

France

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IN A NUTSHELL

- Property prices of existing dwellings increased by 6.3% despite a slowdown in Q4 2022 and a strengthening of a slight downtrend in the tightest areas such as Paris and Lyon.
- Home sales remained close to an all-time high, supported by sales of existing homes while new home sales collapsed to a level close to the pandemic year of 2020.
- Despite interest rates doubling over the year, loan origination fell by only 3%, although there was a more marked drop in the second part of the year (-12% compared to H2 2021).
- Housing starts did not increase in line with the number of building permits issued (+3%, boosted by the filing of permits related to "RE2020") and fell by -6%.
- Government housing policy increasingly emphasizes the renovation of existing housing, with boosted supports for the financing of energy renovations and regulatory constraints.

MACRO-ECONOMIC OVERVIEW

GDP increased by 2.5% after +6.4% in 2021 (vs. -7.5% in 2020 due to the pandemic). The labour market was still very resilient with unemployment falling to 6.9% at Q4 2022 (-0.3pps over one year), its annual lowest level since the GFC in 2008 and an employment rate (of 15-64 years old) remaining at its highest level since 1975 at 68.3% (+0.5 pps above its level of Q4 2021), boosted by the higher employment of younger (+5.5pps over the last 3 years, at 35%), of 25-49 year old (its highest level since 2008, at 83%) and of 50-64 year old (its highest level since 1975, at 66%). The France 10-year government bond stood at 1.7% in average in 2022, reaching 3% at the end of 2022.

Business failures increased to 41,249 failures in 2022 (up 49% compared to 2021) but they remained at a low level compared to last decades (19% lower than in 2019). In the building sector, business failures increased by 38% to 8,375 (-25% compared to 2019) and in real estate activities by 11% to 1,359 units (-17% vs. 2019).

Impacted by the consequences of the conflict in Ukraine, HICP inflation increased by 5.9% in 2022 (vs. +2.1% in the previous year), mainly linked to the cost of energy and food but limited by the public tariff shield on gas and electricity price. With an annual increase of 5.0% in Household Disposable Income, the net purchasing power of households remained stable in 2022 (+0.2% vs 2021). Household consumption increased by 2.1% compared to last year, although it decreased in the last quarter (-0.8% vs. Q3 2022). The savings rate accelerated during the year to reach 18.6% in Q4 2022, reaching an annual average at 17.5% (-2.5pps vs. 2021) and remaining above its pre-pandemic level (+1.6pps vs. 2019).

LOOKING AHEAD

According to forecasts from Banque de France in June 2023, GDP growth is expected to be at 0.7% in 2023, with an annual inflation rate (HICP) at 5.6%. The saving rate is expected to stay near 16.5%, taking time to converge to its pre-pandemic level due to uncertainties including inflation. The expected deterioration in household purchasing power could generate a decline in household consumption (-0.1%).

In the context of higher ECB rates, French banks are expected to apply higher interest rates to adjust to new financial conditions in the Eurozone. The surge in financial costs combined with housing prices still on the rise in Q1 2023 kept reducing the housing purchasing power of households.

Taken in September 2021 and became legally binding since 2022, the High Council for Financial Stability (HCSF) has imposed for new home loans a maximum DSTI ratio at 35% and a maximum maturity at 25 years (+2years in certain situations), according also a 20% maximum flexibility margin of the total quarterly lending which is quarterly authorized to be out of the best practices recommendations. HCSF made in June 2023 two technical adjustments to the framework of best lending practices that do not alter neither the overall structure nor scope of this measure, notably by raising from 20% to 30% the share inside the 20% flexibility margin that can be used to grant buy-to-let investment loans. Those evolutions will not change the current tendency of the housing market.

If the number of transactions could decrease by 19% in 2023 for existing properties and by 13% for newly built homes, housing prices would only drop slightly for existing homes (-5%) and could be stable for new homes. Consequently, new home loans granted to households may diminish by 30% compared to 2022 and the annual growth of outstanding residential loans may drop at +2% annually in 2023 (vs. +5.5% in 2022).

The recent and expected increases of energy prices will reinforce the attractiveness of energy-efficient homes and will support household demand for renovation. The higher importance of energy performance criteria is still changing housing demand and adds a new factor curbing the upward trend of existing dwelling prices for the coming years (especially for the less efficient homes).

