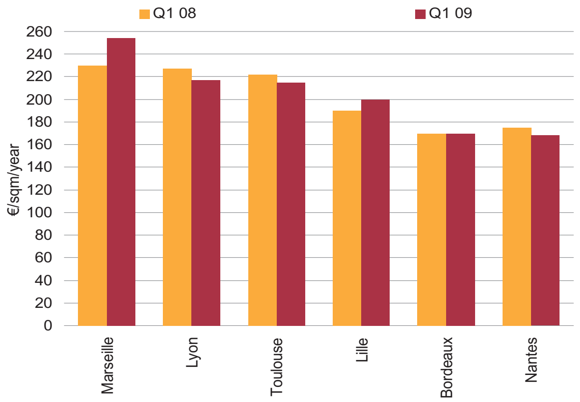
France regional office markets

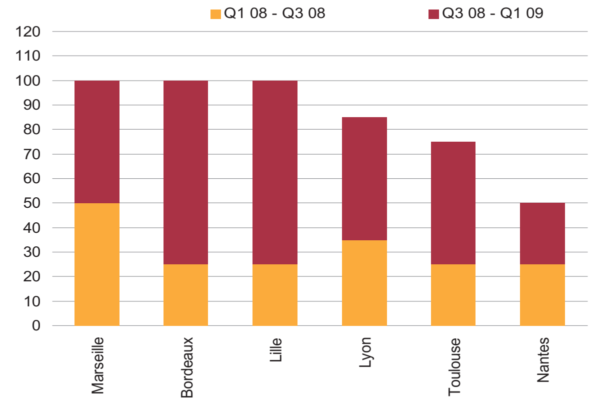
Spring 2009

Rental values remain overall stable



Source: Savills Research

Prime yields are moving upwards at faster pace



Source: Savills Research

"Low concentration of headquarters in regional markets restrains the impact of the economic crisis on the occupational market. Nevertheless, small and medium companies, which were not affected by the economic crisis up to now, are facing financial difficulties and postponing hiring decisions."

Lydia Brissy - European Research

- Regional leasing activity decreased by 10% on average in 2008. Moderately affected by the economic turmoil in the early 2008, regional office markets slowed down significantly during the second part of the year.
- The situation in the survey area is relatively homogeneous, with the exception of Nantes where transacted volumes are historically stable. Take-up in 2008 was the highest ever recorded in Nantes, proving the limited impact of the national economic turbulence on this office market.
- Fuelled on one hand by rationalisation and consolidation and on the other hand by still high level of completions, immediate supply is on the rise. The available stock is expected to further increase until the end of 2009 in most of markets.
- Occupiers are seeking new generation buildings, which are easily absorbed. This growing demand for modern office accommodation is putting upward pressure on prime rental values. On the contrary, we expect a rent contraction on second-hand properties which are weighting heavily on the office market
- Regional markets have benefited from few investment opportunities with attractive yields during the first part of the year. Over the last 6 months investment activity dropped significantly partly due to the investors' interest for secured assets.
- Yields have moved out by 50 to 100 basis points over the course of 2008, with a strong upward acceleration in the second half of the year.

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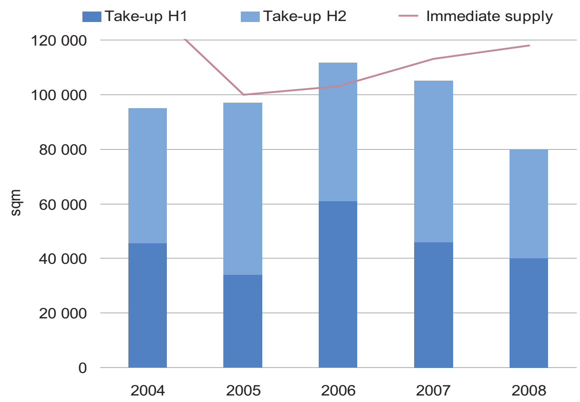
Bordeaux, Lille, Lyon

Bordeaux

Inadequacy between supply and demand hampers Bordeaux office market. Companies' preference goes to the downtown area, which became very attractive due to the introduction of the tramway and the refurbishment of several office spaces, whereas the main part of the vacant stock is located out of town. Therefore, annual take-up only reached 84,000 sqm in 2008. In spite of the delivery of several schemes, immediate supply increased by less than 1%. Nevertheless, vacancies tend to multiply in the suburbs. Some 114,000 sqm of office space are currently unoccupied, reflecting a vacancy rate of 5.6%. Fuelled by several transactions signed for prime properties, rental growth continued. The prime rent reached €170/sqm/year at the end of the first quarter of 2009.

Prime yields rose significantly by 100 basis points approximately compared to the beginning of the year to 6.50% at the end of 2008.



