For several years Paris has been the most important real estate investment market in continental Europe, with overall investment volumes of € 10-12 billion each year, and peaking at € 17 billion in 2014. This is due in the main part to the diverse economic fabric of the region which provides robust and sustainable occupational markets. Balance between the major business sectors including large industry, public sector, financial services and other service providers keeps take up levels at around 2 million square metres per annum. With an overall office stock in the region above 50 million square metres, Paris Region is also the largest office market in Europe.

But it is not all about offices!

Paris is all importantly the world’s most popular tourist destination which helps the city’s premier global position in the luxury retail and hotel sectors. Last but not least the residential property market has shown a high degree of resilience to the global financial crisis as buyers continue to choose Paris as a safe haven for their private residences or buy-to-let investments.

We are pleased to announce the publication of the second edition of our 2015 “Why invest in Paris?” brochure, a reference manual designed for those investors who are new to our market. We will provide an overview of the Paris Region’s economy and principal real estate submarkets before looking in closer detail at the legal and fiscal aspects of property investing in France.

We do hope you find this guide useful and we look forward to business opportunities with you in 2015.
CONTENTS

AN ECONOMIC OVERVIEW OF THE PARIS REGION  p.4
PARIS PROPERTY MARKET OVERVIEW  p.10
THE ACQUISITION PROCESS  p.22
OVERVIEW OF THE MAIN LEGAL ASPECTS  p.26
KEY FRENCH REAL ESTATE TAX ISSUES  p.32
CONTACTS  p.36
Paris as a capital city is both the political and economic hub of France. The city sits at the heart of the region known as Ile-de-France, the most densely populated area within the country and contributes to the largest part of the nation’s economic productivity. As a headquarters location for many of the largest national and international companies the working population in the region is highly skilled across all business sectors.

Geographically the city benefits from an excellent location in continental Europe positioned midway between northern and southern Europe. Paris is within a 2 hour flight of most major European cities.

A young and skilled population

Paris Region is home to nearly 12 million inhabitants or 18% of the population of France in only 2% of the country’s landmass. Representing 2.5% of the overall population of Europe it is the most populated urban area on the continent.

A younger and better educated population than the national average too, with 55% of the population being less than 40 years of age and 37% who hold a university degree. There are over 140,000 people in R&D and over 600,000 students following a university education in the region (40% of the French population in R&D is located in the Paris Region).

1Source: INSEE
The services sector dominates in the region representing 80% of the total workforce (approximately 6 million people). Thanks to its diversified economy and the high value add nature of the companies located there, the city is the most significant area for the creation of job opportunities, and the unemployment rate is among the lowest within France (8.8%).

As well as this the region has a significant proportion of foreign workers representing 13% of the workforce. Due to the large proportion of high calibre jobs, the average earnings per head are the highest in France. Within Europe Paris sits amongst those cities with the highest spending power.

55% of the population in the Greater Paris Region is under 40, versus 50% for the whole of France.

Active population in 2011

Source: INSEE - 2011
One of the largest economies in Europe\(^2\)

Paris and its region is one of the most important economic hubs in the world. Contributing to 31% of the overall GDP within France and 4% of the overall GDP of Europe the city is ranked first in terms of size of economy.

Paris is the second most popular destination in Europe for international real estate investment representing around 20% of all investment carried out by foreign investors in Europe. France is the first European country in number of large firms of the 2014 Global Fortune 500 ranking, and is the 4th at global level. Most of these firms have their headquarters in the Paris region (29 out of 31).

The economic fabric of the Paris Region is extremely diversified and industrial activity remains the most important compared to other regions of France. Particularly strong sectors include the Research & Development and high tech sectors (specifically the pharmaceutical and aerospace industries) which contribute to the majority of all exports from the region. Automotive production represents 13% of industrial activity, which is greater than agriculture & food (11.5%) and metallurgy (7.7%). Notwithstanding this the Paris Region’s economy is still extremely services orientated with over 80% of salaried employees working in this sector.

The world’s most popular tourist destination\(^3\)

The Paris Region is the world’s most popular tourist destination attracting more than 32 million French and foreign visitors per year, of which nearly half are from overseas. This represented an overall 67 million overnight stays in hotels in 2013.

\(^2\)Source: INSEE, Eurostat, Forbes / \(^3\)Source: Paris Office du Tourisme et des Congrès, CCIP
stable compared to the previous year, while foreign presence increased.

Paris offers some of the most popular museums and monuments in the world, attracting more than 73 million visitors in 2013. Among these museums, Le Louvre attracts more than 9 million people each year and the Eiffel tower 7 million.

In 2013 there has been an increase of 4% in foreign tourism in Paris. The north-american (US) tourists are the first among international tourists, with 1.6 million arrivals, showing an increase of 15%. The majority of hotel stays were in luxury hotels ("3-star +") representing 75% of all overnight stays in 2013. “3-star +” hotels are the most dynamic in the market and showed a 7.5% rise in overnight stays compared with 2012.

Paris is the world’s second destination for trade fairs (according to the ICCA) with a total of 1,055 events in 2013 with 650,000 attendees. This strong activity leads to a high proportion of business stays in the Paris Region and business travel represented 39% of all hotel nights in Paris during 2013.

The hotel supply for the Paris Region comprises over 110,000 rooms, 75,000 being situated in central Paris. More than 40% of all rooms are in the 4 and 5 star category, with 42% in the 3 star category. In terms of price level within Europe, Paris ranks 4th behind Geneva, Moscow, and London with an increase of 1.9% of the average prices in 2013. In 2013, the estimated total turnover for Paris hotels reached 6.6 billion € (+21.5% compared with 2011), with a strong dynamism in the 4 and 5 stars segment.

Tourism has a very important impact on the Paris Region’s economy. In 2012, 515,000 jobs were dedicated to the tourism industry. For central Paris, tourism represented 18% of total jobs.

> € 500,000
€ 100,000 > € 500,000
< € 100,000

Source: JLL/Eurostat 2009
Extensive infrastructure

Geographically Paris benefits from an excellent location positioned at the crossroads between northern and southern Europe. Many air, rail and road transport routes in western Europe pass through Paris which is a key hub for both passengers and freight traffic. Importantly the city is within a 2 hour flight of most other major European cities.

The transport infrastructure in the Paris Region is extensive and well developed:

- Charles de Gaulle airport is Europe’s second largest airport handling 90 million passengers in 2012. Thanks to its geographical position in continental Europe, most other European capital cities are reachable within a 2 hour flight from Paris (London 1hr10; Berlin 1hr45; Rome 1hr50; Madrid 1hr50). The airport is connected to the Parisian RER cross rail network as well as France’s TGV high speed rail lines serving regional France.

- Charles de Gaulle airport is also the largest freight airport in Europe.

- Orly airport is the second international airport of Paris Region.

- Le Bourget airport is the busiest private business airport in Europe as well as being home to the world’s largest air show dedicated to the aviation and space industry (Salon International de l’Aeronautique et de l’Espace).

- Several major high speed train links to other European capitals: London within 2hr15 (Eurostar) and Brussels within 1hr25 (Thalys). A public transport network that includes 14 metro lines (213 km & 300 stations) within Paris transporting around 4 million passengers per day, 5 RER cross rail lines (3 million journeys per day) serving Paris and the wider Paris Region, as well as 3 tram lines (30 km, 56 stations and close to 300,000 passengers per day).

The level of public transport traffic has seen a sharp increase in recent years which has led to several large extensions or new line projects:

- Extensions of 3 metro lines (Lines 4, 12 and 14) where services commence between 2012 and 2019.

- Creation of 4 new tram lines and extension of 3 existing lines.

- Extension of one RER line (Line E) towards La Defense.

- Renewal of the underground metro network’s rolling stock and track including the automation of Line 1 (the main metro line in Paris with over 700,000 passengers per day) and the installation of double decker trains on RER Line A (the main train line in Paris with over 1 million passengers per day).

