

A Special Report by
French Property Insider



The Paris Property Report

By the Staff of French Property Insider January 2008

Residential Space in Paris Then and Now...

In 1671 the Academie Royale d'Architecture was created and the members met once a week to study and discuss architectural challenges. There began to be a movement towards more classical forms and more overall homogeneity within the city. In the 17th-century there were two new types of thoroughfares created – the avenues and the boulevards. These were built on the outskirts of the city thanks to Louis XIV who destroyed numerous old fortifications to construct boulevards.

On the west side of the right bank Les Grands Boulevards were built and quickly became a center of fashion as the aristocracy built large mansions (*hôtels particuliers*). The boulevards were straight and tree-lined but there was variety in the buildings.

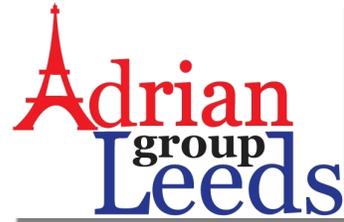
Meanwhile on the left bank, the construction of Les Invalides also used large tree-lined avenues to make a grand entrance leading up to the front connecting it to the Seine. On the south side there were three radiating avenues that drew one's view to the magnificent dome.

It had been awhile since any places were built in Paris, but under Louis XIV they started to make a comeback. In 1685 the Place des Victoires was completed and all the buildings around the place have an entresol on the ground to accommodate small commercial stores and shops, while above there are two full stories for living and a double-pitch mansard roof with dormers for storage space or for the live-in help.

Many *hôtels particuliers* still exist throughout Paris, particularly in the 3rd and 4th *arrondissements* (Le Marais). These elegant single-family aristocratic mansions were traditionally built in a "U" or square surrounding a courtyard and/or garden. A large double door allowed easy entrance for horse-drawn carriages and the ground level was primarily made up of stables and entranceways to the living quarters above. The first floor was generally used for entertainment, the second level for sleeping and the third and above for servants quarters.

Today, these *hôtels particuliers* have been renovated to accommodate apartments of all shapes and sizes, and the courtyards may well have become parking spots for the residents, but most have maintained their characteristic construction and charm. In these buildings, you are likely to find wood-beamed ceilings, parquet floors, large elegant stairways and few elevators. Because the streets in Le Marais are particularly narrow, going "up" means gaining more light, but as elevators are not the norm, be prepared to climb many steps to your 17th century abode. Le Marais is one of the city's most fashionable neighborhoods today.

Place des Vosges located in the 4th *arrondissement* is the oldest square in Paris. It was constructed under Henry IV between 1605 and 1612, designed by Baptiste du Cerceau and



was renamed by Napoleon. It has a fascinating history worth discovering and is lined with some of the most expensive real estate in Paris with square meter prices as high as 20,000€.

In 1850 Napoleon and his prefect of Paris, Georges Haussmann, tore the city apart to construct boulevards, new streets, public buildings and parks. Private contractors snapped up the vacant lots left by the reconstruction and built houses by the score. The typical structure put up by private builders was an apartment building six or seven-stories high. The ground floor was commonly occupied by shops and a prominent entranceway that was usually wide enough to admit a carriage. The entrance led through a passage and into an inner courtyard. Their stairways led to apartments on the floors above.

The government required buyers to erect buildings with facades conforming to plans prescribed by the city, so there's a distinctive uniform appearance to buildings erected during this period -- balconies with wrought-iron railings set off the windows in the facades, and a continuous iron railing crowning the cornice; ornamental stonework caryatids and consoles supporting balconies; the windows feature sculptured relief; and decorative medallions adorn most buildings. These buildings are now commonly referred to as "Haussmannian."

On any one street the buildings were generally about the same height, for the law fixed a maximum number of floors that varied with the width of the streets. Owners, wanting the largest possible return, built to the maximum. Often they added an extra rentable story above the cornice line by having a mansard roof with dormer windows opening into rooms immediately under the roof timbers.

