



RESEARCH



**AT A GLANCE
Q2 2023**

EUROPEAN RETAIL MARKET

A STRONG OCCUPIER MARKET IS RUNNING AHEAD OF INVESTMENT ACTIVITY

- The retail segment experienced slower investment over H1 2023 though performance is holding up better than offices and logistics
- Premium and luxury brands were the most active in the occupier market over H1 2023, while innovative mass-market brands continued to open state-of-the-art stores

European economic conditions remained favourable over the first half-year in 2023. Yet many components of GDP are slowing as interest rate increases bite.

0.5%

GDP GROWTH FORECAST
EURO AREA 2023

Headline inflation slowed in June (5.5% YoY, after reaching 8.6% in January). Core inflation remains sticky, having gone back up to 5.5% in June (5.3% in January).

With the post-pandemic recovery well behind, retail sales volumes may **slow down this year**, a consequence of the cost of living crisis.

The inflationary impact on purchasing power **has not hurt the luxury segment**, as its consumer base is less sensitive to rising prices. However, mass-market brands have tighter margins that force them to absorb higher material and logistic costs in prices. This rise has prompted consumers to shift towards **discounters**, to offset inflation. While the two extremes have performed strongly, mid-range brands must **refine their business models** to control costs if they are to maintain their profit margins.

Tourism meanwhile is resurgent: indeed, the number of nights spent in EU tourist accommodation in the **first quarter** was almost equivalent to 2019 numbers (-1%). In Europe as a whole, the **hotel industry** posted **20% growth** in RevPAR relative to the pre crisis period (vs. May 2019).

After two record years in 2020 and 2021, **e-commerce growth** could be back to its **long-run trend**. Strong acceleration, which sometimes led to overinvestment in e-commerce strategies, is giving way to longer term thinking. Brands are thinking harder **about better integration** between their **online presence** and their **physical stores** in the sales process.

EUROPEAN COMMERCIAL REAL ESTATE INVESTMENT

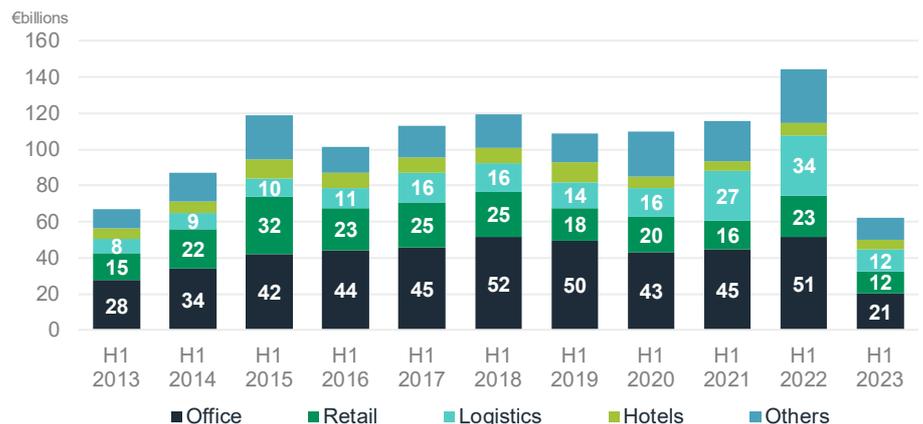
€62.4bn were invested in Europe over H1 2023, which represents a **57% decrease** vs H1 2022. This decrease is particularly important as H1 2022 volumes hit a **historic high**.

Hotels are the most resilient asset class (-17% vs H1 2022). With projected increase in air travel over 2023 (one of the few consumer sectors to gain this year) there has been renewal of interest in this kind of asset.

The **retail** sector also fared better (-47% vs H1 2022) than other classes with a total investment volume of **€12.1bn**.

Commercial real estate investment volume

Europe - by type of assets - H1



RETAIL INVESTMENT

Although volumes are lower, investment interest was good in comparison to other asset classes (-60% for offices, -65% for logistics).

Improved interest in retail assets means that the sector is also slowly **gaining traction** in terms of market share (**19% in H1 23 vs 16% in H1 22**).

€12.1 bn

INVESTED IN H1 2023
-47% % VS H1 2022

No country has escaped from investment fall back over 2023, though the character of it differs between countries.

