

France

By Bertrand Cartier, Groupe BPCE (Banques Populaires-Caisses d'Epargne)

IN A NUTSHELL

- House prices grew by 6.7% (for existing homes), much more than in 2020 outside Paris region.
- House sales reached a new peak in existing dwellings and individual houses. Sales by real estate developers (mostly flats) were still below pre-pandemic levels.
- New home loan origination continued to grow (+16% vs. 2020) despite the gradual application of the HCSF recommendation on lending criteria which became legally binding on January 1st, 2022.
- Home loan average interest rates fell to a historical low of 1.10%, the average maturity reached a new record of 21.7 years, supporting the purchasing power of households eroded by restricted lending criteria and rising prices.
- Volumes of renovations continued to increase considerably with existing houses being affected from next year by regulatory constraints targeting the most energy-intensive homes.

MACRO-ECONOMIC OVERVIEW

The economy grew strongly, with GDP rising by 6.8%. Reversing the 7.8% fall in the previous year due to the pandemic, the GDP returned to its pre-pandemic level in Q3, one quarter earlier than expected. The labour market was very resilient with unemployment falling to 7.9% (its annual lowest level since the Great Recession of 2008) and an employment rate (of 15-64 years old) reaching its highest level since 1975 at 67.2%, boosted by the higher employment of younger and elderly workers. Business failures were at a new historical low level (27,540 units), down by 12% compared to 2020 (and 46% lower than in 2019).

Despite the third lockdown between April and May 2021, the economy was powered by household consumption and corporate investment. Household demand was supported by the preservation of the purchasing power of their Gross Disposable Income (+2.3% in 2021 vs. +0.2% in 2020). Corporate activity was supported by exceptional measures taken by the government and the ECB to counter the shock. Due to supply problems at the restart of economic activity, inflation (HICP) was 2.1% in 2021 (vs. 0.5% in 2020). Pressures on prices increased in the second half of the year mainly due to energy prices. As is typical after a crisis, the saving rate's return to normal has been very slow, from 21% in 2020 to 18.7% in 2021 (compared to around 15% before the pandemic).

LOOKING AHEAD

The French economy, as other countries in Europe, could transition to an environment of stagflation - lower growth and high inflation - over a longer period than initially expected and a comparatively less favourable lending environment. According to forecasts from Banque de France at the end of June 2022, GDP growth is expected to be at 2.3% in 2022, with an annual inflation rate (IPCH) at 5.6%. The saving rate is expected to stay near 16.5% in 2022, taking more time to converge to its pre-pandemic level due to numerous uncertainties including inflation. The expected

decline in household purchasing power (-0.8% in 2022) could generate a slowdown in the growth of household consumption (+2.9% in 2022), notably in durable goods.

New loan origination is expected to remain constant in 2022 but could diminish at least by 10% in 2023. Housing transactions began to decrease slightly in the first half of 2022 and housing prices remained at a historical high level but are expected to decrease slightly in 2023). Activity will be influenced by the increase in ECB rates started in July 2022, which will increase interest rates for home loans and reduce housing purchasing power of households. Therefore, the annual growth of outstanding residential loans might fall by between 2% and 3% at the end of 2023 (vs. +7% in 2021 and around +5% anticipated at the end of 2022).

Increased energy prices linked to the geopolitical tensions could reinforce the attractiveness of energy-efficient homes and support household demand for renovation. The higher importance of energy performance criteria should reorient a part of the housing demand and add a new factor curbing the upward trend of house prices.

HOUSING MARKETS

The housing stock was 37.2 mn units in 2021, 550 houses for every 1,000 inhabitants. It is 82% main residences (the Paris region alone representing 18% of main residence in France), 10% second homes and 8% vacant. Home ownership was 58% (a share stable since 2010), with a share of homeowners with no repayment charges (that is, with no home loan to reimburse) at 38%. 56% of households live in an individual house (79% of owners occupied of their main residence and 25% of tenants).

Sales of existing dwellings reached an annual all-time high of 1,18 mn, up 15% from 2020, representing 82% of the whole transactions in 2021. The average annual price of existing homes increased by 6.7% (vs. +5.6% in 2020), with higher increases in the provinces (+7.9%) than in Paris region (+3.7%) for the first time since 2005. Changes in demand are shown by the strong rise in house prices (+8%) compared to +4.9% for flats on the same period. A real slowdown in flat prices occurred in Paris region "Ile-de-France" (+2.2%). Paris city prices were stable in 2021 (vs. +7% in 2020), whereas flats' prices in provincial France benefited from the development of teleworking (+7.3%, of which +7.1% for Marseille and +4.7% for Lyon).

