

PRIME FRANCE REPORT

2022

◆ RECORD PRICE GROWTH ◆ OVERSEAS DEMAND RETURNING ◆ CURRENCY PLAY FOR US\$ BUYERS



KEY FINDINGS



RECORD SALES

Residential sales in France sit 31% above their 10-year average and prime prices increased 6% on average in 2021



URBAN REVIVAL IN PARIS

Constrained supply, inflows of private wealth and significant investment in infrastructure are supporting prime prices



PROVENCE'S PULL

With stock levels down 65% since the start of the pandemic, buyers are highly motivated with sales up 28% in the first half of 2022



CURRENCY MATTERS

In June 2022, US buyers enjoyed a 16% discount in France due to currency shifts alone compared to a year earlier. With the Fed tightening monetary policy faster than the ECB this figure is set to increase



THE NEW FINANCE LANDSCAPE

Brexit means British buyers have access to a smaller pool of lenders when buying in the EU and some banks are taking longer to process applications

MARKET OVERVIEW



KATE EVERETT-ALLEN
HEAD OF INTERNATIONAL RESIDENTIAL RESEARCH

France's property market has enjoyed a bull run, but what comes next?

France's prime residential market is in robust shape. Residential sales in 2021 sat 31% above their ten-year average.

The pandemic has seen French buyers re-evaluate their housing requirements and working practices, in many cases relocating, upgrading, or acquiring that long-yearned-for second home. In 2021, when borders reopened, they were joined by pandemic-weary overseas buyers, for whom the French lifestyle resonated even more strongly.

Although there are signs that the exuberance of the last few years is starting to ebb, the evolving landscape presents opportunities for buyers who have been stymied by the lack of stock and the speed with which some markets, Provence in particular, have been moving.

Buyers are still not in the driving seat, however. Having identified a property of interest there is a need to expedite plans, particularly at price points below €2 million. Vendors, for their part, should avoid prevaricating, a dose of realism is needed given the shifting economic and geopolitical landscape.

Bricks appeal

Acquiring a tangible asset that offers a source of reliable income, a potential hedge against inflation and a means to diversify investments whilst mitigating risk, against a backdrop of volatile equity markets and commodity prices, is an increasingly appealing prospect.

Cash-rich private equity funds have got the memo, with many active in Paris as we discuss on page 4.

If the story of 2021 was the race for space and the preoccupation with larger homes, this year urban markets are getting in on the act as second homeowners crave culture and connectivity, and investors eye the return of tourists.

Think finance

Rate rises mean it is more expensive to take out a mortgage than it was and post-Brexit there is a smaller pool of lenders British buyers can access.

Buyers looking to take out a mortgage to fund their second home or investment property in France need to seek advice early in the homebuying process as Felicity Sullivan of Knight Frank Finance explains on pages 10-11.

Currency play

With much of the world raising interest rates, the impact on currency markets is a constantly moving feast. One thing is clear, the Fed is hiking faster than the European Central Bank (ECB) which presents US buyers, or those with currencies pegged to the dollar, with a window of opportunity. US buyers currently enjoy a 16% price discount compared to a year ago due to currency shifts, which explains why US searches for French property on Knight Frank's website were up 37% in May 2022 on an annual basis, a trend we investigate more closely on page 8.

Outlook

Sales activity is expected to be healthy but more muted in 2022, with a marginal slowdown in sales having been noted in the first half of the year. The Russia-Ukraine conflict has heightened uncertainty and will impact buyer sentiment given the backdrop of sharply rising inflation and tighter financing conditions.

Meet the Team

Our French team would love to discuss the market with you. With an average of 15 years' experience between them they have unrivaled knowledge and insight.



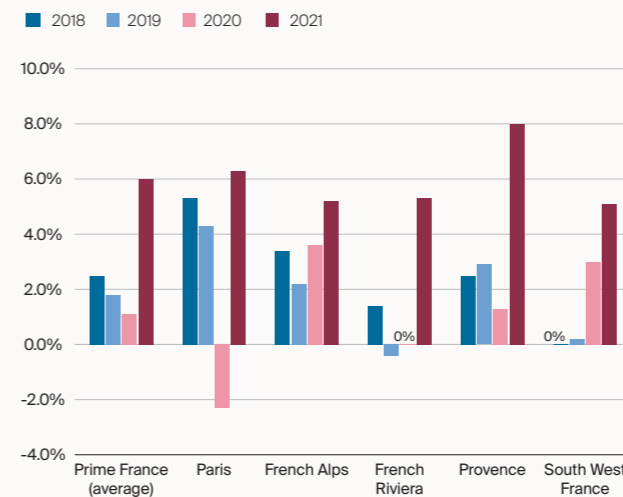
HOW FRANCE'S PRIME MARKETS COMPARE ...



