

France

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MACROECONOMIC OVERVIEW

In 2016, the French GDP slightly rose by 1.1%, as in 2015, after 0.2% in 2014. The country's growth stays basically low and keep relying on temporary supporting factors historic low interest rates, a 15% to 20% depreciated euro and a major slump of oil prices. Though these three indicators are all showing signs of reversion. The household consumption was again the main contributor to the activity, thanks to the acceleration in purchasing power, due to an almost zero inflation.

Secondly, business investments, a key driver of the economic recovery, grew y-o-y thanks to government incentives, such as the "Tax credit for competitiveness and employment", reductions in charges of the governmental "Accountability Pact" or the exceptional 40% extra depreciation, and improved funding conditions (low credit rates). Household's investment instead arrested its decline.

In contrast, trade balance contributed to a tougher economic climate, because of increased imports. The anemic French growth was unable to make any significant dent in the unemployment rate (10.1% in 2016 from 10.4% in 2015 for Metropolitan France). Even then, the small decrease in unemployment in 2016 was largely due to the government's "Emergency plan for employment" (consisting of recruitment subsidies, plus 500,000 unemployed training).

The public deficit remained above the 3% threshold of the European Stability and Growth Pact (3.3% of GDP). Public debt climbed to 97.5% of GDP.

HOUSING AND MORTGAGE MARKETS

HOUSING MARKET

The French housing market has been driven for many years by a strong demand for new housing. The country's demographic and social changes, such as the increase of the population (especially urban population) and of its life expectancy but also the fragmentation of the family unit, are at the roots of this strong demand. Also a continuous decline of interest rates, incentives to first-time home buyers (zero interest rate loans) and tax cuts for buy-to-let investors ("Pinel" scheme) helped the strong recovery of the housing market in 2016 :

- The number of existing dwelling transactions rose to 848,000 in 2016 (+6.4% y-o-y). In Q4 2016, the existing dwelling market, prices rose for the third consecutive quarter, marking +1.8% y-o-y. The price increase was stronger for the Ile-de-France region (+3.5% y-o-y), led by Paris (+4.4% y-o-y).
- The new dwellings market experienced a net resurgence of activity: building permits for 448,000 new homes, over a rolling 12-month period, had been granted by the end of 2016. That is a 12.8% increase compared to the same period of 2015 (397,600 permits). Likewise, housing starts rose in 2016: over a rolling 12-month period, they stood at around 372,300 at the end of 2016, compared to the 334,900 housing starts recorded in 2015.

MORTGAGE MARKET

The home loans market has been very active since the end of 2014. The overall volume of accepted loans is estimated at about EUR 154 bn in 2016, compared to EUR 152 bn the year before (excluding repurchase and redemptions).

Due to the drop of interest rates, the French real estate market show an outstanding recovery in 2016, thus feeding the housing credit market throughout the year.

MORTGAGE FUNDING

DEPOSITS

At the end of 2016, the total amount of deposits in French banks (all actors) reached EUR 833,056 mn, compared with EUR 752,303 mn in December 2015, that is a 10.7% y-o-y growth (vs a 14.8% growth between 2014 and 2015).

COVERED BONDS

The issuance volume of euro benchmark covered bonds reached EUR 124.5 bn in 2016, showing a contraction of 13% compared to the previous year. 2016 saw an active first-half with EUR 92.3 bn issued, a level comparable to the record volume of EUR 97.5 bn set in the first half of 2011.

The trend subsequently slowed down in the summer, due primarily to the participation of the issuers in the TLTRO programs and to the uncertainties related to the Brexit vote. Under these circumstances, the issuance volume amounted to EUR 31 bn in the second half of the year.

Covered bond market was dominated by the mortgage-collateral category in 2016. In fact, 87% of bonds were backed by mortgages and only 13% by public sector loans and mixed guarantees.

	FRANCE 2015	FRANCE 2016	EU 28 2016
Real GDP growth (%) (1)	1.1	1.2	1.9
Unemployment Rate (LSF), annual average (%) (1)	10.4	10.1	8.5
HICP inflation (%) (1)	0.1	0.3	0.3
Outstanding Residential Loans (mn EUR) (2)	958,368	997,807	6,981,540
Outstanding Residential Loans per capita over 18 (EUR) (2)	18,538	19,214	16,838
Outstanding Residential Loans to disposable income ratio (%) (2)	68.5	69.9	n/a
Gross residential lending, annual growth (%) (2)	14.9	10.1	3.2
Typical mortgage rate, annual average (%) (2)	2.1	1.6	2.6
Owner occupation rate (%) (1)	65.0	64.1	n/a**
Nominal house price growth (%) (2)	-0.5	1.6	4.6

* Please note that this value is the simple average of the typical interest rate of the EU 28 countries

** Please note that for the EU this data has a one year lag. For the latest available data please refer to statistical table 10.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2017, Statistical Tables.

FRANCE FACT TABLE

Entities which can issue mortgage loans:	By the end of 2016, a total of 372 credit institutions (including banks, mutual banks, municipal credit banks and special credit institutions) benefited from an agreement delivered by the French supervisory authority (ACPR).
The market share of the mortgage issuances:	<p>The three main categories of credit institutions, involved in property lending, are in France:</p> <ul style="list-style-type: none"> • Full service banks, whose market share increased in 2015 (40.1% vs 37.3% in 2014) • Mutual and cooperative banks, with a lightly declining market share (54.5% vs 56.4% in 2014) • Specialised institutions, which experimented a light decline of their position (5.4% vs 6.2% in 2014).
Proportion of outstanding mortgage loans of the mortgage issuances:	Since the French market is mostly based on guaranteed loans, there are no reliable statistics related with the outstanding mortgage loans allocation between the three categories of banks, as stated above.
Typical LTV ratio on residential mortgage loans:	In the first quarter of 2016, loans accounted for 79% of the average cost of the operation, as regards the existing housing market, and for 83% of the average cost as for the new housing market.
Any distinction made between residential and non-residential loans:	French banking regulations require a distinction depending on the purpose of the loan. Thus, applicable conditions differ for every kind of financed asset.
Most common mortgage product(s):	The most commonly seen loan is a fixed-rate one. In the first quarter of 2016, 99.6% of the new credits were fixed-rate loans.
Typical maturity of a mortgage:	December 2016, the average term of real estate loans was 214 months, which is 17 years and 10 months.
Most common way to fund mortgage lending:	The two main sources of funding real estate lending in France are the households' and companies' deposits, which may be term deposits or on book ones, and bonds on the other hand. Securitisation of loans remains marginal in France.
Level of costs associated with a house purchase:	In France, the purchase costs depend on the new or existing nature of the purchased house: between 7% and 10% for an existing one (these costs including transfer duties and agency fees); about 2% for a new house (transfer duties only), plus VAT (20%).
The level (if any) of government subsidies for house purchases:	<p>As regards new housing, the development fees and the VAT may be affected by standard abatement.</p> <p>Furthermore, the first-time buyer may benefit from a zero-percent loan (supplemented by the government), which can cover up to 30% of the global cost of the operation, 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 stretched), • the household composition and income.