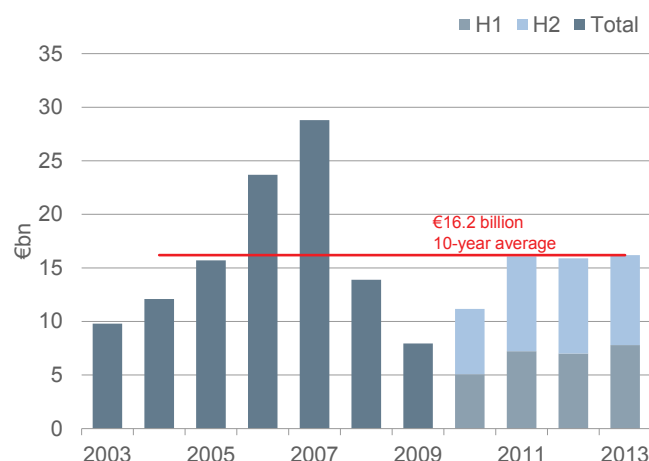


Market report France Investment

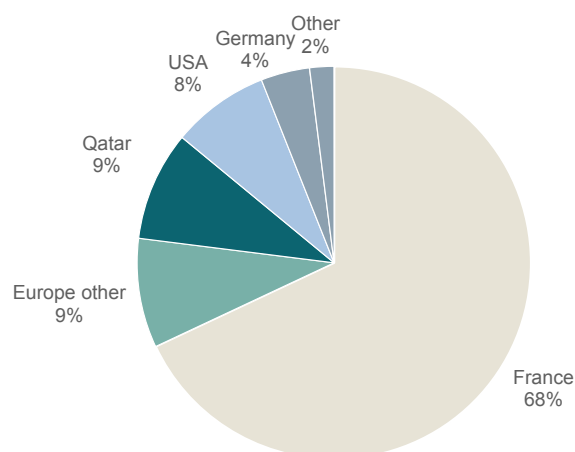
Q4 2013

GRAPH 1
Investment volumes The market has remained stable for the past three years



Graph source: Savills

GRAPH 2
Buyers More American investors are entering the market



Graph source: Savills

SUMMARY

The market has been held back by a lack of opportunities

■ 2013 registered €16.1 bn of investment in commercial real estate (including property-serviced*). The market has maintained this level for three years, despite the deterioration of the rental market and the economic recovery that is taking its time in coming.

■ Transactions exceeding €100m continue to drive the market (47 transactions), accounting for 56% of total committed investment. However, there has been an upturn in the number of transactions between €50m and €100m, which is diversifying the market.

■ Market activity in Ile-de-France shifted from the CBD to the Inner Suburbs. There has been a fall in activity in the CBD (16.5% against 22%), and an increase in the Inner Suburbs (10.5% against 6.4%); there is now more supply and a wider range of property types and the pricing of quality buildings is more reasonable.

■ French investors continued to account for the lion's share of investments (68%). German and Middle Eastern funds have not been as active as usual, accounting for only 4% and 9% respectively of the investment volume in France (against

9% and 12% in 2012), to the benefit of American funds that accounted for 8% (against 6% in 2012 and 1% in 2010).

■ Yields have not changed a great deal. Prime office yields stand at 4% in Paris and 5.7% in Lyon, with secondary office yields at 5% and 7% respectively.

.....
"The average lot size has increased sharply since 2011."
Marie-Josée Lopes, Head of Research
Savills
.....

→ Economic background

Forecasts indicate a growth of 0.2% in 2013, compared to 0% in 2012. France is seeing improvements, but these would appear to be insufficient in order to drive any form of genuine economic recovery. 2014 could be the start of a return to growth, with GDP rising to 0.8% in France and 1% for the Euro zone.

In Q4 2013, 16,000 company bankruptcies were posted, bringing the annual total to 63,101 (up 3% on the previous year). This is very similar to the number seen in 2009 (63,709). Unemployment continued to rise, with the rate in December 2013 standing at 10.6%, against 9.8% in 2012. Forecasts expect this figure to increase in 2014 (10.9% by the end of the year) followed by a decrease in 2015. This is similar to the same Euro zone figure.

Moreover, exports have been subdued and business leaders have been prone to focusing on bolstering their margins and reducing their levels of debt, rather than looking to improve their ability to expand their businesses. As a result of this, investment in companies fell by 1.9% in 2013 compared to 2012. In 2014, an increase of about 1% is expected, fuelled in part by the Tax Credit for Competitiveness and Employment (CICE) and a slight rise in exports.

Business environment indicators are suggesting that we might see an increase in activity, particularly in the services sector, as of the beginning of 2014. In addition,

“The significant level of capital earmarked for investment in commercial property, would suggest that 2014 will be an extremely active year.” Boris Cappelle, Director Investment Savills

consumer confidence remains stable with an index, albeit below the long term average of 100, nevertheless at a relatively positive level of 84 (November 2013).

We would note that France continues to be an attractive market within Europe. The ECB has kept interest rates at a historic low (10-year Government Bonds at 2.27%), which is maintaining investor interest.

