Why invest in Paris?

2017
For several years Paris has been the most important real estate investment market in continental Europe, with annual investment volumes of €13-14 billion on average. Over the last two years the Paris investment market has gained even more momentum with nearly €20 billion invested in 2015 and 2016.

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 administration, financial services and high-tech/web business keeps take up levels at 2.3 million square metres per annum. With an overall office stock in the region above 50 million square metres, the Paris Region is also the largest office market in Europe.

But it is not all about offices!

Paris is most 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 our 2017 “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 2017.
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

The Paris Region, which is only 2.8% of the country’s landmass, is home to nearly 12 million inhabitants, which represents 19% of the population in France. Representing 2.4% of the overall population of Europe, it is the most populated urban area in 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 46% of the active population that holds a university degree. There are 155 000 people in R&D and nearly 650 000 students following a university education in the region (40% of the French population in R&D is located in the Paris Region).

The services sector dominates the region, representing 84% of the total workforce.

Due to its diversified economy and the value added nature of the companies located there, the city is the most significant area for creating job opportunities, and the unemployment rate is among the lowest within France (8.8%).

In addition to this, the region has a significant proportion of foreign workers representing 13% of the workforce.

Due to the large proportion of high caliber jobs, the average earnings per person are the highest in France. Within Europe, Paris is among those cities with the highest spending power.

55% of the population in the Greater Paris Region is under 40, versus 49% for the whole of France

<table>
<thead>
<tr>
<th>Age</th>
<th>Paris Region</th>
<th>Greater France</th>
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<tbody>
<tr>
<td>0-5</td>
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<tr>
<td>6-10</td>
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<td>11-17</td>
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<td>18-24</td>
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<td>25-39</td>
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<td>40-54</td>
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<td>55-64</td>
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<td>65-79</td>
<td></td>
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<tr>
<td>80+</td>
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Source: INSEE

Active population in 2013

<table>
<thead>
<tr>
<th>Category</th>
<th>Paris Region</th>
<th>Greater France</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laborers</td>
<td></td>
<td></td>
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<tr>
<td>Employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intermediate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farmers, craftsmen, shopkeepers, entrepreneurs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: INSEE
One of the largest economies in Europe

The Paris region is one of the most important economic hubs in the world. Contributing to 31% of the overall GDP within France and almost 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 greenfield investments and third in the world after London and Shanghai. France is the first European country in number of large firms of the 2015 Global Fortune 500 ranking, and is the 4th at global level. Most of these firms have their headquarters in the Paris region (27 out of 29).

The economic fabric of the Paris Region is extremely diversified and industrial activity remains the most important compared to other regions in France. Particularly strong sectors include the Research & Development and high tech sectors (specifically the pharmaceutical and aerospace industries) which contribute to the majority of exports in the region. Nevertheless, the Paris Region’s economy is still extremely services oriented with over 80% of salaried employees working in this sector.

The world's most popular tourist destination

Paris is the one of the world's most popular tourist destinations, attracting more than 15 million visitors each year, of which nearly 60% are from foreign countries. With an average trip lasting 2.3 nights, there have been 36 million overnight stays in hotels on average.

Paris also benefits from a diversified pool of feeder markets with the US and the UK representing nearly 30% of total international hotel overnight stays. The strongest growth over the last few years has been recorded for Chinese tourists with a 62% increase in hotel overnight stays between 2013 and 2015.

In 2016, due to the geopolitical context (Russian crisis) and terrorist threats, international arrivals fell by 13.4%, with the worst impact on leisure purpose arrivals. The greatest decrease in tourists was recorded for Americans, Japanese, Italians and Russians. The trends of the last months of 2016 have shown some improvement and positive signs for 2017, which confirms the strength of the Paris tourism market.
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 from many other major European cities.

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

- **Charles de Gaulle**, with 82 million passengers, is the 2nd largest airport hub in Europe and is the 9th largest airport in the world in terms of passenger numbers. Thanks to its geographical position in continental Europe, most other European capitals 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 trains link** 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, five RER cross rail lines (3 million journeys per day) serving Paris and the wider Paris Region, as well as three 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 have started in 2012 and will end in 2020.

