Real Estate Research

April, 2025

Notre Dame Rises; Will the Real Estate Market?

Navigating Turbulence: The Impact of Political Instability on France's Real Estate Market [1]

IN A NUTSHELL

- France faced significant political instability during 2024. The dissolution of the National Assembly in June, followed by the collapse of the Barnier government in December, severely tested the country's credibility, impacting economic performance and undermining investor confidence.
- Whilst risks remain skewed to the downside and short-term economic growth is expected to be subdued, France's strong fundamentals and strategic position in Europe act in its favour. Furthermore, the sharp rise in defence spending may bolster economic activity in the medium term.
- Sustained rental growth may be crucial in driving attractive returns moving forward. The logistics sector is expected to continue leading in performance, with the PBSA sector also showing resilience, particularly in major cities. Ultimately, the challenge and opportunity will be in identifying long-term megatrends that are less dependent on economic cycles and geopolitical events and can guarantee long-term value.

On December 7, 2024, fifty world leaders gathered in Paris for a historic ceremony marking the reopening of Notre Dame, the capital's iconic 12th-century cathedral. Destroyed by fire five years earlier, the landmark was painstakingly restored and returned to its former glory, an achievement that President Macron hailed as a real "French success story". This came just months after another defining moment; the 2024 Summer Olympics, which drew over 11 million visitors to the Greater Paris region. Yet, these events of national pride stood in stark contrast to the political upheaval that gripped France throughout the year. After suffering heavy losses in the European elections, and in a bid to secure his party's future, Macron called a snap election in June, triggering market turmoil. Bond spreads widened, and political and economic uncertainty deepened. Then in December, Barnier's government collapsed after a no-confidence vote over the 2025 budget, making it the shortest tenure in the history of the Fifth Republic. François Bayrou, a centrist, was named as the new French prime minister. This brought a turbulent year to a close, one in which France's credibility was tested in many different ways.

Market volatility amid political shifts

The political deadlock triggered by the dissolution of the National Assembly in June unsettled financial markets. French bond yields surged, and investor confidence waned amid growing concerns over the country's fiscal health. Credit rating agencies gradually increased their scrutiny of France's political situation, with Moody's downgrading France's debt rating from Aa2 to Aa3, citing political instability and deteriorating public finances as key factors. The government's ultimate downfall at the

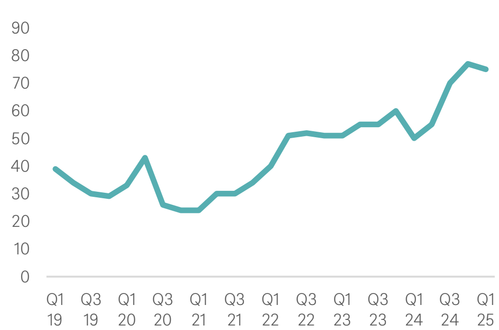
[1] Data Sources: Economics p.1: (GDP, CPI: Oxford Economics); Real Estate p.2: CBRE; Real Estate Forecasts: DWS

close of the year added another layer of risk, driving yields even higher and amplifying investor anxiety as we entered the new year. Things seem to be looking up, however. French 10-year government bond yields are retreating since mid-March's highs, primarily as the prospect of another government collapse has subsided in the short term. Furthermore, following a troubled start, Bayrou's government survived two no-confidence votes in February, allowing it to pass a budget after months of turmoil. Whilst it remains to be seen whether it delivers on its promises, the new budget has given markets a brief respite - for now.

