

The residential property market



France

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S U M M A R Y

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THE READJUSTMENT CONTINUES

After several very dynamic years, the residential property market in France began to slow in 2022. This slowdown intensified in 2023, with a 17% year-on-year fall in sales of existing homes and a 28% year-on-year fall in sales of new homes at the end of August. The market is being penalised by difficulties in obtaining loans, the fall in household purchasing power and the worsening economic climate. In addition, while prices have stabilised in the new-build sector, they have stalled in the existing sector. In Île-de-France, prices were down by 3.1% year-on-year at the end of August 2023. A more severe fall of 6% is expected in the existing property market for the whole of 2023.

Volumes invested in the residential market in the first nine months of 2023 totalled almost €1.9 billion, a fall of 59% in one year due to a more restrictive financial environment and a wait-and-see attitude on the part of investors. Investment activity was particularly affected by the lack of major transactions, whereas 2022 saw the sale by CDC HABITAT to CNP ASSURANCES of the "Lamartine" portfolio for just over €2 billion. However, the fall in volumes was less marked in the managed residential segment (-25%). The Coliving sector was particularly robust, with over €420 million invested by the end of the 3rd quarter of 2023, representing a tripling of volumes year-on-year.



KEY FIGURES



A sharp fall in sales, both existing and new:

108,000* sales of existing homes (down 30% in one year) and 11,700 sales of new homes (down 28%) were recorded in the Paris Region in the first eight months of 2023.

New build production has seized up

The number of building permits issued in Paris Region fell by 32% in the 12 months to the end of September 2023, compared with an average fall of 28% in the rest of France. Housing starts are down by 18% year-on-year (-17% in France).

Correction in prices for existing properties, stabilisation for new-build properties

At the end of August 2023, the average price of flats in the Paris region fell by 4.5% year-on-year to €6,540 /sq m. By contrast, the average price of new homes rose by 1.3% to €5,460 /sq m.

59% fall in investment volumes

At €1.9 billion, the sums invested in France in the first nine months of 2023 have fallen by 59% in one year. The fall was more limited in the managed residential segment (-25%).

Sources: SDES, Sit@del2, Notaires du Grand Paris, CAPEM, Knight Frank / *Estimation.

ECONOMIC CONTEXT

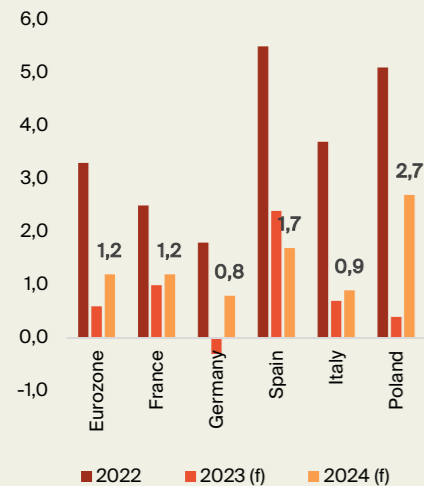
DOWNGRADING OF EUROPEAN GROWTH FORECASTS

The European Commission has again lowered its growth forecasts for the eurozone. Growth is expected to average +0.6% in 2023, but there are wide disparities between countries, with Germany continuing to fall into recession (-0.3%), while France (+1%) and especially Spain (+2.4%) fare better.

While the eurozone has weathered the shocks of recent years fairly well, its economic activity slowed further over the summer, with flagging industrial production and domestic demand. Europe continues to be penalised by the tightening of monetary policy and high prices, even though inflation is easing. Inflation reached 2.9% in October 2023, compared with 10.6% a year earlier. It should average 5.6% in 2023 (after 8.4% in 2022), before moderating further to 3.2% in 2024. Despite weak support from external demand, and although the impact of the Middle East crisis is still difficult to assess, this downturn should contribute to a slight recovery in growth in the eurozone,

GDP growth in the eurozone

In %, year-on-year



Source: European Commission / (f) forecasts

expected to reach +1.2% in 2024. The robustness of the labour market is another positive development for the European economy. The unemployment rate in the eurozone rose slightly in September 2023 (to 6.5%) but remains below its level for the same period last year (6.7%).

STAGNATION OF THE FRENCH ECONOMY

Revised upwards compared with the June 2023 forecasts, GDP growth in France reached +0.6% in Q2. The increase will be more moderate for the second half of the year, in the order of +0.1% in Q3 and +0.2% in Q4. Over 2023, France's GDP is expected to grow by between 0.9% and 1%, after rising by 2.5% in 2022, before increasing by around 1% in 2024. This growth should be the result of falling inflation over the medium term, which, combined with wage increases, should restore purchasing power to households and support domestic demand. Inflation rose by 4.5% in October 2023 after +5.7% in September. It is expected to reach 5.8% for 2023, before slowing significantly in 2024 (2.6%) and 2025 (1.8%).

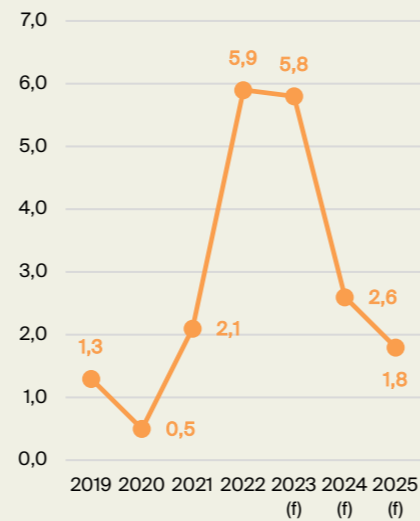
Despite the continuing rise in prices in recent months, purchasing power has so far been preserved, thanks in part to various government measures (energy price caps, employee 'value-sharing' bonuses, etc.). It will increase by 0.6% over 2023 (and by +5.0% for the average wage according to Banque de France forecasts). In 2024, this gain in purchasing power will have a positive impact on household consumption, which will also be supported by additional budgetary measures (pension increases, total abolition of the tax d'habitation, etc.). After having stagnated in 2023 (after +2.1% in 2022), consumption will gain strength in 2024 (+1.8%) and then remain solid in 2025 (+1.5%).

DETERIORATING EMPLOYMENT FIGURES

Despite the economic slowdown and

Inflation in France

In %, year-on-year



Source: Banque de France / (f) forecasts

financing difficulties for businesses, net job creation will remain high in 2023, with a gain of 319,000 jobs in France, but will be significantly lower than in 2022 (775,000 jobs created). The balance will be negative in 2024, with the loss of almost 60,000 jobs, explaining the forecast rise in the unemployment rate. At the end of Q3 2023, the unemployment rate had risen by 0.2 points compared with the previous quarter. It is expected to continue rising, reaching almost 8% by the end of 2025. However, the rise in the unemployment rate will be moderated by the upturn in economic activity and by the continuing high demand for labour in certain sectors. Finally, the number of insolvencies continued to rise at the end of Q3 2023 (+23% in one year). Over a sliding 12-month period, the number of insolvencies in France exceeded 50,000, returning to the autumn 2019 level.



