



Key findings Sept 2012

Prime prices started to soften gradually in Autumn 2009 but have since weakened further as the growing Eurozone debt crisis has undermined market confidence

France's domestic mainstream housing market has seen prices rise by 12.6% since Q2 2009, exceeding the Eurozone's average of 0.8%

In 2012 the weakening Euro has led to increased demand from British and non-Eurozone buyers in certain key markets* despite the ongoing fragility of the Eurozone economies

The outlook for French prime property is positive despite the debt crisis and fiscal austerity. Property investors continue to favour France over the Eurozone's non-core member states

Hollande, tax and second homes...the story so far

President Hollande's proposals to add 'social charges' to rental income and CGT for non-resident second home owners received approval from the French Constitutional Council in August.

However, legal experts are now pouring over the small print to ascertain exactly what implications these taxes will have on foreigners owning second homes in France and whether they are likely to be deemed discriminatory by the European Union.

Arguably, Hollande's anti-wealth rhetoric has not been matched by his actions. For example we understand that net wealth that exceeds €1.3m will be subject to an additional tax to be paid before 15th November 2012. The additional tax will be calculated on last year's progressive wealth tax rates which are very similar to the tax rates in existence during part of Sarkozy's presidency and those which were in place during the buoyant pre-Lehman period.

For the latest news and updates on Hollande's tax agenda please visit our [Global Briefing](#) site.

France's mainstream and prime property markets have followed diverging paths since the onset of the global financial crisis in 2008/09. Prime prices have weakened but sales are being agreed where properties are being realistically priced. Buyers, although price sensitive, continue to be convinced by France's enduring appeal as a luxury second home destination. Kate Everett-Allen assesses current market conditions along with Hollande's new tax proposals.

Mainstream market

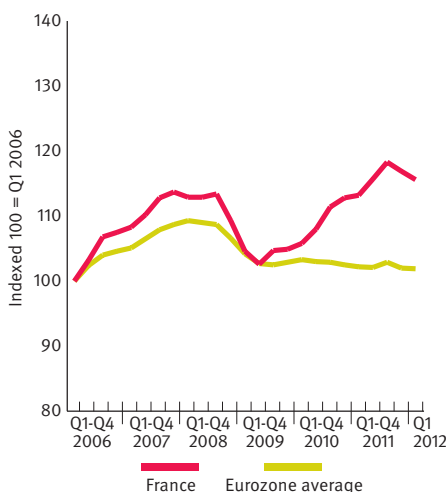
Unlike many of its European neighbours France's domestic mainstream market has seen a high volume of sales and healthy price growth since the financial crisis hit. Average prices in France have risen by 12.6% since Q2 2009. By comparison the 17 Eurozone members recorded an average price fall of 0.8% over the same period (figure 1). The mainstream housing market's resilience since the financial crisis can largely be attributed to low interest rates and government stimulus measures which have now largely been withdrawn.

Prime property

Prime prices started to soften gradually in Autumn 2009 but have since weakened further as the growing Eurozone debt crisis has undermined market confidence. For British buyers, tight lending criteria has made it harder to release equity to fund the purchase of a second home abroad.

Paris benefitted from the global search for safe haven investments in 2010 and 2011 when global financial markets were in a state of flux and the Eurozone crisis was intensifying in the southern European economies. As a result prime prices in Paris rose by 22% in the 12 months to March 2011.

Figure 1
Mainstream house price performance
France versus Eurozone average



Source: Knight Frank Residential Research, Insee

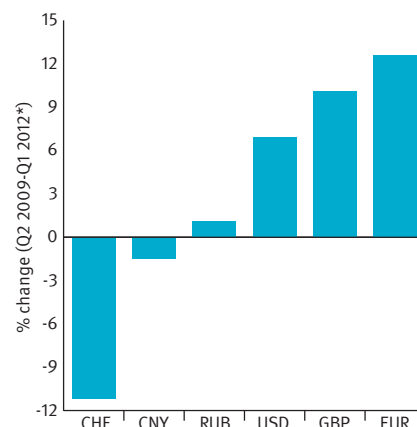
Beyond Paris, France's prime markets have seen asking prices soften. In most regions both price levels and sales volumes remain beneath their pre-crisis levels.

