

Investment market focus

3RD TRIMESTER 2011

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Investment in office property: investors will continue to be highly selective

Although the economic and financial outlook for the coming months is still uncertain, all the signs point to investors continuing to adopt a highly selective approach when investing in the office segment. Investors have been very risk averse since 2008 and growing concerns about the real economy in recent months have intensified this risk aversion. At the same time, tensions on international financial markets suggest that credit conditions will become even tighter and tougher. Against this backdrop, only the lowest-risk assets will remain liquid, namely:

- new, preferably certified, leased buildings, with good public transport connections. Given the increasingly stringent equity requirements of banks, few investors will be able to invest in large buildings in Paris. Therefore, peripheral and regional markets, which are more affordable and less sensitive to rental variations, are likely to be sought after alternatives.
- “Pierre de taille” buildings in the Central Business District. These buildings, which are seen as a safe haven in periods of uncertainty, not only have a relatively stable market value but also generate a reliable income stream thanks to a solid rental market. Keen competition between investors, in particular private ones, could trigger additional falls in yields for the lowest-risk assets.
- functional buildings available for unit amounts of between €10m and €30m in balanced rental markets (Paris, Boulogne, Levallois, etc.). The yields generated by these assets, which offer minimal rental risk and guaranteed liquidity, are between 100 and 150 basis points higher than prime yields.

On the other hand, assets that do not satisfy these criteria will remain illiquid over the coming months. In particular, the gradual revival in “on spec” transactions noted in recent months could be hampered by financing problems.

Key points

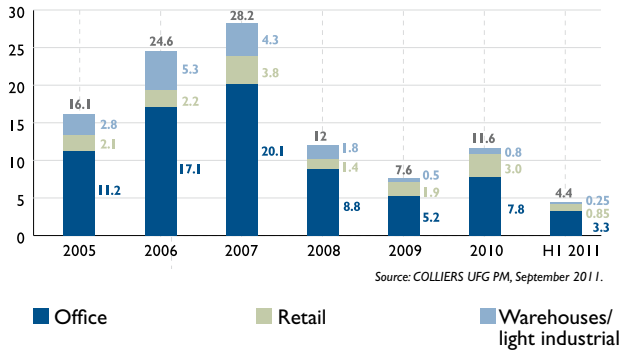
- ▶ Investment activity is likely to slow significantly towards the end of the year. As a result, the volumes invested for the full year in 2011 could be significantly lower than in 2010.
- ▶ The office segment has been the main investment market driver with total commitments of €3.3bn in the 1st half, up 40% on the same period in 2010.
- ▶ The increasing scarcity of opportunities matching the needs of buyers has been an important market characteristic for several quarters.
- ▶ We are therefore seeing a lasting two-speed market configuration: a persistently tight “core” assets segment and a virtual standstill in the secondary assets segment.
- ▶ 2011 has seen a revival in portfolio sales activity, but limited to portfolios composed of secure assets.
- ▶ The decline in prime yields for all types of assets has gradually slowed. In the coming months, changes in yields will be closely linked to bond market yields.



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Volumes and strategies

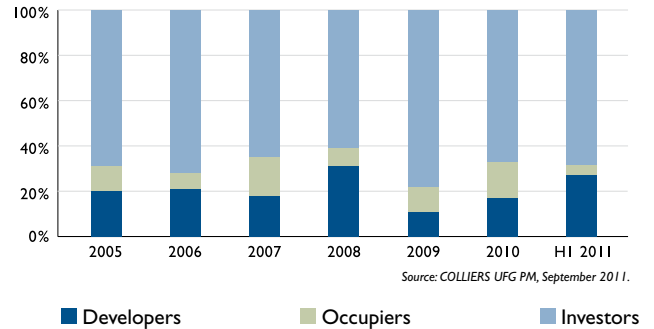
→ Change in and breakdown of amounts invested by type of property (in € billion)



In the first half of 2011, commercial property commitments reached €4.4bn, up by 10% in one year. Although the transactions concluded this summer maintained this momentum during the third quarter, activity is expected to slow significantly by the end of the year. If that proves to be the case, the volumes invested for the full year will be significantly lower than in 2010. The office segment has been the main investment market driver with total commitments of €3.3bn, up 40% on the same period in 2010. For new buildings, investors have broadened their criteria to include business districts in the inner and outer suburbs as well as large regional cities. Some €850m has been invested in retail property since the beginning of the year, representing 19% of the half-year's commitments.

