Property Quality Report
French Offices – 2018
(Based on 145 assets representing €10bn of aggregated capital value)
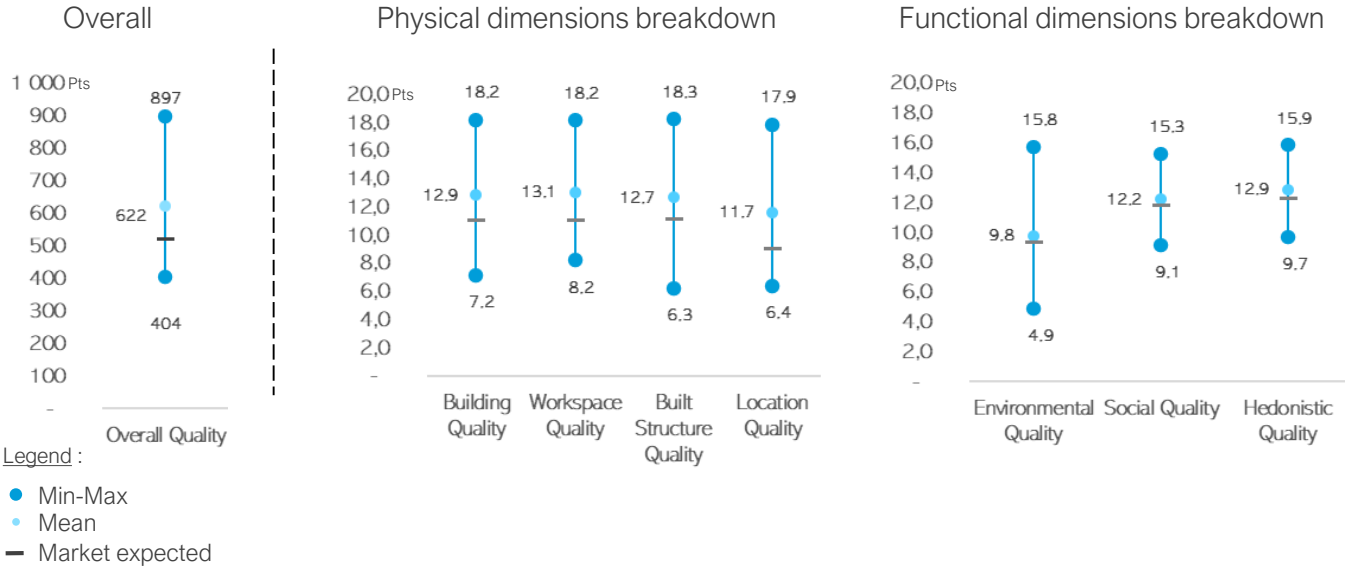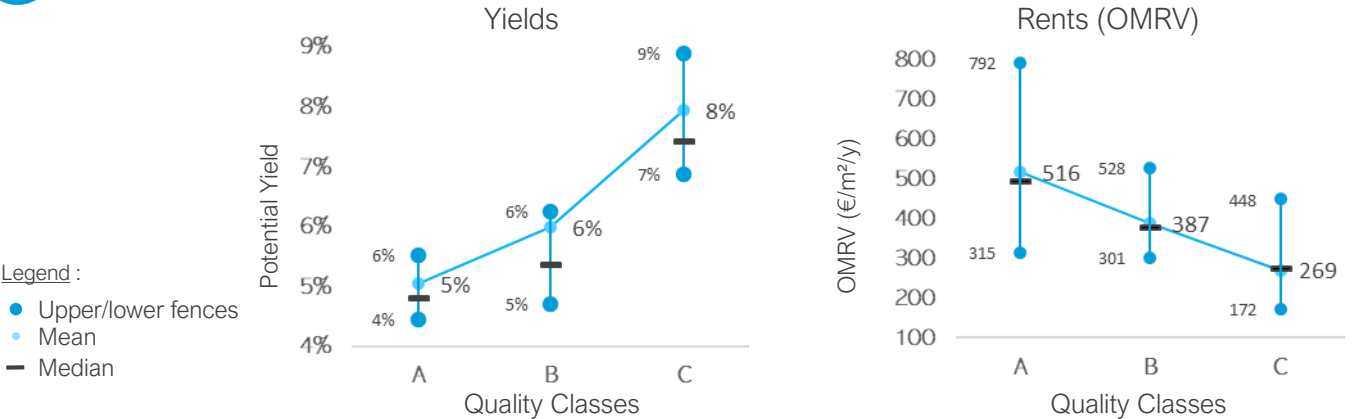
REAL QUALITY RATING

