CBRE

Residential reaffirms its status as a counter-cyclical typology

▲ €1.6 bn
Residential investment volumes – H1 2024

▲ 3.40%
Prime yield
Paris Residential – July 2024

▲ 4.40%
Prime yield
Student Housing - July 2024

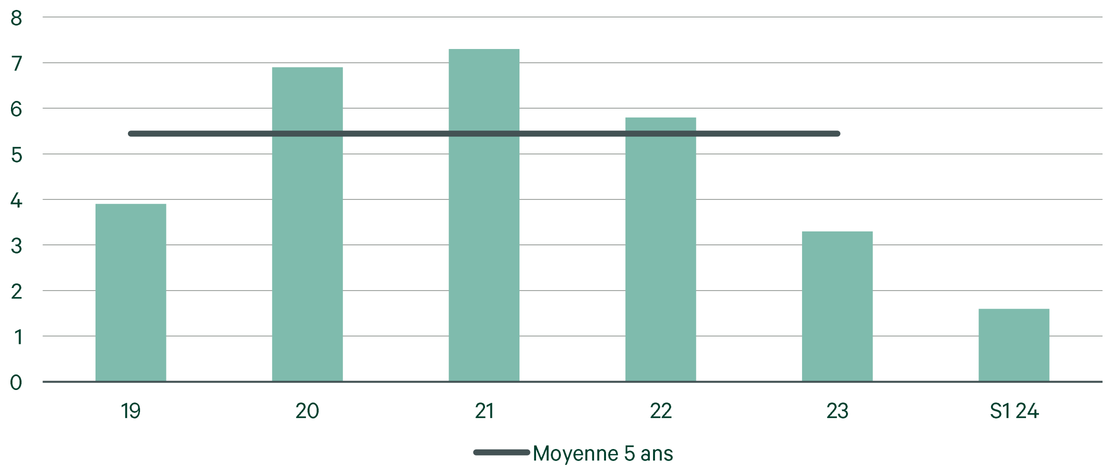
▼ -5.2%
Existing housing prices (houses and flats) – Q1 2024
Notaires de France – France excl. oversea territories

Note: The arrows indicate the annual charges

KEY POINTS

- Investment volumes in the French residential market (excluding social housing) reached 1.6 billion euros in H1 2024, marking an 11% increase compared to H1 2023.
- 65% of the investment volumes were targeted at traditional residential properties, compared to 57% in 2023.
- Prime yields are now moving diffferently for each sub-sector, with a compression observed for traditional residential assets in Paris and Lyon.
- Prices have rebounded in the majority of major French over the May to July 2024 period, as as debt has become more available for households.
- The rental market remains tight, with average rents continuing to rise.
- Construction activity has been sluggish this semester; however, there are signs of stabilization in the production of flats and residences.

FIGURE 1: Investment volumes in residential* in France (excluding social housing)



In billions of euros
*Private rented, intermediate, and operated residential (coliving, student housing, senior housing, and multigenerational housing).
Source: CBRE / Immostat, Q2 2024

Positive dynamics for residential in H1 2024

Investment volumes up compared to H1 2023

With nearly €790 million invested in Q2 2024, volumes for the residential investment market (excluding social housing) reached €1.6 billion by mid-year, representing an 11% increase compared to H1 2023. This market demonstrates its resilience compared to other property types amid the challenging environment.The residential asset class is reassuring, being on the one hand less subject to rental vacancy for investors seeking income returns, and on the other hand offering opportunities for capital gains for those who favor this strategy.

Wheras the market was driven mainly by short-term investors in 2023, profiles have been diversifying since the beginning of this year with the return of institutional investors alongside private equity capital. However, it is important to note that, as part of their affordable housing development strategy, social landlords and other public players account for more than a quarter of the volumes in this half-year. This involves both signings of forward funding sales for intermediate housing and acquisitions of existing housing in the private sector. This process is mainly undertaken via preemptive buying, intended to be transformed into subsidized housing. As a result, the volumes of traditional residential housing have increased, reaching 65% in H1 2024.