After two years characterised by acquisitions of large-scale shopping centres, only four transactions in excess of €50m have been recorded in 2011. There is still strong interest in street-level retail premises located on prime thoroughfares, because of the combination of low risk and low unit cost. The business premises and logistics segment continues to struggle, with less than 5% of commitments (€250m). The majority of transactions in this market segment involved acquisitions of less than €10m.

→ Change in and breakdown of amounts invested by category of seller

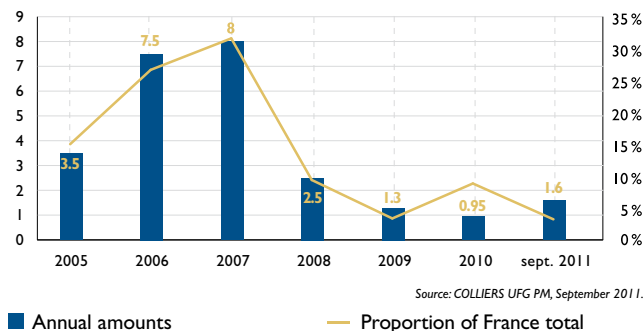


The increasing scarcity of opportunities matching the needs of buyers has been an important market characteristic for several quarters. Because of a lack of alternative projects, the majority of institutional investors prefer to refinance and maintain their secure assets. However, a small number of property companies, including in particular GECINA, with disposals of €300m, have taken advantage of favourable market conditions in the “core” segment to reinvest in speculative assets. On the other hand, investment funds (in particular foreign funds), which account for almost 30% of the market, have continued their withdrawal from the French market.

In line with the 2010 trend, sales by developers have been steady and amounted to €1.2bn in the 1st half. Although six “on spec” transactions totalling €530m were recorded, the international financial situation witnessed in the last two months could bring this trend to a halt. In addition, the significant slowdown in new building starts since 2008 across all French markets has resulted in a gradual depletion in this type of asset.

After several noteworthy transactions in 2010, such as the sale of HSBC's headquarters (€425m) and the sale of CAP 3 000 by Galeries Lafayette (€450m), arbitrage transactions by occupiers have accounted for less than 5% of commitments.

→ Change in and share of portfolio sales (Md€)



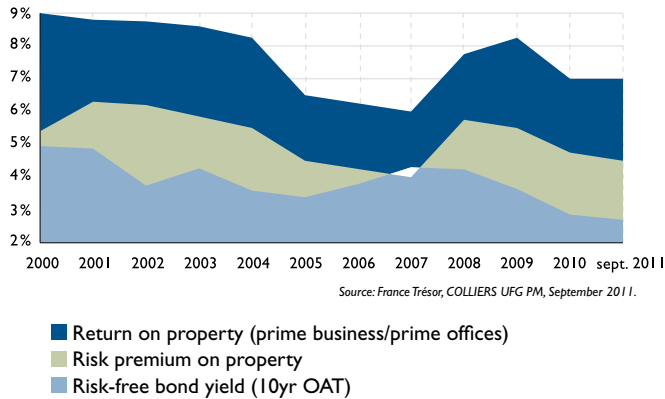
Since 2007, portfolio sales have suffered from investors' risk aversion and the low liquidity of high volume transactions. Whereas they represented more than 20% of commitments between 2005

and 2008, the share of portfolio sales has gradually declined, amounting to 8% in 2010. Since 2009, only small retail property portfolios have remained liquid. In the office segment, the undervaluation of the riskiest part of portfolios has resulted in either properties being taken off the market or of investors picking only the best assets.

