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FRENCH INVESTMENT VOLUMES INCREASE 60% AS FINANCING IMPROVES

According to Savills, French investment volumes for Q310 are set to total approximately €2.3 billion, which will bring transaction levels since the beginning of the year to circa €7.1 billion, reflecting an increase of 60% compared to the same period in 2009.

The international real estate advisor notes that this increase in investment activity is in line with a gradual improvement in financing conditions with French banks becoming more willing to lend on less secure assets. In addition, the research confirms that while the number of deals completed in Q310 remains below the quarterly average, the seven transactions that were closed in this period each exceeded €100 million compared to eight transactions for H110.

In terms of investor profiles Savills advises that domestic investors are dominating demand accounting for more than 62% of the total transaction volume. Boris Cappelle, associate director at Savills, comments: “French investors have been using their knowledge and understanding of the local market to their advantage in negotiations allowing them to take a more aggressive position in terms of pricing.

“While financing is slowly improving with the French banks more active on less secured assets, new lending remains comparatively low and expensive compared to the pre-crisis period, which explains the increasing dynamism of insurance companies, pension funds and real estate investment trusts.”

German funds have been increasingly positioning themselves as sellers rather than buyers in France during this quarter, although the close-ended and specialised funds have maintained appetite. In addition, Savills notes that there has also been a marked return from UK and US investors.

Press Release

Demand in general continues to be focussed on office properties, particularly in Paris and the Western Crescent, which have accounted for approximately 48% of total turnover this year. While interest in the retail sector has decreased slightly this quarter, appetite for these properties still remains strong and is highlighted by the recent purchase of the Parinor shopping centre located in Ile-de-France by the National Pension Service of Korea for €217 million.

With demand clearly outstripping supply and low development activity during the past two years, Savills expects forward funding to gradually return particularly with the outlook of the letting market improving.

With regard to yields, Savills research indicates that prime yields are being driven down by the significant supply/demand imbalance. Following a recent transaction at 127 Champs Elysées, the prime office yield in the Central Business District has fallen by approximately 75 basis points from 4.75% in Q210. Pascal Rupert, Head of Savills investment in France, says: “With buyers adopting a more aggressive approach on pricing, we expect yields to continue to decrease over the next 12 months on prime assets and also on secondary properties for which there is a growing appetite.”

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