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The residential property market

Paris - Greater Paris Region | 2020 Review & 2021 Outlook

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THE GREATER PARIS REGION MARKET WITHSTANDS THE CRISIS

Despite the lack of certainty due to the Covid-19 pandemic and the worsening economic situation, the residential market in Greater Paris Region resisted well in 2020. The second lockdown and the strengthening of health measures had a moderate impact on sales to individuals in the fourth quarter, without, however, managing to make up the ground lost in the first half of the year. As for prices, they were still up by more than 6% year-on-year in the second-hand sector at the end of 2020.

The market is still expected to withstand the crisis in 2021. Households are benefiting from good borrowing conditions and supply is still not sufficient to meet the needs of the Greater Paris Region population. Residential property will also continue to whet the appetite of institutional investors who are seeking to diversify their allocations and taking advantage of an environment that is still favourable to property as an asset class. Consequently, more and more of them are favouring this market sector in response to the upheavals related to the Covid-19 pandemic.

KEY FACTS

The Greater Paris Region market remains dynamic

144,350 sales of second-hand homes and 21,000 sales of new homes were recorded in 2020 (at the end of November), compared with 155,400 and 27,300 per year on average over the last ten years.

The shortage of new housing is intensifying

Demand remains strong in the Greater Paris Region while housing construction is slowing sharply, with the number of authorised housing units (-27% year-on-year at the end of November) and new units started (-14%) unable to replenish the stock.

Prices have continued to rise

The price of second-hand housing in the Greater Paris Region continued to rise in 2020 (+6.5% year-on-year for apartments). In new housing, it remained stable (+0.4% year-on-year). The rise will continue in 2021 for second-hand homes, but should be more moderate.

Strong comeback from institutional investors

Unlike offices or retail property, the sums committed to the residential market have increased despite the health crisis, with over €5.2 billion invested in France in 2020.

Sources: SDES, Sit@del2 (estimates based on data at the end of November 2020), Notaires du Grand Paris, CAPEM, Knight Frank.

ECONOMIC CONTEXT

VARIANTS DELAY THE RECOVERY

After the standstill in the second quarter of 2020, the end of the first lockdown enabled a clear rebound in economic activity in the third quarter. This initial recovery came to a halt at the end of the year due to the rise in the number of infections and the increase in restrictive measures, which caused a fall in consumption, further weakened the sectors directly affected by the health crisis and placed all companies in a very uncertain situation. Against this backdrop, GDP fell by 5% year-on-year in the fourth quarter of 2020 and by 8.3% over the past year as a whole (compared with -6.8% in the Eurozone).

For 2021, the forecasts established before January expected growth of more than 4% in the world and 5% in France. This scenario is being called into question by the acceleration of the pandemic and the worldwide spread of Covid-19 variants, which have forced several countries, particularly in Europe, to reimpose lockdowns on their populations. At the time of writing this study, France has yet to impose another lockdown. Some forecasters estimate that a lockdown identical to that of November could cut GDP growth by one or two points in 2021. The return to normal would therefore be delayed by several months, further eroding confidence and increasing corporate debt.

« When we have vaccinated those at risk, we will have changed the world »

Jean Pisany-Ferry, Les Echos, 22 January 2021.

Evidently, it is the evolution of the pandemic that will determine the state of both the French and world economy. At this stage, the acceleration of the vaccination campaigns nevertheless provide a glimmer of hope, allowing us to envisage a relaxation of the restrictive measures from the second half of the year, and a sustainable resumption of activity before the end of 2021.

SAVINGS ARE AT AN ALL-TIME HIGH

The implementation of massive support measures (part-time working, state-backed loans, etc.) has limited the deterioration of the job market. After a sharp rise in the third quarter of 2020 (+2 points), the unemployment rate fell to 8% in France at the end of the year. This drop needs to be put into perspective, as a certain number of people had to give up looking for work when the second lockdown began. Unemployment is expected to return to an upward trend in 2021, with a rate of between 10% and 11%.

The deterioration of the job market will contribute to the decline in French purchasing power, even if it has for the time being resisted the crisis resulting from the Covid-19 pandemic fairly well. Indeed, the restrictive measures linked to the health crisis have above all reduced household consumption, down 5.4% in the 4th quarter of 2020 compared to the previous quarter. Over the past year as a whole, the decrease was -7.1% compared with 2019.

New restrictive measures and the lack of clarity on the economic and health situation will continue to weigh on consumption in the coming months. Households are expected to continue to increase their savings in 2021, even though savings had already reached record levels in 2020. The Banque de France has estimated that this amounted to more than €200 billion last year, including a surplus of €70 billion due to the health crisis alone.

French economic indicators

	2019	2020 (estimates)	2021 (forecasts)
GDP	1.5%	-8.3%	5%
Gross disposable household income	3.1%	0%	1-2%
Household consumption	1.5%	-8.2%	4.1%
Saving rate (as a % of gross disposable income)	14.9%	21%	17-19%
Purchasing power	2.1%	0.4%	0.6%
Consumer confidence (in December)	102	95	-
Inflation	1.3%	0.5%	0.5%
Unemployment rate	8.1%	8.0%	10.4%

Sources : Insee, Banque de France, Eurostat, Xerfi

FAVOURABLE BORROWING CONDITIONS

RATES REMAIN VERY LOW

Borrowing conditions remain favourable, enabling the residential property market to remain buoyant despite the health crisis. As a result, after a one-off increase in the first half of the year, the average interest rate dropped back to 1.20% at the end of 2020 (following 1.22% in the third quarter and 1.24% in the second quarter). This compares with 5.07% during the financial crisis (Q4 2008) and 5.6% in the early 2000s.

The average mortgage term also continued to grow to an unprecedented level. Particularly high since the outbreak of the health crisis, it reached 233 months in the fourth quarter, up 3% on the previous quarter and 2% year-on-year. This increase can be explained on the one hand by the rise in housing prices, and on the other hand by the high level of uncertainty due to the Covid-19 pandemic, which is prompting individuals to exercise caution by maintaining an acceptable monthly payment in relation to their income (below the threshold of 33%).

