PARIS VISION
2015

Commercial Real Estate in the Paris Region
Results & Outlook

Knight Frank

Retail

+50 to 60%

rise in rental prices
in certain locations

Lettings

2.1 million

of office space
taken-up

Investment

16.7 billion

euros invested

Elephant /ˈelɪfənt/

An animal symbolic of power, wisdom and memory.
But at the same time, a fragile giant.
It symbolises the power found in the property markets of the Greater Paris Region at the start of 2015, without ignoring the challenges that lie ahead.

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A night at THE OPERA

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A cosy INNER CIRCLE

EDITO BY
PHILIPPE PERELLO

Philippe Perello
CEO Paris Office
Partner Knight Frank LLP

Dear friends,

It is a great pleasure, as always, to present the latest issue of Paris Vision. I would like to thank our main contributors – Robert Burrow, Pierre Vaquier and Marc-Antoine Jamet – who agreed to share their analysis of the market and strategies, along with Daniel Cohen, who gives us his view on the macroeconomic situation. Furthermore, Jean-Louis Missika gives us an exceptional insight into his ambitions and visions for the Grand Paris project.

It was a good year for our markets in 2014, with two points in particular worth highlighting.

The first is the rise in office take-up, despite flat economic growth. This decorrelation is on an unprecedented scale and demonstrates the resilience of the Paris market.

The second is the record level of commercial property investment in 2014, the year in which the Pinel Law was passed. Although this was approved in June, investors had to wait until November for details of its application decree. However, despite the long months of waiting, investor appetite and confidence showed no sign of faltering. In fact, foreign investors returned to the Greater Paris Region market in force, accounting for more than 45% of investment commitments.

This goes to show not only the resilience of the Greater Paris Region market but also its appeal at an international level.

This gives us good reasons to be optimistic for 2015.

I hope you enjoy reading this issue.

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"Looking beyond France, a massive jolt is required to propel Europe out of its crisis.

Daniel Cohen is professor of Economics (Ecole Normale Supérieure de Paris), Vice-President of the Ecole d'Economie de Paris and Director of CEPREMAP (Centre pour la Recherche Économique et ses Applications)

OPINION BY DANIEL COHEN

The recovery - a long time coming

For the third consecutive year, French economic growth is at a pitiful rate of 0.4%. France's low growth will be combined with another worrying indicator: increasingly low inflation. Inflation currently stands at 0.5%, only one quarter of the European Central Bank's target. Parallels with Japan's situation in the 1990s are concerning. Is France, like the Eurozone, preparing itself for a lost decade? Two pieces of good news should promote growth and increase optimism in 2015: the fall in the oil price, which is half the price it was a year ago, and the fall in the euro, which has fallen below its launch rate in 1999. The combined effect should see French growth of more than 1%, with some economic forecasters even predicting a figure above 1.5%, both for France and the Eurozone.

The fall in the euro owes much to the measures announced and then implemented by the European Central Bank. Despite German misgivings, the European Central Bank has launched a major Quantitative Easing plan. Between now and September 2016, €60 billion of liquidity will be injected into the European economy every month. Private asset purchases will account for €10 billion, extending the programme already announced in the autumn. A further €50 billion will be allocated to public debt, including €6 billion a month on securities issued by European public institutions (the European Investment Bank and the European Stability Mechanism). The remaining €44 billion a month will be used to buy European public securities, meaning a total of €836 billion of public debt will be purchased over the next 19 months.

Although the measure was anticipated, it demonstrates the ECB's desire to carry out an aggressive policy, as long as inflation remains low. The markets welcomed the plan, particularly the foreign exchange market, which recorded a new low. Immediately after the programme was announced, the euro fell to 1.1116 against the dollar, before rallying to 1.1217, having started the week at 1.1567. The weak euro is undoubtedly the main weapon in the European QE arsenal. Given the surplus in the Eurozone's balance of payments, the weak euro is welcome internally but appears out of place to countries.

Despite the welcome support in the measures announced, the European situation compares unfavourably with the United States. Although the US economy remains fragile and has seen an unprecedented rise in long-term unemployment, it now appears to have emerged from the crisis. Despite a poor first quarter linked to weather events, 2014 as a whole should record growth of above 2%, reaching 3% in 2015 according to the OECD. New job creation is now at a steady rate of more than 200,000 jobs a month, ensuring a fall in unemployment, with an exceptional net figure of 321,000 new jobs recorded in November.

What is happening in the Eurozone? Why such a lack of growth? Let’s hear what Mario Draghi has to say. He astounded his audience in a speech at the annual meeting in Jackson Hole (Wyoming) on 22 August 2015: "Since 2010, the Eurozone has suffered from fiscal policy being less available and effective, especially compared with other large advanced economies. This is not so much a consequence of high initial debt ratios – public debt is on average not higher in the Eurozone than in the US or Japan. It reflects the fact that the central bank in those countries could act and has acted as a backstop for government funding. Thus, it would be helpful for the overall stance of policy if fiscal policy could play a greater role alongside monetary policy."

Mario Draghi sums up in a sentence what most economists have been repeating incessantly. Budgetary consolidation imposed on Eurozone countries has resulted in a confidence crisis at an institutional rather than an economic level. This drives home the point he made with the announcement of the OMT [*] programme – that the Central Bank cannot remain indifferent to the sovereign debt crisis – and hints at a new raft of measures to shore up monetary policy, in the form of European Quantitative Easing. He adds however, that there is "a real risk that monetary policy loses some effectiveness in generating aggregate demand", due particularly to already very low rates. Hence his recommendation that fiscal policy should play a greater role alongside monetary policy. Mario Draghi sees inflation falling fast (0.4% over the past year compared with 1.6% a year earlier) and he is well aware that monetary policy, as ambitious as the monetary policy announced on 22 January may be, is not enough to correct a path which he interprets as excessive supply.

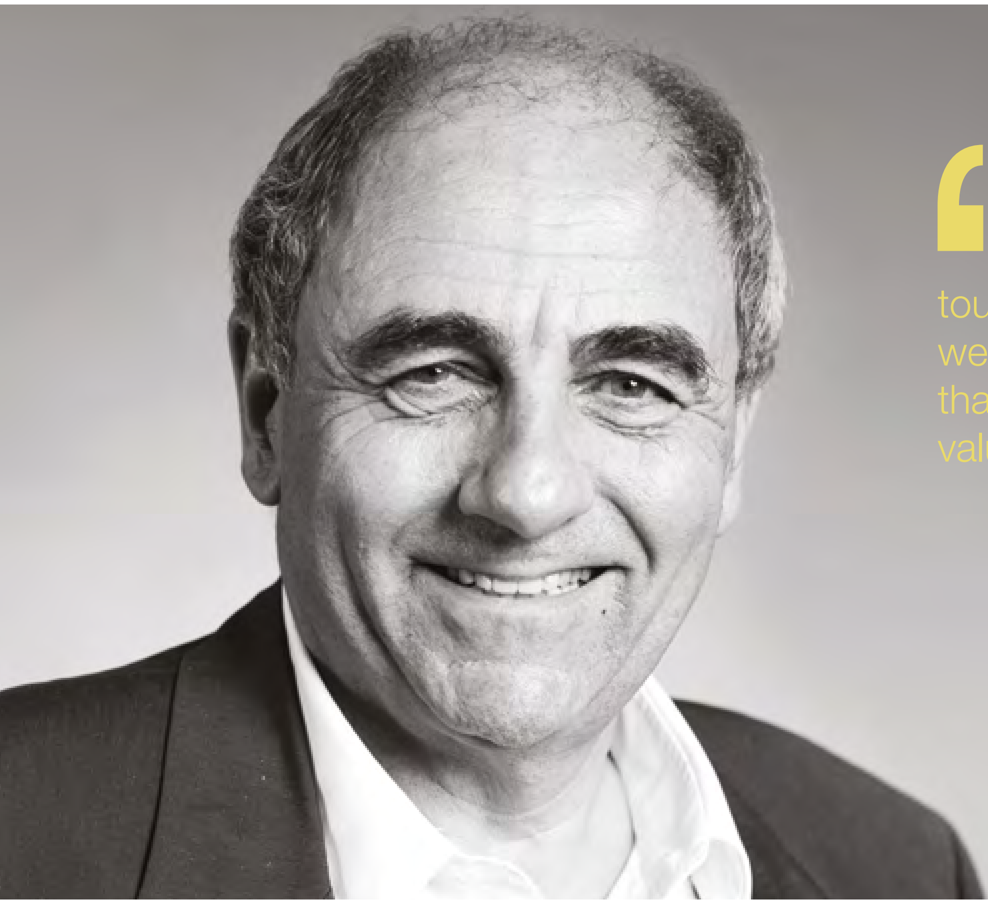
This does not mean that Draghi believes measures to support supply should be abandoned. He highlights the risk of the long-term unemployed becoming unemployable and cites improved vocational training among measures which could be beneficial. But he goes beyond this division: "A coherent strategy to reduce unemployment has to involve both demand and supply side policies, at both the Eurozone and the national levels." Furthermore, he cites the €300bn in investment announced by Jean-Claude Junker, the new Commission President, as a good direction to be moving towards.

France is a perfect example of this analysis. Low inflation results from surplus supply, although the negative balance of external trade reflects a lack of competitiveness among exporters (low European demand also plays a part). In practice, France does not have the luxury of choosing between supply and demand. It must define measures stimulating both, particularly prioritising measures to stimulate production.

Looking beyond France, a massive jolt is required to propel Europe out of its crisis. Jean-Claude Juncker enjoys a level of credibility that gives him an immense advantage over his predecessors. The proposed €315 billion investment plan is however based on a formidable leverage effect, as European guarantees will amount to just €21billion. The call for additional contributions from Member States – despite these contributions being exempted by the Commission from inclusion in public deficit calculations – fell on deaf ears. If Europe hopes to escape from persistent stagnation, it will need to agree on a coordinated strategy for recovery. If not, a Japanese malaise will become increasingly likely.

[*] Outright Monetary Transactions, launched in September 2012

JEAN-LOUIS MISSIKA'S
VISION



As well as reinforcing our most dynamic sectors, such as tourism and digital technology, we shall promote new activities that generate high added value.

Jean-Louis Missika is responsible for urban planning and architectural issues in the office of the mayor of Paris

Knight Frank: What makes Paris attractive (to people and businesses) as a global city?

Jean-Louis Missika: Paris' dynamic economy and ambition for innovation nurture entrepreneurial excellence and audacity, as well as attracting talent and investors. Already ranked first in the world for innovation and intellectual capital, Paris is now ready to move from the experimental stage to a higher plane, implementing urban innovation, sustainable energy solutions and digital applications throughout the city. New, state-of the-art hubs which merge business incubators, co working areas and multifunctional workspaces will continue to be created, and the city's innovative ecosystem will become more international.
Between now and 2020, one billion euros will be invested to support Paris in its ambition of becoming a smart city and an international standard-bearer for innovative territorial development, participatory democracy, sustainable development, the digital economy and the transition to new energy sources.

KF: What can politicians do to enhance this?

J-L. M.: Current reports show that Paris is home to a remarkably vibrant economy. The capital owes these positive results to the proactive policy in force since 2001, its rich business network, and the influx of foreign investment, which has doubled in 10 years. These efforts must be maintained and reinforced, especially in the field of open and participatory innovation. The City of Paris promotes connections between small and large businesses, between entrepreneurs and investors. These efforts to encourage links between the different players in the Parisian economy are vital to the politics of the years to come, as they allow people to join forces to enrich the economy together.

As well as reinforcing and consolidating our most dynamic sectors, such as tourism and digital technology, we shall promote new activities that generate high added value and job opportunities. We shall continue to improve the appeal and quality of reception at decision-making centres such as the headquarters of international groups and major economic players. We must also preserve Paris' status as a strong financial base by supporting its banking sector and ensuring fast, secure transactions. Lastly, Paris boasts unique asset in terms of facilities for families, healthcare, parks, culture, services and living environment. It remains committed to preserving and improving its heritage and cultural richness to offset the inevitable constraints of urban development, such as pollution and traffic congestion.

KF: What are the emerging locations in the city?

J-L. M.: Ten percent of the city's area has been enhanced by development projects since 2001. Various new neighbourhoods are currently on the rise: Paris Rive Gauche and Clichy Batignolles, for example. The "Paris Nord Est" area will be the largest site of upcoming developments, followed by Bercy-Charenton and the Boulogne/Foch area. All of these neighbourhoods will be at the forefront of urban innovation and ecology.
At the same time, we plan to construct the "Arc of Innovation", building the Paris of the future by using the territory close to the ring road to install multi-faceted projects combining housing, work spaces and facilities, offices, business incubators,co-working areas, research institutes, and businesses of varying sizes. This "Arc of Innovation" will be developed in partnership with the neighbouring communities and, as part of the project, the extension of tramline T3 (also known as the Maréchaux tramline) will be completed.

KF: What are the growth industries?

J-L. M.: The industries for which Paris is famous - luxury goods, fashion and tourism - continue to thrive, with steady growth and highly positive financial reports. However, growth is not limited to the traditional sectors: solid progress is being made by the high-tech industries of biotechnology, sustainable development, digital technology, and the smart city, all of which are supported by specific projects led by Paris City Council.

KF: How do you see the future of Paris?

J-L. M.: Anne Hidalgo's election as Mayor marks Paris' entry into a new era, in which the city's place in the circle of attractive, competitive global cities will be cemented thanks to an active economy and technological innovation. Paris has an audacious future ahead of it: conserving the aspects that define it – its distinctive architecture, high urban density, cultural intensity, rich historical heritage, and public services - whilst increasing its international competitiveness and its position in emerging markets. This urban dynamic is the driving force behind enriching projects for the Parisian ecosystem, such as the world's largest incubator (1000 Start-ups), which is to be installed in the Halle Freyssinet. The Arc of Innovation will fortify this dynamic, driven not only by economic growth but also by sustainability and responsibility and, in doing so, will add to numerous inspiring projects launched under Bertrand Delanoë's mandate, of which Velib', Autolib', the tram system and the development of the riverbanks are just a few of the finest examples.

KF: How important is infrastructure to a city and how will the Grand Paris project impact on the city?

J-L. M.: Paris is Europe's most accessible city. The interconnections between its various infrastructures create an exceptionally rich transport network, with six major railway stations, five RER lines, 16 metro lines, one tramline, 74 bus lines and connections to six motorways. In addition, the Ile-de-France region is equipped with top-class infrastructure: it is the second largest air transport hub in Europe, offers access to the TGV high-speed railway network and boasts extensive transport solutions, including 210 km of metro lines, 1,400 km of RER and railway lines, 3,000 km of bus lanes and 2,100 km of major roads and motorways. With 70 ports spread out along 500 km of navigable waterways, the region is also Europe's second largest river transport hub, a status which looks to be reinforced by the Axe Seine development project. Paris' two airports serve almost 90 million passengers each year. This accessibility is strategically valuable, and we are developing it further by way of the extension of tramline T3 and the Grand Paris Express metro project which is under way. The Grand Paris project will allow the city to upscale and to renew its links with neighbouring towns. Grand Paris will build upon proactive policy-making to focus on more accessible housing, smoother journeys and efficient social policies, whilst promoting economic growth and the transition to alternative energy sources.

THE OFFICE LETTING MARKET

The advance FALTERS

MARKET OVERVIEW

- In the Paris Region, 2,115,000 sq m of office space was let by companies during 2014. This figure is up and has increased by 13% in a year.
- Progress is far from consistent across the board however. La Défense is back taking centre stage and QCA has confirmed its role as the market's gold standard. Conversely, 2014 was harsher for outlying and peripheral markets.
- The success of the mainstays of the Greater Paris Region market was made possible by the downward adjustments in a large number of rents. This moderation is partially obscured by the stability in headline values for the best buildings, which hardly changed in 2014.
- Available supply is close to 4 million sq m while vacancy rates remain stable, at 7.3% as a regional average. The Greater Paris Region continues to record one of the lowest vacancy rates in Europe. However, major disparities exist between the various Greater Paris Region markets.
- Grade A represents just 18% of available surface areas. This means that supply is often lacking in quality and some will even struggle to attract users.
- The outlook for 2015 is fairly promising and could produce the first upward pressures on some rents.

TRENDS

We were waiting for a recovery and at one point believed we were seeing the start of a real stampede. The stampede then faltered, daunted by the hurdle of the summer. Having overcome this obstacle, the rental market finally found its feet and ended 2014 where it had hoped to be.
On good form, although not free of weaknesses and handicaps, it is blessed above all with a promising future. Provided it can adapt to the challenges which lie ahead…

01
Office take-up: The tortoise and the hare

There were high hopes for the rental market. We expected just over two million sq m of take-up in the Paris Region, wiping out the disappointments of 2013 [1]. It ended up at 2.1 million sq m for 2014.

The Greater Paris market recorded a 13% increase in office take-up in 2014. But this average conceals significant disparities and the biggest names have fared best.

This is just as expected. However the market alternately played the roles of tortoise and hare over the course of the year, testing the nerves of observers and market players. Following a great start to the year, with a 28% increase in transactions in the first six months, the summer of 2014 was marked by a sharp slowdown. It was not until results were released for the fourth quarter, revealing another steep rise, that uncertainty was dispelled. Take-up eventually increased by 13% in terms of volume.

At 2.1 million sq m, 2014 resembled 2005 and 2010, both years which heralded a rally in transactions on the Greater Paris Region market. Does that mean that 2014 marks the start of a new cycle? The outlook for 2015 is favourable (see Outlook in our article "Office take-up: Same players play again", p 27) and could give that impression. It would be reckless to take a very narrow and logical view of market changes however. The instability of transactional activity in 2014 is testament to this. While there are still cycles on the rental market, they appear to be shortening.

The increase in take-up in 2014, as well as the year's volatility, are mainly attributable to one factor: the return to the market of large occupiers looking for areas larger than 5,000 sq m. More specifically, the largest of them

Greater Paris Region take-up trends *(in sq m)*
Source: Knight Frank

[1] Knight Frank, *Paris Vision 2014*: "(…) the symbolic bar of 2,000,000 sq m may be exceeded in 2014. By how much? Experience advises prudence but it seems unlikely, at the current time, that it will rise much higher.", page 21

(signing leases for more than 20,000 sq m) have made a notable difference – they were real hares in 2014! Transactional activity is exploding in this segment, with an increase of 54%. More than 410,000 sq m of office space was let in 13 transactions – accounting for 20% of total take-up. A fifth in barely more than 10 transactions – that shows the inevitability of transactional fluctuations.

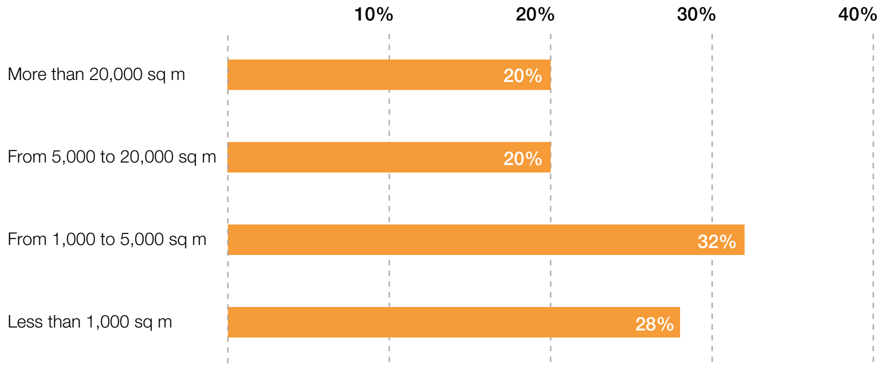
So is the rental market recovery seen in 2014 an illusion, artificially propped up by a few mega-deals many of which were transacted off-market? The answer is "no". Because other area segments are making progress. That is the case for transactions from 5,000 sq m to 20,000 sq m, for which the increase was more modest, but still 9% (435,000 sq m in 48 transactions). It is also the case for small areas. Occupiers of less than 1,000 sq m were particularly dynamic in 2014, with a 26% increase in their office take-up. And there must be a large number of companies in this category!

If there is one note of caution revealed by an analysis of transactional activity in different area segments, however, it is the slowdown recorded in medium-sized deals (1,000 to 5,000 sq m). These were the tortoises. In fact, they even recorded a decline, albeit a modest one of -7%.

Should we see in this a manifestation of the difficulties faced by many mid-sized companies in the current economic climate? Partly, no doubt. These difficulties could also partially explain the performance observed in the small transactions segment as some mid-sized companies,

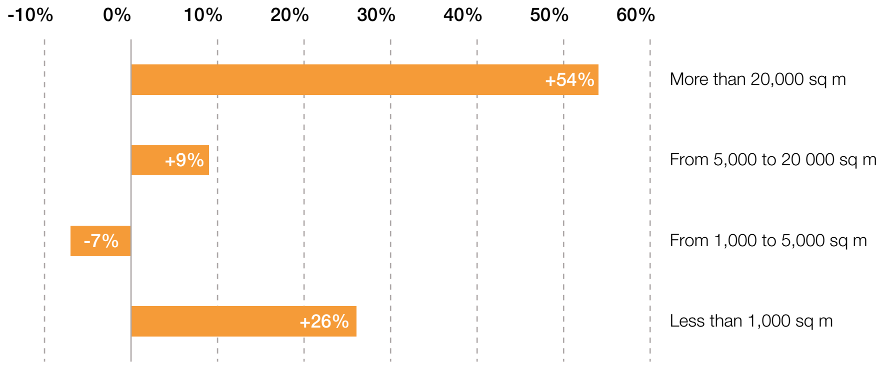
Changes in transactional activity according to area (sq m) in 2014

Source: Knight Frank



Breakdown of transactional activity according to area (sq m) in 2014

Source: Knight Frank



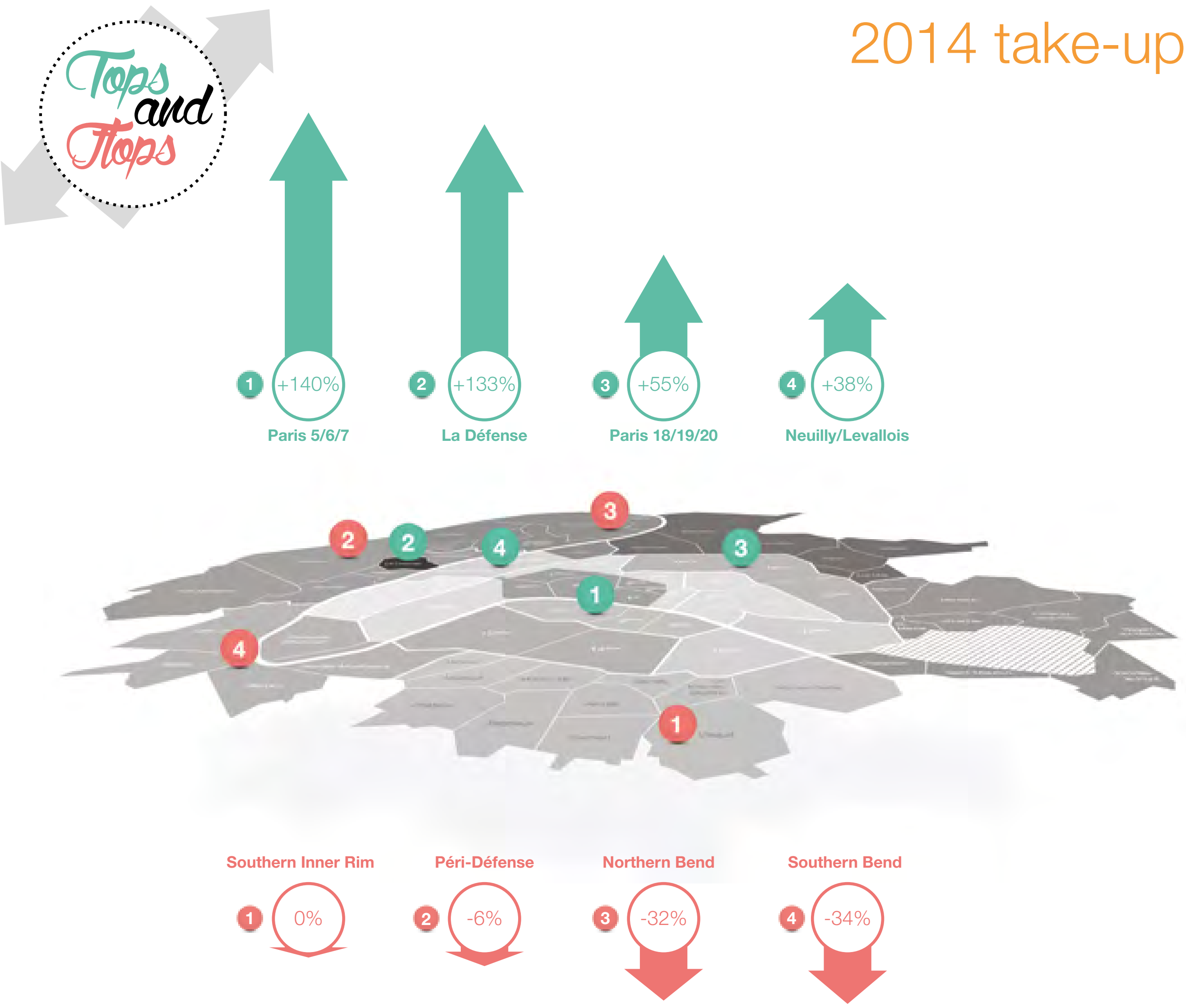
forced to cut costs and tighten their belts, repositioned themselves on offices smaller than 1,000 sq m. This is not the sole explanation however. The rental market in the Greater Paris Region has played its part in the difficulties recorded in the medium-sized areas segment. There is an explanation specific to the region and which probably plays a key role: the lack of supply in relation to demand. If a company cannot find – for the right price – better quality, more efficient and better located office space than that which it currently occupies, what would be the point of incurring relocation costs? Not much… And this problem is no doubt particularly pressing for medium-sized companies, without easy access to pre-letting as a means of bypassing the lack of immediate supply.

