

The Recent Emergence of Real Estate Education in French Business Schools: The Paradox of the French Experience

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Executive Summary. The international boom-bust property cycle of the mid 1980s has given rise to changes in the French real estate world in the last three years. New openings and new careers have emerged—asset manager, facilities manager or property consultant. Moreover, these developments have spawned new real estate education programs in some French business schools. It is the specific nature of the French context that helps explain the late emergence of such courses. The paradox is that despite a long tradition in France in urban management and in real estate education centered on law studies, no real estate business, financial or economic courses have been forthcoming until recently.

Introduction

Since the mid-1990s, the economic and financial consequences in France of the unprecedented international boom-bust property cycle have been new job creations and opportunities such as asset managers, facilities managers or property consultants in the real estate field. As a result, new real estate education programs have been launched in some of the country's business schools in the last three years. Although these business school courses, built around economics and finance as they apply to real estate features, are still few and far between, they have been very successful. The French context is in fact specific and particular, which explains, to a certain extent, why such initiatives have been taken at such a late date. The context also accounts for the small number of these new courses in comparison to other European countries.

This article presents the specific characteristics of French real estate education and training. In particular, it attempts to explain why such courses have taken so long to be introduced and why people were not aware of the new opportunities sooner. The first part details the main historical and structural reasons why real estate education did not previously exist in French business schools and the state of existing real estate and urban education in France. The second part explains the new context in which real estate education programs have emerged in some business schools in France and describes some of these new programs.

Features of the French Real Estate Education System

France has a very famous heritage in urban management. The works of Baron Haussmann in the nineteenth century and his model of large avenues and renovation of inner-centers is not the only example renowned internationally. Also well known are the urban theories of Le Corbusier in the twentieth century and the construction

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of new-towns in the Paris Region, like Marne-la-Vallée, where Disneyland-Paris is located. Similarly, urban management education, at both the graduate and post-graduate level or in the form of programs, have been run for a long time in France by both universities, town planning institutes and some business schools.

Types of Real Estate Education in France

Paradoxically, despite this proven savoir-faire in town planning and urban management, no initial or graduate training in real estate business, finance or economics has been developed by universities, which is not the case as far as courses in urban management are concerned. Furthermore, only a very small number of business schools have addressed this field at all.

While real estate business education is not yet as well developed in France as it is in Great Britain, where the Royal Institution of Chartered Surveyors (RICS) has taken the initiative in promoting many real estate business education programs in both universities and business schools, France has concentrated on developing numerous training programs in law. The specific real estate programs in law are now widespread and offered by almost all French universities. Also, some graduate law facilities have been created to promote real estate law education. Similar developments have taken place in other European countries, such as Belgium, the Netherlands, Italy and Spain, where real estate is only studied as part of a law program.

To understand the paradox, one only has to consider the three types of real estate training and education that different types of institutions have offered in France. The first type of real estate education is an urban and architectural one provided in urban management programs offered by town-planning institutes, architecture schools and universities. Real estate is not taught at all as a specific subject, however no specific real estate finance, economics or business material is offered in these programs. The courses concentrate mainly on town planning or are architectural in nature. They typically focus on urban management or real estate law, but never on real estate finance.

The second type of education is provided by some high level public engineering schools, called *Grandes Ecoles*,¹ such as the *Ecole Nationale des Ponts et Chaussées* (a top engineering school), or the *Conservatoire National des Arts et Métiers (CNAM)*. Here the courses are mostly of a technical nature. They deal more with building itself and the building industry rather than with actual real estate business.

Finally, the last and the most widespread type of real estate education is based on legal studies. As has been mentioned earlier, many post-graduate programs in real estate law have been developed in France. Paradoxically, not one of these programs presents or tackles real estate as an economic, finance or business field.

Reasons for the French Paradox

France has always enjoyed a real and durable tradition of urban management and real estate law, which educational courses offered by Universities and *Grandes Ecoles* have

faithfully reflected. It is paradoxical, therefore, that real estate courses focusing on business, finance or economics have always been marginal in French business schools.