The impact of the health crisis also resulted in a significant decrease in mortgage applications. After a very sharp drop due to the lockdown in the first half of the year, followed by a slight rebound in the third quarter, loan generation ended the year on a negative note (down 12.3% year-on-year in the fourth quarter). Furthermore, the number of mortgages granted fell by 12.5% year-on-year in the fourth quarter and by 18.1% for 2020 as a whole.

In 2021, the continued deterioration of the job market and the lack of certainty regarding the health situation could still weigh on the demand for credit. However, household property purchasing power should be resilient given the low interest rates and the ECB's accommodating monetary policy. In addition, the French government has recently relaxed the conditions for granting bank loans. Last December, the Financial Stability Board gave banks more room to manoeuvre, notably by allowing them to raise the household debt threshold from 33% to 35%.

Key figures | France

Average interest rate
1.17 % in December
1.17 % in Dec-19

Outstanding loans
€1,137 billion (end of 2020)
+ 5.4 % year-on-year

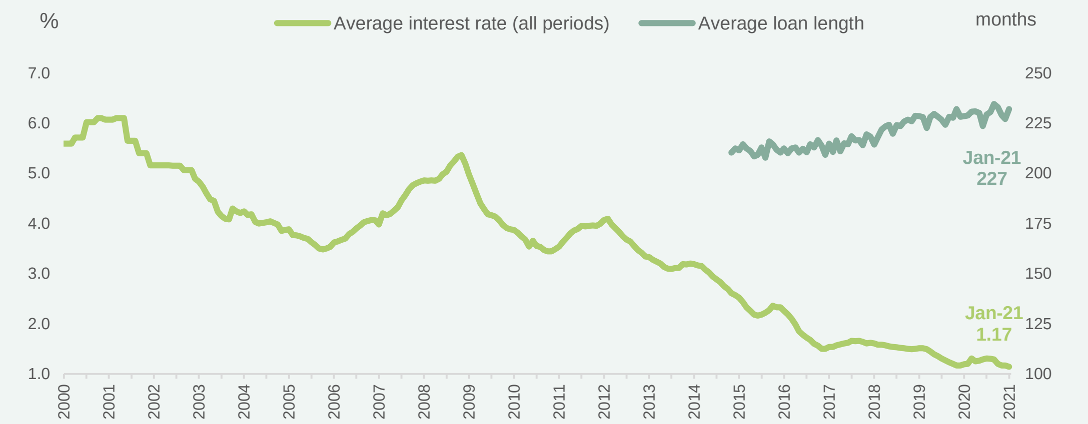
Mortgage length
227 months (January 2021)
- 1 month vs Jan-20

Loan generation
- 12.3 % *in Q4 2020*
- 16.5 % *in 2020*

No. of mortgages granted
- 12.5 % *in Q4 2020*
- 18.1 % *in 2020*

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

Change in interest rates in France
For all loan periods



Average rates in Q4 2020

1.20 %
Average rate

1.23 %
New market

1.19 %
Second-hand market

Source: Banque de France

SECOND-HAND MARKET

A DROP IN SALES THAT NEEDS TO BE PUT INTO PERSPECTIVE

While the health crisis has reduced sales of second-hand housing, mainly due to the first lockdown, the trend towards a slowdown was underway before the pandemic broke out. That said, the level of activity remained fairly high in 2020. As a result, the CGEDD recorded more than 1,020,000 sales in France at the end of November (rolling 12-month cumulative total), a 4% drop year-on-year but an increase of more than 25% compared with the ten-year average.

The decrease was more pronounced in the Greater Paris Region, with an 18% year-on-year drop, compared with a 5% drop in the regions. Within the Greater Paris Region region, the fall was strongest in Paris (-13% year-on-year for the period from September to November), while the Inner and Outer Suburbs held up better (-3% and +4% respectively).

A FAVOURABLE ENVIRONMENT FOR SINGLE FAMILY HOMES

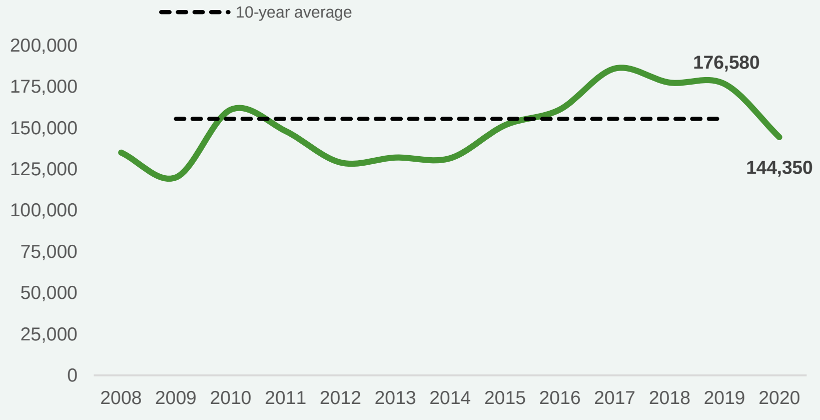
It is still too early to really assess the impact of the health crisis on house-buying behaviour, and whether it will continue after the pandemic. That said, the health crisis has already led to changes in lifestyles and work patterns, which have not been without effect on the residential property market, with the search for an extra room and a change in setting, for example, fuelling the appetite of people in the Greater Paris Region region for single family homes in the Inner and Outer Suburbs. Between September and November 2020, the Notaries in the Greater Paris Region noted a 4% increase in sales of second-hand houses in the Greater Paris Region, while sales of second-hand apartments contracted by 5% over the same period.

PRICES STILL ON AN UPWARD TREND IN 2020

This context may explain the acceleration in the price of existing homes in the single family home sector, with a 5.9% year-on-year increase in 2020 in the Greater Paris Region. With regard to the price of second-hand apartments, the increase remained fairly similar to the previous year, with a 6.5% increase in 2020 following the 5.7% rise in 2019.

The price per sq m for a second-hand apartment now averages €6,680/sq m in the Greater Paris Region, up 27% on its level five years ago. While prices have risen throughout the region, there are still significant contrasts, with prices ranging on average from €4,000/sq m in Seine-Saint-Denis (+10% compared with 2019) to around €10,800/sq m in the central areas of Paris (+4.7%).