The improvement in key exchange rates has been influential, helping to encourage British, Scandinavian and other non-Eurozone interest in recent months. Since 2009 for example the euro has weakened against sterling (averaging €1.05 in 2009 compared to €1.28 in 2012) and against the US Dollar (averaging €0.72 in 2009 compared to €0.82 in 2012).

Although the French economy remains in a weak state – it recorded 0% GDP growth in Q2 2012 – France's credentials as an accessible prime second-home destination remain second to none. There is a notable group of buyers who, given the fragility of the financial markets, consider a prime property in France to be a wealth preservation hedge, and crucially one that comes with significant lifestyle benefits.

The newly-elected government has unveiled tax rises of €7bn to fill a hole in the budget this year, but needs to find another €33bn in 2013 to honour promises to cut its fiscal deficit. Dissecting Hollande's tax plans – which may yet be watered down by Hollande himself or rejected by the EU – suggests little cause for alarm thus far (see box to the left for more details).

Figure 2
Currency impact
Effective change in mainstream French house prices, March 2012 compared to June 2009, due to price and currency movements



Source: Knight Frank Residential Research
*latest available data

RESIDENTIAL RESEARCH

FRANCE INSIGHT

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Prime market snapshot

1. Paris

Prime prices were static in the first half of 2012. Foreign demand has however waned slightly in response to the ongoing Eurozone debt crisis and we have seen a net increase in supply.

Viewings are relatively strong but buyers are not willing to commit the way they did 12 months ago.

The €1.5m to €3m price band has seen the strongest levels of activity with Russian, French and US buyers still active.

2. Lake Geneva (French side)

Prices have fallen 20% since 2009/10 and it remains significantly more affordable to buy on the French side of Lake Geneva as opposed to the Swiss.

This price gap, the weaker euro and improvements to the area's infrastructure, are attracting buyers relocating to Geneva for business.

Most international buyers are seeking a property priced between €1m and €1.5m and a lake view is key.

3. French Alps

Demand for prime property in France's top ski resorts held firm in the 2011/12 season and supply, particularly in the most exclusive resorts in Les Trois Vallées, remained tight.

The weakening euro has had little impact on pricing or the volume of sales. British, French, Ukrainian and Swiss buyers have been seen in 2012.

Price growth has been largely static in the first half of 2012. Méribel saw prices fall, by around 6%, while neighbouring Courchevel saw prices hold firm at the top-end, while experiencing some softening in the core market.



4. South West France

The South West France region has seen prime prices soften by as much as 40% since the financial crisis hit. At current levels South West France represents a good buying opportunity.

Initial enquiries have strengthened in 2012, particularly in those areas situated within easy reach of an international airport. Realistic pricing in South West France continues to be essential to achieving a sale.

Supply has risen and there is a good choice of stock, both in terms of volume and quality. Along with British buyers we are seeing interest from Dutch, Belgian and Swiss nationals as well as from British expatriates seeking a European base while posted in the Middle East or Asia.

5. Provence

The wider region has seen prime prices fall by around 5% in the year to June 2012, but Provence's core markets of Les Alpilles and Luberon have seen prices hold firm.

The €1m to €3m price band attracted the most interest in the first half of 2012 and vendors here are generally being more realistic on price, conscious that buyers in the area are becoming increasingly price sensitive.

Viewing numbers are improving but are not yet back to pre-crisis levels.

6. Côte d'Azur

Central Côte d'Azur has experienced the strongest levels of activity of all the French regions so far in 2012, whereas the Western (St Tropez) and Eastern (Villefranche/Èze) markets have been more subdued.

