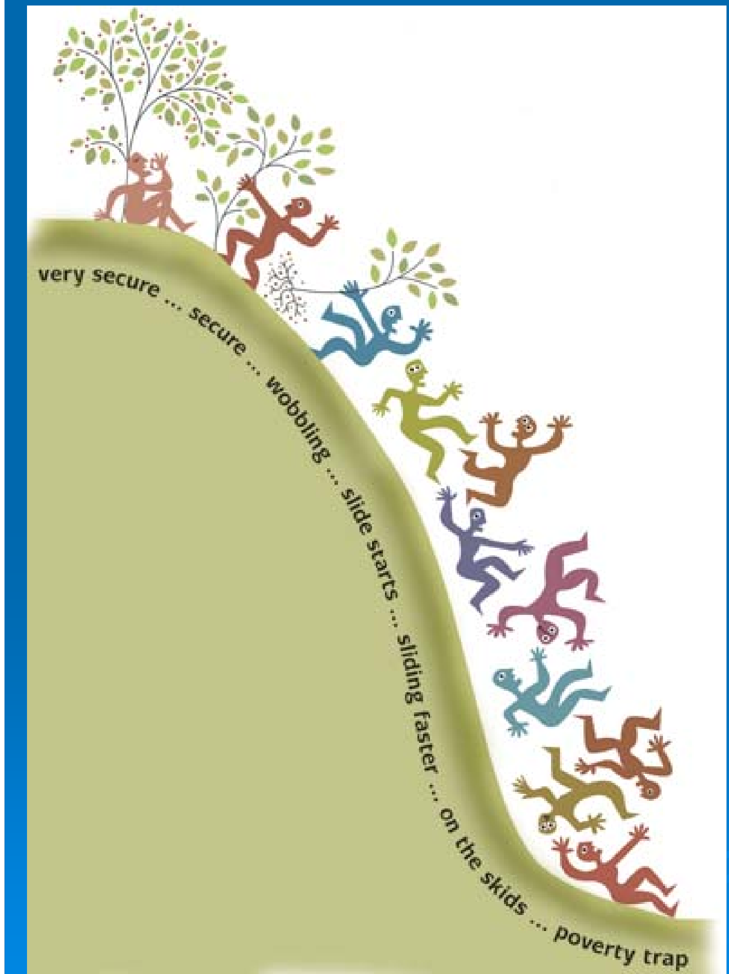

Financialisation, inequalities and property markets in France

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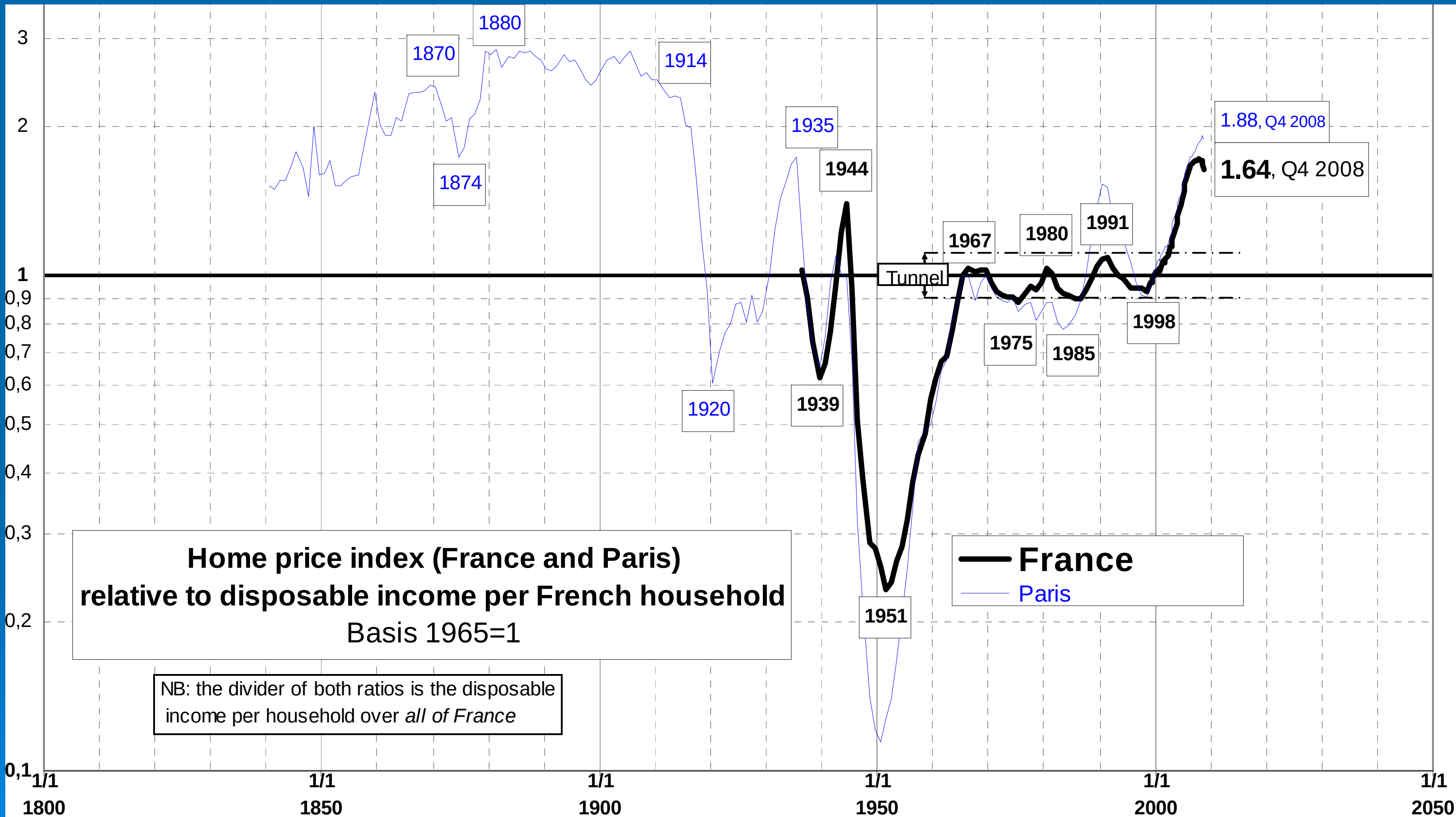
The belief on the growing price of property markets

- House prices in France have enjoyed considerable stability since the end of the 1950s
  - this belief can be traced to the rural tradition which characterized France up until the middle of the 20th century
    - Low mobility and family house
  - People seem always to have a predilection to assume that since land is scarce, real estate prices should grow over time
- These markets, like all asset markets, are subject to fluctuations linked to profound behavioural changes in French society
  - **Wealthy and mature households have made money by profiting from the speculative housing bubble and tax exemption policies to obtain capital gains at lower cost**
    - **Secure of retirement income in a context of longevity**