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



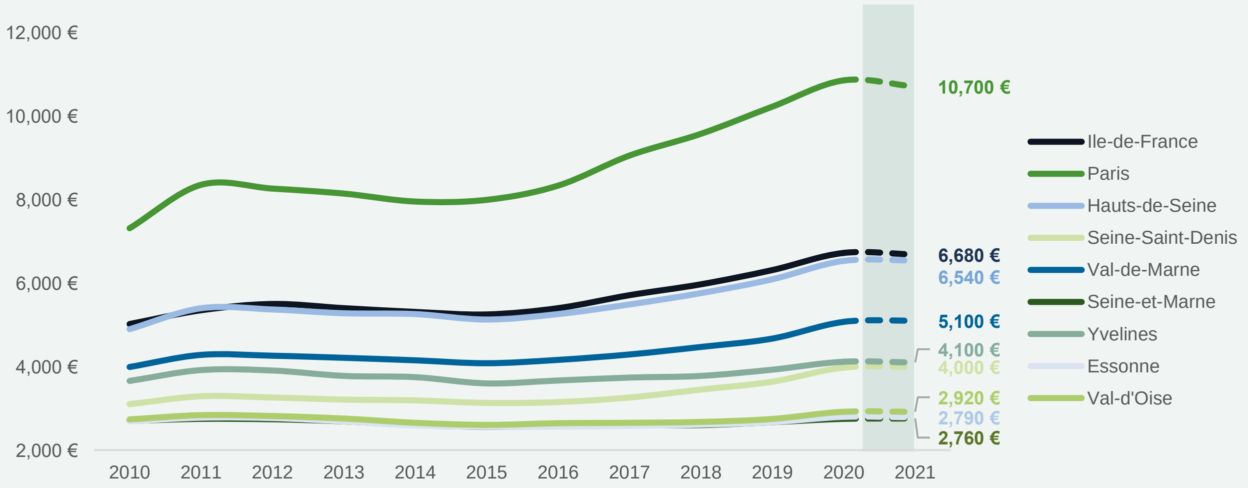
Source: CGEDD according to DGFiP (MEDOC) and notarial bases, 2020 to the end of 2020.

Disparities also remain significant in Paris, with prices ranging from €8,260 /sq m in the Pont de Flandres district (19th arrondissement) to €15,750 /sq m in the Monnaie district (6th arrondissement). According to data from notaries' pre-contracts, prices could nevertheless fall from the beginning of 2021 in the capital, and the annual price increase is expected to be more moderate. Therefore, the average price should reach €10,700 /sq m in Paris in March 2021. Specifically within the luxury market, 2020 has been quite exceptional despite the pandemic, and 2021 seems likely to continue in this way.

In the rest of the Greater Paris Region, prices should continue to increase, even if at a slower rate compared to the rates seen before the crisis. Here again, the structural factors that encourage people to buy remain in place, such as the status of housing as a safe haven asset, the low rate of home ownership in the Greater Paris Region and a tight rental market.

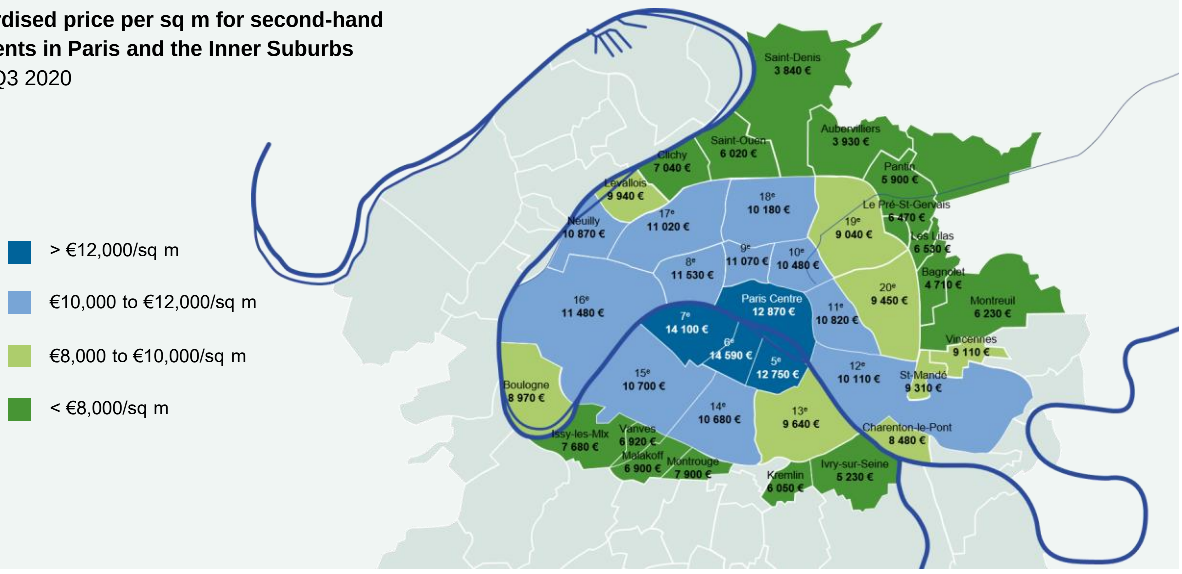
Lifestyle changes related to the Covid-19 pandemic will also remain one of the driving forces of the residential property market, in particular in connection with the rise in remote working. Finally, the progress of the Grand Paris Express project will continue to support price rises in some of the towns best connected to the new and future transport lines, as seen over the past few months in Saint-Ouen, where the extension of line 14 was recently put into service.

Change in price per sq m for a second-hand apartment
In the Greater Paris Region, in €/sq m



Source: Notaires de Paris

Standardised price per sq m for second-hand apartments in Paris and the Inner Suburbs
End of Q3 2020



Source: Notaires de Paris, ADSN-BIEN

THE "EXODUS" OF PARISIANS: MYTH OR REALITY?

