Knight Frank

PARIS VISION

Investment

Be-bop Tempo

♫ 2018 ♫

EDITO

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Dear friends,

I am pleased to present *Paris Vision 2018*.

This is a very special edition since we are celebrating the 10th anniversary of the publication, which was first produced in 2008 in a quite different market environment – in fact, almost another era.

The original aim was simple: to produce a different kind of study, a vibrant report that reflected the real experiences of the Knight Frank teams, as well as of our clients, who each year have been keen to share their vision with us and to tell us more about their strategy. I would like to sincerely thank them all.

The second aim of *Paris Vision* was to provide a forward-looking analysis over the long term. This has not always been easy in the last decade, particularly as the global economy faltered in the wake of the 2008 financial crisis, followed by the Eurozone crisis. At that time, uncertainty and a lack of visibility were at their peak, yet what stands out above all is the resilience and depth of the Paris region market.

Ten years on, in a new era, *Paris Vision 2018* describes a corporate real-estate market boasting excellent results and exceptional strength.

In 2017 the investment market recorded its second-best year ever. This performance was boosted by the proliferation of large transactions, the domination of French investors and record property investment inflows. The Chairman of Swiss Life REIM (France) and ASPIM[1], Frédéric Bôl, one of the key commentators in *Paris Vision* 2018, gives us some clues to understanding the coming months.

As the digital economy grows, stores have an important role to play in web business models. The retail market is benefiting from a sharp upturn in consumer confidence, the return of tourists and the arrival in France of new foreign retailers. One of the most dynamic of these is Five Guys, operating in the very buoyant restaurant sector. In this issue, its Development Director, Philippe Cebral, sets out the real-estate strategy adopted by the new king of burgers and its ambitions for the coming years.

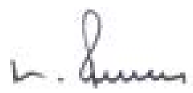
The office rental market in the Paris region is also buoyant, with take-up at its highest level since 2007 and particularly intense activity in the large-transactions segment. The acceleration in economic activity has no doubt played a role. French growth is now in line with the European average, the business world has regained confidence and Paris has been chosen to host the Olympic Games in 2024 against the backdrop of completion of the Grand Paris Express. This “French moment” is examined by Daniel Cohen in greater depth at the start of this new issue of *Paris Vision*.

Finally, never has corporate real estate experienced such transformation, as investors, developers and occupiers constantly innovate to create working spaces tailored to new habits. The development of Spaces is an excellent illustration of this and, in a third section of the report, Paulo Dias, the CEO of Southern Europe, Africa and Brazil at Regus, sets out the vision of this pioneer in coworking spaces.

We are without doubt seeing a French moment and certainly a new era – which looks set to be an exciting one for corporate real estate.

I would like to take the opportunity of this 10th anniversary to thank you for your confidence and loyalty, in the hope that *Paris Vision 2018* will help you to make your plans a reality, this year and beyond.

I hope you enjoy reading this issue.



[1] Association des Sociétés de Placement Immobilier (French Association of Real Estate Investment Companies).

OPINION

DANIEL COHEN

Professor and Director of the Economics Department of École normale supérieure de Paris
Founding member of the École d'Économie de Paris
Director of CEPREMAP (Centre pour la recherche Économique et des Applications).

Philippe Perello: Dear Daniel, you've worked with us for 10 great years on Paris Vision, enlightening us on the general economic climate. Last year, for the first time, your analyses of the French economy were cautiously optimistic. I imagine that this optimism is now confirmed, with the pace of the French economy now aligned with that of the other OECD countries?

Daniel Cohen: Confidence is certainly high and we can now say that the decade lost as a result of the financial crisis is coming to an end. All indicators are good, and in all countries, which is rare. The OECD is forecasting global growth of 4%, growth in global trade of 5% and Eurozone growth of almost 2%. The latest indicators from Insee show that France is also predicted to comfortably achieve growth of around 2%, for 2018. Investment by companies and households is robust and employment and salaries are picking up. There may be a slight slowdown in the growth of consumer purchasing power in France in the first half of the year, due in part to the short-term increase in inflation and partly as a result of taxation, but this shouldn't have a long-term impact. I am therefore optimistic for 2018, as are most observers.

THE DECISION TO AWARD THE 2024 OLYMPIC GAMES TO PARIS ALSO REFLECTS FRANCE'S ASCENDANCE TO THE INTERNATIONAL STAGE

PP: Without wishing to give way to excessive optimism, aren't we experiencing a "French moment", as our country gains special influence and appeal due to the current geopolitical context? The organisation of the Olympic Games in 2024 is part of this movement. Do you expect a significant impact from the Games on investment in the city or its appeal?

DC: France is undoubtedly finding its feet on the international stage. After an annus horribilis in 2016, during which Brexit and Trump's election appeared to indicate an unstoppable rise in populism around the world, the election of Macron, on an explicitly pro-European ticket, elicited surprise. Many factors obviously came together to make his election possible, particularly the collapse of the traditional parties, but he successfully seized the opportunity, and there have also been comments showing admiration for his personal achievements in the international press. Macron may embody the new face of a more ambitious Europe, although at the end of the day, everything will depend on the quality of the Franco-German relationship. The good news is that Germany's grand coalition, if confirmed, gives him a fantastic opportunity to advance his European agenda.

The decision to award the 2024 Olympic Games to Paris also reflects France's ascendance to the international stage... What is most interesting is that the Games will come at the same time as the expected completion of the Grand Paris projects. Paris and its suburbs may emerge totally reinvented from this dual stimulus.

PP: In your opinion, what are the main challenges our country must tackle to support vigorous and sustainable growth? Do you think that the reforms that have been implemented or announced are heading in the right direction?

DC: All developed countries have faced the same dilemma in the last 30 years – how to revive their economies' structural growth. We have entered an upswing in the cycle, which will unblock all sorts of initiatives. For French growth to be sustainable, it needs to be inclusive, which means that young people looking for their first job and a career, the long-term unemployed and those who have lost out to new technologies must benefit from this upswing to become firmly rooted in economic life. It's not just about finding a job, but about contributing to overall economic productivity, improving quality, making the best use of new technologies to include as many people as possible in the growth cycle. The government is backing radical reform of vocational training, which is indeed vital, but universities and career paths need to be completely overhauled if we want France to fully embrace the 21st century digital economy.

PP: Brexit, which has entered the second phase of negotiations, appears more as an opportunity for Europe to reinvent and strengthen itself. Do you agree? What impact do you think it will have on the French economy? We are seeing the first effects of Brexit on our corporate real-estate markets with the announcement of relocations to Paris, which appear to me to show Paris clearly becoming more appealing to large international companies, compared with other global cities. What do you think are the levers to continue along this path and take advantage of this success?

DC: Overall, I found that Europe's reaction to Brexit was weak. No momentous idea has yet emerged, apart from a promise to do better. From an institutional perspective, everyone knows what they need to do: complete the banking union, overhaul the European Stability Mechanism and, as proposed by President Macron, give the Eurozone its own budget, approved by a parliamentary vote in which only Eurozone MEPs are eligible to take part. But, if we look in greater detail, we see that everything is very complex. Will the ESM be reformed according to the German idea of, in practice, strengthening its inter-governmental dimension? Will the budget be a minor gadget or will it actually have macroeconomic importance, capable of withstanding crises as severe as the one we have just been through?

In terms of the City's role, it will obviously be reduced after Brexit. But I don't think that one city in particular will take over the leadership it held. Frankfurt is in a good position, but Paris, Dublin and even New York will also benefit, while London will also long continue to host part of the global financial activity.

PP: Since spring 2016, the Haut Conseil de Stabilité Financière (HCSF - High Council for Financial Stability) has issued several warnings about the level of prices for commercial property. From our perspective the market fundamentals remain healthy, with controlled supply and a positive trend in demand from both occupiers and investors. What is your analysis in this respect?

DC: Real estate in general, and commercial property in particular, remains very dependent on the question of future interest rate movements. For several years, as a result of the crisis and incredibly weak inflation, we have benefited from a very loose economic policy in both the United States and Europe. Mario Draghi will hand over to a new head of the ECB in 2019. If a moderate successor is appointed, like Mr Powell in the United States, I think we can avoid major disruption to asset values. One parameter I think it is vital to monitor – which could prove a fly in the ointment – is movements in the euro. Europe has immense trade surpluses and, from the point of view of the rest of the world, the euro generally appears undervalued. Avoiding excess strengthening will be one of the ECB's (implicit but important) targets post-Draghi…

BE-BOP TEMPO

INVESTMENT

The ride cymbal keeps time in bebop. An unrestrained, feverish tempo which provided jazz with denser, faster, more complex forms and rhythms. Much more than an evolution, bebop was nearly a revolution from the aesthetic commonly heard in the 40's and 50's. This new music allowed Charlie Parker, Dizzy Gillespie and Thelonious Monk to express the passion of their epoch's hopes and dreams.

Far from the music, this diabolical tempo can today be found in the investment market of the Paris region. A market that moves fast. Very fast. A market undergoing profound change, gaining in complexity, yet brimming with optimism. Listen to the ride cymbal. Bebop!

HIGHLIGHTS OF 2017

- Investment in office property amounted to €18.9 billion in Île-de-France in 2017, down 7% from 2016.
- Volume in 2017 was nonetheless at historically high levels. For the first time ever, the market exceeded the €15 billion mark for the fourth consecutive year.
- Highly focused on office properties, the market was driven by large deals.
- The year 2017 was especially good for La Défense and the western crescent. The CBD and the rest of inner Paris did not perform as well.
- With their higher yields, core-plus and value-added assets came back into favour in 2017. The share of forward speculative sales also rose significantly.
- Even more than in recent years, the Paris region attracted mainly French investors, who accounted for 72% of all investment.
- While the trend is towards more stable prime yields, top assets in markets just outside the CBD still experience occasional declines.
- French provincial markets outperformed Île-de-France in 2017.
- The outlook for 2018 is positive for the investment market, which is expected to remain very active.

Something Old, Something New

Something Old, Something New: the title of one of Dizzy Gillespie's key albums says it all. Change, even the most radical, is always made on the basis of tradition. A tradition which is transformed but never entirely disappears. That is precisely what is occurring today in the investment market.

The famous trumpeter took inspiration for this title from a tradition in Victorian England: on her wedding day, at the start of a new life, the bride wore something old and ... something new. But it doesn't end there: 'Something old, something new, something borrowed, something blue.'

#01 - AMOUNTS INVESTED

Blue Note

Something blue... In jazz there is the 'blue note', a note played with a slight drop, usually a half-tone. This blue note could be heard in the 2017 investment market, as reflected by sums invested in the Paris region.

–7%: with €18.9 billion in 2017, investment in Île-de-France declined. However, it remains 38% above the ten-year average.

–7%: That's the half-tone, a small blemish on an otherwise excellent year. It corresponds to the decline in 2017 of office property investment in Île-de-France. At €18.9 billion, the result is less than the €20.4 billion invested in 2016. The decline is real, but it is small if one takes into consideration that 2016 nearly exceeded the record-setting 2007. Ten years later this record still stands, but that doesn't change the fact that 2017 experienced one of the market's best performances ever, well above (38%) the ten-year average of €13.7 billion. A year that was definitely bebop!

The year 2017 was also the fourth consecutive year to end above €15 billion. This was a first for the Île-de-France market, since the €15 billion mark had previously been reached only twice, in 2006 and 2007. That is, the current situation is anything but banal. What we are seeing is a transformation of the scale and size of the Île-de-France market. It has increased in depth and attractiveness, and is now considered one of the five big international property markets. Paris can stand tall opposite London!

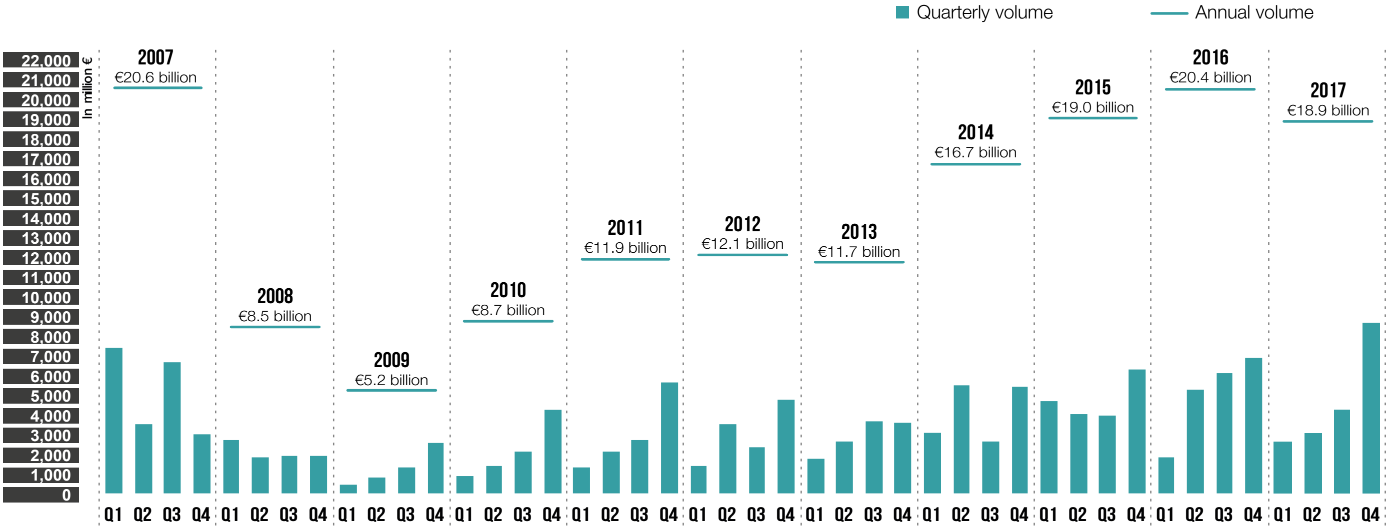
For the first time ever, 2017 was the fourth consecutive year with investment of more than €15 billion, proof that the Paris region market has taken on a new dimension.

