

Real Estate Special

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Country Analysis: France

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Pylon of the Eiffel Tower, Paris © K. Wieland Müller / pixelio.de

Real estate market in France showing signs of recovery

France, along with the United Kingdom and Germany, is one of the most important real estate markets in Europe. In the area of commercial real estate alone, investment totalled € 16.6 billion in 2012. The Paris region is home to the largest office market in Europe. Furthermore, France has become a very important retail and hotel market as one of the world's leading tourist destinations. The country also counts as one of the main European logistics markets due to its well-developed transport infrastructure. The French housing market is also enjoying a sharp rise in demand due to the population growth.

France's GDP is USD 2.6 trillion, making it the fifth largest economy in the world after the USA, the People's Republic of China, Japan and Germany.¹ The continuing economic weakness has, however, also left traces on the real estate markets.

The present study provides answers to the following questions:

- ◆ What are the structural and regional characteristics of the French real estate market?
- ◆ When can we expect a turnaround in individual markets and where is there still potential for growth?
- ◆ What risks may need to be considered?

First, we will shed light on the macroeconomic framework and the regional economic characteristics before discussing the French real estate market and its sub-segments of offices, retail, logistics, hotel and residential real estate in detail.

¹ International Monetary Fund, World Economic Outlook Database, October 2013

Macroeconomic environment

Economic recovery expected to begin in 2014

France made it through the global economic crisis relatively well. Its real GDP fell by only 3.1% in 2009, while it decreased by 5.1% in Germany. This is mainly due to the smaller role of the export-oriented manufacturing sector. While the low dependence on exports protected the economy in the crisis, it also hindered improvement in the following years of 2010 and 2011. With GDP growth of 2.0%, France remained significantly behind exporting countries like Germany in 2011 (+3.3%). In 2012 the relatively strong domestic demand may have had a stabilizing effect on the economic performance, but this was not enough to keep France from slipping into a minor recession (GDP growth: 0.0%). Nonetheless, France still outperformed the euro zone as a whole, which averaged growth of -0.6%.

Currently, the economic recovery has yet to take hold. After strong GDP growth in the spring of 2013 (+0.5% compared to the previous quarter), there was another slight contraction in economic output of -0.1% in the third quarter. Over all of 2013, the euro zone is only expected to see slightly positive growth (+0.2%) as a result. Since the country continues to have structural problems such as a relatively high tax rate and a lack of international competitiveness, only moderate GDP growth of 1.0% is expected for 2014.

Economic indicators (change from prev. year in %)			
	2012	2013	2014f
Real GDP growth (%)	0.0	0.2	1.0
Unemployment rate (%)*	10.3	11.0	11.1
Employment**	0.0	-0.2	0.3
Inflation rate (HICP) (%)	2.2	1.0	1.4
Budget deficit***	-4.8	-4.5	-3.5
Current account balance **	-2.2	-1.7	-1.7

Source: NORD/LB Economics & Strategy, f - forecast, *as % of employed people ** European Commission ***as % of GDP

Unemployment and employment

Although France is one of the economic pillars of the euro zone, the labour market has exhibited some structural deficiencies – including a relatively high youth unemployment rate of over 25%. In the economic recovery during 2010/2011, the unemployment rate may have fallen from 9.7% to 9.6%, but it rose again to 10.3% in 2012. In Germany, by comparison, it was 5.6% in 2012 (ILO concept).² In 2013, the unemployment rate continued to rise and is likely to reach 11.0% over the year as a whole. In 2014 the unemployment rate should remain stuck at this high level. The number of employees, which has an impact on the demand for office space, stagnated in 2012. In the current year it is likely to decline slightly (-0.2%). In the course of the forecast economic recovery in 2014, slight growth in employment is expected (+0.2%).

² Concept of the International Labour Organization (ILO) for the comparability of unemployment in different countries.

Private consumption

The rise in unemployment as well as increases in taxes and fees have made consumers act with restraint over the last couple of years. At present, a slightly greater burden is also falling on households due to a higher VAT, among others. On the contrary, the annual 0.5% growth in the population also has a positive impact on private consumption expenditures. In 2014, further moderate growth in private consumption is expected for this reason.

Public-sector spending and debt

An important pillar in France consists of government spending, which rose significantly faster than GDP in 2012 and 2013. At the same time, however, the country is still far away from meeting the deficit rules in the Stability and Growth Pact (SGP). The government does not want to overstrain the weak economy. The European commission has required France to lower its deficit below 3% by 2015.

The refinancing conditions for the central government are currently 2.15% (based on 10-year bonds), and have been well below the long-term average of 3% for some time.

Change in yield: French vs. German government bonds



Source: Bloomberg, own chart

Inflation

In 2011 and 2012 inflation in France as well as in the entire euro zone was above the 2% mark and thus also above the inflation target of the European Central Bank. One of the main drivers was the increase in the price of oil. The impact of this has abated since the spring of 2012, and inflation has fallen. In 2013 this development continued as a result of the weak economy and the ongoing rise in unemployment. Over the course of the entire year, the inflation rate was 1.0% and thus below the average for the monetary union (1.4%).

Risk assessment and rating

At the beginning of November, the US rating agency Standard & Poor's used the faltering economy as a reason to lower the long-term rating for France from AA+ to AA. This was justified by the limited progress made in re-achieving (price) competitiveness. That French companies are under tremendous pressure in export markets, is also reflected in the current account balance, which despite the recent recession is still clearly negative. For some time, the performance in exports has been subdued, so that only a slight reduction in the current account deficit was possible over the course of the year. In addition, the rating agency criticized the high budget deficit and rising debt to GDP ratio. However, it is expected that France will succeed in complying with the Maastricht limit of 3% by 2015. Therefore, the markets did not react much to the hardly surprising change in the country's rating. Parallel to the downgrade, S&P also raised the outlook for France to stable. This, however, is an appeal to the French government for further progress in reducing its deficit and debt.³

Regional economic characteristics**Europe's third largest country**

The French Republic covers 674,843 km². Just under 550,000 km² of this is located in Europe, with the remainder being distributed across overseas territories such as Guadeloupe, French Guiana, Martinique and La Réunion. As a result, France is the third largest country in Europe behind Russia and Ukraine.

Positive demographic environment

In 2012 Metropolitan France had approximately 63.4 million residents (plus nearly 2 million residents in the overseas territories).⁴ The French population increased on average by 0.5% per year from 2006 to 2012 thanks to positive natural population growth and net migration. Population forecasts by the State Statistical Office INSEE project that the population of France – contrary to the European trend – will increase to 70.7 million residents (and 73.2 million if the overseas territories are included) by 2040.

The largest cities

Administratively, France is divided into 27 regions, which in turn can be divided into 101 departments. The country's most populous region is the Île-de-France with the capital Paris. The Île-de-France contains around 12 million people, with Paris and its 2.2 million residents being by far the largest city. The next largest cities are Marseille (with around 851,000 residents) and Lyon (with around 484,000 residents) and Toulouse (with around 441,000 residents). The greater metropolitan areas of Marseille and Lyon each have more than 1.5 million residents. The relatively small city of Lille, with about 228,000 residents, also has more than 1 million people in the surrounding area.

³ NORD/LB: Economic Adviser, December 2013

⁴ INSEE 2013

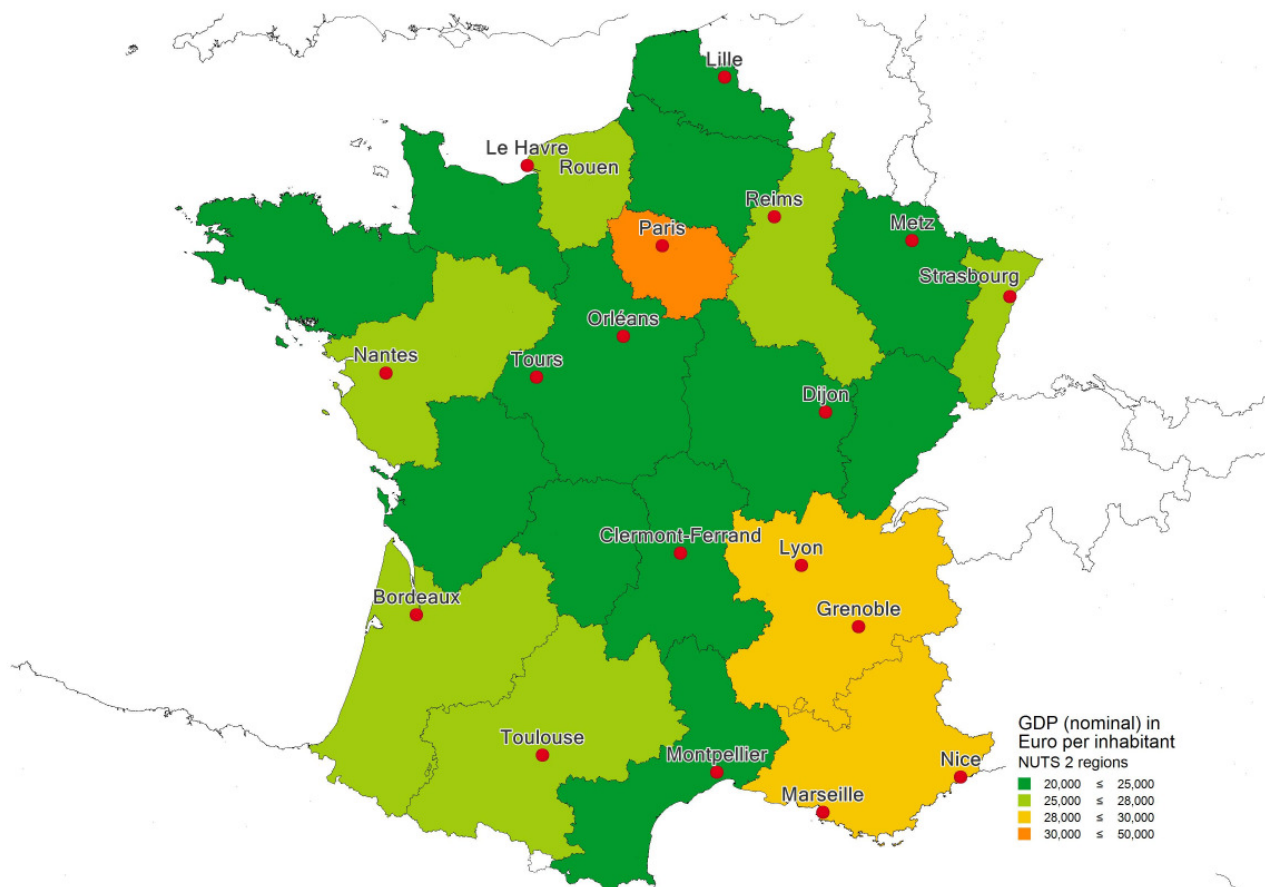
The ten largest cities in France (number of residents)			City	Metropolitan area
	Paris		2,243,833	11,938,714*
	Marseille		850,726	1,559,789
	Lyon		484,334	1,551,108
	Toulouse		441,802	879,683
	Nice		343,304	941,777
	Nantes		284,970	591,461
	Strasbourg		271,782	449,931
	Montpellier		257,351	390,962
	Bordeaux		239,157	843,425
	Lille		227,560	1,018,356

Source: Population 2010, INSEE 2013 *Region: Île-de-France

The Île-de-France is by far the country's most important economic centre

The strongest region in France is clearly the Île-de-France (GDP per capita in 2010: € 49,800). It generates around 30% of the French GDP and thus demonstrates the outstanding position of the region for the economy of the country. Paris is the headquarters of many national and international companies, particularly in the service sector. In the region of the capital, the departments of Paris as well as the adjacent Hauts-de-Seine to the west produce the highest GDP per capita at € 82,700 and € 85,300, which is well above the average over all the other departments (€ 29,900). In third place is clearly Val de Marne, the adjacent department to the south-east of Paris, which has per capita GDP of € 39,400. The three strongest economic departments in France are thus all within the Île-de-France region.

The Rhône-Alpes region, which includes, among other things, the cities of Lyon, Grenoble and St. Etienne, produces almost 10% of the national GDP, which is the second largest contribution. The focal points of the region include, in particular, metallurgy and metal processing, the chemical industry, as well as nano-, micro- and biotechnology. The third largest economic centre that makes up 7.2% of the national GDP is the region of Provence Alpes-Côte d'Azur with the city of Marseille. The economic focus here is on the chemical, petrochemical, microelectronics, viticulture, agriculture and tourism sectors.

Per capita GDP in the French regions in 2010


Source: Eurostat; own chart

Centralization characterizes spatial structures

Unlike Germany, the French Republic exhibits a centralist structure that has developed over the course of history. Since the 1980s the first efforts have been made to decentralize it. In the context of administrative reform, the regions have gained the legal status of a local authority. Furthermore, the central government transferred competencies to them. So far, however, their autonomy is only financial, not legislative.

Germany, on the contrary, has a decentralized structure due to its federal system. In Germany, the government responsibilities are divided between the federal government and federal states in such a way that both political levels are responsible for certain tasks according to the constitution. The autonomy of the German federal states can be seen in the fact that they have their own legitimacy, rights and powers. Each state has its own state constitution and independent political institutions for the executive, the judiciary and the legislature.

The different political systems are also evident in the spatial structure. While a polycentric urban system with a decentralized structure in terms of space and settlement has developed in Germany, France has more of a single centre spatial structure around the capital Paris. The administrative reforms initiated in the 1980s gave large and medium-sized cities more significance, however. In particular, urban centres such as Lyon and Marseille benefited from this development. It was similar for medium-sized cities such as Lille, Nantes, Bordeaux, Montpellier and Strasbourg, which enjoyed an economic and cultural revival, significantly increasing their attractiveness and leading to a marked increase in the population.

Nevertheless, the Île-de-France region remains one of the most densely populated urban areas in the world and the economic centre of France. Against the background of the European integration process and globalisation, however, additional decentralization measures are required. Currently, the French government is trying to give the local authorities more autonomy and financial resources, while ensuring a clear division of responsibilities at different levels of government. In this context, the focus is on the strengthening of the regions where their jurisdiction should include economic development, the management of European structural funds, as well as large-scale infrastructure projects.

Office market

The most important French office markets are located in the five leading business locations of Paris, Lyon, Marseille, Lille and Toulouse. Of paramount importance is the Île-de-France. More than half of the country's office stock is located here.

Île-de-France – Europe's largest office market

With approximately 52 million m² of floor space, the region around the capital is home to the largest contiguous office market in Europe. It is also the world's second largest office market behind New York. Paris is also one of the most transparent and structured office markets. The Paris office real estate market has developed beyond the ring road Boulevard Périphérique thanks to the expansion of the public transport infrastructure.

