

The ALUR law: consequences for the property market

The law of 24 March concerning access to housing and urban renovation known as the «ALUR law» took effect on 27 March 2014. It will have numerous consequences for the property sector and these will take effect on an ongoing basis as the application decrees are published. Nevertheless, a number of its measures are already applicable and directly concern property owners looking to sell:

- **In the case of the sale of a rented property**, the new law obliges the new landlord to provide the tenant with his/her contact details or those of the authorised representative acting on his/her behalf.

- Tenants enjoy **increased protection** under the new law, particularly regarding notice to leave issued by the landlord who must now justify his/her decision, which must be based either on his/her intention to reoccupy or sell the property or on serious and legitimate grounds, and which must comply with a period of notice of three months. Furthermore, the acquirer of an occupied building may only give notice to the tenant upon expiry of the lease currently underway.

- The law establishes a new governance system for small condominiums, which often do not have a management agent.

- The law creates a new obligation to provide information in areas which have or have had a risk of the presence of dry rot.

- The scope of the urban pre-emptive rights is enhanced, in particular by enabling local authorities to bring an end to the avoidance of the pre-emptive rights by means of fictitious donations». We will need to discuss and examine the scope of this law further, as in time, it may eventually also have an impact on prices.



- **Property advertisements** concerning «the sale of a plot or a fraction of a plot of a building development covered by the status of condominium», regardless of the initiator (professional or private), and regardless of the use of this plot or of the building, must mention various information concerning the condominium in question such as the number of plots in the condominium or the average total of the portion of the running expenses at the cost of the vendor.

- **Sales agreements or pre-contracts by private agreement** or officially notarized must be accompanied by several documents as an appendix, providing the buyer with the most extensive information possible concerning technical diagnostics, condominium rules and the division description (on condition that they have been published) and minutes of general meetings from the last three years, the level of current expenses from the provisional budget and expenses not forecast in the provisional budget paid by the vendor/co-owner, in addition to the maintenance record for the building.

Definitions

Notaires-INSEE index

The calculation method used for the Notaires-INSEE indexes is based on econometric models which break down the price of a property according to its main characteristics (location, size, comfort, etc.) in order to be better able to avoid the influence of structural effects which cause transaction prices to vary from quarter to quarter.

Median prices

The Notaires-INSEE indexes are only available in those geographical regions in which the number of transactions is sufficiently high. At more detailed levels, we use median prices. The median price is the price at which 50% of transactions have been concluded at a lower price and the same amount at a higher price. It represents the «midpoint» of the market, which is better than the average as it is less affected by extreme values.

Seasonally corrected prices

In the same way that the calculation of the indexes makes it possible to strip out structural effects, the seasonal corrections are intended to correct seasonal fluctuations. The purpose is to ensure a fair comparison of developments between two consecutive quarters without this interpretation being distorted by the time of year. For example, each year the property prices rise during the third quarter (particularly those of houses) due to the demand from families driven by the school year.

	NOTARY AND INSEE (French National Statistics & Economic Studies Institute)							
	OLDER APARTMENTS		OLDER HOUSES					
	Index value (seasonally adjusted)	Variation*	Index value (seasonally adjusted)	Variation*				
	2013 Q3	2013 Q4	3 months	1 year	2013 Q3	2013 Q4	3 months	1 year
Mainland France	111.7	111.2	-0.4 %	-1.7 %	102.3	102.5	0.3 %	-1.8 %
Greater Paris	119.7	118.8	-0.8 %	-1.9 %	107.7	107.9	0.3 %	-1.2 %
French provinces	104.3	104.2	-0.1 %	-1.5 %	101.1	101.4	0.3 %	-1.9 %

* 3-month variation: development between 2013 Q3 and 2013 Q4 * 1-year variation: development between 2012 Q4 and 2013 Q4.

A stagnant market – A wait-and-see attitude – The ALUR law

Analysis

THE MARKET FOR OLDER PROPERTIES

Prices

According to the Notaires-INSEE index, by the fourth quarter of 2013 the prices for older properties in France had fallen by 1.7% over the 12 month period. Compared to the previous quarter, based on provisional data corrected for seasonal variations the trend is a more contrasting one: with a fall of 0.4% for apartments and a rise of 0.3% for houses.

