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PRESS RELEASE

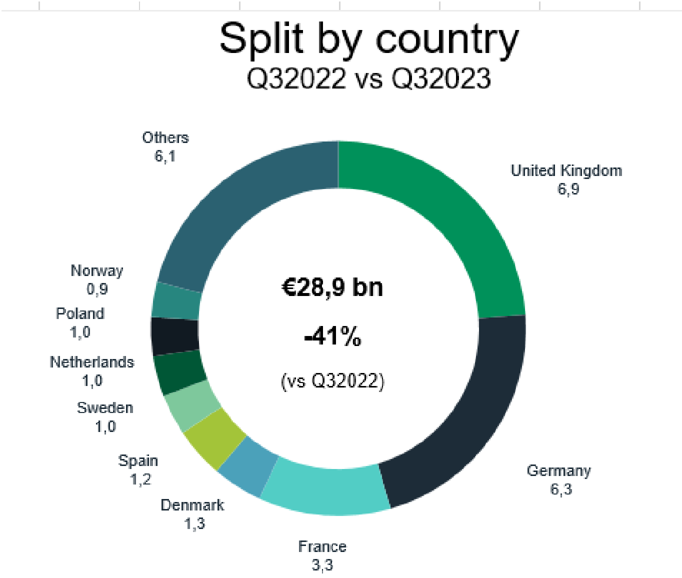
RETAIL IN EUROPE: INVESTMENT IN RETAIL PREMISES DECLINES IN Q3, BUT FUNDAMENTALS ARE SOUND

The decline in retail property investment is less pronounced than for other asset categories

Investment in retail premises in Europe came to **€ 28.9bn** year-on-year, **down 41%** vs. Q3 2022 on a rolling year basis.

"The last 12 months have seen investment being rebalanced between the different commercial real estate categories. This kind of shift hasn't been seen in Europe for many years, and retail in particular is benefiting", remarks Patrick Delcol, Head of Pan European Coverage of Retail, Logistics and Hotels for BNP Paribas Real Estate. Indeed, **the sector is gaining market share in relative terms, rising from 15% to 19% of overall investment between Q3 2022** and **Q3 2023**, while offices have slipped from 37% to 31% and logistics from 24% to 20%. Even though the broader context is still challenging, retail is once again the second most popular asset category in Germany and France for the first time since 2018.

The UK, Germany and France alone accounted for 60% of investment. The UK is also back in the pole position it relinquished to Germany in Q3 2022, thanks to swifter price adjustments and more opportunistic investors.



Investment in the **retail warehousing** segment in Europe (France, Germany, United Kingdom, Italy, Spain and Poland) came to **€ 9.9bn** year-on-year. This segment, down 31% vs Q3 2022, remains the most stable of the retail sub-segments. It accounts for half (50%) of overall investment in retail assets and is increasingly attractive to investors in all European countries.

The **high street** segment (France, Germany, UK, Italy and Spain) has seen the biggest year-on-year decline (-49%) with **investment standing at € 5.4bn**. However, this fall should be seen in perspective given the exceptional Q3 2022 figures. These even exceeded pre-pandemic levels, thanks mainly to major deals in Spain and Italy. Moreover, this figure did not include € 1.6bn in owner-occupier deals in France; these were deals by luxury giants seeking to invest in the most prestigious avenues in Paris to establish their brands.

Lastly, the **shopping centre** segment (France, Germany, UK, Italy, Spain and Poland) has seen a fall of 42% vs. Q3 2022, with investment of **€ 4.4bn.**

Less pronounced yield expansion for prime retail assets

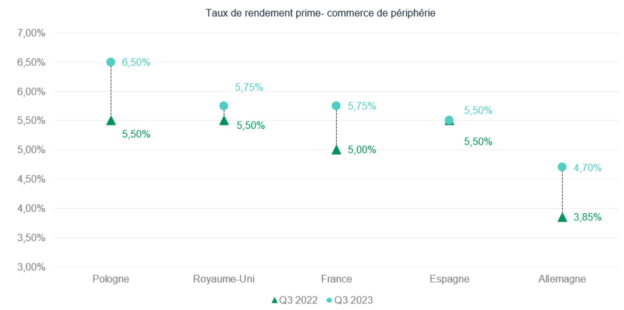
The rapid rise in risk-free rates in recent months has driven up prime yields, leading to repricing across all asset categories.

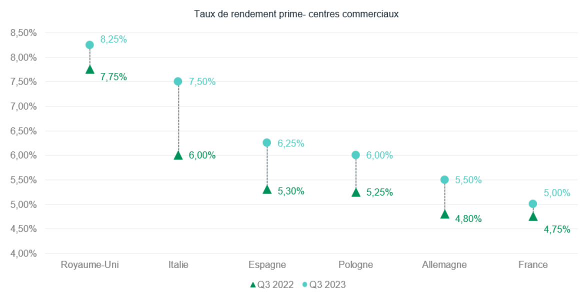
Retail prime yields started to expand in Q3 2022 and have continued to do so throughout 2023. This yield expansion is less pronounced than for other asset categories (office or logistics), as they already adjusted at the time of the health crisis in 2020.

