INTRODUCTION

The Lyon property market has been the leading regional market in France for more than a decade, both in terms of take-up and investment volumes.

Its wide-ranging, transparent markets, diverse players, extensive urban projects, renowned architects and the presence of international investors have enabled Lyon to gradually move into another class and have made it one of the strongest Eurocities selected for our study.

These cities have a population of one to five million inhabitants and are immediate references in the services sector. Lyon is able to capitalize on certain criteria that make it stand out among this group: a strong, diversified industrial fabric, real balance between supply and demand, and effective collaboration between public and private operators - all key factors of success for Lyon as one of the major investment locations in Europe.

We are pleased to announce the publication of the 2014 edition of our “Why invest in Lyon?” brochure, a reference manual designed for those investors who are new to our market. We will provide an overview of the Lyon 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 the future.
Opting for Lyon and its region is to choose one of the most attractive and innovative cities in the world. A competitive location, open to the world, Lyon attracts a growing number of companies and investors each year. Historically home to silk weaving, and with a long tradition of industry, Lyon has gradually refocused on advanced technology sectors, such as pharmaceuticals and biotechnologies, making these sectors the city’s trademark worldwide. More generally, internationally renowned groups have chosen to set up in the region (Merial, Sanofi Pasteur, SEB, Euronews, GL Events, Aguettant, etc.).

France’s third most populated city, after Paris and Marseille, and among the 15 biggest cities in Europe with almost 1,300,000 inhabitants in 2011 (for Greater Lyon-Villeurbanne), Lyon has not ceased to develop and grow since the 1980s (+17% since 1982). On a larger scale, the Rhône-Alpes region, in which Lyon is located, is France’s second most populated and most economically active region after Ile-de-France. Moreover, Lyon has, for more than two years, been part of an innovative cooperation between four urban communities that have come together voluntarily to form a dynamic metropolitan grouping comprising almost two million inhabitants and 140 municipalities.

LYON, A FIRST-CLASS FRENCH CITY

A young, dynamic city with a diversity of cultural assets

The city of Lyon boasts an exceptional heritage. It was listed by UNESCO as a World Heritage site in 1998 and is France’s second most popular destination for tourists after Paris with 5.5 visitors in 2011. Lyon has witnessed almost 2000 years of history, from Medieval times around Fourvière hill, the Renaissance in the Saint-Jean district, and Classicism in the Presqu’île, to the Haussmann-style architecture of the main thoroughfares and along the banks of the Rhône. Lyon is also the capital of French gastronomy, combining the charm of its famous “bouchons Lyonnais” serving traditional Lyonnais cuisine and its Michelin-starred restaurants (Orsi, Têtedoie, Viannay, and the legendary Paul Bocuse).
Lyon also hosts the annual world hospitality and food service exhibition, SIRHA (Salon International de la Restauration, de l’Hôtellerie et de l’Alimentation). The last edition of this event was held at the end of January 2013 and attracted more than 600,000 visitors (as well as 5.5 million internet visitors). It assembled almost 3,000 exhibitors and brands (21% international), and 185,450 professionals from 138 countries including 18,725 chefs of 86 nationalities.

Lyon also likes to shine and sparkle, proof of which can be seen at its traditional Fête des Lumières (Festival of Lights), an annual event that takes place over a few days around 8th December and attracts between three and four million tourists. As soon as night falls, Lyon lights up, illuminating almost 250 monuments, sites and the river banks.

These magnificent illuminations show off the city’s architectural heritage, draw attention to forgotten details, and give a special dimension to the two rivers that meet in Lyon.

In addition, Greater Lyon possesses two international stadiums, Gerland and Décine, seating 48,552 and 58,000 people respectively, which bring the city between two and four million euros in annual tax revenues.

But Lyon also ranks as one of the most dynamic cities in France, as evidenced by the proportion of 15 to 29 year olds, compared to the national and regional averages.

Approximately 66% of Lyon’s population is in the under-45s age group, compared to 57% for France as a whole. This is partly explained by the large student population (160,000 students) and a significant number of laboratories and R&D centres (10% of French researchers work in the region).

Finally, the Rhône-Alpes region is attractive in terms of job opportunities and job creations, as can be seen from its unemployment rate, one of the lowest in France (9.2% in Q4 2012 compared to 10.2% in Q4 2012 in metropolitan France).
Lyon, a city of innovation

With a GDP of 186 billion euros in 2010, Lyon and its region constitute the sixth highest-earning region in Europe, after Paris (€588 billion), London (€359 billion), Milan (€331 billion), Barcelona (€195 billion) and Madrid (€188 billion). The region’s GDP contributes 9.8% of France’s national GDP.

Because of the city’s economic weight and its strategic location, many international companies in diverse sectors have chosen to set up in Lyon: EY’s 2013 attractiveness survey classed Lyon as the top city in France (excluding Paris) in which to locate a company.

With more than 550 laboratories, both public and private, employing close to 12 000 researchers (10% of French researchers), Lyon is one of the most advanced pharmaceutical centres in the world. In concrete terms, this means that each year 16% of patents nationwide are filed in the Rhône-Alpes region. In 2011, Lyon was ranked the 8th most innovative city in the world (2thinknow Innovation Cities Global 256 Index 2011).

Research and development expenditure in the Rhône-Alpes region (€4 billion per year) is comparable to that of Finland, Denmark or the regions of Madrid and Barcelona combined. Many of France’s biotechnology leaders are located in Lyon, such as Genzyme, BioMérieux, Merial, J&J Pharmacy, Roche, Inserm, EUSA Pharma, Sanofi Pasteur, Merck Serono and L’Oréal Episkin.

Consequently, Lyon is considered to be the 5th most innovative city in Europe (Innovation Cities Europe Index 2011) and also the most enterprising (ECER 2010 ranking). This is illustrated by the city’s numerous research centres, foundations and
Why invest in Lyon?

Scientific facilities, such as the Fondation Mérieux, the Fondation scientifique de Lyon et du Sud-Est (Lyon and South-East France Scientific Foundation), CERN (European Organization for Nuclear Research), the CEA-LETI research institute, the International Agency for Research on Cancer and Lyon Biopôle, an international competitiveness cluster for vaccines and diagnostics.