The ‘Grand Paris’ project

As a prestigious world city, Paris is currently subject to a vast project that aims to defend and improve the city’s international stature. The ‘Grand Paris’ project covers several themes, but two in particular are likely to influence the real estate market in the coming years:

- The development of several clusters around Paris (research, finance, aviation etc..) which could impact the choice of location for certain companies.

- The creation of a new transport masterplan that will connect important transport hubs (airports, high speed rail lines and RER stations) with new districts around the city. One of the important aims is to provide access between suburban districts round the city without having to travel in and then out of the centre of Paris. This project will comprise 4 new automated subway-lines, developing more than 200 km of new network with 69 stations and the extension of 2 existing lines. The construction of the first lines has now started, with the line 14 extension towards the north of Paris. The first works, for the southern part of the orbital line 15, are due to start early 2015 and to be completed in 2020.
PARIS PROPERTY MARKET OVERVIEW

The largest office market in Europe

The Paris Region is home to the largest office market in Europe with around 53 million square metres (sqm). It is the third largest in the world after Tokyo and New York. Paris can be considered as having one of the most structured and transparent property markets in the world.

On average over the last 10 years, the Paris Region letting market has seen 2.3 million sqm of take-up per annum. This places it at the top of all European markets in terms of demand.

The region is composed of several submarkets that reflect a high level of economic diversity with a wide choice of business locations. The vacancy rate in the region is established at 7.6% (at the end of the year).

The real estate market has developed from the heart of Paris outwards beyond the ring road (“Périphérique”) of the city thanks to the improvement in efficiency and speed of public transport over the years.

Two emblematic office markets dominate the Paris business world: the Central Business District (CBD) is one of the most historic business locations in Europe is found between “l’Arc de Triomphe” and “l’Opéra”; and “La Défense”, to the west of the capital is today the largest office district in Europe.

In terms of real estate investment activity, the Paris Region is second largest in Europe after London with an average of €10 - 12 billion invested every year. The liquidity and maturity of the market continually attracts investors looking for new opportunities. There is a strong international dimension with 30 - 50% of total investment volumes coming from foreign investors each year.

In the Golden Triangle area (around the Champs-Elysées), the best properties sell at yields of between 3.75 - 4.25% (as at Q4 2014).

Prime yields in La Défense are positioned around 5.50 - 6.00% and around 4.75 - 5.25% in the Western Crescent submarkets.

COMPETITIVE ADVANTAGES OF PARIS

The diversity and the competitive occupational costs on offer in the region make this market an excellent destination for real estate investment. Paris offers a depth of market that positions it well to resistance from economic downturns:

- A stable political, economic and legal environment.
- Diversified and international occupier base, the Paris Region being the 1st region in Europe for inward investment from the Top 500 International companies.
- A large diversity in business sectors and in the size of occupiers, allowing for robust and recurrent take-up levels and low rental volatility.
- A wide offer of properties with varying architecture, technical characteristics, energy performance and occupational costs.
- A stable stock of office space limiting any oversupply phenomenon and overall vacancy rates.
- 2nd largest investment market in Europe with the highest level of transparency.
- Liquid investment market with a strong presence and diversity of international investors.
- Index-linked rental increases providing stable growth of income returns.
- Stable capital values with less volatility than its main competitor London.
- Excellent accessibility thanks to a well-developed and efficient public transport network, which will be reinforced by the automated Grand Paris transportation project.
Why invest in Paris?

Key market indicators Paris Region

<table>
<thead>
<tr>
<th></th>
<th>10 yrs average (2004 - 2013)</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office stock</td>
<td>-</td>
<td>52.9 million sqm</td>
</tr>
<tr>
<td>Take-up</td>
<td>2,300,000 sqm</td>
<td>2,118,000 sqm</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>5.0 - 7.5%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Prime rent</td>
<td>650 - 830 €/sqm</td>
<td>740 €/sqm</td>
</tr>
<tr>
<td>Investment volumes</td>
<td>€ 12 billion</td>
<td>€ 17 billion</td>
</tr>
<tr>
<td>Prime yields</td>
<td>3.50 - 6.00%</td>
<td>3.75 - 4.25%</td>
</tr>
</tbody>
</table>

Source: JJL / Immostat
The CBD is the historic business district within the capital. It extends east to west from “Le Louvre” museum to Porte Maillot, and from south to north from the river Seine to Saint-Lazare station. It encompasses some of the most recognised areas of Paris, such as Champs-Elysées, Opéra and place de la Concorde.

This district offers the highest concentration of public transport routes within Paris allowing for fast and simple access to all areas of the capital and the region thanks to 2 RER lines (regional express trains) and 10 out of the 14 existing metro lines.

The CBD provides the largest concentration of office space in the region with a total stock of 6.7 million sqm (13% of the Paris Region’s overall stock). The office supply is comprised mainly within Haussmanian style buildings of average sizes between 1,500 and 3,000 square metres as well as some large and prestigious redevelopments.

The CBD is further divided into two submarkets:
- To the east (1st, 2nd and 9th districts) is the “Financial District” around the former stock exchange “La Bourse” and Opéra. This area is the historic location of the large French banks, financial institutions and insurance companies;
- To the west (8th, 16th and 17th districts), the “Golden Triangle” around the Champs-Elysées and Étoile. This market is the most prestigious of the region and achieves the highest capital values. This location is most the sought after by high-value businesses (finance houses, law firms, banks, business advisory), international companies and by large corporates (including industry) for their headquarters.

This market is generally characterised by limited available supply with few new office developments delivered each year. Consequently new and refurbished properties brought to the letting market usually attract AAA tenants, seeking prestigious addresses suitable for their headquarters. Among the most significant recent leasing transactions are: Covea’s 22,000 sqm headquarters (French insurance) close to the Saint-Lazare station, Clifford Chance with ~10,000 sqm not far from the Champs-Élysées, Generali with ~7,500 sqm in the Financial District, Fast Retailing with ~7,500 sqm close to the Louvre museum, DLA Piper Global Law Firm with ~6,000 sqm not far from the Opera Garnier, or McKinsey & Company on the Champs-Élysées with 5,700 sqm.

### Key market indicators 10 yrs average 2014

<table>
<thead>
<tr>
<th>Central Business District</th>
<th>10 yrs average (2004 - 2013)</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office stock</td>
<td>-</td>
<td>6.7 million sqm</td>
</tr>
<tr>
<td>Take-up</td>
<td>379,000 sqm</td>
<td>378,000 sqm</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>3.2 - 6.5%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Prime rent</td>
<td>650 - 830 €/sqm</td>
<td>740 €/sqm</td>
</tr>
<tr>
<td>Investment volumes</td>
<td>€ 2.2 billion</td>
<td>€ 3.9 billion</td>
</tr>
<tr>
<td>Prime yields</td>
<td>3.50 - 6.00%</td>
<td>3.75 - 4.25%</td>
</tr>
</tbody>
</table>

Source: JLL / Immostat
Established in the 1960’s La Défense is the largest purpose-built business district in Europe (3.4 million sqm). Situated in the Hauts-de-Seine department to the west of Paris and along the historic Parisian axis extending from Place de la Concorde, up the Champs-Elysées through the Arc de Triomphe and across the Pont de Neuilly to La Grande Arche de La Defense.

La Défense is mainly composed of high rise office towers of various generations. There are however several large residential apartment blocks and many amenities (such as the CNIT and Quatre Temps shopping centres) making this also an important commercial hub in the region.

Benefitting from an extensive transport infrastructure that links directly to the heart of Paris thanks to metro Line 1 and RER Line A. In the near future the extension to the RER E Eole Line and later the Grand Paris Express will connect this business district to the international airports of Roissy CDG and Orly.

The district is home to 2,950 businesses employing 180,000 workers. The largest industrial companies, advisory groups, finance houses and insurers are all represented in this submarket. The latest significant leasing transactions include the extension of Ernst & Young in Tour First, the first tower to have been comprehensively refurbished under the 2008 La Défense Renewal Plan, but also the lettings of KPMG and Banque de France in the Eqho tower (totally refurbished), the new Thalès headquarter in the new Carpe Diem tower, Axa IM in the new Majunga tower, the HSBC leasing in Coeur Défense and the Euronext movement from Paris to La Défense for their headquarters.

