RESEARCH

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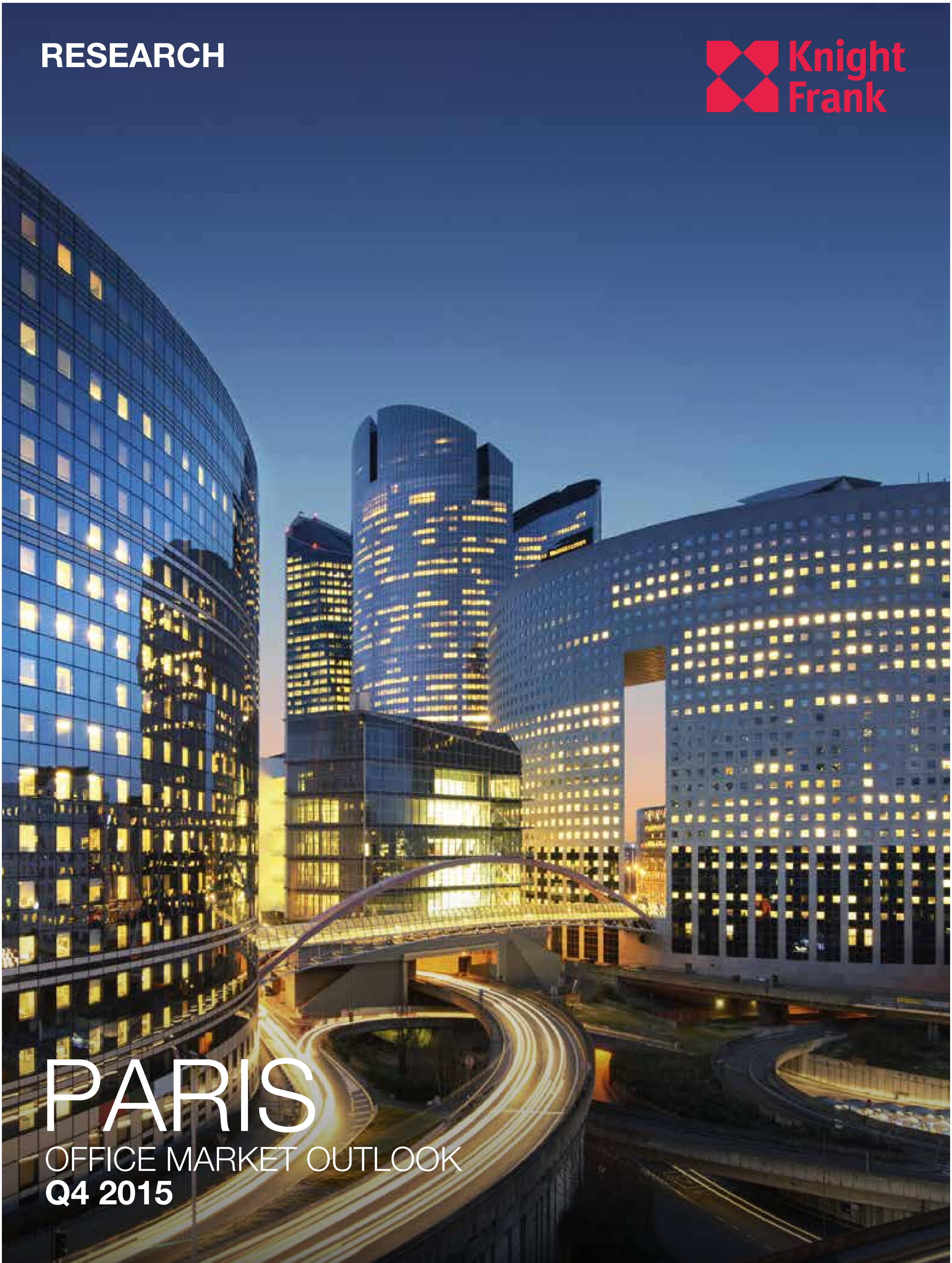


# PARIS

## OFFICE MARKET OUTLOOK

**Q4 2015**

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

# KEY FINDINGS

Office take-up in 2015 is on course to match totals achieved last year

Though development activity is high, new stock is being absorbed almost instantaneously, keeping city-wide vacancy rates relatively stable

