BNP PARIBAS REAL ESTATE

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RESEARCH

AT A GLANCE
2023 Q3

LOGISTICS IN FRANCE

FALL IN TAKE-UP IN 2023

ECONOMIC AND GEOPOLITICAL CONTEXT

French growth was ultimately positive in the second quarter, with an upturn of 0.5%. This was mainly due to corporate investment and exports, with household consumption still in decline. French GDP could come in at +0.8% in 2023 and is expected to remain subdued next year (+0.8%).

Inflation in France was lower than the European average in 2022 (+5.2%), but disinflation is taking a while. After plateauing at around +6% for 8 consecutive months until April, CPI growth (the Consumer Price Index that measures inflation) fell to +4.9% in September. Nonetheless, inflation is still high and squeezing household purchasing power, which fell in the first half of the year.

Despite low unemployment (7.2%), the indices reflecting economic trends in the manufacturing and service sectors have continued to fall since Q3 2022, highlighting the pessimism of economic stakeholders.

Online goods sales increased by 33% between 2019 and 2022. Yet, despite inflation they remained stable in Q2 2023 (-1% compared to the year-earlier period).

+0.8%
GDP GROWTH
(Forecasts 2023)

+5.2%
ANNUAL INFLATION
(June 2023)

+6.1%
TERTIARY ACTIVIES RENT INDEX
(Forecasts Q2 2023 vs Q2 2022)

There have been two successive major crises in the last five years, so we think it bests to compare the figures in this report with the five-year average.

2,630,000 sqm
LOGISTICS TAKE-UP
(9 months 2023)

90%
GRADE A TAKE-UP

550,000 sqm
UNDER CONSTRUCTION

3,3%
VACANCY RATE

FALL IN TAKE-UP OVER THE FIRST NINE MONTHS OF THE YEAR

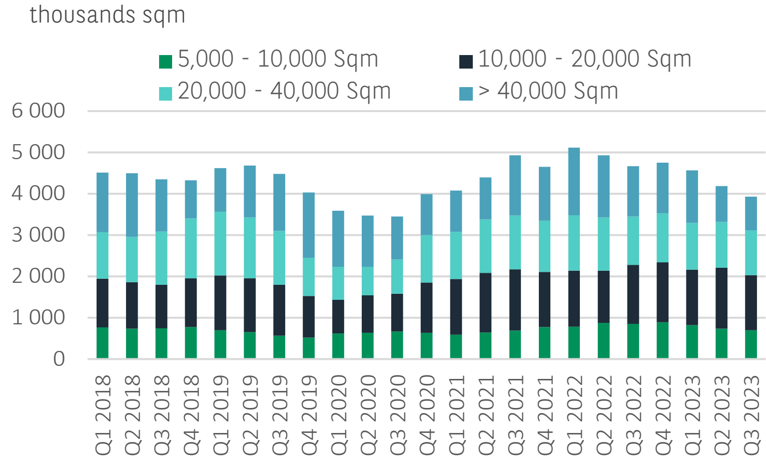
The volume of take-up, analysed over a rolling 12-month period, continued the decline that began in Q1 2022, falling from over 5 million sqm to just under 3.7 million sqm, bringing it back to its 2020 lockdown level. Economic uncertainty, rising rents and a very low vacancy rate are prompting tenants to be more cautious and to think hard before releasing occupied sites. Consequently, the blossoming of the logistics market seen in recent years has started to fade.

Against this backdrop of profound change, logistics take-up has fallen by 13% compared with its five-year average and by 25% compared with Q3 2022, which was a record (around 4.7 million sqm).

The market segments that had previously sustained it are in steep decline:

- The volume of XXL deals (a third of take-up over the last 5 years) has fallen by 40% compared with Q3 2022. This is due to the partial withdrawal of the main users of large logistics platforms:
  - Large retailers have completed or are close to completing the restructuring of their logistics systems.
  - E-commerce players have become more cautious given the stagnation of online sales (-1% vs. Q2 2022) and are therefore opting for smaller units.
  - Lastly, logistics providers are increasingly looking to smaller, multi-client platforms to diversify their risk.
- Turnkey and owner/occupier transactions (45% of take-up over the last 5 years) have fallen by half for several reasons:
  - Lack of available land (Climate Law - ZAN 2050 objective / more legal appeals / difficulty finding land / scarcity of wasteland for redevelopment).
  - Yield expansion and tougher borrowing conditions.
  - The sharp rise in construction costs.

Take-up (over a rolling 12-month period)



Conversely, units between 10,000 sqm and 40,000 sqm are faring best, staying in line with the five-year average (-2%) and just slightly down on Q3 2022 (-12%).

