

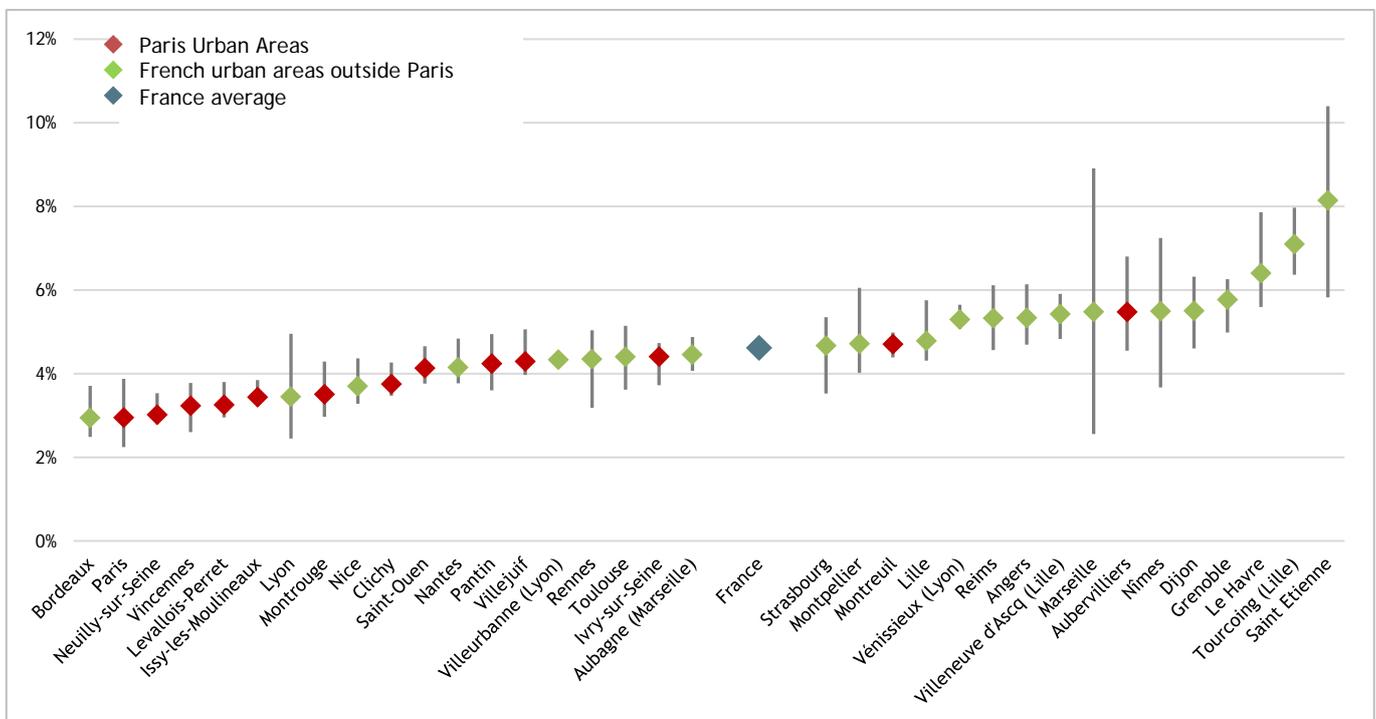
# EUROPEAN RESEARCH MONTHLY UPDATE

JULY 2018

## FRENCH RESIDENTIAL MARKET OFFERS OPPORTUNITIES IN PARIS AND BEYOND

- French institutions have a low exposure to their residential sector in comparison to German and Dutch investors in their domestic markets. This offers the opportunity for an increase in residential investments in France given the size of the market.
- French demographic trends are positive as shown by household growth, which is forecast to be stronger in France than in other countries such as Germany, Italy and Spain over the next 5 years.
- Most of the institutional capital deployed to date has been focused in the Paris region due to its status as a global gateway city, concentration of population and economic activity.
- New granular data from Homiwoo show that yields are on average lower in the Paris area while higher yields can be found in regional cities such as Strasbourg, Lille and Toulouse.
- More precise data also allows investors to identify locations with better than average rent and price trends on a micro-level to help them make the most of the available investment opportunities.

