Notaires de France

French property market report

No. 10 - JANUARY 2011

2011 kicks off to a good start, but what about afterwards?

Analysis

Dynamic old property market

While the French Notariat is in the final stages of collecting the 2010 deeds of sale, the prices of old property as a whole seem to have sharply increased. **The Notaires de France/INSEE (*Institut national de la statistique et des études économiques* – French National Institute of Statistics and Economic Studies) indexes revealed an +8.5% annual variation in the prices of old apartments as at 1 October 2010, i.e. an increase virtually identical to the 8.7% increase in old house prices**. However, the gap between the Ile-de France region and the provinces appears to be greater in the old apartment market than in the house market, which is more consistent. We should not forget, however, certain geographic areas where prices have dropped are not included in the significant price increase. On the other hand, the overall market has returned to the 2000-2007 volumes increasing from over 590,000 sales in 2009 and almost 800,000 in 2010. The trend is mainly due to the fact that property investment seems a safer bet than investment in the financial markets.

NOTAIRES - INSEE INDEXES (INSEE approved)	Old apartments				Old houses			
	Index value		Variation*		Index value		Variation*	
	2010 Q2	2010 Q3	3 months	1 year	2010 Q2	2010 Q3	3 months	1 year
Mainland France	215.1	222.8	3.6%	8.5%	186.2	195.0	4.7%	8.7%
The Île-de-France region	219.0	228.7	4.4%	12.2%	179.8	186.2	3.5%	7.6%
Provinces	211.6	217.4	2.7%	5.2%	188.5	198.1	5.1%	9.1%

* 3 month variation: change between 2010Q2 and 2010Q3;
* 1 year variation: change between 2009Q3 and 2010Q3.

Old apartments

Whereas Paris and more generally the Ile-de France region saw prices drop by 7.2% and 7.5% respectively as at 1 October 2009, there was a dramatic shift in Paris and Ile-de France at the same period a year later with +13.8% and +12.2% respectively, which was in line with the forecasted turnaround. The same applied to the main provincial cities, for example in Montpellier and Lyon where prices increased by 6.8% and 7.9% respectively while they fell by 6.3% and 3.3% as at 1 October 2009.
Throughout the rest of France certain disparities are nevertheless concealed behind the general rise in prices. Prices have increased by over 10% in several *départements*, e.g. Drôme (12.9%), Haute-Corse (13.6%) and Sarthe (11.8%). Conversely, certain areas in Limousin are still waiting for the change to come with prices dropping by an average 6.8%. Prices in a few *départements* are similar to those of the previous year, for example in Charente-Maritime and Doubs.

Old houses

At 1 October 2010 the general upturn in the price of old houses was maintained with an average increase of 4.7% in the third quarter 2010.
Almost a quarter of *départements* recorded annual increases of over 10%, e.g. Loire-Atlantique (11.10%), Haute Garonne (13.20%) and Maine et Loire (14.90%). There were increases of between 4.9% (Yvelines) and 11.10% (Val de Marne) in all the *départements* in the Ile-de-France region. Prices fell, however, in twelve *départements* compared with last year, particularly in rural *départements* such as Cantal (down 13.5%) where only a small volume of sales went through, Gard (down 3.4%) and Nièvre (down 21.20%).

Varying changes in the new property market

In the third quarter 2010 the E.C.L.N. (*Enquête sur la Commercialisation des Logements Neufs* – Survey of Sales of New Housing) reported that 113,000 new homes had been built over a period of one year, i.e. a 20% increase compared to the same period a year earlier.
The significant difference may be accounted for by the fact that purchasers are determined not to miss out on the Scellier Law. At 1 October 2010 the average price was €3,615 per square metre, i.e. a 7% increase in one year. But the average price conceals considerable differences according to area, for example prices in Champagne-Ardenne, Midi-Pyrénées and Rhône-Alpes increased by over 10% while in Picardie, Bourgogne, Auvergne and Languedoc-Rousillon they dropped.

