



CATELLA

# An overview of regional markets

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**MARKET  
SUMMARY**

OCTOBER - 2022



# REGIONAL MARKET OVERVIEW: OFFERING ATTRACTIVE OPPORTUNITIES FOR INVESTORS

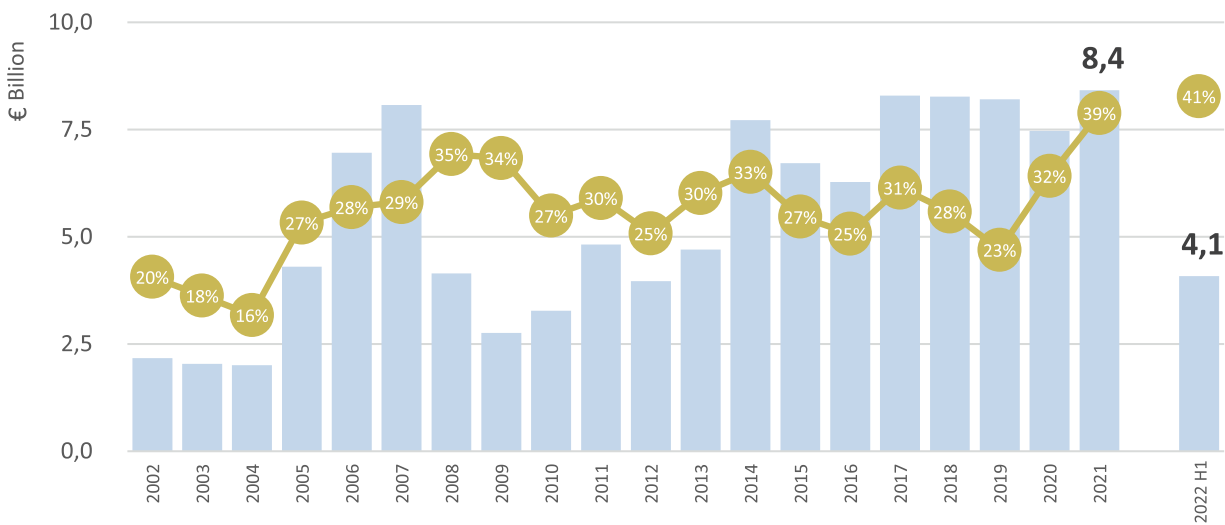
Sound local development strategies. A high quality of life. Modern and well-developed public transport links, including high-speed TGV train networks... These are the key words explaining the current boom in non-residential real estate in France's regional markets. These positive characteristics used to be mostly seen in the biggest cities, but the Covid health crisis that began in 2020 has changed the game.

The lengthy periods of confinement spent away from the cities by some workers, as well as the increased ease of working remotely, especially for executives, are today key factors reshaping the dynamics of regional markets – including for job creation. Certain trends are evolving in ways which no longer automatically favour

bigger cities. The major population centres and consumer markets in France currently show an urban expansion which has already been reflected in residential real estate prices.

With regard to investment in service-sector-related real estate, these changes are also evident in the influx that has flowed to regional markets. Since 2008, volume has increased as these markets have matured. Since 2020, the regional proportion of overall non-residential investment within France has risen, reaching 41% in the first half of 2022. (This is even more remarkable in that this figure does not include certain diversification assets such as hotels, leisure centres or healthcare facilities.)

 Non-residential investment volume in regional markets - Proportion of total french investment



— Source : MBE Conseil

How can we best understand these trends? What types of investors are most attracted to which types of asset? What are the yields? What factors are providing regional markets with their strong appeal for investors in the current climate of such economic uncertainty?

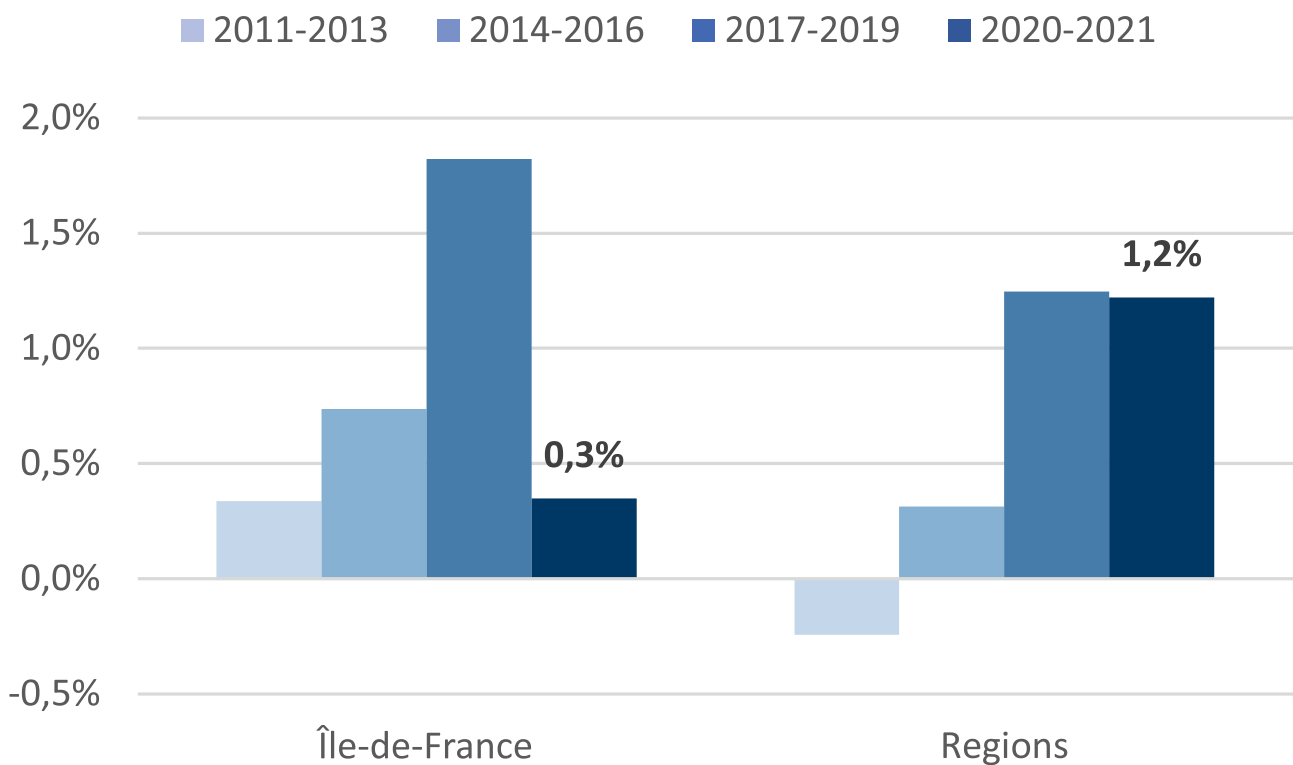
These are the issues that we will be addressing by analysing investment trends in key regional markets since 2011, including offices, retail assets and warehouses.

# REGIONAL EMPLOYMENT LEVELS HAVE BEEN BOOSTED BY POST-COVID RECOVERY

The overall socio-economic climate is very positive for the French regions. Their appeal is quite evident in the demographic evolution over the past decade, with steady population growth in coastal areas such as Occitanie, Pays de la Loire, Brittany, Nouvelle Aquitaine and Provence-Alpes-Côte d'Azur (PACA), as well

as in Auvergne Rhône Alpes. The growth in these areas stands in contrast with the steady decline of the population in Paris, accentuated by the pandemic crisis, leading to a major trend towards relocations to the capital's inner and outer suburbs, as well as regional cities.

