Crédit Agricole Group economic and sector analysis

Prospects

Quarterly– No.18/111 – 14 May 2018

# FRANCE – Housing Market

## Recent developments and outlook for 2018-2019

### *Soft landing in 2018*

The housing market saw a record year in 2017. In the pre-owned sector, the number of transactions reached 968,000 sales, up 15% over the year, and an all-time record level. In the new-build sector, sales were also marked but were stable relative to 2017. Pre-owned sale prices picked up slightly, to 4% over the year, with more marked increases in the big cities, especially in Paris.

The upturn is mainly down to two factors: extremely low lending rates, but which are starting to rise; and support measures in the new-build sector.

We do not feel it likely that the market will overheat in 2018-2019. There is no obvious speculative behaviour and no rapid increase in prices or lending rates. On the contrary, a slight dip is forecast (a fall-off in sales and slowing prices) despite the improved economic climate. In fact, signs of a cooling market have emerged since January.

For one thing, the new ELAN housing plan will ultimately prove beneficial via the supply shock and the 4-year extension of the Pinel buy-to-let scheme and the PTZ interest free housing loan. But their gradual refocusing on areas of housing shortages is forecast to cut new-build sales by 9% in 2018.

Secondly, lending rates, which have been extremely low, are starting to rise. This looks set to continue with the increase in 10-year OATs as a result in particular of QE tapering (1.15% forecast for end-2018, 1.55% for end-2019), although the increase should be very gradual. This, combined with rising home prices, will nibble away at households' ability to buy and make buyers more hesitant and wait-and-see.

In 2018, pre-owned sector transaction volumes are expected to fall by around 6%. In the new-build sector, the expectation is for a fall of 9% (8% in the developer segment and 9% in individual homes). In 2019, pre-owned sales will further erode but are expected to be more or less stable in new-build. Pre-owned prices should be up 3% in 2018, with prices set to slow in 2019.

### Contents



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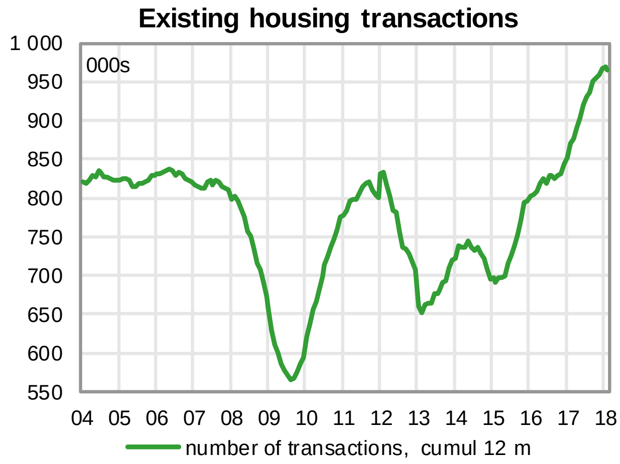
# Recent trends in pre-owned and new-build

## Pre-owned: record sales but no overheating

**The pre-owned housing market saw all-time record sales volumes in 2017.**

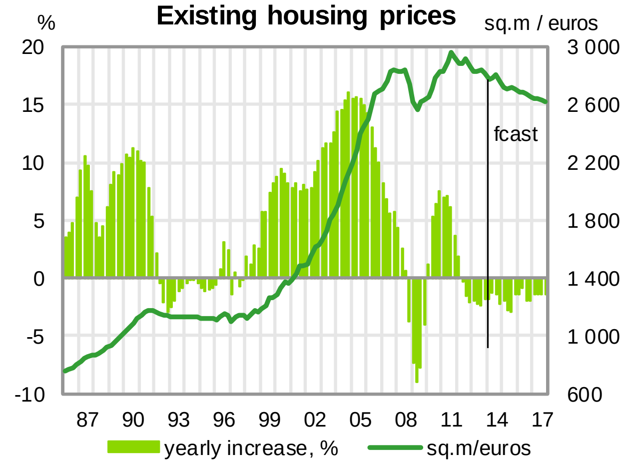
Sale volumes of pre-owned homes have seen a very marked recovery since 2015, with an aggregate increase of 40% over three years. The 2015 recovery, at 14.8% over 12 months, was a catch-up after three lacklustre years (2012-2014). The recovery continued through 2016, at 5.9%, and accelerated in 2017 with a rise of 14.7%. In 2017, the total number of sale transactions thus came out at the highest level ever recorded, at 968,000 units. This level was far higher, by 17%, than in the boom years of the noughties, which saw an average 830,000 sales a year in 2004-2006. This is largely due to very low mortgage lending rates, which are now starting to edge up, creating a windfall effect (*see below*). In February 2018, the aggregate increase over 12 months was still high, although it had eroded slightly, to 965,000 units.




Sources: CGEDD, Notaires, Crédit Agricole S.A.

The market is extremely upbeat, with large numbers of buyers and sellers, and buyers who are making decisions rapidly. That said, it would be wrong to talk of overheating. According to notary analyses, the churn speed of the housing pool is slightly lower than in the boom years of the noughties, while the hold period of homes has steadily grown, to around ten years in 2017, compared with seven years in 2006.

