REBOUL & CO.

RESEARCH ABSTRACT

Strategies for Real Estate Firms Amidst the Market Downturn

In 2023, **the global real estate market experienced a significant downturn** due to rising interest rates worldwide and an uncertain macroeconomic environment marked by armed conflicts, impending elections, and volatility in inflation. **Total investments in real estate plummeted by 51% compared to 2022.** With interest rates expected to stabilize in 2024, **real estate investments and market activity are projected to slowly increase,** although remaining relatively low, especially during the first semester.

In France, **similar trends were observed,** with a 53% decrease in investments from €26.9 billion to €12.8 billion, reaching an **all-time low since 2010.** The Parisian region experienced a **more pronounced decline than the rest of the country,** with drops of **60% and 42%,** respectively, largely due to **decreased foreign investment,** which **fell by 61%** from 2022 to 2023. Analysis of investment trends in the French real estate market by asset type reveals that **office buildings still account for over half of commercial real estate investments,** despite a 56% decrease compared to 2022. Industrial property investments followed a similar trajectory, experiencing a 55% decline. In contrast, retail spaces saw a comparatively smaller drop, ten percentage points lower than other asset types.

To mitigate the impact of increasing interest rates and inflation volatility, **investors turned to diversification**, investing in specific asset subclasses. In 2023, **€550 million was invested in co-living, marking a 20% increase** from 2022. Similar upward trends were observed in private education real estate, which experienced a **record year for investments at €500 million,** a 50% increase from 2022. Investments also surged in hospitality properties and properties acquired for transformation.

Real estate investment firms thus find themselves in **a precarious position amidst the current market turmoil.** Over the past year, the **cost of doing business in real estate has steadily risen,** and this upward trend is expected to persist, driven by stricter regulation and inflation. Additionally, many assets are or will soon be sub-standard, **needing costly investments for compliance and maintaining value.** Yet, with high interest rates, **refinancing for such upgrades is expensive,** potentially rendering the improvements untenable. Ill-prepared for this current downturn, investment firms have been struggling because of three main aspects:

a) A decrease in revenue due to rising interest rates, decreased transaction volumes, and declining property prices

b) An increase in costs mainly because of a notable hike in the cost of compliance

c) A riskier real estate market with many assets being too volatile and sensitive to market fluctuations and a **rising illiquidity risk.**

We believe there are compelling **digital opportunities** (stemming from a variety of technologies, including AI and Gen AI) and **strategic insights** that are poised to enhance firms' flexibility and preparedness in times of market downturn, addressing the issues mentioned above:

a) Increase revenue by expanding the volume of ESG assets as they are resilient, compliant, and financially performant even during market downturns while also investing in specific assets with higher potential performance in exchange for greater risk

b) Decrease costs by implementing digital solutions across the entire value chain

c) Diversify the portfolio through investments in different locations (Parisian region vs. the provinces) and different property types (Commercial vs. Residential).