

Affordable Rental Housing Produced by Private Rental Landlords: the case of France

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1. Introduction

Various countries have developed financial incentives that are intended to boost the construction of affordable rental housing by private actors. Some of these incentives come together with conditions with regard to rent setting and the income of the prospective tenants. Usually these conditions last for a specific period of time, typically ten to twenty years. In France, fiscal incentives for the production of affordable rental dwellings have played an important role in the past two decades. Therefore, this paper analyses these incentives in more detail and is structured as follows:

- Section 2 sets the stage for the analysis and briefly describes the French housing policy and housing market context.
- Section 3 pays attention to the way in which the French rental sector is regulated and financed, making a distinction between the different types of landlords.
- Section 4 starts with a description of the way in which individual investors, on which the focus will be in the second part of this paper, are treated in the French tax system. After that, the various French tax incentives for individual private rental landlords are described in detail. Furthermore, the functioning of the tax incentives is illustrated by means of a fictitious example.
- Section 5 provides a further specification of the various tax incentives. This Section deals with the characteristics of the suppliers, the dwellings, the landlords, and the tenants. It also provides some examples of house building projects that are financed with the help of the tax incentives.
- Section 6 gives an evaluation of the tax incentives. Based on an analysis of the available evaluation reports, it looks at their impact on housing production, their costs and their effects on the housing market.

2. The French housing policy and housing market context¹

The historical evolution of French housing policy

Around 1900, the private rental sector was the dominant tenure sector in France. In those days, investing in the construction of property and letting rental dwellings was regarded as a financially secure investment, which also enhanced the investor's social status (Donner, 2000, p260). This started to change in the First World War, when the French Government decided to introduce a strict rent regulation policy. As a result, private rental landlords suffered losses, and investment in maintenance and construction fell sharply.

The social rental sector still had a limited role in the interbellum period. Although this sector started to develop at the end of the nineteenth century, the housing production of social rental landlords initially remained rather limited. Most pre-war social rental housing was built by philanthropists and 'enlightened' entrepreneurs in order to accommodate salaried workers who were unable to find decent accommodation in the existing housing stock (Levy-Vroelant and Tutin, 2007, p70).

Added to the extensive war damage, the low housing investments in the interbellum period meant that by the end of the Second World War the French housing stock was in a very bad state. The country was also faced with a severe housing shortage.

Housing policy during the 1945-80 period

In order to deal with the housing shortage, housing was included in the post-war national plans. Central government provided substantial building subsidies and low-interest loans to builders of new homes, resulting in a building boom. This large-scale state intervention produced the following two developments.

Firstly, a large social rental housing sector developed. The three decades following World War II are often considered to be the golden age of French social housing: *les trentes glorieuses* (Levy-Vroelant, Reinprecht and Wassenberg, 2008). The second thrust of French post-war government policy involved promoting home ownership through both production and personal subsidies. On the supply-side, builders of dwellings destined for owner-occupiers received state subsidies and could take up low-interest loans. On the demand side, people were encouraged to buy the new homes through low-interest mortgages and one-off premiums. Combined with increasing prosperity, this policy produced a sharp increase in the share of the owner-occupied sector.

In the mid-1960s, housing policy began to change gradually. The housing shortage had largely been dealt with, and housing quality was also improving slowly. Because of this, the French government gradually reduced its interventions in housing. Building subsidies were diminished, more scope was left for market forces, and state aid was targeted more precisely at low-income groups. The market sector therefore started to take on a greater

¹ This Section is a slightly adapted version of a text that I prepared within the framework of the European Tenlaw project.

role. In 1977, these changes cumulated in a new Housing Act. Financial support for rental landlords, for which both non-profit and profit providers could apply, was not abolished but the subsidy system was simplified. In addition, new personal subsidies were brought in (in both the owner-occupied and rented sectors), along with grants to encourage home improvement (Boelhouwer and van der Heijden, 1993, p193). Furthermore, the rent regulation system was liberalised. In short, one could say that the 1977 Housing Act has resulted in a shift from production subsidies to subject subsidies and a stronger focus on the low-income groups.

Housing policy in the 1980s and 1990s

The somewhat more liberal housing policy that resulted from the 1977 Housing Act remained intact following the inauguration of Mitterrand's Socialist Government in 1981 (Donner, 2000, p261). Only the rent regulation system was made significantly stricter, until it was somewhat liberalised again in 1989.

As a result of the economic crisis and high interest rates, the production of dwellings for the owner-occupied sector decreased substantially in the 1980s. At the same time, the tightening of rent controls made it less attractive to invest in the private rented sector. Consequently, there was a clear fall in the rate of house building. In reaction to this, the government introduced a series of tax benefits that aimed to improve investment conditions for private rental landlords. These tax benefits are still in place, although the specific conditions have been changed regularly over the past twenty years. The details of the tax benefits are described in Section 4.

In the 1990s, French housing policy had a strong focus on urban renewal and urban restructuring. During this period, the basic characteristics of the housing finance system remained unchanged. There were subsidies and low-interest loans for social rental landlords who wanted to build social rental dwellings. These instruments were also available to social rental landlords and private rental landlords who wanted to build in the more up-market sector, also known as the intermediate sector. Furthermore, the tax incentives for individual rental landlords were gradually becoming more and more important.

Housing policy since 2000

After 2000, social rental landlords remained active in the urban renewal process. In this, they are actively encouraged to cooperate with other stakeholders in the neighbourhood, such as local residents, schools, the police, and welfare organisations (Bougrain, 2004).

A scheme known as the *Plan de Cohésion Sociale* came into force in 2005. The principal housing aims of this scheme are to improve housing quality, to encourage the production of affordable rental dwellings and to ensure that empty homes are put on the market. With the help of the programme, the production of social rental dwellings was expected to rise considerably in the period 2005-2010.

Another policy aim was to further develop the intermediate sector of the rental market further. Rent levels in this sector, in which both profit and non-profit providers can be active, are higher than in the social rental sector but lower than in the unregulated private rental sector. In the first years of the twenty-first century, the loans and fiscal concessions that invest in this sector have been improved (Ministère de l'emploi, de la cohésion sociale et du logement, 2006).

Furthermore, there has been a general trend towards decentralisation of housing policy. With the so-called second decentralisation law of 2004 local authorities such as groups of communities (*groupements intercommunaux*) were given more responsibility with regard to housing policy (they may now allocate loans and other state aids, for example), provided they sign a contract with central government.

