



CATELLA

# Zoom on SCPIs

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## MARKET SUMMARY

JANUARY - 2024





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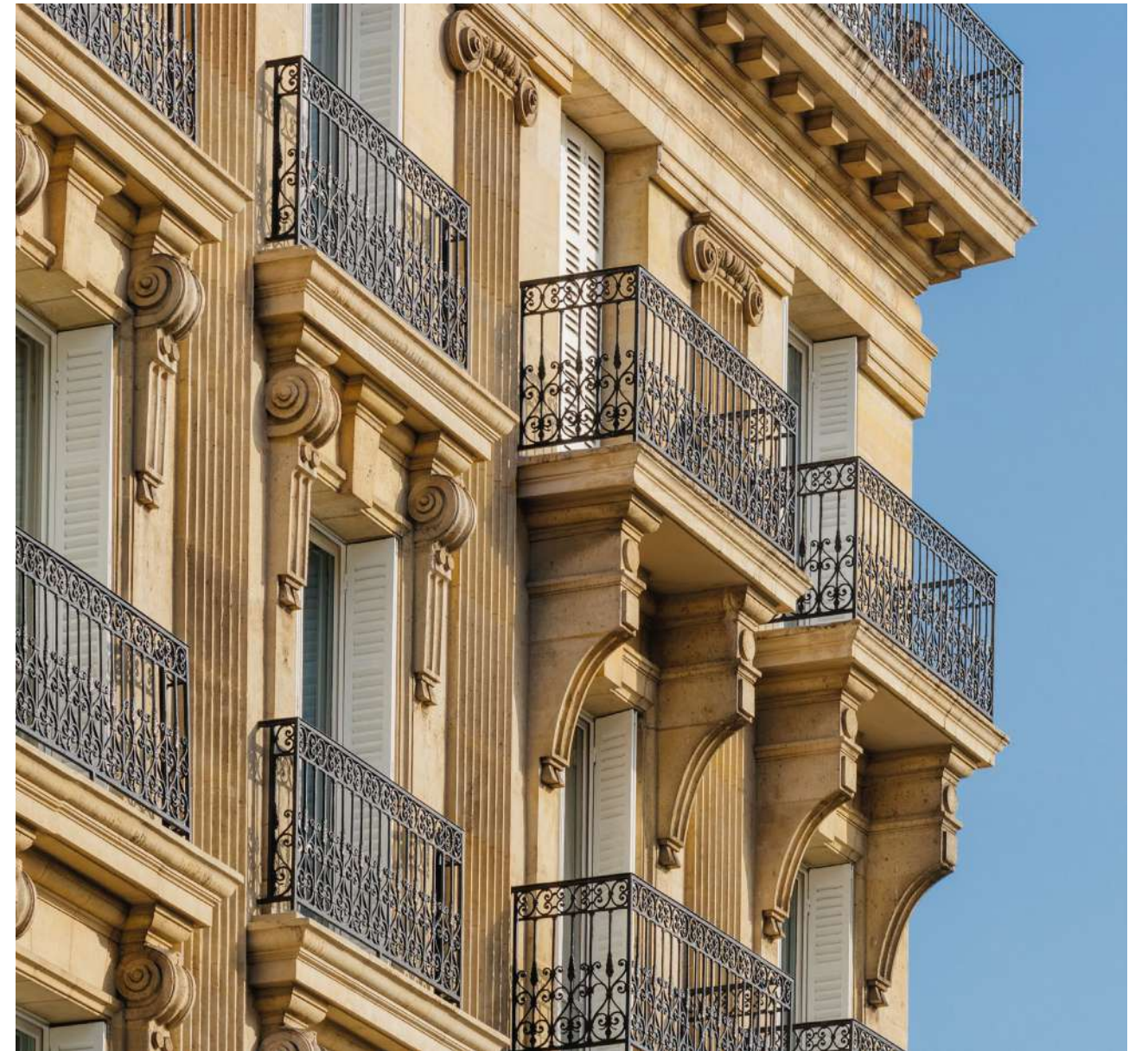
LA FRANÇAISE

## INTRODUCTION

- Since mid-2022, when a new market cycle began, much attention has shifted to the latest “rising stars” of the French real estate market: SCPIs. How resilient are these real estate investment vehicles in the face of the ongoing upheavals in the French business environment? What of the rise in key interest rates and their impact on asset values? With regard to the challenges that are now on the minds of all real estate players, are new realities such as changing workplaces and environmental issues primary concerns?
- We have been approached by many parties for advice regarding these new market complexities. In order to provide expert guidance, the Catella Capital Markets teams and MBE Conseil have combined their know-how and their databases to share their vision and analyze these major real estate market players.

- Through this study, we aim to share the knowledge gained by our daily experiences, both as market players and as keen observers of the major “tectonic shifts” that are profoundly reshaping real estate markets.
- Non-residential real estate is largely a long-term industry. Thoughtful and insightful analysis of long-term market trends allows for clearer insight to emerge from the fog of current events, and from the various obstacles typically encountered in the course of our professional operations.
- We hereby offer you our expert analysis and insight, gained through our daily interactions with our clients, the data we have collected and the experience we have gained through the deals we make together.

\*SCPI (Sociétés Civiles de Placement Immobilier): Collective investment vehicles whose assets are mostly invested in real estate and are regulated by the French Financial Market Authority.





# I. SCPIs - THE EMERGENCE OF AN INTEGRAL MARKET PLAYER


## INITIAL OBSERVATIONS

Within a commercial real estate market that has matured significantly over the last decades, SCPIs have experienced very strong growth, becoming major players in France. However, the downturn in the French investment market in 2023 - coupled with rising key interest rates and a host of economic, societal and geopolitical uncertainties - has impacted SCPIs in much the same way as other types of investors.

A notable consequence of the market contraction has been a sharp drop in collects. Moreover, mid-year appraisals often led to concerns

about asset values, which for certain SCPIs have resulted in a drop in share prices.

Standard analysis of SCPI assets chiefly concerns two factors: capitalization levels, and asset market values (€85.6 billion as of December 31, 2022, among the 205 SCPIs listed in France operating in corporate and residential real estate).

 Distribution of real estate assets of SCPIs as of December 31, 2022 - Percentage of asset market values

|                    | Paris | Rest of Ile-de-France | Regions | International | Total  |
|--------------------|-------|-----------------------|---------|---------------|--------|
| Office             | 13,1% | 24,1%                 | 11,7%   | 11,4%         | 60,2%  |
| Retail             | 3,0%  | 3,5%                  | 8,1%    | 4,1%          | 18,6%  |
| Light industrial   | 0,1%  | 0,7%                  | 0,9%    | 0,3%          | 2,1%   |
| Warehouses         | 0,0%  | 0,5%                  | 1,2%    | 0,4%          | 2,0%   |
| Mixed used         | 0,0%  | 0,0%                  | 0,0%    | 0,0%          | 0,1%   |
| Hotels             | 0,2%  | 0,3%                  | 1,3%    | 1,4%          | 3,3%   |
| Leisure            | 0,0%  | 0,0%                  | 0,0%    | 0,0%          | 0,1%   |
| Residential        | 0,6%  | 2,3%                  | 1,9%    | 0,0%          | 4,8%   |
| Childcare, schools | 0,3%  | 0,0%                  | 0,0%    | 0,1%          | 0,4%   |
| Student housing    | 0,0%  | 0,1%                  | 0,1%    | 0,0%          | 0,1%   |
| Senior housing     | 0,0%  | 0,2%                  | 0,2%    | 1,0%          | 1,4%   |
| Nursing homes      | 0,1%  | 0,3%                  | 1,1%    | 2,0%          | 3,4%   |
| Medical care       | 0,1%  | 0,8%                  | 1,5%    | 0,7%          | 3,2%   |
| Other              | 0,0%  | 0,1%                  | 0,2%    | 0,0%          | 0,3%   |
| Total              | 17,5% | 32,8%                 | 28,3%   | 21,4%         | 100,0% |

— Source: IEIF

Our study aims to trace the evolution of SCPI investments, as well as detailing their very wide diversity in terms of location, product types, managerial strategies and generational differences. As an investment, SCPI shares should not be completely dissociated from the products they represent: namely, real estate assets, held over a relatively long period of time, which are subject to standard real estate market cycles.