In 2011 there has been a revival in major transactions, but only for portfolios of low-risk assets. For example, Norges Bank has acquired 50% of a portfolio of prestigious Paris office buildings from AXA REIM for €700m, while Grosvenor has purchased the Quid 2 portfolio composed of two large-scale shopping centres from Unibail for €148m. However, the new market fundamentals are likely to curb this trend.

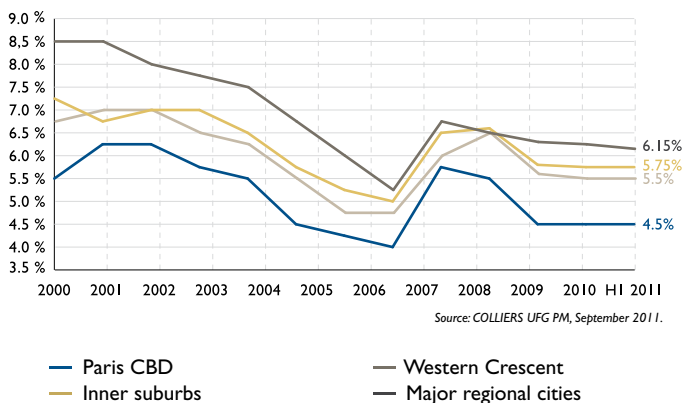
Values and yields

→ Change in risk-free rates and property yields



Against a backdrop of a lack of confidence in stock markets and the debt crisis in peripheral eurozone countries, there was a sudden reversal of the upward trend in French bond yields that had begun in the summer of 2010. At the time of writing, the yield on 10-year French treasury bills (OATs) was 2.5 % versus 3.44% at the beginning of July. Therefore, the property risk premium is still 200 basis points higher and explains the keen interest of institutional investors in property assets. By the end of the year, therefore, a significant fall in yields cannot be ruled out for “safe haven” investments financed by investors with their own capital.

→ Change in prime initial yields – Offices

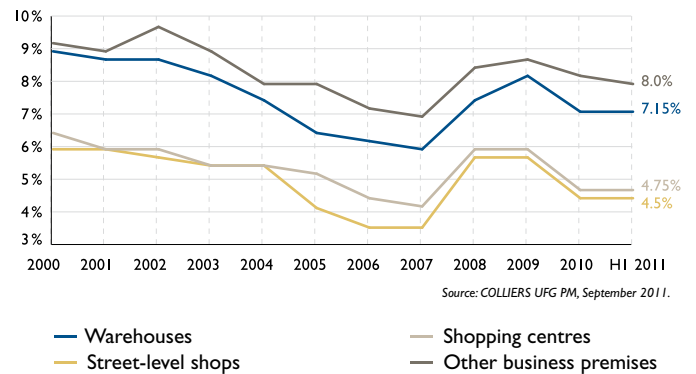


After a phase of rapid adjustment between mid-2009 and the end of 2010, the decline in yields on core assets has gradually slowed. On the one hand, sellers became fully aware of the preference for risk-free assets, demonstrated by the increasing number of bids received, and are asking for higher and higher prices. On the other hand, buyers, mainly institutional investors, are almost exclusively taking positions on risk-free assets but are asking for a risk premium in line with the level of risk-free rates.

« The decline in yields on core assets has gradually slowed. »

For prime assets, yields now vary between 4.7% in the Paris CBD and 6.15% in the outer suburbs and in the provinces. For “*pièce de taille*” buildings in the Paris CBD, which are seen as an ideal safe haven, intense competition between investors has put additional pressure on yields: some transactions are currently being concluded on the basis of yields of less than 4.5 %. The yields generated by functional, multi-tenant buildings located in balanced rental markets (Paris, Boulogne, Levallois, etc.) are 100-150 basis points higher than the prime yield.

→ Change in prime initial yields – Retail – Warehouses – Other business premises



Competition between investors for prime location city-centre retail premises remains keen. However, prime yields remain unchanged at 4.5% - 5.5%. The most recent shopping centre transactions were concluded on the basis of yields between 4.8% and 5.4% for the best assets. The fall in prime yields has spread since the beginning of the year to the retail parks segment, where yields are now between 6% and 7%.

