Real Estate for a changing world

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RESEARCH

AT A GLANCE 2024 Q2

LOGISTICS IN FRANCE

CONTINUED SLIDE IN TAKE-UP

ECONOMIC AND GEOPOLITICAL CONTEXT

French GDP rose by 0.2% in Q1 2024, implying growth of 1.1% this year, after 0.9% in 2023. Household consumption may provide support, thanks to the slight increase in purchasing power (+0.5% in Q1) as inflation eases. This trend could extend into 2025, with growth expected to reach +1.4%.

After average inflation of +4.9% in 2023, disinflation has brought the figure closer to the ECB's target, with the consumer price index (CPI, which measures inflation) down to +2.1% in June. Inflation could fall below 2% in the second half of the year.

The e-commerce sector (goods and services combined) climbed 7.5% year-on-year in Q1 2024. On a positive note, after falling by 7% in 2022, internet sales of goods are only down by 1.5% compared with Q1 2023. However, they have increased by more than 30% over the last five years.

+4.2%
TERTIARY ACTIVIES RENT INDEX 2024
(Forecasts BNP Paribas – July 2024)

+2.3%
2024 INFLATION
(Forecasts BNP Paribas – July 2024)

+1.1%
GDP GROWTH
(Forecasts BNP Paribas – July 2024)

92
CONSUMER CONFIDENCE Q2 2024
(+6 points over one year)
(Insee – July 2024)

1,415,000 sqm
LOGISTICS TAKE-UP
(-25% vs H1 2023)

86%
GRADE A (TRANSACTIONS)

440,000 sqm
UNDER CONSTRUCTION
(+34% vs december 2023)

4.0 %
VACANCY RATE[1]

(1) Vacancy rate excluding grade C premises, calculated based on immediately available supply (excluding projects under construction and future releases).

FALL IN TAKE-UP CONFIRMED IN Q2

As with the other asset categories, the geopolitical and economic situation as well as tougher borrowing conditions are impacting logistics occupier markets. Take-up was down 25% in volume terms and 32% in numerical terms compared with the five-year average.

Unlike owner-occupier deals, turnkey rentals are considerably short of the five-year average (-49%). The main reason is the dramatic expansion in yields, which is directly reflected in rental levels for these transactions.

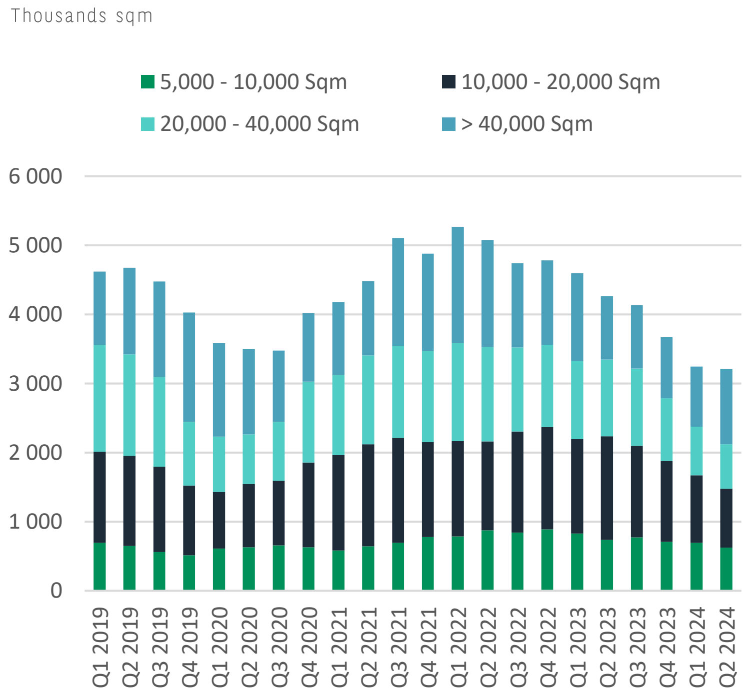
The only segment in line with the five-year average (+2%) is XXL premises, which are driving the market. These accounted for 40% of take-up in 2024, vs. an average of 30%. There is a record level of supply of premises over 40,000 sqm, which should satisfy occupiers' needs over the coming months. Conversely, deals involving units of less than 40,000 sqm have been hit hard, particularly the segment of 20,000 - 40,000 sqm which, despite a high level of supply (1/3 of space available in France), fell by 45%. Take-up of units under 20,000 sqm is down by more than 30%.

