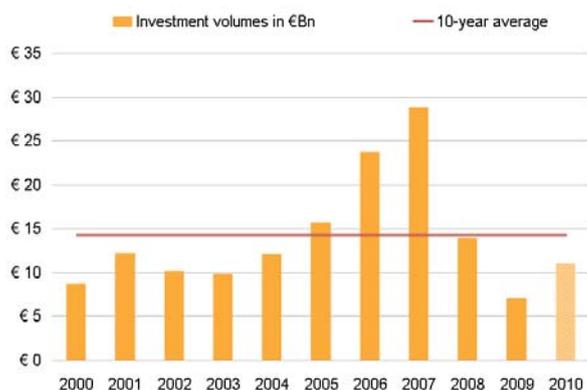


France Investment Bulletin

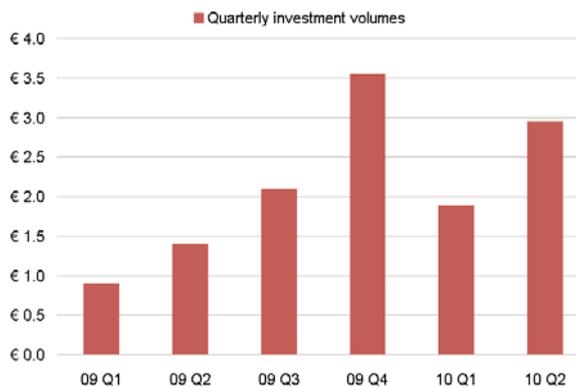
Summer 2010

Investment volumes



Source: Savills Research

Quarterly investment volumes



Source: Savills Research

“In spite of the improved economic background, released financial conditions and positive letting prospects, the French investment market is narrowed by the outweighing demand over supply.”



Pascal Rupert (Director Investment)

- The investment volume during Q2 totalled €2.94 billion bringing the half-year turnover to €4.82 billion, which is more than the double of last year's figure.
- Investor's interest is strengthening, financial conditions are softening and a rise in buyers overhangs the French market. However demand is markedly outweighing supply.
- With the two deals exceeding €400 million, including the portfolio Simon Ivanhoé and Cap 3,000, the proportion of retail investment reached an apex.
- Paris and the Western Crescent remain the most sought-after locations, including four transactions exceeding €100 million out of the eight closed since the beginning of 2010.
- Domestic investors are dominating the landscape, accounting for more than 70% of the total investment volume this quarter.
- The activity will not develop further unless a balance between supply and demand is reached. We expect the French investment turnover to range between €10 and €11 billion at year-end.
- Prime yields are being forced down by the increasing level of demand and the scarcity of prime investment opportunities.
- As buyers must adopt an aggressive approach on pricing, we believe that yields will start moving down for secondary properties.

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Economy and overview of 2010 H1

Economy

First Q2 national accounts confirm that GDP growth accelerated to +0.6% after +0.2% in Q1. Activity is backed by the continuing dynamism of world trade and the Euro depreciation resulting in a sharp rise in exports. Business sentiment improved considerably since the beginning of the year notably in the service and manufacturing industries leading to a slow pick up in investment. In the labour market the situation is improving with 32,000 new jobs created during the first half of the year and the unemployment rate stabilised at 9.5%. However, consumer confidence has been hit by growing concerns over the economic situation and triggered by recent fiscal news.