The year 2017 will also go down in history as bebop because of the incredible crescendo in activity as the year progressed. After a disappointing start, the year ended in triumph, with investment of nearly €8.8 billion in the fourth quarter alone. A level never before seen in Île-de-France! Of course, much of that performance was due to the sale of Cœur Défense for €1.8 billion, but there's no doubt that the market has taken on a new dimension.

There was little at the beginning of the year to hint at the extraordinary performance to come, especially given the robust second half of 2016. Arbitrage decisions had been encouraged by an amendment to the France–Luxembourg tax agreement, which brought to an end, as of 1 January 2017, the tax exemption for Luxembourg-registered companies with regard to gains realized from sales of property assets in France. Numerous investors, both French and international, had enhanced their Luxembourg structures in order to trade on the French market. For arbitrages planned for the short or medium term, it became urgent to act no later than the end of 2016. This incentive created

Change in investment in Île-de-France

Source: Knight Frank



an acceleration effect and could have resulted in a depletion of prime assets – those most sought after by investors. The resulting 'hangover' partially explains the decline in the first half of 2017. This decline was compensated for by the Île-de-France market, whose performance was all the more remarkable because, contrary to 2016, it was achieved without help from the larger economy.

ACTIVITY BY TRANSACTION AMOUNT

The market found its footing by ramping up previously existing trends.

> Half of the Paris region market in 2017 was achieved through only 28 transactions.

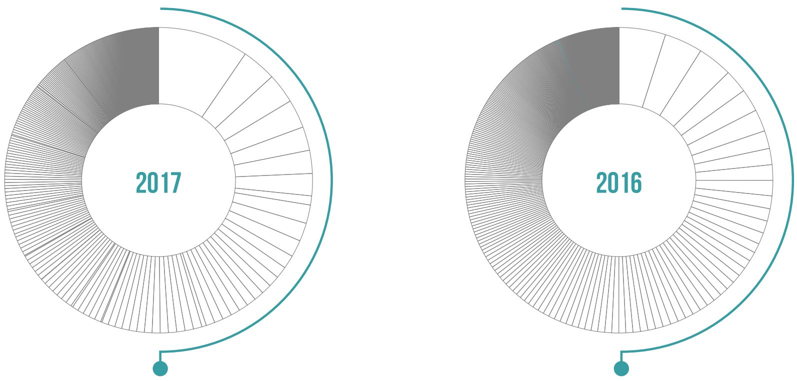
The first of these trends is the growing focus of the investment market on a handful of large and very large disposals. This was already the case, and has been steadily confirmed over the past few months. Just 28 transactions made up half the market in 2017. For the same result it took 35 transactions in 2016, and nearly 40 in 2015.

Such extreme concentration reflects a rise in sales values for numerous buildings, but also the disposals of large assets and portfolios. Previously this growth driver had been difficult to bring into play, because such assets put the buyer at greater risk. Recent performances therefore reveal investor confidence in the Paris market, as well as the significant available cash earmarked for property investment.

A good example was the sale of Cœur Défense for €1.8 billion through a club deal comprising Amundi, Primonial and Crédit Agricole Assurances. The previous year, the largest sale had been for 'only' €1 billion, for 9 place Vendôme.

Concentration of investment activity in Île-de-France

Source: Knight Frank



Half of investment volumes: 28 transactions

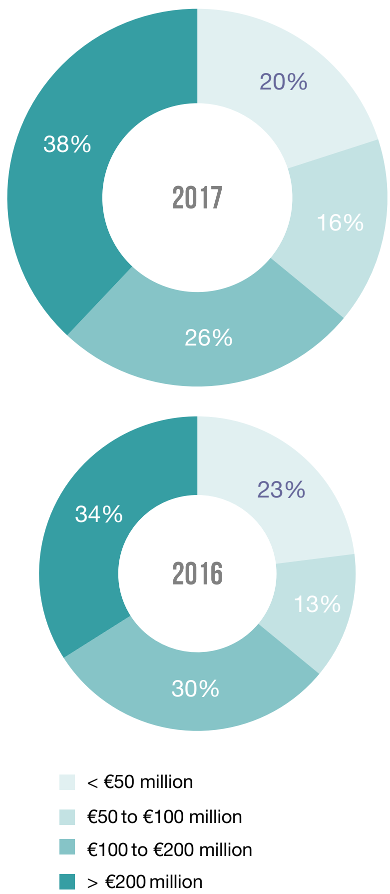
Half of investment volumes: 35 transactions

Market concentration came at a price of a slight decline in the number of transactions, which over 12 months dropped from 444 to 410. The decrease concerned mainly acquisitions of less than €50 million, but it was also felt at higher prices. Sales of assets for more than €200 million accounted for 38% of total investment in 2017 (compared with 34% in 2016). Such amounts are now more commonplace because of higher individual asset prices, and help compensate for the decline in the number of transactions.

However, this compensation is inadequate for certain categories, particularly transactions of €100–200 million, which are in decline in both volume and number.

Investment in Île-de-France, by transaction amount

Source: Knight Frank



One of the keys to the success of 2017 was the concentration of activity, which provided a floor for maintaining investment at historically high levels. This is the sign of a market that inspires confidence and attracts strong demand. However, this same concentration also exposes the market to potentially high volatility, and is therefore only a stopgap measure.

ACTIVITY BY ASSET CLASS

The investment market in Île-de-France was concentrated in another way too in 2017: offices monopolized a considerable share of the market. While the Paris market has always been dominated by office properties, this tendency was especially pronounced last year. More than €16.3 billion was invested in this asset class, or 87% of total investment in 2017. In 2016, the share was 'only' 81%.

> Office assets have long dominated the Paris region market, and in 2017 their share grew to 87% of total investment.

Not that investors lacked enthusiasm for other asset classes, but the scarcity of buying opportunities was even more severe in those other classes than in the office sector.

This was especially the case for retail deals. Despite the high purchase prices and low yields for office properties, demand remains strong in Île-de-France. As soon as well-located, high-quality assets appear on the market, investors rush to buy them.

The slowdown in retail property sales appears all the more severe, given their performance in 2016, when they contributed significantly to the Île-de-France market. The retail market was boosted last year by arbitrages of large, mixed-use assets (e.g. 9 place Vendôme, 65–67 Champs-Elysées and the Interstellar portfolio). However, this flow did not continue into 2017. Owners of retail assets held on to them, since they had no reinvestment opportunities. Although retail investment attracted nearly €2.8 billion in 2016, it generated less than €1.6 billion in 2017. This growth engine has clearly stalled, a counter-performance that largely explains the decline in the investment market in 2017. The €1.2 billion missing from retail corresponds more or less to the decline in total investment in Île-de-France.

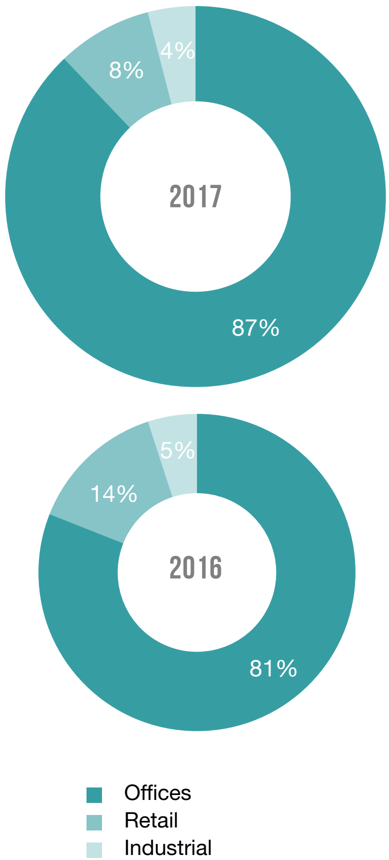
> The share of retail has fallen sharply. The €1.2 billion decline from 2016 for this asset class corresponds roughly to the decline of the Paris region market.

Aside from a few large transactions on leading high streets (Montaigne, Champs-Elysées, Faubourg Saint-Honoré), the share of retail assets in investment fell sharply over the year, from 14% to 8%.

Though historically rare in the Paris region because of issues related to cost and scarcity, industrial properties performed relatively well. Numerous sales of French and pan-European logistics portfolios, including Paris region assets, favoured this asset class.

Investment in Île-de-France, by asset class*

Source: Knight Frank



* Excluding non-divisible portfolios.

Specialization necessarily limits investor leeway, as well as the investment market's capacity for growth. Substitutions have been sought in the form of alternative assets, such as clinics, nursing homes, student housing and hotels. Interest in these asset classes is clear, even though these niche sectors have their own specific ways of functioning. Their results are not accounted for in our analysis.

> Substitutions were sought in the form of alternative assets, but these niche sectors have their own specific ways of functioning.

The trend for hotels, already highlighted in the previous Paris Vision, has been reaffirmed. This asset class stood out at the very end of 2017 with the finalization one of the largest deals in years, the sale by the Singapore sovereign-wealth fund GIC of Westin Paris Vendôme. The historic hotel (428 rooms, including 80 suites) was bought by Henderson Park for nearly €550 million.

Already owner of the largest hotel in Paris, the Méridien Etoile, Henderson Park has deep insight into the hotel sector. However, the sector isn't exclusively for specialists. It also attracts the interest of investors who have been absent hitherto. For example, Mata Capital, a real estate asset manager for private and institutional investors, has completed a large acquisition through the Simply portfolio. The acquisition comprises 45 economy hotels in Paris and the provinces, with a total of nearly 3,300 rooms. The acquisition was motivated by an opportunistic strategy of medium-term valuation, which allows for a debt ratio of more than 60%.

What is the reason for this growing interest in hotels in general, and for Paris hotels in particular? There are a bundle of favourable and diverse factors, including a healthy tourism sector, significant available capital and interest rates which have stayed low. In its press release for the Westin acquisition, Henderson Park noted: 'The Macron effect has boosted business confidence, which can be felt both inside France and internationally. The Rugby World Cup in 2023 and the Olympic Games in Paris in 2024 will only enhance Paris's status as a leading tourist destination.[1]

> Despite a few spectacular deals, such as the sale of the Westin Vendôme for €550 million, investment in alternatives declined in 2017.

Notwithstanding these expressions of interest and several noteworthy transactions, investment volume for alternatives, particularly in hotels and health care, ended the year on a downturn because of a shortage of large portfolio sales. A similar drop affected retail properties, for which a relative lack of opportunities hampered activity.

[1] Les Echos, 14 December 2017.

GEOGRAPHIC DISTRIBUTION OF ACTIVITY

The restrictions of the investment market can be seen in the underperformance of the central business district (CBD) in 2017. Although the sector attracted more than €6.1 billion in investment in 2016, or 30% of the Île-de-France market (excl. regional portfolios), investment volume fell to just over €3.4 billion in 2017. The decline was brutal, finally stopping at –44%. Unsurprisingly the 'centrality' of this market was weakened, and its share in regional activity fell to 18%. In reality, the CBD suffered from an exceptionally strong 2016, which resulted in a scarcity of acquisition opportunities in 2017. In addition, high prices and yields at historic lows dissuaded some buyers from acting, or at least slowed the completion of certain transactions.

> Paris CBD underperformed in 2017, with investment of €3.4 billion (–44%).

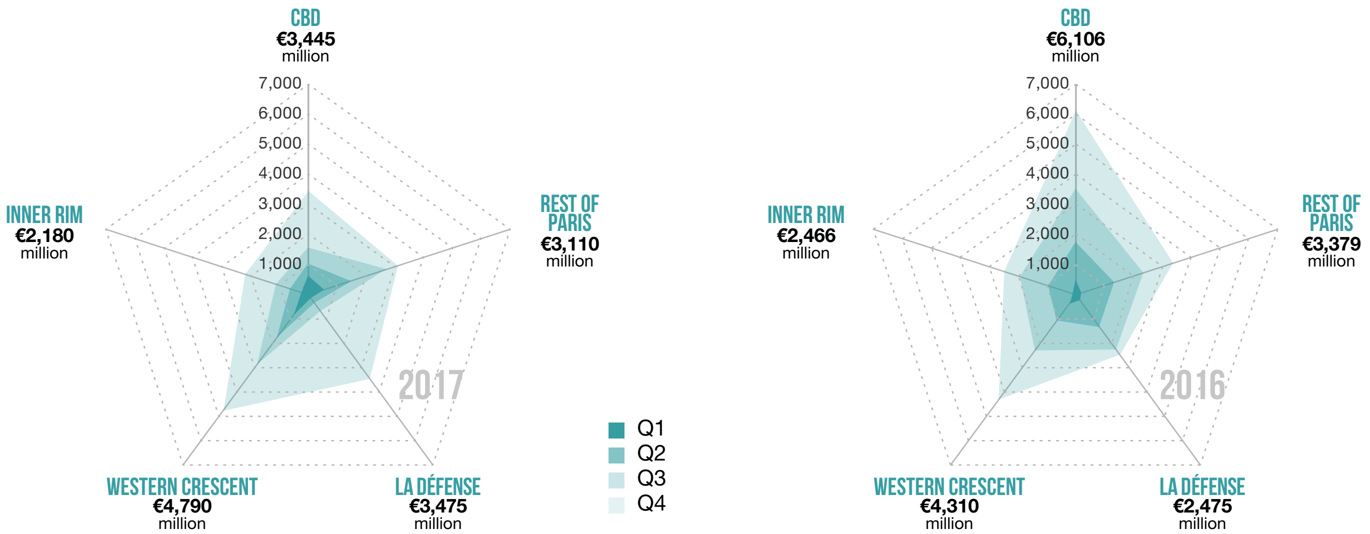
Encouraged by the solid take-up and low tenant risk in Île-de-France, investors have explored alternative solutions to the CBD. They are interested in areas that had been less active and are thus likely to provide more opportunities. Many locations are trading at a significant discount to CBD prices, thereby providing higher yields despite recent compression. It was in such a context that La Défense proved to be the big winner in 2017. To a lesser extent, the western crescent also turned in a good performance.

