



CURRENT TRENDS IN FRANCE

Total cost of charges (for the 4 types of buildings studied here) ¹	↑
Consumer price index ²	↑
Consumer price index - Energy ²	↑
International price index of imported raw materials ²	↑
Cost of construction index ³	↑

¹ Annual change compared to start 2010

² Annual change compared to May 2010

³ Quarterly change compared to Q4 2010

N.B: The total costs of charges and budgets of charges set forth in this section were calculated using CBRE Property Management database as a basis. In 2010, the calculation method was fine-tuned and the database improved, therefore modifications have been made to the structure of indicators. Care must therefore be taken with any comparison made to previous years.

All the values are given in euros exclusive of taxes and include management fees. The ratios of charges are calculated exclusive of management fees.

ECONOMIC CONTEXT

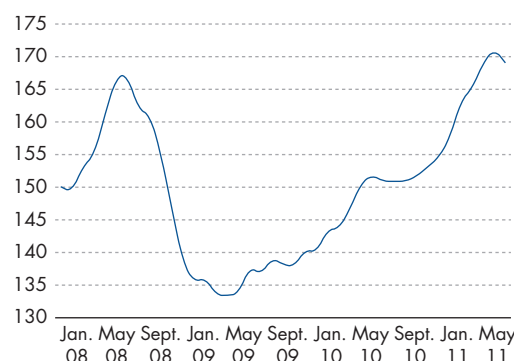
In 2010, the international economic situation remained unstable with countries still weakened by the crisis. In France, following the recession in 2009 when GDP fell by 2.6% (the country's worst performance since the Second World War), **GDP growth** was frail for several quarters only reaching an annual average of 1.4%. This level of growth is too low to enable any real upturn in the job market. In 1st quarter 2011, growth was slightly stronger at 0.9%. This level of performance was notably due to rises in **manufacturing, 1.6%, in consumer spending, 0.4%, and in investment expenditure, 1.2%**. In addition, while some developed countries fear their credit rating may be downgraded, **France was confirmed at the highest rating.**

Growth does, however, seem likely to be slower in the quarters ahead. The performance of the 1st quarter was largely due to consumer car buying because orders made at the end of 2010, before the scheme of discounts for cleaner cars came to an end at 1st January 2011, were only apparent in consumption figures when the cars were finally delivered in 1st quarter 2011. Several factors will curb improvements in the economy: **the rise in**

central bank interest rates, budget cut-backs, the concerns of the French population for their future (especially about financing pensions and possible tax increases), and **the weak rise in purchasing power** due to low wage increases and higher inflation. **The consumer price index has indeed risen** steadily since the end of 2009. In **May 2011**, it posted an annual rise of 2%. This is the sharpest increase seen since the end of 2008, due to the **steady rise in food prices, energy and petrochemical products.** Although the prices of energy and oil have been falling since April 2011 (down by respectively 1.3% and 2% in May), the year-on-year rise was still high (up respectively 11.3% and 13.8%).

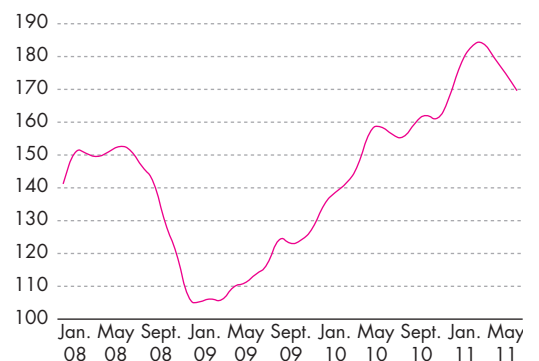
Finally, **imported raw materials** follow relatively high prices, **the highest seen in 4 years** was reached in February 2011. These prices may have shown a monthly decline of 3% from April to May, but annually, rises were still recorded. **Growth in emerging and developing countries, the rise in world consumption, upheaval in Arab countries, natural and climatic catastrophes** have all put more pressure on markets, pushing prices higher and higher.

