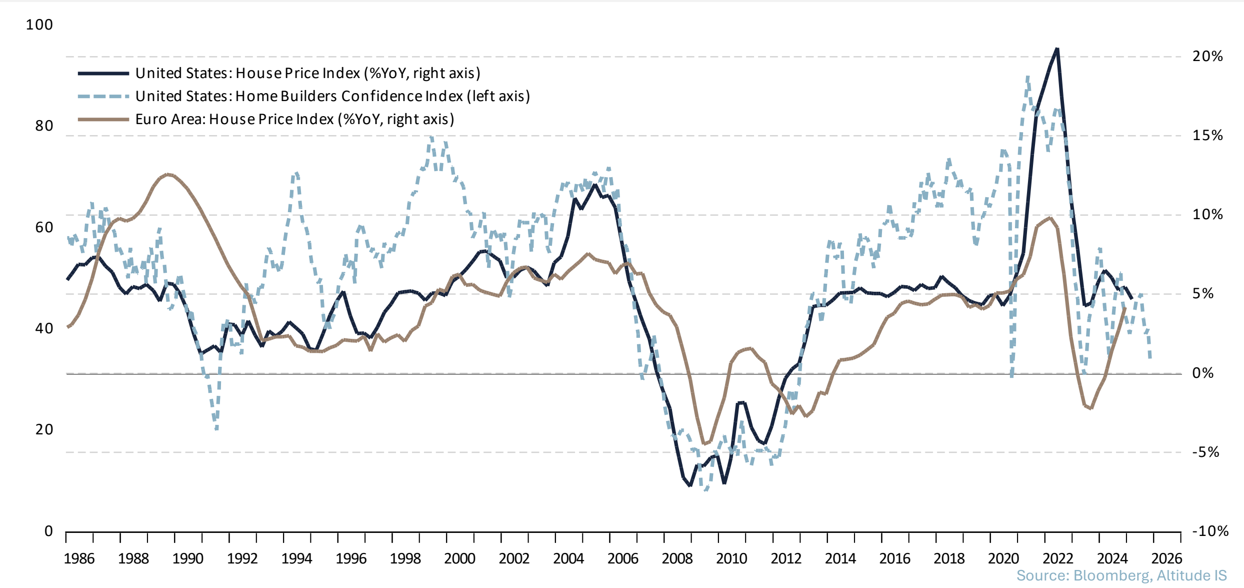
The flexiweekly that reaches new heights - published on 9 June 2025

"THE REAL ESTATE MARKET IS HOLDING UP, BUT IT NEEDS PROPS"

- Everything is high: valuations, raw material costs, mortgage rates, inventories
- If prices are holding up, it's not because demand is strong but because supply is weak
- The US Congress is considering a fiscal stimulus package, but this may not be possible
- For investors, REITs require a high degree of selectivity

CHART OF THE WEEK: "Confidence continues to decline in the real estate sector"