Investors **maintained confidence in the core markets**, as Germany, the UK and France captured **70%** of activity.

In the **UK**, large transactions during Q1 2023 helped total volume to reach **€4.1bn**, with a decrease of only **5%** compared to **H1 2022**.

In **Germany**, total retail investment in H1 2023 stands at **€2.6bn (-36% vs H1 2022)**.

After an excellent Q1, retail investment **slowed sharply in France in Q2**. A total of **€1.7bn** was invested in retail in H1 2023, down **41%** on **H1 2022**. The market was

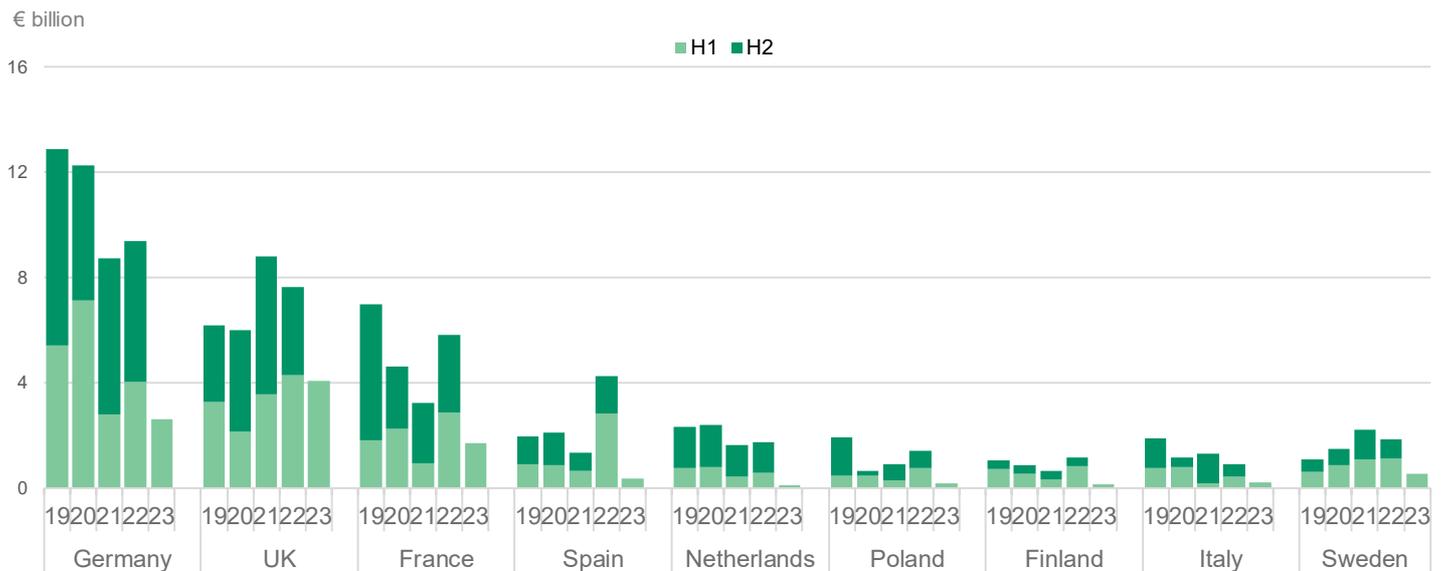
driven by a few major deals. **Five** transactions accounted for **63%** of overall investment.

Spain recorded one of the largest decrease in H1 2023, but this is off the back of an exceptional period for investment in H1 2022. **Spain stands at €0.3bn (-88%)**.

Most countries witnessed **expansion in yields** for retail assets but not as much as other property types. This is mainly because **repricing already occurred during the Covid-19 crisis**, when the retail sector was hit harder than other segments.

