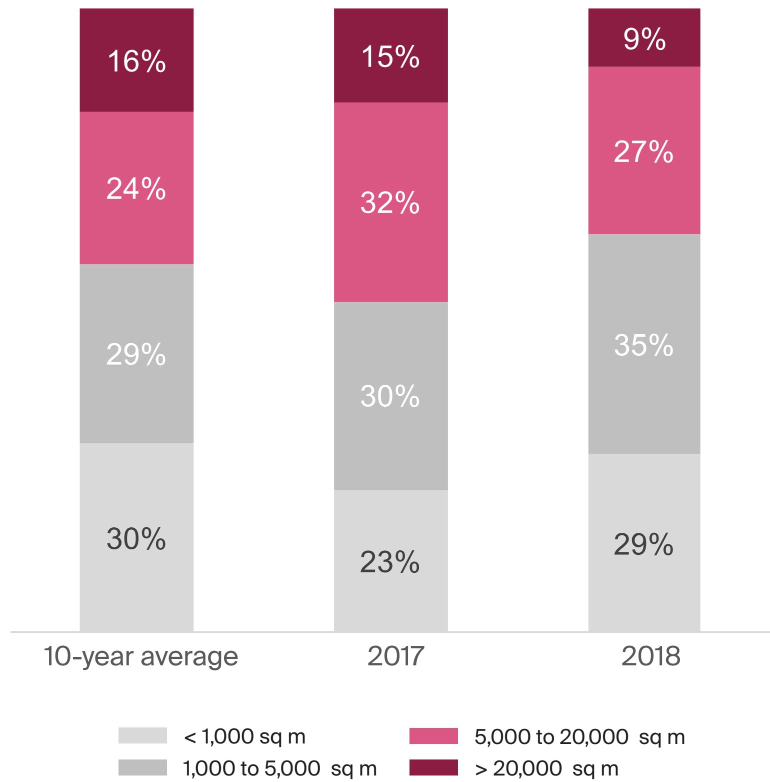
More evenly distributed

The strength of the Greater Paris Region market is particularly noticeable with areas of less than 5,000 sq m. Areas comprised between 1,000 and 5,000 sq m are the most active, with volumes up 16% year-on-year.

Lettings of areas over 5,000 sq m recorded a decrease of 24% year-on-year. While their number is also decreasing, it is mainly the size of large transactions that is behind the slowdown in the office market. Only six company movements of more than 20,000 sq m were recorded in 2018, of which five were signed in the first half of the year, compared to ten such deals in 2017.

Source: Knight Frank

Take-up by area category, in the Greater Paris Region
Out of total volume in sq.m



79 transactions
> 5,000 sq.m
93 in 2017

916,000 sq.m
1.2 million in 2017

36%
of volume
47% in 2017

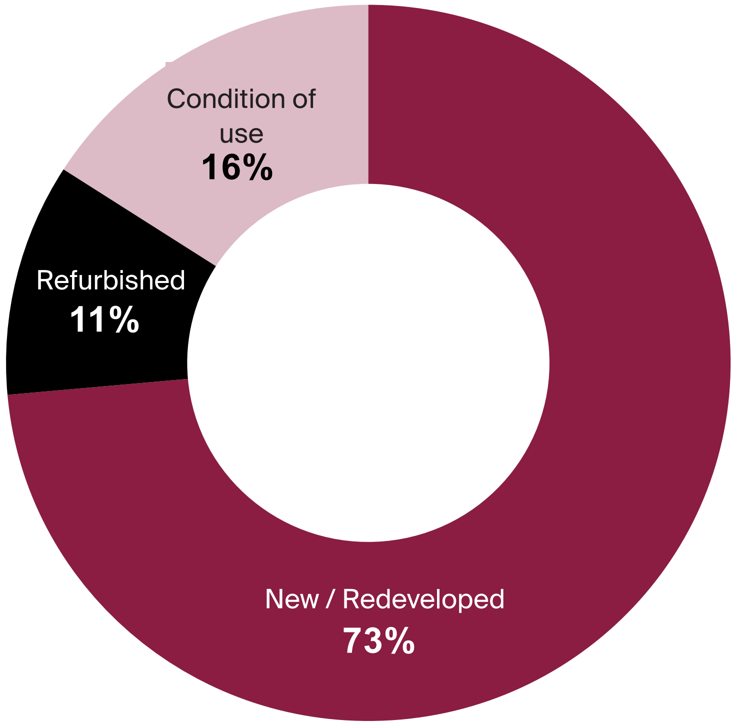
Source: Knight Frank

New offices: still highly sought-after

Nearly 75% of total take-up

The shift in activity towards new/redeveloped premises remains a constant in the Greater Paris Region market: such deals accounted for 73% of take-up over 5,000 sq m in 2018 (72% in 2017).

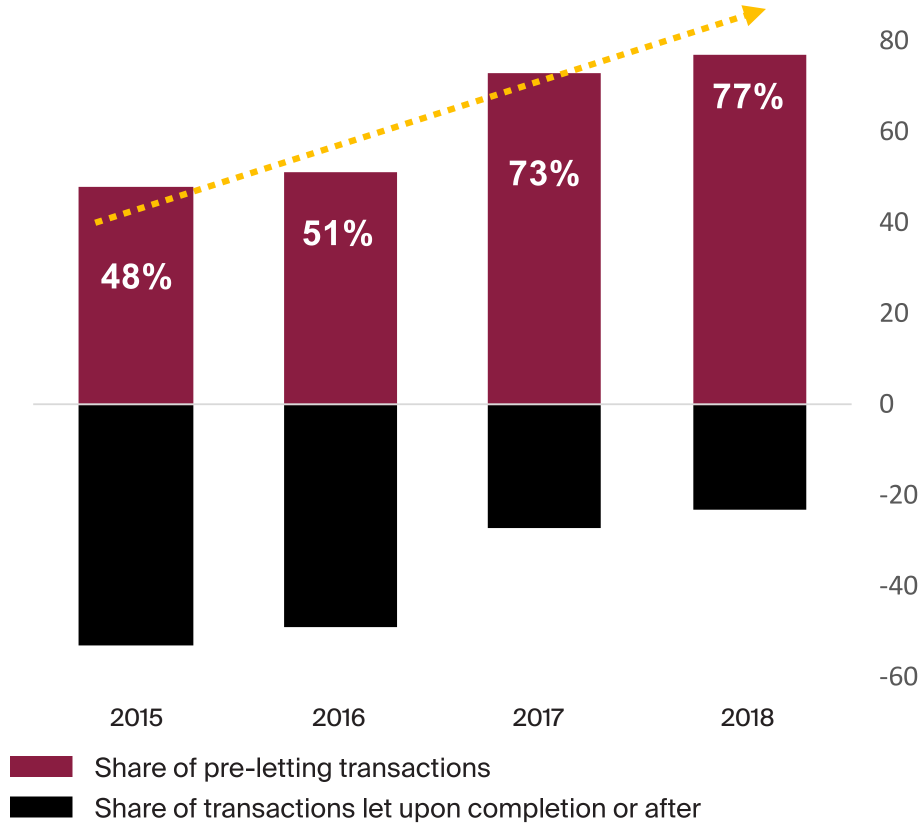
Take-up by building quality, in the Greater Paris Region
% volume of transactions > 5,000 sq m



An increase in pre-lettings

The share of pre-lettings of new/redeveloped large areas also remains high at almost 80%, another indication of occupiers' preference for the most qualitative properties.

Change in pre-lettings in the Greater Paris Region
% of number of transactions > 5,000 sq m undertaken on new or redeveloped supply



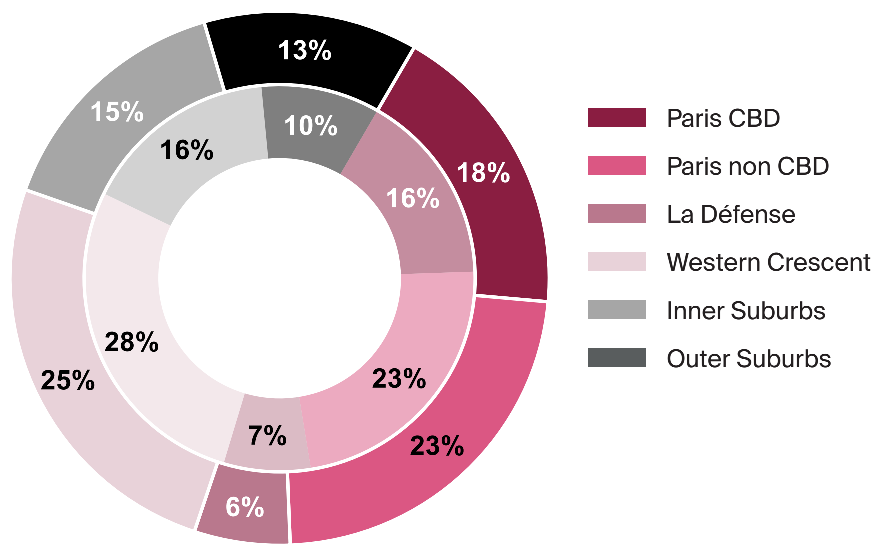
Contrasting results

Paris, still on top

The results of the different Greater Paris Region office sectors quite diverse. In the Inner Suburbs, the South stood out with a strong 45% increase in take-up. The Outer Suburbs show an increase of 30%. The results of the Western Crescent and La Défense is more mixed.

Take-up volumes were stable in Paris in 2018 and exceeded one million sq m for the third consecutive year. The driving force behind this success? The excellent results of the CBD and Paris Centre West, whose take-up volumes increased by 11% year-on-year.

Share of each geographic sector in total take-up
In the Greater Paris Region, out of total volume in sq m



Change in take-up By volume, between 2017 and 2018	
Paris CBD	+11%
Paris non CBD	-1%
La Défense	-21%
Western Crescent	-9%
Inner Suburbs	-8%
Outer Suburbs	+30%

