



CURRENT TRENDS IN FRANCE

Number of second hand sales ¹	↑
Number of new sales ¹	↑
Price of second hand housing ³	↑
Price of new housing ²	↑
Rents ²	↑
Construction ²	↓
Available supply of new housing ²	↓
Investment	↑

¹ Annual trends compared to 2009
² Annual trends compared to Q2 2009
³ Annual trend compared to Q3 2009

ECONOMIC CONTEXT

GDP in France rose by 0.2% in 1st quarter 2010, accelerating in the 2nd to 0.7%. **The business climate** improved and recently overtook its long-term average rate in industry and services. **Yet the job market has not benefited from this positive shift.** The unemployment level rose by 0.2% in September but dropped by 0.8% in October, and according to business leaders little hiring is planned in the months ahead. The French unemployment office - Pôle Emploi - is not expecting any rise in employment in the 2nd half of 2010 except in the temporary job market.

Consumer confidence has improved, although it is still substantially below the long-term average. The French are somewhat more optimistic about future changes in their standard of living. In contrast to the 2nd quarter, **expenditure on manufactured products was quite buoyant in the 3rd quarter** (up 1.2%). However, consumption could weaken because of **the end of the car scrap allowance**, while other sectors will be hit by the end of certain tax deductions and the weak job market, which will limit increases in spending power and **induce high levels of savings.** Consumption

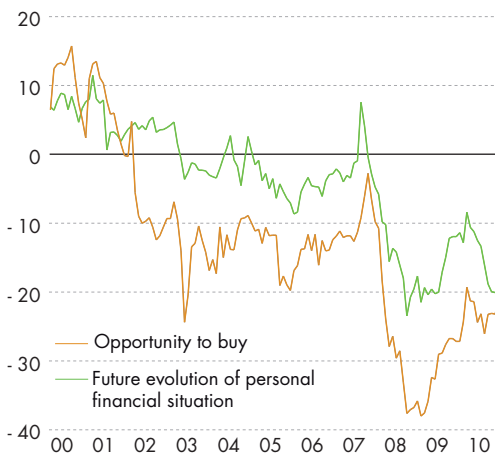
is forecast to rise by just 1.3% in 2011, a level similar to 2010. **The French have continued to buy on credit**, but at a much tamer rate than a few years ago, with the level of debt standing at 77% of gross disposable income halfway through 2010 compared to 75% in 2009 and 73% in 2008 at the same period. The Bank of France's quarterly survey reported that demand for housing loans is looking quite positive. Borrowing conditions eased in the 3rd quarter due to the reimbursement capacity of households improving slightly and because of strong competition between banks in the credit market.

Banks are not planning any significant change to their mortgage criteria in the 4th quarter.

The economy will grow by an estimated 1.5% in 2010 and a similar change is forecast for 2011. Next year's weak growth scenario will lead to a laboured improvement in buying power and the job market which could penalise the return of normal volumes of transactional activity on the residential market.

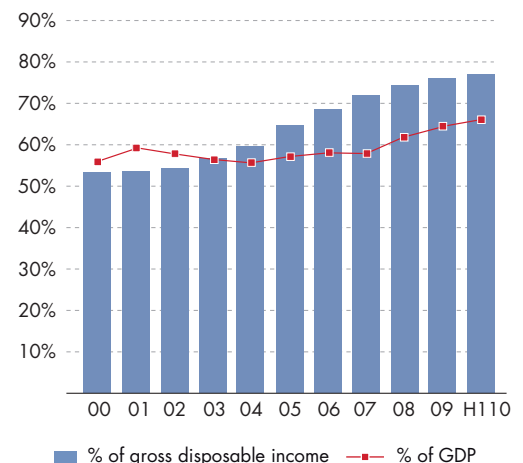
Consumers' opinions

(Balance of opinion, seasonally adjusted, in points)



Source: INSEE

Level of consumer debt in France



Source: Banque de France

HOMEOWNER SALES

New housing

Stabilization before a possible upturn

From January 2009 to August 2010, **housing construction** totalled 20,582,000 sq. m, a **14% reduction year-on-year**. This was due to a 20% slowdown in the amount of development starting up between 2008 and 2009. **Construction starts have now stabilized** and there is even a **resumption in the planning permissions** going through. Permission was given for the construction of some 301,000 homes in France between January and August 2010, compared to 250,990 for the same period in 2009, i.e. a 20% rise from 2008 to 2009 then a 6% drop from 2009 to 2010.

