France

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IN A NUTSHELL

- → Average mortgage rates increased from 2% to 4%, the fastest rise since the 1980s.
- → Sales fell by 24%, largest falls were for developers and single-family detached houses.
- → Prices of existing dwellings fell by 4%, the most since 2009, particularly in Paris and Lyon.
- → New loan origination fell by 40% to the lowest since 2014.
- → Despite a reorientation of the housing policy to the existing homes to the detriment of newly built homes, policy targeting renovations had a disappointing uptake.

MACROECONOMIC OVERVIEW

GDP increased by 1.1% after +2.6% in 2022. The labour market was resilient with unemployment remaining at 7.5% in Q4 (+0.4 pps y-o-y which was the lowest since 1982). The employment rate (of 15-64 years old) reached 74%, its highest level since 1975. The 10-year government bond yield averaged 3.0% over the year (vs. 1.7% in 2022) and was 2.7% at year end.

Business failures increased to 56,956 (up 36%), after 3 years with few failures (between 28,000 and 42,000 per year). Failures in the building sector increased by 40% to 11,878 and in real estate activities by 43% to 2,098.

Economic behaviour was impacted by inflation. The average HICP increased by 5.7% (after 5.9% in 2022). The net purchasing power of households grew by 0.8% which partially supported household consumption (+0.9%). The household saving rate remained stable at 16.9%, well above its pre-pandemic level (under 15%). In this weakly supportive context, household investment dropped by 8.2%, exacerbating the negative shock on new-built homes.

LOOKING AHEAD

According to forecasts from Banque de France in June 2024, GDP is expected to grow 0.8% in 2024, with an average inflation of 2.5%, converging to 2.1% y-o-y in Q4 2024. Lower inflation and a higher household purchasing power is expected to support an increase in household consumption (+1.2% vs. 2023). But the saving rate is expected to remain close to 17%, staying above its pre-pandemic level due to political and economic uncertainty.

As the ECB is expected to cut interest rates in September and December after the first cut in June 2024, the decrease in mortgage rates should slowly continue but is unlikely to reach its pre-2023 levels, producing only a small increase in house purchasing power. Moreover, political uncertainty and the high level of public debt and deficit tend to raise the spread between French OAT and German Bund, maintaining long-term interest rates close to 3% and slowing down the decrease of mortgage rates.

The recent increases in energy prices and future regulations reinforce the attractiveness of energy-efficient homes and support demand for renovation. This is changing demand and curbing increases in prices for existing dwellings, especially for the less efficient homes.

HOUSING MARKETS

Sales of existing houses- 85% of all transactions - reached 869,000 in 2023 (the lowest since 2016 and an annual decrease of 22%). The annual average of prices fell annually for the first time since 2016 (-0.7% versus 2022), and in the last quarter by 3.9% compared to Q4 2022, the sharpest drop over a year since Q4 2009. In annual average, the fall in prices was greatest in flats in Paris (-4.6% vs. 2022, the third year of decline) and Paris' region (-3.7%, breaking down into -4.0% for flats and -3.4% for single family detached homes). The annual average of prices in the provinces rose for single-family detached houses by +0.1% and for flats in small/medium cities by +1.4% in 2023 versus 2022. But in Q4 2023 compared to Q4 2022, prices dropped even in provinces, recording a fall of 3.3% for single-family detached homes and -2% for flats.

The building industry was affected by the deterioration of the economic and financial environment and regulations. The number of housings starts for multifamily residential (172,600 units) decreased by 21% to its lowest level since 2002 and by 22% for collective residences (in particular for students and seniors), with 30,280 units, While the number of housings starts for single-family detached homes remained constant in 2022, it declined by 31% in 2023 to 91,820, the lowest since 1993. As the whole, the housing starts declined by 25% in 2023 (with 294,710 units) and this deterioration is expected to persist in 2024 given the fall of 24% in permits (372,000 units in 2023).

Newly built home sales by real estate developers shrunk by 36% to 71,630, the lowest since 1996. The stock of available homes for sale increased by 8% to an historic high of 129,600 units, around 23 months of average sales. Despite the interest rate hikes, falling demand and the rise of sale cancellations, average annual prices increased by with 2.7% for new flats (average sale price of EUR 4,789 per square meter) and +2.3% for new houses (average sale price of EUR 348,998 per house); but the increase slowed during the year. To help real estate developers, the "Caisse des Dépôts et Consignations" and "Action Logement" purchased more than 47,000 new homes in 2023 and Q1 2024 to develop social housing (including properties not yet in construction).