This Property Quality Report reflects property quality across 10 office markets in France. It is the first holistic and collective intelligence-based quality index worldwide. With 145 constituents, it covers approximately €10 billions of aggregated capital value as at year-end 2018.

1 — Property quality

Overall

1 000 Pts — 897 / 622 / 404

Overall Quality

Physical dimensions breakdown

	Building Quality	Workspace Quality	Built Structure Quality	Location Quality
Max	18.2	18.2	18.3	17.9
Mean	12.9	13.1	12.7	11.7
Min	7.2	8.2	6.3	6.4

Functional dimensions breakdown

	Environmental Quality	Social Quality	Hedonistic Quality
Max	15.8	15.3	15.9
Mean	9.8	12.2	12.9
Min	4.9	9.1	9.7

Legend :
- ● Min-Max
- ● Mean
- ▬ Market expected

2 — Quality and Prices

Based on 88 office properties located in Paris

Yields

Potential Yield — Quality Classes (A, B, C)

A: 6% / 5% / 4%
B: 6% / 6% / 5%
C: 9% / 8% / 7%

Rents (OMRV)

OMRV (€/m²/y) — Quality Classes (A, B, C)

A: 792 / 516 / 315
B: 528 / 387 / 301
C: 448 / 269 / 172

Legend :
- ● Upper/lower fences
- ● Mean
- ▬ Median

3 — Strategic Segmentation

Expected location quality

Building Quality (vertical axis) — Location Quality (horizontal axis)
Expected building quality

- Green monster: 16%
- Core: 69%
- Black sheep: 4%
- Sleeping beauty: 11%

4 — Properties distribution

(% of portfolio value)

90%
2%
1%
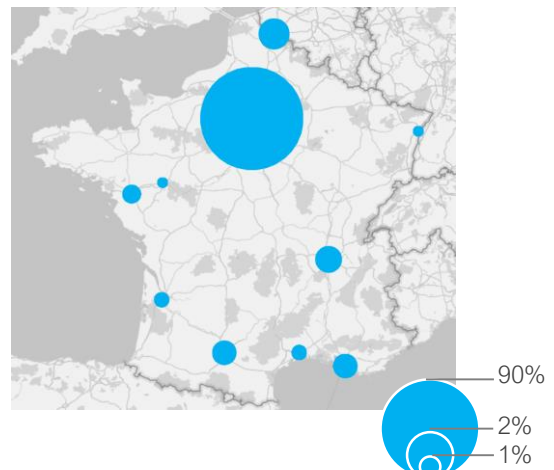
Glossary:

Characteristics
Physical property features that are material drivers of perceived quality. They enable to characterize all property physical and functional dimensions.

Declared preferences
They represent the preferences that market participants stated in our surveys when asked the importance they accord, in general to, for example, the efficiency of vertical transportations.

Environmental quality
Dimension of quality that measures the capacity of a property to avoid and even remediate negative environmental impacts. It relates to energy and water consumption, sorting & recycling, carbon emissions, etc.

Expected level
It is for a characteristic the level of quality at which market participants do not perceive utility gain or loss because it corresponds to the level of quality they usually consider as "expected" or "due".

Financial Real Estate Ecosystem
It refers to all the professionals that collaborate in creating value for the real estate sector. It primarily comprises occupiers and asset owners or asset managers, but also their advisors: agents, appraisers, engineers, property managers, etc.

Hedonistic Quality
Dimension of quality that measures the capacity of a property to satisfy businesses and property owners expectations. It encompasses modularity of the floorplate, efficiency of vertical circulations, connectivity, safety, building health, evolution capacity, etc.