Price trends in energy consumption (index base 100 = 1998)



Source: INSEE

Trends in international prices of imported raw materials (index, base 100 = 2000)



Source: INSEE

MAIN ITEMS OF PROPERTY SERVICE CHARGES

- **Utilities:** water, fire water, electricity (common services), cold production (refrigerating units or heat pumps, district cooling), heat production (district heating, gas, fuel or electric).
- **Operating fees:** PABX maintenance, telephone and common services, IT maintenance, management office costs (due to the presence of an on-site Building Manager).
- **Preventative and corrective maintenance (under contract):** lifts and goods lifts, cleaning of common areas (surrounds, frontages, glazing, and parking facilities), reception and safety, green spaces, plant and flower decorations, compulsory inspections (electricity, lifts, fire safety, doors and so on), analyses of air and water quality, waste processing and rat extermination. Multi-technical aspects: technical maintenance (electricity, heating/ventilation/air conditioning – HVAC), plumbing, centralised technical management/building management system (CTM/BMS), fire detection, frontages/openings/doors (entrances, delivery bays, barriers), sump, computer assisted maintenance management, UPS, generator, refrigerating unit, cleaning cradle, access controls, extinguishers/smoke vents/ car park CO₂, sprinklers and terrace and roof maintenance.
- **Maintenance not under contract:** Miscellaneous technical supplies, maintenance and repairs, scheduled works and so on.

MANAGEMENT CHARGES BY TYPE OF BUILDINGS

High-rise buildings (Ile-de-France)

Skyscrapers have more sophisticated technical installations and large floor areas, which lead to specific management needs with the attendant operating costs. The two main **cost items** are usually **maintenance under contract** (about 30% of the annual budget for charges) and **utilities** (28%). The size of the maintenance contract budget is mainly due to technical charges (approximately 57% of the budget item). They are relatively high because of the technical specificities of these buildings, HVAC systems, and installations related to fire safety. **Cleaning charges** (28%) can also be high and vary depending on the size of the building and number of staff working in it. Finally, if the owner hires receptionists, maintenance under contract will increase accordingly.

As for the **utilities budget** line, this is usually spread equally between electricity, heating and water.

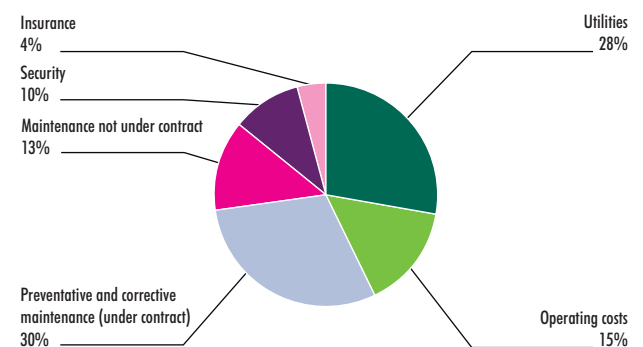
The **overall average management cost** of a skyscraper was approximately **€86.50/sq. m**, at the start of 2011 in Ile-de-France. It lies in a range of **€80 to €110**, depending on the floor area, the personnel, and how well equipped the building is.

- **Security:** security agents.
- **Insurance:** Premiums vary according to the nature and size of buildings and the guarantees taken out.
- **Management fees.**

BUILDING GLOSSARY

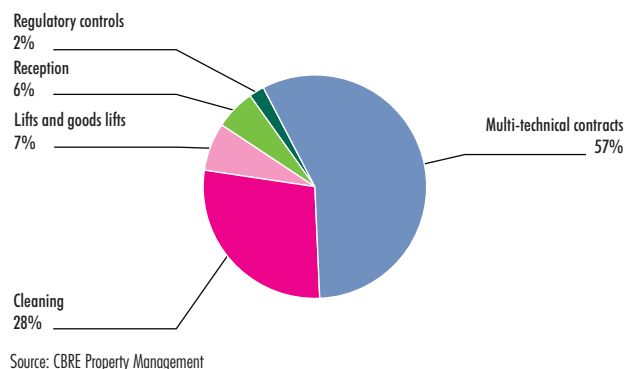
- **High-rise building:** Article R122-2 of the Construction and Housing Code defines a high-rise building as “any building section whose top floor slab level is 50 metres higher than the highest ground level that public utilities machinery and fire fighting equipment can use, for housing, and more than 28 metres higher for all other buildings”.
- **Standard office building:** buildings that are not high-rise buildings and not Haussmann-style buildings, subject to the French labour code regulations.
- **Haussmann-style building:** 19th century buildings of the Second Empire style with architectural features specific to the period. They are now subject to French labour code regulations.
- **Warehouse:** buildings over 10,000 sq. m accessible by HGVs, whose main function is to house businesses handling the distribution, storage and/or shipping of goods.

