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France, land of opportunities for investors

2019 was the year of records for France's commercial real estate market. Overall investments jumped 16% to reach €35.4bn, while offices (€25bn) and logistics (€5.1bn) had their best year ever. Even the much-maligned retail sector managed to register its 3rd best performance in history, at €5.3bn. Opportunities abound across the Hexagone in all real estate asset classes and investors, national and international alike, have clearly taken notice.

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As investors flock to France, commercial real estate sets new records

Numerous records were broken in 2019 on France's commercial real estate market. As overall investments jumped 16%, reaching €35.4bn, offices (€25bn) and logistics (€5.1bn) had their best year ever, while Paris became the world's leading CRE investment market. Even the much-maligned retail sector managed to register its 3rd best performance in history, at €5.3bn. So, why are investors flocking to France ?

By Luc-Etienne Rouillard Lafond

To beat its 2018 record, French commercial real estate market finished the year strong. *"A year-end rally took place once again with more than €16bn committed in Q4 alone,* explains **Olivier Ambrosiali**, Deputy Managing Director at BNP Paribas Real Estate Transaction France. *The abundance of liquidity, good fundamentals in the rental market and still low bond yields explain the very good direction of the investment market."* At €35.4bn (+16%yy), 2019's record investment level represents an extension of the strong growth phase that began in 2014, in line with the rising importance of the Hexagone on a European scale: *"The sums committed in France have increased by almost 50% in five years,"* says **Vincent Bollaert**, CEO of Knight Frank France. *"This spectacular growth reflects the change in scale of the French investment market, which is gradually approaching Germany and the United Kingdom, the largest European markets."*

Proof of this growing appeal, Paris became the world's leading CRE investment market in 2019, according to JLL, ahead of New York, Los Angeles and London. An appeal that stems from the economic and political stability observed in the country, says **Richard Bloxam**, Global CEO of Capital Markets at JLL. *"As the real estate cycle extends into its tenth year, investors are increasingly favouring locations and sectors that are resilient to economic or geopolitical disruption. Cities that offer a diverse range of talent and innovation attract significant investment interest."* The city also benefits from promises made by the Grand Paris Express, Europe's biggest infrastructure project, which will add four new fully automatic metro lines totalling 205 km, two extended lines and 68 new stations, within the 2020-2030 horizon. *"Grand Paris Express, is probably the most striking example of the catalyst effect on* *property development activity triggered by new transport network,"* says Savills in its recently published European Property Themes 2020+ report. *"Some 2.6m sqm of real estate are already planned over time including 815,000 sqm of residential development and 650,000 sqm of commercial property. All schemes are located within easy reach of the new stations, with some clear new tertiary hubs already taking shape."*

"The good performance of the rental market, with a contained level of supply and rising rents, has motivated investment in real estate"

- Stephan von Barczy, JLL France

OFFICES AND LOGISTICS HAVE BANNER YEARS

Offices were the asset class of choice for a majority of investors in 2019, with investments totalling €25bn, an activity largely concentrated in the Greater Paris area (88%). Despite starting out the year with two mega deals – the €1.7bn purchase of the Terreïs portfolio by Swiss Life AM and the €1.2bn acquisition of Lumière by Samsung and Primonial REIM –, investments dropped in inner-city Paris, partly due to a lack of supply, but other districts have taken advantage of this decline, according to Vincent Bollaert: *"Such was the case with La Défense, where €3.6bn was invested through a dozen operations. This is a 45% increase over one year and allows the business district to achieve its second-best performance after 2007."*

Appetite for Parisian offices can be attributed to a robust rental market, which registered a 2.3 m sqm take-up in 2019, -9%yy but above the ten-year average. *"France's political stability continues to be appreciated by investors,"* says **Stephan von Barczy**, Investment Head at JLL France. *"Also, the good performance of the rental market, with a contained level of supply and rising rents, has motivated investment in real estate."* Benefiting from a historically low vacancy rate (4.9%), all of the Greater Paris business districts, with the notable exception of La Défense, recorded significant rental growth, with rents for newly built spaces jumping +5% on average in the capital and +7% in its central-western districts. *"New prime rents records have been broken in Paris CBD, which ended the year with several leases exceeding €870/sqm/year and projections of €900/sqm/year in the first quarter of 2020,"* says **Magali Marton**, Head of Research France at Cushman & Wakefield. *"This upward trend is now fully affecting the neighbouring districts, both in the east (750 €/sqm/year in the 11th arrondissement) and in the south (between 550-570 €/sqm/year). The search for centrality and high-quality real estate solutions combined with a very low newly built stock in Paris (barely 200,000 sqm within 12 months) could further increase the rental values."* After a strong rebound last year, the supply of office space under construction has been stabilising for several quarters, reaching 1.6 million sqm at the end of the year. The majority will be concentrated in the inner suburbs (35%) and in La Défense (27%), while inner-city Paris will remain very largely undersupplied.

Offices weren't the only asset class to outperform last year. With €5.1bn invested, France's logistics market reached an unprecedented level in 2019, up 44%yy and exceeding 2017's record by 12%. A strong performance attributed mainly to a logistics boom and the numerous disposals of warehouse portfolios. Eight >€100m transactions were recorded in 2019, notably the €898m acquisition of the 22-asset Cargo portfolio by French REIT/SIIC Argan. Having captured 14% of all CRE investments in the Hexagone, the surging asset class is still far behind offices (71%) but is rapidly closing in on retail (15%), which did not set a new record in 2019 but still registered an encouraging performance. *"With €5.3bn invested in France, retail recorded a 12% increase over the last year and an 18% jump compared to the 10-year average,"* says **Antoine Grignon**, Director of Retail at Knight Frank France. *"This result makes 2019 the third-best year in France's history for retail investments and confirms that the asset class is still a must, even if investors remain cautious."* Under these conditions, prime yields for offices (2.80%) and logistics (4.00%) respectively declined by 20 and 75 bps in 2019, while prime retail yields (2.50%) stayed put for a third straight year.