ECONOMIC INDICATORS | FRANCE

As % of annual variation	2019	2020	2021	2022	2023 (Forecasts)	2024 (Forecasts)	2025 (Forecasts)
GDP France	1.9%	-7.7%	6.4%	2.5%	0.9%	0.9%	1.3%
GDP Eurozone	1.3%	-6.5%	5.3%	3.5%	0.7%	1.0%	1.5%
Purchasing power per capita	2.2%	0.0%	2.3%	-0.1%	0.6%	0.7%	0.5%
Savings rate (as % of gross disposable income)	15.1%	21.0%	18.7%	17.5%	18.2%	17.4%	16.8%
Average earnings (per head, nominal)	2.3%	-5.7%	5.7%	5.6%	5.0%	4.2%	3.4%
Household consumption	1.8%	-6.8%	5.2%	2.1%	0.0%	1.8%	1.5%
Household confidence indicator (end Dec.)	102	95	99	82	84 (Oct.)	-	-
Unemployment rate	8.5%	8.0%	7.9%	7.3%	7.4% (Q3)	7.5%	7.8%
Net job creation ('000)	338	-199	802	775	319	60	80
Inflation	1.3%	0.5%	2.1%	5.9%	5.8%	2.6%	1.8%
Company insolvencies ('000)	51.1	31.3	28.4	41.3	59.0	-	-

Sources: Banque de France, ECB, OECD, Insee, Ministry of Finance, EY (insolvency forecasts)

INTEREST RATES BACK TO 2009 LEVELS

CONTINUED RISE IN RATES

After bottoming out between the end of 2021 and the beginning of 2022 (between 1 and 1.1%), the average borrowing rate has increased significantly in recent months. At the end of October 2023, it reached a level not seen since 2012, peaking at 4.12%, an increase of 150 basis points compared with January 2023 (after +105 bps for the same period in 2022) and 203 basis points compared with October 2022. However, the rise in rates seems to have slowed in recent weeks. Far from indicating a reversal of the trend, this is nevertheless an encouraging sign that market conditions are improving and that rates are likely to stabilise.

The rise in borrowing rates is primarily penalising first-time buyers and the most modest households, or those without a substantial downpayment. The increase in the *taux d'usure* threshold (the maximum legal rate that credit institutions are allowed to charge when granting a loan) has not given future buyers any more room to

manoeuvre, either because of the higher deposit required or because house prices have fallen too slowly. For fixed-rate loans of 20 years or more, the *taux d'usure* reached a record level of 5.91% over ten years (as of 1st November 2023), compared with 3.79% in February 2023 (the period when the Banque de France introduced its monthly review). As a result, the downward trend in home loan production continues. At the end of October 2023, the number of bank loans granted was down 43.5% year-on-year (over a rolling 12-month period). The duration of loans remains high (253 months/c21 years at the end of October 2023), but this has not offset the rise in interest rates.

REDUCED BORROWING CAPACITY

Despite a debt ratio increased to 35% (of monthly income) along with longer term loans, household borrowing capacity has been shrinking for two years. A significant number of mortgage applications are being turned down - some 30% to 50% of applications in the first half of 2023, depending on the

bank, compared with less than 3% in 2019. As a result of these rejections, many households are switching to rented properties, exacerbating the supply/demand imbalance on the rental market.

With the rise in interest rates, banks are becoming more profitable again and should gradually grant more loans. However, only a rapid and significant correction in house prices, both new and old, would lead to a revival of the market.

KEY FIGURES TO END OCTOBER 2023 FRANCE

Average interest rate
4.12 %
2.09 % in October 2022

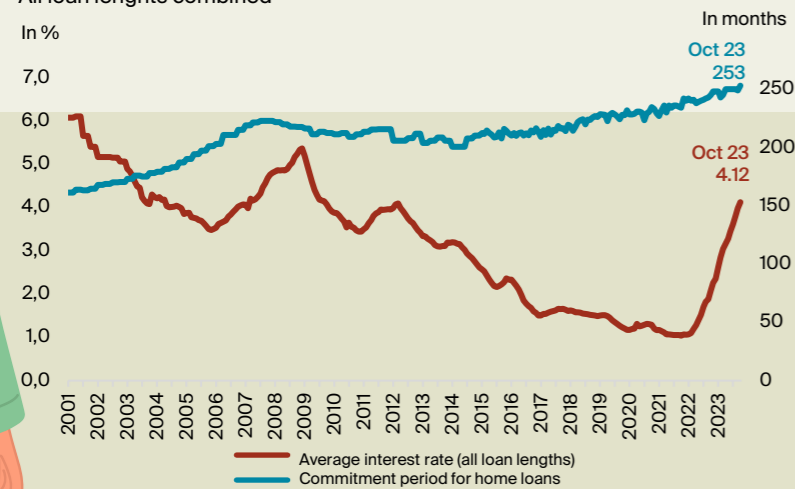
Outstanding loans
1,293 BILLION € (August)
+ 2.4 % over one year

Credit duration
253 MONTHS
+ 8 months over one year

New lending
(rolling 12 months)
- 44.2 % OVER A YEAR

Number of loans granted
(rolling 12 months)
- 43.5 % OVER A YEAR

Change in the average borrowing rate in France
All loan lengths combined



Source: Observatoire Crédit Logement

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



DEVELOPMENTS IN HOUSING POLICY

NEW MEASURES TO COMBAT THE HOUSING CRISIS

In June 2023 Prime Minister Elisabeth Borne presented several measures in support of the residential sector, including the extension of zero-rate loans, the launch of the "Logement d'abord (Housing First) 2" plan and the development of the *Bail Réel Solidaire* (see next page).

At the same time, Patrice Vergriete, Mayor of Dunkerque, was appointed Minister Delegate for Housing, replacing Olivier Klein. The Ministry of Housing is now split in two, with Patrice Vergriete in charge of housing and Sabrina Agresti-Roubache, MP for the Bouches-du-Rhône, in charge of urban affairs under the joint authority of the Ministry of the Interior. While this separation has provoked strong reactions, it should enable greater account to be taken of residential and urban issues. The Borne government intends to introduce a stronger housing policy (bills are being drafted to continue the work of the *Conseil National de la Refondation* and the 2024 Finance Bill will be adopted in mid-November), which will also incorporate more measures to promote the sector's ecological transition. The revival of the residential market is all the more difficult because it is taking place against a backdrop of *sobriété foncière*, which limits the destruction/transformation of green space into urban use (Climate and Resilience Act, 2021). Faced with the fears of the entire industry and announcements deemed to be negative for the market (limited consideration of the CNR's recommendations, abolition of the *Pinel* scheme and restrictions on zero-rate loans, etc.), housing policy will also have to deal with the budget cuts sought by the government.

SIMPLIFYING CONSTRUCTION

Against this backdrop, Patrice Vergriete has announced his intention to give more power to local authorities through "territorial agreements". For example, they will be given appropriate targets to produce housing, particularly social and intermediate housing, as well as the possibility of regulating rents in order to protect households and limit the creation of furnished tourist accommodation (which will now be taxed in the same way as traditional furnished accommodation) or second homes in areas under pressure. The revision of zoning in July 2023 will include 2,500 new municipalities, bringing the number of towns and cities in "zones tendues" (areas in which there is a significant supply / demand imbalance) to 3,693 by 1st January 2024.

Accelerating the energy renovation of the housing stock is another major challenge. The government has earmarked a budget of €4 billion in the 2024 budget (+€1.6 billion) to support households, while the Minister Delegate for Housing would like to see better structuring of the industry, as well as raising the awareness of the *ABF** (French state architects) to facilitate energy renovations of heritage buildings or properties. For her part, the Secretary of State for Urban Affairs intends to bring about a "construction shock". For example, she has tabled a text that would enable the State to make it easier to obtain planning permission in towns with the highest social housing deficits.

