Property Market Trends

FRANCE

MARCH - 2017

CATELLA

TABLE OF CONTENTS

This report has been written by Catella based on information from MBE Conseil and Catella Property. The assessment was concluded on March 2017.
This report is based on information that we believe is reliable. Whilst every effort has been made to ensure its accuracy, we cannot offer any guarantee that it contains no factual errors and accept no responsibility for any liabilities that may arise as a result of such errors.

Photo credits: Jean-Marc Lavigne, Cyrille Dubreuil, Vincent Fillon, Hugo Hebrard, Meero, Shoootin, Shutterstock

Legally responsible publisher: Monique Benisty

Design by: www.thalamus-ic.fr

Translation by: David Hayhurst

To subscribe to Catella's research, please email your request to: oceane.vinson@catella.fr

MAIN TRENDS

ECONOMY: REAL GROWTH … BUT GRADUAL

Employment growth returns in Île-de-France:

+ 1,3% in 2016
vs + 0,6% in 2015

GDP growth has exceeded 1% for the first time since 2007

31,6% in 2016
Corporate margins stable
vs strong growth in 2015

Only moderate GDP growth of: 1,1% in 2016

Projected GDP growth:

+1,3% in 2017
+1,4% in 2018

Rate in 2016 : +1,1%

REAL ESTATE DATA: 2016 A GOOD YEAR

01. RENTAL MARKET: strong take-up, lower vacancy rate, stable headline values

Take-up growth
2 410,000 sq.m
+ 7% in 2016

+ 27% take-up over 5,000 sq.m

+ 36% take-up over 10,000 sq.m

Vacancy rate

3,2% scarcity in Paris

6,2% in Île-de-France

7,5% in suburbs

FUTURE SUPPLY from 2018

569 000 sq.m uncommercialised space under construction

Headline values STABLE

Incentives lower by 0.7 points from 22,2% in Q3 2016 to 21,5% in Q4 2016

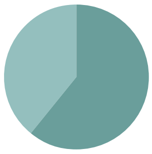
02. THE INVESTMENT MARKET: Rising volumes and lower yields

SECOND-BEST PERFORMANCE IN 20 YEARS FOR THE INVESTMENT MARKET

INCREASE in volumes: + 5% in 2016

€28.3 Billion

TRANSACTIONS VALUED OVER €100 MILLION



64% OF TOTAL VOLUME IN 2016

78% OF VOLUME IN OFFICES AND RETAIL
solid and strong investor appetite for both asset types

STRONG GROWTH FOR RETAIL PARKS

€1.1 Bn INVESTED in 2016

+664% IN 2016

3,10% PRIME YIELD IN PARIS

SUMMARY DATA TABLE

Office market in Île-de-France in 2016

	TOTAL STOCK sq.m	TAKE-UP sq.m	VACANCY RATE %	TOP RENT €/sq.m/y	PRIME RENT %
Paris CBD	8 635,500	565,300	2,70%	810	3,10%
West CBD	6 934,400	537,500	8,30%	550	3,65%
Paris secondary BD	3 976,700	319,750	2,30%	540	3,50%
Emerging North	2 595,900	88,759	10,30%	305	4,25%
East District	1 592,000	53,000	5,00%	220	4,85%
South District	1 735,400	93,700	10,70%	320	4,50%
Boucle Nord du 92	1 516,500	55,400	11,30%	310	5,00%
Greater Paris	56 965,600	2 410,000	6,20%		

Source: MBE Conseil /Catella Property / CBRE/ Immostat

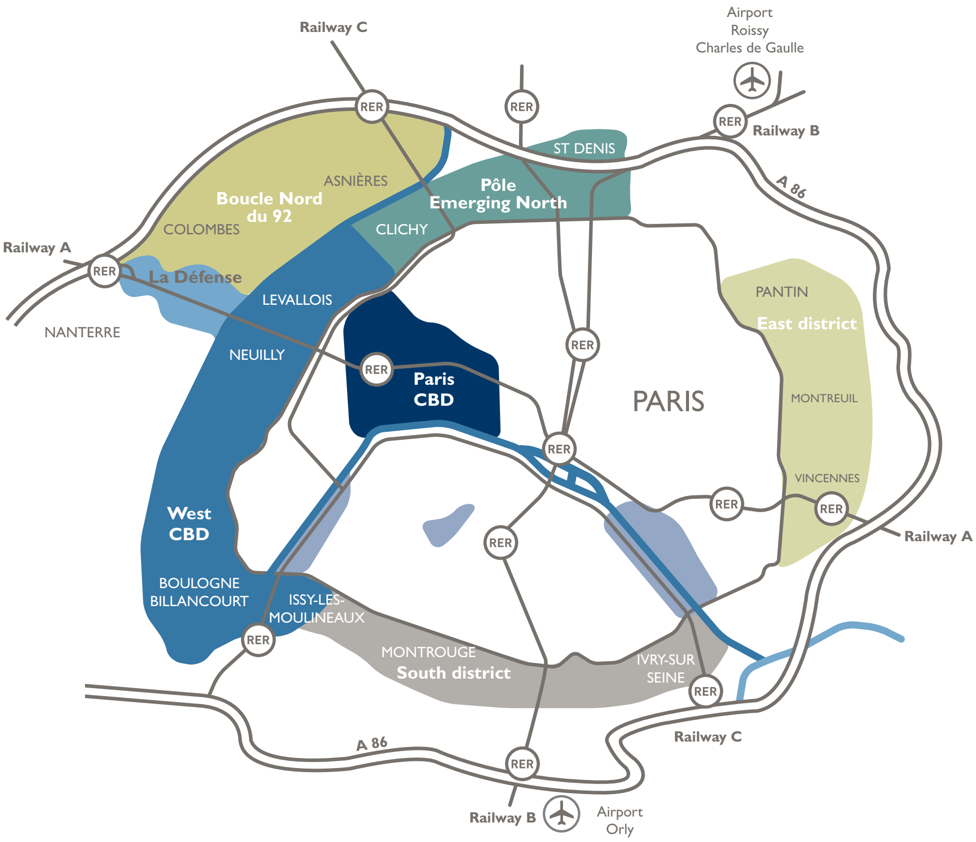
01

The Île-de-France office rental market

Energized by an improving economy in Île-de-France – especially by private sector growth, which has surpassed 1% for the first time since 2007 – take-up has maintained the dynamism observed in the end of 2015 and showed solid growth (at least until the third quarter of 2016), being driven by renewed vigour in the large-surface sector. Take-up has increased by 7% on the year, to reach 2.41 million sq.m. Unlike in 2015, large-surface transactions have been the most active market: up by 27% over 2015. (Although it should be kept in mind that 2015 was an exceptionally poor year in the large-surface market). Among these, surfaces of over 20,000 sq.m have especially seen renewed market interest. The small and medium-space markets have been relatively stable, declining slightly (-3%) from 2015. Vacancy rates have continued to decline, particularly in Paris, where there is now a significant shortage of supply, regardless of size or quality, especially in the Paris CBD and all secondary business districts. Overall, the vacancy rate in the Île-de-France region has fallen by 0.8 percentage point to 6.2%. In the suburbs, vacancy rates have been declining less rapidly and with the exception of the East district, which has also seen supply shortages, are still oversupplied. Headline rents have remained generally stable. But for the first time since 2012, incentives have been falling to late-2015 levels (21.5%), following increases throughout 2016, especially for transactions of more than 5,000 sq.m.

SUBMARKETS

IDF office stock: 56.9 million sq.m in 2016



Paris CBD Stock: 8.6 million sq.m	Other West CBD Stock: 3.6 million sq.m	Emerging North Stock: 2.5 million sq.m	Boucle Nord 92 Stock: 1.5 million sq.m
Paris Secondary BD Stock: 4.0 million sq.m	La Défense Stock: 3.3 million sq.m	South district Stock:1.7 million sq.m	East district Stock:1.6 million sq.m

With a total stock of 56.9 million square meters, the office market in the Île-de-France region is among the best organized and most "readable" in Europe, as well as being among the most diversified. Office stock is largely centered around Line A of the RER regional railway network, which forms the transportation backbone for the Île-de-France office market as a whole. Away from the main business districts (ie. all of the Paris business districts, the West CBD), suburban areas are currently organized primarily around the main transportation networks: namely, the "Périphérique" main Paris ring road and the A86 secondary ring road for road traffic, as well as the various metro, RER and tram lines. The ongoing public transport infrastructure projects - especially the Grand Paris Express "regional super metro" scheme - should not fundamentally change the overall complexion of the market, at least in the short term. Some projects will improve accessibility to already mature business districts in cities and areas like La Défense, Boulogne-Billancourt and Issy-les-Moulineaux. Others, such as the Emerging North and South districts, will also benefit from improved transport services. Once these new infrastructure projects are fully in place, better public transport service could gradually move the "center of gravity" of these submarkets to locations situated further from the Périphérique — especially to Clichy, Saint-Ouen, and Montrouge – or to areas which today are considered secondary submarkets, especially the Pleyel district of Saint-Denis.

→ **The Paris Central Business District (Paris CBD),** with a stock of 8.6 million sq.m (15% of the total in Île-de-France), the Paris CBD has maintained its status as the prime business district in the region. This submarket has the highest rental and market values - as well as the lowest yields - and is also the most consistently active office submarket.

→ **The West CBD,** which includes La Défense, is the second most developed market. It also incorporates the cities of Neuilly-sur-Seine, Levallois-Perret, Boulogne-Billancourt, and Issy-les-Moulineaux. Office stock has reached more than 6.9 million square meters - about 12% of the total in Île-de-France - of which almost half is located within La Défense.

→ **The Paris Secondary Business Districts** consist of three major clusters of office stock. In addition to the Front-de-Seine and Montparnasse districts, the district formed by the Gare de Lyon, Bercy and Paris Rive Gauche cluster has been the most dynamic market in terms of new development in recent years. These three secondary districts now have a combined stock of nearly 4 million square meters. This should continue to expand in the coming years, particularly in the Austerlitz Sud and Tolbiac Chevaleret areas, where several operations acquired speculatively by investors have been launched, and should be delivered between 2018 and 2019. The area of the Front-de-Seine has been extended southwards towards the Balard district, allowing for the integration of the Ministry of Defence, as well as the Qu4drans operations developed by AXA and leased by Altice Media.

→ **The Emerging North** submarket is continuing to evolve as the natural extension of the Paris business districts and the West CBD. Consisting of the municipalities of Clichy, Saint-Ouen, Saint-Denis and Aubervilliers, its office park has grown much in recent years. It is now estimated at around 2.6 million square meters and still has a high potential for growth, especially in the areas that will benefit from new public transport services.

→ **The East District**, centered around the suburban city of Montreuil, has been the site of many major transactions and subsequent developments in recent years, with stock of 1.6 million square meters in 2016.

→ **The South District** extends from Vanves through Montrouge to Ivry-sur-Seine. This area extends beyond the inner suburbs, and includes cities such as Châtillon, where most commercial development has occurred near the Chatillon-Montrouge metro and tramway stations. Office stock in this submarket currently totals 1.7 million square meters.

→ **Finally, the "Boucle Nord"** area of Hauts de Seine includes the cities of Asnières, Colombes, Bois-Colombes, La Garenne-Colombes and Gennevilliers. This area has greatly matured in recent years, with available stock in 2016 measuring 1.5 million square meters, and should continue to mature. This submarket is currently divided into two sectors. The cities of Colombes, La Garenne-Colombes, and Bois-Colombes in the western half are closer to La Défense and have the highest rental values. The eastern half consists of Asnières and Gennevilliers.

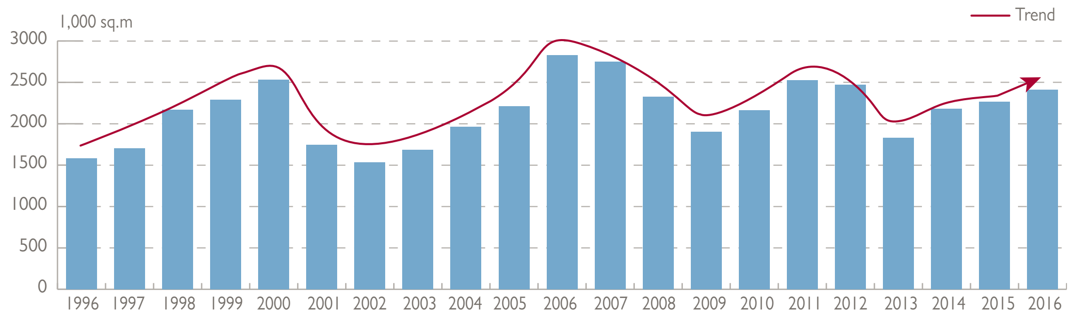
A SLIGHT GROWTH IN TAKE-UP

A take-up rise of 7%

Take-up has increased by nearly 7% from the end of 2015, to reach 2 410,000 sq.m. For the first time since 2012, it has exceeded the average over the last 10 years (2.28 million sq.m) and is significantly above the long-term annual average of approximately two million sq.m.

2016 has been one of the top five years in terms of take-up since 1992. This result is even more remarkable, given that it has been achieved in a still difficult economic climate, marked by weak economic growth of around 1.1%.

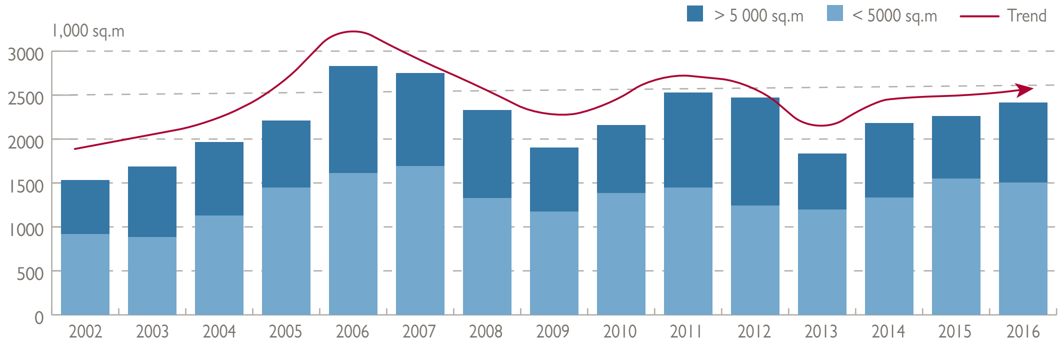
Take-up in Île-de-France: 1996-2016



Source : MBE Conseil - Immostat

Unlike in 2015, take-up growth in 2016 has been primarily driven by transactions of more than 5,000 sq.m (+27%), while activity for small and medium spaces has fallen slightly (-3%).

Take-up in Île-de-France by size category



Source : MBE Conseil/Catella - Immostat

The 1,000 to 5,000 sq.m range in particular has accounted for the decline in smaller and medium space activity: down by 6%, while take-up for spaces of less than 1,000 sq.m has trended slightly upward, despite a drop in the second half of the year.

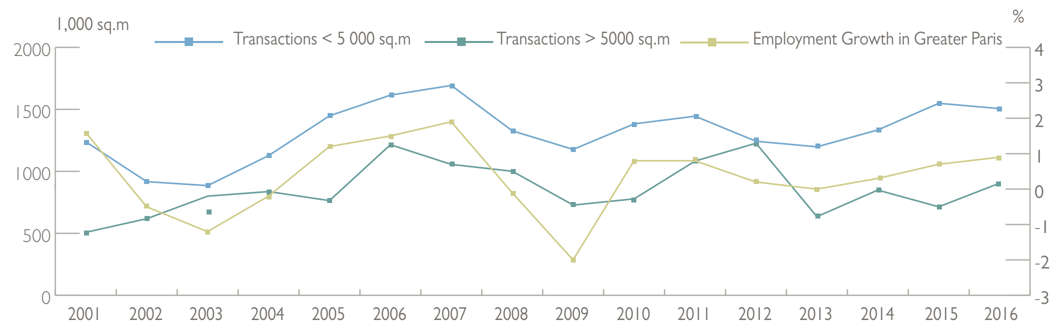
-3% for transactions
under 5,000 sq.m

This slight decline in the under-5,000-sq.m market goes against the long-term trend. In view of the strong historical correlation between small and medium-sized transactions and changes in employment growth, it should have increased significantly. In 2016, employment growth in Île-de-France has been positive, reaching 1.3%. Employment in the region exceeded its pre-crisis of 2008 level by 1.4%, while in the whole of France it is 1.8% below this level. Moreover, growth in employment in the commercial services sector in Île-de-France was 1.6%, driven by the IT, scientific and technical, business support services, and legal and accounting services: all being business sectors that have traditionally been among the top consumers for office spaces.

