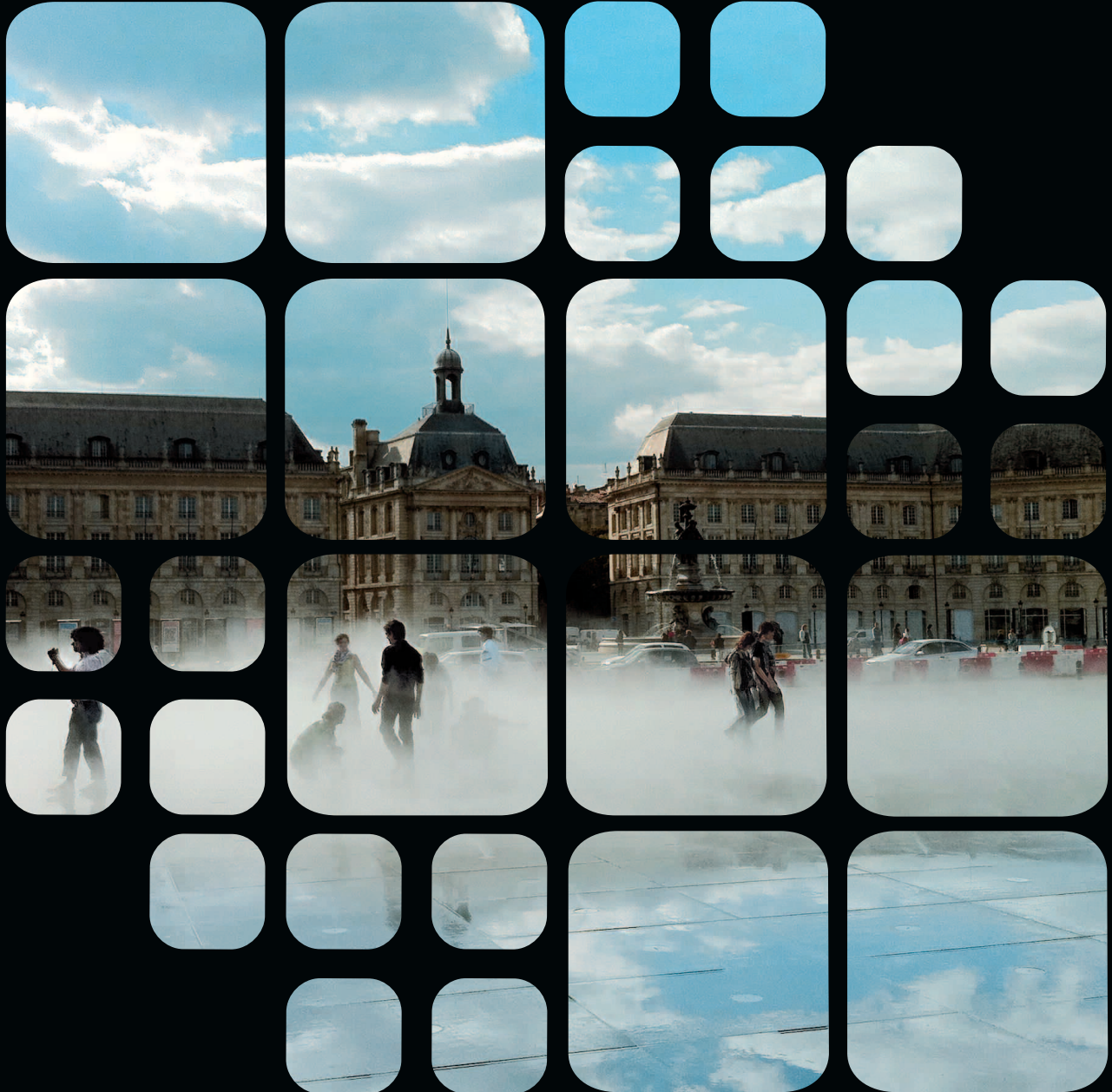


# THE PROPERTY MARKET IN FRENCH REGIONS

ANNUAL REPORT

CB RICHARD ELLIS | MAY 2011



# THE WORLD'S LEADER IN COMMERCIAL REAL ESTATE SERVICES

Offices, industrial, logistics, retail, residential, hotels



## 2010 KEY FIGURES

### FRANCE

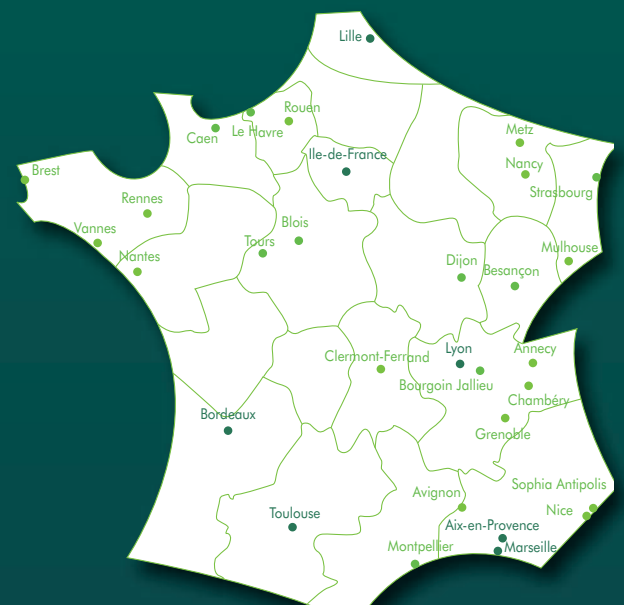
€114.6 M TURNOVER

730 EMPLOYEES\*

37 OFFICES

30 OFFICES IN REGIONS

\* excluding franchisees



### CONTACTS

#### REGIONS

Stanislas LEBORGNE / stanislas.leborgne@cbre.fr  
Tel: 33 (0) 1 53 64 30 45 / Fax: 33 (0) 1 53 64 30 02

#### RESEARCH

Aurélien LEMOINE / aurelien.lemoine@cbre.fr  
Tel: 33 (0) 1 53 64 36 35 / Fax: 33 (0) 1 53 64 40 00

## CONTENTS

- 2** ECONOMIC CONTEXT AND OUTLOOK
- 4** OFFICES - INDICATORS AND ANALYSIS 2010
- 8** OFFICES: TRENDS 2011
- 10** LIGHT INDUSTRIAL AND WAREHOUSES - INDICATORS AND ANALYSIS 2010
- 13** LIGHT INDUSTRIAL AND WAREHOUSES: TRENDS 2011
- 14** ZOOM: THE LOGISTICS MARKET IN FRANCE (WARHOUSES > 10,000 sq. m)
- 16** INVESTMENT
- 20** GLOSSARY

## CB RICHARD ELLIS AGENCIES (BRANCHES AND FRANCHISEES)

**AIX EN PROVENCE**

Philippe LE NORMAND  
Tel: 04 42 60 01 31  
[aix@cbre.fr](mailto:aix@cbre.fr)

**ANNECY**

Jean-François BERTHIER  
Tel: 04 50 10 22 22  
[annecy@cbre.fr](mailto:annecy@cbre.fr)

**AVIGNON**

Pierre MURGUET  
Tel: 04 90 85 96 00  
[avignon@cbre.fr](mailto:avignon@cbre.fr)

**BESANCON**

Isabelle HORRENBERGER  
Tel: 03 89 46 20 80  
[besancon@cbre.fr](mailto:besancon@cbre.fr)

**BLOIS**

Cyrille HENAULT  
Tel: 02 54 74 39 39  
[blois@cbre.fr](mailto:blois@cbre.fr)

**BORDEAUX**

Alexandre CIEUX  
Tel: 05 56 90 52 30  
[bordeaux@cbre.fr](mailto:bordeaux@cbre.fr)

**BOURGAIN JALLIEU**

Marc GENTY  
Tel: 04 74 43 34 33  
[marc.genty@cbre.fr](mailto:marc.genty@cbre.fr)

**BREST**

Thomas SLEGGERS  
Tel: 02 98 43 30 30  
[thomas.slegers@cbre.fr](mailto:thomas.slegers@cbre.fr)

**CAEN**

Nicolas CARON  
Tel: 02 31 44 73 75  
[caen@cbre.fr](mailto:caen@cbre.fr)

**CHAMBERY**

Xavier TROILLARD  
Tel: 04 79 33 03 30  
[chambery@cbre.fr](mailto:chambery@cbre.fr)

**CLERMONT-FERRAND**

Karine RODDE  
Tel: 04 73 28 78 28  
[k.rodde@atrium-cbre.com](mailto:k.rodde@atrium-cbre.com)

**DIJON**

Patrick PEYRUSSIE  
Patrick MESTANIER  
Tel: 03 80 51 71 71  
[dijon@cbre.fr](mailto:dijon@cbre.fr)

**GRENOBLE**

Hugues de VILLARD  
Tel: 04 76 46 47 00  
[grenoble@cbre.fr](mailto:grenoble@cbre.fr)

**LE HAVRE**

Nicolas CARON  
Tel: 02 35 44 73 75  
[lehavre@cbre.fr](mailto:lehavre@cbre.fr)

**LILLE**

Patrick DUEZ  
Tel: 03 20 21 88 50  
[lille@cbre.fr](mailto:lille@cbre.fr)

**LYON**

Thibaut d'ANTERROCHES  
Tel: 04 72 83 48 48  
[lyon@cbre.fr](mailto:lyon@cbre.fr)

**MARSEILLE**

Philippe LE NORMAND  
Tel: 04 96 11 46 11  
[marseille@cbre.fr](mailto:marseille@cbre.fr)

**METZ**

François SUTY  
Tel: 03 87 18 99 99  
[metz@cbre.fr](mailto:metz@cbre.fr)

**MONTPELLIER**

Martine PATIENT  
Nicolas HUET  
Tel: 04 67 50 07 06  
[montpellier@cbre.fr](mailto:montpellier@cbre.fr)

**MULHOUSE**

Jean-Arnaud DESAULLES  
Tel: 03 89 46 20 80  
[desaulles@cbre.fr](mailto:desaulles@cbre.fr)

**NANCY**

François SUTY  
Tel: 03 83 32 86 77  
[nancy@cbre.fr](mailto:nancy@cbre.fr)

**NANTES**

Christophe FOURAGE  
Tel: 02 40 12 04 00  
[nantes@cbre.fr](mailto:nantes@cbre.fr)

**NICE**

Léon PIMIENTA  
Tel: 04 93 88 66 58  
[nice@fici-cbre.com](mailto:nice@fici-cbre.com)

**RENNES**

Hervé KERMARREC  
Tel: 02 23 30 23 30  
[kermarrec.rennes@cbre.fr](mailto:kermarrec.rennes@cbre.fr)

**ROUEN**

Bertrand BONNET  
Nicolas CARON  
Tel: 02 35 70 73 75  
[rouen@cbre.fr](mailto:rouen@cbre.fr)

**SOPHIA ANTIPOLIS**

Georges BENICHO  
Tel: 04 93 65 22 54  
[sophia@fici-cbre.com](mailto:sophia@fici-cbre.com)

**STRASBOURG**

Olivier HEYDT  
Tel: 03 88 37 11 00  
[rivegauche@cbre.fr](mailto:rivegauche@cbre.fr)

**TOULOUSE**

Michèle BELLAN  
Tel: 05 62 72 44 60  
[toulouse@cbre.fr](mailto:toulouse@cbre.fr)

**TOURS**

Franck BOLEVE  
Tel: 02 47 33 33 33  
[tours@cbre.fr](mailto:tours@cbre.fr)

**VANNES**

Stéphane GRIBIUS  
Tel: 02.97.69.10.00  
[kermarrec.vannes@cbre.fr](mailto:kermarrec.vannes@cbre.fr)

Local offices of CB Richard Ellis contribute to research carried out by regional observatories of commercial real estate. Data processed by these organisations helps ensure the quality of our research.

## ECONOMIC CONTEXT AND OUTLOOK

### Trends in GDP and unemployment rate in France

Following the recession in 2009, the French economy went through a period of convalescence in 2010 with GDP growing by 1.5%. The regions of France with the strongest **GDP growth were in the west and south of the country** and more specifically Pays de la Loire, Midi-Pyrénées, Brittany, Rhône-Alpes, Languedoc-Roussillon and Aquitaine. As in 2009, industrial regions in the north and east were the least dynamic.

**The resumption of growth did not lead to any real improvement in the job market.** At the end of 2010, the unemployment rate in metropolitan France stood at 9.2%, i.e. an annual fall of just 0.3 point. The most favourable improvement in unemployment was seen in Franche-Comté (down 1 point), followed by Pays de la Loire and Rhône-Alpes (down 0.6 point), then Alsace, Lorraine, Picardy and Poitou-Charentes (down 0.5 point). Ile-de-France, Midi-Pyrénées, Nord-Pas-de-Calais, PACA, Aquitaine and Corsica fared below the national average in terms of job creations.

**Many businesses went bankrupt in France but their numbers did at least fall.** The research organisation Altarès reported that bankruptcies actually rose in 7 regions: Upper Normandy, Picardy, Nord-Pas-de-Calais, Champagne-Ardenne, Lorraine, Midi-Pyrénées and Languedoc-Roussillon.

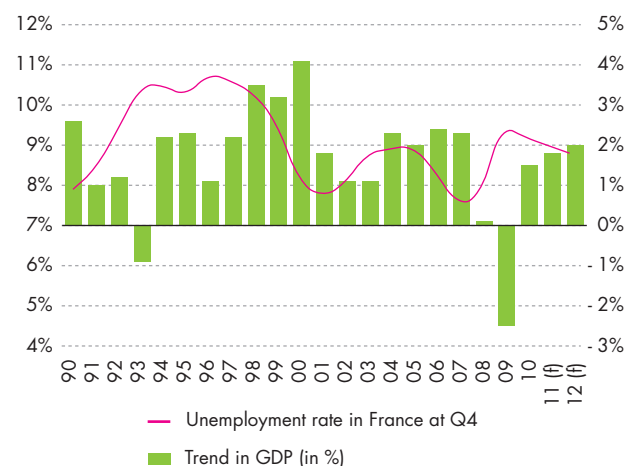
Broadly speaking, sector by sector, business activity in regional France in 2010 can be summarised as follows:

- **in industry, turnover rose in all regional markets**, albeit with some variation depending on the specific industry. This improvement did not compensate for the heavy losses posted in 2009. In 12 regions, rises in turnover exceeded 5% and the highest rebounds were seen in Franche-Comté, Alsace and PACA. Meanwhile lower rises in turnover were recorded in Languedoc-Roussillon, Nord-Pas-de-Calais and Midi-Pyrénées. On the whole, **the employment market did not benefit from this improvement** in activity although naturally there was a slowdown in the rate of job cutting;
- **the volume of turnover in the business services sector also rose** everywhere. The most active regions were Rhône-Alpes, Midi-Pyrénées and Ile-de-France. The PACA region posted a disappointing improvement of 1.7%;
- virtually everywhere the **fall off in the building industry continued**, with Upper Normandy seeing one of the largest drops (6.8%).