The growth in sales slows down

Quarterly **sales rose again but by a more moderate amount than a year ago, up 7% between the 2nd quarters of 2009 and 2010** compared to 30% between the 2nd quarters of 2008 and 2009. In 2009, the market was boosted by the explosive effect of the **Scellier law** which, in the wake of tax incentives introduced by Borloo and Robien, was **very well received** and easily understood by the much wider target group of private investors who could benefit from them. This boom, which took place **when the financial crisis was biting hardest, limited the impact of the crisis in the construction and development sector**.

In 2010, renewed interest was shown in the Scellier law. However changes in the regulations and new environmental requirements have attracted a lot of media attention and created some scepticism that may dampen the enthusiasm of potential buyers under this regime.

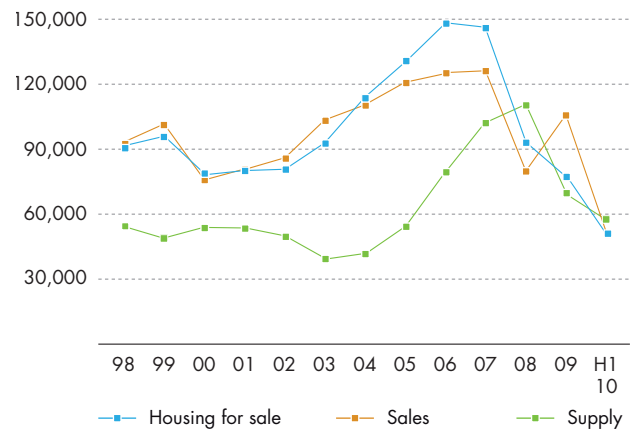
A new wave of acquisitions, this time of green housing, may be expected **from January 2011** with notably the **introduction of new thermal regulations, a new tax framework** (that will nevertheless remain advantageous) and the **new zero rate loan (or PTZ+, see box)**.

Trends in **Ile-de-France follow national trends but with more marked changes** because of the greater imbalance between supply and demand. For instance construction starts fell by 29% from 2008 to 2009 while sales rose by 30% from 2nd quarters 2009 to 2010.

Supply has quite logically fallen, by 4% per annum in France and by 28% in **Ile-de-France reducing** once again **the time needed to sell a property**. The average selling time in France stood at 9.2 months. However in Ile-de-France it has fallen from 7 months to 4.2 months between 2nd quarters 2009 and 2010.

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

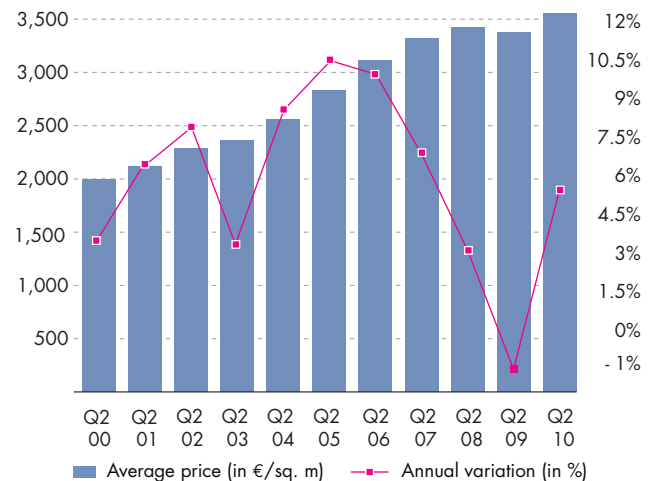
(in number)



Source: MEEDDAT/SESP : SOeS, ECLN

Average prices of new apartments in France

(in €/sq. m, annual variation Q2/Q2)



Source: MEEDDAT/SESP : SOeS, ECLN

The zero-rate loan is dead, long live the zero-rate loan

In 2011 the Prêt à Taux Zero Plus, or **PTZ+**, will replace the PTZ and the Pass Foncier. It will be financed partly by savings made by the elimination of certain tax deductions on interest payments for loans that were initially planned by the TEPA law.

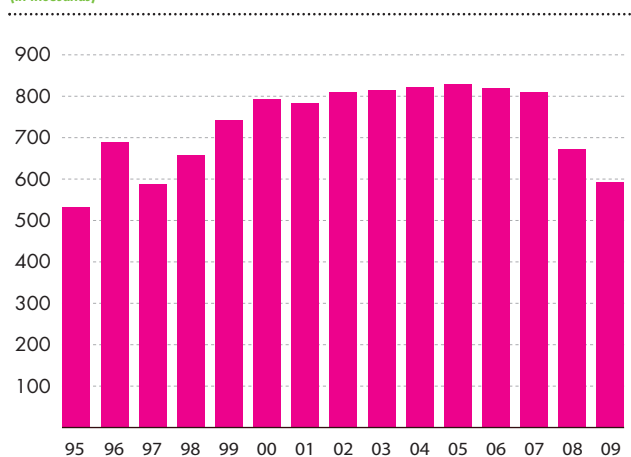
The zero-rate loan can be applied for by first-time buyers of their main residence, whether it is a new or second hand property. The loan was modified yet again.