The ceilings were high and the hallways wide, but the floor plan was almost invariably impractical. The large multi-room apartments, filling an entire floor, were designed for families with one or more servants -- often the kitchen was on the opposite side of the courtyard and accessible by a long corridor. Thousands of these buildings still remain in Paris today. But most have been divided into smaller and more practical units and modernized with central heating, bathrooms, and kitchens.

Most of the real estate you will find on the market in Paris today was built during this period or soon after. Much of it still retains the charm and history... if not the impractical floor plans.

It really is a different world...

Real estate transactions require the involvement of a *Notaire*, a legal representative of the government charged with administering the purchase and sale of property. Do not confuse a *Notaire* with our idea of *notary*. They are not the same. No real estate transaction in France can occur without the officiating of a *Notaire*. A *Notaire* is a specially trained and certified attorney, hired by the seller and theoretically acting as an impartial administrator of the transaction. It is advisable, however, to hire your own *Notaire* and/or other professional to represent your interests.

Before you buy...

There are a few things you need to be aware of and keep in mind if you're interested in buying property in Paris. First of all, yes, you can buy property here as a foreigner. And,

you can get financing here, as a foreigner, even “pre-qualification”, basically an agreement in principle pending insurance approval.

Two of the most important things to consider before signing on the dotted line are France's inheritance laws and taxes. The type of ownership you establish when you buy your property will determine how you can pass it on at the time of your death. Here, it is the beneficiary who pays the taxes on the property they inherit. This can be as low as 5% or as high as 60% depending on their relationship to the deceased. Your beneficiaries will be responsible for paying inheritance taxes, not your estate.

And one very important caveat... if your “domicile” at the time of your death is France, your assets **worldwide** will be subject to French inheritance taxes.

There exist several mechanisms by which you can reduce your and your beneficiaries' tax exposure such as purchasing the property through a *Société Civile Immobilière (SCI)*. This is an entity specifically created by France for non-residents to purchase real estate in which the members of the SCI are shareholders. The shareholders interests can be easily assigned or apportioned without dividing the property and the prevailing tax authority is your country of residence, rather than France.

You should also be aware that you are subject to capital gains taxes if you sell the property within **15 years** and it is considered a secondary residence. Before you buy, we strongly suggest that you review your potential tax liability with a tax and legal professional to determine the best structure by which you to purchase your apartment in Paris.

The initial costs. . .

Whether you are buying for cash or with a mortgage there are some costs you are going to have to fund yourself.

- **The Deposit** - On the day you sign the *Compromis or Promesse de Vente* (the initial sales agreement) you will be required to pay a deposit, usually 10% of the purchase price, which will be held in escrow with the *Notaire* until the transaction is completed.
- **Notaire fees** – Be prepared to pay approximately 7% to 8% of the purchase price for the *Notaire* fees, which include land, registry and transfer taxes to be paid to the state. Notaire fees can only be included in the mortgage for French tax payers. If you pay taxes in another country, you will have to fund the *Notaire* fees yourself.
- **Consultation fees** – These fees range from 2.5% to 5% depending upon the provider and the level of service you require in searching for your property. French Property Insider's current rates are 2.5% of the purchase price, including the search, assistance in the purchase process, assistance in obtaining a mortgage and representation through to and including the *Acte de Vente* (final sales agreement).
- **Agency fees** – The agency fees are included in the listing price of the property and are generally between 5% and 10% and can be paid directly to reduce the amount of the purchase price, thereby reducing the amount subject to *Notaire* fees and French taxes. If you are financing the purchase of your property, you can include these fees in the mortgage, however, they will be included as part of the taxable amount.

Finding property...

In France, there is no Multiple Listing Service— a system well known in the United States for easily finding property for sale all over the country. Most real estate agents here are independent, providing access only to the properties they represent. Even Century 21 offices may not work with other Century 21 agencies. Consequently, the likelihood of walking into one agency and asking to see what is available throughout the city or even that particular area is slim to none.

