

ECONOMIC CONTEXT

Against all expectations the French economy appears to have **climbed out of recession**, posting growth of 0.3% in the 2nd quarter 2009.

The rosier economy has not stimulated household investment, which fell by 1.8% in the 2nd quarter of 2009. The current climate tends to incite caution amongst consumers when it comes to making big purchases. There are widespread fears about future job security, making people save rather than spend. According to INSEE, the savings rate rose to 16.7% in the 1st half of 2009, compared to 15.1% halfway through 2008.

Future trends in solvent demand are uncertain. Salaries and purchasing power will flounder due to the depressed state of the job market and are not expected to rise by much next year. Social tensions persist: consumers have little confidence for the future and will no doubt continue to be

uncertain about their future finances.

Yet lending conditions improved again in September. Low cost credit is without doubt one factor cushioning the crisis in the housing market.

At the end of September 2009, the level of consumer debt posted a year-on-year rise of 4%. The rise is, however, more moderate than the 10.8% rise seen at the same time last year (source: Banque de France).

In addition, **even if the fall in interest rates continues, there is limited scope for further movement.** The 10-year government bond rate, which serves as a reference for banks fixed rate loans, cannot decrease much further.

Although the worst of the crisis is over and the economy is growing again, **the economic backdrop will continue to burden the number of transactions in the housing market.**

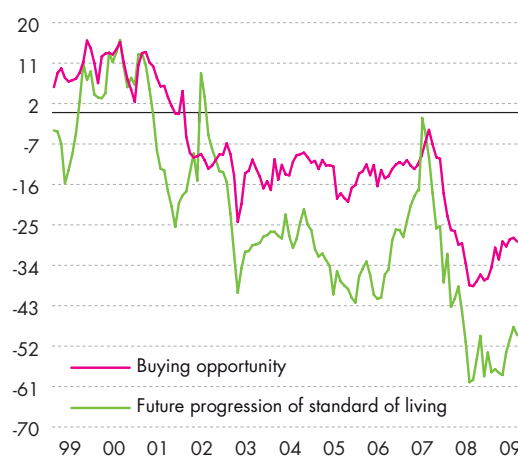
TRENDS IN FRANCE

Number of second hand sales ¹	↓
Number of new sales ¹	↑
Price of second hand housing ²	↓
Price of new housing ³	↓
Rents ¹	↓
Construction ²	↓
Housing units in the pipeline ¹	↓
Investment	↓

¹ Annual trend compared to 2008
² Annual trend compared to Q3 2008
³ Annual trend compared to Q2 2008

Consumer outlook

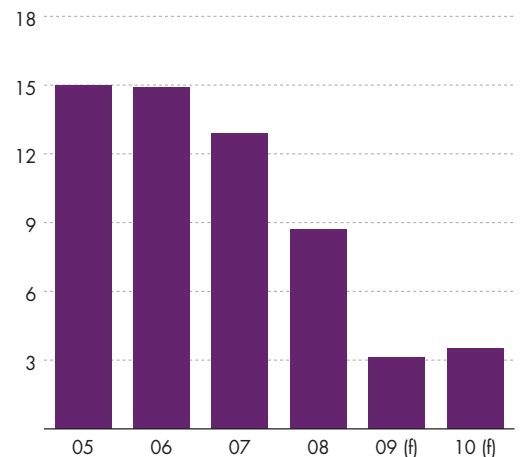
(seasonally adjusted responses in points)



Source: INSEE

Growth rate of stock of loans to French households

(in %)



Source: Crédit Agricole

HOMEOWNER SALES

New housing

The fall in new housing development continues

In the year from September 2008 to September 2009, the number of **housing units approved** in France **fell by 17.6%**, to 405,970. In the same period **building works started** on 326,089 units, **a 21.4% fall**. By comparison, from 2007 to 2008, construction starts fell by 16%. The quarterly change was even more pronounced, dropping by 35.4% in the 3rd quarter 2009.

The **most productive regions for housing construction** in the last 12 months were **Rhône-Alpes and Ile-de-France** (where respectively 51,845 and 43,598 units were built), followed by Bretagne (with 31,609 units) and Aquitaine (30,382). There was also a considerable amount of building activity in Provence-Alpes-Côte d'Azur (PACA), Languedoc-Roussillon, Midi-Pyrénées and Pays de la Loire where building started on 25,000 to 29,000 units in each region.

Housing production in every region except for Franche-Comté and Lorraine is following a downward trend. Those regions where the drop is steeper than the national average are Midi-Pyrénées, Limousin, Basse-Normandie, PACA and Auvergne, where production fell by 32% to 36%, and Nord-Pas-de-Calais, Poitou-Charentes, Alsace and Bretagne, where drops were from 22% to 28%.