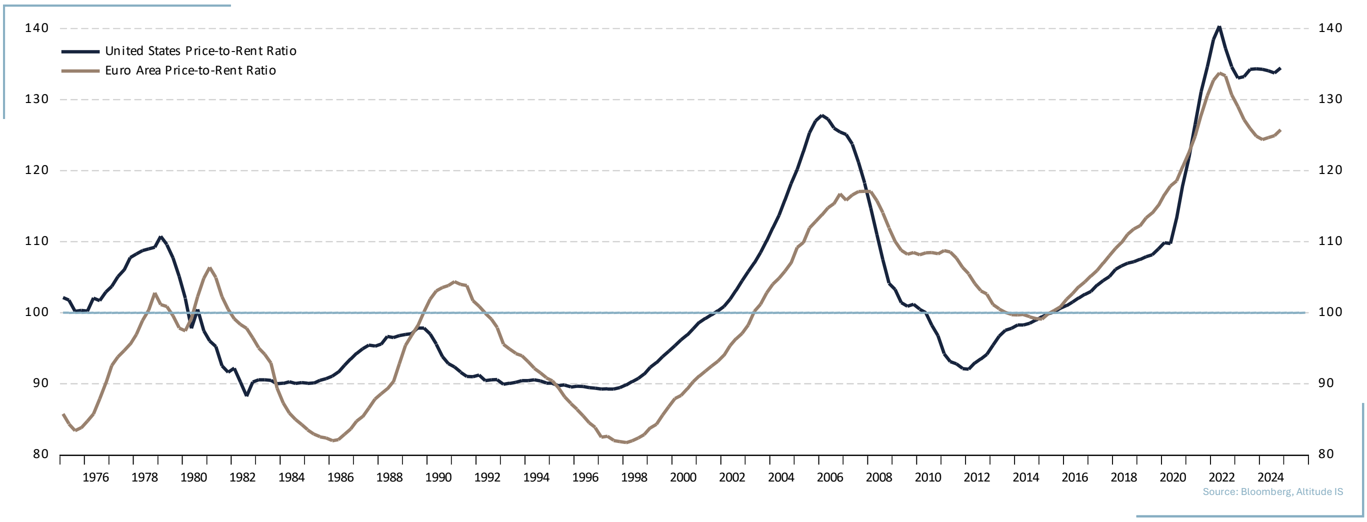
Source: Bloomberg, Altitude IS

FINANCIAL MARKETS ANALYSIS

The housing market has held up very well so far, particularly in the United States, but the second half of 2025 is shaping up to be a difficult one (see Chart of the Week). Construction and property sales professionals are facing rising raw material costs, overvalued selling prices, high mortgage rates, growing mistrust among households and now, a large stock of new homes for sale.

Property prices have once again risen slightly faster than rents, widening the gap between the purchase and the utility value of properties. After falling slightly in 2022 and 2023, the price-to-rent ratio, which is the yardstick for rental profitability, stands at 126 on the Old Continent and 134 on the other side of the Atlantic (see Fig. 2). Today, the price of an American house is equivalent to more than 22 years' rent. By comparison, in 2014, this equivalence was 15 years. This drift is fuelling sellers' capital gains and agents' commissions, but it is also putting potential buyers in an insoluble dilemma: buy an overpriced property or remain a tenant. As long as the price-to-rent ratio does not contract, the property market will be regarded as a financial bubble.

Fig. 2 - Ratio of property prices to rents in the United States and the Euro Area



In the United States, the yield on the 30-year Treasury bond briefly exceeded 5%. Under its influence, the mortgage rate for the same maturity, used on 95% of US mortgages, climbed back above 7% (see Fig. 3). It is now well above its average of the 2010s, when it hovered around 4%. In practical terms, this means that a household wishing to buy a property (median price of $ 414,000, with a 10% down payment) will now have to make monthly repayments of $ 3,000, compared with $ 1,600 in 2019 or 2020 (see Fig. 4). **Some Americans are no longer able to buy their own homes.** The national affordability index stands at 103 points (see Fig. 5). This means that, on average, households have an income 3% above the minimum level required to qualify for a mortgage on a standard home. This is very low.