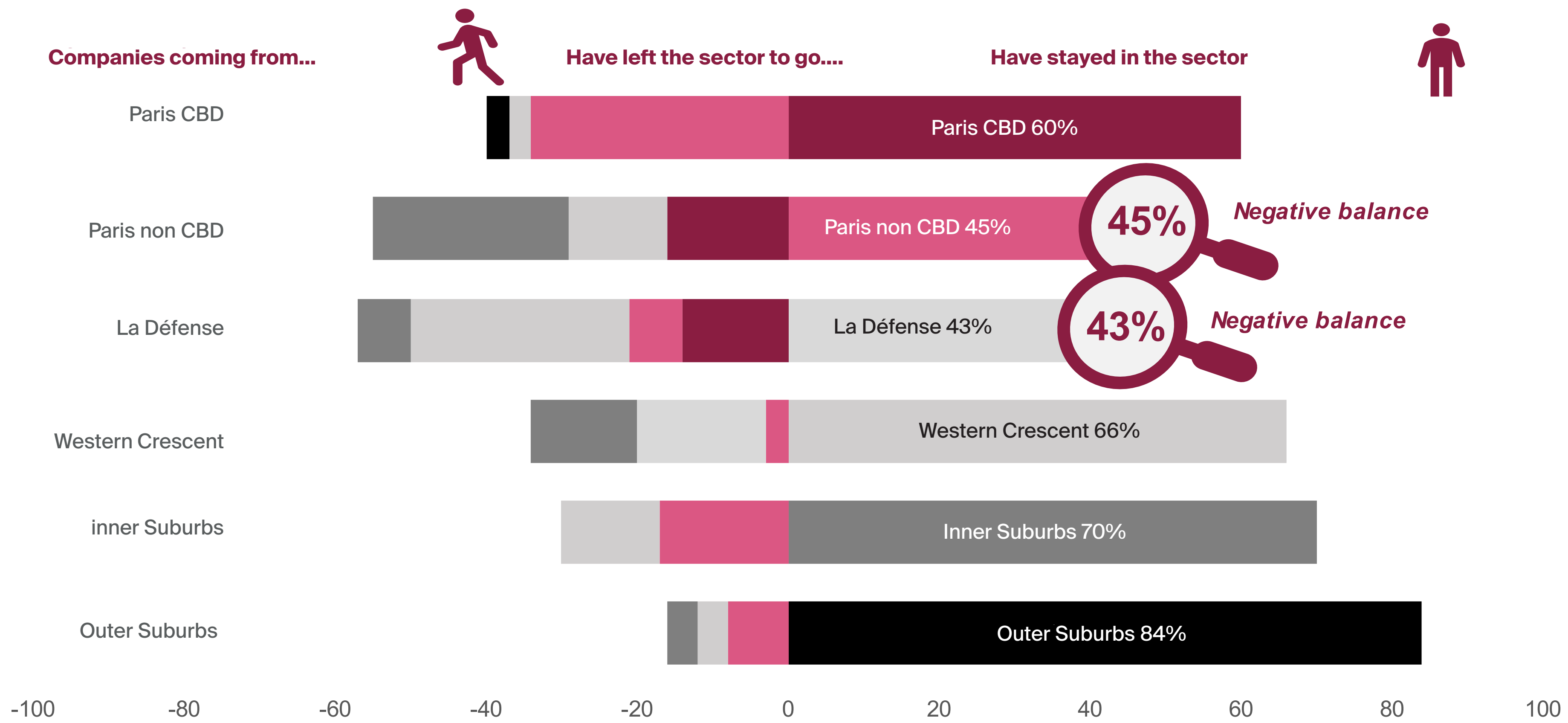
Source: Knight Frank

Occupiers: greater mobility?

An analysis of the movements of large occupiers over the 2017-2018 period makes it possible to distinguish the most attractive office markets from those subject to greater corporate mobility. Whilst the Outer Suburbs remain mainly driven by endogenous movements, La Défense, which for the moment offers little new and redeveloped office space, has for example seen a majority of companies favour neighbouring sectors.

In Paris, this is also the case for office sectors outside the CBD, which at the same time attract occupiers from most of the major office sectors in the Greater Paris Region.

% of number of transactions ≥ 5,000 sq m in the Greater Paris Region, 2017/2018



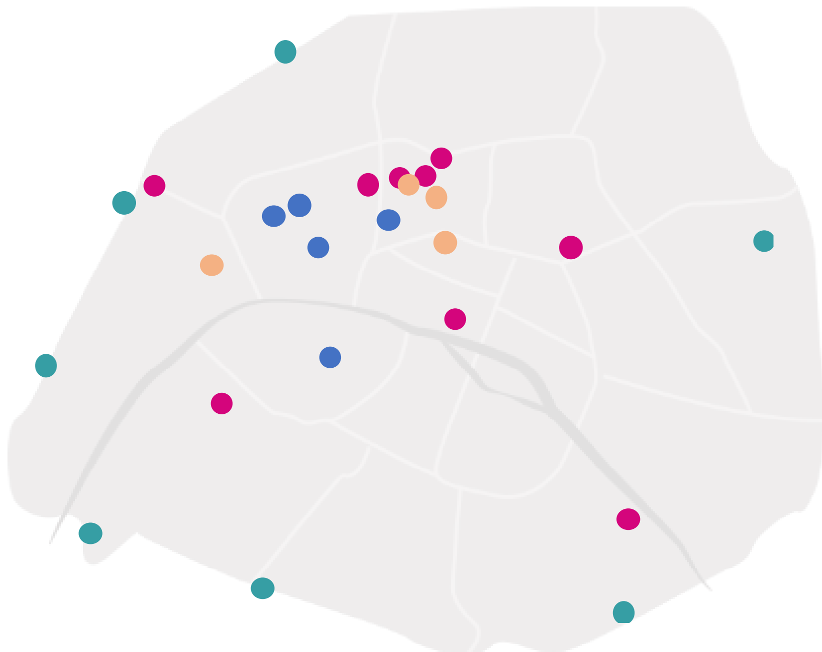
Source: Knight Frank

Paris: the reasons for success

Despite the limited number of new available premises, the rate of lettings has generally remained steady in Paris, which benefits from demand from a wide variety of companies, concerned about centrality and surroundings that are conducive to retaining or attracting talent.

The capital's best supply is thus coveted by traditional occupiers, in fields such as consultancy, luxury or finance, but also by more recent and fast-growing players such as New Tech and Coworking. The development of large, new and redeveloped office space on the outskirts of the capital has also helped to boost take-up.

Examples of transactions ≥ 5,000 sq m in Paris in 2018



Source: Knight Frank

FINANCE, LUXURY, LAWYERS: TRADITIONAL AND CAPTIVE OCCUPIERS

CO-WORKING, TECH: NEW DRIVERS OF THE PARISIAN MARKEt

HIGHLY SUCCESSFUL PERIPHERAL LOCATIONS: WHEN THE ARRIVAL OF LARGE NEW/REDEVELOPED OFFICE SPACE FEEDS DEMAND

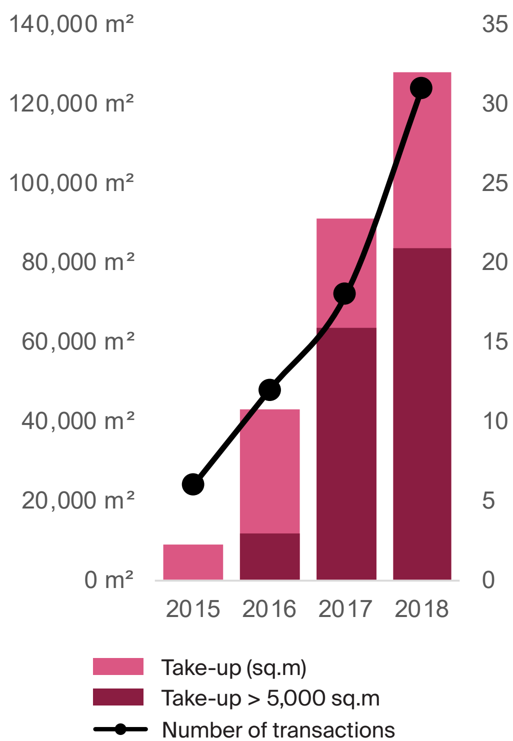
Coworking: the expansion continues

Almost 130,000 sq m in 2018!

Take-up literally exploded from 2016, reaching a volume of almost 40,000 sq m in the Greater Paris Region, which more than doubled a year later to reach more than 90,000 sq m in 2017.

The trend continued last year, with the volume of sq m of office space let by Coworking players reaching almost 130,000 sq m in 2018.

Change in co-working take-up
In the Greater Paris Region, between 2015 and 2018

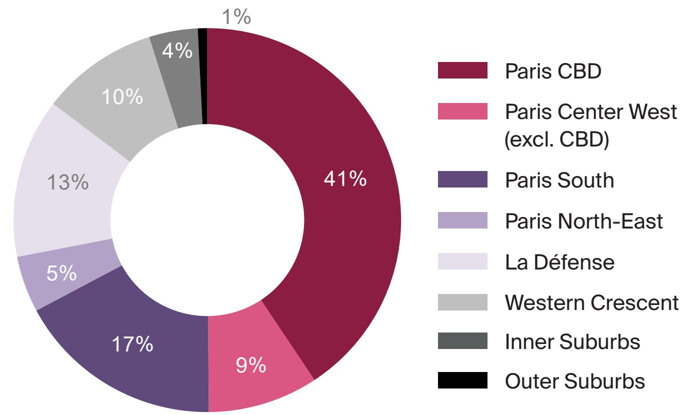


Source: Knight Frank

Paris way ahead

The increase in volumes is due to the sharp increase in the number of transactions and the strong increase in the average size of movements, from 1,500 sq m in 2015 to more than 4,000 sq m in 2018 due to the increase in lettings of more than 5,000 sq m, and even 10,000 sq m.

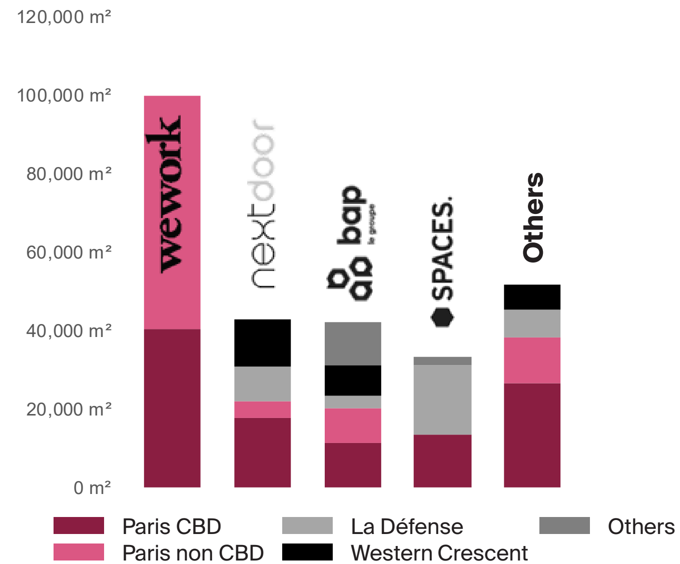
Geographic breakdown of co-working take-up volumes
In the Greater Paris Region, between 2015 and 2018



WeWork increased its lead

In 2018, WeWork accounted for most of the transactions signed in this area segment of the market, allowing it to offer almost 100,000 sq m of office space in Paris, although this is still a long way off the space it currently has in London (just over 250,000 sq m) and New York (640,000 sq m).

Breakdown of co-working take-up volume, by operator
In the Greater Paris Region, between 2015 and 2018



Coworking: what now?

Expansion	Diversification	Segmentation
Increased demand: 60% of millennials in companies in 2025 and an increase in the number of self-employed people.	Arrivals of new French or foreign players / Creation of new concepts	More differentiated offer, from the leading generalists (WeWork) to dedicated co-working operators (CIC), as well as the prime sector (The Bureau)
Large corporates will constitute an increasing proportion of co-working space users.	Crossover of uses: more innovative services to stand out in a booming market.	The main landlords are developing an integrated co-working offer (Wellio, Nextdoor, Smartdesk...).
Co-working will continue to expand, especially in Paris, which has concentrated more than 70% of the sq m leased in the Greater Paris Region since 2015.	Crossover of places: co-working spaces will be more prevalent in mobility areas (train stations, airports, shopping centres).	Franchise expansion / Acquisition of their real estate by certain co-workers / Change in relationships with landlords?

