

French property market report

NOTARY-INSEE index (base 100 in Q1 2010)

	PERIOD DWELLINGS		PERIOD FLATS		PERIOD HOUSES	
	Change*					
	3 months	1 year	3 months	1 year	3 months	1 year
Metropolitan France	-1.2%	-2.4%	-0.9%	-2.5%	-1.4%	-2.4%
Greater Paris	-0.5%	-2.0%	-0.4%	-1.9%	-0.7%	-2.1%
Provinces	-1.4%	-2.6%	-1.3%	-2.9%	-1.5%	-2.4%



* Change over 3 months : between 3rd and 4th quarter 2014. * Change over 1 year : between 4th quarter 2013 and 4th quarter 2014.

► Outlook

After a very sluggish year in 2014, the latest indicators point to a gradual economic recovery, but at this juncture we cannot tell whether it will benefit the property market.

PERSISTING DECLINE IN PRICES

Resale market

In recent months we have already noted a continuing erosion of prices, even though there are still great disparities between regions.

We can confirm that prices are falling slightly in conurbations but more significantly in more outlying areas. Is this the fault of town and country planning policies, which have concentrated solely on urban areas and neglected rural areas?

In some such areas we have also noted a total lack of property transactions : who hasn't noticed recently the large number of «For sale» signs in remote rural areas, or even houses in a state of neglect?

In the Ile-de-France market, the number of preliminary contracts of sale is rising, no doubt due to a seasonality phenomenon.

The phenomenon has been confirmed and could influence prices; although the latest figures show that prices are falling more quickly, we have noted a slight rise in the price of Paris studio flats for 2 years (+1.4%), proof, were it needed, that the market is inconsistent.

LATEST TRENDS

In flats for resale	In houses for resale
-3.6%*	-2.3%*

*Annual change in projected indicators based on provisional sale agreements in metropolitan France : projection to end May 2015.

Second homes

Generally speaking, prices of second homes fell sharply in 2014, regardless of area. Volumes of sales and prices in seaside resorts popular with tourists are flat and are expected to remain so.

In inland areas the prices of country cottages are plummeting; in the Creuse department for instance, prices have fallen by 50% since 2008. The same goes for the Morvan, Périgord or Gers. Prices in Normandy and the Perche have fallen by 20 to 25%, and by roughly 10% in the Luberon.

The excess supply of this kind of properties shows that this market has been hard hit. We should bear in mind that these are «pleasure» purchases abandoned by some people through lack of confidence in the future, among other reasons because they don't know if such an investment will protect their savings. In the current economic climate, having a second home is more than ever a luxury, given that on average their owners only use them 42 nights a year (Source : IPSOS).

New builds

Property developers seem to have found something to smile about again : the disastrous effects of the Dufflot scheme, which crippled the market for months on end, appear to have been mitigated by the Pinel scheme. The number of reserved homes has risen since the last quarter of 2014, especially for 2 and 3-room flats.

Far from smoothing out the lack of new builds in 2014, the phenomenon could suggest that things are being set in motion again.

Building land

The accumulation of standards (seismicity, RT2012, etc.) and higher taxes, both for vendors and for buyers until quite recently, has put a

brake on sales of building land, the volumes of which are still small and the prices of which continue to fall.

First-time buyers are the first victims of this wait-and-see syndrome : despite attractive interest rates and an improvement in interest-free loans, the 0.7% rise in taxes in recent months in virtually all departments (apart from Paris, Indre, Isère, Mayenne, Morbihan, Martinique and Mayotte) has made them more hesitant.

A property recovery plan, with lower local taxes and less stringent standards, would undoubtedly help many young couples get onto the property ladder.

The need for more affordable mortgages

It has become more difficult to obtain a mortgage despite the hype of the banking industry : how many buyers have given up on a home purchase because their mortgage application was refused or because of complications relating to death and disability insurance? Notaries have observed a rise in the number of preliminary contracts of sale that come to nothing for such reasons. More willingness on the part of banks would be welcome.

Is this the right time to buy?

One would think so, because interest rates are at a record low and it turns out that the fall in rates since 2008 is mirrored by a cumulative rise of 20% in purchasing power. This is combined with the drop in prices observed in recent years.