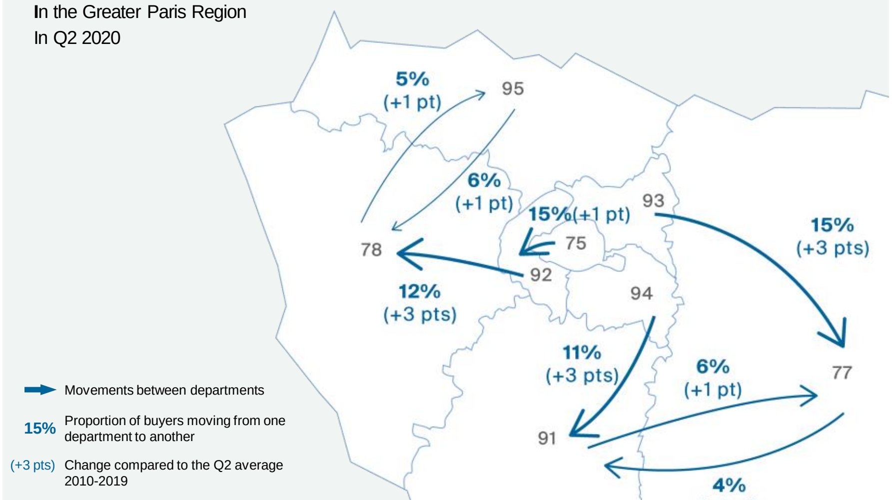
In recent months, many press articles have linked the health crisis to an "exodus" of Parisians to other parts of the Greater Paris Region region or to the provinces. Although the Covid-19 pandemic may have played a role in the movements of some Parisians and residents of the Greater Paris Region region, it is still difficult to estimate the real extent of such movements and it is far too early to know whether residential patterns will be permanently altered.

Over the last ten years, on average 30% of Parisians bought in the Inner Suburbs and 8% in the Outer Suburbs. In the second half of 2020, the proportion was relatively similar (34% and 11%). Furthermore, over the same period, 54% of Parisian home buyers stayed in Paris, compared with an average of 62% between 2010 and 2019.

Destination of buyers of second-hand homes

In the Greater Paris Region

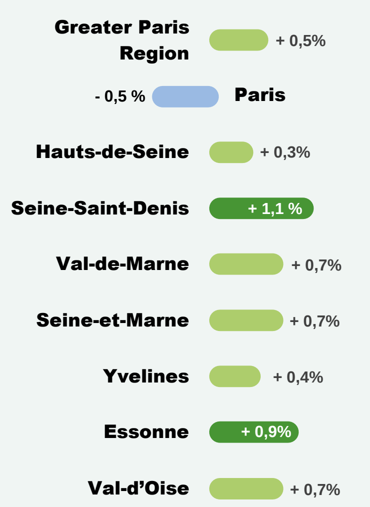
In Q2 2020



Source: Notaires du Grand Paris

Population change

Average change between 2012 and 2017



Source: INSEE

The fact that Paris is seeing its population decrease is nothing new. Having gained 125,000 inhabitants between 1999 and 2011, the city has lost an average of more than 10,000 each year since 2012, mainly due to the decrease in the birth rate and the ageing of the population. By changing expectations in terms of housing and living environment (desire for outdoor space, an additional room for home working, etc.), the health crisis could accentuate this decrease by fuelling Parisians' desire for new horizons, to the benefit of other areas. By improving the accessibility of several peripheral municipalities, the Grand Paris project could also play a decisive role.

That said, the reduction in rents and prices that has begun in Paris in recent months could also make it easier for certain categories of the population to stay or move to the capital. This is what has been observed in other major world cities such as London and New York where the correction in housing prices has led to a rebound in transactional activity in certain central districts of the two cities.

Finally, Paris is not the only area subject to the populations' desire for new horizons, whether or not these desires are due to the health crisis. When they leave the capital, Parisians' favourite destination is the Hauts-de-Seine department: 15% of Parisian buyers chose this department in the 2nd half of 2020 (+1 point compared to the ten-year average). However, in the same Hauts-de-Seine department, 12% of residents chose to buy a home in the Yvelines department (+3 points compared with the ten-year average). Finally, many residents of Seine-Saint-Denis have also opted for the Outer Suburbs, with 15% of them choosing to buy a property in Seine-et-Marne (+3 points compared with the ten-year average).

THE NEW-BUILD MARKET

LACK OF SUPPLY

After a very dynamic year in 2017, followed by two years of slowdown, new available supply in the Greater Paris Region continued to decrease in 2020. The health crisis had the effect of amplifying the decrease, with 17,300 new homes available at the end of 2020, down 25% compared with 2019 but slightly higher than the average for the last twenty years. More specifically, apartments account for 92% of the available supply, while houses and serviced residences account for 2% and 6% of the stock.

New available supply is mainly concentrated in Hauts-de-Seine (25% of the total supply at the end of December 2020), Seine-Saint-Denis (22%) and Seine-et-Marne (13%). The city of Paris represents only 2% of the available supply in the Greater Paris Region.

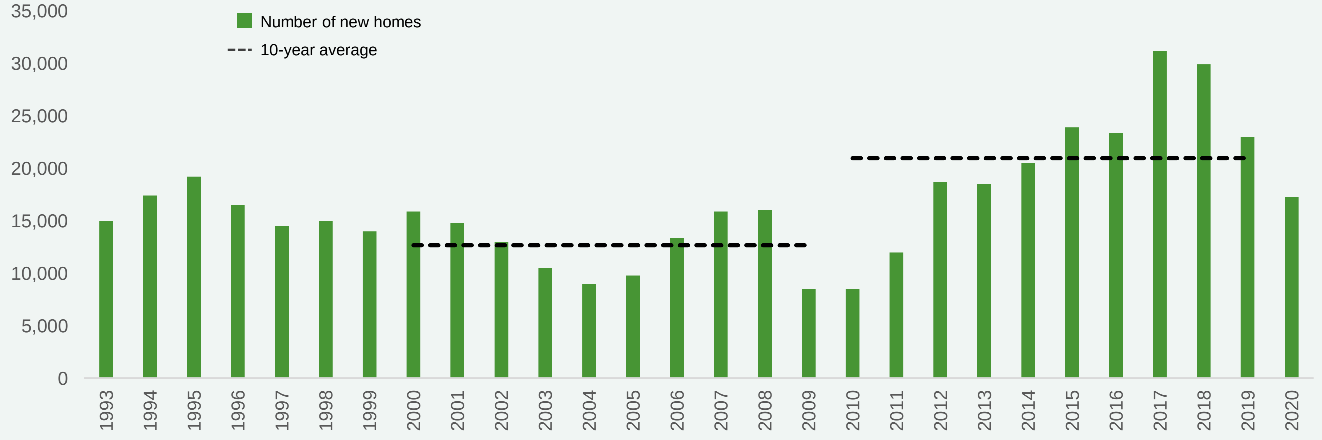
Despite the imbalance between supply and demand, the health crisis has had the effect of lengthening the time it takes for the available supply to run out, from an average of 7.3 months at the end of 2019 to almost 10 months in 2020. However, this increase is not in line with that observed during the great financial crisis. The marketing period had increased from 10 months in 2007 to more than 19 months the following year, before falling back fairly rapidly to almost 4 months in 2010.

