



RESEARCH

**AT A GLANCE
Q4 2022**

EUROPEAN RETAIL MARKET

**STRONG RETAIL ACTIVITY IN AN UNCERTAIN ECONOMIC AND
GEOPOLITICAL CONTEXT**

- Solid activity over H1 meant retail experienced an increase of 2.6% in annual investment volumes.
- Despite the economic turmoil, retail sales were healthy in Europe in 2022.
- In 2023, food discounters and other value retailers will see continued trade as consumers struggle with cost of living. At the other end, the luxury market will probably continue to expand, particularly as high end travel picks up.

2022 has been characterized by an **inflationary shock** and a **bond crash** resulting in growth easing. Post-pandemic inflationary pressures were magnified by the Russo-Ukrainian conflict, accelerating the increase in energy and raw materials prices. This was further aggravated by China's commitment to its Zero-Covid policy disrupting supply chains. The subsequent tightening of monetary policies by central banks to control inflation meant the economic outlook gradually deteriorated throughout the year.

Many brands have **struggled** to **absorb the cost increases** without cutting into their margins and therefore had to increase the price of their products. However, overall, **retail**

activity survived these **inflation surge and geopolitical uncertainties** in 2022, in particular thanks to the **strong recovery in international tourism** and **footfall improvement** in every European city. This helped brands continue to **plan business expansion** with store roll outs, particularly in the discount range and the luxury segment.

In 2023, a mild recession is expected in Europe. Although **headline inflation** should decelerate by the end of the year, a more persistent **core inflation** may pursue in 2023 and 2024. Overall retail sales could decline in 2023, as lower consumer purchasing power roils forward into the new year. This is likely to concentrate in the **midmarket segment**, as the greatest

operational difficulties lie with the "squeezed middle", products perceived neither as discount nor luxury. For brands in this position, the necessity is even greater focus on cost control and inventive retailing. Consumer spending is **likely to improve over the back end of 2023 as inflation reduces**.

It seems that **e-commerce growth** is back to its **long-run trend**. E-commerce figures, and especially the online share of retail sales, continue to climb regardless of the retailer's sector of activity. However, **North European countries** maybe **reaching maturity** as lower growth rates can be observed after the 2020 and 2021 boom.

EUROPEAN COMMERCIAL REAL ESTATE INVESTMENT

European commercial real estate investment recorded lower volumes with a decrease of 12,5% over the past 12 months.

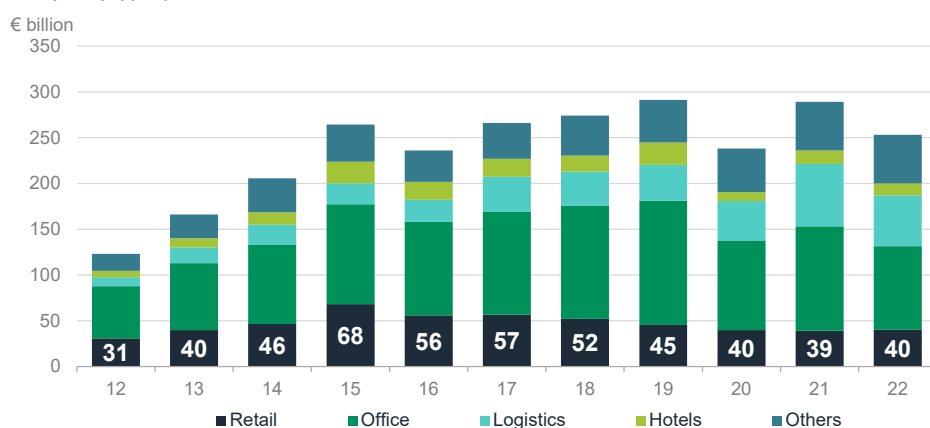
After a strong performance in H1 2022, commercial real estate invested volumes started to slow down in Q3 2022. Compared to 2021, this is particularly the 4th quarter which suffered most from a slowdown in investment (-55% vs Q4 2021), posting €48.6bn.