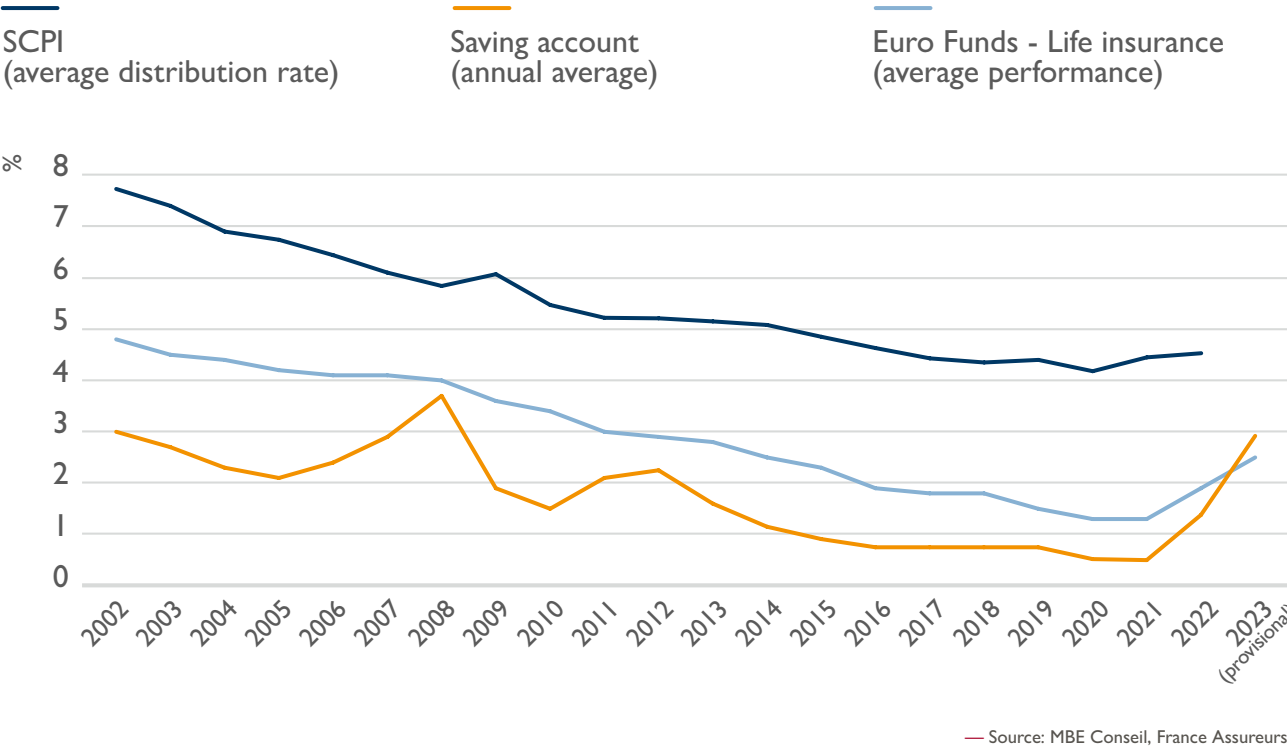
We have continued our analysis by examining these assets through the prism of surface areas, work done on the 85 largest French SCPIs specialising in non-residential real estate, or about 90% of the assets owned directly by the 100 specialised SCPIs. These real estate portfolios are rich, and so far, their managers have overwhelmingly demonstrated an ability to retain tenants and attract new ones. So far, this has allowed SCPIs, despite the decline in asset values, to continue to offer attractive returns for shareholders.

## THE CREATION AND GROWTH OF SCPIs

Evolving over time into essential real estate market investment vehicles, the first SCPIs were created at the end of the 1960s. However, their growth was gradual, only accelerating during the

2010s during a period where returns on secured investments were falling very sharply.

 SCPI yields vs. other secure investment vehicles: 2000 – 2023



Of the 100 current SCPIs specializing in non residential real estate, we have classified three generations, the maturation of all having generated a steady increase in collects. This trend accelerated beginning in 2010, reaching a record high in 2019, then another in 2022:

- **“Historical SCPIs”**: 45 SCPIs, of which ten existed before 1980. Sixteen were created between 1980 and 1989, 13 during the 1990s and a further six between 2000 and 2009. Among these, 24 SCPIs focus exclusively on the office market, nine on retail assets, and one on tourism and leisure assets, while the other 11 hold diversified assets.
- **“New Generation SCPIs”**: there are 32 in this category, created between 2010 and 2019. Ten are concerned with diversified assets, seven concentrate on the office market, eight in retail assets, three in healthcare and education-related assets, two in light industrial sites and warehouses, and two in tourism and leisure assets.

- **“Neo SCPIs”**: since 2020, 23 new SCPIs have appeared on the market, sometimes strictly digital, and often prioritising investments at a European level. Nine of these concentrate on diversification assets, seven on offices, four on healthcare and education-related assets, one on tourism and leisure assets, one on retail assets, and another on light industrial sites and warehouses.

Both the growth of SCPIs as financial vehicles and the number of SCPI managers have gradually reshaped the market, granting wider access for investors. This involves diversification of distribution channels (eg., banking networks, CGP, internet), a gradual reduction in investment tickets, digitalization of subscriptions, reduction of entry and exit fees, broadening of asset types (eg., diversified vehicles, thematic vehicles), and broader consideration of extra-financial criteria (ie., environmental labeling of assets, CSR policy, ESG criteria).

GROWTH IN INVESTMENT

The attractiveness of the SCPI concept has been reflected in overall long-term influx growth, beginning in 1999. Net influx exceeded one billion euros for the first time in 2006 (€1.35 billion), remaining at that level in 2007-2008, before falling to €821 million during the financial crisis of 2009. **The resilience of SCPIs within the investment market proved to be sounder than other players during the economic and financial crisis of 2008-2009**, with influx rising to 8% of the amounts invested in French non-residential assets during these two years, compared to only between 1% and 6% from 2000 to 2007.

Beginning in 2010, SCPI investment returned to growth (€1.73 billion), with SCPIs' share of overall French investment reaching 14%: the first time it exceeded 10%. After standing at between €2 and €3 billion from 2011 to 2015, **SCPI investment in France entered a new dimension in 2016 (€4.74 billion), then achieved a record level of €6.66 billion in 2017**, amounting to 24% of overall investment in non-residential real estate. 2017 was notable for the substantial number of club deals carried out, either between SCPIs or with other real estate players, involving high-value transactions.

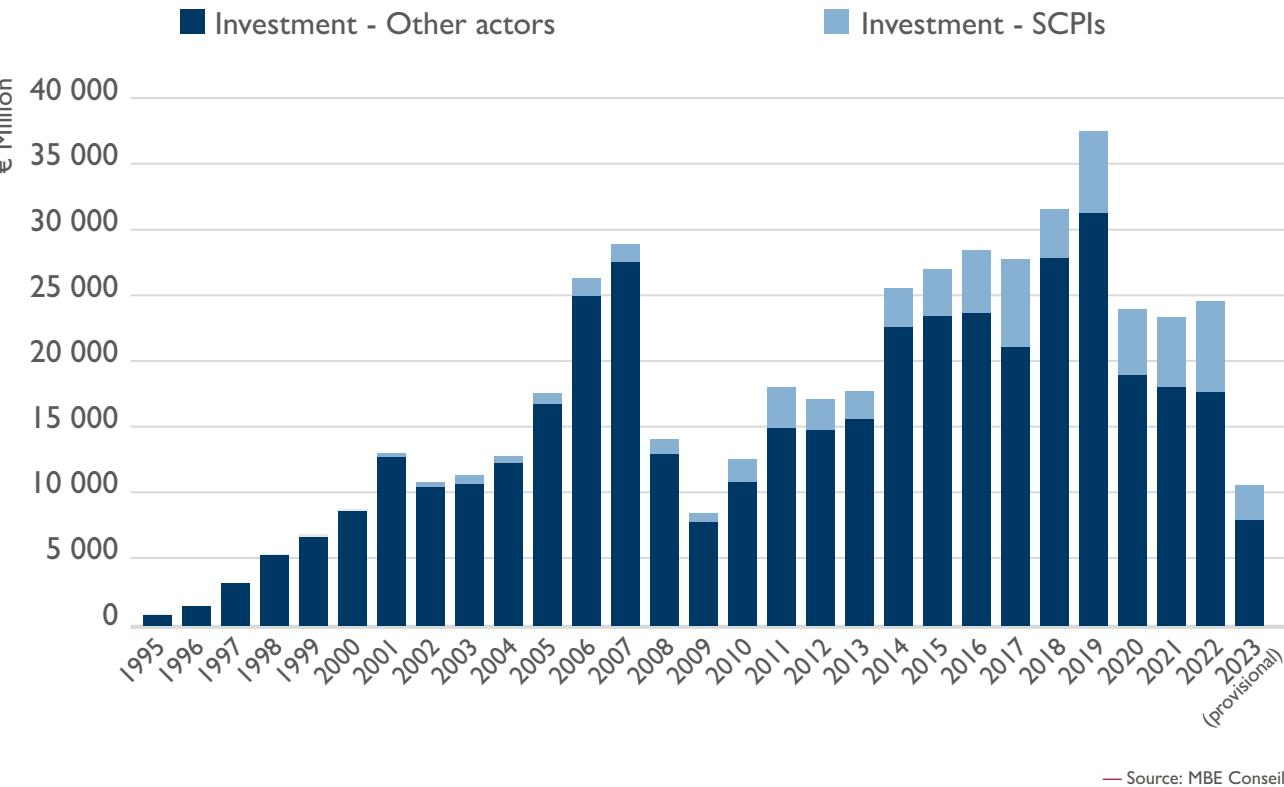
**After the peak reached in 2017, 2018 witnessed a trough in SCPI investment (€3.70 billion).** This was mainly due to a fall-off in collects, resulting from the implementation of the Real Estate Wealth Tax at the beginning of 2018 (the base of which includes SCPI shares). This coincided with a growing orientation

of some SCPIs towards other European countries, in particular Germany. However, a resumption of collect growth allowed SCPIs to invest €6.14 billion in French assets in 2019.

**As in 2008-2009, SCPIs saw their proportional involvement within the investment market increase in 2020 and 2021 against the backdrop of a major health crisis** (21% in 2020 and 23% in 2021), then a general decline in investment volumes due to higher interest rates. Their share in overall investment rose further, to 28% in 2022 and 25% in 2023, (the latter figure being provisional in the absence of final figures). **The limited use of leverage naturally constitutes a competitive advantage for SCPIs when access to credit becomes more problematic.** SCPI influx fell during the beginning of the Covid-19 crisis in 2020 (€5.01 billion), then stabilised in 2021 (€5.33 billion), before growing in 2022 to near-historic levels of €6.85 billion, boosted by an exceptional collect performance.

**With only €2.7 billion invested as of the end of 2023**, SCPIs significantly reduced their influx last year, as did all other traditional investors in the non-residential market. However, the proportional share of SCPI investment compared with other market actors has remained very high, especially since the most recent available figures are only provisional and could increase accordingly, following the release of Q4 2023 final results.