In the greater Paris region, in the fourth quarter of 2013 the prices for older properties fell by 1.9% for apartments and 1.2% for houses. Over the quarter, overall they fell due to the effect of falls in prices for apartments (-0.8%) which is continuing while those for houses are rising (+0.3%).

In the French provinces, the price indexes are virtually stable for apartments (-0.1%) and slightly up for houses (+0.3%) compared to the previous quarter. However, they remain down over a year in both cases: -1.5% for apartments and -1.9% for houses.

For the French départements, where median prices in the fourth quarter of 2013 are concerned, the proportion of départements recording annual falls (or increases) in the prices for apartments has not changed compared to the previous quarter: roughly half reported falling prices, a third rising prices and in the other cases no change. On the other hand, in almost half of the départements, the developments changed direction between the third and fourth quarters. For example, the Ain, the Hautes-Alpes and the Puy-de-Dôme recorded price falls in the fourth quarter of 2013 of around 5% whereas the trend was up

the previous quarter. Conversely, the Alpes-de-Haute-Provence, the Eure-et-Loir and the Sarthe have seen their median prices rise this quarter whereas they were falling the previous quarter. For houses, the number of départements reporting price falls over a year has fallen, from 50% in the third quarter to 40% in the fourth.

On the other hand, we see the same trend as observed for apartments but to a lesser extent, with the developments changing direction between the third and fourth quarters in one in four of the départements. As an example, prices in the Ardennes, the Pyrénées-Orientales and the Loire were heading downwards this quarter whereas they were rising last quarter. The opposite phenomenon occurred in the Orne, the Haute-Loire and the Côte d'Or.

For the major cities in the French provinces (14 towns and cities with more than 200 sales per quarter), Montpellier and Rennes (which were reporting annual price rises for apartments of 2% in the third quarter of 2013) have seen their median prices fall to the same extent a quarter later.

The trend is also heading downwards in Saint-Etienne, Dijon, Lille, Marseille and Grenoble. Toulon and Strasbourg are the only areas to record a slight increase. In Nice, Lyon, Toulouse, Bordeaux and Nantes, prices have remained stable.

For houses, among the largest urban areas in the French provinces (15 with more than 200 sales per quarter) the prices in Bordeaux continue to rise at +1.9% over a year, after +5.5% last quarter. The prices are also up in the urban areas of Rouen, Nantes, Béthune, Lille and Orléans. On the other hand, prices are falling in Toulon, Tours, Valenciennes, Le Mans and Nice, and have remained stable in Toulouse, Marseille, Lyon and Douai.

To sum up, the underlying trend remains uncertain. The markets lack direction with slight upward or downward variations from quarter to quarter.

Preliminary contracts

(pre-contracts and sales agreements)

An examination of the advance price indicators for older apartments in the French provinces points to a slight fall over the first half of 2014. The new advance indicator for houses is indicating a similar trend.

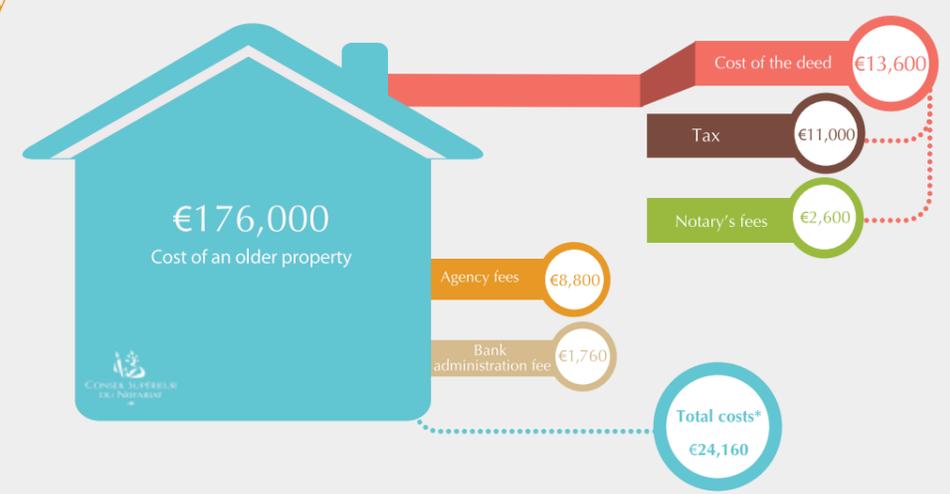
In the greater Paris area, the advance indicator for pre-contracts suggests sales prices which are slightly up in spring 2014 in Paris but continuing price erosion for houses in the area around Paris.