### Outlook 2011

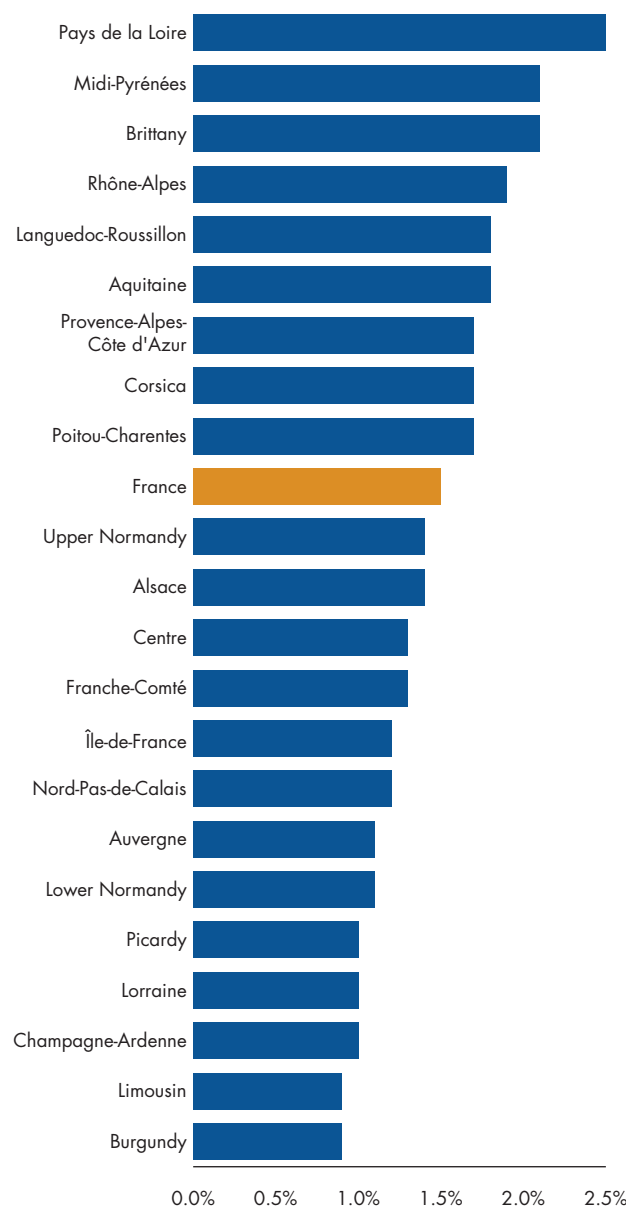
For 2011, the most optimistic GDP growth forecasts are in **Alsace, Midi-Pyrénées and Languedoc Roussillon**. By contrast, little or no improvement is expected in Franche-Comté, Burgundy, Upper Normandy and Champagne-Ardenne. **Turnover is once again forecast to rise in the industrial and service sectors**, although, with the exception of a few regions, the variation in activity will be lower than in 2010. On the whole, entrepreneurs are more optimistic about future profitability ratios, especially in the business-to-business service sector.

### TRENDS IN GDP AND UNEMPLOYMENT RATE IN FRANCE



Sources: INSEE, Oxford Economics

### TRENDS IN GDP BY REGIONS IN 2010



Source: Oxford Economics

## REGIONAL ECONOMIC ACTIVITY

	Change in unemployment 2000-2010 (in pts of %)	Change in total employment 2000-2010	Change in total employment 2010-2020 (f)	Change in GDP 2000-2010 (f)	Change in GDP 2010-2020 (f)	5-years survival rate of business
Alsace	+ 3.5	- 1.9%	7.6%	4.4%	17.4%	54.8%
Aquitaine	+ 0.6	7.1%	5.5%	17.6%	22.8%	54.3%
Auvergne	+ 0.4	1.3%	- 2.5%	7.8%	12.6%	57.1%
Lower Normandy	+ 0.8	- 0.9%	0.5%	5.7%	13.3%	59.9%
Burgundy	+ 1.4	2.0%	- 4.7%	4.5%	10.2%	56.9%
Brittany	+ 1.1	9.3%	4.6%	16.5%	23.0%	58.4%
Centre	+ 1.8	0.4%	0.6%	6.4%	14.8%	55.3%
Champagne-Ardenne	+ 0.9	- 1.4%	- 7.0%	0.8%	10.1%	57.4%
Corsica	- 1.9	19.9%	10.4%	31.3%	24.8%	60.0%
Franche-Comté	+ 3.2	0.4%	- 2.6%	1.3%	10.8%	54.9%
Upper Normandy	0.8	3.9%	- 2.5%	5.8%	10.8%	54.7%
Île-de-France	+ 1.1	4.6%	6.4%	14.2%	23.3%	51.8%
Languedoc-Roussillon	- 0.5	12.6%	15.8%	20.9%	35.7%	49.2%
Limousin	+ 1.7	2.0%	- 1.9%	7.2%	11.6%	61.3%
Lorraine	+ 2.4	- 4.2%	- 0.3%	3.5%	11.8%	52.9%
Midi-Pyrénées	+ 0.3	11.0%	10.4%	22.2%	27.0%	54.8%
Nord-Pas-de-Calais	+ 0.9	1.8%	- 0.1%	10.9%	12.2%	53.5%
Pays de la Loire	+ 1.2	10.2%	4.1%	15.8%	19.7%	58.0%
Picardy	+ 1.7	- 3.3%	- 0.4%	2.6%	10.2%	54.9%
Poitou-Charentes	+ 0.9	4.0%	1.5%	11.7%	17.2%	51.9%
Provence-Alpes-Côte d'Azur	- 0.9	13.2%	9.1%	18.4%	23.6%	50.8%
Rhône-Alpes	+ 1.5	6.1%	7.8%	13.1%	22.7%	54.4%
Metropolitan France	+ 1.1	5.0%	4.6%	12.5%	20.2%	52.5%

Sources: INSEE, Oxford Economics

(f) : forecast

## PANORAMA OF REGIONAL ECONOMIES

	Population 2010	Share of national GDP 2010	GDP per capita 2010	Number of businesses 2009	Total employment 2010 (in thousand)	Unemployment rate at Q4 2010
Alsace	1,856	2.7%	€25,971	75,793	698.3	8.4%
Aquitaine	3,227	4.6%	€24,876	164,632	1228.6	9.2%
Auvergne	1,345	1.8%	€23,102	59,957	518.0	8.1%
Lower Normandy	1,474	1.8%	€22,026	59,444	552.6	8.5%
Burgundy	1,643	2.2%	€23,860	67,694	646.9	8.3%
Brittany	3,195	4.4%	€24,070	132,840	1268.4	7.7%
Centre	2,545	3.5%	€24,188	97,002	971.9	8.4%
Champagne-Ardenne	1,334	1.9%	€25,256	48,810	515.8	9.4%
Corsica	311	0.4%	€21,336	23,943	110.7	9.3%
Franche-Comté	1,173	1.5%	€22,620	45,646	445.9	9.0%
Upper Normandy	1,833	2.6%	€25,036	63,972	712.1	10.2%
Île-de-France	11,798	29.5%	€43,909	723,175	5690.3	8.2%
Languedoc-Roussillon	2,633	3.2%	€21,219	150,584	892.2	12.5%
Limousin	746	0.9%	€21,876	31,615	285.1	7.9%
Lorraine	2,350	2.9%	€21,919	81,414	800.1	9.8%
Midi-Pyrénées	2,893	4.1%	€24,851	146,566	1125.4	9.2%
Nord-Pas-de-Calais	4,026	5.1%	€22,432	130,188	1432.1	12.7%
Pays de la Loire	3,565	5.1%	€25,162	141,149	1468.6	7.9%
Picardy	1,914	2.3%	€21,446	62,279	630.5	10.9%
Poitou-Charentes	1,774	2.3%	€22,476	76,367	660.8	9.0%
Provence-Alpes-Côte d'Azur	4,951	7.3%	€25,896	327,316	1893.6	10.8%
Rhône-Alpes	6,212	9.8%	€27,749	324,972	2492.8	8.3%
Metropolitan France	62,799	100%	€27,988	3,035,358	25040.5	9.2%

Sources: INSEE, Heuler Hermès SFAC, Oxford Economics

## OFFICES • INDICATORS 2010

### SUMMARY OF OFFICE MARKETS IN REGIONAL FRANCE \*

	2009	2010	Trend
Take-up	1,080,000 sq. m	1,321,200 sq. m	+ 22%
Share of new space	44%	41%	- 3 points
Immediate supply	2,050,000 sq. m	1,996,200 sq. m	- 3%
Share of new space	32%	23%	- 9 points
Definite future supply within 2 years	600,000 sq. m	500,000 sq. m	- 17%
Prime rents (net/sq. m pa)	€250	€280	+ 12%
Average rent for new or redeveloped space (net/sq. m pa)	€159	€168	+ 6%
Average rent for second hand space (net/sq. m pa)	€126	€134	+ 6%

Source: CB Richard Ellis

#### \* 15 MAJOR REGIONAL CITIES IN THE CBRE SAMPLE:

Aix-en-Provence / Marseille, Nice / Sophia Antipolis, Lyon, Lille, Bordeaux, Nancy, Nantes, Strasbourg, Grenoble, Rouen, Metz, Montpellier, Clermont-Ferrand, Rennes, Toulouse

### OFFICE STOCK BY REGION

(In thousand sq. m)

	Office stock (low end)	Office stock (high end)
Île-de-France	47,099	52,333
Rhône-Alpes	17,750	21,875
PACA	12,034	14,769
Nord-Pas-de-Calais	9,706	11,912
Pays de la Loire	8,499	10,431
Aquitaine	7,343	9,012
Midi-Pyrénées	7,304	8,964
Brittany	6,950	8,530
Centre	5,941	7,291
Languedoc-Roussillon	5,081	6,235
Alsace	5,036	6,181
Lorraine	4,475	5,492
Upper Normandy	4,214	5,172
Poitou-Charentes	3,636	4,462
Burgundy	3,519	4,319
Picardy	3,509	4,307
Lower Normandy	2,899	3,558
Champagne-Ardenne	2,721	3,340
Auvergne	2,695	3,308
Franche-Comté	2,357	2,893
Limousin	1,472	1,806
Corsica	604	741
<b>Total</b>	<b>164,844</b>	<b>196,931</b>

Source: DADS - ORIE

### THE OFFICE MARKET CITY BY CITY

	Immediate supply at 31/12 (in sq. m)	Share of new space in immediate supply	Take-up in 2010 (in sq. m)	Share of new space in take-up	Rents for new / redeveloped at 31/12 (€ net / sq. m pa)	Rents for second hand at 31/12 (€ net / sq. m pa)
Aix-en-provence	57,000 ↗	20%	48,000 ↗	35%	145/200	120/170
Anncy	41,570 ↘	7%	24,800 ↗	22%	145/225	80/195
Avignon	24,000 ↗	30%	18,000 ↗	63%	135/190	80/150
Bordeaux	87,000 ↘	24%	100,400 ↗	49%	125/176	80/150
Caen	43,000 ↘	30%	18,000 ↗	N. C.	125/180	70/120
Chambéry	12,500 ↘	5%	15,000 ↗	40%	115/145	75/135
Clermont Ferrand	39,000 ↗	35%	25,000 ↗	52%	110/135	80/120
Grenoble	130,000 ↗	20%	67,900 ↗	26%	140/180	80/130
Le Havre	28,900 ↗	16%	20,000 ↗	10%	120/150	90/120
Lille	230,000 ↘	29%	185,000 ↗	50%	116/200	80/160
Lyon	382,000 ↘	18%	219,500 ↗	40%	135/280	110/210
Marseille	150,000 =	22%	82,000 ↗	40%	140/250	110/230
Metz	34,000 ↘	6%	32,000 ↗	35%	120/156	75/130
Montpellier	70,000 ↗	20%	62,000 ↗	30%	140/152	105/142
Mulhouse	53,050 ↘	17%	30,600 ↗	56%	110/160	50/150
Nancy	41,500 ↗	13%	33,500 ↘	22%	125/145	85/160
Nantes	120,000 ↗	38%	86,300 ↗	45%	135/175	110/150
Nice	50,000 ↗	40%	21,000 ↘	30%	180/215	110/160
Rennes	85,200 ↘	30%	95,200 ↗	55%	160/205	110/150
Rouen	72,000 ↘	14%	42,500 ↗	17%	120/150	58/130
Sophia Antipolis	49,000 ↘	14%	22,100 ↗	6%	160/220	125/175
Strasbourg	163,200 ↘	20%	58,100 =	27%	125/190	75/160
Toulouse	236,300 ↗	23%	140,600 ↗	54%	125/170	100/150
Tours	65,000 ↘	6%	37,200 ↗	59%	125/150	90/130

Source: CB Richard Ellis

N.C.: Not Communicated

## Occupier interest low in the 1<sup>st</sup> half

One feature of 2010 was a slowdown in **requirements** emanating from occupiers compared to 2009. Nevertheless this weak level of interest was compensated by **the much higher quality of demand**. The wave of lease renegotiations seen in 2009 did not continue in 2010, mainly due to a more stable economy and the fall in the cost of construction index.

**Businesses were therefore considering much sounder real estate plans.** They are based on well determined strategies, aligned with the most recent economic events and reflecting careful attention to costs and the rationalisation of sites. Consequently, **the transformation rate of demand into transactions was higher** than in the past. Small businesses still expressed strong interest in acquiring premises and managed to overcome the tough conditions for obtaining credit during this period when interest rates were low.