  - **Less well-off and young households have been able to buy property, in a climate of housing shortages and leniency from the banks, but at a very high price**
- **A new « Battle of generation »?**
- **The First Crisis of a Demographic Transition?**

House prices over a long period

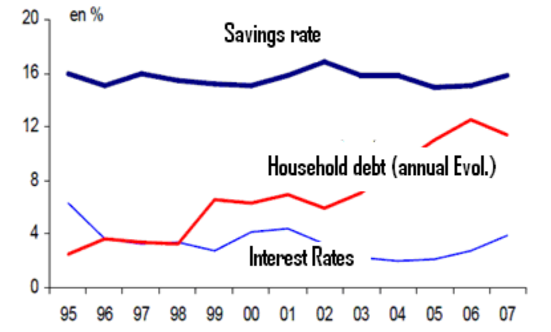


- The changes in prices relative to disposable income are historically unusual for the recent period, if we refer to the history of French property
  - From 1965 to 2000, house prices regained a certain stability, increasing in line with household income, and never varying by more than 10% from this long term trend (with the exception of the 1987-1995 crisis in a few geographic zones, which included the Paris area
- After a renewed stabilisation of the market beginning in 1998, an unparalleled evolution of prices would break away from the historical trend of house prices in France.
  - The housing bubble had been set in motion, whose size and range would be unprecedented, in that it would affect every kind of asset, no matter the type or location.

