

France

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IN A NUTSHELL

- The economic recovery took hold in France, a strong morale booster for all market players.
- 2017 was a record year for the housing market, especially the existing home market.
- A historical record volume of new loans was granted this year, as a result of both the real estate market activity and persistent low interest rates.
- Favorable mortgage funding conditions supported the loan market.

MACROECONOMIC OVERVIEW

In 2017, France came close to the Eurozone pace of activity: its GDP grew up by 2.2%, vs. a 1% per year under-performance between 2014 and 2016, due to late fiscal adjustments and a structural loss of competitiveness.

During 5 consecutive quarters, activity has been increasing by 2% per year, until December 2017. For its part, the beginning of the year was favorable for productive investment, especially as regards capital goods. The household housing investment was an additional driver, and private consumption firmed up somewhat in the second year-half, thanks to low inflation, a wage slight upturn and a better labor market.

Price increase remained at a 1.2% annual rate, vs. 0.3% in 2016. Unemployment rate decreased to 9.4%, despite a slight upturn during summer, due to the end of a hiring facility in SMEs.

At 2.8% of GDP, government deficit stayed below the 3% ratio, vs. 3.4% in 2016. However, public debt rose further, climbing to 97.7% of GDP.

HOUSING AND MORTGAGE MARKETS

HOUSING MARKET

Supported by a continuation of attractive interest rates, the housing market reached record levels in 2017. In the new-build sector, government support measures were particularly favorable, especially for first-time buyers and private individual investors.

Thus, the existing home market registered an historical trading volume of 968,000 sales (+14.7% vs. 2016), and prices grew up by 4% on national average, with maxima peaks in Paris (+8.6%) and in the Ile-de-France region (+5.6% as for collective housing).

The new home market saw the building permits leveling off in the end of the year, with 504,800 units (+8% over 1 year), approaching the 2012 outstanding

performance, but failing to match it. Housing starts rose to 427,300 units over a 12-month period, and increased by 12.5% from 2016. Developer's sales slightly increased (+2.1%), reaching 103,900 dwellings sold in 2017. Meanwhile, individual house builders sold 129,900 detached houses (+14.9% vs. 2016).

MORTGAGE MARKET

For the housing loan market, 2017 was a record year too. The total granted loans volume is estimated to about EUR 175 bn, vs. EUR 157 bn in 2016 (+11.6%), excluding repurchase and redemptions.

This volume was achieved thanks to persistent low interest rates in France, which, contrary to the forecasts, remained virtually unchanged between January and December: 1.52% in the Q4 vs. 1.45% in the Q1. About 98% of the loans re-granted with fixed interest rates, since there is no demand for variable rates, especially when interest rates are so low. Credit institutions have maintained accommodative financing conditions, including long credit periods to take advantage of these low interest rates, the average observed in the end of the year being more than 18 years.

It should be noted that the loan redemption activity was strong in 2017, and could be as high as EUR 45,7 bn.

MORTGAGE FUNDING

DEPOSITS

At the end of 2017, the total amount of deposits in French banks (non-financial corporations and households) reached EUR 550.16 bn, compared with EUR 500.88 bn in December 2016, that is a 9.8% year-on-year growth.

More precisely, y-o-y, sight deposits accounted for EUR 396,8 bn (+19.6%), non-taxable saving accounts for EUR 11.46 bn (+38%), other saving accounts for EUR 6.9 bn, term deposits for EUR 134.85 bn (-7.75%), bonds for EUR 100 bn (+23.46%).

COVERED BONDS

Covered bonds remained a more secure source of funding for European credit institutions than non-privileged resources and other types of secured debt. Primary market activity was very dynamic at the start of 2017, with first quarter issuance volume exceeding EUR 50 bn.

Market conditions were very positive, notably due to the ECB's ongoing significant asset purchases program, which totaled EUR 80 bn per month in Q1 2017 and EUR 60 bn for the rest of 2017. Issuers made the most of this situation to come to the market.

The rest of the year was more contrasted, and total issuance volumes were down 11%, at EUR 110 bn in December 2017.

	FRANCE 2016	FRANCE 2017	EU 28 2017
Real GDP growth (%) (1)	1.2	2.2	2.4
Unemployment Rate (LSF), annual average (%) (1)	10.1	9.4	7.6
HICP inflation (%) (1)	0.3	1.2	1.7
Outstanding Residential Loans (mn EUR) (2)	899,358	954,226	7,013,738
Outstanding Residential Loans per capita over 18 (EUR) (2)	17,318	18,289	16,872
Outstanding Residential Loans to disposable income ratio (%) (2)	63.1	65.4	73.8*
Gross residential lending, annual growth (%) (2)	12.8	13.9	3.5
Typical mortgage rate, annual average (%) (2)	1.6	1.5	2.4**
Owner occupation rate (%) (1)	64.9	n/a	66.4*
Nominal house price growth (%) (2)	1.6	3.3	6.0

* The aggregate EU figure is from 2016.

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

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2018, Statistical Tables.

FRANCE FACT TABLE

Entities which can issue mortgage loans:

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 market share of the mortgage issuances:

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

- Full service banks, whose market share lightly decreased in 2017 (36.8% vs 38.6% in 2016)
- Mutual and cooperative banks, with a lightly increasing market share (58.0% vs 56.4% in 2016)
- Specialised institutions, which showed a stable position (5.2% vs 5.0% in 2016).

Proportion of outstanding mortgage loans of the mortgage issuances:

The French market is mainly based on guaranteed loans, so there is no statistics related with the outstanding mortgage loans allocation between the three categories of banks.

Typical LTV ratio on residential mortgage loans:

In 2016 (no more recent data available), the LTV ratio was 85.9% of the average cost of the operation.

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):

This is a fixed-rate one. In 2016, 97.9% of the new credits were fixed-rate loans. As for 2017, we assume the ratio would not be very different.

Typical maturity of a mortgage:

In December 2017, the average term of real estate loans was 217 months, which is 18 years and 1 month.

Most common way to fund mortgage lending:

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 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:

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

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:

- 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.

2017 was the last year of "APL" (individualised housing assistance).