



RESEARCH

AT A GLANCE Q4 2020

EUROPEAN RETAIL MARKET

FOLLOWING A CHALLENGING 2020, THE RETAIL SECTOR IS CONTINUING TO MOVE TOWARD A NEW MODEL

- Even though overall European retail investment slowed down significantly in 2020, sustained interest is looking to the sector's durable segments and future opportunities.
- Retailers are getting ready to recover focusing on an omni-channel model combining high-performance physical shops and efficient online services to meet new consumer expectations.

Since Autumn 2020, Europe has been suffering from a second wave of Covid-19 infections, with most countries still in lockdown as of March 2021. **Retail activity remains hesitant, and closely related to the sanitary context and the measures imposed by governments.** Lack of tourism, ongoing forced shop closures and associated falls in sales are having a negative impact on the whole industry. Large parts of the industry face reactivation from a cold start, a recovery position made more uncertain by potential unemployment increases. In the short term, this may act as a drag on spending and boost precautionary savings instead of consumption.

However, **there still are reasons to be hopeful about the economy in 2021:** vaccination has already started in some countries, and monetary and fiscal policies should continue to support activity.

In 2020, overall **European retail sales were less damaged than expected** (-1% vs 2019), thanks to the good performance of the Nordics (Denmark +4%, Finland +4%, Norway +7%, Sweden +2%) and Germany (+3%). A strong recovery might occur in 2021 (+4%) for Europe as a whole. Household incomes remain relatively intact because of government support measures. **When shops fully reopen, consumers should resume spending,** particularly on items not easy to obtain online or just for the experience again. Recovery at country level will be variable though: France and the UK may meet or exceed 2019's levels of consumption this year, while Italy and Spain may have to wait 2022.

Online retail was paramount to support sales in 2020 showing the importance of e-commerce for the retail industry.

Although Covid-19 accelerated the shift to online, e-commerce remains a limited part of overall retail: online penetration in Europe is around 15%. So there is still potential for more growth, especially in Central and Southern countries. Combining with incoming innovations like 5G that are likely to give an extra boost to ecommerce retail, **shifting to an omnichannel model may be the best way to take advantage of online sales growth as it covers all avenues for the consumer.** Therefore, retailers are coming up with innovative ways to meet with new consumption patterns. Tactics such as online shopping with personal shoppers, or click-and-collect and "drive" solutions, which boomed these past months, will support the recovery of retail.

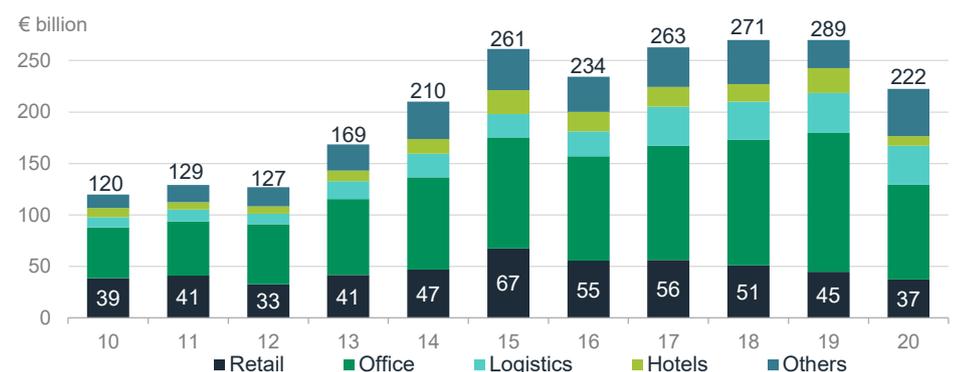
EUROPEAN COMMERCIAL REAL ESTATE INVESTMENT

After a record year in 2019, investment was still buoyant in early 2020. **With the Covid-19 pandemic hitting Europe, most European investment markets experienced a sharp slowdown in their activity from March.**

The European Commercial Real Estate investment volume (FY 2020) declined by almost a quarter, dragged down by the drop in office investment (-32%). The logistics market was resilient with a rather stable investment volume (-2%) over the past 12 months.

Between those two, **the retail sector registered a moderate decrease (-17%) with €37 bn, thanks to a strong Q1 2020.**

Commercial real estate investment volume
Europe - by type of assets - from 2010 to 2020 - 12 months



RETAIL INVESTMENT

In Q4 2020, the European retail investment volume amounted to €10 bn (-41% y-o-y). Even though this is the lowest Q4 recorded since 2009, it is not so far from the 10-year average (-14%).