In the Greater Paris (Ile-de-France) region, sales of pre-owned homes have also seen a marked rebound. Sales were up 18% over 12 months in 2017 and exceeded sales in the noughties boom years by 14%.

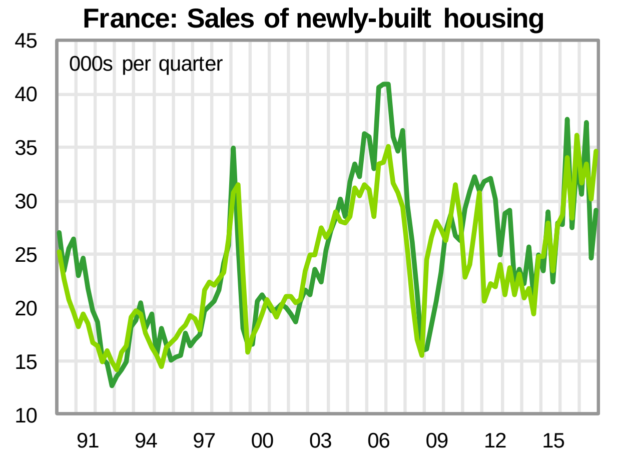



Source : Fnaim, Notaires, INSEE, Crédit Agricole SA

## Pre-owned: prices accelerate moderately

**Prices for pre-owned homes picked up gradually during 2017.** After falling by 2% a year in 2012-2014, prices stabilised in 2015 (-0.4% over 12 months in Q4) and rose by 1.5% over 12 months in Q4 2016. They picked up gradually in 2017, with the annual increase reaching 4% over 12 months in Q4. Prices rose 5.1% in Greater Paris and by 3.5% in the French provinces. Prices have risen faster for apartments, at 5%, than for houses (3.2%). These price increases are relatively measured when compared with those in the boom years of the noughties, which saw average annual increases of 12% in 2004-2007, confirming the absence of any overheating. In Paris, however, price increases have become marked, at 8.6% over 12 months. In light of the leading indicators from Notaries in Paris and Greater Paris, prices for pre-owned apartments in Greater Paris are believed to be stable at 5.9% in the 12 months to April 2018 – the same as at end-2017. In Paris, on the other hand, they rose 9.3% in the 12 months to April.

The latest available city-by-city data go back to Q3. Prices for pre-owned apartments were up in most towns and cities. Prices rises were sustained in Lyon (7.6%) Rouen (6.9%), and Nantes (6.2%), while price increases topped 10% in Bordeaux (11.9%). Prices fell, however, in Toulon (by 5.1%) and Saint-Etienne (by 4.5%).




Sources: Ministry of Ecology, CA

Recent price rises have offset the correction seen in 2012-2014. Compared with the Q4 2011 peak, prices were virtually stable, at -2%, compared with a cumulative increase of 150% between 1998 and 2011.

## New-build: sales stabilise

**The new-build segment was again sustained in 2017, but has not seen the same trend as in pre-owned. In the "Developer" segment** (programmes of at least five homes), 130,000 new-build homes were sold in 2017, an increase of 2% relative to 2016's 127,000 sales. These levels more or less equalled the record levels of the previous cycle, reached in 2006-2007. But unlike in the pre-owned segment, they did not exceed

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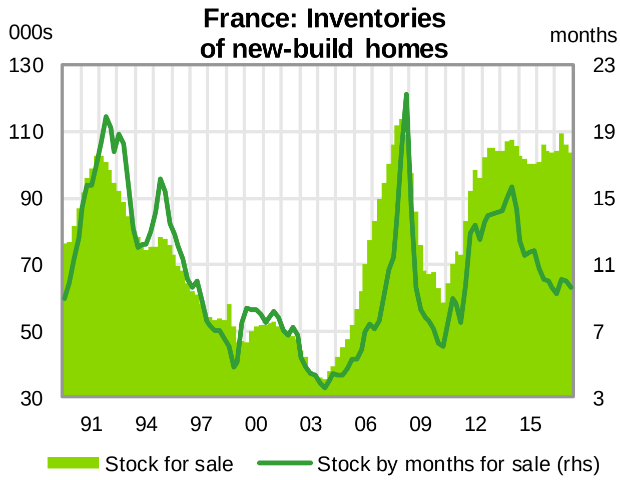
them. In addition, after a strong start to the year, sales marked time and in Q4 were down 3.8% over 12 months. This can partly be explained by buyers' wait-and-see behaviour in the face of fiscal uncertainty as to whether the Pinel buy-to-let scheme and the PTZ interest free loan would be continued, and the status of the ISF wealth tax. The breakdown between sales to buy-to-let investors and sales to individual home buyers is still fairly balanced, at respectively 54% and 46% of the total.

**In the "non-developer individual homes" segment, transaction numbers have also remained virtually unchanged**. In 2016, unit sales rose by 19.5%, to 134,000. In 2017, after a strong start to the year, sales marked time from the spring. Over the full year, they came out at 135,000 units, virtually unchanged on 2016, at 1%. And in February 2018, the 12-month total was down 3.7%. Unlike in the developer segment, transaction numbers are well below the highs of 2006-2007 (189,000 units a year).

In Greater Paris, developer new-build sales picked up fairly sharply in 2017, by 5.7% over 12 months.

