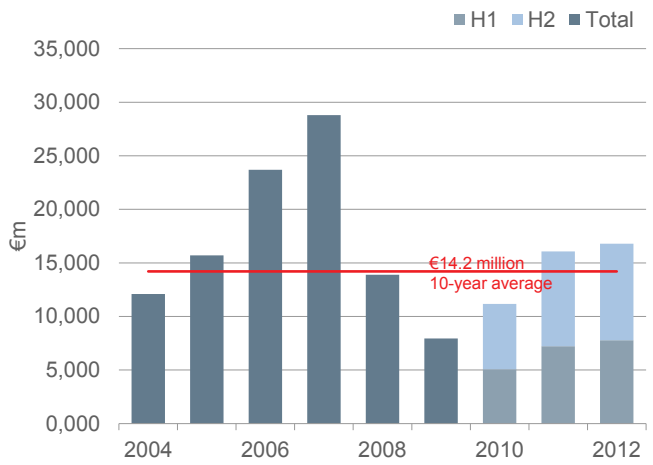
savills

Market report
France Investment

Q4 2012

GRAPH 1

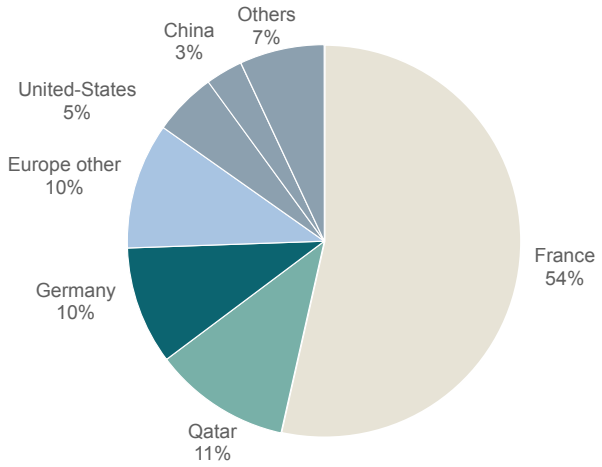
Investment volumes Figures are trending upwards



Graph source: Savills

GRAPH 2

Origine of buyers Foreign funds are increasingly more prevalent



Graph source: Savills

SUMMARY

A market full of surprises

■ GDP showed an increase of 0.1% in 2012. Growth drivers are currently bogged down and French confidence is low, which is provoking market players to be more cautious. Forecasts are banking on a gradual recovery from the second half of 2013.

■ With a total investment volume of €16.8 billion, the investment market increased by 4.50% yoy in 2012.

■ France saw fresh activity from international funds that returned to the country, this gave the market a good boost, especially in the large deals category, which accounted for 57% of the market.

■ The market remained flat and was mainly comprised of equity investors seeking safe assets, traditionally office properties (62% of the market).

■ Property in the retail and services (hotels) segments has done well and represents 18% and 15% of the total.

■ At the end of the year, prime office yields have hardened and are now at 4.25%. Prime retail yields are stable at 4.50% and prime logistics yields have moved out slightly to 7.75%.

"The investment market is growing thanks to the return of major international funds that are driving the €100 million plus segment." Marie-Josée Lopes, Head of Research Savills

Economic background

Focus Economics forecasts a weak GDP growth for 2012 of +0.1%, then a very limited return to growth in the following years.

The usual growth drivers are bogged down and the decline of economic indicators has, yet again, delayed the long awaited recovery. Unemployment has reached 10.1% of the working population. There is a growing imbalance between stable business start-ups and the increasing number of insolvencies. The increasing cost of raw materials is accompanied by a 0.1% fall in household consumption. Household purchasing power is diminishing and, in spite of a slight dip in the saving rates, consumer spending is unlikely to grow in the coming months.

The lack of predictability, due to the current gloom, is now enhanced by the fear that the crisis will extend into 2013. This has hit morale in France, where confidence is at a low ebb, and is encouraging occupiers to remain very cautious.

In the Eurozone, economic difficulties are spreading and GDP showed a fall of 0.4% in 2012. 2013 is likely to be difficult for all of the Eurozone countries, including Germany, which will have to face up to new difficulties, particularly in terms of employment. Nonetheless, according to the IMF, the steps taken by public bodies have reduced the risk of a serious crisis in the Eurozone.

"Commercial property is still an attractive investment. The OAT offers a significant spread rate and protects the investor from the risk of inflation." Boris Cappelle, Director Investment Savills

On a global level, the economic recovery foreseen by the IMF for the third quarter of 2013 could be hampered in the short term by the management of problems associated with US public debt (107% of GDP) and the Japanese recession. Worldwide growth (+2.3%) will be principally underpinned by results from emerging countries and the newly industrialised economies of Asia.

