

A good start of year, followed by a wait-and-see approach in Q4

KEY INDICATORS (Q3 2022) - arrows indicate change over 1 year

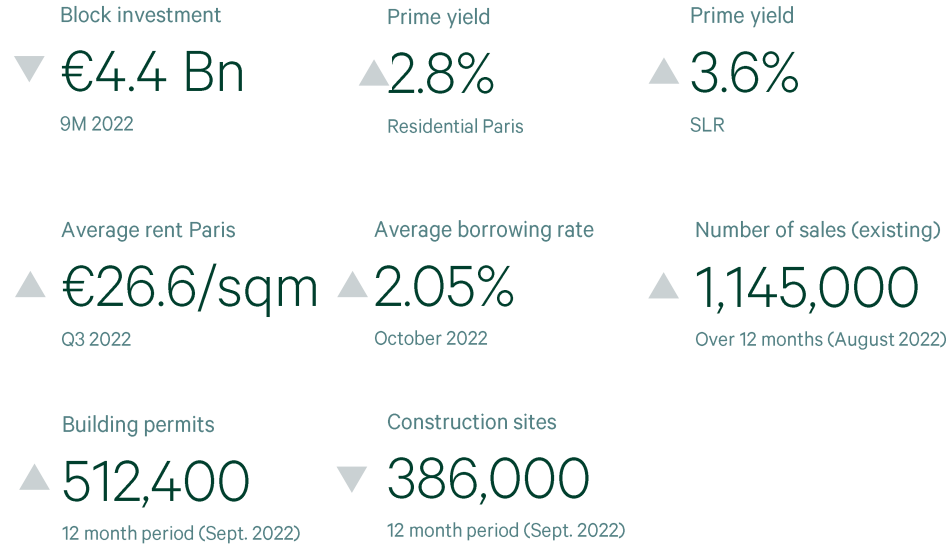
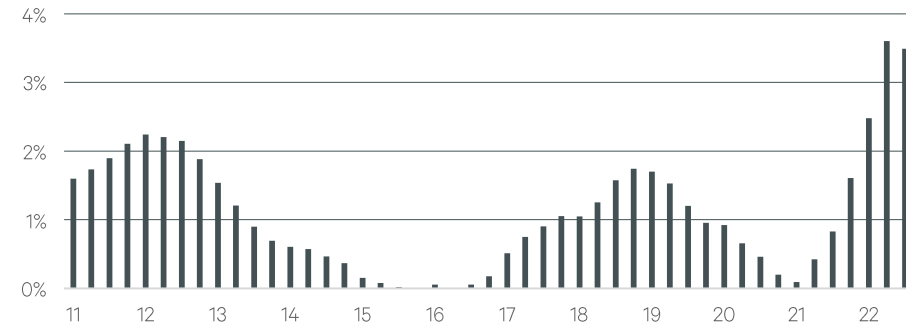


Figure 1: Annual Rent Reference Index (IRL) evolution



Source: INSEE, Q3 2022

After a peak of 1,213,000 existing home sales in August 2021, transactions gradually declined to 1,145,000 in August 2022, the lowest since June 2021. Although well above the 10-year average for monthly transactions (898,000), the latest Notaires' economic analysis points to a more significant slowdown in real estate transactions in the months to come.

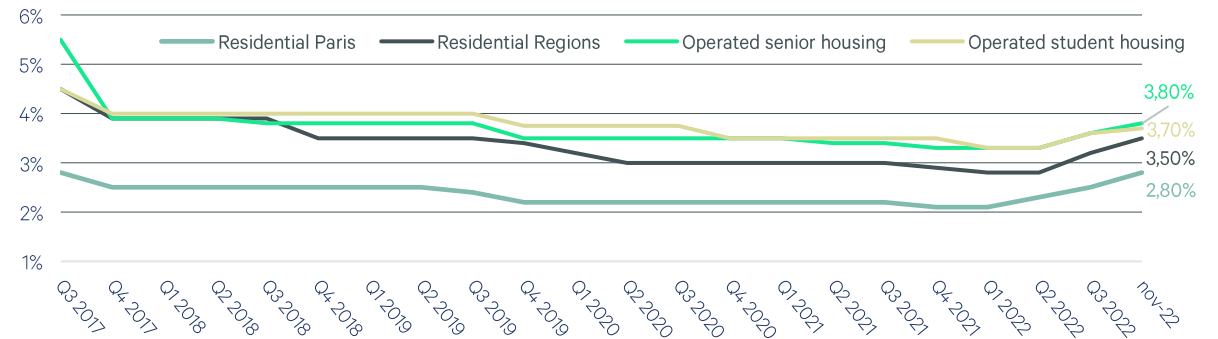
Although the annual price rise for existing homes continued in Q2 2022 (+6.8%), it decelerated slightly. Price rises were more pronounced in regional locations (+8.6%) than in the Paris region (+2.2%). This gap also exists between flats and houses, which increased by 4.5% and 8.4%, respectively. In Paris city, flat prices have fallen slightly for three consecutive quarters.

