

RESIDENTIAL RESEARCH



FRANCE PRIME RESIDENTIAL INSIGHT 2014

ANALYSIS OF PRIME MARKET CONDITIONS ACROSS FRANCE'S TOP SECOND
HOME DESTINATIONS

MARKET OVERVIEW

Enquiry numbers are up, prime prices are no longer falling at the rate they were and President Hollande's fiscal position is starting to soften. Is France's luxury property market turning a corner? Kate Everett-Allen assesses market conditions.

KEY FACTS

In France Knight Frank's **applicant and viewing numbers increased** by 28% and 52% respectively in the third quarter of 2013 year-on-year

The British have made a tentative return attracted by buying opportunities, most notably in South West France, the Côte d'Azur and Provence.

Compared to other capital cities, **Paris boasts relative affordability** with prime prices, at a similar level to where they were three years ago

Prime prices in South West France have declined by a further 10% in the last year taking the fall from the market's peak in 2007 to approximately 40%

On the **Côte d'Azur the sub-€1.5m as well as the €5m+ price bracket have recorded the most prime market sales** in 2013



KATE EVERETT-ALLEN
International Residential Research

"We expect the upturn in enquiries observed in the second half of 2013 to translate into sales in 2014."

Against the backdrop of the global recession, the Eurozone debt crisis and President Hollande's austerity measures, France's prime property market has faced considerable challenges in recent years. Nonetheless, a villa on the Côte d'Azur or a ski chalet in the Alps remain amongst the most popular investments for international second home buyers.

The French economy remains in the doldrums; GDP growth is forecast to reach a miserly 0.2% this year and 1% in 2014. Yet against this fragile economic backdrop Knight Frank's applicant and viewing numbers increased by 28% and 52% respectively in the third quarter of 2013 compared to the same period in 2012.

So, why the renewed activity amongst potential buyers? There are several reasons. Firstly, with deflationary risks increasing in Europe, the ECB is considering following the lead of the UK and the US by injecting a round of quantitative easing (QE) into the European economy. If it goes ahead, it will also have the effect of driving down the Euro, increasing the appetite for French property from non-Euro buyers.

Secondly – and a 'U-turn' may be putting it too strongly – but President Hollande's political rhetoric is certainly weakening. For some, President Hollande's decision to reduce the CGT exemption for non-residents from 30 to 22 years is evidence of this change of approach.

Finally, analysis of 2014's budget implies something of a move away from the alarmist

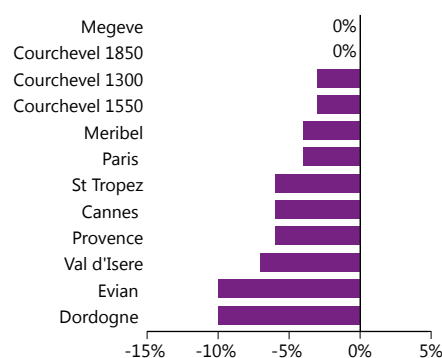
and unwelcome tax narrative that has blighted his presidency to date. Furthermore, there is the additional discount of 25% for properties sold between 1st September 2013 and 31st August 2014.

Despite the Euro's resilience we are seeing a tentative but reassuring number of British buyers – including expats originally from the UK – buying in South West France, the Côte d'Azur and Provence. With prices at a seven year low in some regions there are a number of cash buyers who are seeing value in the market. That said, with the cost of borrowing at historic lows many dollar and sterling purchasers are financing their acquisitions with a Euro mortgage as a way of mitigating any future fall in the Euro.

The market continues to operate on two tiers. Where property is priced accurately interest is generated, viewings are arranged and sales are agreed. However, there are still far too many properties that are unrealistically priced and languish on the market due to a lack of realism on the part of some vendors and a lack of transparency in the marketplace.

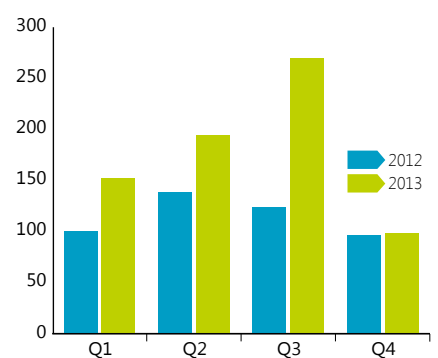
We are cautiously optimistic about the market in 2014. Although economically and politically fragile, France still offers solid fundamentals in terms of its lifestyle, security and investment opportunities. We expect the upturn in enquiries observed in the second half of 2013 to translate into sales in 2014, but buyers and their advisors will remain prudent and price sensitive.

