

## TRENDS

Investment France	
Investment	↑
Prime yields for offices	↓
Office market	
Ile-de-France	
Take-up	↑
Immediate supply	↑
Average rent	↓
Logistics France	
Take-up	↓
Immediate supply	↑
Average rent	=
Industrial space	
Ile-de-France	
Take-up	↑
Immediate supply	↑
Average rent	↓
Retail France	
Prime yields	=

Trend / 1<sup>st</sup> half 2009

## ECONOMIC CONTEXT

**Sluggish demand in Europe** kept growth in check in the 1<sup>st</sup> quarter of 2010, with GDP rising by 0.1% compared to 0.6% in the 4<sup>th</sup> quarter of 2009.

**Pressure surrounding sovereign debt** in some European countries, in particular in Portugal, Italy, Greece and Spain, dampened investor confidence in European economies. **Tough government measures**, which are being carried out more or less overtly, are aimed at reducing public deficits but **will take their toll on future growth**. The unknowns are such that scenarios of an upturn are threatened. European growth will be spurred on by **demand from emerging economies** which have returned to positive growth and by **US consumption**. Growth in France is expected to benefit from this consumption in the 2<sup>nd</sup> quarter (up 0.5%) but **these motors will probably run out of steam at the end of the year, therefore growth** forecasts for 2010 **remain at a modest 1.4%**.

## THE INVESTMENT MARKET IN FRANCE

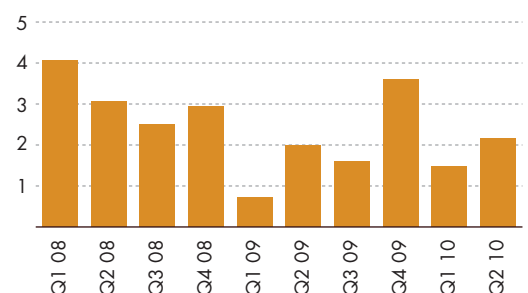
After a relatively slow start to the year – less than 1.5 billion euros were transacted in the 1<sup>st</sup> quarter – **investment activity perked up in the 2<sup>nd</sup> quarter**, resulting in a 1<sup>st</sup> half total of slightly more than **3.6 billion euros**. This was a rise of 34% in one year, but the volume was nonetheless modest. Modest maybe, but it is also true to say that in the midst of an **unstable financial environment**, volatile stock markets, falling returns on bonds and fears about inflation, **investors have shown more interest in commercial real estate**. At the same time, **there was increasing concern about how long the upturn in the economy would last**, making investors even more likely to avoid risk. However, scarcity in the supply of secure, low-risk, quality products capable of meeting investors' stringent requirements made a strong turnaround in the market difficult. The **extreme selectivity of investors** was also due to the type of investor active. Access to credit has not been completely re-established and few good opportunities were available, therefore speculative funds

**Inflation** brought on by the rise in the euro has warded off the spectre of deflation and is forecast at **1.5% in 2010** compared to 0.1% in 2009. While 255,000 jobs were lost in 2009 in France, the French economy is expected to create 63,000 in 2010, but **unemployment will remain stable at 9.9%**.

Finally, **consumer spending suffered when the cash-for-clunker scheme ended** in the 1<sup>st</sup> quarter. The **rise in earnings** from employment will be offset by **reductions in social benefits** and inflation. Consumers are still wondering what's in store for them, and are allocating part of their buying power to savings. **Consumption** is therefore expected to **rise by just 1.1%** in 2010. In the absence of government stimulation, **consumer confidence will be a determining factor for growth in consumption**.

were absent. More than ever before **institutional** investors have been the market **leaders**, due in large part to the dynamism of insurance companies in the 2<sup>nd</sup> quarter, predominantly German investors. Thus **German investors confirmed their growing interest in the French market** – 21% of investments in the first six months – and were virtually the only real competitors to domestic investors, representing 56% of the total volume.

Quarterly trends in investment in standard commercial real estate in France  
(in billion euros)



Sources: CB Richard Ellis and Immostat

## A gradually widening market

Retail accounted for 31% of investment, its highest share ever in France. This also explains the high amount of investment going on in the provinces in the 1<sup>st</sup> half. **Buyers were especially focussed on shopping centres and galleries**, which accounted for 4 out of the 10 largest transactions including Cap 3000 in St Laurent du Var. Offices still took the largest share of the market with 62% of investment, but these were concentrated in the Paris region, with the share of regional office investment equalling just 7%. Whereas a short time ago investors were only interested in business districts within Paris, **properties in peripheral markets have attracted more attention in recent months**. Approximately 45% of office investment in the 2<sup>nd</sup> quarter was in the Western Crescent, Inner Rims and Outer Rim of the Paris region. Nevertheless, interest continues to be for the best buildings; 54% of office investment volume in the 1<sup>st</sup> half involved new, recent and redeveloped buildings. **Investment in industrial and logistics premises has started to recover**, with investment volume doubling from the 1<sup>st</sup> to 2<sup>nd</sup> quarter due to the closing of a few transactions on large A-class logistics platforms. But this segment still only accounted for 7% of the market.

