

France
Q3 2019

French investment market overview








Key investment figures for France









> Investment volume Q1-Q3 2019

€21,815 billion +23% year on year

> Asset type

Offices		€16,087m
Retail		€3,245m
Warehouses		€1,734m
Industrial		€729m
Mixed (off, resi, ret)		€20m

> Purchaser nationality

France	64%	
South Korea	9%	
Global	7%	
United States	5%	
Great Britain	5%	
Germany	5%	
Other European countries	4%	
Middle East	1%	

> Transactions €20 - €50 million

112 vs. 88



> Transactions >€50 million

94 vs. 91



> Prime yield

2.75 - 3.25%



Paris CBD

3.70 - 4.30%



Lyon
Business
District

Key points

The French investment market was particularly active over the first 3 quarters of the year with €21.8 billion in investments; this represents a record for this period and a 23% year-on-year increase.

These results are largely due to activity in the over €100 million segment where €12.9 billion was recorded over the last 9 months, representing a 37% year-on-year increase and a 59% market share.

With €16.1 billion in investments (+25% year on year), office assets remained firmly in the majority (74% of the investment volume).

Foreign investors accounted for 36% of investments over the 9-month period with a considerable increase in activity by South Korean investors who have accounted for 9% of activity so far this year.

Office yields remained low in the Greater Paris Region (2.75% in the Paris CBD) and in Lyon (3.70%).

Economic climate

Economic climate - uncertainty persists

Global economy

The clouds are continuing to gather over the global economy with an escalation in the trade war between Europe and the United States; in response to Europe granting subsidies to AIRBUS, the World Trade Organisation (WTO) authorised the United States on 2 October to apply \$7.5 billion in import taxes on European imports. Next January, the WTO is due to issue its verdict against the United States on the same issue and Europe could impose up to \$10 billion in tariffs on American goods. This escalation will inevitably have an impact on global retail which has already started to slow.

Economic growth may have been higher than expected in some developed countries over H1 due to sustained domestic demand (particularly in the United States, Japan and Canada) but GDP rose more slowly than expected in most emerging economies in Asia and Latin America, while growth in India fell for the 5th quarter in a row.

Meanwhile, the United Kingdom is suffering from the effects of Brexit with a reduction in GDP (-0.5% over Q2) for the first time since 2012.

Growth in key countries

	Q2 2019
Developed countries	
<i>United States</i>	0,5
<i>United Kingdom</i>	-0,2
<i>Japan</i>	0,3
<i>Canada</i>	0,9
Emerging countries	
<i>China</i>	1,6
<i>India</i>	1
<i>Brasil</i>	0,4

Source: OCDE, Oxford Economics, National institutes

Eurozone

Growth also slowed in the Eurozone with just a 0.2% increase in GDP over Q2 compared with 0.4% over Q1. This decrease was primarily due to a slowdown in trade.

Germany, which is highly reliant on industrial output and exports, was particularly affected - German GDP fell by 0.1% over Q2 leading to fears of a recession this year.

Despite the difficult economic climate, unemployment continued to fall, reaching 7.4% in August. However, there are some marked disparities between countries with very low unemployment, such as Germany (3.1%) or the Netherlands (3.5%), and Greece (17%) or Spain (13.8%) where rates are highest.

After rising to 1.7% in inflation started falling again to 1.3% in June followed by 1.0% in July and August.

One positive point in the BREXIT process is that the British Prime Minister has just put forward an alternative suggestion for the backstop which could re-open discussions and lead to a deal.

Growth in key countries

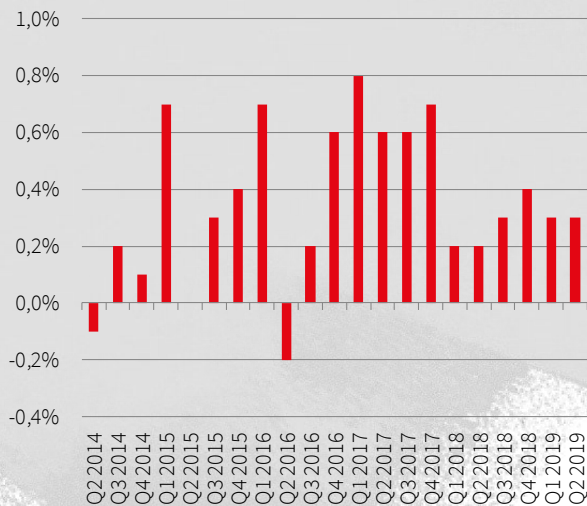
	Q2 2019
Eurozone	0,2
<i>Germany</i>	-0,1
<i>France</i>	0,3
<i>Italy</i>	0
<i>Spain</i>	0,5

