A few weeks ago the French property market report for the first quarter of 2020 was finalized in a climate of heightened uncertainty. However, eager to address the public’s legitimate questioning in these unprecedented times, but just as anxious not to lapse into preaching or undue optimism or pessimism, we proposed a forecasting exercise making a distinction between the potential different periods of recovery of the property business on the one hand, and the conceivable scenarios for each of them on the other. Given that timeline, it would seem appropriate to continue this exercise in the light of the data collected since then.

Initially, the events predicted for the early post-lockdown period indeed occurred: we have indeed seen a sharp recovery, startling as far as volumes are concerned. But as already stated, this is no more than a technical bounceback, merely the completion of deals initiated before the lockdown. As such, it has not really altered the economic outlook and has not erased the roughly two-month period of inactivity from 17 March to 11 May 2020; the volumes recorded in April 2020 totalled 973,000 transactions over one year, thereby observing the annual volume of transactions fall to roughly the same level as that over one year, thereby seeing the annual volume of inactivity from 17 March to 11 May 2020: the volumes and has not erased the roughly two-month period of inactivity.

That said, it is nonetheless interesting to examine these figures more closely, in order to detect trends more specific to the property market itself. In that respect, the figures recorded as of the end of March are illuminating: they reveal an admittedly high number of transactions (1,037,000, after 1,065,000 transactions at the end of December 2019), but nonetheless in relative decline. Disregarding the health emergency, volumes had shown a slight downward trend. This should not be unduly worrying, as the number of transactions had been rising steadily for several years. Given the favourable trend in the property sector at the beginning of the year, we could reasonably have assumed that the property market had peaked. This trend was confirmed in Greater Paris, logically more pronounced: in Paris, sales volumes for apartments over the last 12 months (from April 2019 to March 2020) fell by 8% compared with the previous 12 months. If we look just at the 1st quarter of 2020, transactions in the capital fell by 23% compared with the 1st quarter of 2019. This comparative exercise makes a clearer distinction between the impact of the pandemic and the general trend in the volumes of property transactions.

To sum up, and logically following on from what had been anticipated in the previous quarter, the health crisis will result in a 10-month year more or less in terms of volumes, correlated with a more general trend towards touchdown in the rising number of transactions. It is highly likely that the upturn in volumes next September will confirm this trend, all other factors being equal.

Market conditions as of 30 June 2020: a new milestone?

Changes in the annual volumes of older properties in the period 2000/2020

In the 1st quarter of 2020, the annual volume of transactions started to show a slight decline, albeit still at a very high level: in February 2020, the number of transactions completed over one year is estimated at 1,068,000, for 1,073,000 at the end of January 2020. In April 2020, the annual volume of transactions fell well below one million. Its trend over one year is negative (-1.2%), which had not happened since mid-July 2015. It returned to a level close to the February 2019 level, standing at 973,000 changes of ownership over one year. In the medium term the state of the property market remains unknown; the mechanical carry-over effect will not disperse the inevitable and brutal after-effects of the virtually total shutdown of the property sector for many long weeks. The number of property sales may only return to its pre-crisis level at the end of 2021.
### MEDIAN PRICE PER SQ. M. for OLDER APARTMENTS in the 1st QUARTER OF 2020

**Trend over one year:** 1st January 2020 to 31 March 2020 / 1st January 2019 to 31 March 2019

- **Annual price change per sq. m.**
  - Less than -2%
  - -2% to 2%
  - More than 2%

**Source:** Property databases of Notaires de France

(The prices for Greater Paris are valuations from the INSEE and Notary indexes for the 1st quarter of 2020)

**MEDIAN SELLING PRICE for OLDER HOUSES in the 1st QUARTER OF 2020**

**Trend over one year:** 1st January 2020 to 31 March 2020 / 1st January 2019 to 31 March 2019

The statistics for houses cover the whole urban area (city centre + suburbs)

**Annual change in selling prices**

- Less than -2%
- -2% to 2%
- More than 2%

**Source:** Property databases of Notaires de France

(The prices for Greater Paris are valuations from the INSEE and Notary indexes for the 1st quarter of 2020)

