

France  
H1 2019

## French logistics market overview





# Key rental market figures

## > Take-up in France over H1 2019

(Warehouses over 10,000 sq m)

**1,347,000 sq m** +3% year on year



Retailers  
53%



3PLs  
47%

## > Take-up along the Corridor over H1 2019

(Warehouses over 5,000 sq m)

**749,000 sq m** -7% year on year

Lille region	159,000 sq m	DOWN
Greater Paris Region	439,000 sq m	UP
Lyon region	116,000 sq m	UP
Marseille region	36,000 sq m	DOWN

## > Prime rent (€/sq m/year) in Q1 2019



Lille region	€42 - €43	STABLE
Greater Paris Region	€47 - €53.5	STABLE
Lyon region	€46 - €49	STABLE
Marseille region	€44 - €48	STABLE

## Key points

With a total of 1.347,000 sq m in transactions over H1, the strong volumes seen in recent years have continued into 2019.

There were some significant disparities depending on the market: the Paris region may have seen a substantial increase (46% year on year), but decreases were recorded in other markets, such as Lille (-27%) and Marseille (-80%).

As the main consumers of XXL spaces, retailers accounted for the majority of take-up (53%).

# Key investment figures

## > Investment volume

**€979 million**  
 -29% year on year  
 7.7% of commercial real estate investment





## > Share of portfolios

**27%**

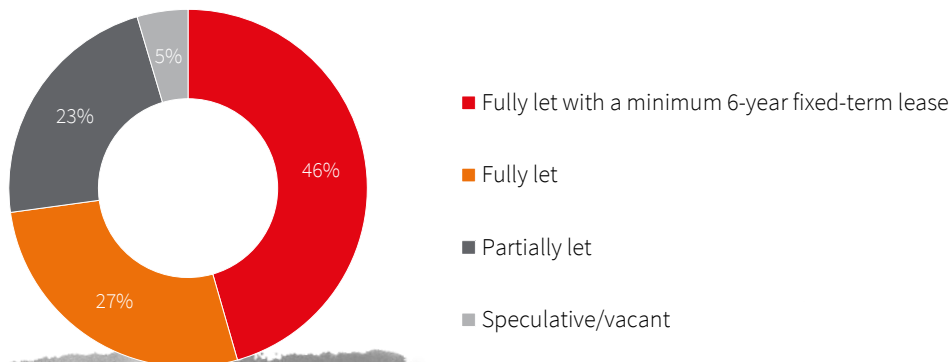
## > Prime yield

Warehouses  **4.50%** **STABLE** 

## > Purchaser nationality

France	38%	
Global	24%	
UK	22%	
Germany	15%	

## > Investment type



## Key points

Following a record year in 2018, the French logistics investment market continued to perform well with almost €1 billion (€979 million) in investments over H1 2019; this is 96% higher than the 10-year average.

Domestic investors may have continued to play a key role, but the market is proving to be increasingly attractive to foreign investors, from the UK and Germany in particular.

As the market is more tense than ever with a considerable lack of core product, the prime yield is poised to dip below 4.50%.

# Economic climate

## Trade tensions compromising global growth

### Global economy

There was barely any improvement at all in the global economic climate over the last 3 months; the US-China trade conflict continues to weigh on growth while there is ongoing uncertainty surrounding debt, the slowdown in the Chinese economy, Brexit and geopolitical tensions.

Despite this climate, the American economy remained buoyant over Q1 2019 with 0.8% growth compared with 0.5% over the previous quarter. Growth also continued in Germany (0.4% compared with 0.0% over the previous quarter), in the United Kingdom (0.5% vs 0.2%), in Italy (0.1% following a 0.1% decrease) and, more moderately, in Japan (0.6% compared with 0.5%).

Conversely, there was a slight decrease in GDP in China and India (to 1.4% compared with 1.5% in both countries) as well as a considerable downturn in South Korea (-0.4% compared with 0.9%).

### Eurozone

Growth was stronger than expected in the Eurozone over Q1 2019 (0.4%). This upturn was driven by domestic demand with increases in household consumption (+0.5%) and investments (+1.1%) as well as a rise in exports (+0.6%).

Economists had expected unemployment to stagnate over Q1, but levels ended up with further decreases to 7.7% in March and 7.5% in May - this is the lowest level since July 2008.

However, there is still an element of uncertainty in the Eurozone economy due to current trade tensions, the potential impact of Brexit, difficulties in manufacturing and budgetary issues in Italy. These uncertainties are also reflected in surveys of Eurozone businesses who are less optimistic in terms of their 12-month forecasts.

After rising to 1.7% in April, inflation started to fall again reaching 1.2% in May.

