Knight Frank

PARIS VISION

Commercial Real Estate in the Paris Region
Results & Outlook

2017

RETAIL

Millefeuille pastry

EDITO

PHILIPPE PERELLO

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Dear friends,

Corporate real estate once again recorded an impressive performance in the Greater Paris region in 2016.

The year ended with transaction volumes up sharply: the office rental market is again higher than the 10-year average and the investment market recorded its second highest level of activity in a decade.

The retail market attracted even greater interest and represents a growing share of investment volumes.

These performances are all the more remarkable given that the international political timetable created significant volatility, and that French economic growth, although certainly healthier, remained modest.

More electoral landmarks lie ahead in 2017, along with the Brexit negotiations which will kick off in earnest in the spring.

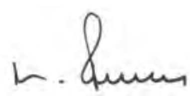
Investor and user confidence remains undaunted, however. All the signs are that 2017 will again be a very active year for real estate with players increasingly selective in their strategies.

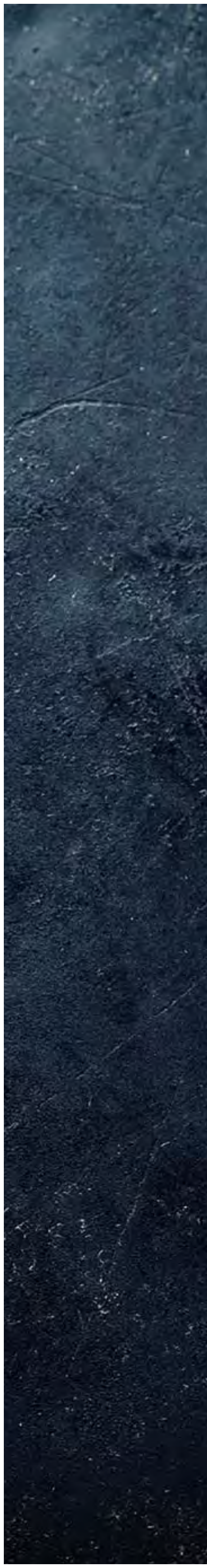
I hope you will enjoy exploring Paris Vision 2017, with its new user-friendly format which will help you to locate information more easily. It offers clear insights into the experience of Knight Frank teams on the ground and includes plenty of prospective analysis to help make your projects a success in 2017.

Each of the three sections in this ninth edition – Investment, Leasing and Retail – will also share with you the insights of our main contributors who agreed to answer our questions: Louis-Simon Ferland (Blackstone), Eric Donnet (Groupama Immobilier), Anne-Sophie Sancerre (Unibail-Rodamco) and Raphaël Brault (AEW Europe)

As in each year, Daniel Cohen provides us with his analysis of the global economy in a political climate which has never been so uncertain.

I hope you enjoy it!





OPINION

DANIEL COHEN

Professor and Director of the Economics Department of Higher Normal School (École normale supérieure de Paris)
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Director of CEPREMAP (Centre pour la recherche Économique et des Applications).

FLEETING GROWTH

THE RECOVERY IN CONSUMER SPENDING IS SET TO CONTINUE, HOWEVER, AND REAL ESTATE IS LIKELY TO RETAIN THE MOMENTUM GAINED FROM LOWER RATES.

French growth reached 1.1% in 2016 and is expected to remain stable this year. This is good news, in that it confirms that the period of stagnation is over. It is also a disappointment, however, since conditions have never been more favourable, considering the combined falls in interest rates, the euro and commodities prices. This rare planetary alignment is unlikely to occur again in the next year. Interest rates will no doubt remain low, despite evidence of a slight upward trend, although the downward cycle in commodities appears to be over. The rise in commodities prices will mean an increase in inflation, which is both good and bad news. This is bad news in terms of household purchasing power and restoration of corporate margins, but good news for the overall functioning of advanced economies, which need a certain level of inflation to keep the economy ticking over and facilitate adjustments, etc. The National Institute of Statistics and Economic Studies (INSEE) is now counting on average inflation of 1.2% for the Eurozone. The recovery in consumer spending is set to continue, however, and real estate is likely to retain the momentum gained from lower rates. According to INSEE, households' real-estate investment could grow by 1.9% in the next year, following a 1.4% increase this year.

The much-anticipated decline in unemployment is also in evidence. In the past 12 months, the number of Category A registered unemployed (i.e. those with no employment who are available for work immediately) has fallen by 125,000 in France, to reach 3.7 million in November 2016. Commercial employment is rising again, at an average rate of 30,000 recruitments per quarter. Unemployment is therefore set to fall, although at a moderate pace considering that the labour force in France is growing at almost the same rate. Based on these criteria, unemployment will ultimately have increased by 500,000 under François Hollande's presidency. Across all categories as a whole (including those on reduced working hours or actively seeking employment) the increase is set to be over a million, only just below the figure recorded during the previous presidency.

These projections are subject to change, however. Never has political uncertainty been greater following a year of unexpected events in 2016. Brexit and the election of Trump shook Europe and the United States. Brexit particularly surprised observers since the United Kingdom is not part of any of the European institutions considered to be responsible for the crisis in France. It is not part of the Eurozone or the Schengen Area. The same resentment was evident in both cases, however, along with the same frustration expressed with the authorities' inability to improve the economic situation. One key statistic which could be seen to summarise all the others is: "Do you think that the next generation will have a better life than today?" Trump won the votes of the 63% who think not...

It is too soon to assess the economic impact of Brexit, but the OECD has already produced some simulations based on Trump's economic policy, which has two aspects: internal stimulus and increased external protectionism. Internally, Trump's programme is likely to stimulate American growth by 0.4% in 2017 and 0.8% in 2018. The corresponding increase in the US public deficit could represent 1.5% of GDP. This will push up the dollar and could be good news for the rest of the world.

The risk posed by protectionism is more difficult to quantify. Over the last 30 years, global trade has grown on average twice as much as national GDP. That is no longer the case, however — their growth is now the same. It is possible that the immense international reorganisation of labour, which began in the 1990s, is nearly complete. Judging from the president-elect's choice of advisors, who are all protectionist, the Trump administration is likely to contribute to the slowdown in international trade. The example set by Ford, which has abandoned plans to create a Mexican subsidiary and will instead expand its existing car plants in Detroit, could serve as a template for the future. Some see this as good news: it will mark the end of globalisation as we have known it for the past 20 years, with the gradual erosion of industrial jobs in developed countries. But the reality is that the economic dynamism generated by the growth in international trade will also disappear. Growth in China, which has now become the world's second largest economy, withstood the impact of the 2008 crisis, benefiting countries such as Germany. If the changes in globalisation become established over the long term, the consequences will be considerable.

The key question is therefore where will growth come from, if no longer from international trade? In November 2016, the OECD published a report expressing concerns over what it called the "low-growth trap". According to the calculations in the report, developed economies' potential growth is falling steadily. It has apparently halved from an average of 2% to just 1%. This is due largely to postponed investments since the start of the crisis… The IMF published a similar assessment not long before. The OECD therefore argues for a concerted revival in public investment, equivalent to 0.5% of GDP, which could boost growth by 0.6%, taking into account the positive effect of public investment on structural growth. Will these measures be enough to avoid the trap of low-growth economies, otherwise known as secular stagnation? If a shock is seen as necessary to finally dispel the crisis, then why not? But if long-term problems are rooted in the weak influence exercised by the digital economy over employment and purchasing power, then much greater inventiveness will be required.

