



## ECONOMIC CONTEXT

The French economy improved in Q1 but this was mainly due to government incentives rewarded for the purchase of cleaner cars. Nevertheless, **zero GDP growth in the second quarter still came as a surprise.**

**Consumption came to an abrupt halt**, down 0.7% in the second quarter, and appears to have run out of steam. Inflation, which could exceed an average of 2% in 2011, is curbing purchasing power. In addition, budget austerity plans and consumers' concerns about the economic situation and the job market are generating increased caution in spending. The **unemployment rate in France** (excluding overseas territories) only fell by 0.1 point in the second quarter and now stands at **9.1%**. And if business leaders' current activity forecasts and hiring plans are anything to go by, the high rate of unemployment is not likely to fall significantly in the medium term.

Since the summer, **lower growth forecasts worldwide and the worsening sovereign debt**

**crisis** have brought down financial markets and destroyed the confidence of entrepreneurs. **The business climate index in France fell below its long-term average.** In September 2011, confidence was at its lowest level since the start of 2010. In addition, businesses are facing cashflow problems. The degenerating economic environment as well as the high level of bankruptcies will no doubt **lead to credit conditions becoming tighter**, despite the more accommodating monetary policy of the ECB. And even though the value of the euro has fallen, **French foreign trade will be troubled by the slowdown in the Eurozone.** The French trade deficit could well exceed €60 billion in 2011.

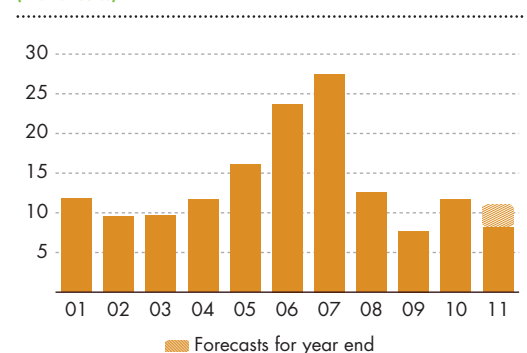
Under these circumstances, business activity is expected to remain modest in second half of 2011, a quarterly rise of 0.2% GDP is predicted, which will take annual average GDP for 2011 to 1.7%.

## THE INVESTMENT MARKET IN FRANCE

Almost **8.3 billion** euros were **invested** in standard commercial real estate in the first 9 months of 2011 in France, i.e. a year-on-year rise of 30%. As we predicted, following the slow start to the year, **the second half set off at a faster pace** and the month of September was surprisingly dynamic given the financial and economic upheaval that had been going on since the summer. The high level of investment was **bolstered by a few very large transactions.** In the third quarter, 3 large deals were closed each worth more than 300 million euros (a portfolio acquired by the Norwegian government pension fund, River Ouest and the Eurosic portfolio). The steady rise in the amount being invested in real estate emphasizes **the status of real estate as secure value amid the worsening sovereign debt crisis and plummeting stock markets.** On the whole, the market remained difficult with notably many properties being withdrawn from sale, some of which represented substantial

investments. This confirms the stringent selection criteria of buyers who are only interested in their idea of prime assets, and the difficulty in meeting sellers' financial expectations, which are often aligned to valuation values for secondary assets. **The prospect of an economic slowdown, possibly a recession, has rekindled caution amongst investors and market fundamentals remain the same.**

Changes in investment in standard commercial real estate in France (in billion euros)



Source: CBRE and Immostat - IPD

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## TRENDS

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

Trend / 3<sup>rd</sup> quarter 2010

## Offices still lead the field

Investment in industrial premises and logistics platforms, with 7% of total investment, was hampered in the first half of the year by investors' aversion to risk. In the third quarter though, it was **boosted by the conclusion of a few transactions on class A logistics platforms**, including that of a large portfolio. The retail segment, with 13%, was more than ever dominated by transactions on shopping centres, which accounted for 66% of investment volume during the summer. Most transactions involved small and medium regional centres for amounts between 50 and 100 million euros because no very large retail properties were on the market. **Offices retained their status as the preferred asset** of investors and accounted for 80% of the market. The last three months were marked by the return of portfolio sales in this segment. By contrast, **the rise in sales off-plan slowed down** despite the sale of 3 speculative developments located in the Inner Rim.

