FRANCE – RESIDENTIAL REAL ESTATE

VERY UPBEAT MARKET IN 2021

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OLIVIER ÉLUÈRE

WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

KEY POINTS

RESIDENTIAL REAL ESTATE 2020-2021

Modest contraction in 2020

– The residential property market held up relatively well to the severe shock delivered by the Covid-19 pandemic.

– Transactions in the second-hand segment declined by only 4% year-on-year to total a very high 1.02 million units. Prices rose 6.5% on an annual basis in the fourth quarter.

– Performance was uneven across the new-build segment: sales of developer-led properties fell a steep 24% in 2020, while single-family home sales fared much better (-8.5%).

– Mortgage lending was stable in 2020 (excluding renegotiated loans). Amounts outstanding rose a sharp 5.5% year-on-year at the end of 2020.

What factors are holding back the recovery in 2021?

– **The economy** has improved significantly with growth of some 6% this year. Disposable income is set to rise 1.6% and consumer confidence is on the up. But unemployment is still relatively high and should remain around 7.9% in 2021 before edging up further in 2022 to 8.3%.

– **New builds were already in short supply** before coronavirus hit. Supply is now even scarcer with the flow of building permits disrupted in 2020 as local authorities gave all their attention to tackling the pandemic and running the delayed local elections.

– **Slightly tighter credit conditions:** under the recommendations of France’s High Council for Financial Stability (HCSF), banks have gradually scaled back lending at higher debt service ratios. The weight of those loans in new housing loans was reduced to 22.7% in Q3 2020 from 27.7% in 2019. Over time, this weight must be cut to 20%. The HCSF’s recommendation becomes mandatory as of 1 January 2022.

Positive factors

– **Structural support factors persist:** demographics, retirement planning, and the search for a safe haven – intensified by the pandemic. People see property as a secure investment: it is tangible and the market tends to be predictable. Yields are attractive and valuations are generally favourable over long periods.

– **Demand from buyers is tilting towards more comfortable and greener properties,** driven by coronavirus, the pressing need to address the environmental emergency and the growth of working from home. Sales are up, with special interest in second-hand houses in areas within striking distance of the big cities.

– **Prudent French model of mortgage lending** that contains risk. Low mortgage NPL levels in 2019-2020. In our view, support measures for households and the option to possibly extend loan terms should keep defaults in check in 2021-2022.

– **Interest rates should remain very low**, close to where they were in Q2 2021 at 1.14% (excl. insurance). 10-year OAT yields should stay at rock-bottom: 0.35% at end-2021 and 0.15% at end-2022.

– Purchasing power is satisfactory and prices in general are not overvalued in France.

2021 forecasts

– **Sales should recover in 2021** and hit new records in the second-hand segment: 1,140,000 units, up 11% on 2020 and +7% vs. 2019. Sales of new builds will surge by some 20%.

– **We expect prices to rise by a fairly hefty** 5%, with prices increasing at a faster rate outside Paris, and slowing – or even falling somewhat – in some big cities (Paris, Bordeaux, Lyon and Nantes). However, we do not see signs of a significant drop in these segments.

CONTENTS

CONTEXT: THE FRENCH ECONOMY AND PANDEMIC

ROBUST RECOVERY IN 2021-2022

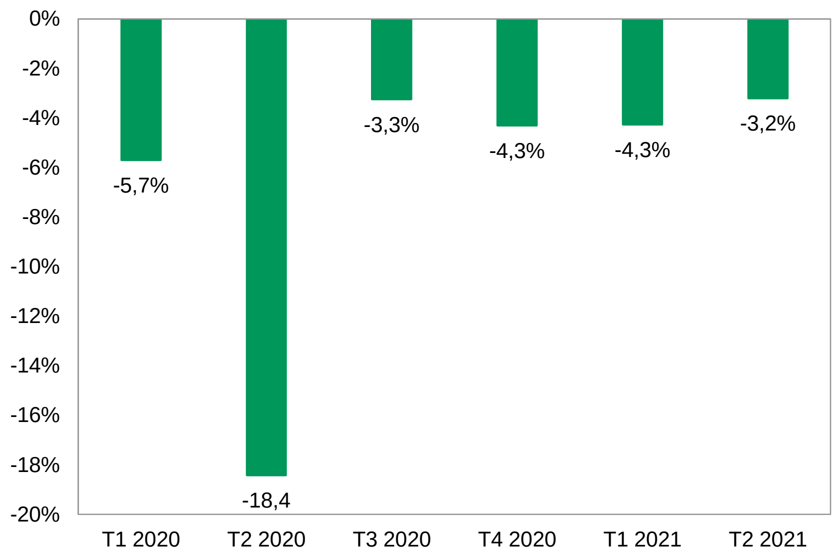
The outlook for growth depends heavily on assumptions about how the pandemic will play out in 2021. Our outlook is clouded by the risk of further spread of the Delta variant and the potential emergence of new, more resistant strains. That said, these are our assumptions: even if there are further waves of infection, we think the government will not reimpose the restrictions it eased last spring, relying instead on the success of its vaccination drive to head off outbreaks. At the start of September, 45 million French people had been fully vaccinated. We expect a significant rebound in consumption-driven growth in the second half and the recovery to continue in 2022 fuelled by consumption and investment.

- Measures to curb the spread of Covid-19 and emerging variants once again set the pace of growth in the first half of 2021. After a contraction of 8% in 2020, GDP flatlined in the first quarter of 2021 (0% vs. Q4 2020) as pandemic restrictions remained in place (earlier curfew, shopping centres closed, etc.) with a knock-on effect on services. Lockdowns were reimposed in some areas of France at the end of the quarter.
- As variants spread in April, restrictions were extended across France, with business disrupted until mid-May. Restrictions were quickly lifted on 19 May and the vaccination drive kicked into high gear. As a result, consumer spending picked up quickly and strongly in the second half of Q2. Growth was 1.1% in Q2 (Q2/Q1). But activity will be 3.2% below “normal” (in Q4 2019).
- The economy will pick up in the second half of 2021 as the vaccination drive intensifies with higher take-up as a result of introducing the Covid pass (pass sanitaire). Extended emergency measures and the recovery plan will also play a role in shoring up growth, notably investment by companies, which returned to pre-crisis levels in Q1 and continues to recover. Household spending is still down 5.9% relative to the norm for Q2, but should be the main growth driver in the coming quarters. After a robust quasi-automatic rebound during the summer as shops reopened – with excessive consumption of some goods – and service use picked up, growth should gradually trend back to pre-crisis levels. 2.5% GDP growth is expected in Q3 (from Q2).
- Some industries will take longer to recover (aeronautics, automotive and tourism amongst others) on faltering demand and a scarcity of some intermediate goods affecting supply. Although bankruptcies and unemployment (which was very low in 2020) are expected to increase slightly, it will not be the wave of business failures feared at the outset of the pandemic.
- **Average annual GDP growth in 2021 will exceed the government target of 6% and return to pre-crisis levels at the end of the year, rising by around 4% in 2022.**

CONTEXT: THE FRENCH ECONOMY AND PANDEMIC

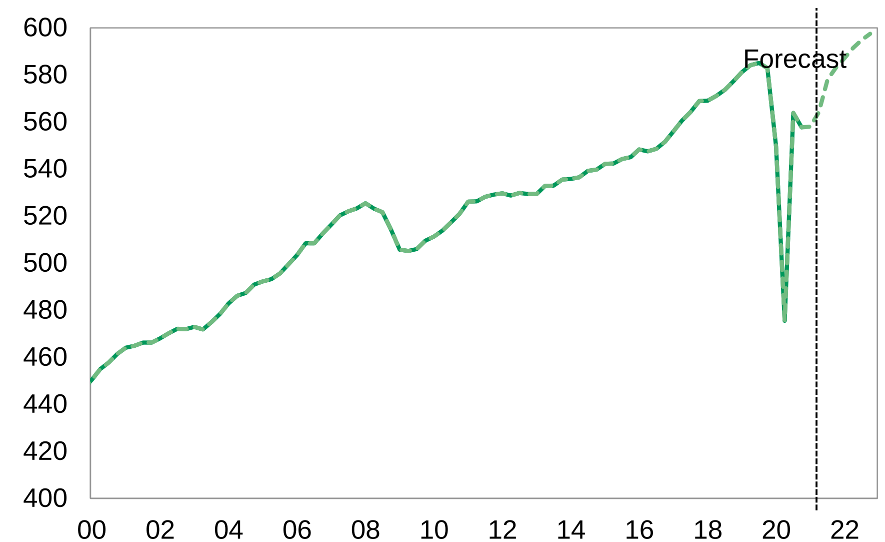
ROBUST RECOVERY IN 2021-2022

GDP level relative to normal (Q4 2019)



Sources : Insee, Crédit agricole SA / ECO

Quarterly GDP



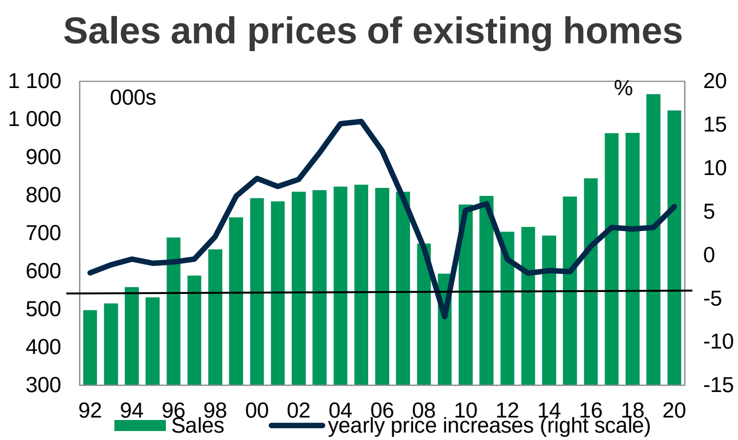
Sources : Insee, Crédit agricole SA / ECO

After growing 1.8% in 2019, GDP slumped a record 8% in 2020. GDP bounced back sharply in Q3 2020 (up 18.6% QoQ) after a 13.5% decline in Q2 before contracting 1.1% in Q4. Gradual recovery in activity in H1 2021, stepping up in H2 (see previous slide).

