

Financialisation, inequalities and property markets in France

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At least 800,000 people are in need of housing in France

1 million people are temporarily housed by family or friends, of whom 250,000 are in very precarious situations

100,000 households are living in caravans

Some people are living in cellars, in roof spaces or in tents

100,000 are evicted each year

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Real estate markets are just as unstable as financial markets and are subject to cycles which can significantly damage an asset's value. Such a statement runs counter to the general view that property is a safe investment. This idea, which is deeply rooted in people's minds, may be explained by the fact that house prices in France have enjoyed considerable stability since the end of the 1950s. It is a myth that housing markets never collapse, but this belief can be traced to the rural tradition which characterized France up until the middle of the 20th century, which made the family home an asset that was passed down as part of an inheritance, often in solemn circumstances. The current housing market crisis shows that these markets, like all asset markets, are subject to fluctuations linked to profound behavioural changes in French society. A large number of wealthy households have made money by profiting from the speculative housing bubble and tax exemption policies. Less well-off households have been able to buy property, in a climate of housing shortages and leniency from the banks, but at a very high price. This wealth, acquired through debt, is at the centre of the housing bubble. The belief that speculative financial gain which comes from owning property is extremely widespread in France (as it is in many other countries), and this is because all of the main players of the property market support two apparently contradictory notions: the safety of investing in property and the leverage effect of debt. The following groups have contributed to the housing bubble: Banks, who profited from the drop in interest rates in financial markets and yielded to easy credit, property developers, who built housing programmes by taking out bank loans, the government, who introduced tax exemption policies banking on the extra money generated by the construction boom, property market specialists (notaries, estate agents, surveyors) who receive fees when prices rise, wealthy households, who acquired their wealth by benefitting from tax exemption policies and others who got into debt by

overestimating the resale value of their properties. However, as Akerlof and Schiller (2009 p153) point out, “So there is no rational reason to expect real estate to be a generally good investment. It is so only at certain times and in certain places. People seem always to have a predilection to assume that since land is scarce, real estate prices should grow over time. But this predilection is not always a cause for attention and action. The magnification of this predilection is the story of the boom.” And yet history has shown us that French house prices have experienced long periods of depression (I). How then can we explain this phenomenon of a speculative bubble, which breaks away from the historical trend of stability (II)? In what way is this bubble reinforced by the belief in property markets, which are markets of unclear classification/nomenclature (III)?

I. The history of house prices in France

The idea that property is a safe investment is a deeply-rooted belief in French society. However, the analysis of property prices since the 19th century shows that these markets have experienced not only significant periods of depression, but also more recently and less often, periods of speculative fever.

A. House prices over a long period

The observation of house prices over a long period allows the analysis of recent trends in the French property markets. If we refer to the home price index relative to disposable income per French household (graph 1), it can be observed that the index has not been at such a high level since the Second Empire (1854-1870). These indices, established by J.Friggit (2004)¹, show that the changes in prices relative to disposable income are historically unusual for the recent period, if we consider the history of French property trends. Only the period which followed the Second Empire presents similar characteristics. That period, however, does

¹ « Le prix des logements en 2004 : quelques anomalies historiques », Urbanissimo, n°78, Octobre 2004

present some points in common with the present era, since financial historians called it “the savings revolution” (Bonin 1992)². It was characterised by the incredibly rapid development of deposit banks in France, which encouraged people to invest their savings from the second industrial revolution in stock certificates and government bonds (we talk of the democratisation of income) and in the famous Russian government bonds. This movement affected property to a lesser degree, since it remained rare and expensive and home ownership was limited to both the urban and rural elite. In the face of a need for housing resulting from economic growth, rent prices increased rapidly, ending in the freezing of rents by the government in 1914, which marked the start of a long depression in French property prices. Inflation, the wars (demographic collapse), and the freezing of rent prices would lead to a significant depreciation of housing which would last until the end of the 1950s³. This movement was accompanied by a sharp drop in the number of house sales. The period 1950-1965 was marked by the baby boom and the large-scale construction of new housing estates and also by an increase in property prices linked to the high demand for housing. 1965 saw the real effect of the end of the wars on the housing market. The period which followed until the year 2000 was a time of relative price stability. “From 1965 to 2000, house prices regained a certain stability, increasing in line with household income, and never varying by more than 10% from this long term trend (with the exception of the 1987-1995 crisis in a few geographic zones, which included the Paris area)” (Friggit 2004). This period of price stability, along with the inheritance nature of property, goes a long way in explaining the belief that property is a safe investment. The first speculative crisis linked to housing was the 1991 crisis, which was limited to the Paris area (and to coastal areas in the south of France), and which resembles the current crisis in some ways. Firstly, the government relaxed the laws in 1985 concerning the construction of office buildings (under pressure from a lobby of

² La banque et les banquiers en France : du moyen âge à nos jours, Flammarion, Paris, 1992

³ The 1948 law sought to protect landlords by limiting the decline in rent prices.