Sources: Innovation = Innovation Cities Europe Index 2011, Entrepreneuriat = Classement ECER 2010
Lyon, a strategic location

A stone’s throw from Germany and Switzerland, and just two hours from Paris, Lyon is on the route to northern Italy, the Mediterranean and Barcelona. This special location, at the crossroads between northern and southern Europe, makes the city particularly suitable for businesses and congresses from an operational point of view, offering access to the best infrastructures and networks connecting with Europe and the rest of the world.

Lyon-Saint Exupéry international airport links Lyon to more than 110 French and European cities (115 direct destinations) and it is possible to make a return journey to the main European business centres in a day. For the past five years, Lyon airport has recorded a 25% growth in its traffic (5.7% in 2011) with almost two million additional passengers between the end of 2006 and 2011, stabilizing in December 2011 at 8 437 141 passengers, i.e. around 34 000 passengers per day, according to Lyon airport’s annual report. By rail, Lyon is linked to the centre of Paris (1hr55), Charles de Gaulle airport (1hr54), London (4hrs), Lille (3hrs), Brussels (3hrs45), Marseille (1hr40) and Nantes (4hrs20). Up to 100 high-speed trains pass through the Part-Dieu railway station per day. In 2011, Lyon Part-Dieu was the leading regional railway station, with 26.5 million passengers, just behind the three busiest Parisian stations.

In terms of road transport, the city is located at the centre of a major motorway hub; Brussels, Frankfurt, Paris, Marseille and Barcelona can be reached via an uninterrupted network of high quality motorways. Geneva is 1hr30 away by road. For goods transport, this means that 180 million Europeans are only a day’s truck journey from Lyon.

As part of the city’s development in cooperation with three other urban communities (Saint-Etienne, Porte de l’Isère and Pays Viennois), a protocol setting guidelines for the creation of a metropolitan transport union was established in 2011. Its essential aim was to facilitate and therefore make more attractive the 45 000 daily intermodal trips made between home and the work place, between Lyon, Saint-Etienne, Bourgoin-Jallieu and Vienne, by overcoming institutional complexity and providing users with an improved service.

Lyon, a city that attracts foreign investors

Although EY’s 2013 survey of the attractiveness of France stresses that France seems to have been overtaken by the United Kingdom and Germany as the preferred location for investors and industrialists, Lyon nevertheless still holds the position of top French city challenging Paris as the most enterprising city of the future.
In the 2012 survey, 30% of respondents stressed the necessity for French cities to strengthen and improve their offer in corporate real estate. Lyon has already set plans in motion to increase this offer: central business districts have emerged, very high-quality peripheral business parks have been developed to accommodate industrial and logistic activities, and policies have been adopted for brownfield redevelopment designed to offer quality real estate adapted to new international standards.

The attractiveness of the city of Lyon is confirmed by the level of foreign investments made in the region. Indeed, after Ile-de-France, Rhône-Alpes is the region that attracts most foreign investment: 17% of foreign investment projects carried out are in Rhône-Alpes, creating no less than 13% of the jobs.

Number of projects related to foreign investment (2008-2012)

Source: EY’s 2013 France attractiveness survey
Today, Lyon is one of the most popular Eurocities among international investors.

This change in Lyon’s status, which has come about over the last decade, is due in particular to a healthy commercial real estate market that is based on sound fundamentals and is part of a real drive for development (the supply of real estate has increased by almost 40% in 10 years).

The Lyon market currently benefits from controlled town planning and real collaboration between public and private operators, so that new properties adapted to users’ needs have developed, while keeping a true balance between property supply and demand.

The transparency of the market, the stability of rental values and the performance of the various real estate criteria have put the Lyon market in the upper quartile of a selection of Eurocities (cf table page 12). With one of the lowest vacancy rates in Europe (around 5%), steadily increasing demand (an average of approximately 230,000 m² taken up over the last seven years, which is a level comparable to or even greater than that of Barcelona, Milan, Amsterdam or Manchester), and relatively attractive rental values justifying the arrival of incoming businesses, it seems to be all systems go for Lyon to maintain its position as a leading Eurocity in terms of commercial real estate.

One of Lyon’s specific characteristics is that it possesses a first-rate industrial fabric at European level. With its competitiveness clusters of international stature, such as Lyon Biopôle (life sciences: infectious diseases) and Axeler (chemistry, environment) and the historical presence of major industrial groups (Rhodia, BioMerieux, Sanofi Pasteur, Renault Trucks, etc.), the city enjoys an international reputation among the global players in industry and logistics.

Lyon’s strong industrial roots inevitably contribute to the development of services in the urban area. These strongly-forged links between industry and services foster the presence of locally-grown players and also encourage newcomers to the Lyon market.

The volume of investment in the commercial real estate market in Lyon stands at a seven-year average of more than 750 million euros, 35% being invested by international players, once again placing Lyon among the top major Eurocities. The diversity of the assets proposed (services, retail, light industrial and logistics) offers a real strategic choice to national and international investors. The prime yield is a central rate of 5.65%, making the market attractive for investors, given the limited risk.

The Lyon real estate market is growing and diversifying. Rooted historically in the Part-Dieu district, France’s second leading service-sector hub after Paris-La Défense in terms of property stock, today the services sector is developing around four main fast-growing districts: Part-Dieu, Lyon Confluence, Lyon Gerland and Villeurbanne Carré de Soie.

Major urban development projects are also raising Lyon’s profile and should ensure it maintains its position as one of the most attractive European cities for investors.