The performance in 2020 of each country reflects its pre-Covid profile. However, a common trend exists: **the share of retail warehousing in total retail investment was dominant in 2020 in many countries**, showing the strong interest for this sub-sector by investors.

Germany remains the dominant country for property investment in European retail with one third of the 12-month total (€12 bn). Thanks to a particularly buoyant Q1, which

accounted for 40% of total volume, the German market was resilient with a stable investment volume in 2020 (-5% vs 2019).

With €4.4 billion, **the French market declined (-37%) to its 10-year average**. The figure was boosted by the disposal by URW of 54.2% of its shares in 5 large shopping centres in France for over €1 bn. Yet, the sharp decline in the number of deals led to a drop in investment volume: 152 transactions were signed in 2020 compared to over 220 in 2019.

The Spanish market is showing a surprising dynamism with a 7% increase over the year 2020, thanks to two portfolios transacted in Q3 (Mercadona and Adeo supermarkets - Leroy-Merlin).

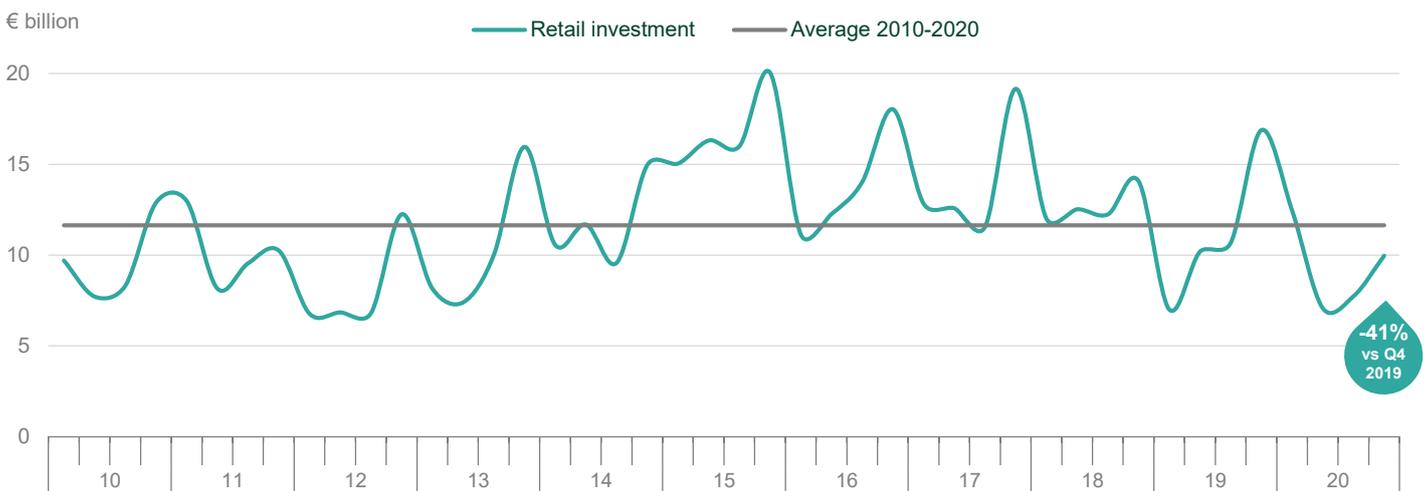
In the Netherlands, activity remained stable, boosted by the portfolio of Jumbo supermarkets.

High-street prime yields have decompressed almost everywhere in 2020 reflecting further uncertainties in the occupational market: Paris (+65 bps), London (+50 bps), Madrid (+50 bps), Milan (+30 bps). In Germany, prime high street yields remained stable.

Shopping centres are severely impacted by the shutdown periods imposed by governments to contain the outbreak, leading to low levels of footfall and turnover. Therefore, **prime shopping centre yields are increasing in all European countries.**

