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Why French property remains a favourite for investors

Investors want to play their cards right

In the last couple of months, we at FrenchEntrée have noticed an increase in our property enquiries. In particular, we have seen a rekindled interest from property investors who, although they were enquiring about property during the latter part of 2008, preferred to play a “wait and see” game and who are now more “active” in their pursuit, planning to visit and purchase a French property as soon as possible. In their April report, the FNAIM (French Federation of Estate Agents) reaffirmed this increase in property interest; in a survey they conducted with 260 estate agents, 61% said they had noticed an increase in prospective buyers in the first quarter of 2009 when compared with the latter quarter of 2008. Twenty-three percent of the prospective buyers are investors.

But why are investors choosing French property?

We spoke to a number of estate agents and property investors to ascertain the reasons for this renewed interest in French property investment. There are of course many factors attributed to this trend. While some investors no longer see the safety of leaving cash in the bank, where it is unlikely to gain any significant interest, investing in the stock market is also perceived as high risk at present. Investors want to get a return on their money and with French property they can.

The FNAIM confirms that the price of French property did fall during 2008, on average by 3.1%. However, unlike in the UK for example, in recent years French property has not experienced an over-inflation of prices but followed a steady, more reasonable increase. Furthermore, French banks have prevented debt levels from spiralling out of control due to stringent lending criteria. The FNAIM reinforced the fact that any price falls are relative and said, “the fall cannot be considered as a collapse but a simple correction of the prices.”

Gaëlle Perreux, FrenchEntrée property consultant, commented on why British investors may be choosing to place their money in French property at present: “In my opinion, in many areas of France, French property prices have already readjusted to meet market demand and many investors foresee an overall price stability on the horizon.”

France offers a safe environment and good lifestyle which have become priority requirements for investors, and its proximity adds desirability for British investors. In addition, knowing that people will always want to holiday in France (there were 81.9 million visitors during 2007*), and wanting to do so oneself, is a prevalent reason for

investing in French property.

Jenny Trayte of LCG Transactions, based in Brittany, gave her views on why British investors see French property as a refuge: “Investments in the UK are producing little or no interest; there is little chance of UK property significantly increasing in the near future, and therefore investing in property in a politically safe environment like France is likely to be a good future investment.”

Where and what types of property are investors interested in?

Although the south of France and in particular the Côte d'Azur, known for its weather and lifestyle, remained popular with investors throughout 2008, many estate agents in the area said that they have noticed an increase in enquiries in recent weeks, including Claire Healy of Attika International, based in Nice. Claire said cash buyers are in a good position to negotiate in the current market: “Many don't require a mortgage, which always works in their favour with vendors”. A great number of her clients are buying second homes to rent out. The shortage of available building land keeps prices at a secure premium and there is a great opportunity in this top holiday destination to gain rental return in holiday letting. Many who buy in France holiday and plan one day to retire there themselves. Investors on the Côte d'Azur have the security of knowing they can resell for a good return.

A considerable number of investors are looking for new build property. Patricia Fevrier, of new build specialists *A Place in France*, outlines the benefits of “buying new” when investing in French property: “Investors know that, unlike with a renovation project, when they buy a new property they will not have hidden maintenance costs, safety issues or renovation delays, making it ideal to let straight out. For this reason, new properties are also very attractive to letting agencies.”

Patricia also highlighted the fact that the new-build buyer is very protected in France: “The construction industry in France is highly regulated and developers by law have to meet rigorous government standard. All new properties must meet the new building regulations and energy efficiency measures.” In fact, all French property buyers have protection from the *contrat de reservation*; and new-build properties must be backed by a bank guarantee which means that if the constructor goes bust the project will still be finished – a particularly salient point when compared to buying property in Eastern European countries such as Bulgaria, or even in Spain where such a safety net does not exist.

So why and who is buying now?

Many investors kept a close eye on the market during 2008 knowing that the prices would come down and wanted to see if they would do so to the extent they have in the UK. It seems that many are now reassured that if they find the right property in the right location, they can, at present, get the right price too. The FNAIM said that, since summer 2008, not only have buyers started to lower their financial expectations but vendors are prepared to accept the price falls and are thus more willing to negotiate.

The FNAIM concluded from their survey that 51% of vendors are open to a price negotiation, by on average 14% of the asking price.

Some investors are choosing to buy now as a repercussion of the economic climate. One recent investor, Mr Hayward from Nottingham, was planning to buy and retire to France in a couple of years but, due to job redundancy, has taken early retirement with his wife to the south of France. Mr and Mrs Hayward are not alone in such a predicament. Other French property buyers may choose to place their savings in property until such a time that it is worth investing in the stock market.

Mr Evans from Surrey has a budget of around €800,000 and is a cash-buyer. He has a number of buy-to-let properties for which he has released the equity needed to invest in a French holiday home. He thinks now is an exceptional time to buy because one of the properties he was looking at about eight months ago, which was then on the market for over €1,000,000, is now for sale at €800,000. Mr Evans is going to view a few million-pound properties over the coming weeks and thinks that he will be able to substantially negotiate on the price even if it has already been reduced.

Mr and Mrs Campbell from Cambridge completed a sale on a four-bedroom property with a pool in Vancluse, Provence, this January. A few years ago, they sold their large Chambre d'Hôtes in Normandy. The money from this sale was used to put down a deposit on the Provence property and therefore no currency had to be exchanged. They said the property they purchased in Provence represents excellent value for money. It had been originally put on the market for €850,000 but they put in an offer for €400,000, which was accepted. They decided to take out an interest-only mortgage on the property, which has been bought for investment purposes. They are renovating the property to add value before reselling it. They had been looking for a project in Provence for the last few years, but it is only now in the current market that they have been able to afford to buy one.

In summary, many in the French property field would fervently argue that the property market has not been as badly affected as the media have portrayed. It is without doubt that the market slowed down significantly during 2008, but it could be argued that this was more to do with the "wait and see" attitude of the French rather than a nation's inability to buy. The French government is working to boost the market with tax incentives such as the *loi Scellier* for French nationals. This, along with the decrease in interest rates and a softening of the banks' lending criteria, can only accelerate the market's recovery. Many investors in the present market are wise to the current climate – they've waited and seen that now is an excellent time to pick up a great deal.

* www.tourisme.gouv.fr

By Nina Richards

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