This return to employment growth of more than 1% should have resulted in a greater increase in take-up volume in the under-5,000-sq.m market (i.e., of about 15%). Instead, the opposite has happened, causing for the first time since 1997 a statistical disconnect between small and medium-sized take-up and employment growth. Two factors may explain this disconnect: firstly, the weight of various political uncertainties, global as well as national, which has caused many small and medium-sized enterprises to adopt a "wait-and-see" attitude. Secondly, we can also see the first effects of the shortage of surfaces in any size range in Paris: one of the markets most affected by this decline, along with the Outer Suburbs.

A disconnect
with employment growth

Take-up by size category and employment levels in Île-de-France



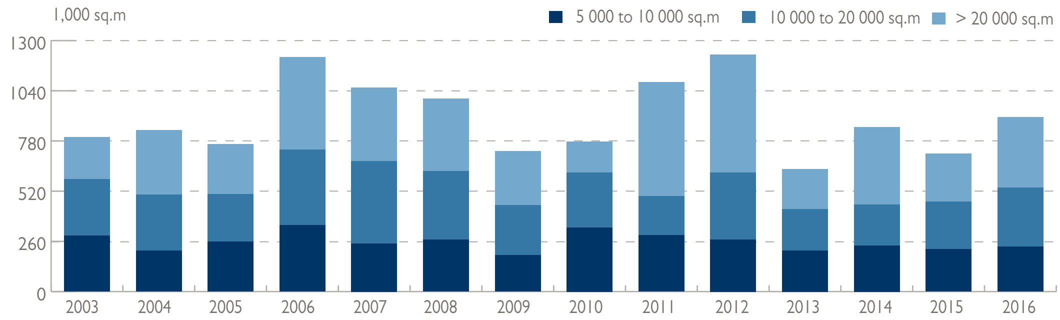
Source : MBE Conseil/Catella, Immostat and Crocis for employment rates - * : annual variations calculated up to Q3 2016 for employment rates

Nonetheless, market growth has been generated by the great degree of large-surface interest this year, following the sharp slowdown in such interest in 2015. In total, large-space transactions have increased by 27% compared to 2015.

Sixty-seven transactions of more than 5,000 sq.m have been completed in 2016 for a total volume of 905,000 sq.m, compared with 56 transactions for 714,000 sq.m in 2015.

A 27% growth in deals
in over-5,000 sq.m range

Large-surface transactions by size category: 2003-2016



Source : MBE Conseil

Growth of 48% in the over-20,000 sq.m range

The biggest category growth has been in transactions of over 20,000 sq.m, (down sharply in 2015), reaching 367,300 sq.m through 12 such transactions, compared to seven deals totaling 247,000 sq.m in 2015. This strong increase has occurred despite the continuing decline in deals in the over-40,000-sq.m range. Only one transaction was recorded in 2016 in this size range: Saint-Gobain's 49,000-sq.m turnkey project in the M2 Building in La Défense (a Generali operation), while in 2015, there were four deals in this size range, totaling nearly 171,500 sq.m.

Record performance in the 20,000 to 40,000 sq.m market

However, activity in the 20,000-to-40,000 sq.m range has been particularly dynamic, reaching a record, with 318,300 sq.m transacted in 12 operations. This has been the highest level since 1990, both in terms of transaction numbers and total surface area. The rationales behind these very large surface transactions still involve businesses' needs for space rationalization or savings on rents through relocation. Among these were two transactions in La Défense carried out by RTE in the Window Building and by Deloitte in the Tour Majunga, and a further two BNP rental deals in two of the buildings in the Millénaire office park in the 19th arrondissement. These were a furtherance of the bank's ongoing staff consolidation in the arrondissement, which began in 2010 and brings BNP's presence in the area to nearly 113,000 sq.m. Other deals in this size range include EDF's lease of 39,000 sq.m in the Smart Side Building in Saint-Ouen; the letting by the Groupe Altice of the two buildings delivered as part of the Qu4drans programme in the 15th arrondissement of Paris; the leasing by Crédit Agricole Consumer Finance of the Smart Gardens Building in Massy, and by the RATP of the Elyps Building in Fontenay-sous-Bois. Of these 12 transactions, nine were for new buildings, again illustrating the preference of businesses seeking large surfaces for new properties. 51% of take-up in this size category have been located in the most developed submarkets, including 32% in La Défense.

...+23% for 10,000-to-20,000-sq.m spaces

Take-up has also increased strongly in the 10,000 to 20,000 sq.m range, with 22 transactions in 2016 totaling 304,600 sq.m, compared to 18 totaling 247,800 sq.m in 2015: an increase of 23%. The clients for these surfaces have overwhelmingly chosen (88%) the most developed business areas in the Île-de-France region, including 42% in the secondary business districts of Paris (56% in the Gare de Lyon / Bercy / Paris Rive Gauche area and 34% around the Front-de-Seine). Another 18% of them have chosen La Défense. In this size segment, 63% of take-up volume has involved new buildings.

...+6% in the 5,000 to 10,000- sq.m range

Transactions of between 5,000 and 10,000 sq.m have also increased over 2015, but at a slower rate. Thirty-three transactions have been finalized totaling 232,700 sq.m: up only 6% from 2015. Unlike with the larger transactions, however, these have mostly (52%) been located in suburban areas, incuding 37% in the Outer Suburbs. Another difference is that while new-surface deals have remained in the majority, transactions for second-hand properties have been more numerous (40% of the total) in this range.

Growth in pre-lettings

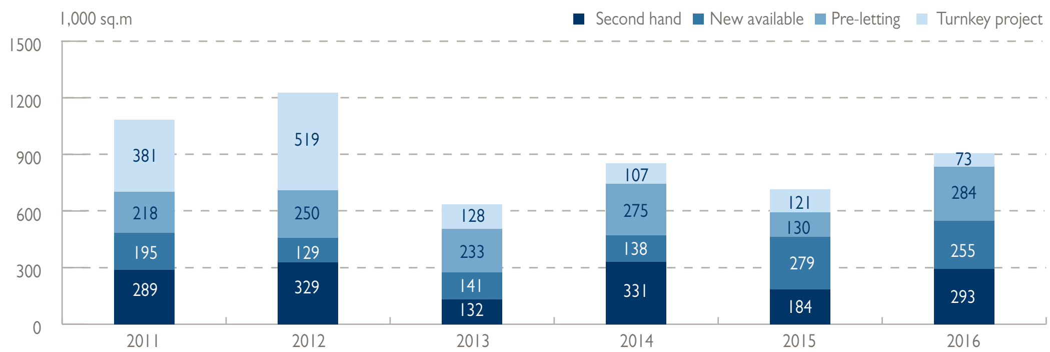
While the preference for new buildings remains high (68% of the total), this has been 2016 due to a strong recovery in pre-letting activity in 2016. This has accounted for 31% of large-space transaction volume: more than double that of 2015. There have been 16 pre-letting operations for a total volume of 284,000 sq.m in 2016. Their locations have been very diversified, occuring in almost all Île-de-France markets except for the East and South districts, and the Boucle Nord. 52% of these have been for buildings to be delivered in 2017, 22% in 2018 and 16% in 2019.

Transactions carried out in newly delivered buildings have remained at a high level (255,000 sq.m over 22 operations), despite a decrease of 9% from 2015. These have largely been located in La Défense (29%), in the business district of the Front-de-Seine (25%), and to a lesser extent in the inner-suburban cities in the South district (16%), as well as in the Boucle Nord. As in 2015, such deals have often contributed to the decline in the vacancy rates in areas where there have not been many releases, like La Défense, the Boucle Nord and in the secondary business districts of Paris.

Strong growth also seen in second-hand market

The resumption of deal activity for large surfaces in second-hand buildings has also been very important, contributing to the decline in vacancies in some areas. Without returning to their 2014 levels, they have largely rebounded from their low of 2015, with 293,000 sq.m being transacted over 26 operations: up by 43% compared to 2015. The worsening shortage of new surfaces has resulted in increased interest in the best part of the second- hand available buildings, whether being presented in their current condition, or having been renovated. For this reason, headline rents have sometimes both been relatively high and have shown very strong durability, particularly in the secondary business districts in Paris and the West CBD (i.e., between €450 and €500 / sq.m / year); in Other Paris (eg., €330 in Paris Northeast), and even in the Outer Suburbs (between €220 / sq.m in Massy and €310 / sq.m in Rueil-Malmaison).

Take-up over 5,000 sq.m by building status

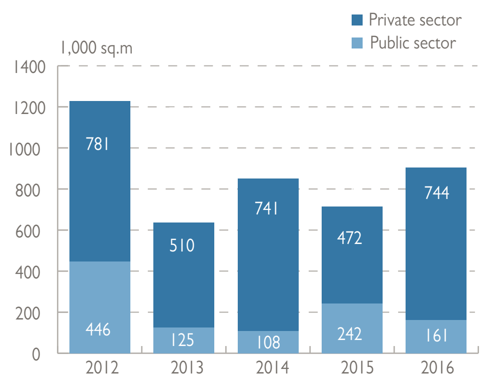


Source : MBE Conseil

... decline in turnkey projects continues

Turnkey projects, however, have seen their proportion of operations decline each year since the two exceptional performances of 2011 and 2012. Only 73,000 sq.m in the form of three operations were concluded in 2016, down by 40% from 2015. Nevertheless, among them has been the biggest transaction of the year: the turnkey rental project developed by Generali for Saint-Gobain in La Défense (Tour M2, 49,000 sq.m). Another major turnkey transaction involved the Le Monde newspaper in Paris Rive Gauche.

Public vs. private-sector transactions for surfaces over 5,000 sq.m: 2012-2016



Source : MBE Conseil

Lower public sector take-up

Take-up involving the public sector has again been on a downward trend in 2016. However, this decline is largely due to the delay in statistical effect of the Regional Council transaction in the Influence buildings in Saint-Ouen, that will only be registered statistically in the first quarter of 2017. A more accurate assessment of 2016, therefore, would not reflect quite such a large drop in public sector activity. In 2016, ten such transactions have been concluded for a volume of 161,000 sq.m.

The largest transactions carried out by Administration or other public sector companies in 2016 include the RTE letting of the Windows building in La Défense (40,560 sq.m), RATP's lease in the Elyps Building in Val -de-Fontenay (32,500 sq.m), by INSEE in the White Building in Montrouge (21,700 sq.m), and by La Poste in the Opale Building in Issy-les-Moulineaux (17,000 sq.m).

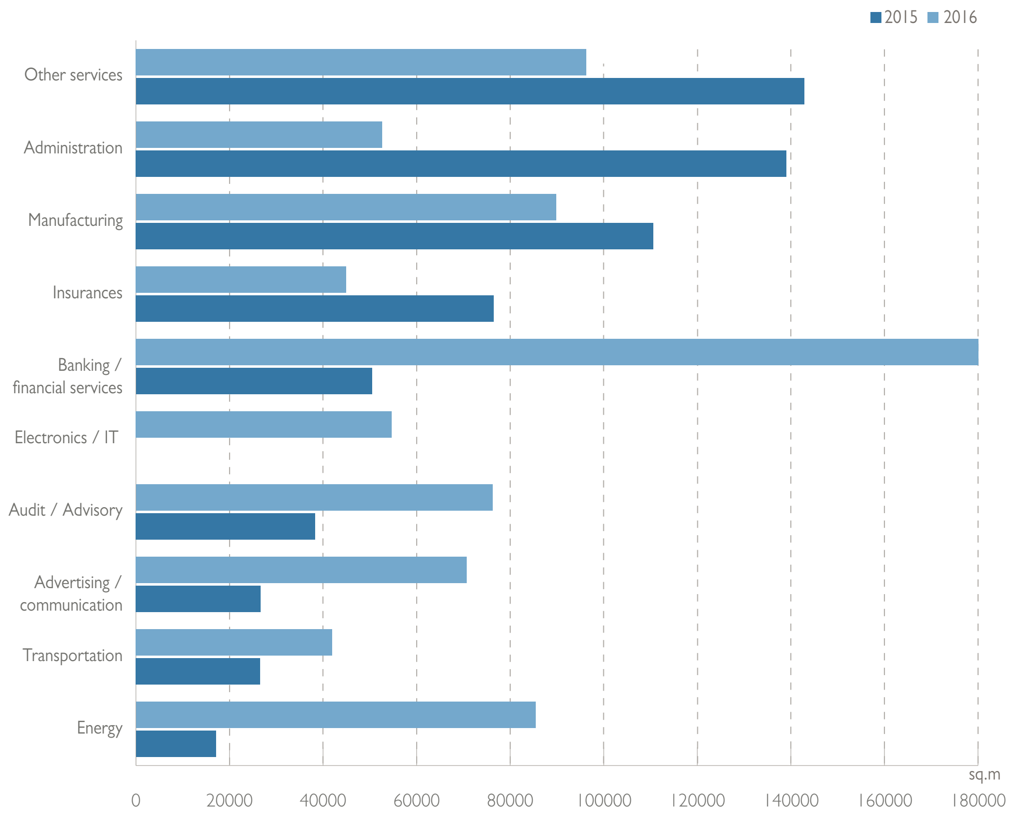
Strong rise
in private-sector take-up

However, the decline in demand from the public sector for spaces of more than 5,000 sq.m has been largely offset by a major rise in take-up from the private sector. The latter has increased by nearly 58%, with a transaction volume of 744,000 sq.m, compared to 472,000 sq.m in 2015. This high degree of interest has come mainly from the Banking / Financial Services sector, which has been by far the leading consumer for large surfaces in 2016. The ten top business sectors for large surfaces have accounted for 88% of such take-up in 2016. The concentration of activity among only a few business sectors has been much lower than in 2015. Three sectors have each exceeded 10% of the market share for a total of 40%. The other seven have each had shares of between 5% and 9%. By contrast, in 2015, four sectors each exceeded a 10% market share for a total of 66%, while the other six had shares of between 2% and 7%.

Banking/ Financial Services
by far largest consumer
of large surfaces

One sector's activity has been predominant in 2016: Banking / Financial Services. It alone has accounted for 20% of the total transaction volume for surfaces of more than 5,000 sq.m, with more than 180,000 sq.m commercialised in ten transactions, eight of which were over 10,000 sq.m: five of these between 10,000 and 20,000 sq.m and three of more than 20,000 sq.m. Although this sector has traditionally been among the top two consumers of large surfaces since 1992, its activity fell sharply in 2015 with only 50,500 sq.m transacted, putting it in fifth place in our ranking. 2016 marks a major return of the sector to top spot. The BPCE group with three transactions, all in the Paris Rive Gauche area, and BNP with two transactions in the 19th arrondissement, were the two most active players, representing 51% of the total surface area. Another major deal was Crédit Agricole Consumer Finance's leasing of more than 37,000 sq.m in the Smart Gardens Building in Massy, previously occupied by Sanofi.

Ten leading consumers of large surfaces by business sector: 2015 vs. 2016



Source : MBE Conseil

The Other Services sector, which had driven the large office market in 2015, has fallen by 33% this year, but is still in second place with 96 200 sq.m being taken up. The largest Other Services transaction involved La Française des Jeux, which bought the 25,000-sq.m Delta Building in Boulogne-Billancourt.

As in 2015, Manufacturing has remains in third place in the ranking. In 2016, this sector (excluding luxury industries) has accounted for almost 55% of the large-surface transaction total, due entirely to a 49,000 sq.m turnkey construction project undertaken by Generali for Saint-Gobain in La Défense. Among Manufacturing companies, the Chemicals / Pharmaceuticals sector was the most active in 2016 (five of the six transactions in this category). Apart from Saint-Gobain's transaction, all movements involved spaces of less than 12,000 sq.m. One example was the IMS Health lease for 11,400 sq.m in the Tour D2 in La Défense.

The Energy sector also recorded strong growth in large-surface activity compared to 2015, due to two transactions of more than 20,000 sq.m: the rental by EDF of the Smartside Building in Saint-Ouen (39,000 sq.m) and RTE's lease of 40, 560 sq.m in the Window Building in La Défense.