## Equity capital bolsters the market

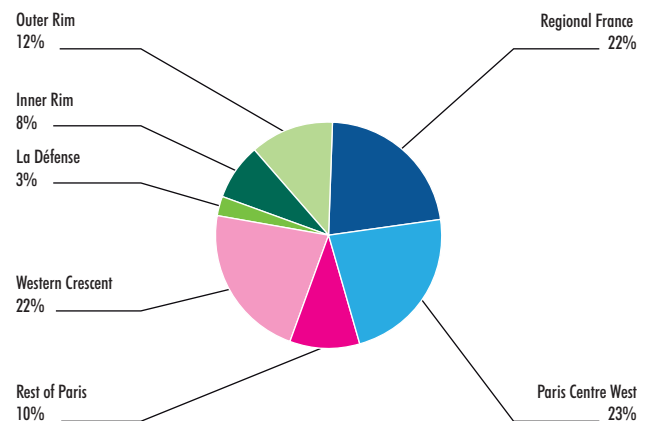
In a market where it is increasingly difficult to get financing from banks, **institutional investors** with high levels of equity capital **are now virtually the only players capable of taking position on large volumes**. They continue to dominate the market, **insurance companies** in particular **were very active** in the third quarter, and set up club deals to conclude some of the largest transactions of the year. **SCPIs** also benefited from high levels of collected funds and **continued to expand their volume of acquisitions**. Finally, a few foreign investment funds made a tentative return to the French market especially in the logistics and, to a lesser extent, the retail segments. At the end of the day, **activity was mainly confined to domestic investors** (61% of investment) together with a few European neighbours principally from Germany, Britain and the Netherlands.

## Considerable uncertainty hanging over 2012

With the present **financial and economic upheaval**, the end of the year appears fragile for real estate investment even though the total volume will benefit from the traditional end-of-year pressure to conclude transactions. The final figure is expected to hover in the range of **€11 billion for 2011**. In the longer term, contradictory signs blur forecasts for the market's prospects. **Demand for secure quality assets remains high**, especially for small volume investments, as shown by a slight but continued pressure on yields in some market segments. The general trend may be towards a stabilisation of yields, but **the end of the rise in short term interest rates and the sharp fall in long term rates make slight reductions on yields conceivable for the best assets** of liquid volumes, i.e. under 50 million euros. By contrast, **financing conditions**, notably the availability and cost of credit, **will inevitably get tougher** given the liquidity issues facing banks. In these circumstances, and with their stock market value taking a hammering, SIICs risk finding themselves back in a situation where they have to reduce their debt. Players using leverage to invest will have little room to manoeuvre. The market will therefore remain largely dependent on the strategies of investors with equity capital, who are often very reluctant to take risks. There is **great uncertainty surrounding the extent of the slowdown in the economy, and its impact on the occupiers' market** in terms of rents and voids.

## Geographic breakdown of investment excluding multi-site portfolios in 2011

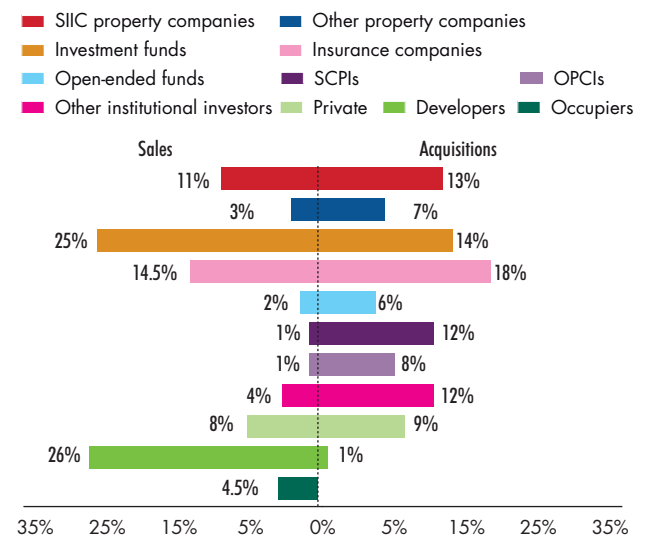
(in volume)



Sources: CBRE and Immostat - IPD

## Breakdown of sales/acquisitions by player in 2011

(in volume)



Source: CBRE

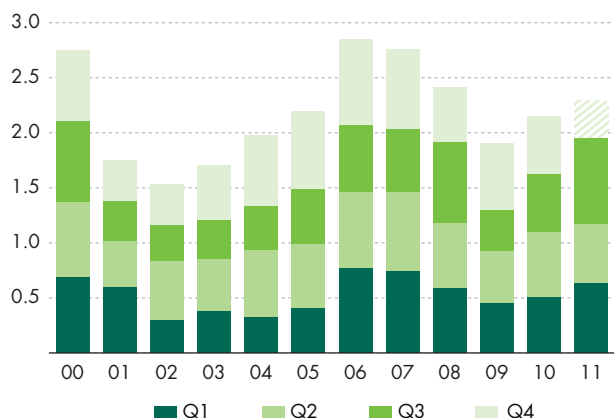
## Prime yields at 1<sup>st</sup> October 2011

Offices Paris Centre West	4.50% - 6.00%
Offices La Défense	5.75% - 6.75%
Offices Western Crescent	5.20% - 8.75%
Offices Inner Rim	6.00% - 9.00%
Offices Outer Rim	6.75% - 12.00%
Offices Regions	6.00% - 8.00%
Class A Logistics France	7.15% - 8.00%
Industrial space France	8.50% - 10.50%
Industrial parks France	8.25% - 10.00%
Shops France	4.35% - 9.00%
Shopping centres France	4.60% - 6.50%
Retail parks France	5.85% - 9.00%