Sources: Knight Frank / EY

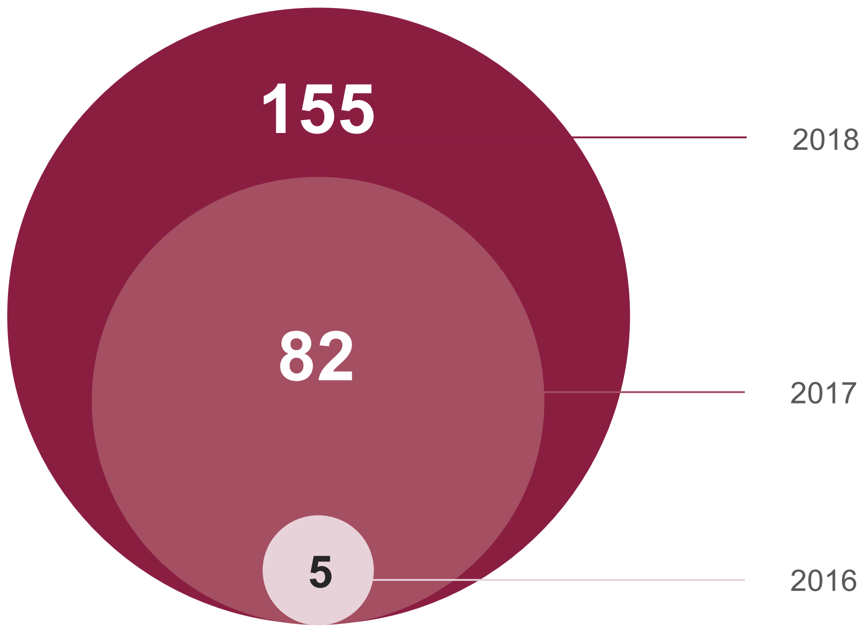
Brexit: Paris is well positioned

Intensifying

A few weeks before the UK's official exit from the EU, the «Brexodus» has not taken place and there is no evidence at this time that it will happen.

That being said, the acceleration in the pace of Brexit-related movements is undeniable: more than 150 certain or potential projects were identified in 2018, a figure that doubled from that recorded in 2017, which speaks volumes about the business environment in which companies operate.

Chronological change in the number of Brexit-related movements in Europe
Announced, actual or potential movements



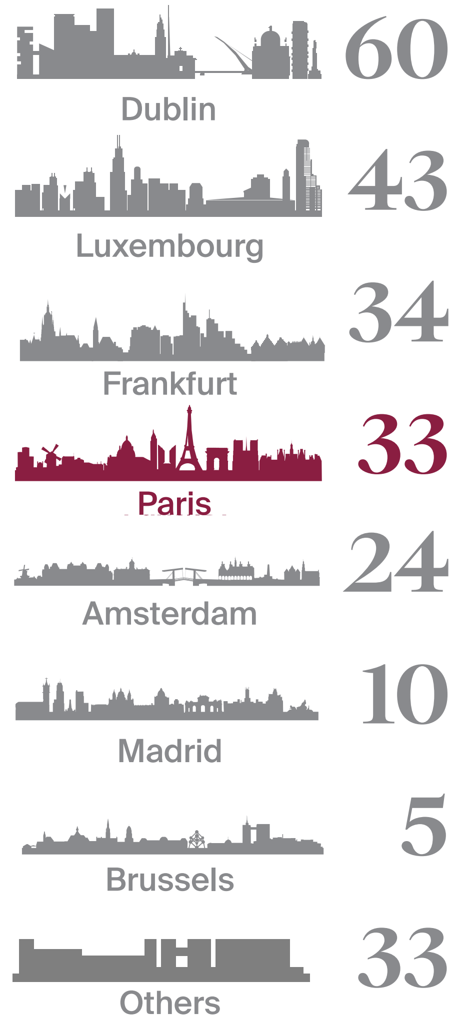
Source: Knight Frank

Paris and Frankfurt are neck and neck

Geographic breakdown of Brexit-related movements in Europe
Announced, actual or potential movements, by city

Dublin, Luxembourg, Paris, Frankfurt and Amsterdam: the five cities that have welcomed, or are likely to welcome, the most Brexit-related job creation or relocation projects account for almost 80% of the total number of identified projects.

Indeed, companies favour a limited number of European markets, chosen for the strength of their financial centre (Paris, Frankfurt), a particularly attractive regulatory and fiscal framework (Luxembourg, Dublin, Amsterdam), recognised expertise in certain types of activities (Luxembourg and Dublin in the field of fund management) or their cultural proximity to the United Kingdom (Dublin).



Brexit: effects that need to be put into perspective?

In Paris, the demand for offices has not yet been boosted by Brexit. What will happen in the coming months?

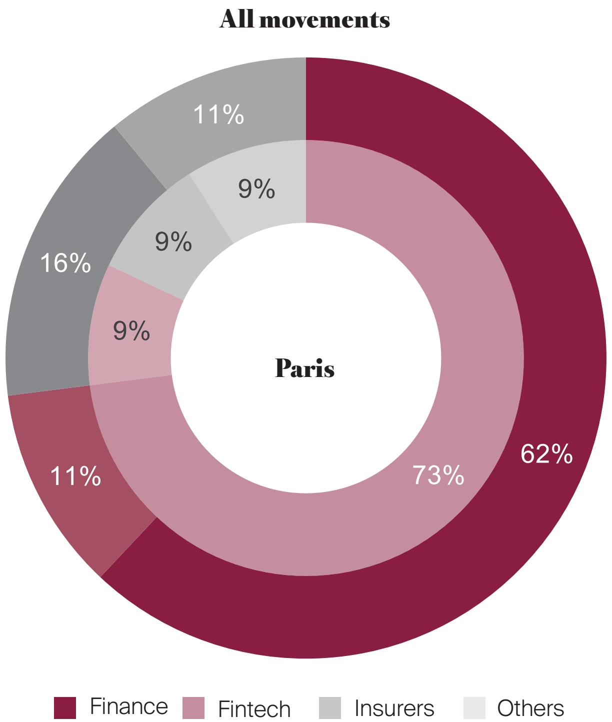
Admittedly, the ongoing negotiations indicate that other companies will soon undertake significant rental movements. Finance - which currently represents the vast majority of projects identified in Paris - should not become, thanks to Brexit, THE future driving force of the office market.

If all these projects were to materialise, they would represent only a modest share of the total take-up. Furthermore, the financial sector remains subject to major streamlining movements, which could potentially erode jobs. Finally, several banks, particularly French ones, already occupy office space in the Paris region; space that they are able to densify to increase their staff numbers, without necessarily having to lease additional space.

Finance dominates

Breakdown by activity

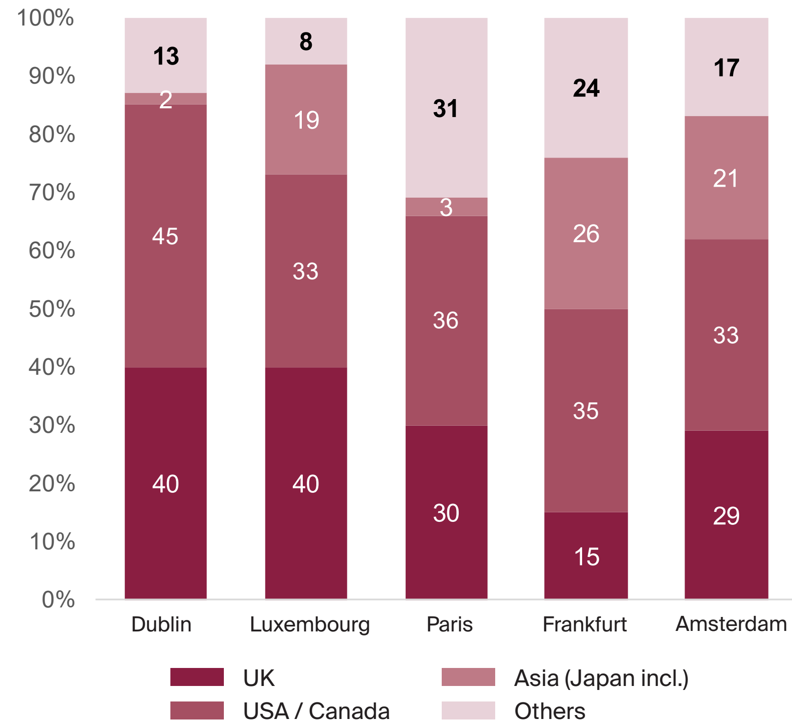
Announced, actual or potential movements



More Americans

Breakdown by company origin

Announced, actual or potential movements

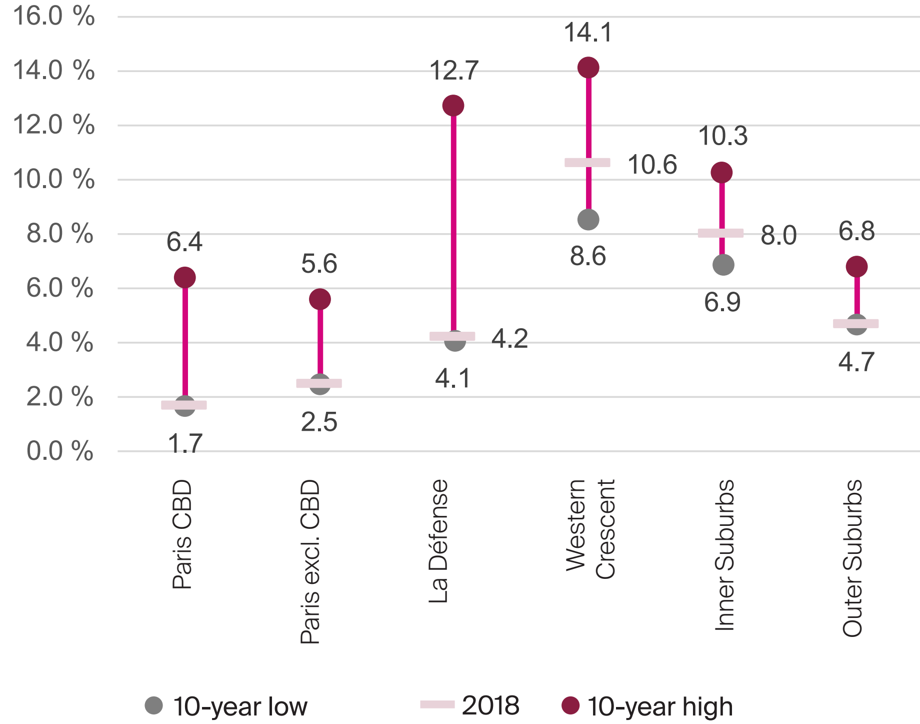


Source: Knight Frank

Immediate supply: lowest level

Very mixed situations

Historical vacancy rates by geographic sector
In the Greater Paris Region, as a %

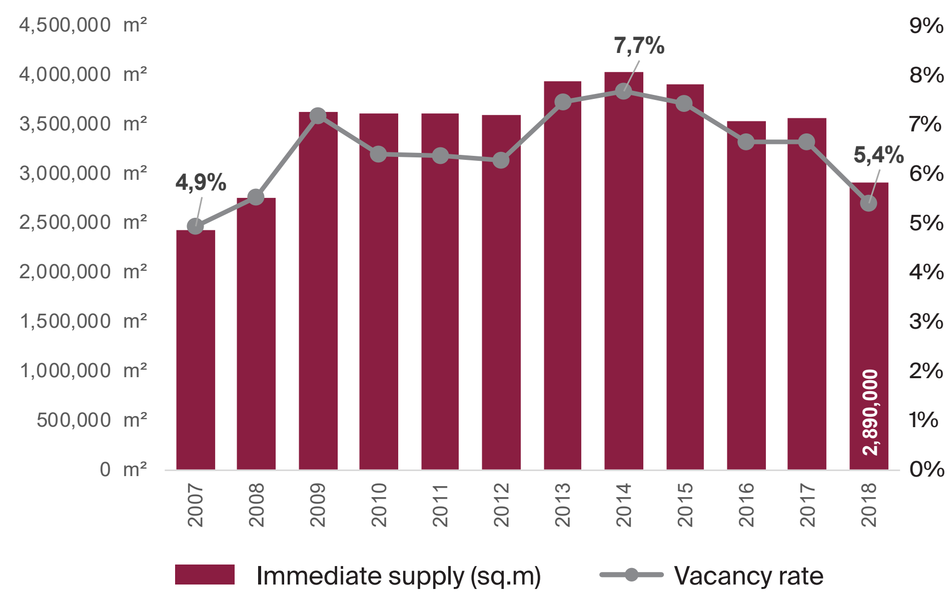


Lowest level for 10 years

Down 12% year-on-year but by less than 1% over a quarter, the volume of available supply in the Greater Paris Region stabilised below the 3 million sq m threshold. The vacancy rate now stands at 5.4%, well below the previous high of 2014 (7.7%) but still well above the 2001 low.

