Outlook

France | January 2024

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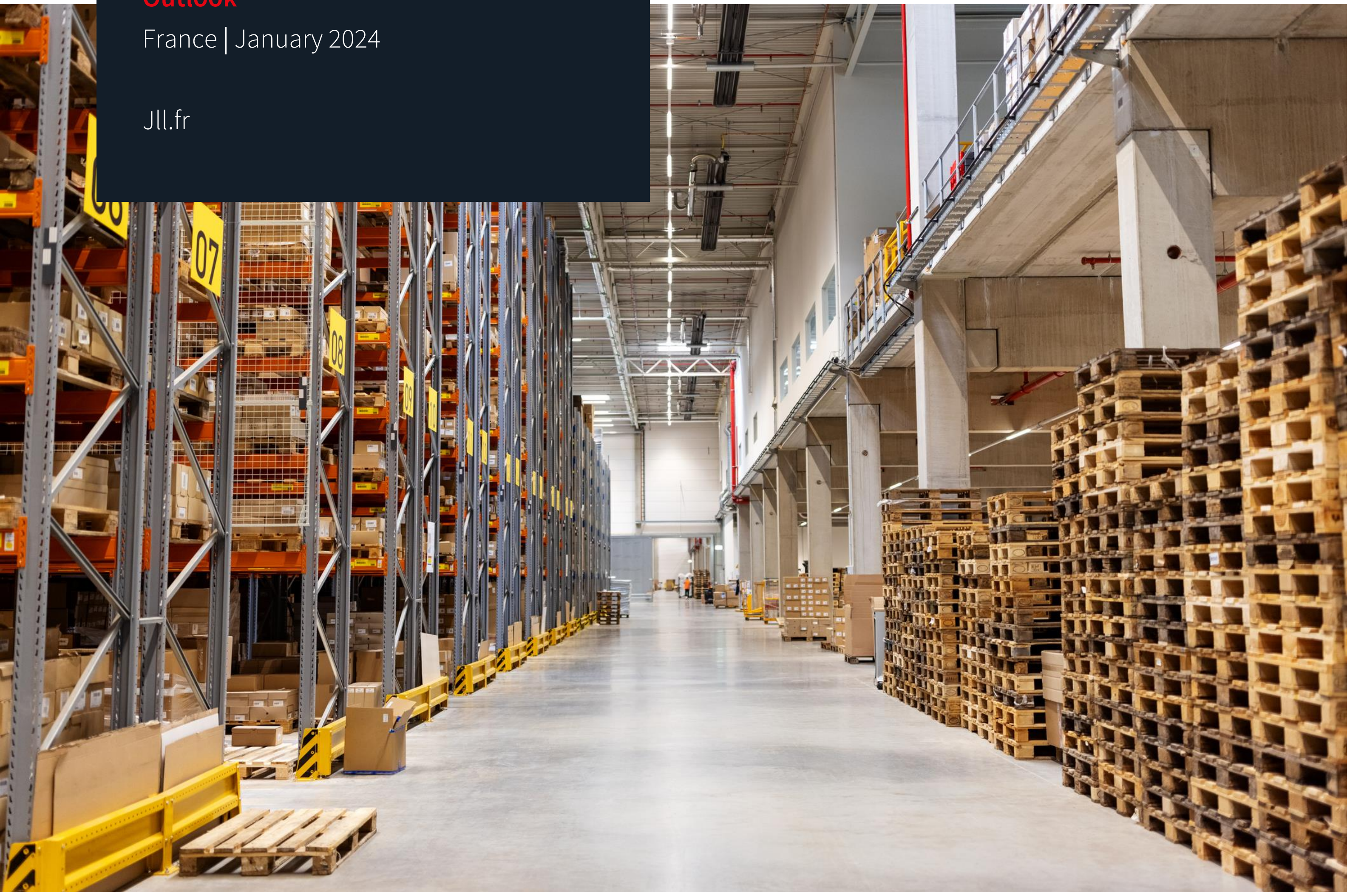


French logistics market overview

Q4 2023

SEE A BRIGHTER WAY

Key messages

1 Following a buoyant year in 2022, take-up in the French logistics real estate market exceeded 3.5 million sq m in 2023 with 3,533,800 sq m in transactions for warehouses over 5,000 sq m. This represents a -24% year-on-year decrease (4,638,900 sq m) but was in line with the 10-year average (3,508,800 sq m).