"Ideal" quality level
Corresponds to the maximum score of 1000, achieved when all characteristics are at the level of performance that is considered as "ideal" by market participants.

Market
When determining a quality rating the geographic scale is the metropolitan area.

Market participants
Market participants refer to a representative sample of the professionals working in all the functions participating in the financial real estate ecosystem.

Objectivized Market Quality Value (OMQV)
Utility value of a property as assessed by market participants, assuming the complete knowledge of the physical characteristics of that property. Utility value takes the form of a quality score over 1000 pts.
Nota: it is distinct from the Investment Security, which compounds OMQV with asset's Contractual Security (lease length, quality of tenants credit, etc.) and is used into RQR's risk calculation.

OMRV
Open-market rental value. Is the rental value estimated by appraisers based on the analysis of transactions.

Potential Yield
Yield measure obtained by dividing the OMRV by the marked-to-market appraisal value of a property.

Property functional dimensions (HSE)
The property quality breakdown that relates to the Hedonistic, Social and Environmental quality. Functional dimensions are rated on a 20-point scale.

Property physical dimensions (LBW)
The property quality breakdown that relates to the Location, the Built structure and the Workspace. Physical dimensions are rated on a 20-point scale.

Quality Classes
Classes are groups of quality ratings: for example Class A spans from single A to triple A.

Quality Rating
Reflects the position of a property relative to competition within a specific market, based on its quality score. It takes the form of a 9-notch scale ranging from single C to triple A. The quality rating is relative or market specific.
Example: in order to achieve a AAA rating the quality score in Paris has to exceed 800 pts because the maximum score achieved in this market is 950 pts. By contrast in a regional city, the quality score may only needs to exceed 700 pts because the maximum score achieved in that city is lower than in Paris.

Quality Score
Score on a scale of 1000 pts which is obtained by compounding the utility values of 150 physical characteristics with the weights market participants accord to each of them. This is an "absolute" measure to the extend that quality is assessed against an ideal quality level that is not market specific.

Revealed preferences
They represent the preferences that market participants have implicitly given to characteristics when asked to evaluate an actual property.

Social Quality
Dimension of quality that measures the capacity of the property to satisfy employees, visitors' and surrounding community's expectations. It encompasses well-being, health, inclusiveness, etc.

Utility value of a characteristic
Satisfaction generated by the performance of a characteristic against expectations. It is valued on a 5-notch utility scale. Utility spans from "highly unsatisfactory" to "highly satisfactory" and is anchored in a neutral level where performance is considered by market participants as "expected" or "due", i.e. at a level that produces neither utility or disutility.

Utility value of a property
Satisfaction generated by a property as a result of the performance of its characteristic against expectations. Differently put, property utility value aggregates the utility value of its characteristics.

Weights
They reflect the relative importance of a characteristic in defining property quality. It is determined by analyzing market participants declared and revealed preferences.

About Real Quality Rating (RQR)
Real quality rating (RQR) is the global leader in the measurement of real estate assets quality, risks and impact. Founded in October 2016, it is entrusted by major investors who use RQR services as a means to enhance the accuracy and speed of their decision-making. To this end, it provides a quality rating of AAA type assets, holistic, dynamic and based on the collective intelligence of professionals in the ecosystem. It then analyzes the relationship between quality and price and reports it back to the market participants in order to improve market efficiency. RQR methodologies are developed within a research consortium comprised of Paris Dauphine University and the National Center for Scientific Research (CNRS), supported officially and financially by the European Union.

Contacts

Europe
olivier.mege@realqualityrating.eu
48 rue de la Bienfaisance | 75008 | Paris
O +33 (0)9 5382 1417 | M +33 7 8711 8434

UK
cptheret@realqualityrating.eu
48 rue de la Bienfaisance | 75008 | Paris
FR + 33 (0)6 47 53 97 28 | GB +44 (0)777 568 2357

North America
fabrice.larceneux@realqualityrating.eu
US +1 (832) 542 7706
2455 Dustan Road, Houston Texas 77005 USA

Disclaimer:

Release date: February 2019