CB RICHARD ELLIS

Market View

Real estate markets

ILE-DE-FRANCE / FRANCE

2nd quarter 2011

ECONOMIC CONTEXT

Although growth returned in the 1st quarter with a 0.9% rise in GDP, **economic activity must be slowing down again at the moment**. INSEE is forecasting more modest growth rates in the 2nd and 3rd quarters of 0.2% and 0.5% respectively.

Household consumption is clearly struggling, as illustrated by the falloff in spending consecutively in March, April and May as well as the initial figures for the summer sales. **The rise in buying power was virtually zero** because of inflation, the squeeze on tax incentives and the **weak job market**. It may be true that 60,000 jobs were created in the 1st quarter, but that is not enough to significantly lower unemployment rate, which has been virtually stable since the end of 2010. In fact, the number of job seekers actually rose in May by 0.7%.

The business climate was positive in the 1st half, but uncertainty persists, burdening the possibility of this positive trend continuing in the months ahead. **The financial situation of businesses is fragile**, especially that of SMEs, while the treasury of large companies is comfortable. In 2nd quarter 2011, the number of companies put into receivership or going bankrupt only fell by 0.8% on last year's figures (source: Altarès). Meanwhile, ever more expensive raw materials are **squeezing profit margins**, while demand has slowed down and the cost of financing increased. Finally, **even though business investment should resume this year, the improvement will be insufficient to return to pre-crisis levels**.

The austerity plan, global imbalances and inflation will combine to **make it difficult for households and businesses to benefit from any economic growth**, which is estimated at **2%** for 2011.

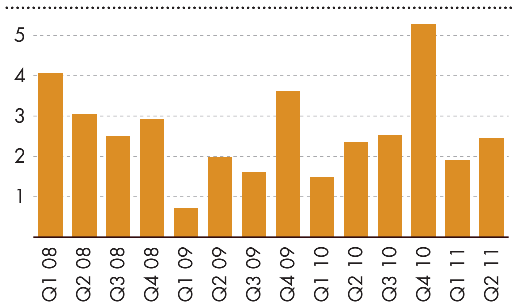
THE INVESTMENT MARKET IN FRANCE

Almost **4.4 billion euros were invested** in standard commercial real estate **in France in the 1st half of the year**, including 2.5 billion in the 2nd quarter. The end of 2010 posted excellent results, but despite some market activity in the first few weeks created by the conclusion of deals already in the pipeline, the start of the year 2011 was difficult. Indeed at the start of spring there was no activity at all and it **only got going again in the last few weeks of the 2nd quarter**. Two new transactions above €250 million were concluded: Deka's acquisition of a property on Rue de Vienne/Rue du Rocher in the 8th arrondissement and the acquisition of the Horizons building in Boulogne by Gecina, an operation concluded a few years ago that was pending the fulfilment of some conditions precedent. The progression of investment volumes, up 13% in a year, must therefore be analysed circumspectly. **Market fundamentals** over the last few months have **changed little** and while investors are becoming less stringent in their criteria for buying assets, it is a very slow process. **Most noticeably there is no change in the liquidity of secondary or insecure assets**, as sellers believe the risk premium required by potential buyers is excessive.

Offices – success against the odds

The investment market for industrial and logistics space was hit particularly hard by the **risk-averse strategy** adopted by investors. Very little investment took place in this segment in the 1st half, about 5% of the total. Nevertheless a few attractive logistics sites are in the process of being negotiated and when completed will help revive the market.

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



Sources: CB Richard Ellis and Immostat

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 / 1st half 2010

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The retail investment market (14%) is also in **low gear**, albeit in the wake of two excellent years in 2009 and 2010. Retail assets are still highly sought after assets because they are resistant, but **the strong level of recent activity has resulted in their supply drying up**, especially large volume deals. Shopping centres, with 41% of retail investment volume, are the favourite product with investors, but town-centre shops, with more accessible unit values, have broken into the market accounting for 35% of retail investment volume. The retail park segment is still considered risky and has remained difficult.

The office segment, then, has been the focus of interest of investors and accounted for 81% of investment in France. Properties with sophisticated technical installations are at a premium: 53% of the volume of office sales involved new or recently completed buildings. **Off-plan sales are expanding**, albeit at a slower rate than predicted. One positive development is that although the market for non-secure assets is difficult, **demand has emerged for buildings suitable for renovation, redevelopment or refurbishment** and these totalled 15% of volume in 1st half 2011 compared to 3% last year. It is a sign that some players are once again ready to take risk, anticipating on the scarcity of quality products in the years ahead. Nevertheless, **investors remain extremely selective about the location**. Paris and the Western Crescent account for 72% of office transactions.