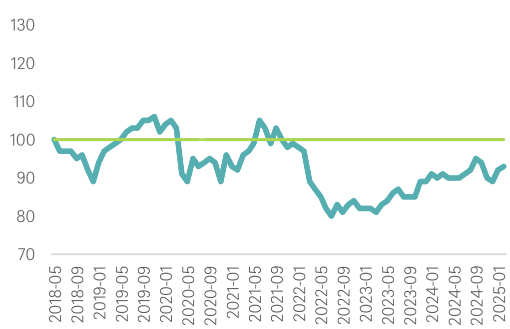
There is no doubt that France's economy has been significantly impacted by the current political turmoil, causing continued disruptions in key economic indicators, and influencing major business decisions nationwide. While GDP growth in 2023 and 2024 remained slightly above the 1% mark, projections for 2025 indicate a dip below this threshold. The labour market, in particular, is showing real signs of weakness, with employment declining in the private sector and the unemployment rate on the rise since last summer. Unsurprisingly, household consumption fell slightly in 2024, despite average annual CPI falling from 4.9% in 2023 to 2% in 2024. We expect unemployment to peak higher in 2025, keeping consumer confidence muted for longer. The other major downside risk for France of course is its rising public debt. The 2025 budget aims to cut the public sector deficit to 5.4% of GDP from 6.1% in 2024 through savings measures and tax increases. This is a significant challenge, especially given the continued parliamentary fragmentation and the lack of widespread public support.

Looking ahead, we believe economic growth will remain subdued in the short term, not only due to recent domestic political instability but also because of potential developments globally. The unfolding trade war with the U.S. presents a headwind for the French economy and while much will depend on the extent of these tariffs and the resilience of affected industries, they are likely to exert upward pressure on inflation. Additionally, a slowdown in demand for industrial space could occur if exports falter. It is fair to say that uncertainty remains, though much will depend on how policymakers navigate these complexities. Ultimately, we believe that France's diversified economy, solid economic fundamentals, and strategic positioning within the EU will help cushion some of these shocks. In the medium term, we think that the sharp rise in defence spending in France, which is set to rise from 2% to 3.5% of GDP, will bolster economic activity. Macron's role is crucial of course, as his ability to maintain stability will influence market sentiment. The fact that his term runs until 2027 provides some degree of political continuity at least.

Spread between French and German 10-year bond yields
Bps



INSEE France Consumer Confidence Index
2018 = 100



Sources: DWS, Oxford Economics, INSEE As of March 2025

So, what of Real Estate?

After several years of continuous growth, the French real estate market was hit hard by the pandemic and has struggled to recover. 2024 marked another year of weak performance, with subdued occupier activity across all sectors. Office take-up in the Greater Paris region fell 11% y/y, as weakness in the job market fuelled uncertainty and led to fewer companies relocating for expansion purposes. The logistics sector also saw a sharp decline in take-up, reaching only 3.1 million sqm for the year, a 24% drop from 2023 and a 31% decrease on the five-year average. On a more positive note, the summer Olympics provided a much-needed boost to the retail market, particularly in Paris, where demand for space increased and vacancy rates declined. We anticipate above-average rental growth in Paris high street over the five-year period but more modest growth in the shopping centre segment. On the investment side, activity was subdued in 2024, with total volumes falling 24% y/y as investors adopted a 'wait-and-see' approach. But whilst office investment volumes declined sharply, the logistics sector saw a strong rebound, with transaction volumes surging 68% compared to the previous year. This growth was driven by the resurgence of large portfolio transactions, which accounted for 59% of the total. This comes as no surprise given that the logistics sector repriced faster than other sectors.

So where do we see some of the best opportunities in today's market? We believe sustained rental growth and stabilising yields will drive the recovery in the French real estate market, with the logistics sector leading the way in terms of performance, although this will vary depending on asset quality and location. The logistics sector benefits from strong fundamentals and has completed its price correction, with prime yields beginning to compress slightly in Q4 2024. We like the markets of Paris, Marseille and Lyon, given the demand/supply imbalance and the solid rental growth prospects (>3% mark). We also see opportunities in the living sector and tend to favour the PBSA segment over multifamily. With a relatively low provision rate and student numbers on the increase, PBSA are expected to provide more attractive yields compared to multifamily assets, particularly in major university cities such as Paris, Lyon and Toulouse. Finally, offices are a mixed bag. In Paris, whilst vacant space is on the rise in certain areas of the city (i.e. Western Crescent, Inner Rim), leading to a slight fall in headline rents, there are some interesting opportunities in the prime end of the market in core or core+ type investments, where rents are still rising and supply constraints remain (i.e. Paris CBD). Investing in the redevelopment of older stock into modern stock can also have both social and economic benefits.