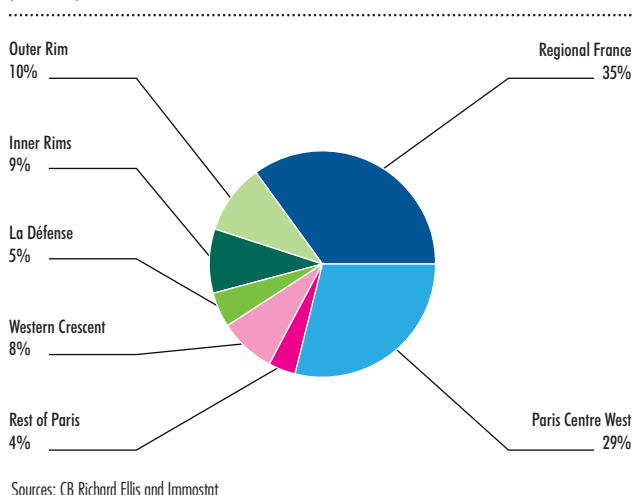
## High pressure on prime yields

The commercial real estate market currently illustrates a significant **imbalance between supply and demand; demand is growing but only for secure, good quality buildings** while supply for this type of product is **solely lacking**. The market for secondary assets is virtually zero. The result is a downward pressure on rental yields for prime space, in a context when the 10-year government bond rate is also falling. Tertiary sector assets (offices and retail) in the best sites were the first to be affected. But **the downward pressure on yields** has started to widen; the quality of the building (new or recently completed and meeting the latest environmental standards) and lease conditions (long, unbreakable leases with a good tenant) are now factors that take precedence over more traditional criteria of geographic location and type of building. **The fall in yields was particularly sharp** over the last few months **for class A logistics premises and especially for the best offices** in some sectors of the **Inner Rims**. Much like the industrial market, even when no transactions took place, the downward pressure could be felt in the negotiating prices of properties on the market. Against a backdrop of stabilised rents and, in some instances, a slight upturn in rents for new or redeveloped space, **market values have started rising again** for these highly sought-after products, while poorer quality products attract little interest.

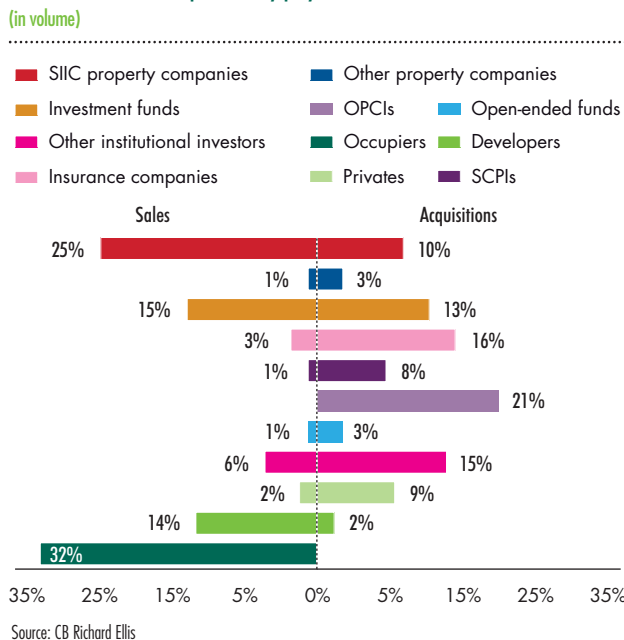
## More activity expected in the second half despite limited visibility

As a consequence of the upturn in values for prime properties, **investors who are not facing difficulties reallocating capital may be incited to start selling again**, which will help the market improve its liquidity and give it more depth. Indeed several large deals are in the final stages of negotiation and will help bolster transaction figures in the 3<sup>rd</sup> quarter. **Buyers will continue to widen their targets**: there has been more interest in off plan sales as the supply of new buildings has dried up. However the 10 billion euros of investment forecast at the start of the year will be difficult to achieve.

## Geographic breakdown of investment excluding indivisible multi-city portfolios (in volume)



## Breakdown of sales/acquisitions by player (in volume)



## Prime yields at 01/07/2010

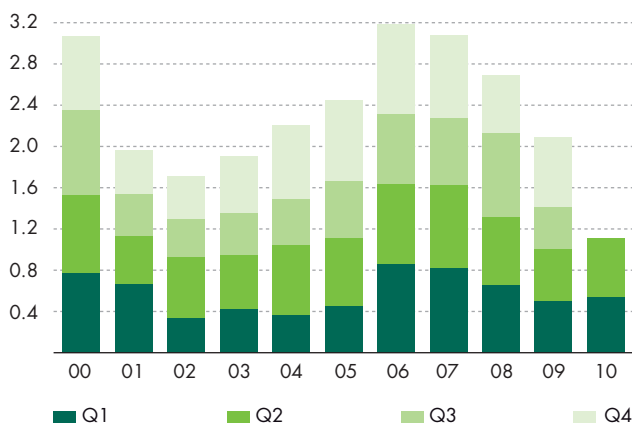
Offices Paris Centre West	5.10% - 6.00%
Offices La Défense	5.80% - 6.85%
Offices Western Crescent	5.50% - 8.50%
Offices Inner Rims	6.00% - 9.00%
Offices Outer Rim	6.50% - 12.00%
Offices Regions	6.30% - 8.25%
Class A logistics France	7.25% - 8.25%
Industrial space France	9.00% - 11.00%
Industrial parks France	8.75% - 10.50%
Shops France	4.90% - 9.75%
Shopping centres France	4.90% - 6.90%
Retail parks France	6.50% - 9.60%

Source: CB Richard Ellis

N.B.: In the absence of prime transactions in some sectors, the figures were partly supplied by market experts.

