CRÉDIT AGRICOLE S.A.

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FRANCE – RESIDENTIAL REAL ESTATE

RECENT DEVELOPMENTS AND 2020-2021 OUTLOOK

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FRANCE – RESIDENTIAL REAL ESTATE
KEY POINTS

Market almost completely frozen from March-May

Market almost completely frozen from mid-March to mid-May 2020 due to lockdown. Most households were self-isolating, real estate agencies were closed, notaries reduced operations. Hence the process of buying an existing home was nearly frozen, and sales declined markedly.

Likewise, for new homes, sales dropped and construction was greatly affected, with most projects being halted. However, in April, about 30% of construction projects resumed, with a code of best practices for health.

The end of the lockdown is expected to allow the market to undergo a "technical" restart beginning in Q3. Beyond then, with favourable fundamentals but also some negative factors, the market will see a gradual recovery.

Obstacles to recovery

- **The economy has deteriorated substantially** in 2020, despite stimulus measures, with declining purchasing power, a significant spike in unemployment, and a sharp downturn in household confidence.
- **The insufficient supply of new buildings**, which was already the case pre-crisis, will worsen with a very sharp fall in building permits in the second quarter: mayors were dealing with the health crisis and the municipal elections process was interrupted.
- **Conditions for granting loans may tighten slightly:** recommendations from the French Financial Stability Board, or HCSF (in particular, no more than 15% of new loans can involve an affordability ratio greater than 33% of income) and figuring in the decline in household income and rise in unemployment; this has resulted in a slight decline in loan terms and a somewhat higher down-payment rate.

Positive factors

- **Structural support factors still present**: demographics, preparation for retirement, and especially the safe-haven effect, bolstered by the health crisis and market turbulence. The tangible nature of real estate and its fairly regular growth offer a relatively attractive return and generally favourable valuation over long periods.
- **Cautious French model for home loans**, with limited risks. NPL ratios were very low before the crisis. Household support measures and potential payment deferrals are expected to limit loan defaults and lead to moderate CDL ratios.
- Credit rates may rise, but only slightly. 10-year OAT bond yields are likely to remain low, close to zero. **Credit rates should therefore stay low and attractive**.
- **Purchasing power remains acceptable** and the prices in France are not being overvalued.

Overall

- **Buyers cautiously and gradually return in the second half of the year**. Purchase projects not finalised or carried out between March and May will be postponed to second semester, but not completely.
- **Total 2020 sales far below 2019 levels, -30 to -35% for both existing and new homes**. A recovery will follow, but 2021 sales will be about 15% below the 2019 level.
- **Prices moderately down**, especially in segments where prices were overvalued (Paris, Bordeaux, Lyon, Nantes). But there will be no significant decline because demand will remain fairly high and supply remains limited.

FRANCE – REAL ESTATE

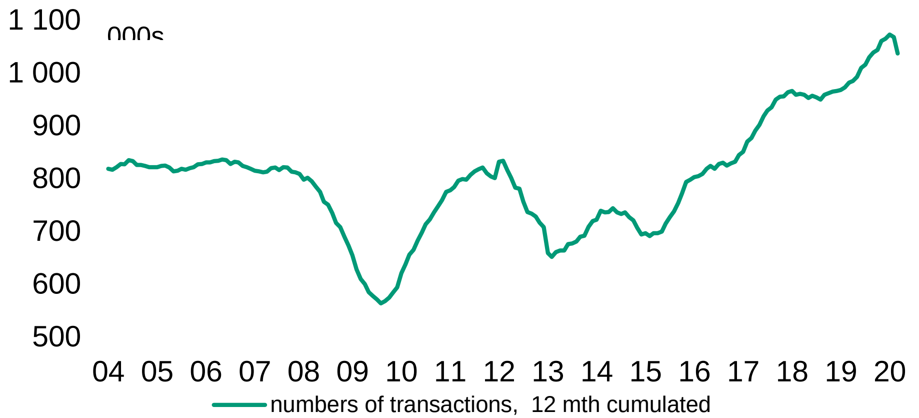
RECENT DEVELOPMENTS AND OUTLOOK FOR 2020-2021

1 RECENT DEVELOPMENTS
SHARP DECLINE IN SALES OF EXISTING HOMES

France: sales and prices of existing homes

Sources: CGEDD, Notaries, Crédit Agricole SA / ECO

Sales of existing homes



Sources: CGEDD, Notaries, Crédit Agricole SA / ECO

Sales of existing homes hit an all-time high in 2019, at 1,065,000 units, up 10.3% over 2018 (966,000 units), well ahead of the peak (825,000 sales per year in 2004-2006) during the previous boom.

The residential market remained very active in January-February. But starting in mid-March, there was a sharp decline in sales due to the health crisis. In March, total sales over a 12-month period reached 1,037,000 units. During that month, sales dropped to about 60,000 units, down -34% from March 2019.

In Ile-de-France, in Q1 2020, sales declined 22% year-on-year, to 31,000 units.

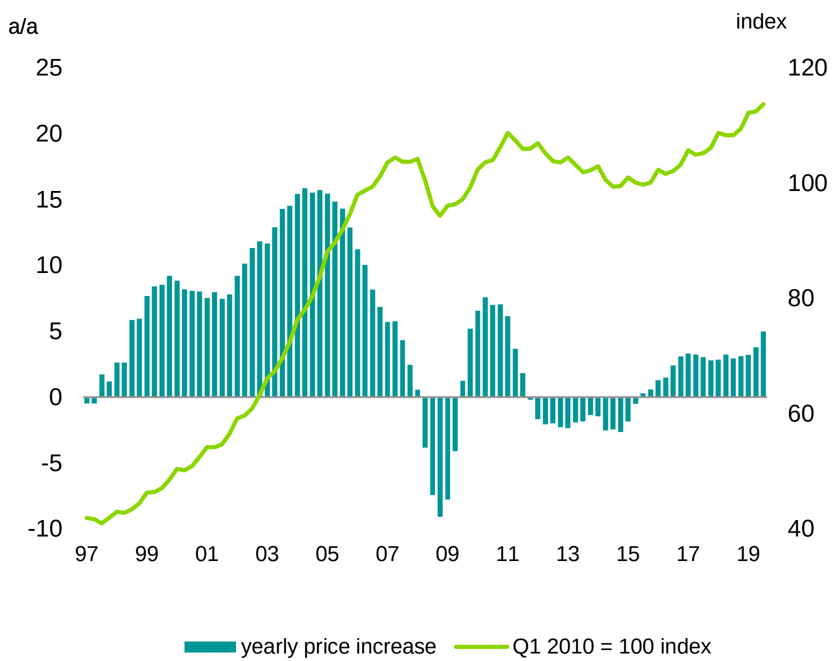
During the lockdown period, costings and contracts to sell are believed to have dropped by about 80% (estimate, statistics not yet available).

The entire homebuying process was greatly disrupted, to the point of being almost halted. Most households were self-isolating, real estate agencies were closed to the public, and notaries reduced operations. This made it very difficult to locate a property, visit it, conduct an appraisal, secure a loan, get in contract or close, move, etc.

As of early April, deals can now be closed with a notary witnessing remotely. However, this digital shift is still only partway complete.

