

The residential property market



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INTERVIEW

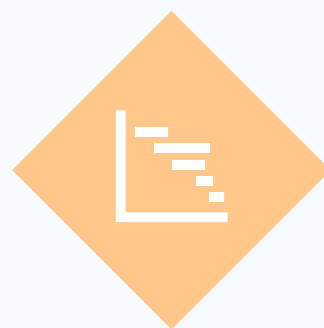
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THE RESIDENTIAL MARKET GRINDS TO A HALT

Following the euphoria of 2021, which saw a clear increase in residential sales, the situation deteriorated in 2022 in the French residential market due to the tightening of credit conditions and a less favourable economic and political context (explosion in inflation, war in Ukraine, energy crisis, etc.). Although still slightly up in the Greater Paris Region (+3% in 2022 over one year), the number of sales of second-hand homes decreased by an average of 6% throughout France. The new housing market has seen an even more pronounced drop of 31% in France and 14% in the Greater Paris Region. Finally, new residential production has been particularly limited, with less than 60,000 residential units started in 2022 in the Greater Paris Region (-11%).

After two exceptional years, activity also slowed down in 2022 in the residential property investment market. 5.4 billion euros was invested last year in France, down 24% compared to 2021. As with corporate real estate, it was in the second half of the year that the decrease in volumes was most significant, with the sums committed in the second half being 47% lower than in the first half, which nonetheless saw the completion of an exceptional transaction: the sale by CDC HABITAT to CNP ASSURANCES of the "Lamartine" portfolio for more than two billion euros.

KEY FIGURES



Decrease in sales of second-hand and new homes

At the end of December 2022, 186,700 sales of second-hand homes (+3% year-on-year) and 20,500 sales of new homes (-14%) were recorded in Greater Paris Region.



New production suffering

Although the number of permits obtained in the Greater Paris Region has increased by 7% year-on-year, the decrease in new housing starts is particularly significant (-11% year-on-year compared to -4% for France as a whole).



Stabilisation of prices for second-hand homes, increase for new

At the end of December 2022, the average price of apartments in the Greater Paris Region had stabilised at €6,750 /sq m for existing properties and €5,730 /sq m for new properties.



24% decrease in investment volumes

The 5.4 billion euros invested in France in 2022 reflects a 24% decrease year-on-year but is still significantly higher than before the health crisis (+29% compared to 2019).

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

ECONOMIC CONTEXT

GLOBAL ECONOMIC SLOWDOWN

Weakened by the outbreak of war in Ukraine, the energy crisis and the resurgence of Covid-19 cases in China, the global economic situation deteriorated significantly in 2022. While fears of a recession are fading, a sharp slowdown in activity is expected in 2023 in the euro zone. GDP is only expected to grow by 0.5% in 2023 (after +5.3% in 2022), before recovering in 2024 (+1.9%).

Consumer prices rose sharply last year, reaching 9.2% at the end of 2022 in the euro zone (after 5.0% a year earlier). They are expected to remain high in 2023 (6.3%) before falling in 2024 (3.4%). Inflationary pressures vary from country to country: inflation is between 10 and 20% or more in most Central and Eastern European countries, close to 10% in Germany and the Netherlands, but remains more moderate in Spain (5.5%).

FRENCH ECONOMIC INDICATORS

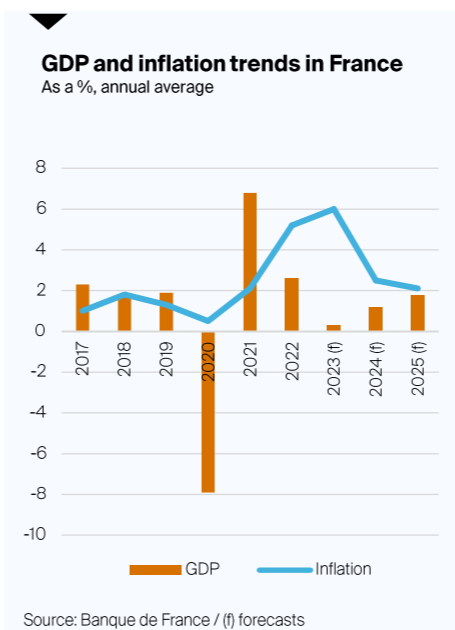
	2020	2021	2022	2023 (forecasts)	2024 (forecasts)	2025 (forecasts)
GDP	-7.9%	6.8%	2.6%	0.3%	1.2%	1.8%
Gross household disposable income	1.1%	4.0%	5.2%	-	-	-
Household consumption	-6.8%	5.2%	2.4%	0.3%	1.1%	1.7%
Savings rate (as % of gross disposable income)	21.0%	18.7%	16.5%	16.1%	16.5%	15.9%
Purchasing power (of gross disposable income)	0.2%	2.3%	-0.3%	-0.2%	1.5%	1.0%
Household confidence index (at end of Dec.)	96	99	82	82 (February)	-	-
Inflation	0.5%	2.1%	5.2%	6.0%	2.5%	2.1%
Unemployment rate	8.0%	7.9%	7.3%	7.7%	8.3%	8.2%

Source: Insee, Banque de France

FRANCE: ALMOST ZERO GROWTH IN 2023

Although activity also slowed down in France, GDP nevertheless reached 2.6% in 2022 as a result of the post-Covid catch-up effect. In 2023, the deterioration of the international context will be felt more strongly and will weigh on growth (estimated at +0.3% according to the Banque de France forecasts). GDP should rebound from 2024 (+1.2%).

In France, inflation has been lower than in most other European countries. Mainly driven by energy prices (+15% over one year) and food prices (+12%), it reached 5.2% in 2022 according to INSEE. Prices should continue to rise in the first half of 2023 before slowing down. According to the Banque de France, they will reach around 6% in 2023 before moderating in 2024 (+2.5%). The rise in consumer prices is severely eroding the French people's purchasing power, which led to a 17-point drop in the household confidence indicator in 2022.



Source: Banque de France / (f) forecasts

THE EMPLOYMENT MARKET IS HOLDING UP

The employment market held up well in 2022 despite the deteriorating economic context. The unemployment rate remains contained, reaching 7.2% at the end of 2022 in France, i.e. a drop of 0.1 points over one quarter and 0.3 points year-on-year. The slowdown in economic activity and net job creation (only 58,000 jobs expected in 2023 in France after 647,000 in 2022) will nevertheless push unemployment up in 2023 (7.7% on average in France) and in 2024 (8.3%), before stabilising at around 8.2% in 2025.

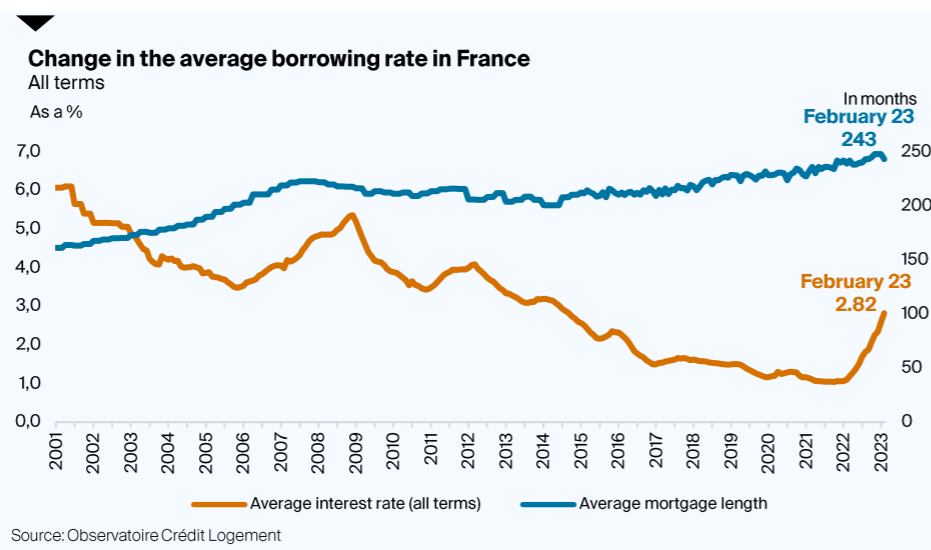
Business insolvencies rebounded in 2022, with 42,000 insolvencies recorded in France (including 12,300 in the 4th quarter). Although the number of insolvencies rose by 50% over one year, it is still lower than in 2019 (-19%). The trend is likely to become more pronounced in 2023 due to the deterioration in the economic context and in businesses' cash flows.