There are more than 4,000 rental agencies in Paris alone, thus finding a property can be a difficult task due to the absence of an MLS system. To find a property on your own would require visits to dozens of agencies and mining through hundreds of listings in one neighbourhood alone. Our property finding service is the complete solution to finding and buying your new home in France. We are equipped to assist you with every aspect of the process . . . from locating the property to signing the contract, getting a mortgage, setting up your utilities, renovating and then renting your property out for profit on a short or long term basis. For more information on our property consultation services, please visit our web site at www.frenchpropertyconsultation.com.

Getting the financing...

We have relationships with several lenders that specialize in providing financing to non-residents of France that are interested to purchase property in France. There are various mortgage options, including variable, fixed, interest only and blended rate programs that allow foreigners to take advantage of attractive financing. Most loans are collateralised by a life insurance policy that secures your payments in the event of death or total disability.

Lending institutions in France evaluate your loan based on your income not your net worth, for the most part. Income is determined to be revenue from salary, pensions, investments, rental, alimony and other sources. You should also be aware that most lenders will not lend beyond a debt ratio of 33%, which means your overall debts, worldwide, cannot exceed 33% of your income.

As a general rule of thumb, you will be able to finance up to 80% of the purchase price and renovations for a period of up to 25 years, depending upon your age. However, because of the rise in foreign buyers in the Paris, lenders are beginning to develop ways to provide more attractive financing options, including increasing the loan to value to 85%, extending the term sometimes up to 40 years, increasing the age limit to 80 and providing faster turnarounds on approvals.

There are some American financial institutions that will finance property abroad, but doing so comes at a very high premium. As a foreigner, your best bet is to finance the acquisition of your property through a French bank that specializes in lending to non-residents of France such as those with whom we have a relationship.

Signing on the dotted line...

All real estate contracts are required by law to be written in French. Even if you are fluent in the language, it is important to have assistance from someone who is not only conversant in the language, but is knowledgeable regarding the process.

The *Promesse de vente* or *Compromis de vente* (initial sales agreement) is generally the initial document you will sign. This is the agreement between the buyer and seller and outlines the various terms of the agreement, and more importantly outlines any conditions that must be met for the deal to go through (*clauses suspensives*). These are clauses proposed by either party that provides an exit of the transaction, without penalty, if they are not met. This notwithstanding, once you sign the initial sales agreement, there is a 7-day cooling off period during which you can back out of the transaction for any reason. This is the best time to perform an inspection or survey of the property. As mentioned earlier, you will be expected to pay a 10% deposit at the time you sign the *Promesse de vente* or *Compromis de vente*. This agreement also outlines the date for the signature of the *Acte de vente*, the final date upon which the transaction can close.

Once the clauses have been met, either by fulfilment or time lapse, and the *Notaire* has completed his work, the parties will be notified and the *Acte de vente* (final sales agreement) must be signed on or before the limit date. At the time of the meeting, the *Notaire* will read the document aloud to the parties. The final deposit and closing costs must be in escrow with the *Notaire* in order to close. On the day of closing, the *Notaire* will make settlement and pay the owner, the agent if there was one, taxes and *Notaire* fees. Et voila! You will be given the keys to your new home in Paris.

Why do you want to buy in Paris...?

Are you interested in buying a permanent residence in Paris? Are you looking for a long-term investment, something you can sell a few years down the road and make a reasonable profit? Do you want to buy an apartment you can stay in for a week or so each year, and then rent out the rest of the time? Aside from all the aesthetic and romantic reasons one wants to own in Paris, these are the most common reasons people want to buy here. Making this initial determination will help you decide where to buy and how much you will need to spend.

If a permanent residence is your goal, your options are fairly open. Within any other parameters you may have, you can consider any area of the city you like and any price range or apartment size without seriously considering the immediate return on your investment. That being said, even if you just want a home in Paris, it is still wise to consider the investment value before you buy.