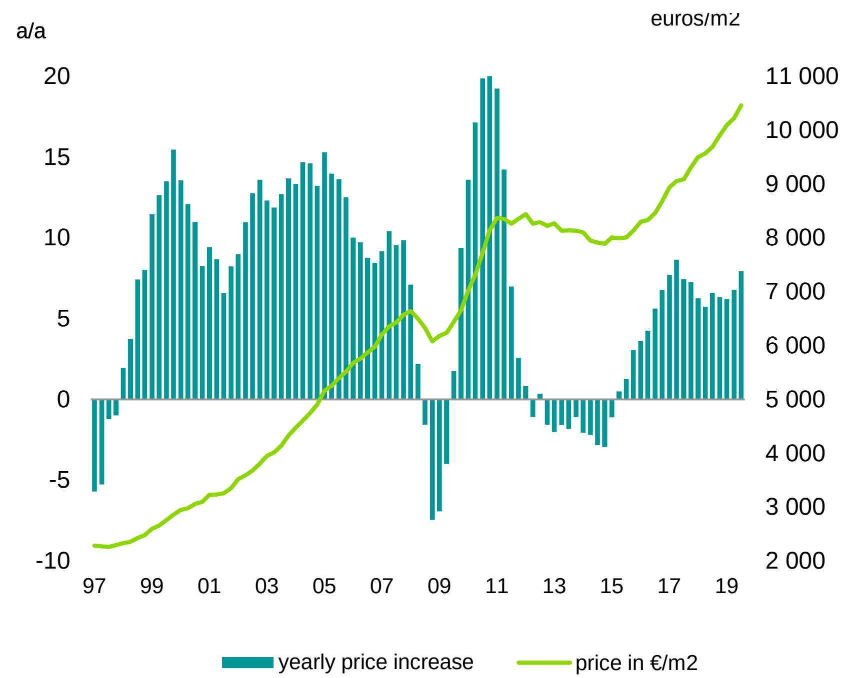
1 RECENT DEVELOPMENTS
EXISTING HOME PRICES HOLD UP IN EARLY 2020

Prices of existing homes



Sources: Insee, Notaries, Crédit Agricole SA / ECO

Housing prices in Paris



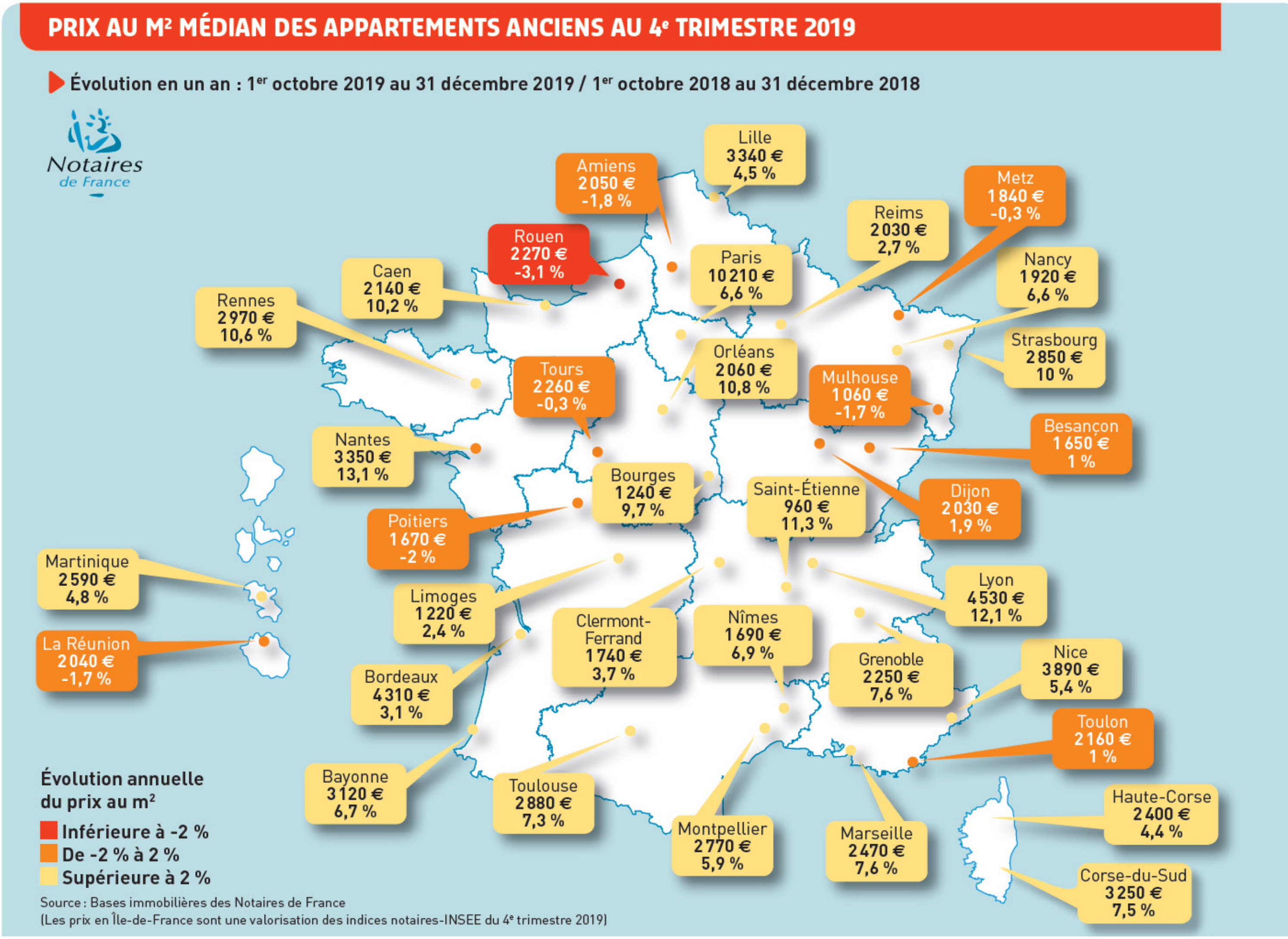
Sources: Insee, Notaries, Crédit Agricole SA / ECO

After three years of fairly moderate increases, up 2.7% on average in 2016-2018, prices shot up in 2019, by 3.7% yoy in Q4, in connection with very strong transaction volumes. This trend grew in Q1 2020, with a 5% rise year-on-year. The upturn was +8% in Paris, +5.7% in Ile-de-France and +4.7% elsewhere in France in Q1 2020.

The COVID-19 crisis had not yet had a perceptible effect on prices, which generally react to developments in housing sales and stocks with several months' delay. The decline in transactions from March to June, however, is expected to lead to a halt to price hikes beginning in H2, followed by a slight dip.

1 RECENT DEVELOPMENTS

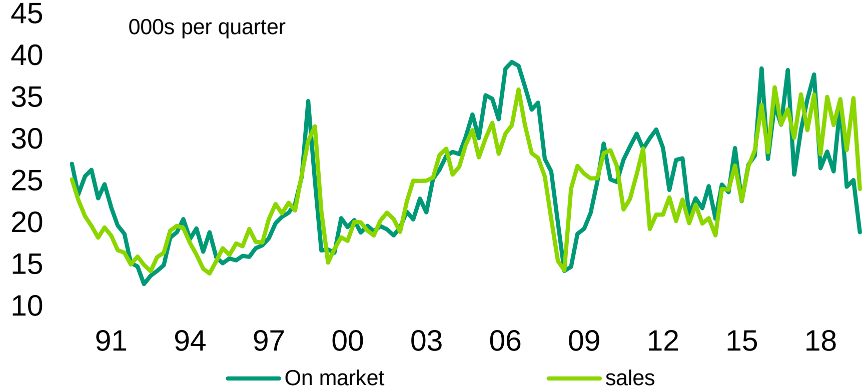
PRICES BY CITY BEFORE THE CRISIS SOURCE: NOTARIES OF FRANCE.



Prices by city before the crisis. Prices for existing apartments rose 5.3% on average year-on-year in Q4 2019, with increases of 5.7% in Ile-de-France and 4.9% outside this region. *Map from the French property market report, issued by Notaries of France.*

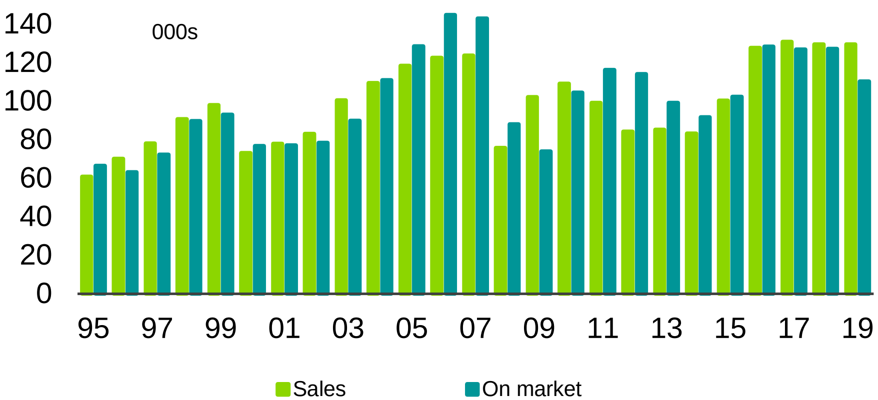
1 RECENT DEVELOPMENTS
NEW HOME SALES SHARPLY DOWN

France: sales of new homes



Sources: Ministry of Ecology, Crédit Agricole SA/ECO

New homes sold and placed on the market



Sources: Ministry of Ecology, Crédit Agricole SA/ECO

Sales of new-build properties (developer segment, private sales, source: Ministry of Ecology):

- In 2019, 130,100 sales, holding steady compared to 2018, +0.3%. Fairly high level, 5% greater than the 2006-2007 highs (123,000/year). The increase was a fairly marked 4.2% in Ile-de-France.
- Sales fell sharply in Q1 2020, -24% year-on-year, to 24,000 units. Low supply (in January and February) and lockdowns (in March) were the reason behind this big decline.

Block sales of new-build housing (developers) were down 1% in 2019 to 33,700 units, following a -5% contraction in 2018, owing to the reorganisation of the social housing sector (Elan plan, reduction in the individual housing benefit (APL) and lower rents, etc.). Q1 2020 saw a 41% yoy decline in block sales (source: FPI).