Yet the good performance of H1 meant retail was the better performing segment in 2022 with an increase of +2.6% in invested volumes (vs 2021), compared to office (-20%), logistics (-19%) or hotels (-11%).

This represents a total retail investment of €40.1bn.

Commercial real estate investment volume

Europe - by type of assets - 12 months



RETAIL INVESTMENT

Retail was the **best-performing sector** compared to the investment decline in office, logistics and hotel segments. In terms of investment market share, **retail regained interest** (16% of the total investment volume in 2022 vs 14% in 2021) compared to office (36% vs 39%) and logistics (22% vs 24%).

The retail segment maintained its 2021 level (+2.6%), despite economic turbulences that led to a weak fourth quarter (-42% vs. Q4 2021).

€40.1 bn
INVESTED IN 2022
+2.6% VS 2021

The **German** market proved **stable** with **€9.4bn** invested **(+7%)**. Shopping centres **regained momentum** in 2022 with a market share of 28% (vs 7% in 2021).

In the **UK**, market reacted strongly in H2 to sharp rises in interest rates, political turmoil and a challenging retail environment, resulting in a decrease of 74% in investment in Q4 2022 (vs Q4 2021). This results in a total retail investment of **€6.2bn (-31%)**.

In **France**, total retail investment in 2022 stands at **€5.6bn (+76%)**. The number of major transactions was unprecedented. Deals for over €100m accounted for more than 50% of the investment in retail assets.

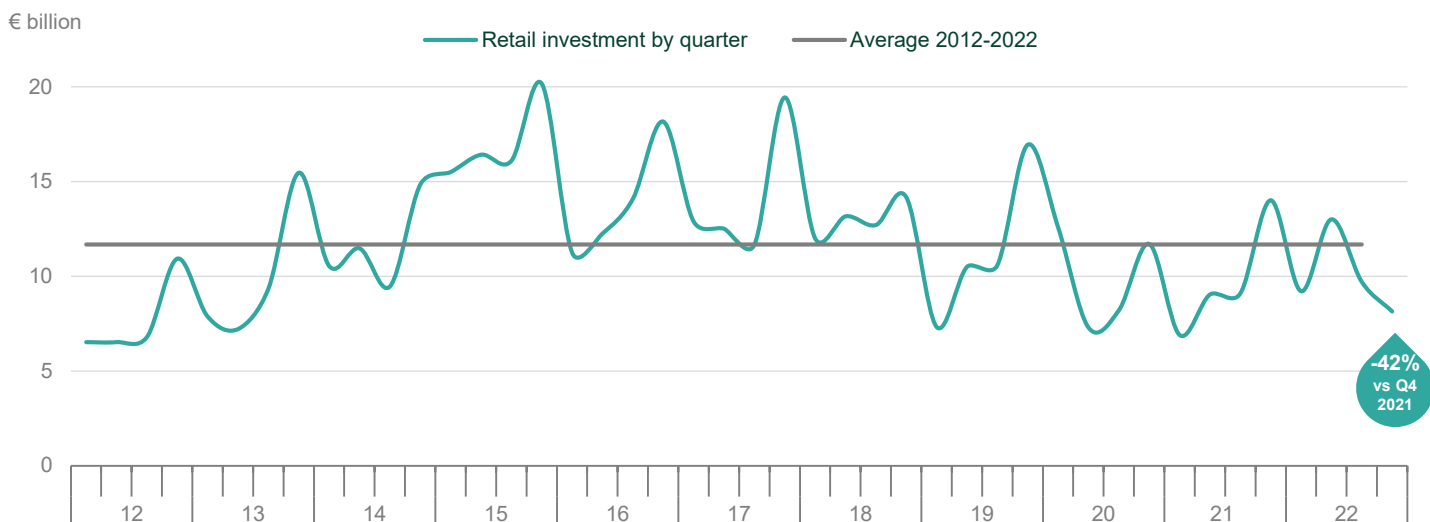
The **Spanish** market saw significant growth **(+222%)** thanks to several major bank branches and shopping centre transactions.

