CB RICHARD ELLIS

Market View

Property charges

ILE-DE-FRANCE / FRANCE

July 2010

ECONOMIC CONTEXT

Since the **recession** in **2009**, when GDP **fell by 2.5%**, the **French economy** has been **struggling to retrieve a decent level of growth**, with GDP rising by 0.1% in Q1 2010. There have been some signs that the situation might improve, while others seem to point to just the opposite.

At the start of 2010, another increase in energy costs, up 13.6% from May 2009 to May 2010, led to the reappearance of inflation. This was the highest energy increase since September 2008, which ended an 11-month series of year-on-year increases over 10%. **Petroleum derived products pushed the price index higher**: in May prices posted year-on-year increases of 20.4%, in line with the inflationary trend of oil. Recent reductions in oil prices – the barrel fell 11% to $75.70 in May 2010 – do not offset the considerable annual increases registered since the start of Q4 2009, up 32% between May 2009 and 2010.

The costs of other **raw materials** (agro-industrial, industrial and minerals) have also been **climbing since Q3 2009**. Only **food prices remained stable** compared to last year. Note that **all these variables, valued in foreign currencies**, **started falling in April and May 2010** due to a **reduction in international demand** for certain goods generated by the downturn in the Chinese property market and industrial stagnation in the world's major economies. However, **no such reduction is visible when the materials are valued in euros**. **The fall in the euro/dollar exchange rate** since the end of 2009 has encumbered imports of products from the dollar zone.

As a result, in a fragile economy on the brink of extreme budget austerity, **any return to a more prosperous situation in France is going to be a slow process**; in July 2010, growth forecasts for 2010 and 2011 were 1.4% and 1.5%.

These factors obviously had a knock-on effect on property management in 2009. The **cost item affected the most was utilities, due to the rise in the price of energy and particularly that of gas and electricity**. This item was also **influenced by a higher than average consumption of heating due to the particularly cold winter**, a factor which could easily be repeated in 2010. Even so, **total charges rose** only **by 1.5% to 2%** in **2009**, depending on the building, because by and large, Property Managers tried to freeze charges with a view to maintaining client satisfaction.

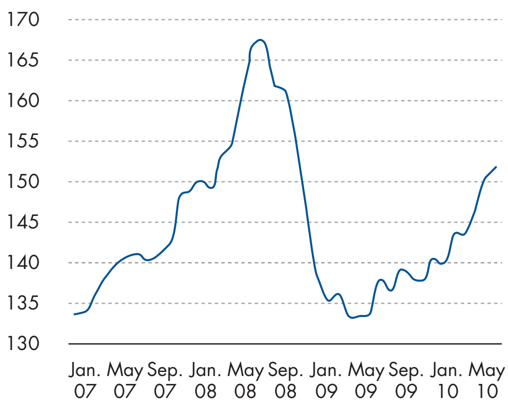
CURRENT TRENDS IN FRANCE

Total cost of charges* (for the 4 types of buildings studied here)[1]	=
Consumer price index[2]	↑
Consumer price index - Energy[3]	↑
Imported raw materials (excluding oil)[3]	↑
Cost of construction index[4]	=

[1] *Annual change compared to start 2009*
[2] *Monthly change compared to April 2010*
[3] *Annual change compared to May 2009*
[4] *Quarterly change compared to Q4 2009*

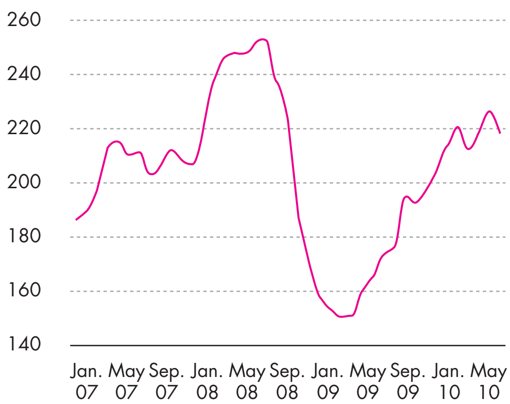
* *Rental charges*

Price trends in household energy consumption
(index, base 100 = 2000)



Source: INSEE

Trends in imported raw material prices
(index, base 100 = 2000)



Source: INSEE

CBRE
CB RICHARD ELLIS

MANAGEMENT CHARGES BY TYPE OF BUILDING[1]

(Summary table)

