

# The new price indexes for properties in France and Europe

Since January 2013, the INSEE has published a housing price index which includes both older and new properties. This new index is published on a quarterly basis and covers mainland France excluding Corsica. It is calculated as a weighted average of the Notaires-INSEE index of the prices of older properties and a new index for the price of new properties calculated by the INSEE.

Just like the Notaires-INSEE index, the property price index for new properties uses a hedonic-type model which seeks to measure the «pure» price effect by linking the price of properties to the main variables which characterise them. On the other hand, the index for new properties is not based on data from the notarial databases but rather that of the ECLN survey (Enquête Commercialisation des logements neufs/New Home Sales Sur-

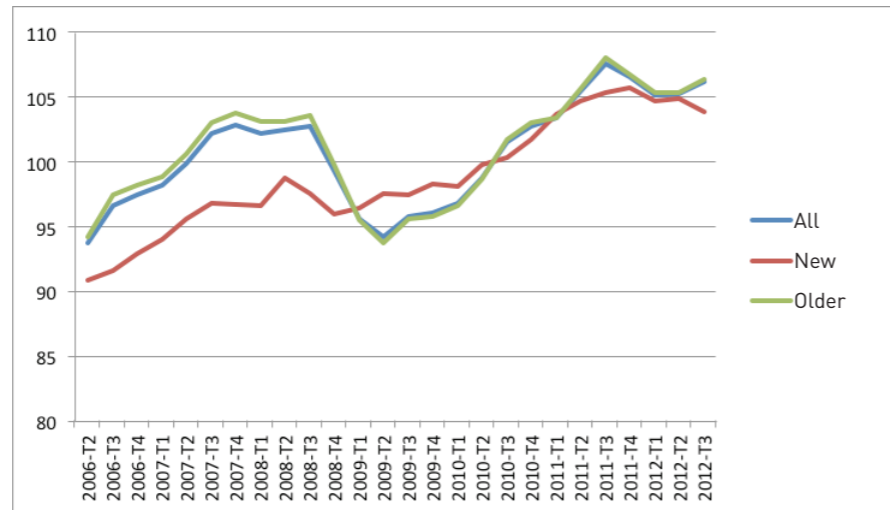
**Graph 1:**  
Developments in housing price indexes in France (basis 100 = year 2010)

Source : INSEE

vey) carried out each quarter among developers by the Ministry of Ecology, Sustainable Development and Energy.

The series begin in the second quarter of 2006. Due to the weight of the market for older properties, the development of the

overall index faithfully mirrors that of the index of older properties, while that for new properties displays a more even profile. The falls of 2008-09 are less severe and shorter but begin earlier. Similarly, the upturn of 2009-11 is less impressive and briefer (Graph 1).



These new indexes were developed at the request of the European Union's statistics office. Indeed, their publication is being accompanied by the launch of a European index to cover new and older properties.

Two aggregated indexes are calculated, one for the 27 member states of the European Union and the other for the 15 states comprising the Eurozone. The national indexes are drawn up using a common methodology, (except for Greece and Cyprus), weighted according to GDP at current prices expressed in PPS terms (Purchasing Power Standard, which eliminates price level differences between the countries. France's weight in the Eurozone index is equivalent to 19.8%).

