

## Amundi Real Estate

### The French Real Estate Market – 4Q 2009

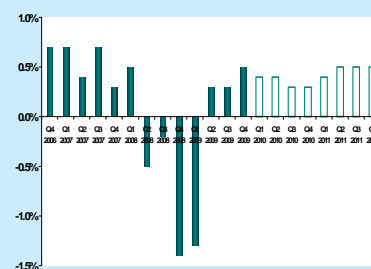
#### Macroeconomic climate

##### > Progressive economic improvement

With an expected overall fall of 2.3% in Gross Domestic Product for 2009, the French economy appears to have better navigated the economic crisis than its European neighbours thus highlighting the differences in growth rates between countries. The economy was actively supported by the effective use of 'social shock absorbers'. Household consumption remained positive at 1%, sustained by government measures such as the car scrappage scheme that significantly boosted vehicle production and importation in the second half of the year. In December, household expenditure increased by 2.1% month on month and leaped 3% in 4Q09 compared to 3Q09. Domestic demand was buoyed by deflation throughout most of the year. As France exports less than its European counterparts, the fall in trade, particularly in 2H09, had less of an impact on the French economy.

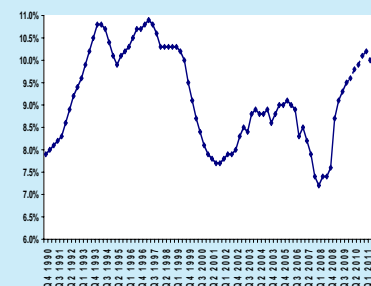
However, improving economic indicators have yet to be reflected in employment figures: unemployment continues to rise, albeit at a lower level than at the beginning of 2009. According to Job Centre estimates, the French economy lost 325,000 jobs in 2009 after losing 101,000 in 2008, a never-before-seen figure over such a short period.

#### Change in Gross Domestic Product (GDP)



Source: Insee, Crédit Agricole S.A.

#### Unemployment rate



Source: Insee, Crédit Agricole S.A.

#### The real estate market

##### Commercial real estate

##### Office market

##### > Occupier market sees good performance this quarter

Take-up bounced back in 4Q09 with 550,000 sqm transacted, a 38% increase on 3Q09 and up 13% on 4Q08. A number of large transactions were completed at the end of the year for new buildings or buildings under development on the outer rim of Paris.

The 4Q09 upturn in activity recorded meant that take-up reached a satisfactory year-on-year level. For the whole of 2009, transaction volume stood at 1.8 million sqm, down 25% on 2008 but only 13% lower than the annual average for the last ten years. However, economic conditions have not favoured company moves and many continue to wait as they bear the brunt of the financial crisis and a significant slowdown in activity. As rents continue to fall, many tenants find themselves in difficulty and with flagging occupier demand that has curbed lease volumes throughout the year, landlords are increasingly likely to accept lease renegotiations.

Despite quarterly statistics including several major transactions at the end of the year, the small-and-medium-space segment dominated activity in 2009. As SMEs felt the impact of the downturn more strongly and more quickly, many needed to relocate to smaller premises. This meant that only 38% of rental transactions were for space over 5,000 sqm compared to 43% in 2008. The net absorption stood at -100,000 sqm at the end of the year, with the share of occupied offices reducing significantly, as occupiers sought cost savings and rationalisation.

This meant that supply increased noticeably over the quarter. Availability stood at 3.6 million sqm at the end of December but the increase slowed over the last three months to 6% of the volume of supply at the end of September 2009. Year-on-year, this is still considerable. Supply increased by almost a third between the end of 2008 and the end of 2009 and, despite a considerable fall in completions, the vacancy rate stands at 6.8%. The volume of developments underway has fallen by 14% since the beginning of the year and caused a decline in the quality of available space. As a result, 72% of current supply is second-hand stock.

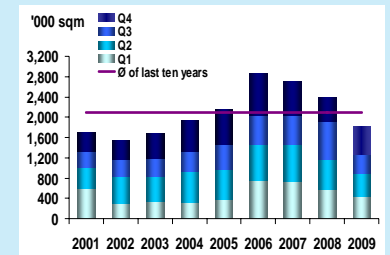
In this context, rents continued to fall during 4Q09. Prime rent now stands at €664 per sqm/year, down 11% on the last three months and 17% in a year. Average rent is falling more slowly, by 6% over the last 12 months, but the decrease accelerated from mid-2009. As the market sees significant rent correction in the capital, lower-quality, less-well located stock is feeling the pressure of increased competition from higher-quality buildings, closer to Paris, or even in Paris.

