Retail market | France
May 2020

Covid-19

What is the outlook for the French retail market?

Knightfrank.com/research

COVID-19

WHAT IS THE OUTLOOK FOR THE FRENCH RETAIL MARKET?

In recent months, the appearance of Covid-19 and its rapid spread have created an unprecedented situation in the world of retail distribution, forcing almost all retailers to close their shops. Although some have been able to remain open, and others have partly continued their business via online retailing, the overwhelming majority have been severely penalised by the introduction of restrictive measures. In recent weeks, these measures have been gradually relaxed. More and more businesses are reopening due to the slowdown in the pandemic but also because of the need for the economy to survive. This is the case in France, where the lockdown was lifted on the 11th of May, but where the recovery remains very uneven depending on the geographical area, sector of activity and distribution format.

While everyone is hoping for a quick recovery, it may take time to return to normal levels of activity. The lifting of lockdown should nevertheless make it possible to better measure the consequences of the Covid-19 crisis on retail, and in particular to provide the beginnings of an answer to one of the current key questions: will consumers want to return to shops or not? With regard to retail property, the current situation also raises many questions regarding relations between landlords and tenants, changes in rental values and the adaptation of spaces to new health regulations.

The Covid-19 crisis will have other profound consequences on the retail market. These are still difficult to predict because we do not yet know the duration of the pandemic nor the real extent of the economic shock. That said, we can still reflect on the "post-pandemic world". In this first report on the retail sector, Knight Frank presents you with a few possible lines of thought, based on numerous cases in France and abroad. These point to an acceleration of pre-crisis trends rather than the emergence of new consumption models and retail formats.

CONTENTS

COVID-19
LOCKDOWN KEY FIGURES

FRENCH ECONOMY AND CONSUMPTION

CHANGE IN GDP
- 5.8% as at Q1 2020*
*Source: INSEE / *t/t-1*

HOUSEHOLD OPINION
- 8 points in April 2020
Source: INSEE

“FORCED” LOCKDOWN SAVINGS
55 billion euros
Source: OFCE

CONSUMPTION OF GOODS
- 17.9% in March 2020*
*Source: INSEE / *Volume, year-on-year*

RETAIL ACTIVITY IN FRANCE / CHANGE IN SALES YEAR-ON-YEAR
BY PRODUCT OR FORMAT

FOOD
+ 7.8% in March 2020
Source: INSEE

ORGANIC (AVERAGE BASKET)
+ 48% since mid-March*
Source: Nielsen
**specialist shops, by value*

CLOTHING/TEXTILES
- 18.7% as at Q1 2020*
*Source: IFM /*In shops*

RESTAURANT INDUSTRY
- 92%*
Source: SAD Marketing
**T/O loss during lockdown*

ONLINE RETAIL ACTIVITY

AMAZON T/O
+ 26% as at Q1 2020
Source: Amazon

ONLINE RETAIL T/O
+ 59% year-on-year*
Source: Procos
**Specialist shops, January-April period*

DRIVE-THROUGHS
+ 81% year-on-year*
Source: Kantar
**Food products, week of 20 to 26.04*

TIME SPENT ON SOCIAL NETWORKS
+ 23%*
*Source: Hootsuite / *16-64 years, since the start of the pandemic*

RETAIL DURING THE LOCKDOWN PERIOD

Since the beginning of the lifting of lockdown, retail activity recovery has been closely scrutinised because of its importance in the French economy and society. It is also subject to scrutiny because a poorly controlled reopening poses the risk of a second wave of outbreaks, which would further shake up a sector already badly affected by two months of almost generalised closures.

PATCHY RECOVERY

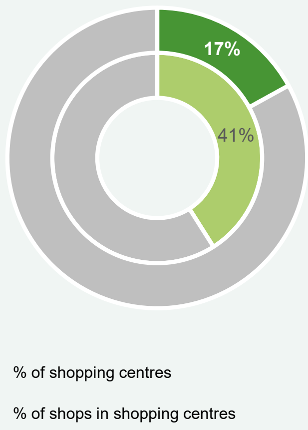
After the almost generalised closure of shops, the recovery of the last few weeks has been occurring in a somewhat patchy fashion. In addition to the shops that were not forced to close because they were "essential" (food shops, pharmacies, newsagents, etc.), drive-throughs and other collection points have been progressively set up by players other than food retailers (Kiabi, Intersport, Conforama, etc.). But it was only at the end of April that shops really began to reopen to customers, particularly in the DIY and garden centre/animal sector (Leroy-Merlin, Truffaut, etc.). Openings increased from the 11th of May, the date on which the lifting of lockdown and the more extensive reopening of places to the public began. We know, however, that **the recovery will, for some time, be very patchy, since the lockdown lifting plan is closely linked to the intensity of the epidemic in each of the French departments**. The authorities are assessing the health situation on a regular basis and could therefore be forced to tighten the restrictive measures in the event of further spread of the virus.

The recovery will be very uneven across different regions and sectors of activity. Restaurants (excluding take-away sales), cinemas and gyms will remain closed until further notice. Outside of France, restaurants have already reopened in certain countries that have been affected to varying extents by Covid-19 (China and Hong Kong, Switzerland, Austria, certain American states, certain regions of Spain, etc.), while it will be necessary to wait until at least June in the Netherlands and Belgium and July, under certain conditions, in the United Kingdom.

Nor are all retail formats equal in light of sanitary restrictions and the need to limit the risk of spreading the virus. France's shopping centres, which were only open to provide access to supermarkets and pharmacies, have been authorised to reopen, with the exception of centres larger than 40,000 sq m. For these large sites, the decision lies with the Prefect, which effectively limits the resumption of activity by restricting the reopening of a significant number of shops: **sites of more than 40,000 sq m only account for 14% of the total number of shopping centres in France, but 32% of their total area and more than 10,000 shops**. The Greater Paris Region is home to the largest number of these properties, with just over 40, the majority of which are located in Seine-Saint-Denis (Rosny 2, O'Parinor, etc.). Paris is home to three of them (Forum des Halles, Italie 2, Beaugrenelle) that, like the department stores on boulevard Haussmann, will have to remain closed until the 10th of July, with the exception of Beaugrenelle, which was ultimately permitted to open. The various landlords are not in the same boat either. **Two large property companies, Unibail-Rodamco-Westfield and Klépierre, are particularly exposed**, having for the past ten years constantly managed their assets in favour of the largest sites.

For the other centres and shops, **the reopening is still subject to compliance with health and safety standards**. All players have therefore got their act together, with the rapid implementation of concrete measures: real-time counting of the number of customers present in the centre, online availability of visitor numbers by time slot, restrictions on opening hours, limited access to certain areas (toilets, fitting rooms, etc.), regular disinfection of areas and modified circulation plans and floor markings indicating the distances that must be respected.

Share of Greater Paris Region shopping centres centres that remain closed as of 11th May 2020

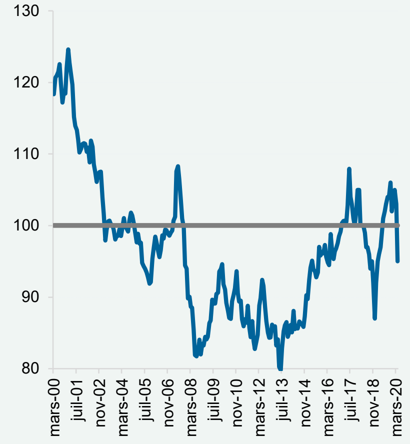


Source: SAD-Marketing

NO “REVENGE BUYING” ?

The current situation, which is both an economic and health crisis, makes comparisons with previous crises almost impossible. As in past recessions, **the priority will nevertheless be to restore consumer confidence** on two levels: on the one hand, that of being able to make purchases in complete safety until a vaccine has been found, and on the other hand, that of being inclined to consume despite the economic crisis that has been predicted. The latest INSEE figures on household confidence set the tone, with the synthetic indicator used to measure it falling by eight points in April, the largest drop since the survey was first conducted in 1972.

French household confidence, synthetic indicator



Source: INSEE

Obliterating the slow recovery observed since the Yellow Jackets movement lost steam, this sudden decrease was obviously expected. That said, the impact of Covid-19 on confidence would probably have been more devastating without the measures put in place to cushion the effects of the pandemic on the economy. More than twelve million French people were affected by the partial unemployment scheme at the beginning of May 2020, enabling them, at least for a time, to retain all or some of their income.

Estimated at 55 billion euros by the OFCE, **will the "forced" savings from the lockdown period be spent after lockdown**? It is currently hard to know for sure, even if the French might be eager to go back to the shops despite the risks linked to the virus. According to a survey conducted by YouGov on the 15th and 16th of April, **70% of those surveyed said they wanted to return to physical points of sale**. In fact, this was observed by several retailers during the first days following the lifting of lockdown, with results that were sometimes better than expected. However, **the coming weeks could also see the French increasing their precautionary savings**, shifting their spending to purchases they consider a priority (housing, cars, travel, etc.), or postponing them until they are confident about the economic situation.

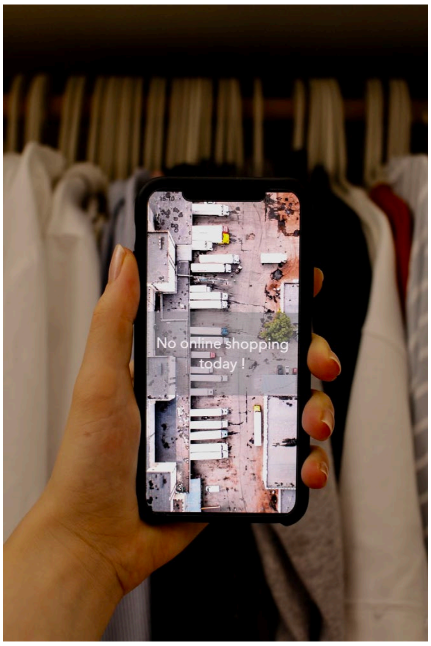
The initial, rather mixed feedback from countries that left lockdown earlier than France (Germany, Switzerland, Czech Republic, etc.) provides some indications. In China, the figures for the first quarter of 2020 show the extent of the Covid-19 crisis on consumption, with retail sales falling by nearly 17% year-on-year. In recent weeks, however, activity has shown signs of recovery, leading some observers to talk about "revenge buying".