FIGURE 1
How the prime markets have performed...
% change to Dec 2013



Source: Knight Frank Residential Research

FIGURE 2
Buyers registering with Knight Frank looking for a property in France
Indexed, 100 = Q1 2012



Source: Knight Frank Residential Research

PRIME MARKET SNAPSHOT

Paris

Compared to other capital cities, particularly London, Paris boasts relative affordability. Prime prices, at approximately €15,000 per sq m, are at a similar level to where they were three years ago.

Although Russians, Italians and the British are the most active foreign purchasers, Middle Eastern buyers (Qataris and Lebanese) as well as Chinese nationals have been prominent above €10m.

There is still a large gap between asking and achieved prices as vendors take time to acknowledge the market's readjustment in light of the global financial crisis.

The 6th, 7th, 8th and 16th arrondissements remain the most sought-after locations among international buyers with the 2nd gaining in prominence. New developments, partly due to their scarcity are selling well, of note is [Rue de Grenelle](#) in the 7th arrondissement which continues to attract significant local and international demand.

Provence

Provence attracts buyers looking for authenticity, value and accessibility. Prices in some parts of the region have slipped by 4%-6% in the last 12 months which has led to stronger demand.

In 2013 buyers have targeted Provence's core locations resulting in weaker demand in the more peripheral areas. Luberon, where attractive and well-priced property is increasingly in good supply, has proved particularly popular. Vendors that have been open to negotiation on price have agreed sales but there are others not willing to recognise the impact of the global financial crisis.

It is interesting to note that in 2013 approximately 90% of sales agreed by our Associates in Provence have fallen below the Wealth Tax threshold of €1.3m. Those properties that have sold above this threshold have been renovated and require no additional work.

Belgian buyers have been prominent in Provence in 2013, along with the British, US and Swiss.

SW France

The number of applicants seeking homes in South West France who registered with Knight Frank in the third quarter of 2013 increased by over 40% year-on-year.

Gascony's prime market is currently more active than that of neighbouring Dordogne where sellers have reacted more slowly to the changes in market conditions. In Gascony the corridor from Lectoure in the north east to Marciac in the south west is generating the most enquiries. In the Dordogne a buyer's key requirement is to be within a 30-minute drive of Bergerac Airport.

Prime prices in South West France have declined by a further 10% in the last year taking the fall from the market's peak in 2007 to approximately 40%.

British buyers have tentatively returned to the market in 2013 and French and Benelux buyers now have a stronger presence above €1m. The region remains a favourite with British ex-pats located in Asia or the Middle East seeking a European base within easy reach of the UK.

French Alps

In 2013 Morzine and Chamonix have been the most active markets in the French Alps, both have seen prime prices increase by 8% or more in the year to December 2013 and there has been on-going investment in the resorts' infrastructure.

Prices in the most upmarket resort of Courchevel 1850 have remained stable but sales volumes are low due primarily to a naturally low level of available supply – the resort only consists of approximately 230 chalets.

With supply constrained, demand has spread down the mountain from Courchevel to Courchevel Moriand (i.e. from 1850 to 1650) where a range of new apartment developments have been built. Together with the new €70m Aquatic Park we expect Courchevel Moriand to be the focus of increasing demand in 2014.

In Val d'Isère the €1.5m-€2.5m price bracket has seen the most sales following a price fall over the last 18 months (in some places by up to 20%). Above this price threshold sales volumes have remained largely flat.

Côte d'Azur

In 2013 Cannes, Cap d'Antibes, St Tropez and Mougins have generated the most enquiries. This increase in demand follows further price reductions in the area, up to 7% in some parts compared to 2012.

Properties priced between €2 and €3.5m were most in demand last year, but in 2013 the sub-€1.5m as well as the €5m+ price bracket have recorded the most sales.

In 2013 Norwegian, British, US, French and some Middle Eastern buyers have been the most evident along the Côte d'Azur, many proving to be cash buyers.

