

#01 january 2016



UNDER THE EYE

A REAL ESTATE NEWS SURVEY

Macron & ZTI law

The Big Bang of Paris retail
may have begun on 24th September 2015

CONTACTS

Contact for market studies

Cyril Robert

Directeur études et Recherche

+33 (0)1 43 16 55 96

cyril.robert@fr.knightfrank.com

Commercial Contacts

Laurence Karsenti

Directrice Retail

+33 (0)1 43 16 88 77

laurence.karsenti@fr.knightfrank.com

Nicolas Coquet

Associate Capital Markets / Retail

+33 (0)1 43 16 55 99

nicolas.coquet@fr.knightfrank.com

Macron & ZTI law

The Big Bang of Paris retail
may have begun on 24th September 2015

3

Issues and provisions
of the Macron law
for Parisian retail

INTERVIEWS PRO

5

Florent Vallon
Asset Manager Director
- APSYS

7

Pascal Le Goueff
Director of Asset Management France
- Eurocommercial

EXPERT'S OPINION

9

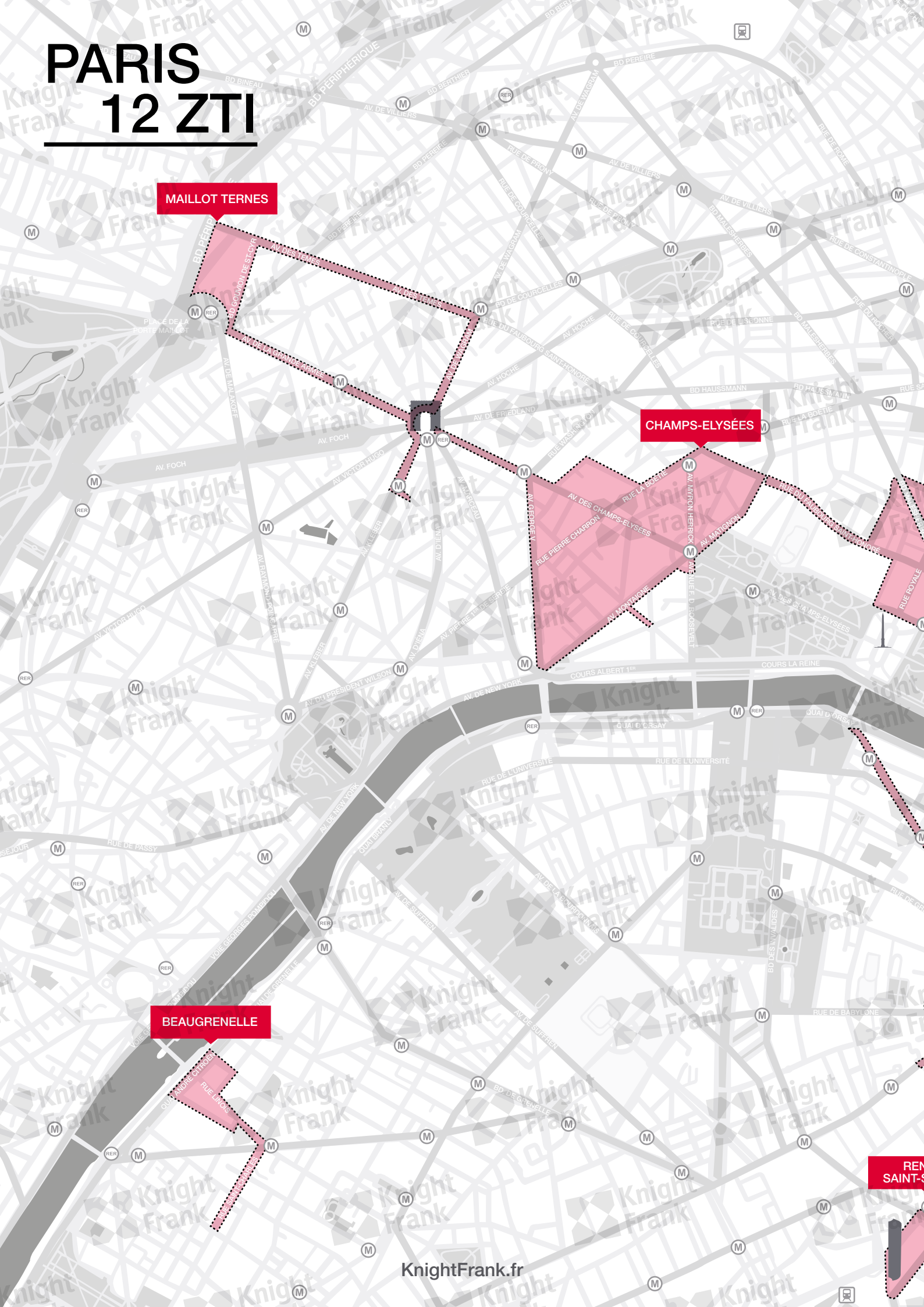
Laurence Karsenti
Directrice Retail
Knight Frank France