Outlook for 2011

In 2010, the property market gained momentum, month after month, both in terms of price and volume of sales, ending with a flourish in December.

The pre-contract database, which is now operational, confirmed the momentum because in first quarter 2011 the average price will be higher than €8,000/sqm in Paris. The change is also felt in the provinces, particularly in Bordeaux and Rennes where the prices of apartments are still rising (15% in a year) and in Nantes and Lyon (5 to 10%), although prices will be more stable (0 to 5%) in Lille and Toulouse in the first quarter.

The first six months of 2011 are set to be busier than the second half of the year.

This forecast is based on the following factors: the likely rise in interest rates (which has already begun); the approaching presidential election (which has always been disruptive for the property market); the proposed reform of inheritance tax.

On this issue the French Notariat emphasises that the tax reform, which is to be debated in parliament before summer, is likely to affect the transfer of property, whether residential (main or second homes) or property for rent.

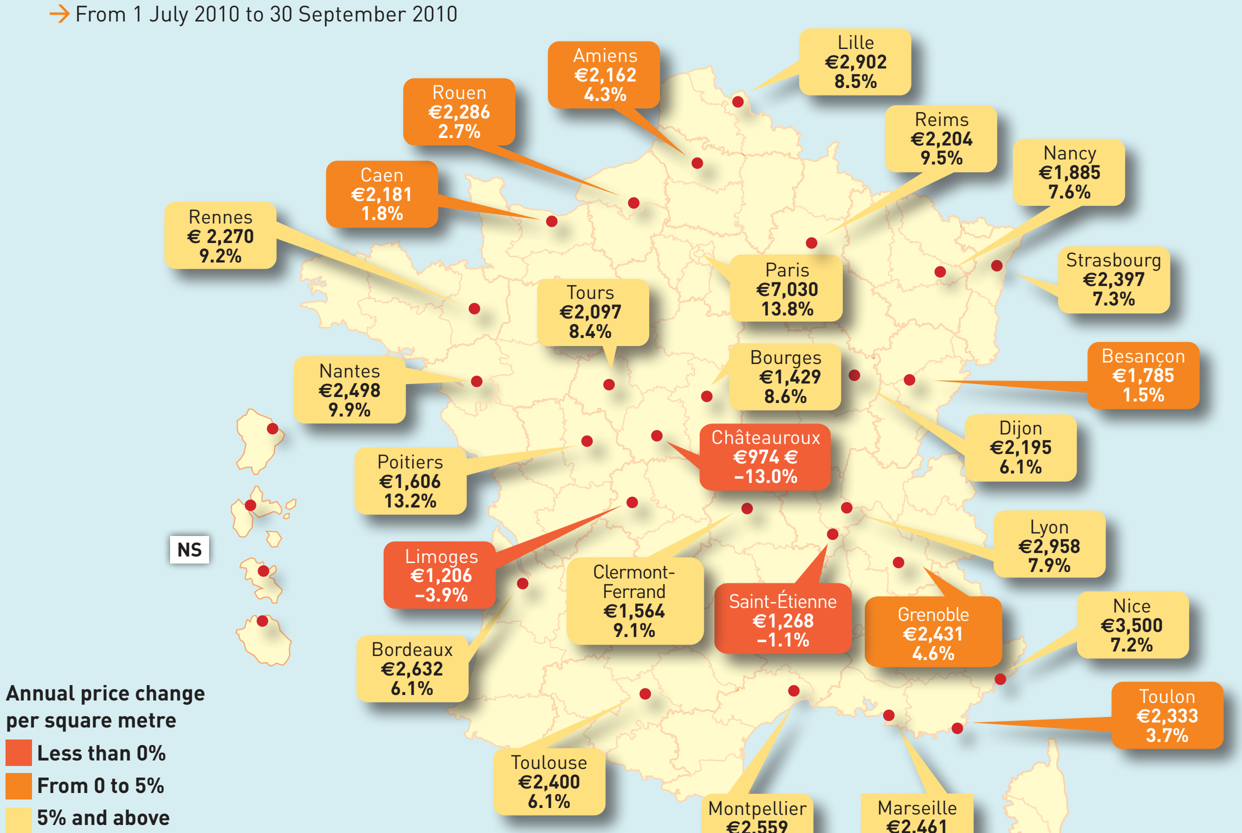
There is no doubt whatsoever that the rules governing taxation have to be changed. But even though the stability of the rules is appealing and encourages people in their determination to become home owners, if the rules are changed they may, in the short term, cause certain vendors to take stands and adopt erratic behaviour resulting in a temporary drop in the number of properties put up for sale and disagreements over prices.