According to the Insee survey of developers, the trend in demand for new-build homes has slowed slightly. The balance of opinion stood at -10 in January 2018, down on July (2). It is now close to its trend level of -9.



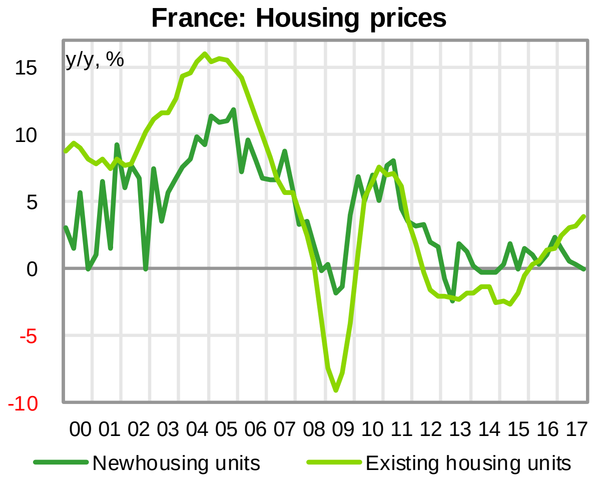
Source: Ministry of Ecology

## New-build: stock of new-build homes stable

**Sales of new-build homes (developers)** fell in 2017, after a marked drop of 23% in 2016. Sales fell fairly sharply in Q3 and Q4 and dropped 4.3% over the full year, to 121,800 units. This can partly be explained by the difficulty of launching new programmes for lack of building land, the burden of regulatory standards and of appeals, etc.

**The stock of new-build homes** offered for sale (finished, under construction, or planned) is more or less stable. It stood at 103,900 units in Q4 2017, compared with 103,500 a year earlier. The ratio of stock to sales, which measures the average time it takes to sell a home, stood at 9.6 months compared with 9.7 months a year earlier. The ratio is fairly low, and is well below the long-term trend level of ten months in 1985-2016. Inventories per se, ie, the stock of homes up for sale that are finished or under construction, are at a low 33,000 units: 4% of the stock is completed, 26% under construction, and 70% at the planning stage. In Greater Paris, the stock of new homes is also stable at 9.6 months on sale in Q4 2017, unchanged on the previous year.

**Prices for new-build homes** (Developers), are seeing a modest recovery. Apartment prices rose 0.1% in the 12 months to Q4 2017 (from 0.3% in Q3). Developer on-plan reservation house prices rose more sharply, by 5.9% in the 12 months to Q4 (from 3.1% in Q3).

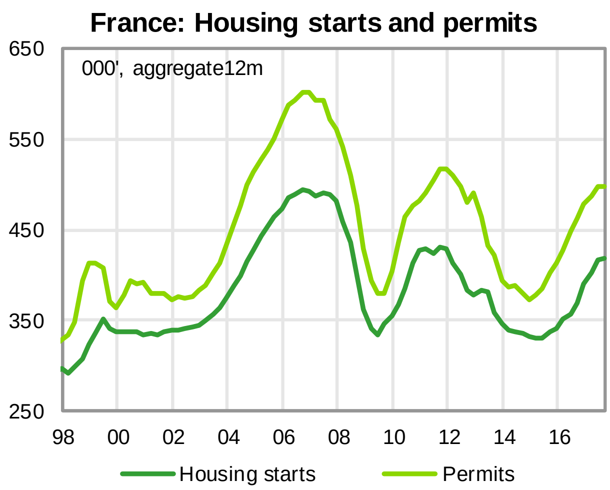


Sources: Ministry of Ecology, Insee-Notaries

## Construction: marked recovery in 2017

The recovery in home construction got underway in 2016. Response times between the act of sale for a new home and the start of building – around six to twelve months depending on the transaction – are fairly lengthy. The rebound in new-build sales that began in 2015 thus knocked on into construction activity in 2016.

This trend was confirmed in 2017 on the strength of highly resilient sales of new-build homes in 2016. Over the full year, new housing starts totalled 418,900, up 15.7% over 12 months, and building permits stood at 497,000, an 8.2% rise over 12 months. In February 2018, the trend was much the same, with a 12.5% annual aggregate rise in new housing starts, and an 8% rise in building permits. Over the last three months, activity has continued rising, with building permits growing 5.2% quarter-on-quarter, and new housing starts up 2.9% (seasonally adjusted). A 10% increase in new housing starts is forecast for 2018. We are approaching the record levels of close to 500,000 starts a year last seen in 2006-2007.