The political stance towards social housing strongly depends on the political ideology of the government that is in charge. Whereas the Sarkozy government favoured the owner-occupancy sector above the rented sector, the current Hollande government wants to give a new impulse to the social rental sector by making public land available for the construction of social rental dwellings. It also wants to change the *loi Solidarité et Rénovation Urbaine* (SRU) that states that municipalities with more than 3,500 inhabitants should at least have 20% social rental dwellings. The new government wants to raise this percentage to 25% in 2025.

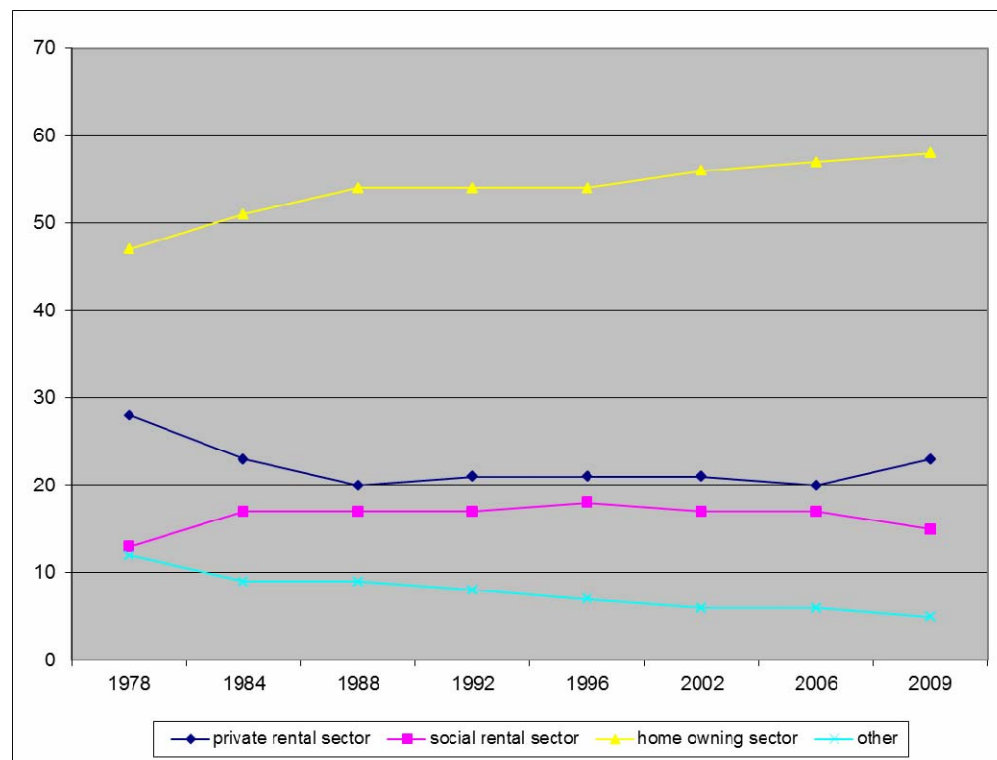
The development of the French dwelling stock and the tenure distribution

Figure 1 shows the development of the different tenure sectors in France since 1963, according to the type of landlord. Pre-1963 data is not shown in this figure, but we can assume that the French housing stock before the Second World War consisted predominantly of private rented property, as was the case in most other European countries. During the 1963-84 period, the proportion of private rented housing fell and that of social rented and owner-occupied housing rose, as private rental homes were sold off, poor-quality dwellings were demolished and there were few incentives to build new homes in the private rental sector. At the same time, the government provided strong support for the development of both the social rental sector and the owner-occupancy sector. The social rental sector was stimulated through subsidies and low-interest loans for social rental landlords, whereas the owner-occupied sector was primarily stimulated through various favourable loans for home owners.

From the mid-1980s, the proportion of social and private rented dwellings stabilised and that of owner-occupied continued to rise slowly, at the expense of the category 'other'. In a European context this is rather exceptional; in many other European countries, the shares of both the social rental and private rental sectors show a steady decline (Tutin, 2008). After 2006, the share of the private rental sector started to increase at the expense of the share of the social rental sector. This is due to the fiscal incentives that promote investment in the private rental sector on the one hand, and an increasing number of social rental dwellings that is being sold on the other hand. In Section 6, the impact of the tax incentives on the French housing production will be assessed in more detail.

Last but not least, it should be noted that some of the social rental and private rental dwellings are actually part of the so-called intermediary sector (see also Section 3). However, separate statistics on this sector are unfortunately not available.

Fig. 1: Tenure distribution in France, 1963-2009



Source: Insee, Satsangi, 1998

3. Regulating and financing rental housing²

French rental dwellings may be provided by social rental landlords, individual private rental landlords and institutional social rental landlords. This Section deals with the institutions, the financing arrangements and the rent regulation that applies to each of these providers.

Social rental landlords

Institutions and financing arrangements

Like many other West European countries at the end of the nineteenth century, France underwent rapid urbanisation, resulting in poor living conditions in the large cities. Social housing was introduced to improve these conditions. The first social housing initiatives were not taken by local or state authorities but by private actors such as companies, factory owners and philanthropists. The state did not intervene until 1894 when the *loi Siegfried* came into force, followed by the *loi Ribot* (1908) and the *loi Bonnevey* in 1912. These laws provided the statutory basis for French social rented housing (Levy-Vroelant, Reinprecht and Wassenberg, 2008, pp33-35).

Initially, social rental dwellings were built by *sociétés d'Habitations à Bon Marché* (HBMs), which in 1950 became *Habitations à Loyer Modéré organisations* (HLMs). Since 2008, the public HLMs have been known as *Offices Publics de l'Habitat*. These social rental landlords have a predominantly public character and are controlled by the local authorities (municipalities, groups of municipalities or departments), who are responsible for their creation and for managing their finances and their tasks (CECODHAS, 2007).

There are also HLMs with a private character. These are called *Entreprises sociales pour l'habitat*. Such social rental landlords are private organisations with a non-profit objective (although they are allowed to pay a very limited dividend, referring to a very low capital, to their shareholders), which date back to the nineteenth century (Amzallag and Taffin, 2003, p21). The initiators of these social rental landlords were often companies that wanted to provide housing for their own employees such as for example the French railway company SNCF (Bougrain, 2004). Others are subsidiaries of financial institutions (savings banks, insurance companies) (Driant, 2011, p122). Private social rental landlords usually operate under the supervision of shareholders from both the private and public sectors. They not only provide social rental housing but are often also involved in the construction of subsidised owner-occupancy dwellings for lower-income groups (Boelhouwer and van der Heijden, 1992). In the literature, all French social rental landlords, whether they have a public or private character, are often simply referred to as HLMs. In 2005, the total HLM stock consisted of 54% public HLMs and 46% private HLMs (Haffner *et al*, 2009, p105).