In St Tropez, which is one of the more seasonal markets along the coast, nearly all the viewings undertaken in the third quarter resulted in sales suggesting a new purposeful and serious attitude amongst buyers.

Along the Côte d'Azur prime prices have declined by around 15% over the last two years but we expect price falls to be marginal in 2014, slipping by less than 5% in most parts.

Evian

Evian continues to offer a more economical alternative to those buyers that are looking for a base on Lake Geneva but are unable to qualify for a Swiss permit.







Although lake views are a prerequisite for buyers in the top price brackets, there are very few quality lakefront properties, those that do come to the market command a market premium.

In 2013 the largest volume of enquiries related to the €4m+ price bracket, a marked change from 2012 when the €1.5 to €2.25m price band saw the strongest activity.

Enquiries have widened beyond the principal northern European buyers to Bulgarians, Middle Eastern and Russian nationals.

A favourite second home destination with Middle Eastern buyers, interest has dipped in recent years but 2013 has seen a slight recovery. Family homes are sought by those from the UAE, Qatar and Saudi Arabia but also by sovereign funds based in the Middle East.

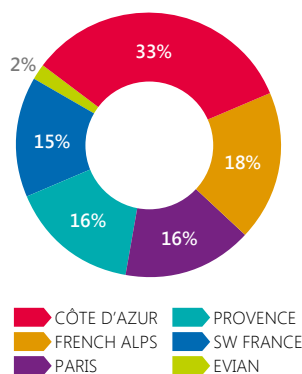
TABLE 1 **Origin of foreign demand in France's prime residential markets**

PARIS	PROVENCE	SW FRANCE	FRENCH ALPS	CÔTE D'AZUR	EVIAN
					
Who buys? <ol style="list-style-type: none"> 1. Russia 2. Italy 3. UK 	Who buys? <ol style="list-style-type: none"> 1. Belgium 2. UK 3. US 	Who buys? <ol style="list-style-type: none"> 1. UK Expats 2. UK 3. Benelux 	Who buys? <ol style="list-style-type: none"> 1. N Europe 2. UK 3. Russia & CIS 	Who buys? <ol style="list-style-type: none"> 1. Scandinavia 2. UK 3. N Europe 	Who buys? <ol style="list-style-type: none"> 1. E Europe & CIS 2. Middle East 3. N Europe

PRIME MARKET TRENDS

Knight Frank's [Global Property Search website](#) is a unique barometer of the demand for prime international property. The following charts highlight the key trends in the prime French residential market.

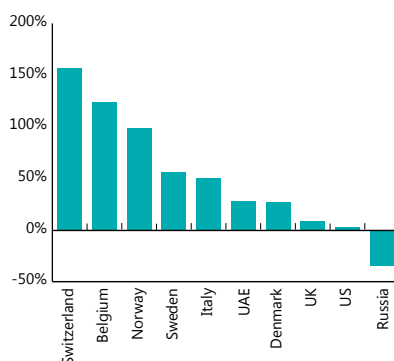
FIGURE 3
Which of France's prime markets generates the most property searches? 2013* (%)



* Jan-Oct 2013

Together, properties in the Côte d'Azur and the French Alps account for 50% of all French property searches on Knight Frank's website. Paris, Provence and South West France each account for c.14%-16% of searches. Although comparatively small in number searches in Evian are up by 8.2% year-on-year.

FIGURE 4
Which nationality has recorded the largest increase in search volumes? 2010 v 2013* (% change)



Online property searches conducted by web users based in Switzerland, Belgium and Norway have increased the most between 2010 and 2013. Of the top nationalities searching for property in France only Russia has generated fewer searches in 2013 than in 2010.