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**Notes:**
- The statistics for houses cover the whole urban area (city centre + suburbs).
- The statistics for houses may be less accurate than usual, due to the additional delays with regard to certain official statements or data processing activities.
- The prices for Greater Paris are valuations from the INSEE and Notary indexes for the 1st quarter of 2020.
Prices for their part in no way reflect this situation! Paradoxically, due to the calendar, the statistical analysis at the end of the first quarter shows insolently high scores: the prices of older properties in France rose more sharply: the INSEE Index of older properties soared to +1.8% compared with the 4th quarter of 2019, after +1.3% and 1% in the previous quarters. Once again, the rise in prices was also accompanied by a decrease in volumes, albeit traditionally more marked for apartments (+0.3% over one year), the rise in house prices (+4%) is tending to catch up with the latter. The balance between prices of houses and apartments is being redressed.

In Greater Paris, despite volumes trending downward, the prices of older properties are rising more quickly than in the previous quarters (+2.2%). They have continued to pick up over one year, particularly for apartments in Paris: +8% over one year in the 1st quarter of 2020. The French Provinces are not outdone, as they are also showing sharper rises: +1.7% in the 1st quarter, after +1.2% and +1%.

This upward trend appears to be spreading to wider areas than previously, both for houses and for apartments. In this respect, areas in Western France have confirmed the momentum observed in 2019 (in apartments, in the 1st quarter of 2020, +16% in Loire-Atlantique, +16% in Morbihan, +13% in Ille-et-Vilaine and +10% in Finistère). Most of the larger cities in the provinces have also shown upward trends on a greater scale compared with the previous quarter. Should we see in these figures an anxiety-provoking paradox? This apparent imbalance between volumes in sharp decline and rising prices seems to be a cyclical rather than an endemic phenomenon. The main difficulty lies in the confusion that may arise from comparing pre-lockdown prices with volumes immediately after the lockdown.

The milestone mentioned in the last market report has indeed been reached: the technical bounceback has taken place, and transactions are recorded at pre-lockdown prices. Similarly, pre-contracts recorded during and immediately after this period still reflect the attitude of potential purchasers, having references and committed to their pre-lockdown decision to purchase. These figures should thus be treated with great caution and as they stand are a yardstick against which transactions from September 2020 will be measured.

However, an analysis of the latest pre-contracts seems to point to a lull in this general bullish trend: the price forecast in mainland France for the 1st quarter of 2020 appears to be continuing to rise in August 2020, but at a slower rate, both for apartments (+1.1% against +2.3% in the 1st quarter of 2020) and for houses (+0.3% against +1.5% in the 1st quarter of 2020), even if these indicators should be treated with caution, not least on account of the lower number of pre-contracts recorded during lockdown. The forthcoming summer period will unfortunately not provide more cases, so that we will have to wait until September to confirm any trend. One should note however that this slowdown in price rises better fits more measured volumes, excluding lockdown-related effects.

This trend is reassuring in that it supports the assertion of sounder property fundamentals. By neutralizing statistical deviations connected to the health emergency, which are totally unrelated to property-related factors, the market appears to be showing signs of a natural slowdown in price rises, considering slightly falling volumes. Indeed, this trend prompts us to consider that this mid-year point, setting aside the calendar, is a veritable cycle in the property market, as the ultra-dynamism of 2019 appears to have somewhat subsided.

What can we expect of the forthcoming return to work in September?

