

PRIORITY

NEWSLETTER NOVEMBER 2016

REAL ESTATE REPORT

Market trends

FINANCING

All you need to know about home loans

TAX REFORM

What will change for property owners



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world

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OUR BRANCHES IN LUXEMBOURG CITY

Bonnevoie	Kirchberg Siège social
Cloche d'Or	Limpertsberg
Gare	Merl-Belair
Grand-Rue	Merl-Jardins de Luxembourg
Kirchberg Europe	Royal Monterey

OUR BRANCHES IN LUXEMBOURG

Bascharage Kordall	Mamer
Bereldange	Mersch
Bettembourg	Mondorf-les-Bains
Clervaux	Niederanven
Diekirch	Pétange
Differdange	Redange-sur-Attert
Dudelange	Remich
Echternach	Schifflange
Esch Belval	Steinfort
Esch Benelux	Strassen
Esch Centre	Tétange Kaldall
Ettelbruck	Vianden
Grevenmacher	Wasserbillig
Howald	Weiswampach
Junghinster	Wiltz
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BGL BNP PARIBAS RETAIL AND CORPORATE
BANKING IN LUXEMBOURG

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In this new issue of the *Priority* newsletter, we will focus on the Luxembourg real estate market in the context of the current low interest-rate environment.

We will tell you all you need to know about **how the market is changing** and **how to obtain a home loan**. We will also provide information on the **tax reform** coming in 2017 and on new aspects that will affect property owners.

In a quickly growing real estate market, we are faced with two phenomena:

- a highly buoyant real estate market sustained by ongoing population growth,
- a low interest-rate environment that makes investment in real estate a genuine alternative to savings.

Thanks to its vast experience in this field, BGL BNP Paribas is able to **respond to all types of home loan applications**. We can offer you a variety of different packages based on your age, profile and investment type. Furthermore, our branch account managers in 41 locations throughout the country can answer all your questions and advise you on fixed-rate, variable-rate or progressive repayment packages.

2017 will see the introduction of a long-awaited tax reform. Announced by the government when it took office in 2013, the reform will introduce **a range of new aspects for both property owners** and others. Our tax experts, specialised in pension products, home savings schemes and private banking, can advise you on the key points in order to understand how to make the most of the planned changes.

Lastly, a final word about our services and our relationship with you, our clients. In order to provide you with even more flexibility, accessibility and user-friendliness, we commenced the refurbishment of all our branches last year and introduced new mobile applications to **facilitate your banking transactions**. This year, we have decided to go even further in terms of diversifying our offering and now provide online account-opening (for non-clients) and loan applications to make your life even simpler. And we are not about to stop there – more news in 2017!

We hope you enjoy reading this newsletter!

"THE LUXEMBOURG REAL ESTATE MARKET IS HIGHLY BUOYANT AND IS GOING TO REMAIN SO"

A REVIEW WITH **TIM PITTEVILS**, CEO OF ATHOME LUXEMBOURG

The Luxembourg real estate market has undergone rapid change over the last 10 years, with prices constantly rising. According to a number of studies, this trend should continue.

REAL ESTATE MARKET TRENDS

HOW HAVE PRICES ON THE LUXEMBOURG REAL ESTATE MARKET CHANGED?

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"Over the last 12 months, we have seen an increase in property prices. It's a trend that has been observed for several years. For sales of existing apartments and houses, our statistics show that prices increased by 4.4% and 3% between September 2015 and September 2016. Average sales prices are now EUR 410,000 for an apartment and EUR 695,000 for a house. For apartments, two key facts: prices for studio apartments and homes with more than four bedrooms are rising faster than the average. As far as new apartments are concerned, the increase in the sales price is around 3%, on an average price of EUR 495,800. For studio apartments, it's as high as 6%.

On the rental front, there has also been a big increase in prices in recent years: +7.4% between September 2014 and September 2015 and +2.4% in the last year. Studio apartment rental prices, meanwhile, have increased by 4% over the last 12 months. The average rent for an apartment is around EUR 1,360 per month.

The same trend can be seen in house rentals: +2% last year compared with +3.8% between September 2014 and September 2015. On average, the rent per month is EUR 2,460."

HOW DO YOU EXPLAIN THIS PRICE GROWTH?

"According to the latest figures from STATEC, the population of the Grand Duchy of Luxembourg had increased by 2.4% as of 1 January 2016, representing 13,000 additional people throughout the country compared to 2015. Inevitably, these people look for homes when they arrive. Supply has, however, remained fairly stable: there are of course new devel-

opments underway but these are still quite limited in relation to the growth in demand, which is causing prices to rise. So, it's the law of supply and demand."

IS THE MARKET THE SAME ACROSS THE COUNTRY?