This plan aims to encourage restructuring of obsolete tower buildings but also construct 300,000 sqm of new office space and 100,000 sqm of additional housing within the heart and the surroundings of the district. It will be bolstered by an improvement and modernisation of the public transport system and an improvement of the general environment. Within two years (2013 - 2014), four landmark projects were delivered for a total of 235,000 sqm (Carpe Diem, Eqho, Majunga and D²). Two other existing towers, not included in the La Défense Renewal Plan, were also totally refurbished: Between and Tour Blanche (~22,000 sqm each).

Key market indicators La Défense

<table>
<thead>
<tr>
<th>Key market indicators La Défense</th>
<th>10 yrs average (2004 - 2013)</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office stock</td>
<td>-</td>
<td>3.4 million sqm</td>
</tr>
<tr>
<td>Take-up</td>
<td>174,000 sqm</td>
<td>234,800 sqm</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>3.5 - 12.2%</td>
<td>12%</td>
</tr>
<tr>
<td>Prime rent</td>
<td>440 - 585 €/sqm</td>
<td>520 €/sqm</td>
</tr>
<tr>
<td>Investment volumes</td>
<td>€ 1.2 billion</td>
<td>€ 1.7 billion</td>
</tr>
<tr>
<td>Prime yields</td>
<td>4.25 - 6.50%</td>
<td>5.50 - 6.00%</td>
</tr>
</tbody>
</table>

Source: EPADESA / DEFACTO / JLL
In addition to the traditional markets of the CBD and La Défense, the Western Crescent is another mature and well established market attracting many businesses. This area benefits from proximity to the traditional office markets and to the wealthy residential locations to the west of Paris where many senior executives live. In addition it offers an attractive alternative for businesses wishing to be located close to the Paris CBD or La Défense at lower occupational costs while still benefitting from good accessibility.

The Western Crescent runs from the north west to the south west of Paris and includes several sub-markets. Among these are three locations particularly sought after by corporates: Boulogne-Issy, Neuilly-Levallois and Rueil.

- **The Boulogne-Issy** market is located to the south-west of Paris being part of the Southern Bend office sub-market. The office stock was mainly developed over the last 20 years and is still developing with the recent completion of some new office schemes. The Southern Bend is the third largest market in the Paris Region, after Paris CBD and La Défense, and comprises a total office stock of around 2.5 million sqm. Boulogne and Issy alone represent a share of 2 million sqm. This market is easily accessible from Paris by road and public transport offers large and modern properties at competitive rental levels. It has attracted many large firms, notably in the advertising, television, media and telecoms sectors (Microsoft, Bouygues Telecom, Al-Jazeera) and in various service and industrial sectors (OECD, Roche pharmaceuticals, Carrefour, Veolia, HP, Safran). It will be served by the new metro Line 15 from 2020.

- **The Neuilly-Levallois** market is located to the west of Paris and is immediately adjacent to the two main office markets of the region, Paris CBD and La Défense. Again the market here was developed mainly over the last 20 years and offers a total of 1.4 million sqm of office stock. The stock comprises many large office buildings developed in the 1990’s and 2000’s with extensive modern amenities. Neuilly and Levallois are highly sought after by senior executives for their high quality and pleasant environments and also thanks to their immediate proximity to the CBD and La Défense. Large firms that have chosen this location, include Deloitte, Chanel, Altran, PWC, L’Oréal, Cetelem, SAP, Henner, CMS Bureau Francis Lefebvre…etc. L’Oréal has implement significant movements in 2014 through 3 major transactions totaling more than 80,000 sqm of offices.

### Key market indicators

<table>
<thead>
<tr>
<th>Western Crescent</th>
<th>10 yrs average (2004 - 2013)</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office stock</td>
<td>-</td>
<td>8.3 million sqm</td>
</tr>
<tr>
<td>Take-up</td>
<td>549,000 sqm</td>
<td>537,400 sqm</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>6.8 - 14.0%</td>
<td>12.4%</td>
</tr>
<tr>
<td>Prime rent</td>
<td>430 - 600 €/sqm</td>
<td>470 €/sqm</td>
</tr>
<tr>
<td>Investment volumes</td>
<td>€ 2.2 billion</td>
<td>€ 2.7 billion</td>
</tr>
<tr>
<td>Prime yields</td>
<td>4.50 - 6.50%</td>
<td>4.75 - 5.25%</td>
</tr>
</tbody>
</table>

Source: J JL / Immostat
Why invest in Paris?

The Rueil market is located to the south-west of Paris, close to La Défense. This town offers a total office stock of over ~750,000 sqm with most of the properties being concentrated in a business district called “Rueil sur Seine”. This market is well served by public transport with the RER Line A providing direct services to La Défense and Paris within a few minutes, and by road with the main orbital motorway of the Paris Region (A86). This market was developed in the 1990’s and offers large office buildings, normally chosen as back-office locations for large corporates but also for their headquarters in some instances. Among the large corporates located here are Schneider Electric, Cardif Insurance, Vinci, Heineken, Unilever, Technip, Soletanche Freyssinet, Ingerop or American Express...etc.

THE INNER RIM

1ère Couronne

Over the last decade many large international corporates have left the central office markets of Paris, La Défense and the Western Crescent to relocate to the suburbs of Paris. This phenomenon covers a wide range of business activities such as Banking & Finance, Telecommunications, Pharmaceuticals, Industrial etc. Among the largest moves were Crédit Lyonnais (one of the major French Banks) leaving the Paris Financial District for a large office development in Villejuif (Southern Inner Rim), SFR leaving La Défense for Saint-Denis (Northern Inner Rim), France Telecom’s occupation of a large office property in Saint-Denis and Châtillon, Pfizer in Montrouge (Southern Inner Rim), Arcelor Mittal in Saint-Denis, Crédit Agricole in their huge campus in Montrouge, and the Société Générale in Fontenay-sous-Bois (Eastern Inner Rim) gathering several thousand employees currently working in La Défense. More recently, Veolia has decided to vacate its offices in the CBD, La Défense and Nanterre to a new single headquarter in Aubervilliers (~80,000 sqm), near Paris in the Northern Inner Rim. All these companies were attracted by the opportunity to occupy the most modern properties in the region with good accessibility by public transport and more importantly at an attractive level of rent of around 300 €/sqm.

These markets will benefit from the future metro network Grand Paris Express, that will be developed in the coming 15 years and offer 4 new lines.
Why invest in Paris?

France and particularly Paris has been an internationally recognized retailing destination for many decades. The importance of the image of Paris as the capital of fashion and shopping is a key factor in attracting people to the city.

The Paris retail market is well established and the density of retailers is among the highest in Europe, especially around the Haussmann and Opera shopping districts.

The Parisian high-street retail market is concentrated around four major shopping hubs:

**CHAMPS-ELYSEES** – bordering with the famous golden triangle, Avenue des Champs-Élysées, Avenue George V and Avenue Montaigne, where multiple international designer and luxury brands are located (Chanel, Dior, Yves Saint-Laurent, Louis Vuitton ..etc). The Champs-Elysées has approximately 100 million visitors per year, of which 20% are foreign.

View from the Champs-Elysées

**SAINT-LAZARE / OPÉRA / MADELEINE** is centred around the two major department stores the Galeries Lafayette and Le Printemps. This area is the largest concentration of retail in Europe (sales area and turnover combined) with an annual turnover of approximately € 2.5 billion (source: Procos).

These Department stores, which contribute to 60 % of the turnover of the sector, benefit from more than 6 times the number of visitors than Le Louvre (9.3 million visitors) or the Eiffel Tower (7.1 million visitors).