VISION

RAPHAËL BRAULT

Managing Director | Head of France
AEW Europe

> THIS MERGER BETWEEN AEW AND CILOGER IS ENABLING US TO POSITION OURSELVES, IN FRANCE, AS THE THIRD-LARGEST MANAGER OF CONSUMER REAL-ESTATE INVESTMENT VEHICLES.

Knight Frank: AEW enjoys international coverage and has established itself as a major investor in Europe. Can you tell us about the French market, particularly in the Paris region, and its specific characteristics compared with other large markets in Europe and around the world?

Raphaël Brault: France and the Paris region in particular continue to represent a vital market for investors. Taking third place for investment volumes in tertiary real-estate, behind the UK and Germany, France even saw its share of investment grow in 2016 while the other two dominant markets recorded falls.

This healthiness can be explained, among other factors, by the numerous advantages of French real estate, including significant depth and strong liquidity, as well as relatively stable rents which, in some areas, offer the prospect of real, albeit moderate, moderate growth. Furthermore, the transparency and high-quality information enjoyed by our market are valuable tools to help investors' decision-making. By positioning themselves in France, investors have access to a wide range of business sectors, thereby reducing the potential impact of an economic downturn on rental values.

The Paris region is also the largest real-estate market in Europe, far ahead of London and the main German cities. Having benefited from a fairly restrained construction sector since the crisis, combined with a much slower recovery in rental values, the Paris region is finally showing signs of revival in tertiary activity, encouraging investors to look forward to a welcome rise in rents in a European climate in which there is little hope of further growth being generated by lower rates.

KF: Faced with a dearth of core assets and persistently weak prime yields, many investors have turned to alternative assets such as serviced residences, healthcare and hotels, rather than speculative off-plan developments. Do you think this is a sustainable long-term trend? What does it mean in terms of acceptance of risk by market players?

RB: In a low-rate environment, investors will certainly continue to look for yield. Alternative assets provide a partial response to this need, although it is important to bear in mind that the markets in question are of limited depth. It is also important to remember that as attractive as they may be, the property values of these asset classes is more exposed to underlying operational performances. In other words, if activity declines, operators may be less able to maintain rents at previous levels. However, demographic trends – particularly ageing of the population – can only lead to more growth in sectors such as healthcare and residential services for the elderly.

Concerning speculative off-plan developments, it is necessary to be nuanced. Some investors consider that there is not enough reward for the risk taken compared with leased buildings and so avoid these opportunities. We believe that a detailed analysis of the various sectors enables us to position ourselves on projects offering attractive risk-return ratios. For example, a risk premium of 75bp to 100bp on a development in inner-city Paris presenting a vacancy rate of less than 4% is not necessarily a bad bet. The same is true of projects close to transport hubs in areas where tertiary activity is increasing, as demonstrated by our recent experience in northern Paris, near the Parc du Millénaire.

KF: AEW is merging with Ciloger, marking an important step in your development towards consumer savings products. The record inflows achieved by these products are supporting the dynamism of the investment market but they will then need to be invested in assets offering long-term performance. What are the reasons behind this success and what will you do next?

RB: This merger between AEW and Ciloger is enabling us to position ourselves, in France, as the third-largest manager of consumer real-estate investment vehicles.

It is true that individual investors still have a strong appetite for bricks and mortar and these investments are characterised by yields which are generally higher than traditional savings products while providing a form of security and stability as a result of the quality and diversification of the underlying portfolios. In basic terms, real estate offers similar volatility to the bond market and overall long-term yield equivalent to the stock market. That explains why it is so attractive.

The question remains of the significant inflows and the problem of allocating the resulting capital. There again, the merger between AEW and Ciloger adheres to an industrial approach designed to allow the managers of our consumer products to access a range of asset classes via our pan-European geographical coverage, making it possible to remain disciplined while investing the sums collected in high-quality underlying assets, while complying with our diversification objective.

A MILLEFEUILLE PASTRY

RETAIL

A clever combination of contrasts and complex architecture, whose success depends on maintaining a precarious balance – offering reliability and tradition while being completely contemporary, ensuring universal appeal while being hard to fully digest.

Yes, a millefeuille pastry certainly has much in common with the Paris retail market.

- Retail brands have remained loyal to the Paris market, despite the decline in tourism following the terrorist attacks in 2015, although they are being more cautious. Demand has clearly refocused on the very top spots in Paris.
- Some traditional addresses in the Paris retail market have been affected more than others by security restrictions on customer flows. This was particularly the case for streets dominated by department store activity.
- Measures to promote Sunday opening and extend stores' opening times are gradually coming into force, heralding a climate conducive to retail.
- While some record rents were recorded at the best addresses, 2016 was above all characterised by a lull in Prime location rental values.
- Meanwhile, rents fell for not-quite-prime and secondary locations.
- The outlook at the start of 2017 is rather favourable in terms of the economy and household confidence, with good prospects for domestic consumption. Tourism customers have yet to return.

TRENDS

Events took their toll on the Paris retail market in 2016 and their highly unpredictable nature forced revisions of varying degrees while accelerating or dampening certain movements. One keyword was particularly important – caution.

#01 - CLIENTS & RETAILERS

Sugar-coated Paris

Confectioners and appealing shop windows on the right and left banks, close to Opéra, in the chic 16th arrondissement and the more popular 18th, not to mention the hip Marais – all across Paris, in the wake of a movement initiated by the Gâteaux Thoumieux, Les Merveilleux de Fred, Les Fées Pâtissières and Hugo & Victor, contemporary new patisseries are springing up everywhere. Shops have been opened in recent months by Christophe Michalak, the partnership between Julie Mathieu and Muriel Tallandier (Fou de Pâtisserie), Yann Couvreur, Gilles Marchal (Compagnie Générale de Biscuiterie) and many more.

Is this all about bringing a little sparkle to the persistent bleakness and gloom of recent years? Perhaps. There have certainly been enough reasons for feeling down.

What are they? We can all think of some. Firstly the terrorist attacks which struck Paris in 2015, from Charlie Hebdo to the Bataclan and the Hyper Cacher supermarket siege, followed by the tragic lorry attack on 14 July 2016 in Nice. Before it had even begun, we knew that 2016 would not live up to our expectations for Paris retail, although without fully anticipating the extent of the impacts.

We can now take stock of them and they were serious, in some cases very serious, plunging the market into a state of suspended animation and leading some players to adopt a wait-and-see position. The effect of these tragedies was exacerbated by other sources of uncertainty, including the industrial action which filled the news along with unpredictable weather events. This all had an effect on the behaviour of domestic and international customers and inevitable led to retailers adapting their strategy.