Breakdown of the average budget for charges for a high-rise building in Ile-de-France, start 2011

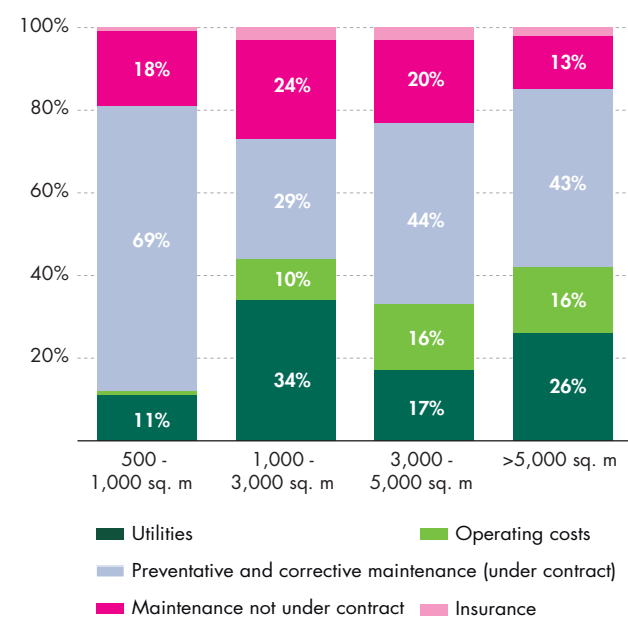


Source: CBRE Property Management

Breakdown of charges for preventative and corrective maintenance (under contract) of high-rise buildings in Ile-de-France start 2011

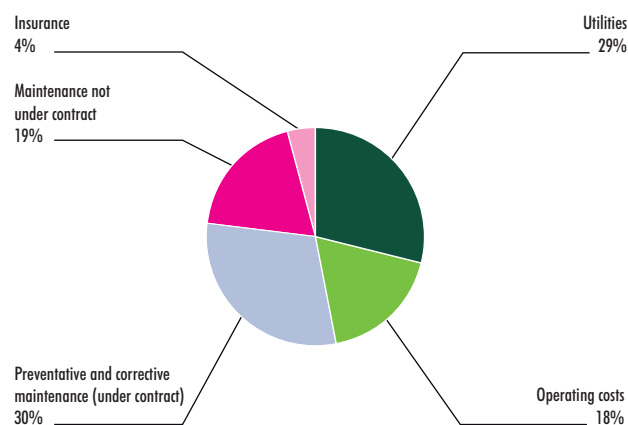


Breakdown of the average budgets for charges of a standard office in Ile-de-France start 2011



N.B.: To keep data consistent the apportionment is calculated here without the security item
Source: CBRE Property Management

Breakdown of the average budget for charges of a Haussmann building in Ile-de-France start 2011



N.B.: To keep data consistent the apportionment is calculated here without the security item
Source: CBRE Property Management

Standard office buildings in Ile-de-France

Buildings considered “standard” office buildings are the most common type of building in the commercial market and account for about two thirds of the CBRE Property Management database used for this report. The **relative share of certain items of service charges in the overall budget varies depending on the building’s floor area**. However, generally speaking, **preventative and corrective maintenance under contract accounts for the lion’s share of expenses**. The costs relating to **the technical maintenance of a building, the upkeep of equipment (like lifts), and cleaning** are usually high. In our analysis, the relative weight of this item is the greatest in small buildings (500 sq. m to 1,000 sq. m). However, this is also due to the fact that other cost items are very low, including the utilities bill. By contrast, for **larger buildings, this item is logically one of the highest because of the floor area and the higher number of people working in the building**. Maintenance not under contract is usually the third largest expense item, due to the types of works and repairs carried out in this type of building.

Consequently, **the average cost of managing “standard” office buildings** varies depending on their size and on their location. The most **up-market addresses**, especially in the Central Business District, Paris Centre West and the Western Crescent of Ile-de-France, will have **higher costs than the others** (respectively €65.70 /sq. m, €60.80 /sq. m and €56.20 /sq. m on average for buildings >1,000 sq. m at the start of 2011). The same goes for buildings with **sophisticated equipment**.