Growth in the main countries

	Q1 2019
<b>Developed countries</b>	
<i>United States</i>	0,8
<i>United Kingdom</i>	0,5
<i>Japan</i>	0,6
<i>Canada</i>	0,4
<b>Emerging countries</b>	
<i>China</i>	1,4
<i>India</i>	1,4
<i>Brasil</i>	-0,2

Source: OCDE, National institutes

Growth in the main countries

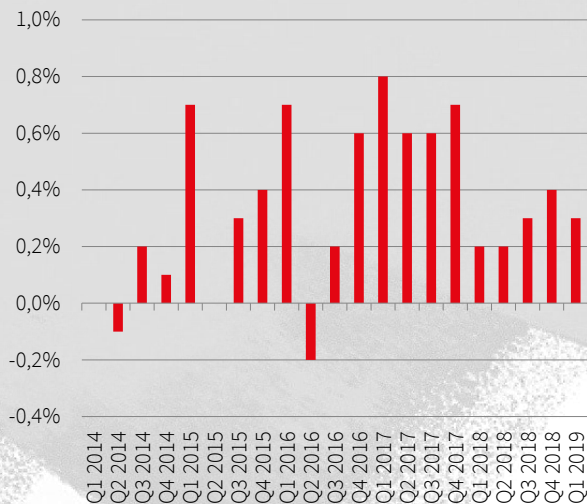
	Q1 2019
<b>Eurozone</b>	0,4
<i>Germany</i>	0,4
<i>France</i>	0,3
<i>Italy</i>	0,1
<i>Spain</i>	0,7

Source: OCDE, National institutes

## France

French GDP rose by 0.3% over Q1 2019; this is slightly lower than in Q4 2018 (+0.4%) but is still reasonable given the current climate.

GDP in France (QoQ change)



Source: Insee

This sustained activity is primarily due to an increase in domestic demand which has rallied following the emergency measures announced by the government: a one-off bonus of €1,000 for 2 million workers, revaluation of the minimum wage, tax-free overtime and the broadening of exemptions from increases in social security contributions for small pensions. Household consumption therefore rose by 0.4% over Q1 2019. Householder confidence also improved significantly. After having fallen to 87 in December 2018, levels have risen, reaching 99 in May, close to the long-term average. The French government has taken these measures to offset the potential impact of the introduction of taxation at source.

There was also good news in terms of employment as the unemployment rate fell once again over Q1 2019 to 8.7%.

This trend is likely to continue over the next few months following positive results published by POLE EMPLOI (job centre) - 2.7 million job creations expected in 2019 - and ADECCO, 3.5 million including interim roles and apprenticeships. These figures are considerably higher than forecasts.

Inflation had reached 1.8% in 2018 but now stands at around 1%. After 1.3% in April, levels fell to 0.9% in May before rising again in June to 1.2%.

## Financial climate

Given these moderate levels of inflation combined with ongoing uncertainty in the economic climate, the ECB announced at the beginning of June that it will not raise interest rates before June 2020, that its targeted longer-term refinancing operations (TLTRO) will run through to 2021 and that it will use all of the powers at its disposal if growth continues to slow. These announcements immediately resulted in a sharp reduction in bond yields which have stood at around 0% in France since mid-June. It remains to be seen what choices Christine Lagarde, the first woman elected to lead the institution, will make as she takes over from the Italian Mario Draghi. The announcement of her nomination already appears to have had the effect of relaxing rates: on 4 July, AGENCE FRANCE TRESOR carried out a 10-year debt raising at a negative rate.

The Fed, which last raised interest rates by 25 basis points at the end of 2018, announced that it was prepared to lower rates if necessary. With the American economy set to slow over the next few months, some analysts expect to see 2 reductions in interest rates by the end of 2019.

# Rental market

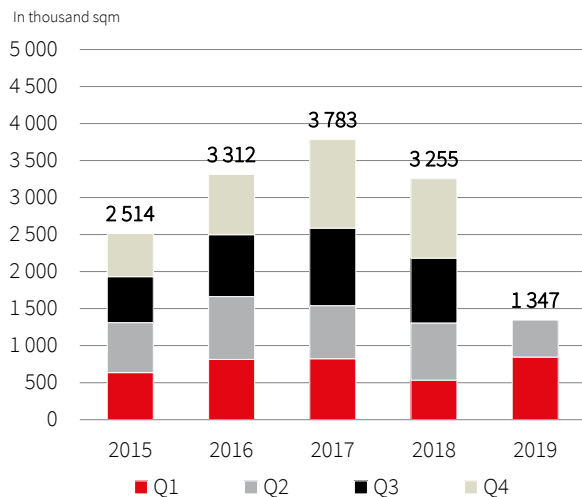
## *H1 driven by a record-breaking Q1*

### French logistics real estate market essentials

By the end of H1 2019, the take-up achieved a total of 1.3 million sq m in France for warehouses over 10,000 sq m. The activity seen in recent years therefore continued with performance at 15% above the average since 2011.