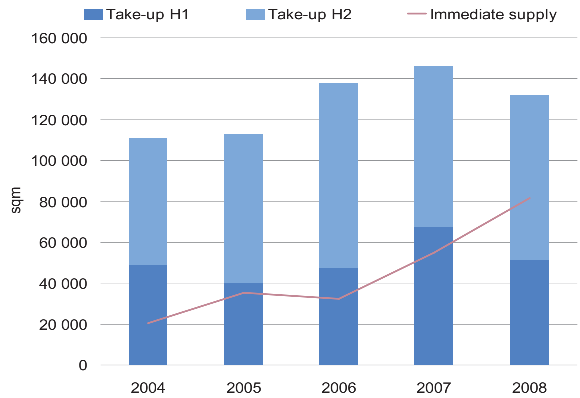
Source: Savills Research / OIE

2009 trends
- Take-up ↘
- Supply →
- Rents →

Lille

In Lille, office take-up softened by 10% in 2008 to 132,000 sqm from 146,200 sqm a year ago but demand accelerated strongly in the last quarter of 2008, notably triggered by office deliveries offering modern facilities. Newly developed or restructured offices represented 1/3 of the total transacted volume against 27% in 2007 and 1/3 last year. Nevertheless, as few large schemes were completed in the past three months, the stock of new supply more than doubled in one year. Historically undersupplied, the relatively high level of vacancies of good quality on the market could possibly stimulate demand for 2009. Prime rents reached €200/sqm/year during the first quarter of the year, pushed by transactions signed for prime properties.

Prime yields moved out by 170 basis points from 6.00% to 7.00% between March 08 and March 09.



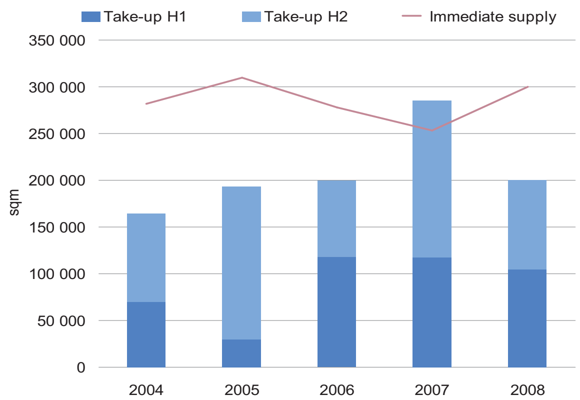
Source: Savills Research / OBM

2009 trends
- Take-up →
- Supply →
- Rents →

Lyon

The office market in Lyon slowed down in line with the hardening of the economic situation. Take-up decreased by 17% between 2007 and 2008. Demand was still mainly concentrated in La Part Dieu (CBD) up to 22% where the shortage of newly developed properties is set to continue over the next two years. The share of new buildings represented 60% of the total 2008 letting volume. Due to strong tenants' interest for new office buildings, development completions were leased out relatively easily, inducing the ageing of the office stock. The vacancy rate was at 6.0% at the end of last year. In spite of the large proportion of new buildings transacted, prime rents decreased by 16% over the past 12 months, steadily from €260/sqm/year to €226/sqm/year.

Prime office yields increased by 85 basis points to 6.75% for the best office building located in La Part Dieu or in the 9th district.



Source: Savills Research / CECIM

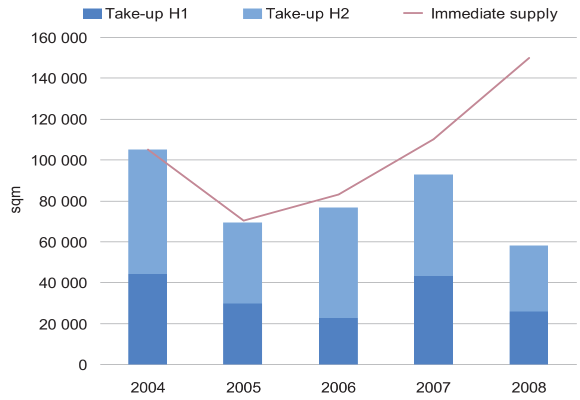
2009 trends
- Take-up ↘
- Supply →
- Rents →

Marseille, Nantes, Toulouse

Marseille

In Marseille, the office market began to turn down over the course of 2008. The shortage in supply in the Euroméditerrannée business district has restrained the occupiers' demand in 2008. As a consequence, take-up felt by a third over the year to 60,000 sqm which is the worst performance recorded since the past 10 years. During the same period, immediate supply has grown by 36% under the combined effect of several vacated buildings and new office completions, including Le Patio. The vacancy rate increased steadily since 2005 and jumped from 5.0% to 6.8%. However, due to some letting deals negotiated at €300/sqm/year in Les Docks, rental values are still on the rise. Prime rents reached €254/sqm/year at the end of the first quarter of 2009.