> The recovery of La Défense continued in 2017. At nearly €3.5 billion, investment rose 40%.

The recovery of La Défense began in 2016 and gathered steam in 2017. During this time, investment volume rose 40%, from less than €2.5 billion to nearly €3.5 billion. La Défense achieved its second-best results ever and accounted for 18% of total investment in Île-de-France in 2017 (compared with 12% the previous year). Naturally this performance owes

Geographic and quarterly distribution of investment activity in Île-de-France*

Source: Knight Frank



* All types of assets combined

a great deal to the huge sale of Cœur Défense, which alone accounted for more than half of total investment in the sector. A transaction of that scale remains exceptional, and it is unlikely that La Défense will be able to keep up such a pace.

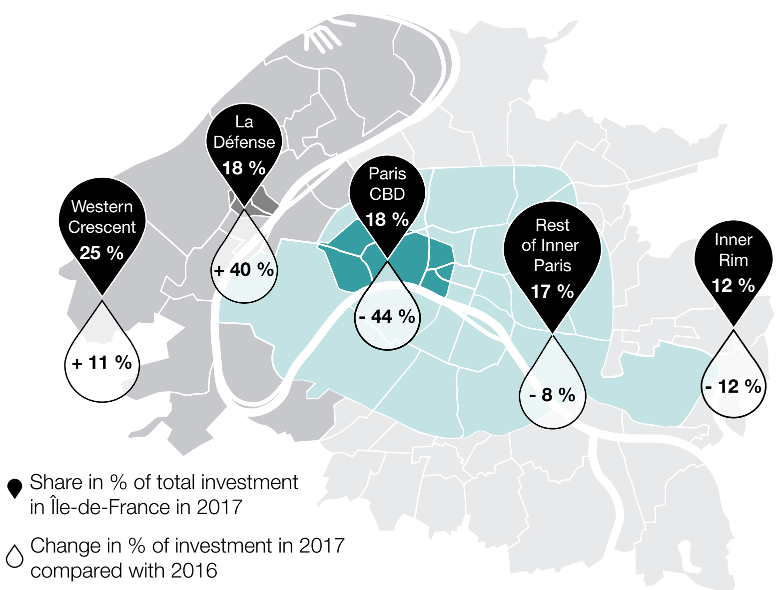
However, it would be a mistake to reduce the La Défense performance to this one event. In a regional context defined by a significant shortage of high-quality properties, La Défense remains attractive to investors in search of high-quality office towers, as reflected by recent forward speculative sales of 76,000 sq m in the Hekla tower, for more than €550 million. One example that could be imitated in the future, as the development projects under way at La Défense offers new opportunities. And don't forget the imminent finalization of the Window sale.

> In a regional context of scarce high-quality assets, La Défense is attractive with its high-quality office towers.

On the basis of arguments similar to those for La Défense, the western crescent performed solidly in 2017. Nearly €4.8 billion was invested in the western crescent, a rise of 11% from 2016. This market accounted for 25% of regional activity. These high-quality results are attributable mainly to the sale of two large core assets in Levallois-Perret: Ecowest, for just under €700 million, and So Ouest Plaza, for nearly €475 million. Note that, contrary to La Défense, the western crescent market is less dependent on mega-deals (i.e. the Ecowest transaction accounted for 'only' 14% of total investment).

Inside the western crescent, the subsector of Neuilly-Levallois has benefited from the abovementioned sales and is now the principal business pole for the area. Neuilly-Levallois received slightly more than €2 billion in investment (42% of investment in the western crescent) in 2017. Yields have fallen to less than 3.25%. The southern loop (especially Boulogne-Billancourt and Issy-les-Moulineaux) as well as Péri-Défense

Location of investment activity in 2017 and comparison of changes in various markets - Source: Knight Frank



(mainly Nanterre) were the other principal sites for activity in the western crescent, with investment close to €1.2 billion each.

On the basis of arguments similar to those for La Défense, investment in the western crescent rose 11%, to nearly €4.8 billion.

By the end of 2017, with the exception of La Défense and the western crescent, market conditions in the Paris region had declined. Inner Paris (except for the CBD) has still not regained its footing. Activity is slowing, despite large deals in the 12th and 13th arrondissements (Vivacity, Kadence and Parc Avenue), and is holding steady at a little over €3.1 billion. The decline is modest (–8% from 2016) only because of the second half's forward sale for 50% of the Duo towers for nearly €550 million (18% of total investment).

The decline could have been worse, like the –12% experienced by the inner suburbs. However, recovery in forward sales for the inner suburbs was insufficient to avoid a decline in investment, which stayed at a little more than €2 billion. The inner suburbs still seem riskier than the western suburbs, regardless of the subsector. The attachment of Clichy to the northern inner suburbs has not allowed the latter to gain ground on the southern or eastern suburbs, despite the robustness of rental activity. Encouraged by the outlook for the Grand Paris Express and the Olympic Games, mentalities could change rapidly, as long as take-up holds firm.

Underperformances are rarely definitive in the investment market. Early 2018 should allow certain markets to rebound, such as inner Paris.

Underperformances are rarely definitive. The first few months of 2018 should provide proof, as several significant transactions in inner Paris (excl. the CBD) are in the process of being completed (e.g. Fhive and Cœur Marais). This is one of the strengths of Paris-region big band jazz. While there are star soloists, it is the collective talent that shines. In this way the saxophonists on the bandstand can either stand out or lay back through the chorus of trombones, trumpets, and rhythm section. Or vice versa. And very often, the public goes wild with applause.

#02 - INVESTOR STRATEGY

Free Jazz

Inspired by Ornette Coleman and Cecil Taylor, many musicians gradually moved away from traditional harmony in order to focus more on improvisation, a musical form that leaves room more to their moods and spontaneity. That is how Free Jazz was born.

Change, stretch out, break with tradition: these things also transpired in 2017 on the investment market. A market whose key will ultimately be very Free Jazz

The first ‘tradition’ called into question in 2017 was that of security. The focus on core assets (i.e. the highest-quality assets, with no risk in the short or medium term) was the main driver of the investment market in 2016, when core assets monopolized more than two-thirds of investment in the Paris region. Their share fell sharply in 2017, accounting for only 49% of market activity (compared with 67% a year earlier). Of course, this category still dominates for the acquisition of very expensive trophy assets and large buildings. The change was nonetheless very dramatic, and it was the first time in a decade that the share of core assets was so low.

The obsession with core (i.e. the best) assets is fading ; Its share has fallen sharply and in 2017 accounted for only 49% of total investment.

How should this be interpreted? Just as Free Jazz remains fundamentally jazz, investment in office properties has changed yet is still recognizable. Investment in office properties remains popular because it offers attractive yields in comparison with other investment classes, yet at a moderate level of risk. This is still very much the case. On the other hand, it was the notion of risk that was redefined by a growing number of investors in 2017. In an ebullient lettings market suffering from a shortage of high-quality properties, the main risk for investors who wish to acquire a building in development or redevelopment – or who pay a (too) high price – is overexposure. While investors must define their own strategy on the basis of the size and type of their portfolios, many investors have shifted their risk exposure by focusing on core-plus and value-added assets. This approach lowers risk exposure and raises the possibility of higher yields. Furthermore, it provides a way around the major obstacle presented by the shortage of buying opportunities.

The notion of risk was redefined in 2017. In an ebullient lettings market suffering from a shortage of high-quality stock, how risky is it to acquire a building to develop or to increase the value of?

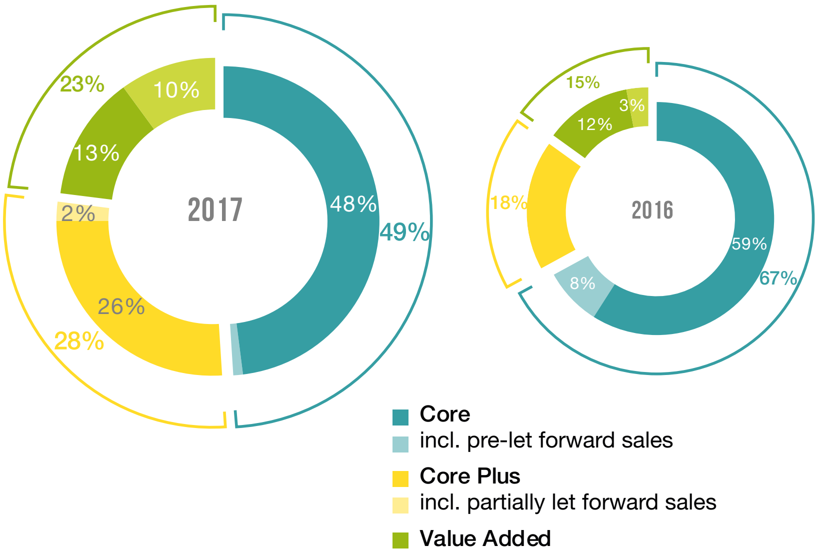
The main beneficiaries of this risk redefinition are the core-plus buildings which are partially vacant or have revaluation potential. They now account for 28% of total investment in the Paris region, compared with only 18% in 2016. The share of value added (buildings to be redeveloped or under development without secure lettings) has also grown, moving from 15% in 2016 to 23% last year.

This increasing acceptance of controlled tenant risk is reflected in the success of forward sales. While their overall share is on the rise (i.e. 13% in 2017, compared with 11% in 2016), growth has been spectacular for forward speculative schemes. These schemes accounted for 10% of the market, compared with only 3% in 2016. Clearly this is where investors are seeking higher yields. After Île-de-France ended 2017 with take-up of more than 2.6 million sq m, and with available stock reduced to just 6.1% of total supply (comprising only 13% of Grade A properties), it is clear that investors felt they had made the right decision.

The acceptance of a certain level of tenant risk is reflected in the success of forward speculative sales, which accounted for 10% of the market in 2017 compared with 3% a year earlier.

This change in risk perception is reflected in the geographic breakdown of forward speculative sales: 74% are in inner Paris and La Défense (the most liquid markets). These forward sales are in high demand on the lettings market, for which there is a glaring shortage of high-quality supply.

Investment in Île-de-France, by risk profile (for transactions of at least €20 million)
Source : Knight Frank



Property markets, at least on a European scale, are now considered a single entity for purposes of strategy, risk and yield. OPCIs and SCPIs now invest approximately one-fourth of their funds outside France. Insurers are not waiting on the sidelines. For example, Amundi acquired Atrium, a 60,000 sq m building in Amsterdam, while Axa recently acquired a 2,700 sq m retail property in Venice.

This focus on synergies and complementary assets also drove Unibail-Rodamco's acquisition of Westfield, which made it the leader in jumbos (i.e. the largest shopping centres).

Financial flows outside France are growing, bringing French investors into a global movement from which they had long been absent.

For alternatives to traditional core investments, investors also looked outside classic office property assets by acquiring alternative assets such as hotels, tourist residences, residences providing medical assistance, clinics, and residences for the elderly or for students (see 'Breakdown by asset class'). The provinces have also been relatively successful. Investment there rose in 2017, as opposed to a decline in the Paris region. While it is true that this performance was boosted by pan-European deals – particularly sales of logistics and retail portfolios – and that regional markets remain partially uncorrelated from Île-de-France because they have their own specific players, opportunities identified in the provinces are now systematically considered. The goal is always the same: to secure a satisfactory return on investment and to reduce risk. This aim has served to broaden investor horizons despite low individual investment amounts and reduced liquidity, to the extent that investors no longer stop at national borders.

Prime yields in Europe (end of the 4th quarter 2017) - Source: Knight Frank

City	Offices	Logistics	Shopping centres
Amsterdam	3.60%	5.00%	4.75%
Barcelona	4.00%	5.75%	4.25%
Berlin	3.10%	4.50%	3.75%
Brussels	4.50%	5.50%	4.25%
Budapest	6.00%	7.75%	5.85%
Dublin	4.00%	5.25%	4.50%
Frankfurt	3.25%	4.75%	3.75%
Hamburg	3.20%	4.50%	3.75%
Lisbon	4.75%	6.50%	5.00%
London	3.50% (West End)	4.00%	4.50%
Madrid	3.75%	5.75%	4.25%
Milan	4.00%	6.50%	5.00%
Moscow	9.75%	11.00%	10.25%
Prague	4.75%	6.00%	4.75%
Stockholm	3.50%	5.50%	4.25%
Warsaw	5.25%	6.75%	5.50%

#03 - BUYERS

Family Tree

They bear a striking resemblance. To understand the reality of his music – both in its complexity and its coherence – Grégory Privat, jazz pianist and rising talent, undertook to create a family tree… of jazz! This inspired the title of his first trio album, Family Tree.

