TEGoVA
THE EUROPEAN GROUP OF VALUERS' ASSOCIATIONS

Country-Specific Legislation and Practice

Country Chapter

France

Introduction

One of the guiding principles of TEGoVA is to promote consistency of standard definitions of value and approaches to valuation trans-Europe. The publication of European Valuation Standards (EVS) provides the state, investors, the financial industry, valuers and their clients with a common benchmark which can be consistently applied, irrespective of the location of a real estate asset.

Whereas harmonisation of valuation standards enable recognised bases of valuation to be reported, the preparation and publication of a valuation must also respect client need, national legislation and custom. Customary differences, particularly in respect of valuation methodology, may result from the requirements of statute or regulation.

This Country Chapter illustrates differences that currently exist across Europe. The Country Chapters are not intended to provide definitive advice. The text that follows has been provided by TEGoVA Member Associations (TMAs) to outline country-specific legislation and practice.

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France

Professional bodies represented on TEGoVA:

ASSOCIATION FRANCAISE DES SOCIÉTÉS D'EXPERTISE IMMOBILIÈRE (AFREXIM)
French Association of Property Valuation Companies

CONFÉDÉRATION DES EXPERTS FONCIERS (CEF)
Confederation of Land Owners

CHAMBRE DES EXPERTS IMMOBILIERS DE FRANCE (CEIF-FNAIM
Chamber of Real Estate Valuers of France

CONSEIL SUPÉRIEUR DU NOTARIAT (CSN)
High Council for the Notarial Profession

INSTITUT FRANCAIS DE L'EXPERTISE IMMOBILIÈRE (IFEI)
French Institute of Real Estate Valuation

SYNDICAT NATIONAL DES PROFESSIONNELS IMMOBILIERS (SNPI)
National Association of Real Estate Professionals

1 – Real estate market

Housing stock

At mid-2009, the housing stock in France consisted of 33.145 million dwellings. This number includes 10% of secondary homes and 7% vacant units. 58% of main residences were owner-occupied, 19% repaying a home loan and 38 % without home loan; 37% were rented, 17% social and 20% private.

The remaining 5% were occupied free of rent, rented furnished or sublet.

Home-ownership rapidly increased in the 1980s (from 46% in 1978 to 54% in 1988) but remained stable during the first part of the 1990s. On the contrary, the private rented sector decreased in the 1980s and has since recovered whereas the social rented recently stopped increasing.

1.2 House prices

The main source of national house price data is the "INSEE-Notaires" house price index, published by INSEE (www.insee.fr).

It concerns changes in residential property prices and are based on transactions on the second-hand market. The "INSEE-Notaires" house price index provides quarterly series from 1980 for Paris, 1994 for regions other than Paris, 1998 for whole France. Various levels are available, including regions and major cities.

There has been only one full boom and bust period that could be observed by the index. It was between 1987 and 1995 and it mainly affected the Paris region and the Riviera. Since 1998 until 2008, prices have been rising in most regions and the rate of increase has been about 10% in average. During the recent crisis, prices slightly decreased in 2009 and recovered unevenly. In Paris they went up by 22% much more than on any other market.

Prices in the city of Paris and its close suburbs are much higher than in the rest of the country; next comes the Riviera and cities near the Swiss border (Annecy and Geneva area). At mid-2011, average prices per square meter for second-hand apartments reached 8,400 € in Paris and 3,800 € in Nice. These areas are in favour with national and foreign investors; the prices are thus more volatile than in the rest of the country.

1.3 Transactions

The numbers of transactions on the second-hand market at the national level, they are estimated using tax data. The average number of property transactions is about 0.8 million per year over the last 10 years. This translates into an average turnover of around 3% of the dwelling stock belonging to individuals.

The only official data on house purchase activity concern sales of new housing by developers. They average 100,000 per year. In the recent years, due to generous tax incentives, the share of sales to (individual) investors was estimated to be close to two-thirds.

Mortgage market

At mid-2011, the total value of outstanding housing loans to households was 832 billion euros. This is equivalent to 46% of GDP. Loans secured by a mortgage cannot be isolated.