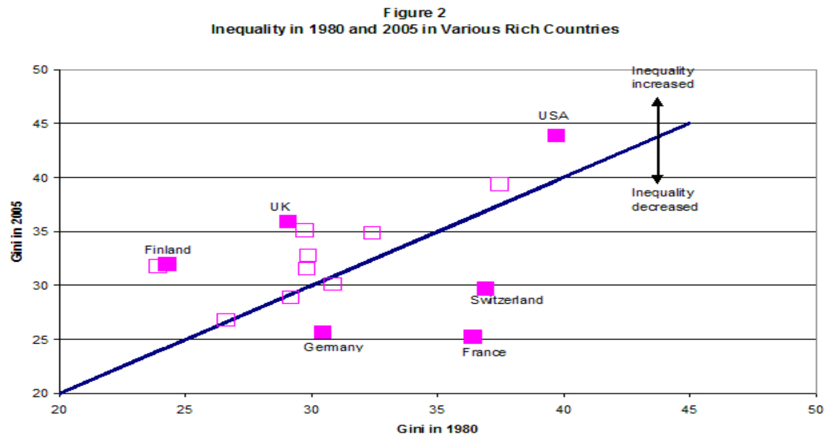
And unusual bubble

- High level of savings (15,3%)
- Predominance of fixed interest rates for mortgage
- Decrease of global inequalities
- Limited links between capital income and consumption (no wealth effect)
- Retirees are not indebted

- But
  - Demographic trends
    - « little baby boom » associated to an increase of ageing population
    - « the baby and the grandfather society? »
  - Increase of household debt