Treats and tears in 2016. A brief round-up…

DOMESTIC CUSTOMERS

In the face of this grim and intimidating environment, the French population's behaviour paradoxically demonstrated greater resilience, at least in terms of consumption. Not wishing to be beaten down, as well as to find an outlet perhaps, and simply because life must somehow go on, domestic customers did not radically change their purchasing and investment decisions. The recovery in household consumption which began in 2015 therefore continued.

> "The recovery in household consumption remains hesitant but is there nonetheless and spells the beginning of the end for the long period of stagnation which began in 2007."

It was naturally still hesitant and a little erratic, sometimes with major monthly fluctuations. So much so that it was often eclipsed by more striking indicators. It was there nonetheless, and significant in that it spelled the beginning of the end for the long period of stagnation in consumption which began in 2007.

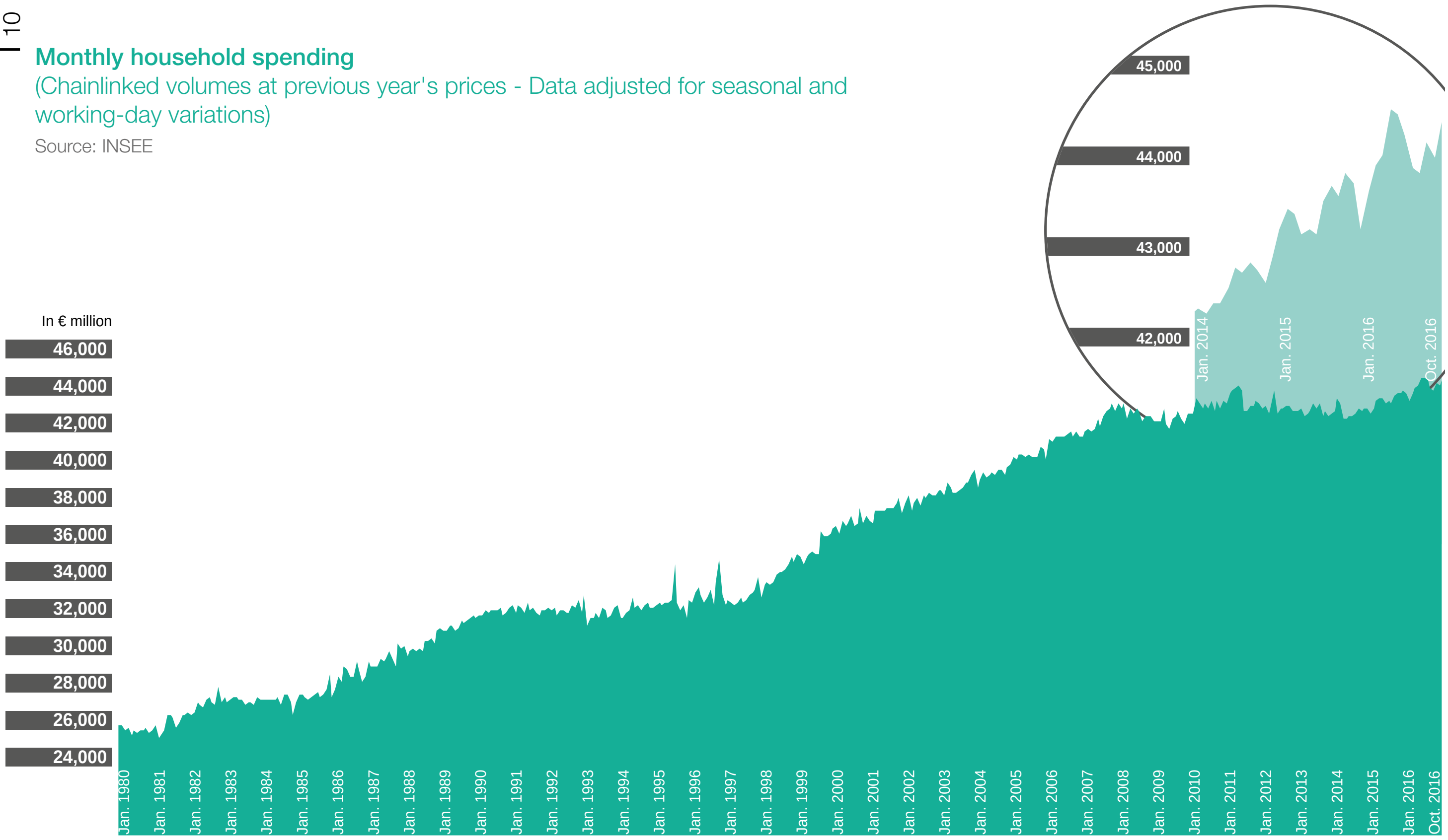
French household spending on goods rose to €44.1bn between Januar<y and October 2016, compared with an average of €43.4bn in 2015.

While maintaining their purchasing decisions, the French could have adjusted the channels or methods used to make their purchases, given the complex climate in 2016. This created the potential for a very favourable climate for internet sales, to the detriment of bricks-and-mortar outlets. That potential appears not to have been realised however.

Monthly household spending

(Chainlinked volumes at previous year's prices - Data adjusted for seasonal and working-day variations)

Source: INSEE



According to the new "e-Kommerce" survey from Kantar Worldpanel[1], French consumers spent €14.3bn on the internet during Q2 and Q3 of 2016, while INSEE reports total spending on goods of around €265bn during the same period. Without even taking into account spending on services, online sales therefore only represented just over 5% of total consumption in France.

Due to its younger and more internet-savvy population, the proportion corresponding to the internet is probably higher in Paris than in France as a whole. By how much it is difficult to say, but certainly not enough to call into question the massive predominance of physical distribution. Particularly since shopping in Paris is perceived by that same group as an essential form of relaxation therapy. The "Tous en terrasse!" movement launched after the terrorist attacks of November 2015 was a clear reflection of this.

TOURIST CUSTOMERS

Conversely, the terrorist attacks and, to a lesser extent, industrial action, had a significant impact on tourist numbers in Paris. From November 2015 to October 2016, more than 2.6 million hotel check-ins were lost across the Paris region, 2 million of which had been made by international guests.

"2016 – a bleak year for Parisian tourism, with a 12% fall in hotel check-ins from abroad."

This phenomenon had a major impact on retail trade considering that more than a third of retailers achieve at least half of their turnover from foreign customers.

This fall reached staggering proportions for some categories of customer, with a fall of 33% on arrivals from Russia and Italy, for instance, and as much as 47% from Japan. This means that, for the first time in a long time, the Japanese have dropped out of the Top 10 visitors to Paris.

[1] LSA, 15 december 2016

Tourism activity in the Paris region from January to October 2016

Top 10 main international customers (by number of hotel check-ins)

Source: Paris Regional Tourism Committee, Preliminary Tourist Activity Report for 2016

Country	Share	Change in the number of check-ins (between January and October 2015, by volume)
United States	14.8%	↘ -144,000
United Kingdom	13.3%	↘ -242,000
China	7.0%	↘ -252,000
Germany	6.3%	↘ -127,000
Spain	6.2%	↘ -146,000
Near and Middle East	5.4%	↗ +26,000
Belgium	4.8%	↘ -34,000
Italy	4.1%	↘ -296,000
Netherlands	3.7%	↘ -82,000
Switzerland	2.3%	↘ -55,000

Alongside this fall, and with a rapid increase in the number of hotel projects in the French capital, the hotel occupancy rate stood at 69.2% in Paris for the first 10 months of 2016, down 8.9 points compared to the same period of 2015 (67.2% for the Ile-de-France, down 7.6 points).