Source: OCDE, Oxford Economics, National institutes

France

With 0.3% growth (a similar level to Q1), the French economy proved to be relatively resilient over Q2.

GDP in France (QoQ change)



Source: Insee

This sustained activity was mainly due to robust domestic demand. Tax reductions and the emergency measures announced by the government following the yellow-jacket movement have had a positive impact on household purchasing power which has also benefited from improvements in the job market with increases in salaries and household income. Consumption also rose by 0.2% over Q2 2019 following a 0.4% increase at the start of the year. There was also a marked improvement in householder confidence which, after falling to 87 in December 2018, has been rising. At 102 in August, levels have returned to above the long-term average.

The unemployment rate has continued to fall and stood at 8.5% in Q2; this is the lowest level for 10 years.

Inflation remains at around 1%.

Financial climate

Given the current economic climate, central banks have announced new monetary economic support measures, while a growing number of economists have called the effectiveness of such measures into question, particularly in terms of interest rates. The Fed, which introduced its first interest rate reduction in 11 years at the end of July, announced a further decrease in mid-September to between 1.75% and 2.00%. The Fed has also decided to stop its quantitative tightening and treasury-bond shedding programme 2 months earlier than planned.

At the Governing Council on 12 September, the ECB announced a series of measures:

- a 10-point reduction in the deposit facility rate (from -0.4% to -0.5%),
 - an increase in net asset purchases at the rate of €20 billion per month from 1 November and for as long as required,
 - more flexible terms for granting long-term loans (TLTRO) issued by the ECB to retail banks,
 - introduction of a 2-tier system for reserve remuneration in order to limit the impact of negative rates on bank returns.
- The ECB also stated that “interest rates should remain at their present or lower levels until the inflation outlook robustly converges to a level sufficiently close to, but below, 2% within its projection horizon.”

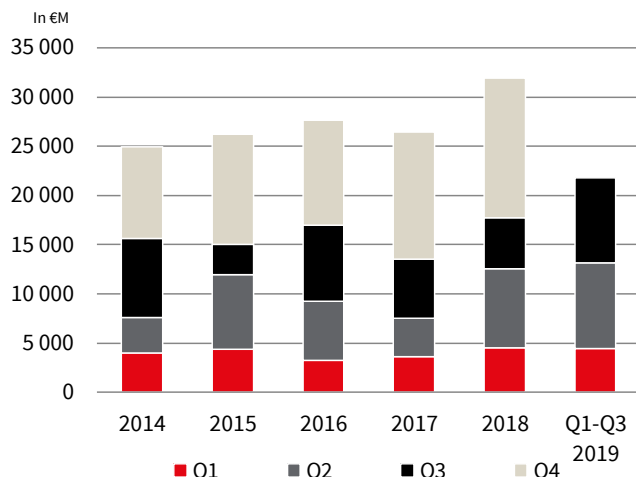
The French investment market

Record level of activity in the French market

Mega deals

The French investment market was particularly active over the first 3 quarters of 2019 with a total of €21.8 billion in investments, setting a new record for the period. This performance represents a 23% year-on-year increase and is 28% higher than the 5-year average and 62% higher than the 10-year average.