Source: CBRE

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

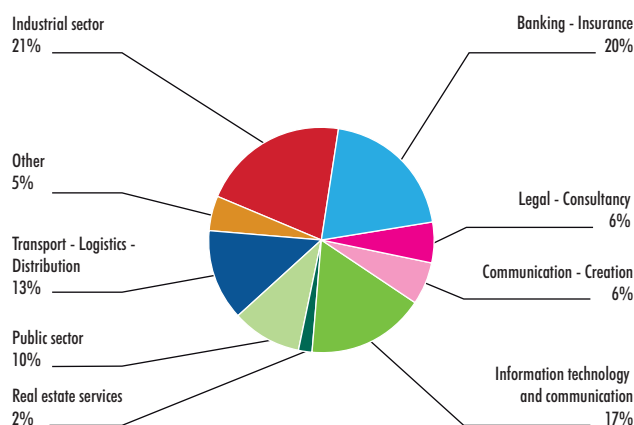
(in million sq. m)



Source: CBRE / Immostat - IPD

## Breakdown of take-up by business sector in 2011

(in volume, transactions &gt;1,000 sq. m)



Source: CBRE / Immostat - IPD

## Geographic breakdown of take-up in 2011

	<1,000 sq. m	1,000 - 5,000 sq. m	>5,000 sq. m	All areas
Paris Centre West	37%	19%	10%	17%
Southern Paris	8%	10%	19%	15%
North Eastern Paris	7%	3%	2%	3%
La Défense	3%	7%	1%	3%
Western Crescent	20%	29%	10%	15%
Inner Rim	10%	15%	27%	22%
Outer Rim	15%	17%	31%	25%
Total Ile-de-france	100%	100%	100%	100%

Source: CBRE / Immostat - IPD

## THE OFFICE MARKET IN ILE-DE-FRANCE

## Occupier interest maintained

The summer was marked by the usual dip in the amount of space being sought by business occupiers swinging up again when activity returned to normal after the holiday period. **The number of requirements registered showed a year-on-year increase** in September, of 11%. **The structure of demand also changed.** It was **stable in Paris**; the number of large requirements in the capital fell, but **occupiers' intentions to move were real.** In **peripheral zones** though, while the number of projects rose slightly, the probability of them going through seemed lower. The economic climate made players cautious, resulting in the **renegotiation and renewal of leases.** **Meanwhile, decision-making and negotiations were complex and lengthy.**

## A good volume of take-up with some reserves

**At the end of third quarter 2011**, take-up in Ile-de-France totalled more than **1.95 million sq. m**, i.e. a **year-on-year rise of 20%**. Some **787,600 sq. m** were let or sold in the **third quarter** alone, a volume close to the all-time high take-up seen in fourth quarter 2006. This excellent result was due to the **conclusion of very large transactions.** One was with SFR when all the conditions precedent were finally fulfilled for a building permit for their 124,000-sq. m headquarters in Saint Denis. Another was Carrefour's conclusion of a transaction in Massy for 85,000 sq. m.

**A total of 24 transactions above 5,000 sq. m** were identified in third quarter for a total volume of **487,200 sq. m**, bringing the total since the start of the year to **54 transactions and 891,900 sq. m.**

The market for **small and medium premises**, however, **resembled 2010's market.** In Paris Centre West, activity in this market segment even slowed down while the large transactions and rapid absorption of renovated supply kept total take-up for the Q3 buoyant. Southern Paris emerged as an alternative destination for companies looking for quality space. The **Western Crescent** was driven by transactions in a range from **1,000 sq. m to 5,000 sq. m.** In **La Défense activity struggled to recover** and only one transaction over 5,000 sq. m took place there in the third quarter. In the **Inner and Outer Rims**, apart from a few large transactions, the **market followed a downward trend** although an improvement could be seen in the Southern Inner Rim thanks to opportunities created by lowered rents.

The overall **share of new and redeveloped space in supply was 40%** for the first three quarters, but this share was heavily "biased" by the very large transactions on new space. Large occupiers reserved premises in the early stages of development, which inflated the **share of pre-lets to 32%** of total take-up volume in the third quarter. In **Paris, occupiers fall back on renovated space** (40% of take-up) because of the lack of new or redeveloped space.

The breakdown of take-up by sector of activity was also affected by a handful of transactions. The usual major players in the market are the sectors of **banking-insurance, transport-logistics-distribution and industry.** On the whole companies in the **ICT sector** were **more active** in third quarter than at the start of the year.

## Immediate supply stable

At 1<sup>st</sup> October 2011, the **volume of immediately available offices** in Ile-de-France was approximately **3.6 million sq. m**. It was virtually stable despite the high level of take-up because the mass of pre-lets in take-up figures meant no available supply was absorbed. At 1<sup>st</sup> October the vacancy rate stood at **6.6%**.

**This apparent stability shows geographical variations. Supply in Paris dropped considerably**, principally pulled down by Southern Paris where a few large transactions reduced the vacancy rate by 1 point in three months to 4.6%. The city's overall vacancy rate therefore fell below the 5% threshold to 4.6%. The vacancy rate in La Défense also fell from 6.6% at 1<sup>st</sup> July to 6.0%.

