The Private Rental Sector in France

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POLICY LAB 3

Private Sector Investment in Rental Housing: Challenges & Opportunities

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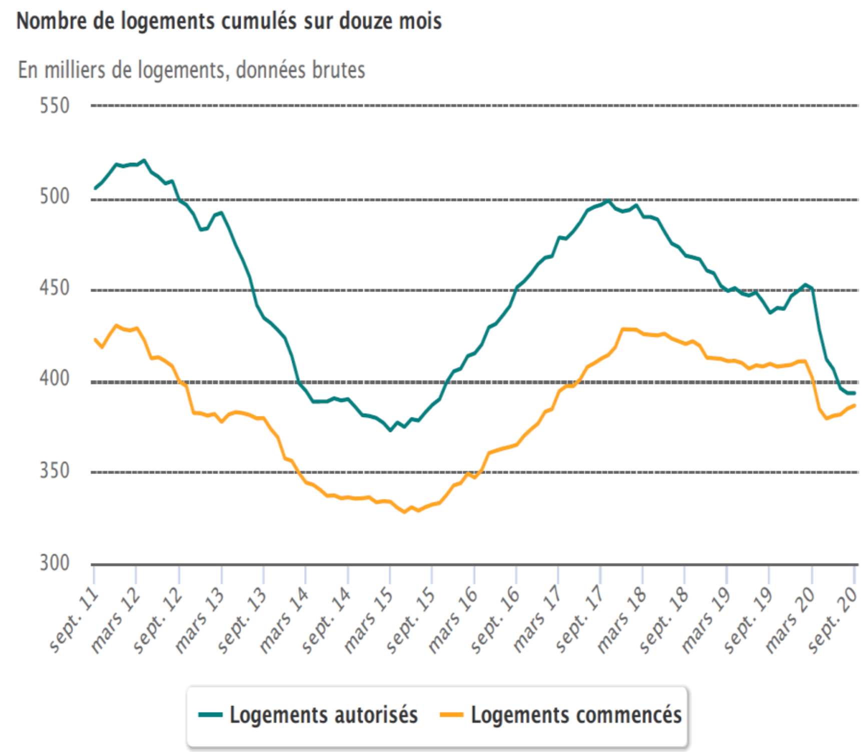
Housing Stock & Construction

	2018 data
Population	67,1 million
% Urban	80%
Growth rate	1%
Dwelling stock	36.5 million
% Vacant	8,5%
Average dwelling size	91 sq. m (main resid.)
Average household size	2.25
Construction	422,000
Housing needs	*400-450,000 per annum*

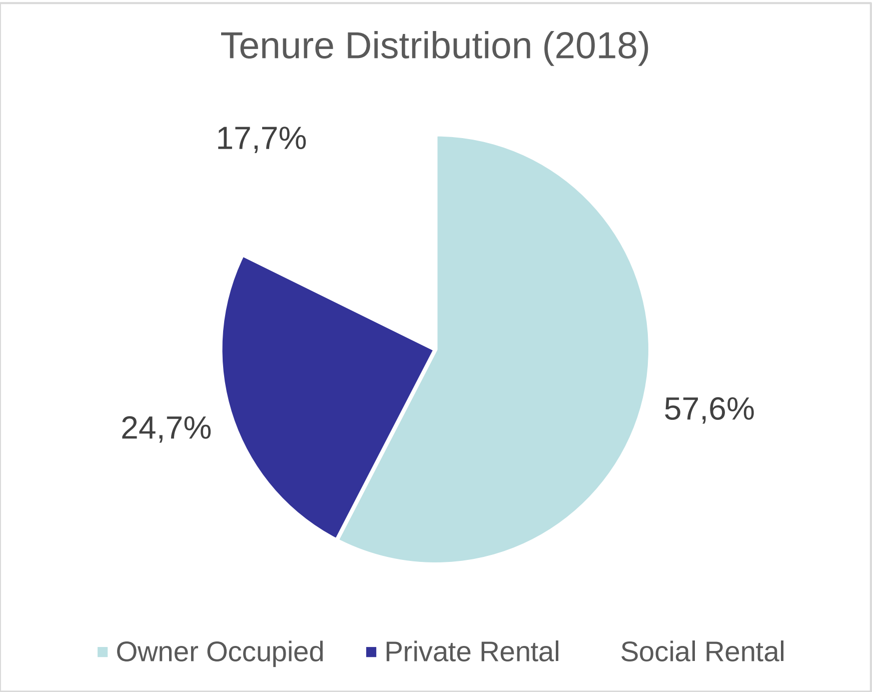
Source: Insee.