Market trends

The fourth quarter performed reasonably well, with €4.1 billion invested, bringing the total investment in France in 2012 to €16.8 billion. Despite weak activity at the start of the year (€2.5 billion in the first quarter), the market showed an annual growth of 4.5%. This level of performance is even more surprising given that it has come about in the midst of a declining economy.

If the volume seen in 2011 was boosted (+42%) by the increase of properties offered for sale in the fourth quarter, prior to the withdrawal of the 210 E tax concession, the 2012 improvement was mainly the result of an opening up of the market. Although most investments were carried out by national investors, there has been a continued increase in the number of foreign investors returning (from Qatar, the US, China, Spain, Norway etc.), including some unusual sources (Azerbaijan).

The result has been a market comprised of large deals that have been fuelled by the return of sovereign wealth funds. 46 deals of over €100 million were signed in 2012, against 40 in 2011 (57% of the total amount invested). Investors, who always prioritise Core assets, closed various landmark or prestige transactions in 2012. Examples to highlight include the purchase of 52 avenue des Champs Elysées for €515 million, 8 place Vendôme for €135 million or the portfolio of four luxury hotels (Martinez, Louvre, Concorde Lafayette and Palais de la Méditerranée) for €750 million.

Sovereign wealth funds, accounting for eight transactions over €100 million, represented 24% of this market segment. Qatari funds made their mark, accounting for four of the eight deals (11%). There is a historical relationship between France and Qatar that suggests there could

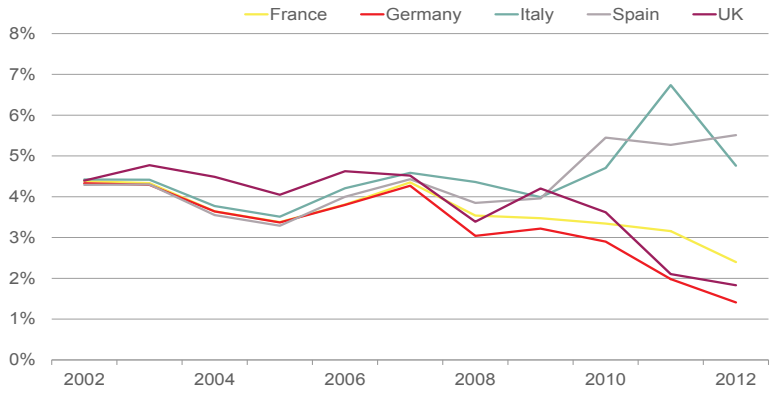
GRAPH 3

Economy Growth drivers remain bogged down

Graph source: Focus Economics / * forecast

GRAPH 4

OAT 10-year bond The banks' low refinancing rates are encouraging Northern European borrowing



Graph source: Focus Economics

be fresh Qatari transactions in secure and luxury assets in France. Indeed, a tax treaty signed between the two States was ratified by Law No. 91-1392 of 1991, in order to avoid double taxation on income, capital, companies and inheritance. Revised in 2008, it exempts Qataris from taxation.

Office properties continue to account for 62% of the investment market. However, in 2012, investment in retail and services properties made a comeback. In a year, the retail segment increased from 13.50% to 18%, and the services segment increased from 9% to 15%. In 2012, these two property classes totalled €5.6 billion, compared to €3.6 billion in 2011.

Retail property is a traditional diversification asset, in which success depends on more numerous and varied transactions than the service segment. In contrast, services are more spontaneous and essentially depend on hotel investments (12.50% of the 15% of service investment). This type of asset is valued for the "calming effect" it offers with regard to management (sale-and-manage-back) and for the very low voids risk. Thanks to 20 or so deals, mainly luxury properties acquired as part of a portfolio, this attractive market has been very active. 2013 could replicate 2012, with a growing proportion of hotel chain portfolios, such as the 167 ANF B & Bs sold for €508 million in 2012.

These diversification assets allowed investors to position themselves more regionally via multi-site portfolios. This has maintained the share of regional investment at 36% in an expanding market. However, this movement must be seen in context, as it primarily involves major cities. In contrast, over the past few years investors have focused even more on Paris, due to the tightening of the market and investors focusing on the most secure assets. The inner Paris segment alone accounted for 41% of 2012 investment in France, against 27% in 2011 and 23% in 2010. The rest of Ile-de-France totalled 23%, with the Inner and Outer Suburbs seeing a drop off in demand, while the Western Crescent faired better.

Ratings by type of market players changed in 2012. If institutional investors remained ahead with 22% of investments, sovereign wealth funds (19%) overtook SCPI / OPCI real estate investment trusts (15%). Thanks to an excellent volume of capital raised (€2.1 billion at mid-2012) OPCI and SCPI funds, especially those of insurers, remained active for deals under €100 million.