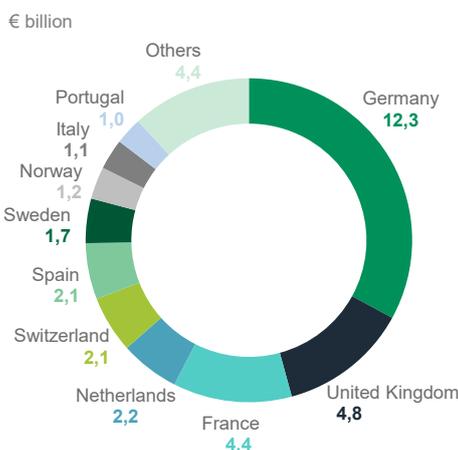
Retail investment volume

Europe - by quarter - from 2010 to 2020



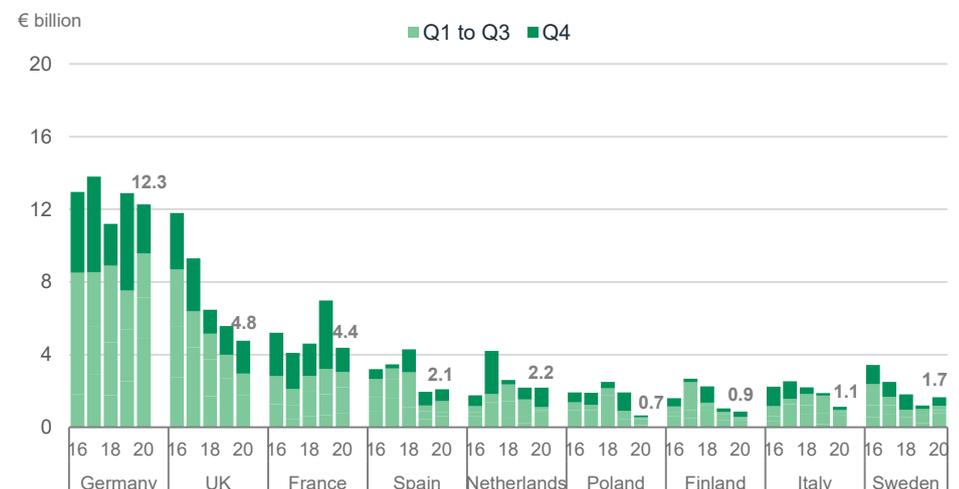
Retail investment volume

Europe - by country - 2020

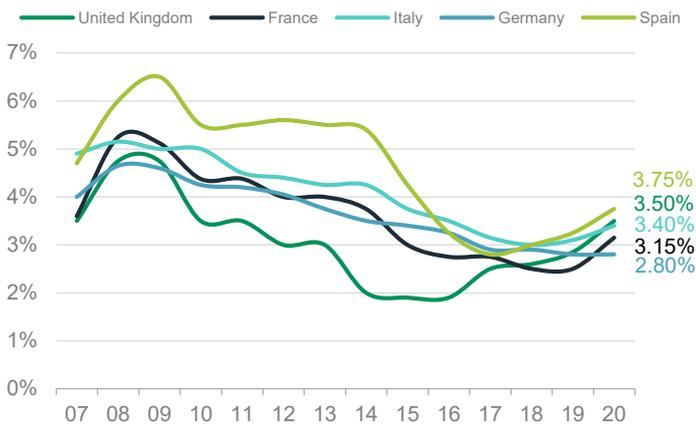


Retail investment volume

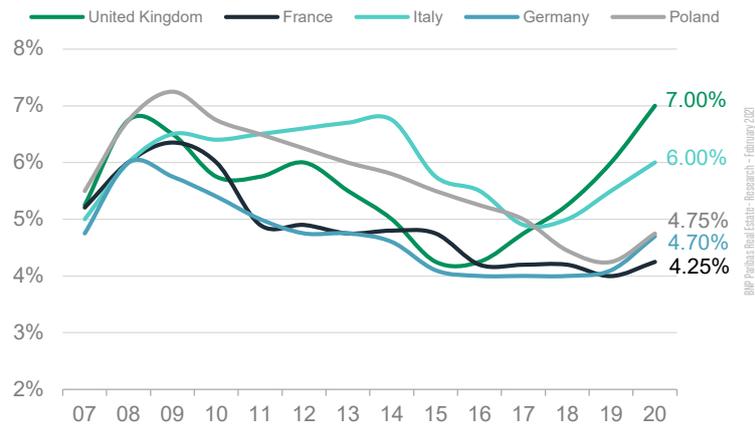
Europe - by country



Retail prime yields - High streets



Retail prime yields - Shopping centres



THE EUROPEAN OCCUPIER MARKET

The prime retail market in major cities of Europe is highly dependent on the luxury sector and the spending of international tourists, whose numbers plummeted in 2020. It may last a few years, as international tourism is not expected to return to its pre-Covid levels before 2023.

The occupier market recorded adjustments in rental prices the past year, especially in some high streets in Milan (Corso Vittorio Emanuele II -23%), Rome (Via Del Corso -20%), Dublin (Henry Street/Mary Street -16%), Berlin (with an average of -15% on prime streets), Prague

(Na Příkopě Street -11%) and London (New Bond Street -10%). **The downward pressure on rental values may continue in the coming months**, while vacancies will increase. Rents could start to rise again as early as 2022.