The Opéra – Palais Garnier
Demand for prime retail space from international brands remains very strong year on year and consistently above the available supply in the Paris market. The weight of this demand and the scarcity of space have an upward pressure on rental values, by keeping them at high levels, for the sought-after locations. This has been witnessed with the MAC (Estée Lauder Group) leasing transaction on the Champs-Elysées at €18,000 per sqm, which remains at this day the reference. Rental values are currently at an average level of €15,000 - €18,000 per sqm for the best positions on the even numbered side of the Champs-Elysées however some retailers are prepared to consider even higher rents to secure an exceptional pitch and benefit from a footfall of in excess of 300,000 per day, a licence for Sunday trading and an authorisation to stay open until midnight.

Over the past years, several recognised international retailers such as Abercrombie & Fitch, Banana Republic, Marks & Spencer, Tag Heuer and Tiffany have chosen to sign leases on premises along this internationally renowned address.

So far as the retail investment market is concerned this sector continues to offer advantages to long term investors looking for capital preservation. The passion for this sector continues to be sustained with an average share of 26% of overall property investment volumes in France over the last five years (2010 - 2014).

Due to the resilience of this asset class, opportunities have recently been in high demand by investors. From 2010 to 2013, between €3 and 4 billion were invested each year in the retail property sector. In 2014, the investment volumes exceed €7 billion, a historic level ever reached on the retail investment market.

Today in terms of prime yields the best high street retail units transact at around 3.50 - 4.00%, shopping centres at 4.50 - 4.75% and the highest quality out of town retail parks at 5.50 - 5.75%.

**RIVOLI / LES HALLES** – stretches from the Hôtel de Ville (city hall) to Le Forum des Halles (which is currently undergoing major redevelopment). Situated in the heart of Paris this is currently one of the most ambitious real estate projects of the last few years.

The project will be delivered in 2018. In terms of commercial supply the Rue de Rivoli attracts the major high street brands. The arrival of the American brand Forever 21 on rue de Rivoli reinforced the international attractiveness of this location.

**SAINT-GERMAIN-DES-PRÉS / MONTPARNASSE** stretching from Saint-Germain-des-Prés to the emblematic Montparnasse tower (the tallest building in central Paris), welcomes nearly 1.2 million visitors per year.

The latest iconic openings include: Ralph Lauren which inaugurated its largest Parisian flagship store on boulevard Saint-Germain, and Hermès which have installed themselves on rue de Sèvres. Shang Xia, a brand launched by Hermes in China in 2010, and Oméga also moved to this same street.

The Montparnasse Tower
Paris is one of the world’s most visited cities benefiting from its position as the financial and administrative capital of France and its unique reputation as a touristic destination. In previous years, Paris ranked first worldwide among the top international destinations for conventions and conferences enabling it to attract a diversified client mix.

Overall business clientele, including corporate demand, represents a stable average of about 40-45% of hotel bed nights over the years. Additionally the city enjoys strong international exposure, with foreign visitors accounting for about 69% of total bed nights. November YTD 2014, a 3.5% fall in international overnight stays resulted in a 2.2% decrease in total overnight stays, partially due to the absence of the Air Show in 2014.

The hotel supply in Paris comprised almost 1,510 hotels and 78,000 rooms in 2014*. Over the last decade, Paris has registered an upgrading of its hotel supply further boosted by the new classification encouraging hotel owners to upgrade their products. Moreover the world’s largest hotel groups have increased their presence in Paris, with hotels primarily positioned in the upscale and luxury segment. The Palace segment is expected to become more competitive in the medium term with the opening / re-opening of three properties by 2018. This trend illustrates their confidence in the city’s long-term prospects.

Paris remains a highly attractive city for hotel operators seeking flagship properties in continental Europe. However, the lack of available development sites, high development costs and limited acquisition opportunities in the market represent significant barriers to entry. Demand for quality hotel investments significantly outweighs available supply in the market.

Prime assets in Paris are being viewed as a secure long-term investment and attract a wide and diverse pool of both established and emerging sources of capital. The strength of the Parisian market was again reflected in the low yields for hotel acquisitions in 2014.

<table>
<thead>
<tr>
<th>Grade</th>
<th>Establishments</th>
<th>Rooms</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 &amp; 5-star</td>
<td>306</td>
<td>27,097</td>
<td>35%</td>
</tr>
<tr>
<td>3-star</td>
<td>621</td>
<td>28,726</td>
<td>47%</td>
</tr>
<tr>
<td>0 &amp; 2-star</td>
<td>577</td>
<td>22,156</td>
<td>28%</td>
</tr>
<tr>
<td>Total</td>
<td>1,504</td>
<td>77,979</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Insee
Paris has historically been one of the most successful hotel markets across Europe with Average Daily room Rates ranging from €95 for budget hotels to above €1,000 for Palaces. Despite the poor GDP growth prospects and the VAT increase (from 7% to 10%) in 2014, a 1.1% growth was witnessed on Paris RevPAR excluding VAT.

Hotel investment volumes in Paris have been resilient in the current market and have continued to recover since 2009 to reach €1.2 billion in 2014 representing 60% of total hotel transactions in France. In terms of investment volumes Paris is on average the 2nd most active and liquid market in Europe, just behind London.

More and more often acquisitions are being approached with a financial and real estate perspective from a variety of investors that continue to offer record purchase prices for the trophy assets. The ability today to acquire assets held vacant possession is essential for owner-operators to establish a dominant position in the market. Market liquidity is also due to the variety of investment products: freehold property, leasehold, real estate only.

The hotel market represents around 8% to 10% of overall real estate investment transactions in France. Hotels as an asset class now offer true diversification opportunities. Over the past year, prime yields have decreased by 50 to 75 bps. Nevertheless, they tend to remain higher than in the office sector with a small premium noticed for their single purpose nature. Trophy assets can however attract high pricing reflecting yields close to levels seen on office or retail investments.
The residential property market is subject to considerable pressure from demand with a lack of new supply/developments and consequently capital values and rents are among the highest in France. Despite the current economic downturn, prices demonstrate a good resistance with a limited drop of 1.1% in Paris intra-muros and -1.4% at regional level. The Paris region as a whole is considerably more resistant than the rest of the country in terms of pricing.

With an average capital value sales price of € 8,120 per sqm as at the end of Q2 2014 (for vacant possession sales), Paris still remains cheaper than some other large capital cities such as London. The districts which are most in demand from buyers, and therefore the most expensive, remain the 4th, 6th and 7th as well as the western Parisian districts of the 8th & 16th arrondissements of the city where capital values can reach in excess of € 11,000 per sqm. Outside the city, the drop is stronger. It is in the western suburbs where the highest prices are found where they can reach capital values up to € 8,700 per sqm (such as in Neuilly sur Seine) and where average prices sit around € 5,300 per sqm. The northern and the eastern inner suburbs of Paris (towns immediately adjacent to the capital), have lower average prices, between € 3,200 and € 4,200 per sqm.

The size of the residential investment market is considerably smaller than that of the office market but rising. In 2013 approximately € 2.8 billion were invested on the whole country in residential compared with € 15 billion in the commercial market. After several years of stability, the investment volumes in residential increased in 2012 and 2013. This is witnessed by prices of vacant properties which continue to achieve higher levels than properties with a tenant.

Overall the residential sector is less developed than the commercial market with comparatively smaller volumes of investment activity. Generally fewer institutional players position themselves on this market as landlord and tenant laws and regulations are more heavily in favour of the tenant, rental indexation is more gradual and on average transactions show lower net initial yields than in the commercial sector. Nevertheless, the come-back on this market of a few institutional investors (SNI, Caisse des Dépôts et Consignations) and of foreign investors (Patrizia, Akelius…) is observed in favor of long-term investments to take advantage of potential capital gains that allow to improve significantly expected returns.

Residential and commercial investment volumes in France

Source: JLL / Prices are those calculated on second hand properties by the Paris Notaries Chamber.
### Why invest in Paris?

