

French Property Indicators

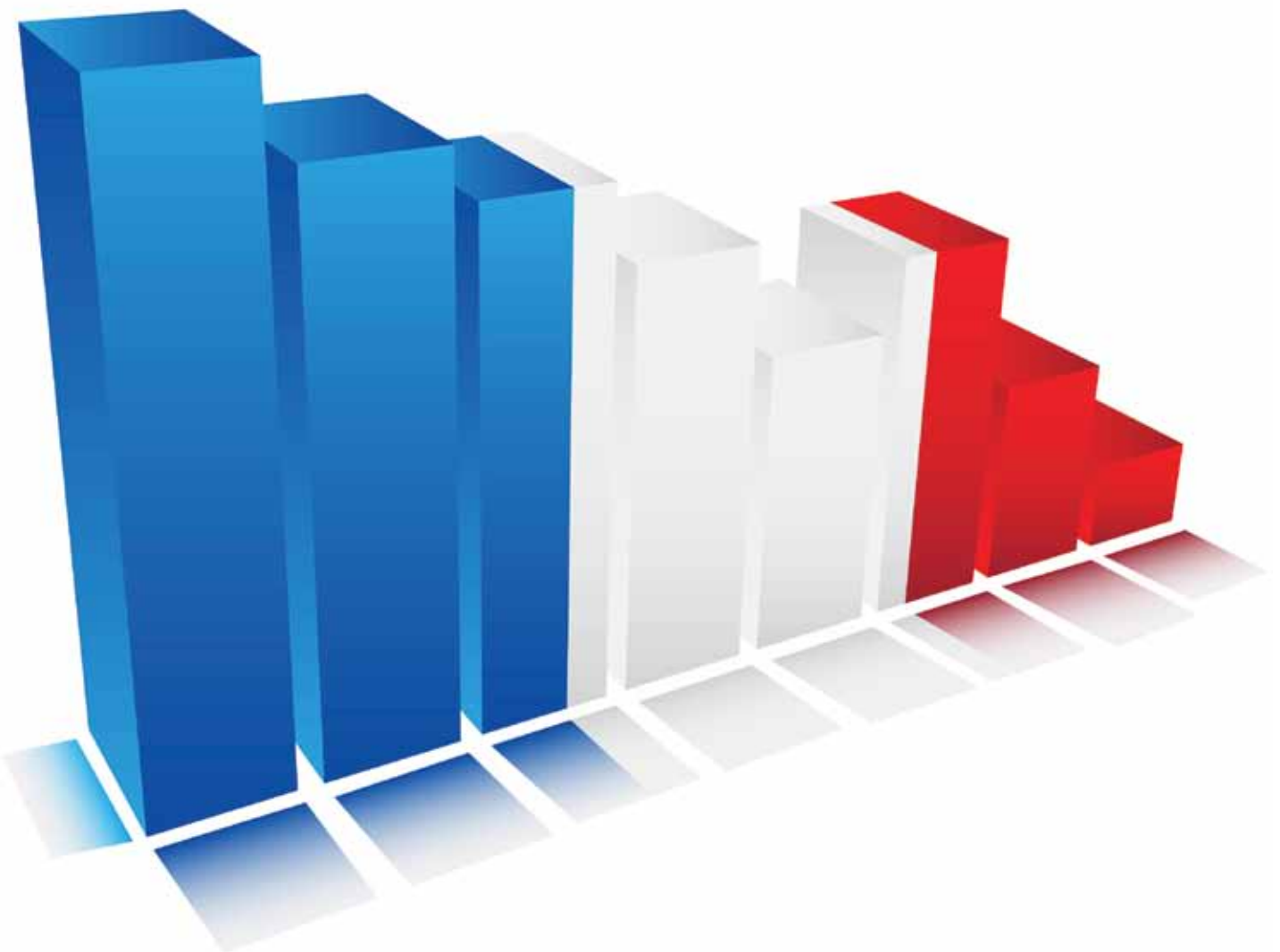
A subdued economic recovery

Continued two-tier investment market

Beginning of a new cycle in the occupational office market

Significant development potential in the logistics sector

Impact of tax changes in relation to the "Grand Paris" project



Economic context

In 2010 the economy in France grew by 1.5%, indicating the beginning of a new economic cycle, albeit in an international context which continues to be dominated by uncertainty regarding the evolution of sovereign risk, in the USA and certain Eurozone countries, as well as by a general stabilisation of the banking system.

