

## Real Estate Strategic Outlook: France

### What are the macroeconomic drivers?

#### Tighter financing takes its toll

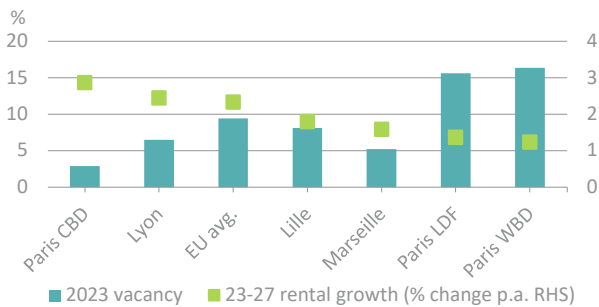
Although the protests across France have died down, the short-term outlook for the economy is not especially strong, with GDP growth just about staying in positive territory in 2023. While headline inflation is likely to keep falling as energy prices normalise, core inflation is likely to remain elevated for some time as post-pandemic savings are dissipated and strong demand for services persists. The five-year outlook is better as both inflation and interest rates slowly decline, allowing for a recovery in consumer sentiment.

### Strategy: what and where?

#### Central Paris offices remain attractive

While our value-add strategy for Paris offices is still a major theme, we are selective regarding micro-location. The CBD of Paris currently has the lowest vacancy rate in Europe, and despite prime rents passing 1,000 euros per m<sup>2</sup>, occupier demand is still concentrated on this location. Supply is less constrained outside the main inner ring road and there is limited scope for the market to rebalance in the next two years, particularly in the Western Business District.

#### Paris CBD offices likely to outperform due to low vacancy



Source: DWS, July 2023

The new Paris Urban Plan poses a challenge for office investors and developers in Central Paris, by significantly reducing the possibilities

for new development or redevelopment. For occupiers, there is likely to be less choice of space available, intensifying the pressure on existing space and driving rents to new highs. At the same time, the new Plan is likely to raise total returns for a value-add approach for small-medium sized offices.

#### Emerging opportunities in operational residential

Purpose-built student accommodation (PBSA) is currently under-supplied in France. In response to the shortfall, development activity has picked up significantly in Paris. With student numbers expected to grow only modestly, acquisitions in this location would need to be in highly desirable locations from a student perspective. Our main focus for this sector is likely to be on regional markets such as Bordeaux and Toulouse where provision rates are low and the pipeline of new stock is more limited. These markets also offer attractive entry yields in a sector where pricing has been less responsive to interest rates.

Hotels appear poised for a strong two years of performance, with the 2024 Paris Olympics in view. The regulatory constraints to operating Airbnb's and limits to new hotel development should boost the performance of existing assets and incentive renovations in this sector.

#### Logistics positioned for strong rental growth

We retain a focus on French logistics, where capital values have changed significantly over the past 12 months allowing for a more attractive entry pricing point.

Supply remains tight with vacancy averaging just under 4%. Vacancy in Southern France is particularly low, driven by strong take-up and a lack of new supply. While low consumer confidence and falling spending on goods suggests demand for logistics space will lessen and upward pressure on rents will ease, over the long term, we see logistics as an outperforming sector. E-commerce penetration has some way to go in France, driving strong take-up, and supply has only expanded sufficiently to meet demand in the Hauts-de-France area, preserving rental tension elsewhere.

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