In 2021, the gradual improvement in the health situation, the weakness of the availability of new supply and the maintenance of strong demand should make it possible to prevent the increase in the marketing period.

Marketing period for new supply
In the Greater Paris Region, in months of sale

Source: CAPEM

Change in the available supply of new homes
All property types, in the Greater Paris Region



Source: CAPEM

CONSTRUCTION OF NEW HOUSING AT A STANDSTILL

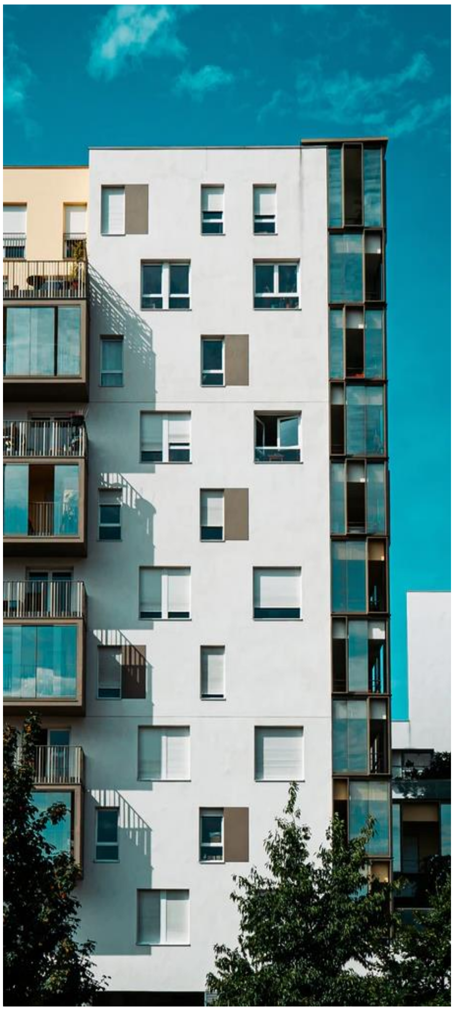
In decline since the beginning of 2018, the construction of new housing suffered a more marked slowdown in 2020 due to the municipal elections and the temporary halt of construction sites during the first lockdown. The Fédération Française du Bâtiment estimates that new housing deliveries in France will fall by 23% year-on-year in 2020, while the number of building permits authorised in France fell by 31% year-on-year, and 32% compared with the ten-year average.

In the Greater Paris Region, where 19% of the authorised housing in France is concentrated - a proportion that has been growing steadily for the last fifteen years - the number of building permits obtained in 2020 has decreased by 27% compared to 2019. The health crisis has temporarily lengthened the time taken to process building permits, while certain property projects have been called into question due to the municipal elections. Only Seine-et-Marne has seen an increase in the number of permits obtained (+9% over one year), while Hauts-de-Seine (-34%) and Seine-Saint-Denis (-31%) have seen a fairly sharp drop.

Housing starts also reached a historically low level in France as a whole, dropping below the 300,000 mark (70,100 in the Greater Paris Region). As a result, the number of housing starts in France plummeted by 27% year-on-year. The decrease is more moderate in the Greater Paris Region, with a drop of 14% compared with 2019.

In 2021, the tightening of building standards (lower emissions and energy consumption, use of bio-sourced materials, etc.) could also have a significant impact and aggravate the fall in new constructions. Indeed, the new RE2020 regulation will come into force next summer and will concern new housing in addition to other types of assets (offices, educational buildings). The cost of construction could be strongly impacted. According to DHUP* projections, the additional cost would amount to +3.4% in 2021 and would increase until 2030 as new measures are introduced (stopping gas heating, increased insulation, obligation to carry out a carbon study, etc.). This figure is disputed by building organisations, which anticipate an increase ranging from 6% to 13% depending on the type of housing.

*Direction de l'Habitat, de l'Urbanisme et des Paysages (ministère de la Transition écologique et solidaire)



Trends in authorised housing and housing starts

In the Greater Paris Region

End of November 2020

Authorised housing

- 27 % year-on-year

Housing starts

- 14 % year-on-year

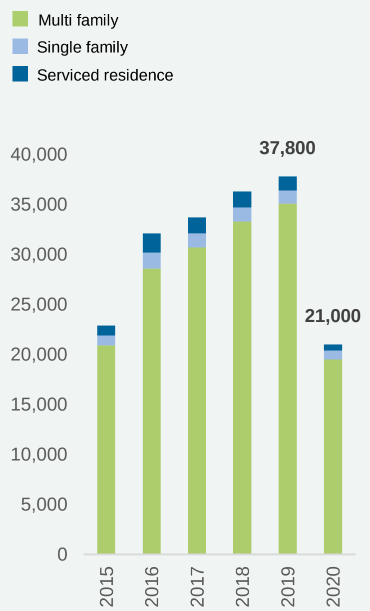
Source: SDES, Sit@del2, estimates based on data at the end of November 2020.