**Pressure on quality supply increased.** Demand in Paris for high-grade buildings was lively especially when considered in relation to the limited number of such buildings on the market. For small second hand or renovated offices occupiers still had a choice.

**In the suburbs**, there was a more abundant supply of offices and the vacancy rate was between 7.3% and 10% in the Inner Rim and 9.8% in the Western Crescent. Nevertheless **some sub-markets started to face a scarcity of quality space**, and in some segments e.g. above 20,000 sq. m. In the Outer Rim, the vacancy rate stood at 6.2%, but in most of the main sub-markets the rate came close to and even exceeded 10%.

New and redeveloped supply continued to be absorbed and was not replenished by completions, which were too few and far between. Consequently, **the share of quality premises in immediate supply fell to stand at 23%**. This reduction could be seen virtually everywhere except in the Inner Rim where the volume of two completions out-stripped take-up volume (Adequatio in Bagneux and Le Cézanne - Parc Silic in Saint Denis).

## Supply in the pipeline drying up

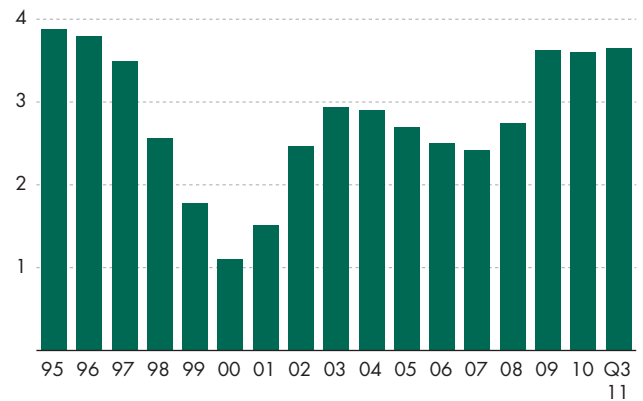
**Future supply in units above 5,000 sq. m totalled 3.8 million sq. m**, i.e. 6% less than at 1<sup>st</sup> July 2011. However, on the one hand confirmed future supply rose, on the other, the projected supply fell.

**Definite future supply** in units above 5,000 sq. m equalled **1.2 million sq. m**, a quarterly rise of 13%. The progression was due to the **start of speculative development on 6 buildings**, which impacted positively on future confirmed supply. Simultaneously, the volume of renovated space fell by 9% due to a few completions and transactions. Note that only the Western Crescent saw its level of renovated supply in the pipeline increase, as works began on 4 buildings (a 45% increase in volume in the quarter). The confirmed future supply of used buildings was stable. Despite this increase, the resumption of speculative development is far from widespread. **Financing conditions remain difficult** and given **the precariousness facing the market** at the moment developers and investors are taking little risk.

**Probable future supply totalled 2.6 million sq. m**, i.e. a substantial fall from the preceding quarter (down 12%). The fall was linked to the start of speculative development and the shift of some schemes from "projected" to "confirmed" supply status. In addition, some voids that were doubtful in the first half were confirmed in the third quarter.

## Immediate supply in Ile-de-France

(period end, in million sq. m)



Source: CBRE / Immostat - IPD

## Vacancy rate and breakdown of immediate supply at 1<sup>st</sup> October 2011

	Vacancy rate	Trend	Geographic breakdown	Share of new/redeveloped*
Paris Centre West	5.1%	↓	13%	13%
Southern Paris (5 <sup>th</sup> , 6 <sup>th</sup> , 7 <sup>th</sup> , 12 <sup>th</sup> , 13 <sup>th</sup> , 14 <sup>th</sup> and 15 <sup>th</sup> arrondissements)	4.6%	↓	7%	27%
North Eastern Paris (3 <sup>rd</sup> , 4 <sup>th</sup> , 10 <sup>th</sup> , 11 <sup>th</sup> , 18 <sup>th</sup> , 19 <sup>th</sup> and 20 <sup>th</sup> arrondissements)	3.3%	=	3%	1%
<b>Total Paris</b>	<b>4.6%</b>	<b>↓</b>	<b>23%</b>	<b>16%</b>
La Défense	6%	↓	5%	21%
Western Crescent	9.8%	=	24%	26%
Northern Inner Rim	10%	↑	7%	39%
Eastern Inner Rim	8%	=	3%	50%
Southern Inner Rim	7.3%	↓	4%	37%
Outer Rim	6.2%	=	34%	18%
<b>Total Ile-de-France</b>	<b>6.6%</b>	<b>=</b>	<b>100%</b>	<b>23%</b>