Selected major transactions (+5,000 sq.m) : Île-de-France 2016

TENANT	SIZE in sq.m	ADDRESS	CITY	SUBMARKET	BLDG. STATUS
EDF	39,000	Smartside	Saint-Ouen	Emerging North	New
RTE	38,487	Window	La Défense	La Défense	New
Deloitte & Touch	30,494	Tour Majunga	La Défense	La Défense	New
La Francaise des Jeux	25,039	Le Delta	Boulogne-Billancourt	Other West CBD	2nd Hand
BNP Paribas	24,096	Le Millénaire 4	Paris 19	Other Paris	New
Insee	21,647	White	Montrouge	Emerging South	New
Banque de France	18,839	In Town	Paris 09	Paris CBD	New
Les Echos	17,750	10 Bd de grenelle	Paris 15	Paris Secondary BD	New
Natixis	14,780	Elements	Paris 13	Paris Secondary BD	New
Siaci Saint Honore	14,271	Le Season	Paris 17	Other Paris	New
Sephora	13,413	41 Rue Ybry	Neuilly-sur-Seine	Other West CBD	2nd Hand
La Mondiale	11,830	Vivacity	Paris 12	Paris Secondary BD	New
Wework	11,657	33 Rue lafayette	Paris 09	Paris CBD	2nd Hand
Transdev	10,760	Edo	Issy-les-Moulineaux	Other West CBD	New
Credipar - PSA Finance	8,767	Pointe Métro 2	Gennevilliers	Boucle Nord	New
Shiseido	7,384	Carré Saint Honoré	Paris 08	Paris CBD	2nd Hand
Eurest/compas	6,600	Smart Up	Chatillon	Emerging South	New
RATP	32,469	L'Elyps	Fontenay-sous-Bois	Outer suburbs	New
Credit Agricole Consumer Finance	37,787	Smart Gardens	Massy	Outer suburbs	New
Sopra	8,200	Cityscope	Montreuil	Emerging East	2nd Hand

Source : MBE Conseil - CBRE

Geographically, Paris and La Défense are the two most sought-after markets by all types and sizes of tenants in 2016, while the other areas have gone through a more difficult year, notably the rest of the Western Central Business District (i.e., outside La Défense), the Outer Suburbs and, despite slight increases, the inner-suburban South district and the Boucle Nord. Paris has accounted for 46% of Île-de-France take-up volumes in 2016. Meanwhile, La Défense has almost doubled its market share from 6% in 2015 to 11% in 2016, and has approached its historic highs.

Paris remains **in top spot**

…thanks to its secondary business districts

However, while Paris has still enjoyed a very good overall performance with a 14% increase in transactions, the main trend in 2016 has been the very robust activity in the city's secondary business districts, in particular those of Front-de-Seine and of Gare de Lyon / Bercy / Paris Rive Gauche. Take-up has been up by 92%, to reach 320,000 sq.m, compared to 166,000 sq.m in 2015. This sharp rise has been entirely due to transactions of over 5,000 sq.m, with the local market for smaller spaces having been stable. Fourteen large-surface transactions have been finalised in 2016 (seven in Gare de Lyon / Bercy / Paris Rive Gauche; six in the Front-de-Seine cluster and one in Montparnasse) for a total transaction volume of close to 198,000 sq.m, compared to only four in 2015 for nearly 45,000 sq.m. The main reason for this remarkable take-up rise has been the return of available supply, especially of new and refurbished buildings, in these usually severely undersupplied areas. In the Gare de Lyon / Bercy / Paris Rive Gauche area, five of the seven transactions of more than 5,000 sq.m concluded in 2016 concerned new buildings. Of these five buildings, four were pre-let: Austerlitz and Elements (both to Natixis); Vivacity (to AG2R la Mondiale) and the Le Monde turnkey project. Another building was leased on delivery: Be Open to the Caisse des Dépôts. In the Front-de-Seine area, of the six finalised transactions, four were for new buildings, only one of which was pre-let: the 10 Grenelle Building, rented by the Les Echos newspaper. Another was leased immediately after delivery: the Greenelle Building, partly let by Imerys.

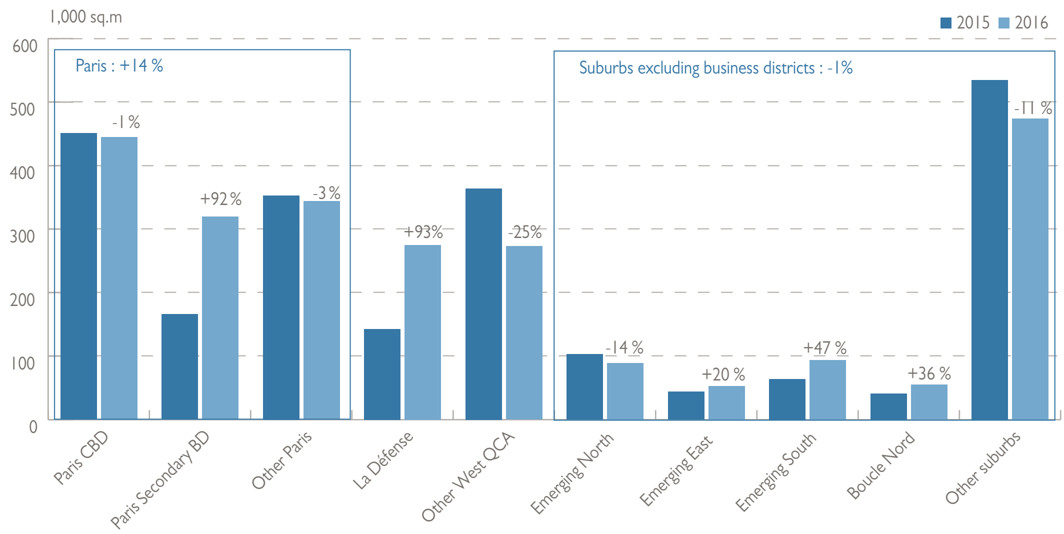
… although Paris CBD has been stable

On the other hand, growth in the Paris CBD has slowed in the second half of 2016, resulting in a 1% annual decrease. 445,000 sq.m have been transacted in 2016, compared to 451,000 sq.m in 2015. This reversal in the second half of 2016 in the Paris CBD has mainly been reflected in the 1,000 to 5,000 sq.m range, where take-up has been down by 30% compared to the second half of 2015. (H1 2016 saw an increase of 47%.) This dip has been the consequence of the shortage of surfaces of any size: a situation that has intensified in the Paris CBD since the beginning of 2016.

Over the whole year, transactions of spaces over 5,000 sq.m have been down by 10% in the Paris CBD. The majority of transactionss were between 5,000 and 10,000 sq.m, while only two transactions of more than 10,000 sq.m were completed: Banque de France's in the In Town Building in the 9th arrondissement (18,800 sq.m) and We Work's in the 33 Lafayette Building (11,700 sq.m), compared with three in this range in 2015. Transactions from 1,000 to 5,000 sq.m were also down slightly, by 2 per cent. Only transactions of less than 1,000 sq.m have been stable (+ 1%).

In Other Paris, take-up has also fallen slightly, by 3%, in 2016. However, this decrease is mainly due to the absence of very large transactions (+40,000 sq.m). Whereas in 2015, the Ilot Fontenoy Segur turnkey project regarding administrative services for the Prime Minister's office had boosted volume in this size category.

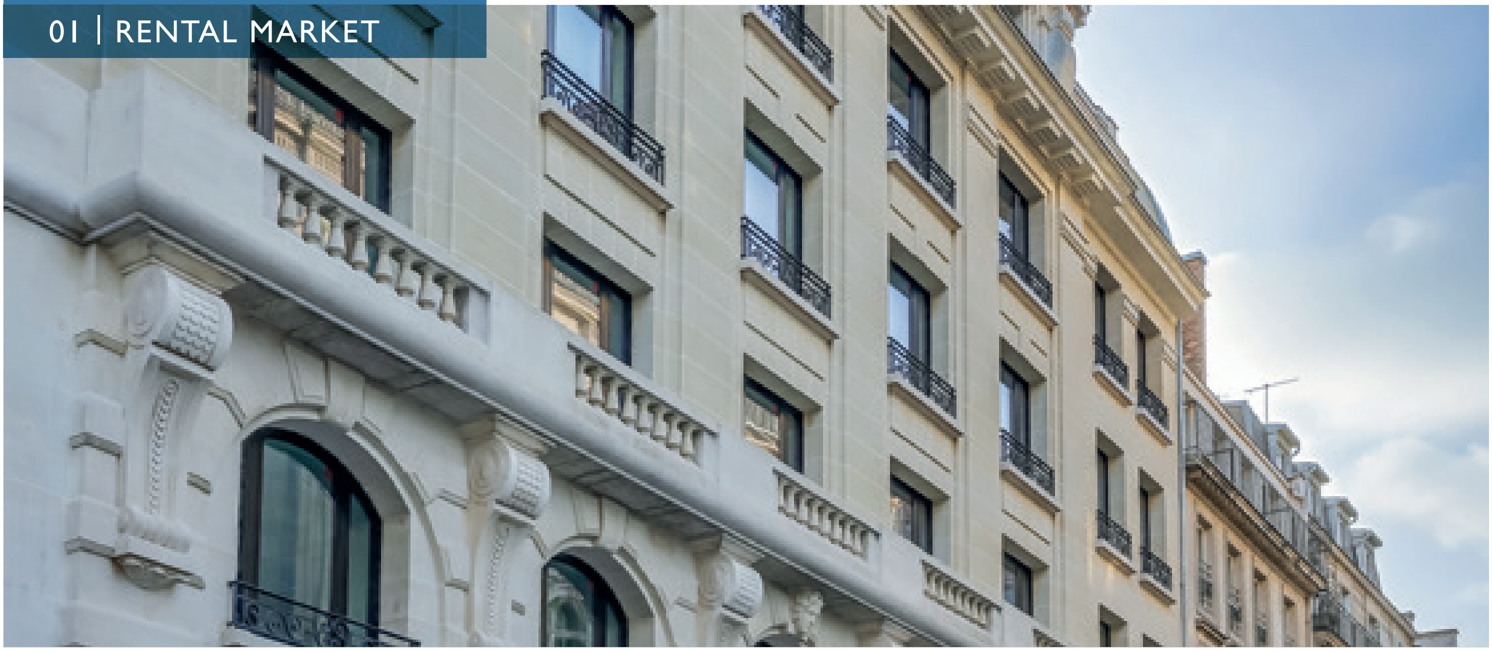
Transactions by submarket in Ile de France: 2015-2016



Source : MBE Conseil/Catella – Immostat

La Défense has regained its attractiveness, with a take-up volume of 274,600 sq.m: approaching its top-performance year of 2006. This represents a very strong increase of 93% compared to 2015, making it the second-best year for La Défense since 1990. Volumes have returned to being much higher than the area's long-term average (181,000 sq.m). The La Défense market has been driven by a return of transaction activity in the over-10,000- sq.m market, especially for surfaces of over 20,000 sq.m. Seven transactions of more than 10,000 sq.m have been finalized in 2016 in La Défense, compared with 2 in 2015. Three of these have been for surfaces of more than 20,000 sq.m, when none were completed in 2015.

Most notably, La Défense has been the site of the largest deal in Île-de-France in the year, with the turnkey rental project developped by Generali for Saint-Gobain for 49,000 sq.m. In addition, RTE has taken 40,560 sq.m in the Window Building, Deloitte leased 30,500 sq.m in the Tour Majunga; the CM-CIC leased nearly 20,000 sq.m in the Tour D2 and small and medium-sized deals were agreed in the Tour First. These transactions led to a sharp decline in new immediate supply, which now represents only 11% of total available supply, thus erasing the high oversupply level that had resulted from the implementation of the La Défense renewal plan



Less take-up activity in the rest of the West CBD

However, in the rest of the West Central Business District (excluding La Défense), take-up has fallen sharply, by 25%, from 364,000 sq.m in 2015 to 272,400 sq.m in 2016. Here too, transactions of more than 5,000 square meters have been responsible for this situation, but trending in the opposite direction from La Défense.

Only five transactions of more than 5,000 sq.m occurred in this area in 2016, compared to 11 in 2015. Two cities have been more heavily affected by this decline: Boulogne-Billancourt - where take-up volume has decreased by 39%, from 137,000 sq.m in 2015 to 83,000 sq.m in 2016 - and Issy-les-Moulineaux, where it has fallen by 40% from 136,700 sq.m in 2015 to 82,000 sq.m in 2016.

In Boulogne-Billancourt, only one large transaction has been finalized in 2016: the acquisition by La Française des Jeux of the 25,000 sq.m of the Delta Building.

In Issy-Les-Moulineaux, three large transactions have been carried out in 2016, but all for areas under 20,000 sq.m. Whereas in 2015, of the four transactions in the city, two were for surfaces of more than 40,000 sq.m. The largest transaction of the year was carried out by La Poste with the pre-letting of 17,000 in the Opale, the second building of the Trigone project, in continuity with the Lemnys building rented in 2015 by the same user. However, the situation has been better in Levallois-Perret, with take-up rising by 15%, (although only for surfaces of less than 5,000 sq.m), and in Neuilly-sur-Seine, where take-up has increased by 38% on the year, to 65,700 sq.m. A single large transaction has been finalized in Neuilly: the letting by Sephora of 13,400 sq.m at 41, rue Ybry. But the most noteworthy development in the city has been the very high growth in transactions of between 3,000 and 5,000 sq.m, which doubled in 2016 to reach more than 24,000 sq.m: 37% of the city's total take-up.

… and also in most suburbs

Suburban areas without established business districts have continued to suffer overall from the refocusing of take-up activity on Paris and La Défense. Only two areas have shown rising interest: the Boucle Nord area of the Hauts de Seine and the inner suburban area of the South district. In the Boucle Nord, this trend has been generated by three large transactions: Sage (9,500 sq.m) and Bayer (5,300 sq.m) renting offices in the Atrium Défense Building in La Garenne-Colombes, and PSA Finance (8,800 sq.m) in the Pointe Métro 2 Building in Gennevilliers.
In the inner-suburban South, transaction growth has been due mainly to INSEE's leasing of the White Building in Montrouge, as well as four transactions of between 5,000 and 10,000 sq.m. A total of five transactions of more than 5,000 sq.m were concluded in this area in 2016, compared with only one in 2015.

The cities closest to Paris in the Emerging North have continued to lose their appeal, despite a single transaction of more than 20,000 sq.m: the letting by EDF of 39,000 sq.m in the Smartside building in Saint-Ouen. However, there is a certain degree of statistical distortion, due to the delay in taking into account the Regional Council of Île-de-France in the Influence buildings in Saint-Ouen (statistically registered in Q1 2017). Otherwise, the trend would have been quite different. The inner-suburban East district has suffered from a significant supply shortage and a low number of confirmed future projects, limiting pre-letting possibilities. Meanwhile, the Outer Suburbs have suffered a decline in large transactions (-23%) with only 12 transactions in 2016 compared to 15 in 2015, along with a 17% decline in transactions of between 1,000 and 5,000 sq.m.

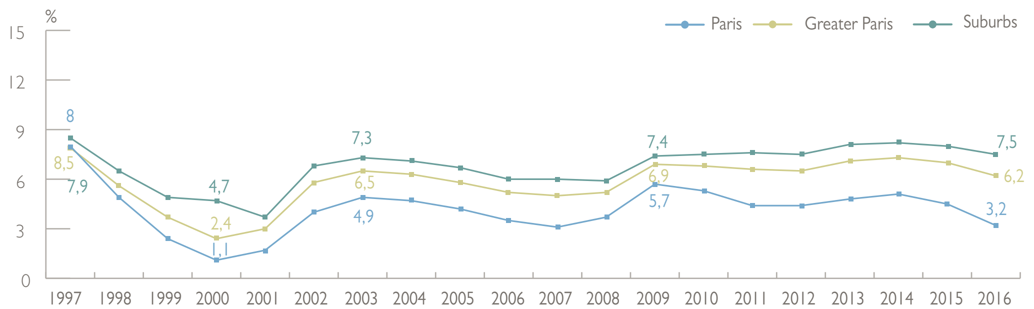
A CONTINUED DECLINE IN VACANCY RATES

The decline in immediate supply, which began at the end of 2015, has intensified in 2016, due to the increase in transactions for second-hand properties and the high level of transactions involving newly delivered buildings.

It has dropped from 3.906 million sq.m at the end of 2015 to 3.530 million sq.m at the end of 2016. The vacancy rate decreased accordingly by 0.8 point, from 7% at the end of 2015 to 6.2% a year later.