2 This more-than-adequate performance was also reflected in the number of transactions with 222 completed over 2023 as a whole; this was -24% lower than last year but +22% higher than the 10-year average (182 transactions).

3 The XXL warehouse segment (platforms over 40,000 sq m) continued to perform well with 16 recorded. In total, this segment accounted for 1/4 of the take-up recorded in 2023. Strong activity was seen in the 10,000 - 20,000 sq m segment which accounted for more than 31% of take-up and 34% of transactions (75).

4 The markets along the Logistics Corridor (Lille-Paris-Lyon-Marseille) accounted for less than half of activity, both in terms of volume (41%) and the number of transactions (44%). This is a particularly low market share and was due to low levels of supply.

5 €1.8 billion was invested in the French logistics real estate market over 2023 as a whole. This volume is -62% lower than over the same period last year and well below the average for the last 5 years. However, given the number of transactions currently underway, 2024 should be more active.

6 There was a further increase in the prime yield for logistics assets over Q4 2023 to 4.75%.

Key figures

RENTAL MARKET

TAKE-UP - FRANCE (>5,000 sq m)

3,533,800 sq m | **222** NUMBER OF TRANSACTIONS

-24% year on year / -0,1% compared with the 10-yr average

TAKE-UP - LOGISTICS CORRIDOR (>5,000 sq m)

1,439,400 sq m | **98** NUMBER OF TRANSACTIONS

-40% year on year / -28% compared with the 10-yr average

Lille region	430,400 sq m	↓	Lille region	€54	→
Greater Paris	491,500 sq m	↓	Greater Paris	€75	→
Lyon region	242,900 sq m	↓	Lyon region	€69	→
Marseille region	274,500 sq m	↑	Marseille region	€65	↑

INVESTMENT MARKET

INVESTMENT VOLUMES

€1,842m

57% Proportion of portfolios

-62% year on year / 15% of commercial real estate investment

PRIME YIELDS

4.75 %

SHARE OF FOREIGN INVESTMENTS

52% vs. 73% in 2022

01 Economic climate

Restrictive monetary policy slowing the economy

Following the surprising figures seen for H1, global growth slowed markedly over the second half of the year as monetary tightening continued. While the United States has held up well for the time being, GDP growth in the Eurozone is expected to be just +0.5% in 2023, while in China growth is likely to be just +4.4%.

French growth stalls

French growth, initially estimated by INSEE at +0.1%, ultimately came to just -0.1% over Q3. This fall in GDP is the first since Q1 2022. The negative contribution from foreign trade offset the recovery seen in consumption. According to INSEE, French growth should remain stable over Q4, taking annual growth to +0.8%.

The Business Climate, which dipped below the long-term average in October (98), saw further deterioration in November (97) before recovering slightly in December (98). The Services indicator also improved, rising from 99 in November to its long-term average of 100 in December.

The Markit Composite PMI also improved; at 44.8 in December, levels were well above the forecast (43.7) and slightly up on November (44.6). However, it remains well below both the expansion threshold (50) and the European average (47.6).

Business Climate	PMI Markit index
98 ↗	44.8 ↗
December	December

Source: INSEE, PMI Markit

On the labour market, after falling to 7.1% over Q1, the unemployment rate rose over Q2 (+0.1 point) and Q3 (+0.2 point) to reach 7.4%, a level similar to mid-2022.
Job creations slowed, although remained positive (+0.1% over Q3, +36,700 jobs). Excluding temporary work, salaried employment rose in both the manufacturing and service sectors, but continued to fall in construction (-0.3% over Q3) and agriculture (-1.0%).
The latest APEC barometer also forecasts a slowdown in the number of job vacancies, with just 123,200 vacancies published over Q3 2023 (-13% year on year) and fewer intentions to hire executives over the next 3 months while recruitment difficulties persist.

Household confidence	Unemployment rate
89 ↗	7.4 % ↗
December	Q3 2023

Source: INSEE

Conversely, the Household Confidence indicator improved from 84 in September to 89 in December, thanks in particular to a clear improvement in the balance of opinion among households on their future savings capacity (+4 points). Even so, the indicator remains well below its long-term average (100).