The shortage situation is most pronounced in Paris, with vacancy rates sometimes below 2% in some areas of the capital.

Change in supply and vacancy rate
In the Greater Paris Region, as a %



Source: Knight Frank

Increase in pre-lettings

Recovery of supply after 2019?

The shortage situation observed in several office sectors is unlikely to change in the short term. As such, 47% of the 2.13 million sq m of offices currently under construction in the Paris region for delivery by the end of 2020 are already pre-let.

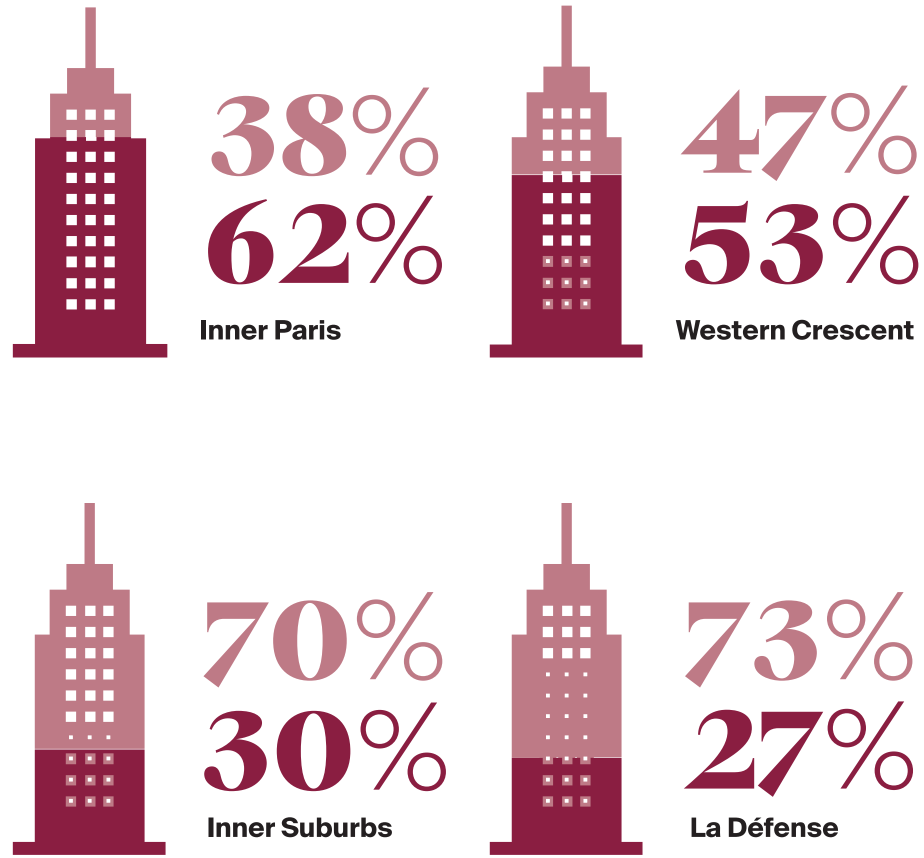
The remaining future space is by far insufficient to satisfy the appetite of large occupiers, and competition for the highest quality assets will remain strong.

Office completions in the Greater Paris Region

Long-term shortage in Paris

Share of pre-lettings by geographic sector

Supply of offices under construction to be completed by the end of 2021



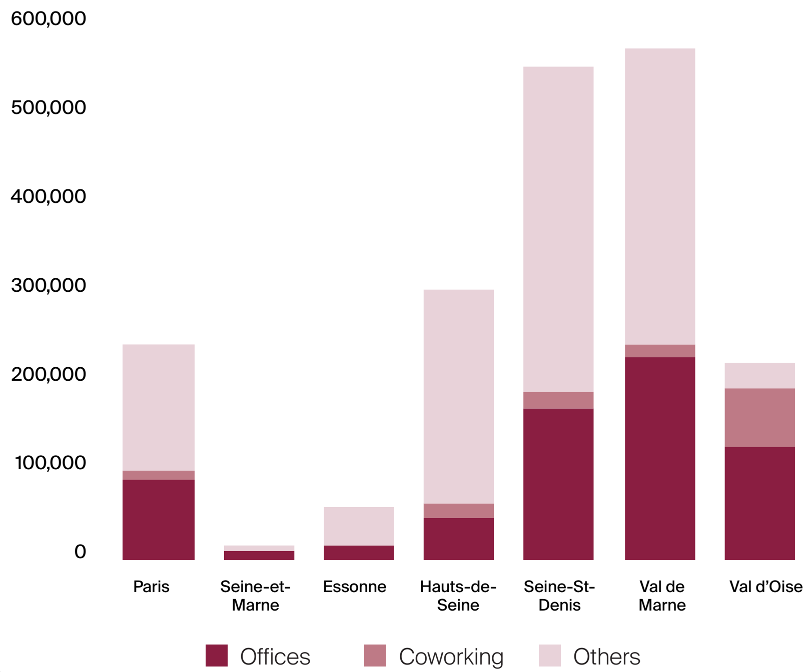
Source: Knight Frank

Requests for urban projects: A third of offices

While not all the projects will probably be implemented, the various competitions (Réinventer Paris, IMGP, Reinventing Cities, etc.) could boost production in some areas of the Greater Paris Region.

The Val de Marne and Seine-Saint-Denis departments, which will also benefit from the commissioning of the Grand Paris Express and the organisation of the 2024 Olympic Games, are the big winners of these tenders for urban projects, accounting for 65% of all commercial developments.

Breakdown of volumes planned within the scope of "Inventons la Métropole du Grand Paris 1" and "Réinventer Paris"
By department and type, in sq m

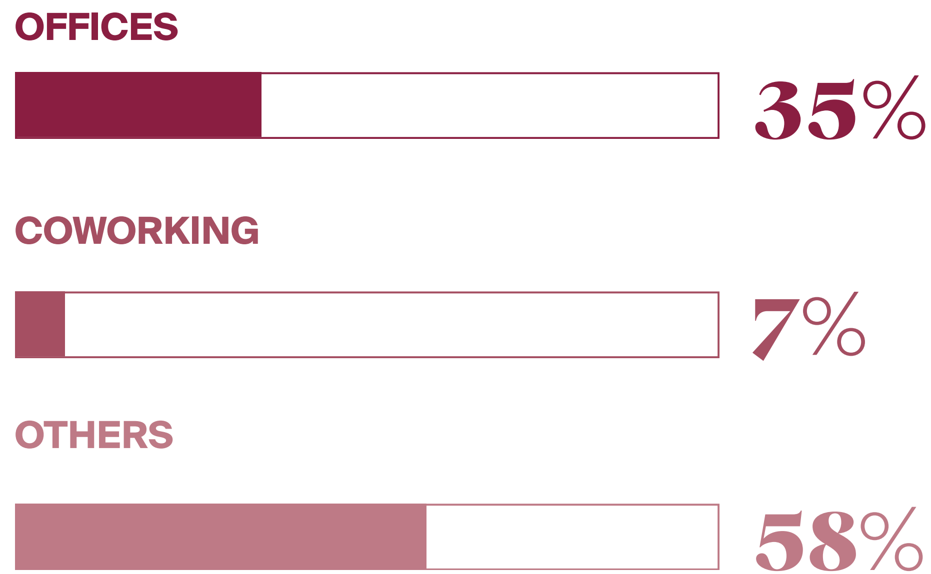


Sources: Métropole du Grand Paris, Developers / NB: Triangle de Gonesse = 88% of Val d'Oise developments

The mix of developments gives pride of place to offices, with 35% of the volumes dedicated to tertiary real estate and 7% to coworking spaces.

In the long term, supply should focus on future station districts and offer transfer solutions within qualitative and sometimes innovative buildings.

Breakdown of developments out of a volume of almost 1.7 million sq m



Rents under pressure in Paris

Prime rents: highest level since 2007

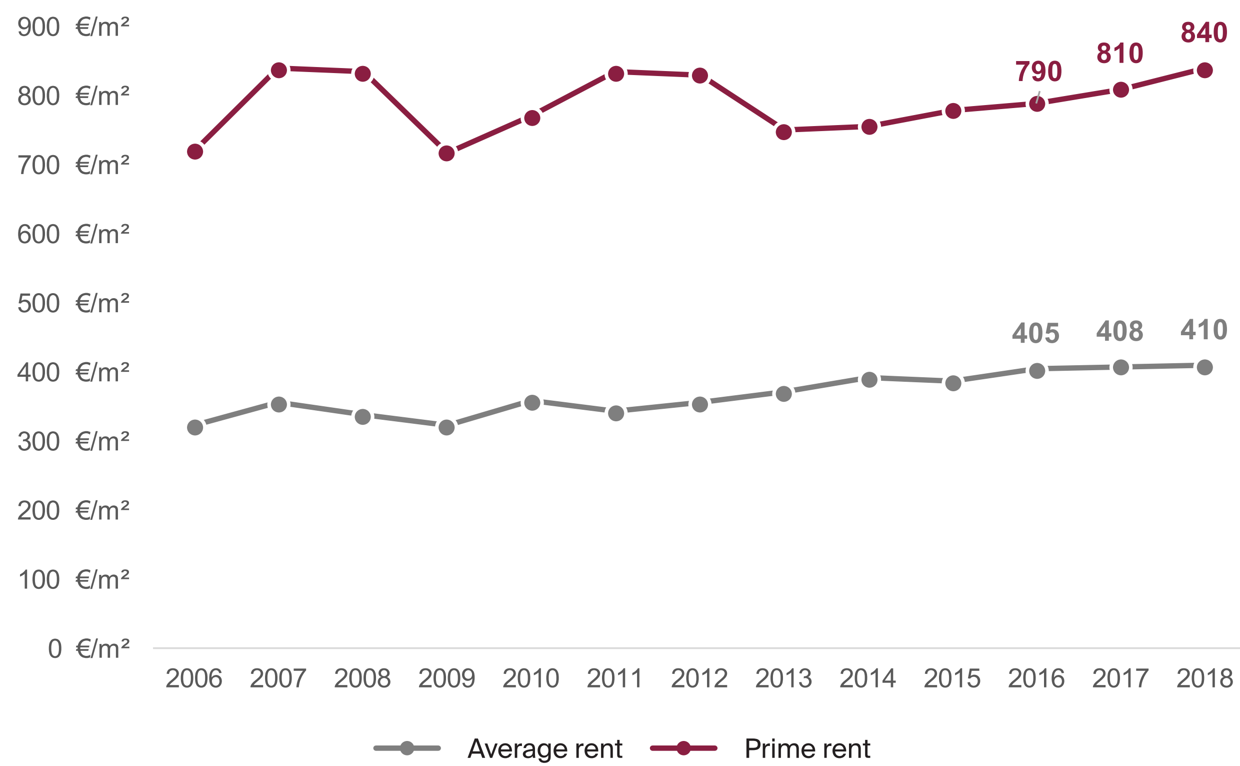
Due to centrality and HR concerns, the effects of the shortage in supply should be felt mainly in inner Paris, where the limited number of opportunities and the strength of occupiers demand have already pushed rental values up in 2018.