Generally speaking, in Ile-de-France, and depending on the size of the building, average management costs are:

- 500 sq. m – 1,000 sq. m: €50.80/sq. m;
- 1,000 sq. m – 3,000 sq. m: €51/sq. m;
- 3,000 sq. m – 5,000 sq. m: €59.10/sq. m;
- >5,000 sq. m: €53/sq. m.

Note that **in other regions these costs are lower**, often because **labour costs are lower**. On average they stand between €30 and €45 /sq. m, depending on the location, the floor area and the quality of the building.

Haussmann buildings (Ile-de-France)

In our study these typically Parisian buildings range from 1,000 sq. m to 5,000 sq. m. It should be noted that, **depending on their size, age, extent of redevelopment, and heating and air conditioning**, which all differ because of the specificity of these buildings, **technical items can command widely varying budgets**. In general, because of the need to carry out upkeep, repairs and controls, which are sometimes more extensive than in recent buildings, the item **maintenance under contract often accounts for the largest budget**. For example, in some Haussmann buildings **lifts** can require more extensive controls and manpower than standard office buildings because the lifts are older. The costs linked to utilities are also **often high, but can vary greatly depending on the type of heating or air conditioning in the building**. Other criteria relative to the construction also come into play in these expenses, such as **insulation or the age of equipment**.

The average management cost of a Haussmann building is €57.80/sq. m. But it can be as low as €30/sq. m for a small building, of lower quality and with fewer facilities (especially fewer services), and rise to €80/sq. m for a good quality building. For some high-grade properties in prime locations in Paris, the cost can sometimes exceed €100/sq. m, but these are exceptional cases.

Warehouses (France)

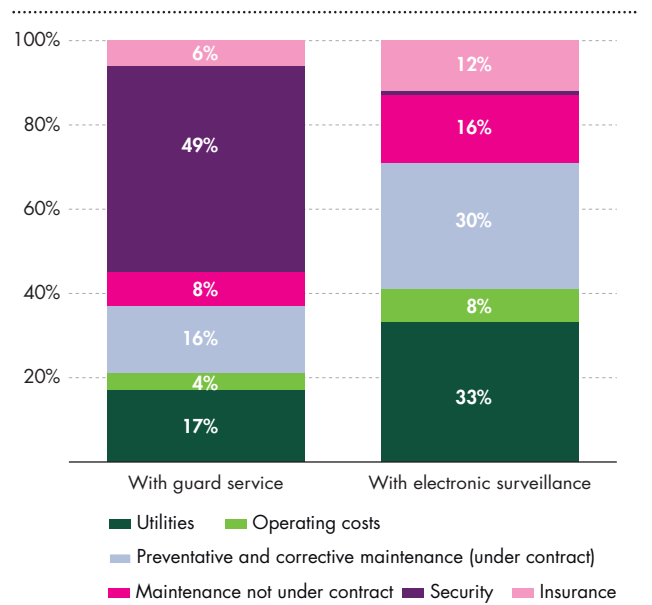
Due to the business activity carried out in warehouses, the budget of service charges for this asset class varies greatly to those for offices. The first item that can have a substantial impact on the overall budget of charges is the security budget. From one site to another, the security budget can be used differently. Some owners equip their buildings with electronic surveillance systems (such as CCTV), which generate costs that only amount to, on average, 1% of the total budget (i.e. the lowest cost item in the charges). Others hire security firms that send guards to the site. In this case, the security item, on average, accounts for almost half the total budget of service charges in a warehouse. But these costs can vary depending on how long the guards work (days, nights, weekends). In addition, companies quite frequently share the cost of guarding a building with other occupiers on the same site. In this case, the expense of guarding a building may be significantly reduced.

The second significant service charge item is utilities. Depending of the floor area and how the building is occupied (on-site personnel, type of product stored etc) these costs can be relatively high, especially the heating costs. On average three quarters of the utility budget is allocated to heating. Electricity and water costs are variable, depending on the number of people working on the site, which is a factor also influencing operating costs.

Finally, the maintenance under contract item may also account for a substantial share of the budget, especially if the warehouse has vast areas of grass and greenery that need regular care. In some logistics parks grounds maintenance contracts can be very high.