An appealing approach for those watching the Île-de-France investment market. When we look back at 2017, all the individual factors at work cannot disguise the feeling that there is an underlying relationship. That's right, there is an ultra-dominant family which, despite its various branches, adapts to change at least as much as it inspires change.

Let's try to make sense of the Family Tree of Île-de-France investors.

What is the dominant family? French investors. But their pre-eminence is not exactly new. French investors have dominated the French investment market in Île-de-France since the financial and economic crisis broke out in 2007–2008. However, it wasn't always this way. Before the crisis, Île-de-France had been one of Europe's most international markets. French investors, particularly institutional ones, had shown no special interest in real estate. Furthermore, they were in a cycle of disinvestment, especially with regard to large residential portfolios, opening the door to international players, mainly German, Spanish and Anglo-Saxon. Their role was all the larger because the investment market was smaller than it is today.

Things have changed indeed. Inspired by stricter standards and prudential regulations, prompted by the scale of funds to be placed, and inspired by performances achieved with office properties, French investors have rediscovered the appeal of this asset class. Over the past decade they have made a winning comeback, focusing logically on the domestic market, especially Île-de-France. It is this very appetite that in part has prompted a change in the scale of the Paris region market.

The domination of French investors has grown, rising from 66% to 72% year on year for funds invested in Île-de-France.

The year 2017 did not buck this trend. To the contrary, the dominance of French investors grew considerably. Their share in capital invested in Île-de-France rose from 66% to 72%.

Specialized real estate investment funds lay behind much of the year's success. They took in a record amount of fresh money, which is expected to exceed €10 billion for 2017, a rise of more than 6% from 2016. Backed by such a powerful war chest, French investors were able to take the lion's share of the investment market, accounting for 43% of all investment in the region.

For example, Amundi and Primonial, in association with Crédit Agricole Assurances, originated the largest acquisition of the year, with their €1.8 billion investment in Cœur Défense. Other funds also deployed significant cash. La Française acquired the Cityscope tower in Montreuil, for €185 million, while BNP Paribas REIM bought Palatin 2 and 3, in La Défense, for more than €270 million. Amundi remained visible, acting alone for the acquisition of In/Out in Boulogne-Billancourt for nearly €450 million, and in a club deal with Primonial for a forward purchase of the Hekla tower in La Défense, for more than €550 million. All these large transactions had a profound influence on the market in 2017.

Investment funds and insurers are largely responsible for French domination of the local investment market. These two categories alone account for 56% of total investment in Ile-de-France.

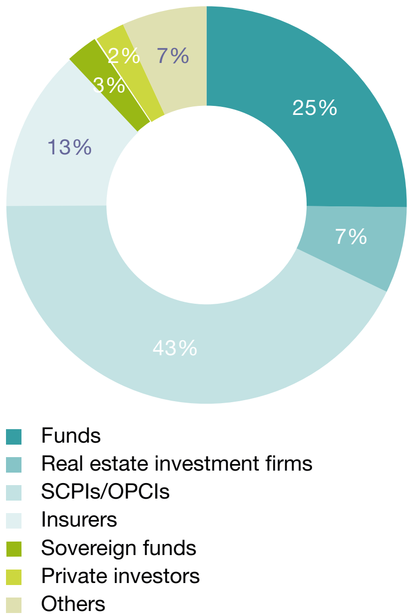
Although less active than the OPCIs and SCPIs, insurance companies constituted another category largely dominated by the French. They generated 13% of total investment in the Paris region in 2017, including several noteworthy deals. For example, Natixis Assurances made a forward purchase of half of the Duo towers in the 13th arrondissement, and Prédica acquired the former La Poste headquarters in the 15th arrondissement. CNP made several acquisitions: the Fendi flagship at 51 avenue Montaigne (nearly €150 million), 20 rue de la Baume (more than €120 million) and 164 avenue Peretti in Neuilly. Also in Neuilly, Alegria was acquired by ACM. AXA purchased the West Park building in Nanterre for €185 million.

The financial firepower of French investors is not the only reason for their dominance. The market's focus on expensive acquisitions was, on the whole, in their favour, especially for locally established players which have the capacity to quickly form associations by means of clubs deals. Such associations have the advantage of spreading risk and lessening exposure to very large assets.

The market's focus on expensive acquisitions as well as the strengthened euro were favourable for French investors.

Investment in Île-de-France in 2017, by investor type

Source: Knight Frank



Finally, the stronger euro deterred some buyers from other currency zones, as French investments grew more expensive.

While investors outside the eurozone remain in second place, they contributed only 8% of total investment, compared with 9% in 2016. Their decline would have been greater were it not for the acquisition at the end of the year by Norges Bank of 6–8 Haussmann (9th arrondissement), for more than €460 million. Without this major acquisition by the Norwegian sovereign-wealth fund, the decline of investment by Europeans outside the eurozone would have been worse. For example, British investors have abandoned core office property in the Paris region in order to look in the provinces, through the acquisition of national portfolios (especially in retail and logistics). In Île-de-France, retail parks and office stock with asset revaluation potential have retained their attention.

This opportunistic strategy has come straight from North America. With the exception of prime shops, which appeal to some North American specialists (e.g. Thor Equities, which acquired 32 rue des Archives), most North America investors are focused on value added assets. Redtree and Invesco bought the Cèdre tower in La Défense, and LIM has acquired the former RTL building, rue Bayard (8th arrondissement). Nonetheless, despite the success of value added assets in 2017, North American investors are content with keeping the same place in the Paris region as last year.

However, they have not hesitated to explore opportunities to be found in provincial markets, where they have run into Asian and Middle Eastern investors. The latter two groups have become very active on the French market, the result largely of the Logicor mega-deal carried out by the Chinese fund CIC. However, they have slowed activity in Île-de-France, despite major deals such as the acquisition of Ecowest (by Middle Eastern funds represented by AGC Equity Partners), and of So Ouest Plaza (Vestas Investment Management acting on behalf of Korean funds).

> German investors are back, and their interest in various buildings suggests that their return is sustainable.

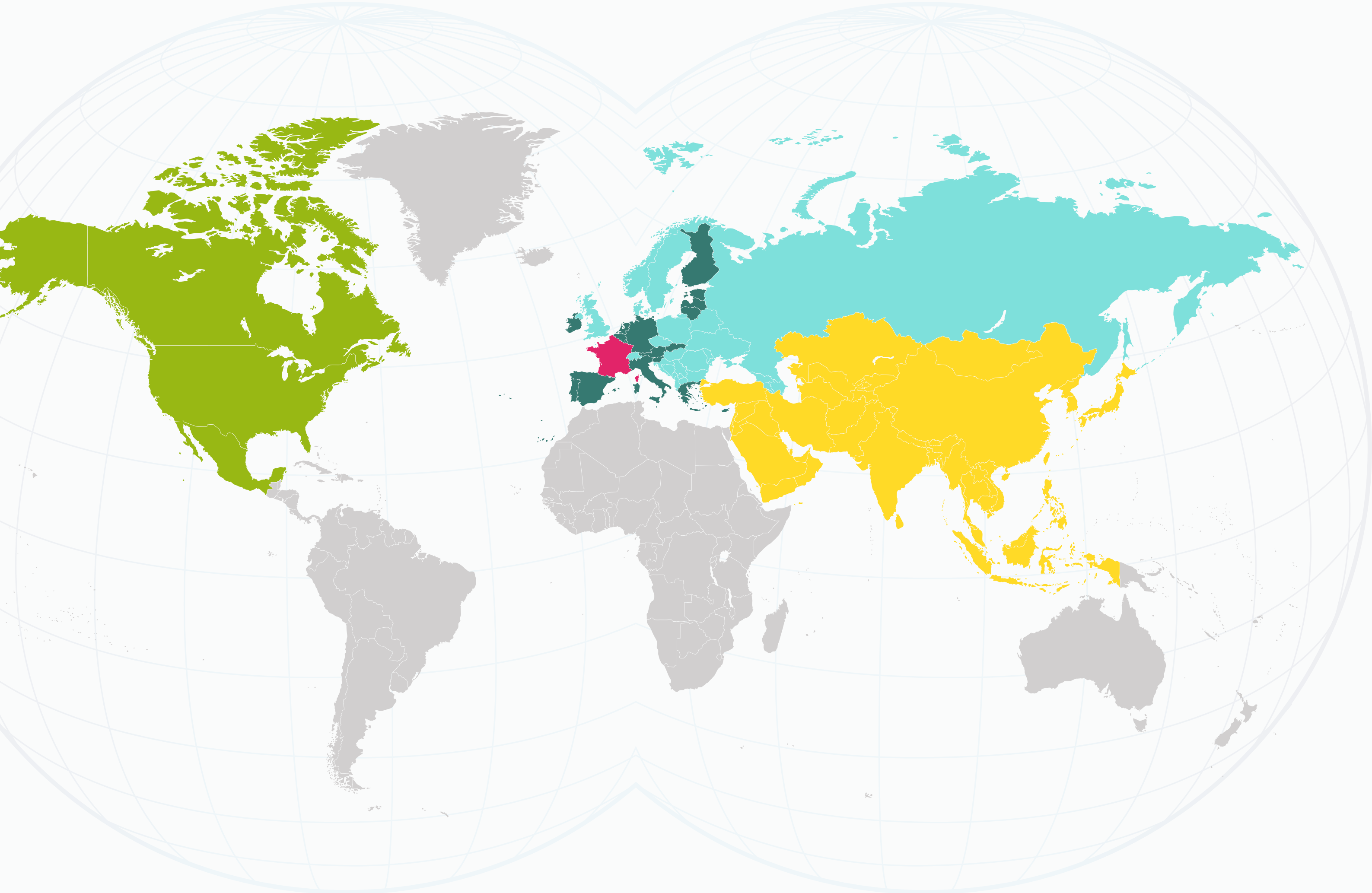
In investment volume rankings they are followed by eurozone funds, whose share grew slightly, to 5% of total investment. After selling off numerous assets in recent years, the Germans have become buyers once again, investing nearly €900 million in several sizeable acquisitions, such as Grand Central in the 8th arrondissement (Union Investment) and Bords de Seine 1 in Issy-les-Moulineaux (Deka).

Other German investors have expressed interest in various buildings. This shows that the return of Germans to the Paris region market could have been even stronger and should be long-lasting.

The rest of the eurozone plays only a secondary role, limited to deals of less than €50 million: for example, the acquisition of 63 rue Jeanne d’Arc (13th arrondissement) by the Belgian AG Real Estate, and the purchase of prime retail assets by the Dutch investment firm Vastned.

Notwithstanding these transactions, French investors have remained at the helm. The 2017 market felt like old home week indeed.

SOURCE OF FUNDS INVESTED IN ÎLE-DE-FRANCE



FRANCE

Market share in acquisition:

2017: 72%

2016: 66%

EUROPE OUTSIDE EUROZONE

Market share in acquisition:

2017: 8%

2016: 9%

NORTH AMERICA

Market share in acquisition:

2017: 7%

2016: 7%

EUROZONE

Market share in acquisition:

2017: 5%

2016: 4%

ASIA/MIDDLE EAST

Market share in acquisition:

2017: 7%

2016: 9%

OTHERS

Market share in acquisition:

2017: 1%

2016: 5%

#04 - PRICES AND YIELDS

How High the Moon

This song's refrain asks how high the moon is, in a jazz standard interpreted by many great musicians, from Ella Fitzgerald to Art Tatum. A big question, and one contemplated by many great minds. Especially since the moon, as near as it seems when full and shining, remains accessible only to astronauts and dreamers.

Much more down to earth, this same question continues to inspire the investment market, though here we're not talking moon but price. Purchase prices and yields from real estate investment. 'How high the yields?'

Like the moon, acquisition costs remain high. However, 2017 was not a record year for the CBD. The prime market value for office stock contracted slightly, slipping to under €25,000/sq m in Q4 2017 (–3% from 2016).
Rather than 'decline', however, the operative word here is 'stabilization', because after four years of CBD price hikes this little correction constitutes a minor event.

> The year 2017 was not a record year for CBD values. The prime market value for office stock declined slightly in 2017 but remains near historic highs.

Yet while the CBD may serve as a price indicator for the market, it doesn't reveal the various changes that might occur elsewhere in Île-de-France. The stabilization of prime values was not widespread, however, and they continued to rise in markets around the CBD. Benefiting from a growing phenomenon of so-called backwardation as well as from an increasingly attractive image, Paris Centre Ouest saw market prices for its best buildings rise 11% in 2017. This sector is now in second place for the highest prices, and for the first time has outperformed Paris 5/6/7. Paris 12/13 has also seen prices rise by 8% (to €14,800/sq m), to as much as La Défense's (€12,200/sq m).

> It was outside the CBD that rising market prices could be found in 2017. Paris Centre Ouest, Paris 12/13 and La Défense experienced hikes of between 8% and 11%.

But it was markets long in the shadows of skyrocketing prices that experienced the biggest increases in 2017. Prime market values rose by 20% over 12 months in the southern loop, to €12,000/sq m, and by 21% in Neuilly-Levallois (€15,700/sq m). The inner suburbs also continued to rise significantly, though from a much lower starting point (€7,800/sq m for the northern inner suburbs).