As stressed in the last market report, the resilience of the property market so far is noteworthy: despite the threats posed to the job market by the health crisis in the short term, and the inevitable loss of potential buyers that this entails, notaries in most regions of France currently confirm the public’s very strong appetite for property purchases, which can at times verge on the irrational, as some potential buyers who can financially afford it wish to complete their purchase as quickly as possible. The explanation takes many forms, including a change of home after the lockdown, safeguarding one’s savings in response to the convulsions of the financial markets, the fear of new taxes or even savings made during lockdown that reveal an additional “contribution”. Even in a world that has been deeply disturbed and even in the face of financial markets that have somewhat revived, this would tend to confirm that more than ever the French have a keen appetite for bricks and mortar and the security it affords them, both in terms of investment and of return, and its capacity to provide additional income, which they will no doubt need sooner or later. In this respect the confidence of households has clearly been restored, after a historic drop during the lockdown: according to INSEE, in June the proportion of households believing that the time is right to make major purchases has increased significantly and is back to its long-term average, after 5 consecutive months of decrease... The morale of the French had become severely shaken by strikes and social unrest, but it would appear that the pandemic has rather had a cathartic effect and that the population is henceforth more willing to believe in its future. Nonetheless this rebound in confidence has taken place in full awareness: the French voice their fears regarding rising unemployment. This cautious confidence, aware of the environment and conducive to fulfilling home purchase plans, cannot be understated. The refocusing of the French on their essential needs, revealed by the health crisis, seems naturally to lead them to consider the quality of their home (possibly combined with new remote working tools) as a factor of paramount importance, even more so than it traditionally used to be: a life plan is often underpinned by a plan to buy a new home. In that respect, the possible levelling-off of prices in the short term is a factor that could confirm the intention of buyers to purchase.

Consequently, the prospects announced in the previous quarter can be confirmed, and unless we are totally overwhelmed by a global economic disaster and/or health crisis, we can stress the fact that the property-related factors we have analysed, given the predicted levelling-off of prices and admittedly limited yet more sustainable volumes, will ensure the requisite resilience of the market. Autumn 2020 will mark a new beginning, even more so than usual.

The new housing market

House building - St@t info no. 271 - May 2020

<table>
<thead>
<tr>
<th>Variation Q/Q-1</th>
<th>All</th>
<th>Single occupancy</th>
<th>Multi-occupancy buildings (including blocks of luxury flats)</th>
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<tbody>
<tr>
<td>Approved housing</td>
<td>+9.9%</td>
<td>+0.9%</td>
<td>+16.6%</td>
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<tr>
<td>Builds in progress</td>
<td>-3.1%</td>
<td>+0.9%</td>
<td>-5.6%</td>
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Source: SDES, ECLN

Marketing of new builds - Results of the 1st quarter of 2020 - St@t info no. 279 - June 2020

<table>
<thead>
<tr>
<th>1st quarter 2020</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Number of reservations</td>
<td>-24.2% year on year (24,022 units)</td>
</tr>
<tr>
<td>Offered for sale</td>
<td>-27.9% year on year (18,864 units)</td>
</tr>
<tr>
<td>Housing outstanding</td>
<td>-9.6% year on year (99,068 units)</td>
</tr>
<tr>
<td>Cancellations of reservations for sale</td>
<td>+1.5% year on year (3,958 units)</td>
</tr>
</tbody>
</table>

Source: SDES, ECLN

Credit - Banque de France figures

In parallel, banking activity has continued without interruption. Admittedly, growth in home loans has slowed down, but the banks have continued to arrange loans for purchases initiated before the lockdown. It goes without saying that during the lockdown the proportion of renegotiated loans rose sharply, while the number of new loans fell at the same rate as new pre-contracts. Excluding renegotiated loans, home loan interest rates are still historically low at 1.15% in April. Halfway through the lockdown we noted a few higher rates, but apparently this phenomenon has died down and remains exposed to the health crisis. The trend, bullish in May, levelled off in June.

These slightly negative rates should allow the banks to charge home loan interest rates under 2% on a lasting basis, unless they decide to hedge against the risks they are urged to take by the authorities vis-à-vis companies with higher returns on property. One should not remain indifferent to this argument, as the ECB has also urged them to do so since the end of last year, and the injection of credit and liquid assets into the real economy over the last few weeks could also prompt them to do so.

Apart from this risk adjustment, the incentives to prudent banking of the authorities in this unprecedented contest should be reassuring in that they safeguard access to credit and will guarantee an optimized cost thereof, thanks to best risk control: less risk means lower rates.

