LET'S TALK RETAIL

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BNP PARIBAS REAL ESTATE

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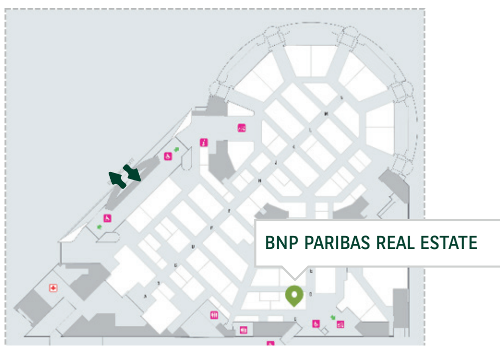

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A QUICK LOOK AT THE EUROPEAN RETAIL REAL ESTATE INVESTMENT MARKET

PATRICK DELCOL
PAN-EUROPEAN HEAD OF RETAIL

In investing it is always hard to fight a sentiment. No less so when considering the negative popular perception that surrounds the retail property sector. Successful investors understand the need to take a closer look because it is in overlooked property that true value often lies.

Today's reality is that publicly listed Retail Real Estate players are trading below their NAV (Net Asset Value). What lies behind this are structural changes in how sales are achieved.

Successful retailers (particularly fashion retailers) show swift adaptation to new consumer needs, especially new environments and technologies. Most today place their space productivity at the top of their strategy agenda, even if it causes an expansion slowdown. The consequent closures, lease term renegotiations and store downsizing cause headaches for landlords.

The finger often gets pointed at online retail here, but it cannot be used exclusively as a scapegoat because it exposes some property as not fit for purpose.

Institutional investors have not stopped investing into retail property but are shifting their focus to units that appeal to retailers adapting to new consumption patterns. For investors these are the retail parks, outlets, and high street segments that are the most secure in their eyes. The outcome is to drag yields for selected units down to historic low levels. In the shopping centre segment, they are shunning smaller schemes, secondary cities or secondary products in the major cities.

Because information is not perfect, what this adjustment process creates is gaps. Value add and opportunistic investors are accordingly on the lookout for overlooked property: units that have the potential to work efficiently for multi-channel retailers.

While the retail sector is in cyclical transformation, retailers will chase where their customers go. And in turn retail property owners will chase THEIR customers: the tenants. The trading below NAVs reflects that chase is still ongoing through repricing and space adjustments. The end point of the chase is inevitable: property that is the most efficient channel of distribution for retailers.

