

FRANCE

I. Residential market in France

A. Population

On 1 January 2020, France counted a population of 67 million inhabitants. This represents a change of 0.13% from the previous year and a moderation of the pace of growth that averaged 0.37% annually over the last decade. As in previous years, the net natural balance is the driver of population at more than 140,000 people.

B. Paris

Residential real estate prices increased by 5.0% in Q3 2020 (y-o-y) in metropolitan France. Appreciation of second-hand dwellings outpaced new dwellings 5.2% versus 2.5% over the same period. Paris experienced more robust price growth despite falling transactional activity as a result of confinement measures. Prices topped 10,860 €/sqm in October for second-hand apartments, which is an annual increase of more than 6%. The pace of this growth, though, has slowed over 2020. Rental growth was more moderate. In Q3 2020, private sector rents in the greater Paris area rose 0.8% (y-o-y), though public sector rents fell 0.6%. Prime rents remain stable in 2020 at 34.5 €/sqm/mo.

C. Regions

Outside of Paris, second-hand apartment pricing has held up better than the nation's capital, particularly in town centres. Larger towns have seen price growth of 6.7% (Q3 2020 y-o-y), while town centres have averaged 7.8% growth over the last 12 months. Lyon has led the way with an increase of 11.5% to an average price of 4,969 €/sqm as the most expensive regional city. Bordeaux and Nice also count high average apartment prices of 4,446 €/sqm and 4,422 €/sqm, respectively. If prices have grown faster than Paris, rents have grown slower. Rents in the private sector increased by 0.6%, while those in the social sector declined by 0.7% in Q3 2020 (y-o-y). Prime rents remain stable in Lyon in 2020 at 16.5 €/sqm/mo.

D. Housing stock

At the beginning of 2020, the French housing stock is estimated at 37 million units, of which 81.7% are main residences, 9.9% are secondary/occasional accommodation, and 8.4% are vacant. Paris claims 4.734 million of these housing units. For the last 30 years the total stock has been expanding at 1.1% per year, which is faster than the general population growth but closer to the expansion of households. Eurostat identifies 64% of the population as owning their residence, while 36% rent their homes. Overall, this is very similar to the euro area average.

E. New builds

The pandemic lockdowns have weighed on construction and permitting in France. Q3 YTD permits fell 16% to 270,700 compared to the same period in 2019. That said, there were more authorisations in September than any other month in 2020, so the market is showing signs of improvement. The slowdown in the first half of the year is also reflected in the offers and reservations of new builds. Offers recorded the lowest figure (37,961) in more than ten years, and sales declined 42% in Q2 y-o-y. Due to the crisis, cancellations were particularly high. In order to control inventory, developers have turned to leasing and other alternatives for more than 6,000 properties for sale. Still, new build prices increased by 2.5% in Q3 y-o-y.

Key stats: 5.0% residential price increase in France Q3 y-o-y; 10,860 €/sqm average second-hand apartment price in Paris; Large regional town centres see apartments increase 7.8% Q3 y-o-y

sources: CBRE, Eurostat, INSEE, BTS LC, SDES

II. Office market in France

A. Paris region

The Parisian office market is one of the most vibrant in Europe. Counting 58.78 million sqm at the end of 2020, the stock expanded by 439,000 over the year (0.75%).

The COVID-19 pandemic has weighed on office activity in Paris and wider France in 2020. Take-up in Île-de-France was 1.32 million sqm, which is a decline of 45% versus 2019. Occupiers in major markets have followed the trend of renegotiating current space and delaying decision making until greater clarity returns to the market and real estate strategies can be reformed. The large surface segment (>5,000 sqm) has suffered the most, while those spaces <5,000 sqm have been more resilient. In gross figures, La Defense experienced increased take-up activity – the only Parisian submarket to do so.

Vacancy increased as a result of lower activity and the completion of major projects. Still, vacancy in Île-de-France is low at 6.3% at the end of 2020. Availabilities in central Paris are lower at around 4% (Paris Centre West), while those in La Defense (10.7%) and Western Crescent (10.7%) are higher.

Despite the uncertainty in office markets, prime rents continue to climb higher given the standard of new projects and demand for well-located, quality space. The CBD experienced a 6% increase y-o-y to 930 €/sqm/yr. Those in Southern Paris saw an even greater increase of 18% to 900 €/sqm/yr. Prime rents in La Defense retreated slightly to 530 €/sqm/yr.

B. Regional office market

While Paris remains the favoured destination, regional markets offer substantial space at lower rental values. The markets of Lyon, Lille, Toulouse, Marseille, and Bordeaux count a combined 22 million sqm, with Lyon the largest. The markets, though, have not been immune to the pandemic uncertainty, as take-up declined by 46% in 2020 to 603,000 sqm. The vacancy evolution has been mixed dependent on the market, and prime rents are well-supported with Lille and Toulouse recording small increases.

C. Investment

The initial months of the pandemic froze investment markets both from the uncertainty and travel restrictions associated with the lockdowns. Deals continued as everyone learned to work within the limitations over time. As a result, Total CRE investment in France in 2020 was €28.98 billion, which is a 38% decline over the previous year. Offices accounted for €18.274 billion or 63% of this activity. Investment in Paris offices specifically was €15.74 billion, or 86% of all office investment in France, which is consistent with recent activity.

In terms of pricing, the yield gap between core and peripheral markets widened over 2020. Central markets experienced slight yield compression of 5 to 15 bps, while those in the periphery saw yields increase by 25 to 50 bps. Several factors are influencing this development including the relative safety of central Parisian office assets and increase in perceived risk from banks and investors for other markets or office classes.

Key stats: 1.32 million sqm Île-de-France office take-up; 3.7% CBD vacancy; 930 €/sqm/yr prime rent; €15.74 billion invested in Paris offices

sources: CBRE