The metaphor of the hare and the tortoise also applies well to an analysis of the geography of transactional activity. La Défense appears to be the undeniable champion of 2014. The business district made rapid progress and sustained the pace throughout the year. Take-up there is returning to record highs and grew 133% compared with the previous year. It should be noted that 2013 was a particularly depressed year for La Défense (see our article "La Défense: Triumph of reason", p 26).

Apart from La Défense, 2014 was an excellent year for the most established and well-known areas. Transactional activity in the CBD, for instance, increased by 17%, while it rose 38% in Neuilly/Levallois.

More anecdotally, some micro-markets also achieved good or very good performances 2014, including Paris 5/6/7th arrondissements and Paris 18/19/20th arrondissements. Naturally, the success of regional hubs was achieved at the detriment of their peripheries. These often rely on companies unable to find premises in central locations. These outlying and substitute markets suffered in 2014 and many recorded significant falls.

Even the worst affected markets have not suffered a catastrophe however, since these negative performances do not necessarily mean long-term abandonment by companies. Many of these areas also benefited from the environment in 2013. The price paid over the course of 2014 is no doubt more to do with the appeal of their supply and the appropriateness of their price positioning.

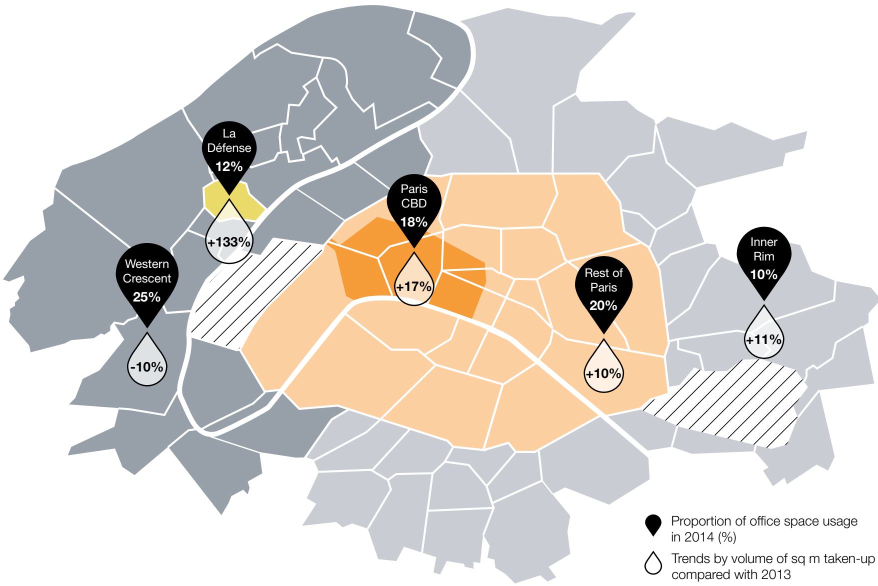


Source: Knight Frank

Quite naturally. There are hares and tortoises on the rental market. And some hares are transforming into tortoises. And vice versa. This is a very unusual metamorphosis between species, but it is happening nonetheless…

Location of transaction activity and comparative trends in various markets

Source: Knight Frank



Central Business District: The gold standard

Up 17%... With a total of 378,000 sq m, transactional activity in the CBD increased by an additional 56,000 sq m over the course of 2014. This increase is far higher than the national average (+13%).
It may not be as spectacular as that seen in La Défense but it is no less remarkable, since this +17% was recorded in one of the very few areas of the Greater Paris Region not to have collapsed in 2013. This meant that, unlike La Défense, the CBD did not benefit from a favourable starting point in 2014.

The performance of the CBD's transactional activity is also remarkable in another respect, since it is the most expensive market in the Paris Region. The depressed economic environment and widespread anxiety among companies would normally have put off occupiers. That proved not to be the case however. Why?

Firstly, because not all companies are in crisis. The balance of tertiary employment also remained positive in 2014. Many companies continue to generate significant added value and some are growing, meaning they can afford to treat themselves to the CBD's many advantages (central position, proximity, transport links, image, attractiveness, etc.).

Secondly, because there are naturally advantages to be weighed against direct real-estate costs. The productivity gains permitted by the location therefore partially offset the additional cost in rents, making them acceptable to a much wider range of companies which are simply in good health. The CBD is not the exclusive preserve of start-ups and cash machines…

This is also one of the reasons for the strength of the rental market and one of the explanations for its resilience in a regional environment which is much more turbulent and volatile. The CBD certainly acts as a reference for the rental market – as a benchmark, but above all a gold standard.

Grade A: The glimmering object of desire

A clean sweep. The fourth quarter of 2014 corrected an impression of a falling level of transactions for Grade A (new and restructured areas). However, it provided a resounding demonstration and endorsement of the appeal of these areas for companies. In the end, 2014 with Grade A representing 81% of transactional activity generated by transactions for more than 5,000 sq m. That is almost the same proportion as in 2013 (80%) and more than the 70% recorded in 2012.

Occasional falls can occur, as was the case in 2014 until the end of the summer. However, this should not be understood to reflect a lack of interest among users in these latest generation buildings, decked out in labels and certifications. While Grade A sometimes declines in terms of transactional activity, it is only because it is absent or insufficient. On average, it represents just 18% of available supply in the Greater Paris Region and has reached a low point in the CBD as in the rest of inner-city Paris. Only a few unusual markets such as La Défense are immune to this shortage. That is also undoubtedly one of the reasons for the success of this business district dedicated to large users in 2014.

Indeed there is every indication that Grade A is one of companies' core priorities. Moreover, they have a rational interest in preferring it, quite simply because these new and restructured premises are now being marketed at attractive levels of rent, almost at their levels of a dozen years ago (i.e. the term of a long lease), while at the same time offering significant gains. We should remember that in less than 15 years, new buildings' efficiency (level of building occupancy by workstations and average ratio of surface area to workstations) has improved by around 30% while average levels of charges are frequently falling by more than 30%.

When there is a lack of available Grade A supply, companies seek substitutes. In 2013, they favoured pre-letting, leasing premises which did not yet exist. This behaviour has not disappeared but it is not always sufficient. Companies then turn to buildings constructed or restructured in the last 10 years and back on the market following the previous tenant's departure. These premises are still very high quality, although they do not always offer the advantages of Grade A. This is what happened prior to the summer of 2014.

A race for quality is certainly evident on the rental market. Aside from its market share, Grade A is and will remain a glimmering object of desire for companies.

02 Office supply: Paris still at rock bottom – almost

The impression of abundant supply is a widespread myth. Yet it remains groundless: Paris has among the lowest level of supply in Europe.

Are you looking for offices for your company? Frankly, that shouldn't be too difficult. With the proliferation of advertising boards springing up in the city, you have a lot of choices… After all, doesn't this period of economic slump make it a renters' market?

Without wishing to shatter the prevailing sense of optimism, things are not that simple.

What exactly are you looking for? A building, naturally, but not just any building. No, your preference is obviously for Grade A. One of those flexible and efficient buildings which will allow you to increase the density of your office space if necessary, without having to move quickly or be at the receiving end of complaints from staff who are too "cramped". A building which allows effective implementation of your workplace organisation, in which the collaborative approach plays an increasingly important role. But also a building which offers rational costs and charges. Not one of those heat sinks which turn out to be a money pit, or one of those old has-beens which no longer meet any of the new environmental standards and so offer no long-term security in respect of the law or employee relations.
You also want a good address: not necessarily prestigious and certainly not ostentatious, but one with enough class and standing to bolster your company's image. Transport access is another factor, particularly public transport. It must offer your employees full mobility and give you maximum flexibility when organising your teams' work and meetings.
Finally, you are also looking for a quality urban setting. Since you cannot necessarily increase all your employees' wages, you want to be able to offer them a workplace in an attractive district; a motivating environment which will help you retain your key employees and attract new ones.

Basically, you realise that real estate is a tool of production, human resources and marketing all rolled into one. You match the standard profile of a modern company director.

Available office premises are very unevenly distributed across the region and they are also of insufficient quality.

The problem is that there are a lot of business leaders like you. This considerably narrows your choice when looking for offices, since lots of people are looking for the same thing as you.

Moreover, the impression of abundant supply is mostly deceptive.

Firstly in terms of quantity, at the end of 2014 supply in the Paris Region represented 7.3% of total office stock. Total supply was up slightly over the year, increasing from 3.9 million sq m to just under 4 million sq m, although vacancy rates remained almost stable due to an increase in the amount of supply.

As impressive as the figure of 4 million sq m of vacant premises may sound, there is certainly no surplus supply in the Greater Paris Region. The region can certainly no longer claim the lowest vacancy rate in Europe, as was long the case. Other markets have experienced a much sharper fall in supply. London has now fallen below Paris, recording vacancy of 6.2% at the end of 2014. But although Paris no longer wears the crown, it continues to hold equal third place, just behind Hamburg. Not so bad! Especially since other European cities often have much higher vacancy rates: Berlin stands at almost 8% and Stockholm at 9.1%. All the rest are above 10%: Brussels at 10.2%, Frankfurt at 10.7%, Madrid at 11.5%, Warsaw at 16.3%, Moscow at 16.4% and Saint Petersburg at 17%.

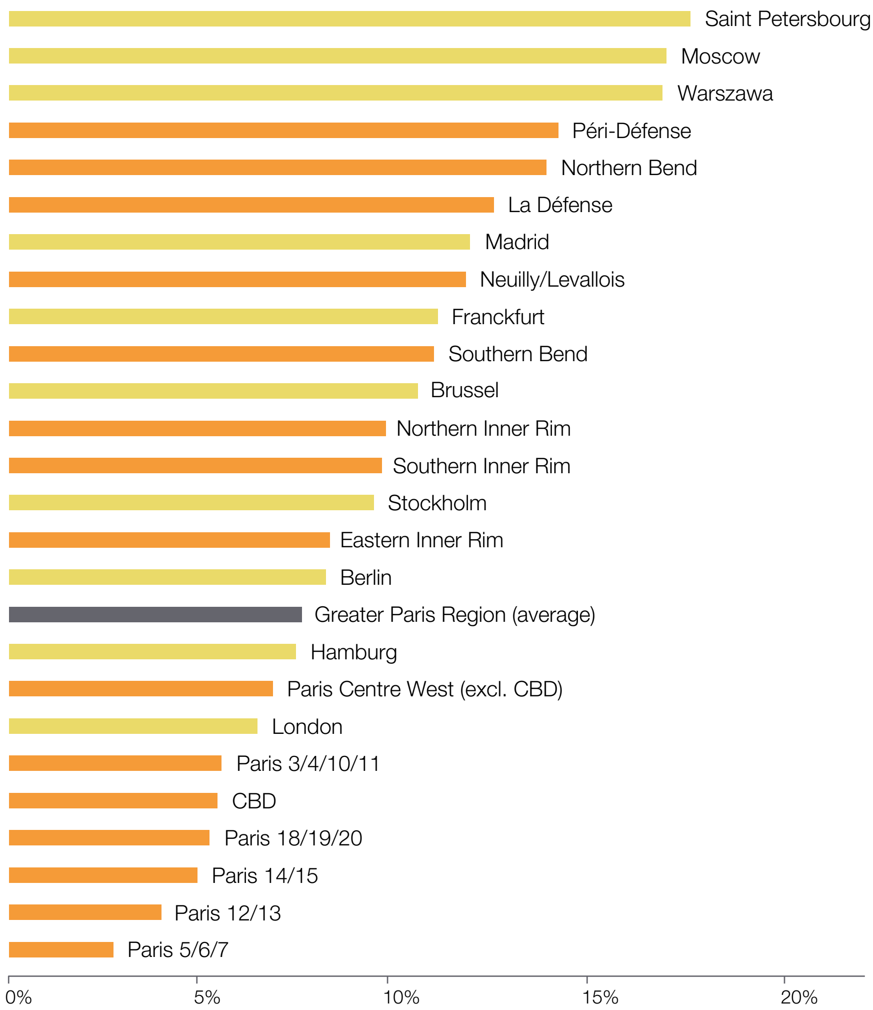
These figures illustrate European diversity in this respect, as well as the exceptional level of security offered to investors by the Parisian market.
This diversity is not only found at European level, however. The Paris Region also has a wide range of profiles.

To put it simply, all the markets in inner city Paris are below the regional average for vacancy. Markets recorded higher rates outside the Paris ring-road, on the other hand, with a peak of 14% in Péri-Défense (Rueil-Malmaison, Nanterre, Courbevoie and Puteaux outside La Défense). This is in stark contrast to Paris 5/6/7th arrondissements, where the vacancy rate is barely 3.0%. The CBD, meanwhile, reaches a maximum of just over 5% – a very low level. And the situation is not improving. In fact, vacancy rates in the city centre are mostly falling year-on-year.

Occupiers looking for offices therefore have a limited number of choices in the most sought-after areas. Even in La Défense, the market which suffered the most in 2013, the recovery in transactions over the course of 2014 led to a reduction in available supply.

Nevertheless, occupier choice remains most limited in terms of quality.
What was true in 2013, remained even more so at the end of 2014. The rental market is limited to a single product type in the Paris Region, since almost all available supply is second hand. Some of these properties are high quality of course, when they are located in buildings constructed or restructured around a decade ago. However, this means that their performance is still not up to the standard set by the most recent buildings. This explains occupier appetite for Grade A premises (see inset "Grade A: The glimmering object of desire", p 18). The Greater Paris Region suffers from a severe lack of new and restructured premises. These accounted for just 18% of supply at the end of 2014 in the Greater Paris Region. This is even lower than the 22% recorded a year earlier. To illustrate the lack of supply, this ratio should be compared with that recorded for user take-up: 81% of areas let via transactions for more than 5,000 sq m were Grade A in 2014. The unbalance is striking and persistent, with 70% of large areas let in 2012 being Grade A, reaching as high as 80% in 2013. Excluding Grade A, large occupiers almost all turn to other types of high-quality premises, particularly buildings constructed or restructured in the last 10 years and back on the market, including Cœur Défense and the Initiale Tower.

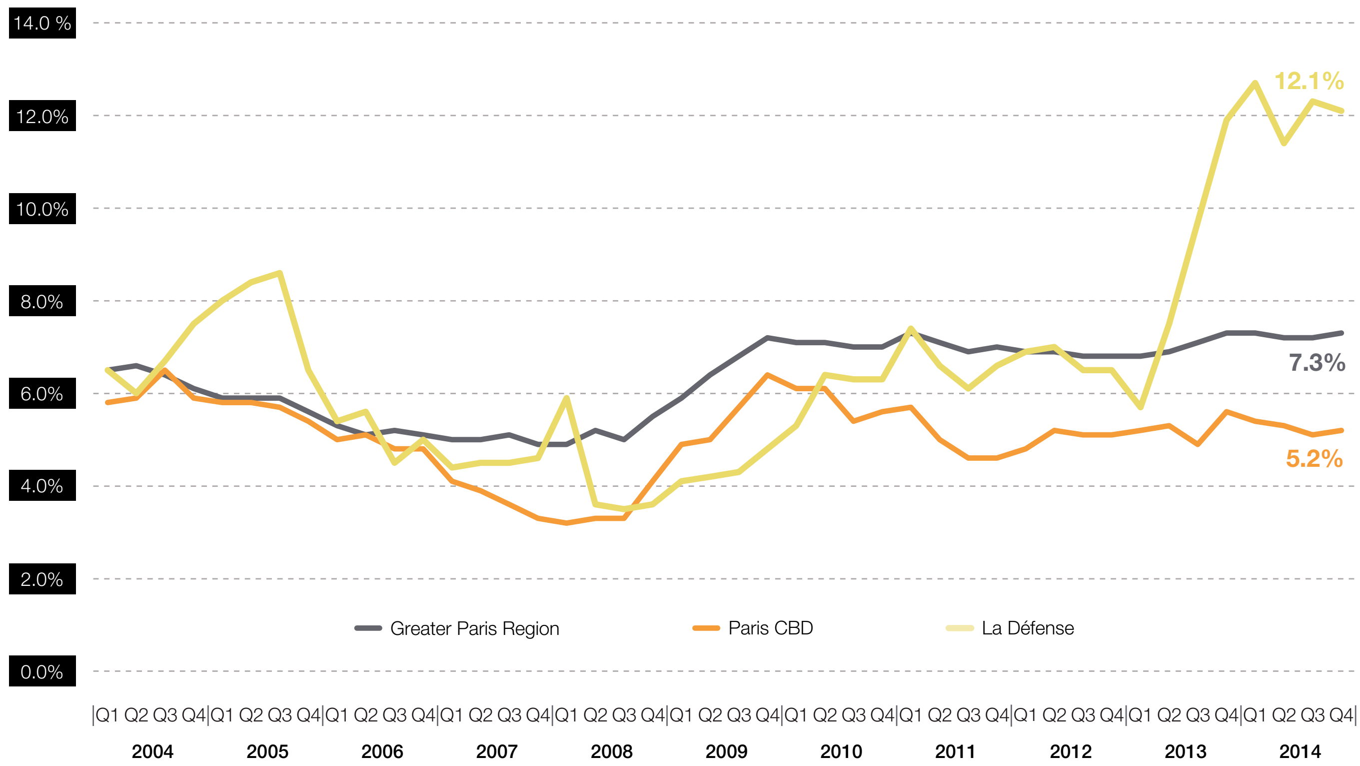
Vacancy rates at the end of 2014 in the Greater Paris Region and in Europe
Source: Knight Frank



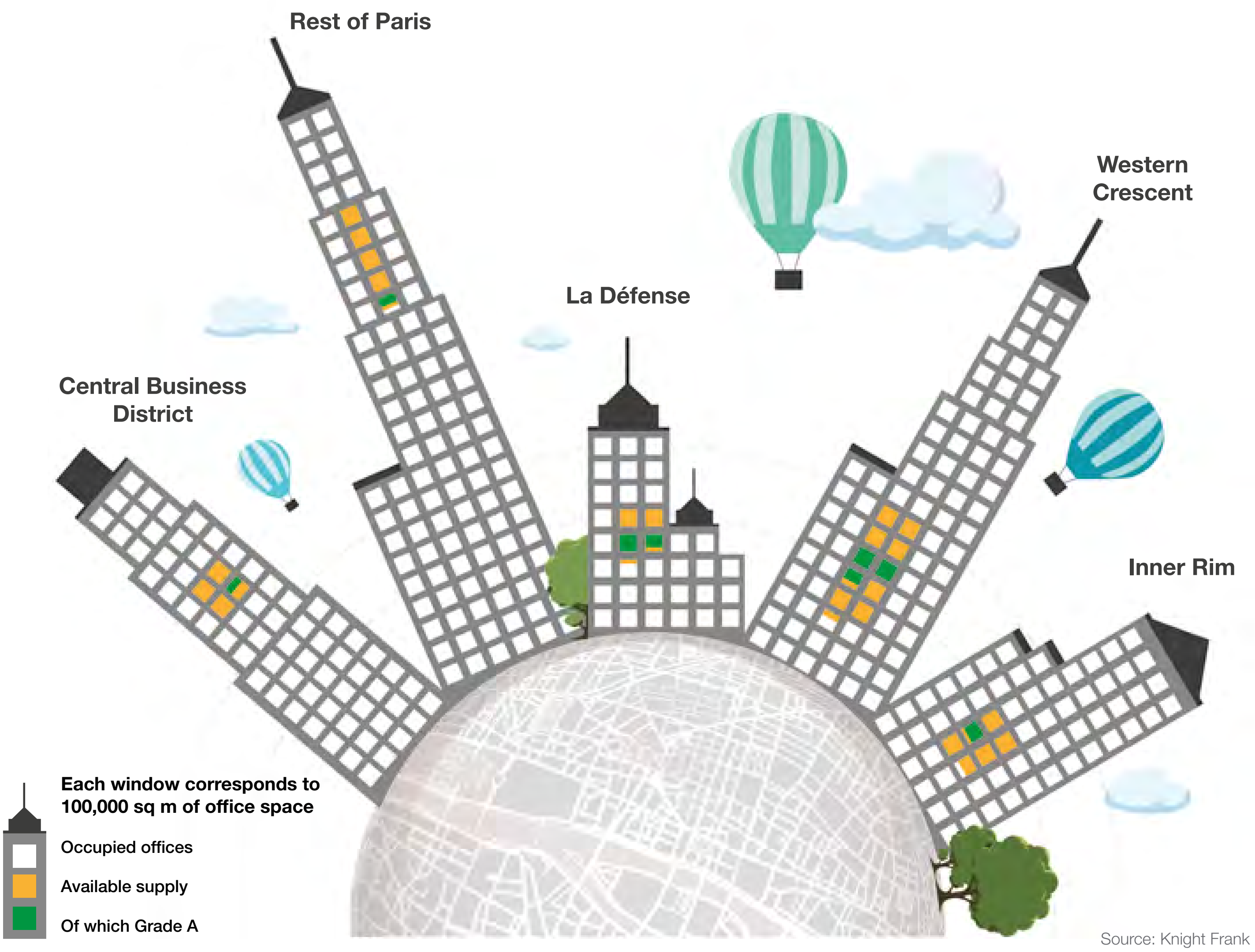
In other words, the choice available to users is not nearly as diverse as often assumed. It is not really rock bottom, but sometimes comes close…
In fact, available Grade A supply is unevenly distributed around the Paris Region. It represents just 12% of supply in the CBD and 11% in the rest of inner-city Paris, rising to 15% for the Inner Suburbs, 26% for the Western Cresent, reaching a peak of 43% for La Défense.
The choice there is much wider. But although most of these buildings fully meet occupiers' technical requirements, some of them will be disadvantaged by perceptions of their location. There are buildings which are technically Grade A which can only be default choices and cannot truly be called "prime" buildings.

Looking for offices is not so easy in the Paris Region!

Changes in vacancy rates in the Greater Paris Region
Sources: Knight Frank, ORIE



Supply – limited in quantity and deficient in quality



Source: Knight Frank

	Central Business District	Rest of Paris	La Défense	Western Crescent	Inner Rim
Total office space	6.8 million sq m	10.1 million sq m	3.5 million sq m	8.5 million sq m	6.3 million sq m
Grade A available supply	42,000 sq m	54,000 sq m	184,100 sq m	269,400 sq m	86,700 sq m
Vacancy rate	5.2%	4.8%	12.1%	12.3%	9.1%

03 Office rents: Winners and losers

The overall stability of high-end rents is deceptive, concealing downward adjustments in many values. Sometimes significant adjustments…

There are those who resist and those who suffer, and 2014 saw adjustments and rebalancing in rents. These movements were not always big and were often agreed behind closed doors, but they nevertheless reflect power struggles on the rental market. Market players have been forced to be realistic. This new state of affairs will probably prove advantageous and its first effects are already being felt.

In terms of winners in 2014, the best example comes in the form of high-end rent in the Central Business District. This stood at €750 at the end of 2013 and ended 2014 at exactly the same level. It was propped up throughout the year by several transactions, located in what is known as the Golden Triangle (mainly the 8th arrondissement). Landlords of properties in the CBD were pioneers in realism, it must be said. They quickly understood that the current economic slump is not the time for extravagant headline rents. They therefore applied a downward adjustment between mid-2012 and the end of 2013. This resulted in high-end rent falling from €830 to €750, shedding 10% of its value in a year and a half. This is a significant correction, although it does need to be put into perspective. These values relate to only a small number of buildings, which are all unique and different from one another. At the end of 2011 and the start of 2012, the CBD saw the delivery of several buildings, exceptional for their technical and architectural qualities as well as their prestigious addresses. No new comparable supply has emerged since they were filled, no doubt heightening the impression of a downward adjustment in high-end values. Nonetheless, the CBD's performance in 2014 demonstrates that this adjustment was sufficient and that a balance has been struck between the expectations of users and owners. In any case, there is such a shortage of Grade A buildings in the heart of Paris that downward pressure is no longer possible. And 2014 even ended with the first signs of upward pressures.