*Architectes des Bâtiments de France

KEY MEASURES ANNOUNCED TO TACKLE THE CRISIS:

- Easing of borrowing conditions and maintenance of the monthly revaluation of the *taux d'usure*;
- The zero-rate loan will be extended until 2027, but only for "new collective housing in prime areas and older housing subject to renovation";
- Strengthening of the *MaPrimeRénov'* scheme (target of 200,000 renovations by 2024, with a budget of €4 billion);
- End of the *Pinel* tax scheme at the end of 2024;
- Reinforcement of the "Housing First" scheme with an additional budget of €160 million over 5 years;
- Development of the real solidarity lease (BRS) with extended resource ceilings and extended zoning;
- The intention is to double the production of intermediate rental housing by 2026 (i.e. 30,000 units/year);
- Increase the role of Action Logement and CDC Habitat in buying back from developers homes that are struggling to sell (target of 47,000 social and intermediate housing units);
- Speed up, clarify and simplify certain town planning procedures.

THE REAL SOLIDARITY LEASE (BRS)

THE BRS, A LAND REGULATION TOOL

Created as part of the Alur Act of 2014, and made operational in 2017 (Decree 2017-1038), the aim of the *bail réel solidaire* (BRS) is to make it easier for low-income households to buy their own home in areas where housing demand is high. Although it is still little-known, it is becoming increasingly important given the tougher conditions for obtaining a home loan. This scheme, modelled on the Anglo-Saxon *Community Land Trusts* of the 1970s, makes it possible to separate the land from the buildings, i.e. to buy a new or renovated home at a price below the market price and lease the site at a low cost from an *Organisme Foncier Solidaire* (OFS). The OFS is a not-for-profit legal entity with a simple operating structure. The organisation buys a plot of land and builds a home on it. Eligible households can then buy the house and rent the land from the OFS. The lease is signed for a period of 18 to 99 years.

According to ACTION LOGEMENT, using the BRS represents a saving of 20-40% for households (only those eligible for social housing) compared with a conventional purchase. Another major advantage of this scheme is that purchases by first-time buyers can be financed by a zero-rate loan, with VAT reduced to 5.5% (compared with 20% under normal circumstances) and requires the OFS to buy back the property systematically when it is sold.

MARGINAL BUT GROWING PRODUCTION

At a time when a correction in house prices is overdue, low-rent housing is emerging as one of the possible levers for boosting the French housing market. In addition, the production of low-rent housing represents a way for municipalities with a shortage of affordable housing to meet the challenge of social diversity, since low-rent housing contributes to the calculation of

the number of social housing units (the objective of 25% social housing, according to the SRU law of 2000). With around 600 BRS homes to be delivered in 2022 and 338 in 2021, the scheme nevertheless remains marginal in relation to total residential production (370,000 lots per year on average, according to the *Fédération des Promoteurs Immobiliers*).

While the construction of low-income housing continues to be driven mainly by public housing bodies (OPH) and traditional social housing players (CDC HABITAT SOCIAL, SEQENS and IMMOBILIÈRE 3F, for example), other players such as property companies and developers (ICADE PIERRE POUR TOUS, VILOGIA, PROCIVIS, BELLEVILLES, etc.) are gradually making their mark. The increase in the number of approved OFS schemes and the diversification of the ecosystem will result in better national coverage, with the regions of Nouvelle-Aquitaine, Bretagne and Auvergne-Rhône-Alpes accounting for the vast majority in said schemes in 2022. Production is expected to increase in other regions, such as Île-de-France. The City of Paris's future bioclimatic PLU (planning regulations), for example, intends to significantly develop affordable housing via the following approaches:

- the social mix servitude when creating, restructuring or changing the use of a residential development of more than 500 m², which imposes a 30% social housing requirement in areas where there is no shortage of social housing;
- an increase in the number of reserved sites (947 in total), which require all works to include a proportion of affordable or social housing. 13% of the sites are dedicated to BRS.

KEY FIGURES FOR BRS IN FRANCE

149 OFS approvals issued

between 2017 and the end of April 2023 (4 in 2017)

20 to 40 % savings

compared with a conventional purchase

Sources: DGALN /DHUP/AD5 , Ministry of Housing, Action Logement

Geographical breakdown of homes delivered

In BRS in 2022



Geographical breakdown of housing planned for 2025



Source: Foncier Solidaire France

THE EXISTING PROPERTY MARKET

FURTHER DETERIORATION IN THE EXISTING PROPERTY MARKET

The number of sales of existing homes continued to fall in 2023. After a very dynamic year in 2021 (1.18 million sales), followed by the start of a slowdown in 2022 (1.11 million sales, or -5% in one year), only 955,000 sales were recorded at the end of August 2023 (cumulative figures for the last twelve months). The 17% fall compared with the same period last year is the sharpest for ten years.

The market is being penalised by tighter financing conditions and the rising cost of renovation work, which are eroding purchasing power. According to estimates by MeilleurTaux.com, the average area that households can afford to buy fell by 5 sq m between January and June 2023, and by 25 sq m since January 2020. The fall has been more marked in medium-sized towns, whose appeal has been heightened by the health crisis (-10 sq m in one year on average). Households' purchasing power is more resilient in the major conurbations, where prices have generally held steady or even fallen (-1 sq m in the 1st half-year to 2023 in Paris, -2 sq m in Lyon, etc.). MeilleursAgents nevertheless anticipates a fall in purchasing power of 6 sq m in Marseille between January

2023 and January 2024, 5 sq m in Nice and Rennes and 4 sq m in Nantes and Strasbourg.

The fall in sales is also due to buyers having difficulty finding quality properties, while prices remain high and have only undergone a slight correction. What's more, as buyers pay particular attention to the energy performance of their homes, a hierarchy is emerging, with values remaining relatively unchanged or even being increased for the most energy-efficient properties, and others being discounted to a greater or lesser extent. A greater number of properties are being put up for sale this year, and those rated E to G will soon no longer be able to be let without energy renovations (under the French Climate and Resilience Act). The Energy Performance Certificate (DPE) could be reshaped to make it less onerous (size of rooms, heating system, etc.).

SLOWDOWN IN ÎLE-DE-FRANCE

Following the national trend, sales of existing homes are falling in the Paris Region. After the buoyant post-lockdown period, when buying conditions were particularly favourable, the stock of properties has partially dried up and is struggling to recover. In Q2 2023, 36,370 sales were recorded for

existing homes, a fall of 25% compared with the same period in 2022. In Q1 2023, the decline was also significant (34,300 sales, down 22% in one year). In Q2 2023, the decline in activity in the Paris region was more marked for houses (-27% in one year) than for flats (-25%). This trend continued in Q3 2023, with house sales down sharply compared with the same period in 2022 (16,000 fewer sales between June and August 2023).

EXPECTED PRICE CORRECTIONS

While price rises began to slow in France in 2022, they are now tending to stabilise or even fall. At the end of August 2023, prices were up by an average of 0.5% year-on-year. In detail, prices of older flats have stagnated, while strong demand for existing houses and a particularly tight supply have helped to keep prices high (+0.9% in one year nationally).

The price correction is being felt most acutely in the Île-de-France region, where prices have fallen by 3.1% in the space of a year (compared with an increase of 1.8% in the rest of France), according to Notaires estimates. At the end of August 2023, the average price of an existing flat in the Paris Region was €6,540/sq m (down 4.5% in one year). In Paris, the average price is €10,140/sq m, a fall of almost 5% in one year.

According to Notaires forecasts, the downturn will intensify in the coming months, with a correction of 3% expected nationwide by the end of November 2023. The decline will be less marked in the regions (-1.9% to end-November 2023) than in Île-de-France (-6%). In detail, the fall will be around 6.4% in the inner suburbs, 5.1% in the outer suburbs and 6.1% in Paris, where the average price will fall below the symbolic €10,000/sq m mark (€9,940/sq m).

