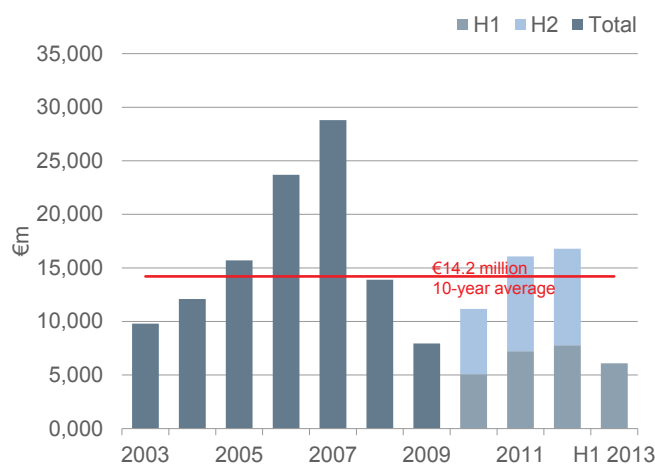


Market report

France Investment

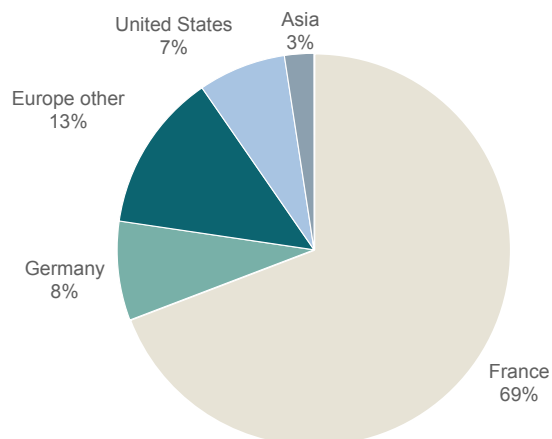
H1 2013

GRAPH 1 **Investment volumes** Trends have been reversed



Graph source: Savills

GRAPH 2 **Origine of buyers** French investors led the way in H1 2013



Graph source: Savills

SUMMARY

Still an attractive market

■ €6.1 billion were invested in France in H1 2013, which represents a fall of 22% compared to H1 2012. Increased selectivity on the part of investors and the overall sluggishness of the economy have diminished the competitiveness of the French market.

■ €4.1 billion were invested in office properties (down 19% on the same period in 2012). Although affected by the reduced investment volumes, the office sector remains at the forefront with 67% of the total sums invested, followed by retail units (17%), serviced properties (10%) and industrial premises (5%).

■ The market remained very endogenous at the start of 2013, with French investors continuing to dominate with 69% of the total investment volume. This can be explained by the temporary absence of non-European, cross-border investors.

■ Prime yields remain stable and could reach 4% for office properties, 4.5% for high-street retail units and 7.75% for industrial premises come the end of H1 2013.

“The French market lost a little of its appeal for cross-border investors during H1 due to a lack of genuine opportunities and the general sluggishness of the economy.” Marie-Josée

Lopes, Head of Research Savills

➔ Economic background

The lacklustre economic situation continues to prevail in France. Following a 0.2% drop in GDP during Q1 2013, Focus Economics anticipates a second fall in Q2 (-0.1%) but a slight recovery from Q3 2013 onwards (+0.2%).

By the mid-year point, unemployment had risen to 10.8% (against 10.6% in Q1 2013). In the view of Focus Economics, this trend could continue into 2014. In just one year, the number of jobs in the traded sector fell by 0.7%, though that particular trend did ease up in Q1 2013 (8,300 redundancies compared to 41,200 in Q2 2012). A rise in temporary employment (+2.69% in Q1 2013) enabled the commercial sector to post positive results in the early part of the year, with 13,300 jobs created.

The French also saved less in 2012. Their savings rate hardened by 0.4 points to 15.6%, though this was not enough to make up for the loss of their individual purchasing power, which, according to INSEE, fell by a historic 1% in 2012. The previous fall, at 0.1%, happened in 2011. This decline is the inevitable by-product of continued rising unemployment, low pay rises and the recent tax increases.

The impact on consumption has, however, been limited, and a return to a month-on-month increase was recorded in May (+0.5%) thanks to a revival in food purchases.

“Despite disappointing investment volumes in the first half, there still continues to be strong investors demand. We expect the market to pick up in the second half primarily due to the signing of several mega deals.” Boris Cappelle, Director Investment Savills

The economic indicator slump has had a negative toll on the morale of the French people, and the confidence index, in decline for several months (78 in May), has reached a new low.

Market trends

Investment volumes have fallen for the first time since 2009. €6.1 billion were invested in commercial property, including serviced properties, in H1 2013 compared to €7.8 billion in H1 2012, a drop of 22% in just one year. After a decent first quarter (€3.3 billion), the market slowed during the second with just €2.7 billion being invested.