Benefiting from record collection levels, SCPI/OPCI funds concentrated 24% of all volumes invested in France in 2019, after 19% in 2018, leading the French investors' share of the overall investment volume to increase slightly in 2019, with 55% of the volumes invested, against 54% in 2018.

WHAT TO EXPECT FROM 2020

After such a banner year, it could be a lot to ask for a repeat in 2020. However, the right conditions are still in place for a successful year. The strong fundamentals of the Greater Paris rental market that appealed to investors last year should hold up in 2020, according to **Éric Siesse**, Deputy Managing Director of BNP Paribas Real Estate Transaction France: *"The historically low vacancy rates, combined with the good level of pre-rentals and the renewed demand expressed in the capital, will make it possible to maintain an increase in rental values over the coming months"*. Citing the continuation of the ECB's accommodative monetary policy and the expected maintenance of low interest rates, Stephan von Barczy expects French real estate to remain an attractive asset class for investors and continue to attract high volumes of capital: *"We anticipate a high investment volume for the year 2020, in the order of €25bn in Greater Paris and €9bn in the regions. However, a slight decline could be observed due to the very large size of transactions in 2019 or if the products put on the market were to be insufficient."*

Office production soars across Greater Paris area

The figures for new office production in the Greater Paris area are staggering: a record 2,275,000 sqm were developed in the last year, a 13%yy jump. Should we worry about this unprecedented situation? The new edition of the Grand Paris Office Crane Survey, conducted by Deloitte in collaboration with Explore and Business Immo, provides a first snapshot of the market and gives some answers.

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"The French capital is better positioned than its British neighbour, whose outstanding production has decreased by 10% and now represents less than 50% of Greater Paris' production," said the Deloitte report, whose figures are based on 137 transactions, 11 more than in the previous six months. *"In a tense economic context where there are many unknowns, both at the European level with Brexit and globally with the Sino-American tension, Greater Paris shows a confident and promising face that contrasts with the decline recorded by its London neighbor,"* explains **Christian Gillet**, Principal, Deloitte Real Estate Advisory. *"Vacancy rates in metropolitan France remain low and do not suggest an oversupply situation. The only area with an abundance of supply remains La Défense, which will need to benefit from a significant deferral of the QCA (CBD) in order to absorb it."*

While the 31 new operations started in Paris during the last six months supported the growth in outstanding production (+4% to reach 490,000 sqm), the low level of deliveries helped to keep current activity at a high level. Paris delivery was just 240,000 sqm in 20 operations, a 50% decrease compared to the previous report a year ago. This is a low level, Deloitte said, 90,000 sqm below the study average. Meanwhile, though the level of office space availability in Paris is at an all-time high, with nearly 1,320,000 sqm still to be marketed, Deloitte said. *"The available surfaces under construction are at a level similar to that of the pre-crisis of 2008. This high level of availability raises the question of a market runaway. Nevertheless, 11 years ago, the share of surface areas exceeded 70% of the total production stock, whereas at 30 September 2019, this share remains below 60%. At the level of metropolitan production, the players have therefore made operations upstream of delivery more secure,"* the study reassures. Moreover, take-up remained very active – with 300,000 sqm of the space finding 25 new occupants.

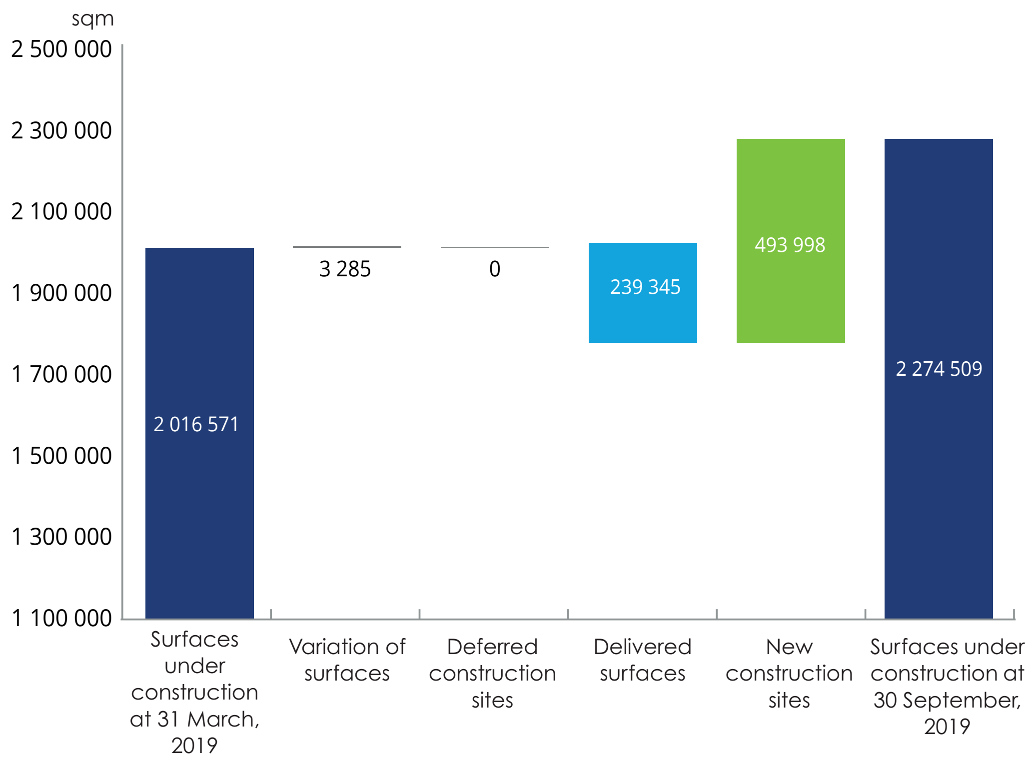
The absorption of cash continues at a good pace in Greater Paris.
Paris West is increasingly dynamic, with 1.3 million sqmunder construction, up 20% in just six months. And, for once, it is not La Défense that feeds them, but rather the business district in the West with 670,000 sqm of production in progress and the rest of Hauts-de-Seine department with 240,000 sqm. Logically, the number of construction sites on the perimeter has risen from 46 to 57: *"The relative weight of Western Paris on the scale of Greater Paris has been growing steadily since 2016 and represents 58% at 30 September 2019,"* the study states. The next few months will not belie the trend: *"the level of deliveries will explode: 180,000 sqm are planned by the end of 2019 and 650,000 sqm more are expected in 2020."* To find availability in the operations to be delivered by the end of the year, it will be necessary to turn to the Western business sector. A total of 425,000 sqm (including 225,000 sqm in the peri-Defence sector) will be delivered in 2020. For its part, La Défense experienced a slight decline in activity of 6% to 400,000 sqm under construction, while the Western Business Sector experienced a production increase of 30% overall. On the other hand, La Défense has only seen one new construction start – while the rest of three cranes, working on 90,000 sqm, have appeared in the Hauts-de-Seine region.