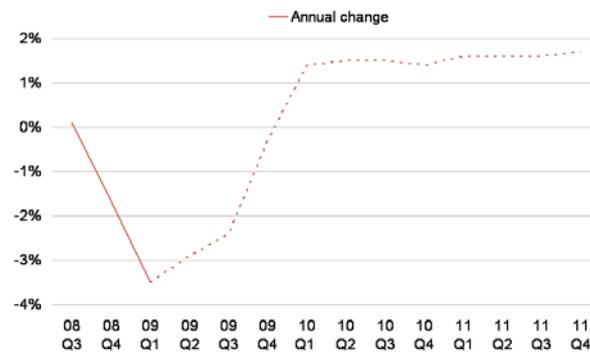
Overview of 2010 H1

The investment volume during Q2 totalled €2.94 billion bringing the half-year turnover to €4.82 billion, which is more than the double of last year's figure. Investor's interest is strengthening, financial conditions are softening and a rise in buyers overhangs the French market. Yet such a quantum leap has not led to a real growth in activity; the number of deals recorded this quarter is the same as in Q1 and below the 107 deals closed on a quarterly average during the past 18 months. However, the growing volume does reflect a rise in the size of transactions and the return of portfolio sales. Indeed six transactions exceeding €100 million were closed this quarter (eight in H1 2010). Though, the bulk of investment deals remains in a lot sizes ranging from €20 to €80 million.

With the two deals exceeding €400 million, including the portfolio Simon Ivanhoé sold to Unibail Rodamco for €476 million and Cap 3,000 acquired by Altarea Investissement for €450 million, the proportion of retail investment reached an apex, representing up to 47.5% of the total investment volume in Q2. At the same time these two large deals have brought the proportion of regional investment up to 45%, another record high. The share of office investments reduced consequently to 41%, the lowest level posted, against an average of 77% over the past 10 years. Paris and the Western Crescent remain the most sought-after locations, including four transactions exceeding €100 million out of the eight. But demand there is markedly outweighing supply, therefore these two sectors accounted for only 32% of the national investment volume, against 55% on average since 2001. Industrial properties remained affected by the unfavourable climate in the manufacturing sector in spite of the slight revival of global trade flows and were this quarter again at the back of the pack accounting for 5% of the total investments behind service properties (7%).

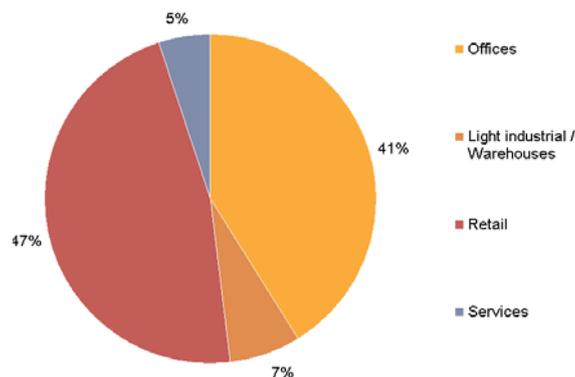
The strong yield compression recorded since Q1 2009, has reduced the number of potential buyers for prime properties to a limited number of Core funds/Family offices still able to cope with low net initial yields. Consequently and in the face of the growing scarcity of prime properties, Core+ funds are adopting a less selective approach to slowly integrate grade-B assets,

GDP growth



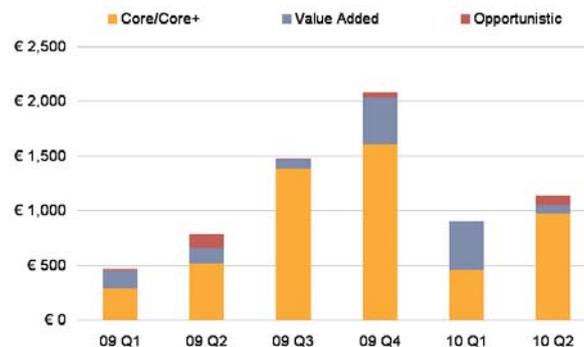
Source: Concensus Forecasts

Breakdown per product Q2 2010



Source: Savills Research

Breakdown per type of funds (offices)



Source: Savills Research

Yields and outlook for 2010

secondary locations and or shorter lease terms. On the other hand, Value Added funds, also showing strong dynamism, are struggling to close any deal as sellers are still not willing to concede the price depreciation of secondary properties.