### Key office market indicators Global

<table>
<thead>
<tr>
<th></th>
<th>Q1 2011 - Q4 2011</th>
<th>Q1 2012 - Q4 2012</th>
<th>Q1 2013 - Q4 2013</th>
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</thead>
<tbody>
<tr>
<td>Office stock</td>
<td>5 367 501 m²</td>
<td>5 479 186 m²</td>
<td>5 650 520 m²</td>
</tr>
<tr>
<td>Take-up</td>
<td>265 183 m²</td>
<td>184 164 m²</td>
<td>251 970 m²</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>6.20%</td>
<td>5.20%</td>
<td>5.30%</td>
</tr>
<tr>
<td>Prime rent</td>
<td>€270</td>
<td>€285</td>
<td>€310</td>
</tr>
<tr>
<td>Investment volumes</td>
<td>€568 686 033</td>
<td>€416 935 835</td>
<td>€667 005 969</td>
</tr>
<tr>
<td>Prime yields</td>
<td>6.00 - 6.10%</td>
<td>6.00 - 6.20%</td>
<td>5.65 - 5.85%</td>
</tr>
</tbody>
</table>

Sources: Jones Lang LaSalle / Cecim
Why invest in Lyon?

**FACTORS FOR LYON’S COMPETITIVE EDGE**

- Economic model guaranteeing a certain degree of stability.
- Transparency of markets and clarity of urban development projects.
- Diverse profiles of industries forming a virtuous circle with services functions and R&D.
- Increasing volume of transactions in services, logistics and light industry.
- Balance between supply and demand limiting the vacancy rate and ensuring long-term rental values.
- Proximity between local authorities and real estate operators (principle of “public / private co-production”).
- An attractive risk/return ratio for investors.
- Geographical location with first-rate transport networks, ensuring a catchment area of 170 million people less than 24 hours away by road.
- Diverse service-sector assets on offer, designed by internationally renowned architects to international standards.
- Rental values that are among the most attractive in European cities.

Sources: Jones Lang LaSalle / Cecim
Particularly high-performing real estate indicators place Lyon as one of the most attractive Eurocities of our selection (stock, take-up, vacancy rate, rental values, investment volumes).

Sources: Jones Lang LaSalle

<table>
<thead>
<tr>
<th>Eurocities</th>
<th>Take-up (sqm) 2013</th>
<th>Office stock (sqm) 2013</th>
<th>Investment volumes 2013 (all assets)</th>
<th>Prime rent (€/Sqm/yr) 2013</th>
<th>Vacancy rate 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frankfurt</td>
<td>440 500</td>
<td>12 006 200</td>
<td>€3 272m</td>
<td>€420</td>
<td>11.1%</td>
</tr>
<tr>
<td>Düsseldorf</td>
<td>415 600</td>
<td>8 988 100</td>
<td>€1 897m</td>
<td>€330</td>
<td>11.4%</td>
</tr>
<tr>
<td>Brussels</td>
<td>331 030</td>
<td>13 346 830</td>
<td>€1 288m</td>
<td>€285</td>
<td>10.1%</td>
</tr>
<tr>
<td>Lyon</td>
<td>251 970</td>
<td>5 650 520</td>
<td>€900m</td>
<td>€310</td>
<td>5.3%</td>
</tr>
<tr>
<td>Milan</td>
<td>227 290</td>
<td>12 487 270</td>
<td>€989m</td>
<td>€450</td>
<td>12.8%</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>221 730</td>
<td>6 295 600</td>
<td>€1 668m</td>
<td>€335</td>
<td>14.9%</td>
</tr>
<tr>
<td>Barcelona</td>
<td>186 720</td>
<td>6 000 820</td>
<td>€1 087m</td>
<td>€207</td>
<td>14.6%</td>
</tr>
<tr>
<td>Dublin</td>
<td>178 170</td>
<td>3 687 780</td>
<td>€1 171m</td>
<td>€377</td>
<td>18.0%</td>
</tr>
<tr>
<td>Prague</td>
<td>156 200</td>
<td>2 960 020</td>
<td>€873m</td>
<td>€246</td>
<td>13.8%</td>
</tr>
<tr>
<td>Manchester</td>
<td>150 420</td>
<td>3 359 810</td>
<td>€729m</td>
<td>€399</td>
<td>12.2%</td>
</tr>
<tr>
<td>Geneva</td>
<td>82 551</td>
<td>2 704 800</td>
<td>€458m</td>
<td>€756</td>
<td>5.7%</td>
</tr>
<tr>
<td>Rotterdam</td>
<td>70 240</td>
<td>3 657 110</td>
<td>€147m</td>
<td>€205</td>
<td>17.8%</td>
</tr>
<tr>
<td>Birmingham</td>
<td>61 700</td>
<td>1 718 450</td>
<td>€820m</td>
<td>€367</td>
<td>12.6%</td>
</tr>
</tbody>
</table>
Why invest in Lyon?
Located in the 3rd arrondissement, in the heart of the city, the Part-Dieu district is structured around the main through roads Rue Garibaldi, Cours Lafayette, Boulevard Vivier Merle, and Avenue Thiers to the east.

Benefiting from exceptional connectivity, Lyon’s Central Business District relies on the multimodal platform of Part-Dieu (where half a million daily journeys are made), a real transport hub on a local, regional and national scale (only two hours from Paris by high-speed train), as well as at international level (with connections to Brussels, Geneva, Milan, Barcelona, Frankfurt, etc.).

Developed in the 1970s as part of a major town-planning operation with the objective of providing Lyon with a decision-making centre able to counterbalance the importance of Paris, the Part-Dieu district is, after Paris-La Défense, the second largest service sector hub in France, with over 1 million m² of office space (i.e. almost 20% of the Lyon real estate stock).

With more than 25% of the annual take-up, Part-Dieu is the number one district for high added value companies (in advisory services, banking/insurance, IT services, etc.), the regional offices of large French and international groups, and the headquarters of major regional SMEs. The Part-Dieu district is also characterized by a particularly low vacancy rate in new offices (around 3%). In order to meet the steady demand of businesses, the sector is currently undergoing urban redevelopment which is going to intensify real estate projects in the area and lead to a significant increase in the transport capacity of the multimodal station. With office space to grow from 1 million m² to 1.6 million m² over the next 20 years, Lyon’s central business district is going to be truly transformed so that the residential and service sectors will exist side-by-side and the different means of public transport will be developed.

Ambitious tertiary projects are being developed, which will meet the demands of businesses looking for latest-generation facilities, a prestigious address, and proximity to transport networks and services. The main projects include the Tour Incity, Sky 56, Silex 1 and 2, and lastly the Two Lyon operation. The latter includes two four-star hotels with a total of more than 460 rooms aimed at a business clientele, an office building 170m high and a shopping mall connected to the one in the new station.