« The fall in prime yields has spread since the beginning of the year to the retail parks segment. »

Investors continue to see the logistics segment as risky. Only class A warehouses located on the North-South axis and leased for long periods satisfy investors’ criteria. These transactions are concluded with yields of between 7.15% and 8.75%. In the business premises segments, acquisitions involved only assets with value of less than €5m. The estimated prime yield of property located in the Paris region is 8%.

2011: major investment deals

	Quarter	Seller	Buyer	Address	City	Floor area	Transaction price
A revival in major office transactions On the basis in particular of "club deals", insurance companies and pension funds have reopened the market in major transactions.	Q3	AXA	NORGES BANK	50% of a portfolio of seven office units	Ile-de-France	78,000 sq.m	€702.5 million
	Q1	BEACON CAPITAL PARTNER	GENERALI PREDICA	Europe Avenue	Bois Colombes	65,000 sq.m	€450 million
	Q2	NEXITY	DEKA	38-46 rue du Rocher - 19-23bis rue de Vienne	Paris 8 ^e	31,830 sq.m	€330 million
	Q3	HRO	CAISSE DES DEPOTS, PREDICA ET SCOR	River Ouest	Bezons	64,300 sq.m	€~300 million
The alternative to new, single-tenant buildings Functional, multi-tenant buildings located in balanced rental markets offer low risk and an attractive yield.	Q1	REAL IS	NAMI INVESTMENT	122 rue Edouard vaillant	Levallois Perret	9,300 sq.m	€55 million
	Q1	GECINA	HSBC REIM	5 ^e Avenue - 47 rue Louis Blanc	Courbevoie	7,473 sq.m	€33.7 million
	Q1	IVG	IMMONATION	15 place de la Nation	Paris 11 ^e	6,358 sq.m	€31.7 million
	Q2	GECINA	LFPI	73-77 rue de Sévres	Boulogne	6,495 sq.m	€23.7 million
	Q2	KLEPIERRE	INVESTISSEUR PRIVE	9-9 bis rue Henri Martin	Boulogne	3,702 sq.m	€16.9 million
SCPIs are investing in the regions Boosted by record inflows, SCPIs have been very active in 2011. Their investment niche is new buildings valued at less than €50m and they are particularly active on regional markets.	Q2	LASALLE INVESTMENT MANAGEMENT	BNP PARIBAS REIM	ZAC du Quartier de l'Industrie	Lyon	13,500 sq.m	€44.6 million
	Q2	KAUFMAN & BROAD	NOTAPIERRE	Cœur Capelette	Marseille	11 370 sq.m	€37.8 million
	Q2	PRAMERICA	SOFIDY	Le Campus Verrazzano	Lyon	13,985 sq.m	€36.3 million
	Q1	THALIUM	UFFI REAM	Andromède - Le Haillan	Bordeaux	8,575 sq.m	€19.4 million
	Q1	MONCEAU ASSURANCE	FRUCTIPIERRE	Europe Azur	Lille	6,700 sq.m	€16.4 million
	Q2	GROUPE FINANCIERE DUVAL - CFA ATLANTIQUE	PERIAL	ZAC Le Triangle de la Gare	Nîmes	5,771 sq.m	€11.7 million
	Q2	EIFFAGE	UFG LFP	Le Cinq	Bordeaux	4,436 sq.m	€11.9 million
	The keen interest in retail premises has not waned... but investors are interested only in prime locations. However, the lack of suitable premises on the market has limited volumes.	Q2	UNIBAIL	GROSVENOR	Quid 2 portfolio composed of two shopping centres	Marseille et Chalons	27,000 sq.m
Q2		NC	CORIO	75% of the Saint-Jacques Shopping Centre	Metz	15,762 sq.m	€96.4 million
Q1		VINCI IMMOBILIER	PROUDREED	Carré Feydeau	Nantes	13,000 sq.m	€40 million
Q2		DEGI	IMMONATION	13 place de la République	Paris	2,277 sq.m	€40 million
Q1		CORIO	GROSVENOR	Shopping center Provence Opéra	Paris	2,050 sq.m	€23.5 million

Source: COLLIERS UFG PM, september 2011.

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