RISING INTEREST RATES ARE DISRUPTING THE MARKET

THREATS TO NEW LOANS

The Banque de France has decided to raise the usury rate monthly rather than quarterly from 1st February 2023, for a period of six months. It stood at 3.57% on 1st January for mortgages of 20 years or more, and was raised by 22 points in February and then by 21 points in March. Given the sharp rise in interest rates, this exceptional adjustment should have the effect of smoothing out the increases in the usury rate and making mortgage production more fluid.

This only partially offsets the effect of rising interest rates on access to mortgages. At the end of February 2023, interest rates averaged 2.82%, after 2.34% last December and 1.10% in February 2022. The rise is clear and rapid and will continue in 2023, continuing to exclude a growing number of buyers, particularly first-time buyers and households with little or no



personal down payment. The increase in the number of mortgage refusals, with a share close to 10% of applications at the end of November 2022 compared with an average of 1 to 2% over the last ten years (source: PAP), bears witness to these difficulties. The trend in mortgage production, excluding renegotiations, is another example. In 2022, it decreased month by month (19.7 billion euros on average each month in the first half of the year compared with 16.7 billion euros in the second half) to reach 218 billion euros for the year as a whole, which is a 3% decrease compared with 2021. The downward trend was confirmed in February 2023, with a 28.2% year-on-year drop in mortgage production and a 27.2% year-on-year drop in the number of mortgages granted. Finally, the commitment period continued to grow, reaching 243 months in February 2023 (+4 months in one year and +15 months compared to February 2020).

THE CHALLENGE OF "GREENING"

In this context, the quality of properties is increasingly important. Since the pandemic, and even more so since the beginning of the Russian-Ukrainian conflict and the explosion in the price of raw materials, energy performance has become a major criterion.

Its relevance will only increase due to the Climate and Resilience Act, which from 2023 requires owners of poorly insulated homes to carry out energy renovation work if they wish to increase the rent of their rental property. From 2025 onwards, landlord's will be prohibited from renting out the worst insulated properties (label G of the DPE). In 2028, properties with an F rating will be banned from being rented out, followed by E-rated properties in 2034. In total, these properties account for more than 40% of the French private rental stock

These coercive measures raise questions about the ability of private landlords to carry out the necessary work in a relatively short time, especially in a context of rising material prices and restricted access to credit. Moreover, a number of owners have chosen to sell their properties rather than renovate them. As a result, the number of properties labelled F or G listed for sale on SeLoger almost doubled between 2020 and 2022. In Paris, their number has even quadrupled compared to the summer of 2021 to reach almost 40% of the total stock of properties listed for sale in the capital.

Key figures end of February 2023 | France

- Average interest rate**
2.82%
1.10% in February 2022
- Outstanding mortgages**
€1,282 BILLION (January)
+5.1% year-on-year
- Mortgage periods**
243 MONTHS
+4 months year-on-year
- Mortgage production**
-28.2% IN ONE YEAR
+11.1% in February 2022
- Number of mortgages granted**
-27.2% IN ONE YEAR
+7.6% in February 2022

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



THE SECOND-HAND MARKET

THE SECOND-HAND MARKET HELD UP WELL IN 2022

Following a very dynamic year in 2021, the market for second-hand homes slowed down significantly in 2022. A total of 1,109,000 sales were recorded in France last year, down 6% compared to 2021. However, the volume in 2022 remained above the ten-year average (+26%) as well as the pre-Covid level (+4% compared to 2019).

The decrease recorded in 2022 is not the sign of a loss of appetite on the part of buyers, whose acquisition projects have been hampered instead by the weakness of available supply for sale and the growing difficulties in obtaining mortgages. The existing market has also suffered from the decrease in the purchasing power of households, a more anxious economic and political context and the rise in the price of materials, which has increased the cost of renovation work.

In contrast to the year-on-year decrease seen in 2022 on a national scale, sales of second-hand homes increased slightly in 2022 in the Greater Paris Region. There were 186,680 sales last year, an increase of 3% compared to 2021 and 18% compared to the ten-year average. Looking into the details,

the number of house sales fell by 9% year-on-year in the Greater Paris Region, while the number of apartment sales rose by 2%. Although the Greater Paris Region market continued to benefit from the post-Covid catch-up effect in 2022, activity nevertheless began to slow down in the second half of the year.

CONTAINED PRICE INCREASES

According to provisional data from the notaries, the rise in prices of second-hand homes decelerated at the end of the 3rd quarter of 2022, with an average increase of 6.4% year-on-year in France. As a result, average prices for apartments in the second-hand sector rose by only 4.0% year-on-year, while strong demand and the scarcity of properties available for sale continued to put pressure on house prices (+8.2% year-on-year).

According to the data on preliminary contracts and notaries' forecasts, prices should continue to slow down. They are expected to increase by only 4.6% year-on-year at the end of February 2023. As a sign of the shift in the balance of power between buyers and sellers, notaries confirm that

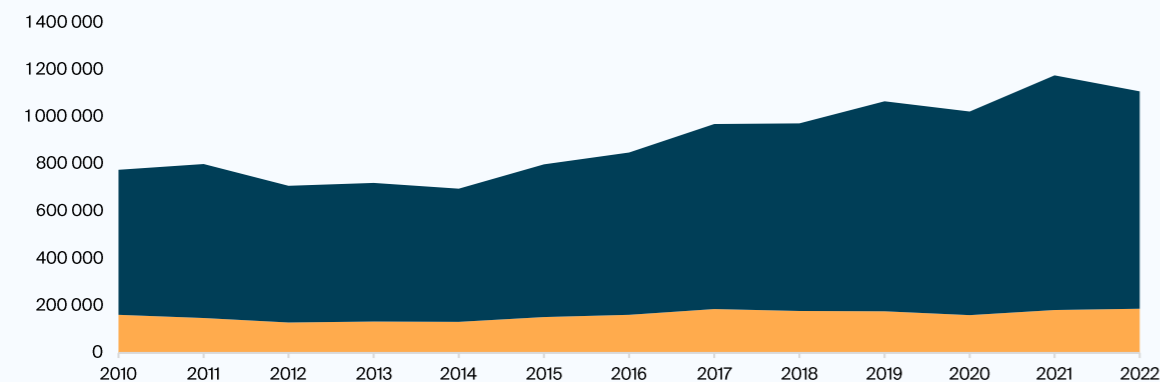
property prices are more open to discussion. Housing ratings are increasingly contributing to this trend. The energy consumption of properties has thus become a major selection criterion for future buyers, as well as an additional negotiating tool with sellers.

