Knight Frank

PARIS VISION

Commercial Real Estate in the Paris Region
Results & Outlook

★ 2016 ★

AND NOW,
PRESENTING...

THE BIG CATCH-UP

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Partner Knight Frank LLP

Dear friends,

We saw a slow start to 2015, with transaction volumes falling sharply at the beginning of the first half of the year.

The second half swept away uncertainties by making up much of the lost ground. The office rental market demonstrated its resilience and even a certain dynamism in small- and medium-sized area segments, proof that SMEs are more positive and looking to the future with confidence. The investment market meanwhile recorded its third best year of the decade after 2007.

Real estate is currently a particularly popular asset class with investors and a considerable mass of liquidity is flowing into the Greater Paris region market and impacting yields – which are at a record low. Will the market be able to absorb this demand? Is the rental market at the start of a new cycle driven by more robust growth as Daniel Cohen predicts?

These are some of the questions we have attempted to answer with the insights of our main contributors – Jean-Philippe Olgiati (Blackrock), François Darsonval (Publicis), Laurent Fléchet (Primonial) and Pierre Dubail (Dubail Rolex) – each of them key market players who offer us their analysis. For that, I would like to offer them my heartfelt thanks.

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DANIEL COHEN

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Growth in 2016: a technical recovery or a new deal?

Last year, French growth broke through the 1% threshold and should exceed 1.5% next year. This recovery could mean that the French economy has finally emerged from the economic stagnation which has afflicted it since 2008. This long-awaited recovery is the result of a spectacular fall in the price of oil, zero-interest rate policies and a weak euro. The main question is clearly whether this is a technical recovery or a long-term trend.

If you look at industrialised nations such as European countries, the United States and Japan, the downward trend in growth appears unavoidable in the long term. In France, growth has fallen from 3% to 1.5% in the 1980s and then 0.5% with each passing decade. US growth is certainly higher than in France. It is very concentrated on the richest 10%, however, as demonstrated in the works of Thomas Piketty, with 90% of the population not experiencing any increase in purchasing power. The richest 1% has appropriated 55% of growth.

“DURING THE LAST DECADE, THE MOMENTUM OF EMERGING COUNTRIES HAS BEEN MORE OF A GLOBAL GROWTH DRIVER THAN THAT OF DEVELOPED COUNTRIES.

During the last decade, the momentum of emerging countries has been more of a global growth driver than that of developed countries. The poorest countries on the planet are currently catching up with the wealthiest in a phase equivalent to France's booming growth during the period known as the Trente Glorieuses from 1945 to 1975. However, the bad news last summer came from China, which has come up against what economists call the "middle income trap". When a country enters a per capita income range of between $10,000 and $15,000 a year, growth becomes more difficult. This means that, for a very poor country, it is fairly easy to fuel its economic growth by exporting low-cost products, providing that it has the necessary infrastructure to do so, of course. When revenue and salary increase, a strategy based entirely on exports becomes more difficult. In the case of China, the sheer size of its economy makes it impossible. The country therefore urgently needs to find internal sources of growth. This transition is tricky to manage. It is not easy to take big risks for seemingly little recompense, and the Chinese hesitations over the value of the Yuan that triggered the stock market crash show how difficult it is to set parameters at the right level.

The direct effect of the Chinese crash was a sudden fall in commodities, which is good news for importing countries such as France (and bad news for the quest for low-carbon growth), but immediately creates fierce pressure on commodity exporters, most of whom will need to make urgent adjustments. The Chinese slowdown also indirectly impacted the Japanese stock exchange, since that country's growth is now closely tied to that of China. Germany is also likely to be impacted as another major exporter of industrial products, which could spell bad news in 2017.

Beyond this adjustment resulting from China's transition, economists are heavily divided over the future growth prospects of developed countries. There are those who argue that we have entered a period of sluggish growth due to the digitisation of today. They claim that as fascinating as it is, is much more limited in growth potential than the technological revolution of the last century, which was marked by the electrical, agricultural and transport revolutions. That is the perspective of American economist Robert Gordon. Others, including endogenous-growth theorists, are much more enthusiastic about new technologies. Futurists like Ray Kurzweil point to transhumanism, a coming together of digital and biological to create "enhanced" humans.

What is to be made of such opposing viewpoints? In fact, the 20th century saw two revolutions in one. The agricultural revolution reduced farm labourers as a share of the population from 50% to almost 0%, requiring immeasurable productivity gains. However these farm labourers were not idle – they were swept up in the industrial revolution. As human labour was chased from the fields, technology increased its productivity in factories. Many now see the digital revolution as simply optimising the previous industrial revolution. Cities remain cities, houses remain houses, and cars remain cars. It simply reduces operating costs. For example, Airbnb does not boost housing construction. It optimises their use by increasing occupancy.

Digitisation creates purchasing power, but does not mobilise societies as in the days where there was always more to be built and produced. This digital society is also a product of Facebook and Google – instead of watching television, we send messages. However, consumer society is not being transformed as it was a century ago.

There is certainly one field in which profound transformations are coming, and that is healthcare. Completely new medical therapies could bring us towards the threshold of immortality (prosthetics, stem cell regeneration, etc.). The problem is that it is seen as a cost. Here we have a paradox: although healthcare is the dynamic sector always cited as an example of future progress, it is also the one we want to reduce at all costs. Paying for healthcare when we are ill does not generate the same enthusiasm as buying a car, though perhaps the latter would be less rewarding in traffic jams... For developed countries, a new winning formula therefore needs to be found which will achieve the full potential of the digital revolution, while avoiding killing the golden goose – healthcare – and remaining attentive to the social challenges of a transition which is struggling to find its foundation in society.

VISION

JEAN-PHILIPPE OLGIATI

Managing Director
BLACKROCK

Knight Frank: Blackrock is one of the world's leading real estate investors. As its representative in continental Europe, can you tell us why France is one of your priorities?

Jean-Philippe Olgiati: In 2015, real estate investments in Europe represent almost 40% of global transactions by volume. France is one of the most dynamic markets and Paris one of the most attractive cities.

Asset liquidity is a key factor in the success of our investments. And France is viewed internationally as a vital market.

Values here are also protected from falling by a strong domestic market. Particularly in “retail money”, where fund-raising in recent years and the need to invest have placed additional pressure on yields, which have been disconnected from the volatility of financial markets.

The Greater Paris region is an active market in terms of rentals with average take-up over the last 10 years of 2.3 million sq m per year. A well-designed, well-located building, at the right rent, will be let.

And we also know France well. Back in 2006 we created a team in Paris to manage the entire cycle of our real estate projects – from acquisitions to sales via development financing

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WE ARE LIVING IN A WORLD OF SERVICES. IT IS VITAL FOR OUR BUILDINGS TO REFLECT THIS.

and asset management. Our most recent projects include the conversion of Les Trois Quartiers into Le Madeleine, development of the Viva building in Malakoff and the ongoing redevelopment of the Ilot des Mariniers, 25,000 sq m of entirely redeveloped offices, aiming for triple environmental certification, adjacent to the metro and the tramway in the 14th arrondissement of Paris. In this latest project, with our partners Pitch Promotion and Cleaveland, we took a rental risk, launching the renovation speculatively. This demonstrates our commitment as well as our confidence in the appeal of effective and efficient buildings close to public transport links.

Finally, the transparency of the market makes it easier to understand. This is also a strength which helps attract new investors.

KF: The rental market appears to be experiencing mixed fortunes at the end of 2015. What are your feelings about its development?

J-P. Olgiati: There may be a number of reasons for that, such as a new decline in economic confidence, changes in users' mindset or the lack of quality supply.

The rebound in take-up at the end of 2014 demonstrated that at a certain rental level, users understand the benefits of moving to new or redeveloped buildings offering a far higher level of services than second-hand buildings. The same logic applied in 2015.

Nevertheless, users are not willing to compromise on location, access to public transport or the performance of the office space and they remain very sensitive to the economic balance. So do they have much choice?

Don't forget that deliveries of new and redeveloped spaces have slowed down considerably since 2008.

Finally, some users are reconsidering their strategy, which is slowing down decision-making. Let's take the example of the Greater Paris region. We have seen times when “all employees worked in the CBD” and times with “some in the CBD and some on the outskirts”, followed by the “campus” years. We are again seeing the return of the expanded CBD. But a new age is surely dawning. Well-advised users are considering how to optimise use of working spaces, offer their employees greater flexibility, and allow remote working in an increasingly connected world. Things are changing. We have a responsibility to tailor real estate solutions to these users and their changing needs.

So while we are confident regarding the economic recovery in 2016, which will enable users to commit themselves, we remain prudent regarding changes to take-up generally, since a proportion of the stock will become obsolete.

KF: What type of assets do you think should be developed to respond to users' needs and expectations? Those needs and expectations appear increasingly diverse and liable to change according to the business climate. How can the concept of obsolescence be built into a long-term asset such as real estate?

J-P. Olgiati: That is a fascinating and complicated question. It is important not to be too far ahead or too far behind.

There are a number of challenges in relation to office buildings in the Greater Paris region. Total space of 53 million sq m, probably larger than current and future needs, obsolescence of premises and changing needs.

As already mentioned, we remain convinced by the success of new or redeveloped buildings which are well located and offer a wide range of services. We are living in a world of services. It is vital for our buildings to reflect this.

We also believe in the benefits of developing modern buildings in well connected locations. Greater Paris will bring many opportunities in this respect. It is a project rooted in modernity and what users are now looking for.

Now we need to study users' new ways of thinking and create products tailored to them. Flexibility of workspace, optimisation of travel, remote working and co-working are subjects we are working on and which will allow our buildings and the look of properties in general to evolve.

Finally, regionally we will need to examine the creation of high-quality office buildings to allow users to work under equivalent conditions to those offered in regions with higher rents, such as the Greater Paris region. Wooden or prefabricated constructions may offer solutions.

KF: How have you managed the sharp fall in yields seen in recent years? Are you worried about the risk of a bubble?

J-P. Olgiati: We have coped with the fall very well, in fact we have sold almost all of them…

More seriously, the fall in real estate yields should be viewed relatively. Compare it to the yields offered on the bond markets for instance. Remuneration of risk in the real estate sector is therefore coherent.

We should also stress that the rate differential between “second-hand” assets and “prime" assets is historically high. This reinforces our belief in the benefits of value-add funds at the current time.

In the absence of any major unforeseen events, we are confident that prime yields will remain stable for the next couple of years.

As for a bubble, there is no bubble in France. Yields may be low, but our projects' leverage remains moderate and market values reasonable... We could even hope that the next two years could hold some pleasant surprises in terms of rent.

THE MAGICIANS

THE OFFICE LETTING MARKET

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- With a total of 2,088,000 sq m in 2015, office take-up in the Greater Paris Region remained at almost the same level as the previous year (-1%).
- The location of transactional activity changed significantly however, to the great advantage of the Central Business District and the rest of inner-city Paris.
- At 7.3% the year on year vacancy rate remains stable and still among the lowest in Europe.
- Available supply is very unevenly distributed, which could eventually have a negative impact on inner-city Paris, where there is sometimes the threat of a supply shortage.
- Grade A office space represents just 18% of available supply, which is clearly insufficient given the structure of office demand and take-up.
- The architecture of rents barely changed over the course of 2015. However, there was a shift in the centre of gravity among high-end values as a result of the rise of sectors such as the Financial District.
- The outlook appears positive at the start of 2016, as the ground gained in 2015 looks set to behold, while large and very large transactions could return as a driving force.

"Ladies and Gentlemen, girls and boys, welcome to the circus and watch carefully! One minute they're here, the next they're gone. They allow themselves to be shackled and enclosed, to make their escape even more impressive. A round of applause for the magicians!"

TRENDS

Yes, the rental market certainly has some amazing magicians. Otherwise known as its occupiers! Experts in sleight of hand, they're capable of making a deal the size of an elephant appear or vanish in a flash. They are masters in appearances and duplication, as well as disappearances. The rental market progressed at an unsteady pace in 2015, before concluding with a fairly positive outcome…

#01 - OFFICE DEMAND

In the hands of the illusionists

In 2015, the most startling magic mirror trick was pulled off by large occupiers. Transactions for larger areas became scarcer and many seemed to have disappeared into the silvered surface of the mirror. Perhaps they will emerge in 2016. For the moment however, they remain in short supply.

Fortunately, a balance was achieved as the result of other magicians – occupiers of small and medium-sized areas. They performed the magic portfolio trick, where turtle-doves, a cage of canaries and a child emerge one by one from a portfolio.

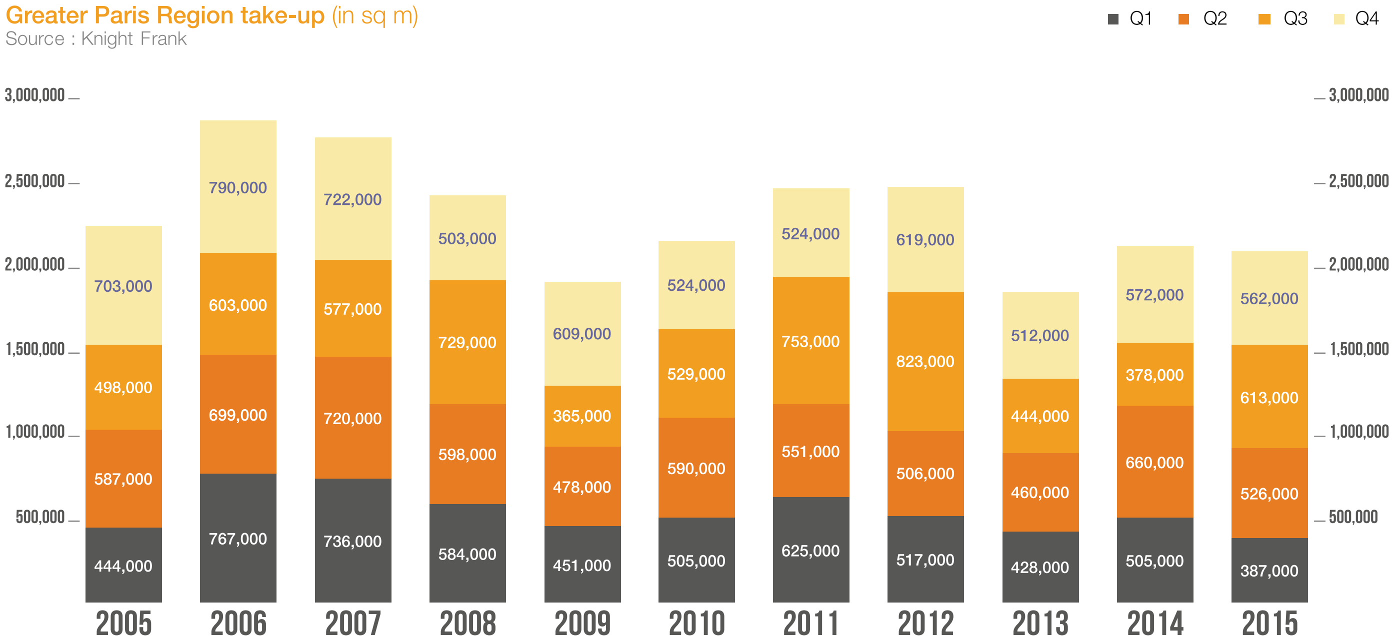
The rental market recorded a respectable conclusion to 2015. With transactional activity of a little under 2.1 million sq m, the Greater Paris Region achieved more or less the same level as the previous year (-1%). Considering the poor start to the year, this is almost a result to be proud of, despite a slight shortfall compared with the 10-year average (2.3 million sq m).

"NOTHING EXTRAORDINARY OR DISCREDITABLE: WITH TAKE-UP OF 2.1 MILLION SQ M AT THE END OF 2015, THE GREATER PARIS REGION ACHIEVED MORE OR LESS THE SAME LEVEL AS THE PREVIOUS YEAR."

So it is neither extraordinary nor discreditable. So why does contemplating these results create a slight feeling of disappointment? No doubt because instability appears to have become an iron law of the market. Activity takes off one minute, before suddenly contracting the next. This volatility causes uncertainty, which is never pleasant. But the feeling of disappointment also undoubtedly comes from the impression of a missed opportunity, since there were high hopes for 2015. In the last issue of Paris Vision, for example, we anticipated transactional activity of between 2.2 and 2.4 million sq m, driven by the improvement in companies' economic environment and by the immense real estate needs generated by the increasing obsolescence of existing office space. So what happened?

Greater Paris Region take-up (in sq m)

Source : Knight Frank



The role of illusionist was played by very large occupiers, looking for at least 20,000 sq m. Having been key market players the previous year, they almost disappeared. Vanished! Indeed, the fall in this segment is telling, with a 39% decrease in take-up. While these very large occupiers accounted for 20% of office take-up in 2014 (with 13 transactions), their share fell to 12% in 2015 (within seven transactions).

It was this sudden fall which we had not anticipated. And this was also the reason for the mixed results recorded in 2015. It was particularly surprising since a stabilisation in the business environment (due to the medium-term visibility this creates) is generally sufficient to boost this segment. Yet this stabilisation occurred in 2015, even accompanied by a definite, albeit slight, improvement in the economic outlook. So why this withdrawal by large occupiers? Certainly not due to any contraction in need, which remains immense, particularly in terms of streamlining and management of costs and charges. The reason no doubt has more to do with the scarcity of solutions available to this type of user. Due to the lack of suitable and immediately available options, some abandoned their relocation plans and others postponed their decisions, while no-one is in any hurry. Negotiations are being stretched out and discussions dragging on. In a segment which has revolved around an average of just 10 transactions a year for the past decade, the postponement or advancement of decisions contributes to the extreme volatility of take-up volumes. That was the case in 2014, when take-up

Transactions for more than 20,000 sq m in 2015

Source: Knight Frank

Area	Tenant	Address	Location	Date
46,000 sq m	Government	Avenue de Ségur, Paris 7	Paris 5/6/7	April 2015
43,000 sq m	AccorHotels	Séquana, Issy-les-Moulineaux	Western Crescent - Southern Bend	June 2015
42,600 sq m	La Poste	Lemnys, Issy-les-Moulineaux	Western Crescent - Southern Bend	November 2015
42,200 sq m	Novartis	Silverwood, Rueil-Malmaison	Western Crescent – Péri-Défense	July 2015
35,000 sq m	OECD	In Out, Boulogne-Billancourt	Western Crescent - Southern Bend	June 2015
21,400 sq m	Publicis	PariSquare, Paris 11	Paris 3/4/10/11	July 2015
20,500 sq m	Elior	Égée, Courbevoie	La Défense	December 2015

for very large transactions surged by 54%. This was confirmed with a movement in the other direction in 2015.

"THE MAJOR COLD SNAP SEEN IN THE VERY LARGE PREMISES SEGMENT CONCEALS AN ESSENTIAL AND VERY POSITIVE PHENOMENON – THE DYNAMIC PERFORMANCE OF THE MULTITUDE OF SMALL AND MEDIUM-SIZED BUSINESSES."

The decline in activity in this very specific segment should not overshadow other changes, which are more subtle but bring such hope to the rental market. This is particularly the case with the dynamism observed among occupiers of areas smaller than 5,000 sq m. The prize goes to the segment of medium-sized areas, between 1,000 sq m and 5,000 sq m, in which transactional activity increased by 12%. This represented an impressive awakening among occupiers who had kept a very low profile in 2014. Occupiers of small areas of less than 1,000 sq m, who had already made a notable return to the market in 2014, maintained their momentum, with a 9% increase in their office take-up in 2015.

Even "traditional" large occupiers, looking for between 5,000 sq m and 20,000 sq m, ended up proving very resilient. Having fallen in the first half of the year, this segment eventually inverted the trend to record a slight increase (+1%) over the full year, after a good second half-year.

These results reinforce the conviction that the erratic performance of take-up is largely a reflection of problems with supply rather than demand. If occupiers are able to meet their real estate streamlining, organisational adaptation and relocation needs, then they will consume office space. Conversely, if their objectives appear unachievable based on the real estate solutions available, then they will postpone or spread out their decision-making.

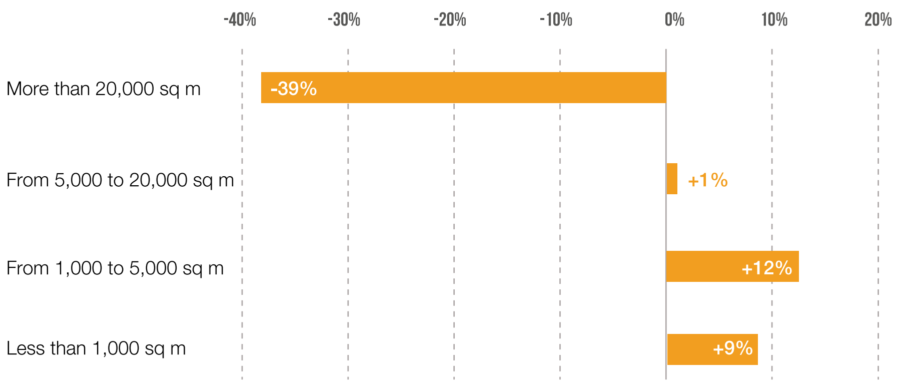
"ATTENTION! THE PHENOMENON OF TRANSACTIONS INVOLVING GEOGRAPHICAL CENTRALISATION TOOK OFF IN 2015, TO THE SIGNIFICANT ADVANTAGE OF THE CITY CENTRE. PARIS'S MARKET SHARE EXPLODED."

One of these objectives particularly stood out in 2015: relocation, or more specifically, consolidation within the centre of the Paris Region. The phenomenon was clear before, but it moved up to a completely new level last year and made the fortune of the most central, best connected and easiest to access addresses. Not necessarily in traditional "business" areas, but simply urban and open addresses. These are popular among employees and are now perceived by companies as efficiency tools in favour of business and management of human resources.

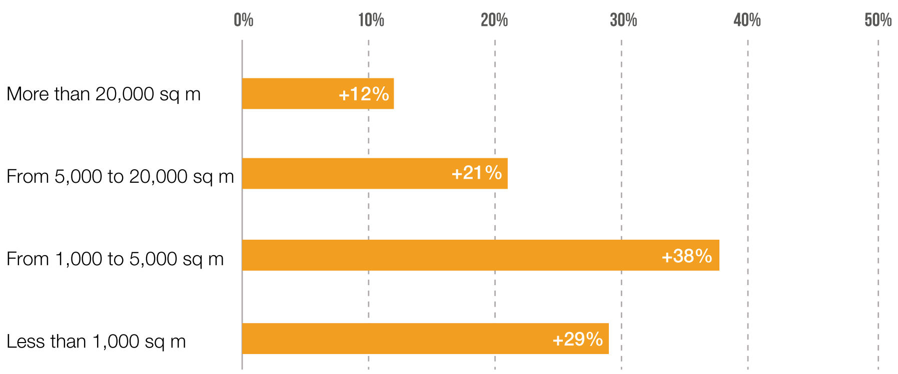
That is the key to the success of inner-city Paris, where take-up increased by 14% over the course of 2015, with breathtaking increases in some areas, including Paris 3/4/10/11 (+59%) and Paris 5/6/7 (+71%). In all, more than 900,000 sq m of office space were let in the city centre, or 43% of regional volumes. In the last 10 years, inner-city Paris has accounted for just 35% of take-up in the Greater Paris Region. As well as the prestige of its address, the city centre has benefited fully from occupiers of small and medium-sized areas, which represent its usual core target.

Another major success of 2015 came in the form of the Western Crescent (+7%),

Changes in transactional activity according to area (sq m) in 2015
Source : Knight Frank



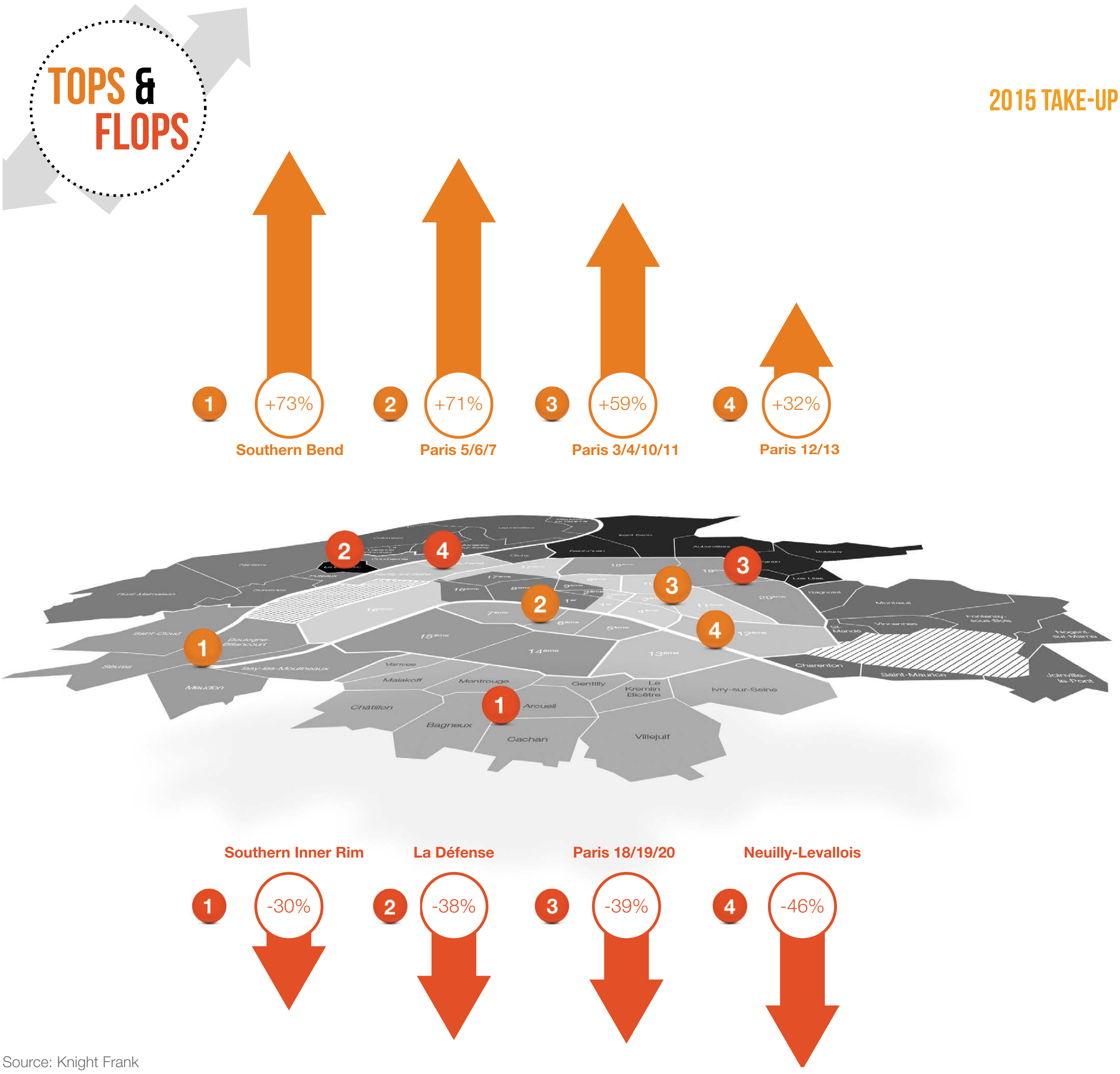
Breakdown of transactional activity according to area (sq m) in 2015
Source : Knight Frank



driven by the surge in transactional activity in the Southern Bend (+73%) and, to a lesser extent, in Péri-Défense (+22%). This success may appear paradoxical when we consider that these areas are a favourite destination for large and very large occupiers, who were the least active on the rental market last year. This is because the cold snap which affected the Greater Paris Region was not felt here. Out of the seven transactions of over 20,000 sq m recorded in 2015, four were carried out in the Southern Bend and Péri-Défense.