63% of the activity during H1 was generated in Q1 when 846,000 sq m of take-up was recorded, a record. Fewer transactions than normal were seen over Q2, with 500,000 sq m of take-up.

Change in take-up



Sources: JLL/ImmoStat

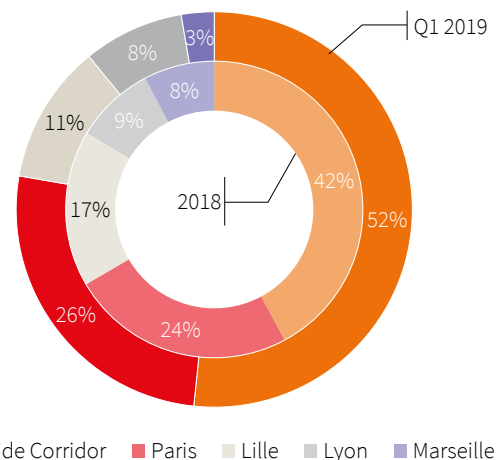
\*Warehouses > 10,000 sqm

Once again this year, most transactions were attributable to 3PLs who were behind 52% of transactions; this is comparable with the levels seen last year. Transaction analysis by tenant type reveals that retailers consumed the highest volume of space; even though they carried out fewer transactions, these were generally for larger spaces than those chosen by 3PLs. 6 of the 9 transactions recorded in the over 40,000 sq m segment were carried out by retailers.

Markets located outside the Logistics Corridor have become increasingly attractive and accounted for the majority of take-up volume (52%); this configuration has not been seen since 2016.

In terms of the number of transactions, the Logistics Corridor retained its leading position with the majority of transactions carried out within its boundaries. Of the 4 main markets that form the Corridor, the Paris region was still the most sought-after and accounted for over a quarter of the take-up recorded in France (26%). The Lille market was next in line with 11% of the volume. The Lyon region came in 3rd place (8%), followed by Marseille which accounted for 3% of take-up.

Breakdown of French take-up by volume



Sources: JLL/ImmoStat

Rental values in the main markets remained stable at €53.5 per sq m/year in the Paris region, €49 per sq m/year in Lyon, €48 per sq m/year in Marseille and €43 per sq m/year in Lille.

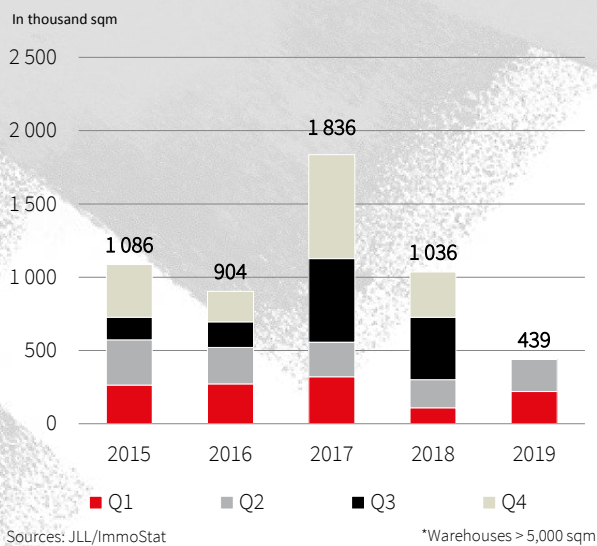


## The Greater Paris Region market

Take-up in the Greater Paris Region stood at 439,000 sq m over H1 2019. This represents a strong increase compared with the same period last year (46%).

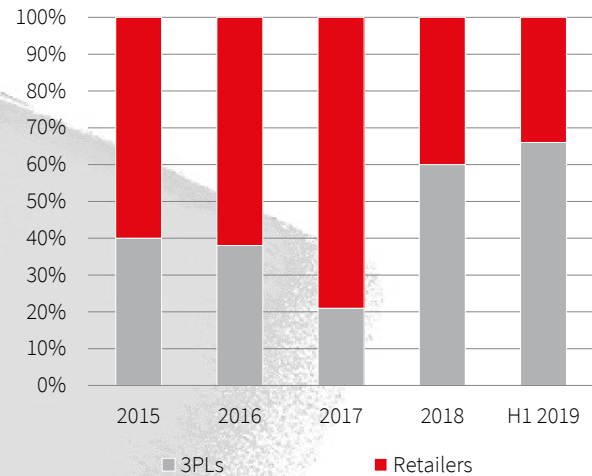
This level of performance was 10% higher than the average recorded between 2011 and 2018 and was due to sustained market activity. Over 30 transactions were recorded over H1, a comparable amount to the same period in 2017. There may not have been any transactions in the XXL segment (40,000 sq m), but the 20,000 - 40,000 sq m segment performed well with 7 transactions over H1 2019.