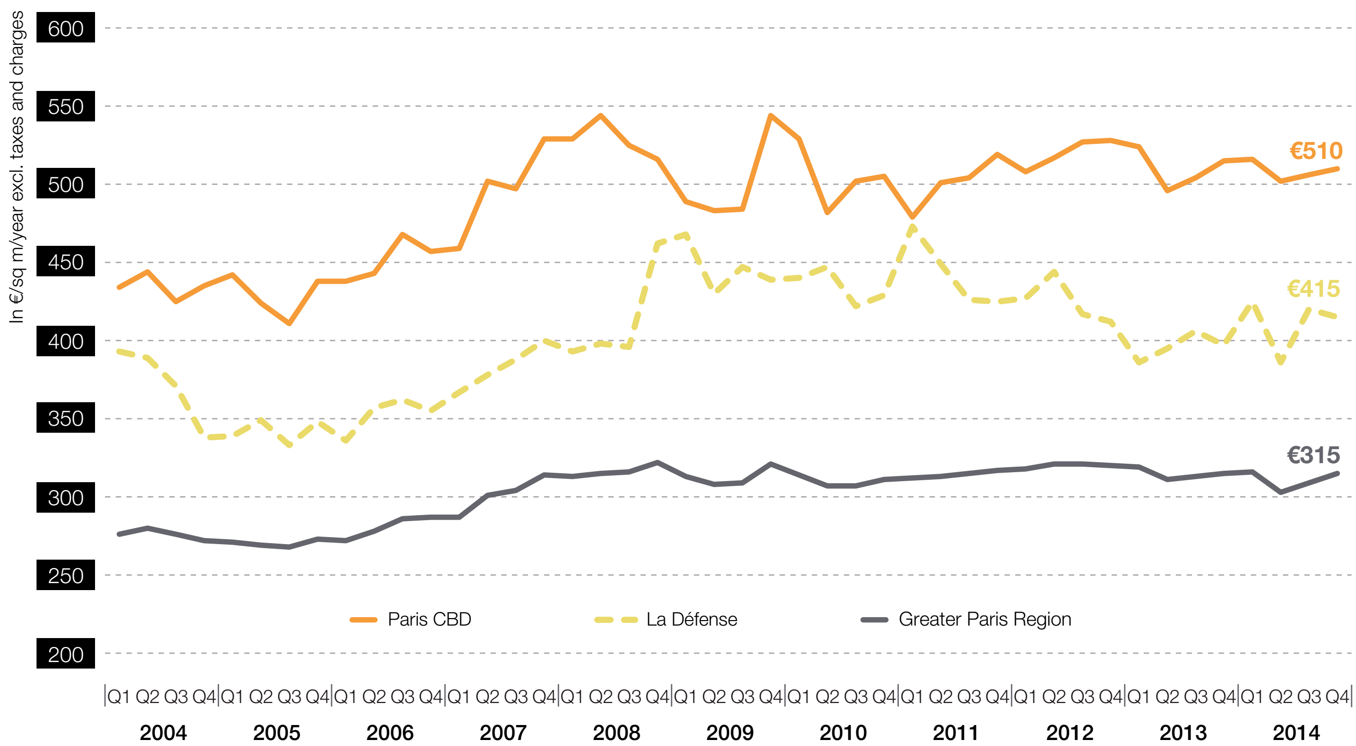
Again in the CBD, one of the key phenomena of 2014 in terms of prime rents was the rise of the eastern part of the region (1st, 2nd and, above all, 9th arrondissements). This is the area known as the "Financial City". The CBD is traditionally divided in two, with the prestigious and expensive "Golden Triangle" on one side and the Financial City, used to more modest values, on the other. The variation between high-end rent in these two sectors has stood at €180 on average for a period of five years. This traditional price structure was disrupted in 2014. The lead held by the Golden Triangle was reduced to €100 by the end of the year, with high-end values of €650 in the Financial City. As a result of this equalisation, the Financial City benefited from a significant number of Grade A properties, as it accounted for a large proportion of redevelopment projects delivered in 2014; projects which have now been entirely let, without exception (compared with take-up of 63% in the Golden Triangle). To achieve this, the Financial City also benefited from a clear change of image, establishing itself as a lively and fashionable business district, attracting targets which previously ignored the area (law firms, for example) along with up-and-coming economic players, such as TMT start-ups.

This shift in occupier preference as a result of market conditions is also behind the stability in average rents. They were also winners in 2014 as in other years. Indeed this is one of the most long-term phenomena on the market. As we mentioned last year, for more than 10 years, average rents fluctuated in a very narrow range, within 10% of a median of €302. In 2014, average rent stood at €310 in the Greater Paris Region, down slightly compared with 2013 (-1%). In practical terms, it has remained unchanged. Companies are adjusting their choices in terms of address and quality of the properties they let according to market conditions and changing rents. That is why, during this period of falling values, we often see a refocusing of rental activity on the most well established markets and high quality buildings – and vice versa.

This average Greater Paris Region rent is obviously only a general indicator, which should not conceal the wide range of values in the Greater Paris Region. In the CBD, for example, the average rent stands at €508, almost double that of Paris' 18/19/20th arrondissements where it reaches a maximum of €259. Average rents for properties lying outside the Paris ring-road, with those in the Eastern Inner Suburbs fall below €200. In fact, among peripheral markets, only La Défense and Neuilly/Levallois have managed to break through the €300 mark, at €376 for Neuilly/Levallois and €398 for La Défense. This illustrates the wide range of values within the Paris Region, a range which has further widened in 2014. While average rent in Paris' 18/19/20th arrondissements represented 53% of CBD rent in 2013, this figure stood at just 51% in 2014. The widening of the gap may not be spectacular but it does highlight the different economic environments between the two markets.
Despite the year's winners, there were certainly some losers and victims in 2014, even if certain painful adaptations remain concealed beneath a veil of discretion.

Péri-Défense was almost the only area in which prime rents fell significantly, from €390 in €350 (-10%) over the course of the year. This market, which surrounds La Défense, suffered from fierce competition from its neighbour and was weakened by the extent of its own supply, forcing owners to apply drastic revisions – and to publicise the fact.
The phenomenon is less noticeable elsewhere. Take La Défense, for example where prime rents have remained fairly stable, at least in terms of headline rents. It has even risen slightly, increasing by €10 over the course of the year to €540. The area suffered badly in 2013, with the lowest level of transactions in 12 years. Although prime rent may be up there, this is only due to a small number of leases in exceptional buildings, such as the Majunga Tower. This

Changes in average rents in the Greater Paris Region
Source: Knight Frank



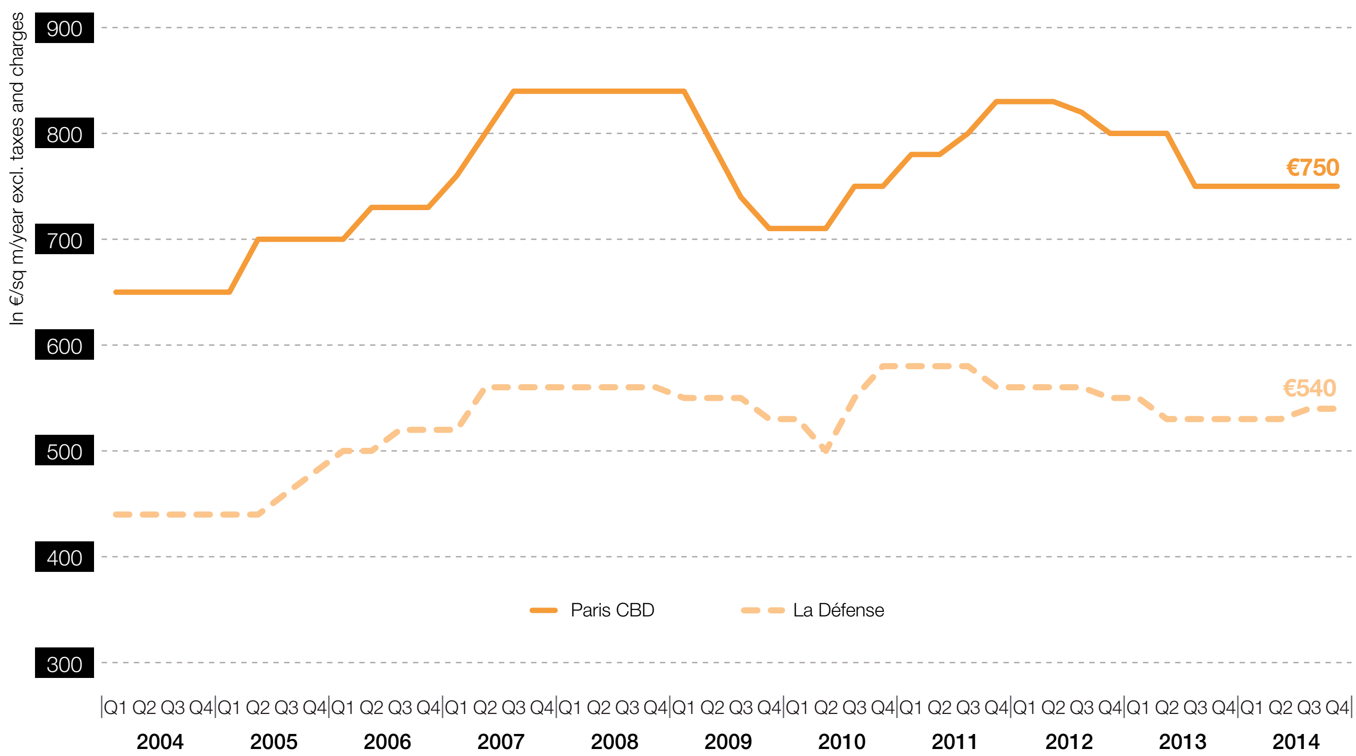
cannot conceal one particularly telling fact however – a significant number of transactions were agreed for values below €500. And, for the most part, not even recently delivered, latest generation towers were spared. This meant that initial ambitions needed to be scaled down. In a reflection of this, one flagship redevelopment project, delivered in 2011, has still not been entirely let. Despite headline values for the tower ranging from €565 to €610 in 2012, the last lease for the building was agreed at €530.

We should therefore not be misled by prime rents. Values certainly fell in 2014. And the situation in La Défense was confirmed across all markets in the Parisian suburbs.

With some winners and some losers, 2014 heightened the differences in values within the Paris Region. The never-ending balancing and reciprocal adjustments between markets were no doubt felt painfully by more than one landlord. However, they were no doubt necessary in order to stabilise the market and lay the groundwork for a future recovery.

Changes in high-end rents in the Greater Paris Region

Source: Knight Frank



La Défense: Triumph of reason

A resurrection? La Défense, the sick man of the Parisian market, recovered at the end of 2014. In fact, more than 245,000 sq m of office space were let, representing a sharp increase of 133%... This certainly bucked the regional trend!

Does this mean that the reputedly outdated business district model is actually still relevant? Having been disparaged and discarded by companies, could towers be back in favour again? What lies behind this sudden revival, like a faded star suddenly finding herself in the spotlight again?

There is certainly a positive movement under way in La Défense, and although this goes some way to redressing the doubts and indignities piled on the district after its dismal performance in 2013, we should not overlook the fact that there was nothing exceptional about the volume of take-up in 2014 is not exceptional in itself (these levels were usual in La Défense between 2006 and 2008). As with the area's disgrace, its resurrection is primarily psychological. And it reminds the market of one of its fundamental truths – the importance of prices.

> The towers of La Défense had not fallen out of fashion. They were simply too expensive.

Of course, La Défense's come-back was boosted by renewed activity among large occupiers, which are letting areas larger than 5,000 sq m and which remain its core target. However, the success recorded in 2014 can above all be attributed to the prudence demonstrated by owners and moderation in relation to new rents. Although high-end headline rents have remained fairly stable – and even showed signs of increasing during the last months of 2014 – these relate to a small number of properties and transactions. They mask the underlying fact that rents overall have fallen in La Défense. Firstly, in terms of headline rents, with most leases agreed at no more than €500 (particularly the case for 66% of take-up relating to transactions for more than 5,000 sq m). Secondly, in terms of economic values, since many users that signed leases in 2014 benefited from incentives of 25% to 30% off headline rents.

These rents do not however reflect a decline in the quality of the let areas. In fact, the recovery in transactions mainly concerned high-quality buildings, frequently new or fully refurbished. These properties were initially intended to be marketed under much more profitable conditions for their owners. However, these conditions do not match the needs of companies looking for operational savings, companies facing an ultra-competitive environment and occupiers of large areas, employing a large back-office – at least not in the current economic climate.

These needs were met under the pricing conditions practised in 2014, however, confirming the positioning in La Défense of KPMG, Axa and HSBC. Meanwhile, Euronext, Tarkett and Thalès also moved into the area, from the suburbs or the centre of Paris.

In the end, La Défense had not fallen out of fashion and towers were not so unpopular. For instance, Saint-Gobain decided to make it a showcase. They were simply too expensive. Once that ceased to be the case, transactions soon picked up – representing a great victory for reason.

OUTLOOK

Although the rental market recorded a disappointing performance in 2014, the acceleration seen since the end of the year justifies high hopes for 2015. Transactional activity is set to increase.
It will not be all plain sailing in 2015 however. Not all the problems of the Greater Paris Region market can be resolved in the space of a year. Particularly since new challenges are emerging, requiring considerable changes. Real estate still holds some surprises in store...

Office take-up:
Same players play again

They have returned and are (almost) all there. The market lives on...
Real estate has again demonstrated its resilience. The return of large occupiers marked the recovery of transactions on the rental market in 2014. L'Oréal alone let almost 100,000 sq m of offices, for instance. All the signs indicate that this renewal is not a flash in the pan. Large users are set to remain active and continue to play a key role in 2015. Why?

The future looks bright at the start of 2015, with take-up set to reach 2.2 to 2.4 million sq m in the Greater Paris Region.

That is the lesson drawn from the past two years, 2013 and 2014. In a chaotic economic environment, with the future far from clear (as was the case in 2013), large groups postpone most of their real-estate decisions. If this environment stabilises and appears more predictable (2014), then these companies soon return to the rental market. And this movement is not necessarily dependent on signs of growth in the national economy. Office premises overall have such potential for efficiency and competitiveness improvements that even in a period of stagnation, it is often rational for a company to carry out real-estate arbitrage. Naturally, this movement would really take off if signs of growth then appeared.

And the outlook looks positive in this respect, although a surprise explosion cannot be ruled out somewhere on the planet, wreaking havoc across the rest of the global economy. For example, as we go to press, we do not know the outcome of the Greek elections or the decisions to be taken by the resulting government and its European partners. Neither do we know the impacts of the decline in the Russian economy following the collapse in the oil price. There will always be reasons to be anxious. After all, this is only the 183rd end of the world predicted since the fall of the Roman empire…
This uncertainty aside, the economic outlook is better than at any time in recent years. This is in no way extraordinary and simply reflects a slow recovery. But this movement is nevertheless essential. Forecasters agree on projected French growth of between 0.7% and 1.0% in 2015. This range is between 1.0% and 1.3% for Eurozone. And it is possible that these figures will be revised upwards over the coming months, as expected factors (tax measures) are joined by unexpected favourable factors, such as the fall in the oil price or the fall in the euro. For the first time in a long time, analysts believe that the range of factors could be favourable to a recovery.

If this trend is confirmed, it will boost real-estate demand among companies, particularly the largest companies. The combination of factors – including a calmer and less depressed economic environment, reasonable leasing values and the considerable increase in efficiency and costs made possible by the latest generation buildings – could lead to an increase in real-estate streamlining projects in 2015. And there is considerable potential in this respect, considering that almost 75% of the 54 million sq m of office space located in the Paris Region is more than 15 years old.

Neither should we neglect another potential driving force behind the letting market – an increase in certain companies' office needs. This year is therefore likely to see an increase in the phenomenon already observed recently, the ramp-up of high-growth companies, particularly start-ups in the field of advanced technologies. And there are plenty of them! This is one of the strengths of France, which stands out at a European level for the number and dynamism of its young technology companies. The French Tech label has also been created to unite these companies and highlight their growth. The red origami cockerel adopted as its emblem appeared for the first time in 2015 at the world's largest hi-tech show, the Consumer Electronics Show (CES), held in Las Vegas at the start of January. The label covers 120 companies, from large start-ups such as Withings, Netatmo, Sen.se and Parrot, to emerging companies that are still little known, but show promise, including Optivent, a challenger to Google with its interactive glasses, Green Creative, which is developing a smart bin to sort and compact waste, and Glagla, with its connected footwear collection, among others. France was the leading company represented at CES, way ahead of Germany (39 companies) and the UK (33 companies). In the Eureka Park, an area of the show dedicated to emerging start-ups, one in four companies was French.

Not all of these companies are from Paris and not all will make it, but the pool is sufficient to ensure an increase in office demand, particularly in the urban centres popular with these young firms.

The final factor, which is indirectly favourable to transactions, is the movement of capital within companies, whether mergers and acquisitions (M&A) or demergers. M&A activity is often the most visible of these movements, with wide-ranging real-estate repercussions, since mergers of capital sooner or later result in the physical consolidation of staff. The number of M&As increased considerably in 2014 and is set to continue rising in 2015, at a slower pace, but still be around 10% in Europe. The share of M&As involving French companies returned to pre-crisis levels in 2014, at around 20% of the European market (compared with 12% in 2013)[2]. This trend is set to continue over the coming months. It will be driven by the needs of companies evolving their economic model (by taking on new skills or new business sectors) as well as by companies facing saturation or excess capacity in their markets. In this latter case, mergers between groups are a means of preserving their income. Several sectors, including communications, telecoms, energy and retail banking are highlighted as likely to experience M&As. Not to mention companies in which the State's shareholding could be reduced (Française des Jeux, RTE, GRTgaz, etc.)

Conversely, there could also be an increase in demergers by companies looking to adopt a more "pure player" profile. That is the solution chosen by German energy company E.On, for example. This strategy would again have a knock-on effect on real estate.

Streamlining, development, grouping and splitting – all drivers for the rental market which bode well for 2015. They should lead to an increase in office take-up, with a transactional volume of between 2.2 and 2.4 million sq m over the full year for the whole of the Greater Paris Region.

The property pinball machine has not finished tilting. Same players play again!

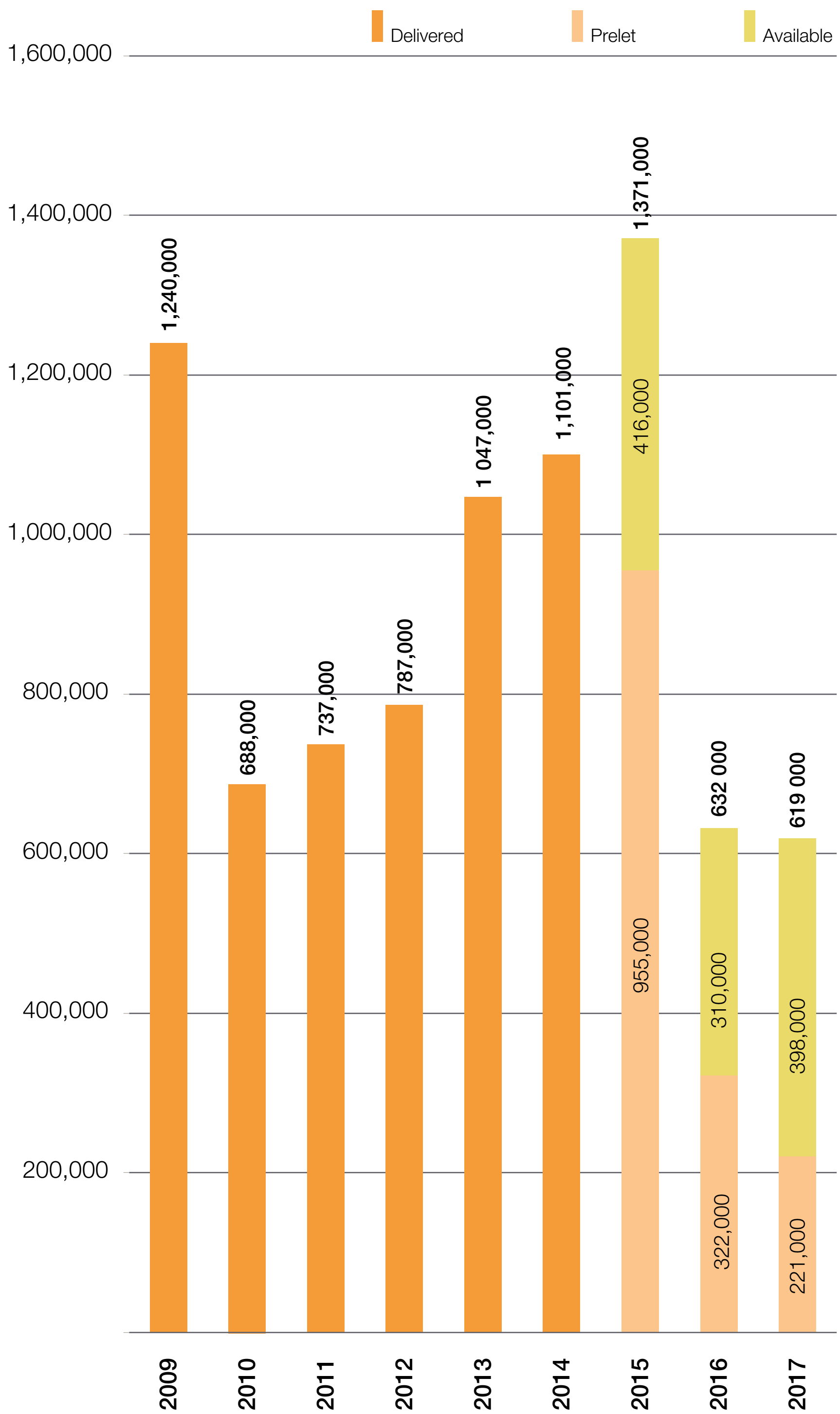
[2] JP Morgan et Goldman Sachs, quoted in Les Echos, 2 January 2015

Office supply:
Bradycardia

Some hearts beat slowly; a condition known as bradycardia. Although common among high-level sports people, it can also be a symptom of disease or characterise ageing, when it is a case of concern.
The office supply in the Paris Region has a slow heart rate. This is nothing new, but is it the sign of a gold medal-winning market? Almost certainly not. It may even be one of its main disabilities. And it is unlikely that the Paris Region will find a stimulant in 2015 to boost the circulation in its tertiary supply.

In terms of quantity, 2015 will see a peak in terms of deliveries of new and refurbished areas. A total of almost 1.4 million sq m are expected to be delivered in the Paris Region (74% of which are new builds). With a 25% increase compared with volumes delivered in 2014, this marks a considerable acceleration.
It should not be overestimated, however, since it results in large part from the postponement by a few months of the delivery of a number of projects initially expected at the end of 2014. The peak anticipated a year ago for last year will take place, but during the coming months.
Should we expect an increase in the volume of office space available to companies? Probably not.

Deliveries of new and restructured space in the Greater Paris Region
Source: Knight Frank



The supply of office space will remain one of the Parisian market's main handicaps, with no major loosening of conditions to be expected.

Firstly, because a large proportion of the areas being developed is already unavailable, with almost 70% of volumes due for delivery in 2015 already pre-let. And even in the longer term there is little room for manoeuvre, with 57% of areas due for delivery before the end of 2017 already let. The recovery in take-up in 2014 significantly reduced future supply.

And secondly because the expected improvement in the economic situation is set to reduce the amount of office space vacated and speed up the recovery in transactions (see our article "Office take-up: Same players play again", p 27).

It is therefore likely that supply will rise by only a small amount by the end of 2015. It will then contract again over the coming years, due to the expected sharp decline in construction activity (even if some projects are brought forward and join the volumes expected in 2016 and 2017).

In terms of quality, pre-lettings not only serve to stabilise the quantity of future supply, they play exactly the same role in terms of quality. Almost all these leases relate to buildings under construction or undergoing redevelopment, meaning no significant fall in quality is to be expected in the Greater Paris Region. Grade A supply is therefore likely to remain at its low-water mark of around 20% of the total supply. Vacant properties will be left to age...

Geographically, two market sectors in particular look set to offer potential for Grade A properties in 2015. Firstly, the CBD, with a little over 61,000 sq m expected (almost half of which in #Cloud Paris, in the 9th arrondissement). Also, Paris's 14th and 15th arrondissements, with delivery of the first phase of Qu4drans, following on from the new Defence Ministry on the Paris ring-road.
Apart from these two locations, available developments will be rare in the city centre. Users will therefore need to expand their search areas, bearing in mind that possibilities are also limited beyond the ring-road! They are mainly restricted to the Southern Loop and the Southern Inner Suburbs. Two municipalities will make their presence felt: Issy-les-Moulineaux, with the delivery of Lemnys, a short distance from Qu4drans, and Montrouge, with White and several other smaller developments.

In some of these areas, occasional increases will therefore be seen in the level of vacancy and Grade A supply, although nothing to disrupt the conditions expected in the CBD, whose growth appears to be sustainable over the long term. The transition may be more fraught in the Southern Loop and the Southern Inner Suburbs, however.

The overall diagnosis is therefore one of bradycardia, although this does not prevent minor, localised increases in the heart rate. Tachycardia is still a long way off though!

Office rents:
Inflatable

Jeff Koons, whose work is on show at the Pompidou Centre until mid-2015, seeks to appeal to the masses. To do this, he uses his art to subvert day-to-day objects, particularly those linked to childhood. His work on the theme of inflatable toys, beginning with the famous Inflatable Rabbit and Balloon Dog, are perfect examples of this. But rather than being inflatable, many of his works are created from stainless steel. Jeff Koons, a former commodities trader, has invented inflatable toys which are not all they seem – making him the ideal illustrator of trends in office rents…

Inflationary trends can be seen in some rents. The €800 mark will soon be reached. These tensions will remain very localised however.

"Inflatable" would be an apt description of prices over the course of 2015 – certainly in the heart of Paris. In fact, the movement began back in the early days of December 2014, with two major transactions (each relating to more than 1,000 sq m) signed for headline rents of €800 at one of the most prestigious addresses in the CBD. It is nearly two years since those kinds of transactions have been seen in Paris.
The trend, which is still too small-scale and recent to be considered significant, remains to be confirmed over the course of 2015. Representative prime rent in the CBD is set to rise to €800, or even slightly more – a projected increase of 8% to 10% compared with the €750 level recorded at the end of 2014.
Aside from this landmark rent – the highest in the Paris Region – another upward adjustment can be expected. This concerns the Financial City at the eastern end of the CBD, traditionally offering lower rents than the Golden Triangle (mainly the 8th arrondissement). Rent there is likely to approach the €700 mark in the coming months, up from €650 in the last quarter of 2014. This will leave the difference in rent compared with the Golden Triangle (€100) almost unchanged, at an historic low, while the average difference over the past five years has been €180.

In the case of the Financial City, as for the whole of the CBD, these projected rises in prime rent result from the scarcity of Grade A supply, strong demand from occupier companies and, above all, the exceptional nature of some of the buildings expected to come onto the market. These will boast an impressive range of technical and architectural qualities, with prestigious addresses, practically unparalleled in 2013 and 2014.

High-end rents will therefore appear inflatable – "appear" being the operative word. As with Jeff Koons, appearance is everything. These values, remember, concern only a very small number of buildings. Most transactions are being carried out at very low levels. That is true within the CBD, where less exceptional buildings do not enjoy the same revaluation perspectives, as well as outside central Paris, across all categories of buildings, since market conditions are hardly likely to lead to inflationary pressure over the coming months.