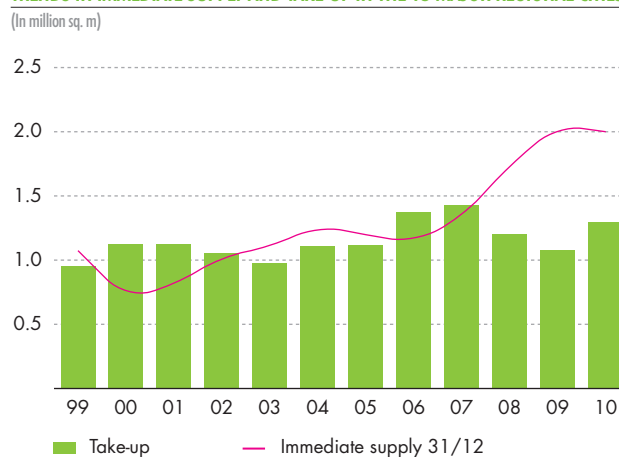
## Markets more consistent and more active

**The office market in regional cities\* was more uniform** in 2010 than in 2009, when large variations were observed from one city to the next. In the 1<sup>st</sup> half, the volume of take-up was 34% higher than in 1<sup>st</sup> half 2009, an upturn confirmed in the 2<sup>nd</sup> half. Overall, **take-up was 22% higher in 2010** than in 2009 and totalled 1.32 million sq. m. This volume is comparable to 2006's total performance of 1.37 million sq. m, but lower than 2007 when 1.43 million sq. m were let or sold.

**The resumption of real estate market activity overtook economic growth.** Although businesses did not immediately start growing again, they regained visibility and could plan for the future. In the meantime, real estate needs had not disappeared and may even have risen. In addition, some large transactions that did not close in 2009 were signed in 2010, **shifting some results along a few months.**

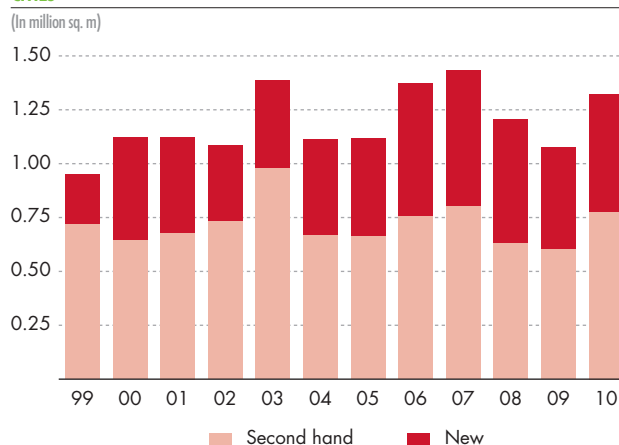
**2010 provided occupiers with a window of opportunity** when they could choose from a wide selection of quality premises with financial conditions made favourable by the crisis. **Numerous businesses took advantage of these opportunities**, although their numbers were later curbed by the scarcity of supply and an increase, albeit small, in rents.

## TRENDS IN IMMEDIATE SUPPLY AND TAKE-UP IN THE 15 MAJOR REGIONAL CITIES



Source: CB Richard Ellis

## BREAKDOWN OF TAKE-UP BY CONDITION OF PREMISES IN THE 15 MAJOR REGIONAL CITIES



Source: CB Richard Ellis

## SELECTED TRANSACTIONS 2010

Address - programme	Tenant/buyer	Floor area (sq. m)	Type of contract	Condition of premises	Annual rent or price (€ net of tax or duties/sq. m)
Rennes - Les Champs Blancs	Technicolor	18,000	Lease	New	165
Grenoble	Atos	11,100	Lease	New	145
Lille - Euralille	SNCF	8,500	Lease	New (BBC)	200
Marseille - Capelette	Pôle Emploi	8,400	Lease	New	195
Lyon - Monolithe	GDF	8,300	Lease	New	210
Lille - Lys les Lannoy	Kiabi	8,000	Lease	Second hand	N.C.
Montpellier - city-centre	RSI	5,300	Lease	Second hand	135
Mulhouse - city-centre	UIOSS	4,250	Lease	Renovated	90
Clermont-Ferrand - Dunant	Euromaster & Chu	3,500	Lease	New	110
Nancy - Rives de Meurthe	Acticall	3,300	Lease	New	125
Marseille - Meyreuil	Softway	3,150	Lease	New	Conf.
Nice - Nice Plaza	Groupe Zénith	2,100	Lease	New	190

Source: CB Richard Ellis

N.C.: Not Communicated

There was a particularly high number of large transactions, above 5,000 sq. m, in regional markets: 27 for a total of 240,000 sq. m. In 2009, the 11 transactions of this size only totalled 80,000 sq. m. Given the low level of new supply, many of these transactions involved the **pre-letting of buildings under construction**, some of which would never have been built had the investment not been secured by a lease contract.

As in 2009, **the public sector and other semi-public organisations** were a driving force in the market for large transactions (>5,000 sq. m), responsible for 13 transactions representing 55% of take-up in this segment. The general revision of public policy (RGPP) determined that **decentralised services be grouped into fewer sites offering modern facilities and a more efficient organisation**. Semi-public bodies also consolidated their sites, the best example being the unemployment organisation, Pôle Emploi, which continued grouping together their job centres, a process that was already well underway in 2009.

In the **private sector, the resumption of activity** was led by the bank-insurance sector, IT services and other consulting businesses. In contrast to the public sector, the private sector was active in every size bracket.

**Virtually all markets expanded**, some of them seeing activity rise by more than 70% (Rennes and Grenoble). **5 regional cities saw take-up exceed 100,000 sq. m:** Lyon, Lille, Toulouse, Aix-en-Provence/Marseille and, a new member to the club, Bordeaux. These markets posted rises in take-up between 24% and 34%, the exception being Toulouse where take-up only rose by 4%.

Occupiers were sensitive to the quality of buildings. **New and redeveloped space accounted for 41% of take-up**. This share is 3 points lower than in 2009, but the drop reflects the scarcity of new supply in the most popular locations rather than a diminished **preference for new space**.

### Supply stabilised with slump in new space

**2 million sq. m of offices were available** in regional markets\* at the end of 2010, **3% lower than the previous year**. However trends varied from city to city ranging from 50% growth in Nantes to a 36% fall in Bordeaux.

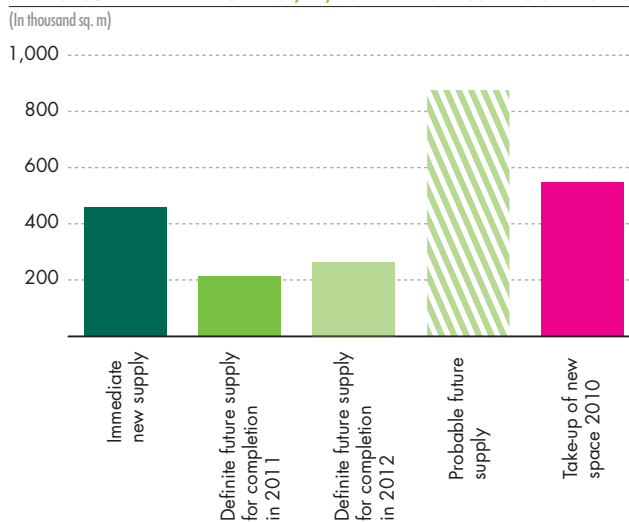
One trend did emerge **nationwide: the supply of new space fell**, except in Nantes and Grenoble. **Some 458,000 sq. m of new and redeveloped space** was available at the end of 2010, which is almost 200,000 sq. m less than at the end of 2009. As a result the share of **new and redeveloped space in supply only accounts for 23% of supply** now, compared to 32% at the end of 2009.

**The supply of second hand space followed a reverse trend, rising by 10%**. Indeed depending on where it is located, and particularly in hard-to-access peripheral sites, between 20% and 35% of supply is considered unsuitable to the market.

**Two factors** are likely to have an impact on this situation:

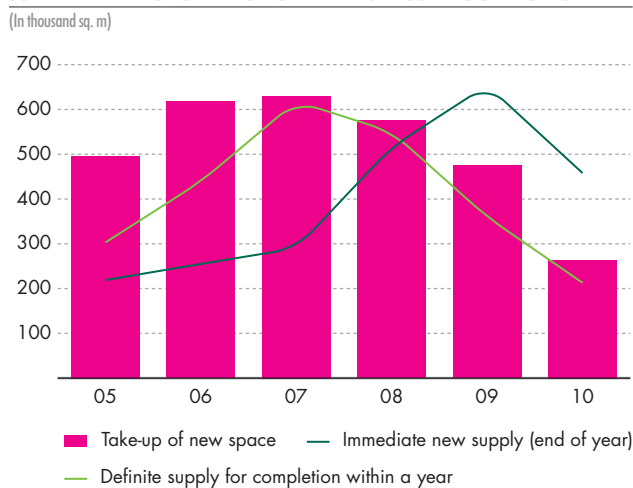
- **higher taxes**, in particular land tax, which will have a proportionately greater effect on buildings with low rental values. Occupiers will no doubt try to cut rental costs to offset the higher tax;
- the obligations for owners introduced by **Grenelle II environmental laws** that will force owners to decide whether to bring their buildings up to standard or convert them.

### STATE OF SUPPLY AND TAKE-UP AT 31/12/10 IN THE 15 MAJOR REGIONAL CITIES



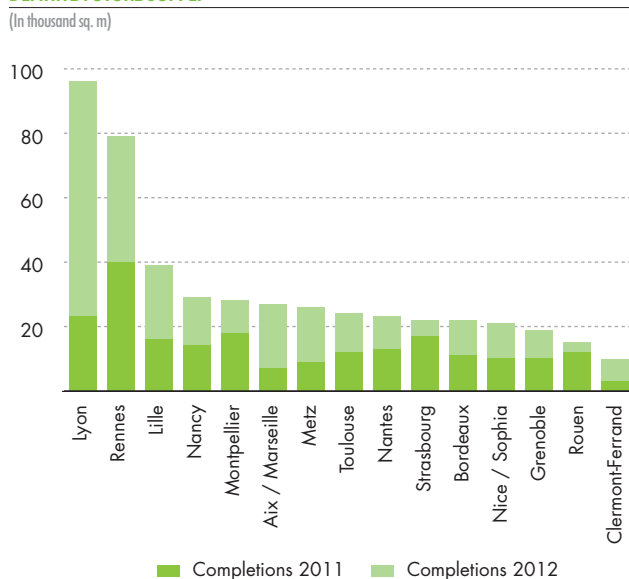
Source: CB Richard Ellis

### SUPPLY AND TAKE-UP OF NEW SPACE IN THE 15 MAJOR REGIONAL CITIES



Source: CB Richard Ellis

### DEFINITE FUTURE SUPPLY



Source: CB Richard Ellis

Owners will no doubt consider that it is worth refurbishing properties in the best central and most accessible locations having a capacity to create value, even if this involves important structural works. The **conversion of other sites** will depend on the potential future value that can be obtained, especially for retail and residential buildings.

The amount of office space in the pipeline to be completed over the next two years totals **478,000 sq. m**, a **15% fall** since the end of 2009. About 213,000 sq. m will be completed in 2011, which will not be sufficient to compensate for the take-up of new space (this totalled 545,000 sq. m in 2010). **The increasing scarcity of new space is therefore likely to persist and even get worse** in 2011 and 2012. Lyon and Rennes are the only cities with a sizeable amount of definite future supply with respectively 95,000 and 78,000 sq. m. No other market, including Lille, Aix-en-Provence/Marseille, Toulouse and Bordeaux has more than 30,000 sq. m of definite supply in the pipeline over the next two years.

### Rents rise

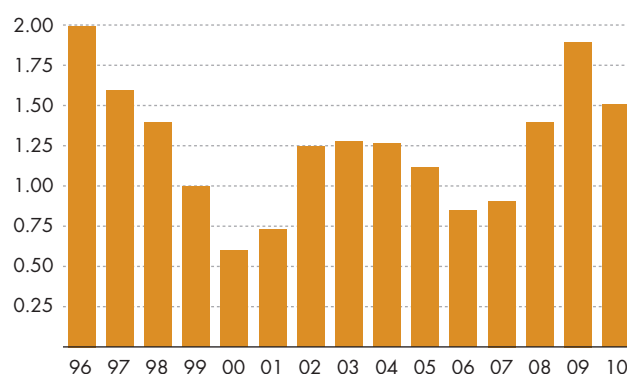
The **average rent for new and redeveloped offices** in regional cities rose by 5.2% to €168 net/sq. m pa. Some of this rise is due to transactions on new and green buildings that meant rents in several cities broke the psychological barrier on certain thresholds. For example in **Euralille**, the headline rent for a low-energy building reached **€200** and in **Lyon**, offices in Tour Oxygène went for **€280**. These transactions must be taken into account because **the programmes are prototypes of prime buildings** to be developed in regional cities even though the number of such transactions remains minimal.

The **average rent** for second hand space posted a rise of 6.1% to stand at **€134 net/sq. m pa**. Second hand space in good condition gained from the scarcity of new space in the most popular locations.

By contrast, commercial concessions, which protected headline rents from being pushed down, have now started falling, especially in markets where there is a shortage of supply.