Albeit to a lesser degree than the Greater Paris Region, regional markets also experienced a drop in take-up in 2009. With almost 1.1 million sqm leased over the last 12 months, regional markets fared reasonably well as the fall in transaction volumes reached 12% compared to 2008. Almost all regional markets saw a fall in take-up and, as per the rental market in the Ile-de-France, few major transactions were completed in 2009.

Current supply increased in 2009 reaching almost 2 million sqm at the end of December. The imbalance between supply and demand is less clear in regional markets than in the Greater Paris Region and supply is mainly fed by releases of second-hand stock. With new space representing 40% of take-up but only 32% of supply, new buildings are being leased more quickly.

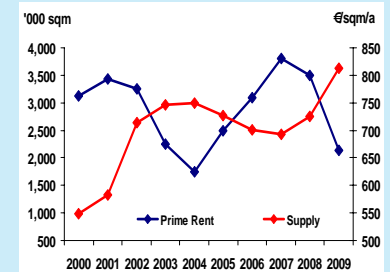
This has allowed rents for new offices to remain stable in 2009 but support measures granted by landlords, concerned about attracting and retaining tenants, increased. The highest rents were recorded in Marseille where they reached €250 per sqm/year followed by Lyon with €230 per sqm/year. The Marseille market benefited from strong demand, notably from the authorities faced with weak availability of quality supply. Rents for second-hand stock have seen a slight fall across nearly all markets in the Regions.

**Office take-up – Ile-de-France**



Source: Immostat

**Supply and Prime Rent – Ile-de-France**



Source: CB Richard Ellis

**Warehouse market**

**> Rents stabilised in 4Q09 but general downturn for the year**

The first three quarters of 2009 showed a significant downturn in take-up which continued throughout the year in to 4Q09. Only 15 transactions took place with only 280,000 sqm leased in the last three months of the year representing a drop of 29% between 3Q09 and 4Q09. With 2.5 million sqm leased in 2008 and 1.5 million in 2009, take-up fell by 41%.

The geographic spread of transactions was the same as the previous year with the most activity focused along the North/South axis of the country. The Greater Paris Region accounted for 25% of total lettings followed by the Rhone Corridor and the far north which recorded 22% and 21% of activity respectively. Occupier demand fared well in both the Greater Paris Region and the Rhone Corridor with decreases in rental transactions of 18% and 35% respectively. Less-established markets beyond the North-South axis saw heavy falls in transactions, notably the Centre (-66%) and the Far South (-54%).

Instead of moving, many logisticians sought lease renegotiations to optimise their use of rented space and gain economies of scale. This policy was well-received by landlords who opted to maintain rental revenue even at lower levels and increase security through retaining tenants on longer lease terms.

A lack of market transparency combined with the fragile economic climate favoured a wait-and-see policy among market players. The resulting fall in demand has led to the delay of a significant number of projects by increasingly cautious developers and investors. Postponements started from 2H09, moderating rising stock levels and meaning that speculative supply (not pre-let) reached 300,000 sqm at the end of December, down 70% in a year.

At the same time, immediate supply continued to grow, by 9% between 3Q09 and 4Q09 to reach 3.3 million sqm. Year-on-year, immediate supply increased by 44% and almost half of the available buildings were new or renovated. Hence most markets are currently in a state of over supply.

As a result, rental values for headline rents as well as those for net effective rents have fallen. In the Greater Paris Region, prime rents have fallen from €55 to €52 per sqm/year and from €49 to €45 per sqm/year in the Lyon region. At the same time, increasingly attractive incentives are being offered by landlords. Despite this, rental values stabilised across all markets in 4Q09.

**Retail market**

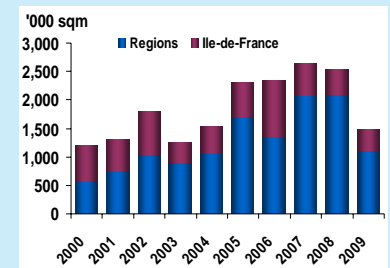
**> Rent levels maintained for best-located space**

Good performance in household consumption, particularly at the end of the year, led to good retailer activity across all type of premises – high street shops, shopping centres and retail parks.

High street shops have benefited from the increase in the number of retailers seeking out the best town-centre locations while withdrawing from less-profitable locations. Prime rents were maintained at high levels in major French cities but secondary locations saw a significant fall. Despite the crisis, prime yields for high street shops remained stable in the last quarter.