If growth and appreciation is your goal . . .

Looking to buy for long-term investment/resale value? It is still possible to find an apartment at a good price that you can sell in several years and make a profit. Paris continues to be undervalued relative to other major metropolitan destinations, such as London, New York, San Francisco and Hong Kong.

There are several arrondissements that have experienced year over year growth of up to 20%, including the 10th, 18th, 19th and 20th. If you purchase an apartment in the right areas of these arrondissements, the value of your investment will likely continue to increase. However, it is important to remember that these areas are not in the center of Paris. Although they are targeted for continued growth and appreciation, these arrondissements should not be considered as prime areas where you can derive steady income from rental revenue. This notwithstanding, we continue to see a trend of "migration" in areas located outside of the "heart" of the city, including the "banlieue" (suburbs) which are becoming more developed with an influx of restaurants, galleries,

boutiques and businesses investing in the community and contributing to their overall gentrification.

If rental revenue is your goal . . .

A large number of foreigners are interested in buying apartments in Paris primarily for their short-term rental income. While they want to be able to spend time here in their home-away-from-home, they hope to at least cover the mortgage payments, if not make some money as well, by renting it out. Apartments that have short-term rental potential are obviously going to be found in the more desirable, central areas of town and are going to be more expensive. Bargains are rare. The areas that are the most requested for short-term rentals are Ile Saint-Louis, Saint-Germain-des-Prés, Le Marais and areas with Eiffel Tower views. Although it is true that in areas that are considered “no or low-risk” rentals, the cost of entry is exorbitantly high and appreciation can move at a significantly slower rate than the rest of Paris. In recent months, some of these areas have recently experienced low or no growth which can be attributed to a number of factors, including buyers seeking a lower cost of entry and greater appreciation, and recognizing that better value propositions exist outside of historically known tourist areas.

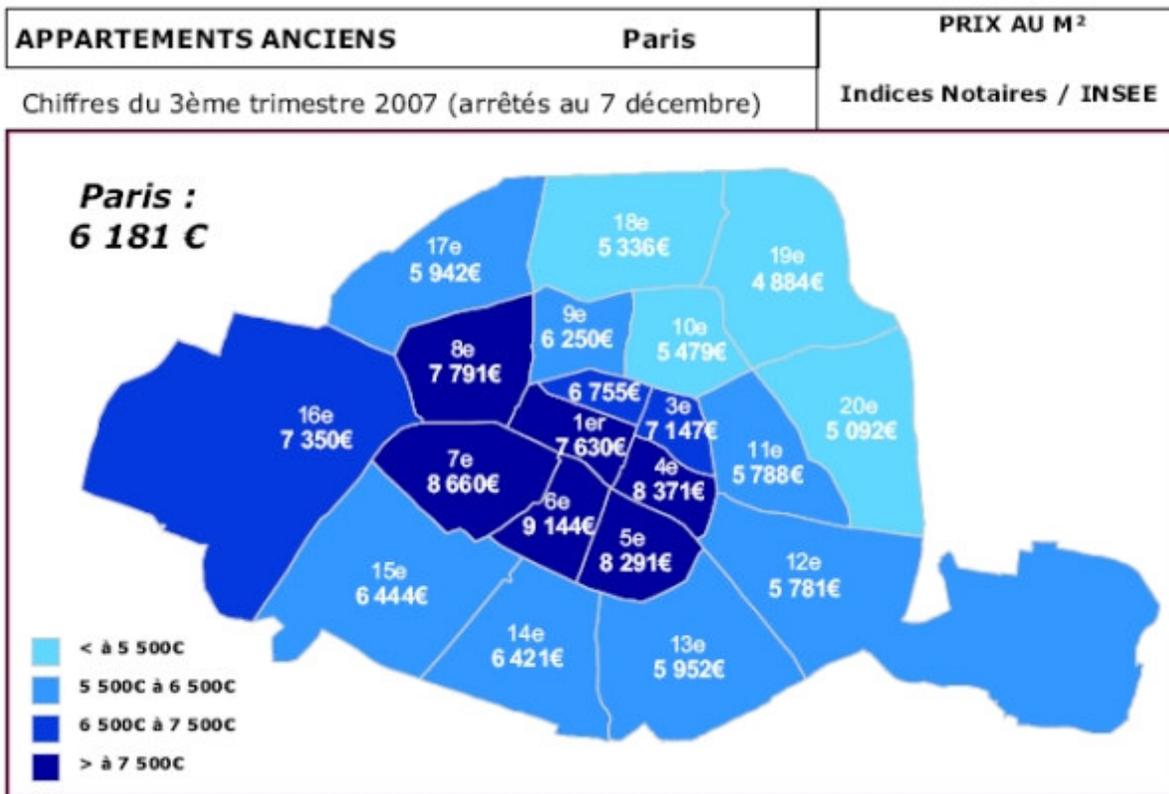
The winning combination . . .