However, the situation on the employment front is dire and people simply have no confidence in the future. Even if it is doubtful that 2015 will see confidence restored, one can hope that the drop in prices and rates and the improved incentives for first-time buyers and investors in newly-built properties will at least stabilize the market.

THE PERIOD PROPERTY MARKET

Prices

According to the Notaires-INSEE index, in the fourth quarter of 2014 the prices of older homes in metropolitan France were 1.2% down on the previous quarter (provisional seasonally adjusted figures). The fall in prices is sharper for houses (-1.4%, after -0.5%) whereas it is slightly slower for flats (-0.9%, after -1.1%). So the fall in prices was greater in 2014, -2.5% for flats and -2.4% for houses.

In the provinces, prices of older dwellings in the fourth quarter of 2014 were 1.4% down on the previous quarter. Over one year, the fall is also sharper, more particularly for flats (-2.9%).

Our analysis of median prices per department confirms **the sharper drop in prices in nearly three out of four departments, against only half in the previous quarter.**

The decline in prices in the main provincial cities is even sharper, and price rises are increasingly rare. Only three towns saw their median price rise : Bordeaux (+1.3%), Strasbourg (+2.5%) and Toulouse (+3.3%).

Conversely, prices in Toulon and Dijon have

fallen sharply, respectively by -11.2% and -8.3%. Older houses in provincial conurbations show the same trend, with prices unchanged or falling in three quarters of them; three conurbations show a rise in prices : Douai-Lens (+2.4%), Marseille-Aix-en-Provence (+5%) and Nice (+7%). Rouen, Toulon and Lille saw the sharpest falls in prices, in the region of 7%.

In Ile-de-France, prices of older dwellings in the fourth quarter of 2014 were 0.5% down on the previous quarter. Over the year of 2014 as a whole, they fell by 2%, without any significant difference between flats and houses.

Trends over the past 10 years

Any analysis of the history of Notaires-INSEE indexes shows that prices observed in most departments in 2014 were lower than the 2006 prices.

Provisional sale agreements

The downward trend observed on the basis of the projected indexes is becoming more pronounced.

Over one year (March to May 2015 compared with the same period in 2014), prices of older flats fell by 3.6%, and those of older houses fell by 2.3%.

Annual trends in provincial districts are by and large downward. There are however three notable exceptions : prices have levelled off in Brest and Rennes and are slightly on the increase in Reims.

The trend for older houses is less clear, as prices have fallen in half of the urban areas and have levelled off elsewhere.

The projected indicators of Notaires de Paris-Ile-de-France - for provisional sale agreements also show a slight acceleration in the drop in prices at the beginning of 2015 : the drop in prices is expected to be 3.9% for flats and 2.1% for houses in the period from February to April 2015.

In volume

At end January 2015 an estimated 700,000 property transactions were made in metropolitan France in the last twelve months, 3% down on January 2014.

The fall in volumes affected two thirds of departments in the provinces, varying by a few percentage points in Bas-Rhin (2%), Alpes-de-Haute-Provence (2%) and Côtes-d'Armor (1%), and by more than 15% in Hautes-Alpes, Meuse and Cher. The remaining third showed increases of less than 5%.

MEDIAN PRICE PER SQ M OF OLDER APARTMENTS IN THE 4TH QUARTER OF 2014

Trend over one year : 1st October 2014 to 31 December 2014 / 1st October 2013 to 31 December 2013