In any case, as demonstrated by the continuing stability of average new rents, many occupiers are rejecting or unable to afford properties deemed to be too expensive. These occupiers are forced to compromise on quality or the prestige of the address. This fact is illustrated by the decline of La Défense in 2013, followed by its strong rebound in 2014 once rents were reduced.
The most that can be hoped for in 2015 is that these areas and buildings maintain their headline rents while incentives stabilise and then contract. The era of knock-down prices is over – which will no doubt come as a relief to many landlords!

If incentives do indeed contract, and provided the recovery in transactions continues, then rents are likely to undergo a major transformation. A transformation which will be felt beyond the boundaries of the CBD and the handful of iconic buildings. Rents could even take off, like helium-filled version of Jeff Koons' inflatables. But that will have to wait until after 2015…

Office 2.0: Tonight's gonna be a work night.

A revolution is under way. A productivity bomb is ticking in the tertiary sector. It is still early days but, influenced by technological and scientific discoveries, the effect of this revolution are set to be just as dramatic as those which have transformed industry in recent decades. Networked machines and artificial intelligence are playing an increasing role, taking on tasks previously carried out by human workers.

For example, on 17 March 2014, just before 6.30 am, the Los Angeles Times stole a march on its competitors by publishing the first article on an earthquake which had occurred in California. The article was generated by an algorithm called Quakebot, programmed to extract relevant data from alerts issued by the US Geological Survey and to insert them into a pre-written template. It took approximately three minutes between the earthquake and publication of the article on the LA Times website – faster than any human could have managed.

A robot taking over from journalists – could this be another step towards humans' replacement by artificial intelligence to carry out a range of roles and responsibilities? Some people think so and even go further, including Stephen Hawking, who recently raised the worrying question, in an interview with the BBC [3], of whether artificial intelligence could eventually wipe out mankind.
Without taking things as far as that ultimate conclusion, whether through blindness or optimism, it is nevertheless necessary to imagine the possible repercussions of such developments in the real-estate industry. If humans are gradually replaced in tertiary work, data centres dedicated to machines will logically replace offices dedicated to humans.

> Virtual workspaces will have an impact on office buildings but will not replace them. Quite simply because office buildings remain irreplaceable.

That is still a long way away – a very long way away let's hope. Artificial intelligence is not yet able to handle the irrational, creativity, invention or intuition; basically the human element which represents for the value-added in any job. On 17 March 2014, at midday, the original Quakebot article had been edited and improved 71 times by human authors, turning a basic factual statement into an in-depth article for publication on the front page. In the words of Ken Schwencke, Quakebot's developer and a journalist himself, says, "It doesn't eliminate anybody's job as much as it makes everybody's job more interesting." [4]

Humans will keep their jobs for a while yet. But where will they work from? Will connected, nomadic workers need fixed workplaces and will their companies need office buildings?

The resounding answer is yes. Simply because humans are human and life in families, tribes, communities, cities and nations is how we live. Mankind settled in small groups, villages and then towns so that individuals could live communally, increasing their contact and exchange. And these interactions are what give rise to creativity, invention, collective intelligence and progress. Pierre Teilhard de Chardin, who developed the noosphere concept (the sphere of human though) said: "No evolutionary future awaits anyone except in association with everyone else." [5]

Office buildings are miniature towns and therefore irreplaceable. They are completed and enhanced by the virtual workspace, but it cannot replace them. It is to offices what Quakebot is to journalism.

The physical workspace is set to change however. Just as e-commerce has not replaced shops but has forced them to adapt, change and, in a way, become more human (see our "Cloud Atlas" article, p 72), new working practices will result in changes to the form and content of office buildings. A transformation which will be based on a simple principle: emphasising what virtual networks can never achieve – physical meetings. How? Simply by increasing the number of collaborative spaces, whether directly dedicated to work or not. By refocussing on what is currently a secondary aspect: ancient city forums, town market squares – places for exchanging goods and ideas. There is a good reason why the most recent buildings always emphasise their communal areas. Season in Clichy-Batignolles in the 17th arrondissement and Majunga in La Défense are good examples of this. Conversely, individual working spaces are set to decline. Because their role can be fulfilled anywhere. The comparison with ancient cities is an interesting one, since town squares were the foundation on which democratic societies were built. No doubt changes to the form of office buildings will also see the end of the feudal approach to labour, with its strict hierarchical structure. Indeed, this structure has already disappeared from the multitude of start-ups springing up in the Paris Region and around France – companies which are attracting and seeking to attract young employees by focusing on "work-life balance". This fairly vague concept combines efficiency with fulfilment and pleasure and adopts a more hedonistic, in some cases more egotistical, approach to work, but also a more flexible and fluid approach. Less hierarchical rigidity and less clock-watching. More egalitarian office buildings will see their opening hours and range of services extended. They will increasingly become hubs for their employees. Hubs encouraging efficiency and self-fulfilment – both individually and collectively.

Hence the importance of the environment surrounding the building. A pleasant neighbourhood, offering a diverse range of shops, services and activities, will contribute to the success of the workplace. To ensure it acts as a place for exchange, the building must also be accessible. Physically accessible, especially by public transport (fewer than half of Parisians own a car and this proportion is falling among the young) and late into the evening. As well as accessible to data. Some districts and municipalities offer more opportunities than others. New York, for example, is launching free Wi-Fi across the whole city centre, pushing the concept of an open and connected city even further. This model will not be able to be duplicated everywhere, ensuring the long-term survival of urban centres and a few key districts as the homes of office buildings.

More open, more collaborative, more flexible and more permanent. A major transformation in workspaces is under way. And this transformation is the shape of things to come.

[3] Courrier International, 2 December 2014

[4] Will Oremus, "Séisme à Los Angeles", Slate.fr, 18 March 2014

[5] Pierre Teilhard de Chardin, "Le phénomène humain", 1956, Les éditions du Seuil, page 246

QUESTIONS TO PIERRE VAQUIER

Knight Frank: The AXA Group has two main roles in corporate real estate: as an investor and an occupier. This makes your perspective particularly valuable. Do you expect the current rebound in office take-up to continue, or do you think it's just a "catch-up" phase?

Pierre Vaquier: The rebound recorded in the first half-year was mainly due to large transactions, which had been lacking in 2013, and didn't last. We are fairly cautious for 2015, in a zero-growth economic climate which is not creating jobs and in which companies are restricting investments and favouring renegotiation of their leases. Despite investors' efforts to optimise office properties – whether they are new premises or ambitious renovations, both by improving spaces and developing innovative services – it's possible that take-up figures will stall in 2015. Fortunately, vacancy rates remain fairly stable in the Greater Paris region and the market is again demonstrating strong resilience, unlike in some other sectors. However, the supply of high-quality premises is often limited, preventing it from meeting user demand, which leads us to believe that a rebound in lettings following an economic recovery could lead to a shortage, particularly in the Central Business District.

KF: AXA IM recently confirmed its long-standing presence in the La Défense district. Why did they decide to remain in La Défense, and why now?

P. V.: With the AXA IM lease in Cœur Défense set to expire in June 2016, we took this opportunity to review our office occupation in La Défense. The decision to remain was guided by several considerations. Firstly, it is the largest business district in Europe and offers exceptional visibility for our company, which has been based there since 2001. Secondly, it offers top-quality office spaces that meet our requirements. Research carried out internally also shows that this location suits the majority of our employees while allowing us to receive our clients under excellent conditions. The modernisation of the transport network, the plan to regenerate and improve La Défense as well as the favourable market conditions for occupiers have enabled us to plan for our medium-term presence in this location.

KF: By choosing the Majunga Tower, AXA IM has positioned itself in an innovative landmark building. What are the company's main challenges in terms of this move?

P. V.: The Majunga tower is a new generation tower, and its innovative and high-level services will help strengthen our company's appeal and promote exchanges between teams. This future relocation is part of AXA IM's ambition to reinforce its appeal and become one of the top companies in the sector in terms of workplace well-being for employees. In the preliminary stages of our real estate considerations, an external consultant was hired to assess AXA IM's needs in terms of space and working methods. This study, which involved 760 AXA IM employees (120 people in working groups and individual interviews, and 640 people via an online questionnaire), made it possible to define the initial focuses for the creation of a working environment tailored to the needs of our employees and clients and in line with best market practices.

KF: We will ask you now to put on your investor hat. The economic situation in France is not brilliant, although the Paris region is faring much better. What are occupier constraints and requirements in this context, and how have you seen them evolve over the last few years?

P. V.: Occupiers are currently putting off real estate decisions and are looking more than ever for budget savings and to consolidate their working spaces. Unless there is a real improvement in the economic context, occupiers will remain very cautious in terms of their real estate strategies, leading owners to grant greater incentives to retain their tenants or attract prospects

“ The modernisation of the transport network, the plan to regenerate and improve La Défense as well as the favourable market conditions (...) have enabled us to plan for our medium-term presence in this location.

to their vacant areas. We should note, however, that the obsolescence of a proportion of office stock and the adoption of new working methods will likely lead some occupiers to relocate, which could invigorate the market and promote well-designed new or fully refurbished buildings, offering the best environmental and comfort standards.

With regard to the "Pinel" law, although the existing framework for commercial leases offered a high level of protection to tenants – and generated a very significant number of disputes without favouring competitiveness among companies. This law creates an imbalance between the protection of tenants’ rights and owners’ rights and introduces greater legal insecurity for the lessor. There is a paradox in announcing a desire for simplification and competitiveness between economic players, while producing complex laws that give rise to imbalances in the real estate market.

Pierre Vaquier, CEO of AXA Real Estate

THE INVESTMENT MARKET

A night at THE OPERA

MARKET OVERVIEW

- At 16.7 billion euros in 2014, investments in corporate real estate in the Paris region soared by 43% compared with the previous year.
- The market remains very concentrated on Core assets. The risk of supply drying up was only avoided by the growth in mega-deals.
- The performance recorded in 2014 remains to be confirmed, since it was reliant on a fairly small number of transactions.
- The Greater Paris Region market, which continues to be dominated by French purchasers, is becoming more international and attracting new entrants, sometimes from a long way away. This is the case with all of the world's largest markets.
- Prime yields on the CBD apply to more assets, but they remain unchanged compared with the end of 2013: they are still between 4.00% and 4.25%.
- Valuation differences between geographic segments tended to vanish during 2014, whereas the spread between prime assets and other assets within each of these segments expanded.

TRENDS

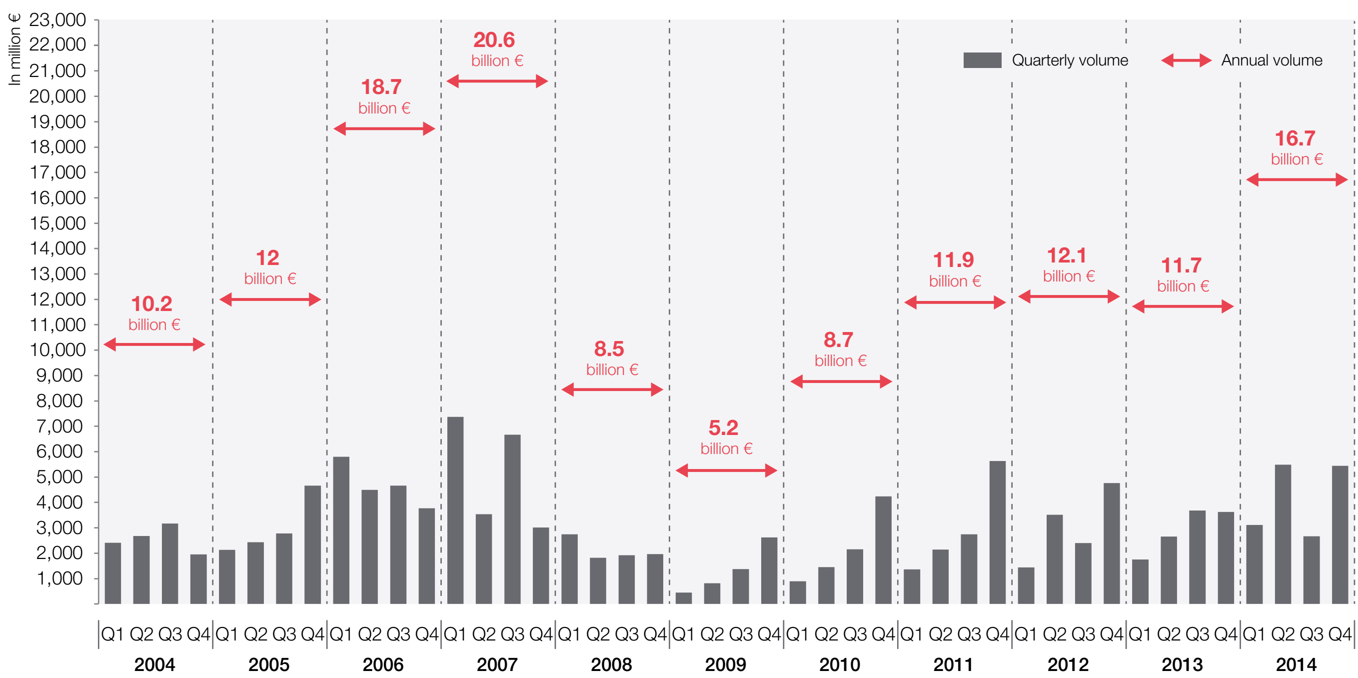
It has risen up to stand proud once more. The corporate real-estate investment market is back on form again. Almost 17 billion euros for the Greater Paris Region… The last time such levels were reached was before the sub-prime crisis broke in summer 2007.
How long ago that was!
We examine a jubilant market which can proudly trumpet a victory as sudden as it was unexpected…

01 Volumes invested: Jubilant market

16.7 billion euros invested in the Greater Paris Region, representing an increase of 43% – a result beyond anybody's wildest dreams.

Taking third place on the podium for the best results ever recorded in the Paris Region: 2014 was an exceptional year for the corporate real-estate investment market.
The volume of take-up in the Greater Paris Region was 16.7 billion euros, a 43% increase compared with the previous year – a result beyond anybody's wildest dreams.
We should remember that a year ago the market ended 2013 slightly down. Not that investors had lost faith or abandoned tertiary assets or the Paris market. On the contrary, many of them were hungry for more! The problem was that they all wanted the same thing – security. This meant that competition was fierce for Core and Core Plus assets, while almost nobody was interested in more risky buildings. The market withered away due to a lack of saleable assets.
So how can we explain the complete turnaround in the situation which took place in 2014 and how was the risk of supply drying up avoided?

Changes in amounts invested in the Greater Paris Region
Source: Knight Frank

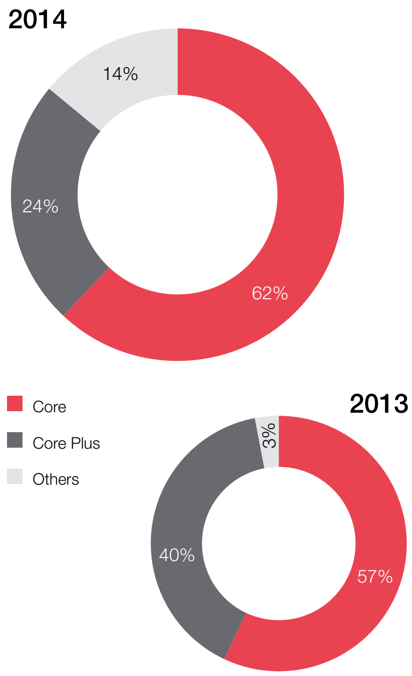


The risk profile of the Greater Paris Region market has naturally diversified to some extent. But not as much as some might have thought at the time of the announcement of the acquisition of 185,000 sq m in Cœur Défense by Lone Star for almost 1.3 billion euros. This enormous transaction was like a clap of thunder. Could it signal the revival of distressed sales? No, not really. At the end of the year, the asset acquisitions completed as part of an opportunistic strategy, combined with those for unsecured off-plan sales or assets to redevelop, represented just 14% of invested volumes. That is much more than the 3% recorded in 2013 although Cœur Défense accounts for such a large proportion of this increase that it would be wrong to deduce any deep-seated market trend.

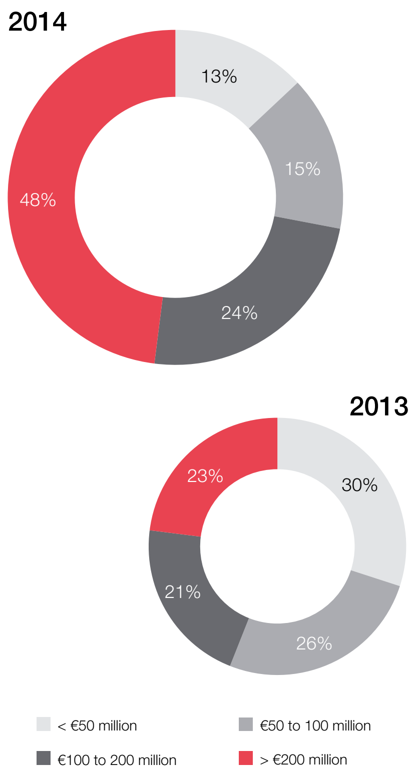
Core investments continue to make up the vast majority. The security they offer is behind the success of real-estate investment.

The vast majority of purchasers remain obsessed by Core assets, which also increased proportionally in 2013 and 2014. Core Plus suffered as a result. The whole class of assets which looked as though their value could be increased through rental repositioning, a change of management strategy, renovation or the establishment of a new capital structure, were the big winners in 2013. Indeed, this class saw exceptional growth, as if the expansion in risk acceptance was restricted to those who already took the most.

Breakdown of investment activity in the Greater Paris Region by risk profile
Source: Knight Frank



Breakdown of investment activity in the Greater Paris Region by transaction amount
Source: Knight Frank



The market remains dominated by those looking for security. So why the impressive rise in investment volumes?
The answer lies in the unit size of transactions. That is where the major transformation occurred and 2014 will be remembered for its mega-deals: the acquisition of Cœur Défense was followed by several others, such as the Risanamento portfolio by the Olayan Group for more than 1.2 billion euros and the purchase of the Beaugrenelle shopping centre by a consortium of private investors for 700 million euros. These levels of transactions had not been seen for a long time and remain exceptional.

Almost half of the market was reliant on 15 transactions. That demonstrates its extreme concentration and potential volatility.

Overall, the market was dominated by transactions for a unit amount of more than 200 million euros. They represent 48% of amounts invested in the Paris Region in 2014, compared with just 23% in 2013. Almost half of the market was therefore reliant on just 15 transactions. That demonstrates its extreme concentration and potential volatility!

A general drying up of corporate real-estate investment was only avoided in 2014 by the contribution from mega-deals. Our analysis at the end of 2013, which anticipated a drought, remains valid and in fact did occasionally occur. In 2013, for example, the market was driven by transactions for less than 100 million euros. These fell in 2014, with a 29% decline in take-up and a smaller share of 28% of total investments (compared with 56% the previous year).

A decline in the boom in the investment market cannot therefore be ruled out over the coming months, providing a pause after a mesmerising year. Like a hiatus, a lull, a rest. In Aida, after the chorus, the brass and the percussion have played the triumphal march, Verdi calls on the flutes and string section to play a lighter melody.

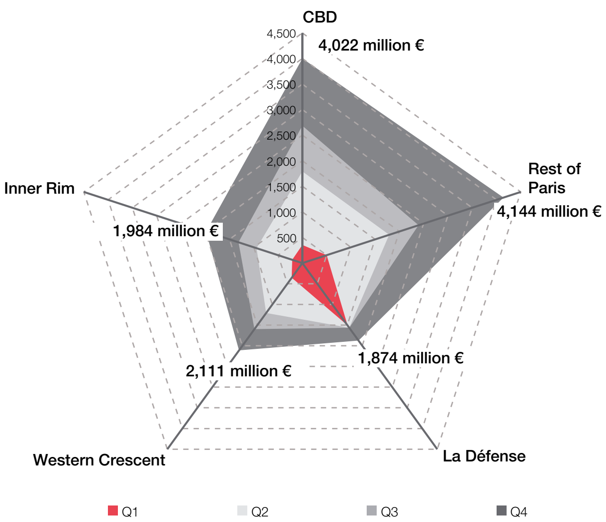
Market overview: Row 15 or fold-down seats

Seats for premières are expensive and hard to find. Even when abundant, as at the Bastille Opera house, they are not easy to get hold of for the lower balcony or the stalls; still less for row 15, a row of 42 seats halfway back offering a slightly raised view and legroom as well as direct access to the side exits. Sitting there instantly confers recognition as a VIP.
There are those at premières who sit in row 15. There are others who have purchased less prestigious seats, though still out of the reach of many and those who make do with fold-down seats. There are also the regulars who have snatched up tickets at 5 euros: half-standing seats in the gods, but who's to argue at that price? And finally there are those who missed out on their seat or gave up trying – those, perhaps in the majority, who simply aren't there.
The investment market in 2014 resembled a packed première – a market with fashionable and sought-after stalls and lower balconies, but also with upper balconies and galleries, more popular with long-standing devotees and those with more stamina.

Which is the stalls? The CBD, without hesitation! It put in a dazzling performance, attracting just over 4 billion euros of investment in tertiary assets, representing a 47% increase compared with 2013, above the regional average. Of course, this is not the greatest increase recorded in the Paris Region but it is no less remarkable, being based on the CBD's already dominant position. In 2014, it accounts for 24% of total take-up in the Paris Region. And this share will no doubt have risen still further if more assets had been for sale. This level of demand is the result of investment strategies which mainly prioritise security, liquidity and market depth.

Geographical and quarterly breakdown of investments in the Greater Paris Region in 2014

Source: Knight Frank



Faced with a shortage of opportunities, investors looked in the vicinity of the CBD. The rest of inner-city Paris therefore played the role of the lower balconies. Boosted by sales for a unit amounts over 200 million euros, such as the Beaugrenelle shopping centre or the Amundi head office in the 15th arrondissement, the Critéo head office on rue Blanche in the 9th or that of the Arc en Seine in the 13th, this vast area therefore managed to get the upper hand over the CBD, exceeding it slightly in terms of investment volumes. A little over 4.1 billion euros was invested there (or 25% of the regional total). The year-on-year increase was +108%!

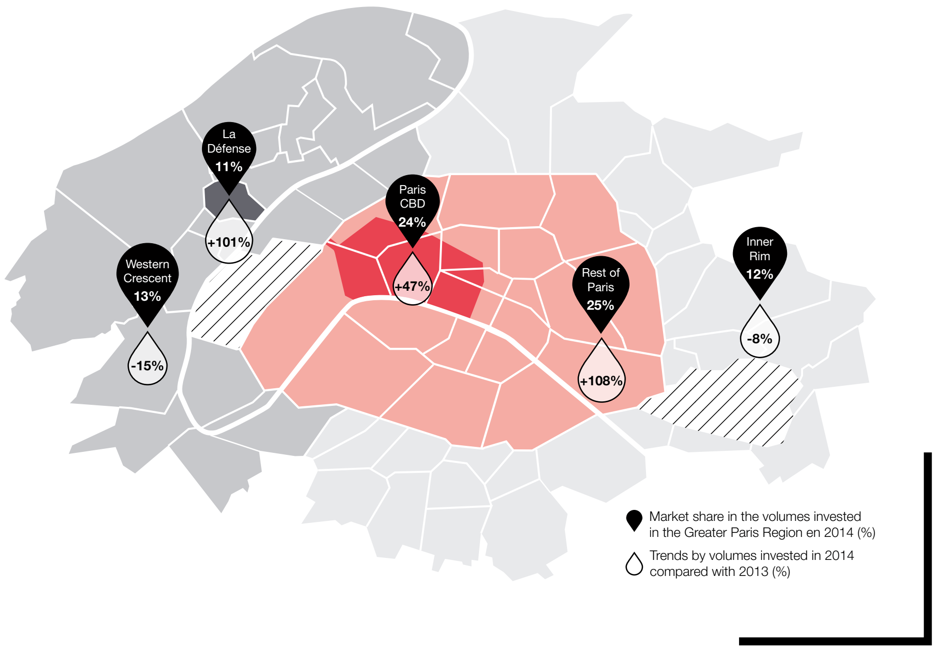
La Défense also had a great year in 2014, which could place it on the lower balcony, attracting investments of almost 1.9 billion euros, an increase of 101%. This performance should be treated with caution, however, given the dominance of Cœur Défense in these results. La Défense, which is still experiencing a high vacancy rate, continues to raise questions for many investors.

They therefore turn to the upper balconies and the galleries. These locations, more unfamiliar and varied, sometimes offer good views, acceptable sound quality and unbeatable prices. But to identify these opportunities, it is better to be familiar with them and have the carrying capacity to take full advantage. These are not the easiest acquisitions. Many investors have been put off or taken too long to decide. And that has led to a fall in investment volumes in the Western Crescent (-15%) and the Inner Suburbs (-8%).

In the general excitement of the première, this poor performance passed relatively unnoticed. But normal performances must resume after the big opening night. Perhaps row 15 will then become slightly less in demand and the galleries less popular.

Location of investment activity and comparison of changes in different markets

Source: Knight Frank



Investment activity by asset class: The Retail Diva

Although 2014 was a record year, it did not result in any great transformation of the profile of the investment market in the Paris Region, which remains largely based around office assets, which accounted for 82% of investments over the course of the year. This overwhelming dominance is even more impressive considering that its share was "just" 80% in 2013.
Office assets are the chorus. They are always present throughout the opera and play an active role in the progress of the score and the musical structure. They are often upstaged, however, by a few soloists and an exceptional tenor or soprano. In 2014, the diva was called Retail.

> Investments in retail assets are up by more than 90%. However their share remains marginal on the Paris region market.