PRICES ARE ALSO STABILISING IN THE GREATER PARIS REGION

The rise in prices for second-hand properties also slowed down in the Greater Paris Region in 2022. House prices rose by only 3.3% year-on-year, while prices of apartments remained virtually unchanged (+0.5% year-on-year), reaching an average of €6,750 /sq m at the end of December 2022. Prices of existing apartments are expected to decrease in the 1st quarter of 2023, reaching €6,650 /sq m by the end of April. The correction has already taken place in Paris, where the average price of an existing apartment was €10,490 /sq m at the end of 2022 (-1.0% in one year) and is expected to continue to fall in Q1 2023 to €10,360 /sq m in April according to the notaries' forecasts.

Change in the number of sales of existing homes

In thousands, rolling 12 months



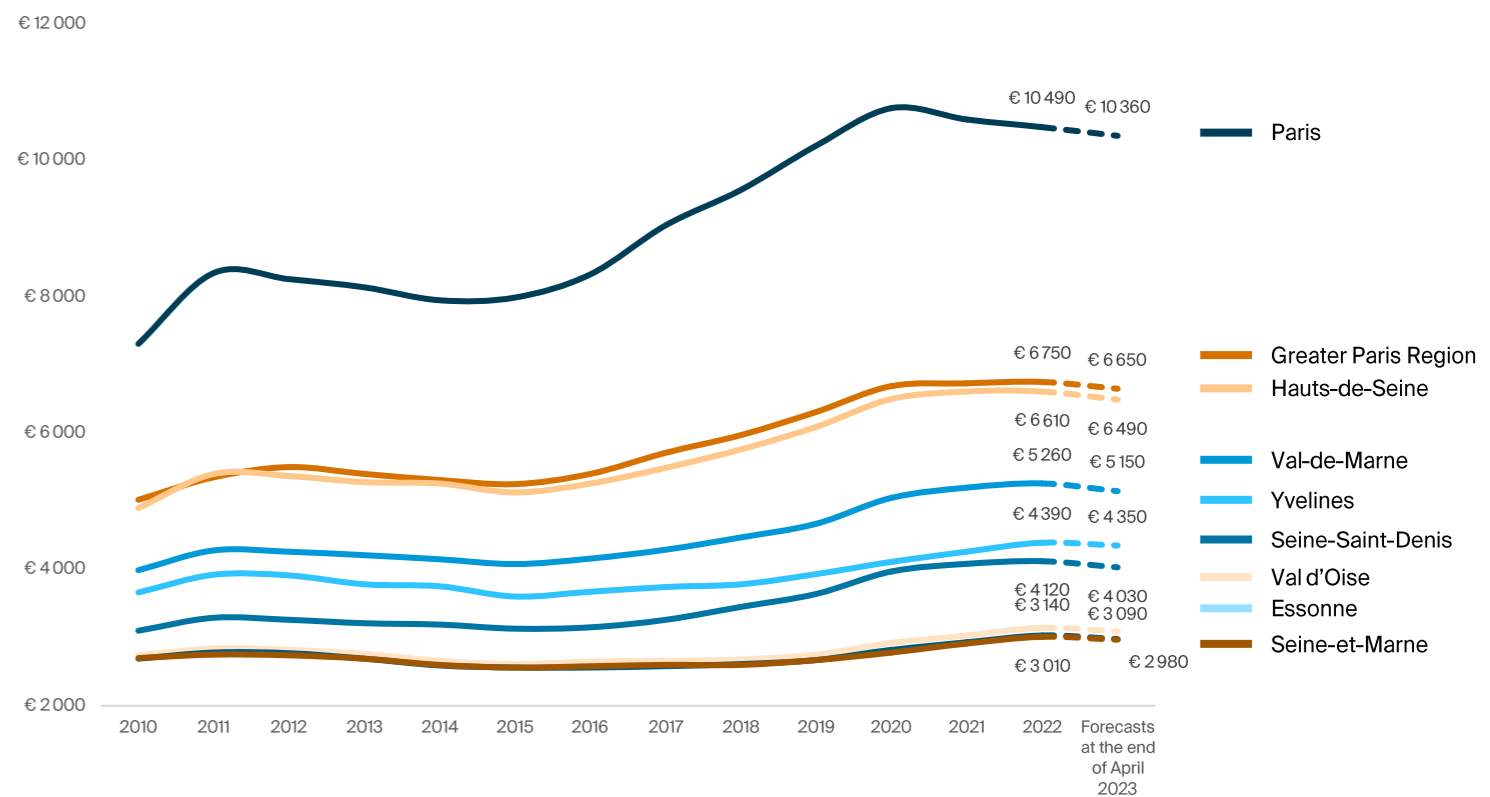
Source: CGEDD based on DGFIP (MEDOC) and notary databases, Notaires du Grand Paris