Deloitte predicts that the level of deliveries will accelerate significantly by 2020, when 840,000 sqm of office space are expected to come on line. While the overall level of availability across Greater Paris is stable, 88% of the area under construction in the La Défense district was empty at the time of the study. Nevertheless, on a West Parisian scale, the take-up was active since the sector maintains its availability at around 41%. By contrast, the northern region of Greater Paris has been strong, Deloitte said. The departments of Seine-Saint-Denis and Val-de-Marne continue to steadily increase their outstanding production with an additional 5% of surface area over six months. With 430,000 sqm, the level of production in progress remains 45% above the historical average and higher than in La Défense alone. This is the only sector where the delivery level has increased slightly to 80,000 sqm. With five new operations for 100,000 sqm in production, the area under construction in these departments grew by 10% compared to the report edition 12 months ago. As the opening of the new stations on line 14 approaches, the North no longer centralises production in this sector since major worksites have been inaugurated to the south and east. •

"Greater Paris shows a confident and promising face that contrasts with the decline recorded by its London neighbor"

- Christian Gillet, Deloitte Real Estate Advisory

Evolution of surfaces over the elapsed period



Source: Analyse Deloitte Real Estate Advisory

France’s top investment deals of the year

After reaching a record level in 2018, commercial real estate continued to whet investors’ appetite in 2019, as it reached €35.4bn. In a Best of 2019 retrospective, (re) discover 10 main deals that have driven real estate investment in France during the year.

By Alexandre Foatelli

#1

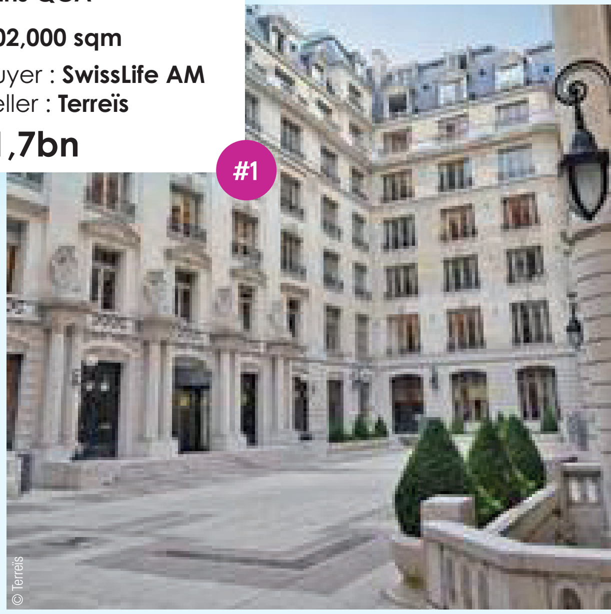
Portfolio of 28 «prime» office assets

Paris QCA

102,000 sqm

Buyer : **SwissLife AM**
Seller : **Terreïs**

€1,7bn



© Terreïs

#2

© DR

Lumière

Paris 12th

136,000 sqm

Buyer : **Primonial and Samsung SRA Investment Management**
Seller : **Tishman Speyer**