### THEORETICAL MARKETING PERIOD IN THE 15 MAJOR REGIONAL CITIES

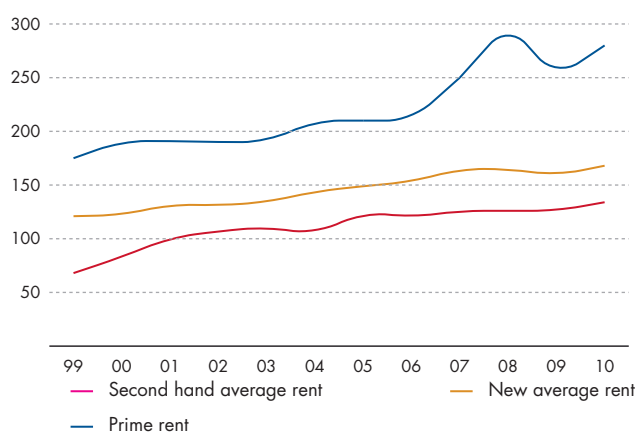
(In € net /sq. m pa and in years)



Source: CB Richard Ellis

### TRENDS IN RENTS IN THE 15 MAJOR REGIONAL CITIES

(In € net /sq. m pa)



Source: CB Richard Ellis

### PRIME AND AVERAGE RENTS BY CITY

(In € net /sq. m pa)

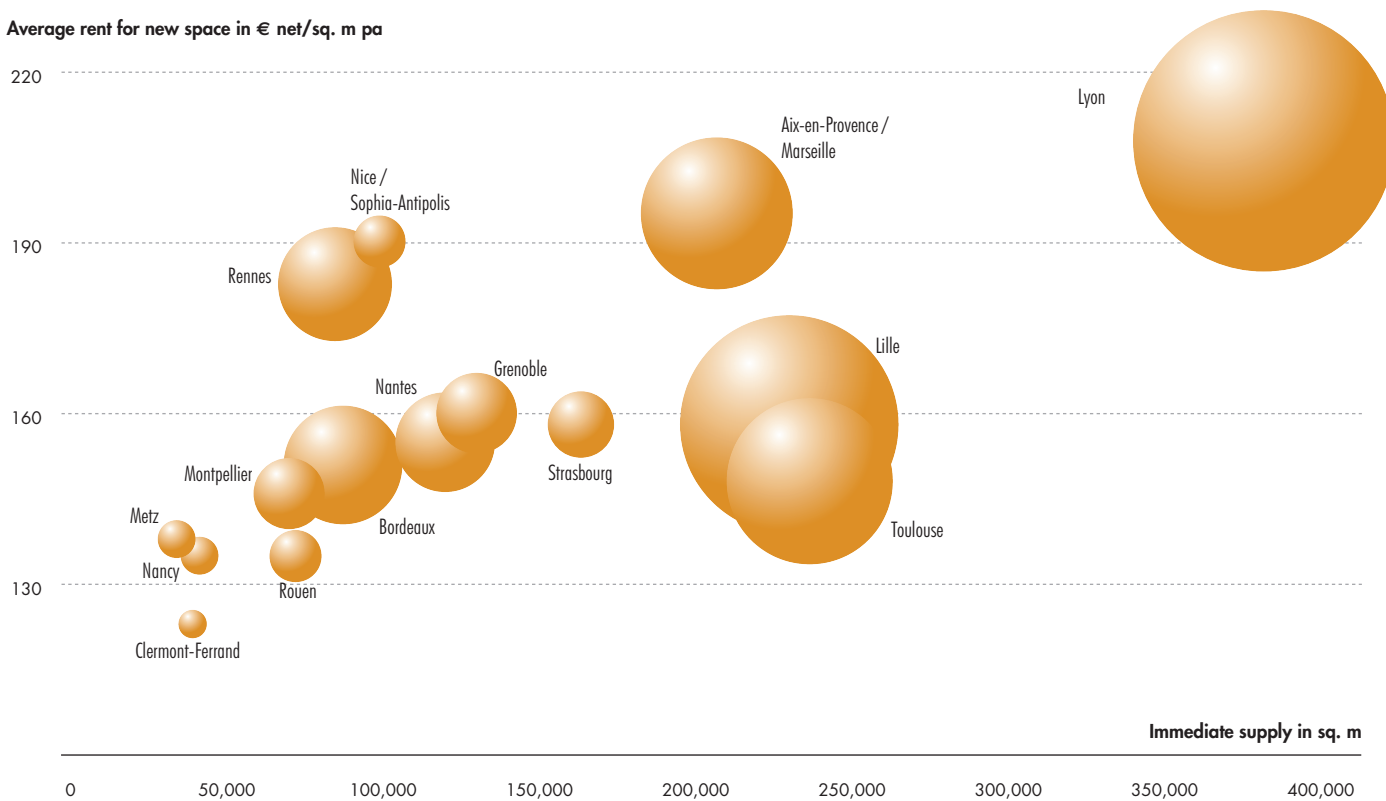
	Prime rent	Annual trend	Average rent for new/redeveloped space	Annual trend	Average rent for second hand	Annual trend
Aix-en-Provence / Marseille	€250	Stable	€195	+ 3%	€170	+ 17%
Bordeaux	€176	+ 7%	€151	+ 4%	€115	- 6%
Lille	€200	+ 8%	€158	+ 5%	€120	+ 9%
Lyon	€280	+ 14%	€208	+ 9%	€160	+ 3%
Nantes	€175	Stable	€155	+ 5%	€130	+ 6%
Nice / Sophia-Antipolis	€220	- 4%	€190	- 7%	€145	Stable
Strasbourg	€190	- 5%	€158	- 3%	€118	+ 3%
Toulouse	€170	Stable	€148	Stable	€145	+ 18%

Source: CB Richard Ellis

N.C.: Not Communicated

## POSITION OF OFFICE MARKETS IN REGIONAL FRANCE AT END 2010

Average rent for new space in € net/sq. m pa



→ The size of bubbles is proportional to the take-up volume

Source: CB Richard Ellis

## OFFICES • TRENDS 2011

## Take-up high but falling

Most of the factors that led to high levels of take-up in 2010 will fade away in 2011. Consequently, **despite strong market fundamentals, take-up will no doubt fall in 2011, although it should remain at a strong level.**

**The structural changes to the public and semi-public sectors are coming to an end.** In the real estate sector at least the Révision Générale des Politiques Publiques has already borne its fruit: most of the main administrations in regional markets have now been grouped together and will no longer drive the market to the same extent. Of these major public players, Pôle Emploi and regional health agencies have successfully completed their reorganisation and have satisfied most of their real estate needs. **In the private sector, economic growth alone will not be sufficient to boost demand** but the expected resumption of mergers and acquisitions will lead to regroupings.

## Pressure on new supply

The **sharp fall in new supply and definite future supply** will complicate the search process for occupiers who are after quality. Major occupiers, if they have enough business visibility, **can reserve buildings early in the construction process** by buying or renting off plan. Failing that, companies will have to choose between new

buildings in less attractive areas, renovated space and second hand space that is well located. **The resumption of speculative development – too faint for the moment – is expected to strengthen.**

## Dealing with obsolescent premises

In parallel to the increasing scarcity of new supply, there is a continued rise in **second hand supply, a substantial share of which is out of date.** As the economy stabilises and new regulatory standards are introduced, **2011 will be a year when owners test different approaches to dealing with outdated premises** and find possible solutions. What economically viable techniques can be used to bring obsolete buildings up to standard? Which offices will be transformed into housing?

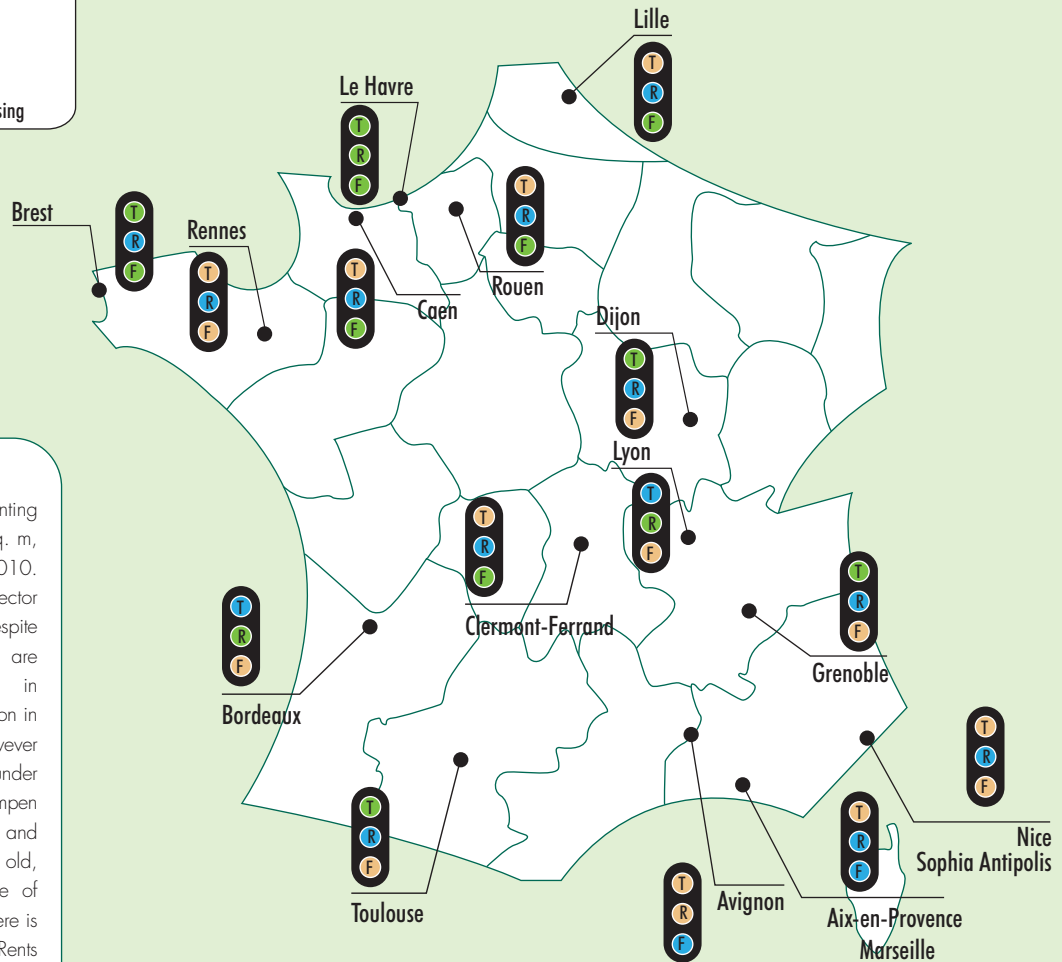
## Contrasting trends in rents

Negotiations on quality buildings in 2011 should swing to weigh more in favour of landlords. **The emergence of a new “green” labelled supply may justify an increase in prime values.** In some of the most sought-after locations, leases on second hand premises may secure high rents because of the lack of competition from new buildings. By contrast, **the total volume of second hand space will remain high and could drag rental values down in peripheral sites.**

Key:

-  Take-up 2011
-  Rents 2011
-  Future supply for completion in 2011 and 2012

-  Rising
-  Stable
-  Decreasing



**Aix-en-Provence/Marseille**

The 1<sup>st</sup> quarter 2011 was disappointing with take-up standing at 16,000 sq. m, half the volume seen in 1<sup>st</sup> quarter 2010. Aix-en-Provence was a key sector accounting for a third of take-up. Despite these figures, the prospects for 2011 are good because the slowdown in completions should lead to a reduction in supply thereby keeping rents up. However the supply of new space is already under pressure in Marseille and this may dampen activity. Second hand supply is rising and is fed by companies vacating old, deteriorating premises. The volume of definite future supply is limited but there is a lot of probable supply on standby. Rents have been stable, with the prime rent still standing at €250 net/sq. m pa.

**Lille**

After a very good year 2010, the office market in Lille did not perform well in 1<sup>st</sup> quarter 2011. Take-up stood at 21,000 sq. m compared to 34,000 sq. m in 1<sup>st</sup> quarter 2010. Weak transactional activity for new space (3,100 sq. m) contrasted with the success of this segment in 2010. Immediate supply fell by 5% to stand at 227,000 sq.m. The amount of new space on the market now or due in the months ahead is relatively limited and is leading to pressure in some sectors such as the grands boulevards. The prime rent is stable at €200 net/sq. pa.

**Lyon**

In 2011, the outlook for the office market in Lyon is positive, bolstered by a stronger upturn than in other parts of the country and by the diversity of the economy in Lyon. Take-up stood at 43,000 sq. m in 1<sup>st</sup> quarter 2011, stable compared to the same period last year. The rising scarcity of new supply will not be offset by speculative development. As a result, the occupiers' market may see pre-lettings. Rental values, not including high-rise buildings, have risen, with one transaction at €260 net/sq. m pa on Rue de la République.

**Toulouse**

The 1<sup>st</sup> quarter was very strong in Toulouse with 31,400 sq. m being let in 60 transactions including 14,000 sq. m of new space. The 1<sup>st</sup> transaction on the Andromède programme in Blagnac was concluded, with more transactions likely thanks to the upturn in the aeronautics industry. Supply continued to rise but at a slower rate. New supply fell and, given the weakness of future definite supply, this fall is expected to continue throughout the year 2011. Rental values are relatively stable, but, in contrast to other cities, second hand premises in the best locations in the city centre are fetching the highest rents. The prime rent remained at €200 net/sq. m pa, but new space does not exceed €160.

## LIGHT INDUSTRIAL SPACE AND WAREHOUSES • INDICATORS 2010

## SUMMARY OF LIGHT INDUSTRIAL AND WAREHOUSE MARKETS IN REGIONAL FRANCE\*

	2009	2010	Trend
Take-up	2,600,000 sq. m	2,400,000 sq. m	- 8%
Share of new space	39%	25%	- 14 points
Immediate supply	4,080,000 sq. m	4,260,000 sq. m	+ 4%
Share of new space	22%	19%	- 3 points
Speculative space in pipeline	270,000 sq. m	150,000 sq. m	- 46%
Semi-speculative future supply	800,000 sq. m	1,600,000 sq. m	+ 100%
Prime rent	€110	€125	+ 14%
Average rent for new space	€57	€62	+ 9%

Source: CB Richard Ellis

## REGIONAL CITIES IN THE SAMPLE



## \* 15 MAJOR REGIONAL CITIES IN THE CBRE SAMPLE:

Aix-en-Provence / Marseille, Nice / Sophia Antipolis, Lyon, Lille, Bordeaux, Nancy, Nantes, Strasbourg, Grenoble, Rouen, Metz, Montpellier, Clermont-Ferrand, Rennes, Toulouse.

## THE MARKET FOR LIGHT INDUSTRIAL PREMISES AND WAREHOUSES CITY BY CITY IN 2010

Regional cities	Immediate supply at 31/12 (in sq. m)	Share of new space in immediate supply	Take-up in 2010 (in sq. m)	Share of new space in take-up	Rents for new / redeveloped at 31/12 (€ net / sq. m pa)	Rents for second hand at 31/12 (€ net / sq. m pa)
Aix-en-Provence	392,000 ↗	26%	102,000 ↘	45%	41 / 100	30 / 70
Annecy	95,000 ↘	N.S.	95,600 ↗	19%	70 / 90	42 / 67
Avignon	23,600 N.D.	N.S.	12,800 N.D.	25%	40 / 80	25 / 60
Bordeaux	185,100 ↘	77%	179,900 ↗	42%	43 / 75	35 / 69
Caen	170,000 ↘	5%	50,000 ↘	28%	45 / 55	30 / 50
Chambéry	51,000 ↘	N.S.	58,000 ↗	40%	55 / 75	30 / 65
Clermont-Ferrand	85,000 ↗	1%	45,000 ↗	16%	60 / 70	40 / 55
Grenoble	180,000 ↗	4%	65,320 ↘	9%	70 / 85	35 / 65
Le Havre	187,900 ↗	48%	165,500 ↗	19%	57 / 72	30 / 60
Lille	595,000 ↗	30%	404,600 ↘	37%	40 / 55	28 / 45
Lyon	1,102,000 ↗	15%	564,300 ↘	11%	42 / 76	28 / 55
Marseille	108,000 ↗	14%	74,000 ↗	11%	60 / 120	40 / 60
Metz	210,000 ↘	4%	80,000 =	30%	50 / 70	25 / 55
Montpellier	42,000 ↘	15%	25,900 ↘	31%	75 / 85	50 / 80
Mulhouse	252,400 ↗	4%	131,800 ↗	31%	45 / 130	20 / 100
Nancy	165,000 ↗	20%	77,000 ↗	22%	42 / 75	25 / 65
Nice	75,000 ↘	N.S.	50,000 ↘	N.S.	N.S.	65 / 100
Rennes	145,000 ↗	20%	123,000 ↗	7%	35 / 70	25 / 60
Rouen	88,500 ↘	5%	127,000 ↗	20%	40 / 60	25 / 60
Sophia Antipolis	40,000 =	N.S.	22,000 ↗	7%	100 / 125	70 / 100
Strasbourg	615,400 ↗	11%	228,800 ↗	33%	46 / 95	25 / 85
Toulouse	132,300 ↘	19%	128,500 ↘	34%	45 / 75	33 / 75

Source: CB Richard Ellis

N.D.: Not Determined

N.S.: Not Significant

## LIGHT INDUSTRIAL SPACE AND WAREHOUSES • ANALYSIS 2010

### Markets struggling

The market for light industrial premises and warehousing in 2010 remained fragile and continued to adapt to the difficult economic climate. As a result total **take-up** activity fell once more **to stand at 2,400,000 sq. m** at the end of the year. **This is 8% below 2009's performance** and 27% below the peak seen in 2008.

