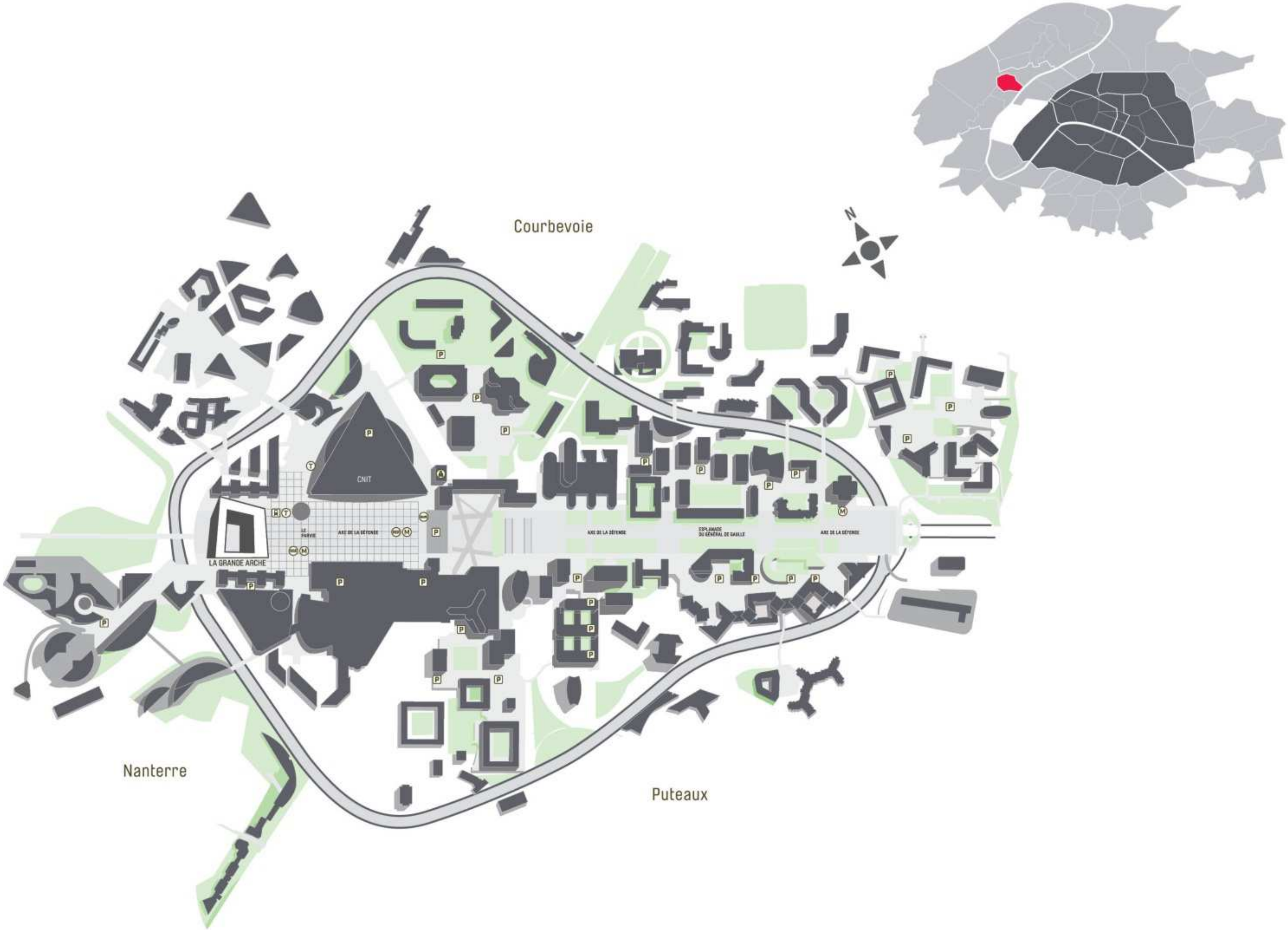
THE LETTING MARKET

LA DÉFENSE

YEAR 2016

Map

Source: Knight Frank



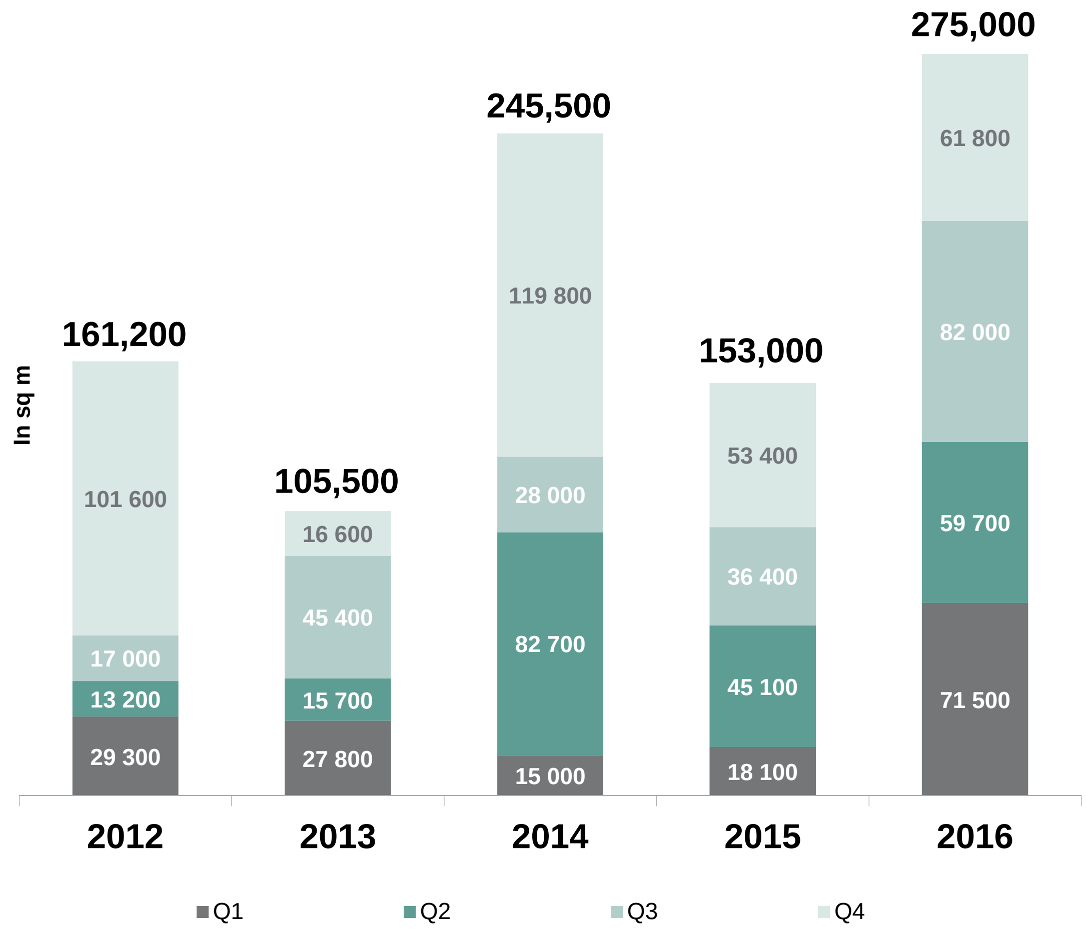
THE LETTING MARKET – YEAR 2016
LA DÉFENSE

Take-up

275,000 sq m

Source: Knight Frank

- +80%: transactional activity in La Défense rose sharply, exceeding the increase recorded at regional level (+13%), achieving its best result in 10 years
- La Défense is a structurally volatile market since it is highly dependent on a few large transactions: in 2016, the two largest transactions accounted for almost a third of activity. In all, the 11 new leases for more than 5,000 sq m recorded in 2016 account for 60% of take-up
