

## Real Estate Strategic Outlook: France

### What are the macroeconomic drivers?

#### Political uncertainty clouding investment outlook

The recent parliamentary rejection of the Barnier 2025 budget and no confidence vote in the current government has left France in a state of political limbo. With no clear path ahead to achieve fiscal consolidatory measures, deficit spending levels are unlikely to decline in the short-term and we expect borrowing costs, which are currently at a 12-year high, to remain elevated. The ongoing political uncertainty is dampening consumer and business sentiment, with both the PMI and INSEEE business surveys registering sharp falls in November.<sup>1</sup> In this context, a recovery in investment volumes may be delayed relative to other core European markets.

### Strategy: what and where?

#### Spotlight on student

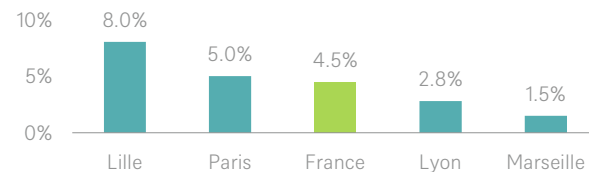
With provision rates across most French cities well below demand, the PBSA market is well-positioned for strong rental income growth over the next five years. The most liquid market by some margin remains Paris, and this is also where most forward-funding opportunities can be found. In addition, Paris is home to over 100 universities and is a magnet for international students, so has comfortably the largest demand pool. However, there is also a need for further investment in more premium product in regional cities such as Lyon, Lille and Toulouse, which offer both high-quality universities and lack PBSA that meets the expectations of international students today.

#### Window of opportunity narrowing in logistics

The logistics sector has been a key investment theme in France for some time. However, investment volumes are clearly trending up in this sector and while prime yields today are notionally at 5.00%, securing assets at this level is becoming increasingly challenging. It is likely that by the end of this year we will see some yield compression in the Greater Paris region, followed by an acceleration in this trend in 2025 and 2026, provided interest rate cuts continue. In this context, we expect the best returns within the sector to be realised for assets acquired in the next 6-12 months.

Outperformance in terms of rental growth is most likely in the Southern regional markets around Lyon and Marseille, where vacancy remains below 3% and development opportunities are scarce. A secondary target would be the West of France, namely the Nouvelle-Aquitaine and Pays de la Loire regions, which have been gaining market share in take-up in recent years driven by strong population growth. On the other hand, we would avoid the Hauts-de-France region around Lille which is currently oversupplied and is likely to remain so for at least the next two years.

#### France Logistics Vacancy



Source: CBRE, Q3 2024

#### Yields starting to tighten for Paris offices

Despite the overall negative sentiment towards the office sector and low transaction volumes throughout 2024, Paris offices are becoming increasingly in demand from an array of both international and domestic investors. Yields are starting to compress for prime product and there is still significant competition from value-add investors for assets in 'intramuros' locations, so total returns for both core and value-add strategies in this sector for the next five years in our forecasts today have deteriorated relative to six months ago. However, there is still potential for office conversions in the western and northern suburbs of Paris where vacancy rates are well above 10% and capital values are now looking sufficiently low to justify conversion to residential.

<sup>1</sup> Oxford Economics, November 2024

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