Prime yields shifted up by 100 basis points and currently stand at 7.25% for the most secured office buildings



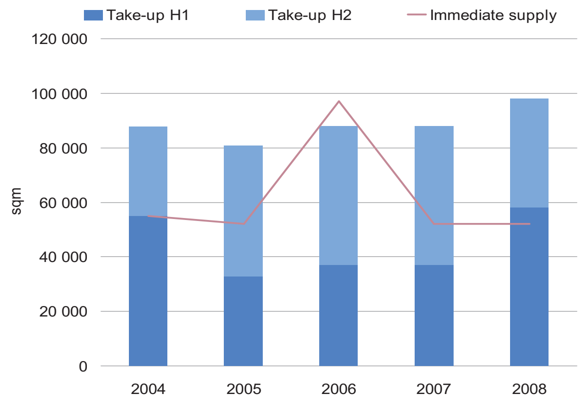
Source: Savills Research / OIMP

	Take-up	↘
2009 trends	Supply	↗
	Rents	↘

Nantes

In 2008, letting activity in Nantes office market was the highest ever recorded. In spite of the economic contraction, occupiers' demand stood still, notably backed by the administration, high-tech and consultancy sectors. Euronantes, Ile de Nantes and the western suburbs were among the most attractive business districts. The immediate supply did not show any noticeable evolution and was still at 50,000 sqm at the end of the year. With a very low vacancy rate of only 2.0%, some areas are clearly undersupplied, notably in the Central Business District. Rental values remained relatively stable. Leases for best office properties are currently negotiated around €168/sqm/year.

Prime office yields went up by 50 basis points. The prime yield for a 3/6/9 lease term currently stands at 7.00% from 6.50% at the beginning of 2008.



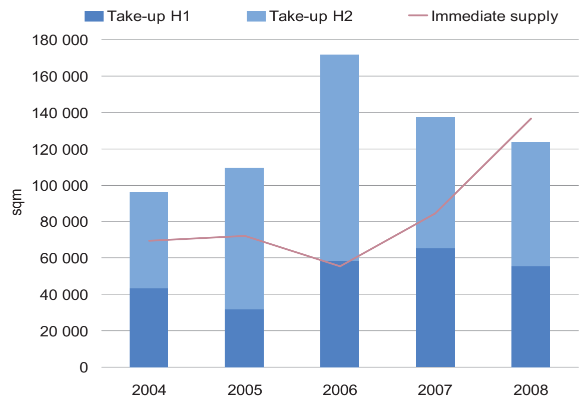
Source: Savills Research / CIN

	Take-up	→
2009 trends	Supply	→
	Rents	→

Toulouse

Far from the record level reached in 2006, the Toulouse office market has been on the decline for the second consecutive year. Take-up was 126,600 sqm in 2008. Cost-cutting and consolidations were the main drivers of demand and were particularly frequent in the north-western suburb and in the area of Balma-Gramont, representing 70% of the total take-up in 2008. Immediate supply rose by 6.1% to 136,000 sqm at the end of the year, pushed up by office completions and vacated spaces. The vacancy rate jumped from 2.8% to 4.1% and could increase further over the next two years as 150,000 sqm of office space is currently under construction. However, prime rental values stood still at €215/sqm/year.

Prime yields moved out by 75 basis points and reached 7.25% for the most secured assets.



Source: Savills Research / OTIE

	Take-up	↘
2009 trends	Supply	↗
	Rents	→

Regional office markets

Rents and yields data

	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1
Bordeaux	Rental values €/sqm/year				Yields			
Prime	176	173	170	170	6.00%	6.25%	6.50%	7.00%
Second-hand	150	149	148	148	8.00%	8.25%	8.50%	9.00%
Lille	Rental values €/sqm/year				Yields			
Prime	190	195	190	200	6.00%	6.25%	6.50%	7.00%
Second-hand	181	185	184	190	8.00%	8.25%	8.50%	9.00%
Lyon	Rental values €/sqm/year				Yields			
Prime	235	231	226	217	5.90%	6.25%	6.50%	6.75%
Second-hand	211	205	176	168	8.00%	8.25%	8.25%	8.50%
Marseille	Rental values €/sqm/year				Yields			
Prime	238	246	250	254	6.25%	6.75%	7.00%	7.00%
Second-hand	149	148	155	158	8.00%	8.25%	8.50%	9.00%
Nantes	Rental values €/sqm/year				Yields			
Prime	170	167	170	168	6.50%	6.75%	7.00%	7.00%
Second-hand	124	123	148	139	8.50%	8.75%	8.75%	9.00%
Toulouse	Rental values €/sqm/year				Yields			
Prime	218	216	220	215	6.50%	6.75%	7.00%	7.25%
Second-hand	118	134	138	140	9.50%	9.75%	9.25%	10.00%

Source: Savills Research

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