Sales consolidated

The number of sales of new homes in the 1st half of 2009 stood at 53,152, which is an **increase of 10% compared to 1st quarter 2008**. The increase was primarily due to favourable financing conditions, particularly for first-time buyers and investors, such as falling lending rates, the Scellier law that gives tax breaks to investors, the doubling of a zero-rate loan facility for certain buyers, and the reimbursement of interest payments for main residences via income tax reductions. In addition fewer people pulled out of deals.

The level of supply in France halfway through the year, estimated at 85,181 homes, fell by 23% compared to the same period in 2008. Consequently, the theoretical marketing period shrank to 9.2 months, a 32% fall in a year.

An upturn in transactional activity could be seen from March 2009.

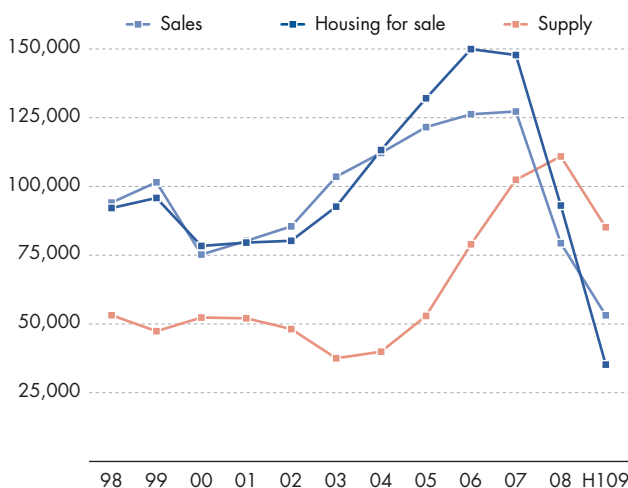
This, combined with the caution displayed by developers, who curbed the start of new developments back in 2008, has resulted in a significant **drop in the amount of housing on the market**. In some markets there is now a shortage of supply which is prompting developers to start reserving sites.

Moderate fall in new house prices

In the 2nd quarter 2009, the **average price of new apartments in France stood at €3,369/sq. m**, i.e. a fall of 2% compared to the 2nd half 2008, an all-time high level. Legislative measures such as the Scellier law and the government's stimulus plan have boosted the market for new housing and helped stem price drops. Developers are therefore more active in this market where their properties have started selling again at a faster rate.

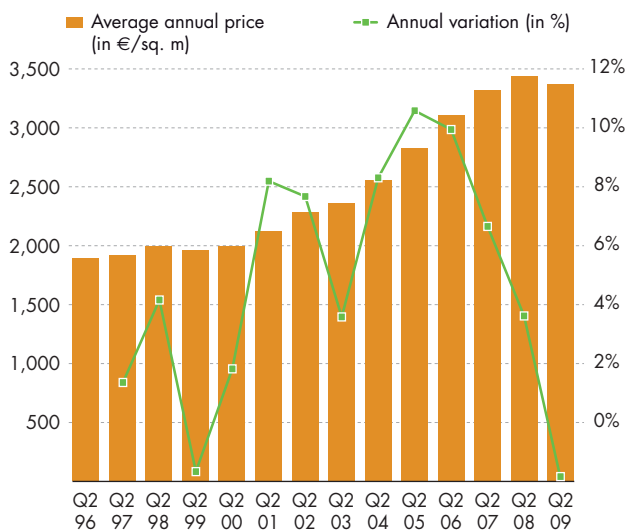
Sales, housing for sale and supply of new housing in France

(in units)



Source: MEEDDAT/SESP: SOeS, ECLN

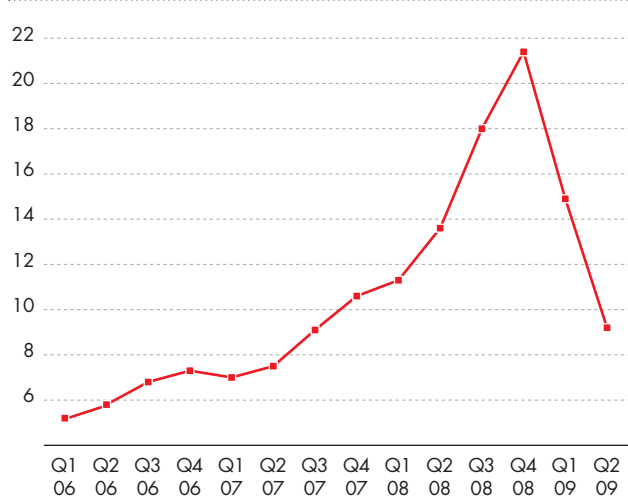
Average prices of new apartments in France