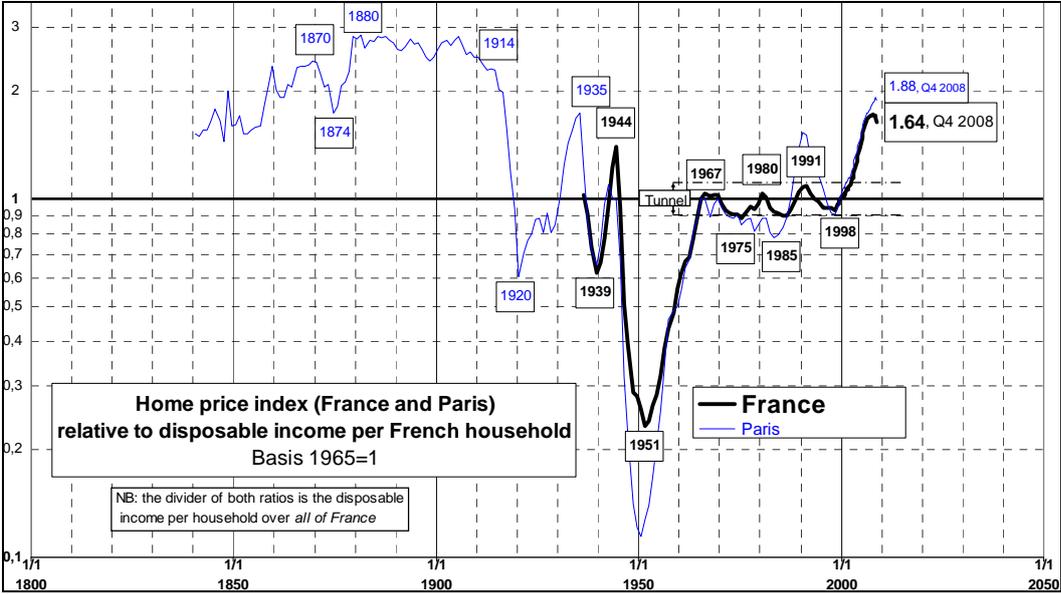
Parisian developers). This was followed by key investors linked to the major financial centres of French capitalism of the time such as Paribas or Indosuez (Dupuy Morin 1993)⁴, who supported the property developers thanks to an abundance of liquid assets. Significant property speculation followed (confined to Paris and the Côte d'Azur) which doubled the real value of property in six years. "In this period of growth, rising prices were in most participants' interests (with the exception of buyers in the primary market). Land and property developers, and building promoters benefitted of course, as did market intermediaries (notaries and estate agents) and bankers (in the short term at least), but also local authorities, who saw tax revenues increase through property taxes (around 20 billion francs in 1991). Furthermore, as the owners of land, the French government and its major public companies (SNCF (the French national railway company), health and social security services, the French electricity board EDF...) were able to ride the wave of speculation, by selling off this land, more as a means of enhancing limited budgets than as a long term housing policy" (Renard 2002)⁵.

The turnaround of the market would be brutal and would result in a surplus of new housing. This crisis did not call into question the long term trend of price stability, due to its localised nature (essentially the Paris area), and on account of the interconnection between office markets and residential property. This crisis affecting new buildings foretold the current crisis in many respects: developers lacked the necessary capital, debt levels were high and there was a surplus of new housing. After a renewed stabilisation of the market beginning in 1998, an rapid evolution of prices would break away from the historical trend of house prices in France. The housing bubble had been set in motion, whose size and range would be unprecedented, in that it would affect every kind of asset, no matter the type or location.

⁴ Le cœur financier européen, Economica, Paris 1993

⁵ « Les dynamiques des villes du XXI^{ème} siècle :dérives des marchés immobiliers et fragmentations urbaines » Communication à l'Académie des Sciences Morales et Politiques (2002)

Graph 1. Home price index relative to disposable income per household (*)



Source :Jacques Friggit, CGEDD after INSEE, notaries’ databases, deseasonalized Notaries-INSEE indices, Duon, Toutain, Villa (CEPII).

B. The unusual nature of the current crisis in France

The current crisis is historically unique and calls into question a certain number of ideas about the evolution of property markets in France.

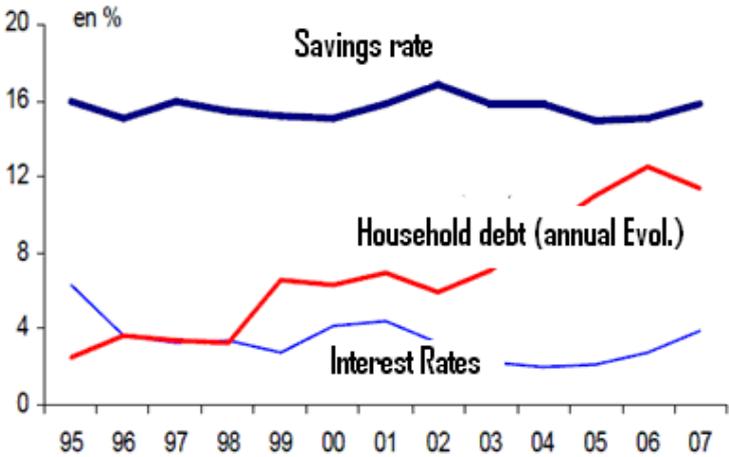
The role of interest rates

Low interest rates are generally the reason given to explain growth in the Real-estate market. The following graph shows that during the period in question, the rate varies little and does not greatly affect household income. A drop in interest rates of one point increases the amount of capital one can borrow by only 8% and property purchasing power by 4% (historically, loans financed on average only half of the cost of buying a house, the sale of a previous property a quarter and a further quarter came from personal capital) (Friggit 2004 op

cit). However, the impact of these rates, as we shall see, is considerable for first-time buyers without a deposit. Therefore, the Central European Bank’s interest rates policy cannot be held responsible for this crisis, when we are witnessing a rise in property prices and above all a drop in gross disposable income per household while savings rates remain stable. The increase in household debt levels can be explained in part by the banks' more lenient approach to granting mortgages in a climate of sub prime loans and a drop in long term interest rates (F. Morin 2006)⁶.

Graph. 2

Savings rate, Household debt, Interest rates in France (1995-2007)



Sources : Insee, Banque de France

Paris and the Provinces

The historical evolution of prices has shown the distinctly different patterns between Paris and the provinces since the 19th century. After the industrial revolution, Parisian property prices

⁶ Le nouveau pouvoir de l’argent, Seuil, Paris, 2006.

were lower than those in the provinces, which could be explained by the working class character of the French capital as opposed to the provincial markets associated with the local bourgeoisie. The first time this pattern changed was in 1991 when property inflation in Paris pushed house prices there higher than those in the provinces. The changes since 2000 have shown that the pattern between Paris and the provinces is now correlated in upward cycles, leading to a homogenization of the property market, which will be explained in more detail later. These developments tend to show that a powerful movement of integration of the property markets, during a period of high prices, has taken place.

J. Friggit analyses the rapid increase in apartment prices, which are rising faster than those of houses. This movement differs radically from the previous period when it was the prices of individual houses that increased the market price. This development can be explained by the widening of income inequalities, the fall in value of stock market shares during the dot com crash, the tendency to invest in apartments rather than individual houses, legislation limiting property tax and policies of tax exemption.

II. The first major crisis linked to the financialisation of property-buying behaviour of wealthy households associated with a drop in income for young first-time buyers.