Under these conditions the number of old property sales in which property actually changes hands will be lower than that in 2010. As far as price is concerned it is a mistake to forecast, as some have been doing, an average 3 to 6% increase over the next twelve months since the property market is no longer as consistent as it had been over the last decade. The property market in central Paris and the historic centres of major, dynamic provincial cities such as Lyon, Nantes, Bordeaux and Montpellier will probably increase by over 10%. The inner (*Petite Couronne*) and outer (*Grande Couronne*) Paris suburb property markets should remain dynamic even though the increase will be less than 10% over the year. The recovery in the regional property markets will be between 3 and 5% and therefore less dramatic than in 2010.

The new property market will be relatively sustained although not to the extent of 2010, mainly due to the new tax conditions governing buy-to-rent investment. The "PTZ plus" scheme (zero rate loans), which was introduced on 1 January 2011 and which is more advantageous when buying new rather than old property in areas with difficult property markets, should support property development. It can therefore be reasonably assumed that most investors in new property, which accounted for most investment in 2010, will find a new balance in favour of first-time buyers.

Average prices per square metre for old apartments

→ From 1 July 2010 to 30 September 2010

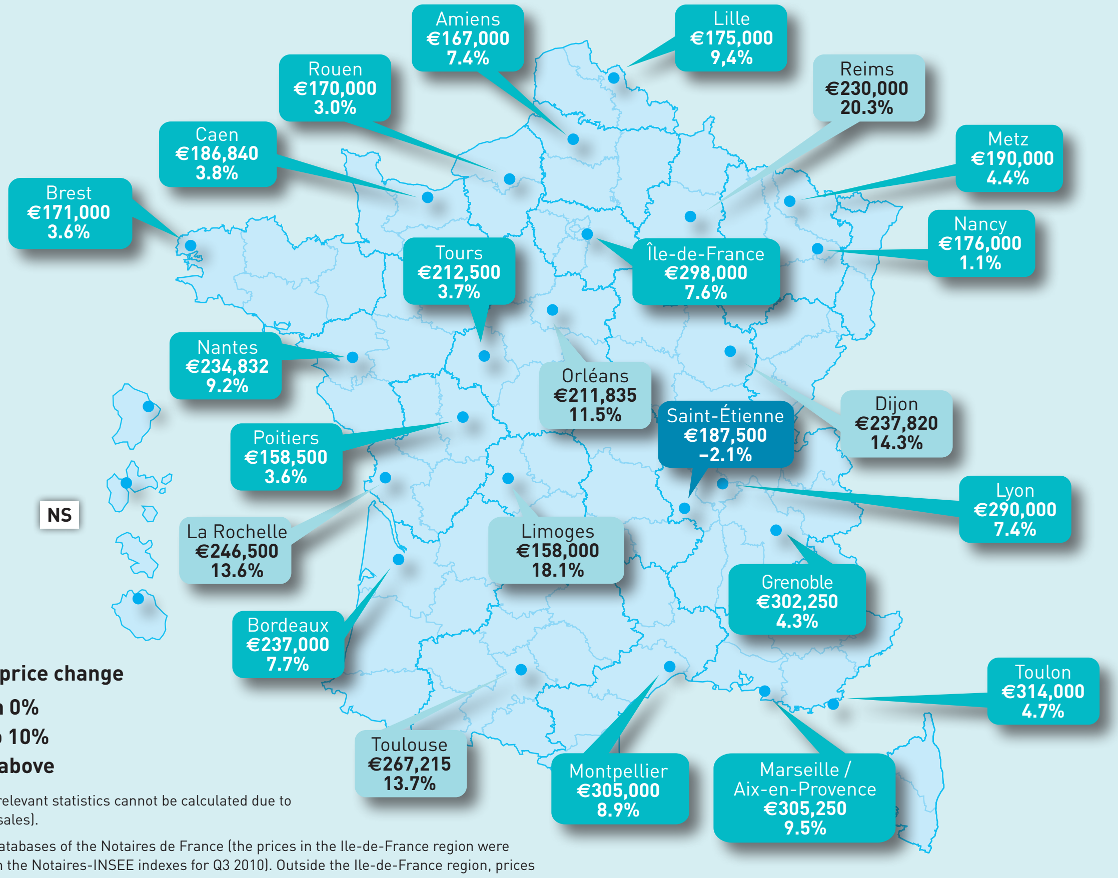


ns = insignificant (relevant statistics cannot be calculated due to the low volume of sales)

Source: property databases of the Notaires de France (the prices in the Ile-de-France region were evaluated based on the Notaires-INSEE indexes for Q3 2010). Outside the Ile-de-France region, prices were calculated on the median volume of 150 transactions per city and per quarter.

