

## REAL ESTATE, AN IMPORTANT PART OF FRENCH FAMILIE'S ASSETS

*AFFO – the French Family Office Association – at the end of December 2019 published its sixth white paper on “Real Estate for families”. The white paper aims to tell everything a family officer needs to know, from looking for a property to arranging its acquisition, from standard vocabulary to the parties involved, and from types of assets to good practices!*



*Yohann Floc'h*

**I**n a time of co-working, co-living and acceleration in economic activity, a new era in Real Estate is taking shape. Never before has the Real Estate market known such mutations, and investors, developers and users are innovating constantly to design work- and living spaces to match new uses.

Real Estate today is an asset class that is eminently linked to the real economy, the developments of which have a direct and fast impact on trade volumes and, as a result, on market prices.

It is now standard practice to distinguish between residential and business Real Estate, each with its own specific investment principles. Housing Real Estate is first of all influenced by socio-demographic trends, while service-sector Real Estate is directly linked to a country's economic fabric and its growth. The two however have something in common, which is a proven sensitivity to interest rates.

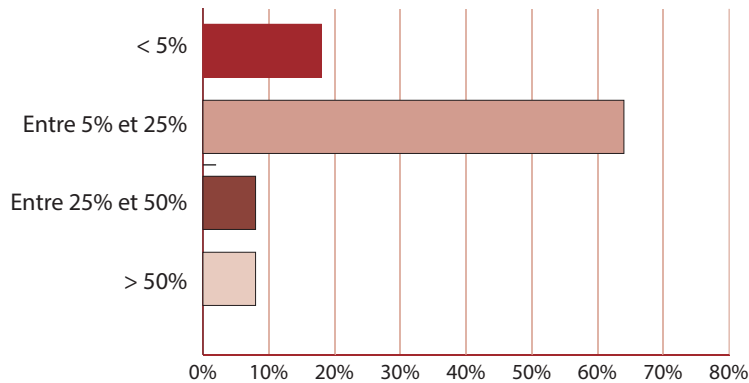
As for the latter, we are currently in a situation unlike any we've seen so far, where the financing terms for buying Real Estate are more favourable than ever, particularly for Family Offices, which are seen as a guarantee of reliability and stability.

As an eventual rebound in interest rates is foreseeable, it is important, now more than ever, to pay particular attention to all the criteria that are intrinsic to any Real Estate transaction.

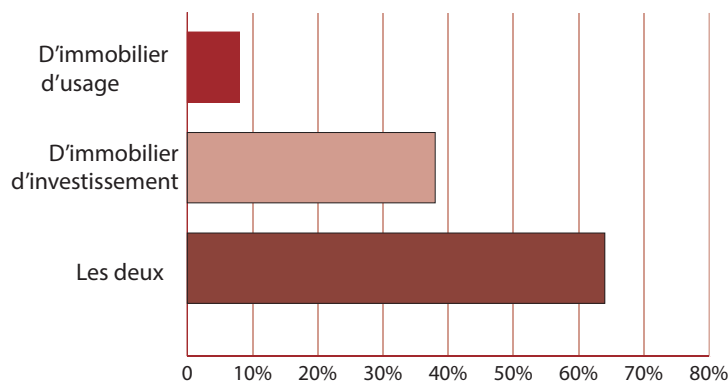
For the past five years, the French Real Estate market has confirmed its good performance and alignment with the main innovative trends, namely collaborative economy, digitisation, and new uses.

Despite the introduction of Real Estate wealth tax (IFI in France), the revision of the Luxembourg-France Double Tax Treaty, lacklustre economic growth, and the expected upturn in tax, Real Estate has proven to be a resilient asset

The share of real estate in the Single family offices' assets occupies a significant place :



In addition, on a panel of fifteen Single family offices interviewed, the results obtained with the question: “What is essentially made up of your assets ?” are the following :



class that enjoys favour with French and foreign investors.

Family Offices have demonstrated their interest in and attachment to Real Estate, which by its very nature typifies what is important to family groups: transmission, continuity, and stability.

When family officers are asked the question: “What are your main motivations for creating a Real Estate allowance?, diversification of the investment portfolio is seen as the main reason even before market opportunities, protecting assets, or consolidating an existing Real Estate business.

In the same way as financial investments, the Real Estate investment market has become more professional and structured around variables like occupation rates, interest rates, and rent levels.

The aim in drawing up the white paper on “Real Estate for families”, published by AFFO at the end of 2019, was to provide the keys to successful Real Estate investment throughout the acquisition cycle: from inventory to the decision to invest, defining a strategy, and making the final decision: to divest, or to pass on?

**The management of Real Estate as a key asset class, which often represents a shared history that binds a whole family together, is therefore a central issue for any Family Office.**

As a key stakeholder in the building, assessment, management and transmission of an estate, the Family Office must therefore show proof of targeted competencies in order to benefit from opportunities on a solid, highly diversified market stimulated by low interest rates and with an ever-increasing profitability. Equipped with a certain expertise and a multidisciplinary approach, it is able to provide

long-term support to families and company managers through the different stages of their investments, and to offer them customised solutions.

AFFO aims to provide family offices with the tools needed to manage Real Estate assets throughout their lifetime, from building up an estate to transferring it.

For if Real Estate in its various forms plays a more or less significant role depending on the Family Office, it is now more than ever an attractive and stable investment, though it also has its drawbacks! The Real Estate market is for instance subject to a considerable tax burden at each investment stage. The fact even of owning a Real Estate means being exposed to heavy taxes, and the introduction of wealth tax, toughened by anti-abuse devices, has sped up the fiscal imbalance between Real Estate and financial assets. The challenge for a Family Office is therefore to find a compromise between the attractive profitability of a Real Estate investment

(for instance by recommending investment in club deals that are now open to private buyers), the significant impact of Real Estate tax, and the need to diversify its assets.

The Family Office will therefore take care to select quality intermediaries whose mandate will vary depending on the degree of outsourcing that is chosen at the various key moments of an investment process, while also involving the families in strategic choices. Whatever the size of its Real Estate assets, a Family Office must be aware of its strengths and weaknesses in order to work closely with the various Real Estate professionals and determine the scope within which each of them will operate.

**In a context of massive digitisation and globalisation, families more than ever need experts at their side to help them draw up their asset plans, and to make the right decisions at the right time.**

#### **About AFFO :**

Founded in 2001 and chaired by Jean-Marie Paluel-Marmont, AFFO is a non-profit association that promotes the development and recognition of the Family Office profession in France and in Europe. AFFO unites stakeholders in this field (mono-family offices, multi-family offices and partners/experts who serve families, e.g. notaries or lawyers), and provides a space for sharing expertise and knowledge to strengthen ties between its members and create strong interactivity between the various Family Office professionals.

Its goal is to help families preserve their financial, human and social capital over several generations.

Wishing to provide a reference framework for the Family Office profession, AFFO in 2010 drew up a charter that defines the values that its members undertake to promote and uphold in the course of their work. In signing up for membership each year, they renew their commitment to the values of AFFO: probity, commitment, confidentiality, continuity, responsibility, and expertise.

As the representative of the Family Office profession, AFFO is gradually becoming the natural reference in the Family Office world, with three main thrusts: ethics, the human element, and skills.