**Nevertheless, the fall in take-up must be put into perspective because on the whole trends are reversing.** Virtually all markets saw their take-up fall in 2009, but only 8 continued falling in 2010, including Lyon, Aix-en-Provence, Lille, Caen and Nice. Annual reductions in 2010 ranged from 9% in Lille (404,600 sq. m in 2010) to 49% in Montpellier (25,900 sq. m in 2010). Meanwhile, annual rises ranged from 11% in Rennes and Strasbourg (respectively 123,000 sq. m and 228,800 sq. m) to 74% in Annecy (95,600 sq. m).

**The ranking of the principle markets remained unchanged despite shrinking take-up in frontrunners Lyon and in Lille.** In decreasing order the largest markets were Lyon (564,600 sq. m), Lille (404,600 sq. m), Strasbourg (228,800 sq. m), Bordeaux (179,900 sq. m) and Le Havre (165,500 sq. m).

While the slight improvement in the economy gave businesses better visibility, there was no catching up on pre-existing real estate needs. Market activity was spurred on by companies wanting **to cut cost and occupy space more densely.** Otherwise, businesses moved because they needed new or second hand premises that comply with the latest standards, and all at competitive costs, especially when acquisitions were involved. Even though banking conditions were less favourable, occupiers still pursued ownership strategies in 2010. This was even truer as **new construction starts became scarcer and reduced quality supply in regional markets.**

The **share of take-up of new and redeveloped premises** in regional France **shrank for two years running.** It accounted for 43% in 2008, 39% in 2009 and **25% in 2010.** Note, however, that the average drop of 14 points in 2010 for the 15 regional cities studied blurred large variations between **the largest markets which registered substantial drops in the share of new space,** such as Lyon and Lille (down 77% and 53% respectively), and secondary markets such as Nancy or Clermont-Ferrand, which saw their share increase (up 54% and 39%).

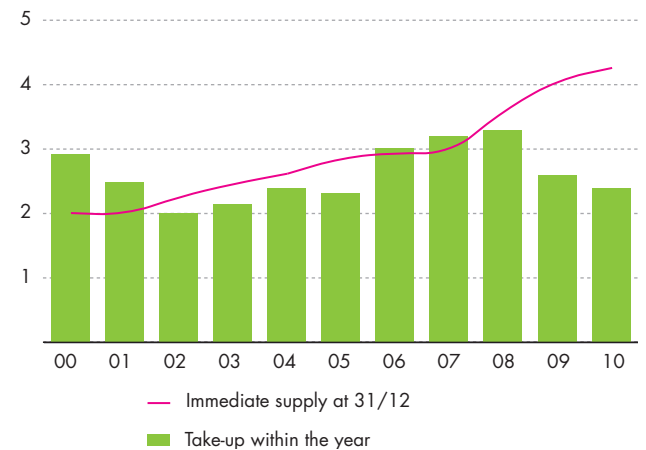
The **difficulty of acquiring suitable building sites, due to the scarcity and price of land** still curbs the take-up of new space as much as the steady disappearance of **new speculative supply** available now or in the future. Most of the industrial parks sought by occupiers have no new space available, as a result **second hand premises complying with standards or that are well located,** even in secondary sites, have become more appealing.

### Supply

At the end of 2010, immediately available supply stood at **4,260,000 sq. m** following an annual rise of just 4% which would seem to **indicate it was stabilising.** 4 markets stood out because of the amount of available supply: Lyon with 1,102,000 sq. m, Strasbourg with 615,400 sq. m, Lille with 595,000 sq. m and Aix-en-Provence/Marseille with 500,000 sq. m. Annual increases ranged from 3% in Aix-en-Provence/Marseille to 16% in Lille.

### TRENDS IN IMMEDIATE SUPPLY AND TAKE-UP IN THE 15 MAJOR REGIONAL CITIES

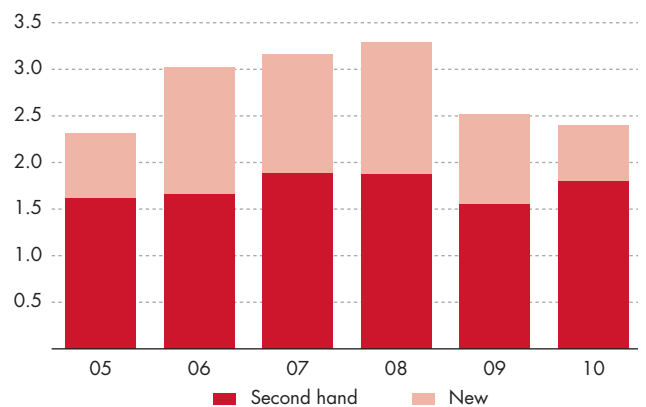
(In million sq. m)



Source: CB Richard Ellis

### BREAKDOWN IN TAKE-UP BY STATE OF PREMISES IN THE 15 MAJOR REGIONAL CITIES

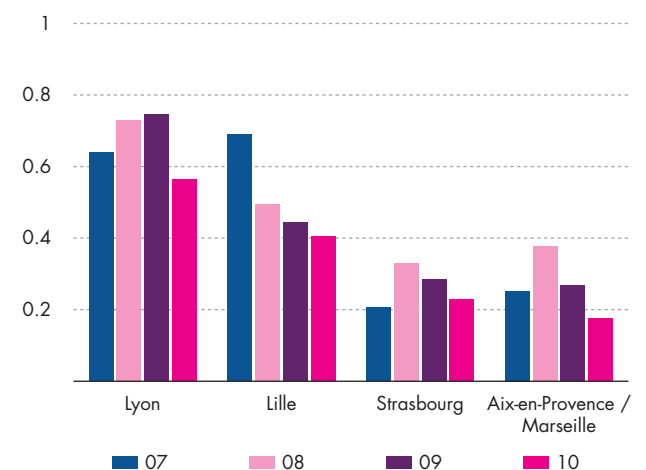
(In million sq. m)



Source: CB Richard Ellis

### TRENDS IN TAKE-UP IN THE MAIN MARKETS

(In thousand sq. m)



Source: CB Richard Ellis

While this **vacant supply** continued to rise gently, its **quality continued to deteriorate**, a trend reinforced by the freeze on speculative development and by businesses vacating obsolete premises. In 2010, due to a lack of new space, occupiers turned to good quality second hand solutions. In a post-crisis context, these premises became a target in their own right while premises vacated by businesses tended to inflate the number of disused sites. **Landlords are increasingly forced to take action in order to avoid lengthy vacancies in their premises:** sell the property in its current condition (or with minimum improvements); carry out works, sometimes very expensive ones, to be able to sell or rent the property; or, convert the property. Such decisions will be more frequent as and when new environmental standards are introduced. And 2012 will be a key year in France as that is when the laws decided at the Grenelle environment talks will start being enforced on existing premises.

The supply of **new space**, which accounted for 19% of supply, fell for the 2<sup>nd</sup> year running (down 3 points since the end of 2009). The shortage, in some cases the total absence, of new buildings or buildings complying with the latest standards was a problem for all the most popular industrial parks in regional markets. In the 15 major cities studied, **only 5 had new supply higher than the average**, Nancy and Rennes (20% each), Aix-en-Provence/Marseille (23%), Lille (30%) and Bordeaux (77%). Whenever possible, own-account developments were considered (a certain number should be completed in 2011, notably in the logistics sector) to compensate for the shortage and satisfy the ambition of many occupiers to own their business premises.

**The future speculative supply of the 15 major cities fell again in 2010, shrinking by 44% in a year** to reach 150,000 sq. m. Half of this future supply, almost 90,000 sq. m, is in Aix-en-Provence.

The weakness of speculative supply in regional France will lead to a gap between supply and demand when the upturn in the economy strengthens, especially in markets that are not very reactive. The positive feature is the large number of **semi-speculative projects and their location**. These doubled in a year to stand at **1,600,000 sq. m at the end of 2010 and are better distributed across the country than speculative schemes, especially between the main markets**.

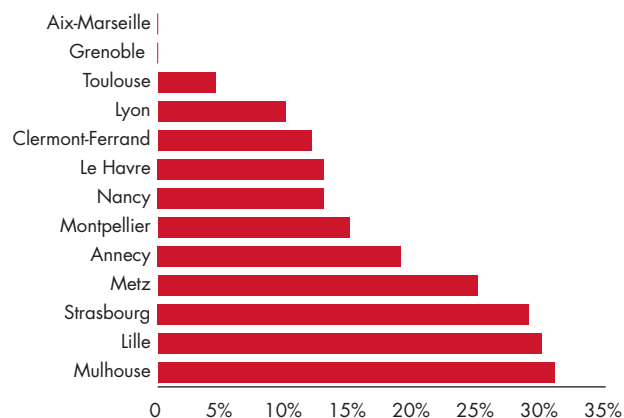
As a result, a substantial proportion of take-up in 2011 should be in the form of turnkey schemes.

### Rental values

The scarcity of new buildings led to a rise in rents. At the end of 2010, the prime rent had risen by 14% in a year to stand at **€125 net/sq. m pa** (in Sophia-Antipolis), compared to a 7% rise from 2008 to 2009. The average rent for new or redeveloped space also increased, by 9% to **€62**, just above 2008's average value.

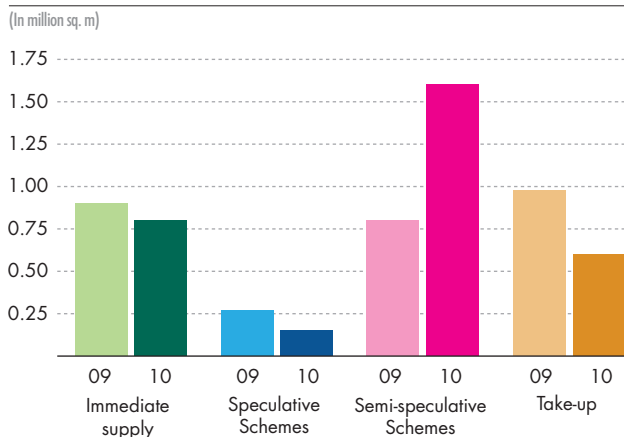
**Commercial concessions** are still given by landlords for second hand premises but are disappearing for good quality, well-located premises.

