

The Residential Property Market
Rental and Investment



The Residential Property Market

France | Q1 2022

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**INTERVIEW: JEAN-BAPTISTE
MORTIER, CHIEF EXECUTIVE
OFFICER OF THE KLEY GROUP**

A SLIGHT SLOWDOWN EXPECTED IN THE RESIDENTIAL MARKET

Since the start of the health crisis, the residential sector has been one of the most constant of the French property market, supported by favourable borrowing conditions, the appeal of property as a safe investment, and the ‘wanderlust’ generated by the pandemic. In 2021, the demand from individuals was particularly strong, reflected by the high level of sales and a relatively marked increase in prices. Activity is expected to be good but less dynamic in 2022, with a slow-down in sales having already been noted in the first quarter. The outbreak of the Russia-Ukraine conflict has brought the uncertainty to its peak, fuelling a wait-and-see attitude from households against a backdrop of sharply rising inflation and tighter financing conditions.

In the block sales market, volumes invested reached a new record high in 2021. Although such a performance may not be repeated in 2022, the trend will nevertheless stay very positive due to the heavy demand from pan-European funds wishing to increase their housing exposure, from partnerships formed by large institutional investors to develop a supply of affordable, new-build housing, and the growing interest for alternative asset types. The scarcity of existing supply and the needs linked to the constant increase in the student population make student housing a sought-after product, which Knight Frank highlights in this new study on the French residential market.



KEY FACTS



Increase in sales of second-hand and new homes

In 2021, 182,200 sales of second-hand homes (+12% year-on-year) et 23,200 new home sales (+10%) were recorded in the Greater Paris Region.



New production is struggling

Despite a rebound in the number of permits obtained (+13% over one year), production remains 7% below the 2011-2020 average. The number of new builds is increasing more slowly (+5% over one year).



Slight rise in prices

The price of housing in the Greater Paris Region continued to rise 2021, in the case of existing properties (+1.9 % over one year for apartments) as well as new-builds (+3.1%). According to predictions based on preliminary contracts, this rise will carry on in 2022.



Investment : from one record to another

After the exceptional performance in 2020, a new record was reached in 2021. In the first quarter of 2022, levels also rose, inflated by the purchase by CNP ASSURANCES from CDC HABITAT of nearly 8,000 properties.

Sources: SDES, Sit@del2 (estimates based on data at the end of January 2022), Notaires du Grand Paris, CAPEM, Knight Frank.

ECONOMIC CONTEXT

GREAT UNCERTAINTY OVER ECONOMIC GROWTH

After the sharp drop in 2020, global economic activity completely recovered in 2021, with a 7% rise in GDP. While the pressure from the health crisis has gradually eased, another shock, this time geopolitical, is clouding the horizon. Indeed, the war in Ukraine is threatening recovery and once again raising uncertainty, through its impact on commodity prices and supply chains. While it is not yet possible to assess the precise impact on the global economy, there is little doubt that Europe will be particularly affected. According to the OECD, its growth will be at least 1.4% lower than predicted before the start of the Russian invasion (about 1% lower globally).

In France, growth prospects remain positive, but are nonetheless weakened by the war. While GDP should have reached 3.6% in 2022 (forecast at the end of December 2021), the increase will now be between 2.8% and 3.4%. This loss of momentum is mainly linked to the acceleration in inflation. Expected to be around 4% in 2022, this will erode companies' profit margins, which reached

French economic indicators

	2019	2020	2021	2022 (forecasts)	2023 (forecasts)
GDP	1.8%	- 8.0%	7.0%	2.8 - 3.4%	1.3 - 2.0%
Gross disposable household income	3.1%	0.6%	3.6%	-	-
Household consumption	1.9%	- 7.2%	4.6%	4.3 - 5.1%	2.2 - 3.1%
Saving rate (as a % of gross disposable income)	15.1%	21.4%	19.5%	16.7% (Q1)	-
Purchasing power (per consumption unit)	2.1%	0.4%	2.3%	0.7 - 1.0%	1.3%
Consumer confidence (in March)	97	104	95	91	-
Inflation	1.3%	0.5%	2.1%	3.7 - 4.4%	1.9 - 3.3%
Unemployment rate	8.4%	8.0%	7.9%	7.9%	7.8%

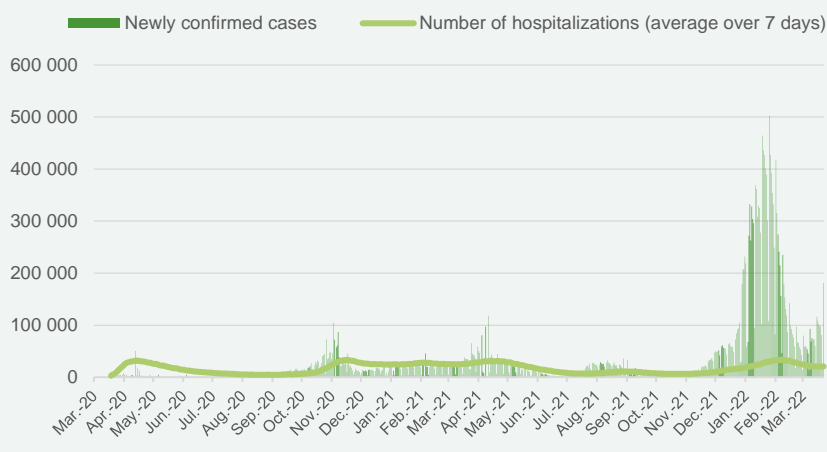
Sources: Insee, Banque de France, Eurostat, Xerfi Previsis

record-high levels in 2021 mainly thanks to the measures of the recovery plan. Furthermore, business investments will significantly slow down, with growth ranging from 2.3 and - 0.5 %, after a sharp rise of 12% in 2021. The rise in prices will also limit households' purchasing power, which is expected to fall by 0.9% in 2022 after rising by 2% last

year. Not all households will be able to rely on excess savings to manage the impact of rising inflation, raising fears of increased social tension following the outcome of the presidential and legislative elections. The government could however adopt new measures to protect purchasing power, on top of the "tariff shield" and other aids unveiled by the Prime Minister as part of the resilience plan.

By supporting wage growth, the dynamism of the labour market could also help to soften the rise in inflation. Nevertheless, after having considerably increased in 2021 in France (+697,000 after -317,000 in 2020), the strong growth of paid employment will slow down in 2022. According to the predictions of the INSEE, the unemployment rate should thus stop falling, and stabilise at around 8.0% in 2022.

Change in the health situation in France



Source: ARS (as at 22 March 2022)

ACCELERATING RISE IN INTEREST RATES

THE END OF CHEAP MONEY?