#### Evolution Q2 2014 vs Q2 2013 in the 17th district

<table>
<thead>
<tr>
<th>17th</th>
<th>0.90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>8th</td>
<td>-2.00%</td>
</tr>
<tr>
<td>16th</td>
<td>-2.60%</td>
</tr>
<tr>
<td>15th</td>
<td>-1.10%</td>
</tr>
<tr>
<td>14th</td>
<td>-1.50%</td>
</tr>
<tr>
<td>13th</td>
<td>-2.20%</td>
</tr>
<tr>
<td>12th</td>
<td>-1.70%</td>
</tr>
<tr>
<td>11th</td>
<td>-1.20%</td>
</tr>
<tr>
<td>10th</td>
<td>-1.10%</td>
</tr>
<tr>
<td>9th</td>
<td>2.80%</td>
</tr>
<tr>
<td>2nd</td>
<td>3.80%</td>
</tr>
<tr>
<td>1st</td>
<td>3.80%</td>
</tr>
<tr>
<td>4th</td>
<td>4.40%</td>
</tr>
<tr>
<td>18th</td>
<td>-0.40%</td>
</tr>
<tr>
<td>19th</td>
<td>-1.10%</td>
</tr>
</tbody>
</table>

**< 8,280 €/sqm**

**8,280 to 10,000 €/sqm**

**> 10,000 €/sqm**

Source: Paris Notaries Chamber
THE ACQUISITION PROCESS

The acquisition process should be viewed and considered in the context of the wider investment lifecycle including the acquisition / management / and disposal processes.

Among the various considerations that need to be taken into consideration, investors should pay particular attention to:

- Legal and tax requirements and incentives;
- Regulatory matters;
- Financing / Property management / Income stability.

Disclaimer

The legal and tax comments mentioned hereafter are only of a general nature. As a result, it is strongly recommended to require the assistance of a legal or tax adviser to benefit from a proper legal or tax advice in order to take into consideration the specific facts and circumstance of a given situation. In addition, such comments are subject to changes in the law, case law or administrative doctrine, and such changes may be retroactively effective. If so, the comments as set forth below may
Why invest in Paris?

Acquisition of French real estate

French real estate may be acquired in either of two ways:

1. **DIRECTLY**: by purchasing the property (an asset deal);
2. **INDIRECTLY**: by purchasing the Special Purpose Vehicle which owns the property (share deal).

The choice of either route will depend on:
- The assets to be acquired (single asset vs. a portfolio);
- Timing;
- The need to hold the assets through a dedicated vehicle (for tax purposes mainly).

However, in each case, the acquisition process will be similar and the purchaser will need to complete detailed due diligence prior to acquiring the property / vehicle.

The financing of an acquisition in the French market is generally made through a combination of equity and debt (either a bank loan or a corporate loan or a mix of both), subject to compliance with interest rate limitations and thin capitalization rules from a French tax perspective.
DIRECT INVESTMENT (ASSET DEAL)

 Acquisition process of a property

<table>
<thead>
<tr>
<th>Identification of properties:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Selling agents instructed put the product on the open market</td>
</tr>
<tr>
<td>- Acquisition agent identifies potential properties either on or off market</td>
</tr>
<tr>
<td>- Direct approach</td>
</tr>
</tbody>
</table>

| - Property Visit and initial analysis |
| - Submission of letter of intent (LOI) & including a non-binding offer in order to be granted access to due diligence material via a data room |

| - Completion of the due diligence on the property with commercial, legal, technical advisors (including inter alia the review of litigation, quality of occupancy and existing commercial leases) |
| - Binding offer |

**Signing of either:**
- A binding sale and purchase agreement or
- A direct sale

**Registration of the Notarized deed of sale**

2 months

4 to 6 months

7 months

(subject to any conditions precedent and pre-emptive rights of the relevant local authority)

- Limited transfer of tax risks
- No transfer of deferred tax liabilities
- Financing generally easier to obtain

- Transaction generally more expensive for transfer tax purposes
INDIRECT INVESTMENT (SHARE DEAL)

Acquisition process of shares in a predominantly real estate company

Identification of properties:
- Sending a letter of intent including a binding commitment to the seller and condition precedent if any

Completion of the initial due diligence on:
- The property, the occupancy of the premises
- Litigation
- Existing commercial leases
- The legal and tax status as well as the liabilities of the company

Signature of a Preliminary agreement, which is either:
- An option agreement (promesse unilatérale de vente ou d’achat); or
- An immediate binding sale and purchase agreement (compromis synallagmatique de vente)

Depending on the kind of company which owns the property, execution of the transfer of shares by either:
- A sale and purchase agreement; or
- A transfer order (ordre de mouvement)

Registration of the sale and purchase agreement with commercial court

Registration of the sale and purchase agreement with commercial court

2 MONTHS

3 MONTHS

4 MONTHS

(subject to any conditions precedent and city hall preemptive rights)

- In principle, lower transfer tax costs
- This kind of transaction allows acquiring several assets as a result of one operation
- Quicker timing for transaction

- Need to negotiate warranties to cover the risks attached to the purchased entity
- Financing more complex to structure. No step-up in value on the property is possible unless the entity is a SCI (capital gain tax latency issue)
OVERVIEW OF THE MAIN LEGAL ASPECTS

AS FAR AS REAL ESTATE IS CONCERNED, TWO WAYS OF INVESTING IN FRANCE MAY BE CONTEMPLATED:

- OWNERSHIP OR
- LEASING

Ownership

The right of ownership is one of the most protected rights in France. It is an absolute right. As such, freehold ownership confers on the holder the use of the assets, the right to receive the fruits of these assets (rents, interest on money due, etc.) and the right to dispose of the assets.

There are several types of ownership, including co-ownership and ownership by division into units.

- Co-ownership

Co-ownership arises when a building is divided into co-ownership units (lots de copropriété) owned by several owners. Each unit comprises two parts:
- A privately owned area (partie privative); and
- A right over the common areas (parties communes) (e.g: a corridor)

Each part of the building is identified in a description of the division of the property (so-called “états descriptif de division”). Co-owners are required to abide by co-ownership regulations (règlement de copropriété) that must be registered with the land registry and include three types of provisions:
- Provisions relating to the distinction between private and common areas, their intended purpose and the conditions of their enjoyment by the co-owners (e.g: housing or office use)
- Provisions relating to the breakdown of co-ownership fees for the use of the shared services or in case of refurbishment of the common areas for instance (co-ownership fees are proportional to the size of each unit)
- Provisions relating to the management of the building

Each co-owner can freely enjoy not only the private area but also the common areas within the limits set in the co-ownership regulations.

Co-ownership is a form of freehold which means that a co-owner can freely dispose of its unit.

- Ownership by division into units (“division de propriété en volumes”)

There is ownership by division into units when a property is divided into units of different size and shape, either horizontally or vertically or both, each unit having its own right of ownership. It means that the owner can build within the limits of its unit, subject to any easements (right to natural light, minimum distance between buildings, etc) that may encumber the unit and which are set out in the description deed of the division into units.

There is no specific regulation governing this type of ownership. This type of real estate organization can be found at La Défense, Paris’ business center.

Ownership is acquired through a notarised deed of sale which must be registered with the land registry. Pursuant to the law, and save as otherwise agreed between the parties when authorized, the seller of a property has to provide the buyer with two warranties to cover eviction and hidden defects.
Why invest in Paris?
Leasing

When renting commercial buildings, it is necessary to conclude a commercial lease agreement, for which the specific rules applicable are mostly mandatory.

The rules governing commercial leases are aimed at protecting the “commercial property” of the lessee and therefore are generally more lessee-friendly as they grant the lessee:

- The right to have the commercial lease renewed; and
- An indemnity in case the lessor refuses to renew the commercial lease (unless such decision is on the grounds of a material breach committed by the lessee or the building is declared unsafe and dangerous by a public authority).

Please note that a new law enacted on 18 June 2014 (known as the “Pinel Law”) amended some of the provisions applicable to commercial lease agreements. Most of these amendments are applicable to lease agreements entered into or renewed as from 1 September 2014 but some of them are also applicable to prior leases.