Against this bleak backdrop, a ray of hope was offered by the slow recovery of the hotel sector over the course of the year, with the majority of the decrease in visitor numbers recorded in the first half of 2016. Since then a slow and fragile return to normal has been observed, with 30% of businesses reporting good and very good reservations for December 2016 (compared to 18% in December 2015)[2].

Finally, the decrease in the number of tourists, measured through hotel check-ins, should be considered in relation to the rise in alternative forms of accommodation offered via online platforms. For instance, the leader in this field, Airbnb, posted record results for summer 2016, up by 20% in Paris, with 500,000 travellers accommodated between 15 June and 15 September, for an average stay of 4 nights (including 81% from abroad, with the United States making up 23% of the total)[3].

There has therefore been a change in tourist behaviour in terms of accommodation. Being hard to measure and pinpoint, this factor amplifies and distorts the effects of the troubled security situation on visitor numbers to Paris.

RETAIL BRANDS

Paris's place among the world's top retail destinations has not been undermined by fears of terrorist attacks or their consequences. To our knowledge, no retail brand has turned away from the French capital for that reason. However, many have prepared themselves for the prospects of a slump and consequently revised their strategies. Such a revision was often guided by principles of caution, stringency and selectivity.

> "Caution and selectivity are two keywords which guided brand strategy in 2016."

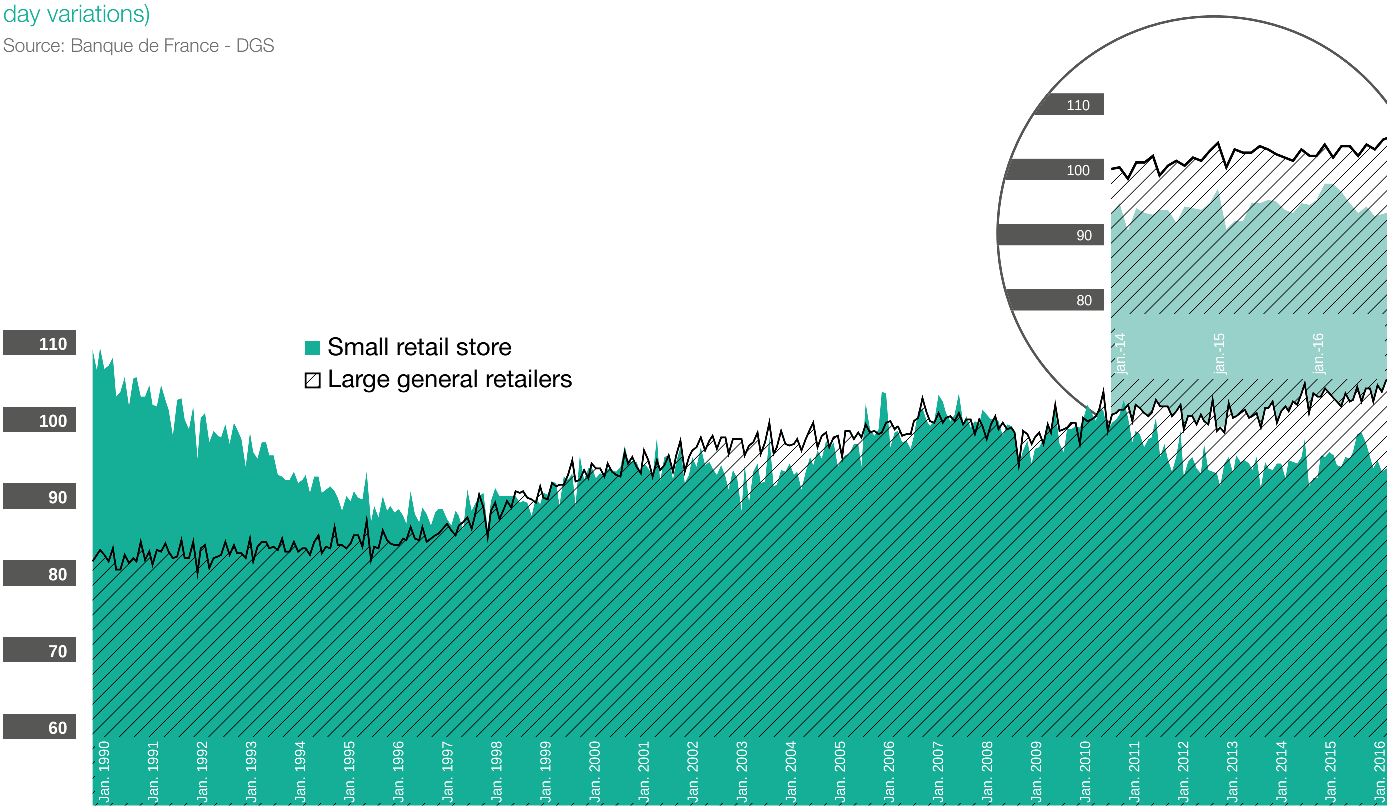
Caution and stringency in terms of retailers' choice of sites. It is no longer necessarily a question of beating the competition to new addresses at any price, but more of assessing the potential of a new sales outlet, its coherence with the existing network and paying the correct price for it – its correct price. Even if that means taking time, sometimes wasting time, even risking the collapse of negotiations with the seller or landlord. Marketing and completion times have grown longer. And rental values, particularly for not-quite-prime and secondary locations, are falling.

Selectivity, in terms of the choice of existing locations, has increased. Many retailers have carried out trade-offs, giving up key addresses which do not, or no longer, reflect their retail positioning or which failed to achieve their economic model. One of the best examples is the return to the market of C&A's space on Place de la Madeleine, just a few years after it moved in. One throw of the dice and they're out…
Other retailers have decided to reduce the scale of their network, by refocusing on the best addresses. It is better, for example, to have 15 or 20 coherent and

Changes in turnover by distribution method

(Volume index for intermediate layers - Data adjusted for seasonal and working-day variations)

Source: Banque de France - DGS



well-positioned sales outlets than a diverse range of 50 sites. 2016 has therefore seen the amplification and acceleration of trends at work during previous years, with a refocusing of demand from large retailers on the best streets in Paris, those known as "prime", and increasing disinterest in the rest, whether secondary or even not-quite-prime – those addresses generally located in the heart of a good retail environment but suffering from a lack of visibility.

This withdrawal, which only affects Paris marginally but whose full force is being felt in medium-sized cities, combined with the difficulties of independent retailers which are more excluded than ever from the most popular addresses, explains the disappointing turnover achieved by small retailers. These are increasingly concentrated in a shrinking area, leading to stagnation in overall earnings.