Sales of new single-family detached homes fell by 39% to 58,500 units, after -31% in 2022. Sales in 2023 were 50% below the average since 2007, mainly due to increased interest rates and builder's costs passed on to buyers (the traditional client base is first-time buyers and below average wage households who rely heavily on mortgage finance). The goal of zero net new land use by 2050 imposed by the government (and 50% reduction by 2031) has limited the development of new construction sites.

MORTGAGE MARKETS

MARKET DYNAMICS

New loan origination for households declined by 41% to EUR 152.8 bn compared to 2022. Excluding bridge loans and renegotiations, new loans were EUR 128.7 bn, down by 41%. Annual growth of outstanding loans slowed down to +0.9% at EUR 1,292 bn at the end of 2023 (vs. +5.5% a year before). Finally, renegotiated loans were EUR 24.1 bn, decreasing by 42% (at 16% of the total new home loans, stable over one year). 79% of loans were for main residence purchases and 43% of the total was for first-time buyers (+3.5 pps versus 2022).

Average rates nearly doubled from 2.31% in January to 4.04% in December (for the Narrowly Defined Effective Rate excluding renegotiations) to reach the level last seen in 2012, reducing the borrowing capacity of households.

Meanwhile, the average maturity was 22.3 years (vs. 22.1 years in 2022). Specifically for the purchase of a main residence, it was 23.7 years for first-time buyers (stable vs. 2022) and 22.4 years for others (vs. 22.3 years in the previous year). The average LTV at origination fell to 78.8% (-4.3 pps vs. 2022) and the share of new loans with LTV higher than 100% declined by 6.3 pps to 16.6%. Furthermore, the average DSTI ratio at origination was at 30.7% (+0.7 pps showing the increased debt burden). The share of new loans with a DSTI ratio between 33% and 35% grew from 23.8% of the total in Q1 2023 to 25.5% in Q4 2023.

Lending criteria for new home loans continued to tighten in 2023, respecting the HCSF recommendations on the DSTI ratio (maximum of 35%) and the maturity (maximum of 25/27 years) for new loans. The recommendations have a 20% flexibility margin, around 14% of new home loans granted in 2023 did not meet the criteria: loans with a non-compliant DSTI ratio were under 15% of the total and a non-compliant maturity under 1%.

With 99% of new home loans originated in 2023 at a fixed rate (as recent years) and with 97% of the outstanding backed by some form of security, risks stayed restrained. The NPL ratio was 0.97% at the end of 2023 (vs. 0.95% at the end of 2022, close to its lowest level since 2009) and the cost of risk for home loans remained very limited at 1 bps in 2023.

NON-MARKET LED INITIATIVES

The sharp rise in interest rates led to fewer homeowners selling and buying new main residences with a loan at the higher rate. Their share in the total number of new home loans felt from 37% in 2021 to 32%. Similarly, the number of home loans for the purchase of a rental investment (20% of home loans) or a secondary home (5% of loans) declined respectively by 41% and 34%. Conversely, loans to first-time buyers have exceeded those to existing homeowners since 2022, representing in 2023 43% of the total (versus less than 35% before 2021).

Volumes of renegotiated loans remained large despite the rise of interest rates. This volume is falsely important because when the borrower insurance is modified, the full amount of the loan is considered as renegotiated. Finally, with less transactions overall, the share of bridge loans reached 7.3% of the total (+0.7 pps vs. 2022) despite their value falling 34%.

Another impact of higher interest rates was a slight decrease in the initial duration of loans for the purchase of a main residence (from 23.8 to 23.6 years for first-time buyers between the beginning and the end of 2023). In parallel, households used more savings which contributed to a decrease in the size of loans (-6% in average amount vs. 2022). The estimated share of housing transactions financed by a loan contracted to 70% of the total (versus ~85% in 2021-22). All of which explained why new home loans dropped sharply by 41% versus 2022, whereas total sales "only" declined annually by 25% and housing prices by -1% in 2023.

ANY FURTHER IMPORTANT EVOLUTION

From February to December 2023, the usury rate (which limited the rise in interest rates in 2022) was calculated on a monthly rather than a quarterly basis, resulting in interest rates charged on home loans better reflecting rates in the Eurozone.

The decrease of financial subsidies for investors associated with Pinel scheme had a large impact on the sales of real estate developers, bringing about an annual reduce of 49% for sales, representing 36% of the total sales at 22,735 units (compared to an average of 50% since 2015 excluding 2020), their lowest volume and share since 1995. Also, regulatory pressures (capping of rent increases at 3.5%, more cities introducing rent controls, and increasing rules on energy-intensity) discourage exposure to the rental segment, whose profitability is particularly impacted by inflation and high interest rates.