Type of charges / *Types of buildings*		Utilities	Operating fees	Insurance	Maintenance (and services) under contract
		Water, fire protection water, electricity (common services), cold production (refrigerating units or heat pumps, district cooling), heat production (district heating, gas, fuel or electric).	PABX maintenance, common services, IT maintenance, management office costs (due to the presence of an on-site Building Manager).	Premiums vary according to the nature and size of buildings and the guarantees taken out.	Lifts and goods lifts, cleaning of common areas (surrounds, facades, 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.
High-rise buildings[2]	Article R122-2 of the Construction and Housing Code defines a high-rise building as "any main building section whose top floor slab level is 50 metres higher than the highest level of the ground that public utilities machinery and fire fighting equipment can use, for housing, and more than 28 metres higher for all other buildings".	17%	1%	4%	20% • A lower percentage than for standard buildings • Contains certain sub-items that are more substantial than for other buildings due to the size of the buildings such as cleaning, lift maintenance, and compulsory inspections.
French Labour Code buildings	Buildings less than 28 metres high that are not Haussmann-style buildings, to which specific safety and regulatory standards apply.	25% High cost, 45% of which generated by electricity costs	/	9%	43% Mainly costs of technical maintenance, upkeep of lifts, cleaning.
Haussmann-style buildings[3]	19th century buildings of the Second French Empire style with architectural features specific to the period; being old, they have specific budgets for charges. 4 types of buildings can be distinguished: type 1: private heating, no air-conditioning, no gas / type 2: heating and cooling from district networks / type 3: gas heating and air-conditioning / type 4: private heating and air-conditioning. The figures given are for the most common type of building, type 1.	32%	3%	13%	43%
Logistics platforms	Buildings over 10,000 sq. m accessible to HGVs, whose main function is to house businesses handling the distribution, storage and/or shipping of goods.	24% Very high due to gas costs (89%).	/	16%	19% Costs related to fire safety systems are higher in logistics buildings than office buildings because of the size of the buildings and the type of product they may have to store.

[1] *Rental charges.*
The costs and shares set forth in this section were calculated using CBRE Property Management clients as a basis.
All the values are given in euros exclusive of taxes and include management fees. The ratios of charges are calculated exclusive of management fees.
Buildings were added to the CBRE Property Management databases between 2009 and 2010 and account for some of the cost differences between 2009 and 2010.

CBRE CB RICHARD ELLIS

Multitechnical facilities (maintenance under contract)	Maintenance not under contract	Inter-company restaurant	Security	Taxes	Total cost of charges
Technical maintenance (electricity, heating/ventilation / air conditioning – HVAC) plumbing, centralised technical management / building management system (CTM/BMS), fire detection, facades / openings / doors (entrances, deliveries, barriers), sump, computer assisted maintenance management, UPS, generator, refrigerating unit, cradle, access controls, extinguishers / smoke vents / parking lot carbon dioxide, sprinklers, terrace and roof maintenance.	Miscellaneous technical supplies, maintenance and repairs, scheduled works, etc.	See next page	Security agents	• Property tax: covers several taxes for local governments (household waste removal tax in some communes, special equipment taxes, management costs of direct local taxes). Property tax is applied to land and buildings. It is payable by either the owner or the usufructuary. • Office tax: article 231 ter of the General Tax Code stipulates "an annual tax on premises used as offices, retail premises and for storage is collected within the territorial boundaries of Ile-de France, composed of Paris and the departments of Essonne, Hauts-de-Seine, Seine-et-Marne, Seine-Saint-Denis, Val-de-Marne, Val-d'Oise and Yvelines. The tax is payable by the private individuals or companies that are owners of the premises or have a title to the premises."	
17%	2%	2%	37% High percentage due to the size and height of buildings that require more security staff.	All values are given excluding taxes.	**€80** /sq. m - **€95** /sq. m These costs have risen because buildings have been added to the database.
/	23%	/	/		• without a Building Manager from **€48** /sq. m and **€53** /sq. m; • with a guard and Building Manager from **€53** /sq. m and **€55** /sq. m; • size < 5,000 sq. m from **€44** /sq. m and **€48** /sq. m; • all-electric buildings on average **€49.5** /sq. m. On average, annual rise of 2% for each of these buildings.
/ Very low, and in some instances no budget, because it is often limited to minor repairs such as boiler maintenance, changing light bulbs and fixing locks etc.	9%	/	/		From **€22** /sq. m et **€42** /sq. m. The high end of the spread for this type of building increases by €10 a year because renovated and air-conditioned buildings have been added to the database.
/	3%	/	38%		• With guard from **€11** /sq. m. et **€15.5** /sq. m. • Without guard from **€5** /sq. m. et **€8.5** /sq. m. These costs have risen due to a rise in contracted maintenance charges (a new regulatory framework increased the number of compulsory controls).