In the new premises market sector, the prime rent thus increased to €840/sq m/year in the CBD (+4% over one year), while the average rent rose by 2%.

The increase in rental values, combined with the long-term shortage in supply, could increase the number of Parisian companies moving to offices in the suburbs, and to quality assets that are well connected by public transport in particular.

Change in prime and average rents in the Greater Paris Region

In €/sq.m/year



Rental incentives in the Greater Paris Region

20 / 25%

Rental incentives in the Paris CBD

8 / 17%

Key trends of 2019

ECONOMIC CONTEXT: MIXED

- Slowdown in the economy and job creations
- Deterioration in the business climate
- Less buoyant international context

STRUCTURAL SUPPORT

- New working methods / Digitalisation
- Flex office / Co-working
- New employee aspirations
- Obsolescence / stock renewal

AND QUESTIONS

- A Brexit effect?
- Paris: results limited by the shortage of supply?
- La Défense: extent of take-up of future supply?
- Inner Suburbs: increase in Parisian occupiers transferring to the suburbs?

Retail

Macro-economic context

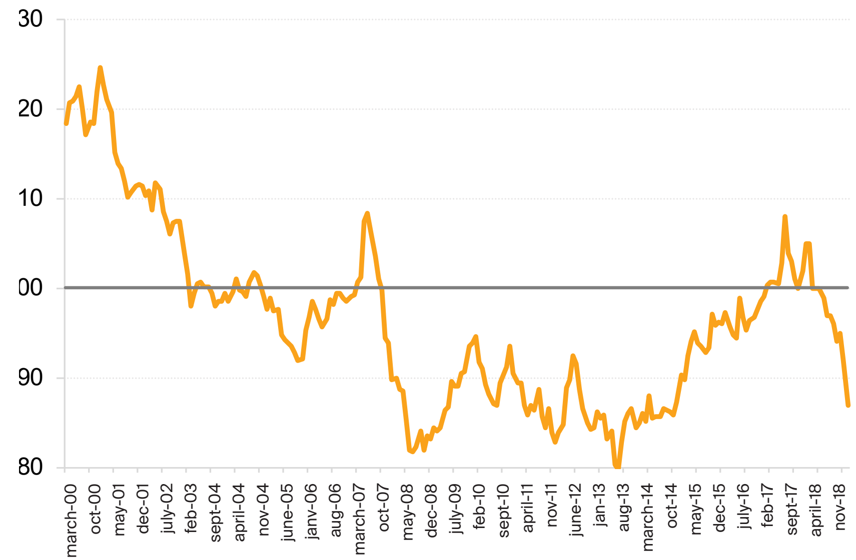
Decreased confidence

The yellow vests movement, its consequences and their effects on businesses amplified the slowdown in the French economy and tarnished the 2018 results.

In 2019, the expected easing of inflation, as well as purchasing power support measures, suggest that consumption could pick up. However, the changing social climate will remain a key factor, while household confidence deteriorated sharply in December to its lowest level since 2014.

Household opinion

Synthetic indicator - CVS-CJO data



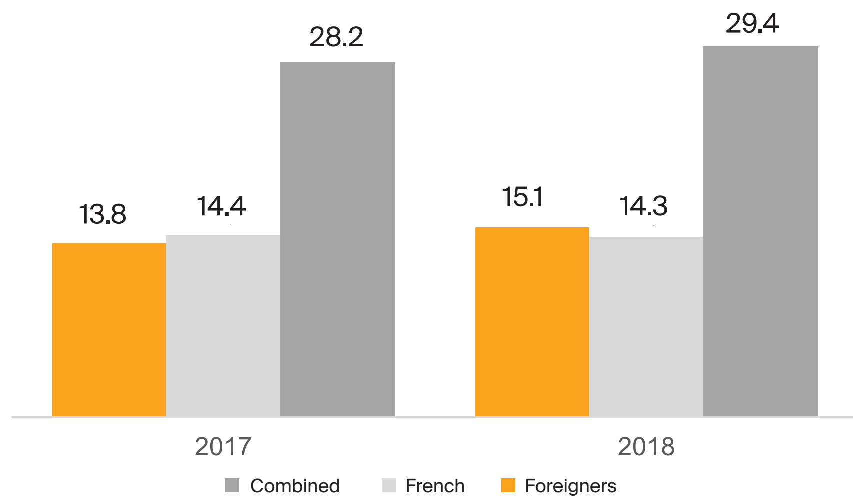
Source: INSEE

Tourism: a record in sight?

Less present in 2016 in France, foreign visitors returned en masse in 2017. This was still the case for much of 2018, before the yellow vests movement stopped the strong momentum, which should nevertheless show a historic level of visitor numbers. In addition to the ups and downs of current events in France, there is also a rise in global risks, which are also likely to weigh on activity in 2019. That being said, the long-term trend remains positive, and Paris should, like other major destinations around the world, continue to benefit from the growth of international tourism.

Number of hotel arrivals

In millions, in the Greater Paris Region, 2017/2018 change from January to October



Source: CRT Ile-de-France

Fashion: a giant whose strength hides weaknesses

Return to a downward trend

After the brief upturn in 2017, fashion sales declined again in 2018. Within this context, the sector's traditional brands are now focusing on streamlining operations.

The fast-fashion giants are thus creating spectacular boutiques that offer an ever-increasing number of services, whilst at the same time sacrificing non-strategic shops. By the end of 2019 and in just three years, H&M and Zara could, for example, have closed almost a quarter of their inner Paris shops, focusing their efforts instead on other brands and their largest flagship stores.

Change in textile/clothing sales
As %
Source : IFM

Contrasting results

Change in textile/clothing sales
By channel, cumulative January/October 2018

+5.3 %
Online sales

-4.3%
In-store sales

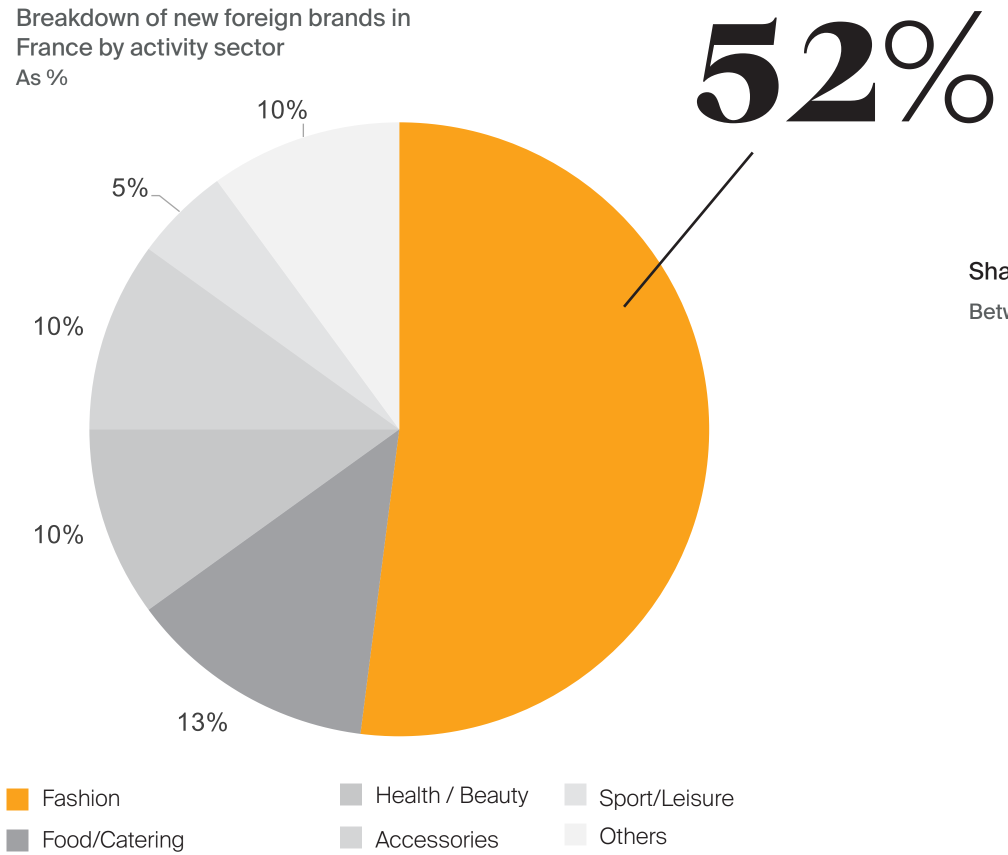
Fashion: a giant whose strength hides weaknesses

But a constant flow of new entrants

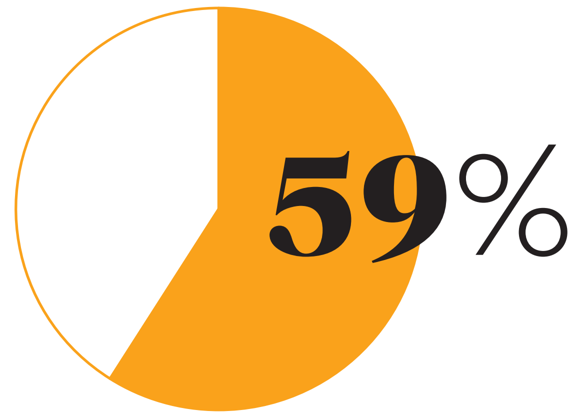
Fashion remains a major player in the retail real estate market. A central role that the analysis of the movements of new foreign brands that arrived in France between 2014 and 2018 illustrates perfectly. Over the period, fashion brands accounted for just over half of the total number of new arrivals. However, this share has tended to decrease over the years, to the benefit of increasingly dynamic sectors such as restaurants, sports and cosmetics.