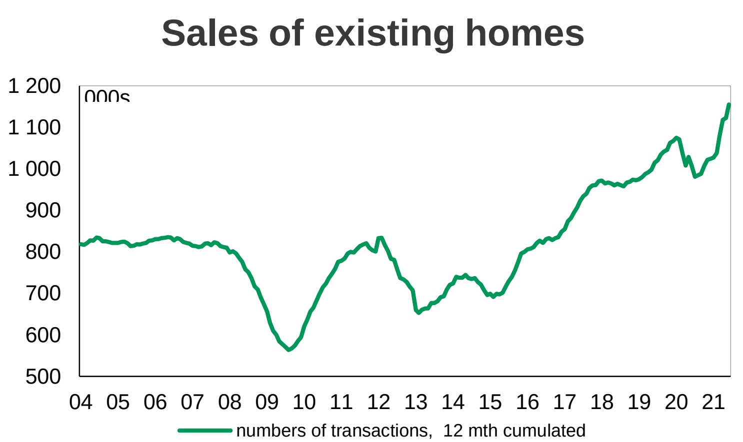
Annual average GDP growth in 2021 is estimated at more than 6% and close to 4% in 2022. Quarterly GDP will return to pre-crisis (Q4 2019) levels in Q4 2021 (see graph above).

RECENT DEVELOPMENTS

SALES OF SECOND-HAND PROPERTIES TOOK OFF IN 2021



Sources : CGEDD, Notaires, Crédit agricole SA / ECO



Sources : CGEDD, Notaires, Crédit agricole SA / ECO

At 1,067,000 units, sales of existing homes were at record highs in 2019, up 9.7% on 2018 (973,000 units), well ahead of the peak during the previous boom in 2004-2006 when sales totalled 825,000 a year.

The market continued very brisk in early 2020. **Sales fell sharply as of mid-March as the first lockdown took hold in France.** The average number of sales plummeted 37% in March-April to 54,000 per month, from the 86,000 recorded one year earlier. Most people were confined to their homes, real estate agencies were shuttered and notaries' office hours pared back.

When lockdown restrictions were lifted, demand bounced back from May to September, boosted by a backlog of sale closures as pre-Covid sales agreements were finalised. May to September saw a moderate decline in sales by 4% compared to the record highs in 2019.

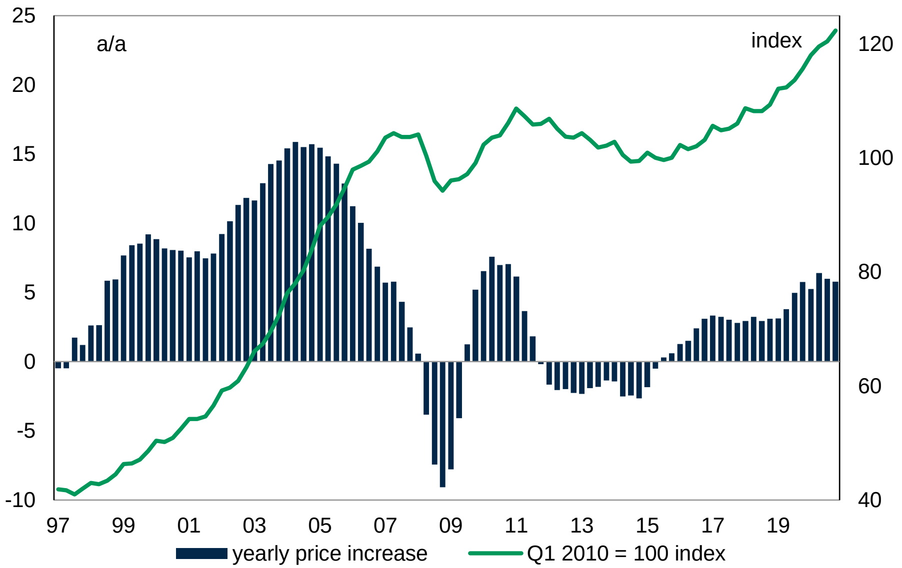
The second lockdown in November was less strict than the first. Sales rebounded in December as agencies reopened their doors. **All in all, sales declined a moderate 4% yoy in 2020, with 1,024,000 sales.**

Sales were brisk in the first half of 2021, despite a third lockdown. The market recovered well with new record highs: **over a 12-month period, sales rose 14.7% in June to a cumulative 1,155,000 sales.**