### Take-up in Greater Paris Region



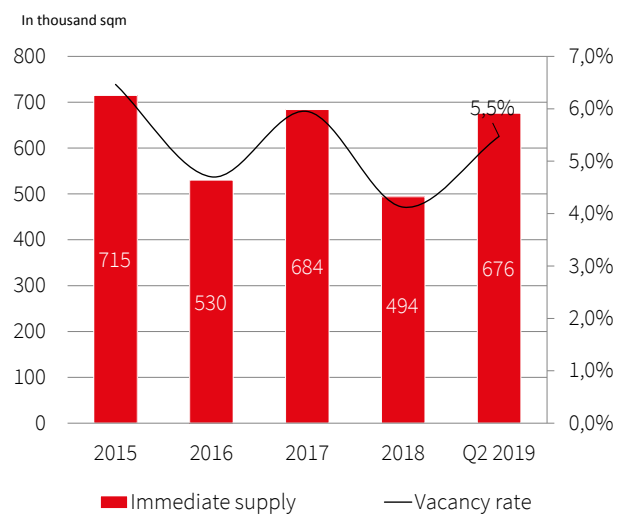
As in 2018, 3PLs continue to drive the Greater Paris Region market and were involved in 2/3 of transactions. This same ratio also applies to the volume of space transacted.

### Breakdown of take-up by occupier type by volume



After having fallen substantially over 2018, **there was an increase in the level of immediate supply**. Availability in the capital region stands at 470,000 sq m, with a vacancy rate of 5.5%.

### Changes in immediate supply



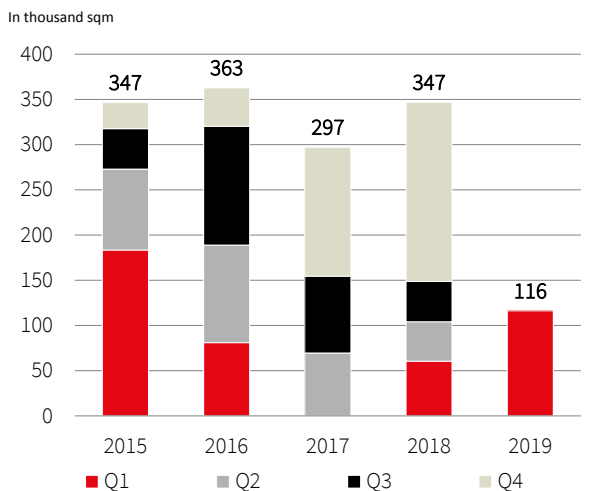
The average prime rent (and the highest in the country) remained stable at €53.5 per sq m/year.

## The Lyon market

116,000 sq m of take-up was recorded for warehouses over 5,000 sq m in the Lyon region; this represents an 11% year-on-year increase.

In terms of volume, H1 may appear to be one of the best in recent years, but when we consider the number of transactions, the market has been less active than usual. There were 3 such transactions in the region over H1, all of which were recorded in Q1. Performance over H1 was largely due to the conclusion of the largest transaction of the year for the French market: the EASYDIS lease of a 70,000 sq m logistics complex in Corbas.

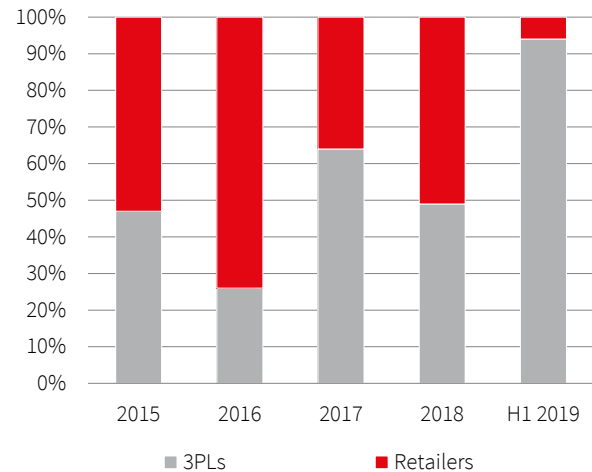
### Take-up in Greater Lyon Region



Sources: JLL/ImmoStat

In 2018, the split of activity between retailers and 3PLs was fairly balanced. Over H1 2019, 3PLs were the main drivers of activity in the region.