Source: Ministry of Ecology

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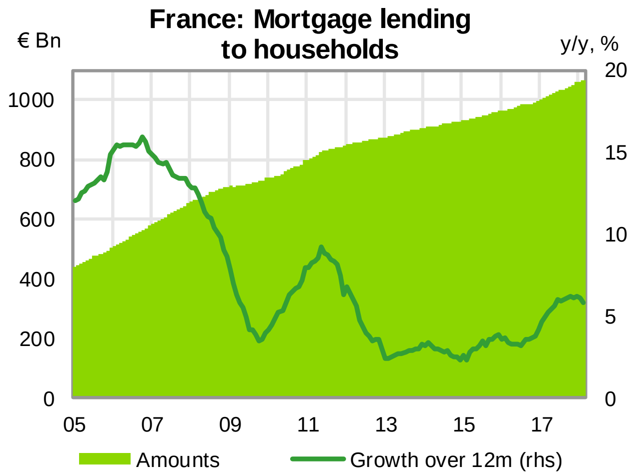
# 2017: a record year for pre-owned

The housing market, which has been recovering since 2015, had a record year in 2017. In the pre-owned segment, sales transactions reached 968,000, a marked increase of 15% over 12 months and an all-time record level, far higher than the peaks of the noughties boom years. In the new-build segment, sales were also sustained, more or less matching the high levels of 2016. But, unlike in the pre-owned segment, new-build sales did not exceed the peaks of the previous boom in 2006-2007. Pre-owned sale prices picked up by 4% over the year, with larger rises in the big cities, especially in Paris, where prices rose 8.6%.

Mortgage lending to households was also sustained, with 6.2% growth in the year to November-December 2017, up from 4.2% at end-2016. New mortgage lending to households continued very high in early 2017, but dipped sharply over the year, and grew by only 6.4% in 2017 compared with growth of 26% in 2016. This is partly due to the proportion of external mortgage buybacks and renegotiations, which was very high in late 2016-early 2017, accounting for 55% of new loans, and was far more modest at end-2017, at just 19% in Q4. Lending rates have risen slightly, and a large proportion of buybacks and renegotiations had already been completed in 2015-2016. Excluding buybacks and renegotiations, new lending saw a marked increase of 15% over 2016.




Sources: BdF, Crédit Agricole S.A.

## Two support factors

Market performance in 2017 can largely be explained by:

- ***Very low mortgage lending rates, now edging up***

Mortgage lending rates have been trending down for many years in view of the steady fall in 10-year OAT rates and strong competition between credit institutions. Lending rates fell from an annual average 3.8% in 2012 to 1.9% in 2016 for new, long-term fixed-rate mortgages without insurance, bottoming at 1.5% at end-2016. Rates rose very modestly in 2017, rising to 1.67% in October before eroding to 1.61% in December. These record low levels, and the fact that they are beginning to edge up, boosted sales through a windfall effect, with buyers accelerating their projects to benefit from these highly attractive rates.

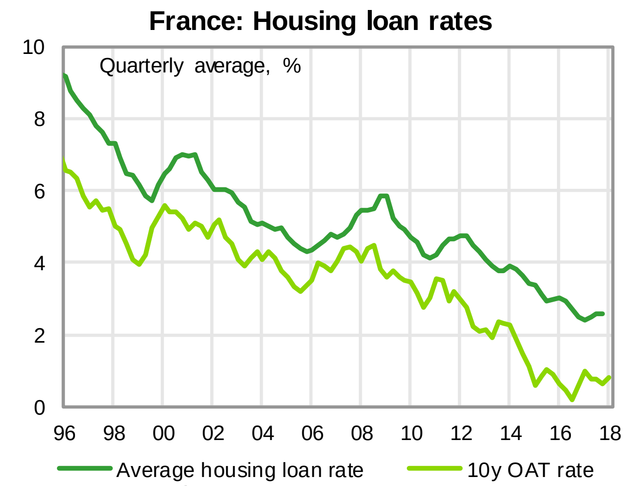
- ***Two main support measures for new-build homes***

✓ The PTZ interest-free loan, was beefed up in 2016 with a higher ceiling on resources; loans of up to 40% of the transaction price are available, compared with 18-26% previously; plus there is provision for deferred repayments and longer loan repayment times.

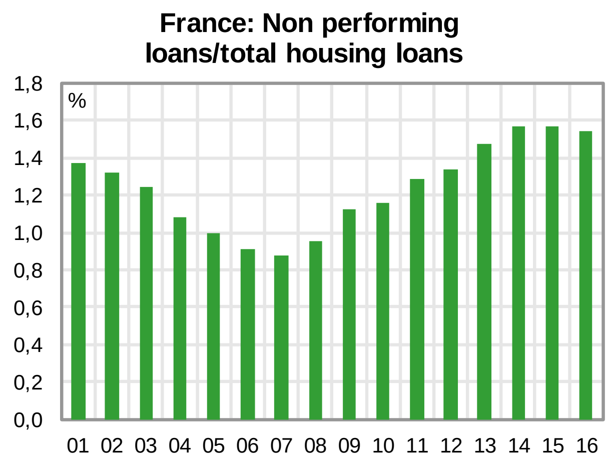
✓ The Pinel buy-to-let scheme offering a reduction in income tax spread over six, nine or twelve years, amounting to 12%, 18% or 21% of the (capped) value of the home .

These measures clearly had an impact in early 2017, but less so thereafter, due to uncertainties as to how long they would remain in force after the presidential and general elections. This explains a less favourable purchase trend in new-build than in the pre-owned sector.