Acquiring an asset that offers a reliable source of income, a potential hedge against inflation and a means to diversify one's investments is an appealing prospect for many buyers

PRIME PRICES IN FRANCE INCREASED 6% ON AVERAGE IN 2021

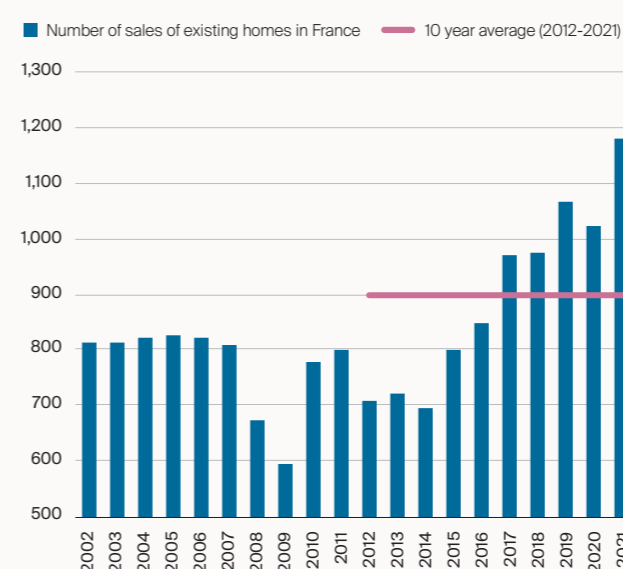
Annual % change



Source: Knight Frank Research

FRENCH RESIDENTIAL SALES SIT 31% ABOVE THEIR TEN YEAR-AVERAGE

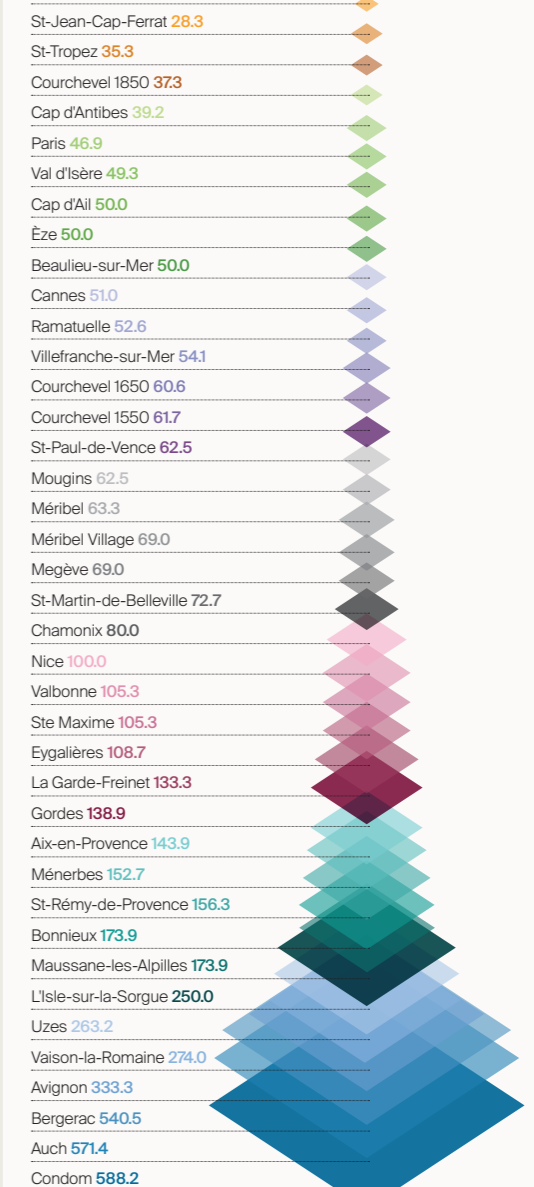
12-month rolling total (000's)



Source: CGEDD according to DGFiP (MEDOC) and notarial bases

RELATIVE VALUE

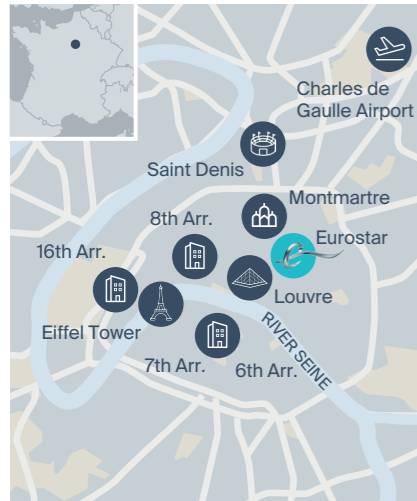
How many square metres of prime property €1m buys in... Q1 2022



Source: Knight Frank Research

PARIS

The city is shining bright, its relative value, host of new infrastructure projects and safe-haven status are boosting its appeal



In 2021, Paris came close to eclipsing its 2017 historical peak of 185,900 sales. Existing home sales in the Greater Paris region hit 182,000 transactions, a 12% increase year-on-year.

This strong demand has pushed prime prices up by 6.3% in 2021 and by a further 3% in the first half of 2022.

US buyers are the top source of overseas leads for Knight Frank this year, but below €3.5 million domestic demand also remains strong.