Public and private social rental landlords have the same competences, expressed in the *Code de la Construction et de l'Habitation* (CCH). The traditional core objective of social rental landlords is the construction and the management of affordable rental housing for low-income groups. In recent years, some additional objectives have been added to this

² See note 1.

vocation, such as combating segregation, and providing affordable home ownership housing in areas where this is considered to be desirable (Amzallag and Taffin, 2003).

In 2008, there were about 560 HLM organisations in France, public and private HLM's taken together. As a result of mergers, the number of HLM organisations in France has steadily declined in recent years (Driant and Mingye, 2012, pp93-95). The HLM organisations have not only become bigger, but also more professional and more commercial. They have extended their operation scope beyond their core business (for example, by constructing home-ownership dwellings), have outsourced some of their activities to business firms and have improved their professional standards.

Specific providers of social rental housing are the *Sociétés d'Economie Mixte* (SEMs), also called *Entreprises Publiques Locales*. These are partnerships between local government and private partners that may also provide social rental housing. SEMs that provide social housing operate under the same conditions as the other social rental landlords. The SEMs possess around half a million dwellings.

Finally, there are various smaller providers of social rented housing. This involves local authorities (municipalities), public or semi-public companies (public hospitals and the state railway company, the SNCF, have dwellings which they let to their employees) and co-operative housing companies (although the latter mainly focus on the owner-occupied sector). In total, these providers possess more than half a million social rental dwellings. In Figure 1, both the SEMs and the other providers of social housing are part of the category 'other', together with furnished dwellings and dwellings for which no rent is paid.

The French social rental sector offers a variety of products: standard social housing for salaried workers, 'upper' social housing for middle class households and 'lower' social housing for the more vulnerable groups. Social rental dwellings in France are financed with the help of complex subsidy arrangements in which subsidised loans play an important part (see Haffner *et al*, 2009 for more information).

Rent regulation and tenant protection

Rents in the social rental sector are subject to state regulations. The maximum rent that can be asked varies according to the financial support schemes, which have been granted to the social landlords, as well as according to the size of the dwelling. Each subsidised loan has a maximum square metre price. These maximum square metre prices differ between regions, implying regional variation in the maximum admitted rents. However, notwithstanding this regional variation, social housing rents still depend mainly on cost-related factors and not on the housing market conditions. Consequently, in urban areas (where housing markets are generally tight), rents in the social rental sector tend to be significantly lower than those in the private rental sector, whereas these differences are usually much smaller in the more relaxed housing markets in small and medium-sized towns (Amzallag and Taffin, 2003).

The state also makes recommendations with regard to annual rent increase in the French social rental sector, based on the so-called rent revision index (*indice de révision des loyers*). However, social rental landlords are not obliged to follow these recommendations and they

may also decide to apply different rent increases to different complexes (Haffner *et al*, 2009, p118). Nevertheless, the rent after rent increase may not exceed the maximum rent permitted in the financial agreements by means of which the social rental dwelling has been financed. These maximum rents are reviewed annually on the basis of the index of construction costs.

Security of tenure in the French social rental sector is greater than in the private rental sector. This is largely due to the fact that, in principle, rental agreements in the social rental sector are of an indefinite nature and can only be terminated if tenants fail to comply with their duties (Driant, 2011, p129). Non-paying tenants can be evicted, but this requires relatively long and complex procedures. However, the 'Boutin' law of 2009 has slightly diminished the tenant security in the French social rental sector:

- Since 2009, households with incomes that are equal or higher than twice the income ceilings for social rental housing, are required to sign non-renewable three-year leases since they clearly don't belong to the target group for the social rental sector.
- Social rental landlords now have to offer more suitably-sized dwellings to households that live in dwellings that are considered too large for them. In tight housing markets, tenants who decline three such offers lose their occupancy rights after a six-month period. However, this rule does not apply to tenants over 65 years of age or that have disabilities (Driant, 2011, p129).

Households that already live in a social rental dwelling and whose income rises above the income ceiling prescribed for the dwelling concerned are not required to leave their dwelling, but may have to pay a supplement on their rent (*supplément de loyer de solidarité*: SLS) in order to 'compensate' for their good financial situation.

Individual private rental landlords

Institutions

The vast majority (97%) of French private rented dwellings are owned by private individuals (*personnes physiques*); only 3% of the rented stock is owned by institutional private rental landlords (companies or institutions: *personnes morales*). Two-thirds of individual private rental landlords only own one dwelling. In the last decade, the number of private rental dwellings let by individual landlords has grown significantly, probably as a result of the advantageous tax deductions to which these landlords are entitled.

In the category of institutional private rental landlords, insurance companies play a major role. Dwellings let by institutional private rental landlords are generally of higher quality than those let by individual private rental landlords (Donner, 2000, p283). The proportion of institutional private rental landlords has declined steadily since the 1970s. This is due to the fact that these actors are increasingly focusing on investing in areas other than housing, where they can enjoy higher returns. Selling off homes previously intended for letting is also part of their strategy. Institutional private rental landlords that still invest in housing

now concentrate their investments primarily in the larger agglomerations (Haffner *et al*, 2009, pp206-207), or in housing for specific target groups such as the elderly.

Financing arrangements for the intermediate rental sector

Some of the tax advantages for individual private rental landlords focus on the so-called intermediate sector, whereas other are destined for investments in the unregulated private rental sector. The idea behind the French intermediate rental sector is that it fills the gap between the social rental sector and the unregulated private rental sector, by offering a good alternative to tenants from both these sectors. For tenants in the social rented sector with a slightly higher income, the intermediate sector might offer an opportunity to make a housing career within the rented sector. Tenants in the private rental sector, as well as newcomers on the housing market with a slightly higher income, will be attracted by the good price-quality relationships in the intermediate rental sector. In France, intermediate rental dwellings are especially needed in regions with a relatively tight housing market, in which there are large price differences between relatively 'cheap' social rental dwellings and relatively expensive private rental dwellings.

French intermediate rental dwellings are financed by different arrangements. First of all, there are low-interest loans that can be taken up by both social rental landlords and private rental landlords. Second, there are tax concessions and refurbishment subsidies for individual private rental landlords that agree to let their dwelling against a relatively moderate rent. In exchange for the financial support of the government, landlords then have to meet certain criteria with regard to the rent level and the income of the tenants. The financial arrangements between government and landlords apply to a rather long (typically more than seven years) but nevertheless fixed period of time. When this time period has passed, the dwellings concerned are again part of the free market.