## Trends in take-up in Ile-de-France

(in million sq. m)



Source: CB Richard Ellis / Immostat

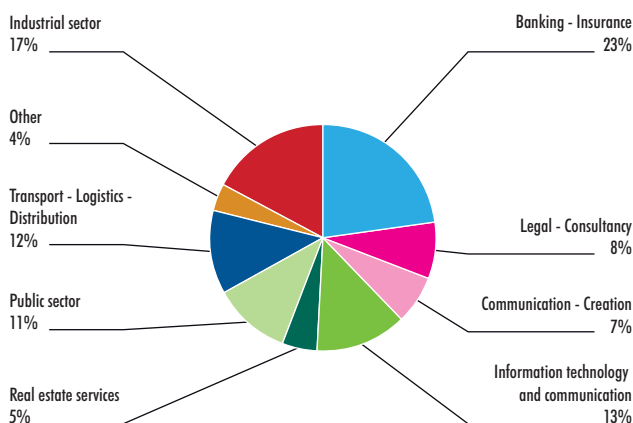
Geographic breakdown of take-up at 1<sup>st</sup> half 2010

	< 1,000 sq. m	1,000 - 5,000 sq. m	> 5,000 sq. m	All areas
Paris Centre West	38%	23%	7%	22%
Southern Paris	10%	12%	18%	14%
North Eastern Paris	7%	7%	15%	10%
La Défense	3%	6%	8%	5%
Western Crescent	20%	25%	21%	23%
Inner Rims	8%	9%	12%	9%
Outer Rim	14%	18%	19%	17%
<b>Total IDF</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>

Source: CB Richard Ellis / Immostat

Breakdown of take-up by business sector at 1<sup>st</sup> half 2010

(&gt; 1,000 sq. m)



Source: CB Richard Ellis / Immostat

## THE OFFICE MARKET IN ILE-DE-FRANCE

## Occupier interest stabilized but firmer

At the end of the 1<sup>st</sup> half of 2010, demand expressed by occupiers is relatively **low** and difficult to build up again. Average occupier interest is **stable** throughout Ile-de-France compared to 2009, but there are wide **geographic disparities**. Expressions of interest are, however, **strong and of high quality**. Moves are more than ever driven by the need to rationalize space. Occupiers' strong interest in **expanding** their premises in Paris is borne out and although some occupiers do continue to renegotiate leases, renegotiations are petering out.

## Is take-up really more robust?

Take-up in the **2<sup>nd</sup> quarter** rose 16% from the 1<sup>st</sup> quarter to **559,800 sq. m**, bringing the figure for the 1<sup>st</sup> half of 2010 to **1.04 million sq. m**. This is also 16% higher than at the same period last year.

The **Paris market** has been regaining strength since the middle of last year. Take-up in the capital now accounts for **46% of the total volume in Ile-de-France**, compared to just 32% for the year 2009 as a whole. The improvement is particularly noteworthy in **Paris Centre West**, which alone accounts for 22% of take-up, thanks mainly to the robust performance of transactions on **small and average size units**. The latter (**units of less than 1,000 sq. m**) account for **55%** of the volume transacted in the sector. There were also **3 transactions involving premises larger than 5,000 sq. m** in Paris Centre West, representing 11% of the volume of take-up there. In the **other sectors of Paris**, large transactions (including 5 in excess of 10,000 sq. m) contributed to the robust level of take-up recorded in the 2<sup>nd</sup> quarter 2010.

The **Western Crescent caught up** in the 2<sup>nd</sup> quarter owing to transactions on units of less than 1,000 sq. m as well as take-up of large units of more than 5,000 sq. m. There were 8 large transactions, compared to 2 in the 1<sup>st</sup> quarter.

The **Inner Rims** accounted for just 9% of transaction volumes and despite a slight improvement in the 2<sup>nd</sup> quarter, it is struggling to get back off the ground. The **Eastern Inner Rim**, where only 8,100 sq. m were transacted, was particularly hard hit in early 2010. In the **Northern and Southern Inner Rims**, where just over 40,000 sq. m changed hands in each area, the mood is far from optimistic. Nearly half of this volume (4 transactions) involved units in excess of 5,000 sq. m.

The **Outer Rim** accounts for **17%** of all take-up in Ile-de-France. The breakdown by size bracket is consistent with previous years. The **9 transactions on units of more than 5,000 sq. m** add up a total of 68,800 sq. m, which represents 32% of all take-up in the sector. Buildings farthest from public transport are the hardest to market.

**New and redeveloped premises account for 32%** of all take-up, a smaller share than at 1<sup>st</sup> quarter. Large transactions were signed on renovated premises such as those in the Cœur Défense complex.

An abiding feature of take-up in Ile-de-France is its economic diversity. It is noteworthy that **financial services and the industrial sector** continue to be as preponderant as they were in the 1<sup>st</sup> quarter, these two sectors alone accounting for 40% of take-up.

## Immediate supply steady

For the 2<sup>nd</sup> quarter running, immediate supply in Ile-de-France is stable at **3.6 million sq. m of available space**. Available supply has grown by 12% over the last 12 months. Areas equivalent to the amount of floor space completed and vacated in the 2<sup>nd</sup> quarter have thus been absorbed by occupiers in Ile-de-France.