Average sale prices for old houses

→ From 1 July 2010 to 30 September 2010



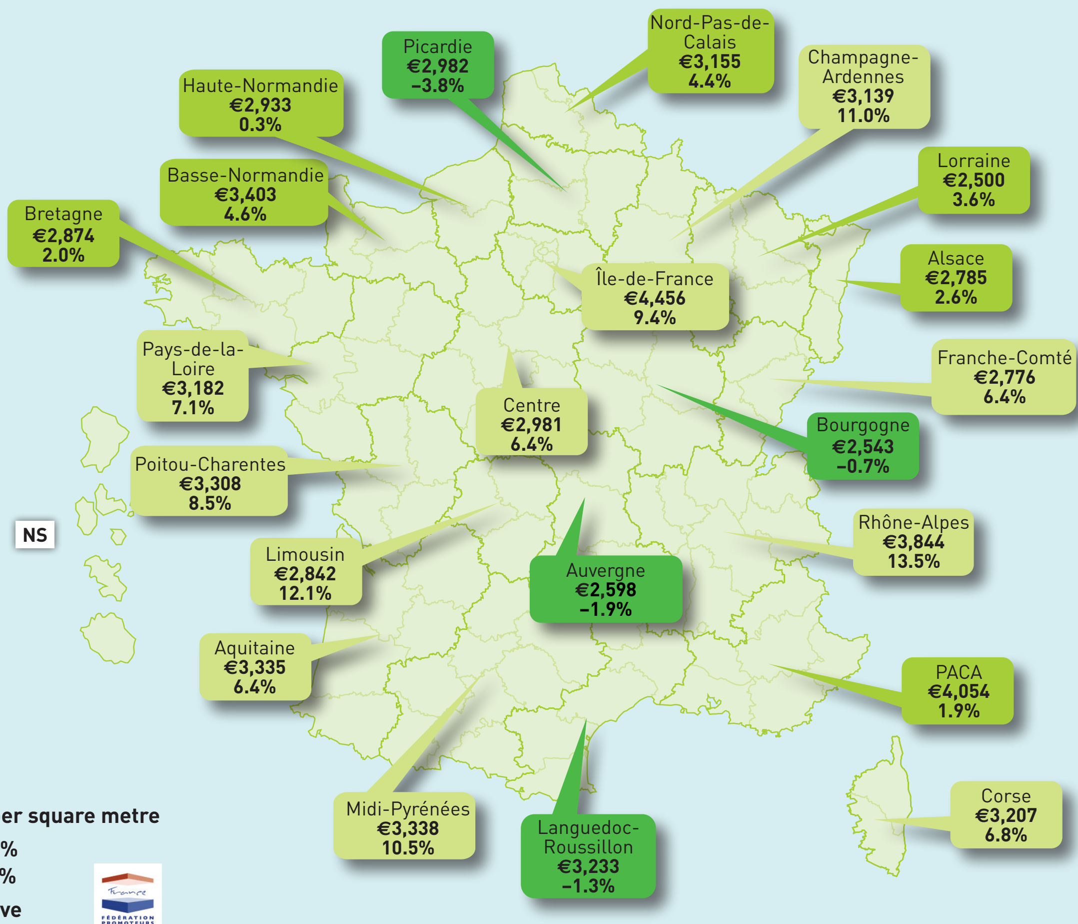
Annual sale price change

- Less than 0%
- From 0 to 10%
- 10% and above

ns = insignificant (relevant statistics cannot be calculated due to the low volume of sales).

Source: property databases of the Notaires de France (the prices in the Ile-de-France region were evaluated based on the Notaires-INSEE indexes for Q3 2010). Outside the Ile-de-France region, prices were calculated on the median volume of 150 transactions per city and per quarter.

Prices per square metre of new builds in 3rd quarter 2010 (apartments)



Price change per square metre

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

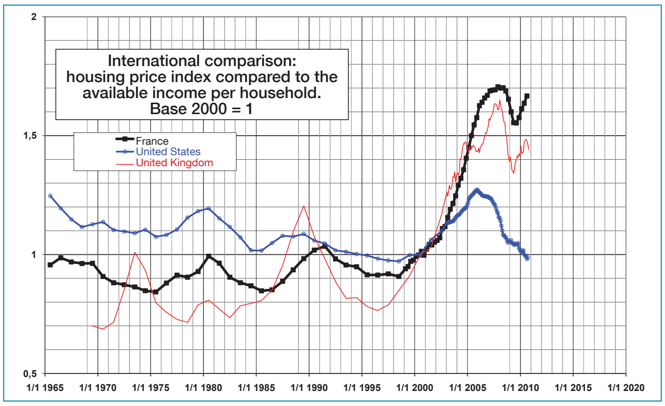
Source: FPI/ECLN/CGDD/SOeS.

Housing indexes