Although turnkey and owner/occupier deals have fallen substantially, occupiers are very keen on new grade A warehouses (transactions up 40% over 5 years).

As well as available new supply, which has practically doubled in nine months (925,000 sqm in September 2023), companies' increasingly ambitious and well-defined CSR[1] policies are naturally steering occupiers towards the latest generation of logistics sites with high levels of environmental certification (BREEAM, HQE, etc.)[2], to reduce their carbon footprint and increase their environmental efficiency (energy savings, green power generation, biodiversity, etc.).

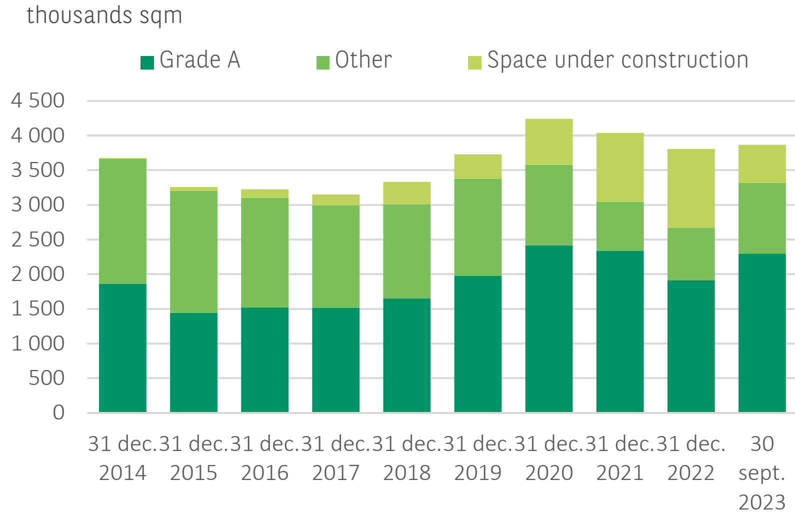
STABILISATION OF AVAILABLE SUPPLY SINCE END 2022

Thanks to the completion of several large-scale schemes begun speculatively in 2022 (Amiens - Infrared / 116,000 sqm, Beauvais - Harbert / 110,000 sqm, Denain - GLP / 99,000 sqm, Boisseaux - Clarion Partners / 90,000 sqm), supply in France has remained stable over the last 9 months.

However, it varies greatly from one region to the next, particularly in certain markets that are highly sought-after by occupiers (Rhône-Alpes, Provence-Alpes-Côte d'Azur, Bordeaux, "Grand Ouest").

It will be worth keeping a close eye on how this supply is updated and whether the market is able to meet occupiers' needs. Indeed, the amount of space under construction has halved since the end of last year, to 550,000 sqm.

Availability within one year



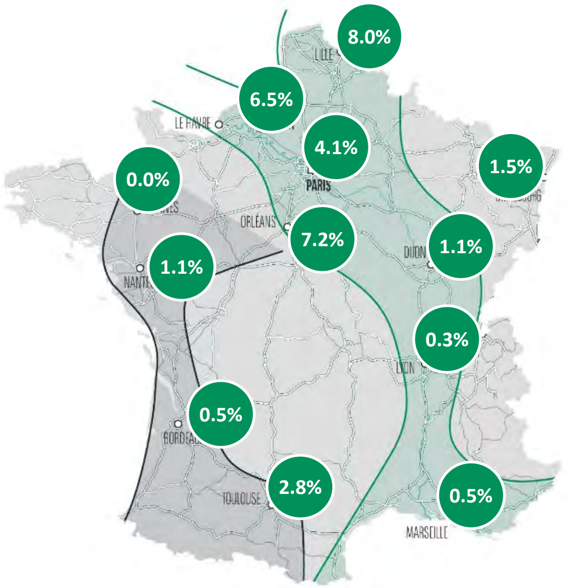
(1) CSR: Corporate Social Responsibility
(2) BREEAM : Building Research Establishment Environmental Assessment Method / HQE : High Environmental Quality

REGIONAL VARIATIONS IN TAKE-UP

As in 2021, the Lille region is the most popular, with take-up of 435,000 sqm (17% of the French market). Although slightly below the five-year average (-15%), take-up was driven by transactions between 10,000 and 20,000 sqm (14 deals). Similarly, despite very low supply (only 80,000 sqm in September 2023), the PACA region recorded take-up of 275,000 sqm (+35% above the five-year average). Lyon is also under-supplied, but is holding up relatively well, with 275,000 sqm taken up (-14% vs the five-year average), as illustrated by the 60,000 sqm lease taken by the Alainé Group at Sury-le-Comtal. We also note the rise in take-up on the Atlantic coast and in the Rouen/Le Havre region (+15% and +12% respectively compared with their five-year averages).