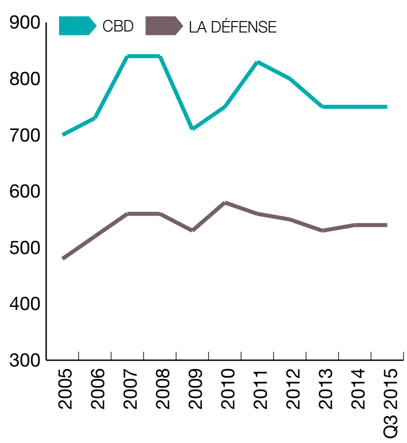
Prime rents in the CBD remain at €750 per sq m per annum, as they have done so since late-2013

Office investment volumes in Île-de-France totalled €10.8 billion so far in 2015, falling by 4% year-on-year

FIGURE 1

**Prime office rents**

€ per sq m per annum




**Source:** Knight Frank Research

# OCCUPIER MARKET

## Following a relatively weak performance in H1 2015, office leasing in Île-de-France recovered in Q3, with annual take-up forecast to again exceed 2 million sq m.

GDP is expected to grow by 1.1% in 2015 and a further 1.5% in 2016, following three years of very subdued growth. On the back of this, occupier sentiment was cautiously optimistic, with office take-up in Île-de-France totalling 1,521,800 sq m during the first nine months of 2015, just falling short of totals achieved in the same period last year. Activity in the larger size bracket (over 5,000 sq m) underperformed in H1 before recovering in Q3, keeping occupancy levels healthy.

The Western Crescent, followed by the CBD and La Défense, remain the most popular areas, with multiple large-scale deals concluded so far in 2015, including Accor Hôtels' leasing of 43,000 sq m in Tour Sequana, and Novartis pre-leasing 42,100 sq m in the Silverwood building. However, the largest deal in Q1-Q3 2015, the 46,000 sq m pre-leasing by Pôle Interministériel, took place just south of the CBD.

Development activity increased in 2015, with approximately 1.1 million sq m delivered during the first nine months of the year and this is expected to reach 1.3 million sq m by the year-end. However, with the majority of new space entering the market already pre-leased, the shortage of high-quality stock remains an issue – Grade A buildings now account for just 18% of available stock in Île-de-France. The city-wide vacancy rate remained stable at 7.3%, however there were clear disparities between the submarkets – a rate of 11.5% was seen in La Défense in Q3 while the CBD remained severely undersupplied with a vacancy rate of 4.9%.

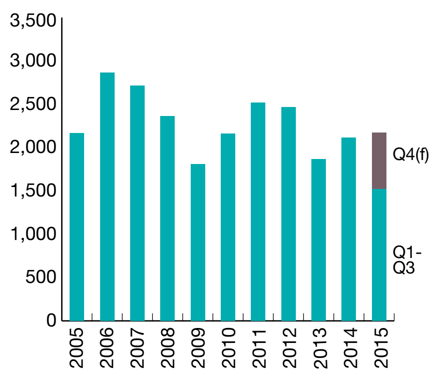
Looking ahead, limited development will continue to restrict occupier activity – approximately 26% of new deliveries due from now until the end of 2018 are already pre-leased, with much of the remainder likely to be absorbed before completion.

Supported by low availability levels, prime CBD rents maintained stability at €750 per sq m per annum as they have been since mid-2013. Rents in La Défense have experienced mild fluctuation in the last three years, and are now in the region of €540 per sq m per annum.

FIGURE 2

**Île-de-France office take-up**

sq m (000s)



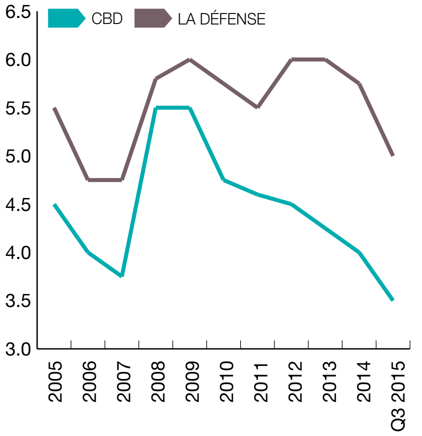

**Source:** Knight Frank Research

**Key office leasing transactions in 2015**

| Quarter | Address | Tenant | Size (sq m) |
|---|---|---|---|
| Q2 | 20 avenue de Ségur, Paris 7th | Pôle Interministériel | 46,000 |
| Q2 | Tour Sequana, Issy-le-Moulineaux | Accor Hôtels | 43,000 |
| Q3 | Silverwood, Rueil-Malmaison | Novartis | 42,100 |
| Q2 | 46 quai Alphonse Le Gallo, Boulogne-Billancourt | OCDE | 35,000 |
| Q3 | PariSquare, Paris 11th | Publicis | 21,400 |