### Key office market indicators Part-Dieu

<table>
<thead>
<tr>
<th></th>
<th>Q1 2011 - Q4 2011</th>
<th>Q1 2012 - Q4 2012</th>
<th>Q1 2013 - Q4 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office stock</td>
<td>1 048 058 m²</td>
<td>1 061 058 m²</td>
<td>1 111 528 m²</td>
</tr>
<tr>
<td>Take-up</td>
<td>56 797 m²</td>
<td>37 005 m²</td>
<td>53 299 m²</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>3.50%</td>
<td>2%</td>
<td>3.30%</td>
</tr>
<tr>
<td>Prime rent</td>
<td>€270</td>
<td>€285</td>
<td>€310</td>
</tr>
<tr>
<td>Investment volumes</td>
<td>€234 136 846</td>
<td>€242 784 710</td>
<td>€203 962 000</td>
</tr>
</tbody>
</table>

Sources: Jones Lang LaSalle / Cecim
LYON

GERLAND

7th arrondissement

The 7th arrondissement of Lyon underwent a real metamorphosis with the extension of the metro (line B direct to Part-Dieu) at the end of the 1980s.

With a real estate stock of just over ½ million m² and an average annual take-up of 12 to 15%, the 7th arrondissement is currently Lyon’s second largest services sector.

The Gerland/Lyon 7th sector, Lyon’s biggest arrondissement, is nevertheless probably the most complex of the city’s real estate markets to understand and analyze.

Over the past 30 years, the south Gerland district has been the location of major international laboratories and research centres, firstly for R&D and production, and then developing purely service facilities. This biotechnology and pharmaceuticals cluster currently employs more than 100 000 people in the region and enjoys a worldwide reputation. The presence of sector leaders such as Sanofi, PMSD, Merial, Carso, Genoway, Genzyme, BASF, Aguettant and Episkin, is recognition of this international renown.

Gerland extends over an area of more than 3 kilometres long, and is connected to the north with the Jean Macé regional multimodal platform giving it access to regional links, conducive to attracting more traditional activities and back office functions. Thus, the Girondins urban development zone and immediate surrounding area have in recent years seen the arrival of major companies such as the Banque Postale, Gras Savoye, Brossette, Pôle Emploi, Arkema, Macif and Grand Lyon.

There is also a significant amount of land available in the sector, offering a long-term development capacity exceeding 150 000 m² of office space.

The presence of major educational institutions, such as the Ecole Normale Supérieure de Lyon, the Institut d’études politiques de Lyon, the Université Lumière Lyon 2 and the Cité scolaire internationale, confirms the excellent interaction between the educational and business worlds.

The 7th arrondissement is also supported by a combination of activities and major residential developments (such as the ZAC du Bon Lait) making this an even more dynamic sector which already benefits from many service facilities.

The excellent image conveyed by the pharmaceutical activities, the sector’s attractive rental values and its fast transport services to all Lyon’s arrondissements make Gerland a very high-potential district.

Sources: Jones Lang LaSalle / Cecim

<table>
<thead>
<tr>
<th>Key office market indicators Gerland</th>
<th>Q1 2011 - Q4 2011</th>
<th>Q1 2012 - Q4 2012</th>
<th>Q1 2013 - Q4 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office stock</td>
<td>552 940 m²</td>
<td>567 702 m²</td>
<td>584 546 m²</td>
</tr>
<tr>
<td>Take-up</td>
<td>31 357 m²</td>
<td>18 549 m²</td>
<td>45 283 m²</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>8%</td>
<td>5.50%</td>
<td>5.50%</td>
</tr>
<tr>
<td>Prime rent</td>
<td>€205</td>
<td>€215</td>
<td>€215</td>
</tr>
<tr>
<td>Investment volumes</td>
<td>€108 137 226</td>
<td>€18 600 000</td>
<td>€47 097 250</td>
</tr>
</tbody>
</table>
Extending out from the Presqu’île, to the south of Perrache railway station and the A7 motorway interchange, Lyon Confluence was from the beginning of the 20th century until the last decade a sector dedicated to industrial, port and wholesale market activities. The constraints of urban development have forced these activities outside the city limits and have resulted in one of the biggest areas of available city-centre property space in Europe.

With 140 hectares of transformable land and ultimately 750 to 850 000 m² of buildings (housing, offices, shops, services, public buildings), Lyon Confluence is one of the most ambitious urban city-centre projects in Europe.

The direction given to this sector is in line with that of a “Green District”, with a level of architectural requirements and building processes unequalled in France. Lyon Confluence has been recognized as an eco-district by the French government and as a sustainable district by the WWF, and it has been awarded the European Concerto label for the low energy consumption of its buildings. Thanks to the choice of varied activities and diverse surface areas on offer in the services sector properties, Lyon Confluence is a district that perfectly complements the rest of the Lyon urban area.

With this clear positioning as a Green District favouring eco-friendly modes of transport and benefiting from a direct link to Perrache railway station and to the motorway network, Lyon Confluence has completed its first development phase successfully with more than 320 000 m² of developed surface area, including 170 000 m² of office space, in just under a decade.

Hosting companies from all the sectors of the Lyon urban area, Lyon Confluence has succeeded in attracting prestigious names such as Euronews, DDB nouveaux monde, GL Events, GDF Suez, Eiffage, Banque de France, INPI, the Progrès newspaper, the Regional Council, SNI, SNCF and CRCI, and it is the location of the new Hôtel de Région covering more than 45 000 m².

The second phase in the development of Lyon Confluence is just starting and has been entrusted to the prestigious Swiss firm of architects and town planners, Herzog & de Meuron. More than 400 000 m² will be developed over the next 15 years, including almost 200 000 m² dedicated to offices. The main projects include Convergence (11 000 m² with a direct link to the Perrache railway station), L’îlot A3 (30 000 m² including 11 000 m² of office space), Le Charlemagne (10 000 m²) and the Pavillon Ricciotti (8 500 m²).