RECENT DEVELOPMENTS

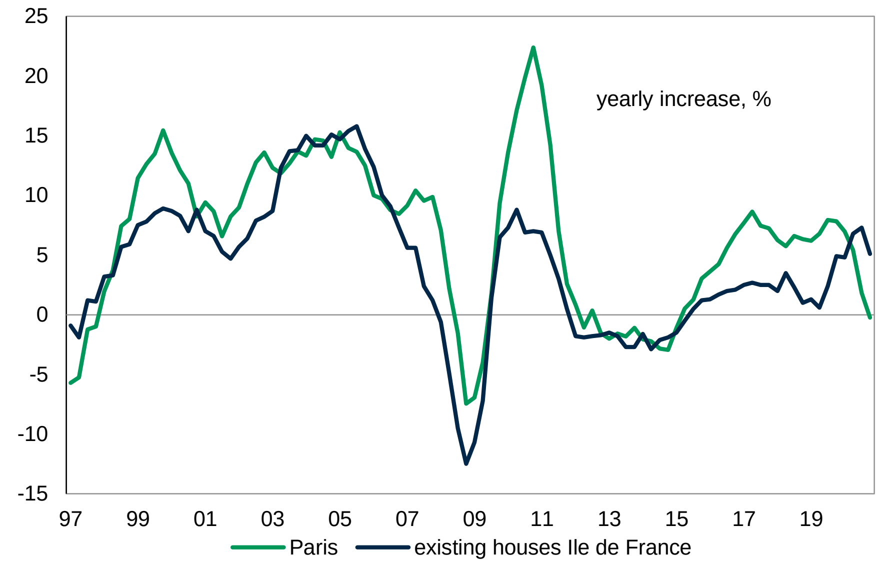
HOUSE PRICE ACCELERATED IN 2020-2021

Prices of existing homes in France



Sources : Insee, Notaires, Crédit agricole SA / ECO

Prices of existing homes in Île-de-France

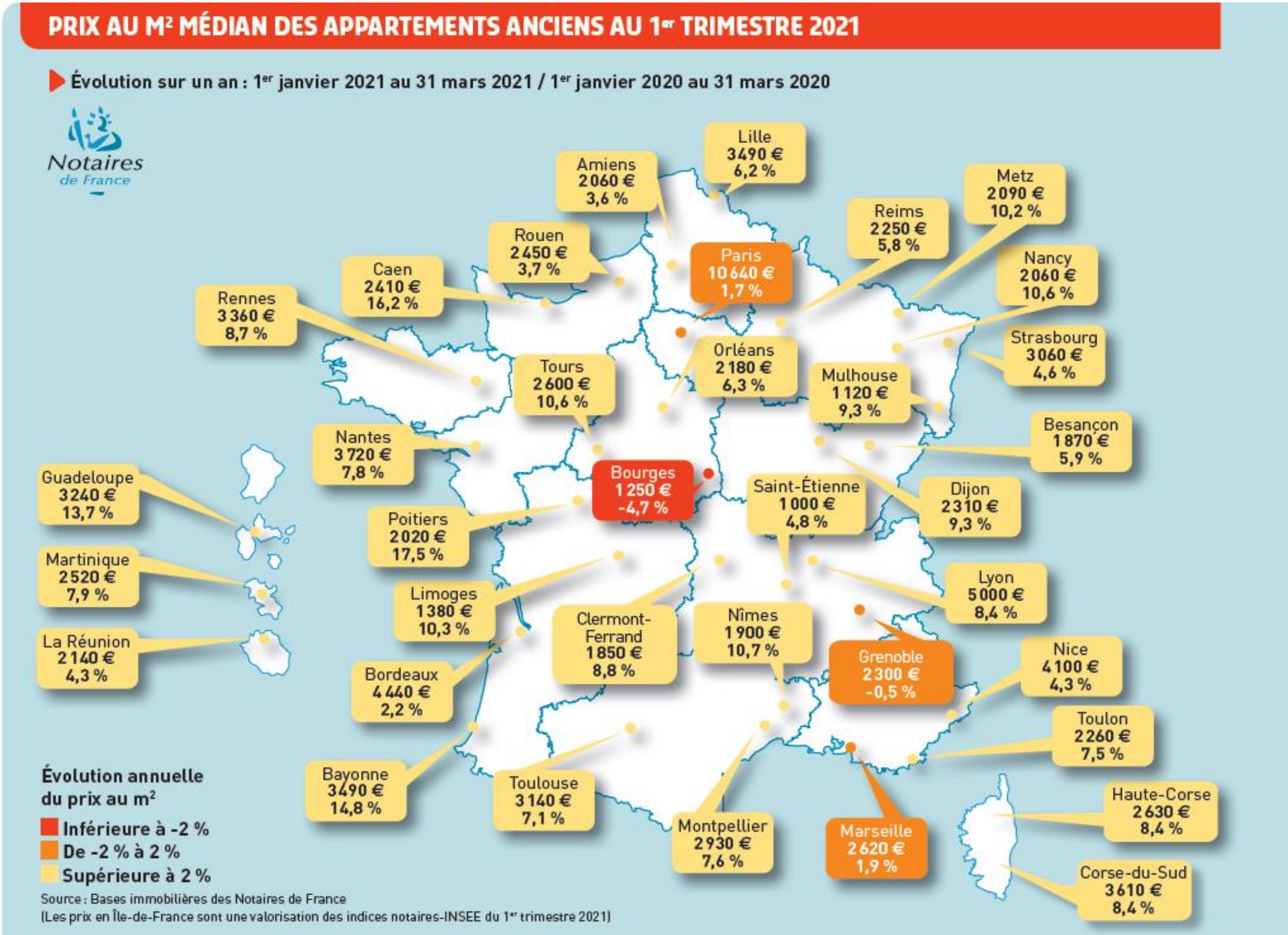


Sources : Insee, Notaires, Crédit agricole SA / ECO

After increasing a steady 2.7% on average in 2016, 2017 and 2018, house price growth picked up in 2019 to an annual pace of 3.7% in the fourth quarter. 2020 confirmed this trend with price growth accelerating to +6.4% yoy in Q4. The pace of annual growth slowed slightly to 5.9% in Q2 2021. Prices in the rest of France rose at an annual rate of 7% and by 3.1% in Île-de-France. They dipped a slight 0.2% in Paris.

Apartment prices grew at a slightly slower annual pace than house prices : up 4.6%, vs. +6.8% yoy in Q2 2021. Prices edged down 0.2% on an annual basis in Paris, after rising 5.5% in Q4 2020. In Lyon, the pace of growth slowed sharply to 5.9% from an annual rate of 9.2% in Q4 2020. Price growth for existing homes accelerated, especially in Île-de-France. Some buyers are keen to buy greener houses (homes with gardens) as people spend more time working from home (*see* page 9).

RECENT DEVELOPMENTS



Prices by city in Q1 2021 Prices for second-hand apartments climbed 5% on average year-on-year in Q1 2021, with increases of 3.6% in Ile-de-France and 6.3% outside this region. *Map from the French housing market report, issued by Notaries of France.*

RECENT DEVELOPMENTS

DEMAND TILTING IN NEW DIRECTIONS

As shown in the previous slides, demand is brisk, especially in the second-hand housing market. But we see demand tilting in a new direction overall as buyers look for more comfortable and greener homes – preferably houses with a garden. Sales are up, with special interest in second-hand houses in areas within striking distance of the big cities.

People are moving to houses in mid-sized cities

Demand in recent years was particularly acute in areas where housing is scarce, notably Paris and some other large cities, such as Lyon, Bordeaux and Nantes, where the economy is thriving and new TGV routes have reduced travel time to Paris making them more attractive places to live. Prices rose sharply between 2015 and 2020: by a cumulative 35% in Paris and 49% in Lyon. Cumulative price growth over this period was only 16.1% for houses in Île-de-France and 17.6% outside this area.

The picture has changed in the past year.

- People are leaving big cities like Paris and Lyon and choosing to live instead in older houses in adjacent smaller towns.
- This trend has dampened price growth in Paris, and even pushed it into negative territory in Q2 2021 (-0.2%), compared with +6.7% at the end of 2019.
- At +7.3% yoy in Q1 and +5.1% in Q2 (from +0.6% at end-2019) annual house price growth picked up sharply in Île-de-France.
- In France as a whole, prices grew at a faster rate for houses year-on-year (+6.8% in Q2) than for apartments (+4.6%).
- Price growth was slower in Lyon and Bordeaux, but accelerated in mid-sized cities like Rouen, Caen, Rennes, Angers and Reims.

Where does the explanation lie?

Pandemic-related impacts: a series of lockdowns and the growth of working from home have prompted a growing number of households (families with children) to look for greater comfort and a greener living environment. They want more space, apartments with balcony or houses with gardens. And environmental considerations are intensifying this trend.

Solvency: in cities where prices have continued their inexorable rise in the past few years, purchasing power has suffered. Homes are often overvalued and first-time buyers have an ever-higher mountain to climb before they can turn the key on their first home (see slide 26).

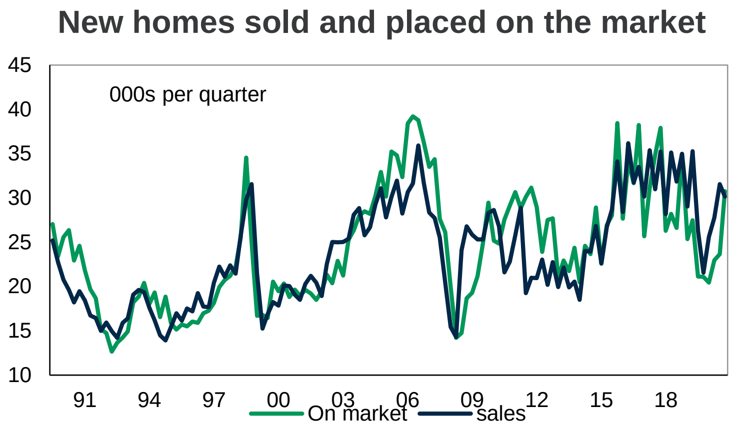
Build-up of negative factors in large cities: new appealing markets (peripheral areas, mid-sized towns) are reaping the positive effects of Covid and working from home. Conversely, a series of adverse factors is weighing on the housing market in big cities: Covid, solvency (see above), lack of space, lack of green space, scarcity of new builds in housing pressure areas, foreign buyers staying away, investment buyers facing slightly tighter credit conditions, uncertainty around how the pandemic will play out, and stricter regulations on Airbnb type rentals.

Will the trend last?

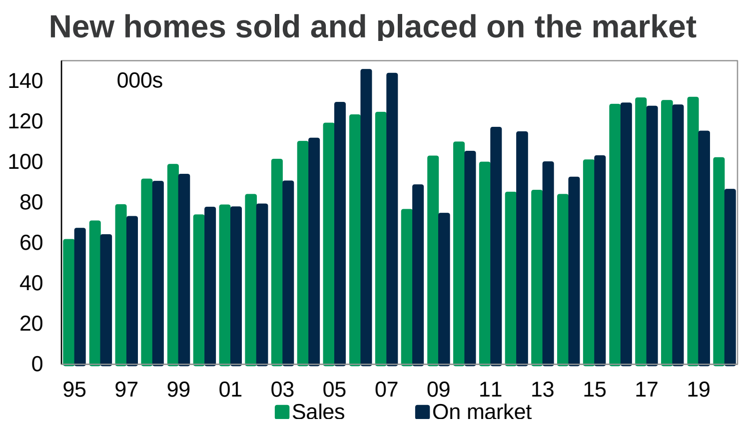
Structural changes (working from home, measures to address climate change) will continue to fire up the housing market in areas along the edges of the large cities and in mid-sized towns, while the Grand Paris transport project will deliver benefits for Île-de-France. Yet we think the big cities – Paris especially – will hold up well for several reasons: sound residential property market fundamentals; end of the pandemic and return of tourists; purchases by foreign buyers; good schools; high-quality health services (doctors and hospitals); buzzing cultural life; economic and historic appeal, etc.

RECENT DEVELOPMENTS

SALES OF NEW BUILDS REBOUND IN EARLY 2021



Sources : Ministère de l'Ecologie, Crédit Agricole SA / ECO



Sources : Ministère de l'Ecologie, Crédit Agricole SA / ECO

Sales of new properties declined a steep 16% in 2020, but the market avoided collapse. Sales are recovering in 2021.

Sales of new-builds (developer segment, private sales, source: Ministry for the Ecological Transition):

- 131,000 units in 2019, practically unchanged form 2018 and 6% above the peaks of 2006-2007.
- Sales contracted severely in 2020, down 23% on an annual basis to 101,000 units, with a steep 38% drop in Q2 2020 (Q2/Q1).
- Sales bounced back 29% year-on-year in the first half of 2021, but remained 8% short of H1 2019 performance.

Block sales of new build housing (developer): sales recovered 12% in 2020 to 39,500 units – despite the Covid-19 crisis – as institutional investor appetite for new builds sharpened, following a slight dip in 2019 on the reorganisation of the social housing sector (Elan plan, cuts in housing benefit and rents) (source: FPI). This upward trend continued in early 2021.

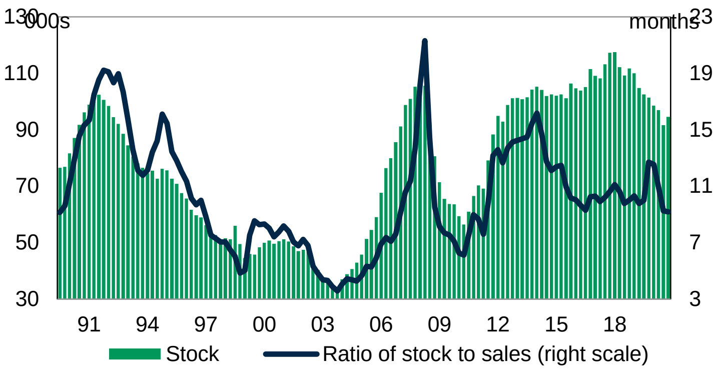
Sales of non-developer single-family homes:

- Sales put in a slight recovery in 2019 to 125,600 units, up 5% year-on-year. These levels remained well below the 2006-2007 record highs of 189,000 per year.
- Sales declined in 2020 when Covid hit. In the three pandemic months from March to May, sales slumped 43% year-on-year before bouncing back from June to September. Sales were down a fairly limited 8.5% on an annual basis in 2020 and totalled 114,900 units.
- Sharp recovery in 2021. In June, the 12-month total was 140,000 units, +25% year-on-year. We expect full-year 2021 sales to come in around 140,000 units, up 22% year-on-year.