Paris is coming of age. It is no longer the formal and conservative French capital it once was, it is back on trend. Private members clubs and upscale gyms are popping up across the city, from the new Soho House in Pigalle to La Montgolfière next to the Canal Saint-Martin.

This public investment is being matched privately. Several billionaires have increased their Paris footprint in the last twelve months, Xavier Niel and François-Henri Pinault amongst them.

Super-prime sales, those above \$10 million (c.€9.5 million) totalled 15 in the first half of 2022, up 100% compared to the same period a year earlier. Slim pickings and competitive bidding define the top end of the market.

Private equity firms are increasing their exposure to the city's residential market. Cash rich, most are not yield focused but instead want a prime asset in established areas such as the 6th, 7th and 8th arrondissements as a means to store capital as economic uncertainty mounts.

A key draw for global buyers is Paris's competitive pricing compared to other capital cities. Typical prime prices sit around €21,000 per sq m compared to €27,100 per sq m in New York and €28,700 per sq m in London.

A stark lack of new-build luxury product helps protect prices. Aside from Rue de Grenelle in the 7th, the only new prime development to come to the market in central Paris is that of Scene de Loges, in the 15th arrondissement which will see the old Renault garage completely remodelled into 82 homes, several with views of the Eiffel Tower.

Expect more investment activity around L'île-Saint-Denis to the north of the city, as the Paris Olympics and Paralympics draws near in 2024. Preparations overlap with the Grand Paris Project, Europe's biggest urban transport project, which is being completed in stages, delivering 77 new stations and 200km of new rail lines boosting the connectivity between suburban districts.

THREE KEY TRENDS

1.

Lack of new supply continues to support prices

2.

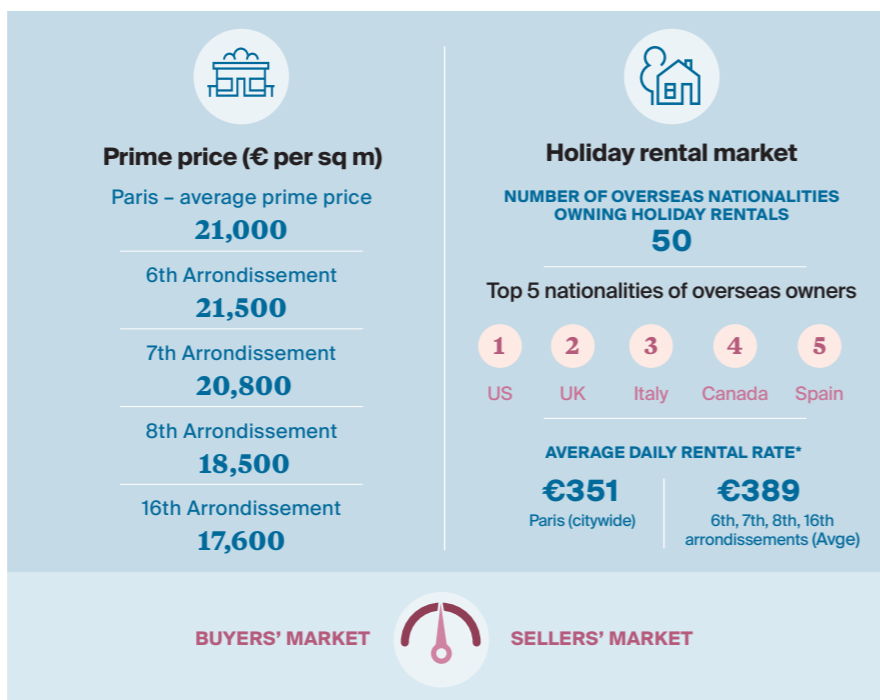
Private equity funds are targeting Paris's prime assets as an inflation hedge

3.

Major infrastructure projects (Olympics and Paralympics 2024 and Grand Paris Project) will attract investors



Find out how Paris's mainstream residential market is performing



BUYERS' MARKET

SELLERS' MARKET

Source: Knight Frank Research, selected holiday rental platforms *Rental data based on all properties with an average daily rental rate above US\$250 (c.€238)

FRENCH RIVIERA

Monaco's expansion plans and the return of the rental investor will shape market performance



THREE KEY TRENDS

1.

The return of the rental investor is evident in Cannes where apartments now present a buying opportunity

2.

Monaco's proximity and its expansion plans will see stronger demand for villas on the French Riviera as weekend bolt-holes

3.

Inflated build costs are not deterring developers in the region, signalling a confident outlook



Read our Buyers' Guide for a detailed breakdown of costs and a step-by-step guide to the purchase process in France

Stock levels remain a challenge for buyers across the region. Most are acting decisively when they find a property that meets their requirements due to concerns around depleted inventory.

Market liquidity is strongest in the €1 million to €2.5 million price bracket in Mougins, Valbonne and Grimaud. On the coast, the €3 million to €6 million price bracket is most active, particularly near Cannes, Cap d'Antibes and between St Tropez and Ramatuelle.