Most economic analyses of housing markets are based on the issue of speculation which draws people into the spiral of increasing prices. In this way, people have an illusion of wealth during a property boom which makes them "erase" the differences between assets, and to speculate. This analysis, which can be borne out in certain segments of the property market, tends to underestimate the complexity of these markets, which depend on the growth of structures of household incomes, interest rates and consumer prices, the trade-off between renting and buying, the supply structures of this market and government policies. Another way of examining the housing bubble is to centre the analysis on two choices facing

households. The first is the choice faced by wealthy households of whether to invest in financial markets, or in property. When stock markets are buoyant, it can be preferable to invest in financial markets. However, following a stock market crash, investing in property becomes more attractive. In a climate of growing financial assets, this choice can be unfavorable towards investing in property. However, following a stock market crash, it can be preferable to do so. The second choice is that facing less well-off households (first-time buyers), who have to choose between renting and buying. Here too, the choice depends on the price of rent and the prices of houses on the market.

A. Wealthy households and the trade off between property and land

In France, the works of Piketty (2001)⁷ have brought to light the historical trend of high incomes throughout the century. Extending these studies and following the same methods, Camille Landais (2007)⁸ used tax return details to reconstruct the distribution of incomes per household among the top 10% of earners. These studies, as will be explained, showed rapid, significant growth in inequalities in earnings between households based on a considerable increase in the income of the highest earners since 1998, while both the average and the median incomes grew very modestly. This trend is essentially concentrated in the wealthiest households, who saw their share of total income rise considerably between 1998 and 2005. Camille Landais also shows that this trend accompanies an increase in inequalities, since the average declared income saw modest growth (5.9% between 1998 and 2005) that the author explains by a distribution of income favorable to people who possess capital. This distribution is linked to the very rapid growth of high incomes compared with overall income. Based on income distribution within the least wealthy 90% of households “a very slight

⁷ Les Hauts revenus en France au 20e siècle : inégalités et redistribution, 1901-1998, Paris : B. Grasset, 2001

⁸ Les hauts revenus en France(1998-2006) :Une explosion des inégalités ? Miméo Paris
<http://www.jourdan.ens.fr/~clandais/documents/htrev.pdf>

growth in declared income on average can be observed. The increase in income of these households in real terms is less than 5% since 1998. This represents an average annual increase of just 0.6%. Compared to this trend which concerns 90% of households, the extremely high growth in average incomes among the 10% of highest earners, which is even greater among the highest 1% of earners, appears even more spectacular. Within the wealthiest 5% of households, declared incomes have risen by 11.3% since 1998; within the wealthiest 1% of households, they have risen by 19%; within the wealthiest 0.1% by 32% and within the top 0.01% by almost 43%.” (Camille Landais 2007)⁹. This widening inequality is particularly evident when compared with the growth in incomes among the lowest earners in France (90% of the population), which has only risen by 4.6% over the same period and is growing at a slower pace than the total income for France. This trend is partly due to the increase in income from capital (properties and financial markets) for the wealthiest households. This revenue represents 9% of the household income for the top 10% of earners compared with 3% for all households. The rise in income of wealthy households is explained by this increase in income from financial investments (+31%) as well as the increase of income from property (16.2%). Wealthy households generally have a diversified portfolio of assets, which they manage as if all the components were equivalent. Wealthy households grow up with the understanding of how to manage these portfolios. This culture of finance has been particularly developed for society as a whole since the 1980s.) This process of “commensuration” subjects the capital to measures requiring the establishment of communally agreed conventions of evaluations (Espeland and Stevens 1998)¹⁰. The simplest measures are those of financial market indicators (like the FTSE) facilitate a comparison. Wealthy households compare the income from rent with the minimum income which they are

⁹ It is worth noting here that all the studies show a different development between the period 1998-2002 which was a period of household income growth, and the period which followed it, which saw income levels stagnate.

¹⁰ « Commensuration as a Social Process », *Annual Review of Sociology*, 24, p.313-343.)

likely to receive without risk on the financial markets. Two elements make income from financial investments as well as that from property comparable: income (rent and dividends) and capital gains. Unfortunately, we do not have statistics on the impact of the increase in property capital gains on wealthy household incomes but we can assume that certain individuals (the least risk-averse) have opted for capital gains strategies, while others (risk averse) have chosen less risky assets (letting properties and life insurance policies). The works of Camille Landais show that the total capital gains in income fell during the dot com crisis (2000-2002) and only regained its 1998 level in 2006. This observation puts into perspective the common idea of a property boom brought about by the speculative behaviour among the wealthy, who are entirely concentrated on capital gains. However, absent from these trends are both the capital gains on a household's principal place of residence and any gains on the sale of older assets that are exempt from tax. It is therefore difficult to conclude on this subject. On the other hand, in the climate of a rise in the value of assets, (stock market and property), land-based revenue (rent) is the least profitable. Gilles Moec (2006)¹¹ shows that the return from letting is negative for every country except France where it is only 0.2%. Furthermore, the work of Camille Landais which is based on pre-taxed incomes does not allow us to measure the impact of taxation policies on wealthy households, whose incomes from property have increased as a whole since 2000. Moreover, the drop in share holdings and the growth in investments in both life insurance policies and buy-to-let properties seem to indicate a partial reorientation of household wealth amongst the richest towards less risky assets since the dot com crash.

This reorientation appears to have been more marked among those in management and professionals in their 50s preparing for their future retirement¹². This trend explains the

¹¹ La soutenabilité des prix de l'immobilier aux États-Unis et en Europe, Bulletin de la Banque de France • N° 148 • Avril 2006.

¹² Between 2000 and 2002 there were major debates in France over the future of retirement. These debates brought to light anxieties due to insecurity in the world (dotcom crisis and the 11 september) and would come to a head in the presidential elections of 2002 which eliminated the left-wing candidate (Lionel Jospin) in favour of the candidate for the Far Right (Jean Marie Le Pen).