The value of outstanding housing loans to households was multiplied by three in ten years. This increase can be explained by the historically low interest rates and a longer duration of the loans which contributed to maintain affordability in spite of the rise of housing prices.

Funding

The main funding instrument used by the banking system is deposits, among which "Epargne-Logement" (housing savings schemes) still has a large share in spite of a constant decline.) Long-term finance (bonds, including mortgage bonds) is developing and Basel III rules will push to increase it even more. Securitisation of housing loans (MBS) has been introduced in 1991 but has not much developed.

Covered bonds were introduced in (1999) but they have taken an important share of the funding only among specialist lenders.

1.4 Government

The State supports **home-ownership** of moderate-income households through:

1/ a subsidised loan (PTZ – "Prêt à Taux Zéro") which has 0% interest rate and delayed amortization: 100%, 75% or 50% (depending on income level) is repaid after the main loan (up to 18 years); its maximum amount is 20% of house price (up to a maximum price variable with family size and region). Conditions are: first-time buyers, maximum income, newly built or renovated housing.

2/ Launched in 2011, PTZ + is a loan whose interests are covered by the State, without fee, to buy a first principal residence (limited to persons who have not owned their primary residence since at least two years).
Loan amount and repayment terms that are granted, take into account income level, size of the family, geographical location of future housing, its type (new or old) and its energy performance.

Social rented housing programmes benefit from:

- direct State subsidies (between 2.5% and 20% of the investment cost),

- VAT reduced rate (5.5% instead of 19.6%),

- 15 year property tax exemption (instead of 2 years),

- long-term off-market loans (currently 3.45% for 35 years) funded by tax-exempt deposits on savings account and guaranteed by local authorities.

Private landlords investing in newly-constructed or heavily renovated housing benefit from "accelerated depreciation": they may deduct from their taxable income up to 65% of the purchase price: 8% during each of the first five years, then 2.5% per year during four to ten years. As a counterpart, the standard deduction on rental income is brought down from 14% to 6%. Since April 2003 (Robien), only has rent ceilings, approximately 10% under market rent, and no income ceiling for tenants.

Scellier BBC law is a tax system applicable to new housing available for rent, in anticipation of the 2012 thermal regulations that will require the BBC. Launched in 2011, Scellier BBC provides investors with a tax reduction of 22% of the property value to be divided up to 15 years.

1.5 Market for commercial properties

Like all mature western European economies, France has a widely-developed range of non-residential properties, from office, retail and industrial premises through to more specialised sectors such as hotels and conference / exhibition centres. As the world's leading tourist destination, the hotel and conference sector is particularly important, particularly in the capital.

We will concentrate here on the three most commonly studied user types, offices, retail and logistics warehousing.

1.5.1 The Office Market

As a result of the heavily centralised nature of business and government in France, its office market is heavily concentrated in the Paris region, which comprises more than 52 million sq.m., equivalent to 25 – 35% of the country's office total stock. The largest regional conurbations, Lyon, Marseille and Lille, each have less than 10% of the Paris region's total.

The Paris region's office market is therefore, with London, one of the two largest in Europe, outstripping the nearest contenders by a considerable distance. The most important Parisian sub-markets are:

- **The Central Business District**, formed by the 1st, 2nd, 8th, and parts of the 9th, 16th and17th *arrondissements,* where the supply constitutes predominantly classical 19th century stone-fronted buildings, generally described as *haussmannien* after the man who planned the layout of the city in the mid-19th century.
- **La Défense**, the largest de-centralised business district in Europe. This area was developed from the 1950s onwards to provide high rise office buildings close to the city without spoiling the low-rise nature of much of central Paris.
- **The 12th and 13th *arrondissements*** either side of the River Seine to the east of central Paris, where office development was focussed round the Gare de Lyon railway station and the 1990s new district Seine Rive Gauche. The latter provides large floor areas in a low-rise environment, in contrast to the high-rise nature of La Défense.
- **The western inner suburbs**, of which the primary markets are the Neuilly-Levallois area and the area within the southern river loop in the towns of Issy-les-Moulineaux and Boulogne-Billancourt. These areas were both developed as office and residential centres after heavy industry moved further away from the city centre from the 1980s onwards.
- New areas of development have emerged since the beginning of the 90's, particularly along the *Périphérique* inner orbital motorway at towns like St Denis, St Ouen and Montrueil.