Lower
vacancy rates

Île-de-France vacancy rates: 1997-2016



Source : MBE Conseil - Immostat

As in 2015, the vacancy decline has mainly concerned Paris, which clearly has benefited from dynamic take-up levels. The city's overall vacancy rate fell sharply by 1.3 percentage point, to 3.2% in late 2016 from 4.5% at the end of 2015, illustrating a shortage of available spaces of any size. This shortage could last for at least another year - if not more - if non-pre-let project starts do not pick up again.

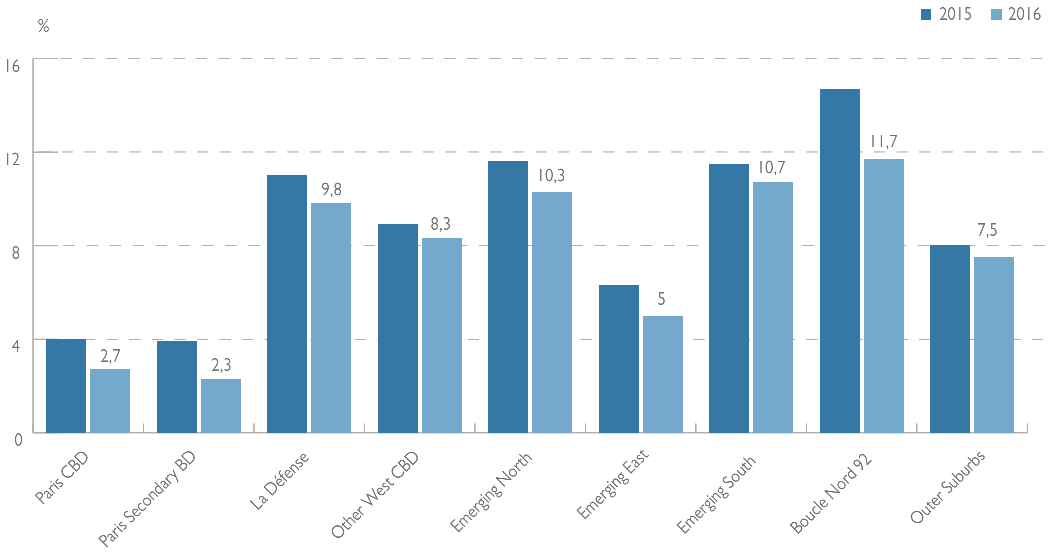
In Paris, the decline in the vacancy rate is affecting all sectors, including the Paris North East area, where, after the increases in 2015, the vacancy rate has dropped significantly in the 18th, 19th and 20th arrondissements, falling from an average of 5% at the end of 2015 to 2.1% at the end of 2016, and in the 10th and 11th arrondissements, where it has declined from 6% in late 2015 to 3.2% at the end of 2016.

In most suburban markets, vacancy rates have declined more moderately, with the average dipping from 8% at the end of 2015 to 7.5% at the end of 2016. With the exception of the East district, which like Paris is undersupplied, the other suburban markets are still in surplus overall, despite a significant vacancy decline in some areas.

In the Paris CBD, the vacancy rate has fallen well below the 4% of 2015, to 2.7%: the biggest decline since the beginning of the 2008 economic crisis. Strong increases in headline rents are not yet feasible, as these would only occur due to a significant improvement in the economy, (especially in companies' profit margins), but this shortage could consequently lead to a significant reduction in incentives.

Paris CBD
shortage worsens

Vacancy rates in major Île-de-France submarkets: 2015 vs. 2016



Source : MBE Conseil - Immostat & CBRE

Shortages also intensifying in Paris secondary business districts

The situation has been similar in the Paris secondary business districts, where the downward trend in vacancy rates has also intensified: down by 1.6 point in one year, to reach 2.3%. The very dynamic take-up in 2016, in particular in the Front-de-Seine area, is the main reason for this trend. The vacancy rate for the business district in the 15th arrondissement has dropped from 6.3% at the end of 2015 to 2.7% at the end of 2016.

The vacancy rate for the Gare-de-Lyon / Bercy / Paris Rive Gauche area has remained stable, at a very low level of 1.9%. In the latter area, transactions have predominantly involved pre-letting, thereby limiting the impact on future vacancy levels of the increase in speculative investments observed, (especially in 2015), which resulted in a sharp increase in building starts.

Lower vacancy rate in La Défense

Thanks to a near-record level of take-up, La Défense has also witnessed a significant decrease in its vacancy rate, falling by 1.2 percentage point on the year, to 9.8%.

However, there is still an oversupply: entirely attributable to the high amount of second-hand supply, which alone accounts for more than 8 vacancy points.

At the end of 2016, the amount of new supply has been low, limited to the unlet surfaces remaining in a few new towers, such as Carpe Diem, D2, First (where the last spaces available were rented in January 2017) and Ampère E+, as well as in a few refurbished buildings, especially Les Villages.

Slighter drop in rest of West CBD

In the rest of the West Central Business District, the overall vacancy rate has declined slightly from 8.9% at the end of 2015 to 8.3% at the end of 2016. The largest decline has been in Issy-les-Moulineaux (from 9% in 2015 to 6.4% in 2016), while the vacancy rate in Levallois-Perret has increased from 10.2% to 11.3%. In Boulogne-Billancourt, the vacancy has been down slightly, but remains at a high level (9.1%).

Also down in suburban markets

In the suburban markets, as in 2015, the vacancy rate has continued to decline in 2016, although once again, the take-up level has been mediocre.

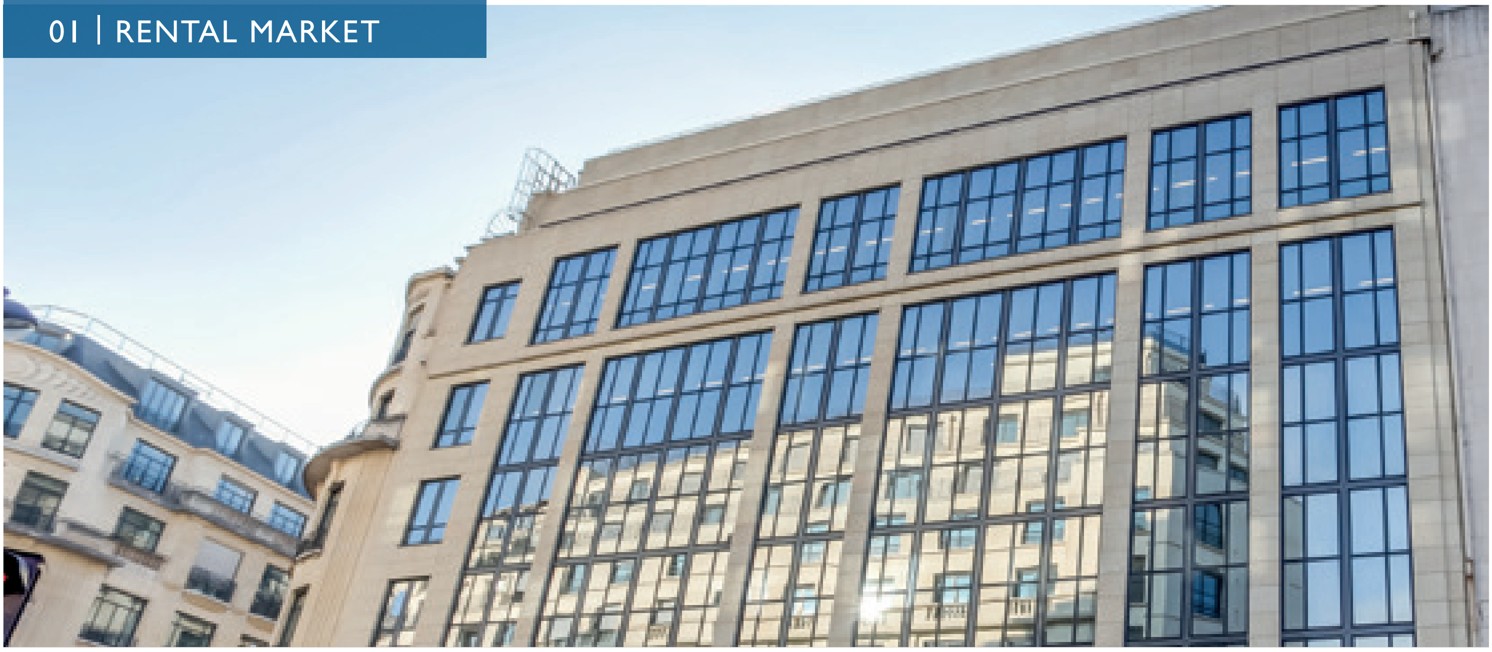
The Emerging North's overall vacancy rate has dropped to 10.3%, from 11.6% at the end of 2015. All the Emerging North cities have experienced lower rates, including Saint-Denis (7.2% at the end of 2016 from 8% a year earlier); Clichy (11.9% from 14.9%) and Saint-Ouen (9.5% from 10.7%). However, all of these rates continue to reflect oversupplied markets.

The inner suburban cities of the East district are gradually becoming severely undersupplied. The overall vacancy rate has fallen sharply, from 6.3% at the end of 2015 to 5% at the end of 2016. The diminishing supply in Montreuil is the main reason for this decline, although supply has been lower in all cities in the area. The vacancy rate in Montreuil fell from 7% at the end of 2015 to 4.8% at the end of 2016, largely due to the letting of most of the remaining unlet surfaces in the Tour Cityscope.

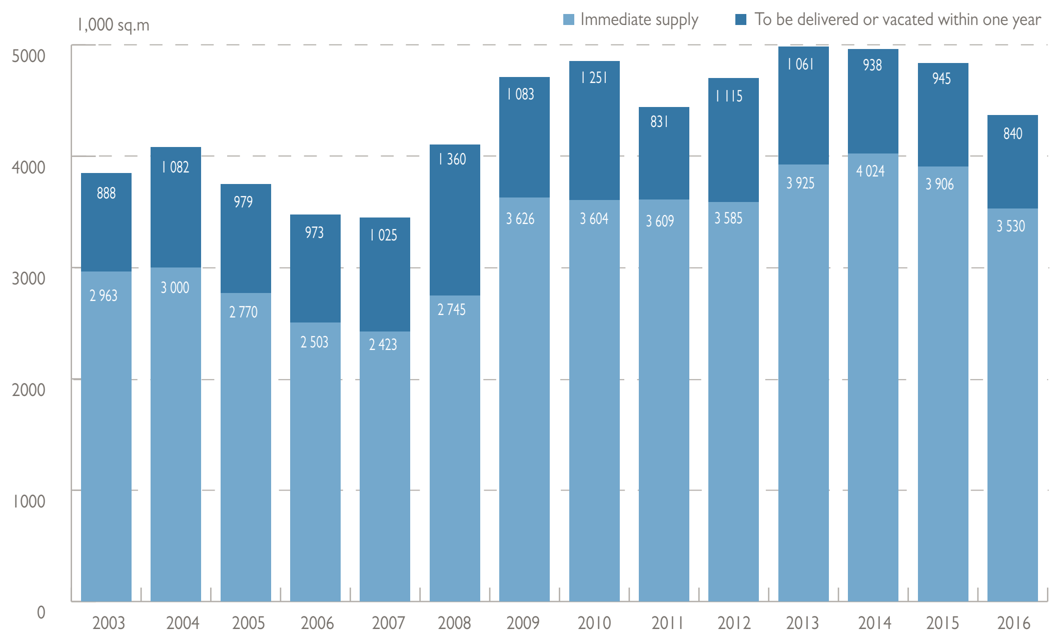
Unlike in 2015, the inner suburbs in the South district have seen a fall in the vacancy rate: from 11.5% to 10.7% at the end of 2016. The rate in Montrouge has dropped to 8.3%, due mainly to large-space transactions carried out in the White, Fairway and Sonate buildings. The vacancy rate has also fallen sharply in Châtillon, thanks partly to the first rental deal (6,600 sq.m) in the Smart Up Building (delivered at the end of 2013), but due more to the office stock increase generated by the delivery of the 69,000-sq.m Orange eco-campus. In the Boucle Nord, vacancy rates have finally shown a significant decline, but still remain very high, illustrating a general oversupply. The area's overall rate has fallen from 14.7% at the end of 2015 to 11.7% at the end of 2016. This sharp decline has affected the Colombes/ Bois-Colombes/ La Garenne-Colombes area, where the overall vacancy rate has dropped by 3 points to 11.5%, as well as Asnières and Gennevilliers, where it has fallen by 3.1 points on the year. The commercialisation of large-surfaces in delivered buildings (eg. the Atrium Défense in La Garenne-Colombes, the Pointe Métro 2 in Gennevilliers) and small and medium-sized transactions in the West Plaza and Equilibre buildings in Colombes have led to this significant vacancy rate decline in 2016.

The overall vacancy rate has also fallen in the Outer Suburbs, from 8% at the end of 2015 to 7.5% at the end of 2016. However, rates have reached very different levels depending on the city in question.

A general decline in vacancy rates is expected to continue in 2017 throughout the Île-de-France region. As was already the case at the end of 2015, the amount of supply deliverable or releasable during the year has been down sharply (-10%) to reach 840,000 sq.m. As long as take-up, particularly for large spaces, continues to show the type of dynamism seen in 2016, there are no indications presently that the current trend would likely begin reversing.



Supply available within one year in Île-de-France



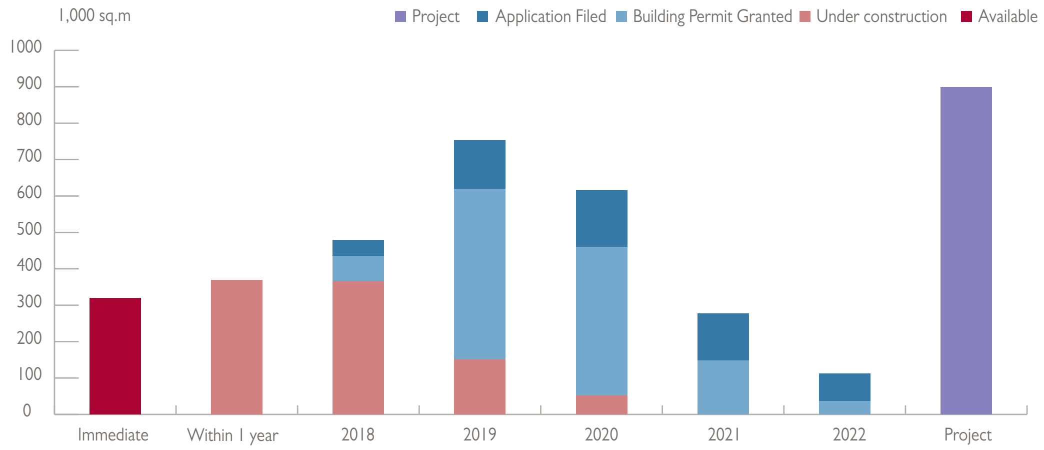
Source : MBE Conseil/Catella Property, Immostat, BNP Paribas Real Estate

Guaranteed future supply limited

Overall, the within-a-year supply has fallen by 9.7% on the year, to 4.37 million sq.m. New supply is slightly lower than in 2015 and represents 19% of the within-a-year total, compared to 20% at the end of 2015. The new supply of surfaces over 5,000 sq.m has fallen from its 2015 level, to reach 688,000 sq.m (-7.4% from 2015), dropping below its threshold level of 800,000 sq.m.

Future supply is still limited, despite a clear upturn in building starts as a result of the growth in speculative investments. Twenty-seven non-pre-let buildings to be delivered in 2018 will offer 367,000 sq.m of space. Even if this figure rises in the next few months with other construction starts in early 2017, it will be insufficient to meet the needs of businesses seeking large surfaces if take-up remains comparable to 2016 levels.

Future supply for new buildings over 5,000 sq.m in Île-de-France area owned by an investor



Source : MBE Conseil, Catella, CBRE, developers and investors

Delivery volume scheduled in 2019 and 2020 of buildings already under construction has reached 202,000 sq.m. However, this figure could increase significantly in the coming months, driven by a high degree of speculative deals that are expected to continue in 2017.

Unlaunched projects - whether with permits granted or pending, or under consideration, but being backed by an investor - are still numerous but less than in 2015.

468,000 sq.m worth of projects have been granted permits for possible delivery in 2019, with another 134,000 sq.m of permits pending. Although their construction is often conditional on at least partial pre-letting, the momentum for this could quicken in the markets currently experiencing shortages.

