



France - Financial and Market Framework

When considering an energy efficiency retrofit within your national housing market, a wide plethora of consideration needs to be made. Below, we list key findings to facilitate your analysis of the retrofit investment. More details and backgrounds can be found on the website www.rentalcal.eu.

The analysis of investment barriers, split incentives and policies in France show:

- France has defined ambitious energy efficiency objectives that include a 20% reduction of CO₂ emissions and energy consumption by 2020. Further objectives are associated with the housing sector. The law, „*Plan de Rénovation Énergétique de l’Habitat*“ (PREH), voted in 2013 and completed by the law on the energy transition voted on the 13th of August 2015 stipulates; (i) a total of 500 000 housing units to be retrofitted annually (120.000 in the social housing stock, 380.000 in the private owned stock), (ii) the establishment of a minimum standard of positive energy buildings for all new developments by 2020 and (iii) the average energy performance of the existing overall housing stock to equate to 80 kWh/m²/year, which is currently the present standard for new constructions (Ministère du Logement et de L’habitat Durable 2016b).
- Due to public policies implemented in the 1990’s, tax incentives were used to develop a private rented stock. As a consequence 95% of the private rented stock is owned directly or indirectly by natural persons, type I and II rooms are overrepresented. 60% of tenants stay less than 5 years in the same dwelling, indicating significant tenancy turnover and mobility. This tenants’ high mobility rate does not create any incentive to share the investment costs between the landlord and the tenant.
- Three tools to promote energy efficiency.
 - Firstly, new developments are strictly regulated (Réglementation thermique 2012 - RT2012).
 - Secondly, the eco-loan (*Eco prêt*) aimed towards improving buildings that has poor EPC rating (E, F, G) to a more energy efficient rating (A, B, C, D).
 - Thirdly, the availability of a special VAT rate for energy retrofitting; (i) 5.5% rather than 10% renovation VAT rate or (ii) 20% VAT rate for new buildings.
- The availability of the *Eco-prêt* (0%, up to 15 years, max amount 30.000 euros) is the main initiative taken by the French state in the financing of the energy renovation. As 70% of the aforementioned 95% is located in multi-family buildings mixed in co-ownership lots increasing the complexity to renovate large urban estates, since 2014 a collective eco-loan may be subscribed directly by the association of co-owners including private landlords for the renovation of buildings in co-ownership lots.
- Regarding the relation with the tenants, the law voted on the 23rd of November 2009 (Decree n° 2009-1438), allows the landlord to share half of the energy savings with the tenant. This opportunity, by charging the tenant, does not work in the private rental market as it presupposes a preliminary agreement between the two parties.
- Following the global financial crisis of 2008, the French residential market proved resilient as a period of recovery quickly followed and by the end of 2011, house prices and transaction levels in major cities exceeded the pre-crisis level of 2007 (Savills, 2016). Yet in recent years, the Eurozone debt crisis and the rising domestic unemployment levels have led to stagnation of house prices. In contrast to other major European capitals such as London and Berlin where prices have sharply increased, property prices in Paris have altered very little from 2012 to 2015. For instance, metropolitan house prices across France fell by 2.75% during the year to 2015 (INSEE, 2016). At the same time, the growth rate of rental prices has been low. According to the rental housing observatory (Clameur) rents fell by an average of 1.1% in 2015, to a national average rent of €12.50 per square metre. This is largely attributed to the common practice in France of long-term tenancy agreements and legal restrictions on raising rents during the contract period as well as high vacancy rates in recent years (7,68 % in 2015). In terms of rental yields and long-term returns on investment, yields on apartments in Paris area have been poor but relatively average in Poitou-Charentes, Marseille and Midi Pyrénées. Since 2015, due to low interest rates (1,5% to 2% for a period of 20-25 years), and a recovery in the economy, property prices are increasing significantly according to the economic regional dynamic (e.g. in Ile-de-France +3,1% in 2017 but 7,8% in Paris) but as rent prices remain stable (+0,8% in 2017), yields are decreasing in new rental constructions.