€1,2bn

#3

© URW

Tour Majunga

La Défense

67,000 sqm

Buyer : **Mirae Asset Daewoo and Amundi Immobilier**
Seller : **URW**

€850m

#4

© Jean-Philippe Caulliez

Crystal Park

Neuilly-sur-Seine

20,000 sqm

Buyer : **Samsung Securities**
Seller : **Icade**

€691m

#5

79 Champs

Paris 8th

10,300 sqm

Buyer : **Norges Bank Investment Management**
Seller : **Groupama Immobilier**

€613m

© Groupe Casino - Wikimedia Commons

#6

31 hypermarkets and supermarkets

France

/

Buyer : **Apollo Global Management**
Seller : **Casino**

€465m

© DR

#7

Tour CBX

La Défense

43,000 sqm

Buyer : **Hines**
Seller : **Tishman Speyer**

€450m

© BECARD-MAP

#8

#V2 and #V3

Saint-Ouen

60,000 sqm

Buyer : **Allianz Real Estate**
Seller : **BNP Paribas Immobilier/Emerige**

€415,6m

© DR

#9

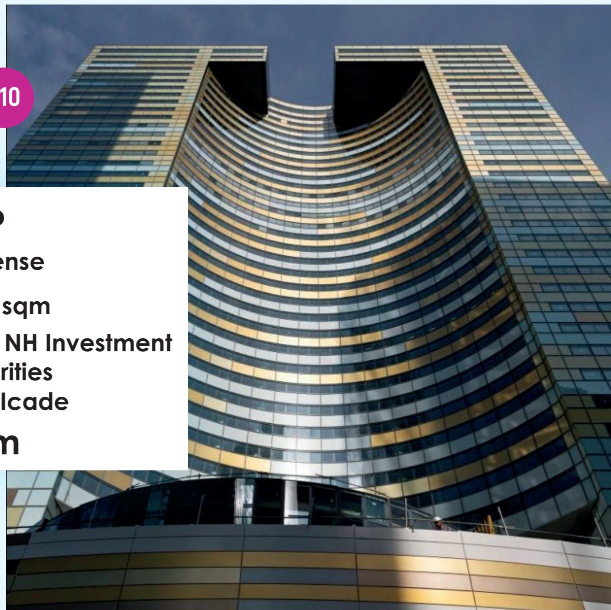
West Bridge

Paris QCA

28,000 sqm

Buyer : **Amundi and La Française REP**
Seller : **La Salle IM and Ardian**

≠ €400m



#10

Tour Eqho

La Défense

79,000 sqm

Buyer : **NH Investment & Securities**
Seller : **Icade**

€370m

With record 2019, Lyon asserts itself on the European stage

2018 had been a record year for Lyon's commercial real estate market, exceeding the 300,000 sqm office take-up mark for the first time, but it was only a sign of things to come. Accelerating this momentum even further, the Rhodanian city shattered both its rental and investment records in 2019, confirming its status as France's premier office market outside of Paris and asserting itself on the European stage.

By Luc-Etienne Rouillard Lafond

The tower To-Lyon, in the Part-Dieu district.

© ArtefGraphi

With a 440,000 sqm office take-up (+32%) and €2.5bn (+70%) invested throughout the metropolitan area, Lyon's commercial property market achieved its best performance ever in 2019, reports JLL. *"The conurbation, which passed the 300,000 sqm mark for the first time in 2018, is passing a new milestone by exceeding the 400,000 sqm mark at the end of 2019,"* says **Laurent Vallas**, Director of JLL Lyon & Régions. *"The very large transactions, as well as the overall dynamism of the market, allow the Lyon metropolis to write a new page in its history, and make 2019 the reference year."* The number of transactions remains relatively stable over one year (619 vs. 616), but still represents a significant jump from the ten-year average. Through 76 transactions, the >1,000 sqm segment generated 290,000 sqm, whereas the average generally stands at around 140,000 sqm. In addition, 13 >5,000 transactions sqm were recorded, compared to an average of 7.

A direct effect of successive record years is an immediately available stock under pressure in the Lyon conurbation, at its lowest level to date at 254,600 sqm. The last few half-years have dried up the stock, leading to a 4% vacancy rate at the moment. *"2019 will be the third and final year of decline in terms of deliveries for the Lyon region,"* says Laurent Vallas. *"Since the beginning of the year, 134,000 sqm of new office space has been added to Lyon's office park, 65% of which was pre-rented upon delivery. The pace of deliveries should accelerate significantly in 2020 with 150,000 sqm (excluding turnkey projects) to be delivered."*

Resulting from the scare supply, prime rent increased over the last year and reached 335 € HT-HC/sqm/year on the To Lyon tower, scheduled to be delivered atop the Part-Dieu train tation within 4 years. In the more traditional buildings of the business district, prime rents have grown to €315, against €280 last year. Moreover, supply shortage in the Part-Dieu sector is leading to a parallel increase on the *"second-hand"* sector. And although municipal elections as well as economic uncertainties could weigh on the dynamics in place, Lyon should retain it new status as one of Europe's main office markets, says

Laurent Vallas : *"The slowdown currently observed on the Île-de-France rental market prefigures a potential drop in activity in the regions. However, the new average level should be around 300,000 sqm over the next few years, a decrease that should be put into perspective given the significant growth of the Lyon market over the last 5 years (+56%), making Lyon the most dynamic Eurocity."*

RECORD INVESTMENTS

Commercial real estate investment in Lyon reached an all-time record of €1.1bn during 4Q19, up 36% compared to the same quarter last year, bringing 2019's total volume to a record €2.5bn, up 70% compared to 2018. *"This result should be seen in relation to the good performance of the rental market in the most sought-after sectors, where supply is contained and rents are on the rise, motivating investment in real estate,"* explains **Gilles des Fontaines**, JLL's Investment Director for Greater Lyon. Investment was mainly driven by transactions >€100m, which accounted for 44%, at €1.1bn, and tripled compared to 2018. All other segments also saw growth in 2019, with a 3% increase in transactions for the €40-100m segment, a 36% jump for the €15-40m segment and a 21% rise for the €5-15m segment.

Lyon's innercity accounted for 77% of investment. The Presqu'Île Nord sector was particularly dynamic, at €712m, mainly due to two retail transactions: Amundi's acquisition of the Tango portfolio for €530m in the Q4, and the acquisition of the Salta portfolio by Primonial for €92m. Offices accounted for 62% of investments, the record €1.5bn invested on the asset class representing a 34%yy jump. Retail also registered a record performance, at €658m, while logistics saw a 28% increase over one year, at € 212m.

French investors dominated the Lyon market in 2019, accounting for 84% of the amounts invested in 2019, compared to 75% in 2018. However, foreign investors remained active with €387m, up 12% compared to 2018.

Prime office yield was compressed by 20 bps during 4Q19 and now stands at 3.50% in Lyon innercity, confirming a strong interest. As a result, the risk premium offered by Lyon real estate at the end of December 2019 (338 basis points) remains particularly attractive to investors, says JLL. Because it forcecasts that the ECB will maintain an accommodating monetary policy and thus keep rates low, the firm predicts it will remain attractive to investors and expects a high investment volume for 2020, at around €2bn. •

"LYON HAS BECOME ONE OF EUROPE'S MOST ATTRACTIVE, COMPETITIVE AND VIBRANT CITIES"

David Kimelfeld, president of the Métropole de Lyon

BUSINESS IMMO: WHAT OPPORTUNITIES CAN REAL ESTATE INVESTORS FIND IN LYON'S METROPOLITAN AREA?