Renegotiations as a percentage of new home loans

Source: Banque de France
Cities thus play a pivotal role with regard to territorial development, rural areas, small and medium-sized towns. These areas benefit from and 43% of jobs. According to the General Commissariat for Regional Development, the prices of older properties in each metropolis in 2018, as well as since the last property crisis of 2008. Furthermore, it compares price changes in the cities with their surrounding territories.

The prices of older properties in France have experienced alternating cycles of rises and falls since 2008. After the so-called "subprime" crisis of 2008-2009, prices generally picked up again until 2011. They then fell until 2015, and rose again up to 2018. Apart from Bordeaux, where prices have hardly stopped rising since 2010, the French cities have at the same time seen such peaks and troughs in varying degrees. However, while the prices observed in 2018 had never been so high for 10 years in the cities of Lyon, Nantes, Rennes, Strasbourg and Toulouse, they had still not regained their 2008 levels in Brest, Dijon, Metz or even Toulon, cities that have generally seen smaller changes than the others. But what about price trends in the areas surrounding these cities?

The most dynamic cities show greater differences with their surroundings. Between 2008 and 2018, changes in the prices of houses were more favourable in the cities themselves than in their outskirts. The differences vary according to the dynamism of the markets. For instance, the cities where prices rose the most are also those where the price differences with their outskirts are the greatest. In Bordeaux for example, the prices of houses rose by 42% in the city but by only half as much in its outskirts. Conversely, the cities where prices are falling are characterized by smaller differences with their outskirts. For instance, prices fell by 8% in Dijon and by 9% in its outskirts.

1 - Created by the local authorities reform act of 16 December 2010, these are EPCI (public corporations for cooperation between local authorities, defined as "metropolises" in French) with over 400,000 inhabitants in an urban area of over 650,000 inhabitants, namely regional capitals or cities in the centre of a labour market region.

2 - The areas surrounding each of these regional cities correspond to the perimeters of the urban areas. Metropolises that encompass virtually all the urban area or even extend beyond it have been excluded from the analysis (Saint-Etienne, Lille, Marseille, Toulon and Nice. For Paris, the periphery is limited to the Île-de-France region).

3 - As the number of transactions in older apartments in the areas surrounding the regional cities is still too low, the rest of the analysis will only focus on the older houses market.

Graph 1: Changes in the prices of older houses between 2008 and 2018 in cities and their outskirts

Graph 2: Changes in the prices of older houses per period

Less bullish periods in the outskirts

The details of the changes in each of the bullish and bearish phases show that the disparities are greater in the bullish phases. During the 2009-2011 bullish period, nearly half the cities showed price change differences with their outskirts over 3 percent, peaking at 8 percent for Rennes (+13% in the city itself and +6% in its outskirts). During the two periods of falling prices (2008-2009, 2011-2015), the differences between the cities and their outskirts were greater than 3 percent for roughly a quarter of them.

Graph 3: Changes during the 2009-2011 bullish period

Graph 4: Changes during the 2011-2015 falling period

In conclusion, it appears that changes in prices in cities has in the end had a limited influence on price changes in their outskirts. In periods of price increases, the dynamism of cities does not have a knock-on effect on the outskirts in the same proportions, which tends in particular to widen the price gap between cities and their outskirts.

Definitions

Seasonally-adjusted indexes

In the same way that the index calculation method smooths out structural effects, corrected seasonal variations adjust seasonal fluctuations. The purpose is to ensure a fair comparison of trends between two consecutive quarters, without this interpretation being distorted by the time of year. For example, property prices rise during the third quarter of each year, house prices in particular, due to demand from families driven by the school year.

Median prices

The INSEE (French National Institute of Statistics & Economic Studies) and Notary indexes are only available for geographical areas where the number of changes of ownership is high enough. At more detailed levels, median prices are used. The median price is such that 50% of transactions were concluded at a lower price and as many at a higher price. It more accurately represents the “midpoint” of the market than the average, as it is less affected by extreme values.

INSEE (French National Statistics & Economic Studies Institute) and Notary indexes

The calculation method used for the INSEE and Notary indexes is based on econometric models which break down the price of a property according to its main characteristics (location, size, comfort, etc.) in order to be better able to withstand structural effects that cause transaction prices to vary from quarter to quarter.