CONTENT

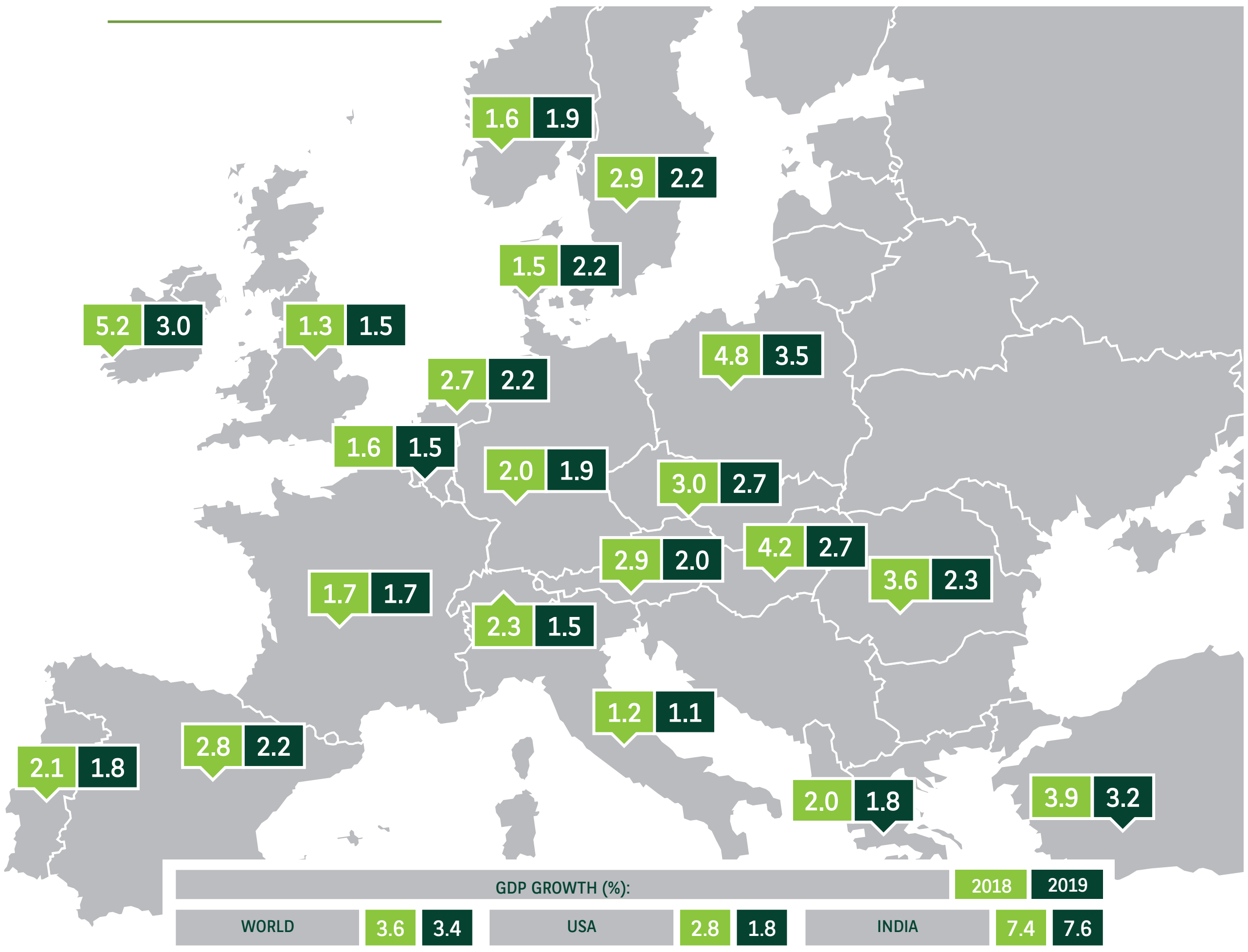
ECONOMIC CONTEXT

TOWARDS A REBOUND IN PRIVATE CONSUMPTION

After a period of strong growth, the European economy will return to a pace more in keeping with fundamentals. In the Eurozone, GDP should grow by 1.5% in 2019 after +2.0% this year.

Because of higher oil prices, private consumption slowed earlier this year. However thanks to improvement with many countries seeing declining unemployment rates, consumer spending within the Eurozone is expected to grow by 1.4% in 2018 (+1.6% in 2019).

Despite the start of the ECB policy normalization, domestic demand should continue to be supported by an accommodative monetary policy.



GDP GROWTH (%):	2018	2019		2018	2019		2018	2019
WORLD	3.6	3.4	USA	2.8	1.8	INDIA	7.4	7.6
EUROZONE	2.0	1.5	CHINA	6.4	6.1	BRAZIL	1.5	3.0
RUSSIA	1.8	1.6	JAPAN	0.9	0.6			

Sources: Oxford Economics - BNP Paribas - November 2018

RETAIL SALES ARE GROWING ALL OVER EUROPE

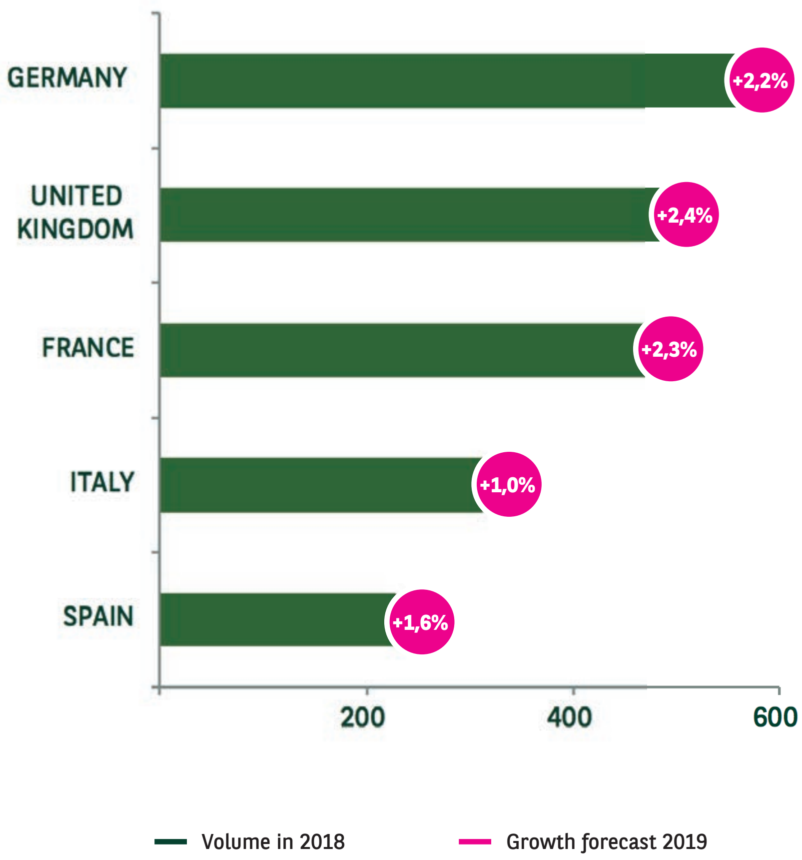
Within the Eurozone, retail trade will stand at +1.6% in 2018 and is expected to rise by +2.0% in 2019.