David Kimelfeld: Over the past ten years, Lyon has become one of Europe's most attractive, competitive and economically vibrant cities. We have a particularly attractive real estate market that offers lower rents than other European cities. Our territory has become a place of choice and a reference for companies and start-ups because it concentrates high-performance ecosystems, particularly in the fields of cleantech, life sciences and digital technology. This is why many renowned industrial and international groups, such as Solvay, Elkem and Renault, have chosen our territory for their future research and development centres.

BI: WHAT ARE LYON'S MAIN ECONOMIC ASSETS?

DK: We owe our attractiveness first of all to the vitality of the higher education and research sector, and its strong links with companies via competitive clusters. Indeed, Lyon is now the first student metropolis after Paris with more than 160,000 students. In addition, we benefit from a powerful industrial base that makes it the leading industrial agglomeration in terms of number of employment (17% of salaried jobs). As such, the Metropole de Lyon has initiated a vast project to reconquer the industry of the future in the area known as "Lyon Parilly Factories". The Chemical Valley is another example of an innovative ecosystem, since it aims to become a clean and resource-efficient industrial model, with 20% of renewable energy consumed by 2020. We are also taking strong action on the sectors of the future, such as cyber security, insurance and e-health.

BI: HOW IS LYON BEING TRANSFORMED TO SUPPORT ITS STRONG DEVELOPMENT?

DK: We are pursuing ambitious policies to continue to attract more and more companies and remain competitive. For example, for a number of years now, we have been leading major urban and real estate projects aimed at welcoming companies in optimal conditions, like the Gerland, Confluence, Carré de Soie and Lyon Part-Dieu, the second business district in France after La Défense. But what makes us different from other metropolitan areas is that we have been able to build a global attractiveness model aiming not only to build towers to accommodate companies, but rather to think these new urban developments for the employees who work there and live there. To this end, we design these new districts in a multifunctional way, providing housing, services, shops, efficient transport networks and leisure activities. That is also why we have put in place a large number of actions to promote air quality and global warming, which are now decisive criteria for business leaders when they decide whether or not to set up in a particular region. This approach has been recognized by the Arthur Loyd 2018 barometer, which considers Lyon the most attractive metropolis for its real estate market and economic performance, coupled with the quality of life offered and human capital.

Lille attracts investors to the North

Lille's commercial real estate market started the year on all cylinders, taking the lead in the regional investment ranking over Lyon with €340m spent in 1H19. And although the latter has taken its title back before the end of the year thanks to a record 4Q19, the northern city has clearly cemented its status as France's second regional market.

© Adim

Open'R, Villeneuve d'Ascq.

"In today's globalized world, companies are realizing that they can locate their headquarters in a secondary city like Lille, which is well located geographically and now offers high quality buildings corresponding to all European standards," says **Hugues Laffineur**, Co-Director of local broker Tostain & Laffineur. Taking advantage of a strategic location – 40 minutes away from Brussels and 1 hour away from London, Amsterdam and Paris by high-speed rail –, Lille's office market had remarkable 2019, with take-up reaching 260,600 sqm. *"For the fourth year in a row, the 200,000 sqm mark has again been exceeded, confirming the depth of our market,"* says **Patrick Duez**, Director of CBRE Lille. *"Moreover, a qualitative supply is coming in the metropolitan area, allowing the market to accompany the growth of regional headquarters."* Activity was concentrated in the Lille, Euralille and Villeneuve d'Ascq sectors, where newly-built programs are numerous. Those surfaces were very popular, accounting for 59% of the transacted volume through more than 380 transactions, including 10 transactions exceeding 5,000 sqm (Mobivia, Caisse d'Epargne, Decathlon, etc.). *"Finally, the development corresponds to the demand in the metropolis, which is why we are achieving such a high level of performance"*, says Hugues Laffineur. *"Today, the 16-month supply is around 280,000 sqm and several sites are currently available to developers, particularly in the vicinity of Euralille, the prime*

"For the fourth year in a row, the 200,000 sqm mark has again been exceeded, confirming the depth of our market"

- Patrick Duez, CBRE Lille

business district. In addition, Lille offers an excellent quality of life, but a prime rent much lower than that of the major capitals, at 240 €/sqm/year."

INVESTMENT ON THE RISE

On the investment front, the €339m spent on offices in Lille's metropolitan area over the first six months of 2019 marked a 66% increase compared to the same period last year. Although investment slowed down in 2H19, the €545m invested, through 37 transactions, still represent an improvement from 2019. Key transactions included the acquisition by pan-european investor AEW Europe of Open'R, a 17,500 sqm building located in Villeneuve d'Ascq, and the acquisition by French banking group Caisse d'épargne Hauts-de-France of ShAKe, a 30,000 sqm mixed-use scheme in Euralille. *"These two transactions were signed for an amount exceeding €60m,"* explains **Xavier Hugot**, Deputy Associate Director and Head of Investment for the Northern Region at BNP Paribas Real Estate Transaction France. *"The Lille market is therefore in full development and investors do not hesitate to position themselves on these new programs, even when they are sold off-plan, since the absorption times for such transactions remain good."* Consequence of this growing popularity, prime yields fell below 4.20% last year. However, because he considers that it offers a fairly complete range of investment programs that meet investors' needs, Hugues Laffineur predicts the Lille market will keep its good form going forward: *"Several investors, focused in the past on Paris and the major capitals, no longer find it too attractive in terms of yields. The Lille market is very well positioned to satisfy their appetite because it has very good years ahead of it, especially since rents are low and will continue to rise steadily over time."* •

"The Lille market is therefore in full development and investors do not hesitate to position themselves on new programs"

- Xavier Hugot, BNP Paribas Real Estate Transaction France

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"LILLE'S METROPOLITAN AREA IS A LAND OF INVESTMENT"

Frédérique Seels, Vice President in charge of Economy, Trade and Crafts at Métropole Européenne de Lille

BUSINESS IMMO: WHAT OPPORTUNITIES CAN INVESTORS FIND IN LILLE AND ITS METROPOLITAN AREA?