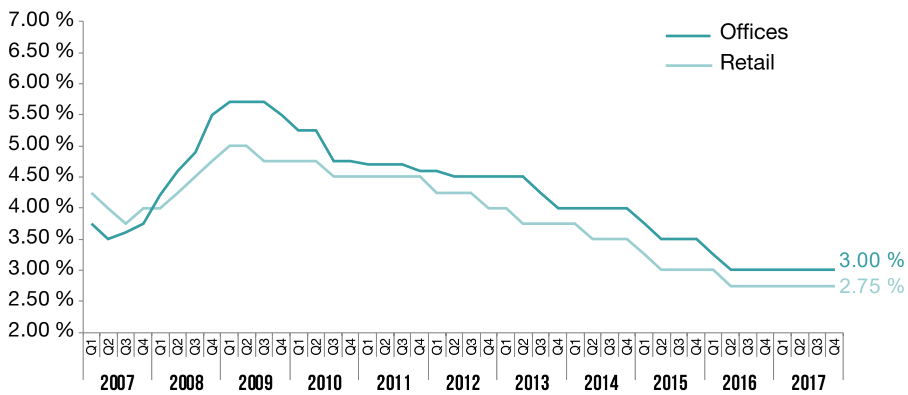
The year 2017 was thus one of narrowing value gaps for prime assets between the CBD and other markets in the Paris region. While there are still considerable differences, the CBD is now 'only' €6,600/sq m ahead of its closest competitor, compared with €8,100/sq m at the end of 2016.

This uneven change in prices influenced yields. While yields for top assets remain stable in the CBD, they lost as much as 50 basis points in 2017 in Paris 12/13, La Défense and Neuilly-Levallois. The contraction was less severe in Paris 5/6/7, Paris 14/15, Péri-Défense and the southern loop – perhaps for no other reason than a lower number of deals for core assets – and totalled around 25 basis points.

> While yields remained stable in the WBD, they lost up to 50 basis points in Paris 12/13, La Défense and Neuilly-Levallois.

At the end of 2017, yields for prime office assets in the CBD stood at between 3.00% and 3.25%, a level that we consider standard for core office assets. Yields of less than 3% have occasionally appeared for a few mixed-use trophy assets.

Change in prime yields in Île-de-France - Source: Knight Frank



Given the market values of retail stock in the CBD, yields of high street shops remain lower than those of offices and are close to yields of a year ago (i.e. around 2.75%). However, yields fell so sharply before 2017 that it would be hard to imagine further compression.

At the end of 2017, prime office yields were between 3.00% and 3.25% in the WBD. For high street shops, yields remained around 2.75%.

In short, there was stabilization in the CBD with occasional compression elsewhere. As for market values, the spread between the CBD and other markets narrowed over the year. It now stands at between 25 and 50 basis points in relation to inner Paris (except for Paris 18/19/20) and is at 100 basis points in relation to La Défense. At the end of 2016, the spread stood at 150 points.

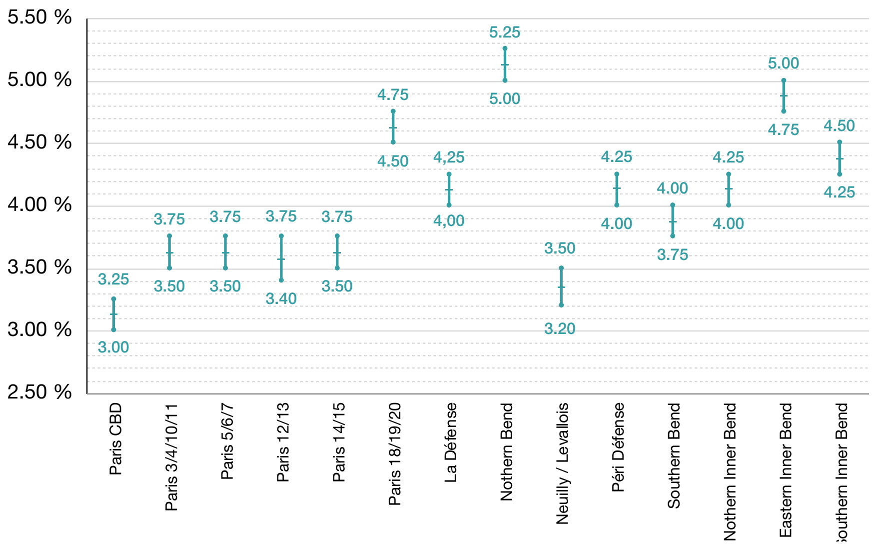
Asset valuation differences determined on the basis of location have narrowed somewhat. Yet considerable differences can arise within a given market, on the basis of a building's intrinsic qualities. This phenomenon became even more visible in 2017, with the success of assets to be developed or revalued. Although it is still difficult to determine a reference value for value added yields, given the extreme differences among investment programmes, it is clear that core assets are receiving a premium. This premium is generally between 125 and 150 basis points in inner Paris, 250 and 300 basis points in La Défense, and can even exceed 400 basis points in peripheral zones. With such premiums being paid, it is easier to understand why many investors have agreed to take on tenant risk for a building with development potential.

True, the best buildings have been breaking price records since the end of 2016, but their yields continue to offer a very wide spread against bonds (256 basis points at the end of 2017).

Does this suggest a growing sentiment that core assets are overvalued? That is unlikely, though records are no longer being broken for prices paid, and investors are showing more conservatism with regard to their investments in real estate. With prime yields at current levels, the market remains below its previous low point recorded before the financial crisis of 2007–2008. Of course, the top buildings have been breaking price records since the end of 2016, but their yields should be compared to those of other assets, either stocks or bonds. Yet yields property yields remain superior! At the end of 2017, the spread with 10-year Treasuries was 256 basis points, well above the 10-year average of 224 basis points. Furthermore, real estate's lead grew in 2017, as the spread had fallen to 238 basis points by the end of 2016.

The Île-de-France investment market therefore seems far from overheating, as long as yields shown during acquisitions remain only initial yields. However – and this is another key difference from 2007 – rents are no longer at the top of the cycle. After several years of moderate rent hikes, and given the scarcity of top-quality stock, many landlords now plan to raise rental revenues during the life of the asset, with higher yields as a bonus.

Range of prime office yields, by location - Source: Knight Frank



THE FRENCH MARKET

Big Band Orchestra

Real estate investment in France is not limited to the Paris region, even though the latter plays a dominant role. The rest of the country is following a slightly different drummer, a difference that makes the market's music even better. In 2017, the style was particularly up-tempo and swinging. A great performance, worthy of the greatest Big Bands. From the saxes, trumpets and trombones, to the rhythm section – nothing was missing!

NEAR THE SUMMIT

In 2017, €26.9 billion was invested in France. The result is nearly identical to that of 2016, and confirms the excellent momentum of the French investment market. With results 47% better than the ten-year average, 2017 was the second-best year in French market history, equal to 2016 and behind 2007. This performance was attributable to an exceptional fourth quarter. With investment of €13.2 billion, the last three months of the year accounted for nearly half of the year's investment. Although investment volume fell 7% in 2017, Île-de-France still accounts for the bulk of deals. At €18.9 billion, its share totalled 76%[1].

BIG IS BEAUTIFUL

In 2017 there were 717 transactions completed in France. This high figure reflects the robustness and depth of the French market. However, the market declined 9% from 2016, with a marked fall in operations between €20 million and €50 million (–12%), as well as those of less than €20 million (–11%).

While transactions of more than €100 million were also in decline, they allowed the French market to equal the previous year's performance. With 64 transactions in 2017 (compared with 73 in 2016), volume rose 7% year on year and accounted for 61% of total investment in France in 2017. Business picked up significantly in the fourth quarter, when 29 out of the year's 64 transactions were completed.

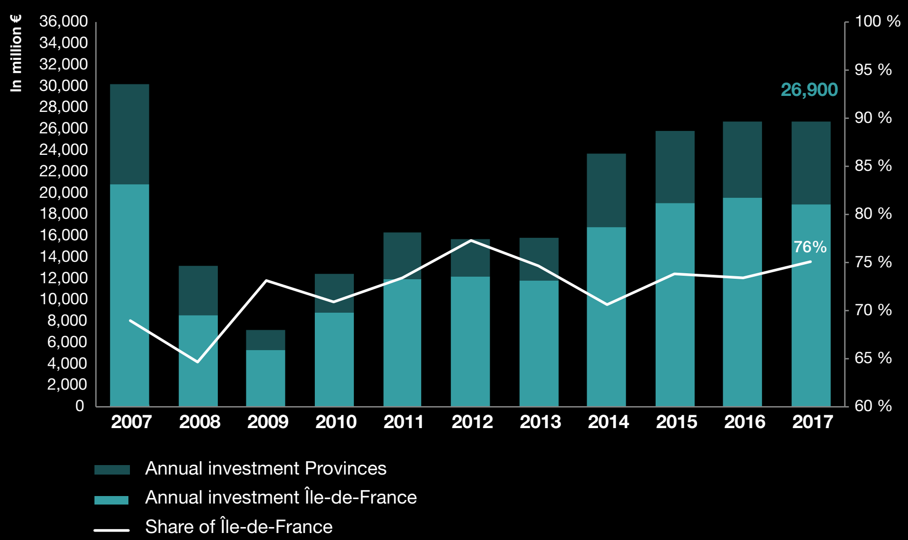
> The French market's performance was attributable to large deals. Transactions of more than €200 million accounted for 37% of volume.

This vitality is due mainly to transactions of more than €200 million. There were 19 such transactions (including 5 for more than €500 million) totalling nearly €10 billion in 2017, a net rise of 28% year on year. Most were in Île-de-France (e.g. disposals of Cœur Défense, Duo, Hekla, So Ouest Plaza and In/Out), though a few were in regional markets: for example, Amundi's acquisition of Docks de Marseille, and the sale of several national and pan-European portfolios such as the Sofilo portfolio acquired by Tikehau, and the Logicor and Gazeley portfolios acquired by CIC and GLP, respectively.

[1] Excluding non-divisible portfolios.

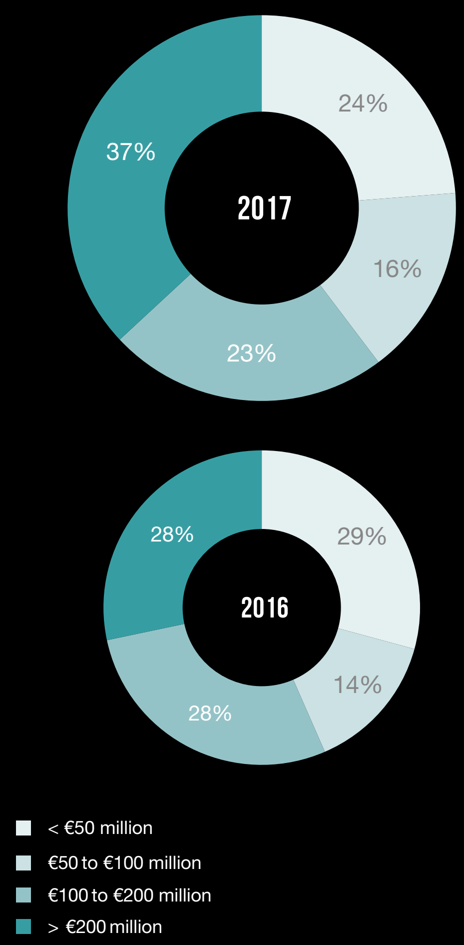
Change in total investment volume in France, all asset types

Source: Knight Frank



Investment volume in France, by amounts

Source: Knight Frank



Sales of portfolios (all types and asset sizes) remained virtually unchanged year on year, from 21% of investment in France in 2016 to 19% in 2017. Although portfolios sold in 2017 were still weighted towards assets in Île-de-France, their share has declined. This is one of the biggest differences with 2016, when the largest portfolios sold were composed mainly of Paris region buildings (Alpha, Two & Only and Interstellar). In 2017, nearly 20 transactions for more than €50 million helped boost volume in the provinces. This was the case for logistics, but also for retail (e.g. the Solstice, Ekinox, Bricks and Quick portfolios), for office properties (e.g. the Hexagone portfolio sold by Amundi to Eurosic), and even for mixed-use assets (e.g. the Sofilo and Héritage portfolios acquired by Tikehau and Primonial Reim, respectively).

The share of the provinces in portfolios sold grew in 2017, and was one of the keys to higher investment in the provinces.

OFFICES: PREMIUM FOR THE BIGGEST CITIES

Offices are by far the real estate market's biggest driver. This asset class accounted for 70% of all investment in France last year, or €18.9 billion, a figure virtually unchanged from 2016. While this dominance was unsurprising, the results of 2017, nearly 50% above the ten-year average, were exceptional.