Source: Knight Frank

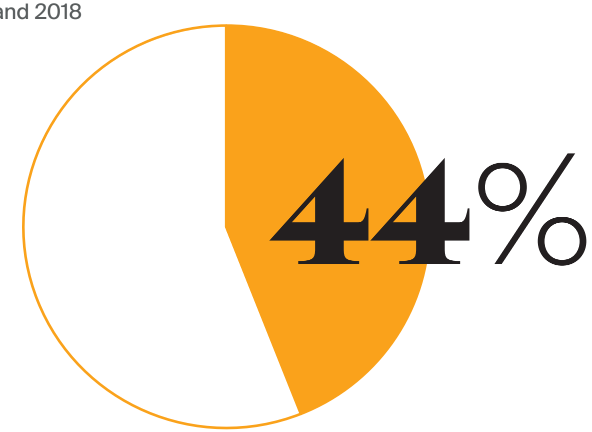
Breakdown of new foreign brands in France by activity sector
As %



Share of fashion
Between 2014 and 2016



Share of fashion
Between 2017 and 2018



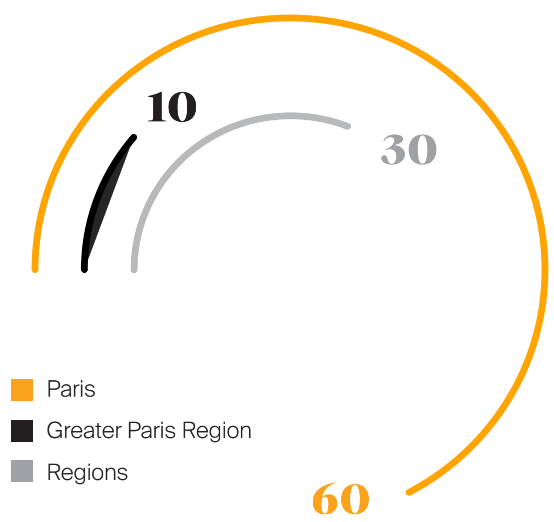
Source: Knight Frank

New foreign brands: very specific targets

Illustrating the very targeted appetite of brands, Paris and its retail streets are widely sought-after by foreign brands wishing to open their first shop in France. Among the most significant examples of 2018: Urban Outfitters, Suitsupply and Xiaomi who, before their flagship store on the Champs-Élysées, opened their first shop at 39 boulevard de Sébastopol, in Paris' 1st district.

Aside from Paris and retail streets, shopping centres are the most targeted formats, with a strong preference for the most established regional centres in the Greater Paris Region or large regional cities.

Choice of location, by geographic sector
Breakdown as a % between 2014 and 2018



Choice of location, by type
Breakdown as a % between 2014 and 2018

Source: Knight Frank

Recent examples

High Street

SILBON, ICICLE, SUITSUPPLY, urban outfitters, BYREDO, wagamama, OBEY, XIAOMI

Shopping centres/ Retail parks

coincasa, Darry Ring, snipes, DEICHMANN, TEZENIS underwear, TAKKO FASHION, Lovisa, AMAZING JEWELRY

The new retail balance

Brands occasionally close their worst performing shops in response to the slowdown in certain traditional formats. They are also multiplying concept tests because the new expectations of customers, combined with the digital revolution, also offer great opportunities: opportunities for new players to increase their visibility, and opportunities for historical brands to renew their offer. Some formats are particularly strong in the retail real estate market: proximity and urban concepts of brands that are firmly established in out-of-town locations, «single-brand stores» and single-brand stores that began on the internet.

A FLAGSHIP FOR EVERYONE

Producy segmentation
Urban formats
Personalisation (products / services)

Better shopping experience
Upselling
Customer service
Mixed-use projects
Food and leisure

Direct relationship with the consumer
Growth of DNVBs*
Single-brand stores

Streamlining of shop networks
Targeted closures
Repositioning of fast-fashion

Phygital
Pure play retailers opening stores
Store digitisation
Social networks

*Source : Knight Frank / *Digital Native Vertical Brands*

Recent examples in Paris

Tediber | Rue Sainte-Croix de la Bretonnerie

Rossignol | Boulevard des Capucines

IKEA | Boulevard de la Madeleine

Salomon | Boulevard Saint-Germain

Bande à Part | Boulevard des Capucines

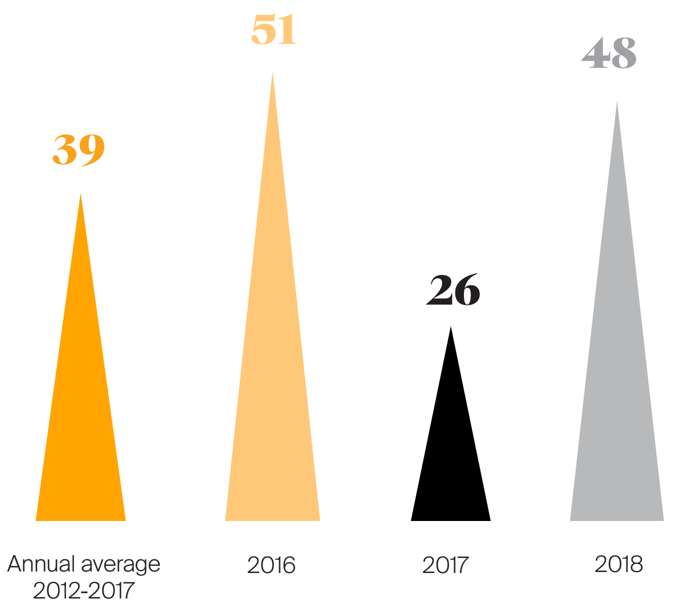
AMPM | Rue Étienne Marcel

Luxury: a long-term recovery

48 luxury store openings were recorded in 2018 in Paris compared to 26 in 2017. A few major projects that were initiated a long time ago have now opened, revealing how the most prestigious brands use their intangible assets as a differentiating factor: Boucheron has renovated its Place Vendôme showcase, and Chanel has opened a flagship store close to its historic address on rue Cambon.

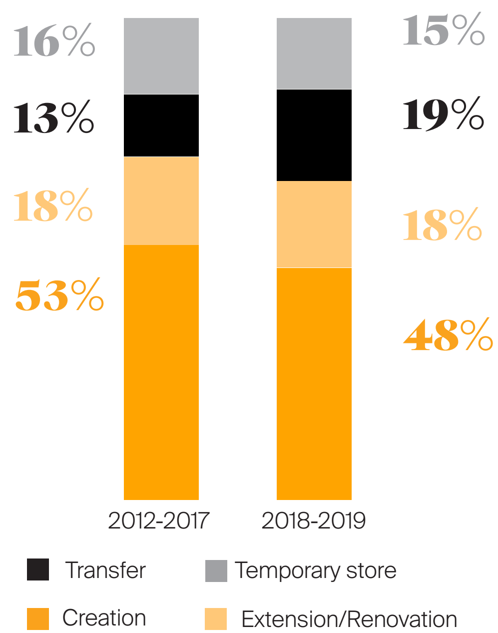
More openings

Number of store openings
Luxury boutiques in Paris



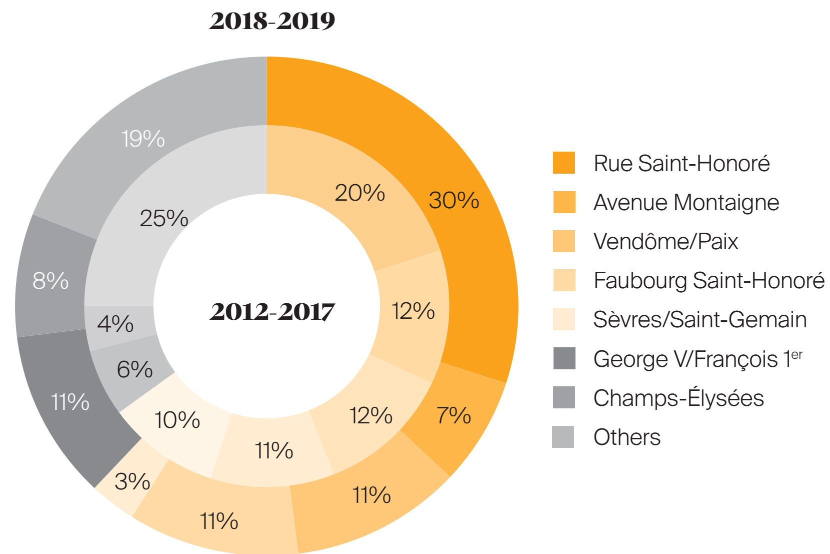
Slightly fewer new shop creations

Breakdown by type of opening
Luxury boutiques in Paris



Saint-Honoré: proven success

Breakdown of openings by streets
Share as a % of total openings in Paris



Luxury: The most sought-after sectors

Among the iconic projects expected in 2019 are the Saint Laurent project that will replace the Colette concept store, as well as that of the Graff jeweller, both located on rue Saint-Honoré. This street, one of the few to have seen its rental values increase last year, continues to climb up the Parisian luxury rankings: it accounts for 30% of completed or planned luxury store openings over the 2018-2019 period in Paris, compared to 20% between 2012 and 2017. Luxury is also evident on the Champs-Élysées, where LVMH has strengthened its position with the arrival of Bulgari at n°136, as well as the upcoming opening of a Dior flagship store at n°127.

Rue Saint-Honoré

30% of openings 2018-2019 **41%** of creations

Examples of openings / projects

CHANEL BUCCELLATI BALMAIN
Dior SAINT LAURENT PARIS GRAFF

Triangle d'Or

29% of openings 2018-2019 **43%** of creations

Examples of openings / projects

BVLGARI roberto cavalli HERMÈS PARIS
Dior CÉLINE HUBLOT

Place Vendôme

11% of openings 2018-2019 **50%** of creations

Examples of openings / projects

GUCCI Cartier BOUCHERON
S.T. Dupont SEIKO

Stable market rents

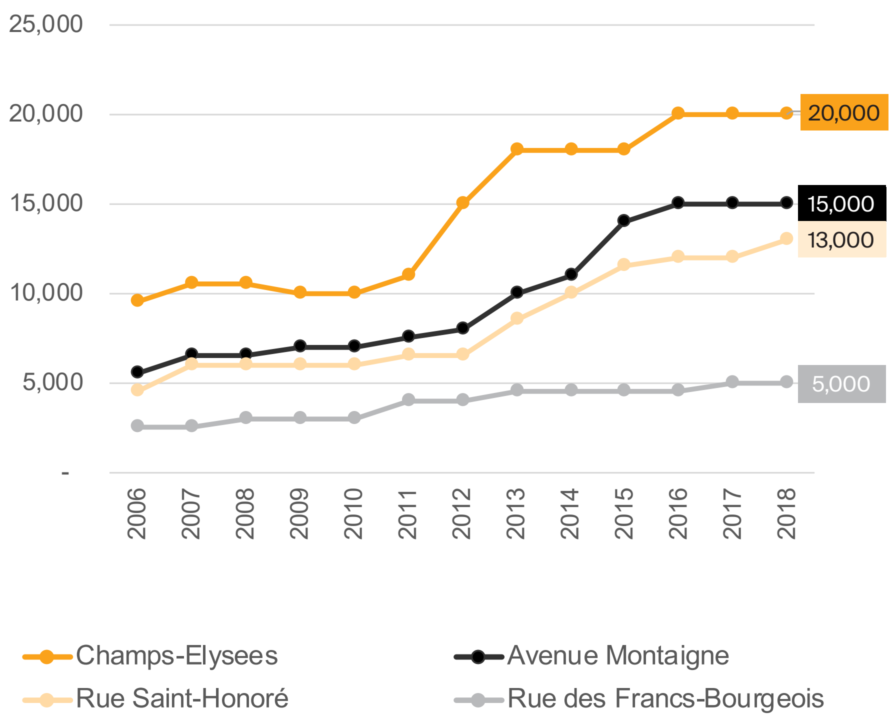
Saint-Honoré stands out

The booming Parisian market has not resulted in a general increase in rental values. These occasionally increase on a limited number of streets: as such, rental values on rue Saint-Honoré are gradually approaching the level observed in the historic heart of Parisian luxury.

