

**AT A GLANCE
2023 Q1**

INVESTMENT IN FRANCE

Continuation of the status quo

ECONOMIC CONTEXT

Despite a buoyant job market and historically low unemployment (7.0% in Q4 2022), household confidence is being eroded by high inflation (+5.2% in 2022 and +6.3% y/y in February 2023). Price inflation is expected to ease in the coming months, but will remain high in 2023 (+4.8% expected on average). As such, French purchasing power and consumption both declined in 2022. GDP growth should be limited but still positive in 2023, with +0.5% estimated for the year.

To fight inflation, the European Central Bank raised its key rates by 350 basis points between July 2022 and March 2023, bringing the deposit rate to 3.0%. It could add another 25 to 50 basis points in Q2 2023 as it keeps a close eye on inflation in the Eurozone, which has been edging down since November. After a record year and a 290 basis point increase in 2022, the 10-year OAT yield fell back from 3.10% to 2.80% in Q1 2023.



+2.6%

France GDP growth 2023 forecast
(BNP Paribas Forecast -April 2023)



+3.10%

OAT 10 10 years Q1 2023
(Banque de France)

INVESTMENT IN FRANCE

Investment in French commercial real estate in Q1 2023 came in at € 4.1bn, down 24.6% from the same period last year (€ 5.51bn) and 18% below the ten-year average (€ 5.04bn).

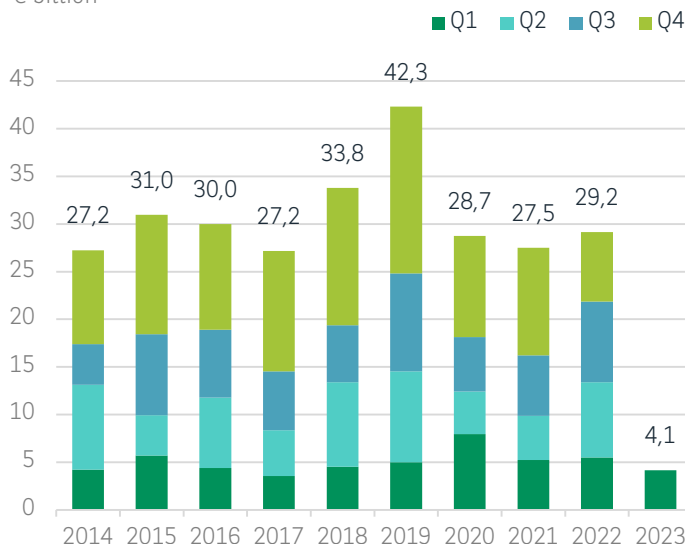
By asset type, office property remains the most coveted asset for investors, but represented only 42.1% of total commercial real estate investment in France (€ 1.75bn), compared to 45% in Q1 2022.

On the other hand, retail has been steadily increasing and accounted for 31.6% of total investment in Q1 2023, up from an average of 17% over the past ten years (25% in Q1 2022).

Investment in commercial real estate in France

Global - Q1 2023

€ billion



INVESTMENT MARKET BY ASSET CATEGORIES

Offices

The office market continues to suffer the consequences of the economic and health crises. In Q1 2023, transactions were 42% lower than the ten-year average, with € 1.75bn invested in France compared to the Q1 average of € 3.03bn (79 transactions recorded). The hardest hit deals were those in the € 100m-200m range, which fell by 44% compared to the ten-year average (4 transactions totalling € 531m compared to 6.9 transactions and € 946m on average in Q1). Only the € 20m-€ 50m segment held up, with a slight increase of 3% (19 transactions for € 1.33bn vs the ten-year average of 18 transactions and € 1.032bn).

The average transaction in Q1 2023 was € 22.14m, the lowest figure of the last 10 years (with a high of € 60.35m in Q3 2015).

Paris Region

Investment in Ile-de-France came to € 1.21bn, compared to a 10-year average of € 2.55bn in Q1 (-52%, with 33 transactions recorded). The vast majority of districts saw a decline in transactions. The exceptions were the Outer Rim, which benefited from PROGAMA's € 165m off-plan acquisition of the future STELLANTIS group campus in Poissy. The only other deal for over € 100m in the Paris region in Q1 was the € 133m acquisition of the "Vernet Galilée" building by CRPN in Paris CBD.