Fig. 3 - US sovereign and mortgage rates

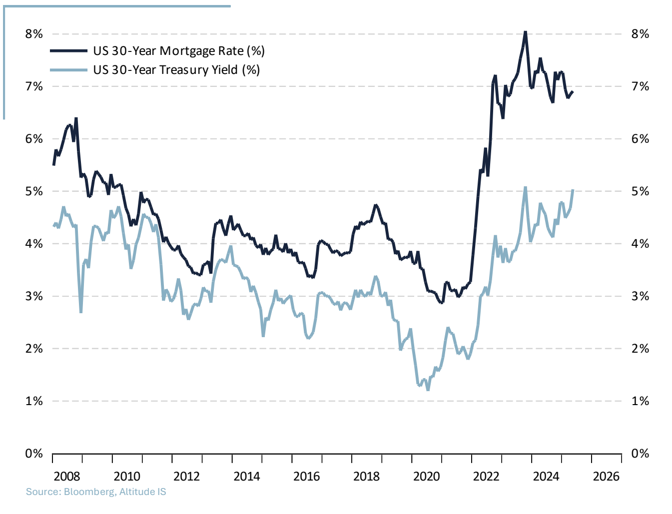


Fig. 4 - US mortgage repayments

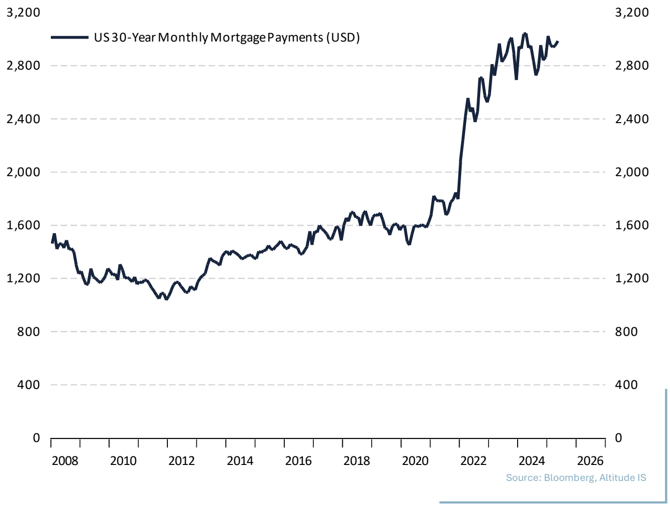


Fig. 5 - US housing affordability index

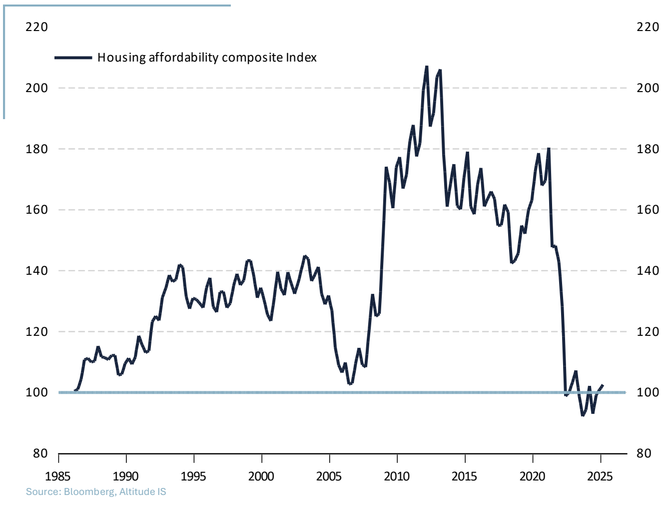
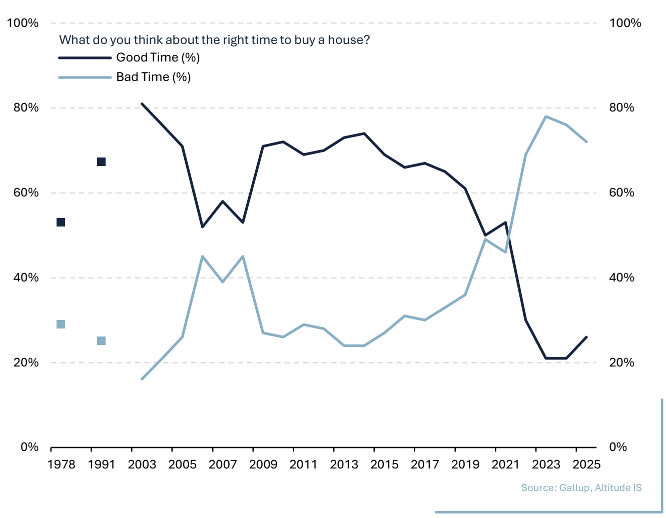


Fig. 6 - Timing of a property purchase in the US



These onerous conditions have three direct consequences:

- Some households prefer to rent. Asked by Gallup, 72% of Americans believe that now is a "bad time" to buy a home (see Fig. 6). In April, only 4.5% were planning to buy a home in the next 6 months, an extremely low level. Similarly, 44% said they would rather rent than buy if they had to move tomorrow. They are perfectly right, since renting costs on average $ 768 less per month than a mortgage payment including tax and insurance. The traditional American pattern, where property ownership is seen as a more profitable investment than renting, has been completely overturned.
- A proportion of households are choosing not to move. In 2024, just 8.4% of the population chose to change their place of residence, the lowest rate since the series was launched in 1978. The outlook is not improving, as the probability of moving in the next twelve months has plummeted to 13%, compared with over 20% in the early 2010s. This change in household behaviour is a direct brake on the fluidity of the labour market, which has contributed so much to improving US productivity in the past. Historically, the ability of employees to move to where jobs were created accounted for up to a quarter of productivity gains. Today, the US economy is deprived of one of these traditional drivers.

Fig. 7 - Young adults living with their parents

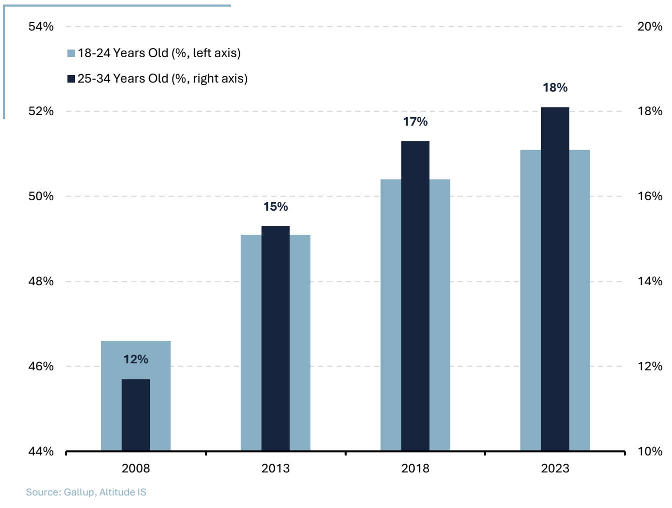
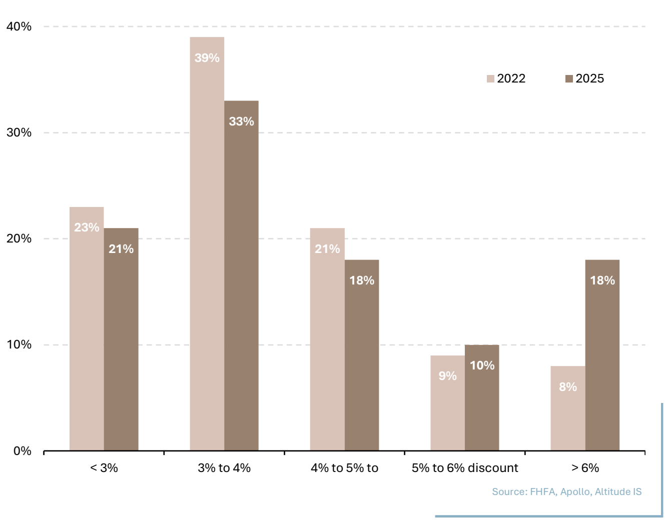