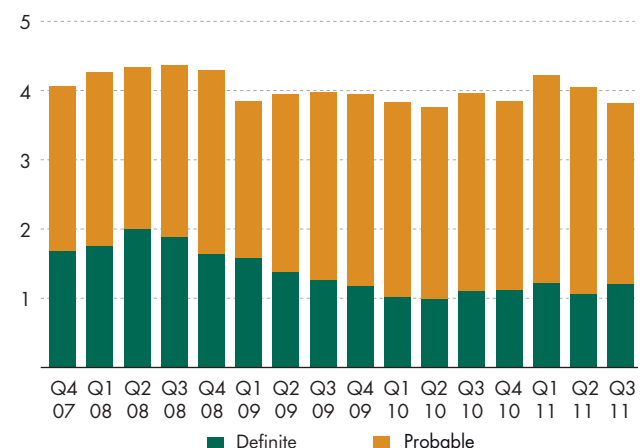
↑ Trend compared to 1<sup>st</sup> January 2011

\*by geographic sector

Source: CBRE based on Immostat data - IPD and ORIE

## Future supply >5,000 sq. m

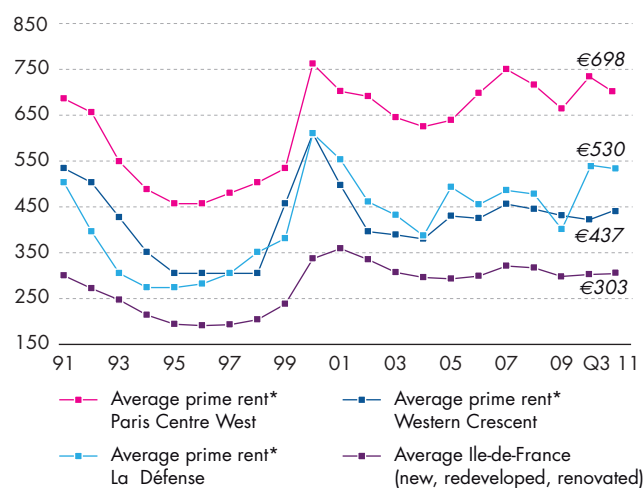
(period end, includes new, redeveloped, renovated and vacated space, in million sq. m)



Source: CBRE

## Trends in average rents

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



Source: CBRE

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

Average weighted rents by Immostat sector at 1<sup>st</sup> October 2011

(headline values, in € net/sq. m pa)

	New / Redeveloped / Renovated	Used condition
Paris Centre West	€547 ↑	€401 =
Southern Paris	€444 ↑	€340 =
North Eastern Paris	€318 ↑	€246 =
La Défense	€468 ↓	€355 =
Western Crescent	€304 ↓	€223 ↓
Inner Rim	€238 ↓	€152 ↓
Outer Rim	€161 ↓	€105 ↓
Average Ile-de-France	€303 =	€218 ↓

↑ Trends since 1<sup>st</sup> January 2011

Source: CBRE

Economic prospects at 1<sup>st</sup> October 2011

	2010	2011 (f)	2012 (f)	Trends/previous* quarters
World growth	+ 5.1%	+ 4.0%	+ 4.0%	↓
French GDP	+ 1.4%	+ 1.7%	+ 1.3%	↓
Household consumption	+ 1.3%	+ 0.7%	+ 1.1%	↓
Business investment	+ 2.0%	+ 5.2%	+ 3.6%	↑
Exports	+ 9.4%	+ 4.6%	+ 3.8%	↓
3-month interest rate	1.02%	1.48%	1.77%	↓
10-year public bond rate	3.34%	3.24%	3.67%	↓
Inflation (annual average)	+ 1.5%	+ 2.0%	+ 1.8%	↓
Trade balance (in billion €)	- 51.4	- 63.8	- 64	↓

\*Charge in 2011 forecast

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

## Rents under pressure

At 1<sup>st</sup> October 2011, the average rent in the Paris region for new, redeveloped or renovated space continued to follow a downward trend and returned to a level seen at the start of the year of **€303 net/sq. m pa**. In Paris, increased pressure on quality supply forced **headline rents up**, whereas in outlying markets headline rents fell, especially in some areas where occupiers still had plenty of choice.

After several quarters of stability, the **average rent for used condition premises fell to €218 net/sq. m pa (down 2%)** but rent patterns were different from one geographic area to the next. Rents were maintained in Paris and slid back in peripheral markets where there is a high supply of used condition premises.

The **average prime rent for Paris Centre West rose slightly over the quarter**, but at **€698** was still lower than at the start of the year. Landmark transactions that stood out for their rental value tended to be in the 7<sup>th</sup> arrondissement, which is attached to the Central Business District, putting the **prime rent in Paris at €729**.

The **prime rent in La Défense consolidated to stand at €530** even though there were very few transactions on high-grade properties in third quarter.

In the **Western Crescent**, the **average prime rent**, after dropping for a year, **recovered 11%** in 3 months to **€437** due to a few large transactions on redeveloped buildings.

**Commercial concessions** remained high, varying depending on local market conditions and the negotiating margin left for landlords. The latter usually want to keep headline rents high and grant an average of **1.5 to 2 months' rent-free period** for each unbreakable year in the lease. In some secondary locations the rent-free period amounted to 3 months.