Finally, the austerity measures adopted in order to reduce debt levels, as well as the efforts to revive the economy, such as the recent responsibility pact, which will reduce constraints to companies in exchange for the creation of jobs, should help to reassure market players with regards to the steps the country is taking to improve the economy.

Market trends

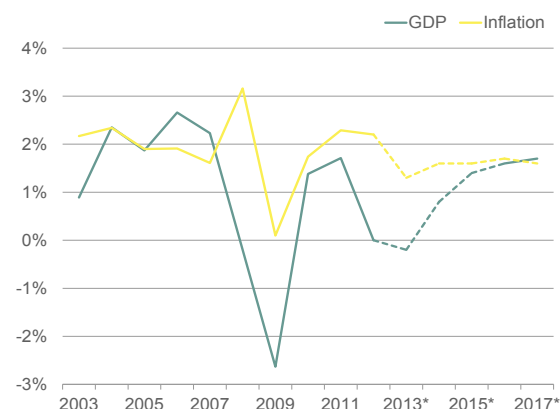
In 2013, the volume of investment in commercial property (including property-serviced), reached €16.1bn which was an increase of 1.8% compared to 2012. After a slow start to the year, there was a spike in activity

in Q3, during which time €5bn was invested. The end of the year once again saw a slowdown, which was primarily due to deals being postponed until the beginning of 2014.

Large deals continued to drive the market in 2013. 47 transactions exceeding €100m were recorded, accounting for 55% of the investment volume, two of which exceeded €500m: a portfolio of four Luxury hotels acquired by Katara Hospitality (€700m) and a portfolio of offices acquired by the Abu Dhabi Investment Authority (€672m). These two key transactions reaffirm the pole position of sovereign investment funds, when it comes to the biggest prime deals in the French market. Nonetheless, a wide range of international investors are on the look out for opportunities, such as the Koreans who purchased the Tour Sequana in Issy-Les-Moulineaux for €335m.

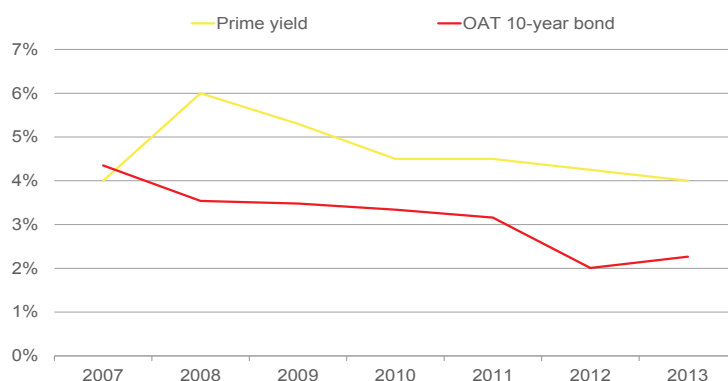
The share office investments increased slightly (65% of 2013 investment volume against 64% in 2012). The biggest deal by size was carried out by a fund from the United Arab Emirates. They acquired the "Docks

GRAPH 3 **Economy** The economic recovery will be more evident in 2014



Graph source: Focus Economics / * forecast

GRAPH 4 **OAT 10-year bond** France offers an attractive spread between long-term borrowing rates and yields



Graph source: Focus Economics

Lyonnais" portfolio (€672m).

Retail continued to attract market interest and accounted for 19% of commitments (stable compared to 2012). 2013 was marked by the return of shopping centres (52% of retail investment compared to 28% in 2012) and a significant increase in retail parks (31% against 13% in 2012). Among the key transactions registered was the acquisition of the Vivarte portfolio (90 stores) by the French investor AM for €183m. Retail investment is set to be active in 2014, as a result of a number of large deals already underway, such as Beaugrenelle in the 15th arrondissement of Paris for approximately €690m, or the Carrefour / Klepierre record deal at approximately €2bn.

Despite a slight decline in the number of transactions, the share of real estate property-serviced remains stable at 12% of the investment volume in 2013. Hotels accounted for the lion's share of investments in 2013. Large transactions, such as the acquisition of the aforementioned portfolio of luxury hotels, or the purchase of four high-end Club Meds by the insurer Crédit Mutuel Nord Vie ACMN (€280m), were recorded. Hospitals/clinics, student halls and retirement homes were also sought after.

On the other hand, the logistics market

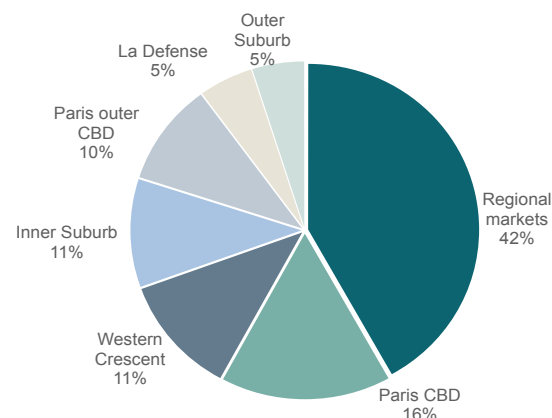
saw a decrease in activity, from 5% of the investment volume in 2012 to 4% in 2013. Nevertheless, logistics yields are luring investors. The majority of deals are for prime properties. Only American funds primarily focused on riskier assets. American funds accounted for 40% of logistics deals in 2013. For example, the acquisition of 11 Class B assets by Apollo Real Estate Advisors - Realogy for €145m.