Invested volumes in France by quarter



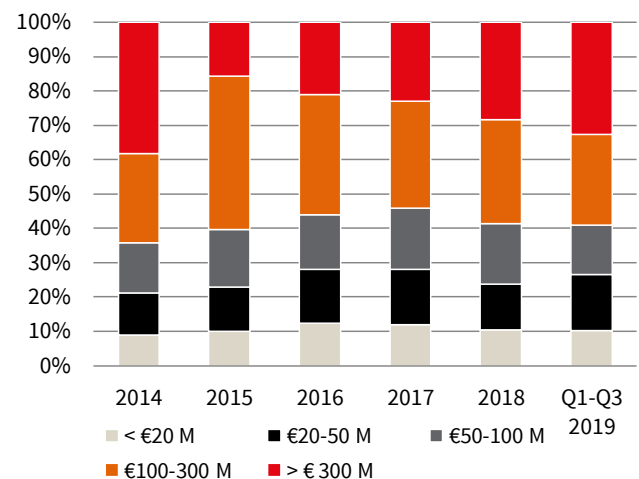
Source: JLL/ImmoStat/CECIM

These results were largely due to activity in the over €100 million segment where €12.9 billion was recorded over the last 9 months, representing a 37% year-on-year increase. This was driven by 48 transactions which accounted for 59% of the investment market. Notable transactions over Q3 2019 include MIRAE ASSET DAEWOO and AMUNDI IMMOBILIER's acquisition of the "Majunga" office tower from UNIBAIL RODAMCO for €910 million, LA FRANÇAISE and SAMSUNG SECURITIES' acquisition of "Crystal Park" from ICADE for €739 million and APICIL's acquisition of 46,000 sq m in "To Lyon" which is due to be completed in Lyon by 2022. The largest retail investment was carried out by

APOLLO GLOBAL MANAGEMENT with a portfolio of Casino and Monoprix shopping centres for €470 million.

In other market segments, there may have been slight year-on-year decreases for small transactions (<€20 million) and the €50 to €100 million segment (both by number and volume), but the €20 to €50 million segment and the over €300 million segment were particularly active and posted record volumes (both by number and by volume) with €3.6 billion in investments over 112 transactions and €7.1 billion over 10 transactions respectively.

Invested volume in France by amount segment



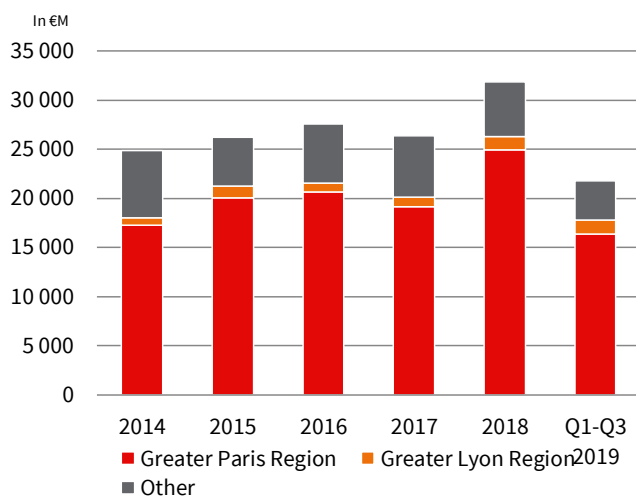
Source: JLL/ImmoStat/CECIM

A record level of 565 transactions have been recorded in the Greater Paris Region investment market since the beginning of the year.

Record performance in the Greater Paris Region

The year-to-date investment volume in the Greater Paris Region market stands at €16.4 billion; this is the highest level on record for this period for the last 10 years. This represents a 25% year-on-year increase and is 62% higher than the 10-year average.

Invested volumes in France by location



Exceptionally strong activity was also seen in the Lyon market with a record of over €1 billion invested over Q3 2019, taking the year-to-date investment volume to €1.4 billion. This performance represents a 123% year-on-year increase and is 150% higher than the 10-year average.