To these figures are added more than 566,000 sq.m worth of permits (whether granted or pending) but not held by investors - whose current probability of delivery in 2019 is, however, low. These projects, if they are acquired speculatively by investors in 2017, can still be delivered over the course of 2019.

Moreover, the number of projects already backed by investors is still high: 564, 000 sq.m of space with permits either granted or pending could arrive on the market in 2020; 277,000 sq.m in 2021 and a further 112,000 sq.m in 2022. Added to this are 327,000 sq.m. of projects not presently backed by an investor for possible delivery between 2020 and 2022.

Furthermore, there are nearly 900,000 sq.m of projects for which no permits have yet been filed, but which are being backed by an investor and which could, in the medium term, reach the market.

AVERAGE RENTAL FACIAL VALUES HAVE BEEN RELATIVELY STABLE

Overall stability regarding incentives …

Since the beginning of the 2008 crisis, the evolution of average rental facial values has been truncated by the accompanying incentive measures that always distort such analysis. In 2016, as in previous years, adjustments have continued to apply to economic rents. The Immostat indicator of incentives shows, however, that the gap between economic and headline rents fell slightly between the third and fourth quarters of 2016: on average, it reached 21.5% in the fourth quarter, compared to 22.2% in the third quarter. It has, however, been stable compared to its level in the fourth quarter of 2015, erasing only the increases recorded in the course of 2016.

… but lower for over-5,000-sq.m deals

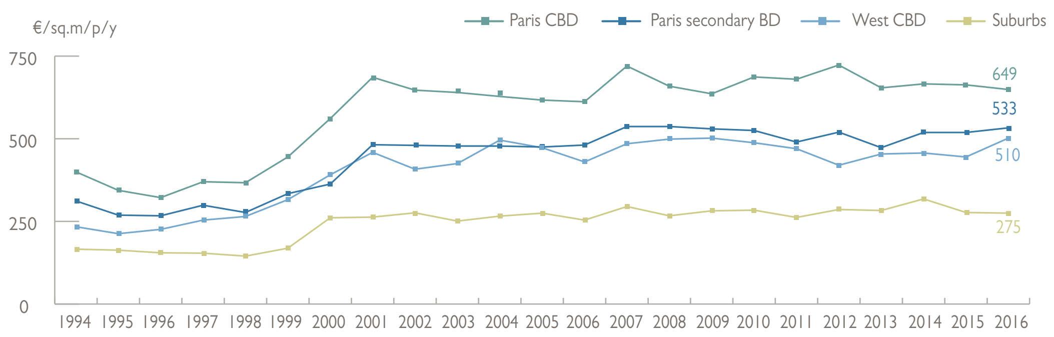
However, this stability fails to highlight a significant change: the decrease in incentives involved in transactions of more than 5,000 sq.m. Indeed, these dropped by 0.8 point between Q4 2015 and the 4th quarter of 2016 (and by 1.3 points between the Q3 and Q4 2016), while they increased by almost 0.7 point for transactions ranging from 1,000 to 5,000 sq.m. The discrepancy between the two size categories thus decreases from 3.8 to 2.3 points. This reduction can be explained in part by the first consequences of the shortage of supply, both in terms of certain markets, most notably in Paris CBD, and in certain surface areas and building qualities (eg. new buildings with surfaces of over 5,000 sq.m). It can also be explained by the behaviour of some property owners (although still far from being a majority) who prefer to adjust headline rents to reduce the level of incentives.

This trend is expected to continue in 2017. The profit margin rate for companies, which had improved markedly at the end of 2015, has remained stable in 2016 at 31.5%. As we highlighted in 2015, this gives companies greater flexibility to agree to higher economic rents. But it will still be necessary to wait until margins have returned to a level closer to 33% to be able to anticipate any real increases in headline rents.

Lower headline rental values in the Paris CBD

The average headline value of new buildings in the Paris Central Business District has declined by 2%, to €649 / sq.m / year. This decrease, however, has been due more to the location of most large transactions than from any actual market trend.
This value has been determined in 2016 by the completion of large transactions (i.e., over 5,000 sq.m) in the 9th arrondissement at rents of between €590 and €620 / sq.m / year, as well as the absence of any large transactions signed in the heart of the Paris CBD at top rental values (unlike the situation in 2015). The top rental value, however, has risen from €780 in 2015, to €790 / sq.m / year in 2016. This has only been observed for transactions of less than 5,000 sq.m (notably in Place Vendôme and Avenue Kléber).
Average second-hand values have also shown a slight drop (-3%) to reach €541 / sq.m / year. The range in second-hand values, however, has remained very wide: from €350 to €790 / sq.m with most deals being agreed at between €400 and €500 / sq.m / year.

Average weighted values for new buildings: 1994-2016



Source : MBE Conseil

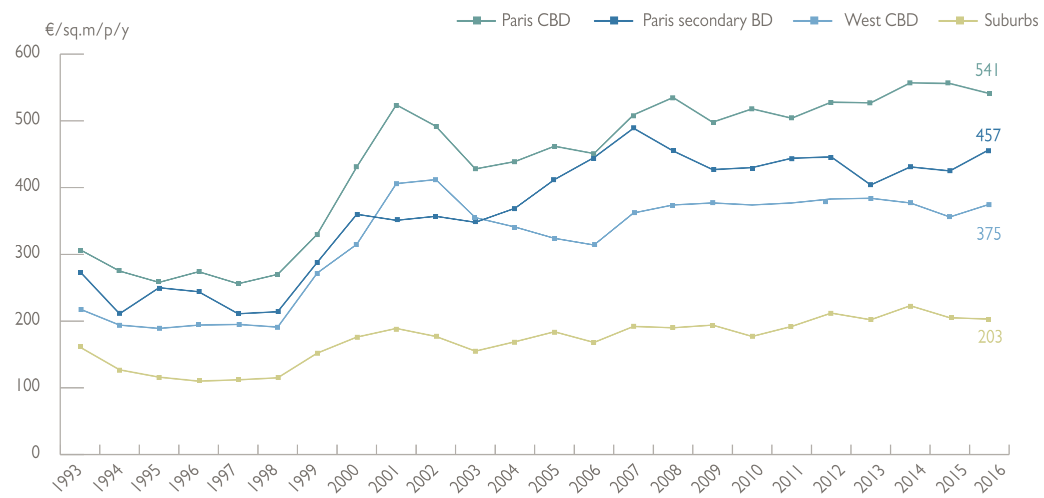
Rise in average rents in Parisian secondary Business Districts

In the Parisian secondary business districts, new-surface values have been increasing, even returning to their pre-crisis levels. Average values for new spaces were €533 / sq.m in the Front-de-Seine, Montparnasse and Gare de Lyon / Bercy / Paris Rive Gauche areas, where new buildings were leased at between €530 and €540 / sq.m. Averages for second-hand buildings have also risen (+ 8% compared with 2015) to €457 / sq.m / year, ranging from €440 to €500 / sq.m /year.

Rise in average rents in West CBD

In the West CBD, headline values for new buildings have increased sharply in 2016 (+ 13%) to €510 / sq.m / year. This trend, as in Paris CBD, has been almost completely due to building location. The effect of La Défense's high take-up volumes has driven the value average upwards for new buildings. In La Défense, average rents for new buildings reached €518 / sq.m / year (with a scale ranging from €460 to €550 / sq.m / year). In the rest of the West CBD, the average has reached €472 / sq.m / year, with rents ranging from €370 to €460 / sq.m / year in Boulogne and Issy-les-Moulineaux, and up to €530 / sq.m in Neuilly. Rental values in the second-hand market have also increased (+5%), to reach €375 / sq.m / year, due totally to the market influence of La Défense's take-up volume. However, averages have been declining in this market, both in the rest of the West CBD, (€351 / sq.m / year in 2015 to €337 / sq.m / year in 2016) and in La Défense (€404 / sq.m in 2015 to €393 / sq.m / year in 2016).

Average weighted values for second-hand buildings: 1993- 2016



Source : MBE Conseil

Averages stable in the suburbs

In the suburban markets, average rental values have been relatively stable in 2016, ranging from €277 / sq.m / year in 2015 to €275 / sq.m / year in 2016 for new buildings, and from €205 € / sq.m / year in 2015 to €203 / sq.m / year for second-hand spaces.

02

The French investment market

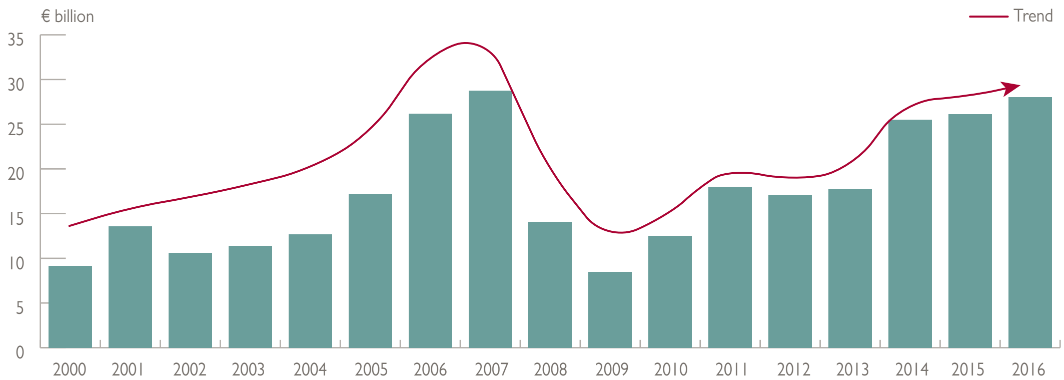
The investment market has continued to be very active, extending the trend seen over the past three years. This market is still being driven by very high levels of available liquidity for real estate. Moreover, the major investment players have continued to be savings collectors (i.e., SCPIs, general public OPCIs, and life insurance firms), as well as investment funds. €28.3 billion (excluding fees) have been invested in the non-residential real estate market in France, up 5% from 2015. This has made 2016 the second-best investment year in history, after 2007. Unlike in 2015, however, the most dynamic market segment of the year has been in the under-€100-million range, which grew by 15%. Transactions above €100 million have been stable, but still proportionally dominant, accounting for 64% of the overall volume. Offices have remained the most sought-after product type (63% of overall volume), but retail premises, especially retail parks and diversification products, have posted the largest volume growth. Investments have been concentrated in 2016 in the Paris CBD and the West CBD - especially in La Défense - as well as in regional cities. The compression of yields has also continued, particularly in the Paris CBD, where the prime yield now stands at 3.10%.

STEADY VOLUME **GROWTH**

€28.26 billion
invested in non-residential real state in France

The non-residential investment market in France has remained on the upward trend seen over the last three years, with volume still growing slightly. Investment volume in 2016 has reached €28.26 billion: up 5% from 2015. 2016 thus stands as the second-best year ever after the record set in 2007. At the European level, France has been the only one of the three major European countries to remain in growth, with the United Kingdom and Germany showing significant investment volume drop-offs (-28% in the United Kingdom at €52.9 billion; -7% in Germany at €52.6 billion, according to BNP Paribas Real Estate). Despite this, the ranking has remained the same, France still being in third place. This very good French result was achieved despite a fourth quarter 2016 down from fourth quarter 2015, (while it should be noted that Q4 2015 was exceptionally good.)

Non-residential investment volumes in France: 2000 - 2016



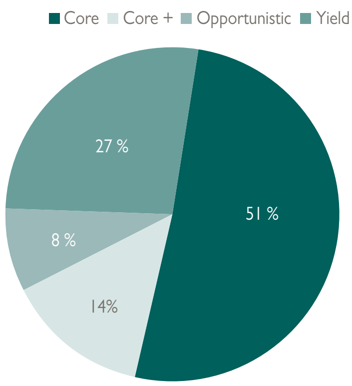
Source : MBE Conseil/Catella Property

Core assets account for 51% of acquisitions

While core assets have remained the majority in terms of transaction volume since the beginning of the financial crisis, their volumes have been down by 3% compared to 2015. However, they still account for 51% of total volumes. The sharp increase in market values in some of the locations preferred by investors in 2016 has sometimes led investors to seek more "core plus" or "income investment" assets. Core assets have been purchased mainly by investment funds (35% of the total volume), insurance companies (25%) and SCPIs (17%). The proportion of opportunistic operations has again been far lower, falling from 22% in 2014, to 14% in 2015, to only 8% in 2016. Again, the decline in opportunistic operations is directly linked to the rise in market values and lower yields, strongly limiting the number of products dedicated to opportunistic investments. These conditions have mainly benefited core plus operations, whose market share has doubled in 2016, rising from 7% to 14%. The increase in volumes associated with core plus assets has largely involved speculative projects located in the most developed markets, or buildings offering short leases. SIIC listed companies and long-term investment funds have been the most active player in this market.

Investment strategies :

(Single-asset and portfolio transactions valued at over €50 million)



Source : MBE Conseil/Catella Property

The drop of opportunistic operations also benefited, to a lesser extent, to income investment operations (ie long-term investments, often in more peripheral locations, or in older buildings, or alternative products to offices, based on income and not on potential capital gain). In 2016, these have represented 27% of all acquisitions valued over €50 million, compared to 26% in 2015.

CONTINUED RECOVERY
IN SPECULATIVE INVESTMENTS

Speculative investments have continued to gain momentum in 2016, with investors looking increasingly for ways to maximise their returns on investment. With close to €2.4 billion being invested, 2016 has seen speculative activity rise by 19%, following on from the sharp growth in 2015.

The worsening supply shortages within Paris, along with the positive effects expected in certain suburban markets due to improved transport links associated with the Grand Paris Express project, have led to a growing appetite for speculative investing.

Speculative sales up 19%

Share of speculative investments: 2006 - 2016

As a result, in 2016, speculative activity has been concentrated heavily in the Clichy Batignolles ZAC area, accounting for 27% of total speculative volume. Of the seven such transactions concluded in the area three were located within the ZAC itself: the Thémis and Twist buildings, purchased respectively by Covea and ACM and developed by Icade Promotion, and the Enjoy building acquired by Caisse des Dépôts and developed by Bouygues Immobilier. Four other operations are located nearby, not far from the future Line 14 metro stations: the Ora Building in the 17th arrondissement at Porte Pouchet, bought by Amundi and Macif and developed by Kaufman and Broad; the Opalia Building in Saint-Ouen purchased by Infrared and built by Eiffage; the Perisight Building in Clichy built by Nexity and acquired by Lasalle Investment, and the Gate One, also in Clichy, a project developed by GDG Investments and acquired by Notapierre.

The rest of Paris, and particularly the Paris CBD, has accounted for 30% of the total speculative investment volume in 2016. The Paris CBD alone accounted for 17%, including a building at 87 rue Richelieu acquired by Altafund.

Apart from these investor-preferred locations, 15% of speculative volume has been invested in the inner suburbs of Saint-Denis, Montrouge and Montreuil, with a further 11% in the West CBD, in Issy-les-Moulineaux and La Défense. Investment in the outer suburbs (mainly in Rueil-Malmaison with regard to offices), has reached 8%, with a further 7% in the regional cities, mostly in Lyon, Lille and Bordeaux, involving transactions of less than €35 million.
Continuing the trend that started in 2014, speculative investments have remained largely driven by investment funds (42%) and insurance companies (31%), as well as SCPIs (11%) and domestically-listed SIICs (8%).

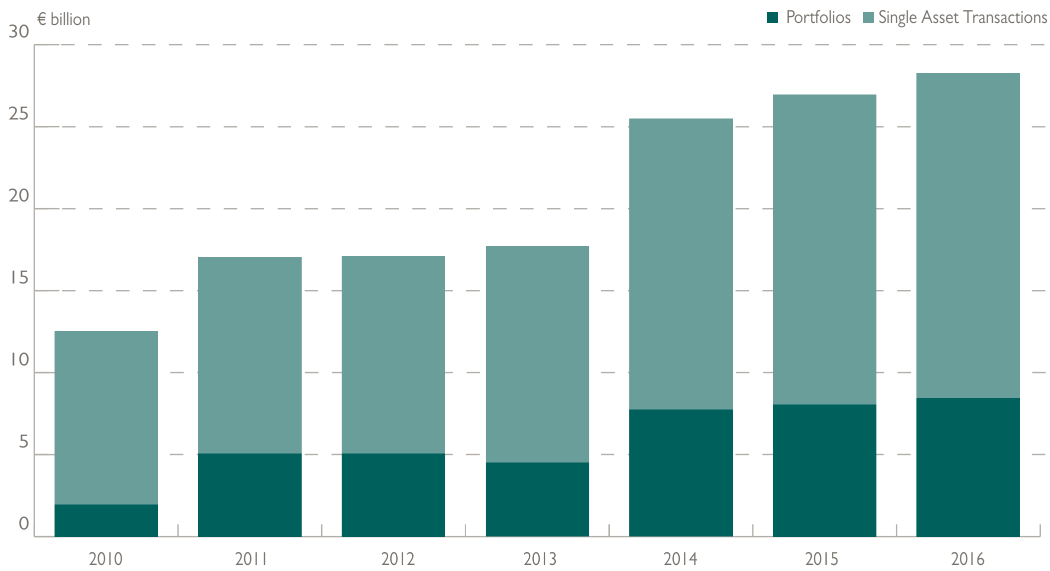
MARKET SHARES OF SINGLE-ASSET
VS. PORTFOLIO SALES REMAIN STABLE

Single-asset sales rise by 5%

Sales of single assets have risen by 5% to more than €19.8 billion and are close to their historic high of €21 billion seen in 2007.