## Regions vs. Île-de-France average growth in private-sector employment: 2011-2021



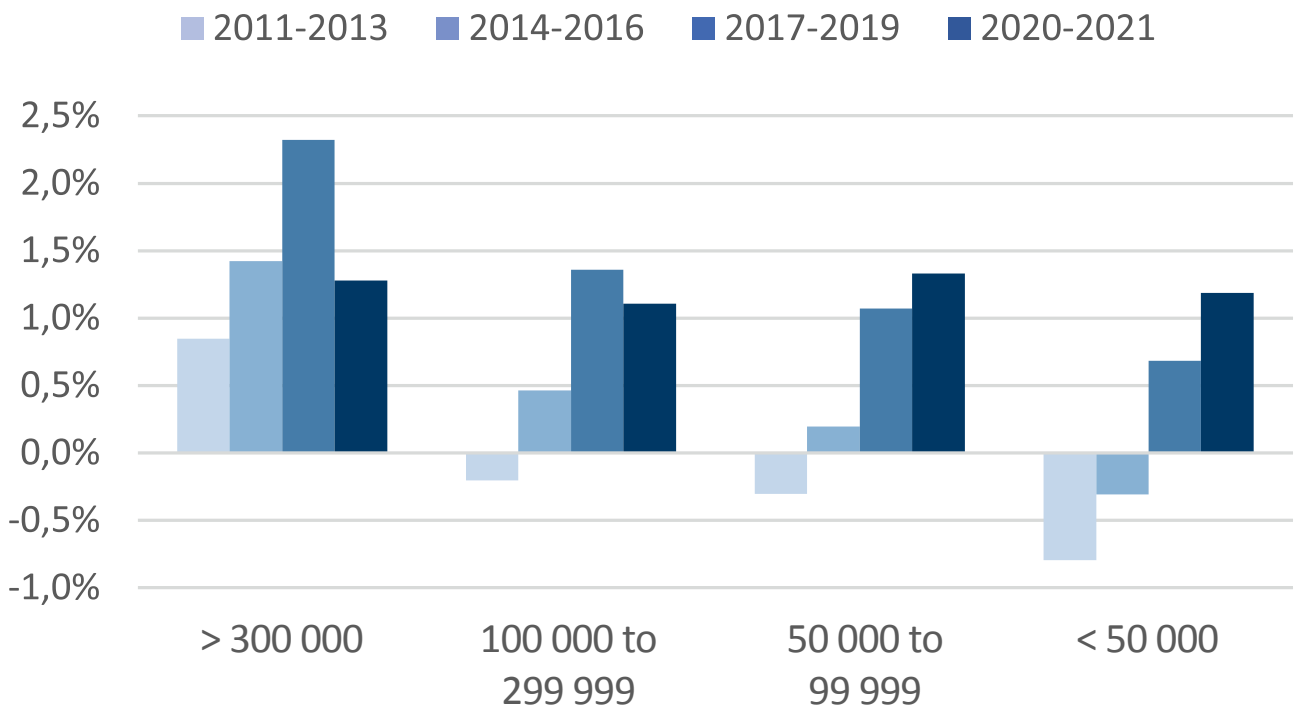
— Source: MBE Conseil - Acoos

This dynamism in the regions is reflected in the private-sector employment statistics provided by Acoos, which show sustained employment growth from 2011 to 2019: +4%. (During this same period, however, Île-de-France still remained the engine of French economic growth with a far more dynamic rise in employment of +9%). The health crisis has profoundly changed the overall economic landscape in France. Following the heavy impact of the shut-down in 2020 and the gradual rebound that followed in 2021, employment increased by only +0.3% year-on-year in Île-de-France, compared to +1.2% in the regions. While this again demonstrates the resilience of regional markets, these good employment figures also reflect more structural factors: namely, strong local economies, a desire by many workers to live in less densely populated areas, and better remote working and co-working options. The latter possibilities in particular have transformed the traditional links between companies

and employees, especially in traditionally high-earning professions. As some companies in the new digital economy have demonstrated, it is possible for them to divide their workforces between Paris and the regions in ways that can both retain and attract employees. In addition, issues of supply and industrial sovereignty have taken on a new importance in the eyes of public authorities and economic policy-makers since the health crisis. These have led to calls for more balanced development between larger and smaller population centres.

Illustrating this better balance, private-sector employment statistics since 2020 indicate that many of the advantages long held by larger urban area no longer seem to apply. Indeed, employment growth in France has never been stronger in areas with fewer than 100,000 inhabitants.

 Private-sector average growth in French regions by size of employment areas: 2011-2021



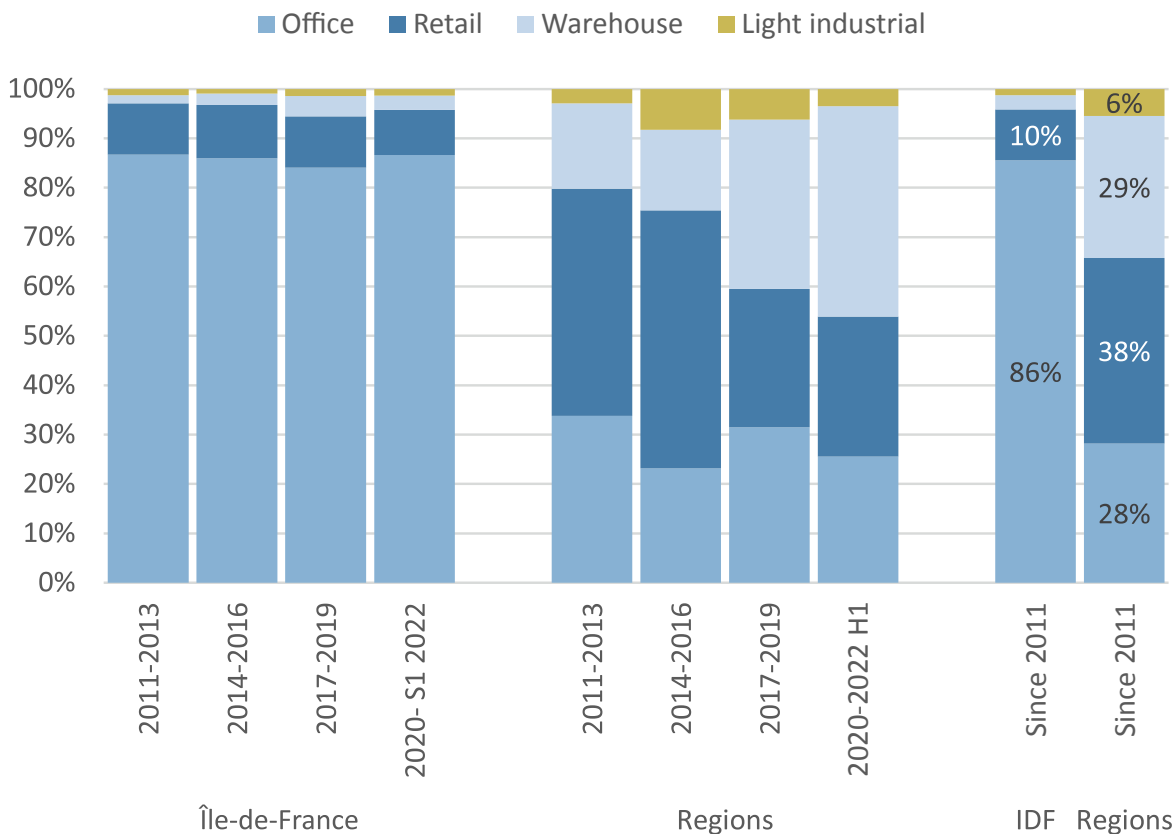
— Source: MBE Conseil - Acoss



# WHAT DOES THE REGIONAL INVESTMENT LANDSCAPE LOOK LIKE ?

## A DIVERSIFIED RANGE OF PRODUCTS WITH STRONG GROWTH IN WAREHOUSE INVESTMENT

🏠 | Île-de-France vs. regions acquisitions by asset type : 2011 - H1 2022



— Source: MBE Conseil

While offices in Île-de-France account for more than 80% of investment volume, the distribution of acquisitions in the regions by asset type is far more balanced. Regional markets have grown both as major consumer as well as employment centres in the past decade, underlying the concomitant substantial growth of investment in retail assets (38%).

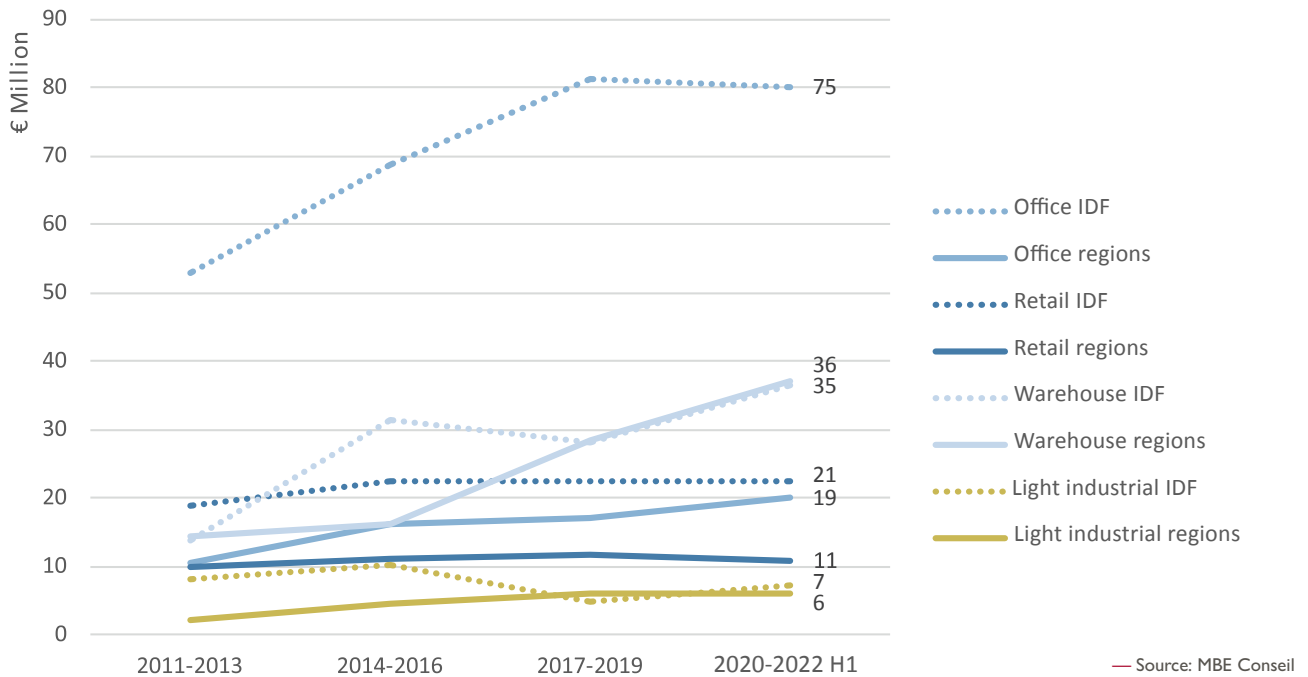
The changing character of investments in the regions reflects major factors that have affected businesses over the past decade, especially the rise of e-commerce and omni-channelling. This has led to warehouses overtaking retail assets in terms of investment activity, even long before the onset of the health crisis. From 2020 to

mid-2022, €8.5 billion were invested in warehouses, compared with €5.7 billion in retail properties. Light industrial sites also accounted for 6% of investment over the same period in regional markets: double the volume invested in Île-de-France.