Moreover, structural demand-side factors have also continued to operate. These range from the desire to own one's home to a fairly dynamic demographic, the family separation phenomenon, preparations for retirement, saturation in the rental market, and the "safe haven" effect. In addition, the French mortgage lending model is cautious, with fairly strict lending criteria. The ratio of doubtful loans to total mortgage lending is still quite low and even fell slightly in 2016, to 1.54% from 1.57% in 2015. There has been no significant rise in mortgage lending risks, and a marked credit squeeze seems unlikely. It should nonetheless be noted that households' mortgage debt ratio (loan to income) is sustainable, at 75% in late 2017, and lower than that in English-speaking countries, although rising steadily.




Sources: BdF, Crédit Agricole




Sources: ACPR, Crédit Agricole S.A.

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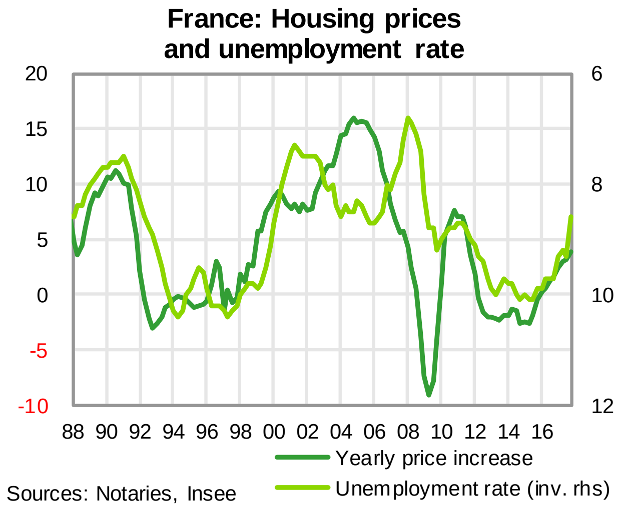
## 2018-2019: slight fall in the market

In 2018 and 2019, the market should again trend satisfactorily and see further high transaction levels. We feel that the market is unlikely to go into overdrive, however. Prices and lending are up reasonably relative to the boom years of the noughties; prices are not over-valued. In light of our indicator (see next page), we are not seeing any marked speculative behaviour, and mortgage supply is prudent. The most likely scenario, in our eyes, is one of a soft landing in connection with two main factors. First, the refocusing of new-build support measures on areas where supply is tight. Second, an erosion in borrowers' ability to buy, with the slight increase in mortgage lending rates and the relative acceleration in the price of homes.

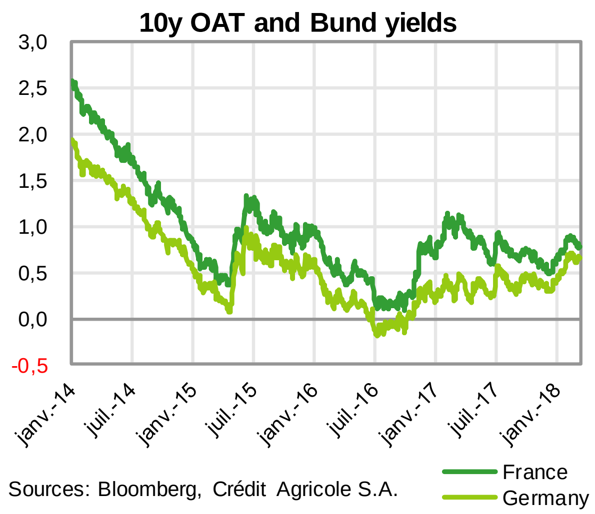
The early months of 2018 effectively show signs of a dip, with a slight drop in year-on-year cumulative sales in the pre-owned segment, a drop in sales of individual houses in new-build, a slight fall in total mortgage lending, down to 5.8% in February from 6.2% in December, and a 9.5% year-on-year fall in new lending (excluding buybacks and renegotiations) in January-February.



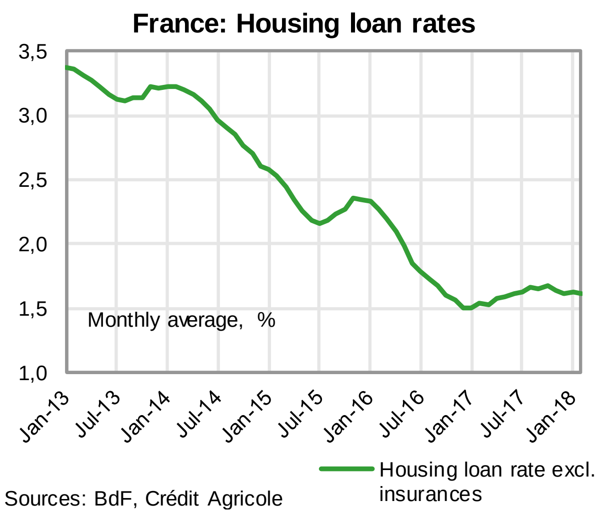

### Impact of the ELAN plan and roll-out of the IFI

The key measures in the new ELAN housing plan and the reform of the ISF wealth tax, along with their expected impacts, are set out in the focus on p. 8. The main findings are as follows.