Clear slowdown in inflation

Inflation, which stood at +4.9% year on year in September, slowed considerably in October (+4.0%) and November (+3.5%). While this slowdown affected all items, price rises remained high for food products (+7.7% year on year in November after +7.8% in October) and tobacco (+9.8% after +9.9%). Core inflation also slowed to +3.6% in November 2023 compared with +4.2% in October. An initial estimate for December shows a slight rise in inflation to 3.7%.

This trend was also seen in other countries: inflation in the Eurozone fell to +2.4% in November (after +2.9% in October) and to +2.6% in the United States (also +2.9% in October). Core inflation also slowed in both zones, to +3.6% and +3.2% respectively.

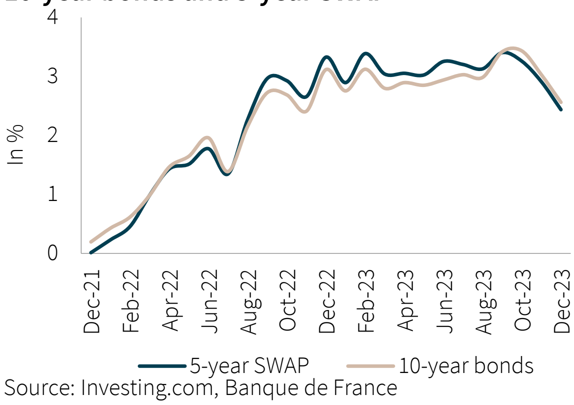
This fall in inflation, combined with a deterioration in certain economic indicators, points to the end of monetary tightening. Both the ECB and the Fed kept their rates unchanged in December. For the third time in a row, the ECB has kept its key interest rates at between 5.25% and 5.50% and its members have hinted at the possibility of 3 or 4 rate decreases in 2024, bringing rates down to 4.6% by the end of the year. The markets reacted quickly, with the CAC 40 and the Dax setting new records.

On the ECB side, however, no easing announcement was made, with Christine Lagarde reminding euphoric markets that they should "not let their guard down" in the face of inflation, particularly in view of the high employment rate and wage growth. However, a consensus seems to be emerging that the ECB's key interest rates could be cut over the second half of the year.

This expectation was reflected in government bonds: the yield on the 10-year OAT, which reached 3.43% at the end of October, has fallen over the last 2 months to 2.56% by the end of December, while the 10-year T-Bond, after reaching a record level of 4.9874% in mid-October, ended 2023 at 3.8801%.

On the financing side, the interest rate on the 5-year SWAP also eased significantly; after rising to 3.494% on 28 September, it stood at 2.434% by the end of December.

10-year bonds and 5-year SWAP



Source: Investing.com, Banque de France

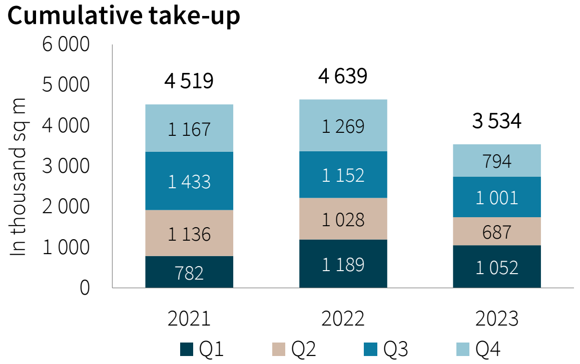
02

Rental market

A year of transition in 2023

Following a buoyant year in 2022, take-up in the French logistics real estate market exceeded 3.5 million sq m in 2023 with 3,533,800 sq m in transactions for warehouses over 5,000 sq m. This represents a -24% year-on-year decrease (4,638,900 sq m) but was perfectly in line with the 10-year average (3,508,800 sq m). However, this more than respectable performance was largely due to the excellent volume of activity recorded over Q1 (a record of 1,051,600 sq m), while Q4 take-up reached 794,100 sq m.

Cumulative take-up



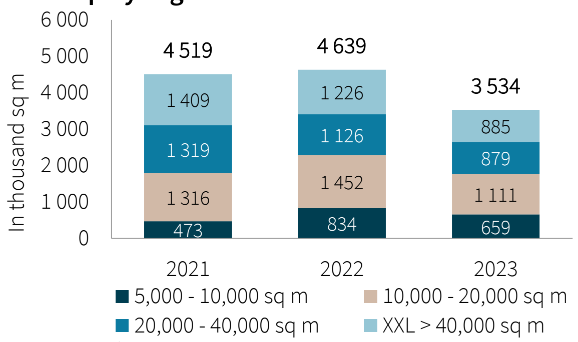
Source: JLL/ImmoStat

The number of transactions was down -24% year-on-year, but +22% higher than the 10-year average (182 transactions).

