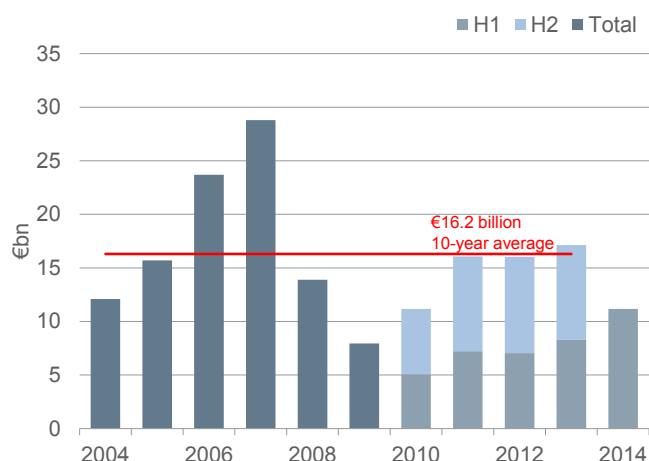


# Market report France Investment

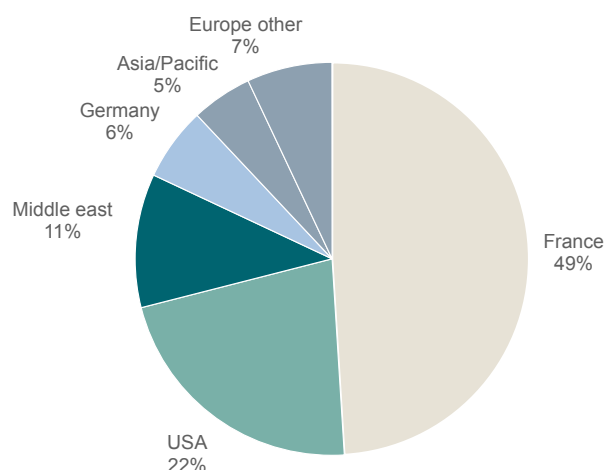
August 2014

**GRAPH 1**  
**Investment volumes** The market saw an exceptional level of investment



Graph source: Savills

**GRAPH 2**  
**Buyers** Foreign investors are very active in France



Graph source: Savills

## SUMMARY

### The return of mega deals

■ The market saw its most active half since the start of the crisis as investment totaled €11.2 billion. Investment volume was 35% higher than in first half 2013.

■ Transactions above €100 million drove the market, accounting for almost 75% of the total investment volume recorded during the first half of 2014.

■ Although growth in the French economy was very weak, investment demand was strong due to the massive amount of capital earmarked for real estate and favourable financing

conditions.

■ Foreign investors expanded their activity in France and, with a 51% share, dominated the market. This is extremely rare.

■ Office yields were stable: 4% for prime assets and 5% for secondary assets. Yields for retail and logistics assets hardened by 25 basis points in the first half.

.....  
“One of the features of the market in 2014 was the resumption of transactions above €500 including three exceeding a billion euros.” Marie-Josée Lopes, Head of Research Savills  
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## → Economic background

The French investment market is benefiting from the improvement in the world economy and is attracting foreign capital. Economic recovery in France, however, is weak. After GDP growth of 0.3% in 2013, the economy is expected to grow by 0.8% in 2014. The first results for the year published by INSEE reveal no growth for the first and the second quarters.

The business climate in the first half was stable with an index reading of 90. The number of business failures has continued to rise, however, indicating that companies are still suffering from the effects of the crisis. Over the 12 months ending 30 April 2014, 63,242 companies went out of business, a year-on-year increase of 2.9%. Small and medium-enterprises were the most affected with a 3% rise in the failure rate, while large companies saw their failure rate fall 13.5%. The number of new businesses over a sliding 12-month period rose by 0.8%, but 50% of these are single traders.

Business investment that has been planned for 2014 is expected to go ahead. In particular, industrialists intend to increase investment in the second half. Most of this investment will be allocated to the replacement and modernization of plants and machinery.

No radical change is anticipated in employment before the end of the year. Unemployment was slightly higher than at the end of last year, standing at 10.4% the second quarter 2014.

“Asian investors, especially from China, are showing a growing interest in the French market.” Boris Cappelle, Director Investment Savills

Estimates by Focus Economics put unemployment at 10.4% for 2014 and 10.3% in 2015.

Property investors, while very interested in the French market, have been confounded by the weak economy and the slow leasing market.

