

## THE HOUSING REAL ESTATE MARKETS IN FRANCE

Paris, Ile-de-France, Outside Paris

(June 2013)

### I - THE HOUSING MARKET SITUATION IN FRANCE AND IN ILE-DE-FRANCE

The housing real estate market in France is particularly active in a country that has 33 million homes of all kinds, used as either main or secondary residences, and that is the number one tourist destination in the world. This is particularly the case in the Paris Ile-de-France region where 30% of French property value is found. This real estate market is very diverse and varies from one region of the country to the next and between urban and rural areas. As the French population is increasing rapidly and as people tend to move around a lot, demand for high quality housing is often not met. For specialists, there is a shortage of between 800,000 and 1 million homes in France.

This shortage is more marked in Ile-de-France as a result of a longstanding shortage of new constructions. This is why one of the main components of the Grand Paris operation concerns the doubling of the rate at which homes are built, up from approximately 35,000 to 70,000 a year.

Lastly, the desire of the public authorities to encourage energy modernisation of buildings will stir up a strong movement to renovate housing. Therefore, housing in France is rare and expensive, particularly in the main urban areas and tourist hotspots.

The housing markets have therefore been structural bull markets for 25 years, but go through bullish or bearish cycles depending on the situation.

After the price increases of the 1980s, the 1990s saw major falls in prices, particularly in Ile-de-France and in Paris. Outside Paris, the market did not see such notable price increases and was also spared by the fall in values of the mid 1990s.

With a very gradual increase in sales then in prices **at the end of the 1990s, buyers returned to the market.** The fall in interest rates, the desire to own property and the series of tax measures introduced to help with purchases resulted in a surge in demand. In France, and again more specifically in the Ile-de-France region and in Paris, **construction remained difficult and there were therefore not enough properties on the market to satisfy this new demand.**

Selling prices therefore increased significantly during the period, yet buyers were not put off. The graph shows this considerable increase in values. **Prices doubled between 2002 and 2007 throughout the country. There was also a recovery effect in areas outside Paris, areas which were isolated from the previous price cycle.**

**Then the 2008 financial crisis brought market dynamism to an end.** Sales fell, immediately bringing with it a notable, yet controlled, downturn in prices, as the graph shows.

To deal with this crisis, which was primarily financial then economic, **the government adopted a recovery policy**, with a section specifically dedicated to housing. Add to this the low interest rates and a desire for security and the result was a rapid bounce-back of activity and sales. **After less than a year of prices falling, they rose once again**, moderately outside Paris, much more quickly in Ile-de-France, up until early 2012.

In Paris and in Ile-de-France, the increase in prices was much more marked than outside Paris and prices quickly exceeded their 2008 levels. **The annual growth rate at times reached 20% in the capital**. This was less true outside Paris, where the crisis was slower to clear and where the price levels seen before 2008 were scarcely achieved.

However, even in Ile-de-France, where demand is strong and there is a much lower ownership rate than outside Paris (less than 50% compared with 58% nationally), the increase in prices reduced household solvency at a time when other negative factors were accumulating (flat growth, reduced buying power of households, stricter tax policy). **For over a year, housing sales have been falling in Ile-de-France, as they have elsewhere in France.**

**At present, prices seem to be holding strong** and any decreases observed are very moderate given the cumulative increase in prices, on the one hand, and the significant downturn in sales on the other. Buyers and sellers are standing their ground and **the market remains in stalemate, but without prices being affected for the moment.**

## II - PARIS PRICES

Buyers were looking at an average of **€8,260 per m<sup>2</sup> in the capital** to own an apartment in the first quarter of 2013. Prices have been stable for the last year or so.

**The centre of the capital (the 1<sup>st</sup> to 7<sup>th</sup> arrondissements)**, which includes **historic Paris** and the most sought-after properties, sees the highest values from €12,400 to €14,650/m<sup>2</sup> approximately, with **peaks between €20,000 and €25,000/m<sup>2</sup> for properties of exceptional quality** (townhouses, apartments with outstanding views).

## III - PRICES OUTSIDE PARIS

Ile-de-France is home to a very large proportion of France's production of wealth, research and development, executive employment and political and administrative decisions. Given how densely populated the region already is, building there is also much more difficult and the shortage of housing is also much more severe there. All of these factors combine to give high prices.

**There is much less strain elsewhere in France**, outside of certain key areas (Côte d'Azur, Genevois and major French tourist areas).

**There is therefore a very great difference between the Ile-de-France region and areas outside Paris, particularly where the price of apartments is concerned.**

In the first quarter of 2013, the average price per m<sup>2</sup> for apartments being resold was €5,470/m<sup>2</sup> in Ile-de-France. **Even in large cities outside Paris, the price per m<sup>2</sup> for apartments scarcely topped €3,000**, with €3,210 per m<sup>2</sup> in Lyon and Toulouse, €2,930 per m<sup>2</sup> in Bordeaux, €3,070 in Lille and, lastly, around €2,500 per m<sup>2</sup> in Marseilles, Nantes and Rennes.

**Prices for houses in Ile-de-France and in the major cities outside Paris are much closer, around €300,000**, except in Lille where the figure is €180,000 (this old mining city has a very good supply of traditional homes at low prices). This similarity of prices for houses is explained by the fact that, generally speaking, houses are located outside of very dense built-up areas in Ile-de-France as they are in other large cities.

### **A few tourist areas outside Paris have high values**

With its favourable geography and climate, France is the number one tourist destination in the world. **A high number of real estate markets, which enjoy tourist benefits** (coastal location, mountains, lakes, sunshine, leisure activities), **therefore have high prices.**

From time to time, they **also have high-end markets**, with properties of very high quality both in terms of features (castles or old homes) and in terms of location (sea views, mountains or popular areas where people want to live).

On the Côte d'Azur, towns and cities such as Cannes, Nice and Antibes have average prices of €3,640 to €4,570 per m<sup>2</sup> for old apartments and €441,000 to €575,000 for houses. **Of course, these are average values and the prices for outstanding properties can exceed €3 million.**

**In Savoy, and according to notary statistics, prices stand at €7,360 per m<sup>2</sup> for old apartments in Val d'Isère, €8,330 in Méribel, and €11,170 in Courchevel 1850.** At this last resort, which is very popular with Russian expatriates, some properties have managed to reach values of €30,000 per m<sup>2</sup> (Source Agence Barnes).

## **IV - SUSTAINED PRICE INCREASES**

There is a widening **gap between prices and income in Paris. French households**, more so those living in Ile-de-France or in Paris, **have chosen to spend an ever increasing proportion of their income on owning their own home.**

The changes in how we consume, the improved quality of housing and also the shortage of supply that have pushed prices up are responsible for these developments. In the last 10 years, a basic change in the financial environment of households has also accompanied this transformation.

Interest rates have fallen significantly and loan terms have been extended, going some way to making up for the higher prices.

This increase in purchase prices goes hand in hand with an increase in rents, which is now a sufficiently profitable option for real estate investment.