Mainland Europeans continue to comprise the bulk of international demand with Scandinavian, German and Swiss buyers possessing a large market share. Hindered by lockdowns and successive waves of Covid-19, Asian interest has yet to recover but we anticipate stronger demand in the coming months.

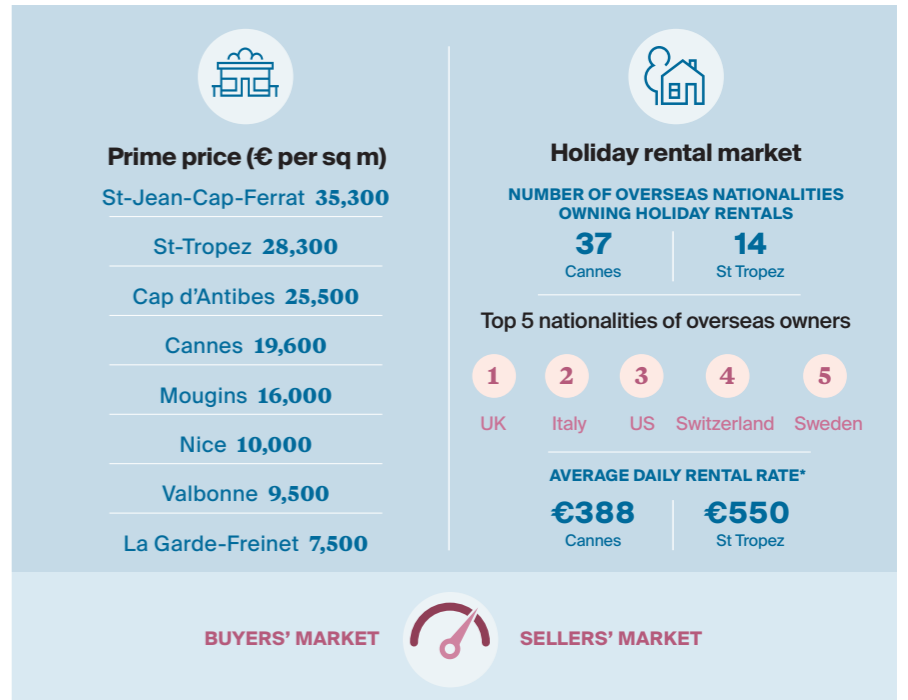
The Brexit ruling that sees British homeowners limited to a stay in the European Union of 90 out of every 180 days has had minimal impact on the local market. Arguably, retirees have been affected the most but the appetite from second homeowners and those looking to

relocate using the residency visa route has remain unchanged.

The rental investor is returning to the French Riviera. Apartments in towns like Cannes, home to a burgeoning conference and events industry, are back in the spotlight. During the pandemic the villa market outperformed as homeowners sought more space during lockdowns. With price growth for apartments lagging, investors are eyeing a potential value opportunity as the conference industry gets back on its feet.

Monaco's proximity has a direct influence on the French Riviera's market. With Monaco expanding its land mass by 3% via the new Mareterra project, and prices expected to reach €100,000 per sq m, the likelihood is these homeowners will seek a weekend bolthole on larger plots along the French Riviera.

The push for sustainability is filtering through to the Riviera. Ramatuelle and Cannes have both taken steps to reduce their eco-footprint by improving the sustainability of their hospitality venues.



BUYERS' MARKET

SELLERS' MARKET

Source: Knight Frank Research, selected holiday rental platforms *Rental data based on all properties with an average daily rental rate above US\$250 (c.€238)

FRENCH ALPS

The appetite for Alpine living persists as owners of ski homes look to spend longer in the mountains



Mountain living shone bright during the pandemic. The total volume of sales in the departments of Haute-Savoie and Savoie, increased by 32% and 16% respectively in 2021 compared to 2019. French buyers filled the gap left by overseas purchasers grounded by travel bans during Covid times.

Stock levels plummeted with agents struggling to fill window displays. But a recent flurry of valuation requests suggests a reprieve for frustrated buyers may be around the corner. However, inventory levels vary by property type. Apartments are easier to find than large luxury chalets - the asset of choice during the pandemic.

Alpine air, outdoor exercise and socialising with family and friends were the antidote many sought post-lockdown. Expectations are high this will continue into 2022/23 which will, hopefully, be the first ski season for three years uninterrupted by border closures.

A new breed of buyer has the Alps in its sights, namely trail runners and cyclists. Registrations for the Ultra Trail de Mont Blanc (UTMB) underline the extent to which this market is growing, 10,000 runners signed up for its week-long event in 2021, up from 67 in 2003. These sports aficionados

are buying homes, many looking to train in the Alps over the summer months and rent their property during the winter ski season. With the Portes du Soleil playing host to the Tour de France and the Mountain Bike World Championships this year we expect this trend to strengthen further.

But whilst the market remains robust, we're in uncharted waters and headwinds are mounting. The rising cost of living, escalating mortgage rates and recent talk of a recession are focusing vendors' minds with some now open to a degree of negotiation. The high proportion of cash buyers, accounting for around 50% of prime purchasers in the region, should however mitigate the impact of rising rates.