This loss of momentum reflects the wait-and-see attitude between buyers and sellers that has taken hold since Q3 2022. Moreover, the difficulties on the Ile-de-France rental market are discouraging investors. Despite this, the extensive refurbishment underway in Paris (approximately 30% of construction sites in Ile-de-France) suggests that some owners will take advantage of the slump to renovate properties before selling them once this period of economic instability is over.

Regions

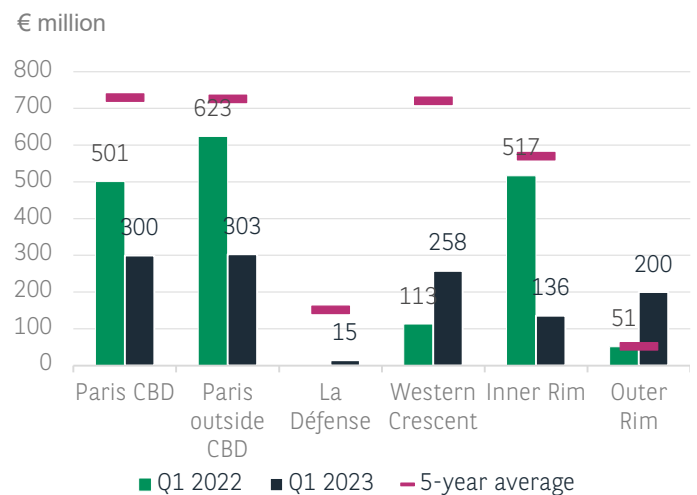
In the regions, the trend is similar, with a fall in investment to € 538m in Q1 2023 (46 transactions), compared to € 690m in Q1 2022 (-22%). Nevertheless, this is still above the ten-year average of € 479m, in keeping with the rise in regional office investment since 2014. Transactions remain small, with an average of € 11.7m per deal in Q1 2023. There was just one transaction above € 100m: the acquisition of the "ARECA METRO" building (17,900 sqm) by AEW CILOGER for € 102.8m in Lyon 07.



€ 1.75 bn
Invested in Offices
Q1 2023

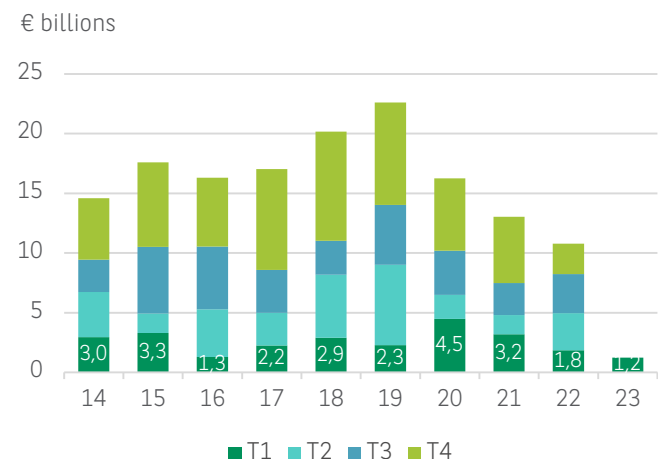
Investment by geographical breakdown - Paris Region

Offices- Q1 2023



Investment by quarter

Offices- Q1 2023



BNP Paribas Real Estate - Q1 2023

INVESTMENT MARKET BY ASSET CATEGORIES

Retail

Investment in retail premises in Q1 2023 in France came to € 1.31bn across 47 transactions, considerably higher than the ten-year average of € 847m for this asset category. Transactions over € 100m contributed significantly to this result:

- € 284m invested in the €100m-200m segment, 23% above the ten-year average (€ 231m).
- € 583m invested in the >€ 200m segment, i.e. 40% more than the ten-year average (€418 million).