The vacancy rate in Ile-de-France is still **6.8%**. However, in **Paris** it has dropped to **5.3%** and **North Eastern Paris** remains distinctly under-supplied at **3.5%**.

**The amount of available space continues to grow in La Défense**, buoyed up by renovated and vacated premises: the vacancy rate there went up to **6.1%** from 4.5% at 1<sup>st</sup> January. Immediate supply in the **Western Crescent** is stable, but relatively substantial with a vacancy rate of **9.9%**.

Vacancy in the **Outer Rim** has remained **stable** from one quarter to another at **6.1%**. Vacancy rates in the **other sectors** of Ile-de-France are higher, ranging between **8.5%** and **10.7%**.

**New and redeveloped space accounts for 26%** of all supply, down 3 points from 1<sup>st</sup> January but stable this quarter. In **Paris** the share of new and redeveloped premises **fell by 6 points in six months** to stand at **19%**. In **La Défense** that share is inching up but **remains low at 17%**. In the **Eastern Inner Rim** it soared to **66%** owing to two significant completions.

## The scarcity of definite future new supply becomes inevitable

At **1.65 million sq. m**, 1.3 million of which to be available within the year, **definite future supply is on a slightly downward trend**: it has fallen by 3% in 6 months. **Units of more than 5,000 sq. m are in line with this trend**: their volume has fallen by 6% since 1<sup>st</sup> January to a total of 1 million sq. m.

**New and redeveloped premises represent 50% of definite future supply of units larger than 5,000 sq. m**: their volume has shrunk by 21% in six months. Only 34 programmes will fuel the market in high-quality supply, 25 of which will be completed by mid-2011.

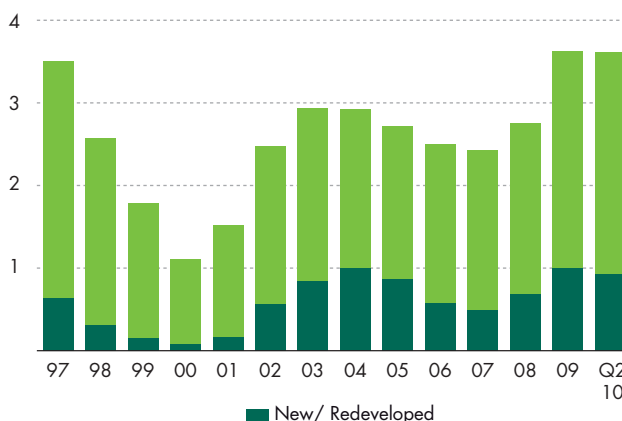
**Definite future supply in the over-5,000 sq. m bracket is rising only in Southern Paris and the Northern Inner Rim**. These sectors are also the only ones where the share of new and redeveloped space has risen, owing to the launch of new schemes. By contrast, no new buildings have been launched in the Eastern Inner Rim to offset completions in the 2<sup>nd</sup> quarter.

**Probable future supply – 2.8 million sq. m** – grew at the expense of definite future supply but **has been stabilizing** since 1<sup>st</sup> January, increasing by only 2%. Construction and redevelopment projects account for two thirds of probable supply.

New office supply was stable in Ile-de-France over the last six months, but a void is firmly expected in mid/end 2011. **Few new or redeveloped programmes were launched as speculative schemes during the 1<sup>st</sup> half of the year**. Lead times for construction are such that projects ready to start up will not arrive on the market before 2013 unless they are launched within the next few months.

## Trends in immediate supply in Ile-de-France

(at end of period, in million sq. m)



Source: CB Richard Ellis / Immostat

## Vacancy rate and breakdown of immediate supply at 1<sup>st</sup> July 2010

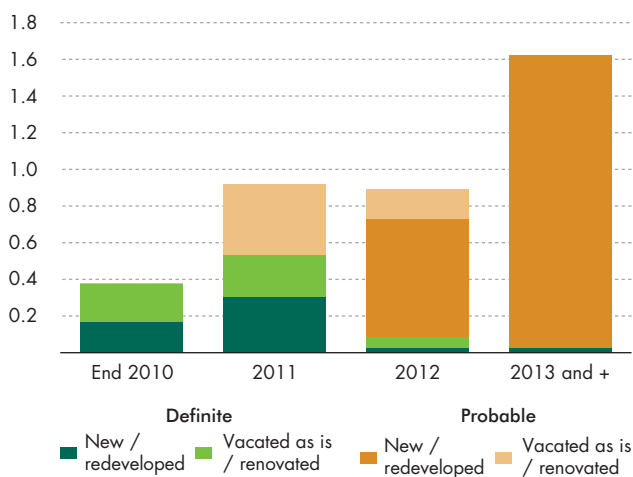
	Vacancy rate*	Trend	Geographic breakdown of immediate supply	Share of new or redeveloped	Trend
Paris Centre West	5.9%	↓	14%	19%	↓
Southern Paris (5 <sup>th</sup> , 6 <sup>th</sup> , 7 <sup>th</sup> , 12 <sup>th</sup> , 13 <sup>th</sup> , 14 <sup>th</sup> and 15 <sup>th</sup> arrondissements)	5.3%	↓	7%	22%	↓
North Eastern Paris (3 <sup>rd</sup> , 4 <sup>th</sup> , 10 <sup>th</sup> , 11 <sup>th</sup> , 18 <sup>th</sup> , 19 <sup>th</sup> and 20 <sup>th</sup> arrondissements)	3.5%	↓	3%	9%	↓
<b>Total Paris</b>	<b>5.3%</b>	<b>↓</b>	<b>24%</b>	<b>19%</b>	<b>↓</b>
La Défense	6.1%	↑	5%	17%	↑
Western Crescent	9.9%	=	22%	32%	↑
Northern Inner Rim	8.9%	↓	5%	44%	↓
Eastern Inner Rim	8.5%	↑	3%	42%	↓
Southern Inner Rim	10.7%	↓	6%	49%	↑
Outer Rim	6.1%	↑	36%	18%	↓
<b>Total Ile-de-France</b>	<b>6.8%</b>	<b>=</b>	<b>100%</b>	<b>26%</b>	<b>↓</b>