Major food retailers continued to actively contribute to the high level of transactional activity for warehouses in France, followed by the industrial sector.

The XXL warehouse segment (platforms over 40,000 sq m) continued to perform well with 16 recorded, 2 of which were for 80,000 sq m or more: INTERSPORT in Autrèche with 86,000 sq m and CARREFOUR in Mondeville for 80,000 sq m. With 885,200 sq m of take-up, this segment accounted for a quarter of the take-up recorded in France in 2023.

Take-up by segment



Source: JLL/ImmoStat

The 10,000 - 20,000 sq m segment performed well with 75 transactions accounting for more than 31% of take-up, slightly more than the long-term average (29%).

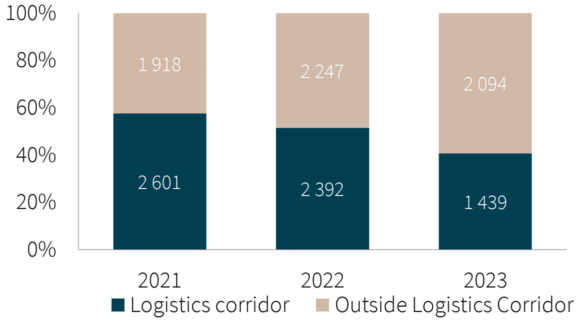
Transactions for medium-sized warehouses (20,000 - 40,000 sq m) remained active and accounted for 1/4 of take-up and 15% of transactions (33).

There were only 98 transactions in the 5,000 - 10,000 sq m segment, compared with 128 a year earlier, for a take-up volume of close to 660,000 sq m, or 19% of activity.

Distribution increasingly balanced

Overall take-up in the 4 traditional markets of the Logistics Corridor (Paris-Lille-Lyon-Marseille) struggled to reach the 1.5 million sq m threshold, with 1,439,400 sq m recorded in 2023, a fall of around -40% compared with 2022 (2,391,800 sq m). The latter accounted for less than half of all activity, in terms of both the volume (41%) and number of transactions (44%) - a particularly low market share. The markets along the Corridor are still suffering from a severe lack of availability (particularly in the South East, Lyon and Marseille) as well as increasingly scarce land reserves that are suitable for new logistic platform development.

Geographical breakdown



Source: JLL/ImmoStat

In addition, activity was mainly driven by transactions in the 4th ring of Paris (the 10 departments bordering the Greater Paris Region) where a high level of take-up was recorded. Take-up topped 500,000 sq m with 552,000 sq m accounting for 16% of the national take-up volume. It is therefore the number 1 market in France by far, ahead of Lille and Paris.

Even though the Paris market is now France's second-largest, it is losing ground to alternative markets which have more higher volumes of supply. With 491,500 sq m in transactions, it accounted for 14% of take-up nationwide and 18% of the 41 transactions recorded. While most activity was driven by warehouses under 10,000 sq m (21 transactions), 14 further transactions were recorded in the 10,000 - 20,000 sq m segment. There was only 1 transaction in the XXL warehouse segment (> 40,000 m²), with XPO LOGISTICS taking a lease on 41,918 sq m in Combs-la-Ville (77) in Q1 2023.

Lille came in 3rd place with 12% of national take-up (430,400 sq m) and 11% of transactions. The Lyon and Marseille markets, which were more subdued over in 2023, accounted for less than 15% of national take-up (243,000 sq m and 274,500 sq m respectively).

Several secondary markets benefited from greater occupier interest to the detriment of some traditional markets. Activity in Centre Val-de-Loire was high with over 400,000 sq m of take-up recorded and 12% of the national transaction volume. This outstanding performance was due to a transaction for an XXL warehouse of over 86,000 sq m in Autrèche in Indre-et-Loire.

The Normandy region also performed well compared with the traditional markets along the Corridor with 292,500 sq m and 9% of the overall volume of take-up. The Centre Val-de-Loire and Normandy regions are now ranked as the 4th and 5th largest markets in France, ahead of Marseille and Lyon.