HOUSING MARKETS

The housing stock was 37.6mn units at the beginning of 2022 (553 homes for every 1,000 inhabitants). It is 81.9% main residences (the Paris region alone representing 16% of the total main residences in France), 9.8% second homes and 8.3% vacant. Home ownership of a main residence was 58% (stable since 2010), with a share of homeowners with no home loan outstanding at 37%. 55% of homes in France are individual houses but this is continuously declining.

Sales of existing dwellings reached 1,15mn units in 2022, decreasing annually by 5% (close to the historical record of 2021), representing 84% of all transactions. Housing prices increased by 6.3%, at a slightly slower pace than 2021 (+6.7%) which was the fastest annual increase since 2007. They reached their

highest historical level for almost all areas, excepted for Paris city (-1.1% y-o-y). Household demand for homes after the pandemic has been in favour of single-family detached houses and small/medium cities in provincial France. As the previous year, house prices recorded in 2022 a stronger increase (+7.8% Y-o-Y) than for flats (+4.2%), like housing prices in provincial France (+7.9%) compared to Paris region (+2.0% y-o-y, but +3.5% excluding Paris city).

Considering real estate developers, newly built home sales did not continue the rebound of 2021 but dropped by 14% to 112,100 units, close to the low level of 2020 (110,000 units). Available for sale homes decreased by 5% to 113,100 units. The stock of homes for sale increased over one year by 11% at 117,400 units, representing in Q4 2022 around 15 months of average sales. Despite the beginning of interest rate hikes and falling demand, the rise in prices continued to increase with +5% for new flats (average sale price of EUR 4,602 per square meter) and +4% for new houses (average sale price of EUR 345,223 per house).

Sales of single-family detached homes plummeted by 30% in 2022 to 96,000 units, mainly due to the very sharp increase in builder's costs which was passed on to buyers (its traditional client base is made up of first-time buyers and households with wages below the national average).

The total number of housing permits (485,700 units) increased by 3%, with +11% for multifamily residential (297,800 units), -14% for single-family detached homes (137,000 units) and +18% for collective residences (notably in favour of students and seniors with 50,900 units). The implementation of the new energy regulation "RE2020" concerning building standards on 1 January 2022 accelerated file applications at the end of 2021 and, consequently, the number of processed files during 2022. However, in a context of rising global costs and shortage of raw materials, the number of housing starts for multifamily residential (212,500 units) annually decreased by 7%, reaching its lowest level since 2015, and those for collective residences by -9% (33,200 units), while those for single-family detached homes remained at a high level at 123,500 units in comparison with the last ten years (but -2% versus 2021).

MORTGAGE MARKETS

MARKET DYNAMICS

Linked to the annual decrease of 8% for total sales and an increase of 6% in housing prices, new home loans for households declined by 5% to EUR 259.7 bn. Excluding loan transfers and renegotiations, new loans amounted to EUR 217.1 bn, down by 3% compared to the previous year. Renegotiated loans amounted to EUR 42.6 bn, decreasing by 14% (at 16% of the total new home loans, -2 pps over one year). Outstanding home loans rose by 5.5% to EUR 1,281 bn at the end of 2022.

Despite the near doubling of average rates on home loans (from 1.12% in January to 2.05% in December for the Narrowly Defined Effective Rate), they remained very low on a historical perspective and still negative in real value (in comparison with +5.9% for HICP in 2022). Meanwhile, the average maturity reached 22 years (vs. 21.5 years in 2021). 58% of new loans had a maturity between 21-25 years (+6pps vs. 2021) and 6% beyond 25 years (-1pps vs. 2021). The average LTV at origination fell to 83.1% (-0.2pps vs. 2021) and the share of new loans with LTV higher than 100% declined by 1.7pps to 22.9%. Moreover, the average DSTI ratio at origination was at 29.9% (-0.2pps compared to the year before).

Lending criteria for new home loans continued to tighten in 2022, notably linked to the strict respect of the HCSF recommendation by credit institutions related

to the DSTI ratio and the maturity of new loans. However, HCSF allowed banks to originate up to 20% of their loans each quarter with a DSTI ratio and/or a maturity above its recommendation, 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 2022, 78% of loans were for main residence purchases and 37% of the total production were for first-time buyers (representing 50% of new loans for the purchase of a main residence).

Thanks to 99% of new home loans originated in 2022 at a fixed rate (as recent years) and with 97% of the outstanding are back by some form of security, risks stayed restrained. The NPL ratio stood at 0.95% at the end of 2022, its lowest level since 2009 and the cost of risk for home loans remained very limited at 1 bp in 2022.