Paris stands out as a haven exempt from this situation, with new brands and designers continuing to announce new moves and plans throughout 2016.

Nevertheless, that is not to say there have not been rotations and a wealth of opportunities for opening new sites, along with the appearance of empty shopfronts in unexpected locations.

With or without a sugar coating.

[2] Paris Regional Tourism Committee, Preliminary Tourist Activity Report for 2016

[3] LesEchos.fr, 6 October 2016

#02 - LOCATIONS

Chocolate, wasabi and cappuccino

Like patisserie, retail does not leave much room for improvisation. Their complex alchemy means the rules need to be followed. Starting with the ingredients. Their list is not exhaustive – it is always possible to add new ones, change the proportions or make substitutions. But you ignore the recipe at your peril. Yuzu and wasabi are great, but can't replace chocolate and Madagascan vanilla!

There is no shortage of chocolate and vanilla in Paris. These are the best locations: Champs-Elysées, Haussmann, Saint-Honoré and Faubourg Saint-Honoré, Montaigne, Saint-Germain-des-Prés and the Marais… These are some of the addresses which provide the ingredients for the recipes of the Parisian retail market. Address which increasingly dominate the headlines, since they attract the largest flows of customers and account for most new store openings, without it always being clear whether supply or demand is the cause of the phenomenon.

"The major retailers are falling back on the best sites which attract the largest flows and allow more widespread introduction of late-evening and Sunday opening."

These addresses lead an active and international life. And the phenomenon appears to be far from over. Mostly located in International Tourist Zones, they are gradually feeling the effects of the Macron Law. BHV was the first department store to reach an agreement with its employees to open every Sunday and extend its evening opening hours. Since then, in 2016 Galeries Lafayette, Zara, L'Occitane, Nature & Découvertes and major fashion designers including Lanvin, Louis Vuitton, Christian Dior and Chanel have joined in thanks to branch agreements. This gradual adoption could reinforce the division between the best locations and the others.

Does this sound the death knell for Parisian retail outside the top addresses? No, far from it. However, the situation we described in the last issue of Paris Vision, concerning specialisation of space, is becoming increasingly entrenched. This means that the best locations are occupied by major brands and powerful retailers, particularly those involved in fashion and personal goods, while others are occupied by young creative concepts and, above all, local shops.

"Outside the best locations, signs of life can be found in local, daily shops which are undergoing a profound transformation."

This movement is highly significant. Enthusiastically embraced by distributors, mainly in the food sector, led by Casino (via Monoprix and Franprix) and Carrefour, there has been a proliferation in Paris of small and medium-sized outlets echoing the model of American dailies and convenience stores. The grocery trade is being reinvented, via overhauled retail outlets proud of their environmental credentials and enhanced by a range of services such as dry cleaning or post office counters. It is difficult to walk though Paris without passing a My Auchan, a Carrefour City or a version of the Mandarine concept from Franprix (Casino group). These are sure to be a success, since they respond to a need among Parisian customers: 83% of the capital's inhabitants shop regularly at these stores compared to just 60% in other regions[4].

AIn addition to these new-look grocery stores, service and catering industries in general are at the forefront of retail news, providing they are able to modernise and upgrade. We have already mentioned this phenomenon, in relation to the contemporary patisseries springing up across Paris. Cafés, restaurants, brasseries and specialist food shops are taking over streets abandoned by the major retailers, including sites which would normally be a deterrent. An example is La Brasserie Barbès, a chic, party venue which has moved into premises once known for black-market trading and smuggled cigarettes. In turn, these establishments often attract young creative professionals and niche brands who fill up abandoned spaces, taking advantage of a new retail environment and more affordable rental values.

Contemporary brasserie concepts riding on the wave of "bistronomie" are not springing up in every corner of the capital of course, but this is far from the only example. The concept was also developed by urban designer Sharon Zukin, who forged the notion of "domestication by cappuccino"[5], this type of opening often heralding the profound transformation of a district.

Chocolate, wasabi and cappuccinos!

[4] LSA, 15 December 2016

[5] Sharon Zukin, Naked City: The Death and Life of Authentic Urban Places, Oxford University Press, June 2011

Champs-Élysées

The Avenue des Champs-Elysées offers a restricted retail perimeter, hemmed in at either end by the Place de l'Etoile and the Rond-point Marcel Dassault. It is currently impossible to see how retail could extend beyond these two boundaries, meaning that scarcity is likely to become even more of an issue. Around 100 shops exist on this kilometre-long stretch, 60% on the even side of the Avenue, offering a sunny pavement highly prized by retailers, and 40% on the odd side, in a decidedly more premium position. So there are conversions, consolidations and waiting to see when the economic climate will pick up and foreign brands will recover their appetite for our market, while attempts are made to take advantage of this unique and unparalleled global shopping destination. Some brands' appetite has remained unabated, however, such as American gourmet burger brand Five Guys. The chain has recently opened its 1,150 sq m French flagship outlet, the brand's largest restaurant in the world at present. Another example is Kiko, which has just completed on the premises for its French flagship store in the former premises of the legendary nightclub Le Queen, at 102 Avenue des Champs-Elysées, with a format 10 times larger than is standard for the Italian brand.

Some restructuring projects have already been delivered and five or six others are in the pipeline, including some very large ones. These will all be opportunities for retailers and international brands to move in.

As an indication of the continued prestige of the address, retailers are positioning themselves very far in advance. In 2018, Apple will open an immense concept store of almost 2,000 sq m at 114. Also in 2018, Galeries Lafayette will be opening their embassy. The department store has set its sights on the 9,000 sq m available at 52 Champs-Elysées.

In terms of values, this restlessness has not been favourable to a continuation of the inflation observed in recent years. There are two reasons for this: the adverse economic and political context, encouraging caution among retailers, as well as a large proportion of activity focused on large surface areas, which do not achieve record prices. Stability generally prevailed, despite the €25,000 in Zone A of the new Chanel store (around 150 sq m, at number 52), which is not very representative. The Kiko transaction, for example, was concluded at a rent of €18,500 in Zone A. Prime values remain unchanged, at €15,000 on the odd side and €20,000 on the even side.

There is nevertheless every chance that 2016 will remain a brief respite for those seeking a site on the Champs-Elysées and increases will clearly be seen in the future. A representative Prime value in excess of €20,000 is certainly achievable within two years, considering that equivalent levels have already been seen in certain cases (Mac, Tiffany & Co and, very recently, Chanel).

Montaigne

In the same area as the Champs-Elysées, although much more elitist and select, Avenue Montaigne has long established itself as a leading destination for luxury. The difficult period experienced by France in 2015 and 2016 has done nothing to change that. Quite the contrary! Retailers in the sector have invested in this safe haven.

Following major renovation works, Salvatore Ferragamo opened a 1,300 sq m store, its largest in Europe, at number 45. Loro Piana played leap-frog, moving from 8 to 38. Chloé moved into a 320 sq m-store at number 50. Further down, at number 30, on the corner with Rue François 1er, Dior knocked through the former Caron store and a chocolatier to create a store complementing its existing flagship. Rue François 1er, just off the avenue, witnessed a renaissance, with the opening of the first store by Madeleine Vionnet, a big name in couture which is undergoing a revival after being taken over by Goga Ashkenasi in 2012.