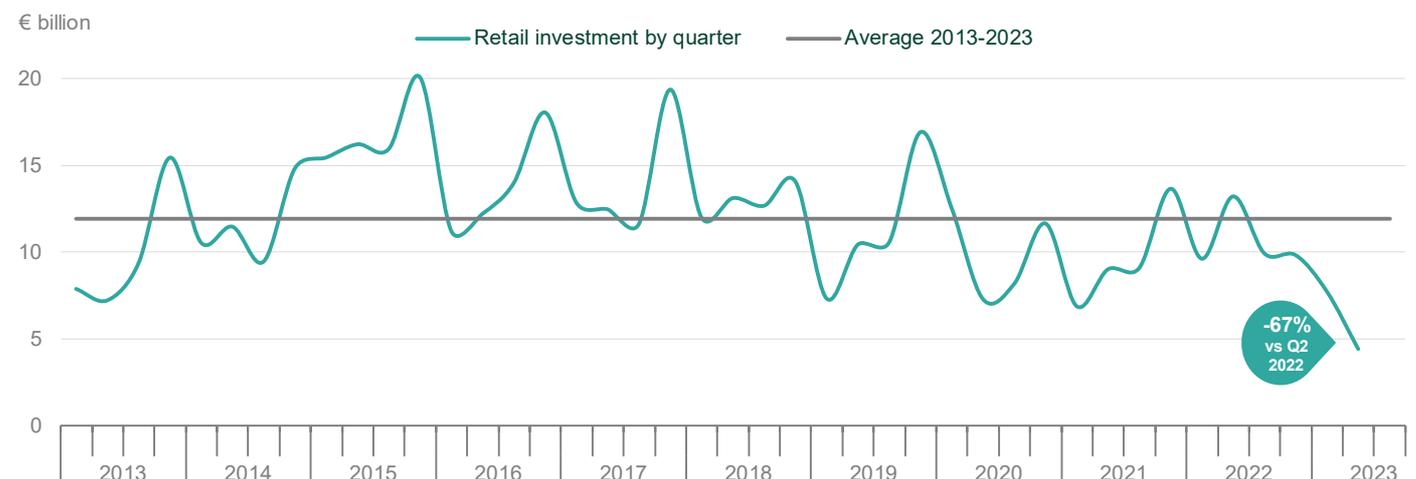
Retail investment volume

Europe - by country

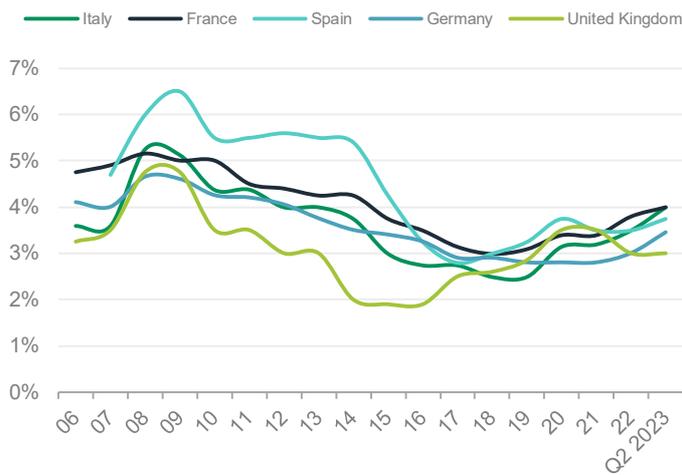


Retail investment volume

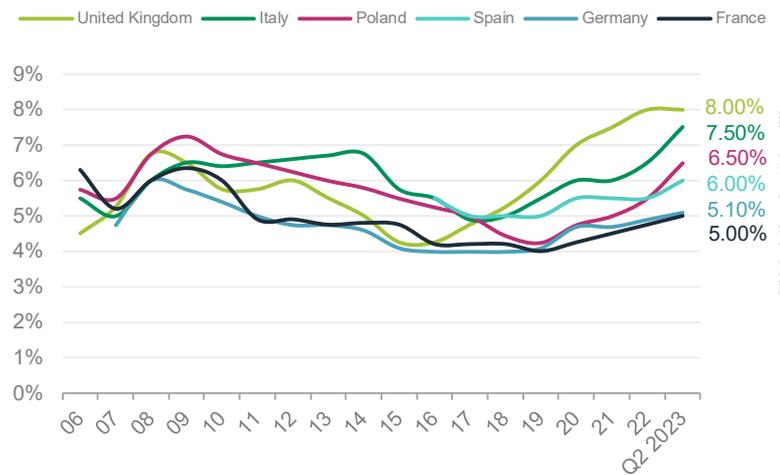
Europe - by quarter - from 2013 to 2023



Retail prime yields - High streets



Retail prime yields - Shopping centres



THE EUROPEAN OCCUPIER MARKET - FOCUS ON MASS-MARKET SEGMENT

H1 2023 presents a **mixed picture** for brand expansion, in particular for the mass-market segment.