Sales of non-developer single-family homes:

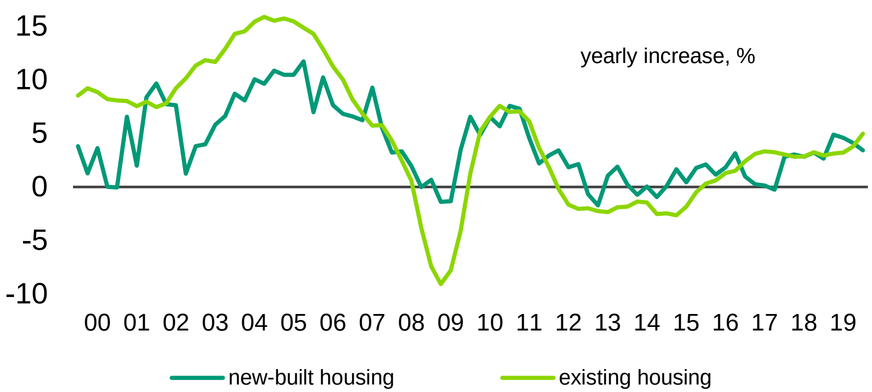
- 120,000 sales in 2018, down 11% year-on-year. A slight recovery in 2019 to 125,600 sales, up 5% year-on-year. These levels remained well below the 2006-2007 records of 189,000 per year.
- In early 2020, the health crisis led to a sharp decline in sales. Over a 12-month period, sales reached 114,000 units in April, -4.4% year-on-year. Over the two-month March-April crisis period, sales saw an unprecedented decline of 51% year-on-year.

1 RECENT DEVELOPMENTS
CLEAR DECLINE IN THE NUMBER OF NEW BUILDS

Stock of new homes

Sources: Ministry of Ecology, Crédit Agricole SA/ECO

House prices



Sources: Ministry of Ecology, Notaries Crédit Agricole SA/ECO

The number of new build homes placed on market (developer segment) put up for sale was sharply down in 2019, to 109,700, -14% yoy. The decline was 16.1% in Ile-de-France in 2019, after a 2.1% rise in 2018. The market saw few new projects, reflecting the difficulties stemming from the short supply and high prices for land, as well as the impact of regulations and objections, time taken to obtain permits, etc.

Q1 2020 saw another sharp decline, -27.9% yoy, to 18,900 units, due to the reasons given above (especially the fairly lengthy time needed for permits given the election season) and the impact of the lockdown in March.

Available supply of new-build homes (all new developer housing for sale and unsold)

- Gradual decline: 99,060 units in Q1 2020, down 9.6% yoy (109,500 in Q1 2019).
- Ratio of available supply/sales: 10.1 months as of T1 2020, a level close to the long-term average.

Prices still rising fairly sharply (scarce supply and rising construction costs):

- Apartments: Up 3.4% yoy as of Q1 2020.
- Homes (developers): Up +4.2% yoy as of Q1 2020.

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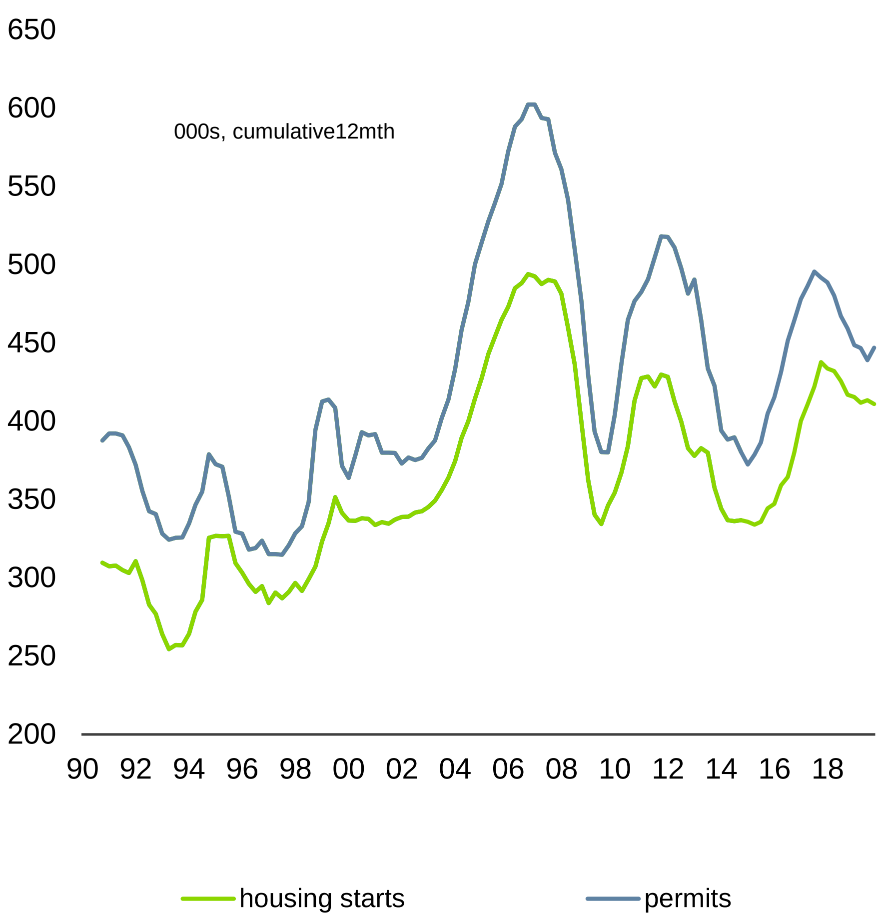
RECENT DEVELOPMENTS
TOWARDS A STEEP DROP IN CONSTRUCTION

Building permits and housing starts



Sources: Ministry of Ecology, Crédit Agricole SA/ECO

Housing construction rose greatly in 2016-2017, due to the increase in new home sales.

Construction dipped slightly in 2018 and 2019. Reaction times of multiple months between sale closings and housing starts.
→ Construction gradually affected by the collapse of new home sales (particularly block sales and single-family homes). In 2019, housing starts dipped 1% year-on-year to 411,000 units, down 1.4% yoy, while the number of permits issued dropped 2.7% yoy to 447,000 units.

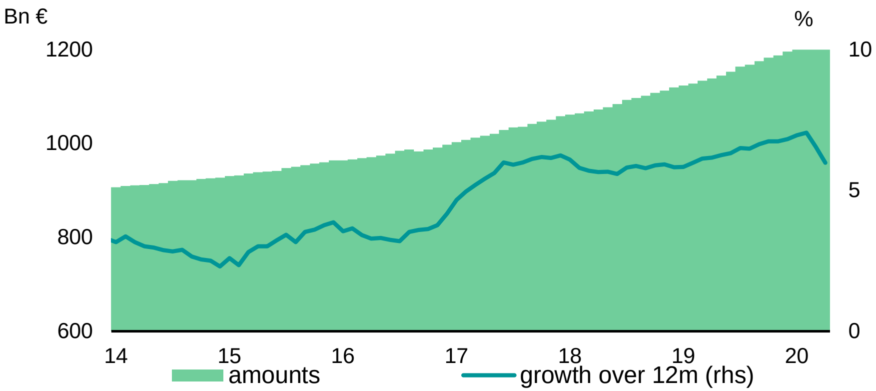
In early 2020, before the COVID-19 crisis, there was a slight improvement, particularly for building permits. In February, the number of permits reached 453,000 units (over 12 months), up 0.2% yoy. Housing starts totalled 409,000 units, down 1.2% yoy.

Beginning in March, the health crisis led to a near-total shutdown of construction sites (about 80% in the first few weeks, then 70% in mid-April with the publication of a guide to proper health practices).

These are estimates, as figures from the Ministry of Ecological Transition on construction from March forward are not yet available. The decline in permits and starts is expected to be massive in 2020, from -30 to -40% (see slide 14).

