

INVESTMENT OPPORTUNITIES IN STUDENT HOUSING: CASTING THE NET WIDE IN FRANCE

The French poet Frédéric Mistral, a son of the Provence, once observed that visitors to Paris 'had seen nothing yet' if they had not also been to the Mediterranean fishing port of Cassis-sur-Mer, near Marseille. More than a century later, his remark may still serve as a reminder that one should be careful not to mistake Paris for France.

Foreign tourists may have long discovered the country's many gems in the provinces, Cassis-sur-Mer included, but for many international real estate investors, France outside Paris still seems to be a bit of a secret waiting to be discovered. This applies in particular to the emerging niche market for dedicated student housing.

PARIS: A MARKET UNTO ITSELF

Accounting for nearly one-fifth of France's European population and about a third of its GDP, greater Paris (the 'Île-de-France' region) inevitably is the main target for foreign real estate investments in France. The region also accounts for the largest single share – one quarter – of all students in France (see Figure 1).

Almost a proxy for the range of returns on investment in residential and student housing that is available across France, the greater Paris region offers stability. At the core, the municipality of Paris, which packs some 2.3 million residents in an area almost twice the size of Manhattan island, a negligible vacancy risk comes at relatively low yields on investment of 2.5-4%. Just outside the 'Périphérique' inner ring road, the band known as the 'petite couronne' – including areas such as La Défense, Levallois-Perret, Neuilly, Courbevoie, Saint Ouen, Pantin, Villejuif, Ivry, etc., – yields of up to 4.5-5% can be had, rising to up to 5.5% further out in the greater Paris region. Elsewhere in France, a 6% yield is possible at selected locations.

For investors stepping in now, the outer band of the 'Île-de-France' should offer the prospect of capital gains owing to the effects expected from the 'Grand



ROELFKE BUITINK
Senior Research Manager,
Bouwfonds IM



TIMOTHÉE VISBECQ
Acquisition Manager,
Bouwfonds IM

Table 1 French providers of student housing

	PRIVATE MARKET	SOCIAL HOUSING LANDLORDS	STUDENT HALLS OF RESIDENCE
TARGET	All students, preference to those with family guarantees	Students of modest means/on grants (1/4 of students, monthly budget of €615)	Mainly international students and students not on grants
PRICES	Very variable rents, with services either limited or charged as extras (for example parking)	Average rent of between €150 and €300 per month (outside Paris)	Average rents of between €400 and €650 inclusive of all taxes (services and common expenses) outside Paris
ACCOMMODATIONS AND AMENITIES	Studio through to two room apartments, with very disparate amenities (joint tenancies possible)	Mainly rooms with shared bathrooms	Standardised units from studio to two room apartments, with standard selection of services
PROVIDERS	Many private individuals mainly marketed through estate agents	University foundations, social housing and intern accommodation	Institutional investors, national and local developers, e.g. Les Estudines, Studélites
POSITIVE	A very wide range	Predictability of supply Future predictability thanks to the 'plan 40,000'	Predictability of supply: Amenities and surface area, Prices, Location, Visibility and convenience Increasing availability Flexibility through a menu of services
NEGATIVE	Very disparate in type, sometimes obsolete Commissions are paid to agencies Charges are payable on top of rent Limited growth in total accommodation available	Restricted to a specific group of people	Relatively high prices (but good price/quality ratio)

Paris' infrastructure projects currently underway to improve transport links with the heart of the capital, including a further expansion of the Paris metro system scheduled to be completed by the early to mid-2020s.

Overall, however, investment in the Paris region should primarily be regarded as a cornerstone of stability in a French portfolio, as opportunities for capital gains are mainly found further afield in France.

BEYOND PARIS: OPPORTUNITIES FOR REAL ESTATE INVESTORS

Outside of greater Paris, France offers plenty of opportunities for investment across a wide range of real estate types offering attractive returns. These are now predominantly found in the south, south-west and west – examples being Toulouse, Bordeaux and Nantes – following the country's geographical shift in economic strength away from the old industrial (mining and steel) heart-

lands of the north-east over the past decades.