Source: MEEDDAT/SESP: SOeS, ECLN

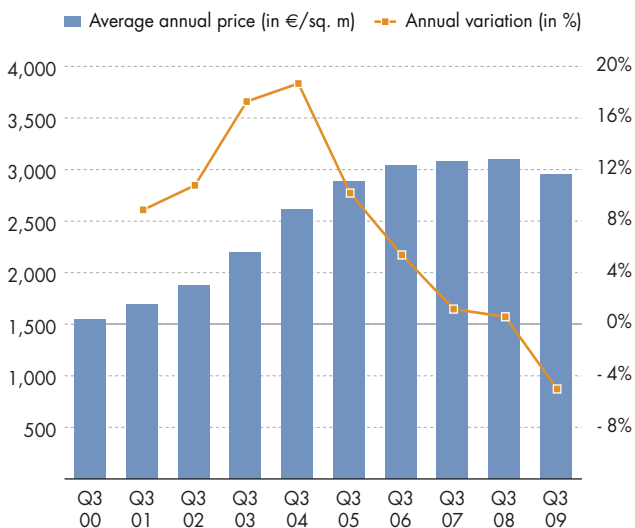
Selling period for new apartments in France

(in months)



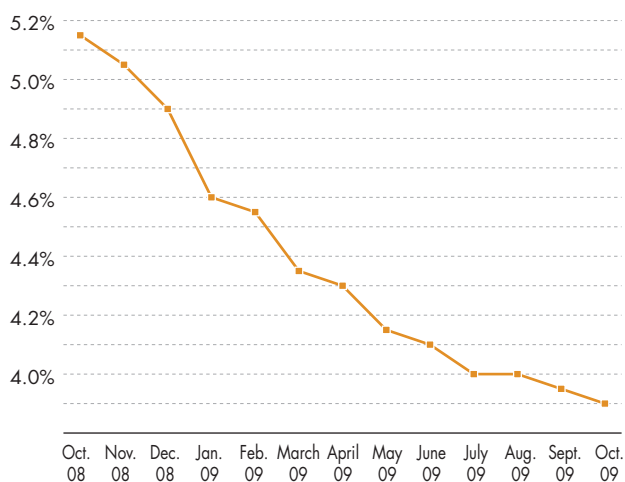
Source: MEEDDAT/SESP: SOeS, ECLN

Average prices of second hand apartments in France



Source: FNAIM

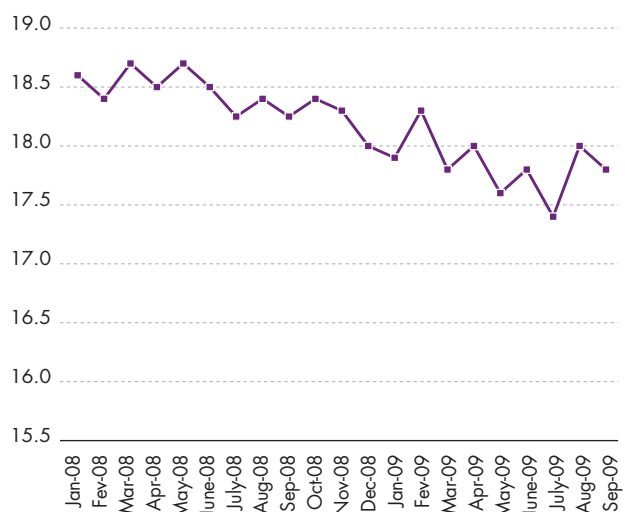
Changes in 20-year borrowing rates for a first-rate mortgage application



Source: Meilleurtaux.com

Average duration of real estate loans

(in years)



Sources: Observatoire du Financement des Marchés Résidentiels, Empruntis.com, Lemoniteur-expert.com

Improvements in the solvency of households, including government incentives, were more noticeable in the market for new housing than old. **The accumulation of government measures and benefits for new housing projects**, in particular the doubling of the zero-rate loan, encouraged house buyers to choose new properties rather than old.

The rebound in development activity is gathering strength, and is likely to push land prices up, which will be reflected in the final price of the house when it is put on the market - unless, of course, other savings can be made during the construction process, an avenue that is already being investigated by some developers.