In volume

By late December 2013 the number of transactions completed over the past 12 months was estimated at 723,000 in metropolitan France, up by 3% over a year.

This trend is continuing into the start of 2014 with 726,000 annual sales of older houses by late January 2014.

Details of property acquisition costs



* Cost of the deed (including tax and notary's fees) plus the agency's fees and the bank administration fee

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Contact: Andrée Sénès, Business Development manager - Training & Development Department - Conseil supérieur du notariat.
Editorial committee: Bruno Delabre, Thierry Thomas, Vincent Chauveau, Andrée Sénès and Claude Taffin, Scientific director of DINAMIC.
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(Analysis)

THE NEW HOUSING MARKET

According to the **ECLN** survey from the CGDD¹ (extract from the February 2014 newsletter), «In 2013, reservations for sale fell by 1.3%, standing at 87,700 homes, this being a level well below the average observed between 2000 and 2011 (103,000 homes). At the same time, developers have significantly reduced the volume of properties on sale to adapt to what is a depressed market. In doing so they are stabilising the stock of homes proposed for sale, which had increased sharply since 2011. This contraction in business activity observed over two years has nevertheless not affected the prices of the properties proposed which have displayed considerable rigidity».

According to **Markémétron**² (extract from the February 2014 newsletter), «Over the last 12 months, gross sales of non-project houses stood at approximately 110,500 units and are believed to be down by approximately 11% compared to the 12 previous months. Over the last three months the number of sales is up by approximately 7%».

Regarding the construction of homes, by late February 2014, the number of construction permits issued over the last 12 months fell over a year by 17.9% and new housing starts by 2%, standing at 323,000 units.

According to the Banque de France, the interest rates for fixed-rate loans have remained stable since November 2013.

Over the last three months, compared to December 2012-February 2013, the number of properties for which construction has been authorised has declined by 22% (and by 9.9% for businesses).

Credit

According to the Banque de France (extract from the February 2014 newsletter), «Annual growth in lending to private clients accelerated in February



(+3.5% after +3.2% in January³). The issuing of new housing loans increased in February (11.1 billion euros after 9.9 billion euros in January). The interest rates for new long-term fixed-rate loans have remained virtually stable since November 2013 (3.22% in February 2014, based on provisional data).

► Outlook

As we have just seen, an analysis of the property market based on an examination of the latest figures taken from the databases shows a somewhat unclear situation with no general trend emerging.

Although today it is more difficult to anticipate changes in this market over the months to come, the current cautious «wait and see» approach is likely to continue or even increase over the coming weeks in the absence of any measures to boost fluidity.

In the first time buyers' market, the maintenance of interest rates at a low level is a decisive factor but far from the only one: indeed we are seeing a tightening of financing conditions by the banks. The difficulty in getting banking applications cleared risks becoming a real obstacle, dampening the willingness to buy, particularly for younger people.

Furthermore, the recent increase in registration fees in most départements may prove dissuasive for numerous first time buyers who are finding it increasingly difficult to get together the necessary personal contribution. The consequence of these financial obstacles is a refo-

ocusing of demand on low or medium priced properties to the detriment of higher budget properties. Over and above these financial considerations, the months to come will certainly confirm the geographical disparities already noted. Generally speaking, the large towns and cities and their near suburbs are faring better than rural areas and small towns located further from economic centres.

Regardless of the sector, we are seeing buyers who are increasingly demanding and who are better informed thanks to numerous diagnostics concerning the intrinsic characteristics of the properties proposed to them: obsolete, out of date or badly maintained buildings are being increasingly shunned by potential buyers who are showing a preference for more recent properties or who seek to sharply reduce the price when faced with mediocre assessment results. In the investor's market, nervousness is currently the norm and looks set to stay that way: fiscal uncertainty and the restrictive measures introduced by the recent ALUR law (please see page 4) risk further dampening the appetite of these market players.

Nevertheless, even in this uncertain context, attractive opportunities now present themselves for those who remain attentive. Buyers now have the upper hand and plenty of choice. A certain number of vendors keen to sell before 31 August 2014 to benefit from the 25% discount off the capital gains will be prepared to lower their sights and perhaps inject some much-needed dynamism into the market.

The notaries have observed a refocusing of demand on low or medium priced properties to the detriment of higher budget properties.

