

## Real Estate Strategic Outlook: France

### What are the macroeconomic drivers?

#### Slowdown in spending

Despite the rise in interest rates, household spending on goods and services has continued, thanks to falling inflation rates and improving consumer sentiment. The Île De France area is set to continue to outperform the national average due to the dominance of the services sector in the regional economy. Certain French regions are also likely to do well. Lyon stands out as a strong regional performer thanks to its life sciences and R&D sectors which are helping expand office employment and population growth in excess of the national average.

As a rule, returns for real estate in France look stronger over the next five years compared to a 10-year hold. This is thanks to a combination of yield compression, assuming rate cuts from 2024 onwards, and strong short-term rental growth due to the dip in construction activity we observe today.

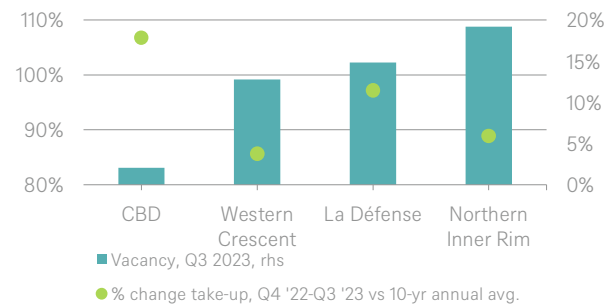
### Strategy: what and where?

#### Strong returns available in value-add office

The low availability of office space in Central Paris coupled with high rents has resulted in burgeoning investor interest in value-add strategies in this market. Post-pandemic, occupier demand has been focused on the 'intramuros' area in Central Paris, resulting in strong rental growth and falling availability in this location, and rising vacancy in more peripheral submarkets.

Going forward, the new Paris Urban Plan will limit the development of further office space in and around the CBD in favour of expanding residential supply, further exacerbating the pressure on office space. Letting risk upon completion of refurbishment works is therefore limited and the repricing of offices in recent months allows for a more attractive entry point. Outside Central Paris in markets such as the Northern Inner Rim, the high levels of vacancy suggests conversion to alternative use would be a better strategy.

### Paris office vacancy and change in take-up



Source: DWS, CBRE, Q3 2023

### Significant shortfall in student housing

The most attractive opportunity in the living sector is likely to be in student housing. Paris is one of the most undersupplied cities in Europe and this has fuelled stronger rental growth in this sector than in the private rented market. The challenge here will be matching the development opportunities, which are often in highly suburban locations, with student demand, which is focused on locations close to universities, mostly in expensive residential locations around the Rive Gauche area.

### Logistics remains a solid long-term performer

As expected in our mid-year outlook report, rent growth in the logistics sector has indeed been high, averaging around 9%. Now, the momentum in the sector is starting to wane. Take-up is down significantly due to three factors: the return to in-store shopping reversing some of the gains in e-commerce market share from 2020 and 2021, occupier expansion plans being weighed down by high borrowing costs, and very low availability of space. Our outlook for short-term rental growth is therefore somewhat weaker than recent years. On a five- to ten-year horizon, however, logistics is likely to continue to benefit from the structural tailwinds (growth in e-commerce, wider use of credit/debit cards, improving digital capacity) that have fuelled strong performance in recent years.

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