To conclude, the political situation certainly adds another layer of risk to a French outlook which was already biased to the downside. But whilst we urge caution, we do not advocate for any fundamental changes to real asset investment strategies for France as we believe it remains an attractive market. We continuously monitor the tenor of the government, and regularly engage with our French team to evaluate developments in the property market. We believe that the next two years present a window of opportunity for core, value-add and opportunistic strategies, allowing investors to benefit from the decreasing cost of capital, lower property values and increase of available assets. Ultimately, the challenge and opportunity will be in identifying long-term megatrends that are less dependent on economic cycles and geopolitical events and can guarantee long-term value. For now, logistics and PBSA show resilience and are supported by key trends and long-term demand drivers that may provide stability and potential future performance.

Real Estate Research Team

Office Locations

Frankfurt
Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: +49 69 71909 0

London
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom
Tel: +44 20 754 58000

New York
875 Third Avenue
26th Floor
New York
NY 10022-6225
United States
Tel: +1 212 454 3414

San Francisco
101 California Street
24th Floor
San Francisco
CA 94111
United States
Tel: +1 415 781 3300

Singapore
One Raffles Quay
South Tower
20th Floor
Singapore 048583
Tel: +65 6538 7011

Tokyo
Azabudai Hills Mori JP Tower
1-3-1 Azabudai
Minssato-ku
16th Floor
Tokyo
Japan
Tel: +81 3 6730 1300

Sydney
Level 16, Deutsche Bank Place
Corner of Hunter and Phillip Streets
Sydney NSW 2000
Australia
Tel: +61 2 8258 1234

Teams

Global

Kevin White, CFA
Global Co-Head of Real Estate Research

Simon Wallace
Global Co-Head of Real Estate Research

Americas

Brooks Wells
Head of Research, Americas

Liliana Diaconu, CFA
Office Research

Ross Adams
Industrial Research

Sharim Sohail
Property Market Research

Europe

Ruben Bos, CFA
Head of Real Estate Investment Strategy, Europe

Tom Francis
Property Market Research

Siena Golan
Property Market Research

Rosie Hunt
Property Market Research

Carsten Lieser
Property Market Research

Martin Lippmann
Head of Real Estate Research, Europe

Asia Pacific

Koichiro Obu
Head of Real Estate Research, Asia Pacific

Seng-Hong Teng
Property Market Research

Hyunwoo Kim
Property Market Research

Matthew Persson
Property Market Research

AUTHORS

Karine Woodford
Property Market Research

Ruben Bos, CFA
Head of Real Estate Investment Strategy, Europe

Important information

For North America:
The brand DWS represents DWS Group GmbH & Co. KGaA and any of its subsidiaries, such as DWS Distributors, Inc., which offers investment products, or DWS Investment Management Americas, Inc. and RREEF America L.L.C., which offer advisory services.

This material was prepared without regard to the specific objectives, financial situation or needs of any particular person who may receive it. It is intended for informational purposes only. It does not constitute investment advice, a recommendation, an offer, solicitation, the basis for any contract to purchase or sell any security or other instrument, or for DWS or its affiliates to enter into or arrange any type of transaction as a consequence of any information contained herein. Neither DWS nor any of its affiliates gives any warranty as to the accuracy, reliability or completeness of information which is contained in this document. Except insofar as liability under any statute cannot be excluded, no member of the DWS, the Issuer or any office, employee or associate of them accepts any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage whether direct, indirect, consequential or otherwise suffered by the recipient of this document or any other person.

The views expressed in this document constitute DWS Group's judgment at the time of issue and are subject to change. This document is only for professional investors. This document was prepared without regard to the specific objectives, financial situation or needs of any particular person who may receive it. No further distribution is allowed without prior written consent of the Issuer.

Investments are subject to risk, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time.