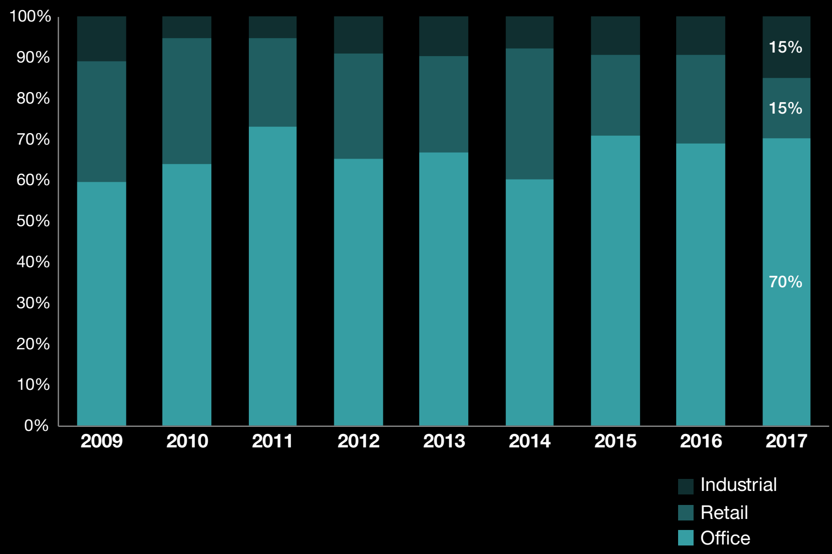
The rise in investment in the provinces benefited mainly the largest provincial cities.

While still dominant, the share of the Paris region was slightly less than in 2016, though alone it accounted for 86% of all office investment in 2017. The provinces were also active in contributing to the excellent results of the French market. Several large-scale deals were made in major regional cities, in a wider context of rising take-up. Among the largest deals in 2017 were Deka's acquisition of New Deal in Lyon for more than €100 million, and the sale to Primonial Reim for nearly €90 million of Golf Park, a business park of 48,000 sq m located in Toulouse. In addition, there was a significant rise in transactions between €20 million and €50 million. Notable among the 20 or so such transactions in 2017 were the acquisition by Deutsche AM of Cap Joliette in Marseille for more than €40 million, and the sale to Unofi by Greentech in Lille for more than €25 million. Furthermore, 2017 office investment outside Île-de-France was boosted by sales of large mixed-use assets (Les Docks in Marseille, sold to Amundi), and by the sale of a few portfolios (e.g. the office portfolio sold by ANF to Primonial Reim as part of the Héritage portfolio disposal, and the sale by Amundi to Eurosic of the Hexagone portfolio).

In the provinces investors seek secure assets, in contrast with Île-de-France.

Although several forward speculative sales occurred in 2017 (Silex 2 in Lyon, Le Karré in Vaulx-en-Velin, Le Vendôme in Nantes, etc.), investors again sought security in regional markets. Most investment in the provinces went to new or recent assets, or to assets secured by long-term leases (e.g. New Deal, Silex 1, and the Crystallin in Lyon, Hélios in Villeneuve d'Ascq, etc.). In addition, investors targeted mainly the most-established business districts (Euroméditerranée in Marseille, La Part-Dieu in Lyon) as well as new, growing tertiary zones: for example, the Euratechnologies park in Lille (Greentech) and the Euratlantique (Tour Innova) and Bassins à Flot (N2 Office) parks in Bordeaux. Finally, the market is confined to the largest regional capitals, which provide greater asset liquidity and offer investors the possibility of placing larger amounts. As the main beneficiary of office investment outside Île-de-France, Lyon received more than €600 million in 2017, ahead of the Aix-Marseille conurbation (boosted by the sale of Docks), Toulouse and Lille.

Investment volume in France, by asset type - Source: Knight Frank



RETAIL: SHARE AT LOWEST SINCE 2008

For the retail market, the situation is the opposite of that for offices. As a result, the provinces accounted for nearly 60% of retail investment in France in 2017, a dominant position further enhanced by the decline in activity in the Paris region. The decline (–19%) of investment in the French retail market was therefore hardly surprising. With investment of €3.9 billion, retail represented only 14% of total investment in France in 2017 (all asset types), the lowest level since 2008 and well below the five-year average (24%).

> Investment in retail properties in France fell sharply in 2017, although the decline was not as severe as expected.

Although not as bad as expected, the decline in retail investment was hardly surprising. It was attributable to the limited number of prime assets placed on the market, and to investor prudence with regard to secondary locations. Asset scarcity automatically limits large deals, and in 2017 on the French retail market there were only nine transactions for more than €100 million, totalling €1.4 billion, compared with 14 totalling €2.7 billion in 2016.

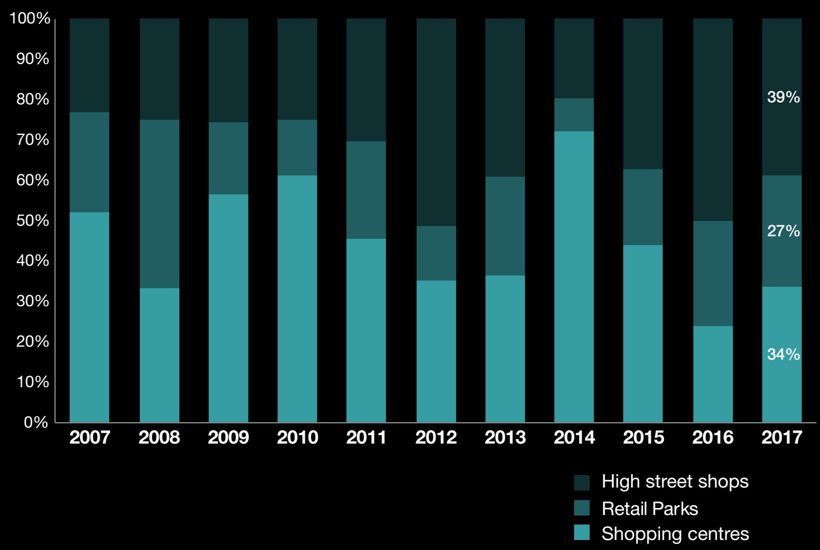
Though less prevalent than in 2016, high street shops retained a significant share of the market. They accounted for 39% of total investment in the French retail market in 2017, boosted in part by the finalization of several large deals on some of Paris's most prestigious high streets (Fendi on avenue Montaigne, Lanvin on rue du Faubourg Saint-Honoré and Kiko on avenue des Champs-Elysées). Investors continue to look for security. Favouring long-established neighbourhoods, investor focus falls naturally on Paris, where several more modest individual asset sales were also completed (74 rue de Rivoli, bought by Generali, and 32 rue des Archives, acquired by Thor Equities, etc.). In the provinces, investment volume was boosted mainly by sales of two large portfolios, allowing Primonial Reim and Amundi to rapidly and significantly raise their profile on the high-street market. Primonial Reim acquired the Héritage portfolio from ANF, while Amundi bought the Solstice portfolio from Grosvenor. The portfolio contains three excellent high street locations: rue Serpenoise in Metz, rue des Grandes Arcades and rue de la Haute Montée in Strasbourg, and Cours Mirabeau in Aix-en-Provence.

The retail park market is still active and took in 28% of all investment in 2017 on the French retail market, a little more than €1 billion. While not a repeat of the 2016 record performance, it was nonetheless an excellent result, confirming that investor interest is growing for this asset class. Sales of retail parks comprised a large part of activity. In addition to Pradera's acquisition from Ikea of a portfolio of three retail parks, six transactions of between €20 million and €100 million were completed in 2017, These acquisitions included the sale to ImocomPartners of a 53,000 sq m complex in Saint-Orens, near Toulouse, for €97 million, the purchase by Immochan of 50% of the Promenade de Flandre, and the acquisition by TH Real Estate of Enox in Gennevilliers. Activity in peripheral zones also benefited from numerous sales of 'retail box' portfolios (e.g. the Ekinox portfolio assets, sold by Grosvenor to Amundi, and the Aubert, Buffalo Grill, Quick and Courtepaille portfolios).

> Except for a few large deals, the shopping centre market was hurt by the shortage of supply and by investor caution.

Shopping centres accounted for 33% of retail investment in 2017, remaining under their long-term performance of 47% (ten-year average). This market segment was hurt by investor prudence and by a shortage of supply meeting their investment criteria. Nonetheless a few large deals were finalized, such as Deka's acquisition of L'Aubette in Strasbourg,

Retail investment volume in France, by asset type - Source: Knight Frank



Amundi's purchase of Docks de Marseille, the acquisition by AEW Ciloger of Saint-Sébastien in Nancy, and especially the sale to LaSalle IM of the Place des Halles in Strasbourg for nearly €300 million. This was the largest single-asset deal since the sale of Nice Etoile by Unibail-Rodamco to Allianz in 2015. Lastly, it is worth noting that investor demand for factory outlets remains consistent, even though the specificity of this asset type limits the number of deals completed each year. After the McArthurGlen portfolio sold by Resolution Property in 2016 for more than €200 million, Primonial Reim has recently acquired from Unibail-Rodamco two shopping centres located in Roubaix and Calais (Bricks portfolio) for more than €80 million

RECORD YEAR FOR INDUSTRIAL ASSETS

Just over €4 billion was invested in the French industrial market in 2017, 37% more than in 2016, which was already a very good year. The record set in 2007 was also broken. Furthermore, investment in industrial assets exceeded investment in retail, accounting for 16% of total investment in the property market in 2017. This result should be put in perspective, however, by the preponderance of one mega deal, the sale of the Logicor portfolio to CIC for nearly €1.6 billion. Another high-profile corporate transaction boosted the logistics sector, in the form of GLP's acquisition of Gazeley. However, the market wasn't confined to these two exceptional transactions. Even without them, 2017 results would have come in 12% above the ten-year average. This performance illustrates growing investor interest in the logistics sector, as well as a decline in risk aversion, a trend already visible in 2016. Consequently, a few investors made speculative forward purchases last year, such as acquisitions by Barings and CBRE Global Investors in the Paris region.

With just over €4 billion invested in France, the industrial property market set a new record.

Portfolio disposals accounted for 76% of all activity, thanks to a dozen deals for more than €50 million (Logicor, Axxel, Anchor, Galia and Acropolis portfolios). Sales of single assets were also strong, with more than 15 deals for at least €30 million. While most of these lie on the north-south axis, a few sectors outside the city centre also stood out: in the Toulouse region (e.g. two Easydis and Action platforms acquired by Invesco and WDP in Montbartier, north of Toulouse) and in Nîmes (sale of an Auchan platform to BNP Paribas Reim).

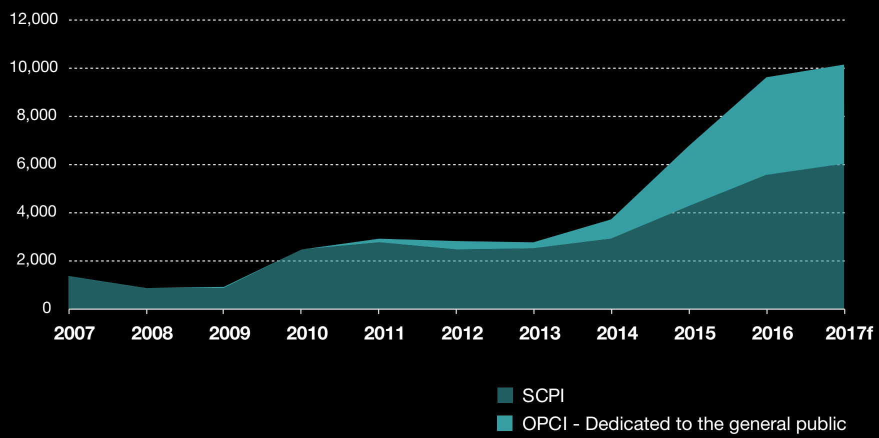
THE FRENCH EXTEND THEIR LEAD

The share of investment in France by French investors rose significantly in the second half, to 67% for the full year, the same as last year. French investors have dominated the French market for the past decade, but since 2016 the focus has been on very large transactions. French investors originated 45 out of 64 transactions of more than €100 million in 2017 (e.g. Cœur Défense, Hekla, Intown). The French are not focused only on mega deals, nor are they limited to the office sector. They are active in all market segments, in both Île-de-France and the provinces.

The largest funds – Amundi and Primonial Reim being first in line – contributed significantly to French performance. However, OPCIs and SCPIs were not the only market drivers. Insurers, private investors and property-investment firms also played a part. Though these players accounted for 'only' 7% of total investment in France in 2017, they originated several large transactions. Argan stood out on the logistics market, while a few property-investment firms specialized in large retailers (e.g. Immochan and Mercialys) finalized large deals in the retail sector.

French investors accounted for 67% of total investment in France in 2017. They have dominated the French market for the past decade.

Change in net fund inflow to SCPIs and OPCIs in France - Source: ASPIM



Foreign investors accounted for 33% of acquisitions in France in 2017. The Europeans, whether in the eurozone or not, remain the most active, and account for 10% of total activity. Several European countries enlivened the market. The Germans' return to the French market saw several large deals in Paris (Grand Central, sold to Union Investment) and in the provinces (New Deal in Lyon and L'Aubette in Strasbourg, acquired by Deka, and Cap Joliette in Marseille, purchased by Deutsche AM). Other European investors were also active, though in a smaller number of deals. This was the case of the Norwegians at Norges Bank who, after acquiring Vendôme Saint-Honoré in 2016 for €1 billion, acquired 6–8 Haussmann from ADIA in 2017 for more than €450 million. British investors have also been active. While present in all market segments, British investors have shown special fondness for logistics, a strategy close to that of the North Americans, whose share came to 7% of total investment in 2017. In addition to logistics, North American investors were also on the lookout for market opportunities in prime retail (32 rue des Achives and 54 rue de Rennes, sold to Thor Equities). However, the most striking phenomenon in 2017 was without doubt the arrival of the Asians. Their share reached 9% of total investment in France, boosted by a modest number of deals, which included the Chinese acquisition from CIC of the Logicor portfolio, and the acquisition by South Korean investors of So Ouest Plaza in Levallois-Perret for more than €450 million.