Source: Ministry of Housing.

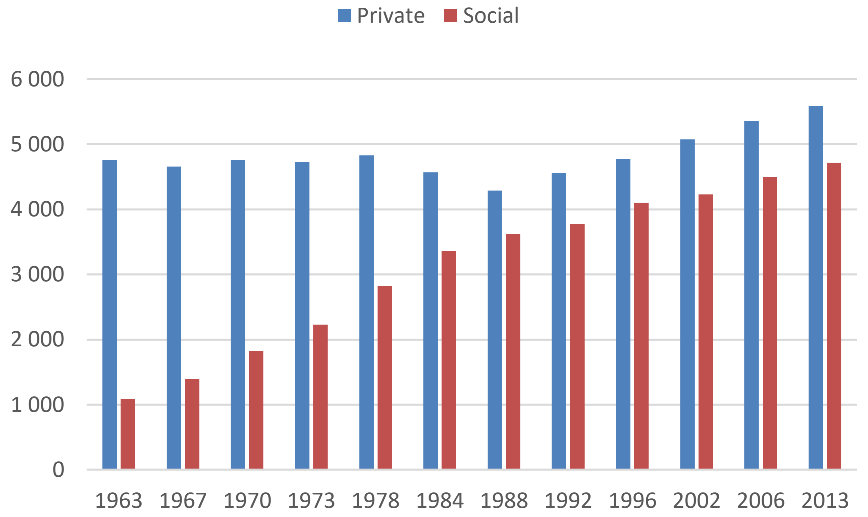
Tenure Distribution / Rental Stock Changes

2018 *(%)*



Source: Ministry of Housing (Housing Account).

1963-2013 (Thousands)



Source: Insee (NHS 1963-2013).

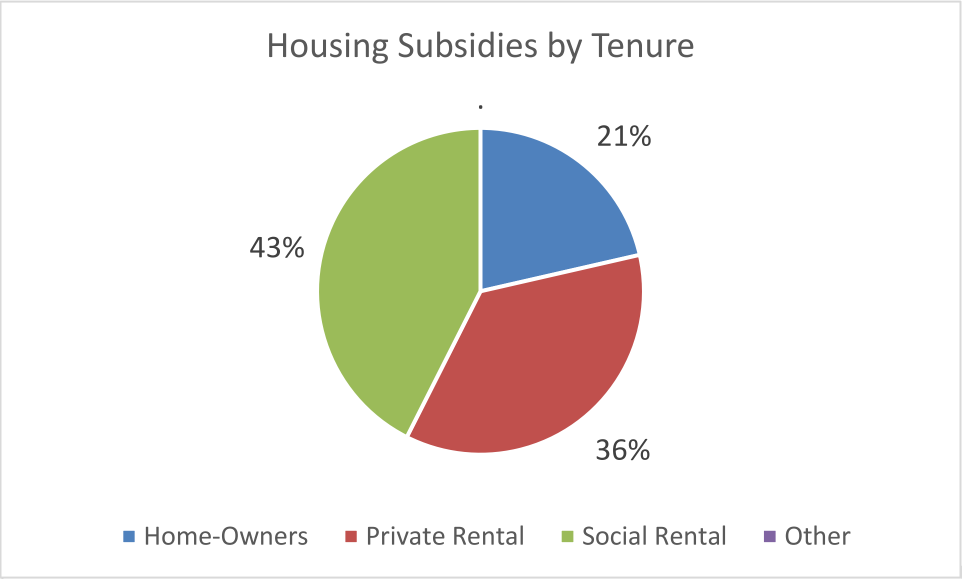
- In the long term (50 years) the growth of the social rental sector contrasts with the stagnation of the private rental sector.
- The private rental sector declined until mid-eighties before recovering.