On many aspects, the French intermediate rental sector really occupies a middle position between the social rental sector and the private rental sector. The rent levels in this sector are higher than in the social rental sector but lower than in the unregulated private rental sector. Just as in the social rental sector, tenants who want to live in the intermediate rental sector generally have to meet certain income criteria. However, the income limits that apply are higher than those in the social rental sector. Finally, the rent regulation and tenant protection in the intermediate rental sector is less strict than in the social rental sector but stricter than in the private rental sector.

Rent regulation and tenant security

Rents can be set freely for new contracts in the unregulated private rental sector. The INSEE index of reference rents (*indice de révision des loyers*: IRL) serves as a guide for annual rent rises during the term of the contract. This index is based on the consumption prices, except tobacco and rents.

In the private rental sector, the standard length of contracts is three years³ for individual private rental landlords and six years for institutional private rental landlords (Donner, 2000, p270). Six months before the contract expires the landlord may offer a new contract. If the landlord can prove that the old rent was substantially below current rents on the market, they can set a new rent on the basis of reference dwellings. The landlord then has to prove that the rents of six (in urban areas of over one million inhabitants) or three comparable dwellings are significantly higher than the rent they are currently asking. In order to simplify this process, some French cities have set up an observatory of private rental sector rents. In the Paris urban area, the rent increase at the renewal of contracts in the unregulated private rental sector is sometimes limited by central government decree.

If the landlord does not offer a new contract with a new rent when the old one expires, the old contract is automatically renewed for three years under the existing conditions. The landlord can only terminate the tenancy agreement in the following cases:

- The landlord wishes to use the home for his own occupation or to house a close relative.
- The landlord wishes to sell the property. In this case the tenant must be given first right of refusal (*droit de préemption*).
- The landlord wishes to refurbish the property thoroughly.
- The tenant has not met his obligations in the past (for example, by falling into arrears with the rent).

Notice to terminate a contract during the tenancy period may only be given if the contract contains a special clause (*clause résolutoire*) and the tenant has several months of rent arrears. In practice, this involves a relatively time-consuming and complex legal process (Boccardo and Chamboredon, 2004, p17-21).

A part of the private rental sector is subject to an agreement between the landlord and the government. This concerns, for example, dwellings that are financed with the various tax concessions. With regard to rent regulation and tenant security, there are two main differences between this regulated private rental sector (or intermediary sector) and the 'normal' private rental sector.

Firstly, initial rents in the regulated private rental sector may not exceed the maximum formulated (if applicable) in the contract between the landlord and the state. Second, the tenancy agreement is automatically renewed as long as the contract between landlord and government is valid. Apart from these points, rent regulation and tenant security in the regulated private rental sector is identical to rent regulation in the unregulated private rental sector. Table 1 gives an overview of the rent regulation and the tenancy rights in the various segments of the French rental market.

³ Shorter contracts are permitted in certain specific cases, for example, if someone is going abroad for a year and wishes to let his home for that period.

Table 1: Rent regulation and tenant security in the social rental sector, the intermediary rental sector and the private rental sector, France

	Social rental sector	Intermediary sector	Private rental sector
Initial rent setting	Maximum rents are determined by a contract between landlords and the state	Maximum rents are determined by a contract between landlords and the state	Free
Annual rent increase	The state provides non-obligatory guidelines for the maximum annual rent increase	May not exceed the INSEE rent revision index	May not exceed the INSEE rent revision index
Term of the contract	Indefinite, except for very high income groups are people whose dwelling is considered too big for their household size	3 years	3 years for individual private rental landlords, 6 years for institutional private rental landlords
Renewal of the contract	Not applicable	During the contract between landlord and state, the tenancy agreement is automatically renewed after the three-years period has elapsed	Private rental landlords may not renew the contract if they have a legitimate reason to do so
Rent in renewed contract	Not applicable	Same rent as in the old contract unless the landlord can prove that that rent is below the market rate. However, the new rent may never be higher than the maximum admitted rent	Same rent as in the old contract unless the landlord can prove that that rent is below the market rate

Source: Haffner et al, 2009

4. Tax incentives for investments in private rental housing

The way in which the tax incentives for individual private landlords work can only be understood within the context of the French tax system. That is the reason why this system is briefly explained first.

The taxation of French individual rental landlords

Individual private rental landlords have to pay income tax on the rental income they receive from their property. If the annual gross rental income is under €15,000, the *micro-foncier* regime applies. Under this regime, a fixed percentage of 30% may be deducted from the rental income in order to offset the costs incurred by the landlord. The *micro-foncier* regime cannot be combined with tax incentives that aim to encourage individual investment in the rental sector.

In the case of individual private rental landlords who receive over €15,000 in rental income, the standard *foncier* regime is obligatory. However, individual rental landlords with a rental income below €15,000 may also opt for this regime type if they think it is more favourable for them than the *micro-foncier* regime. Under the standard *foncier* regime, the expenditure that the landlord incurs in connection with letting his property (and not only maintenance costs, but also the property tax, interest on mortgages, and costs of refurbishment and improvement) may be deducted from the rental income. These expenses may in fact be higher than the rental income. A negative balance of a maximum of €10,700 per year⁴ may be deducted from the private rental landlord's income.

A description of the various tax incentives

Individual private rental landlords who let dwellings under the standard *foncier* regime may take profit of tax incentives. Various tax measures have been brought in over the past 25 years. These are usually named after the Ministers who introduced them: *Quiles-Méhaignerie*, *Périssol*, *Besson*, *Robien*, *Borloo*, etc. The incentives generally entail a yearly deduction of a percentage of the investment costs, as well as possibly a yearly deduction of a fixed percentage of the rental income.

The first tax incentive was introduced in 1986 as a reaction to the strong decrease of the private rental sector in the two decades before that year (see also Figure 1). However, it was only in the 1990s that the tax incentives really started to have a visible effect and the decrease of the share of the private rental sector came to an end. The Tables 2 to 6 give an overview of the most important tax incentives that have been in force in the past two decades.

Some of the tax incentives (for example, *Besson*) for private rental sector investment can be interpreted as an attempt to provide more and better affordable rental housing (for example, intermediary rental sector housing) for middle-class households, whose incomes

⁴ The interest on mortgages may not be taken into account when calculating this deficit. This interest may only be deducted as long as the remaining balance is positive.

are too high to get access to the social rental sector. As far as this is concerned, they can be seen as the French answer to the housing problems that are experienced by the so-called key-workers, especially in the big cities. Tax incentives that seek to increase the supply of private rental housing for middle-class households typically use criteria with regard to the income of the tenants and the maximum rent that may be asked.