While the International Monetary Fund is warning against the risk of inflation, and after two years of ultra-accommodating policies, the positions of central banks have come under close scrutiny since the start of the war in Ukraine. While monetary tightening has been confirmed in the United States, where the Fed has just started to raise its key rates, the European Central Bank has decided to leave them unchanged despite the rapid rise in inflation in the euro zone (+7.4% in March 2022 compared to 1.3% one year earlier).

In France, the 10-year French government bond is clearly on the rise. Still negative in 2020, it is now verging on 1%, but remains far off the level reached in the early 2010s (over 3%). Banks will thus have to continue to raise borrowing rates after the increase of nine basis points recorded since the start of March 2022.

Key figures at the end of March 2022 | France



Average interest rate

1.18%

1.11% in March 2021



Outstanding loans

€1,222 billion (February)

+6.6% year-on-year



Mortgage length

241 months

+5 months in a year



Loan production

+7.1%

-16.6% in Q1 2021



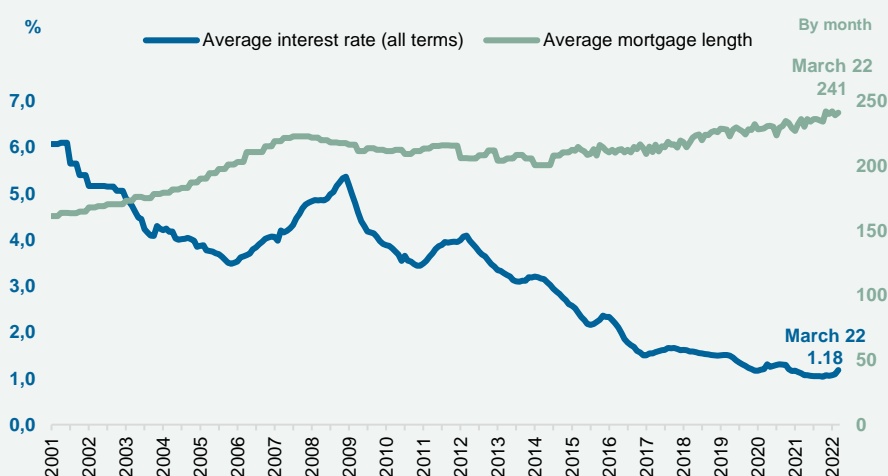
Number of loans granted

+3.0%

-15.7% in Q1 2021

Sources: Banque de France, Observatoire Crédit Logement, CSA, Notaires.

Change in average interest rates in France For all loan periods



Source: Observatoire Crédit Logement

Averaging at 1.18% the average borrowing rate (new and old) nevertheless remains very low, being 33 basis points lower than the same period in 2019. Despite a slow-down since the start of 2022, loan production as well as the number of loans granted are still up significantly over a year, with respective increases of 7.1% and 3.0% in Q1 2022. Moreover, the average loan period reached 241 months in March 2022, from 240 last December. It remains substantial due to generally high price levels and households' desire to maintain their living standards.

FINANCING CONDITIONS STILL FAVOURABLE

Financing conditions should remain favourable in the first quarter of 2022, before a greater rise in interest rates by the end of the year and in 2023. While these will remain very low in relation to the rising cost of living, this tightening will make it harder for certain households to get a loan, which will lengthen the time it takes to sell their property, and will eventually take

effect on the price of some homes. Nevertheless, in 2021 banks had already incorporated the recommendations of the High Council for Financial Stability (debt limit of 35%, maximum term of 25 years), which will thus not further constrain grant conditions in 2022.

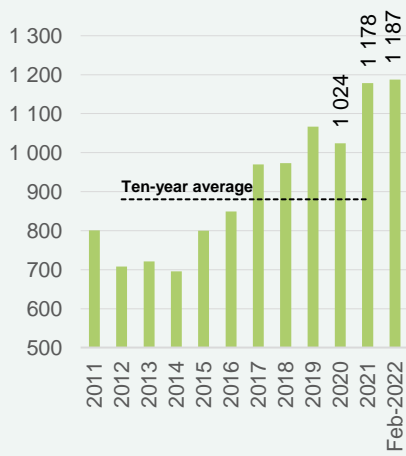
Finally, the future Lemoine law, which will come into full force on June 1st, will make it easier to change loan insurance. Individuals will thus be able to compete, and hope to save between €5,000 and €15,000 per person over the duration of the loan, according to UFC-Que Choisir.

THE SECOND-HAND MARKET

RECORD NUMBER OF TRANSACTIONS IN 2021

In 2021, 1,178,000 sales were recorded of existing homes in France (+15% in a year). This record level, 40% above the ten-year average, can be explained in several ways. Firstly, the outbreak of the health crisis caused a drop in the number of sales in 2020 (-4% in a year). In the first quarter of 2021, the residential market thus benefitted from the relaxation of restrictions and a catch-up effect. Moreover, more favourable financing conditions and the appeal of property as a safe investment have encouraged many French people to go ahead with their purchase plans. Finally, the desire for new environments evoked by the pandemic has also supported the market, mainly resulting in a leap in transactions in the suburbs and in certain provincial cities, and a keen interest in second homes.

Change in the number of sales of second-hand homes in France
In thousands, 12 months rolling



Source: CGEDD based on DGFIP (MEDOC) and notarial databases

While sales could decline at the end of the first quarter of 2022, the volume of transactions is still expected to be high despite the hesitant demand in the face of rising mortgage rates and falling purchasing power. Over a rolling 12-month period, nearly 1.19 million homes had been sold at the end of February 2022, a level comparable to the end of 2021 but up 14% year-on-year.

In 2022, the volume of sales of existing homes should remain above the ten-year average. Activity will continue to benefit from the new residential dynamics of the French population, while borrowing conditions, although slightly less attractive, still remain favourable. Property thus remains a safe investment, in the face of rising uncertainty and the lack of visibility affecting other types of investments.

2ND BEST YEAR OF THE DECADE IN THE GREATER PARIS REGION

In 2021, the number of transactions for existing homes in the Greater Paris region has also clearly grown: 182,000 sales were recorded, a leap of 12% over a year and 17% compared to the 10-year average, as well as a volume close to the historical peak of 2017 (185,900). Activity was particularly strong for houses, where sales were up 12% year-on-year, and 20% compared to the 10-year average. The increase was similar for sales of apartments (+11% in a year and +18% compared to the 10-year average).

With 46% of sales recorded in the second-hand market 2021 (52% of which are houses), the outer suburbs have boosted activity in the Greater Paris Region. The volume of sales there increased by 12% year-on-year and is 29% higher than the 10-year average. The increase is also significant in the inner suburbs (+9% over one year).