After a terrible year for real estate developers, 2021 was marked by an increase in newly built home sales of 16% (118,226 units) and available for sale homes of 20% (104,539 units). But volumes were still below their pre-pandemic levels, respectively by 10% and 9%. The shock of the pandemic exacerbated structural difficulties in the building sector, calling into question its ability to meet the needs of households. The stock of home for sale decreased to 94,346 units at the end of 2021 (vs. 98,064 a year before), its lowest level since 2012 (around 9.5 months of average sale). The rise in the average price increased to 13.3% for new houses (average sale price of EUR 331,579) and to 2.6% for new flats (average sale price of EUR 4,424 per square meter).

Despite the pandemic, building activity remained above its previous low points. The number of housing permits (468,400 units) increased by +19%, with individual houses increasing by 27% and collective housing by 15%. The implementation

of the new energy regulation “RE2020” on January 1st 2022 accelerated levels of housing permits at the end of 2021. However, the number of permits for flats (213,700 units) decreased by -7% compared to 2019, while ones for individual houses were 17% higher and recorded 158,300 units (their highest volumes since 2011). The number of houses started (391,800 units) grew 12%, by less than the increase in permits. Compared to 2019, collective housing starts (193,800 units) fell by 2% and represented 51% of the total housing starts in 2021.

MORTGAGE MARKETS

MARKET DYNAMICS

Due to the number of sales (an historic peak of 1,434,826, +16% vs. 2020) and price rises (+7% vs. 2020), new home loans for households increased by 8.5% to EUR 273.7 bn. Excluding loan transfers and renegotiations, new loans reached a new high of EUR 224.8 bn, up by 16.5% compared to the previous year. Renegotiated loans amounted to EUR 49.2 bn, decreasing by 17% and representing 17.9% of the total new home loans (-5.7 pps over on year). 77% of loans were for main residence purchase and 33% of the total production were for first-time buyers. Outstanding home loans was annually up by 6.8% at the end of 2021.

As in 2020, the market was supported by very low interest rates and longer initial maturities. Average interest rates fell to a new historic low, from 1.19% in January to 1.07% in December. Meanwhile, the average maturity increased to a new record at 21.7 years (+2.4 months vs. 2020), more than 65% of the production had a maturity between 20-25 years, and 6.8% beyond 25 years (-3.9 pps vs. 2020). The average LTV at origination in 2021 fell to 82.9% (-0.8 pp vs. 2020) and the share of new loans with LTV higher than 100% declined by 3.7 pps to 23.9%. Moreover, the average DSTI at origination reduced to 30.1% (-0.5 pp vs. 2020).

Lending criteria continued to improve, notably linked to the gradual implementation of the HCSF recommendation updated in December 2020, which attempted to limit the DSTI at 35% of disposable income and maturities at 25 years. However, HCSF allowed banks to originate up to 20% of their loans each quarter with a DSTI and/or a maturity above these levels, with at least 80% of this flexibility margin concentrated on loans for the purchase of a main residence and at least 30% for first-time buyers.

In this context of a dynamic activity, well monitored by the Banque de France and the ACPR, risks attached to home loans remain low: defaults over 12 months represented 0.36% of the home loans outstanding in Q4 2021 and the NPL ratio remained limited at 1.09% at the end of 2021 (+ 3 bps vs. 2020). 99% of new home loans originated in 2021 are at a fixed rate and 97% of the outstanding are back by some form of security.

NON-MARKET LED INITIATIVES

During 2021, the progressive enforcement of the updated HCSF recommendation reduced the volume of loans not meeting these rules from 28.8% of new loans in Q1 2021 to 16.8% in Q4 2021 (within the flexibility margin authorised by HCSF). The share of loans with a non-compliant DSTI went from 23.5% in Q1 2021 to 15.8% in Q4 2021, and the share of loans with a non-compliant maturity fell from 7.3% to 1.5% over the same period. In 2021, the home loan market as a whole did not seem to have suffered from the follow-up of the HCSF recommendation.

