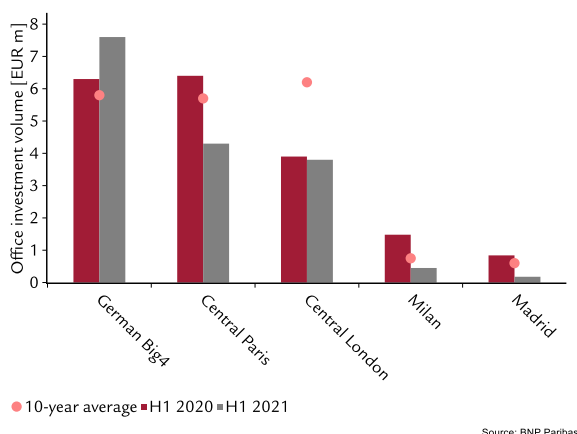


First half of 2022

## Key takeaways

- **The office market is gradually regaining strength:** Paris as a whole performed well on the back of new user demand for high-quality properties in good locations.
- **Retail remains under high structural pressure due to remote working and e-commerce.** The market for retail parks, which is more active in terms of investment, also remains polarised.
- **Residential** continues to perform well, although the changes brought about by the pandemic are altering household behaviour and the nature of rental demand.
- **Logistics, a market that has evaded the crisis:** the sector continued its good performance in 2021.

## Chart in focus



Investment markets have been fairly erratic since the pandemic began in 2020, therefore, it is important not to draw too hasty conclusions. In the more mature markets, such as Paris and London, activity in the first half of 2021 remained below the ten-year average. In addition to the impact of Covid-19, London has been impacted by the effect of Brexit since 2016. Germany, particularly its four largest cities, remains a dynamic investment market supported by domestic and foreign demand in line with its good fundamentals. In 2021, Paris was the focus of the bulk of investment flows in France, with the capital remaining the anchor point of Core office investments for medium and long-term revenues.

The business and consumer climate improved at the end of 2021, which suggests that the economic recovery is set to continue in 2022. As elsewhere in Europe, the spillover effect of monetary and fiscal policy measures aimed at supporting the economy will slow down in 2022. However, the expected negative fiscal impulse will probably curb economic growth to a lesser extent in France compared with the other members of the eurozone. According to IMF estimates, France's primary budget deficit will be reduced by around 2.6% of its gross domestic product next year. At the same time, a negative fiscal impulse of around 3% of GDP is expected for the eurozone as a whole.

## New office uses

While the recovery is underway in Ile-de-France, a return to the average levels prior to Covid-19 remains out of sight. The upturn has been more marked in Paris, however, especially in the CBD. At a time when the hybrid working method is establishing itself as a crucial model, the focus of attention is placed more than ever on the question of employee experience. In order to attract talent, technology companies are moving away from large sites in outer suburbs in favour of smaller units in the centre of Paris. Demand for the highest quality properties is coming from the consulting and financial sectors, and generating steady growth in prime rents. The strong upturn in demand for coworking spaces also serves to confirm this trend. Investors' appetite is focused on the best properties, pushing the prime yield rate to record levels, and on *value-add* strategies aimed at repositioning real estate in accordance with the latest standards.

## Retail parks in focus

The total retail volume of transactions in 2021 amounted to less than EUR 3 billion, as against EUR 4.5 billion in 2020 and EUR 5 billion in 2019. This is evidence of a lack of confidence in the underlying asset class. The transactions primarily relate to retail parks, which are more resilient to the structural changes of e-commerce as they are synonymous with "value for money" for both consumers and brands. However, the market is also polarised in this segment. On the rental market, the significant adjustment in rents has enabled the city centre segment in the regions to regain strength with the emergence of new brands. The multi-

channel strategy remains the holy grail for enhancing turnover and square metres, and the adjustment of the brands is swift. In Paris, the absence of a rebound in tourism due to improved mobility serves to explain an average vacancy rate of 8.7%; on some streets it is fluctuating between 15% and 20%.

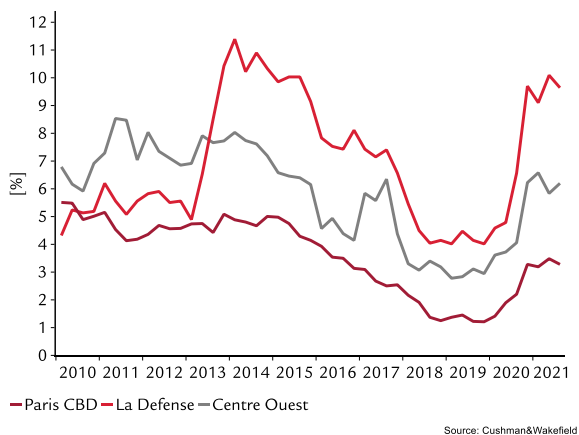
## Residential sector changing

The attractiveness of the sector shows no sign of abating, confirmed by the rise in demand in secondary towns, stimulated by the effect of remote working and new household aspirations. The price increase has reached 5% to 7% in some towns, while prices in Paris are stagnating. The crisis has reshuffled the cards among other things for rental demand, particularly in terms of the type of properties and services expected: co-living has thrived in the large cities. On the investment market, institutional investors remain very excited about the affordable rental sector and extended co-living: the development of services could be an alternative to a cap on rents, from the student segment to more targeted populations. Co-living professionals outside the country view France as a location of preference. The downside remains the lack of available supply, which could potentially prompt a repositioning of assets.

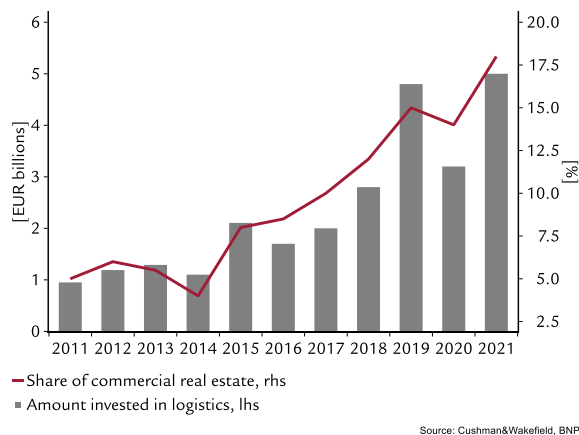
## Logistics continuing its boom

The increase in the pace of activity continued in 2021 with the accelerated change in consumption methods placing heavy demands on the storage capacities in and around the main consumer centres. The decline in key operations performed personally and for own account (-6% in one year) testifies to the necessity for retail players to rapidly restructure their production tools and massively expand their flows of goods by leasing existing properties or those under construction. At the same time, the administrative, regulatory and growing environmental pressures are serving to reduce the supply of properties suitable for accommodating new developments. These factors are combining to boost rental values. The investment market in logistics is continuing to grow and is becoming the second sector favoured by investors. The strong appetite of investors is leading to renewed yield compression.

**Chart 1: Development of vacancy rates on the main markets of Ile-de-France**



**Chart 2: Amount invested in logistics in France, in EUR billions, and share of commercial real estate (%)**



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