France
1,109,000 sales
-6% year-on-year

Greater Paris Region
186,680 sales
+3% year-on-year

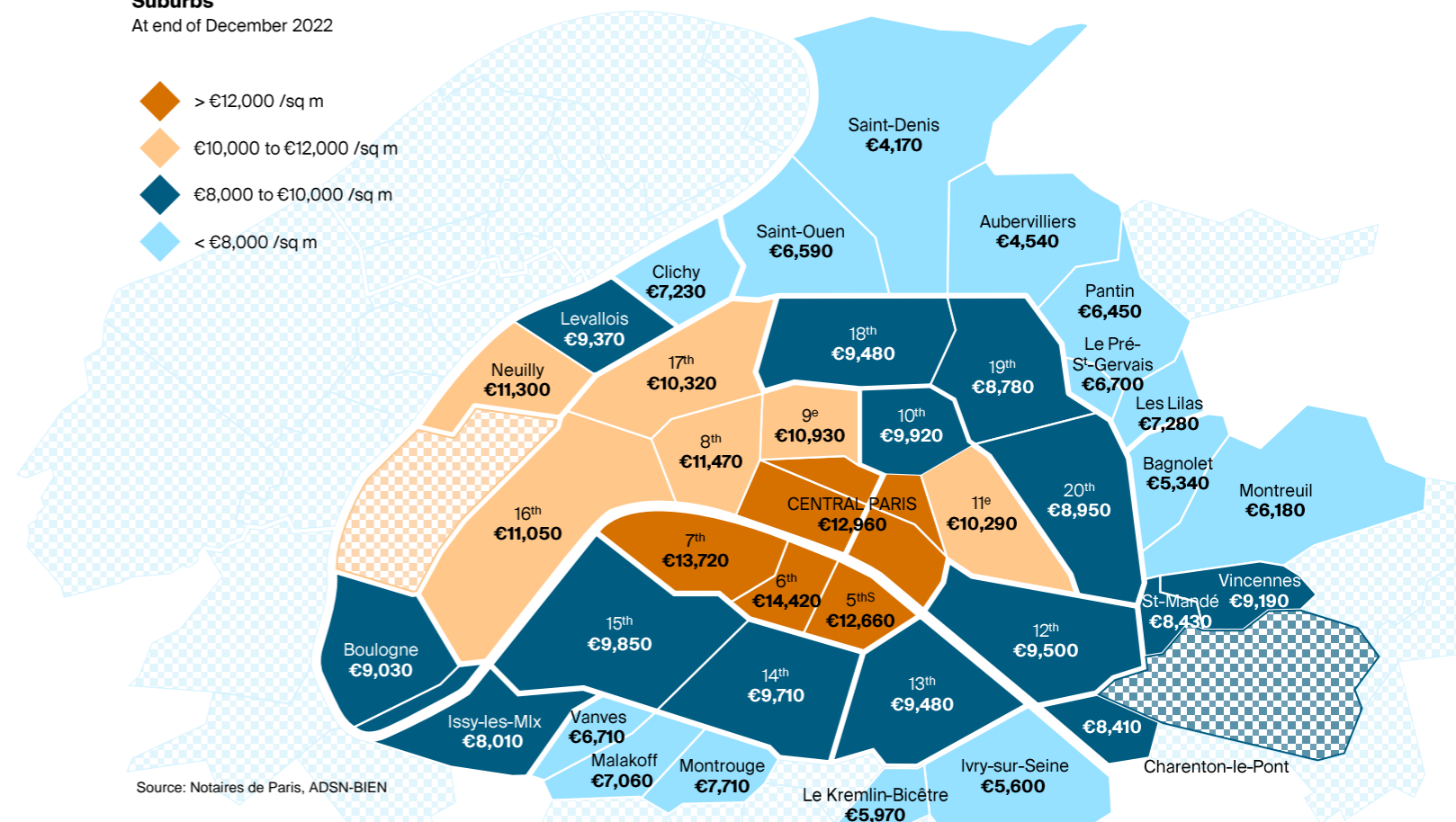
Change in existing apartment prices

In the Greater Paris Region, in €/sq m



Standardised prices per sq m of second-hand apartments in Paris and the Inner Suburbs

At end of December 2022



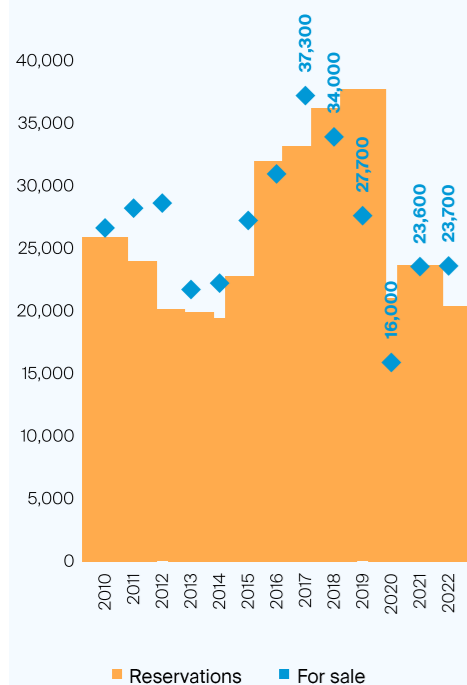
Source: Notaires de Paris, ADSN-BIEN

THE NEW RESIDENTIAL MARKET

SALES HAVE STABILISED

New residential sales in the Greater Paris Region totalled 23,700 units in 2022, a slight increase of 100 units in one year and a significant rebound from the 16,000 new homes put up for sale in 2020. However, the 2022 result remains well below the level recorded before the outbreak of the health crisis, with a 14% drop compared to 2019 and 30% compared to 2018. In particular, conventional multi-family housing accounted for 91% of sales in 2022, equivalent to 21,500 units (+100 units in one year). Three departments accounted for 57% of conventional multi-family housing starts: Seine-Saint-Denis (20% of the Greater Paris Region total), Hauts-de-Seine (19%) and Val-de-Marne (18%).

Changes in the supply of new housing in the Greater Paris Region
By number, all housing types



Source: CAPEM / Provisional figures at end December 2022

In the Outer Suburbs, the Val-d'Oise and the Yvelines account for 13% and 12% respectively of the Greater Paris Region total.

In terms of serviced accommodation, 1,500 units were put up for sale in 2022, an increase of 36% year-on-year. The Yvelines, Seine-et-Marne and Essonne departments account for the majority (28%, 23% and 22% of the Greater Paris Region total). On the other hand, with 700 units, the number of houses put up for sale in 2022 has fallen by 36% compared to 2021. 84% of these are located in the Inner Suburbs.

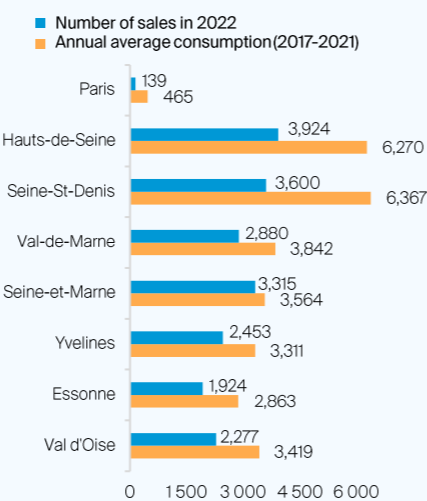
SHARP DROP IN SALES

A total of 20,500 reservations for new residential units have been recorded in the Greater Paris Region in 2022 (all types of housing combined). This figure, which is 14% lower than in 2021 and 23% lower than the ten-year average, is one of the lowest in the last 20 years. The decrease was particularly marked in the second half of the year due to the rise in interest rates. Over the whole of 2022, sales to first-time buyers accounted for 63% of reservations in the Paris region, while the share of sales to private investors fell (37% in 2022 after 39% in 2021).

Conventional multi-family housing accounted for the majority of reservations. 18,700 sales were recorded in the Greater Paris Region, a 15% decrease compared to 2021. Hauts-de-Seine and Seine-Saint-Denis accounted for 20% and 18% of total reservations in the region. Seine-et-Marne stands out in the Outer Suburbs, with a 16% share. House sales, which are mainly located in the Outer Suburbs (85% of the total), also fell in 2022, with 600 units sold, i.e. a 40% drop year-on-year. On the other hand, sales of serviced accommodation have increased significantly in one year, with 1,200 reservations recorded, i.e. a jump of 33% compared to 2021.

Breakdown of new residential sales in the Greater Paris Region

All residential types, by department



Source: CAPEM

6% INCREASE IN PRICES

According to CAPEM's provisional estimates, the average sale price for new homes reached €5,730/sq m in the Greater Paris Region (all types of housing combined) at the end of the 4th quarter of 2022, an increase of 5.7% year-on-year. The sale price for conventional collective housing is identical (€5,730/sq m) and has increased by 5.1% year-on-year. It even peaks at €6,490 /sq m for conventional multi-family housing in the central zone, i.e. in the departments of Hauts-de-Seine, Seine-Saint-Denis and Val-de-Marne (+9.1% over one year).

Although supply is on the rise with 25,200 units available at the end of December 2022, it remains insufficient in relation to the expressed demand. The pressure on prices is therefore expected to continue in 2023, especially as the conflict in Ukraine continues to weigh on the construction sector (increase in the price of materials, longer delivery times, etc.). Difficulties in obtaining credit could nevertheless moderate this upward trend.

THE STOCK IS BEING REPLENISHED

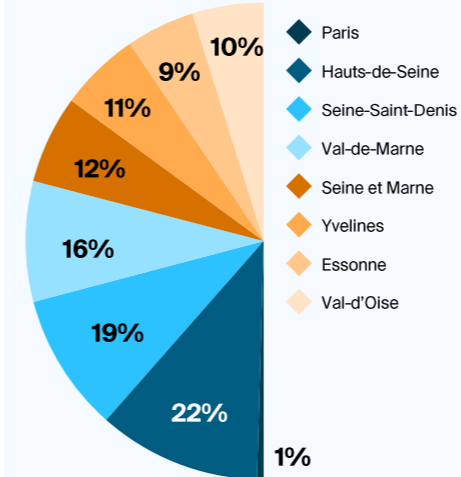
With 25,200 units available in the Greater Paris Region at the end of 2022, the stock is 10% higher than the long-term average and up 21% year-on-year. However, it remains too small to meet household needs. Supply is increasing mainly in Val d'Oise (+61% over one year), Val de Marne (+44% over one year) and Yvelines (+40%). Conversely, it has fallen by 21% over one year in Paris.