Inflationary pressures linked to the rise in commodity and energy prices have recently reappeared, causing interest rates to increase. With this in mind, the outlook for the French economy remains modest with GDP growth at +1.6% expected by the end of 2011.

The implementation of fiscal austerity measures and the cancellation of economic support policies currently adopted by most European governments are likely to have a negative impact on business performance and on household consumption, despite unemployment levels now stabilising.

In this weakened economic environment, and as the application of a new regulatory framework established by Basel III is anticipated by banks, we should expect financing conditions to remain tight in the short and medium term. This will make 2011 a transitional year before an eventual more marked economic revival in 2012.

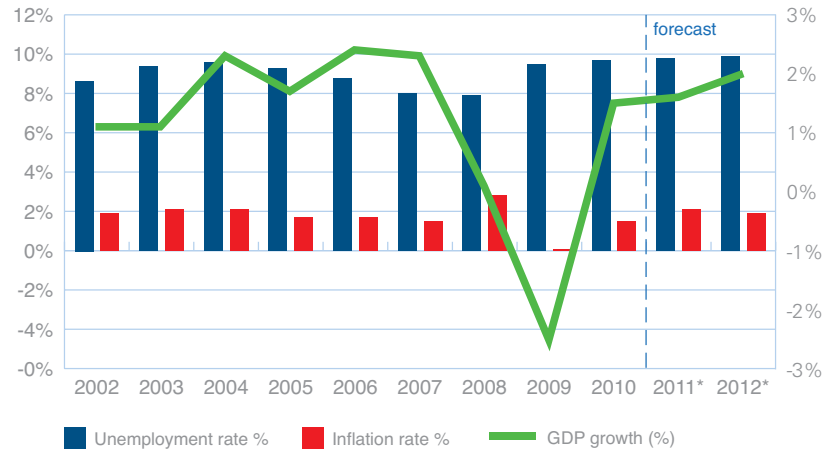
Investment

In Q1 2011 an estimated €2 billion was invested in French commercial property, reflecting an increase of more than 30% on the same period in 2010. The market has seen a return of large investment transactions as well as an increase in the number of international investors active in the market.

The principal trends which enabled the revival of the investment market to begin in 2010 are still relevant today, even though the progressive application of new fiscal restrictions and regulations, as well as the foreseeable increases in interest rates, could limit the further growth of the market.

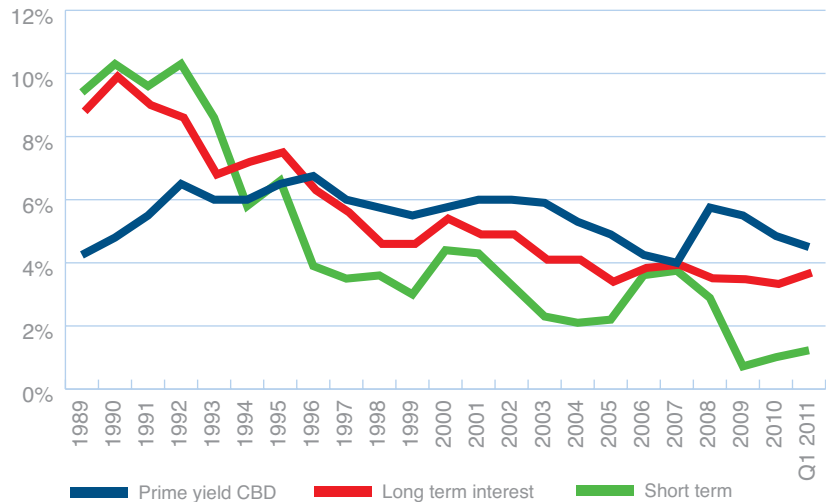
Overall, the investment market remains characterised by a strong risk aversion by investors who are concentrating on prime assets to the detriment of secondary ones. This trend further contributes to the two-tier market, generating potential risks, with values in the prime sector close to levels seen before the crisis and, at the same time, a continuing depreciation of "risky" assets which accentuates the lack

Economic indicators



Source: Oxford Economic Forecasts / March 2011

Prime yields vs interest rates



Source: King Sturge & Agence France Trésor / March 2011

of liquidity for a large part of the market.