The challenge for renters and ski operators is the shrinking pool of properties. People want to spend longer in their ski homes since the pandemic meaning fewer are opting to rent. This 'co-primary' trend is also pushing larger resorts or those with year-round amenities up buyers' shopping lists. Those now looking to spend 3-4 months a year in their ski home want a resort with a broad range of social and sporting activities on offer throughout the year.

THREE KEY TRENDS

1.

Owners want to spend longer in their ski homes, with more targeting resorts that offer amenities year-round

2.


The total volume of sales increased by 32% in the department of the Haute-Savoie in 2021 compared with 2019

3.

Stock levels are at historic lows, but some resorts are seeing more valuations which may signal a slight recalibration



Read the Prime Ski Property Report for a deep dive into the French and Swiss Alps



Prime price (€ per sq m)

Courchevel 1850 **26,800**

Val d'Isere **20,300**

Courchevel 1650 **16,500**


Courchevel 1550 **16,200**

Méribel **15,800**

Megève **14,500**

St Martin de Belleville **13,750**

Chamonix **12,500**



Holiday rental market

NUMBER OF OVERSEAS NATIONALITIES OWNING HOLIDAY RENTALS

29

Top 5 nationalities of overseas owners

1
UK

2
Switzerland


3
US

4
Italy


5
Belgium

AVERAGE DAILY RENTAL RATE*

€444



BUYERS' MARKET



SELLERS' MARKET

Source: Knight Frank Research, selected holiday rental platforms *Rental data based on all properties with an average daily rental rate above US\$250 (c.€238)

PROVENCE

One of the busiest markets during the pandemic, the Provençal dream continues to appeal to a broad mix of buyers



'Frenetic' best describes the Provence prime residential market. Enquiries in 2021 were up 50% year-on-year and in the first four months of 2022 the team witnessed a further 10% rise.

Buyers are highly motivated. In 2021, it took 10 to 12 viewings on average before a sale was agreed, in 2022 this figure has dropped to five or six viewings. The lack of stock means buyers are making concessions, the days of an exhaustive tick list are gone.

The number of properties for sale is down 65% across the region compared to the start of the Covid-19 crisis and demand is around four times stronger than current stock levels.

The average price increased 8% in 2021 and by a further 8% in the first half of 2022. Sales agreed are up 28% in the first half of 2022 compared to the same period a year earlier.

Demand is coming from both French and international buyers and the proportion of international buyers is increasing post-Covid-19. In 2021, 47% of Knight Frank's buyers in the region were from overseas, in 2022 this figure has risen to 59%. Belgian,

British, Swiss and increasingly US nationals represent the bulk of international buyers in the region.

However, prospective buyers from abroad are often left with a rapidly shrinking pool of properties to view if they are unable to arrange their visit immediately.

There is less negotiation on price than before the pandemic. Due to the competition in the market buyers are aware they need to offer close to, or at the asking price.

The region offers relative to value compared to the Cote d'Azur with the €1 million to €2.5 million price bracket the most active. Around 60% of buyers need to take out mortgage financing for liquidity purposes and other fiscal advantages.

There was good news for British second homeowners in France earlier this year. A ruling by the European and French courts means those with homes in France will pay a 7.5% rather than the 17.2% social charge (prélèvements sociaux) when selling or renting their property. Furthermore, those that have erroneously incurred this charge since the UK left the EU on 1 January 2021 can apply for refund from the French tax authorities.

THREE KEY TRENDS

1.

Limited stock means buyers are highly motivated

2.


French buyers have been joined by Belgian, British, Swiss and US purchasers in the last year

3.

Sales are up 28% in the first half of 2022 compared to the same period a year earlier



Read our Sellers' Guide for a detailed breakdown of costs and a step-by-step guide to marketing and selling your property in France



Prime price (€ per sq m)

Eygalières **9,200**

Gordes **7,200**

Aix-en-Provence **6,950**


Ménerbes **6,550**

St-Rémy-de-Provence **6,400**

Bonnieux **6,000**

Maussane-les-Alpilles **5,750**

L'Isle-sur-la-Sorgue **4,000**



Holiday rental market

NUMBER OF OVERSEAS NATIONALITIES OWNING HOLIDAY RENTALS

22

Top 5 nationalities of overseas owners

1
Belgium

2
UK


3
US

4
Switzerland


5
Canada

AVERAGE DAILY RENTAL RATE*

€426



BUYERS' MARKET

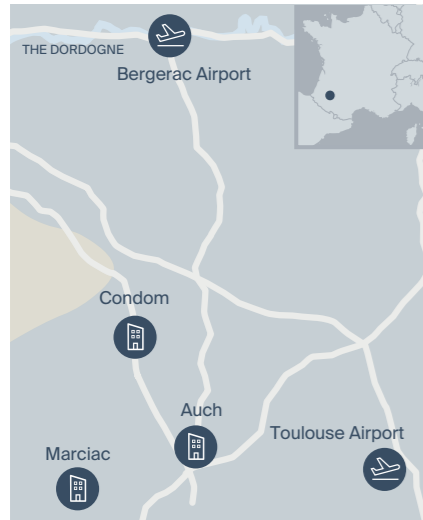


SELLERS' MARKET

Source: Knight Frank Research, selected holiday rental platforms *Rental data based on all properties with an average daily rental rate above US\$250 (c.€238)