RECENT DEVELOPMENTS

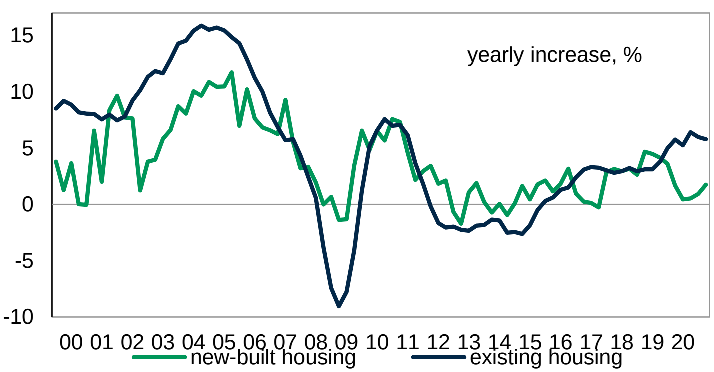
SUPPLY OF NEW HOMES FOR SALE REMAINED TIGHT IN EARLY 2021

Stock of new homes



Sources : Ministère de l'Ecologie, Crédit Agricole SA / ECO

House prices



Sources : Ministère de l'Ecologie, Crédit Agricole SA / ECO

At 114,000 units, there were **fewer new homes for sale** (developer) in 2019, -10% yoy. This fall is linked to difficulties getting new developments off the ground (scarce, high-priced land, strict standards, objections to proposed developments and the lead time to obtain building permits).

The supply of new properties for sale declined in 2020: 86,000 units, down 25% on an annual basis, with a steep 40% decline in Q2 as lockdowns bit and fewer permits were issued. Although the number picked up 29% in the first half of 2021, new homes for sale still lag 12% behind where they were in the first half of 2019.

Stock of new homes (all new developer housing for sale and unsold)

- Gradual decline: 94,500 units in Q2 2021, down 7% yoy (101,400 in Q2 2020).
- The average time to sale was down to 9.2 months in Q2 2021, from 12.7 months one year earlier (the historic average is around 10 months).

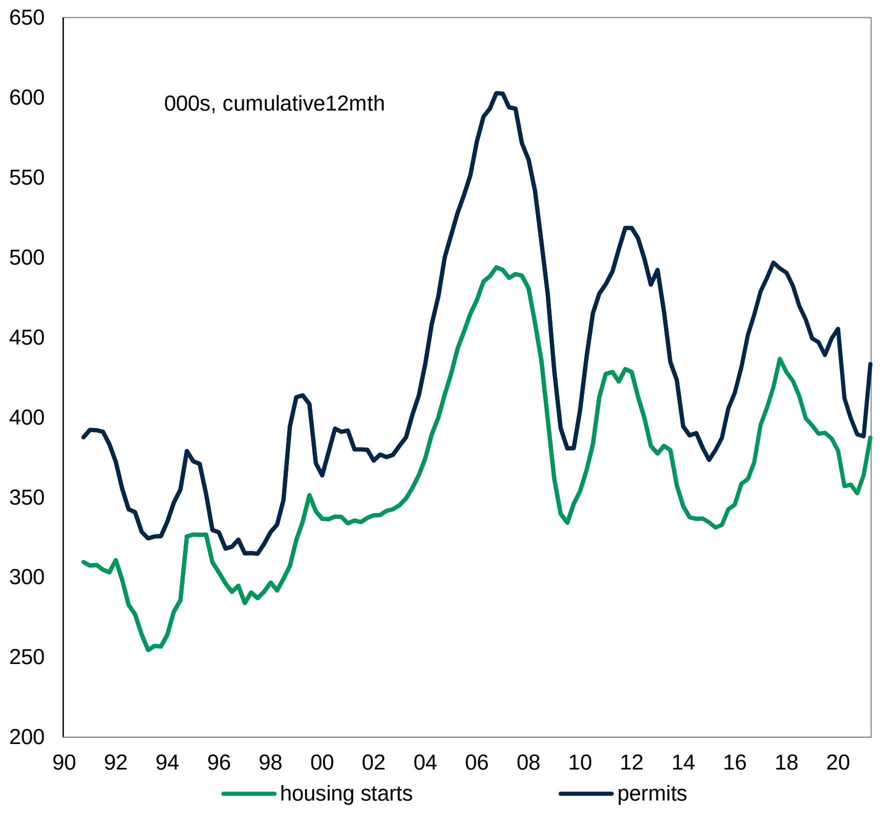
Sale prices were practically stable for apartments and ticked up for houses (developer) on scarce supply, higher building costs and increased demand for houses:

- Apartments: +1.8% year-on-year in Q2 2021 (+1.7% in Q2 2020).
- Houses (developer): +7.6% year-on-year in Q2 2021 (+10.9% in Q2 2020).

RECENT DEVELOPMENTS

CONSTRUCTION SLOWED IN 2020

Building permits and housing starts



Sources : Ministère de l'Ecologie, Crédit Agricole SA / ECO

Construction contracted slightly in 2019. Time lag of several months between signature of sale agreements and starting construction → Gradual impact on construction of the decline in prices for new builds. New housing starts fell 3.2% year-on-year to 387,000 units, while the number of permits issued dropped 2.6% yoy to 449,000.

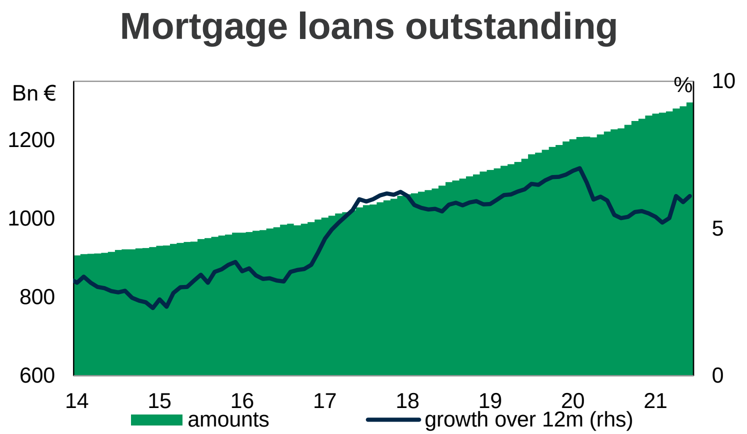
Beginning in March 2020, the public health crisis led to a near-total shutdown of construction sites (about 80% stopped work in the first few weeks, improving to 70% in mid-April when a guide to Covid-19 safe work practices was issued). The sector opened up again in May-June. In Q2 2020, building permits hit a record low of 67,000, down 40% in a year. Housing starts declined 24% year-on-year.

The picture brightened in the second half of 2020. In full-year 2020, housing starts and permit issuances were a mediocre 353,000 and 389,000 units, down 9% and 13%, respectively, year-on-year (see slide 17).

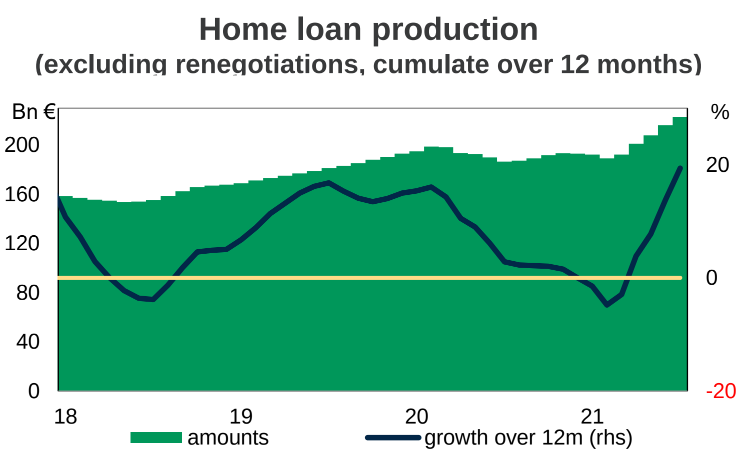
The sector continued to recover in H1 2021, but slowly. The 12-month total for housing starts was 388,000 units, +8.5% year-on-year. Permits increased to 433,500, +5.2% year-on-year.

RECENT DEVELOPMENTS

BRISK GROWTH IN MORTGAGE LOANS IN 2021



Sources : Banque de France, Crédit agricole SA / ECO



Sources : Banque de France, Crédit agricole SA / ECO

- The home loans outstanding ticked up in 2020 and grew a robust 5.5% year-on-year in December in a little less buoyant performance than in 2019 (6.8% in December 2019). Growth accelerated in the first half of 2021, up 6.1% on an annual basis in June.
- Gross new home loan production (excluding renegotiated mortgages), was stable in 2020, despite the pandemic and is recovering well in 2021. New production soared 26% yoy in first half 2021.
- This is partly due to the effect of the lockdown in the early part of 2020. But, growth was also a robust 22% compared to a “normal” half (2019), reflecting brisk house sales and higher prices.
- In 2021, we expect to see new mortgage loan production (excluding renegotiations) tick up a sharp 15% on an annual basis. The stock of home loans should be up 6% at end-2021.