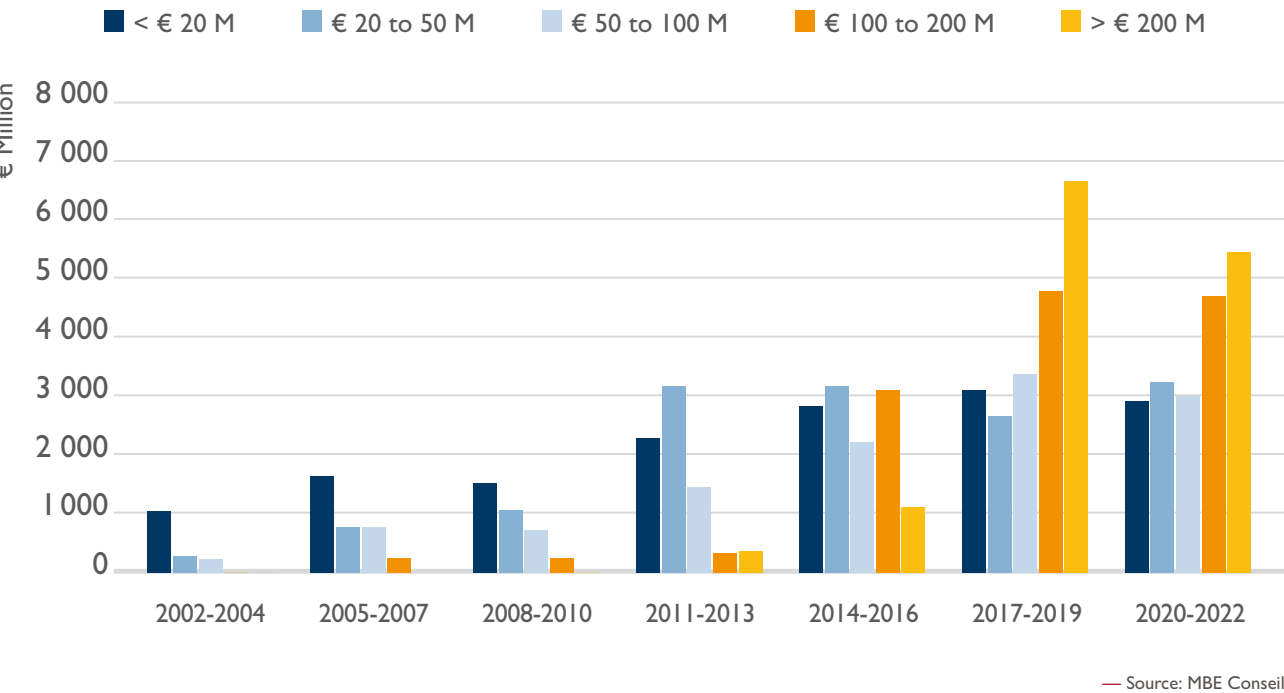
Investment volume: SCPIs vs. other actors



In addition to the growth in investment volume, **the very strong increase in collects, and the obligation to invest, have had a major impact on the size of transactions.** Since 2014, SCPIs have been far more involved in deals valued at over €100 million, and

have been increasingly involved in deals of over €200 million over the last decade. These transactions have often occurred through club deals, either involving several SCPIs or through co-investments with other actors.

Transactions involving SCPIs by asset value range: 2002-2022



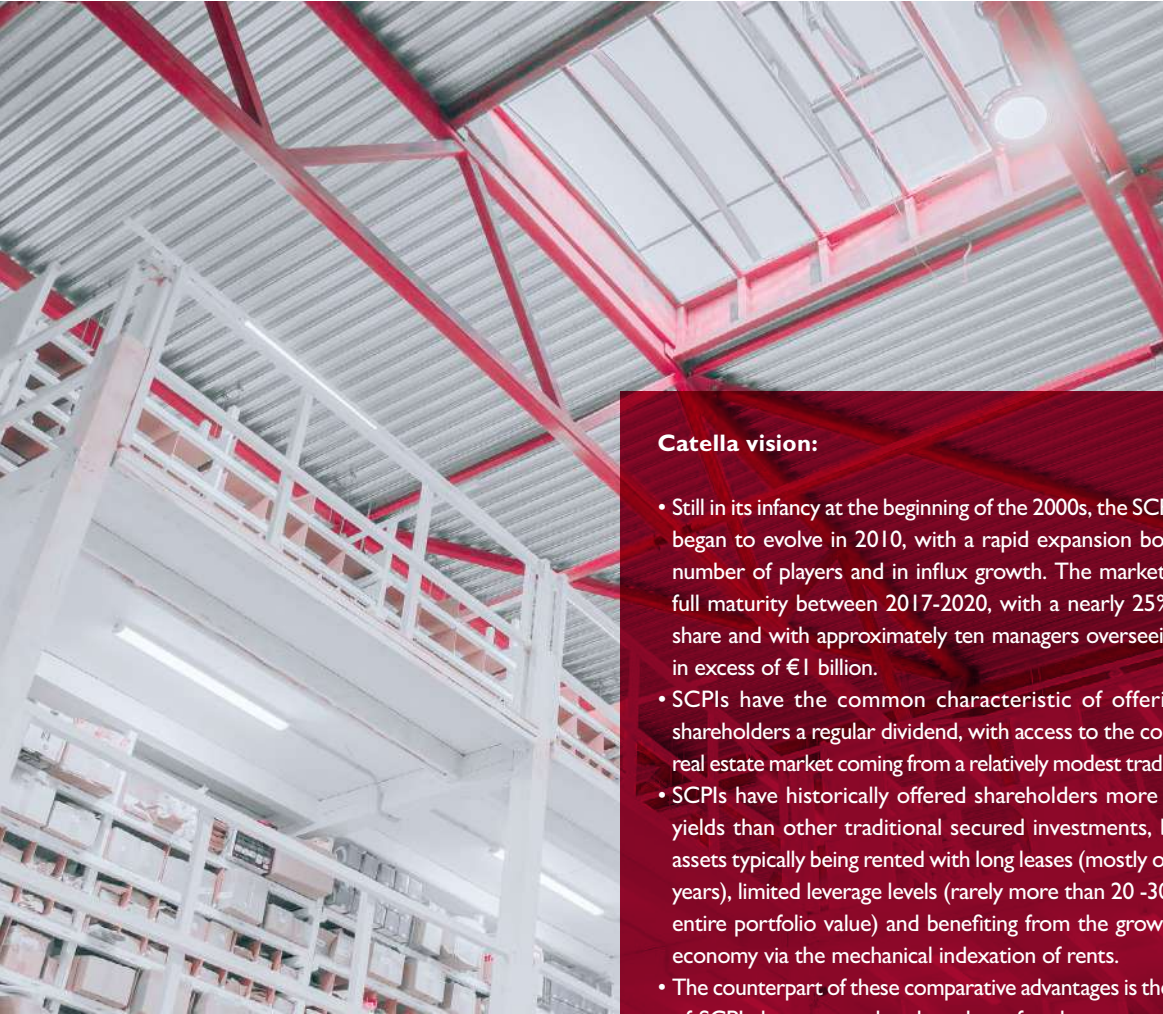
The growth in both investment volume and transaction sizes has been clearly evident in the strategies of the largest French managers. Between 2002 and 2022, four of these have invested

more than €5 billion in the French non-residential real estate market. Over this same period, the amounts invested by the 11 largest asset managers have exceeded €53 billion.



🏠 | Top eleven SCPIs Managers in French non-residential real estate: 2002-2022 (€ Million)

|                   | 2002-2004 | 2005-2007 | 2008-2010 | 2011-2013 | 2014-2016 | 2017-2019 | 2020-2022 | Total 2002-2022 |
|-------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------|
| LA FRANCAISE      | 661       | 887       | 602       | 1 201     | 1 435     | 2 491     | 2 499     | 9 776           |
| PRIMONIAL         | 0         | 0         | 0         | 772       | 1 854     | 3 102     | 3 505     | 9 233           |
| AMUNDI            | 97        | 654       | 580       | 790       | 2 127     | 3 415     | 1 059     | 8 723           |
| BNP PARIBAS       | 43        | 98        | 468       | 849       | 1 298     | 1 519     | 1 503     | 5 777           |
| PERIAL            | 44        | 177       | 164       | 584       | 1 065     | 982       | 1 674     | 4 689           |
| SOFIDY            | 224       | 373       | 411       | 961       | 804       | 679       | 897       | 4 350           |
| AEW CILOGER       | 28        | 227       | 221       | 358       | 831       | 987       | 457       | 3 110           |
| UNOFI             | 130       | 244       | 308       | 516       | 521       | 275       | 666       | 2 661           |
| ATLAND VOISIN     | 0         | 0         | 0         | 7         | 55        | 943       | 1 381     | 2 386           |
| HSBC CCF          | 0         | 121       | 145       | 485       | 136       | 496       | 213       | 1 596           |
| ALLIANZ IMMOVALOR | 0         | 0         | 48        | 52        | 185       | 306       | 364       | 954             |



Catella vision:

- Still in its infancy at the beginning of the 2000s, the SCPI market began to evolve in 2010, with a rapid expansion both in the number of players and in influx growth. The market reached full maturity between 2017-2020, with a nearly 25% market share and with approximately ten managers overseeing assets in excess of €1 billion.
- SCPIs have the common characteristic of offering their shareholders a regular dividend, with access to the commercial real estate market coming from a relatively modest trading ticket.
- SCPIs have historically offered shareholders more lucrative yields than other traditional secured investments, based on assets typically being rented with long leases (mostly of over six years), limited leverage levels (rarely more than 20 -30% of the entire portfolio value) and benefiting from the growth of the economy via the mechanical indexation of rents.
- The counterpart of these comparative advantages is the liquidity of SCPI shares, correlated to that of real estate assets, held directly in a market subject to cycles of fluctuating duration.