Change in the number of sales of second-hand homes in the Greater Paris Region
In units, 12 months rolling



Source: Notaires du Grand Paris

The Paris market, which was down slightly in 2020, has demonstrated its strength with a 16% year-on-year rise in 2021 and 20% of the total number of sales in the Greater Paris Region.

PRICES EXPECTED TO STABILISE

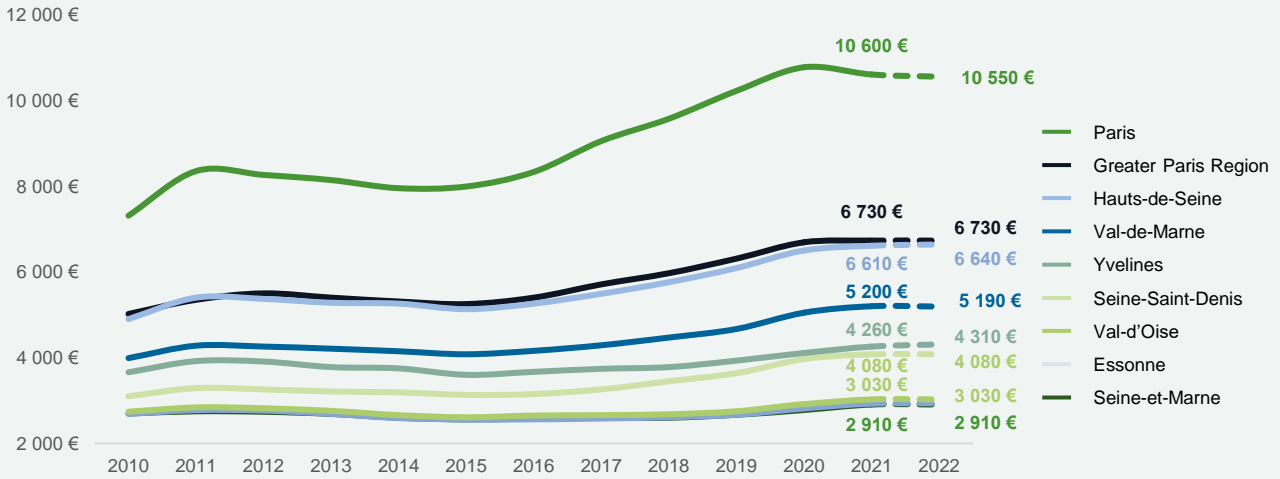
In 2021, the prices of existing homes in France continued to rise at a sustained rate (+9% over a year). In the Greater Paris Region, the increase was more moderate (+2.7%) and prices could stabilise or even slightly decrease from the first quarter of 2022.

In detail, the average price of an existing apartment in the Greater Paris Region reached €6,730/m² (+0.6% year-on-year), at the end of 2021. According to the Notaries' forecasts, it should stay at this level until April 2022.

The rise in house prices was much more marked, with an average price of €358,100, a 6.7% rise in a year. Taking into account the strong demand and persistent tension in certain sectors in the Greater Paris Region, the average sale price of an existing house should reach €352,200 at the end of April 2022, a 1.4% decrease compared to the end of 2021, but a 4.7% increase over one year.



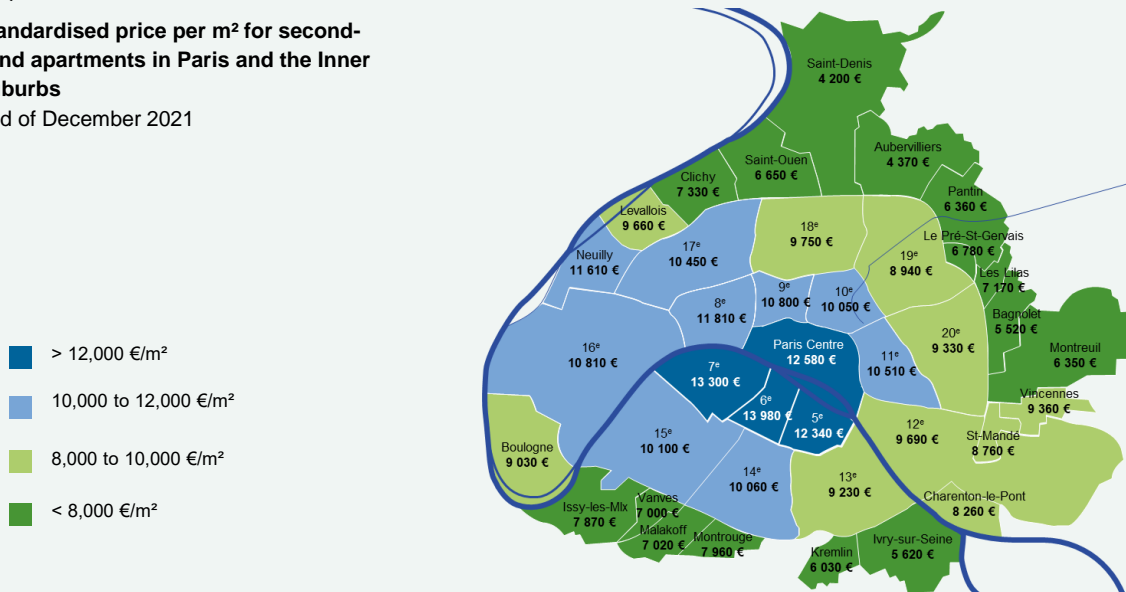
Change in price per m² for second-hand apartments
In the Greater Paris Region, in €/m²



Source: Notaires de Paris, at the end of December 2021

Standardised price per m² for second-hand apartments in Paris and the Inner Suburbs

End of December 2021



Source: Notaires de Paris, ADSN-BIEN

THE NEW-BUILD MARKET

DECLINE IN SALES

After having fallen sharply in 2020, the number of new-builds put up for sale in the Greater Paris Region rose once again in 2021, but remained below the ten-year average. CAPEM estimates their number to be 22,700 (all housing types combined) in 2021, a 42% increase compared to 2020 – a year heavily penalised by the pandemic – but an 18% fall compared to 2019.

Conventional collective housing still represents the majority of new-build housing sales, with 20,900 units in 2021 (+47% year-on-year), while the number of sales of new-build houses has almost doubled compared to the previous year (+83%). By contrast, the number of serviced residences put up for sale fell by 42% over one year (700 units).

With the exception of the departments of Val d'Oise and Paris, where the number of sales is stable (all product types combined), these have risen sharply in 2021 across the rest of the region (+140% over a year in Val-de-Marne, +90% in Yvelines, +67% in Essonne).