CONTENTS

ANALYSIS AND OUTLOOK

MAIN DRIVERS

The residential market stood up well to the severe shock delivered by the Covid-19 pandemic. And it's important to remember that this is an exogenous shock. It is not a crisis inherent in the real-estate market like in 1991 or 2008, caused by runaway prices, credit or construction and a substantial increase in risks on the housing market and among lenders. The market is buoyant and some segments are overpriced, but we are not in a real-estate bubble.

What to expect in 2021-2022? A persistently strong market with sales hitting new record highs.

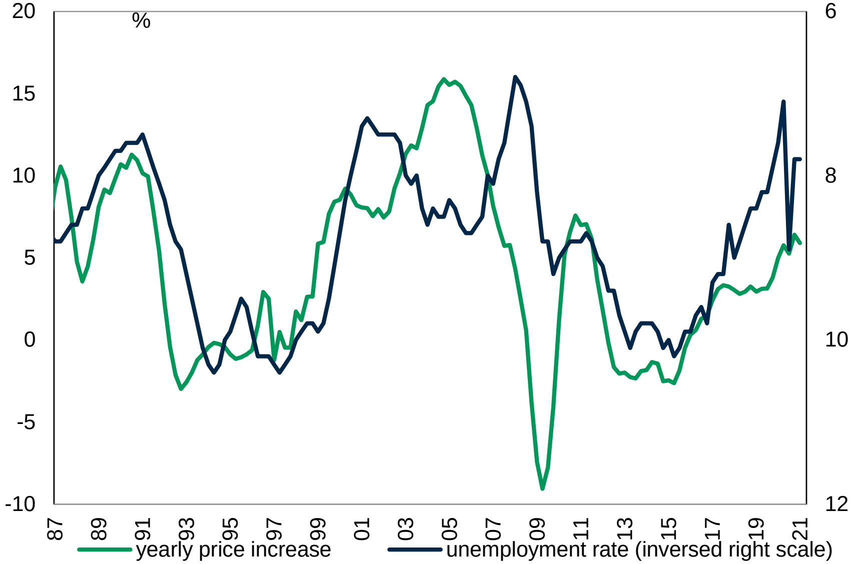
Some – economic – factors will exert a negative pull on the market, yes, but market "fundamentals" are clearly in the right direction and interest rates are still very low.

negative factors	positive factors
high unemployment rate	demographic, retirement
volatile confidence levels	safe haven effect
slight tightening in credit approvals	cautious lending model
weak supply in new housing	low level of lending rates
	acceptable home purchasing power
	search for greener housing

FACTORS HOLDING BACK THE RECOVERY

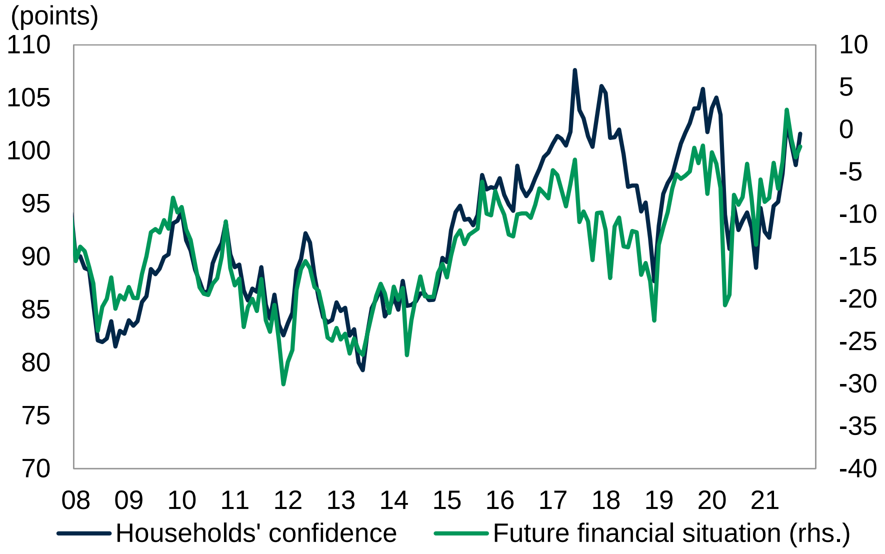
ECONOMIC RECOVERY IN 2021, UNEMPLOYMENT STAYING HIGH

Real estate prices and unemployment rates



Sources : Insee, Notaires, Crédit Agricole SA / ECO

Consumer confidence



Sources : Insee, Notaires, Crédit Agricole SA / ECO

Disposable income held up in 2020 (+0.2%) thanks to support measures from government – primarily furlough schemes and the solidarity fund for retailers, tradespeople and SMEs. Employment was down, but by only 1% on an average annual basis. Although unemployment in Metropolitan France remains stubbornly structurally high, it declined from 8.2% in 2019 to 7.9% in 2020 as the labour force declined. We expect the jobless rate to stay stable in 2021, before ticking up somewhat in 2022 to 8.3%, with a parallel increase in the labour force and in salaried employment.

Real incomes should recover 1.6% in 2021, despite higher inflation. Consumer confidence took a hit in 2020, especially in the second quarter during the lockdowns. Confidence is improving in 2021 as the economy gets back into gear, giving households more visibility on their future financial situation. Saving opportunities are down as a result, while opportunities to spend have increased. Decisions about taking out long-term financing and investing in buying a home should be easier.

FACTORS HOLDING BACK THE RECOVERY

NEW BUILDS IN SCARCE SUPPLY

Supply was short even before Covid-19

Before the pandemic, the new-build market was already short on developer-led new properties, particularly in areas with a tight housing market. A mixture of scarce, high-priced land, strict building standards, spurious objections to proposed developments and the lead time to obtain building permits are the main factors keeping supply down. Other more recent developments are also squeezing supply, notably additional costs generated by new environmental regulations.

Covid-19 choked supply

The pandemic hit sales and construction in the new-build sector hard during the first lockdown. Potential buyers were kept indoors, real-estate agents' offices were shuttered and construction sites at a standstill in the early part of the crisis. But work resumed on building sites in April, with Covid-19 protocols in place. The decline in activity was contained at only 30% below normal in June 2020.

Yet, despite sites reopening, two main issues continued to drag down the sector in 2020:

- Delivery of building permits came to a partial halt between March and June as local authorities (responsible for issuing permits) concentrated on coping with the pandemic and running the second round of the local elections, which were postponed from March to June. With so few permits issued in the second quarter, the backlog has yet to be fully cleared.

- The shift to digital for deeds and official documents is only partially complete, which affects both permits and signature of sale agreements.

All these factors are behind the sharp 14% drop to 65,000 in the number of construction permits for new homes in 2020. Scarce supply of new homes, lockdowns and a challenging economic environment dragged down sales of developer-led new builds by 23% in 2020.

New stimulus measures

The government announced new measures to help the construction sector in June 2020. They include spreading – or removing – social security charges for the period March to May over three years and €1 billion in extra construction investment by local authorities. The 2020-2021 France Relance stimulus package also targets housing with incentives for green energy upgrades (MaPrimeREnov;) worth €2.5 billion, €350 million for local authorities to encourage them to build, and €300 million in funding for converting brownfield industrial sites into building land for homes. The government announced a further €1 billion in aid in May 2021 for "sustainable cities" and innovative buildings.

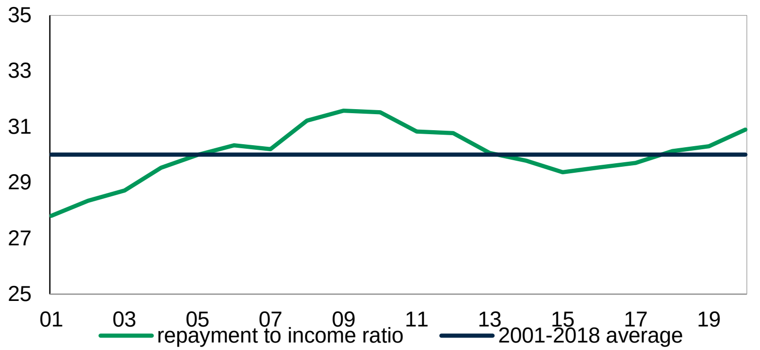
In addition, the Pinel rental investment initiative (tax rebates) and the zero interest loan (to boost sales of new homes in housing pressure zones) will be extended into 2022 beyond their original end date of December 2021. The Pinel scheme is due to be overhauled in 2023-2024.

These measures will all help cement the recovery in construction and in sales of new homes in 2021-2022. But so far, the ELAN law has not resulted in the hoped-for boost to supply in areas where housing is scarce. The target of 500,000 new homes per year seems as hard to reach as ever.

FACTORS HOLDING BACK THE RECOVERY

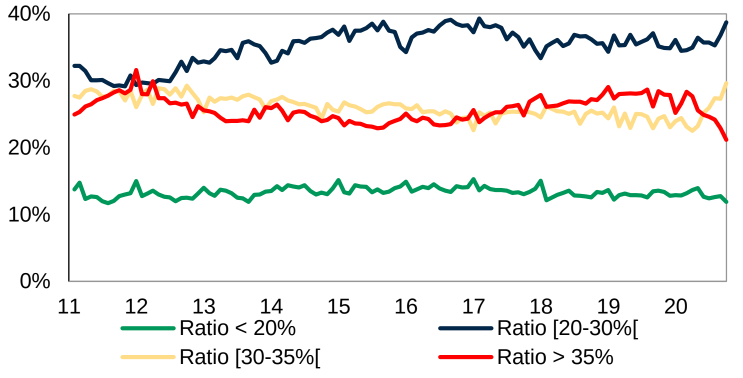
SLIGHTLY TIGHTER CREDIT CONDITIONS

Average affordability ratio



Sources : ACPR, Crédit Agricole SA / ECO

Loans per affordability ratio level



Sources : ACPR, Crédit Agricole SA / ECO

In December 2019, France's High Council for Financial Stability (HCSF) warned about a worsening in some credit approval conditions and issued recommendations for banks, which it amended slightly in December 2020.