In the three largest European markets, in 2019, Germany, the UK and France, retail sales growth will continue to increase by more than 2%.

Spain continues to benefit from economic recovery with a declining unemployment rate.

With especially buoyant economies, Ireland (+3.6%) Central and Eastern European countries such as Poland (+3.6%), Hungary (+3.7%) and the Czech Republic (+3.6%) are expected to record highest growth for 2019.

RETAIL SALES (€ BN IN 2018) - FORECAST



Sources: Oxford Economics – Eurostat—BNP Paribas Real Estate - November 2018

FOCUS ON RETAIL IN EUROPE


CHRISTOPH SCHARF
HEAD OF RETAIL SERVICES BNP PARIBAS REAL ESTATE - GERMANY

The market among retailers and owners is characterized by uncertainty.
Footfall and sales are declining whereas owners were spoiled in the past. They now have to deal with shorter contract terms, reduced rents and even site closures, through terminations. But it would be too much to talk about a crisis. Rather, flexible lease terms offer opportunities for new creative concepts, such as pop-up stores, which were initially represented online and now daring to go offline.
These can temporarily absorb vacancy and create an incentive to buy either through their short presence or a great presentation. Nevertheless, we have to adjust to vacancy also in the A locations.
Finding tenants at the same rent level is a challenge. New concepts for lease agreements are required here to enable tenants and owners to continue to come together in the future.
A recent model, for example, provides for a lower fixed rent to be paid. However, the landlord receives a top-up if the tenant has reached certain turnover or profitability limits. This also shifts operational responsibility somewhat more in the direction of the owner.


CRISTIANA ZANZOTTERA
HEAD OF RESEARCH BNP PARIBAS REAL ESTATE - ITALY

The global drive towards quality and good fundamentals in retail property is at play in Italy. Investors are becoming more selective and look for property that is sustainable in the medium/long term because of active management. This is especially the case for shopping centres.
The high street segment is seeing transactions of single assets passing from private individuals to institutional investors. This trend is especially noticeable in Milan, but can also be seen in Rome and in secondary locations like Venice and Florence. Driving this is the context of defined high street clusters that have important tourist flows and strong purchasing power focused on the area.
So far in 2018 the retail investment market in Italy has performed well with about 2 billion euros recorded; a 16% increase on the same period of 2017. Thanks to this result, retail is taking the largest share of investment volumes at 37% of total.
Positive signals can also be seen from retailers as new players are entering the market, especially in Milan, with innovative concepts (not present in other European capitals) that are generating an increase in rents.