MIXED RESULTS FOR SALE RESERVATIONS

With 23,200 reservations in the Greater Paris Region in 2021, the level of sales, although up by 10% compared to 2020, remains well below that of 2019 (-39%) and the average of the last ten years (-13%). Almost 40% of these sales are concentrated in two departments: Hauts-de-Seine (22%), and Seine Saint-Denis (17%), followed by Val de Marne and Seine-et-Marne (15% each).

Conventional collective housing accounted for 92% of new-build sale reservations in 2021, i.e. 21,300 units (35,100 in 2019). Individual housing

accounted for around 1,000 reservations (-300 units compared to 2019), while 900 sales of serviced residences were recorded.

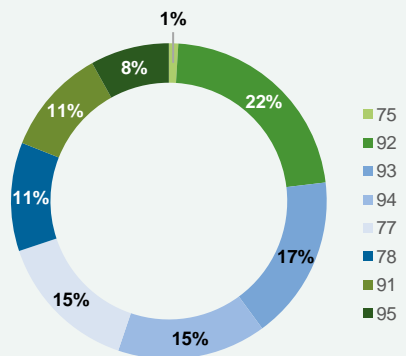
The drop is again significant compared to the pre-Covid situation, since 1,400 sales of new serviced residences were recorded in 2019. Of these residences, three quarters are intended for students, and they are mainly located near regional higher education areas, such as Créteil, Palaiseau, Bobigny and Pontoise.

SUSTAINED PRESSURE ON SALE PRICES

In 2021, the average sale prices of new homes continued to rise. All housing types combined, they stand at €5,440/m² in the Greater Paris Region (+5.1% over a year), and €13,930/m² in Paris (+0.3% over a year). The upward pressure will persist in 2022 due to a supply which is still considerably insufficient to satisfy private demand, in a context where the war in Ukraine will further fuel the shortage and the rise in price of materials.

Geographical distribution of new housing sales

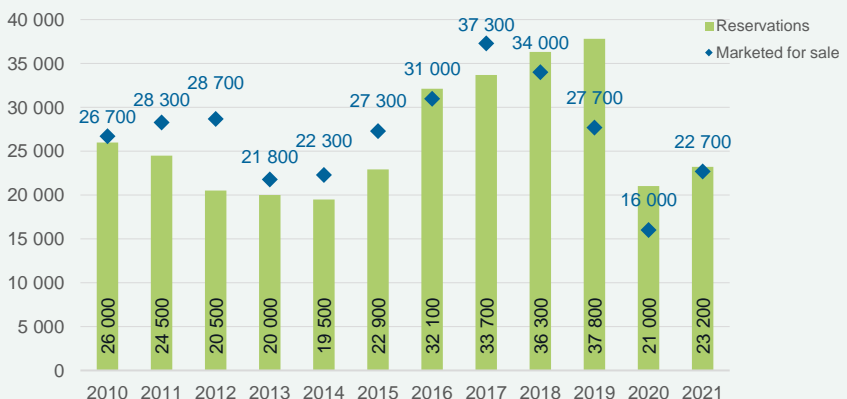
All housing types, in Ile-de-France, by department



Source: CAPEM

Change in reservations and sales of new housing

For all types of housing in the Greater Paris Region



Source: CAPEM / *Provisional figures for 2021

THE SHORTAGE CONTINUES

Approximately 20,037 new homes were still available in the Greater Paris Region at the end of 2021, an increase of 9% compared to the same period in 2020, but still insufficient to satisfy demand.

Going into greater detail, the available supply consists of 18,210 collective housing units (+8% year-on-year), which are mainly concentrated in the inner suburbs in the departments of Hauts-de-Seine and Seine-Saint-Denis (42% of the supply in the Greater Paris Region). In the outer suburbs, Seine-et-Marne has a smaller supply, but its share is on the rise (15%).

With regards to individual housing, 718 units were available at the end of 2021, a 40% rise over a year. The large majority of this supply is located in the outer suburbs, particularly in Seine-et-Marne and Essonne (63%). Finally the supply of serviced residences remains steady, with 1,109 units available, a quarter of which are in Seine-Saint-Denis and 21% of which are in Val-d'Oise.

The improved health context and the rise in sales have allowed the take-up rate of new supply to fall. The rate now stands at 10.1 months (from 10.5 at the end of 2020 but 7.3 at the end of 2019).

RENEWAL OF SUPPLY STILL INSUFFICIENT

After more than three years of decline in production of new housing, a slight upward trend towards the renewal of supply has begun in 2021, as shown by the 13% year-on-year increase in the number of new homes authorised for construction (72,300 in the Greater Paris Region). However, this figure remains 8% below the ten-year average. 85% of the permits obtained in 2021 concerned collective housing (61,500 units), while individual housing accounted for just 10,800 units (15% of homes authorised for construction).

The upwards trend is less for housing starts. Indeed, 66,900 housing units began construction in 2021 in the Greater Paris Region. Although this is an increase of 9% compared to 2020, the volume of space is still significantly below that of the three years preceding the health crisis (80,500m² on average between 2017 and 2019). The distribution of construction starts according to housing type (collective and individual), is more or less the same as for the acquisition of building permits.

It is still difficult to predict whether the rebound in developments seen in 2021 will be amplified in 2022. Strong constraints remain, including the scarcity of land. Furthermore, as well as the increasing cost of raw materials, the war in Ukraine has caused the accentuation

Change in the time to sell available supply in the Greater Paris Region

End of December 2021, all housing types



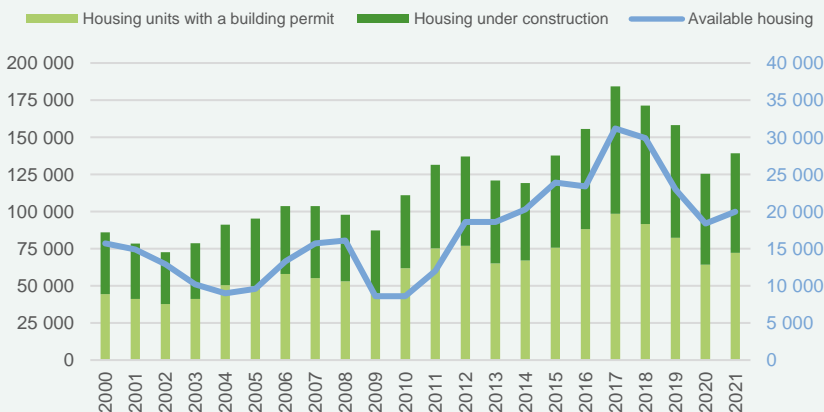
Source : CAPEM

of supply difficulties of certain materials, which will cause delays in the construction of new buildings.