Second hand housing

Sales diminish

Sales of second hand homes are not expected to exceed 500,000 in 2009, compared to 670,000 in 2008. This level of transactional activity is equivalent to the one seen in 1992 in the depths of the last real estate crisis. In July 2009, sales in Ile-de-France showed a year-on-year fall of 29%. Sales in the most active period of the year, from May to July, fell by 18% in a year.

Market activity curbed

Despite a few jolts in the 2nd and 3rd quarters 2009, there was little activity in the market for second hand homes. **The fall in prices combined with lower interest rates boosted the solvency of households** which is now back to 2005's levels. **But activity still fell by 18% over a year.**

Uncertainty about the future is one of the main reasons house buyers were absent. Faced with a lengthy economic crisis, rising unemployment and a freeze on salaries, consumers' vision of the market, particularly if they have to sell in order to buy, is not encouraging transactions. The fear of selling at a low price and of having to commit to a long term loan is a barrier to mobility.

On top of which is the requirement to meet new energy performance regulations (RT 2005 and RT 2010). These make works in some old homes compulsory, adding another uncertainty to the purchase of old property.

To summarise, the level of consumer confidence is low, and this is curbing market activity despite favourable financing conditions. On the bright side, the French market is proving to be one of the healthiest and most secure markets in Europe in the current trough.

A measured price reduction in 2009

Generally speaking the market for second hand homes is under less pressure than at the end of 2008 when there were fears that prices would collapse. Over the last nine months there has been a moderate fall in prices. The average price appears to have peaked at the end of 2008.

The average price for second hand apartments in France in the 3rd quarter 2009 stood at €2,950/sq. m, which is a **4.9% drop compared to the 3rd quarter 2008**. It is stable compared to the preceding quarter. The market is now posting prices similar to ones seen at the end of 2006.

In September, apartments in Paris and Nice, two of the most expensive cities, sold for average prices of respectively €7,305/sq. m and €4,000/sq. m. Whereas the lowest prices were seen in Limoges, at €1,535/sq. m and Metz at €2,047/sq. m. Annual variations in cities fell in a range from 0.4% to 5.6%.

This new downward cycle could be lower than expected. Some markets, notably the ones under most pressure, are already showing signs of a new upward cycle. For example in Paris, prices rose in several arrondissements.

From September 2008 to September 2009, cities in the northeast and southeast of France posted fairly substantial price drops, from 4% to 6%, except in Nice where the average price only fell by 1.8%. By contrast, cities in western France saw more moderate declines, between 2% and 3% (less than the national average), except in Caen where prices fell by 5.5%. In the north of France, Lille was relatively resilient posting a 1.9% fall.

The letting market

Less mobility

Rents are often reassessed when homes are vacated and relet, therefore **the decline in residential mobility** in the letting market is a barrier to rent adjustments. Estimated at 29.2% in 2006, residential mobility stood at **25.7% halfway through 2009**. Mobility shrank the most in Basse-Normandie and in the Midi-Pyrénées. However it was less obvious in Ile-de-France, Limousin, Pays de la Loire, Poitou-Charentes, PACA and Rhône-Alpes.

Rents on a downward trend

For the first time in 10 years, the annual change in the IRL rent index (Indice de Référence des Loyers) was negative in August 2009, posting a 0.8% fall, compared to a rise of 2.1% in 2008. **In the 3rd quarter 2009, rents stabilised with the index showing a quarterly rise of 0.3%** to stand at 114.41.

Although quite moderate, the fall in rental values affects all types of housing, and in particular 3-bedroom apartments (down 2.3%). Only rents on studio flats post national rises, up on average by 0.1%.

The fall affects most, but not all, large cities in France. For example, average rents in Rennes, Bordeaux, Marseille and Grenoble fell, but in Lille, Lyon and Nice they rose yet again.

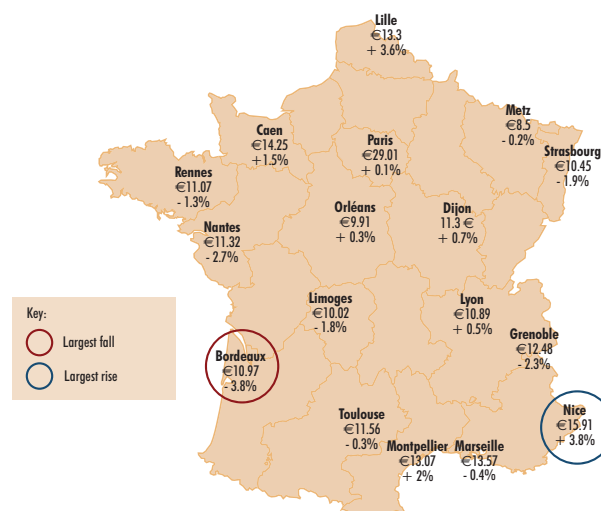
The letting market has not undergone any great change. Although trends vary from one market to another, by and large any changes are fairly limited with the gap between the steepest rise and fall at just 8 base points.