The metro and RER transport systems and the motorway network, centring on the *Périphérique* and the A86 middle ring road, are the main infrastructure elements that drive occupier location choices.

Statistics for the Paris region office market are arguably the most reliable in Europe, as four of the largest property firms jointly set up Immostat, a statistical gathering body, several years ago to analyse the market and publish agreed office take up, supply and investment volume figures for the region. Immostat has since been taken under the wing of IPD.

Annual take up in the Paris region has varied since 2000 between 1.7 and 2.8 million sq m, or around 3.5 – 5.5% of the total stock, according to the position in the property cycle. The two main markets, the CBD and La Défense, typically account for around 12 - 20% and 7 - 10% of total take up, respectively. The region offers a wide range of rental levels, with new buildings letting from over €800 per sq m in the CBD to around €200 in the outer suburban markets.

However, there are also well-developed office markets in the regions outside Paris and Lyon, Marseille and Toulouse are the most dynamic markets. Also worthy of mention are the towns of Nantes and Lille. Nevertheless, the market in France remains very concentrated in the Parisian region: take up in Ile de France typically represents 8 to 10 times that recorded in Lyon and over 20 times more than that of Marseille.

1.5.2 The Retail Market

France has one of the most mature retail markets in Europe, offering a full range of outlets – high street shops, shopping centres, out-of-town “big box” units, factory outlet centres and retail parks. An ORIE study in 2010 estimated the total retail area in France at 64 million sq m, with around 23% of space in shopping centres, 27% in town centres and 50% in out-of-town retail parks and strip development.

The country was one of the first in Europe to develop American-style shopping centres and saw a strong boom period in the construction of out-of-town shopping centres in the 1970s and 1980s. There was also a lot of strip development of out-of-town retail units during this period as well.

The 1990s and 2000s saw a backlash against this in the form of restrictive planning rules that today require special planning consents for retail units of more than 1,000 square metres and in some cases more than 300 sq m. As a result existing buildings and particularly very large shopping centres enjoy a certain scarcity premium.

Not surprisingly, the most prestigious retail streets are located in Paris, led by the Avenue des Champs Elysées, which achieves some of the highest rents in the world. The French capital has a highly-developed luxury retailing industry, centred on streets such as Avenue Montaigne, Rue du Faubourg St Honoré, Place Vendome and Boulevard St Germain.

Nevertheless, retail property more than any other asset class also sees a strong demand from landlords and tenants alike for property in the regional cities and zone A rents in towns like Lyon, Toulouse or Bordeaux can achieve €2,000 per sq m Zone A and yields of close to 5%. Some of the best performing shopping centres are also located in the regions, such as Lyon Part-Dieu and Cap 3000 (in Nice).

It is essential for valuers of French retail property to have a detailed knowledge of the complex landlord and tenant law, see 1.3, above. In particular, the rent-capping rules on lease renewal, which can limit rent increases to annual indexation, can have a major effect on the chances of a landlord realising a shop's theoretical reversionary potential.

1.5.3 The Logistics Warehousing Market

France is strategically placed in Western Europe, having frontiers with seven other countries. As such, goods passing from one country to another within the continent very often pass through France. The Rhone corridor has been a natural north-south trade route for centuries and today the A1, A6 and A7 motorways form the backbone of the country's road network, linking the main logistics centres of Lille, Paris, Lyon and Marseille.

The total warehouse stock in France was estimated to be around 95 million sq.m in 2010, of which less than 40% is comprised of large warehouses built less than 30 years ago. The greater Paris stock accounts for 29 million sq.m, representing about 32% of French warehouses.

