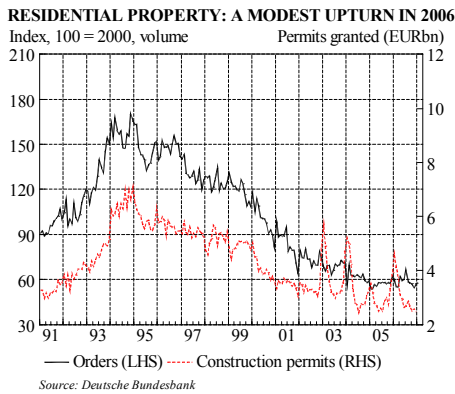


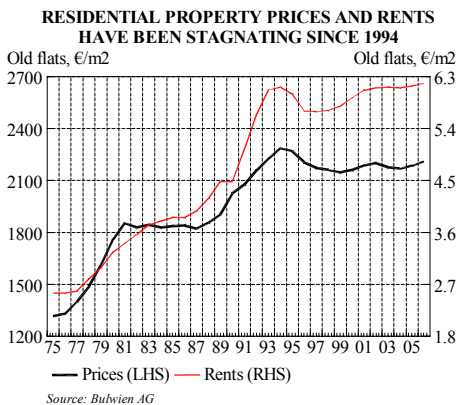
orders was downward in the second half – which also suggests that activity was artificially inflated. The IFO composite index and perceptions of the present situation have been on the decline since December 2006. All these elements imply that the lasting nature of the recovery is by no means certain.

Residential property: from recession to stagnation

The recovery in the residential property sector was muted and most of the improvement occurred in the first half of 2006. Last year, the number of new home construction permits granted stagnated (142,060 versus 141,986 in 2005). In value terms (the estimated value of the properties concerned in euros), new home construction permits rose by an average of 3.7%. Growth in construction company orders for homes was also modest: +2.6%. The upturn ground to a halt in the first half of 2006 and indicators have been falling since. Moreover, this sector received an artificial boost from the impact of the abolition of the homebuyers' premium on January 1st, 2006.

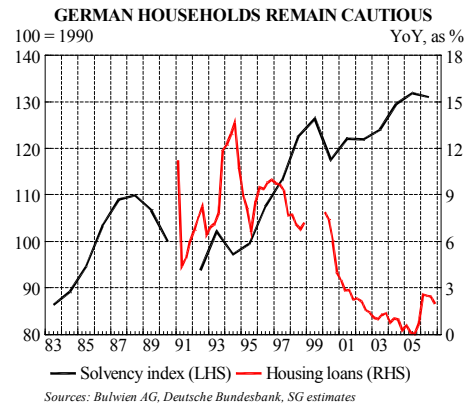


After peaking in the first quarter (almost 47,300 permits were granted which represents a yoy increase of 34%), construction permits started to slacken in June and subsequently went into freefall: -4% yoy in the third quarter and -29% in the fourth quarter. In December 2006, permits granted hit the lowest levels on record since reunification, in value terms. The trend was reflected in order levels, which started falling towards the end of the year (-24.4% in the fourth quarter), after the sharp surge seen in the first and second quarters (+31.4% and +11.6% yoy respectively).



The recovery would not appear to have had a significant impact on prices. Prices of flats increased in 2006, but remained at high but reasonable levels: prices per square metre rose by 1.1% versus +0.8% in 2005. Rent increases were also tame: +0.8% (the real component of the CPI rose by 1.1%) versus +0.5% in 2005. In real terms, therefore, prices and rents continued falling in 2006. Stagnation in prospect for 2007 and 2008. As a result of the combined impact of lower prices and reduced mortgage interest rates, the household solvency index has