In other markets, activity in Lille was strong with €318 million in investments so far this year; this was particularly due to VINCI IMMOBILIER's acquisition of the administrative district's "Metropolitan Square" from METROPOLE EUROPEENNE DE LILLE (MEL) for €95 million over Q1, as well as CAISSE FEDERALE DU CREDIT MUTUEL NORD EUROPE's acquisition of 16,000 sq m under construction at "Wenov" from VINCI IMMOBILIER for €50 million in Q3. The Bordeaux market was next in line with €247 million in investments; this was particularly due to the forward-funded acquisition of "Quai des Caps" by KEYS AM from PITCH PROMOTION

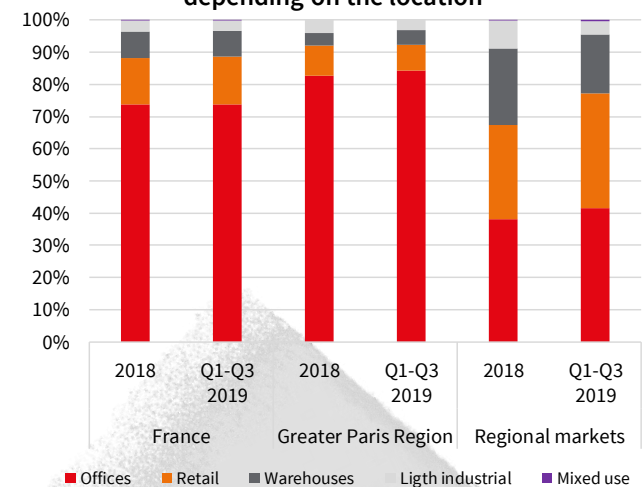
and FAYAT IMMOBILIER. The Toulouse market followed with €195 million in investments.

Offices still reign supreme

With €16.1 billion in investments (+25% year on year), office assets remained firmly in the majority (74% of the national investment volume).

In terms of other assets, retail activity gained pace over Q3 with a year-to-date investment volume of €3.2 billion, representing a 36% year-on-year increase which is also 36% higher than the 10-year average. Warehouse activity remained stable at a high level of €1.7 billion since the beginning of the year. The same was seen for mixed-use buildings with €20 million in investments while a 10% reduction was seen for industrial premises with €729 in investments so far this year.

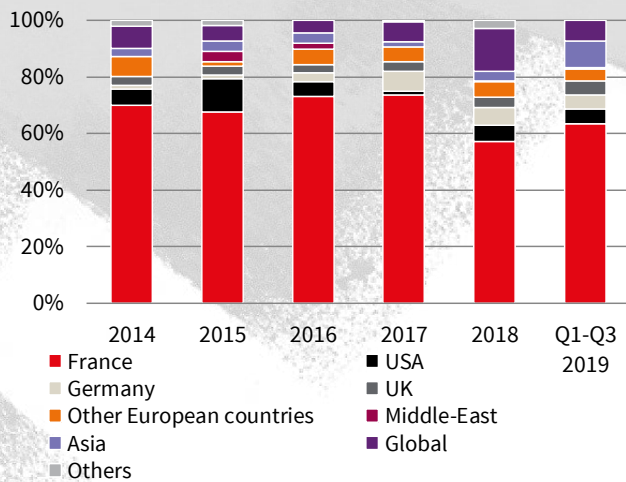
Breakdown of investments by asset type depending on the location



South Korean investors still active

Foreign investors were just as active as in 2018 and have accounted for 36% of investments since the beginning of the year. The striking feature of Q3 was the surge in activity from South Korean investors whose market share of investments in France has risen to 9% since the beginning of the year, with a total of €1.7 billion in investments. Having abandoned London due to the uncertainty surrounding Brexit, these investors are making the most of the current climate, low rates and an advantageous exchange rate to acquire major assets located in Paris and the Inner Suburbs.

Invested volumes in France by buyer nationality



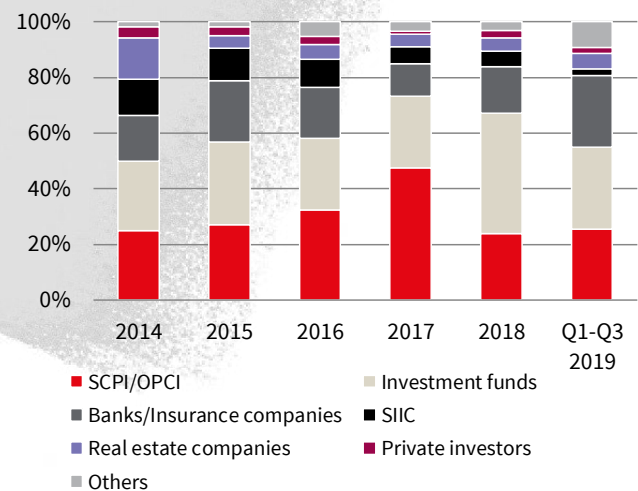
Source: JLL

Traditional players in the French market remained active with almost €1.4 billion from international investment funds (7%) and €1 billion from American investors (5%), €953 million from German investors (5%) and €940 million from UK investors (5%).