\* Trend compared to 1<sup>st</sup> January 2010

Source: CB Richard Ellis

## Future availabilities > 5,000 sq. m at 1<sup>st</sup> July 2010

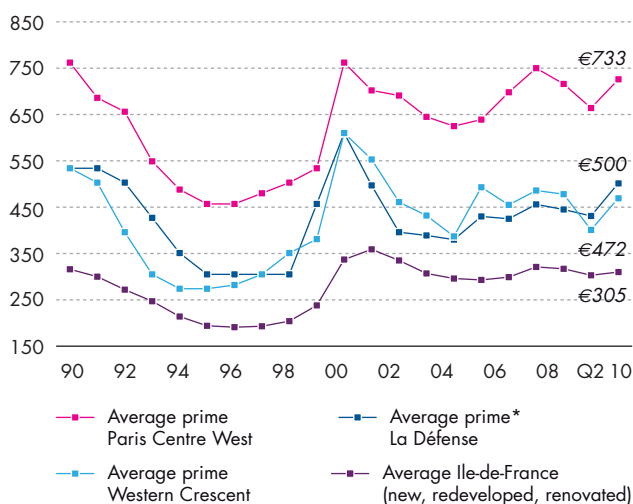
(in million sq. m)



Source: CB Richard Ellis

## Trends in average rents

(at end of period, headline rents, in current € net/sq. m pa)



Source: CB Richard Ellis

\* N.B. Since 2001, average prime rents correspond to the weighted average of the 10 highest transactions in terms of rental values observed over the last six months involving floor areas of 500 sq. m or more.

Weighted average rents by Immostat sector at 1<sup>st</sup> July 2010

(headline value, in current € net/sq. m pa)

	New / redeveloped / renovated	Second hand
Paris Centre West	€503 ↑	€395 =
Southern Paris	€415 ↓	€326 ↓
North Eastern Paris	€306 ↑	€252 =
La Défense	€470 ↓	€355 ↓
Western Crescent	€324 ↑	€229 =
Inner Rims	€245 ↓	€168 ↑
Outer Rim	€169 ↑	€114 =
<b>Average Ile-de-France</b>	<b>€305 ↑</b>	<b>€226 ↓</b>

↑ Trend compared to 1<sup>st</sup> January 2010

Source: CB Richard Ellis

## French medium-term economic outlook

	2009	2010 (f)	2011 (f)
World growth	-0.6%	+4.6%	+4.3%
GDP France	-2.5%	+1.4%	+1.5%
Household spending	+0.7%	+1.1%	+1.3%
Corporate investment	-7.0%	-1.2%	+2.0%
Exports	-12.2%	+3.5%	+5.4%
3-month interest rate	0.9%	1.27%	1.61%
10-year public bonds	3.65%	3.82%	3.94%
Inflation (yearly average)	+0.1%	+1.5%	+1.6%
Trade balance (in billion €)	-43.6	-46.9	-46.1

Source: IMF, Consensus Centre de Prévision de l'Expansion (July 2010)

## Contrasting trends in rents

The **average rent in Ile-de-France** rose by €1 (up 0.5 point compared to 1<sup>st</sup> April 2010), to **€305 net/sq. m pa** at 1<sup>st</sup> July 2010. This increase is primarily attributable to **a few prime products** in the **Central Business District** of Paris and certain sectors of the **Western Crescent**. On the other hand, **the greater part of the market tends to be stable**, while headline rents are still apt to **drop** locally in other more **secondary** markets.

In **Paris Centre West** the **average prime rent** rose 1% from the previous quarter to stand at **€733**. This is a 10% increase over the past 6 months. In **La Défense**, large transactions have been the driving force in the market. The average prime rent stood at **€500**, up **13%** from the previous quarter. This is a **25%** increase since the start of the year. The same trend can be observed in the **Western Crescent**. Transactions on **prime products may have been few in number** since the beginning of the year, but they have pulled the average prime rent up to **€472**, an **8% increase** over a 3-month period. This upward trend should not, however, hide the fact that certain sub-markets, such as **Péri-Défense**, suffer from insufficient rent differentials compared to Paris and still sustain drops in rental values.

**Headline rents** are apparently **not as sharply under attack** as they were several months ago, but **rent-free periods and support measures remain substantial**. These rental concessions are rather stable on average, with landlords granting 1 or 2 months rent free for every year of commitment in the lease, but **concessions can largely exceed this range** depending on the location of the premises, the size of the transaction and the length of the lease.

## Outlook 2010: encouraging signs

The past decades have illustrated that Paris usually initiates reversals of economic cycles. The noticeable upturn in the Paris market for the past 6 months leads us to hope the **improvement will spread to all of Ile-de-France**. The market has been showing **positive signs** of recovery for several consecutive quarters, but these signs have yet to **be confirmed**. Indeed, the **economic context** remains **fragile** and with **forecasts** more **pessimistic** than they were a few months ago, occupiers could be inhibited from making real estate choices.