The comparison between the French and Chinese situations must nevertheless be put into perspective. **The factors supporting Chinese trade are indeed quite specific**, between catching up on sales not made during the New Year's holidays, and luxury purchases that have had to be made in China due to the interruption of travel. Finally, the very strict application of barrier measures, the experience gained during previous health crises and the massive use of contactless payment via smartphones are all elements that have undoubtedly enabled Chinese retail to begin its recovery more quickly than in other countries.

A QUESTION OF RESOURCES

Over the next few weeks, visitor numbers in shops will enable us to assess the effectiveness of the health measures that have been put in place. Consumers will be all the more inclined to come to shops if they have been reassured by the measures adopted by retailers and their landlords. Retail sector players are not equal in this respect either, with the lifting of lockdown distinguishing between brands and retail sites offering the most basic protection (hydro alcoholic gel, regulation of the number of customers, etc.), and those using the most sophisticated devices. The latter require investments that are all the harder to bear with turnover having collapsed for the majority of retailers. **One of the immediate consequences of the Covid-19 crisis will therefore be to widen the gap between the most weakened players or those with insufficient cash flow, and those capable of mobilising the financial and human resources needed to get back up and running quickly.** Unibail-Rodamco-Westfield provides a very good example of this rapid adaptation to current health constraints: the property company has announced the strengthening of its association with Bureau Veritas, with a view to integrating a specific component on the prevention of health risks in its European centres.

The responsiveness of landlords and brands does not depend solely on the investments they can mobilise for sanitary purposes. After several weeks of lockdown and a gradual return of consumers to shops, those best placed to bounce back, and potentially limit the losses linked to a possible tightening of restrictive measures, are also **those who have the means to optimise their presence on the internet and can deploy adapted and innovative tools there**. Once again, this assumes significant financial resources that can be more easily deployed by large brands, such as the virtual fitting of glasses on the website of the American optical chain Warby Parker, the BoConcept online store and Dior Parfums' use of augmented reality to visit its shop at 52 Avenue des Champs-Élysées.



WHAT ABOUT INDULGENCE PURCHASES?

The lifting of lockdown for shops raises other key questions about the conditions for resuming activity. For example, the implementation of restrictive health measures necessarily increases annoyances (queues, compulsory wearing of masks or gloves, etc.). **This spoils the customer experience**, while the smoothness of that experience and the pleasure felt by the customer are usually the strength of physical retail.

The challenge is particularly great for product categories that the customer needs to touch and try, such as clothing and cosmetics. However, will consumers turn away from indulgence purchases and continue to favour only essential products? Nothing is less certain. After long weeks of lockdown and a social life restricted to family and Zoom parties, **fears associated with the virus and the annoyances in shops could be offset by the desire to return to as normal a life as possible.** Let's not forget that restaurants, cafés, sports clubs and cultural venues remain closed until further notice, that travel remains highly regulated and that shopping is therefore currently one of the few forms of entertainment available to the French.

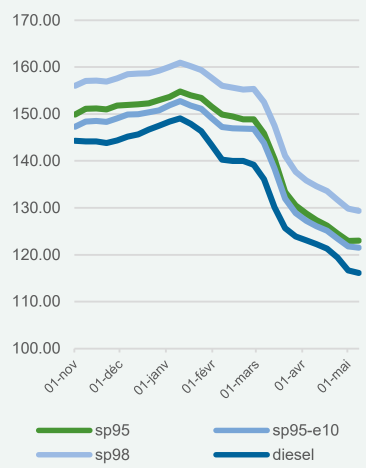
NO CAR, NO BUSINESS ?

Transport conditions are another major issue as lockdown is lifted. Indeed, while the continuing health risk has direct consequences on the activity of brands and retail sites (layout of the shop, communication about the crisis, etc.), Covid-19 is also likely to change things, at least temporarily, due to the **impossibility of ensuring a return to normal public transport. This will inevitably have an impact on the number of visitors to those shops most dependent on this mode of transport**. Paris and the centres of large French cities are primarily concerned. A few days before the lifting of lockdown date, RATP (*Paris public transport network*) accordingly announced that it planned to limit its transport capacity to 15% of the norm in order to comply with physical distancing instructions.

The potential revenue shortfall already seems obvious for shops located in the densest office districts, which will see a reduction in use due to reduced commuting and the continuation of remote working for a significant number of employees. **Restrictions on regional, inter-regional and international travel also currently penalise the main retail streets,** which usually attract the largest flows of consumer traffic. This is also the case in some tourist and border areas.

In light of fears and other inconveniences associated with the use of public transport, **some people are predicting a resurgence in the use of private vehicles**, which could also be encouraged by the sharp drop in the price of petrol (-22% for a litre of diesel since January). In the centres of large cities, however, their use is constrained by the traffic restrictions that have been imposed. Paris, for example, has decided to devote 50 kilometres of roads usually reserved for cars to bicycles, including a ban on cars on the rue de Rivoli. Consequently, **the current situation seems to be rather favourable to suburban shopping areas**, where the use of private cars is the least restrictive and where drive-through points have been experiencing an upsurge in traffic since the beginning of the epidemic. Finally, these areas also benefit from the transfer of remote workers' consumption to their area of residence.

Weekly national average petrol and diesel sales prices
In France, c€/l incl. taxes



Source: Ministry of Ecological and Solidarity Transition

RETAIL FACED WITH THE CRISIS

Since the outbreak of the health emergency, the retail, arts and crafts and tourism sectors have been facing a major crisis. A few days after the start of the lifting of lockdown, the time has come to review the situation, which is inevitably only partial. Fabrice Le Saché, Vice-President and spokesperson for the MEDEF, who is also President of Erigere and the Aera Group, gives us an initial overview of the extent of the impact of Covid-19 on business activity, the measures put in place to help them and the challenges posed by the lifting of lockdown.*

Fabrice Le Saché, Vice-President and spokesperson for MEDEF

What is the weight of retail and arts and crafts companies in the French economy?

It is extremely important: more than three million people work in this sector, which generates €1,300 billion in turnover and has a knock-on effect on all our regions, particularly for many VSB/SMBs. It is also a sector of excellence. If we take the example of the food trade, four of the 25 world leaders are French and 40% of turnover is generated outside our borders. It is therefore a pillar of our economy. It is also a key sector for social balance: still in the food trade segment, 20% of the workforce is under 26 years of age, 68% of new hires are people with no or few qualifications and one out of every two managers was employed at the beginning of their career. Retail is therefore a strong driver for social integration and mobility. Last but not least, retail is a source of know-how, it enhances production and services and is part of our country's soul. It reflects our creativity and our character. Everyone has seen it during this period of confinement: a country without retail is a country without life.

How have the measures put in place by the government since the beginning of the health crisis helped to limit the impact on businesses?

In a very direct way: deferral or cancellation of charges, reimbursement of corporate tax instalments, reimbursement of salaries paid via partial unemployment (nearly 12 million employees), cash flow support with the State-guaranteed loan (100 billion euros to date) and one-off compensation via the solidarity fund. These measures have evidently been eventful, with glitches in online submissions and requests due to server saturation, variable response times depending on the region and administration, too broad or too narrow a targeting and eligibility criteria, difficulties on the issue of rents and many other points.

Even if these measures do not solve everything - there is no substitute for the loss of turnover - it is good that they are in place and that, for a number of companies, they have prevented their collapse. It will therefore be necessary to maintain these measures during the recovery phase, which is the most at risk because business will not start up again overnight. Stopping support measures too abruptly would produce a scissor effect with dramatic social consequences. It is better to have partial unemployment for a few more weeks than permanent unemployment! This would be even more costly for the state and, beyond the social disaster, a problem for companies, which would lose the skills of their employees who, in many cases, they have trained.

How has MEDEF so far intervened to support companies, particularly those in the retail and arts and crafts sectors?

The President of MEDEF, Geoffroy Roux de Bézieux, is in permanent contact with our country's political authorities to raise the concerns of our members and propose measures to facilitate the life of our companies. Conversely, we relay the aid measures within our network, which covers the entire country, and with the 80 member professional associations.

In this crisis, MEDEF as a whole has been mobilised. Within 48 hours, the 200 employees at the head office were fully focused on the Covid-19 crisis and produced daily analyses, interpretations and newsletters. Crisis meetings and constant follow-up meetings were set up. We reacted to defend aid measures, to make sure they were effective and to put pressure on them to speed things up at times. An e-mail address, covid19@medef.fr, has been created to resolve all members' questions in real time.

We have also organised a virtual tour around France with the regional and departmental MEDEFs, while speeding up the pace of Executive Board meetings to facilitate the coordination of all our economic sectors, and sometimes contributing to mediation when necessary.

*The Mouvement des entreprises de France (MEDEF), or the Movement of the Enterprises of France, is the largest federation of employers in France.

RETAIL FACED WITH THE CRISIS

France has had its lockdown lifted since the 11th of May. Do you have some first indicators showing a recovery in activity, and what do you recommend to ensure that this recovery continues?

We were at a very low point. France has been more severely affected economically than its neighbours: a six-point drop in GDP is an exceptionally brutal drop. Today the activity level is between 60% and 70%. We will still have to go through further stages and in particular lift the lockdown in sectors that are still subject to it. I am referring here to tourism, for which we have made proposals for targeted and wide-ranging support.

Generally speaking, this is the first time that we have voluntarily decided to shut down our entire economic system over a period of almost two months, and the consequences of this decision will be felt for years to come. We must anticipate it, prepare for it and find solutions.

We have submitted a coordinated and massive recovery plan at a European level with German and Italian employers. We are going to unveil unprecedented measures in a few weeks to support supply and demand, because both are affected. Working with Covid-19 is a challenge: not only the cost of sanitary equipment, but above all the reorganisation of movements are disrupting the economic model of many companies. Will it be viable to work with 30% less capacity? Will it be possible to extend working hours? Will it be possible to have more flexibility to allow companies to adapt to these situations?