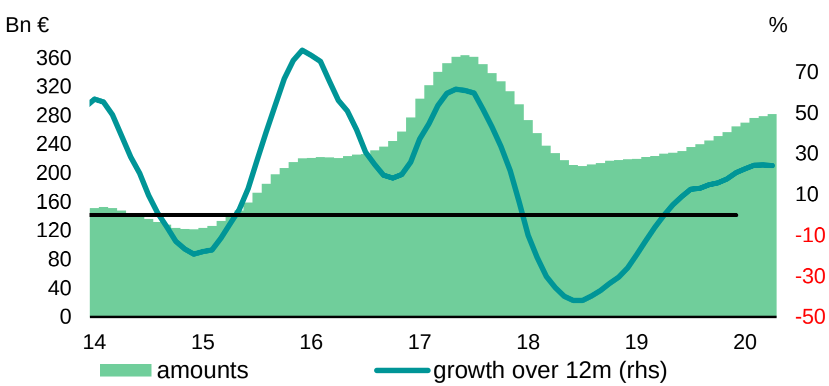
1 RECENT DEVELOPMENTS
MORTGAGE LOANS SLOW TO A CRAWL IN 2020

Stock of mortgage loans to households



Sources: Banque de France, Crédit Agricole SA/ECO

Home loan production
(cumulative over 12 months)



Sources: Banque de France, Crédit Agricole SA/ECO

- Gradual slowdown in stock of mortgage loans: 6% year-on-year in April 2020 after 6.6% in March and 6.8% in December 2019.
- Increased loan origination due to renegotiations (which are increasing, and are mostly to extend the term of the loan). Besides renegotiations, there has been a sharp decline in new mortgage loans due to the health crisis: For individuals, the figure has fallen from €17.8bn in February to €14.5bn in March and €9.8bn in April.
- A sharp decline in mortgage origination to households is expected in 2020 (excluding renegotiations), equal to about 40%, due to the drop in housing sales.
- Repayment deadlines are being partially deferred: total repayments are expected to fall a great deal.
- Growth in outstanding mortgage loans is slowing: +2.4% year-on-year in late 2020 after +6.8% in late 2019.
- In 2021, mortgage origination will be up about 35% and the outstanding mortgage loans will increase 3.8%.

FRANCE – REAL ESTATE

RECENT DEVELOPMENTS AND OUTLOOK FOR 2020-2021

1 RECENT DEVELOPMENTS

2 | OBSTACLES TO RECOVERY

3 POSITIVE FACTORS

2 ANALYSIS AND OUTLOOK
MAIN DRIVERS

What will the end of the crisis look like?

How will the real estate market change after this months-long halt and the ensuing drop in sales?

This shock is exogenous in nature. It is not a crisis inherent in the real estate market as in 1991 or 2008 caused by runaway prices, credit, or construction, leading to a substantial rise in risks on the housing market and among lenders. We are not looking at the bursting of a real estate bubble.

The end of the lockdown should therefore enable a "technical" restart of the real estate market gradually beginning in Q3 2020, as the home-buying process returns to normal.

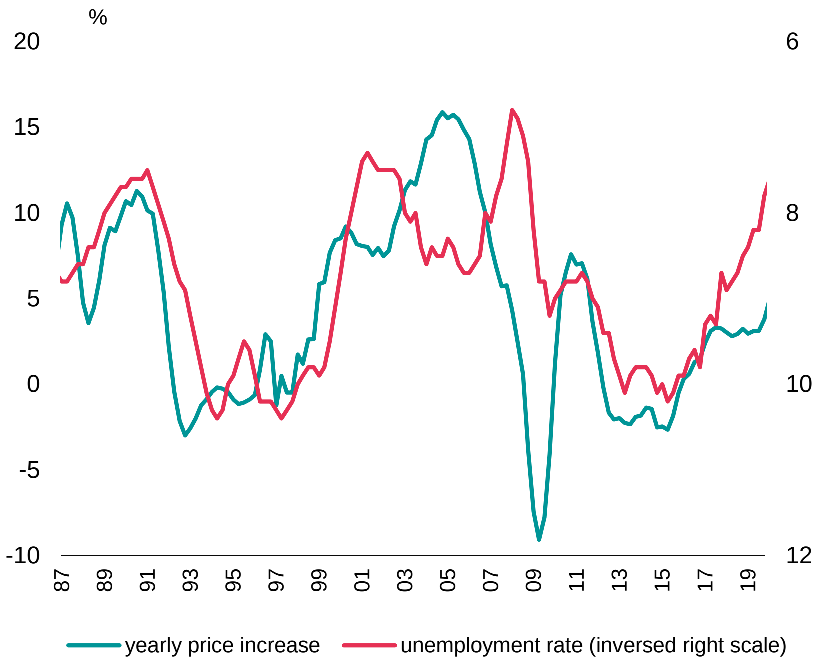
However, a lasting recovery depends on a certain number of factors, which are analysed in the slides that follow. Several market "fundamentals" remain clearly favourable, while other factors stemming from the economic consequences of the health crisis will have a negative impact on the market.

negative factors	positive factors
increasing unemployment rate	**demographic, retirement**
low confidence levels	**safe haven effect**
risk of slight tightening in credit approvals	**cautious lending model**
weak supply	**low level of lending rates**
	acceptable home purchasing power

Source: Crédit Agricole SA/ECO

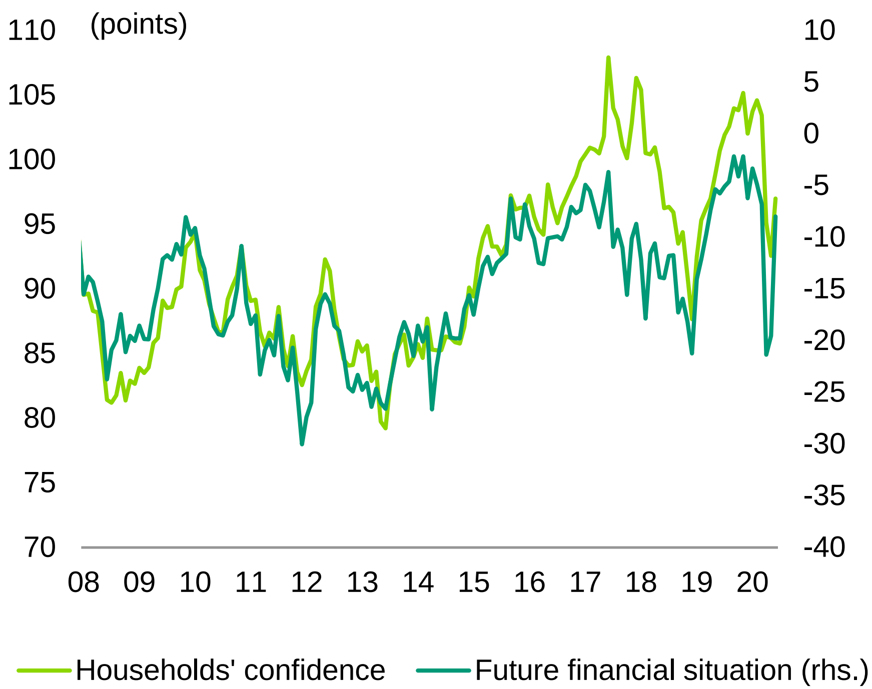
2 OBSTACLES TO RECOVERY
BUSINESS CYCLE AND CONFIDENCE HURT BADLY IN 2020

Real estate prices and unemployment rates



Sources: Insee, Notaries, Crédit Agricole SA / ECO

Consumer confidence



Sources: Insee, Crédit Agricole SA / ECO

After seeing 1.5% growth in 2019, the health crisis has led to a marked recession in 2020. Household purchasing power is expected to decline about 1% in 2020. The widespread use of short-time work measures from March to May limited job losses but also led to lower incomes (down 16% for a 2-3 month period) for those covered by these measures. Despite the stimulus, employment dropped sharply in Q2 (temp jobs and fixed-term contracts) and is expected to remain weak in the second half of the year. The unemployment rate (mainland France) is expected to hit 9.6% in 2020, following 8.2% in 2019. Real income, however, is set to rise about 2% in 2021.

Household confidence significantly declined in Q2. It is expected to gradually recover, but will depend on how the health picture progresses and how well the epidemic is controlled. As households lack insight into their future financial situation, the worsening of employment and confidence will weigh on their home purchase decisions, which constitute a long-term investment and cost.

2 OBSTACLES TO RECOVERY
NEGATIVE SUPPLY SHOCK IN NEW HOMES

Supply already too low pre-crisis

Before the health crisis, the new-build real estate market was already short on developer-led new properties, particularly in areas with a tight housing market. This was because of:

- the scarcity and high price of land,
- the burden of building regulations,
- abusive objections, and
- time taken to obtain permits; the situation grew more acute in 2019 and in January-February 2020 due to the election season.

Supply shock due to the health crisis

In new builds, business (sales and construction) were deeply affected during the lockdown period: buyers self-isolating, sales offices closed, most work sites halted early in the crisis. However, about 30% of construction sites had returned to work by mid-April and started following a code of best practices for health.

Despite this resumption, which is expected to pick up further, new properties are still weakened by two key problems:

- **Building permits** have mostly stopped being issued since the crisis began (mid-March); mayors (who issue permits) have been very busy handling the health crisis; the municipal elections process was halted between March and June. This resulted in a very limited number of building permits in the second quarter, which might only partially catch up, and which will hinder new-homes activity in 2020.
- **The digital shift in various procedures** is still only tentative, which is affecting both the issuance of permits and the signing of deeds of sale.

This means a lot fewer permits and new units going on sale. Building permits could be way down in 2020, by 30 to 40% year-on-year. This supply scarcity in new-build homes, the lockdown, and the economic picture will deal a powerful blow to developer-led new unit sales, which are expected to fall sharply in 2020, by about 30 to 35% year-on-year.

