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PRESS RELEASE

French institutional investors had withdrawn from residential property over the last ten years, but they have been showing renewed interest in housing recently.
Vincent Mahé comments on this come-back in French daily newspaper Les Echos.

In the space of 10 years, the portion of institutional investor portfolios represented by housing dropped to 10% of real estate assets and less than 1% of total portfolios. We all know the reasons for this decline: the perception that prices were very high; the weight of new "Solvency" regulations; regulatory uncertainty exacerbated by debates about the ALUR law on access to renovated housing and urban planning; reputational risks in the event of disputes with occupants and, more generally, the highly fragmented nature of rental management costs.
However, is this morose picture about to change? At least four factors are at work.

The first is related purely to the current economic climate. As interest rates fall, institutional investors need to find low-risk alternatives to sovereign debt. Housing offers a nice balance between risk and return with a premium of around 2% on government bonds, low vacancy rates in major cities and resilient performances regardless of how the economy is doing.
But the real reason to invest in residential housing is structural: the underlying demographics are much stronger for housing than for any changes in the business cycle. France's three biggest cities are registering the fastest rates of growth in Europe thanks to three factors: population growth that is slightly ahead of other countries, social trends (related to divorce and separate living arrangements) that boost the number of households even as the population remains constant, and, above all, the continued increase in urbanization, which has risen from 74% to 87% since 1990, and is set to reach 93% by 2020. According to studies carried out by the French statistical institute INSEE, nearly half of all future demographic growth will be concentrated in 1% of the country, mainly in the Paris region and a few cities outside Paris. The infrastructure requirements generated by such a population movement are reinforced by the inadequacy of the current stock of housing in terms of environmental standards and the types of housing currently sought by tenants looking for smaller dwellings. Between downtown Paris where prices have gone crazy, and rural regions where they are in decline, there are many supply-constrained areas where housing represents an attractive investment, underpinned by the structural mismatch between housing supply and demand.

From a regulatory perspective, the government has done its bit and the ALUR law on access to renovated housing and urban planning was amended even before it came into force. Moreover, the status of intermediate housing, enshrined in the 2014 French Finance Act, offers new opportunities. A reduced rate of VAT and exemption from property tax give it a net rental yield of 3.5% to 4% (compared to the 2.8% recorded by IPD in 2014 for the sector as a whole).
We hardly need to add the fact that building new housing generates jobs in France and usually complies with very strict environmental standards. Although they do not trump

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financial analyses, these Corporate Social Responsibility (CSR) factors are important to institutional investors who are increasingly sensitive to the overall coherence of their choices.
It is into this changed environment that newly-created institutional funds focused totally or partially on intermediate housing have been added to the mix. These initiatives aim to give residential housing back all of its competitive advantages – income stability and resilience, protection from risk and inflation, conservation and creation of long-term value – within a packaged management framework.

If it continues, renewed institutional investor interest in housing can only be a good thing. France is one of the European countries with the lowest portion of institutional investment within the total rental housing stock and it is vital that these investors return to develop affordable, well-maintained housing. But the challenge is also an economic one. The presence of institutional investors over the long term helps to stabilise and clean up the market. It prevents it from straying too far from its fundamentals and smoothes investment flows from one year to the next. Today, institutional investors undoubtedly need housing as much as housing needs them and the government appears willing to give them a hand. This could provide the best means of gently showcasing the advantages and benefits of residential housing.

PRESS RELEASE

SNI Group

As Caisse des Dépôts' public interest real estate subsidiary and France's biggest social landlord, SNI Group actively supports stimulus programmes in the construction sector approved by the President of the Republic. As a global real estate operator and landlord of reference for major state institutions, SNI helps public stakeholders to deploy housing policies. The Group provides them with innovative and sustainable solutions focused around social diversity and cohesion. It can therefore meet a dual objective: helping to expand the social and intermediate housing offer in supply-constrained areas, and promoting home ownership. SNI Group has a footprint throughout mainland France through its 19 entities: SNI and its five historical entities, Sainte-Barbe, and 13 low-cost housing companies (ESH).

For further information go to: www.groupesni.fr

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