OUTLOOK

- The scarcity of supply is curbing market activity and limiting the degree of market regulation with the result that prices for second hand housing are not falling noticeably. Indeed, there are signs that prices are rising again in Paris.
- The fall in prices for new housing seems to have slowed down, notably due to probable price increases for development land, developers anticipating the introduction of stricter energy standards (RT 2010) with the reformed Scellier law and other state aids for the acquisition of low-energy buildings.
- The improvement in the French economy expected in 2010 does not suggest there will be a sharp rise in housing market activity. Income stability and a freeze on wages will cap debt capacity.

Average rents for new leases on second hand apartments in France in September 2009

(in €/sq. m, annual variation)



Source: Seloger.com

ZOOM...

HOUSING AND RECENT LEGISLATION

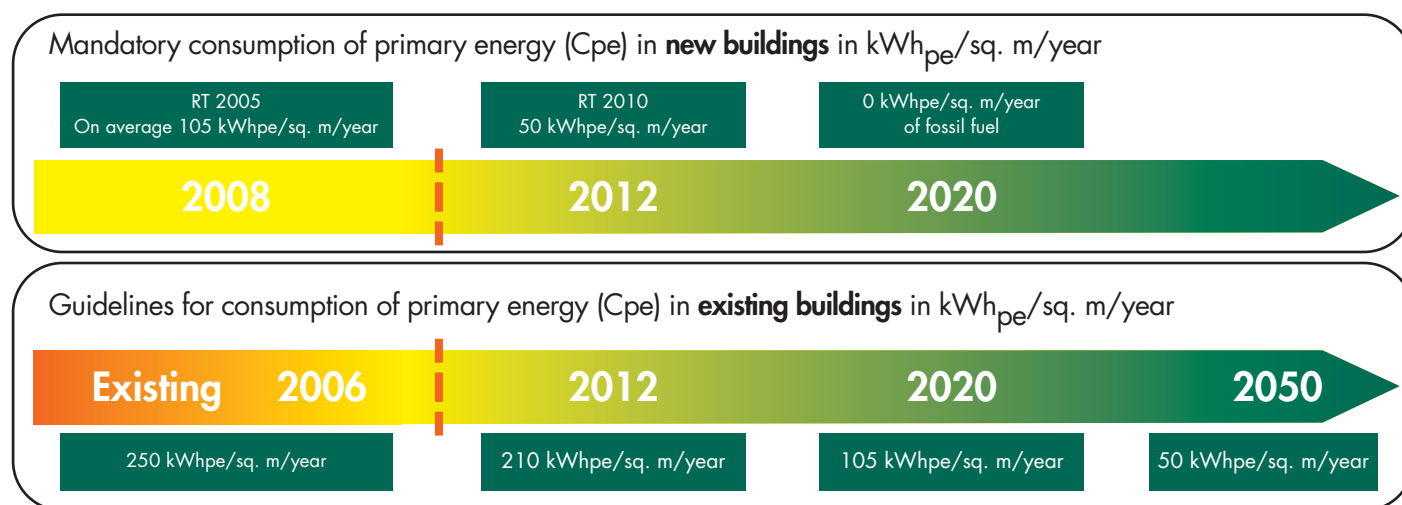
Housing and ambitious environmental plans

Under the Kyoto protocol (2004 Climate Plan), France committed to reducing its greenhouse gas emissions and its energy consumption, particularly domestic energy consumption. The country went on to introduce tougher thermal standards for the construction of new housing known as RT 2005 (Réglementation Thermique 2005), in which the energy performance of buildings was improved by at least 15% on 2000's standards. The energy

objectives of these regulations will be revised downward every five years. The next stage will be set by the RT 2010, and the long term objective (2050) is to cut energy consumption in residential buildings by 4 or 5.

The main problem is that of the existing stock of housing, which has to be renovated in order to improve its consumption levels.

Thermal regulations for new and existing buildings (2006/2050)



Source: CB Richard Ellis

Note kWh_{pe}: kilowatt hour primary energy

Primary energy: final energy (billed) + energy required for its production / distribution

Thermal regulations (RT 2005 and RT 2010) are distinct from HQE® accreditation

It is mandatory for housing to comply with thermal regulations.