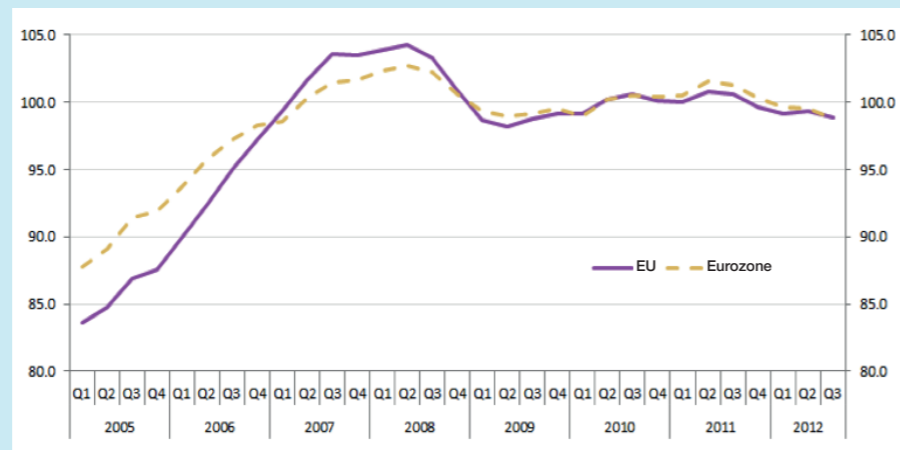
Until 2009, the European indexes were similar to the French index. Upward and downward variations in the Eurozone in-

dexes are less pronounced due to Germany's higher weighting in these indexes. However, since 2009, the European indexes have been fluctuating with a slight downward trend emerging since 2011. The fall in prices has been less severe in some countries than in others and has occurred later in some countries than in others.

France, Belgium and Sweden have not yet experienced a fall while on the other hand this has been particularly severe in Spain and Ireland. Germany stands out for its recent moderate increase, which follows years of stagnation and even reductions.

**Graph 2:**  
Developments in the European housing price indexes (basis 100 = year 2010)

Source : Eurostat



# French property market report

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INSEE (French National Statistics & Economic Studies Institute) and Notary indexes	Older apartments				Older houses			
	Index value		Variation*		Index value		Variation*	
	2012 Q3	2012 Q4	3 months	1 year	2012 Q3	2012 Q4	3 months	1 year
Mainland France	114.8	113.7	-1.0 %	-1.1 %	106.7	105.0	-1.6 %	-2.1 %
Greater Paris	122.9	121.2	-1.4 %	-0.6 %	110.9	109.8	-0.9 %	-1.0 %
French provinces	107.3	106.8	-0.5 %	-1.6 %	105.8	104.0	-1.7 %	-1.3 %

\* 3-month variation: development between 2012 Q3 and 2012 Q4 \* 1-year variation: development between 2011 Q4 and 2012 Q4.

## The new housing market

According to the ECLN survey (Enquête Commercialisation des logements Neufs/New Home Sales Survey), the number of unitary sales by developers totalled 86,200 properties in 2012, i.e. 17.9% fewer than in 2011. The number of properties proposed for sale (109,300 units) was down by 11.4%. This trend quickened during the last quarter of the year with just 20,300 new homes being proposed for sale (34.3% fewer than in the fourth quarter of 2011). Consequently, the total stock of apartments proposed for sale is down compared to the third quarter and now accounts for no more than one year's sales. On the other hand, the percentage of completed stock has increased to 5.3% of the total stock.

The Fédération des Promoteurs Immobiliers, whose monitoring group covers approximately 82% of the market, estimated the volume of unitary sales at 73,700 units in 2012. This is the lowest level for 16 years, being 28% down in comparison to 2011 and 36% in comparison to 2010. The main reason for this is the slide in sales to individual investors, which totalled 42% over the year 2012 and in the last quarter. Where prices are concerned, in 2012 these increased by 0.9%. According to the new INSEE index for new properties (please see page 4), the prices fell by 1.4% over a year, but between the third quarter of 2011 and the third quarter of 2012.

According to the Markemétron newsletter (a market report examining sales of non-project houses), over the last twelve months (to the end of January 2013), the number of gross sales totalled approximately 123,000 units and was down by 18% compared to the previous 12 months. Over the last three months, it was down by 11% compared to the previous three months. Regarding housing construction, up to the end of February 2013 the number of authorisations fell over the space of a year by 7% and the number of new housing starts by 18.3%. The total achieved, (335,800 homes including 295,400 in new buildings and 40,400 built onto existing buildings) means that we are now in a situation in which housing needs are no longer being met, even based on the lowest estimates.