Very large occupiers who made their move in 2015 took advantage of the beneficial financial conditions following the reductions offered by many landlords in Issy-les-Moulineaux, Boulogne-Billancourt and Rueil-Malmaison, to attract occupiers to these popular addresses. This performance was achieved to the detriment of the Inner Rim. Its price appeal compared with the Western Crescent was no longer enough to justify the inferior address.

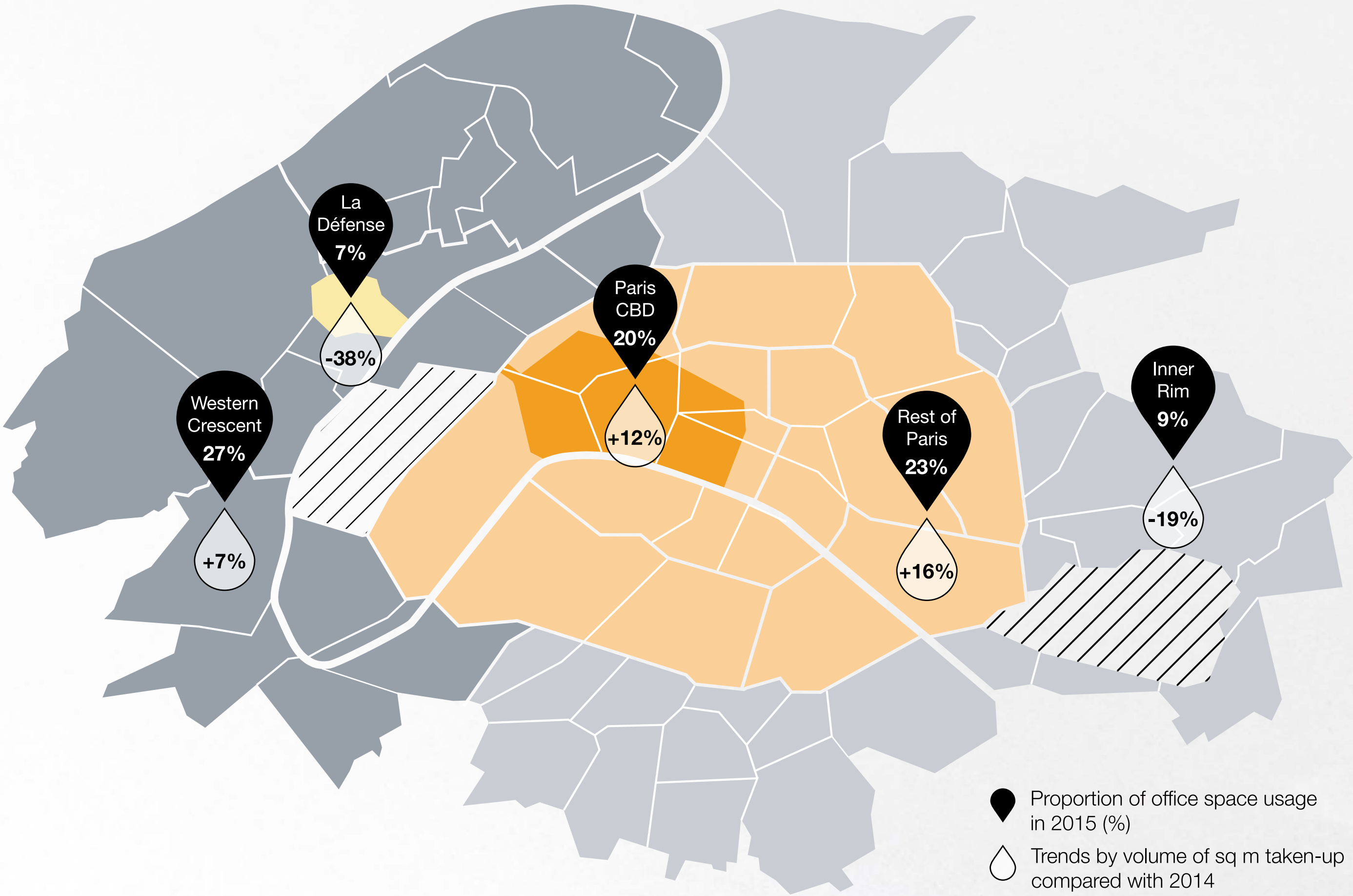
The poor performance of markets such as Neuilly-Levallois and La Défense may therefore appear surprising, but only if one forgot the negative impact of base effects on those two areas, as 2014 was so positive that it would be unrealistic to expect the same levels of activity to be achieved.

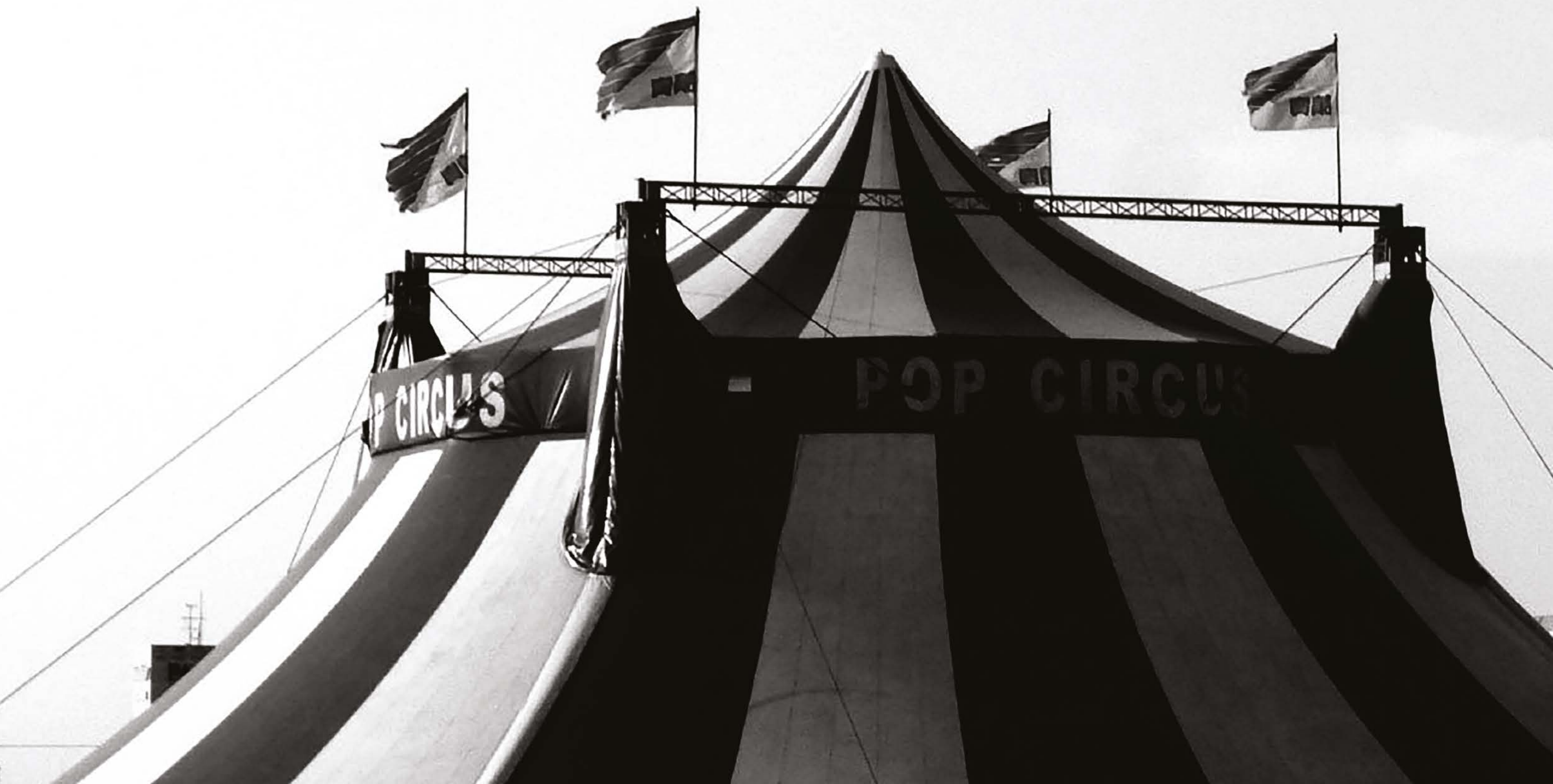


Source: Knight Frank

Location of transactional activity and comparison of changes in different markets

Source: Knight Frank





CENTRAL BUSINESS DISTRICT

A feat of levitation

No contest – with "market share" of 20%, the Central Business District (CBD) is clearly the dominant area at regional level. Floating high above the crowd, it achieves an impressive feat of levitation, with impressive performances year after year – 2015 being no exception. The CBD's charm remains intact in the eyes of companies and the reasons are evident…

It is not the most spectacular progress. With transactional activity up by 12%, however, the CBD stands out as one of the most dynamic markets in the Greater Paris Region. The performance is particularly impressive given that this increase comes on the back of very strong results and impressive volumes in 2014. In fact, in 2015 the CBD broke through the symbolic threshold of 400,000 sq m of take-up for the first time in five years.

The CBD accounted for 20% of transactional activity in the Greater Paris Region in 2015 – significantly more than its usual share. In fact, in the last 10 years its average market share has been 17%.

The CBD has built its success on the dynamism of its traditional core target – companies looking for less than 5,000 sq m of office space. The rental market in 2015 was driven by occupiers of small and medium-sized areas. However the CBD has also been able to draw on a reasonable level of continued activity in the large transactions segment: six new leases for more than 5,000 sq m were recorded over the course of last year, for a total of almost 60,000 sq m. That is certainly less than in 2014, but that year was an unusually excellent vintage for the CBD. There was a return to normal in 2015, if that is defined as the average recorded over the previous five years (seven transactions a year for a total volume of 60,000 sq m). Even in an environment marked by the search for savings and efficiency, the CBD still managed to attract occupiers. This represented a fine performance for a region which steadfastly continues to ask the highest prices in the region!

"THE CBD IS A FAKIR, CHARMING SNAKES WITH ITS PUNGI OR LEVITATING IN THE AIR. IT ENTRANCES COMPANIES AND ACHIEVES RECORD RESULTS."

Indeed, many companies in the Greater Paris Region have recorded very satisfactory financial results, giving them significant scope in their choice of location. And for them and others, rent and charges are now simply elements of their overall real estate budget. For many occupiers, the productivity gains permitted by the location make up at least partially for the additional rent. Real estate can also act as a growth lever.

That is one reason why the CBD is increasingly popular with start-ups and companies in the new economy. This phenomenon is nothing new and indeed, we addressed it two years ago in Paris Vision 2014. However it became more widespread in 2015, particularly with the letting of 9,700 sq m by Blablacar in the #Cloud building (2nd arrondissement). This makes the leader in car-sharing a neighbour of Facebook, which let 3,600 sq m in the same building. And, as if these famous names were not enough in 2015, others also made their presence felt in the district, for example Wistiki, Vocalcom, Wallix, Smart AdServer and Save my Smartphone.

The CBD certainly has a bright future ahead of it and is set to continue hovering above the crowd!

Find the Lady has a lot of losers

This game involves one token and three cups. Obviously, players rarely identify the right cup the token is hidden under. They allow themselves to be swept up in the game. The rental market has similarities with Find the Lady, although there are limits to those similarities. Luckily! There is no fast-operating trickster here and extra tokens in the game, though not enough to prevent there being too many losers.

The tokens of the rental market are Grade A buildings offering new and redeveloped areas, for which occupiers have a voracious appetite. These are areas offering the best guarantee in terms of flexibility and consolidation of costs and charges. In less than 15 years, the efficiency of a new building, measured in terms of workstation occupancy rate and the average ratio for area per workstation, has increased considerably, by around 30%. Meanwhile, the average level of charges has fallen by around 30%. Considering that the headline rents for these buildings have remained almost unchanged for 12 years, i.e. the term of a long lease, it seems clear why occupiers would turn to these areas first. The phenomenon was clear in 2013 and 2014, when 80% then 81% of take-up via large transactions corresponded to Grade A, and it remained clear in 2015, accounting for 76%.

"STILL DOMINANT BUT BADLY WEAKENED – NEW AND REDEVELOPED SPACES REPRESENTED 76% OF DEMAND FOR LARGE AREAS. IS THEIR CHARM LOSING ITS LUSTRE?"

Occupiers' appetite is clear and reveals a significant majority. Nevertheless, the proportion of Grade A in large occupiers' office take-up is down considerably. Does this mean that the charm of new and redeveloped areas is wearing thin? Definitely not! It is more a reflection of the lack of Grade A supply meeting demand. And it is no doubt one of the reasons for the fall in transactional activity observed in the segment of transactions for more than 5,000 sq m. Since there are almost no satisfactory solutions available apart from pre-lettings, occupiers feel that they may as well take their time, postpone their decision or find an alternative solution, such as renegotiating the financial conditions of their current property for a few years.

The situation is no better for occupiers of small and medium-sized areas. In 2015, just 21% of take-up of areas from 1,000 sq m to 5,000 sq m was categorised as Grade A. Yet this was the most dynamic segment. This vibrancy would therefore appear to be contrary to the wait-and-see tendency observed among large occupiers. Such a conclusion would be rash, however, since it would imply that medium-sized companies do not have the same expectations as larger ones. Does that mean they don't care about being streamlined and efficient? Of course not! They were simply much more inactive on the rental market prior to 2015 and certain real estate decisions had become urgent, and even imperative. Having no choice, they fell back on lower-quality options, while asking for significant compromises in headline rents in return.

Isn't that just another aspect of the same disappointment?

#02 - OFFICE SUPPLY

Not all hats contain rabbits

Some hats produce rabbits, but that is not necessarily the case, as illustrated by available supply in the Greater Paris Region – where many hats are in fact empty. And when something does emerge, it is not always the rabbit expected and hoped for by the spectator.

"SUPPLY IS FAR FROM SUFFICIENT TO MEET DEMAND. WITH AN AVERAGE VACANCY RATE OF 7.3% IN THE PARIS REGION, CHOICE IS FAR FROM ABUNDANT."

Occupiers in search of offices are sometimes sorely disappointed. Competition between them is fierce to obtain their dream offices, which will allow them to optimise workplace organisation, facilitate change, motivate their teams, reduce costs and burnish their company's reputation. As we have mentioned, many have these requirements in mind, but few achieve satisfaction. Some occupiers are so let down that they give up their plans to position themselves on the real estate market. And some find themselves forced to negotiate advantageous financial conditions to make up for the fact they have accepted the consolation prize.

Not much changed in this respect in 2015, with supply far from sufficient to meet demand.

In quantitative terms, firstly, areas available to rent in the Paris Region have returned to their levels at the end of the previous year, following a slight increase during the first half of the year. At the end of 2015, they represented 7.3% of total office space in the Greater Paris Region. This virtual stagnation means the Paris Region continues to display one of the lowest vacancy rates in Europe. Only London, its great rival, can solidly claim much lower levels (4.4%), teetering on the brink of under-supply. Almost everywhere else, the vacancy rate stands just under 10%, as in Frankfurt, Madrid and Dublin. It is even higher, at 13%, in Warsaw and more than 15% in Moscow.

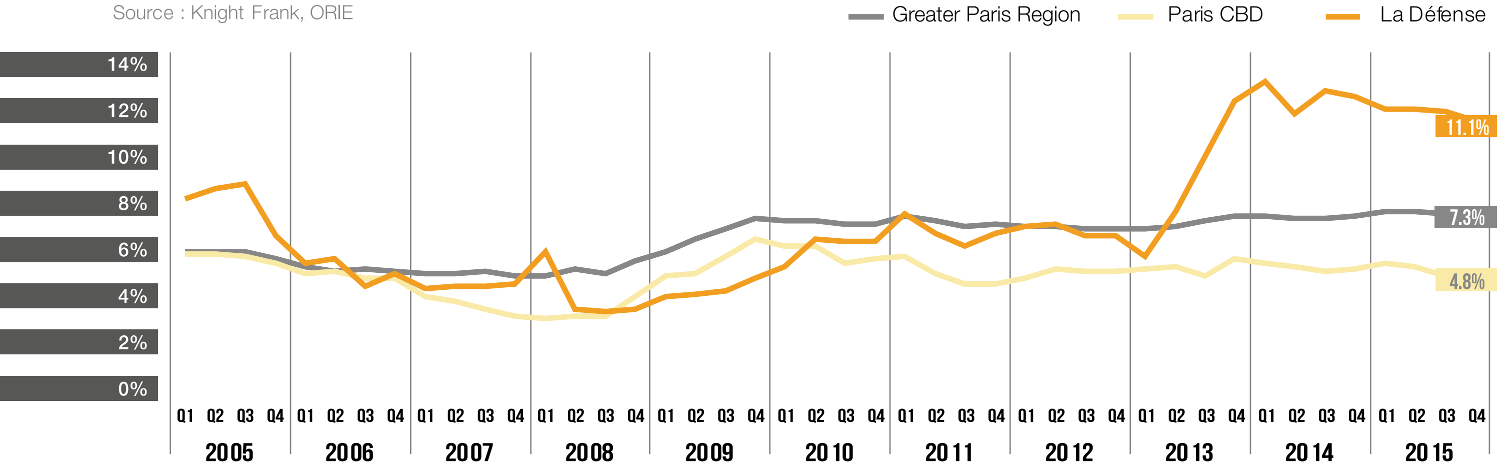
The level of security offered to landlords on the Paris market is therefore exceptional in Europe. This is one of the trademarks which explain its success and appeal to investors. Obviously, the Greater Paris Region is not all cut from the same cloth. Behind its overall situation in terms of supply and vacancy lies considerable internal diversity. The various markets in the Paris Region have a wide range of profiles.

"THE MOST POPULAR GEOGRAPHICAL AREAS ARE OFTEN ON THE BRINK OF UNDER-SUPPLY. THE CBD ONLY HAS A 4.8% VACANCY, FOR INSTANCE."

The breakdown of supply within the Greater Paris Region has barely changed in a year. The markets of inner-city Paris are all below the Greater Paris Region average, whereas areas across the ring-road are above average, sometimes by a significant margin. The CBD, for instance, has 4.8% vacancy, just above the 4.6% recorded for inner-city Paris as a whole. On the other hand, despite a downward trend in 2015, La Défense and the Western Crescent have far higher vacancy rates of 11.1% and 11.8% respectively. While these numbers are high, they're not necessarily unusual for markets broadly focused on large occupiers.

The regional record is held by the Northern Bend (Clichy, Gennevilliers, Colombes and a few other communes), with a rate of 15.6% at the end of 2015. This is in striking contrast to Paris 5/6/7, where vacancy has fallen to 2.8%.

Changes in vacancy rates in the Greater Paris Region
Source : Knight Frank, ORIE



Total supply for the whole of the Greater Paris Region is just over 3.9 million sq m. That may appear considerable, but is not quite so impressive, as we have seen – and very unevenly distributed. The main sticking point, however, relates to quality. Grade A is in the shortest supply. Second-hand areas certainly do exist! Museum pieces, with an odour of mothballs and empty for years, are available. But rational, efficient offices that are pleasant and well located are much rarer…

The share of Grade A stood at 18% of areas available in the Greater Paris Region at the end of 2015. This is very low compared with the 34% share which Grade A represented in total office take-up last year. Let alone the gap compared with the 76% it represented in take-up via large transactions? An abyss!

"GRADE A REPRESENTS JUST 18% OF AVAILABLE SUPPLY, WHICH IS VERY LITTLE, GIVEN THE STRUCTURE OF OFFICE DEMAND AND TAKE-UP."

Scarcity is certainly no worse than it was a year ago, since as a proportion of supply, Grade A has remained unchanged. No worse, but no better either. In other words, the hurdles encountered on the rental market in 2015 threaten to arise again in the coming months, particularly since Grade A supply is still distributed just as unevenly. It stands at just 12% in the CBD and is limited to 23% in the rest of inner-city Paris. The figure is no higher in the Western Crescent, although it is highly dependent on large occupiers and risks being unable to fully meet their needs. Not to mention the situation in the Inner Rim, where Grade A represents just 16% of supply. No, La Défense is practically the only place where new and redeveloped supply remains in any way significant (34%).

All hats certainly do not hold rabbits!

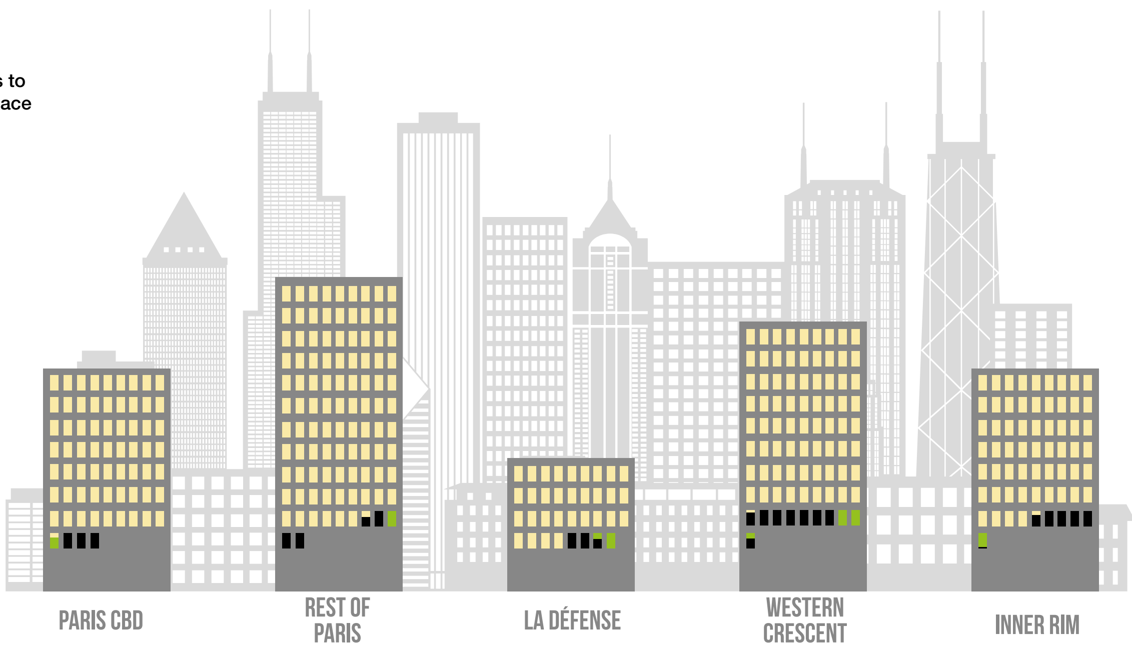
TOTAL SUPPLY AND GRADE A SUPPLY

The mysterious evaporation of solids

Source: Knight Frank

Each window corresponds to 100,000 sq m of offices space

- Occupied offices
- Available supply
- Of which Grade A



	PARIS CBD	REST OF PARIS	LA DÉFENSE	WESTERN CRESCENT	INNER RIM
Total office space	6.7 million sq m	10.1 million sq m	3.5 million sq m	8.2 million sq m	6.4 million sq m
Grade A available supply	37,000 sq m	103,000 sq m	132,000 sq m	225,000 sq m	92,000 sq m
Vacancy rate	4.8%	4.4%	11.1%	11.8%	8.9%

#03 - OFFICE RENTS

Fire-breathers: some impress, others get burned

Half-men, half-dragons, they have patiently learned and mastered the techniques of an art as ancient as it is mysterious and inaccessible to most people. Fire-breathers are truly fascinating! They don't absorb light, they create it. So much so, that we forget how many people have been burned trying to imitate them, all those who have not managed to tame the flames, and all those who chose not even to try.
The rental market has its fire-breathers. They catch the eye and attract attention, but the reality behind the scenes is more complex.

The fire represents rents. The fire-breathers are prime buildings, in other words, buildings offering high-end technology and specifications, architectural value, contemporary design and a sought after location. Grade Triple A, if you like. These are let for the highest values – flagship values which are often used to illustrate the market, despite often being very unrepresentative.

"ALTHOUGH SOME HIGHER VALUES WERE RECORDED IN 2015, THE HIGH-END RENT CONSIDERED REPRESENTATIVE OF THE CBD REMAINS AT €750 FOR THE THIRD CONSECUTIVE YEAR..."

High-end rent in the CBD stood at €750 at the end of 2015. Some higher values were recorded in a few transactions during the year, but they are still too rare to be considered as representative of the market. They have taken longer than expected to spread. As a result, high-end rent remained at the same level as at the end of 2014.

The CBD remains the most expensive market in the Paris Region and maintains a stable differential compared with other geographical areas. The difference is €210 compared with La Défense, a market where high-end rent stands at €540.

So high-end rent remained stable overall in 2015. Behind this stability lie some changes, however, which although not spectacular, are still indicative of shifts in the balance of power and the increasing role of particular markets.

"THE RISE OF THE FINANCIAL DISTRICT WAS THE MAIN MOVEMENT IN 2015 IN TERMS OF RENTS: IT HAS NEVER BEEN AS CLOSE TO THE GOLDEN TRIANGLE."

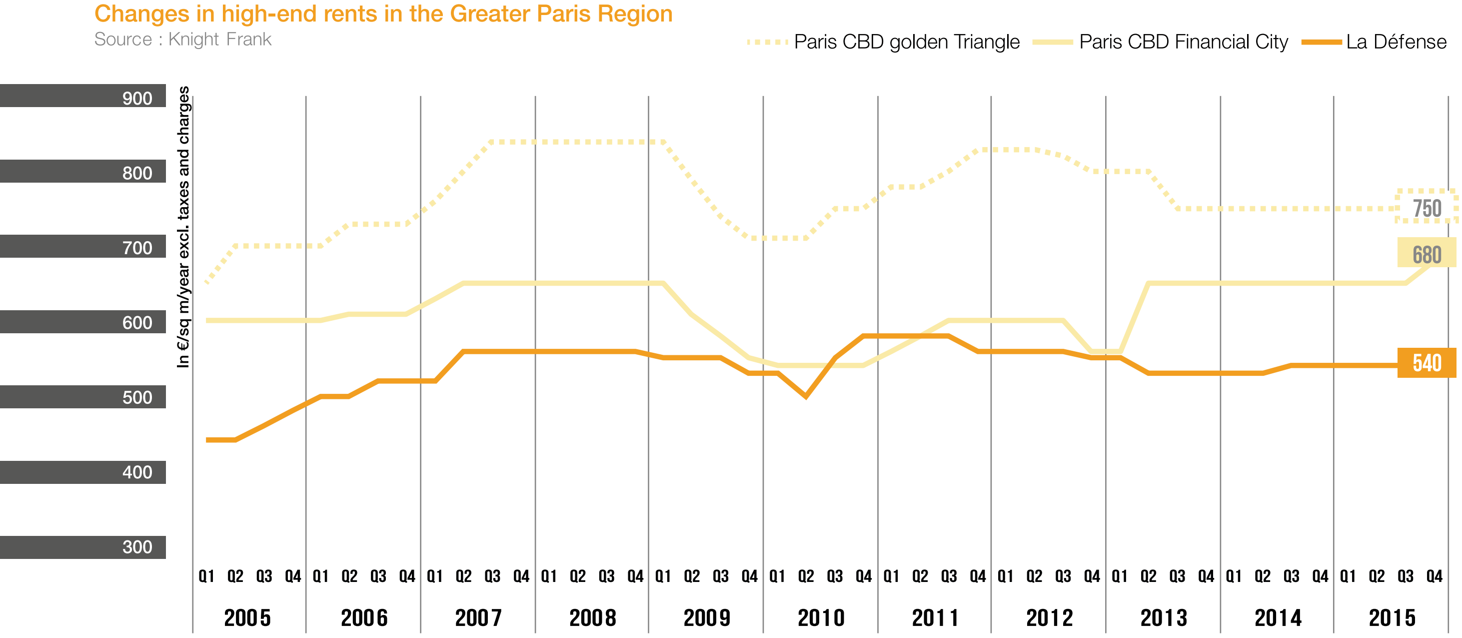
The most striking of these changes is undoubtedly the sea change in prices initiated by what is called the Financial District, i.e. the eastern part of the CBD (the 1st, 2nd and particularly 9th arrondissements). This sea change, which began in 2014, continued and grew further in 2015. The CBD is traditionally divided in two, with the prestigious and expensive Golden Triangle on one side and the Financial District, used to more modest values, on the other. The variation in high-end rent is a little over €160 on average for a period of 10 years. This premium for the Golden Triangle had fallen to €100 by the end of 2014. The gap continued to narrow, falling to a record low of €70 by Q4 2015. The Golden Triangle can now feel the Financial District breathing down its neck: with high-end values of €680, up by 5% year-on-year, the Financial District is gaining ground while the Golden Triangle remains stable for the time being. The Eastern part of the CBD benefited from a significant number of Grade A properties, since it accounted for a large proportion of redevelopment projects delivered in 2014 and 2015. It also benefited from a clear change of image, establishing itself as a lively and fashionable business district, attracting targets which may have been unaware of it previously, such as start-ups, as well as companies in more traditional sectors which had previously rejected this location.