Investments in office properties, the leading sector in the market, were hit by that fall and, at €4.1 billion, dropped by 19% in one year. However, the concentration of such investments has intensified further and, by mid-2013, their market share had reached 68% compared to 65% in mid-2012.

The share of retail investments, also on the rise, stands at 17% against

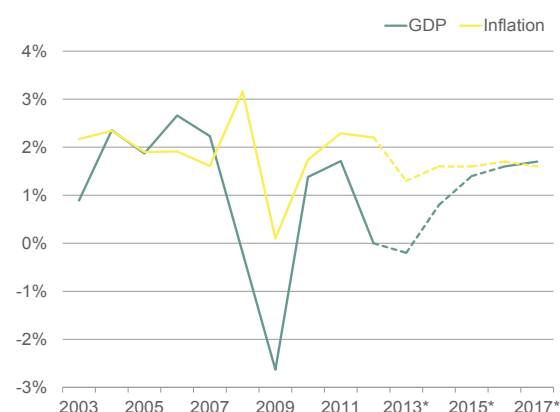
14% the year before, which is due to the ongoing success of high-street retail units. In H1 2013, these types of investments accounted for 10 deals between €10 and €100 million (€0.3 billion) compared to 6 (€0.1 billion) a year earlier. The retail sector also recorded 3 deals exceeding €100 million (2 shopping centres and 1 retail park), though none were of the exceptional calibre seen in 2012 (the purchase of a retail property on the Champs Elysées for €515 million).

The serviced property sector recorded a significant drop to 10% from 18% in mid-2012, which can be explained, in part, by the absence of any landmark deals. There continues to be interest in hotels and health care facilities and the diverse range of investors in the sector continues to expand (SCPI, investment funds, real estate trusts, institutional investors, etc.).

Logistics remains on the market wayside, accounting for 5% of the total sums invested in H1 2013, compared to 3% a year earlier. Numerous

GRAPH 3

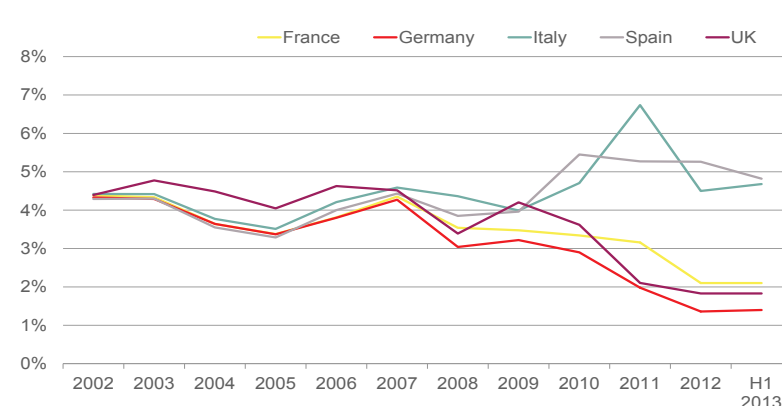
Economy Recovery will be slower than anticipated



Graph source: Focus Economics / * forecast

GRAPH 4

OAT 10-year bond With curves starting to tighten, are there signs of improvement in Europe?



Graph source: Focus Economics

investors would like to move into this market, but the scarcity of available Core products continues to check their investment activity. New buildings with long-term leases on the North/South axis are the most sought after.

H1 2013 did not witness the spirited return of foreign funds to the market that was seen in 2012, which accentuated the predominance of French investors. The latter accounted for 69% of all completed investments, followed by the Germans (8%) and the rest of Europe (14%). The Americans were the main non-European investors at 7%, with some seeking to gain respectability in the market by employing Value-Added strategies.

In terms of sales, the French accounted for 60% of the total, followed by the Canadians (15%), who were driven by the Ivanhoé Cambridge fund's active sales strategy. The latter has already signed 3 of the main deals completed in the first half of the year in Paris CBD and La Défense.

Middle Eastern and Far Eastern funds, which represented 33% of the total sums invested at the mid-year point of 2012, have yet to complete any deals in 2013. Their absence from the market should, however, be short-lived given their voracious appetite for French real estate.

Their absence has contributed to the fall in the share of deals over €100 million, which represented 46% at the mid-point of 2013 compared to 55% in mid-2012 for an equivalent number of transactions (19). That drop benefitted the €50-100 million segment, which accounted for 26% of the total sums invested against 13% in mid-2012. This segment has been driven forward by SCPI/OPCI investment trusts, which signed 1 deal in 2, and by institutional investors (1 in 6).