Therefore, the main provisions of a commercial lease agreement are as follows:

● Duration

The minimum term of a commercial lease agreement is nine years but the parties can agree to a longer term. Prior to the Pinel Law, the lessee had the right to terminate the commercial lease at the end of every three-year period unless otherwise agreed between the parties. Currently, this waiver to the three-year termination period may only be entered into for certain leases such as those with a duration of more than nine years or for single-use-premises.

If the term of the lease exceeds 12 years, additional constraints will be triggered: the publication of the lease in the local land registries (and payment of taxes), the amount of the rent will no longer be capped in the event of renewal, and additional taxes.

Even if a commercial lease has a definite term, it will remain in force for an unlimited term unless:

(i) It is renewed as described below; or
(ii) Six months’ prior notice of termination is given by either the lessor or the lessee (it being specified that further to the Pinel Law, this notice may be delivered by extrajudicial process or by letter with acknowledgement of receipt).

● Right of the lessee to the renewal of the commercial lease

The right of the lessee to have the commercial lease renewed is subject to the following conditions: (i) a commercial lease agreement, (ii) operation of a business as a going concern by the lessee, in the rented premises, for a period of at least three years before the term of the lease and (iii) registration of the business and the premises with the Registre du commerce et des sociétés or the Répertoire des métiers.

The renewal of the lease results from the express or tacit acceptance of the renewal offer made by the lessor or the lessee.

- The lessor’s renewal offer must be delivered to the lessee. The lessee can accept the renewal under the terms and conditions set out in the offer or accept the renewal but not its terms and conditions. In particular, if there is disagreement on the rent, either party must go to court to have the renewed rent determined. In the event of failure to do so within two years as from the renewal offer, the lease will be renewed under the terms and conditions set out in the offer.

- If the lessor has not delivered an offer as mentioned above, at least six months before the term of the lease, the lessee may:

  - Do nothing. In that case, the lease will be tacitly renewed for an unlimited period of time with the risk that the rent will be uncapped after 12 years (except if the lease provides for renewal at market value)
  - Have a bailiff deliver a renewal offer to the lessor. Should the lessor want to reject the offer, it must react within three months, otherwise the lessor is deemed to have accepted the renewed lease. The parties must go to court as described above if there is disagreement on the renewed rent

The lease is renewed under the same terms and conditions unless otherwise agreed between the parties.

● Rent

The rent is freely determined by the parties and should normally reflect the market value.

In practice, the rent is either a fixed amount (e.g. offices), or can be based on the turnover of the lessee or be a mix of both (minimum guaranteed rent and a proportion of the turnover) (e.g. retail).
- Indexation of the rent

The parties can decide that the rent will be automatically indexed annually on the basis of an index published quarterly by the INSEE. Depending on the activity of the lessee, the applicable index may be the ICC (index du coût de la construction), the ILC (indice des loyers commerciaux), or the ILAT (indice des loyers des activités tertiaires).

In addition, the rules on commercial leases also provide that the lessee or the lessor can claim for a revision of the rent after a minimum 3-year period.

- Renewed rent

The general principle is that the rent under the renewed lease reflects the market value. However, this renewed rent is capped at the variation of the applicable index (further to the Pinel Law, only ILC or ILAT may be used to calculate this variation; the ICC is no longer applicable) between the date of the lease and the termination date of the lease.

However, there are several exceptions where the renewed rent may not be capped (lease with an initial term of nine years but whose effective duration exceeds 12 years due to tacit renewal, significant change in the (i) features of the premises, (ii) use of the premises, (iii) respective obligations of the parties or (iv) local commercial factors). Further to the Pinel Law, should the rent cap cease to apply, the variation in the rent will nonetheless be limited to 10% of the rent paid over the previous year.

- Major repairs

Costs of major repairs are borne by the lessor but the parties are free to agree otherwise.

Nevertheless, further to the Pinel Law, a decree was published on 3 November 2014 specifying the “services charges, taxes, duties and fees that, given their nature, cannot be charged to lessees”. For instance, major repairs (i.e. article 606 of the French Civil Code) may no longer be borne by the lessee.

- Sublease and transfer of the lease agreement

Unless otherwise agreed between the parties, the lessee cannot sublease the premises.

In case of sale, the lease agreement will be automatically transferred to the purchaser of the premises. Things are different with respect to the lessee. Indeed, the general rule is that the lessee cannot transfer the lease agreement without the prior authorization of the lessor and subject to certain formalities being carried out, except in case of transfer of the lessee’s business as a going concern. However, the lessee may have to give prior notice to the lessor and/or the lease agreement may grant the lessor a preferential right over the business operated on the premises. A similar obligation can also be imposed on the lessee in case of a change of control.

Lastly, the Pinel Law introduced, under certain conditions, a preemption right to the benefit of the lessee in the event that the lessor decides to sell the premises.

The conclusion of a lease agreement may also trigger different French tax consequences (corporate income tax, VAT, registration duties, business tax) depending on the nature or duration of the lease involved which need to be carefully assessed.

Consequently, commercial lease agreements have to be negotiated with great attention to detail.
30 - Why invest in Paris?

Environmental regulations

Sustainable Development

In 2007, a series of conferences took place in France to discuss the long-term policies that should be implemented in France as regards the environment and sustainable development. It finally led to the enactment of two laws referred to as Grenelle 1 and Grenelle 2 which implement sustainable development and environmental consideration in many sectors, including real estate.

In particular, a new environmental appendix (also called “green lease”) must be attached to all lease agreements relating to premises exceeding 2 000 m² of lettable area and that are used as offices or for commercial purposes.

This new environmental appendix must be attached to all new or renewed lease agreements as from 1 January 2012 and to all existing leases as from 13 July 2013.

The objective of this new regulation is to improve energy performance. Therefore the environmental appendix contains information to be provided both by the lessor and the lessee:

- List, description and energy information relating to the property, waste system, heating, cooling, ventilation, light and any other specific system of the property
- Annual energy consumption of the equipment and systems
- Annual water consumption
- Annual amount of waste generated by the property (if the landlord/tenant treats this directly) or amount that has been collected to be specially treated (by a third party).

This appendix should be the opportunity for the lessor and the lessee to determine areas of improvement and set objectives and if necessary binding commitments.

Although mandatory, the law does not provide for any specific sanction for failure to attach an environmental appendix or breach of the obligations set out therein. However, if the parties set out precise commitments in the appendix, one may consider that any breach of any of these commitments could entitle the other party to terminate the lease agreement for breach.

Buildings and certifications

The Grenelle 1 and Grenelle 2 laws impose new objectives and standards in terms of energy performance for both housing and tertiary buildings:

- New tertiary buildings are required to be “low consumption buildings” (“Bâtiment Basse Consommation” - BBC) and the same should apply to any new housing buildings as from 2013.
- Works to improve the energy performance of existing tertiary buildings will be required to be carried out between 2012 and 2020. A decree will set out the terms of this obligation. The costs of such renovation works will depend on the buildings, the type of renovation that is going to be imposed by the decree and the energy performance objective also set out therein.

There are several French “green” certifications.

The “legal” reference is the High Energy Performance label (“Haute Performance Énergétique” – HPE) which was created by an Order in 2006 and distinguishes between High energy performance, Very High energy performance, renewable energy and BBC buildings.

Another certification is the High Environment Quality (“Haute Qualité Environnementale” – HQE) which is aimed at promoting sustainable development in building construction. HQE certification comprises 14 criteria divided into four categories: green construction, green management, comfort and health. Sub HQE certifications exist depending on the type of building or renovation works, such as, for instance, NF Bâtiments Tertiaires Démarche HQE for new tertiary buildings, NF Renovation Demarche HQE or NF Démarche HQE exploitation for the operation of buildings.

Energy Performance diagnosis

The aim is to ensure that buildings are as efficient as possible in terms of energy consumption. For that purpose an energy performance audit (diagnostic de performance énergétique - DPE) must be carried out by an independent third party and, where applicable, the landlord might be requested to carry out works to that end.

The DPE must be attached to the sale contract or the commercial lease agreement.
Asbestos

The landlord is under the obligation to check whether or not there is any asbestos in the premises and, depending on the conclusions of the diagnosis, to identify the asbestos and remove it if necessary.