However these high-end rents, although they may contribute to regional spread and international comparisons, should not be viewed as market norms. They concern only a small number of buildings. Most transactions involve lower values – sometimes much lower. The example of La Défense is telling in this respect: most new leases there are based on headline rents of under €500, including for Grade A areas. There has been some disillusionment, and not only in La Défense.

The gap between average rents and high-end rents gives another illustration of the complexity of the rental situation. The difference is just over €140 in La Défense and up to €220 in the CBD, where transactions for second-hand areas pull down the average. That demonstrates the gulf which exists in valuations in a single geographical area. Not just anyone can become a fire-breather!

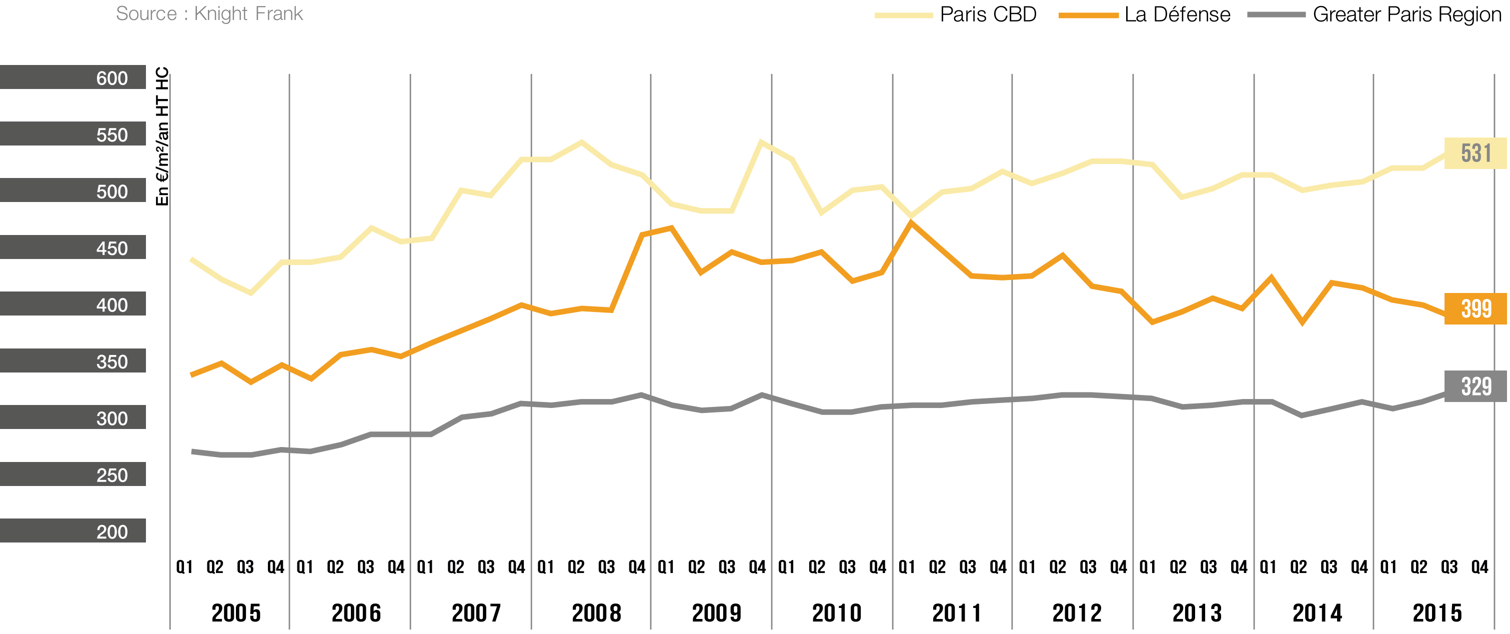
Changes in high-end rents in the Greater Paris Region

Source : Knight Frank



Changes in average rents in the Greater Paris Region

Source : Knight Frank



At a regional level, average rent stands at €321 for the whole of 2015, slightly up compared with 2014 (+4%), reflecting a refocusing of transactional activity on inner-city Paris and the Western Crescent. This increase remains fragile, however, it is one of the most consistent phenomena in the Greater Paris Region market, which we emphasise every year: for more than 10 years, average rent has fluctuated in a very narrow range, limited to 10% around a median value of €302. Although it fell into the upper end of this range, 2015 was no exception. Companies are adjusting their choices in terms of address and quality of the buildings they lease according to market conditions and changing rents in the various areas.

The Paris Region is incredibly diverse and this diversity is increasing. In the CBD for example, average rent stood at €531 in Q4 2015, more than double that of Paris 18/19/20, where it is capped at €254. The gap between these two areas has increased by almost 9% in a year. Both are nonetheless in inner-city Paris, just a few kilometres apart. For properties lying outside the Paris ring-road, average rents drop. Only La Défense and Neuilly/Levallois manage to break through the €300 mark, with an average of €352 for Neuilly-Levallois and €399 for La Défense in Q4 2015. The market records much lower values everywhere else.

And even in those two areas, the values are only headline rents. Incentives offered remain significant, often amounting to between 10% and 15% of the headline rents in the CBD, when the building is not subject to competition between potential occupiers. They are a little higher in the rest of inner-city Paris, generally close to 15%. Outside the ring-road, they move up a band to more than 20%. Geography is not the only factor, since incentives tend to increase with the size of the area let and the occupier's commitment term. Some incentives have even exceeded 25%, for instance.

Although fire-breathers may fascinate with their feats and never-before-seen performances, they certainly do not reflect the general reality. This was demonstrated once again in 2015. But after all, isn't this diversity one of the explanations for the depth and resilience of the rental market in the Greater Paris Region?

OUTLOOK

What tricks do the magicians have in store for us in the 2016 season under the Parisian big top?

No doubt we shouldn't expect anything too revolutionary. No, many of the changes and novelties awaiting us were already present to some extent in the performance we watched in 2015, along with some reappearances and disappearances and a dizzying scattering… What a show!

OFFICE DEMAND

Expected reappearance

Will those absent in 2015 return to the market? The revival of the segment of large and, particularly, very large transactions will depend on the quality of the 2016 vintage in terms of office take-up.

Given the erratic nature of real estate decision-making in this segment, it would be rash to try to reach any definitive verdict. Concordant factors nevertheless exist, giving reason for optimism. Yes, large and very large occupiers appear ready to be more active over the coming months and quarters. Based on the trend, firstly, very large occupiers returned to the market during H2 2015. They did so gradually, admittedly, but returned nonetheless. This reflects the numerous real estate considerations under way, to which the small number of transactions concluded last year are far from providing a response. The Greater Paris Region Regional Council, EDF, Deloitte, French Ministry of Culture, Alstom, etc. – these are just a few of the occupiers actively examining their real estate strategy, some of whom are set to reach a decision in 2016. A whole range of factors are pushing them to act, from pressing needs to a sense of opportunism. Needs? Existing office space, 75% of which is more than 15 years old, offers potentially considerable gains in terms of efficiency and competitiveness. Opportunism? Many letting values are now low, having been reduced over the past two years and, even for high-quality areas, signature rents have remained almost unchanged for almost a decade. A new building can currently be let for the same price it would have been 12 years ago, in other words, the duration of a long-term lease. Yes, there is every reason for these occupiers to be more active in the coming months. Everything except for the low level of high-quality supply, which is what they are looking for. This shortage will no doubt frequently force them to resort to pre-lettings and could act as an obstacle to some transactions.

That is the main uncertainty and definitely the main restriction on the rebound potential of the segment of large and very large occupiers. This rebound appears very likely, although its scale is impossible to predict. The rental market's main catalyst, which was absent in 2015, is nevertheless set to return.

"SUSTAINED DYNAMISM AMONG SMALL AND MEDIUM-SIZED OCCUPIERS AND THE ANTICIPATED RETURN OF LARGE OCCUPIERS – TAKE-UP IS LIKELY TO BE AT LEAST 2.3 MILLION SQ M IN 2016, IN LINE WITH ITS 10-YEAR AVERAGE."

This should particularly be encouraged by the signs of economic recovery. 2015 already saw a significant improvement, with projected growth in the French economy of 1.1% (compared with 0.2% the previous year). This improvement is set to continue in 2016 with an average projection among economists of +1.4%. That is moderate and in no way astonishing, but this upward movement in itself is vital for the rental market, since it indicates a brighter and more predictable future. And we know how much companies need a predictable and coherent environment in order to reach real estate decisions. This was true in 2015 in the small and medium-sized area segments, which in some cases increased spectacularly. It will no doubt continue to be the case in 2016.

Sustained dynamism among small and medium-sized occupiers and the anticipated return of large occupiers – not to mention other driving forces in the rental market, such as the increase in mergers and acquisitions and the vitality of specific business sectors such as start-ups in the field of advanced technologies. These are all good reasons to anticipate an increase in transactional activity compared with 2015. This increase may not be spectacular, but should at least make it possible to return to levels in line with the 10-year average, at around 2.3 million sq m of take-up for the entire Greater Paris Region.

Even moreso, since there is no reason not to hope for an even better performance. Everything will depend on the rate at which demand is transformed into take-up. So let's hope that this long-anticipated reappearance comes soon! Hopefully it allows a proper appreciation of the Paris market, with its multiple growth areas and range of strengths.

OFFICE SUPPLY

No sleight of hand here

If there is one area where no magical feats can be expected in 2016, it is supply. All indications are that the same obstacles will remain in place, or even increase…

Just under 650,000 sq m of new or redeveloped space is expected to be delivered in the Paris Region during 2016. This is not a fall compared with 2015, but a crash, representing a collapse of -51%! The Greater Paris Region will have to face up to the impact of the frantic quest for security which gripped the investment market until at least summer 2015. Up until that point, speculative project launches were deeply unfashionable… The only reason for approaching the real estate market was in search of long-term income from properties offering the maximum guarantees, not to take a potentially risky gamble by developing a building. This taboo has since been relaxed due to the increasing scarcity of investment opportunities in secure properties. But this change comes too late to have an impact in 2016. Technical and administrative delays, not to mention legal uncertainties, are too long to hope for a renewal of deliveries before the end of the year. They will just have to wait…

Meanwhile, companies will find themselves facing increasing obstacles in terms of suitable supply – obstacles in terms of both quantity and quality.

Firstly, in terms of quantity, there is every chance that this dearth, however temporary, in deliveries of new or redeveloped areas will be combined with increasing

"DELIVERIES OF NEW OR REDEVELOPED AREAS ARE SET TO PLUMMET BY 51% IN 2016, RESTRICTING OCCUPIERS' OPTIONS IN TERMS OF BOTH QUANTITY AND QUALITY."

scarcity of office space vacated and growing demand for office space due to an improvement in the economic climate. The vacancy rate, standing at a regional average of 7.3% at the end of 2015, is therefore set to fall. Enough to drop below the 7% mark and therefore return to its mid-2013 level? Most likely.

Secondly, in terms of quality, secondly, Grade A office space, representing just 18% of available supply at the end of 2015, is already clearly insufficient given the structure of office demand and take-up. This shortfall will only get worse in 2016, with the sharp fall in construction activity. Particularly since out of the 650,000 sq m of new and redeveloped space expected in 2016, 58% have already found tenants. Only 270,000 sq m currently remains to be delivered before the end of December, in addition to the 210,000 sq m completed in 2015 and not yet let (i.e. only 16% of volumes delivered last year). In other words, not a lot. The share of Grade A supply is therefore likely to continue to contract over the coming months and companies risk being forced to resort increasingly to pre-letting.

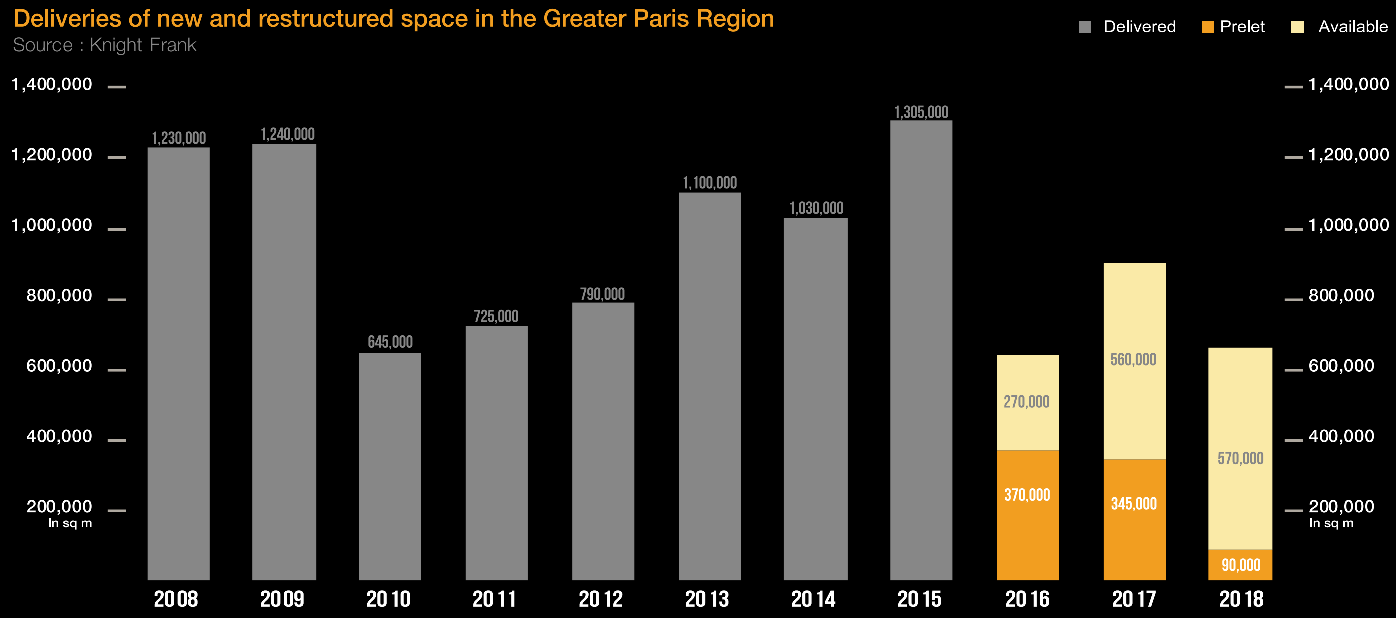
The final obstacle linked to the anticipated decrease in supply is the reduction in the range of possible locations. In inner-city Paris, the CBD will be among the very few to escape a supply shortage. This is because it has been one of the few markets in which investors have accepted a certain level of risk. A volume slightly below 60,000 sq m is expected in 2016, mainly as a result of redevelopment projects (including 49,000 sq m still available). That is less than in 2015 but still impressive, given the Greater Paris Regional context. The only other area of Paris in a strong position in 2016 is Paris 18/19/20, where 45,000 sq m of new construction is expected, 30,000 sq m of which is available. For many occupiers, this may make up for the disadvantage of a "less Parisian" and more suburban image, particularly since outside Paris, the situation will remain more or less the same. La Défense will be stagnant in 2016, with no new available areas due to be delivered. The vacancy rate is therefore likely to continue to contract. The situation in the area surrounding La Défense will be no better. A few sporadic projects are in the Western Crescent, but nothing capable of boosting supply, particularly in the Grade A segment. No, only in the Southern Inner Rim – mainly in Montrouge and, to a lesser extent, Bagneux – will user choice be expanded in any way. Almost 60,000 sq m of offices currently under construction remain available.

After two bleak years in terms of transactional activity, it is possible that this advantage will allow the Southern Inner Rim to fight back. This is because, to some extent, the positioning of demand is dependent on supply.

That will be the only sleight of hand we are likely to see in terms of supply in 2016…

Deliveries of new and restructured space in the Greater Paris Region

Source : Knight Frank



OFFICE RENTS

Magical divergence

The re-emergence of very large occupiers on the scene in 2016, boosting transactional activity and reducing available supply, could threaten the overall structure of rents which has been in place for some time.

A general inflation of prices is certainly not to be expected. No, any increase will only affect a few of them, according to the quality and location of the buildings. However, the disparity in values could widen significantly. Will 2016 be the year of a large divergence of prices?

Although 2015 was primarily characterised by stability in the overall structure of rents in the Paris Region, it could prove auspicious in terms of divergence, particularly in relation to the sharp rise in high-end rents seen in the Financial District. Upward pressure has been real, although limited to the CBD offering advantageous prices compared with the Golden Triangle. This was excluded, however, as it was not considered in "good taste" to publicise signature values providing fodder to critics.

An improvement in the economic climate and increasing scarcity of Grade A properties will no doubt help to overcome these final taboos in terms of rent. This would then encourage an extension of the inflationary trend in the Golden Triangle. High-end rent in the CBD could then break through the €750 barrier which has been in place for almost three years and reach towards the €800 mark – a value which has already been achieved for some transactions. However, it is not certain whether this symbolic threshold will be crossed. The market may not be mature enough for that, although we have seen more spectacular recoveries in the past…

Room for improvement in the Golden Triangle, and need for moderation in the Financial District, for it is unlikely that the Financial District will be able to continue at the same pace it established in 2015. Its success appears sustainable, although any overheating could encourage the emergence of new competition at its edges. The Golden Triangle could therefore widen its lead slightly over the Financial District in 2016, with a price gap of around €100 (compared with just €70 at the end of 2015). This configuration would still not represent a return to the old order which long prevailed between the two markets.

"HIGH-END RENT IN THE CBD COULD FINALLY BREAK THROUGH THE €750 BARRIER IN PLACE FOR ALMOST THREE YEARS AND REACH TOWARDS THE €800 MARK."

Several other areas of inner-city Paris could also experience upward pressure, particularly Paris 3/4/10/11, Paris 12/13 and Paris 14/15, which are each, in their own way, likely to tread the path forged by the Financial District in 2015... High-quality supply, sometimes new to its immediate environment and rare in Paris generally, could upset established norms in terms of prices. It is all a matter of comparison in occupiers' eyes.

Outside these areas, things look quite different. There is no chance of rent inflation in 2016, even for the best properties. Firstly, because most of these markets are in recovery. Secondly, because much of their strength lies in their appeal compared with central locations. That has been weakened in recent years and they will need to rebuild it before they can hope to share in the benefits of rising rents.

The coming months are therefore likely to see a widening in the divergence between geographical areas.

However the main potential market divergence could well be between the various asset classes within each geographical area, as the upward pressures we have discussed only apply to the best properties. Second-hand properties are likely to continue to be the subject of tough negotiations between occupiers and landlords. Low rental values (headline or economic after deduction of incentives) will remain their main argument. Otherwise what chance will there be of attracting occupiers who already occupy similar or at least comparable properties?

Yes, 2016 could well end with record disparity in rents.

QUESTIONS FOR

FRANÇOIS DARSONVAL

Property and general services director
PUBLICIS

WHEN THE CHOICE OF REASON AGREES WITH WHAT THE HEART CHOOSES, YOU SHOULDN'T HESITATE. THE TRAIN ONLY COMES ALONG ONCE!

Knight Frank: With the letting of the PariSquare building in the 11th arrondissement, Publicis signed the largest private transaction in Paris in 2015. You'll be moving your digital brands from the outskirts of Paris into this space measuring just over 20,000 sq m. What led to this choice?

François Darsonval: We didn't set out with the intention of undertaking such a physical reorganisation. Back in early 2013, we initially had a much more modest task: to search for a 5,000 sq m space for one of the brands of the Publicis group. Then, because the leases for several of our locations were ending soon, we realised that a much more ambitious project was possible, allowing us to take multiple teams at various sites around Levallois and group them together with teams based in our headquarters at 133 avenue des Champs-Elysées. This consolidation made sense because it supported a corporate development plan, allowing us to create a unifying space for our employees and their skills, a real tool for synergy and emulation that will facilitate the development of the quality of our brand.

The choice of Paris, and more specifically central Paris, wasn't intentional either. It's undoubtedly an advantage in terms of centrality, accessibility, efficiency, and motivation, but we couldn't agree to pay for such an advantage at whatever price, we also had financial obligations. We happened to identify a Paris solution that also suited us in terms of cost and lease length. When the choice of reason agrees with what the heart chooses, you shouldn't hesitate. The train only comes along once!

KF: What are the conditions for this choice to become feasible?

F. Darsonval: First of all, it takes time. As I said, the Publicis Group started thinking about this in early 2013, and the lease was signed during the summer of 2015. Throughout 2013 and the beginning of 2014, we refined our needs and defined our search to try to best serve the corporate development plan. This led to our search for space between 18,000 and 25,000 sq m. And we began our rounds of the market. I remember making my first visit to the PariSquare marketing suite in June 2014 while the building was under construction. From January to March 2015, we repeated visits with the chairman of the Publicis Group and the leaders of the various brands likely to be involved in the consolidation project. Between April and May 2015, the terms and conditions of the lease were negotiated while, at the same time, we initiated a site concept and design configuration study as well as a call for tenders for project management. It wasn't until after this phase that we could really confirm the technical, managerial, and financial ins and outs of the project. Legal negotiations on the lease happened in June and July, ultimately leading to its signing. But that wasn't the end of everything. We're now in the interior fit-out work phase, and our teams won't move in until between June and July 2016. In short, it's a very complex project requiring multiple skills as well as time – lots of time! §

But it's also necessary for THE right real estate solution to exist, meeting the specifications in terms of volume, capacity, and lease length, and it must be identified. We had to look into around thirty sites, including three or four in central Paris. And what ended up swaying the decision is also the story of an encounter between a tenant looking for space and a lessor looking for a tenant.

KF: Can you give us an idea of the direct and indirect benefits that you expected from such a decision?

F. Darsonval: In very concrete terms, our choice of location contrasts with the assumption of continuing the prior leases that will expire. The savings in this regard are substantial, amounting to several hundred thousand euros.

Then there are all the economies of scale that we will achieve by pooling our services. For example, we'll be left with just one staff restaurant and one general services team, including reception and IT, instead of five.

Lastly, there are all the indirect benefits that aren't easy to quantify at this time that we expect in terms of motivation and efficiency of our teams and proximity and exchanges with our clients. PariSquare must become a place for developing and preserving our talents.

But we are pretty sure of one thing: it's an extremely beneficial operation for Publicis, our clients and our people.

KF: You've chosen an area of Paris that is very mixed in terms of usage and is not an established business address. Is this a potential handicap or, on the contrary, a deliberate choice? And what was the initial feedback within the group?

F. Darsonval: That's exactly what we liked about the area. We didn't want a sterile building and environment since we wanted to create a dynamic space. PariSquare is an atypical solution, designed for commercial use, but it doesn't look like commercial space. It offers five buildings, each with an identity that can easily shaped to accommodate five different brands while uniting them around a common space, which we've named the Genie Square. It's a nod to the genie of the Bastille, which is very close. That point is also important, because we want to work on the relationship between our building and the city around it. As a working space, it can't be self-sufficient. Moreover, PariSquare allowed us to take on a bigger space, spanning a city block, which will materialise soon with the opening of a restaurant, a gym, and a cafe. This will further enhance the neighbourhood's attractiveness in the eyes of our employees even though it was already very strong: in our fields, like advertising and media, the 11th arrondissement is an appealing neighbourhood.

So, needless to say, our decision wasn't difficult to sell internally. Quite the contrary!

KF: Speaking of choice, one of the most common preconceptions of the Paris market is that the supply of offices is very large or even too large. What was your impression as an occupier searching for space?

F. Darsonval: There's supply across the Paris region and we looked into some thirty projects. In central Paris, this is far less true: we visited only three or four. And among these, solutions likely to meet our specifications were few and far between.

THE ANIMAL TAMERS

THE INVESTMENT MARKET

2

- €18.1 billion were invested in the Paris region in 2015, representing an 8% increase.
- The market was not artificially inflated by a small number of mega-deals, but instead was based on more transactions, which increased by 12% in number demonstrating a lower unitary amount than in 2014.
- The market's strong performance in 2015 was largely due to its expansion beyond Core properties, with renewed interest in speculative and value-added developments.
- Unchallenged and unchallengeable – the Western Crescent stands out as the star location of 2015, with an increase of 116% in investment volumes.
- The market remains ultra-dominated by French investors, who account for 64% of investment amounts in the Paris region.
- As a result of investors' huge appetite, yields experienced a spectacular contraction in 2015 of between 50 and 100 basis points in general, depending on the geographical sector.
- At the end of 2015, Prime yields in the CBD ranged between 3.50% and 3.75%, the lowest level ever recorded.
- Real estate continues to display a very positive yield differential compared with other asset classes, particularly bonds.
- The outlook for 2016 is favourable and it would seem reasonable to anticipate an investment volume of close to €16bn.

"Ladies and Gentleman, now it's time for the horses, the elephants and the big cats! The whinnying, trumpeting and yowling may be frightening and impressively loud. But they will be obedient for you. Yes, they will obey their masters, to give you a show which will take your breath away!"

TRENDS

The performance ultimately lived up to its promise. The start may have been chaotic, but what followed ensured that the hesitations and slip-ups were soon forgotten. The most experienced trainers took control of the ring and excelled themselves. They played with risk to arouse long-forgotten emotions. The result was an impressive show!

#01 - INVESTMENT VOLUMES

Daring with a dash of risk

In 2015, the key to success on the investment market turned out to be acceptance of risk. Not foolhardy or reckless risk, of course. No, just a dose of adrenaline, avoiding demand and outstripping supply in the Greater Paris Region, a market highly dependent on the most secure Core or Core Plus properties. This acceptance of a little risk in acquisition allowed the market to aroid drying up completely. Indeed it made 2015 a great year, even an excellent year!

Should the €1.24bn sale of the T1 Tower and Building B in La Défense, as well as the PSA head office soon to be vacated on Avenue de la Grande Armée (Paris 16) have been included in the investment market results or not? The sale, in which Ivanhoé Cambridge sold 120,000 sq m of its portfolio to Gecina in return for a stake in the purchaser, is in fact at least as much a capital transaction as a real estate transaction. Depending on whether it is included or not, the volume of take-up in 2015 in the Greater Paris region fluctuated between €16.9bn and €18.1bn.[1]

"WITH €18.1BN INVESTED IN THE GREATER PARIS REGION, 2015 FINISHED WITH AN 8% INCREASE ON 2014. THIS IS THE THIRD BEST RESULT EVER RECORDED."

The difference is considerable. Either the market is practically stable compared with 2014 (+1%), or it records a significant increase (+8%). However, this difference is not the most salient point of an annual activity analysis. In fact, irrespective of the configuration chosen, 2015 is the third best year ever for results achieved in the Paris region. It was an exceptional year for the corporate real estate investment market.