There are historical and structural reasons that explain the French paradox. For example, the high number of academic real estate courses found in law programs as compared to the paucity of academic finance and economics classes and programs in real estate education.

In order to understand the predominant position held by law programs in French real estate education, it has to be remembered that a very real French legal tradition exists in France, in other words, the question of the law is taken very seriously. It is worth noting here that the French civil code or 'code Napoleon' was translated and exported to many countries in the nineteenth century and considered to be the model for foreign civil codes.

Another historical reason may be seen in the dominating influence of public administration, institutions and public service in France, this since the time of Napoleon and the first Empire—at the beginning of the nineteenth century. The influence has proved to be far greater than that of similar institutions in other European countries and much more so than in Anglo-Saxon countries.

In modern times, and especially for several decades after World War II, the French economy was run by the State and public institutions, which means that the reconstruction of the economy and rebuilding of the country were partly carried out using funds provided under The Marshall Plan and government subsidies. The ensuing command economy for key sectors like industry, equipment or housing, took the French real estate economy largely out of the market economy, a state of affairs that lasted from the beginning of the 1950s until the late 1970s.

The housing sector is a good example. Since the 1950s, the characteristic features of this sector have been the strong influence of the State through the granting of public subsidies, social public housing and public regulation. Most of the social housing constructions were built and planned in huge public housing projects and zones, called Grands Ensembles, like the ZUPs (Zones à urbaniser en priorité) or ZAC (Zones d'aménagement concerté) two types of Urban Development Zones. Most of these public or semi-public areas, where the main infrastructure works are implemented by government bodies, were set up between the 1960s and 1980s. Their purpose was to provide new development opportunities for private developers in residential and non-residential markets. In these zones, land units are acquired by a competent local authority or public body with a view to selling them to public or private users. Special grants from the Caisse des Dépôts et Consignations, a public entity—with low interest rates, made outside the normal financial markets—are usually made available.

Most of these semi-public financial institutions, such as the Crédit Foncier or Caisse des Dépôts et Consignations, were set up by the State in the nineteenth century to manage financial resources and to finance urban and real estate development. Almost all of their resources came from public or state assistance channels, which did not

depend on normal, competitive financial market conditions or mortgage markets. Housing was financed with long-term loans, over twenty-five to thirty-five years, at very low fixed rates, 2% to 3%, derived from short term liquid resources.

In the 1950s, State assistance in housing programs through a system of non-profit entities—low rent housing organizations—helped to relieve the shortages of social renting housing. Such developments were undertaken in relation to large town-planning processes and equipment. The investment was mainly used during the 1950–1954 period, notably with the subsidies and special loans of the *Crédit Foncier*, which were applied to a wide range of housing without any account being taken of borrowers' financial means.

In other words, the housing sector was, during the whole of this period, state regulated, managed just like a government department, run by highly qualified engineering graduates or top-ranking civil servants who had graduated from one of the French *Grandes Ecoles* specializing in public administration, such as *ENA*, or from engineering schools such as the *Ecole Polytechnique* or the *Ecole Nationale des Ponts et Chaussées*, a tradition in keeping with the French Jacobine historical structure (*i.e.*, technically efficient but at odds with market mechanisms).

In 1977, housing assistance for lower-income homeowners was introduced and gradually replaced the policy of investment in social rental housing of the 1950s. This investment, granted on the basis of household income, changed the situation radically in that both housing and social rental housing responded more to market logic. One major repercussion has been the State's progressive withdrawal.

While the housing sector was managed and subsidized by the State from the 1950s to the beginning of the 1980s, commercial property markets were quasi non-existent during the same period. The first office markets appeared in France in the late 1970s and 1980s. Their collapse in the 1990s has underlined in particular the lack of an economic logic in the regulation of property markets.