The new PTZ+ is slightly more open because:

- there are no longer any ceiling limits on earnings for borrowers;
- the zoning map is more detailed (similar to that of the Scellier provision);
- loan ceiling limits have been increased by as much as two or three times;
- the energy consumption of the home is considered;
- repayments are more closely adapted to the borrower's income (up from 5 to 10 income brackets);
- the reimbursement period has been extended (from 25 to 30 years for lower income brackets).

Number of sales of second hand housing in France

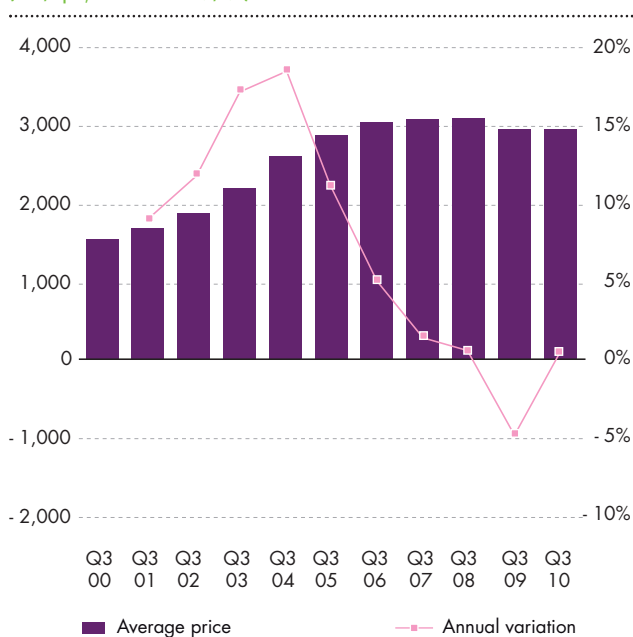
(in thousands)



Source: CGEDD from DGFIP (MEDOC) and data from notaires

Average prices of second hand apartments in France

(in €/sq. m, annual variation Q3/Q3)



Source: FNAIM

Price increases confirmed

The price of an average new home started rising again in 2010. In the 2nd quarter, the average price was €3,556 net/sq. m, i.e. 5% higher than for 2nd quarter 2009.

Construction costs will no doubt rise because of the extra costs of new building standards and this will directly affect selling prices. In markets that are really under pressure, the shortage of development sites earmarked for housing will further push up prices. This is especially true for Paris and the inner suburbs where high demand, a systematic shortage of housing and short selling periods are prevalent.

In the market for new housing there is a large proportion of buy-to-let private investors taking advantage of the Scellier regime and of first-time buyers. This market is thus **very sensitive to changes in tax incentives and other public aids**. If aids and other incentives are cut, the capacity and eagerness of these buyers to go ahead with an acquisition will be affected directly. The removal of interest reimbursement on mortgage payments, new constraints in the Scellier provision and the modification of the zero-rate loan will all affect the market in 2011.

Second hand housing

Sales kick-off again

The number of sales of second hand housing fell in 2008 by 17% then again in 2009 by 12%, but this downward trend appears to have come to an end in 2010. **From June 2009 to June 2010, 692,000 homes were sold, i.e. an average nationwide annual growth of 20%** (compared to a 23% drop in the previous year). Sales in Paris and Ile-de-France also rose by 25% and 10% from August 2009 to 2010.

Given the low number of sales in 2009, 2010 will post very substantial increases in sales figures. And **notaires**, the officials charged with processing house sales, **estimate the number of sales in France in 2010 will stand between 720,000 and 750,000**, which is close to the volume registered in 1999.

Price hikes spread throughout France

While price rises were mainly concentrated in the high end of the market halfway through the year, **the trend gathered strength in the second hand market in 3rd quarter**. The average second hand house price in France stood at €2,956/sq. m with a national average rise of a modest 0.2%. However, this figure obscures a wide range of movements: in Paris the average rise was approximately 10% between 3rd quarter 2009 and 2010.

The rising price trend is spreading geographically to other sectors. Initially it affected sought-after city-centres, but prices are now rising in all districts of cities and even in the inner suburbs in markets under pressure like Ile-de-France.