OCCUPIER

HIGH STREETS PRIME RENTS

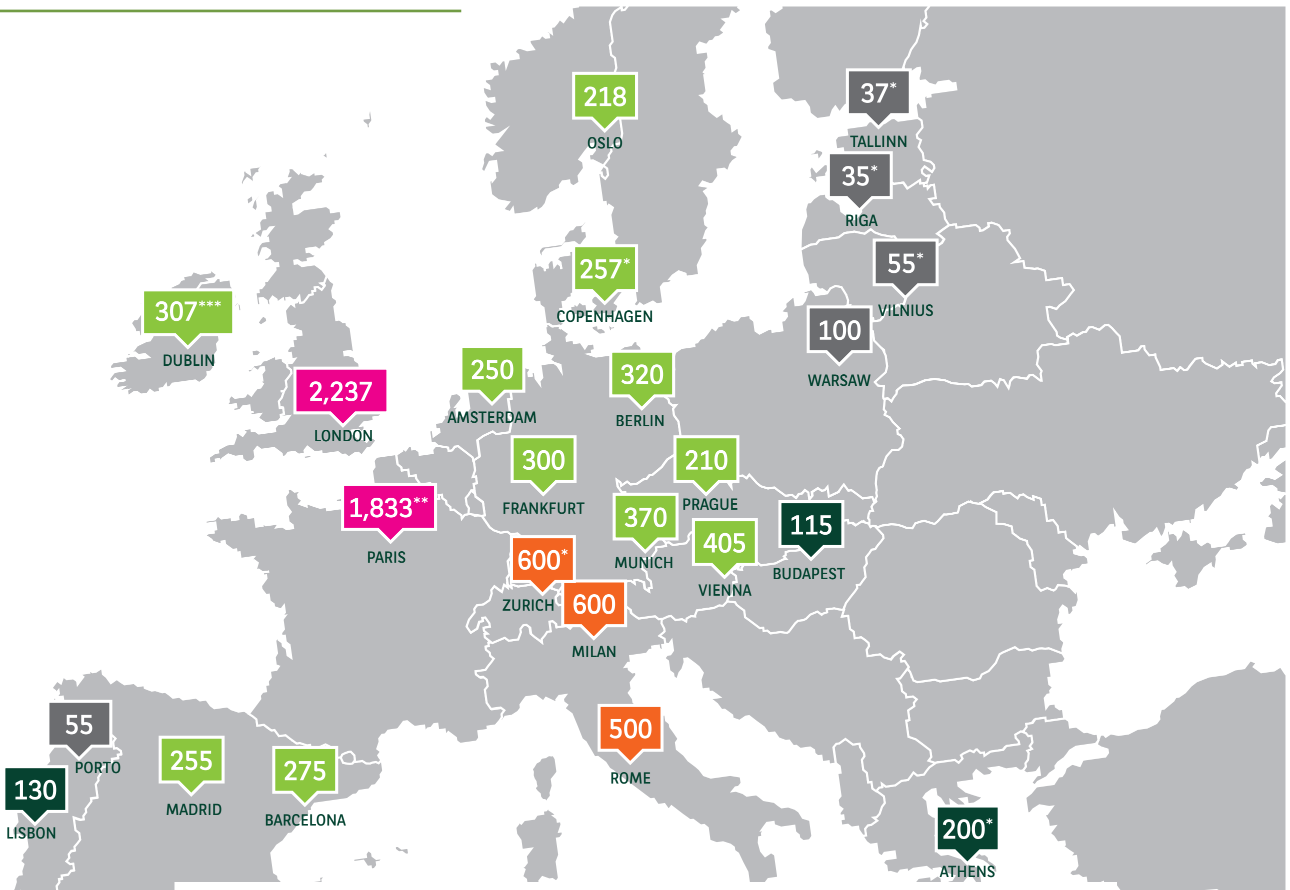
London, one of the key global locations for the luxury segment in Europe, ranks first by rental value in the prestigious Old Bond Street.

Paris's Avenue des Champs Elysées which attracts more and more premium brands should still record increasing prime rents thanks to the opening of new flagship stores in 2019.

In Milan and especially in via Montenapoleone, rental values are rising due to a lack of available products.

In Germany, high street prime rents in Berlin and Munich are expected to be stable over the next few months.

Grafton Street, the most valuable and most sought-after location for Irish retailers is currently benefitting from a revitalisation of the surrounding streets and recording steady rental value growth.



€/SQM/MONTH - H1 2018

> 1,500	500 - 1,500	200 - 500	100 - 200	≤ 100

Prime rent without key money for a store unit
*Average rent
**Including key money
***Derived from the Prime Zone A rent for a standard 100 sq.m. unit

Exchange rate (Q3 2018 average)
£/€: 1.1206 - CHF/€: 0.8738 - DKK/€: 0.1342 - NOK/€: 0.1046 - SEK/€: 0.0967
Source: BNP Paribas Real Estate - Research - November 2018

NEW ENTRIES IN EUROPE

Over this year, international retailers have continued to expand in Europe. Some countries saw the arrival of new brands. Indeed, Decathlon is opening stores for the first time in Lithuania, Ukraine and Ireland. Apple and & Other Stories set up debut stores in Vienna's Kärntner Straße and Hema in Mariahilfer Straße. Big Swedish retailers are opening stores in Ukraine (H&M in August 2018 and Ikea in 2019) thanks to the country's improved business climate. The Irish retailer Primark will enter Poland in Galeria Młociny mid 2019.

London remains an attractive city for international famous brands. Microsoft selected Regent street in London to set up its first European store. Last September, Starbucks Reserve Roastery arrived in Italy in Milan. Some US footwear brands entered the European retail market with Flip Flop in Barcelona and John Fluevog in Amsterdam. Aesop, cosmetics brand has just opened its first Belgian boutique in Antwerp. Japanese brand Muji is also planning to set up a first permanent store in Helsinki in November 2019.

In the luxury segment, Jimmy Choo and Golden Goose Deluxe Brand are opening their first stores in Denmark in Copenhagen's Købmagergade. Last summer, Germany sets up its first flagship store of Roberto Cavalli in Berlin's Kurfürstendamm. French furrier, Yves Salomon has just inaugurated its first store in London.