Lastly, the lack of property data and the opacity of property markets in France was a contributing factor to the under-development of real estate finance and economic education and therefore reinforced the predominance of courses with a strong emphasis on law.

The Emergence of Real Estate Education in Business Schools

The recent creation and development of real estate economics and finance education have not been a particularly easy affair in the face of the strong competition from real estate education found in law programs in France. Those educational institutions that have undertaken to introduce these new courses have been French business schools, the best of which, it has to be remembered, are the *Grandes Ecoles*.

Examples

Not yet viewed as an essential stock market activity, real estate is hardly considered by the majority of French and European business schools as a new function, a new resource or a new sphere of activity the firm should manage in the same way that it manages human resources. On the contrary, real estate is simply depicted as an industrial activity, like the manufacture of automobiles or airplanes and therefore does not require specific teaching. Traditionally the predominance of the marketing, accounting or human resources departments is so great in French business schools, that it proves very difficult to develop anything like a real estate department despite the new international context. Even in the existing finance departments of leading business schools, in MBA programs, for example at ESSEC, at INSEAD or at HEC in France, real estate has not yet evolved into a field of study or education.

What one notices is that these new real estate programs have not been created or offered by finance departments or real estate departments as is currently the case in the United States. At ESSEC, for example, the new real estate programs have been designed and run by the Environment Department. This department focuses on the whole range of physical and local factors in the environment that play a part in company policymaking and strategy. Like real estate education, the existence of such a department in a business school program is also specific to ESSEC Business School. Many other *Grandes Ecoles* in management or business schools do not have a separate environment department or real estate department, whereas they all have marketing, finance and economics departments. The main reason is certainly the current low level of securitization and the lack of secondary mortgage markets and activity in France. Quoted French property companies are not very numerous while their securities represent less than 4% of total French stock market capitalization.

Consequently, the changes in real estate education are very recent and still in their initial stage in French business schools and business education. It is worthwhile noting existing initiatives in this particular context.

The most famous, top flight post-graduate business school in France, which also happens to be the first one in Europe accredited by the AACSB—the International Association for Management Education—to have offered real estate as a business studies subject is the Groupe ESSEC and in particular the ESSEC School of Management.

This institution has recently created real estate classes (Real Estate Economics, Real Estate Finance, Real Estate Development and Real Estate Management) in initial education and a specific Real Estate Chair. Both enjoy popularity with graduate and post-graduate students.

The Bordeaux Business School, which offers a graduate program specializing in real estate management called IMPI (Institut du Management du Patrimoine Immobilier) is another example. A post-graduate and executive real estate management program

has also been developed very recently by ESSEC with the participation of other French business schools. It must be stressed that the initiatives taken by business schools are very recent and have been welcomed by real estate professionals, in particular, given the context of French real estate education presented earlier.

A New Dawn for Business Education in Real Estate

There are many reasons for the recent initiatives and new developments in real estate courses in some French business schools. They are the same as those in Anglo-Saxon countries being linked to the globalization of business activity.

First, the economic consequences of the international real estate crisis have proved to be serious for all participants concerned in urban development and real estate markets in France, as in other developed countries. The high number of bankruptcies among French property developers combined with the financial difficulties experienced by some large banking institutions, for example the *Crédit Lyonnais*, and losses incurred on public urban development operations have revealed, moreover, ignorance of real estate mechanisms and the need for new real estate training. This factor certainly triggered awareness of the real estate situation in France and the need for new educational offerings in the field.

Secondly, the expansion over two decades of rental property markets, in particular the commercial and office markets in France, has shown that there is a need for the best knowledge possible of real estate market mechanisms and market forecasts. One should remember that the French urban and real estate context is less than twenty-five years old. Commercial property markets were marginal in the Paris region, and even non-existent in many cities. Most of the companies had to build and own their properties. The situation and markets have been changing now for more than twenty years in the Paris region and for fifteen years in other regions in France. The character of these new commercial products and markets has led to the introduction of the developer function in the 1970s and 1980s and the setting up of Anglo-Saxon real estate consultants and property management companies like *Jones Lang LaSalle* or *CB Richard Ellis* or French ones such as *Bourdais* or *Atis Real Auguste Thouard*.

