

Press release

Paris, 15th January 2019

SUSTAINED ACTIVITY

2018 review & 2019 outlook for the Greater Paris Region office lettings market

More than respectful

Prolonging the slowdown observed since the beginning of the second half of the year, the Greater Paris Region office market experienced a robust end to 2018, although it did not reach peak levels. Take-up amounted to 629,000 m² in the 4th quarter, a decrease of 19% compared to the same period in 2017. Over the whole of 2018, take-up volumes totalled almost 2.54 million m², compared to 2.56 million m² a year earlier. *"The overall trend remains positive: 2018 results are almost equal to the very good results of 2017, and are more than 14% higher than the ten-year average,"* says Philippe Perello, Managing Partner of Knight Frank France.

The strength of the Greater Paris Region market is particularly noticeable with areas of less than 5,000 m², which traditionally form the basis of lettings activity. Areas comprised between 1,000 and 5,000 m² are the most active, with volumes up 16% year-on-year. Lettings of areas over 5,000 m² totalled 916,000 m², a decrease of 24% year-on-year. While their number is also decreasing (79 transactions compared to 93 in 2017, but 68 on average over the past ten years), it is mainly the size of large transactions that is behind the slowdown in the office market. Only six company movements of more than 20,000 m² were recorded in 2018, of which five were signed in the first half of the year. There were ten such deals in 2017, including two for more than 50,000 m² which totalled almost 150,000 m².

On the other hand, the shift in activity towards new/redeveloped premises remains a constant in the Greater Paris Region market, accounting for 73% of take-up over 5,000 m² in 2018, close to the 72% recorded one year earlier. The share of pre-lettings of new/redeveloped large areas also remains high (77% in number, compared to 73% in 2017 and 51% in 2016), another indication of occupiers' preference for the most qualitative properties whose immediate supply has further decreased significantly.

Suburbs: contrasting results

While several very large transactions were completed at the beginning of the year, the Western Crescent experienced a subdued second half of the year which explains the 9% decrease in take-up in 2018. Two office sectors were particularly hard hit: the Southern Loop, whose results were somewhat improved by Nestlé's leasing of "Shift" in Issy-les-Moulineaux, and Neuilly-Levallois, where just one deal over 5,000 m² was recorded. Following a sluggish start to the year, La Défense made up some of its lost ground in the second half of the year with the take-up of a few large, second-hand office premises. Take-up in La Défense over the whole of the year reached almost 145,000 m². This volume is down 21% compared to 2017 and 22% below the average of the last five years, but activity could pick up again in the coming months with high quality, new and refurbished supply being brought to the market.

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The results of the other Greater Paris Region office sectors are just as diverse. In the Inner Suburbs, the South stood out with a strong 45% increase in take-up as a result of the signing of 8 deals over 5,000 m². This sector benefits from a relatively large supply of new or recent premises; properties offered at competitive prices, which have notably attracted Parisian occupiers who have been hindered by the lack of real estate solutions in the capital. The success of the South could well continue due to the shortage of supply in Paris, but also because it will be one of the first markets to benefit from the commissioning of one of the future Grand Paris Express metro lines (the "15 Sud"). This will also be the case in the North, where take-up fell sharply in 2018 (-50%), in contrast to the South. Finally, the good results of the Outer Suburbs (+30%) are mainly due to large-scale endogenous movements: several companies in the sector have chosen new developments to streamline their real estate assets, as illustrated by the 15,000 m² leased by Orange in Saint-Quentin-en-Yvelines.

Paris, still on top

Take-up volumes were stable in Paris in 2018 and exceeded one million m² for the third consecutive year. The driving force behind this success? The excellent results of the CBD and Paris Centre West, whose cumulative volumes increased by 11% in 2018 due to lettings activity in the intermediate and over 5,000 m² area categories. *"Murex, for example, leased the 16,600 m² "Freedom" building in the 17th district. This transaction – the largest signed in 2018 in western Paris – is symbolic of the increase in pre-lettings, a trend also illustrated by Lazard's very early positioning on the 10,900 m² in "173 Haussmann" in the 8th district"*, explains Philippe Perello. While take-up also increased in Paris North East, activity in Paris South stalled. Despite some notable transactions, such as ESMA's recent letting of 8,000 m² in "Ibox" in the 12th district, it was difficult for this sector to live up to 2017 which was notable for Natixis' lease on almost 90,000 m² in "Duo".

Despite the limited number of new available premises, the rate of lettings has generally remained steady in Paris, which benefits from demand from a wide variety of companies, concerned about centrality and surroundings that are conducive to retaining or attracting talent. The capital's best supply is thus coveted by traditional occupiers, in fields such as consultancy, luxury or finance, but also by more recent and fast-growing players such as New Tech and Coworking. The latter accounted for 25% of the volume of large transactions signed in Paris in 2018, a significant proportion related to the strong increase in the number of transactions and the increase in the average size of movements, from 1,500 m² in 2015 to more than 4,000 m² in 2018 due to the greater share of leases of more than 5,000 m².

Increased moves to the suburbs?

Down 12% year-on-year but by less than 1% over a quarter, the volume of available supply in the Greater Paris Region stabilised below the 3 million m² threshold. The vacancy rate now stands at 5.4%, well below the previous high of 2014 (7.7%) but still well above the 2001 low. The shortage situation observed in several office sectors is unlikely to change in the short term. As such, 45% of the 2.13 million m² of offices currently under construction in the Paris region for delivery by the end of 2020 are already pre-let. The remaining future space is by far insufficient to satisfy the appetite of large occupiers and competition for the highest quality assets will remain strong.

Due to centrality and HR concerns, the effects of this shortage should be felt mainly in inner Paris, where the limited number of opportunities and the strength of occupier demand have already pushed rental values up in 2018. In the new premises market sector, the prime rent thus increased to €840/m²/year in the CBD (+4% over one year), while the average rent rose by 2%.

The increase in rental values, combined with the long-term shortage in supply, could increase the number of Parisian companies moving to offices in the suburbs, and to quality assets that are well

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connected by public transport in particular. The extent of this phenomenon, the first effects of which were observed in 2018, could affect the level of take-up of supply in some Inner Suburb markets. This is one of the challenges for this new year, even though the deteriorating business climate and the slowdown in job creations raise greater questions about the performance of lettings activity in the Greater Paris Region. *"Activity drivers remains numerous, whether this be economic factors with the possible completion of new leases related to Brexit or, above all, structural factors with the need for occupiers to adapt their real estate to the digitalisation of working methods, the need for productivity and the new aspirations of employees"* concludes Philippe Perello.