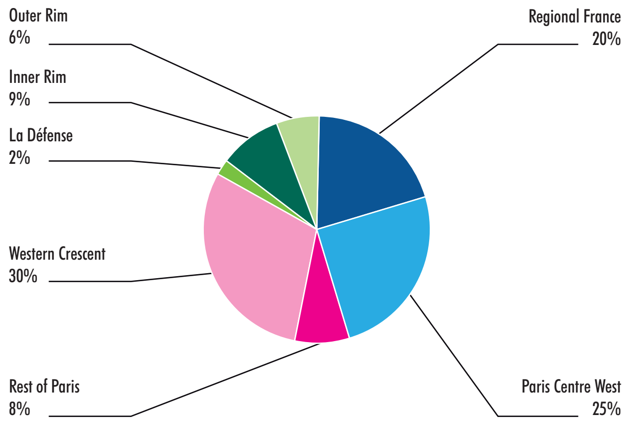
Investors follow core strategies

Very few new buyers arrived on the French market. The same players with equity capital continued to dominate the market, with a **large diversity of institutional players** (insurance companies, SCPIs, OPCIs, open-ended funds). Private investors are also very active; for example a private investor acquired Origami in Paris 8th arrondissement close to €90 million. Property companies, particularly SIICs, have still not returned to the market even though most of them have sorted out their debt problems. Meanwhile, **investment funds** speeded up their withdrawal from the French market and were one of the **main suppliers of properties for sale**. Finally, international investors were not very active, letting **domestic players corner the market** with 69% of investment in the 1st half.

A year of consolidation

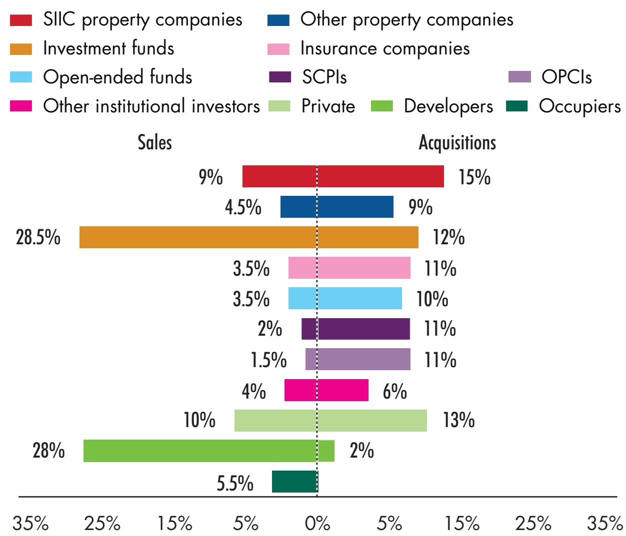
The aggravation of the sovereign debt crisis revived questions about the strength of the upturn in the economy and discouraged **investors** from opening up, keeping them **extremely cautious** in their approach. Some players are testing the market and are trying to fine-tune their strategies. Supply in many segments has increased. However finding a price **agreement between buyers and sellers is still difficult** when higher initial yields are expected and banks are still nervous, especially for large transactions and for assets that are considered as secondary. As a result, the trend is clearly towards **a stabilisation of prime yields**, and these are only acceptable for totally faultless properties. Nevertheless, **the sheer volume of capital available for investment in real estate** together with the volume **of properties currently being marketed lead us to predict a more active 2nd half** that should result in approximately 11 billion euros being invested by the end of the year.

Geographic breakdown of investment excluding multi-city portfolios in 1st half 2011
(in volume)



Sources: CB Richard Ellis and Immostat

Breakdown of sales/acquisitions by player
(in volume)



Source: CB Richard Ellis

Prime yields at 1st July 2011

Offices Paris Centre West	4.65% - 6.00%
Offices La Défense	5.75% - 6.75%
Offices Western Crescent	5.25% - 8.75%
Offices Inner Rim	6.00% - 9.00%
Offices Outer Rim	6.75% - 12.00%
Offices Regions	6.00% - 8.00%
Class A Logistics France	7.15% - 8.00%
Industrial space France	8.75% - 10.50%
Industrial parks	8.50% - 10.00%
Shops France	4.50% - 9.00%
Shopping centres France	4.75% - 6.50%
Retail parks France	6.00% - 9.00%

Source: CB Richard Ellis

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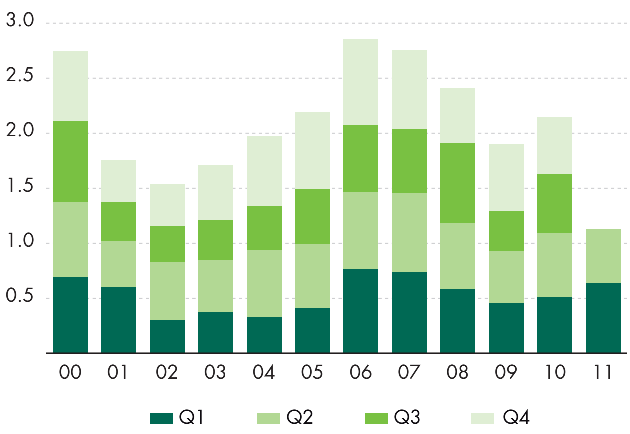
Trends in take-up in Ile-de-France
(in million sq. m)