## The availability of credit

According to the Observatoire Crédit Logement (housing loan monitoring group) / CSA, the distribution of housing loans to domestic clients (new properties, all properties and upgrades) was down by 27.2% by the end of February 2013 when considered annually (year-on-year). By late 2012, the fall in production totalled 35.5%. This development appears to signal the beginning of a period of stabilisation.

In February 2013, competitive sector loan rates for the whole market stood at an average of 3.13%. Since February 2012, rates have therefore fallen back by 82 base points. This fall in rates chiefly benefits the market for older properties with an average rate of 3.08%, a fall of 89 base points over a year.



## The market for older properties

### In volumes

The number of sales of older properties stood at 709,000 in 2012, down by 12% over a year, with the pace being similar in both Greater Paris and the French provinces according to estimates from the CGEDD(1). Provoked by changes in the taxation of capital revenues in February, the high number of transactions in January 2012 obscured a more pronounced fall. Indeed, over the 12-month period from February 2012 to January 2013, the number of transactions totalled only 655,000, i.e. 22% fewer than over the previous 12 months. In both the French provinces and Greater Paris, the sharpest fall occurred in the third quarter (21% over a year). In the fourth quarter, the slide over the year was less brutal in both Greater Paris and French provinces (-10%).

### Prices

According to the Notaires-INSEE index, prices were down by 1.7% overall year-on-year in the fourth quarter of 2012, (by 1.1% for apartments and 2.1% for houses). This fall was somewhat steeper in the French provinces (-2.1%) than in Greater Paris (-0.7%). In the French provinces, the prices for apartments fell less than those for houses (1.6% compared to -2.3%). The same is true for Greater Paris although the variation was less pronounced (-0.6% and -1% respectively). Prices barely varied between the third and fourth quarters of 2012. Viewed in terms of seasonally adjusted data, they fell by 0.5% in the French provinces and rose slightly in Greater Paris (+0.1%). On the hand, when we consider

the raw data, prices fell by 1.3% in both Greater Paris and the French provinces.

In the French provinces, whether at a local, département (county), conurbation or district level, we are also seeing changes in median prices, although these may be influenced by possible variations in the quality of the properties sold. Most of the départements have seen prices fall over the space of a year, with increases exceeding 5% being quite rare. More precisely, of the 42 départements in which at least 100 apartment sales were recorded, 10 have witnessed upward developments, with 3 of these (Ain, Gard and Vendée) exceeding 10% and the 7 others achieving a maximum of 3.5%. Meanwhile, 31 witnessed falls, 5 of which exceeded 10% with 8 being situated between 5 and 10%. For houses, in the 83 départements in which more than 100 transactions were recorded, 27 have reported increases, with 8 exceeding 5% (although none exceeded 10%) while 48 reported falls, 5 of which exceeded 10% and with 15 being situated between 5 and 10%. Prices remained stable in 8 départements.

In Greater Paris, none of the variations in the median prices for each département were upwards. For apartments, the sharpest falls were recorded in Paris and in Seine-Saint-Denis, not exceeding 1% there, while prices remained virtually stable in the outer suburbs.

For houses, the Val d'Oise stood up well (-0.1%) while the fall reached a maximum of 1.6% in the Yvelines and Essonne. For apartments, the districts of Bordeaux, Lyon, Rennes and Rouen stood out from the pack with price rises of 2% to 6%. On the other hand, prices fell by more than 5% in Aix-en-Provence, Grenoble, Nancy, Reims, Saint-Etienne, Toulon and Troyes. For houses, the increases have been stronger and more numerous, exceeding 5% in Amiens, Le Havre, Reims, Saint-Nazaire, Toulon and Tours. Falls of more than 5% have been limited to Metz, Nancy, Nice and Orleans, while Lille and Douai-Lens have remained stable.