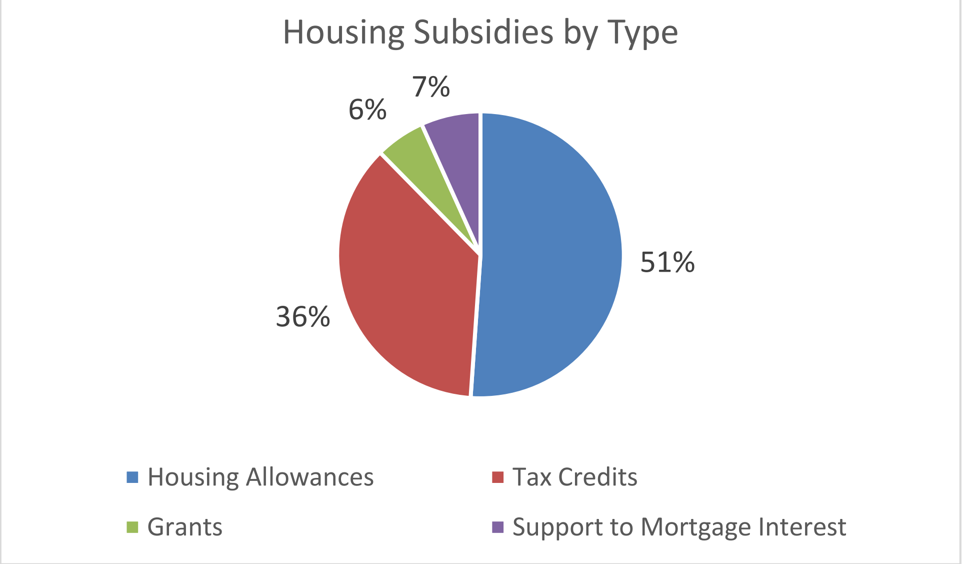
The Housing Policy

- ➢ France encourages altogether:
  - Home purchase (through milder taxation, subsidized loans and guarantee loans),
  - Social rental for the poorer,
  - Private rental, considered as the best choice for young and mobile populations.

- ➢ This all-sided support has a cost:

  39.6 billion € = 1.7% GDP (2018)





Source: Ministry of Housing (Housing Account).

Tenants and Landlords Characteristics

TENANTS		
Young	Under 30	28%
Small household size	One person Couple without children Dwelling size	47% 20% 66 sq. m
Not rich	Below the first quartile of income / CU	36%
Pay a lot	Share of income spent for housing (Rent + utilities + housing tax – housing allowance)	28%
Very mobile	Moved in in the last 4 years	49%

LANDLORDS	
Individuals: 96.3%	Companies: 3.7%
22% with a housing tax credit	Insurance companies (No pension funds in France)
33% aged 65 or more	SCPI (not listed)
62% in the upper quartile of income distribution	SIIC (listed)
	Public and Semi-public(very small)

Source: Insee (NHS 2013).

Regulation of Tenant–Landlord Relationships

- Mostly stable since 1989 on the following bases:
  - Rental agreement in written form, 3 years (individual landlord) or 6 years (company);
  - The landlord may terminate the expired lease in 3 cases only: own occupation, sale (the tenant has a preemption right) and in case of a "legitimate and serious motive"; must follow strictly regulated procedures;
  - Only when the tenant does not meet his/her commitments (non-payment of rents or utilities), the landlord may terminate the lease before expiration;
  - The tenant may terminate the lease at any time with a 3-month notice (1 month in a few cases);
  - No eviction during winter time (November-March).
- But desperate efforts to limit rent increases.