To make a winning investment, look for apartments in Paris where the value is high and the prospect of appreciation is great, such as the northern part of Le Marais (3rd) or Montorgueil district (2nd). The Paris real estate market has experienced significant growth rates over the last few years, and is still healthy according to the latest published statistics. Figures indicate property values overall have increased by 8.7% on average for third quarter 2006 to third quarter 2007. An analysis of the figures indicates that apartments and other real estate investments in Paris can still be a good investment. Real estate professionals continue to predict property values will start to level, but there's been very little sign of that! With good short-term rental apartments available in the 275,000€ to 1,000,000€ range, Paris continues to be a city ripe for foreign real estate investment.

The fashionable areas...

Smart investors will start by making an accurate evaluation of the property. In Paris, like in many other places in Europe, that means comparing the price per square meter with the average price per square meter of other apartments in the area as well as with the square meter price of comparable properties throughout the city. If you're interested in buying an apartment in Paris as an investment with short-term rental value, it may be wise to consider property in one of the seven currently prime arrondissements: the 1st through 7th.

How do prices in these fashionable areas currently compare with those in the rest of the city? The current price per square meter the market demands in Paris, as a whole, as reported by the Chambre de Notaires, is 6,181€. By contrast, the average price per square meter is up to 9,144€ in the 6th arrondissement, 8,660€ in the 7th (Eiffel Tower) and 8,371€ in the 4th (Le Marais). In the 5th (Latin Quarter) the price increased to 8,291€.



Apartments located in the heart of Paris are normally above the average. These are areas where tourists want to stay and foreigners like to live. In general, the farther from the center of town, the less expensive apartments become. It's hardly surprising that apartments in the first seven arrondissements command top prices. These areas exude charm and put residents in touch with history of Paris. Moreover, they have some of the best nightlife and restaurants in town.

While apartments in these arrondissements generally have higher short-term rental rates, investment value may actually not be as good. For example, property values in Saint-Germain-des-Prés, considered to have the highest rental occupancy rate, may not command much higher rents in comparison to properties in other districts which weren't as expensive. The difference in return on investment will depend more on the occupancy rate than the rental fees.

Some subjective factors...

Cost per square meter and return on investment are cut-and-dried objective aspects of evaluation. Other factors that affect price and value are more subjective and open to your personal evaluation. Unlike apartment and condominium buildings in the U.S., each apartment in a building in Paris is often unique. Floor plans vary, ceiling heights differ, and space utilization is not always the same. For that reason, two apartments in the same building, of the same size and on the same floor, can vary greatly in value and price.

Other variables to consider include how much renovation and redecorating work will the apartment need? What is the building itself like? How charming is the apartment (renters love charm)? How close is it to the nearest Métro stop? What conveniences are nearby? The list is endless.