Fewer and fewer options in Lyon and Marseille

Over 2023 as a whole, availability rose in both Paris and Lille. Immediate supply in Paris reached 918,400 sq m by the end of 2023 with a vacancy rate of 6.5%. In Lille, where immediate supply stands at 613,400 sq m, the vacancy rate is now over 12% at 12.5%.

Conversely, availability in the 2 other markets (Lyon-Marseille) fell sharply resulting in low vacancy rates of 1.3%, 0.6% respectively.

While the Paris and Lille markets have reasonable levels of supply, the Lyon and Marseille markets are clearly struggling with undersupply.

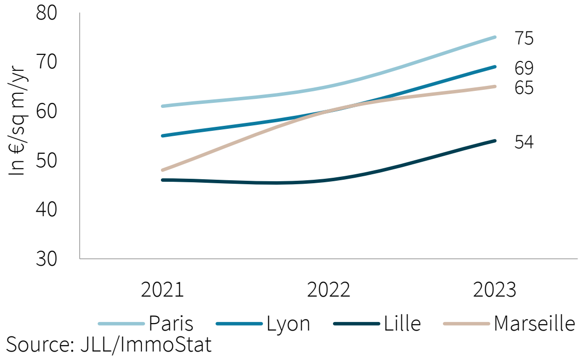
Prime rents on the rise

Continued interest in the most established markets and higher land costs and rising yields are maintaining upward pressure on rental values in the traditional markets along the Logistics Corridor. The lack of available real estate in the south of France (Lyon/Marseille) is heightening these increases.

Prime rents in the Corridor’s 4 main markets rose again in 2023, reaching unprecedented levels. The prime rent in the Paris region stood at €75 per sq m/year, the highest in the country. Elsewhere, rents stood at €69 in the Lyon region, €65 in the Marseille region and €54 in the Lille region.

The new Immostat indicator for average rents also shows strong increases, with the highest in the Rhône-Alpes region (+19% over one year), with an average value of that has risen to €64 sq m/year, while the Greater Paris Region (€67 sq m/year) and PACA (€54 sq m/year) regions have seen increases of 12% and 11% respectively.

Prime rents



Source: JLL/ImmoStat

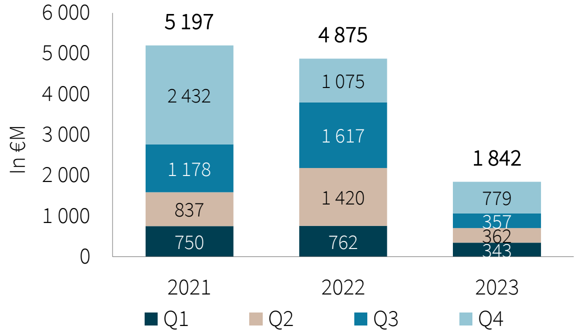
03

Investment market

2023, a year to forget

In line with the overall downturn seen for other asset classes, the logistics market continued to slow with €779 million invested over Q4; this may be a low volume but is still an increase compared with the first 3 quarters of the year (average investment volume of €354).

Investment volumes



Source: JLL/ImmoStat

This represents a sharp -27% reduction compared with Q4 2022 and was considerably lower than the 5-year average. €1.8 billion was invested over 2023 as a whole, compared with the €4.8 billion a year earlier. This sharp -62% fall was largely due to the lack of major transactions, with only a limited number of portfolio deals.

With almost €12 billion invested in the wider commercial real estate market, the logistics segment's market share stood at 15% by the end of 2023, compared with 17.5% in 2022.

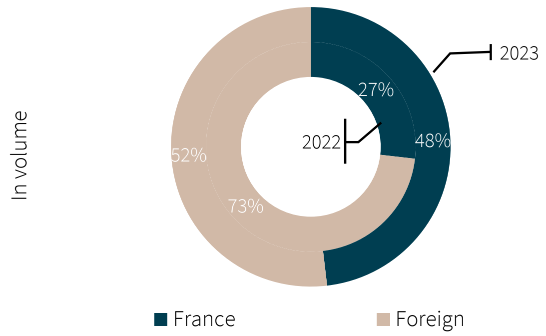
Only 4 transactions over €100m

The contraction seen in the logistics market was also reflected in the number of transactions with 66 recorded in 2023; this is far lower than the 98 seen by the end of 2022 and slightly below the average for the last 5 years (86 transactions). The biggest transaction of the year was CBRE IM / VIRTUO's disposal of the "Olympe" portfolio to AXA IM, consisting of 6 warehouses for a total value of just under €187 million.