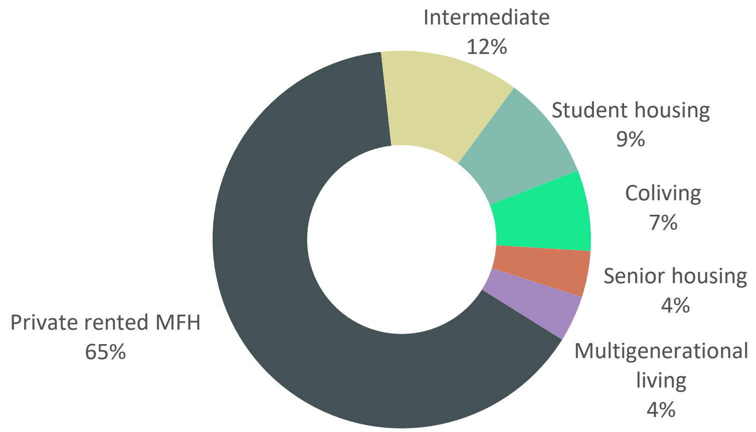
The operational residential market accounted for a quarter of the total volumes in H1 2024, with over 370 million euros invested. The trends in this segment remain similar to those in 2023, with investors shifting away from the senior housing properties while operators for student housing and coliving continue to expand their presence by purchasing the residences that they will operate.

A slight compression of yields for Multifamily

Political and budgetary uncertainties in France have affected the first cut in base rates implemented by the ECB last June, which was intended to help rebuild a risk premium for real estate. However, this did not lead to a clear increase in the French 10-year government bond yield, but rather resulted in significant rate volatility for several weeks and widened the spread over the German Bund.

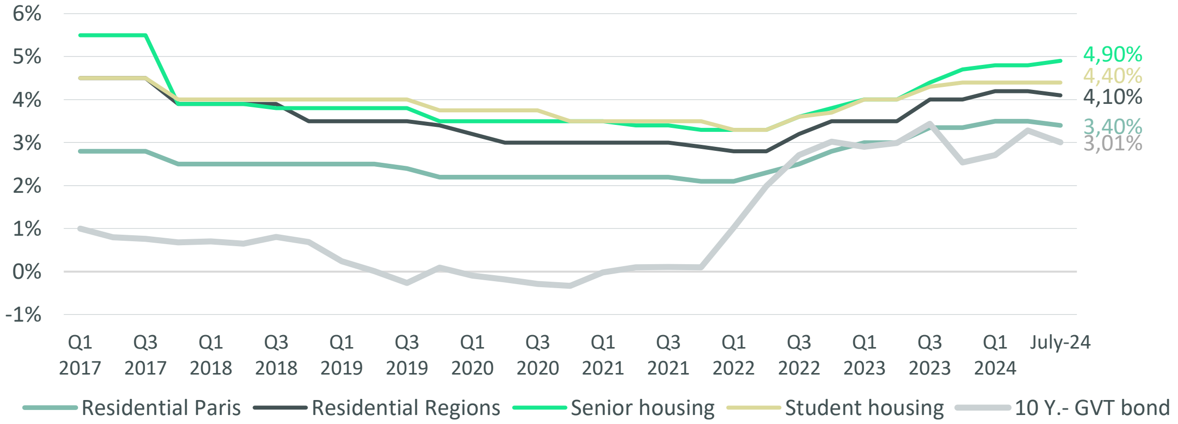
Prime yields have resumed a development logic specific to each sub-sector. Thus, yields for traditional residential experienced a compression of 10 bps in July, while senior residential continues to widen.

FIGURE 2: Breakdown of volumes by type of residential asset in H1 2024



Source: CBRE / Immostat , Q2 2024

FIGURE 3: Prime yields by asset type



Source: CBRE July 2024, Bank of France (OAT TEC as of July 30th 2024). Grid established by experts (Capital Markets, Valuation, Research), knowing that there are no systematic transaction for each category. Yields for acquisitions of existing, high-quality, unregulated residential property, let at market conditions, by investors with a long-term holding strategy. Excluding properties owned by private and social landlords.