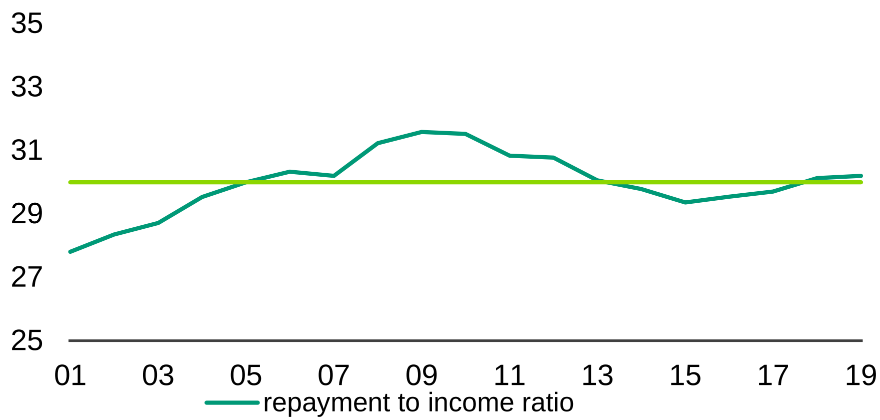
New stimulus measures

Stimulus measures for the construction sector were announced on 10 June, including: the ability to pay some social security contributions owed from March to May over a three-year period, or even waive them entirely; a €1 billion boost to construction investments for municipalities. Other measures are being planned: renewable energy incentives; digitising and simplifying the submission of permit applications, etc.

These measures, on top of those enacted during the crisis (government-backed loans, short-time work, etc.) are set to limit the risks of bankruptcies and rise in unemployment in the sector and strengthen the gradual restart expected in the second half of the year. However, they will not be enough for a strong, fast recovery in sales and construction.

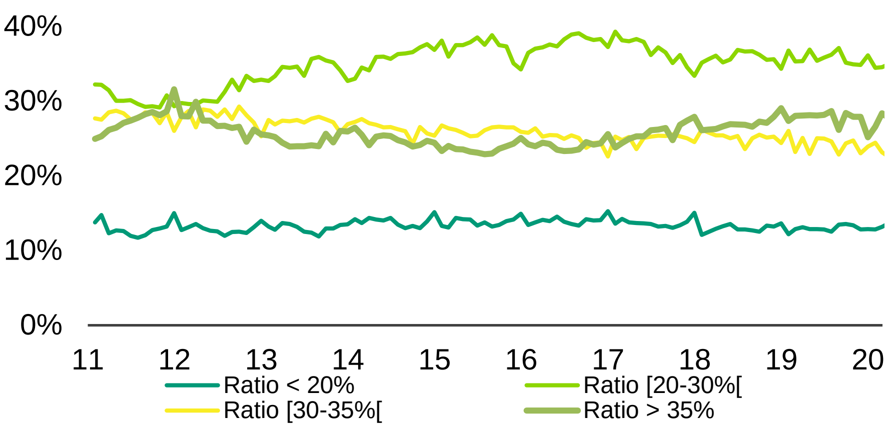
2 OBSTACLES TO RECOVERY
SLIGHT TIGHTENING IN CREDIT APPROVALS

Average affordability ratio



Sources: ACPR, Crédit Agricole SA / ECO

Loans vs. affordability ratio



Sources: ACPR, Crédit Agricole SA / ECO

France's High Council for Financial Stability (HCSF)* warned about the deterioration in some credit approval conditions in December 2019 and issued recommendations for banks.

- **Affordability ratio:** the average affordability ratio stayed stable more or less over the long term, but the share of loans with an affordability ratio above 35% has risen since 2015. It rose from 23.6% in 2015 to 27.7% in 2019. However it was fairly volatile at an average 25.8% in the period 2011-2019.
- **The average term of new loans** continued to increase in recent years. It climbed from an average of 18 years in 2015 to 20.4 years in 2019 (average). 5% of new loans were for longer than 25 years

➔ HCSF's recommendations to banks

- Households should not take on debt equal to more than 33% of their net income
- The maximum term should be 25 years
- Lending standards can be loosened on no more than 15% of new loans
- Of these 15%, three-quarters should be set aside for first- and second-time buyers (main residence)

*Haut Conseil de Stabilité Financière

2 OBSTACLES TO RECOVERY
SLIGHT TIGHTENING IN CREDIT APPROVALS

Loan production at an affordability ratio > 35%

% of overall housing loan production

current situation	2019 average	Jan-Feb 2020
First-time buyers	4,4	3,9
Second-time buyers	13,3	11,1
Rental investors	5,4	5,3
Others	3,1	4,3
First/second-time buyers	**17,7**	**15**
Investors/Others	**8,5**	**9,6**
Total	**27,7**	**27,5**
HCSF's recommendations to banks		
First/second-time buyers	**11,25**	
Investors/Others	**3,75**	
Total	**15**	

Source: Crédit Agricole SA/ECO estimates, based on the ACPR survey data

These recommendations are having a fairly limited effect for now

– Before the effects of the health crisis, and all else being equal, these recommendations might have cut loan production by roughly 10% in 2020, as the percentage of loans originated at the high end of the affordability ratio is reduced from around 27% to 15%.

– However, the reduction in production could be less sharp. Some borrowers with a higher share of debt to net income would have brought some of their savings to the table (life insurance, home savings, etc.) to bump up their down-payment and bring the ratio back below 33%.

– It appears that these recommendations were applied from early in 2020, but have yet to have any notable effect on loan origination or on the share of loans with an affordability ratio above 35%.

– In January-February, loan origination was slightly higher than in 2019, at €17.7bn per month compared to €17.4bn. And the share at the high end of the affordability ratio went down from 2019, though not by much: 27.5% vs. 27.7%.

– The effects of these recommendations, however, are expected to take hold over time, and reduce the proportion of high-ratio loans by a great deal.

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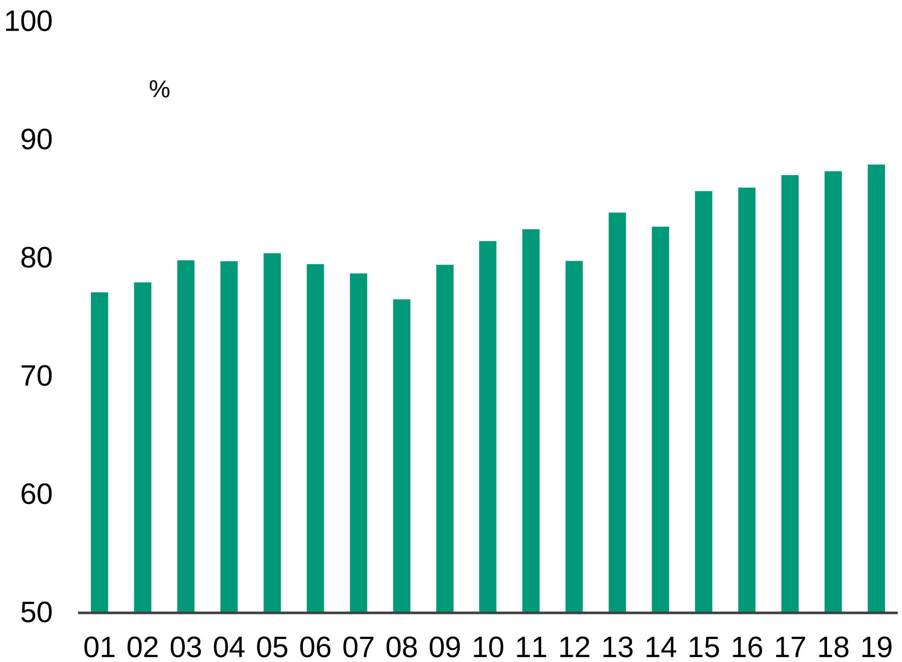
OBSTACLES TO RECOVERY

SLIGHT TIGHTENING IN CREDIT APPROVALS

Loan-to-value ratio at approval



Sources: ACPR, Crédit Agricole SA / ECO

Initial home loan term

Sources: ACPR, Crédit Agricole SA / ECO

The HCSF's recommendations and the economic environment (lower household income and higher unemployment due to the health crisis) are also expected to lead to a slight tightening in loan approval criteria in two respects:

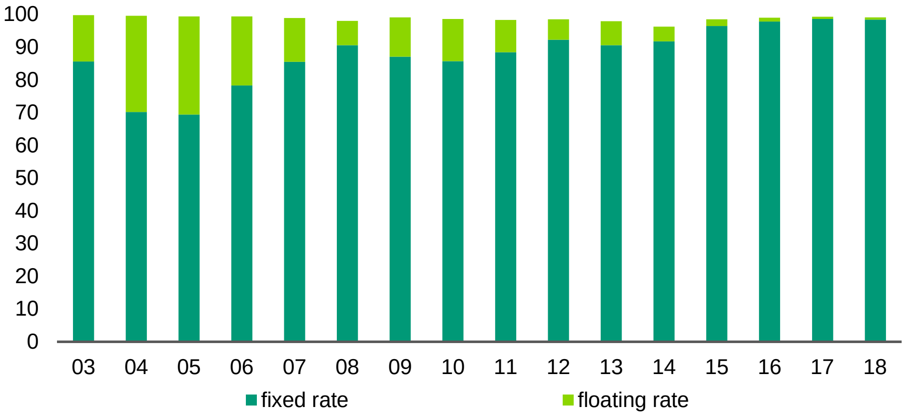
- **loan terms**: the average term grew to 20.4 years in 2019, compared to 19 years from 2011-2018; it dropped a bit in early 2020, to 19.8 years in March, and is set to continue falling over the months ahead.
- **down payments**: fell to 12.1% of total value on average in 2019, compared to 15.7% from 2011-2018. Down payments rose slightly to 13.6% in Q1 2020 and borrowers are expected to offer slightly more money down in the months ahead. The chart above shows the loan-to-value ratio at the time of approval. Down payment rate = 100% - Loan-to-value.