The four-year extension of the Pinel scheme and the PTZ interest-free loan is positive news for the new-build market. But their refocusing on areas where supply is tight will cut the number of transactions. As of 2018, the Pinel scheme is restricted to areas of tight supply unless the building permit application was submitted by end-2017, which will result in a drop in buy-to-let investors. The PTZ loan will continue to be available in areas where supply is not tight in 2018-2019, but in those areas, the reduction from 40% to 20% of the share on the loan in the purchase price will restrict the number of purchases. This will lead, overall, to an estimated drop in sales in 2018 of around 8% in developer new-build, and of 9% in new single houses (see the detailed calculations on *page 8*).




The reform of the ISF wealth tax, which is replaced by the IFI, where financial wealth is removed from the tax base, could encourage trade-offs at the expense of real estate. But the impact should be limited. First off, yields on (non-stock exchange) financial investments are low, and stock markets are deemed to be relatively over-valued. Secondly, selling off buy-to-let real estate assets will trigger capital gains tax, which could have a deterrent effect. Last, for a large proportion of households who would be liable to the IFI, the principal residence accounts for a substantial part of their wealth. This will mean a fairly modest overall impact, with a probable fall-off in new buy-to-let investments or purchases of second homes, but, not, at first sight, to a massive sell-off of homes.




The supply-side shock measures (deregulation of public and private land ownership, a simplification of construction regulations, efforts to discourage abusive legal claims) are designed to ultimately lead to increased housing supply and lower costs, and hence to lower new-build home prices. But the impact will be gradual and probably fairly limited despite the incentives, because municipalities, which deliver building permits, tend to favour commercial real estate construction over building homes. The impact on housing sales in 2018 will at any rate be negligible, given the lead times involved in real estate transactions.

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## A slow increase in lending rates

**Mortgage lending rates should rise very slightly in 2018 and 2019.** Because mortgages are overwhelmingly fixed rate, the level of lending rates largely depends on the interest rate served on 10-year government bonds.

Ten-year OAT rates were low throughout 2017, at an average 0.81%. This can be explained by:

- ✓ The effects of the ECB's Quantitative Easing (QE) programme, where asset purchases were still very high at €60 billion a month between April and December, compared with €80 billion previously.
- ✓ Investor appetite for safe-haven investments against a backdrop of large-scale global uncertainty (Brexit, the risk of a slowdown in China, risks of a trade war, commodity prices, and geopolitical tensions), which largely benefits Bunds and OATs.

French long-term rates should, however, rise gradually towards 1.15% by end-2018 and 1.55% by end-2019 in the wake of a rise in German Bunds. There are three reasons for this:

- ✓ fairly marked growth in the eurozone of 2.4% in 2018 and 2.1% in 2019, with a slight forecast rise in core inflation. But headline inflation is set to remain fairly modest at 1.4% a year in 2018 and 2019.
- ✓ a reduction in ECB security purchases to 30 billion euros a month in the first nine months of 2018, due to strong, more evenly-spread growth in the eurozone.
- ✓ the rise in US long-term rates, in connection with hikes in Fed key rates and upward revisions to growth forecasts in the wake of the fiscal stimulus roll-out.

In view of this, lending rates are likely to rise over the coming quarters, although only moderately, as they will not pass on the increase in market rates entirely because of strong competition among credit institutions.

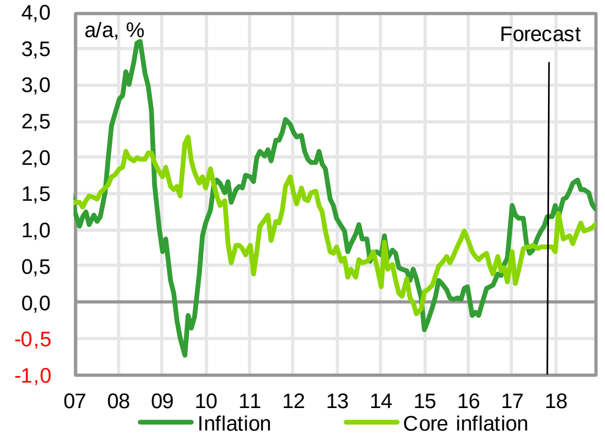
## Slight market decline in 2018-2019

Households' ability to buy[1] – in other words, their "real estate purchasing power" – has improved markedly in recent years thanks to falling lending rates. (*see graph opposite*). Between 2008 and early 2017, households' ability to purchase rose significantly, by 27%, with the affordable surface area rising to 95sq.m. in early 2017 compared with 75sq.m. in 2008. This has been made possible by the sharp drop in lending rates, whereas prices have fallen very little over the same period, by a total 4%. By the light of this indicator, prices have become slightly under-valued. Rising prices and the slight increase in lending rates are squeezing the affordable surface area, which fell from 95sq.m. in Q1 2017 to 92q.m. in Q4. The trend should continue in 2018, which will limit the windfall effect and make buyers more hesitant and wait-and-see.

Conversely, the economic climate is improving. Growth is forecast to come out at 1.9% in 2018 and 1.8% in 2019 (from 2% in 2017) and the unemployment rate in continental France looks set to fall to 8.5% in 2018 and 8.1% in 2019 (from 9.1% in 2017).