The stock of buildings of more than 10,000 sq.m in the Paris region amounts to around 10 million sq.m. The Lyon region is the second largest logistics pole, with a warehouse stock (buildings over 10,000 sq.m) of around 4 million sq.m. The region around Lille, in the north, Marseille / Aix in the south each have some 2 million sq.m.

Other logistics centres have been developed, either around other major population centres, such as Metz or Toulouse, or elsewhere along the main A1/A6/A7 corridor, but have not met the same level of tenant or investor demand as the four traditional markets.

Of special interest tor valuers of logistics warehouses is the strict *ICPE* health and safety regulations. Any storage space of over 50,000 cubic meters is required to have a use permit before it can be occupied. This permit will specify the type of product that can be stored. A new permit will be required before articles from a different use class can be stored.

In order for a permit to be granted the property must satisfy a number of criteria, including minimum distances from roads and adjoining properties. Generally speaking individual fire-protected cells must not exceed 50,000 cubic meters, so larger spaces will have to be sub-divided by fire-resisting walls.

The value of a logistics warehouse can be seriously affected by the existence or otherwise of the necessary permit and by the works that might be required to obtain a permit if the property does not currently have one. Valuers of such properties must therefore have an appropriate level of knowledge of this system.

2 – Real estate valuation

2.1 terms of/for value

2.1.1 market value

2.1.1.1 The dominant type of value is market value : "The estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In France, the common repository of real estate appraisers is the charter of the valauation in real estate (Charte de l'expertise en évaluation immobilière). The charter is being updated and its fourth edition to be published in 2012. The Charter adopts the definition of the market value of IVSC. The market rental value is a form of market value.

The market value is implemented in two cases: in pursuit of use and if used alternative.

2.1.1.2 The Fair Value is considered an accounting concept. In practice for investment property, it is equated with the market value. For operating properties, the fair value is deemed to be the market value in its existing use.

2.1.2 non market value

2.1.2.1Replacement cost : This value is used to determine the replacement value of a building in an identical or equivalent. By deducting depreciation into account the age and obsolescence yields the depreciated replacement cost.

2.1.2.2 Reinstatement value : This value is defined as the cost of reconstruction of buildings and facilities to property, fees, expenses and technical off cost of demolition of existing.

2.1.2.3 Mortgage lending value : it corresponds to a value that must be assessed conservatively in order to eventually sell the building. It can not be greater than the market value. It provides the basis for refinancing mortgage.

2.1.2.4 Compensation for expropriation: is equal to the harm caused to the expropriated by the loss of the building. It is paid to the landlord as the tenant.

2.1.3 other terms of/for value

2.1.3.1 : insurance value: it is equal to the value at which property is insured by an insurance company. It can cover two concepts: the replacement value and replacement cost depreciation deducted.

2.1.3.1 : realizable value (valeur de réalisation) : it is the market value in the context of valuations and updated for the insurance company and mutual insurance companies as well as for real estate investment company (SCPI).

2.2 Valuation methods

2.2.1 Methods applied for calculating market value

Two main methods are typically used to estimate market value. The first consists of using comparables to the market as regards the property to be estimated. The main limit for this method is that it does not take potential income from the property into account. Hence the second method, called investment approach, is based on the income stream, compared with market value, and capitalised with capitalisation rates depending on the kind of property and market knowledge.

2.2.2 Methods applied for calculating non market values

The "non market value" is calculated on the basis of various methods.
The comparison method, income method and replacement cost method can be used in determining a mortgage value. The insurance value can also be approached by the replacement cost method, as well as by an indexing method.

Concerning "non market value , the terms of the valuation agreement should clearly state whether these values are required. The valuation report should also state whether they were used and should include the market value to identify the difference between those two types of value.