More than 750 million euros have been invested in a little over decade in business real estate in the Lyon Confluence market, proof of the success of this first phase which has sold well overall and now benefits from perfectly acceptable rental values for an address in Lyon’s 2nd arrondissement, as can be seen from the low vacancy rate in the sector.
Only 15 minutes from the centre of Lyon, located in the municipalities of Vaulx-en-Velin and Villeurbanne, Carré de Soie is a vast area covering 500 hectares and is one of Lyon’s biggest urban projects. The ambition is to develop, through various upgrading and renewal operations, a sustainable, vibrant district where economic activities, housing, and public and private facilities blend together.

With good accessibility (the city-centre and the airport are only 15 minutes away by metro and tramway), a major shopping centre, a leisure centre and a significant land reserve, Carré de Soie has all the key assets to attract services and industrial companies looking for sizeable, high-quality surface areas, close to public transport services and offering very advantageous financial conditions.

Lyon lacked a site for significant low-rise developments. Carré de Soie provides a practical answer to companies that want to bring their staff together in a transversal approach and a “college-campus”-type atmosphere.

Carré de Soie appears to possess all the assets to make it a reference service-sector site, in the wake of the success of the main service hubs of the Est lyonnais sector, like the Technology Park in Saint-Priest.

Still in its start-up phase, Carré de Soie is already capitalizing on important new arrivals such as Véolia Environnement (10 000 m²), Technip with more than 700 employees occupying 8 500m², Alstom Transports developing its campus on a surface area exceeding 33 000 m² or the 12 social and solidarity-based companies that have rented 9 200 m² of office space in the “Woopa” positive energy building.
THE RETAIL MARKET IN LYON

Lyon is the second largest city in France. It is a leading metropolis where consumers enjoy high purchasing power. Lyon is located at the heart of one of Europe’s largest employment pools, with 2.5 million employed people in the Rhône-Alpes region. The city offers real potential to retailers: over the last five years, €11 billion per year have been spent in Lyon’s catchment area (source: Greater Lyon).

An attractive, densely populated metropolitan area
Lyon enjoys broad appeal in the area and attracts shoppers from elsewhere: shopping facility sales are 6% higher than the consumption potential of resident households. Thanks to the high population density in Lyon, the catchment areas of the city’s shops bring together many consumers within short distances – an average of 1900 inhabitants within a 500-metre radius, thus offering good chances for commercial success and development to local establishments.

The prime ground-floor retail offering is concentrated in the Lyon city centre

RUE DE LA REPUBLIQUE - QUARTIER GRÔLÈE
Rue de la République is the main commercial artery of the Presqu’île neighborhood (€225m in turnover). Like the Champs Elysées in Paris, it attracts a very large number of retailers, including some luxury boutiques, but especially mass-market shops, fast food outlets, cinemas and leading chain stores. In 2012 it was largely purchased from ANF by ADIA (Abu Dhabi Investment Authority), one of the world’s largest sovereign funds. ADIA was represented by the Grosvenor group for this transaction. ADIA has reinforced its market position in 2013 with the acquisition of the Grôlée Retail portfolio from the Docks Lyonnais (18 000 m²).

THE “CARRE D’OR”
The Carré d’Or is located in the Jacobins district, between Place Bellecour and Cordeliers. This is the favoured area for major luxury brands (Louis Vuitton, Cartier, Dior, Hermès, Mont Blanc, etc.) There are also multi-brand stores and smaller, more select shops.
Characteristics of the retail market in central Lyon
In general terms, the retail space offer in the city centre remains very limited, notably for average surface areas of 300 m² and more. For this reason, prime rental values are relatively high, in the region of €2 500 per m².

Demand is mainly carried by national and international retailers. Potential sales are relatively high in the more commercial streets in the city centre (which are often pedestrian or semi-pedestrian zones), despite the competition from the urban shopping centres, Part-Dieu and Confluence. Independent retailers turn to less central sectors, which are less expensive.

To sum up, not all of the demand for space in Lyon’s city centre can not be satisfied, as the retail offer is so limited. The future Grolée/Carnot neighborhood (18 000 m² of GLA¹), located in immediate proximity to Rue de la République and currently being rehabilitated, and the Grand Hôtel-Dieu project (17 000 m² of retail space) planned for delivery by 2017, could be future alternatives for retailers in search of new prime spaces.

An alternative to the city centre: urban shopping centres

The investment market
Apart from Rue de la République (which is largely owned by ADIA), the Part-Dieu and Confluence shopping centres (Unibail-Rodamco properties), the market in Lyon is mainly run by local investors who own one or more commercial or residential units. However, this dynamic second market remains relatively limited and low-key. The best retail units, located in the prime shopping arteries, are valued at a prime yield rate of 5.00% with a typical variance of approximately 20 basis points for certain specific transactions.

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¹ GLA: Gross Leasable Area

In April 2012, Unibail Rodamco opened the Confluence shopping centre (approximately 50,000 m² of GLA, and 106 shops) in Lyon’s 2nd arrondissement. This shopping centre is home to Hollister and several other brands that were not previously present in Lyon. The centre is near the Saône river and accessible via a river shuttle. Confluence is evolving in a high-quality, high-growth environment.

The Part-Dieu shopping centre, a Unibail-Rodamco property, is located in the 3rd arrondissement of Lyon. It boasts 69,000 m² of GLA (following the Cours Oxygène extension in 2010) and welcomes no fewer than 30 million visitors to its 267 shops every year. There is almost no retail space availability, proof of the ongoing attractiveness of this shopping centre, which is one of the largest in Europe.
With almost 4.9 million tourist overnight stays in 2013, Lyon is recognized for its business tourism and its growing leisure tourism.

Lyon is the 2nd urban tourism destination. From 2009 to 2013, 65% of hotel clients stayed in Lyon for professional reasons, hence the average stay not exceeding 3.5 nights. Lyon is a MICE destination and thanks to major annual trade fairs such as Pollutec or SIRHA, all of the city’s hotels occasionally achieve 100% occupancy (according to MKG Hospitality, the occupancy rate exceeded 80% for approximately 120 days in the last three years).