FRANCE – REAL ESTATE

RECENT DEVELOPMENTS AND OUTLOOK FOR 2020-2021

3 POSITIVE FACTORS
CONTROLLED RISK ON HOME LOANS

Variable vs. fixed rate production



Sources: ACPR, Crédit Agricole SA / ECO

Non-performing exposures vs. total exposures

Sources: ACPR, Crédit Agricole SA / ECO

Despite the sharp decline in the economic environment, the tightening of home loan originations is expected to remain fairly moderate. We are not looking at the bursting of a real estate bubble. There was no widespread overvaluation of prices, runaway construction, or significant rise in credit risks before the health crisis.

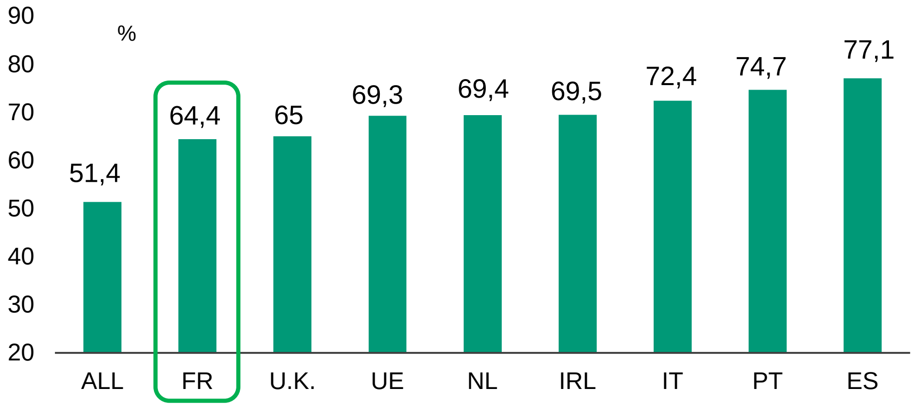
The French model for home loans remains prudent, with limited risks.

- Granting of loans based on borrower solvency (rather than the property value)
- Average affordability ratio (monthly repayments/income) is more or less stable in the long term at around 30% (see slide 15)
- Initial loan terms are “reasonable”, though they rose in 2019 to 20.4 years.
- The bulk of new loan origination was at fixed rates: 98.5% in 2018, down from 98.7% in 2017

The share of non-performing loans is expected to grow in 2020-2021, with the rise in unemployment. However, it was at a very low level in 2018, 1.32% in 2018, and was presumably about the same level in 2019. Additionally, household support measures and potential payment deferrals are expected to limit loan defaults and lead to moderate bad loan ratios in 2020-2021. **A major tightening of credit therefore seems unlikely to us.**

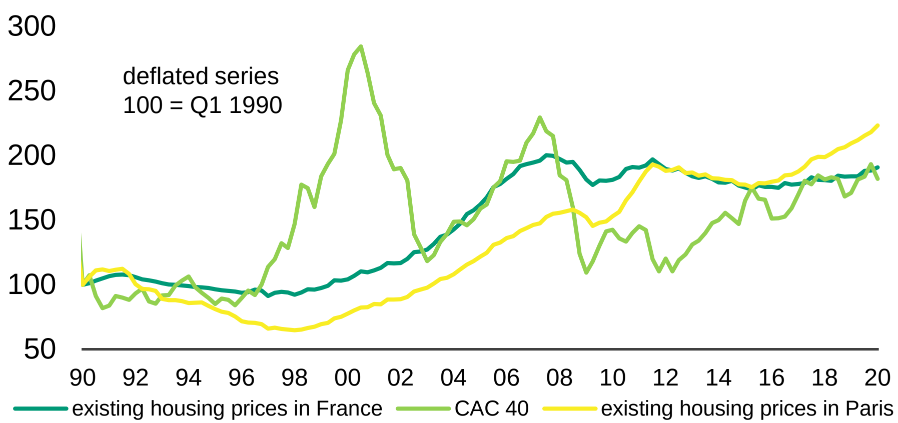
3 POSITIVE FACTORS
HIGH STRUCTURAL DEMAND

Homeownership rate



Sources: Year 2017, Eurostat, Crédit Agricole SA / ECO

Real Estate and Stock Market



Sources: Notaries, Insee, Datastream, Crédit Agricole SA / ECO

The many structural support factors for demand will continue to have an effect despite the health crisis and the economic recession:

- desire to be a homeowner (64% of French households are homeowners, compared to 69% on average in the EU);
- fairly strong demographics;
- reduced cohabitation (rising number of single or divorced households);
- preparation for retirement;
- saturation of the rental market.

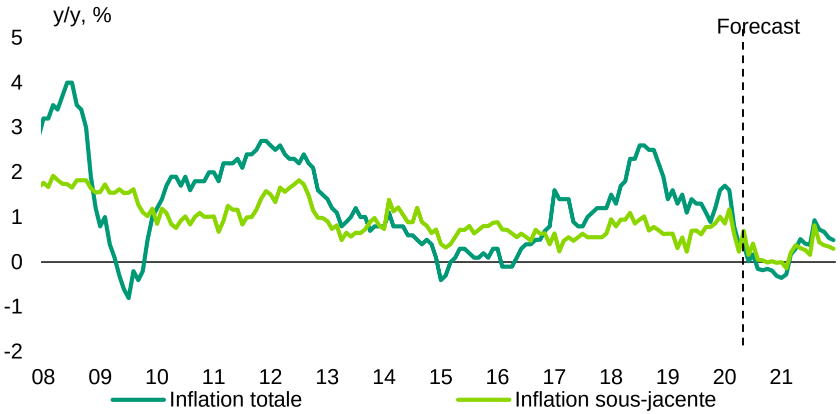
One already-operative factor that will be more important than ever in 2020-2021: The "safe haven" effect. The economic picture has deteriorated significantly and financial markets are volatile and uncertain. Equity markets were sharply down early on in the health crisis (the CAC 40 reached its low point on 18 March: down 30% from late February). They are expected to remain highly volatile. Most financial investments are offering very low, sometimes negative yields. Rental real estate yields are higher, about 3% in Paris and 4.5% elsewhere in France (gross yield before taxes and labour).

French households are therefore likely to opt for real estate. The tangible nature of real estate and its fairly regular growth offer a relatively attractive return and favourable valuation over long periods.

Demand will remain fairly brisk. It may lean more toward greener housing (homes with gardens) in connection with the growth of telecommuting.

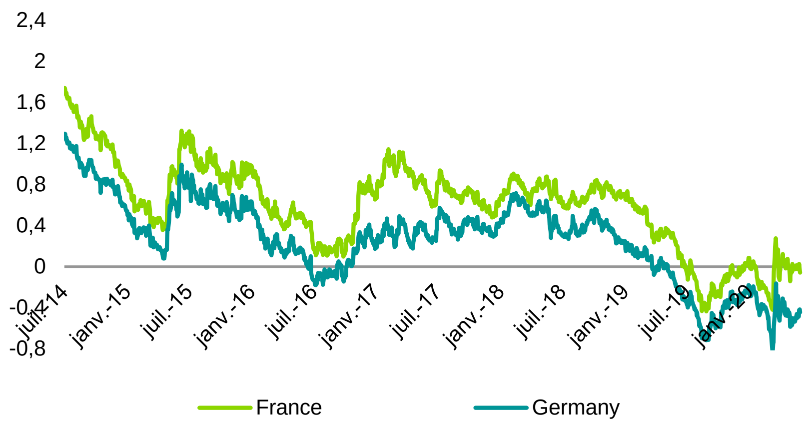
3 POSITIVE FACTORS
LONG-TERM RATES STILL VERY LOW

Inflation and underlying inflation in France



Sources: Insee, Crédit Agricole SA / ECO

Ten-year Bund/OAT rates



Sources: Banque de France, Crédit Agricole SA/ECO

Long 10-year OAT rates declined again in 2019, +0.12% on average. And yields dipped into negative territory in the second half of the year at an average of -0.15%. After a similar level in Q1 2020, -0.12% on average, they hit 0% in April-May.