What is rentable and how much will it cost...

While evaluating the cost of an apartment involves comparing its price against other apartments in that area and against those of Paris generally using the average cost per square meter, keep in mind these are averages. An apartment that is rentable "as is" will be well above the average in that area, while one closer to the average is probably going to require some work to make it rentable.

So, what is rentable and how much will it cost? A two-bedroom apartment of 70 to 90 square meters, particularly with two baths, will command healthy occupancy rates depending on the area. However, they will cost much more than the average and are less often on the market. Also note that the rental return can be equal regardless of size, as long as the apartment can sleep two to four and has equal amenities. Therefore you will pay dearly for space that will not yield a return on your investment.

A studio is much smaller (15-25 square meters) and will sleep no more than two. Owning two studios could be more profitable than owning a one-bedroom, particularly if they are in the same building or nearby enabling two couples or a couple with children to rent them both. This is because a one-bedroom apartment costs about twice the price as a studio, but you won't be able to get twice the rental return. The apartments most available on the market are one-bedroom apartments of 40-50 square meters and that means you're in competition with many others. Here is a sampling of the average costs for apartments in some of the areas that we previously mentioned:

Type	Size	1st/2nd	3rd/4th	5th /6th	10th/11th
Studio	25m2	200,000 - 250,000 €	225,000 - 275,000 €	250,000 - 300,000 €	175,000 - 200,000 €
1 BR	40m2	320,000 - 400,000 €	360,000 - 440,000 €	400,000 - 480,000 €	280,000 - 320,000 €
2 BR	60m2	500,000 - 575,000 €	540,000 - 660,000 €	600,000 - 720,000 €	420,000 - 480,000 €
3BR	100m2	830,000 - 960,000 €	900,000 - 1,100,000 €	1,000,000€ - 1,200,000 €	700,000 - 800,000 €

If you've ever bought real estate before, then you probably know there is often a difference between what you want and what you want to spend. It will be no different in Paris. If you are serious about buying, and the short-term rental is a primary consideration, be prepared to spend more to make your investment worthwhile. You may well be able to find a suitable apartment in the price range mentioned above. However, apartments recently looked at, with good rental value, located in the prime areas, were more expensive.

Deciphering the numbers . . .

The figures published by the Chambre des Notaires are typically 30% to 50% less than current market valuations. The current market valuation contained in the accompanying analysis is compiled based upon an average of two dozen listings from various sources, including current listings by agencies and individual owners.

Why the difference? . . .

There are several factors contributing to this variance. First is timing. There is approximately a 90-day period from the time an offer is made on a property until the time of closing. Thereafter, the numbers may not be reported until up to an additional six months to the office of the *Notaire*. That alone could account for the majority of the

variance. Secondly is underreporting. This is when the reported transaction price may be different than the actual purchase price due to the fact that buyers pay the real estate agency fees directly thereby reducing the taxable amount and the fee to the *Notaire*; listing inventory such as fixed furniture and appliances separately from the purchase price; and under-the-table transactions, which are illegal but do occur.

And finally, there is dilution. The figures reported by the Chambre des Notaires are diluted as they are reported by an arrondissement in its entirety and do not take into account the differences within each arrondissement. For example in the 3rd arrondissement, an apartment located in the neighborhood of Rue du Poitou can be valued as high as 9,500€ per square meter while an apartment in the same arrondissement near the neighborhood of Arts et Metiers will be valued at approximately 7,500€ per square meter.

However, the true benchmark is the properties that you see during **your** search based upon location, amenities and the time it has been on the market. The numbers published by the Chambre de Notaires are intended to provide with an analysis of the trends, **not** a measurement of value.

Is there still room for growth? . . .