There were 4 transactions for lot sizes over €100 million in 2023 representing 27% of the logistics market investment volume. Other significant acquisitions included P3 Logistics Parks' acquisition of the "Camélia" portfolio for €158 million and IVANOHE CAMBRIDGE's disposal of the SCOTT portfolio to ETCHE-KKR for €140 million.

The market saw reduced international activity with just a 52% market share for foreign investors. Global funds and North American investors (United States and Canada) accounted for a third of investments.

Share of foreign investors



Source: JLL/ImmoStat

04

Outlook

Weaker growth, falling inflation

In 2024, the global economy will continue to be affected by geopolitical difficulties, major forthcoming elections, ongoing conflicts and by high inflation: according to IMF forecasts, global inflation will stand at 5.8% in 2024, after having reached 8.7% in 2022 and 6.9% in 2023. The global economy is also likely to suffer the effects of monetary tightening and weaker-than-expected growth in China. As a result, GDP will only grow by +2.7% internationally, compared with +2.9% in 2023.

For the Eurozone, the latest ECB forecasts, based on lower inflation (2.7% after 5.4% in 2023), an improvement in external demand, sustained wage growth and continuing low unemployment, expect growth to reach +0.8% in 2024 (-0.2 points on previous forecasts).

According to INSEE, growth in France will be sluggish over H1 2024, with GDP expected to rise by +0.2% over Q1 and Q2. Growth should reach +0.8% over the year as a whole, driven in particular by a recovery in household consumption prompted by falling inflation (2.5% in 2024 compared with 5.7% in 2023) and wages which rose faster than inflation at the end of 2023. According to INSEE, purchasing power will rise by +0.8% in 2023 and should continue to recover over H1 2024.

The BANQUE DE FRANCE expects a moderate downturn in the employment market. According to the bank, the unemployment rate will gradually rise to 7.8% in 2025, a lower level than that seen before the Covid crisis.

However, these forecasts will fluctuate in line with potential shocks and changes in monetary policy. While markets are anticipating a cut in key interest rates in 2024, the main central banks have reiterated the need to keep a close eye on inflation.

On real estate markets, 2024 should mark the return of greater clarity which should prompt investors and businesses into moving forward with their real estate strategies.

Rental market

Occupiers, both shippers and 3PLs, are still being affected by rising costs (energy, land and construction) and are seeking to optimise their property costs. This is why they are currently transforming both their business and organisational models.

In light of the pipeline transactions that we have identified and the performance seen in 2023, we expect take-up to be slightly higher in 2024.

In terms of supply, we expect there to be a very slight increase in availability in early 2024 driven by the substantial volume of completions scheduled over the first 3 months of the year with a potential for over 525,000 sq m of space in addition to the completions seen in H2 2023. However, vacancy rates should remain contained.

We believe that there will be some contrasts in rental values over the next few months, depending on the market and the levels of available land.

Investment market

The likely end of key interest rate hikes and the fall in bond yields seen at the end of the year should allow for improved price visibility and should encourage market activity by improving the property risk premium. These clearer conditions will gradually encourage agreements on pricing between buyers and sellers.

The stabilisation of finance costs will also facilitate larger asset disposals. As a result, the logistics market should start to stabilise over the coming months, with a number of larger portfolio deals already underway since Q4.

JLL SEE A BRIGHTER WAY

Research authors

Delphine Mahé
Director Market Research
Research
Paris/France
delphine.mahe@jll.com

Ambroise Deydier
Logistics & Retail consultant
Reasearch
Paris/France
ambroise.deydier@jll.com

Pierre-Christophe Kerdelhue
Investment consultant
Research
Paris/France
pierre-c.kerdelhue@jll.com

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To find out more about JLL services, contact:

Olivier Durif
Director I&L Transactions France
Leasing Markets Advisory
Paris/France
olivier.durif@jll.com

Bruno Montigny
Senior Advisor Logistics France
Leasing Markets Advisory
Paris/France
bruno.montigny@jll.com

Simon-Pierre Richard
Head of I&L Investment Properties France
Capital Markets
Paris/France
simonpierre.richard@jll.com

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