All types of retail premises attracted investors in Q1 2023. Shopping centres (€ 551m) recorded the strongest growth thanks to the sale of "Italie 2" centre and the "Italik" extension for € 520m to INGKA CENTRES (IKEA). KERING's acquisitions, including the "35 avenue Montaigne" building for €227m, also contributed to the rise of city centre retail property in Q1 2023 (€407m). Out-of-town retail attracted € 355m in Q1 2023, including the "Marques Avenue" portfolio, consisting of five assets, four of which are located in the Paris region, sold for € 170m to the investment fund MATA CAPITAL.

French players still account for the majority of retail property investments (57%), with significant acquisitions such as those of Kering, Mata Capital and BNP PARIBAS REIM. The Paris Region still attracts most investment, with € 919m invested in Q1 2023 (€ 394m in the Regions).



€ 1.31 bn

Invested in Retail

Investment by year and retail category

Retail - Q1 2023



BNP Paribas Real Estate - Q1 2023

Logistics / Industrial

In Q1 2023, € 489m was invested in industrial premises and logistics, a sharp decline compared to the very buoyant Q1 2022 (€ 1.17bn, i.e. -58%).

It was the lack of deals over € 100m (Q1 average of € 385m over the last ten years) that largely accounted for the decline in logistics investment over the period.

Conversely, smaller deals have generally held up well in the current economic climate, coming in just under the ten-year average (around -5%). There was even a slight outperformance for transactions below € 5m (+12% compared to the ten-year average with € 47.89m invested in Q1 2023).

Taking a closer look at the breakdown between logistics and industrial premises over the quarter:

- € 311m concerned warehouse transactions. The average deal was for 20,500 sqm of warehouse space, including offices, for an average amount of € 20.7m.
- € 179m was spent on industrial premises transactions. The average deal was for 4,270 sqm of industrial premises, including offices, for an average amount of € 5.61m.

Transactions over quarter were subject to discounts of 15% to 25% due to the current rise in interest rates. However, it would appear that the repricing process is nearing completion, which would explain the significant return of investors observed on the latest tenders towards the end of the quarter.

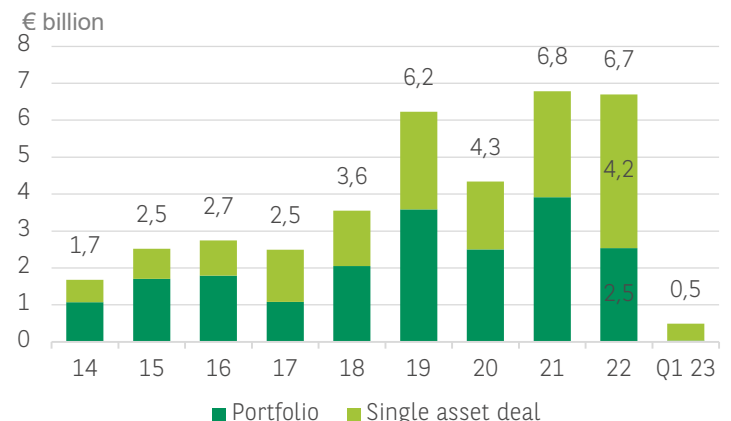


€ 489 M

Invested in Logistics & Industrial

Breakdown of investment between single asset deal and portfolio

Logistics / industrial premises- Q1 2023



BNP Paribas Real Estate - Q1 2023

INVESTMENT MARKET BY ASSET CATEGORIES

Hostel

Investment in hotels in France in Q1 2023 came to € 598m, with 32 transactions. This was 39% more than in Q1 2022 (€ 470m) and +27% higher than the ten-year average (€ 470m), suggesting that hotel investment is emerging from the market impasse caused by the health crisis and its impact on tourism.

Q1 2023 confirmed the pattern observed over the last two quarters of 2022, with hotel investors returning to France.

These strong figures were partly thanks to healthy transactions in: 1/ the € 50m-€ 100m segment, with €174m invested in Q1 2023 (+125% compared to the ten-year average of €77m); and 2/ the € 10m-€ 20m segment, with € 81m (+68% compared to the ten-year average of € 48m).

There was also a deal for over € 100m during the quarter with the acquisition of the "HOTEL CALIFORNIA" (Paris 08) by TIKEHAU CAPITAL for € 125m.