- The average DSTI ratio or debt service to income ratio (1), which is an affordability ratio is more or less stable over a long period at close to 30%, but the share of loans with a ratio higher than 35% has risen since 2015. It rose from 23.6% in 2015 to 27.7% in 2019. However it is fairly volatile at an average 25.8% in the period 2011-2019.

- The average term of new loans has risen steadily in recent years from an average of 18 years in 2015 to 20.3 years on average in 2019.

➔ HCSF recommendations for banks (December 2020)

- **Maximum debt service ratio of 35%** (from the initial 33% recommendation)

- Maximum loan term of 25 years

- **Room for flexibility: banks can only make exceptions to these criteria for at most 20% of their loan production** (15% originally)

- At least 80% of this flexibility must be reserved for first- and second-time buyers for their main residence with 30% of this figure reserved for first-time buyers.

- *(1) : Debt service to income ratio encompasses both capital and interest*

FACTORS HOLDING BACK THE RECOVERY

SLIGHTLY TIGHTER CREDIT CONDITIONS

Loan production at debt service ratio > 35%

% of overall housing loan production

current situation	2019 average	Q3 2020
First-time buyers	4,4	3
Second-time buyers	13,3	11,9
Rental investors	5,4	3
Others	3,1	2,6
First/second-time buyers	**17,7**	**14,9**
Investors/Others	**8,5**	**5,6**
Total	**27,7**	**22,7**
HCSF's recommendations to banks		
First/second-time buyers	**16**	
Investors/Others	**4**	
Total	**20**	

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

Initial effects of these recommendations

The HCSF's recommendations are beginning to take effect. Consider the findings of the monthly surveys conducted by the French Prudential Supervision and Resolution Authority (ACPR): the share of loans with a high debt service ratio fell to 22.7% in Q3 2020 and 21% in September 2020, from 27.7% in 2019, 27.5% in Q1 2020 and 25% in Q2 2020. For now, these monthly survey data only goes to September 2020.

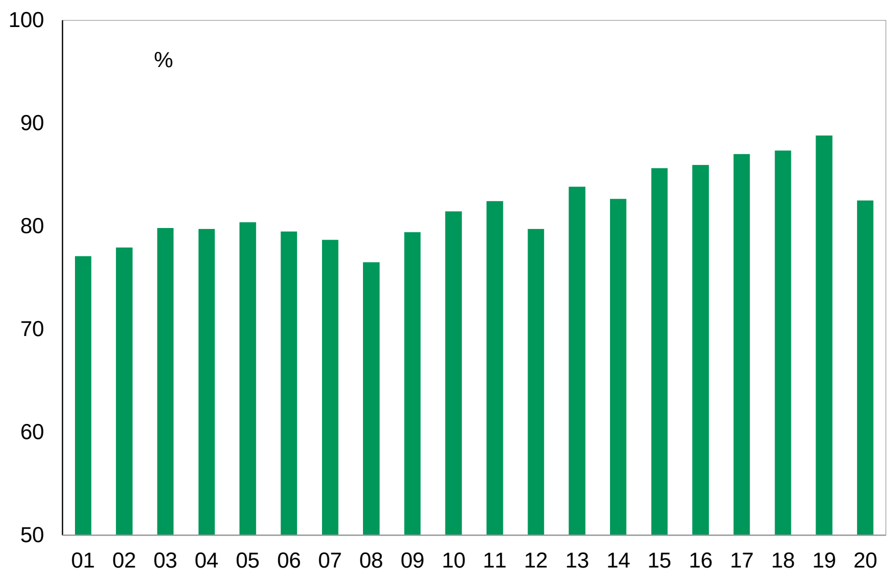
The ACPR's annual report on mortgage financing (July 2021) provides data on the percentage of high debt service ratio home loans, excluding renegotiations (series starting in 2020, which differs slightly from the data quoted above). These figures confirm the reduction in this category of loans at high debt service levels from around 29% in Q1 2020 to 22% in January 2021.

In December 2020, the HCSF eased its recommendations (*see* previous page). They will be mandatory as of 1 January 2022, which could curb home loan production, but not by much.

FACTORS HOLDING BACK THE RECOVERY

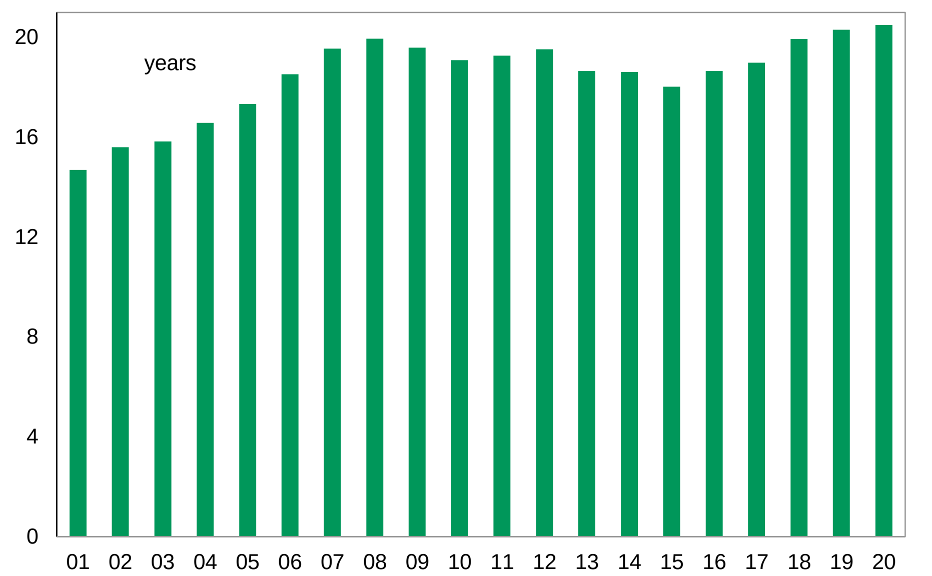
SLIGHTLY TIGHTER CREDIT CONDITIONS

Loan-to-value ratio at approval



Sources : Insee, Notaires, Crédit Agricole SA / ECO

Initial home loan term



Sources : Insee, Notaires, Crédit Agricole SA / ECO

The HCSF's recommendations and thriving market could also lead to a slight tightening in credit approval criteria in two areas:

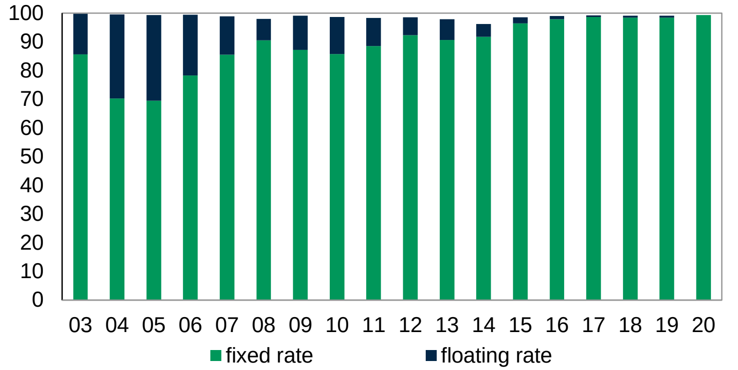
- **term:** the average loan term went out to 20.3 years in 2019 from 19 years on average in 2011-2018; terms increased again in 2020, to 20.5 years on average and to 20.9 years in February 2021. Terms could contract a little in the coming months.
- **down payments:** fell to 11.2% on average in 2019, compared to 15.7% from 2011 to 2018. Down payments rose to an estimated 17.5% in 2020, especially during the first lockdown. The rate could remain relatively high in 2021. The chart above shows the loan-to-value ratio on the approval date. The down payment rate is more or less equal to: 100% - *Loan to value.*

CONTENTS

POSITIVE FACTORS

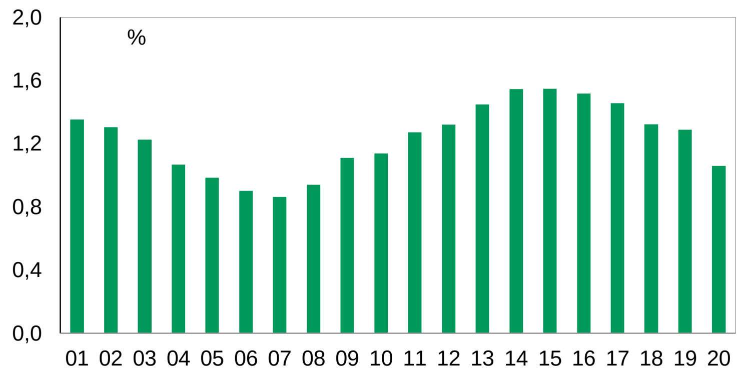
MORTGAGE LENDING RISKS UNDER CONTROL

Variable vs. fixed rate production



Sources : ACPR, Crédit Agricole SA / ECO

Housing loans: NPL vs. total loans



Sources : ACPR, Crédit Agricole SA / ECO

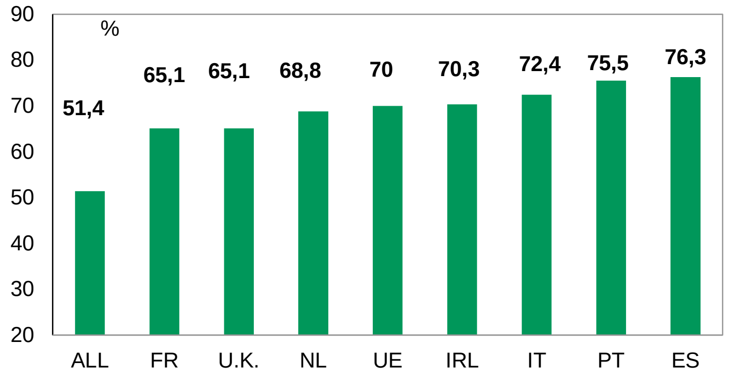
We expect only a moderate tightening in home loan production. This is not runaway mortgage lending and we are not in a property bubble. The French model for home loans remains prudent, with limited risks.