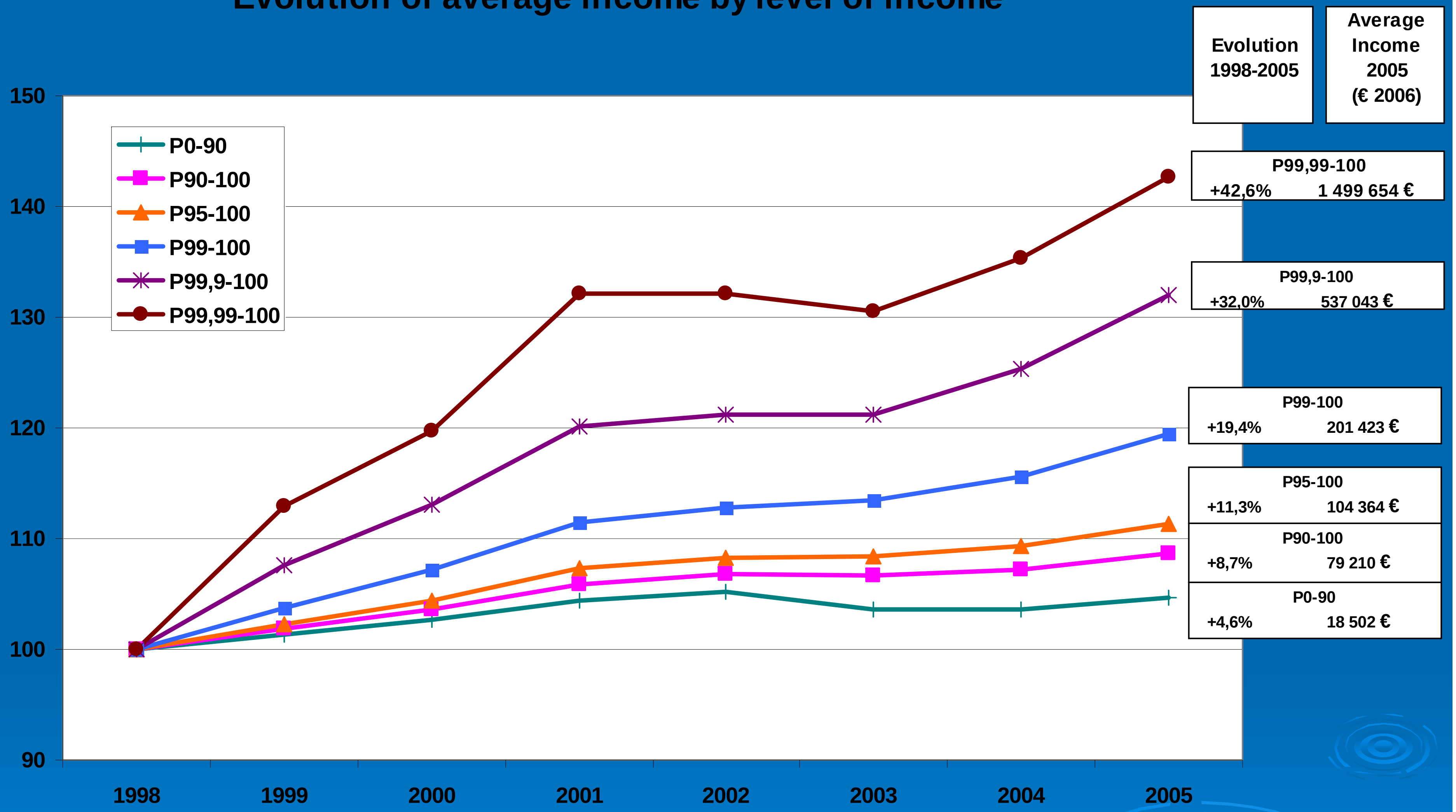


Sources : Insee, Banque de France



Role of inequalities?