Portfolio sales have also increased, by 4.7%, to reach €8.5 billion. Eighty-two portfolio sales were concluded in 2016 compared with 63 in 2015. However, the proportion of pan-European portfolios has been much lower in 2016.

Portfolio vs. single-asset sales by market share : 2010 - 2016



Source : MBE Conseil/Catella Property

Growth in portfolio sales…

Sales of portfolios between €300 million and €500 million and those of €50 million to €100 million have recorded the strongest growth.
Portfolio sales of between €100 and €300 million have been stable, but remain the core of this market sector and have accounted for 36% of total volume.

Office, diversification and retail portfolios have dominated this market sector in 2016, with almost equivalent market shares, (28% for offices, 26% for diversification products and 25% for retail assets).
Sales of office portfolios, despite their proportionate size, have nevertheless been down by 22% compared to 2015. The largest office portfolio transaction was the acquisition by Amundi of three buildings in Île-de-France, sold by Kan Am : the Tour Egée in La Défense; 53 Quai d 'Orsay in the 7th arrondissement of Paris, and the Stadium Building in Saint-Denis.

However, sales of diversification-product portfolios have increased by 126%. Healthcare centre portfolios have dominated this category with two large deals, including Primonial's acquisition of the Gécimed portfolio for €1.35 billion. Sales of hotel portfolios have also been dynamic, despite their smaller size, the largest being the sale by Foncière des Régions to HotelInvest of a portfolio of 43 hotels in regional areas for €281 million.

Retail portfolios have also seen strong activity, rising by 8% over 2015. The biggest transaction was the acquisition by AEW for two French mutuals of the Interstellar portfolio, with two retail spaces in Paris on the Rue du Faubourg Saint Honoré and the Boulevard des Capucines, for approximately €400 million.

However, warehouse portfolios, which had been numerous in 2015, have been down by almost 30%. Only a single transaction of more than €200 million occurred in 2016, compared to three in 2015: the acquisition by Blackstone of a portfolio from Rockspring for €230 million.

INCREASES IN NEARLY **ALL SIZE CATEGORIES**

Unlike in 2015, the volumes invested have increased in all size segments, both for single assets or portfolios, with the exception of in the €100 million to €300 million range, which has decreased by 13%. This size segment had outperformed in 2015, accounting for 46% of total volume. With a 92% increase, invesment volume in this value range had reached a historical level, far exceeding the previous record levels of 2007. It is probably the exceptional nature of this result which has caused the decline recorded in 2016.

Sixty-seven transactions in the €100 million to €300 million range have been recorded in 2016, compared with 77 in 2015. However, this decline has occurred only in single-asset sales, with portfolio sales being stable. Forty-eight single-asset sales were completed in this range in 2016, compared to 59 in 2015, which has resulted in a 17% decrease in volume. Despite this decline, this size segment has still accounted for 38% of overall volume, and remains undoubtedly the prime market driver of the French investment market.

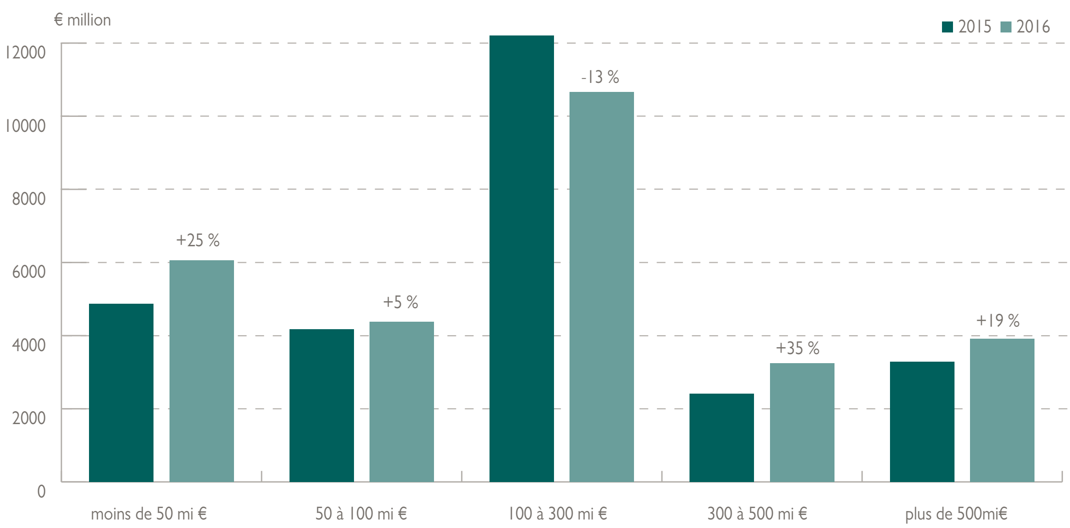
Offices have remained the most attractive assets in this size category, accounting for 61% of the volumes invested, followed by retail assets and shopping centers (17%), healthcare establishments and hotels (13%) – which have increased by 83% - warehouses (5%) – down by 20% - and light industrial premises (4%), up sharply by 134%.

However, volumes have been up in all other size segments. Transactions of between €300 and €500 million have risen by 35%, with a volume approaching €3.3 billion through nine operations. These include the acquisition by the Emir of Qatar of a building at 65-67 Champs Elysées for €490 million, sold by Thor Equities and Meyer Bergman; the purchase by AEW of the Interstellar portfolio, for nearly €400 million, and lastly, the acquisition by Henderson Global Investors of the Méridien Étoile Hotel from Mount Kellet and Cedar Management for €365 million.

38% of volume in the €100-to-€300 million range

+35% in €300-to-500 million range

Non-residential investment volume by asset size



Source : MBE Conseil/ Catella Property

+19% in over-€500 million category

+5% in €50 to €100 million range

Transactions valued at more than €500 million have recovered after declining sharply in 2015, with volume up by 19%, to €3.9 billion. Four operations were identified in this size segment, two of which are greater than or equal to €1 billion : the acquisition at the end of the year by Norgès Bank of the Vendôme Saint Honoré Building for €1 billion, and by Primonial of the Gécimed portfolio for €1.35 billion. Other major transactions include the sale of the Tour First bought in a club deal managed by AXA Reim for over €800 million and the acquisition by Amundi of the Alpha portfolio, sold by KanAM, of three buildings: the Tour Egée in La Défense; 53 Quai d 'Orsay in the 7th arrondissement of Paris, and the Stadium Building in Saint-Denis, for a total of €744 million.

The under-€100-million ranges were also dynamic in 2016, thanks to the introduction to the market of more assets, especially in the under-€50-million range.

Investment activity has been satisfactory between €50 million and €100 million, with €4.4 billion invested, up 5% from 2015. More than 67 transactions have been completed in 2016, with a sharp increase in the number of portfolio sales in this range, from six in 2015 to 20 in 2016. This has resulted in a threefold increase in volumes, notably for retail assets (24 transactions in 2015, to 34 in 2016), but also to a lesser extent for light industrial properties and office spaces.

Select investment transactions in France in 2016

ADRESS	MARKET	SELLER	BUYER	SIZE IN SQ.M	PRICE €M	YIELD	TYPE OF PROPERTY
Portfolio Of 35 Shops In Retail Park - France	France	Catinvest	Frey Retail Fund	77,000 Sq.m	134	6.50%	Retail
Tour First - La Défense	West CBD	Beacon Capital	Axa Reim	80,200 Sq.m	813	5.50%	Office
Eurosquare 11 - Saint-Ouen	Emerging North	Commerzreal	Accimmo Pierre	17,555 Sq.m	125	4.25%	Office
Be Issy - Issy-les-Moulineaux	West CBD	Prd	Gecina	24,251 Sq.m	158	Spec.	Office
Le Linux - Limonest	Region	Dcb International	Notapierre	11,156 Sq.m	51	4.80%	Office
Portfolio of 43 Hotels - Region	Region	Fonciere Des Regions	Hotelinvest		281		Hotel
65-67 Avenue Des Champs Elysées - Paris 08	Paris CBD	Thor Equities - Meyer Bergman	Emir Du Qatar	7,900 Sq.m	490	2.11%	Retail
So Ouest - Levallois-Perret	West CBD	Unibail Rodamco	Samsung Sra Am	33,300 Sq.m	334	4.30%	Office
Portfolio Gécimed -France	France	Gecina	Primonial		1 350	5.90%	Healthcare
Pantin Logistique - Pantin	Inner Suburbs		Cnp	151,000 Sq.m	134	5.55%	Warehouse
Tour Europe - La Défense	West CBD	Kan Am	Blackrock	29,736 Sq.m	151		Office
115-117 Rue Montmartre - Paris 02	Paris CBD	Natixis	Korean Post	9,957 Sq.m	173	3.10%	Office
51 Rue François Ier - Paris 08	Paris CBD	Axa Reim	CARMF	7,400 Sq.m	178	3.10%	Office
Portfolio Ferdinand - 38 buildings - Region	Region	Amundi	Eurosic		314		Office
Portfolio Interstellar -Faubourg St Honoré - Capucines - Paris 08	Paris Cbd	Richemond	AEW		387	2.9% - 3.60%	Retail
Marché Saint Germain - Paris 06	Other Paris	Banimmo France	BVK	4,602 Sq.m	130	3.10%	Retail
Hotel Méridien Étoile - Paris 17	Other Paris	Mount Kellett / Cedar Capital	Henderson GI		365		Hotel
Vendôme Saint-Honoré - Paris 01	Paris CBD	Sloane Investment	Norges Bank	26,800 Sq.m	1 000	2.82%	Office
Ilôt Des Mariniers - Paris 14	Other Paris	Blackrock	Tishman Speyer Properties	25,269 Sq.m	205	Spec ;	Office
6-10 Rue Sainte Claire Deville - Rueil Malmaison	Outer Suburbs	BNP Paribas Promotion	Korean Investment & Securities	42,200 Sq.m	330	4.40%	Office
5 Avenue De L'Opéra - Paris 01	Paris CBD	Axa Reim	Amundi	7,520 Sq.m	101	3.15%	Office
Reflex - Courbevoie - Zi de La Défense	West CBD	Primonial	SMABTP	29,340 Sq.m	204	5.52%	Office
Portfolio Eleven - Region	Region	Rynda	Arthur Loyd Am	45,934 Sq.m	56	8.91%	Office

Source : MBE Conseil/Catella   * Estimation

In contrast, sales of single assets have declined signficantly in this size segment, by 20% in volume. However, the decrease in transaction numbers has been less pronounced, indicating a drop in the average size of these operations. Transactions of less than €50 million, on the other hand, have recorded a very significant increase in volume (+25%), in both portfolios and single-asset sales. These have accounted for 65% of office and 21% of retail asset sales, located mainly in the regions (37%), Paris (25%), and the outer suburbs (18%).

+25% for deals under €50 million

OFFICES STILL LARGEST INVESTMENT ASSET TYPE, **BUT RETAIL ASSETS AND DIVERSIFICATION PRODUCTS ARE THE MOST DYNAMIC**

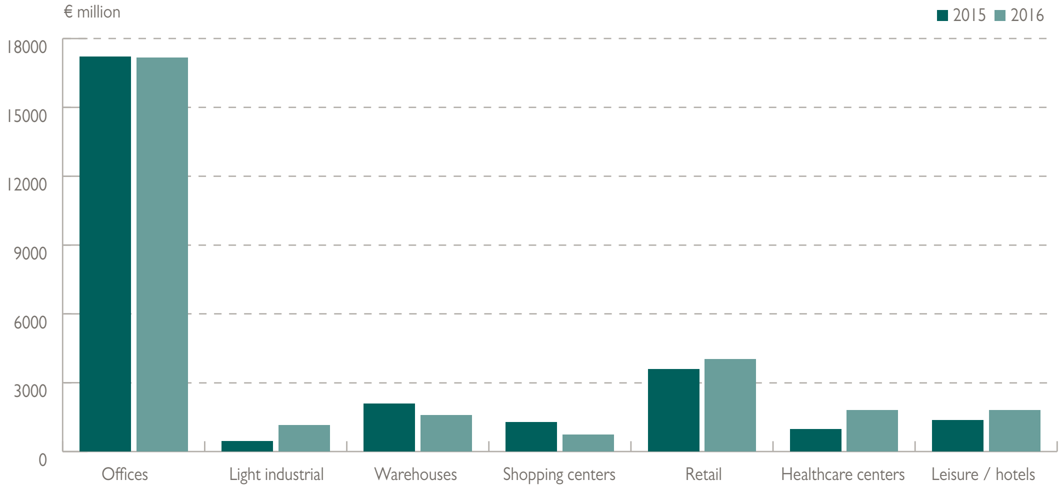
While investors have consolidated their positions in offices with volumes that remain very high at around €17.2 billion, this figure is stable compared with 2015. Rather, growth in investment this year has been in retail assets, as well as in healthcare centres and hotels. These three product types have continued to attract investors seeking to diversify their holdings, and to find assets offering higher yields than offices can currently provide. Light industrial sites have also attracted more investors in 2016, but at still very low volumes compared to other types of non-residential property.

Offices have consolidated their dominant position in the non-residential real estate market and have accounted for 61% of the volume invested in 2016. Office investment volumes have stabilized compared to 2015 to reach almost €17.2 billion. Single-asset sales have been the main contributors to volume growth for the year, up 5%. Meanwhile portfolio sales have been down 20%, due to a decline in the average transaction size, although transaction numbers have been stable. Fifty operations valued at more than €100 million were completed in 2016 for offices, of which 44 involved single-asset sales and six involved portfolios.

Office-related investment activity has risen sharply in the Paris CBD (+41%), partly due to the Vendôme Saint-Honoré deal. It has also increased significantly in the outer suburbs (+ 43%), with nine operations valued at more than €100 million, including five in the city of Rueil-Malmaison alone, three in Nanterre and one in Fontenay-sous-Bois. Volumes have also continued upwards in the West CBD after a very dynamic 2015, increasing by 7% and indicating the area is still at the forefront of the most attractive locations for investors in offices. These three areas alone have accounted for 65% of office-related volume in 2016.

61% of investments in offices

Non-residential investment volume by product type: 2015 vs. 2016



Source : MBE Conseil/Catella Property

Record performance for retail parks

Despite the continuing decline in investment in shopping centres due to the low number of available assets, retail assets and shopping centres have constituted the second most attractive product type, accounting for 17% of investments in 2016. Although street boutiques continue to be very attractive to investors seeking diversification, and remain unquestionably the prime attraction in this asset category, the most noteworthy development of the year has been the investment growth in retail parks, where volumes have multiplied by 7.6 over 2007. Twenty-one retail park acquisitions, either as individual units or in portfolios, were completed in 2016 for a volume of €1.1 billion, compared with only six in 2015 for €145 million.

Investors, faced with the scarcity of shopping centres on the market, have transferred their interest to retail parks, often considered as open-air shopping centres, with very good economic performance in 2016. This has been at the expense of the traditional assets located in suburbs, which have proven less readable, less structured and more risky. The intense competition that the players have experienced in this segment of the market has resulted in a sharp reduction in yields, the lowest of which has been between 4.5% and 5.15%, whereas in previous years the prime yield was still well above 5%. Four of the 21 retail park deals made in 2016 were valued at over €100 million.