The changes in fortunes of the different regions across France is clearly reflected in the development of regional real estate markets: in 2014, for example, prices of residential real estate appreciated by 8% in the south-western city of Bordeaux, in spite of an overall sluggish economy, but fell by 12% in the north-eastern city of Metz.

With a thriving local economy featuring wine trading as well as logistics (shipping), aeronautical industry and tourism, Bordeaux is one of several regional centres – notably in the south and southwest of France – which have become increasingly attractive as places to live and work, their quality of life and lower cost of living easily compensating for lower salary levels than in Paris.

The city is also among those that benefit from France's ongoing investment in its high-speed railway network. The Tours-Bordeaux extension of the 'LGV Atlantique' high-speed railway westward of Paris, which is scheduled to open in July this year, will cut rail travel time between Bordeaux and Paris by a third to a mere two hours.

These developments have not missed their effect on residential real estate prices, which appreciated by 12% in 2016-17 and prices are now on average 44% higher than a decade ago. For investors, centres including Bordeaux and Aix-en-Provence (the latter now France's second-most expensive region after Paris), seem to have 'upside' potential left after the price increases witnessed over the past decade. The trend is expected to continue as the demographic change might continue as well.

FRENCH STUDENT HOUSING IS AN ATTRACTIVE NICHE

The variation in prospective returns on investment in residential real estate across France can serve as a guide to investment opportunities in student housing as well.

In general, the French student housing offers a low risk profile, with a 100-

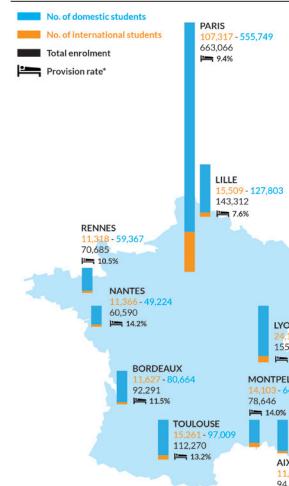
150 bps yield premium over investment in mainstream residential real estate. The vacancy risk is very limited because of the fundamental shortage of good quality and affordable student housing in France. In general the student housing provision rate (the number of public and private beds available for students divided by the number of students) is only 15% for France as a whole, and even lower in the major cities, such as Paris (9.4%) and Toulouse (13.2%). Demand for independent accommodation – i.e. outside the paternal home – is underpinned by the growing number of students. France also hosts highly ranked universities and famous business schools. The number of foreign students in the country is expected to increase (France attracts 7% of foreign students worldwide), as well as the considerable state support available to French students living far from their parents' home: more than 800,000 students (nearly one third of the current total) received housing benefits from the 'CAF' government agency in 2014 – either individual housing support benefit ('APL') or social housing benefit ('ALS') – of up to €200 a month, depending mainly on the recipient's personal means of income and local real estate prices.

Furthermore, investors can draw confidence from the French real estate market's recovery in recent years and a strengthening economy. Investor optimism about France is also likely to have been strengthened by the election victories of Emmanuel Macron and his En Marche party, defeating the French eurosceptic far right with their reformist agenda.

The investor outlook for student accommodation is underpinned by the before mentioned steady growth in student numbers. The student population in France grew by 1.3% per year between 2010 and 2014, and it is expected to continue to grow by at least 1% per year to reach 2.6 million by 2020.

The French market for student housing has become more professional over the past 6-7 years and is attracting domestic and foreign institutional investors alike, which is expected to buffet valuations. Specifically, the major real estate developers in France have started to take a noticeable interest in the lucrative segment of quality, purpose-built and serviced student 'halls of residence' (or 'multi-unit residencies' – i.e. blocks of self-contained studio apartments). This is the segment which holds the opportunities for real estate investors.

Figure 1 Student numbers and provision rate in selected university cities 2016



Source: MENESR-ESR, Savills
Total number of beds (public CROUS and private)/ total number of students

years. This scheme has been instrumental in the development of student halls (exclusively blocks of studio flats) across France, a market segment where

Nexity and its property management company are market leaders with well over 200 halls of residence for students (one-fifth of the total in France). BNPPi is runner-up with a portfolio of over 50 complexes (5% of the segment).

To meet this shortfall, priority needs to be given to building new halls of residence in the Paris region, as well as in other academic areas, such as Toulouse, Lille, Bordeaux, Nantes and Rennes for example.