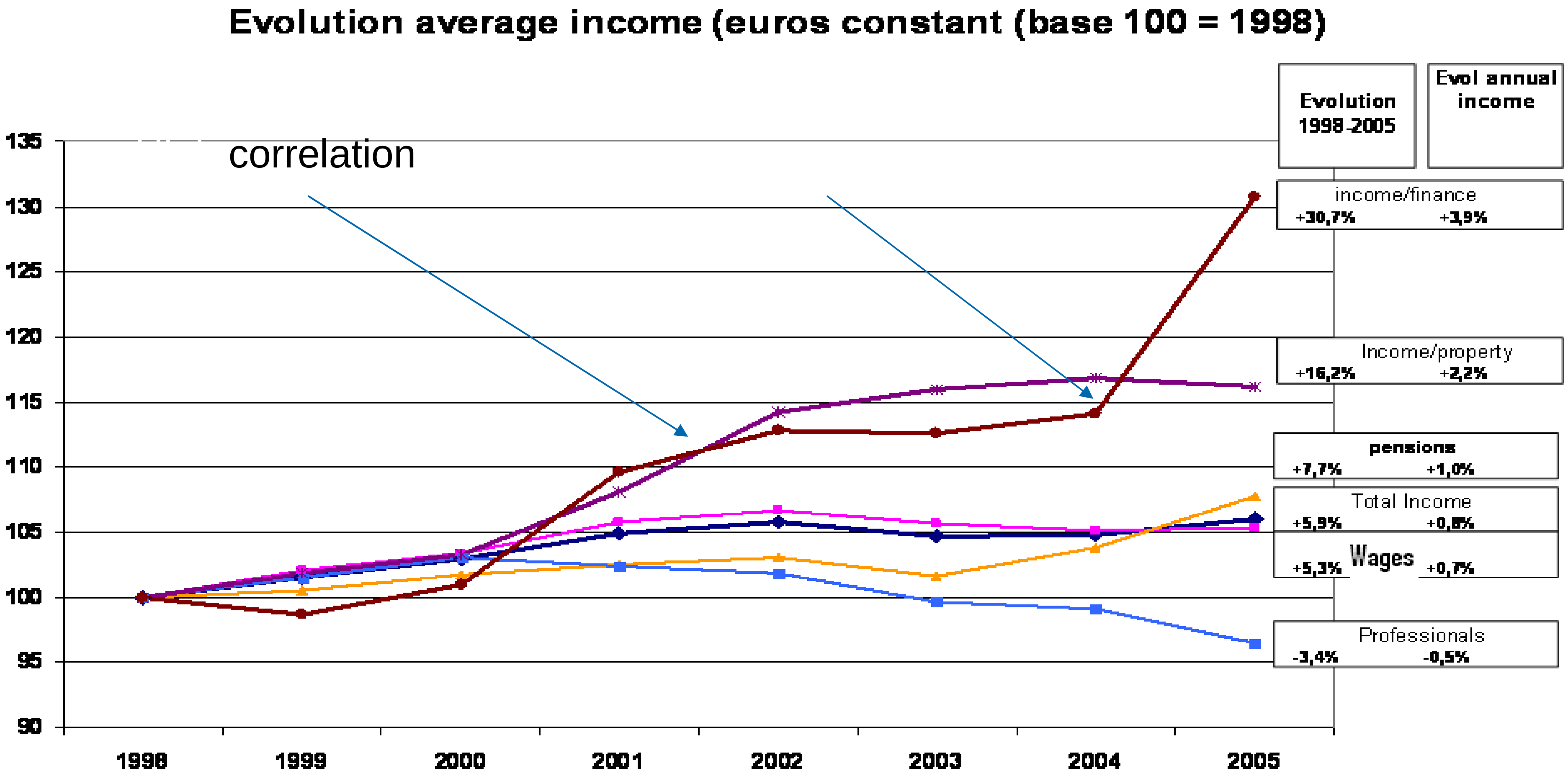
Evolution of average income by level of income



- Within the wealthiest 5% of households, declared incomes have risen by 11.3% since 1998; within the wealthiest 1% of households, they have risen by 19%; within the wealthiest 0.1% by 32% and within the top 0.01% by almost 43%." (Camille Landais 2007)

- Camille Landais also shows that this trend accompanies an increase in inequalities, since the average declared income saw modest growth (5.9% between 1998 and 2005) that the author explains by a distribution of income favorable to people who possess capital.
- 90% of households “a very slight growth in declared income on average can be observed. The increase in income of these households in real terms is less than 5% since 1998. This represents an average annual increase of just 0.6%.
- Compared to this trend which concerns 90% of households, the extremely high growth in average incomes among the 10% of highest earners, and even greater among the highest 1% of earners, appears even more spectacular

The increase in income from capital (properties and financial markets) for the wealthiest households



The trade off stock market/property

- The rise in income of wealthy households is explained by this increase in income from financial investments (+31%) as well as the increase of income from property (16.2%)
  - Property play a key role in the income structure of retirees
- In the climate of a rise in the value of assets , (stock market and property), rent is the least profitable. Gilles Moec (2006) shows that the return from letting is negative for every country except France where it is only 0.2%.
- Role of dot com crash
  - the drop in share holdings and the growth in investments in both life insurance policies and buy-to-let properties seem to indicate a partial reorientation of household wealth amongst the richest towards less risky assets since the dot com crash.

The major role of tax exemption policies for letting

- During the period of the baby boom, the construction of new housing was stimulated by a strong demand combined with high rates of inflation which limited the impact of debt on income (combined with stable employment).