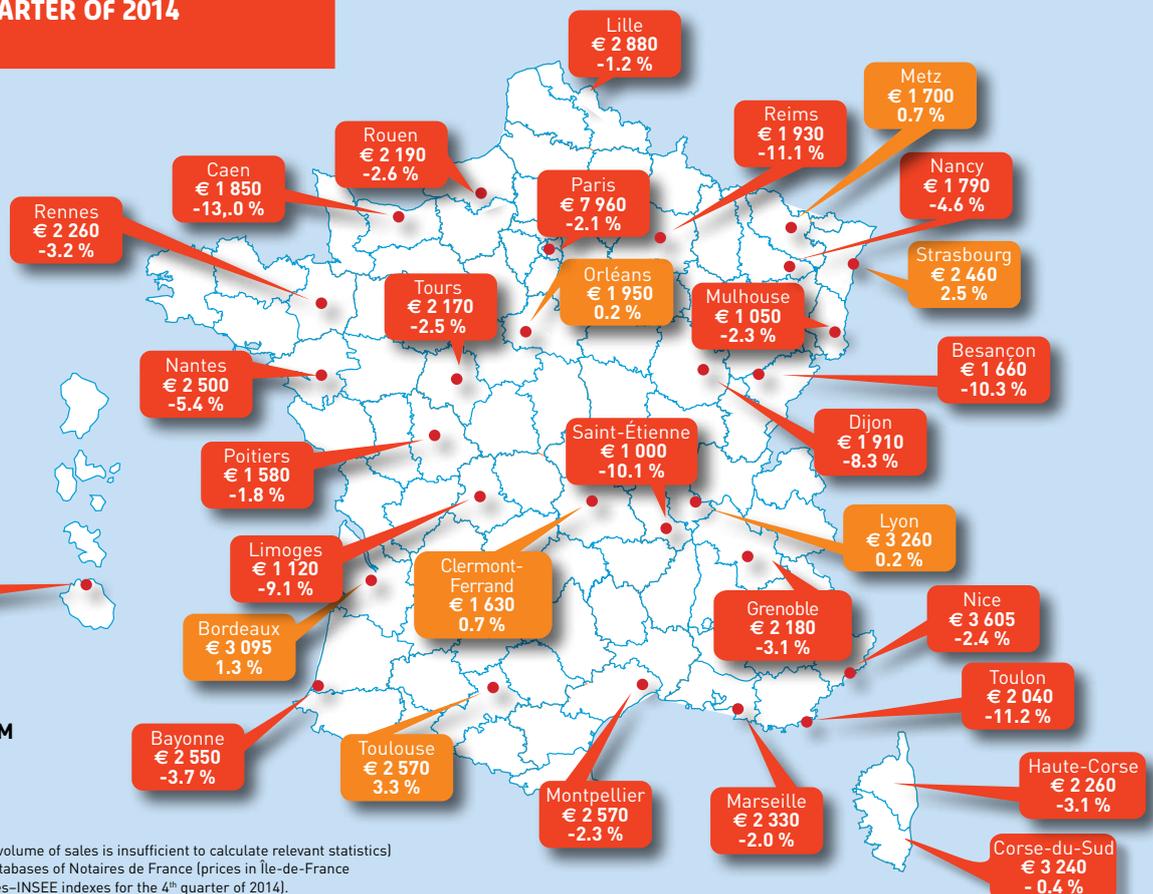
Guiana
Guadeloupe
Martinique
NS

La Réunion
1 925 €
-7,9 %

Annual change in prices per Sq M

- Less than 0%
- 0% to 5%
- Over 5%

NS = not significant (the volume of sales is insufficient to calculate relevant statistics)
Source : The Property databases of Notaires de France (prices in Ile-de-France are a valuation of Notaires-INSEE indexes for the 4th quarter of 2014).



(Analysis)

In Ile-de-France, there were 1% fewer sales in 2014 than in 2013. However, the drop in volume is as much as 9% if we compare the 4th quarter of 2014 with the 4th quarter of 2013.

THE NEW HOUSING MARKET

According to the **Sit@del2** database (excerpt from CGDD report no. 618 of March 2015), « From December 2014 to February 2015, the number of approved new builds in seasonally-adjusted figures and business days rose by 0.1% in France compared with the three previous months.

Building approvals for single-family dwellings have risen by 0.3%, whereas approvals for multi-dwelling buildings (including blocks of luxury flats) have marked time.

Over the same period, the number of new builds is down 1.8%. Construction start-ups for single-family dwellings are down 3.4%, and those for multi-dwelling buildings (including blocks of luxury flats) are down 0.8%.

The percentage of cancelled building approvals for single-family dwellings is high

(15.5%) compared with its long-term average (13.2%). In multi-dwelling buildings, cancellations stand at 21.2%, above the long-term average (19.0%). »

According to CGDD's **ECLN¹** survey (extracts from report no. 610 of February 2015) on the property development market, « In the first quarter 2014, 23,900 new dwellings were reserved, 3.4% more than in the first quarter of 2013.