11

Nicolas Coquet
Associate Capital Markets / Retail
Knight Frank France

PARIS

12 ZTI

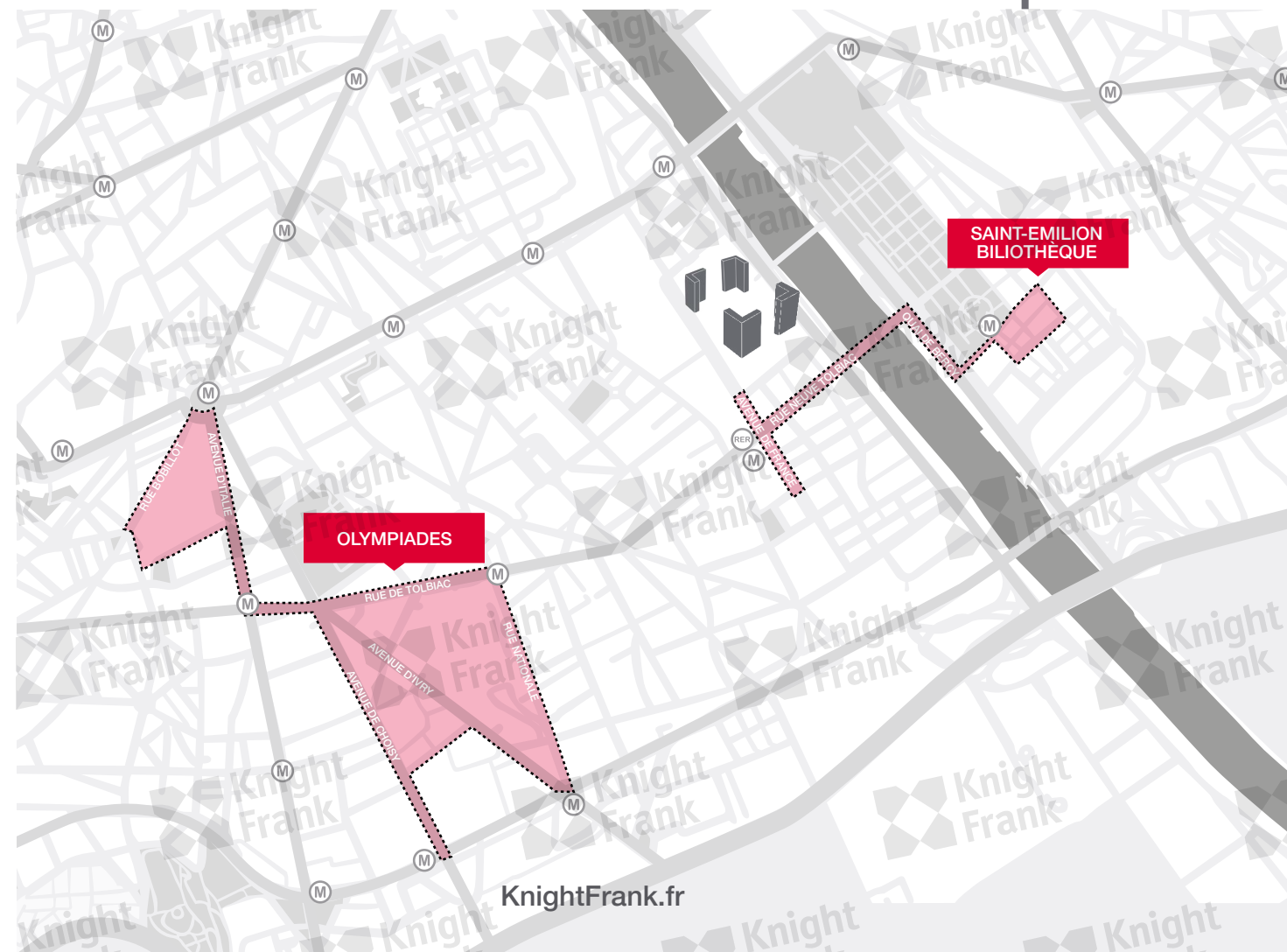
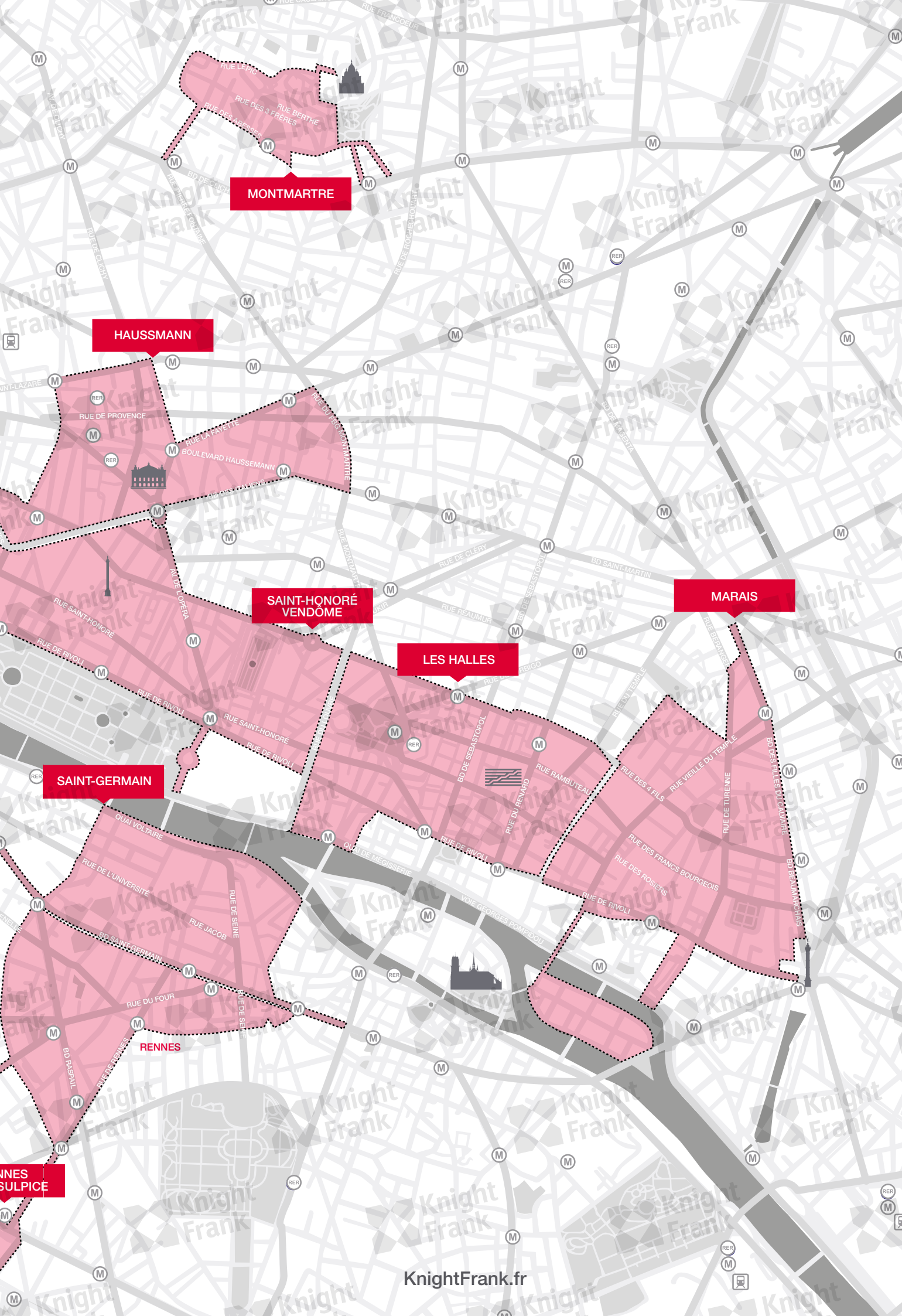


MAILLOT TERNES

CHAMPS-ÉLYSÉES

BEAUGRENELLE

RENAISSANCE
SAINT-GERMAIN



Issues and provisions of the Macron law for Parisian retail

The law for growth, business and equality of economic chances has certainly caused a stir! To the extent that it has ended up taking the name of the minister who championed it, Emmanuel Macron. It must be said that it is iconoclastic. Designed to enable jobs to be created as quickly as possible, it has modified the former balances and called into question principles that appeared to be sacred in France, including Sunday and evening closing times of stores.