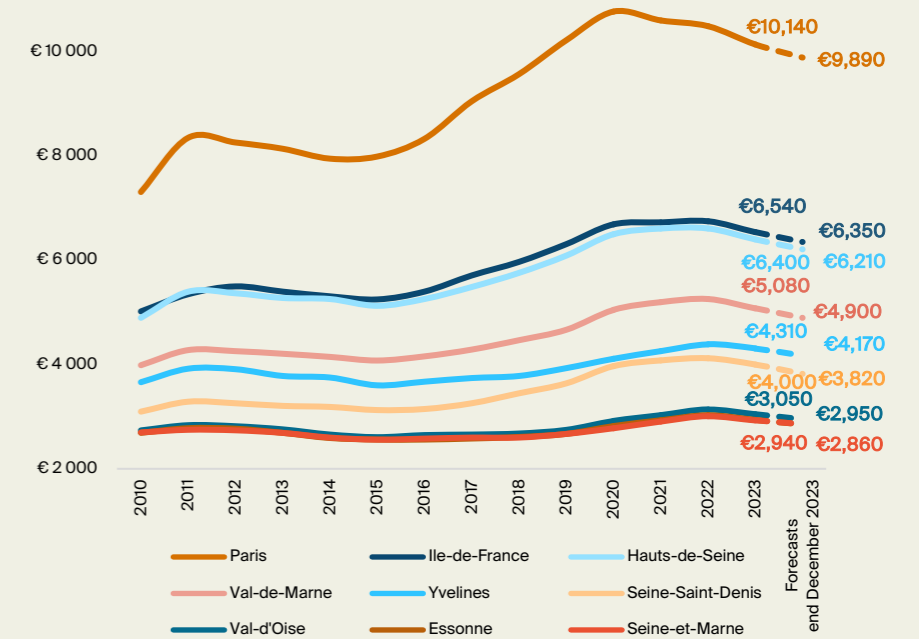
FUTURE PROSPECTS

Against this backdrop, the volume of home sales is likely to continue to fall. The Notaires are forecasting a total of 950,000 sales of existing homes in France over 2023. However, this estimate remains subject both to changes in the economic environment and to inflation. Returning to a level similar to that of 2018, 2023 will therefore mark a readjustment in the existing home market after several very buoyant years.

Lastly, prices are likely to continue falling over the next few months, to a greater or lesser extent depending on the geographical area and type of property.

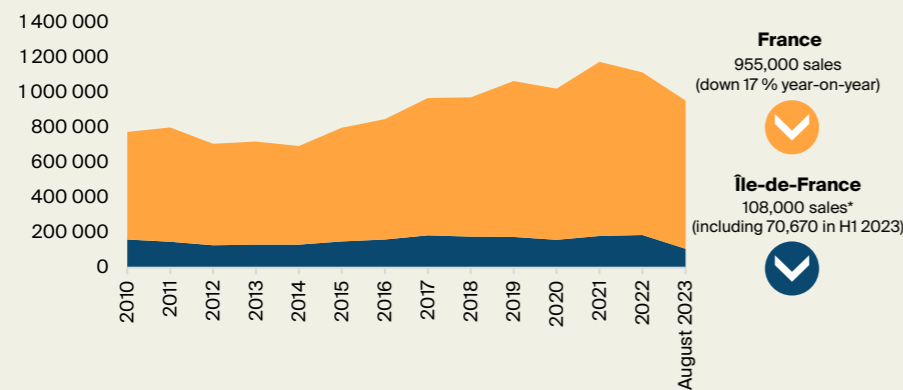
Price trend for an existing flat

In Île-de-France, in €/sq m, at the end of August 2023



Number of sales of existing homes

In thousands, cumulative 12-month rolling total



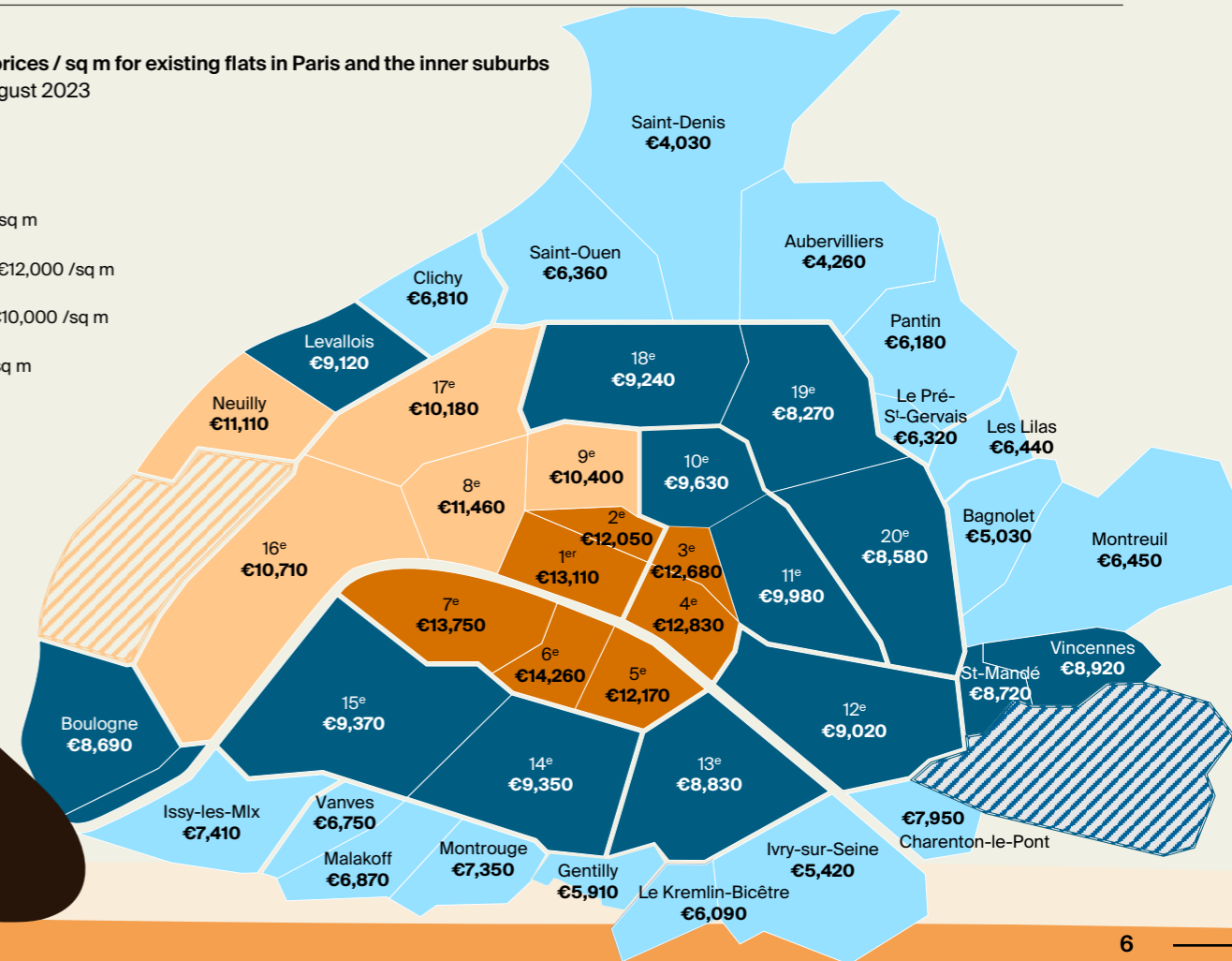
Sources: CGEDD based on DGFiP (MEDOC) and Notary databases, Notaires du Grand Paris / *Estimation