Will the housing market see a revival as mortgage rates fall?

Positive signals for the retail housing market

Borrowing rates for individuals continued their rapid decline to reach 3.62% in July 2024, according to the Crédit Logement Observatory. This is 60 basis points lower than the peak last November. A notable feature of this quarter is that credit activity has significantly picked up, with the number of loans granted up by almost 60% over the period of May-July 2024 compared to the same period last year. However, this still remains 50% below the 2020 level. While this recovery in credit activity is not yet reflected in transaction volumes due to the inevitable time required to finalize a property purchase, it suggests an end to the decline in sales in the medium term.

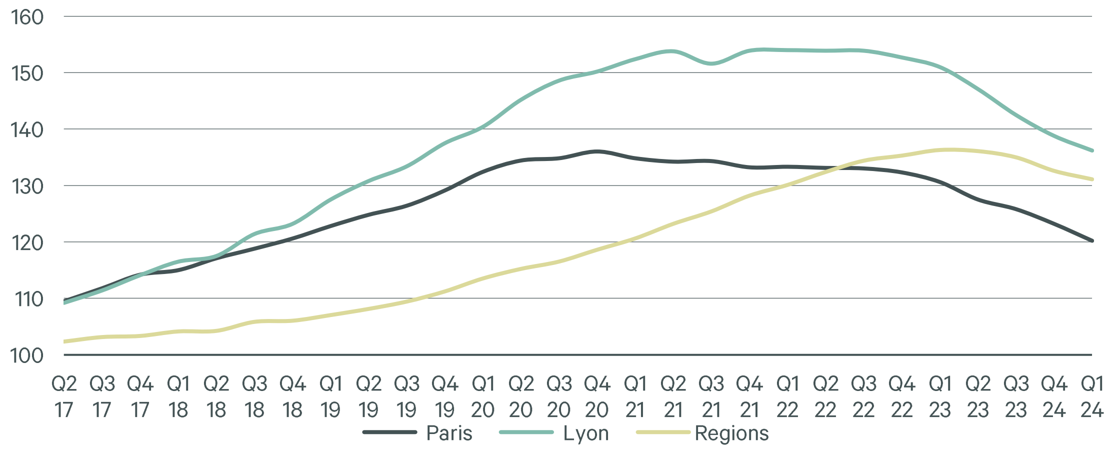
Regarding prices, the latest national index available for existing housing as of Q1 2024 confirms that there was no immediate impact between the rate cut that began in December and the end of the price decline, with values down by -5.1% in existing housing year-on-year. This decline reached up to -9.8% in Lyon. However, more recent data from MeilleursAgents suggests that prices are starting to rebound, with values rising in 9 of the 11 main French cities over the May-July 2024 period.

No slowdown in the rise in rental values at the start of the year

The average increase in residential rents in France recorded a new 10-year record in Q1 2024 at 1.9% year-on-year. While other household expenditure items have seen a slowdown in price increases for several months, this has not been the case for rents. The rental market remains tight due to an accumulation of many factors: no recovery for first-time buyers' market nor construction activity, a stuck investment market awaiting regulatory changes postponed with the dissolution of the Assembly, the effect of the Olympic Games in the Paris region, etc.