What is going to change for retail?

Starting from the simple fact that with close to 30 million national and international visitors per year, Paris is the leading, or one of the leading, tourist destinations worldwide but it is only in ninth position for the average spending of these tourists, the Macron law has adopted the principle of ZTIs. This acronym stands for Zones Touristiques Internationales (International Tourist Zones), identified as urban districts that, in Paris or in the provinces, are exceptionally busy, particularly due to foreign tourists. In addition to an influx of tourists, these areas must provide a retail or cultural offer of international renown; through being hotspots of tourist consumption and being served by means of transport used by these same tourists.

In these ZTIs, the Macron law stipulates that shops will have the option to open until midnight during the week as well as on Sundays. This widespread liberalisation of the regulations is accompanied by conditions, which rest on the

principle of negotiation between the stores, their employees and their representatives. The principles of voluntary participation and financial compensation for the employees are thus stipulated in the law.

Of course, the Macron law does not stop at the ZTIs. Over the entire French territory, and under the condition of a town mayor's agreement, it extends to the opening of shops for nine Sundays per year from 2015 (compared to five up until now), then to 12 from 2016. Lastly, it provides for the possibility to create an intermediary level between ordinary districts and those included in the ZTIs. In these sectors, the new regulatory provisions on Sunday working will apply, but not those on late opening. And here too, the principle of compensation is retained.

Twelve International Tourist Zones defined in Paris

On 24 September 2015, the implementing decree of the Macron law on the definition of the Parisian ZTIs was published. It is a widespread conception that has prevailed since 12 ZTIs have been defined, covering nearly all of the large shopping areas and shopping centres of the French capital.

The Macron law and its implementation are therefore characterised by a willingness to relax and clarify compared to earlier regulations, which have become so opaque that the commercial columns have been filled by trials and disputes. To this end, it is a pro-business

law. But it does not stop there. It is already possible for some shops and districts or streets to open on Sundays, with provision being made for compensation without it being compulsory.

At a time when the provisions of the Macron law are beginning to enter into force, Knight Frank gives you a detailed tour of the territories included in the ZTIs. What do the stores and owners of property assets expect from them and hope to gain? What are the possible implications of this law for the property markets?

So, simple evolution or the Big Bang?

3



INTERVIEW

Florent Vallon

**Asset Manager Director
- APSYS**

• *The application decrees for the Macron law relating to retailers' opening hours were passed in October 2015. Have you noticed the first effects? Does it mean an increase in visitors and, above all, turnover?*

In relation to Beaugrenelle, we decided to implement this Sunday opening option very rapidly and have been pioneers in this respect, giving us a head start over the competition and the benefit of exceptional media coverage. We are experiencing excellent visitor numbers with levels of footfall comparable to a Saturday (i.e. around 50,000 visits). The same goes for turnover achieved by our retailers.

• *Aren't you concerned that this law will result in a spread of shopping activity rather than generating*

additional turnover? When do you think we will feel the full effects of this law on Paris shopping?

Beaugrenelle's classification as an International Tourist Zone makes it possible to attract more international customers spending a few days in Paris who were often frustrated to find Parisian shops closed on a Sunday, especially when Sunday opening is common in other European capitals. That turnover cannot therefore be deferred and represents considerable potential when you consider that, in 2014, 20% of Beaugrenelle's total turnover was achieved from these customers, whereas they represent just 7% of visitor numbers. As an illustration, spending by non-EU customers using Beaugrenelle's VAT reclaim centre is almost 10 times that of the average Parisian customer. We will probably need to wait for the

system to be rolled out to the entire area concerned in 2016 to assess the impact on Parisian shopping.

• *How do retailers – your customers – see this new organisation of Parisian retail and space? Will there be big winners and therefore also losers?*

Retailers have welcomed this development catalyst which, at Beaugrenelle, will generate several years of growth. They have responded brilliantly in terms of implementation speed, despite needing to conclude workforce agreements and revise the organisation of their teams in record time (less than one month between the decree and the first Sunday opening). Since the map of the 12 Parisian zones includes all tourist shopping

areas identified, it shouldn't leave anyone out and everyone should be able to benefit.