The recent completion of large-scale schemes, combined with the upturn in the XXL market, has naturally boosted the take-up of new platforms. Second-hand assets, which are generally smaller, are down 45%.

Increasingly ambitious and target-based corporate CSR1 policies are steering occupiers towards the latest generation of logistics sites with high levels of environmental certification (BREEAM, HQE, etc.)[2], to reduce carbon footprints and improve environmental performance (energy efficiency, green energy generation, biodiversity, etc.).

In terms of tenants, the breakdown of deals in H1 was skewed slightly in favour of shippers (58%). Nevertheless, the five-year average remains very evenly balanced (50% shippers / 50% providers).

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



SHARP INCREASE IN AVAILABLE SUPPLY

Availability has increased significantly compared to the end of 2023 (+28%). An increase of this magnitude, which was not even on the horizon six months ago, has not been seen for over fifteen years (+30% in 2008). This trend is even more significant insofar as some of the space leased by logistics service providers, which is vacant due to the lack of a contract, is not included in the figure, even though it competes directly with units leased under 3PL tenders.

In particular, second-hand class A supply is on the rise (+54% in volume terms), due to low take-up and many large-scale releases (> 40,000 sqm), mainly by retailers.

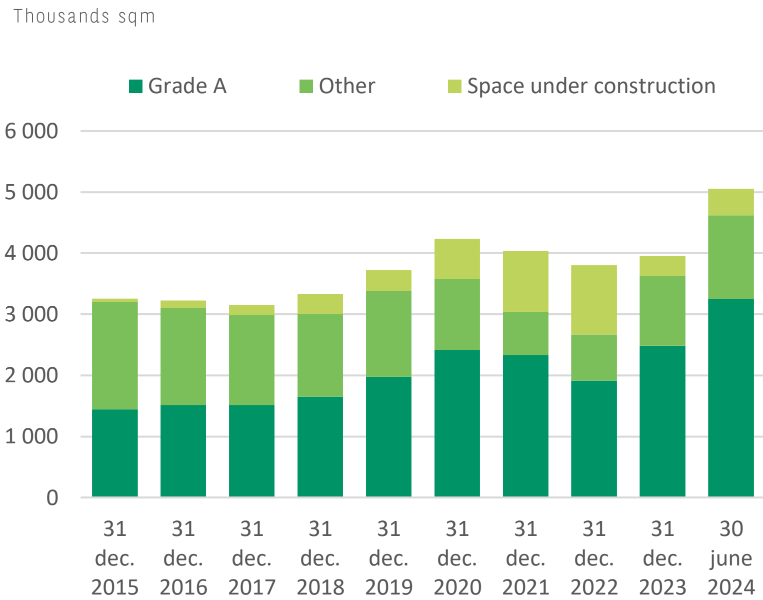
Over the last six months, the supply of platforms larger than 40,000 sqm has increased by 59% (28 platforms).

However, compared with the five-year average, the market is still balanced in terms of available supply, with the breakdown remaining virtually the same.

Nevertheless, the supply is varied from one region to another. Some markets are suffering from a lack of existing and future supply (Rhône-Alpes, Provence-Alpes-Côte d'Azur and the Atlantic Arc).

The number of sites under construction has risen by 34% over the past six months, to 438,000 sqm, reflecting restored investor confidence.

