

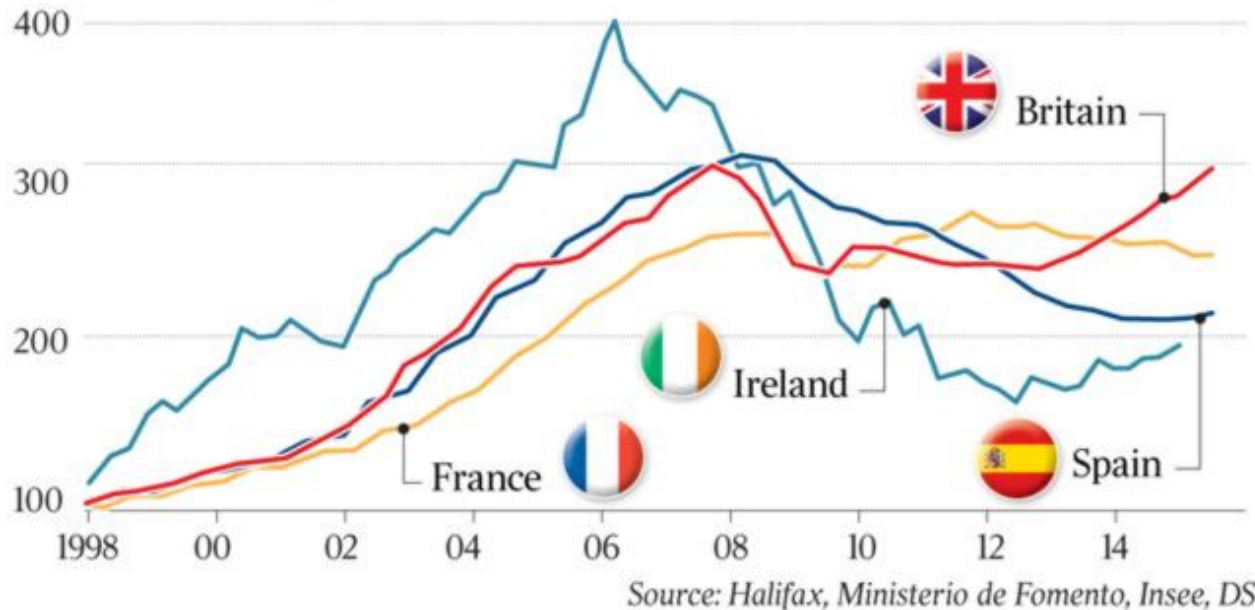
## THE AUSTRALIAN

# Attractions of French real estate as eurozone recovers

STIRLING LARKIN THE AUSTRALIAN NOVEMBER 07, 2015 12:00AM

## Housing price indices

Index base 100=1997 Q1



Housing price index Source: TheAustralian

**With Australians remaining almost obsessively fixated on local real estate opportunities, while the globally minded look to Manhattan, London or Shanghai, the world's most affluently valued real estate market, France, now deserves our attention for several key reasons.**

The ECB remains committed to continued accommodative monetary policy and has flagged another round of stimulus, perhaps as early as December, extending its quantitative easing until at least March 2017 — and the global investor cannot ignore eurozone market opportunities for much longer. As US real estate recovered with three rounds of QE, so too may European recipients of ECB QE.

Europe accounts for a third of the world's top 1 per cent by wealth and France alone makes up almost one-fifth of that, with real estate accounting for 63 per cent of total national household assets.

Beyond Australian SMSFs seeking access to France's property sector via the popular iShares Europe Developed Real Estate (NYSE: IFEU) or Vanguard REIT (NYSE: VNQ) ETFs, Australian ultra high net worth investors are revisiting wholesale investment access channels provided by alternative asset managers; such as eurozone and globally-focused hedge fund, distressed asset and liquid real asset managers.

But whether an SMSF or an UHNW investor, the underlying fundamentals for investing have to and do remain the same.

When it comes to France, in particular, the smart and successful global investors have always respected the rule that local, domestic French analysis counts far more than any other regional or international specialist opinions.

According to Olivier Eluere, head of economic research at France's Credit Agricole bank, though

French property prices are still showing a measured fall over the past 12 months, this market's trend is picking up in line with the robustness seen in London's buoyant real estate sector.

France's newly built property segment has seen a 19 per cent year-on-year increase in sales volumes. Even the pre-owned sector is showing signs of improvement, with an impressive 10 per cent annualised rise in sales over the first eight months of 2015.

Eluere argues that two factors explain this market rebound:

- The French plan to stimulate the new-build market, and in particular the “Pinel scheme” for buy-to-let investors, featuring six, nine and 12-year packages and the possibility of renting to parents or children, plus the broadening of access to the zero-interest loan, extended until 2017 and refocused on regions where housing pressures are average or light.
- The level of mortgage rates in France remain very low and considered close to bottoming, which has triggered or sped up certain projects, stimulating sales.

Why such “Franco-specific” circumstances matter to Australian UHNW investors is that these nuances are largely uncorrelated and “asymmetric” — a market dynamic where determinants of value between two markets or assets are not comparable — and provide much needed fixed income and real asset diversification away from, what often happens to be, significant over-investment in Australian real estate by Australian Family Office and wholesale investors.

With the pace of residential dwelling real estate price growth almost certainly peaking in Sydney, and probably close to peaking in Melbourne, the diversification found in eurozone markets — such as that of France — provides an option not found elsewhere at this stage in our Australian property investment cycle.

According to RP Data, Sydney dwelling prices have increased by 17 per cent over the year to September 2015, with Melbourne prices up by 14 per cent and yet the average growth across the other five capital cities was just 0.76 per cent year-on-year.

With Australian UHNW investors looking for new plains, the refocus on eurozone real estate becomes highly relevant. Julius Baer, a Swiss Private Bank, estimates that, as Europe continued to emerge from a drawn-out recession, aggregate European household net wealth grew in 2014 to levels surpassing the pre-crisis highs in 2007. Julius Baer says this confirms Europe remains one of the wealthiest regions in the world, despite the rise of Chinese private wealth and North America's post-Great Recession recovery.

The decision Australian UHNW and other investment communities now need to take is, is it still premature to commit to eurozone real estate opportunities? Or, are the two lagging negative cyclical factors in France — low growth and comparatively high unemployment — too risky for investors who would also have to consider Australian dollar and euro currency hedges?

Complicating these decisions further are macro concerns such as Britain leaving the eurozone, known as “Brexit”, and the continuing question of Greece's possible exit, known as “Grexit”.

The global investor should not forget that French banks carry Greece's largest financing burden.

But with all global investing, *c'est la vie*.

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