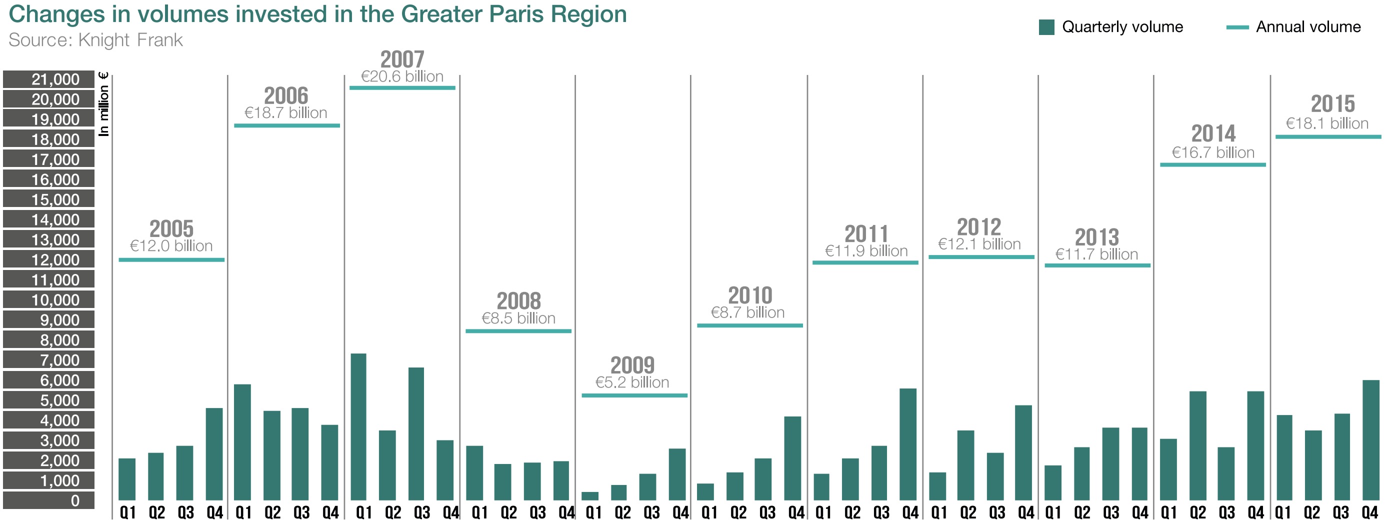
But this performance was not guaranteed – far from it. Firstly because 2014 was itself excellent – simply achieving a similar level of transactions would not have been too bad in itself. Secondly, because an impressive acceleration in the market was needed in the second half of 2015 to achieve this result (+33% from one half-year to the next).

What happened during the year to allow such a phenomenon?

[1] In order to be consistent with many of the consultants operating in the Paris region market, Knight Frank has chosen to incorporate this €1.24bn sale, completed at the start of summer 2015, into the Paris Vision analysis.

Changes in volumes invested in the Greater Paris Region

Source: Knight Frank



Last year, we noted the main threat to the investment market in the Paris region – the risk of supply drying up. Too much demand for too few available properties.

The huge rise in investment volumes since the end of 2013 was explained by the level of security offered by the Paris region in the real estate sector. And all purchasers within this sector, starting with institutional investors, favoured properties offering maximum security. This meant that competition was fierce for Core and Core Plus properties, while almost nobody was interested in more risky buildings. The sale of Cœur Défense for €1.3bn slightly concealed the phenomenon, but the market threatened to wither due to a lack of available properties.

"THE PERFORMANCE IN 2015 WAS MADE POSSIBLE BY BETTER ACCEPTANCE OF RISK. THE DANGER OF SUPPLY DRYING UP WAS AVERTED THANKS TO THE REDISCOVERED CHARM OF MORE SPECULATIVE PROPERTIES."

There was no new Cœur Défense in 2015, and yet the share of amounts invested in Value Added properties or in programmes developed speculatively increased significantly. It rose from 14% in 2014 to almost 19% in 2015, with a particularly significant increase of sales between €100m and €200m. One of the last examples to date, at the end of December 2015, was the sale of 21,100 sq m in View, a building to be delivered in 2018 in Porte des Lilas (Paris 20) to funds managed by Amundi.

In parallel, the share of Core Plus properties remained almost stable.

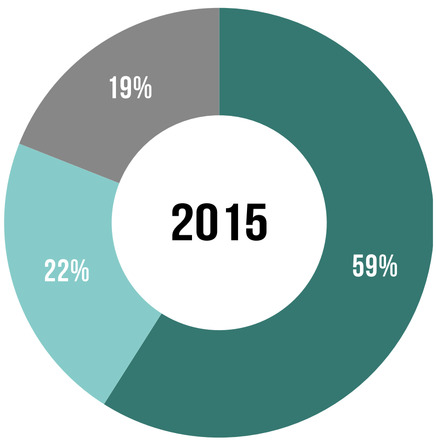
The investment market's renewed momentum in 2015, lies in this better acceptance of risk.

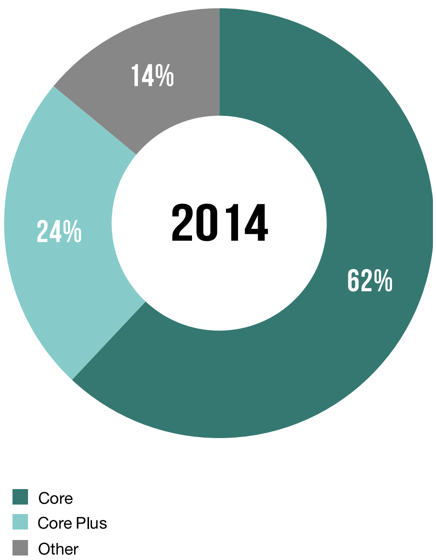
Does this mean the market has been transformed into a playground for speculators? Certainly not! Buying a building for development or redevelopment may involve more risk than a property let for several years, since a tenant will need to be found. In terms of real estate investment however, everything is increasingly a matter of comparisons with other asset classes. What is the rental risk on a new or redeveloped building in a market with a vacancy rate of just 7.3% with a severe shortage of Grade A properties? Insignificant compared with the volatility of global stock markets and the low level of return on bond investments…

Of course, 2015's investors had learnt from the experience of previous years and there was no question of them positioning themselves on just any property in any location. There is no room for flexibility in a risk analysis of a building to develop or redevelop. But it now appears to be a given that a high-quality building, with appropriate headline rent and in a good location, is considered to be attractive. Finally!

Breakdown of investment activity in the Greater Paris Region by risk profile

Source: Knight Frank





Another notable change in the investment market in 2015 was its increasing diversity. Almost half of the market was reliant on just 15 transactions in 2014. It took almost 35 transactions to achieve the same proportion in 2015. While the market in 2014 entirely comprised transactions for unitary amounts of more than €200m, representing 48% of amounts invested in the Paris region, their share fell to 39% in 2015.

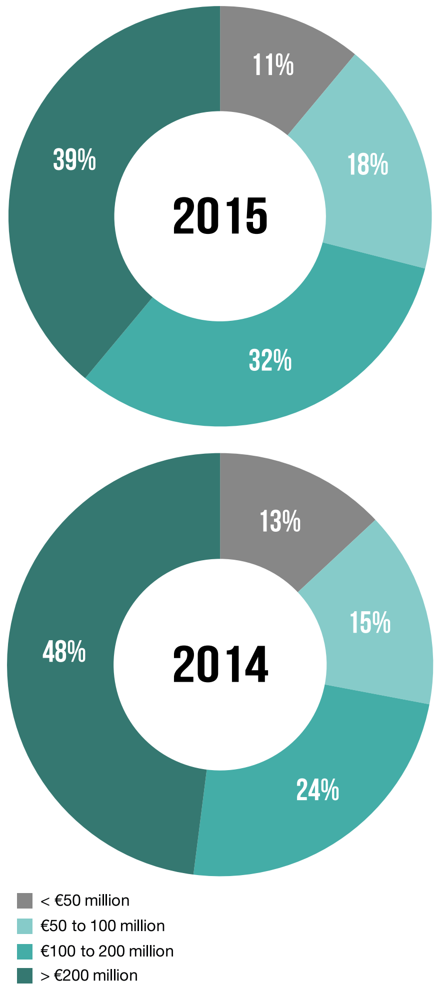
"THE MARKET BECAME MORE DIVERSE AS THE NUMBER OF TRANSACTIONS INCREASED BY 12% TO INCLUDE CHEAPER PROPERTIES. THIS IS A SIGN OF SOLIDITY, REDUCING DEPENDENCE ON A FEW VERY LARGE DEALS."

The property category between €100m and €200m benefited the most from this increasing market diversity. Its share increased in a year from 24% to 32% of investment volumes. This was followed, to a lesser extent, by sales of between €50m and €100m, which increased from 15% to 18%. The investment market in the Greater Paris Region therefore relied on a much larger number of transactions in 2015 than in 2014 (+12%). This is an important change, since a high level of concentration spells volatility. The current increase in diversity, if it is confirmed over the coming months, could therefore be seen as ensuring market solidity.

The ideal outcome was therefore achieved in 2015, allowing a general drying up of corporate real estate investment to be avoided. More ideal than many had dared to hope. The market and its players sometimes hold pleasant surprises and 2015 was certainly a fantastic show.

Breakdown of investment activity in the Greater Paris Region by transaction volume

Source : Knight Frank



MARKET OVERVIEW

Lions need the spotlight…

Some animals are the stars of the ring, lapping up the limelight and putting on a show. All impressive in their routine with the trainer and applauded in turn by the public.

But the crowd is fickle – its applauds that instant and forgets all the rest. It forgets the big cats and tamers waiting in the wings and those who held centre-stage in the past but have been pushed into the shadows. And 2015 was no exception to the rule.

Who were the stars in the limelight? The various areas of the Greater Paris region which attracted the main investment volumes. And whose star is on the wane or remained in the shadows? Areas which, for one reason or another, were not able to benefit from the exceptional investment activity. And the market was certainly lively in 2015, although the geography of investment activity was markedly different from 2014.

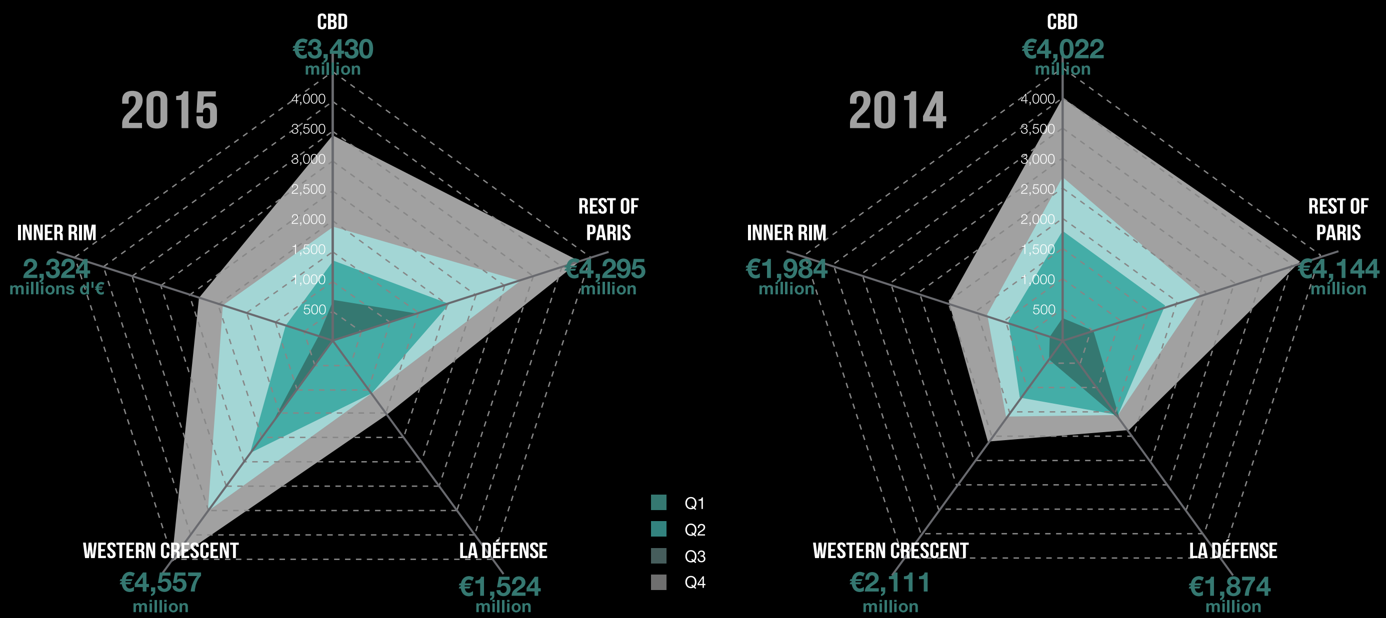
This redistribution of roles is a result of the risk of a supply shortage which threatened the Paris region and the ruses identified by investors to avoid it. Too few properties for sale? Given this situation, as we have seen, it became necessary to widen the profile of acceptable properties, particularly in terms of risk. But another expansion also occurred, in the geographical scope targeted by purchasers. Since there were no opportunities in the CBD, they decided they might as well look elsewhere. As a result, activity largely moved outside central Paris. The big winner of 2015 was the Western Crescent (+116%) and, to a lesser extent, the Inner Rim (+17%).

Of course, investing "elsewhere" does not mean just anywhere! It does not mean reproducing past errors which have seen investors encouraging the construction of badly positioned or badly located buildings, due to their short-sighted appetite. Buildings which have then struggled to find occupiers. No, in 2015, investors were selective, favouring the most solid hubs in the Western Crescent and the rest of the Paris periphery. That was particularly the case in Boulogne-Billancourt. Let's look at the evidence: Arcs de Seine, Ardeko, CityLights 2, L'Angle, L'Atrium, Jazz… Those are just a few of the buildings which changed hands during the year in that city. Sometimes for very high amounts. Northwood Investors purchased 45,000 sq m of Arcs de Seine from Commerz Real for €353m, for example. Another big hit in 2015 was Levallois-Perret, with sales including Ecowest (58,800 sq m), purchased from Adia for €477m. Towns such as Issy-les-Moulineaux, Clichy, Charenton-le-Pont and Arcueil also achieved strong performances, although on a more modest level.

What is the secret of this success? In addition to the existence of dormant sale projects, mothballed

Geographical and quarterly breakdown of investments in the Greater Paris Region

Source: Knight Frank



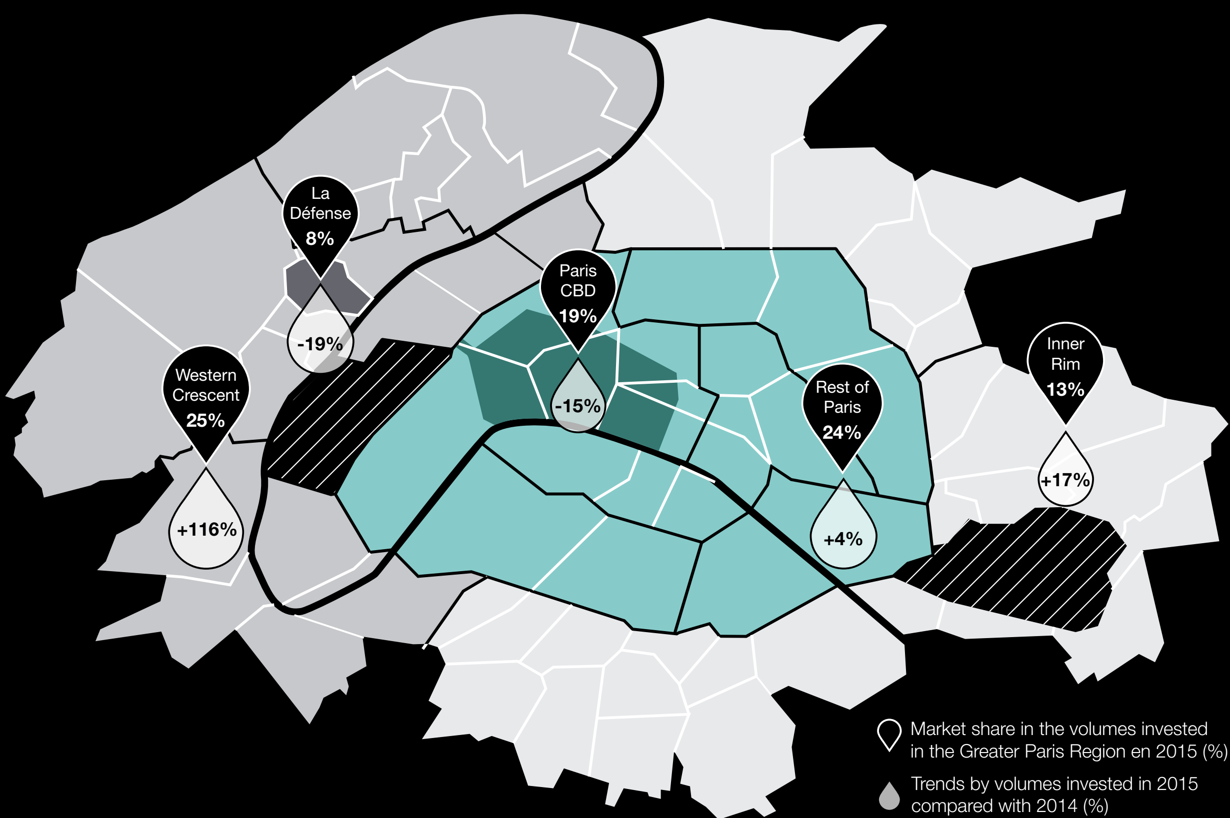
in 2014, these hubs have the virtue of offering both a wide range of risk profiles as well as large-scale properties, facilitating investors' positioning.

The relative decline of La Défense should be considered in this context. It could have been a great year for this market in 2015 – even better than in 2014. All the indications appeared positive, including large properties, varied risk profiles, vacancy down and rents at a record low. Yet it was not a great year. La Défense was not one of the big cats in the spotlight. Investment volumes were slightly down in 2015 compared with the previous year. However it may be that just a few days – or a few weeks – longer could have made all the difference. Numerous sales are currently in the pipeline and could not be finalised before the end of the calendar year. This is true of the First Tower and the Dexia Tower for example. So La Défense is set to record a strong start to 2016…

The picture for the CBD is quite different. The undisputed star of 2014 recorded a sharp decline in results (-15%) for 2015 as a whole, despite catching up a lot of lost ground in the second half of the year. It is not that investors have turned away from the area, although that was a distinct possibility due to the increase in sale prices and, as a result, the fall in yields. No, the reason for the drop-off in activity in the CBD lies elsewhere. Potential purchasers were there. They just frequently drew a blank, due to a lack of opportunities.

The market did in fact dry up, but only locally… And this was overshadowed by the impressive performances achieved elsewhere. Once in the light, the shadows are soon forgotten. Meanwhile, those in the shadows wait for their time to come.

Location of investment activity and comparison of changes in different markets
Source: Knight Frank



INVESTMENT ACTIVITY
BY ASSET CLASS

Offices rule supreme

What mighty beasts! The undisputed kings of the investment jungle in the Paris region remained office properties. Their domination even increased over the course of 2015. However this strength also constituted a weakness, since such a degree of specialisation also limits the market's depth in the Greater Paris Region and inversely increases the threat of a supply shortage and potential volatility of activity.

The increase in the proportion of retail properties in investment activity seen in 2014 was therefore merely a distraction. The share of retail properties in the Greater Paris Region fell back again from 13% of investment volumes to just 10% in 2015.

Not that investors are not keen on such properties. We only need look at the sharp drop in yields from sales of retail premises to understand that competition is fierce when such opportunities present themselves. That is the root of the problem. There were no opportunities. Or not enough. No new Beaugrenelle for sale and generating a colossal transaction. There were certainly some impressive sales of retail properties, including Qwartz and La Vache Noire[2], shopping centres located respectively in Villeneuve-la-Garenne and Arcueil, as well as the sale of the Céline store on Avenue Montaigne (Paris 8), the Cavalli building on Rue Saint-Honoré (Paris 1) or 82-92 Rue Réaumur (Paris 2), but not enough to allow retail properties to hold their ground.

The position liberated by retail properties did not remain free for long. It was soon taken by office properties, further increasing their hold in the market. Their share of investment volumes therefore rose to 87%. Close to a record!

"A SINGLE-MINDED MARKET, WITH 87% OF INVESTMENT VOLUMES IN THE GREATER PARIS REGION IN 2015 RELATING TO OFFICE PROPERTIES – A HYPER-SPECIALISATION WHICH IS ALSO A LIMITATION..."

There are objective reasons for this domination, starting with the resilience of the office letting market and its low level of risk. But this domination is also due to the lack of an alternative, since the office properties segment is the only one to offer the depth and diversity required for strong transactional activity.

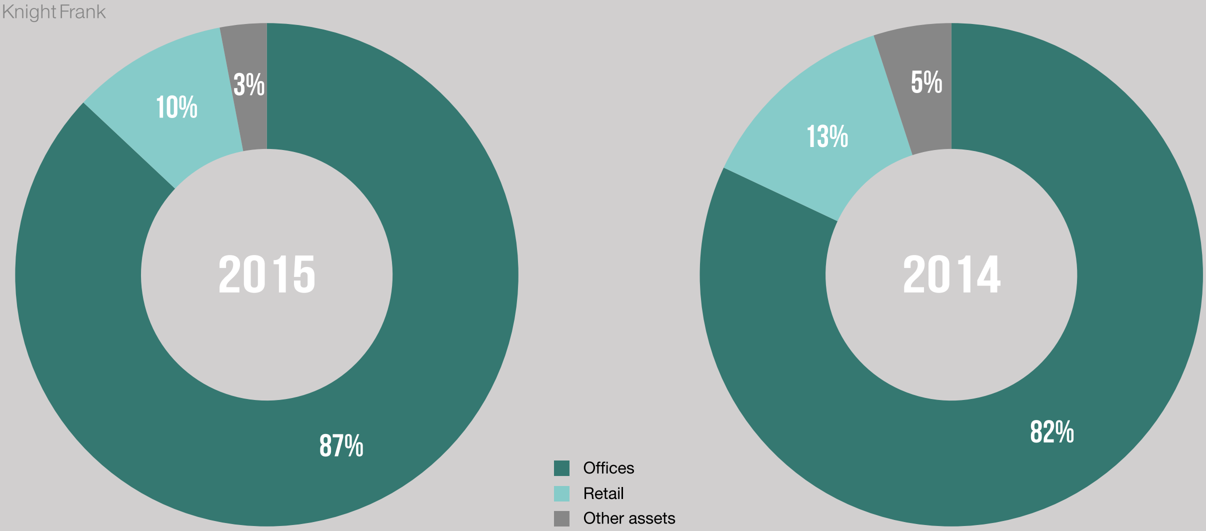
This concentration in itself limits the development potential of the Greater Paris Region investment market. Volumes recorded in a market such as London, which is much more diverse, remain out of reach in the current configuration. This configuration is mainly explained by structural reasons and there is therefore every possibility of it remaining in place: high-street shops are often small and their ownership fragmented and dominated by private individuals. This does not make it easy for large investors to position themselves. In terms of galleries and shopping centres, it is rare to see arbitrages, at least for the most profitable among them.

The reign of offices is not over yet!

[2] The La Vache Noire shopping centre was incorporated into the pan-European Celsius portfolio.

Breakdown of investment activity in the Greater Paris Region by asset class

Source: Knight Frank



#02 - PURCHASERS

The French dominate the ring

As has come to be expected nowadays, French tamers are given top billing in the big top of Parisian investment. They are behind a significant majority of funds invested in the Greater Paris Region during 2015. Yet again!

That is not to say that the rest of the world has fallen out of love with the Paris region. Quite the opposite. It is simply that it was hard for foreigners to get a look in. We look at the reasons for this domination…

€11.6bn of national funds were invested in corporate real estate over the course of 2015. This sum alone matches or exceeds the total annual amounts invested in the Paris region up to and including 2013. Despite a correction in favour of foreign funds over the last three months of 2015, French investors were still behind 64% of annual volumes recorded. They had previously been dominant in 2014, but to a much lesser extent (57%). The Paris market has therefore largely been nationalised, although this has not always the case. Until the economic and financial crisis broke out 2007/2008, it was one of the most open markets, dominated by large European and global investors.

"THE RE-NATIONALISATION OF THE GREATER PARIS REGION MARKET IS CONFIRMED, WITH 64% INVESTMENT VOLUMES COMING FROM WITHIN FRANCE. MANY INTERNATIONAL INVESTORS WOULD HAVE LIKED TO INVEST IN THE REGION BUT IT IS NOT THAT EASY!"

Behind this re-nationalisation lie vast sums available for real estate transactions which need to be invested at any cost. These sums are there for a reason. Real estate assets have generally provided satisfactory yields in recent years, for a moderate level of risk. Much more profitable than bonds and much less volatile than shares, investors' appetite for real estate assets has taken off. Collective investment funds dedicated to the real estate market have achieved record inflows, both for individuals and institutional investors. An example is Primonial, which raised €960m in 2015 from individuals for investment in real estate investment funds (French companies and REITs). That is an increase of 53% in a year. In terms of institutional investors, Primonial collected €1.03bn to invest through an OPCI vehicle.

And institutional investors, led by French players, do not stop at entrusting their money to investment funds or asset managers; many of them operate directly on the real estate market. They use a variety of channels, having decided to increase the share of the real estate segment in their portfolios.

Enjoying unrivalled financial resources, these investors naturally look first to their domestic market, which is easier to access and for which they already have the necessary management teams. This growing interest in real estate assets, driven by a financial comparison between investment segments, has also encouraged an aggressive positioning in terms of acquisition price and yields. This represents a new positioning by French investors compared with a few years ago and explains why they have become pre-eminent on their own market.

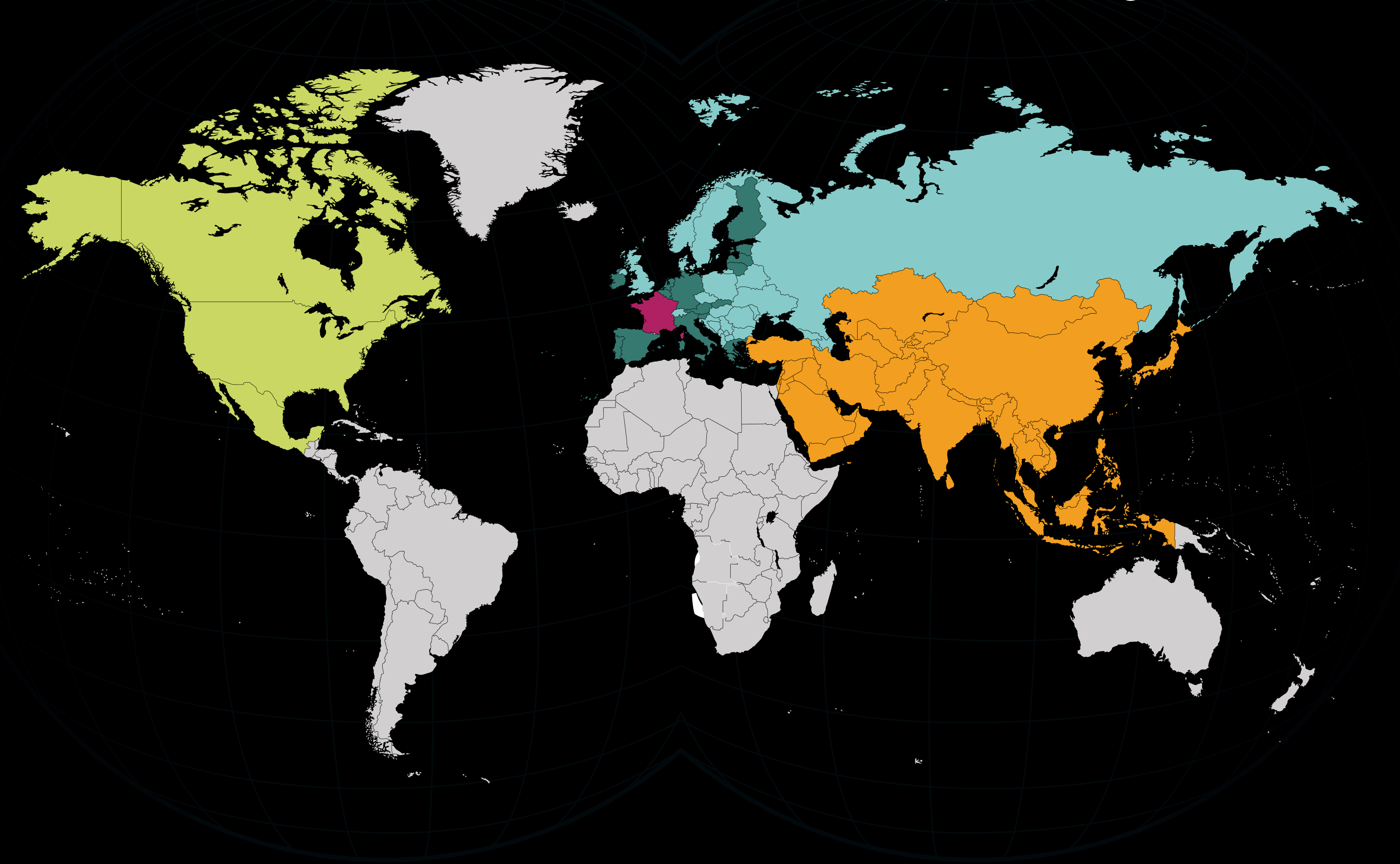
The compression of yields also played a role in the nationalisation of the Greater Paris Region market, since it effectively excludes opportunistic investors looking for an increase in value and a quick profit – a common strategy among international investors, particularly those from the UK and the US. Their potential involvement is particularly limited since they have seen new competition emerge on one of their exclusive territories, namely value-add assets.