Fig. 8 - Breakdown of US mortgages



- Buyers are rich and elderly. Those who can avoid taking out a loan do so. This is borne out by the fact that the median age of residential property buyers is now 56, and 38 for first-time buyers alone. Millennials do not have sufficient income to buy the home of their dreams: either they move away from the major centres to find an acceptable entry ticket, or they fall back on renting, or they stay with their parents. In 2023, 18% of Americans aged 25 to 34 still lived in their parent's home, compared with 12% in 2008. Among 18- to 24-year-olds, the proportion is over 50% (see Fig. 7).

The surge in mortgage rates is curbing demand, but it is also tending to freeze supply. The vast majority of loans still "alive" were taken out when rates were very low. More than 70% of them carry a coupon of less than 4% (see Fig. 8), so a household that sells its existing property to finance a new one at 7% would see the cost of its debt soar. By not putting their houses and flats on the market, Americans are drying it up. The supply of new homes cannot make up for the shortfall in existing homes, since it accounts for only 16% of transactions (see Fig. 9). What's more, the average construction time has increased. Whereas it took five months to deliver a single-family home before 2020, it will take eight months by 2025.

Fig. 9 - House sales in the United States

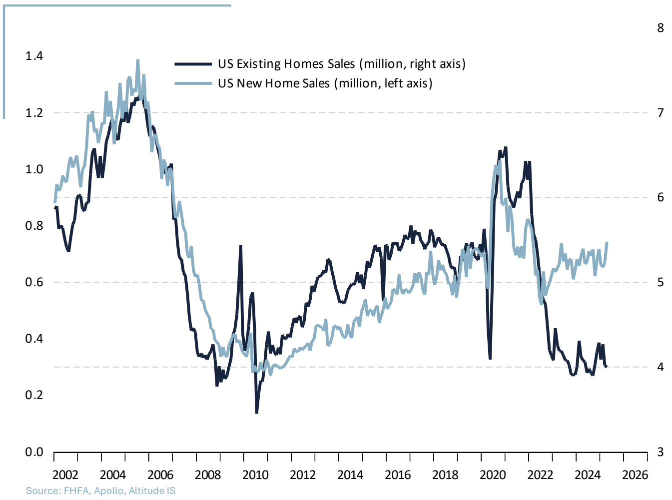
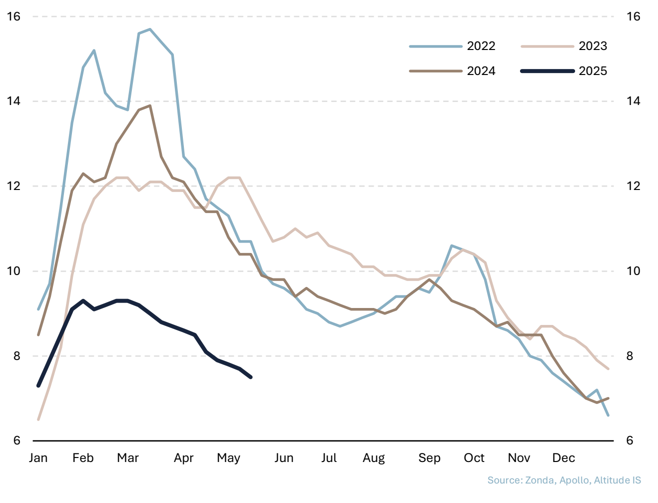


Fig. 10 - Builder visitor flows



If prices are not falling, it is not because demand is strong but because supply is abnormally low. Visits to housing developments in spring 2025 confirmed this lack of dynamism. They were well below the figures for 2022 to 2024 (see Fig. 10). At the same time, builder confidence, the sector's leading barometer, slipped from 47 to 34 points between January and May 2025. Such a fall is historically consistent with a stagnation in house prices over the following twelve months (see Chart of the week).