## II. SCPI - EVOLUTION OF INVESTMENT STRATEGIES AND LOCATION OF ASSETS

### A STRONG Foothold IN THE REGIONS, BUT SIGNIFICANT DIVERSIFICATION OF INVESTMENT ASSET LOCATION SINCE 2015

In addition to the increase in the value of transactions, SCPI investment has also diversified geographically.

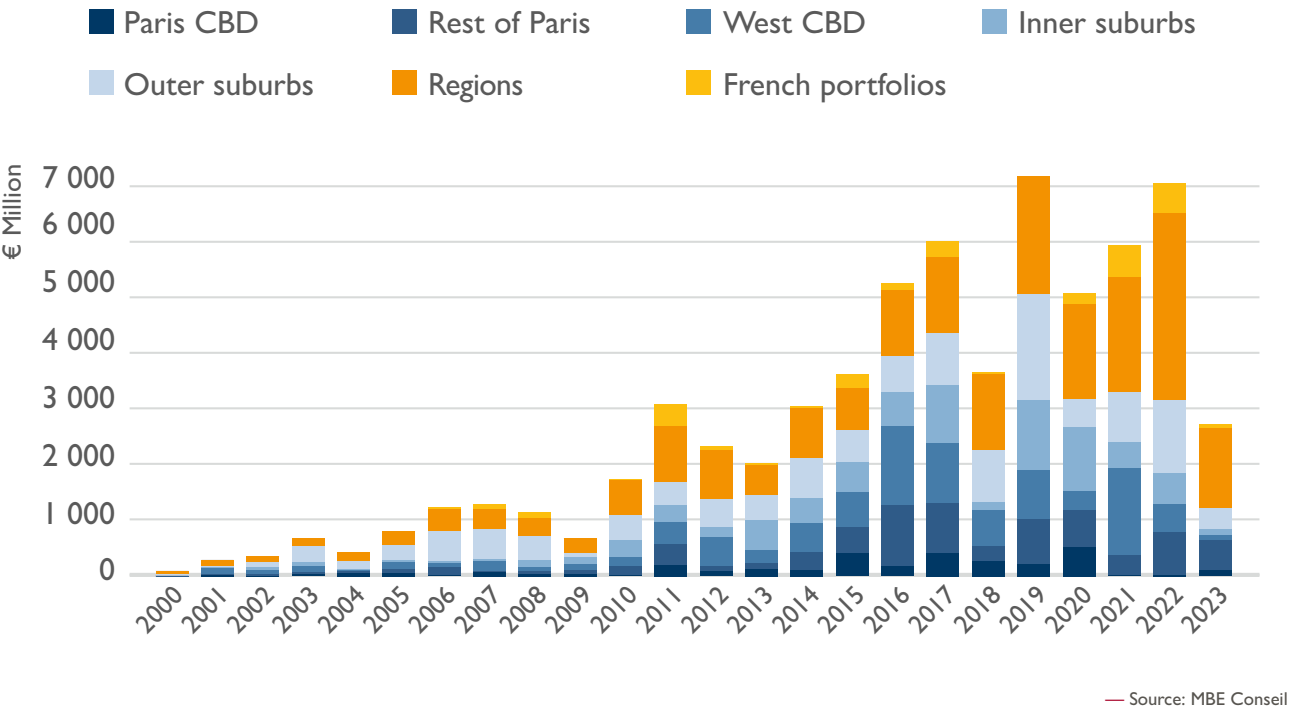
**Between 2000 and 2010, more than 60% of investment focused on assets in the regions and the outer suburbs of Paris.** Investment in other markets was much more limited, with the exception of the West CBD, which attracted 18% of total investment over the 2000-2005 period, and 10% between 2006 and 2010.

**Between 2011 and 2020, the location of assets became much more diversified.** The regions' proportion fell to 29% of overall investment volume during the 2011-2015 period, then to 27% between 2016 and 2020. Likewise, the outer suburbs of Paris only attracted 18% and 17% of influx respectively during those periods. The West CBD attracted between 16% and 17%, and investment volume grew in the inner suburbs

(14% between 2011 and 2015, then up to 16% between 2016 and 2020). Meanwhile, influx in Paris reached 16% of total investment volume between 2011 and 2015, and 20% over the 2016-2020 period, totalling more than 5.2 billion euros. (It should be noted, however, that in Paris, the majority of transactions took place outside the CBD.)

The geographic focus of investment has changed again, partly as a consequence of the health crisis and the economic and geopolitical instability seen over the last three years. **Over the 2021-2023 period, SCPI investment again centered on regional assets, which attracted 41% of investment volume, (€5.1 billion),** followed by the outer suburbs (20% of total volume, influx of €2.5 billion). Meanwhile, SCPI investment market share in the West CBD fell only slightly (15% - €1.8 billion), with Paris accounting for 13% of market volume (€1.5 billion).

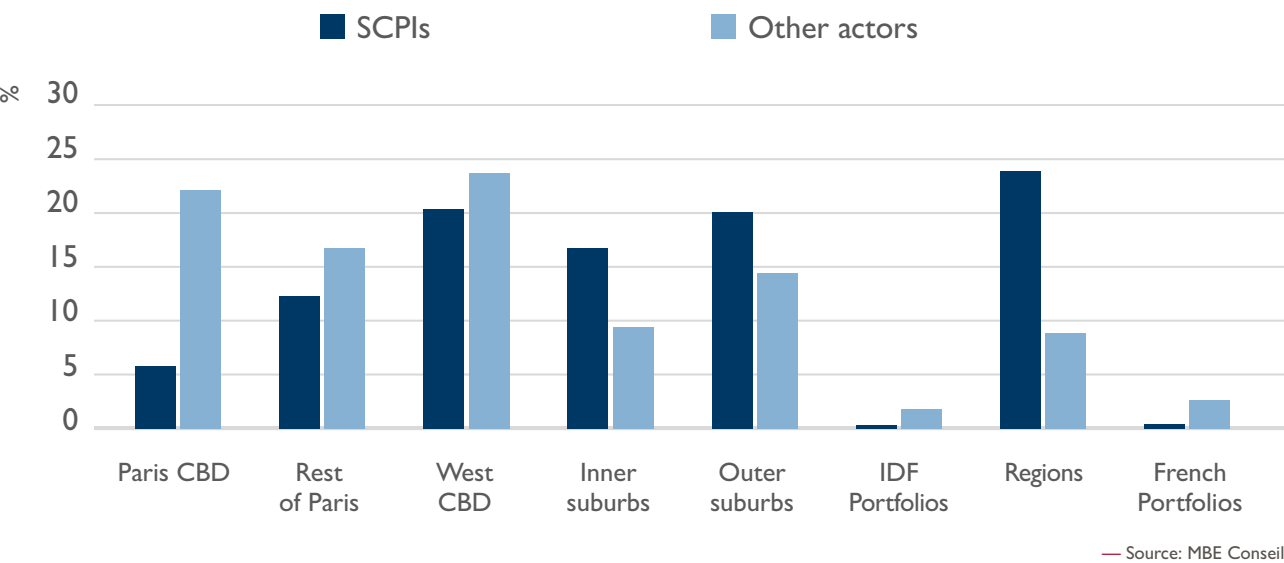
🏠 | Transactions by submarket (with minimal 50% SCPI investment): 2000 - 2023



With regard to investment in offices during this period, **SCPIs were more active in terms of influx than other players in three submarkets: the regions and the inner and outer suburbs of Paris.**

The share of SCPI investment was significantly lower within the capital, but almost matched that of other investors in the West CBD.

Office market investment by submarket since 2000: SCPIs vs. other actors



Beyond this geographical diversification, SCPIs have strengthened their presence in other European countries in recent years. According to ASPIM, they have allocated 28% to 40% of their investments there since 2018, with Germany as their top

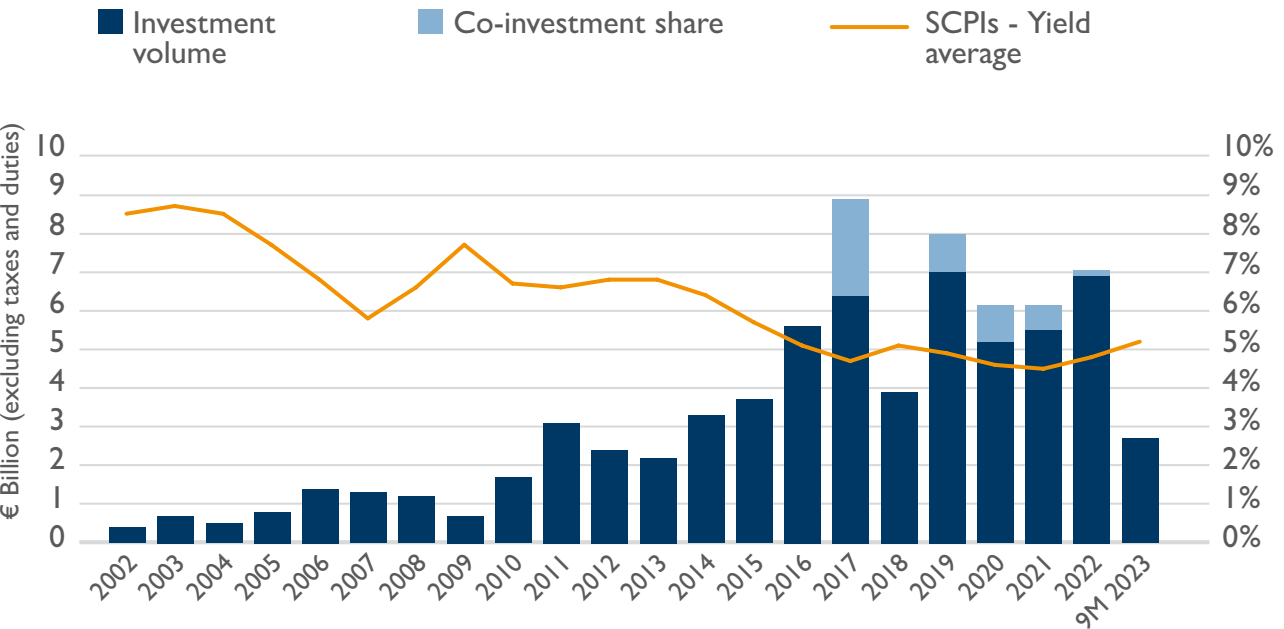
destination. However, as detailed in the asset analysis below, it has mainly been SCPIs created since 2000 that have invested outside France's borders.