## 2012: another year of convalescence

Despite the fragile economic situation and chaotic movements in international stock markets, the real estate market functioned relatively well. In the fourth quarter it is expected to follow patterns similar to those seen at the start of the year so take-up for 2011 will total between **2.3 and 2.4 million sq. m**. An increase in activity from third to fourth quarter is expected in the small and medium office segments although there will probably be a slowdown in large transactions. The number of requirements being registered rose but they tend to be preliminary enquiries and it is uncertain whether this will lead to serious interest.

**Several factors will burden the market:** the presidential elections on the horizon, the unresolved sovereign debt crisis and government austerity plans. Together they make it more difficult for business leaders to decide, while pressure on quality supply is forcing occupiers to stay put. Speculative developments are only trickling in.

Nevertheless, there are **some reassuring features:** there is no risk of over-supply, rental values are steady and landlords are open to negotiation with tenants.

2012 looks set to be a year of mixed results. Total volumes will not be as good but that doesn't mean the market will collapse.

## THE LOGISTICS MARKET IN FRANCE

(Warehouses >5,000 sq. m)

### Occupiers more and more demanding

As usual during the summer there were **fewer demands for space in third quarter 2011** than in previous months. The international economic climate was fraught, making projects take longer to come to fruition and inciting occupiers to put off decisions. In addition **occupiers have increasingly stringent specifications**; they want bespoke **turnkey schemes that are near towns** rather than generic warehouses further afield, even if these are new and at cheaper rents.

**Consignors and supermarket chains were the predominant players.** In Ile-de-France, consignors were primarily interested in buying small units (5,000 to 10,000 sq. m), while supermarket chains preferred turnkey schemes above 30,000 sq. m. Not many searches existed for floor areas between the two, which contrasts with other regional markets.

### High figures for the third quarter

Since the start of 2011, **1,658,500 sq. m of warehousing were let or sold in France, 11% more than during the same period last year.** In contrast to the fairly low volume of transactions in the first and second quarters, caused by a slow recovery in regional markets, **take-up in third quarter stood at 779,800 sq. m, the highest quarterly figure since 2008.** In Ile-de-France the amount of take-up rose by **48% in a quarter and regional markets were up 94%.** The Greater north of France was particularly active, where take-up more than doubled between the second and third quarters (192,000 sq. m). Similarly, in the **Greater south transactions totalled 194,700 sq. m, the highest figure since 2008.** The **Rhône corridor** was still on form accounting for **18% of take-up volume to 301,900 sq. m.** Even secondary markets, following several depressed months, saw transactional activity, especially on small units. **More than half the warehouses let or sold were in used condition,** a trend that is earmarked to continue, considering the ever growing used supply.

### Availability falls

At slightly more than **4 million sq. m at 1<sup>st</sup> October 2011, immediate supply in France was 5% below the level at 1<sup>st</sup> July.** Overall it fell in all parts of the country but especially in the main markets: down 22% in the Rhône corridor, 18% in the Greater south of France, 7% in the Greater north of France and 2% in Ile-de-France.

**The deterioration in quality available supply continued. Supply of class A warehouses fell to represent 53% of available space at 1<sup>st</sup> October (down from 55% 3 months previously).**

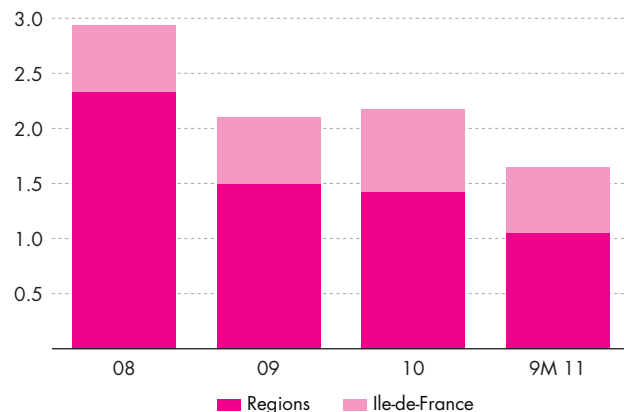
**Only 58,000 sq. m of speculative supply** remained in a handful of schemes in the country's principal markets. By contrast, **there are still many schemes on standby, approximately 4.2 million sq. m,** that provide opportunities for turnkey schemes.