Portfolio investments are naturally more frequent in the regions, especially for light-industrial premises and warehouses. These have attracted more than 70% of investment volume since 2011, compared to 50% for such assets in Île-de-France. For retail sites, the contrast is even starker: 66% in regional markets, compared to less than 20% in Île-de-France. Meanwhile, portfolio sales involving offices have become a far less common form of acquisition.

## A GREATER RANGE OF ASSETS IN REGIONS IN REGIONS

 Average size of non-portfolio acquisitions in the regions by asset type : 2011 - H1 2022



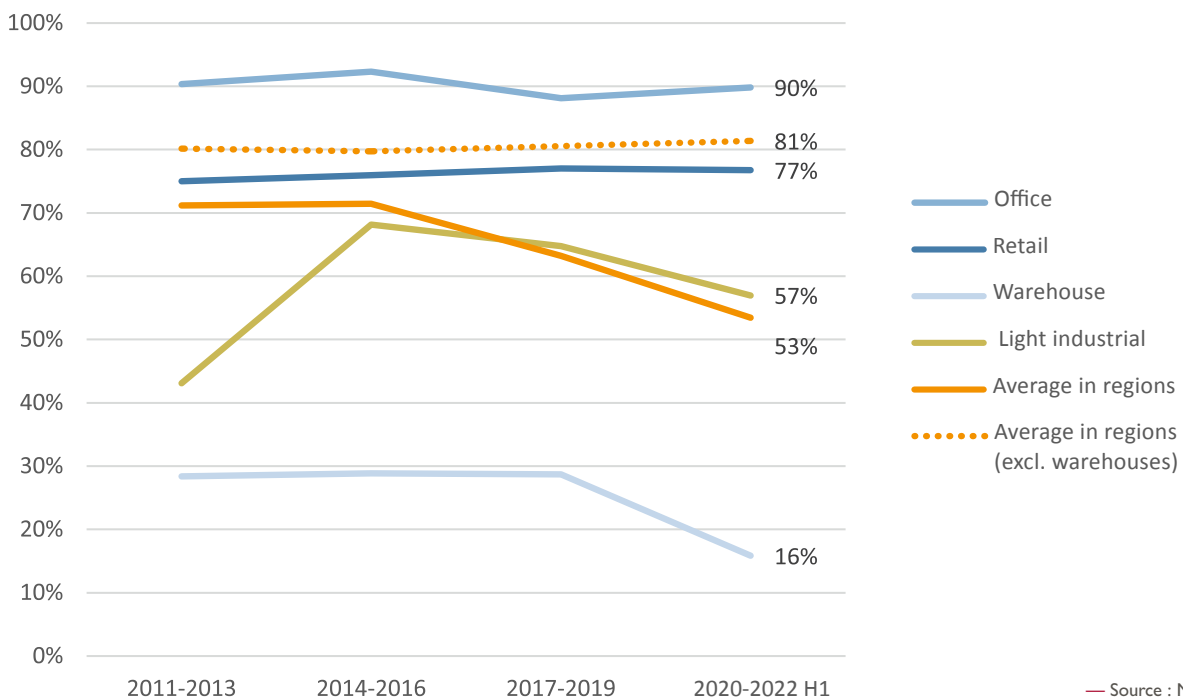
One of the major differences between regional markets and Île-de-France is now the value of single-unit assets being transacted. While the unfavourable economic situation is leading investors to reduce the size of their acquisitions for financing and diversification reasons, regional markets offer more reasonably priced opportunities. For offices, the difference has been evident with an average acquisition value of €80 million in Île-de-France over the 2020 to H1 2022 period, compared to €20 million in the regions. Although there has been stabilization in Île-de-France since the health crisis has

waned, there has been a steady increase in regional cities that illustrates the maturation of such locations.

Another noteworthy development has been that the average value of warehouses not acquired as part of portfolio deals has grown. This first became evident in Île-de-France from 2015, before being followed by the regions, to average €37 million in recent years. However, the average transaction value of light industrial single-asset deals has not differed much between the regions and Île-de-France.

## INVESTMENT IN OFFICES STILL A VERY DOMESTIC MARKET

 Proportion of French investors in regions by asset type: 2011 - H1 2022



Regarding investment acquisitions as a whole, the proportion of France-based investors has declined from 70% to only 53% from 2020 to mid-2022. But the activity of investors according to nation of origin has been very distinct, according to asset type. This has been particularly the case with regard to warehouse deals, whose proportion within overall investment increased sharply from 2020 to mid-2022, and where, concomitantly, acquisitions by foreign investors reached 84%.

Excluding warehouses, French investors have retained their dominant interest, acquiring more than 80% of other assets on the market. Although office buildings have consistently attracted the interest of German funds (near the top five buyers in this period), French investors accounted for 90% of acquisitions, and were nearly as active regarding retail assets, at around 75%.

## — HIGHER YIELDS IN THE REGIONS

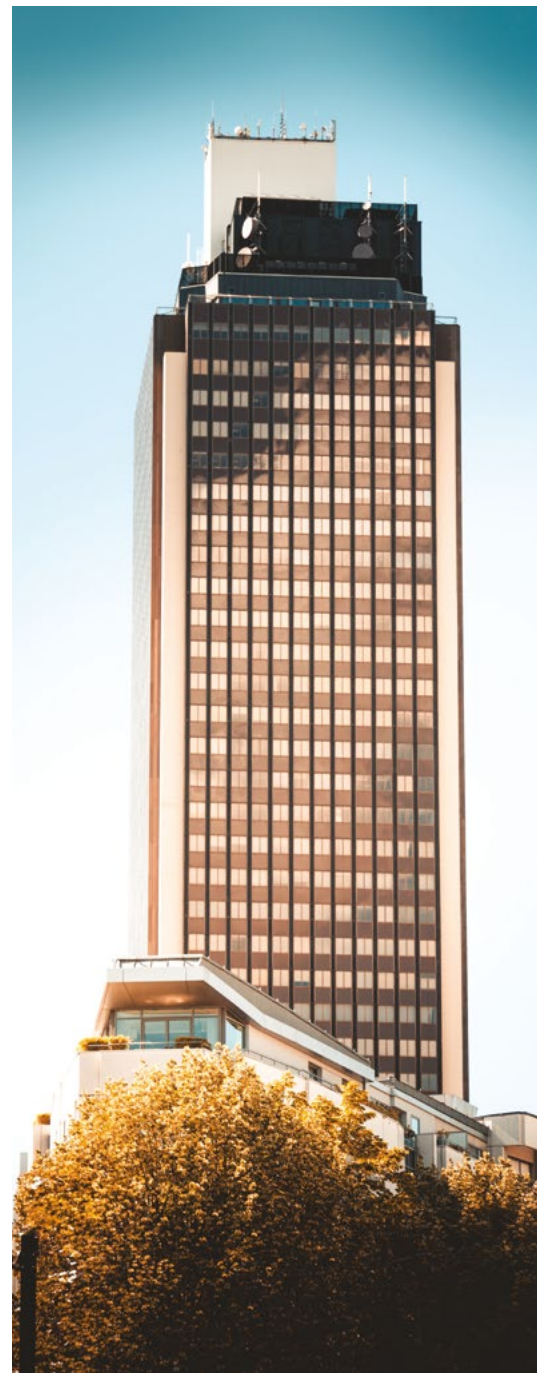
With the recent rise in interest rates (eg., more than 2.8% for TEC 10 OAT bonds at the end of September 2022), the real estate risk premium has decreased significantly. The ability of this asset class to remain attractive in a high-inflation environment is due largely to rent indexation, which provides investors with a fair degree of risk minimisation. But in the pursuit of higher yields, (excluding rental risk-taking), investors are increasingly looking towards assets located outside the main Île de France markets.

This is reflected in the average yields that we have analysed for offices, warehouses and suburban retail assets, (with our analysis being limited to secure assets only). While the regions have matured both in terms of asset quality and market depth, the yield hierarchy remains visible, despite a general compression until 2021.

Outside Lyon, the average yield for offices acquired in larger urban areas (ie., with more than 300,000 residents) since 2020 is 5.3%. The long-term evolution of the Lyon market indicates yields for acquisitions made within its city limits at the same level as Paris outside its CBD and the West CBD<sup>1</sup>, whereas before 2011 these were closer to those seen in the outer suburbs of Paris.