Paris sub-markets

The Paris metropolitan area consists of various sub-markets:

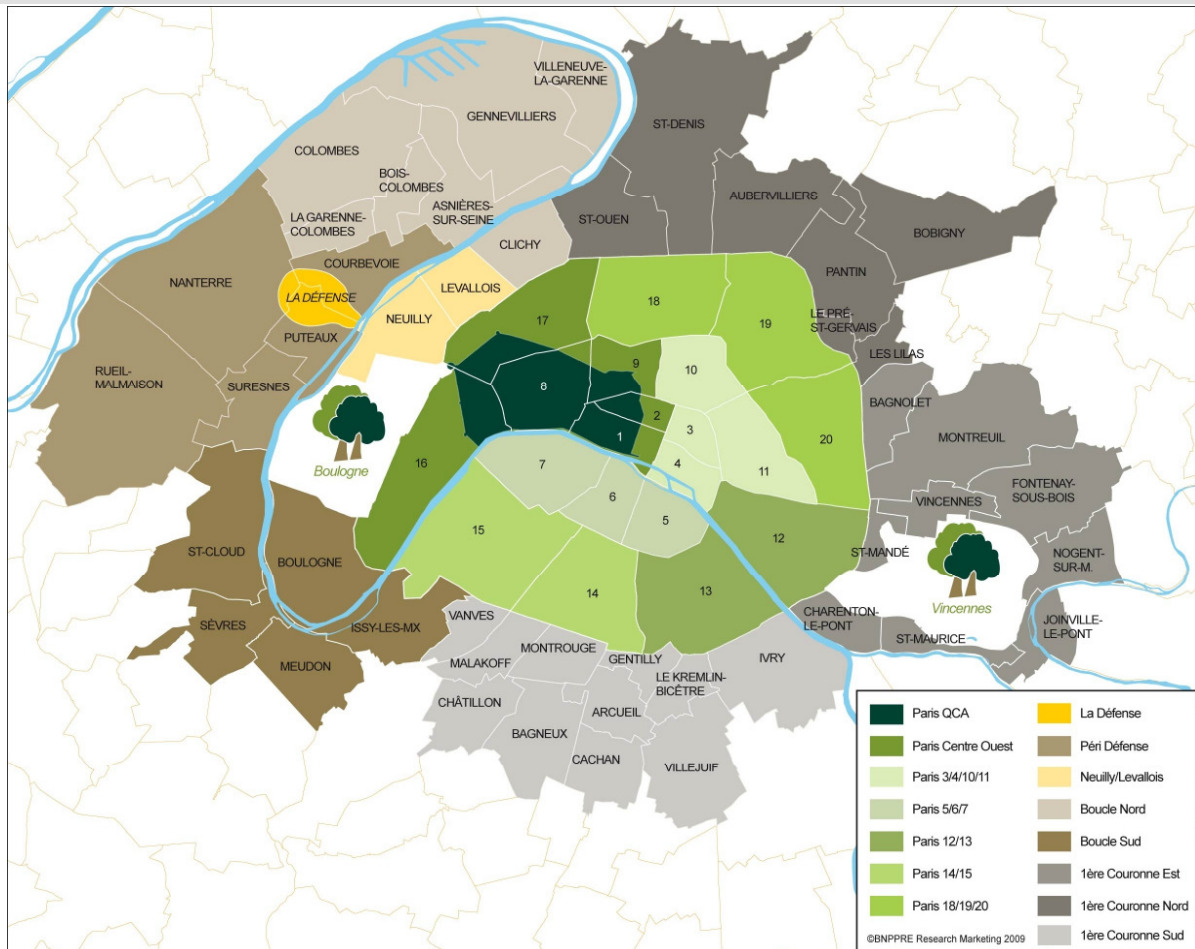
- ◆ The **Paris Central Business District (CBD)** extends beyond the 8th arrondissement with the adjacent parts of the 1st, 2nd, 9th, 16th and 17th arrondissement. The market is characterized by a very limited number of completed new buildings per year. Since the construction activity mainly focuses on revitalization projects, the office stock has been stable for years (8.5 million m²). Many financial service providers and insurance companies have their headquarters here. In addition, many multinational companies also have their headquarters here.

- ◆ **La Défense** is located in the west of the city and has about 3.1 million m² of office space – particularly in the large-scale segment (>5,000 m²). The office city emerged in the 1960s and became the classic office building location for many well-known companies. In total, roughly 2,500 businesses with some 180,000 employees have their headquarters here. They include a number of corporate service providers (including banks, insurance companies) as well as industrial companies (e.g. pharmaceutical companies). Since 2008, more refurbishments have taken place here. In addition, around 300,000 m² of new office space has emerged in recent years. There are currently 5 landmark projects with a surface area of roughly 26,000 m² under construction, with completion expected in 2013 and 2014 (Carpe Diem, Eqho, Majunga, D² as well as Athena).⁵
- ◆ **Paris Centre West** is the area outside of the CBD in the 1st, 2nd, 9th, 16th and 17th arrondissement. Many companies set up their headquarters here if they did not find adequate space in the CBD.
- ◆ Inside the metropolitan area of Paris, south of the Seine river, in the 13th arrondissement, another central location focused on offices and residential property has emerged since the beginning of the 1990s and continued to be developed in the context of a comprehensive urban development programme called "**Paris Rive Gauche**". There are currently around 500,000 m² of office space and 585,000 m² of residential space. Another 700,000 m² of office space and an additional 585,000 m² of residential space are currently in planning or under construction. The vacancy rate in this office sub-market is currently very low (approximately 2.6%).
- ◆ **Sub-market West** refers to the municipalities that are located to the west of the Paris city limits (not including La Défense): Levallois-Perret, Neuilly-sur-Seine, Nanterre, Suresnes, Saint-Cloud, Sèvres, Boulogne-Billancourt and Issy-les-Moulineaux. The sub-market West can be divided into three zones from north to south: "Boucle Nord", "Peri-Défense" and "Boucle Sud". The western suburbs also offer newer, large-scale building. The office location benefits from its close proximity and good connection to the CBD and La Défense, as well as lower rents.
- ◆ The **northern, southern and eastern suburbs (1st couronne)** do not so much involve thoroughly established office locations. Rather, some micro-locations such as Ivry-sur-Seine have developed into well-known office locations in recent years. In part, this is due to the fact that some tenants have consciously sought locations with lower rents.

⁵ Jones Lang LaSalle, Ernst & Young 2013

- ◆ South of Paris, in the **2nd couronne**, more office locations have been established. It should be emphasized that the **Vélizy** location (Vélizy-Villacoublay, Clamart, Meudon-La-Forêt, Le Plessis-Robinson) has 1.2 million m² of office space. The majority of the space (56%) is located in the municipality of Vélizy-Villacoublay. The area is located approximately 14 km from Paris and is roughly 3 km from Versailles. Approximately 1,000 companies, with a focus on the high-tech sector and the mobility sector, are based here. The office space is being continuously upgraded by new buildings and refurbishments at the present time.

Île-de-France office market and its sub-markets



Source: BNP Paribas

Currently weak demand in the Île-de-France region

With 2.2 million m² of take-up, the rental market of the Île-de-France is one of the most highly demanded European markets. Currently, however, the still slow overall economy continues to have an impact on the rental market.

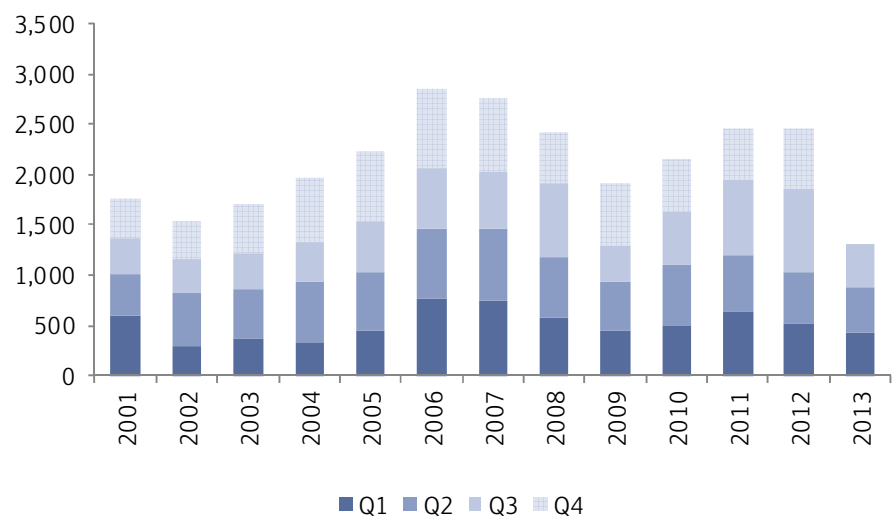
In the first nine months of 2013, there were 1.3 million m² of offices taken up in the Île-de-France region. This corresponds to a decrease of 20% from the same period in the previous year. This is not surprising, since the activities on the rental market in the third quarter of 2012 were very high due to some larger transactions.⁶

⁶ The largest transactions included the Department of Defence (135,000 m² in the 15th arrondissement), France Telecom (70,000 m² in Châtillon), Sanofi (50,000 m² in Gentilly) as well as Thales (49,000 m² in Vélizy).

The decline in take-up is due in particular to the lack of transactions involving larger areas (> 5,000 m²). This segment fell by 50% compared with the same period in 2012. The market for smaller units (< 5,000 m²) was quite robust. Here take-up was only 7% lower than in 2012.⁷

The decline in the large-scale segment is due to the decline in transactions involving already pre-rented new buildings that are tailored to the specific needs of users ("tailor-made transactions"). This type of transaction was responsible in particular for the high take-up in 2011 and 2012.⁸ Currently, the share of these transactions makes up only 11% of offices taken up, while in the first three quarters of 2012 it accounted for 32%. This shows that companies have temporarily postponed their construction projects since the middle of 2012 as a result of the deteriorating economic outlook and renegotiated existing rental agreements instead.

Take-up in the Île-de-France region (in m²)



Source: Immostat, own chart

Demand in the Parisian sub-markets is quite different

The performance in the individual sub-markets since the beginning of the year has been quite different. In particular, Paris (not including CBD) and Péri-Défense had to accept a decline in take-up due to the absence of major deals. In the northern and southern suburbs, demand was slightly lower than during this period in 2012. In contrast, take-up in the CBD was relatively stable. The district benefited from some major deals. As a result of a fall in the rent, this site became more affordable. In La Défense, take-up rose significantly in the first nine months (+49%), following a weak year in 2012. This is due to a particularly active third quarter, which included the leasing of ERDF in "Tour Blanche" (22,000 m²), which will be completed in early 2014, as well as the signing of an agreement with Allianz for "Easy Building" (11,500 m²). In Neuilly-Levallois and in Boucle Nord, an increase in activity in the rental markets was observed.

⁷ BNP Paribas Q3 2013

⁸ Jones Lang LaSalle Q3 2013

Office market data for the Île-de-France 2013

	Take-up Q1-Q3	Take-up Q1-Q3	Vacancy rate	Availabil- ity* of space Q3	Availabil- ity* of space	Space un- der con- struction Q3	Space under construc- tion
	in m ²	Δ y/y	in %	in m ²	Δ y/y	in m ²	Δ y/y
Paris CBD (QCA)	224,000	0%	5.0	603,000	+ 21%	113,000	+146%
Paris without CBD	275,000	-35%	4.4	619,000	+18%	117,000	+19%
La Défense	89,000	+48%	9.3	475,000	+31%	116,000	-50%
Péri Défense	88,000	-43%	18.4	394,000	-2%	20,000	-53%
Neuilly/Levallois	94,000	+71%	12.2	221,000	+6%	88,000	+52%
Boucle North	83,000	+63%	14.8	298,000	+4%	47,000	-35%
Boucle South	133,000	-5%	11.0	398,000	+16%	148,000	+49%
1st Couronne North	43,000	-63%	9.5	234,000	-19%	34,000	-6%
1st Couronne South	52,000	-77%	10.5	261,000	+10%	23,000	-63%
1st Couronne East	36,000	+13%	6.5	111,000	-17%	0	-100%
2nd Couronne	185,000	-49%	5.7	1,196,000	0%	118,000	+79%
Île-de-France	1,302,000	-29%	7.2	4,810,265	+7%	824,178	-1%

Source: Immostat, BNP Paribas; *Within one year

**Paris: Supply of available space
recently increased**

The supply of office space available within a year has continued to rise over the last few quarters and was at 4.8 million m² at the end of the 3rd quarter. This corresponds to growth of 7%.⁹ We are currently seeing a stabilization in the supply of available space, so the 5 million mark should not be passed in the next few quarters. Even though there are construction permits for 1.5 million m² of office space, the majority is already pre-leased. There are now only a few speculative new buildings. Thus, the supply of new space has slowed down. While 34% of the office space in the first nine months of 2012 involved new buildings or refurbishments, this share is currently only at 24%. Against this background, the current vacancy rate of 7.2% should only slightly increase through the end of the year.

With regard to the vacancy rate in the individual sub-markets, the market is divided into two parts: In Paris, itself, the vacancy rate is very low (below 5%).¹⁰ In the surrounding regions, the supply of available space is much greater; particularly in the sub-market West and above all in the Péri-Défense and Boucle North areas there, there are high vacancy rates of 18.4 and 14.8%.

⁹ BNP Paribas Q3 2013¹⁰ BNP Paribas Q3 2013

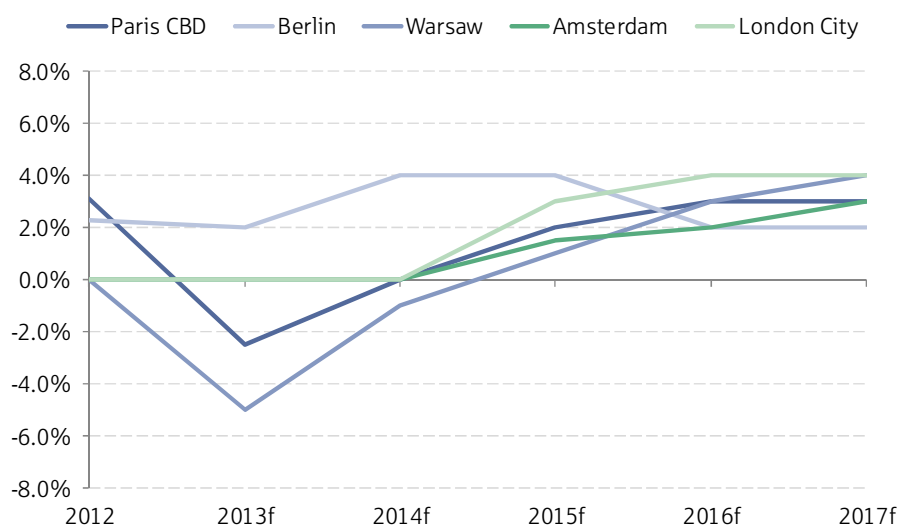
Paris: Prime rents under pressure

Prime rents in the Île-de-France are still falling at the present time and reached 705 €/m²/year in the CBD and 510 €/m²/year in La Défense in the third quarter of 2013.¹¹ This is partially due to the low number of transactions in the top segment. Apart from a few exceptions, the rents remain under pressure due to the sufficiently available supply of office space as well as the increase in construction activity. In those sub-markets where the rents have fallen substantially in the recent past, the situation is expected to stabilize in the coming months.

Prospect of rising prime rents

Starting in 2014, the ongoing economic recovery is expected to produce greater demand for office space, which should again lead to a rise in prime rents.

Forecast for prime rents in selected European cities



Source: PMA, DekaBank; own chart

Most important regional office centres are Lyon, Marseille and Lille

Besides Paris and the Île-de-France, there are four more central office markets that are located in the business locations of Lyon, Marseille, Lille and Toulouse. Lyon is the second largest office market, with 5.6 million m² of floor space, after the Île-de-France. The cities of Marseille, Lille and Toulouse each have office space totalling approximately 3 to 4 million m².

Regional office markets are robust

The regional office markets are currently fairly strong despite the weak economy. Total take-up over 12 months in the 16 largest cities reached 1.3 million m² in the middle of 2013. This shows that demand on the rental market remains stable in comparison to the previous year and in comparison to the 10-year average. While the office space taken up was at the level of the previous year, the number of transactions decreased (-15%). The sub-markets benefited from some deals in the large-scale segment. In contrast, take-up and transactions in the area of smaller spaces declined.

¹¹ Jones Lang LaSalle

Supply in regional office centres

In the middle of 2013, the supply of office space available within a year was around 3% above the amount in 2012 and included approximately 2.4 million m² of space. The absorption capacity of the market is still limited, so that in the next few quarters a decline in the vacancy rate is not expected.