FOCUS ON RETAIL IN EUROPE

NICK ROBINSON
RETAIL ANALYST - ASSOCIATE DIRECTOR BNP PARIBAS REAL ESTATE - UNITED KINGDOM

Whilst uncertainty surrounds the wider economy preceding the UK's exit from the EU, London continues to attract some of the world's most exciting brands. Despite fairly sizeable delays surrounding the delivery of Crossrail, with the estimated completion now set to be in autumn 2019, retailers are still drawn to the capital's retail scene.

The £10m transformation of Bond Street completed in autumn 2018, which included pedestrian friendly wider pavements and a new public square. Perhaps more importantly, it heralded the reopening of seven stores such as jewellers Cartier and Chopard and the arrival of ten new brands including Italian jeweller Pomellato and womenswear retailer Chloe.

Regent Street also has welcomed several new retailers over the course of the year. Mulberry opened a new 5,000 sq ft flagship store at 100 Regent Street, whilst French womenswear brand Maje took the former L'Occitane store.

The Prague prime high street is performing very well, supported by growing numbers of incoming tourists and strong domestic demand. Prime rents are seeing sustained growth and in top locations are forecast to continue rising, both on the high street as well as in prime shopping centres.

New brands arriving on luxury Pařížská Street in 2018 include Valentino or Furla. Vapiano restaurant entered the Prague market last year, taking a property in Quadrio shopping centre. Vapiano has expanded since then opening this year in Myslbek in the city centre and in Centrum Chodov shopping centre.

New supply in the Czech Republic remains a constraint. The majority of construction activity will rest in refurbishment and remodelling of existing centres going forward.

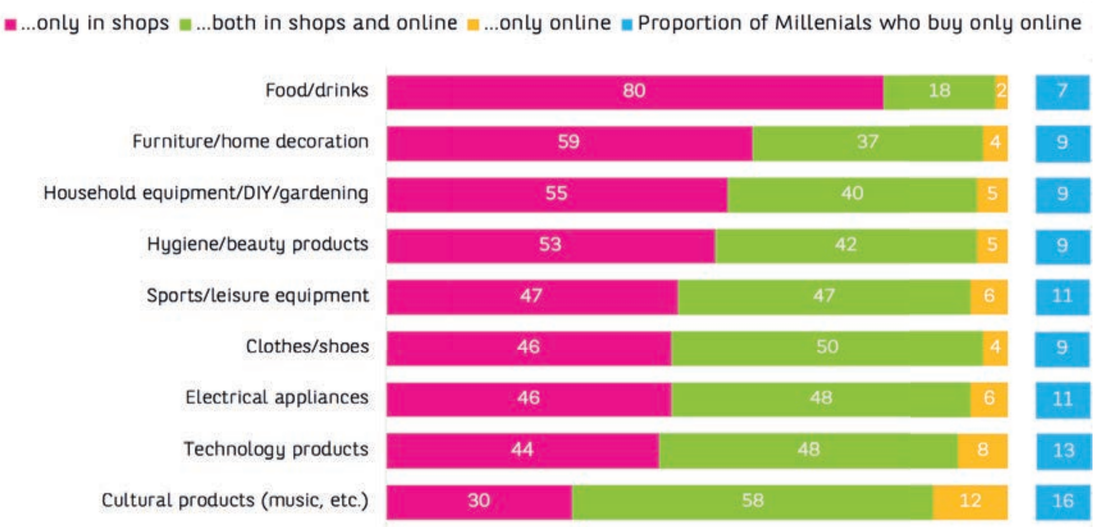
LENKA SINDELAROVA
HEAD OF RESEARCH BNP PARIBAS REAL ESTATE - CZECH REPUBLIC

PHYSICAL-DIGITAL SHOPPING

Consumer habits are evolving with increasing online shopping purchases. In 2017, nearly 9% of total European retail sales were done online, highest rates were observed in the UK and in the Nordics.
However, according to the latest report published this year by l'Observatoire Cetelem "I like shopping", European people and especially Millenials (18-34 years old) still like visiting stores: 74% of European Millennials enjoy going to big shopping centres with highest proportion recorded in Romania (87%), Portugal (84%) and Spain (83%). They also enjoy visiting local shops (70%) and large specialist stores (69%).
"Product experience" remains key for all European consumers. They keep buying in physical stores because they like seeing and touching products (83%). They also appreciate taking their purchases home easily and trying products (79%).

Online purchasing depends also on category of products. In Europe, food and drinks are essentially bought in physical stores. Conversely, 16% of European Millennials purchase their cultural products exclusively online. For some other categories like sports/leisure equipment or clothes/shoes, around one in two European people buy both online and in shops.