Consequently, offices, shopping centres and retail units, which benefit from long leases to tenants of good covenant strength, located in Paris as well as in the most established locations in Ile de France and larger regional towns remain the preferred choice of investors.

By its nature the prime sector is limited and therefore competition is fierce amongst investors looking for core or core plus products. However, prime yields are unlikely to decrease further in the short term due to the likely increases in interest rates.

Future gains will essentially come from rental growth resulting partly from rental indexation, which has recently been positive and is calculated using the INSEE Construction Index (based upon

changes in the price of raw materials and energy), and partly from the expected increase in prime rents in light of the lack of new buildings expected to be delivered to the market in 2012-2013, notably in Ile de France, and resulting from the slowdown in developments observed since 2008-2009.

As such, forward sales and speculative developments have become more commonplace since mid- 2010 and these offer the prospect of interesting value creation for opportunistic investors. However, this type of investment could suffer from the increase in the cost of borrowing as well as from the revision in the rate of tax for the creation of office space in Ile de France (see fiscal news section). This remains detrimental to the balance sheet of some developments which are still at the planning stage.

Investment transactions at 31 March 2011						
Sector	Address	Use	Floor area (m ²)	Price (M€)	Purchaser	Condition
REGIONS	HERON PARC / LILLE AGGLOMERATION	Offices & retail	42,500	95.00	GROSVENOR	New
Première périphérie Sud	LE SKALEN / CHATILLON	Offices	23,400	95.00	AREA PROPERTY PARTNER	Speculative
Ile de France	Portefeuille de 14 actifs / PARIS et Région parisienne	Offices	130,000	210.50	PEGASE PARTNERS	Existing condition
PARIS NORD EST	ZAC CLAUDE BERNARD / Porte de la Villette / PARIS 19ème	Offices	15,627	93.00	NEIF	Speculative
BOUCLE NORD DES HAUTS DE SEINE	EUROPE AVENUE / BOIS COLOMBES	Offices	65,000	400.00	GENERALI / PREDICA	New
France	Portefeuille de 22 plateformes logistiques	Logistics	416,000	119.00	CARVAL INVESTORS	Existing condition
PARIS QCA / PERIPHERIE SUD	Rue des Jeuneurs - PARIS 2ème / Quai Galiéni - SURESNES	Offices & residential	13,940	81.69	VIVERIS REIM	Recent
PARIS QCA / PERIPHERIE SUD	Rue Cambacérès - PARIS 8ème / Rue Galiée - IVRY SUR SEINE	Offices	17,155	77.00	TERREIS	Existing condition

In this context, the correlation between the performance of the investment market and that of the occupational market should strengthen.

Offices

At a national level, the occupational office markets saw a notable improvement in 2010 with total take-up amounting to 3 million m², an increase of 30% compared to 2009.

The first quarter of 2011 saw a take-up level of 613,000 m² in Ile de France, an increase of 21% compared to the same period in 2010.

These encouraging results which indicate the beginning of a new cycle in the occupational office market are tempered by the current structure of the market which reflects a growing imbalance between available second hand and new space, as well as by the persistence of a low level of new job creation.

2010 was characterised by a large absorption of new accommodation in most markets. This new space was provided by buildings whose construction had generally begun before the effects of the crisis dissuaded developers from

starting new construction.

Furthermore, the proportion of obsolete office space within the current supply continues to increase. The Grenelle Environmental law has set new energy and environmental standards, and the renovation or demolition of such premises is a sensitive subject for landlords. Occupiers themselves are confronted with a shortage of suitable stock and are increasingly looking to turnkey developments in order to meet their needs.

The increase in rental values in the prime sector that has been seen in recent months should continue while the supply of new space will become more scarce in the most sought after locations.