[2] *Figures given for this type of building are for a standard, 30,000 sq. m high-rise building.*

[3] *In order to keep data consistent, figures given for this type of building do not include guard costs.*

Skyscrapers

These are high-rise buildings over 200 metres high. In France, they are still being developed which is why their management costs have not yet been calculated. However it is assumed that **their budgets will contain items that are similar to those for high-rise buildings**. The only item whose share in the **budget** is likely to be **higher is the one devoted to security**, because security requirements tend to increase with the size of buildings. Moreover the **greater technical complexity** of skyscrapers' installations will lead to higher multitechnical **maintenance**.

HQE® buildings

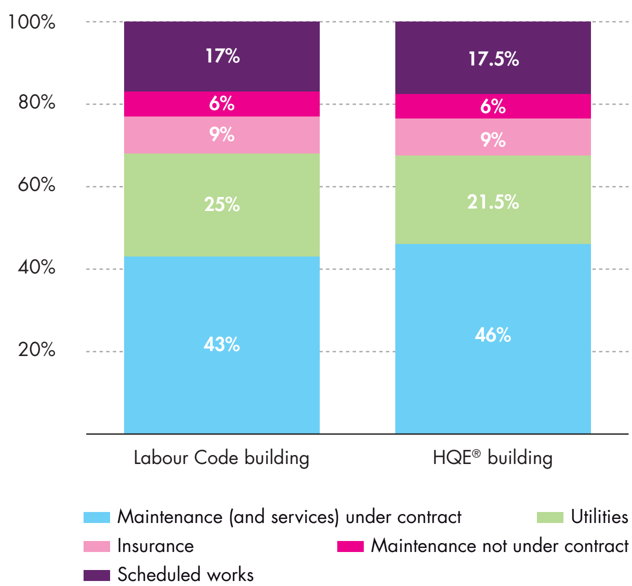
HQE®, or Haute Qualité Environmentale, is certification system for green buildings in France. An increasing number of office buildings have obtained or are in the process of obtaining the certification **NF Bâtiments Tertiaires - Démarche HQE® that is awarded for a green approach during the construction and/or operation of buildings**. These certificates are still too recent for an objective assessment to be made of the management charges and costs in HQE® buildings. But because the certification involves installing **new tools** and completing **a number of analyses**, what is sure is that the very act of **obtaining and holding on to the certification has a noticeable impact on costs**. After a building is certified, **audits are carried out each year to make sure the green criteria are respected**. Consequently, **certification "entry" and "compliance" costs will appear in the budgets for charges of these buildings**. An estimate of the breakdown of charges for HQE® office buildings compared to those for standard buildings was drawn up using a sample of buildings managed by CBRE Property Management.

An HQE® building has a **lower utilities budget** than a standard Labour Code building, at approximately 21.5% (or 3.5 points lower), due to energy savings (better energy management, modified behaviour patterns). By contrast, the **contracted maintenance and service item will rise by 3 points to 46%** due to the **introduction of control systems to reduce consumption**. **Regulatory controls, waste processing** and quality analyses that have to be carried out **increase the total cost of this item**. Ultimately, **the total budget for an HQE® building** is expected **slightly below the budget for a Labour Code building** (about 2% lower).

Estimated **total charges**:

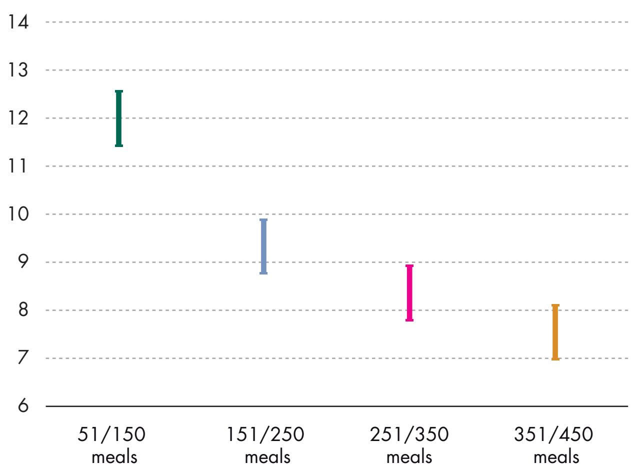
- HQE® building: from **€48/sq. m to €52 /sq. m**;
- HQE® very high performance building: from **€40 /sq. m to €45 sq. m**;
- HQE® high-rise: from **€70 /sq. m to €75 /sq. m**;
- HQE® very high performance high-rise: from **€68 /sq. m to €73 /sq. m**.