Frédérique Seels: Lille's metropolitan area is a land of investment for three reasons. First, we are the French territory with the most international headquarters after the Paris region. Companies such as Auchan, Decathlon, Roquette, Lesaffre, OVH and Ankama were born in Lille, are developing here and wish to maintain their decision-making centres here. As a major public player in the region, the Métropole européenne de Lille (MEL) has created, with a long-term vision, 8 sites of excellence in sectors such as health, food or digital. The Euralille business district has now become the third largest business district in France. We also have a mature, dynamic real estate market that is resilient to economic conditions, as evidenced by an exceptional performance in 2018, with nearly 280,000 sqm of office space let.

BI: WHAT ARE LILLE'S MAIN ASSETS?

FS: The Lille metropolitan area is a land where it is good to work, but also to live. Our territory of 1.2 million inhabitants is rich, with a strong identity both urban and rural, where nature and agriculture coexist with art and architecture. The cultural offer is vibrant and varied, supported by facilities and museums with prestigious collections (Giacometti, Modigliani...). It is the second academic city in France, with 115,000 students and top schools of international renown, and also regularly hosts major sporting events. And in 2020, Lille will be the World Capital of Design, symbolizing its ability to constantly reinvent itself.

BI: WHAT INITIATIVES ARE YOU IMPLEMENTING TO ATTRACT FOREIGN REAL ESTATE INVESTORS?

FS: The dynamics of our territory, which is open to North-Western Europe, attracts the interest of international investors, such as the German Union Investment, in Euralille. To strengthen our welcoming strategy, we have created with the local partners the "Hello Lille" territorial brand and a dedicated attraction agency. Also, because accessibility and air quality are important issues to ensure our attractiveness in the future, as we will have 100,000 more people and 80,000 more jobs by 2035, we will invest around €2bn to develop 27 public transport links, including five new tramway lines.

Aix/Marseille, the emergence of a new CRE market

Since antiquity, Marseille has been recognized as one of the most important port cities in Europe. To build on its status as France's leading port, the Phocaean City has initiated an economic transformation in recent years, as evidenced by Euroméditerranée a 650,000 sqm business district now preparing its second phase with a 170 ha extension.

© Euroméditerranée

The Aix-Marseille metropolitan area's office market had a very good year in 2019 with a 139,000 sqm take-up (+10%). Moreover, transaction volumes were on an upward trend both in Aix-en-Provence and Marseille market. *"This performance is interesting because it places the city over its total results of 2018, 126,000 sqm,"* says **Magali Marton**, Head of Research France at Cushman & Wakefield. *"The year-on-year increase in transactions is more spectacular in the Phocaean city, which had, it is true, had a difficult start in 2018."*

Both markets were driven by their primary business districts. In Marseille, the Euroméditerranée sector, after a difficult 2018, acted as a locomotive by concentrating two thirds of take-up, thanks in particular to the inauguration of the La Marseillaise tower and Smartseille, leaving far behind the East and South sectors. For its part, the *"Pôle d'activités d'Aix"* business district concentrated the majority of Aix-en-Provence's take-up. *"The extreme polarisation of these two markets leaves little room for possible alternative solutions and also raises the question of their future through a sufficient and well phased renewal over time of their new offer,"* thinks Magali Marton. *"Euroméditerranée ticks all the characteristics of a large business district. But now, the demand for offices is much higher than the production level."*

It is therefore no surprise to see the immediate supply of office spaces return to a downward trend, slipping 10% during 1H19 to nearly 201,000 sqm over a six months span and causing a 3.2% vacancy rate. *"The immediate supply of first-hand offices remains as low as ever on the Marseille market"*, according to Magali Marton. *"This shortage of quality supply is putting upward pressure on rental values and could also limit the expression of user demand."* Thus, rents reach 260 €/sqm/year for first-hand surfaces (mainly located in Euroméditerranée) and 165 €/sqm/year for second-hand surfaces, which represents 17% and 23% jumps. Even with skyrocketing rents, the famished level of supply is negatively impacting investors activity. After reaching €509m in 2018, the investment volume in offices sat at only €347m this year, with €226m going to offices. And the shortage shouldn't stop anytime soon, as inaugurations will remain rare in Marseille. Barely 56,500 sqm of new surfaces were expected to be delivered in 2019, notably the 26,200 sqm Eko Active in Euroméditerranée, by French developer Vinci Immobilier, while new production is expected to slow down again in 2020 with less than 20,000 sqm announced as deliverable, and none in the business district. However, the future of the Aix-Marseille office market sits resolutely in Euroméditerranée, whose 170 ha second phase aims to create 20,000 new homes, and 2 million sqm of office space, through €5bn of private investment. *«Euroméditerranée's offer corresponds to the demand of large companies and local authorities,"* concludes Magali Marton. *"The shortage of offices that is forecast for the next two years will make these products very liquid. Investors are assured that they can rent everything and sell it whenever they want."* •

"Euroméditerranée tick all the characteristics of a large business district. But now, the demand for offices is much higher than the production level"

- Magali Marton, Cushman & Wakefield

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"PROVENCE IS CLEARLY A TERRITORY OF THE FUTURE FOR INVESTORS"

Martine Vassal, President of Aix-Marseille-Provence Métropole

BUSINESS IMMO: WHAT ARE THE MAIN ASSETS OF MARSEILLE AND ITS METROPOLIS?

Martine Vassal: Provence is clearly a territory of the future for investors. With its 92 municipalities, our metropolitan area is the largest in France, at the crossroads of Europe and the Mediterranean: a strategic location offering an opening on the markets of Africa and Northern Europe. The presence of the Mediterranean sea allows our territory to be not only the leading port in France, but also the leading digital port in Europe: 13 optical cables connect 4 billion people, not to mention the growing data centers. This unique positioning makes it possible to extend our economy well beyond the borders of Provence, which is increasingly understood by international investors.

BI: WHAT OPPORTUNITIES DOES MARSEILLE AND ITS METROPOLIS OFFER TO REAL ESTATE INVESTORS?