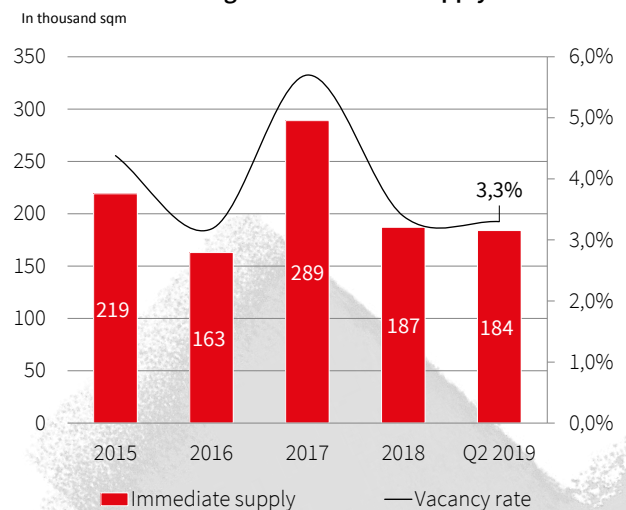
### Breakdown of take-up by occupier type by volume



Sources: JLL/ImmoStat

Following the sharp decrease recorded in 2018, the level of immediate supply in the Lyon market remains low. Availability currently stands at just 184,000 sq m; this means that the vacancy rate remained stable at 3.3%.

### Changes in immediate supply



Source: JLL

After having increased over 2018, the prime rent has continued to rise and now stands at €49 per sq m/year.



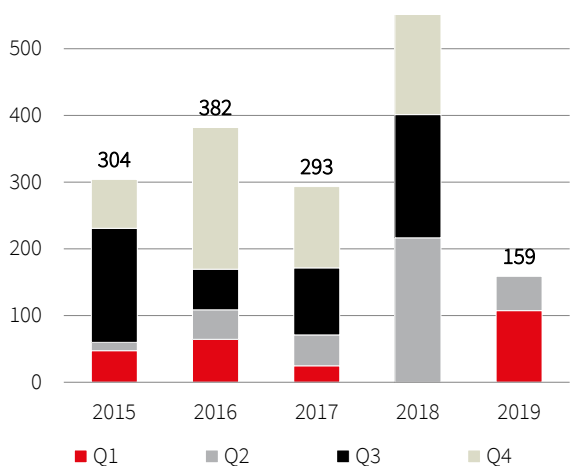
## The Lille market

Following a record year in the Lille market for warehouses over 5,000 sq m, 2019 appears to be heading in the same direction. Even though the 159,000 sq m of take-up represents a 27% decrease compared with last year, H1 2019 posted the second-best performance of the decade.

2018 set a new record in terms of the number of XXL warehouse (>40,000 sq m) transactions, but only 1 transaction on this scale was seen over H1 2019: the planned move by transport specialist GRIMONPREZ to a new 53,000 sq m warehouse.

### Take-up in Greater Lille Region

In thousand sqm

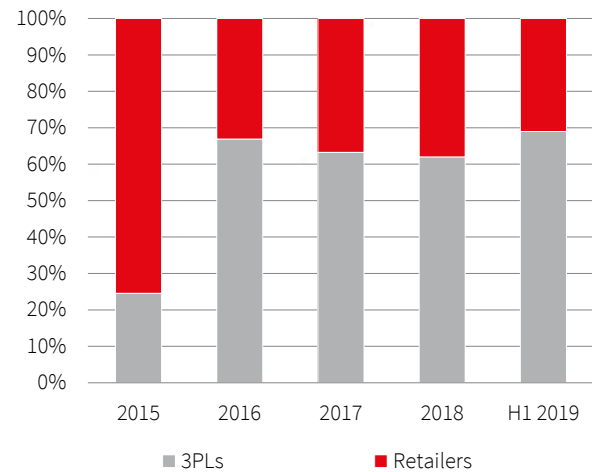


Sources: JLL/ImmoStat

\*Warehouses > 5,000 sqm

Over the last 3 years, most space in the region has been consumed by 3PLs (average of 63% of volume). The same pattern was seen over Q1 as 70% of the volume recorded was attributable to logistics providers this quarter.

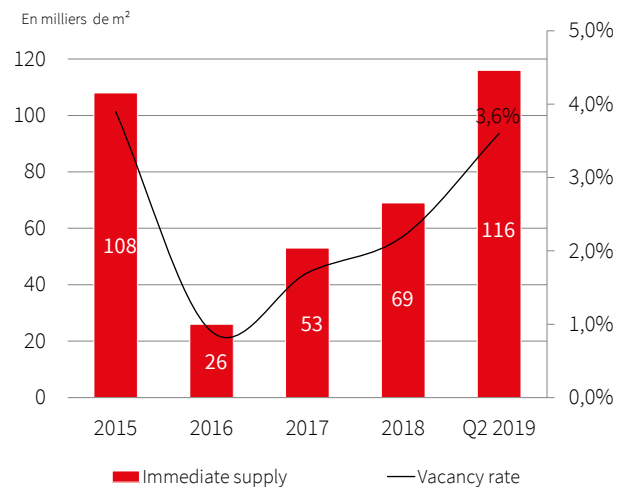
### Breakdown of take-up by occupier type by volume



Sources: JLL/ImmoStat

Immediate supply benefited from a significant increase and now stands at 116,000 sq m; levels have not been this high since 2015.