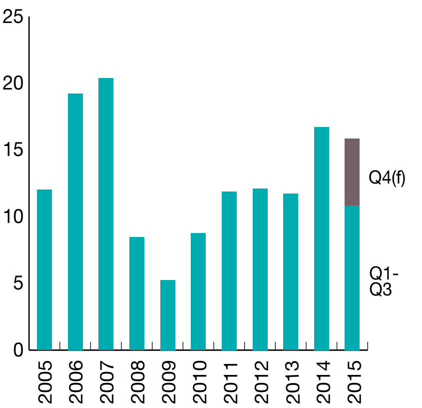
**Source:** Knight Frank Research

FIGURE 3
**Prime office yields**
%




**Source:** Knight Frank Research

FIGURE 4
**Île-de-France office investment volumes**
€ billion




**Source:** Knight Frank Research

# INVESTMENT MARKET

Similar to the occupier market, office investment in Île-de-France recovered in Q3 2015, after a weaker first half of the year. Year-to-date volumes totalled approximately €10.8 billion, down 4% year-on-year primarily because of a reduction in the number of deals in excess of €250 million, which inflated volumes last year. Despite this, transactions between €50 and €200 million more than doubled this year.

Ivanhoé Cambridge's disposal of a portfolio of three office buildings in Q3 provided a much needed boost to this year's volumes. French REIT Gecina acquired these assets for a total of €1.24 billion in what has been the largest office portfolio deal in Île-de-France so far this year, with one of the assets, the PSA HQ, located in Paris' CBD. However, the largest single-asset deal during the first nine months of 2015 has been the purchase of the Ecowest building in Q1 by Adia for €477 million.

Looking specifically at the submarkets, investment in the CBD was down by 37% year-on-year. However, this fall is not a sign of a lack of investor confidence, but an absence of available assets in this region. Outside the CBD, the Western Crescent outperformed, accounting for 24% of Q1-Q3 investments, almost two thirds higher than that of the previous year.

Increased investor demand and the lack of office buildings for sale caused prime CBD office yields to fall to 3.5% in Q3 2015 – a historic low for Paris that was last seen in 2007. Yields in La Défense followed a similiar downward trend, falling to 5.0% in the same period.

## Key office investment transactions in 2015

| Quarter | Property | Seller | Buyer | Approximate price (€ million) |
|---|---|---|---|---|
| Q3 | Tour T1/Immeuble B/PSA HQ | Ivanhoé Cambridge | Gecina | 1,240 |
| Q1 | Ecowest | BNP Paribas | Adia | 477 |
| Q3 | Portefeuille Aqua | Union Investment | Amundi | 250 |
| Q3 | 6 place d'Alleray | JP Morgan Investment | CNP Assurances | 224 |
| Q1 | 23/25 rue Marignan | Invesco | CNP Assurances | 215 |
| Q2 | Tours Pascal | Morgan Stanley | Goldman Sachs / Altafund | 190 |

**Source:** Knight Frank Research


PariSquare, where Publicis leased 21,400 sq m.
Crédit photo TLS-1313

# KNIGHT FRANK VIEW

Although some office submarkets in Île-de-France under-performed, inner Paris showed great improvement so far this year, accounting for 46% of total leasing activity. This positive momentum is expected to continue in Q4, and throughout 2016, with full-year 2015 take-up again forecast to exceed 2 million sq m. Reduced levels of office development are limiting occupier activity, and with much of the new space expected to be pre-leased before completion, vacancy rates are likely to be pushed down further across all submarkets. Prime rents however, are forecast to remain stable during the next six months.

Investment demand will remain strong, although some investors may be deterred by the continued pressure on pricing. Combined with a lack of available investment product, this may result in a slight moderation of investment activity over the coming quarters. Prime yields are expected to remain stable until the end of the year, but could harden by at least 25 bps in the CBD by mid-2016 as competition for prime assets remains strong.

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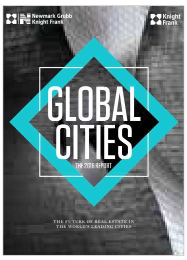


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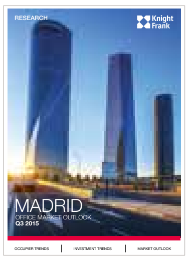


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