(1) Conseil Général de l'Environnement et du Développement Durable: Calculations by J. Friggit based on DGFIP data

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## Will 2013 be a buyer's year?

### Investors await the introduction of the «Duflot» scheme

For new properties, 2012 could be described as the year in which a sea change occurred in the market. Many investors turned their backs on the second version of the Scellier scheme, which is less advantageous than the first. Property developers must now launch property development programmes which meet the financial equilibrium requirements of the Duflot law. It will therefore take roughly a year before we see the effects of this on the market. Until then, 2013 looks like being another year of recession for the new property market with all of the related harmful consequences regarding employment, especially as the plan announced by the French president barely concerns private investment and will have no short-term impact. Older properties continue to be covered by the conventional tax relief measures: the Malraux law but also the real estate loss mechanism: up to 10,700 euros with the possibility to carry over for 10 years. However, investors are concerned that stricter rent control mechanisms may be introduced. Moreover, hopes of short-term gains which may have fuelled speculative buying have now evaporated and in any case, these would be heavily taxed.

### For homebuyers, this may be the right year to buy

In 2012, the homebuyers were just as picky as the lenders. It was very difficult for a first-time buyer to save up a sufficient deposit and pay rent at the same time. These two factors may explain the net fall in the number of property loans approved in 2012. Today, we are seeing a slight easing of credit conditions on the part of the banks and there are no signs of interest rates rising in the near term, with the result being that the fall in the volume of property loans is apparently drawing to a close. In the market for older properties, zero rated loans are no longer available and the fall in prices has only been significant in the less tense markets and for low quality properties. Consequently, properties built during the 1990s and 2000s retain a certain degree of attraction and have been less affected by the crisis. For older properties for which work will be required to bring them into compliance with new standards, the available aid or tax credits are less attractive than in previous years and the VAT rates on renovation work are set to rise again. Will the additional bonus of €1350 (which is one of the main planks of the stimulus plan) be sufficiently attractive? The market for new properties will also suffer from a rise in construction costs in 2013 due to the thermal regulations of 2012 now becoming compulsory. This increase appears to be far from offset by the likely financial savings in energy costs. To maintain demand levels, a fall in building land prices will be needed, especially for detached homes in areas outside the major cities, or a reduction in the overall