Office market data for selected regional centres – 1st half of 2013

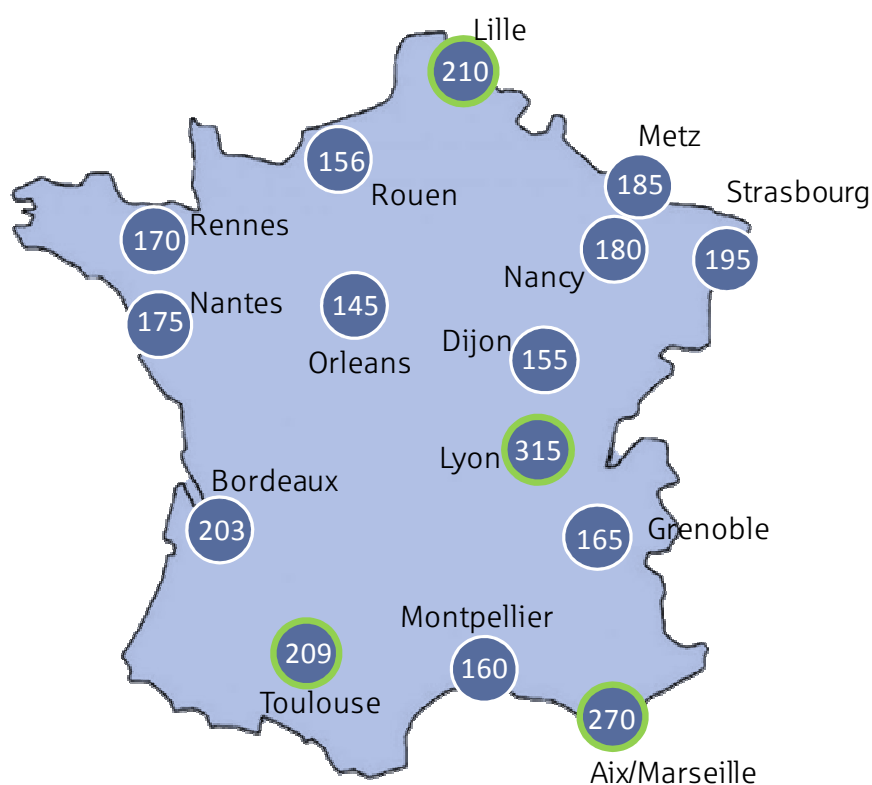
	Take-up in m ²	Take-up Δ y/y	Vacancy rate in %	Availabil- ity* of space in m ²	Availabil- ity* of space Δ y/y	Space un- der con- struction in m ²	Building permits granted in m ²
Lyon	153,800	+67%	5.8%	398,500	-4%	92,200	186,400
Lille	61,600	+9%	N/A	253,800	-2%	43,200	44,800
Marseille	451,000	-22%	N/A	249,500	+18%	38,300	182,700
Toulouse	44,300	-26%	5.9%	237,300	-3%	24,800	86,400

Source: BNP Paribas; *Within one year

Stable rents in regional office centres

Top rents in regional centres have remained stable overall since the beginning of the year. Owners, however, needed to provide additional incentives such as an increase in the rent-free periods. As expected, the highest rents were in Lyon at 315 €/m²/year, followed by Marseille (270 €/m²/year), Lille (210 €/m²/year) and Toulouse (209 €/m²/year).

Top rents in regional centres (€/m²/year)



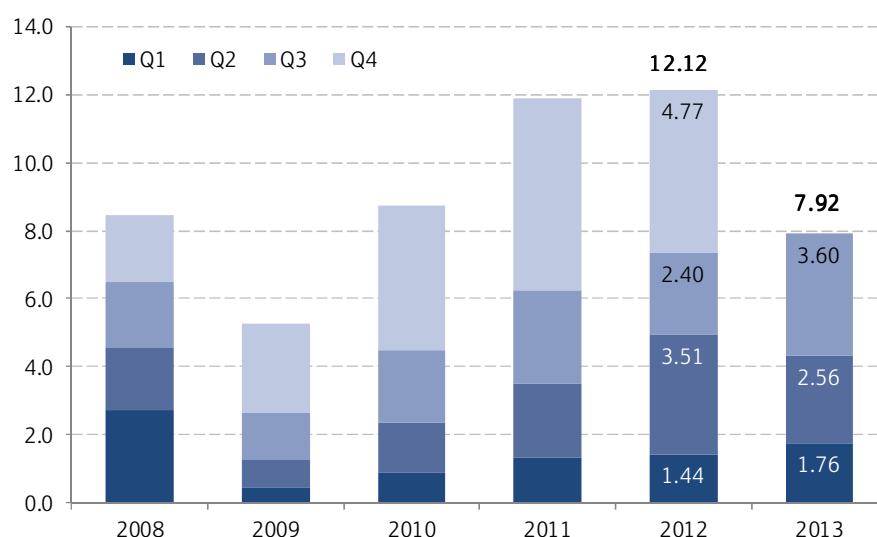
Source: BNP Paribas; own chart

Paris: Another increase in the volume of investment

In the first nine months, € 12.9 billion was invested in French commercial real estate. Office real estate was by far the most coveted type of real estate, totalling € 8.2 billion or a share of 57.4%. At € 7.9 billion (96%) almost the entire investment volume is concentrated in the Île-de-France. The Paris region, with an average investment volume of € 10 billion per year is the second most attractive region in Europe after London. The liquidity and maturity of the market continuously attract investors that are searching for new investment opportunities.

In the first three quarters of 2013, the transaction volume increased by 8% as compared to the same period in 2012. French investors still dominate the investment market. Their share made up 73% of the investments in the third quarter of 2013. Foreign transactions involved in particular Germany, the USA, South Korea and the United Kingdom. The prime yields – despite the slight increase in the yield on French government bonds since the beginning of 2013 – remained stable in all sub-markets. The prime yields in the CBD are currently unchanged at 4.5%¹² and go up to 6.5% in the suburbs.¹³ In the leading regional centres, the yields are between 5.7% (Lyon) and 6.2% (Toulouse).

Investment volume in the office sector – Île-de-France (in EUR billion)



Source: Immostat, own chart

Short-term outlook

Supply	↗
Demand	→
Vacancy rate	↗
Top rent	→
Investment volume	↗
Prime yields	→

The temporary weakness in the office rental market is likely to continue until the end of the year. Take-up will be lower than in 2012. This is due to the weak GDP growth (2013: 0.2%) and the further increase in the unemployment rate. Since the middle of the year, however, an improvement in both the global and national economic conditions has been observed. Due to the expected economic growth of 1.0% in 2014, the rental markets should gradually start reviving in the middle of next year.

¹² At some particularly coveted top properties, the prime yields have recently fallen to 4.25%.

¹³ Jones Lang LaSalle Q3 2013

Although more new office buildings can be leased due to the decline in rent, in some cases after being empty for many years, the supply of available space – particularly in the suburbs of Paris – remains high. The expected completion of new buildings in La Défense and particularly in Boucle South mean that the vacancy rates should initially rise here. In the regional centres, the high availability of free space and the ongoing construction activity mean that slight declines in rent should be expected.

Investor demand for office properties, particularly in Paris, should remain consistently high until the end of the year. The expected increase in rent as of 2014 as well as the stabilization starting the following year and then the expected rise in value should offer good income potential over the next few years. In regional centres, a slight increase in the prime yields should be anticipated.

Retail market

France is one of the most important retail markets in Europe

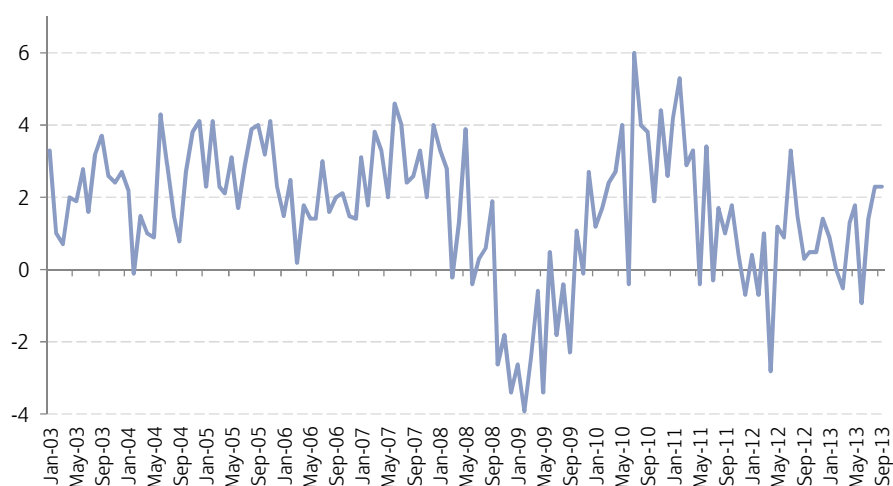
France counts as one of Europe's largest retail markets with annual retail sales of up to € 500 billion. In terms of population, the country also has almost 64 million potential customers, making it the second most important European market after Germany, and will also benefit from a sustainable growth in population in the future. In addition, France attracts around 83 million arriving foreign tourists¹⁴ as the world's leading tourist destination, and thus a large variety of consumers who in part have high purchasing power. In addition, some well-known retail companies (particularly in the food industry and in the luxury brand sector) come from France.

Retail sales – slight growth at a low level

After a slump in retail sales as a result of the economic crisis in 2009, strong domestic consumption quickly ensured a stabilization. In the two following years, retail sales were very dynamic due to the beneficial economic conditions and annual growth rates of 2 to 3%. Despite the less attractive fundamentals, retail sales have continued to increase slightly since 2012, although more slowly. Government austerity programmes, higher taxes and the ongoing rise in unemployment resulted in lower consumer confidence. In September 2013, the growth of real retail sales (excluding cars) was 2.3% and thus again somewhat above the level during this period in 2012.

¹⁴ World Tourism Organization (UNWTO) 2013

Real retail sales* (change in %, yoy)



Source: Eurostat, Bloomberg; own chart *excl. cars

Supply structure

The retail property market consists of roughly 200,000 businesses with floor space of 78.1 million m². The majority of the retail shops are located on the main shopping streets of cities.

There are 671 shopping centres with floor space of more than 15 million m². With around 230 m² per 1,000 residents, the shopping centre density is slightly below the European average (287 m² per 1,000 residents).¹⁵ Around half of the shopping centres belong to the mid-sized category (15,000 – 40,000 m²). In addition, 70% of the shopping centres were built before 1990 and are thus relatively old. Six of the eight largest shopping centres in France also come from the period before 1990. The ageing of the shopping centre stock means there is great potential for refurbishment.

Largest shopping centres

Name	City	Floor space* (m ²)	Opening
Belle Epine	Thiais (Paris region)	141,000	1971
Créteil Soleil	Créteil (Paris region)	125,500	1974
Les Quatre Temps	Puteaux/ La Défense (Paris region)	123,000	1981
Grand Littoral	Marseille	116,000	1996
La Part-Dieu	Lyon	110,000	1975
Rosny 2	Rosny-sous-Bois (Paris region)	108,000	1973
Mondeville 2	Caen	108,000	1995
Parly 2	Le Chesnay (Paris region)	107,000	1969

Source: Cushman & Wakefield, *Gross rental space

With 400,000 m² of floor space, France belongs to the leading markets in the area of factory outlet centres. The majority are located in the north of the country and were built between the middle of the 1980s and the end of the 1990s. In the last decade, many centres were expanded or rebuilt with significant progress made in regard to the supply and architecture.

¹⁵ DTZ Research Q3 2013

High demand for 1a locations in large cities

As a result of the stable development of retail sales, the French market also remains attractive for international retailers that want to enter or expand into the French market. National and international chains are currently the most important groups looking for retail space. They prefer the 1a locations in French cities.

Retail locations

Among French metropolises (>200,000 residents), Paris has by far the highest purchasing power, with a rating of 126.4 on the purchasing power index. Bordeaux, Lille and Nice, however, lead the list of cities with the highest per capita sales. Lille is also ahead of Paris in additional purchasing power (centrality ranking). A more detailed analysis of individual arrondissements in Paris shows, however, the clear dominance of Paris. Especially the inner city districts have far above-average ratings in the rankings.

Individual retail rankings 2011 (France = 100)

City	Purchasing power index	Sales volume index	Centrality
Paris	126.4	133.3	145.8
Marseille	96.0	101.2	98.9
Lyon	110.6	116.6	93.3
Toulouse	104.5	99.5	95.2
Nice	103.1	140.8	136.5
Nantes	107.4	102.8	95.7
Strasbourg	102.1	121.9	119.4
Montpellier	98.9	100.4	101.6
Bordeaux	107.9	151.1	140.1
Lille	98.9	147.9	149.5
Rennes	106.5	108.4	101.8

Source: MB Research, DekaBank; cities with more than 200,000 residents

Paris – one of the leading retail locations in Europe

Paris is second most coveted location in Europe for international retailers after London. More than 12 million people or about a fifth of the population of the country live in the capital's catchment area. The fact that Paris is also the world's most popular travel destination has a positive effect on the retail location.

Paris's main shopping streets are spatially concentrated around four central "shopping hubs":

Paris sub-markets

- ♦ **Champs-Élysées:** As part of the famous Golden Triangle (Avenue des Champs-Élysées, Avenue George V and Avenue Montaigne), where both luxury brands as well as flagship stores of large, internationally operating chains have opened outlets, the Avenue des Champs-Élysées has around 100 million visitors per year, a quarter of whom are foreigners. On the Champs-Élysées a new record was set for the rent at 18,000 €/m²/year. Consequently, it is currently by far the most expensive shopping location in Europe.

- ◆ **Saint-Lazare / Opéra, Madeleine:** The area around the two large department stores "Galeries Lafayette" and "Le Printemps" – as measured by the retail space as well as retail sales – exhibits the highest retail density in Europe. Sales here are around € 2.5 billion per year. The two department stores, which generate 60% of the sales, attract five times as many visitors as the Louvre (8 million) or the Eiffel Tower (7 million).¹⁶
- ◆ **Rivoli / Les Halles:** This area extends from City Hall to the 1979 shopping centre "Forum des Halles" (retail space: 57,000 m²), which is currently being refurbished. The project will be completed in 2016 and is considered one of the most ambitious real estate projects in the last few years. On the Rue de Rivoli, numerous national and international chains have opened outlets.
- ◆ **Saint-Germain-des-Prés / Montparnasse:** The area that extends from Saint-Germain-des-Prés to the Montparnasse Tower attracts over 1 million visitors every year. On the Boulevard Saint-Germain, Ralph Lauren opened its largest Parisian flagship store.

In the area surrounding Paris, there are roughly 140 shopping centres. Recently, some new centres were opened (including "Aeroville" (80,000 m²), "Beaugrenelle" (50,000 m²)). In the future, the supply of shopping centre space in the metropolitan area of Paris will increase even more.