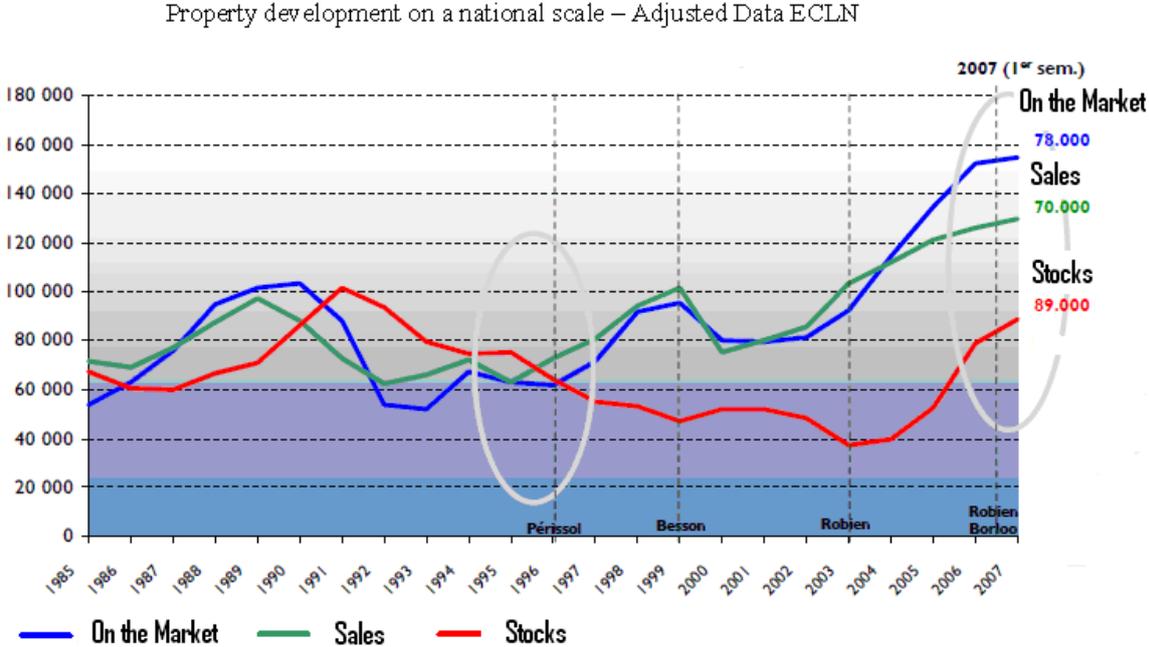
appeal of tax exemption policies for letting (Laws Périssol, Besson, De Robien...) which results from a housing shortage.

During the period of the baby boom, the construction of new housing was stimulated by a strong demand combined with high rates of inflation which limited the impact of debt on income (combined with stable employment). This policy, along with a policy of building council housing, acted as a springboard to property ownership. The end of this Fordist compromise led to the introduction of government policies of financial support for property letting. These policies, introduced in 1977 with the Barre plan, combined individual housing benefits (support for those wanting to rent or buy) with support for property letting (landlords), by means of tax exemption¹³. They aimed to make the construction of buyh-to-let properties attractive again within a context of financialisation of income from property among wealthy households when other types of investment (stocks and shares) were highly profitable and investment yields from letting were low. The appeal of letting was therefore very weak. This was reinforced by new life insurance products offered by financial marketers which present a less risky prospect. The solution of tax exemption policies allowed investors to realise capital gains without risk, by making investments tax deductible. This type of system is in fact a partnership between the private and the public sector, but which is favourable to the private sector. Graph 4 clearly illustrates the correlation between the laws which favour letting and the growth in new apartment buildings during the property boom. It is a market

¹³ The principle of universal support progressively became established, firstly with Personalised Housing Support (APL), which was granted not to a precise category of the population, but rather through government-regulated housing and according to the resources of each household. The extension of financial aid to all people was achieved at the start of the 1990s with the recognition of the right to social housing aid (ALS) for every person who is not covered by any another housing benefit, by the criteria of income, but with no other particular condition attached. See Gabrielle Fack (2005) "Why are low-earning households paying more and more for their rent? Incidences of housing benefit in France 1973-2002" *Economie et Statistique* n°381-382, Octobre 2005)

“on methadone” and the government must constantly up its “dosage” of tax exemption if it wants to avoid a market crash¹⁴.

Graph.3



B. The trade-off between renting and buying

The markets for renting and buying are theoretically linked by contradictory evolutions of price: if the market is stable, rising property prices favour the rental market and inversely, a drop in prices should result in a higher number of houses being bought. This is only partially shown to be true when there is a lack of housing. From the end of the 1990s up until 2007, the number of those buying property has steadily increased and is tied in with the increasing

¹⁴ these systems which help to increase prices during the property bubble, also decrease prices by the same token during a crisis since home owners are less concerned by prices if a proportion of their property is covered by government housing benefit. As the results of such systems take a long time to show themselves, we can expect a long term drop in prices, notably in the provinces and in medium sized cities, where the Robien system is the most widespread. The term “ a market on methadone” is borrowed from Vincent Renard.

price of both buying and renting¹⁵. We have also seen that this development takes place within a climate of modestly increasing household incomes, if we do not take into account the top 10% of earners. A drop in interest rates linked to relaxed loan conditions, as well as a housing shortage made high demand inevitable. The late 1990s saw a renaissance of new buildings in a climate of rigid supply, which led to higher prices.

Rigidity of supply

When a developer buys some land, it takes several years before the owner can collect the keys to his new property. Either the developer sells off plan in which case he has enough capital to undertake the work, but he is subject to the unknown fluctuations in the costs of construction. Or else he can sell after the property has been built, and he has to face the unforeseeable level of demand, which may well leave him with a surplus of unsold houses. The 1991 crisis revealed the difficulties facing a developer who is dealing with a countdown. In times of high demand, developers are encouraged to sell off plan (including by banks who will only agree to a loan if a minimum number of houses has been sold). This leads to a high demand for construction, which then leads to a dramatic increase in construction costs. Indeed, the building sector has a rigid supply of service linked to a shortage in skilled workers (hence many turn to employing immigrants) and due to the cost of raw materials whose price rises as an effect of demand¹⁶. These inflexibilities also explain the difficulty the construction sector has in bouncing back after a crisis, as was shown with the slow recovery following the 1991 crisis.

¹⁵ We will not go into the demographic causes here, which also contributed to the high demand. Single parent families sharing custody of the children increased the need for housing, a drop in sales of large properties due to the falling size of the average family, the ageing population which made certain properties unsuitable, the growing number of students...

¹⁶ if a property boom is localized (as was the case in 1991), prices can be contained. The present crisis is unusual because of its international nature. The demand for products and raw materials linked to construction is a major cause of rising construction costs. The price of a new house in France during the housing boom was therefore linked in part to the Chinese property boom. The rising cost of construction is also one of the reasons for the crisis. At the end of an upward cycle, the price of construction is such that demand for housing drops off, developers sell fewer and fewer houses off plan and are left with a large surplus of unsold properties which can cause them to go bankrupt.

