Paris rising

Charlie Mitchell explores the booming high-end property market in the French capital

Already bruised by the 2007 financial crisis, the Parisian high-end property market was dealt a blow by the election of Francois Hollande in 2012, sparking a sluggish four years for real estate in the French capital. "Hollande – in true socialist French fashion – sharpened his knife and pointed it at those with money," said Roddy Aris, associate partner at Knight Frank. The market cooled as investors and locals fled Paris for more fertile ground in London and Brussels. Prices dipped by around 11 per cent over four years and scores of picturesque Haussman-era apartments worth more than $2 million sat vacant on the market.

Today's picture is in stark contrast to that. With a fresh, pro-business president, historically-low interest rates and a bruised UK market, confidence in Parisian property is running high. And as locals and foreigners rush to buy, the market shows no sign of waning.

The residential market has seen prices increase by seven per cent over the past 12 months, according to Savills, which puts Paris behind just London and New York on its world city ranking. Prices in the exclusive 1st, 4th and 5th arrondissements (districts) have already exceeded their 2012 peak, while volume looks equally healthy. "The volume of transactions is 25 per cent higher today than four years ago," says Sebastien de Lafond, co-founder of Meilleurs Agents, a real estate intelligence website. Indeed the Chambre de Notaires – which handles property deals – chronicled a record-breaking 10,000 transactions in Paris during the first quarter of 2017. This phenomenon is replicated across France, with apartment prices swelling in smaller cities like Bordeaux and Nancy. "The perception of the French market is changing dramatically," said De Lafond.

Demand is particularly high for Hausmannian apartments in the glamorous single-digit arrondissements, especially the 6th, 7th and 8th. "These are just electric right now. Some properties don't make it to the open market, such is the demand," said Aris. Many agents have seen a spike in high-value transactions. "A 315sqm apartment in St-Germain-des-Pres, which needed renovation, recently sold for €35,000/sqm, and sold very fast," said Caroline Guerrier,

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director at Agence Varenne, a luxury left-bank agency. Average prices across the city are on track to reach their highest level in years. The July 2017 average of €8,800/sqm exceeded the previous 2012 peak of €8,462.

Elevated demand reflects the growing optimism in the French economy following the election of centrist president Emmanuel Macron in May 2017. The taxes imposed by his predecessor, Francois Hollande – including a supertax on French earnings above €1m – provoked a wealth exodus. Now, locals and foreign investors are returning. "It was a gulp of oxygen for a country that needed it. It transferred into the economy and into French real estate," said Aris. The renewed optimism is reflected in recent prime property transactions. "Under Hollande, very high profile sales dried up; now they are coming back," said Guerrier. "Macron's election led to an optimistic trend. To many people, he is a saviour."

Nevertheless, the market's recovery began in 2016 – before Macron's victory – following four years of price decreases. "Macron arrived in a lively market and immediately increased its attractiveness," said De Lafond. Currently interest rates are historically low, ranging from 1.2 per cent over 15 years, to a fixed rate of 1.65 per cent over 25 years. Buoyed by cheap mortgages, many local buyers took the plunge.

Moreover, the UK's decision to leave the European Union in June 2016 took the shine off London, Paris' main rival. "Foreigners investing a lot on the London market diversified their investment portfolios and looked to Germany, Spain and, of course, France," said Nicolas Verdillon, director of capital markets at CBRE. Many French families resident in the UK returned to France to purchase property in the rejuvenated market while prices remained competitive.

1.2%
Interest rate on a 15-year mortgage in Paris

The Parisian market is largely driven by domestic demand, with international buyers representing nine per cent of prime sales in 2016, according to Savills. Traditionally appetite has been most hearty among European and US buyers. But with London in bad shape, Middle Eastern investors – who have largely favoured the UK since 2010 – are returning to the French capital, said Khaled Chatila, associate director of crossborder investment at Savills. "Middle Eastern investors believe in the realty asset, because it brings less risk. When they invest in property, it's like investing in a stone," said Chalita.

The central single-digit arrondissements – encompassing Saint-Germain-des-Prés, Champs-Élysées, Le Marais and the two central Seine islands of Cité and Saint-Louis – are most popular with foreign investors, particularly those from the UK and US. Time-honoured Haussmannian properties in these districts are seen as a safe investment, while large serviced modern buildings – generally favoured in other global cities by international HNWIs – are exceedingly rare in Paris.

French families tend to prize large family apartments or houses in the 16th arrondissement. In recent years, Middle Eastern investors have also coveted the district, particularly the broad, leafy thoroughfare, Avenue Foche, and the streets that feed it. Properties are larger, more luxurious, and more competitively priced than the central arrondissements. "In Paris, the value lies in aspirational, beautiful, Haussmannian apartments in the 16th," said Aris.

Although the perception of France as a high-tax location has chilled the prime property market in recent years, taxes and fees are largely consistent with elsewhere. While Hong Kong, Singapore and Vancouver squeeze an additional 15 per cent stamp duty out of international buyers, France does not. In Paris, a buyer will generally pay around seven per cent of the purchase price on additional costs, such as notary and stamp duty, according to Aris. In addition, the ISF, or 'wealth tax', is levied on assets in France worth over €1.3 million, and ranges from 0.5 to 1.5 per cent, depending on the value of the asset. While Macron is not changing the law, industry insiders feel that he wants to make things smoother. Nevertheless, a rent cap – currently sitting at 20 per cent above the median rental price – and a remarkably strong Euro, could deter some would-be investors.

The commercial realty market is also booming, with a €25 billion average sales volume each year since 2014, according to Verdillon. Roughly 80 per cent of that volume is in Paris, where transactions are increasingly global. "Korean money has arrived in Paris," said Verdillon, who has also noticed greater interest from Malaysian, Singaporean, Japanese and Middle Eastern investors. CBRE have also seen an acceleration in the last 12 months in the retail market, as well as in alternative investments, such as elderly homes and student houses. "We anticipate the same level of volume invested in France this year as in 2016 and 2015," said Verdillon.

Market observers are confident that the current boon will continue into 2018. "The market is growing, demand is high, but the growth is tempered. It is not a bubble," said Guerrier. At a time of instability elsewhere, Paris is challenging its rivals. "In terms of global portfolio, it has always been New York and London. Now Paris is up there," said Aris.

CELEBRITIES, TECH MOGULS, DRIVE UP NEW YORK PRICES

The New York Post is claiming that celebrity purchases are driving up the price of New York real estate. A study has revealed that "A-listers help boost prices by 127 per cent, B-listers by 67 per cent and C-listers by 43 per cent". The report also puts the blame on tech millionaires, including Facebook co-founder Sean Parker, who recently bought three town houses in Manhattan. With Manhattan prices already at record highs, investors will be forgiven for hoping Hollywood's finest look elsewhere for their property.