The analysis of “green-premiums” for energy efficiency in France show:

- According to preliminary studies conducted by Ecole des Ponts, Paris Institute of Technology, green rental premium in the French housing market varies between 2% and 10% of the rental price of an average rental unit depending on the dwelling type. The impact is reported to be twice as high for family houses compared to apartment units. Though, no green rental premium was found for the Paris area, possibly due to supply constraints and low vacancy rates which may suggest that tenants are price-takers even for inefficient properties. In areas with a low local economic dynamic and a high vacancy rate, there is likely to be a competitive advantage in raising the energy performance of the existing housing stock. Turning to green sales premiums, preliminary evidence from Marseille and Lille (see European Commission report, 2013) indicates that energy efficiency is rewarded in the French housing market, particularly apartments in Marseille and houses in Lille. A one level improvement in energy efficiency is estimated to yield 3.2% in Lille and 4.3% in Marseille. Results suggest that higher green premiums are to be expected in cities more dependent on energy for heating. These findings are consistent with the empirical annual investigation of the impact of energy efficiency labelling on the sales prices of residential properties in France (Study Dynamic, Notaires De France, 2016). Differences in green premiums between rural and/or declining regions on one side and the growing regions on the other are reported. For declining regions (e.g. Grand Est), no green premiums are found but rather a green discount ranging between 4% and 14% for properties in the lowest energy performance category (EFG). Yet, an average reduced vacancy rate between 6% and 10% is reported for properties in the highest energy performance category of ABC relative to the average D category. On contrary, in growing regions (e.g. Rhône-Alpes), green price premiums between 5% and 11% are found for properties in the AB category, 3% and 6% for those in the C category and price discounts between 3% and 7% for those in the FG category. The case of the Ile-de-France accentuates the trend with no green premium for AB category but a discount of 6-7% for FG category.

The analysis of grants and other subsidies in France shows a variety from subsidised credit to individual allowances:

- The subsidised credit, in the form of a zero interest rate eco loan, was initiated in 2009 by the State owned bank, „ *La Caisse des Dépôts*“ in France. The eco-loan is distributed by the local agencies of the private banks. For a period up to 15 years and a maximum amount of 30.000 €. The eco loan is well adapted to finance the average amount of energy efficiency works. In 2014 and 2015, there were roughly 100 000 loan subscriptions from which only 3% were ascribed to private natural landlords, 30% to private owner-occupiers and 66% to social housing companies.
- To finance the renovation of large housing estates, a new collective eco-loan for estates in co-owned lots is available since 2014 to finance the whole renovation of large estates.
- Another adjustment, which also came into effect in 2014, is a fund that provides guarantees for low and middle income households, as it was found that the eco-loan was mainly subscribed by higher income groups.
- Since 2012 and confirmed in 2017, a reduced VAT rate of 5.5% is applied specifically to energy efficiency works and a reduced rate of 10% to other building works for modernization. The reduced rate is available for all investor types, but mainly directed at social housing organisations, natural private landlords and owner-occupiers. (Department of Environment Energy and the Sea 2016d).
- Individual cash allowances targeting low and very low income households are distributed by the State Agency (*Agence Nationale pour l'Amélioration de l'Habitat*). The cash allowance is available in two forms. Either (Option A) the cash allowance is directly provided to the household or (Option B) in the form of private landlords applying social reduced rents as a counterpart of the State financial support (ANAH 2016b).
- After the renovation the landlord must apply social housing level rents over the next 9 years. The subsidies may represent up to 25 % of the amount without VAT of the works. The subsidies given by the ANAH is limited to 187.5 € per m², with a total limit of 15 000 € per dwelling. The level of social rent to apply varies from 6.62 € per m² per month (Zone A - Paris and the Parisian suburb) to 5.40 € per m² per month (Zone C - Rural areas). With these low levels of rent prices and the constraints attached with the regulation of social rents, this incentive is perceived as unattractive by private natural landlords then unused.
- Further support is available via *Prime Energie* cash allowances. The system is based on the certificates of energy savings to be collected by the energy providers (QuelleEnergie.fr 2016). This bonus has been extended to private natural persons in 2014, which includes private natural landlords. A report published by the French ministry of the Economy in 2014, critiques the efficiency of the *Prime Energie* system as the R.O.I. of the subsidised energy efficiency measures is not evident (Ministry of Economy 2014). New adjustments are to be made in 2018 for the period 2018-2022.
- In conclusion, as long as a significant tax credit system will not target energy efficiency works in the private rented sector (e.g. accelerated depreciation allowance), the level of the eco loans (3% of the total) subscribed by the private landlords will remain insignificant.

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