Yields in the regions have also proved less volatile, with slower (or non-existent) rate decompressions after the 2008 financial crisis: the last period of rate decompression endured by French real estate markets.

<sup>1</sup> La Défense, Neuilly-sur-Seine, Levallois-Perret, Boulogne-Billancourt, Issy-les-Moulineaux





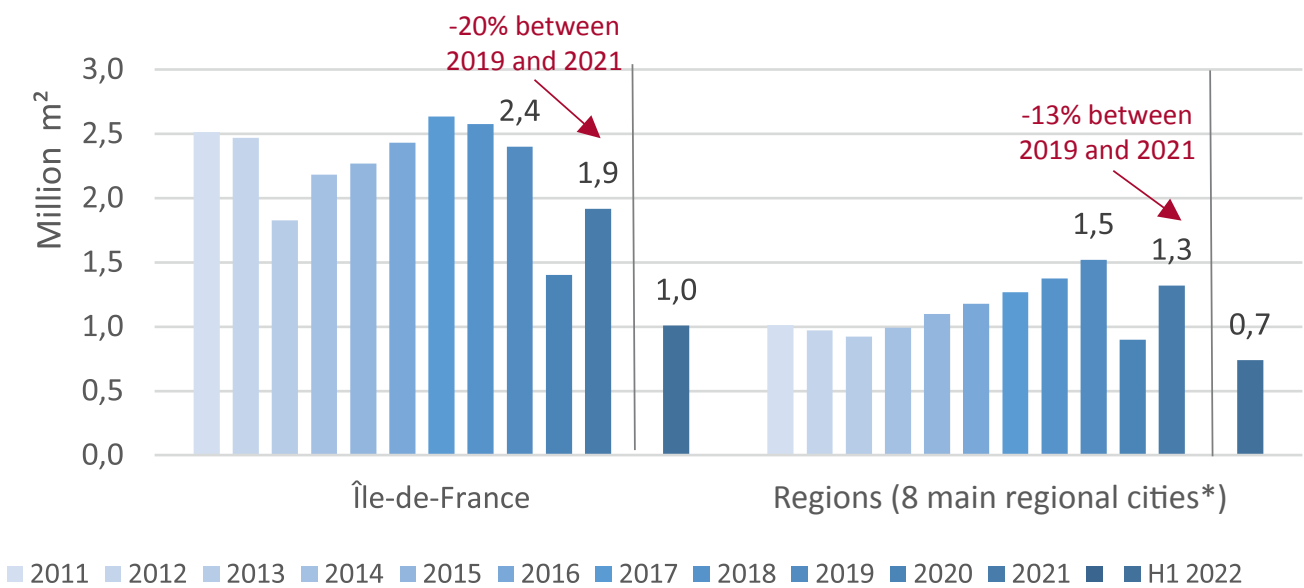
# OFFICES: A MARKET SUPPORTED BY A DYNAMIC RENTAL MARKET

French regional office user markets, in particular rental markets, have been very buoyant over the past ten years. After the Covid crisis first struck in 2020, they immediately rebounded and were remarkably robust in the first half of 2022, according to statistics provided by regional real estate observatories in Lyon, Lille, Marseille/Aix-en-Provence, Toulouse, Bordeaux, Nantes, Rennes and Montpellier.

Average annual take-up rose from just under one million m<sup>2</sup> in the 2011-2013 period, to 1.4 million sqm between 2017 and 2019: an increase of 43%. This was well above take-up in Île-de-France over the same period (+12%). Moreover, while office rental activity peaked in the Paris region in 2017 and has since experienced a gradual decline, the regions have seen rental transactions continue to grow with records being set in 2018, then exceeded in 2019.



Office take-up volume: 2011 - H1 2022



\*Lyon, Lille, Marseille-Aix-en-Provence, Toulouse, Bordeaux, Nantes, Rennes, Montpellier

Sources : MBE Conseil d'après le Cecim, l'OBM, Immostat, l'OTIE, l'OIEB, l'ONITA, la FNAIM et l'OIE de Montpellier

In 2020, take-up dropped by 41% in the eight regional urban markets studied, to the same degree seen in Île-de-France. But the regions then rebounded with vigour in 2021, with 1.3 million sqm transacted: their third-best year and only 13% lower than in 2019. Being historically more cyclical, the Paris market experienced a slower recovery last year, down by 20% from 2019.

It should be noted that regional cities performed very differently after the health crisis peaked: average take-up in 2020-2021 remained closer to 2017-2019 averages in Nantes (-5%), Montpellier (-4%) and Marseille / Aix-en-Provence (+5%), where both high quality of life and attractive real estate prices have been key to attracting businesses and residents. However, in Bordeaux (-28%), Lyon (-27%), Rennes (-21%) and Lille (-18%), office take-up is still lagging behind, with the negative trend being most severe in Toulouse (-46%) given the city's predominance in the aeronautics/ aerospace industry.

In the first half of 2022, the robustness of regional markets was confirmed, with 739,000 sqm transacted. This was above the ten-year average, with record performances in Lille (170,700 sqm), Nantes (73,000 sqm) and Montpellier (71,050 sqm). Take-up levels were also excellent in Lyon (146,800 sqm), Marseille / Aix-en-Provence (86,400 sqm) and Rennes (59,000 sqm). Another positive development is that vacancy rates generally appear to be under control with new supply being limited in most markets.

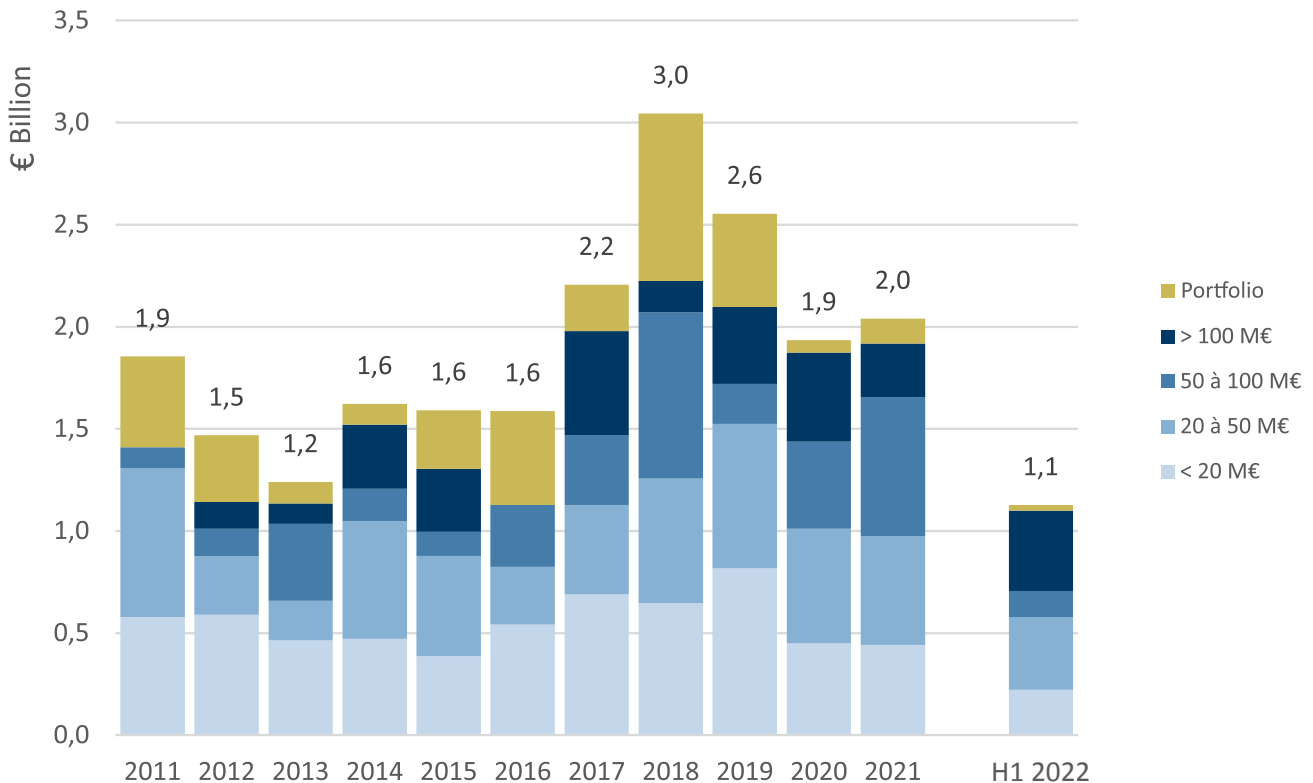
In general, regional markets have matured in recent years. They now typically offer well-identified and hierarchically structured business sectors, with central districts where rents have risen sharply (eg, Part-Dieu, Gerland, Euralille, Euroméditerranée, Euratlantique, Euronantes, etc.). They also have developed less centrally located office parks where rental values are more competitive (eg, Techlid, Villeneuve d'Ascq, office parks in Aix-en-Provence, Saint-Herblain, etc.). This dynamism is not limited to the larger regional centres, with secondary markets also proving attractive, especially those offering ready access to high-speed TGV train connections.