And she was a real Maria Callas! The retail asset class is used to dazzling at an international level. The 2014 tour of the main provincial stages was exceptional. It was therefore highly anticipated in Paris, where it was not frequently seen. This was not due to a lack of fans or audience, but rather suitable spaces.

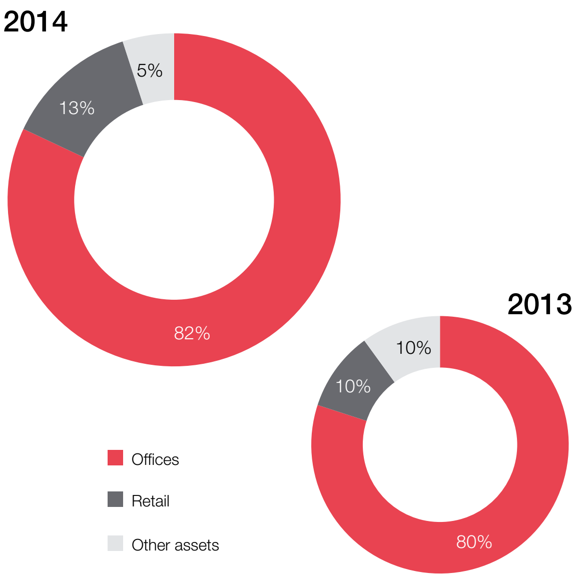
And in the end this obstacle was only partially overcome. The Retail Diva performed excellently in the Greater Paris Region, although she will never be the best on a national and international level. Her share in investment activity increased. It represents 13% of amounts invested in tertiary real estate in 2014, compared with just 10% in 2013. In all retail assets attracted just over 2.1 billion euros, an increase of more than 90%. This real boom was the result of a small number of very large transactions. These obviously include the sale of Beaugrenelle for 700 million euros. This was followed by a handful of acquisitions for unit amounts of more than 100 million euros: 51-53 Boulevard Haussmann, bought by Thor Equities, as well as several national portfolios, of which the Great Paris Region share was valued at more than 100 million euros. But that amounts to quite a small number of sales at the end of the day.

Too few given the appetite for retail assets. Why? Because high-street shops are often small in the Paris Region. Their ownership is fragmented and dominated by private individuals. This does not make it easy for large investors to position themselves. In terms of galleries and shopping centres, it is rare to see arbitrages, at least for the most profitable among them.

Investment opportunities therefore remain exceptional and activity in this segment volatile. Paris is certainly not the best market in which to fully appreciate the Retail Diva.

Breakdown of investment activity in the Greater Paris Region by asset class

Source: Knight Frank



02
Purchasers: World Music

French investors have continued to occupy centre stage in the Paris Region. Less noticeably than in 2013 but very definitely none the less. They were responsible for 57% of investments for 2014 as a whole. The usual institutional investors were joined by private investors who generated some of the largest transactions, to almost universal surprise.

French investors continue to account for the majority at 57%. North Americans have also made a resounding return, doubling their market share in a year.

However this predominance should not conceal an interesting internationalisation of the Paris market. Almost 7.2 billion euros of international funds were spent on tertiary real estate in the Greater Paris Region in 2014. That is much more than in 2013, with an increase of 85%, far higher than that seen in the rest of the market.

This internationalisation was to the detriment of Eurozone investors, bogged down in a stagnant economy and tending to fall back on their domestic markets. They are withdrawing from the Greater Paris Region – for example Risanamento, which has decided to sell its asset portfolio – or freeze their positions. Activity from Eurozone investors has been limited to a few positions taken by German and Dutch investors, accounting for a share of no more than 4%, compared with 9% in 2013. That is very low if we recall the key role played by German funds and Spanish investors a few years ago.

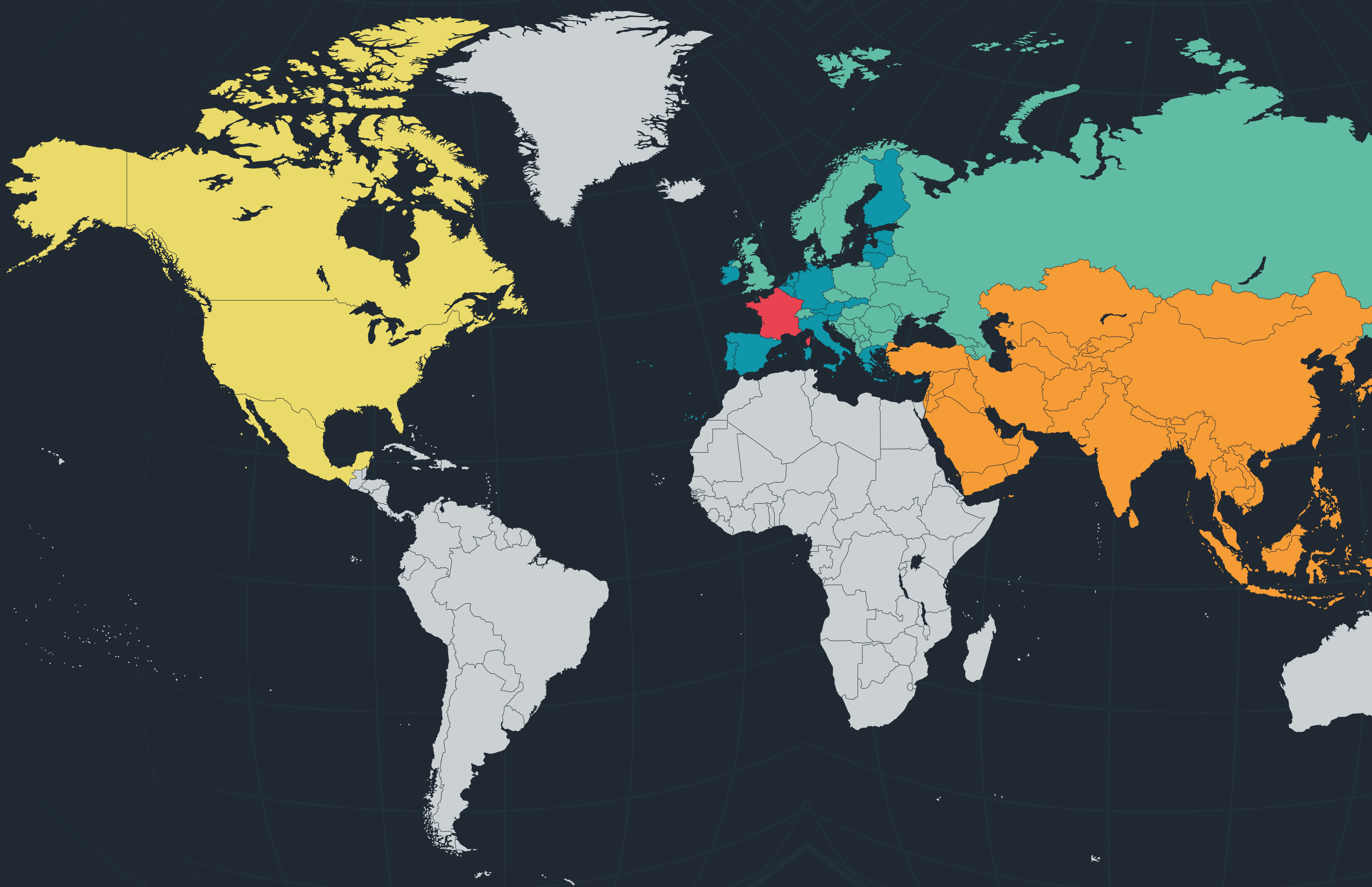
The Eurozone has been eclipsed by other sources. These are often close, with players from three European non-Eurozone countries having been particularly active. These include Norway, whose sovereign fund, Norges Bank Investment Management, agreed the purchase of Le Madeleine (1st arrondissement) for more than 425 million euros. The other two countries were the UK and Switzerland, some of which generated less Core operations, such as the acquisition of Eastview in Bagnolet and the Domus shopping centre in Rosny-sous-Bois.
However the importance of the Parisian market and its international influence can above all be measured by the increase in the number of investors from much more far-flung countries. In particular, 2014 was the year of North Americans. Having been very active in the early 2000s, they deserted the Paris Region with the financial crisis. Last year saw their spectacular return.
This is demonstrated by two examples: Lone Star, a Texan fund, signed the largest transaction of the year with the acquisition of Cœur Défense (1.3 billion euros); while Canadian fund Oxford Properties bought 32 rue Blanche (9th arrondissement) for more than 260 million euros. Both of these investors have made a spectacular entrance to the Parisian market.

Overall, North Americans doubled their market share, generating 18% of investment in the Greater Paris Region. The increase in Asian and Middle Eastern funds was less sensational but nevertheless significant, since it also included the arrival of newcomers, particularly from Korea and China.

Although still very French, the Greater Paris Region market does therefore feature overtones of world music. This marks its return to the world stage, offering a source of stability, through gradual diversification of the investment strategies implemented.

SOURCE OF FUNDS INVESTED IN THE GREATER PARIS REGION:

WHOSE EYES ARE ON PARIS?



FRANCE

Volume invested: €9.5 billion

Market share in acquisitions:

2014	2013
57%	**67%**

EUROPE OUTSIDE EURO ZONE

Volume invested: €1.2 billion

Market share in acquisitions:

2014	2013
7%	**4%**

EUROZONE

Volume invested: €0.7 billion

Market share in acquisitions:

2014	2013
4%	**9%**

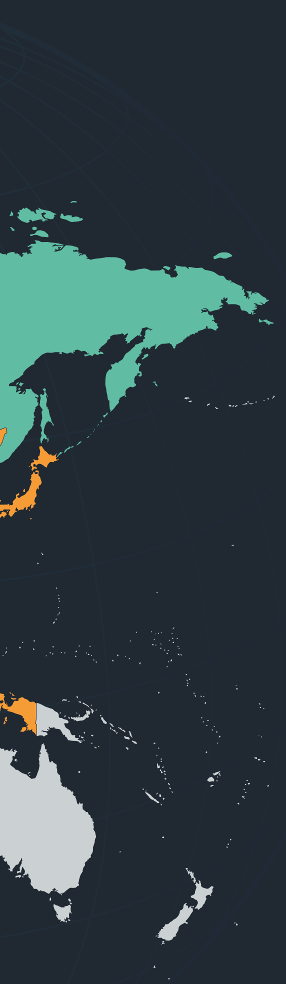
ASIA/MIDDLE EAST

Volume invested: €2,2 billion

Market share in acquisitions:

2014	2013
13%	**10%**

Source: Knight Frank



NORTH AMERICA

Volume invested: €3 billion

Market share in acquisitions:

2014 **18%**

2013 **9%**

OTHERS

Volume invested: €0.2 billion

Market share in acquisitions:

2014 **1%**

2013 **1%**

03
Prices and yields: Silence is golden

Silence is just as important as notes. Haydn, Bach and Beethoven treated it like a true motif. It adds tension, draws attention, and opens a new act. In this respect, its use goes far beyond music. It is ever present: timeless, always discreet, sometimes secret, even in the economy. As for the investment market, it is more relevant than ever. There is little or no talk about yields, little or no movement. Discretion. Apparent do-nothingness. Shhhh, silence...

Between 4.00% and 4.25%, the prime yield has barely budged on the CBD. However, it has expanded to trophy office assets.

Let's face it: the fierce competition among candidates in the acquisition of real property hardly facilitates transparency. Communication about the values and yields of completed transactions is more than lacking in the current environment. Confidentiality, business secrecy. These are golden virtues, just like the silence associated with them. In addition, the prime yield on the CBD barely moved during 2014. Already at the end of 2013, it ranged between 4.00% and 4.25% for assets with a strong retail component. A year later, the range is identical. At most, we can see that it has extended beyond the retail component to stretch to trophy office assets, like 61 Monceau.

So, there was no movement on this key data, which serves as the market standard. 2014 was a year of consolidation on the CBD. That's not to say that the balance struck is going to last.
First of all, the advantage offered by the real estate sub-fund in terms of profitability makes a recovery from the contraction of rates possible.

The Greater Paris region is still far from geographical "socialism", but the difference in valuation among the various markets fell in 2014.

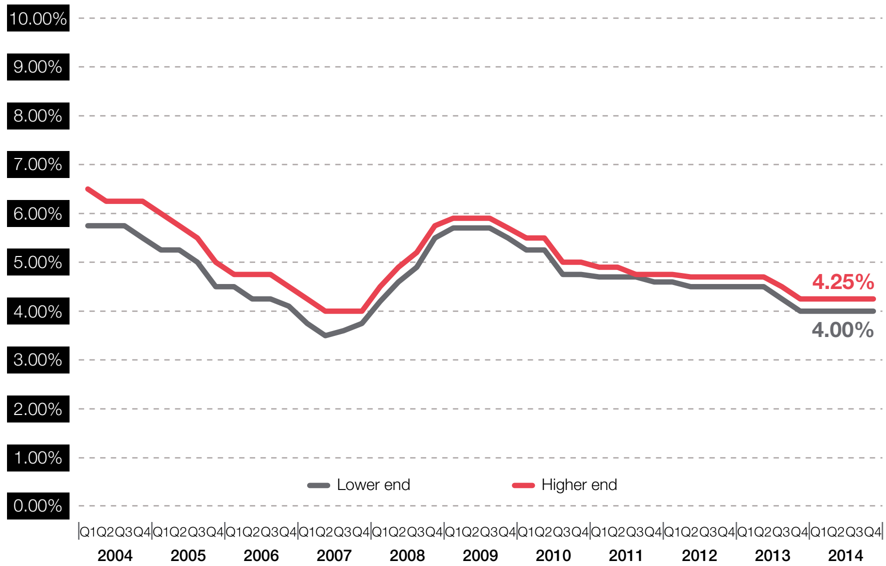
Moreover, the Greater Paris Region's internal equilibriums have been modified. The difference in valuation between the CBD and certain other markets (inner-city Paris and La Défense) actually reduced at the end of 2014. Admittedly, this is marginal, but this flattening is still between 25 and 50 basis points. That's the case with the 12th and 13th arrondissements, for example, where prime rates are now between 4.75% and 5.25%, a difference of 75 to 100 basis points with the CBD. A year ago, this difference was 125 to 150 basis points. The same reduction happened with La Défense, which now offers a positive spread with the CBD of 175 to 225 basis points, instead of 200 to 250 basis points at the end of 2013.

The investment market is still very far from geographic "socialism", but it's clear that the differences from one territory to another among prime building have decreased.

However, this movement isn't the case at all in the valuation of different asset qualities. Within the same geographic market segment, the difference in yield observed between a prime building and a risky building tended to increase during 2014. This continued a trend that had already started in 2013. Sellers have agreed to scale back some of their requirements, and this is undoubtedly what allowed several transactions outside of Core and Core Plus to be completed. But here again, silence is golden...

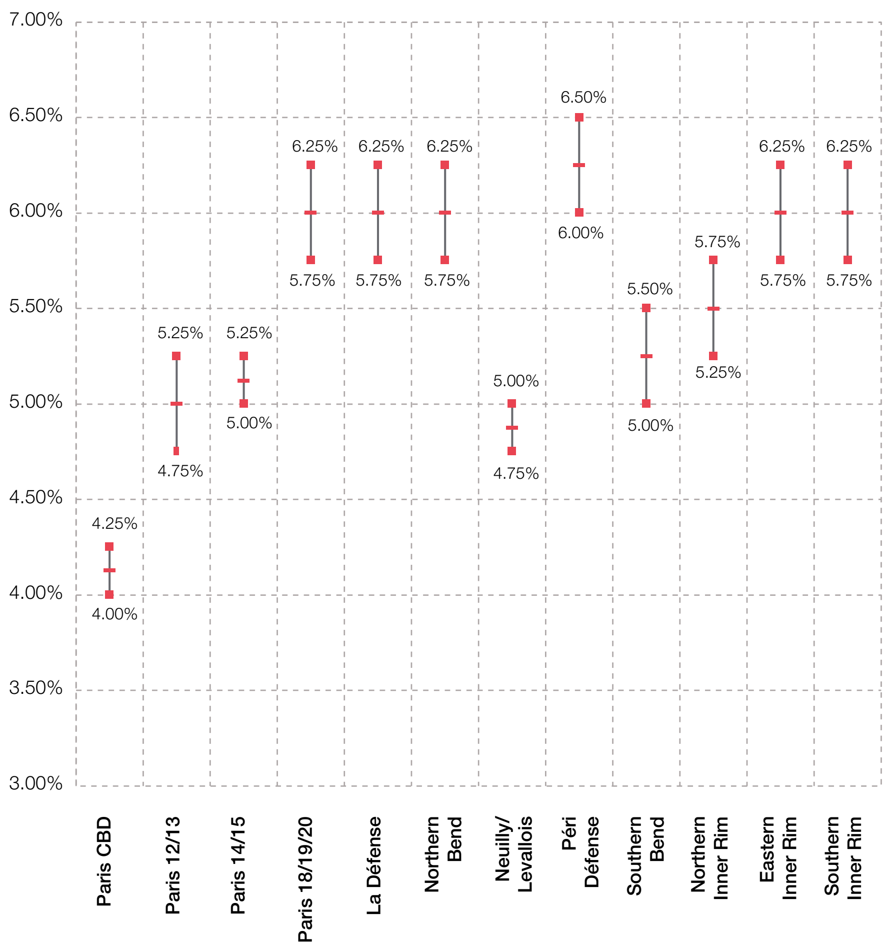
Paris CBD yield trends

Source: Knight Frank



Prime asset yields by location

Source: Knight Frank



OUTLOOK

2015 promises to be an eventful year full of developments and adjustments, perhaps to the point of marking the start of a new era for real estate investment.
Of course, this probably won't be enough to match the volume of activity in 2014, but is that the most important factor when what is being put in place can be very beneficial for the Paris market in the medium term?

01
Invested volumes and buyers:
Goodbye tenor, hello baritone?

With nearly €17 billion, the commercial real estate investment market was unquestionably a tenor in 2014. The tenor is the highest male voice, responsible for singing the main melody in Western music, reaching high points along the way.

The vocal range below it is baritone. In which direction does the market seem to be going in 2015: a tenor or a baritone? In other words, can we expect it to stay at such levels of activities?

In 2015, the market will swing between the risk of drying up and factors favouring momentum and acceptance of risk. In the end, it could rise to between 14 and 15 billion euros.

The reasons to fear the opposite are real. First, the market relies on a relatively limited number of large and very large transactions, the mark of fragility and potential volatility. It avoided the dry-up only because of the convergence of offers of exceptional assets for sale, driven by strategic shifts decided on by several major owners on the market, or because of the unwinding of long financial processes. At the very least, more than 5 billion euros was added to the activity. Suffice to say that it's far from certain that such circumstances will recur in 2015 and that the market will be able to count on such a nest egg. Therefore, the dry-up avoided in 2014 could ultimately happen in 2015.

Should we fear a market falling back to levels that are relatively normal for it, i.e., between 10 and 12 billion euros? Probably not, since the factors offering hope of offsetting or, at the very least, moderating the threat of a dry-up are as real. And numerous. Probably not enough to get back to volumes identical to the 2014 level, but enough to perhaps reach 14 to 15 billion euros.

First, there is the fundamental factor of the profitability offered by corporate real estate in the Greater Paris Region. It is unprecedented: the spread with bond investments was close to 3.20% at the end of 2014. In more than 30 years, the differential had never been as favourable for the real estate sub-fund. It is logical to expect increased interest from investors. However, it is also likely that this will lead to broader acceptance of risk for real assets. This is even more likely given that the rental activity is forging ahead. The looming investment market could thus be less focused on Core buildings.

Another factor favouring real estate investment and expanded targeting of potential acquisitions is the de facto devaluation of the euro against other major European currencies (pound sterling and Swiss franc) as well as against the dollar and all currencies indexed to it. In concrete terms, this reduces the cost of a Parisian building for an investor from a country outside the eurozone by 10% to 20% or even more. British, Norwegian, and Swiss investors should therefore continue to target the banks of the Seine, while the presence of US and Asian investors could grow stronger: with them, the profile of investors and implemented strategies should broaden. For example, opportunistic acquisitions are one of the specialities of US funds.

Lastly, there is one last factor on the same track: quantitative easing, the debt buyback plan announced on 22 January 2015 by the European Central Bank (ECB) to revive growth in the eurozone. Each month, until September 2016, the ECB will devote 60 billion euros to buying back public and private securities from banks. Combined with maintaining a historically low key interest rate (0.5%), one of the aims of this measure is to boost bank financing. Foreseeable consequences for real estate investment? Financing plans that are less restrictive in terms of LTV ratio and rental risk and conditions that are more favourable for the launch of programmes involving speculative sales before completion and opportunistic strategies.

Indeed, the investment market in 2015 probably won't be the tenor that it was last year. However, the changes taking place are opportunities for growth in the short and medium terms. So, it is likely to be a little more than a baritone. Perhaps it will be what musicologists call a baritenor. A solid, reliable baritenor with a vast repertoire, capable of holding out a note. A long note!

02
Yields:
Paris Yields aka Compression Remix

The economic environment gradually falling into place that will roll out over the next few months should have consequences on the yields observed on the Greater Paris Region's market. The tune of compression, in a remixed version, could set the pace again after being cut off in 2014.

The assumption of a decrease of 50 basis points on the yield offered by prime assets seems realistic for 2015.

Compression Remix, the hit of 2015?
There's no lack of reasons to believe it. Encouraged by the euro's decline and the relaxation of bank financing, the abundant demand for real assets should have increasingly head-on clashes with the lack of Core buildings up for sale. Competition between buyers will inevitably lead to upward pressure on prices and therefore a reduction in yields. Such a decrease would also be quite rational, making it possible to rule out the possibility of a real estate bubble, at least in the short term. Of course, if the prime yield falls below the 4.00% mark on the CBD, it will hit a record low... a level only seen in 2007, before the explosion of financial turmoil that would plunge our economies into the worst crisis in more than fifty years. But comparing nominal values doesn't make much sense. There is actually a major difference between the current situation and the situation in 2007: the differential in yields offered by commercial real estate compared with other types of investments, including bonds, has never been as significant. At the end of 2014, it was close to 3.20%. In 2007, real estate yields fell below bond yields.
It stands to reason that the differential in yields won't maintain such a level. Given that a significant increase in bond yields appears to be out of the question, unless another major crisis hits the eurozone, a reduction in the differential can only be achieved through a decline in prime real estate yields.

The movement casts little doubt. On the other hand, it's more difficult to anticipate its extent. Looking at the past 15 years, the differential offered by real estate was 1.65% on average. We're now more than 150 basis points above that. There is therefore substantial room for adaptation. To make the point quite clearly, it seems unlikely that it will be used up over the course of 2015. Yet the assumption of a decrease of around 50 basis points seems realistic.

Such a compression of prime yields would logically lead to adjustments on other riskier real assets of lesser quality. Don't expect a decline of the same scale for prime assets. However, the increase in rates pertaining to them, observed in 2013 and 2014, should stop, and certain downward adjustments could occur.

Compression Remix indeed promises to be the hit that will rock the market in 2015.

QUESTIONS TO
ROBERT BURROW

Robert Burrow,
Joint-Chairman of Chelsfield Group Limited

Knight Frank: Chelsfield arrived on the French market with a bang in 2014 when buying, alongside the Olayan Group, a portfolio of nine Parisian properties for a little more than 1.2 billion euros. Why choose this moment to invest in the French market given the current negative economic climate that surrounds the French economy? What explains its absence from this market for such a long time?

Robert Burrow: In spite of the ups and downs of political and economic life, Paris will always be Paris! My partner and joint-chairman, Elliott Bernerd, and I have monitored changes in this portfolio and its principal assets for almost 30 years. Chelsfield/TOG was able to seize a unique market opportunity to position itself in the golden triangle by purchasing a portfolio of nine buildings, all very well located, and with significant potential to create value. We see this portfolio and the management of its assets as a long-term rather than a short-term investment. The economic environment in France remains mediocre, but the sector in which we have positioned ourselves is high-end real estate (residential, retail and offices) and we believe it is likely to appreciate over time given the scarcity of quality products.

KF: Where does Paris stand amongst the world's other major cities? Does it offer something unique?

R. B.: There is only one Avenue des Champs-Élysées and one Avenue Montaigne. And these addresses fire the imagination of the whole world. For almost 30 years, we have been working and investing with the Olayan Group as well as other international partners, who are not only interested in our Parisian projects but who are also, potentially, our future clients. Chelsfield London has developed very high-end products which do not yet exist on the Parisian residential market and which we intend to offer to our international clients in Paris in the near future.

KF: The Paris letting market has become a "replacement" market over recent years, motored by the rotation of companies within an office sector rather than by the specificity of their office requirements. In order to relocate offices, a company expects that a new address can help deliver better value, prestige and effectiveness. This in turn reinforces competition within the property market while controlling the number of obsolete offices. How can investors consolidate all these factors into their strategy?

R. B.: Constant innovation is required, while identifying ways of standing out. Our presence in several markets allows us to transfer certain "best practices" from one country to another. Take office buildings in New York, for example: local developers have developed unique know-how in the design of common areas, entrance lobbies and the creation of personal services. These are great ideas which can be adapted to the French market. In order to facilitate the marketing of buildings and to stand out from the crowd, it is now vital to offer innovative plans and designs tailored to our clients' tastes and aspirations. Our group will be working with Tara Bernerd, our Creative Director, to achieve this.

KF: Your property ownership is concentrated amongst Europe's biggest cities. Do you envisage in any of these markets certain trends or evolutions that could, in the future, spread to and modify commercial real estate use in France?

R. B.: Globalisation is producing a certain standardisation in consumer habits. This is especially evident in the luxury and high-end real-estate market. Large international companies and their managers and directors like to find themselves in a similar environment. Look at what is happening in the hotel sector, where international standards have emerged. This will certainly also be true for high-end residential and office properties.

"Globalisation is producing a certain standardisation in consumer habits. This is especially evident in the luxury and high-end real-estate market.

