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Bien plus que des mètres carrés

Press release
October 21, 2015

# Business at September 30, 2015

**Strong growth in recurrent net income, up +8.7%**
driven by investments, combined with the reduction in financial expenses and overhead costs

**Acceleration of the sales program for mature or non-strategic assets**
with over 500 million euros of sales secured, with an average premium of 28% versus the appraisal values

**Recurrent net income growth expected to exceed 10% in 2015**

## Key figures

| In million euros (excl. IFRIC 21 – see appendix) | Sep 30, 14 | Sep 30, 15 | Change (%) |
|---|---|---|---|
| Gross rentals | 432.3 | 424.7 | -1.7% *(-0.8% like-for-like)* |
| EBITDA | 359.6 | 354.3 | -1.5% |
| **Recurrent net income (Group share)** | **244.2** | **265.4** | **+8.7%** *(+11.8% adjusted for Beaugrenelle's sale)* |
| *Per share (in euros)* | 3.99 | 4.28 | +7.2% *(+10.3% adjusted for Beaugrenelle's sale)* |

*Unaudited figures*

## Sustained portfolio rotation and strong operational and financial performances

After the acquisitions of the T1&B Towers in La Défense, PSA's current headquarters in Paris' central business district, and the Tour Van Gogh in Paris-Gare de Lyon were finalized this summer, the second part of the year has been marked by the Group ramping up its sales program. Since July 1, 2015, Gecina has sold "L'Angle" in Boulogne and secured the sales of the "Newside" asset in La Garenne-Colombes and a building on Boulevard Brune in Paris, taking the **volume of disposals completed or secured up to 500 million euros** since the start of the year, with **an average premium of 28% versus the end-2014 appraisal values**. The Group is moving forward with the strategic roadmap presented in February and, in line with opportunities, it plans to accelerate its sales of non-strategic assets over the coming months.

Alongside this, Gecina has achieved good letting performances since the start of the year, with nearly 142,000 sq.m of office and healthcare assets let, relet or renegotiated, representing over 36 million euros of annualized economic rent. This good performance highlights the relevant positioning of Gecina's office assets, with quality buildings aligned with tenants' requirements and located in the Paris Region's most dynamic sectors.

The third quarter was also marked by **take-up picking up again in the central sectors** where the vast majority of Gecina's assets are located. While take-up has continued to fall for the Paris Region as a whole (-6%), it is up for Inner Paris (+12%) and the Southern Loop of the Western Crescent (+55%), further strengthening the Group's confidence in the outlook for its portfolio.

The results published through to the end of September reflect Gecina's strategy to further strengthen its exposure to Paris office markets. Rental income on offices is up +2.1%, driven by the investments made in La Défense and the CBD this summer. Similarly, the strategy to gradually withdraw from the residential sector is reflected in a -3.4% drop in rental income for residential properties. Overall, rental income is down -1.7%, primarily linked to Beaugrenelle's sale in 2014. Like-for-like, the contraction in rental income comes in at just -0.8%, reflecting an improvement in trends, driven primarily by offices. For reference, the like-for-like change in rental income came to -1.1% at June 30, 2015 and -1.9% at March 31, 2015.

**Recurrent net income shows strong growth, up +8.7%, with a per share figure of +7.2%**, benefiting from a good operational performance by the Group, as well as a reduction in overhead costs and a significant drop in financial expenses (-22.6%), despite the market's still limited recovery. **Adjusted for Beaugrenelle's sale, recurrent net income growth comes out at +11.8% (+10.3% per share).**
Factoring in the positive change in the average cost of its debt, the timeline for its sales program and its good operational performances, Gecina expects recurrent net income (Group share) **growth to exceed 10%** over the full year in 2015.

## Rental income in line with the Group's targets

Gross rental income came to 424.7 million euros for the first nine months of 2015, down -0.8% like-for-like and -1.7% on a current basis.

The moderate like-for-like contraction of -0.8% at September 30 reflects the slightly negative level of reversion, while the impact of indexation is still limited (+0.2%). The quarter-on-quarter performance shows an improvement: for reference, like-for-like rental income was down -1.1% at June 30, 2015 and -1.9% at March 31, 2015, linked in particular to the office portfolio.