Classified installations for the protection of the environment (“ICPE” regulations)

ICPE regulations apply, in addition to other regulations, to installations likely to create risks or cause pollution or nuisance, notably in terms of local residents’ health and safety, such as certain types of warehouses, factories, etc.

Activities covered by the ICPE regulations are listed in a nomenclature imposing, prior to the operation of the installation, a permit, a registration or a declaration system depending on the significance of the risks or inconvenience which may be caused.

As a result, a permit is required for installations with significant risks/inconvenience to the environment. A permit is delivered by the Prefet on the basis of several documents notably after a series of public authorities have been consulted and a public enquiry and environmental impact assessment have been carried out. The permit sets out the conditions for the operation of the installations (e.g. the carrying out of periodic water surveys by the operator/owner). Obtaining a permit may be time consuming and this should be taken into account in any acquisition process.

Temporary installations are also subject to registration. The applicant has to file a simplified application (no impact assessments or public enquiries are required). The registration order is granted by the Prefet on the basis of that simplified application and once a series of public authorities have been consulted.

Less dangerous installations are subject to prior declaration.

Apart from the commitments that may be imposed by law the permit or the registration order during the operation of the installations (periodic inspections, disclosures, etc), the operator/owner is required to inform the authorities giving a minimum of three months’ notice before it stops operating the installations and it has a duty to restore the site to make it compliant with the use stated in the permit/registration order or, if not set out in the documentation, with the use agreed between the operator, the owner (if different) and the relevant local authority where the installation is located.

In case of a sale, the seller is obliged to inform the purchaser in writing if any ICPE installations were operated on the site and, if necessary, if he is aware of any significant dangers or risks which might result from the installations.
**KEY TAX ISSUES WHEN INVESTING IN FRENCH REAL ESTATE**

### Acquisition

**Real Estate Transfer Tax (RETT)**
- A 5% RETT is due on the acquisition of shares or shares of interest in a property company (i.e., asset composed of more than 50% of French real estate).
- A 5.09% RETT is due on the acquisition of a property. The RETT may increase to 5.81% in some regions.
- RETT is as a rule paid by the purchaser. However, the parties are free to decide otherwise.
- Land Security Contribution (“Contribution de sécurité foncière”) (0.1%) and notary fees (0.825% subject to negotiation where the fees are in excess of €80k) also apply.

**Value Added Tax (VAT)**
- The sale of a property completed within the last five years is subject to VAT at the standard rate of 20%. The 5.81% RETT is in this case not due. However, the sale is subject to real estate registration tax (“taxe de publicité foncière”) (0.715%), land security contribution (“contribution de sécurité foncière”) (0.1%) and notary fees (0.825% subject to negotiation where the fees are in excess of €80k).
- In certain limited cases, the sale of properties completed within the last five years may be subject to VAT upon election. In this case, RETT is also due.

### Ownership and operation of French real estate

**Local taxes**
Local taxation includes four main taxes: real property tax on developed land, real property tax on undeveloped land, residence tax (applying to furnished housing and any outbuildings) and territorial economic contribution (formerly business tax). There are also additional or similar taxes, such as the annual Ile-de-France office tax.
- **Real estate property tax (“taxe foncière”)**
  - Any real estate owner is in principle liable for a real estate property tax (“taxe foncière”) on developed and undeveloped properties.
  - Real property tax on developed land is levied annually on developed land situated in France, except where it is entitled to permanent exemption (public estate or “propriétés publiques”, rural real property for farming, etc.) or temporary exemption (intended to promote construction).
  - The amount of tax is obtained by multiplying the cadastral rental value of each property by the tax rate voted by the relevant local authority for the year concerned.
  - The tax is chargeable to the owner of the property on 1 January of each year of taxation but this cost may be passed on to lessees depending on contractual provisions in the rental agreement.
- **Territorial economic contribution (“contribution économique territoriale” formerly “business tax”)**
  - Until 1 January 2010, business tax (“taxe professionnelle”) did not apply to the rental of unfurnished properties.
  - As from the above date, business tax has been replaced by the territorial economic contribution (“TEC”), which consists of two different taxes:
- The business tax contribution on property ("BCP", "cotisation foncière des entreprises") is due by the occupier of the property and is assessed only on the notional rental value of the company’s immovable assets. Contrary to the former business tax, it excludes equipment and movable assets. The rates vary from one municipality to another.

- The business contribution on added value ("BCAV", "cotisation sur la valeur ajoutée"), which is due in practice if turnover exceeds €500k, is a progressive tax that can be as high as 1.5% of the added value if the revenue of the French taxpayer exceeds €50m.

- Both taxes are levied on a calendar year basis by local authorities. The sum of these two contributions is capped at 3% of the added value. The TEC is tax-deductible.

The TEC is due by the person to whom the properties are made "available" for the purposes of their business. Therefore, in a scenario involving rented premises, the BCP will be due by the lessee on the rental value of said properties (the lessee has the use of the premises) and the BCAV will be due by the lessor on its added value. The BCAV is also due by the lessee on the basis of the added value of its own business.

The annual Ile-de-France office tax ("office tax")

The "office tax" is due as at 1 January of each year by owners, property beneficiaries, and lessees of buildings under leases and special long-term leases and beneficiaries of temporary occupation, where such properties are office premises, commercial or storage premises located in the Ile-de-France region.

The amount of the office tax is equal to the area, expressed in square metres, times a rate per unit that depends on the kind of premises and, for offices, on their location. Except in particular cases, the tax is due by the owner of the property.

The 3% tax

The 3% tax (equal to 3% of the FMV of real estate owned) is due annually by entities owning directly or indirectly a real property in France, unless such entities file the appropriate forms or benefit from a specific exemption from such filing. There are numerous cases of exemption.

Tax on rental income

- Exempt regulated investment vehicles: SIICs and OPCIs are exempt from tax on rental income provided that they meet a distribution requirement. The requirement is 85% for OPCIs and 95% for SIICs.

- Non-regulated investment vehicles are either subject to corporate tax or non-resident if they are look-through entities for tax purposes, the portion of their profits that is allocable to a corporate tax entity partner – irrespective of whether such a partner is resident or non-resident – is subject to corporate tax.

- Corporate tax is assessed at the rate of 33.1/3% (+ social contribution that increases the effective rate to 34.43% or 38% if turnover exceeds €250m for FYs closed from 31 December 2011 to 30 December 2016).
Deduction of interest

- Interest is as a rule deductible.
- Deductibility of interest paid on intercompany loans and - in certain cases - external loans guaranteed by a related party is however subject to limitations:

  - Limitation based on “the arm’s length test”:
    - The deductible interest is capped at a rate that is set periodically (2.79% for FYs ended 31 December 2013) or at the rate at which the company could have borrowed from an independent lender.

  - Limitation based on the “thin cap test”: the arm’s length interest according to the above test is only deductible to the extent that the following three thresholds are not exceeded cumulatively:
    - 1.5 times the equity;
    - 25% of the net adjusted income before tax;
    - Interest received from related parties.

- “Anti-hybrid” financing rules
  - Interest paid by a French taxpayer should be taxable at a rate of at least 25% of the French corporate tax in France or abroad (i.e., from 8.33% to 9.5% depending on the case at hand).

- General financial expenses limitation rules:
  - Deductibility of the net financial expenses (including interest paid to an unrelated party), if such expenses exceed €3m per fiscal year, are capped at 75%.

Additional 3% CIT contribution on certain distributions

- Further to the enactment of the second Amended Finance Bill for 2012, dividend or deemed dividend distributing entities are liable to a new additional 3% CIT contribution on certain distributions.
- However, one of the few exceptions to the levy of this new 3% contribution concerns distributions made by SIICs (French REITs) to comply with their distribution requirements, by SPPICAVs and by companies subject to the French REIT tax regime, to SIICs, SPPICAVs or SIICs and SPPICAVs holding, alone or jointly, at least 95% of the shares in the distributing entity.