# OFFICE INVESTMENT: REGIONAL MARKETS HAVE MATURED

The economic dynamism of regional cities, with strong take-up activity for offices and an improvement in the quality of buildings on the market, have all naturally favoured investment growth. After two record years in 2018 and 2019, investment in regional offices has

weathered the subsequent health crisis well, with €1.9 billion transacted. This represents a decline of 23% year-on-year compared to a fall of 35% in Île-de-France. In 2021, regional acquisitions reached €2 billion (+5%), even as the Paris market continued to decline (-18%).

## Office investment volume in the regions by value: 2011 - H1 2022



— Source: MBE Conseil

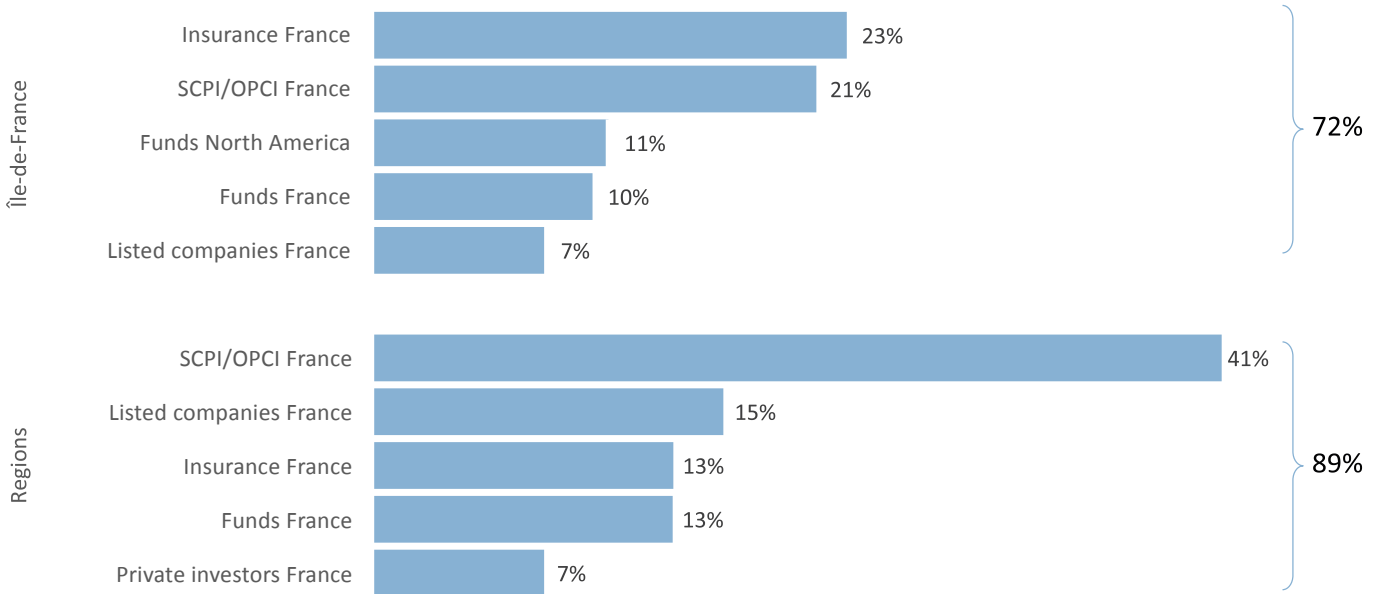
The first half of 2022 saw very good market momentum (€1.1 billion), driven by two transactions valued at more than €100 million, the Urban Garden in Lyon and the Marseillaise in Marseille, which have helped to confirm the strengthening maturity of regional markets. This stands in contrast to 2021, when transactions of €50 to €100 million drove take-up, as they did in 2018. These generally involved new or recently delivered offices of more than 15,000 sqm, leased to major corporations and located in the larger regional centres (ie., Lyon, Marseille, Lille, Bordeaux and Nice). The under-€50-million market has also been a consistently strong performer, averaging influx of more than €1 billion per year since 2011.

As with the rental market, investment in office space has mainly been concentrated in the larger regional cities. Lyon has been the clear leader. Its status as the first regional market, with €7.7 billion invested in offices since 2011, has led us to isolate it in our yields analysis.

In areas with more than 300,000 employees, the top performers have been Lille (€2.3 billion since 2011), Marseille (€2 billion), Toulouse (€1.5 billion), Bordeaux (€1.2 billion) and Nantes (€0.9 billion, with an increasing number of investors since 2017). In other regional areas, the most important markets are Nice (€800 million, including €200 million in 2021), Rennes (€500 million), Montpellier (€360 million), as well as Grenoble and Strasbourg.



## Top five investor types for office assets: 2011 - H1 2022

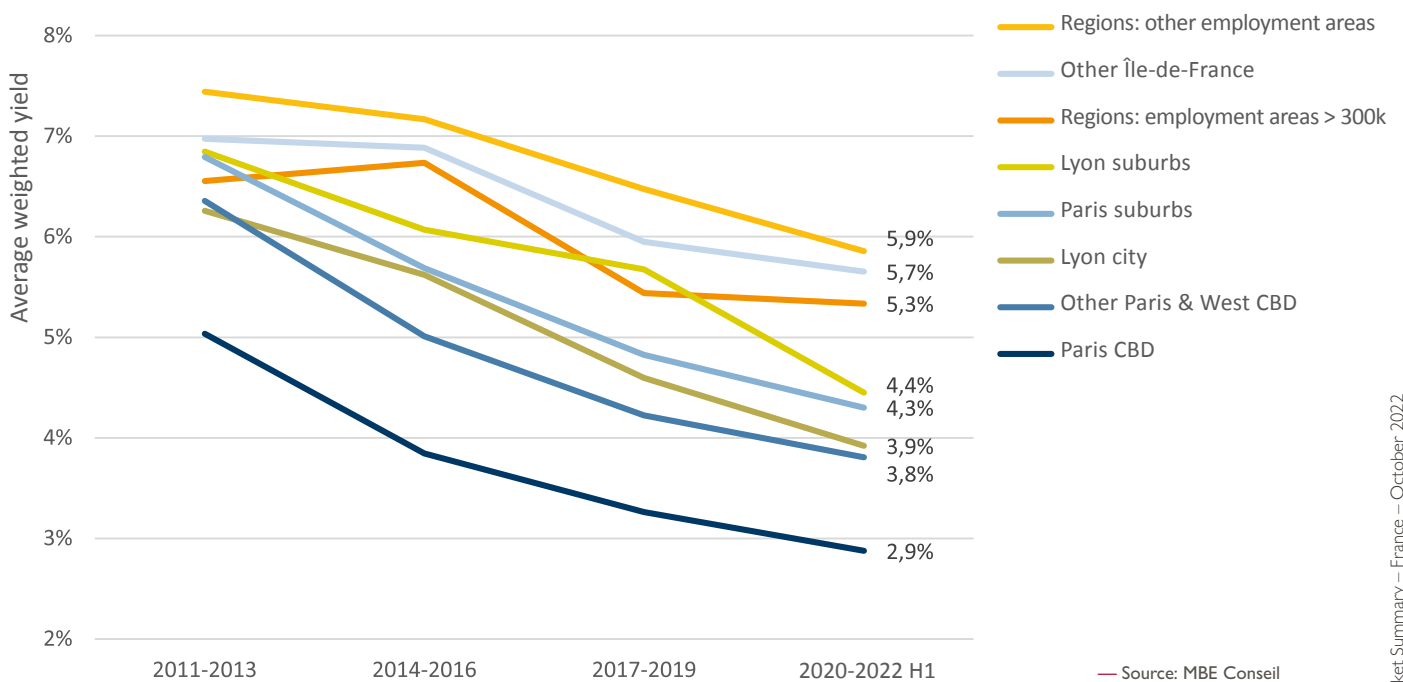


The regional market is very heavily dominated by French investors, (89% of the top five investor types), with SCPIs by far the largest players, accounting for 41% of total influx. This has been followed by listed property companies (15%), insurance companies and investment funds (both at 13%) — and, in stark contrast to the Île-de-France market, a notable presence of French private investors (7% of investment volume since 2011).

Following economic and urban development, as well as increasingly better quality office stock, yields in regional cities have fallen sharply over the past decade. Within the city limits of Lyon, yields are now very close to those of Parisian markets, excluding the Paris CBD and the West CBD. Yields in Lyon's suburbs are actually now nearing those seen in the inner suburbs of Paris. In regional cities with less than 300,000 residents, yields have also continued to fall. Beyond the Lyon area, similar trends are evident for large and medium-sized regional cities, with yields decreasing after 2014-2016, and now approaching levels seen in the outer suburbs in Île-de-France.



## Average yields for office assets by market (rented assets only)



In a real estate market where the decline in yields is clearly visible in the centres of the main cities, investors are showing increased interest toward good-quality assets located in suburban areas. Large regional markets are maturing, and are now often organised around both a central business district as well as more peripheral areas. The latter are generally well served by public transportation

networks and are located in cities having ambitious economic and urban development policies. Out of 45 acquisitions valued at €20 to €100 million between 2021 and mid-2022, 16 have occurred outside city centres, mainly in business parks or in newly developed suburban districts.