Market driven by fund and SIIC disposals

Investment funds remain in the lead with almost €5.6 billion in investments or 25% of activity. Next in line were institutional investors and SCPI/OPCI with €5 and €4.9 billion in investments respectively, representing a 23% market share each.

Invested volumes in France by buyer type



Source: JLL

In terms of disposals, investment funds and SIIC were the most active accounting for a quarter of disposals each. These transactions were mainly for office assets in the Greater Paris Region which allowed for value creation as well as a handful of asset or portfolio transactions in regional markets.

Further yield compression for logistics

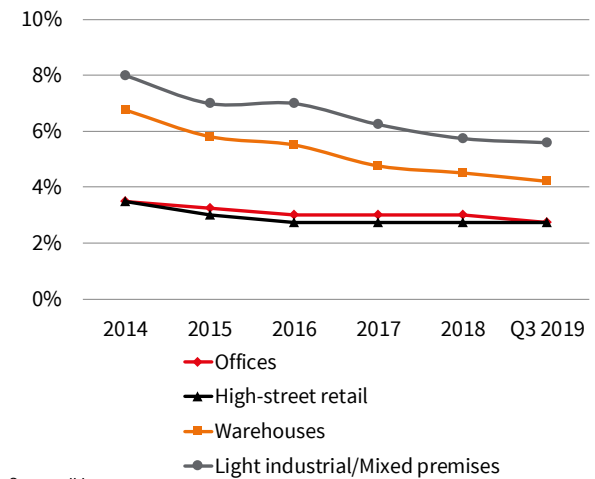
Following further compression over Q2 2019, prime office yields remained stable over the last 3 months across all submarkets in the Greater Paris Region. With the OAT risk-free rate at -0.27%, prime office real estate in the Paris CBD offers a particularly high-risk premium (302 basis points).

The yield correction seen over recent months, particularly shopping centres, has had a positive impact on the market by allowing for greater liquidity resulting in a record volume of investment by the end of September. The prime yield for high street retail ranges from 2.75% to 3.25%, with the lower end being increasingly achievable if investors can see rental reversion opportunities over the short term. Finally, retail park yields remained stable at 5.00% - 5.50%. However, some prime transactions were carried out at more aggressive yields, such as “14^{ème} Avenue”, located at Patte d’Oie d’Herblay.

The prime yield for industrial premises stood at 5.60%.

However, further compression was seen for logistics for which the prime yield now stands at 4.20%.

Prime yields



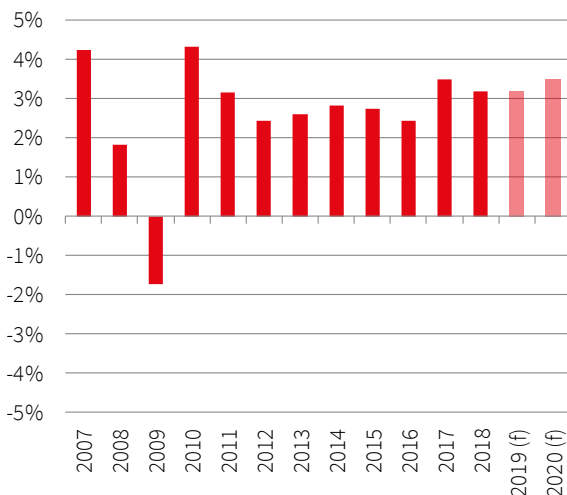
Outlook

Growth forecasts revised down again

Economy

Given the trade tensions and the various uncertainties currently seen in the market, **economists have once again revised down global growth forecasts.**