The thermal regulations for new constructions, RT 2005, set an upper limit of average energy consumption of 120 kWh_{pe}/sq. m/year, with variations depending on the climatic zone in which the building is located (H1, H2 and H3) and the type of heating (fossil fuel or electrical). These regulations concern new buildings or extensions to residential buildings and will change over time. From January 2013, planning permission will only be granted for low energy consuming buildings. From 2020, planning permission will only be granted for energy positive buildings.

Buildings are ranked by their energy consumption and greenhouse gas emissions as below:

- high energy performance buildings (Bâtiment à Haute Performance Energétique, or BHPE): 96 kWh_{pe}/sq. m/year;
- very high energy performance buildings (Bâtiment à Très Haute Performance Energétique BTHPE): 80 kWh_{pe}/sq. m/year;
- low energy consuming buildings (Bâtiment Basse Consommation BBC): 50 kWh_{pe}/sq. m/year;
- passive energy building (Bâtiment à Energie Passive BEPAS): <15 kWh_{pe}/sq. m/year;

- positive energy building (BEPOS): produces more energy than it consumes.

Existing homes, often large consumers of energy, are subject to specific rules for existing buildings, «RT Existant». These standards are not as strict because trying to upgrade all existing homes would be technically difficult and expensive. Although still an issue for debate, these regulations are not compulsory but are defined as an objective. For the moment there are incentives to carry out works to improve the energy performance of homes and there are compulsory surveys to be carried out before selling and buying property.

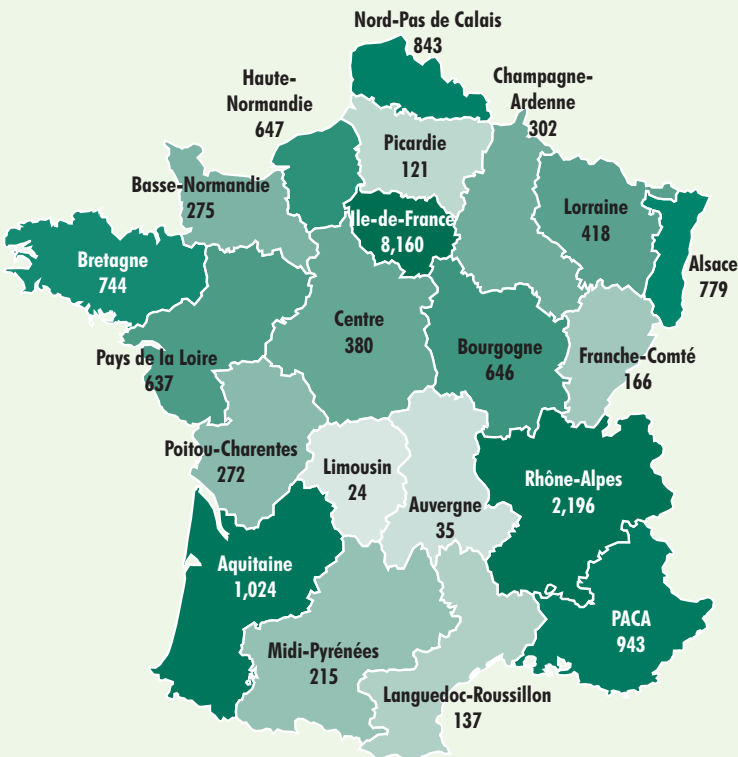
The HQE certification is a voluntary approach. Developers and buyers can both adopt an HQE approach. This involves «programming, designing and building a healthier building that is more comfortable and greener than a standard building of the same generation». HQE constructions must score 7 credits out of 14 rating criteria. The criteria concern green construction, green management, comfort and health and are broken down into two sub-categories (the intrinsic quality of the building and the on-going maintenance of the building). The HQE rating system incorporates the applicable thermal regulations.

Sources: Ministry of the Economy, Finances and Industry, Ademe

ZOOM...

THE SUCCESS OF LOW ENERGY BUILDINGS IN FRANCE

Distribution of BBC-Effinergie housing under examination or certified as of 31 August 2009 (in units)



Source: Press package, 28 October 2009, Ministère de l'Écologie, du Développement durable et de la Mer

Following the recent think tank on the environment and the growing number of low energy buildings, the Ministry for Ecology, Sustainable Development and the Sea, Adème (an environmental agency) and the charity Effinergie have come together to form an observatory of low energy buildings.