In this context, the actors in the private homebuilding industry are calling for strong governmental measures in order to meet targets, in particular in the social sector (37,000 homes required versus 20,000 actually constructed).

Change in supply of new housing in the Greater Paris Region

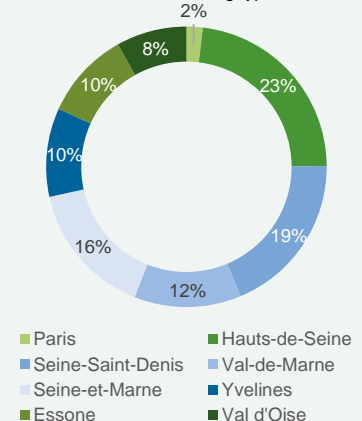
In number, all housing types



Source : SDES, Sit@del2, estimations on data collected at the end of December 2021, CAPEM

Distribution of new supply

In the Greater Paris Region, at the end of December 2021, all housing types



THE INVESTMENT MARKET

A NEW RECORD FOR RESIDENTIAL INVESTMENT

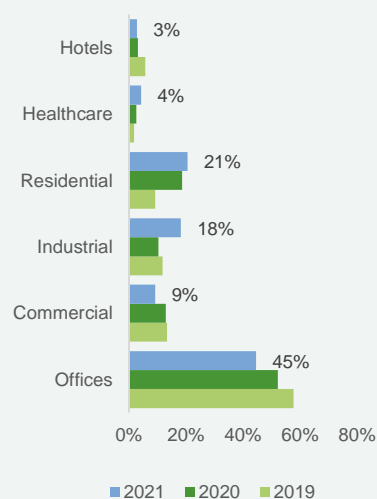
The appetite of investors for residential property was clearly confirmed in 2021. Almost 450 billion euros were invested in this market segment worldwide last year (excluding serviced residential), which is a figure almost double that of 2020. In Europe, the volume of investment exceeded 100 billion euros, a 29% share almost comparable to that of offices (31%) and well above that of industrial (21%) and retail (12%) properties. Since the beginning of 2022, residential property has already garnered almost 20 billion euros in Europe, representing a quarter of the continent's investment volume.

While the size of the French residential investment market remains relatively modest compared to the UK and Germany, its importance is ever-growing. To this effect, in 2020, block sales totalled just over 6.5 billion euros in France (up 55% over one year). In 2021 a new record was broken with 7.1 billion euros of block sales, an increase of 9% over a year, representing 21% of the total sum invested

in the French real estate market. Housing has thus consolidated its status as the second most popular asset class, still far behind offices (with which the gap has nevertheless narrowed, as they saw 15.4 billion euros of investment in 2021 in France), but ahead of retail (3.2 billion euros) and industrial (6.5 billion euros).

The success of residential property was confirmed at the beginning of 2022 with just under 2.5 billion euros invested in this market segment in France (compared with around 2.2 billion euros for offices). However, this amount has been greatly inflated by a single exceptional transaction: the acquisition by CNP ASSURANCES of 85% of the "Lamartine" portfolio from CDC HABITAT for just over 2 billion euros. Over the last two years, other major transactions have boosted the performance of the residential market, including the 2020 acquisition by CDC HABITAT of several portfolios from NEXITY, ALTAREA and CAPELLI for a cumulative volume of 2.2 billion euros, and the partnership signed in 2021 between AXA and IN'LI for 2 billion euros.

Breakdown of investment volume by asset type in France, in % of the total volume



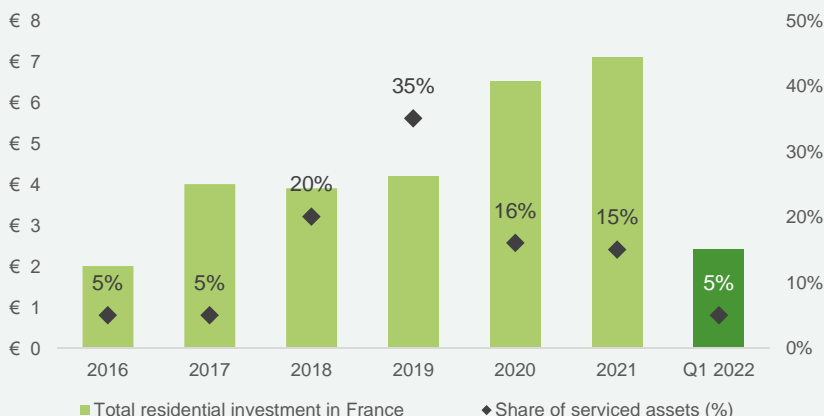
Source: Knight Frank

DIVERSIFICATION OF INVESTOR PROFILES

These transactions explain the very clear dominance of French investors (between 80% and 90% on average each year for the last 3 years), of which a significant share has been linked to the major transactions led by CDC HABITAT, AXA and CNP ASSURANCES. Other insurers have stood out, along with certain life savings collectors (PRIMONIAL, LA FRANÇAISE), certain property companies (GECINA) and a few private investors on transactions of varying significance.

For the last three years, large foreign funds have also been strengthening their presence in the French market. Seeking to rebalance portfolios often dominated by tertiary assets, several foreign investors have made a place for themselves in the French market. Last

Volumes invested in residential property* In France, in billions of euros



Source: Knight Frank / *overall sales including serviced residences.

year, for example, PGIM and HINES made their first residential acquisitions in France.

International investors are not only taking up positions in the traditional housing market. In 2021, several have also been active in the serviced residential market, such as the acquisition by Danish funds PFA and REAL IS of senior residences, or the transactions led by IVANHOÉ CAMBRIDGE, BOUWINVEST and GREYSTAR in the coliving market. This appetite for serviced residential property has been reaffirmed in early 2022, with the acquisition of senior and student residences by LASALLE INVESTMENT MANAGEMENT and M&G INVESTMENTS.