"Not at all. There are major variations from one area to another. Prices - both for sales and rentals - are at their highest in the centre and south of the country, as these two regions are the largest centres of employment. On average, an apartment located in the centre of the country costs 30% more than in the rest of the country, with houses costing 40% more. This is due to demand: for rentals, 59% of demand is for the centre and 19% for the south of the country. Where sales are concerned, 30% of properties are located in the centre and 37% in the south."

WHAT FACTORS INFLUENCE BUYER BEHAVIOUR?

"Buyer behaviour is actually changing: they are keener on moving away from the centre. Last year, 60% of the properties viewed on our website were located in the centre, versus 20% in the south. This year, this trend has been around 42% for the centre and 26% for the south. Of course, prices mean that buyers are looking a bit further away, but the urban development factor also plays a role. The government is currently making major investments in transportation, particularly with the forthcoming arrival of the tram. This will make the centre more accessible, and people will be able to live on the outskirts of the city but still have a reasonable commute."

WHAT TYPES OF PROPERTY ARE MOST IN DEMAND?

"70% of the pages viewed on our website are sales-related (58% of which are existing homes and 42% of which are new



“AVERAGE SALES PRICES ARE NOW EUR 695,000 FOR A HOUSE.”

homes), and 30% have to do with rentals. In terms of property size, two-bedroom homes are the most attractive with 42% of sales in this category (57% of apartments and 25% of houses). Two-bedroom homes also represent the largest category for rental properties (42%).”

WHAT IS THE TYPICAL BUYER PROFILE?

“There are three different types of profile. First, buyers that I would describe as natural buyers; in other words, people buying based on the stage they have reached in their lives: a studio apartment during their studies, a larger apartment for the first years of their working lives, a house with a garden when they have children and back to an apartment when they retire.

Then, expatriates, international and cross-border workers that want to live closer to their work. These often have higher than average purchasing power and contribute to rising prices. Lastly, investors, both Luxembourg and foreign. Overall, 10% to 12% of properties are purchased by foreign investors. In Luxembourg, a specific feature of domestic investors is that they know the market well, as it's a small country.”

HOW DO YOU SEE THE FUTURE OF THE LUXEMBOURG REAL ESTATE MARKET?

“The Luxembourg market has already been highly buoyant for several years. This trend will continue in the future. The population is growing every year and, according to forecasts, it will continue to grow, and so the demand will always be there. Furthermore, interest rates on home loans are highly attractive at present and I do not think that this is going to change drastically in the next few years.”

In Luxembourg since 2001, private buyers have used www.athome.lu to find out about **over 20,000 properties for sale or rent** by some 500 Luxembourg real estate agencies. The Group has a presence in Luxembourg, France and Germany.

FINANCING

THE PURCHASE OF A PROPERTY

Acquiring a property is often a lifelong project: it's a long-term investment that requires detailed preparation. Let's take a look at what you need to prepare your loan application.



EVERYTHING YOU NEED TO KNOW ABOUT FINANCING THE PURCHASE OF A PROPERTY

BY ALWIN DE PRINS, HEAD OF LOAN ANALYSIS, BGL BNP PARIBAS

HOW DO YOU OBTAIN A HOME LOAN?

A home loan is **an ideal financing method** to enable you to achieve your goal. Whether it is for a first purchase, to acquire a second home or to invest in a rental property, BGL BNP Paribas will look at your personal situation and your ability to make repayments relative to the sum you plan to borrow. This ability is based on two parameters: **your surplus income** (based on your fixed income minus your fixed costs) and **your level of indebtedness**. The bank will then examine the chosen property, particularly its value.

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HOW BIG CAN THE LOAN BE?

The amount the bank will finance depends on your personal situation. In general, **the portion financed by the bank will be higher for a first purchase**. For a property that will be rented out or used as a second home, the client's deposit is usually bigger. This may still be reduced if you can easily afford the repayments and have a low level of indebtedness. It should be noted that registration fees and life insurance are not to be financed by a loan.

WHAT DOCUMENTS DO I NEED TO PROVIDE?

In all three scenarios (first purchase, second home, rental property), the ability to make repayments is documented based on your payslips or tax return. Where applicable, certificates for maintenance payments or investment income may also be requested.

When buying an existing apartment or house, the bank will ask you to provide **the sale agreement** and photographs of the home in order to assess its condition.

For an apartment prior to completion, the sale agreement or, if applicable, **the construction contract** is required.

For a house to be built or the purchase of a house prior to completion, there are two scenarios:

- If going through a developer, the sale agreement and the specification should be provided.
- If there is no developer involved, the sale agreement for the plot, the construction contract with the architect, the building specification, the project plans and the building approval will be required.

IS IT BETTER TO TAKE OUT A FIXED-RATE LOAN OR A VARIABLE-RATE LOAN?