The cost of land¹⁷

The cost of land is also an important element of rising house prices. Land prices depend on many different conditions (scarcity, amenities, distance to city centre, competing uses for the land). Housing supply is limited by planning restrictions. If the planning restrictions are too lenient, we end up with an excess of construction. During the housing bubble, we witness an increase in house prices and an expansion of residential areas at the expense of natural farm land. In most cases, this leads to a major crisis of surplus housing (as in Spain). Inversely, when the conditions of housing production are limited by planning restrictions (as in France) or by political choices (promoting industrial zones), prices can be higher and we can witness increased levels of construction in neighbouring towns as a result of lower land prices. This phenomenon of “leapfrogging” is a factor in the increase of prices and spatial spread of the property boom.

High demand linked to a shortage of housing

In the face of such structural inflexibilities of supply, high demand for property led inevitably to a significant rise in prices for first-time buyers. Starting in 1998, first-time buyers started getting into a spiral of debt. Banks, profiting from derivative markets in order to secure their assets, relaxed their mortgage-lending conditions by lengthening the repayment period, and began lending to increasingly younger first-time buyers, who often benefitted from preferential loan rates set by the government¹⁸. With a debt/income ratio of up to 30%, and thanks to the drop in interest rates as well as an extended repayment period, a household could

¹⁷ Land prices cannot be analysed without making reference to the structure of urban spaces and their increasingly segregated nature which has been the subject of many studies

¹⁸ France developed a substantial policy of housing aid which benefitted a quarter of the population in 2004 and represented 80% of housing policy. These policies benefit tenants in particular (80% of the sum in 2004). We will see that they play a key role in the increase of rent prices through the insurance they give to tax exempt landlords.)

borrow twice as much in 2006 as 1996. At the start of the bubble, property prices allowed wide access to home ownership, furthered by a solvent demand. Subsequently, price increases caused a process of selection which excluded first of all those people on the fringes of society and secondly, modestly earning households, who could not afford to buy a new property. Some of the demand thus withdrew towards older housing of average quality (which only joined the spiraling house prices slightly later, in 2002), or towards new buildings in out of the way locations, supported by attractive land prices (as of 2004).

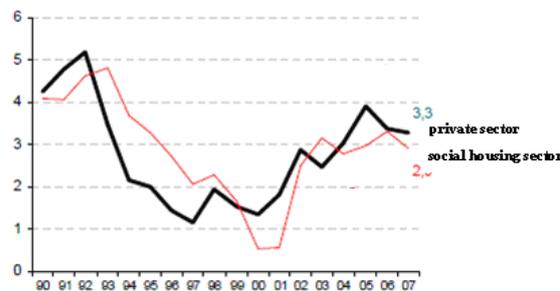
During the property bubble, less wealthy households continued to buy property, despite their debt/income ratio becoming higher and higher due to expenditure on property. This ratio was particularly significant for buyers within the first five years of purchase: 9% in 1973 but which rose to 17.5% in 2006. For buyers who had owned their property for more than 5 years, however, the ratio was 18.6% in 1973 compared with 22.8% in 2006. In particular, first-time buyers, many of them young (30-40 year olds), saw a growing proportion of their income being taken up by housing, while non home owners, many of them older, were in a favorable position since their debt/income ratio was low or non-existent. How then can we explain that in times of a property bubble, the number of potential buyers does not decrease and people do not tend to opt for renting? Several explanations are possible. The first reason is the appeal of owning property, which remains strong in French society in a climate of uncertainty about the future. The second is linked to the resale perspective, in times of a property bubble, when capital gains generate wealth (by overestimating the property's worth). The third explanation is due to the banks' relaxed conditions for mortgage agreements. Furthermore, we could add to these explanations the fact that the choice between renting and buying is less applicable now in France due to the significant increase in rent prices during the

period¹⁹, including in the social sector (graph 4). Thus, fewer and fewer people were able to buy but, rather were constrained by high rent prices. This led to a drop in purchasing power notably for first-time tenants (often young people) who had to bear a very high rent/income ratio of 37.5% (compared to 19.4% in 1973). Government housing benefits also played a part. Beneficiaries of this financial aid saw their rent climb faster than that of other tenants and the increase in government aid was cancelled out by the increase in rent. (G Fack 2005). During the period of the housing bubble, the supply of new housing came in the form of new tax exempt apartment buildings. Landlords, facing rising prices, were able to increase rent prices substantially, certain of their tenants' solvency, thanks to government housing benefits.

The significant increase in house prices (which reduced the number of buyers) and in rent prices (which made renting difficult) both contributed to a change in this trend in 2007. The present housing market crisis in France is linked to its structure and not to the American household debt crisis (the subprime crisis). There are many consequences of this phenomenon: the growing number of adults who flat-share, people living with friends, young people living at home for longer, people living in static caravans or in shelters for low-earning workers. The housing crisis has worsened in France despite the property boom. Further tension has arisen in the rental sector: the low rate of occupancy turnover in council housing despite the increase in prices of this sector (which remain nonetheless well below the private sector), very low earners forced to continue renting, an increase in rental conflicts and evictions due to high rent/income ratios, an increase in missed rent payments and a faster occupancy turnover of property. This crisis caused a wave of evictions which affected the most vulnerable sections of the population (low earners and young people).

¹⁹ These increases are attributed not only to high demand and high rent prices set by developers and landlords of tax exempt residences, but also from the rent value index which is linked to the cost of construction.)

Graph. 5 Evolution of Rent



Source : Compte du Logement provisoire 2007
(1) hors droit de bail (puis CRDB)

prices

III. The mimetic exuberance of property markets

As André Orléan (2004, 2008)²⁰ notes, “society is not created spontaneously from private decisions. Participants must share something. This result has been hidden for a long time by the fact that the list of products and the state of the world were perceived as simple “natural” descriptions of what was already there. Individuals must share beliefs and real or conventional objects to be able to interact. Social beliefs are strongly dependant on specific

²⁰ « Qu'a-t-on appris sur l'objectivité de la relation marchande », Cahiers d'économie politique 44, 2004 ;

"Les croyances et représentations collectives en économie", in Bernard Walliser (éd.), *Économie et Cognition*, Éditions Ophrys et Maison des Sciences de l'Homme, coll. "Cogniprismes", 2008

contexts from which they originated. Also, would we say that they are the product of a “situated” rationality, which is to say a cognitive rationality which leans on manifest elements of the individual’s environment?” (Orléan 2004) Housing markets require definitions which allow us to “mark” products, by making dissimilar objects comparable. As Akerlof and Shiller (2009)²¹ point out, we cannot gain an objective measurement of the quality of a house « If we are making an index of housing prices, we want to take account of the fact that at some times better houses may be sold than at others, so the change in average price of a house reflects the changing composition of the house sold rather than the change in price of a house ». Unlike in finance, where the simplest of measurements are the indices which serve as “focal points” for all market participants, in property markets, the prices are only known with a significant delay and they do not reflect the asset’s value since they are subject to major variations in quality and are bought and sold infrequently²². If we admit that prices made public in France are used only marginally as a base for an individual’s calculations, how then can the emergence of prices in these markets be understood?