Among these were the acquisitions by Arès Management of the McArthur Glenn parks in the cities of Roubaix and Troyes for €200 million; by Frey, Prédica and ACM of the Retail Park Villebon 2 for €158 million, and by BNP Paribas REIM of the Heron Park in Lille for €145 million. Street boutiques have accounted for close to €2 billion of investment. These are always composed of a wide range of assets, ranging from luxury flagship Parisian shops, whose market values have often exceeded €100,000 / sq.m and garnered yields of between 2 and 3%, to the small independent boutique, which, although well located, can offer yields of over 3.5%, even frequently between 4 and 5%. Among the most significant transactions of the year was the sale of the Interstellar portfolio, acquired at €400 million by AEW as well as the sale of 65-67 Champs Elysées, a mixed-use office and retail building bought by the Emir of Qatar for €490 million.

Healthcare facilities and hotels perform well

Healthcare facilities have also posted strong growth in volumes invested. However, in 2016, this market has very clearly been dominated by two operations carried out by Primonial: the acquisition of the Gécimed portfolio of 67 clinics and retirement centers for €1.35 billion, and the Horus portfolio of 26 assets, sold by Foncière des Régions for €291 million. These two transactions accounted for 91% of 2016 investment volume in the healthcare facility sector.

The hotel sector also performed well in 2016, with investment volumes up 32%, driven by six operations valued at more than €100 million. These include the €365 million acquisition by Henderson Park of the Méridien Étoile Hotel; by Amundi of the Pullman Tour Eiffel Hotel for €335 million, and by Hôtel Invest of a portfolio of 43 regional hotels from Foncière des Murs for €281 million.

Strong growth for light industrial

Despite lower investment volumes compared to other products, the light industrial premises market has performed remarkably well in 2016, with volumes exceeding a billion euros for the first time since 2007, (€1.15 billion), up 154% from 2015.

This sector has been boosted in 2016 by the marketing of many large portfolios, attracting institutional investors looking for diversification and higher yields. Examples include Amundi, which together with Panhard Développement purchased the Cardinal portfolio of five business parks totalling 133,000 sq.m for €103 million. The light industrial sector has also attracted more specialized investors who have switched to these assets because of the relative shortage of warehouses, such as Blackstone, which has acquired a portfolio of 160,000 sq.m of light industrial premises for €112 million.

However, investments in warehouses have fallen by 23%, to nearly €1.6 billion compared to more than €2 billion in 2015. Last year was also characterized by the marketing of numerous warehouse portfolios, many being pan-European: a situation which has not happened to the same extents in 2016.

Warehouse activity down by 23%

CORE AND CORE + FUNDS, **INSURANCE COMPANIES AND SCPIS WERE THE MOST DYNAMIC**

Core and core plus funds have remained the dominant players in the French investment market. They have increased their commitments by nearly 8% in 2016, and with close to €7.4 billion invested, have accounted for 25% of the total volume invested in France. French funds have been very clearly dominant, still driven by the club deal-style investment vehicle. This has remained popular either in order to pool risks because of the size of investments, or by institutional investors who wish to associate with a specialist investor when entering a new market. (For example, Amundi / Panhard in light industrial deals, several funds created by Frey in association with insurance companies to invest in retail parks). They have invested more than €3.2 billion, accounting for 43% of the amounts invested in the category.

European funds, boosted by the acquisition by Norgès Bank of the Vendôme Saint Honoré Building for €1 billion, have also increased their investments. In addition to Norwegian funds, UK funds have been the most present. German funds have reduced their investment levels with acquisitions mainly made in logistics or in retail assets. Examples include the warehouses acquisition by Patrizia, or the by BVK of retail outlets in the Marché Saint Germain. However, German funds have remained active players in the French market, with some of them resuming acquisitions in the Paris region, notably since early 2017. These include Union Invest, which acquired the Grand Central Building for €335 million in January 2017.

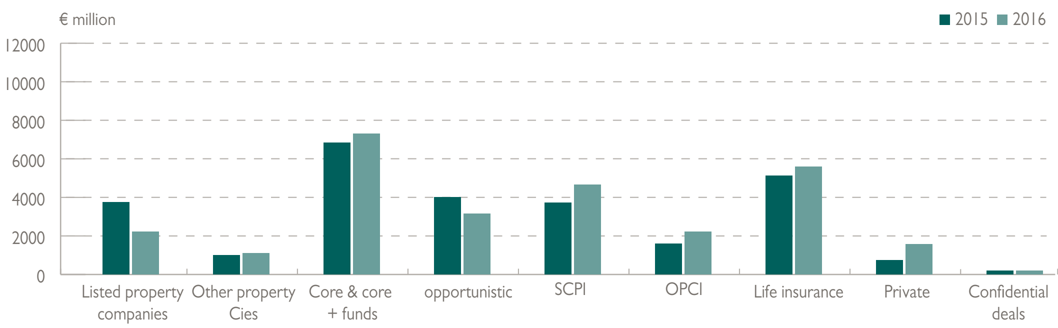
Asian (especially Korean) funds have been more active in 2016 after their notable absence in 2015, with a few significant office acquisitions.

However, American and Middle Eastern funds have been far less active, despite a number of significant transactions, such as the acquisition by the Emir of Qatar of 65-67 Champs Elysées for €490 million, and the Equinix fund's purchase of data centres in Saint-Denis for €189 million.

Opportunistic funds have significantly reduced their volumes of investment in non-residential real estate in France, particularly for offices, by nearly 20%. The rise in market values and the compression of yields has served to limit the types of assets this category of players typically regards as worth considering. They have, however, still been active in logistics and retail assets, where they were able to find operations corresponding to their investment criteria.

Investment funds remain dominant players

Investment volume in non-residential French real estate by investor type: 2015 vs. 2016



Source : MBE Conseil/Catella Property

Insurance companies still very active

Insurance companies and pension funds have remained very active, continuing to increase their exposure in real estate. This has been despite a very significant drop in the net collect of life insurance firms: only €16.8 billion in 2016 compared to €24.6 billion in 2015. Insurance and pension fund investments in real estate has reached nearly €5.4 billion, up 5.5% compared to 2015. Their investment focus has still been very concentrated on offices, which represent 79% of their acquisitions, but down from 86% in 2015, as they further diversified their investments, especially towards retail assets and hotels. Retail assets and shopping centres have accounted for 13% of their acquisitions, with a 15% increase in volumes invested compared to 2015. Three transactions have represented more than 92% of the amounts invested in retail assets by insurance firms: the Interstellar portfolio, the Villebon 2 retail park, acquired by Predica and ACM with Frey for €158 million, and a portfolio of nine shopping centres in France acquired by AG Real Estate (also with Frey), for nearly €135 million. The hotel industry is still only a minority interest, attracting just 4% of the volume invested by insurance companies, but is beginning to appeal to more and more French institutional investors. In 2016, there were two significant acquisitions: by Cardif of the Pullman Bercy Hotel for more than €150 million, and by the ACM in association with the Foncière des Régions of the Club Mediterranée de Samoens for €96 million.

With regard to offices, insurance companies have continued to favour operations valued above €100 million (71% of their investment total), particularly those at between €100 million and € 300 million (46%). They have greatly increased their operations in the West CBD (particularly in La Défense and Neuilly and to a lesser extent in Issy-les-Moulineaux), with 35% of their total acquisitions being concentrated in this area in 2016. Major operations include the Tour First in La Défense, acquired by a club deal led by AXA Reim ; 41 rue Ybry in Neuilly-sur-Seine acquired by CNP, and the Reflex Building in Courbevoie (within the La Défense area), bought by SMABTP. Although the Paris CBD still accounts for 30% of insurance company acquisitions, volumes have been down 13%, despite the signature of three transactions valued at more than €100 million, the Two and Only portfolio purchased by Sogecap, 17 rue Matignon acquired by CNP, and 51 rue François Ier, purchased by CARMF.

SCPI activity supported by record collect

SCPIs, with net collects that once again have exceeded all previous records, posted investment volumes up 29% from 2015, at nearly €4.8 billion. As in 2015, they have benefited from the advantage in terms of yields of "paper-based" real estate, compared to stock market shares, bond investments or "Livret A". They have also probably benefited from the concern aroused by the Sapin Law and its consequences for the life insurance market, leading the public to choose other low-risk savings products. In 2016, the SCPIs continued the strategy they initiated in 2015 of purchasing large assets. The managers of SCPIs buy these assets jointly with other SCPIs, or with OPCIs of the same group, or create club deals, typically mixing SCPIs and insurance companies. The share of assets valued at over €100 million acquired by SCPIs increased further in 2016 to 40%, up from 37% in 2015 and 8% in 2014. Among these deals were the acquisition by two SCPIs, in association with a general public OPCI managed by Amundi, of the Alpha portfolio sold by KanAm for €744 million ; the purchase by eight SCPIs managed by La Française of the Carré Daumesnil Building in the 12th arrondissement of Paris for €177 million, and by Primonial of the Between Building in La Défense for €165 million. SCPIs have acquired mainly offices (74% of their total investment volume) and retail assets (18%). As in 2015, 22% of such acquisitions have been in the regions and 78% in Île-de-France. In the latter, SCPIs have lowered their investment activity in the Paris CBD, mainly due to the sharp fall in yields observed there in 2016, but have increased it everywhere else.

As with SCPIs, volumes invested by OPCIs, (mostly general public OPCIs), have benefitted from record collect levels: almost €2 billion for the first half of 2016, according to ASPIM. They have increased their volumes of investment in non-residential real estate in France, to nearly €2.4 billion: up 49% from 2015. In 2016, OPCIs have focused more intently on offices (40% of their investment volumes) and light industrial premises (16%), to the detriment of retail assets, which have dropped from 42% of overall volume in 2015 to 21% in 2016.

Strong growth for OPCIs

SIIC-listed companies, on the other hand, have sharply curtailed their acquisition activity in 2016, choosing instead to concentrate on developments within their existing portfolios. Their investment volumes have fallen by 40% to €2.2 billion. SIICs have invested mainly in offices (77%) and hotels (12%), with 72% of their investments in operations valued at over €100 million. These have mostly been in two areas: the regions (37%, especially in portfolio sales) and in the outer suburbs, mainly in Nanterre and Rueil-Malmaison.

SIICs investment volumes far lower

Other listed property companies have resumed their interest in acquisitions after a break in 2015. They have invested €1.3 billion: 42% of this volume in offices, 26% in retail assets and 15% in light industrial premises. Regional investments have accounted for 40% of volume, and portfolio investments involving assets located throughout France for 21%.

Private investors have also returned to acquiring real estate in 2016, with a volume increase of 82% to nearly €1.4 billion. They have invested mainly in offices (79% of their total) and retail assets (16%). These have mostly involved assets valued under €20 million (32% of the total), and between €20 and €50 million (23%). Private investors have favoured assets located within Paris (58% of their total) with 25% in the CBD and 33% in other Parisian markets, and to a lesser extent in the regions (28%).

STRONG ACTIVITY IN THE PARIS CBD **AND IN THE OUTER SUBURBS**

In 2016, volume growth came back to the Paris CBD, which, thanks to more active selling strategies, provided more assets on the market. Growth also returned to the outer suburbs, boosted by retail parks and offices in certain areas.

€5.2 billion have been invested in the Paris CBD, up by 23% on the year and surpassing the record set in 2007. Although the increase in market values largely explains this result, the number of transactions has also been strong (70 operations concluded in 2106 compared to 54 in 2015) illustrating the attractiveness of this major sector of the French property market. Many actors, although still in search of secure investments, have shown their aversion to risk by choosing to invest in the most expensive area in the capital.

Paris CBD sets a new record

This exceptional result has been achieved through 13 transactions valued at more than €100 million, which have accounted for more than 70% of the volumes invested in the Paris CBD. Among them, four deals valued at more than €300 million alone have accounted for 43% of the total volume: the Vendôme Saint-Honoré Building; 65-67 Champs Elysées, the Two and Only portfolio, and the Interstellar portfolio.

However, there has also been strong growth (+27%) in transactions of under €50 million, which had been rarer in 2015 due to a shortage of such supply. In the Paris CBD in 2016, 77% of investments have been for offices, 20% for retail assets and 3% for hotels.

There has also been strong activity in the outer suburbs, where volumes have increased by 27% compared to 2015. With 3.6 billion euros invested, this sector now accounts for 13% of the French total, compared with 10% in 2015. This growth has been seen in offices (volumes up by 42%) and in retail assets, where volumes have multiplied ten-fold over 2015. In the outer-suburban office market, investment has remained very concentrated in two municipalities, which have accounted for 55% of total volume: Rueil-Malmaison (37%) and Nanterre (18%). These two cities have benefited from the sale of seven buildings valued at more than €100 million, of which five are in Rueil-Malmaison. These include the acquisition by Korean Investment Securities of the new headquarters of Novartis for €330 million; by Aviva of the Hive Building (the Schneider Electric HQ) for over €250 million, and by Icade of Go Spring, a new, partly-leased building in Nanterre, for €191 million.

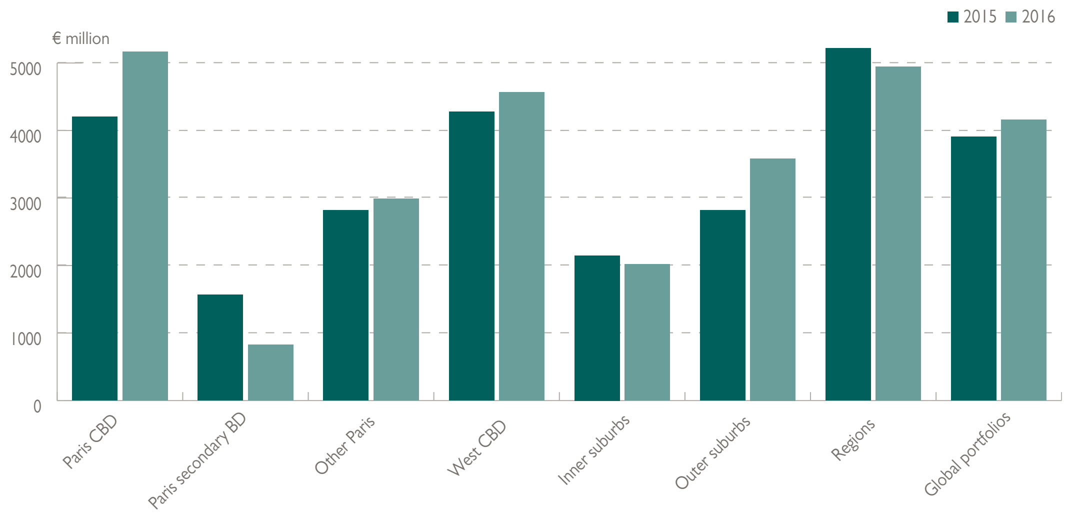
Outer suburbs up by 27%

Rueil-Malmaison has established itself as a generally dynamic, relatively low-risk "micro market". Nanterre is close to Paris, with part of its territory within La Défense. It is a more complex market due to the presence of very diverse sectors within the city, but it allows acquisitions providing higher yields.

Concerning retail assets, the market has been energised by the sale of five retail parks, representing 75% of total volume and fully accounting for investment transaction growth.

Outside these two areas, investment volume has increased more moderately in the West CBD and in the Other Paris sector, while decreasing in the inner suburbs and in the regions.

French investment volume by submarket



Source : MBE Conseil/Catella Property

55% of the amounts invested in West CBD located in La Défense

While investment volume has been up by a relatively modest 7% in the West CBD, the area has remained one of the most attractive for investors, accounting for 16% of the total volume invested in France. With an influx of nearly €4.6 billion in 2016, it is the third-most attractive submarket, after the Paris CBD and the regions. La Défense has been very much the area leader, with more than 55% of the total investment volume in the West CBD. Seven operations valued at more than €100 million have been finalised in La Défense, three of which exceeded €200 million. These include the Tour First, acquired by Axa Reim for more than € 800 million; the Tour CBX by Tishman Speyer for €342 million; the Reflex Building by SMABTP for €203 million; and Tour Europe, bought by Blackrock for €151 million. Far behind La Défense, Neuilly-sur-Seine has accounted for 17% of the volumes invested in the West CBD, with seven transactions. Two of these were valued at over €200 million: 2-8 rue Ancelle, acquired by Amundi and ACM, and 41 rue Ybry, bought by NPM / CNP. Issy-les-Moulineaux has been in third place with eight operations, of which three were valued at more than €100 million. The largest of these has been the acquisition by Gécina, as part of an off-plan (VEFA) development, of the Be Issy Building for €158 million.