The observatory has already published certain comments:

- the demand for low-energy certification (BBC certification) increased ten times more than expected in three years;
- virtually all regions in France now have several hundred houses in the process of being certified as low energy buildings, but most demand, 60%, is in Ile-de-France, Rhône-Alpes and Aquitaine;
- government incentives are getting greener so the construction or acquisition of low energy new buildings are entitled to the highest benefits (measures include the modified Scellier law, the zero rate loan has tripled and other premiums exist).

Housing units under examination for BBC-Effinergie label (in thousands)



Source: Press package, 28 October 2009, Ministère de l'Écologie, du Développement durable et de la Mer

INVESTMENT: BLOCK SALES

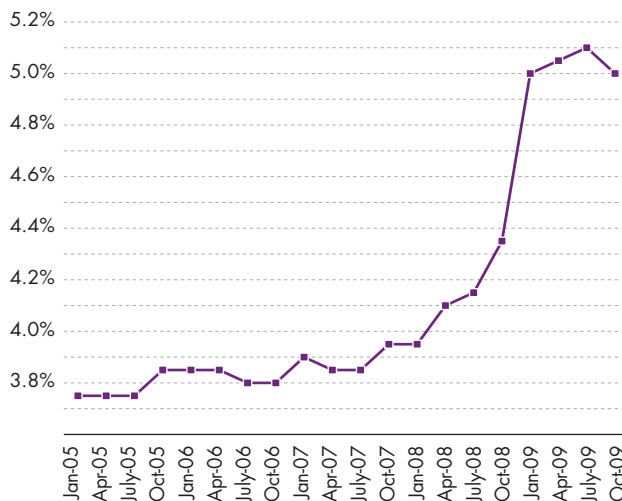
Second hand units

A slightly different panel of investors were active in 2009, principally ones that were better suited to today's economy and financing conditions. The credit crisis excluded investors that relied on leverage to carry out their operations, leaving room for those with **equity capital and a good capacity for debt with banks or those that have to buy.**

Good income generating investments were therefore given priority, with investors seeking the few well located and well let quality properties that were on the market. A phase of price adjustment started at the end of 2008, but this has been too weak and sporadic result in a tangible upturn in market activity.

Yields on prime space that have been rising for several years, showed a downturn in the 3rd quarter.

Prime residential yields



Source: CB Richard Ellis

Prime* yields by business segment

	Oct. 09	Oct. 08
Offices Paris CBD	5.75% - 6.5%	4.85% - 6%
Offices La Défense	6.5% - 7.25%	5.75% - 6.5%
Offices Regions	6.80% - 8.5%	6.15% - 8%
Classe A logistics	8.25% - 9%	7% - 8%
Light industrial space	9.25% - 12%	8% - 9%
Shopping centres	5.25% - 7.25%	4.75% - 7%
High street retail (prime)	5.5% - 7.5%	4.75% - 7%
Residential	5%	5.10%

* Well-located assets, let at market conditions.
Yields partly decided on expert opinion.

Source: CB Richard Ellis

CONCLUSION AND OUTLOOK

2010 will be a transition year that may lead to an upturn in activity if the long awaited, but little seen in 2009, repricing finally takes place for second hand units.

Hopefully there will be no increase in prices for new homes, given the limited solvency of families, as an increase would further block the market.

The market for new houses is in an interesting but challenging situation in which the growing need for houses has to be reconciled with a risk of over-heated land prices and increased construction costs due to the application of new standards for green buildings and increased access for reduced mobility persons.

In order to maintain prices at a level compatible with the solvency of households, a «technological» leap is needed which would help produce the balance required for the market to operate smoothly.

Despite high demand, few transactions actually take place.

Institutional investors had the potential to be more active buyers in 2009. Their capital is a definite advantage when it comes to funding acquisitions in the current climate. Yet objectives for returns on investment curbed their activity because assets were often too expensive. They are waiting for a substantial fall in prices before becoming more active.

Operators working in the social housing sector are very active despite price ceiling limits. In exchange for moderate selling prices, sellers can benefit from tax advantages.

A few «family offices», motivated by the security provided by bricks and mortar compared to financial markets, have also started acquiring apartment blocks, using personal wealth and their capacity to raise debt with banks.

The pressure of players on prices will continue to exert a downward pressure on prices for second hand units. However, the lack of supply of block sales is a widespread trend in France. Therefore the market is curbed and forced into a lower gear.

Sellers are prompted into selling for various reasons. The resulting supply, although insufficient, is varied.