This upturn in sales, which contrasts sharply with trends observed since the beginning of the year, is driven exclusively by multi-dwelling housing. For 2014 as a whole, reservations were down however compared with last year (-3.9%). In parallel, 13.3% fewer properties were placed on the market in 2013 than in 2014.

The volume of new dwellings on the market has been adjusted for several quarters on the low level of reservations.

This has allowed property developers to stabilize the current stock of dwellings available for sale, namely 103,300 dwellings at the end of 2014. »

As far as the market for individual non-project

dwellings is concerned, according to **Markemétron²** (excerpt from the January 2015 report), « Over the last 12 months, gross sales of individual non-project houses totalled roughly 102,300 units (before adjustment) and is thought to be **roughly 5% down on the 12** previous months. »

Mortgages

According to Banque de France's figures for January 2015, « new long-term fixed-rate mortgage interest rates continue to fall (2.56% in January, after 2.61% in December) against a backdrop of increased production (11.5 billion euros, after 10.8 billion). »

According to Observatoire Crédit Logement/CSA, February 2015, « the average term of granted mortgages is 208 months. The average term of granted mortgages has been extended since the summer of 2014 and is 6 months longer than a year ago.

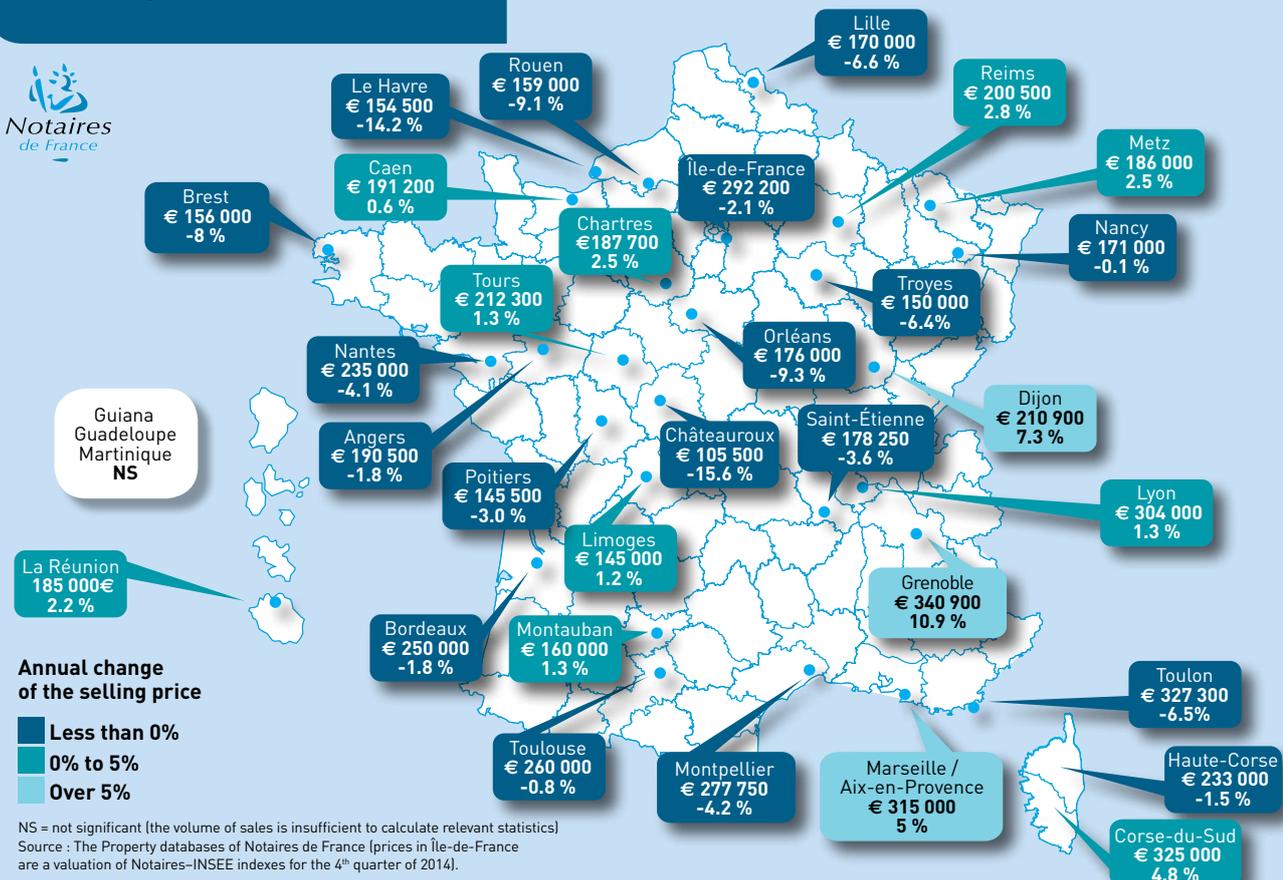
This primarily benefits young couples. The number of first-time buyers (young couples or low-income households) has picked up, all the more so with more state aids, both for newly-built properties and for older dwellings, with the widespread introduction of interest-free loans. »