Source: Notaires de Paris, ADSN-BIEN

Standardised prices / sq m for existing flats in Paris and the inner suburbs

As at end of August 2023

- > €12,000 /sq m
- €10,000 to €12,000 /sq m
- €8,000 to €10,000 /sq m
- < €8,000 /sq m



THE NEW-BUILD MARKET

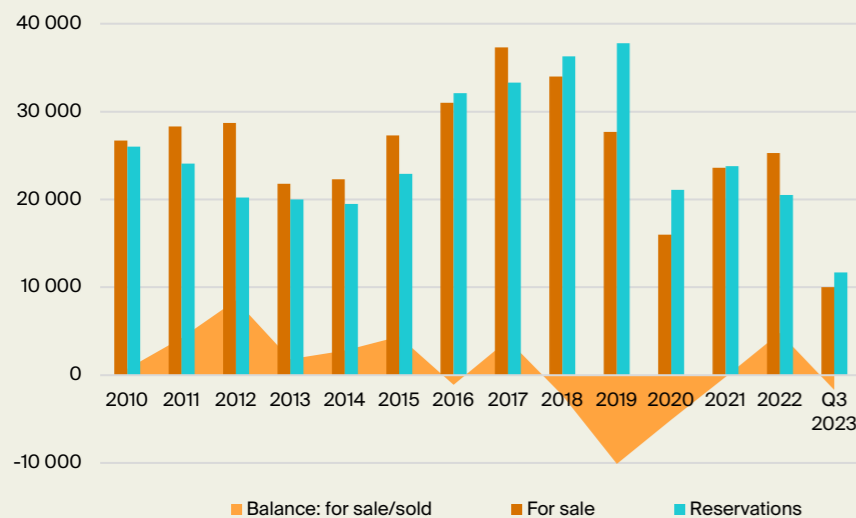
NUMBER OF SALES HALVED

In the first nine months of 2023, 10,000 new homes of all types were put up for sale in the Paris Region, the lowest level recorded in 15 years, according to CAPEM. This represents a fall, year on year, of 47%, or 8,800 fewer lots. Of the 10,000 lots put up for sale, 9,300 were standard multi-family homes. Seine-Saint-Denis, Val-de-Marne and Hauts-de-Seine account for 61% of this volume, down 45% compared with the same period in 2022. In addition, there were 300 single-family homes for sale (down 50% in one year), mainly in Seine-et-Marne and Yvelines, and 400 serviced residences (down 67%).

28% FALL IN RESERVATIONS

With just 11,700 new homes of all types sold in the Paris Region at the end of Q3 2023, net reservations were down 28% year-on-year and 40% compared with the average for the past five years. In all, 10,800 conventional multi-family homes were sold in the first nine months of 2023 (down 4,200 lots in one year), along with 600 serviced residences and 300 houses (both down 200 lots in one year).

Number of new homes put up for sale and reservations
In Île-de-France, all housing types



Source: CAPEM

Accounting for 92% of the total number of sales in Île-de-France, reservations for new conventional multi-family homes at the end of September 2023 are concentrated in the *départements* of Seine-Saint-Denis (23% of the total), Hauts-de-Seine (19%) and Val-de-Marne (16%). Conversely, most net reservations for serviced residences and houses were in the *Grande Couronne* region, particularly Seine-et-Marne. This *département* accounted for 30% of house sales.

Lastly, the proportion of first-time buyers will continue to rise at the end of Q3 2023, while the proportion of investors will fall once again. Investors now account for just 33% of sales in the region, compared with 37% for 2022.

LOW SUPPLY KEEPS PRICES HIGH

While values for existing properties have eased in recent months, they remain high for new-build properties. According to CAPEM estimates, they will average €5,440/sq m in the Paris Region (all housing types combined) at the end of Q3 2023, compared with €5,420 per sq m for the same period in 2022. The average sale price for conventional multi-family

Sales price trends for new housing in Île-de-France
In €/sq m, flats



Source: CAPEM

housing reached €5,460/sq m at the end of September 2023, representing a slight increase of 1.3% in one year. Geographical disparities remain significant, with the average price standing at €4,760/sq m in the inner suburbs, where it has remained virtually unchanged over the past year but reaching €6,020/sq m in the central zone (Paris and inner suburbs), an increase of 1.3% compared with Q3 2022. Given the low level of new supply available and continuing strong demand, prices will remain high, particularly in the most sought-after sectors (Hauts-de-Seine, etc.). This is all the more predictable given the industry's need to keep prices high enough to absorb rising construction and energy costs. Nevertheless, values could stabilize or even fall back in 2024, particularly in remote and less sought-after areas (Paris' outer suburbs, for example).

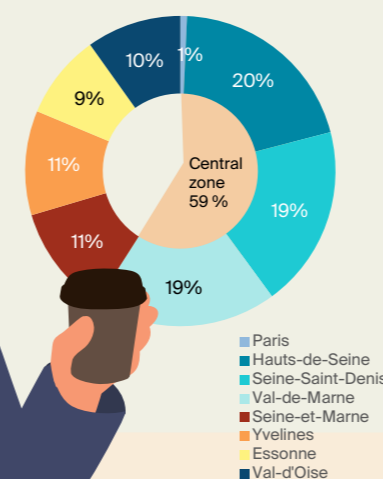
SIGNIFICANT INCREASE IN SUPPLY

At the end of September 2023, the Paris Region had 24,400 new housing lots available (down 4% y-o-y and 9% compared with the end of 2022). This volume includes 21,900 conventional multi-family homes (down 1,000 lots in one year), accounting for 90% of the total. The Hauts-de-Seine and Seine-Saint-Denis *départements* together account for 42% of available lots, with 22% and 20% of the stock respectively.

The stock of serviced residences (1,600 lots available at the end of September 2023) and detached homes (900 homes) remains stable overall compared with the same period last year. More than 60% of the supply of serviced residences is concentrated in the *départements* of Val-de-Marne (540 available lots), Seine-et-Marne (250 lots) and Seine-Saint-Denis (240 lots). Conversely, most of the stock (81%) of houses is in the inner suburbs.

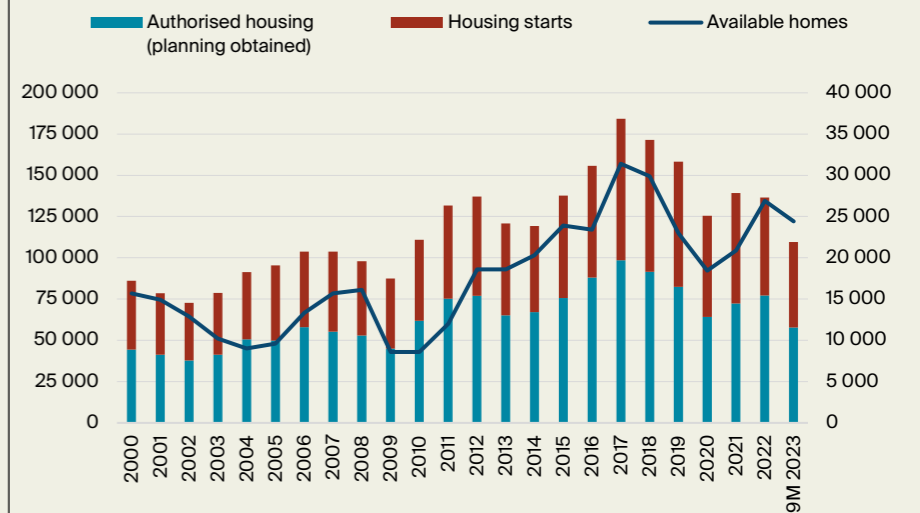
The stock of properties of all types represents 18 months of sales. This number stood at 15.6 months at the end of 2022 and 13.4 months in September 2022. Take-up times continue to rise, as a result of a growing stock of unsold properties, increasing difficulties for buyers wanting to borrow and, to a lesser extent, the delivery of new homes in the Paris region.