THE SCARCITY OF SUPPLY LIMITS THE PERFORMANCE OF SERVICED RESIDENTIAL PROPERTY

Despite the growing interest of international funds and French investors, serviced residential properties account for only a small share of the amount invested in the market, around 15% in 2021 and just under 5% since the beginning of 2022. This reflects the lack of available supply, which encourages investors to get on board early with new

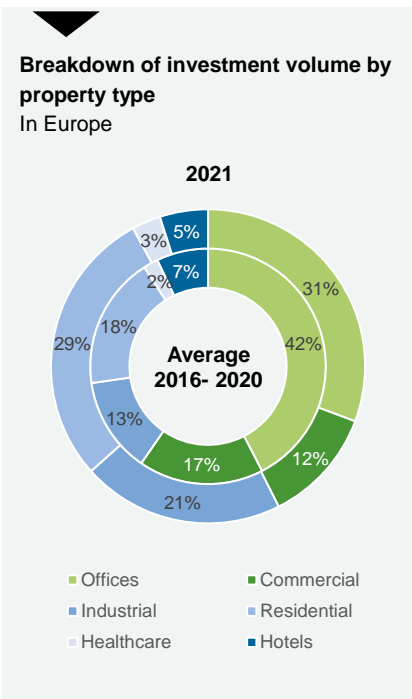
projects. Forward-sales thus represented the vast majority of activity in the coliving segment, as in the case of projects in which the KLEY group has involved itself in Île-de-France (Gentilly, Issy-les-Moulineaux) and in the regions (Labège, Bordeaux). The new-build market also accounts for a considerable share of the volume invested in the traditional and intermediate residential market, constituting approximately half of the sums invested in 2021. This is thanks in particular to several major sales of portfolios of housing to be developed in the Île-de-France region (the partnership between IN'LI et AXA, the sale by EMERIGE to CDC of 227 housing units in Saint-Ouen, etc.). In 2022, this trend has persisted, with half of the portfolio sold by CDC HABITAT to CNP ASSURANCES consisting of new buildings.

affordable housing in the most densely-populated areas of France, such as the “Hab’Initio” fund recently launched by CDC HABITAT and AMPERE GESTION with BNP PARIBAS CARDIF, ALLIANZ, SMA and CRÉDIT MUTUEL.

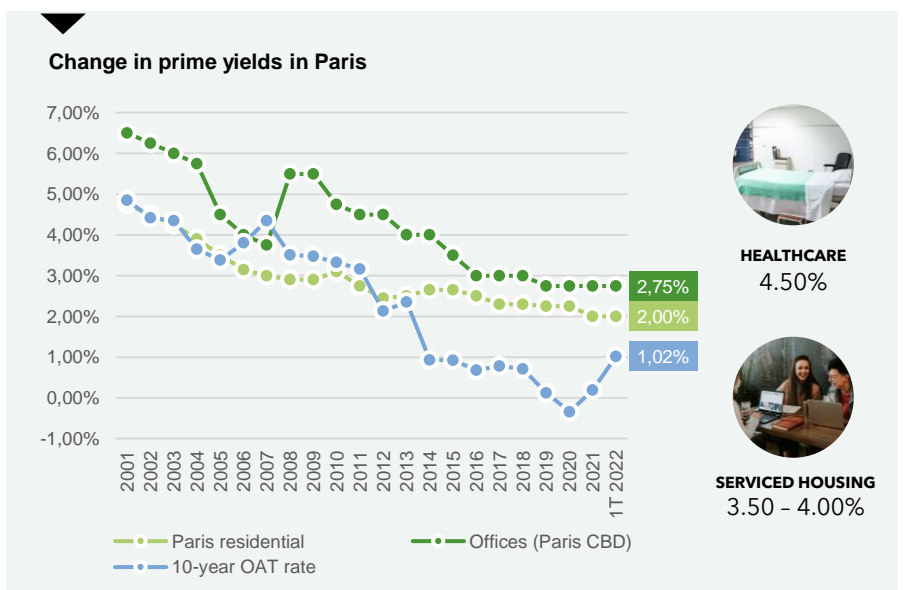


WHAT IS THE OUTLOOK FOR THE COMING MONTHS?

Since the outbreak of the Covid-19 pandemic, residential property has been one of the strongest segments of the French real estate market. It will remain so in 2022. This is due to the strong demand from pan-European funds seeking to increase their exposure to residential, the growing interest in asset types that meet the new needs of the population (coliving, student and senior residences), and the partnerships formed by major institutions in order to develop a supply of new



Sources: Knight Frank / RCA



Source: Knight Frank

STUDENT HOUSING IN FRANCE IN FOCUS

A MARKET UNDER PRESSURE

At the start of the 2020 academic year, France had nearly 2.6 million students enrolled in higher education (+ 2.1% over one year). With a rise of 275,000 new students between 2015 and 2020, finding student housing can be a real challenge due to the lack of availability. This shortage concerns both public housing (CROUS university residences, social housing, etc) and private housing (individual accommodation, coliving, etc). At the end of 2020, the CROUS had only 173,700 beds available across France, for just over 350,000 applicants and 749,000 government grant recipients.

President Macron had however set a goal in 2018 of creating 60,000 new student housing units by the end of his tenure. According to the president of the FAGE (National Federation of Students' Associations), at the end of 2021 only 37,000 units had been built, of which less than 10,000 were in CROUS buildings. And yet the student population continues to grow by an average of 1 to 2% each year in the public sector. This growth even reaches 5 to 6% in the private sector, whose dynamism is illustrated by the development of numerous regional campuses and the ambitious aims of higher education groups such as GALILEO and IONIS.

The shortage of beds is not just a problem in France's major cities, like Lille or Lyon, but also in smaller ones. In 2020, the Reims educational constituency recorded a sharp increase of 4.4% in its student population over one year. However, the municipality has only 5,000 dedicated public housing units for a total of 45,800 students.

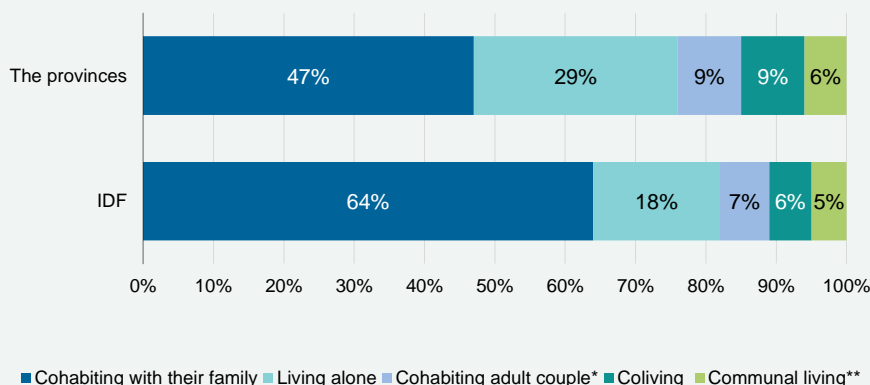
WHAT'S THE SUPPLY LIKE IN ILE-DE-FRANCE ?