The amount of **take-up** recorded at 1<sup>st</sup> half 2010 allows us to envisage end-of-year volumes of **close to 2 million sq. m and even more**.

**Large transactions** will come to a successful conclusion within the next few months, in particular for very large units and units in Paris. Furthermore, activity on small units will be unfailingly dynamic. However, **net absorption will remain close to zero**.

Although the trend is now toward **stabilization**, it is still **possible** that the **vacancy rate will increase** moderately. **The dearth of high-quality products** will be increasingly fraught with meaning and will impact the level of rents. Construction of speculative programmes could resume after the summer holidays provided that banks loosen the criteria for obtaining loans due to the changing economic climate.

In the **short term**, upward pressure on rents for prime assets will **become more pronounced** to varying degrees depending on **pockets of scarcity**. Rents in intermediary markets will **stabilize** and in **outlying sectors** they could still fall.

## THE LOGISTICS MARKET IN FRANCE (WAREHOUSES > 10,000 SQ. M)

### Take-up reined in

After a particularly good performance in the 1<sup>st</sup> quarter, the logistics market in France **slackened off noticeably in the 2<sup>nd</sup> quarter 2010**. Only 9 transactions were completed, compared to 31 the previous quarter, bringing the volume of property changing hands to **167,900 sq. m**, down 70% from 562,700 sq. m. **Take-up for the 1<sup>st</sup> half year** came to **731,000 sq. m**, a drop of 16% compared to the 1<sup>st</sup> half 2009.

In **Ile-de-France** a single transaction was recorded for premises of over 10,000 sq. m (19,000 sq. m leased by Geodis at Bonneuil-sur-Marne). By contrast, the **Rhône corridor**, which had been losing momentum for over a year, was the **most active sector**: 4 operations were closed, totalling **82,800 sq. m of space**, up 70% from the volumes transacted in the 1<sup>st</sup> quarter - albeit far **below the levels recorded in 2008 and early 2009**. The **greater north** and **greater south**, which always featured among the top four sectors, lagged behind. Only **one transaction was completed in each**: a 17,100-sq. m owner-occupier development for the consignor Trenois Decamps in Fretin and a lease by Auchan of 18,800 sq. m in Nîmes.

Despite this slowdown, **expressions of occupier interest injected a certain degree of vitality** into the markets, especially interest in **turnkey products, which suggests a promising 2<sup>nd</sup> half**. Moreover, users increasingly opt for smaller lot sizes, **bringing down the average surface area of take-up**. Note that a great many of the transactions completed in the 2<sup>nd</sup> quarter 2010 involved units in the 5,000 - 10,000 sq. m range, especially for logisticians. **For areas of more than 10,000 sq. m, consignors are still the predominant occupiers**: they account for 89% of transactions.

### Availabilities continue to increase

**Immediate availabilities were stable** at 1<sup>st</sup> July 2010 compared to 1<sup>st</sup> April 2010, at 3.8 million sq. m in France. While the volume of immediately available space in **Ile-de-France dwindled in the last quarter, it went back up in the 2<sup>nd</sup> quarter** to 1.2 million sq. m – an increase of 11%. This increase can be explained by the **completion of the last programme under construction**, in Moussy-le-Neuf, and the small amount of take-up. **High-quality available space was well absorbed** during the 1<sup>st</sup> half, and **absorption of second-hand space increased** at the same time.

Over the space of 3 months, immediate supply grew by 15% in the greater north and 11% in the greater south, reaching record highs. **Construction starts to bottom out** on 1<sup>st</sup> July 2010 at **less than 100,000 sq. m** in sites in the south and south-west of France. **Semi-speculative schemes, though, continued their upward trend, reaching 4.7 million sq. m**, mainly owing to an upsurge in construction in **Ile-de-France**, where there are currently 845,000 sq. m of **new programmes**, up 43% since 1<sup>st</sup> April 2010.

### Net effective rents still under pressure

**Headline rental values tended to be stable** at 1<sup>st</sup> July 2010, albeit with sharp differences between new and second hand products. **Landlords continue to grant very substantial commercial gestures**.

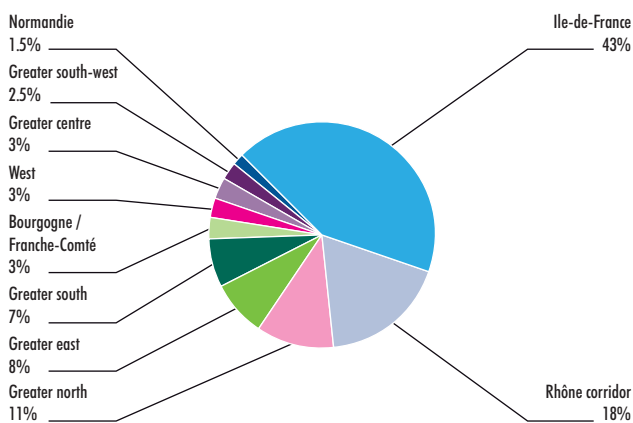
### Trends in take-up in France

(in thousand sq. m)