In an attempt to shake the property market out of its lethargy, without waiting for an unlikely fall in mortgage rates, **Congress is banking on fiscal stimulus.** The text, included in the draft budget known as the *Big Beautiful Bill*, seeks to activate four levers:

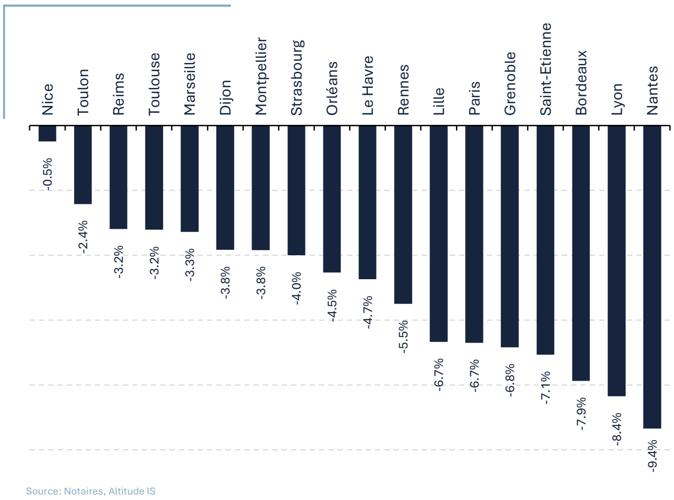
- Households with an annual income of up to $ 500,000 will be able to deduct up to $ 40,000 in State and Local Taxes (SALT) from their federal tax base, compared with $ 10,000 at present. This boost is aimed primarily at homeowners in high-tax states (New York, New Jersey, California) where local taxes are very high.

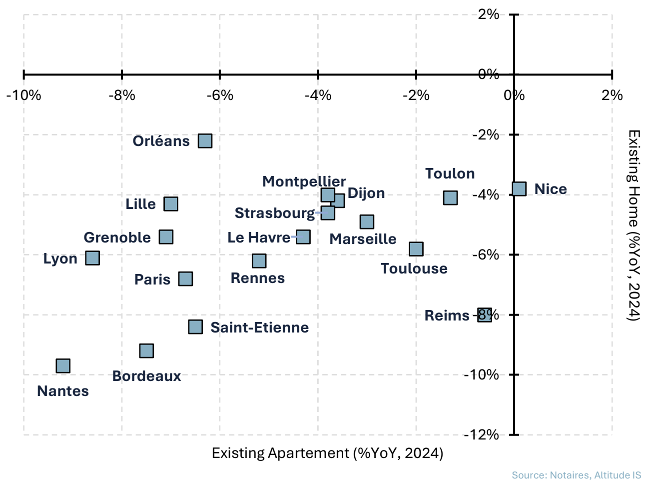
- "Transparent" companies, including REITs and most small lessors, will be able to deduct 23% of their taxable profits (Qualified Business Income, QBI), instead of the previous 20%. This will enable them to increase their after-tax cash flow, making it easier to pay dividends and self-finance new projects.
- The "9%" band of the Low-Income Housing Tax Credit (LIHTC) will be reactivated, and the national volume of allowances will be increased. In the 4% band, the threshold for bonds qualifying for the credit will fall from 50% to 25%. The aim is to encourage developers to launch social and intermediate programmes from 2025, with deliveries expected from 2027.
- The mechanism for deferring capital gains on the sale and repurchase of a property will remain intact, to ensure that investment transactions continue to flow smoothly.

If finally adopted, these initiatives could immediately restore purchasing power to affluent households in high-tax states. They would also increase the supply of subsidised housing in the medium term. **However, given the deficit that these reforms would entail** (3,000 billion over ten years) **and the tensions they would generate on the sovereign bond market, Congress may have no choice but to abandon them.** Not only would the US have to reassure its creditors, but without controlling the cost of public debt, the positive impact on real estate would be eroded. Take the example of the SALT cap increase. If 30-year mortgage rates were to stagnate at 7%, the increase in monthly payments would entirely neutralise the tax savings achieved.

Europe is not immune to the tensions in the property market, but the pace is different. In France, for example, the average loan rate is around 3.3%, while the initial deposit required has risen from 10% of the price of the property in 2019 to 32% in 2025. As a result, households' borrowing capacity has fallen by a fifth and access to property has dropped by a third. The effect was instantaneous. **In Paris, house prices fell by an annual -6.7%** (see Figs. 11 & 12). In Lyon and Bordeaux, they fell by -8.4% and -7.9% respectively, while Marseille and Nice, with -3.3% and -0.5%, held up thanks to a positive migration dynamic. This was mainly due to a net influx of households in their forties and young retirees looking for a warmer climate. In the new-build sector, reservations have plummeted, forcing developers to suspend the launch of new projects. As in the United States, first-time buyers have been hardest hit. They now account for just 29% of transactions.