THE EFFECT ON YIELDS

Yield averages for acquisitions made by SCPIs have trended lower since 2014. This has occurred during a period of lower yields for financial products in general, driven by the ECB's quantitative easing program, launched in 2015, and by the reduction in key interest rates. Yields on SCPI acquisitions, which had been stable at between 6.6%

and 6.8% on average from 2010 to 2013, experienced a continuous decrease between 2014 to 2017, reaching 4.7% in the latter year. Although yields rose in 2018 to 5.1%, following a reduction in collects and investment on the part of SCPIs, yields on acquisitions trended lower again between 2019 and 2021, hitting a historic low in 2021 of 4.5%.

SCPI investment volumes and yield averages: 2002-2023

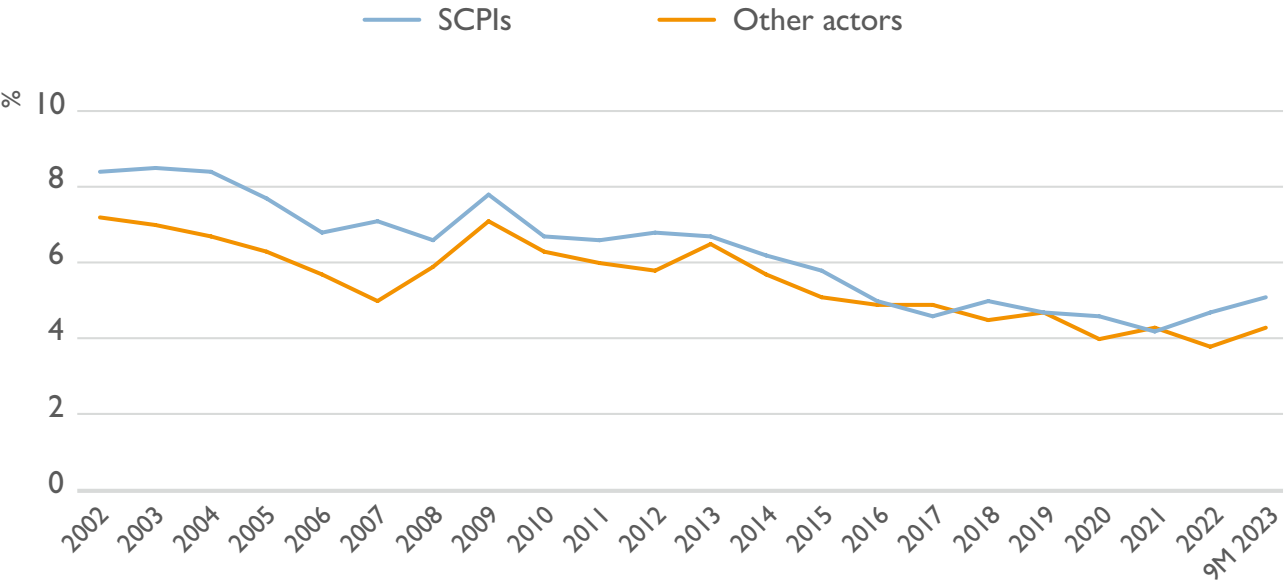


The rise in interest rates in 2022, against an inflationary backdrop, resulted in an increase in yields for SCPI acquisitions: 4.8% in 2022, up to 5.2% at the end of the first nine months of 2023. Although notable, this increase is still far from reaching the levels seen during the previous financial crisis, which saw yields rise from 5.8% in 2007 to 7.7% in 2009.

Generally speaking, the reduction in yields witnessed in the second half of the 2010s logically corresponded to the increase of volume invested by SCPIs, as well as to the high volume of transactions carried out as part of club deals with other players in the real estate sector.

The growth of SCPIs' presence within the non-residential real estate investment market has therefore contributed to the contraction of yield rates. However, they cannot be held solely responsible for this loss in profitability; the same drops in yields have clearly been evident for acquisitions made since 2014 by other real estate players. The 2014-2021 period should be seen more as an alignment of yields between these other players and SCPIs, while the latter have historically benefitted from higher average acquisition rates regarding offices, due in particular to their geographical diversification.

Offices: yield averages SCPIs vs. other actors: 2022-Q3 2023



In common with the French real estate market in general, the nominal spread between the average SCPI acquisition yield and ten-year government bonds (OAT Tec 10) tightened in 2022-2023. However, after peaking at over 3.5% in October 2023, the ten-year OAT fell below 2.5% at year end, somewhat reducing pressure on other assets. Moreover, the tenuous nature of this nominal spread was offset by rent revaluation mechanisms, with the ILAT index increasing by more than 6% year on year. For asset owners, this revaluation provided a partial, although imperfect, protection against inflation that is not provided by other forms of investment. Once the effects of inflation and ILAT indexing are integrated, the spread in favour of acquisitions made by SCPIs was relatively high in 2023 (774 basis points against 596 points on average from 2006 to 2022). Therefore, the main risk at present for SCPIs concerns rental vacancies, rather than asset acquisition prices.





A TREND REVERSAL IN 2023

Following the volume disruption brought about by the 2008-09 financial crisis, **net SCPI collects rose substantially at the beginning of 2010**. Beginning in 2015 (€4.1 billion), this trend accelerated when the ECB initiated its quantitative easing policy of injecting liquidity into the economy. Collects then followed an overall upward trend until 2022, interrupted only in 2018 (€4.9 billion), following the implementation of the Real Estate Wealth Tax, and with the 2020 health crisis (€6 billion). 2022 was a record year with a net collect of €10.2 billion.

However, collects fell sharply in the first three quarters of 2023 to €4.9 billion: a 53% decrease compared to Q3 2022. Most significantly, a clear slowdown in collects was evident as the year progressed: €2.4 billion in Q1, down to €1.6 billion in Q2, then declining to €0.9 billion in Q3. Furthermore, SCPIs have had to face increased competition from guaranteed capital investments (Livret A savings accounts and Euro-denominated funds in particular), as well as the extensive negative media coverage of topics related to office vacancies, the reduction in the value of shares for some

SCPIs and the extension of certain transfer periods. This general lack of confidence in real estate products has been growing, despite the overall stability of SCPI dividends.

However, SCPIs are increasingly diversified as a product type and, although the arrival of new entrants is not yet always immediately apparent in the amounts they invest, **there is presently a double phenomenon in play: the improvement of the quality of assets held by historical SCPIs, and the very strong diversification in products and locations of the more recent types of SCPIs**, whose assets are less likely to become obsolete.

It is the rich character of these property assets that we wanted to explore, through analysing the annual reports of the 85 main SCPIs specializing in non-residential real estate. In a market that is certainly weathering many challenges at present in terms of maintaining asset quality and tenant retention, the diversity of assets and their locations offer a significant advantage to SCPIs.



Catella vision:

- “Diversification” has been the key word relating to the maturation of SCPIs since their inception. Such diversification has taken different forms, depending on SCPIs’ generation and actor strategies: (ie., geographical or product diversification, granularity of investments.)
- The regions and the outer suburbs of Paris have been the primary investment targets for French SCPIs, which often began their operations there. With the gradual increase in collects and in the size of portfolios, certain SCPIs have managed to penetrate more capital-intensive markets: namely, Paris excluding the CBD and its inner suburbs. Meanwhile, Western Europe, mainly Germany and the Anglo-Saxon countries, has proven attractive to the most recently established SCPIs.
- SCPIs have played a notable role in prime yields decreasing in certain submarkets, particularly the inner suburbs of Île-de-France and regional cities, due to the investment pressure exerted by collects.
- We have observed over time that SCPIs know how to engage in “arbitrage” when the market is buoyant and to hold on to assets when it turns less favourable.
- Yield distribution is the key performance indicator for SCPIs. Therefore, it is essential to analyze property asset structure.

III. SCPI - A PROVEN RESILIENCE OF ASSETS IN THE FACE OF CURRENT REAL ESTATE MARKET CHALLENGES

GREATER DIVERSIFICATION IN OTHER EUROPEAN MARKETS FOR SCPIs CREATED SINCE 2000

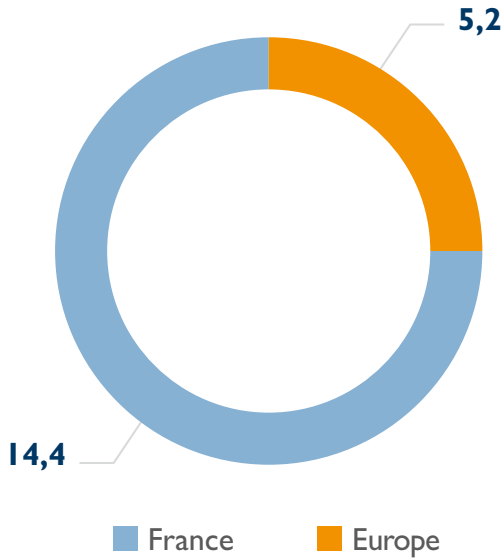
The 85 SCPIs concentrating on non-residential real estate that we have studied in detail own a direct portfolio of more than 19 million sq.m, 75% of which are based in France. The proportion of European assets may be smaller, but is still significant (4.8 million m²), mainly owned by SCPIs created since 2000.