- 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 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 the focus of a major 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** 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 center of Paris. This project will comprise of four new automated subway-lines, developing more than 200 km of new network with 69 stations and the extension of two existing lines. The construction of the two lines have now started, with the line 14 extension towards the north of Paris and the southern part of the orbital line 15. This section should be completed in 2022.

*Source: La Défense Seine Arche/Le Grand Paris*

**Why invest in Paris?**

- **Grand Paris Express**
- **Western extension of the RER Line E** (Eole) regional express line
- **South Paris TGV interconnection**

*http://www.grand-paris.jll.fr*
**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 6.7% (as of December 2016).

The real estate market has developed from the heart of Paris outwards beyond the ring road (“Périphérique”) of the city due 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), one of the most historic business locations in Europe which is found between “l’Arc de Triomphe”, “L’Opéra” and La Defense”, which is located in the west of the capital and to this day is 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 €14 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 are sold at yields of between 3.00 - 3.50% (as of Q4 2016).

Prime yields are positioned in La Défense around 4.25 - 4.75% and around 3.75 - 4.25% in the Western Crescent submarkets.

**10 COMPETITIVE ADVANTAGES OF PARIS**

The diversity and the competitive occupational costs offered 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:

- One of the most transparent markets in the world
- 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
- 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 as a result of to a well-developed and efficient public transport network, which will be reinforced by the automated Grand Paris transportation project.

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**Key market indicators Paris Region**

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<tbody>
<tr>
<td>Office stock*</td>
<td>-</td>
<td>52.8 million sqm</td>
</tr>
<tr>
<td>Take-up</td>
<td>2,324,400 sqm</td>
<td>2,410,400 sqm</td>
</tr>
<tr>
<td>Vacancy rate*</td>
<td>5.0 - 7.6%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Prime rent*</td>
<td>700 - 830 €/sqm</td>
<td>760 €/sqm</td>
</tr>
<tr>
<td>Investment volumes</td>
<td>€13.5 billion</td>
<td>€20 billion</td>
</tr>
<tr>
<td>Prime yields*</td>
<td>3.25 - 5.75%</td>
<td>3.00 - 3.50%</td>
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*As of end December
Why invest in Paris?

PARIS CENTRAL BUSINESS DISTRICT (CBD)

Quartier Central des Affaires

The CBD is the historical business district within the capital. It extends east to west from “Le Louvre” museum to Porte Maillot, and 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 Haussmannian 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 (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 market capital values. This location is most 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. In 2016, the CBD achieved one of its most active years in terms of take-up with a strong activity on the small and medium size segments. Among the most significant recent leasing transactions are: BANQUE DE FRANCE with ~18,800 sqm in the “Intown” building and GOOGLE with 5,200 sqm rue de Londres, both close to the Saint-Lazare station, and WEWORK with 11,700 sqm rue La Fayette.

- To the west (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.

<table>
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<tbody>
<tr>
<td>Office stock*</td>
<td>-</td>
<td>6.7 million sqm</td>
</tr>
<tr>
<td>Take-up</td>
<td>388,000 sqm</td>
<td>445,000 sqm</td>
</tr>
<tr>
<td>Vacancy rate*</td>
<td>3.00 - 6.00%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Prime rent*</td>
<td>700 - 830 €/sqm</td>
<td>760 €/sqm</td>
</tr>
<tr>
<td>Investment volumes</td>
<td>£2.9 billion</td>
<td>£5.3 billion</td>
</tr>
<tr>
<td>Prime yields*</td>
<td>3.25 - 6.00%</td>
<td>3.00 - 3.50%</td>
</tr>
</tbody>
</table>

*As of end December

La Défense

Established in the 1960’s, La Défense is the largest purpose-built business district in Europe (3.4 million sqm). It is located 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.

This market benefits 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 Étoile Line and later the Grand Paris Express will connect this business district to the international airports of Roissy CDG and Orly.

La Défense is the historical business district within the capital.

This 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 lettings of IMS Health and Crédit Mutuel CIC in the D2 tower (delivered in 2014), the new Saint-Gobain headquarter in the new M2 tower, 49,000 sqm to be delivered in 2019, Deloitte in the new Majunga tower and the RTE leasing in the refurbished building “Window” (40,500 sqm).