Various regulations concerning energy transition may have encouraged owners of less efficient homes to sell their homes in 2021, before being required to undertake renovations. As of August 2022, it will be not possible to increase the rent of a house with an Energy Performance Certificate (EPC) “F” or “G”

(which is 20% of the private rental stock according to the Ministry of energy transition as of January 2022). From January 2023, it will be impossible to rent the most energy-consuming homes (1.8% of the private rental stock). From January 2025, this will affect all homes with an EPC “G” (8.5% of the private rental stock), and then from January 2028 will also affect homes with an EPC “F” (11.4% of the private rental stock). This has encouraged households to carry out renovation works (of which EUR 15.4 bn of home loans according to Banque de France, up by 15% vs. 2020).

ANY FURTHER IMPORTANT EVOLUTION

If the share of new home loans for rental investment with a DSTI ratio above 35% fell from 40% of the production for this type of home loans at the beginning of 2020 to 20% at the end of 2021, volumes remained dynamic in 2021 (16.5% of the whole production vs. 16.2% in 2020). But the strict application of the HCSF rules when they became legally blinding in January 2022 could particularly affect this sector compared to others.

As ECB rates increase, the application of the usury law will limit the rate of increase of home loans and could exclude some households (specifically first-time buyers) for whom interest rate of their home loan application would exceed the usury rate. A rate is considered usurious when it exceeds the APCR (Annual Percentage Rate of Charge) of the previous quarter by 33%. To limit restrictions on loan origination and ensure access to credit for households, banks could partially curtail activity with real estate brokers to lower the cost of credit for households while limiting the drop in their margin.

MORTGAGE FUNDING

As home loans are mainly distributed by retail banks, they are mostly funded by deposits. The amount of private customers deposits reached EUR 2.66 bn at the end of December 2021 (+6% compared to 2020; after +15% in 2020 vs. 2019), 67% were for households and 33% for non-financial corporations. Despite the re-opening of stores and fewer constraints on travel and consumption than in 2020, households continued to accumulate savings, notably sight deposits (+9% compared to 2020, at EUR 628 bn) and increased their use of consumer loans (+2.9% of new consumer loans vs. 2020, at EUR 211.7 bn).

According to S&P, French banks have since 2020 the largest covered bond issuers in Europe, with over EUR 22.8 bn of gross issuance in 2021 (29.5% of European total), as a consequence of the increased recourse by European banks to other sources of financing, such as central bank refinancing operations. Concerning mortgage funding, the total amount of the French covered bond stock stood at EUR 178.7 bn at the end of 2021, equal to 15% of the outstanding home loans, with new issuances annually amounted to EUR 17.7 bn (equal to 8% of the 2021 production of new home loans).

Outstanding RMBS was EUR 86 bn as of Q4 2021, compared to EUR 81.3 bn on year prior, marking an yearly increase of almost 6%. Total RMBS issuance, in turn, was EUR 12.3 bn, following an increase of 2% compared to 2020's EUR 12 bn end year value.

GREEN FUNDING

The government's recovery plan in 2021 provided EUR 2 bn for private housing and EUR 500 mn for social housing, to support energy transition. Energy renovation works eligible for a reduced rate of VAT (for existing dwellings) amounted to EUR 14.6 bn, an increase of 34% compared with 2020.

The major support is from a public financial aid called "MaPrimRenov", available for all owners of a main residence (self-occupied or rented) and for co-ownership properties. 763,020 cases were submitted in 2021 (vs. 192,343 in 2020), for 86% of cases started during the year and for 48% completed renovation works at the end of the year. Most of the renovation works (76% in volume for 85% of energy savings) concerned in 2021 the heating and domestic hot water; insulation of walls, roofs or attics represented 14% of energy savings (double the share compared to 2020). In 2021, the gains were higher in areas of the south-west of France, in the north of Nouvelle-Aquitaine and of Occitanie, in Bretagne and in the north/north-east of France. The weaker gains were in areas of the Mediterranean coast and to a lesser extent in some areas with a larger share of the affluent population (Paris, a part of Paris region, Rhône and the Alps).

To renovate a home, the various public financial aid schemes can be combined with a bank loan, which includes a zero-interest rate loan named "Eco-PTZ". It is a loan subsidised by the state for the financing of a set of energy improvement works carried out by professionals in existing homes used as a main residence. In 2021, 61,034 "Eco-PTZ" loans were granted, rising in unit by 45% and in amount by 44% compared to the previous year.