A. Markets of unclear classification/nomenclature

The evolution of prices and the choice between buying and renting outlined above mask the true complexity of property markets, which are markets of unclear classification (or nomenclature). Indeed, buying and selling decisions in property markets are preordained according to the requirements of the buyer. In order to understand how this type of market works, along with its geography, we must disregard the oversimplified idea from

²¹ Animal Spirits:How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism, Princetown, 2009.

²² The only solution would be to construct hedonistic indices which pose undeniable problems of subjectivity, see Schiller(1999)

microeconomics that markets are composed of goods which may be exchanged (Orléan 2004 op cit). Equally, we must leave behind the hypothesis of nomenclature (Benetti and Cartelier 1980²³) “The hypothesis of nomenclature bases itself on the theory that a description of a group of items is possible, qualified as goods and services, prior to any suggestion relative to society”, and be satisfied with a hypothesis of unclear classification, and consider that goods exchanged, even if they are similar, are not entirely a substitute for one another since they are subject to buyers’ judgments.

A. The uncertain nature of classification in property

In their study of property prices in Paris, Denis Burckel, François Cusin, Claire Juillard and Arnaud Simon (2008)²⁴ attempt to analytically capture the factors of property attractiveness in local markets. They found that location is more important than the features of the property. The price ratio between two identical flats, situated in two different parts of Paris, varied from 1 to 2.5, depending on whether it was located in the most expensive or the least expensive area. The disparity between Paris and its inner suburbs is 128% (125%) for houses. The properties are similar as far as their features are concerned, but they could not be a substitute for one another.

In addition, the age of the building plays a central role. The architecture from the baby-boom period has fallen in value, whereas flats built after 2000 command higher prices. Similar properties can thus have different prices. Certain features increase prices, but only in a particular zone. The best example is that of a loft conversion apartment, which is 14% more expensive in Paris and 4% more expensive in the suburbs, but can fetch a lower price elsewhere. Another characteristic is the height of the building: in Paris, the higher the building, the higher the price (the maximum price is on the 7th floor) but the inverse is true in

²³ Capitalist and Employment Trade Paris Maspero 1980

²⁴ « Ile de France : la détermination de la valeur des appartements : une approche hédoniste » Etudes Foncières n°136, Décembre 2008

the suburbs. All of these features, and many more, argue in favour of a segmented property market, composed of goods which cannot be substituted for one another and which are limited in availability.

The question of judgment

Several studies from hedonistic viewpoints show that goods exchanged on the housing “market” are too different for the notion of market price not to pose a problem²⁵. Denis Burckel, François Cusin, Claire Juillard and Arnaud Simon (2008) also show that the profile of the buyer plays a role in the setting of the price. People who live in the provinces, for example, overpay by 3% for their housing in Paris. Those in management buy and sell at a higher price (all other things being equal) than non-managerial level employees (6% more per m² when purchasing, 5% when selling in Paris, 9% in the suburbs). The same study noted that age also plays a role in the price. 71-80 year-olds pay 8% more per m² than the 31-40 year-old age group. Nationality also plays a key part in establishing the price: for an identical property²⁶, Brits overpay for their Parisian property, while inversely the Chinese underpay by 10% compared to the French. To sum up, those in management, the 51-60 year olds and the 61-80 year olds, Brits and those living in the provinces overpay for their flats, if all other elements are equal. Price plays only a secondary role in the buying behavior of these groups of people. The appeal really depends on socio-cultural characteristics which bring judgments of value into play. What constitutes a nice flat in a good location in Paris? Each participant will judge from his own point of view. Each property will thus possess its own merit in the

²⁵ In their study on prices in Paris area, D. Rouchard and A. Sauvart (2004) show that the low prices of housing in Seine St Denis were a third of the level of those of a balanced model (see « Prix des logements et coûts de transport : un modèle global d'équilibre en Ile de France », Notes de synthèse du SES , n°154, Juillet-Août 2004). The same observation is confirmed by O. Morlet « Marché du logement et ségrégation spatiale en région Parisienne » (Études foncières n°85).

²⁶ We must not underestimate the impact of foreign demand on house prices, which pushed prices up in very specific areas, such as Paris (15% of transactions at the height of the bubble) or in Dordogne where the arrival of retired Brits increased the price of older houses dramatically.)

eyes of the buyer, who will express a preference for one property in terms of the qualities known only to himself. These may well be completely different from the qualities held by another potential buyer of the same property. In this way, a bohemian, bourgeois Parisian may appreciate the popular and lively character of his street, which an older person looking for peace and quiet, would dislike. Judgment is a qualitative choice, whereas a decision is a choice made after calculation (Karpik 2007)²⁷.

Property market specialists influence prices

The particular nature of housing markets leads us naturally to examine opinion makers, those property market specialists who direct investors' choices in a context of uncertainty about the quality of a product (H Hatchuel 1995)²⁸. We can distinguish two types of dominant market specialists according to the market in question. In the sector concerning new buildings, this would be the advisors on the management of inheritance linked to banks²⁹ and their marketing subsidiaries who play a dominant role in the apartment blocks sector (flats and housing estates), since the property is bought with tax exempt capital gains in mind. We have already established that wealthy households have developed three apparently contradictory notions: the safety of investing in property (while seeking capital gains), government guarantees (generally found in the fact that tenants have sufficient incomes or receive housing benefits) and the leverage effect of debt (which allows investors to supply only a minimum of capital since the rest is covered by the government tax exemption policies). In such a contract, the capital gains is ensured providing the owner can sell the property on at the end of the tenant's lease, and to have an available supply of tenants prepared to pay the price of the rent (which is

²⁷ *L'économie des Singularités*, Flammarion, Paris, 2007.