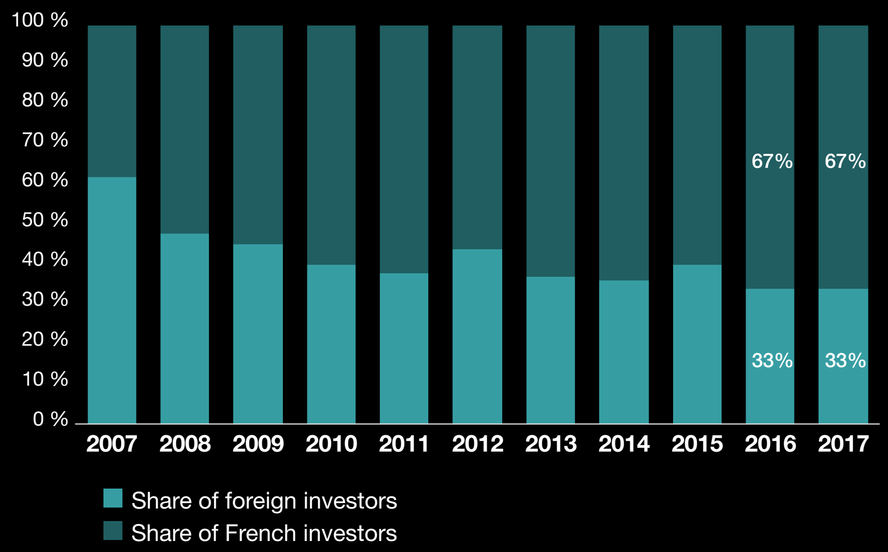
OCCASIONAL COMPRESSION OF PRIME YIELDS

Since mid-2016, prime yields for offices in the CBD have ranged between 3.00% and 3.25%, an historic low. Yields also declined in other tertiary sectors in Île-de-France (i.e. Paris outside the CBD, the western crescent and the inner suburbs) and in the provinces, with yields falling below 4% in Lyon.

A limited compression of prime office yields has been observed in the provinces and in a few markets in Île-de-France. However, the trend is towards greater stability.

Prime retail yields have reached their lower limits. They now stand at between 2.75% and 3.00% for stores with the most attractive Paris locations. There were almost no prime transactions in the shopping centre segment. The trend nonetheless appears slightly positive (4.00%), thereby narrowing the spread between this asset class and retail parks, which were stable in 2017 (4.75%).

Investment volume in France, by nationality - Source: Knight Frank



As a result of the popularity of logistics among investors, the prime yield has declined to 5.00%.

Industrial assets are singing a different tune. Strong investor demand sent activity soaring and contributed to a decline in yields. For 'classic' logistics, the prime yield reached 5% in markets on the north-south axis. Prime assets, both new and secured by long-term leases, also experienced downward pressure in secondary markets, where yields are now below 5.50%, the lowest ever seen.

Our Love is Here to Stay

Investors like real estate assets. The growth of the Île-de-France investment market, which has experienced unprecedented volume for the past several years, is proof of the appeal of office properties to investors. But is this a love that will last? Will it make it through 2018?

There seems to be no doubt that it will. The horizon may not be cloudless or without a care, but this love is solid. Solid enough to last. To borrow from the Gershwin brothers' great jazz standard, rendered eternal by Louis Armstrong and Ella Fitzgerald: 'Our Love is Here to Stay.'

INVESTMENT AMOUNTS AND BUYERS

The success of office assets has been due largely to their balanced risk/return ratio, considered attractive in comparison with stocks and bonds. The latter asset classes are considered either too risky or not profitable enough, and have inspired many investors to increase their property exposure in order to raise income and lower risk. Will the risk/return comparison remain favourable to property in 2018?

Financial markets experienced a tremendous year in 2017. In Paris, the CAC 40 rose 9.2%, its best performance in four years. It was slowed nonetheless by the euro's strengthening against the dollar, since a large part of the French market is very international and thus exposed to the dollar. As a result, this performance seems modest compared to those in New York, where the Dow Jones rose 25% (including 11 consecutive positive months, a first since 1958) and the Nasdaq Composite leapt 29%. Even the London market participated in this jubilant climate, despite concerns for Brexit and the slowdown of the British economy. The FTSE 100 rose 7.6% in 2017, boosted by a weak pound. The new year has not led to a slowdown. Brokerage Aurel BGC stated, 'Global markets began the year 2018 just as they ended 2017: with optimism, even euphoria.'[1].

Winds seem favourable for investment in shares – conditions which could reinforce their appeal to some investors, to the detriment of other asset classes.

This trend should nonetheless remain limited. Optimism may be the order of the day, but it is based largely on short-term arguments. Tax cuts in the United States were largely responsible for the momentum in New York. The marketplace 'bought the rumour' in 2017. This should help make 2018 another positive year for corporate profits but, now that the legislation has been voted, the time to 'sell the news' approaches.

[1] Les Echos, 5 January 2018.

The consensus among major asset managers is that 2018 will not equal 2017's performance on the stock market.

If we look ahead a few months, things aren't nearly so clear. As debate on the fair value of shares becomes more and more strident, many analysts now consider them overpriced in the United States. Europe is no exception. Even if indexes are not breaking record after record, contrary to the Dow Jones and Nasdaq, and even if the markets still have some room to run, performances are expected to remain moderate. For example, Société Générale states that 'there isn't much meat left on the bone'[2]. A return of volatility (true, already expected for 2017) could really happen this time.

In all advanced economies, the consensus among major asset managers is that stock markets will be less ebullient in 2018[3]. The time seems to have come for profit taking, and all the more now that investors have digested a rate hike, whose extent and effects remain to be seen. The Fed is about to change presidents with the arrival of Jerome Powell in February 2018. At the European Central Bank (ECB), three governors, including the German Jens Weidmann, have said they are in favour of more aggressive monetary tightening than that promoted by the ECB's president, Mario Draghi[4].

One thing is sure: the world is headed towards standardised monetary policies, with liquidity conditions that are more severe and more expensive. There will be consequences with regard to the financing of businesses and their growth capacity. Stock markets will be hit too, even if we are still far from the conditions needed for a market reversal. JP Morgan recently reminded investors that none of the last eight downturns began with real rates of less than 2%[5].

Expected monetary tightening should raise borrowing costs and lead to a higher bond yields.

The monetary tightening will also affect bond markets. The ECB's gradual shutdown of its quantitative easing programme should result in higher bond yields in H2 2018. Agence France Trésor (AFT), which manages the French state's debt, forecasts 10-year yields (TEC 10) of 1.85% by the end of the year, well above the 0.65% average in 2017. However, even if such optimistic forecasts were confirmed (as a reminder, AFT based its 2017 financing programme on an assumed 1.25% at the end of the year, whereas in fact the year ended with a TEC 10 averaging 0.57% in December), the rise would never lead to the conditions seen in May 2014. So this is not a revolution, but rather an improvement of bonds that may make them more attractive to investors.

Any bond arbitrage is likely to remain limited.

Bond arbitrage should remain limited, first because, at least in the eurozone, government financing is expected to contract, especially under the impetus of Germany and the Netherlands, thereby restricting the possibility of higher long-term yields. The second reason is that the ECB's actions, even downward, should continue to cover most issues of sovereign debt. Central banks have learned to remain prudent in order not to trigger instability.

With the potential for higher stock market volatility on the one hand, and limited bond hikes on the other, the context should remain favourable for real estate investment, which could be an advantage to underlying tangible assets. Therefore investors have little reason to significantly reduce their positions in real estate assets, especially since their exposure is relatively low.

The context remains favourable for real estate. The golden age (annual volume of more than €15 billion) enjoyed by the Paris region market these past four years is expected to continue.

At mid-January 2018, completed sales and sale agreements in the Paris region amounted to more than €2.5 billion, to which €2.6 billion can be added for exclusive rights. With arbitrages expected for several large buildings, and given the vitality of cash inflow to funds, the outlook for 2018 is positive. While it may be difficult to forecast the amount of investment in Paris region properties in 2018, all indications are that it will be at least €15 billion. A prudent forecast, but one that confirms the attractiveness and increasing importance of the investment market in Île-de-France. Love is here to stay.

[2] ibid.

[3] Les Echos, 29 décember 2017.

[4] Les Echos, 21 décember 2017.

[5] Reuters, 04 décember 2017.

YIELDS

After the downward pressure exerted in 2017 in several markets just outside the CBD, yield compression is for the most part behind us. The focus of investors on core plus and value added assets, which are more profitable than prime buildings, confirms their hesitation to commit in an environment of rising market values.

The decline of yields is, for the most part, behind us.

Of course, occasional exceptions are always possible. Investor valuation of tenant risk could lead to lower yields for speculative or undervalued buildings. Additionally, in the prime segment, downturns could occur in the first half of 2018 for certain less-established tertiary sectors which are nonetheless in central Paris, outside the CBD and the inner suburbs. A few recent deals have resulted in unprecedented yields: 4.75% in the eastern inner suburbs, and 4.00% in the northern inner suburbs. But this is simply a catch-up effect for markets long quiet but now awakened by a robust lettings market, a shortage of high-quality stock, and an optimistic outlook for the Olympic Games and the Grand Paris Express.

These few operations should not bring into doubt the gradual stabilisation of yields.

At 256 basis points, the real estate spread remains at an historic high, and leaves room to absorb higher bond yields in 2018.

After mid-2018, can yields still rise? The trend will invert sooner or later, but what triggers the change will depend of the direction of prime rates, which determine the financing of certain acquisitions as well as bond yields. All are expected to rise, with change expected mainly as from H2 2018. However, several factors tend to limit the extent of the change, probably at around 100 basis points (see our outlook on investment volume).

At 256 basis points at the end of 2017, the spread between bond yields and real estate yields was historically wide. This allows property investment the capacity to absorb part or all of the espected rise. In the past, investors have contented themselves with a narrower spread, without turning their backs on the real estate market. They'll do it again, if the rental market continues to grow and if vacancy rates are kept under control.

The rise of real estate yields is not expected to occur until after 2018.

If prime rates and bond yields continue to rise, the yield curve for real estate assets will not invert until after 2018. In the meantime, the brass and strings of jazz musicians are still following the ride cymbal. And we're still bebop!

QUESTIONS FOR

FRÉDÉRIC BÔL

Chairman and CEO of Swiss Life REIM (France) and President of ASPIM*

*Association des sociétés de placement immobilier. (French Association of Real Estate Investment Firms).

IN 2017 WE BEGAN TO ADJUST OUR PORTFOLIOS AND TO REPOSITION OURSELVES ON ASSETS WITH VALUATION GROWTH POTENTIAL. WE PLAN TO CONTINUE THIS WORK IN 2018.

Knight Frank: The year 2017 was an exciting one for the French investment market. Last year also reaffirmed retail investor enthusiasm for SCPIs and OPCIs, which enjoyed record cash inflows. Given such a context, what conclusions do you draw from 2017 for Swiss Life REIM (France), and what are your objectives for 2018?

Frédéric Bôl : The year 2017 was very rich and exciting, like previous years, but with one slight difference: investment has become more challenging because of the scarcity of products. This shortage now crosses all asset classes and has changed the game in terms of asset allocation. For example, acquisition costs in sectors such as offices and retail are breaking records whenever location is the focus. Similarly, spreads have narrowed for assets in healthcare and logistics, which normally offer an attractive risk premium compared to offices, forcing us to be more selective if we want to maintain an attractive risk-return relationship. In general, we look for zones that are suitable for the desired sector (e.g. sites for logistics, demographics for healthcare).

In 2017, Swiss Life REIM (France) continued to develop the strategy we have been following for several years. The strategy began with the Europeanization of our portfolios and the implementation of our investment network in the Swiss Life Asset Managers zone (i.e. France, Belgium, Luxembourg, Spain, Portugal and Italy). We have established many contacts and now have access to significant sourcing within this zone. With the support of other real estate teams of Swiss Life Asset Managers, we have finalized the introduction of pan-European funds both for institutional investors and as a club deal by means of a hotel fund and retail fund. This action has also influenced our retail offer, as the SCPI Pierre Capitale and the OPCI Dynapierre have begun investing outside France, notably several acquisitions in Luxembourg and Germany. In addition, we have worked hard to develop sourcing in Italy and Spain, though unfortunately events in Catalonia forced us to abandon an attractive acquisition project.

We attach great importance to the ongoing improvement of our sustainable development strategy. Consequently we have honed our ESG rating system by applying it to residential property, healthcare, student housing and hotels.

In 2018 we plan to finalize work which was undertaken in 2017. The first quarter is already very busy, with two capital increases under way for our club deals, as well as the creation of a new fund which will invest in nursing homes with a significant social focus. However, the coming year will be one of transition on the investment front. In a market of falling yields we will need to be highly selective and be able to provide expert advice to our investors. In 2017 we began to adjust our portfolios and to reposition ourselves on assets with valuation growth potential. We plan to continue this work in 2018.

KF: In 2017 Swiss Life REIM (France) launched its first SCPI, Pierre Capitale. What are the fund's main features, and how has this new product performed in the few months since it was launched?

FB : The aim of Swiss Life REIM (France) is to grow its retail offer. In 2016 we built a team around Nicolas Kert dedicated to promoting an offer comprising a retail OCPI, SwissLife Dynapierre, and, since the beginning of 2017, an SCPI, Pierre Capitale. We are thus able to target retail investors via the life insurance channel, usually through the OPCI, or directly by means of the SCPI.

