

Market in Minutes

2015: the year that broke all the record books

Q4 2015

Economic context: encouraging outlook

■ GDP growth over 2015 suggests that the economic recovery is here to stay. Forecasts for the year predict an increase of 1.1%, while growth in 2014 stood at 0.2%.

■ The attacks in November 2015 have had a relatively modest effect to date, mainly affecting consumption. Nevertheless, the outlook for 2016 remains one of growth.

■ The employment market remains convoluted with unemployment figures still on the up. The unemployment rate forecast for 2015 stands at 10.4% (against 10.2% in 2014). Nevertheless, this trend is expected to shift and is projected to drop this year: 10.2% in 2016, 9.9% in 2017.

■ The business environment has recovered over 2015. Above the long-term average since April, the indicator stood at 101 in December.

■ Consumer confidence also improved in 2015. The confidence index stood at 96 in December, for the third month in a row.

A record second semester

■ The year-end was breathtaking. Over €18bn of committed investments were registered in H2 2015, bringing the annual investment total in France to €26bn. After a lacklustre H1, 2015 ended with an annual increase of 8% and record levels of investment, unprecedented since 2007.

■ The general characteristics of the market have changed little over 2015. The market continues to be dominated by deals in the €100m to €500m bracket, accounting for 52% of the volume invested, against 45% in 2014.

■ On the other hand, the over €1bn segment fell significantly. Only one transaction was signed, against three in 2014. This was the Ivanhoe Cambridge office portfolio acquired by Gecina for €1.2bn.



12% growth in the number of portfolios

■ There is a growing trend for portfolios. Their number increased by 12% over 2015. Once again, office portfolios made up the lion's share and showed a sharp increase (24 in 2015 against 12 in 2014).

■ All portfolios have been on the rise,

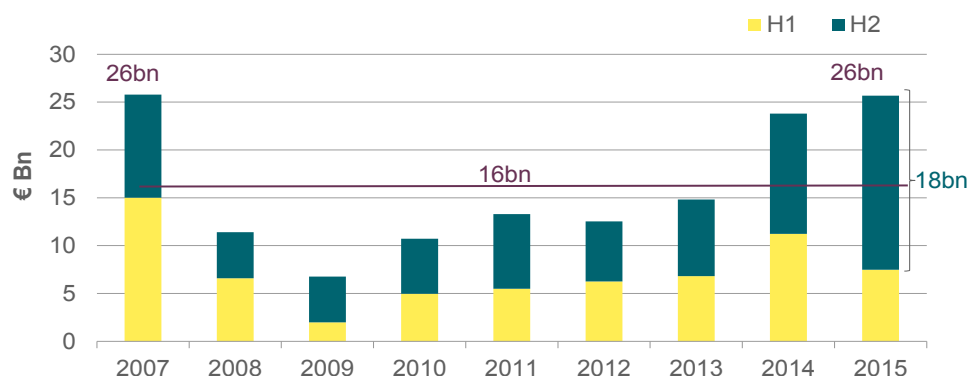
whether made up of alternative assets (clinics, hotels etc.), mixed assets or even international portfolios. An example of this was Blackstone Group International Partners LLP's acquisition of a Pan-European (England, France and Spain) and mixed (offices, logistics and retail) portfolio from GE Real Estate for €1.9bn.

The market is back to basics

■ The market is once again focused on its core asset class with the investment share in offices up from 55% in 2014 to 74% in 2015. Core investments continue to make up the majority and accounted for 86% of the market in 2015, against 77% in 2014.

■ Regarding the market players, French investors have tightened their strong hold on the market. They accounted for 68% of total investment in 2015, against 59% a year earlier. The Americans reaffirmed their interest in

GRAPH 1
Investment volume the best semester on record



Source: Savills

→ France, accounting for 11% of volumes invested. The Germans remained stable at 5%. Less in evidence were Middle Eastern investors, which accounted for just 5% of the total, down from 8% in 2014.

■ OPCIs / REITs were the most active in the market and accounted for 23% of investments. They were closely followed by institutional investors (22%), listed property companies (17%), investment funds (17%), while sovereign wealth funds dramatically reduced their investments dropping from 11% to 3%.

“At the heart of Europe, the French market retains its appeal, especially thanks to its depth and its continued and significant spread.” Boris Cappelle, Savills Investment

Exceptional yields

■ The record levels of 2007 have been surpassed with prime yields for offices in Paris now standing at 3.25%. On a downward trend since the beginning of the year, prime yields have compressed 50 basis points in a year. A further

compression in yields is possible in 2016, given the stiff competition for this asset class in the Paris region.

■ Despite the slight rise in interest rates, financial conditions remain favourable for investment. The spread between prime yields and 10-year government bonds remains significant, (225 basis points as at 31/12/2015) and puts Paris in 2nd position in Europe, between London (157 bp) and Dublin (305 bp) in terms of attractiveness.

■ The persistent volatility in the Financial markets could have a negative effect on the world economy. This could lead to an increase in investment in “safe haven” properties.

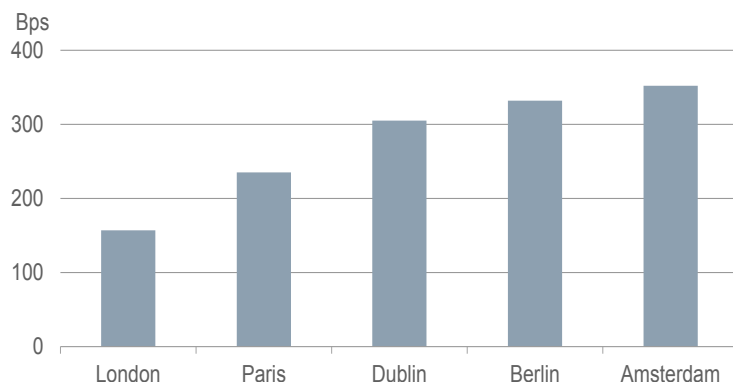
Outlook

■ The French market retains its core strengths, including favourable financial conditions and depth to the market, which would suggest that investment volumes in 2016 are likely to be similar to those registered in 2015.

■ The improved lettings market in Ile-de-France should be an additional boost in 2016. ■

GRAPH 2

Spread between yields and government bonds Paris remains one of the most appealing markets in Europe



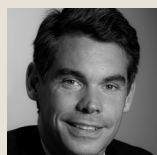
Graph source: Savills

Savills France

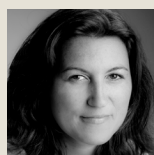
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