### SHARE OF TURNKEY AND OWN-ACCOUNT SCHEMES IN TAKE-UP IN 2010



Source: CB Richard Ellis

### SUPPLY AND TAKE-UP OF NEW SPACE IN THE 15 MAJOR REGIONAL CITIES



Source: CB Richard Ellis

### AVERAGE WEIGHTED AND PRIME RENTS FOR NEW LIGHT INDUSTRIAL SPACE AND WAREHOUSES IN THE 15 MAIN REGIONAL MARKETS



Source: CB Richard Ellis

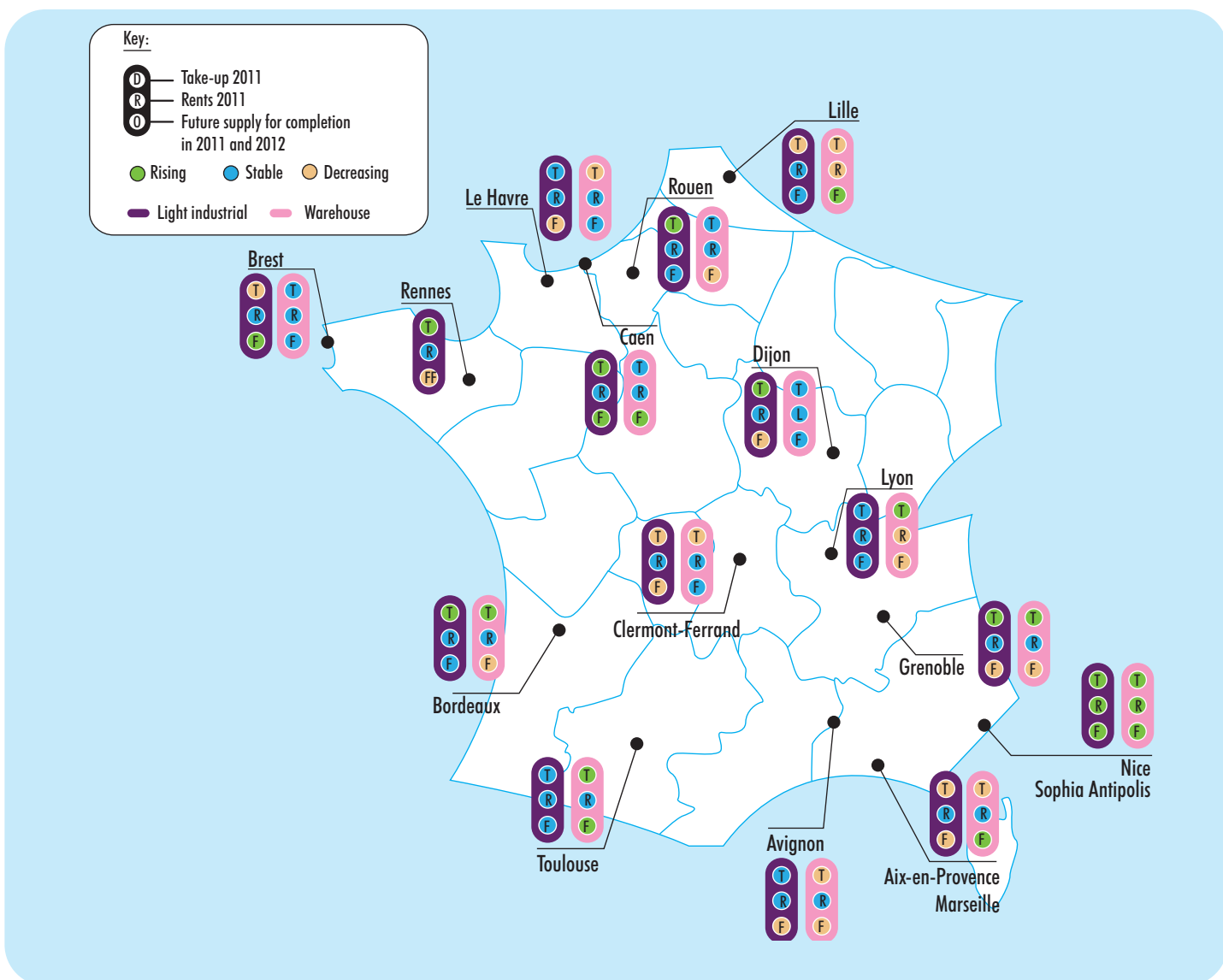
SELECTED TRANSACTIONS 2010

Adress - programme	Tenant / buyer	Floor area (in sq. m)	Type of premises	Condition of premises	Type of contract	Annual rent or price (in € net of tax or duties/sq. m)
Aix-en-Provence/Marseille - St Martin de Crau	Recall	6,100	Warehouses	New	Lease	N.C.
Lyon - Isle d'Abeau	Decathlon	42,000	Warehouses	New	N.C.	N.C.
Le Havre - boulevard Jules Durand	Private	2,300	Light industrial	Second hand	N.C.	N.C.
Grenoble - Tulin	Delire	5,200	Light industrial	Old	Sale	220
Mulhouse - Saint-Louis	Agility	10,800	Warehouses	Old	Lease	31
Strasbourg - Illkirch	Clestra	20,000	Light industrial	New	N.C.	N.C.
Nancy - Ludres Dynapôle	Sogetrel	1,800	Light industrial	Recent	Lease	60
Nice/Sophia - Antipolis- Carras ZI 4 <sup>th</sup> av.	Laboratoires Ineldea	1,600	Warehouse / Offices	Old	Sale	1,062
Anncy - ZI de Balve	Techniwood	35,500	Light industrial	Old	Sale	225
Rouen - Cirquebeuf sur Seine	Vente Unique	22,300	Warehouses	New	Lease	111
Caen - Mondeville	Transport Deret	1,000	Warehouses	In used state	Lease	36

Sources: CB Richard Ellis and market monitoring system (Explore)

N.C.: Not Communicated

LIGHT INDUSTRIAL SPACE AND WAREHOUSES • TRENDS 2011



## ZOOM: THE LOGISTICS MARKET IN FRANCE (WAREHOUSES &gt; 10,000 SQ. M)

## Occupier interest weak

In 2010, **occupier interest** was **feeble** in France and struggled to regain strength. In every region, particularly in Ile-de-France, the market was mainly fuelled by **supermarket chains** and **logistics companies**, which were particularly active in the final quarter. A growing number of consignors wished to outsource their logistics function to reduce costs and concentrate on their core activity.

**Most occupiers had requirements for functional warehousing**, in an optimal location in relation to consumer basins and traffic flows, and providing **latest generation facilities** (i.e. with technical standards above current standards in force). **As long as the market is well supplied with quality space occupiers will continue to be demanding.** In addition, the importance of future semi-speculative developments will enable the market to provide a solution for these specific needs mainly via turnkey schemes, which were on the increase in 2010.

Finally, **in regional markets, consignors** often **opted for small and medium sized warehouses** (for example between 6,000 sq. m and 12,000 sq. m in greater Lyon).

## Mixed results

Take-up followed contrasting patterns in 2010. Nationwide, it posted a **slight 5% rise on 2009's performance** to stand at **1,679,500 sq. m.** **But regionally results varied enormously.** While the market in **Ile-de-France** performed well, **other regional markets struggled to get going again.**

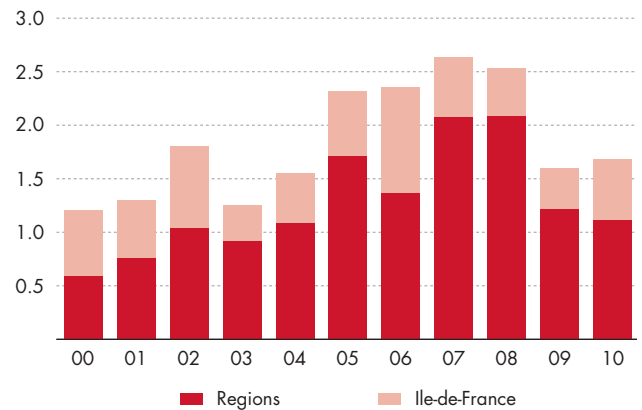
Thus in the Paris region **571,300 sq. m were transacted in 2010**, i.e. a **year-on-year rise of 50%.** More than half of these transactions took place in the first three months, the fourth 4<sup>th</sup> quarter seeing much weaker activity than expected because projects were postponed. The **dynamism of the 1<sup>st</sup> quarter was spurred on** by transactions being deferred from 2009 and **by the high quality of space available on the market at rents already adjusted** in the wake of the crisis.

Out of the **28 transactions concluded in 2010 in the Paris region**, **36% were signed** in the **north of the region**, as is usual. **A lot of activity** also took place in the **east**, because with **29% of take-up** (compared to 12.5% in 2009) it recorded **more activity than the south** (25% or down 5 points).

Regional markets have been struggling since the crisis, with their share of the logistics market in France shrinking. In 2010, **Ile-de-France** concentrated **34% of take-up**, compared to 24% a year previously; the greater north of France 13% compared to 20% in 2009, and the greater south 12% compared to 13%. The Rhône Corridor was the only major regional logistics centre whose share remained stationary at 15%. Take-up in the corridor stood at 255,900 sq. m, so the market was at a similar level to 2009, but was nevertheless half as active as in 2008. Note that transactions around Grenoble in Isère bolstered the market in the Rhône corridor, followed by the area around Valence in the Drôme. The sector around Lyon itself was particularly inactive.

## TRENDS IN TAKE-UP IN FRANCE

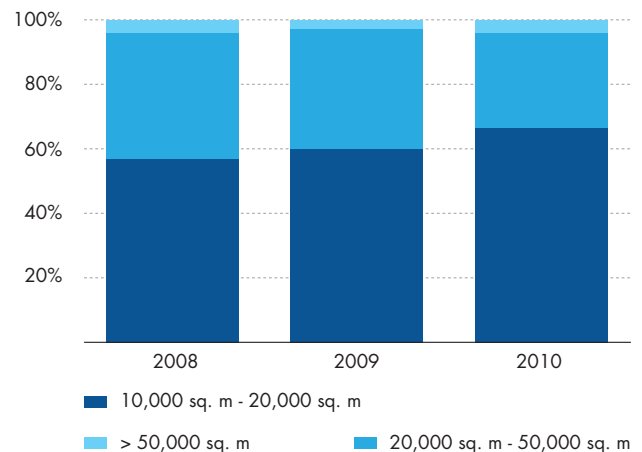
(In million sq. m)



Sources: CB Richard Ellis and Immostat

## BREAKDOWN OF TRANSACTIONS BY SIZE BRACKET IN FRANCE

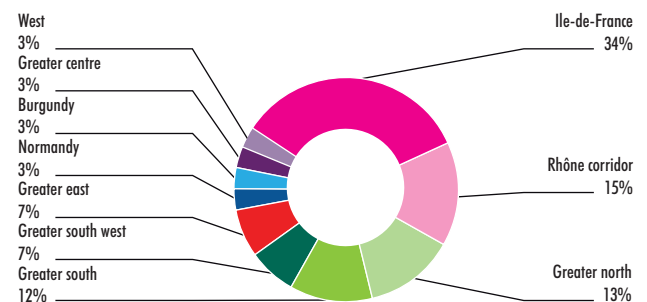
(In number)



Sources: CB Richard Ellis and Immostat

## GEOGRAPHIC BREAKDOWN OF TAKE-UP IN FRANCE IN 2010

(In volume)



Sources: CB Richard Ellis and Immostat

In the greater north of France, activity in the region **Nord-Pas-de-Calais** region slowed, with take-up volume dropping 49% in a year (to 134,000 sq. m), while in Picardy take-up rose by 49%, to 85,800 sq. m). The market in the greater south was very dynamic in the 4<sup>th</sup> quarter, so transactions totalled 208,300 sq. m (up 2% in a year).

Finally, it is worth noting that on the whole this year **the average size of transactions fell**. More transactions involved small and medium-sized premises (almost two-thirds were between 10,000 and 20,000 sq. m), to the detriment of transactions on premises from 20,000 to 50,000 sq. m. This phenomenon is linked to the trend for businesses to move from stock-based to flow-based supply chains in order to reduce costs. The trend directly impacts their space needs.

## High supply of deteriorating quality

At 1<sup>st</sup> January 2011, **available supply** was relatively **high in France** (more than **3.9 million sq. m**), despite the fact that **for several months the rate of increase slowed down**. About 60% of this supply was composed of **class A buildings**, but **overall the quality of supply deteriorated** for several months. This is because a **freeze on development** meant no new buildings were coming on to the market. What is feeding supply are **second hand buildings that occupiers have vacated for better quality premises**. These old buildings are difficult to let. In addition, an upsurge in **turnkey schemes** in 2010 precluded a reduction in existing supply. **Environmental objectives introduced following the Grenelle de l'Environnement talks** will have a noticeable impact on some of this aging supply and constitute a challenge for the future of the logistics market. They will lead to **warehouses being improved to comply with standards in force, the conversion of brownfield sites, and the development of local distribution warehouses**, the guiding principles being to respect individuals, their safety and the environment.

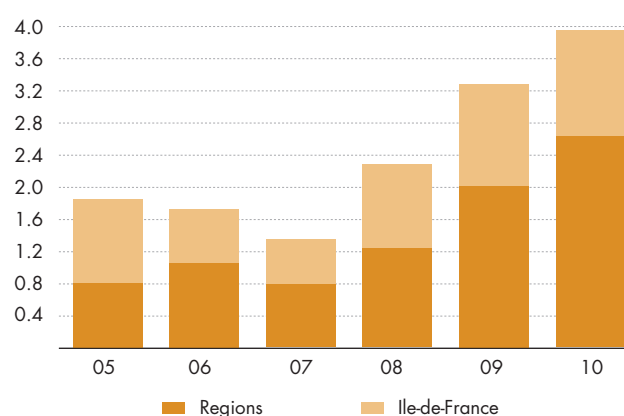
Speculative supply was virtually nonexistent at 1<sup>st</sup> January 2011 (54,000 sq. m in the Rhône corridor and in the greater south). Supply is not expected to change much in the short or medium term as investors are not ready to invest in the market as it stands at the moment. In the present fragile economy investors are more likely to back turnkey schemes and secure investments. Semi-speculative development is very high at **4.4 million sq. m**, 18% of which is in the greater north and 17% in Ile-de-France. It fell slightly over the last three months.

## Rents follow contrasting trends

**Headline rental values adjusted in 2009 then stabilised in 2010 for good quality, well-located buildings**. For **second hand buildings** in unfavourable situations, the real rent in some instances came under attack and landlords granted **weighty commercial concessions** to tenants that were equal to a rentfree period of between 1.5 and 2 months for each unbreakable year in the lease.

## TRENDS IN IMMEDIATE SUPPLY IN FRANCE

(In million sq. m, at period end)



Source: CB Richard Ellis

## RENTS IN FRANCE AT 1<sup>st</sup> JANUARY 2011

(Headline values, in € net/sq. m pa, new class A)

Île-de-France	€46 / €52
Rhône corridor	€43 / €45
Greater north	€40 / €45
Greater south	€40 / €45
Normandy	€37 / €49
Greater east	€37 / €53
Burgundy / Franche-Comté	€30 / €35
West	€40 / €42
Greater south west	€42 / €50

Source: CB Richard Ellis

## FIRST TRENDS IN 2011

**Occupier Interest rose** in the 1<sup>st</sup> quarter 2011, but **actual take-up fell** by 51% in a year. **Regional markets are still struggling** and the **Paris region** accounted for 43% of transaction volume effectively driving the market. The greater north hosted 22% of transactions – all of which were in the Nord-Pas-de-Calais. The Rhône corridor and the south were overtaken by the west and southwest regions of France which posted strong performances. Given the significant **number of deals in the pipeline**, take-up could still reach a good level in 2011 in both Ile-de-France and the provinces.

**Immediate supply** stood at **3.8 million sq. m** at 1<sup>st</sup> April 2011 and **fell slightly in the 1<sup>st</sup> quarter**, by approximately 3%. Developers have not resumed **speculative buildings**, by contrast the volume of **semi-speculative development** on standby is still relatively high, at more than 4 million sq. m.

**Headline values have resisted** nationwide. However for **exceptional sites** occupiers are willing to pay **above-market rates**. In a few **over-supplied, out-of-the-way sites where buildings are old with mediocre or poor facilities**, some owners are still willing to reduce rents.

INVESTMENT

An improvement albeit slight

Following a difficult time in 2009 when the full impact of the financial crisis was evident in regional markets, investment in standard commercial real estate rose by 48% in a year to stand at almost **2.8 billion euros in 2010**. This was a **substantial improvement** and enabled the amount of investment taking place to rise to pre-crisis levels. The 4<sup>th</sup> quarter was particularly active as it benefited from the usual pressure to close deals before the end of the year, although this pressure was weaker in the regions than in Ile-de-France. Close to one billion euros were exchanged in the last three months of 2010, which makes it the most active quarter seen since 2008. Thus, for the past three years the share of regional markets remained above the 20% threshold. This demonstrated they have become established as a **credible diversification alternative** to Paris for investors, notably international investors.

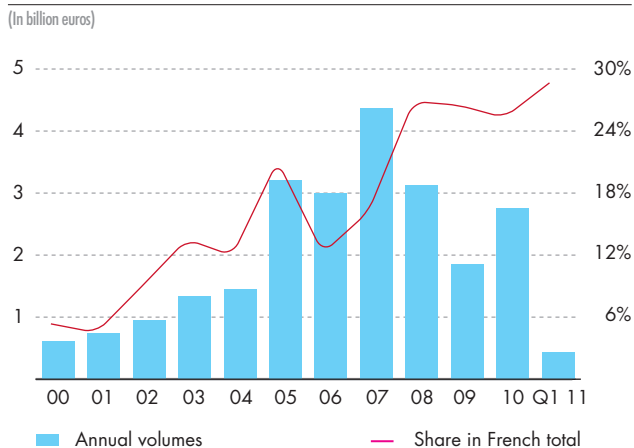
The improvement in the market can be put down to investors' **renewed interest in commercial real estate** as an investment asset and especially that of institutional investors. At a time when the financial world is going through great upheaval and is very uncertain – due to the public debt crisis in European countries, unstable stock markets, and uncertainty over interest rates in the medium term – real estate is a very tangible asset that has once again become considered as a protective **long-term investment asset**. As a consequence of its status as a safe haven, buyers focussed on secure assets, occupied by reliable tenants on long-term leases at market rents. The uncertainty of the economic recovery also greatly contributed to sustaining this **risk-aversion strategy** of real estate players. The result was that the market for secondary assets, whose price has not yet gone down, remained stagnant. The few potential buyers that did come forward required particularly high rates of return on secondary assets to compensate for the higher risk and sellers, unless forced to do so, refused to give way.