In a low interest-rate environment, choosing a fixed-rate loan may be more attractive. The fixed monthly payments that you make protect you from adverse interest-rate changes. However, you should know that you may have to pay a penalty if you wish to **repay your loan early**.

You can also choose an adjustable fixed-rate loan, i.e. your rate will automatically be revised after 5, 10 or 15 years with the chance to choose a different type of rate.

The variable rate, on the other hand, is adjusted according to market conditions and enables you **complete flexibility** in the event of early repayments, which can be made without any penalty.

You can, of course, combine the different types of rate described above in order to find the solution that best meets your needs.

Lastly, another alternative is to choose **progressive repayment**: for the first five years, you can pay only the interest outstanding, or negotiate monthly payments in line with changes in your income. This gives you the resources you need to manage your other priorities.



WHAT INSURANCE IS REQUIRED?

Fire insurance is mandatory in all cases. BGL BNP Paribas offers *AxiHome*: a multi-risk home insurance that covers the home, the family in the case of damages caused to third parties, and possessions.

Mortgage protection insurance may or may not be required depending on your family situation, but is always strongly recommended. It guarantees the repayment of the outstanding balance on your loan in the event of your death during the period of cover, thereby protecting your family. Furthermore, it is tax-deductible.

To supplement the mortgage protection insurance, you can also take out a guarantee covering the **risk of total or permanent disability**.

WHAT ARE THE BENEFITS OF A HOME SAVINGS SCHEME?

The major benefit of a home savings scheme is that it enables you to save for a real estate investment while benefiting from **tax allowances**. Combining your home loan with a *Schwäbisch Hall* home savings scheme, you can benefit from **interesting monthly rates** and a **surplus of flexibility**. For the savings period which is mostly from 10 to 12 years, *Schwäbisch Hall* grants a loan for the purchase or renovation of a home. If you do not want to wait, BGL BNP Paribas can provide you with pre-financing of the *Schwäbisch Hall* home loan.

With the new tax reform, the tax-deductible amounts under a home savings scheme will double until the age of 40 (see page 10).

WHAT WILL BE THE MAIN CHANGES APPLICABLE UNDER THE NEW DRAFT MORTGAGE DIRECTIVE?

The new European directive on consumer credit relating to property for residential use is aimed at harmonising the mortgage loan market across Europe and **enhancing consumer protection**. The bill transposing the directive into Luxembourg law sets out several highly visible changes for consumers:

The introduction of a **new European standardised information sheet** (ESIS) in order to provide consumers with personalised information. This sheet will bring all the loan criteria and conditions together in a single document.

Calculation of the effective annual interest rate, expressed as an annual percentage of the total amount of the loan, enabling you to assess and compare the total cost of your loan when you take out a mortgage.

The right to make full or partial **early repayments** at any time, regardless of the type of interest rate of the loan. In this case, the bank may demand a fair, objectively justified fee for the costs directly related to the early repayment, but this fee is capped and cannot exceed the lender's financial loss.

AN ALL-INCLUSIVE PACKAGE

EasiHome enables you to both insure and finance your property in Luxembourg. The product includes the home loan, mortgage protection insurance and the **AxiHome** multi-risk home insurance. It also gives you a bonus of EUR 150 per child per annum until the age of 12.

THE TAX REFORM: WHAT WILL CHANGE FOR PROPERTY OWNERS IN 2017

BY CARLO FASSBINDER, HEAD OF TAX RETAIL & CORPORATE BANKING, BGL BNP PARIBAS

Announced in 2013 by Prime Minister Xavier Bettel as part of his government programme, the tax reform is due to take effect on 1 January 2017. Let's take a look at what will change in terms of real estate – making your lives easier.

FOR YOUR MAIN RESIDENCE IN LUXEMBOURG

Rental value: you will no longer need to declare this

Currently, the rental value of a dwelling occupied by its owner represents taxable income. This is calculated on a flat-rate basis according to the unit value of the residence to which a percentage of 4% (6% for the portion of the unit value that exceeds EUR 3,800) is applied.

From 1 January 2017, you will no longer need to declare this rental value, which will be set at **0% of the unit value**. Less administrative hassle for property owners.

Debit interest on the home loan: tax-deductible amounts increased

When you take out a loan to finance the purchase of your main residence, you can deduct the debit interest from your taxable income.

With the tax reform, these amounts will be revised upwards, to **EUR 2,000 per member of your household** for the first six years of occupancy (versus EUR 1,500 at present), to EUR 1,500 for the seventh to the eleventh year (currently EUR 1,125) and to EUR 1,000 from the twelfth year (currently EUR 750) until the end of your loan. This can reduce your taxable income.

FOR A LUXEMBOURG PROPERTY RENTED OUT BY YOU

50% of the net rent is tax-exempt if rented to a welfare organisation

In the event of renting a residence to an accredited body acting as a social rental agency (such as the social housing agency, for instance), you will then enjoy an allowance of **50% on the net rent received**, i.e. the gross rent less debit interest, depreciation for wear and tear, and maintenance costs.