→ **France:** the price index for non-new build housing in the whole of France is calculated by the Notaires de France in collaboration with INSEE. This index, which uses the hedonic pricing method, is published quarterly. Data is collected from deeds of sale provided by the Notaires.

→ **United States:** the FHFA index is prepared by the Federal Housing Finance Agency, a US government agency. Using the repeat sales method, it assesses changes in the price of individual houses based on a sample of mortgage loans.

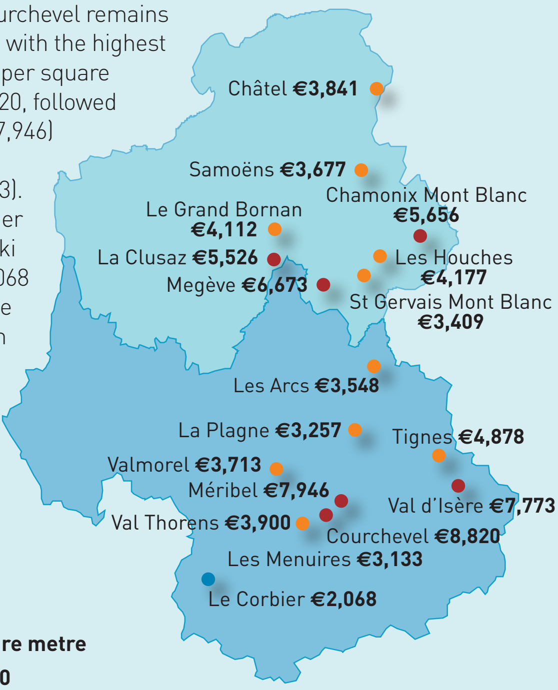
→ **United Kingdom:** the DCLG (Department of Communities and Local Government) index, the official housing price index for, is published by the British government. It is based on a sample of mortgage loans and uses the hedonic pricing method.