We are working on all these issues, as well as on practical measures to support consumption.

The issue of travel is also an issue that we are following closely. Finally, there is a need for long-term reflection on value chains, the relocation of certain parts of strategic activities to ensure our independence, the acceleration of the climate transition and digital sovereignty.

LIFTING THE RETAIL LOCKDOWN ACROSS THE GLOBE

Some examples

UNITED STATES

Deaths: 85,906 / Cases: 1,417,889
Retail sales: - 6.2% in March 2020*
*Year-on-year (source: US Census Bureau).

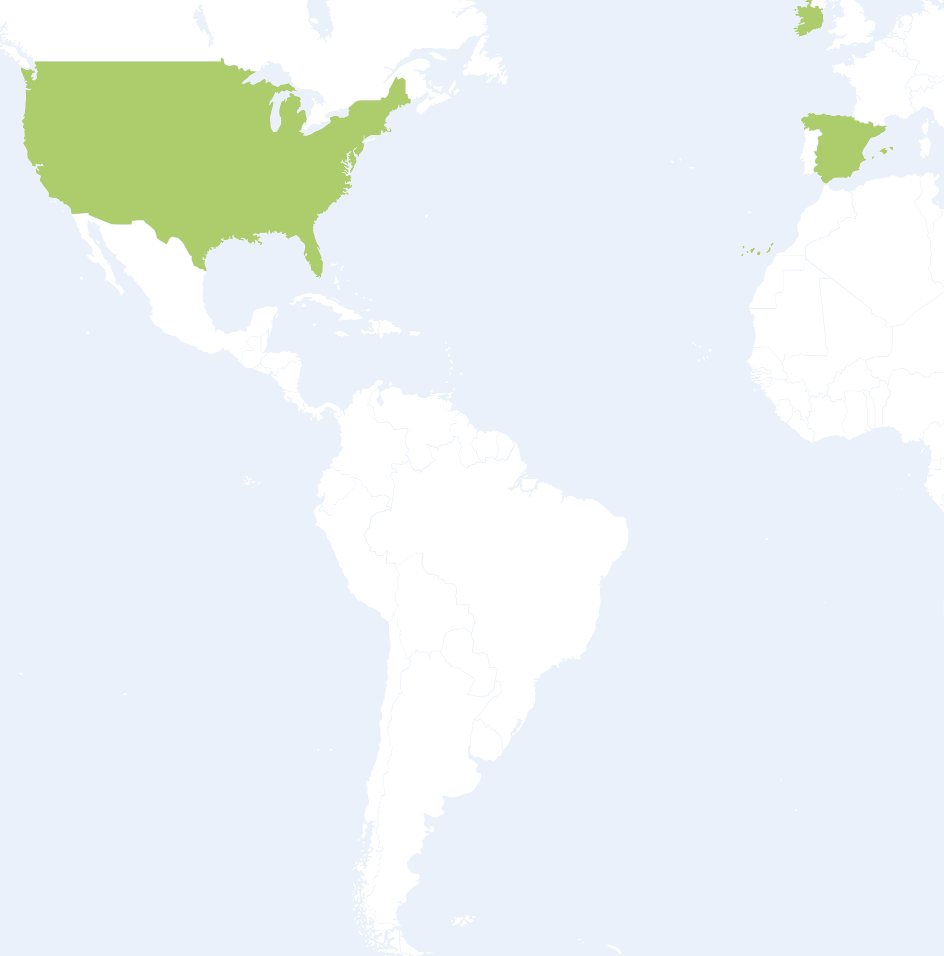
In the United States, social distancing regulations and the severity of the virus varies from one region to another. Most states have begun to lift restrictions for at least some municipalities within their jurisdictions. In most cases, particularly major metropolitan areas, retail and restaurant activity is still very limited, including a reduction in capacity and hours of operation, or limiting business to in-store or curb-side pickup.

In hard-hit New York City, the onset of COVID-19 completely altered the trajectory of the market despite healthy market activity for most of the first quarter. By mid-May –nine weeks following the start of social distancing– New Yorkers in all industries filed 38.6 million unemployment insurance claims. This surpassed the 37.1 million claims filed during the entirety of the last recession. Tenants and landlords continue to grapple with the need for rent relief. In early May, some indicators showed the COVID-19 case curve flattening in New York State, leading to talks of reopening the economy. The governor issued a four-phase plan to reopen the state, the timing of which will vary by region and depend on specific indicators showing the disease is on the decline. As of mid-May, it is unclear when social distancing mandates will begin to be lifted in New York City, but they are expected in the coming weeks.

IRELAND

Deaths: 1,506 / Cases: 23,827
Retail sales: - 11.1% in March 2020*
* Year-on-year (source: Central Statistics Office).

The lifting of lockdown for shops, most of which have been closed since the 27th of March, is to be organised in five stages, the first of which is scheduled for the 18th of May and the last by the end of August. Phase 1 allows a limited number of shops to reopen (garden centres, computer equipment, opticians, etc.). Phase 2 (8th June) extends the opening to small shops and bookstores. Phase 3 (29th June) authorises the opening of non-essential shops, excluding shopping centres, and of cafés and restaurants subject to conditions. Phase 4 (20th July) relaxes the restrictions for certain "high-risk" activities such as hairdressers, while Phase 5 (10th August) authorises the reopening of other activities and places considered even higher risk (tattoo parlours, shopping centres, etc.).



SPAIN

Deaths: 27,321 / Cases: 229,540
Retail sales: - 14.3% in March 2020*
*Year-on-year (source: INE / MGVN).

From the 4th of May, shops under 400 sq m were able to reopen by appointment only, as well as restaurants and cafés for take-away sales and delivery. Since the 11th of May some cities and regions have entered a new phase, which includes the normal reopening of small shops. Phase 2 is to extend these measures to shopping centres by reducing their capacity (40%) and adjusting opening hours for those over 65. In phase 3, playgrounds in shopping centres will be accessible again, and bars will be able to open with a capacity limited to 50%. Note: in some provinces, the Spanish fast-fashion giants (Zara, Mango) have already been able to reopen their shops.

Sources : Knight Frank / John Hopkins University pour les chiffres du Covid-19 (à la date du 15 mai) / Autres

LIFTING THE RETAIL LOCKDOWN ACROSS THE GLOBE

Some examples

UNITED KINGDOM

Deaths: 33,693 / Cases: 234,441
Retail sales: - 5.8% in March 2020*
*Year-on-year (source: Office for National Statistics).

Only essential shops (supermarkets, pharmacies, cycle shops, DIY stores, etc.) were allowed to continue operating after the 24th of March, representing 31% of the total number of shops in the country. In reality, only 17% remained open, as DIY shops, for example, only recently started to reopen. The impact on the retail market has been significant, with a year-on-year decrease of more than 80% in April in the number of visitors to shopping streets and centres (-68% for retail parks). The lifting of lockdown in the retail sector will be carried out in two stages. So-called non-essential shops could reopen as of the 1st of June, and restaurants and pubs as of the 1st of July, if certain conditions are met.

POLAND

Deaths: 883 / Cases: 17,615
Retail sales: - 9% in March 2020*
*Year-on-year (source: Central Statistical Office).

In Poland, the lockdown for shops implemented from the 14th of March to the 4th of May mainly concerned shops located in shopping centres of more than 2,000 sq m (excluding essential shops). Cinemas and gyms were also closed, while cafés and restaurants had to limit their activity to deliveries and take-away sales. Since the 4th of May, all shops in shopping centres across the country have been allowed to reopen, with the exception of hairdressers, restaurants and food courts (18th of May). For the time being, this partial lifting of lockdown has not resulted in a rebound in footfall: during the first week of reopening, footfall fell by nearly 42% year-on-year (-49% for the largest centres, those over 40,000 sq m).

CZECH REPUBLIC

Deaths: 293 / Cases: 8,351
Retail sales: - 9.3% as at Q1 2020*
*Year-on-year (source : Czech Statistical Office).

Shops were closed from the 13th of March (except for essential shops) and reopened from the 20th of April, starting with farmers' markets, art and crafts markets, car dealerships, etc. Shops of less than 2,500 sq m were able to reopen on the 27th of April, with the exception of those located in shopping centres, as well as gyms, but with no access to showers and changing rooms. The 11th of May marked a new milestone with the reopening of shopping centres, the largest shops (> 2,500 sq m), hairdressing salons, restaurants and cafés (outdoor areas only) and cinemas (at a third of their capacity). The final stage will take place on the 25th of May, with the complete reopening of restaurants and sports clubs.

LIFTING THE RETAIL LOCKDOWN ACROSS THE GLOBE

Some examples

DUBAI*

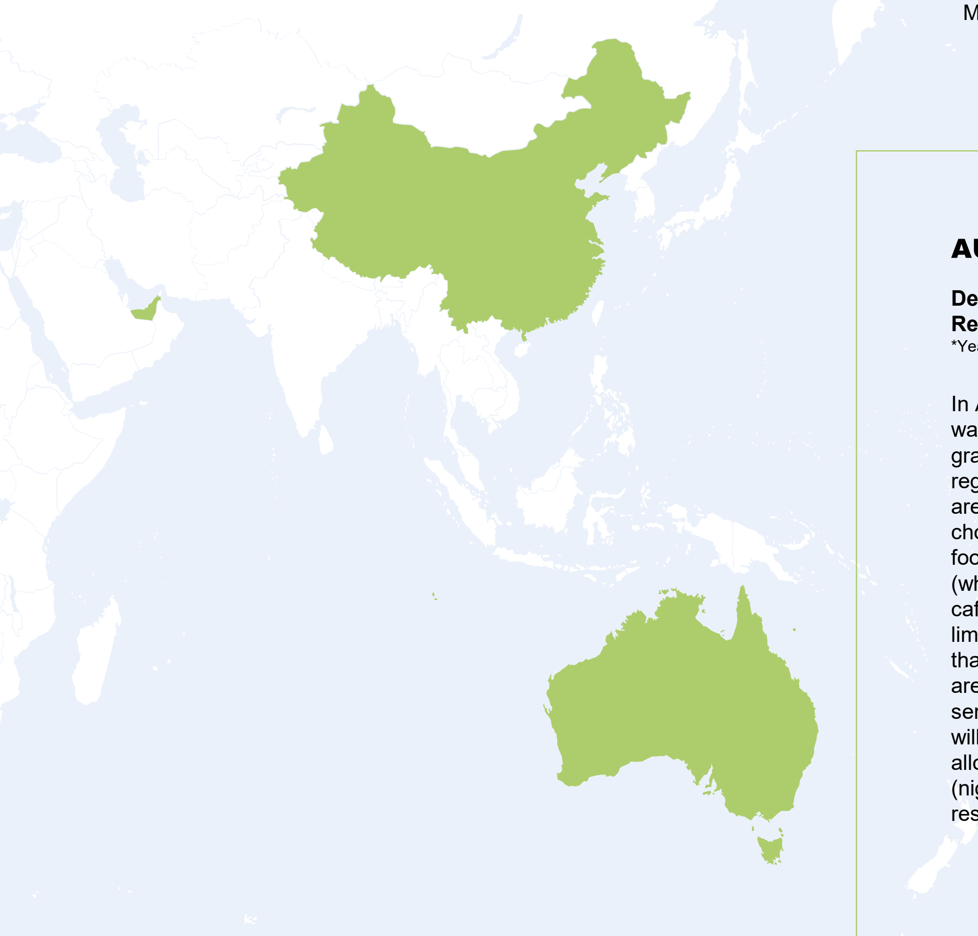
Deaths: 208 / Cases: 21,084
***United Arab Emirates**