The rate at which the current stock is renovated and the revival of new developments are important issues in the short term to get advance warning of a new property bubble which would create instability in a still fragile real estate market.

However, in light of the recently announced tax measures concerning the rate of tax for creating office space in Ile de France and in the context of increasing construction and energy

costs, developers' profit will be hard to achieve in geographical sectors that have experienced the greatest increases in the individual application of this tax (up to 500% in certain towns).

Logistics

After experiencing a historical decline in 2009, the logistics occupational market recovered in 2010 with total take-up amounting to 1.5 million m² in France.

Available stock remains high at around 3 million m², reflecting the increasing obsolescence of a significant portion of supply, which no longer meet occupier's requirements.

Therefore the renewal of stock is necessary to enable the development of new consumption practices such as the exponential growth of on-line shopping, and of new distribution methods, notably urban logistics.

While the logistics investment market is currently limited to a few dedicated or specialised market players focusing on the most established markets, turnkey developments and sales to occupiers have tended to increase, illustrating the specific nature of occupier's demand.

Rental values tend to vary depending on the amount of available supply in each sub-market. Sectors where Grade A or new premises are scarce have benefited from a slight rise in rents, and oversupplied areas have seen the level of rents decreasing and tenant's incentives remaining high.

Despite a significant development potential, the outlook for logistics growth is closely related to the economic situation, which to date remains slow but uncertain.

Property indicators at 31 March 2011				
		Prime average headline rent in €/m ² /year	Average second-hand rent in €/m ² /year	Prime net yield
Offices	Paris CBD	760	500	4.50%
	La Défense	515	400	5.50%
	Paris prime periphery	410	300	5.35%
	Province	230	160	6.10%
Logistics	Paris region	50	45	7.10%
	Province prime	45	40	7.35%
Retail	Shopping centres	1,500	900	4.50%
	Paris High street	10,000	3,500	4.50%
	Province High street	2,500	800	5.00%

Conclusion

While the commercial real estate markets seem once more to be following a positive trend, as confirmed by the results of the first quarter 2011, long term continued growth remains subject to a combination of numerous factors, economic hazards and/or new regulatory constraints within investors' and occupiers' strategies.

Projections for 2011 are therefore restrained and, rather than anticipating an outright recovery, we expect an overall stabilisation of the markets at levels close to those witnessed at the end of 2010.

Fiscal news: Since the 1st January 2011, the financing of the Société du Grand Paris projects has led to a significant rise in property taxation payable by landlords, occupiers and developers, which is likely to impact negatively on the attractiveness of the Paris region for businesses.

Annual tax on offices, retail and storage space in the Paris region	Tax for office creation in the Paris region
<ul style="list-style-type: none"> Extension of taxation scope <p>To car parking areas, linked to the property, and with a minimum area of 500m².</p>	<p>For the creation of storage space (over 5,000m²), retail space (over 2,500m²) - applicable to building permits and authorisations submitted since the 1st January 2011.</p>
<ul style="list-style-type: none"> Modification of the zoning Global rise in rates and an annual update of rates on 1st January in accordance with the last INSEE Cost of Construction Index. 	
Consequences	
<p>Additional costs to be included in landlords' charges.</p> <p>These taxes are generally payable by the tenant, but given the impact of the rise, this could generate some negotiations between landlords and tenants.</p> <p>Some communes have seen their taxation level multiplied by three or five, which is likely to impact strongly on their occupational attractiveness.</p> <p>Marketing difficulties could emerge in certain communes.</p>	<p>Significant rise of construction costs, which will be reflected in sales prices.</p> <p>The zoning modification transfers some communes from zone 3 to zone 2, or from zone 3 to zone 1, which corresponds to a tax increase of between 350% and 500%. In certain cases, some development projects are likely to become economically unfeasible.</p> <p>Rising rates can appear unfair in zones where sale prices are generally low.</p> <p>Risk of relocation of logistics activities to the periphery of the Paris region.</p>

Reference to legal text: article 31 of Amended Finance Law for 2010 - n°2010-1658 of 29 December 2010

Please feel free to contact us for further details on the new zoning, rates by zone, discount rates and exonerated buildings.

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