SOUTH WEST FRANCE

Comparative value is attracting a younger buyer profile



Relative to other prime destinations in France, the South West offers compelling value with the most active market segment being the €500,000 to €750,000 price bracket. This lower entry point means fewer buyers consider mortgage finance, and as a result have little need to rent out their property to cover interest repayments. The market in excess of €1.5 million remains 'stickier' given the associated maintenance and administration costs.

Stock levels in the region are not as depleted compared to France's other

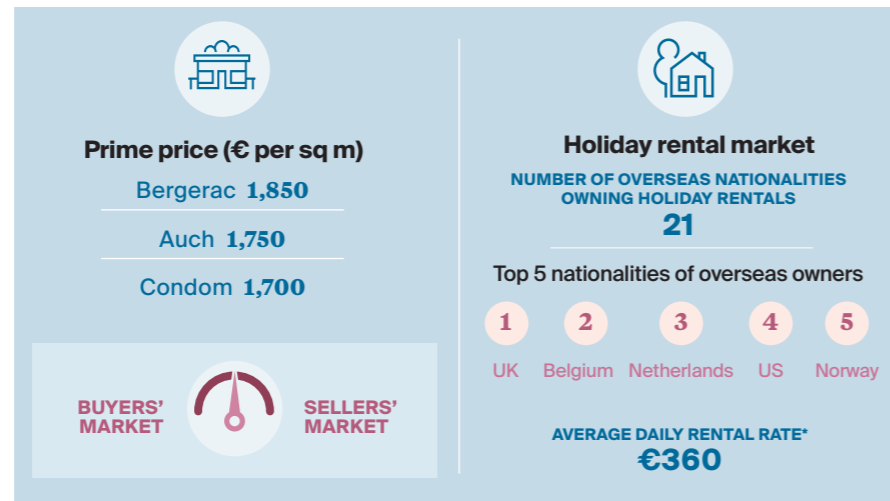
prime markets, the challenge for buyers is identifying best-in-class properties.

The average age of a prime buyer in the region is lower than before the pandemic. Young families are increasing in number, attracted by the lifestyle and ever improving accessibility.

Since 2019, French buyers, Parisians in particular, have increased in number across the region with British, US and French expats the other key components of demand. The historical towns of Auch, Condom and Bergerac remain their main focus.

THREE KEY TRENDS

1. Parisian and UK buyers are a key source of demand
2. Prime prices increased 5% in 2021
3. The region is attracting a younger generation looking for an affordable holiday home



Source: Knight Frank Research, selected holiday rental platforms *Rental data based on all properties with an average daily rental rate above US\$250 (c.c238)

US BUYERS ON THE RISE

Whether Paris, Provence, the French Riviera or South West France our teams are reporting a notable uptick in US enquiries. Analysis of Knight Frank's website shows property searches for French property by US-based buyers increased 37% in the first five months of 2022 compared to the same period a year earlier.

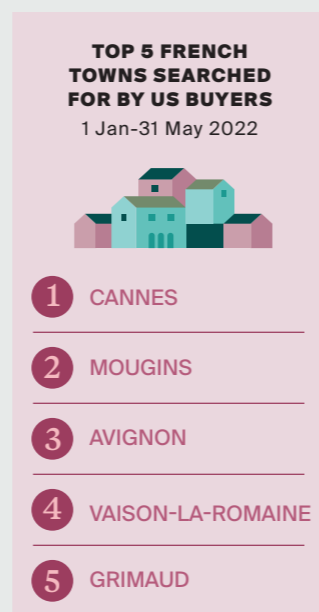
There are three motivating factors: the currency play, a strong accumulation of US household wealth during the pandemic and two years of closed borders.

With the Fed tightening monetary policy more aggressively than the Eurozone to combat above-target inflation the dollar is appreciating against the euro. In June 2022, it

stands at 1.05 but Capital Economics forecast the two will reach parity by the end of the year. The recent move by Delta Airlines to introduce new daily flights from Nice Airport to New York JFK suggests demand is set to strengthen further.