¹ General Commissariat for Sustainable Development.

² Indicator of sales of detached houses produced by Caron Marketing.

MEDIAN SELLING PRICES OF OLDER HOUSES IN THE 4TH QUARTER OF 2014

Trend over one year :
1st October 2014 to 31 December 2014 / 1st October 2013 to 31 December 2013
the figures for houses concern the whole urban area (city centre + suburbs)



Annual change of the selling price

- Less than 0%
- 0% to 5%
- Over 5%

NS = not significant (the volume of sales is insufficient to calculate relevant statistics)
Source : The Property databases of Notaires de France (prices in Île-de-France are a valuation of Notaires-INSEE indexes for the 4th quarter of 2014).

► Life tenancy of social housing (« Usufruit social locatif »)

The scheme

This innovative scheme came into being in the early 2000s. The «Engagement national pour le logement» law (national housing commitment) of 2006, supplemented by a 2009 decree, provided the legal framework for the rapid development of this scheme.

The social landlord (or social housing provider) rents out homes to households subject to means-testing, for subsidized or intermediate rents. The tenants are selected by the usual procedures for granting rented social housing.

Tenants are specifically notified of the special status of their dwellings and are reminded of their statutory rights one year before the end of the temporary life tenancy :

- a rehousing offer if they still meet the means-testing criteria (remaining in social housing) ;
- a first-refusal option to purchase the dwelling if it is put up for sale ;
- the option to sign a new common law lease with the new owner.

The bare owner for his part does not collect any rent but benefits from a favourable tax system, and the social landlord guarantees that the owner's property will be vacated and refurbished when the agreement expires.

Advantages of the scheme

This rental investment scheme is proving very popular because it has many benefits :

- for the person acquiring bare ownership
He purchases a real property at a **lower price than its unrestricted ownership value and is entitled to tax benefits** (loan interest deductible from any income from property, **a lower wealth tax base**) during the subdivision of ownership rights; life tenancy of social housing can also be used as **a means of transferring an estate** ;

- for the social landlord
Acquisition of life tenancy can be fully **funded by the rents** ;

- for the local authority
Housing units are included in the social housing quota of the SRU law ;

- for the public authorities
The scheme increases the supply of housing wherever funding is most difficult, in tense areas, without the need to subsidize it.

Replacement value of temporary life tenancy¹

For life tenancies of natural person, the value of the life tenancy depends on the age of the life tenant.

For life tenancies of legal entities, the **current**

market value applied to the life tenancy, on the basis of rents collected by the social landlord during the temporary life tenancy.

However, this value is purely contractual. In practice, property developers generally retain **40% for the life tenancy and 60% for bare ownership**.

Finally it is worth noting that the ALUR law has recently made this scheme eligible for «paper property vehicles» (property investment trusts, real estate funds, real estate trusts, etc.)

¹ As opposed to tax value



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Contact : Andrée Sénès, Director in charge of development - Training and Development Department Conseil supérieur du notariat

Editorial committee : Didier Coiffard, Thierry Thomas, Andrée Sénès and Claude Taffin, Scientific Director of DINAMIC

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Definitions

Seasonally-adjusted prices

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

Median prices

The INSEE Notary indexes are only available for regions having a statistically significant number of property transactions. At more detailed levels, we use median prices. The median price is the price at which 50% of transactions are completed at a lower price and the same amount at a higher price. It represents the «midpoint» of the market, in a better way than the average as is less affected by extreme values.

INSEE notary indexes

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