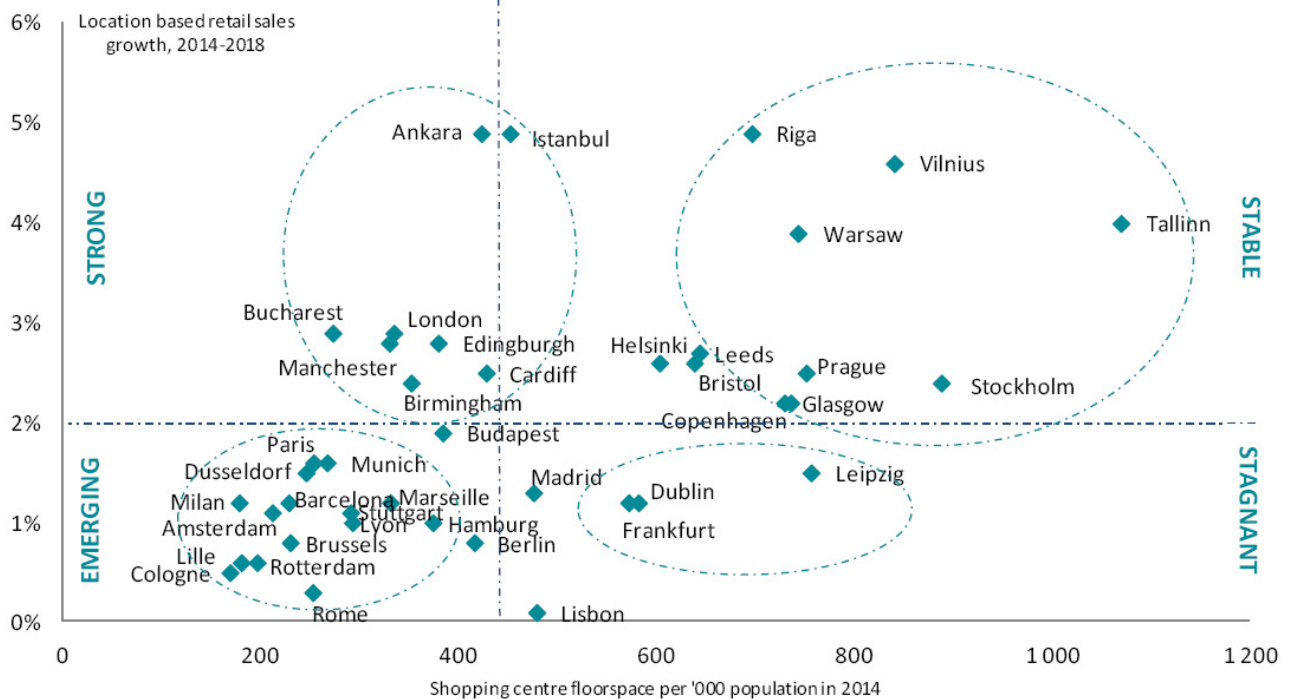
Significant regional sub-markets

In addition to the region around the capital, important retail markets have developed in other French metropolises and tourist locations. The most important sub-markets are described briefly below:

- ◆ **Lyon:** With a population of around 1.6 million, the greater metropolitan area of Lyon is the fifth largest after Paris. The region belongs to the economically prosperous regions of France. Lyon is also considered the culinary capital of the country. The main shopping area in Lyon is located on the Presqu'île peninsula. 70 luxury shops have opened in Carré d'Or, including Dior and Hermès. On the Rue de la République, numerous national and international chains have opened outlets. The top rents here are € 2,200 €/m²/year. Lyon is home to "La Part-Dieu" and the second largest European shopping centre in the country. In the greater metropolitan area there are also another 13 centres, including the shopping and leisure centre "Confluence", with floor space of 53,000 m², which was opened in 2012 as part of the project to expand the city centre of Lyon.

¹⁶ Jones Lang LaSalle 2013

- ◆ **Marseille:** Over 1.5 million people live in the greater metropolitan area of Marseille. The city is one of the largest French cities on the Mediterranean. As the retail rankings show, the region is not particularly wealthy. Primarily, the wealthier area of Aix-en-Provence provides competition for the retail location. The 1a city centre location for retail space is located near the harbour. In the Rue Saint Ferréol and the Rue de Rome, numerous national and international retail chains have their headquarters. The former is the most expensive shopping location in the city at 2,000 €/m²/year. Outside the city centre, there is the fourth largest shopping centre in the country, the "Grand Littoral". To strengthen the city centre and improve the image of the city, a revitalization project was launched a few years ago: Along the Rue de la République, existing shops, partially with high vacancy rates, have been modernized in phases. In the completed sections, it has already been possible to acquire new chains. In addition, some smaller shopping centres are under construction and should mostly be completed in 2014. These projects will significantly expand and upgrade the supply of retail space in Marseille.
- ◆ **Lille:** In the greater metropolitan area of Lille in the north of France, close to the Belgian border (3 km), approximately 1 million people live. The close proximity to the larger European decision-making centres of Brussels, London and Amsterdam, as well as the connection to the high-speed European railway network makes Lille one of the most prosperous regions in Europe. The best retail locations are around the Place du Général de Gaulle. Top rents are found to the south of the square in the Rue de Béthude (2,200 €/m²/year). In addition to the largest shopping centre "Euralille" (67,000 m²), there are three other smaller centres in the city centre. Furthermore, there are also 11 other small to medium-sized shopping centres in the catchment area. The Lillenum on the outskirts of the city is scheduled to be finished in 2016 and will provide another large shopping centre. In the nearby Tourcoing, a new shopping centre is planned (Promenade de Flandre).

Shopping centre space per 1,000 residents in 2014 and retail sales growth (2014-2018) in European cities


* Retail sales growth for Ankara, Istanbul, Riga, Vilnius, Tallinn and Bucharest at the country level
 Source: DTZ Research, Oxford Economics

Further market potential in the shopping centre area

A comparison of the shopping centre floor space per 1,000 residents and the expected retail sales growth over the next few years shows that the French cities of Paris, Marseille, Lyon and Lille have a below-average shopping centre density in comparison to other European cities. Because further, albeit modest retail sales growth is forecast for these cities over the next few years, they can be grouped together as "emerging markets". The cities are not considered future "hotspots" such as London or Manchester. However, these forecasts suggest additional market potential.

Consideration should be given, nonetheless, to the fact that the below-average shopping centre density is also due to the fact that the centres are often just outside the city limits, as is the case in Paris.

Increasing rents in Paris – stability in the regional cities

The high level of demand for retail space has led to rising prime rents in the last year (+38.5%), particularly in Paris, because of the pronounced excess demand. In the leading regional cities, prime rents remained stable over the last twelve months. In secondary locations, in particular in the small to medium-sized cities, the vacancy rate has increased so that stagnant or slightly declining rents are to be expected.

Shop rents in 1a locations (€/m ² /year) Q3 2013	City	Prime rents	Δ 1 year in %	5 years CAGR * %
	Shop rents in 1a location			
	Paris	18,000	+38.5	+11.4
	Lyon	2,200	0.0	+1.9
	Marseille	2,000	0.0	+2.1
	Bordeaux	2,200	0.0	+1.9
	Strasbourg	2,000	0.0	0.0
	Lille	2,200	0.0	0.0
	Toulouse	2,200	0.0	+1.9
	Nice	2,200	0.0	+1.9
	Specialist shopping centres			
	Île-de-France	180	0.0	-1.1
	Shopping centre			
	Île-de-France	2,000	0.0	0.0

Source: Cushman & Wakefield, own chart *Compound Annual Growth Rate

Supply shortage reduces investment volume

In the first nine months of 2013, investment in the retail sector totalled € 1.5 billion. This corresponds to a share of 11.6% of the total commercial investment volume. As a result, this fell short of the prior year's figure by 18%. The decline is attributable, on the one hand, to the limited supply of premium properties due to the ongoing high demand. On the other hand, this is due to the absence of major deals such as the acquisition of several properties on the Avenue des Champs-Élysées last year by a fund from Qatar for a total of € 500 million. The investment volume was divided roughly in half between the Île-de-France and the regions. Investors continue to prefer in particular prime retail space in 1a city centre locations in Paris and in the leading regional cities. This reflects the risk aversion of buyers, who are currently in search of prime locations and prime properties.

Prime yields recently stable

Prime yields remained stable in the third quarter of 2013 as compared to the previous quarter at leading retail locations and in various sub-segments. Over the last twelve months, however, they fell slightly, particularly in the 1a retail locations of Paris, but also in some other regional cities. In Paris, the decline amounted to 50 basis points. The yields of 3.75% reached a 10-year low. Prime yields for shopping centres in the Île-de-France region remained unchanged. On the contrary, a slight rise in yields should be observed over the course of 2013 in specialists shopping centres (retail parks).

Prime yields for retail (net, in %)	City	Q3 2013	Q2 2013	Q3 2012	Highest	10-year low
Shops in 1a location						
	Paris	3.75	3.75	4.25	6.50	3.75
	Lyon	5.00	5.00	5.25	6.75	4.75
	Marseille	5.25	5.25	5.25	6.75	4.75
	Bordeaux	5.25	5.25	5.25	7.00	4.75
	Strasbourg	5.00	5.00	5.25	6.50	5.00
	Lille	5.00	5.00	5.25	7.25	4.75
	Toulouse	5.50	5.50	5.75	7.00	4.75
	Nice	5.50	5.50	5.75	6.75	4.75
Specialist shopping centres (retail parks)						
	Île-de-France	6.25	6.25	6.00	8.00	5.00
Shopping centre						
	Île-de-France	5.00	5.00	5.00	5.75	4.00

Source: Cushman & Wakefield, own chart

Short-term outlook

Supply	↗
Demand	↗
Vacancy rate	→
Prime rents	↗
Investment volume	↗
Prime yields	→

Due to the improving economic conditions, private households' purchasing power should also increase over the coming months. In spite of high unemployment and the relatively high taxes, the low inflation rate and a decline in the savings rate will have a positive impact on private consumption. Further growth potential for the retail location of France also results from the positive population growth and the expected increase in the number of tourists. Therefore, slightly rising retail sales are expected over the coming months. In combination with the slightly below-average stock of shopping centres as compared to other European countries, this suggests there is more market potential in this segment.

On the investment market, the shortage of prime properties should slow the rise in investment volume in the near future despite strong investor demand. In the course of the country's economic stabilization, rising demand for secondary locations can be expected in the medium term due to the opportunities for higher yield.

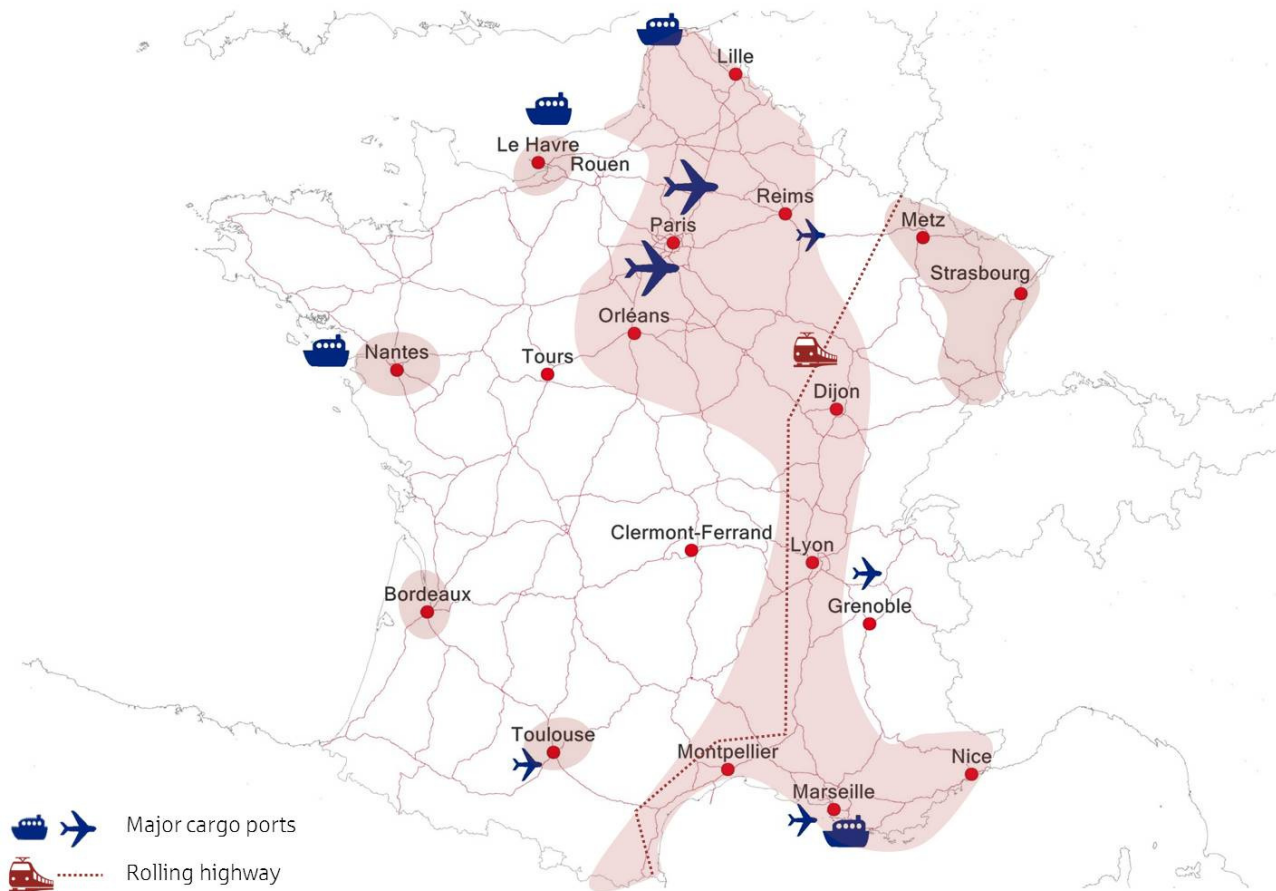
Logistics market**Major logistics location
in Europe**

France is one of the most important European logistics markets because of its economic importance, central location and good transport infrastructure.

Logistics infrastructure

France's transport network is highly centralized. In the past, the motorway network feeding into Paris was primarily built out. The north-south direction is well connected. Gradually, the east-west routes between the individual metropolitan areas are being created. In the centre and south of the country, the east-west connections are not yet sufficiently available.

Logistics regions in France



Source: own chart

The rail transport is also defined by the orientation of the rail network on the greater metropolitan area of Paris. Passenger transport is more important than freight transport, which has been connected with the use of the high-speed Train à grande vitesse (TGV) since 1981. In 2012 a total of 2.2 billion tonnes of freight were transported on French roads, railways and inland waterways.¹⁷ Road transport, with a share of around 93%, is of the greatest importance, while the rail and inland waterway transport, on the other hand, hardly play a role at 4% and 3%, respectively.

Air transport is also highly centralized: The two airports in the capital (Charles de Gaulle and Orly) handled a total of 88.8 million passengers in 2012. Charles de Gaulle Airport is the second largest airport in Europe – with respect to both the passenger and freight transport. It handles practically all the long-haul and freight transport in France (air-freight tonnage in 2012: 1.5 of 1.8 million tonnes nationwide).¹⁸ The largest passenger airports outside of Paris are located in Nice (11.2 million passengers), Lyon (8.4 million) and Marseille (8.3 million).¹⁹

¹⁷ EUROSTAT

¹⁸ EUROSTAT

¹⁹ Union des Aéroports Français

Geographic concentration of logistics space

The **Île-de-France** is the leading logistics region in France due in part to the centralized transport network, the immense industry and population density and the resulting supply needs. It has a stock of modern logistics facilities totalling approximately 8.1 million m². The region of **Lyon** has roughly 3.6 million m² of space, and has developed into the second most important logistics centre. In a strategically advantageous place at the confluence of Rhône and Saône, Lyon has been an important trading centre and transportation hub for a long time. The region around Lyon is also one of the most important industrial locations in the country (including the chemical industry, pharmaceutical industry, biotechnology, textile industry, and metallurgy). The port of **Marseille** is an important location equipped with 1.9 million m² of modern logistics facilities. In addition, the old industrial region of Nord-Pas de Calais, with **Lille** in the north and **Orléans** to the south of Paris, are also included in the logistics locations that are situated in the central logistics corridor stretching from north to south (see map). In Lille, mail-order business has developed into a central factor for the location, on the basis of the tradition in the textile industry. In the area, there are more than 2.1 million m² of space and various multi-modal platforms.