Availability within one year



BIG REGIONAL VARIATIONS

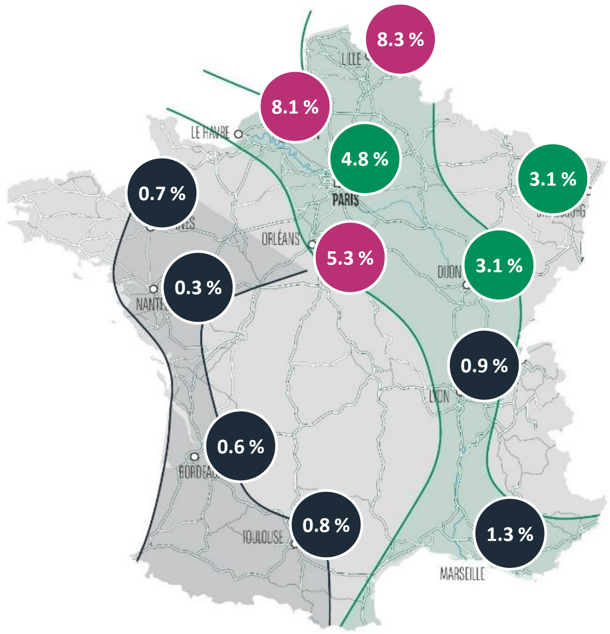
The North and Orléans regions continued to drive the market in early 2024, with 350,000 and 290,000 sqm transacted respectively. They were the only regions to outperform their five-year averages (+17% and +40%). These outstanding performances are partly due to the completion of several XXL deals. Of the nine deals for over 40,000 sqm recorded so far in 2024, six are in these two markets.

This has come at the expense of the Paris Region which, despite a rebound in Q2, is only France's third-largest market with 215,000 sqm changing hands (-50% vs. the five-year average). One of the main factors holding the Paris Region back is the absence of XXL transactions in 2024, despite six large platforms being available in the area. The chief reasons for this are motorway congestion, the depth and quality of the employment catchment area, rising rents and high taxation. Occupiers are therefore opting for neighbouring départements, commonly known as the "4th couronne", which are more financially attractive (rents and taxes).

Take-up in the Lyon and Provence-Alpes-Côte d'Azur regions came in at 115,000 sqm and 85,000 sqm respectively (-39% and -36% vs. the 5-year average), partly due to the ongoing lack of supply in these two markets.

The Atlantic Arc came in well below its five-year average (-47%), with only 95,000 sqm transacted. Once again, the economic climate is making occupiers more selective and careful as they implement their logistics strategies.

RISING VACANCY RATE



Given the increased supply, the immediate vacancy rate[1] rose by 0.7% in France, but remains relatively low at 4.0%.

However, it is still mixed. Many areas have vacancy rates close to or even below 1%, which is becoming critical for occupiers (Lyon, Bordeaux, Rennes and Nantes).

0.5% Vacancy rate < 3%

4.0% Vacancy rate between 3% et 5%

6.0% Vacancy rate > 5%

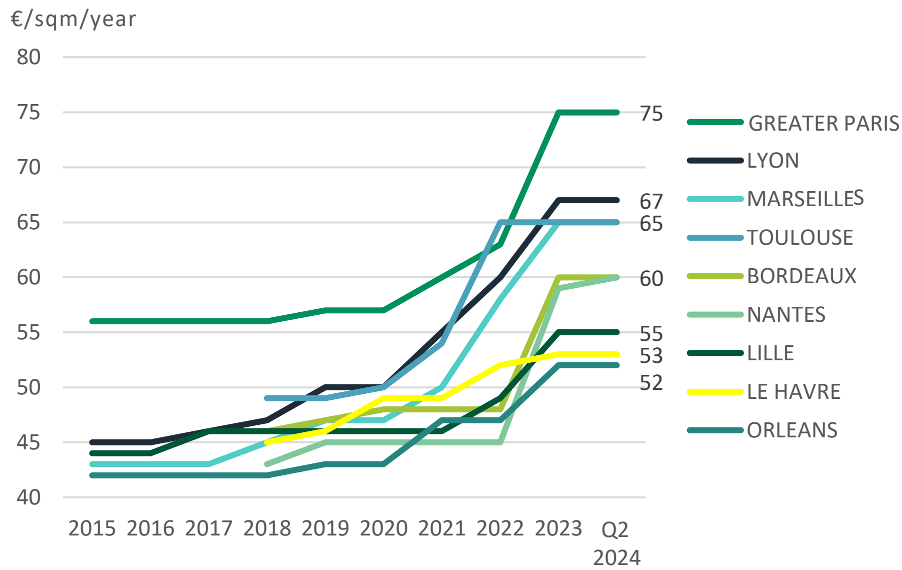
(1) Vacancy rate excluding grade C premises, calculated based on immediately available supply (excluding projects under construction and future releases).