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

Prime high street yields expanded at the end of 2022 compared to 2021 in three markets: in Italy (+40 bps), in France (+30bps) and in Germany (+20bps). Yields remained stable in Spain and compressed in the UK by 50bps. **Prime shopping centre yields** in 2022 increased in almost every main markets except in Spain where they remained stable.

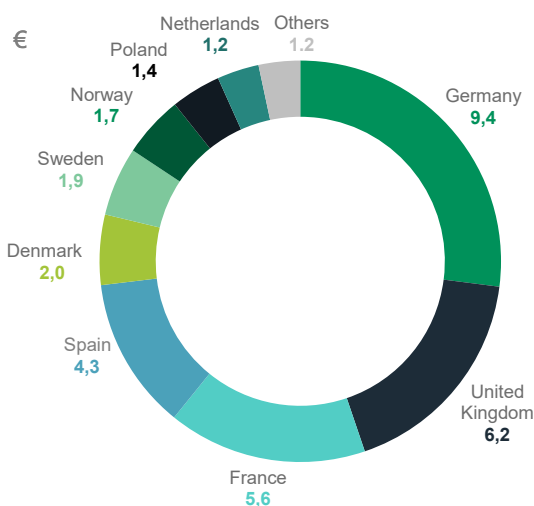
Retail investment volume

Europe – by quarter – from 2012 to 2022



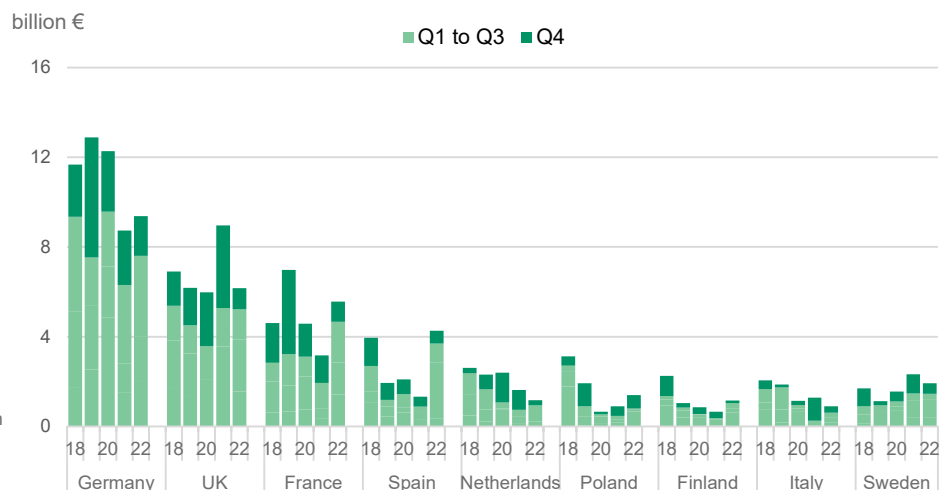
Retail investment volume

Europe – by country – 2022

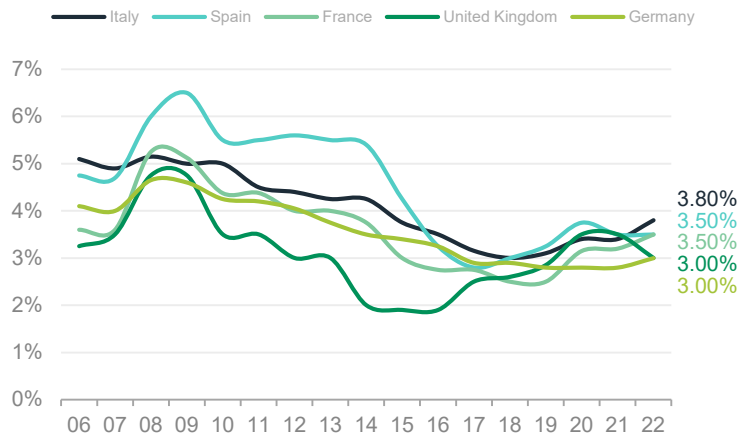


Retail investment volume

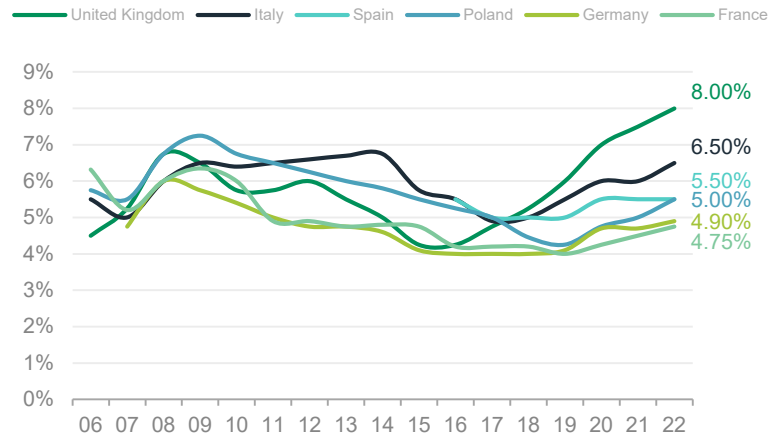
Europe – by country



Retail prime yields - High streets



Retail prime yields - Shopping centres



BNP Paribas Real Estate - Research - February 2023

THE EUROPEAN OCCUPIER MARKET - FOCUS ON MASS-MARKET STREETS

The majority of cities experienced **strong increase in footfall in 2022** compared to last year (+67% for the Champs-Élysées in Paris, +52% for the Schildergasse in Munich, +12% for Oxford Street in London, +29% for Avenida del Portal del Angel Barcelona) even though 2019 levels have still not been reached yet.

The strong recovery of international tourism and footfall helped **retail sales to stay healthy** in Europe despite the economic turmoil. Many retailers reported solid turnover (Zara, Fast Retailing, SMCP...).

However, many brands have struggled to **absorb the cost increases** without cutting into their margins and therefore had to **increase the price** of their products. According to the Retviews analysis, between 2021 and 2022, some "mass-market" brands such as Zara, Uniqlo, Mango, increased the price of their products by 8% on average in Europe

Prime high streets remain **attractive** but still **suffer from a turbulent economic environment**. Moreover, the **inflationary**

context creates difficulties for retailers in paying rents as they are tied to inflation on many leases. Therefore, there is still pressure from tenants for **more flexible rental contracts**.