Withholding taxes

- In most cases, there is no WHT on interest. However, a 75% WHT applies if the interest is paid to a so-called non-cooperative country.
- Dividends paid to non-residents are subject to a 30% WHT that is increased to 75% where the beneficiary is located in a non-cooperative country. The 30% WHT is either reduced or eliminated by tax treaties or the EU directive.
- Since the entry into force of the second Amended Finance Bill for 2012, a 15% WHT applies on certain distributions paid by exempt regulated investment vehicles (SIICs, OPCIs) unless a tax treaty provides otherwise.

Exit

Capital gains on disposal

- Exempt regulated investment vehicles (SIICs and OPCIs) benefit from an exemption on gains recognised on the sale of the properties provided that they meet a specific distribution requirement (60% for SIICs and 50% for OPCIs).
- Real estate gains recognised by standard corporate vehicles are subject to corporate tax. If the vendor is a partnership, the portion of the gain that is allocable to a corporate partner is subject to corporate tax irrespective of whether the partner is resident or non-resident.
- Until now, it was usual practice for non-resident investors to own French property companies through a Luxembourg holding company (because the sale of the French property company by the Luxembourg company would not be taxable in France). This exemption will no longer be available when the amendment to the treaty that was signed on 5 September 2014 has come into force (the expected date of application of the new provisions is 1 January 2016).
- Depending on the circumstances, efficient tax structures may still be envisaged.
Real Estate services proposed by EY

Real estate transactions
- Legal and tax structuring of cross-border transactions (design of acquisition structure for real estate portfolio, conception of European funds…)
- Legal and tax assistance in the context of real estate transactions consisting in the disposals of real estate rights or shares of real estate companies
- Financial, legal and tax audit
- Drafting and negotiation of share purchase agreements, representations and warranties…
- Assistance for the drafting and the negotiation of commercial leases, real estate leases and long term leases

General real estate law
- Audit for the acquisition and the restructuring of real estate assets
- Commercial leases
- Hotel management agreements
- Litigations

Real estate taxation
- Corporate taxation of real estate investments
- Tax optimization of real estate investments
- Advice in the area of externalization of patrimony operations
- Specific tax legislation: VAT, registration duties, 3% annual tax on real estate owned by entities in France…
- Assistance for tax audits and litigations
- Advice relating to the eligibility, the opportunity and possible optimization in relation to the application of the SIIC regime and the OPCI regime

Real estate financing
- Structured financing for real estate projects
- Putting in place of real estate warranties in the context of operations of real estate financing
- Setting-up of financing, tax optimization in the context of acquisition, restructuring of real estate portfolio
- Real estate leases
- Partnership between public and private
- Financing products

Law of construction, real estate promotion and urbanism
- Assistance for the drafting and the negotiation of real estate promotion agreements and construction agreements
- Assistance for the drafting and the negotiation of build operate transfer agreements and project management agreements
- General regulations relating to urbanism
- Litigations

Environmental law
- Environmental audit
- Assistance for the drafting of clauses of warranty in the environmental area, clauses of allocation of responsibility in the environmental area in lease agreements, agreements in the regulated areas
- Polluted sites and classified installations
- Sustainable development
Why invest in Paris?

EY contacts

Jean-Roch Varon
Ernst & Young et Associés
Partner - Head of Real Estate France
jean-roch.viron@fr.ey.com

Philippe Legentil
Ernst & Young Société d’Avocats
Lawyer - Partner
Head of the Tax Real Estate Department
philippe.legentil@ey-avocats.com

Sylvie Magnen
Ernst & Young Société d’Avocats
Lawyer - Partner
sylvie.magnen@ey-avocats.com

Cédric Devouges
Ernst & Young Société d’Avocats
Lawyer - Partner
cedric.devouges@ey-avocats.com

Anne-Laure Drouet
Ernst & Young Société d’Avocats
Lawyer - Senior Manager
anne-laure.drouet@ey-avocats.com

Tax Services

Magali Serror Fienberg
Ernst & Young Société d’Avocats
Lawyer - Director
Head of Legal Real Estate Department
magali.serror.fienberg@ey-avocats.com

Transaction Advisory Services

Emmanuel Picard
Ernst & Young et Associés
Partner
emmanuel.picard@fr.ey.com

Jean-François Nadaud
Ernst & Young et Associés
Partner
jean.francois.nadaud@fr.ey.com

Jean-Philippe Bertin
Ernst & Young et Associés
Partner
jean.philippe.bertin@fr.ey.com

Legal Services

Sylvie Magnen
Ernst & Young Société d’Avocats
Lawyer - Partner
sylvie.magnen@ey-avocats.com

Cédric Devouges
Ernst & Young Société d’Avocats
Lawyer - Partner
cedric.devouges@ey-avocats.com

Anne-Laure Drouet
Ernst & Young Société d’Avocats
Lawyer - Senior Manager
anne-laure.drouet@ey-avocats.com

Magali Serror Fienberg
Ernst & Young Société d’Avocats
Lawyer - Director
Head of Legal Real Estate Department
magali.serror.fienberg@ey-avocats.com

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice. ey.com
JLL CONTACTS

About JLL

JLL (NYSE:JLL) is a financial and professional services firm specializing in real estate, with 53,000 people around the world. The firm offers integrated services delivered by expert teams worldwide to clients seeking increased value by owning, occupying or investing in real estate. With 2013 global revenue USD 4 billion, JLL serves clients in 750 cities over 70 countries.

About JLL in France

In France, we have offices in Paris, Lyon, Marseille and Bordeaux and our consultancy activities cover the whole country.

Every year, our 450 specialised employees in the office, retail, logistics, industrial and hotels markets advise investors and corporates on real estate projects through different service lines:

Capital Markets

Provide investment advice for direct real estate transactions and approach all our client relationships from the position of a well-informed, expert and trusted adviser; putting our client’s objectives and long-term relationship building at the forefront of everything we do:

- Portfolio analysis and formulation of strategic recommendations
- Assistance in asset acquisition or disposal in the office, retail, logistics, industrial and residential (blocks sales) markets
- Value and liquidity analysis of your assets or real estate portfolios.
- Value Recovery Services : analysis of your troubled assets and implementation of an action plan.

Agency

Bring a strategic, proactive leasing approach to your commercial real estate assets so that you can focus on continuous financial growth. Define and execute a marketing and agency leasing strategy to mix the best tenants at the best lease terms and retain them for lasting value.

Project & Development Services

Deliver proactive commercially focused project and development advice on both new developments and existing buildings in sectors as diverse as offices, hotels and residential. Monitor your building, refurbishment and fit out projects.

Valuation

Provide valuations and high quality reporting outputs tailored to specific requirements : acquisition and disposal decisions, performance measurement, portfolio regulatory valuations, strategic planning...

Tétris

Deliver fit-out and refurbishment full-services, for innovative and sustainable work space solutions that are inspired by the people who use them.

Hotels

Provide a single check-in for building profit with comprehensive hotel asset management and investment services.

Research

Produce an unrivalled perspective on current and future property market conditions, designed to provide insights and practical interpretation to help our clients maximize value.
Why invest in Paris?

French Capital Markets Group
Stephan von Barczy
Head of French Capital Markets Group
International Director
stephan.vonbarczy@eu.jll.com

Offices
François Blin
Head of International Investors
francois.blin@eu.jll.com

Retail
Khokha Mansouri
Manager
khokha.mansouri@eu.jll.com

Residential
Christophe Volle
Manager
christophe.volle@eu.jll.com

Hotels
Gwenola Donet
Head of French Hotels Department
gwenola.donet@eu.jll.com

Business Development
Alexandra Yinying Li
Head of Business Development Asia in France
alexandra.li@eu.jll.com

Research
Virginie Houzé
Head of Research France
virginie.houze@eu.jll.com

European Capital Markets
Chris Staveley
International Director
chris.staveley@eu.jll.com

International Capital Group
Matthew Richards
International Director - Europe
matthew.richards@eu.jll.com