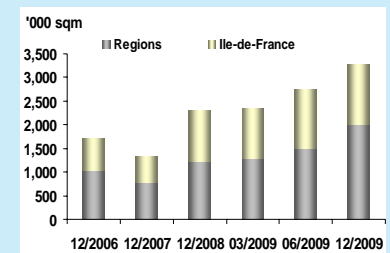
Shopping centre rents have dropped slightly and prime yields stabilised at 5.75% at the end of the year after having increased in 2H09. These should fall in 2010 to 5.50%, reaching the same level as in 2008.

**Take-up - Warehouses**



Source: CB Richard Ellis

**Supply - Warehouses**



Source: CB Richard Ellis

In 2009 the 'economy modernisation law' that allows commercial space under 1,000 sqm to be opened without authorisation (previously 300 sqm) gave rise to a rapid increase in production. As a result, stock of retail space has increased to 4 million sqm over the last 12 months, mainly in out-of-town retail parks

The proliferation of this type of space has caused a significant decline in rents. After a strong increase started in 3Q08 the prime yield has now stabilised at a level over 8%. However, yields for well-leased, quality retail parks, near to town centres should fall below the 8% level during 2010.

**Investment market**

**> Significant upturn in activity in the investment market in 4Q09**

Following a very weak 1H09, investments bounced back in 4Q09. €3.5 billion were invested over the last three months, almost half of the investment volume for 2009 and an increase of 21% compared to 4Q08. Almost 30 transactions over €40 million were recorded in the last 3 months.

Annual investment volume reached €7.6 billion, down 40% compared with 2008. This drop is explained by a strong fall in market values resulting from a clear increase in yields and a continued fall in rents. Assets located in Paris have increased in appeal, particularly buildings in the traditional Paris Centre West business districts, representing 43% of volumes transacted in 2009 and up to 50% of transactions in 4Q09.

Despite an easing of financing conditions, investors willing to invest at the best price and with more limited access to debt are playing a waiting game. This in turn has weakened the level of volumes transacted. The low level of product available on the market has also slowed investments as vendors expect an increase in market values before selling their assets.

Activity has been supported by investors with high equity such as SCPI, German funds and private investors. Their focus has been on more resistant product such as offices and retail which accounted for 92% of overall investment volume. Retail product is the only category to see an increase in investment volumes with a very strong upturn of 68% between 2008 and 2009.

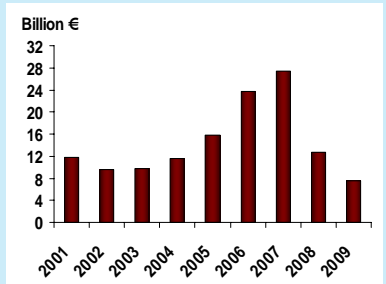
Regional markets also saw a significant increase in transactions, particularly the most liquid markets (notably Lyon). At a historically high level, these represented a quarter of investments.

In both Paris and regional markets prime yields fell from 3Q09. Strong competition among investors for the best, medium-sized assets, leased at market rents in the Greater Paris Region or in regional markets is causing downward pressure on prime yields. The fall in prime yields is even greater in regional markets (-45 bps) than in the Central Business District (-25 bps).

The risk premium, difference between the prime property yield and the deflated risk-free rate, remains high. Rates have increased slightly but have been reduced by a slight return of inflation (0.9%) at the end of the year. The increase in inflation is therefore of benefit to real estate investment and contributed to the increase in risk premium this quarter. Despite a fall in prime yields of 75 bps since the high point of 1Q09, risk premium is close to the level seen in 2008.

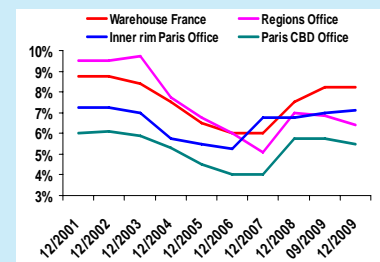
Second-hand products are still seeing yield increases as, in the context of stilted occupier demand, investors still deem the risk premium to be insufficient for lower-quality, less well-located product.