Historical record for Other Paris

The Other Paris submarket has registered a 6% increase in investment volume, again beating its historic record, with nearly €3 billion invested. The 17th arrondissement has maintained its top rank in the submarket, as it did in 2015. It was energized in 2016 by four VEFA speculative deals concluded in or in the immediate vicinity of the ZAC des Batignolles: the Ora Building, acquired by Amundi ; the Thémis Building by Covea, the Twist Building by the ACM and the Enjoy Building by the Caisse des Dépôts. These VEFA off-plan projects have accounted for 52% of the investments made in the 17th arrondissement, where the sale of the Méridien Étoile Hotel for €365 million also boosted volume. There were also large transactions elsewhere in Other Paris areas, including a major hotel transaction in the 15th arrondissement, with Amundi buying the €335 million Hotel Pullman Tour Eiffel, as well as the speculative acquisition by Tishman Speyer of the Ilôt des Mariniers for more than €200 million.

However, the regions, the inner suburbs and the Paris secondary business districts have all shown declining volumes in 2016.

Overall decline in the regions

In the regions, the volumes invested have been down by 5% on the year. However, with an influx of €4.9 billion, the regions have remained the second most popular location for investors, after the Paris CBD. Investments in warehouses have fallen the most, mainly due to a decline in large portfolios, and particularly pan-European portfolios. Conversely, the volumes invested in offices, hotels and healthcare facilities in the regions have been on the rise, with office investment increasing by 12% to €1.6 billion.

These investments were made within the framework of regional portfolios (39% of total investment volume), mainly in Lyon (9%) and in Lille (8.5%). Toulouse and Bordeaux have captured, respectively, 4.6% and 4.5% of total investment in offices in the regions. Volumes for offices in Lyon have declined, however, due to the absence of large deals in 2016. The largest regional operation has been the acquisition by Notapierre of the Linux building in Limonest for €51 million.

… and in the inner suburbs

The inner suburbs have also seen slightly lower investment volume, falling by 6% to €2 billion. Its investment market share has also dropped slightly from 2015, to 7%. Saint-Denis has been the most attractive inner-suburban city in 2016, with €684 million invested: 34% of the total inner-suburban volume. Four transactions valued at more than €100 million have occurred in the city: the acquisition by Equinix of a data centre for €189 million; Aviva's speculative purchase of the Moods Building for €160 million; Amundi's purchase of the Stadium Building as part of the Alpha portfolio for €120 million, and finally by a BNP Paribas fund of the Spallis building for €110 million. Montrouge has attracted almost 20% of local investment volume, followed by Clichy (15%), Saint-Ouen (11%) and Pantin (11%), where CNP bought Pantin Logistique's warehouses for €135 million.

… as well as in the Paris secondary business districts

Finally, the Paris secondary business districts have seen 47% lower investment volume, due to an ongoing shortage of supply on the market.

YIELDS HAVE CONTINUED TO FALL SHARPLY

The decline in prime yields (based on office-only buildings offering leases of at least six years) has continued in 2016, driven by strong competition between the real estate actors, and by government bond yields being very low for much of 2016, despite a recovery in the end of the year. In the Paris CBD, prime yields have fallen a further 40 base points, from 3.50% at the end of 2015 to 3.10% at the end of 2016. The top yield in the Paris CBD involved the transaction at 115 Boulevard Montmartre in the 9th arrondissement, acquired by Korean Post at 3.10%. The ECB's accommodating monetary policy, which is expected to last at least until December 2017, further reinforced these effects for most of the year by pressuring bond yields that remained very low. As at the end of 2015, there was an increase in government bond yields at the end of December 2016, to 0.68%. This has continued into 2017, with a rate of 1.08% at the end of January, bringing the bond rate back to its late -2015 levels.

Despite this trend, however, real estate risk premiums remained high, reaching 292 basis points at the end of December 2016. The effects of quantitative easing on government bond yields may have been thwarted by the rise in US long-term rates following the announcements of Trump administration economic policies.

In the West CBD, yields have also fallen, but less severely. It stands at 3.65%, down by 10 base points from the end of 2015, based on the transaction at 2-8 rue Ancelle in Neuilly.

In La Défense, the prime yield has been stable at 5%. However, La Défense could see yields decline very significantly in 2017, as current negotiations are occurring on the basis of yields being closer to 4.25%. Although the La Défense market as a whole is still oversupplied, the near-total absorption of new surfaces has helped restore investor confidence.

Office yields by submarket : 2011-2016

	2011*	2012*	2013*	2014*	2015*	2016*
Paris CBD	4,5 - 5%	4,25 - 5%	4,25 - 5,5%	3,9 - 5%	3,5 - 4,25%	3,10 - 3,80%
Secondary BD	5,7 - 6,0%	5,35 - 5,75%	5,2 - 5,75%	4,8 - 5,75%	4,25 - 4,75%	3,5* - 4,5%
La Défense	5,7 - 6.2%	5,5 - 6,5%	6,6 - 7,5%	5,6 - 7,5%	5 - 5,5%	5 - 5,5%
Other West CBD	5,6 - 6,8%	5,5 - 6,2%	5,5 - 6,5%	5,5 - 6,5%	3,75 - 6%	3,65 - 6%
Other suburbs	5,85 - 7%	6,25 - 7%	6,25 - 8%	5,25 - 8%	4,5 - 7%	4,25 - 6,75%
Regions	6 - 8%	5,8 - 8%	5,7 - 8%	5,4 - 8%	4,8 - 8%	4,8 - 7,50%

*End of the year
Source : MBE Conseil/Catella Property

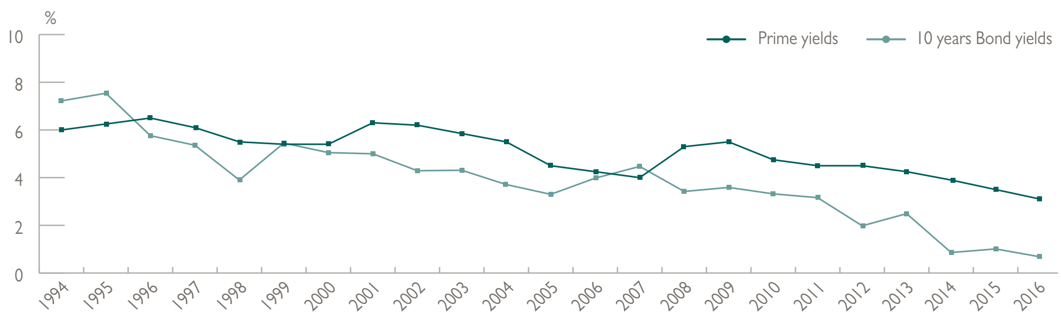
In the suburban markets, prime yields have fallen by 25 base points, to 4.25%, from 4.5% at the end of 2015. The 4.25% rate has applied to inner suburban cities, in particular in the Emerging North. In 2016, this has been based on the acquisition by BNP Paribas REIM of the Eurosquare Building in Saint-Ouen. In 2017, the prime yield should continue to decline, with Amundi having recently announced that it intends to purchase the Coruscant Building in Saint-Denis at 4.06%. In the outer suburbs, yield compression has affected the markets closest to the capital, such as Rueil-Malmaison, where the prime rate has fallen to 4.40% while remaining much higher in more distant locations. However, suburban yield rates are highly dependent on the quality of the buildings, as well as the type of tenant and the duration of leases. As a result, they can vary greatly, from 5% to 7%.

In the regions, prime yields have stabilized at 4.80% in Lyon, with most other cities seeing them range between 6% and 6.20%.

The downward trend for prime yields has had a varying effect on prime market values. The latter have been rising sharply in Paris in general, where prime values have largely passed their highest-ever levels seen in 2007: €25,352 /sq.m in the Paris CBD in 2016, compared to €17,619 /sq.m in 2007. In non-CBD Paris, values have reached €22,667 /sq.m in 2016, compared to 20,286 / sq.m in 2007. However, such value rises have not been recorded everywhere.

In the West CBD, prime market values have also increased strongly (+86%) compared to their low point in 2013. They reached €15,523 / sq.m and are also significantly higher than their 2007 values, but a similar strong rise in 2010 to €15,052 / sq.m saw values approaching today's levels. However, in the inner suburbs, where yield compression has been very strong over the past two years, prime market values have not changed in the same way. Rather, they have remained well below the highest values seen in 2007, at €6,995 / sq.m, compared to €8,041 / sq.m in 2007. This evolution somewhat diminishes the validity of any analysis done strictly on the basis of yields, as it limits the risks that are taken in these sectors.

Office prime yields vs. long-term government bond yields: 1994-2016



Source : MBE Conseil/Catella Property

CONCLUSION

French economic growth has stumbled in 2016. After a very rapid recovery in the first quarter, GDP abruptly slowed in the second quarter. In Q3 and Q4, it regained some vigor, but at a much slower pace. Overall, GDP growth was 1.1% in 2016, down from 1.2% in 2015 and slightly below the average forecasted. The positive effects of the decline in oil prices, the fall in the Euro and the fall in interest rates - along with policies implemented since 2013 such as the Tax Credit for Competitiveness and Employment (CICE) - have, as in 2015, continued to support French growth.

Corporate margins have continued to recover after their sharp rise in 2015. They stood at 31.6% at the end of the third quarter of 2016. This trend has enabled businesses to increase hiring. Salaried positions in Île-de-France increased by 1.3% in 2016: more strongly than generally predicted at the end of 2015.

2017 is expected to be a somewhat more dynamic. The positive effects of certain economic policies (notably the CICE, the Responsibility and Solidarity Pact, and the extra depreciation measures on investments) could be mitigated by rising oil prices and long-term interest rates, but will continue to help the French economy. However, structural constraints (i.e., lack of competitiveness, continuing high unemployment, heavy tax burdens, etc.) will continue to weigh on growth.

On the other hand, the current ECB's accommodative monetary policy has been further extended, at least until December 2017. Although quantitative easing will slow down, with €80 billion in share buy-backs being reduced to €60 billion from April 2017, it is expected to maintain very favorable financing conditions in the Eurozone.

The ECB has announced that this policy will continue until its inflation target of 2% is reached. Inflation has risen slightly in recent months, reaching an annual rate of close to 1.2%, while in 2016 it was still very low at 0.4%.

French economic recovery will remain both modest and very gradual, with GDP growth likely to reach 1.3% in 2017 and 1.4% in 2018. However, employment growth, (particularly in Île-de-France) and overall business investment may become more dynamic if corporate margins continue to recover.

The rental market should benefit from this relatively buoyant environment. Take-up activity in the under-5,000 sq.m range is expected to increase again, and to re-establish its strong correlation with employment levels. But the overall level of take-up will depend mainly on the behavior of large companies, whose decisions largely determine market movements, and that represent, depending on the year, between 35 and 45% of global transaction volumes.

Large companies do not seem to be greatly affected by the «wait-and-see» attitude that could have been generated by the rise in political uncertainty, both in France and globally. On the contrary, they seem to be more concerned about the shortage of properties - new ones, especially - and the rising rents that this situation could generate. Consequently, they are positioning themselves in order to benefit quickly from more favorable economic conditions.

We have already noted 14 transactions involving spaces of more than 5,000 sq.m, either signed or in the process of being signed in Île-de-France. Altogether, nearly 300,000 sq.m of surfaces over 5,000 sq.m are already guaranteed for 2017, indicating a good year for this size market.

If these trends continue beyond the first quarter, overall take-up could increase again in 2017 to between 2.4 and 2.6 million sq.m.

Supply should keep decreasing, thanks to high levels of take-up. Future supply, even if trending higher due to the increase in speculative investments, should be partly pre-commercialized, and therefore not influence vacancy rates. Vacancy rates could continue to fall in the most oversupplied areas - with shortages continuing in Paris - provided that rental values remain generally in line with companies' financial means.

The recent downward pressures on rental values, particularly economic values, could begin to lighten - at least in Paris - due to a combination of a better financial environment for companies and the overall shortage of buildings. As we noted in 2015, economic values could begin to increase, thanks to a reduction in incentives.

Increases in headline values in Paris are not expected, as long as corporate margins still do not return to a level at least approaching 32-33%. In the other markets, however, it will be necessary to wait for a rebalancing of supply levels before one could hope to see any very significant reductions in incentives.

The investment market, which has now been very active for three years, should remain active despite various uncertainties having become greater. Increasing political uncertainties (e.g., Brexit, Donald Trump's election in the United States, the Italian referendum and the resignation of Matteo Renzi, presidential elections in France, etc.) could, depending on their consequences, change the behavior of many key actors and lead to prospective analyses being made today proving unhelpful.

While the risks of investment volume declines in 2017 are significant, the market remains healthy. Financing is low-interest and will remain so until economic growth is once again dynamic. The rental market is robust with high transaction volume - likely to increase in 2017 - with good prospects for moderate but real increases in rental incomes. Real estate yields should remain sufficiently higher than those of government bonds - at least in 2017 - and their spread with the cost of debt should remain stable, allowing real estate to retain a comparative advantage over other financial products.

Liquidity for real estate is expected to stay very high, at least in 2017:

- The collect of SCPIs and general public OPCIs has broken all records in 2016, and 2017 is looking very good for many of them. Even if they continue to increase their investments in Europe - particularly in Germany, where yields are higher - both SCPIs and general public OPCIs are expected to remain a major player in French real estate with investments continuing upwards in 2017.

- Investment funds still have very high liquidity, and club deals being set up to acquire large buildings should continue to be very active.

- Insurance companies, however, have suffered a very significant drop in net collect (-32%), to €16.8 billion from €24.9 billion in 2015. Since mid-2016, the life insurance industry has faced increased uncertainties relating to the Sapin 2 parliamentary bill, which was finally passed in November 2016. While this law primarily addresses older-generation euro funds contained in life insurance contracts, it has created serious concerns on the part of the general public regarding the actual overall health of life insurance companies. This is probably the main factor responsible for the sharp drop in net inflows between September and November 2016 (with actual negative net collect occurring in September).

The amounts invested in real estate by the insurance companies are expected to fall - or, at best, stabilize - in 2017 from 2016 levels. This is made all the more likely, since many insurance companies have already reached their quotas for real estate investment.

- Listed property companies have not been very active in terms of acquisitions in 2016. This absence of dynamism - which could be interpreted as prudence - could continue in 2017.

- Foreign investors, (especially from the Middle East if oil prices continue to rise), as well as Asian investors should continue to increase their investments in France, a country that remains a major destination for them.

- The investment market will also be missing the high amount of assets on the market caused by the discontinuation, at the end of 2016, of the Franco-Luxembourg agreement. This offered an exemption from capital gains taxes for Luxembourg-registered companies investing in French real estate. The discontinuation of the agreement has had a significant impact on the French market in 2016, accounting for 10% to 15% of total investment volume (the main example being the sale by Irish fund Sloane Capital of the Vendôme Saint Honoré Building).

But more than the available real estate liquidity levels - which remain very substantial, despite all the current uncertainties, and which could maintain a very satisfactory investment volume of at least €25 billion- issues concerning market values are presently raising the most questions.

The sharp compression in yields has initially affected office markets nearly everywhere. This trend has since extended to all real estate products, first to warehouses, and street boutiques, then to retail parks. The result in some areas has been very steep rises in market values. This is expected to stop in 2017, however, and market values should stabilize throughout the year.

The rise in long-term interest rates since the end of 2016 - which has gained momentum since the beginning of 2017 - is expected to continue at a slower pace until the end of the year. Economic analysts predict that rates will reach 1.20% by the end of 2017. This should lead to a stabilization in prime yields - or even a slight increase - in order to maintain a yield/risk ratio high enough to maintain a secure real estate investment market.

Catella is a European finance group active in Corporate Finance and Asset Management. 550 employees work in 26 cities and 12 European countries including France, Germany, Sweden, Norway, Denmark, Finland, Spain and the UK.

Catella Property combines the structured approach of an investment bank with local market knowledge and "Dealability": in 2016, we acted as advisor in property transactions throughout Europe for a total value of approximately EUR 6,1 billion.

Emmanuel Schreder, Managing Director
Stéphane Guyot-Sionnest, Managing Director
Monique Benisty, MBE Conseil

Catella Property
4 rue de Lasteyrie
75116 Paris
France
Tél. : +33 (0)1 56 79 79 79
Fax : +33 (0)1 56 79 79 80
info@catella.fr
www.catella.fr

The Property Market Trend is available for downloading on the website www.marketsummarybycatella.com, as well as our market analyses available online.

CATELLA