### Changes in immediate supply



Source: JLL

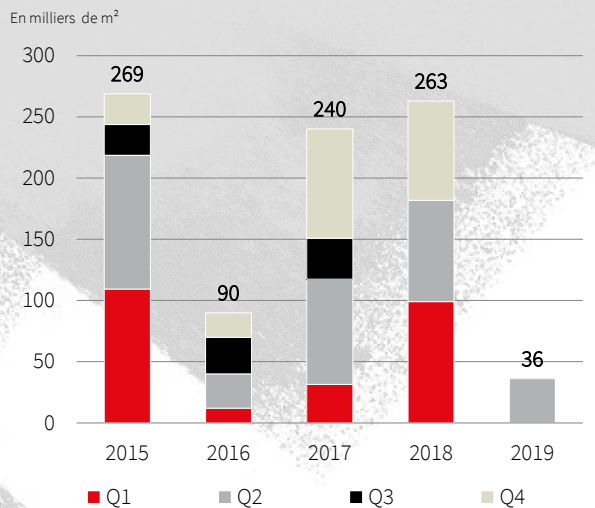
Rental values remained stable at €43 per sq m/year for prime assets. However, these levels could rise over H2 2019.

## The Marseille market

2018 may have been one of the most active for the last 10 years with 263,000 sq m of take-up, but **activity slowed over H1 2019**.

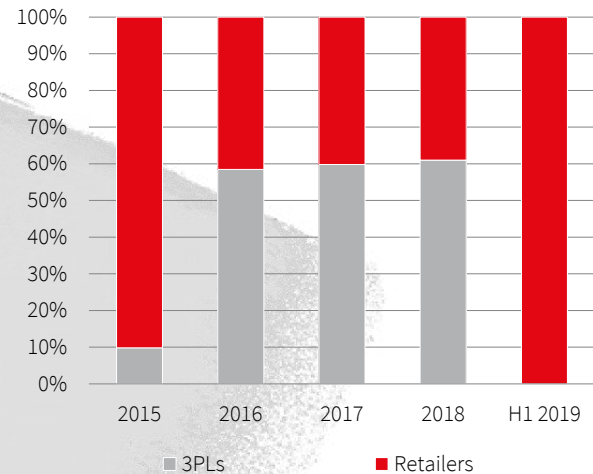
**Just one transaction was recorded in the region:** the ADEO group (LEROY MERLIN) is having the first stage of its future logistics site built in Fos-sur-Mer. This first phase is 36,000 sq m, while the second 92,000 sq m phase should contribute to take-up figures early next year.

### Take-up in Greater Marseille Region



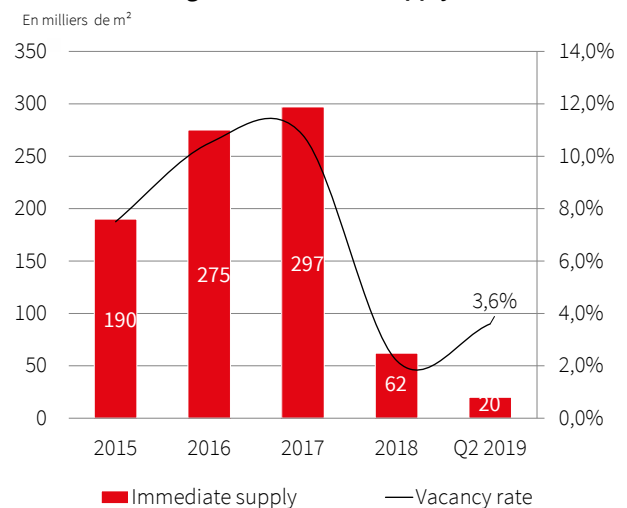
Over the last 3 years, 3PLs have accounted for 60% of take-up volume. **So far this year, only distribution has contributed to take-up activity.**

### Breakdown of take-up by occupier type by volume



**Immediate supply continued to fall across the region** and now stands at just 20,000 sq m. However, a number of releases are expected to contribute to existing supply.

### Changes in immediate supply



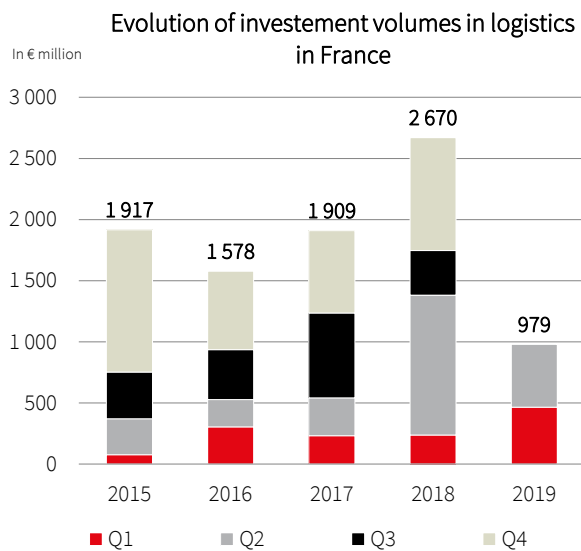
Rental values remained stable, ranging from €42 to €48 per sq m/year for prime assets.