FOR EACH OF THE FOLLOWING CATEGORIES, SPECIFY WHETHER YOU BUY PRODUCTS...



Source: L'Observatoire Cetelem I Like shopping - 2018

TOURISM IN EUROPEAN CITIES

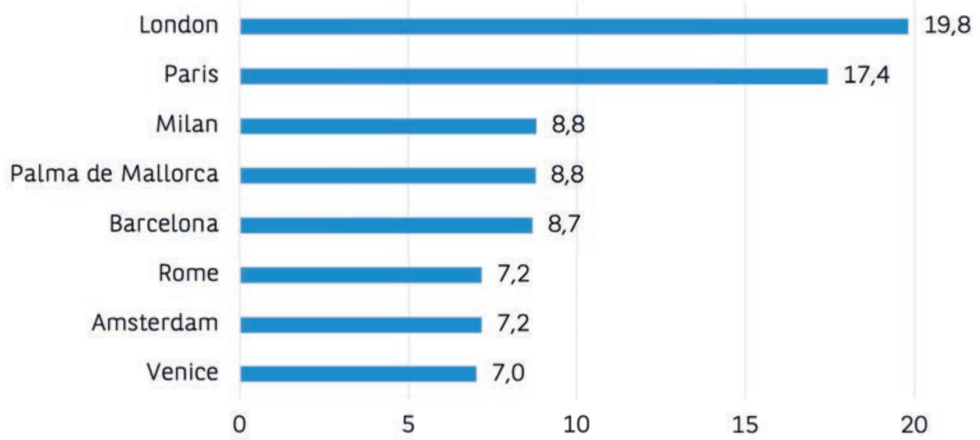
The latest figures published by Mastercard in 2018 show London and Paris remain by far the two European cities that attract the most international visitors in Europe.

London, ranked second in the world, attracted 19.8 million of international visitors in 2017 and should increase by 3% in 2018. Paris is leader in Europe in terms of overnight visitor expenditure, with tourism spending €263 per day on average.

With three cities in the European ranking (Milan, Rome and Venice), Italy is also a magnet for international tourism.

DESTINATION CITIES BY INTERNATIONAL VISITORS 2017 (MILLION)

Source: Mastercard Global Destination Cities 2018 - September 2018



RETAIL INVESTMENT

INVESTMENT VOLUMES ARE HEALTHY WITH YIELD STABILISATION

At €56 bn on a rolling year basis, retail property is the second largest investment asset (21%) after offices and grew by 1% compared to the same period in 2017. Among the main European markets, Germany, the UK and France account for 47% of total retail investment.

Over the first nine months, retail property investment has been slowing down (-6%), reaching €35bn. Even though its share of total investment is decreasing, retail property volumes remain higher than the 10 -year average of €31 bn.

From Q1 18 to Q3 18, Germany (+4%), the Netherlands (+29%), France (+14%) and Italy (+16%) recorded rising retail property volume at the opposite of the UK (-19%).

In Germany, growth is mainly due to the merger of Karstadt and Kaufhof ; in the Netherlands several retail portfolio sales particularly boosted retail investment volume.

RETAIL INVESTMENT IN EUROPE

Source: BNP Paribas Real Estate - Research - November 2018

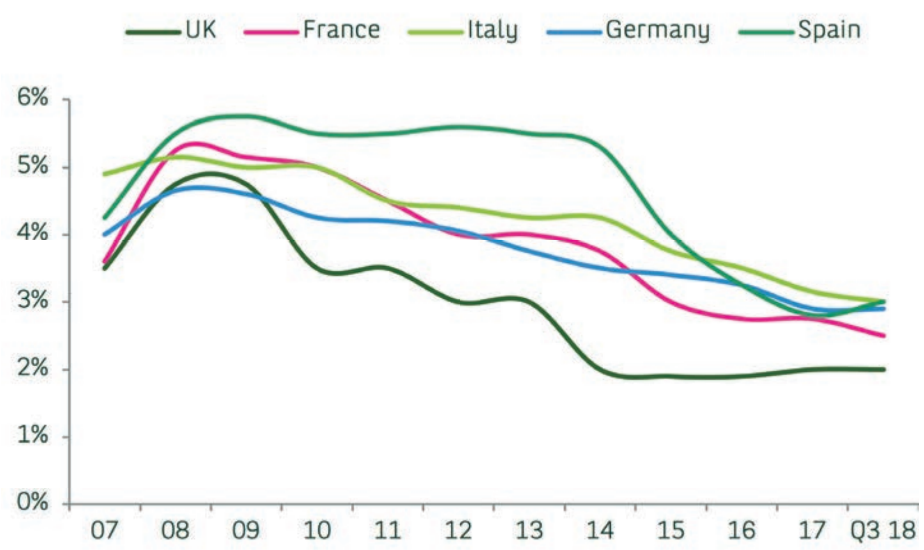
RETAIL PRIME YIELDS

Retail prime yields are either stable or approaching their floors in most European markets.