However, there have also been tax incentives without any income restrictions for tenants and no or very high maximum rents (for example, *Périssol*). These incentives primarily aimed to stimulate the (private rental) housing production (Taffin, 2008). Not all tax incentives focus on the production of newly built rental dwellings. There are also incentives that aim to make more existing dwellings available for the rental market (*Borloo Ancien*, see Table 7).

Recent tax incentives

In 2006, the law *Engagement national pour le logement (loi ENL)* has resulted in a reform of the various tax incentives. Since that time, only the *Dispositif Robien recentré* and the *Dispositif Borloo neuf ou populaire* and the *Dispositif Borloo ancien* were in use. Individual private rental landlords could apply for the first two tax incentives until 31 December 2009, whereas the *Borloo Ancien* tax measure is still accessible nowadays.

In order to replace the *Dispositif Robien recentré* and the *Dispositif Borloo neuf ou populaire*, a new tax incentive called *Scellier* was introduced on 1 January 2009 (see Table 6). The *Scellier* tax incentive is applicable for the acquisition of newly built or heavily renovated dwellings by individual rental landlords (Ministère de l'égalité des territoires et du logement, 2012, pp66-67). Because the French government considers this tax incentive to be an anti-cyclical crisis measure, it has become much less generous after 2010 and it was stopped by the end of 2012 (with a transition period up to 31 March 2013).

The *Scellier* tax incentive is supposed to be simpler than its predecessors (Bouteille, 2010). The main difference is that it results in a diminishment of the amount of taxes that has to be paid, whereas the previous tax incentives resulted in a diminishment of the rental income. Box 1 compares the *Robien* and the *Scellier* tax incentive, based on a fictitious example. The calculations clearly show the generosity of the latter tax incentive.

In addition to the different way in which the fiscal advantage is calculated, the *Scellier* tax incentive also has two other attributes: it gives an extra impulse to investments in energy-efficient dwellings and it only focuses on regions with pressurised housing markets.

In 2013, the *Scellier* tax incentive was replaced by the *Duflot* tax incentive. It is rather similar to the *Scellier* tax incentive but its conditions are somewhat stricter when it comes to the maximum allowed rent, the income of the tenants and the geographical zoning. Furthermore, the maximum rents that are permitted in the *Duflot* tax incentive may be tailored to the local housing market situation whereas in the previous tax incentives these maximum rents only varied between broad state-defined macro-regions.

Table 2: The Mehaignerie and the Quiles-Megaignerie tax incentives

	Mehaignerie	Quiles - Mehaignerie
Period	01/01/1987 till 31/12/1997	15/03/1992 till 31/12/1997
Objective	Enhancing supply of new rental dwellings	Enhancing supply of new rental dwellings in the intermediary sector
Income limits for tenants?	No	Yes
Maximum rent level?	No	Yes, depending on the region
Fiscal advantage	Tax reduction for a value that equals 10% of the investment costs, spread over a 2 year period	Tax reduction for a value that equals 10% of the investment costs, spread over a 4 year period
Fixed yearly tax deduction (as % of the rental income)	No	No
Term of the arrangement (during this period the dwelling has to be let)	6 years	6 years
Maximum negative rental income that is allowed (in €)	-10,700	-10,700
Geographical coverage	All regions	All regions

Source: République Française, 2008

Table 3: The Périssol and the Besson-neuf tax incentives

	Périssol	Besson-neuf
Period	01/01/1996 till 31/08/1999	01/01/1999 till 31/12/2002
Objective	Enhancing supply of new rental dwellings	Enhancing supply of new rental dwellings in the intermediary sector
Income limits for tenants?	No	Yes
Maximum rent level?	No	Yes, depending on the region
Yearly tax deduction as % of the investment cost	10% in the first 4 years, 2% per year in the next 20 years	8% in the first 5 years, 2.5% in the next 4 years, 2.5% in two periods of 3 years (optional)
Fixed yearly tax deduction (as % of the rental income)	6%, after 2006 0%	6%, after 2006 0%
Term of the arrangement (during this period the dwelling has to be let)	9 years	9, 12 or 15 years
Maximum negative rental income that is allowed (in €)	-15,300	-10,700
Geographical coverage	All regions	All regions

Source: République Française, 2008

Table 4: The Robien and Lienemann tax incentives

	Robien	Lienemann
Period	01/01/2003 till 01/09/2006	01/01/2002 till 31/12/2004
Objective	Enhancing supply of new rental dwellings	Enhancing supply of private rental dwellings with a social rent
Income limits?	No	Yes, rather strict
Maximum rent level?	Yes, but at a relatively high level and depending on the region	Yes, depending on the region and rather strict
Yearly tax deduction as % of the investment cost	8% in the first 5 years, 2.5% in the next four years, 2.5% in 2 periods of 3 years	No
Fixed reduction (as % of the rental income)	6%, after 2006 0%	46%
Term of the arrangement	9, 12 or 15 years	3 years, with possibility of extension
Maximum negative rental income that is allowed (in €)	-10,700	-10,700
Geographical coverage	All regions	All regions

Source: République Française, 2008

Table 5: The Robien recentré and Borloo neuf tax incentives

	Robien recentré	Borloo-neuf
Period	01/09/2006 till 31/12/2009	01/01/2006 till 31/12/2009
Objective	Enhancing supply of new rental dwellings	Stimulate supply in the intermediate rental sector
Income limits?	No	Income limits of the PLI
Maximum rent level?	Yes, but a relatively high level and depending on the region	Yes, depending on the region
Yearly tax deduction as % of the investment cost	6% of the investment can be deducted in the first 7 years, 4% in the years 8 and 9	6% of the investment can be deducted in the first 7 years, 4% in the years 8 and 9, after that 2.5% for two periods of three years (optional)
Fixed reduction (as % of the rental income)	0% (26% in particular rural areas)	30%
Term of the arrangement	9 years	9 years with the possibility of an extension of 2 times 3 years
Maximum negative rental income that is allowed (in €)	-10,700	-10,700
Geographical coverage	All regions	All regions