Estimate of the breakdown of the budget for charges for a standard Labour Code building and an HQE®



Source: CBRE Property Management

Breakdown of average total cost per meal in Inter-company restaurant (excluding employer subsidy)
(average estimates in €, for all types of buildings)



Source: CBRE Property Management

Company restaurants

According to article R232-10-1 of the Labour Code, "establishments in which the number of workers usually wishing to eat their meals in the workplace is at least 25, the employer is bound, after receiving notice from the Hygiene and Security in the Workplace Committee (CHSCT), or by default from personnel representatives, to make a dining room available for them". The company or the works committee may also choose to create a company canteen or become members of an inter-company canteen (a canteen shared with other companies based nearby). This kind of canteen facility may be managed by the company, the workers' committee, or by an outside supplier.

For the employer, **the average cost per employee depends on two variables: the type of meal chosen** (from €3 to €4.10 on average) and the **admission ticket**. The cost of this ticket depends on how many meals are served on average each day and is generally in a range from €4 to €8.50). Naturally, the higher the number of personnel involved in the scheme, the better the economies of scale. Employers often subsidise such schemes thereby further lowering the cost for their employees.

FOCUS...

ACCESSIBILITY TO THE WORKPLACE AND TO PUBLIC BUILDINGS FOR HANDICAPPED PEOPLE *

According to the article R. 123-19 of the Construction and Housing Code "establishments are […] classified in categories, depending on how many people are in the building whether general public or staff. The number of people from the public is determined, depending on the building, by the number of seats, the floor area dedicated to the public, a declaration by the head of the establishment or by all these indications". **Categories 1 to 4** are establishments with a capacity exceeding 300 people. The majority of establishments in these categories **should have been surveyed for their accessibility conditions before 1st January 2010 and the cost of works to be undertaken should have been appraised**. The other establishments have until 1st January 2011. The **works must be carried out before 1st January 2015** for all public buildings (including category 5 buildings, i.e. those in article R. 123-14 "establishments in which the number of people from the public does not reach the number fixed by security regulations. [They] are [therefore] governed by specific provisions determined in the security regulations").

The **accessibility survey is the owner's responsibility and must be steered by the building manager**. The **survey must be made available to users of the building**. The **owner bears the cost of the works**.

The requirement to make buildings comply with the regulations results from article L111-7 of the Construction and Housing Code (13 July 2006) which stipulates "architectural provisions, interior and exterior facilities and equipment in housing – whether owned by private individuals or companies – public buildings, installations open to the public, and workplaces, must be such that these premises and installations are accessible to all, and notably to handicapped people, whatever the type of handicap, whether physical, sensory, cognitive, mental or psychological".

article R. 111-18-1 (17 May 2006) of the said code stipulates: "Is considered accessible to handicapped people any collective housing unit or any facility in a building that enables a handicapped inhabitant or visitor, as independently as possible, to move around, access premises and equipment, use equipment, find their way around and communicate. The access conditions for handicapped people must be the same as those for other people, or at least offer an equivalent quality of use".

Almost 650,000 public buildings are affected by these measures, i.e. **several million square metres of space**. **Communal areas** such as washrooms, reception areas, canteens, meeting rooms etc. **must be made to comply, which is on average from 5% to 10% of a building**.

Buildings constructed between 1950 and 1980 will be particularly affected by compliance works, as there was a massive wave of construction during this period often using poor quality materials and techniques.

The Property Manager (Farida Kateb, Senior Property Manager, CBRE Property Management)

Can you describe a typical day for a Property Manager?

Every day is different for Property Managers. A day often revolves around on-site meetings at the buildings we manage, and on average we manage about twenty buildings. The meetings may be with tenants and/or the owners. Such meetings enable us to accompany owners during site visits and discuss technical or lease issues with tenants. Some days may be dedicated to preparing client reports, dealing with demands from tenants, preparing service charge breakdowns and payments, drawing up budgets or business plans and so on.

The central tasks of a manager are to act as the interface between owners and tenants, take care of the needs of each party, give advice to owners, manage day-to-day building issues with the technical services and manage insurance claims.

What are your relations like with owners and tenants?