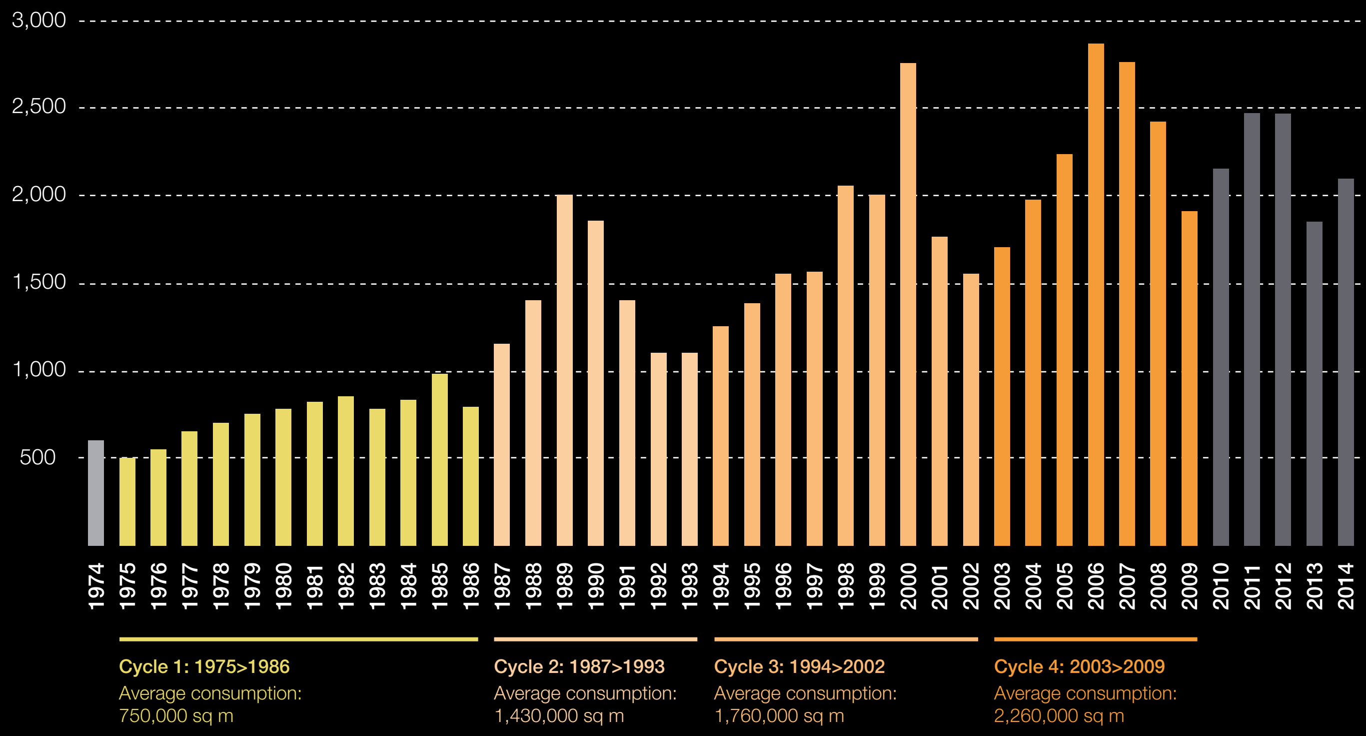
KF: 2014 has seen the arrival of new investors in the commercial property market. What explains this given the current less than attractive image of the French economy?

R. B.: France is not constrained by its short-term economic environment. As in some other areas of Europe, France faces difficulties but that is not to say that its advantages have disappeared. France is an international economic player and remains the number one tourist destination in the world. France is not the only country in Europe or the world to be suffering as a result of the global economic climate but its population and its economy are showing signs of resilience. We are confident in its economic recovery and are convinced of the significance of its dynamic role within the European Union. We are very happy to invest there.

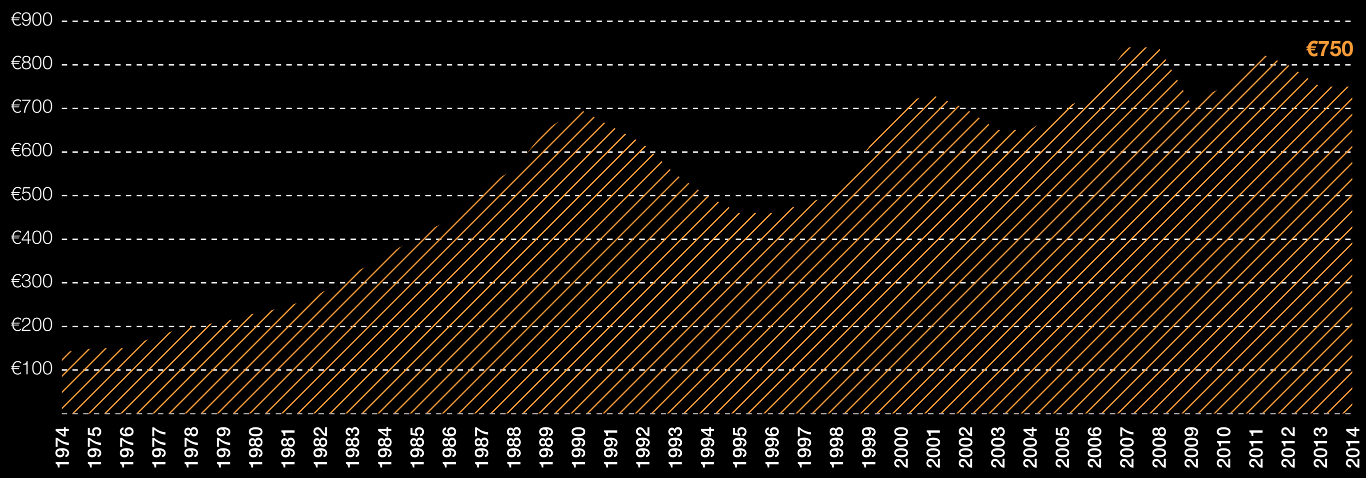
FLASHBACK

Rhythm'n'beat

Trends in take-up in the Greater Paris Region since 1974 *(in '000 sq m)*
Source: Knight Frank

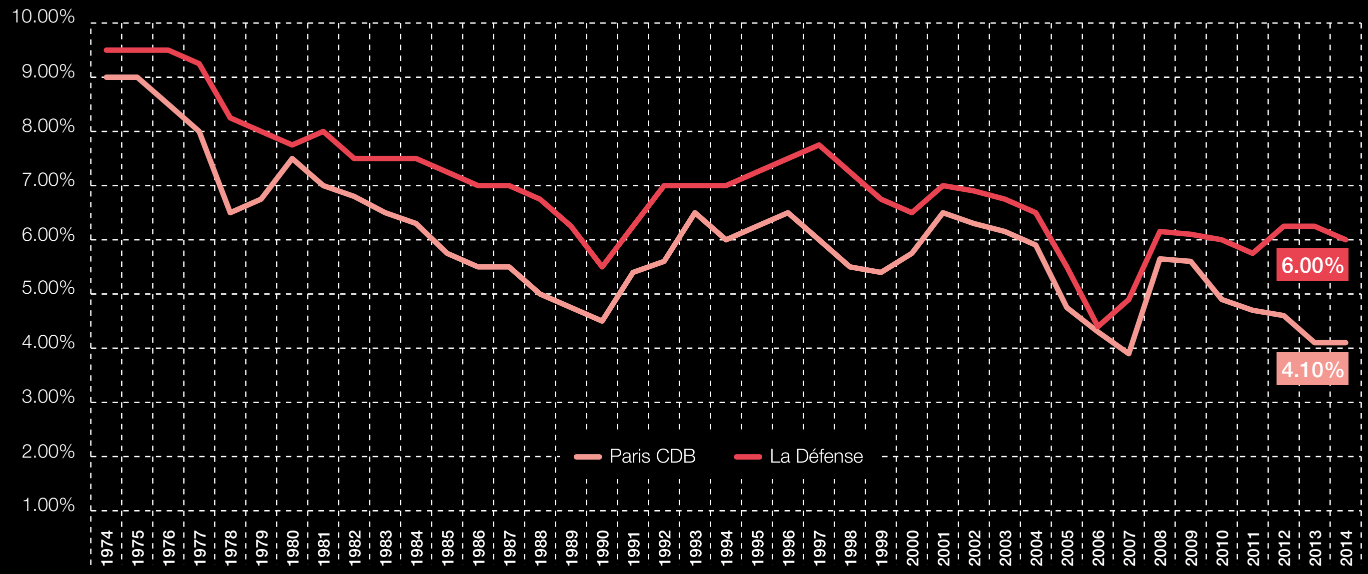


Trends in prime rents since 1974 *(in €//sq m/year excl. taxes and charges)*
Source: Knight Frank



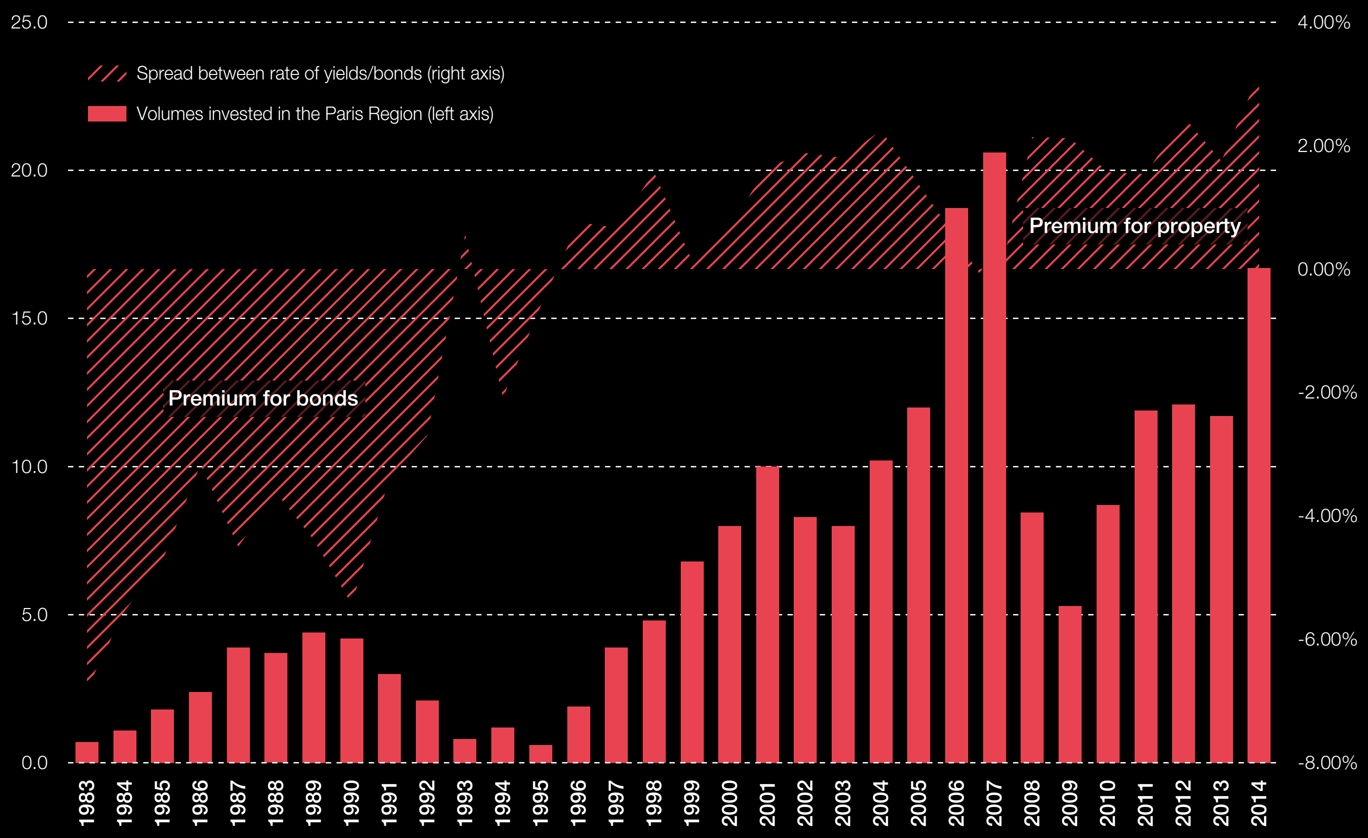
Trends in prime yields since 1974 (in %)

Source: Knight Frank



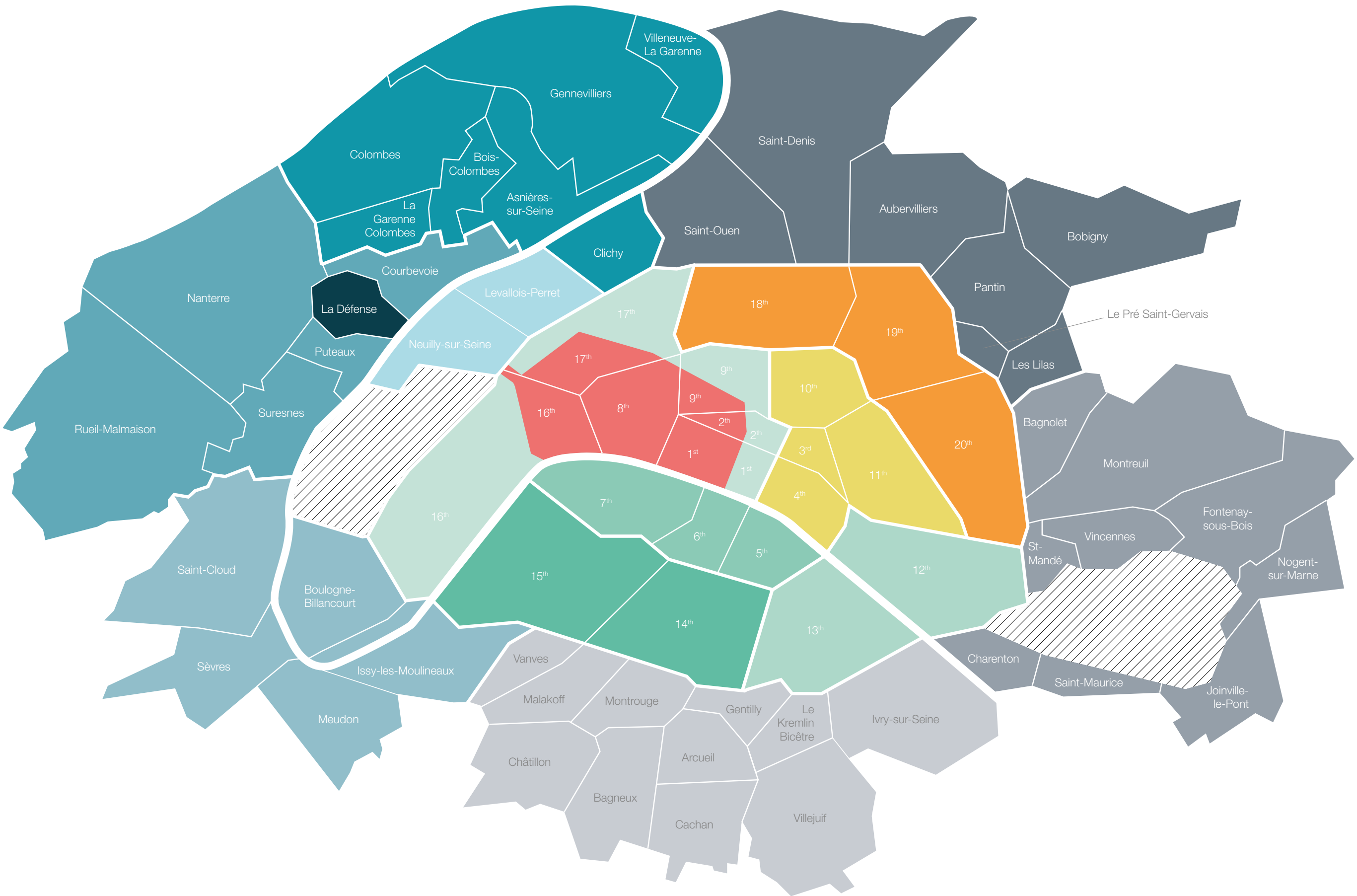
Investment volumes in the Paris Region and comparative spread between yields and bonds

Sources: Knight Frank, CDC - Comité de normalisation obligataire



Nota : Yields correspond to the prime yield (intermediary value) in the CBD.
Obligatory placement corresponds to OAT TME from 1983 to 1995 and TEC 10 begining 1996.

2014' KEY FIGURES



- Paris CBD
- Paris Centre West (excl. CBD)
- Paris 5/6/7
- Paris 12/13
- Paris 14/15
- Paris 3/4/10/11
- Paris 18/19/20
- La Défense
- Northern Bend
- Neuilly/Levallois
- Péri-Défense
- Southern Bend
- Northern Inner Rim
- Eastern Inner Rim
- Southern Inner Rim

Area	Prime Rents Q4 2014 (€/sq m/year)	Take-up in 2014 (sq m)	Estimated stock at end of 2014 (sq m)	Vacancy rate Q4 2014	Prime yields band Q4 2014
Paris CBD	750	377,600	6,781,000	5.2%	4.00 - 4.25%
Paris Centre West (excl. CBD)	560	84,000	1,899,000	6.6%	--
Southern Paris					
Southern Paris / Paris 5/6/7	720	54,000	1,337,000	2.6%	4.50 - 5.00%
Southern Paris / Paris 12/13	560	77,200	1,964,000	3.8%	4.75 - 5.25%
Southern Paris / Paris 14/15	450	85,600	1,982,000	4.7%	5.00 - 5.25%
Total Southern Paris	**--**	**216,800**	**5,283,000**	**3.8%**	**--**
North Eastern Paris					
North Eastern Paris / Paris 3/4/10/11	450	45,200	1,666,000	5.3%	5.00 - 5.25%
North Eastern Paris / Paris 18/19/20	370	70,900	1,228,000	5%	5.75 - 6.25%
Total North Eastern Paris	**--**	**116,100**	**2,894,000**	**5.2%**	**--**
Total Paris intra-muros	--	794,500	16,857,000	4.9%	--
La Défense	540	245,500	3,502,000	12.1%	5.75 - 6.25%
Western Crescent					
Western Crescent / Northern Bend	330	71,000	2,083,000	13.4%	5.75 - 6.25%
Western Crescent / Neuilly/Levallois	560	185,000	1,450,000	11.4%	4.75 - 5.00%
Western Crescent / Péri-Défense	350	134,900	2,345,000	13.7%	6.00 - 6.50%
Western Crescent / Southern Bend	490	136,900	2,615,000	10.6%	5.00 - 5.50%
Total Western Crescent	**--**	**527,800**	**8,493,000**	**12.3%**	**--**
Inner Rim					
Inner Rim / Northern Inner Rim	325	119,400	2,534,000	9.4%	5.25 - 5.75%
Inner Rim / Eastern Inner Rim	310	41,500	1,318,000	8.0%	5.75 - 6.25%
Inner Rim / Southern Inner Rim	350	59,600	2,428,000	9.3%	5.75 - 6.25%
Total Inner Rim	**--**	**220,500**	**6,280,000**	**9.1%**	**--**
Outer Rim	--	326,600	19,301,000	5.8%	--
TOTAL PARIS REGION	**--**	**2,114,900**	**54,433,000**	**7.3%**	**--**

Sources: Knight Frank, ORIE

THE RETAIL MARKET

A cosy
INNER CIRCLE

MARKET OVERVIEW

- Due to globalisation, enthusiasm remains strong for prime Parisian retail locations, which are operating at full capacity with international customers.
- This demand is constantly pushing up prices, with rents for retail space recording increases of 50% to 60% on some successful streets.
- However, the phenomenon of soaring prices remains limited to the "big names" on these prime shopping streets, along with a few rising stars that confirmed their success throughout 2014.
- Indeed, the retail market is one of considerable contrasts, with conditions difficult for secondary locations, in light of the stagnation in national consumer spending for almost eight years.
- Demonstrating the widening disparity evident on the market, the huge rental increases seen on some streets has not prevented average rents from falling in Paris.
- The outlook for 2015 looks more positive and could offer welcome relief to secondary locations. These favourable trends are yet to be confirmed however.
- Optimism is even more justified in relation to prime locations, with no reason to doubt their success in 2015.

TRENDS

Inner circle: an exclusive group close to the centre of power of an organisation or movement, regarded as elitist and secretive, who make decisions and do business.
More than ever in Paris, as we enter 2015, being part of the "inner circle" is the key to success in the world of business. To the delight of some, but not others.

01
Places: Welcome...

Paris is open to high-end, international tourism, which is providing a welcome advantage for businesses in the French capital.

["Willkommen, bienvenue, welcome !]
[Fremde, étranger, stranger.]
[Glücklich zu sehen, je suis enchanté, happy to see you.]
[Bliebe, reste, stay.]
[Willkommen, bienvenue, welcome !"]

Yes, very happy to see you. Delighted to welcome you, travellers from around the world. And in the words of Liza Minnelli and her co-stars welcoming visitors in *Cabaret*, Parisians need to learn to add [benvenuto, bienvenido, hwanyeong, selamat datang] and many other translations besides.

Paris certainly receives a large number of visitors. Hotel arrivals stood at 15.65 million in 2013. Figures are not yet finalised for 2014 but the initial trend looks similar. This confirms Paris' positioning as one of the top tourist destinations in the world. A destination which is very open to the rest of the world, with almost 58% of hotel guests coming from outside France.
Paris is a seductive city, where visitors stay and find plenty to do, demonstrating an increasing average hotel stay over the last 10 years to reach 2.72 nights per foreign tourist (1.82 nights for French tourists), for a total of almost 37 million nights.
Paris also has the economic advantage of attracting well-off visitors, with the best performance achieved by the 3, 4 and 5 star segments.[1] Not to mention "palace" luxury hotels which are all always fully booked.
However, a number of alternative propositions to hotels also exist in Paris. Furnished short-term lets are estimated to represent 18,600 units by Apur (Atelier Parisien d'Urbanisme). The Airbnb website lists almost 11,000 local properties and alone claims to have found accommodation for 223,000 visitors to the French capital [2].
Paris also offers 4,200 apartments in tourist residences, along with almost 6,900 more in the inner suburbs.

Delighted to welcome you. And also in our interests to do so. This is simply because these visitors with significant purchasing power represent a considerable financial benefit to the Parisian economy, particularly in shops. Although shopping is rarely the main reason for visiting Paris, it is nevertheless a popular past-time. More than half of foreign tourists report making purchases during their stay, in particular the Japanese, Chinese and Americans, with average daily spending at €153.

This tourism provides Parisian retailers with some protection from the tribulations of the local economy and the prevailing malaise. Under the condition of attracting the tourist flows of course; flows which are particularly strategic when they correspond with those which also attract the wealthiest cohort of the French population.
The main key to success in this respect remains location. It is better to be on the main routes used by this clientele or close to the areas they wish to visit. This is particularly true in the case of luxury and high-end hotels, but also leading museums and monuments such as Notre-Dame, the Louvre Museum, the Eiffel Tower, the Pompidou Centre, Place Vendôme and the Orsay Museum. Finally, this is also evident in the capital's trendy areas, close to Paris's now legendary department stores and to certain flagship stores

[1] Paris Convention and Tourism Bureau, "Tourism in Paris: Key Figures 2013"
[2] "Tourism in Paris: Key Figures 2013", page 23

Tourist activities in Paris by country of origin. In blue, the top three for each activity.
Source: Paris Convention and Tourism Bureau, "Tourism in Paris: Key Figures 2013"

	Visiting museum and monuments	Exploring the city	Shopping	Visiting markets	Night life	Exploring trendy areas
China	**94.7%**	73.5%	**59.8%**	**39.0%**	**17.8%**	10.7%
USA	94.6%	**79.4%**	**55.5%**	**35.0%**	**17.9%**	**18.7%**
India	92.4%	**79.4%**	51.8%	**33.9%**	12.2%	6.7%
Italy	88.9%	**80.9%**	40.1%	20.4%	**20.8%**	**16.9%**
Japan	**94.8%**	78.6%	**61.2%**	17.1%	14.7%	7.2%
United-Kingdom	85.4%	72.1%	42.3%	19.2%	12.6%	**16.5%**
Russia	**95.6%**	**84.7%**	54.4%	33.2%	9.7%	7.7%

of mythical brands, which are increasingly attracting tourists in search of the Parisian "art de vivre".
The main roads located close to or linking the main retail points constitute the "saint of saints" of Parisian retain. The inner sanctum. The "inner circle".

To make the most of available cash, it is better to stay close to it : that is the key to the success of the number one locations, both the long established and up and coming.

Inner circle? It hardly changes from one year to the next. It contains some very famous names. Champs-Élysées, Montaigne, Faubourg Saint-Honoré, Haussmann, Sèvres and Vendôme… Names which form a litany of prayers. And which, in the liturgy of retail, all end in an identical way, with the sweet sound of printing credit card receipts.
The success of the most established and well known prime locations has been confirmed. They attract brands from around the world to join their frantic competition. Some come to make a name for themselves, others to reinforce their reputations with a strong presence in Paris. The number of stores is so limited that this competition sometimes resembles a game of musical chairs between brands.

Place Vendôme and Rue de la Paix provided a perfect example of this throughout 2014.
Van Cleef & Arpels began works to extend their historic store by annexing the Mauboussin store. Place Vendôme is throwing itself with increasing abandon into the arms of the richest international customers, particularly from Asia, the Middle East and Russia, customers who delight in prestigious names such as Van Cleef & Arpels, which has in turn created an impressive temple to welcome them. However, this type of clientele tends to overlook more discreet or less well-known names. Mauboussin, positioned in "accessible luxury" and achieving 90% of its turnover in France from French customers, has suffered the consequences by giving up its shop, which opened in 1955 and underwent a major renovation in 2010. To seal the deal, the Richemont group, owner of Van Cleef & Arpels, went as far as sacrificing the store of another of its brands – IWC – which opened only two years prior, at 15 Rue de la Paix. This is where Mauboussin has now set up shop; giving it a location a stone's throw from Place Vendôme, on a street with slightly lower rents and slightly higher footfall. Alain Némarq, chairman of Mauboussin, acknowledged this clearly last October: "The increase in rents was enormous.