#### **An example ?**

#### **Dimo Garden – Techlid – Limonest**

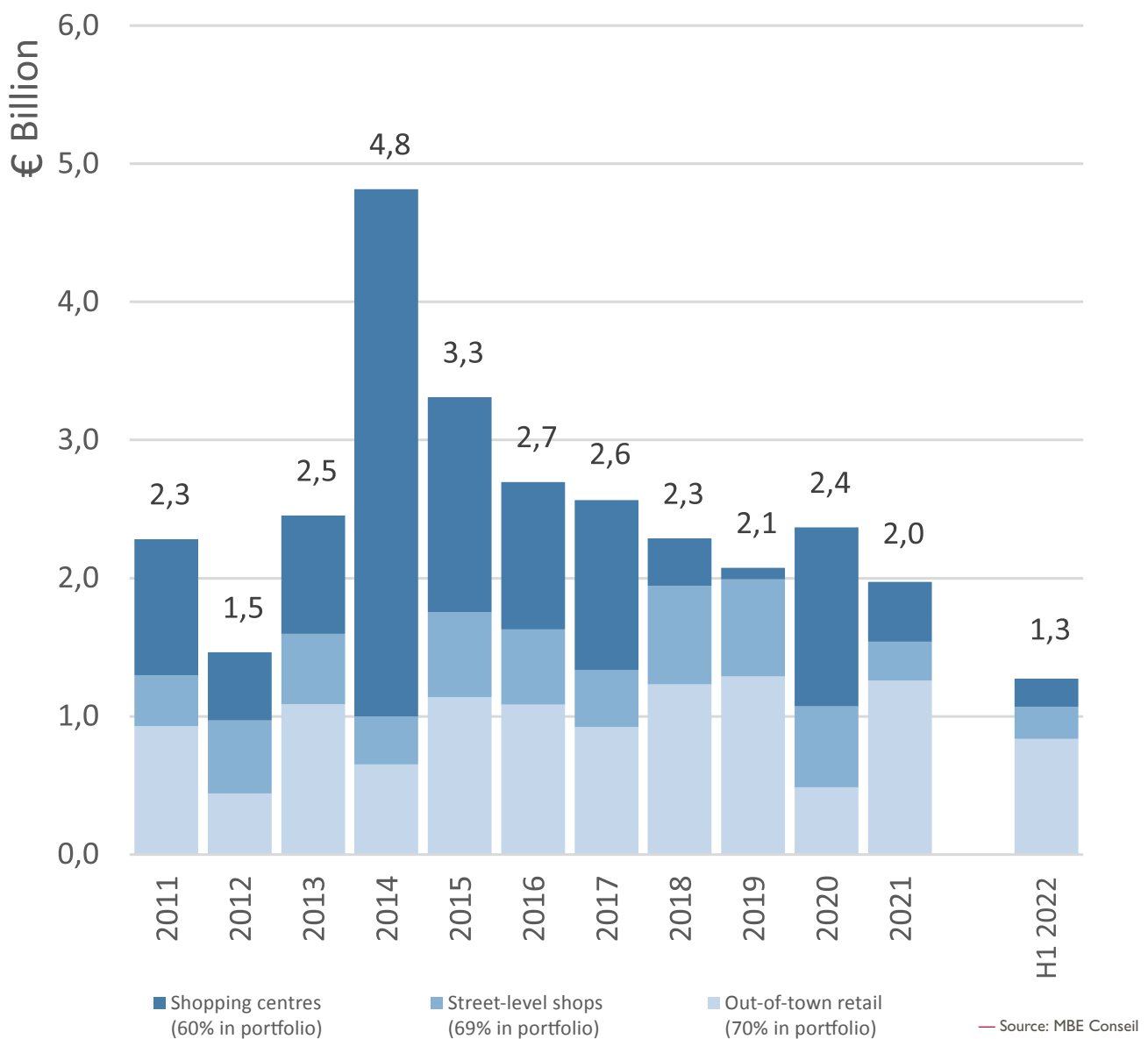
- Office building located in Techlid, a prominent business district on the outskirts of Lyon
- Proximity to A6 Highway – Public transportation links
- 3,416 sqm of offices delivered in 2015 - HEQ Label – Good quality amenities and many outdoor spaces
- Sale & lease-back agreement with Dimo Software – 6-year fixed lease
- **Yield: 4.55 %**

# INVESTMENT IN RETAIL: OUT-OF-TOWN ASSETS HAVE THE ADVANTAGE

While investment in retail may seem to be declining statistically, it should be noted that 2014 was a highly exceptional year for this asset type, due to the creation of the Carmila commercial property company. (Carmila acquired €2.5 billion worth of malls and shopping centers in portfolios from third parties, in addition to its parent company Carrefour's own assets). With an additional €2.3 billion invested that year, we can see that the decline in investments in regional retail assets has been gradual. 2020 proved an exception to this trend, with the URV portfolio deal valued at €1.1 billion more than offsetting the impact on the retail market inflicted by the Covid crisis.

However, the decline in retail-asset investments is not so much due to a general disaffection on the part of investors concerning available products, but more to a decline in large "France-wide" portfolio deals between 2016 to 2019, and especially to a major drop in shopping mall acquisitions. At the same time, investment volume in street-level shops, as well as out-of-town assets has been steady in recent years — and has even shown momentum as the health crisis has diminished, with a very good performance over the first half of 2022.

 Investment volume in retail in the regions - By asset type

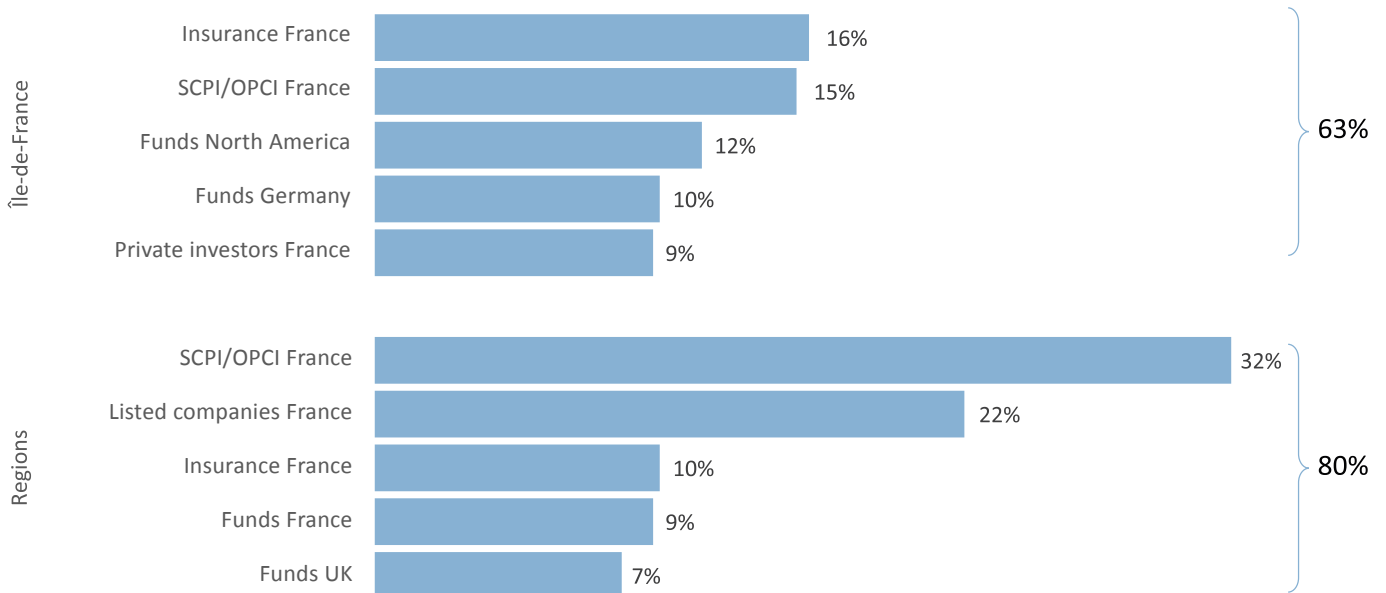


What are these so-called "out-of-town" retail assets? Typically, the more popular products include hypermarkets, gardening centres and warehouse units with retailers who have demonstrated strong resilience in the face of the Covid health crisis, such as brands

specialising in home equipment, DIY, sporting goods shops or suburban restaurants. Such assets have accounted for a significant proportion of investment since 2020 as part of portfolio sales, including Leroy Merlin, Decathlon, and Burger King and Quick fast-food outlets.



 | Top five investor types for retail assets: 2011 - H1 2022



As a heavily domestic-centric market, investment in retail assets in the regions is clearly dominated by French SCPIs, as well as property companies specialising in retail products. Procurement strategies often correspond to a search for maximum yields. In Île-de-France and the larger cities, the average yields for out-of-town assets are currently below 5.5%, whereas they are between 6.5% and 7% in smaller urban areas. In an uncertain economic climate, however, such a favourable rate of return for commercial assets requires long-term tenancy from well-established brands, as well as high-quality construction.