The renewal 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. Over the next five years, ten projects with building permits, totaling up to nearly 400,000 sqm, could be delivered.

<table>
<thead>
<tr>
<th>Key market indicators La Défense</th>
<th>10 yrs average (2008 - 2015)</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office stock*</td>
<td>-</td>
<td>3.4 million sqm</td>
</tr>
<tr>
<td>Take-up</td>
<td>182,000 sqm</td>
<td>274,600 sqm</td>
</tr>
<tr>
<td>Vacancy rate*</td>
<td>3.5 - 13.3%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Prime rent*</td>
<td>500 - 585 €/sqm</td>
<td>515 €/sqm</td>
</tr>
<tr>
<td>Investment volumes</td>
<td>£1.3 billion</td>
<td>£2.3 billion</td>
</tr>
<tr>
<td>Prime yields*</td>
<td>4.25 - 6.25%</td>
<td>4.25 - 4.75%</td>
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</table>

*As of end December
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 benefiting 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 in 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 telecom sectors (Microsoft, TFI, Canal +) and in various service and industrial sectors (OECD, Ipsen, Renault, Yves Rocher, Coca Cola, Accor). The new metro line 15 will be in service in this area by 2022.

- The Neuilly-Levallois market is located in 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 mainly developed 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 its pleasant environment and also its immediate proximity to the CBD and La Défense. Large firms that have chosen this location, including Chanel, Altran, PWIC, L’Oréal, Cetelem, SAP, Henner, CMS Bureau Francis Lefebvre, Orangina, Sephora... etc.

- The Rueil market is located in the south-west of Paris, close to La Défense. This town offers a total office stock of ~730,000 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).

The Western Crescent has a large office stock of 8 million 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).
Demand for prime retail space from international brands remains very strong year after 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. Rental values are currently at an average level of €8,500 - €22,000 per sqm* for the best positions respectively on odd and even numbered sides of the Champs-Elysées.

Some retailers are prepared to consider a high rent 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.

Most recently, several recognised international retailers such as M&M’s, Apple, Five Guys, or the well-known French department store “Galeries Lafayette” (for an opening at the end of 2018) 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 24% of overall property investment volumes in France over the last five years (2012 - 2016).

Due to the resilience of this asset class, opportunities have recently been in high demand by investors. Since 2012, 4 billion has been invested on average each year in the retail property sector.

Today in terms of prime yields the best high street retail units are sold at around 2.75 - 3.25%, shopping centres at 4.00 - 4.50% and the highest quality out of town retail parks at 4.75 - 5.25%.

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

- **Champs-Elysées** – bordering with the famous golden triangle, Avenue des Champs-Elysées, 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 avenue has approximately 100 million visitors per year (300,000 per day, up to 600,000 at the Christmas period).

- **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 over 6 times the number of visitors than the Louvre (8.4 million visitors) or the Eiffel Tower (6.9 million visitors).

- **Saint-Germain-des-Prés / Montparnasse** stretching from Saint-Germain-des-Prés to the emblematic Montparnasse tower (the tallest building in central Paris), welcomes nearly 1.1 million visitors per year.

The latest iconic openings include: Apple, Nespresso and Uniqlo stores on the boulevard Saint-Germain, Rituals on the rue Saint-Sulpice and Intimissimi and Le Creuset on the rue de Rennes.

- **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 fully delivered in 2018. In terms of commercial supply the Rue de Rivoli attracts the major high street brands. The arrival of the renowned cosmetic brand Rituals on the rue de Rivoli should reinforce the international attractiveness of this location. The street also engages a new approach to shopping with for example the arrival in 2015 of the Sephora “Digital Concept store”.

France and particularly Paris has been an internationally recognized shopping 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.

*Including Key Money
Why invest in Paris?

Paris Hotel Supply

As of October 2016, the accredited hotels in Paris are composed of 1,383 hotels with a total of approximately 74,000 guest rooms. The market is well balanced between 3 and 4/5 stars hotels but under supplied in Budget/Economy (1-2 star).