The market did, however, **retrieve a degree of liquidity and depth** in 2010, mainly thanks to an easing of the conditions for obtaining credit such as slightly reduced equity contributions and good financial conditions because of low short-term interest rates. But credit was only forthcoming when the underlying asset was secure. The share of small transactions, that was very high in 2009 because of the difficulty of financing large transactions, shrank considerably in 2010.

Products: retail still at a premium

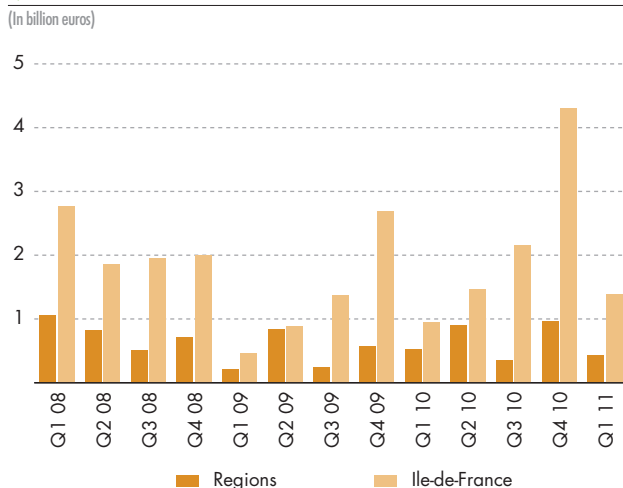
Faced with an uncertain economic situation and in a context of high aversion to risk, **investors focussed on good quality, well situated buildings offering long-term security at stable rents**. Buyers therefore turned their backs on secondary products and locations. Retail facilities are very defensive assets and are traditionally the key diversification product in regional markets. Thus they particularly benefited from investors' insistence on security and accounted for 61% of annual investment,

INVESTMENT IN STANDARD COMMERCIAL REAL ESTATE IN REGIONS



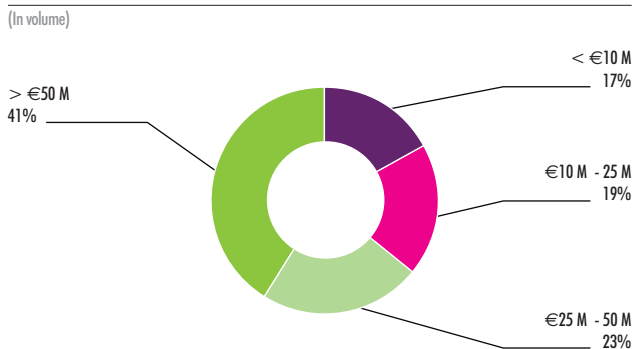
Source: CB Richard Ellis

QUARTERLY TRENDS IN STANDARD COMMERCIAL REAL ESTATE



Sources: CB Richard Ellis and Immostat

BREAKDOWN BY INVESTMENT SIZE IN 2010



Source: CB Richard Ellis

effectively driving investment volume in the 1<sup>st</sup> half. It was the only market that returned to, and even exceeded, pre-crisis investment figures. Almost 1.7 billion euros were invested in retail, an annual increase of 63% that positioned **2010 as the most successful year ever for retail investment in the provinces**. The strong performance was made possible by a few very large sales of shopping centres and shopping galleries (totalling 2/3 of investment volume) including Espace St Georges in Toulouse, St Martial in Limoges and Heron Parc in Villeneuve d'Ascq. Above all the segment was boosted by one landmark transaction: Galeries Lafayette's sale of Cap 3000 in St Laurent du Var for €450 million, which was the largest transaction in 2010 in France. By contrast, investments in stores for retail brands continued to wane due to the difficulty in selling portfolios and the slowdown in consumer spending in peripheral areas. This trend also negatively impacted investment in retail parks.

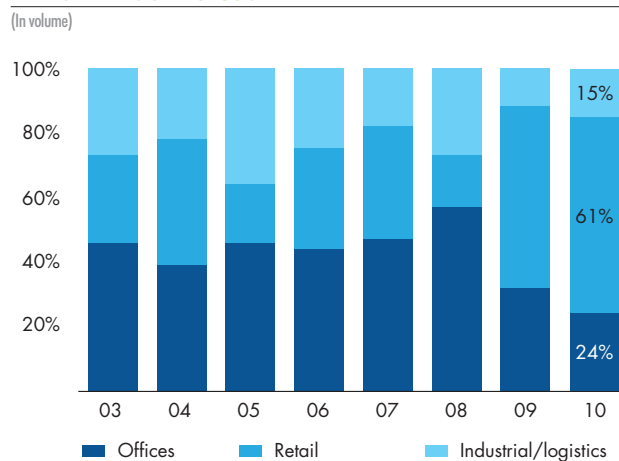
**The investment in offices was affected** by the collapse in sales off plan that dates back to 2009: assets still being developed were very difficult to finance. Only 650 million euros were invested last year in regional office markets, a weak annual rise of 10%. The segment did benefit, however, from **an upturn in the 4<sup>th</sup> quarter**, which concentrated more than half of the year's investment. In addition, at the end of the year buyers widened their scope of interest. In the office market, the technical quality of a building was an essential factor and the supply of good quality in recent buildings was very restricted, particularly in regional France. **Therefore investors renewed their interest in sales off plan**, in particular in large cities such as Lille and Lyon where speculative transactions were back on the cards, albeit in very marginal volumes.

The start of the year was difficult **in the warehouse and industrial market** but there was an **upturn in transactions in the 4<sup>th</sup> quarter** which effectively doubled take-up volume for the year as a whole. At the close of 2010, €400 million were invested in regional markets, with a 72% annual rise in the logistics sector taking its total share to 70% of the warehouse and industrial market.

### Buyers: a return to core strategies

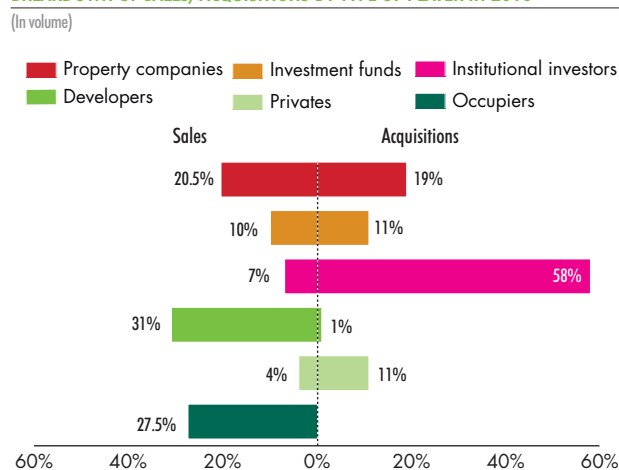
Despite the softening of financing conditions, **equity investors dominated the market** throughout the year with **institutional investors in the front line**. SCPIs were boosted by the amount of funds they had raised and invested an all-time high volume in regional France. They were particularly active in the office market. **Open-ended German funds**, which usually focus on offices in the Paris region, made a noticeable entry in regional markets via the acquisition of a few large retail assets. Finally, **private investors** were very active in commercial real estate which, in the wake of the upheaval in stock markets, is considered a refuge value. The activity of private investors was concentrated in regional markets where assets are priced lower making them more accessible to investors with less equity, especially small industrial and warehousing assets.

### TRENDS IN TYPES OF PRODUCTS



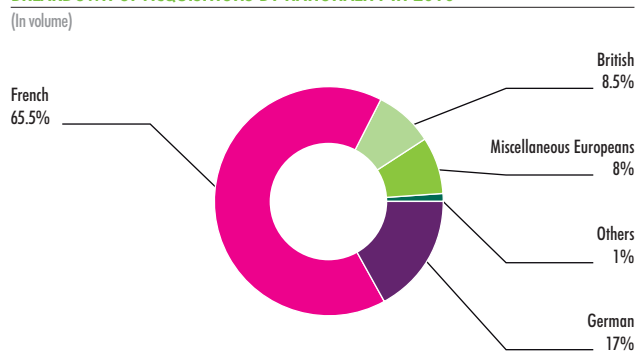
Source: CB Richard Ellis

### BREAKDOWN OF SALES/ACQUISITIONS BY TYPE OF PLAYER IN 2010



Source: CB Richard Ellis

### BREAKDOWN OF ACQUISITIONS BY NATIONALITY IN 2010



Source: CB Richard Ellis

Property investment companies, which usually dominate regional investment markets, **took a smaller share** in 2010 following the pattern set in 2009. This was particularly true of SIIcs that continued to pursue debt reduction strategies and were net sellers in the provinces (19% of sales for 8% of acquisitions). Unlisted property investment companies, especially foreign ones (for the most part British), were more active, especially in the 2<sup>nd</sup> half.

Finally, **in a context when debt was difficult to obtain**, especially for non core assets, **opportunistic investors** that need leverage to buy were **penalised**. Investment funds were therefore not very active in regional markets. A few British players and to a greater extent German ones, took position on large retail and logistics properties.

### Yields generally lower

In 2010, **there was a great imbalance between supply and growing demand** in the commercial real estate investment market, at least for good quality secure assets where **there was a great shortage of supply**. The market for secondary assets was virtually frozen. As a result there was a **sharper fall in the rental returns on prime properties**, a trend that started in 2009, set against a fall in long term interest rates. Good tertiary assets (offices and shops) in the best regional markets were the first to be affected. For example, yields on prime offices in Lyon stood at 6.40% at the start of 2010.

The trend gradually spread, and the **quality of the product** (new and recently completed buildings complying with new environmental standards) **and the strength of the lease** (long lease terms with a good tenant) now tend to **take precedence over criteria such as geographical sector and the type of building**. Thus there was a rapid fall in yields over the last few months for class A logistics (up to 90 basis points in the Rhône corridor) and it spread to offices in most regional cities. Aix-Marseille, Bordeaux, Lille and Toulouse all joined Lyon at the start of 2011 with yields below 6.5%.

### Prospects: stabilisation in 2011

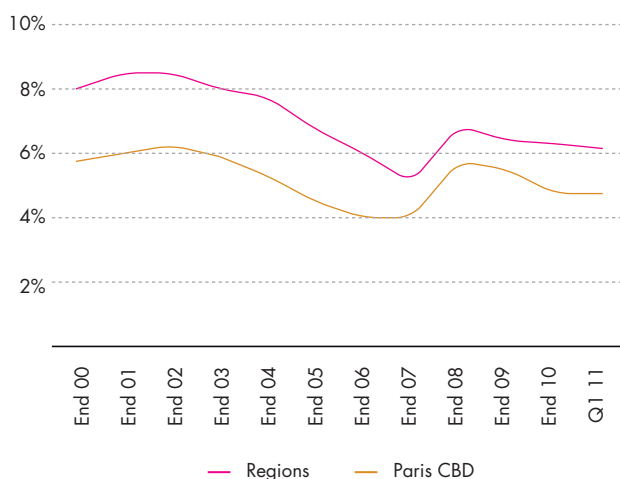
It is true that core markets were more active with many institutional investors shifting their allocation of assets to real estate. The risk premium for real estate is high and as an asset class **real estate is still an attractive investment**. Speculative buying is absent from the market, the players' priority being to secure capital in the long term. **However investors are still proving to be extremely cautious and selective**. They have started anticipating the inevitable **rise in the cost of capital** following the rise in the ECB key interest rates. They are also working out **the costs involved in the incoming regulatory changes stemming from the Grenelle II law**, especially in regional markets where the age of many premises is of particular concern. Finally, against a backdrop of weak economic recovery, **the prospects for the letting market in the regions are not very encouraging**. Thus, headline rental values are expected to stabilise

### PRIME YIELDS AT 01/01/2011

	Regions	Ile-de-France
Offices	6.30% - 8.25%	4.75% - 5.50%
Class A logistics space	7.15% - 8.00%	7.15% - 8.00%
Light industrial	8.75% - 10.50%	8.75% - 10.50%
Industrial park	8.50% - 10.00%	8.50% - 10.00%
High street retail	5.25% - 9.75%	4.50% - 8.25%
Shopping centre	5.00% - 6.90%	4.75% - 5.75%
Retail park	6.50% - 9.60%	6.25% - 8.00%

Source: CB Richard Ellis

### TRENDS IN PRIME OFFICE YIELDS



Source: CB Richard Ellis

### YIELDS FOR NEW/REDEVELOPED SPACE

At 01/01/2011 in the 15 cities of the CBRE sample

Regional city	Offices	Industrial and logistics
Aix-en-Provence / Marseille	6.30% - 7.75%	7.50% - 9.50%
Bordeaux	6.60% - 8.50%	7.50% - 10.50%
Clermont-Ferrand	7.00% - 8.00%	8.00% - 9.00%
Grenoble	7.30% - 8.00%	9.00% - 9.50%
Lille	6.30% - 7.75%	7.90% - 8.50%
Lyon	6.30% - 6.80%	7.15% - 9.00%
Metz	6.80% - 7.70%	ND
Montpellier	6.80% - 7.70%	ND
Nancy	7.50% - 8.20%	ND
Nantes	6.50% - 7.75%	ND
Nice / Sophia-Antipolis	6.75% - 8.00%	8.00% - 9.00%
Rennes	6.90% - 8.50%	ND
Rouen	7.00% - 8.50%	ND
Strasbourg	7.10% - 8.30%	7.50% - 9.50%
Toulouse	6.50% - 7.50%	ND

\*According to the economic situation and in the absence of prime transactions in some sectors, the figures were partly estimated.

N.D.: Not Determined

Source: CB Richard Ellis

and, at the best, in the markets where there is most pressure, commercial concessions for quality products may fall. In parallel, the vacancy rate for secondary products will continue to rise.