The French are aware of these price rises but are not reining in their buying plans.

Market fluidity returns

Half-year trends were confirmed. Although the movement cannot be described as a sharp upturn, **the general acceptance of a price rise** led to more homes coming on to the market, making it possible for the second hand market to return to more regular levels of activity. **Yet market fundamentals have not really improved** because the economy has made but a hesitant recovery and consumer confidence is not strong, weighing down the market. The national federation of real estate agents – FNAIM – did, however, report that **buying intentions have remained stable since the start of the year.**

Good mortgage conditions with all-time-low interest rates and **the security of real estate as an investment have been shouldering the second hand market.** **Changes under way in the tax system** (higher capital gains tax, the removal of the reimbursement of mortgage interest payments and the reduction of other tax advantages) will precipitate the sale of some properties before they are applied in January 2011.

The letting market

Throughout France, investors taking advantage of the Scellier regime are steadily replenishing the supply of capped-rent housing.

This market is characterised by **high demand and constantly rising rents.** Rental accommodation is the solution for households that do not want to or cannot become homebuyers, usually for financial reasons, but also because of the availability. It is still easier to rent in Paris than buy.

In the face of the rising buying market, especially rising prices, rents continued to rise. The rent reference index at the 3rd quarter stood at 118.7, an annual variation of 1%.

CONCLUSION AND PROSPECTS

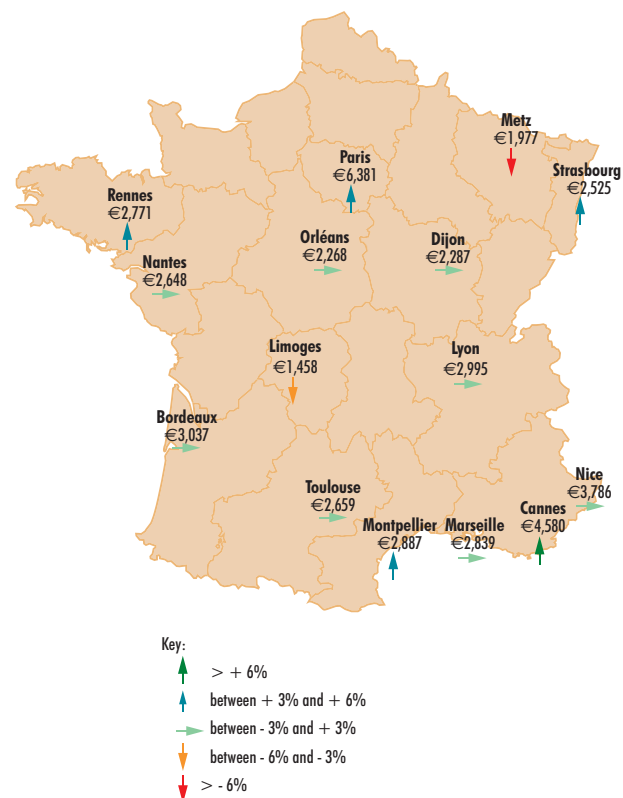
The residential market for individuals has again benefited from its appeal as a refuge investment product that was reinforced as the country was climbing out of the financial crisis. It is an easy way of providing income for retirement and constitutes an asset for a portfolio. Housing is also guaranteed a growing demand from structural population changes such as single-parent families, step families and aging populations.

Faced with diversified growing demand, the only factor that could block the market in the long term is a supply shortage.

A few short-lived variations in prices and sales volumes are to be expected in the months ahead, but the underlying trend will probably be a rising one.

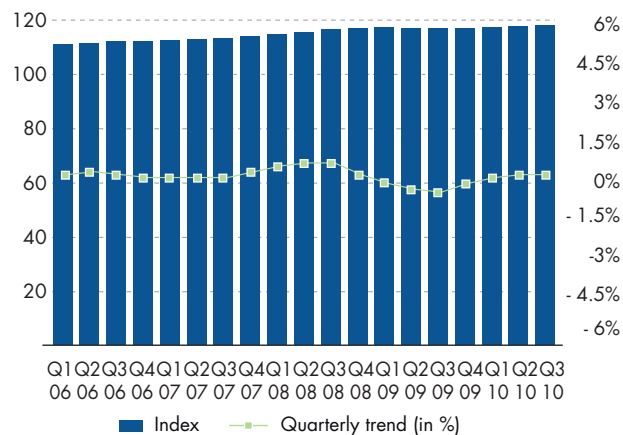
Average prices of second hand housing in France at October 2010

(in €/sq. m, year-on-year trend)