2.2.3 Regulatory / non-regulatory methods (if applicable)

In France, compulsory purchase is governed by a procedure detailed in laws and regulations where the property surveyor is not involved.
In most instances, the use of specific government agencies is required and in particular the *Service des Domaines* (property agency) for valuations for itself or for public bodies. The *Service des Domaines* uses its own specific appraisal method.
The rest of the procedure takes place under the control of a judge, who will be entirely free to assess concerning the most appropriate method of calculating the loss. However, although the judge's margin of assessment remains entirely within the limits of the parties' statement of claim, even so he must follow a number of rules from which he may sometimes vary on condition that the amount of compensation is reasoned.

Valuation methods used in France Add the definitions in the charter

- Comparison method
- Income capitalisation method
- Method of updating future cash flows – Discounted cash flow method
- Developer assessment method
- Land and construction method
- Rental saving capitalisation method
- Discounted rental saving method

- Business ratios method
- Replacement cost method

Comparison method

This fundamental principle of valuation, by means of benchmarks provided by recent comparable property transactions and bids proposed in sales, enables the market value of a property to be assessed. The valuation is made by comparing the property with other similar transactions on the market, meeting the category of value criteria required.

This method, which has a number of variations depending on the type of property, consists of starting directly from data from transactions on the property market for properties with features and a location comparable to those of the property being assessed.
It is also called the market method or direct comparison method.

According to the case, this method is used to value a property or property right by assigning it a value deduced from analysing sales of similar or analogous properties.

Depending on the type of property, the measurements used may be the habitable, useable or weighted useable area (HA, UA or WUA), or the unit (parking space, bedroom, bed, seat, hectares, etc.)

Income capitalisation method

This method consists of taking as a basis, either an ascertained or existing income, or a theoretical or potential income (rent received or market rental value), then dividing it by a rate of return, thus capitalising it.
This method is an approach via the income from the property.
Income methods are also called " income capitalisation" or "yield" methods.

It can be calculated in various ways depending on the basis of the income in question (actual rent, market rent, net income), for which there are distinct rates.

In France, the basis generally consists of either the net annual rent before tax and before rental charges, mainly in commercial property, or the annual market rental value before tax and before rental charges, mainly in residential property.

In this instance, it is necessary to determine:

1- The income:
This method, as it is based on an actual or potential gross income, is consequently only applicable to property that is rented or likely to be.

2- The rate of return:
This is essentially a comparative method and must refer to actual local property market data.

It must also take account of:

The geographic situation.
The business sector concerned.
Features specific to the property.
The state of maintenance and dilapidation.
The use.
The positioning of the rent on the market.

Discounted cash flow method

The Discounted Cash Flow (DCF) method is frequently used for valuing assets and shows financially what an asset is likely to generate in terms of income.

It is still used as regards development property, property being restructured, and as regards property that is manifestly under-valued. The length of the period used enables variations to be smoothed out and gives a longer term view. Depending on the type of owner, the period used is between 7 and 10 years.

This method consists of discounting future income produced from all property after deducting any charges (taxes that are not taken into account by the tenant, unoccupied periods with work, marketing expenses, cost of non-occupancy, etc.) over a long period (we shall be using 10 years) including the sale of the whole at the end of the 10 years.

Developer assessment method

Also sometimes called the property recuperation, operator countdown or developer appraisal method.

These methods are currently used to estimate the market value of building land in urban environments.
They can also be applied to determine the value of an existing building that is going to undergo major restructuring or reconstruction.

They consist of starting from the forecast sale price for a planned scheme, reconstituting the various costs affecting the scheme (building costs, financial charges, fees, margin) to ultimately reach, by subtraction, the value of the land or building in question.
The calculation of the exit value for the programme must be based not just on benchmarks from transactions for properties comparable to those in question, but also on an analysis of normally foreseeable supply and demand up to the marketing date of the planned scheme.

Land and construction method

These methods consist of separately assessing two components of the property: firstly the land and secondly the buildings.

Depending on the way in which they are deployed, these methods are similar either to comparison methods or replacement cost methods.

Discounted rental saving method

In order to find the value of lease-right, this financial method prefers the saving in rent generated by the protective status of commercial leases. The value of lease-right is established by finding the current value of a flow or income corresponding to the saving in rent over a period to be determined using the formula:

$$DAB = \frac{e\ (1 - (1+ i)-n)}{i}$$

Where e = saving in rent – i = discount rate – n = flow period.

