

MIRABAUD SUSTAINABLE CITIES

REGULATORY CHANGES BOOST INVESTMENT LANDSCAPE FOR HOUSING TRANSFORMATION PROJECTS

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Q1 2024

“Housing is an absolute priority”, declared Economy and Finance Minister Bruno Le Maire at the close of 2023. With this statement came a series of commitments from the French government, including plans to buy blocks from developments for social housing provisions and to create 35,000 new student housing places by 2027.

These latest pledges highlight France’s ongoing need for sustainable and affordable city redevelopment, creating solid potential investment opportunities within the Mirabaud Sustainable Cities strategy.

TACKLING FRANCE’S HOUSING ISSUE HEAD-ON

France’s housing situation has been described as a ‘social bomb’. Cost is the number-one problem, as shown in an Elabe September 2023 survey, and availability in prime locations near transportation hubs is low. This dynamic is particularly impacting residents at the lower end of the economic spectrum. In response, the government has taken action, announcing a series of commitments to make housing affordable and accessible for all. The measures include:

- **Increase the number of housing units bought from developers by social landlords** – in 2023, Action Logement bought 30,000 units and Caisse des Dépôts a further 17,000 as part of a EUR9.2 billion investment project. 2024 purchase targets are currently being defined.
- **The release of a EUR500 million envelope** from the State and the Caisse des Dépôts for the creation of “intermediary” rental homes, which sit between social

housing and the open market with rents 10% to 15% lower than market prices.

- **A commitment to build 30,000 housing units** within three years on sites close to factories and employment areas.
- **A commitment to build 35,000 new student housing units** by 2027.
- **20 territories will be designated for housing acceleration** with the aim for each to produce 1,500 housing units each (30,000 in total) within the next three years¹.

TRANSFORMATION MOMENTUM TO INCREASE IN 2024

The French government's implementation of new regulations and policy simplification illustrates its commitment to the housing sector. Building on the measures announced at the end of 2023, we expect the sector to gain additional support from the outcome of the latest round of discussions, focused on creating a more supportive legal environment for the transformation of office buildings into housing.

Historically, this transition has nearly always required a change in urban planning rules, which is a long and uncertain process.

The government announced a draft law in December, introducing the possibility of exceptions to the urban planning rules, allowing building-use transformations to take place without having to change urban planning rules. If approved, the law would allow exceptions on a deal-by-deal basis to be authorised by local authorities. This decentralised approach should further ease the transformation process, as it is quicker and more straightforward to get building permits and approvals from municipalities than it is to change the planning rules.

We held talks with the Ministry of Housing in late December and they reiterated their intent to support the sector and accelerate new homes production, especially close to key infrastructure, like transport hubs, hospitals and factories, to make it more affordable for people to live near their workplaces.

The pressure on the government to adopt new measures to accelerate production and make it easier for developers to produce will only increase. We believe sector momentum for change and redevelopment is strong, with December's draft law providing the latest confirmation of this.

INTEREST RATES

For private individual residential mortgages, rates have peaked and we are seeing the first signs of rate decline manifest, with banks starting to reduce rates by 20-40bps. Loan approval criteria are also softening, making it slightly easier to borrow money today than it was six months ago.

Capitalisation rates for institutions looking to purchase commercial property have also stabilised but are yet to decrease. We expect there to be a notable lag behind the residential market, reflecting the challenges facing this sub-sector and the dwindling investor base.

MIRABAUD SUSTAINABLE CITIES' UNIQUE INVESTMENT OPPORTUNITY

The urgent need for the sustainable and affordable redevelopment of French cities offers solid investment opportunities. In partnership with leading developers, Mirabaud Sustainable Cities finances construction and restructuring programmes for new housing in the main regional cities.

SUPPLY & DEMAND DYNAMICS FAVOUR THE STRATEGY

SUPPLY: Historical shortage further tightened by recent lack of investment.

- Total supply to the private residential market is forecast to fall below 50,000 units in 2024.
- Inventory of unsold completed new homes in France is extremely low at less than 3% of the total supply.
- All other supply is either sold-off plan or prior to construction completion.
- Forced selling in the commercial property market, driven by liquidity pressures, allows us to purchase buildings for transformation into residential units at heavily discounted prices.
- Regulatory environment is becoming increasingly supportive.

DEMAND: Increasing demand mainly driven by social housing, senior and student residence.

- Demand remains strong, driven by a housing shortage and increasing need for housing close to key infrastructure sites.
- Over 2 million people are waiting for social housing places – social housing operators are mandated to buy residential building programmes, with volumes increasing year-on-year.
- Easing interest rate pressure supports improving residential borrowing environment.



In mid-2023, the total supply of new homes to the market was c.120,000 units, with most of this volume being offered off-plan. With social housing operators mandated by law to increase their purchase projections, we anticipate that the total supply to the private residential market could fall to less than 50,000 units in 2024.

This is a dramatic supply decrease in an environment where demand is strong, social housing operators

are eager to buy and there is international interest from large US institutions looking to buy new-build programmes of 200+ units to provide family co-living, student and senior accommodation.

Over the coming months, we expect this situation of very low supply and strong demand to heighten, creating an opportunity-rich investment environment for the strategy.

KEY TAKEAWAYS

- Residential supply is low yet demand is high, particularly for social housing projects
- Residential borrowing environment is easing following 'peak rates'.
- The shift to remote working has created an excess supply of office buildings.
- Low demand and liability-driven selling of office space means we can buy properties at significant discounts to market value for transformation into residential units.
- The regulatory environment is growing increasingly supportive for this kind of development.

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