Properties priced between €1m and €4m attracted the most interest.

Demand in the medieval village of Mougins has increased, as has the level of interest in some of the region's larger inland estates.

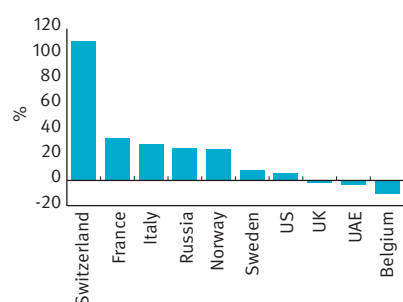
The 'wait-and-see' attitude evident in the run up to the elections in May has started to subside and enquiries have risen now the election is over – especially amongst British buyers who are responding to the improved exchange rate.



Prime market trends

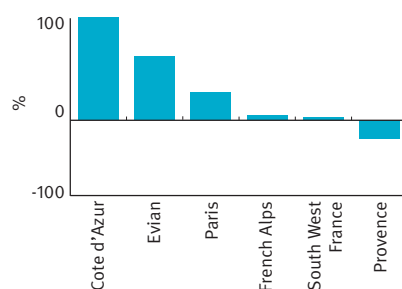
Knight Frank's Global Property Search website (GPS) receives up to 700,000 hits per month, making it a unique barometer of the demand for prime international property. The following charts highlight the key trends in the prime French market.

Figure 3
Who is searching for French property?
% change Apr-Jun 2012 versus Apr-Jun 2011



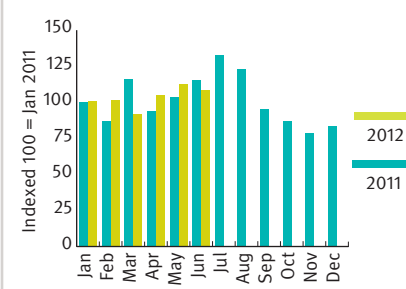
Property searches by Swiss residents increased by 110% year-on-year in the three months to June 2012, confirming growing interest from Swiss buyers due to the fall in the Euro against the Swiss Franc (figure 2).

Figure 4
Change in search volumes by region
% change Apr-Jun 2012 versus Apr-Jun 2011



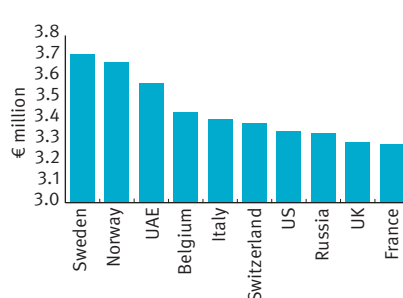
The Côte d'Azur region saw the largest rise in property searches in the three months to June 2012 compared to the same period a year earlier. Nearly all the markets in which we work in France saw search volumes increase.

Figure 5
Monthly activity
Volume of property searches Jan 2011-Jun 2012



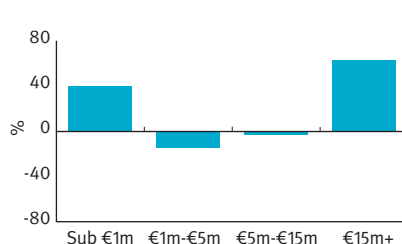
Online searches begin to increase from April each year, peaking in August. Monthly property searches in 2012 have exceeded those in 2011, with the exception of March and June.

Figure 6
Average price searched by key nationalities
12 months to Jun 2012



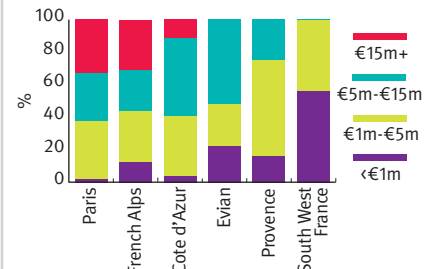
Residents in non-Euro denominated countries searched for the highest-priced French properties in the year to June 2012. Of the key nationalities selected, UK and French buyers were searching for lower-priced properties, close to the €3.2m level.

