Real Estate House View

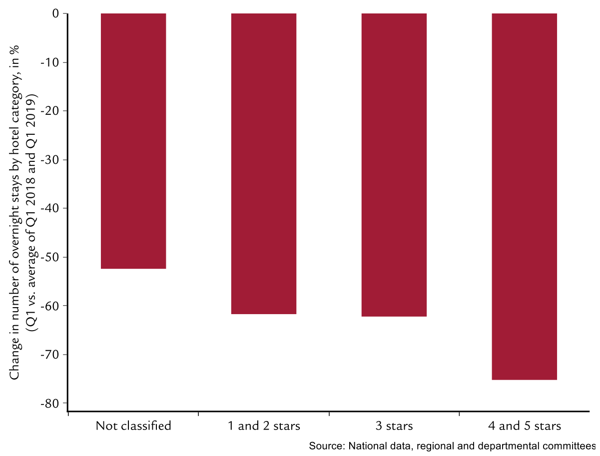
France

Second half of 2021

Key messages

- **The recovery has begun in offices** with the return of employees to the physical environment. Demand is focused on assets offering a high quality of performance.
- **Retail:** Following an average price correction of 15%, the vaccination campaign offers prospects for a recovery.
- **The French hotel sector** benefited from domestic demand and household purchasing power in the first half of the year and recorded an occupancy rate of around 70%.
- **Logistics** is continuing to make gains. The growing appeal to investors is generating an unprecedented rate of yield compression.

Chart summary



Ile-de-France accounts for half the decline in hotel footfall in France. In the first half of the year, footfall was still lagging behind, strongly impacted by a drop of 80% compared to the average for the first half of the year in the two years preceding the crisis. Not surprisingly, the four and five-star ratings, concentrated in Paris, have continued to fall due to the low occupancy rate, although foreign clientèle has been gradually returning since 9 June. Domestic footfall facilitated a rebound in the occupancy rate in the second quarter despite the Delta variant. The acceleration in vaccinations, which have been made practically compulsory, should enable the sector to hold its own until the end of the year.

The general economic climate in the early summer months remains encouraging: business sentiment indicators continue to point to a strong recovery, which also includes more and more medium-sized enterprises. Looking ahead to the 2022 presidential elections, fiscal policy will continue to support economic recovery in the coming months. Voters will probably judge President Macron not only on his fight against the pandemic, but also on his promise to reduce the unemployment rate to 7%. Despite a recession in 2020, this goal is still within reach: at the end of the first quarter of 2021, the unemployment rate stood at 7.8%, compared to 8.9% in the third quarter of 2020.

Office markets started to recover

The recovery has been well underway in terms of take-up since the beginning of 2021, due to the end of health restrictions and an improving business climate, but there is still a long way to go to reach the average levels of pre-COVID years. Following a sluggish 2020, transactions of more than 5000 m^2 returned to the stage in 2021 as staff went back to the office, enabling company managements to resume investments in real estate and complete their relocation or consolidation projects. Prime rental values are likely to hold up due to the quest for hyper-quality real estate with all the on-site amenities needed at the office.

Retail reviving

The divergent trends between the retail segments were reinforced by the third lockdown to the benefit of city-centre assets. According to Cushman & Wakefield, nearly 650 million euros transacted in the investment market in the first half of the year. These transactions reflect more opportunistic strategies of repositioning assets or acquiring stakes in certain shopping centres. The upward trend in yields across all segments reflects an average price correction of 15%, well below that recorded in other European markets. In the rental market, historically high vacancies led to a downward adjustment of rent on some high streets of 5% to 20%, causing some brands to relocate to more favourable conditions. The silver lining comprises a rebound in consumption facilitated by a savings rate of 21%, a multichannel strategy to optimise turnover and square metres, and the "green pass" for avoiding another lockdown. The e-commerce penetration rate remains at around 10%, as households have succumbed to physical "retaliation shopping". The return of tourists is key in certain segments and locations, especially on the high street.

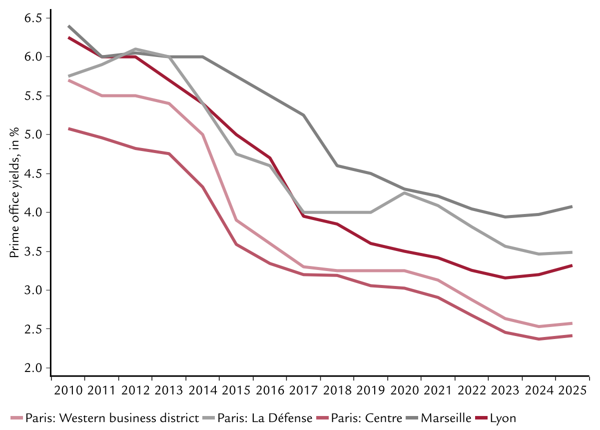
Hospitality, upturn in sight

The Delta variant of COVID-19 will have destroyed the flow of tourists within Europe this summer, however French hoteliers have profited from domestic demand and household purchasing power. On average, occupancy rates have hovered at around 70%, although some hoteliers have scored a full house, especially on the coast and in regions popular for green and sports tourism. Paris has a below-average occupancy rate despite the gradual recovery in foreign tourism footfall. As far as investment is concerned, there are no forced sales or large discounts in sight: -8% on average, a reasonable rate given the severe impact of the crisis. Paris remains the favourite destination for long-term investors, against the backdrop of an annual vaccination programme and an increase in travel within Europe. On a positive note, making vaccination practically compulsory will allow the sector to fully recover.

Logistics on a steady uptrend

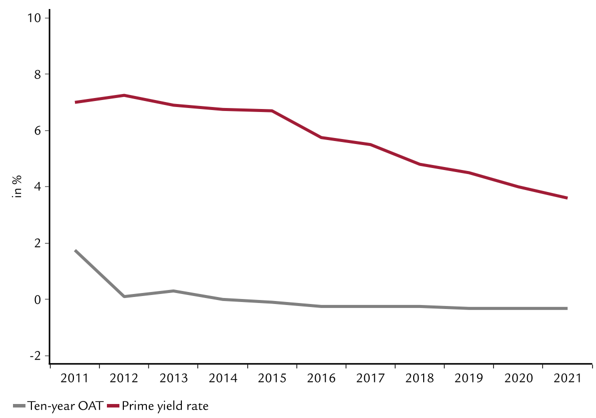
Demand remained strong at the start of 2021, with a further shift of activity away from the central north-south axis (70% of take-up in Q1 2020) and shippers accounting for the majority of leases. Yields have contracted at an unprecedented rate in recent quarters. This is driven not only by the prospects for rental growth and land scarcity, but also by the massive transfer of capital towards this asset class at the expense of the office and retail sectors, which are subject to greater uncertainty. Investors are interested in all types of properties, from state-of-the-art urban logistics to older warehouses in secondary areas.

Figure 1: Offices: the range of movement in prime yields depends on submarkets



Source: Cushman & Wakefield, SLAM

Figure 2: Logistics yields continuing to decline



Source: National data, regional and departmental committees
2021: most recent data from the first quarter

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