RENTS ARE STABILISING

After rising sharply over the last three years (+20% in the main markets on the North-South axis), prime rents continued to stabilise in early 2024. The main reason in the case of existing platforms is the fall in take-up and higher available supply. Meanwhile, the stabilisation of rents for schemes under construction stems from tighter control of construction costs and a fall in the number of projects (greenfield, turnkey rental and owner/occupier.

The only increase compared to the end of 2023 is around Nantes, where the prime rent is now € 60/sqm.

Apart from certain specific locations, prime rents should continue to stabilise in H2 2024.



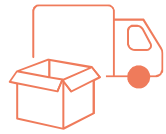
INVESTMENT: Q2 CONFIRMED THE STRONG START TO THE YEAR

While investment in commercial real estate as a whole fell by around 30% in H1 2024, allocations to logistics almost doubled vs H1 2023 (+92%), albeit still slightly below their five-year average (-15%). Indeed, logistics and hotels are the only asset categories for which investment has increased in 2024.

The ECB's recent announcement of a cut in its key interest rate, combined with controlled inflation, have restored a degree of economic stability, attracting investors. Moreover, the market seems to have reached a consensus on prices, and calls for tender are once again the subject of fierce competition. Several major deals were signed in Q2, including the sale of Blackstone's Montclair portfolio to Ares for € 320m, heralding the return of jumbo deals, which were lacking in 2023.

The market is largely driven by Core Plus or Value Added North American funds with a dual objective: to capitalise on the general rise in rents and to anticipate a contraction in exit yields as the debt market improves. The French SCPIs that drove the market last year were less active in France in H1 this year (12% of investment).

After a series of expansions, the prime yield has at last stabilised at around 4.75% for assets with high rental reversion and 5% for stabilised assets. Interestingly, the prime yield spread between offices and logistics is narrowing significantly and is now just 50 basis points compared with 250bp a few years ago. Investors have understood that the logistics market is undersupplied, highly liquid for investors, benefits from rental growth, and therefore justifies a lower risk premium.



€ 1.2 Bn

Logistics investments (Q2 2024)