A SHARP DECREASE IN SALES AND OFF-PLAN SALE RESERVATIONS

In 2020, the number of new homes for sale (all property types) in the Greater Paris Region reached its lowest point since 1993. According to CAPEM's initial estimates, the number of new homes put up for sale over the past year as a whole was 15,300, i.e. around 12,400 fewer than in 2019 (-45%). Both multi and single family housing down sharply, even if it should nevertheless be noted that the number of serviced residences put up for sale has risen by 200 units in one year.

After the historic peak in 2019, the number of net new housing off-plan sale reservations in the Greater Paris Region also fell sharply in 2020 (-44% compared with 2019 and -23% compared with the ten-year average). A total of 21,000 units were sold last year. In detail, 93% of sales were concentrated in traditional multi-family housing, compared with 4% for single family housing and 3% for serviced residences.

Off-plan sale reservations by type of accommodation
In Greater Paris Region



Source : CAPEM

Number of properties for sale
All property types, in the Greater Paris Region

Source: CAPEM

Three departments account for nearly 60% of total new multi-family home sales in the Greater Paris Region in 2020: Seine-Saint-Denis (25%), Hauts-de-Seine (20%) and Seine-et-Marne (14%). In terms of single family housing, Seine-et-Marne accounts for 30% of activity, ahead of Essonne (28%). Finally, Seine-Saint-Denis and Val-d'Oise account for 30% and 28% of sales in the serviced residence sector respectively.

Between travel difficulties (especially for property visits) and uncertainties about financing possibilities, many owners and buyers have had to, or have preferred to, postpone their property projects until 2020. In 2021, the continuation of low interest rates should support the Greater Paris Region new-build market, even if uncertainty remains high and household purchasing power will be weakened by the economic shock linked to the health crisis. Activity will also be constrained by the scarcity of supply, which will prolong the pressure on prices.

AVERAGE PRICE IS STILL INCREASING

The average price of new properties is generally stable across all geographical sectors in the Greater Paris Region and averaged €5,130/sq m over the whole of 2020 (+0.4% over one year). The Inner Suburbs have seen a strong increase, with a 3.8% rise compared with 2019 and an average price of €4,340/sq m.

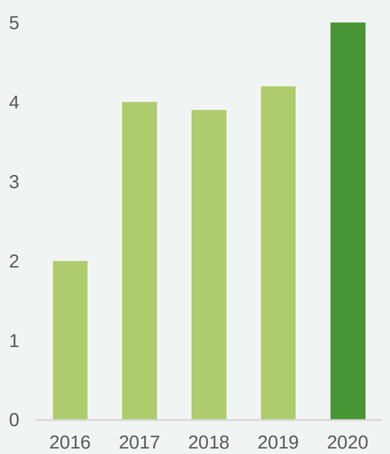
THE INVESTMENT MARKET

INVESTOR INTEREST IS GROWING

In recent years, the residential real estate market has enjoyed strong investor interest. Far from weakening, this appetite strengthened in 2020 in both the new and second-hand sectors. As a result, unlike with other types of assets (offices, retail, logistics), residential investment volumes increased in 2020, with over €5.2 billion invested in France, up 30% year-on-year.

The current environment is favourable for the residential market. The residential market continues to benefit from strong demand and supply remains very limited, while the Covid-19 pandemic does not raise the same questions as it does for offices or retail. As a result, residential property is now more than ever a safe haven for investors who, with large amounts of cash and more sensitivity to risk, are seeking to diversify their allocations and rebalance their portfolios.

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



Source: Knight Frank / *overall sales including serviced residences

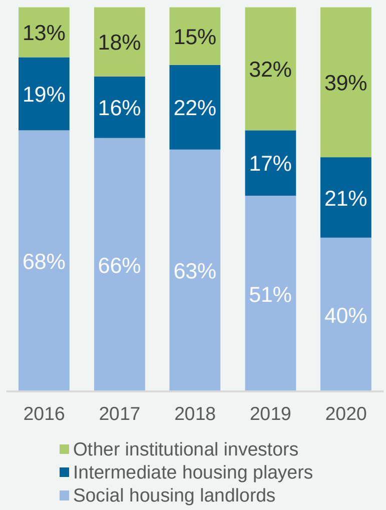
A WIDER RANGE OF PLAYERS

The excellent performance in 2020 owes much to the large transactions carried out by CDC, a long-standing player in the French residential market. Two of these transactions total more than €2 billion: the acquisition from NEXITY of 7,450 housing units for more than €1.2 billion, and the acquisition from ALTAREA of 3,500 units for €825 million. These very large transactions are not a new phenomenon. Early 2019 saw the completion of ICF's sale of the VESTA portfolio to CDC and SWISS LIFE for €1.4 billion.

In addition to CDC, several institutional players have been active in the French market. As a sign of this growing interest, SCPI fund-raising campaigns dedicated to residential property have increased by nearly 36% year-on-year in 2020 (compared with a 30% drop for all SCPIs, all types of property combined), even if their share remains modest compared with that of offices or shops. The major French asset managers are nevertheless increasingly present (LA FRANÇAISE, BNP REIM), and some have stood out by signing major partnerships. These include the association between PRIMONIAL, IN'LI, PRO BTP and MIDI 2i for the acquisition of existing housing and the development of new projects in the Greater Paris area. IN'LI has also joined forces with AXA to create a real estate company dedicated to the development of intermediate housing in the Greater Paris Region region.

Foreign investors are for the moment less present in the residential market, but they are also taking an interest in France, for example, with the agreement recently concluded by HINES and KAUFMAN & BROAD for the off-plan acquisition of more than 500 homes.

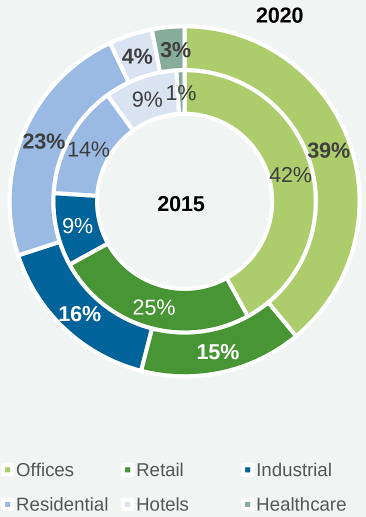
Overall sales of new accommodation
In the Greater Paris Region, by type of landlord



Source: Capem

Foreign investors also have great ambitions in the French market for serviced residences, such as HINES in the co-living and multi-family sectors, and similar to the platform launched by IVANHOE CAMBRIDGE and GREYSTAR for student residences. Finally, the market for senior residences is also whetting the appetite of major international funds, whether they be long-standing players in the French property market, such as the recent agreement between ABERDEEN and ICADE, or new players such as the off-plan acquisitions by the Danish pension fund PFA.