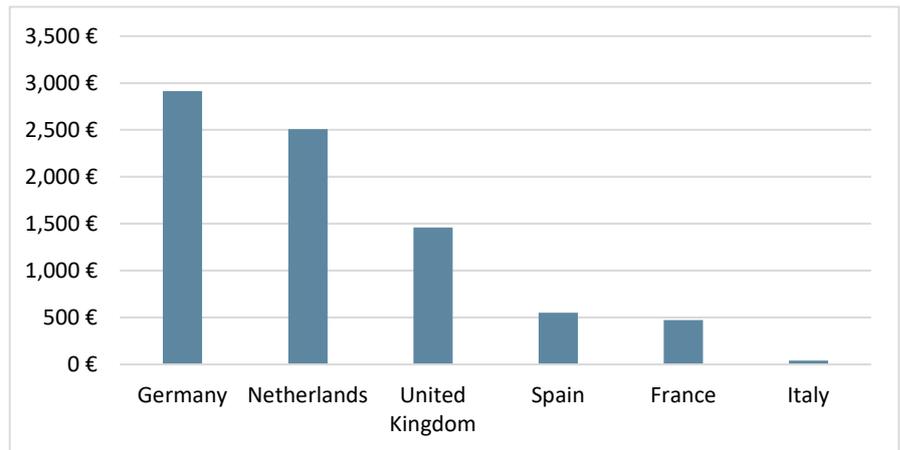
### RESIDENTIAL YIELDS\* IN FRANCE AS AT JUNE 2018



Sources: Homiwoo, AEW. As at June 2018  
 \*yields as ratio of estimated market rent over price per sqm; average yield per city calculated as an average of yields per type of apartments (from T1 - 1 room - to T5 - 5 rooms); yields in Paris, Lyon and Marseille average yields by arrondissements

2007-17 TRANSACTION VOLUMES PER HH SHOW POTENTIAL OF FRENCH RESIDENTIAL INVESTMENT MARKET

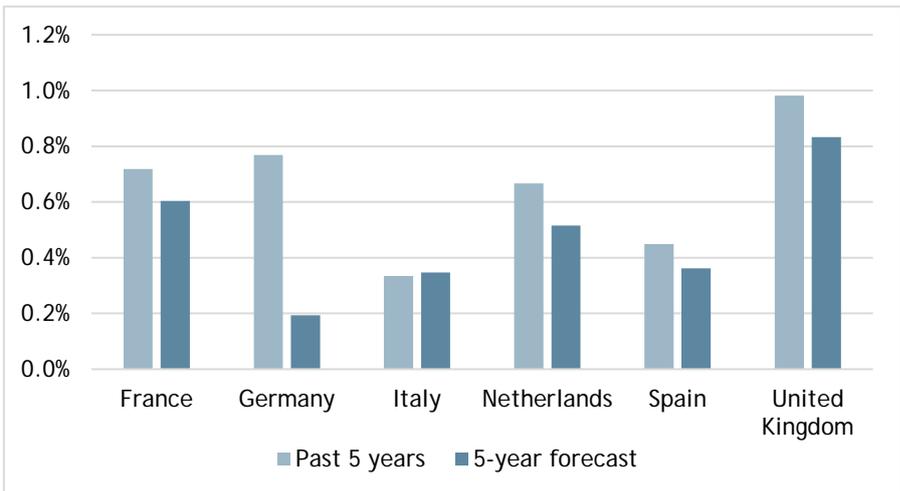
- Based on institutional investment per household over the 2007-17 period, the German and Dutch markets are the largest residential investment markets in Europe followed by the United Kingdom
- The French market is significantly smaller and just behind the Spanish market. However, the introduction of the Finance Act in 2014, which introduced incentives and taxation benefits for investors, should promote institutional investor exposure to the French residential market.