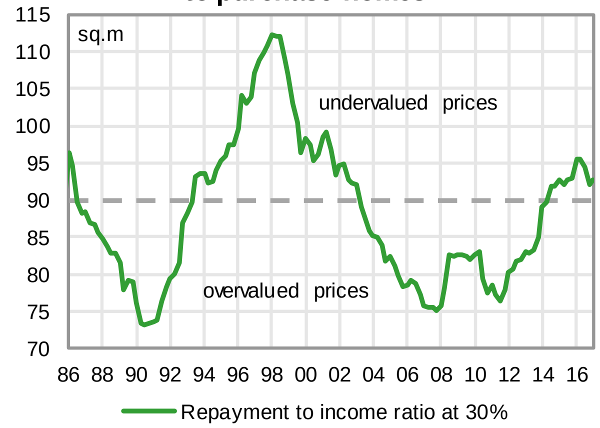
In 2018, pre-owned transaction volumes are forecast to fall by around 6% and by 9% in the new-build segment (by 8% in the developer segment and by 9% for individual homes) due to the refocusing of fiscal measures. In 2019, sales should see a further decline in the pre-owned

**France: Inflation and core inflation**



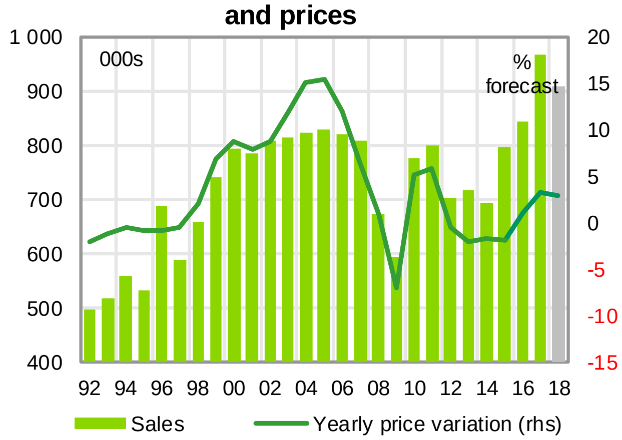

Sources: Insee, Crédit Agricole S.A.

**France: Household ability to purchase homes**




Sources: BdF, Notaries, calculations CA

**France: Existing housing sales and prices**




Sources: CGEDD, Notaries, Crédit Agricole S.A

[1] At each period, we calculate the surface area an average household can buy at market prices, lending rates and mortgage duration in line with an affordability ratio of 30% (mortage repayments/income). This indicator thus measures a household's ability to purchase a home. The surface area that this average household can afford changes cyclically around an average surface area of about 90sq.m.

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segment and be more or less unchanged in new-build. Pre-owned prices are forecast to rise 3% in 2018 and slow in 2019.

**In connection with this central scenario, the main risk seems to be that of a significant hike in French long-term interest rates. This could occur, for example, if there were a sharp spurt in US growth accompanied by fiscal slippage, a more marked economic improvement in the eurozone than expected, and faster-than-expected monetary tightening by the Fed and the ECB. These shifts would result in a confidence shock among investors and a sharp increase in long-term rates. The subsequent rebound in lending rates would be likely to result in a marked correction in sales and real estate prices. This is more of a "stress" scenario, however, and seems unlikely to materialise in 2018-2019.**

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# *FOCUS* – Impact of the ELAN housing reform plan

The main outlines of the government's housing strategy were presented last September and featured two main themes: a supply-side shock and changes to tax arrangements. This second theme was fleshed out in the draft budget for 2018. The first theme, and a series of other measures, were set out in detail in the draft ELAN Act (ELAN is an acronym for "The Future of Housing, Planning and Digital") presented on 4 April this year. Below we detail the main measures and gauge their impact.

## Modifications to tax measures: PINEL, PTZ, IFI

The PINEL (buy-to-let) and PTZ (interest-free help-to-buy loan) were slightly amended and refocused on areas where housing supply is tight. The ISF wealth tax will be replaced by the IFI real estate wealth tax.

- ✓ The Pinel scheme for new-build buy-to-let homes has been extended for four years (until December 2021) and refocused on areas where supply is short, namely A, Abis and B1 (the greater part of Greater Paris, the Côte d'Azur, the areas across the border from Geneva, and most of the major conurbations). After amendments, the Pinel scheme will nevertheless continue to be available in 2018 in areas where there is no shortage of supply (B2 and C), provided the building permit application was submitted before the end of 2017 and the deed of sale signed before end-2018, or in the event of building on disused military sites.
- ✓ The PTZ interest free loan has also been extended for four years (until December 2021) and refocused on new-build homes in the A, Abis and B1 areas of short supply, but this will apply only gradually: the PTZ will remain in place in the B2 and C areas for two more years while the share of the loan in the cost of the purchase will be reduced in these areas from 40% to 20%. In pre-owned homes in need of renovation, the PTZ will be restricted to areas B2 and C to rehabilitate homes in these areas.
- ✓ The ISF is being replaced by the IFI tax on real estate wealth. Based only on real estate assets, it uses the same tax threshold (€1.3 million), the same scale and the same rules (an allowance of 30% on the principal residence) as the former ISF wealth tax.

### *Impacts*

The four-year extensions to the Pinel scheme and the PTZ are very good news for promoters and the new-build market, but their refocusing on areas of short housing supply will have a downside impact on new-build sales.