Like the Champs-Elysées, Avenue Montaigne has seen a hiatus in its rents. Prime values in Zone A remain unchanged at €15,000.

Faubourg Saint-Honoré

If a millefeuille pastry is a good analogy for the Paris retail market, then Rue du Faubourg Saint-Honoré is the perfect example. What contrasts! The street's multiple identities were exacerbated over the course of 2016, in an adroit series of sections with a variety of purposes.

Ultra-luxury brands were in evidence in the handkerchief-sized area between Rue Royale and Rue d'Anjou, around the emblematic Maison Hermès. Others would like to move in, but opportunities are non-existent or incredibly rare. The only major operation of the year was the ongoing Dolce & Gabbana extension at the former Paul Smith store at 3 Rue du Faubourg Saint-Honoré.

The next section, between Rue d'Anjou and Place Beauvau, is undergoing a complete overhaul. The range of shops grows thinner there due to the presence of the Elysée Palace, the British Embassy and the Ministry of the Interior. But above all the restrictions linked to the state of emergency put in place after the Paris terrorist attacks considerably reduced the flow of customers. Some retailers have therefore turned away from this section of the street.

Place Beauvau is a mini-realm of gallery owners. Retail outlets pick up again beyond that, heading towards Rue Matignon. Nothing much has happened since Thierry Mugler, Baccarat and Rimowa moved in, however.

Rue Saint-Honoré

Rue Saint-Honoré has a new look. At the corner of Place Vendôme, at number 392, renovation work is forging ahead on the 1,700 sq m future temple to Louis Vuitton. Chanel, which is restructuring an entire block between Rue Cambon and Rue Duphot, is not being left behind. This is the street's "Golden Square" gradually being created by new arrivals and extension works.

Paul Smith, David Morris and Stella McCartney are moving into more modestly-sized premises, between Rue de Castiglione and the prestigious Colette concept store on the corner of Rue du 29 Juillet.

Demand is therefore strong, although it cannot always be met due to a lack of opportunities. The street has well and truly established itself as the legitimate and natural address of luxury designers and fashion brands.

And this is reflected in values, since Rue Saint-Honoré is one of the few Parisian streets where prices continue to rise, although not at quite the same pace seen in previous years. Prime values in Zone A stand at €12,000, between Rue Royale and Rue de Castiglione. They then gradually fall to €5,000 at the intersections with Rue Saint-Roch and Rue des Pyramides.

Haussmann / Capucines / Madeleine

It has been a year of transition for these mainstays of Parisian retail. Retailers have carried out trade-offs and some evictions have taken place. Benetton and C&A have handed in their keys, for example.

This has therefore created several opportunities for newcomers to take on large spaces. Potential successors are circling, observing, assessing, without any decision having been made before the end of 2016. Retailers are showing themselves to be much pickier over these mass market premises, even very high-end ones, than they have been in the past, particularly in terms of rental values. There is no doubt a link between this caution and the fall in visitor numbers to department stores following the events of 2015 and the security measures put in place since then.

Prime values are therefore stabilising, even slightly falling, to stand at around €8,000 in Zone A on Boulevard Haussmann and €5,000 on Boulevard des Capucines and Boulevard de la Madeleine.

Saint-Germain-des-Prés

Retail activity in the shopping heart of the Left Bank is being given a new lease of life following the reopening of the Marché Saint-Germain, with its new generation Apple Store and Uniqlo. However, the phenomenon remains mainly limited to the section of the Boulevard Saint-Germain between Rue de Rennes and Carrefour de l'Odéon. The big news there stems from the arrival of retailers such as Le Coq Sportif and Samsonite.

Elsewhere 2016 proved much more lacklustre, particularly on Rue de Sèvres, which had acquired a reputation for attracting prestigious retailers at unprecedented values for the Left Bank.

In the absence of that type of transaction, Prime rents in Zone A remained at around €6,000 in 2016.

Marais

Transformations rarely occur in the blink of an eye. They need breaks and phases of consolidation. The Marais's metamorphosis into a new luxury destination has therefore slowed down. After the opening of Gucci, Moncler, Fendi and Valentino in 2015, the final assessment was therefore less impressive in 2016. John Galliano and JM Weston moved into Rue des Archives. Lancel chose Rue des Francs Bourgeois, as did Chanel which opened a cosmetics store there. And mass retail brands followed, including Etam and Kiko.

The movement was not interrupted therefore, far from it. But retailers are waiting to see how things pan out before going further – measuring, observing and experimenting. For the Christmas period, for example, Chanel set up a spectacular pop-up store in the superb Hôtel des Ambassadeurs de Hollande.

Renewed impetus will no doubt come from the opening of France's first Eataly, at a 4,000 sq m-site on Rue Sainte-Croix-de-la-Bretonnerie, along with the future Galeries Lafayette Foundation just opposite.

Rivoli / Louvre

The transformation is less advanced than in the Marais. But this is evidently a district to watch in terms of Parisian retail. The triangle between the Pont Neuf, the Palais Royal and the post office building on the Rue du Louvre will undergo a series of upheavals. These include reconfiguration of the Louvre des Antiquaires into a shopping complex of over 30 shops, the opening of a high-end hotel, along with associated shops, in the former post office building on the corner of Rue du Louvre and Rue Etienne Marcel and, finally, the inauguration of the new Samaritaine store and the five-star Cheval Blanc hotel. Not to mention the future Pinault Foundation set to move into the Bourse du Commerce, giving onto the Rue du Louvre, completing the total reconfiguration of Les Halles. The objective in each case is to create iconic buildings, designed by the world's leading architects and aimed at a well-heeled clientele. The idea is to generate new flows.

Owners recognise this and many have launched renovation projects, which will result in the marketing of unprecedented retail spaces.

This movement is currently seen as too recent by retailers. The area is currently the preserve of trailblazers like Intersport and Lee Cooper. But things are set to change. Prêt à Manger has recently opened a new restaurant following one restructuring project at the bottom of Rue du Louvre, at number 34. Another example of "domestication by cappuccino"...

#03 - PRICES

Paris is not a dessert selection

Indulgence is one thing. The price of cakes is another. It is sometimes necessary to look at the little label tucked away alongside the tray of delicious-looking desserts.

Everywhere has a value. And for retailers Paris is not a dessert selection, which you can order without always asking what it includes and for which you pay a set price for a cake, a tart and an ice cream.

OUTLOOK

What does the future hold for Parisian retail? As we enter 2017, the indicator lights are flashing, leaving the observer confused. There is much cause for hope, although this is often counteracted by contradictory signals – signals that are not always linked to the economy and are difficult to quantify.

A clear trend nevertheless exists. And it is good!

Whipping up a meringue

It is a key element of dessert-making but remains a tricky process, whose success is hit-and-miss. Being able to whip up a meringue requires confidence and a sure hand.