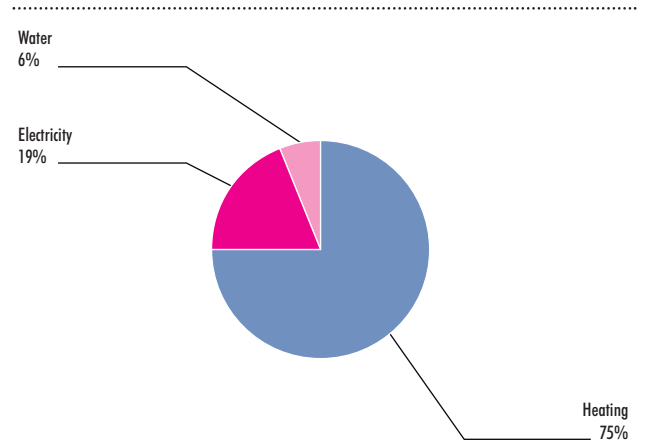
At the start of 2011, the average cost of managing a warehouse stood at approximately €8/sq. m (with CCTV) and could rise to €14.40 /sq. m (with a guard). Depending on the quality of the buildings, their facilities and floor area, the costs can vary greatly. In contrast to office buildings, the geographic location is not really a determining factor in the service charge budget.

Breakdown of the average budget for charges of warehousing in Ile-de-France start 2011



Source: CBRE Property Management

Breakdown of utilities charges in warehousing in France start 2011



Source: CBRE Property Management

Summary

In the current international climate full of uncertainty, Property Managers systematically attempt to contain the overall service charge budget. If in some cases costs have risen, these were to a large extent dependent on factors linked to the economy that were difficult to control. For example, the energy consumption of buildings rose on the whole in 2010, due to the hot summer and a relatively cold winter (requiring more cooling and heating respectively), both of which could have impacted the cost of utilities. In addition, the cost of services (cleaning, maintaining green areas, reception etc.) has been rising for some time now and can be difficult to curb. Finally, note that management costs are extremely variable depending on the type of asset, size, quality, level of facilities and location.

In 2010, Property Managers managed to keep a lid on the impact of inflation on budgets. Most contracts posted limited annual rises of an average of 2% to 2.5%, which is a fairly normal increase.

INTERVIEW...

MARIE-FABIENNE JACQUART
Accounts and Finance Manager, CPAS

What is CPAS?

CPAS stands for Corporate Property Accounting Services. It was established in 2005 as a separate entity in CPMS (now CBRE Property Management). CPAS is specialised in accounting, tax and financial management and is headed by an independent auditor, Thierry Simon. It has 25 staff members.

What is its role?

Our profession is to take charge of the outsourced management of property accounts for foreign companies. This can go from the balance sheet to the profit and loss account, from submitting tax returns to debt management and client reports. The accounting duties we propose to clients are listed in a document called a lettre de mission (engagement letter), a compulsory document in the accounting field which acts as an estimate for the client. The document is similar to a bid in a tender procedure and the client uses it to choose which accounts firm is most suitable.

Who are your clients?

CPAS has an exclusive partnership with CBRE Property Management and consequently works for all CBRE Property Management's clients, but it could also propose services to other CBRE services. Most buildings managed by the company are owned by foreign investors. French accounting is particularly complex and stringent, and it is often easier for foreign owners to sub-contract this part of the work to specialists based in the same country as their real estate. In addition, we provide all client reports in English, and we can process French accounts to match accounting standards in other countries (US or UK GAAP), which facilitates their operations in France. Our main clients are investment funds such as Deka, Rreef and Raiffeisen.

Are there any drawbacks to being a sub-contractor?

Like several other firms, CPAS suffered over the last few years due to the financial crisis. Some owners sold buildings, others sought to reduce expenditure, and both affected our profession. Nevertheless we have very strong healthy relations with our clients. Also because we are given medium and long-term assignments, these relations are kept going. At the end of the day, even though we operate externally, we are so close it is as if we were part of the company.