- **Property companies** are selling some of their portfolios, in some cases because it is too difficult to bring their properties up to the latest standards. This is feeding the market with medium quality buildings, dating from the sixties and seventies. They are also selling their secondary buildings in order to finance works on their best buildings.
- Some **pension funds and mutual insurance companies** need to sell quality buildings to cope with a structural imbalance resulting from a fall in the number of members. In many cases the amount of the distribution requirement is higher than subscriptions from members.
- To a lesser extent, **private investors** are selling to get out of a jointly owned property and/or to release cash.
- Some players are **gradually refining their portfolio**, without being net sellers. These players watch the market, make opportunistic acquisitions and sometimes sell secondary assets.

New units

Sales of new housing blocks are curbed by high prices, exaggerated by unit sales encouraged by the Scellier provision.

Nevertheless, two factors do help fuel the market:

- «**Scellier SCPIs**» – about a dozen of these companies exist for the time being, and they are in a phase of collecting funds and therefore of buying, in particular new space. Planned reforms will make the Scellier law greener – implemented from 2011 – and this has introduced an element of uncertainty about their expansion in the next few months.
- The need for developers in times of crisis to offload some of their financial risk by selling a significant proportion of new schemes (30% to 50%) which feed the market.

ZOOM...

WHAT ARE THE FUTURE OPPORTUNITIES?

Overview of French markets based on regional forecasts (2009-2014)

	Growth 2009-2014			2006	Q2 09	
	Population balance	Employment	GDP	Average income per household*	Number of housing units in the pipeline	Share of completed housing units
Languedoc-Roussillon						
Rhône-Alpes						
Provence-Alpes-Côte d'Azur						
Ile-de-France						
Pays de la Loire						
Midi-Pyrénées						
Bretagne						
Aquitaine						
Alsace						
Centre						
Poitou-Charentes						
Nord-Pas de Calais						
Haute-Normandie						
Picardie						
Basse-Normandie						
Franche-Comté						
Corse						
Bourgogne						
Limousin						
Auvergne						
Champagne-Ardenne						
Lorraine						

* Net taxable income in € in 2006 ** Apartment blocks on the drawing board, under construction and completed
Sources: Experian Business Strategies, MEEDDAT, CB Richard Ellis



Forecasts for net population growth by region give a stable and reliable indicator for future housing needs. The highest housing requirements in the five years ahead are in southeast France, in particular in Languedoc-Roussillon, and in the west. A study of the migration balance and the natural population increase would produce more accurate figures for this future demand.

To profile the type of housing needed, other indicators can be used. The average household income and trends in employment give an indication of the proportion of social housing to be considered. Developments in the pipeline determine how many units are available or will soon be available on the market.

These indicators must be weighted in relation to the strategy of each player (social sector developers, private sector developers, investors). Regularly updating the most volatile indicators, especially those concerning the economy, will give a clearer picture of the situation in regional markets in France to help identify development opportunities in France.

A strategic analysis support

Rhône-Alpes:

+ 35,600 people/year
14,100 housing units in the pipeline mid-2009
Average household taxable income €28,000

PACA:

+ 33,350 people/year
8,900 housing units in the pipeline mid-2009
Average household taxable income €21,270

Ile-de-France:

+ 25,500 people/year
9,500 housing units in the pipeline mid-2009
Average household taxable income €28,700

Languedoc-Roussillon:

+ 28,500 people/year
4,300 housing units in the pipeline mid-2009
Average household taxable income €19,000

Information herein has been obtained from sources believed reliable. While we do not doubt its accuracy, we make no guarantee, warranty of representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the future performance of the market. The reproduction of the whole or any part of this report is only authorised if its source is credited.

CB Richard Ellis Ressources - Economic analysis support
Siège social : 145-151, rue de Courcelles 75017 PARIS - Siren : 412 352 817 - RCS Paris

© 2009 CB Richard Ellis, Inc.

CONTACTS

Research

Auréli LEMOINE

Head of Research

Tel.: 33 (0) 1 53 64 36 35

Fax: 33 (0) 1 53 64 40 00

aurelie.lemoine@cbre.fr

Marie-Josée LOPES

Residential researcher

Tel.: 33 (0) 1 53 64 30 78

Fax: 33 (0) 1 53 64 40 00

mj.lopes@cbre.fr

Residential

Guy NEPLAZ

Co-President

Tel.: 33 (0) 1 53 64 30 01

Fax: 33 (0) 1 53 64 33 34

guy.neplaz@cbre.fr

Dominique ENGRAND

Head of Investment

Tel.: 33 (0) 1 53 64 30 57

Fax: 33 (0) 1 53 64 33 34

dominique.engrand@cbre.fr

Renaud CAPELLE

Head of Sales

Tel.: 33 (0) 1 53 64 36 09

Fax: 33 (0) 1 53 64 33 34

renaud.cappelle@cbre.fr