Prime yields for retail warehousing and shopping centres remain very appealing throughout Europe and continue to attract investor interest. Taking all asset categories together, these are the segments that offer the best risk premium.

Prime yields for high street are still the lowest despite having widened in almost all countries. This situation mainly reflects the transaction dynamic in the luxury sector, which continue to squeeze the prime yield; it does not fully reflect the broader high street market.

Discounters and luxury occupiers continue to expand





The unstable macroeconomic context in 2023 has forced most households to change their spending habits, creating challenges for mid-range retailers, to the benefit of discount and luxury players. While the picture is mixed for mass-market retailers, discounters have taken advantage of the crisis to attract new customers while luxury retailers have stepped up their presence on prime European thoroughfares.

In recent months there has been a slew of receiverships, liquidations and restructuring of long-established brands (Peek&Cloppenburg, Camaïeu, Cop.Copine, Go Sport, etc.). The mass-market segment is facing various challenges (market saturation, reduced purchasing power, competition from e-commerce, fast fashion, second-hand goods, etc.). As usual in the retail segment, those that are reluctant to change and innovate are disappearing, while others that have risen to the challenge are thriving.

*"These retailers, who are posting outstanding results despite the purchasing power crisis, are those that offer their customers revolutionary concepts (automatic payment terminals, autonomous click & collect services, digitised receipts, a wider range of vintage products, etc.). They **put the customer experience at the heart of their strategy** and are supported by an effective e-commerce/physical store network. Other sectors are flourishing because they are in tune with consumers' new desires, such as athleisure and wellbeing (perfumery, cosmetics). These retailers are focusing on getting to know their customers, so they can offer an almost bespoke service and the smoothest possible shopping experience",* observes Patrick Delcol.

If any sector has benefited from the economic crisis and the struggles of mass-market retailers, it is the discounters. Having already expanded in recent years, they have won over new customers seeking to economise. Moreover, by increasing their presence in city centres (as shown by the opening of a Normal store on rue de Rivoli in Paris), intensifying their e-commerce efforts (Lidl has launched a digital-only loyalty card, giving access to exclusive in-store promotions) and improving the quality of their products (half of Aldi France's fruit and veg is now sourced in France), discounters are building loyalty and attracting new customers from higher-income households.

Luxury continues its meteoric rise

In terms of both occupier sales and rentals, luxury players have been working hard to maintain their dominant positions. In France, LVMH and Kering have allocated considerable resources to **bolstering their real estate positions on the most prestigious Parisian streets**, spending a combined total of € 1.6bn in acquisitions on Rue Montaigne, Rue François 1er and the Champs-Elysées in the first three quarters of 2023.

London's West End has also benefited from the buoyancy of the sector, with a number of landmark deals including LVMH's acquisition of its Dior boutique on 160 New Bond Street and, just recently, watchmaker Richard Mille's talks to buy its flagship store on 2-5 Old Bond Street, at the very low yields that are typical of luxury transactions.

"Luxury occupiers are prepared to pay dearly for ultra-prime locations, as shown by the record rent paid by Yves Saint-Laurent on London's Bond Street. The number of stores opening on prime European thoroughfares has been rising since the beginning of the year, such as Dior on Lisbon's Avenida de la Liberdade and Schiaparelli in London's prestigious Harrods. The scarcity of prime locations and the resilience of high-end retailers are driving up rents on luxury highstreets, particularly in Milan (+7% in Q2 2023 vs. Q2 2022), Rome (+9%), London (+2%), Lisbon (+3%) and Stockholm (+3%)", points out Patrick Delcol.

Encouraging prospects

As 2023 draws to a close, the outlook for European consumer spending is encouraging, thanks largely to the rebound in global tourism, which is returning to pre-pandemic levels. Over the first seven months of 2023, international tourist arrivals in Europe came very close to the figure for the same period in 2019, with the southern Mediterranean region leading the recovery (+1% vs 2019), according to the World Tourism Organisation. The return of tourists is boosting footfall on Europe's main shopping streets, and therefore retail sales, especially in Southern European countries, which will be the most visited in 2023.

The retail sector has proved its resilience to crises of all kinds on many occasions. Innovative retailers who embrace new trends are surviving and even expanding rapidly.

Overall, footfall in high streets, shopping centres and retail parks is picking up (as shown by the greatly improved operating results of retail REITs). E-commerce, long considered to be a rival to physical retail, is becoming an integral part of retailers' strategies, and the setbacks experienced by e-commerce 'pure players' this year (discontinuation of free returns, plummeting figures for players such as Made.com and Asos, redundancy plans at Amazon and Boohoo) are further dispelling the notion of two sectors at odds with each other.

"*All told, the prospect of interest rates stabilising in 2024, renewed rental growth and the return of institutional investors should all benefit retail investment, as the sector offers the most attractive risk premiums"*, concludes Patrick Delcol.

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