37%

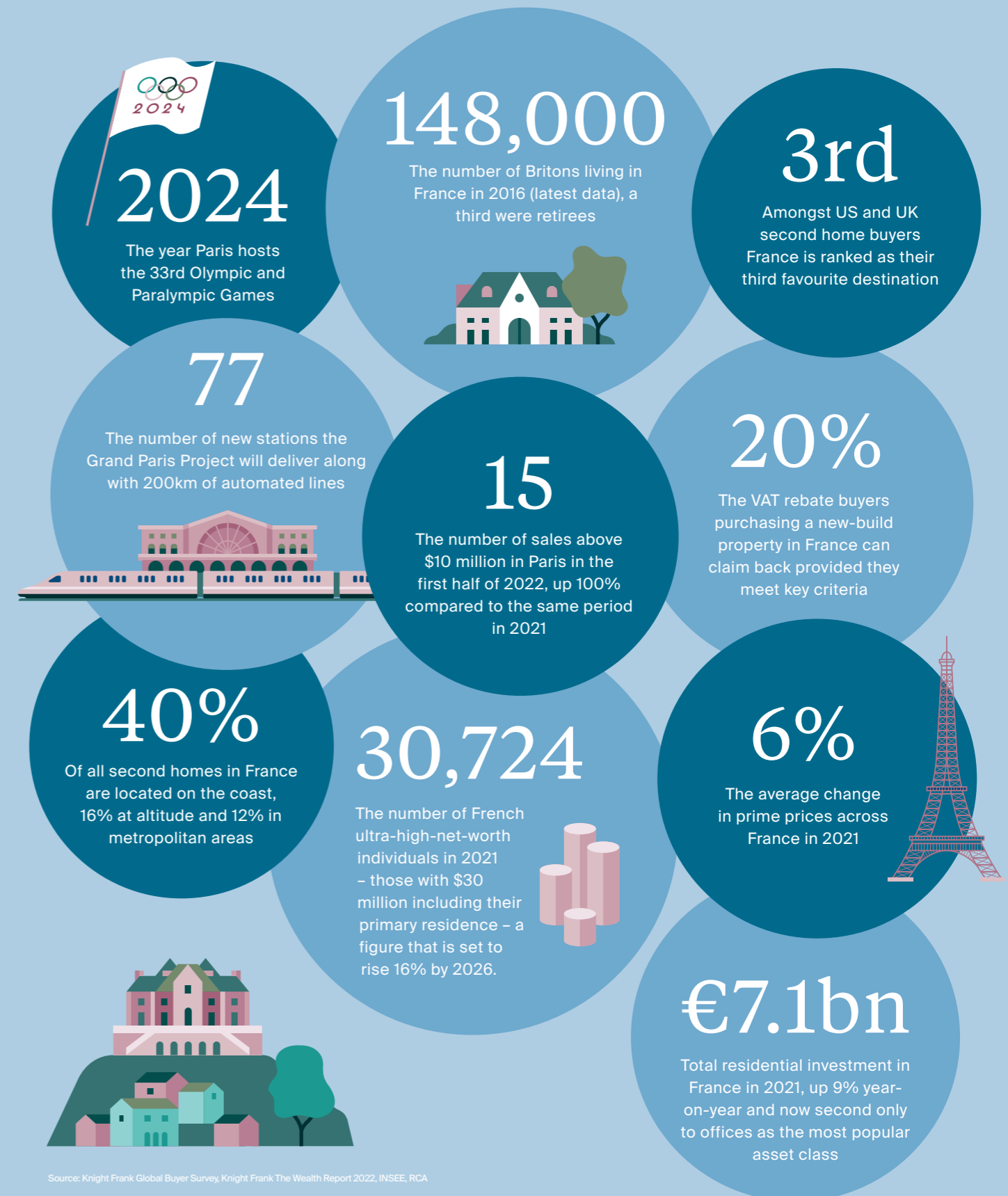
The increase in searches for French homes by US buyers
Jan-May 2022 vs Jan-May 2021



Source: Knightfrank.com

FRANCE IN NUMBERS

A round up of the key market statistics for second homeowners and investors with an interest in France's prime property market



Source: Knight Frank Global Buyer Survey, Knight Frank The Wealth Report 2022, INSEE, RCA

FINANCING YOUR SECOND HOME IN FRANCE

British buyers looking for a mortgage for their second home in France face a shrinking pool of lenders since leaving the EU. Kate Everett-Allen talks to Felicity Sullivan of Knight Frank Finance to understand what's changed



FELICITY SULLIVAN, KNIGHT FRANK FINANCE
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Felicity, thanks for joining me. Can you explain how the mortgage market has changed since the UK left the European Union (EU) on 31 January 2020?

Since the UK left the EU the mortgage landscape has changed. Fewer lenders will loan to British buyers in the EU. At Knight Frank Finance we are making sure we are up to date with any regulatory changes in the market. Speaking to a broker who is on top of criteria changes means buyers won't waste time speaking to a local lender who are unable to assist.

But it is not just British buyers we can assist, in 2021 we worked with clients across the globe, from Singapore to the US.

Why is there a stronger argument for taking out finance in France compared with elsewhere?

A lot of my clients start out as cash buyers, with no plans to take out a mortgage for their new property in France. However, having sought independent qualified tax advice many want to discuss their finance options as it may allow them to benefit from certain tax advantages.

Plus, buyers at the top end of the market are reluctant to tie up significant funds in a prime property. A mortgage allows them to free up the funds to be invested elsewhere with the potential of a higher return. This trend has been particularly acute given the low interest rate environment in Europe.