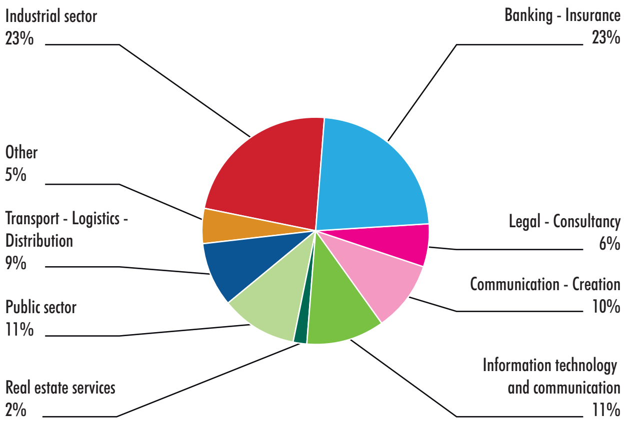
Source: CB Richard Ellis / Immostat

Geographic breakdown of take-up in 1st half 2011
(in volume)

	< 1,000 sq. m	1,000 - 5,000 sq. m	> 5,000 sq. m	All areas
Paris Centre West	34%	26%	5%	22%
Southern Paris	9%	12%	18%	13%
North Eastern Paris	8%	5%	8%	7%
La Défense	2%	9%	4%	5%
Western Crescent	23%	21%	48%	30%
Inner Rim	8%	8%	6%	7%
Outer Rim	16%	19%	11%	16%
Total Ile-de-france	**100%**	**100%**	**100%**	**100%**

Source: CB Richard Ellis / Immostat

Breakdown of take-up by business sector at 1st half 2011
(> 1,000 sq. m)



Source: CB Richard Ellis / Immostat

THE OFFICE MARKET IN ILE-DE-FRANCE

Cautious occupiers limit property searches

In 1st quarter 2011, the number of **businesses looking for space** perked up, an improvement that was short lived as numbers **fell off in 2nd quarter**. Businesses are rather concerned about the business climate and economic uncertainties. They remained very **cautious** about embarking on any major decision, including real estate changes. The current overall trend is to **reduce risk** to a maximum and therefore any project that can be postponed, is. Consequently when companies do have property requirements, **negotiations are very lengthy and complicated**. At the same time, the **re-negotiation of leases has resumed**, all the more so as landlords are usually in favour of them.

Take-up wavered

Even if at **1.1 million sq. m**, take-up for the 1st half was 3% higher than for the same period last year, there was a slowdown in the 2nd quarter. Some **492,500 sq. m** were transacted, which is lower than the level recorded in the last six quarters. Virtually all sectors in the Paris region were affected by the downturn.

This was particularly true of the **Western Crescent, Inner Rim and Outer Rim** where take-up totalled 223,500 sq. m in the 2nd quarter, out of a total volume in the 1st half of 600,000 sq. m. The fall in volume from the 1st to 2nd quarter must be put into perspective: figures for the 1st quarter were boosted by Thalès's 70,000 sq. m transaction at the start of the year. Nevertheless **there was also a significant 17% fall in the number of transactions**.

Take-up in Paris was more or less steady. It is, however, worth mentioning **Southern Paris**, as the area did particularly well **thanks to a few large transactions**. In **La Défense activity** was limited, albeit slightly **less limited than in the 1st quarter**. Transactions in the 1,000 sq. m to 5,000 sq. m section bolstered the market. Two transactions above 5,000 sq. m were also concluded.

All in all, **the geographic spread of take-up was relatively consistent**, except in the Inner Rim because it has only accounted for 7% of take-up volume since the start of the year, compared to an average from 2000-2010 of 16%.

The market for large transactions >5,000 sq. m has been relatively calm, **a continuation of 1st quarter's trends**, with **14 transactions**, bringing the total number of transactions for the 1st half to **28** for a volume of **371,000 sq. m**.

The share of pre-lettings accounted for **43% of volume** and 18% of the number of transactions. Despite the progressively tighter supply of quality premises on offer, companies are **taking longer and longer to make decisions**. Occupiers are so cautious in their business dealings and cost is such an important criteria that they are reluctant to commit to leases before building works are completed.

Indeed the share of **new and redeveloped space**, for all floor sizes, accounted for **34%** of volume since the start of the year, with a share of just 24% in the 2nd quarter alone.
The breakdown of take-up by business sector was relatively stable. **Companies in the information technologies industry were more active in the 2nd quarter**, due to a few large transactions. **The finance and industry sectors**, in the broadest meaning of the term, are some of the largest players. **The transport, logistics and distribution sector** had a higher share of the market this quarter than in previous quarters.

Relatively constant supply

At 1st July 2011, figures for immediate supply were slightly lower than for the previous quarter, down 2% to **3.65 million sq. m**. Despite a downturn in supply in the quarter, **the vacancy rate in Ile-de-France therefore fell** slightly, by 0.2%, and remained at a very reasonable 6.7%.