TABLE 1

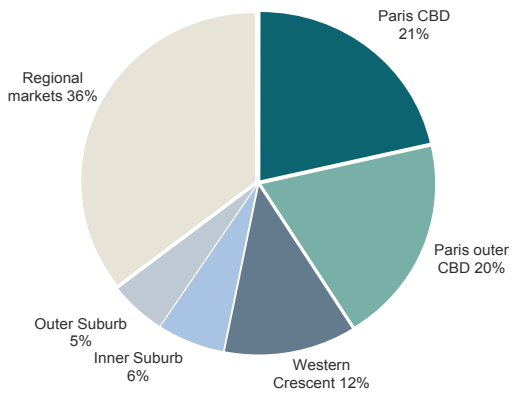
Yields Both prime and secondary yields have remained relatively stable

	Prime yield		Secondary yield		
	Q2 2011	Q4 2012	Q2 2011	Q4 2012	Annual evolution
Office CBD	4.50%	4.25%	5.25%	5.25%	↓
Office La Defense	5.75%	6.25%	7.25%	7.50%	↑
Office Lyon	5.75%	5.75%	/	/	→
Industrial IDF	7.00%	7.50%	9.25%	10.00%	↑
Industrial Lyon	7.25%	7.75%	9.50%	10.00%	↑
Retail high street	4.50%	4.50%	/	/	→
Shopping centre	5.00%	5.00%	6.50%	6.00%	→
Retail park and warehouse	6.00%	5.75%	7.25%	7.00%	↓

Table source: Savills

GRAPH 5

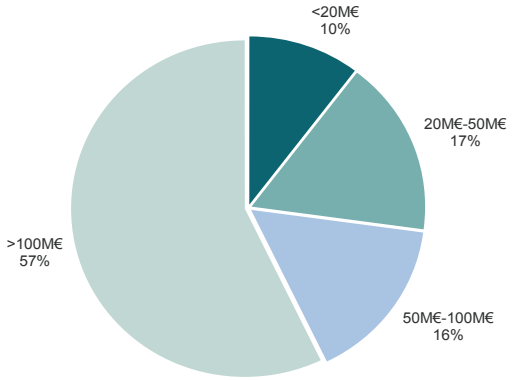
Location The CBD continues to see more demand



Graph source: Savills

GRAPH 6

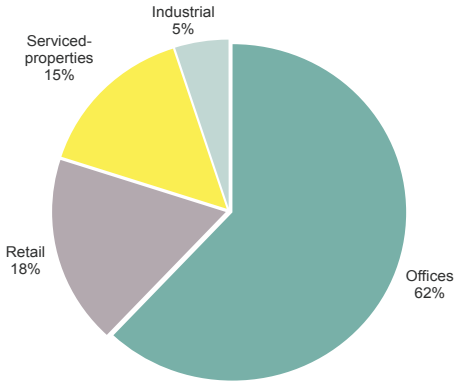
Deal size The market is being shored up by transactions of over €100 million



Graph source: Savills

GRAPH 7

Asset classes Retail and Serviced-properties comprised a third of the market



Graph source: Savills

Yields

Prime office yields hardened to 4.25% at year-end. They remained stable for retail, at 5.00% and showed a 50 basis point increase to 7.75% for logistics. The lack of flexibility in investors' selection criteria should further stress the competition for prime properties in 2013 and lead to downward pressure on yields.

Secondary yields were flat at 5.25% for offices, 6.00% for shopping centres and 10.25% for logistics hubs. The sluggishness, or even the drop, in rental values on the secondary market could lead to a greater increase in yields in 2013 in this segment.

TABLE 2

Major investments

Adress	Rent (€M HT HD)	Buyer	Seller
Portfolio: 4 hotels - France	750	Katara Hospitality	Starwood Capital Group
52 av. Champs Elysées - Paris	515	Qatar Investment Authority	Groupama Immobilier
Portfolio : 167 B&Bs - France	508	Foncière des Murs	ANF
Avant Seine - Paris	338	Hong-Kong Monetary Authority	EUROSIC
Office: Neo - Paris	322	Qatar Investment Authority	KANAM
Portfolio retail - France	313	Grosvenor France	ANF

Table source: Savills

OUTLOOK

Cross-border investments likely to increase further

- Given the slow economic climate, it is difficult to predict how 2013 will play out. Nonetheless, France will remain one of the safest and most thought-after markets in Europe.
- Worldwide growth in 2013 should encourage the return of other investors.
- The increase in the number of international players should continue to provide the market with considerable liquidity in the coming months and drive transactions exceeding €100 million.
- Offices should remain the prime target for most investors, even though we can expect investors to diversify their portfolios (i.e. the sale of the Mandarin luxury hotel on rue Saint-Honoré, currently under negotiation).
- Finally, the European low rates policy for refinancing banks should continue and further encourage investment flow in the French market.
- Overall, this allows us to anticipate a good level of investment of between €6 billion and €8 billion in the first half of 2013.

Savills team

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