Other logistics locations in France are the industrial regions of Alsace and Lorraine, with the cities of **Strasbourg and Metz**, which are close to Germany and well connected in terms of transportation. On the Atlantic coast, the ports of **Le Havre and Nantes St. Nazaire** assume important functions for the logistics location of France. Le Havre has the largest container port in the country and, at the same time, 1.2 million m² of warehouse space. Opportunities for the logistics location of France are also seen in the planned Seine-Northern Europe canal. The infrastructure project is expected to be completed in 2016. The 106 km long channel will connect Le Havre, Rouen and Paris – the three ports of the so-called Seine axis – to the seaports Dunkirk, Antwerp and Rotterdam as well as the Belgian, Dutch and German inland waterways. In addition to an increase in international shipping, the establishment of a new logistics centre along the canal is hoped for.

Key figures of the logistics locations*								
	Transactions (m ²)				Supply (m ²)			
	Q1 to Q3 2012		Q1 to Q3 2013		Current supply		Future supply	
	Grade A	Other	Grade A	Other	Grade A	Other	Con-struction activity	Building permits
Aix/Marseille	129,000	6,000	146,000	-	91,000	23,000	-	165,000
Annecy	12,000	-	-	-	-	13,000	-	-
Bordeaux	62,000	27,000	32,000	27,000	6,000	155,000	-	86,000
Clermont-Ferrand	-	-	-	-	-	20,000	-	-
Dijon	59,000	-	26,000	-	63,000	24,000	-	-
Grenoble	-	-	-	-	-	-	-	-
Lille	60,000	11,000	135,000	-	67,000	75,000	-	208,000
Lyon	233,000	35,000	136,000	34,000	175,000	276,000	-	64,000
Metz	-	-	32,000	20,000	62,000	16,000	-	-
Montpellier	-	7,000	-	-	-	-	-	-
Mulhouse	-	17,000	-	-	5,000	149,000	-	-
Nancy	-	-	6,000	-	46,000	22,000	-	-
Nantes	12,000	-	30,000	-	6,000	29,000	-	-
Nice/Sophia	-	-	-	-	-	9,000	-	-
Orléans	19,000	20,000	30,000	-	24,000	66,000	-	-
Île-de-France	268,000	202,000	94,000	262,000	826,000	648,000	-	746,000
Rennes	-	-	-	27,000	-	53,000	-	-
Rouen	16,000	15,000	25,000	-	7,000	6,000	-	90,000
Strasbourg	21,000	22,000	18,000	-	56,000	101,000	-	-
Toulouse	-	10,000	13,000	-	6,000	37,000	-	53,000

Source: BNP Paribas Real Estate, * >5,000 m² of space

Signs of a recovery despite still weak demand

The demand for logistics space fell by 36% in 2012 after a very successful year in 2011, and was 25% below the long-term average. In total, 1.63 million m² of logistics space was transacted nationwide. In the first nine months of 2013, the fall in demand continued. Take-up totalled 1,095 million m². This corresponds to a decline of 13% from the same period in the previous year. After a weak first half of the year, however, we are observing the first signs of a recovery. In the third quarter there was an increase in demand from logistics service providers, which is considered a benchmark for the industry.

The weak demand since 2012 is due to businesses' strong wait-and-see attitude with respect to new rentals on account of the uncertainties regarding future economic development.

In addition, the logistics industry must increasingly prepare for an ongoing change in consumers' purchasing behaviour against the backdrop of the rise in e-commerce. The mail-order business and smaller e-commerce merchants are demanding more and more smaller logistics properties in urban centres in order to be able to respond more quickly to orders and reduce their warehouse and delivery costs. Simultaneously, the need for large-scale properties on the part of some supermarket chains and large internet merchants is also increasing.

Supply of available space increases

The vacancy rate, as measured by the space available within a year, rose in the first three quarters by 7% to 3.2 million m². At the same time, the share of particularly demanded grade A space in these available spaces is also as low as it has been in the past ten years. Since no speculative construction activity has taken place in years, the share of the total amount of space is currently less than 10%. The logistics space freed up by moves can often not be placed on the market, however.

Different developments at individual logistics locations

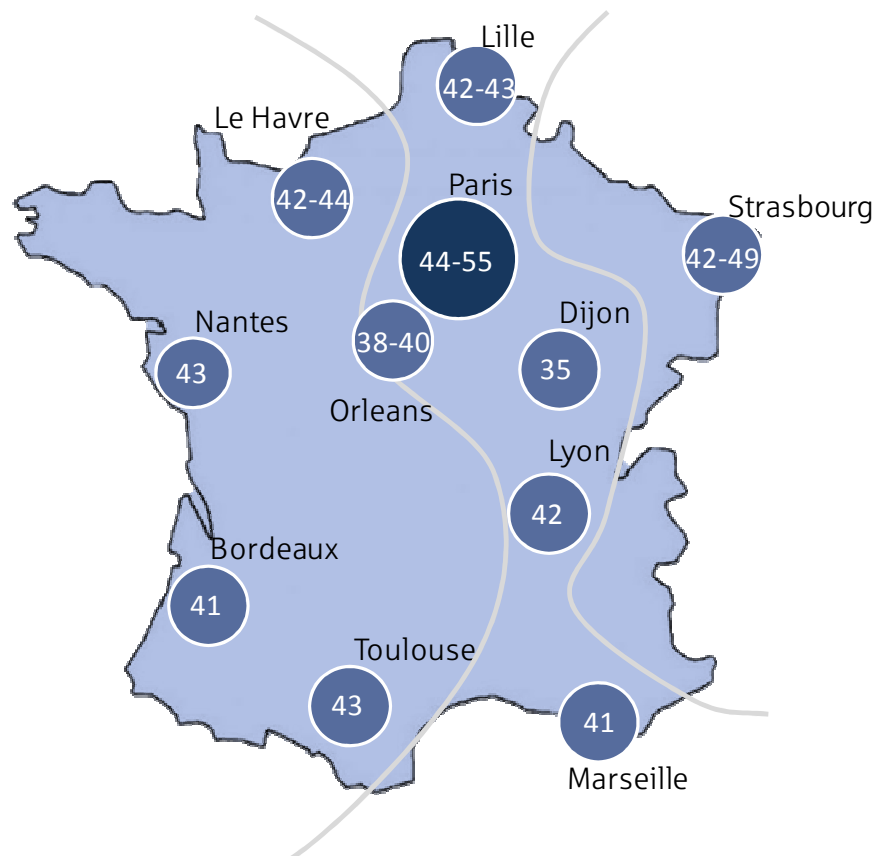
Take-up in the **Île-de-France** rose by 15% to 136,000 m² in the third quarter of 2013 (as compared to this quarter in 2012) and showed signs of recovery. Over the first nine months of 2013, take-up totalled 356,000 m², but declined year on year (-24%). Responsible for the positive result in the third quarter were five transactions in the large-scale segment (>10,000 m²). Due to the low construction activity, transactions of second-hand properties accounted for around 74% of the total take-up.

At the **regional level**, take-up in the third quarter of 2013 totalled 277,000 m² and was 740,000 m² over the first nine months. This corresponds to a decline of around 10% as compared to the same period in 2012. The three central logistics markets within the north-south axis (Lyon, Lille and Marseille) performed in very different ways. Take-up may have totalled 170,000 m² in Lyon over the first three quarters and been at the highest amount ever in absolute terms. However, the second most important logistics region had to cope with a year-on-year decline in demand (-36%). Lille and Marseille, however, were able to increase their take-up to 135,000 m² (+90%) and 146,000 m² (+8.2%). The high increase in Lille is due to two large transactions (>25,000 m²) in the area of the grade A segment.

Stable rent outlook

The average rents for grade A logistic space were stable in the first half of 2013 across all logistics locations. They were at 44 to 55 €/m²/year in the Île-de-France, 42 to 43 €/m²/year in Lille, 42 €/m²/year in Lyon and at 41 €/m²/year in Marseille.

**Average rents for
grade A in Q2 2013
(€/m²/year)**

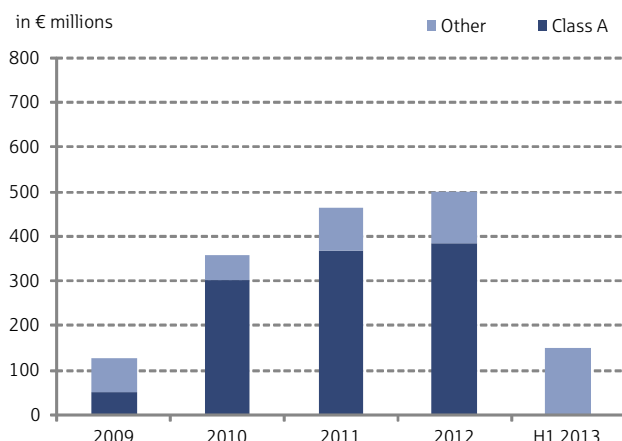
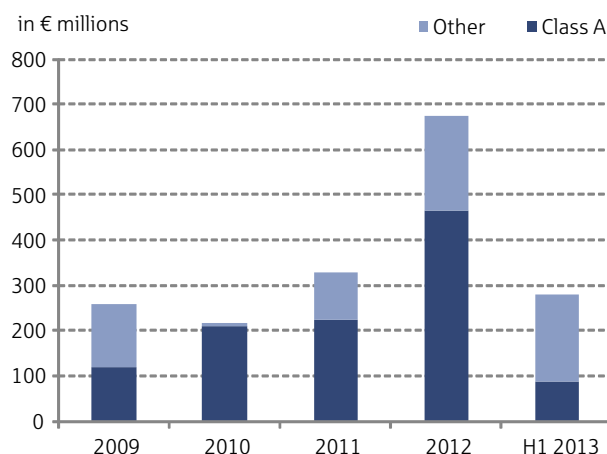


Source: BNP Paribas; own chart

**Strong momentum
on the investment market**

Unlike the rental market, the investment market performed very well. In the first half of the year, total investment in the logistics sector rose by 58% to € 430 million when compared with the same period in the previous year. The share of investments as a percentage of total investments in France has grown continuously in the last few years. If it made up only 4% of all transactions in the commercial sector in 2010, it now accounts for 7%.

The majority of the investment volume (65%) is concentrated in the French regions and is thus above the ten-year average of 59%. Although there is still high demand for grade A properties, opportunistic investors are also returning. The yields in this segment are still very high. Due to the fact that investments in logistics real estate are categorized as more risky than other types of uses such as office or retail, the yield level is also significantly higher here. However, prime yields at the end of the 2nd quarter of 2013 decreased slightly. For grade A properties they were both at around 7% in the Île-de-France and in the regions. In the previous quarter, the yields were 7.2% and 7.4%, respectively. At the same time, a slight increase in yields is being observed for secondary properties. Consequently, the gap between safer and more risky properties has increased.

**Investments
in the logistics sector – Île-de-France**

**Investments
in the logistics sector – regions**


Source: BNP Paribas Real Estate; own chart

Short-term outlook

Supply	→
Demand	↘
Vacancy rate	↗
Rents	→
Investment volume	↗
Prime yields	→

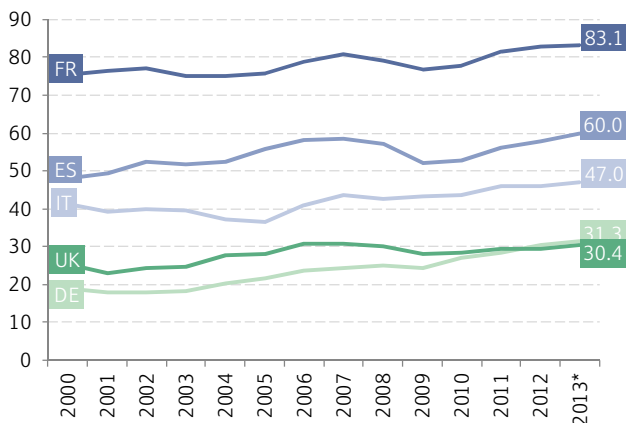
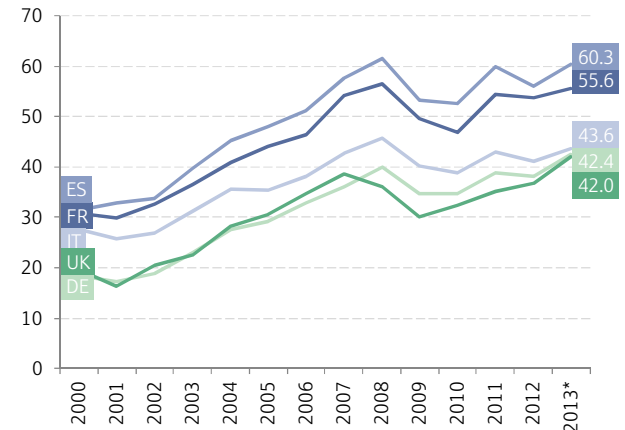
As of 2014 the economic recovery (GDP growth, increase in private household consumption as well as rising exports) is expected to take hold in France. This should boost the logistics sector. Companies are still taking a wait-and-see attitude with regard to new projects, although the business outlook is optimistic over the coming months. Take-up should reach 1.5 million m² by the end of the year due to some larger transactions. However, demand is below the level of the previous year.

The investment market momentum is expected to continue to the end of 2013. In particular, the increase in major portfolio transactions should ensure a further increase in the volume of investment. It is clear, however, that financially strong investors already anticipate a turnaround in the real estate cycle and want to take advantage of the most favourable opportunities on the markets. Additional purchases are therefore anticipated in the short to medium term.

Hotel market

**France: the world's leading
tourist destination**

France is by far the most popular tourist destination in the world. With around 83 million arriving foreign tourists per year, the country achieved a new record high in 2012. Compared with the two previous years, this corresponds to slight growth of 0.1% and 1.8%, respectively, after arriving tourists rose strongly in 2011 (+5.0%). The travel market was able to quickly recover from the financial and economic crisis. With regard to income from tourism, France is in third place worldwide, generating a preliminary estimate of USD 55.6 billion in 2013 (growth of 3.5% year on year) and following just Spain and the United States.

Arrival of foreign tourists in millions (TOP 5 Europe)**Income from tourism in USD bn (TOP 5 Europe)**

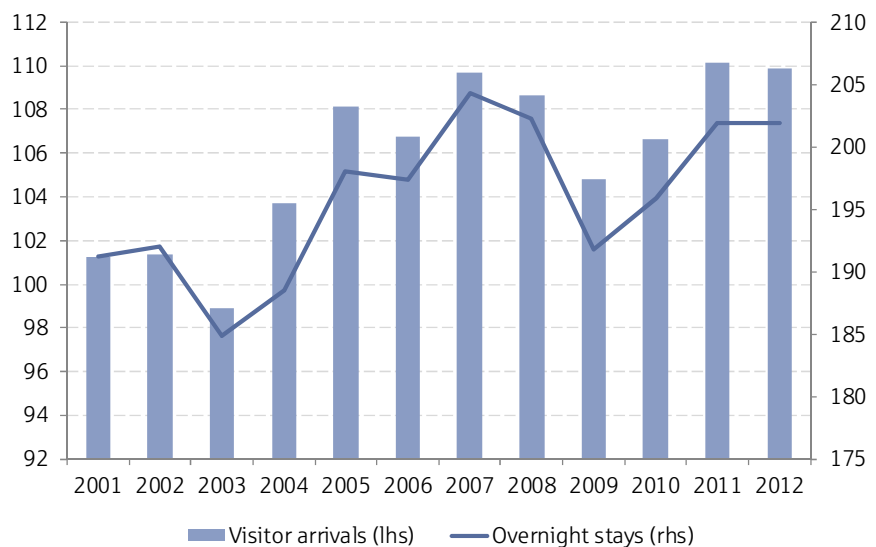
Source: World Tourism Organization (UNWTO), *Preliminary figures; own chart

Stable tourism demand in the hotel sector

The French hotel market was also able to recover relatively quickly from the financial crisis with respect to **arriving visitors** at hotels, hostels and pensions. In 2009 national and international visitors declined by 3.5%. In 2010 and 2011 they continued to rise again (by 1.8% and 3.3%), reaching a new record high of 110 million arriving visitors in 2011. In 2012, there was a slight decline of 0.3%. However, this is largely due to the decline in domestic arriving visitors (-1.2%), which makes up approximately 72% of all arriving visitors in France. The lower domestic travel activity was justified in the recession. The number of foreign arriving visitors increased by another 2.1% in the last year.