Global growth

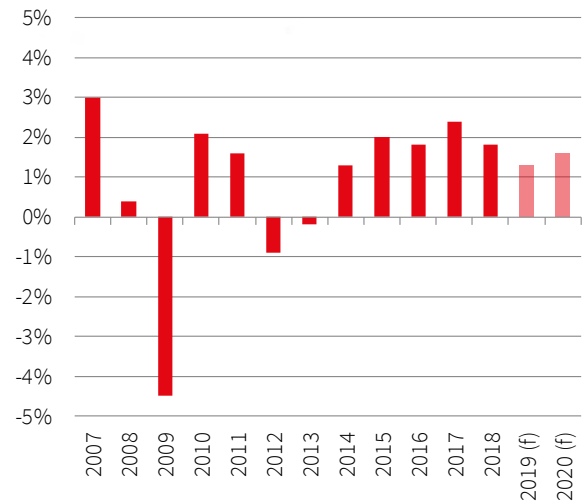


Source: IMF

Last quarter, the **IMF** had forecast global growth to stand at 3.3% in 2019, but has **recently revised down its projections.** GDP growth should therefore stand at **3.2% for 2019 and 3.5% for 2020.** The **OECD** is less optimistic with forecasts of 2.9% and 3.0% respectively or -0.3 and -0.4 points compared with last quarter.

Forecasts for the Eurozone range from 1.1% according to the latest Consensus Forecasts and 1.3% according to the IMF, while **growth should range from 1.1% to 1.6% in 2020.** Germany, for which growth expectations have been sharply cut by the OECD, should see just a 0.5% increase in GDP in 2019, followed by 0.6% in 2020.

Growth in the Eurozone

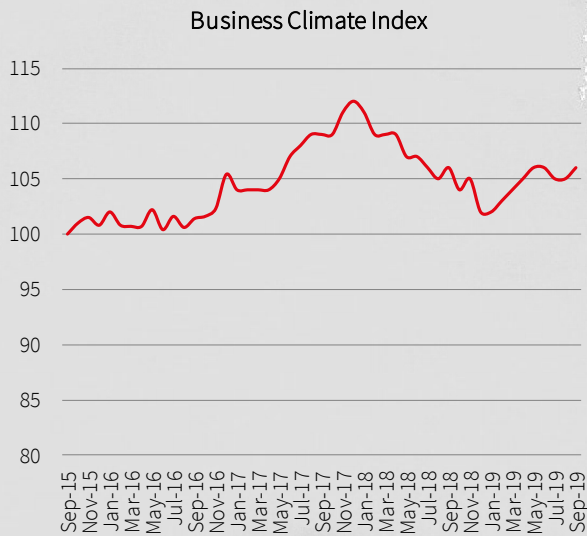


Source: Banque mondiale, IMF

Despite this more challenging international climate, **forecasts for France have remained unchanged at 1.3% for 2019 and from 1.2% and 1.4% for 2020.** France should outperform its European neighbours due to strong domestic demand and a dynamic employment market. **The unemployment rate should continue to fall throughout 2020 and 2021 to below 8%.**

This is due to positive figures seen in the **business climate** (106 points in September) and the **PMI Markit index** which, despite a decrease in September (50.8), remains above the expansion threshold.

However, these forecasts are subject to variations on an international level as well as to the effects of possible social demonstrations as a result of pension reform. Despite this risk, the IMF is encouraging countries to continue to implement reforms in order to secure future growth.



Source: Insee

Investment market

Despite decline in the economic climate, the French investment market's attractiveness remained intact over Q3 2019.

Finance conditions are still favourable and there is still a substantial volume of capital to be invested in France, particularly following a record level of fundraising for SCPI over H1 2019 (€4.3 billion) combined with continued foreign investor activity.

Given this climate, we expect the investment volume to at least match figures from 2018 of €24 billion in the Greater Paris Region and €8 billion outside of the Greater Paris Region.

Prime office yields reached a new low point over Q2. Given the recent announcements from the ECB, levels should remain relatively stable over the short and medium term in the Greater Paris Region, with further compression in regional markets.

For retail, yields are unlikely to change over the coming quarters. However, given the strong appetite for **logistics assets**, yields for could see further compression over the coming months and draw closer to the symbolic 4.00% level.

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