Source: République Française, 2008

Table 6: Main characteristics of the Scellier tax incentives

	Scellier	Scellier intermédiaire
Period	01/01/2009 till 31/12/2012	01/01/2009 till 31/12/2012
Objective	Stimulate supply in the private rental sector	Stimulate the supply of private rental dwellings for middle income groups
Income limits for tenants?	No	Yes (same limits as in <i>Borloo Neuf</i>)
Maximum rent levels?	Yes, but at a high level and depending on the region	Yes, depending on the region
Yearly tax deduction as % of the investment cost	If the dwelling is bought in 2009 or 2010, a total of 25% of the investment costs may be deducted from the income tax over a period of 9 years (with a maximum deductible amount of €60,000). This corresponds to a yearly tax deduction of 2.78% of the value of the investment. This money can be deducted from the income tax that is paid. If the dwelling is bought in 2011, 13% (or 22% in case of an energy-efficient dwelling) of the investment costs may be deducted from the income tax that is paid over a period of 9 years. If the dwelling is bought in 2012, 13% of the investment costs may be deducted from the income tax that is paid over a period of 9 years, but only if the dwelling is sufficiently energy-efficient. If this is not the case, there is a 6% tax reduction, but only if the building permit was issued before 1 January 2012.	See dispositive Scellier for the years 1 to 9. In the years 10 to 16, 1.33% of the investment cost may each year be deducted from the income tax that is paid (in two 3-year periods). This implies a total of extra tax reduction of 8%.
Fixed yearly tax deduction (as % of the rental income)	0%	30%
Term of the arrangement (during this period the dwelling has to be let)	9 years	9, 12 or 15 years
Maximum negative rental income that is allowed (in €)	-10,700	-10,700
Geographical coverage	Only available in relatively urbanised areas	Only available in relatively urbanised areas

Source: Ministère de l'égalité des territoires et du logement, 2012, pp66-70

Table 7: Main characteristics of the Borloo ancien tax incentives

	Borloo ancien	Borloo ancien social
Period	01/10/2006 till present	01/10/2006 till present
Objective	Make a larger part of the existing dwelling stock available for renting	
Income limits for tenant?	Yes, depending on household type	Yes, depending on household type
Maximum rent level?	Yes, depending on the region	Yes, depending on the region and lower than in the normal <i>Borloo ancien</i> regime.
Yearly tax deduction as % of the investment cost	Not applicable	Not applicable
Fixed tax deduction (as % of the rental income)	30%	60%
Term of the arrangement (during this period the dwelling has to be let)	6 years (without subsidised renovation) or 9 years (with subsidised renovation)	6 years (without subsidised renovation) or 9 years (with subsidised renovation)
Maximum negative rental income that is allowed (in €)	-10,700	-10,700
Geographical coverage	All regions	All regions

Source: Ministère de l'égalité des territoires et du logement, 2012, pp70-71

Table 8: Main characteristics of the Duflot tax incentive

	Duflot
Period	01/01/2013 till 31/12/2016
Objectives	Enhancing the supply of private rental housing in the intermediate stricter
Income limits for tenant?	Yes, somewhat more strict than in the <i>Scellier intermédiaire</i> tax incentive
Maximum rent level?	Yes, at around 80% of the market rent
Yearly tax deduction as % of the investment cost	2% in the first 9 years: this money may be deducted from the total income tax that is paid.
Fixed tax deduction (as % of the rental income)	No
Term of the arrangement (during this period the dwelling has to be let)	9 years
Maximum negative rental income that is allowed (in €)	-10,700
Geographical coverage	Only in particular areas, zoning more strict than in <i>Scellier</i> tax incentive

Source: <http://www.loi-duflot-conseil.fr/zones-loi-duflot.htm>, <http://loi-duflot.scellier.org>

Box 1: A fictitious example of the functioning of the tax incentives

	No incentive normal foncier regime	no incentive, micro- foncier regime	Robien recentré, normal foncier regime	Duflot
Rental investment	150,000	150,000	150,000	150,000
Rent	5,400	5,400	5,400	5,400
Repreciation Robien	-	-	-9,000	-
Maintenance, charges, insurances, taxes, management etc	- 2,000		-2,000	-2,000
Fixed percentage of rental income	0	- 1,620	0	0
Rental income	3,400	3,780	-5,600	3,400
Tax advantage	0	- 114	2,760	3,000

Default situation

The rental investment is €150,000. The monthly rent is €450 which implies a yearly rental yield of $12 * 450 = €5,400$. The deductible other costs are €2000 per year. This means that the rental income = $5,400 - 2,000 = 3,400$ per year. This is the default situation for our calculations in which the tax advantage is set at €0. We calculate with a marginal tax rate of 30%.

Three variants

1. If the dwelling is in the micro-foncier regime, there is an extra tax reduction of 30% of the rental income: $0.3 * 5,400 = 1,620$. However, the deductible of €2,000 do not imply in this situation. This implies that the tax advantage compared to the default situation = $0.3 * (1,620 - 2,000) = - €114$.
2. If the dwelling is built under the Robien recentré tax incentive, there would be an extra tax deduction of 6% of the investment cost: $0.06 * 150,000 = 9,000$. This would set the total rental income at - €5,600. Compared with the default situation the income for income taxes would therefore be €9,000 lower. This implies a tax benefit of $0.3 * 9,000 = €2,700$ per year.
3. If the Dwelling is built under the Duflot regime, the rental income would be the same as in the default situation but there would be a tax reduction of 2% of the investment cost: $0.02 * €150,000$ is €3,000.

5. The tax incentives further specified

Vergriete (2011) has indicated that the tax incentives have substantially changed the French mode of housing production. They fit within a trend in which the central state withdraws from the local control of housing production. After all, even though the tax incentives are provided by the state, the market parties and local authorities decide about the dwellings that are built with the help of these incentives. Different from the social rental dwellings, these dwellings are not part of a broader state led programme or policy. According to Vergriete (2011, p2),

...the interventionist State gave way to a neoliberal state, acting primarily at the national level and seeking objective of macroeconomic growth in the real estate market (to limit the consequences of crises, to increase employment in the building sector).

The rise of the tax incentives also fits within the trend of 'financialisation' of housing, in which a dwelling is increasingly seen as an investment opportunity rather than as a roof over the head. This Section provides some more detailed information about the French tax incentives. It deals with aspects such as the characteristics of the suppliers, the characteristics of the dwellings (including their location), the characteristics of the landlords and the characteristics of the tenants.

Characteristics of the suppliers

The creation of the tax incentives has led to the emergence of specific types of developers that are specialised in rental investments that give tax advantages to individual rental landlords. These developers do not sell houses but rather financial packages that not only include the production of housing (construction, monitoring, legal procedures) but also its management (seeking a tenant, maintenance, administration). Furthermore, they may offer various types of insurances and guarantees that reduce the risks for landlords, such as a guarantee on the rental income or an insurance against non-paying tenants.

As a result of these arrangements, the owner can invest in rental property without even having to visit the dwelling (Vergriete, 2011). Indeed, many investors live far away from their investment and don't know the local housing market context, which means that they have to rely completely on the information that is provided by the developers or intermediary agents (Bosvieux, 2008, p4).