The answer is a resounding yes. Paris on the whole has been experiencing continued growth rates around 10% to 15% per year. As previously mentioned, relative to other world-class cities such as London, New York and San Francisco, Paris is still considered to be undervalued with market valuations pacing at least 30%, and in some cases, 60% less than these cities. Paris has been and will continue to be one of the top global destinations and will continue to attract investors to support the short term rental market. Paris has regulations on construction and will therefore be limited by inventory that will never match its demand. So, if you're a smart buyer, you can still find excellent values at a reasonable cost of entry and healthy appreciation, while benefiting from investing in the Euro economy.

The cost of ownership...

In having an apartment in Paris, there are monthly and annual costs associated with ownership. Yearly taxes consist of the *taxe d'habitation* (Paris city tax paid by all occupants of apartments) and the *taxe foncière* (real estate tax).

For smaller apartments, such as studios or one-bedroom apartments, the *taxe d'habitation* will run you about 150€ to 300€ per year. For a two-bedroom apartment, you can expect to pay about 500€. The occupant of the property on the first day of January is responsible for paying the *taxe d'habitation*. Even if you only use the property occasionally, if it is furnished and supplied with water and electricity you are required to pay this tax. The amount of this tax will vary from one place to another and according to the size of the property. If you rent your property to someone else and they are living there on the first day of January for the year, they are responsible for paying this tax.

The *taxe foncière* is based on the value of the apartment and as the owner of the apartment you are responsible for payment of this tax. It takes into account the age of the building, the area of the city, the size, and other factors. For a studio, in an older building in the Marais (3rd), at approximately 20 square meters, you can expect to pay around 200€ per year. The *taxe foncière* for a one-bedroom apartment in an older building will be approximately 350€ to 500€ and for a larger apartment it will start around 400€.

Apartment buildings in Paris are like co-operative and condo buildings in the States. You own your particular apartment but share responsibility for common parts of the building with the other owners. There is a monthly *copropriété* (co-owners) fee that pays for expenses involved in maintaining the building; common utilities (usually including water for all apartments, and sometimes heat), garbage collection, maintenance, etc. If your building is undergoing major renovation work (such as the installation of an elevator or the cleaning of the exterior stone) or if you have a full-time *gardien*, your co-owners fees could be higher.

Outside of your monthly co-owners fees, utilities such as gas, electric, telephone, television and Internet will be based upon usage. Utilities (gas, electric) for the smaller apartments run around 50€ to 60€ per month, and 100€ per month for larger ones. Apartments with electric heat will run much higher than gas heating.

Providers such as France Telecom, Free and Noos offer packages that include telephone, television and Internet access starting at 30€ per month based upon your level of service (i.e. number of channels, calling plan and internet speed). The following is a chart illustrating the monthly costs, closing costs and expected rental income for an apartment in central Paris:

Rental Return on Investment Property

	€
Income	
Price of Apartment	500,000
Legal expenses, taxes etc	45,000
Refurbishment	
Furniture	
TOTAL COST OR PURCHASE	545,000
Rental per week	1,400
Property management charge	30%
Percentage occupancy	70%
Gross rental yield - cash per year	50,960
Gross rental yield as percentage of cost of purchase	9.35%
Unavoidable Expenses	
Property Tax	500
Insurance	330
Utilities (water, electricity, gas, telephone, internet)	1,274
Repairs & Maintenance	2,500
Copropriété (home owners) fees	1,250
Probable expenses	
Property management & letting agency fees	15,288
Your own advertising, web costs etc	510
TOTAL EXPENSES	21,652
Profit before finance charges & tax	29,308
Net yield as a percentage of cost	5.38%
Net yield as a percentage of your investment	13.32%

Note: Figures in yellow indicate variable costs

As you can see, based upon these assumptions, an apartment in the center of Paris could more than carry itself depending upon the location, the amount of your down payment and your furnishings.

You bought it, now what...

Congratulations! You own your home-away-from-home, an apartment in Paris! You can now look forward to renovating and getting it just the way you want. And of course, begin to think about the taxes, utilities, and all those other things homeowners are faced with... in some ways, maybe it's not so different here.

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