## Market trends

Thanks to an exceptional level of investment activity in the second quarter, with a transaction volume of €6.1 billion, investment in France totaled €11.2 billion the first half of 2014. This is 35% higher than in the first half of 2013. The figures for office and retail investment were particularly high. They rose by 35% and 109% over the year to account for 58% and 28% of investment. The share of services has been low since the start of the year, falling from an 18% share last year to 9% this year. The industrial market remained stable at 5% of total investment.

Several mega deals have boosted the market in 2014 as three transactions exceeded €1 billion: the Carrefour portfolio for €1.4 billion, Cœur Defense for €1.3 billion, and the Risanamento portfolio for €1.2 billion. There were also 25 transactions above €100 million – compared to 29 in 2013 –

accounting for more than 75% of the investment volume. One feature of this segment is the resumption of investments in the segment above €500 million. Of the five transactions of this size, three involved offices for €3.2 billion and two retail, for €2.1 billion.

Demand from investors was exceptionally high but it tended to be focused on well established business districts. Location was, more than ever before, the key criterion for investors. The area that took the largest share of investment was Paris outside the Central Business District, with 22%, mainly due to the sale of Beaugrenelle shopping centre on the left bank for €688 million. Investment in La Defense picked up again after several years of inactivity as the sector enables investors to acquire recent properties of a substantial size. Thus La Defense ranked second with 21% of the market. In third place was the CBD with 18%.

The Western Crescent and the outer suburbs saw little activity with 9% and 4% respectively.

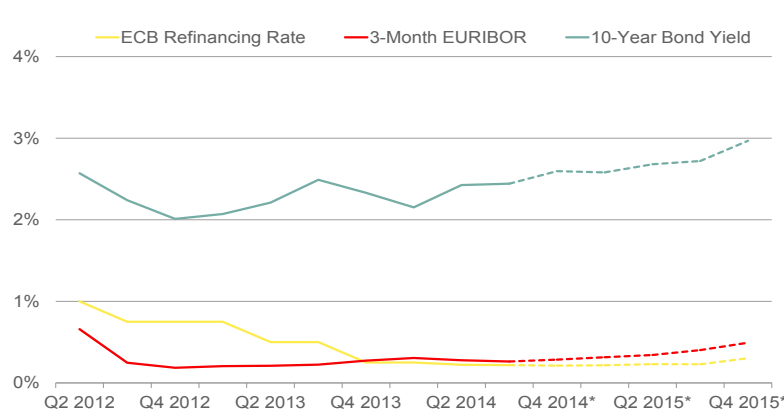
A substantial volume of capital has been earmarked for investment in real estate, largely because extremely low interest rates have reinforced the view of real estate as a safe haven. In parallel, there is a supply shortage.

GRAPH 3 **Economy** Growth is too low to reverse the unemployment curve



Graph source: Focus Economics / \* forecast

GRAPH 4 **Finance** Rock-bottom interest rates increase fluidity in the property market



Graph source: Focus Economics / \* forecast

Investors, faced with steep competition for a limited number of opportunities, showed signs of slackening their expectations as long as certain essential criteria, such as location, were respected.

For the first time since the crisis, foreign investors dominated the market taking a 51% share. The share of domestic investors, despite their dynamism, fell from 65% in the first half of 2013 to 49% in 2014. American investors were responsible for most of this reduction, as they signed one of the year's largest transactions, Cœur Defense, to take 22% of the market. Asian investors, largely absent in the first quarter, made a remarkable entrance and accounted for 5% of investment.

International investors were strong in all market segments. They accounted for 60% of the invested volume in transactions above €100 million and 44% in the segment €20-€100 million. American investors and, to a lesser extent, German investors were very active in this smaller sector. Americans are following more opportunist strategies than other players in the current market.

A new feature in 2014 is that French investment vehicles (SCPI and OPCI structures) saw a sharp decline in their

market shares, from 21% each last year to 13% and 9% this year. Investment funds were the most active structure accounting for 28% of the total investment volume. The share of sovereign funds was stable at 15%.

## Yields

Office yields remained steady. In Paris, the prime yield was still 4%. Steep competition for the most sought-after assets inevitably put some pressure on yields. Deals may be signed at lower yields when an asset with added value potential comes to the market. Yields for retail and industrial facilities have moved in over the last six months. At the end of second quarter, prime yields stood at 7% for industrial space in both Ile-de-France and regional markets. For retail, they were at 4% for Parisian high-street boutiques, at 4.5% for shopping centres and at 5.5% for retail parks.

For secondary assets, yields have generally followed the same trends. They were stable for offices – 5% in Paris and 7% in Lyon – and for regional logistics space – 11.25%. By contrast, they hardened for logistics warehouses in Ile-de-France, dropping from 11.25% to 11%, and for retail – 4.75% for high-street units, 6% for shopping centres, and 6.75% for retail parks.