Conversely, Ile-de-France, with take-up of 335,000 sqm, only accounted for 13% of the market (compared with 25% on average), with just two deals over 30,000 sqm so far in 2023 (compared with 7 in 2022). This trend stems from the fall in supply within a year (-11% compared with the five-year average), particularly for large warehouses. This is compounded by rising rents, as well as high taxation, which benefits neighbouring départements, commonly referred to as the "4th ring", which have larger tracts of land and more appealing financial conditions (rent and taxes).

VACANCY RATE STILL LOW IN FRANCE



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The vacancy rate[1] for immediate availability remains very low in France (3.3%).

Many areas (such as Lyon, Marseille, Bordeaux, Rennes and Nantes) have vacancy rates of less than 1%, which is becoming critical for occupiers.

[1] Vacancy rate excluding grade C, calculated based on supply immediately available.

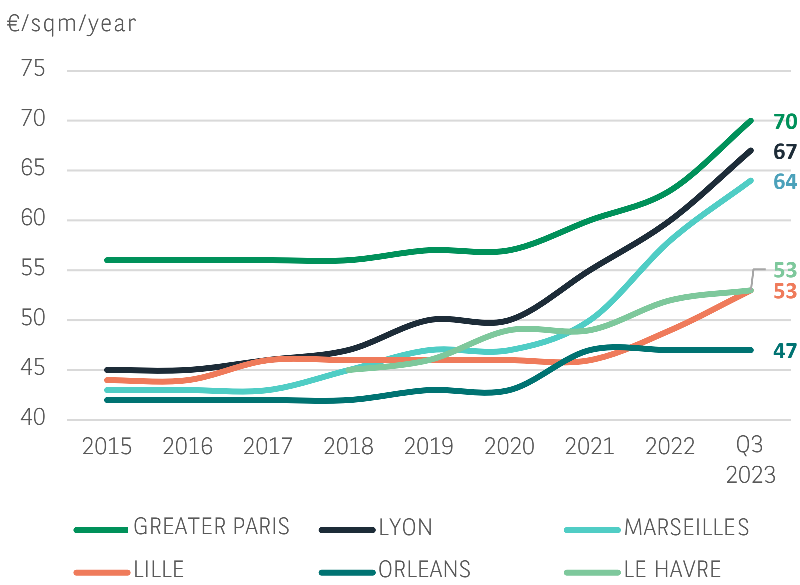
RENTS STILL CLIMBING

Rents are still rising and have gathered pace since they began climbing three years ago across the country. Prime rents have risen by 8% since the start of the year in the main markets on the north/south axis (+20% in 3 years).

There have been sharp increases over the last three months. Prime rents in the Paris region have risen to € 70/sqm (+8% vs. Q2 2023) for grade A warehouses > 10,000 sqm, whereas they are close to € 100/sqm for individual cells (< 10,000 sqm). Similarly, the prime rent has risen by 10% in the PACA region to € 64/sqm.

Rents remain high, and tight markets are seeing rents draw closer to those of the north/south axis. This is particularly the case in Toulouse (€ 65/sqm), Bordeaux (€ 60/sqm) and Nantes (€ 59/sqm).

The reasons for the rise in rents are firstly demand, which remains resilient, and secondly the scarcity of supply. Rising construction costs and interest rates are driving up rents for schemes under development.



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INVESTMENT: MARKED SLOWDOWN IN DEALS OVER THE FIRST NINE MONTHS OF 2023

The economic backdrop is clearly affecting all asset classes, with investment down by more than 50% vs Q3 2022. Investment in logistics in France has been even harder hit, falling by 75% for the first three quarters of the year, as Anglo-Saxon players were quicker to accept the new pricing paradigm.

This year, over half of investment in logistics was made by French investors, mainly SCPIs (notably the SCPI Activimmo), whereas historically, Anglo-Saxons investors accounted for 2/3 of the amount.

There has been just one logistics deal for more than € 100m in 2023, compared with 9 in 2022 over the same period. The same applies to sales of logistics platforms built speculatively, with very few transactions recorded in 2023, whereas these attracted € 450m of investment over the first nine months of 2022.

The main difficulty facing the logistics market is acceptance of the necessary price adjustments (discounts of 20% to 25%) following the sharp rise in interest rates. Yet, although repricing still has some way to go, we have seen a definite appetite among value-add and core + investors in Q3.