<table>
<thead>
<tr>
<th>Grade</th>
<th>Hotels</th>
<th>Rooms</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 &amp; 5-star</td>
<td>426</td>
<td>32,849</td>
<td>44%</td>
</tr>
<tr>
<td>3-star</td>
<td>691</td>
<td>30,780</td>
<td>42%</td>
</tr>
<tr>
<td>0 &amp; 2-star</td>
<td>264</td>
<td>10,240</td>
<td>14%</td>
</tr>
<tr>
<td>Total</td>
<td>1,381</td>
<td>74,055</td>
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</tbody>
</table>

Source: Atout France

Over the last 10 years, the overall Paris hotel supply recorded only a 3% increase in the number of hotel rooms. This reflects a very limited growth in supply, compared to London for instance. However, over the past five years, the volume of 4-star and above increased by about 18% mostly by means of repositioning of lower category properties and opening of boutique and luxury hotels. In the budget to midscale segments, new supply has been limited.

The Paris hotel market still attracts the world’s largest hotel groups, seeking flagship properties, mainly focused on setting up their upscale and luxury brands. This trend illustrates operators’ confidence in the city’s long-term prospects. 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. Compared to most gateway cities, supply growth in Paris is expected to remain moderate in the short to medium term. In the midscale and upscale segments, new supply will come from "Réinventer Paris" development projects and ongoing office building conversions (about 40% of new rooms between 2008 and 2017 are conversions) with a diversification of products and concepts (mix of hotels, apparthotels, lifestyle hotels, hostels, etc.).

Hotel investment volumes in the Paris Region reached a level of €1.4 billion in 2016 representing almost 60% of hotel transactions in France. Paris remains one of the most active markets in Europe. The city has been the third most liquid city in the world in Q3 2016, illustrative of the longer-term trend.
2016 was an exceptional year for the French residential market. The number of sales which had already risen sharply in 2015 continued to increase in 2016. For pre-owned (+5% in one year), there is an anticipation of 845,000 units to be sold throughout the year and developments are expected to achieve 122,000 sales (+18%).

This performance was driven in particular by rise in individual investors’ activity, for which measures to support new housing were an incentive and which took advantage of the current context of historically low rates to materialize their projects, possibly anticipating a rise in rates in 2017 after two years (2014-2015) of waiting.

The bulk sales market also showed strong growth with a level of commitment which, according to our initial estimates, is expected to exceed €2 billion. The large influx of capital, whether for institutional investors or the SCPI/OPCI, and the search for returns push investors to expand their strategies against rates that have reached levels on other types of assets: 3.00% for office prime assets in Paris and 2.75% for retail, while the best residential assets are trading at rates at around 3.00-3.25%, rates have remained stable in the recent months. Residential investment could nevertheless have been much higher if there were more opportunities.

This upturn in the market is reflected in prices, with a respective increase of 1.7% for pre-owned and 2% for developments (Q3 2016). Selling prices for pre-owned housing increased by 4.4% in Paris in 2016, reaching an average of €8,340/ sqm at the end of the year. The districts which are the most expensive remain the 6th (€12,200/ sqm) and 7th (€11,530/ sqm), and prices are over €10,000/ sqm in four other districts: 1st, 3rd, 4th and 5th. Prices also rose in the rest of the region with an annual increase of 3.1% in Inner suburbs and 1% in the Outer suburbs. In the Inner suburbs, the highest prices are found in Neuilly-sur-Seine with an average price per sqm of €8,500. In the Northern and Eastern inner suburbs, prices rose respectively by 1.8% and 3.1% with average prices set between €3,180 and €4,210.

The trend observed in 2016 in the residential investment market is expected to continue in 2017. The significant portfolios currently on the market point to an exceptional performance in 2017.
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.

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 be affected and may no longer be relied upon. We assume no responsibility to update these comments as a result of any such change in the law, case law or administrative doctrine. Any change in these facts and assumptions may adversely affect our review and conclusions.

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.

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# Disclaimer

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Why invest in Paris?