¹ Commissariat Général au Développement Durable.
² Indicator of sales of non-project houses produced by Caron Marketing.
³ Seasonally adjusted figures.

MEDIAN PRICES PER SQ.M OF OLDER APARTMENTS IN THE FOURTH QUARTER OF 2013

Developments over a year:
1 October 2013 to 31 December 2013 / 1 October 2012 to 31 December 2012



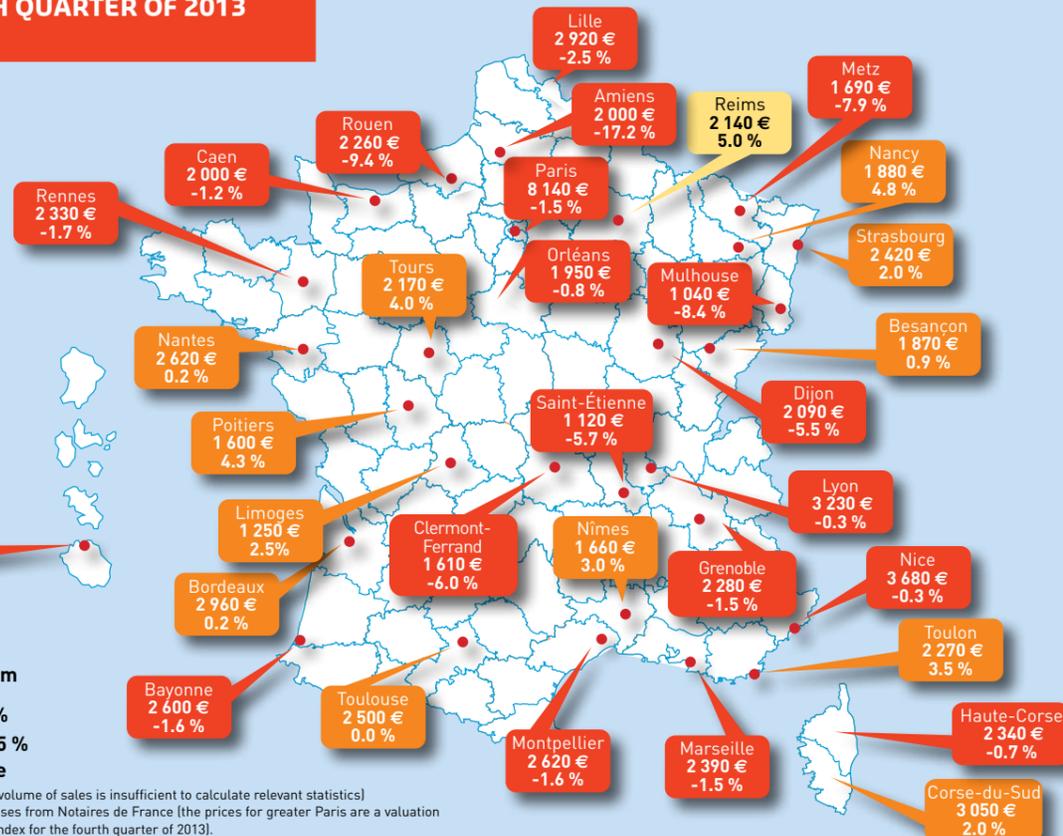
La Guyane
La Guadeloupe
La Martinique
NS

La Réunion
2 060 €
-10.7%

Annual change in prices per sq.m

- Less than 0 %
- From 0 % to 5 %
- 5 % and more

ns = not significant (the volume of sales is insufficient to calculate relevant statistics)
Source: Property databases from Notaires de France (the prices for greater Paris are a valuation of the notaries'-INSEE index for the fourth quarter of 2013).



MEDIAN SALES PRICES OF OLDER HOUSES IN THE FOURTH QUARTER OF 2013

Developments over a year:
1 October 2013 to 31 December 2013 / 1 October 2012 to 31 December 2012
The statistics for houses concern the whole urban area (town centre + suburbs)



La Guyane
La Guadeloupe
La Martinique
NS

La Réunion
182 000 €
13.8%

Annual change in prices per sq.m

- Less than 0 %
- From 0 % to 5 %
- 5 % and more

ns = not significant (the volume of sales is insufficient to calculate relevant statistics)
Source: Property databases from Notaires de France (the prices for greater Paris are a valuation of the notaries'-INSEE index for the fourth quarter of 2013).