NON-MARKET LED INITIATIVES

Under the 20% flexibility margin accepted by the HCSF recommendations, around 14% of new home loans granted in 2022 did not meet those criteria. More specifically, the share of new loans with a non-compliant DSTI ratio was under 14% of the total and the share of loans with a non-compliant maturity dropped under 1% over the same period.

The share of new loans characterized by a DSTI ratio between 33% and 35% grew in the total production from 18% in Q1 2022 to 24% in Q4 2022. Moreover, the share of loans respecting the HCSF recommendation with a maturity between 25 and 27 years increased versus 2021, quarterly fluctuating between 4% and 6% of the total production. This occurred at a time of rapid housing price growth and rising interest rates (which were limited by the French usury rate mechanism). The usury rate, legally imposed by the French government and monitored by the Banque of France, is the maximum rate (all costs included, i.e. Annual Percentage Rate of Charge) updated every quarter at which a bank can lend money to households. The usury rate was 3.05% in Q4 2022 for new home loans with a maturity above 20 years when the APCR was 2.68% for new home loans granted in Q4 2022.

Various regulations concerning energy transition put pressures on owners of less efficient homes to undertake renovation works or to sell their homes (before being required to undertake renovations). Since August 2022, it is not possible to increase the rent of a home with an Energy Performance Certificate (EPC) "F" or "G" (which is 20% of the private rental stock according to governmental data as of January 2022).

Besides, the goal of zero net artificialisation of soils in 2050 imposed by the French government, with a first step of a division by 50% of the artificialisation of soils as of 2031, has already limited the development of new construction sites, particularly for single-family detached homes.

ANY FURTHER IMPORTANT EVOLUTION

From February to December 2023, the usury rate (which limited the rise in interest rates) will be calculated on a monthly rather than a quarterly basis and will cause interest rates charged on home loans to catch up with prevailing eurozone interest rates quicker in 2023.

Housing policy is increasingly oriented towards the rehabilitation of existing dwellings. Since January 2023, it is not possible to rent the most energy-consuming homes (1.8% of the 7.960mn homes of the private rental stock as of January 2022). From January 2025, this ban will concern all homes characterized by an EPC "G" (8.5% of the private rental stock), from 2028 all homes with an

EPC "F" (11.4% of the private rental stock) and from 2034 all homes with an EPC "E" (23.3% of the private rental stock).

There are fewer incentives for buy-to-let investment, especially for newly built homes (only 44% were sold for this purpose in 2022 compared to an average of 50% since 2015 excluding 2020). Regulatory pressures (capping of rent increases at 3.5%, more cities concerned by rent controls, progressive constraints weighing on energy-intensive housing) don't encourage households to increase their exposure to the rental segment, whose profitability is particularly impacted by inflation.

MORTGAGE FUNDING

As home loans are mainly distributed by retail banks, they are mostly funded by deposits. Private customers deposits reached EUR 2,714bn at the end of 2022 (+3% vs. 2021), 68% came from households and 32% from non-financial corporations. Households continued to accumulate savings (+1% for overnight deposits versus 2021, at EUR 636bn) but at a slower pace than inflation and increased their use of consumer loans (+3% of new loans vs. 2021, at EUR 63.9bn excluding renegotiated loans in 2022). A distortion in the structure of deposits took place in 2022 in favour of interest-bearing accounts and to the detriment of overnight deposits, leading to an increase in the cost of financing for banks in the H2 2022.

Concerning mortgage funding, the total amount of the French covered bond stock stood at EUR 244.3bn (Fact Book 2023, European Covered Bond Council) at the end of 2022, equal to 19% of the outstanding home loans, with new issuances annually amounted to around EUR 35 bn (equal to 16% of the 2022 production of new home loans, versus 8% in 2021).

Outstanding RMBS was EUR 87.2 bn as of Q4 2021, compared to EUR 86.2 bn on year prior, marking a yearly increase of 1.17%. Total RMBS issuance, in turn, was EUR 25.6 bn, following an increase of 107.1% compared to 2021's EUR 12.4 bn end year value.

GREEN FUNDING

The major support came from a public financial aid called "MaPrimRenov", available for all owners of a main residence (self-occupied or rented) and for co-ownership properties. 670,000 homes were renovated in 2022, representing EUR 3.1bn of financial aid and EUR 8.9bn in work generated. Concerning 90% of MaPrimRenov' cases, 66% of renovation works concerned the heating and domestic hot water; insulation of walls, roofs or attics represented a share of 20% in the total volume of renovation works; air recycling and energy audit of the home counted for 6% each.