HOME SAVINGS SCHEMES

Increase of tax-deductible amounts for people aged 18-40

Currently, payments into your home savings scheme of up to EUR 672 per year per person in your household are tax-deductible (subject to having paid at least the amount of EUR 672 into your home savings scheme during the year).

With the tax reform, **this amount will be doubled** for investors aged between 18 and 40, thus rising to EUR 1,344 (in the case of collective taxation, the increase will be made with reference to the youngest investor).

In addition, if the amount saved in your home savings scheme is not being used to finance a main residence, payments into a second home savings scheme taken out subsequently may not be deducted from your taxable income (allowances made in respect of the first contract would not, however, be affected).

Further information on the tax reform is available at www.bgl.lu/fiscal

KEY DATES

A flagship measure by the Bettel government, the tax reform bill was announced when the government took office in December 2013. The bill was presented by the Finance Minister, Pierre Gramegna, on 29 February 2016, and completed on the following 21 April. In order to **become effective on 1 January 2017**, it must be passed by the Chamber of Deputies before the end of the year.

**1ST
OF JANUARY
2017**

SALE OF A PROPERTY OTHER THAN YOUR MAIN RESIDENCE: LOWER CAPITAL GAINS TAX

As of 1 July 2016, a new law¹ enables you to take advantage of a reduction in capital gains tax arising from the sale of a property other than your main residence (second home, plot of land, etc.).

For a property that you have held for two years or more, the capital gains will now be taxed at the rate of a quarter of the overall tax rate (a quarter of the taxpayer's overall tax rate). Until now, it was taxed at half the overall rate. This law applies to sales made before 31 December 2017.

For further information on financing the purchase of a property or on the new tax reform due in 2017, please do not hesitate to contact our in-branch advisors or call: (+352) 42 42-2000.

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Premium Benefits 

PREMIUM GOURMET COMPETITION WIN A GOURMET DINING EXPERIENCE WITH A TASTING MENU FOR TWO!

Being a Priority client also means having access to the Premium Benefits programme of perks that go beyond banking. Among other possibilities listed on www.premium-benefits.lu, Premium Gourmet offers you several chances a year to discover a new fine-dining restaurant in Luxembourg, and to book a tasting menu specially designed for programme members at an attractive price.

As a Priority client, you can enter to **win the new tasting menu offered by the Michelin-starred restaurant Favaro**, located at 19, rue des Remparts in

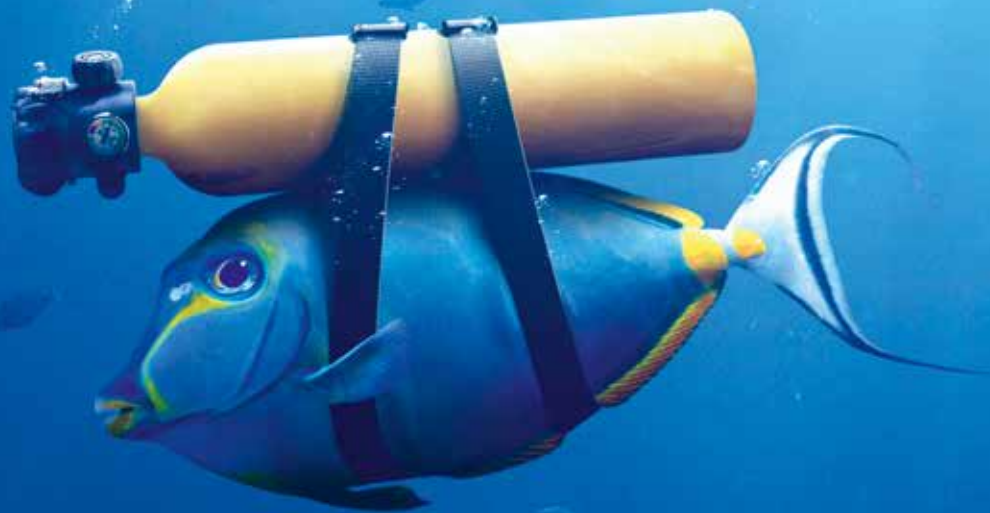
Esch-sur-Alzette, by **e-mailing your details (full name and e-mail address) to invitations@bgl.lu before 15 December 2016**.

The drawing will take place on 15 December 2016. Advisors will notify winners directly. The rules of the competition are available online at www.bgl.lu/reglement.

Premium Benefits is a programme reserved for BGL BNP Paribas Mastercard Gold, Gold Priority, Platinum and Elite cardholders.

¹ The Law of 29 June 2016 pertaining to the amendment of a direct tax provision.

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IS TRAVELLING WITH HELP
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