Historical SCPIs (ie., created before 2010) hold assets totalling more than 11.8 million sq.m, 92% of which are located in France. Their European assets presently amount to approximately 978,000 m², of which 51% are offices and 35% are retail assets.

New Generation SCPIs, created between 2010 and 2019, own 7.2 million sq.m directly, of which only 49% are in France. More than 3.7 million sq.m are located elsewhere in Europe, mainly offices (1.4 million sq.m - 37% elsewhere in Europe), retail assets (1.3 million sq.m - 35% outside France) and healthcare and education-related assets (526,700 sq.m - 14%).

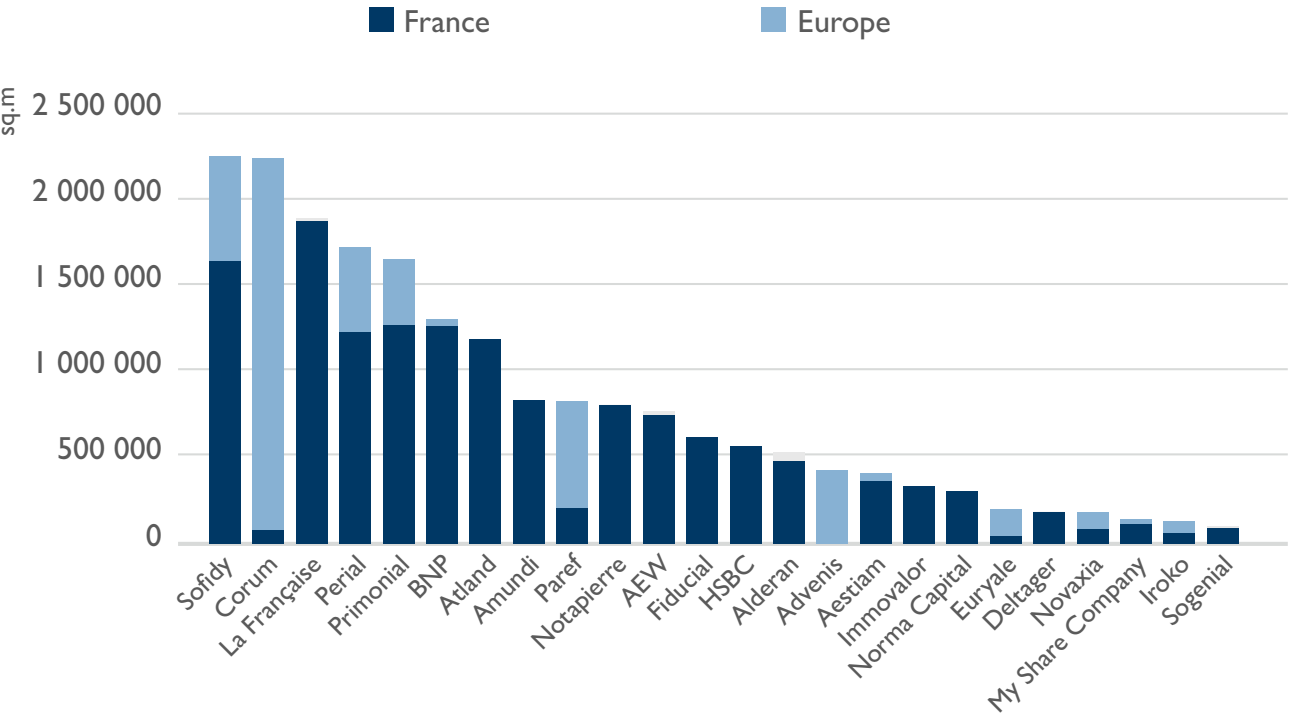
Neo SCPIs (operational since 2020) already directly owned 570 200 sq.m in assets by 2022, 89% of which were located outside France and were widely diversified: 56% offices, 13% healthcare and education-related assets, 13% hotel and leisure-related assets, and 11% light industrial sites and warehouses.

Assets by market (France vs. rest of Europe) of 85 largest SCPIs in sq.m



Source: MBE Conseil

Directly owned assets by SCPIs managers (portfolios over 100,000 sqm)



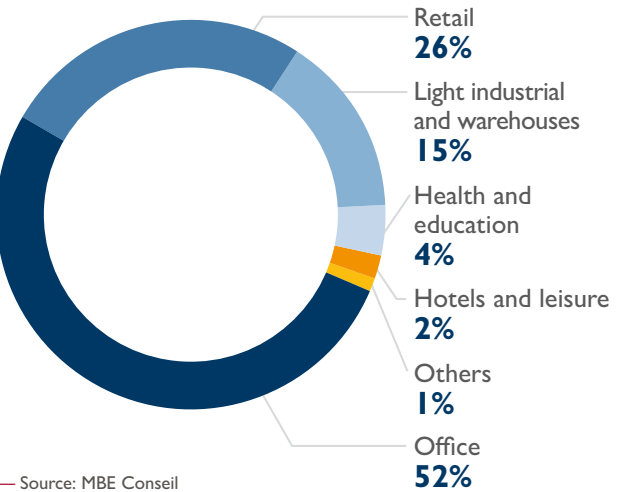
Source: MBE Conseil

RELATIVELY BALANCED FRENCH PORTFOLIOS

The directly owned assets of the 85 SCPIs located in France that we have studied are diverse: at the end of 2022, 52% were offices (7.4 million sq.m), 26% were retail assets (3.7 million sq.m), 15% were light industrial sites and warehouses (2.2 million sq.m), 4% were healthcare and education-related facilities (651,000 sq.m) and 2% were hotel and leisure-related assets (281,000 sq.m).

We should note that our detailed assets analysis has revealed that, even within specialized SCPIs (ie., concentrated on retail, offices, healthcare facilities, etc.), a range of assets may have been acquired, whereas in certain diversified SCPIs, one type of asset may predominate.

Directly owned assets of 85 largest SCPIs per type



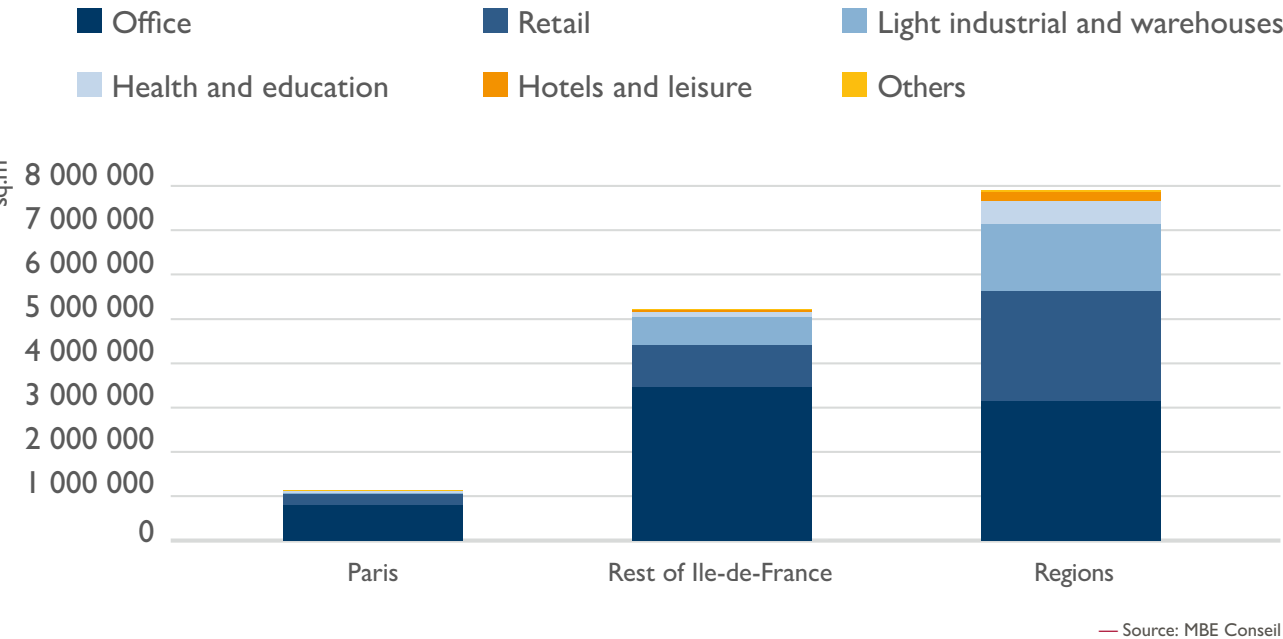
The proportion of offices and retail assets is higher among the historical SCPIs. Out of French directly owned assets, (totalling 11.8 million sq.m), more than 6.3 million sq.m are offices (58%), of which nearly 3 million sq.m are located in Ile-de-France, (680,000 sq.m within Paris), and 2.6 million sq.m in the regions. The SCPIs created before 2010 also own nearly 3 million sq.m in retail assets

(27% of their total holdings), 63% located in the regions and 37% in Ile-de-France, including 247,000 sq.m in Paris. Their assets also include 1.2 million sq.m of warehouses and light industrial premises (including 410,000 sq.m located in Ile-de-France), and nearly 215,000 sq.m of hotel and leisure-related assets, including 158,000 sq.m in the regions.

New Generation SCPIs directly own 3.5 million sq.m in assets located in France. Their office assets are proportionally lower than those owned by historical SCPIs (31%), amounting to 1.1 million sq.m (566,200 sq.m in Ile-de-France and 503,000 sq.m in the regions). They have acquired 741,800 sq.m of retail assets (21% of their total), including 133,500 sq.m in Ile-de-France, of which 16,800 sq.m are situated in Paris. 27% of their other assets include light industrial premises and warehouses (940,800 sq.m, including 744,000 sq.m in the regions), with a further 17% consisting of hotel and leisure-related assets (600,000 sq.m, including nearly 500,000 sq.m in the regions).