Breakdown of total new supply available in Île-de-France
In %, at end September 2023



Source: CAPEM

New housing supply in Île-de-France
In number, all types of housing



Source: SDES, Sit@del2 (data to end September 2023 / 12 months rolling), CAPEM

NEW-BUILD: A LONG-TERM CHALLENGE

Heavily hampered by the worsening economic and financial context and the accumulation of difficulties in the sector (scarcity of land, tightening of various regulations such as the RE2020, zero net artificialisation target by 2050, etc.), new housing production continues to fall. With 60,800 housing starts in the Paris Region in 2022 (after 67,400 in 2021), according to Sitadel figures, this level remains well below the target imposed by the Greater Paris Act (70,000 homes per year). Between October 2022 and September 2023, 57,800 housing units were authorized in Île-de-France (all types combined), representing a marked fall of 32% year-on-year. The decline in the number of housing starts in Paris Region is smaller but still significant: with 51,700 starts recorded over the past 12 months, the fall is 18% in one year.

As a result of the health crisis and following a period of rapid production (2016-2019), the maintenance-renovation sector is now the only one to be pulling ahead. A "driving force", according to the French building industry federation, which should become even more important, given the

huge needs in terms of energy renovation. Similarly, the government's desire, supported by the building industry, to facilitate the conversion of existing property (particularly office space) would make a modest contribution to the creation of housing, but above all would help to revive the sector.

THE INVESTMENT MARKET

SHARP FALL IN INVESTMENT VOLUMES IN EUROPE

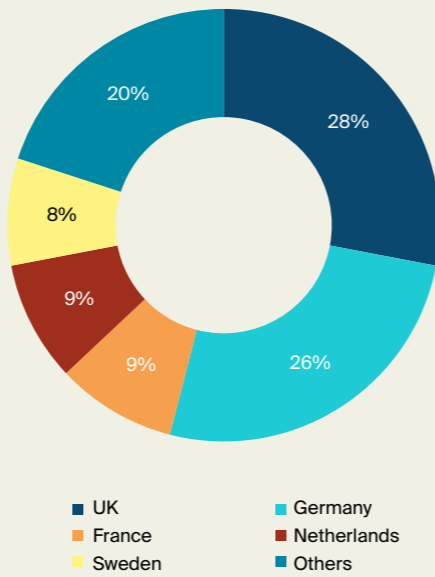
With 22 billion invested in the first nine months of 2023 (including 5.6 billion in Q3), the European residential market is almost 60% down on the same period in 2022. Residential property is therefore not immune to the downturn also seen in the commercial property segment. While investor interest in both traditional and managed residential assets continues unabated, higher financing costs, longer negotiation times and the correction in prices are limiting the scale of volumes invested. In some markets, activity has also been slowed by a lack of supply.

Despite this, the share of residential assets remains stable from one year to the next. In the first nine months of 2023, residential assets accounted for 20.9% of total commitments on the European property market, all property types combined, compared with 21.4% for the same period last year and less than 15% in the mid-2010s. This share makes residential the second most popular asset class for investors in Europe, behind offices (28.5%), with which the gap has nevertheless

narrowed by more than 20 points in ten years. In the mid-2010s, offices accounted for between 40% and 45%. In addition, residential property is just ahead of industrial premises (19.6%), whose position has also held steady from one year to the next, and retail (18.6%). Last but not least, the hotel sector performed very well, accounting for 8.5% of all sums committed in the first nine months of 2023 on the European property market, compared with 5.2% for the same period last year.

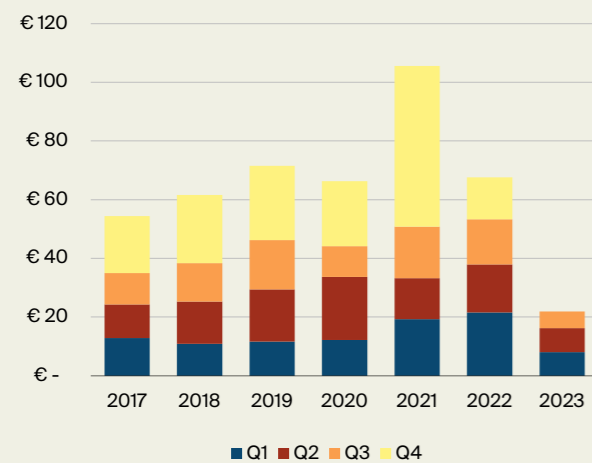
2023 will not change the hierarchy of the various European residential markets. Germany (28% of the sums invested in residential property at the end of Q3 2023) and the UK (26%) remain by far the leading European markets. Between them, these countries account for 54% of investment in this asset class, ahead of a trio formed by France (9%), the Netherlands (9%) and Sweden (8%).

Breakdown of volumes invested in 2023 (to end-3Q) in the European residential market, by country of total volume



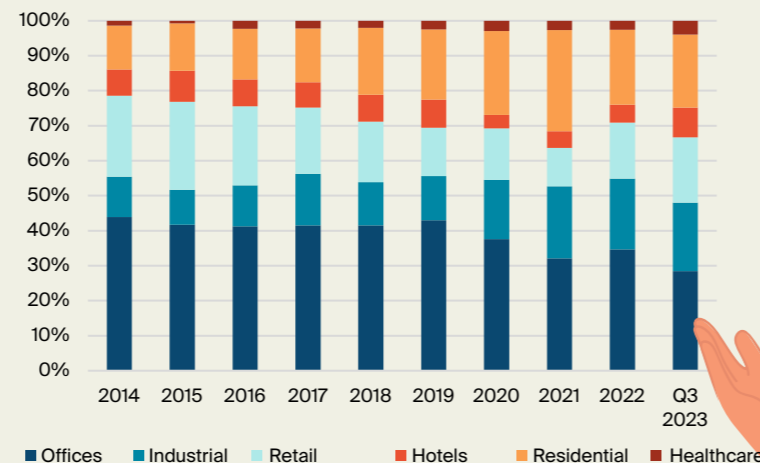
Sources: Knight Frank, RCA

Volumes invested in the residential property market In Europe, by quarter, in €bn



Sources: Knight Frank, RCA

Volumes invested in the property market In Europe, by asset class, % of total volume in €Bn



Sources: Knight Frank, RCA

ALMOST 2 BILLION EUROS INVESTED IN FRANCE

The volume of residential investment in France in the first nine months of 2023 totalled almost €1.9 billion, a fall of 59% in one year. The fall in the total number of transactions is less marked, but still significant (around 120 at the end of Q3 2023, compared with 159 for the same period last year). The performance of the French residential market traditionally depends on the completion of large transactions. However, only one transaction worth more than €100 million has been recorded since the start of 2023: the VEFA acquisition by GREYSTAR of a 650-bed student residence, to be delivered in 2024 in Puteaux. In 2022, CDC HABITAT sold its Lamartine portfolio to CNP ASSURANCES for just over €2 billion, more than the total amount committed in France since the start of 2023.

