The market holds its breath

▼ €3.5 Bn
Offices

▼ €1.3 Bn
I&L

▼ €0.9 Bn
Retail

▲ 3.4%
Prime yield
Offices

▲ 4.25%
Prime yield
I&L

▲ 3.4%
Prime yield
Retail

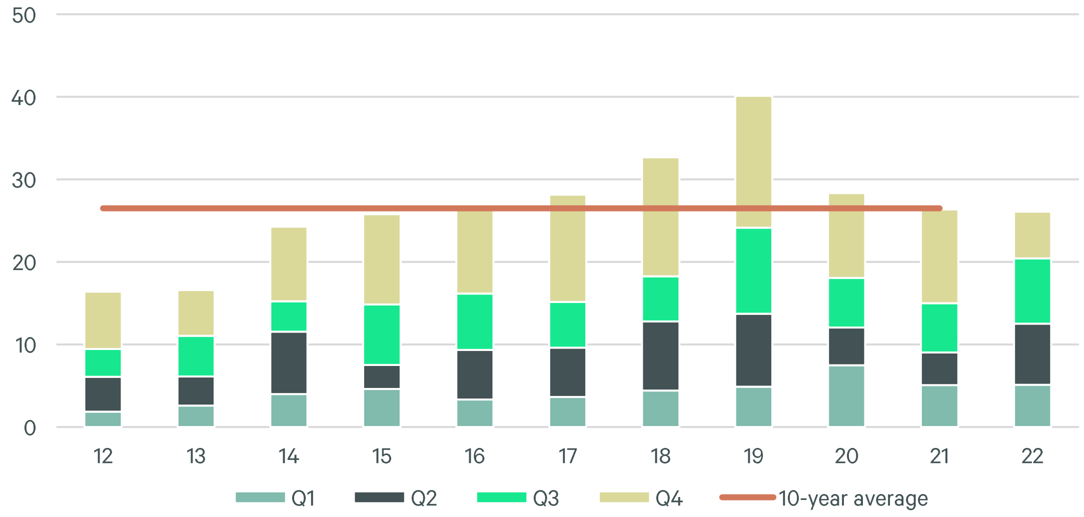
Note: volume invested in Q4; arrow indicates quarterly change

A slowdown has begun

Despite difficult financial and geopolitical circumstances, 2022 closed out the year with a relatively strong performance: 26.1 billion was invested in commercial real estate, which represents a fairly stable y-o-y investment volume (-1% compared to 2021). However, this good performance masks the signs of a slowdown, as well as widely varying levels of investment depending on asset class.

2022 was marked by significant financial and geopolitical upheavals and was roughly divided in two. Q3 was a watershed moment. Its strong performance has proved deceptive: it was in fact the result of negotiations initiated at the beginning of the year at yields which are now obsolete, given the major shifts during the course of the year. In contrast, Q4 performance was rather disappointing. Investment totalled €5.7bn (the lowest Q4 performance since 2013 and a -49% drop compared to Q4 2021), and usually it is a very active quarter. It marked the beginning of a slowdown that is only just beginning. It is in fact expected to continue during the first part of 2023, given that pitches slowed sharply in Q4.

FIGURE 1: CRE investment in France



*In € Bn
Source: CBRE Research, Immostat, Q4 2022

Retail and logistics: market drivers

Investment varies greatly from one asset class to another. The market was driven by the retail market's renewed dynamism. It accounted for 21% of investment volume. Although investor interest in retail had resumed in 2021, it was still highly selective. Preference was clearly for high street prime, retail parks and food and grocery assets. In 2022, retail made its comeback, which extends to all retail assets. Rents are selectively starting to recover. Yields which had decompressed fairly early in the cycle remain comparatively attractive.