Fig. 11 & 12 - Property price trends in France's main cities in 2024





The Banque de France estimates that, at constant interest rates, to rebalance the market, prices would have to fall by a further 15% to 20%. The picture is similar in Germany, where the combination of the cost of raw materials and prudential obligations is restricting the distribution of credit. In Spain, it is the partial withdrawal of foreign demand that is adding to the negative effect of rising interest rates. Everywhere, the adjustment is being made between real incomes being eaten away by inflation, tighter access to finance and supply becoming scarce once again.

In commercial property, the correction is already well under way:

- Rising bond yields have pushed up cap rates by between 60 and 120 basis points in two years, eroding the value of portfolios by around 12% in the United States and just over 15% in Europe. Warehouses are still structurally ahead, as vacancies remain below 4% and leases are indexed to inflation. Out-of-town retail parks are at last stabilising their cash flows, thanks to the return of low-cost retailers and the rise of click-and-collect. In data storage centres, the rise of artificial intelligence is driving demand through the roof. Leases are now 10% more expensive than a year ago. On the logistics side, rents, which were expected to increase by more than 20% by 2022, are now only 2% higher.
- Office vacancies are running at 19% in American business districts and 14% in major European cities. To stem the haemorrhage, landlords are offering up to eighteen months' rent free and paying a greater proportion of fit-out costs to attract tenants. The refinancing wall looming between 2025 and 2027 represents over $ 1,200 billion of debt in the United States alone. This will accentuate the selection process. Newer, well-rated buildings are finding takers among lenders who are still inclined to position themselves. Conversely, towers dating from the 1980s, which are energy-guzzling or poorly located, are seeing double-digit discounts.
- **The multi-family segment,** long considered the most defensive in US income-producing real estate, **is paradoxically proving to be the most exposed to the interest rate shock.** More than a third of the acquisitions made between 2020 and 2022 were financed by bridge loans that are due to expire. The new conditions are no longer as advantageous. At the same time, a record wave of deliveries, already completed in 2024 and expected between 2025 and 2026, is weighing on rents in the Sun Belt. As a result of these two factors, the delinquency rate on loans backed by apartment complexes has jumped from 1% to 6.5% over the past 12 months.

On the equity market, the Footsie Nareit All Equity index, which includes 139 US property companies, **has been in balance since 1st January** (see Fig. 13). The dividend yield, at around 4%, is now 45 points below that of ten-year Treasury bonds. **Industrial heavyweights** with exposure to logistics, storage, healthcare or digital infrastructure (Welltower, American Tower, Prologis, Public Storage, Equity Residential, Simon Property) are managing to stay in positive territory. **They are protected by inelastic demand.** At the other end of the spectrum, highly leveraged office, hotel and shopping centre property companies (Boston Properties, Vornado Realty, Host Hotels & Resorts, SL Green, Alexandria, Hudson Pacific) have been caught out by the rising cost of capital. They are down between -10% and -40%.

In Europe, the Footsie Nareit EPRA index fares better (see Fig. 13). It is forecast to rise by 6.2% in 2025, with a dividend yield of 4.5%. **Property companies have been buoyed by the cut in key ECB interest rates.** This easing, which is more marked than in the United States, is automatically widening the yield spread on European property companies and encouraging an arbitrage flow towards income stocks. In addition, the sector composition of euro-denominated REITs works in their favour. More than half of the Old Continent's capitalisation is concentrated in logistics, German residential rental property and telecoms infrastructure, three profitable segments with little exposure to office vacancies. In France, the main listed property investment companies (Unibail-Rodamco-Westfield, Klépierre, Gecina, Covivio, Altarea and Icade) are trading on the basis of a dividend of 5.5%, 230 basis points above the 10-year OAT. Once again, this premium is at the lower end of the historical range, illustrating investors' cautious attitude to the sector (see Fig. 14).