The heightened selectivity of investors has increased the concentration of deals in prime markets such as Inner Paris and Lyon Part Dieu. Searches now tend to focus primarily on newer Core office properties that are well located and offer the lowest possible vacancy rates.

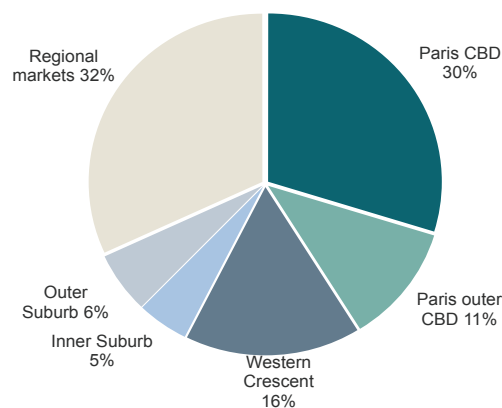
We have also seen the emergence of a two-tiered secondary market, where investments with a risk premium have returned and opportunistic investors are looking to make their move whilst continuing to be very selective, with location being of paramount importance.

Yields

The lack of supply and increased levels of demand in the Core market have kept yields very low. Having hardened by 25 basis points in

GRAPH 5

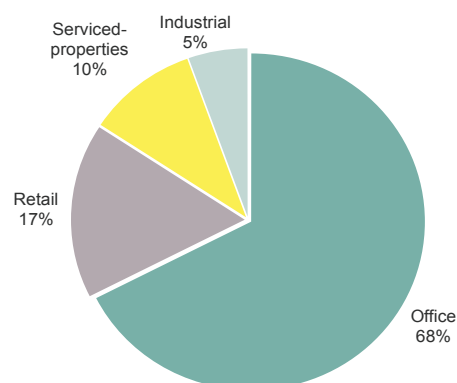
Location Demand for the CBD is growing



Graph source: Savills

GRAPH 6

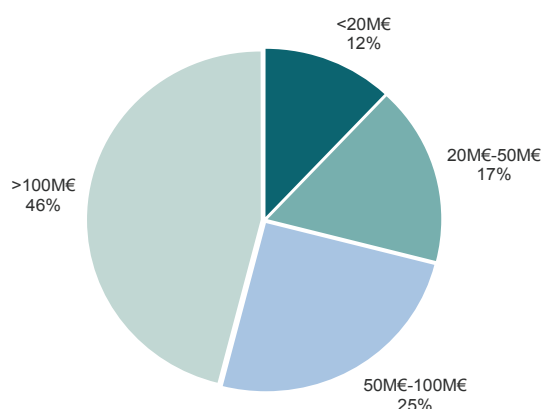
Asset classes Investors are once again focusing on office properties



Graph source: Savills

GRAPH 7

Deal size More deals in the €50-100 million segment



Graph source: Savills

TABLE 1

Yields Prime yields remain stable

	Prime yield		Annual evolution	Secondary yield	
	Q1 2013	Q2 2013		Q1 2013	Q2 2013
Office CBD	4.00%	4.00%	→	5.25%	5.25%
Office La Defense	6.25%	6.25%	→	7.50%	7.50%
Office Lyon	5.75%	5.75%	→	/	/
Industrial IDF	7.75%	7.75%	→	10.25%	10.25%
Industrial Lyon	8.00%	8.00%	→	10.00%	10.00%
Retail high street	4.50%	4.50%	→	/	6.00%/
Shopping centre	5.00%	4.75%	↓	6.00%	6.25%
Retail park and warehouse	5.75%	5.75%	→	7.00%	7.25%

Table source: Savills

→ Q1 2013, prime office yields remained stable at 4% in the CBD during Q2. Prime retail yields stand at 4.5% for high-street retail units, 4.75% for shopping centres and 5.75% for retail warehouses. Logistics also remain stable, with prime yields having reached 7.75% in the Ile-de-France. ■

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
Tour Mirabeau - Paris 15	186	Gecina	Aberdeen Property Investors
Portefeuille services santé - France	175	Icade	N.C.
Portefeuille commerces- France	159.9	CNP Assurance	Immochan France

Table source: Savills

OUTLOOK**The market will be more active and varied in H2 2013**

■ Despite the lacklustre economic backdrop, France remains one of the most attractive markets in Europe. Its stability and depth continue to spark the interest of those cross-border investors that are always on the look out for opportunities in France. Foreign funds could well make a comeback in H2.

■ The property market continues to offer consistent spreads, its prospects for return and the OAT 10-year bond stimulating its performance.

■ The financing market remains competitive and recent financing of several deals by German banks could see a drop in margins.

■ Savills foresees improved performance in H2 thanks, in particular, to the activity of domestic investors and the return of sovereign wealth funds. Investment volumes should reach between €14 and €15 billion in 2013.

Savills team

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Savills plc

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