We received a very, very attractive offer and we benefit from a much higher footfall on Rue de la Paix" [3]. A win-win situation, since although Place Vendôme had become a little expensive for the jewellery specialist, there was no question of it moving too far.
Rue de la Paix was a perfectly natural destination. It has the immense advantage of functioning in harmony with the Place Vendôme, the two addresses forming a coherent and complementary whole. The jeweller Fred has raised its profile in response to this by opening at 16 Rue de la Paix, to reinforce its slightly more discreet presence on Place Vendôme. Across the road, just next door to the new Mauboussin store, the Richemont group continues to carry out trade-offs between its brands, with Piaget taking over from Montblanc. The multi-brand groups are not the only ones playing musical chairs. Poiray, for example, is moving a few metres away, taking over from Baccarat, passing its premises to a newcomer in 2016.
And big moves are far from over. The LVMH group has bought the premises at 2/4 Place Vendôme and has carried out a major redevelopment which will conclude with changes to the sales space on the ground floor and first floor (see our interview with Marc-Antoine Jamet, Secretary General and Real Estate Director of the LVMH Group, p 74). Luxury hotels also reinforce the appeal of this district. The Ritz will reopen in a few months, making new stores available to brands. Works have just begun nearby on the former Lotti Hotel, soon to be merged into the Hôtel Costes, creating a new luxury hotel which will make the Rue de Castiglione an exact counterpart to the Rue de la Paix. Other traditional prime locations which confirmed their place as leaders among Parisian districts in 2014 include the Champs-Élysées and, on the Left Bank, the Sèvres/Saint-Germain district. This latter has lured Moncler across the Seine, seven years after the opening of its first store on Rue du Faubourg Saint-Honoré, with a new store at 171 Boulevard Saint-Germain in a space designed by Gilles & Boissier. In terms of the Avenue des Champs-Élysées and the surrounding area, Elie Saab is reinforcing its Parisian presence by taking over from Hédiard at 31 Avenue George V, in direct proximity to the Four Seasons George V and the Prince de Galles Hotels. Longchamp has let 500 sq m at 77 Avenue des Champs-Élysées to house its new flagship store which is due to open in December 2014 and will be the brand's largest store in Europe.

The success of the most well-known and recognised retail addresses was confirmed in 2014, led by the Champs-Élysées, which has become a must for luxury brands.
This trend continues to reign with Knight Frank advising one of these big names in the imminent creation of its flagship store on the Champs-Élysées.

The leather goods manufacturer will soon be joined by Burberry, which will be taking over some of HSBC's space to gain a foothold there, just next to the Louis Vuitton store. The main event here, however, will undoubtedly be the announcement of the arrival of Galeries Lafayette, replacing the Virgin Megastore. A different format has been announced from that of the famous department store's traditional home on Boulevard Haussmann. No further information has been given and details are being kept under wraps! However, we can be sure that luxury and high-end brands will be perfectly at home in a spectacularly designed space.
The Champs-Élysées, considered by many to be one of the most famous avenues in the world, was suffering from a gap between its brand image and commercial standing. This is evidently no longer the case. Its recovery, involving a shift upmarket, accelerated in 2014. It is now a prerequisite for any consumer luxury group to have an address on the Champs-Élysées. This will be further confirmed in 2015, with the imminent announcement of a major event in this respect.

The Boulevard Haussmann, with its predominantely mass market orientation, is also proving to be very dynamic. Yves Rocher is expanding. Marks & Spencer is moving in nearby on Rue de la Chaussée d'Antin. Pret A Manger is taking advantage of the new configuration of Galeries Lafayette Maison & Gourmet to expand its Parisian presence. Other flagship

[3] Alain Némarq, quoted in Usine Nouvelle, 09 October 2014

stores have also been announced, particularly at the former Benetton and Monte Paschi Bank sites.

Meanwhile, the Rue du Faubourg Saint-Honoré has had a rather quiet 2014, mainly due to a lack of opportunities in its most sought-after section between Rue Royale and Rue d'Anjou. A tremor is being felt further up the street however, near the Saint-Philippe du Roule Church, in a previously more or less neglected area where Jean-Louis Scherrer opened a small store in June. Almost a year to the day after the death of its founder and five years on from the curtain falling on the ultimate Parisian high-end fashion store, this latest move is like a renaissance. A renaissance and a return to the business's roots, since the Jean-Louis Scherrer adventure began in a former wine cellar next door at number 182, back in 1963.

This makes it a natural move. A degree of continuity has been seen in 2014, confirming and amplifying developments already recorded previously. These include certain districts' move upmarket, assuring their place in the inner circle. Rue Saint-Honoré, the Marais and Opéra-Madeleine with the Boulevard des Capucines are the most striking examples (see inset "The New Mozarts of Luxury", p 61).
These lucky ones are few and far between, however, and other locations are dancing to a different tune. There are no well-heeled visitors there. Their market is domestic and the economic environment is directly impacted by the French economy's woes and the mindset of national consumers.

Saint-Honoré, Opéra-Madeleine, Marais…
The new Mozarts of luxury

Paris boasts a few exceptionally gifted districts. Little prodigies which, in just a few years, have established themselves or are well on their way to establishing themselves among the leading lights of high-end and luxury retail. The Rue Saint-Honoré is the brightest of these stars. But things are also picking up around the Opéra district, particularly along the Boulevard des Capucines, as well as in the Marais. Detailed review.

Rue Saint-Honoré : This is undoubtedly one of the most spectacular commercial metamorphoses seen in Paris in recent years.
For a long time, the Rue Saint-Honoré was only an extension of the Rue du Faubourg Saint-Honoré in a geographical sense. The Rue Royale acted as a clear dividing line between the luxury boutiques and prestigious names on one side and the independent retailers and local shops and services on the other. The transformation began around a decade ago, when Rue Saint-Honoré began its move upmarket; slowly, almost timidly at first. Then the movement gradually accelerated. It reached its zenith in 2014. Luxury brands now face a real battle to gain a foothold in this area, which has one of the highest concentrations of luxury and high-end hotels in Paris and therefore direct access to wealthy international customers. One recent arrival is Alexander McQueen at 372 Rue Saint-Honoré. The fashion house, which operates in the same sphere as Kering, will open almost 750 sq m in the summer under the brand McQ, dedicated to fashion lines as well as ready-to-wear and men's and women's accessories. The price paid to secure the space, adjacent to the Viktor & Rolph, Dior Parfum and Jimmy Choo stores and opposite the Mandarin Oriental, is obviously a closely guarded secret. One thing is for sure: it must have cost a pretty penny.

The rent includes a variable part, calculated as a percentage of the store's turnover and applicable once a certain threshold is reached. This threshold is confidential but illustrates the significant potential of such an address and the ambitions it permits.
A short distance away, between 362/364 Rue Saint-Honoré and 7 Place Vendôme, luxury delicatessen Potel & Chabot is preparing to take over from BNP.
A few metres further on, at the corner of Place Vendôme and Rue Saint-Honoré, LVMH is reconfiguring the building where Guerlain has been based for over 100 years. The perfumer has recently expanded, taking over the former jeweller Barboza. In the same building, St Charles and Richard Mille have closed up shop and will soon leave the square, probably to brands owned by the same group.
On the other corner of the street, major moves are beginning as part of the restructuring of the former Hôtel Lotti.
Missoni is meanwhile moving in opposite Balenciaga.
While the truly prized section of the Rue Saint-Honoré ended at the Colette store at the corner of the Rue du 29 Juillet, it is being increasingly extended onwards. La Prairie, for instance, is opening a store at the junction with the Rue Saint-Roch.
Throughout 2014, however, the Rue Saint-Honoré has felt the impact of the offensive launched by Chanel. The firm founded by Coco is distinctively peckish and has gradually been eating up stores between Rue Cambon and Rue Duphot, gaining a foothold on Rue Saint-Honoré along the way. It has either expended directly or moved in companies within its sphere, such as bootmaker Massaro or milliner Maison Michel. The block has ultimately become a coherent commercial whole, perfectly controlled by Chanel, rising to the second floor of some buildings.
The transformation of Rue Saint-Honoré is therefore almost complete, creating a leading luxury address. A key part of the inner circle.

The transformation of Rue Saint-Honoré into a key address in the inner circle of retail is almost complete, while that of the Boulevard de la Madeleine is gaining momentum.

Opéra-Madeleine : Despite being less advanced and therefore less spectacular, the retail development of Boulevard des Capucines and Boulevard de la Madeleine is nevertheless firmly under way.
The big event in 2014 was the announcement of the arrival of Tommy Hilfiger in the 1,000 sq m vacated by Foncier Home at 43 Boulevard des Capucines. The US brand founded in 1985, will open its new Parisian flagship during the course of the coming year. This should have an impact on customer flows in the area which are currently concentrated mainly on the far ends of each of the boulevards, without any real junction in between. The opening of the Tommy Hilfiger store should encourage the establishment of a continuum between the Madeleine district, where Kenzo, Ralph Lauren, Cerruti 1881 and Dior are all based, and the Opéra district. This has changed considerably in recent years, with the establishment of leading mi-to-high-end ready-to-wear names such as Lacoste, Aigle, Gant, Gap and Ikks, as well as a few luxury stores, such as Bucherer, Omega, Bally and Weston, which have boosted the area's image This mass market orientation is therefore essentially chic with a dash of luxury, giving the area a different and complementary identity from that of its neighbour, the Rue Saint-Honoré.
But at this start of 2015, Opéra-Madeleine has still not reached the maturity of the very best locations. The district is due to experience further positive developments, as more possibilities exist, particularly on the even side of the boulevard, which has not been so affected by recent store openings. Some stores will also no doubt need to move as a result of being poorly positioned or having a concept which has been less successful in this market environment. It is therefore likely that the district will continue to move even further upmarket.

Marais : Moncler is the talk of the district. The specialist in luxury quilted jackets offers its customers an oddity on Rue des Archives. Halfway between a shop-in-shop and a boutique. An independent store with a window and direct access to the street, but clearly incorporated into the BHV Marais department store. The department

store has also had its own insignia sculpted into the building's stone.
Moncler is not the only brand to take part in this novel venture in the district. It is accompanied by Gucci, Fendi and Givenchy. In all, four shops share a total space of 800 sq m on the ground and first floors, devoted to luxury.
On the western side of this collection of buildings, near Rue du Temple, Nike has also opened a shop in association with BHV Marais.
A real game of Monopoly is therefore being played in this area. At the end of 2014, the press reported a plan to open a 4,000 sq m megastore on Rue Sainte-Croix-de-la-Bretonnerie, entirely dedicated to Italian high-end gastronomy. This project is due to be coordinated by the Eataly chain, supported by BHV and its shareholder, the Galeries Lafayette group, which owns a considerable amount of underused land in the district.

Moncler, Gucci, Fendi and Givenchy: are these pioneers creating a new luxury address in Paris?

Rue Sainte-Croix-de-la-Bretonnerie is not very large and one of the only possible locations for this project seems to be the building housing the BHV staff restaurant. This is therefore causing union unrest, although denied by BHV Marais. Developments will therefore need to be monitored, although it is symptomatic of the commercial development of the Marais.
Galeries Lafayette is also behind another major project, a contemporary art foundation at 9 Rue du Plâtre, with potential for direct access via Rue Sainte-Croix-de-la-Bretonnerie. The project is being headed up by Rem Koolhaas, 2000 Pritzker Prize winner. The building permit was awarded in 2014 and work is due to begin in the Springtime. The public opening is due to take place in 2016, with 100,000 visitors expected per year.
The Marais – still arty and increasingly chic – is certainly in the process of becoming a new Saint-Germain.
Another address for the Parisian inner circle, which could experience a real boom in the event of a change to Sunday opening laws. For the time being, only the Place des Vosges and the Rue des Francs-Bourgeois are classified as being in a tourist area, enabling businesses there to open on Sundays. That is one reason why the Rue des Francs-Bourgeois was one of the first to see a transformation in its commercial fabric and also why it remains the district hub, demonstrated by the opening of Uniqlo in April 2014, on a 820 sq m site.
However this restrictive classification, dating from 2005, is being increasingly challenged. Sellers of tourist goods around the Pompidou Centre have obtained legal exceptions and others in surrounding streets want the same rights.
If they win, it will be just the start of the retail revolution in the Marais, and the music of this future Mozart…

What about elsewhere?

Other districts in decline

Outside the prime locations, the climate is very different. No frenetic competition between retailers for window space here. No rising crescendo to be heard. The music of the moment would more appropriately be a requiem.

A few hundred yards is sometimes enough to find yourself in a different commercial universe.
While the Marais is abuzz and cracking open the champagne as new stores open up, this phenomenon is less evident in the more touristic area stretching mainly between the Archives Nationales, the Hôtel de Ville and the Pompidou Centre.
In the Haut Marais, fashionable and bobo though more discreet, business is much slower. This is illustrated by delays to the Jeune Rue project and the questions surrounding it. Jeune Rue was initially 36 restaurants and shops, mainly independent delicatessens and restaurants, with interior design by talented architects. The idea was to create a hub of taste and of good taste on Rue du Vertbois and Rue Volta, a showcase for style and the best produce. The €30 million project is struggling to raise its budget, however, and for the time being only two restaurants have opened: Ibaji, a respected Korean eatery, and Anahi, dedicated to Argentinian cuisine. They are about to be joined by a butcher and pastry shop, Le Tourbillon, opened by Yann Brys, holder of the title "Meilleur Ouvrier de France". This may be too little too late to enable Jeune Rue to reach the critical mass it needs to draw in sufficient customers, however. As the project's developer acknowledges: "Yes, our ideas were too ambitious. The project got carried away with itself due to the general excitement it inspired. (…) It is much more difficult than I thought." [4] Not impossible but difficult and slow.

And the project's lesson holds true on a wider scale. Naturally there are some glimmers of hope in Paris outside prime locations. Décathlon was very interested in a 5,000 sq m unit in the former Macdonald warehouse (19th arrondissement). Burger King is continuing its expansion with its recent move into Avenue du Général Leclerc (14th arrondissement). As in most French cities outside prime locations, the pace of new shop openings in Paris is generally slowing down or, in some cases, coming to a complete standstill.

Spending in French households is in decline. The latest survey by Procos indicated a -1.3% decline in business among high-street shops in the first 10 months of 2014 and -0.8% for shops in city centre shopping arcades. [5]
Although it remains difficult to quantify in the streets, the phenomenon of vacant premises is on the increase and looks set to stay. Stores are taking longer to let. Paris is fortunate in this overall bleak picture as it has largely avoided structural vacancy due to the economic micro-climate here. Tenants can eventually be found. This is not always the case however in the suburbs or further afield in the regions.
The subject of vacancy is taboo. At the end of 2014, the small world of shopping centres was rocked by a controversy which is informative in this respect. The dispute was between Procos, representing retailers, and the CNCC, representing shopping centre owners. Procos estimated the vacancy rate (including units let but awaiting occupation) at 7.6% in French shopping centres, up by 50% compared with the end of 2012. Procos further highlighted a peak of 11% vacancy in shopping centres opened since 2000. These figures were strongly disputed by the CNCC, which uses a different methodology, which claimed that the vacancy rate was lower in shopping centres than in other type of retail sites.
Nobody disputed the key finding however; that things are changing. And the trend is clearly towards an increase in vacancy rates in many centres, arcades and streets, which are currently struggling to attract customers and, above all, to encourage them to spend.

Patience will be needed to escape from this rut. Patience until the French economy finally picks up. Patience until consumers' confidence and enthusiasm returns. And, of course, an understanding of what they want.

[4] Cédric Naudon, quoted in M le Magazine, 27 November 2014

[5] Procos (French Federation for Urban Planning and the Development of Specialist Retail), October 2014 survey of 50 retailers in 50 key areas, in 15 cities

02
Prices: The Three (thousand) penny Opera

The Champs-Élysées failed to set any new price records in 2014. But there was pressure from below… .

Retail success followed the same pattern in 2014 as in 2013. The same is true of prices and their trends.

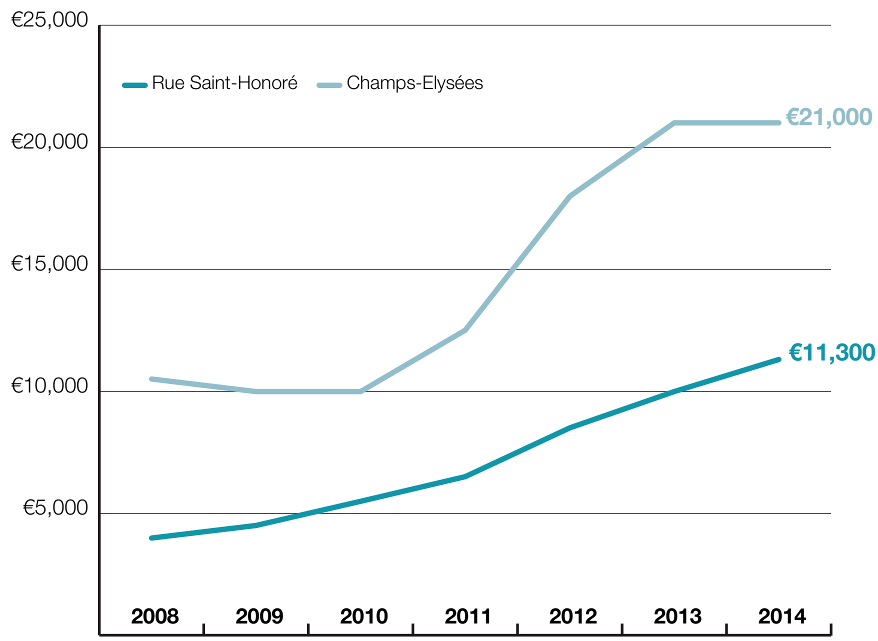
Highly sought-after prime locations are still snapped up at a ransom. Of course, compared with 2013, 2014 appears less exciting – or less excitable. The Parisian market achieved an impressive performance the previous year, by breaking through a symbolic glass ceiling, as the threshold of €20,000 excl. charges and taxes per sq m was exceeded for the first time in the city's history. The Champs-Élysées, the most expensive road in the French capital, achieved a value worthy of Causeway Bay in Hong Kong – the Rolls Royce of global commerce. There was no new absolute record set in 2014 and no glass ceiling broken. The Champs-Élysées did not record any transactions for more than €20,000 in rent. But that does not mean that the market was overcome by prudence or pessimism. No, it was simply that there were few transactions, due to a lack of opportunities, in this highly sought-after location. These values will therefore no doubt be confirmed at the first opportunity.

Although there was no lightning strikes in the sky over Paris, previous trends continued, notably increases in values in prime locations.
Rue Saint-Honoré is a good example. It continues to break its own records, this time with a transaction for more than €11,300. The high point in 2013 was €10,000 and €8,000 a year earlier… An increase of more than 40% in two years – that is the order of magnitude which is transforming the Parisian market. This is naturally a long way from the levels seen on the Champs-Élysées, although for the first time Rue Saint-Honoré is achieving prices higher than certain sections of Rue du Faubourg Saint-Honoré. It remains a challenge to match the values of the section between Rue Royale and Rue d'Anjou which approach the €12,000 mark however it remains a very telling adjustment nonetheless. This is perhaps not a revolution, although it does reveal the shift in the tectonics of Paris' shopping streets and their rising prices.

Once transactions pick up, rents are certain to soar very quickly. Boulevard Haussmann, which recorded a fairly quiet year in 2013, recovered in 2014. One of the transactions recorded achieved a Zone A rent of €9,000. Another is due to be finalised for €8,600. This represents an increase of over 60% compared with the values recorded last year. This shows that Boulevard Haussmann is catching up with prices for other prime locations in Paris.

Elsewhere, the bleak economic climate is weighing down prices. Even the scarcity of transactions in secondary locations is no longer enough to conceal the general fall

Changes in Zone A rental values on Rue Saint-Honoré** (western end) **and Avenue des Champs-Élysées
Source: Knight Frank



High-end rental values in Zone A (in €/sq m/year excl. taxes and charges)
Source: Knight Frank

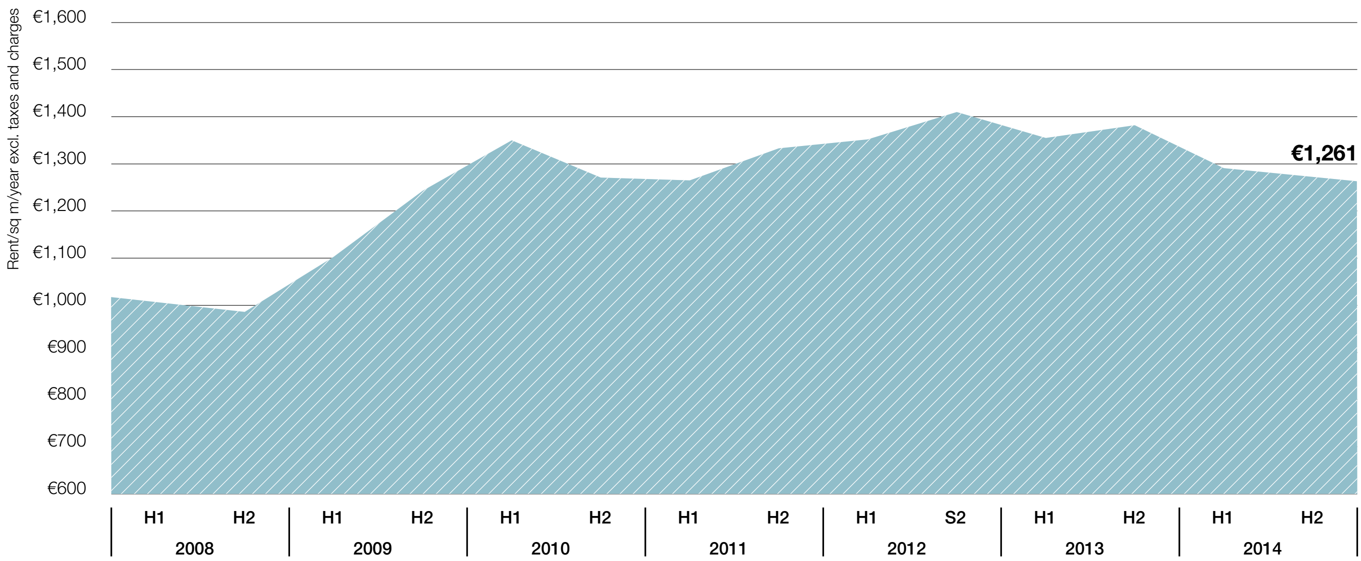
	Rent			
Shopping street or zone Arrondissement	**2014**	2013	2012	**Change 2013-2014**
Avenue des Champs-Élysées 8th	**€21,000**	€21,000	€18,000	→
Rue de la Paix/Vendôme 1st and 2nd	**€15,000**	€13,500	€10,000	↑
Rue du Faubourg Saint-Honoré 8th	**€12,000**	€10,000	€8,500	↑
Avenue Montaigne 8th	**€12,000**	€10,000	€10,000	↑
Rue Saint-Honoré 1er	**€11,300**	€10,000	€8,000	↑
Boulevard Haussmann 8th and 9th	**€9,000**	€5,500	€5,500	↑
Sèvres/Saint-Germain-des-Prés 6th et 7th	**€7,000**	€7,000	€6,000	→
Capucines/Madeleine 1st, 2th, 8th and 9th	**€5,000**	€5,000	€4,200	→
Marais 4th	**€5,000**	€4,500	€4,500	↑
Rue du Commerce 15th	**€2,800**	€2,800	€2,800	→
Avenue Victor Hugo 16th	**€2,300**	€1,800	€2,000	↑
Rue Étienne Marcel 1st et 2th	**€1,700**	€1,700	€2,000	→
Avenue de France 13th	**€600**	€600	€600	→

in values. For the first time since 2010, average rent for retail areas in Paris fell throughout 2014. It stood at €1,261 for the second half of 2014, compared with €1,382 a year earlier – a fall of 9%.

Average rent is falling, while values for the most sought-after locations are soaring, although variations are significant and there are often sudden changes from one quarter to the next. Major disparities are apparent in the Parisian retail sector. As if Paris had dedicated itself to Janus, the Roman god of beginnings and endings, choices, keys and doorways – Janus with two faces.

Whether or not you are in the inner circle, value judgements will make you rich or poor…

Changes in average rent in inner Paris
Source: Argus de l'Enseigne



OUTLOOK

As was the case in 2014, it is unlikely there will be any drastic changes in 2015 in terms of retail and retail locations. Prime Parisian hubs have every chance of continuing to take advantage of globalisation and the rise of the planet's wealthy elite.
The coming year could see an adjustment for secondary locations, however, which benefit less from globalisation. There are reasons to believe that this slight adjustment could be positive and there are also reasons to remain cautious…

Economic climate and spending:
Could Sleeping Beauty awake?

What we can say for certain is that the economic hopes invested in 2014, however minimal, were crushed. Disappointment is evident. Most economists expected moderate increase in growth, following a phase of stabilisation in 2013. Projections for French GDP growth varied between +0.9 and +1% depending on the forecaster. The final results for 2014 are not yet known, but growth is unlikely to be more than +0.4%. In the best case scenario, this is barely more than in 2013. The French economy has played the role of Sleeping Beauty since mid-2011, if not mid-2007 (the period 2010/2011 having just about made up for the 2008/2009 downturn).
The heroine of the fairytale slept for 100 years. Will the French economy suffer the same fate, creating what Daniel Cohen has termed a "lost decade", caught up in a vicious cycle of deflation? Or could it gradually awaken?