Leisure tourism is also growing fast, benefiting from the city’s UNESCO listing as a World Heritage site, the organization of numerous cultural events (for example, the “Festival of Lights” in December) and the emergence of low-cost airlines. This has resulted in tourist accommodation occupancy being spread more evenly over the year, with an increase in weekend stays.

The tourist accommodation offer has developed so as to meet client expectations. With 249 hotels and tourist residences, Lyon has the third highest hotel supply in the country.

Many hotel groups have made Lyon a target for their latest locations, including Louvre Hotels, B&B, Choice, IHG, the Accor Group – already well-established in Lyon, the group opened a 315-room hotel complex in 2012 (Mercure/Ibis Style/Ibis Budget) by the Part-Dieu station – and also the tourist residence Mama Shelter, already established in Paris and Marseille, which opened in Lyon’s Jean Macé district at the beginning of 2013.

These new additions respond to a need identified by the hospitality masterplan (SDHT), a tool providing guidance and decision support set up by Greater Lyon in partnership with the Lyon Chamber of Commerce and Industry, Lyon Tourisme et Congrès and the hotel unions.

Thanks to this tool and its forecasts, 3 000 additional rooms will be developed between 2011 and 2015 in the Lyon urban area in order to meet demand that is expected to increase annually by +3.2% on average over the period.

Among the priorities identified, several iconic projects are being developed, offering prestigious accommodation for an essentially business clientele, to serve as a model for Lyon hotels as a whole.
The following will therefore soon be part of the landscape:

- A five-star Intercontinental hotel (a chain not yet present in Lyon) with 147 rooms. This hotel will have a restaurant, lounge bar, gym and conference centre, and will be located in the prestigious Grand Hôtel-Dieu, a listed building that is one of the city’s symbols.

- A four-star boutique-hotel on Fourvière hill, resulting from the conversion of the Visitation convent, with the hotel access via a beautiful chapel. This is a unique location, still relatively unknown to the people of Lyon, for a four-star hotel with 88 rooms.

- A four-star Okko hotel with 85 rooms in Lyon’s 6th arrondissement, the conversion of the former Préfecture du Rhône located on Quai Sarrail. This hotel chain, not yet present in Lyon, promises modern and innovative facilities with an “all inclusive” offer for its clients. It is scheduled to open in November 2014.

In addition to these iconic projects, some more unusual developments will include Cool&Bed, Lyon’s first “stylish” hostel for backpackers, and Canabaé, the first floating hotel in Lyon, with 16 personalized rooms for a high-end clientele.
Historically, Lyon is an industrial city that has relied on strong activities such as the textile, petrochemical and automotive industries, but more recently it has also developed in cutting-edge sectors such as pharmaceuticals and biotechnologies.

This wealth and diversity of the industrial infrastructure is at the very heart of the city’s dynamic real estate markets, including the services market.

Indeed the services sector has developed on the basis of this industrial infrastructure and it is the city’s dynamic industry that has made its real estate market much more resilient to the economic crisis than markets that are potentially more dependent on the performance of their services sector.

Real stability can be observed in Lyon’s industrial market with annual take-up having remained steady at around 290,000 m² over the past several years, in spite of an unfavourable economic context.

Due to the morphology of the land available, infrastructures and soil quality, 80% of the industrial fabric is located in the eastern part of the urban area, the inner suburbs to the east of Lyon representing on average 50% of the annual take-up.

Town planning and the lack of land available in this delimited area have nevertheless led to industrial and logistics zones spreading out to Saint-Quentin Fallavier and Plaine de l’Ain further north.

Logistics activities really emerged in the mid-1980s, transforming the industrial real estate landscape into new units on a large scale.

The development of these activities has been a real growth driver for industry and, by extension, for the Lyon real estate market.

These new-generation, highly-standardized logistics platforms, organized according to specific storage standards, have greatly boosted some geographical sectors, such as the Isle d’Abeau / Saint-Quentin Fallavier sector to the east of Lyon and the Plaine de l’Ain sector to the north-east.

### Industrial market - Key Figures
- **Stock:** 11.5 million m²
- **Vacancy rate:** 5%
- **Premium rents:** €75 excluding taxes/m²/year for industrial premises and €125 excluding taxes/m²/year for office space
- **Average take-up (last five years):** 293,000 m²

### Logistics market - Key Figures
- **Stock:** 5 million m²
- **Vacancy rate:** 7.8 % (2.6% Class A)
- **Premium rents:** €40 - 46/m²/year excluding taxes
- **Average take-up rate (last five years):** 300,000 m²
Over just the last 20 years, the Lyon urban area has become the second national market in terms of take-up and the Isle d’Abeau park is the third biggest in Europe with more than 2.5 million m² of logistics units representing all the links in the chain. Lyon’s logistics real estate has now become an international reference and benefits from a strategic location in the heart of a catchment area of more than 170 million people less than 24 hours away by road, from strong economic regions (Ile-de-France, Ruhr, Canton of Geneva, Lombardy, Catalonia, etc.) and from a motorway and rail network on the north-south axis facilitating communication and diverse means of transport.

Logistics real estate is a powerful tool for attracting international investors and major companies to Lyon and enhancing the city’s image. Key names such as Ikea, Schneider, Feu Vert, Intersport, NYK and DHL, have established their large national or South-Europe platforms in the area.
The acquisition process should be viewed and considered in the context of the wider investment lifecycle including the acquisition, the management and the disposal stages.

Among the various elements 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

This presentation contains general and preliminary legal and tax information only and should not be regarded as a piece of advice. In addition, such information is subject to changes in the law, case law or administrative doctrine, which may be retroactively effective.
** Acquisition of French real estate**

French real estate may be acquired either:

1. **DIRECTLY**: by purchasing the property (an asset deal);
2. **INDIRECTLY**: by purchasing the Special Purpose Vehicle which owns the property (a 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 (essentially for tax purposes).