I&L investment totalled €6.5 billion. The segment has managed to maintain high levels of investment, accounting for 25% of the market share. Although 2022 investment fell slightly below that of 2021 (-5%), it remains excellent. The drop in investment volume must be considered in context, given that 2021 was an exceptional year. Investors are attracted in particular by the potential for rent reversion and by the fact that logistics are less cyclical. Lack of supply also contributes to asset liquidity and provides good marketing prospects.

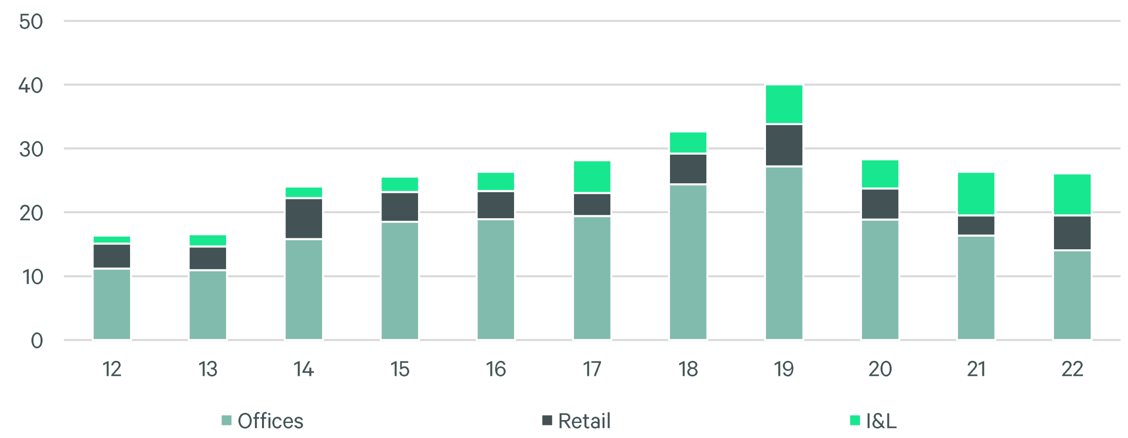
Office market: contrasting dynamics

The office market suffered a weaker performance, with "only" €14 billion invested in 2022. It accounted for "only" 54% of French market investment (compared to the usual 2/3): annual investment fell by 14% and there were fewer large transactions.

The market was particularly affected by the greater Paris region's lacklustre performance (€10.5 billion, or -21%). Yields have been very aggressive in recent years, reaching unprecedented lows. This asset class has therefore been hit hard by rising interest rates and increased financing costs: as a consequence, it is rapidly decompressing (it enjoys fewer buffers). Although some areas can still hope for rising rents (particularly in the CBD), this will only partially compensate for the rate rise. As buyers and sellers fail to agree on prices, the market is struggling: many assets have simply been withdrawn from the market despite expressions of interest.

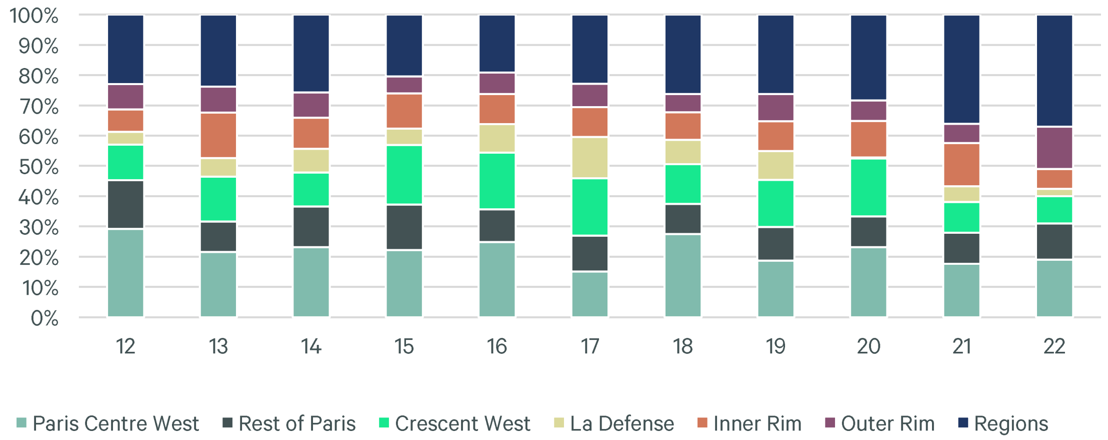
On the other hand, the regional office market fared much better with a total investment of €3.6 billion (a 13% increase). This was primarily due to a number of exceptionally large transactions: the sale of La Marseillaise in Marseille, which was the largest transaction in the region this year, but also the M Lyon and Urban Garden in Lyon.