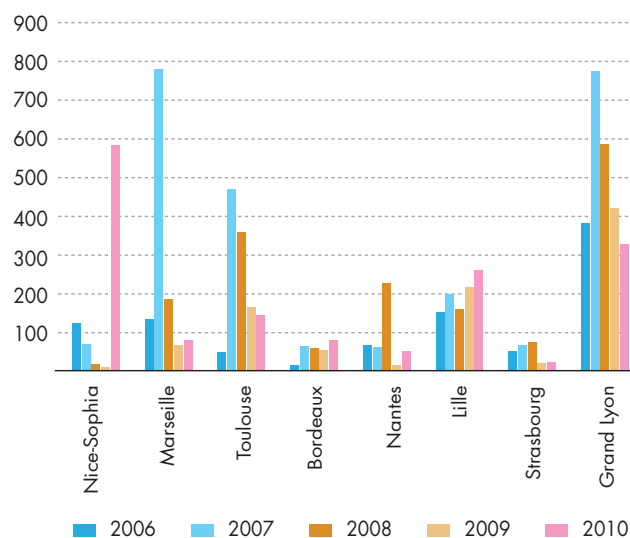
In such conditions, **investors will be reluctant to relax their standards for selecting secure investments**, so any interest they show in a wider range of products on offer is likely to be marginal. The market for insecure or secondary assets will no-doubt be stagnant for some time to come. As for **yields**, following the decline that started mid-2009, **they will begin to stabilise in 2011**. In regional markets the fall was not as sharp as in Ile-de-France, so **in the short term there is still a slight possibility of further compression for the best products in the largest cities**. The yield for prime offices fell to 6.15% in Marseille in the 1<sup>st</sup> quarter 2011 and in the weeks ahead deals are in the pipeline at yields nearing 6% in Lyon. But yields are not likely to fall lower, because at these prices buyers are extremely vigilant and demanding when carrying out due diligence. Faced with this stoppage, **the gap between the price buyers are willing to pay and that expected by sellers could widen**. For this reason, **investment volumes in regional markets in 2011 are expected to stabilise**, although a rebalancing is likely in favour of offices and logistics premises.

#### THE LOCATION OF INVESTMENT

While 2010 saw an upturn in investment in the provinces, not all cities posted the same level of activity. Nice Sophia Antipolis saw an exceptional level of investment at almost €600 million. The sale of Cap 3000 was, of course, instrumental in this high figure, but the conurbation benefited from other significant retail transactions, such as 65 Croisette, and to a lesser extent office transactions, including Palace Center in Mandelieu and Triades-Oréades in Sophia-Antipolis. In 2010 Lille and Bordeaux also performed well and both cities saw their highest level of investment since 2005, again due to large retail deals (Heron Parc in Villeneuve d'Ascq, CC Douai in Flers, and the Megastore on rue Ste Catherine in Bordeaux). In addition, the end of the year was active for the office market in Lille, with notably the sale off-plan of the Perspective building in Euralille. By contrast, Lyon went through a difficult year with only €333 million invested. Greater Lyon particularly suffered from the weakness of the office market. The end of the year saw some improvement, and the 4<sup>th</sup> quarter accounted for 55% of annual investment volume due to 3 off-plan sales: L'Adresse, Sunway and Atrium Gerland.

#### TRENDS IN INVESTMENT IN THE 8 MAJOR REGIONAL CITIES

(In million euros - excluding multi-city portfolios)



Source: CB Richard Ellis

#### MAIN INVESTMENT TRANSACTIONS IN 2010

Building / location	Buyer	Seller	Floor area (sq. m)	Main use	Amount
CAP 3000 / ST LAURENT DU VAR	ALTAREA / ABP / PREDICA	GALERIES LAFAYETTE	65,000	Shopping centre	€450 M
COAT AR GUEVEN & ESPACE JEAN JAURES / BREST	JESCO	ALTAREA COGEDIM	19,140	Shopping centre	€100 M
SAINT MARTIAL / LIMOGES	UNION INVESTMENT	UNIBAIL RODAMCO	15,000	Shopping centre	€99 M
HERON PARC / VILLENEUVE D'ASCQ	GROSVENOR		42,307	Shopping centre	€95 M
ESPACE SAINT GEORGES / TOULOUSE	COMMERZ REAL	ALTAREA COGEDIM	13,000	Shopping centre	€90 M
MC ARTHUR GLEN / TROYES	RESOLUTION REAL ESTATE FUND 3	HENDERSON	30,000	Shopping centre	€85 M
65 CROISSETTE / CANNES	KANAM	CODINVEST	1,800	Shopping mall	€75 M
RUE SAINTE CATHERINE / BORDEAUX	WESTINVEST	CORIO	16,700	Shopping mall	€67 M
LE CASTEL / CASTELNAUDARY	SHOPPING PROPERTY FUND 1	SODERIP PROMOTION	37,760	Retail park	€55 M *
PERSPECTIVE / EURAILLE	ASSURANCES DU CREDIT MUTUEL VIE		13,500	Offices	€46 M

\* Estimate

Source: CB Richard Ellis

**Average weighted rent**

Average rent in a given geographical area weighted by the stock of space in each arrondissement or town forming the area.

**Cost of construction index**

A reference index calculated and published quarterly by INSEE that measures the change in prices of building materials. This index is particularly used by lessors as a basis to readjust rent annually. This index is often used by lessors in commercial leases as a basis for annual readjustments of the rent. For residential properties it has now been replaced by the rent reference index.

**Definite future supply**

Premises being constructed, redeveloped or renovated.

Premises on which works have not yet started but for which the works start date is set. Space that will definitely be vacated.

**Economic rent**

The economic rent is the rent that is actually paid by the tenant, after deduction of fees and other incentives.

**Headline rent**

The headline rent corresponds to the value on the lease agreed between the parties.

**Immediate supply**

The amount of space that is currently vacant and available to let or for sale.

**Institutional investors**

Institutional investors refer to all organizations collecting capital from individual private investors to invest it in products providing steady long term returns. Their role is to act as an intermediary between savings and investment. As the capital is provided by private individuals, pension funds, insurance companies, etc. and because there are contractual commitments to distribute profits, institutional investors generally avoid risk.

**Investment funds**

These are investment vehicles, often collective (owned by many), that manage financial or real estate assets with a defined investment goal (type of financial assets, management policy, objectives, fees, share value, rhythm of calculation of value and so on). Closed funds have a limited number of shares (or units), do not issue new shares or buy shares that have already been issued. Open-ended funds issue new shares and buy shares that have already been issued.

**Listed real estate investment company (SIIC)**

The French introduced the regime for the SIIC to promote the ownership, development and sale of assets on the letting market (commercial, housing, services or operational estate markets). The minimum time period for ownership using this regime is 10 years. The status enables companies to benefit from two tax breaks as they are exempt from company tax as well as from tax on any capital gains. In exchange, companies are required to distribute at least 85% of their operating profit, 50% of capital gains and 100% of dividends received from subsidiaries.

**Net absorption**

The balance between the amount of space taken and vacated by occupiers in a market in a given year.

**Net initial yield**

Gives as a percentage the ratio between the net income (excluding taxes and charges) from a property and the acquisition cost (price of the building plus fees and transfer duties).

**New building**

A newly constructed building, less than 5 years old, that has never been occupied. This category of buildings is subject to VAT when sold.

**Old building**

A building is more than 10 years old and has not been renovated or redeveloped.

**Real estate investment trust (OPCI)**

The OPCI is a new mutual savings scheme dedicated to real estate. OPCIs enjoy a regime that is very similar to the one for securities mutuals, or OPCVM (Organismes de Placement Collectif en Valeurs Mobilières). Two types of OPCIs exist (inspired by the organisation of SICAVs and FCPs) with two different tax regimes. OPCIs are investment products, at least 60% of which are invested in real estate and 10% in liquidities. They have more flexible tax regimes that are better suited to real estate. OPCIs are controlled by the markets' watchdog,

the AMF and, like SCPIs, the newest form of OPCI must obtain prior approval from the AMF. OPCIs are also subject to strict rules on the distribution of rental income and capital gains which vary for different forms of OPCI.

**Own-account property**

A development undertaken for the company that will occupy the building that may or may not own the land.

**Pension funds**

Pension funds invest the capital given to them by individual savers in securities and real estate in order to pay the pension of future retirees. These types of funds usually seek low-risk investments. When real estate is the chosen investment, pension funds usually opt for secure assets – those in good condition, well located, already let and so on.

**Probable supply**

Premises for which full administrative approval has been granted but building works will only start when one or several occupiers have agreed to take some or all of the space. Premises for which planning permission has been filed or ones for which planning permission has been granted but will only become definitive once the Period for third-party recourse has ended. Premises that will probably be vacated.

**Property company**

A real estate company is a company whose business is owning real estate which is let and/or used to maximise the profitability and yield. The core of the business is managing a real estate portfolio.

**Recent building**

A building less than 10 years old that has not been renovated or redeveloped and has already been occupied.

**Redeveloped building**

A building that has been completely redeveloped and transferred to the VAT regime. The main facades may or may not be conserved.

**Renovated building**

A building that has already been occupied and has been renovated to a degree that does not require planning permission.

**SCPI property investment trust**

Real estate investment companies are collective investment companies whose exclusive purpose is to own and manage a portfolio of assets leased to tenants. At least 90% of the portfolio of an SCPI investment company must consist of real estate assets. SCPIs sell shares in the buildings that have been acquired to shareholders. SCPIs are not listed on the stock exchange but are financed by savings from the public. These trusts are not subject to company tax. Each shareholder is taxed personally on the revenues received from the trust.

**Semi-speculative development**

A development project for which all procedures prior to construction have been carried out for example the site purchased, preparatory studies made, project defined, and planning approval fully granted as are any other administrative authorisations. Only the actual construction remains and this considerably reduces the time needed before the occupier can move into the new premises as works are ready to start.

**Speculative development**

A building development, usually to let, that is constructed without any occupier(s) committing to take space in it.

**Take-up**

The totality of transactions to let or sell carried out by occupiers, including turnkey schemes in a given period.

**Turnkey scheme**

A transaction concluded when the building is still a project or under construction, but whose structure will be modified to suit the needs of the occupier.

**Vacancy rate**

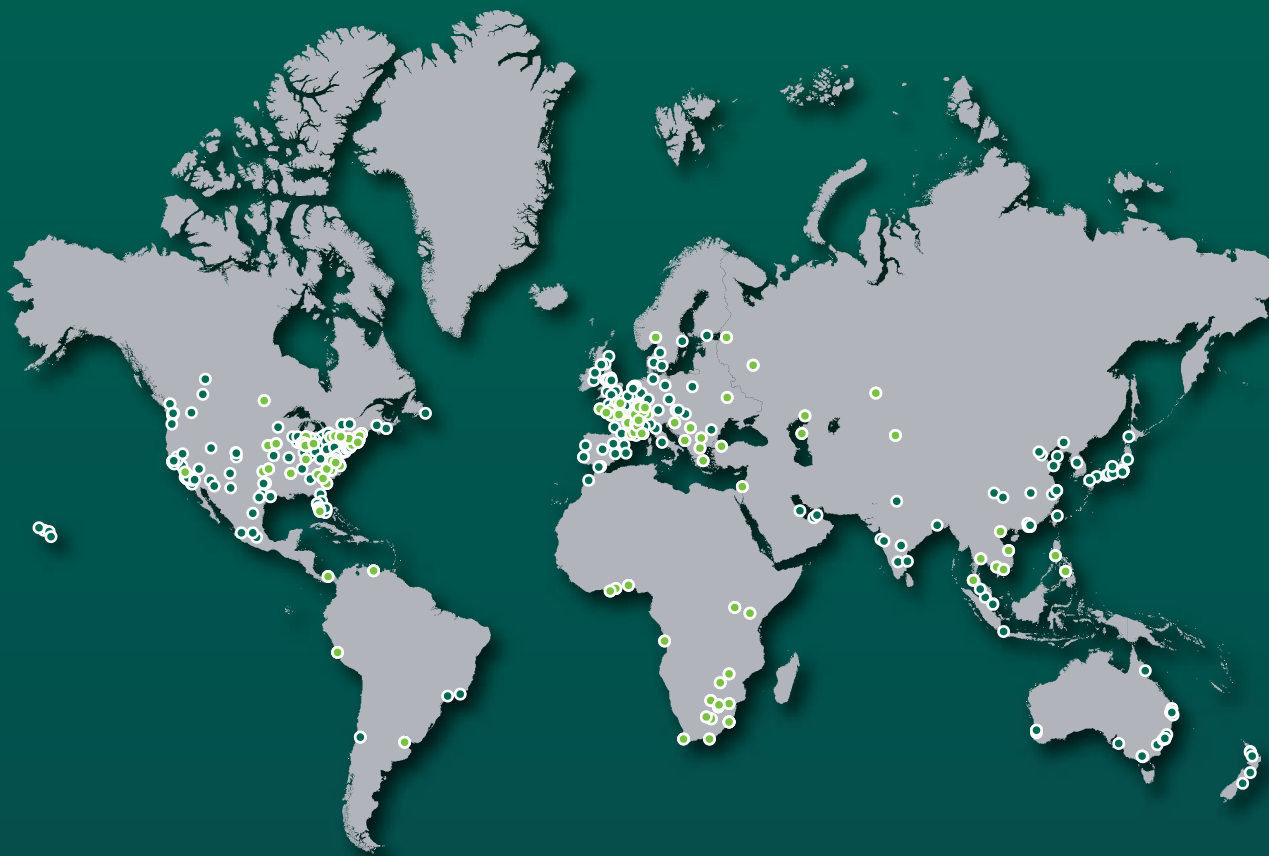
The ratio of the immediate supply of space to total stock of space for a type of asset in a given area (source: various sources).

# CB RICHARD ELLIS

The world's largest commercial real estate service firm

The alliance of expertise

- The effectiveness of regional knowledge
- The strength of a national network
- The power of an international group



○ CORPORATE LOCATIONS

● AFFILIATE LOCATIONS

**WORLD: 29,000 employees • 400 offices in 57 countries**

**EMEA\*: 4,070 employees • 133 offices in 42 countries**

\* Europe Middle East Africa

ETUDES ET RECHERCHE

WORKSPACE GLOBAL PRIVATE SOLUTIONS

CAPITAL MARKETS COMMERCIALISATION HOTELS

MARKETING RETAIL PROPERTY MANAGEMENT VALUATION

CONSEIL EN IMPLANTATION RESIDENTIEL PORTFOLIO MANAGEMENT

VENTE A UTILISATEURS GLOBAL CORPORATE SERVICES

ASSISTANCE A MAITRISE D'OUVRAGE CONSULTING

BUILDING CONSULTANCY DEBT ADVISORY

**CBRE**  
CB RICHARD ELLIS

145 - 151 rue de Courcelles BP 80450  
75824 Paris Cedex17  
33 (0) 1 53 64 00 00  
[www.cbre.fr](http://www.cbre.fr)