Sources: RCA, Oxford Economics & AEW Research. As at June 2018

STRONG FRENCH HOUSEHOLD GROWTH TO DRIVE DEMAND FOR RESIDENTIAL PROPERTIES

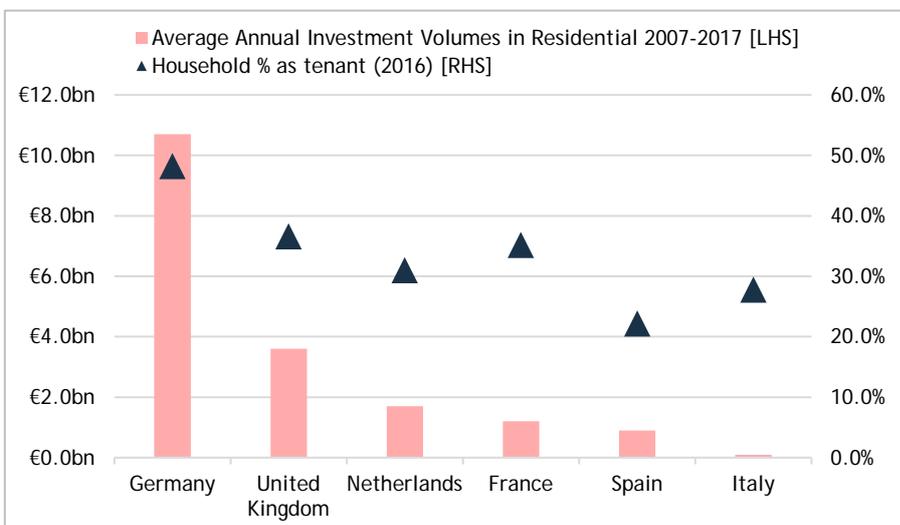
- Household growth (in number of households) is expected to be stronger in France than in most other countries such as Germany, Italy and Spain over the next 5 years.
- This should result in stronger demand for residential properties especially after a prolonged period of subdued construction activity.



Sources: Oxford Economics & AEW. As at June 2018

DECOMPOSITION OF FRENCH HOUSING TENURE DISTRIBUTION FAVOURABLE

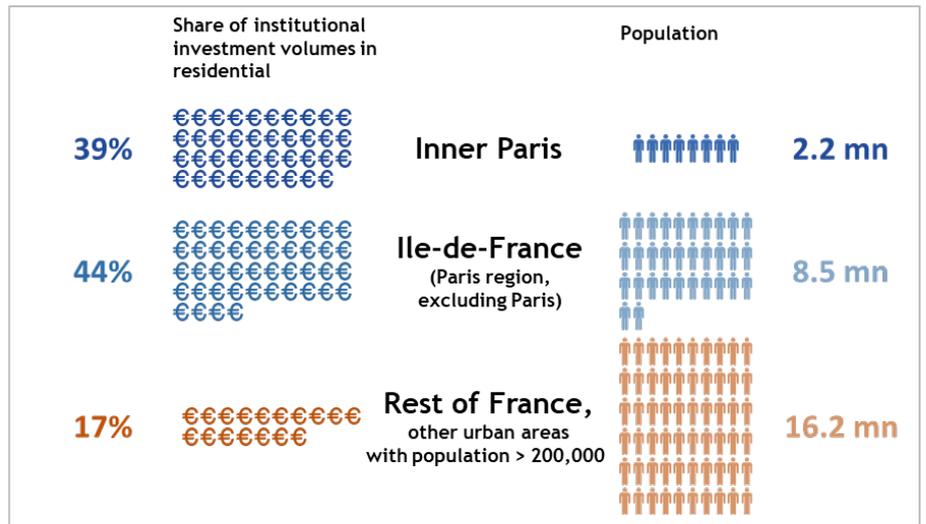
- Germany has the highest percentage of households as tenants among the main European countries according to Eurostat.
- France and the UK have a similar ratio of tenants, but average annual investment volumes in residential are three times higher in the UK than in France.
- This favourable tenure structure with robust tenant demand underpins the potential for institutional investors to consider French residential as a potential investment opportunity.



