France's election result prompts concerns around real estate recovery

The political crisis following an unexpected election will deter investors for now, say market participants.

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"We are having black swan events upon black swan events," Francesca Galante, founding partner at debt advisory firm First Growth Real Estate & Finance, says of France's political chaos following the second round of a snap parliamentary election on 7 July.

First, in an unexpected move, President Emmanuel Macron dissolved the Assemblée Nationale on 9 June after his coalition suffered a heavy defeat to the far-right Rassemblement National party in the European elections. Then, the National Rally – a nationalist, anti-immigration party – was victor in the first round of the French election. But following the second round, none of the three political blocs – the left-wing Nouveau Front Populaire alliance, the centrist Ensemble coalition and the National Rally – won enough seats by themselves to form an outright majority.

As host of the 2024 Olympics, Paris expected to be in the spotlight this summer. But with the uncertainty that comes with a hung French parliament, participants in one of Europe's largest real estate markets fear the volatile climate will turn investors away.

"While there was not much real estate activity happening anyway, demonstrated by historically low volumes to date, the situation has not made dealflow worse. But I am worried about what happens next and how this uncertainty will further impact appetite," says Galante.

Sentiment is already fragile, with reluctant lenders keeping would-be buyers from acquiring assets, according to real estate consultant CBRE. In its latest report on French investment, the company described transaction volumes for the first quarter of the year as "dismal", reporting the €1.8 billion of deals was the lowest Q1 amount invested since 2010. A key issue, it says, is a "lack of liquidity" and "harder to access debt", adding: "The biggest current issue is bank financing, which is being used more for refinancing/restructuring, debt/capex injections than for purchasing new assets."

Unstable weather

It is a scenario unlikely to be helped by the election outcome, says Damien Giguet, founder and chairman of Paris-based debt advisory business Shift Capital. "A left-wing-party-led coalition would not be good for business. The French investment market is at its lowest point," he says, likening the real estate environment to "unstable weather, where one minute there is too much wind and then there is none at all. It feels very much like this right now."

Unlike CBRE's report, Giguet says lenders are not currently being proactive with addressing difficult loan exposures on their books. "While we are having a lot of discussions with both lenders and borrowers, there is limited refinancing activity beyond usual short-term extensions granted by lenders. Banks are not in a hurry to undertake restructuring or take the keys for empty office buildings."

While this is a situation the market has been experiencing for months, says Giguet, he adds the political backdrop will compound matters: "Macron dissolving parliament, [the] absence of any clear majority and the lack of clarity it has introduced means the market is unlikely to change in the coming months."

A lender, based in the French capital, who asked not to be named, says the immediate difficulty for real estate investors was a lack of clarity around policy, making them take a hands-off approach during the days running up to the election.

"Investors have a limited view on what is going to happen over the medium term and whether laws will be introduced that will impact them," he explains. "There is especially a fear about the type of policies the extreme left will want to bring in – they are extreme, and so that led to concern."

However, he was hopeful the final results, in which the National Rally were beaten back, was one positive outcome. "I think the fact the extreme parties are under control, relative to how it could have turned out, will help. We all still have questions, and this will pause activity for now. However, the far-right did not succeed and this will help calm some nerves," he says.

Political gridlock

Rating agencies have flagged concerns about the outlook for one of Europe's largest economies with Moody's issuing a note on 8 July saying political gridlock that could characterise a governing coalition will complicate the country's attempts to tackle its debt burden, which widened to 5.5 percent of economic output in 2023.

However, Giguet says while the economic outlook matters, lender liquidity should not be curtailed in the long term because banks' activities are linked to European Central Bank policy. "What the ECB does around interest rates is more important to lenders," he explains. He points to his experience of the Italian real estate market, where, since 2022, the country has been ruled by Giorgia Meloni, leader of the far-right Brothers of Italy party.

"Given Italy's membership of the EU, Meloni has no choice but to be curtailed by the economic policy at this level. In this respect she is doing quite well and has adopted its approach. So, the business environment is okay." He adds. However, a crucial difference between Italy and France is the nature of property investors.

Of the former market, he admits: "It is a smaller market, so there isn't as much impact when international institutional investors stay away. However, in France, we have global institutions that invest, and they are not investing a single euro right now. The only money we have is from private equity real estate funds, which cannot find opportunities to match their high return expectations."

Middle ground

One lender undeterred by France's political environment, however, is Dan Pottorff, managing director, head of debt investment at London-headquartered manager Tristan Capital Partners. Tristan has been issuing loans in Paris this year and last, the most recent being in April, when it provided a €165 million facility to French hotel company Centaurus Group, which was secured against seven four- and five-star assets.

"There have been several situations like [the one in France] in Europe in recent years, in which extreme parties pop up. But every time a party like that ends up being popular enough to be in reach of obtaining power, they tend to de-emphasise or leave behind the policies that scare middle ground voters the most," Pottorff explains.

"We have seen this with Meloni in Italy, who was saying some very scary stuff a few years ago and has now turned herself into a centre-right politician." He adds: "And as real estate lenders, we are focused on the ECB and the Bank of England."

However, he does not discount the fact the shaky geopolitical backdrop is increasingly featuring in day-to-day strategy: "These political events impact our view on five-year lending rates given the fiscal promises being made by some right-wing parties. Volatile news flow makes it challenging when the potential economic environment is changing in a matter of days and weeks, and this makes it difficult to price loans and decide on margins. But frankly, this has been a challenge for all of us in the past few years, and a challenge I see as here to stay for the new few years."