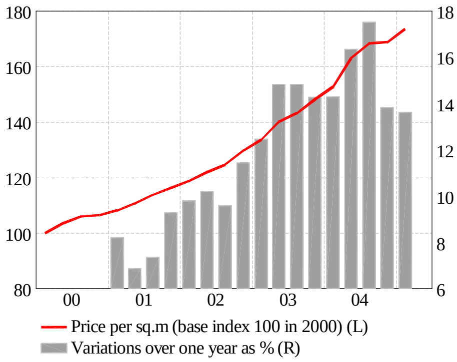
WHAT IS THE SITUATION WITH THE REAL ESTATE BOOM?

Despite the first signs of a slowdown (contraction of activity in the market for new houses at a high level, slowdown in prices in pre-existing buildings), activity on the real estate market is expected to remain solid: the support factors (lowering of interest rates, tax incentives resulting from the "Robien" law, nought per cent interest rates) are expected to influence the market this year.

Initial, though weak, signs of slowdown

The real estate market continues to display dynamism; however, several tenuous signs give the impression that the top of the cycle is approaching. According to the FNAIM, in Q1 2005, price increases in pre-existing real estate slowed for the second quarter in a row: prices rose by 13.6 % for one year, which, while still a fast pace, has slackened compared with the high point of 2004. This trend was confirmed in Q2, since the FNAIM's monthly price index declined by 0.7 % in May, after a small increase in April (0.6 %). Also in evidence is a lengthening of time on the market. The market for existing buildings, however, continues to show vigour, with activity increasing by 1.2 % in Q1

SLOWDOWN IN PRICES FOR EXISTING BUILDINGS

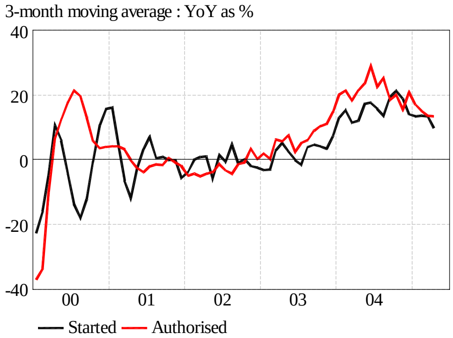


Source : Fnaim

Residential construction activity, which was robust in 2004, is slowing slightly, while remaining quite steady: building permits, expressed as a 3-month moving average, advanced by 13.5 % for the year in April, whereas construction starts increased by 9.7 % for the year.

SLIGHT FLATTENING IN ACTIVITY RESIDENTIAL HOUSING

3-month moving average : YoY as %



Sources : Datastream, Infrastructure Ministry - DAEI

At the same time, the indicators of supply relaxed, but only a bit: more residential property came onto the market in than were sold in recent months. Hence, the stock of new residential properties for sale has been building up for two quarters, while the average turnover period of properties is still at an historical low.

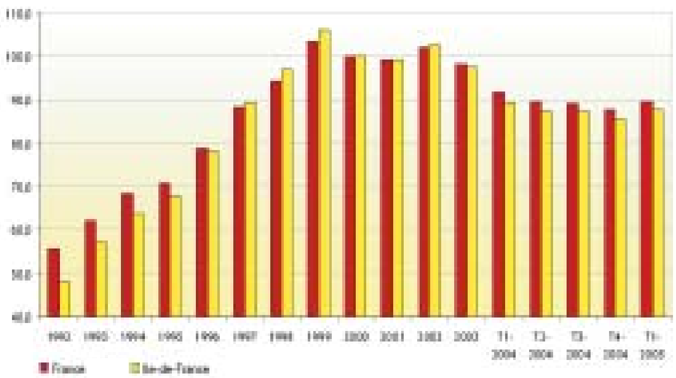
2005 : same causes, same effects

Demand for residential property remains strong, especially for newly-built residences, partially due to the "Robien" tax incentive that boosted the level of sales in 2004 (more than 50 % of the apartments put up for sale last year were connected with that regime). However, this regime is due to end in 2005: since the start of the year, the share of "Robien" plans has decreased slightly, in any case.

One positive factor is that the solvency of households has stabilised over the year, despite the rise in housing prices. FNAIM's solvency indicator turned around for the first time in three years in Q1 (rising 2.2 %), going back to the level it was at in spring 2004. And housing loan interest rates continue to trend downward. The average rate of fixed-rate mortgage loans was 4.7 % in March, as opposed to 5 % at the end of 2004, and that of variable-rate mortgages (which makes up 20 % of the loan market) was at 4.3 %. At the same time, the term of the loans was becoming even longer: according to the official household debt monitor ("OEM"), the average mortgage loan in 2004 was for 15.9 years, compared with 15 years in 2003 and 11.2 years in 1992. As a result, the amount outstanding in housing loans (€ 446.6 billion) is still increasing at a fast pace (up 12.2 % for the year in April).

Activity in existing accommodation is expected to be held up by the introduction last February of a new nought-per-cent interest loan: according to the housing finance monitor ("OFL"), 123,000 lower-income-earning households are expected to benefit from this measure. The nought-per-cent interest loan has led a 3–4 point reduction in the rate of outlay of the household that take advantage of it, the average rate being estimated at 27 %.

The solvency of households has stabilised



Source: FNAIM

Nonetheless, the financial situation of households is worsening considerably. Their rate of indebtedness is reaching a record level (for France) of 61.1 %. Despite low interest rates, the burden of loan repayments seems harder to bear than in the past: in November 2004, 55 % of households would consider that their charges were bearable or very bearable, as opposed to 57.5 % in 2003. Furthermore, the solvency of households is undermined by the uncertain economic circumstances.

In the final analysis, the likely continuation of interest rates at these historical low levels plus the gradual decline in prices should allow for a "soft landing" of the real estate market, despite the current sluggishness in the labour market and the slow improvement in personal income expected for 2005. Hence, according to the INSEE statistics agency survey of housing in May, personal prospects are eroding, while remaining high[1].

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[1] The restart of production of publicly funded housing that is scheduled under the social cohesion plan (80,000 in 2004, rising to 120,000 in 2009, making 500,000 over five years) should support construction activity over the next few years, taking over the baton from private construction.

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