# Investment market

## Continued momentum?

### The French investment market - key points

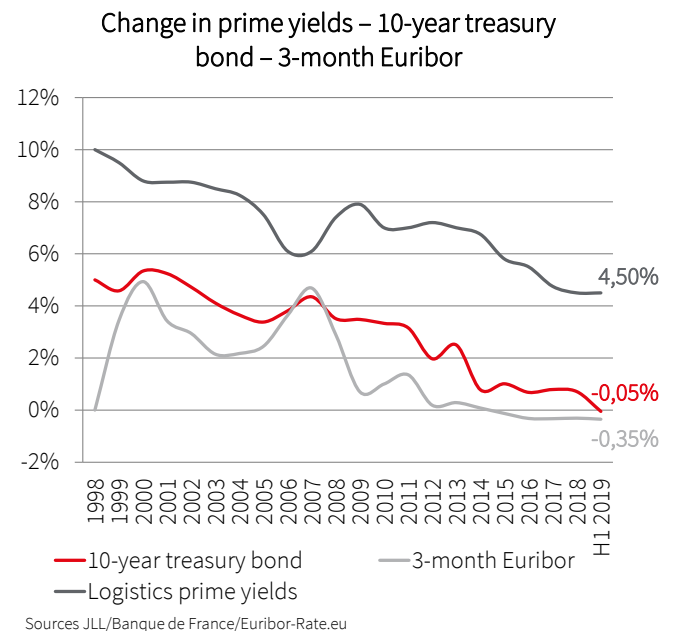
2018 clearly stood out with a record investment volume of €2.7 billion in logistics real estate. Activity continued to perform well over H1 2019 with an investment volume approaching €1 billion. More precisely, a total of €979 million was invested over the first half of the year; this is 29% lower than in 2018, but is still 96% higher than the 10-year average.



Portfolios accounted for 27% of investments over H1 2019 compared to around 50% in recent years.

The market is performing particularly well and is proving to be attractive to both domestic and foreign investors: French buyers accounted for 38% of investments, UK investors 22%, German investors 15% with the remainder attributable to global investors.

After remaining stable over Q2 2019, the prime yield should see further compression over H2 2019.





# Outlook

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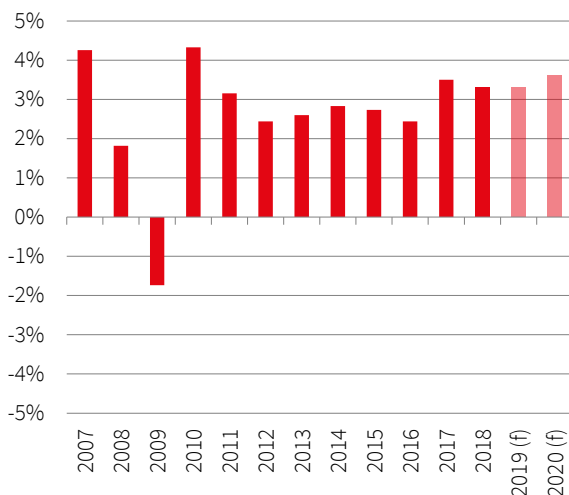
## Growth set to slow

### Economy

Given the trade tensions and the range of uncertainties in the current climate, economists are in agreement that global growth is set to slow over the coming months.

Last quarter, the IMF had forecast **global growth** to stand at 3.5% in 2019, but has recently revised down its projections. GDP growth should therefore stand at 3.3% for 2019 and 3.6% for 2020. The OECD is less optimistic with forecasts of 3.2% and 3.4% respectively.

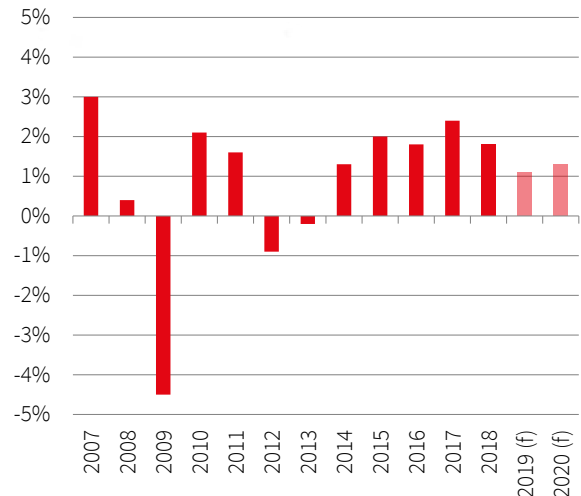
Global growth



Source: IMF

Forecasts for the Eurozone have also been revised as exports and investments are set to slow; GDP should rise by 1.1% in 2019 and 1.3% in 2020 according to the latest Consensus Forecasts, compared with 1.2% and 1.4% last quarter. Inflation should remain at around 1% through to the end of the year.