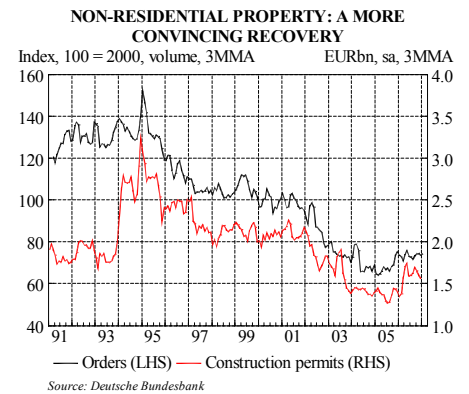
improved considerably since 1995, even though growth in disposable income was depressed by wage restraint. In 2006, the index reached the highest level seen in 25 years. However, a German population is traditionally inclined to rent than to buy – only 42% of Germans were owners of their main residence in 2002 – households did not take advantage of the improvement in their financial position to purchase their own homes.



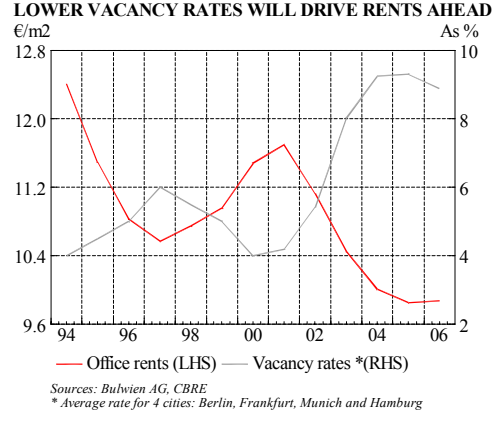
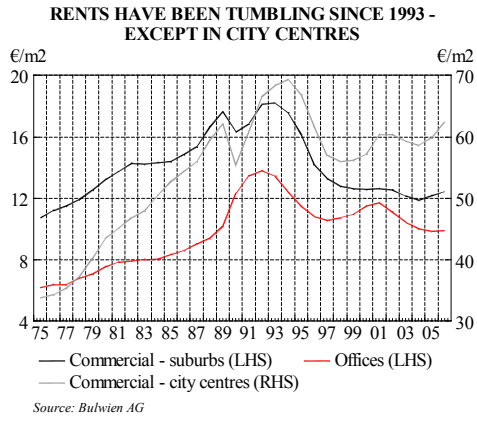
Housing loans slumped between 2000 and 2005: growth in loans outstanding fell from 8% yoy at the beginning of 2000 to only 1% in September and October 2005. In 2006, a recovery showed through: annual average increase of 2.1%. However, after picking up to 2.3% between February and June, growth in housing loans went into steady decline and plunged at the beginning of 2007 to +0.6% yoy in January (-1 point in a month) and +0.4% in February. To compound the situation, household indebtedness remains high (96% of disposable income in 2006) and interest rates on fixed rate mortgages maturing in more than 5 years are higher than the euro zone average (5.2% compared with 4.7%). A sharp upturn in the residential property market would appear extremely unlikely, despite the fact that recession would seem to have reached its end. In conclusion, German households are relatively loath to acquire residential property. The most likely scenario is that residential property prices and rents will stagnate, in real terms, in 2007 and 2008.

Non-residential property: moderate growth

A more convincing recovery in 2006



The upturn in the non-residential property sector (offices and commercial property) was more convincing in 2006. In value terms, construction permits granted rose by 14.4% on the year. Orders rose by 4.7%. Although indicators for this sector weakened in line with the evolution on the residential property sector, they nonetheless remained on a positive trend. In December 2006, construction permits were rising 13.4% ahead (yoy) and orders accelerated in January 2007 (+11.8% yoy), shrugging off a setback sustained in the last quarter of 2006.