10-year OAT rates are expected to remain very low in 2020-2021, at levels close to 0%, despite the steep growth in public deficit and debt ratios.

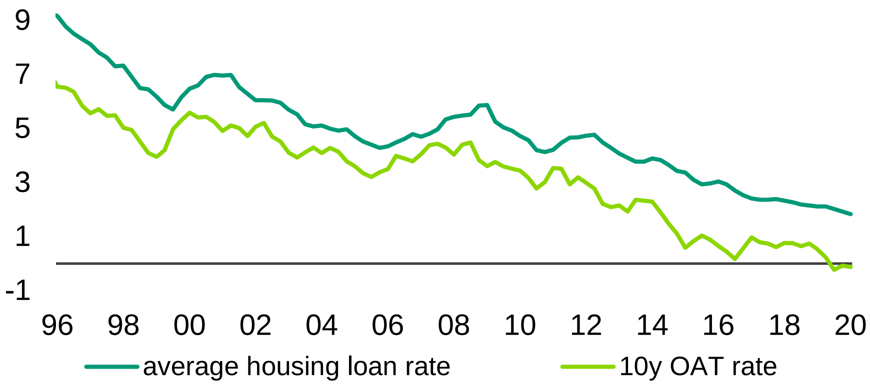
These extremely low levels are attributable to:

- ECB monetary policy that has eased again in recent months, as a result of the economic and health crisis, with an increase in unconventional measures: TLTRO under looser conditions; additional net asset purchases (€120bn until the end of the year); new €750bn public and private bond purchase programme (Pandemic Emergency Purchase Programme, PEPP); to which €600bn was added in early June.
- Investor risk-aversion and lack of visibility, which are leading to an appetite for little-to-no-risk debt instruments.
- The lack of inflationary pressure (major recession; risk of surplus productive capacity; decline in commodities prices; higher unemployment and lack of wage pressures).

As a result, the Bund yield should be negative in 2020-2021, close to -0.5%. With an OAT/Bund spread close to 50 basis points, or even a bit less, 10-year OAT yields are expected to be close to 0%.

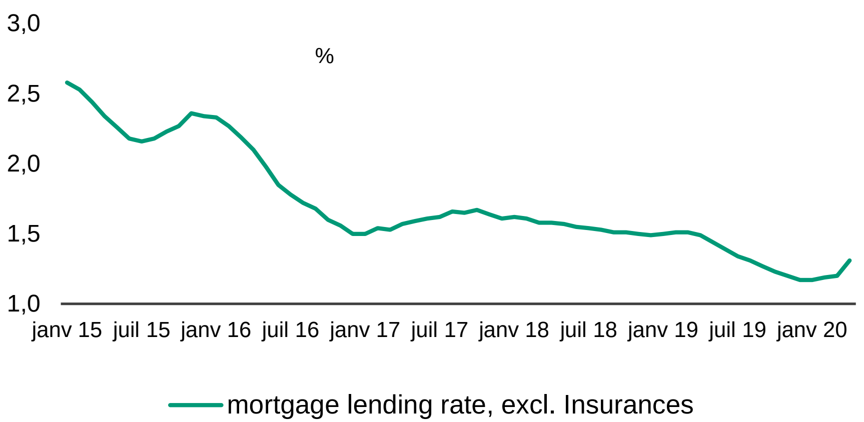
3 POSITIVE FACTORS
LOAN RATES STILL ATTRACTIVE

Home loan rates (incl. insurance)



Sources: Banque de France, Crédit Agricole SA/ECO

Home loan rates



Sources: Banque de France, Crédit Agricole SA/ECO

The average rate for a fixed-rate home loan (APR, including insurance, quarterly series) reached 4.6% in 2012. It has continued to fall ever since: 3.1% in 2015, 2.05% in 2019, 1.83% in Q1 2020.

In the monthly series (long-term fixed-rate loans, excluding insurance), we are seeing the same trend. The loan rate, which reached 3.9% on average in 2012, fell to 1.55% in 2018 and 1.36% in 2019. That rate fell to 1.17% in late 2019.

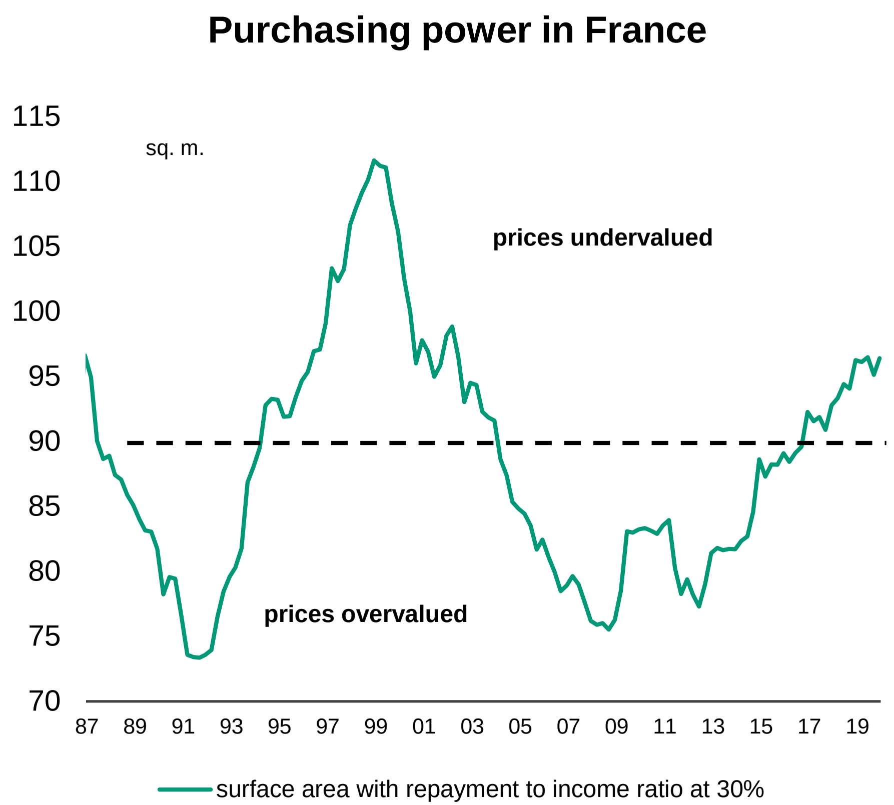
It started to rebound slightly in early 2020, hitting 1.19% in February-March. It reached 1.31% in April due to the rise in renegotiations. Excluding renegotiations, it has remained stable and very low, 1.15% in April, after 1.14% in late 2019.

This gradual fall in lending rates stems from the steady drop in the 10-year OAT yield (the baseline for home loan rates) and stiffer competition between lenders as they seek higher volume to offset the lower rates.

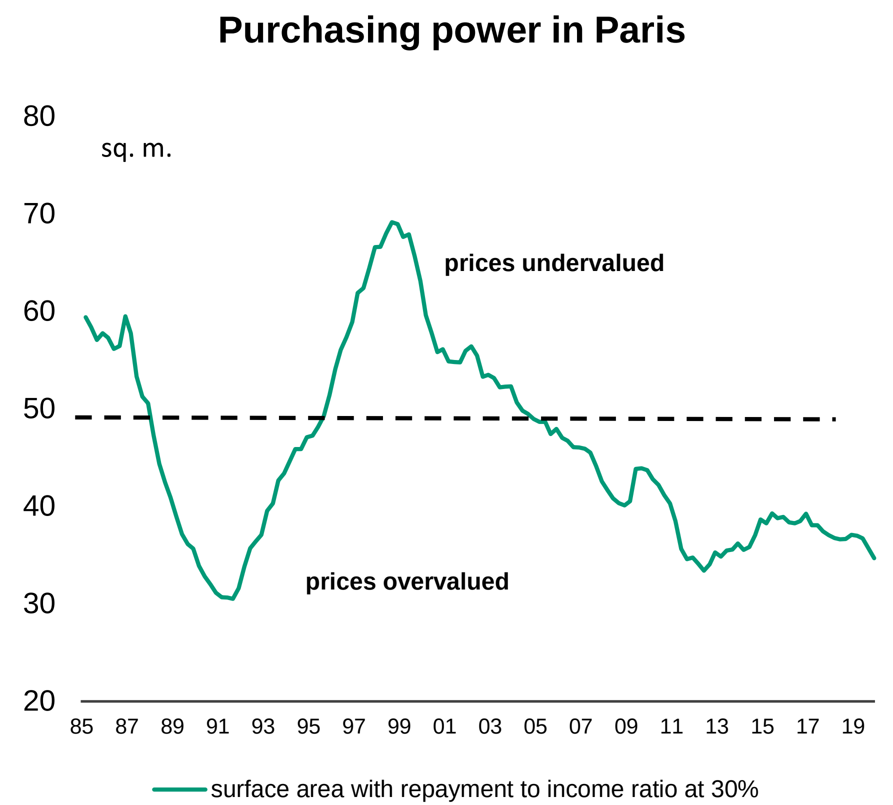
In 2020-2021, it is expected that 10-year OAT rates will be stable at a level close to 0% and that stiff competition will continue in a less buoyant market; conversely, loan approvals will be a bit more cautious. Home loan rates could rise very slightly but are expected to remain low.