The Property Manager is the mediator between the two parties. The owner generally steps in to make the big decisions or if there is a sticking point during negotiations.

What is the borderline between Asset and Property Management?

From time to time we carry out missions that would generally be considered Asset Management, such as cash flow calculations or business plan development. The borderline between the two inter-dependent professions is variable. It is generally drawn within the financial analysis that is carried out for a building that integrates financing mechanisms and selling/buying strategies for the owner.

Nine buildings have obtained the **HQE® "Operation" certification** since the end of 2009, eight of them in Ile-de-France. Most of them are very large projects.

Of the 14 targets to be met for Environmental Quality of the Building in Operation, on average:

- the Very High Performance level is reached for 7 (only 3 are required);
- the High Performance level is reached for 4 (4 are required);
- the Basic level is reached for 3 (7 are required).

Source: Certivéa

* *Sources:*

- *"Accessibilité aux ERP… l'autre développement durable", Business Immo magazine, 03/05/2010*
- *Construction and Housing Code*

FOCUS...

THE ENVIRONMENTAL SECTION OF THE COMMERCIAL LEASE

The "Planning law pertaining to the implementation of the Grenelle environment talks", known more simply as Grenelle 1, was adopted 3 August 2009 and set some important energy performance objectives. **The law "pertaining to a commitment to the environment", known now as Grenelle 2 was approved by the French National Assembly on 29 June 2010**. Of the various measures included in this law, one is the **requirement to append a clause to leases for premises above 2,000 sq. m that covers certain environmental issues**. The chairman of the Grenelle Building Plan, Philippe Pelletier, and his working committees are arguing for a threshold of 1,000 sq. m, **so as to include all premises falling under the scope of commercial leases**.

Initially known as a **green lease**, the idea emerged from the **working group charged with private office space** (directed by Serge Grzybowski) **for the Grenelle Building** plan, in October 2009. Their report recommended **imposing such a clause in leases from 1st January 2012 for new leases or lease renewals, and within three years of Grenelle 2 coming into force for on-going leases**.

The green lease, introduced in mid 2000 in Australia, is a practice that has only been adopted in English speaking countries. **It tackles the ecological and economic issues of office and retail buildings** and **makes tenants and landlords more responsible**. It also **sets environmental objectives** thereby **optimising the environmental performance of buildings**. This obviously involves **increased dialogue between the two parties**.

The environmental clause has **no legal grounding yet** in France and therefore its application is not compulsory for the moment, but it is **expected to become a decree by the end of 2011**. The appended clause will probably have to contain the following*:

- a statement or estimation of how much energy the premises consume;
- a description of equipment such as heating, ventilation, air-conditioning, water distribution and waste management in the premises;
- objectives for improvements in consumption depending on the condition, the characteristics of the premises and/or the building and the business activity of the user;
- annual inspections;
- the protocol to follow for regular meetings between the parties to decide on any adjustments that may be necessary.

This document will not incorporate all the targets of the HQE® "Operation" certification, but will steer buildings towards that kind of standard.

For Property Managers, the first step on the path to more environmental awareness lies with the **introduction of this environmental clause and new strategies for owners and occupiers**. This will involve for instance the **championing of good environmental practice, closer management of charges, regular monitoring of energy consumption, frequent contacts and information flow between the parties**, and so on. The aim will be to **meet the challenge of respecting the environment** and **obtain HQE® "Operation" certification for the building**.

** Source: Proposals from the working committee "Private office stock", Plan Bâtiment Grenelle*

CONTACTS

Research

Aurélie LEMOINE
Manager
Tel.: 33 (0) 1 53 64 36 35
Fax: 33 (0) 1 53 64 40 00
aurelie.lemoine@cbre.fr

Erika LEONARD
Researcher
Tel.: 33 (0) 1 53 64 34 84
Fax: 33 (0) 1 53 64 40 00
erika.leonard@cbre.fr

Property Management

Paul CORNAILLE
General manager
Tel.: 33 (0) 1 49 72 44 55
Fax : 33 (0) 1 49 72 44 52
paul.cornaille@cbre.fr

Jean-Christian PERRIN
Development manager
Tel.: 33 (0) 1 49 72 44 64
Fax: 33 (0) 1 49 72 44 52
jc.perrin@cbre.fr

CB Richard Ellis Ressources - Economic analysis support
Headquarters: 145-151, rue de Courcelles 75017 PARIS - Siren: 412 352 817 - RCS Paris

CCC Paris 10 - 01 45 23 23 10