With regard to the number of **overnight stays** in hotels and similar accommodations, the crisis in 2009 was noticed even more with a decline of 5.2%. Mostly guests from abroad were responsible for this (-10.5%). Since then, an increase in the number of overnight stays has been observed. These, however, are still below the record high of just under 202 million in 2007 (204 million).

Visitor arrivals and overnight stays in hotels, hostels and pensions (in million)



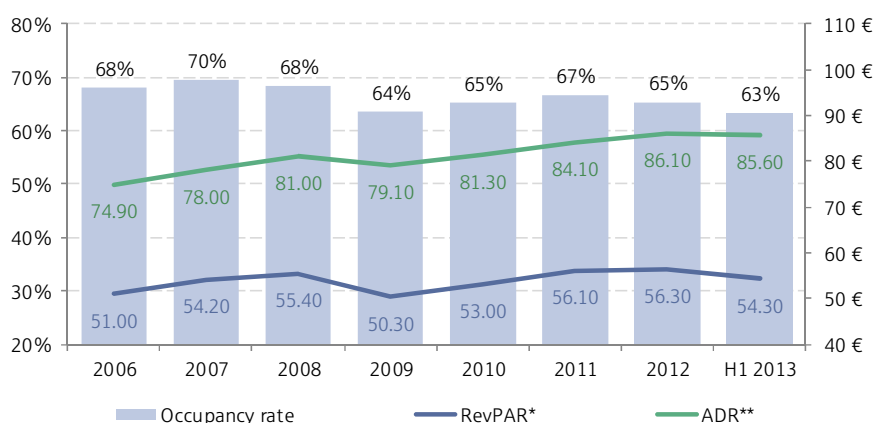
Source: Eurostat; own chart

Hotel market is robust

A glance at hotel performance also shows that the market in 2010 and 2011, as measured by revenue per available room (RevPAR), has been able to recover from the economic and financial crisis. Even in the year 2012, the French hotel industry was very robust in contrast to the generally weak economic development. The revenue per available room continued to increase in 2012 (by 0.4%). This is solely due to an increase in the average daily room rate (ADR) (+2.4%). The occupancy rate for French hotels fell, however, by -1.3 percentage points. In the first half of 2013, the French hotel market was almost stable in spite of a more difficult market environment. Despite the decline of 0.6 percentage points in the occupancy rate, the decline in the revenue per available room was minimized to -0.5%.

The France hotel market benefits in times of weak economic performance from a full calendar of events with major international events such as the international trade fair for hotels, catering and food "Sirha" in Lyon²⁰ and the International Paris Air Show "Paris Air Show" in²¹ Le Bourget.

Performance of the French hotel market



*RevPAR: Revenue per available room **ADR: Average daily rate

Source: MKG Hospitality, BNP Paribas; own chart

Best performance in the premium segment

There was a decline in occupancy rates across all hotel categories in 2012. Because the increase in the average room rate in the area of affordable hotel categories (2 star hotels as well as 0/1 star hotels) was not high enough to make up for the lower occupancy rate, there was a decline in the revenue per available room in these segments (by 1.2% and -0.7%) compared to the previous year. In the lowest category, revenue of € 27.5 per room was generated, while revenue of € 43 per room was generated in the 2 star hotel segment. Here, the drop in domestic tourism was noticed.

In the middle-class segment (3 stars) and in the premium category (4/5 stars), the increase in the average room rate by 1.8% and 2.4%, respectively, was able to compensate for the declining occupancy rate. The international guests that remained loyal to their travel destination were responsible for this development and contributed to a further increase of 0.5% and 1.3% in revenue per available room. The premium category with revenue per available room of € 129.4 performed best.

²⁰ International trade fair for hotels, catering and food

²¹ The aviation trade fair is held every two years (last in 2013).

Hotel performance indicators in France, 2012	Category	Occupancy rate	Av. room rate*	Rev. per room*
	0/1 stars	66.9%	€ 41.2	€ 27.5
	2 stars	63.6%	€ 67.6	€ 43.0
	3 stars	63.7%	€ 97.2	€ 61.9
	4/5 stars	69.6%	€ 185.9	€ 129.4

Source: MKG Hospitality, BNP Paribas, *Not incl. taxes and fees

Paris as a main travel destination

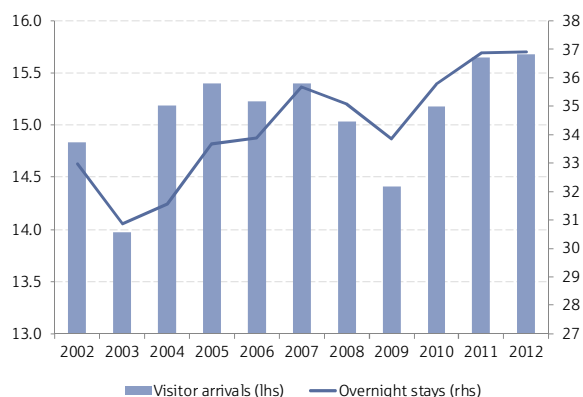
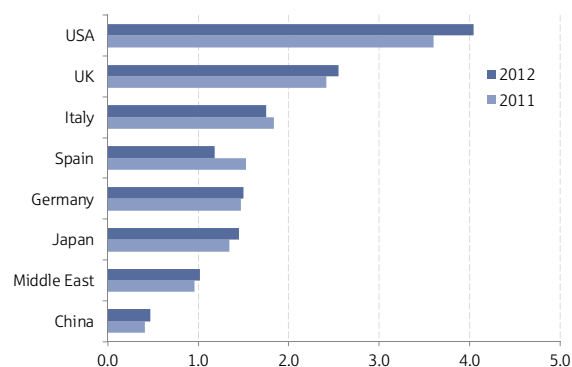
By far the most significant hotel market in France is the Île-de-France and Paris in particular. The capital, as an economic, cultural and administrative centre, is one of the most visited cities in the world. Around one third of all French overnight stays in hotels in 2012 took place in the Île-de-France, of which more than half were in the capital of Paris. In terms of foreign guests only 53% of all the overnight stays were in the region of the capital.

Paris: stable demand

Tourist demand for Paris has remained stable with an annual average growth rate of 1.1% for arrivals and 0.6% for overnight stays. It, however, was not immune to the financial and economic crisis and had to withstand a noticeable slump in arriving visitors and overnight stays in 2008/2009, similar to the national economy. Since 2010, tourism demand has continued to rise, despite a weaker domestic market. In 2012 Paris achieved new records in terms of both arriving visitors (15.7 million) and overnight stays in hotels (36.9 million). The growth is in particular due to the increasing demand from abroad.

Diversified demand structure

Around 65% of all overnight stays are accounted for by tourists from abroad. The largest countries of origin are the United States and the United Kingdom, which make up approximately 16% and 10% of the overnight stays by foreigners. Other countries of origin are the neighbouring European countries of Italy, Spain, and Germany, as well as Japan (4%) and the Middle East (4%). In 2012 the number of visitors from almost all regions of origin increased even more. The weak economic performance in Europe was noticed in the declining tourist numbers from countries such as Spain, Italy, Belgium and the Netherlands. Due to the diversified demand structure and the very different economic performance in the countries of origin, the decline in tourists was offset by increases from the US, the UK, Switzerland, China, Russia, Austria and Japan, helping Paris set new records.

Paris: Development of hotel demand (in million)

Origin of foreign tourists (in million)


Source: Paris Office du Tourisme et des Congrès 2012; own chart

With regard to the tourism segment, Paris benefits from a very well-balanced customer structure: About 55% involve leisure tourists and 45% business travellers and trade fair and conference visitors. This results in low seasonality. The high percentage of business travellers, trade fair and conference tourists is partly due to the fact that the capital has 52 million m² of office space and is home to the largest office market in Europe. The majority of the guests are leisure tourists that are attracted by the cultural program in the capital and things such as the world-famous museums and monuments. These include the Louvre, with almost 9 million visitors, or the Eiffel Tower with 7 million visitors per year. In addition, Euro Disney has been drawing more than 15 million visitors per annum for years.

Paris is a leading location for trade fairs and conferences. According to the International Congress and Convention Association (ICCA), the number of events in Paris rose from 147 in 2010 to 174 in 2011. The ICCA has ranked Paris in second place to Vienna in a global ranking. The Office du Tourisme et des Congrès de Paris came to a similar positive conclusion, counting 995 events in Paris in 2011, 959 in 2010 and 931 in 2009. With 680,000 m², Paris has the largest exhibition area in Europe. The largest event locations include, among others, the Paris Expo at Porte de Versailles (226,000 m²), the Palais des Congrès de Paris (32,000 m²) and CNIT in La Défense (21,000 m²).

A balanced mix of hotel categories in the capital

At the beginning of 2013, Paris had a total of 1,475 hotels with 78,382 rooms. The supply of hotels is very balanced across all categories: 3 star hotels account for the largest share at 38.4%, followed by the premium segment (4 & 5 stars) at 33.4% and the low price segment at 28%. The 5 star segment was introduced in France for the first time in 2009 with the new hotel classification system. The five hotel categories in total now may not have led to any major changes in the hotel market, but they provide more transparency for international tourists. In 2010, furthermore, the label "Palace" was introduced to highlight hotels in the luxury segment.²² Five of 12 French hotels of this type are located in Paris.

²² To receive this label, the hotel must meet rigorous criteria with regard to the location, historical and architectural significance of the building, comfort of the room, services, quality of the gastronomy, language skills of the workforce and wellness programme.

Paris – Supply structure

Category	Hotels	Rooms	Share in %
4 & 5 stars	259	26,149	33.4%
3 stars	627	30,113	38.4%
Other	589	22,120	28.2%
Total	1,475	78,382	100%

Source: Insee, Jones Lang LaSalle

Shortage of hotel supply

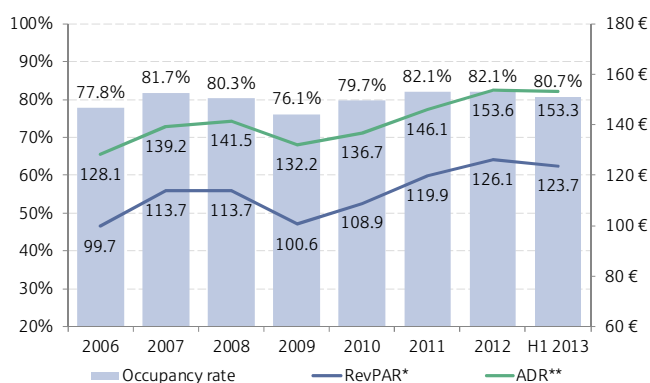
The supply of hotel rooms has only grown by 0.3% per year in the last decade due to the lack of building land. This led to an increase in hotel prices over the past few years. At present, there are only 3,900 rooms under construction or in the planning stage. The supply of hotels is expected to increase only slightly in the coming years. Hotels under construction are predominantly in the premium segment.

Paris leading in hotel performance

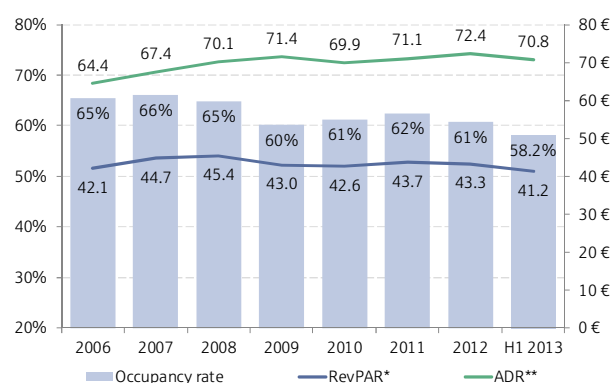
The Paris hotel market is also a national leader with regard to hotel performance. The occupancy rate in 2012 as compared to the previous year was unchanged at 82.1% with an average room rate of € 153.5 and revenue per available room of € 126 (+5.1% compared with the previous year). In the first half of 2013, the hotel market was quite robust.

The revenue per available room increased across all hotel categories in 2012. The leaders were the middle-class and high-end segments, where revenue per available room rose by 7.9% and 6.5% to € 107.4 and 190.4. The budget hotels suffered from below-average performance. The occupancy rate in the budget hotels was 85.4%, which was among the highest, but it dropped by 1.2 percentage points compared with the previous year. However, this could be compensated by an increase in the room rate (€ 93.9) and let the revenue per available room rise by 4.5%.

Performance of the hotel market – Paris



Performance of the hotel market – regions



*RevPAR: Revenue per available room ** ADR: Average daily rate

Source: MKG Hospitality, BNP Paribas; own chart

Hotel market performance in the regions

In 2012 the hotels in the French regions had to accept the largest year-on-year decline in the occupancy rate (-1.7 percentage points) and were the only group that saw a decline in the revenue per available room (-0.9 percentage points). Without the region Provence Alpes Côte d'Azur (PACA), the occupancy rate would have fallen significantly more (-1.8 percentage points) and the revenue per available room would have been even worse at -1.5%. The region had revenue per available room of € 65.4, which made it, in addition to the Île-de-France, the best performer. Within the PACA region, Nice and Cannes should be emphasized in particular. The room rates in Cannes were € 137.1 and thus above the prices in the centre of Paris, even if the business is highly seasonal and the occupancy rate of 55.7% was the lowest in France in 2012. Nice was one of the few French cities that was able to achieve modest growth in all three performance indicators. The hotel's occupancy rate rose by 0.3 percentage points to 68%, the average room rate rose by 0.3 percentage points to € 117.1 and the revenue per available room rose by 0.7 percentage points to € 79.7.

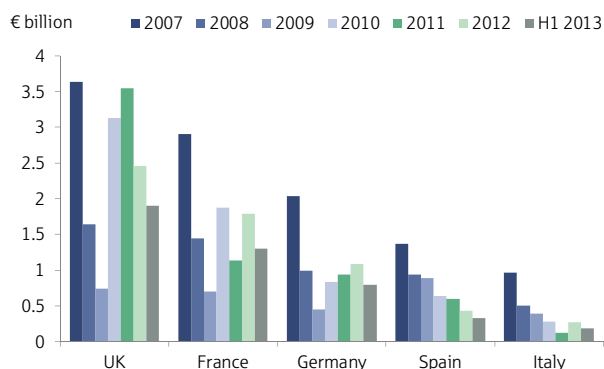
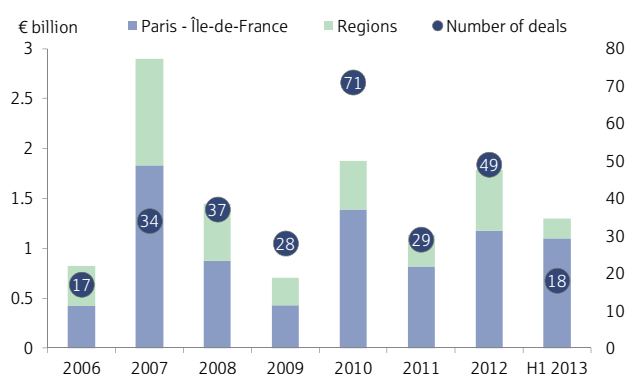
Hotel performance indicators for Paris and the regions (Δ 2012/2011)

	Occupancy rate	Av. room rate*	Rev. per room*
Paris	0	5.1%	5.1%
Regions	-1.7	1.9%	-0.8%

Source: MKG Hospitality, BNP Paribas, *Not incl. taxes and fees

Europe's second largest hotel investment market

An increase of 59% in investments (to € 1.8 billion) compared to the previous year made the French hotel market one of the most mature and dynamic markets in Europe in 2012. As a result, France achieved the second highest European transaction volume after the UK (€ 2.7 billion) in 2012. In the first half of 2013, the momentum in the hotel investment market continued. The investment volume of € 1.3 billion meant that there was growth of +119% as compared to the period from the previous year. The strong momentum is due in particular to the sale of four luxury hotels (Hôtel du Louvre and Concorde Lafayette in Paris, Palais de la Méditerranée in Nice and Hôtel Martinez in Cannes) from the Starwood portfolio to Katara Hospitality with a value estimated at € 700 million. As to be expected, the bulk of the transaction volume, over € 1 billion, was accounted for by the Île-de-France, while the rest of the regions played only a subordinate role. Currently, foreign investors are becoming increasingly involved. In addition to investors from the United States and Qatar, which accounted for a large portion of the transaction volume, there were also Chinese investors for the first time.