FIGURE 5
Volume of online searches for French property Indexed, 100 = Jan 2010

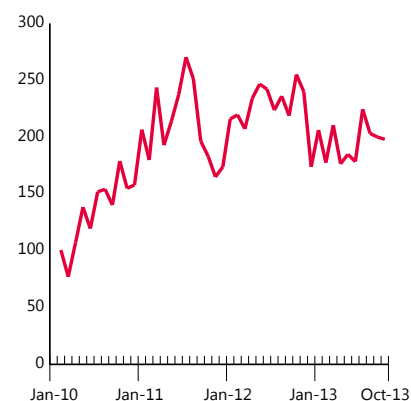
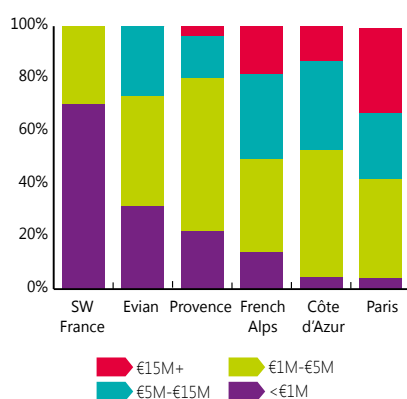


Figure 5 shows the seasonal nature of demand for French property. Search activity has peaked in July for the last two years. Online searches were muted in the first half of 2013 but since late June activity has been steadier than in the final quarters of 2011 and 2012, this reflects the improvement in applicant numbers experienced by Knight Frank's French network.

FIGURE 6
Property searches by price bracket 2013*



* Jan-Oct 2013

The split by price bracket reflects the composition of each local market. Only the Côte d'Azur, the French Alps and Paris generate a significant component of searches above €15m. In line with expectations, the bulk of searches in South West France and Evian, by comparison, are below €5m.

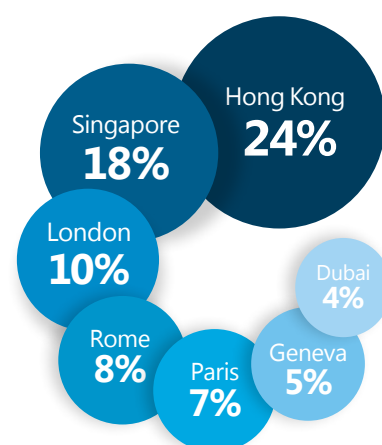
FIGURE 7
Average price searched by location 2010 v 2013*



* Jan-Oct 2013 ** Evian office opened in 2012

Those locations that have seen prices soften the most are the same markets where we have seen enquiries strengthen in the last 12 months. Paris has seen the largest increase in the average price searched, up from €3.8m to €5.3m.

FIGURE 8
Purchase costs by city* 2013



*based on a £2m/€2.4m resale property

Despite common perceptions, France compares favourably with other global cities with acquisition costs around 7% of the agreed purchase price. The costs are fixed regardless of price.

FRENCH PROPERTY HIGHLIGHTS

Knight Frank's French residential network covers 24 offices and extends from Paris in the north to St Tropez in the south and from Evian in the east to the Dordogne in the west.

Below is a selection of recent sales in some of our key markets.

SOLD
EVIAN
Asking price: €6.0m



SOLD
FRENCH ALPS
Asking price: €2.2m



SOLD
PARIS
Asking price: €5.1m



SOLD
MOUGINS
Asking price: €2.2m



SOLD
DORDOGNE
Asking price: €1.8m



SOLD
LUBERON
Asking price: €2.3m



SOLD
CANNES
Asking price: €2.9m



RESEARCH & PR

Liam Bailey

Global Head of Residential Research
+44 20 7861 5133
liam.bailey@knightfrank.com

Kate Everett-Allen

International Residential Research
+44 20 7861 1513
kate.everett-allen@knightfrank.com

PRESS OFFICE

Bronya Heaver

International PR Manager
+44 20 7861 1412
bronya.heaver@knightfrank.com

SALES

Mark Harvey

Head of French Residential Network
+44 20 7861 5034
mark.harvey@knightfrank.com

James Price

Head of International
Residential Development
+44 20 7861 1057
james.price@knightfrank.com



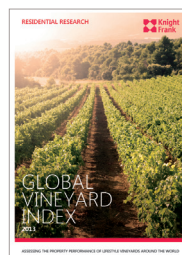
GLOBAL BRIEFING

For the latest news, views and analysis
on the world of prime property, visit
KnightFrankblog.com/global-briefing

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



[The Wealth Report
2013](#)



[Global Vineyard
Index 2013](#)



[Prime Ski Property
Index 2013](#)



[Spanish Prime
Residential Insight 2013](#)

Knight Frank Research Reports are available at www.KnightFrank.com/Research

Knight Frank Residential Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

© Knight Frank LLP 2013

This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.