Business ratios method

This method applies to a number of properties of a specific character and in particular a “monovalent” character.
Under the terms of article 23-8 of France’s 30 September 1953 decree, the following properties are monovalent: ones built with a view to a single use or that under case law have been assigned by modifications to a single use such that it would be necessary to undertake considerable work to assign them to another use.
The Paris Appeal Court states “major structural modifications to volumes, internal distribution, internal modifications”.
Thus hotels, garages, cinemas, theatres, clinics and a bar-dance hall have been considered monovalent by construction or modification.

So the method termed “business” applies to specific categories of property or ones of monovalent type, when their use is maintained.

It is actually a derivative of the income capitalisation or comparison method.

However it takes into consideration the actually achieved or potential turnover and gross margin of the business undertaken on the premises, and a percentage of the turnover admissible in rent.

The rental value of monovalent premises is not usually straight forward because there are particular practices that consist of using a portion of receipts that can be very variable depending on the nature of the premises.
And also, as with shops, whether it is the initial rental or a renewal of the lease.

Rental saving capitalisation method

This method consists of multiplying the difference between the market rental value and the rent by a marketability coefficient.
It involves calculating the difference over a year between the market rental value and the rent currently paid, then capitalising the amount thus obtained, called the rental saving.

So if the rent is the market rental value, there is no lease-right value by this method.
If there is a difference between the market rental value and the current rent, it should be capitalised.

The coefficient of capitalisation is a marketability coefficient related to the commercial location and to the only market prices, and not to the length of the lease remaining to run.

For shops there are new leases without payment of a premium and a genuine "lease-rights market", with numerous transfers. Analysis of transfers enables coefficients to be ascertained making it possible to reconstitute the market rental value.

The coefficients are determined by the market rental value used if the premises were untenanted for the most appropriate shop.
It is found that the coefficient varies according to the weighted unit rate per m². This is because the higher the unit rate, the more the coefficient increases.

The coefficient is thus obtained, initially, by analysing the commercial rental market and transfer rates, then adjusted it according to length and especially to the various conditions of the lease in question.

In determining the lease-right, two problems can arise: the cessation of specialisation and removal of limits.

So if one of these two instances arises, it is necessary to be careful and adapt the valuation method accordingly.

Replacement cost method

The replacement cost is both a value in itself (replacement value) and also a calculation method. As a calculation method, the replacement cost of a building incorporates both the taxation basis, the buildings and the equipment related to them.

It can be calculated in three different ways:
1) either the cost of like-for-like replacement: in this case it will be the market value of the land, plus the cost of like-for-like reconstruction of buildings and facilities, incidental expenses for the operation and irrecoverable VAT. This calculation method is used little, or not at all, for going concern value. On the other hand it is used for insurance values for buildings.

2) or the cost of an equivalent replacement, in other words the market value of the land, plus the cost of equivalent reconstitution of buildings, starting from the principle that if the property was rebuilt today, it would be in accordance with the standards for areas, materials and equipment different from the existing building in question.

3) or the market value of the building taken overall, plus purchase costs and charges, and any conversion work necessary to run a specific business. This approach is generally used when a current or standard building is being assessed where the equivalent may be available on the same market.

3 – Types of real estate valuers

Institut Français de l'Expertise Immobilière (IFEI)

The IFEI was founded in 1979. As we will see below, it is an unusual association in France, as its aims are not merely to defend the interests of real estate valuers. The IFEI is an association (260 members as at today) whose purpose is to promote expertise in real estate valuation by promoting exchanges between valuers and valuation users (investors, legal professionals, developers, brokers, ...).

In order to achieve this, the association is composed of two types of members:

- **"*Titulaires*" members**: they must be practising real estate valuers who are able to demonstrate, firstly, at least seven years experience in real estate appraisal and, secondly, , an appropriate level of higher education.