Source: Fnaim

Rent reference index (IRL)

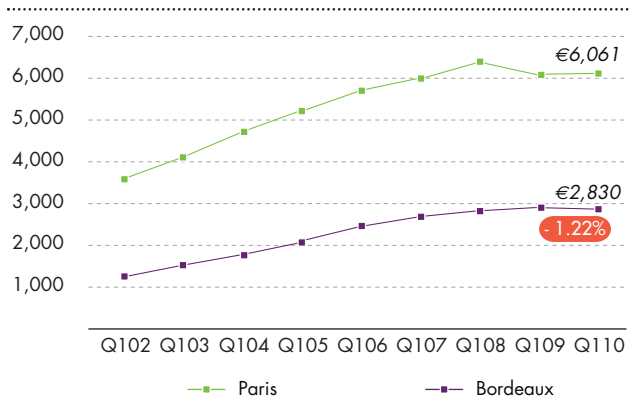


Source: INSEE

ZOOM...

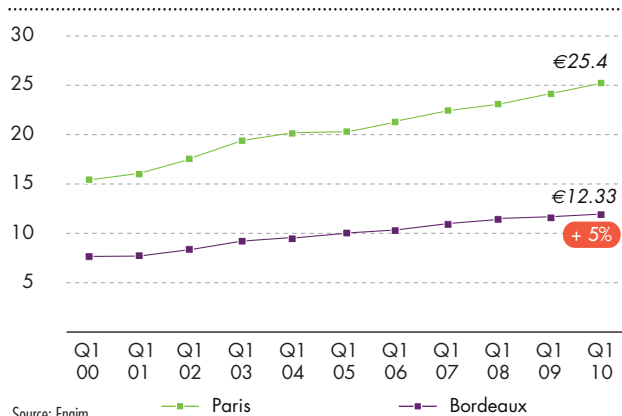
THE SITUATION OF REGIONAL MARKETS

Average prices of second hand housing (in €/sq. m)



Source: Fnaim

Average rents of second hand housing (in €/sq. m/month)



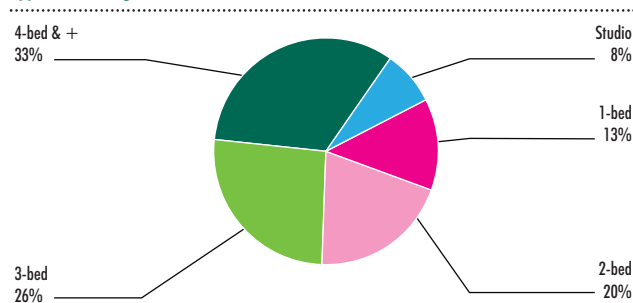
Source: Fnaim

Summary of the housing market:

- 355,720 homes with 5.1% of homes vacant
- 30% owners
- 67% tenants of which 13% in assisted housing
- 54% of buildings built before 1948

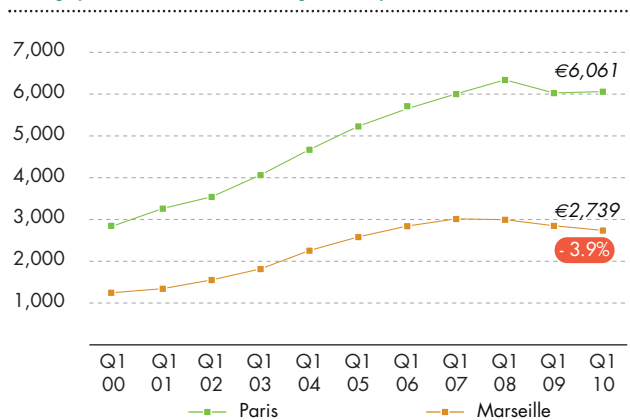
Source: INSEE

Type of housing



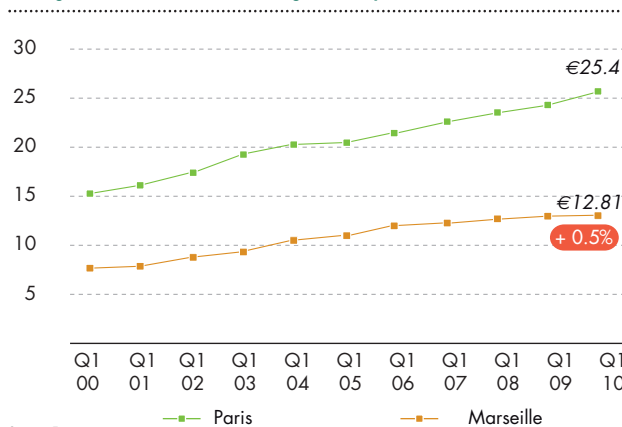
Source: INSEE

Average prices of second hand housing (in €/sq. m)