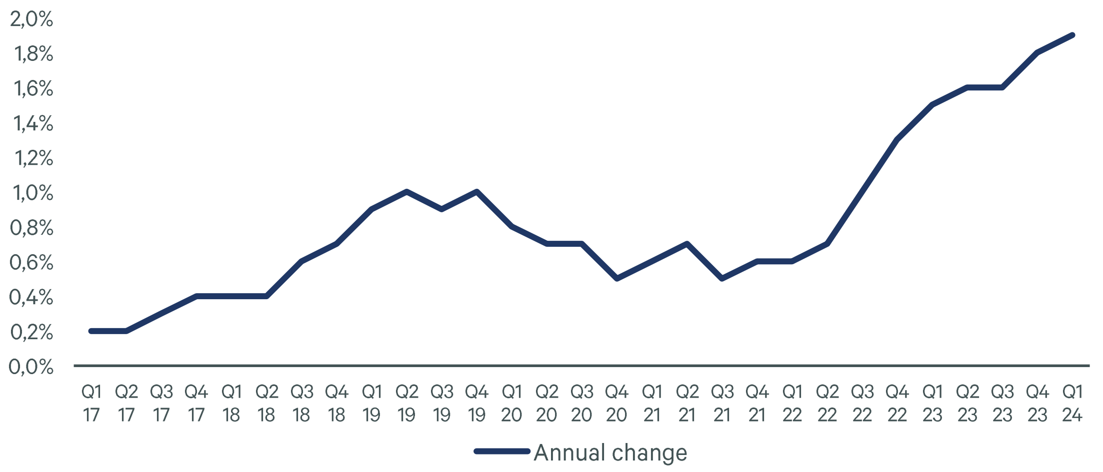
Furthermore, the rental reference index (IRL), which is no longer capped in Q2 2024, reached 3.2%, a level which remains relatively high.

FIGURE 4: Flat price index (basis 100 = 2015 average)



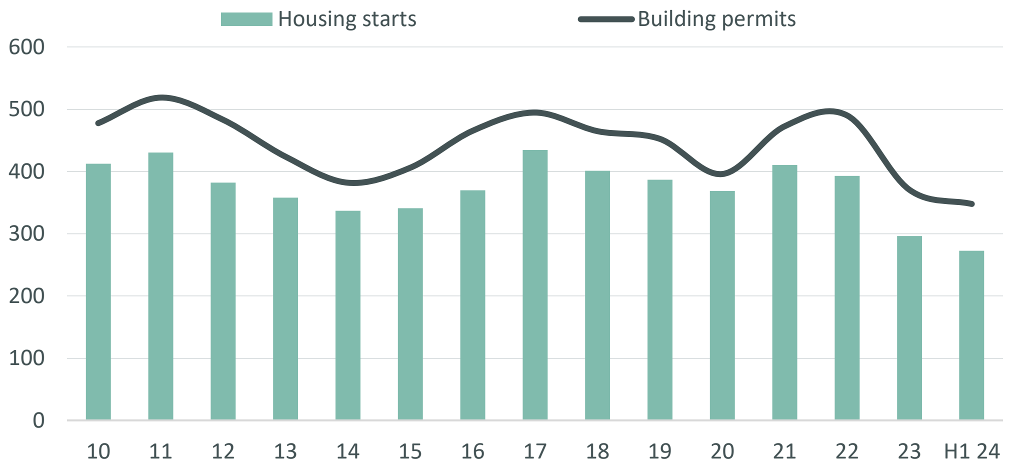
Source: INSEE, unseasonally adjusted data, existing housing, Q1 2024

FIGURE 5: Residential rent index (unrestricted sector)



Source: INSEE, Q1 2024.

FIGURE 6: Change in housing starts and building permits



In thousands of dwellings, over 12 rolling months

Source: CGEDD SOeS / Sit@del , July 2024.

No upturn for construction in H1 2024

Towards a stabilization for multifamily production?

While the mid-year data over a rolling 12 month period indicates a new low point for housing production in France with just over 270,000 housing units started, it is interesting to note that the number of construction starts and permits obtained for multifamily has stabilized. Conversely, the production of houses continues to decline rapidly. This phenomenon can be partly explained by the support provided by social landlords for the construction of new housing, the majority of which are collective housing.

The construction sector is particularly affected by the unexpected dissolution of the National Assembly, which occurred just before the examination of a bill aimed at supporting housing production. Considering the programs of different political parties and the approaching budget deadline in the fall, it is uncertain whether the boost hoped for by developers will be addressed by the end of 2024.

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