Hotel market: Investments in Europe

Hotel market: Investments in France


Source: BNP Paribas Real Estate Research

Short-term outlook

Supply of hotel rooms	→
Tourism demand	↗
Occupancy rate	→
ADR	↗
RevPAR	↗
Investment volume	→

The French hotel market is expected to be quite robust until the end of 2013 in spite of the more difficult market environment. The revenue per available room could reach at least the level of the previous year. While the occupancy rate should continue to stabilize, it can be assumed that the room rates will rise slightly due to increasing tourism demand and low numbers of completions. This applies in particular to the hotel market of Paris, which should continue to enjoy an above-average performance. Furthermore, it can be assumed that the events in Marseille and Provence due to their being named the European Capital of Culture will improve the hotel performance in this region.

Given the stable hotel performance and the simultaneous shortage of hotels, investor interest should also remain high. Last but not least, Paris's reputation as a "safe haven" for investors and the long-term success of Parisian hotels will strengthen this. Investments in 2013 should exceed the amount from 2012 due to the positive start to the year.

The medium- to long-term outlook for the French hotel market is positive because the hotels should benefit from an improving economic environment and a further increase in tourism from abroad, particularly from Brazil, Russia and China. In addition, the recently completed or currently planned luxury hotels of Asian brands will increase tourism from Asia.²³ This development is also consistent with the forecasts by the UNWTO, which expects annual above-average growth of 1.8% in arriving foreign tourists through 2030 for western European countries.²⁴

²³ These include Mandarin Oriental (Opening Fall 2011), Buddha Bar Hôtel (2013), the enlargement of the Shangri-La Hotel (2013).

²⁴ UNWTO Tourism Highlights 2013

Housing market

Growing demand for housing

The French housing market is characterized by the dynamic demand resulting from the growth in the population and households. The number of households looking for housing has risen faster than the population overall from 1975 to 2005 (at an average annual rate of 1.2% vs. +0.5%). This development is in accordance with the trend toward smaller households, which is due not only to the ageing of the population, but in particular to the growing percentage of single parent households and couples with separate budget management due to growing professional mobility. As a result, the average household size fell from 2.9 in 1975 to 2.3 in 2005. According to forecasts by the State Statistical Office INSEE, the number of households should increase by 236,000 to 261,000 annually from 2005 to 2030. This corresponds to an increase of 25%. However, the average household size will decline from 2.31 (2005) to 2.04 or 2.08 (2030).

Shortage of supply

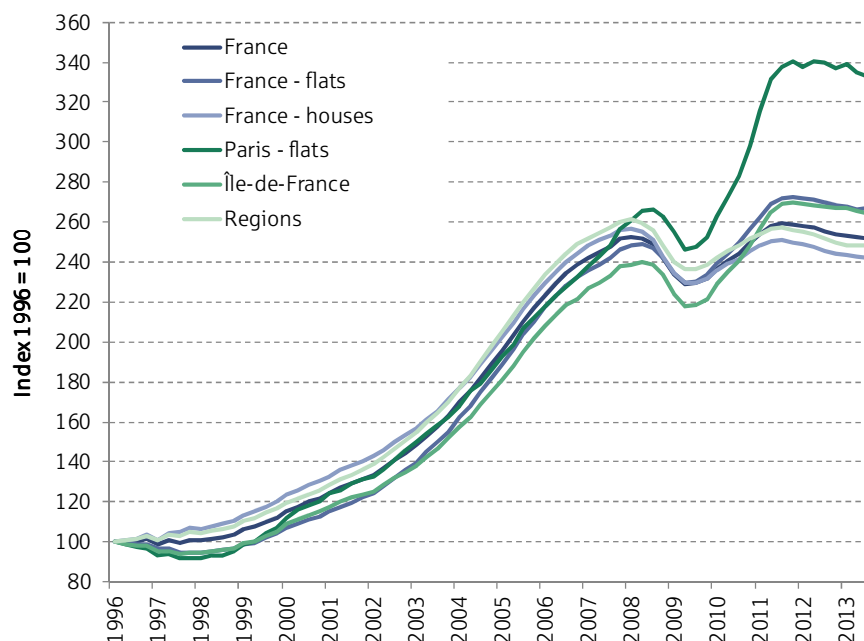
The French housing market has 33 million pieces of residential real estate of all kinds, including main and second homes, and is a very active market. As the most visited country in the world, France is considered one of the leading destinations for second homes worldwide. The housing market is highly diversified and shows large differences between individual regions and between urban and rural areas. Due to the population growth as well as frequent moves, the demand for high-quality residential real estate is often not covered. According to experts, the shortage of flats is estimated to be between 800,000 and 1 million.²⁵ This shortage in supply is particularly noticed in the region of the capital due to the low construction activity. That is why the "Le Grand Paris" project is aiming to increase construction activity, among other things. In addition, the efforts by the authorities to promote vigorous restoration will trigger a wave of modernization. Consequently, there is a shortage of supply in terms of houses in France, and they are expensive, especially in the more densely populated areas and the major tourist centres.

Price adjustments on the housing market

The French housing market has been characterized by continuous growth over the last few decades. The prices for residential real estate have increased 2.5 times since 1996. While the increase in prices in Paris has more than tripled in the segment of flats since then, both the house prices as well as the flat prices have more than doubled in the other regions. Particularly in the boom years from 2003-2007, there was an average price increase of roughly 12% per annum. During the global economic crisis, the housing prices in France also fell and were approx. 10% below the all-time high in the summer of 2009. Right after the downturn, there was a strong recovery – particularly in the Paris region – and in the autumn of 2011 the residential property prices, driven by low interest rates and a favourable investment climate, reached a new all-time high. In the spring of 2012, the boom on the real estate market came to an end and prices have been falling again. This is due to the weak economy and the rise in unemployment, among other things.

²⁵ Chambre des Notaires de Paris June 2013

Price changes on the housing market



Source: INSEE, Notaires; own chart

Fall in prices is currently slowing down

In the third quarter of 2013, the prices for residential real estate fell slightly overall as compared to the previous quarter (-0.2%). But the fall in prices slowed over the course of the year. While the prices for houses fell by 0.4%, the prices for flats rose again slightly for the first time in six quarters (+0.1%). Compared to this quarter in 2012, prices in France fell by 1.4% in total, however.

In Paris, as well as in the Île-de-France region, prices fell slightly, by 0.5% and 0.3%, respectively, when compared with the previous quarter. In the French regions, however, prices nearly stagnated (-0.1% in total and +0.8% for flats and -0.5% for houses).

Price changes Q1 to Q3 2013

	Δ Previous quarter			Δ Previous year		
	Q1 2013	Q2 2013	Q3 2013	Q1 2013	Q2 2013	Q3 2013
France	-0.3	-0.3	-0.2	-2.0	-1.9	-1.4
Flats	-0.4	-0.4	0.1	-1.5	-1.6	-1.2
Houses	-0.2	-0.2	-0.4	-2.4	-2.0	-1.6

Source: INSEE, Notaires

Prices vary greatly from one region to another

In France, prices show great regional disparities. At the end of the first quarter in 2013, the Chambre des Notaires de Paris determined that the average square metre price for flats in the capital was € 8,260. Residential properties in Paris are still cheaper than in other major capitals such as London. In the centre of the city (1st to 7th arrondissement), which includes historical Paris as well as the most coveted properties, the prices are the highest (12,400 to 14,650 €/m²) for prime properties that reach values from 20,000 to 25,000 €/m² due to their outstanding quality (e.g. town houses, flats with an exceptional view).

High prices in Paris and the Île-de-France

In the densely populated Île-de-France region, where the majority of the national wealth is created and many companies, research and development facilities, as well as political and administrative institutions have their headquarters, construction is only possible to a very limited extent, and the shortage of residential real estate is very pronounced. As a result, prices are very high. The price gap between the Île-de-France region and the rest of the country is – apart from a few exceptions (Côte d’Azur, Genevois as well as the larger tourist areas) – is very large. This applies in particular to flats. The prices for flats in the Île-de-France was 5,470 €/m² in the first quarter of 2013.

Even in large cities outside of Paris, the prices for owner-occupied flats in some cases exceeded or just fell short of 3,000 €/m² (Lyon and Toulouse, each 3,200 €/m², Bordeaux 2,930 €/m², 3,070 €/m² in Lille, as well as around 2,500 €/m² in Marseille, Nantes and Rennes). In the prices for houses, the price gap between the Île-de-France and the other large cities is not as great, since the houses are somewhat outside of the densely populated districts. Here, the average prices were € 300,000, with the exception of Lille, where housing prices only reached the level of € 180,000, since the mining town has a sufficiently large supply of traditional houses at affordable prices.

High prices in selected tourist regions

France, as one of the world's leading tourist destinations, has a good climate, an outstanding landscape (long coastlines, mountains and lakes) as well as a wide range of cultural and leisure activities. As a result, the real estate prices in the popular tourist destinations are high. There are also some properties in the luxury segment (including castles or old houses, properties with a sea view or in the mountains). On the Côte d’Azur, cities such as Cannes, Nice and Antibes have average prices from 3,640 €/m² to 4,570 €/m² for old flats and € 441,000 to € 575,000 for houses. The prices for prime real estate can also exceed € 3 million. In the Savoie département (Rhône-Alpes region), the prices for old flats are the highest in the three ski areas of Val d’Isère (7,360 €/m²), Méribel (8,330 €/m²) and Courchevel at a height of 1850 (11,170 €/m²). The last ski resort is very popular with Russians in particular. Some properties have a value of 30,000 €/m².

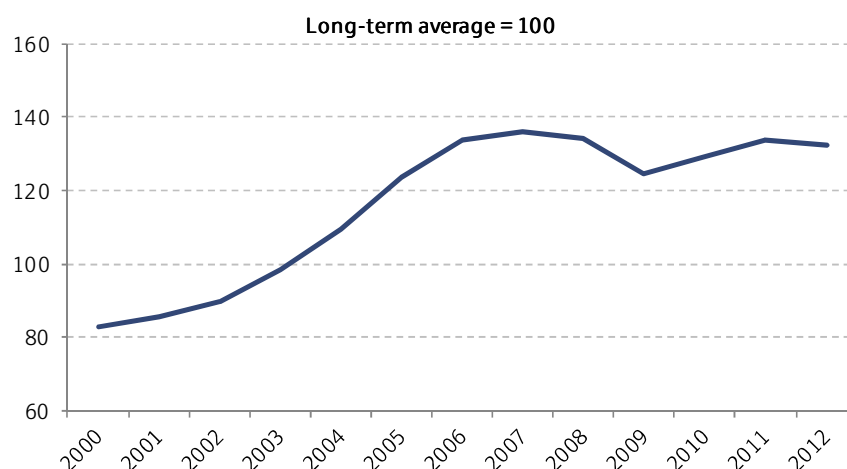
Affordability is reaching its limits

A look at the affordability of houses, as measured by the relationship between housing prices and available income, makes it possible to draw conclusions about whether a market is over-valued. It shows that this relationship has increased by more than 60% since 2000. The still very high prices are largely due to the change in prices in Paris. Prices not only rose significantly in the boom years from 2003 to 2007. A strong factor was also the high demand from investors in the years after the financial crisis, who viewed Paris as a "safe haven". As a result, residential real estate for the people living there is hardly affordable at the present time.

Slight improvement in affordability recently

In 2012, however, the affordability due to the price adjustments improved again somewhat. It is also below the level before the outbreak of the financial crisis.

Affordability index (price-to-income ratio)

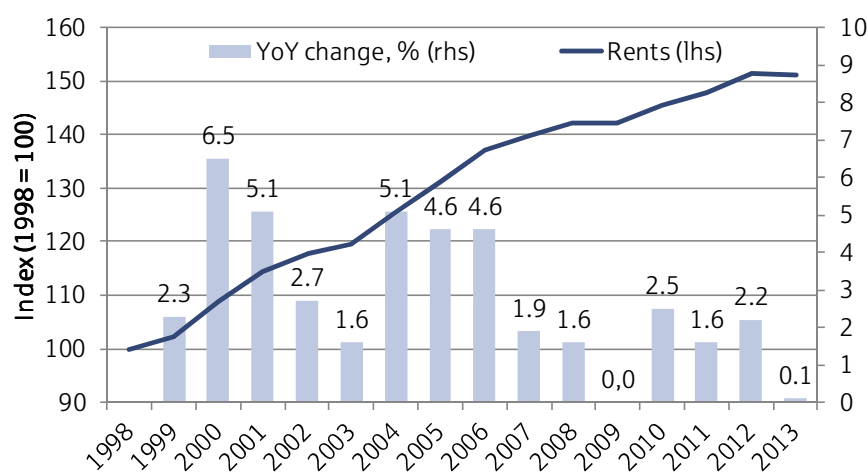


Source: OECD, own chart

Stabilization of rent on a high level

Rents in France have increased since 1998, from 8.40 €/m² to 12.60 €/m². This corresponds to growth of roughly 50%. In particular in the boom years from 2003 to 2007, there was a sharp rise in rents. After stagnation in the crisis year of 2009, they increased once again from 2010 to 2012. Since then, rents have stabilized at a high level.

Change in rents



Source: Clameur, own chart

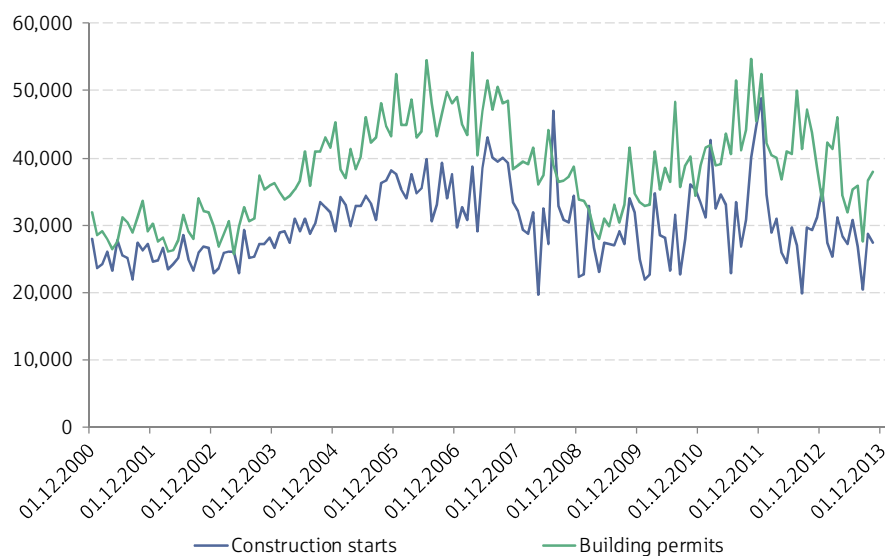
Rent: Large gap between the Île-de-France and the other regions

From 1998 to 2013, average rents in the Île-de-France were at 144.3 and thus significantly above the national average (France = 100). The rent is much lower in the other regions. Relatively high rents can still be found in the tourist areas on the shore of the Mediterranean Sea: Provence Alpes-Côte d'Azur (101.3) and Languedoc-Roussillon (89.7), in the region of Nord-Pas-de-Calais (incl. the city of Lille, 92.1), the ski region Rhône-Alpes (89.4), in Normandy (88.2 to 89) and on the Atlantic coast.