At Beaugrenelle, all retailers and business sectors are benefiting from Sunday opening due to its mix of fashion and home activities, a department store, as well as cinemas and restaurants, which constitute the site's strengths.

- *Is this legislation likely to have repercussions in terms of retail property values?*

Shops remaining open on Sundays and, potentially, in the evenings offers the prospect of increased visitor numbers and turnover for the sites concerned and therefore a mechanical increase in rental values and property values.

- *Will investors' appetite increase for these retail properties and, more generally, is Paris's international appeal likely to improve?*

In a context of national consumption which remains complicated, the properties covered by this legislation naturally become more sought-after. Their Paris location was already reassuring for investors due to stable levels of activity and spending power, as well as the exceptional image of Paris abroad. This type of legislation can only increase the appeal of Paris in terms of tourists, and therefore spending, as well as in terms of the investment market.



“ We are experiencing excellent visitor numbers with levels of footfall comparable to a Saturday ”

***“ Sunday opening
is a strong signal to
international investors ”***



INTERVIEW

Pascal Le Goueff

Director of Asset Management France
- Eurocommercial



- *You are positioned on the French market through prime commercial assets, particularly in Paris and its major trading areas. These are places that are directly affected by the new regulations on opening on Sundays and in the evenings. Can you assess the first effects of them in terms of visitors and sales or is it still too early?*

No, it's still too early.

We are planning a Sunday opening for the Passage du Havre arcade from the second quarter 2016, the time needed for the stores to get organised and set up their teams.

- *What do you hope for in terms of results more in the long term? Do you think that competition from stores for the locations concerned is going to increase?*

We hope for an increase in sales of around 10% overall and consequently better profitability for the locations concerned.

There will certainly be increased interest from the stores organised for

Sunday opening and aimed at tourists in general.

- *In principle, these provisions are excellent news for the valuation of your assets. Did you anticipate them when acquiring your property and when choosing to position yourself in Paris?*

In fact, it is good news for the valuation of our assets but also for the stores and customers!

We did not anticipate Sunday opening when we bought our Paris assets. On the other hand, we did identify the increase in tourism in Paris and its effect on retail.

- *Is the Macron law likely to increase the importance of Paris in your strategy and its attractiveness to international investors?*

Our investment decisions are based on the quality of the catchment area, the demographic change, retail densities and the occupancy costs of stores.

Before the Macron law, Paris and particularly the zones classed today as ZTIs already fulfilled these selection criteria, but we should acknowledge that in addition to figures, Sunday opening is a strong signal to international investors.

This law strengthens Paris's reputation as a shopping destination and consequently its attractiveness to tourists and also to investors.

EXPERT'S OPINION



Laurence Karsenti

*Directrice Retail
- Knight Frank France*

The possibility for shops to open on Sunday and in the evening will fuel new ambitions for Parisian retail. We know the story of the foreign tourist who prefers to take a short break in Paris during the week and who then migrates to London for the weekend in order to take advantage of the shops and go shopping. It has become a cliché! And it is true, Paris suffers from a poor image with regard to shopping in the eyes of tourists, particularly tourists with high purchasing power. There is a certain discrepancy between the renown of Paris, which very much relies on its image as the capital of fashion, luxury, culture and the art of living, and the reality of expenditure made by tourists. Gradually, the Macron law and the new provisions relating to the opening of shops could change things and correct this hiatus. This could materialise by additional sales through added expenditure by foreign tourists and an extension of the average time of their stay.

For French customers, the law will probably have fewer repercussions in terms of sales, at least as long as the current economic conditions prevail. French consumers who are curbing their consumption do not do so due to a lack of opportunities or

due to shops not being open, but more because of their disposable income. On the other hand, all these new provisions will probably have an impact on consumer «practices» in the city, on the organisation of their shopping habits with, as the key, reorientations of certain flows of expenditure. These reallocations should logically benefit the ZTIs and this to the detriment of sectors outside the ZTIs. It is a possibility that is to be considered even if the risk is reduced by an essential point: the bulk of everyday expenditure of French consumers does not take place in luxury or high-end boutiques, of which certain ZTIs have a monopoly.