Without these, no transformation can take place. What is true in the kitchen also applies elsewhere. Starting with the economy. Just because all the ingredients for growth are there, it doesn't mean it will happen. France has demonstrated as much on several occasions, falling behind its European neighbours.

Will this be the case again in 2017 or will it finally manage to make the meringue stand up?

ECONOMIC CLIMATE

In rapid succession over the course of December, Insee and the Bank of France slightly lowered their growth forecasts for the French economy. These revisions have led to a consensus among forecasters of growth of 1.3% for France in 2016. In January 2017, Insee again reduced their estimation of growth to 1.1%. That is barely less than the 2015 figure (+1.2%) and lower than what was hoped for a year ago (+1.4%). During the second half of 2016, international political and financial uncertainty as a result of Brexit and the slowdown in world trade have dampened hopes raised by low interest rates, the fall in commodity prices and the weakening of the Euro. The French economy, which remains insufficiently specialised, therefore lost momentum faster than the rest of the Eurozone, which is likely to see growth of 1.7%.

Although disappointing, these results should not overshadow the most important point – the trend towards a gradual recovery and consolidation of growth.

> "The trend towards improved growth exists, even though it remains insufficient. This trend is set to continue until at least 2018."

This trend is set to be confirmed over the coming months. For France, the consensus among economists therefore indicates predicted GDP growth of 1.4% in 2017 and 1.6% in 2018. The Eurozone will continue to record high levels of activity.

France - GDP: estimates

	2016	2017	2018
Government (a)	1.4	1.5	NC
IMF (b)	1.3	1.3	NC
European Commission (c)	1.3	1.4	1.7
OECD (d)	1.2	1.3	1.6
Banque de France (e)	1.3	1.3	1.4
Insee (f)	1.2	NC	NC
Average	**1.3**	**1.4**	**1.6**

Zone euro: Variation du PIB en % (estimations et prévisions)

	2016	2017	2018
ECB (a)	1.7	1.7	1.6
IMF (b)	1.7	1.5	NC
European Commission (c)	1.7	1.5	1.7
OECD (d)	1.7	1.6	1.7
Average	**1.7**	**1.6**	**1.7**

(a): French Finance Ministry, Forecasts for Draft Finance Act 2016, 30 September 2015
(b): ECB, Eurosystem macroeconomic forecasts, 3 December 2015
(c): IMF, IMF World Economic Outlook database and forecasts, October 2015
(d): European Commission, Autumn forecasts, 5 November 2015
(e): OECD, Economic Outlook, 9 November 2015

This is important for the demand – both domestic and touristic – which will be met by retailers over the coming months. In addition to its repercussions on the redistribution capacity of the French economy and that of its neighbours, this stronger growth should encourage the early signs of a recovery observed on the employment front.

With growth from 1,1% to +1.3%, in 2016 France finally achieved a position of net job creation. The unemployment rate, as defined by the International Labour Organization (ILO), finally fell below the symbolic 10% mark. Although the 9.7% figure recorded in Q3 2016 remains far higher than in many other European countries, the improvement is significant.

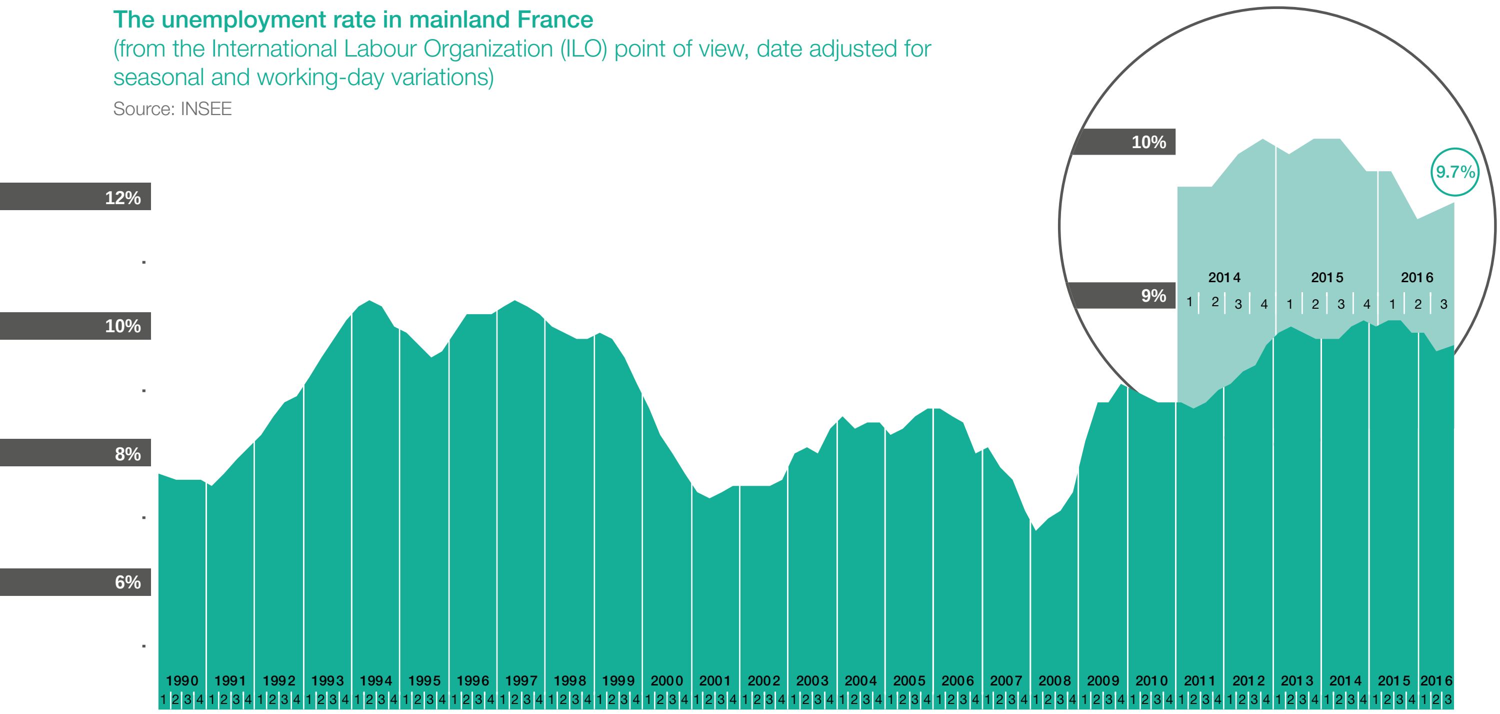
Fewer unemployed people and more jobs mean more customers and more purchasing power to potentially attract.

> "France has finally entered a phase of net job creation."

