

Real Estate Strategic Outlook: France

Can the French economy weather the storm?

Faltering momentum amid persistent uncertainty

France's economic growth remained weak in Q1 2025, with GDP barely expanding¹. While the 2024 Olympics provided a modest lift in the second half of last year, consumer confidence remains fragile. Labour market concerns have driven up the savings rate and dampened household spending, while business surveys signal contraction, limiting near-term recovery prospects. We forecast GDP growth of 0.6% in 2025 and 1.2%² in 2026. Although France is less exposed to US trade than some EU peers, broad-based tariffs are likely to weigh on exports and business sentiment. That said, the outlook improves in the latter part of the forecast period, as falling interest rates ease financing conditions and stimulate domestic demand.

Where are the best opportunities?

More rental growth still to come in the logistics sector

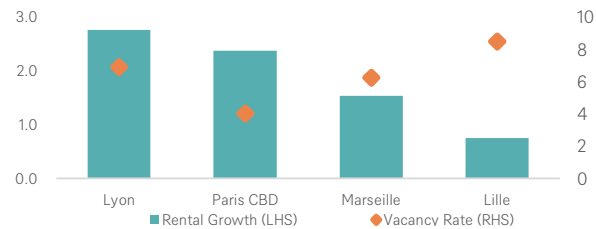
Despite a sluggish economy and a 'wait and see' stance from occupiers and investors, rental growth and stabilising yields across core sectors continue to support the French recovery. Logistics remains the top performer, though outcomes vary by asset quality and location. With solid fundamentals and much of the price correction behind us, prime yields began to compress slightly in Q4 2024³. We favour Paris, Lyon, and Marseille, where supply-demand imbalances should drive rental growth above 3% p.a. over the five-year forecast. Marseille also benefits from resilient port traffic, while Toulouse may gain from increased military-related spending. In contrast, we remain cautious on Lille, where oversupply is set to persist. This reinforces the need for selectivity, focusing on core locations with strong demand and limited pipeline risk.

Yields Tightening in Paris Offices

Logistics isn't the only sector showing positive rental growth. Despite ongoing caution towards offices since the pandemic and muted leasing and investment deal volumes in 2024, Paris and Lyon offices are regaining appeal among domestic and international investors, particularly prime assets in core locations, where rents continue to rise and supply constraints persist (i.e. Paris CBD). Yields are beginning to compress for these core assets, driven by strong competition from value-

add investors targeting well-located 'intramuros' properties. With limited new supply, steady occupier demand, and improving investor sentiment, total returns in this segment are expected to be attractive over the next five years.

Rental Growth (% p.a.) vs. Vacancy Rate (av. %), 2025-29



Source: DWS, as of 3/31/2025

PBSA leads, but multifamily set for rebound

We continue to see opportunities in the living sector, though the recent uptick in unemployment is a mild concern. Purpose-built student accommodation (PBSA) are expected to offer more attractive yields than traditional multifamily⁴, particularly in Paris, Lyon and Toulouse, supported by rising student numbers and a low provision rate. Multifamily should also see a rebound this year and next, helped by the return of large-scale portfolio deals, a key market component largely absent in recent years. The rental market is also seeing steady demand from households priced out of ownership. This will add some upward pressure on rents in major cities, although rental growth over the next five years is expected to remain below the European average.

One final thought...

France's real estate market is gradually emerging from a challenging macroeconomic and political backdrop. While economic growth is expected to remain subdued over the next couple of years, we see compelling opportunities across all sectors, especially at the prime end of the market. However, in this variable environment, sector and location selectivity is more important than ever, with performance increasingly driven by asset quality and local demand-supply dynamics.

¹ Oxford Economics, Country Economics Forecast, May 2025

² DWS Forecasts, May 2025

³ CBRE Research, Q1 2025

⁴ CBRE Research, Q1 2025

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