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LA FRANÇAISE REAL ESTATE insights

2020: REAL ESTATE MARKET OUTLOOK

2019 was an excellent year for the real estate market thanks to lower interest rates and limited supply. 2020 should see an extension of the real estate cycle with persistently low rates, further cuts and new pockets of rent increases.

In the investment market, real estate assets will continue to attract capital thanks to their resilience due to a comfortable real estate risk premium. Further yield compressions are expected in all asset classes except retail. After a fall of around 100 bps in the first nine months of 2019, prime office yields, in Europe, in 2020 are expected to decline further by at least the same amount. The alternative asset class (hotels and operated residential assets) should attract a growing number of investors as they provide diversification thanks to strong fundamentals that are uncorrelated to local economic cycles. As competition is increasing and supply is dwindling, many investors are looking abroad to increase their supply pipeline. Retail could gain new traction as the price correction movement continues.

However, rising uncertainties and slowing economic growth in the euro zone should lead to a change in investors' risk appetite, given the very low remuneration for risk.

The occupier market will have to integrate the influence of social values on the spaces we use, notably the blurring lines between work and life, the development of new smart services and the need for flexibility. The office letting market, which slowed down in 2019, should land smoothly in 2020. The new year should see demand return to more conventional volumes and a real dichotomy between central and peripheral locations. Pockets of value creation persist thanks to expected rent increases in markets where supply tensions are increasing. The development of areas where the tertiary sector is part of an urban mix offers many opportunities.

2020 will see the tightening of environmental regulatory obligations with the ongoing discussion on of the EU taxonomy and the implementation in France of the "decret tertiaire" which set-up an obligation to reduce energy consumption of tertiary building by 40% by 2030.

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Residential should offer good performances driven by the phenomenon of metropolization and the decline in the home ownership rate. The best performing assets will be those that respond to demographic changes: a more urban population with a growing number of seniors and an acceleration of the de-cohabitation phenomenon. Many initiatives should be launched to improve the solvency of households, which remain a focus of attention in most major European cities.

LA FRANÇAISE

128, bd Raspail 75006 Paris - France
Tél. +33 (0)1 44 56 10 00 - Fax +33 (0)1 44 56 11 00
480 871 490 RCS PARIS

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Editor in chief: Virginie Wallut
Content manager: Caroline Babouillard
Editor: Marion Lévêque
Graphic design: Wanda Le Sauze