**Investment volume**



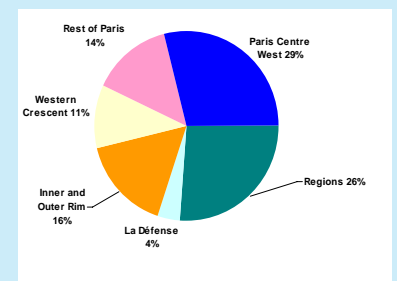
Source: CB Richard Ellis

**Prime yields**



Source: CB Richard Ellis

**Investments by geographical zones**



Source: CB Richard Ellis

**Outlook**

**> A slow occupier market and increasing investments in 2010**

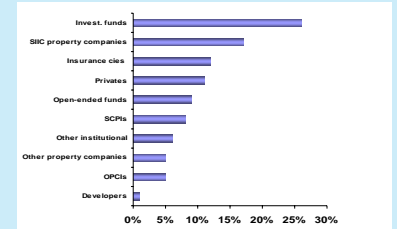
On the back of a recovering global economy and with emerging countries back in a phase of rapid development, France should, after a difficult 2009, see the return of growth in 2010. Recovery will be slow and fragile. Temporary support measures such as destocking and the government's relaunch plan should subside and lead to a further slowing of the economy. According to Crédit Agricole forecasts, growth in Gross Domestic Product should be at 1.5% but this will not be enough to cancel out the number of jobs lost. As a result, unemployment will continue to rise throughout 2010, albeit at a lower rate than in 2009; around a further 60,000 jobs will be lost.

Take-up should therefore remain at the same level as 2009 while supply, restrained by a fall in deliveries, should be weaker. The quality of available space will decline in the Ile-de-France as well as in regional markets. Rent decreases should therefore be more marked for second-hand properties than for higher-quality stock that has already been subject to a major correction.

The halt in the production of logistics platforms should lead to a stabilisation of rents in 2010. The abundance of available supply, at very attractive rent levels and with significant incentives should encourage occupier moves. Take-up in 2010 should reach a similar volume to that seen in 2009.

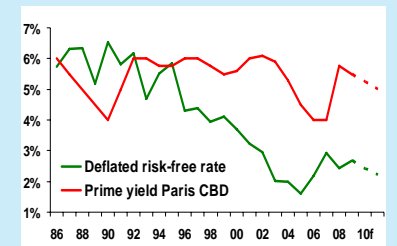
The investment market should be more fluid in 2010 and reach a total volume between €10 and €12 billion with transactions focussed mainly on the best product. Prime yields should therefore fall slightly over the coming months. Risk premium should remain high, at least at the beginning of the 2010, because deflated risk-free rates should remain relatively low in 1H10 weakened by the return of inflation. As a result, we will see a two-speed market in 2010. On the one hand prices are gradually stabilising for the best-located assets through the combination of pressurised yields and smaller decreases in rent and on the other hand, second-hand stock that will continue to see considerable falls in value. This fall for lower-quality product intensify if insurers begin to sell this type of property as part of the new Solvency II regulations that require them to retain higher levels of capital.

**Investments by purchaser type**



Source: CB Richard Ellis

**Risk premium**



Source: CB Richard Ellis, Banque de France, Amundi Real Estate

The market of the residential real estate

**Acquisitions market**

> **Slight market recovery at the end of the year ...**

From 2Q09 consumer confidence was restored, at least temporarily, by the gradual improvement of the economic environment. This has started to be seen through a number of positive outcomes for both new and second-hand assets on the residential real estate market.

Despite an almost lifeless 1Q09, the second-hand market did not collapse in 2009. The number of transactions actually increased in 2Q09 and this upturn continued into the second half of the year. In the first quarter, the fall back in year-on-year sales was significant at around -40% but was more moderate over the whole year at -18%. In total around 590,000 sales for second-hand homes were recorded in 2009, historically, a more than respectable year. The slight fall of almost 120 basis points in interest rates on 15-year loans led to the resolvability of potential purchasers and helped compensate for the reduction in average loan terms granted by lenders. Second-hand house prices continued to fall throughout the year, albeit less sharply than in 2008, encouraging potential purchasers to invest. Having fallen by almost 10% in 2008, prices dropped by a further 4.9% in 2009 (according to French National Property Federation (FNAIM) statistics), taking prices back to their 2005 level. Changes in price were varied in 2009 as 1H09 showed continued decreases and prices stabilised during 2H09. Prices even increased slightly in 4Q09 by 0.4% compared to 3Q09. As a result, sales times were shortened and negotiation margins reduced. Regional disparities are still very apparent - apartment prices fell sharply in Languedoc-Roussillon and in Haute-Normandie (-14%) but prices continued to increase in Basse-Normandie (+5%) and in Aquitaine (+3%).

> **... mainly due to good performance of new housing**

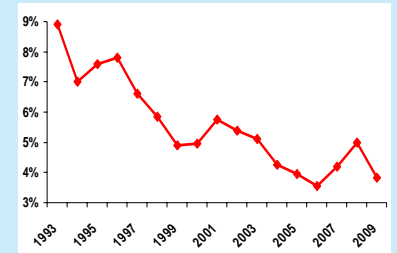
The market for new homes remained relatively stable throughout the year. A significant increase in the number of transactions, up 25% compared to 2008, kept prices at their end of 2008 levels. Almost 27,000 sales were recorded in 3Q09, up 65% in a year and by 23% on the quarterly average for the last 20 years. Approximately 100,000 new apartments will have been sold in 2009.