Accounting for 91% of the Greater Paris Region stock, the supply of traditional collective housing grew by 21% over one year (i.e. 22,900 available apartments). The units are mainly located in Hauts-de-Seine (23% of the total supply), Seine-Saint-Denis (20%) and Val-de-Marne (16%). As regards serviced accommodation, 1,500 units were available at the end of 2022, 300 more than in 2021. 80% of the supply is concentrated in the Inner Suburbs, particularly in the Yvelines. Finally, the number of available houses remains stable compared to the end of 2021, with 800 units mainly located in the Outer Suburbs (84% of supply in the Greater Paris Region).

The absorption rate (all types of housing combined) is on the rise again, reaching 14.7 months of sales at the end of 2022, compared with 10.5 months one year earlier. This rise is due to the increase in available supply, as well as the decrease in reservations for new housing and the increase in unsold properties in the Greater Paris Region. However, the situation is uneven across the different Greater Paris Region departments. Although surprising in

Breakdown of new available supply

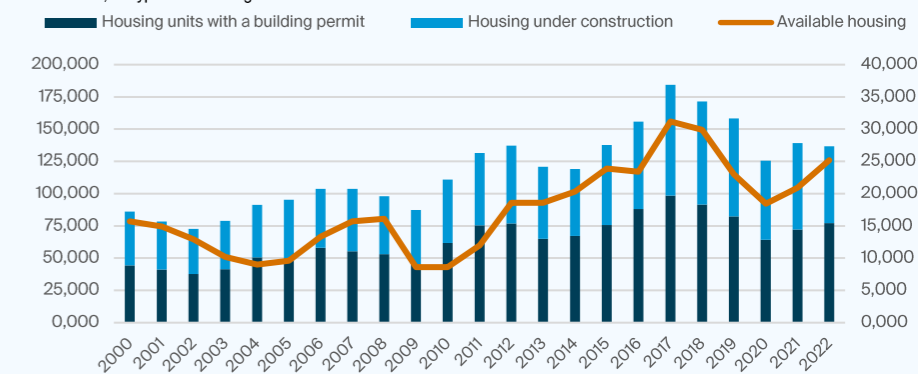
In the Greater Paris Region, all types of housing



Source: CAPEM / Provisional figures at end December 2022

Change in the supply of new housing in the Greater Paris Region

In number, all types of housing



Source: SDES, Sit@del2 (data to end December 2022 / 12 rolling months), CAPEM

view of the scarcity of available supply in Paris, the weakness of new residential sales in the Inner Suburbs has had the effect of increasing the time to market to more than 27 months at the end of December 2022.

The situation is generally more balanced in the Inner Suburbs, while in the Outer Suburbs supply is insufficient given the high marketing rates. With little supply, the departments of Val-d'Oise, Hauts-de-Seine, Yvelines and Essonne have a take-up rate of between 14 and 17 months. In Seine-et-Marne, this rate is only 11 months, a sign of a lack of supply and a precursor of a shortage if the situation continues.

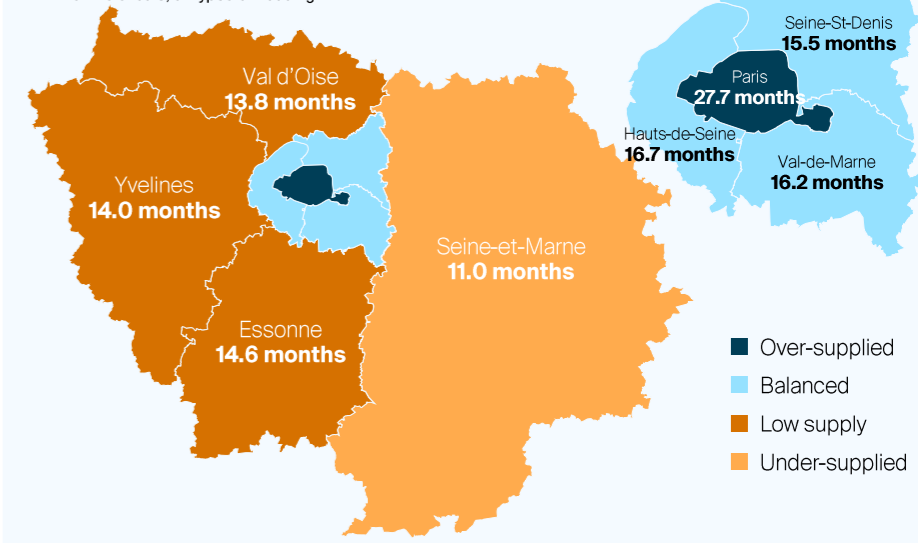
NEW PRODUCTION UNDER PRESSURE

Despite the very present obstacles (rising material prices, rising prices and shortage of land, etc.), the production of new housing returned in 2022 to a level comparable to the ten-year average.

Over the whole of 2022, 77,100 dwellings were authorised in the Greater Paris Region, a level in line with the ten-year average (78,000 authorised units) and up by 8.3% over one year. Conversely, the number of housing starts is down with 59,500 starts in 2022 (-10.6% over one year). Despite a good level of authorisations, more than 150,000 new homes are awaiting launch in the Greater Paris Region according to the Fédération des Promoteurs Immobiliers.

Lead time for supply by department

In months of sale, all types of housing



SPOTLIGHT ON... CHANGES IN POST-COVID RESIDENTIAL TRENDS

THE NEW WORLD LOOKS LIKE THE OLD WORLD

The results of the "Urban exodus: impacts of the COVID-19 pandemic on residential mobility"¹ study, carried out by three interdisciplinary research teams on behalf of the French Rural Network and presented on the 17th of February, refute the idea of a rejection of the urban environment due to the health crisis. Based on data from La Poste and the Meilleursagents, Leboncoin and Seloger websites, this study shows that, on the contrary, the post-crisis world strongly resembles the pre-crisis world and that French people's residential patterns are still determined by a number of major phenomena that largely pre-date the pandemic. Metropolisation is the first of these phenomena, with Paris and the large French conurbations retaining a structuring role.

Changes in origin-destination flows In France, between March 2020 and March 2021



Source: data from mail forwarding contracts, La Poste (UMR CESAER processing)

METROPOLISATION REMAINS THE KEY PHENOMENON

Paris and the largest metropolitan areas account for a significant proportion of flows, i.e. 43% of the moves recorded between March 2020 and March 2021 in France. The Greater Paris Region's influence and retention capacity remain significant: 70% of those who move to the Greater Paris Region remain there, while 87% of the 'new' residents were previously living there.

However, urban sprawl and suburbanisation have accelerated with the health crisis. This is the case in all major conurbations, but more particularly in the Greater Paris Region, where centrifugal movements are increasing to the detriment of the heart of the conurbation. Already negative before the pandemic, the migratory balance of the Paris urban area continues to deteriorate, accentuating the demographic decline of the capital (it is worth remembering that Paris lost an average of more than 12,000 inhabitants per year between 2014 and 2020).

INCREASE IN FLOWS TO LESS POPULATED AREAS

Far from initiating an urban exodus, flows to smaller urban areas have increased for several reasons (remote working, new expectations, professional retraining and the fulfilment of long-standing life projects, tensions on the property market, etc.). According to PUCA's observations, the health crisis has had the effect of increasing flows from large cities to medium-sized cities (+0.29 points between March 2021 and March 2020), small towns (+0.48 points in one year) and rural towns (+0.53 points).

