

◆ Summary

Developments in the French housing market

Since the early 2000s, the sharp rise in housing prices relative to incomes has affected households' ability to access homeownership. At the national level, while the ratio of the rental price index (constant structure) to average income has remained broadly stable, second-hand property prices rose sharply between 2000 and 2007 (+60%) and have since remained elevated. The price-to-income ratio (indexed to 2000 = 1) rose to nearly 1.6 over the period 2007-19, reflecting a sustained increase in acquisition costs. It subsequently peaked at 1.8 in 2022 as the lifting of the lockdowns fuelled particularly strong demand.

Trends have varied across regions, with price increases concentrated mainly in constrained areas – large metropolitan centres and economically attractive regions that are popular with tourists – whereas other regions have experienced more moderate growth.

The price rises have occurred in a market characterised by low supply elasticity. Regulatory constraints, complex urban planning procedures, environmental standards and rising construction costs have all constrained the supply of new housing. In addition, land scarcity, particularly in the most attractive areas, combined with faster growth in land prices than in construction costs, has further exacerbated the imbalance between supply and demand.

On the demand side, demographic and societal changes have increased demand for housing. According to INSEE, the French population rose by 9.1 million between 2000 and 2025 (from 59.5 million to 68.6 million), while households have become smaller, and the number of single parent families and students living away from home has risen. Inherited wealth also plays a more limited role in helping younger generations access the housing market, especially for less affluent families. Shifts in the age structure of the population – particularly the ageing of baby-boomers who have higher housing purchasing power due to

improved pensions – have intensified competition in the residential market, to the detriment of younger households (growth in the number of secondary residences, especially in coastal areas). Meanwhile, in tourist areas, the rapid expansion of short-term furnished rentals has had a significant impact on housing availability for local residents.

Against this backdrop of upward price pressures, households' borrowing capacity has increased considerably, supported by persistently low interest rates, longer loan maturities and credit institutions' acceptance of higher debt-service-to-income ratios. This improvement in access to credit has partly offset higher housing prices and helped sustain transaction volumes. Some studies¹ even highlight the role of favourable financing conditions in recent price trends.

The French model for financing purchases of primary residences

The work of the *Comité consultatif du secteur financier* (CCSF – Consultative Committee for the Financial Sector) has confirmed the robustness of this model. While the French housing loan model shares certain characteristics with those in other countries, the way in which they are combined is unique to France and offers several decisive benefits for borrowers.

First, the vast majority of loans are fixed-rate (99% of new and outstanding loans) and amortised over their entire term. This distinctive feature of the French system serves to protect consumers as the interest rate risk is borne entirely by the lender.

¹ See in particular "House prices, mortgage debt dynamics and economic fluctuations in France: A semi-structural approach", Working Paper, December 2020, Banque de France. <https://publications.banque-france.fr/sites/default/files/medias/documents/wp787.pdf>

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Second, housing loans in France are secured for both borrowers and lenders through borrower insurance and mutual guarantees, under which risks are pooled. They are also effectively regulated via the setting of a usury rate and by the principle that loans are granted according to borrowers' repayment capacity rather than the property value. This helps shield borrowers from property market volatility, and loan default rates have remained very low for decades.

In the view of the CCSF, this underlying principle of responsible lending makes the model economically sound and socially beneficial. This secure model, coupled with strong competition among lenders, makes it easier for households to access the housing market by granting them favourable borrowing terms and keeping their debt-service burdens stable over time. Moreover, as the past has demonstrated, borrowers can renegotiate loans to their advantage when conditions permit.

Alongside this model, public schemes have been set up – such as zero-rate loans – to help poorer households access homeownership.

Nonetheless, the CCSF expresses concern about the implications of certain provisions of the revised European prudential framework (CRR3) for the French housing finance model.

Largely derived from the Basel III international agreements, the new framework could increase lenders' capital requirements and costs, which in turn may affect the terms of French housing loans, depending on institutions' balance sheet structure. This could place increased pressure on guarantee providers. In the context of ongoing European legislative discussions, the CCSF therefore calls for a proportionate application of the new prudential framework to avoid any risk to the stability and sustainability of the French housing finance model.

Some members of the CCSF have also called for the credit standards set by the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability) to be reviewed regularly to take account of the economic and financial cycle, with a view to making financing as inclusive as possible. However, in the Banque de France's opinion, this

would undermine the structural nature of these standards and could jeopardise the stability and accessibility of the real estate market.

The CCSF considers that housing loan portability and transferability, while theoretically possible, are not viable solutions for improving access to credit for primary residence purchases. If widely adopted, they would complicate the asset-liability management of housing loans, increase the cost of credit and potentially jeopardise the current practice of long-term, fixed-rate lending, with no clear operational benefits.

The CCSF also highlights that bullet loans, where the principal is repaid in a single lump sum at maturity, is not a scalable solution for facilitating homeownership. The associated cost and risk to households are high, and they are currently used only marginally to finance primary residence purchases, both in France and across most of Europe (with the exception of Switzerland).²

The Swiss housing finance model incorporates specific tax features that make bullet loans attractive; however, these do not exist in France and the model is not transferable.

New forms of housing finance

In response to societal changes (geographical and professional mobility, population ageing, attitudes to homeownership), rising property prices and tighter credit standards (minimum loan deposit, HCSF rules), various schemes have been introduced that offer hybrid financing or ownership solutions.

Some, such as rent-to-buy schemes, have existed for many years but are attracting renewed interest. Others are more recent, including the use of long-term ground leases and the development of co-investment arrangements.

² 3.4% of monthly production of housing loans for all types of property combined between January and June 2025.

These schemes, some of which are available in subsidised form for low-income households (such as the *prêt social de location-accession* or PSLA and the *bail réel solidaire* or BRS), still represent a limited share of the market; however, some, such as the BRS, are witnessing strong growth.³ Private sector initiatives are being driven by new market entrants.

The schemes are designed to meet specific needs and often aim to reduce monthly repayments compared with a standard property fully financed with a housing loan. However, they typically come with restrictions (partial or temporary ownership, resale restrictions, specific fees) that must be clearly identified and understood. Given the financial and contractual complexity of these arrangements, and without taking a position on their effectiveness in addressing the current housing crisis, the CCSF stresses the need for consumers and local authorities involved in such projects to have access to comprehensive, transparent and comprehensible information before making any commitment. It also considers that, should these schemes be used more widely, the applicable legal framework would need to be clarified, particularly regarding pre-contractual information and advertising.

³ This is illustrated by the rise in BRS reservations: nearly 5,000 are expected for 2025, representing close to 10% of total sales by housing developers. See <https://adequation.fr/blog/conseil-developpement/immobilier-standard-aux-standards-immobiliers/>