The number of foreign funds represented has therefore been reduced. They have not completely abandoned the Paris market yet, however, since they still accounted for a total of €6.4bn in 2015. They also account for a significant share of the largest acquisitions, representing more than 44% of investment volumes via transactions of a unitary size of more than €200m. Middle eastern funds, for example Adia and QIA, and Asian funds, as well as UK and US funds such as Northwood Investors and Oxford Properties, are also behind some of the largest transactions.

Space in the most popular markets continues to be sought-after and expensive. And the Greater Paris Region is indisputably among them!

SOURCE OF FUNDS INVESTED IN THE GREATER PARIS REGION

Where can we hear the trainer's whip cracking?



FRANCE

Volume invested: €11.6 billion

Market share in acquisitions:

2015: 64%
2014: 57%

EUROPE OUTSIDE EURO ZONE

Volume invested: €1.4 billion

Market share in acquisitions:

2015: 8%
2014: 7%

NORTH AMERICA

Volume invested: €2.4 billion

Market share in acquisitions:

2015: 13%
2014: 18%

EUROZONE

Volume invested: €0.5 billion

Market share in acquisitions:

2015: 3%
2014: 4%

ASIA/MIDDLE EAST

Volume invested: €1.4 billion

Market share in acquisitions:

2015: 8%
2014: 13%

OTHERS

Volume invested: €0.7 billion

Market share in acquisitions:

2015: 4%
2014: 1%

Source: Knight Frank

#03 - PRICES AND YIELDS

Spectacular!

The contraction in yields is under way again at an impressive rate! The end of 2015 saw an all-time record low for the Parisian market, or almost. Only once before were such levels briefly observed – in 2007, just before the subprime crisis exploded.

This is enough in itself to see a resurgence of fears of a speculative bubble. But we can't forget that the situation has changed considerably in nine years and the foundations on which rates are now based appear much more solid.

> "YIELDS ARE NOW AT THEIR LOWEST LEVEL, AT ALMOST 3.50% IN THE CBD. THEY SHED 50 BASIS POINTS IN 2015."

A fall of 50 basis points one a year: at the end of 2015, prime yields in the CBD stood at between 3.50% and 3.75%. These are still levels we consider to be representative of "standard" Core office properties. Lower yields have been observed in a few trophy properties and for properties including a high proportion of retail space.

The sharp increase in yields which followed the dire summers of 2007 and 2008 has now been wiped out. And that took seven years! The crisis has certainly been forgotten on the Greater Paris Region investment market.

Forgotten… Really? It is not that easy to quieten that little voice which insidiously draws parallels between 2007 and 2015. And what if the market is preparing for a new bubble? A bubble which must sooner or later explode.

> "THE RISK OF A SPECULATIVE BUBBLE CAN BE DISMISSED FOR THE TIME BEING, SINCE CURRENT RATES ARE JUSTIFIED BY THE ADVANTAGEOUS YIELD OFFERED BY REAL ESTATE ASSETS."

Giving in to this nagging uncertainty would be a grave mistake. It would be to ignore that current yields are made possible as the result of a comparison between the income generated by different asset classes, an approach which became widespread at the same time as the financialisation of the real estate market. Prime real estate assets may no longer generate yields as high as in the past. But they still remain much higher than bond yields, which are often the most directly comparable in terms of investment horizon. At the end of 2015, the advantage offered by prime real estate stood at 271 basis points compared with the French TEC10 index. This is lower than a year earlier, but still remains at one of the highest levels ever recorded. In 2007, the yield from real estate was less than from bonds. And that changes everything!

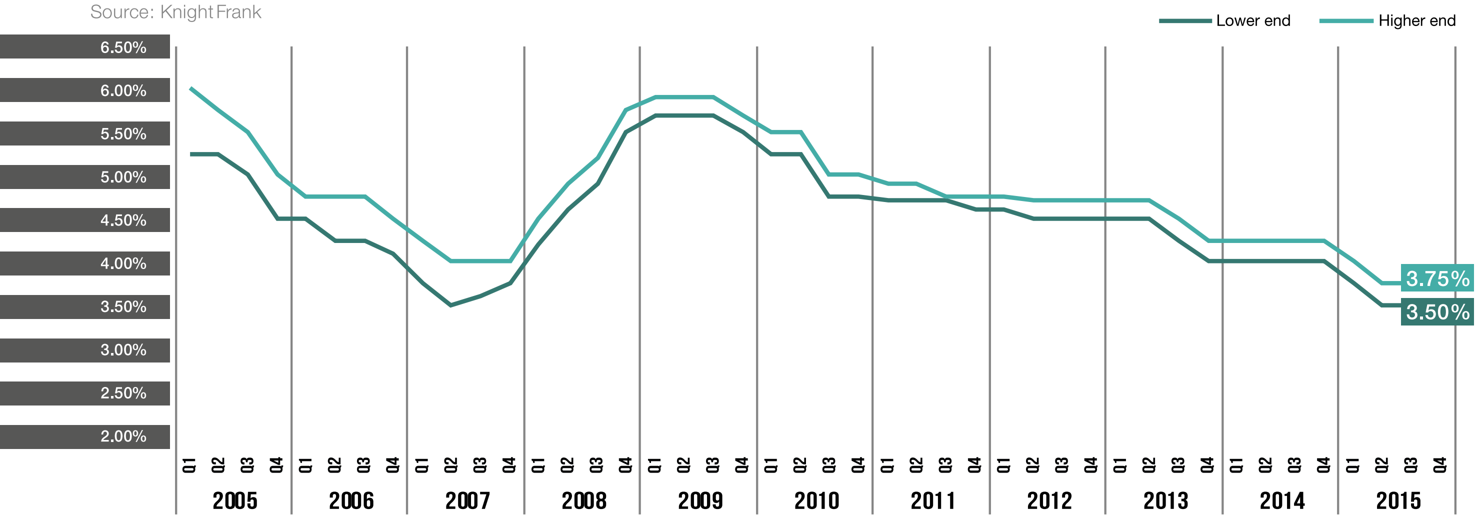
In addition, this comparison refers to initial yields. After several years of moderation and even downward adjustments in rents, many landlords are now hoping for a medium-term revaluation of rental income, and therefore the yields offered by their real estate assets during their period of ownership. This is another difference compared with 2007, as rents were then at the top of the cycle.

The contraction in yields was not confined to the CBD. Investors' appetite, and fierce competition between them to acquire the best buildings, led to the phenomenon becoming more widespread. Over the course of the year, prime yields therefore fell by between 75 basis points in a market such as La Défense and 100 basis points in the Southern Bend and Paris 3/4/10/11districts. These represent even sharper falls than in the CBD.

As a knock-on effect, spreads between geographical sectors narrowed for prime buildings. This trend, which began in 2014, further accelerated.

Change in prime yields in the Paris Central Business District

Source: Knight Frank

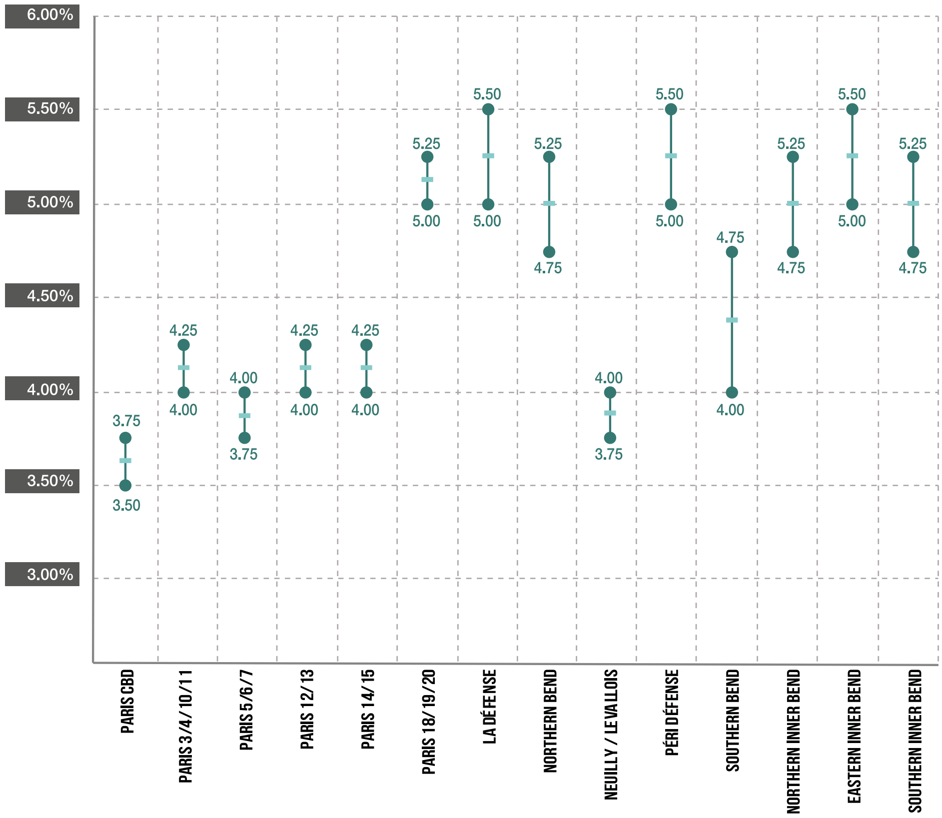


It is more difficult to specify a trend in relation to yields observed for value add properties, since there are as many situations as there are buildings and participants. The market is far from transparent in this respect and communication of values for which transactions are concluded is incomplete to say the least. There are too many deals and too much secrecy. However, it is possible to state that a fall is also apparent in this segment – although moderate and still at any early stage.

Spectacular. Yes indeed! That is certainly the most appropriate description of the change in yields in 2015 in the Greater Paris Region investment market. Spectacular, but not artificial.

Range of prime yields by geographical area

Source: Knight Frank

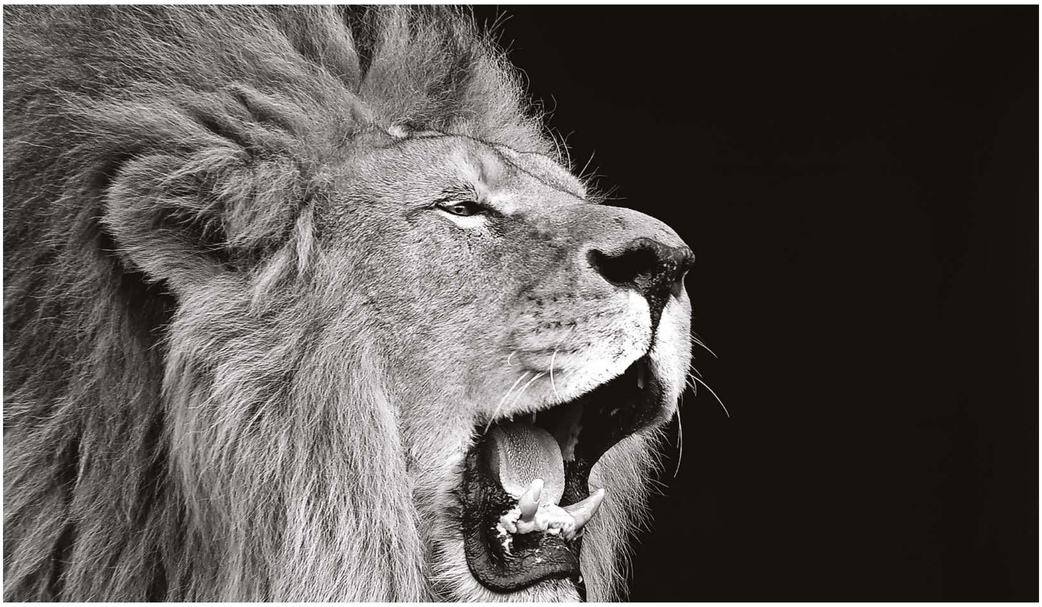


The audience emerged stupefied by the 2015 show put on by the investment market. There was excitement, passion and emotion. The tamers and trainers achieved triumph and probably didn't even expect such a success themselves.

Now all eyes have turned a little incredulously to 2016, full of expectation but also with a nagging foreboding of disappointment. Whether a little, a lot, hugely or not at all, it remains to be seen.

#01 - INVESTMENT VOLUMES AND PURCHASERS

Hear their roar!



The big cats are roaring and have every reason to continue doing so. But that is also a characteristic of violent winds feared by sailors. Winds which have their origins a long way from where they blow strongest, and which are impossible to predict unless you are expecting them.

Justified confidence reigns on the investment market. But it would be wise not to forget the gusts which can spring up suddenly and undermine the big cats' confidence.

What is the outlook for 2016 in terms of investment volumes?

Firstly, in terms of investor demand, there is every reason to think that the appetite for real estate assets will remain high.

As we have seen, one of the essential pre-requisites for these assets' success is the comparatively low level of risk they offer. This advantage is clearer than ever after the convulsions which rocked global stock markets from the end of 2015 – convulsions resulting from the high level of uncertainty over economic developments in China and other emerging countries. Corporate real estate in the Greater Paris Region is a haven of peace by comparison! It is set to become even more secure in 2016, if our optimistic predictions are confirmed regarding office take-up and vacancy (with take-up of at least 2.3 million sq m in the Greater Paris Region in 2016, up by 5% compared with 2015, and a lower vacancy rate, probably falling to below 7%).[3]

Unlike emerging countries, the economic outlook for France and the whole of the Eurozone are fairly positive. French growth is set to rise from 1.1% in 2015 to 1.4% in 2016 [4] with early signs of an improvement in the level of employment.

"COUNTING ON AN INVESTMENT VOLUME OF CLOSE TO €16BN IN 2016 WOULD APPEAR REALISTIC. ANY MORE WOULD CERTAINLY BE WELCOMED... WITH A ROAR!"

These are modest improvements but with the virtue of maintaining high levels of liquidity available for investment products – including real estate. Not to mention the robust economic health of North America, where investors will have increasing investment needs and will be on the lookout for opportunities around the world.

Of course, a real crash in the BRICS countries would have repercussions which would undermine the global economy and shatter this scenario. As we saw in 2007, we can ultimately suffer as a result of payment difficulties experienced by a household in California… But that is not the most probable scenario at present and emerging economies look more likely to see a severe slowdown than a complete collapse. There is therefore no reason to panic, nor to shut ourselves off from reality. These events, combined with the spectacular fall in the oil price, will have repercussions on the investment market in the Paris region. How? By reducing the investment capacity of funds based on the effected countries, particularly in Asia and the Middle East. These funds were responsible for 8% of investment volumes in the Greater Paris Region in 2015, which should limit the impact, although it could offset some of the surplus demand expected from France, Europe and North America.

In terms of investment opportunities, the scenario is similar to the one we have described for investor demand – optimistic but with areas of concern. The relaxation of risk aversion seen in 2015, which avoided the drying up of the market, should continue. Renewed activity by certain opportunists and developers, particularly from North America, could encourage the sale of speculative real estate products which could not previously be finalised. Furthermore, the expected recovery of rental activity, particularly in the segment of large and very large transactions, should lead to more pre-lettings at an earlier stage in buildings' constructions. If this trend is confirmed, then new investment opportunities will appear on the market, with a much greater appetite for off-plan contracts.

Unless… Unless the tightening of the US Federal Reserve's monetary policy leads to an increase in borrowing costs on global markets and ultimately a credit crunch. This would be a severe blow to investors (particularly opportunistic developers) who depend heavily on financing. This is one possibility to consider, though probably not until after 2016. In the shorter term, since the economic climate in Europe is much less robust than in the United States, the European Central Bank is likely to do its utmost to keep its key interest rates as low as possible.

There is therefore significant uncertainty as we enter 2016. But considering all these factors as a whole, starting with the internal strength of the Paris market, some confidence would appear to be justified. There is little doubt that 2016 will be a good year for investment. Perhaps even very good. Excellent? We will have to wait and see... At the very least, it would seem reasonable to anticipate a full-year investment volume of close to €16bn.

Any more would certainly be welcomed… with a roar!

[3] See our rental market outlook, pages 24 to 29.

[4] See our economic climate and consumption outlook: "Higher, faster, stronger!", page 70.

#02 - YIELD

Weightlessness

No-one can be expected to achieve the impossible. Their talent may be immense. They have made them sit and then lie down, and yet even the best trainers cannot make their animals lie down lower than the ground.

Can we expect any more from yields? They have fallen, fallen, fallen… Is it possible that this long-standing trend will continue or is it now time for rates to recover?

The contraction in yields has probably had its day. Certainly in the very short term, at the start of 2016, it is possible there may be more room for sporadic and moderate falls. But there is every indication that the spectacular movement which began in mid-2009, and accelerated from 2013, has run its course.

This is primarily a matter of comparison: prime real estate yields observed today only make sense in relation to yields offered by other asset classes. The differential offered by real estate assets remains high, particularly compared with bonds. As we have seen, it stood at 271 basis points for "standard" prime buildings in the CBD at the end of 2015, compared with an average of 175 basis points over the last 10 years. Therein lies the success of the investment market in 2015.

"THE THEORY OF NON-EVOLUTION: 2016 IS LIKELY TO SEE A STABILISATION IN YIELDS – A MOMENT OF WEIGHTLESSNESS."

The context is set to change in 2016, with a recovery in bond yields now likely. The US Fed[5] recently hardened its monetary policy, raising its key rate by 25 basis points for the first time since 2006. Encouraged by the robust health of the US economy and in order to prevent the potential formation of a speculative bubble, it ended seven years of interest-free money. Although she has stated her desire to ensure it is very controlled and gradual, Fed Chair Janet Yellen has already announced that the movement will continue. A great deal of capital will therefore now shift to US investment vehicles, which have become more profitable. Again, it will be a question of comparison. Countries in need of financing, including European countries, must remain attractive in order to continue to attract the cash they need. They therefore risk having to raise their sovereign bond rates. This will in turn make real estate investments less attractive, without yields changing.

So is it possible that real estate yields will rise? Not necessarily in the short term. Since the Eurozone economy is much less rosy than that of the US, the European Central Bank will do its utmost to keep the cost of borrowing low and delay a rate hike. Since the differential offered by real estate is also historically high, it is possible to foresee its contraction without any damage being done. It could act as an air-bag, but one which will deploy once and once only! But it is likely to remain in place until at least the end of 2016. It is therefore very probable that the coming months will be a stabilisation phase, a time of weightlessness.

The theory of non-evolution. Beneath the Parisian big top, the tigers will not become horses or sea lions. Not immediately in any case.

[5] Federal Reserve System

QUESTIONS FOR

LAURENT FLÉCHET

Chairman of the Management Board
PRIMONIAL REIM

CORPORATE REAL ESTATE IS IDEALLY SITUATED IN THE HIERARCHY OF INVESTMENTS.

Knight Frank: Primonial is a leading purchaser of corporate real estate in France. You have buoyed the investment market in recent months. The Greater Paris region plays a pivotal role in this market. What are its strengths and weaknesses?

Laurent Fléchet: The depth of the Paris market is irreplaceable. Take-up figures show that letting activity is concentrated around a few hubs, including La Défense. The expansion of the "campus" format has led major users to relocate to these areas best served by public transport. The buildings in these areas are much more liquid and much easier to market, provided their rent is at the right level.

The main challenge in the Greater Paris region is that many of the properties here are obsolete. A whole segment of offices are in a poor condition because opportunistic investors who could redevelop them have not yet returned to the market. What's more, regulatory restrictions regarding these conversions or reconstructions are still too onerous.

KF: The inflow of funds to invest in real estate assets has reached record levels. Why and how can such a capital flow be dealt with?

L. Fléchet: Corporate real estate is ideally situated in the hierarchy of investments. It's an asset that is removed from the financial markets, oriented towards the distribution of stable revenue and not too volatile; plus it procures an additional yield compared to conventional investments with guaranteed capital, which are nowhere near as profitable as they used to be. It is the additional yield, interpreted as a risk premium, which has led institutional investors to invest a growing share of their assets in real estate.

But despite the current inflow, the allocation of institutional investors in real estate is overall quite reasonable, between 5 and 10% for insurance companies for example. Their higher allocation in real estate is in no way illogical.

Faced with this capital inflow, we must meet the challenge and expand our investment universe. That means we must internationalise our activities by seeking a market depth beyond our borders, and examine the real estate asset classes that up to now seemed "alternative" – for instance healthcare real estate, which are one of our key development areas at the European level.

KF: High investor demand has caused yields to compress significantly. Could this call into question the importance of real estate investments and the foundations of the market?

L. Fléchet: In 2015 we saw a sharp compression in rates for office space, of approximately 70 basis points. In the most secure markets – the CBD and the inner suburbs of Paris – prices are high, perhaps too high. This can be seen in the yields and in the capital values. So we need to be more careful in 2016. In any case, even though office space remains the benchmark asset thanks to its liquidity, real estate risk is now better remunerated in retail property and healthcare real estate.

But market fundamentals are not under threat. Capitalisation yields are the same as in 2007 but the prime risk premium compared to the OAT (French government bond) was still negative at this time – which was untenable – whereas it currently stands at approximately 200 basis points. Without a sudden increase in yields, there will be no market downturn.

KF: The investment market has clearly "renationalised" in recent years around domestic players. It's a sort of "stay-at-home" mentality. What does that tell us? Does it mean that creating international portfolios is difficult and that it has lost its appeal?"

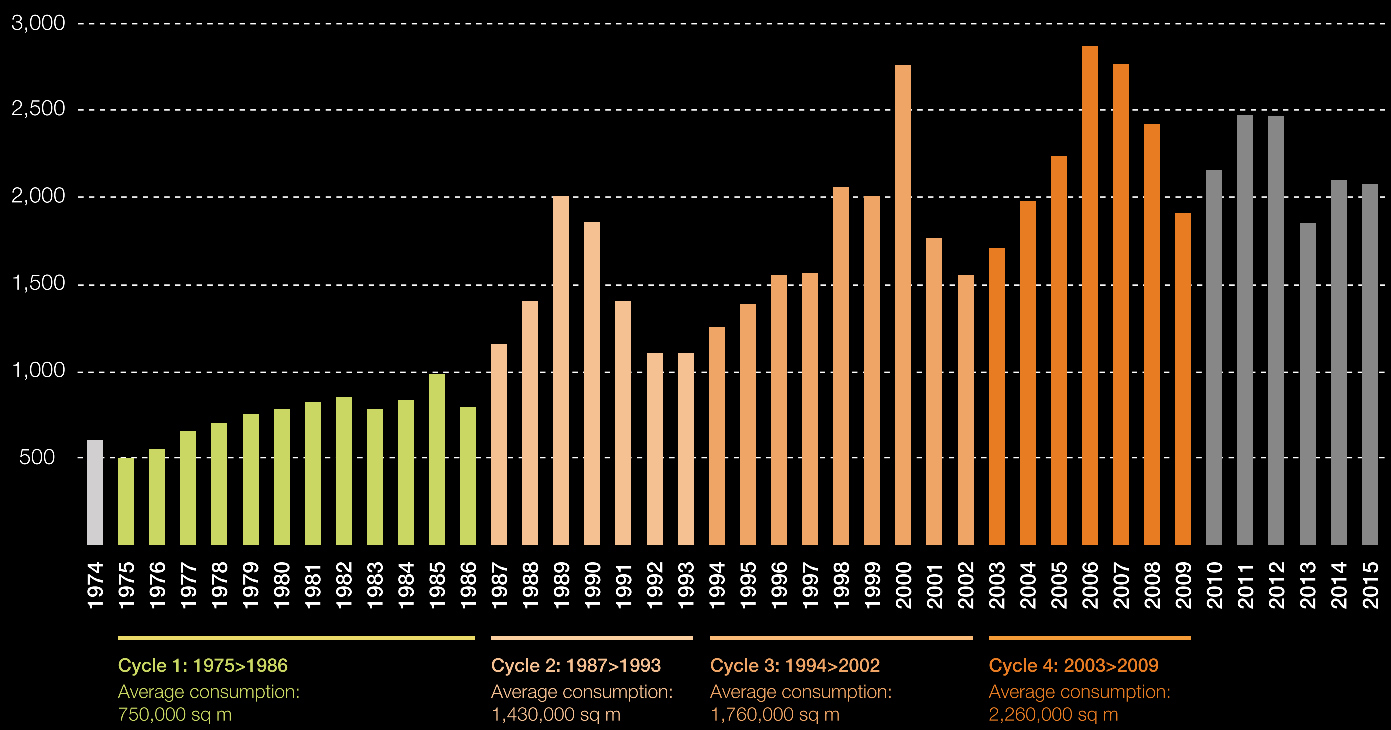
L. Fléchet: Here we can see the situation of French insurers, who represent a high proportion of direct investment as well as indirect investment through funds. For the reasons stated previously, it's natural for these players to reasonably increase their exposure to corporate real estate. The tools for them exist (SCPI [real estate investment companies] and OPCI [real estate investment schemes]) and the demand from savers is there too. Plus, the Solvency II regulations are less restrictive with the real estate holdings than shares holdings.

As for the internationalisation of portfolios, I think it is still appealing. The year 2016 should mark a qualitative leap in the Europeanisation of Primonial REIM's activities. Of course, this internationalisation will be driven by the formation or resumption of local teams.