The discrepancy between supply and demand is particularly significant in the Île-de-France region. Île-de-France hosts just over 700,000 students, a quarter of the French total, putting it ahead of the Auvergne-Rhône-Alpes region (313,200) and Occitanie (238,000). The INSEE estimated that only 13% of students in the Île-de-France region had student housing in 2019. While this percentage has almost doubled over the last ten years, it remains significantly below requirements.

The shortage of housing and the high cost of rent also explain why two-thirds of students in the Île-de-France region live with their parents, compared to less than half in the provinces. According to a 2020 study by the OVE (National Observatory of Student Life), the declared rent of students (excluding communal residences) stood at 623 € per month in the outer suburbs, 750 € in the inner suburbs, and 799 € in Paris itself, compared to an average of 552 € across France.

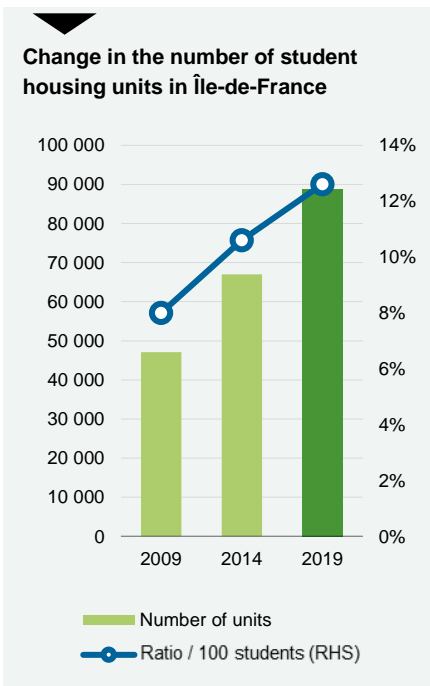


Breakdown of students according to lifestyle
In France in 2017



Source: Knight Frank / *Or at the head of a single-parent family / ** A complex of residential premises under the same management authority whose inhabitants usually share a common lifestyle (boarding schools for post-baccalaureate students, hostels, university residences...).

In total, the stock of student residences in Île-de-France numbered 89,000 beds in 2019 (of which 33% were at uncapped rents in the private sector), which is still insufficient given the size of the student population, but which has increased by 89% since 2009. In fact, the installation rate in the Île-de-France region has significantly increased: rising from 8 % in 2009 to 12.6 % ten years later, it has even caught up with the national average (12.4 %).



Source: Institut Paris Région

This development is all the more remarkable given that the Île-de-France average is being dragged down by the low rate in inner Paris. Here the ratio is only 6.1 beds available per 100 students, compared to 21 in the educational constituency of Créteil, the best-equipped, or 18 in the Versailles constituency.

An analysis by department shows that supply has also increased significantly in Seine-Saint-Denis, notably in the communes close to Paris (Saint-Denis, Bobigny, etc.), and in the Hauts-de-Seine department, which is characterised by a considerable proportion of private sector housing units. The dynamics of development remain strong here, with La Défense and the communes near the business district attracting a growing

number of schools. Among the most recent developments and expansions are the leases taken by the INSEEC of 13,500 m² in “Cœur Défense” and those by the ICN and the IESEG of 13,700 m² in “Les Collines de l’Arche”. In Nanterre, the Groues district, which will eventually benefit from the line 15 of the Grand Paris Express, is also attracting schools. This strong momentum is creating new needs and should help accelerate the development of student residences, through the construction of new buildings and also the transformation of office buildings. Such is the project being led by VILOGIA in Suresnes, another commune in the Hauts-de-Seine department, where this social housing company will in 2023 open a new 270-unit student residence in place of the former AIRBUS headquarters, adjacent to the new SKEMA BUSINESS SCHOOL campus.

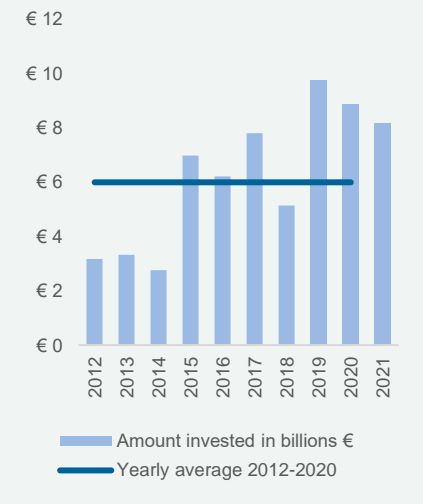
AN ASSET HIGHLY SOUGHT AFTER BY INVESTORS

The scarcity of existing supply and the growing needs linked to the constant increase in the student population make student housing a sought-after asset. This trend is borne out on an international scale: in 10 years, 62.7 billion euros have been invested in this market segment in Europe, which is around 6.3 billion euros a year but an annual average of almost 9 billion between 2019 and 2021. 2019 was particularly lively with just under 10 billion euros invested over the year, before dropping but remaining at high levels in 2020 (8.9 billion euros) and 2021 (8.2 billion).

In fact, investor appetite for student housing has not waned despite the sanitary crisis; on the contrary, the pandemic has accelerated diversification strategies and the search for secure investments. Nevertheless, investment volumes are very unevenly distributed. For example, the UK has attracted almost two-thirds of the amounts invested in Europe since 2012, far ahead of Germany (9%), France (6.5%) and the Netherlands (4%). The distribution by acquirer type is also unbalanced, with North American funds vastly overrepresented. Among the main investors in this category are BLACKSTONE and BROOKFIELD AM.

Volumes invested in the student housing market

In Europe, in billions of euros



Sources: Knight Frank / RCA

Some Europeans also stand out, such as AXA IM, PATRIZIA, and M&G REAL ESTATE. Finally, it is worth noting the growing interest of Asian investors, including some Singaporean funds such as MAPPLETREE INVESTMENTS.

In France, student housing still only represents a very small part of the total volumes invested in the Hexagon, accounting for just over 1% since 2019 across all asset types and for 6% of block sales of housing alone. As in the European market, 2019, a year marked by AXA IM's takeover of KLEY from OAKTREE, represented a peak in activity with around 800 million euros invested in France. Volumes then fell sharply, with less than 300 million euros invested in 2020 and 150 million euros invested in 2021, despite a few significant transactions such as the purchase by M&G of a student residence in Clichy and by KLEY of the “Atale” residence in Toulouse. KLEY has also made a name for itself in the coliving segment with several acquisitions in Île-de-France and in other regional areas.



INTERVIEW

JEAN-BAPTISTE MORTIER

CHIEF EXECUTIVE OFFICER, KLEY GROUP

Could you give us a brief introduction to the KLEY group ?