Conversely, moves to a larger urban area have decreased since the beginning of the health crisis, thus contributing to "accentuating a phenomenon of (re)balancing the urban structure" that was

already at work before the crisis". The craze for smaller cities can also be seen in the changes in property prices, particularly in medium-sized cities. In 2022, prices rose by almost 7% year-on-year according to the FNAIM, with very clear increases in towns such as Angers, Pau and Toulon. This increase should be compared with the average rise of 3.7% recorded in the largest cities (Bordeaux, Strasbourg, Marseille, etc.), and even the decrease of 1.3% recorded in Nantes, and that of 1.5% in Lyon and Paris.



Other types of areas are experiencing a positive dynamic, starting with the coastal areas, even if the phenomenon has sometimes run out of steam due to tensions in the local property markets. Finally, although the phenomenon of the 'rural renaissance' needs to be put into perspective, some rural areas with particular advantages (climate, accessibility, economy, etc.), such as the Massif Central, New Aquitaine and the Pyrenees foothills, have enjoyed more positive migratory balances since the outbreak of the health crisis.

¹<https://popsu.archi.fr/ressource/synthese-des-resultats-exode-urbain-un-mythe-des-realites>



THE INVESTMENT MARKET

5.4 BILLION EUROS INVESTED IN FRANCE

After a record year in 2021, activity in the European residential property market stalled in 2022. 57 billion euros was invested last year, a 48% drop over one year due to a much less dynamic second half than that of the previous year. In 2021, activity actually accelerated over the months, with the year ending with an exceptional 4th quarter, particularly in Germany.

The slowdown in the European residential market should, however, be put into perspective. For example, the volumes invested in 2022 are 5% higher than the average for the last five years. On the other hand, all asset classes have suffered a slowdown due to the sudden rise in interest rates and the wait-and-see attitude of investors. All types of property combined, the sums committed to the European real estate market in 2022 have thus fallen by 30% year-on-year. The residential sector accounts for a high proportion of this amount, around a quarter, compared with 40% for offices, 21% for industrial and 14% for retail. The United Kingdom accounts for the largest share of the volumes invested in 2022 in the

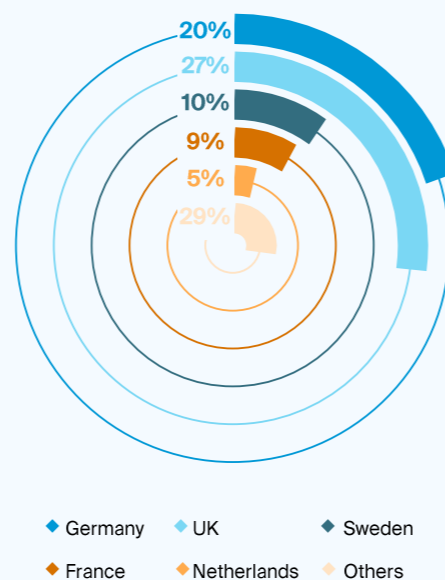
European residential market (27%), ahead of Germany (20%), Sweden (10%), France (9%) and the Netherlands (5%).

Like the rest of Europe, and after two exceptional years, activity in France slowed significantly in 2022. Block sales totalled 5.4 billion euros, after 6.5 billion in 2020 and 7.1 billion in 2021. This decrease, which is less marked than the one observed on a European scale, needs to be put into perspective since the sums committed in 2022 in France are twice as high as the average for the four years preceding the outbreak of the health crisis.

As with corporate real estate, it was in the second half of the year that the drop in volumes was most pronounced, with the sums committed in the second half of the year being 47% lower than in the first half. It should be noted, however, that the amounts were greatly inflated at the beginning of the year by the sale by CDC HABITAT to CNP ASSURANCES of the "Lamartine" portfolio for a little over two billion euros.

Breakdown of investment volumes in 2022 in the European residential market, by country

Of the total volume, as a %



Source: Knight Frank, RCA

HIGH SHARE OF NEW BUILDINGS

A few significant transactions were recorded in the second half of 2022, including STAM's purchase of 68 boulevard de Courcelles in Paris and the sale to ABRDN of a mixed-use development including managed residential accommodation in Nanterre for almost 100 million euros. These transactions have helped to consolidate the Greater Paris Region's dominance, which accounted for nearly three quarters of total investment in the French residential market in 2022. Lastly, new residential property accounted for a majority share (61%) of the total volume invested in the French residential market in 2022. This share was inflated by the sale of the "Lamartine" portfolio, as well as by the high number of forward-funding sales in the managed residential market.

THE FRENCH DOMINATE BY A WIDE MARGIN

The residential market remains overwhelmingly driven by French investors. The latter accounted for 87% of the sums committed in France in 2022, a share inflated by the year's largest transaction: the sale of the "Lamartine" portfolio to CNP ASSURANCES. Other insurers have been active, including AG2R LA MONDIALE, but they are far behind OPCI/SCPIs in terms of number of transactions. Among the most active are PRIMONIAL REIM, LA FRANÇAISE and SOFIDY, which, by reinforcing their investment strategy in favour of more defensive assets, have targeted both traditional housing and managed accommodation.

Foreign investors accounted for only 13% of the total amount committed in France in 2022, and were behind a limited number of transactions, most of which went to pan-European and German funds. PGIM and HINES, for example, dominated the French market in 2021. In 2022, ABRDN, DWS, M&G, COLUMBIA THREADNEEDLE INVESTMENTS and the Danish fund PFA stood out, investing mainly in the Greater Paris Region and in the managed residential sector.

STRONG APPETITE FOR MANAGED RESIDENTIAL PROPERTIES

Foreign investors accounted for 28% of the volume invested in the managed residential sector in France in 2022, and they played a major role in the dynamism of this market, as illustrated by the acquisitions made by ABRDN in Nanterre, PFA in Alfortville and

COLUMBIA THREADNEEDLE INVESTMENTS in Lille in the second half of the year. On the French side, KLEY, CDC INVESTISSEMENT and large savings collectors such as PRIMONIAL REIM, LA FRANÇAISE, SOFIDY and EURYALE were among the most active players in acquisitions.

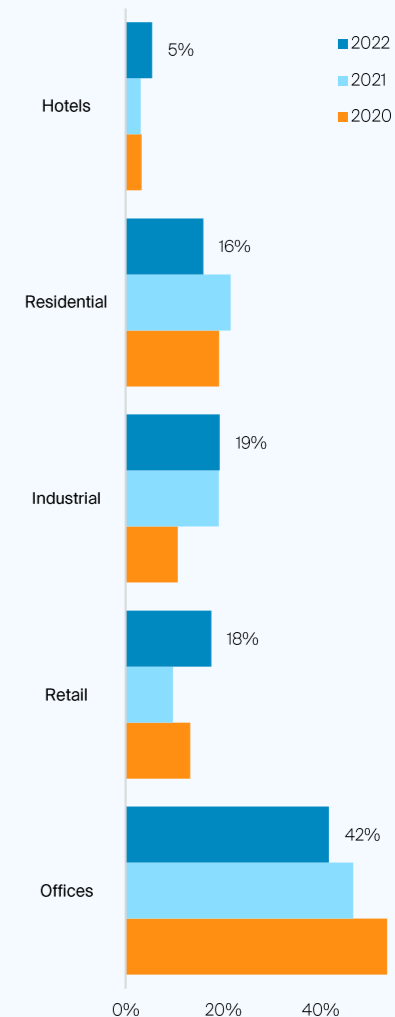
In 2022, the managed residential market totalled €1.4 billion, an increase of almost 40% compared to 2021 and 27% of the total amount invested in the French residential market. This excellent result can be explained in particular by investors' appetite for senior housing, with some thirty transactions totalling 650 million euros, of which just over half was in the Greater Paris Region and almost two thirds in the form of forward-funding sales. Forward-funding sales also dominate the student accommodation market, which accounted for 30% of the sums committed in the managed residential sector in France in 2022, as well as the co-living market (20%).