Source: CGEDD (Conseil Général de l'Environnement et du Développement Durable - General Council for the Environment and Sustainable Development) according to INSEE, the Notaires databases, non-seasonally adjusted Notaires-INSEES indexes, Freddie Mac, FHFA, R. Shiller, US Bureau of Economic Analysis, Census Bureau, Bureau of Labour Statistics, UK DCLG, UK National Statistics.
The graph may be downloaded at: http://www.cgedd.developpement-durable.gouv.fr/rubrique.php3?id_rubrique=138.

Focus on the property market in Savoie ski stations

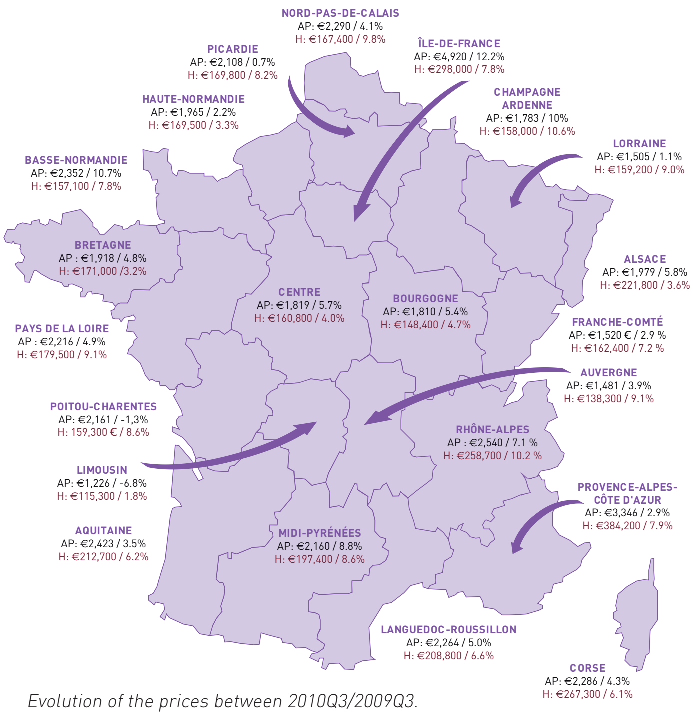
Similar to the Paris and Côte d'Azur property markets, the prices of apartments in Savoie ski stations have not, apparently, been hit by the recession. Courchevel remains the ski station with the highest average price per square metre at €8,820, followed by Méribel (€7,946) and then Val d'Isère (€7,773). Only the Corbier (Maurienne) ski station at €2,068 has an average price less than €3,000.



Price per square metre

- **Over €5,000**
- **From €3,000 to €5,000**
- **Less than €3,000**

Prices at 31/12/2010.



Evolution of the prices between 2010Q3/2009Q3.

Annual change in the sale price of apartments and houses

The prices of old properties are generally on the increase but there are also certain differences according to area. In order to buy an old house you need an average €115,300 in Limousin compared with €384,200 in PACA (Provence-Alpes-Côte d'Azur). More broadly speaking, even though PACA may demand an average price of over €300,000, the average price in six other regions is over €200,000. Once again Limousin has the lowest average price per square metre for apartments: €1,226 compared to €4,920 in Ile-de-France.

Regarding annual price changes, Limousin is again in the spotlight with the biggest drop in apartment prices: 6.8%. At the opposite extreme the average price for apartments in the Ile-de-France region increased by 12.2%.

AP = apartment
H = house

All the analyses and details of the press conference are available at the Notaires de France property portal at http://www.notaires.fr

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