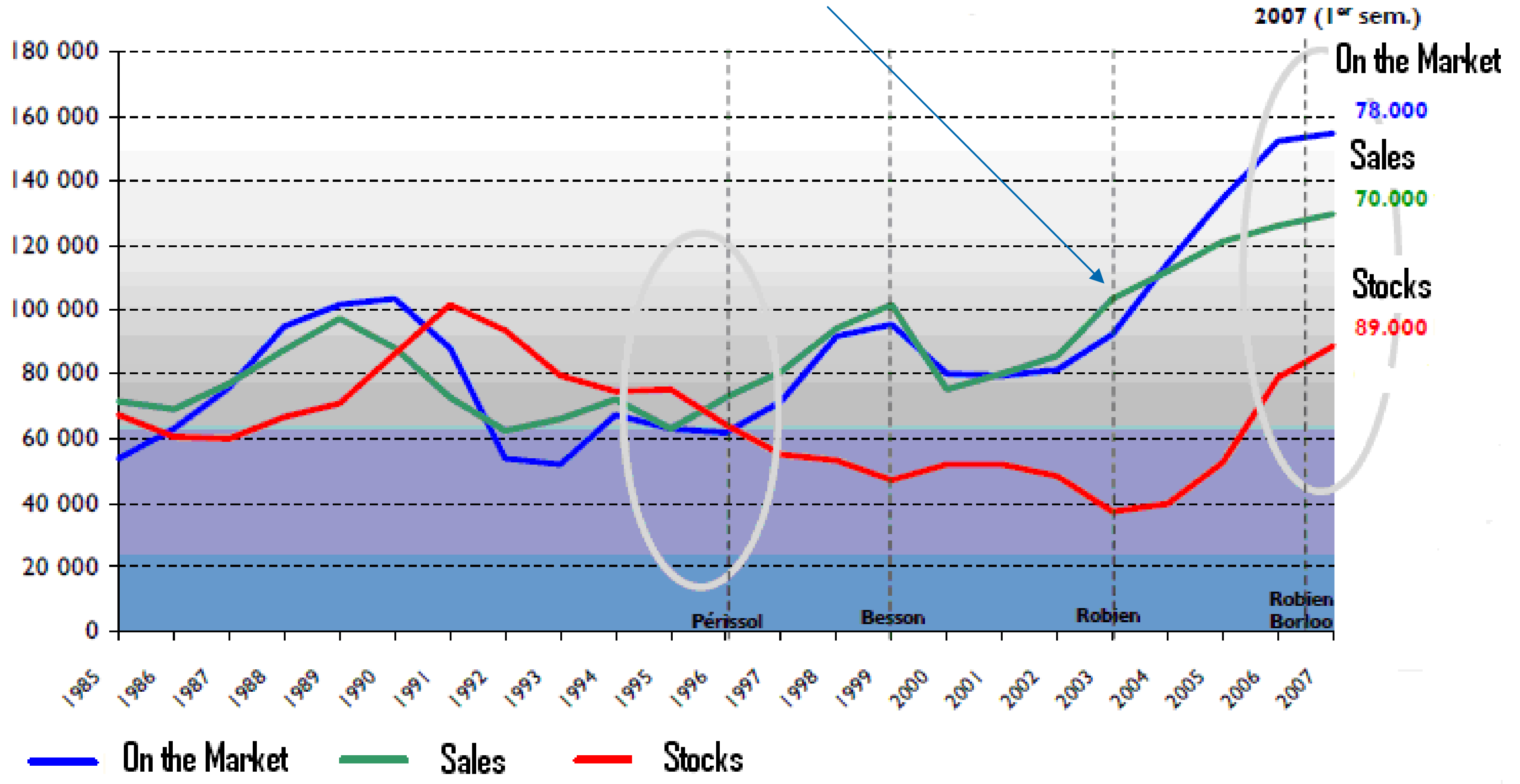
- The introduction of government policies of financial support for letting.
  - These policies, introduced in 1977 with the Barre plan, combined individual housing benefits (support for those wanting to rent or buy) with support for letting (landlords by means of tax exemption).
  - They aim to make building for letting purposes attractive again within a context of financialisation of income from property among wealthy households when other types of investment (stocks and shares) are highly profitable and investment yields from letting are low. The appeal of letting was therefore very weak.