Fig. 13 - US and European REITs

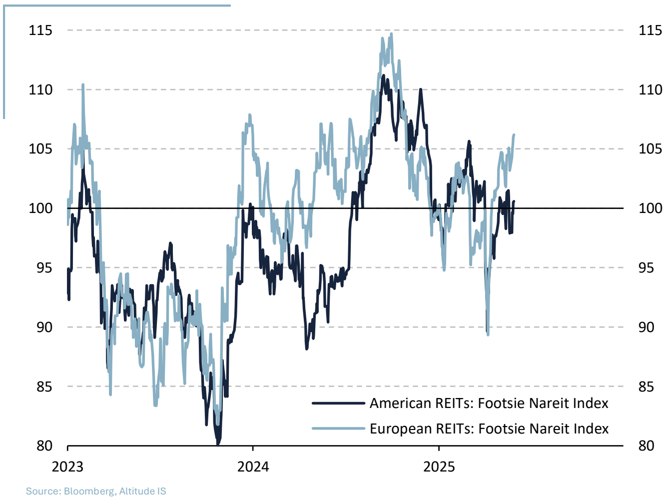
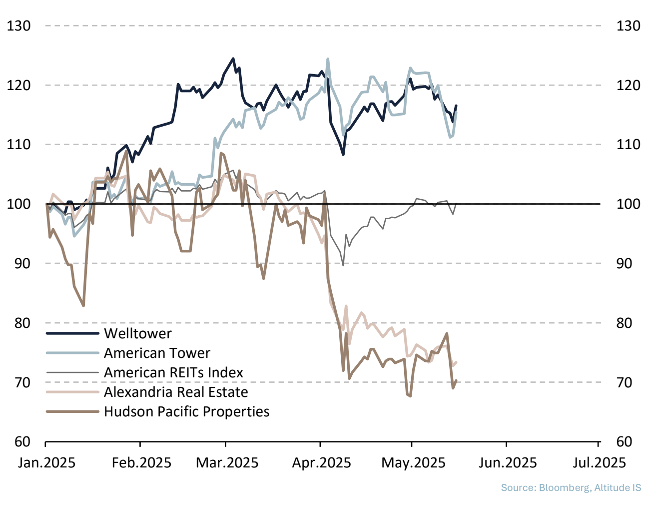


Fig. 14 - Selection of US REITs



Conclusion:

The next crisis could come from real estate. This sector is one of the "usual suspects" when tensions are felt on the bond market. The high level of mortgage rates over the past three years has reduced the purchasing power of households and the profitability of investments. Selectivity is imperative. Investors are seeking refuge in assets backed by structural needs such as urban logistics and data centres, but are turning their backs, at least for a while, on American multi-family flats, offices, hotels and shopping centres. The latter definitely need monetary easing from the Fed.