On a current basis, the -1.7% year-on-year contraction primarily factors in the disposal of the Beaugrenelle shopping center, sold in April 2014, which generated 12.8 million euros of rent at September 30, 2014. Over the period, new rental income generated by deliveries and acquisitions (+18.6 million euros) came in higher than the loss of rent due to other sales and redevelopments (-10.5 million euros).
For reference, the change in rental income on a current basis came to -6.0% at June 30, 2015 and -7.2% at March 31, 2015.

| Gross rental income | Sep 30, 14 | Sep 30, 15 | Change (%) | |
|---|---|---|---|---|
| In million euros | | | Current basis | Like-for-like |
| **Group total** | **432.3** | **424.7** | **-1.7%** | **-0.8%** |
| Offices | 262.2 | 267.8 | +2.1% | -1.3% |
| Traditional residential | 94.7 | 91.5 | -3.4% | -0.1% |
| Student residences | 6.9 | 8.2 | +18.6% | +0.5% |
| Healthcare | 55.1 | 56.7 | +2.9% | +0.6% |
| *Other (incl. Beaugrenelle)* | *13.4* | *0.6* | *n.a.* | *n.a.* |

### Offices: rental income up thanks to the Group's growing specialization

Rental income from offices is up +2.1%, thanks in particular to the impact of the acquisition of the T1&B towers in La Défense and PSA's current headquarters in Paris' CBD, offsetting the impact of sales and redevelopments.
Like-for-like, rental income is down slightly, with -1.3% at September 30, 2015, factoring in a particularly low level of indexation (+0.1%) and the impact of renewals and renegotiations (-1.1%), including the conditions renegotiated on suburban Paris assets in return for extending the maturity of their leases. This performance shows a continued improvement, compared with the like-for-like figures of -1.7% for the first half of the year and -2.9% for the first quarter. Gecina is therefore maintaining its target for a limited like-for-like contraction in rental income of around -1% for 2015.

Since the start of the year, Gecina has let, relet or renegotiated nearly 77,000 sq.m of offices, representing over 26 million euros of annualized economic rent. In the third quarter, the Group welcomed the following tenants into its portfolio: DPAM in Boulogne, Arkema, MGEN and Biogaran in Colombes, BAP (Bureaux à Partager) in Neuilly, and Vinci in Vélizy.

In addition, the positive outlook confirmed with the third quarter's encouraging statistics for rental transactions, vacancy rates and rents for Gecina's preferred sectors (particularly Inner Paris and the Western Crescent's Southern Loop) has further strengthened the Group's confidence in its portfolio's rental development. This improvement in rental trends was combined with a further significant compression of capitalization rates during the third quarter.

### Encouraging trends for Gecina's preferred office markets

Immostat's statistics from the end of September 2015 support the Group's firm belief that the market could have reached a turning point for the Paris Region's most central sectors. While take-up is improving overall, down by just -6% from the start of the year to the end of September (versus -22% at June 30), this figure includes some significant differences between the Paris Region's various markets. Take-up has picked up again considerably for Paris and the Southern Loop (+12% for Paris, +55% for the Southern Loop), indicating an upturn in demand for more central locations. Contrasting sharply with this, the more peripheral sectors still show a clear slowdown (-20% for the Outer Rim, -24% for the Peri-Défense sector and the northern section of the Inner Rim for instance). The same contrasting trends can be seen in terms of rents, with rents

on new or redeveloped properties up +3% in Paris and +11% in the Paris CBD, where the vacancy rate has dropped by around 50 bp in three months and is now less than 5%.
These statistics support the Group's confidence in its portfolio, with the vast majority of its assets located in the region's most central sectors (Inner Paris and the Western Crescent's Southern Loop), where the trends observed - although still limited - reveal that market conditions are improving in the main areas where the Group operates.

### Diversification portfolios: rental resilience and impact of sales programs

For the **traditional residential portfolio**, rental income is virtually stable at September 30 on a like-for-like basis (-0.1%). On a current basis, the -3.4% contraction reflects the strategy to not relet apartments to be sold off on a unit basis when they become vacant as tenants naturally free up assets.

The **student residence portfolio** is reporting +18.6% growth on a current basis, following the delivery of six projects in 2014 and 2015, including four projects delivered during the third quarter of 2015 (Bagnolet Philia, Bordeaux Blanqui, Paris Lançon and Palaiseau Saclay). Like-for-like, rental income is up +0.5%, slightly outperforming indexation (+0.2%).

For the **healthcare portfolio**, rental income is up +2.9%, following the delivery of two clinics in the third quarter of 2015 in Bayonne and Orange. Like-for-like, rental income growth comes out at +0.6%. Gecina and the Korian group have agreed to extend all their leases (covering over 65,000 sq.m), making it possible to increase the average firm maturity of the Korian group's commitments by five years. As a result, the average maturity for leases across the entire healthcare portfolio has been increased by six months.