The vacancy rate fell throughout Ile-de-France, except in the Northern Inner Rim (9.5%) and the gaps between one sector and the next were stable. **In Paris, the market** was under pressure with a vacancy rate of **5.1%** and immediate supply 4% lower. In **La Défense**, following an upturn in immediate supply in 1st quarter, the vacancy rate was at the same level as the start of the year at **6.6%** due to a few transactions on medium and large units.

The vacancy rate in the **Western Crescent stabilised at 9.8%**, the arrival of new properties on the market offsetting take-up.

The Outer Rim continues to burden immediate supply in the region, representing a third of available volume, but the vacancy rate is reasonable at 6.3%.

The share of new, redeveloped space fell slowly. At 1st July 2011, it stood at **25%**. There was more pressure on quality supply in **Paris** with the share of quality properties **falling 6 points** in 6 months to stand at **19%** of supply. New and redeveloped space in Southern Paris fell to 30%, due to several large transactions, while the North Eastern Paris is confronted with a lack of quality offices.

Definite future supply fell

Total definite future supply stood at 1.7 million sq. m (all office sizes), 1.2 million of which are available in the 12 months ahead. **Supply above 5,000 sq. m** totalled almost **1.1 million sq. m** at 1st July 2011, i.e. a fall of 12% in one quarter.

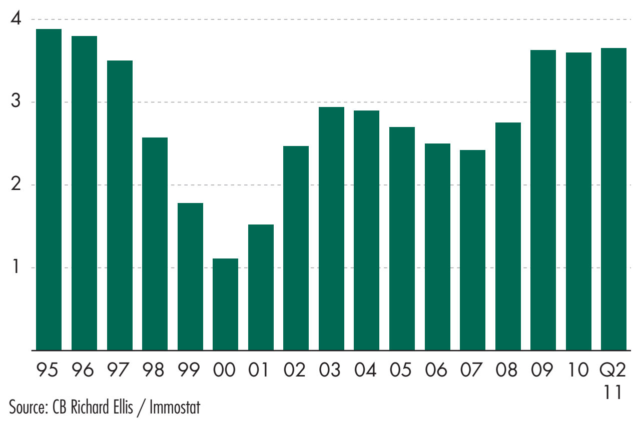
The future supply of second hand space fell the most (down 30%). Many landlords have decided to renovate their properties, and have therefore withdrawn premises in second hand condition from the market. The quality of renovations to be carried out varies enormously from heavy refurbishment to slight improvements. But whatever the degree of works, they do not require planning permission, **which will significantly reduce the time period before they are put back on the market**. This will enable a flow of quality premises at a time when these are seriously lacking. This approach is particularly widespread in Paris and its close suburbs.

There were a few speculative schemes launched in the last six months, and this has bloated definite future supply of new space. Nevertheless on a regional scale, **this volume will not be enough to offset the shortage of new space** in the quarters ahead. Moreover, developers and owners are just as wary as occupiers of the instability in the economy and property markets in the foreseeable future. Consequently, **very few new speculative schemes were started in the 2nd quarter**, their numbers were much lower than in the previous two quarters.

Probable supply stood at 3.1 million sq. m. The number of **renovation projects** rose visibly. Yet **projects for new and redeveloped schemes account for the lion's share of volume** (77%) and **45 developments are on standby ready to be started.**

Immediate supply in Ile-de-France

(period end, in million sq. m)



Source: CB Richard Ellis / Immostat

Vacancy rate and breakdown of immediate supply at 1st July 2011

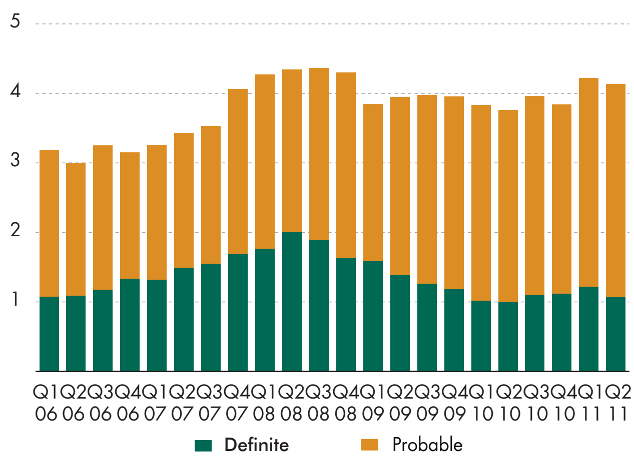
	Vacancy rate		Geographic breakdown of immediate supply	Share of new renovated or redeveloped
Paris Centre West	5.5%	=	13%	16%
Southern Paris (5th, 6th, 7th, 12th, 13th, 14th and 15th arrondissements)	5.6%	↓	8%	30%
North Eastern Paris (3rd, 4th, 10th, 11th, 18th, 19th and 20th arrondissements)	3.1%	↓	2%	0%
Total Paris	**5.1%**	↓	**23%**	**19%**
La Défense	6.6%	↑	6%	30%
Western Crescent	9.8%	=	24%	31%
Inner Northern Rim	9.5%	↑	6%	38%
Inner Eastern Rim	7.2%	↓	3%	50%
Inner Southern Rim	7.4%	↓	4%	32%
Outer Rim	6.3%	↑	34%	18%
Total Ile-de-France	**6.7%**	=	**100 %**	**25 %**