Source: Fnaim

Average rents of second hand housing (in €/sq. m/month)



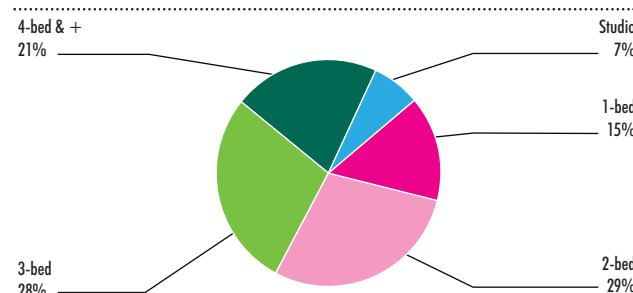
Source: Fnaim

Summary of the housing market:

- 499,904 homes with 3% of homes vacant
- 47% owners
- 63% tenants of which 17% in assisted housing
- 37% of buildings built before 1948

Source: INSEE

Type of housing



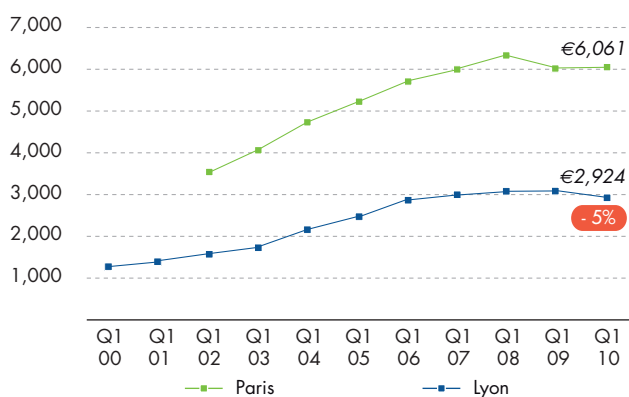
Source: INSEE

ZOOM...

THE SITUATION OF REGIONAL MARKETS

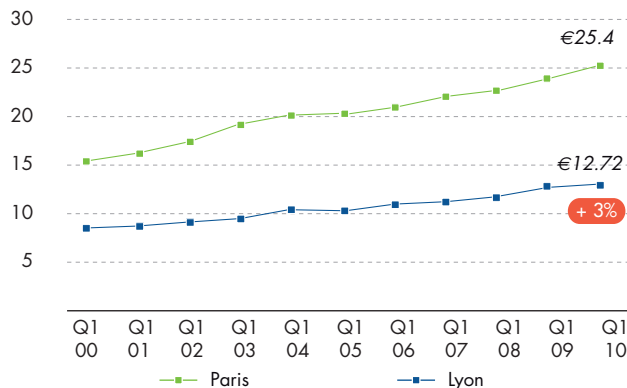
LYON – Second hand market

Average prices of second hand housing (in €/sq. m)



Source: Fnaim

Average rents of second hand housing (in €/sq. m/month)



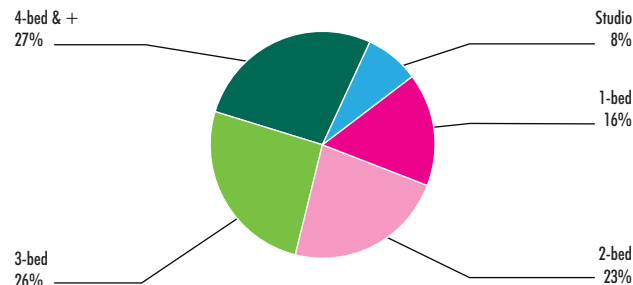
Source: Fnaim

Summary of the housing market:

- 802,119 homes with 6% of homes vacant
- 51% owners
- 49% tenants of which 19% in assisted housing
- 42% of buildings built before 1948