Sources: CB Richard Ellis and Immostat

### Geographic breakdown of take-up in 1<sup>st</sup> half 2010



Sources: CB Richard Ellis and Immostat

### Headline rental values in France at 1<sup>st</sup> July 2010

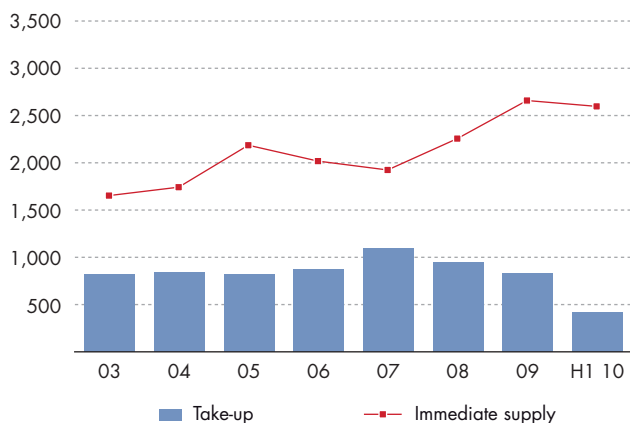
(in € net/sq. m pa, class A or B, new)

Ile-de-France	€46 / 52
Rhône corridor	€43 / 45
Greater north	€39.5 / 45
Greater south	€41 / 44
Normandie	€37 / 49
Greater east	€37 / 53
Bourgogne / Franche-Comté	€30 / 38
West	€40 / 42
Greater south-west	€40 / 54

Source: CB Richard Ellis

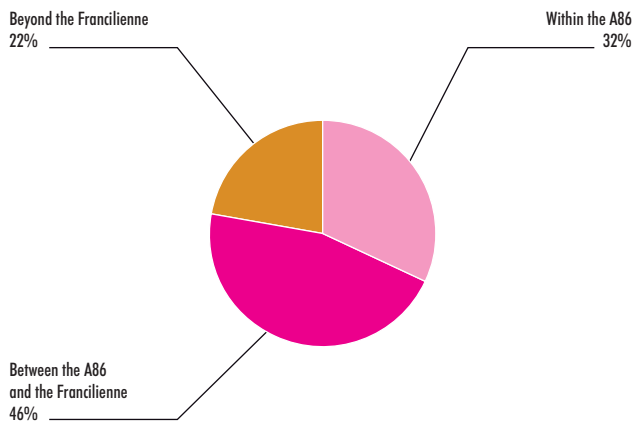
## Trends in take-up and immediate supply in Ile-de-France

(in thousand sq. m)



Source: CB Richard Ellis

## Breakdown of immediate supply in Ile-de-France at 1<sup>st</sup> July 2010



Source: CB Richard Ellis

## Rents for light industrial space and small warehouses (< 5,000 sq. m) in Ile-de-France at 1<sup>st</sup> July 2010

(headline rents, in € net/sq. m pa)

Geographic area	Product	New	Second hand
North	Industrial space for SMEs*	€60 / 105	€50 / 90
	Service activities	N.S.	€75 / 120
	Warehouses (< 9,000 sq. m)	€50 / 75	€35 / 65
West	Industrial space for SMEs*	€80 / 125	€50 / 90
	Service activities	€130 / 170	€75 / 150
	Warehouses (< 9,000 sq. m)	€70 / 80	€35 / 70
East	Industrial space for SMEs*	€60 / 90	€50 / 60
	Service activities	€75 / 110	€50 / 70
	Warehouses (< 9,000 sq. m)	€50 / 75	€35 / 50
South	Industrial space for SMEs*	€60 / 90	€50 / 85
	Service activities	€80 / 110	€65 / 90
	Warehouses (< 9,000 sq. m)	N.S.	€40 / 54

N.S.: Not significant

\* proportion of light industrial / offices = 70/30

Source: CB Richard Ellis

## THE MARKET FOR LIGHT INDUSTRIAL SPACE AND SMALL WAREHOUSES IN ILE-DE-FRANCE

In this section two markets are analyzed – the market for light industrial activities (all sizes) and the warehousing market (units under 5,000 sq. m).

### A slight upturn in sales and lettings

Occupier interest slackened off in 2009 and was still **weak** at 1<sup>st</sup> half 2010. Once again it was **geared mainly to small and medium sized premises** and was driven by the need to **rationalize space**, while a **few extension schemes** attracted interest as well. Lower interest rates, moreover, incite occupiers to opt for products up for **acquisition**, but the market suffers from a **dearth of buildings for sale**.

The **volume of transactions** dropped by a very slight 5% between the 1<sup>st</sup> and 2<sup>nd</sup> quarters to stand at **416,100 sq. m** at the 1<sup>st</sup> half 2010. **This is a 4% increase compared to 1<sup>st</sup> half 2009**. Since the end of 2009, the volume of take-up has been inching back up. Over the last 6 months it is **northern Ile-de-France that was the most dynamic area** (142,100 sq. m transacted, 109 transactions), followed by the **south** (117,400 sq. m transacted, 128 transactions) and the **east** (107,400 sq. m transacted, 69 transactions). **Half of the operations** were concentrated, as always, **between the A86 and the Francilienne**.