The private rental dwellings are sold through websites and network organisations that include banks, real estate agents and notaries. It is interesting to note that the developers specialised in tax reduction are not recognised by the national Federation of developers. This seems to be due to the fact that they are 'developing fiscal products rather than housing units' (Vergriete, 2011). Moreover, many of these developers appear to have a rather negative image.

Characteristics of the dwellings

The developers that produce dwellings for private rental investment have often developed a rather industrialised mode of construction. After all, since the dwelling will be occupied by unknown tenants rather than by the homeowner himself, custom-made adaptations to the dwelling are usually not necessary (Vergriete, 2011). According to Bosvieux (2005), the technical and architectural quality of the housing thus developed is relatively low. Most of the dwellings are relatively small and have one to three rooms. The large majority of them (> 80%) are apartments or studios (Bosvieux, 2008, p4), although especially in smaller cities single-family dwellings may also be built. The purpose of this is to keep the selling prices at an acceptable level. Most landlords do not want to invest more than about 150,000 Euros, also because this is the price at which fiscal benefits were optimised in the earlier tax incentives (Bosvieux, 2008, p5)⁵. The average size of the dwellings that are built with the help of the tax incentives is about 60 square metres (République Française, 2012, p16).

It should be noted, however, that not all developers, and all private rental dwellings, conform to the characteristics outlined above. Some of the dwellings for rental investment are also developed by non-specialised local developers, and bought by local residents who well know the rental market (Bosvieux, 2008, p4). The Figures 2 to 5 provide some examples of dwellings that are advertised through the website of Akerys: a developer that is specialised in developing rental investment dwellings.

The investments in new private rental dwellings tend to concentrate in the small and medium-sized towns. According to Vergriete (2011), this is due to the fact that land prices here are lower, and local authorities are more eager to receive developers of private rental dwellings than local authorities in the bigger cities. However, this also implies that the new private rental dwellings are not always built in the regions with most demand. In the media, there have been reports of overproduction of private rental dwellings in particular towns, resulting in lower rent, vacant dwellings and landlords that feel cheated by the developers.

Nevertheless, in general there is sufficient demand for the newly built rental dwellings. Most house seekers prefer them above existing rental dwellings, since they tend to have a better quality and more facilities. Moreover, because of the tax incentives, the rents of newly built private rental dwellings may sometimes be below the market level (Bosvieux, 2008, p5).

Even though the technical and architectural quality of the dwellings that are produced with the tax incentives is not spectacular, the creation of these incentives has led to a general improvement of the rental stock in France. After all, the quality of the newly built rental dwellings is still significantly higher than the quality of the existing rental stock. Moreover, the increased offer of new rental dwellings of a relatively good quality may stimulate private rental landlords in the existing housing stock to invest in the quality of their dwellings as well (Bosvieux, 2008, p13).

⁵ Because they are calculated in a different way, this restriction does not directly apply to the Scellier and Duflot tax incentives although also here the fiscal advantage is bound to a maximum.

Characteristics of the landlords

The majority of individual private rental landlords buys new rental dwellings from an investment perspective: more profits than on a savings account, a supplement to their pension, a heritage or future house for the children, etc. Nevertheless, for most landlords taking profit of fiscal advantages was by far the most important and immediate reason for their investment (Bosvieux, 2005, p6).

In the evaluations of the tax incentives that were carried out by the French government in 2008 and 2012, some attention is paid to the characteristics of the investors. In general, these investors have a relatively high income. In 2009, the average taxable income for this group was €68,354, against €16,683 for the average taxpayer (République Française, 2012, p20). Furthermore, the age of the investors is well above the average and there are relatively many single-persons and couples among this group (République Française, 2008).

Fig. 2: A rental investment property in the Paris region



Price: €169,000
Rooms: 2
Living space: 37 square metres

Fig. 3: A rental investment property in the Landes region



Price: €269,000
Number of rooms: 3
Living space: 63 square metres

Fig. 4: A property for rent in Toulouse



Rent: €483
Living space: 49 square metres
Rooms: 2

Fig. 5: A property for rent in Bordeaux



Rent: €896
Rooms: 4
Living space: 90 square metres

Characteristics of the tenants

In the 2008 evaluation report of the French government (République Française, 2008, pp44-48) it was revealed that households who rent dwellings that were recently constructed for investment reasons have the following characteristics:

- They are relatively small (on average 1.9 persons per household)
- They are relatively young (average age is 28; 60% is younger than 38)
- They have an average income that is relatively close to that of the average tax-payer
- They are very mobile and on average live only 3.5 years in their dwelling

6. An evaluation of the tax incentives

The French tax incentives had two main objectives:

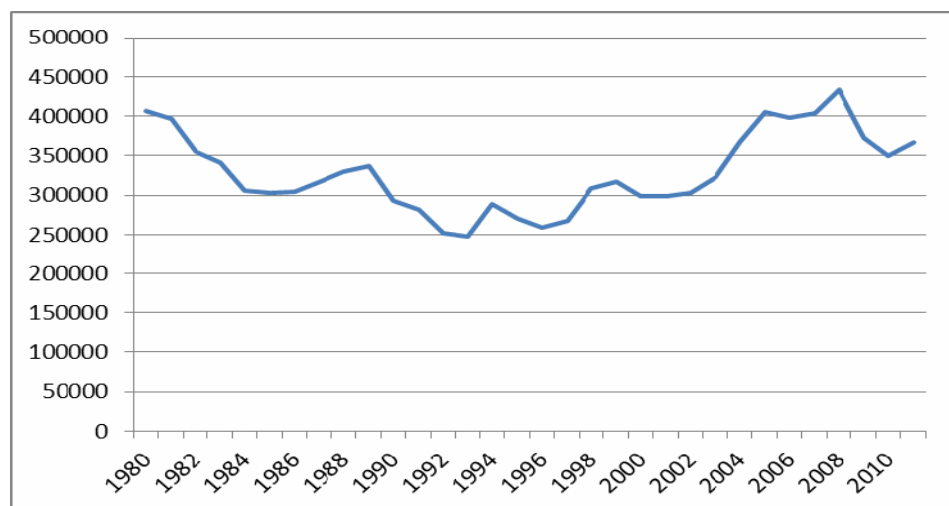
1. Increasing the production of newly built rental dwellings; and
2. Increasing the availability of affordable rental housing (intermediary rental sector).

This Section assesses to what extent the French government has succeeded in meeting these objectives. In relation to this, attention is also paid to the costs of the tax incentives.