KLEY is a coliving company that develops residences for students (such as “Happy Student”) and young professionals (such as “Urban Village”). We are both investors and operators of our residences, which is quite unique in the world of serviced residences. We currently have 16 residences in operation with approximately 5,000 beds, and have 4,500 beds under construction. With a presence all over France, we will at least double our size by 2026.

Why has KLEY made student housing the core of its business?

Until very recently, students were considered as users, but we have turned them into CUSTOMERS. We have therefore put them at the core of our thinking in order to develop residences that correspond to their wants and their lifestyles, which have evolved considerably over the last 20 years. It seemed to us that the traditional model of small studios sold separately, without any communal living space or services, was outdated. In addition, supply is very limited for a demand that is only growing every year, which creates significant rental tension.

What are your main criteria for the acquisition and development of new student residences?

We set ourselves up in all of the markets that are under pressure, of which there are many in France, choosing to operate in cities with more than 100,000 inhabitants that have a housing shortage. More specifically, we target both campuses and city centres. Ultimately, because we believe that all students in France, regardless of where they study, deserve to live in residences

that resemble their own, we’ve placed no limits on our development.

Our residences range in size from 200 to 600 units, from studios to shared apartments, and have a strong emphasis on common areas (coworking spaces for residents, sports facilities, and living spaces – e-gaming, cinema rooms, etc.).

The competition is getting itself organised and various types of players are trying to enter the French market. To succeed, companies need to focus on students and young workers and their lifestyles, which is not always the case. Also, these new players are most often operators but very rarely investors, which limits their growth potential.

The transformation of office spaces into housing is increasingly relevant in view of the shortage of residential supply, the difficulties of certain tertiary markets and the challenges of sustainable development. Does the KLEY group have any experience in this field?

We have already converted several office buildings into student and young workers’ residences, notably in Marseille and Gently. It is obviously very relevant, at a time when housing is a societal concern and when the evolution in ways of working is driving companies to free up m² of space, to meet demand by converting offices to housing. Unfortunately, the process is often laborious for political and administrative reasons, and it is therefore very difficult to see a project through. Some dynamic





mayors are pushing for this type of reconversion, such as Karim Bouamrane in Saint-Ouen and Rémi Muzeau in Clichy. These entrepreneurial and visionary elected officials know that bringing KLEY to their commune means attracting young workers and students and placing themselves in a forward-looking dynamic of progress. They also understand that KLEY, through the DNA of its shareholder AXA IM Real Assets, is a long-term partner that takes care of its real estate assets.

In what ways has the health crisis changed the student housing market?

The health crisis has changed our relationship to work, but not so much our relationship to studies. Although digital technology has become an important part in teaching, this change was already underway before the pandemic. Moreover, our residences provide free high-speed wifi access to students, which has enabled them to easily follow their classes remotely during the various lockdowns. Furthermore, although foreign students have diminished in number, this has not had an impact on the occupancy rate of student residences, as the demand is one bed for every eight students in France. As for their wants, young people like living in shared accommodation and the crisis has further accentuated this phenomenon. All of our residences offer a mixed setup with shared apartments of

several bedrooms and a communal kitchen, living room and dining room. We will continue to develop our offer by adapting it to the changing desires of our customers.

Nevertheless, a student's budget remains constrained. Can you tell us more about the rents KLEY charges? How do you reconcile housing quality with affordability?

The rents charged in our residences correspond with the level of rent charged in the city, with a small premium in certain cases in order to cover the service charges included in KLEY properties, such as electricity, heating and Internet. In the end, we never charge more than 5% above the rent in the city in which we are located. This is justified because our offering is of high quality: all our apartments are new and carefully maintained. At KLEY, you arrive with your suitcases and have nothing left to do other than enjoy the living spaces, have a good time with your community... and work towards a successful year!

Can you describe a couple of your most iconic projects for us and tell us what makes them so innovative?

Our project in Saclay was the cornerstone of a new neighbourhood. With Bouygues Immobilier, we developed a residence there with more than 400 beds and several shops on the

bottom floor, which today comprises the core of a new "French MIT". We also have a partnership with the École Boule, whose students designed the new KLEY student bedroom based on the results of a survey conducted among our customers to find out how they imagine the ideal room. It is a great asset to be able to have exchanges with our young clients, whose social and environmental concerns are strong and who have importantly pushed us to develop a partnership with the GoodPlanet Foundation and also the Zup de Co association.

What are the KLEY group's other commitments in terms of CSR and sustainable development?

We are very sensitive to these issues, because our future and that of our children depends on it. And because our customers ask us to do so. They have been the driving force behind several of our national and local initiatives such as the "clean walks", waste sorting and also the collection of clothing and food for the most disadvantaged. And since we are also investors, we are also very attentive to what the developers we work with, such as Nexity, Bouygues Immobilier and Eiffage, propose to us regarding sustainable development. Finally, the very strong commitments made by our shareholder AXA IM Real Assets encourage us to always go further and do better.

KLEY is also in the process of developing a coliving offer for young professionals. What are your ambitions in this market?

First of all, I'll just emphasise that coliving is a crucial part of housing supply in order to be able to keep young talent in France. How can we seek to develop French Tech and entrepreneurship more generally if we are incapable of housing the vital forces of the country? At KLEY, we offer them residences in which they can live their youth to the fullest. Our coliving offering is aimed at all those who are in a phase of "life transition". Let's take the example of a young person who has just finished their studies and finds a job in the IoT Valley in Toulouse Labège. This young professional would be glad to be able to

rent a studio or an apartment in a residence that can offer him the chance to interact with his community, while also having access to services that suit his needs.

More generally, managing major life transitions is one of the major challenges our country's housing market needs to face. This applies equally for expatriates arriving in France, young people experimenting with living with their significant others, consultants who move to new cities for short-term assignments, and young workers who have decided to work remotely from the provinces due to the lack of sufficiently attractive and affordable housing supply in the major urban areas.

How does KLEY's coliving offering differ from the competition and what are its advantages compared to the traditional housing market?

We develop residences comprising 200 to 500 housing units, which is an offer similar to that of COHABS, COLONIES or LA CASA, which are other very good frontrunners in the coliving sector. This size permits us to have a very large base of services with around 1,000m² of communal areas for a residence of 300 beds.

Our offer of services ranges from restaurants, lounges, and lively bars (with themed evenings, music, etc) to "beauty rooms", through to sports rooms, music studios and cinema rooms.

Our catalogue is mixed: it ranges from the classic studio (22.5m²) to the T2 (45m²), and from individual apartments to shared ones. Our first two residences will open in 2024 and we currently have six under construction all over France.



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