Still-low and attractive rates → the dead-weight effect and support for the real estate market remain in place.

3 POSITIVE FACTORS
HOME PURCHASING POWER ACCEPTABLE IN FRANCE



Sources: Clameur, Insee, Banque de France, Crédit Agricole SA / ECO



Sources: OLAP, Notaries, Banque de France, Crédit Agricole SA / ECO

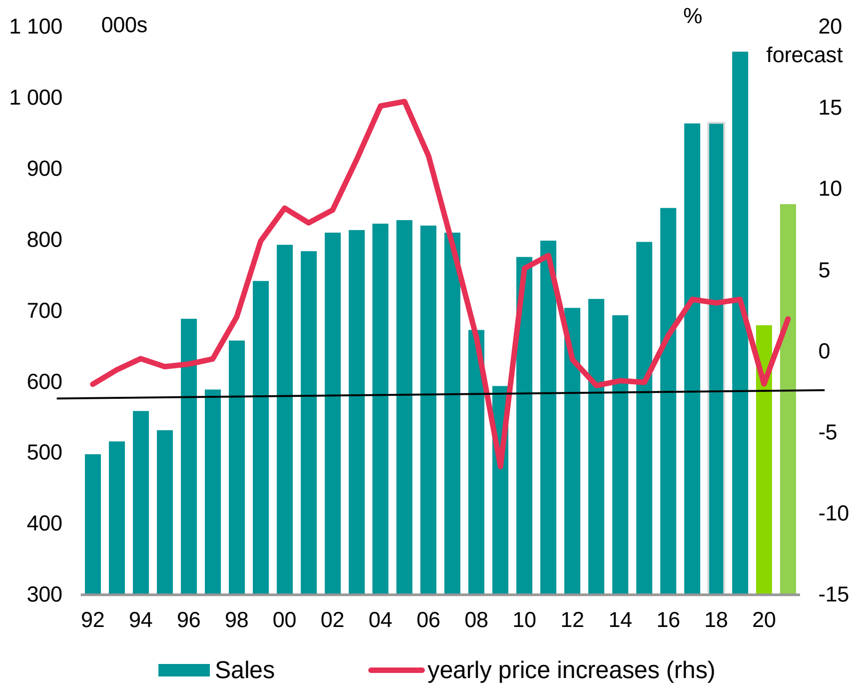
Home purchasing power = surface area that a first-time buyer on average income is able to purchase over time under market conditions with an affordability ratio of 30%.

In France, the level is acceptable and close to its historic average. It is even a bit higher than recent years, due to the decline in interest rates and the lengthening of loan terms. Prices are not overvalued. The level of purchasing power is not expected to hinder the market's recovery in the second half of the year. Additionally, in late 2020 and 2021, the decline in loan terms is set to somewhat diminish purchasing power, but this will likely be offset by the expected drop in prices.

In Paris, on the other hand, and in some major cities, prices are clearly overvalued, which could slow the market's recovery.

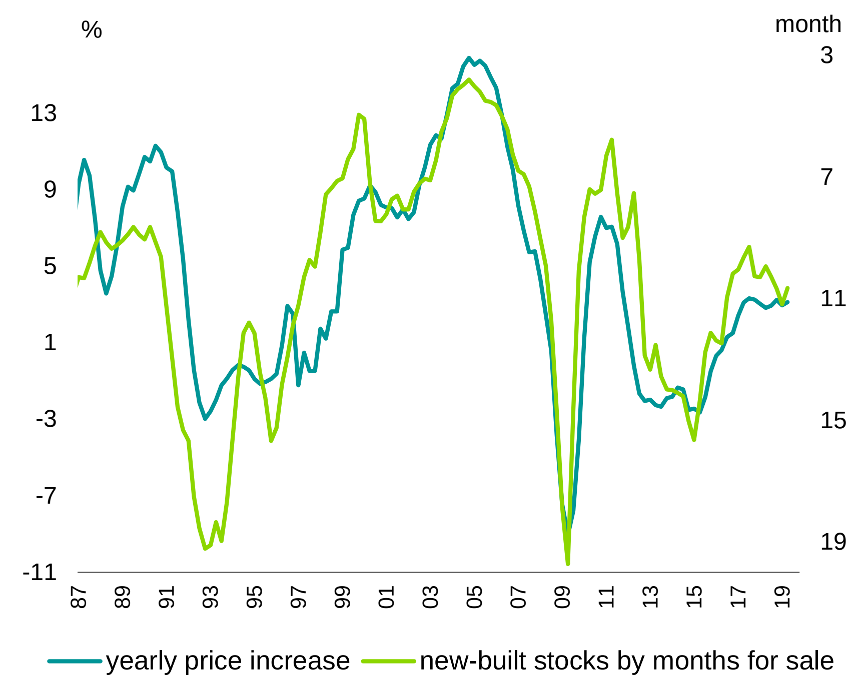
3 POSITIVE FACTORS
CAUTIOUS, GRADUAL RECOVERY BEGINNING IN MID-2020

New build sales and prices



Sources: CGEDD, Notaries, Insee, Crédit Agricole SA / ECO

Prices of existing homes and stock of new builds



Sources: Ministry of Ecology, Notaries Crédit Agricole SA/ECO

After the decline in sales in March-May, buyers will cautiously, gradually return in the second half of 2020. Purchase projects not finalised or carried out between March and May will be postponed to H2, but not completely. The monthly level of sales in H2 is expected to be about 20% lower than the average 2019 level.

Total 2020 sales far below 2019 levels, -30 to -35% for both existing and new buildings. In 2021, sales are expected to recover but remain 15% lower than in 2019 (about 850,000 existing home sales).

Prices moderately down, especially in segments where prices were overvalued (Paris, Bordeaux, Lyon, Nantes). But there will be no significant decline because demand will remain fairly high and supply remains limited.

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05/06/2020	United Kingdom – Brexit: Back to the future	UK
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03/06/2020	Will Covid-19 serve as a stimulus for the energy transition in France?	Energy
27/05/2020	China: restoring the contract of confidence	China
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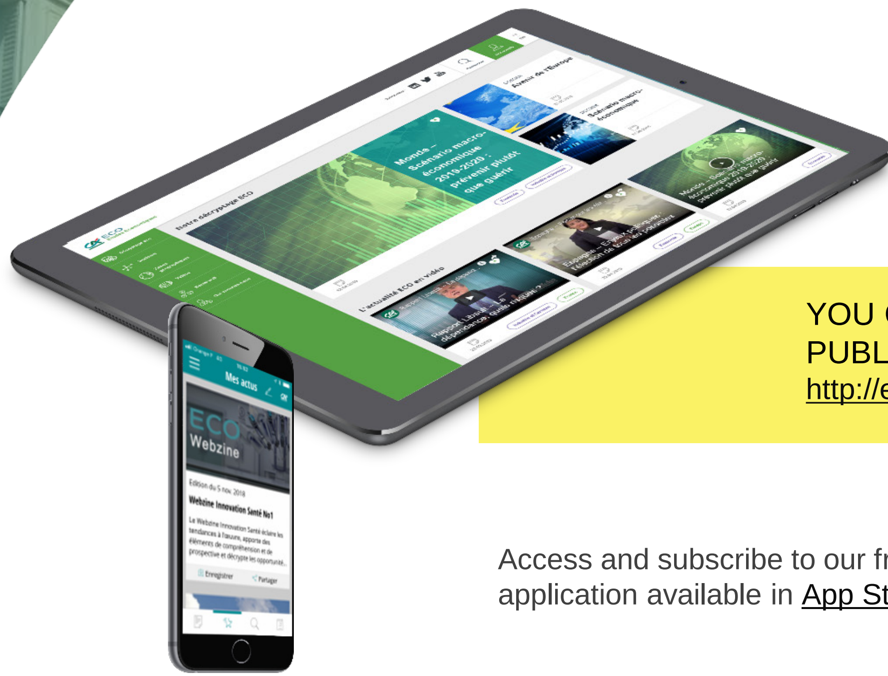

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