Is France's mortgage market very different to that of the UK?

France's mortgage market is not as sophisticated as that of the UK, with less diversity of product. A fixed rate deal over 20 years is commonplace in France, in the UK such deals represent just a fraction of the mortgage market. The knock-on effect of such long mortgage periods is much less competition in the market.

Post-Brexit British buyers are considered a higher risk. At present, this means a French tax resident can achieve a lower rate than a non-resident borrower.

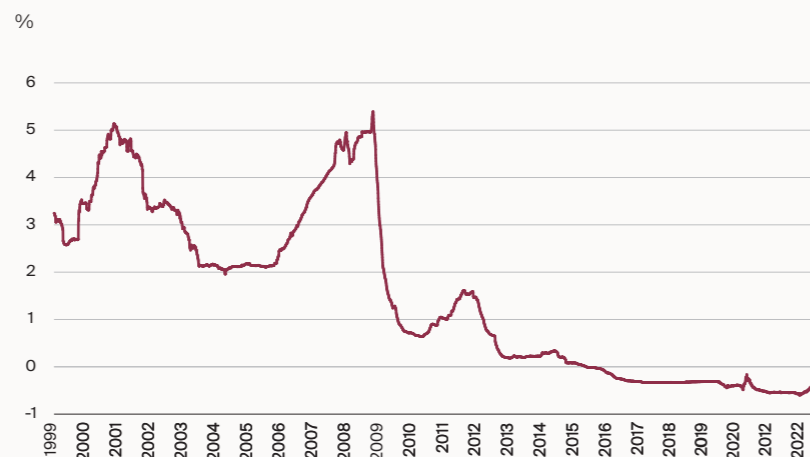
What do non-resident buyers need to know about France's mortgage market?

There are two types of lenders, high street lenders and private banks. The strength of the Knight Frank brand means banks want to work with us, giving us access to over 50 lenders in Europe.

The different ways in which high street and private banks fund their mortgages means that they have been impacted by the changes in interest rate markets in distinct ways.

High street lenders' rates have remained relatively stable, as opposed to

The Euribor 3-month rate remains close to historic lows



Source: Knight Frank Research



A mortgage allows prime buyers to release the funds to be invested elsewhere with the potential of a higher return.

private banks where we have seen much more volatility in interest rates. The high street banking model is transactional and the offering is simpler and less nuanced when compared to the private banks.

Private banks on the other hand, want a long-term relationship with the client and will usually look at innovative ways to split the loan against the property and other assets in order to maximise the overall loan to value up to as high as 100%. This blend of mortgage and so-called Lombard lending allows clients to diversify their investments, spread risk and maximise returns.

A recent client who purchased a chalet in Megève for €4.95 million for example, had the funds to purchase in cash but wanted to avoid taking funds out of his business, after consulting his tax adviser he also wanted to maximise the debt taken against the property for tax planning purposes.

We raised a total mortgage of €4.95 million which was split into two parts, a mortgage of €2,814,000, secured against the property, at a rate of 1.64% fixed for



10 years and a Lombard loan of €2,466,000, secured against financial assets brought by the client, at a rate of 1.49% fixed for 10 years fulfilling all the client's requirements.

We're entering a new phase of rising interest rates, what advice do buyers need to consider?

Firstly, the Eurozone is expected to be something of a laggard on the world stage, raising rates much more slowly than in the US, UK and other advanced economies. Capital Economics forecasts rates will reach a high of 2% in the Eurozone, that compares to 3% in the UK and 4% in the US.

Secondly, lending rates are rising but in terms of the Euribor 3-month rate, the base rate that the majority of French banks track, we are still close to historical lows (see chart).

Often, buyers will be unfamiliar with purchasing overseas, presumably the skill sets and service provided by Knight Frank Finance is important to them?

Most buyers will need a lot of strategic help and careful explanation of the buying process and resulting costs in France. For most buyers, it's a new and exciting experience but for some it can seem daunting and complex. Knight Frank Finance's team can guide them and explain the nuances of buying abroad. Plus, being bilingual I can address any concerns and liaise with all parties involved.

Get in touch with Knight Frank Finance to understand how they can best help with your second home purchase or re-mortgage in France.



GOOD TO KNOW



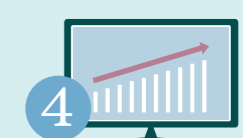
1 Discuss finance with your agent at the earliest opportunity, ideally before making an offer



2 Consider private bank lending to maximise loan-to-value



3 Ensure you have all your paperwork in order



4 Consider whether taking out finance will allow you to release capital for other higher-yielding investments

* Buyers should seek independent tax and legal advice

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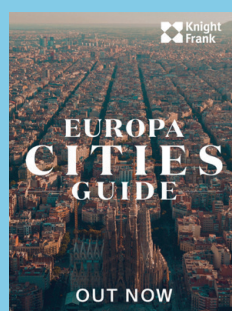
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