The **bulk of transactions** signed concerned **small products of less than 500 sq. m (42%) in second hand**. The **quality of the products put on the market continued to deteriorate, with 77% being second hand** (up 3 points compared to the first 6 months of 2009) and 23% in new, redeveloped or renovated condition. Even though leases outnumbered **acquisitions**, the latter gained ground, **accounting for 23% of all operations at 1<sup>st</sup> half 2010**. The **escalation was particularly pronounced in the 2<sup>nd</sup> quarter, when 30% of all deals were acquisitions, compared to 17% in the 1<sup>st</sup> quarter**. All the sectors of Ile-de-France are concerned by this growth, in particular the east, where 37% of all transactions signed at the 2<sup>nd</sup> quarter were purchases.

### Available supply gradually stabilizes

The **amount of immediately available space** came to **2.6 million sq. m at 1<sup>st</sup> July 2010 – up 5% since the previous quarter**, but down 2% compared to 1<sup>st</sup> January 2010. With take-up reviving and construction starts being frozen, this stabilization is a **positive signal** for the market, which could see its high supply of available space pared down. **Nearly half of immediate supply is still located between the A86 and the Francilienne**. Note, however, that the share of available premises lying beyond the Francilienne went up 2 points in the space of 3 months, to 22%. The **majority of available space (52%) consists of buildings in the 1,000 - 5,000 sq. m range**, most of it in **worn condition**. **Future availabilities registered a quarterly drop**. In the wake of completions, **speculative supply** now accounts for only **25,700 sq. m** and semi-speculative supply, just 388,400 sq. m, a 5% decrease in three months. On the other hand, the number of possible developments is on the rise – there are 1 million sq. m of such developments.

### Commercial incentives remain high

**At 1<sup>st</sup> July 2010, headline rental values were stable on the whole** although they **fell for certain poor quality products in undesirable locations**. **But the extremely substantial commercial concessions granted by landlords – in the order of several months of rent free for every year committed to in the lease – kept net effective low**.

## RETAIL IN FRANCE

### A difficult economic climate

Speculators announced the demise of seasonal sales, saying they would be the victim of variable sales dates, the multitude of private sales in shops and on line, and an official starting date that was too late in the season (30 June). **But consumers came out in droves** the first weekend of the summer sales **creating 7% more footfall in shopping centres** than last year (source: CNCC). In town centres, **department stores in Paris saw a rise of 10% to 17% and those in the provinces of 6%** (source: UCV).

Otherwise **the crisis is affecting consumer behaviour and spending patterns**. In the clothing sector, the share of turnover generated by **the sales and special offers** was stable in 2008 and 2009 at approximately 42.5%, but at the start of 2010 stood at 44.3%. **E-trade** also put pressure on prices and began gaining market share in the clothing sector, rising from 6.2% in 2009 to 7.9% at the start of 2010 (source: IFM). The strong euro helped bolster distributors' profit margins in 2009; its devaluation will no doubt drag profits down again in 2010.

**The fundamentals of consumption are not reassuring**. A particularly harsh winter in France meant households were spending more of their budget on energy than usual. In addition, the end of the cash-for-clunkers scheme dragged total consumption on manufactured goods down in the first quarter and is likely to contribute to **stagnation in 2010**.

#### Trends in the turnover of the Procos panel\* of retailers



\* Variations in monthly turnover compared to the previous year on a like-for-like basis of 45 sites and close to 300 retailers' results  
Source: Procos

### A new reform of retail planning on the cards

Less than two years after the law on the modernisation of the economy (LME) reformed retail planning, the National Assembly is in the process of adopting another law that **will integrate retail planning into town planning common law**. Local councillors and elected officials at a town and regional level will take retail under their wing. **Development, environment and town planning issues could now have more sway than retail and competition in the attribution of retail permits**.

Critics of the LME's results and of the **3 million sq. m of retail space approved** by CDAC in 2009 alone, notably PROCOS, welcomed the proposed reform. All these new shops will arrive on the market in a context of scant or inexistent growth in consumer spending and when footfall in shopping centres has only risen for three months since January 2009.

We could therefore be facing an over construction of retail space leading to the development of **commercial wasteland** as a result of **cannibalization** of their market share.

However, at the moment, landlords/investors are taking position on redevelopment/renovation/extension projects of existing centres that are due for completion in the years ahead. **Retailers are once again starting to examine good quality pitches**, following cautious expansion plans, or are shedding sites strategically.

Information herein has been obtained from sources believed reliable. While we do not doubt its accuracy, we make no guarantee, warranty of representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the future performance of the market. The reproduction of the whole or any part of this report is only authorised if its source is credited.

CB Richard Ellis Ressources - Economic Interest Group  
Head office: 145-151, rue de Courcelles 75017 PARIS - Siren: 412 352 817 - RCS Paris

© 2010 CB Richard Ellis, Inc.

## RESEARCH CONTACTS

**Auréli LEMOINE**

Head of Research

Tel.: 33 (0) 1 53 64 36 35  
aurelie.lemoine@cbre.fr

**Christelle BASTARD**

Investments

Tel.: 33 (0) 1 53 64 37 30  
christelle.bastard@cbre.fr

**Sabine ECHALIER**

Ile-de-France offices

Tel.: 33 (0) 1 53 64 37 04  
sabine.echalier@cbre.fr

**Erika LEONARD**

Logistics, industrial

Tel.: 33 (0) 1 53 64 34 84  
erika.leonard@cbre.fr

**Etienne CHATENAY**

Retail

Tel.: 33 (0) 1 53 64 34 02  
etienne.chatenay@cbre.fr

Fax: 33 (0) 1 53 64 40 00

www.cbre.fr/fr\_fr/etudes