1. DIRECT INVESTMENT (ASSET DEAL)

**Acquisition process of a property**

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

- **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 internal the review of litigation, quality of occupancy and existing commercial leases)
- **Binding offer**

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

- **Registration of the Notarized deed of sale**

- **Completion of the 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

- **Binding offer signing of either:**
  - A binding sale and purchase agreement
  - A direct sale

- **Registration of the sale and purchase agreement with commercial court**

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

- **Transaction generally more expensive for transfer tax purposes**

2. 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

- **Signature of a Preliminary agreement** which is either:
  - An option agreement (promesse unilatérale de vente ou d’achat);
  - 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
  - A transfer order (ordre de mouvement)

- **Registration of the sale and purchase agreement with commercial court**

- **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) which case the possibility of implementing this tax-free step up is most uncertain, if not excluded, given recent case law.**

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

- **Transaction generally more expensive for transfer tax purposes**

- **2 months**
- **4 to 6 months**
- **7 months**
- **2 months**
- **3 months**
- **4 months**

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

Please note that a law enacted on 24 March 2014 (known as the “Alur law”) modifies part of the rules applicable to co-ownership.

● 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 notarized 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?

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 for the last day of the civil quarter.

- **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.

- **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, the lessee should reject a renewal offer by the lessor by the day of the renewal offer.
  
  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.

- **Indexation**
  
  - 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 lessee. 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 (indice du coût de la construction), the ILC (indice des loyers commerciaux), or the ILAT (indice des loyers des activités tertiaires).

  Indexation clauses have to comply with the provisions provided by the commercial lease regulations and the French Monetary and Financial code. Please note that several clauses which did not comply with those requirements were called into question before the courts in 2016. Therefore, the risks of challenge of such provision is strengthened and can have significant financial consequences.

  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.

- **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 (fonds de commerce).

  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 lessee 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.

  Consequentially, commercial lease agreements have to be negotiated with great attention to detail.
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 (3 August 2009) and Grenelle 2 (12 July 2010) 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 (article L.125-9 of the environmental code).

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. The energy transition for green growth Law dated 17 August 2015 has reinforced principles and provisions in that matter.

- 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 (article R.111-20 of the building and housing code).
- Works to improve the energy performance of existing tertiary buildings will be required to achieve the objective having a real estate in France with all buildings renovated under the standards BBC or similar for 2050 (L.100-4 of the Energy code). The overall objective of this regulation is to ensure a significant improvement of the energy performance of an existing tertiary building when a building owner intends to undertake work that are likely to provide such improvements (articles L.111-10 and R.131-25 to R.131-28 of the construction and housing code).

The energy transition for green growth Law (17 August 2015), a decree will set out the terms of this obligation.

There are several French “green” certifications. The « legal » reference is the High Energy Performance label (« Haute Qualité Environnementale » - HQE) which was created by an Order 8 May 2007 and distinguishes between High energy performance, Very High energy performance, High energy performance – renewable energy, Very High energy performance and renewable energy – heat pumps and BBC buildings (R.111-20 of the building and housing code).

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 Démarche 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 a certified and 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. In case of removal, the asbestor waste management must be in compliance with hazardous waste regulations.

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 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.

Contaminated sites and soils

On 26 March 2014, the French law on access to housing and planning reform “loi pour l’accès au logement et un urbanisme rénové” so called the “Alur Law” was issued. This law makes significant changes relating to the facilities classified for environmental protection and contaminated sites and soils.

New duty to inform

The seller or lessor of land located in a “soil information zone” must inform the buyer or tenant of this situation in writing. Failure to comply with this duty is subject to penalties. If pollution making the land unsuitable for use stipulated in the contract is discovered, the buyer may request, the cancellation of the sale/lease, return of a portion of the price/rend reduction, or rehabilitation of the site (if not disproportionate) within two years from its discovery.

The possibility of transferring the rehabilitation obligation to a third party within a legal framework (article L.512-21 of the Environmental Code).

Until then, rehabilitation work of an ICPE which has ceased operations had to be carried out by the last operator. If it were possible to contractually transfer that obligation to a third party, this transfer was, however, not binding on the Administration. The Alur Law introduces the possibility of transferring “officially” the rehabilitation work to a third party in order to promote the regeneration of brownfield sites.