Breakdown of investment volumes by property type
In Europe, 2020 versus 2015



Sources: Knight Frank / RCA

VOLUMES IN EUROPE MULTIPLIED BY FIVE OVER THE LAST DECADE

This interest in the residential sector has also been seen throughout Europe. The amounts originating from block sales have risen sharply in recent years, from less than €10bn in 2011 to just over €50bn in 2019 and 2020.

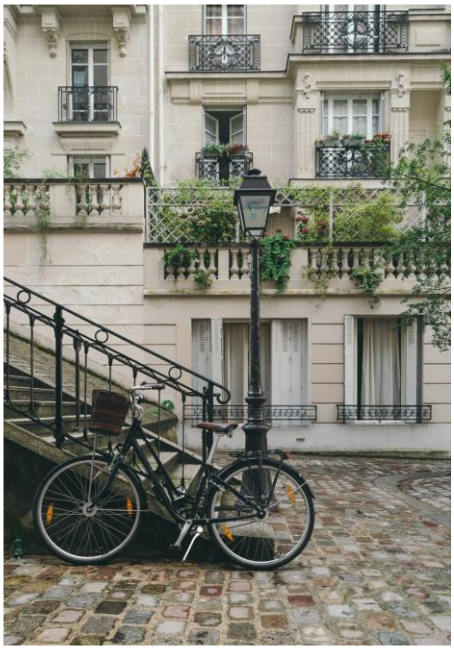
The residential investment market is the most active in Germany and the United Kingdom, which together account for almost half of all the amounts invested in 2020 in Europe (29% and 17% respectively). The Netherlands comes in third place, just ahead of France. The breakthrough of the residential sector is also noticeable in the Scandinavian countries, particularly in Sweden, where house prices have risen sharply since the global financial crisis of 2008.

In some of these countries, the share of residential investment in total property investment is considerable. This is the case in Germany, where the proportion reaches 30%, and even more so in the Netherlands, where overall sales of residential assets account for 40% of total investment volumes.

At a European level, the share was 23% in 2020 and only 14% in 2015. Industrial assets are also more popular (with a 16% share in 2020 compared with 9% in 2015), while the share of retail assets has contracted (15% in 2020 compared with 25% in 2015).

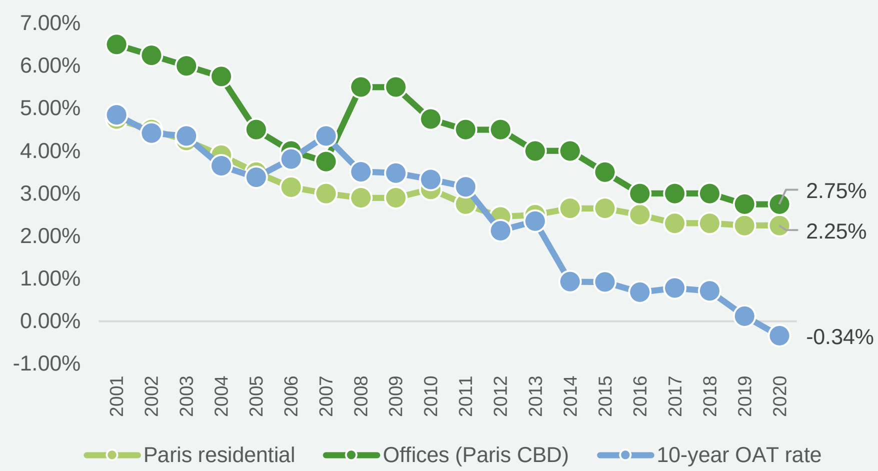
WHAT IS THE OUTLOOK FOR THE RESIDENTIAL MARKET?

Rising housing prices, strong rental demand, limited supply, new expectations of the population in terms of housing and living environment, high levels of capital to be invested: several factors will continue to favour the residential market in the short and medium term, fuelling the interest of institutional investors in this asset class in Europe and France. Furthermore, while prime yields are at their lowest level for 20 years (2.25% in Paris in 2020), the gap with the 10-year OAT rate remains advantageous. Amounts committed to this area of the market could therefore continue to grow in 2021, although the scale is likely to be limited by a lack of assets for sale. The conversion of offices into housing could partially address the problem of scarcity of supply in the Greater Paris Region. Although initiatives by private and public players are becoming more widespread, the phenomenon nevertheless remains fairly new.



In Paris, office to residential conversions averaged only 33,000 sq m per year between 2014 and 2019 (source: APUR). In the region as a whole, only 110,000 sq m of housing resulting from office conversions has been subject to building permit applications since 2018.

Change in prime yields, in Paris as a %

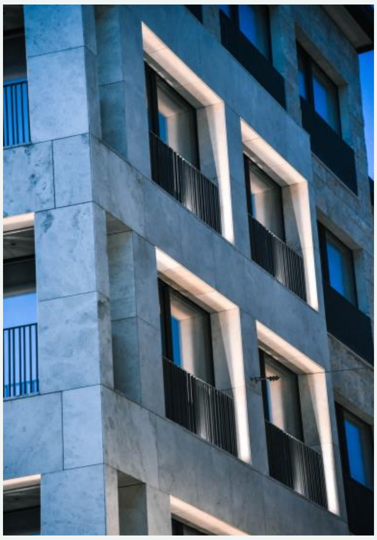


Source: Knight Frank

FOCUS ON "BUILD-TO-RENT", A NEW AND GROWING ASSET CLASS

“Build to rent" or "BTR" is a sector of the residential market relating to housing which is specifically developed for rentals rather than sales, and is managed by specialist operators. These "ready-to-live-in" housing units offer tenants a variety of high-quality services (sports facilities, concierge services, roof terraces, co-working areas, 24-hour security, etc.). Unlike co-living, with which it has certain common features, the "BTR" targets all age groups and all types of households (couples, families, singles, etc.) and can offer large housing units with their own living room, kitchen and bathroom. Furthermore, leases are often longer than in co-living and the rest of the private rental stock.