WHAT IS THE OUTLOOK?

After the record result of 2021, the slowdown experienced in 2022 will continue in 2023 due to the wait-and-see attitude of investors faced with the rise in interest rates. The market will also be constrained by a lack of new products, related in particular to the rise in construction costs and the difficulties of certain developers. However, investors will continue to make the residential sector one of their priority targets as part of diversification strategies aimed at secure asset types that are uncorrelated with economic cycles.

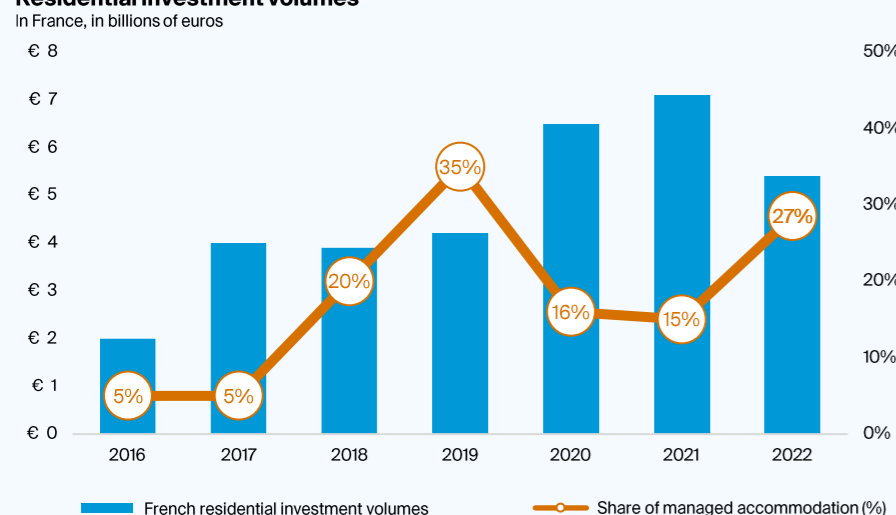
Breakdown of investment volumes by asset type in France

Of the total volume, as a %



Source: Knight Frank, RCA

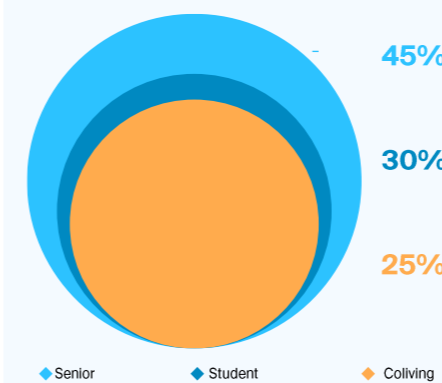
Residential investment volumes*



Source: Knight Frank, RCA
* block sales including managed accommodation and assets with a majority of residential.

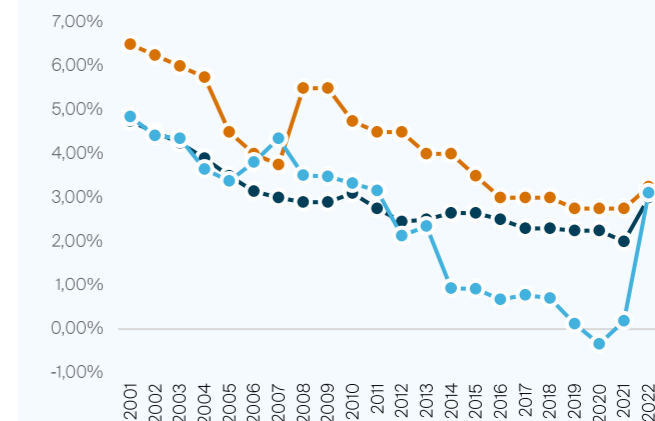
Breakdown of investment volumes in 2022 in the managed residential market in France, by type

Of the total volume, as a %



Source: Knight Frank, RCA

Prime yields in France



Source: Knight Frank



SENIOR HOUSING
4.25 - 4.50 %



STUDENT ACCOMMODATION
4.25 - 4.50 %

SPOTLIGHT ON... THE SENIOR HOUSING MARKET

A BOOMING ASSET CLASS

The managed accommodation market, which includes student and senior accommodation as well as co-living, is very developed in North America and the United Kingdom and is expanding rapidly in Europe, particularly in France. The senior housing sector is particularly dynamic there, benefiting from strong demand, the gradual structuring of a network of specialised players and the upmarket nature of supply. The changes in the regulatory framework could also play a role, with ageing well becoming one of the major national priorities for 2023, one year after the ORPEA scandal. The "Old Age and Autonomy" law, which has been postponed several times, has returned to the forefront of the parliamentary stage with the submission in December 2022 by the majority of a bill "aimed at building a society for ageing well in France", several provisions of which relate to housing.

A MAJOR DEMOGRAPHIC CHALLENGE

Senior housing includes, on the one hand, serviced apartments for non-dependent seniors (private accommodation and collective services: reception, cleaning, catering, entertainment, etc.) and, on the other hand, medicalised accommodation whose occupants are assisted with their healthcare and loss of independence (EHPAD, USLD¹, etc.). At the end of 2021, France had more than 7,350 EHPADs according to the Ministry of Social Affairs, i.e. almost 600,000 beds. With less than one place available for every 10 senior citizens, the supply seems very low given the number of French people aged 75 and over - 6.85 million on 1st January 2023 according to INSEE.

Considering the demographic trends and the coming explosion in the number of senior citizens (+89% by 2070, i.e. 5.7 million more people aged 75 and over than in 2021), demand will grow very strongly for over

thirty years. There is therefore an urgent need to increase supply. The number of public or medicalised establishments is expected to grow more slowly, mainly because of the need to obtain administrative authorisations. The development of private accommodation with services, which are not subject to medico-social regulations, will therefore play a central role in increasing supply.

INVESTOR ENTHUSIASM

Managed accommodation, which is highly sought after because of its stability (long leases, assets uncorrelated with economic cycles, etc.) and higher yields than other types of assets, is attracting increasing interest from investors. The United Kingdom is the main European market: the volumes invested in this market sector totalled 2.8 billion euros in 2022 after 3.2 billion in 2021.

In France, the investment volumes are not as high, but increased by almost 20% in the last year, totalling 650 million euros in 2022. French investors remain the main players in the French market (pension and mutual funds, SCPIs, etc.). Certain profiles are increasingly present, such as insurers like MALAKOFF HUMANIS and AG2R LA MONDIALE, developers such as VINCI IMMOBILIER, BOUYGUES and other types of players seeking to diversify their assets (LA POSTE IMMOBILIER through a partnership with JARDINS D'ARCADIE). Foreign funds are also driving the market, as shown by the acquisitions made in France in 2022 by LIM, PFA, ABRDN and COLUMBIA THREADNEEDLE INVESTMENTS (see pp. 13-14 and 17). This enthusiasm is contributing to the increased number of openings. The think tank Matières Grises² has identified around one hundred new senior accommodation facilities opening each year. The increase in supply is also supported by the conversion of obsolete assets, particularly offices, as in

Demographic situation in France

2023



68.0 million inhabitants of which

21.3% people aged 65 or over
9.5% aged 75 or over



2070



68.1 million inhabitants of which

29% people aged 65 or over
17.8% aged 75 or over



Source: Insee

¹EHPAD : nursing home for elderly people / USLD: long-term care unit
²<https://matieres-grises.fr/>

the case of the recent inauguration by NOVAXIA of a new 6,675 sq m senior housing facility in Levallois-Perret (97 rue Jean Jaurès). Conversion projects are also multiplying in the regions, such as the transformation of a former industrial site into a mixed-use complex in Villeurbanne. BNP PARIBAS IMMOBILIER and GINKGO, winners of the call for tenders, are planning to create around 320 homes, including 80 for seniors.