²⁸ « Les marchés à prescripteurs », in Jacob.A.,Vérin H., *L'inscription sociale du marché*, L'harmattan, Paris, 1995.

²⁹ During the housing boom, banks took over property development companies and networks of estate agents. This phenomenon poses a problem of illiquidity for banks during a housing crisis. Such problems have caused major bankruptcies for banks in the past, such as that of Bankers Péreire in France with *Crédit Mobilier*. However, the subsidiaries involved play only a minor role in the banks in question. We can also imagine that this integration has contributed to more lenient lending conditions and an excess of household debt.

often high). In the case of a speculative bubble and high demand, the value of the local amenities is discounted in favor of a strict financial analysis. Many home owners have never visited the property they bought off plan, which are sometimes hundreds of kilometers from their principal residence. During a housing bubble, properties become similar from the point of view of both the owner but also the tenant who is obliged to rent as he knows that rent prices will continue to rise. The widespread belief that prices will rise influences the nature of the goods exchanged. Goods can no longer be considered as substitutes for one another, two locations can be considered identical whereas a few years earlier they would not have been. Inversely, during a housing crisis, two new properties which are identical, are no longer a substitute for each other³⁰. This phenomenon is not simply an effect of supply and demand but a change in the nature of the property according to the moment in the cycle when it is exchanged. All of this leads to the homogenization of goods during a property bubble: prices (which regain their importance in the purchasing choice at the expense of the local amenities), the costs of construction (which rise, leading to a homogenization of architectural styles), the market structures of selling and marketing (which encourages property developers to have mimetic behavior), the pressures of profitability (which then favours smaller properties which are more profitable per m2) . All of this leads to the production of identical properties. Inversely, during a crisis, we can witness the disappearance of a market. Nobody wants to buy properties that are all alike, as much from an architectural point of view as a location one.

The nature of property market specialists for older properties³¹

³⁰ This explains the present difficulties of tax exemption programmes in certain mid-sized cities in France

³¹There is very little research on this subject. Our analysis is based on the very detailed work of Loic Bonneval « Les agents immobiliers, évolutions professionnelles et rôle sur les marchés du logement », communication au Séminaire du GIS socio-économie de l'habitat, Paris, 22 mai 2007. « Les agents immobiliers et la segmentation des marchés du logement », communication aux Journées d'études Le logement et l'habitat comme objet de recherche, organisé par GIS socio-économie de l'habitat, Paris, 20 mai 2005.)

Influencing prices of older properties is very different since we are dealing with a second-hand market which is extremely differentiated and which includes a significant uncertainty about the quality of the property. These houses show the signs of their former occupants or their former activities, which is why prices vary so much. (L. Fontaine and Alii 2007)³². Traditionally in France, up until the 1970s, it was the role of the notary to set market prices for older properties and he played the role of legal intermediary in the exchange. The prices were not publicly known, so only the notary could match supply with demand. His role remained tied up in the mists of the relationship of family confidence. But also due to being involved intimately in family matters over several generations (he handled family wealth, inheritances and was occasionally the officiator at weddings), he alone knew what was for sale and above all at what price, often making substantial profits for himself. An important figure in village life, along with the doctor, the teacher and the priest, the notary “made” the market, classified the goods and directed his clients towards the “good deals”. At the end of the 1960s, a profession emerged that would play a central role in the creation of markets: the estate agent. The main advantage was that they lifted the veil on market prices by means of their shop windows and would as such become the “producers” as well as the “broadcasters” of local prices, allowing the price of supply to be known, which had hitherto been “hidden” by the notary. Not only did the estate agent introduce an “transparency” of prices, but his arrival created a market where there had previously been none. His role was now to formulate supply out of what he felt was the demand. Estate agents were first and foremost the individuals who dealt with the evaluations of properties and their placement, but furthermore their window displays would provide clients with a shopping basket of similar goods, allowing the potential buyer a complete view of the market. This is a process of

³² Alternative exchanges : second-hand circulations from the Sixteenth Century to the Present, Laurence Fontaine (ed.), Berghahn Books, New York Oxford, 2008.

“singularisation” in M. Callon’s definition. Singularisation means positioning a property in relation to other properties which occupy the same space or the same list. This relative positioning is a process of classification, grouping and matching which allows properties to be both comparable and different at the same time. The consumer can only make a choice if the goods have been assigned qualities that can produce distinctions. The property, reclassified, has been placed alongside other similar properties and relationships have been established between them, leading to new classifications which allow comparison: the property’s value can finally be calculated. By his presence in a certain area, the estate agent singularizes properties, but also the area itself. There have not been enough studies on the distribution of agencies in France to be able to get an exhaustive vision of the creation of these micro markets. Nonetheless, those studies that have been undertaken show that estate agencies have also contributed to markets getting out of control by overinvesting in central zones and underinvesting in less attractive areas. Several reasons lead us to believe that the structure of supply by estate agents has significant consequences on price growth. The prices which are displayed are prices of demand which are very rigid for many reasons: the difficulty vendors have in revising their prices downwards, the costs associated with changes in price, the multi-contract nature of the contract between the seller of the property and the estate agent³³, which “implicitly” requires a seller to inform every agency that is selling his property and the commission the seller does not want to lose by dropping the price. Thus a significant local rigidity of local prices exists which gives an “official price” of a property. During a housing bubble, this inflexibility (associated with the belief in a rising market) leads everyone involved to contribute to higher prices. The estate agent knows that he will sell some of his properties and does not discourage sellers in their overconfident price estimations. He also knows that by giving a fair evaluation (from his point of view), he risks losing his sales

³³ in France, exclusive contracts between estate agents and home owners wishing to sell play only a limited role

contract to a competitor³⁴. Estate agents go from a logic of client selection to one of contract collection which tends to result in a global over-evaluation of the market. This evolution was accelerated by the emergence in the 1980s of networks of franchised agencies which produced a homogenization of market prices. In order to purchase a property, potential buyers (and sellers) have been turning to internet sites since around 2000. These websites are either independently run or managed by large networks of estate agents. They allow calculation where the dispositives³⁵ (Foucauld 1977) allow a classification of properties according to defined criteria, in part by the user (essentially the type of property, the number of rooms and its location, in a general sense). Internet sites make it possible to calculate the value of a property by organizing them into a hierarchy.