On this subject, it is interesting to note that the 12 ZTIs defined by the implementing decrees of the Macron law for Paris do not really have the same commercial profiles. Their common ground is their dynamism but we find here both the major Parisian shopping streets such as the Champs-Élysées, Rue Saint-Honoré or Rue du Faubourg Saint-Honoré and the urban shopping centres such as Beaugrenelle or Italie 2. Due to the profile of these ZTIs, the economic effects will probably not be to the same extent everywhere. The most obvious benefit will be to those stores situated on the sightseeing tours of the wealthiest foreign tourists.

It is nevertheless possible to expect an overall increase in the sales of the stores of 10 to 15%, once the question of labour agreements has been resolved. This would be a significant increase and the impact could result in a new attractiveness for the Parisian market. Brands that are still absent from French soil could then be encouraged to set up there, particularly in Paris.

The flip side of the coin is that it will be difficult for available supply in

retail surface areas in these ZTIs to keep up. It is not inexhaustible and will therefore be regulated through rent, which is already high in these sectors. Therefore, it is possible that these provisions will encourage rises, both for the letting values of locations and for the rent of the stores already present, with leases often containing a clause that indexes rent to sales.

Lastly, as we have stated previously, we need to monitor the changes in the areas surrounding the ZTIs. The risk for these is to suffer from a «distorted» competition situation, negatively affecting their sales. In fact, for these sectors that function nearly exclusively on local customers, the possibility of a change in the shopping habits and circuits of Parisians, who will then have the chance to postpone their purchases to the evening or to Sunday, is a threat. They are going to have to play it carefully, by highlighting the difference and complementary nature of their retail offer and prices, as well as their main advantage: proximity. A concept that is, fortunately for them, fashionable at the moment.



Nicolas Coquet

*Associate Capital Markets / Retail
- Knight Frank France*

With the introduction of the ZTIs, Paris is equipped with a legislative instrument enabling it to make good its poor image in the eyes of the stores and international investors. In fact, the opening of shops on Sundays and in the evenings enables Paris, the leading tourist destination in the world and the second largest European city in terms of investment in tertiary property, to capitalise on these advantages in order to generate additional revenue.

With regard to the selected zones, there is no great surprise even if certain choices, particularly for shopping centres, have been disputed. We also note the absence of the Saint-Michel district, even though it is very touristy and commercially attractive.

Concerning the real and short-term effects of this law on retail activity, we need to distinguish between two categories of ZTIs. For the zones already with a strong tourist base, such as the "Champs-Élysées / Montaigne", "Saint-Germain" or "Saint-Honoré / Vendôme", it is nearly certain that this law will have a positive impact on retail sales. In fact, by putting Paris back on the radar of international tourism, it should enable the average stay to be extended and encourage tourists, particularly the wealthy ones, to visit Paris at the weekend and to make their purchases there rather than migrate to London.

On the other hand, for the zones less established on the tourist map and more oriented towards national customers – and here we can cite the ZTIs organised around a shopping centre, such as





“Beaugrenelle”, “Olympiades” and “Cours Saint-Emilion/Bibliothèque”, – we probably need to wait a little in order to see whether their tourist attractiveness increases to be converted into sales figures. The problem that could arise here, is that retail activity spreads out with the introduction of work on Sundays and in the evening but does not increase in the end. The current national economic context, which is struggling to recover, causes this caution, even if it is true that the shopping centres that attract local customers with high income will be at an advantage compared to the others.

The repercussions of this law on the investment market will depend on its actual effects on the flow of expenditure in the boutiques. If it works for the stores, it will work for investors! Therefore, the investment market will be impacted in the same way, both in terms of timing and geography.

However, there is also a major change that could enable this law and this is above all psychological or subjective. It concerns the international players in the investment market, and notably those that are not yet present in Paris or in France. And it involves a change of image for Paris. Simply by showing willingness for liberalisation,

flexibility and a favourable approach to business, the Macron law could encourage these investors to take an interest in Paris and to position themselves there. This would also encourage rental demand, as well as a possible increase in rent and the value of assets, without resulting in a further compression of yields. It should be said that the latter are already at an extremely low level with regard to retail assets.

It is often good advice to be cautious. Whereas believing in a big bang is probably not wise. However, the Macron law will have a real effect on retail, which will probably grow in significance over time.

© Knight Frank SNC 2016

Knight Frank Commercial Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

Knight Frank Research Reports are also available at KnightFrank.fr

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Commercial Research or Knight Frank SNC for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank SNC in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Commercial Research.

Knight Frank SNC is the french branch of Knight Frank LLP. Knight Frank LLP is a limited liability partnership registered in England.

Sources used in this report: ORIE, INSEE.