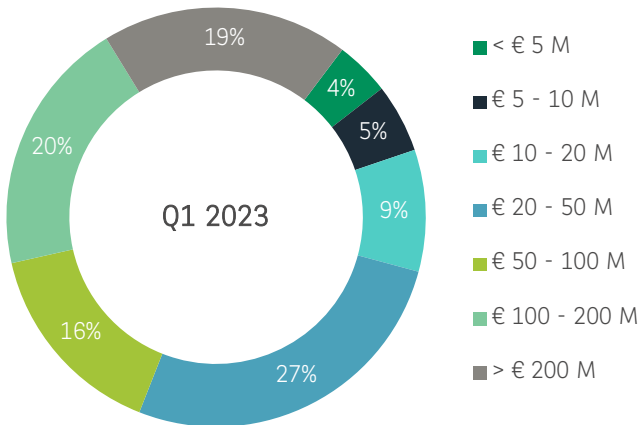


€ 598 M

Invested in Hostel
Q1 2023

Distribution of investments by amount

Global- Q1 2023



BNP Paribas Real Estate - Q1 2023

Outlook

It appears that commercial real estate investment is still being affected by the macroeconomic and financial environment in Q1 2023. Investment has fallen sharply, with the exception of retail investment, which has remained buoyant. Although a price correction is still expected, the continuing market uncertainty is delaying the process.

Market developments should be closely observed in Q2 2023, particularly office investment, which may come under increased pressure due to the ongoing economic slowdown.

BNP Paribas Real Estate expects yields to rise by the end of 2023:

- 3.5% for prime office space
- 4.5% for logistics
- 3.9% for high street retail

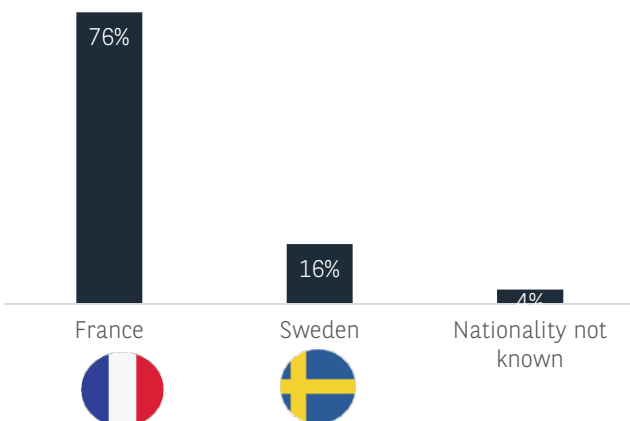
We note that banking regulators¹ are keeping a watchful eye on difficulties in commercial real estate markets in Europe, fearing collateral effects on the banking system. According to a JPMORGAN study², European banks exposure to this asset class is estimated at € 1,600bn-€ 1,900bn, i.e. 8% of bank loans according to the European Banking Authority (EBA), and a significant decline in real estate prices could significantly weaken them.

In parallel, in early 2023, the ECB is monitoring open-end real estate funds, which are potentially vulnerable to significant liquidity withdrawal requests, with ramifications for broader markets. The ad hoc study³ proposes regulatory tightening for these funds, to control their vulnerability and the risks they pose to European real estate and financial markets.

BNP Paribas Real Estate - Q1 2023

Top 3 nationalities of investors

Global- Q1 2023



1. [CERS. Recommandations sur les vulnérabilités dans le secteur de l'immobilier commercial dans l'UE](#)
 2. [JPMorgan. Are banks vulnerable to a crisis in commercial real estate ?](#)
 3. [BCE. The growing role of investment funds in euro area real estate markets: risks and policy considerations](#)

Yields

In the current context, the French 10-year OAT is squeezing the risk premium on real estate assets, leading to an increase in "prime" yields. In Q1 2023, the prime yield for offices reached 3.15%, while the yield for logistics was 4.25% and for retail 3.75%, following a steady increase since the Covid-19.

