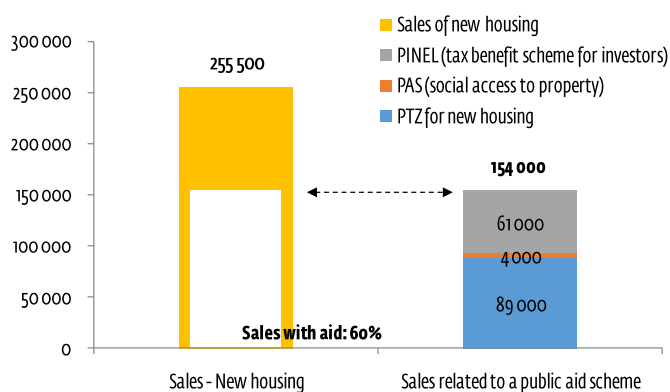


French government takes legal action to address housing issue

Expected for weeks, the French housing plan of the government has been unveiled this week by Jacques Mézard and Julien Denormandie, Minister and Secretary of State in charge of housing. It is a catalog of thirty measures, some regulatory, some still in lines of thought, and most of which requires legislative work to fit into the "housing and mobility" law. The housing construction sector in France widely depend on public policy and may be significantly affected by those measures. We present below the main objectives of the future housing law and the main propositions made accordingly.

Chart 1: France's new housing sales dependency on public aids: in 2016, 6 new sales out of 10 were linked to public program



Source: BIPE, SGFGAS, Sitaldelz, FPI.

1. Save money wherever it is possible

The "PTZ" (zero interest rate loan) - the main public subsidies granted to households accessing the property - will be extended for four years but targeted in tense areas. The conditions for eligibility may not change. But 60% of the households who benefitted from the subsidies in 2016 were located in non-tense areas. A change in this public program may thus impact the new housing construction activity.

Housing policy costs around € 40 billion per year, of which € 18 billion for the housing allowance "APL"

A general 5 euros cut on the monthly allowance taking effect on October 1st and sustained in 2018 has been announced, for an annual saving of 392 million euros. The government has also announced an additional effort of 1.4 billion euros concentrated on the social park, which receives 45% of housing subsidies. The plan is to first ask the social landlords to lower by €50, the rents

of their tenants benefiting from the housing allowances, (ie 2.5 million households), which will reduce the amount by 50.

Finally, a more reactive management of housing allowances "APL" calculated on the resources of the current year rather than on those of two previous years, promises significant gains. As 26% of the beneficiaries change their professional or family situation each year, these developments are taken into account only belatedly, generating numerous returns and recalls, for more than 1.6 billion euros.

With this measure the Governments hopes to save more than 1Bn €.

2. Social housing overhaul

It is a revolution of the French model of social housing - which was not on the program of candidate Macron - that the government is launching.

The Government will force the social landlords to reduce their rents by 50 to 60 € per month for every social house, and will negotiate some compensations for the actors. To replenish the finances of the HLM, the government confirmed a rate freeze of the Livret A at 0.75% p.a. for two years, a gift of just a few thousand euros and the extension of loans granted by the Caisse des Dépôts. The government is also planning to sell around 40,000 social housing units per year to their occupiers, compared with 8,000 to 10,000 currently.

The idea for the Government is to save budget for the State, and to encourage social landlords to build more social housing thanks to a better access to funding.

3. Reorienting savings towards productive investment

The other main public subsidies, the tax benefit scheme "PINEL", granted to individuals purchasing housing to rent, will also be extended for four years but targeted in tense areas. Thereby, dozens of cities may not be eligible anymore to this program. This will clearly impact the new housing construction activity but not immediately due to the inertia of all the houses orders made by the end of 2017 and still to be built.

Property owners who rent one or more properties should also undergo two tax developments in 2018. First, the increase of 1.7% of the CSG tax from January 1st, 2018 that will affect their land revenues. Second, the wealth tax will be focused on their real estate patrimony.

Finally, some savings devices as PEL and assurance vie, that are partially dedicated to investment in real estate, will be taxed from now on.

All this package is not a great signal for the housing construction market.

4. Support the construction thanks to a supply shock

In order to accelerate land release and rapidly build housing, strong tax relief will be granted by the State on real estate gains for the sale of land in tense areas for three years from January 1st, 2018. This allowance will be 100% for the sale of land to build social housing, 85% for intermediate housing, and 70% for private housing.

It was a promise of candidate Macron to facilitate housing for young people. Students, apprentices, trainees, too often give up their training because of lack of housing. For all young people under the age of 30, a "mobility lease" for a period of one to ten months, suitable for a roommate, without guarantee deposit but with a simple and free guarantee called Visale issued by Action Logement, will be created. The Visale guarantee already exists, but in 2016 it was only issued for 8 000 contracts, consuming only 20% of the appropriations foreseen.

Also, 80,000 youth housing units will also be built during the five-year period, of which 60,000 will be for students, 50 per cent more than under the previous government.

And last but not least, the French Government is willing to reduce the construction costs by reducing environmental and social standards in order to obtain "massive production" of new housing in a few years.



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