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2025 Year-to-Date (%)	2024 (%)	2023 (%)
Equities							
World (MSCI)	892.0	69.86	1.5%	6.2%	7.1%	18.0%	22.8%
USA (S&P 500)	6 000	65.13	1.5%	7.2%	2.6%	25.0%	26.3%
USA (Dow Jones)	42 763	60.92	1.2%	5.0%	1.3%	15.0%	16.2%
USA (Nasdaq)	19 530	66.55	2.2%	10.5%	1.4%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	571.2	62.72	1.0%	4.6%	15.9%	10.2%	19.5%
UK (FTSE 100)	8 838	67.65	0.8%	3.4%	10.3%	9.6%	7.7%
Switzerland (SMI)	12 366	57.62	1.1%	1.5%	9.8%	7.5%	7.1%
Japan (Nikkei)	38 139	56.32	-0.6%	2.5%	-4.5%	21.3%	31.0%
Emerging (MSCI)	1 183	66.23	2.3%	4.3%	11.4%	8.0%	10.2%
Brasil (IBOVESPA)	136 102	48.06	-0.7%	1.9%	13.2%	-10.4%	22.3%
Mexico (IPC)	58 061	57.72	0.4%	2.2%	19.8%	-11.0%	22.4%
India (SENSEX)	82 477	59.34	1.0%	2.3%	5.8%	9.6%	20.3%
China (CSI)	3 881	53.46	1.0%	2.0%	-0.9%	18.2%	-9.1%
Com. Services (MSCI World)	137.3	75.27	2.8%	8.0%	10.5%	31.9%	38.1%
Cons. Discretionary (MSCI World)	414.5	54.65	-0.5%	5.6%	-1.1%	20.7%	29.5%
Cons. Staples (MSCI World)	298.0	52.63	-0.9%	0.4%	10.6%	4.7%	3.2%
Energy (MSCI World)	242.0	55.72	2.1%	4.1%	2.6%	2.9%	6.0%
Financials (MSCI World)	202.8	72.01	1.1%	5.8%	14.6%	25.1%	16.4%
Health Care (MSCI World)	350.0	56.61	1.4%	0.7%	1.2%	1.5%	4.1%
Industrials (MSCI World)	429.4	74.78	1.2%	7.4%	15.1%	12.8%	22.5%
Info. Tech. (MSCI World)	786.0	70.94	3.0%	11.3%	2.5%	31.9%	51.4%
Materials (MSCI World)	334.1	63.63	1.6%	3.4%	10.6%	-7.7%	12.6%
Real Estate (MSCI World)	994	60.15	0.4%	0.7%	4.5%	-0.4%	5.3%
Utilities (MSCI World)	179.0	54.42	-0.5%	1.0%	13.2%	13.0%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.63%	54.75	-0.1%	-0.1%	5.2%	-1.7%	5.7%
USA (Sovereign)	4.32%	46.47	-0.5%	-0.8%	2.0%	0.6%	4.1%
Euro Area (Sovereign)	2.73%	54.43	-0.3%	0.3%	0.5%	1.9%	7.1%
Germany (Sovereign)	2.31%	50.57	-0.3%	-0.1%	-0.6%	0.6%	5.6%
UK (Sovereign)	4.57%	53.91	0.2%	-0.6%	2.2%	-3.0%	5.6%
Switzerland (Sovereign)	0.48%	49.42	-0.6%	-0.1%	0.4%	5.4%	7.9%
Japan (Sovereign)	1.22%	48.77	0.2%	-1.3%	-1.6%	-2.1%	0.9%
Emerging (Sovereign)	6.85%	64.68	0.4%	1.3%	3.4%	7.0%	11.0%
USA (IG Corp.)	5.29%	53.22	0.0%	0.5%	2.0%	2.1%	8.5%
Euro Area (IG Corp.)	3.15%	59.47	-0.1%	0.5%	1.4%	4.7%	8.2%
Emerging (IG Corp.)	6.70%	63.14	0.1%	0.9%	2.7%	7.0%	6.7%
USA (HY Corp.)	7.43%	73.20	0.3%	1.5%	3.0%	8.2%	13.4%
Euro Area (HY Corp.)	5.60%	79.33	0.3%	1.2%	2.6%	8.2%	12.1%
Emerging (HY Corp.)	8.41%	68.01	0.4%	1.7%	3.5%	14.9%	13.1%
World (Convertibles)	477.3	76.13	1.4%	3.8%	8.4%	9.4%	12.3%
USA (Convertibles)	627.5	68.92	1.7%	3.7%	4.9%	10.1%	14.6%
Euro Area (Convertibles)	284.1	78.36	0.5%	5.0%	22.1%	14.7%	7.3%
Switzerland (Convertibles)	277.6	53.70	-1.4%	0.8%	15.3%	-10.5%	5.8%
Japan (Convertibles)	230.1	63.58	0.0%	1.8%	1.5%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 600	73.25	n.a.	0.0%	-0.7%	11.1%	7.8%
Macro	1 326	61.47	n.a.	-1.3%	-1.2%	7.4%	1.6%
Equity Long Only	2 140	59.42	n.a.	0.6%	-3.2%	12.0%	15.9%
Equity Long/Short	1 659	69.75	n.a.	0.3%	-1.0%	14.0%	7.7%
Event Driven	1 708	70.90	n.a.	-0.4%	-1.0%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1 659	90.92	n.a.	0.3%	0.5%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1 674	82.18	n.a.	-1.4%	0.6%	9.8%	7.8%
Credit	1 618	95.68	n.a.	0.0%	1.4%	8.5%	8.1%
Credit Long/Short	1 651	100.00	n.a.	0.5%	1.4%	10.0%	11.2%
Commodity	1 845	91.83	n.a.	1.1%	3.1%	14.7%	7.3%
Commodity Trading Advisors	1 288	48.74	n.a.	-2.8%	-4.0%	7.9%	-3.6%
Volatility							
VIX	16.77	38.38	-9.7%	-32.3%	-3.3%	39.4%	-42.5%
VSTOXX	17.42	42.65	-9.1%	-16.2%	2.5%	25.3%	-35.0%
Commodities							
Commodities (CRB)	561.3	n.a.	1.1%	2.1%	4.6%	5.1%	-8.0%
Gold (Troy Ounce)	3 313	n.a.	-2.0%	-0.4%	26.2%	27.2%	13.1%
Silver (Troy Ounce)	36.04	n.a.	3.7%	10.1%	24.7%	21.5%	-0.7%
Oil (WTI, Barrel)	64.58	n.a.	6.2%	9.3%	-10.0%	0.1%	-10.7%
Oil (Brent, Barrel)	68.17	n.a.	6.7%	8.7%	-8.0%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	99.03	43.87	0.3%	-1.3%	-8.7%	7.1%	-2.1%
EUR	1.1416	57.02	-0.2%	1.5%	10.3%	-6.2%	3.1%
JPY	144.39	49.45	-1.2%	0.7%	8.9%	-10.3%	-7.0%
GBP	1.3553	60.77	0.1%	1.9%	8.3%	-1.7%	5.4%
AUD	0.6513	58.65	0.3%	1.5%	5.3%	-9.2%	0.0%
CAD	1.3686	64.33	0.2%	1.8%	5.1%	-7.9%	2.3%
CHF	0.8210	55.75	-0.4%	1.3%	10.5%	-7.3%	9.9%
CNY	7.1872	59.97	0.2%	0.7%	1.6%	-2.7%	-2.8%
MXN	19.093	64.47	0.7%	1.9%	9.1%	-18.5%	14.9%
EM (Emerging Index)	1 831.7	74.95	0.5%	0.9%	6.0%	-0.7%	4.8%
XBT	105 617	n.a.	0.9%	2.3%	12.7%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)

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