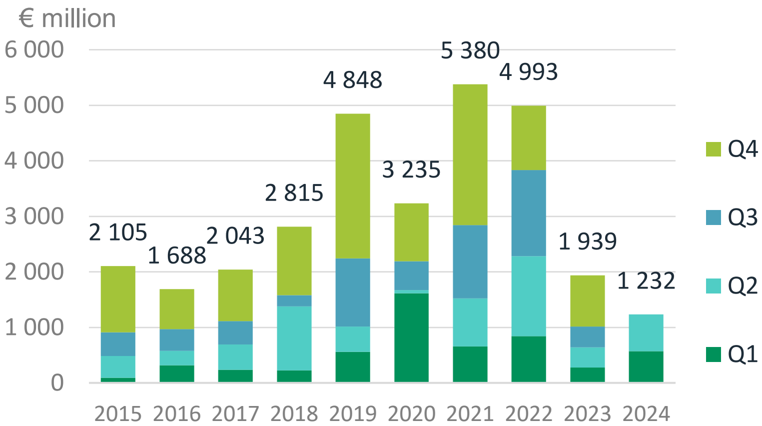
4.75 %

prime yield
with high rental reversion

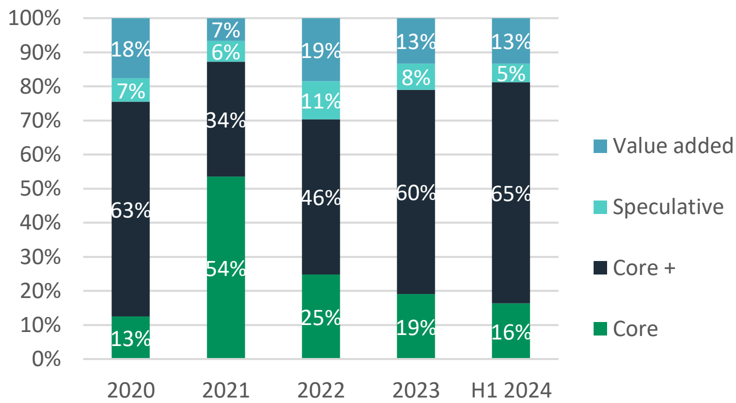
5.00 %

prime yield
stabilised assets

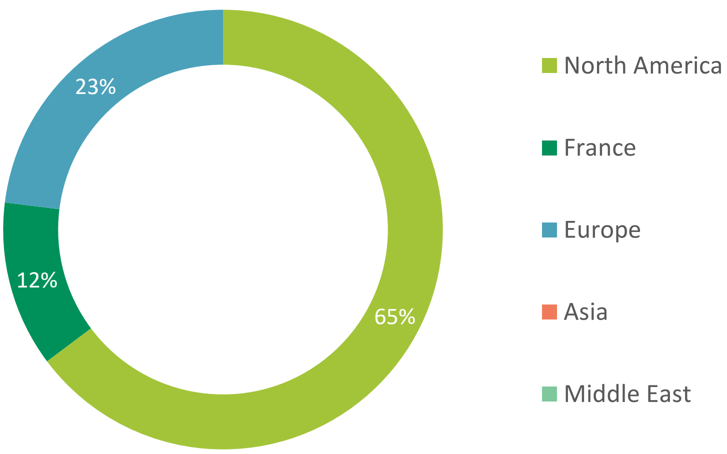
Logistics investment in France



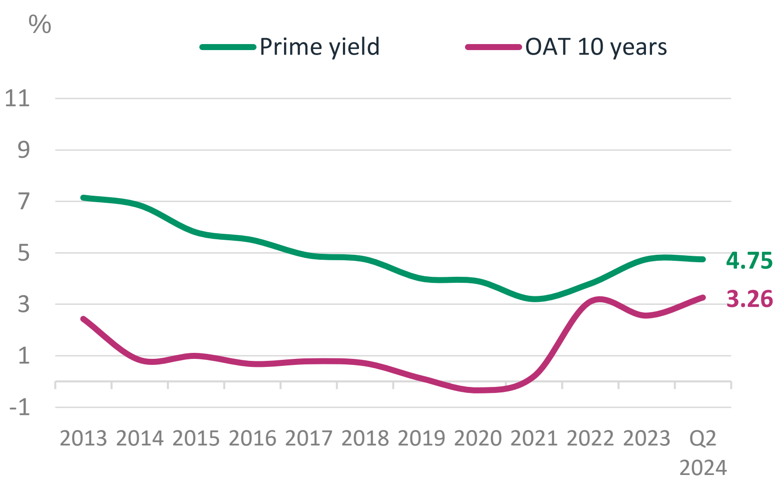
Logistics investment in France



Investors' nationality – Q2 2024



Prime yield and french bonds



BNP Paribas Real Estate - Research – July 2024

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