FRANCE

Industrial Market Snapshot

Fourth Quarter | 2018

MARKET INDICATORS

Market Outlook

Prime Rents:	Upward pressure only for the best logistic platforms on core markets	►
Prime Yields:	Last generation logistic hub with secured occupier fuel competition between yield starved investors. Prime yields in the Greater Paris Region and Lyon decreased further but several other markets have already reached floors	◢
Supply:	Sharp decline in the logistic corridor, while regional and secondary markets show more scattered figure with a global increase. Pre-lettings continue to send positive signals for speculative building operations	◢
Demand:	Still strong from occupiers on the main markets both from retailers / manufacturers and 3PL'S	◥

Prime Industrial Rents – December 2018

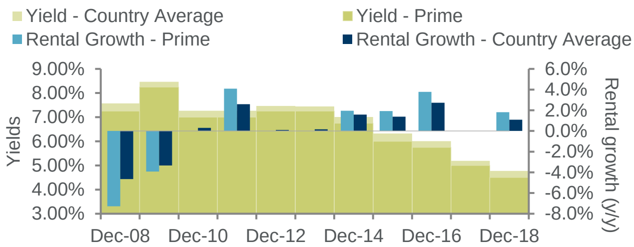
LOGISTICS LOCATIONS	€ SQ.M YR	US$ SQ.FT YR	GROWTH % 1YR	GROWTH % 5YR CAGR
Paris	56	5.93	1.8	1.9
Lyon	47	4.98	0.0	0.9
Marseille	44	4.66	0.0	0.9
Bordeaux	43	4.55	0.0	0.5
Strasbourg	43	4.55	0.0	0.0
Lille	44	4.66	0.0	0.5
Toulouse	44	4.66	0.0	0.5

Prime Industrial Yields – December 2018

LOGISTICS LOCATION (FIGURES ARE NET, %)	CURRENT Q	LAST Q	LAST Y	10 YEAR HIGH	10 YEAR LOW
Paris	4.50	4.75	5.00	8.25	4.50
Lyon	4.50	4.75	5.00	8.50	4.50
Marseille	5.25	5.25	5.50	8.75	5.25
Bordeaux	5.25	5.25	5.50	9.00	5.25
Strasbourg	5.50	5.50	5.75	9.00	5.50
Lille	5.50	5.50	5.75	8.50	5.50
Toulouse	5.25	5.25	5.50	9.00	5.25

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



Overview

French GDP grow up by +0.4% in Q3 2018, after 0.2% both in Q1 and Q2, well below the solid level of 2017 (+2.3%). Pre-existing international context (USA-China trade war, signals of economic downturn) combined to the "yellow vest" protests in the end of November, a crucial period for the retail and its logistics support. Several indicators are weakening: Manufacturing output slipped sharply in November (-1.4% y-o-y) and consumer confidence dropped in December to its lowest since late 2014. At the same time the business climate remained stable in the wholesale trade sector, still above its long-term average. These headwinds should not overlook the fact that real estate logistics drivers -omni-channel strategies and supply-chain reshaping from large scale distribution- are still relevant, while e-commerce sales remain high.

Occupier focus

Logistics take-up reached 3.3 million sq. m in 2018. Despite the sharp decline (-21% y-o-y from its record in 2017) this activity level remains well above its 10 years average for the third year a row. The logistic corridor concentrates a strong majority of take-up (almost 65%), driven by the Greater Paris Region, Lille and Marseille, while Lyon activity decreased slightly (-7% y-o-y). The weight and number of XXL transactions reduced, especially in the Greater Paris Region. Among the 5 deals of this size (12 in 2017) large-scale distribution actors like ORCHESTRA (73,000 sq. m) and LAPEYRE (74,000 sq. m) but also e-commerce pure player CDISCOUNT (61,000 sq. m) lead the trend. The two largest XXL transaction has been carried out by 3PL's (SIMASTOCK and KATOEN NATIE) both in North (Lille's) and South (Marseille). Take-up from 3PL's equal that of retailers and manufacturers at a country level, an unusual balance: from 2015 to 2017, e-commerce players and major retailers took position on the outskirts of large population centres to speed-up rotations downstream, and now 3PL's followed the movement.

Investment focus

Investment volume reached €3.8 billion in 2018 in the French industrial segment, out of which €3 billion for logistics, a strong performance after the 2017 record. Large core+ portfolios and high-quality core assets (mainly secured turn-keys) above €100 million fitting European allocation strategies were the most common deals scheme in 2018.

Outlook

Pressure remain high on the core assets, "critical mass" portfolios and generally logistic hub with a strong potential of value creation (redeveloping or repositioning). Floor yield have been reached and perspectives of decrease are clearly reduced in 2019, even for the best core markets. Apart from an unexpected macro-economic reversal or a tightening of monetary policy, these levels should stand.

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