AN UNEVENLY DISTRIBUTED SUPPLY ACROSS THE COUNTRY

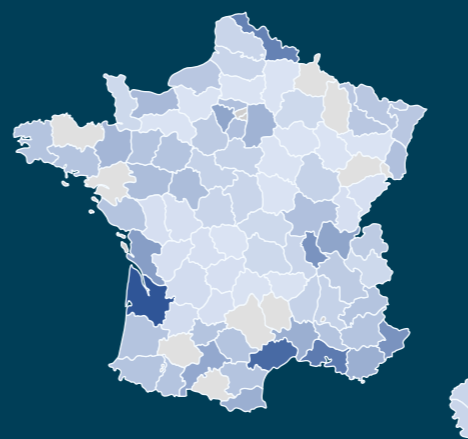
In France, the stock of senior accommodation has almost doubled in six years, rising from 540 establishments in 2016 to almost a thousand by the end of 2022. According to Xerfi, their number could rise to 1,300 by 2025, which would still be insufficient given the enormous needs.

Unevenly distributed throughout France, the stock is concentrated in coastal areas, usually favoured by the elderly population, as well as in dense and dynamic urban areas, mainly in city centres for reasons of accessibility, socialisation and proximity to services. Supply is particularly well developed in the regions of New Aquitaine (especially in Gironde and Charente-Maritime), Provence-Alpes-Côte d'Azur (in the departments bordering the Mediterranean) and Brittany. There are also many establishments in the Paris region and close to regional cities such as Lille and Lyon.

Conversely, the stock is much smaller in the Centre-Val-de-Loire and Bourgogne-Franche-Comté regions, as well as in the

Geographic breakdown of senior housing in France

End of 2022, by number



50 senior housing facilities and more | 1 | Unknown

Source: Uni santé

more rural and less accessible areas of New Aquitaine, Occitania and Auvergne-Rhône-Alpes. The diversification of locations remains a major challenge in a context of strong demand in suburban and rural areas.

NEW CONCEPTS FOR A NEW GENERATION OF SENIOR CITIZENS

In addition to the urgent need to create new accommodation, the changes in society and the arrival of the retired baby boomers also require a rethink of the residential provision for senior citizens so that it takes into account the finances of the most modest (loss of purchasing power, low pension increases, etc.), new expectations (security, diversification of services, home automation, etc.) and varied lifestyles (sedentary, nomadic, etc.)

This is reflected in the development of new real estate solutions, such as accommodation attached to a medical establishment or an EHPAD with the aim of reducing costs (pooling of services such as collective catering, proximity and responsiveness of health professionals, etc.). Several players, such as the EMERA group, are already focusing on these synergies. Accommodation sharing between seniors has also increased in France in recent years in order to help residents maintain their autonomy and socialise. Since 2018, KORIAN has been experimenting with this type of housing with its subsidiary Ages & Vie (300 houses by 2024).

Finally, more and more intergenerational accommodation, mixing elderly people, students and families, is being created in France, in response to the problems of isolation accentuated by the health crisis. These types of intermediate accommodation, a significant proportion of which are managed by social landlords such as CDC Habitat, should become more widespread and make it possible to create economies of scale to reduce monthly rents (between €1,200 and €1,500 on average depending on the services provided by the "all-inclusive" housing and up to €2,500 for top-of-the-range housing).



Top 10 most important senior housing groups

In France, end of February 2023

Number of facilities	Brand (group)	Shareholder
Approx. 195	Domitys (Aegide)	AG2R La Mondiale / Nexity / JMF Conseil
Approx. 96	Senioriales (Pierre et Vacances)	Pierre et Vacances
59 (20 coming soon)	Les Jardins d'Arcadie (Acapace)	Acapace / Bouygues Immobilier
54 (12 coming soon)	Les Girandières - V. Palazzo (Réside Etudes)	Réside Etudes
52 (6 coming soon)	Les Villages d'Or	Les Villages d'Or (Family company)
39	Les Hespérides (Sogeprim)	Compass Groupe
30 (8 coming soon)	Cogedim Club (Altarea)	Altarea Cogedim / Crédit Agricole Assurances
30	Les templitudes (DomusVI)	SRS Holding / ICG
27 (6 coming soon)	Ovelia Résidences Séniors	Ovelia / Vinci Immobilier
15 (11 coming soon)	Les Essentielles (Korian)	Predica / Malakoff Humanis / PSP / Others

Sources: Operator websites

INTERVIEW

ALEXANDER ERNST COLUMBIA THREADNEEDLE REP



ALEXANDER ERNST
Director Fund Management -
Residential Europe



Could you briefly introduce Columbia Threadneedle REP (CT REP) and its business in France?

Formerly BMO REP, CT REP is a specialist European real estate investment firm. Our teams have more than 200 staff across London, Munich and Paris and currently manage a property portfolio of approximately 15 billion euros in Europe on behalf of discretionary funds, private and institutional mandates. The Paris office in charge of pan-European strategies currently manages approximately 1.6 billion euros of assets (retail, logistics and residential) across 9 European countries.

How important is residential property in your investment strategy today?

In Continental Europe, residential is the second largest asset class we manage after retail, which remains the cornerstone of the CT REP Group. Since the launch of our strategy in 2014, approximately 1.8 billion euros has been invested in residential property on behalf of institutional investors, accounting for almost 30% of our AUM in Continental Europe.

In recent years, particularly since the Covid-19 pandemic, we have seen growing demand from our institutional clients for residential property, which is seen as less volatile and less risky than commercial property.

Furthermore, the residential market benefits from solid fundamentals with growing rental demand, driven by socio-demographic changes and more recently the sharp rise in interest rates. These phenomena, coupled with an undersupply of rental accommodation, particularly in the large European cities, make residential a resilient and attractive asset class in the long term.

This is why residential will remain at the heart of our investment strategy over the coming years.

Does your strategy specifically target managed residential accommodation? If so, why and could you give us an example of a managed asset recently acquired by CT REP?

Our current strategy focuses on the roll-out of our CT Europe Residential fund. This pan-European fund's main objective is to acquire assets in the multifamily sector, but also includes a proportion of managed accommodation. Apart from the yield, which remains more attractive than in traditional residential, managed accommodation offers various advantages: long triple net leases, lower management costs, low turnover, etc.

In France, we recently made two acquisitions for this fund. In Clichy, we bought a residential building on the border of the 17th arrondissement of Paris comprising 15 fully renovated apartments and 3 ground floor retail units. We also acquired an intergenerational property in the centre of Lille, close to shops and public transport. Operated by SERGIC, this asset, which accommodates students, senior citizens and young professionals, enables tenants from several generations to live and grow together in the same premises due to the numerous common areas. We were attracted by this concept, which promotes intergenerational links and enabled us to invest in a new building that meets our ESG strategy criteria.



Intergenerational residence - Lille

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