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 both), subject to compliance with interest rate limitations and thin capitalisation rules from a French tax perspective.
Acquisition process of a property

**Identification of properties:**
- Selling agents place the product on the open market
- Acquisition agent identifies potential properties either on or off market
- Direct approach to vendor

- Property visit and initial analysis
- Submission of letter of intent (LOI) to have access to the due diligence (via a data room)
- Vendor grants exclusivity to buyer

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

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

**Registration of the notarised deed of sale**

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

- Transaction generally more expensive in terms of transfer tax

(Subject to any conditions precedent and pre-emptive rights of the relevant local authority)
INDIRECT INVESTMENT (SHARE DEAL)

Acquisition process of shares in a predominantly real estate company

- Sending a letter of intent including a binding non-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 if any
  - 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 that owns the property, execution of the transfer of shares by either:
  - a sale and purchase agreement (SCI, SARL); or
  - a transfer order (ordre de mouvement) (SA, SAS)

- Registration of the operation with the tax administration and commercial court

- In principle, lower transfer tax costs
- This kind of transaction allows the buyer to acquire several assets in one operation
- Shorter timing for transaction

- Need to negotiate warranties to cover the risks attached to the purchased entity
- Financing is more complex to structure. No step-up in the value of the property is possible unless the entity is a SCI (capital gains tax latency issue)
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 (rents, interests on due money, etc.) of these assets and the right to dispose of these 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 (co-propriété) 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 “état descriptif de division”). Co-owners are required to abide by co-ownership regulations 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 co-owners can freely dispose of their units.

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

  There is an ownership by division into units when a property is divided into units of different sizes and shapes, either horizontally or vertically or both, each unit having its own right of ownership. It means that owners can build within the limits of their units, subject to any easements (right to natural light, minimum distance between buildings, etc.) that may encumber them 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 organisation can be found at Paris-La Défense' business centre.

  Ownership is acquired through a notarized deed of sale which shall be registered with the land registry. Pursuant to the law, and unless otherwise agreed between the parties when it is authorized, the seller of a property has to provide the buyer with two warranties to cover eviction and hidden defects.
The Grand Hôtel Dieu seen from the Rhône River Banks
Leasing aspects

When occupying commercial buildings, it is necessary to enter into a commercial lease agreement, for which specific rules are applicable.

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 by a public authority).

The main provisions of a French commercial lease agreement are as follows:

● Duration

The minimum term of a commercial lease agreement is 9 years but the parties can agree to a longer term. Unless otherwise agreed between the parties, the lessee has the right to terminate the commercial lease at the end of every three-year period.

If the term of the lease exceeds 12 years, additional constraints will be triggered, including the publication of the lease in the local land registries, renewed rent determined on the basis of the market value, and additional taxes.

Despite a definite term, the commercial lease will remain in force for an unlimited term unless:
- It is renewed as described below, or
- Six months’ prior notice of termination is given by either the lessor or the lessee.

● Right of the lessee to a 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 by the lessee in the rented premises of a business as an ongoing concern at least for a period of 3 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 lessee’s renewal offer shall be delivered to the lessee by bailiff at least 6 months prior to the term of the commercial lease. The lessee can accept the renewal upon the terms set out in the offer or accept the renewal but not its terms and conditions. In particular, if there is a disagreement on the rent, either party must go to court to have the renewed rent determined. Failing to do so within 2 years as of the renewal offer, the lease will be renewed upon the terms and conditions of the terminated lease.
- If the lessor has not delivered an offer as mentioned above at least 6 months before the term of the lease, the lessee can:
  - Do nothing. In that case, the lease will be tacitly renewed for an unlimited period of time with a 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 notice of offer to the lessor. The lessor has 3 months to accept or reject the offer. The parties shall go to court as described above if there is a disagreement on the renewed rent.

The lease is renewed on 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 (offices), or can be based on the turnover of the lessee or be a mix of both (retail) - minimum guaranteed rent and a proportion of the turnover.

- Indexation of the rent

The parties can decide that the rent will be automatically revised 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 state that the lessee or the lessor can claim for a revision of the rent after a minimum 3-year period.
Why invest in Lyon?

- Renewed rent

The general principle is that the rent under the renewed lease is capped at the variation of the applicable index (i.e. ICC, ILC or ILAT) between the date of the lease and the date of termination of the lease. However, there are several exceptions (lease longer than 9 years, lease of an initial term of 9 years but whose effective duration exceeds 12 years due to tacit renewal, premises for office use only, etc.) where the renewed rent will be based on the market value.

⚠️ A Bill (the so-called “Pinel Bill”), which is currently under discussion in the French Parliament, provides for the removal of the reference to the ICC index when calculating the cap on the rent of a renewed lease and provides that it shall be replaced by the ILC or the ILAT. The Bill also provides that in the event that, upon renewal, the rent is increased by more than 10%, such variation will not (with a few exceptions) impact the lessee at once but rather be spread over time within a limit of 10% per year. This 10% limitation is also applicable in the event that the rent is revised every three years.

- Major repairs

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

⚠️ For transparency purposes, the Bill currently under discussion in the French Parliament provides for a detailed inventory of the various categories of charges and their allocation between the lessor and the lessee to be drawn up at the start of the lease.

- Subletting and assignment (transfer of the lease agreement)

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

In case of sale, the lease agreement will be automatically transferred to the purchaser of the premises.

⚠️ The Bill currently under discussion in the French Parliament sets out a proposal to grant the lessee a preferential right in the event that the leased property is sold by the lessor: the latter must inform the lessee of his intent to sell in order to enable said lessee to exercise his right to buy the property, if he so wishes.

With respect to the lessee, the general rule is that the lessee cannot assign (transfer) the lease agreement without the prior authorisation of the lessor and subject to certain formalities being carried out, except in case of transfer of the lessee’s business as an on going concern. However, the lessee may have to deliver 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.

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 needs to be carefully assessed.

Consequently, commercial lease agreements have to be negotiated with careful consideration of the details of each term.

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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 environment and sustainable development. This 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 that exceed 2,000 m² of lettable area and are used as offices or for commercial purposes.

This new environmental appendix must be attached to all new or renewed lease agreements as from January 1st, 2012 and to all existing leases as from July 13th, 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 building 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 is expected to be published in 2014 to 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 therein.