↑ *Trend compared to 1st January 2011*

Source: CB Richard Ellis based on Immostat data

Future supply >5,000 sq. m

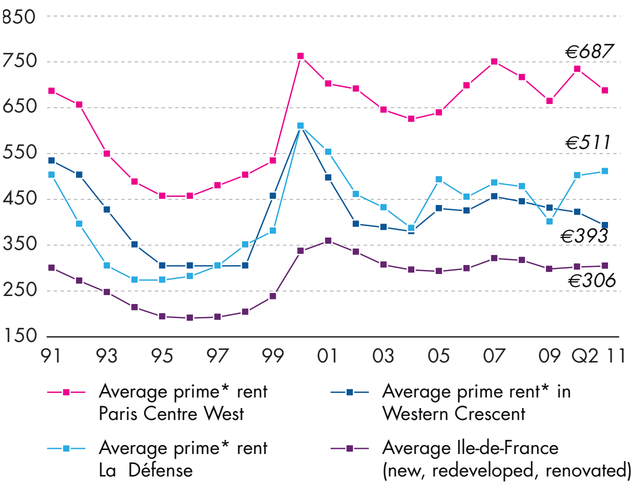
(period end, includes new, redeveloped, renovated and vacated space, in million sq. m)



Source: CB Richard Ellis

Trends in Average rents

(period end, headline values, in current € net/sq. m pa)



Source: CB Richard Ellis

N.B. Since 2001, "prime rent" corresponds 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.

Average weighted rents by Immostat sector at 1st July 2011

(headline values, in € net/sq. m pa)

	New / redeveloped / renovated		Second hand	
Paris Centre West	€535	↑	€404	↑
Southern Paris	€442	↑	€340	↑
North Eastern Paris	€309	↑	€251	↑
La Défense	€480	↑	€355	=
Western Crescent	€314	↓	€226	↓
Inner Rim	€241	↓	€163	↑
Outer Rim	€164	↓	€110	↓
Average Ile-de-France	**€306**	↑	**€224**	↓

↑ *Trends since 1st July 2010*

Source: CB Richard Ellis

Economic prospects at 1st July 2011

	2010	2011 (f)	2012 (f)	Trends/previous quarters
World growth	+ 5.1%	+ 4.3%	+ 4.5%	↓
French GDP	+ 1.4%	+ 2.0%	+ 1.8%	↑
Household consumption	+ 1.3%	+ 1.6%	+ 1.7%	↓
Business investment	+ 2.0%	+ 4.6%	+ 4.6%	↑
Exports	+ 9.4%	+ 5.9%	+ 5.8%	↓
3-month interest rate	1.02%	1.89%	2.40%	↑
10-year public bond rate	3.34%	3.85%	4.16%	↑
Inflation (annual average)	+ 1.5%	+ 2.1%	+ 1,5%	↑
Trade balance (in billion €)	- 51.4	- 57.8	- 58,7	↓

Sources: INSEE, IMF, Consensus Centre de Prévision de l'Expansion, Crédit Agricole

Rents: contrasting movements

After rising steadily for several quarters due to hikes in prime rents, the **average rent in the Paris region for new, redeveloped or renovated space** fell by 1% from the 1st to 2nd quarter. It was dragged down by rents on secondary premises, to stand at €306 net/sq. m pa. Nevertheless the overall **year-on-year rise** was positive.

Rents underwent contrasting changes from one sector to the next. **In Paris**, they posted an annual average rise of 3%, to stand at **€462**, but were steady for the last three months. **At La Défense**, the average rent was more or less stable, at **€480**, but the spread of rents tended to widen. In peripheral markets, rents tended to fall, except in a few sub-markets.

For **second hand offices**, the **average rent** fell slightly over the last three months, to stand at **€224**.

The diversity of rent movements illustrates **the market's elasticity**. Rents for second hand space in secondary areas fell while rents for high-grade or scarce offices were visibly under pressure.

Prime rents fell in the 2nd quarter. They did not fall by much in **Paris Centre West**, down 4% to **€687**, a trend that is likely to continue in the quarters ahead because very few properties are available that are worth rents above €700.

In La Défense the average prime rent fell to €511. This is after a quarterly fall of 5%, but the year-on-year average was higher. **In the Western Crescent** the average fell more steeply, down 17% to **€393**.

Commercial concessions stayed high for transactions on both prime buildings as well as in secondary sectors. Most landlords prefer to keep headline rents high and grant **rent-free periods**, which on average are worth from **1.5 to 2 months' rent** for each fixed year in the lease.

Prospects: a fickle year end in view

We believed there would be a **slow but chaotic resumption of activity**. The 2nd quarter 2011 was characterised by a return to uncertainty, with players displaying fickle, even volatile, behaviour, albeit continuing to show **self-restraint**.