Rent Setting

Paris & Lille	Other areas
First contract • Rent set based on median local rent (by district, period built, and number of rooms) • Maximum rent : 20% above the reference rate (possible exceptions).	**First contract (*)** • Free negotiation only if new rental or not rented in the last 18 months • Otherwise, rent not higher than the previous rent unless clearly undervalued or premises renovated.
Renewed contract • The tenant may ask for a decrease if the rent is above Ref Rent + 20%; • The landlord may ask for an increase if the rent is below Ref Rent – 30%; he cannot go beyond Ref Rent – 30%.	**Renewed contract** • Increase limited to the increase of the “reference rent index” (CPI minus rents); • Higher increase permitted only if rent is far below market level or in case of substantial improvement.
During the lease (3 or 6 years) Rent pegged to the “reference rent index”.	

(*) Free negotiation in low demand areas.

Taxation of Private Landlords (Individuals)

Unfurnished rentals

- *Rental income*

  - Income tax (marginal income tax rate, up to 45%):

  -- Flat 30% deduction,

  -- If rental income is more than 15,000 € per annum, possible option for real expenses: main expenses are deductible, but depreciation is not; losses (other than due to loan interests) offset taxes on other income (up to 10,700 €) ; may be carried forward 6 or 10 years,

  - Social taxes: 17.2% of net taxable income (flat rate);

- *Property tax*

  - Local tax based on rental value (approx. 1 month rent).

- *Property wealth tax*

  - Threshold = 1.3 million Euros. Rates up to 1,5% (above 10 million €);
  - 30% on the value of the owner-occupied main residence.

→ *Maximum total tax rate = 62.2%*70% + 8.3% = 52% of the gross income, may even reach 90% including the impact of the property wealth tax!*

Taxation of Private Landlords (Individuals) *Unfurnished rentals – Cont.*

- *Capital gain taxation*

  - Income tax (19%) plus social taxes (total 36,2%);

  - Slowly decreases after 5 years; still 10% after 24 years, disappears after 30 years ;

  - Exemption for owner-occupied main residence.

- *Tax on vacant dwellings*

→ ***After tax rental return very low (can be negative after risk-adjustment);***

(Patient!) investors mostly driven by capital gains expectations;

… And very sensitive to tax incentives.

Rationale for Tax Incentives

- Low return and high management costs caused disinvestment among institutional investors (1970s).
- Unbalanced tenant-landlord relationship, rent controls and heavier taxes also incited private landlords to sell their properties.
- As a consequence, the private rented stock was losing 1% each year in the early 1980s.
- Tax incentives targeting natural persons investing in newly-built rental units were launched (in 1984 and 1996) during periods when the housing market was at very low ebb.
- Two different goals:
    - Increasing total production of new housing, to support building activity,
    - Increasing the supply of private rental housing.
- Became permanent with caps on rents and tenants' income, to develop affordable/ intermediate rental segment targeting middle-income young singles and families.

Efficiency - Perverse Effects

- Efficient ? Yes, even if some investors resell when the tax benefit ends (often to invest again with new tax credits!):
  - With the new incentives, the private rental stock started to grow again (+ 18% between 1988 and 2002);
  - Represents each year some 50% of developers (retail) sales.
- But with a few drawbacks:
  - Impact on prices and quality: many programs are targeted towards investors only (no home-buyers) who are dazzled by the tax benefit and do not pay enough attention to location and value for money.
  - Impact on location: the rent limit (a proportion of average market rent in a large zone) concentrates the supply on cities or neighborhoods where local market rents are low, i.e. where housing needs are low.
  - The schemes are now limited to major urban areas.

Present scheme

Up to 21% of the price deducted from income tax during 6, 9 or 12 years

- Dwelling must be newly-built and energy-efficient;

- Dwelling must be rented during this period;

- Maximum price, price per sq. m., rent (80% of market rent), and income ceiling

Thank you for your attention!

A question?

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