- **Associate members**: they are users or prescribers of property valuation. Their total numbers may not exceed two fifths of the members of the Institute and an Associate member may not chair the IFEI.

The advantage of this unusual arrangement is that valuers cannot simply exchange between themselves, as they constantly have to take account of the views of stakeholders in the valuation process. The IFEI features regional divisions that conduct local reflection and training activities outside the Paris region.

The IFEI was instrumental in the enshrining of the general concepts of valuation in the *Charte de l'expertise en valeur immobilière*, the first valuation standards published in France. A monitoring committee makes sure it is respected and kept up to date. The *Charte* has become the repository of practice and standards in France for property valuers. The *Charte* is updated regularly, amongst other reasons, to ensure that it is in accordance with TEGoVA's EVS.

3.1 organisation of the profession (organisations / associations of valuers)

AFREXIM (l'Association Française des Sociétés d'Expertise Immobilière) is an association of 8 of the principal real estate valuation companies in France. The association was created in 1995. It is unusual in France in being an association of valuation companies, rather than of individual valuers.

The current members are : BNP Paribas Real Estate Valuation, Catella Valuation FCC, CB Richard Ellis Valuation, Credit Foncier Expertise, Cushman & Wakefield Expertise, DTZ Eurexi, Icade Expertise and Jones Lang LaSalle Expertises.

Thanks to the work of its members over the years the association has become a key contact point between valuers and regulators, a driving force in the French valuation profession and one of the major defenders of the interests of valuers.

AFREXIM is the only association in France to organise an annual quality control of its members' work. The association also publishes papers on important technical questions and has a role of thought-leadership on key valuation issues in France.

Finally, AFREXIM is a member of the FFEE, a recently-formed French association composed of both real estate and financial valuers, which has a seat on the IVSC.

4 - Outlook

Commercial property markets

After the roller-coaster ride of the first decade of the millennium, European commercial property markets face a potentially long, challenging period in the first half of the second one and France will be no exception. Doubts over European sovereign debt and national debt levels, and the potential wider financial fall-out in case of default, are likely to reduce economic activity and make access to debt more difficult. France is not alone in having brought in austerity measures in 2011 and it is not government spending that is likely to drive the economy for the next few years.

Occupational markets are likely to experience lower demand as activity slows and prospects for rental growth are not good in the short to medium term in either the office or warehouse markets. As so often in the past, prime retail may buck this trend, although more secondary retail streets, shopping centres and retail parks are expected to come under pressure, particularly as internet, social network sites and other technologies change the face of retailing.

This slowdown is likely to play out against the background of an increasing emphasis on sustainability in buildings. Whereas at end 2011 only the market for new offices has wholeheartedly taken green factors on board, EU and national legislators will press for progress in reducing energy consumption in second-hand buildings. Indeed, by early 2012 the French government should have issued regulations defining improvements that will be required to the existing stock by 31st December 2019.

While this may bring welcome employment possibilities to the construction sector, it is likely to increasingly focus attention on capital expenditure required to bring older buildings up to standard and will result in an acceleration of obsolescence, with a probable knock-on effect on asset values. As regards new and recent, “green”-labelled buildings, it is likely that the market will become more discerning as regards the differences between the different grades within the labelling systems and value differences can be expected to become apparent, with premium values for the best performing buildings… as long as they satisfy standard occupier requirements of location, comfort and flexibility.

While the twenty-teens are therefore starting on a difficult note for most actors in the property market, France, and the Paris region in particular, remain and are likely to remain favoured destinations for real estate investors. As the largest single market within the Euro zone, Paris is a “must have” in every Euro-denominated property portfolio and it seems unlikely that this will change.

Indeed, if, as seems likely at least in the short term, investors remain highly risk-averse, values of prime Paris property, as a rare and tangible asset, could hold up quite well compared with those of secondary stock. The same rarity factor is likely to apply to properties that are structurally in short supply, such as prime shopping centres. In contrast, poorer properties may be more difficult to trade, especially the larger lot sizes, and this will prove a challenge for valuers and their clients.