Source: INSEE

Type of housing



Source: INSEE

Socio-economic data

	Population	Annual growth from 1999 and 2007	Density	Age distribution	Net taxable income per household in 2007	Socio-professional category	Comments Housing projects
Greater Bordeaux	1,009,313 inhabitants	Up 0.9%, 0.4% of which is migration balance	260 peop./sq. km	15% under 14 year 30% from 15-29 year olds 17% over 60	€23,372 /year	Pensioners: 22% Employees: 18% Managerial staff: 11%	Objective 2025: 1 million inhabitants + policy to attract families back to Bordeaux. 10 new housing schemes planned in Bordeaux for completion between 2010 and 2014.
Greater Marseille	1,618,369 inhabitants	Up 0.7%, 0.3% of which is migration balance	571 peop./sq. km	Between 17% and 23% for each age bracket	€21,143 /year	Pensioners: 25% Employees: 17% Managerial staff: 8%	24 new housing schemes planned in the west of the city, mainly in the 1 st , 2 nd , and 3 rd arrondissements, for completion between 2010 and 2014.
Greater Lyon	1,757,200 inhabitants	Up 0.8%, 0% of which is migration balance	531 peop./sq. km	27% from 15-29 year olds 22% from 30-44 year olds 18% over 60 year olds	€25,137 /year	Pensioners: 21% Employees: 16% Managerial staff: 10%	21 new housing schemes planned in Lyon, particularly in the 7 th and 2 nd arrondissements, for completion between 2010 and 2014.

Sources: INSEE, Explore

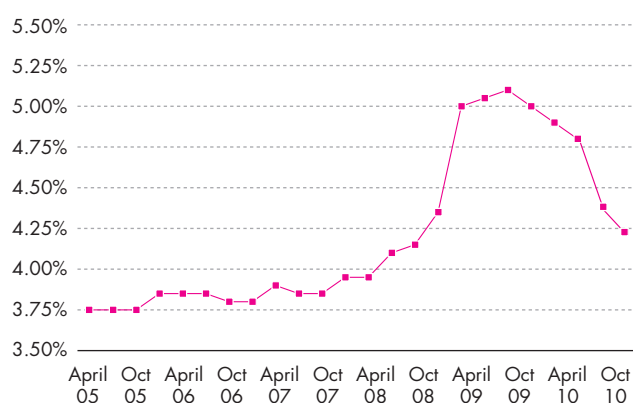
Prime* yields by product

	Oct. 2010	Oct. 2009
Offices Paris CBD	4.85% - 5.75%	5.75% - 6.50%
Offices La Défense	5.75% - 6.85%	6.50% - 7.25%
Offices in regional France	6.30% - 8.25%	6.80% - 8.50%
Class A logistics space	7.15% - 8.00%	8.25% - 9.00%
Industrial premises	8.75% - 10.50%	9.25% - 12.00%
Shopping centres	4.75% - 6.90%	5.25% - 7.25%
Prime retail pitches (n°1)	4.75% - 7.25%	5.50% - 7.50%
Residential	4.25%	5.00%

*Well located assets, let at market conditions
Some figures are valuers' opinions.

Source: CB Richard Ellis

Net immediate residential prime* yields



*Well located assets, let at market conditions
Some figures are valuers' opinions

Source: CB Richard Ellis

Energy performance results (Diagnostic de Performance Énergétique or DPE)

From 1st January 2011 every housing advertisement must include **energy consumption and greenhouse gas emission figures per square metre**.

This information must be legible and in a different colour. In the window ads of real estate agents it must equal at least 5% of the size of the advertisement (i.e. approximately 5.5 x 5.5 cm for an A4 size ad). On-line it must take up an area on the screen equivalent to 180 x 180 pixels.

INVESTMENT STRATEGY

Changes in the market for block sales

The short-lived period of falling prices, which was marked by a drop in sales at the start of 2009, has come to an end and the market has embarked on a **period of rising prices and sales volumes**. The amount of investment has been rising but is held back by a supply shortage.

The profile of **market players** is identical to 2009, but **private capital holders** such as property traders, family offices and funds are the players that **dominate the market in 2010**.

Institutional investors are still selling some of their portfolios, but they also wish to invest to become guarantors again of housing in mid-range sectors. However, with prices so high, especially in Paris, this is not always possible.

Investors in social housing, who were very active in 2008 and 2009, **have taken a back seat in 2010**. They are now more focussed on developing and maintaining their existing portfolios.

By contrast, family offices are **more active** than before. Their interest in the housing market is likely to persist for **as long as stock market investments are less profitable and secure than real estate**. Investment in housing guarantees a steady income and is a way of building a strong portfolio.

Real estate traders and asset managers are investing more than in 2008 and 2009, especially in Paris. Working on behalf of their clients, they have **high investment capacities**, often higher than 15 million euros. The market currently favours their activity of selling off apartment blocks in their entirety or as units.

In a bid **to diversify investments**, a few **foreign funds** – German, Scandinavian and British amongst others – have made an appearance or reappearance on the French housing market since autumn. In contrast to European neighbours, the French market is **safe** and market values still have **growth potential**.