- Loans are granted based on borrower solvency (rather than the property value).
- The average debt service ratio (monthly repayments/income) is more or less stable in the long term at around 30% (see **slide 18**)
- Initial loan terms are “reasonable”, although they increased to 20.3 years in 2019 and to 20.5 years in 2020.
- 98.5% of loans in 2019 and 99.4% in 2020 were fixed rate
- The share of non-performing loans is expected to increase slightly in 2021-2022 as unemployment rises. But it was a low 1.29% in 2019 (from 1.32% in 2018) and fell further in 2020 to 1.06%. Moreover, we think support measures for households and potential payment deferrals should contain defaults and help keep NPLs at a reasonable level in 2021.

POSITIVE FACTORS

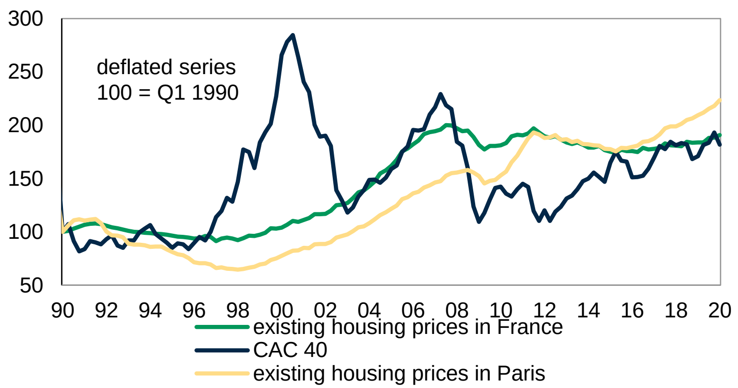
STRUCTURALLY HIGH DEMAND

Homeownership rate



Sources : année 2018, Eurostat, Crédit Agricole SA / ECO

Real Estate and Stock Market



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

Many structural factors are helping to prop up demand and will continue in play despite the pandemic and economic recession:

- the desire to be a homeowner (65% of French own their homes, compared to 70% on average in the EU);
- fairly strong demographics;
- fewer people living as a couple (more single or divorced households);
- preparing for retirement;
- saturation in the rental market.

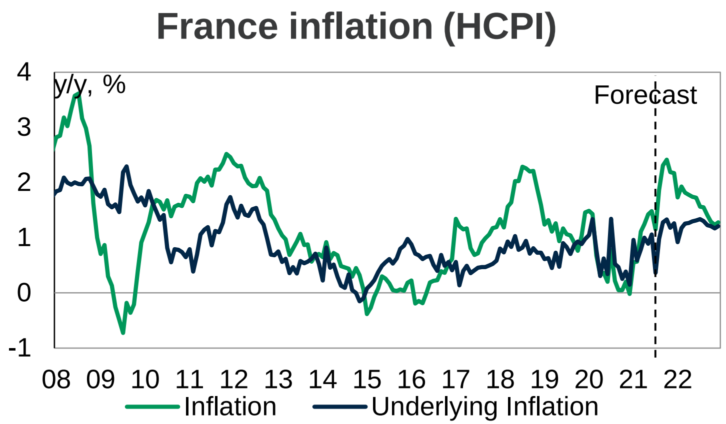
One key factor will be more important than ever in 2020-2021: the search for a “safe haven” in a severe downturn amid volatile and uncertain financial markets. Stock markets fell steeply in the early days of the pandemic (the CAC 40 hit a low on 18 March losing 30% of its value at end-February). Although markets have since recovered, volatility remains very high. Most financial investments are offering very low, sometimes negative yields. Rental property yields are higher at about 3% in Paris and 4.5% elsewhere in France (gross yield before taxes and works).

French households are therefore likely to opt for real estate. Bricks and mortar reassure. Real estate is tangible and the market tends to be predictable. Yields are relatively attractive and valuations favourable over long periods.

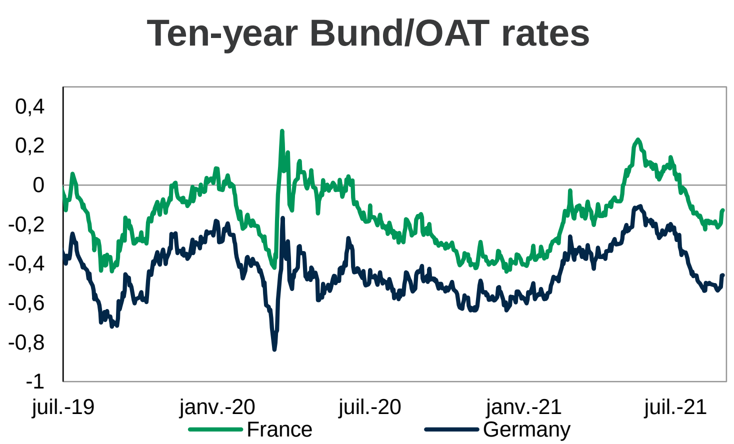
In our view, demand will remain brisk.

POSITIVE FACTORS

LONG-TERM RATES STILL AT ROCK BOTTOM



Sources : Insee, Crédit Agricole SA / ECO



Sources : Banque de France, Crédit Agricole SA / ECO

The yield on 10 year OATs ticked up sharply in March-April 2020 at the start of the pandemic, peaking at 0.28% on 18 March. They then declined into negative territory at -0.19% on average, and down to -0.40% at the year end. Yields stayed very low in 2021, at an average of -0.10% over the period January to August.

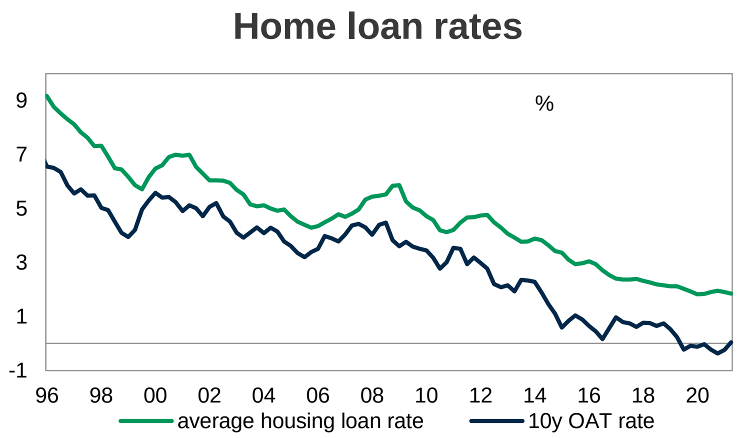
What explains these rock-bottom yields?

- The ECB's very accommodating monetary policy. Net purchases of assets under the Pandemic Emergency Purchase Program (PEPP), set at €750 billion in March 2020, lifted to €1,350 billion in June and raised again in December to €1,850 billion. The programme will run to March 2022. Beyond this, we think the ECB could increase its PEPP or APP purchase budget to maintain favourable financial conditions.
- Keen demand for "safe" sovereign bonds (uncertain and slow exit from Covid-19, especially in emerging markets with persistent health concerns; abundant liquidity).
- Relatively low inflation in the euro zone in the face of global competition and no upward pressure on wages, despite rising inflationary pressures globally linked to a series of factors: healthy post-pandemic demand, especially in the United States and China; disorganised production chains; supply chain disruption; soaring commodity prices and staff shortages.

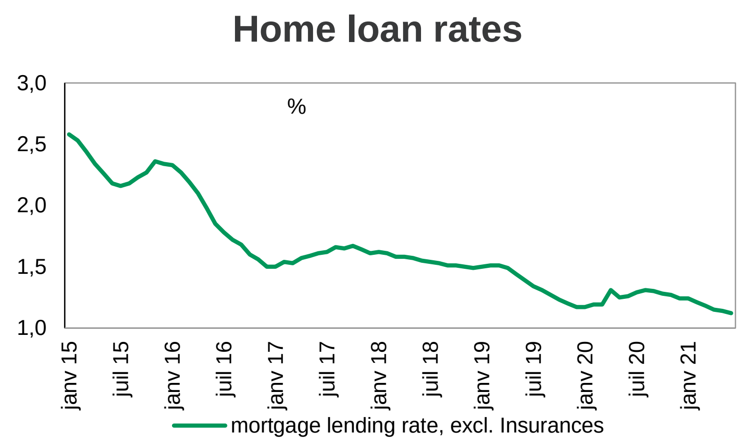
In light of the above, we think the 10-year OAT yields will remain very low in 2021-2022. They could tighten temporarily at the end of 2021/early in 2022 on presidential election campaign uncertainty. **Yields could go to 0.35% at the end of 2021 and 0.15% late in 2022.**

POSITIVE FACTORS

LOAN RATES STILL ATTRACTIVE



Sources : Banque de France, Crédit Agricole SA / ECO



Sources : Banque de France, Crédit Agricole SA / ECO

The average fixed home loan rate (including insurance, quarterly series) was 4.6% in 2012. It has continued to fall ever since: 3.1% in 2015, 2.05% in 2019 and 1.9% in 2020. Rates edged down a little further in 2021 to 1.85% in Q2.