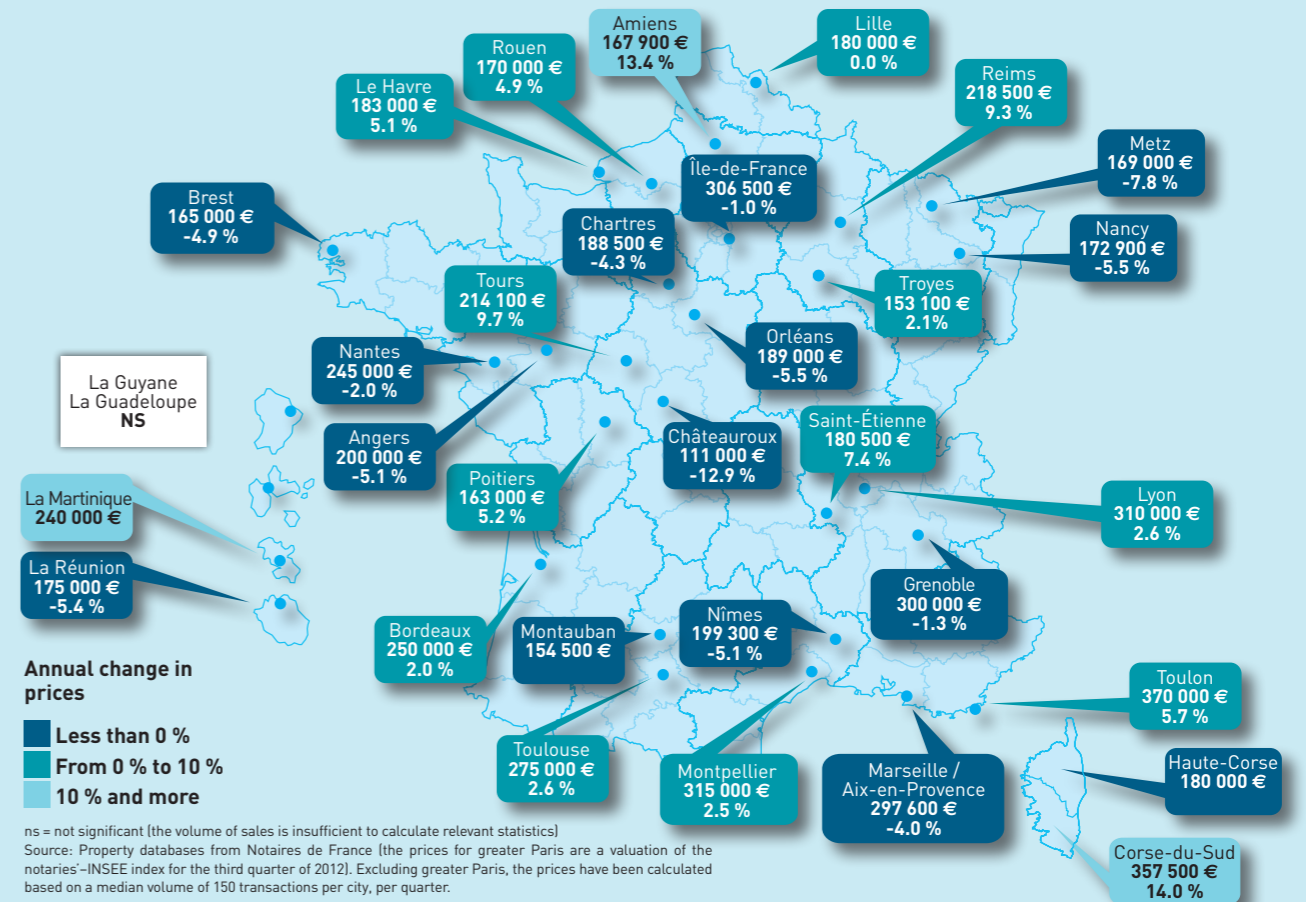
margin, which runs the risk of further weakening this sector. Where financing is concerned, the zero rated loan is now available to fewer potential beneficiaries as this is now being targeted at those on modest incomes. For as long as they last, the low rates for other loans may partially offset this effect for the other homebuyers.

### Will we see a realignment of the property market?

The solvency of buyers is still being aided by the historically low rates. Some homebuyers have adopted a wait-and-see attitude. However, we are also seeing vendors withdrawing or postponing the sale of their properties in the hope that an easing of the taxation of capital revenues may be just around the corner. In particular, the reforms enacted over the last two years have contributed to the downturn in sales volumes. The wait-and-see approach of vendors and buyers is also explained by the general state of the economy and the short-term outlook. However, interest rates will not remain this low for long. Lenders must adjust their sales prices to match the solvency levels of buyers. This adjustment already looks to be underway if we are to believe the data obtained from the processing of pre-contracts, which anticipate market trends by approximately 3 months. In the French provinces, the fall recorded between May (the high point) and December 2012 exceeds 7%. In inner Paris, the sales price index peaked in August 2012. Based on the pre-contracts, it could fall by 4.5% between August 2012 and May 2013.

## Median sales prices of older houses in the fourth quarter of 2012

→ Developments over a year: 1 October 2012 to 31 December 2012 / 1 October 2011 to 31 December 2011  
The statistics for houses concern the whole urban area (town centre + suburbs)



## Average prices per m<sup>2</sup> for new apartments in the fourth quarter of 2012

→ Developments over a year: 1 October 2012 to 31 December 2012 / 1 October 2011 to 31 December 2011