The correlation between the laws which favour letting and the growth in new apartment buildings during the property boom

- It is a market “on methadone” and the government must constantly up its “dosage” of tax exemption if it wants to avoid a market crash.
- These systems which help to increase prices during the property bubble, also decrease prices by the same token during a crisis since home owners are less concerned by prices if a proportion of their property is covered by tax exemption.

A market under « methadone »

Property development on a national scale – Adjusted Data ECLN



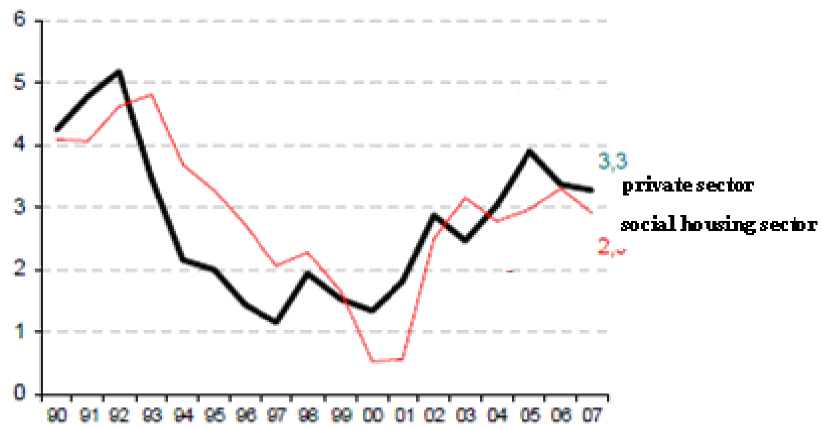
The rigidity of supply

- The countdown of developpers
  - In times of high demand, developers are encouraged to sell off plan (including by banks who will only agree to a loan if a minimum number of houses has been sold).
  - This leads to a high demand for construction, which then leads to a dramatic increase in construction costs. The demand for products and raw materials linked to construction is a major cause of rising construction costs
  - Indeed, the building sector has a rigid supply of service linked to a shortage in skilled workers (hence many turn to employing immigrants) and due to the cost of raw materials whose price rises as an effect of demand (a global bubble of the prices of maerials
- Others reasons: The cost of land , the mimetic structure of the market (see the paper)

The Trade off rent/buying:High demand for property led inevitably to a significant rise in prices for young first-time buyers

- Banks:
  - relaxed their mortgage-lending conditions by lengthening the repayment period
  - increase of debt/income ratio
- Trade off rent/buying
  - Rapid increase of rent for young people
    - first-time tenants (often young people) who had to bear a very high rent/income ratio of 37.5% (compared to 19.4% in 1973).
  - Government housing benefits also played a part. Beneficiaries of this financial aid saw their rent climb faster than that of other tenants and the increase in government aid was cancelled out by the increase in rent
    - Landlords, facing rising prices, were able to increase rent prices substantially, certain of their tenants' solvency, thanks to government housing benefits.