Many **innovative** mass-market brands continued to open **state-of-the-art** stores at a steady pace, notably for "health and wellness" sectors (cosmetics, fragrance, streetwear...).

These mass-market fashion brands stand out with their **ultra personalized customer experience**.

However, the cost of living crisis is exposing **weaknesses** in brands' business strategies, particularly those that have **unbalanced omni-channel** approaches to retailing. This resulted in a high number of **receivership, liquidation or restructuring** of historic brands.

Prime high streets remain **attractive** but still **suffer from a turbulent economic environment**. Downward **adjustments in rental prices** have been recorded during the

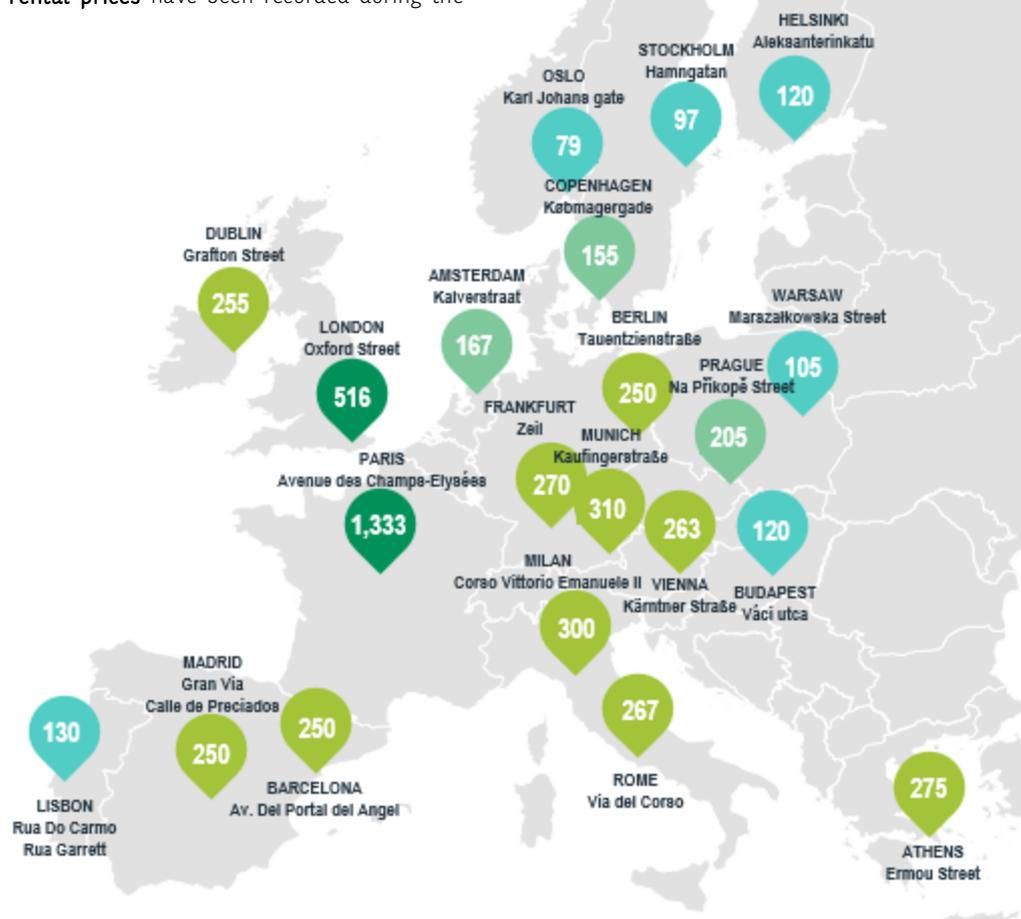
year for several streets: **Oxford Street** in London, **Kalverstraat** in Amsterdam or **Aleksanterinkatu** in Helsinki.