In this unprecedented time, **companies will reassess their store portfolio to release cash for investment in their digital market strategy.** Retailers will focus on the asset quality (location, turnover, rental level and footfall) to implement a competitive network of outlets. **Retailers give increasing attention to flagships**, as these are seen as providing outstanding and

personalized shopping experiences and entice the shopper with the whole range of their products and services.

Paris's Avenue des Champs-Élysées continues to draw premium brands: Moncler opened in December its largest store (1,000 sqm). The brand Moncler is also expected to inaugurate in 2021 its first flagship in Madrid, on Calle Serrano (€270/sqm/month). Still in Spain, Calle de Preciados (€300/sqm/month), the most expensive Madrid high street, recorded stable rental values. Inditex will soon open a new flagship Bershka (2,700 sqm).

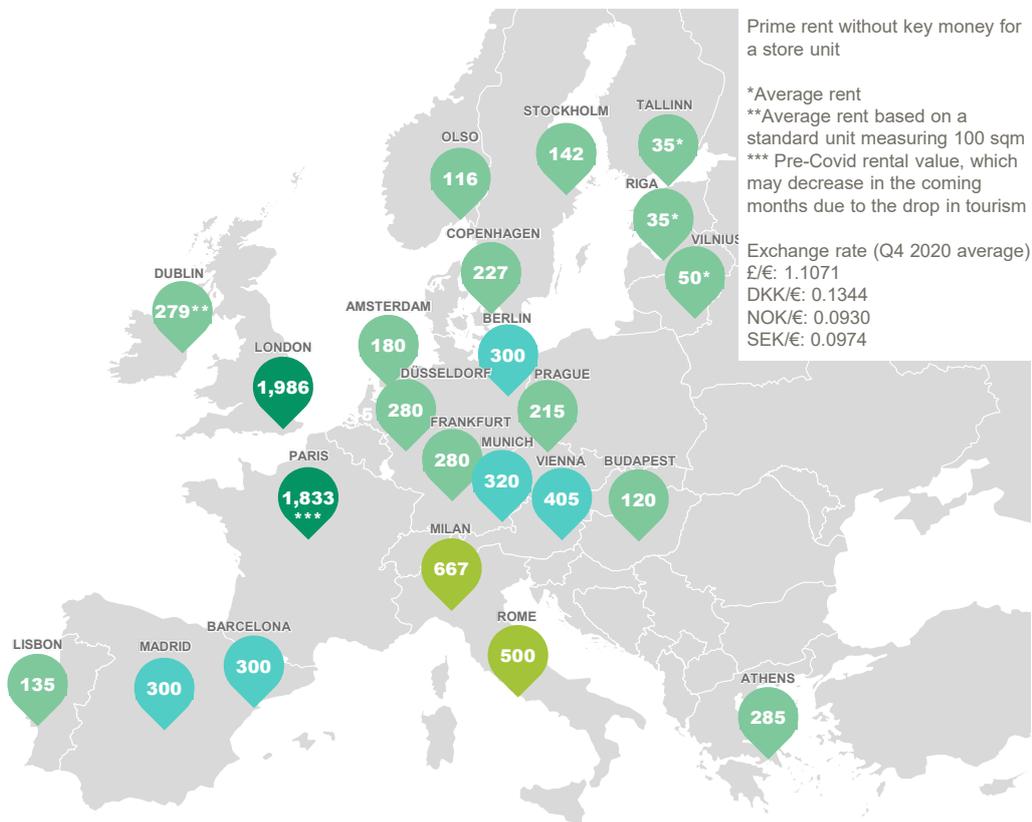
High Streets Prime Rents 2020

Rents in €/sqm/month

- > € 1 000
- € 500 - 1000
- € 300 - 500
- < € 300

TOP 3 CITIES RANKING

| City | Q4 2020 vs Q4 2019 |
|----------------|--------------------|
| United Kingdom | € 1,986 |
| London | -10% |
| France | € 1,833 |
| Paris | → |
| Italy | € 667 |
| Milan | → |



Prime rent without key money for a store unit

*Average rent
 **Average rent based on a standard unit measuring 100 sqm
 *** Pre-Covid rental value, which may decrease in the coming months due to the drop in tourism

Exchange rate (Q4 2020 average)
 £/€: 1.1071
 DKK/€: 0.1344
 NOK/€: 0.0930
 SEK/€: 0.0974

Rent figures for London are estimates and should be treated with caution due to the low number of transactions in Q4 2020 and the complexity of leasing terms (e.g. rent-free periods, growing importance of turnover rents)

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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