As previously noted, Neo SCPI assets are currently largely located outside France. Of the 63,600 sq.m located within France, 33,200 sq.m are warehouses and light industrial sites located in Ile-de-France, with only 7,200 sq.m being offices, located in the regions.

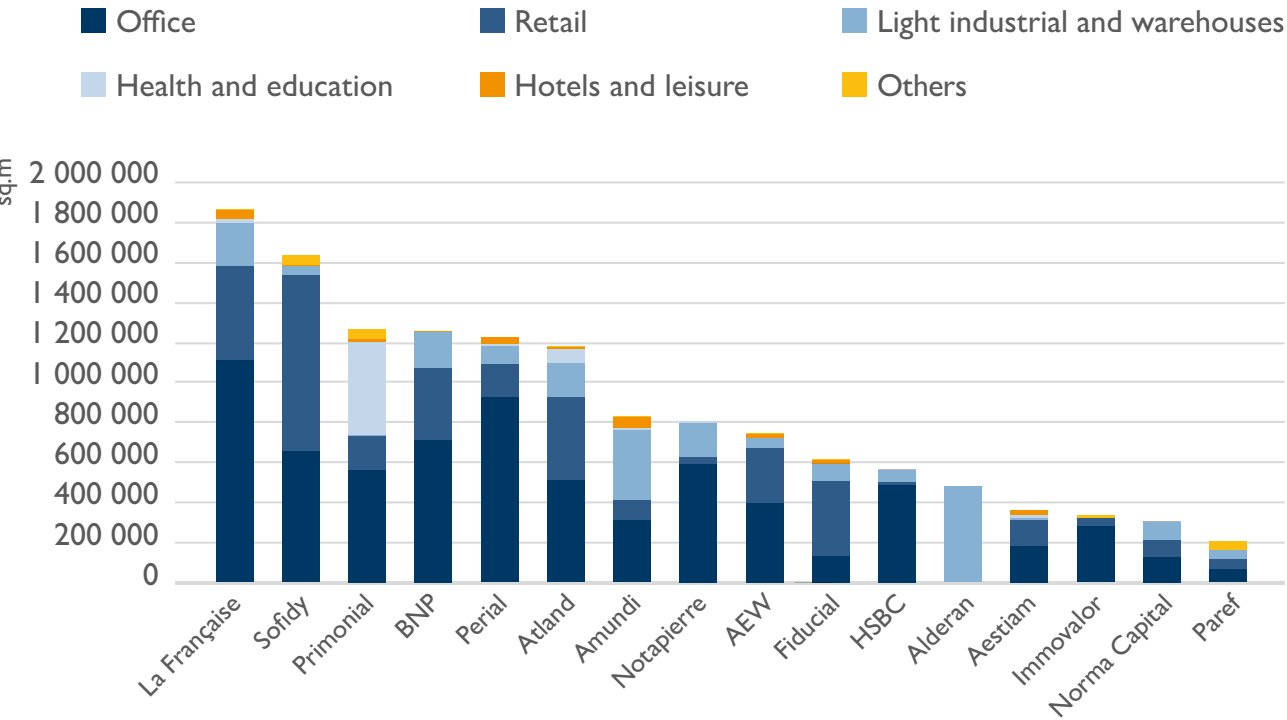
Assets directly owned by the largest 85 SCPIs by product type and geographic location



Our analysis of French assets owned directly by leading SCPI managers, (sometimes combining several generations of SCPIs), generally shows a fairly wide diversity of assets. Of the 16 largest market players, six directly own assets worth more than 1 million sq.m. While offices are generally the most popular property type, retail assets sometimes represent a large proportion of directly owned assets. Light industrial sites and warehouses are rarely in the majority of holdings, with the exception of two SCPI managers. Although there has been growth in investment in diversification assets (ie., healthcare and educational facilities, hotels, etc.), they still do not represent a large proportion of holdings in these large portfolios. However, this could change in the near future.



Direct portfolios > 200 000 sq.m in France per managers



Nota Bene: quantifying indirectly held assets has proven difficult.

Our in-depth analysis has focused only on assets owned directly by SCPIs. Determining the scope and nature of their indirect holdings is complex, as these are not always specified in their annual reports. However, with higher collects and the growing market presence of SCPIs, they have gradually positioned themselves, (essentially since 2017), to acquire more high-value transactions, either in collaboration with fellow SCPIs, or by partnering with other types of market players. When compiling the data published in the 2022 reports of the largest SCPI managers (ie., Sofidy, Corum, La Française, Perial, Primonial, BNP Paribas, Atlant Voisin, Amundi, Paref, Unofi and AEW), we have noted, in terms of indirectly owned assets, a substantial proportion of offices, particularly large office buildings in the Ile-de-France region. These total 1.4 million sq.m, including 200,000 sq.m in Paris and nearly 1.1 million sq.m in the rest of the Ile-de-France region, particularly in the West CBD, PériDéfense and the inner suburbs to the north and south of Paris.

In terms of renting issues, the question of indirectly acquired properties can sometimes appear problematic, especially in the case of larger buildings which are sometimes located in areas with high vacancy levels. However, this type of ownership presents the advantage of distributing vacancy risk.





— A FUNDAMENTAL REALITY: THE HEALTH OF SCPIS IS FIRMLY LINKED TO THE STRENGTH OF THE RENTAL MARKET

The first nine months of 2023 were marked by a sharp rise in interest rates, coupled with valuation declines for assets owned by SCPIs. Following this adjustment, according to the ASPIM, 23% of SCPIs saw share prices fall, 14% rose, while prices remained unchanged for the remaining 63%. The ASPIM stated that “these differences underline once again a great diversity of market conditions, according to the types and locations of assets.”

Our analysis of the real estate assets held directly by SCPIs illustrates this diversity. Among the most recently established SCPIs, which benefit from greater agility and higher quality properties, often fully occupied with long-term leases, some even continued to collect in 2023. Older SCPIs, which have sometimes recently seen their collects become scarce, may however often be faced with the obsolescence of part of their assets, as well as rental vacancy issues. **However, it remains necessary to consider investment property within the context of long-term market cycles.**

So far, there has been overall stability in the distribution rates provided by SCPIs. This has been due both to the indexation of rents against inflation, and to the asset management skills demonstrated by SCPI managers, who have often maintained a significant proportion of their tenants or rented their vacant holdings. **It should be noted that, in this context, the overall robustness of the rental market is crucial.**

With regard to the office market - which it should be kept in mind represents 52% of directly owned SCPI assets - the rental market in 2023 fell far short of breaking established take-up records. However, transaction volumes did not plummet, either in Ile-de-France or in the regions: **in Ile-de-France, more than 1.9 million sq.m were still transacted.** Although Ile-de-France office supply has never been so high, the pace of construction is dropping sharply, and, somewhat paradoxically, some Parisian submarkets have strong and worsening undersupply. This could lead to take-up growing in some secondary submarkets, particularly

in the West CBD and the inner suburbs, where a considerable proportion of SCPI-owned office assets are located. The appetite of tenants for good quality buildings could, however, require extensive renovation or refurbishing of certain assets located in areas that could be undersupplied in the next economic cycle.

In the retail sector, which accounts for 26% of total SCPI directly owned assets, **the situation for property owners may remain tenuous, but has improved since the end of the Covid crisis.** The latest Procos survey of retail managers on their expectations for 2024 shows that they are relatively confident: 43% even predict sales increases, while 31% expect a continuation of the decline seen in 2023, but on a smaller scale. With regard to the office sector, rental robustness depends heavily on location, but there appears no real risk of any very sharp sudden increase in vacancies.

While other asset types are less present among SCPI holdings, **the vitality of the market for education-related assets and certain healthcare facilities (especially medical centres) guarantee strong take-up volumes.** Similarly, the recent rebound in the tourism sector is leading to higher occupancy rates for hotel assets. And as seen with offices, while demand for light industrial facilities and warehouses has decreased overall, higher-quality and well-located assets in these categories have maintained their appeal.

For SCPIs, maintaining high occupancy rates is crucial to maintaining strong yields. While recent market conditions have sometimes been difficult, SCPI managers have generally avoided very sharp vacancy rises. Nevertheless, lease renegotiations have become common. These clearly pose yield drop risks for a number of buildings, which would then result in a further decline in valuations. Moreover, the costs of constant and necessary upgrades of their stock also present a clear disadvantage to SCPIs holding older assets. Under these conditions, SCPIs may be tempted to offload certain assets: a strategy which could intensify in the current economic climate.

— PROSPECTS FOR PROBABLE ARBITRATIONS, BUT SOME SCPIS MAY ALSO BENEFIT FROM THE TIMING

In an investment market that has strongly retracted, SCPI arbitrations in France remained limited In 2023. **SCPIs (provisionally) sold just €561 million in net assets: well below 2022 net levels of €1.1 billion and €947 million in 2021.** The combined effect of

lower collect levels and the decline in valuations could, however, lead to a continuation - or even an intensification - of arbitration activity in 2024, with some SCPIs having already announced plans for substantial selloffs.

🏢 | SCPI sales by product type: 2000 – 2023



In a very competitive market, the location and quality of assets brought to market will clearly influence their attractiveness. Some obsolete or poorly located assets risk being severely discounted, but as these are often vacant, or having poor odds of being rented in their present conditions – they weigh heavily

on the balance sheets of their SCPI owners. In these conditions, they might accept major price reductions, intensifying the recent upward trend of transactions involving buildings being sold with intended use conversion.