Shops and shopping centres in Dubai were closed on the 23rd of March (excluding supermarkets and pharmacies). Since the beginning of Ramadan on the 24th of April, the government has eased these restrictions and authorised the reopening of shopping centres under certain conditions (social distancing of 2 metres, limited opening hours, capacity reduced to 30%). Each customer has three hours to shop, and access remains prohibited for children under 12 and over 60 years of age. In addition, most restaurants and cafés were able to reopen, but gyms remain closed. The impact on Dubai's retail market will be very significant as it is one of the world's leading tourist destinations.

CHINA

Deaths: 4,637 / Cases: 84,029
Retail sales: - 17% as at Q1 2020*
*Year-on-year (source: Macrobond).

The restrictions were lifted at the end of March in the cities under lockdown, with the exception of Wuhan (8th April). All travel is regulated by a QR code. According to initial figures from the Ministry of Commerce, 80% of restaurants and 90% of shops have already reopened. Some major tourist sites are also accessible, but with limited access (The Great Wall of China, Disneyland Park in Shanghai, etc.). Although sales fell sharply in the 1st quarter of 2020, some shopping centre properties have seen a marked improvement in sales and footfall. In CapitaLand Retail China Trust centres, these jumped by 189% and 105% respectively between February and March 2020.



AUSTRALIA

Deaths: 98 / Cases: 7,019
Retail sales: + 1.1 % as at Q1 2020*
*Year-on-year (source : NAB).

In Australia, where partial lockdown of shops was introduced in March, restrictions are gradually being eased depending on the region and activity sector. A number of shops are allowed to reopen, but many retailers have chosen not to do so for fear of insufficient footfall. Phase 1 of the lockdown lifting plan (which has a total of three phases) allowed cafés and restaurants to reopen, but with a limited number of customers and on condition that distancing measures were enforced. Many are currently limited to take-away or delivery service. Gyms and cinemas remain closed and will have to wait for phase 2, while phase 3 will allow the reopening of all other high activities (night clubs, food courts). The total lifting of restrictions is expected by the end of July.

COVID-19

WHAT WILL ITS IMPACT BE ON THE PROPERTY MARKETS?

Lockdown has significantly reduced, but not completely halted, letting and investment market activity. Negotiations which began before the onset of the crisis have continued, giving an initial indication of the immediate consequences of Covid-19 on demand from retailers and investors, and how this could change over the coming quarters.

LETTINGS MARKET

Increased selectivity

Since the outbreak of the health crisis, activity recorded in the high streets market has slowed down significantly due to the constraints of lockdown and the need to respect the rules of social distancing (inability to visit properties etc.). Above all, the loss of turnover caused by the closure of shops, and the inability to predict the duration of the pandemic, **has led most retailers to suspend their expansion projects**.

However, not all negotiations have stopped. The lettings being worked on by Knight Frank's teams and the discussions held with brands give **an initial indication of the resilience of the Paris market**. While the lockdown and the continuation of varying degrees of restrictive measures have resulted in the postponement of openings, the desire to set up or develop has not necessarily been called into question, particularly if the anticipated lease start date is far away. Furthermore, certain sectors remain dynamic, such as convenience formats (food), fast-food restaurants and anything to do with urban mobility.

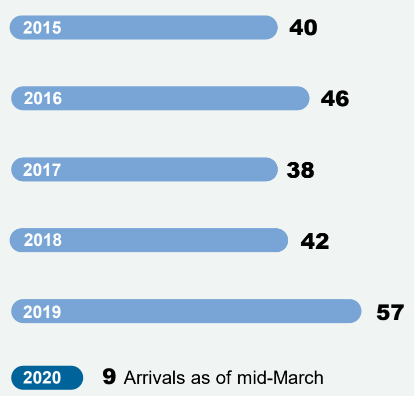
Finally, while brands are obviously showing great caution, **they were already very selective before the outbreak of the health crisis**, and for several months now have been ramping up the streamlining of their store networks in favour of the most profitable or supposedly least vulnerable locations. This trend will certainly intensify with Covid-19, even if the scale of the crisis will also impact, at least for a certain time, the best retail pitches.

Prime retail pitches have not been spared

The lack of clarity and the economic difficulties related to Covid-19 have already changed the terms of negotiations, with greater recourse to tenant rental incentives. Although we still lack post-Covid transaction references, the crisis is likely to put an end to the increase in rental values on certain prime pitches. Before the crisis, however, this upward movement only concerned a very small number of locations such as rue Saint-Honoré, with the general trend in the capital tending to be stable or decreasing.

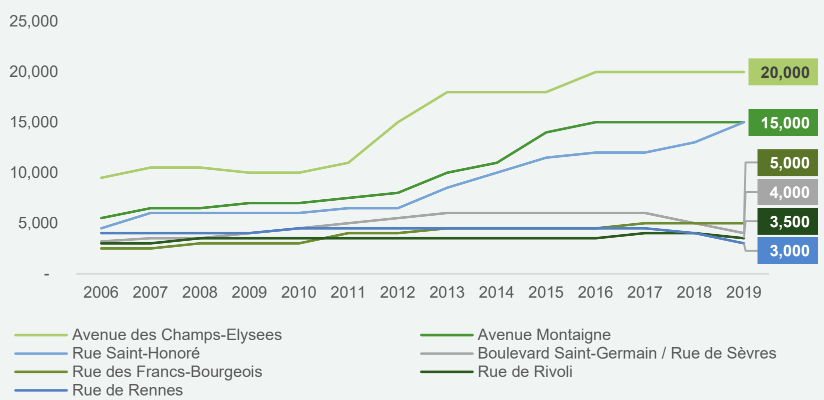
The extent of the future correction is difficult to predict as it depends on the duration of the pandemic. In the immediate term, **the restrictive measures taken to limit the spread of the virus are weighing on the appeal of most major Parisian streets** due to the drop in shopper footfall and the slowdown in demand from retailers.

Arrivals of new international brands in France



Source: Knight Frank

Change in prime rental values in Paris
In €/sq m/year Zone A



Source: Knight Frank

New arrivals on stand by

The arrival of new international players will trend downwards in 2020. Most of them have suspended their projects due to the pandemic and the priority given to managing their existing network. After an exceptional year in 2019 (57 new arrivals in France compared to 42 in 2018), around ten new arrivals have so far been counted in 2020, half of them in Paris.

This figure will increase if there is a lasting improvement in the health situation. Indeed, several projects were imminent before the outbreak of the crisis and are expected to be completed. Furthermore, the expected correction in rental values could attract other new retailers to Paris, providing them with attractive opportunities to establish themselves at a lower cost. Nevertheless, demand from international retailers will not return to its pre-crisis level until the restrictive measures have been genuinely eased and footfall on the capital's main thoroughfares has picked up significantly.

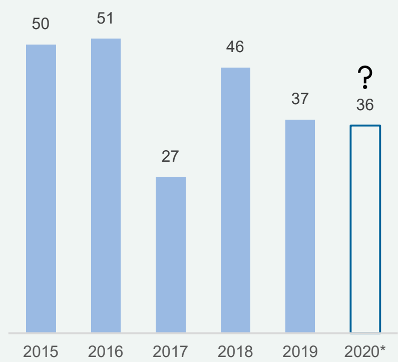
Luxury on the frontline

Not all Parisian neighbourhoods are impacted in the same way. While residential areas have remained relatively untouched, **the current situation is much less favourable for office and tourist hubs**. Indeed, most of their shopper footfall is comprised of Greater Paris Region employees, many of whom are still working from home, and international visitors, whose numbers have been drastically reduced **even though tourism is a key driver of Parisian retail**. It should be noted that in 2019, foreigners accounted for 47% of hotel arrivals in the Paris Region, and that the extension of the state of health emergency requires the quarantine of people coming from a zone where the infection is circulating (outside the EU and Schengen area), at least until the 10th of July. Finally, the World Tourism Organisation recently indicated that world tourism could, depending on the speed of recovery of international travel, decrease by 60 to 80% globally in 2020.

Under such conditions, luxury retail pitches will take a hiatus in 2020, especially as the sector's large companies are expected, for the time being, to concentrate their efforts in Asia, where sales have already started to rise again.

Online sales are also expected to grow, which currently only account for a modest share of luxury goods sales (12% worldwide according to Bain & Company). **This slowdown in activity and lack of clarity will limit the number of new luxury boutiques in Paris in 2020**. As of mid-March 2020, more than 30 projects at varying stages of progress had been identified, many of which are likely to be postponed until 2021 or 2022. The recovery will therefore be very gradual, even if the resilience of the luxury goods market is a safe bet, given that in 2019 it recovered fairly quickly from the turmoil surrounding the Yellow Jackets movement.