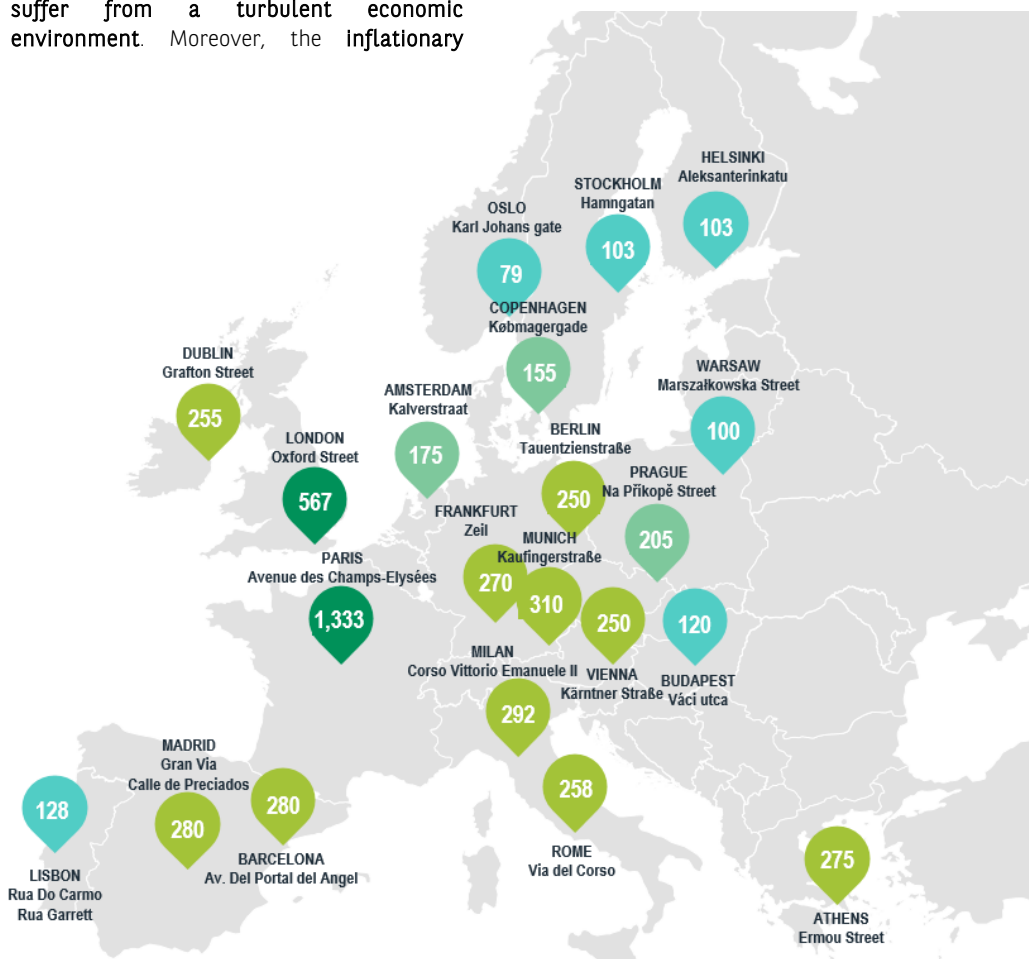
Downward **adjustments in rental prices** have been recorded during the year for several streets: **Oxford Street** in London, **Champs-Élysées** in Paris, **Kalverstraat** in Amsterdam or **Kärntner Straße** in Vienna.

High Streets Prime Rents

Mass-market Streets - Q4 2022

Rents in €/sqm/month

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



Exchange rate (Q4 2022 average)
 £/€: 1.1497
 DKK/€: 0.1344
 NOK/€: 0.0962
 SEK/€: 0.0914

Sources: BNP PARIBAS Real Estate and Alliances

THE EUROPEAN OCCUPIER MARKET – FOCUS ON LUXURY STREETS

The return of **high-income customers** in 2022 generated **strong commercial activity** in European luxury streets, illustrated by the robust results of the high-end brands in 2022.

The luxury industry, particularly resilient this year, was partly driven by a **strong dollar**, making European shopping more attractive. Moreover, this sector has absorbed the significant rise in prices by reinforcing the **perception of “exclusivity”** of the products.

This recovery in consumption for the luxury industry is also inducing **sustained demand**

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

Avenue Montaigne in Paris, **Kurfürstendamm (West)** in Berlin, **Via Napoleone** in Milan, **Pařížská Street** in Prague and **New Bond Street** in London have seen their rents growing compared to Q4 2021.