MV: Through Euroméditerranée, Europe's leading urban renewal project, and a dense and dynamic network of business parks in a region connected to the rest of the world, the Metropolis offers a wide range of products, with varied prices. We propose a diversified offer adapted to all investors' needs and it will continue to grow in the coming years. However, the extraordinary potential of our territory must be accompanied by an evolution of our land supply for investors. It is for this reason that Aix-Marseille-Provence Metropole has resolutely committed itself to producing land in the short and medium term, increasing from 60,000 sqm/year to 80,000 sqm/year by 2030. And that is why we are looking to revive the office supply in city centres, working for example on new coworking offers, but also to propose new spaces, correlated with the development of public transport on a territorial scale, to develop a secondary market. We have also set up real estate assistance schemes, with very soon the deployment of a program specific to city centres offices, particularly in Marseille.

BI: WHAT INITIATIVES IS AIX-MARSEILLE-PROVENCE METROPOLE IMPLEMENTING TO ATTRACT FOREIGN INVESTORS?

MV: A few weeks ago, we launched our territorial brand, "One Provence", which now allows us to speak with one voice to all economic players and to be clearly identified on the international market. This unified banner is our business card at trade shows and during the international prospecting missions we conduct every year, each time with strengthened commercial partnerships and very concrete results. We are also working on more festive and popular events, which contribute to strengthening the attractiveness of the region: this is what led us to launch MPG 2019, the Year of Gastronomy, to promote our culinary and touristic heritage.

Toulouse caught the eye of investors, but waiting for new supply

After office take-up in Toulouse reached 178,000 sqm in 2018, a 12,000 sqm jump from the previous year, it was hampered by a severe lack of supply and only reached 129,400 sqm in 2019. However, following a decade of strong growth, this year's lull should only be temporary.

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The Occitanie Tower.

Toulouse's booming office market has been driven in recent years by major transactions exceeding 5,000 sqm. Yet, the largest transaction last year was 3,300 sqm and >1,000 sqm transactions accounted for two thirds of take-up. Moreover, take-up was 54% driven by new programs in 2018, but at the moment those surfaces barely represent more than 10% of the 207,000 sqm available stock on the market. *"We are very short of new products, as few buildings start off-plan and, when they do, they are often pre-marketed,"* says **Michèle Bellan**, Regional Director Midi-Pyrénées at CBRE. *"As a result, large coworking companies, which are looking to set up on large surfaces in the city centre, are currently unable to set up in Toulouse."*

Nevertheless, given Toulouse's strong economic growth, particularly in the aeronautics and services sectors, the city remains popular with real estate investors. After €370m was invested in commercial property in 2018, €509m was spent last year, €400m of which went to offices with a prime yield of 4.75%. *"Many large regional headquarters have reorganized and integrated new buildings over the past 10 years,"* explains Michèle Bellan. *"Although no such transaction was signed this year, several companies are still growing and, because of Toulouse's good* *economic health, there is no reason to think the dynamics of recent years should stop. If we had products in the city centre, we know, because they are asking for them, that investors would position themselves quickly."* As no such product is expected in the near future, investors will have to turn to Toulouse Euro Sud-Ouest (TESO), the rehabilitation of the district surrounding the Matabiau train station, where 300,000 sqm of offices are planned over a 20 years period. There, the Occitanie Tower, a 34,000 sqm and 153m high mixed-use skyscraper designed by American architect **Daniel Libeskind** and built by French investor Compagnie de Phalsbourg, obtained its building permit in July and should add 11 000 sqm of offices by 2023.

In the meantime, as new offers in the city centre should not see the light of day before 2021, or even 2022, the region is mobilizing to stimulate real estate production, in particular with the *"Dessine-moi Toulouse"* call for projects, led by Toulouse Métropole, which added 15 projects in the city's pipeline. *«In recent years, the revitalization of the territory in terms of real estate is certain,»* concludes Michèle Bellan. *"Between 10,000 and 15,000 people arrive in the urban area each year. To welcome them, the periphery is being built, and* «Dessine-moi Toulouse» *will help to accelerate this movement."* •

"If we had products in the city centre, we know, because they are asking for them, that investors would position themselves quickly"

- Michèle Bellan, CBRE

"TOULOUSE IS THE GLOBAL CAPITAL OF AERONAUTICS, BUT NOT JUST THAT"

Dominique Faure, Vice-President in charge of economic development, Toulouse Métropole

BUSINESS IMMO: WHAT ARE THE TOULOUSE METROPOLITAN AREA'S MAIN ASSETS?

Dominique Faure: One of the most dynamic regions in Europe, Toulouse is, outside of Paris, the first French metropolis for economic growth, with a +2,9%/year GDP growth per capita, and demographic growth, with +200 000 people arriving over the last 10 years, as well as job creation, with +70 000 employees in the private sector in 10 years, and start-up creation. It is also an important education hub, with 130 000 university students, and a cradle for tomorrow's technologies, as the World's capital of aeronautics and a center of excellence for autonomous and connected vehicles.

BI: WHAT OPPORTUNITIES TOULOUSE AND ITS METROPOLITAN AREA PRESENT TO INVESTORS?