## Occupancy rate stable and still high

The Group's **average financial occupancy rate** came to 96.4%, stable compared with September 30, 2014 and slightly higher than June 30, 2015 (+10 bp). The financial occupancy rate for **office** properties is up 20 bp from September 30, 2014 to 95.6%, and 30 bp versus June 30. This increase primarily reflects the Henner group's arrival in Neuilly during the year.

| Average financial occupancy rate | Sep 30, 14 | Dec 31, 14 | Jun 30, 15 | Sep 30, 15 |
|---|---|---|---|---|
| **Offices** | **95.4%** | **95.3%** | **95.3%** | **95.6%** |
| **Diversification** | **98.3%** | **98.3%** | **98.2%** | **98.1%** |
| Traditional residential | 97.7% | 97.7% | 97.8% | 97.7% |
| Student residences | 91.1% | 92.0% | 90.6% | 89.7% |
| Healthcare | 100.0% | 100.0% | 100.0% | 100.0% |
| **Group total** | **96.4%** | **96.4%** | **96.3%** | **96.4%** |

## Recurrent net income (Group share) up +8.7%, with +11.8% growth when restated for the impact of Beaugrenelle's sale

The **rental margin** came to 92.1% at end-September 2015, up 20 bp from June 30, 2015 and down slightly compared with the end of September 2014. This year-on-year contraction primarily reflects the redevelopment of certain office buildings (55 Amsterdam and Guersant) and a catch-up effect with expenses on residential properties.

| | Group | Offices | Residential | Healthcare |
|---|---|---|---|---|
| Rental margin at Sep 30, 2014 | 92.4% | 94.7% | 82.5% | 99.5% |
| Rental margin at Jun 30, 2015 | 91.9% | 94.1% | 82.7% | 99.1% |
| **Rental margin at Sep 30, 2015** | **92.1%** | **94.4%** | **82.0%** | **99.1%** |

**Net financial expenses** are down -22.6% year-on-year. This reduction reflects the work carried out to optimize liabilities in 2014, as well as the bond issues in January and June 2015 for 500 million euros each, with a 1.5% coupon and 10-year maturity and a 2% coupon and 9-year maturity respectively. The average cost of debt all-in represented 2.7% at September 30 (versus 3.6% in 2014). Capitalized financial expenses on investments totaled 5.0 million euros at end-September 2015, up +1.8 million euros year-on-year, compared with 3.2 million euros at end-September 2014, as a result of the increase in the pipeline.

**Recurrent net income (Group share)** climbed to 265.4 million euros at end-September 2015, up +8.7% from the end of September 2014. Restated for the impact of the Beaugrenelle shopping center's sale (sold in April 2014), this growth comes out at +11.8%. Based on this performance through to the end of September, the Group is revising its target upwards and it now expects recurrent net income (Group share) growth to exceed 10% for 2015.

## Over 1.7 billion euros of new investments secured since the start of the year…

2015 has been a particularly active year in terms of acquisitions for Gecina, with **1.7 billion euros of new investments secured** since the start of the year.
For instance, Gecina has acquired the City 2 building for 188 million euros (28,500 sq.m) in Boulogne-Billancourt, which will be fully let to Solocal from April 2016, with a net yield of nearly 7%. Gecina has also completed its off-plan acquisition of the Sky 56 project in Lyon Part-Dieu for 136 million euros, with an expected yield of nearly 7% as well, scheduled for delivery in 2018. In July, the Group acquired the T1&B towers in La Défense, fully let to Engie under a firm 12-year lease, and the PSA group's current headquarters in Paris' CBD from Ivanhoé Cambridge for 1.24 billion euros, with an initial net yield of nearly 5%. The building that is currently occupied by the PSA group will be redeveloped after this tenant's departure, generating a yield on delivery of over 6%. Lastly, Gecina has secured its acquisition of the Tour Van Gogh, next to Gare de Lyon in Paris. This building is now vacant and will also benefit from extensive redevelopment work, with an expected IRR of around 9% before leverage and a net yield of nearly 6% on delivery.

At September 30, 2015, 423 million euros were still to be invested for the development pipeline (excluding the Tour Van Gogh project for 150 million euros), with 20 million euros in 2015, 281 million euros in 2016, 93 million euros in 2017 and the rest in 2018.

## …and 500 million euros of sales, with a 28% premium versus the end-2014 appraisals

In line with the Group's ambition to accelerate its portfolio rotation, Gecina has completed or secured nearly **500 million euros of sales** since the start of the year, with an average premium of around 28% versus the end-2014 appraisals and an average exit yield of 4.3%. The Group has secured **sales for 374 million euros of offices** (including 112 million euros currently subject to preliminary agreements) and **127 million euros of residential assets** (including 46 million euros still covered by preliminary sales agreements at end-September).

### 374 million euros of office sales, with a premium of over 27% versus appraisals

Since the start of the year, the Group has secured almost 374 million euros of sales of office buildings: nearly 112 million euros are still under preliminary agreements (Newside in La Garenne-Colombes and Brune in Paris), and 262 million euros have been completed (BMW in Madrid, Mercure2 in Paris, Mazagran in Gentilly and L'Angle in Boulogne). These sales have been secured with prices over 27% higher than the end-2014 appraisal values.