To renovate a home, various financial aid measures exist (like MAPRIMRENOV', Energy Saving Certificates "CEE", reduced VAT for some renovation works, ...) and 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 certified professionals in existing homes used as a main residence by its homeowner or by a tenant. 82,071 Eco-PTZs were granted in 2022 (+35% compared to 2021), representing EUR 1.1 bn borrowed.

The government has pushed for the renovation work to be done in one go and not in several actions spread over time. 65,939 "overall renovations" of homes were financed in 2022, representing EUR 800mn of financial bonus and EUR 1.7bn in work generated. Moreover, the maximum duration for an Eco-PTZ financing an "overall renovation" has increased from 180 to 240 months and the maximum borrowable amount from EUR 30td to EUR 50td (+1,000 loans compared to 2021, but only representing 2,053 loans in 2022). Eco-PTZ declarations for co-ownerships are few (75 requests were accepted in 2022), mainly explained by a need to vote on the work at a general meeting of co-owners and an acceptance of most of them.

	FRANCE 2021	FRANCE 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	6.4	2.5	3.5
Unemployment Rate (LSF), annual average (%) (1)	7.9	7.3	6.2
HICP inflation (%) (1)	2.1	5.9	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	64.7	63.4	69.1
Gross Fixed Investment in Housing (annual change)(1)	14.8	-1.8	1.5
Building Permits (2015=100) (2)	115.6	119.6	125.8
House Price Index – country (2015=100) (2)	124.6	132.4	164.6*
House Price Index – capital (2015=100) (2)	134.3	132.8	163.8*
Nominal house price growth (%) (2)	6.7	6.3	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	1,214,582	1,280,950	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	22,839	23,971	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	75.5	75.6	71.5
Gross residential lending, annual growth (%) (2)	8.6	-5.2	-6.5
Typical mortgage rate, annual average (%) (2)	1.1	1.5	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hyostat 2023, Statistical Tables.

FRANCE FACT TABLE

Which entities can issue mortgage loans in your country?	About 340 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).	As regards new housing, the VAT may be affected by standard abatement.
What is the market share of new mortgage issuances between these entities?	<p>The three main categories of credit institutions involved in property lending are in France:</p> <ul style="list-style-type: none"> • Mutual and cooperative banks, still with the largest market share for many years and at its highest historical level for its market share of new lending in 2020-2022 (78.1% as of June 30, 2022 for the total outstanding home loans, according to ACPR) • Private banks (20.1% as of June 30, 2022 for the total outstanding home loans); • Specialised institutions are characterized by a market share near zero in 2022. 	<p>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, notably depending on:</p> <ul style="list-style-type: none"> • the area (four areas are defined by law, according to the local real estate market situation: more or less densely-populated areas); • the household composition and income.
Which entities hold what proportion of outstanding mortgage loans in your country?	<p>Six groups and their subsidiaries (3 Mutual, 2 Private and 1 Public) represent most of new lendings and of the total amount of home loans;</p> <p>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.</p>	<p>Several other schemes exist to support low-income buyers (PSLA: renting with option to buy or a new form of community land and trust) and the rental investment (Pinel scheme: granting a tax reduction for private landlords balanced by a limited level of rental tariff).</p>
What is the typical LTV ratio on residential mortgage loans in your country?	In 2022, the average LTV ratio was 83.1%, down by 0.2 pp versus 2021.	<p>Several incentives have been shortened, for example the zero-percent loans. But other incentives are in place in order to support the purchases of existing homes to renovate (Denormandie scheme, "Eco-PTZ", "Prêt Avance Renovation" which is a mortgage loan for low-income households wishing to finance energy renovation work in their home).</p>
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 2022, more than 99% of the new credits were fixed-rate loans. More than 60% of new loans are guaranteed by an insurance or a collateral provided by a specialized financial institution (and not with a registered mortgage). 70% of new lending are a fully amortized loan (versus 4% of interest only loans).	
What is the typical/average maturity for a mortgage in your country?	In 2022, the average maturity of home loans was 22 years, slightly 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 passbook savings accounts) and bonds.	
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	<p>In France, the purchase costs depend on the new or existing nature of the purchased house:</p> <ul style="list-style-type: none"> • Existing properties: 7-8% for transfer duties and 4-5% for real estate agencies • 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). 	
	What is the level (if any) of government subsidies for house purchases in your country?	