Net initial yields for prime housing have been falling since 3rd quarter 2009 to stand at **4.25% at 3rd quarter 2010**. This trend should persist until the end of the year.

Since the start of the year the rush to buy apartment blocks in the **high end of the market has led to prices rising steeply, especially in Paris**. French investors are the most active players in the market although outstanding **properties are also sought** by international investors. The majority of prime block acquisitions have taken place in Paris and the inner suburbs.

2011 may continue to see a **sharper rise in prices nationwide**. Current market conditions will encourage the re-sale of property and, given the **low borrowing rates and the return of some leverage financing products**, may lead to an over-heated market.

Unit sales: a return to short term strategies

After a phase when the market was under pressure in 2008 and 2009, the **market for unit sales gained force** in 2010. Real estate is a secure investment and the improvement in the world economic climate generated **more fluidity in the market** with more intentions to buy and sell. Many investors switched targets in 2010 from securities to real estate. Investors used to working in this market, not just **from France but also from abroad**, made a comeback showing interest in second hand and new housing.

While once again there was a supply shortage, especially in Paris and to a lesser extent in Ile-de-France, 2010 was still marked by a **brutal acceleration in the selling rate of housing and by price rises. Prices in Paris reached all-time high levels** that were affordable because of low interest rates and substantial tax incentives. **The price of some properties rose by more than 10%** in the first three quarters with little **effect on buying intentions**. At this rate the market can begin to fear a return of speculative strategies.

Buyers have become more flexible leading to shorter negotiation periods as well as the sale of housing with no conditions attached. In addition, homes with sitting tenants – even with long-term leases – or ones where light renovation works are necessary, no longer burden the sale or affect the price to any great extent.

In addition, **the modification of some laws and benefits** (taxes on capital gains, reimbursement of interest) which are due to come into force in January 2011, have incited players to conclude sales more rapidly or at least to embark on negotiations so as to take advantage of current, more favourable conditions.

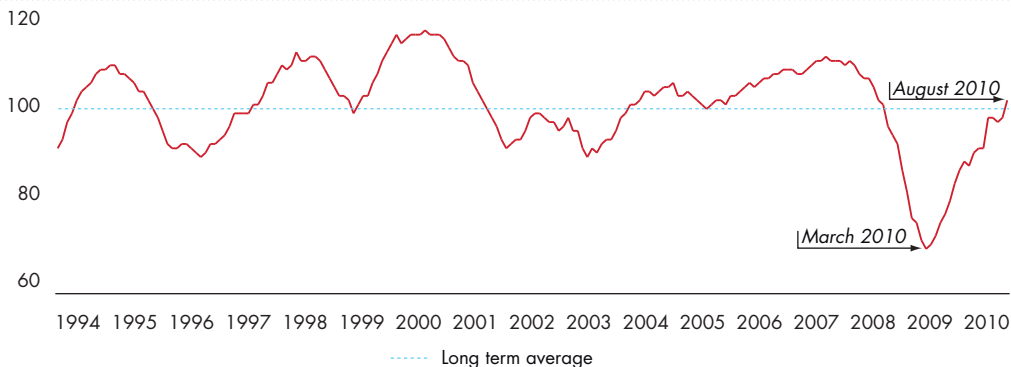
The high-end of the market has not suffered from the crisis and still posts positive trends. Two segments can be distinguished: on the one hand the **premium market for units upwards of €14,000/sq. m** in which French investors are the most active, on the other hand the luxury market for units above €18,000/sq. m which is seeing the return of foreign funds from the Middle East, China and elsewhere, acting discretely in recent months, that are looking for very prestigious addresses and very high quality services.

CONCLUSION AND OUTLOOKS

2010 was a **transitional year that ended in a blanket rise in sales volumes and prices**. The economic recovery is too weak for interest rates to rise sharply in the short term and these are linked to long-term rates that are on the low side. As a result, prices will probably continue to rise and this will spread to the rest of the country in 2011, possibly seeing weaker rises.

The market for second hand space is in a rising cycle that will encourage sales. There is a real risk of prime markets in Paris becoming overheated, but in the rest of France market fundamentals are more stable.

Business climate in France



Source: INSEE

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

Research

Aurélie 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 research analyst

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

Fax : 33 (0) 1 53 64 40 00

mj.lopes@cbre.fr

Residential

Françoise HERAUD

Block sale Director

Tel. : 33 (0) 1 53 64 30 31

Fax : 33 (0) 1 53 64 33 34

francoise.heraud@cbre.fr

Renaud CAPELLE

Unit sale Director

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

Fax : 33 (0) 1 53 64 33 34

renaud.capelle@cbre.fr