Comparison of total service charges for offices buildings in Europe, start 2011

Country	Town	Type of building	Cost (net/sq. m/year)
Germany	Berlin	All types	€42
Germany	Dusseldorf	All types	€36
Germany	Frankfurt	All types	€60
Germany	Hamburg	All types	€37
Germany	Munich	All types	€42
Belgium	Brussels	All types	€40
Spain	Barcelona	Prime building	€48 - €60
Spain	Barcelona	High-rise building	€84
Spain	Madrid	Prime building	€48 - €60
Spain	Madrid	High-rise building	€84
Italy	Milan	Prime building	€45 - €50
Luxembourg	Luxembourg	All types	€48
Netherlands	Amsterdam	Prime building	€35 - €55
Portugal	Lisbon CBD	Prime building	€30 - €48
United Kingdom	Birmingham	Prime building	€49
United Kingdom	Edimbourg	Prime building	€73
United Kingdom	Glasgow	Prime building	€61
United Kingdom	London - Central - City	Prime building	€110
United Kingdom	London - Central - West End	Prime building	€122
United Kingdom	Manchester	Prime building	€67

Source: CB Richard Ellis

FOCUS...

THE ENERGY PERFORMANCE CONTRACT

The **Grenelle Building Plan** was introduced in January 2009 to put into application the measures pertaining to buildings that were decided during the Grenelle Environment talks. The plan sets a number of **objectives for the reduction of energy consumption and greenhouse gas emissions in buildings**. The measures apply to public and private sector buildings. The **energy performance contract** is one of the tools that contracting authorities can use to help reach these objectives. Already in use in several countries, it was re-activated from April 2006, particularly in Europe by the 2006/32/CE directive. It is defined as "a **contract agreement between the beneficiary and the service provider** [energy efficiency services company] of a measure aimed at **improving the energy efficiency**. Under this agreement investments in the measure are made in order to reach a level of improvement in energy efficiency that is written into the contract". The contract's aim "is to guarantee a sustainable improvement in **energy efficiency** in a **building or a complex of buildings**". This tool was first used in France by the public sector, then spread to the private sector but with more open and less formal contracts. At the moment, no legal definition has been settled.

An energy performance contract starts with a **preliminary audit of the energy performance of the building** to measure consumption as well as the feasibility and potential interest of embarking on a programme of energy-saving measures. The audit is used to define a benchmark. After the audit, the **service provider agrees to make a certain level of energy savings, the works are then carried out** and there is a follow up of the process of approved **operation-maintenance**. At the end of the works, the benchmark serves to calculate and check the improvement in the energy performance. Actions can be physical or intangible, and can affect the building frame, equipment, operational standards, maintenance and services. They can be performed by one or several service providers from the energy industry (GDF, Suez, EDF, Cofely, Dalkia and so on), the building industry (Bouygues, Eiffage, Vinci Energies and so on) or equipment manufacturers (Schneider Electric, Siemens, etc.).

Energy Performance Contracts entail the service provider guaranteeing a result and as such the beneficiary is protected **against the failure to achieve objectives**: if the gap between reference energy consumption and post-works consumption does not reach the performance level agreed, the **operator has to pay a financial penalty**. Similarly, if the contract is over-performed, the beneficiary **has to award the energy efficiency company a percentage of the financial savings**. Savings help reimburse the cost of some of the investment in works, as well as guarantees and loans for some types of contracts (in some cases, third party financing is used). The energy performance contract may therefore be a handy tool in containing energy saving operations, by facilitating the investment and controlling associated financial risks. It should be remembered, however, that **carrying out works or any other action on the building is not the finality of the contract but one of its means**.

The contract covers several of phases:

- preliminary audit;
- defining objectives, deciding on the course of action, works;
- guarantee period (decided between the parties);
- follow up (from the end of works until the end of the contract).

When concluding an energy performance contract the **recommended term is at least five years**, as this gives enough time for the course of action to be fully implemented and sufficient visibility of the results.

The first energy performance contract was agreed at the end of 2009 for the renovation of secondary schools in Alsace. The approach has since spread to other schools and other types of buildings from blocks of flats to big retail outlets (FNAC, Carrefour). In the office sector, by the 3rd quarter 2011, the company Steria will have moved into a Bouygues Immobilier scheme called Green Office (in Meudon) under a lease agreement that is coupled to a nine-year energy performance contract. In this case, the service charges will be guaranteed by the service provider, not the volume of energy consumption.

Sources: www.plan-batiment.legrenelle-environnement.fr; www.lecpe.fr

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