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Lille location, retail opportunities lure companies

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Lille, an affluent city in France's north that is in the centre of Paris, London, and Brussels, could see its fortunes rise in the wake of the UK's decision to leave the EU. The city, the third largest business district in France, is starting to see some signs of interest from British companies that are looking to establish a base in the EU after Brexit, according to Yann Pitollet, CEO of investment promotion agency Nord France Invest.

The agency isn't taking a predatory approach of trying to persuade companies to relocate but Pitollet noted the region's proximity to the UK makes it a logical possibility. "We are saying: 'Remain in the UK, but if you want to have a foothold in the EU, one solution is perhaps to also have something in the Hauts-de-France, which is very close and business friendly,'" he told PIE.

Lille's story combines strong transportation links, an established office district, and an affluent consumer base. The city is 35 minutes from Brussels, an hour from Paris and Amsterdam, and 80 minutes from London. The London-Brussels Eurostar service stops in the city, which is also on the TGV French high-speed rail network. In addition, it is also only 50 minutes from Paris-Charles-de-Gaulle airport and enjoys good motorway links to Belgium, the Netherlands and Germany. "We are the second biggest region in France in terms of corporate headquarters, and Lille is the driving force for that," said Pitollet.

The city is the main metropolis in the Hauts-de-France region, formed in 2015 by the merger of the Nord-Pas-de-Calais and Picardie regions. The Lille metropolitan area – which includes Roubaix, Tourcoing, Villeneuve d'Ascq and other surrounding towns – has a population of 1.2m. "If you take a compass and draw a circle 300km around Lille, there are 78m consumers inside that circle and it is the leading retail catchment area in Europe," said Pitollet. "It is an extraordinarily rich region and we are very well connected to it, so that is a major selling point. Lille is very well situated for companies that want to tap into this market."

The area is notably home to a lot of French retailers, including the galaxy of companies controlled by the local Mulliez family, such as Auchan and Decathlon. “We have always been a region of retailers,” said Hugues Laffineur, co-founder of local realtor Tostain & Laffineur. Consumer finance, insurance, information technology and healthcare also account for a lot of jobs in the area. Finance and insurance companies tend to concentrate in Euralille, which offers more than 300,000 sq.m. of office space, making it France’s biggest business district after La Défense in Paris and Lyon Part-Dieu. IT jobs are focused on the 100 hectare EuraTechnologies hub, at the centre of which is a former textiles factory that has been converted into a business incubator for technology firms. Meanwhile, a buoyant healthcare sector has built up on the 300 hectare Eurosanté bio-business park on the city’s university hospital campus.

But Lille has also attracted a lot of foreign groups, and claims to be France’s leading region for the number of jobs created by foreign companies. The city hasn’t yet seen any concrete impact from the Brexit vote because firms are waiting to see the terms of any deal before making decisions. But a few British companies have started to take soundings about setting up in the area, and the regional council and Lille metropolitan authority are looking to offer a helping hand to such companies, he said. The regional council and chamber of commerce last year opened an office in London to strengthen economic ties with the UK.

A major attraction of Lille is its lower rents compared with other cities in France and north west Europe. Laffineur says prime rents in Lille are around €220 per sq.m. compared with €800 in Paris and €300 in Lyon, and as much as €1,500 in London, €640 in Dublin, €390 in Amsterdam and €300 in nearby Brussels. “We have rents that are extremely attractive for large companies,” he said. Lille office rents are on average 35% cheaper than those of rival cities in Europe, while logistics rents are 18% below those of the area’s European competitors, according to figures from consultancy EY.

However, growing demand could eventually push rental values higher, which is drawing in commercial real estate investors. “The market is a bit crazy at the moment, but investors are not wrong because they know that rents in Lille are underpriced, and so they are taking positions at very low yields – around 4.5% in Euralille,” said Laffineur. He said he has just sold a property in a business park on the outskirts of Lille at 4.95%, whereas this would have sold at 5.7%-5.8% a couple of years ago.

Lille has the second biggest office lettings market in France outside Paris, and it is closing the gap on Lyon. Take-up in the metropolitan area surged 30% to 188,000 sq.m. in 2016 excluding owner-occupier transactions and Laffineur says this strong demand was confirmed in 2017, when he estimates that takeup edged up to 196,000 sq.m. Including owner-occupier deals, the 2017 figure is expected to be slightly below the 2016 record of 225,000 sq.m. “We are now running at a cruising speed of around 200,000 sq.m.,” he said.

Investment opportunities are constrained by the limited supply of office products. The metropolitan area has an office stock of 4.2m-4.3m sq.m. and new deliveries only account for around 50,000 sq.m. of annual take-up on average, said Laffineur. However, the Euralille 3000 development plan will add a further 140,000 sq.m. in the business district over the years ahead. Office investment rose to an estimated €241m involving 32 deals in 2017 from €215m and 25 deals in 2016, according to Tostain & Laffineur. New offices now fetch €2,000-€2,800 per sq.m. in central Lille and Euralille, it says.

Lille’s quality of life is highly rated, with its sporting and cultural facilities, healthcare provision and educational institutions drawing praise in a KPMG survey of foreign companies in the region last year. The survey also found that a warm welcome was extended to expatriates. “This demonstrates that there is real satisfaction among foreign companies based in the Lille metropolitan area,” said Pitollet. There is also a significant number of people who commute to Paris and Brussels but who live in Lille because of its quality of life and lower housing costs, he added.

Respondents to the KPMG survey nevertheless complained about the level of property prices, and housing rents have risen faster than in other cities since 2000. After being among the cities with the lowest rents, Lille became the third most expensive in France, and in February 2017 it introduced a government rent controls regime, the only French city to do so other than Paris. However, the experiment was short-lived. In October the local administrative court halted the rent controls on the basis that it was wrong to implement the regime only in the city of Lille itself, saying that the law would require such a regime to be applied across the whole of the Lille conurbation area.

Philippe Depasse, CEO of developer Projectim, said the rent controls had limited impact on the local housing market, whereas the government’s Pinel buy-to-let tax incentive, which also includes a cap on rents, plays a very important role for developers, accounting for 60%-70% of new housing reservations. Depasse said demand remains strong, with reservations in the Lille metropolitan area running at around 4,000 a year. “The only grey cloud in the sky is that the supply of new housing keeps falling. If we have a year’s supply, the market is in balance; with two years, we are completely safe. But now we are down to seven months, so market tensions are increasing, and we will probably not have enough to meet demand in 2018 and 2019,” said Depasse, who is also the regional head of French developers’ federation FPI.

This decline in supply is the result of difficulties in finding building land and complicated processes for securing construction permits, and it will inevitably have an impact on prices, but not on rents, he said. “I expect prices to rise in 2018 and 2019 due to the shortage of building land, and increases of around 5% each year would not be abnormal,” he said. “But rents have not followed purchase prices because private investors have accepted lower returns. A few years ago investors wanted rental returns of 4%, but now they accept less than 3.5%.” sw/pie