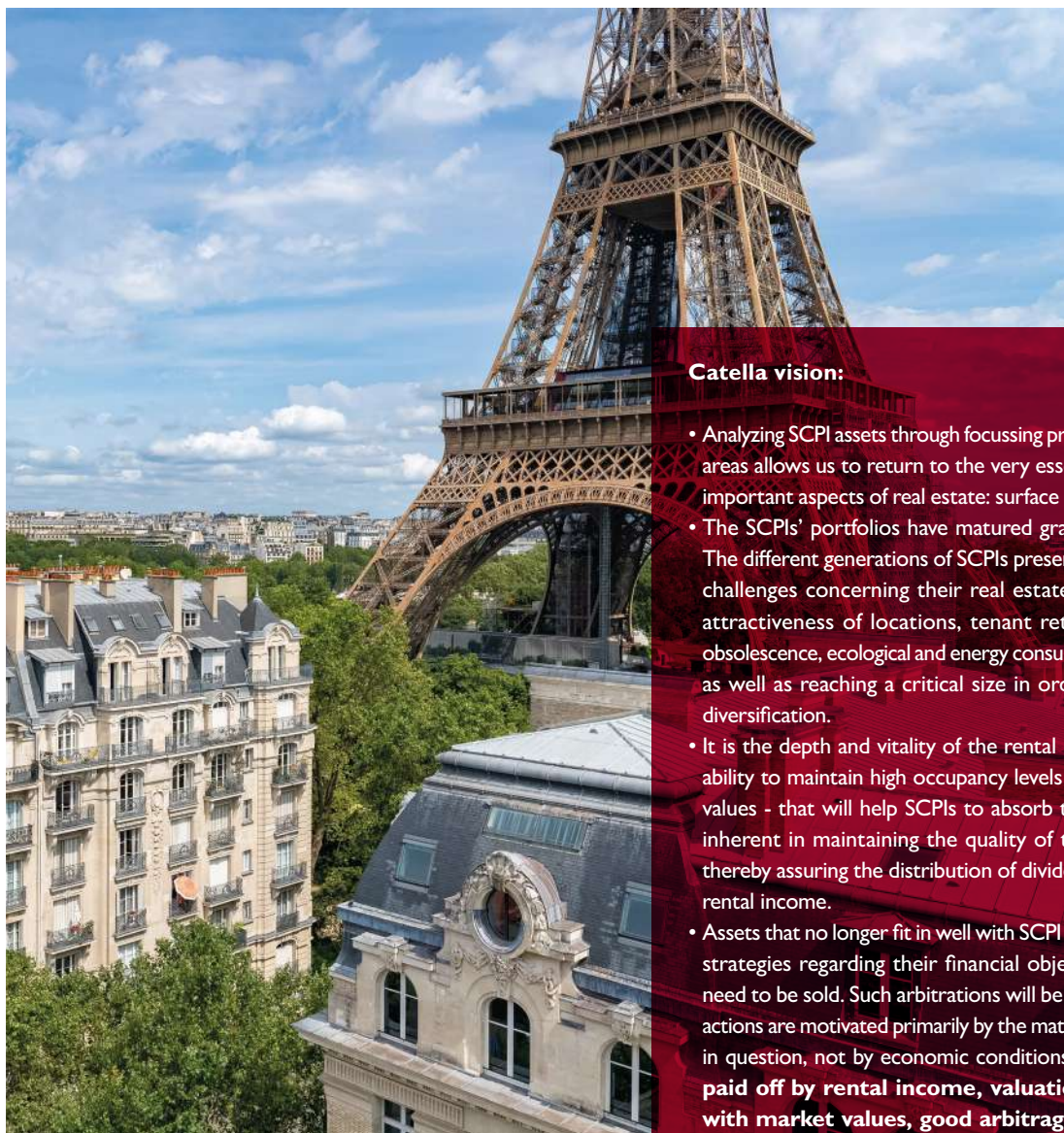
Nota Bene:

We refer to our July 2023 Catella Property Consultants / MBE Conseil report (“ Zoom: Office building Conversion in Ile-de-France: An Overview “, [www.marketsummarybycatella.com](http://www.marketsummarybycatella.com))

Most SCPIs that have already announced major asset liquidation plans want to rationalize their existing assets, using their added liquidity to acquire new assets. Like the latest generation of SCPIs, which have consistently experienced positive collect levels, **other categories of SCPIs that manage to maintain strong collects will benefit from current market conditions and falling values in order to invest in quality buildings.**

On the whole, SCPIs could thereby continue to have substantial impact on the investment market in 2024. However, the scale of their investments will depend mainly on their collect levels and the success of certain strategic arbitration transactions. Moreover, the latest generation of SCPIs benefit from funds that remain limited today, and that could also limit their investment volume.





#### Catella vision:

- Analyzing SCPI assets through focussing primarily on surface areas allows us to return to the very essence of the most important aspects of real estate: surface size and location.
- The SCPIs' portfolios have matured gradually in France. The different generations of SCPIs presently face different challenges concerning their real estate assets: namely, attractiveness of locations, tenant retention, building obsolescence, ecological and energy consumption upgrading, as well as reaching a critical size in order to allow risk diversification.
- It is the depth and vitality of the rental market - and the ability to maintain high occupancy levels at desired rental values - that will help SCPIs to absorb the various costs inherent in maintaining the quality of their properties, thereby assuring the distribution of dividends gained from rental income.
- Assets that no longer fit in well with SCPI managers' overall strategies regarding their financial objectives will often need to be sold. Such arbitrations will be successful if such actions are motivated primarily by the maturity of the assets in question, not by economic conditions: namely, **assets paid off by rental income, valuations consistent with market values, good arbitrage strategy and good sale timing.**

#### THE EXPERT VISION - Catella Valuation

- SCPIs have their assets evaluated by independent real estate experts annually. At present, one on-site visit is planned every five years. It seems to us that this rhythm, in an ever-changing market in terms of economic, regulatory and environmental conditions, needs to be amended to be closer to SIIC practices. We recommend half-yearly assessments, with visits every three years.
- Evaluations by real estate experts of buildings constituting SCPI assets are performed annually, but it should be noted that SCPI share valuations are determined by SCPI managers.
- The impact of the strong market repricing and the exceptional valuations seen in the summer of 2023 have had varying impacts on share prices, depending on the SCPI, as seen previously. Changes in market values as of December 31, 2023 will make it possible to confirm or reevaluate relevant share prices.

## CONCLUSION

- SCPIs presently directly own a total of nearly 21 million sq.m of assets in France and other European markets and have become key players in corporate real estate investment. Several generations of SCPIs now coexist, which we have classified into three categories: "Historical SCPIs", "New Generation SCPIs", and "Neo-SCPIs". These serve as excellent examples of the vitality of the French non-residential real estate market: one that knows how to be simultaneously inventive, responsive and resilient.
- The rise of SCPIs as major market players has largely been built on an attractive risk/return balance, with high value stability compared with other financial asset types (eg., stocks, gold, etc.), along with significantly higher returns than guaranteed capital investments (eg., regulated saving accounts, Euro-denominated funds, life insurance funds, etc.).
- Distribution rates remain the key factor in SCPIs' ability to maintain their appeal to individual and institutional investors, who are attracted above all by regular yields over the long term. The average holding period of SCPI shares is 22.5 years: far longer than the duration of real estate cycles. This observation affords us the opportunity to take a step back and consider investments within this long-term perspective.
- We are convinced that valuation adjustments, (which would help to streamline the market), as well as certain investment missteps which we have observed, will not serve to undermine the strength of the SCPI model, which is clearly an attractive and multifaceted feature of the investment landscape.
- The SCPI market has already responded well over the years to numerous changes in market circumstances. Managers will have to continue to adapt their strategies in accordance with market conditions in order to maintain high occupancy levels and support the resilience of their assets in the face of a new real estate environment, changing energy and environmental regulations being among many considerations.





## WITH CONTRIBUTIONS FROM



“ The stone-paper industry must focus on two major objectives: consolidating the distribution of returns over the long term, and strengthening the transparency of management companies with regard to their assets and their strategies. ”

Arsène Marques  
Managing Director,  
Co-Head Fund Management  
AEW Patrimoine



“ When you talk about ‘crisis’, you’re talking about opportunity... ”

Yann Videcoq  
Managing Director  
Arkea REIM



“ 2024 will not be an ‘Olympic year’ for real estate, but it does promise to be exciting. ”

Jean-Christophe Antoine  
CEO  
Atland Voisin



“ Since its creation, Corum has chosen a countercyclical investment strategy. The current period therefore offers interesting opportunities, particularly with regard to asset classes neglected by investors, or in certain mature markets. ”

Mélanie Ballu  
Investment Director  
Corum Asset Management



“ We are convinced that this is the most favourable period in the last ten years to invest in commercial real estate, and that Iroko ZEN has a unique position on the market to benefit from it, thanks to its collect. ”

Marion Bertrand  
Head of Investments  
Iroko



“ My conviction for 2024: a gradual recovery with an end to value adjustments, and with rental incomes remaining stable. ”

Philippe Depoux  
CEO  
La Française REM



“ We are currently experiencing a technical adjustment in real estate valuation, due to an increase in the cost of borrowing. This is a crisis concerning the ‘liabilities’, not the ‘assets’ of real estate. ”

Daniel While  
Head of Research, Strategy & Sustainability  
Primonial REIM



“ Being able to also invest against the cycle, always prudentially, makes it possible to ensure smooth and regular performance over time by being able to mitigate the effects of crisis. ”

Olivier Loussouarn  
Head of Investments  
Sofidy

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Catella is a European finance group active in Corporate Finance, Investment Management and Principal Investments. 500+ employees work in 25 cities and 12 countries including France, Germany, the United Kingdom and Spain.

Catella Property combines the structured approach of an investment bank with local market knowledge and “dealability”.

Market study conducted by Isabelle Ramond and Jérôme Kaplan - MBE Conseil, for Catella Property

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This market analysis can be downloaded on [www.marketsummarybycatella.com](http://www.marketsummarybycatella.com)

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