Change in the number of luxury store openings in Paris



Source: Knight Frank /*Projects identified as at mid-March

The Opéra-Haussmann and Champs-Élysées districts have a more mixed positioning, but they are the most frequented in Paris by French and foreign tourists, and are therefore also suffering as a direct result of the consequences of the Covid-19 crisis.

The first, Opéra-Haussmann, will remain penalised for a long time due to the announced closure of department stores (Printemps, Galeries Lafayette) until the 10th of July. As for the Champs-Élysées, the question arises as to whether it will continue to move upmarket in the very short term. The health crisis could also postpone some of the plans to redevelop the avenue, which has been undergoing profound retail and urban changes in recent months.

The lockdown has already resulted in the postponement of the opening of La Samaritaine until the beginning of 2021, in order to adapt the shop to new social distancing rules. Other major projects are in the pipeline and will be completed in 2020 (JD Sports in more than 2,000 sq m at n°118-120). **The expected renaissance of rue de Rivoli will therefore probably be delayed by only a few months**, although the impact of the ban on car traffic has obviously yet to be measured.

Let's finish with some Parisian streets on the Left Bank. **The impact of Covid-19 will probably be less visible there.** Admittedly, international brands are well represented and some major amenities have not yet fully reopened (Italy 2, while Le Bon Marché has reopened). That said, the Left Bank market is less dependent on international tourism and relies on the consumption of residents with generally high purchasing power.

INVESTMENT MARKET

Return of uncertainty

In 2019, **the trend in the retail investment market was once again positive**, with 6 billion euros committed in France, an increase of nearly 30% compared to 2018 and the ten-year average. Activity benefited in particular from the completion of a few acquisitions of large shopping centres, reflecting the return of institutional investors' confidence.

The outbreak of the health crisis has significantly undermined this confidence. Although the market is not completely at a standstill, the immediate consequences of the lockdown (shop closures, non-payment or deferral of rents) and the questions raised by the spread of Covid-19 (weakening of brands, expenses incurred as part of the health crisis, asset valuations) have, at least for a time, **turned away a number of investors from retail**, particularly those already heavily exposed to this asset class or those most averse to risk. While there is considerable capital to be invested in real estate, several investors are in the process of reallocating it to other market categories considered to be more resistant to the health crisis (logistics, residential). **Uncertainty surrounding retail has also spread to banks,** which are now more attentive (as with other types of property) to the quality of assets and their fundamentals when financing new transactions.

Within this context, **retail investment is expected to shrink in 2020**, although the extent of the drop is still difficult to assess. Whilst the context is far from comparable, it should be remembered that volumes were down 75% year-on-year in 2008 (1.2 billion euros invested). However, **the lowest point in the last twenty years dates from 2001 with a little over 600 million euros committed in France**. This volume is almost the same as that achieved in the 1st quarter of 2020, with the sums committed in retail over this period registering a 33% drop year-on-year. This was due to a very limited number of transactions, particularly in the category of transactions over 100 million euros, which was driven solely by MATA CAPITAL's acquisition of "CIFA Fashion Business Centre" in Aubervilliers, the largest European clothing wholesale centre.

The decrease in volumes could become more pronounced over the next three quarters, although major new transactions are expected and should limit the drop in activity. Furthermore, **the highly specific nature of retail assets means that the outlook varies greatly depending on the region and type of format.**

What yield correction?

Investor uncertainty at this stage restricts the number of potential buyers. Volumes are also likely to be limited by the wait-and-see attitude of potential sellers, due to the **lack of sufficient clarity on the spread of the pandemic and the correction of yields**. This lack of clarity could particularly affect the core + and value-add segments, where the sharpest drops in value are expected.

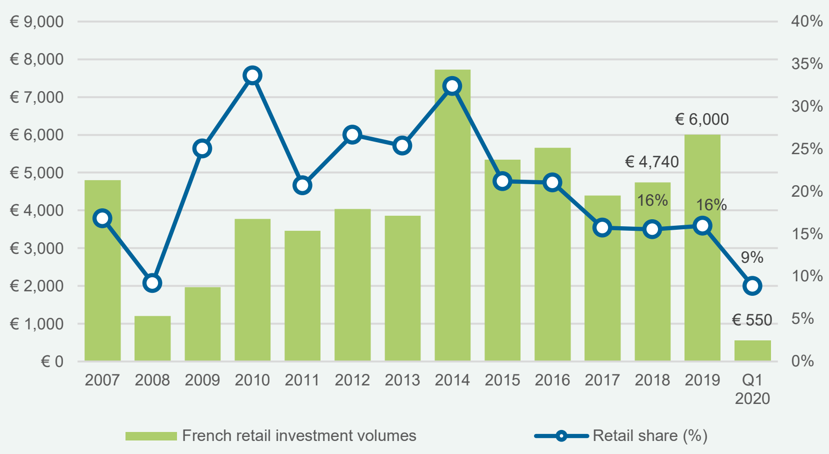
As with the lettings market, we lack references that would enable us to determine the extent of the repricing of retail assets. That said, a few examples of ongoing negotiations seem to indicate **stability or a fairly modest recovery in the core segment, ranging between 5% and 10%.** During the financial crisis, the increase was also limited, with yields on the best Parisian retail pitches rising by around 20% between 2007 and 2008, before falling again from 2011 onwards. Once again, it is difficult to compare these two moments in the history of the French retail market, and there is nothing to say for the moment that the correction associated with Covid-19 will not be more pronounced.

Change in prime yields, as a %

Source: Knight Frank

On the core + and value-add segments, some transactions currently show an increase of up to 20%. It should be remembered, however, that the yield **correction for secondary assets was already underway before the Covid-19 crisis**, with some acquisitions of assets in need of improvements already showing yields over 8% or 9% in recent years.

Investment volumes in the French retail market
In millions of euros



Source: Knight Frank

Advantage of proximity and retail parks

Not all asset types currently have the same advantages. Some investors are already more selective, giving priority to those that seem to be the most able to withstand the health crisis.

This is the case with local food shops, which are among the few to have fared well during lockdown and which are also responding to profound changes in purchasing behaviour. Local formats were already popular before 2020, as illustrated by the numerous sales of Monoprix shops over the last three years. **The appeal of retail parks should also increase** due to the suitability of their model to the constraints arising from the health crisis, with a relevant economic positioning in view of the expected decrease in French purchasing power and moderate occupancy costs at a time when retailers must speed up the streamlining of their network of shops. Access by car is also favoured, which can reassure consumers against the risks of infection and also facilitates click & collect services.

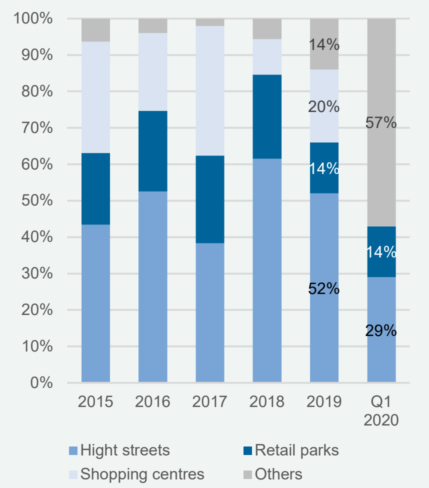
High streets, popular over the long term

Questions are being asked about other types of property and territories. The areas most exposed to rising unemployment or not benefiting from a sufficiently diversified economy to cushion the crisis obviously seem to be the least well placed. Moreover, they were already the subject of considerable investor caution before the spread of Covid-19.

With regard to ground floor retail assets which are most dependent on international tourist numbers, they are expected to temporarily lose some of their appeal, whereas they were previously highly sought-after by investors. In 2018 and 2019, luxury boutiques accounted for 25% of the sums committed to the high street market in Paris. Nevertheless, **several factors point in favour of the capital's most attractive locations**: the priority given by investors to core assets, a lettings market protected by a very limited supply and the resilience of the major luxury groups, and an a priori limited correction in yields.

Before the onset of the health crisis, prime yields for the best streets were thus below the 3% threshold, i.e. **more than 100 basis points below the level observed before the 2008 financial crisis.**

Investment volumes by asset type
In France, volume as a %



Source : Knight Frank

And shopping centres?

After the recovery seen in 2019 (164% increase in investment volumes and 0.3% increase in footfall year-on-year), the shopping centre market has also been shaken by the Covid-19 crisis.

In the short term, consumers may be more reluctant to frequent these enclosed spaces, while **the performance of shopping centres is correlated to the level of visitor numbers.** In order to reassure them and to be able to open their centres, landlords have therefore had to quickly adopt new hygiene rules. While these cost varying amounts to implement, they come in addition to the expenses that most property companies have invested in recent years to renovate and modernise their assets. Landlords have also had to adjust the payment of charges and rents from their retailers in order to safeguard rental income and the long-term appeal of their centres.

Within this context, investors are necessarily more cautious, even **if large transactions are ongoing and confirm the return of institutional investors to the core segment. On the other hand, the health crisis should accelerate investors' loss of interest in secondary assets,** particularly for those centres that depend on players and sectors that are more exposed to the crisis (independents, franchisees) and consumer choices (fashion, etc.). Although this market segment requires significant asset management work, it could offer real opportunities for value creation.

MAXIME FORGEOT

PRESIDENT AND FOUNDER OF F&A ASSET MANAGEMENT

Created in September 2016 with the aim of providing institutional investors and family offices with specific know-how in investment and management of retail property, F&A Asset Management has become a major player in the French market. Their assets total more than 500 million euros and comprise nearly 150 shops spread throughout France. Its President and Founder, Maxime Forgeot, explains the impact of the Covid-19 crisis on their business.

Maxime Forgeot, President and Founder of F&A Asset Management

How did you get through the lockdown? What management measures have you initiated and how do you support your retailers?

Of course, the lockdown was a huge blow. A blow for our organisation because, like thousands of companies, we had to go 100% remote working in just a few days. Our goal was to ensure total continuity of our activities during this critical period.

