Growth assumptions for the economy remain at a high level in 2018 even if a slowdown should appear in the Euro area. Private consumption is forecast to increase by 1.3% in 2018 (+1.5% in 2019). Unemployment rates in all European countries are expected to be stable or to decrease. An accommodative monetary policy should also continue to drive domestic demand.

In the Eurozone, retail trade will stand at +1.7% in 2018 and should reach +2.1% in 2019. In the major markets, compared to 2017 weaker growth is expected for this year: Germany +1.2% (vs 3.0%), France +2.8% (vs +3.7%) and the UK +1.7% (vs +2.1%). As observed over the last few years, thanks to dynamic economy, retail sales growth in CEE countries remain strong in 2018: Poland (+6.0%), Czech Republic (+5.3%).

Retail is facing structural changes. Physical stores really need to continue their strategy to the changes of consumer preferences. European online sales are still increasing (+13.6% in 2017, source: E-commerce Foundation), but at a lower pace compared to 2016 (+15.4%) and previous years. There are now particularly driven by growing Internet penetration from Southern and Eastern countries.

On a rolling year basis, at €268 bn, the commercial real estate investment volume rose by 9% vs 17 driven by office (+13%) and logistics (+20%). Retail investment, the 2nd largest sector (€58 bn) remained stable over the last 12 months. On half-year, even thought its share of total investment is decreasing (22% vs 23% in H1 17), retail property volumes remain higher than the 10-year average. Among the major markets, in H1 18, lower investment in Germany (-16%) can be linked to an inadequate supply of larger portfolios. Decreasing volume was also recorded in the UK (-10%), but especially in Q1 18. Several large transactions have occurred in Q2 18. Retail property in France (+57%) was up thanks mainly to the sale of the Apple Store on the Champs Elysees. Portfolio retail deals boosted the Polish market. In Italy, big deals brought H1 2018 in line with results registered in 2017, a record year. In Spain, retail assets still represent the major part of total investment (42%).

Retail prime yields are still under pressure in most European markets. In Paris, the prime high street yield fell to 2.50%. Prime shopping centre yields were stable in major countries except in the UK where they have been increasing over the last few quarters.
OCCUPIER MARKET—RENTS—NEW ENTRIES

In H1 2018, London’s Old Bond Street followed by Paris’s Avenue des Champs Elysées are the two most expensive store locations.

Prime rents in luxury high streets remain high. Because of a lack of available products, rents in Milan are increasing especially in via Montenapoleone (€600/sqm/month, +20% vs H1 17). Other places such as Prague’s Palřská (€210/sqm/month, stable vs H1 17) continue to attract prestigious brands (Furla, Elisabetta Franchi) as first stores in the Czech Republic. End of 2018, Cartier is due to enter the Nordics market through a store located in Stockholm’s Smålandsgatan.

In mixed streets such as Madrid’s Calle Serrano (€248/sqm/month, +3% vs H1 17), Bottega Venetta, Yves Saint Laurent and Maisons du Monde opened stores last spring.

In the mass-market segment, Kalverstraat’s Amsterdam (€250/sqm/month, stable vs H1 17) is a sought-after high street location for international retailers. After Under Armour opened at the end of 2017, Uniqlo is set to enter the Dutch market in Autumn.
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 PEPCIG definitions, on which most of the following indicators published by BNP Paribas Real Estate are based. Other indicators are from INREV and from BNP Paribas Real Estate.

**Asset categories:**

**High-street retail:** The high street denotes where 'core' retail activities reside. 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 retailer's ‘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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Main Locations
EUROPE
FRANCE
Headquarters
167, Quai de la Bataille de Stalingrad
92867 Issy-les-Moulineaux
Tel.: +33 1 55 65 20 04
BELGIUM
Avenue Louise 235
1000 Brussels
Tel.: +32 2 2 59 00
CZECH REPUBLIC
Ovocny trh 8
110 00 Prague 1
Tel.: +420 22 59 59 00
GERMANY
Goetheplatz 4
60311 Frankfurt
Tel.: +49 69 2 59 00
HUNGARY
117–199 Vaci ut.
A Building
1123 Budapest
Tel.: +36 1 487 55 50
IRELAND
20 Merrion Road,
Ballston, Dublin 4
Tel.: +353 1 487 55 50
ITALY
Piazza Lina Bo-Bardi, 3
20124 Milan
Tel.: +39 02 52 33 41
LUXEMBOURG
Axentro Building
1015 Luxembourg
Tel.: +352 2 22 45 45
NORWAY
Sørbygata 4
0583 Oslo
Tel.: +47 22 45 45 45
PORTUGAL
Al. Jana Pawła II 25
Atrium Tower
00-854 Warsaw
Tel.: +48 22 653 44 00
ROMANIA
Bulevardul Aron Amus 16
1413 Bucharest
Tel.: +40 21 53 45 60
SPANISH
C/ Eladio Vargas, 4
28043 Madrid
Tel.: +34 91 45 45 00
UNITED KINGDOM
5 Aldermanbury Square
London EC1V 7Q
Tel.: +44 20 39 39 40
MIDDLE EAST / ASIA
DUBAI
Emaar Square
Building 8, 7th Floor
P.O. Box 7233, Dubai
Tel.: +971 44 248 277
HONG KONG
63rd Fl., Two International
Finance Centre,
B Finance Street, Central,
Hong Kong
Tel.: +852 22 59 88 88

Alliances
ALGERIA
NORTHERN IRELAND
AUSTRALIA
PORTUGAL
BULGARIA
SWEDEN
CZECH REPUBLIC
SWITZERLAND
DENMARK
TUNISIA
FINLAND
USA
ESTONIA

Contacts
Alliances
Lou Cellier
Tel.: +33 (0) 1 55 65 20 04
lou.cellier@bnpparibas.com
Research
Bénédicte TEISSIER
Tel.: +33 (0) 1 55 65 21 74
benedicte.teissier@bnpparibas.com

www.realestate.bnpparibas.com

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