### Rents stable

At 1<sup>st</sup> October 2011, headline rental values were stable for **class A warehouses,** after substantial **re-pricing in 2009 and 2010.** **Rental incentives for these buildings were stable,** between 1.5 and 2 months' rent-free period for each unbreakable year in the lease. The **market for poor quality and badly located premises was under pressure.**

### Trends in take-up in France

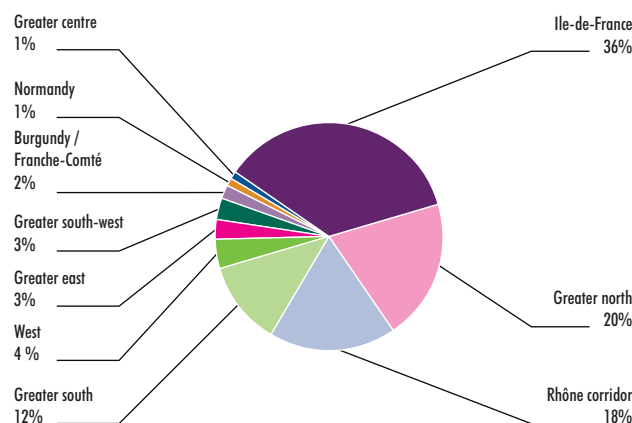
(in million sq. m)



Sources: CBRE and Immostat - IPD

### Geographic breakdown of take-up in 2011

(in volume)



Sources: CBRE and Immostat - IPD

### Headline rental values in France at 1<sup>st</sup> October 2011

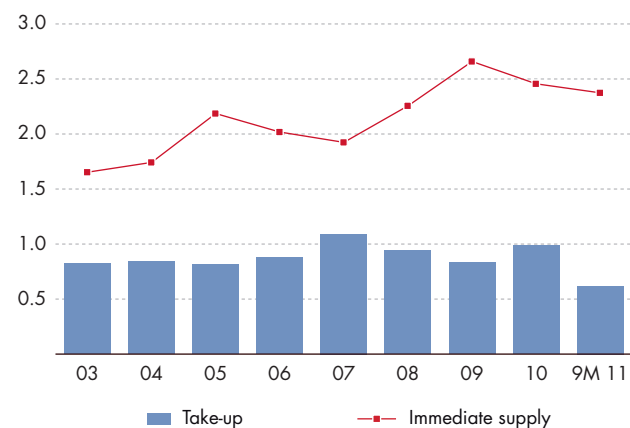
(net/ sq. m pa, class A or B, new)

Burgundy / Franche-Comté	€30 / €35
Rhône corridor	€42 / €44
Greater centre	€42 / €50
Greater east	€37 / €50
Greater north	€39 / €44
Greater south	€40 / €45
Greater south-west	€42 / €47
Ile-de-France	€46 / €54
Normandy	€37 / €49
West	€40 / €45

Source: CBRE

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

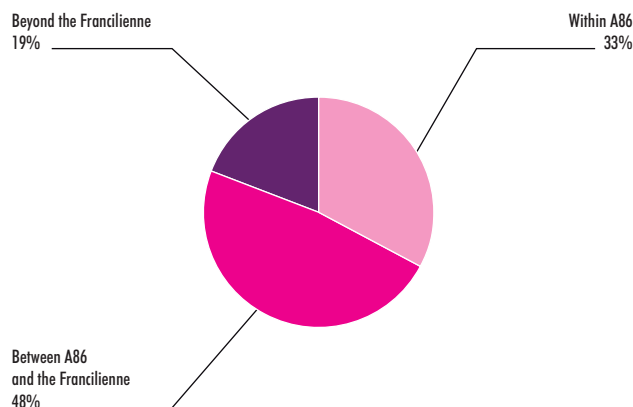
(in million sq. m)



Source: CBRE

Breakdown in immediate supply in Ile-de-France at 1<sup>st</sup> October 2011

(in volume)



Source: CBRE

Rents for industrial space \* in Ile-de-France at 1<sup>st</sup> October 2011

(headline values in €/net/sq. m pa)

Geographic areas		New / redeveloped	Used condition
North	Within A86	€90 / €115	€60 / €107
	Between A86 and the Francilienne	€60 / €85	€50 / €75
West	Within A86	€100 / €120	€75 / €90
	Between A86 and the Francilienne	€75 / €85	€40 / €80
East	Within A86	€80 / €90	€75 / €80
	Between A86 and the Francilienne	€85 / €90	€70 / €80
South	Within A86	€80 / €95	€65 / €90
	Between A86 and the Francilienne	€70 / €85	€60 / €75

\* share of industrial/office = 70/30

Source: CBRE

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

(All sizes of industrial space and small warehouses &lt;5,000 sq. m)

## Players prudent

Although **demand for space** was higher between January and September 2011 than in 2010, it began **slowing down in the second quarter, and continued doing so in the third**. As news about the economy went from bad to worse, **players were in no hurry to make decisions** and readily pushed back or cancelled their intentions to move.

**Premises for sale** were very **much in demand**, as were **small and medium units** (<2,000 sq. m). Also worth noting was the resurgence of demand from the **leisure sector**, for example for indoor football centres.

## Downturn in take-up

**Take-up totalled 618,900 sq. m at the end of the third quarter**, a drop of 11% on figures for the same period in 2010. Volumes of transactions diminished steadily as the months passed, dropping from 250,800 sq. m in first quarter to 166,500 sq. m in the third. **The market remained weak and under strain with occupiers showing caution**. Very few projects are in the pipeline.

In the first 9 months of 2011, the **east, west and north of Ile-de-France were down by 38%, 20% and 12% respectively** compared to the same period in 2010. The **south was up 21%**.