Figure 7
Change in searches by price bracket in France
% change Apr-Jun 2012 versus Apr-Jun 2011



The €1-€5m and €5-€15m price brackets together account for 71% of all our online searches in France. The rise in searches under €1m was driven largely by searches in South West France, while the Côte d'Azur was the main focus of activity above €15m.

Figure 8
Property searches by region and price bracket
12 months to Jun 2012



In Paris 62% of property searches related to homes above €5m in the year to June 2012. In Evian the comparable figure was 52%. Around 59% of searches in the Provence region were focussed on properties priced €1m-€5m.

Source: www.knightfrank.com/search

Table 1
Top nationalities buying prime French property by city/region

Rank	Paris	Côte d'Azur	Provence	French Alps	Evian	South West France
1	Russia	UK	UK	UK	France	UK
2	France	Switzerland	Belgium	France	Switzerland	Benelux
3	US	Scandinavia	Switzerland	Russia & CIS	UK	Switzerland
4	Italy	Benelux	France	Switzerland	Russia & CIS	France
5	Brazil	Russia & CIS	Netherlands	Benelux	Middle East	Expats (British)

RESIDENTIAL RESEARCH FRANCE INSIGHT

Knight Frank



Track record: recent sales

PARIS



Sold: Q1 2012
Location: IV arrondissement

What's in demand:

Property type: 2/3-bedroom apartment
Price band: €1.5-€3m

Area: 6th, 7th and 8th arrondissements

Volume of sales year-on-year: ▶

Local knowledge:

Up and coming area: 17th arrondissement

Who buys: Those seeking a safe bolthole from which to enjoy the Paris lifestyle

Closest airport: Charles de Gaulle and Orly*

CÔTE D'AZUR



Sold: Q2 2012
Location: Mougins

What's in demand:

Property type: 4-bedroom villa

Price band: €1.5-€3m

Area: Mougins

Volume of sales year-on-year: ▶

Local knowledge:

Up and coming area: Grasse

Who buys: Lifestyle driven families looking for permanent or semi-permanent moves

Closest airport: Nice

PROVENCE



Sold: Q1 2012
Location: Maussane-les-Alpilles

What's in demand:

Property type: Stone farmhouse with 2-4 acres

Price band: €1-€3m

Area: Les Alpilles and Luberon

Volume of sales year-on-year: ▶

Local knowledge:

Up and coming area: Lourmarin, Curcun

Who buys: Those low key buyers who want the privacy and lifestyle Provence affords

Closest airport: Marseille and Avignon

FRENCH ALPS



Sold: Q1 2012
Location: Courchevel 1650

What's in demand:

Property type: 4+ bedroom chalet

Price band: €1-€3m

Area: Trois Vallées

Volume of sales year-on-year: ▼

Local knowledge:

Up and coming area: Courchevel Le Praz

Who buys: Keen skiers who want Europe's best ski resorts on their doorstep

Closest airport: Geneva, Lyon and Chambéry

LAKE GENEVA



Sold: Q4 2011
Location: Anthy sur Léman

What's in demand:

Property type: Lakeside apartments or houses

Price band: €1-€1.5m

Area: Thonon-les-Bains to Evian

Volume of sales year-on-year: ▶

Local knowledge:

Up and coming area: Publier

Who buys: HNWIs looking for easy access to Geneva and for private surrounds

Closest airport: Geneva

SOUTH WEST FRANCE



Sold: Q2 2012
Location: Gascony

What's in demand:

Property type: Family homes

Price band: €750,000-€1.5m

Area: Dordogne and Gascony

Volume of sales year-on-year: ▶

Local knowledge:

Up and coming area: Lot-et-Garonne

Who buys: Families seeking holiday homes, retirees and British expats

Closest airport: Bergerac, Bordeaux, Toulouse

*NB Eurostar

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