Rental values may also be under downward pressure on a few streets due to the streamlining strategies of brands and their increased profitability requirements.

Change in prime rental values

In €/sq.m/year, Zone A



Source: Knight Frank

Numerous and varied projects

Significant examples in Paris

Recent / upcoming openings

ITZ*

Flagships

Retail complexes

Other

Flagships:

1. Nike
2. Galeries Lafayette
3. Dior
4. Saint Laurent
5. Graff
6. Huawei
7. Bulgari
8. Etam/Undiz
9. Adidas
10. DFS
11. Eataly
12. Ikea
13. Lancôme

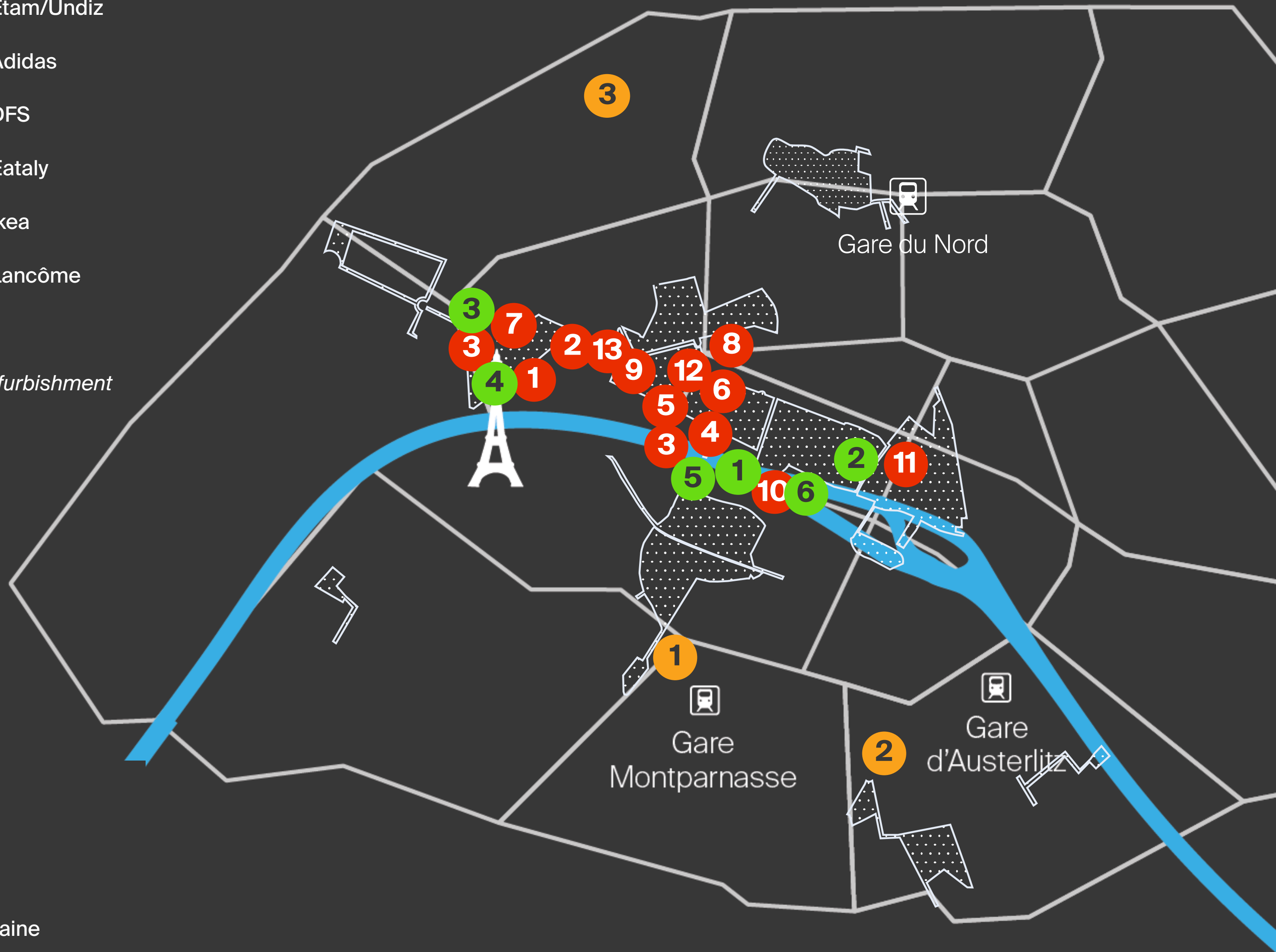
Retail complexes:

1. Ateliers Gaîté *Extension/Refurbishment*
2. Italik *Italie 2 extension*
3. My Cardinet

Gare Montparnasse
Gare d'Austerlitz
Gare du Nord

Other:

1. Fondation Cartier
2. Collection Pinault
3. Hôtel So Sofitel / MK2
4. Hôtel Bulgari
5. Hôtel Costes (extension)
6. Hôtel Cheval Blanc Samaritaine



*Source: Knight Frank / *International Tourist Zones*

Numerous and varied projects

Significant examples in the Greater Paris Region

Recent / upcoming openings

1. **Shopping Promenade** Claye **Souilly**
2. **Open Sky** Buchelay
3. **Eden 2** Servon
4. **Woodshop** Bois Sénart
5. **Les Promenades de Brétigny** Brétigny s/ Orge
6. **Central Parc** Valvert
7. **Open Sky** Plaisir

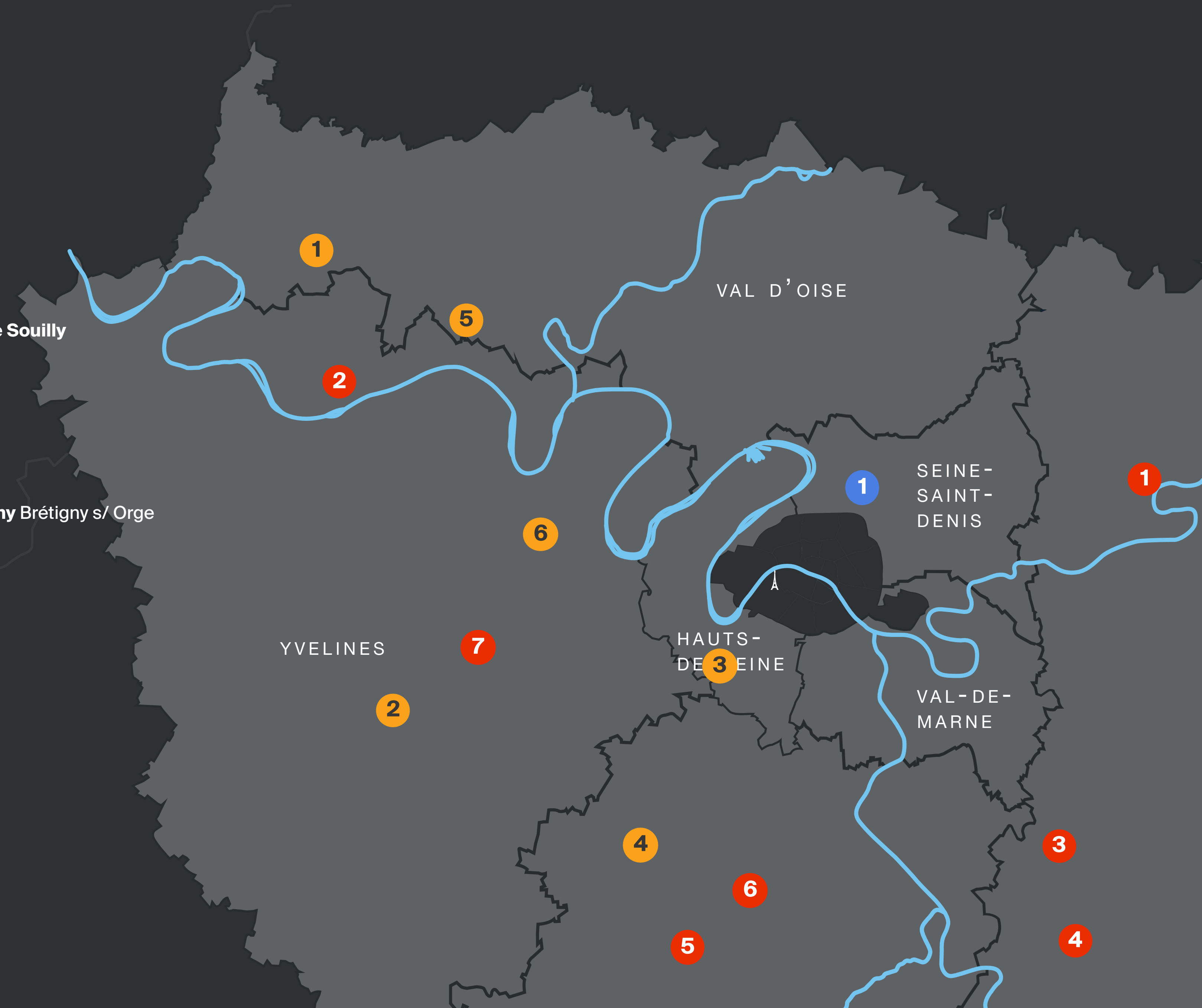
1. **Cergy 3 Fontaines** Cergy
2. **Vélizy 2** Vélizy
3. **Créteil Soleil** Créteil
4. **Évry 2** Évry
5. **Shop'in** Ermont
6. **Table Square** La Défense

1. **Paddock** Romainville

Retail parks

Shopping centres

Factory outlets



Source: Knight Frank

Investment: deceptive stability

While investor caution weighed on activity, the French retail market still totalled almost €4.5 billion in 2018. This amount is down 14% compared to the average of the last five years and is slightly higher than that of 2017 due to a very good 4th quarter. As in previous months, volumes were boosted by a few large deals, including the sale to Generali and AG2R La Mondiale of two Monoprix portfolios for more than 750 million euros.

In total, the 11 transactions over 100 million euros in 2018 account for 55% of investment volume in the French retail market.