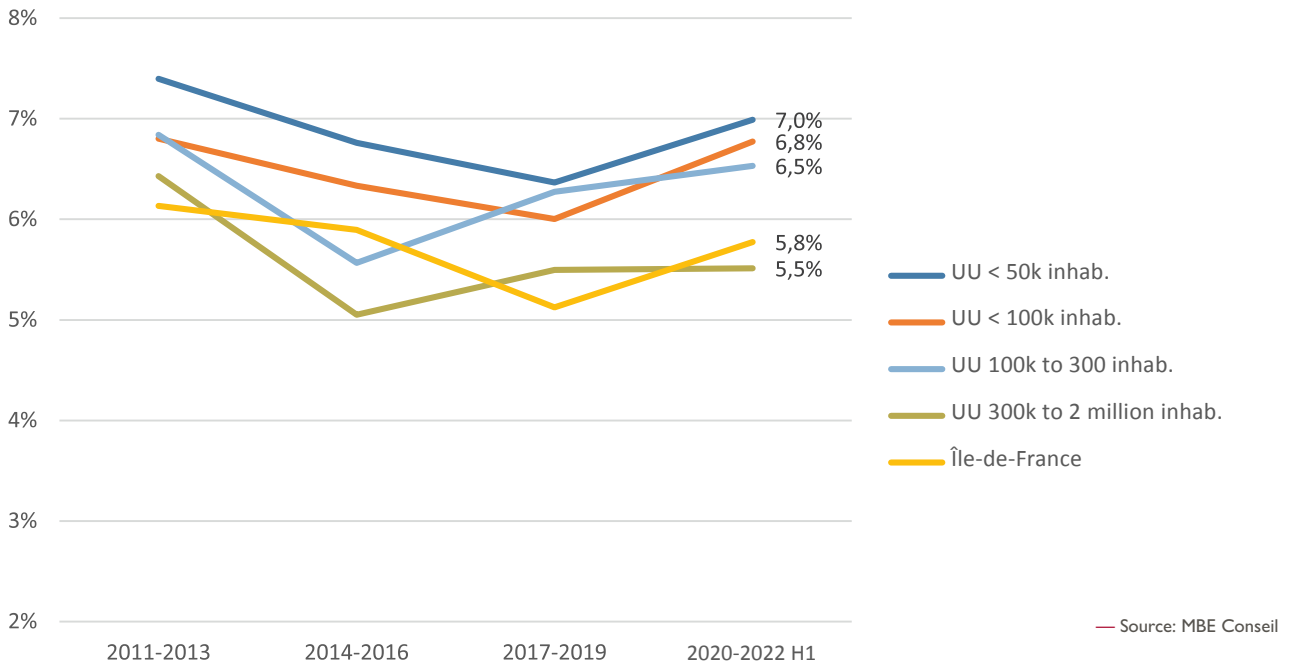
Retail-related activity, already weakened by the Covid crisis, is facing new challenges. Higher inflation threatens consumer purchasing, and rising energy costs could significantly increase expenses for retailers. Competition between retail outlets will therefore intensify. And in addition to accessibility and catchment area concerns, the ability

of retail asset owners to offer their tenants affordable rents and manageable overheads in times of such economic stress will make a great deal of difference.

Among out-of-town assets, retail parks, which have only recently been developed in France, have proved a popular type of asset for investors. This is largely due to the presence of attractive and diversified brands, as well as to the parks' positive architectural and environmental qualities. During the health crisis, these features have allowed them to remain appealing, while boutiques within cities and shopping centres have often suffered significant fall-offs in foot traffic. Generally new in design, retail parks remain attractive investment opportunities, mainly thanks to the quality of their construction, their energy efficiency and their lower rents: clearly positive qualities for retailers whose sales have been battered by the Covid crisis.



Average yields for out-of-town retail assets - By Urban Unit size  
(UU = urban unit / Rented assets only)



**An example ?**

**Parc Saint Paul Park in Saint-Paul-lès-Romans**

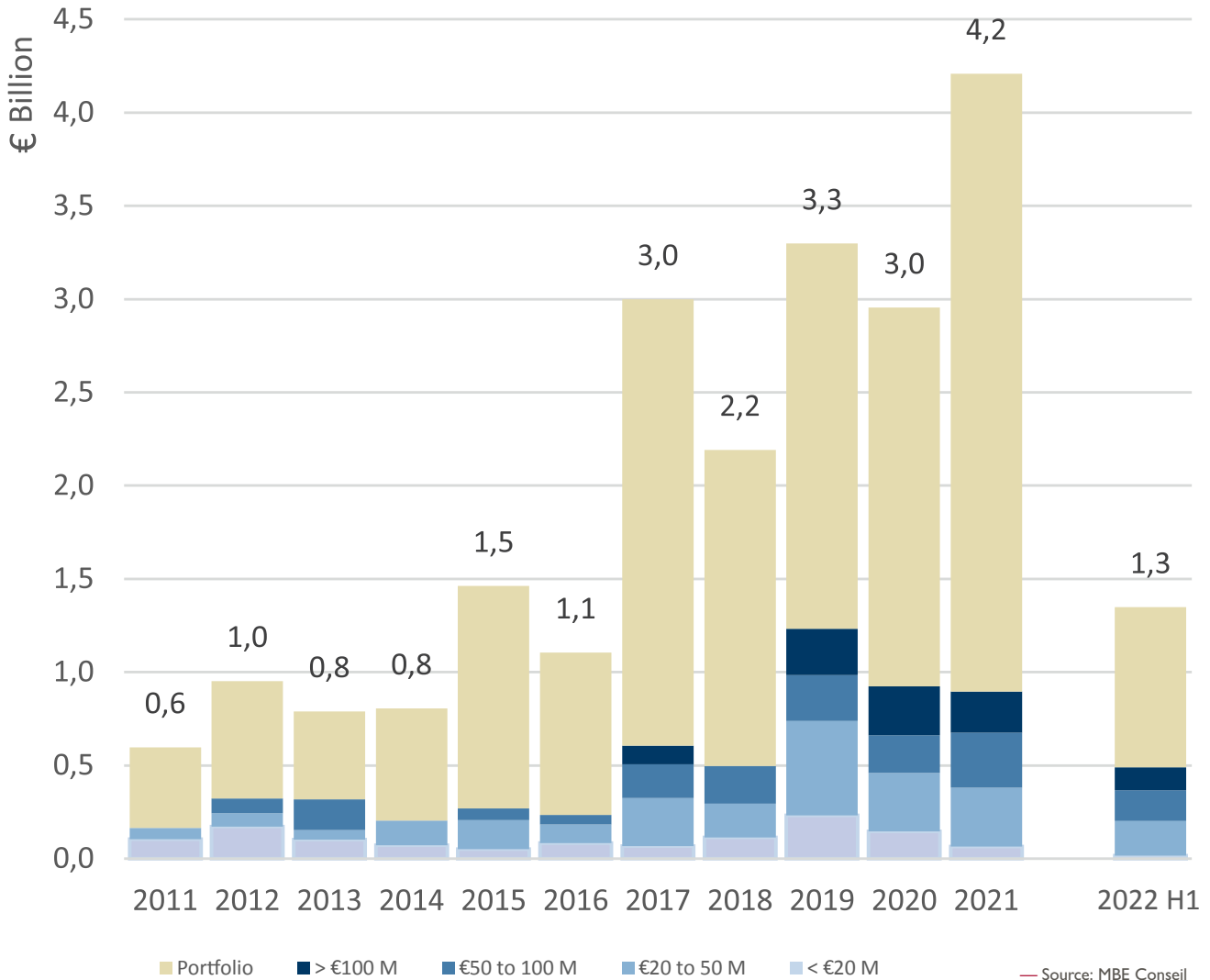
- Retail Park located 30 km from Valence and 8 km from Romans-sur-Isère: 70% of shoppers live within a 5 to 10 km radius
- GLA: 19 741 sqm - 28 units, 3 terraces for food services, 2 kiosks, 1 ATM and 1 150 parking spaces. 110 Businesses - Multiple anchor stores - Diverse and dynamic brands
- Occupancy rate: over 90%
- Recently delivered (2014) - BREEAM 'Very Good' Certification, Photovoltaic Plant -Eco-friendly environment
- **Yield: 7.20%**

# INVESTMENT IN WAREHOUSES: A BOOM BEING HAMPERED BY CHALLENGES IN BUILDING NEW PRODUCTS

Warehouses now account for a significant share of regional investment since the distribution of physical goods typically involves a network spread over a large territory. The surge in warehouse deals in French regional markets in 2017 was part of a general

Europe-wide trend, driven by the growing economic impact of e-commerce. The Covid health crisis has only reinforced this trend, with a continuation of strong investor interest seen in 2020, jumping to an influx of €4 billion in the French regions in 2021.