FLASHBACK

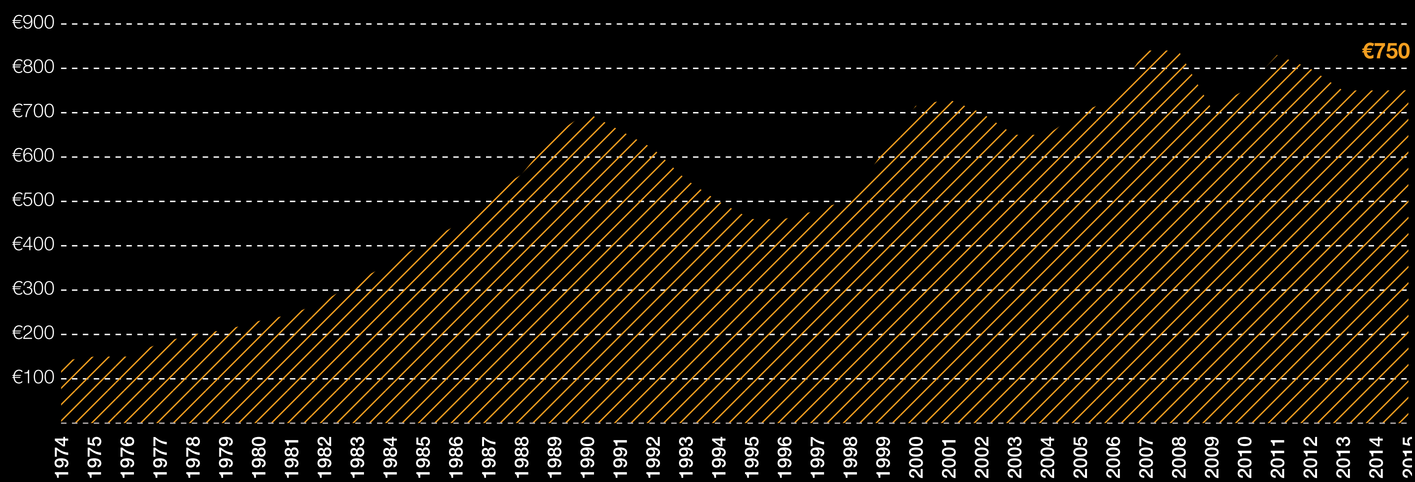
Trends in take-up in the Greater Paris Region since 1974 (in '000 sq m)

Source: Knight Frank



Trends in prime rents since 1974 (in €/sq m/year excl. taxes and charges)

Source: Knight Frank

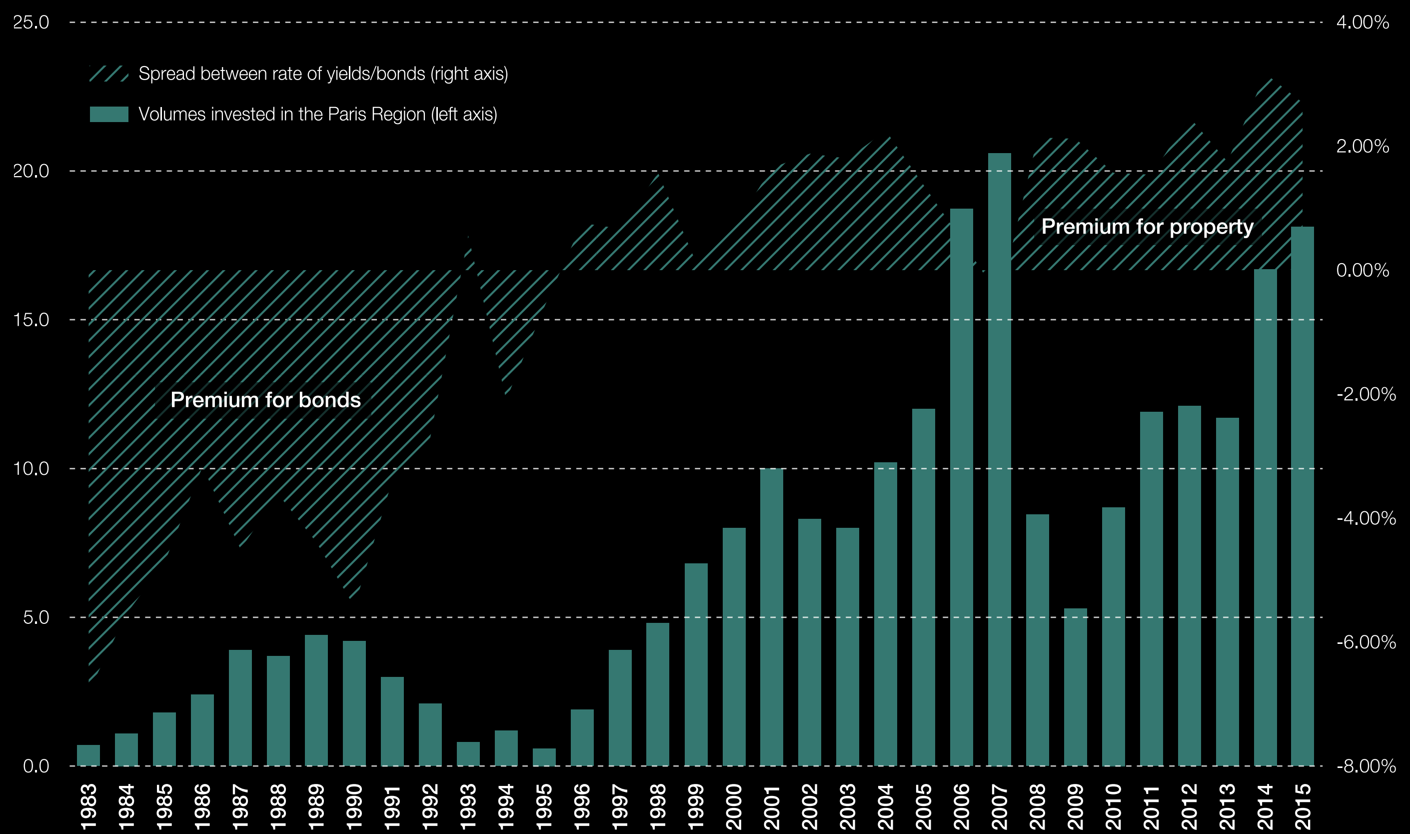


Trends in prime yields since 1974 (in %)

Source: Knight Frank

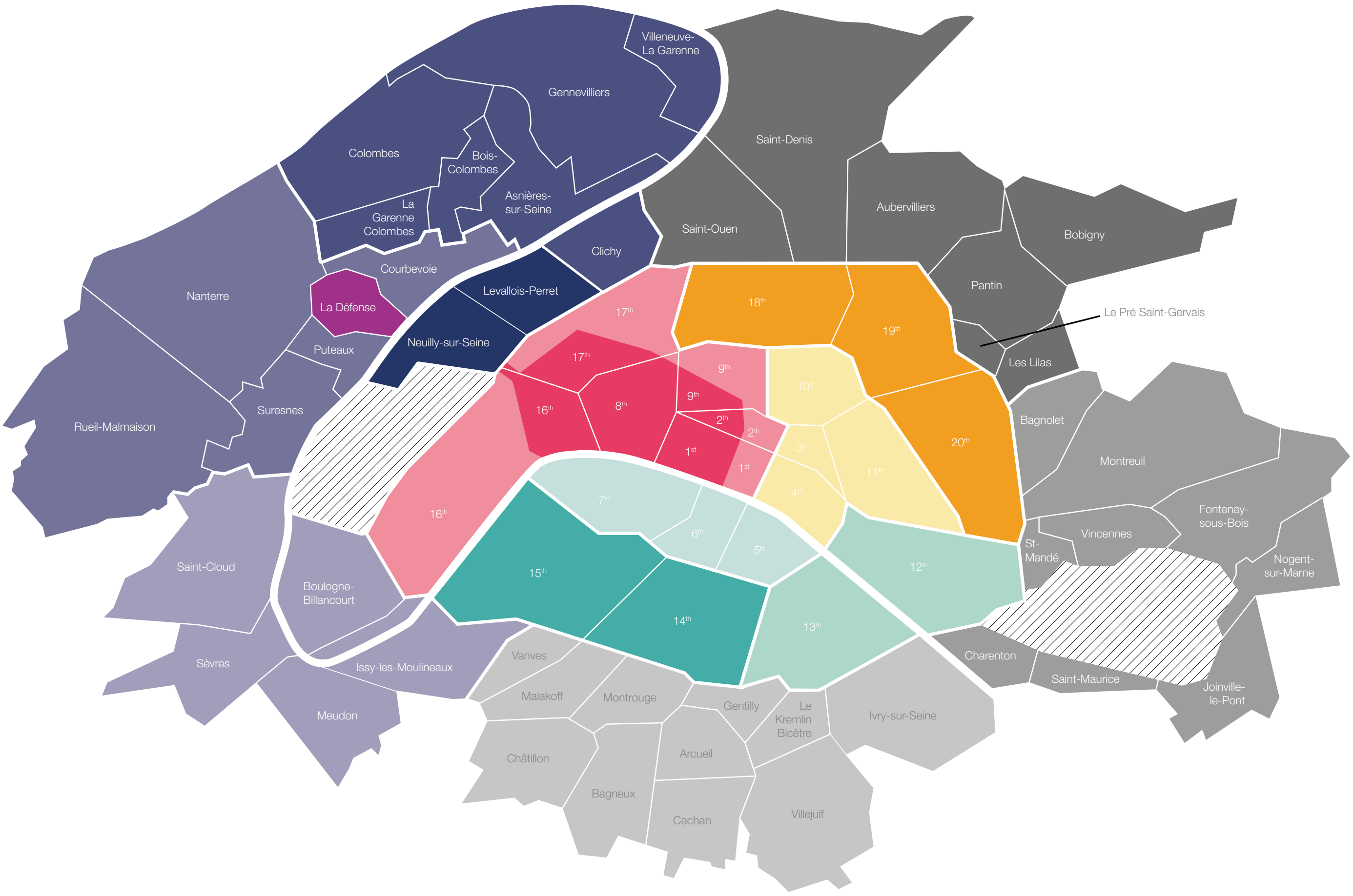
Investment volumes in the Paris Region and comparative spread between yields and bonds

Sources: Knight Frank, CDC - Comité de normalisation obligataire



Nota : Yields correspond to the prime yield (intermediary value) in the CBD.
Obligatory placement corresponds to OAT TME from 1983 to 1995 and TEC 10 begining 1996.

2015 KEY FIGURES



- Paris CBD
- Paris Centre West (excl. CBD)
- Paris 5/6/7
- Paris 12/13
- Paris 14/15
- Paris 3/4/10/11
- Paris 18/19/20
- La Défense
- Northern Bend
- Neuilly/Levallois
- Péri-Défense
- Southern Bend
- Northern Inner Rim
- Eastern Inner Rim
- Southern Inner Rim

Area	Prime Rents Q4 2015 (€/sq m/year)	Take-up in 2015 (sq m)	Estimated stock at end of 2015 (sq m)	Vacancy rate Q4 2015	Prime yields Q4 2015	Evolution	Prime yields Q4 2015 (range)
Paris CBD	**750**	**424,000**	↗	**6,652,400**	**4.8%**	↘	**3.50 - 3.75**
Paris Centre West (excl. CBD)	**580**	**114,800**	↗	**1,863,700**	**5.7%**	↘	**--**
Southern Paris							
Southern Paris / Paris 5/6/7	750	92,600	↗	1,224,400	2.8%	↗	3.75 - 4.00
Southern Paris / Paris 12/13	550	101,900	↗	1,987,500	3.3%	↘	4.00 - 4.25
Southern Paris / Paris 14/15	520	59,600	↘	2,246,400	4.5%	↘	4.00 - 4.25
Total Southern Paris	**--**	**254,100**	↗	**5,458,300**	**3.7%**	↘	
North Eastern Paris							
North Eastern Paris / Paris 3/4/10/11	480	71,800	↗	1,473,400	4.1%	↘	4.00 - 4.25
North Eastern Paris / Paris 18/19/20	370	43,300	↘	1,287,100	5.7%	↗	5.00 - 5.25
Total North Eastern Paris	**--**	**115,100**	→	**2,760,500**	**4.9%**	↘	
Total Paris intra-muros	--	908,000	↗	16,734,900	4.6%	↘	
La Défense	**540**	**153,000**	↘	**3,536,800**	**11.1%**	↘	**5.00 - 5.50**
Western Crescent							
Western Crescent / Northern Bend	350	64,800	↘	1,851,600	15.6%	↗	4.75 - 5.25
Western Crescent / Neuilly/Levallois	520	99,800	↘	1,446,000	11.0%	↘	3.75 - 4.00
Western Crescent / Péri-Défense	350	164,500	↗	2,292,500	13.2%	↘	5.00 - 5.50
Western Crescent / Southern Bend	470	236,800	↗	2,585,200	8.4%	↘	4.00 - 4.75
Total Western Crescent	**--**	**565,900**	↗	**8,175,300**	**11.8%**	↘	
Inner Rim							
Inner Rim / Northern Inner Rim	335	90,800	↘	2,548,400	8.7%	↘	4.75 - 5.25
Inner Rim / Eastern Inner Rim	300	46,200	→	1,605,300	7.7%	↘	5.00 - 5.50
Inner Rim / Southern Inner Rim	360	41,700	↘	2,221,500	9.9%	↗	4.75 - 5.25
Total Inner Rim	**--**	**178,700**	↘	**6,375,200**	**8.9%**	↘	
Outer Rim	--	282,100	↘	18,934,300	6.6%	↗	
TOTAL PARIS REGION	**--**	**2,087,700**	→	**53,756,500**	**7.3%**	→	

Sources: Knight Frank, ORIE

TRAPEZE ARTISTS

THE RETAIL MARKET

3

- Competition among retailers for Paris' prime locations, offering the full benefit of the tourist boon is still just as strong.
- The past year saw the arrival of numerous retailers previously absent in Paris.
- All – or almost all – of the large shopping areas were included in the new International Tourism Zones, which allow opening on Sundays and evenings until midnight, a move which should further increase retailers' appetite for the prime locations.
- The general rise in rental values is spreading to the most popular areas, with sometimes spectacular increases.
- Secondary locations, meanwhile, are suffering from a lack of interest from retailers and a fall in transactional activity, resulting in a stagnation in values.
- The concentration of transactional activity on the best streets has pushed up average rent across the whole of Paris by close to 10% in a year.
- Economic prospects and household consumption look fairly promising in 2016. However, not all locations will benefit in the same way.

"And now, Ladies and Gentlemen, look up. All the way up! They are strong, beautiful and precise. They look so light... Like birds, they come out of the sky, glide through the air and dart about! They are trapeze artists!"

TRENDS

Trapeze artists? The image suits retailers rather well. They also flit from one place to another. They also appear weightless, ignoring sometimes astronomically soaring rents. They can also surprise us, turning up in unexpected places.

We watch them with baited breath. Is it madness or genius? We fear they could fall, forgetting that there are others waiting behind them, ready to swoop. Forgetting that there are also safety nets and harnesses. It is only possible to die in the theatre, said director Luc Bondy. Retail is not theatre. It is even possible to come back to life after appearing to die…

#01 - CLIENTS & RETAILERS

Welcome to the greatest show on earth!

A huge crowd is jostling for place in the big top. But who are they? What are they expecting? If you can guess that, you can be sure they will applaud, ask for more and come back soon. Trapeze artists will do anything for that. Their troupe is vast, including some big names, the return of past stars and new talent from abroad. What a show!

The truth sometimes lies in a lemon meringue pie, a chocolate éclair or a pot of fruit jam. Fauchon, the international gourmet food company whose name is synonymous around the world with French gastronomy, has reached a milestone in its development. It plans to open a five-star hotel at the corner of Place de la Madeleine and Boulevard Malesherbes (8th arrondissement). The upper floors will offer around 60 rooms, while the ground floor will house the Café Fauchon, which is hopping across the square and over the church to its new home. What was a traditional Haussmann-style building of shops and offices will become a new haunt accommodating visitors looking for the famous French "art of living". The opening is planned for 2018, after a programme of works costing almost €40 million, financed by Fauchon and the Qatar National Bank, which owns the building.

"TOURISM AND RETAIL ARE NOW UNITED AS ONE. RETAILERS ARE GOING TO INGENIOUS LENGTHS TO ATTRACT THOSE CUSTOMERS WITH HIGH SPENDING POWER."

This move shows the extent to which tourism and retail are now united as one. Customers passing through, often foreign, generate considerable turnover in Parisian stores, particularly when they are very wealthy or simply well off. They account for more than half of all sales for some retailers. It is therefore vital to go out and look for them, attract them and seduce them. The simplistic way is probably to offer them a room for the night.

Fauchon has fully understood this, and it is not alone. Mövenpick, Bulgari and Armani have already paved the way in Europe. Paving which now extends to a Parisian avenue, as the LVMH group, which recently began reconstruction work on the legendary department store La Samaritaine (1st arrondissement), is including a luxury hotel. At the end of 2018, 26,000 sq m of retail space will open, along with 72 bedrooms and suites at the Hôtel Cheval Blanc, named after a famous "premier grand cru" from Saint-Emilion, also owned by LVMH.

As well as their buying power, tourists represent

a boon due to the sheer number of them in Paris and surrounding areas. The Greater Paris Region recorded 15.9 million hotel check-ins in the first half of 2015, up 1.6% compared with the same period in 2014. 46% of these check-ins were by international visitors (56.5% in inner-city Paris).

Tourist activity in the 1st half of 2015 in the Paris Region

The 10 main international clients

Country	Share	Change compared with 2014
United Kingdom	13.8%	↗ +2.2%
United States	13.7%	↗ +3.4%
China	6.9%	↗ +48.9%
Germany	6.5%	↘ -4.2%
Spain	5.8%	↗ +5.2%
Italy	5.7%	↘ -12.7%
Belgium	4.9%	↘ -3.1%
Middle East	3.9%	↗ +2.6%
Japan	3.7%	↘ -21.2%
Netherlands	3.6%	↘ -7.2%

Source: Paris Regional Tourism Committee, Tourist Activity Report, August 2015

Paris is and remains one of the world's leading destinations for international tourism and the top destination counting domestic visitors.

The impressive performance will obviously be considerably undermined by the effects of the attacks on 13 November 2015.

The horror and fear which gripped so many people beyond the borders of France had immediate repercussions in terms of visitor numbers. The hotel industry, and particularly the luxury hotel sector favoured by the foreign clientèle, recorded a 30% to 40% fall in occupancy in the days following 13 November as a result of early departures and cancellations. Airline companies, meanwhile, recorded 13,000 cancellations of flights to Paris in a week. Americans, Chinese and Japanese visitors abandoned their trips in the highest numbers. There were also fewer French tourists.

Parisians also lost their desire to spend.

Retail activity was directly affected by this situation. In the week following the attacks, the department stores Galeries Lafayette and Printemps suffered a sharp fall in visitor numbers of between 30% and 50% compared with the previous days. In the clothing sector, visitor numbers to Parisian shops fell by half.

"THE IMPACT OF THE EVENTS OF 13 NOVEMBER 2015 REMAIN UNCERTAIN, ALTHOUGH THERE ARE ALREADY REAL REASONS FOR HOPE."

Are these long-term effects? It would be rash to give a definite response to that question since there are no hard and fast rules in this respect. It took four years for tourist numbers to return to normal in New York after the trauma of 11 September 2001. Yet London had returned to normal a year after the attacks in July 2005, while no major effects were recorded in Madrid following the attacks of 11 March 2004.

What will happen in Paris? Media coverage was massive and it is possible that fears of a repeat attack will take hold. There is cause for hope, however. Despite 13,000 flight cancellations in the week following 13 November, airline companies only recorded 1,000 for the month of December. Although department store visitor numbers fell by almost half during the weekend of 21 November, the fall was just 15% the following weekend. And the French soon began spending again, particularly in the lead up to Christmas, initially favouring e-commerce. Brandalley, an e-commerce specialist, recorded 20% higher turnover than forecast in the week following the attacks[1].

The Ministry of the Economy and Finances predicts a moderate fall in economic activity following the attacks, with a 0.1% loss of GDP.

If these reassuring indicators are confirmed, then Paris's appeal among retailers will remain undamaged. And that appeal is strong. Very strong!

News of new shop openings came strong and fast in 2015.

"RETAILERS ARE JOSTLING AT THE GATES OF PARIS AND LOCKING DOWN THE REGION. EVEN THOSE WHO WERE PREVIOUSLY ABSENT ARE JOINING THE FRAY"

These included the big names in luxury and high-end, which have taken over the main shopping addresses and are engaged in fierce competition. Alexander McQueen opened its flagship store on Rue Saint-Honoré. Dior chose Rue François 1er for its new men's store. The design label has also announced plans for stores on Rue Saint-Honoré, opposite Colette, for its make-up line, and Rue des Archives, in the Marais, where Gucci, Valentino, Moncler and Givenchy have recently moved in. Philipp Plein has doubled the size of its store on Rue de Rivoli, off the Place de la Concorde. Dubail will be opening a new temple to high-quality watchmaking over nearly 500 sq m on the Champs-Élysées. Paco Rabanne is regaining a foothold in Paris with a store on Rue Cambon, a sequin's throw from the fiefdom being created by Chanel, which is manoeuvring hard to gradually take over the block between Rue Cambon, Rue Duphot and Rue Saint-Honoré.

In all, almost 60 luxury stores opened in Paris in 2015, almost doubling the rate recorded in the previous year. The attempts to create space where all too little exists has sometimes resembled a game of Monopoly. Corneliani, for example, has set up shop on Avenue George V, giving up its shop on Rue François 1er to Vionnet; Richard Mille, Buccellati and Guerlain moved out of Place Vendôme, giving way to LVMH, and moved respectively to Avenue Matignon, Rue de la Paix and Rue Saint-Honoré. The major gallery-owner Opera Gallery, which was housed in the same building, moved a little further up Rue du Faubourg Saint-Honoré. Montblanc left Rue de la Paix in favour of Piaget, which belongs to the same group, and moved into its new premises on Boulevard des Capucines. And the list goes on... Paris is essential to luxury brands, both in terms of image and turnover, both direct and indirect.

Opening a store in their name in the French capital is even a way for certain brands, which had disappeared or been eclipsed, to signify their renaissance and new ambitions. These comebacks are not rare. We have already mentioned Vionnet and Paco Rabanne. The creation of their new stores reflects their desire to regain their place at the table of high fashion and luxury prêt-à-porter.

This phenomenon goes beyond high-end, however. Daniel Hechter has opened a store on Avenue de l'Opéra. This is a statement that the hiatus in the brand's fortunes, which began in the 1990s, is over. Lingerie brand Simone Pérèle is set to expand its distribution with the establishment of its own stores in Paris. Simone Pérèle is back! And so is Coccinelle, as the Italian leather goods manufacturer returns with an address on the Left Bank. This confirms the brand's renaissance following its takeover by Korea's E-Land in 2012.

Another indicator of Paris's appeal among retailers? The number of first stores created or announced in 2015 is telling. Several dozen brands – some new, others already well known, but almost all already established elsewhere – have chosen a Parisian location. One of the highlights in this respect is unquestionably the planned opening of a store by Rimowa on Rue du Faubourg Saint-Honoré. Less a store, more a flagship! Almost 1,100 sq m... For a first try, it's a master stroke, which brings Paris into the geographical scope of the leading German manufacturer of premium luggage and gives Rimowa such a valuable entry point in terms of art of living and elegance.

The British jeweller Graff Diamonds is pursuing the same strategy and will soon raise its flag over the Place Vendôme, at the same time the Ritz reopens.

Zolotas, the most famous Greek jeweller, has meanwhile set its sights on the Rue de Miromesnil, on the corner of Faubourg Saint-Honoré.

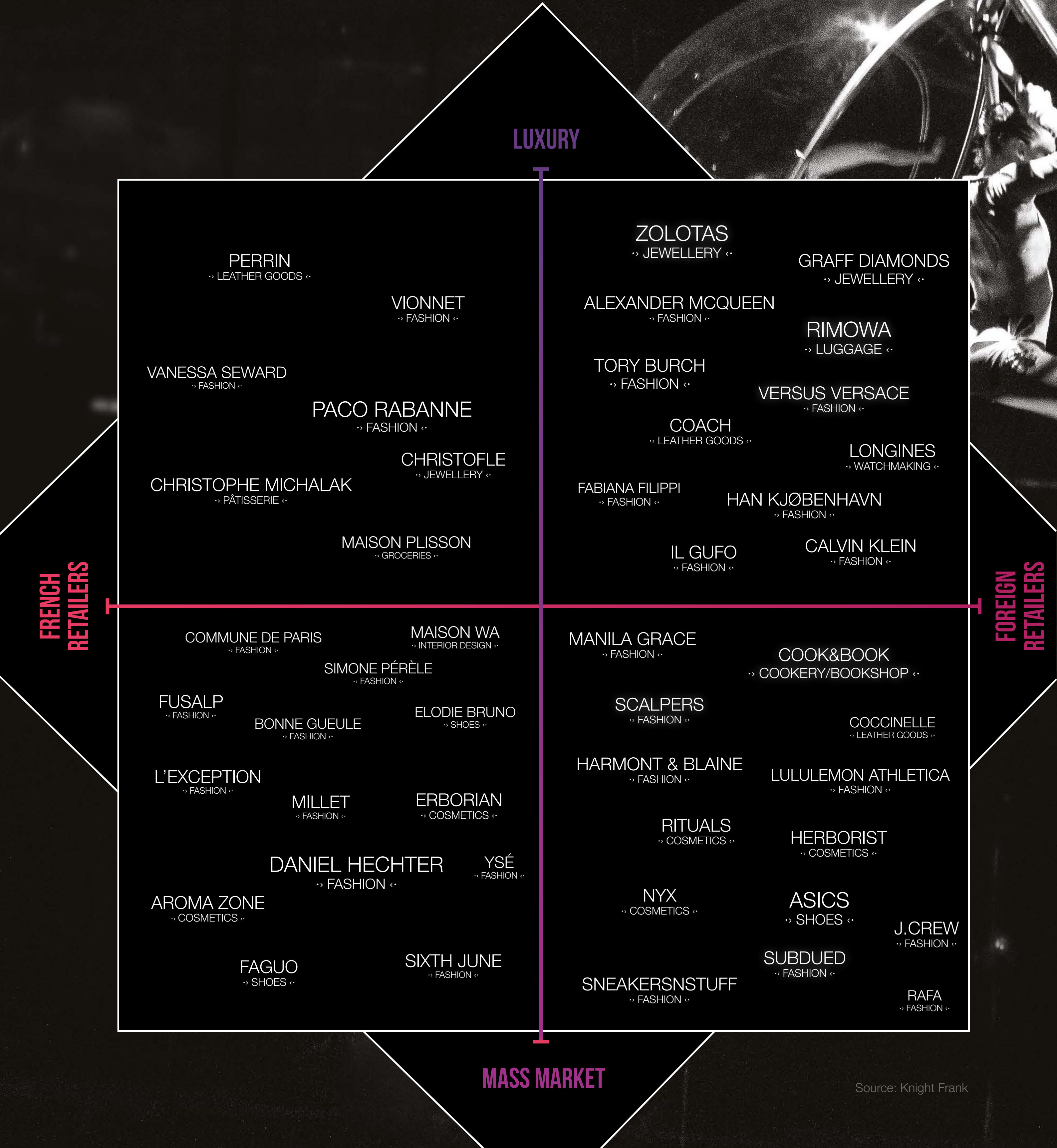
Newcomers are also evident in the more mass retail segments. At the end of 2015, for instance, Scalpers confirmed plans to create its first Parisian store, which will soon open in the Marais. Subdued, meanwhile, has opted for Rue de Rennes. While the ultra-trendy Cook & Book will be setting up shop in the 8th arrondissement, on Rue du Commandant Rivière, importing its cooking and bookshop concept from Brussels.

Paris has clearly still got what it takes…

[1] Le Figaro, 20 novembre 2015

SOME NEW ARRIVALS IN PARIS IN 2015

(Openings and announcements)



Source: Knight Frank

#02 - LOCATIONS

In the circus ring and behind the scenes…

The big names always perform their best in the ring, because that is when they are in the public gaze.

The same is true of retailers. They love the spotlight and need a location where they can be seen. The reason the Parisian big top is so sought after is that it provides a magnificent performance area. A fantastic circus ring, conducive to a wide variety of acts, surrounded by a large crowd that has travelled far.