A blow above all for our retail tenants, who found themselves on "technical unemployment" overnight, with their business activity reduced to nothing. We wanted to shoulder our responsibilities to accompany them through this crisis, and that is why we authorised the suspension of rent payments during the period of administrative closure of the shops and modified the terms of rent payments, which are now due monthly in arrears until 30th September 2020.

These measures have been taken for all High Street Retail fund tenants, regardless of their size and financial strength. In cumulative terms, this represents up to 5 million euros in cash support for the retailers. For the tenants most in difficulty, we have created a specific e-mail address so that they can contact us and we will study on a case-by-case basis the additional support needed to help them get through this unprecedented crisis.

Have all your shops been reopened since the start of the lifting of lockdown? Have you already observed any initial trends in customer behaviour?

We had 25% of our shops open during lockdown. Since the beginning of the lifting of lockdown, most of our tenants have been able to reopen, respecting strict sanitary constraints, so that today 85% of our shops are open. However, some activities (restaurants, gyms) are unfortunately not yet able to reopen (or not completely), i.e. about 15% of our portfolio. We hope that the changes in health conditions and regulations will give them the opportunity to welcome their customers again very soon.

In terms of customer behaviour and attendance, it is still too early to tell what the trends are. This will probably depend on the sectors (some services are likely to resume their activity more quickly) and locations (we believe that convenience stores will do well).

Has the health crisis already impacted your investment strategy?

Not really. Rather, this crisis has strengthened our convictions. It also acts as a wake-up call about the need to keep in mind the fundamentals. As far as we are concerned, the two prevailing criteria have always been (and remain): (i) locations that are commercially indisputable and (ii) conservative rental values that allow for long-term operation and, in some cases, future appreciation.

In the coming months we will continue our strategy with an increased emphasis on the quality of tenants and the level of rental value. We also hope that there will be less competition on the market, allowing us to seize attractive opportunities with the objective, as always, of long-term ownership.

What are the strengths of your assets and the model deployed by F&A Asset Management to withstand the health crisis?

The High Street Retail fund has many strengths to help it weather this crisis as well as possible, and to take advantage of the opportunities it will offer.

To get through the crisis first of all: the portfolio is extremely spread out, with more than 100 shops, the main one of which accounts for no more than of 5% of total rent. In addition, clothing, a particularly affected sector, represents only 30% of our portfolio, which is significantly lower than the average for this type of vehicle. Finally, our rents are on average (according to valuers) 20% lower than market rents, which guarantees sustainable income.

MAXIME FORGEOT

PRESIDENT AND FOUNDER OF F&A ASSET MANAGEMENT

Looking ahead, the High Street Retail fund has substantial equity capital to invest and will therefore be able to seize opportunities, with our belief remaining strong over the medium to long term in strategic city centre locations.

In the case of F&A, the team's flexibility allowed us to ensure 100% continuity of our services in just a few days. Our partnership approach with the brands will hopefully enable us to find win/win solutions to the difficulties they face and to get out of the crisis on top where possible.

In the medium term, we believe that our ultra-specialised retail asset manager model is more relevant than ever to understanding the profound changes in the sector. Moreover, many clients are loyal and ask us to assist them, which is a great recognition for us.

More generally, how do you see the French retail market changing in the short and longer term?

In the short term, the whole sector will of course suffer. But in my opinion, this crisis is going to play a role as a trend accelerator and increase the polarisation between prime locations, which are strategic for brands, and other locations.

Tighter networks in these "hot spots" meet multiple objectives, including: a reduction in fixed costs, the search for significant footfalls, qualitative contacts with customers, and a strong role in their logistics strategy. The investments in these locations will be significant, and are designed in total synergy with the brand's digital network, once again widening the gap between "where you need to be" and the rest of the world.

These structural changes seem inescapable as they respond to fundamental consumer trends, which are also set to accelerate: enjoying the best of both worlds between online and in-store, consuming less but better, and focusing on the experience. These new trends will be a way for retailers to gain loyal customers.

RETAIL AFTER COVID-19

WILL ANYTHING EVER BE THE SAME AGAIN?

The outbreak of the health crisis and the measures put in place to contain the pandemic had an immediate impact on the distribution sector. Due to its exceptional scale, the Covid-19 crisis will also have longer-term consequences which, by accelerating the changes that have been taking place over the last few years, suggest that the retail property market will undergo profound changes.

NEW CONSUMPTION PATTERNS?

Since the outbreak of the health crisis, market research institutes, economists, sociologists and philosophers have been continuously analysing the lives of the French, who have been isolated to contain the spread of Covid-19. Looking for evidence of the consequences of the lockdown and fear of the virus on the population, **several observers have been tempted to see the emergence of an "after-world" in the consumption practices of the last few weeks.** While some may have struck a chord, behaviours adopted during the lockdown were not really new.

> ***It is not so much an "after-world" that we need to talk about as a "world of today" that will have to evolve according to what the virus imposes on us.***
>
> Philippe Silberzahn, Professor at EmLyon Business School

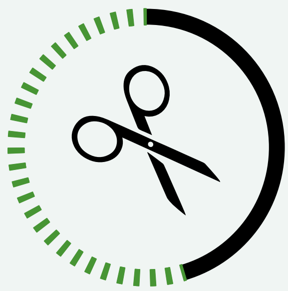
A few days after the start of the lifting of lockdown, it is probably too early to measure the real impact of Covid-19 on the French way of life. A few avenues can however be explored, with two key questions: **are the behaviours adopted by the French under duress likely to last once they regain their freedom, and what weight will old habits carry?** A leopard never changes its spots...

Stronger arbitrations

While the partial unemployment scheme has so far made it possible to cushion the economic crisis associated with Covid-19, the effects of the recession will be felt more strongly in the coming months, with varying increases in job losses depending on the territories and activity sectors. In view of the announced drop in purchasing power, the worsening of social tensions and the lack of clarity about the future situation of households, the latter are expected to significantly limit their spending (-7.5% in 2020 according to Xerfi). **Few sectors will be spared, although consumer choices will necessarily work in favour of certain product categories.**

While the Covid-19 crisis is quite unique, behaviours adopted during the 2008-2009 financial crisis give some indication of how consumption evolves in times of severe recession. For example, the financial crisis reduced retail sales but, more importantly, it entrenched a **tendency for households to adjust their spending**. Since then, and despite some periods of improvement in the economic situation, the French have been spending a larger share of their budget on essential items (food, housing, health) and are more inclined to cut back on spending that is considered more easily postponed.

With Covid-19, these adjustments will undoubtedly become more pronounced, **at the expense in particular of sectors already in difficulty, such as fashion**. In a recent paper, the French Fashion Institute (IFM) indicated, for example, that distributors' textile/clothing turnover could fall by between -17 and -25% in 2020.



45%

In the first 30 days post-lockdown, 45% of respondents plan to reduce their pre-crisis fashion budget.

Source: OpinionWay survey for Fastmag, April 2020.

On the other hand, the coming months are likely to **confirm the success of low-cost brands** which, like Action and Gifi, have greatly increased their turnover and their network of shops in recent years. For the time being, the health crisis has not spared them due to the closure of their shops and the lack of ability to buy from them online. Moreover, for these brands with low average baskets and high footfall, the need for social distancing can be particularly detrimental. However, they seem well placed to take advantage of the crisis in the longer term due to tighter household budgets and the increase in products to be withdrawn from inventory. Finally, **the difficulties, closures and bankruptcies of other retailers, as well as the probable correction of property prices could give them more opportunities to establish themselves at a lower cost.**

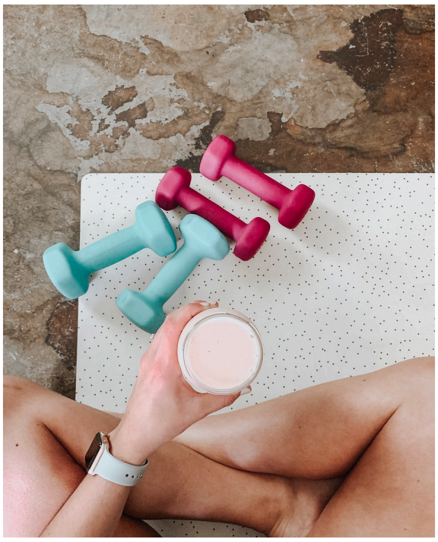
Well-being and domestic retreat

In the *Süddeutsche Zeitung*, the German journalist **Gerhard Matzig recently wrote that Covid-19 had ushered us into the "contactless" era.** The trend is not new, but it has taken on another dimension with the virus, temporarily reshaping our relationships with others and our professional life. While the French have been gradually returning to the office since the 11th of May, remote working, massively adopted during the lockdown, will be more widely practiced than before the crisis. This will probably not be without consequences on consumption. The spread of remote working could therefore **encourage online sales, home delivery and the use of local shops** (supermarkets, food shops, caterers).

Subject to lockdown for several weeks, the French were also able, in some cases, to discover or rediscover the pleasure of cooking, interior design and taking care of their garden or balcony. If prolonged, **this retreat into the home could continue to ensure the success of the stay-at-home economy**. It would hardly be surprising if meals continued to be eaten at home for some time: restaurants remain closed, and once reopened the pleasure of going there will undoubtedly be diminished by the rules of social distancing. This trend should also strengthen the success of home-delivery services (Uber Eats, etc.), the desire to favour quality products and perhaps, in the longer term, encourage restaurant owners who have the capacity to do so to move their business model towards catering.

If the assumption of a domestic retreat were to hold true, sectors other than food would benefit. For example, **many French people, who will be limited in their movements until further notice, will undoubtedly take better care of their homes, which would support the growth in sales in garden centres and decoration and DIY stores**. The DIY market would also take off again, notably to the benefit of players that have long invested in this segment (Leroy-Merlin, Cultura, etc.).

While Covid-19 has made the French more focused on their homes and domestic chores, it has also **given a boost to the well-being economy**. Indeed, health is more than ever in the spotlight. This was notably reflected during the lockdown by the strong growth in sales of sports equipment (bikes, rowing machines, etc.), which accounted for 30% of Decathlon's online orders. This trend could continue after the health crisis and encourage the **development of sports and leisure concepts**.