High Streets Prime Rents

Mass-market Streets - Q2 2023

Rents in €/sqm/month

- > € 500
- € 250 - 500
- € 150 - 250
- < € 150



Exchange rate (Q2 2023 average)
 £/€: 1.1498
 DKK/€: 0.1342
 NOK/€: 0.0857
 SEK/€: 0.0872

Sources: BNP PARIBAS Real Estate, Alliances, Newsec

THE EUROPEAN OCCUPIER MARKET – FOCUS ON LUXURY SEGMENT

The luxury segment has been quite **busy** since the start of the year.

Luxury brands are allocating **considerable resources** to solidify their **real estate presence** on the most prestigious European streets, as shown by the fight between LVMH and Kering for the **best location** in Paris since the end of 2022. In **London**, luxury fashion brands are **strongly targeting** any new space available, as evidenced by the **record-breaking** YSL new **lease deal** at the corner of Bond Street and Grafton Street.

Premium and luxury brands proved **dynamic occupiers** in H1 2023. Several luxury brands made their debut in new markets, such as **Dior** in **Lisbon** (Avenida de la Liberdade) or **Schiaparelli** in Harrods in **London**.

This **sustained demand for “prime” locations** in European high streets translates into an **increase** in rental values for several European thoroughfares in Q2 2022.

Several streets which were already quite expensive last year have seen their rents growing in the first half of the year: **New**

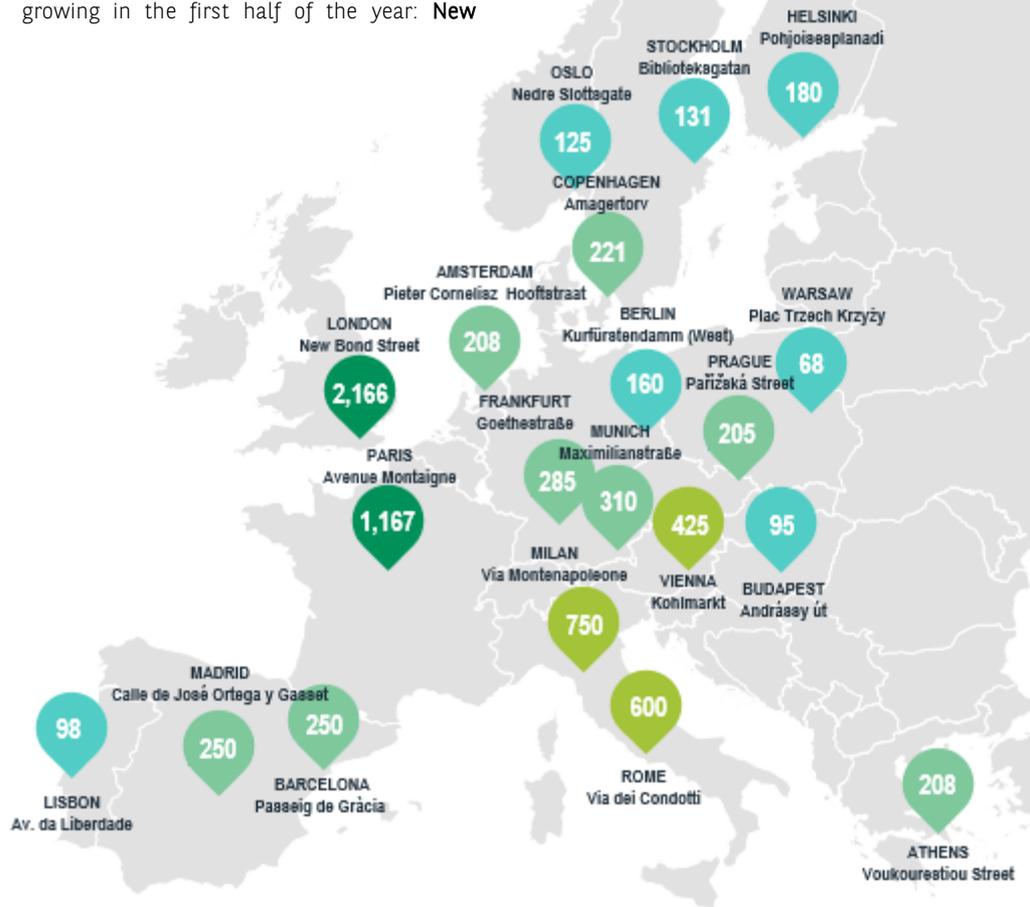
Bond Street in London, **Via Napoleone** in Milan, **Via Dei Condotti** in Rome or **Kohlmarkt** in Vienna for example.