The **increasing popularity of occupier sales noted in 2010 did not continue in 2011**. The market returned to a more traditional operating mode with **66% of take-up since the start of the year composed of lettings**. More sales took place on **high quality properties** (31% of new, redeveloped or renovated space compared to 10% in 2010), in contrast to lettings in which more than three-quarters of floor area were in used condition (a stable trend). However **the market was still hit by a shortage of quality products for sale**.

## Supply dropped steadily

**2,370,000 sq. m of available space** was identified at 1<sup>st</sup> October 2011, after **a fall of 3% since the start of the year**. The market in the Inner Rim lost 7% of its supply in the first three quarters. In the Outer Rim and beyond the orbital motorway, the Francilienne, supply was stable. Almost half available space is clustered in the Outer Rim.

**Supply was poor in quality, 80% of it in used condition**. Note that the share of renovated space rose by 2 points from 1<sup>st</sup> January to 1<sup>st</sup> October 2011.

**Developers did not resume speculative programmes in 2011**, and are unlikely to do so in the short to medium term because of the financial situation. Speculative space in the pipeline totalled **35,000 sq. m**, in about ten sites, with **completion dates spanning end 2011 to mid 2012**.

As far as **semi-speculative development is concerned**, it represents almost **280,000 sq. m**, a figure that fell 11% from 1<sup>st</sup> January 2011 and almost stable from 1<sup>st</sup> July.

## The market is more and more uneven

**Headline rents were stable** but the **underlying rental value varied enormously depending on the quality and location of the building**. **The gap continued getting wider between prime buildings and those of poorer quality**. The result was that **commercial incentives vary**, but on the whole constant, between 1.5 and 2 months of rent free for each year without break option.

## THE RETAIL MARKET IN FRANCE

### A gloomy economic climate with bleaker prospects

Most indicators reveal a **significant deterioration in the business climate for retailers**. In the second quarter, household consumption fell by 0.7% compared to Q1 2011, i.e. the worst quarterly growth observed since the end of 1996. In addition, the purchase of consumer goods stagnated this summer (down 0.2% in July and up 0.2% in August) and the results for the sales were not exactly great, even though the big department stores posted good figures for the seasonal sales.

**The economic situation is sapping the morale of the French and deterring them from spending.** In September, the indicator of household confidence, already knocked by the fear of unemployment, slumped even further, returning to its lowest level since early 2009. Mid-2011, **the savings ratio was at its highest at 17%** (the long term average ratio is 15%). Consequently INSEE's business climate indicator for retail tumbled by 10 points from July to September to below its long-term average and was at its lowest level for two years. Indeed retail is the economic sector where the economic climate deteriorated the most sharply. Retailers have adjusted downwards both their business forecasts and hiring plans for the months ahead. Poorer forecasts for economic growth are raising fears of weak consumer spending in the second half of 2011 and 2012.

### Retailers retreat to the safest sites

The current economic context is weakening the financial situation of retailers and limiting the growth of retail sales. The situation is exacerbated by the rate of expansion of total sales floor area in the country and the growth of e-commerce, whose sales could total 37 billion euros this year (compared to 31 in 2010). **The turnover of specialist retailers only rose by 0.3% in the first 8 months of the year** (on a like-for-like basis, source: Procos), **while that of e-commerce rose by 20% in the first half** (source: Fevad). Yet **there is still a real demand for floor space**, boosted by the vitality of international retail brands of personal goods that wish to get a foothold in France or expand existing networks. Fast food outlets and local grocery stores are also looking for space. Retailers are very careful when choosing sites and have stringent criteria, looking for **the most secure sites within the most resilient catchment areas**. These retailers want sites with proven existing footfall and are not interested in potential figures. The centre of large cities and regional shopping centres are the most popular sites with retailers. And in such sites rental values have been steady and in some instances, have climbed. The scarcity of suitable supply and the high rents are not enough to incite retailers to head for secondary locations. Thus, despite having substantially lower occupation costs, peripheral sites are struggling to find tenants.

#### Changes in turnover indexes

	Q1 2011*	Q2 2011*	Q2 / Q1
<b>Retail (excluding cars and motorbikes)</b>	+ 5.0%	+ 2.8%	- 0.3%
General stores	+ 2.7%	+ 0.7%	- 0.6%
Specialist stores	+ 6.5%	+ 4.2%	+ 0.1%
Outside stores	+ 5.6%	+ 3.1%	- 2.3%
<b>Sale/ repair of cars and motorbikes</b>	+ 7.1%	+ 2.7%	- 3.0%
<b>Hotel business and catering</b>	+ 2.3%	+ 1.6%	+ 0.8%
<b>Household services</b>	+ 2.1%	+ 0.8%	- 0.2%
Arts, shows, and leisure activities	+ 3.6%	+ 3.0%	+ 0.6%
Other activities and services	+ 0.8%	- 1.1%	- 1.0%

\*Changes compared to the same quarter the previous year.

Note: these trends were calculated at constant prices and are adjusted to seasonal changes and working days.

Source: INSEE

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