Press release

Paris, 9th July 2018

The best 1st half of the year since 2007

Knight Frank reviews the Greater Paris Region office rental market at the end of the 1st half of 2018

With **a little under 600,000 sq m of office take-up during the 2nd quarter 2018** in the Greater Paris Region, the pace of lettings remained steady, in spite of a decrease of 21% compared to the previous quarter. This decrease needs to be put into perspective with the exceptional nature of the lettings market over the first three months of 2018, which constituted the best start to the year in the Greater Paris Region market since 2007. **Over the 1st half of the year, areas that were let or sold to occupiers already totalled 1,360,000 sq m, an increase of 15% year-on-year and a level that hasn't been seen since 2007**.

The strength of occupier demand was seen in almost all area categories. Whilst take-up volumes for areas under 1,000 sq m saw a slight decrease of 4% year-on-year, the results remain respectable, particularly in Paris (+1%) in spite of the strong growth of co-working. In the intermediate area category (comprised between 1,000 and 5,000 sq m), demand remained very robust and saw an increase of 27% year-on-year. It is outside of the capital that increase was the most significant, as seen in the Outer Suburbs and La Défense, where this dynamism enabled the very limited number of large transactions to be compensated.

At a regional level, the quick take-up of large areas is also behind the good results seen during the 1st half of 2018. **43 transactions over 5,000 sq m were recorded, totalling almost 570,000 sq m**, an increase of 21% year-on-year and 42% of total take-up. The result is even more remarkable given that there were relatively few large transactions: there were three over 40,000 sq m, including the letting to NESTLE during the 2nd quarter of "Shift" in Issy-les-Moulineaux. All three deals were for new or redeveloped areas. For all lettings over 5,000 sq m, new and redeveloped areas accounted for 77% of take-up compared to 81% for the same period last year. **This slight decrease does not contradict occupiers' strong preference for Grade A assets.** The increase in large second-hand office deals (14 compared to 10 in the 1st half of 2017) conveys the general growth in activity, as well as the success of less expensive alternatives and the deferment of certain occupiers within a context of a pronounced lack of new and redeveloped offices.

Go West!

The 1st half of 2018 confirmed the great shape of the Parisian market. With 543,500 sq m, the capital concentrated 40% of lettings in the Greater Paris Region during the 1st half of 2018, a slight increase of 4 % year-on-year, related to the dynamism of western areas. The CBD and Paris Centre West as such reached peak levels due to the clear increase in lettings of large areas. Nine deals over 5,000 sq m in these areas have been signed since January for a total volume 103% above that of the 1st half of last year. Amongst the deals undertaken in the 2nd quarter are the letting to LES GALERIES LAFAYETTE of 23-29 rue de Châteaudun in the 9th district, and the letting to LACOSTE of "Map" in the 16th district. These lettings illustrate the fast take-up of refurbished space in the capital, a success which continues to push rental values upwards: **the CBD prime rent henceforth stands at €830/sq m/year compared to €810/sq m/year at the end of 2017**. Outside of these two sectors, take-up registered a decrease of 20% year-on-year in Paris, and a decrease to varying degrees in all area categories. Even so, we would highlight the **first incursion of WEWORK on the Left Bank**, with the letting of 11,600 sq m at 123 boulevard de Grenelle in the 15th district, and the letting of 17,200 sq m in "Le France" in the 13th district.

Outside of Paris, it is also the sectors to the West that steal the limelight. With take-up of almost 410,000 sq m during the 1st half 2018, **the Western Crescent saw take-up activity increase by 35% year-on-year**. This increase is related to the return to form of the Northern Loop, but above all to the increase in take-up volumes on large deals, particularly in Rueil-Malmaison (DANONE on 25,100 sq m in "Convergence") and in Nanterre (VINCI on 61,400 sq m in "Archipel", TECHNIP on 51,500 sq m in "Origine"). Performances in other office sectors of the Greater Paris Region are contrasting, decreasing by 19% in the Inner Suburbs and increasing strongly by 91% in the Outer Suburbs, driven by numerous large and medium sized transactions.

Under 3 % vacancy rate in Paris

Decreasing by 3% in in one quarter and 14% year-on-year, the volume of available space in the Greater Paris Region totalled 3.05 million sq m as the end of the 1st half of 2018. **The vacancy rate henceforth stands at 5.7%, its lowest level since 2009.** The situation is particularly strained in Paris itself, where the vacancy rate is progressively approaching 2%.

More than 230,000 sq m of new and refurbished offices have been completed since January in the Greater Paris Region. The pace will distinctly accelerate during the 2nd half of the year given that 750,000 sq m are due for completion between now and the end of the year, including several large properties that are still available in Paris and the Western Crescent. However, **only 49 % of the 2.4 million sq m that is currently under construction with completion due between 2018 and 2021 is still available**. Almost 42% of this volume is concentrated in Paris itself, where future supply has recently been further reduced by new large deals, such as LACOSTE in "Map". In other sectors of the Greater Paris Region, the Inner Suburbs (excluding the Western Crescent) stand out due to an acceleration in the pace of developments. Following 80,000 sq m of developments in 2017, 130,000 sq m will be completed in 2018, followed by 280,000 sq m in 2019. More than a million sq m are potentially due for completion in the Inner Suburbs by 2021, **proof notably of the expansion of office programmes related to the opportunities provided by Grand Paris Express.**