High Streets Prime Rents

Luxury Streets – Q2 2023

Rents in €/sqm/month

- > € 800
- € 400 - 800
- € 200 - 400
- < € 200



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-5%

AVERAGE VARIATION IN MASS-MARKET PRIME RENTS Y.O.Y.



+1%

AVERAGE VARIATION IN LUXURY PRIME RENTS Y.O.Y.

GLOSSARY

BNP Paribas Real Estate is working on producing indicators which are as comparable as possible. This is a complex issue, due to cultural differences from market to market. Nevertheless, as we aim to actively contribute to the transparency of the markets, we have highlighted those definitions and indicators which are strictly comparable, so that our readers can understand what the indicators mean.

Furthermore we have decided to adopt the PEPCIG1 definitions, on which most of the following indicators published by BNP Paribas Real Estate are based. Other indicators are from INREV2 and from BNP Paribas Real Estate.

ASSET CATEGORIES

High-street retail: The high street denotes where 'core' retail activity resides. In this definition, 'High street' includes prime, as well as secondary retail locations. It includes street-level stores and mixed-use buildings, but excludes stores located in shopping centres.

Shopping centre: A shopping centre is a purpose-built complex of shops, restaurants, etc, which can be located in either in-town or out of town locations.

Supermarkets, Hypermarkets and Discount stores (SHD):

- **Supermarkets** are stores which predominately sell grocery. Supermarkets can be located either in-town or out-of-town. Supermarkets are retail establishments which generate over two thirds of its sales from food and measuring 400-2,500 m².
- **Hypermarkets** are large retail stores which sell a variety of products such as appliances, clothing and groceries.
- **Discount stores** tend to offer a wide array of products, but they compete mainly on price and offer merchandise at affordable and cut-rate prices. Discount retailers normally sell less fashion-oriented brands.

Retail parks: This includes Retail Warehouses, Fashion Parks, Designer Outlet Centres and Factory Outlet Centres. They tend to be located in out-of-town locations.

- **Retail warehouses** are big sheds that offer retailers space to adapt (occasionally with a mezzanine level where permitted) and generally are usually found these days as part of larger agglomerations located in Retail Parks.
- **Fashion parks** tend to be outdoor centres offering a distinct retail mix dominated by fashion brands. Fashion Parks predominately sell clothing and footwear merchandise.
- **Designer Outlet Centres** tend to be outdoor centres which predominately sell designer and luxury goods at discount prices.
- **Factory Outlet Centres:** offer a distinct retail mix, focused on providing branded goods at discounted prices.

Department store is a retail establishment which sells a diverse range of goods from a number of different brands. Department stores tend to offer a range of concession brands under one roof, as well as 'own brand' goods.

RETAILER DEFINITIONS

Flagship store: A "flagship" store is often considered to be a retailers 'showcase' store. It is usually in a primary and prominent location. It tends to be a chain's largest store and generally the store that holds or sells the highest volume of merchandise.

PROPERTY DEFINITIONS

Prime Pitch: Prime Pitch is the best and most sought after retail location. Generally prime pitch is the location with the greatest footfall, the best quality of retail brands, and the highest rental values.

Prime rental value: Prime rental value is the highest meaningful rental value for a top trading location.

GLA: Gross Letting Area: total area let to merchants, including all sales and additional space.

Selling area: The selling area is divided into three subcategories: sales area, storage and staff areas. Deduction is then made of pillars, outside walls and vertical circulation.

Leasing rights: The tenant owns the renewal rights to the lease, expressed as a commercial ownership. It may sell its rights to another merchant. The payment for this sale is made to the selling tenant.

Right of entry: The right of entry or premium for goodwill is the sum paid by the tenant to the owner on signing the lease for a vacant unit. It is considered as a supplement to rent for the owner.

INVESTMENT DEFINITIONS

Initial prime net yield: Net income over purchase price plus all other costs of acquisition.

Investment volume: All retail properties BNP Paribas Real Estate is aware of, whose owner has changed during the analysed period, whatever the purchasing price is.

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(JANUARY 2023)

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N° ADEME : FR200182_03KLJL