Although a number of major deals will soon be finalised, it is mainly single transactions and small portfolios that will drive the market between now and the end of the year, keeping volumes invested at relatively low levels while we wait for major portfolios to close.

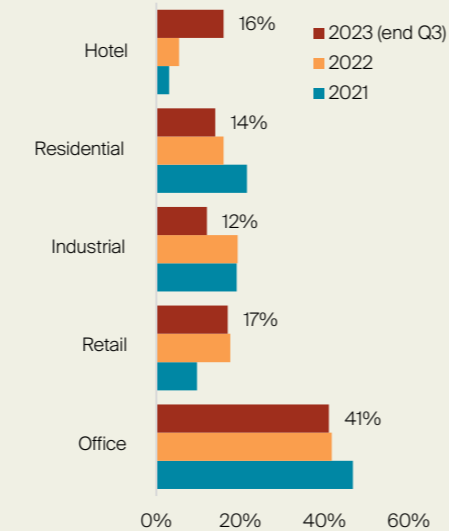
SOLID APPETITE FOR NEW BUILD

While they accounted for just over 60% of the volume invested in the French residential market in 2022, VEFAs continued to play an important role in the first nine months of 2023 (58%), confirming investors' appetite for new assets that meet the latest environmental and accessibility standards for people with reduced mobility.

The popularity of VEFAs is felt throughout France, with 68% of the purchases recorded in this market segment since January taking place in the regions. In terms of volume, the Paris region accounts for 69% of VEFA sales, due to its larger size and higher property prices. Lastly, the proportion of new-build property remains particularly high in the managed residential segment, boosted in particular by the growing number of conversion projects in the Paris region and elsewhere, such as UXCO's acquisition of an 800-bed Coliving residence in Haute-Savoie.

Breakdown of volumes invested by asset type in France

As % of total volume



Source: Knight Frank

A MARKET DOMINATED BY THE FRENCH

French investors remain the main drivers of the residential market. At the end of Q3 2023, they accounted for 87% of all capital committed in France. Last year, this share was slightly higher (90%), boosted by the purchase by CNP ASSURANCES of the "Lamartine" portfolio.

Traditional players targeting intermediate housing (CDC HABITAT, IN'LI, IMMOBILIÈRE 3F, etc.) continue to have a strong presence. Some have also made a name for themselves in the managed property segment, such as IN'LI's purchase of a Coliving complex in Bagneux at the beginning of the year. On the other hand, insurers and OPC/SCPIs, which carried out a number of large-scale transactions last year, have been much less active since the start of 2023.

The proportion of foreign investors has risen slightly but remains modest, accounting for 13% of total investment in the French residential market. As usual, the British and North Americans were the most active, purchasing

buildings and projects exclusively in the Paris region. PFA also continued to invest in France, both in the Paris region and in the provinces, where the Danish pension fund acquired a serviced residence in Amiens and new housing in Bordeaux.

MANAGED RESIDENTIAL REMAINS VERY POPULAR

In the first nine months of 2023, the amounts invested in the managed residential sector totalled almost €820 million in France. This represents a fall of 25% compared with the same period in 2022. Despite this fall, which is mainly due to the modest level of investment in the senior residence market (€120 million), managed residential property remains attractive to investors because of generally higher yields than 'traditional' housing, and its solid fundamentals linked to the growing needs of the population and structurally limited supply. Coliving has performed extremely well, with €420 million invested in the first nine months in France. Volumes in this fast-growing asset class have tripled in one year.

The managed residential sector is underpinned by the appetite of investors with varied profiles. Recent months have seen the completion of several major deals on behalf of international players, such as PFA's purchase of a senior residence in Amiens. In the Île-de-France region, GREYSTAR has acquired a student residence in Ivry-sur-Seine, while ARES MANAGEMENT has snapped up a Coliving space in

Saint-Ouen as part of the "Bauer Box" project. In France, demand is being supported by the continued expansion of specialist players such as KLEY (THE BOOST SOCIETY) and UXCO, and by the development of partnerships between operators and players in the intermediate housing sector, such as that between IN'LI and URBAN CAMPUS to develop Coliving residences in the Île-de-France region.

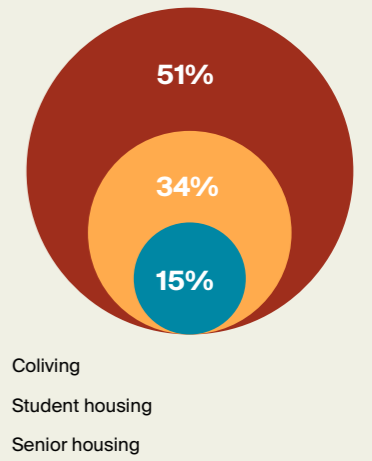
THE OUTLOOK FOR THE MONTHS AHEAD

The slowdown seen since the second half of 2022 is likely to continue over the next few months, due to investors' wait-and-see attitude and the persistent lack of visibility on interest rate trends. Nonetheless, the housing market remains underpinned by solid fundamentals. The slowdown in production is accentuating the imbalance between housing supply and demand, which increases pressure on the rental market.

Against this backdrop, CDC HABITAT recently announced that it had ordered 10,500 homes (8,400 intermediate, 2,100 social) from more than 70 developers for a total of almost €2bn, which should enable the French market to return to higher investment volumes in the long term.

Breakdown of volumes invested in 2023 (to end-3Q) in the managed residential market in France, by type

As % of total volume



Source: Knight Frank

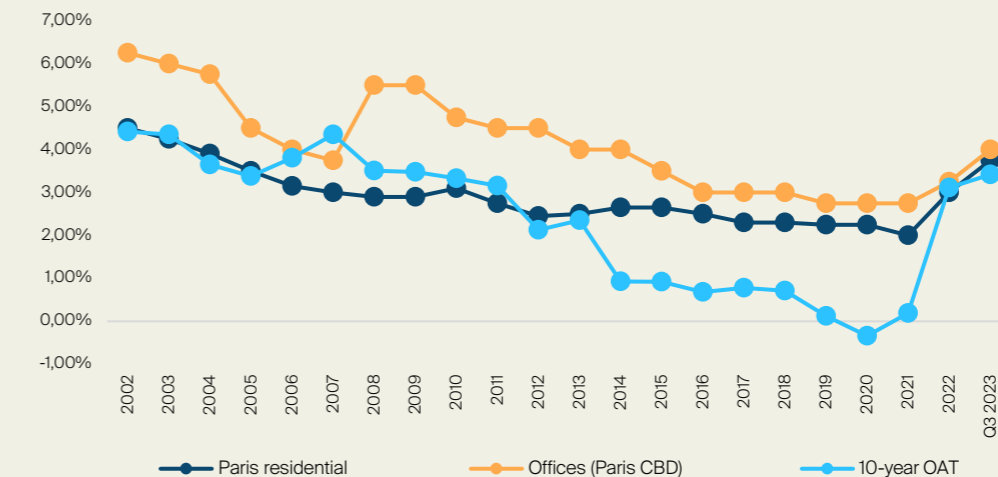


Volumes invested in residential property* In France, in €Bn



Source: Knight Frank
*Block sales including managed residences and assets comprising a majority of residential properties.