Better-than-expected figures for the third quarter of 2014 give a glimmer of hope. These differences between forecasts and actual results firstly reflect the difficulty of modelling the economic future,

> There is much uncertainty which in turn advocates caution. Growth is nevertheless set to pick up slightly more in 2015 than in previous years.

since the psychological influence on decisions plays such an important part. To paraphrase the old French song by Jean Gabin: "Now I know, I know you never know." Even if these third quarter figures indicate that complete collapse is not imminent, it would be rash to see them as evidence of a sustainable upward trend. The fact remains that most economic authorities expect 2015 to be slightly better - or at least less flat - than the past year, with growth forecasts of between 0.7% and 1.0% for France. The Eurozone, which absorbs 60% of French exports, is also likely to pick up slightly.

Several elements are likely to give a boost to companies still suffering from a low margin rate (29.4%). Firstly, there is the combined fall in oil prices and the euro. Some studies show that a contraction of 10% in the European currency would boost growth by 0.5% within a year. The euro's decline against the dollar

GDP: 2015 forecasts

Source: Banque de France, Economic indicators, 5 December 2014

	Government (a)/ ECB (b)	IMF (c)	European Commission (d)	OECD (e)
France	1.0% (gov.)	1.0%	0.7%	0.8%
Eurozone	1.0% (ECB)	1.3%	1.1%	1.1%

a. French Finance Ministry, 10 September 2014
b. ECB macroeconomic forecasts, 4 December 2014
c. WEO forecasts, October 2014
d. Autumn forecasts, 4 November 2014
e. Economic outlook, 25 November 2014

began in April 2014 and speeded up considerably from July. The fall is now around 10%, the euro having fallen from 1.39 to less than 1.25 dollars at the start of December 2014. It is therefore worth monitoring developments in this respect. Combined with the CICE (French tax credit for competitiveness and employment), the full impact of which will be felt this year, along with the first effects of tax subsidies resulting from the accountability pact, the fall in the euro adds credibility to economic bodies' weak growth forecasts.

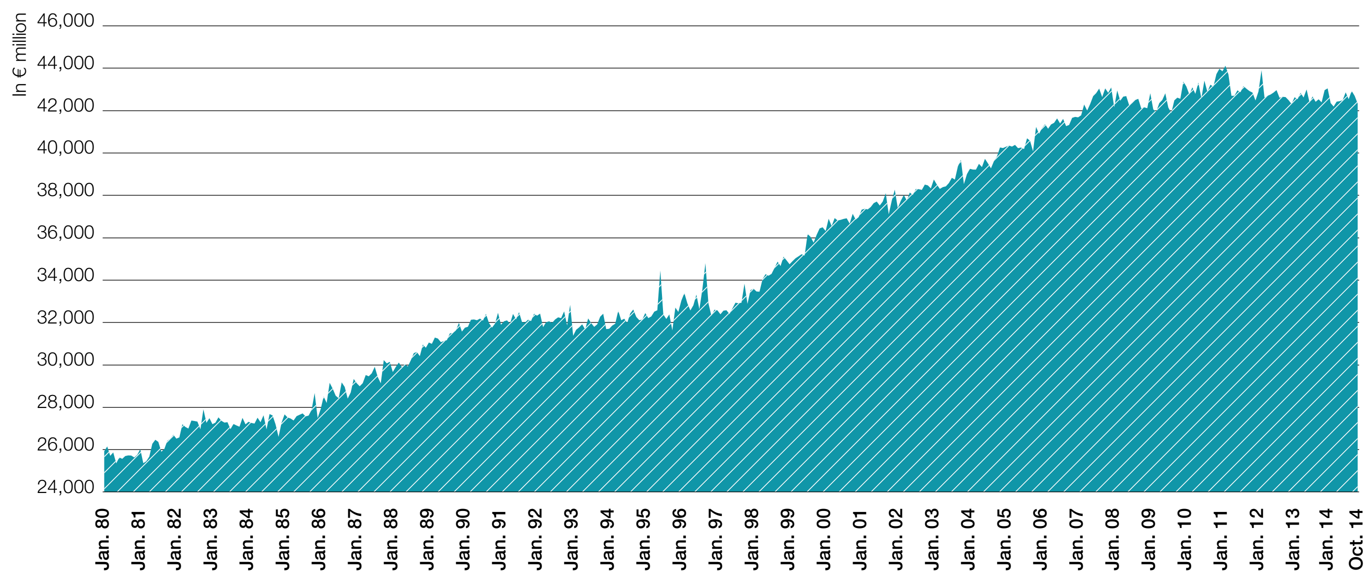
The French are saving instead of spending. This reflects their anxiety and the psychological dimension of decreased spending.

These factors encourage hopes of a gradual stabilisation in employment and an improvement in spending power and consumer confidence. Indeed, retailers' futures are dependent on increased consumer confidence, particularly those not benefiting from prime locations. Their turnover comes from local customers. If their confidence returns and they decide to abandon the security of saving to treat themselves by spending, the impact will be felt immediately by local stores.

It's not that household spending has completely collapsed. It is in fact the one pillar of the French economy which has proved resilient, although this resilience takes the form of immobility. Spending has not fallen, but neither has it increased. This was confirmed in 2014, as during the previous seven years. More than eight years of stagnant spending is something that has not been seen in France since the end of the Second World War.

This stagnation is not due to a contraction in households' purchasing power. Those mainly affected by this contraction are the unemployed and those in vulnerable employment who make up around the poorest 10% of the population. A population on the fringe of the economic system and which is seldom included in economic figures. This is not the case for the richest 10%, the other category affected by the fall in disposable income (at least for the "lower" percentiles of this very unequal elite). In layman's terms, this refers to the upper middle class, outside the scope of tax avoidance and tax exile strategies, who have absorbed three quarters of tax rises in recent years. In terms of the French population overall, however, and despite high unemployment, salaries have continued to rise (though slowly), while purchasing power has benefited from falling prices. The reasons for the static spending figures therefore lie more in the minds of the consumers. If we set aside the hypothesis of the emergence of a regressive society seeking its fulfilment away from personal

Monthly household spending *(chainlinked volumes at previous year's prices - data adjusted for seasonal and working-day variations)*
Source: INSEE



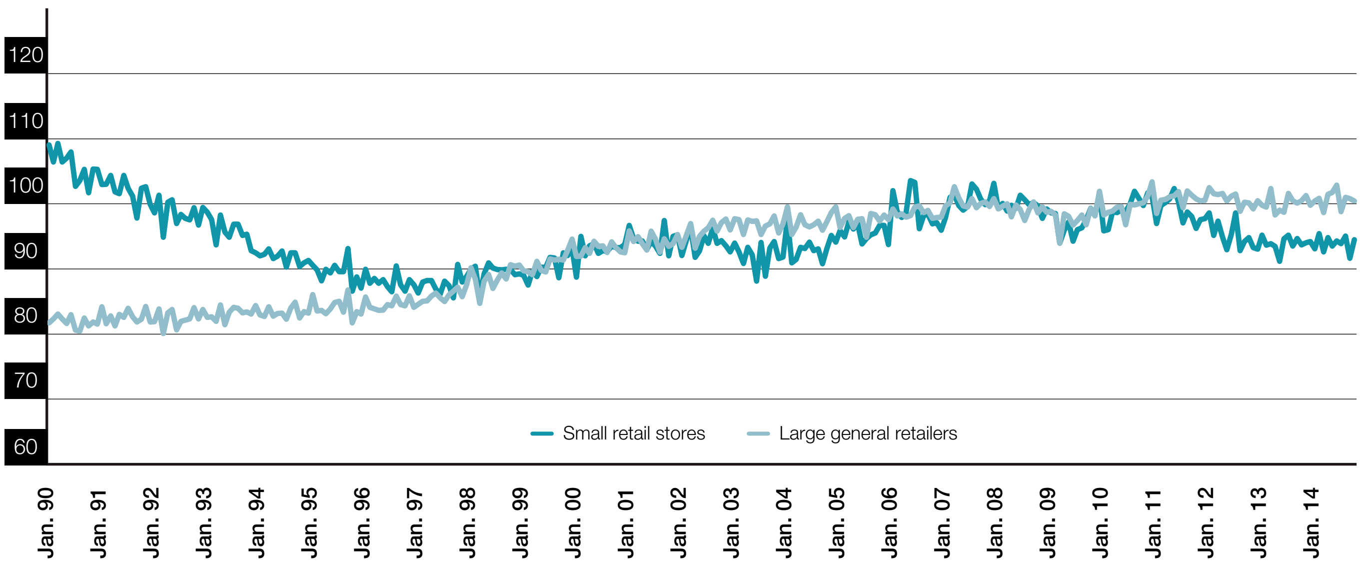
belongings and consumerism (an hypothesis unsupported by any evidence, particularly the prevailing despondency of French society), there is only one explanation left: households' anxiety over the future, particularly among the lower middle classes (the top 40% of the population), which play an essential role in consumer spending. This anxiety is real. It can be seen in households' increasing level of savings, which rose to 15.9% of gross disposable income in the third quarter of 2014. Households are no longer spending, but they are increasing their investments, particularly in savings policies and life insurance products. These long-term investments are designed above all to cushion against any unforeseen future impacts.
The French - world leaders in the use of sedatives - apply a similar logic to finance… To gauge their expertise in the field, simply take a look over the Channel. While the French are saving 15.9%, the British have fallen below 6%. Only the Germans save more, but no doubt for other reasons, particularly the ageing population. Money saved is money removed from retail flows. And it becomes sterile if it is not used to finance investment, with companies being in low demand.

There is therefore a psychological aspect to the French situation and it will not be easy to overcome. However it is possible that removing the first income tax bracket from this year may help. By offering a measure of relief to the lowest earners, this move may encourage them to head out to the shops. This could help allay fears of economic paralysis associated with expectations of falling prices. This outlook results in postponement of purchasing decisions in order to take advantage of further reductions at a later date.
This is a real threat for retail, but one which should not be overestimated. At the end of 2014, although underlying inflation (excluding the most volatile) was nil, France was not in a deflationary situation. Deflation is a long-term downward trend in the average price of goods and services. Sectorial deflation occasionally occurs in some segments of the economy (e.g. residential property in some regions), although the phenomenon is not widespread and should not be confused with the current situation of disinflation. The level of inflation is falling although the average price of goods and services is not. Furthermore, neither salaries nor the money supply are contracting - both symptoms of deflation. The aggregate M3 [6] of money supply was rising by 2.6% on an annual basis in October 2014 in France [7]. If there is a danger, in this case it lies in the creation of speculative bubbles, the unspent money encouraging self-sustaining and

[6] The M3 aggregate includes all coins and notes in circulation, on demand deposits (current accounts), short- and long-term deposits, as well as the money market UCITS.

[7] Banque de France

Change in turnover by distribution method - *Volume index for intermediate layers - adjusted for seasonal and working-day variations*
Source: Banque de France - DGS



artificial phenomena in some segments (real estate, money and bond markets, etc.). Bubbles which end up exploding, often with a great deal of collateral damage. One solution to prevent them from forming is to kick start public and private investments in productivity. Take the recent Juncker plan launched by the European Commission, for example.

There are therefore grounds for optimism in 2015. For the economy in general, for retail in a global context and also - unusually - for small retailers (outside prime locations) who have been suffering for four years now. There is the possibility of a favourable knock-on effect on secondary locations, the main target for small independent retailers. But to expect a miraculous complete turnaround would be a step too far.

These developments will have a marginal effect on prime locations which, as we have seen, are operating at full capacity within the global economy and whose brands are moving further upmarket. They are not suffering from the French malaise, at least in Paris. On the contrary, they are benefiting from the arrival of the upper classes from a host of countries – people who like to travel and spend while travelling. As well as emerging countries, business in these locations is boosted by the general increase in wealth of the richest elite. An OECD[8] working document showed that this is significant among the organisation's 34 member countries. The income of the richest 10% of the population now represents 9.5 times the income of the poorest 10% (and as much as 16 times in the United States, 27 times in Mexico and 30 times in Chile), a ratio which stood at just 7 times in the 1980s. The poorest are not necessarily poorer than before, but they have not become any richer, unlike those at the other end of the social spectrum. Prime Parisian locations are benefiting from the increasing prosperity of this wealthy elite. They occupy the top French addresses known around the world. And there is no reason to expect this situation to be overturned in 2015.

[8] Federico Cingano, "Tendances de l'Inégalité des Revenus et son Impact sur la Croissance", OECD, 9 December 2014

Big is in fashion:
Honey I blew up the shops

Paris is a dense city. Space is scarce and expensive. The logical result is that properties are divided up ad infinitum. What often strikes visitors from places where space is less restricted is that, in this city, everything is small. Pavements are narrow, restaurants are tiny, apartments are minuscule. Haussmann went some way to addressing this, but the impression remains.

Retail outlets are no exception, with the average size of a Parisian store estimated at 65 sq m [9].

65 sq m on average! Barely 8m by 8m… This shows the constricted nature of premises and the potential difficulty of developing certain concepts in them. Premises offering areas over 1,000 sq m number just 300 in Paris [10].

One of the features of the 2014 retail market stands out even more clearly in this context, since one of the year's defining themes was large retail units. Nine transactions for more than 1,000 sq m were recorded during the course of the year, almost 3% of the total number of premises that exist in this segment. There were only four similar transactions in 2013.

In 2014, an unprecedented number of stores larger than 1,000 sq m changed hands. This segment is seeing a real revival.

Two of these transactions were for as much as 10,000 sq m or near enough. Leroy Merlin took over the former Surcouf store on Avenue Daumesnil in the 12th arrondissement. The most emblematic transaction which received the most media coverage though was of course the arrival of Galeries Lafayette in the 9,300 sq m site previously occupied by the Virgin megastore on the Champs-Élysées.

So is this a flash in the pan or a more sustainable revival?

Demand certainly exists among retailers. Take-up has been limited by the lack of supply, however, forcing it to remain a small segment in terms of the market as a whole. It is a safe bet that 2015 will continue along the same lines as 2014, but with one difference – retailers will be offered brand-new, specially created spaces.

These include the retail premises available in the former Macdonald warehouse, currently being restructured, which will soon form the hub of a new Parisian district being established in the 19th arrondissement. Décathlon is apparently examining the feasibility of taking on 5,000 sq m.

Nearby, the 24,000 sq m of Vill'Up will be opening in a few weeks in the heart of the Cité des Sciences et de l'Industrie. The majority of this new retail and events cluster has already been filled. However, a 3,000 sq m unit initially set aside for a major cultural brand is still currently available to let.

Central Paris will also boast opportunities, particularly with the extension and renovation of the Forum des Halles.

Yes, 2015 is certainly set to confirm the revival of large retail leases.

This revival bodes well for the confidence exhibited by major retailers in the potential and future of retail real estate in Paris.

[9] According to figures from APUR, "L'évolution des Commerces à Paris – Inventaire des Commerces 2011 et Évolutions 2007-2011"

[10] APUR, op.cit.

Future retail with a human connection: Cloud Atlas

Watch out, a wolf is coming to Paris! Not a real wolf fortunately. This one features on the logo of "La Louve" (The She-Wolf), a new store based on a successful co-op concept imported from Brooklyn, New York.

This new approach to food retail will open next autumn in the 18th arrondissement. But not in Montmartre or Les Abbesses, but at La Goutte d'Or. Tom Boothe and Brian Horihan, two American gastronomes who have lived in Paris for 10 years, have chosen the still working-class neighbourhood in the 18th, to create their cooperative, collaborative supermarket with a focus on quality and passion. A pair of do-gooding dreamers in search of utopia, I hear you say? Not necessarily. They carried out a successful crowdfunding campaign launched on KissKissBankBank based on the model of the Park Slope Food Coop, the largest cooperative supermarket in the United States, which has 16,000 members and a 1,000 sq m sales space in Brooklyn.

The principle of La Louve is based on reducing staffing costs by 75%. The small band of employees is assisted in running the store by the cooperative's member-customers, who invest three hours of their time every four weeks. They each take turns on the tills, restocking, administration and cleaning.
The savings achieved keep the margins low, resulting in very low prices for high-quality products. Organic, local, fair trade, seasonal and diverse – in short, high quality on the shelves, with the right price paid to producers. La Louve, run by and for the local community, promises to be the very definition of socially responsible.

Just what is needed to turn a chore (food shopping) into a source of pleasure and pride. Time for yourself and a moment of fulfilment based on a new take on consumerism. A shopping experience which is not relegated to the internet! An approach similar in some ways to a family meal, in which everyone helps to lay the table and serve.

La Louve is obviously very hip and a little bourgeois bohemian, which may upset some. And it can certainly not be endlessly replicated. This she-wolf, unlike her forebear who suckled Romulus and Remus, may not be responsible for the founding of a new Rome. Nevertheless, it is equally clear that it highlights some of the issues facing retailers and no doubt many of the options available to address them.

> The challenge of local retail and the prerequisite for its renewal lie in redrawing the map of connections, links and feelings.

The La Louve concept is a template for the connected store. Not simply connected to technologies, to tools or to the web, but connected to its customers. So much so that it makes them members.

Physical points of sale have suffered from the emergence and growth of e-commerce. Many major retailers have adapted by combining both models, transforming outlets into shop fronts to generate online turnover. However, this "showroomisation" is not viable everywhere or for everyone. For those who are excluded, the challenge is to redraw the map of connections, links and feelings, to escape from the inevitable competition of the computer and the smartphone, which give consumers the keys to the world of retail, wherever they want, whenever they want and however they want.

It is not enough to expand technology systems, data and customer tracking. They are tools, avenues to explore. But we should not lose sight of the fact that systems can only do what we design them to do. They can make it possible for example, to free up time for sales staff so that they can be redeployed to greet customers, smile, be considerate and listen. This is one of the basic rules of retail which is often overlooked. They can make it possible to understand customers in order to assist them or introduce them to new experiences. More generally, they also need a meaning, an intention. An intention involving the creation of a non-merchant space, a fundamental prerequisite for maintaining the bond between retailer and customer. Juan-Manuel Torralbo, founder of the agency "Le Bon Mix!", hinted at this when he said recently, on the subject of shopping centres in difficulty: "Premises need to be loyal to their region, not the other way around. A strategy must be found to win back society by also addressing the individual's non-retail aspirations." Shops will also need to address this challenge currently being faced by shopping centres. They are being asked to be connected and inclusive, with partner-customers rather than just consumers. Their success will no doubt involve a revival in local retail. In La Goutte d'Or and elsewhere.

What was the inspiration for the name "La Louve"? According to Tom Boothe and Brian Horihan, the name evokes a protective, independent and maternal instinct. Well, well, if that isn't an intention and a link…

[11] LSA, 13 novembre 2014

QUESTIONS TO
MARC-ANTOINE JAMET

Marc-Antoine Jamet, General Secretary and Real Estate Director of the LVMH Group

Knight Frank: How is the luxury segment performing in light of continued global economic uncertainty?

Marc-Antoine Jamet: The market for luxury goods cannot be completely detached from the market for other goods and services. Like the latter, it prefers growth to stagnation, peace to conflict and confidence to apprehension. However, in addition to being determined psychologically by mechanisms that are more intimate and original than those governing the purchase of "ordinary" objects - for example, associated emotions, the desire for eternity and the quest for excellence and perfection - the luxury sector follows its own economic cycles. These are distinct and disparate as its resilience is due to more than its associations with travel, pleasure, self-esteem, good times and the high life. A sector which generates jobs, industrial growth and a trade surplus, not to mention massive tax revenue for governments, cannot simply be based on the latest craze or hot-topic.

LVMH, for example, benefits from powerful stabilising elements, particularly during difficult times, and these are soon transformed into catalysts for growth. Firstly, it draws on its exceptional range of 70 brands, each benefiting from its own universe, connotations, power and vitality, enabling them to retain the loyalty of their existing devotees while attracting new followers. Through the power of selective - even exclusive - distribution, they forge an incomparable bond with this band of followers. These qualities of flexibility, adaptability and responsiveness are not always demonstrated by other less prestigious or large-scale sectors. That is the main distinguishing feature of the sector and particularly of my company. It is also able to draw on an even balance between several business lines, the largest being fashion and leather goods, fragrances and cosmetics, wines and spirits, watches and jewellery, as well as the fitting-out of yachts, publishing and luxury hotels. Each of these sectors acts as a driving force and a ballast. In a polycentric ecosystem of changing fads and trends, they create, either in turn or together, vehicles for innovation, creativity, clients and wealth. We could also mention the benefits of the long history confidently claimed by Dom Pérignon, Louis Vuitton, Guerlain and so many others, providing a focus on the long term. Finally, LVMH Group's truly global presence shelters its constituent companies from regional crises and geopolitical accidents, enabling them to draw on the US recovery, or exceptional Chinese growth, the purchasing power of Russian or Brazilian customers, the strength of Korea or the loyalty of Japan, the Emirati miracle or the Indian diaspora.

KF: What role do Parisian high streets play in global competition, and does the French capital have a special place in LVMH's strategy?

M-A. J.: The geography of luxury is a global geography. Montaigne is on par with Madison or Omotesando. Saint-Honoré with Bond Street. Saint Germain-des-Prés with the Piazza di Spagna or the Miami Design District. Vendôme with Rodeo Drive or the Via Napoleone. The Champs-Élysées with 5th Avenue or Ginza. Competition is global and features three elements which must be taken into account when assessing the role played by Paris. The first is its cultural and historic dimension. Luxury needs roots, a founding myth and a personalisation. It needs a creator, a birth and a location. That is the basis of its legitimacy and its credibility. The murmur of "Christian Dior/1947/Avenue Montaigne" says it all. Brands have a territory and that is the planet. They have a locality, like the best wines, and that is often the capital. Paris where Chaumet set up shop in 1780. Paris where Guerlain was appointed perfumer to the Empress in 1853. Paris where Vuitton filed the patent for the monogram in 1895. The capital is a showcase for a host of famous names from Givenchy, to Moynat, Céline or Fred, as Florence is for Pucci or Rome for Fendi. Luxury and Paris are therefore inseparable. But I would add that this link is often much more down to earth. The reputation of a city and the notoriety of a brand are intertwined. The former provides the setting and the inspiration for the latter. The latter nourishes and adds lustre to the former. Tourists and customers are aware of this. They would rather buy Spanish leather in Madrid, English cologne in London and Italian clothing in Milan. Between a capital and the brands which serve as its ambassadors, it is therefore important that partnerships are forged which sometimes have long-term but essential ramifications: welcome, security, cleanliness, public service and accessibility. Finally, my third point is that an economic and social context exists which it would be foolhardy to ignore. Everyone needs a level playing field and the issue of working in the evening, in return for suitable pay, and on Sundays in certain areas, subject to consultation, is a question which most major cities in the world, including Europe, have settled. Some visitors only stay in the country for 24 hours. Others, through preference or habit, favour particular times to practice the art of shopping. Setting aside the effect for any particular company, you can't imagine the disastrous impact that closed doors, drawn curtains and a dark interior has on these visitors.

> **“ The aim in corporate or commercial real estate is not to expand, but to target, involving a careful selection.**

KF: Following on from Avenue Montaigne, Avenue des Champs-Élysées and Rue du Faubourg Saint-Honoré, LVMH has been particularly active in recent years in Place Vendôme, Rue Saint-Honoré and Rue de Sèvres, before tackling new districts such as the Marais. Does this mean that the conquest of Paris is still not over? How do the various brands in a group such as LVMH approach or divide up the Parisian streets?

M-A. J.: Divisions are defined thematically and occur almost naturally. Avenue Montaigne is the world of Haute Couture. Jewellery and watches find a natural home on Rue de la Paix or Place Vendôme. Different catchment areas may play a role. On the Champs-Élysées, international customers and tourists come from emerging countries to stroll along the "most beautiful avenue in the world". On Avenue Montaigne, the proximity to palaces and grand hotels sets the tone. In Saint-Germain, customers come to seek out the last vestiges of existentialism, jazz and cellar bars. Saint-Honoré attracts Americans, Europeans and Japanese more familiar with Paris. Conquest is therefore not the right word. The aim in corporate or commercial real estate is not to expand, but to target, involving a careful selection. The issue of the moment is once again how to define international tourist areas, enabling selected shops to open on Sundays... Will the administrative map fail to reflect commercial reality? It would be a pity and in nobody's interest.

KF: LVMH is not the only group looking at Parisian high streets. Fierce competition is driving up prices and rents. Do you find this trend worrying? Does it threaten the profitability of these investments and the appeal of these famous addresses?

M-A. J.: They are not threatened - and thank goodness, given the prices. Avenue Montaigne will still exist in 100 years' time, as will Place Vendôme and Rue Saint-Honoré. If brands are competing with one another, to use your analysis, it is no big deal and this competition is here to stay. Leases are long term, and purchases of business premises are not unusual. These transactions are more than speculation - they are reasonable, lucid and carefully considered investments.

KNIGHT FRANK

Knight Frank is an international consultant in real-estate decisions.

In France, the company operates in the corporate real-estate market, mainly comprising offices, retail premises and industrial or logistics buildings.

Knight Frank France serves two separate groups of clients: owner investors and tenant companies.

Knight Frank France was founded over 40 years ago and is organised into six business lines: Offices, Retail, Capital Markets, Property Management, Knight Frank Valuation and L'Atelier Knight Frank (a spatial design consultancy).

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Knight Frank France is the French branch of Knight Frank LLP, a British company founded nearly 120 years ago and now operating in 52 countries. It offers its clients the skills of its 12,500 professionals, working from 335 offices worldwide.

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Drawing on the constant support of its clients and its recognised integrity, Knight Frank is increasingly establishing itself as the consultant of choice.

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Images

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Sources used in this report: ORIE, INSEE.