- On a monthly basis (fixed long-term loans, excluding insurance), we are seeing the same trend. From an average of 3.9% in 2012, interest rates fell to 1.55% in 2018 and 1.36% in 2019. Rates hit a low of 1.17% in late 2019.
- They stayed very low in 2020, at 1.26% on average, and fell further in 2021 – to a record low of 1.14% in Q2 and 1.12% in June.

These low rates stem from the rock-bottom 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.

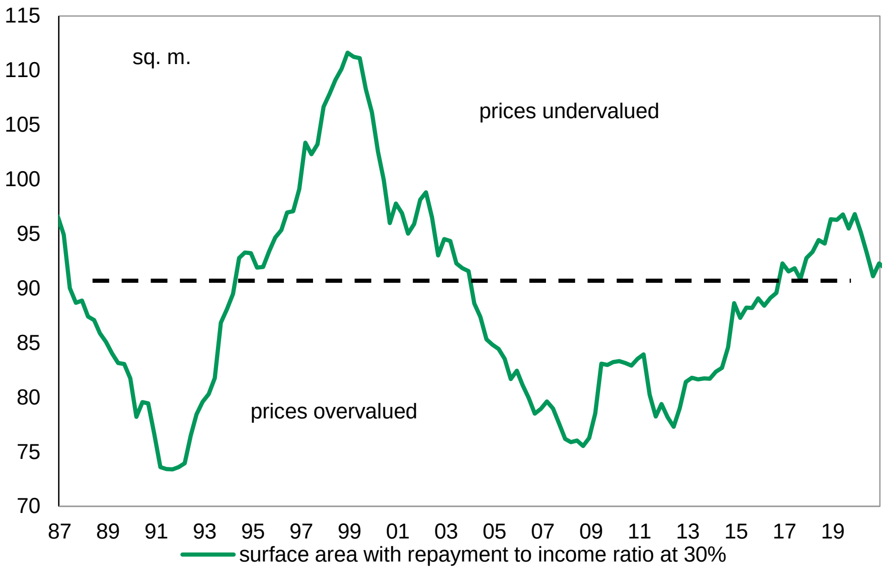
10-year OATs should stay low at the end of 2021 and in 2022, but slightly higher than in mid-2020; competition will remain fierce. We think mortgage interest rates will stay very low, close to where they were in 2020.

Low and attractive rates → windfall effect and support for the real-estate market to remain in place.

POSITIVE FACTORS

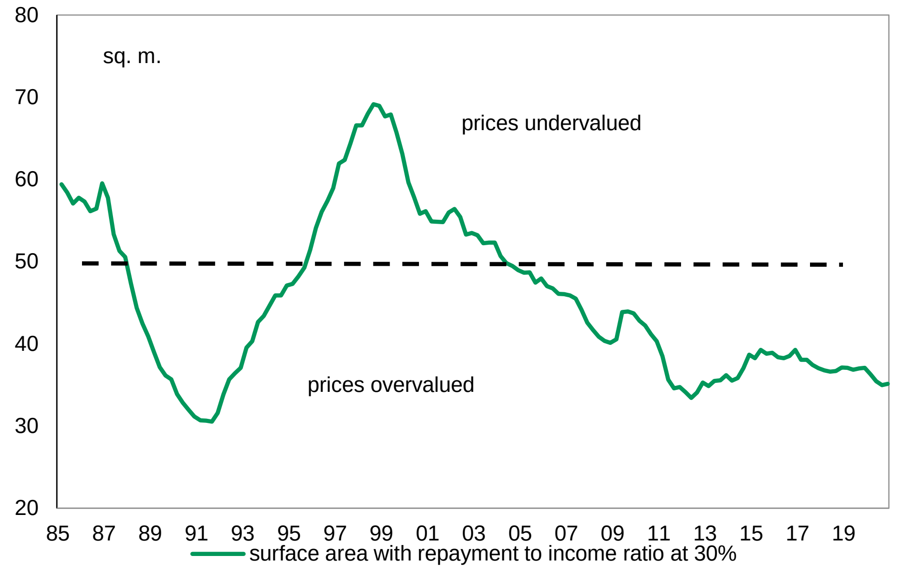
SATISFACTORY PURCHASING POWER IN FRANCE

Purchasing power in France



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

Purchasing power in Paris



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

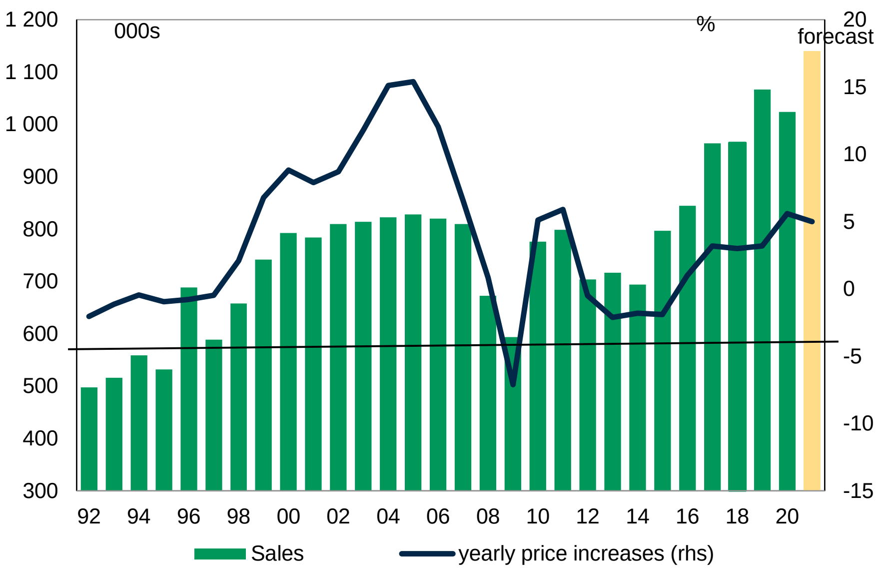
Home purchasing power = surface area that a first-time buyer on an average income is able to purchase over time under market conditions (price, interest rate, term, etc.) with a debt service ratio of 30%.
Indicator calculated on second-hand home prices.

Purchasing power in France is satisfactory and close to the historical average. Is was even slightly higher in the period 2018 to 2020 amid falling interest rates and longer loan terms. So, prices in France as a whole are not overvalued.
The same is not true for Paris and some other large cities where prices are clearly overvalued. They've tended to stabilise in the past few months.

ANALYSIS AND OUTLOOK

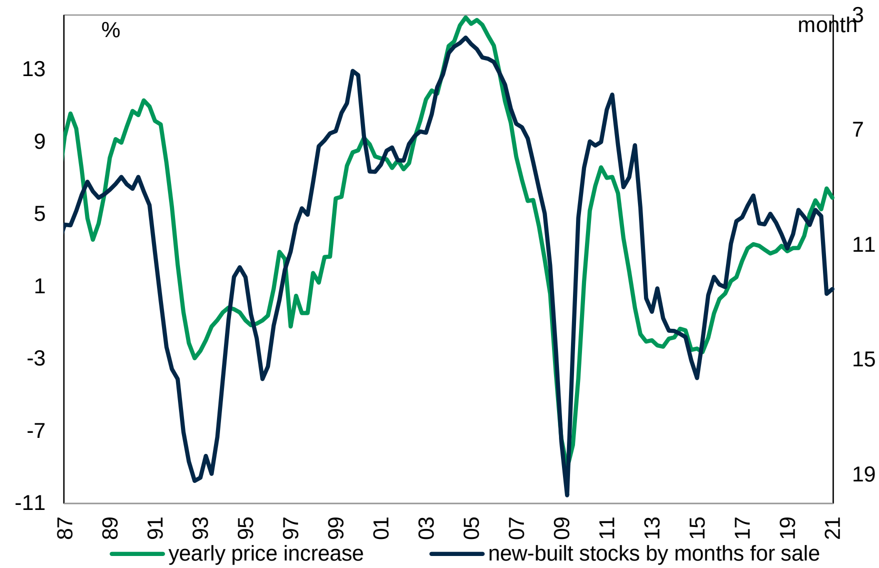
FAIRLY STRONG RECOVERY IN 2021

Existing home sales and prices



Sources : Insee, Notaires, Crédit Agricole SA / ECO

Prices of existing homes and stock of new builds



Sources : Insee, Notaires, Crédit Agricole SA / ECO

In 2020, sales of second-hand houses contracted 4% year-on-year and sales of new builds fell 16% (including -23% in new developer homes sold on the retail market and -8.5% for all single-family homes).

Sales should recover in 2021 and hit new records in the second-hand segment: 1,140,000 units, up 11% on 2020 and 7% vs. 2019. We see an even stronger uptick in sales in the new-build segment of around 20%.

Our forecast is for a fairly vigorous 5% increase in prices for existing homes. The pace will pick up outside the large cities, slow or even fall somewhat in some major cities where prices are overvalued (Paris, Bordeaux, Lyon and Nantes). However, we do not see signs of a significant drop in these segments.

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ELUERE Olivier
01 43 23 65 57
olivier.eluere@credit-agricole-sa.fr

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12 place des Etats-Unis – 92127 Montrouge Cedex

Publication Manager: Isabelle Job-Bazille - **Chief Editor:** Armelle Sarda
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