The reduction in the 10-year OAT between Q4 2022 and Q1 2023 of 30 basis points has put the office premium back in the black, with a spread of +35 basis points in Q1 2023.

In Q1 2023, yields continue to rise overall:

- Offices

Prime yields continued to fall, to a greater or lesser extent depending on the liquidity of the assets. Thus, the Paris CBD prime yield stood at 3.15% at the end of Q1 2023 for assets of less than 50 million euros and in a range of 3.25% to 3.50% for assets between 75 and 200 million euros.

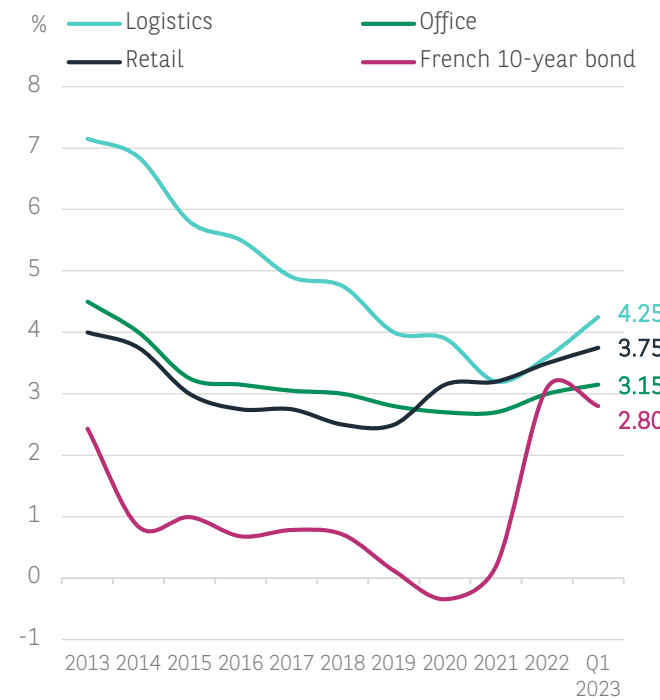
- Retail

Prime retail yields have increased since the beginning of the health crisis. The prime retail yield has expanded by 25 basis points to 3.75% and could rise further. As of April 1, 2023, the prime yield for shopping centres is 5%. Retail parks and out-of-town retail remain very popular with investors, with prime yields stabilising at 5.25% for the best assets.

- Logistics / Industrial premises

The logistics prime yield also continues to expand, rising from 3.60% at end-2022 to 4.25% in Q1 2023, reflecting yields negotiated in Q3 2022, with a lag of about 6 months. It is expected to stabilise at 4.25% in Q2 2023.

Prime yields and French 10-year bond (OAT)



Details of prime yields in France

Offices in Paris Region	Q1 2021	Q1 2022	Q1 2023	Trend 2022 / 2023
Paris CBD	2,70	2,70	3,15	↗
Paris outside CBD	2,90	2,80	3,60	↗
La Défense	4,00	3,95	4,50	↗
Western Crescent	3,20	3,20	3,75	↗
Inner Rim	3,60	3,60	4,50	↗
Outer Rim	4,85	4,85	5,75	↗

Offices in Regions	Q1 2021	Q1 2022	Q1 2023	Trend 2022 / 2023
Lyon	3,50	3,40	4,00	↗
Aix / Marseille	4,15	3,75	4,40	↗
Lille	4,15	4,15	4,40	↗
Nice / Sophia Antipolis	4,50	4,50	4,50	→
Toulouse	4,50	4,35	4,15	↘
Strasbourg	4,50	3,70	4,25	↗
Nantes	4,75	4,30	5,10	↗
Bordeaux	5,45	4,60	5,30	↗

Logistics & Industrial	Q1 2021	Q1 2022	Q1 2023	Trend 2022 / 2023
Logistic	3,80	3,20	4,25	↗
Industrial	4,50	4,00	5,00	↗

Retail	Q1 2021	Q1 2022	Q1 2023	Trend 2022 / 2023
Street-level store in Paris	3,15	3,20	3,50	↗
Shopping centres in France	4,25	4,50	4,75	↗
Retail parks in France	5,25	5,25	5,25	→

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