While Covid-19 has made the French aware that a virus emerging thousands of miles away could affect them, increased concerns about health and hygiene should strengthen another trend already in play before 2020 in the retail property market: the **development of groups of pharmacies and drugstores located in larger and more central areas**, in parallel with the reduction in the number of traditional pharmacies. The phenomenon has been observed in high streets but also in shopping centres, where large pharmacies and laboratories have been more present for several months, for example the opening in 2019 of a 2,000 sq m pharmacy in the "One Nation Paris" outlet centre, or a similar sized one in Espace Coty in Le Havre. Once again, the trend is expected to gather pace, **which would make it possible to compensate, at least in part, for the decline of brands that are more subject to consumer choices.**

Less but better?

In the Ipsos / Datacovid survey published in Le Monde on the 24th of April, respondents ranked climate change as the third most important current concern, behind the risk of epidemics and the healthcare system, but ahead of changes in their purchasing power. **There is no indication that the subject will remain as sensitive after the crisis, especially for households with the most constrained budgets.** Nevertheless, many French people may have been struck by the link established between the emergence of the virus and the way in which humans act on ecosystems, while several surveys have noted a change in mindset about their post-Covid priorities and expectations.

> ***"Lockdown led a significant number of participants [in the survey] to take stock of their lives and to want to focus on the basics.***
>
> Source: Obsoco, *Covid-19, the next day*

Consequently, the health crisis could accelerate the shift towards consumption that is more conscious of its impact on the environment and society. If it were to become more widespread, the **desire to consume "less but better" could reinforce choices made in favour of local products** (local formats, direct sales, etc.) and concepts and brands that base their models on "made in France".

The greater attention paid to the nutritional quality of food will also boost the success of organic food, whose sales have soared since lockdown (a difference of more than 20% compared to conventional food in March 2020 according to Nielsen). **The increase in the number of specialty stores is therefore expected to continue.** In its recent Digest France 2020, Codata indicated that Biocoop was the sixth most dynamic brand in 2019 with the opening of 43 shops (compared to eight closures), bringing its French network to just over 300 points of sale.

Finally, the change in consumers' mindset could lead to **more frugal purchasing behaviour to the benefit in particular of second-hand concepts**. Again, this is not a new trend. This market sector was already booming before the health crisis, especially in the fashion industry. According to an IFM survey, 39% of the French population bought at least one second-hand garment or fashion accessory in 2019 (compared to only 15% in 2009).

In recent months, this boom has fuelled an increase in the number of specialist shops, such as Kiloshop or Mad Vintage, whose network now includes nearly thirty points of sale in the streets of several large French cities. The second-hand boom has also convinced more traditional clothing and footwear retailers to propose a specialised range, following the example of Ba&sh, Bocage and its "Comme neuf" or "Weston Vintage" concept in a more upmarket niche.

However, **it is the internet that could win the jackpot**, continuing the strong growth of the best-known specialist sites such as Vinted - which had to temporarily suspend its activity during the lockdown but remains the undisputed leader in France, or Vestiaire Collective, which recently raised 59 million euros to increase its international growth.

LET'S GET (MORE) PHYGITAL

Internet, the big winner? Yes, but...

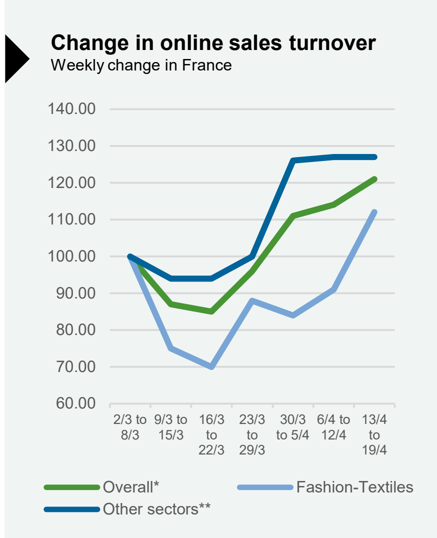
Was online retail the big winner of lockdown? The answer may seem obvious since almost all shops have closed, forcing consumers to make their purchases online.

In general, online sales have indeed increased, but with very contrasting results depending on the brands and product categories. While we cannot yet draw any definitive conclusions, a few key trends can nevertheless be highlighted:

- **Growth in online sales did not offset the general drop in consumer spending**. In the United Kingdom, where the share of online purchases is higher than in France, the Internet only saved 20-30% of shop sales. Proof, if proof were needed, that online sales complement rather than replace physical retail.

- Significantly, **online activity was stronger for brands with a network of shops than for pure internet players**. For France, Fevad indicates that the former have posted an average growth rate of more than 50%, where on average the turnover of pure internet players has declined by -1% year-on-year. The situation is the same in Great Britain, with an increase of 12.5% year-on-year of online retail in March 2020, but "only" 8% for pure internet players.

- Finally, **not all product categories have over-performed**. While online food sales have exploded, further cementing drive-throughs in consumer practices, other sectors, such as fashion, show a more mixed picture despite a rebound in online orders since mid-April.



Source: Fevad
*Excluding food sales / **Including technical and cultural products

How will online retail performance change over the coming months?
During lockdown, a study by Oliver Wyman indicated that six out of ten consumers around the world went to the shops less for fear of mixing with other customers. **This fear could persist as the pandemic evolves, and thus continue to fuel online sales growth**. Furthermore, buying online has become widespread in recent weeks, reaching new population groups (according to age, social class, place of residence, etc.), some of whom will inevitably continue to buy online. Finally, Covid-19 and the fear of a new pandemic will undoubtedly convince brands that do not have one to develop an online sales platform, **while brands already present on the web will want to improve their online tool to better manage certain key features** (scalability of platforms, supply-chain / last mile logistics, order management systems, etc.).

This increase in investment has already begun. Some brands have very recently launched their shopping websites, such as the luxury concept store Montaigne Market. The idea had already sprouted in its creator's mind before the health crisis because of the impact of last year's social movements on her activity. Other brands have decided to totally switch to the internet, such as Harry & David in the United States. But this is a very specific case, **the tendency being instead to accelerate the hybridisation of distribution models between physical and virtual.**

Innovation Big Bang

By increasing the use of digital tools in the field of consumption, work or social relations, **the Covid-19 crisis has given a boost to the digital transformation of French society.**

For retail, this has resulted in a multiplication of solutions designed to facilitate online ordering and the availability of products. It is not only the major retailers who benefit from this development. Although the costs of a satisfactory multi-channel experience are often considered prohibitive, the past few weeks have also illustrated **a certain "democratisation" of digital tools for the retail sector.** As an example, Instagram gives restaurant owners the opportunity to share in their stories an "order your meal" sticker allowing followers to easily place an order. We should also note **the growing role of "retail tech" start-ups. This fast-growing sector has recently distinguished itself by the support it provides to local retailers**, such as the launch by the start-up Wishibam of a virtual platform enabling city centre retailers to continue their businesses during lockdown, in partnership with the city of Angers and its Chamber of Commerce and Industry.

Since the beginning of the lifting of lockdown, **other solutions of varying levels of cost and innovation have been used to enable customers to return in compliance with new hygiene rules**. Among the possible tools is the queue management solution developed by Lineberty or Checkpoint Systems, "SmartOccupancy", which allows real-time monitoring of the number of people entering and leaving the shop using 3D sensors.

Whilst the Covid-19 crisis is accelerating the adoption of new tools, the phenomenon has already been at work for a long time in Asia. **It is therefore very interesting to study the latest trends, which give an idea of how trade in Western countries could evolve**. China is undoubtedly, along with South Korea, one of the most advanced countries in terms of the digitalisation of society and purchasing practices. Online sales there already account for nearly a third of all retail sales, and more than half of all payments are made via mobile phone.

Early-stage fundraising in the retail tech sector *

In numbers worldwide, by category

Source: CB Insights /*From 11th to 30th March each year

Bluetooth and RFID technologies are now widespread. QR codes have been used since the beginning of the pandemic to regulate the movement of the population and are also used in retail, in particular to promote the **development of the self-service economy**. For example, the spread of Covid-19 has led to the proliferation of mask and hot meal dispensers and smart lockers. The need for contactless social and retail relations has also led to **increased testing in the field of artificial intelligence and robotics:** in South Korea, a chain has installed waiter robots developed by LG Electronics in its restaurants.

The health crisis has also led some American retail giants to intensify their experiments, such as Walmart's "Nuro" delivery robot, and tests carried out on drone deliveries by the CVS and Walgreens pharmacy chains.

Finally, the Covid-19 crisis has also fuelled the explosion in **the use by Asian retailers of alternative channels to communicate and sell their products, such as social networks and live streaming platforms**. **Live streaming has been around for a few years now**, enabling live content to be broadcast and interaction with the public, sometimes using influencers. **But Covid-19 has prompted a growing number of retailers, shopping centres and manufacturers to adopt it to maintain their link with consumers** and continue to sell their products despite the pandemic. Taobao, a subsidiary of the giant Alibaba and China's No. 1 marketplace, saw a 719% jump in the number of people using its site to sell their products via live streaming between January and February 2020! Chinese consumers are also increasingly using live streaming sites dedicated to video games, such as Douyu and Huya, for their purchases.

COVID-19: WHAT WILL ITS IMPACT ON RETAIL FORMATS BE?

The Covid-19 crisis has created a shock of such magnitude that shops are looking completely different than they did just over two months ago.

Changes in the architecture of retail spaces

The duration of the pandemic remains uncertain. However, the need to contain new waves of infection, or the emergence of other viruses, could change the face of retail even more profoundly. **The Covid-19 crisis could thus initiate new practices in the design and architecture of retail spaces to facilitate compliance with more stringent hygiene standards.** Among the avenues now being explored are the treatment of certain common areas such as sanitary facilities, better management of air conditioning and ventilation or the integration of certain innovations (space left for the passage of disinfectant robots, etc.).