"WILL PARIS SOON BE LIKE NEW YORK – A CITY THAT NEVER SLEEPS? SHOPS IN THE BUSIEST AREAS WILL BE ABLE TO OPEN 24/7."

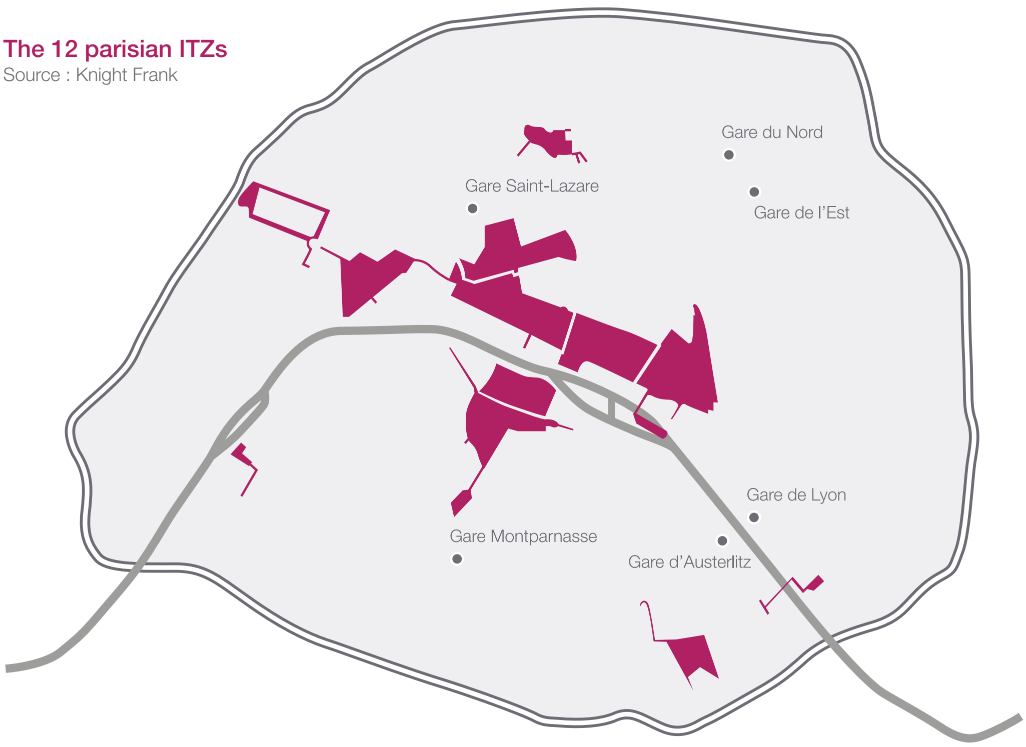
The public authorities have understood that good care needs to be taken of the ring in order to fill the big top. That is the purpose of the retail provisions contained in the recent law on growth, business and equal economic opportunities, known as the Macron Law.

In addition to the introduction of 12 potential Sunday openings from this year for retailers (compared with five previously), this law has created International Tourism Zones (ITZs). Provided an agreement is in place between the company and its employees, shops in these ITZs can open every Sunday of the year and until midnight on weekdays. This finally ends the uncertainty following the previous court rulings and what had become an inextricable situation, with incomprehensible inequalities. When two hardware store owners met, what did they talk about? Sunday opening. One had the right to open, while the other didn't. The same for two neighbours on the same street selling different products: one had to shut up shop at 7pm or 8pm, while the other could remain open until later in the evening. In principle, that is all over! The question now is whether or not you are in the ITZ.

The Macron Law application decree defining ITZs for Paris was published on 24 September 2015. A broad approach prevailed. A total of 12 ITZs were created, covering almost all major shopping streets (with the notable exception of Saint-Michel) as well as Parisian shopping centres (Beaugrenelle, Les Halles, Italie 2 and Cour Saint-Emilion).

[2] See the 1st edition of Under the Eye - Macron and ITZ Law (Knight Frank - january 2016)

The 12 parisian ITZs
Source : Knight Frank



Galeries Lafayette, Printemps, the stores on the Champs-Élysées, Saint-Germain des Prés and in the Marais will soon be able to open seven days a week and late into the evening. Paris will soon be like New York and other major world capitals – a city that doesn't sleep… That will put an end to one of the main criticisms levelled at the French capital by foreign visitors and the tourism industry. We could logically expect longer visits that extend into weekends and an increase in visitors' average spending.

"MANY RETAILERS ARE EXPECTING AN INCREASE IN TURNOVER OF BETWEEN 10% AND 20% AS A RESULT OF THIS REGULATORY ENVIRONMENT."

Many retailers are expecting an increase in turnover of between 10% and 20%. Not everyone is on a level playing field, of course. Independent shops, for instance, will have more trouble taking full advantage of the potential offered, due to less availability of staff.

Hopes have nevertheless been raised. If they are fulfilled, Paris' appeal will grow even greater.

This will result in additional pressure on prime locations. The even fiercer competition between retailers chasing those sites will push up prices, both in terms of leasehold transfers and rent. This situation is likely to lead to unforeseen consequences, starting with the risk of eviction of certain independents and local shops, not to mention the increased difficulty for a new retailer or a burgeoning concept store to break into the "places to be".

And what about those who missed out on the ITZ, all those areas adjacent to but excluded from the consumers' paradise? There is a risk of these locations being spurned and a fall in values. There is nothing inevitable about this outcome, however, and there is also potential for specialisation of the retail space. In this case, the salvation of retail districts outside ITZs will lie in independent and local shops. They will become areas for launching and breaking in creative concepts. Some areas of Paris have a strong hand to play in this respect, since it gives them an opportunity to gradually establish themselves as the up-and-coming shopping districts.

And let's not forget that the main impact of the Macron Law is that it has ended certain French taboos concerning retail regulation. The creation of ITZs, as defined in application decrees, is flexible. We should expect that if the ITZ experiment is a success, they will eventually spread across Paris…

Champs-Élysées, Saint-Honoré, Opéra Madeleine, Saint-Germain des Prés, Marais…

The circus ring? These are the prime spots for Parisian retail, included in the new International Tourism Zones. Several districts, each with their own identity and ambiance, complement and compete with each other… But they have all become the preserve of the most luxury brands, the most famous names and the most established groups. They are an exclusive dominion.

CHAMPS-ÉLYSÉES:

Opportunities are rare to seize a foothold on this ultra-famous avenue, which attracts a considerable flow of tourists. It is therefore no surprise that the opening of a new luxury watchmaking concept store by jeweller Dubail covering almost 500 sq m created a massive buzz in 2015 (Pierre Dubail is our specialist – see page 74). The Champs-Elysées continues its ascendancy, with an increasingly shrewd mix of major luxury brands and mass retail. This combination is gradually erasing the difference between the north and south sides of the avenue. So much so that some, like Le Queen, have even crossed the divide. This bastion of Parisian nightlife has moved from number 102 to 79, incidentally freeing up 700 sq m. Who wants to move in? Paris is awash with rumours. Apple and others have been announced… which shows how rare such events have become. The answer is due to be revealed very soon and will no doubt be the sensation of 2016.

SAINT-HONORÉ / FAUBOURG SAINT-HONORÉ:

Rue Saint-Honoré has been back in the retail limelight for several years now, sometimes even eclipsing the Rue du Faubourg Saint-Honoré, for which it had formerly been an understudy. That was not the case in 2015.

Rue du Faubourg Saint-Honoré made a dramatic entrance onto the scene. We have already mentioned Rimowa. However, the luggage manufacturer's arrival is significant in more than one respect. Firstly, because it is the first French store for Rimowa: choosing Faubourg Saint-Honoré for such an event is the sign of the street's continuing appeal. Furthermore, the new premises measure 1,100 sq m – an enormous area for the Parisian market, which frequently deals in units under 50 sq m.

Rimowa was not the only company to position itself on Faubourg Saint-Honoré in 2015. Evocative names include the Opera Gallery, which also set its sights on a large area, the tailor Cifonelli and finally Baccarat.

The revival of the Faubourg Saint-Honoré has not been at the expense if the Rue Saint-Honoré – far from it. The street continues to be a great success among luxury and high-end brands. One by one, Alexander McQueen, Guerlain, Coach and Tory Burch opened stores in 2015. Chanel and LVMH continue to advance their pawns, one from the corner of Rue Cambon, the other from Place Vendôme. Large timeless firms, more specialised brands, young designers: all are drawn by these few hundred metres offering the quintessence of Paris and proximity, for some, to the finest luxury hotels.

Last year we wrote that Rue Saint-Honoré was in the process of being transformed into a leading luxury address. That transformation is now complete.

"LARGE TIMELESS FIRMS, MORE SPECIALISED BRANDS, YOUNG DESIGNERS: ALL ARE DRAWN BY THESE ADDRESSES OFFERING THE QUINTESSENCE OF PARIS."

VENDÔME / PAIX / CASTIGLIONE:

Perpendicular to Rue Saint-Honoré, the junction of Rue de la Paix and Rue de Castiglione, with Place Vendôme at its centre, continues to cultivate its image as a temple to quality watchmaking, quality jewellery and luxury. Van Cleef & Arpels has expanded on Place Vendôme, enlarging its historic store. Due to a lack of opportunities, however, most new arrivals have been concentrated on Rue de la Paix, in a game of Monopoly already mentioned above. A game played between a select few, luxury firms with a shop-front in the district and which often belong to the same elite segments. Poiray has moved to Rue de la Paix. Its former store, at the corner of the Rue des Capucines, opposite Bulgari, has been taken over by Buccellati, which left Place Vendôme following the takeover of its old building by LVMH.

But anyone who has walked across Place Vendôme in the last two years has had the privilege of witnessing the large number of construction sites. It has been overrun by scaffolding, tarpaulin and hoardings as the opportunities of tomorrow take shape, or rather took shape, since many of those opportunities have already been seized. We have already mentioned the building on the corner of Place Vendôme and Rue Saint-Honoré, which was previously home to Buccellatti, Guerlain and a few others. In that case, the cards were known in advance: it was bought by LVMH to create its local flagship store. But even with the game open, the round was concluded before the official end. The redevelopment of the Ritz has not even been delivered yet and already a large proportion of its retail spaces are let, bringing a completely new retail range to the Place Vendôme. Graff Diamonds, the famous British jeweller, will be establishing its first site in France there.

The reconfiguration of the former Hôtel Lotti by the Costes Group, which owns the neighbouring establishment, catering to a very high-end and celebrity clientèle, should promote the commercial regeneration of Rue de Castiglione. This regeneration had naturally already begun due to the lack of retail sites on Rue de la Paix and Place Vendôme, although it had previously been limited to the even side of the street, following on from the Annick Goutal store. It will soon be drawing to a close. Reunification of the Paix/Vendôme/Castiglione retail area is taking shape.

OPÉRA / MADELEINE:

Having begun properly two years ago, with the arrival of Bucherer and then Tommy Hilfiger, Omega, Bally, Lacoste, Weston and C&A, the retail transformation of Boulevard des Capucines towards a mass market and luxury mix continued in 2015.

Montblanc, for example, chose this address, as an alternative solution to its previous site on Rue de la Paix, which was sold to Piaget. Harmont & Blaine, a high-quality Italian prêt-à-porter brand, is opening its first Parisian store there. Meanwhile Boulanger, the household appliance distribution giant, a common sight in suburban areas, has set its sights on the former Habitat store to be close to its rival Darty and open its first retail premises in Paris. Not far away, on Place de la Madeleine, Leroy Merlin has announced a new 5,000 sq m site on the former Le Palacio car park. It will sit alongside Darty, Fauchon, chocolate-maker Patrick Roger, Kenzo, Dior and Ralph Lauren… Surely a new magnet for fans of retail diversity!

"THE SEA CHANGE IN THE OPÉRA/MADELEINE DISTRICT CONTINUES, WITH A SOMETIMES ASTONISHING RETAIL MIX."

SAINT-GERMAIN DES PRÉS:

By opening the first Versus Versace store in France on Boulevard Saint-Germain, Donatella Versace and English architects Carmody and Groarke have confirmed that the Left Bank's star is shining once again beneath the big top of Parisian retail. It had become fainter for a time. But it began to glow bright again in 2012 with the inauguration of the largest Ralph Lauren store in Europe, over 1,200 sq m, alongside the site now chosen by Versus Versace. Since then, Saint-Germain's commercial revival has been continually reaffirmed, encouraged by several building redevelopment programmes offering new opportunities to retailers. CFOC (Compagnie Française de l'Orient et de la Chine) for instance recently opened a store on Boulevard Raspail, close to the junction with Saint-Germain.

The movement is not set to end yet, with the focus on the twin themes of personal and home equipment. It will no doubt be difficult to rival Saint-Germain des Prés in 2016! The New Year will see the opening of the brand new and beautiful Marché Saint-Germain. This 2,700 sq m shopping gallery, nestled at the intersection of Rue Clément, Rue Lobineau, Rue Mabillon and Rue de Seine, had been struggling along since its creation in 1996. Banimmo, its new owner, has entirely redesigned it. From 21 retailers, Marché Saint-Germain will move to just seven. But they will be much bigger and hand-picked: Apple will act as a driving force, with the largest Apple Store in Paris (1,300 sq m), followed by Uniqlo, Marks & Spencer Food and Nespresso. Not to mention, in a little "French touch", the Meat Bar restaurant from Hugo Desnoyer, the artist behind a new style of butchery. No Madame, no Monsieur, we are not vegan here… But how chic it is! And so delicious…

MARAIS:

A similar phenomenon can be seen in the Marais, which is clearly evolving into the Saint-Germain of the Right Bank.

Major manoeuvres began in 2014 by BHV, owner of Galeries Lafayette, with the opening of Moncler, Gucci, Fendi, Givenchy and Valentino on Rue des Archives. Nike's opening on Rue du Temple was followed in 2015 by Polo Sport Ralph Lauren. And it's far from over!

In the block bordered by Rue des Archives, Rue du Temple, Rue de la Verrerie and Rue Saint-Croix de la Bretonnerie, whose land is almost exclusively controlled by BHV, an urban redevelopment is under way. The arrival of the first Eataly in France, which we mentioned last year in Paris Vision, was confirmed in September 2015. Almost 4,000 sq m of retail space has suddenly been created on Rue Sainte-Croix-de-la-Bretonnerie. This will be dedicated to the finest Italian gastronomy.

These various retail sites, largely devoted to men's fashion, are expected to be aligned with BHV Homme by opening up passages and courtyards in the heart of the block, which will also provide an opportunity to promote new areas, currently without any public access. Meanwhile, the work of the future Galeries Lafayette contemporary art foundation continues in the building opposite the future Eataly and extends as far as Rue du Plâtre. The space was designed by Rem Koolhaas, the 2000 Pritzker prize-winner, and aims to attract almost 100,000 visitors a year. The ultimate aim of this vast programme is to create a new kind of shopping-cultural centre incorporating the district's gay culture, which is exceedingly hip and intellectual and simultaneously high end, while embracing its heritage. Beautiful and bohemian!

The scale and quality of the project cannot fail to influence the whole district, especially since it has been entirely classified as a ITZ. Sandro and The Kooples didn't take long to realise the potential generated by the transformation in progress. They have opened stores on the corner of Rue des Archives and Rue Sainte-Croix-de-la-Bretonnerie. Vilebrequin, Lipault and Nature & Découvertes have done the same. John Galliano has meanwhile announced that it will move in across the street. A stone's throw away, Scalpers will soon set up its first French store.

And the gradual eviction of a number of outdated and slightly chaotic local stores is set to continue. These will be able to move to less attractive streets, or perhaps not. It is difficult to imagine the coexistence of a launderette and a major fashion house, a grocery store and the champion of Italian high-end gastronomy…

"THE MARAIS IS LEVELLING OUT WHILE SAINT-GERMAIN DES PRÉS STANDS OUT AS A HOT SPOT FOR 2016."

REVIVAL

Urban shopping centres

Open. Closed.

Open? The idea behind shopping centres is to create an environment that is sufficiently welcoming and accessible to attract visitors and facilitate transactions. Closed? This same environment must be enclosed enough to be controlled and managed, pleasant for customers and conducive to business.

Fundamentally, could there be a principle more relevant to current affairs today? Shopping centres as models for society. This hot topic is experiencing a revival in this form of commerce.

Parisian retail is not restricted to shopping streets. There are also arcades and shopping centres. This format, often perceived as foreign to the Parisian tradition, is actually deeply rooted in its history. The Passage du Caire was a forerunner. This covered shopping arcade was built in 1798 by Caisse des Rentiers, a contemporary investment fund (the origins of the real estate market certainly go back a long way!). The concept was honed by Galerie Vivienne in 1823. The aim was to offer a controlled retail environment. 150 years later, this was the same governing principle behind the creation of the large Parisian shopping centres, hybrids of shopping arcades and suburban malls.

This retail format has therefore become traditional. It has even had time to mature, but is also in the process of reinventing itself.

In Paris, the start of the revival was triggered by Beaugrenelle, whose reopening in October 2013 created a massive buzz. Following a transformation at the initiative of Gecina, the centre's 50,000 sq m were no longer just a place for commerce, but a living space. It boasts some of the leading national and international retailers, a diverse and varied food hall, a 10-screen multiplex, and a very advanced range of services ranging from iPads to pushchairs and wheelchairs. All of this is of a superb quality and arty architecture with an environmental commitment – Beaugrenelle also has the largest green roof in Paris, at 7,000 sq m. Above the shops and department stores, above the buyers and sellers, bloom sage, euphorbia and mugwort. It is no longer just a shopping centre. It is a utopian image of communal living. Beautiful, clean, safe and relaxed, where you need to make an effort to be bored.

"COOL ATTITUDE AND SOPHISTICATION. CONFIDENCE AND STYLE... PARISIAN SHOPPING CENTRES ARE ALL SWING AND SWAG!"

We often talk about the lack of separation between private life and work. However, the great mixing pot goes beyond those two simple dimensions to encompass consumption and interweave commerce and philanthropy. We consume everything, even freedom and what is offered free of charge, and everything is an opportunity for consumption. Therefore, the citizen-consumer was born, or perhaps that should be the consumer-citizen…

The success of Beaugrenelle, with no fewer than 24 million visitors in the last two years, 20% of whom were tourists, shows that the desire is real. It has proved to be a big hit, winning the 2015 award for the best European shopping centre from the International Council of Shopping Centres.

The main story of 2015 is likely to be the inauguration of Vill'up. €110 million has been invested in the development of this concept, in a bay of one Paris's leading museums, the Cité des Sciences. Over 24,500 sq m, there are shops, restaurants and leisure facilities, including a 16-screen cinema, a laser game and an immense indoor skydiving tube, not to mention culture, with the museum just next door. Vill'Up was set to open in October. But that was before the fire, in summer 2015, which damaged 10,000 sq m of the future facilities. None of the retailers that had committed to Vill'Up in advance has made any moves to withdraw. The opening has been pushed back to 2016, with skydiving on hold.

While we wait, the main news is the restructuring and expansion of the Forum des Halles. It must be said that the challenge is significant: the centre was built above Châtelet-Les Halles station, which serves 800,000 passengers a day, and is located at the centre of one of the largest pedestrianised areas in Europe. The project includes the complete redevelopment of the district, from underground levels to the rooftops. Objectives include a complete redesign of flows, to clarify and differentiate them following a €1 billion investment of private and public money. The canopy, a diaphanous roof acting as a landmark in the district, will be unveiled to the public in 2016. Its 7,000 sq m will house a dance school, a hip hop centre and a library, along with an 8,500 sq m commercial extension to the Forum. Culture, commerce, and environment, all carefully managed and beautifully designed…

The programme will finally be completed in 2018, with complete delivery of the existing 64,000 sq m GLA and of the planned extensions, representing a total of 15,000 sq m GLA. But the new face of the Forum des Halles is already emerging, with the announcement of the arrival of a 700 sq m flagship store for Muji, and another for Lego. L'Exception, an e-commerce site specialising in creative brands, will open a 360 sq m store, representing its first physical presence. And what's next door? A restaurant run by Alain Ducasse and a café-book shop selling Taschen editions and run by the team from the trendy restaurant from the flea-market district, Ma P'tite Cocotte. Goodbye to the crowded and vaguely distressing centre, goodbye the interminable excavation of Les Halles!

Cool attitude and sophistication. Confidence and style… Parisian shopping centres are well awesome and wicked! They're all swing and swag.

THE YOUNG ALTERNATIVE SCENE

The discreet charm of Parisian "hipness"

Competition between national and international retailers for the best sites is still fierce. This is putting pressure on rents. With the creation of ITZs, this pressure could further increase in the future. In this climate, where can young brands and creative concepts go if they are not backed by a large established group?

As in so many cases, the answer no doubt lies in alternative solutions. Paris offers a few, still to be confirmed. Not all of them will work. But some will offer a new stage for the retailers of the future.

Which ones? As we have shown, retail and tourism are intimately linked. Similarly, in the hotel industry, life is not limited to the opening and reopening of majestic palaces. Alternative players are establishing themselves, particularly through the boutique-hotel model. Boutique hotels are small independent establishments, with very creative architecture, design and services, which seek to create a unique, trendy style in response to excessive standardisation. It is quite a simple concept: "Are you unique? So are we, so come to us, we have 30 or 40 rooms for friends!" There are hints of luxury, at a much lower cost. Traditional hotel codes are muted in favour of lively communal areas, particularly the hotel bar and restaurant, which welcome non-residents. Parisians who come for a meal or a drink, sometimes unaware that it is possible to sleep there, represent 25% of turnover for this generation of hotels. That is the key. "When they enter a hotel, non-resident customers want to be immersed in the Parisian atmosphere, not find themselves surrounded by tourists eating breakfast."[3] That is the perspective of Pierre Moussié, one of the players in this market. In September 2015, he opened the Hotel Providence, a 4-star hotel with just 18 rooms.

Paris has long lagged behind cities such as New York and San Francisco in the niche boutique-hotel segment. The success of Mama Shelter, launched in 2008 by Serge Trigano in the 20th arrondissement, no doubt encouraged new initiatives.

In any case, a series of openings took place in the space of a few months. All at addresses off the beaten track: the Hotel Bacheaumont, on the street of the same name in the 2nd arrondissement; Grand Pigalle Hôtel on Rue Victor Massé (9th arrondissement); Hôtel Paradis on Rue des Petites Écuries, Grand Amour Hôtel on Rue de la Fidélité and Hôtel Providence on Rue René Boulanger, all three in the 10th arrondissement; as well as Hôtel Henriette on Rue des Gobelins (13th arrondissement). Pigalle, Batignolles, Porte Saint-Martin, Buttes aux Cailles and Jourdain – addresses which mean little or nothing on the retail real estate market. These are all districts which are not on the radar but are popular with young well-off Parisians and are winning over increasing numbers of tourists. These are the same characteristics which made the Marais a retail success 15 or 20 years ago.

"SOMETHING IS AFOOT IN BOHEMIAN PARIS, FAR AWAY FROM THE TRADITIONAL MAIN SHOPPING ADDRESSES. AND WHAT IF IT WORKS? "

These are all districts and addresses which could therefore represent a potential solution for retail concepts and business models. Science fiction? Maybe not! The movement is nascent, but exists nevertheless. La Récolte, with its seasonal and organic produce and guarantee of short supply chains, opened in Les Batignolles (17th arrondissement). The Bio C Bon chain is opening more and more outlets in similar locations. Elodie Bruno, Yvonne Yvonne and Pairs in Paris, young shoe, leather goods and sneakers brands, have chosen the 9th arrondissement close to Pigalle, to open their first stores. Benefit, a young American cosmetics brand, is testing the Parisian market on the Rue Tiquetone (2nd arrondissement). Finally, Hircus offers its cashmeres on Rue Commines, in the far Haut Marais (3rd arrondissement). Commune de Paris has moved in just next door and Bonne Gueule has opened its first store as a result of the men's fashion blog of the same name.

Something is afoot… And what if it works?

[3] "Coup de jeune sur l'hôtellerie", Le Monde, 2 december 2015

#03 - PRICES

Paris is the happening place

Prices of Parisian stores continue to teeter and are still way up high! There are few figures or official records, however. Shhhhhh! We must be discreet about the production secrets behind Parisian performance. Only the result counts: the satisfaction of the public and of retailers. As long as that remains, the trapeze artists will continue to perform their feats while we applaud.

One thing is certain however: moderation has not won the day in Paris! It is even certain that the rise in rents, which had only affected the leading stores, is spreading to all available property in prime locations. Elsewhere, far away from the VIP area, things are very different of course.

"AVERAGE RENT FOR RETAIL PROPERTY IN PARIS HAS INCREASED BY 10% IN A YEAR AND IS CLOSE TO ITS HISTORIC RECORD."

The most striking evidence of this upward movement can be seen in the rise in average rent in Paris at the time of signing new leases for retail property, which stood at more than €1,390 per sq m of weighted area at the end of 2015 – a level only achieved once in the past. We are close to an all-time record after a rise of €130 in a year, or +10%.

This phenomenon naturally also reflects the decline in activity outside prime locations. The scarcity of the least expensive transactions naturally pushes up the average, but that still means that where transactions are rising, values are rising.

Increasingly sought-after prime locations are still snapped up at a ransom.

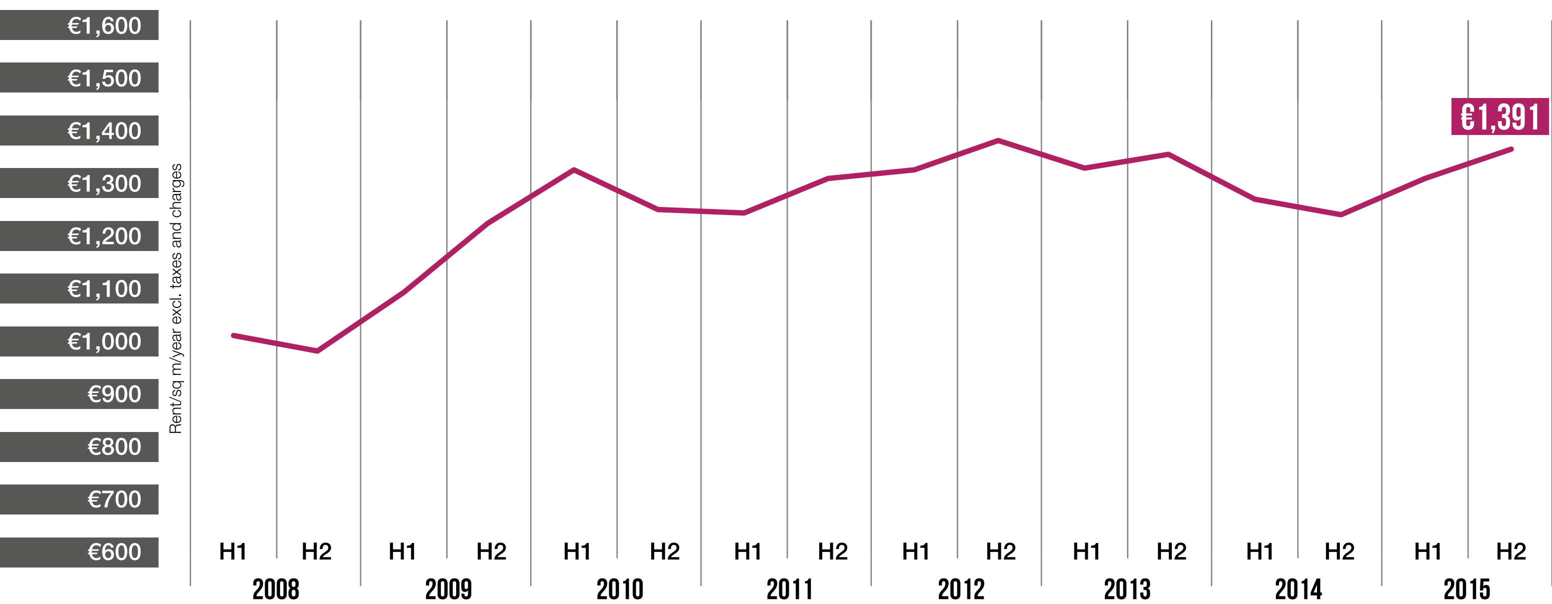
That is obviously the case on the Champs-Élysées. There may not have been any transactions for more than €20,000 per sq m in Zone A in 2015, but that is mainly because transactions are rare, due to a lack of opportunity, in this star thoroughfare of global retail. When a brand gets hold of one of the prime sites on the Champs-Élysées, it keeps hold of it! And as soon as an opportunity comes up, it will be let at values far higher than the psychological bar of €20,000 for properties in Zone A. We currently estimate that the cream of the Champs-Élysées could be let for almost €22,000 a year. After all, that is only just over the level of some transactions seen in the past. The Champs-Élysées is Causeway Bay-sur-Seine!