BTR is a response to the housing shortage in large cities and is booming in some countries. In the United Kingdom, this market represents nearly 180,000 housing units (built or planned), i.e. already more than double the supply recorded in 2017. 45% of these dwellings are concentrated in London, but there are also many developments in large regional cities such as Manchester, Liverpool and Birmingham.



The low volatility of the residential market, strong demand for housing and a still limited supply make "BTR" the target of a growing number of institutional investors wanting to diversify their allocations in favour of safe haven assets. Reflecting this growing interest, investment volumes in the BTR market reached a record £3.74 billion in 2020 in the UK. This amount, which is still lower than the amount invested in the student residence market (£5 billion in 2020 in the UK), significantly exceeded the amount invested in the senior residence market (£1 billion). Legal & General, Aberdeen Standard, Brookfield, M&G and Invesco are among those investors who are traditionally the most active in the British BTR market. But several new players have recently been identified, such as AXA, ECE or Goldman Sachs. This increased demand is putting pressure on prime yields which are now between 3.00 and 3.50% in London, compared to 4.00 to 4.25% in the student residence and co-living sector.

The high volumes invested, the acceleration of developments and the high level of rent collection (nearly 96% in the United Kingdom since March 2020) have demonstrated the solidity of the BTR model despite the health crisis. By heightening the population's expectations in terms of quality of living environment and the emergence of new ways of living and working (growth of remote working, emphasis on proximity and location, etc.), the Covid-19 pandemic is expected to amplify the success of BTR in countries where it has become an asset class in its own right. It could also accelerate its development in countries where the concept has only just emerged, such as Australia, and those where it does not yet exist.

This is the case in France, where it is only just beginning to be talked about. Last September, Keys Asset Management and Linkcity, Bouygues Construction's real estate development subsidiary, announced that they had joined forces to create an investment vehicle dedicated to the development of "BTR" in France.

Sources: Knight Frank, British Property Federation, Linkcity

10 TRENDS TO FOLLOW IN 2021… AND BEYOND

1

REMOTE WORKING: ROOTED IN OUR LIVES

The rise of home-based working is one of the most obvious consequences of the health crisis. This practice should become firmly established in our lives, with expected, but still difficult to assess, effects on household demand for housing in terms of location or space planning.

2

STABILITY OR MODERATE RISE IN HOUSE PRICES

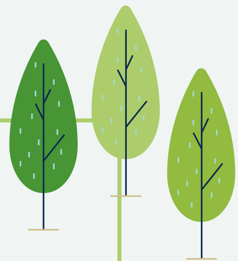
The contraction of economic activity could weigh on the change in house prices. In 2008, for example, they had fallen by just over 7% year-on-year in France. In 2021 prices are expected to continue to rise, but at a more moderate pace. In the longer term, the hierarchy between residential areas should become more pronounced, to the benefit of areas best connected by public transport.

3

EASY PATH TO OWNERSHIP

Financing conditions will remain favourable thanks to ongoing low rates and the easing of the HCSF's position, which will mitigate the impact of the crisis on household solvency. This should help facilitate home ownership for low-income households and first-time buyers, and help maintain a high level of sales.

4



ASPIRATION FOR A BETTER QUALITY OF LIFE

New expectations have emerged in connection with the health crisis. According to several surveys*, people in the Greater Paris Region region are looking to improve their quality of life: extra rooms, outdoor space, pleasant surroundings, etc. These needs, whether in the rental market or for home owners, could help to sustain real estate activity in 2021.

5

SHORTAGES ARE TAKING HOLD

The lack of supply will intensify in areas already experiencing shortages such as Paris, Hauts-de-Seine and Seine-Saint-Denis. These three departments account for more than 45% of new home sales and only 8,100 new homes available at the end of 2020.

Source: Knight Frank. Illustrations © Freepik

* OpinionWay study for Artémis Courtage, "The French and Real Estate after lockdown" - June 2020, IFOP study for Woodeum, "French people's new expectations in terms of housing" - December 2020, etc.

10 TRENDS TO FOLLOW IN 2021… AND BEYOND

6

ENVIRONMENTAL CONCERNS

The residents of the Greater Paris Region are increasingly sensitive to environmental concerns. This is an issue that is in line with the various environmental measures being considered (RE2020, climate bill, etc.) and the commitment of those involved in marketing and construction to reduce the carbon footprint of future residential projects.

7

INSTITUTIONAL INVESTOR APPETITE

Residential property will continue to attract institutional investors, both French and foreign, seeking low-risk investments that allow them to diversify their assets. However, this desire for residential property could clash with the scarcity of supply that is available for sale.

8

ACCELERATION OF TRANSFORMATION PROJECTS

The conversion of other premises, particularly offices, represents an opportunity to increase the supply of housing. The simplification of regulations, a certain degree of political will and the impact of the health crisis on office demand could facilitate conversion projects, particularly in areas with a significant proportion of premises unsuited to the demands of companies.

9

GRAND PARIS

After the commissioning of the first phase of the extension of line 14, the progress of new transport projects (Eole, line 15 South, etc.) will continue to play a decisive role in terms of supply and price. By way of indication, MeilleursAgents estimates that prices around the new stations planned for 2024-2025 have increased by more than 20% in five years..

10

NEW USES, NEW CONCEPTS

New forms of housing are emerging (BTR, co-living), responding to new uses and the population's growing expectations in terms of services. Offering an alternative to the traditional residential supply, these concepts, which are still uncommon and not widely developed in France, are booming in certain foreign countries.

Source: Knight Frank. Illustrations © Freepik

Recent publications

2020 Review & 2021 Outlook
Commercial real estate in France

Mobility of large companies in the Greater Paris Region | December 2020

Global Residential Cities Index | Q3 2020

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