FRANCE

Life goes on

Last month's Paris attacks may have shaken France to its core, but the country's real estate market is unlikely to suffer any long-term effects

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TIMES of austerity call for significant downsizing of spending. Not always so in the Gulf, however. The current squeeze in oil prices may have dampened profits at large public and private sector firms, but Gulf investors continue to feed their appetite for real estate, a market still driven by a sense of exclusivity, opulence and luxury.

Middle East investors, led by the Gulf, remain very active in global real estate, collectively investing $11.5 billion outside their home markets in the first half of this year, according to real estate consultancy CBRE.

Investment outflows into international properties from Qatar and the UAE stood at $5.24 billion and $4.54 billion respectively, ranking the GCC members fifth and seventh in the global rankings compiled by CBRE.

However, while it may appear that it's 'business as usual' for the GCC's well-off investors, trends point to an increasing preference for properties that represent more value for money, while retaining connotations of luxury.

London, a traditional favourite with investors from the region, is for some becoming unaffordable due to surging prices and higher taxes, such as the three per cent stamp duty levied last year.

On the back of "unsustainable" property prices in the UK, the relatively undervalued French real estate sector has risen to prominence among Gulf investors.

"In the last two months, we've had a surge of buyers - people from the Gulf, especially from Saudi Arabia. Due of the death of the king, members of the royal family have been inheriting money and they're buying like crazy here, really like crazy, especially in the last six weeks," says Susie Hollands, chief executive of Paris-based real estate agency Vingt Paris.

The French economy, valued at 2.1 trillion euros ($2.23 trillion), has been largely stagnant this year, growing at a pace of 0.3 per cent in the third quarter with no growth at all in the second quarter. The recent attacks in Paris, which left 130 dead, are expected to further set the economy back by an estimated $2 billion, through subdued consumer and tourism spending.

However, some analysts predict that the impact of the tragic attacks in the capital city, coupled with reduced global financial wealth, will still fail to dampen real estate investment inflows in France, including from the Gulf.

"These are isolated and hugely traumatic incidents," says Mark Harvey, partner and head of French residential at UK-based property consultancy Knight Frank.

"We've seen this in other capitals - Madrid, Mumbai, London. Cities are cosmopolitan centres and they live on. I don't think people make a decision about buying property in France based on these types of situations. It is interesting after Charlie Hebdo, we have had incredible successes both in terms of transaction numbers and people wanting to buy in France.

"It may have dampened the sort of demand around Paris perhaps, because people feel more nervous in the city environment, but generally speaking people just get on with it."

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Mark Harvey, Knight Frank

Doha's delight: Hôtel Martinez in Cannes is one of several French trophy assets bought by the Qataris

Harvey notes that there has been an almost 150 per cent increase in interest in French property this year to date compared with 2014.

"We are seven months into our financial year, in Q2. Transaction levels have already exceeded last year's levels by 100 per cent and our income has also shown an equally impressive increase. So overall, there is a huge amount of positivity about France now."

According to Harvey, Gulf buyers currently account for 15 per cent of overall real estate demand in France, along with an additional five per cent of demand coming from expatriates of different nationalities living in the GCC.

While foreign investment into France has dropped by nearly 94 per cent, according to the *Wall Street Journal*, over the last decade the property market, thanks to its undervaluation, has still seen many takers.

The Qataris have been the more prolific buyers of heritage French real estate over the few years, aided in part by an exemption from having to pay high capital gains taxes - a concession given to the Gulf state under former president Nicolas Sarkozy. Prestige properties along the Champs Élysées, hotels such as Paris's Concorde Lafayette and Hôtel Martinez in Cannes as well as the top-ranked Le Royal Monceau - Raffles Paris, which is owned by Katara Hospitality, have all been snapped up. In France, that has ruffled the feathers of those who believe the country is selling its crown jewels.

"GCC investors tend to have a high esteem for the historic patrimony of France," argues Hollands.

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Susie Hollands, Vingt Paris

"Gulf investors - mainly Saudi - probably make up at least 30 per cent of our big sales of the year.

"Over the years, the Gulf buyer has become extremely important to the Paris real estate market, in the Golden Triangle around the Champs Élysées and Avenue Foch, in the prestigious sixteenth arrondissement.

"Different countries come and go depending on the political situation as much as the oil. After the Arab Spring a lot of people put their cash into what they would see as a safe haven and Paris also has a lot of oil companies based here," she adds.

An important concern for non-Qatari Gulf investors, who do not benefit to the same level from Doha's French concessions, is, of course, the tax environment. France is equated with notoriously high tax rates, which Knight Frank's Harvey puts down to misinformation.

"About capital gains tax, France is one of the only countries in Europe that has a tapering to encourage long term investors," he says.

"Over 22 years, your tax liability goes from 19 per cent as an EU resident or 33 per cent for a Gulf national right down to zero. So that is a forward thinking, rational approach to taxation which will help avoid speculation and encourage long-term ownership."

Despite the political risk that has come to haunt France, Harvey foresees an increased uptake of French real estate in the coming financial year, from Gulf investors conscious of their falling net worth and looking for a stable, safe haven.

"The dollar is up 30 or so per cent on the euro and there is obviously the apparent value, which French properties really do reflect today," he adds. ■