Despite soaring inflation, rents are slowly rising. Discrepancies between Paris and regional locations persist. Average rent in Paris for a 3 room apartment, before charges, is €26.6/sqm/month; in Lyon, it is €12.9/sqm/month and in Marseille €12.3/sqm/month. The Rent Reference Index (IRL) rose to +3.5% in Q3 2022. At the same time as the IRL is rising, it has been capped since Q3, a measure taken by the government to support household purchasing power.

New housing construction is progressing slowly. In Q3 2022, new housing construction increased by +1.4% compared to Q2 (-1.7%) compared to the 12 months prior to the pandemic). At the same time, the number of building permits issued fell by -2% compared to Q2 2022; yet the total was higher (+9.3%) than in the 12 months prior to the first lockdown.

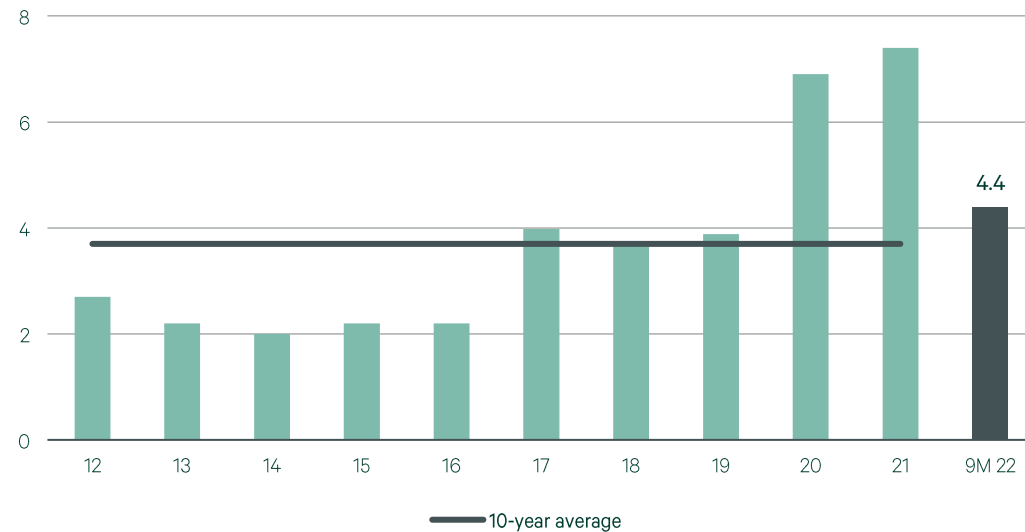
The mortgage market is deteriorating: at the end of October, lending fell by 10.7% (12 month period), and the number of mortgages granted fell by 12.9% over the same period. The average mortgage term increased to 244 months in October, an unprecedented level. Given rising inflation and the current economic and geopolitical uncertainty, mortgage rates continued to rise to 2.05% in October (+98 bps since the beginning of the year). This is the highest interest rate since the beginning of the economic turning point.

Figure 2: Prime yield by asset type



Source: CBRE Research, Q3 2022

Figure 3: Residential investment volume



In € billions

Source: CBRE / Immostat, Q3 2022

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Investment: a good start to the year followed by investors adopting a wait-and-see approach

At the end of the first nine months of 2022, investment in French residential assets totalled €4.4bn, -21% compared to the same period in 2021. Despite the economic context, Q3 investment was in line with the previous two quarters.

Operated residences totalled almost €1bn in 9M 2022, representing a 91% y-o-y increase for the same period. Investors are clearly attracted to operated residences; demand for these assets remains strong. Operated residence investment represents 23% of total residential investment since the beginning of the year. However the share of operated assets has risen significantly, reaching over 50% of residential investment excluding the Lamartine portfolio (which represents 55% of total residential investment in 9M 2022 only on intermediary and traditional multifamily housing).

Given rising inflation and current economic uncertainty, bond yields have continued to rise, leading to an automatic rise in real estate yields. In Q3 2022:

- Prime residential yield for traditional assets in Paris is 2.8%. Yields in regional locations are similar, rising to 3.50% in Lyon and following a similar trend in other regional markets;
- The yield spread between traditional and managed assets is gradually narrowing, but still favours managed assets. Prime yield for co-living space is 3.9% (3.5% at the start of year), while senior and student residences have prime yields of 3.8% and 3.7%, respectively.
- The impact of yield rises, and consequent repricing, is not yet visible in investment volumes, as most transactions were initiated prior to the summer, under summer market conditions. Effects will be felt from Q4 2022 and are likely to impact 2023 volumes.

The market slowdown is becoming increasingly visible, as indicated by the latest Capem figures which highlight a fall in block sales in the new housing sector. While investors continue to favour residential assets, uncertainties are already weighing on the market. With rising financing costs and sellers unwilling to accept price adjustments, 2023 will undoubtedly be a year dominated by a wait-and-see approach.

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