FIGURE 2: Investment by product



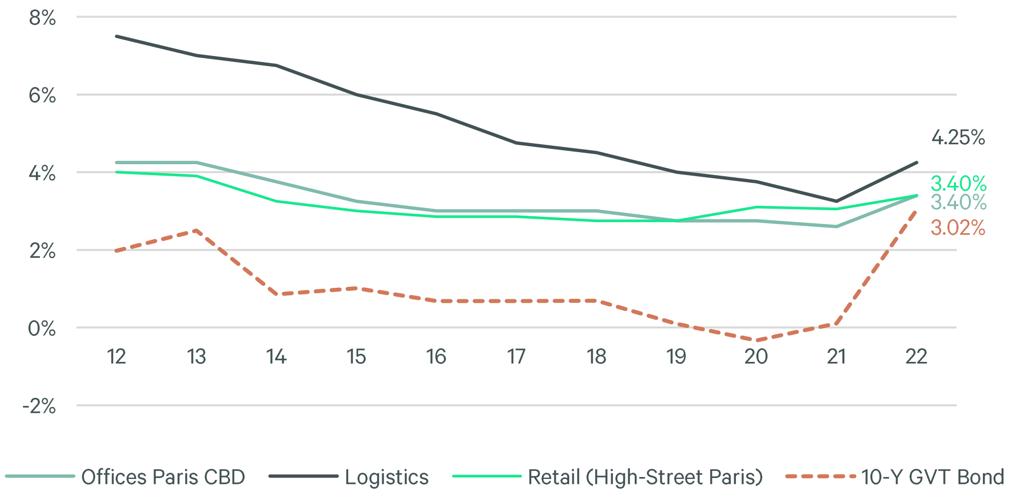
In volume
Source: CBRE Research / Immostat, Q4 2022

FIGURE 3: Investment by location



In %
Source: CBRE Research / Immostat, Q4 2022

FIGURE 4: Comparative rate evolution



Source: CBRE Research, Banque de France, Q4 2022

Turbulence ahead: a new real estate cycle begins

2022 was marked by central banks shifting towards a less accommodating monetary policy. The ECB raised key rates four times in an attempt to curb inflation, which at its peak exceeded 10% in the euro zone. This was followed by a rise in bond rates and, almost mechanically, a rise in property yields.

Decompression affected all asset classes, but to varying degrees: +100bps for logistics; +80bps for prime CBD Paris offices; and only +35bps for high street retail.

For now, investors are playing it by ear in a constrained and volatile environment. Most have decided to wait-and-see, as they anticipate a pivot point: the stabilisation of inflation forecasts and a more readable medium-term monetary policy.

Valuation here is key: although the need for a price correction has been acknowledged, it is not materialising. The timing and scope of adjustment remain uncertain and conditional on central banks bringing inflation under control.

A long-term paradigm shift is taking shape: years of continuously falling interest rates had generated a significant real estate cash influx. Investors are now faced with a new situation: the sharp rise in the cost of borrowing and the erosion of the spread with the 10-year GVT bond yield are leading investors to reconsider the role of real estate relative to other asset classes, and therefore its place in their investment strategies.

The yield hierarchy for different financial products should be reviewed in 2023.

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