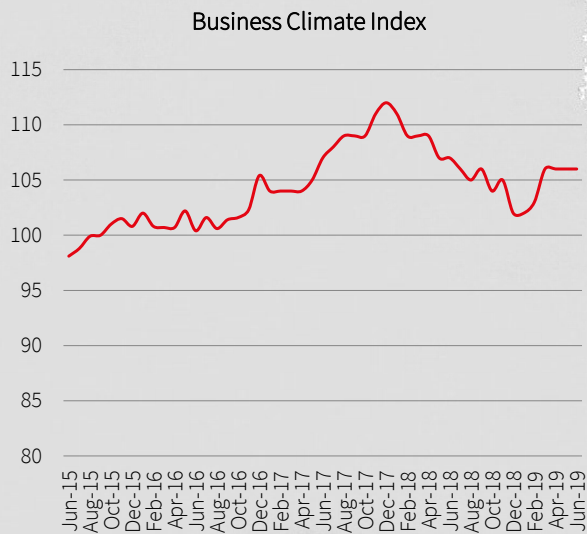
Growth in the Eurozone



Source: Banque mondiale, IMF

The challenging international climate has also prompted economists to **revise down their forecasts for France**, despite considerable improvements in the Business Climate (106 in June) and the global PMI Markit index (52.9 at the end of June) since the beginning of the year.

The measures announced by the government may have had a positive effect on consumption over Q1, **but the French economy should start to suffer from the impact of the US-China conflict and slower growth in Germany** (0.5% in 2019) and Italy (0.1%), France's 2 main trading partners within the Eurozone. The BANQUE DE FRANCE, the IMF and the OECD have therefore forecast growth to stand at 1.3% in 2019. Forecasts for 2020 currently range from 1.3% and 1.4%.



Source: Insee

### Investment market

Given the degree of change and new requirements driven by the vitality of the e-commerce market, **French logistics real estate is proving to be particularly attractive to both domestic and foreign investors.** Following a particularly active start to the year, **H2 2019 is poised to be particularly active with a substantial volume which has already been committed to and that is at the due-diligence stage, all of which leads us to believe that 2019 is primed to set a new record for the French logistics real estate investment market.**

Historically overlooked due to their location outside of the Logistics Corridor, **secondary markets are now as much of interest to buyers as the primary markets.**

Given this climate, **the prime yield of 4.50% is now under unprecedented pressure.** The level could therefore fall to 4.00% by the end of the year.

**Paris**

40-42 rue La Boétie  
75008 Paris  
T : +33 (0)1 40 55 15 15  
F : +33 (0)1 46 22 28 28

**Saint-Denis**

3 rue Jesse Owens  
93210 Saint-Denis  
T : +33 (0)1 40 55 15 15  
F : +33 (0)1 48 22 52 83

**Le Plessis-Robinson**

« La Boursidière » - BP 171  
92357 Le Plessis-Robinson  
T : +33 (0)1 40 55 15 15  
F : +33 (0)1 46 22 28 28

**Lyon**

« King Charles » - 132 cours  
Charlemagne 69002 Lyon  
T : +33 (0)4 78 89 26 26  
F : +33 (0)4 78 89 04 76

**Marseille**

21 rue de la République  
13002 Marseille  
T : +33 (0)4 95 09 13 13  
F : +33 (0)4 95 09 13 00

**Bordeaux**

16 cours de Tournon  
33000 Bordeaux  
T : +33 (0)5 57 83 60 44  
F : +33 (0)1 46 22 28 28

**Lille**

46 rue de Valenciennes  
59000 Lille  
T : +33 (0)3 20 17 93 10  
F : +33 (0)1 46 22 28 28

**Rennes**

20 rue d'Isly  
35042 Rennes Cedex  
T : +33 (0)1 40 55 15 15  
F : +33 (0)1 46 22 28 28

**Contacts**

Cédric Igabille  
Consultant  
Research - Paris  
T : +33 (0)1 40 55 85 66  
cedric.igabille@eu.jll.com

Jean-Marie Guillet  
Director  
Logistics leasing - Lyon  
T : +33 (0)4 78 17 13 32  
jean-marie.guillet@eu.jll.com

Simon-Pierre Richard  
Director  
Logistics investments - France  
T : +33 (0)1 40 55 59 27  
simonpierre.richard@eu.jll.com

[www.jll.fr](http://www.jll.fr)

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