Impact on the housing production

Figure 6 shows the evolution of the housing production in France in the period 1980-2011. In most years, the housing production was between 300,000 and 400,000 newly built dwellings, although in the years before the start of the Global Financial Crisis (2008), it increased to over 400,000 dwellings. After 2008, the housing production has decreased, although not as dramatically as in many other Western European countries.

Fig. 6: Housing Starts in France between 1980 and 2011



Source: French Ministry of Housing

In France, there are three main providers of newly built housing: social rental landlords, commercial developers and households (self-provided housing). Table 9 gives insight into the housing production by French developers. As far as this is concerned, a distinction is made between dwellings that are developed for owner-occupiers and dwellings that are developed for rental investment. When interpreting Table 9, it should be noted that not all rental investment dwellings are built by developers. About 10,000 of such dwellings are built each year by, or directly commissioned by, individual households (Bosvieux, 2011, p165).

Table 9 shows that the number of dwellings built by developers and sold for rental investment clearly increased after 2004, particularly as a result of Robien tax incentive. The number briefly dropped in 2008, the year of the Credit Crunch, but it was again high in 2009 and 2010 as a result of the Scellier tax incentive. In general, there seems to be a rather

strong correlation between the attractiveness of a particular tax incentive and the rate of housing production in which it results (Bosvieux, 2011, p169).

There is no doubt that the majority of the dwellings that are built for rental investment are financed with the help of the tax incentives. Table 10 gives insight into the number of dwellings that are financed with the most important of these incentives. The numbers presented are merely estimates because different sources give slightly different results. In any case, the table makes clear that the tax incentives have already financed more than 600,000 dwellings. The question remains how many of these dwellings would have been built without the tax incentives, and to what extent the tax incentives have substituted the production of owner-occupancy dwellings. Currently, *L'Ecole d'économie de Paris* is carrying out research that intends to answer this question.

Table 9: Yearly housing production by French developers 1995-2010

Year	1995-1999 (yearly average)	2000-2004 (yearly average)	2005	2006	2007	2008	2009	2010
Dwellings for owner-occupiers	39,700	50,200	52,800	59,600	64,800	44,400	38,000	43,000
Dwellings for rental investment	42,500	41,000	68,700	66,700	62,500	35,000	68,000	74,000
Total	82,200	91,200	121,500	126,300	127,300	79,400	106,000	117,000
% rental investment dwellings	52	45	57	53	49	44	64	63

Source: *Fédération nationale des promoteurs-constructeurs*

Table 10: Number of dwellings that is financed with some of the most important tax incentives

Tax incentive	Périssol	Besson neuf	Robien	Borloo neuf or populaire	Scellier
Number of dwellings financed	150,000	80,000	356,000		unknown

Source: *République Française, 2012, 2013*

Costs of the tax incentives

In 2010, the French government spent 930 million Euros on the tax incentives (République Française, 2012, p4):

- *Dispositif Robien*: 400 million Euro
- *Dispositif Scellier*: 320 million Euro
- *Dispositif Borloo*: 120 million Euro
- *Dispositif Périssol*: 50 million Euro
- *Dispositif Besson*: 40 million Euro

In the future, these costs will further increase because the tax incentives run for a long time as a result of which the number of people that uses them keeps on growing each year. For 2013, the French government expects to spend more than 900 million Euros on the *dispositif Scellier* alone (République Française, 2013, p17).

Although it is clear that the fiscal incentives have resulted in an increased production of rental dwellings, the question remains whether this is realised in the most efficient way. The French government (République Française, 2013) states that it in 2009 and 2010, it costs €34,000 to construct a Scellier dwelling and €46,000 to construct a Scellier intermédiaire dwelling. As far as this is concerned, one should keep in mind that the Scellier tax incentive, which was designed as a crisis measure, was considerably more generous than the previous tax incentives. For example, the construction of a Robien dwelling ‘only’ costs on average €16,000 of state money. Nevertheless, even a Scellier dwelling was still less expensive than a social rental (PLUS) dwelling, which would involve €52,000 state subsidies (République Française, 2013, p19). With regard to the latter calculations, it should be realised as well that the extra construction in which the tax incentives or subsidies for social housing result, also lead to extra income for the government, for example through the value added tax and other taxes (Bouteille, 2010).

Impact on the rent levels

In theory, the increased supply of private rental dwellings as a result of the tax incentives is supposed to have a dampening influence on the rent levels on the private rental market. However, detailed analyses of the local housing market effects of the tax incentives are scarcely available, also as a result of the lack of good statistical data on a low geographical scale. However in 2008 ANIL (*Agence Nationale pour l’information sur le logement*) conducted a more qualitative study into this issue. This study was based on interviews with relevant stakeholders such as real estate agents, developers and representatives of financial institutions (Bosvieux, 2008).

The study of ANIL revealed that in very tight housing markets, for example, in the biggest agglomerations, the housing market effects of the tax incentives are relatively small. Here, the production of new private rental dwellings that are financed with the tax incentives is limited because the investment involved is too high for most individual investors. This applies for example to cities such as Paris and Nice and, to a somewhat lesser extent, Bordeaux and Nantes.

In some medium-sized cities such as Montpellier, Nimes and Angers, but also in the big city of Marseille, the housing market effects of the tax incentives are more profound. Here, it is especially the market of smaller apartments that has become more relaxed.

Finally, there are some smaller cities in which the tax incentives have really disrupted the housing market. Here, there has been a true oversupply of rental dwellings, resulting in decreasing rental prices and an increasing vacancy rate, especially among smaller apartments (Bosvieux, 2008, p6). Albi and Montauban in the South of France are good examples of such cities. In these cities, especially dwellings in the existing rental stock, for

example built between 1960 and 1980, suffer from the tax incentives. These dwellings are relatively often vacant and the rental prices are going down. In some cities, for example Valence, rental prices have dropped by about 15%. However in 2008, situations like these were still exceptions and most new private rental dwellings could be let relatively easy (Bosvieux, 2008, p9).

Although some of the tax incentives have maximum rent levels, the influence of these levels has been limited in most cases. This is due to the fact that, perhaps with the exception of Paris, the maximum allowed rents are generally above the market rents (Bosvieux, 2011, p166; République Française, 2012, p17). Notable exceptions to this are the Besson tax incentive, the Lienemann tax incentive and possibly also the recently introduced Duflot tax incentive (Table 8), which allows for more tailor-made maximum allowed rent levels. In general, one could say that the take-up of incentives with serious restrictions was considerably less than the take-up of incentives without or with few restrictions, even though the first incentives are generally much more generous (Personal communication Jean-Pierre Schaefer). It has proven very difficult to grasp the complexities of a local housing market (with its differences between neighbourhoods and dwelling types) in adequate national regulation regarding maximum allowed rents.

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