This instability will continue to curb activity and market fundamentals, especially **requirements, which are heavily dependent on the business climate and seasonal variations**. Generally speaking, businesses will relocate only if the move is unavoidable because caution and the pursuit of savings will be paramount.

The volume of transactions will be satisfactory standing between 2.3 and 2.5 million sq. m, as occupiers catch up on decisions that were postponed during the crisis, especially where large transactions were involved. Players will also take advantage of opportunities created by rent reductions in business districts, especially for small units in Paris and the western suburbs. But net absorption will be low.

No great surprises are expected in supply before the end of the year. **The immediate supply of space will probably fall very gently**. The scarcity of new space in the medium term, even if it comes about more slowly than originally predicted, is still likely. Players are cautious and face difficult financing conditions; together these will curb speculative development.

Finally, **rent movements will be heterogeneous** and average prime rents, high in some central sectors, will continue to blur a real diversity of situations from one area to the next. Commercial concessions are unlikely to be reduced in the medium term.

THE LOGISTICS MARKET IN FRANCE

In this section the market for warehouses >10,000 sq. m will be analysed.

Sustained activity in Ile-de-France and breakthrough of activity in Lyon

After an upsurge in 1st quarter 2011, **occupier interest stabilised in the 2nd**. Occupiers no doubt curbed their search requirements due to the **unstable international environment**. **Turnkey schemes** were more than ever **driving the market**, especially in Ile-de-France and in the supermarket distribution sector. By contrast, logistics companies have initiated very few tenders in the last few months. Most searches were concentrated in the 5,000 to 10,000 sq. m bracket or for very large platforms, above 30,000 sq. m. In the Rhône corridor, however, searches were mainly for units from 10,000 sq. m to 20,000 sq. m. In the north, local companies were the most active seekers of space, while in the south space requirements came from a fairly wide range of companies and were for large units.

Take-up volumes climbed by 21% from 1st quarter's 315,100 sq. m to 380,500 sq. m in the 2nd quarter. In the first three months of the year, Ile-de-France accounted for 40% of take-up and its market was way ahead of the other regions, which struggled to regain strength. The Paris region continued driving the national market in the 2nd quarter, with **41% of transacted volumes (154,500 sq. m), but** the **Rhône corridor** also recovered somewhat, accounting for **36%**. In 2nd quarter this market posted **its best performance since mid 2008 (138,400 sq. m)**. **The resumption of market activity is trailing behind in the Greater north and the Greater south** and volumes were stable with respectively 17% and 3% of take-up in the 2nd quarter. However, a certain number of **large scale schemes are being considered or are already being negotiated**, and many of these **should go through by the end of the year**. In general, **the lack of visibility is making players cautious and slowing down their decision making**.

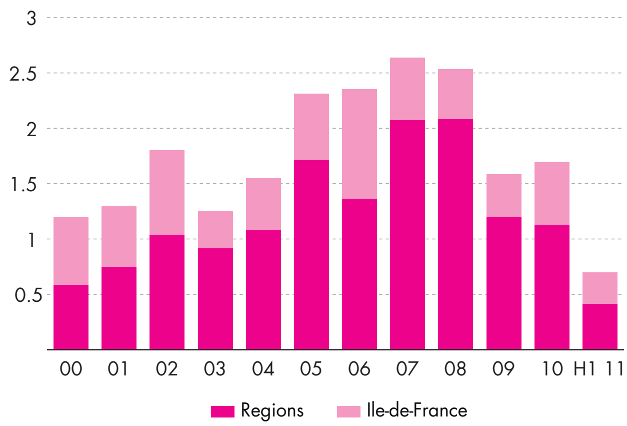
Availability not yet renewed

At 1st July 2011, **immediate supply gently continued its descent of the last few months**. At **3.5 million sq. m**, it has **fallen by 7% since 1st April 2011** and this was essentially due to reductions in regional France (down 9%). In the **Rhône corridor**, for instance, the **high level of take-up enabled the absorption of greater volumes of space** that was replaced to a certain extent by second hand premises in used condition. The **significance of turnkey schemes** in France is the reason why **supply has remained high and is steadily deteriorating in quality** (61% of class A warehouses in France, 64% in Ile-de-France). Moreover, **speculative developments have been frozen** in the Paris region and only total 84,000 sq. m in other markets. **Semi-speculative schemes are stable, at more than 4 million sq. m**, and constitute a major potential source for turnkey solutions.