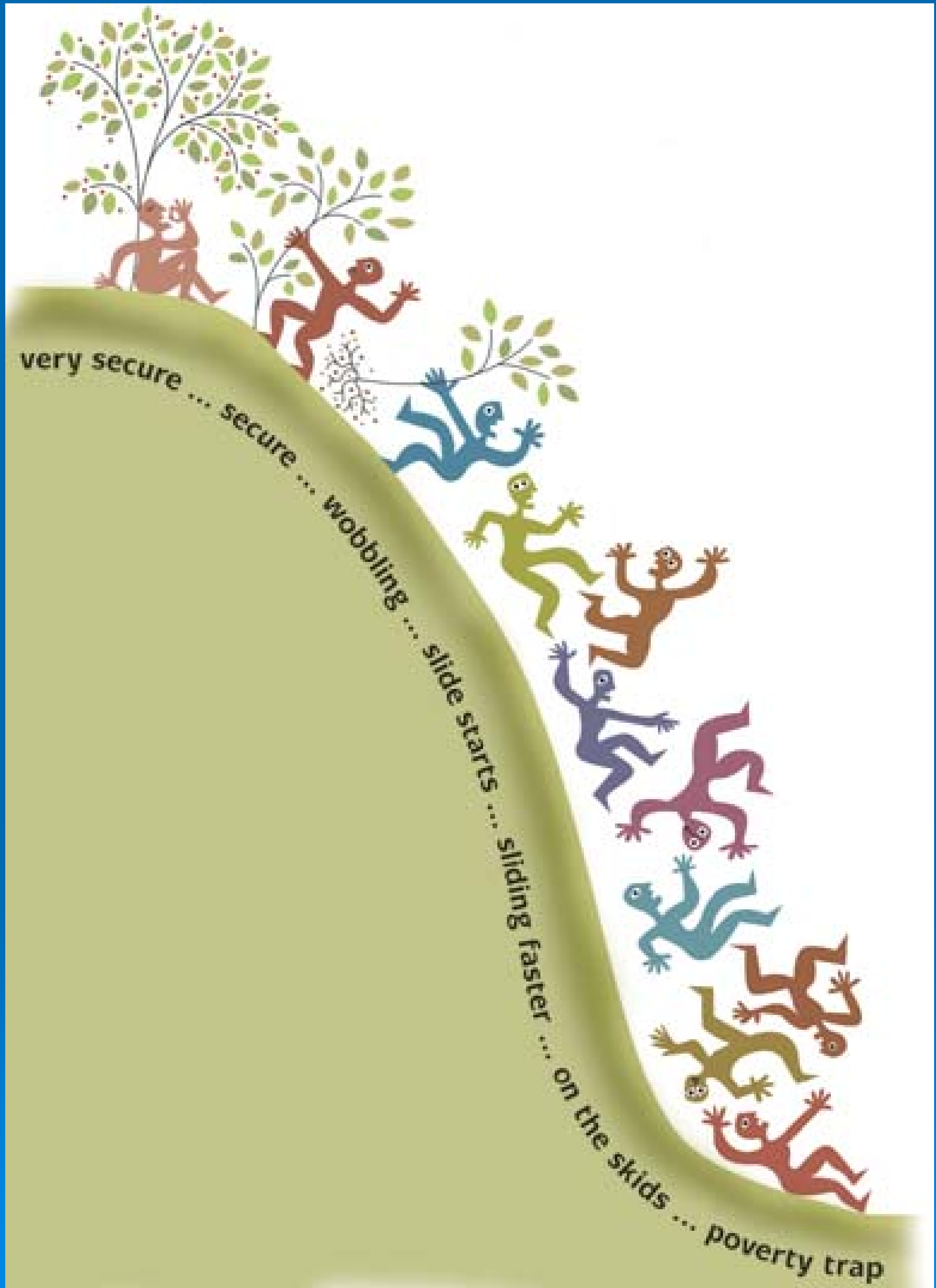
The significant increase in house prices (which reduced the number of buyers) and in rent prices (which made renting difficult) both contributed to the crisis in 2007



Source : Compte du Logement provisoire 2007
(1) hors droit de bail (puis CRDB)

Consequences

- Consequences:
  - the growing number of young adults who flat-share, people living with friends, young people living at home for longer, people living in static caravans or in shelters for low-earning workers.
- Further tension has arisen in the rental sector:
  - the low rate of occupancy turnover in council housing despite the increase in prices of this sector (which remain nonetheless well below the private sector),
  - very low earners forced to continue renting,
  - an increase in rental conflicts and evictions due to high rent/income ratios, an increase in missed rent payments and a faster occupancy turnover of property.
  - This crisis caused a wave of evictions which affected the most vulnerable sections of the population (low earners and young people).


very secure ... secure ... wobbling ... slide starts ... sliding faster ... on the skids ... poverty trap

Thanks