French investors continue to dominate the market, accounting for 68% of total investment in France in 2013, compared to 57% in 2012. The investment market has seen more interest from many European, American and Middle Eastern funds. Only the German funds continue to steer clear of the market.

This year, the investment market has seen a shift in activity to the Outer Suburb of Paris. In order to overcome a lack of prime product and a continuing rise in prices, investors are moving towards quality assets located in the suburbs or even in the regional markets. The Inner Suburbs has particularly benefited from this shift (10.5% of total investment compared to 6.4% in 2012) while Paris CBD posted a significant decline (22% against 16% in 2012). Within this context of shifting investment, investor requirements are highly demanding.

GRAPH 5

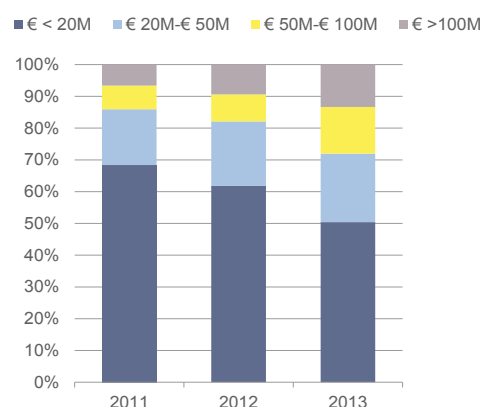
Location Paris saw a fall in activity, to the benefit of the Inner Suburbs



Graph source: Savills

GRAPH 6

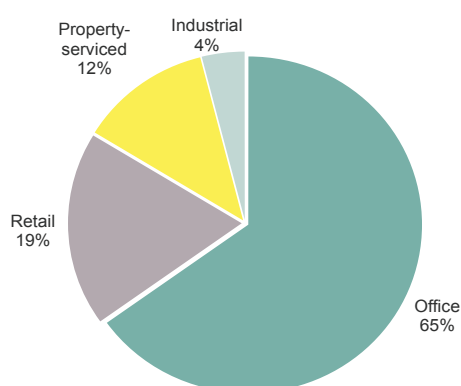
Transactions Growing number of medium and large transactions



Graph source: Savills

GRAPH 7

Property types Retail and property-serviced continue to be in demand



Graph source: Savills

TABLE 1

Yields Prime yields remain stable

	Prime yield		Annual evolution	Secondary yield	
	Q2 2013	Q4 2013		Q2 2013	Q4 2013
Office CBD	4.00%	4.00%	→	5.25%	5.25%
Office La Defense	6.25%	6.50%	↑	7.50%	7.50%
Office Lyon	5.75%	5.70%	↓	7.00%	7.00%
Industrial IDF	7.75%	7.50%	↓	10.25%	11.25%
Industrial Lyon	8.00%	8.00%	→	10.00%	11.25%
Retail high street	4.50%	4.25%	↓	6.00%	5.00%
Shopping centre	4.75%	4.75%	→	6.25%	6.25%
Retail park and warehouse	5.75%	5.75%	→	7.25%	7.25%

Table source: Savills

→ They are only interested in properties located in mature markets, benefiting from good accessibility and with long-term leases.

Funds and institutional investors are still the main investors, although their share decreased in 2013 (19% each of total investment volume in 2013, compared to 21% and 22% respectively the previous year). Moreover, the OPCIs/SCPIs and private investors/property companies have consolidated their presence,

going from 14% to 18% and 8% to 14% respectively.

Yields

Yields remain very low. As at Q4 2013, prime yields for offices in Paris have stood at 4% for a year. Secondary yields stand at 5%. In Lyon, prime yields are at 5.7% and secondary yields at 7%. ■

TABLE 2

Major investments

Address	Rent (€M HT HD)	Buyer	Seller
33 Lafayette - Paris 9	258.3	Deka Immobilien	Ivanhoe Cambridge Europe
Tour Pacific - La Défense	215	Tishman Speyer	Ivanhoe Cambridge Europe
Le Nuovo - Clichy	189.9	Cardif Assurance Vie et Sogecap	Nexity

Table source: Savills

OUTLOOK

The investment market should pick up pace over 2014

■ €9 to €10bn of investment are expected to be transacted in H1 2014 in France.

■ Retail prospects in 2014 are already very good, with two major deals already underway at the beginning of the year, totalling more than €2.7bn.

■ The office rental market is expected to see increased activity in 2014, reassuring investors; this increased activity will be primarily due to a resurgence in space consolidations.

■ The slight improvement in the global economy will help to accelerate the French investment market, thanks to heightened demand from overseas investors.

■ The French investment market has three major advantages: very low long-term borrowing rates, competitive financing conditions and the immediate availability of large amounts of equity for investment.

*Hotels, Student housing, Care home...

Savills team

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Savills plc

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