+1%

Year-on-year

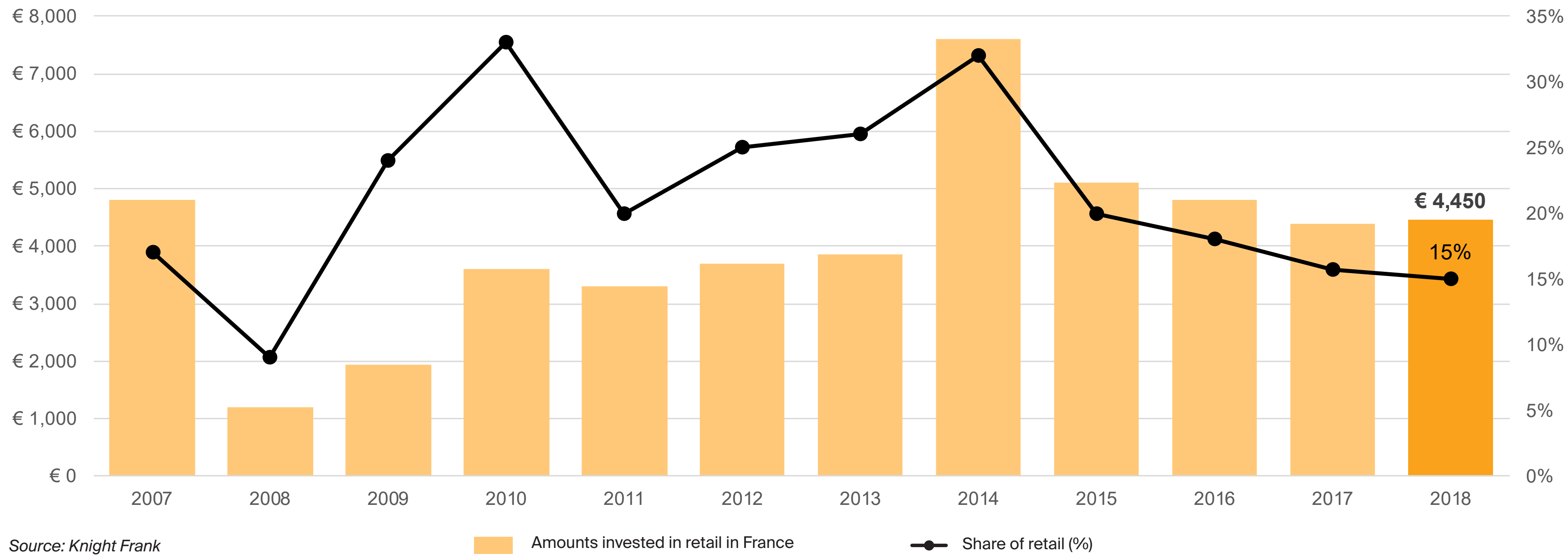
-14%

5-year average

Not so bad....

Change in French retail investment volumes

In millions euros, all retail formats included

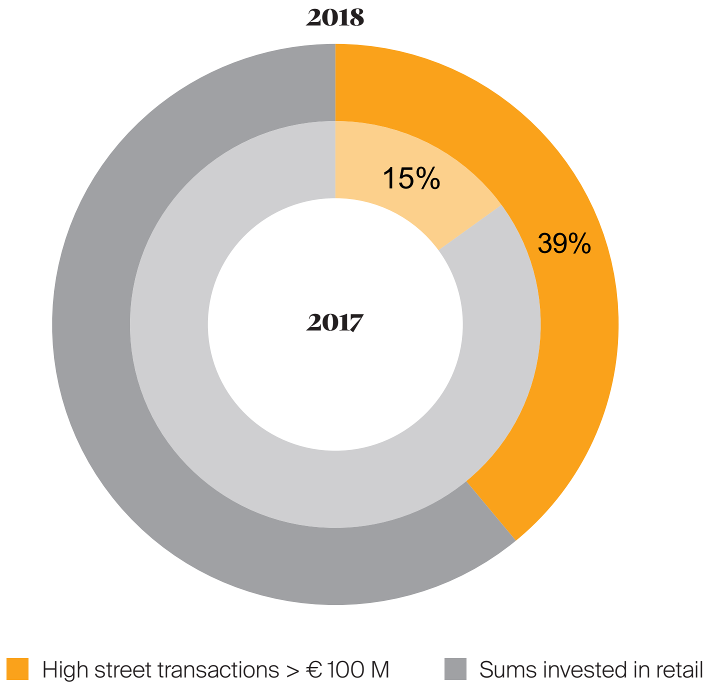


Source: Knight Frank

Very targeted investor appetite

Key role of large transactions

Share of high street transactions > € 100 M
Out of all French retail investment volumes

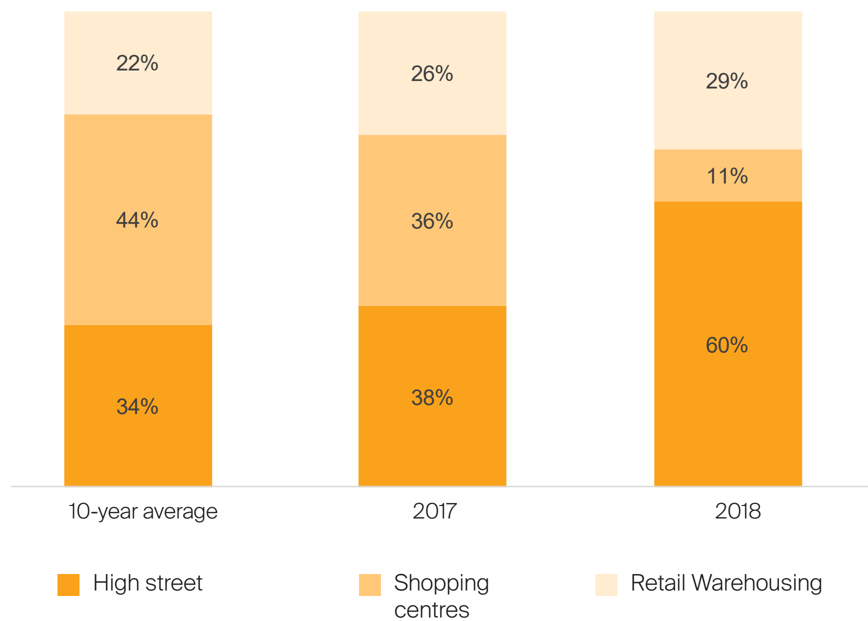


The year of the high street

The high street accounted for 60% of all investment volume in the French retail market. This performance is due to the completion of seven transactions of more than 100 million euros, and the dynamism of a few major Parisian streets. The Champs-Elysées and rue Saint-Honoré thus represented 34% of high street investment volume in France in 2018.

Other types of assets are also doing well: retail parks are setting a new historical record. In 2018, however, investment volumes in the shopping centre market reached their lowest point since 2008.

Investment volumes in French retail
Breakdown by asset type



Champs-Élysées
+
Rue Saint-Honoré
=
34%
of total investment volume in French high streets in 2018

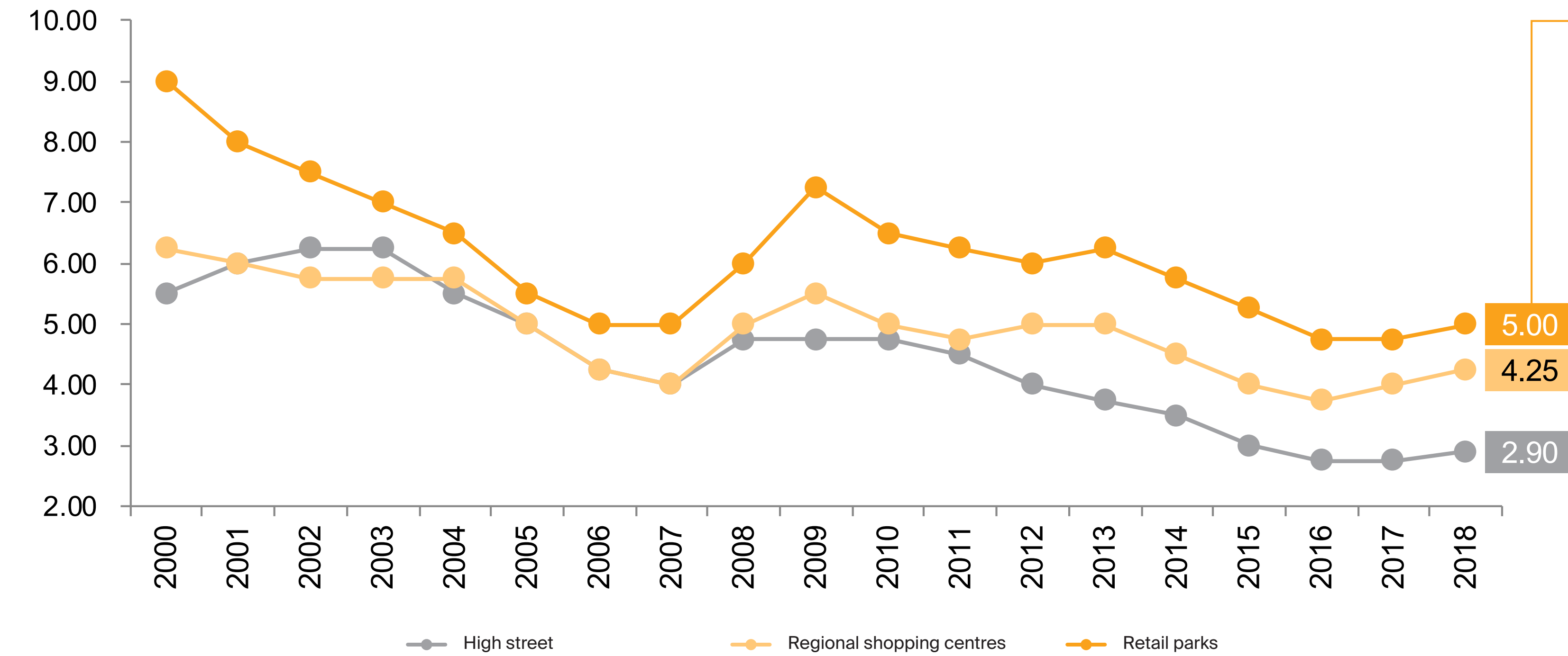
Source: Knight Frank

Yield correction continues

After the slight increase in the first half of 2018, yields for shopping centres (4.25%) and retail parks (5.00%) did not change significantly at the end of the year, although it should be noted that only a very limited number of prime assets were sold. The prime yield for Parisian shops also stabilised below the 3.00% threshold, excluding exceptional transactions or assets with reversionary potential. However, the strong yield compression recorded over the 2009-2016 period allows the upward trend of 2018 to be put into perspective, with yields for the various asset classes still remaining at a very low level.

Change in prime yields

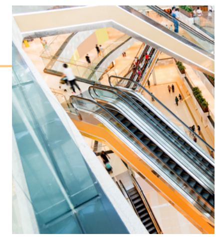
As a %



2009 - 2018 change

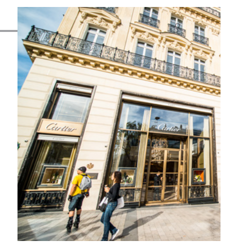
Retail parks

-31%



Shopping centres

-23%



High street

-39%

Source: Knight Frank

Key trends in 2019

AN UNCERTAIN ECONOMIC CONTEXT

- Economic slowdown and social tensions
- Impact of protests on international tourism?
- Impact of tax at source system?
- Rebound in household confidence?

BRANDS / LETTING MARKET

- Winning sectors: F&B, leisure, luxury / high-end, discount retailers, convenience stores sports, cosmetics
- Ongoing arbitration at the expense of the least profitable locations
- What is the future for megastore formats?
- Increasing rental incentives / Pressure on Market Rents

INVESTMENT

- Increased investor selectivity
- Preferred markets: Paris and the top 10 regional cities
- Recovery of investment volumes in the shopping centre market?
- New yield correction?

Knight Frank is an international real estate advisor.

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

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

Knight Frank France was founded over 40 years ago and is organised into five business lines: Offices, Retail, Capital Markets, Knight Frank Valuation and Design & Delivery (a spatial design consultancy).

The Knight Frank France team includes 70 professionals working from Paris. Historically specialising in the real estate market in the centre of the capital, the company has gradually widened its field of expertise and is now a recognised consultant in areas including La Défense and the Western Suburbs of Paris. The Capital Markets department, along with the independent subsidiary Knight Frank Valuation, also support their clients throughout France.

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