Source: RCA, Eurostat, AEW. As at June 2018

FRENCH INSTITUTIONAL INVESTMENT PREDOMINANTLY FOCUSED ON PARIS REGION SO FAR

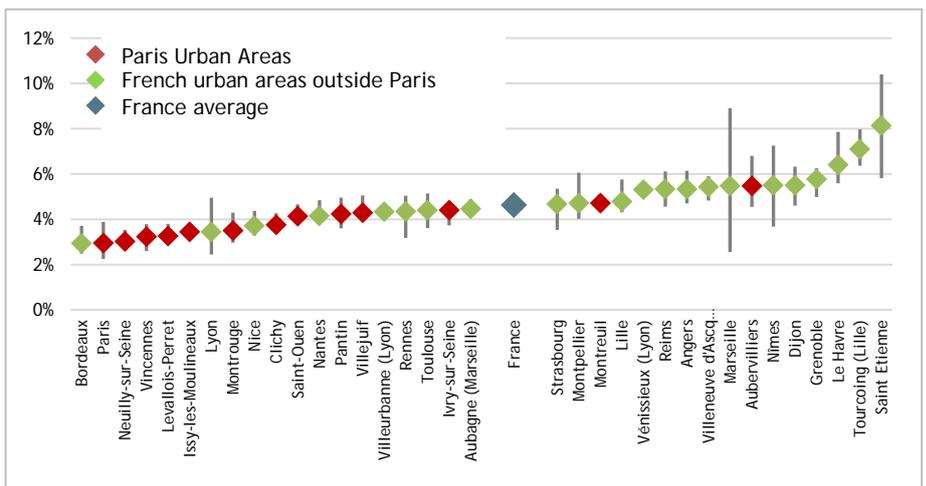
- Most of the institutional capital has been deployed in the Paris region due to its status as a global gateway city, concentration of population and economic activity.
- Urban areas outside the Paris region attract significantly less institutional capital.
- Investors might consider these urban areas (i.e. regional cities in France) as they could offer attractive opportunities on the back of solid household growth and spending power.



Sources: CBRE, INSEE, AEW ; average annual investment volumes in residential since 2010

ATTRACTIVE RESIDENTIAL YIELDS ACROSS A WIDER RANGE OF FRENCH RESIDENTIAL MARKETS

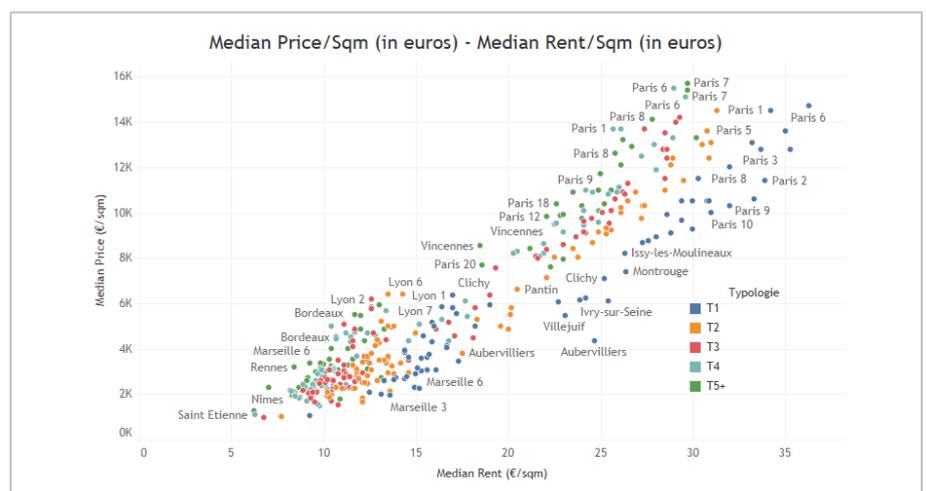
- Based on new data, we show that current yields range between 3% and 8% offering attractive opportunities for investments across different French residential markets.
- Yields are on average lower in the Paris area. More attractive yields can be found in regional cities such as Strasbourg, Lille and Toulouse.
- In addition, yield spreads within cities are on average higher in regional cities. This implies a higher variety of prices suggesting that these markets could offer better opportunities.



Sources: Homiwoo, AEW. As at June 2018

BETTER DATA ON MICRO-LOCATION LEVEL ALLOWS FOR BETTER DECISION MAKING

- New granular data from Homiwoo in our scatter graph indicates an interesting pattern across the French markets in that smaller units (i.e. T1-studios) give a better return on investment.
- The latter is mainly driven by the higher rent that is achieved from T1-studios and T2-one bed-room apartments in comparison to units with more bedrooms.
- Locating these outstanding rent and price trends on a micro-level should help investors make better use of the available investment opportunities.



Source: Homiwoo, AEW. As at June 2018

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As at 31 March 2018, AEW managed €29.4bn of real estate assets in Europe on behalf of a number of funds and separate accounts. AEW has close to 400 employees based in 10 offices across Europe and has a long track record of successfully implementing core, value-add and opportunistic investment strategies on behalf of its clients. In the last six years, AEW has invested and divested a total volume of over €19.4bn of real estate across European markets.

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