An investment in real assets involves a high degree of risk, including possible loss of principal amount invested, and is suitable only for sophisticated investors who can bear such losses. The value of shares/ units and their derived income may fall or rise.

War, terrorism, sanctions, economic uncertainty, trade disputes, public health crises and related geopolitical events have led, and, in the future, may lead to significant disruptions in US and world economies and markets, which may lead to increased market volatility and may have significant adverse effects on the fund and its investments.

For Investors in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein and any representation to the contrary is an offence. This document is intended for discussion purposes only and does not create any legally binding obligations on the part of DWS Group. Without limitation, this document does not constitute an offer, an invitation to offer or a recommendation to enter into any transaction. When making an investment decision, you should rely solely on the final documentation relating to the transaction you are considering, and not the document contained herein. DWS Group is not acting as your financial adviser or in any other fiduciary capacity with respect to any transaction presented to you. Any transaction(s) or products(s) mentioned herein may not be appropriate for all investors and before entering into any transaction you should take steps to ensure that you fully understand such transaction(s) and have made an independent assessment of the appropriateness of the transaction(s) in the light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction. You should also consider seeking advice from your own advisers in making this assessment. If you decide to enter into a transaction with DWS Group, you do so in reliance on your own judgment. The information contained in this document is based on material we believe to be reliable; however, we do not represent that it is accurate, current, complete, or error free. Assumptions, estimates, and opinions contained in this document constitute our judgment as of the date of the document and are subject to change without notice. Any projections are based on a number of assumptions as to market conditions and there can be no guarantee that any projected results will be achieved. Past performance is not a guarantee of future results. The distribution of this document and availability of these products and services in certain jurisdictions may be restricted by law. You may not distribute this document, in whole or in part, without our express written permission.

For EMEA, APAC, LATAM & MENA:
DWS is the brand name of DWS Group GmbH & Co. KGaA and its subsidiaries under which they do business. The DWS legal entities offering products or services are specified in the relevant documentation. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS") are communicating this document in good faith and on the following basis.

This document is for information/discussion purposes only and does not constitute an offer, recommendation, or solicitation to conclude a transaction and should not be treated as investment advice.

This document is intended to be a marketing communication, not a financial analysis. Accordingly, it may not comply with legal obligations requiring the impartiality of financial analysis or prohibiting trading prior to the publication of a financial analysis.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models, and hypothetical performance analysis. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements. Past performance is no guarantee of future results.

The information contained in this document is obtained from sources believed to be reliable. DWS does not guarantee the accuracy, completeness, or fairness of such information. All third-party data is copyrighted by and proprietary to the provider. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast, or estimate set forth herein, changes or subsequently becomes inaccurate.

Investments are subject to various risks. Detailed information on risks is contained in the relevant offering documents.

No liability for any error or omission is accepted by DWS. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid.
DWS does not give taxation or legal advice.

This document may not be reproduced or circulated without DWS's written authority.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country, or other jurisdiction, including the United States, where such distribution, publication, availability, or use would be contrary to law or regulation or which would subject DWS to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

Issued in the UK by DWS Investments UK Limited which is authorised and regulated by the Financial Conduct Authority (Reference number 429806).

In Hong Kong, this document is issued by DWS Investments Hong Kong Limited and the content of this document has not been reviewed by the Securities and Futures Commission.

In Singapore, this document is issued by DWS Investments Singapore Limited and the content of this document has not been reviewed by the Monetary Authority of Singapore.

In Australia, this document is issued by DWS Investments Australia Limited (ABN: 52 074 599 401) (AFSL 499640) and the content of this document has not been reviewed by the Australian Securities Investment Commission.

For investors in Bermuda: This is not an offering of securities or interests in any product. Such securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda which regulates the sale of securities in Bermuda. Additionally, non-Bermudian persons (including companies) may not carry on or engage in any trade or business in Bermuda unless such persons are permitted to do so under applicable Bermuda legislation.

For investors in Taiwan: This document is distributed to professional investors only and not others. Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed, and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction, or transmission of the contents, irrespective of the form, is not permitted.