	FRANCE 2020	FRANCE 2021	EU 27 2021
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	-7.8	6.8	5.4
Unemployment Rate (LSF), annual average (%) (1)	8.0	7.9	7.0
HICP inflation (%) (1)	0.5	2.1	3.0
HOUSING MARKET			
Owner occupation rate (%) (1)	64.0	64.0	70.0
Gross Fixed Investment in Housing (annual change)(1)	-12.2	14.8	6.6
Building Permits (2015=100) (2)	96.9	115.4	134.0
House Price Index – country (2015=100) (2)	116.8	124.6	145.2*
House Price Index – capital (2015=100) (2)	134.3	134.3	146.1*
Nominal house price growth (%) (2)	5.6	6.7	10.3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	1,136,990	1,214,582	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	21,542	22,839	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	73.4	75.5	62.8*
Gross residential lending, annual growth (%) (2)	2.4	8.4	12.2
Typical mortgage rate, annual average (%) (2)	1.3	1.1	2.0

* Please note that this value is the simple average of the available values in 2021.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

FRANCE FACT TABLE

Which entities can issue mortgage loans in your country?

Today, about 380 credit institutions (including banks, mutual banks, municipal credit banks and special credit institutions) are approved by the French supervisory authority (ACPR), and listed in the register of financial officers (REGAFI).

The three main categories of credit institutions, involved in property lending, are in France:

- Mutual and cooperative banks, still with the largest market share for many years and at its highest historical level in 2020-2021 (62.7% vs 65.3% in 2020);
- Private banks, whose market share rebounded close to its pre-pandemic level of 2019 (37.1% in 2021 vs 34.2% in 2020 and 38.1% in 2019) ;
- Specialised institutions with a market share near zero in 2021 (0.2% vs 0.5% in 2020).

What is the market share of new mortgage issuances between these entities?

Which entities hold what proportion of outstanding mortgage loans in your country?

Six groups and their subsidiaries (3 Mutual, 1 Public and 2 Private) represent most of the lending.

Digital credit (Tel and Internet) is emerging with new players and developing with the offers of traditional banks, but still with a limited market share.

What is the typical LTV ratio on residential mortgage loans in your country?

In 2021, the average LTV ratio was 83.3%, down from 84.4% in 2020 of the average cost of the operation

How is the distinction made between loans for residential and non-residential purposes in your country?

French banking regulation require a distinction depending on the purpose of the loan (residential or non-residential). Thus, applicable conditions differ for every kind of financed asset and the ACPR publishes statistics identifying the residential financing of households.

What is/are the most common mortgage product(s) in your country?

The most common product is a fixed-rate over the total duration of the loan. In 2021, 99.4% of the new credits were fixed-rate loans. More than 60% of loans are not with a registered mortgage, but are guaranteed by an insurance or a collateral provided by a specialized financial institution.

What is the typical/average maturity for a mortgage in your country?

In 2021, the average maturity of real estate loans (excluding renegotiated loans, loan transfers and credit consolidation) was 21.7 years slight increasing from the year before (21.5 years).

What is/are the most common ways to fund mortgage lending in your country?

Traditionally, the main sources of funding real estate lending in France are the households' and companies' deposits (even term deposits or on book ones) and bonds.

What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?

In France, the purchase costs depend on the new or existing nature of the purchased house:

- Existing properties: 7-8% for transfer duties and 4-5% for real estate agencies fees;
- New properties: 2% for a new house (transfer duties only), plus VAT (20%, except for social sales which have a 5.5%, and 10% for some intermediate sales).

As regards new housing, the VAT may be affected by standard abatement.

Furthermore, first-time buyers may benefit from a zero-percent loan (supplemented by the government) for the purchase of a main residence, which can cover up to 40% of the global cost of the operation with a maturity between 20 and 25 years, depending on:

- the area (four areas are defined by law, according to the local real estate market situation: more or less stretched);
- the household composition and income.

Several other schemes exist to support low-income buyers (PSLA: renting with option to buy or a new form of community land and trust).

Several incentives have been eliminated (APL, Epargne Logement), while zero-percent loans have been significantly reduced.