There are several French “green” certifications:

- The “legal” reference is the High Energy Performance label ("Haute Performance Energétique" – 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 the construction of buildings. HQE certification comprises 14 criteria divided into 4 categories: green construction, green management, comfort and health. Sub HQE certifications exist depending on the type of building or renovation works, such as, 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 purpose 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 for that purpose.

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 on the premises and, depending on the conclusions of the diagnosis, to identify the asbestos or 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, etc.). 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 French Real Estate Tax Issues**

### Acquisition

**Real Estate Transfer Tax (RETT)**

- A 5% RETT is due on the acquisition of shares in a property company (i.e., asset composed of more than 50% of French real estate).

- The effective RETT rate is currently 5.09%. Pursuant to the Finance Bill for 2014, a temporary increase may be decided by local councils, up to an effective tax of RETT of 5.81% (applicable to transactions implemented between March 1st, 2014 and February 29th, 2016).

- RETT is as a rule paid by the purchaser. However, the parties are free to decide otherwise. In practice, in certain recent deals, because of the market conditions, we have seen vendors bearing the RETT costs.

- Real estate safety contribution ("contribution de sécurité immobilière") (0.1%) and notary fees (0.825% subject to negotiation where the fees are in excess of €80k) also apply. Mortgage registration fees and Notarial fees do not apply in the case of a share deal (legislation might change for Notarial fees).

**Value Added Tax (VAT)**

- The sale of a property completed within the previous 5 years is subject to VAT at the standard rate of 20% (as from January 1st, 2014). RETT is in this case not due. However, the sale is subject to real estate registration tax ("taxe de publicité foncière") (0.715%), Real estate safety contribution ("contribution de sécurité immobilière") (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 more than 5 years ago 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 Paris Region 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.

- **Territorial economic contribution ("contribution économique territoriale" formerly "business tax")**

  - Until January 1st, 2010, business tax ("taxe professionnelle") did not apply to the rental of unfurnished properties.
Why invest in Lyon?

- 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 from 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 its 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 3% tax on French properties

This tax, which is equal to 3% of the fair market value of real estate owned, is due annually by entities owning directly or indirectly predominantly real estate assets in France. Numerous exceptions are available either because of the status of the entity (sovereign State exception, which applies also to certain related entities, listed entities, etc.) or through a filing process by which the entity discloses information (regarding its partners, shareholders and members, the properties, etc.).

Tax on rental income

- Exempt regulated investment vehicles: SII Cs and OPCIs are exempt from tax on rental income provided that they meet a 95% distribution requirement for the former and a 85% distribution requirement for the latter.
- Non regulated investment vehicles are either subject to corporate tax or it is 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 – that 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 38.11% if turnover > €250m for FYs closed from December 31st, 2013 to December 30th, 2015.)
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 under “the arm’s length test”: the deductible interest is capped at a rate that is set periodically (2.79% for FYs closed on December 31st, 2013) or at the rate at which the company could have borrowed from an independent lender.
  - Limitation under the “thin cap test”: the arm’s length interest under the above test is only deductible to the extent that the three following thresholds are not exceeded cumulatively:
    - 1.5 times the equity;
    - 25% of the net adjusted income before tax;
    - interest received from related parties.

- The Finance Bill for 2013 provides for a general limitation on interest deduction to 85% of the net interest expense exceeding €3m. The 85% limitation is reduced to 75% for FY opened as from January, 1st, 2014.

- The 2014 Finance Bill introduces new rules that disallow the tax deduction of interest accrued to related parties if the French taxpayer cannot justify, upon the request of the French Tax Authorities (FTA), that the lender is liable to a CIT burden on such interest that amounts to at least 25% of the CIT which would have been due, had the lender been established in France.

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.

Capital gains on disposal

- Exempt regulated investment vehicles (SIICs & OPCIs) benefit from an exemption on gains recognised on the sale of properties, provided that they meet a distribution requirement (60% for the SIICs and 50% for the SPPICAVs).

- 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.

- It is usual practice for non-resident investors to own French property companies through a Luxembourg holding company. Under the currently applicable provisions of the French-Luxembourg Double Tax Treaty, the Lux Holdco should not be subject to French tax upon the sale of the French Propco.

- However, these advantageous provisions in the tax treaty are currently being re-negotiated. It is therefore most likely that the above practice will have to be re-examined shortly.
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, etc.)
- Legal and tax assistance in the context of real estate transactions consisting of the disposals of real estate rights or shares of real estate companies
- Financial, legal and tax audit
- Valuation of real estate portfolio, individual property and/or shares of companies owning real estate assets
- Drafting and negotiation of share purchase agreements, representations and warranties, etc.
- 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 on the externalization of asset operations
- Specific tax legislation: VAT, registration duties, 3% annual tax on real estate owned by entities in France, etc.
- Assistance for tax audits and litigations
- Advice relating to the application of the SIIC and OPCI regimes (eligibility, appropriateness and possible optimization)

Real estate financing
- Structured financing for real estate projects
- Putting in place of real estate warranties in the context of real estate financing operations
- Setting-up of financing and tax optimization relating to the acquisition and restructuring of real estate portfolios
- Real estate leases
- Public-private partnerships
- Financing products

Construction, real estate development and town-planning law
- Assistance for the drafting and the negotiation of real estate development agreements and construction agreements
- Assistance for the drafting and the negotiation of build operate transfer agreements and project management agreements
- General regulations relating to town-planning
- Litigations

Environmental law (specific aspects related to real estate)
- Environmental audit
- Assistance for the drafting of warranty clauses and clauses allocating responsibility concerning environmental issues in lease agreements and agreements in regulated areas
- Polluted sites and classified installations
- Sustainable development

International Location Advisory Services (ILAS)
- Business location strategy
- Incentives (public aids)
- Implementation facilitation (PMO)
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About Jones Lang LaSalle

Jones Lang LaSalle (NYSE:JLL) is a financial and professional services firm specializing in real estate, with 48,000 employees 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 a 2013 global revenue of 4 billion USD, Jones Lang LaSalle serves clients in 1,000 cities over 70 countries.

About Jones Lang LaSalle in France

In France, we have offices in Paris, Lyon, (60 employees and all the services lines represented) and Marseille, 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.
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