In the prime high street retail segment, German yields have been unchanged, it has stabilised at 2.90% since Q4 2017. In Spain, yields that were decreasing sharply since 2014, reversed from Q3 2018 growing slightly by 20 bp to reach 3.00%. In France, the prime high street yield fell to 2.50% at Q2 2018. This is a record low and it is not expected to fall further by the end of the year.

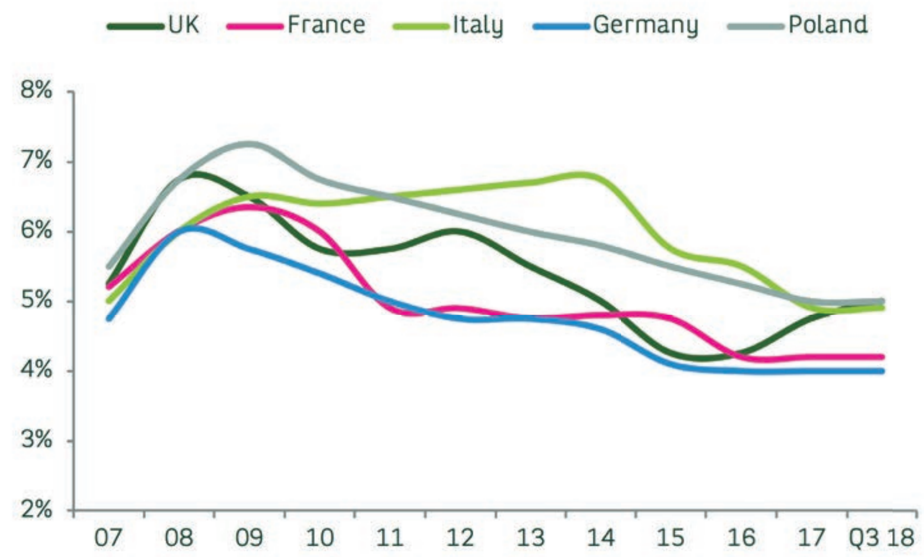
Prime shopping centre yields are stable in major countries except in the UK where they have been increasing over the last few quarters. In France, a historic floor of 4.20% has been reached and the current supply does not suggest it will get any lower. In Germany, the prime shopping centre yield has been stable at 4.00% since early 2017, in Italy yields of 4.90% have been unchanged from Q3 2017.

HIGH STREET PRIME YIELDS



Source: BNP Paribas Real Estate - Research - November 2018

SHOPPING CENTRES PRIME YIELDS



Source: BNP Paribas Real Estate - Research - November 2018

RETAIL PROPERTY IN MAJOR EUROPEAN MARKETS

INCREASING VOLUME IN GERMANY AND IN FRANCE

At €8.9 bn over the nine first months, retail investment in Germany recorded the second best transaction level of the last decade after the outstanding 2015.

Retail volumes were particularly boosted in Q3 2018 by the merger of Kaufhof and Karstadt. Assets in prime locations remain highly attractive to investors because of security incomes.

German retail investment is well on the way to achieving above average results for the whole of 2018.

RETAIL INVESTMENT VOLUME FROM 2014 TO 2018

Source: BNP Paribas Real Estate - Research - November 2018

In France, with €2.4 bn invested over the last nine months, retail investment has risen 14% vs. the same period in 2017. Retail accounted for 13% of overall investment in commercial real estate vs. 17% on average since 2014. The volume remains above the 5-year average of €2.9 bn though is inevitably a little lower from record investment of immediate past years.

Activity shows that appetite for retail remains keen among investors.

Several deals in France will be finalised by the end of the year, meaning that total retail investment volume should exceed the 10-year average of €3.6bn.

Despite the majority of consumer fundamentals appearing fairly robust, occupier distress has negatively impacted investor perception of the broader retail markets. So far this year, the UK market has seen the downsizing or indeed downfall of several retailers including House of Fraser, Debenhams, Maplin and Toys R Us.

In the UK, retail investment has been decreasing over the last few years. Over the first nine months, UK retail property accounted for €5.0 bn, a 19% decrease compared to the same period in 2017.

The lack of confidence in the wider retail market resulted in the lowest quarterly investment volume since 2012 in Q3. Whilst the retail warehousing segment largely held up, with investment increasing year on year, it is the deterioration in sentiment for shopping centres which has had the most pronounced negative effect on total investment. The sector has seen approximately €1.2 bn less investment in the first three quarters of the year compared to the same period in 2017.