Low construction activity

A development similar to that of housing prices is also seen in the construction sector. Since 2004 there has been a significant increase in construction activity as a result of the continuing rise in prices for real estate as well as a social housing programme by the French government with the goal of alleviating social tension in the suburbs. In 2007 the construction boom reached its high and then collapsed in the course of the financial and economic crisis. Since the summer of 2009, the construction sector has picked up again. In 2012, however, the number of building permits compared to the previous year declined once again (-7.4%). In the first ten months of 2013, building permits fell by 10.2%, lower than in the same period of the previous year. This level is not sustainable, however, and the construction sector will be somewhat stronger again in the near future, even if the level of the boom years will not be reached due to the weak economy.

Change in construction starts and building permits

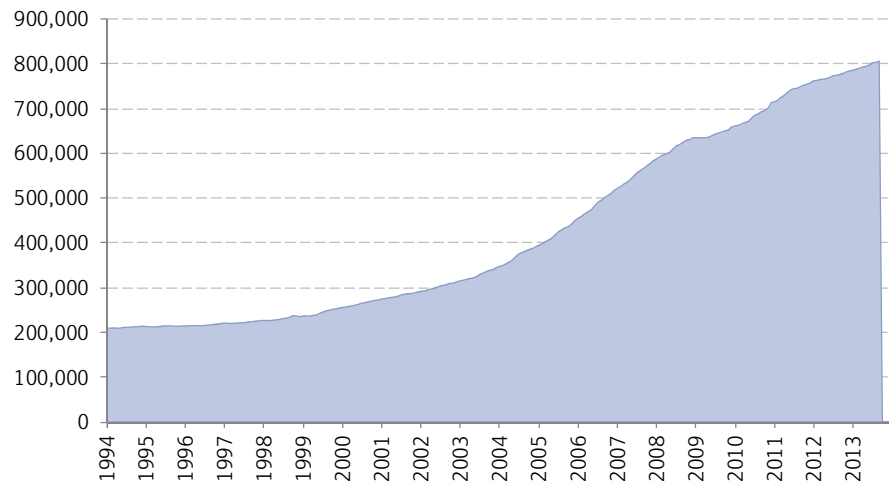


Source: INSEE, Bloomberg; own chart

Major mortgage market with slightly rising volume

The French mortgage market is one of the largest and most significant in Europe due to the size of the country, the ongoing boom on the real estate market and the construction boom between 2003 and 2007. In the boom years, private mortgages increased by 14% per annum. After the slowing of growth in the economic crisis, a greater increase in the mortgage volume was observed. Since the beginning of 2012, a slowdown in activity due to the sluggish construction sector has also been noted. The outstanding mortgage volume at the beginning of September 2013 was around € 806 billion and only rose by 3.8% as compared to this month in 2012.

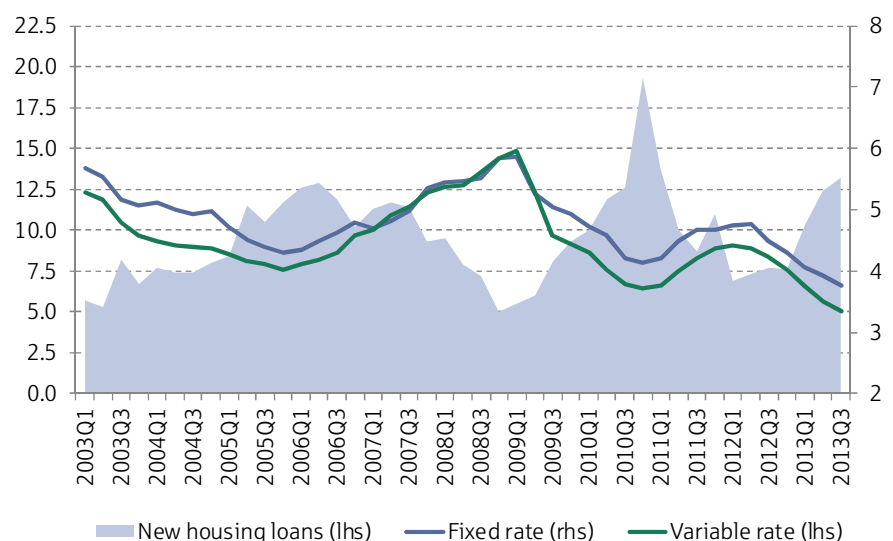
Private mortgages (in € billion)



Source: Banque de France; own chart

Interest rates have fallen continuously in recent years. Variable interest rates at the end of the third quarter of 2013 were 3.34%. Fixed interest rates (all maturities) reached a new low of 3.77%. In the past, the percentage of adjustable rate mortgages was higher than fixed-rate mortgages, but their share fell massively in recent years due to the low interest rates. For new loans, the share of fixed-rate mortgages is now around 90%. This results in a certain stabilization of the real estate market, since more and more households have secured affordable mortgage financing for years. For this reason, the French mortgage market should be described as stable despite an average loan-to-value ratio of 80%. It is not affected as strongly as other markets by significant increases in interest rates. The relatively low household debt to GDP ratio should also allow for further growth on the mortgage market, in our opinion. Data collected by the Banque de France shows that the demand for home loans has increased strongly for the first time in years since the beginning of 2013 despite a further tightening of lending standards.

New home loans (in € billion) and interest rates (%)



Source: Banque de France; own chart

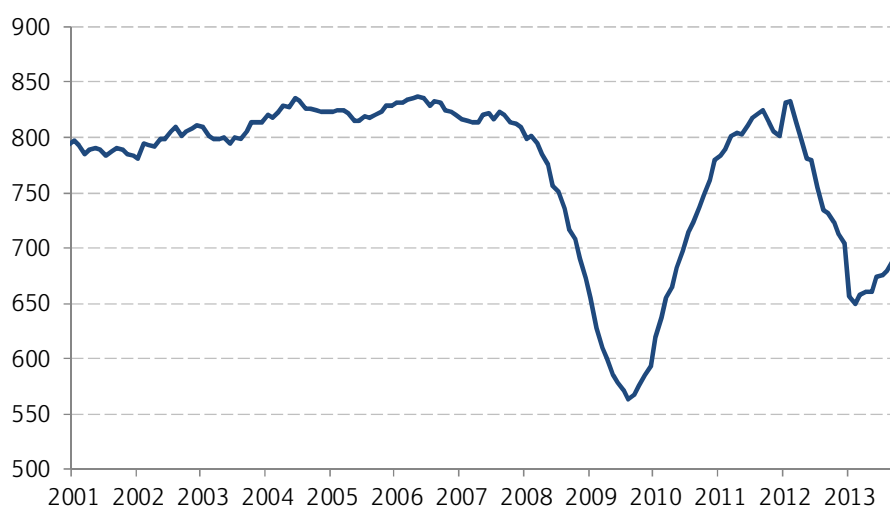
Increase in transactions since the beginning of the year

After a sharp drop during the economic and financial crisis, the cumulative number of transactions over 12 months (of existing properties) reached the pre-crisis level in February 2012 with roughly 833,000 transactions. Then the number of transactions declined again noticeably (-22%). Thanks to the robust demand, transactions have not collapsed entirely.

The current weakness in the French housing market is partly due to the overall economy as well as rising unemployment, which scares potential home buyers from making a major expenditure. In addition, the increase in mortgage rates in 2011/2012 also temporarily reduced the affordability of real estate. In addition, the banks reduced lending in the light of the debt crisis and Basel III. Last but not least, the increase in the tax on the sale of French holiday homes and second homes, which was introduced in February 2012 (and later amended) hurt investor demand (second homes must be held for 30 years rather than 15 years in order to avoid capital gains taxes on the sale). This was reflected in the number of transactions which were brought forward in January 2012 and then sharply fell off.

A return of the upward trend has been seen since the beginning of 2013. The cumulative number of transactions over 12 months totalled 689,000 in September 2013 and was still roughly 15% below the prior year. The recovery in transactions was due to the low interest rates, lower real estate prices, as well as the amendment of the capital gains tax for second homes which was announced in the autumn of 2012 and has now been implemented.²⁶ These developments have attracted more investors and stimulated demand for French residential property as a second home. Overall, we believe the number of transactions in 2013 will also remain around 10% below the level in 2012.

Number of transactions in the housing market (in 1,000s; accumulated over 12 months)



Source: CGEDD; own chart

²⁶ Second homes are now exempt from the capital gains tax after ownership for 22 years instead of 30 years.

Short-term outlook

Supply of housing and construction activity	→
Household demand	↘
Prices	→
Rents	→
Investment volume	↗

Weak economic growth and a further rise in the unemployment rate are expected through the end of 2013. Thus, the domestic demand for housing will remain weak temporarily. A further drop in housing prices cannot be ruled out in some regions. Since demand, however, is fundamentally strong due to demographic factors and the supply of residential housing is insufficient, a drop in prices should only be slow and gradual.

The first harbinger for the expected change in trend may, however, have been the price stability for owner-occupied homes in the third quarter of 2013, the rise in loan demand and the increase in transactions since the beginning of 2013.

No later than in the course of ongoing economic recovery in 2014 do we believe that a sustainable stabilization of prices for residential real estate is expected, which will result in a further stimulation of construction activity.

Conclusion

What are the structural and regional characteristics of the French real estate market?

Starting with the questions asked at the beginning, we have drawn the following conclusions from our evaluation of the French real estate market:

- ◆ France, along with the United Kingdom and Germany, is one of the most important real estate markets in Europe. In the area of commercial real estate alone, investment totalled € 16.6 billion in 2012.
- ◆ Unlike Germany, France has a centralist structure that has developed over the course of history and strongly influenced the development of the region. The Île-de-France is by far the most important economic centre of the country and accounts for approximately 30% of the national GDP.
- ◆ The capital region is home to the largest contiguous office market in Europe with floor space of 52 million m². More than half of the country's office stock is located here. Other important office markets are located in the five leading business locations of Lyon, Marseille, Lille and Toulouse.
- ◆ France counts as one of Europe's largest retail markets with annual retail sales of up to € 500 billion. In terms of population, the country has almost 64 million potential customers, making it the second most important European market after Germany, and will also benefit from a sustainable growth in population in the future. In addition, France attracts around 83 million arriving foreign tourists and thus a large variety of consumers as the world's leading tourist destination. In addition to Paris, the cities of Lyon, Marseille and Lille have established themselves as three other important sub-markets.
- ◆ The country also counts as one of the main European logistics markets due to its well-developed transport infrastructure. The Île-de-France is the leading logistics region in France due in part to the centralized transport network, the immense industry and population density, and the supply needs resulting from this.

When can we expect a turnaround in individual markets or where is there still potential for growth?

What risks may need to be considered?

- ◆ As one of the world's leading tourist destinations, France has an important hotel market. Paris is an economic, cultural and administrative centre, making it one of the most visited cities in the world and accounting for approximately one third of all overnight stays in France.
- ◆ The French housing market is also enjoying a solid rise in demand due to the population growth.

France has a GDP of USD 2.6 trillion, making it the fifth largest economy in the world. The continuing economic weakness has, however, also left traces on the real estate markets. The individual sub-markets are affected by this to a varying degree.

Office market:

- ◆ Weak GDP growth and the rise in unemployment recently led to a decline in demand on the French office rental market. Due to the expected economic recovery in 2014, the rental markets should gradually start reviving in the middle of the year. In 2014 we expect Paris to again see rising rents. The parallel stabilization and the subsequent rise in value offers good income potential over the coming years. In the regional centres, the high availability of floor space and the ongoing construction activity mean slight declines in rent should be expected in the near term. But no later than in 2015 should optimism return to the market and lead to slight increases in rent.

Retail market

- ◆ As a result of the stable retail sales, the demand from national and international chains and luxury brands for retail space in the 1a locations of large French cities continues to be very high. Due to excess demand, prime rents in Paris just reached new highs. The regional cities were also able to maintain their top rents at a high level. In secondary locations, particularly in the small to medium-sized cities, there is increasing downward pressure on rents due to the oversupply of space.
- ◆ On account of the improving economic conditions, an improvement in the purchasing power of private households can be expected. Together with the positive population growth and a further increase in the number of tourists, slightly rising retail sales are expected in the coming years. There is further market potential in this segment due to the slightly below-average number of shopping centres when compared to other European countries.
- ◆ Roughly 70% of the shopping centres are from before 1990 and thus comparatively old. Therefore, in addition to new construction, the refurbishment of shopping centres with adequate catchment areas offers additional investment opportunities.

Logistics market:

- ◆ The logistics market is also feeling the continued economic weakness and had to accept significant declines in demand recently. Starting in 2014, the expected GDP growth, the increase in the consumption of private households and rising exports should boost the logistics sector. In particular, grade A space will be in demand. Its share of the total supply of available space is currently low, however, because no speculative construction activity has taken place for years. The average rents for grade A space should continue to develop stably as a result.

Hotel market:

- ◆ The French hotel market was able to recover quickly from the financial and economic crisis. In terms of the key performance indicators (average room rate and revenue per available room), Paris reached its pre-crisis level long ago. Despite the recently difficult market conditions and the slowdown in domestic travelling, the French hotel market was quite robust. It is expected that the room rates will rise slightly in the short term due to increasing tourism demand and the low number of new hotels. This applies in particular to the hotel market of Paris, which continues to enjoy an above-average performance.
- ◆ The medium- to long-term outlook for the French hotel market is positive because the hotels should benefit from an improving economic environment and a further increase in tourism from abroad, particularly from Brazil, Russia and China. In addition, the planned opening of several Asian brand luxury hotels will increase the number of tourists from Asia. According to the forecasts by the UNWTO, annual above-average growth of 1.8% in arriving foreign tourists is expected through 2030 for western European countries.

Housing market:

- ◆ The French housing market enjoyed high growth rates over the past few decades and was also able to recover quickly from the consequences of the financial and economic crisis. The weak economy and the rise in unemployment have led to a drop in prices since the spring of 2012. Domestic demand for housing should remain temporarily weak through the end of the year. A further drop in residential real estate prices cannot be ruled out in some regions. Since demand, however, is fundamentally strong due to demographic factors and the supply of residential housing is insufficient, a drop in prices should only be slow and gradual.
- ◆ The first harbinger for the expected change in trend may, however, have been the price stability for owner-occupied homes in the third quarter of 2013, the rise in new loan demand due to the ongoing drop in interest rates on loans and the increase in transactions since the beginning of the year. It is expected that the prices will stabilize in the course of the accelerating economic growth.

As one of the leading European real estate markets, France should also have a high level of attractiveness in the future. With its various uses, the French real estate market enjoys a wide range of investment opportunities.

Contact

Short profile of Deutsche Hypothekenbank

Deutsche Hypo is a Pfandbrief bank that specializes in the financing of commercial real estate and capital market business with German and foreign customers. It is a part of the NORD/LB Group and is its centre of competence for the commercial real estate finance business, one of NORD/LB's core business areas (office and retail real estate, residential construction, hotels and logistics). Deutsche Hypo, which was formed in 1872, does business in Germany, Great Britain, France, Benelux and Poland. It has its headquarters in Hanover and is also present in Hamburg, Frankfurt, Munich and Nuremberg as well as Amsterdam, London, and Paris and Warsaw. Deutsche Hypo has roughly 400 employees and total assets of € 33.3 billion, making it one of the largest German real estate financiers. You will find more information at www.deutsche-hypo.de.

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Important information

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