Domestic investors are dominating the landscape, accounting for more than 70% of the total investment volume this quarter. Knowing their market like the back of their hand give them an advantage over international investors and allows them to take more aggressive position in terms of pricing. Germans were also active totalling a market share of nearly 28%. However, the German government's proposed changes to the country's investment laws have triggered a wave of withdrawals across some of the German open-ended property funds. Interest from close-ended / specialised funds maintains. UK investors posted a shy presence this quarter again.

Yields

Prime yields are being forced down by the increasing level of demand and the scarcity of prime investment opportunities. The prime office yield has moved down by around 100 basis points since last year to slightly below 5.00%. In the same time prime industrial yields went down from 8.25% to 7.00% and retail yields lost between 50 to 75 basis points.

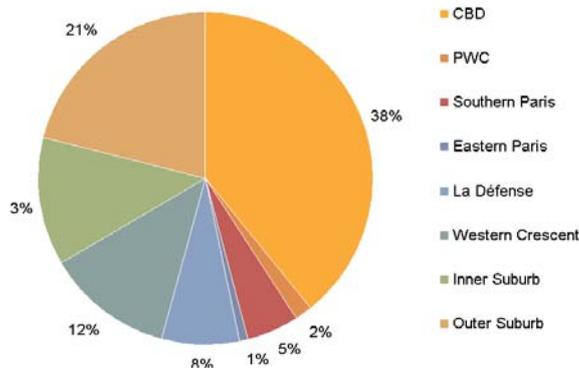
Outlook

In the context of an expected slowdown in the global economy in the second half of this year, French growth is expected to rise by 1.4% by year-end 2010 and 1.5% in 2011. Business investment will gradually improve on the back of expanding exports and growing domestic demand. But it will only get out of the red next year (-2.2% in 2010, 2.2% in 2011).

The French investment market is showing clear signs of improvement, notably with the letting market heading towards more positive prospects. Indeed, the curbed development activity in the past two years has helped in keeping the vacancy relatively low at the nadir of the cycle allowing rents to quickly stabilise and even to move up again in some undersupplied submarkets. However the investment activity will not develop further unless a balance between supply and demand is reached, which is unlikely to happen until the end of the year. Additionally, with the tensions hanging over the sovereign debt markets investors will continue to act cautiously. In this context we expect the French investment turnover to range between €10 and €11 billion at year-end. Domestic investors will remain the main market players and their market share might even increase further until the end of 2010. Other international investors are unlikely to markedly dip their toes in the French market until at least the end of the year, as they often are busy flushing out opportunities in their own market. We believe forward fundings will slowly come to the fore.

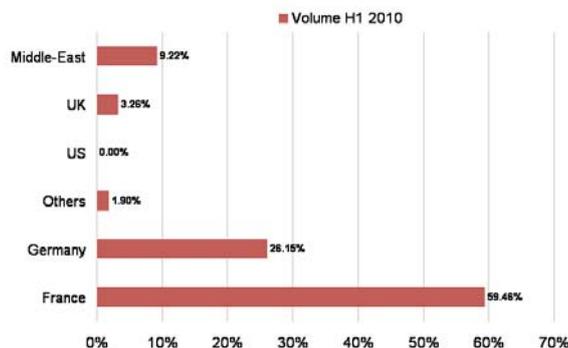
As buyers must adopt an aggressive approach on pricing, we believe that yields will start moving down for secondary properties. Prime yields will continue moving down but at a less dramatic rate.