A market still under pressure

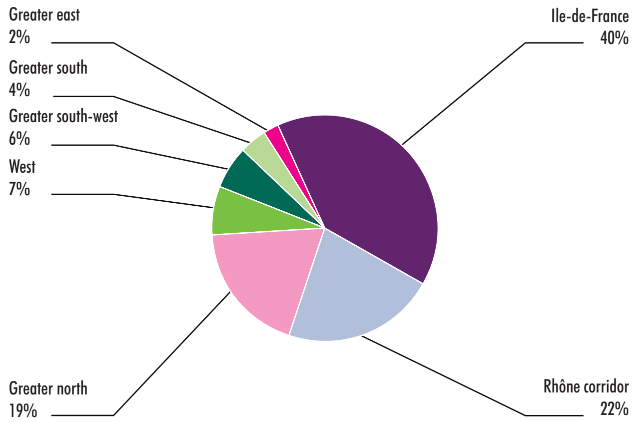
On the whole headline rental values are stable, but the **market is under pressure and decisions are slow**. As a result, negotiations are often tense and there is **a lot of pressure on real rents**. Landlords usually grant commercial concessions worth 1.5 to 2 months free rent for each fixed year in the lease.

Trends in take-up in France
(in million sq. m)



Sources: CB Richard Ellis and Immostat

Geographic breakdown of take-up at 1st half 2011
(in volume)



Sources: CB Richard Ellis and Immostat

Headline rental values in France at 1st July 2011
(in € net/ sq. m pa class A or B, new)

Burgundy / Franche-Comté	€30 / €35
Rhone corridor	€42 / €44
Greater centre	€42 / €50
Greater east	€37 / €49
Greater north	€40 / €45
Greater south	€40 / €45
Greater south-west	€42 / €47
Ile-de-France	€46 / €54
Normandy	€37 / €49
West	€40 / €45

Source: CB Richard Ellis

According to Immostat, take-up recorded in 1st half 2011 for class A and B warehouses >5,000 sq. m (including cross-docking and cold stores), for which planning permission has been fully granted and all authorizations obtained, stood at 296,200 sq. m for Ile-de-France and the south of the Oise department.

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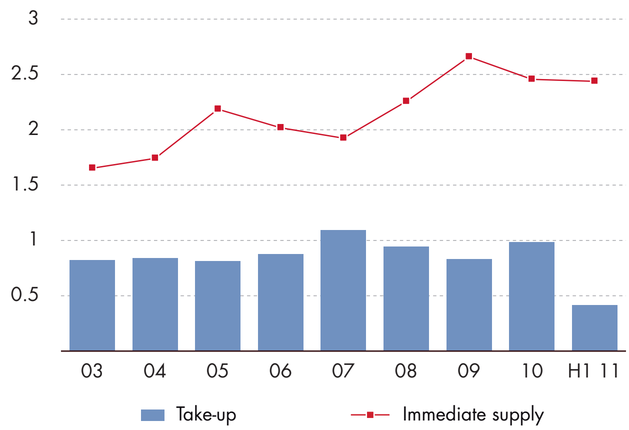
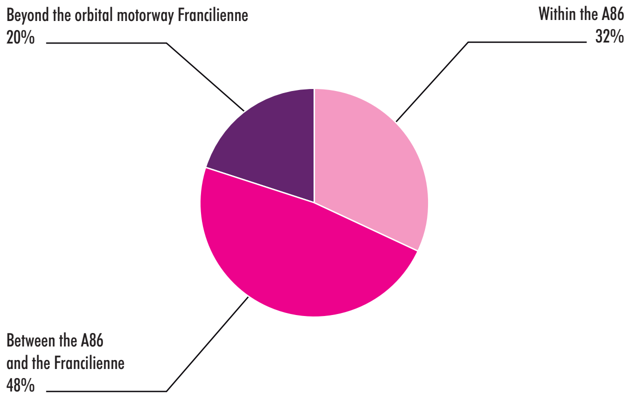
Trends in take-up and immediate supply in Ile-de-France
(in million sq. m)



Source: CB Richard Ellis

Breakdown in immediate supply in Ile-de-France at 1st July 2011
(in volume)



Source: CB Richard Ellis

Rents for industrial space * in Ile-de-France at 1st July 2011
(headline values in € net/sq. m pa)

Geographic areas		New	Second hand
North	Within A86	€90 / €115	€60 / €107
	Between the A86 and the Francilienne	€60 / €85	€50 / €75
West	Within A86	€100 / €120	€75 / €90
	Between the A86 and the Francilienne	€75 / €85	€40 / €80
East	Within A86	€80 / €90	€75 / €80
	Between the A86 and the Francilienne	€85 / €90	€70 / €80
South	Within A86	€80 / €90	€65 / €90
	Between the A86 and the Francilienne	€75 / €85	€60 / €75

* share of industrial/office ≈ 70/30
Source: CB Richard Ellis

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

The market for industrial space (all unit sizes) and small warehouses (<5,000 sq. m) are analysed together in this section.

A pause in the recovery

Although **occupier interest** recovered strongly in 1st quarter 2011 it went against expectations in the 2nd by **slowing down again**. **The upturn seen at the start of the year came to a halt due to uncertainty in the economy, concern about the future and the rise in interest rates**. These events made businesses postpone or put a halt to decisions, taking them back to the hesitancy seen previously, especially in the letting market. By contrast, **intentions to buy were not really affected**.