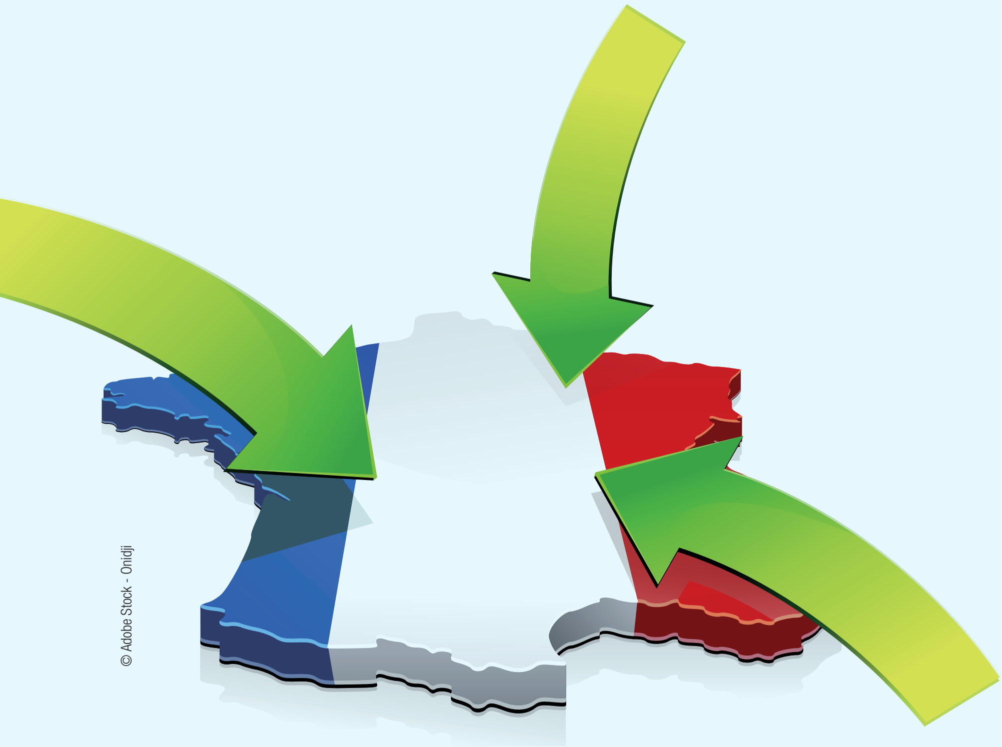
DF: Toulouse is the global capital of aeronautics, but not just that. We are committed to economic diversification, focusing on five themes that are set to become the growth areas of tomorrow: transports of the future, digital, life sciences, new space and artificial intelligence. Already, Toulouse offers a large choice of partners and contractors in different "*traditional*" industries, such as Airbus, Thales, Hyperoloop TT or Siemens Mobility.

BI: WHAT INITIATIVES IS TOULOUSE MÉTROPOLE IMPLEMENTING TO ATTRACT INVESTMENT?

DF: In order to attract investors, Toulouse Métropole created in 2016 a promotional agency that sources new companies through strategic monitoring, in order to convince them to set up operations in Toulouse. Throughout each stage of the set-up process, it offers free and confidential support with regards to finding a location, recruitment, sourcing funds and liaising with local contacts. Also, the externalized innovation cell Invest in Toulouse looks to connect foreign companies with local ecosystem through meaningful connections and win-win partnerships.

Foreign investors are turning to France

Again, foreign investors' activity remained important in 2019, representing 45% of the commercial real estate investments in France over the last year, after accounting for 46% in 2018. An appetite that trends above the ten-years average, as the €76bn invested in the Hexagone between 2009 and 2018 by international players represented 38% of the overall volume.



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"The exceptional performance of the French market also owes much to the increase in the amounts committed by foreign investors," says **Vincent Bollaert**, CEO of Knight Frank France. *"These have been rising steadily since 2017 and reached €15.8bn in 2019, a 14% increase over one year."* According to Cushman & Wakefield (C&W) data, international investors are most interested by offices (64%), retail (20%) and logistics (14%). North Americans were the most active in 2019 with 28% of the foreign investment volume in France in 2019. But none have captured the attention of the market more than South Korean investors. They increased their activity in Europe by 120% last year to reach €12.5bn, and France was the first beneficiary with record investment volumes of €4.5bn. After accounting for a meagre 2% of foreign investments in the Hexagone in 2018, their participation jumped to 22% last year, ahead of Germans (11%) and the British (7%). And they could play an increasing role in the country going forward, says **Nicola Ciavarella**, Director - Investment at Savills France: *"If the French market anticipates a downturn in Korean institutional investors at the beginning of the year, Korean retail funds could take over very quickly. Similarly, while offices and logistics will continue to form the core of their investments, it is not unlikely that other asset classes (data centre and residential) will round out the range of products sought after."*

The stronger presence of foreign investors went hand in hand with an increase in large transactions, with >€200m transactions accounting for 39% of their activity of the last decade, according to C&W. Only last year, examples include Samsung Securities' €1.2bn acquisition of the Lumière building in Paris, as part of a joint venture with Primonial. 84 >€100m transactions were signed in 2019, compared to 77 in 2018, while >€400m transactions totalled €10.1bn, compared to €7.4bn in 2018. And although Île-de-France collected 73% of the international activity of the last ten years, megadeal effect and foreign investors also played a key role in regional cities. In Lyon, France's second-biggest real estate market, investment reached a record €2.5bn (+70 %yy), a performance mainly driven by transactions exceeding €100m, which totalled €1.1bn for 44% of the overall volume. *"The Rhône-Alpes region has broken its record thanks to the multiplication of large transactions and the growing appetite of French and foreign investors, mainly North American, German and British,"* explains Vincent Bollaert. German real estate fund manager Patrizia is one of those investors, having acquired 14 logistics and 15 residential assets in French regions since 2016. *"Generally speaking, what attracts investors to French regional cities are attractive yields and an increasing degree of urbanization fueled by improvements of public transports,"* says **Lionel Nicolas**, its Country Manager for France. *"This is a trend we expect will continue due to improvements in technology coupled with economic and municipal reforms being promoted by the French government."*

"If the French market anticipates a downturn in Korean institutional investors at the beginning of the year, Korean retail funds could take over very quickly"

-Nicola Ciavarella, Savills France

ABOUT...

MIPIM, the World's Leading Property Market, gathers the most influential players from all sectors of the international property industry for four days of networking, learning and transaction through premium events, conferences and dedicated exhibition zones. In 2019, MIPIM gathered 26,800 participants from 100 countries, including 6,380 international investors. Organised by Reed MIDEM, a subsidiary of Reed Exhibitions, MIPIM will be held in Cannes from 10 to 13 March 2020.

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