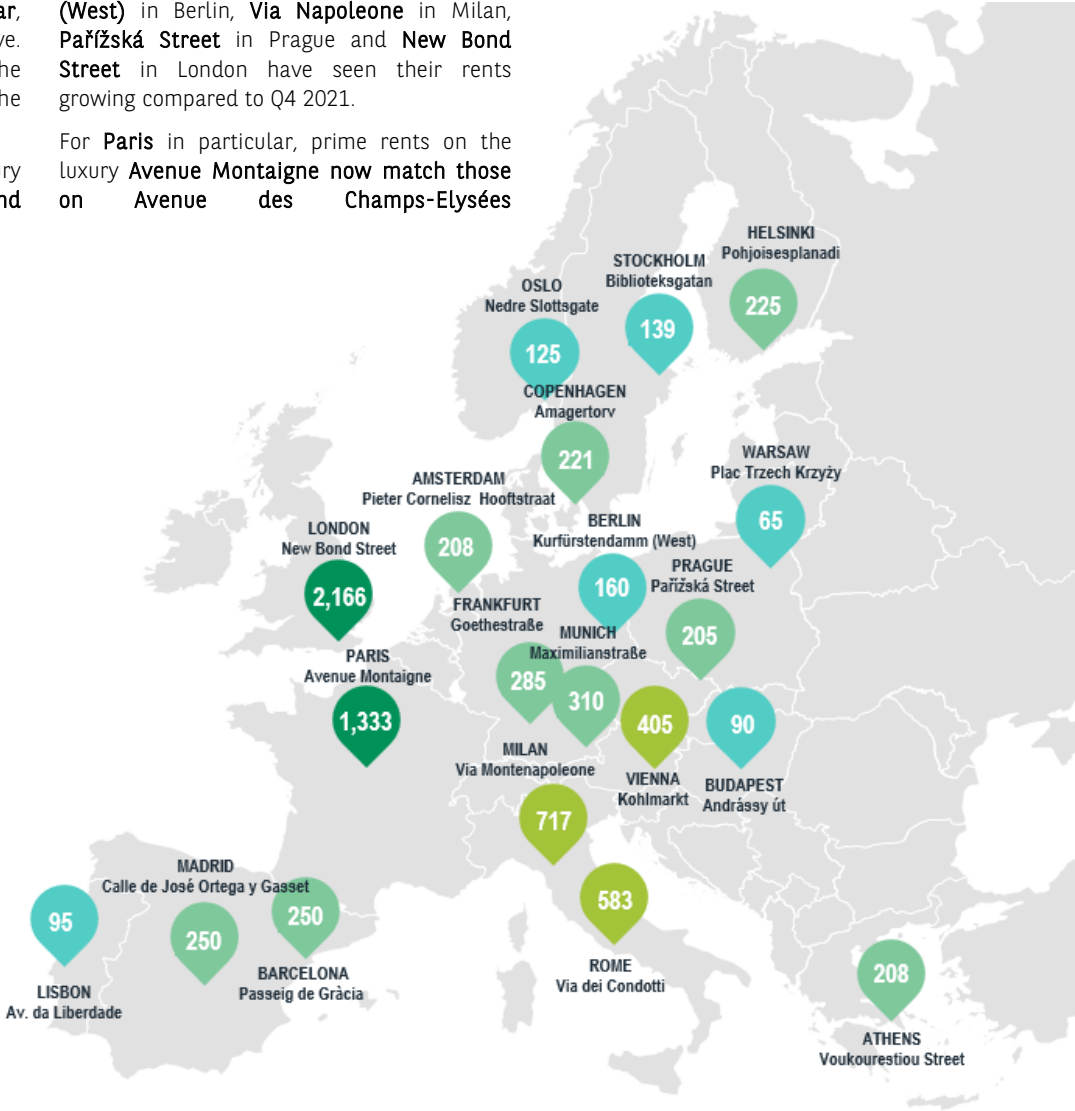
For **Paris** in particular, prime rents on the luxury **Avenue Montaigne** now match those on **Avenue des Champs-Élysées**

(€1,333/sqm/month). The street benefits from the attractiveness of Dior, which acts as a magnet and draws other brands to it, pushing rents up.

High Streets Prime Rents
Luxury Streets – Q4 2022


Rents in €/sqm/month

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



Exchange rate (Q4 2022 average)
£/€: 1.1497
DKK/€: 0.1344
NOK/€: 0.0962
SEK/€: 0.0914


Sources: BNP PARIBAS Real Estate and Alliances



-2%

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





+4%

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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