Even if outsourcing real estate services and functions is unknown in France, facility management techniques and specialists have begun to make their appearance, satisfying the new needs expressed by large companies, public and private alike.

Furthermore, French decentralization and deregulation in the 1980s wrought changes in the French housing financial system in the 1990s, as detailed earlier. Subsidies, loans and specific funding techniques have disappeared. *Crédit Foncier*, which traditionally had been the major source of state-assisted loans to moderate income households for homeownership, and other public institutions no longer have a monopoly of housing loans, which means that housing finance has moved from a regulated system to a market-driven economy, a direct result of the globalization and deregulation of credit. Since the mid-1980s, reshaping of the housing finance system and more generally of the French financial sector has made competition between

banking institutions stiffer. Free-market housing loans to individuals tend to represent now more than two-thirds of the market, up from less than one-quarter at the beginning of the 1980s.

Finally, the emergence of foreign and American investments in commercial properties and takeovers of French banks' bad loans, which appeared in the wake of the last office market recession, have raised French professionals' awareness of financial techniques and afforded them excellent opportunities to work with a much wider range of financial instruments. Furthermore, new real estate approaches to valuation have been adopted by French banks, institutions and appraisers. While common sales and cost comparison approaches were usually used by French appraisers and professionals, the use of financial methods, like the Discounted Cash Flow Approach of valuation is now becoming widespread in France. However, this requires a sound basic education in finance and economics, which all real estate professionals have not necessarily had for the simple reason that their training has been in the law-related issues of real estate.

Moreover, the globalization of economies has prompted many foreign and national banks, new real estate departments of companies and facility management companies, which have recently started to appear on the scene, to create new and potentially successful careers in most real estate fields. Most of these opportunities are offered to students who have had a financial, economics and business education. Because facility and asset management functions must be filled by executives and managers thoroughly acquainted with real estate economics and finance, it quite naturally follows that courses in these subjects are much sought after.

Conclusion

In a field in which legal experts, lawyers and town planners have traditionally played the major roles, since the mid-1990s France has witnessed the development of new programs in real estate finance education. The main reason for this development is the recent real estate recession. In the last three years new job opportunities have been created in real estate asset management in most banks and insurance companies that have foreign investment and interests. The management of the institutional and real estate crisis, mostly in the office markets, and the management of banks' bad loans and assets, made the need felt for finance and economics programs.

Traditional real estate initial and executive education was based on the study of law and many law universities offer such post-graduate programs, which are renowned and have been extremely well developed in France. On the contrary, real estate finance and economics are relatively new subjects, and not taught at all in French universities. The only course to deal with some real estate issues are urbanism or architecture. None really delve into real estate education and fundamentals. The only effort to offer real estate finance and economics has come from some of the country's business schools, which have created specific programs. Initial education inside business school programs still does not exist, with the exception of one or two cases.

The effects of the globalization of real estate and financial markets in France has led to the appearance of new careers in facility and asset management, which requires executives and managers who are thoroughly acquainted with real estate economics and finance. This has redefined the framework in which real estate is being considered (*i.e.*, as an asset that must be managed using a rational investment approach).

Because of the new business and financial context and because of the development of new defeasance structures and foreign investments, which tend, on the whole, to be American, such real estate programs have a good chance of being successful. Due to new educational demands from executives, real estate consultants and experts and due to new job opportunities, real estate education in finance and economics should soon become fundamentals for business schools.

Endnote

1. Grandes Ecoles are competitive-entrance higher education establishments specializing in engineering, business administration or other subjects. The subjects are taught to a very high standard. Pupils prepare for the entrance examination by following a two-year intensive course in preparatory classes after having successfully finished their secondary education.

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