How does this process result in a standardisation of prices? Firstly, because we are dealing with the offer price which must on no account allow buyers to intervene (in contrast to stock markets), but also because the presence on the internet marks out the difference between the goods on display and any others (which remains the domain of the professional) and finally because professionals are kept in check by means of dispositifs which they put into place together and during a boom, it is in nobody's interests to drop prices, but rather it is beneficial for everyone to overevaluate a property (which flatters the owner of the property). Thus,

³⁴ The fact that a property can be estimated at different prices does not pose a problem since nobody believes there is a "true" market price, because of the complexities of classification of these markets

³⁵ Foucault defined his use of the term *dispositif* (apparatus) in 1977: What I'm trying to pick out with this term is, firstly, a thoroughly heterogenous ensemble consisting of discourses, institutions, architectural forms, regulatory decisions, laws, administrative measures, scientific statements, philosophical, moral and philanthropic propositions—in short, the said as much as the unsaid. Such are the elements of the apparatus. The apparatus itself is the system of relations that can be established between these elements. Secondly, what I am trying to identify in this apparatus is precisely the nature of the connection that can exist between these heterogenous elements. Thus, a particular discourse can figure at one time as the programme of an institution, and at another it can function as a means of justifying or masking a practice which itself remains silent, or as a secondary re-interpretation of this practice, opening out for it a new field of rationality.

prices continue to rise. The emergence of large networks of estate agent franchises at the expense of specialised, or very localised agents also leads to a homogenisation of the market, on account of their positioning of **conventional goods** (Bonnetfond 2007 op cit). These networks and their technical dispositifs (internet and advertising) reduce the "distance" between properties in a speculative bubble and intensify competition for this kind of property by aggressive practices, such as brokerage and chasing after contracts. They accept contracts without evaluating the price of the property (brokers are not trained to do so) because they do not possess the necessary knowledge of the sector of property location. These structural changes concerning property market intermediaries in France have also reduced the distance between the market specialists of new buildings and those of older properties with notably estate agents who are linked to sales teams who manage the letting of tax exempt residences and those of banks who encourage their clients to take out loans with their parent company. (Bonnetfond 2007)

The mimetic exuberance of housing markets

As far as prices and unclear classification are concerned, estate agents have the possibility of setting prices by sharing the dispositifs which allow them to judge the value of a property. These dispositifs act as a reinforcement of their beliefs. Property markets are experiencing a bubble and are subject to a process of homogenisation of beliefs and behaviours which together lead to a mimetic exuberance. "It seems that individuals are almost powerless because legitimate interpretations which keep the balance of coordination are being imposed on them independently of their own opinions. These social beliefs find their origins in numerous common reference points, both historical and cultural which define the identity of a

group. Since the past gives us habits, stories and legitimacy, individuals, no matter what their opinions may be, are not free to offer collective, legitimate representations" (Orléan 2004).

The property bubble, regardless of the reasons linked to the widening of inequalities in France was able to develop because all parties shared a certain number of dispositifs which supported their belief in the continued high level of prices whereas a simple analysis of the history of property markets in France should have led them to put their opinions into perspective. This bubble is not irrational. There is no need to believe in erroneous evaluations. All that each party need do is to refer to a certain market model in their choices; a market that never decreases (**un marché qui ne baisse jamais**) Investors who feel that they only react to this market model find their idea of an autonomous market confirmed (Orléan 2004).

Tab. 1
Shared belief of property in the mimetic exuberance of a speculative bubble

	Dispositifs	Convergence and Risks of anticipation
Banks	<p>Observe loan applications and the competition for clients</p> <p>Make use of credit brokers in order to observe the evolutions in competitors' rates.</p> <p>Observe the price of transactions by the loans on offer</p>	<p>Standardise loan conditions according to the group of clients</p> <p>Set lenient loan conditions to attract clients</p> <p>Believe in rising prices</p> <p>Underestimate bankruptcy risks</p>
Property developers	<p>Standardise their offers in the face of certain constraints (land, construction costs and profitability of a project)</p> <p>Observe prices by sales completed</p> <p>Observe the growth in rent prices through their associated agencies</p>	<p>Produce mimetic architectural styles, invest in the same place and observe other developers,</p> <p>Believe in rising prices</p> <p>Underestimate the risks involved in renting</p>

Estate Agents	<p>Stay in control by means of their shop windows, adverts and the internet</p> <p>Stay in control by means of competition borne of non-exclusive sales contracts</p> <p>Observe rent prices through letting agents</p>	<p>Evaluations linked to customer demand, rigidly increasing prices, homogenise supply, standardise behaviour</p> <p>Believe in rising prices</p> <p>Underestimate the risks involved in renting</p>
Clients (potential buyers and tenants)	<p>Observe prices set by market specialists in agency windows, online, in the media...</p> <p>Observe rent prices</p>	<p>Reduce the role of amenities in the choice of location</p> <p>believe in rising prices</p> <p>Overestimate their ability to pay back loans,</p> <p>Overestimate the risk of high rent/income ratios</p>
Landlords	<p>Observe prices set by market specialists in agency windows, online, in the media...</p> <p>Observe rent prices</p>	<p>Overestimate amount of capital gains</p> <p>Underestimate the risks involved in letting</p>

Conclusion

Supported by the lenient behaviour of banks, young households in France gave in at first to the charm of the property bubble which allowed them to get a foot on the property ladder. They were able to buy property thanks to historically low interest rates on their loans and prolonged periods of repayment. Inversely, mature, wealthy households were keen to profit from the property bubble and tax exemption policies to obtain capital gains at a lower cost. The former chose home ownership, the latter, buy-to-let. These developments, underpinned by a mimetic bubble supported by all the market participants led to high tension in the price

of new buildings, taking in its wake every kind of market (older properties and the rental market) within a general climate of housing shortage. These tensions resulted in the present crisis. Young people can no longer afford to buy a property, but rather remain constrained by high rent prices. Wealthy households have difficulty finding tenants or are forced to manage tenants who are dealing with very high rent/income ratios. These households (single parent families, lower earners), in times of crisis, can become insolvent at any time. The widening of inequalities of income from investing in assets goes against the French ideal of equality. Rather, the recent period shows French society to have an "hour glass" structure, where 10% of the population have become rich through investing in assets but a large proportion of the population must not only abandon the idea of becoming home owners, but must also bear rising rent prices due to policies of tax exemption.