After a tough 2008 the significant increase in transactions was largely spurred by the creation of the successful Scellier plan which grants considerable tax relief to investors. Developers have therefore sold their best schemes to private investors as well as to institutional investors offering clients access to the Scellier plan through fiscal SCPIs. Transactions of this type should account for around two thirds of transactions for new build in 2010. The economic climate and employment issues in particular, have led conventional purchasers to be cautious. As a result, activity has been restrained, despite the doubling of interest-free mortgages.

The strong increase in activity for new build led to an even stronger rise in the creation of mortgages over the last few months of 2009. The level of credits granted to households rose from €133.6 billion in October to €135.8 billion at the end of November (total over 12 months).

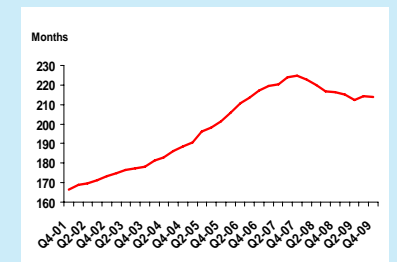
Moreover, the number of new homes available for purchase fell markedly in 2009 and the average time to absorption has gone from 19.6 months at the end of 2008 to 7.9 at the end of September 2009. This trend has been amplified by the drop off in the number of developments underway, down 21% year on year.

**Interest rates – annual average (15-year term)**



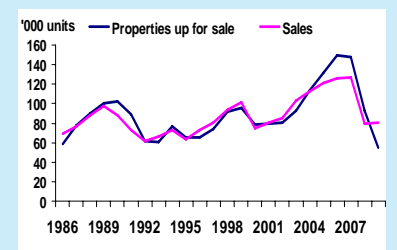
Source: Crédit Agricole S.A., FNAIM, Meilleurtaux.com

**Average loan term**



Source: Crédit Logement/CSA

**Change in sales and properties up for sale – new homes**



Source: Ministère de l'Ecologie

**Rental market**

> **Little movement in rents**

After a small decrease in the last two quarters, rents stabilised between September and December 2009. The rent index (IRL - calculated from the consumer price index) which acts as a basis for the calculation of changes in rent, fell by 0.06% in 4Q09, a first since its introduction in 2006.

There are now fewer potential tenants in the market. The marginal fall in rents of 0.8% recorded in 2009 hardly compensates for the increases seen in rents over the last few years. Despite several significant indexations, a new lease still means a higher level of rent than currently paid. Moreover, the fall in prices is encouraging potential purchasers to become homeowners.

**Outlook**

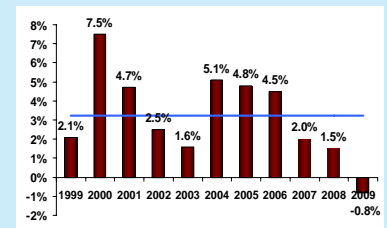
> **A mixed year 2010**

As economic indicators improve, consumer confidence has recently increased and should stabilise at a low level over the next few months. The unemployment rate will continue to rise throughout the year reaching 10% in 2H10 before beginning a slow recovery from 2011.

Purchasers waiting out the crisis were a key factor at the beginning of 2009 and will still have an influence in 2010, although to a lesser degree. The number of second-hand properties offered for sale should remain low as sellers wait for price stability or even slight increases in certain segments. The market freeze should continue with a level of transactions close to that seen in 2009. As a result, prices should fall slightly.

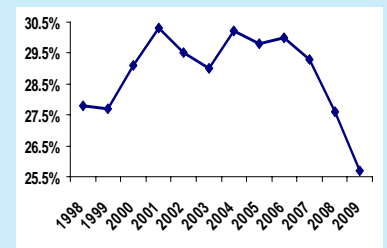
The market for new homes should remain buoyant in 2010. However, measures to support homeownership for purchasing tenants, such as interest-free mortgages and the Pass-Foncier scheme, should come to an end by the end of the year. As a result, the new homes market will be even more dependent on the Scellier scheme in 2010 than in 2009. Investor demand, private as well as institutional, will remain high whereas supply will be limited as developers stopped production 18 months ago at the height of the crisis. Well-located, new-build property will be therefore increasingly scarce and resulting prices for new homes should remain stable across France but may see small increases in major towns and surrounding urban areas.

**Variation of rents**



Source: Crédit Agricole S.A., Clameur

**Residential mobility – private rental stock**



Source: Crédit Agricole S.A., Clameur

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