RETAIL: A FULL RANGE OF SERVICES

TRANSACTION

INVESTING, LEASING, SELLING

An ideal location negotiated at the best prices is strategic to allow the success of your retail project. As a true local partner, BNP Paribas Real Estate studies all the opportunities of locations responding to your needs and your current or future location.

Our investment teams also support investors wishing to diversify their real estate portfolio during sales and research of properties to acquire.

VALUATION

VALUING YOUR RETAIL ASSETS

Are you looking to invest in retail, lease a store, sell or acquire a leasehold or find out the value of your assets for accounting or financial reasons? BNP Paribas Real Estate provides you with a comprehensive analysis of your assets resulting in an acurate valuation. With their know-how and their knowledge of market developments, our valuation team estimate the market or rental values of your assets.

PROPERTY MANAGEMENT

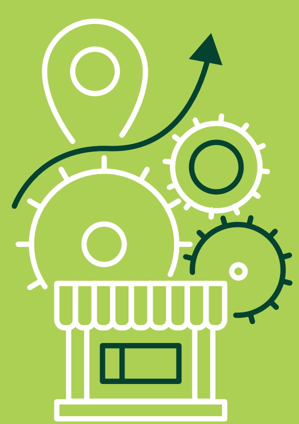
MANAGING YOUR ASSETS ON A DAY-TO-DAY BASIS

We support you in an optimized and value-creating property management allowing you to focus on your core business. Do you want to improve the profitability and long term future of your retail properties? Our Property Management teams help you meet all of your property issues, whether they involve commercial, technical, financial, regulatory, administrative, security or environmental aspects.

INVESTMENT MANAGEMENT

FINDING CUSTOMIZED SOLUTIONS FOR YOUR PROPERTY INVESTMENT

Our Investment Management teams offer a range of property funds and tailor-made investment solutions, with funds for every type of investor and customized asset management services.



RESEARCH

ANALYZING AND ANTICIPATING MARKET TRENDS

Thanks to our databases and reports covering the main European markets, we can provide you an in-depth understanding of key market trends as well as the forecast of the commercial real estate market.

6 BUSINESS LINES in Europe

A 360°vision

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 2 290 59 59

CZECH REPUBLIC
Ovocny trh 8
110 00 Prague 1
Tel.: +420 224 835 000

GERMANY
Goetheplatz 4
60311 Frankfurt
Tel.: +49 69 2 98 99 0

HUNGARY
117– 199 Vaci ut.
A Building
1123 Budapest
Tel.: +36 1 487 5501

IRELAND
20 Merrion Road,
Ballsbridge, Dublin 4
Tel.: +353 1 66 11 233

ITALY
Piazza Lina Bo Bardi, 3
20124 Milan
Tel.: +39 02 58 33 141

LUXEMBOURG
Axento Building
Avenue J.F. Kennedy 44
1855 Luxembourg
Tel.: +352 34 94 84
Investment Management
Tel.: +352 26 26 06 06

NETHERLANDS
Antonio Vivaldistraat 54
1083 HP Amsterdam
Tel.: +31 20 305 97 20

POLAND
Al. Jana Pawła II 25
Atrium Tower
00-854 Warsaw
Tel.: +48 22 653 44 00

ROMANIA
Banul Antonache
Street n°40-44
Bucharest 011665
Tel.: +40 21 312 7000

SPAIN
C/ Emilio Vargas, 4
28043 Madrid
Tel.: +34 91 454 96 00

UNITED KINGDOM
5 Aldermanbury Square
London EC2V 7BP
Tel.: +44 20 7338 4000

MIDDLE EAST / ASIA

DUBAI
Emaar Square
Building n° 1, 7th Floor
P.O. Box 7233, Dubai
Tel.: +971 44 248 277

HONG KONG
63rd/F, Two International
Finance Centre,
8 Finance Street, Central,
Hong Kong
Tel.: +852 2909 8888

Alliances*

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SWITZERLAND
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USA

* June 2018
** Coverage In Transaction, Valuation & Consulting

Contacts

Pan-European Retail
Patrick DELCOL
Tel.: +33 6 43 32 97 85
+48 6 03 11 00 24
patrick.delcol@bnpparibas.com

Alliances
Lou CELLIER
Tel.: +33 (0)1 47 59 18 03
lou.cellier@bnpparibas.com

Research
Bénédicte TEISSIER
Tel.: +33 (0)1 55 65 21 74
benedicte.teissier@bnpparibas.com

@BNPPRE

www.realestate.bnpparibas.com

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