"UPWARD PRESSURE ON RENTS IN PRIME LOCATIONS IS NOT LETTING UP. ON THE CONTRARY, IT IS SPREADING FURTHER."

That kind of position is clearly unique for a city. The Champs-Élysées therefore stands out sharply in terms of rent from other prime locations. The difference is effectively around 20% above "second place" locations in the ranking of Paris' most expensive areas. Nevertheless, rent rises across the board are a major characteristic of the market. And these rises can sometimes be spectacular.

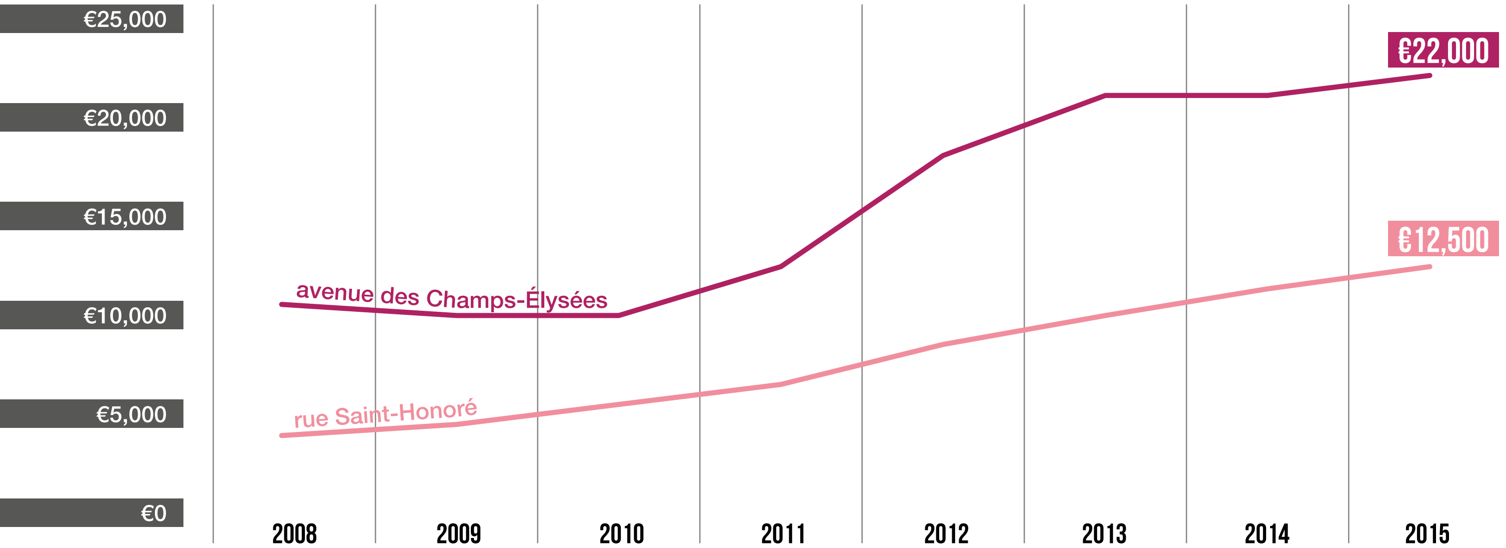
What takes second place after the Champs-Élysées? Rue du Faubourg Saint-Honoré. The highest values there are €18,000 a year in Zone A,

Changes in average rent in inner Paris



Source: Argus de l'Enseigne

Changes in Zone A rental values on rue Saint-Honoré (western end) and avenue des Champs-Élysées



representing a sharp increase of more than half, compared with 2014.

Its extension, the Rue Saint-Honoré, was more stable in 2015. Rents there do not exceed €12,500. Inflation there has nevertheless been spectacular in previous years. Finally an oasis of calm? It would be rash to say. Although Rue Saint-Honoré has not set any new records, it is not exempt from the inflationary phenomenon, which is spreading along the street. Long restricted to its western end, closest to Faubourg Saint-Honoré, inflation is now moving westward, beyond the junction with Rue de Castiglione.

The Marais, meanwhile, is registering between €6,000 and €6,500, an increase of nearly 30% on the highest values. These are not the rule in the district though, of course. The increases are also becoming more widespread here, however, along with fashionable retailers and luxury fashion brands. The transaction machine is in motion and is fuelling the surge in rents.

That is the rule everywhere. The only areas of Paris that remain immune from the inflationary phenomenon are those not benefiting from intense transactional activity – due to a lack of demand or else a lack of opportunities for newcomers.

Prime rental values in Zone A
(in € excl. taxes and charges/sq m/year)

Source: Knight Frank

Shopping street or area	Arrondissement	Rent			
		2015	2014	2013	Change 2015/2014
Avenue des Champs-Élysées	8th	22,000	21,000	21,000	↗
Rue du Faubourg Saint-Honoré	8th	18,000	12,000	10,000	↑
Avenue Montaigne	8th	15,000	12,000	10,000	↑
Rue Saint-Honoré	1st	12,500	11,300	10,000	↗
Boulevard Haussmann	8th and 9th	9,000	9,000	5,500	→
Sèvres / Saint-Germain des Près	6th and 7th	7,500	7,000	7,000	↗
Marais	4th	6,500	5,000	4,500	↑
Capucines / Madeleine	1st, 2nd, 8th and 9th	5,000	5,000	5,000	→
Avenue Victor Hugo	16th	2,300	2,300	1,800	→
Rue Étienne Marcel	1st and 2nd	1,500	1,700	1,700	↘
Avenue de France	13th	800	600	600	↗

OUTLOOK

Consumption, investment and exports – those are the key features of the environment around Paris' big top. If they were trapeze artists, they would no doubt be left out of the final parade.

They may well have been responsible for some of the greatest feats, up in the heavens, of a well-known show called Growth. But that was before. Before the double dip we all remember, in 2007 and 2008. Since then, they have made a return to the high-wire and the swings. But their performance is not quite good enough yet. They are learning, improving. Perhaps they will be ready to step out from the wings in 2016? It just so happens that household spending, the most important factor for retail, also happens to appear the most vigorous. Long live spending! There is therefore hope, although there is no reason to explore new directions in the meantime.

ECONOMIC CLIMATE AND SPENDING

Higher, faster, stronger!

1.1% is better than 0.2%. The French economy recorded a significant improvement in 2015 compared with 2014. That was more than was anticipated at the start of the year (+0.9% on average) and is even the best result seen since 2011. It will not make 2015 a vintage year, however. We want more!

Yes, we always want more. More growth, strong growth, enough to bring us out of the economic gloom. The results for the third quarter of 2015, with a 0.3% increase, are rather encouraging in this respect. The upward trend appears to have been confirmed and it may even be that the final results for 2015 are even slightly higher than currently forecast. The Banque de France, for instance, expects an increase of 1.2%, representing an upward revision compared with its previous forecasts[4].

2016 is set to continue to follow this upward trend. On average, economists are predicting an increase of 1.4%. Nothing stupendous and still below the average for the Eurozone, but France is approaching a sufficient level to mark a significant change in climate. It remains to be seen whether this change will be sufficient to overcome certain psychological hurdles among economic players, who we know play an essential role in economic scenarios.

GDP: 2015 estimates

	Government/ ECB	IMF (c)	European Commission (d)	OECD (e)	Average
France	1.0% (a)	1.2%	1.1%	1.1%	1.1%
Eurozone	1.5% (b)	1.5%	1.6%	1.5%	1.5%

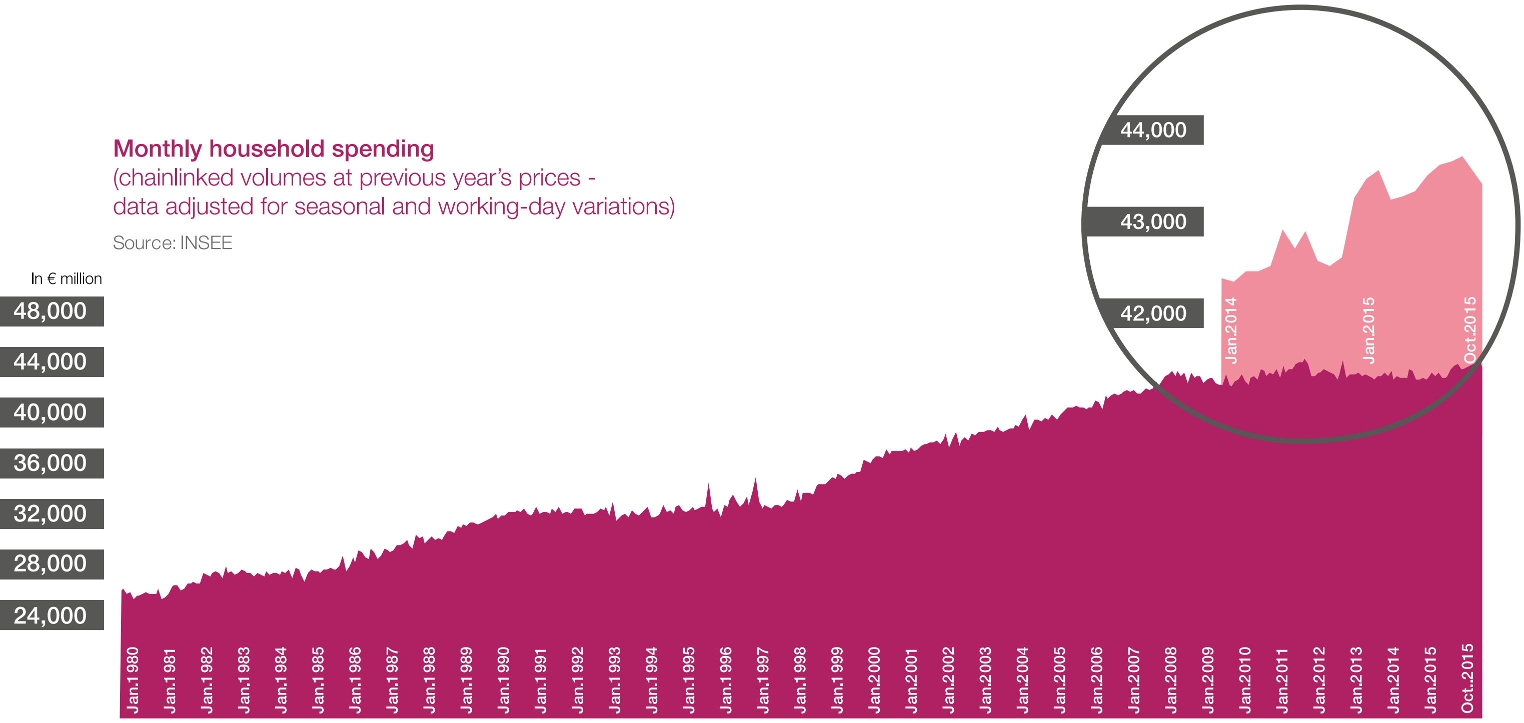
2016 estimates

	Government/ ECB	IMF (c)	European Commission (d)	OECD (e)	Average
France	1.5% (a)	1.5%	1.4%	1.3%	1.4%
Eurozone	1.7% (b)	1.6%	1.8%	1.8%	1.7%

[4] Source: Banque de France, Economic indicators, 4 December 2015

(a): French Finance Ministry, Forecasts for Draft Finance Act 2016, 30 September 2015
(b): ECB, Eurosystem macroeconomic forecasts, 3 December 2015
(c): IMF, IMF World Economic Outlook database and forecasts, October 2015
(d): European Commission, Autumn forecasts, 5 November 2015
(e): OECD, Economic Outlook, 9 November 2015

Monthly household spending
(chainlinked volumes at previous year's prices - data adjusted for seasonal and working-day variations)
Source: INSEE



Household consumption acted as a driving force for French GDP growth in 2015. Despite falling in October (-0.7%, explained by a contraction in new vehicle sales and cheaper energy), consumption of goods rose by +1.6% year-on-year. That is nothing spectacular either. France remains squeezed into the band between €40 to €42 billion of monthly expenditure, from which it has not emerged since 2007, when 10 years of constant growth in consumption was interrupted. France is nevertheless returning to the top of that range, which was only reached once, in 2011.

Is there a chance of the movement being sustainable and continuing in 2016? There are reasons to hope as much.

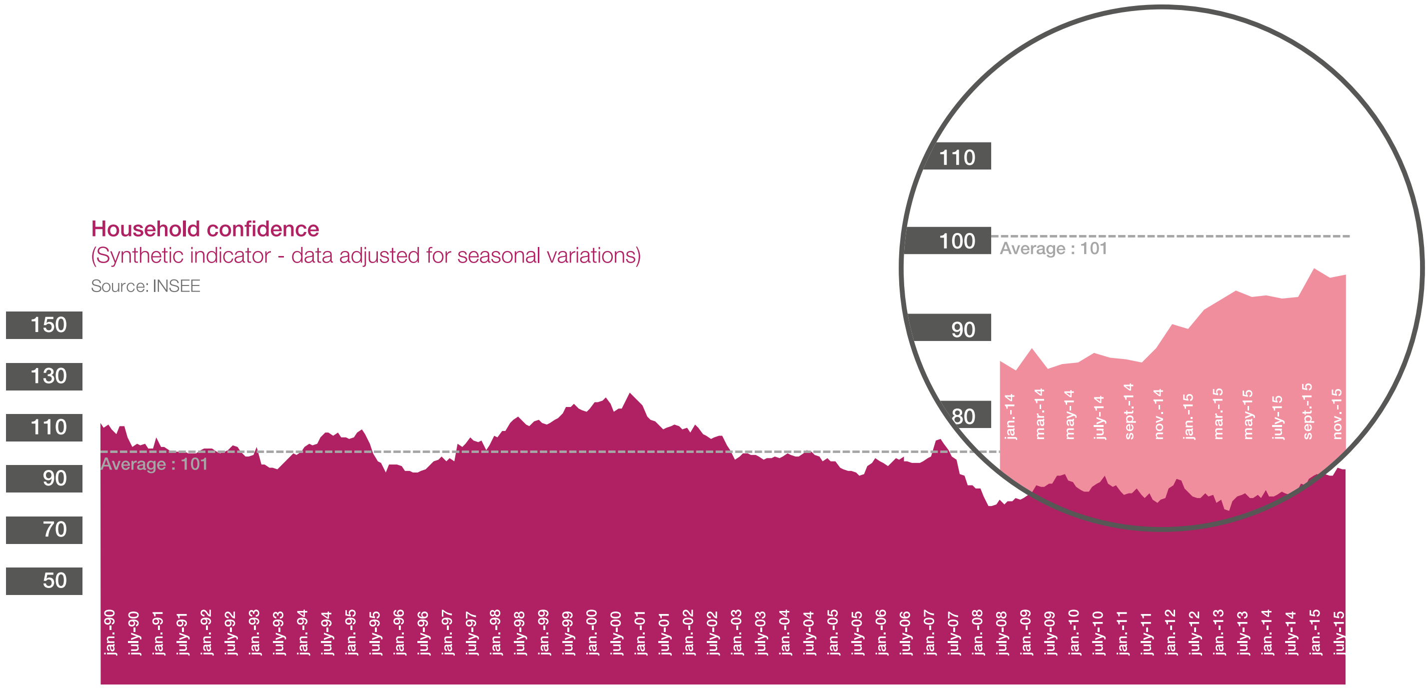
Firstly, because confidence among the French regarding their own situation has improved significantly in recent quarters. For the first time since 2007, the consumer confidence index has come close to the average level recorded since the index was created in 1972. And confidence is essential to spending, which requires the individual to have a positive outlook for the future, particularly regarding long-term income prospects. Therefore nothing can beat an improvement in the employment situation. If forecasts of even a slight fall in unemployment are confirmed, this would be excellent news for spending.

> "THE OUTLOOK FOR 2016 IS FAVOURABLE IN TERMS OF HOUSEHOLD SPENDING. BUT THE BEST LOCATIONS WILL BENEFIT THE MOST."

Secondly, because the French have something in reserve. The household savings rate was 15.2% in mid-2015. That is slightly below the 15.9% recorded in the previous year, but remains far higher than the savings rate seen in neighbouring countries: 11% in Italy, less than 10% in Spain and 5% in the UK. France is therefore unusual in this respect. It is unusual but also damaging to spending. Having money saved offers security, but it is also money which does not enter retail flows.

If the confidence and enthusiasm of the French could only be restored, then spending could become a favoured option. One unknown factor needs to be addressed to achieve this, however: an individual's income is broken down into a permanent part (salary, pension, etc.) and a more fragile or temporary part (allowances, remuneration from a short-term contract, etc.). On a like-for-like basis, households do not spend permanent income and temporary income in equal proportions. That will

Household confidence
(Synthetic indicator - data adjusted for seasonal variations)
Source: INSEE



be a factor to monitor over the coming months, as the crisis could have a long-term impact on anticipations of permanent income, with a knock-on effect on spending's contribution to renewed growth.

Questions therefore remain in relation to changes in spending, although there are many reasons to look ahead to 2016 with confidence.

The coming months are likely to be favourable to retail turnover, no doubt with a fairly significant advantage for prime locations, which benefit from both large tourist flows and a better-off domestic clientele. Since this is where the margins lie at a national level: household savings are very high in France, but also unevenly distributed. Unfortunately, we need to be a little more patient for all types of retail and all locations to benefit from these favourable prospects.

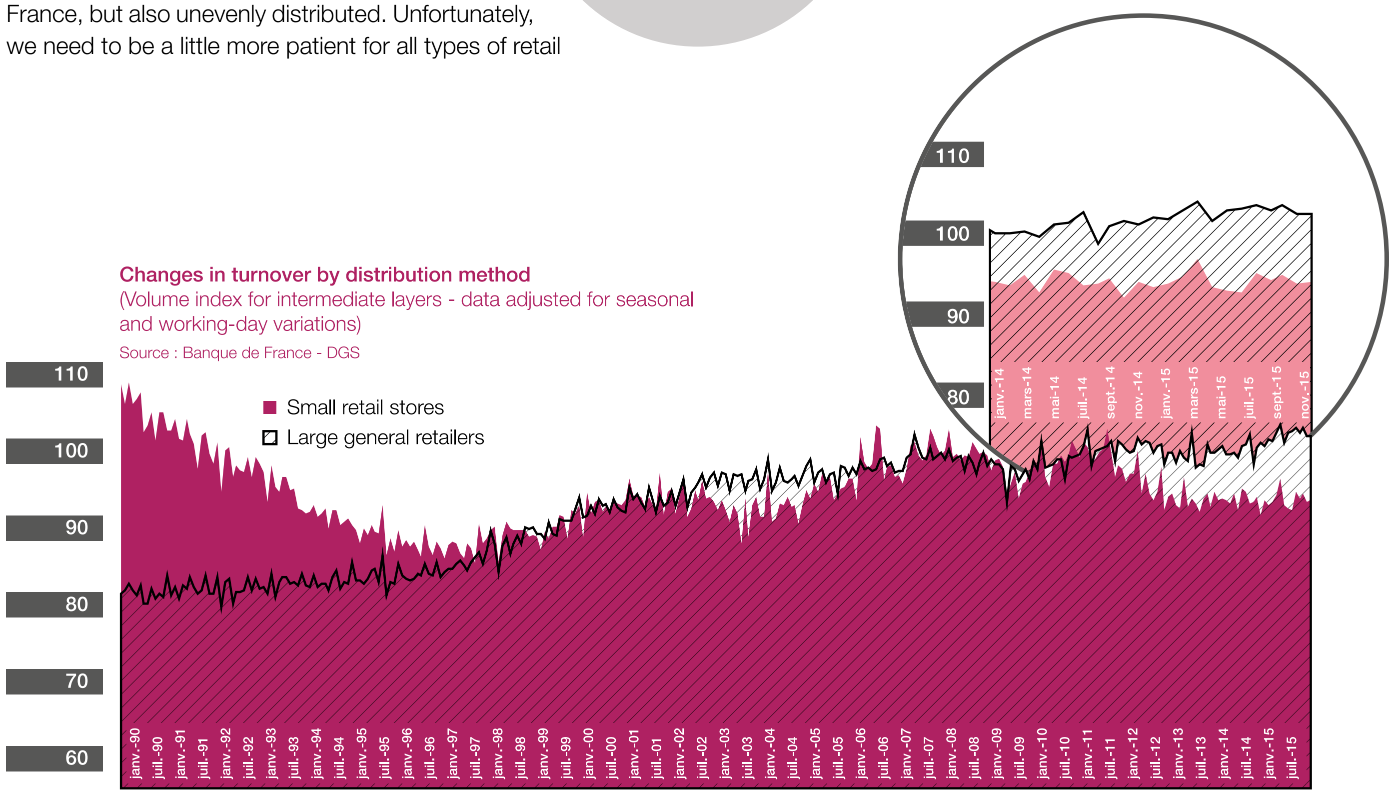
"MAJOR DISPARITIES IN RENT AHEAD IN 2016!"

This situation should logically lead to a change in rents, due to new upward pressures on the busiest shopping areas, one the one hand, and a widening gap between locations on the other. Basically, trends in 2016 will be similar to those of the previous year.

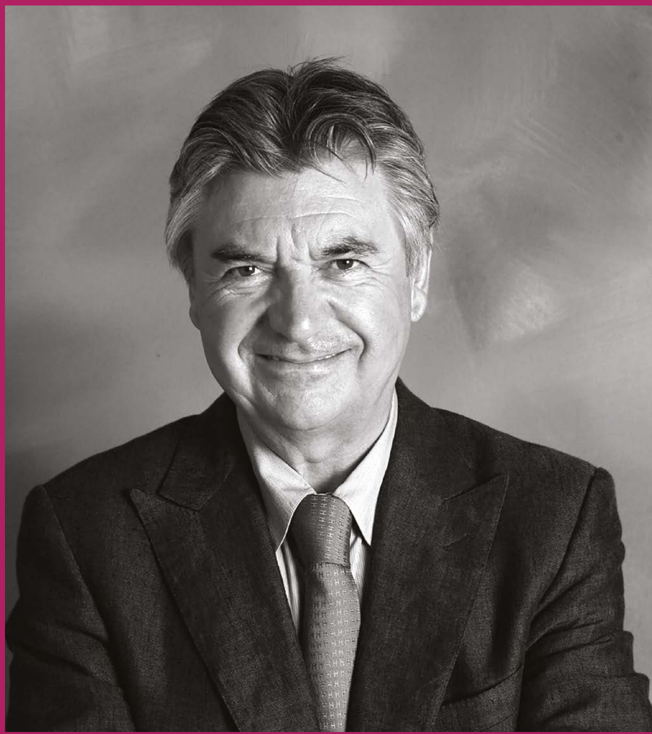
A wide gap guaranteed… Luckily, trapeze artists are flexible!

[3] Banque de France, Economic indicators, 4 December 2015

Changes in turnover by distribution method
(Volume index for intermediate layers - data adjusted for seasonal and working-day variations)
Source : Banque de France - DGS



QUESTIONS FOR



PIERRE DUBAIL

Président
DUBAIL

"THE LUXURY INDUSTRY CAN BE CONFIDENT IN THE FUTURE, WITH THE ARRIVAL OF NEW CLIENTS FROM ALL OVER ASIA AND THE REST OF THE WORLD.

Knight Frank: Already well established in Place Vendôme, you are now setting up on the Champs-Élysées. Why have you chosen this location in particular? Are you looking to attract alternative clients who do not frequent Place Vendôme?

Pierre Dubail: The Champs-Élysées was lacking a real luxury jeweller close to the Golden Triangle. Our decision to set up shop there is a carefully considered family decision.

Our Dubail luxury watch-making and jewellery store opened at the end of November 2015. The major watch brands have followed us, fifteen in all: Rolex, Cartier, Bulgari, Chopard, Franck Muller, I.W.C., Jaeger-Lecoultre, Lange & Söhne, Montblanc, Panerai, Piaget, Richard Mille, Roger Dubuis, Tudor and Vacheron Constantin.

This very luxurious store is also a shop window for national and international clients.

By setting up on the Champs-Élysées in this tourist area with the presence of luxury stores, we want to reach out to new clients who might not venture into Place Vendôme. For millions of new buyers, Paris is the Champs-Élysées.

KF: Does a store on the Champs-Élysées require a different design and positioning?

P. Dubail: The watch brands we display in this store have all asked to be marketed in their own space with their specificities.

At the front, we present revolving windows specially designed for the Champs-Élysées.

We have deliberately chosen luxury watch brands with high price-tags. We will also display our limited series here.

This is the ideal place to showcase all the latest watches and our jewellery creations.

KF: With over 500 square metres, this new address gives you a lot of space. It is a trend that seems to be emerging in Paris for luxury watch-making and jewellery stores. Why do you think that is?

P. Dubail: In the luxury sector, products are presented and clients are received under the best conditions. We wanted two major brands, Rolex and Cartier, to be represented on the ground floor and first floor with a corner display and exhibition.

The other brands also have a fit-out tailored to their image with an attractive sales area.

The Dubail jewellery is presented in seven windows on the first floor. The basement floor is reserved for the Rolex after-sales service.

The trend for brands is to open large stores worldwide that rival each other.

KF: Driven by the emergence of new middle-classes worldwide, the luxury sector has enjoyed fantastic success for more than a decade now. What is the outlook for this industry that is so vital to the French economy?

P. Dubail: France is the leading tourist destination. People all over the world are fascinated by Paris.

The luxury industry can be confident in the future, with the arrival of new clients from all over Asia and the rest of the world.

The luxury industry will continue to thrive by offering these new middle-classes more innovations, quality, originality, rarity and products adapted to their needs.

Our family company is a partner of major watch brands and of our jewellery brand Dubail. We are confident in our new venture at this location, which foreigners say is the most beautiful avenue in the world.

KNIGHT FRANK

Knight Frank is an international consultant in real estate decisions.

In France, the company operates in the corporate real estate market, mainly comprising offices, retail premises and industrial or logistics buildings.

Knight Frank France serves two separate groups of clients: owner investors and tenant companies.

Knight Frank France was founded over 40 years ago and is organised into six business lines: Offices, Retail, Capital Markets, Property Management, Knight Frank Valuation and L'Atelier Knight Frank (a spatial design consultancy).

The Knight Frank France team includes 80 professionals working from Paris. Historically specialising in the real estate market in the centre of the capital, the company has gradually widened its field of expertise and is now a recognised consultant in areas including La Défense and the Western Suburbs of Paris. The Capital Markets department, along with the independent subsidiary Knight Frank Valuation, also support their clients throughout France.

Knight Frank France is the French branch of Knight Frank LLP, a British company founded nearly 120 years ago and now operating in 58 countries. It offers its clients the skills of its 13,610 professionals, working from 417 offices worldwide.

A global platform and an independent partnership, specialising in tertiary and residential real estate and employing professionals dedicated to their clients, Knight Frank enjoys a unique position in the world of real estate consultancy.

Drawing on the constant support of its clients and its recognised integrity, Knight Frank is increasingly establishing itself as the consultant of choice.

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