In a tough marketplace, the SCPI Pierre Capitale must be both original and competitive. We have opted for a European allocation – a choice that reduces risk and increases investment opportunities – and a sector approach focused on office and alternative assets. Concretely, the SCPI invests in France and, for strategic purposes, Germany, two different economies with uncorrelated market cycles. Furthermore, the SCPI invests in offices. In 2017 the focus was on inner Paris, though outside the prime sectors. We are thereby able to maintain initial yields which are compatible with the SCPI's distribution policy, while harnessing rents after rent hikes. In Germany we are focusing on alternative sectors (e.g. hotels), where demand is strong and supply still weak.

In its first year the SCPI delivered a yield of 4.25% (very close to the average for office SCPIs), and it targets 4.50% for 2018. Note that these yields already take into account withholding tax paid in Germany.

KF: For the past several years Swiss Life REIM has been a significant player in 'alternative' real estate assets (e.g. healthcare, hotels, student housing, etc.). Is this a priority asset class for development? Does the segment, which is increasingly popular with investors, still offer opportunities?

Indeed it does. We remain faithful to our positioning, which has not changed since we created the company in 2007. We aim to develop the specific skill set necessary to provide our investors access to alternative asset classes, which provide diversification while optimizing portfolio yield. Student housing still attracts significant investment. Our second club deal will soon finalize its own investments, but also those on behalf of dedicated funds. Our student housing track record will be very helpful for the development of our retirement housing funds. Between the two sectors there are numerous similarities with regard to the selection and analysis of projects. Operators are often involved in student housing or nursing homes, another sector that we know well but in which we are extremely selective for France. In the hotel sector we have made one major acquisition per year since starting our hotel division. At the end of 2016 we finalized the acquisition of the Pearl portfolio, comprising ten hotels in Germany. We are currently finalizing the acquisition of two hotels in Italy and a new hotel in Germany. We remain very bullish on the sector, which offers attractive yields and a wide range of products. We make sure that our hotels are located to suit the desired business/pleasure mix, an approach designed to mitigate overdependence on the economy.

KF: Swiss Life REIM (France) is also a significant player in the European investment market. Could you summarize your international strategy and tell us the countries and assets you intend to focus on in 2018?

FB: Swiss Life Asset Managers was again named the leading European real estate investor by Property EU in October 2017. With nearly €68 billion of AUM at the end of June 2017 and with teams in Switzerland, Germany, the UK and of course France, with Swiss Life REIM (France), everything has come together for the implementation of our investment strategy.

In 2018 we intend to pursue our sourcing efforts, especially in Spain and Italy, which offer numerous advantages, and for which we have several portfolios under consideration in various sectors such as offices, retail, healthcare and hotels. Substantial efforts were made in 2017 to build solid local networks that would provide quality sourcing. This hard work is now bearing fruit, and in 2018 should result in the realization of certain deals. Belgium and Luxembourg also offer attractive opportunities. In general, our investments target dynamic, international cities (Milan, Madrid, Brussels, etc.), because there are sometimes significant differences within a given country. In France we plan to be highly selective, given current yields. However, there are still opportunities in the provinces for offices, housing and retirement housing. The arbitrages that we choose to perform in France will make our portfolios more international.

KF: With the repercussions from Brexit, Paris's successful bid for the Olympic Games in 2024 and the response to the call for projects for 'Inventing Greater Paris', the appeal of the Paris market was a major topic in 2017. Swiss Life REIM (France) is investing in Ile-de-France, but it is also a major investor in the provinces. How do you see the regional markets? What are their main strengths and weaknesses?

FB: The effects from Brexit are beginning to be felt in France and Luxembourg, mainly with business relocations. This movement, which is expected to grow more intense in the months ahead, is energizing a lettings market which was already trending upwards in 2017. It is also enhancing the appeal of the Paris market.

The stakes of Grand Paris ('Greater Paris') are very high for the entire real estate sector, as well as for all residents and occupiers. We are following the project development very closely, because it is the future of our buildings which is at stake in a business where location remains the main investment criterion. We take great care to analyze the impact (positive or negative) of Grand Paris on all potential acquisitions. The report of the Cour des Comptes (the French Court of Auditors) has raised political questions which could slow the completion of infrastructure. The uncertainty surrounding the projects is harmful for both investment and France's image abroad. It seems absolutely essential to us that this ambitious project – a giant step towards the future of Paris – not be hampered in any way.

We believe there are still interesting opportunities in the provinces. Lille, Lyon, Nantes, Bordeaux and Marseille all seem attractive to us. As they grow, these cities will continue to create much of the country's economic and demographic growth. We especially like the new business districts near the TGV stations (e.g. Bordeaux Euratlantique). We have also been investing for many years in Lille, Lyon and Marseille, although yields in these cities have fallen significantly.

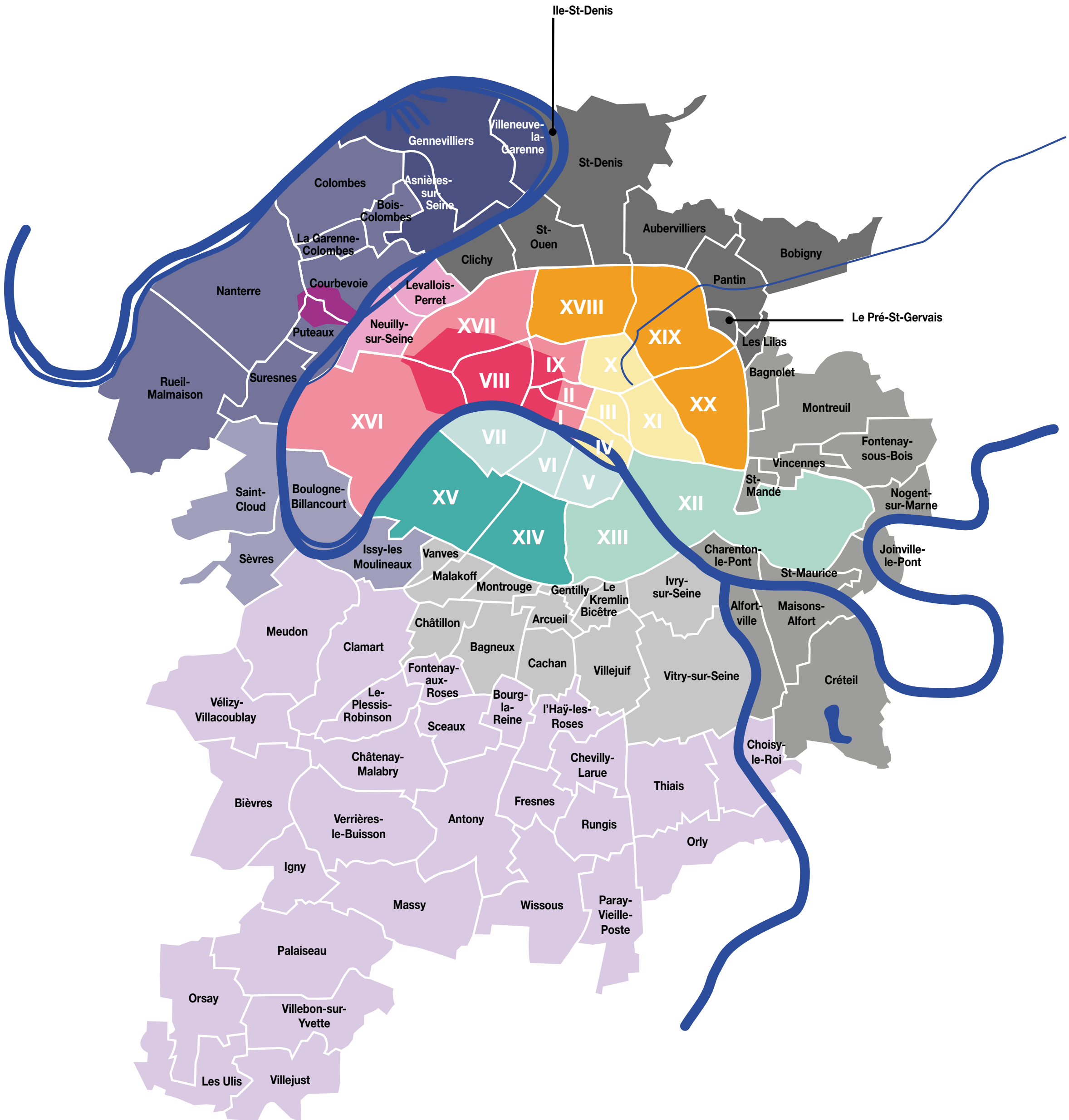
In other areas, we are helping to serve the needs of the local population by keeping an open mind with regard to investment location, and by remembering that the trend of metropolitan transformation is potentially harmful to certain zones.

KF: You have been the President of ASPIM since 2016. After a record year in 2017, what is the outlook for 2018 in terms of investment inflow, and where do you see yields headed? In addition, in the coming months new measures will affect taxes on core assets, especially the IFI (French tax on real estate wealth). How could these measures impact certain real estate investments?

The real estate asset management industry is undergoing a profound transformation. Challenges are posed by the sector's consolidation, by the digitalization of the industry, by an increasingly strong commitment to SRI, and by the unceasing change of the fiscal and regulatory environment. Needless to say, ASPIM has a very important role to play. By acting as spokesman for the diverse stakeholders, ASPIM could guarantee greater consistency with regard to these matters, thereby providing clarity for the various regulatory and other bodies. Therefore I reacted immediately when the IFI was announced. This tax condemns real estate investment, a sector that is a critical link in our economy, creates jobs, fulfills vital functions (e.g. housing) and meets new needs such as the ageing population. We will continue in 2018 to reply to these questions, and ASPIM will be a source of strength whenever necessary.

Fresh money is expected to continue to arrive in 2018. The challenge will be to invest it prudently and on the basis of fundamentals. I wish to reiterate that there are still attractive opportunities, and that geographical diversification plays an important role in risk reduction.

2017 KEY FIGURES



Paris CBD	Paris V/VI/VII	Nothern Bend	Neuilly/Levallois
Paris Centre WEST (excl. CBD)	Paris XII/XIII	Péri-Défense	Nothern Inner Rim
Paris III/IV/X/XI	Paris XIV/XV	Southern bend	Eastern Inner Rim
Paris XVIII/XIX/XX	La Défense	Southern Outer Rim	Southern Inner Rim

Submarket	Investment volume		Prime Yields Q4 2017		High end market value(*) Q4 2017
	Volume (in €)	Evolution 2017/2016 (**)	(in %)	Evolution 2017/2016	(€/sq m)
Paris CBD	**3,445,000,000**	↘	**3.00 / 3.25**	→	**25,900**
Paris Centre West (excl. CBD)	**110,000,000**	↘	**3.25 / 3.50**	→	**18,100**
Southern Paris					
Southern Paris / Paris V/VI/VII	50,000,000	↘	3.50 / 3.75	↘	18,000
Southern Paris / Paris XII/XIII	1,590,000,000	↗	3.40 / 3.75	↘	14,600
Southern Paris / Paris XIV/XV	600,000,000	↘	3.50 / 3.75	↘	15,300
Total Southern Paris	**2,240,000,000**	↗			
North Eastern Paris					
North Eastern Paris / Paris III/IV/X/XI	440,000,000	↗	3.50 / 3.75	↘	15,500
North Eastern Paris / Paris XVIII/XIX/XX	320,000,000	↗	4.50 / 4.75	↘	8,100
Total North Eastern Paris	**760,000,000**	↗			
Inner Paris portfolios	60,000,000				
Total inner Paris	**6,615,000,000**	↘			
La Défense	**3,475,000,000**	↗	**4.00 / 4.25**	↘	**12,500**
Western Crescent					
Croissant Ouest / Northern bend	275,000,000	↗	5.00 / 5.25	→	4,700
Croissant Ouest / Neuilly Levallois	2,010,000,000	↗	3.20 / 3.50	↘	13,100
Croissant Ouest / Péri-Défense	1,200,000,000	↘	4.00 / 4.25	↘	7,200
Croissant Ouest / Southern bend	1,265,000,000	↘	3.75 / 4.00	↘	11,500
Western Crescent portfolios	40,000,000				
Total Western Crescent	**4,790,000,000**	↗			
Inner Rim					
Inner RIm / Northern Inner Rim	770,000,000	↘	4.00 / 4.25	↘	8,800
Inner RIm / Eastern Inner Rim	665,000,000	↗	4.75 / 5.00	↘	6,100
Inner RIm / Southern Inner Rim	745,000,000	↗	4.25 / 4.50	↘	7,700
Total Inner Rim	**2,180,000,000**	↗			
Outer Rim	**1,220,000,000**	↗	**5.50 / 6.50**	↘	
Île-de-France portfolios	650,000,000				
Total Île-de-France	**18,940,000,000**	↗			

Source: Knight Frank
(*): Representative high end market value, calculated from the high end rent held for each greographical sector and the Prime rate of return
(**): The volume invested and the market value are considered to be stable, while their annual evolution, both upwards or downwards, is between -2% et +2%

KNIGHT FRANK

Knight Frank is an international real estate advisor.

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 more than 120 years and now operating in 60 countries. It offers its clients the skills of its 15,020 professionals, working from 418 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.

Knight Frank Commercial Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independant advice customised to their specfic needs.

Knight Frank Research Reports are also available at KnightFrank.fr

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