The refocusing of the Pinel scheme will benefit areas where supply is tight if supply improves, but will lead to a fall in buy-to-let sales, ultimately of around 12,000, but slightly less in 2018 due to the amendment, as zones B2 and C are henceforth excluded from the scheme.

The refocusing of the PTZ on areas of tight supply is largely deferred until 2020, and so will have little impact in 2018-2019. The reduction from 40% to 20% in the proportion of the loan in the acquisition cost in areas where supply is not tight should nevertheless reduce the number of new-build sales by around 15,000: 3,000 in developer new-build, and 12,000 in non-developer individual houses. Ultimately, the refocusing will lead to a drop in new-build sales of around 48,000 (relative to the 2017 level): 8,000 in developer new-build, and 40,000 in non-developer individual houses.

**Total impact on new-build**. In 2018 we should see a fall-off in developer sales of 11,000 units compared with the 2017 level – a drop of 8%. In 2020, a fall of 20,000 units compared with the 2017 level is forecast – a drop of 15%. Sales levels will remain high and agents will be able to cope with the fall-off. As regards sales of individual houses, we should see a 9% drop in sales in 2018 and a 30% drop in 2020 compared with 2017. Agents will find it more difficult to deal with this sharp fall.

**With respect to the IFI**, financial wealth will be excluded from the tax base, which will solely comprise real estate assets. This means that there will be no incentives for households to invest anew in real estate, but on the contrary they could be prompted to sell off their buy-to-let portfolios to buy financial investments, and equities in particular (especially as, for those in the higher tax brackets, yields on equities are becoming competitive relative to real estate yields due to the roll-out of the "flat tax"). Around 350,000 tax households were concerned by the ISF wealth tax in 2017: 1% of total households.

Several factors are likely to limit these impacts, however. In the first place, yields on most financial investments (excluding the stock market) are low and stock markets are felt to be relatively over-valued,

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which means a fairly limited upside potential and mid-term risks. Second, selling buy-to-let assets will involve paying capital gains tax (19% + 17.2% of social security levies, with an allowance regime), which may prove dissuasive. Third, for many households with net taxable wealth of between 1.3 and 2.4 million euros, the principal residence forms a substantial part of their wealth.

This will result, overall, in a fairly limited impact on housing, with a probable reduction in new buy-to-let sales (new-build or pre-owned) or purchases of second homes in this category of buyers; at first sight, though, there should be no massive sell-off of housing.

## Supply-side shock

The "supply-side shock" is designed to remedy the shortfall of housing in areas where supply is tight and to build more for less, leading to an increase in supply and to lower construction costs (due to better land supply and relaxed construction standards) and prices.

- ✓ Boost availability of privately-owned building land using tax incentives to encourage owners to sell land. For individual owners, in areas of short supply, there will be a substantial reduction in capital gains tax on land sales of 70% where private-sector housing is planned and of 100% where the land is used to build social housing, provided that the promise to sell is signed before 2020 and linked to the construction of new housing.
- ✓ Facilitate urban planning projects. The idea is to carry out urban planning and development operations via partnership development projects (PPA) that involve the State and local authorities (primarily joint municipality bodies). The PPA will, for example, target brownfield industrial sites, military barracks and hospitals, which will be integrated into major rehabilitation projects. This will involve the transfer of state-owned land to local authorities in particular.
- ✓ Simplification of construction regulations (which significantly lengthen the time it takes to process a building permit application). No new regulations will be created during the government's five-year term and some will be simplified. For example, only 10% of new homes will need to be accessible to people with reduced mobility, compared with 100% at present. In addition, the standard will set a results target rather than recommending precise criteria on, for example, the nature, thickness and resistance of building materials.
- ✓ Measures to discourage abusive appeals, especially in areas where supply is tight. The aim is to cut decision lead-times from the current average of 24 months to 10, and to strengthen penalties for abusive appeals.
- ✓ Easing of building permit delivery lead times.
- ✓ Transformation of offices into housing. In Greater Paris, the aim is to encourage the renovation of obsolete office space to convert it into housing. This could help to create around 15,000 homes.
- ✓ Social housing. Reorganisation of the social housing ("HLM") sector by grouping social housing authorities (currently 700 in number) in ownership entities of at least 15,000 homes. Facilitate the sale of social housing to their tenants.

### *Impact*

These measures are a step in the right direction. Freeing up public- and private-sector land, developing major urban planning projects, and transforming offices into housing in areas of short supply will boost the supply of new housing programmes and, normally, lower the cost of building land and hence the cost of new-build housing. The measures on building standards and on reducing appeal lead-times should also foster a drop in new-build home prices. The increased supply and lower prices should stimulate the purchase of new-build homes. Developers have given these measures a positive welcome, in fact. Moreover, some big projects such as the Grand Paris project and the 2024 Olympics could stimulate housing construction over the coming years.

In the private sector, these measures could, however have a fairly limited impact. A significant fall in land prices would require a massive freeing up of building land. There is no guarantee that the tax incentive will generate such large-scale sales of building land and a sharp rise in building. The municipalities that deliver building permits tend to prefer the construction of commercial real estate, as building homes also implies needs for schools and child-care facilities, etc. The effect on the construction and sales of housing in 2018 will at all events be very low in view of the lead-times involved in real estate developments.

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