So far student halls of residence account for only 12% of all student housing in France. But the number of complexes providing this type of accommodation is expected to increase by 50 buildings per year over the next

Smaller towns – in terms of student numbers – are equally found across the country, from Nancy in the north-east to Nice on the Riviera, and from Caen in Normandy to Clermont-Ferrand in the Auvergne (the latter has a student population over 30,000, for example).

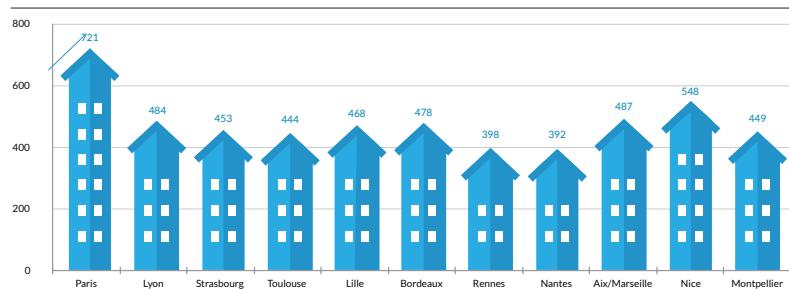
These cities all have a lot going for them. Lyon, France's second urban centre and its second-strongest economic region (on a par with the Aix-Marseille cluster in the south), has the country's second-largest student population (6% of the total).

Grenoble and Toulouse have in recent years both topped France's annual list of most attractive university cities published by the magazine L'Etudiant. Discussing the latest edition of its ranking, based on a variety of criteria including quality of local cultural life, attractiveness of the real estate market and job dynamics, L'Etudiant said strong local economies and labour markets in Toulouse, Nantes and Bordeaux (all witnessing employment growth of around 15% in 2004-2014) contributed to the attractiveness of these cities to students. Local employment prospects also underpinned the attractiveness ratings of Lyon, Paris, Rennes and Grenoble.

In the north, Lille is no longer the 'Manchester of France' it once was, but the decline of its more traditional industries has been compensated, by some extent, by its proximity to the Benelux and the UK. Only 40 minutes from Brussels, 1 hour from Paris and 1.5 hours from London by high-speed rail, Lille has the country's third-largest student population (along with Toulouse), and the local business school EDHEC is reputed to be one of the best in the country. Montpellier, Aix-Marseille, Nice, Toulon, Nîmes and Avignon – all in the Mediterranean south – stand out on climate and lifestyle, while Rennes, Strasbourg and Lyon are cited for their diverse cultural offerings.

In short, the French student housing market is waiting to be discovered by discerning investors who are ready to admit that they 'have seen nothing yet' in France.

Figure 2 Rent for a studio PBSH in 2016 (including charges and taxes)



Source: Savills

Developers are moving into this segment because these student halls can provide an attractive alternative for the large majority of France's students who live on their own – as most of them do – and who either rely on often sub-standard and relatively expensive accommodation in private homes, or social student housing which focuses more on the affordability than the product and service (see the Table 1 for an overview of the specifics of the different categories of student housing in France).

Some developers, such as Marignan or Vinci, are still exploring their options in this market. Others, such as Bouygues Immobilier and Eiffage, have taken a more 'opportunistic' approach, snapping up attractive opportunities as they presented themselves.

But others have been proactively developing the market for the past 10-15 years, benefiting from a tax incentive scheme allowing private investors in build-to-let accommodation to deduct 11% of such investment from their annual taxable income for a period of nine

years, capturing market share from the dominant 'private landlord' segment and reaching around 40,000 new units nationwide by 2020, when the number of students accommodated in such halls of residence is expected to have risen to 220,000 – a 20% increase from today. Local authorities across France are keen to accommodate new serviced student residencies because they are developed and operated from a long-term investment perspective and therefore are properly maintained.

Given the high entry costs in the Paris region, investors exploring opportunities in student housing in France can begin by familiarising themselves with the two dozen or so other cities across the country which together account for nearly four-fifths of the French student population – led by major university cities such as Lyon, Lille, Toulouse, and Bordeaux.

In terms of the local student population, a second tier of cities which accounts for about one-third of all French students comprises Montpel-