TABLE 1

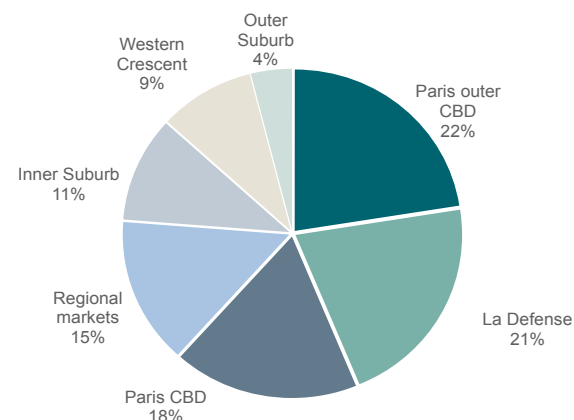
## Yields retail and logistics properties hardened

	Prime yield		Annual evolution	Secondary yield	
	Q2 2013	Q4 2013		Q2 2013	Q4 2013
Office CBD	4.00%	4.00%	→	5.00%	5.00%
Office La Defense	6.50%	6.50%	→	7.50%	7.50%
Office Lyon	5.70%	5.75%	↗	7.00%	7.00%
Industrial IDF	7.50%	7.00%	↘	11.25%	11.00%
Industrial Lyon	8.00%	7.00%	↘	11.25%	11.25%
Retail high street	4.25%	4.00%	↘	5.00%	4.75%
Shopping centre	4.75%	4.50%	↗	6.25%	6.00%
Retail park and warehouse	5.75%	5.50%	↘	7.25%	6.75%

Table source: Savills

GRAPH 5

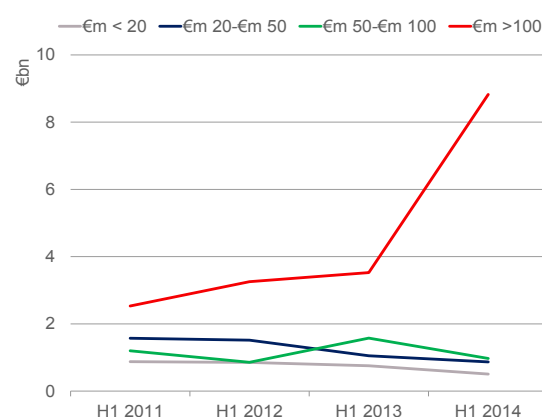
## Location La Defense returned to the forefront



Graph source: Savills

GRAPH 6

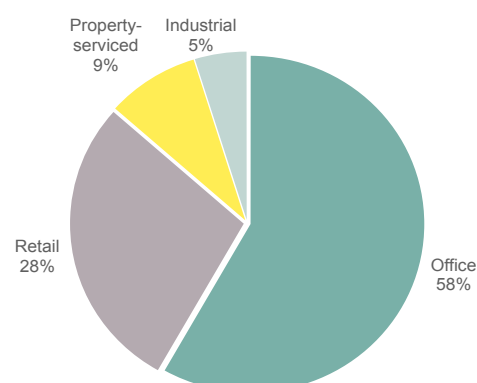
## Transactions Transactions above €100 million boosted the investment volume



Graph source: Savills

GRAPH 7

## Property types Retail investment activity marked the market in first-half 2014



Graph source: Savills

TABLE 2

**Major investments**

Address	Sale price (€m)	Purchaser	Vendor
Portfolio Carrefour - France retail	1,400	Carrefour Property	Klepierre
La Defense-office-Coeur Defense	1,300	Lone Star Fund	Hold-LB Dame
Portfolio IDF-office	1,225	Chelsfield/Olayan Arabian Packaging Compagny LTD	Risanamento
Paris 15-shoppin centre-Beaugrenelle	688	APSYS-Groupe Madar-Financière Saint James	Gecina
Saint-Denis-office-Projet Campus SFR	680	Predica/Aviva	Vinci Immobilier
Paris1-office/retail-La Madeleine	425	Norges Bank Investment Management	Blackrock

Table source: Savills

**OUTLOOK**

Market performance will improve if the economy starts recovering

■ Sustained investment activity and several massive deals will probably see investment pass the €20 billion threshold in 2014.

■ A competitive market for prime assets will probably make yields harden by 20 basis points taking them to 3.8% by the end of the year.

■ Foreign investors have returned to France in force. They will be willing to expand their activities if indicators for the French economy improve and financing conditions remain good.

■ Other Asian funds, especially Chinese ones, will probably start becoming active in France alongside existing market players.

■ There will continue to be a shortage of new supply in 2015 as the number of planning permissions and off-plan sales remain low.

**Savills team**

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**Savills plc**

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