The unemployment rate in mainland France

(from the International Labour Organization (ILO) point of view, date adjusted for seasonal and working-day variations)

Source: INSEE



CONSUMPTION

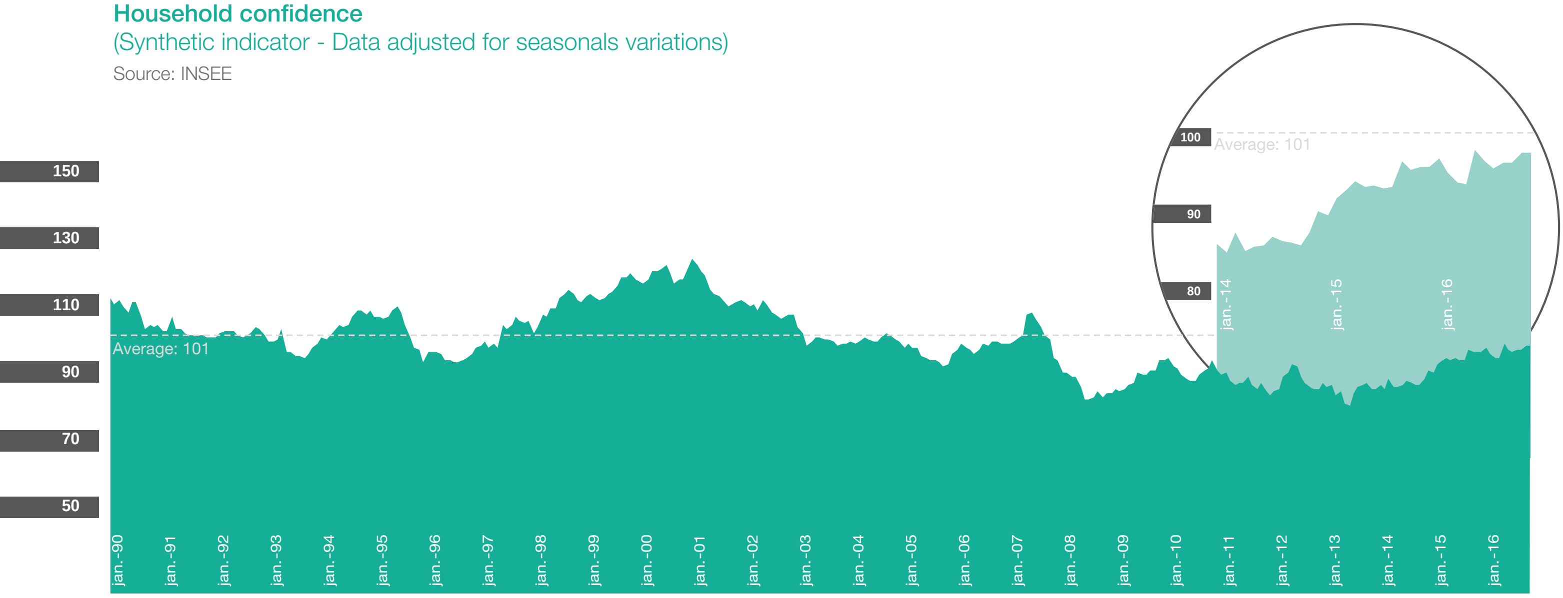
Improvements in growth and jobs should theoretically have an impact on French consumer confidence, promoting the progress already recorded in 2016. The French are not yet a nation of optimists, far from it! Their confidence regarding their personal situation, as measured by Insee's summary index, was 98 in November 2016, still below the long-term average (101) recorded since 1972. But at least it is now above the record lows recorded in 2013, when the index fell to 80.

"French consumer confidence remains mediocre. But it has improved significantly."

Improved confidence in the future, along with slightly higher disposable income – those are fairly good signs for domestic customer demand.

Now all Parisian retailers need is the return of international customers. If that happens, then 2017 will leave a much sweeter taste than 2016.

Household confidence
(Synthetic indicator - Data adjusted for seasonals variations)
Source: INSEE



QUESTIONS FOR

ANNE-SOPHIE SANCERRE

Managing Director Shopping Centres
Unibail-Rodamco

THE GROUP'S SUCCESS DEPENDS ON RIGOROUS IMPLEMENTATION OF ITS STRATEGY, BASED ON THREE PILLARS – CONCENTRATION, DIFFERENTIATION AND INNOVATION.

Knight Frank: Unibail-Rodamco is Europe's leading commercial property company and operates more than 70 shopping centres on the continent. Based on this international expertise, could you tell us the specific characteristics of Paris, if any, as well as its strengths and weaknesses?

Anne-Sophie Sancerre: Rather than just Paris, I think we should talk about the Greater Paris region. This is a diverse and very dense region, which is constantly expanding. The Grand Paris project and its transport network (particularly Éole and lines 11 and 15) further increase the range of commercial possibilities. Rosny 2 will soon be just 20 minutes from the centre of Paris, for example. There are no other major European cities like it, making it unique and enhancing its commercial appeal.

All international retailers want to open a flagship store in the Greater Paris region, whether in the city centre or in a shopping centre. What could hinder this development is the current lack of supply of prime sites, as well as the complexity and instability of the legal and social environment.

KF: You have an ambitious policy of developing your shopping centres, one of the most recent examples being the transformation of Les Halles. What is the principle guiding these changes and is it possible yet to measure their impacts?

A-S S: On a fiercely competitive market, the Group's success depends on rigorous implementation of its strategy, based on three pillars – concentration, differentiation and innovation.

Unibail-Rodamco concentrates on the large shopping centres, located in the main, densely populated European cities, in the best catchment areas. The Forum des Halles, located in the heart of Paris and connected to a transport hub is a perfect illustration of this.

The Group's strategy is based on differentiation, reinforcing the intrinsic qualities of its assets through:

- an extremely quality-driven architectural approach. The objective of renovating the centre was to breathe life into the Forum des Halles and open it up again to its surroundings. That has now been done and the outwards-looking and very light centre has been given a new lease of life. The renovated Forum des Halles is an architectural union between the Canopée areas and the entirely redesigned shopping spaces on the lower levels, which receive plenty of natural light;
- a comprehensive range with differentiating stores based on a minimum rotation rate of 10% for each of our centres. La Canopée des Halles houses the flagship stores of major brands such as Sephora, Lego and Nike as well as more specialised concept stores in the form of Exception and 7-5;
- a strong promotional policy and services facilitating our visitors' shopping experience.
- Finally, the Group believes in innovation in order to understand and anticipate visitors' expectations. Thanks to its innovation department, the Group has launched new initiatives aimed at retailers, visitors and employees. Particular attention has been paid to connectivity in the Forum des Halles, with a stable high-speed Wi-Fi connection throughout the centre, as well as access to digital tools. The Smart Map app, for example, allows visitors to easily locate stores and be notified of current promotions.

KF: What is the role of a Parisian shopping centre in a retailer strategy compared with high street locations and how is it positioned in its urban environment?

A-S S: Retailers are increasingly looking for premium sites where they can develop flagship stores. Their objective is to present all of their collections, communicate their core identity and bring their brand experience to life for their customers. They are being increasingly selective in terms of locations as well as looking for high footfall.

A shopping centre welcoming millions of visitors is a perfect calling card and showcase for retailers, which – while streamlining their portfolios of stores – are now looking for a single site which can enhance their image and footfall.

They also want the assurance of a single, experienced manager, offering them security as the shopping centre develops.

KNIGHT FRANK

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