The third party must submit an application to the Prefecture to obtain the authorization to carry out the rehabilitation work. The approval of the last operator, the mayor, or the president of the public establishment of intercommunal cooperation (EPCI) and the owner is necessary when the third party intends to rehabilitate the site for a use other than the one provided in the applicable order to the ICPE or under ICPE regulations. This third party must then transmit to the prefecture a rehabilitation file including soil and water conditions as regards pollution, the required measures to enable compatibility between the planned future use and the condition of the soil, estimation of the amount and duration of the work as well as the technical and financial abilities of the third party.

A prefectural order setting the amount of the financial guarantees and the rehabilitation work to be performed is then notified to all concerned parties.

Hierarchy of the responsible for contaminated sites and soils

The new article L.556-3 Environmental Code sets out the hierarchy of the responsible for contaminated sites and soils:

- First responsible will the last ICPE operator provided that his ICPE activities caused soil pollution or the third party who replaced him
- The waste producer or waste holder for soils polluted by another origin,
- Alternatively, the owner will be held responsible for soil pollution, provided that his negligence or the fact that he is no stranger to this pollution is established.
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 5.61% RETT is due on the acquisition of a property.
- 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 (0.814% subject to a discount) also apply.
- A 0.6% additional tax to RETT is due on acquisition of office, commercial or storage spaces completed for more than 5 years.

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 5.61% 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 (0.814% subject to a discount). 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.
- However, no VAT will effectively have to be paid if the so-called VAT suspensive regime applies (Art. 257 bis of the FTC – compulsory application, if all conditions are met). For this regime to be applicable it is basically required that the property was owned in the purpose to receive rental income subject to VAT and that the purchaser also intends to receive rental income derived from the property subject to VAT.

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 is due by the lessee 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 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.
- Finance Act for 2017 provides for a progressive reduction of the CIT rate:
  - FYs starting on or after January 1st, 2017: 28% rate applicable only to SMEs on the first €75,000 of taxable income;
  - FYs starting on or after January 1st, 2018: 28% rate applicable on the first €500,000 of taxable income of all companies;
  - FYs starting on or after January 1st, 2019:
    - 28% rate applicable on both:
      - Benefits of all companies for which revenue does not exceed €1 billion (or aggregate revenue of French tax consolidated entities)
      - The first €500,000 of taxable income of companies for which revenue exceeds €1 billion (or aggregate revenue of French tax consolidated entities)
    - 15% reduced rate extended to apply to the first €38,120 of taxable income of SMEs;
  - FYs starting on or after January 1st, 2020: 28% rate applicable for all companies.
Why invest in Paris?

Deduction of interest

- Interest incurred in the corporate interest of the borrower 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 (2.03% for FYs ended 31 December 2016) 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. This contribution is currently being challenged before the European Commission.
- However, among the few exceptions to the levy of this 3% contribution are the distributions made by SIICs (French REITs) to comply with their distribution requirements, by SPPICAV’s, by qualifying SIICs subsidiaries to the SIIC or by qualifying SPPICAV’s subsidiaries to the SPPICAV.
- In addition, the exemption of this 3% contribution for distributions made within a French tax consolidation is extended, since January 1st, 2017, to distributions made by French entities to French of EU shareholders that are not tax consolidated but for which the qualifying criteria for tax consolidation are fulfilled (i.e., at least 95% capital holding, being subject to CIT, FY with identical opening and closing dates).

Withholding taxes

- In most cases, there is no WHT on French source 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 is no longer available since the effective application of the amendment to the treaty that was signed on September 5th, 2014, i.e., since January 1st, 2017.
- Depending on the circumstances, efficient tax structures may still be envisaged.
Why invest in Paris?

Real estate transactions
- Legal and tax structuring of cross-border transactions (design of acquisition structure for real estate portfolio, conception of European funding...)
- 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
- Specific aspects related to real estate
- 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

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About JLL

JLL (NYSE: JLL) is a financial and professional services firm specializing in real estate, with 60,000 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 2015 global revenue USD 5.2 billion, JLL serves clients in 1000 cities over 80 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 500 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.
- Sourcing and advising on refinancing facilities for acquisition financing or for loan restructuring

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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