Prime yield in France



Source: Knight Frank

SENIOR HOUSING
4.75 - 5.25 %

COLIVING / STUDENT RESIDENCE
4.50 - 4.75 %

EUROPEAN LIVING SECTORS INVESTOR SURVEY

78% OF INVESTORS WOULD LIKE TO INCREASE THEIR EXPOSURE TO RESIDENTIAL PROPERTY

Knight Frank recently conducted a survey of 51 investors managing a total of €67 billion of residential assets in Europe. By asking them about their investment intentions over the next five years, the aim of the survey was to gauge interest in residential property.

The results confirm that appetite for this asset class remains very strong, despite the sharp fall in volumes invested in 2023. 78% of investors surveyed by Knight Frank said they wanted to significantly increase their exposure to the housing market between now and 2028. 15% of them would like to double the value of their residential assets over the period. This enthusiasm can be explained by the positive outlook for the housing sector, due to limited supply and demographic changes that are particularly favourable to managed residential property (increase in the number of students, ageing population, etc.).

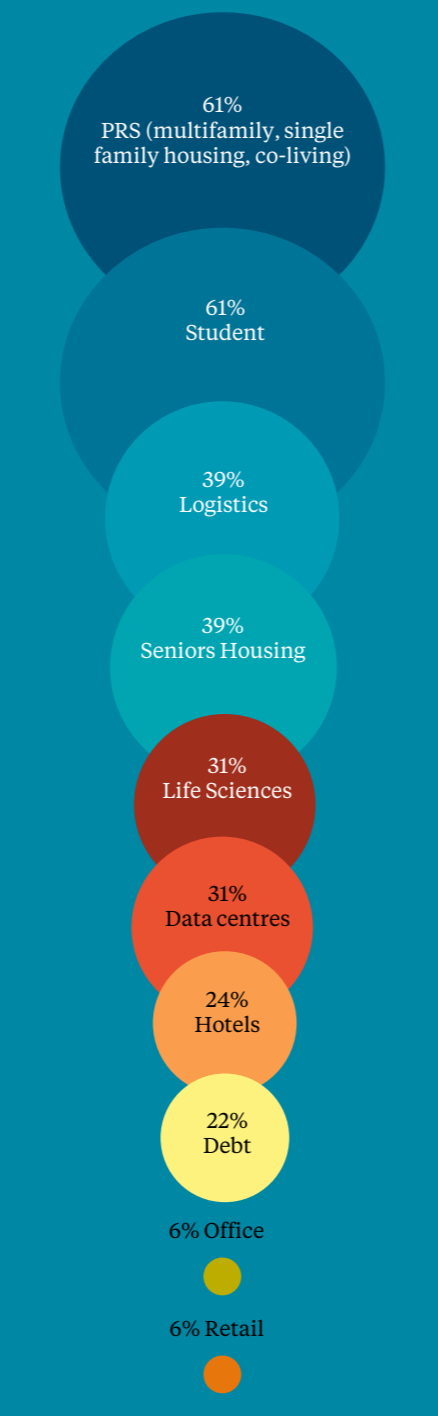
Collective housing and student residences top the list of investment

intentions over the next five years, ahead of Coliving. Senior residences are less favoured, a trend illustrated in France by significantly lower investment volumes in 2023 than for other types of residential asset, in a context still dominated by the repercussions of the ORPEA scandal and the revelations of fraud recently highlighted by a report from the DGCCRF.

While only 25% of respondents say they are currently investing in the various types of residential property, this proportion could rise to 49% by 2028, reflecting investor desire to diversify by favouring assets that are less exposed to economic cycles.

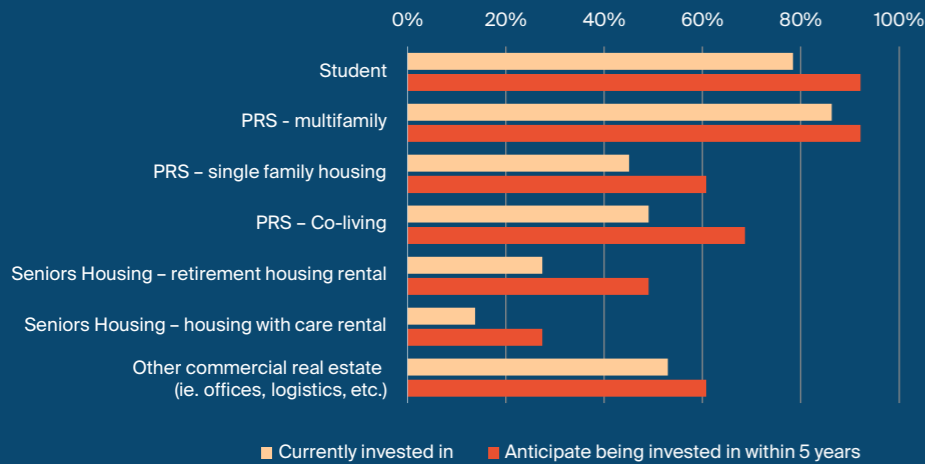
London is the most popular destination for investors of all property types, ahead of Madrid, Milan and Paris. The French capital is particularly targeted for student residence space.

Which of these asset classes do you believe will be particularly appealing from an investment perspective over the next five years?



In which sectors are you active currently, and which do you anticipate being active in within five years?

% of respondents



Source: Knight Frank

KEY CHALLENGES

The rising cost of debt was identified by 61% of respondents as a brake on increasing their investment in the residential property segment. Although they have fallen slightly from their peaks, eurozone interest rate swaps are still more than 50 basis points higher than they were a year ago, leading to higher financing costs for investors.

In addition, 47% of respondents identified regulatory risks as another barrier. This applies in particular to rent controls (capping the initial rent or moderating the increase during the rental period), which have become widespread in Europe due to sharp rises recorded in a number of cities in recent years. The uncertainty created by these measures, which have already been put in place or are planned by local authorities, makes it more difficult for investors to plan for the long term.

The scarcity of housing is also a barrier to investment, cited by 28% of respondents. New supply is particularly limited, and the shortage has become more acute in recent years due to supply

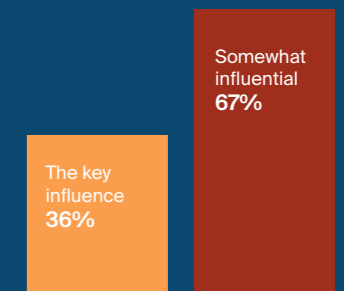
difficulties and the sharp rise in construction costs. Other obstacles cited by investors include the lack of trustworthy operators (11%), particularly in the senior housing sector, rising operating costs, and whether or not tenants are able to pay high rents, particularly in the student accommodation sector.

ENVIRONMENTAL CRITERIA ARE BECOMING INCREASINGLY DECISIVE

36% of investors surveyed say that sustainability criteria will be the main factor influencing their investment strategy over the next three to five years, while 64% say that these criteria will have 'some influence'. Nearly 80% of those surveyed also said that green buildings will create value by improving occupancy rates and tenant retention. Finally, 63% believe that these buildings will be able to be let at higher prices.

The full "European Living Sectors, Investor Survey" is available on the Knight Frank website: <https://www.knightfrank.com/research/report-library/european-living-sectors-investor-survey-2023-24-10713.aspx>

How influential will sustainability considerations be in determining your investment strategy over the next 3-5 years?



Source: Knight Frank

What are the key challenges to investors deploying capital into Living sector assets?

Respondents selected top 3



Source: Knight Frank

Contacts

Research Department

Knight Frank's Research department provides market analysis and strategic real estate advice to a wide range of international clients, including private, institutional and end-user clients.

The data used to produce this study comes from sources recognised for their reliability, as well as Knight Frank's property market monitoring tools.

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