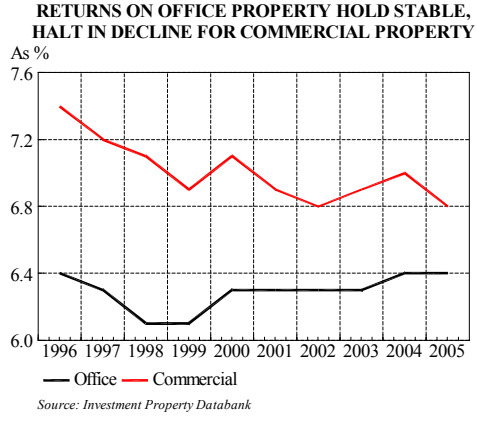
The brunt of the fall in prices and rents was felt in the period 1993-1997: -19.7% in the case of non-residential property prices, -21.4% in the case of office rents; -26.9% and -16.6% respectively in the case of town-centre and suburban commercial property rents. Since 1997, office property was the only sector to suffer a significant decline (-8.4% in 1998 and 2005), largely due to the bleak economic climate in 2002-2005, record levels of company failures and, by the same token, an explosive increase in vacancy rates. The latter hovered at around 4% of premises available between 1994 and 2002, escalated to more than 10% in 2005 and then eased back slightly (to less than 10%) in 2006. Last year was a brighter dawn for commercial property rents (+4.3% for town-centre premises and +2.2% for suburban premises), but office property rents remained static.

Secondly, the steady increase in household consumption has a positive impact on the retail trade industry. This spells good news for the commercial property market as dynamics similar to those described in the previous paragraph on office property will continue to apply.

THE NON-RESIDENTIAL SECTOR DRIVES THE GERMAN PROPERTY MARKET

Category of investment	2005	2006
	EUR bn	EUR bn
Non-residential property	23.65	49.38
o/w Offices	10.04	19.14
Commercial	8.42	19.71
Residential property	15.80	12.94

Source: Atisreal - Investment Market Report Germany 2007



Rental returns have not suffered unduly since 1990. In major towns and cities, they continued to range between 5% and 5.5%. Furthermore, according to Deutsche Bank, rental returns in medium/small-sized towns and cities have accelerated sharply since 2002 and ranged between 6% and 8% in 2006. As a result, rental returns were far in excess of long-term government bond returns (returns on the 10-year Bund averaged 3.8%) in 2006.

Finally, as a result of the relatively high returns offered by the residential property market is attracting investors. According to Atisreal, in 2006 office and commercial property transactions accounted for 62% of total property transactions – a figure that jumped by 56% relative to 2005 to EUR 62bn – whereas residential property transactions accounted for only 20% of the total. Investment in residential property tumbled (18% down on 2005), while demand for office and commercial property staged a significant recovery. Performance: (respective increases of 93% and 134% on 2005) for office investors, who accounted for 78.5% of total transactions. That said, the performance accounted for by national players increased: 21.5% versus 17% in 2005. The comparatively high level of rental returns in Germany compared with those in other European capitals, such as London and Paris – is likely to continue drawing in investors. Further increased investor appetite for the German property market, particularly in the case of domestic investors – can be expected to give a boost to sector activity. The upshot will be higher rental returns, despite the upward trend in rents.

Non-residential property: a growth market
In 2007 and 2008, the non-residential property market should receive a boost from the continued vigour of economic growth (+2.4% in 2007 and +2% in 2008).

Context. Firstly, vacancy rates in the office property sector are extremely high. As it will take time to absorb the high levels of stocks accumulated in 2005 and in 2006, upward pressure on rents will remain limited. Secondly, the improvement in private sector consumption will be a long haul and this will undermine confidence in commercial premises – especially in 2007.

Firstly, against a backdrop of modest growth, the office property market will prove more buoyant. Company failures will continue to decrease and the creation of new companies and of jobs in the services sector should be extremely dynamic. These positive factors, which started impacting in 2006, will feed demand for office property and this will push vacancy rates down and thereby exert upward pressure on rents.

In conclusion, the construction sector sought to continue to underpin activity. However, as the residential property market continues to decline in the medium-term, the non-residential property sector will be the source of growth momentum. Downward pulls on activity will dissipate gradually in 2007 and 2008. As a result, the contribution of the construction sector to GDP growth and to employment will pick up slowly over this period.

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