Multiplication of distribution channels

With the expected increase in shop closures, Covid-19 could leave another lasting impression on the retail property market. The number of closures is expected to be particularly high in countries with the highest retail density. In a recent study, Coresight Research indicated that **15,000 shops could close in the United States in 2020** (+60% compared to 2019), which gives an idea of the extent of the damage that the health crisis could cause, although comparisons between countries or regions need to be put into perspective. The landscape of brands could also be disrupted. In fact, it took only a few weeks to bring down or drive to the edge of the cliff several big names in American distribution, such as J. Crew, JC Penney and Neiman Marcus. In France, a few well-known brands have also been placed in recovery or are the subject of a safeguard procedure, such as Orchestra, La Halle, André and Alinéa, which indicates that they have suffered not only from the lockdown but also from the social movements of the last few months.

There is no doubt that retail is going through a major crisis. While it will take time to recover from such a shock, it would nevertheless be presumptuous to predict the end of shops. Of course, the health crisis will amplify retail's difficulties and the rise of digital technology, thus mechanically increasing the transfer to the internet of certain aspects of consumption. But it is necessary to go beyond the binary opposition between traditional shops on the one hand, and virtual shopping sites on the other.

The phenomenon that is taking shape, and whose arrival is likely to be accelerated by the Covid-19 crisis, is that of an increasingly complex retail world due to the multiplication of distribution channels. Although digital may appear to be the big winner, the trend is rather towards an increasing hybridisation of formats; a new model that is certainly driven by the rise of the virtual, but also leaves a lot of room for **shops and other very "real" formats (drive-throughs, pick up points, showrooms, pop-up stores, shop-in-shops, etc.)**. Retailers must therefore use all existing tools to increase their visibility, optimise their sales performance and rationalise their costs.

The objective is also to build customer loyalty and rethink customer relations through a tailor-made offer and communication, in the style of DNVBs ("Digital Native Vertical Brands").

> ***73% of French consumers are looking for personalised online experiences.***

Source: Kameleoon, survey undertaken in early May 2020 on post-lockdown expectations.

IKEA, which has been furnishing and decorating the planet for more than half a century, provides another example of adapting to the new reality of trade. Accordingly, the Swedish company is building on its historic warehouse shops, developing smaller urban formats to speed up its multi-channel offering and get closer to city dwellers, has set up a drive-through service since the lifting of lockdown and has launched its first virtual shop in China on the Tmall (Alibaba) platform.

What is the future for flagships?

The health crisis has benefited local formats. The trend will undoubtedly continue in the coming months, given the favourable conditions for the purchase of essential products and neighbourhood shops (widespread use of remote working, ongoing limited travel, etc.). Other elements work in favour of proximity, such as consumers' taste for local products and the popularity of click & collect.

In this context, what place is there for flagships, these large or very large stores located on the busiest streets and displaying the most exceptional concepts? For the time being, the health crisis is penalising this shop format, usually considered the star of the retail property market:

- Covid-19 has sharply reduced the flow of shoppers and in particular international tourists, who are not expected to return en masse to Paris until at least 2021.
- The need for physical distancing limits the amount of customers walking around the shops at the same time, whereas the most popular flagships are usually crowded and generate a high number of sales.
- The measures taken to respect health and safety rules increase annoyances and thus spoil the pleasure purchase, whereas flagships are the privileged place of experiential retail. Since the lifting of lockdown, consumers seem to prefer efficiency when purchasing and go less to shops to browse.
- Over the coming months, retailers will be more inclined to streamline their costs, whereas flagships require major investments.
- Difficulties are increasing for many brands, particularly in sectors subject to consumer choices (fashion) or dependent on international tourism (luxury). These account for a large proportion of flagships, which implies a reduction, at least temporarily, in the number of retailers able to lease such areas.

That said, the very existence of flagships is not in jeopardy. This format should therefore remain the preferred channel through which brands and retailers best express their identity and know-how, encouraging consumers to travel to admire a place or discover exclusive products. **It is the perfect complement to an online strategy**. A few days ago, Nicolas Houzé, Managing Director of Galeries Lafayette, was saying the same thing when he indicated that if the group decided to reduce its capital expenditure by 30% in order to achieve a positive dynamic, two priority projects would not be called into question by Covid-19: "the acceleration in digital technology and the reinvention of its flagship d
store on boulevard Haussmann".

While flagships will continue to play an essential role as part of a multi-format strategy, the crisis should nevertheless encourage retailers to be more selective in their choice of flagship shops, in favour of the very best locations and perhaps by reducing their number. **The "less but better"** phenomenon, which we mentioned above to describe the changes in consumer behaviour, was a trend that was already being observed before the crisis in the flagship market. **It is therefore likely to become even more pronounced in the post-Covid retail world.**

DNVBS FACED WITH COVID-19

THE EXAMPLE OF TEDIBER

Tediber was established in 2015 and has in a few years become one of the most famous Digital Native Vertical Brands (DNVB) in France. With nearly 60,000 mattresses already sold in France and Europe, the young company has revolutionised the bedding market. After opening its first store in 2018 in the heart of the Marais district in Paris, Tediber now aims to develop its own network in France. At a time when the Covid-19 crisis is changing the face of retailing and accelerating the digital transformation of companies, this Q&A session with Julien Sylvain, its founder, illustrates the impact of the health crisis on retail activity and highlights the advantages of the DNVB model.

Julien Sylvain, Tediber founder

How did you get through the lockdown? What was the impact on your business, and what measures have you taken to deal with it?

As well as closing our shop, we had to stop and postpone mattress returns until the lifting of lockdown, even though this is essential to our home test model. We have adapted our delivery services to contactless delivery and have been able to deploy this process more recently on returns, although only in the Greater Paris Region.

With regard to our supplies and deliveries, movements were very tight and we were very busy, but we experienced very few disruptions. Local production and the quality of our transport service were decisive.

Financially, the drop in activity forced us to partially use the partial unemployment scheme, but on a fairly low pro rata basis, and we had enough liquidity not to panic in the short term. Regarding the organisation of work, we are fortunate to have a team that is already highly digitised and fairly flexible and, moreover, Parisian and therefore well trained in remote working due to the Yellow Vests movement and the public transport strikes.

Your shop in the Marais district reopened on the 11th of May. What measures have you taken to adapt them to the new sanitary requirements and allow customers to continue testing your products?

We were keen to be exemplary in our participation in the effort and to protect our employees and visitors. Like many shops in the Marais, we have put up posters asking customers to wear a mask and not to touch the products unless they are using the hydro alcoholic gel made available to them both before and after. Furthermore, we have limited the number of customers to four people (for a shop area of 60 sq m) and imposed a one-way system. We use single-use sheets (changed by our sales assistants) for testing our products.

We have also increased the frequency of cleanings and turned off the air conditioning and heating until further notice. As far as the flow of products is concerned, the problem is less important because the majority of our customers do not leave with their products but choose a delivery slot. With regard to the organisation of work, we have reviewed schedules, identifying two teams that do not interact with each other, and we ask our employees to respect good distancing practices in all circumstances.

What do you think are DNVB's strengths to withstand the Covid-19 crisis?

Beyond the respective sectors of each one, which are affected to varying degrees by the crisis, and the extent of the retail exposure of each DNVB (which for us is quite low since it only represents 5% of total turnover), we are fortunate to have a model that is very well adapted to the context:

- an essentially digital model enhanced by the acceleration of online penetration. Although the mattress market has collapsed (no more residential moves, less renewal, etc.), the online share has mechanically increased since physical distributors were closed;

- local or nearby production that is valued by the prevailing rhetoric of relocation (and facilitates supply);

- the values of responsible or ethical consumption are often intrinsically linked to DNVBs, which present themselves as alternatives, and these values are appreciated in a context where some customers also have more time to take an interest in them;

- tight supply that reduces supply and transport difficulties;

- companies that are often small, young, flexible and work well together at a distance;

- a straightforward decision making process.

DNVBS FACED WITH COVID-19

THE EXAMPLE OF TEDIBER

We are trying to see this difficult period as a potential opportunity. The weakness is obviously financial. A lot of DNVBs are still very sensitive and this crisis will certainly sweep away the weakest ones. On the other hand, there are real concerns about the economic crisis that will follow and purchasing power. Let's hope that the price positioning of DNVBs, which is often luxury (affordable and quality), does not penalise them.

Does the health crisis call into question your development model? Will it lead to a slowing down of your physical expansion to the benefit of the internet?

We have tested many models, especially physical ones (department stores, corners at Carrefour, city centre boutiques) and believe strongly in the virtuous impact of the physical on the development of the Tediber brand. Some customers need to see, touch or have physical contact with a brand, even if it means buying their product on the Internet. For me, the divide between the internet and shops doesn't make sense from a commercial point of view: as a customer, I don't care where I discovered or bought a product.

Our goal is therefore to have a good network of shops that complements our excellent work online. The crisis will perhaps call into question the pace of openings because our financial scope is quite modest. We will therefore have to be doubly cautious, fearing, like everyone else, new outbreaks of infection. Having said that, the market will also open up opportunities, perhaps as early as 2021. Today we have one location and two or three openings planned for 2020 and that plan is not changing.

THE “NIGHTCLUB”, TEDIBER’S CONCEPT STORE
13 rue Sainte-Croix de la Bretonnerie, Paris 4th

Recent publications

The finance sector
Occupier study

Brexit #3
What are the implications for European property markets?

Covid-19
What are its implications for the office market?

Covid-19
What is the outlook for the French investment market?

Contacts

Antoine Grignon
Head of Retail Services – Capital Markets & Leasing
+33 1 43 16 88 70
antoine.grignon@fr.knightfrank.com

Antoine Salmon
Head of Retail Leasing
+33 1 43 16 88 64
antoine.salmon@fr.knightfrank.com

Vianney d'Ersu
Deputy Head of Retail Leasing
+33 1 43 16 56 04
vianney.dersu@fr.knightfrank.com

David Bourla
Chief Economist & Head of Research
+33 1 43 16 55 75
david.bourla@fr.knightfrank.com

Reports available at:
knightfrank.com/research

Knight Frank's Research Department provides market analysis and strategic real estate consultancy services to a wide range of international clients, both private, institutional and end-users.

Knight Frank's reports are available on the KnightFrank.fr website.
The data used to produce this study comes from sources known to be reliable, such as INSEE, ORIE and the Knight Frank tools for monitoring real estate markets.