Breakdown per location within IDF



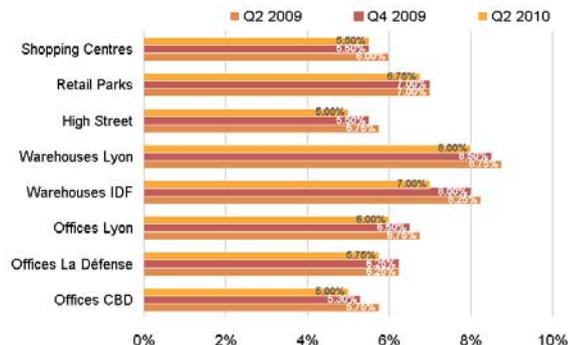
Source: Savills Research

Breakdown per nationality



Source: Savills Research

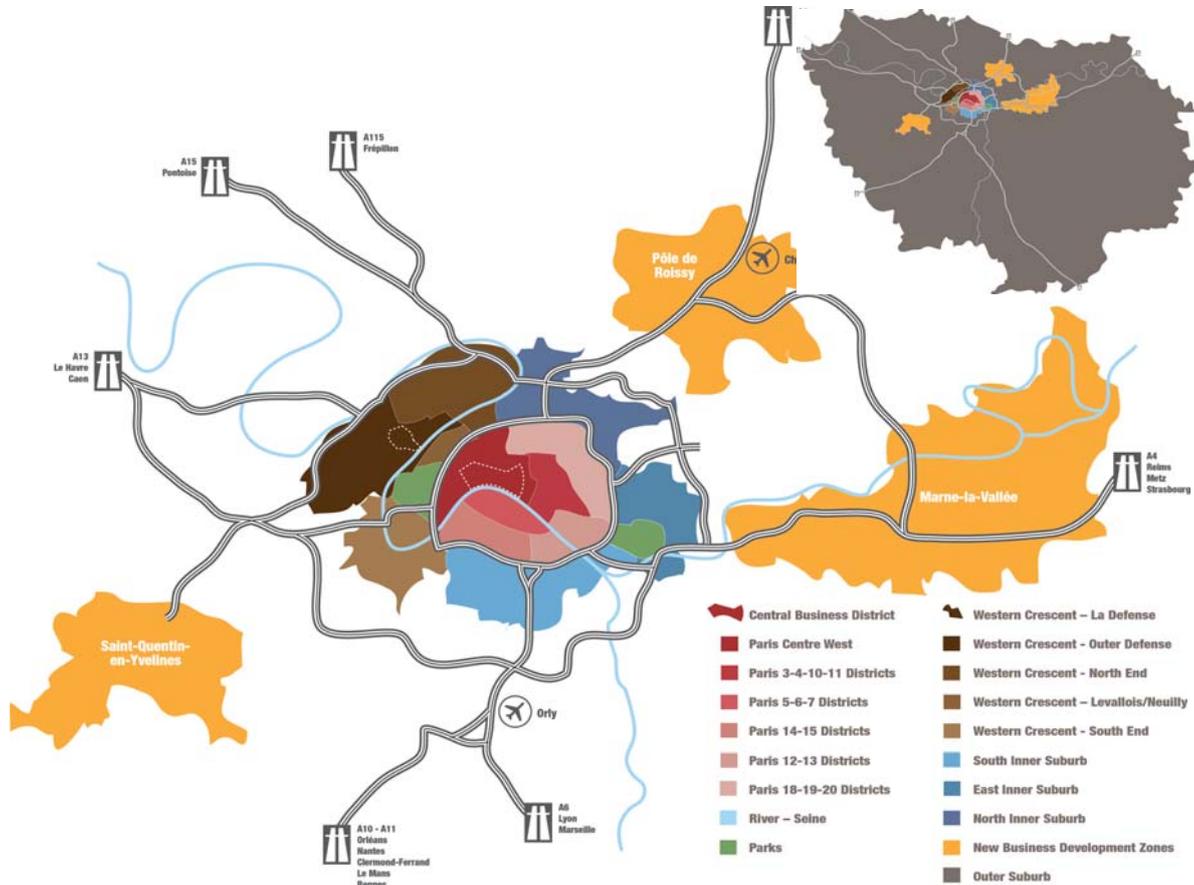
Yields



Source: Savills Research

France Investment Bulletin

Geographic areas



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