### 127 million euros of residential sales, with a premium of around 30% versus appraisals

By the end of September, Gecina had also secured 127 million euros of residential sales, including 118 million euros on a unit-by-unit basis, achieving a premium of around 30% compared with the appraisal values. At end-September, 46 million euros of these sales were covered by preliminary agreements. The unit-based program to sell properties as they are naturally vacated by tenants ("Hopper" program, covering 18% of the residential portfolio) is progressing more quickly than expected by Gecina, thanks to a tenant rotation rate of over 20% for this portfolio.

### Continued strategy to realign around urban offices

Gecina plans to accelerate its sales program for mature and/or non-strategic assets. In addition to the 500 million euros of sales already secured since the start of the year, the Group's healthcare portfolio is currently subject to a sales process and all or part of the assets could be sold within the next few months, depending on the offers received.

## Recurrent net income growth target revised upwards

Based on the results achieved through to the end of September, and considering the positive change in its average cost of debt, the timeline for its sales program and its good operational performances, Gecina expects to achieve strong growth in recurrent net income (Group share) of over 10% for the full year, with a solid performance by the Group despite the market's still limited recovery.

### Gecina, a leading real estate group

Gecina owns, manages and develops property holdings worth 10.6 billion euros at June 30, 2015, with 90% located in the Paris Region. The Group is building its business around France's leading office portfolio and a diversification division with residential assets, student residences and healthcare facilities. Gecina has put sustainable innovation at the heart of its strategy to create value, anticipate its customers' expectations and invest while respecting the environment, thanks to the dedication and expertise of its staff.

Gecina is a French real estate investment trust (SIIC) listed on Euronext Paris, and is part of the SBF 120, Euronext 100, FTSE4Good, DJSI Europe and World, Stoxx Global ESG Leaders and Vigeo indices. In line with its commitments to the community, Gecina has created a company foundation, which is focused on protecting the environment and supporting all forms of disability.

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# APPENDICES

## Condensed income statement and recurrent income

*At the Board meeting on October 21, 2015, chaired by Bernard Michel, Gecina's Directors reviewed the financial statements at September 30, 2015, as appended. All the figures presented in this document (excluding the appendices) exclude any impact of IFRIC 21 relating to the recognition date for levies, which will no longer be able to be deferred in interim accounts, unless the obligating event occurs over a period of time. The impact of this standard primarily concerns the section of property taxes (taxe foncière) that cannot be charged back to tenants. It will not have any impact on the annual financial statements, but will modify the schedule for recognizing the rental margin in interim publications.*

| | Without IFRIC 21 | | | With IFRIC 21 | | |
|---|---|---|---|---|---|---|
| *In million euros (unaudited figures)* | Sep 30, 14 | Sep 30, 15 | Change (%) | Sep 30, 14 | Sep 30, 15 | Change (%) |
| **Gross rental income** | **432.3** | **424.7** | **-1.7%** | **432.3** | **424.7** | **-1.7%** |
| Expenses on properties | (106.3) | (114.7) | +8.0% | (110.1) | (117.8) | +7.0% |
| Expenses billed to tenants | 73.3 | 81.2 | +10.8% | 73.3 | 81.2 | +10.8% |
| **Net rental income** | **399.3** | **391.2** | **-2.0%** | **395.5** | **388.1** | **-1.9%** |
| Services and other income (net) | 6.4 | 6.2 | -2.6% | 6.4 | 6.2 | -2.6% |
| Overhead costs | (46.0) | (43.1) | -6.5% | (46.3) | (43.4) | -6.4% |
| **EBITDA** | **359.6** | **354.3** | **-1.5%** | **355.6** | **351.0** | **-1.3%** |
| Net financial expenses | (111.4) | (86.2) | -22.6% | (111.4) | (86.2) | -22.6% |
| Recurrent tax | (2.5) | (2.6) | +6.4% | (2.5) | (2.6) | +6.4% |
| Recurrent minority interests | (1.6) | (0.1) | ns | (1.6) | (0.1) | ns |
| **Recurrent net income (Group share)** | **244.2** | **265.4** | **+8.7%** | **240.1** | **262.1** | **+9.2%** |

| | Without IFRIC 21 | | | With IFRIC 21 | | |
|---|---|---|---|---|---|---|
| | Sep 30, 14 | Sep 30, 15 | Change (%) | Sep 30, 14 | Sep 30, 15 | Change (%) |
| Average number of shares excl. treasury stock | 61,177,619 | 62,019,147 | +1.4% | 61,177,619 | 62,019,147 | +1.4% |
| **Recurrent net income (Group share) per share (in euros)** | **3.99** | **4.28** | **+7.2%** | **3.92** | **4.23** | **+7.7%** |