Thus following the high figures seen in 2010, with transactions standing at 984,500 sq. m, and a strong start to 2011 (248,200 sq. m in 1st quarter), **take-up fell by 34% from the 1st to 2nd quarter (162,800 sq. m)**. All sectors in the Paris region were affected, in particular the north (transacted volume down 61%) and the east (down 59%). Generally speaking, the south was stable.

The letting market was the prime victim of the slowdown, especially in the segment of larger units in the Outer Rim. All things being equal, the Inner Rim and premises located beyond the Francillienne orbital motorway were the areas the least affected.

By contrast, the acquisition market bore up well, although it **did still suffer from a shortage of available supply or properties with suitably adjusted prices**. Note that if the trend for occupiers to buy continues in the quarters ahead and the imbalance between supply and demand persists, overall take-up volumes by the end of the year could head downwards.

Finally, **users' criteria for selecting premises are increasingly dominated by the location of the property, which appears even more important than building quality**. Some occupiers are ready to pay more for the best locations (Inner Rim, on good road access etc.), as such sites are good long-term investments, can help the company save money (notably on transport costs) and are close to population centres.

Supply continued falling

At 1st July 2011, **available supply** stood at slightly more than **2.4 million sq. m. For several quarters supply has been contracting and it continued to do so posting an annual fall of 6%**.

The high supply of space in the south and north fell slightly in the last twelve months, by respectively 14% and 22%.

Available supply fell visibly in the sector beyond the Francilienne, down 14% in a year. It was stable in the Outer Rim and fell slightly between Paris and the A86.

Speculative supply is still very low, 55,900 sq. m, and **semi-speculative schemes** stood at **290,000 sq. m**.

Constant pressure on rents

Rental values were stable in most markets as they had already gone through several months of readjustment. **The market remained very contrasting**, with rents for properties in good locations getting stronger and those for secondary properties getting weaker. **Sales prices rose slightly**.

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THE RETAIL MARKET IN FRANCE

Economic environment

Turnover was 5% higher in 1st quarter 2011 compared to the same period in 2010 (source: INSEE). Yet despite this positive trend, **the general climate for retailers is very unsettled**. **Their cashflows have deteriorated since the start of the year** and in May 2011 were below the long term average. And in retailers' most recent forecasts, both sales and hiring intentions were lowered. This is essentially due to the **weak prospects for consumer buying power, which will entail reductions in household spending in the months ahead**. Indeed consumption is only expected to rise by 1.6% in 2011, thus remaining once again this year below its potential.

Town centre shops in France

In 1st quarter 2011, town centre high streets posted better sales trends than shopping centres and retail parks on the outskirts of towns (source: Procos).

In Paris, demand was active, but retailers were more particular than ever, which has led to real estate negotiations. **Most shop transactions involved prime and other leading sites**. On the best streets in the capital rents were stable or have risen since last year (see table). Rents were bolstered by the **scarcity of available space** and by **strong demand** coming notably from international personal goods retailers, which are keen to open flagship stores. Emblematic arrivals in the 1st half included Abercrombie & Fitch on Avenue des Champs-Elysées and Michael Kors, which opened its largest branch in the world on Rue Saint-Honoré. Expected soon are Marks & Spencer and Banana Republic, again on Avenue des Champs-Elysées, while Forever 21 is to open Rue de Rivoli. Because the most sought-after shopping streets are saturated, **good secondary streets may be considered by retailers as long as the other conditions for letting are right** (corner store, no key money etc.). Other secondary sites are only really considered by local shops (food, restaurants and services).

In the main regional cities, most retailers will consider even fewer streets than in Paris as of potential interest. Local estate agents questioned by the publication Argus de l'Enseigne quoted rents as being stable or rising (for instance in Aix-en-Provence, Lyon, Marseille and Nantes) for prime and no. 1 sites on main shopping streets.

Rental values in Paris

Street	Positioning	H1 2010	H1 2011	Annual trend
Champs-Elysées - Even side of street	mass market	€7,000 / €10,000	€7,000 / €10,000	=
Champs-Elysées - Odd side of street	mass market / luxury / high end	€5,000/ €7,000	€5,000 / €8,000	↑
Rue de Rennes	mass market	€3,000 / €4,500	€3,500 / €5,000	↑
Rue de Rivoli	mass market	€1,800 / €3,500	€2,000 / €3,500	=
Rue du Commerce	mass market	€700 / €2,000	€1,000 / €3,000	↑
Avenue de l'Opéra	mass market	€1,100 / €3,000	€1,500 / €3,500	↑
Rue Saint-Honoré* Rue du Fbg. Saint-Honoré	luxury / high-end	€2,500 / €7,000	€3,000 / €7,000	=
Rue des Francs Bourgeois Rue des Rosiers	luxury / high-end	€1,500 / €3,500	€1,500 / €4,000	↑
Bd. Madeleine Bd. des Capucines	luxury / high-end	€1,500 / €3,500	€1,500 / €3,500	=

* Rue Saint-Honoré from rue de Castiglione to Place Vendôme

Note: these rents are estimates supplied by estate agents. They are for zone A rents and include the annual rent and the amortization of the key money.

Source: CB Richard Ellis

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