To limit the fall in new loans, HCSF made very limited adjustments in June and December within the overall structure and the scope of existing measures, including raising to the share of the flexibility margin that can be used for buy-to-let loans from 20% to 30% and excluding interest payments on bridge loans from the calculation of DSTI when the LTV is under 80%.

MORTGAGE FUNDING

As home loans are mainly distributed by retail banks, they are mostly funded by deposits. Domestic, private customer deposits reached EUR 2,727 bn at year end (+0.5% vs. 2022), 70% came from households and 30% from non-financial corporations. There were more interest-bearing accounts and less overnight deposits, leading to an increase in the cost of financing for banks since H2 2022. Specifically, household overnight deposits dropped by EUR 57.9 bn to EUR 57.8 bn between December 2022 and December 2023, whereas their accounts with agreed maturity increased by EUR 86.7 bn to EUR 147 bn on the same period.

The total amount of outstanding mortgage covered bonds reached EUR 347.1 bn (Fact Book 2024, European Covered Bond Council) at the end of 2023, equal to 16% of the outstanding home loans in EU27.

Outstanding RMBS was EUR 140.6 bn as of Q4 2023, compared to EUR 87.18 bn on year prior, marking a yearly increase of 61%. Total RMBS issuance, in turn, was EUR 64.2 bn, following an increase of 151% compared to 2022's EUR 25.6 bn end year value.

GREEN FUNDING

Since August 2022, it has not been possible to increase the rent of a home with an Energy Performance Certificate (EPC) "F" or "G" (which is 18.5% of the private rental stock, representing 1.5 million of homes). Since January 2023, it is not possible to rent the most energy consuming homes (1.7% of the private rental stock). From January 2025, the ban will be extended to EPC "G" (8% of the private rental stock, i.e. 646.000 units), from 2028 to EPC "F" (10.5%) and from 2034 to EPC "E" (22.4%). Since April 2023, an additional energy audit is required for sales of single-family detached home (indicating the kind and the cost of renovation works needed to improve the EPC).

To promote widescale renovation, housing policy is increasingly focused on the rehabilitation of existing dwellings. In 2023, 623,790 homes were renovated (of which 71,613 had global renovations) under the most important public scheme, the energy housing renovation bonuses "MaPrimRenov'", representing EUR 2.5 bn of financial aid for homeowners on their main residence and EUR 89.2 bn for landlords. Moreover, several kinds of energy efficiency works are eligible for reduced VAT at 5.5% (vs. 10% for other kind of renovation works), effecting in 2021 EUR 14.6 bn of works.

More than 105,000 Eco-PTZ loans (with zero interest for works to improve energy performance up to 30,000 euros regardless of homeowners' income) have been disbursed in 2023. Also, banks offer loans for renovation projects through mortgages or consumer loans. In 2023, home loans for renovations amounted to around EUR 2.5 bn. Finally, HCSF lowered in 2023 the threshold for renovation work above which buyers are allowed to defer their mortgage repayments for up to 2 years from 25% to 10% of the total cost of the renovation.

	FRANCE 2022	FRANCE 2023	EU 27 2023
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	2.5	0.7	0.4
Unemployment Rate (LSF), annual average (%) (1)	7.3	7.3	6.1
HICP inflation (%) (1)	5.9	5.7	6.4
HOUSING MARKET			
Owner occupation rate (%) (1)	63.4	63.1	69.2
Gross Fixed Investment in Housing (annual change) (1)	-0.8	-5.0	-3.1
Building Permits (2015=100) (2)	120.8	91.6	94.0
House Price Index - country (2015=100) (2)	132.4	131.5	170.2*
House Price Index - capital (2015=100) (2)	132.8	126.7	165.1*
Nominal house price growth (%) (2)	6.3	-0.7	3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	1,280,950	1,292,144	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	18,849	18,954	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	75.3	70.8	71.3
Gross residential lending, annual growth (%) (2)	-5.7	-41.1	-26.6
Typical mortgage rate, annual average (%) (2)	1.5	3.0	4.7

* Please note that this value is a simple average of the available values in 2023.

Sources:
(1) Eurostat.
(2) European Mortgage Federation - Hypostat 2024, 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).
What is the market share of new mortgage issuances between these entities?	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 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.
Which entities hold what proportion of outstanding mortgage loans in your country?	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. 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 2022, the average LTV ratio was 83.1%, down by 0.2 pps versus 2021.
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)?	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 - 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, notably depending on:

What is the level (if any) of government subsidies for house purchases in your country?

- 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.

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).

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.