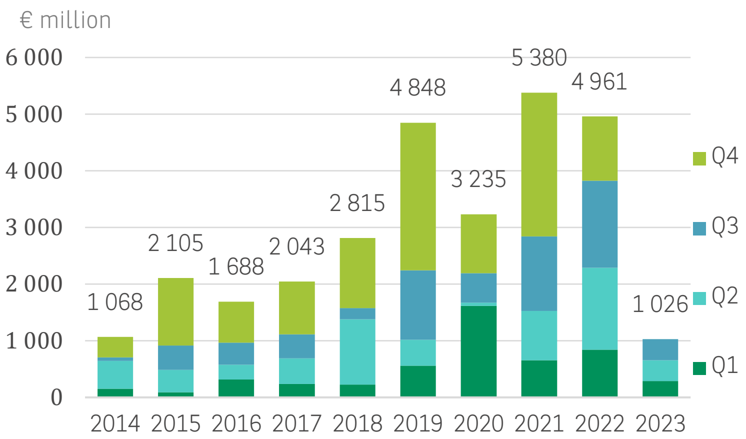
After stabilising over the first half of the year, the prime yield expanded again in Q3 to 4.50%. This figure corresponds to completed transactions, and therefore reflects yields negotiated some 4 to 6 months earlier.

There could be further yield expansion over the next three months, bringing the prime yield to around 4.75%.

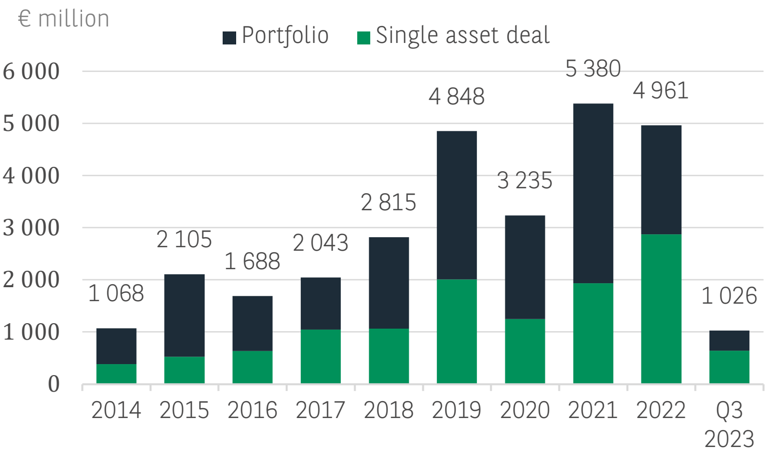
€ 1Bn
Logistics investments
(9 months 2023)

4.50%
Logistics prime yield
(completed transactions)

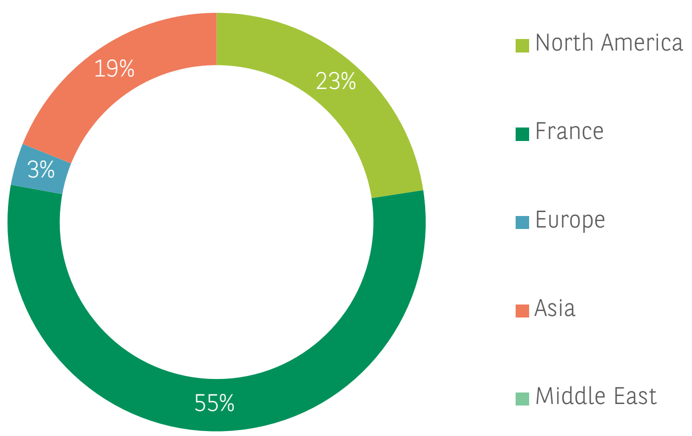
Logistics investment in France



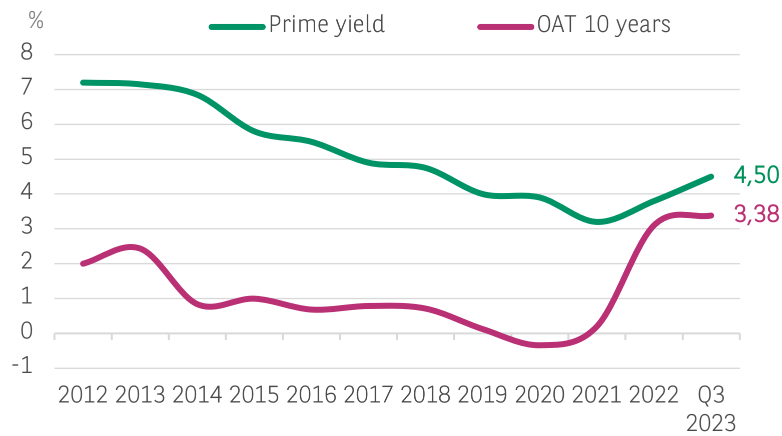
Logistics investment in France



Investors' nationality – Q3 2023



Prime yield and french bonds



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