## Investment volume for warehouse assets in the regions - By transaction value



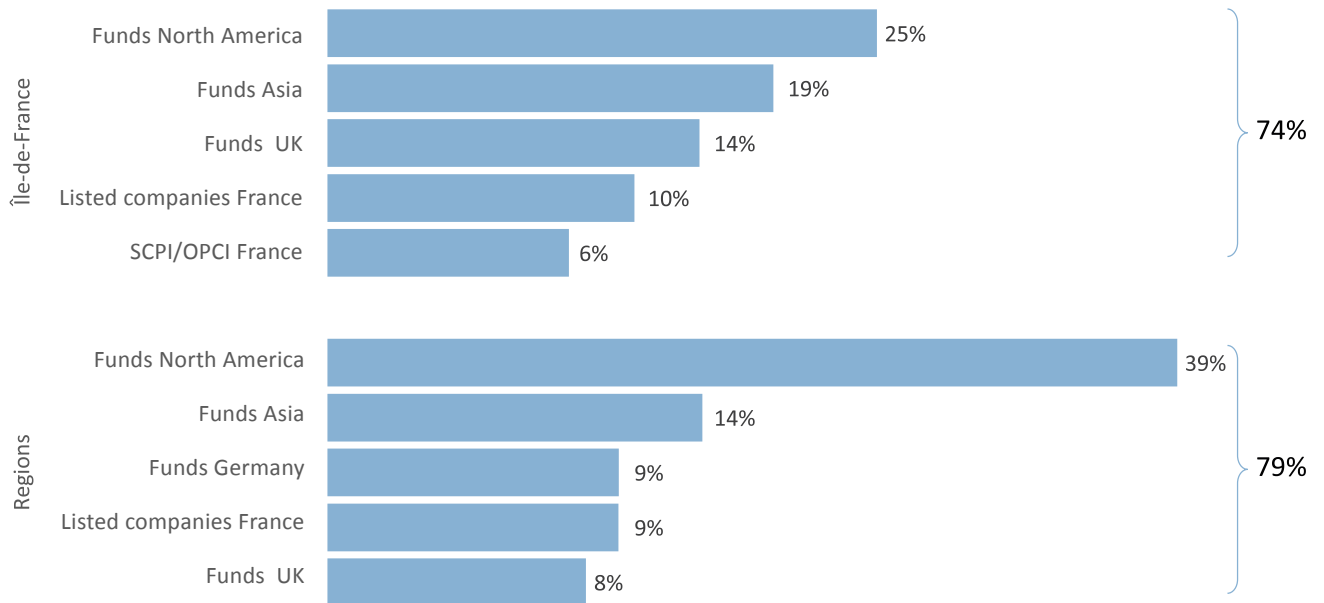
The enthusiasm of investors for warehouse assets has largely been driven by the steep rise in take-up in France: this has doubled since 2014 to reach 4 million sqm in 2021, with 80% of deals taking place in the regions. Although end-user sales still accounted for 1.2 million sqm of transactions in 2021, regional markets are now following a similar trend to Île-de-France, with a majority of transactions being rental agreements (2 million sqm).

Despite the fact that more than 70% of warehouse acquisitions in recent years have been through portfolio deals, there has been a rise in regional single-unit acquisitions, with transaction values approaching Île-de-France levels (€37 million), reflecting higher quality assets. Environmental certifications such as BREEAM also now play a key role, with a "Very Good" label often having become a prerequisite for end-users who want to control their expenditures, especially energy costs.





## Top five investor types for warehouse assets: 2011 - H1 2022

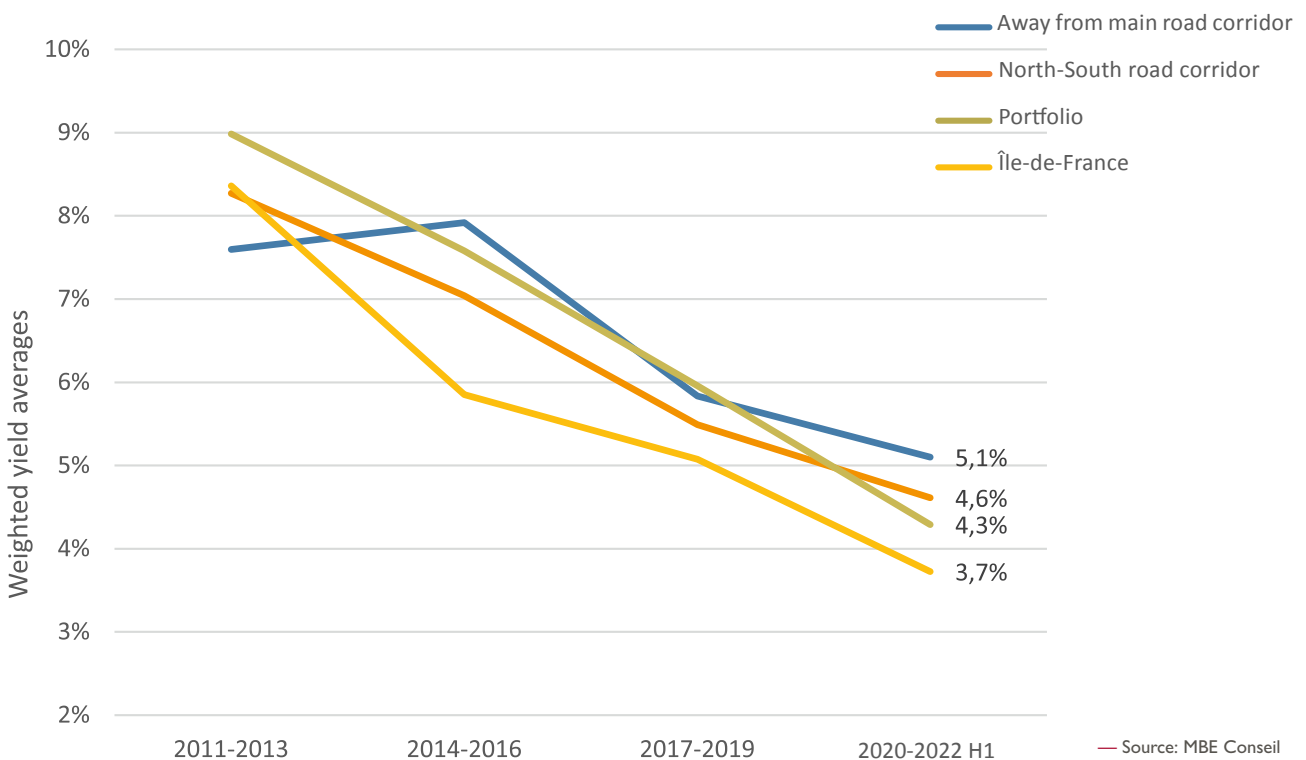


Investors' countries of origin in the regional warehouse market have followed a very similar pattern to that seen in Île-de-France, with more than 70% of acquisitions since 2011 conducted through foreign funds. American and British funds have been the most active, followed by Asian and German funds, while the few French listed companies active in the market have displayed slightly waning interest.

Currently, warehouse rents are increasing throughout Europe. The disruption of supply chains due to the health crisis is forcing stock and supplier diversification to become higher priorities, which is intensifying demand faster than supply can be delivered. Despite fairly rapid construction techniques, the duration of building regulatory restrictions and land availability issues are frequently slowing down warehouse deliveries.



## Average yields for warehouse assets by market (rented assets only)



These trends have been reflected in a dramatic contraction in average yields regarding investments in warehousing, (with the 2011-2013 period reflecting a drop in investor activity after the financial crisis). Yields closely correspond to key factors, such as the maturity of individual markets, as well as particularities within each market. These include asset status (ie., new or second-hand), and terms of rental agreements (ie., duration of fixed leases, quality of tenants, etc.).

Yield performance for warehouses acquired in portfolio deals has changed remarkably since 2011, from the highest recent rate of returns in 2011-13, to an over-performance in recent years that positions yields below those of unit assets on the main north-south road corridor. Some portfolios include possibilities to redevelop or densify existing sites with a value creation key that accentuates the competition between buyers. Recent yields for warehouse assets in Île-de-France have been at levels seen for offices in Paris outside the CBD, and for the West CBD.

Assets located away from the main national north-south highway corridor now offer the highest average yields, at 5.1% (although yields vary widely, with exceptional transactions under 4%). These are the only warehouse assets that did not experience an increase in post-financial crisis yields in 2011-2013, due to their lower sensitivity to wider economic trends. Specifically, such warehouses are mainly located on the Atlantic coast and in eastern France, as well as certain less mature markets near Île-de-France, such as Rouen, Soissons, Troyes and Mer; the latter being located between Blois and Orléans.

The maturation of these markets is based either on policies of locating warehouses closer to consumer centres, or on optimising access to well-established highway networks. The location of warehouses also depends on having an ample local source of skilled labour, as well as local municipal authorities being willing and capable of facilitating their area's economic development by easing the construction processes.



**An example ?  
A warehouse platform acquired speculatively in Mer**

- BREEM ‘Very Good’ class A platform to be built
- The municipality of Mer (between Blois and Orléans) has strongly focused its economic growth policies on warehouses after the closure of the Epéda plant in 2000
- Adjacent to the A10 and also near to the A71 and A19 highways, with several major logistics companies (La Poste, But, Prologis, Schenker, etc.) in the vicinity
- **Yield: 6.30%**



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Catella Property combines the structured approach of an investment bank with local market knowledge and “dealability”: in 2021, we acted as advisor in property transactions throughout Europe for a total value of EUR 5.3 billion.

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