- The segment of surface areas under 1,000 sq m, which increased significantly at the start of the year, returned to a more usual level and now accounts for just 8% of activity in 2016
- The acceleration in transactional activity recorded since 2014 has largely been due to the discounts granted on headline rents, with attractive pricing remaining a decisive factor in a market driven by cost-reduction objectives, particularly among large users



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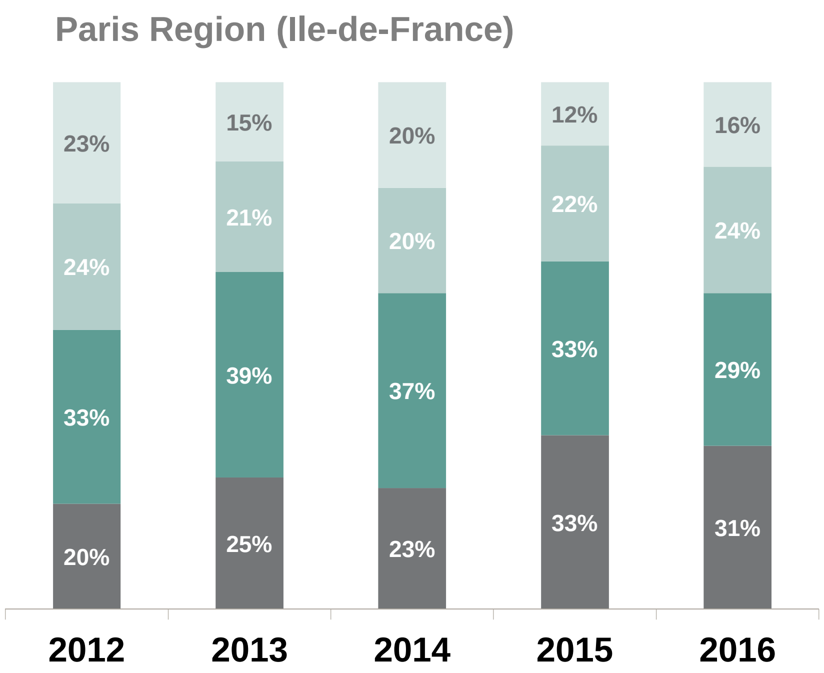
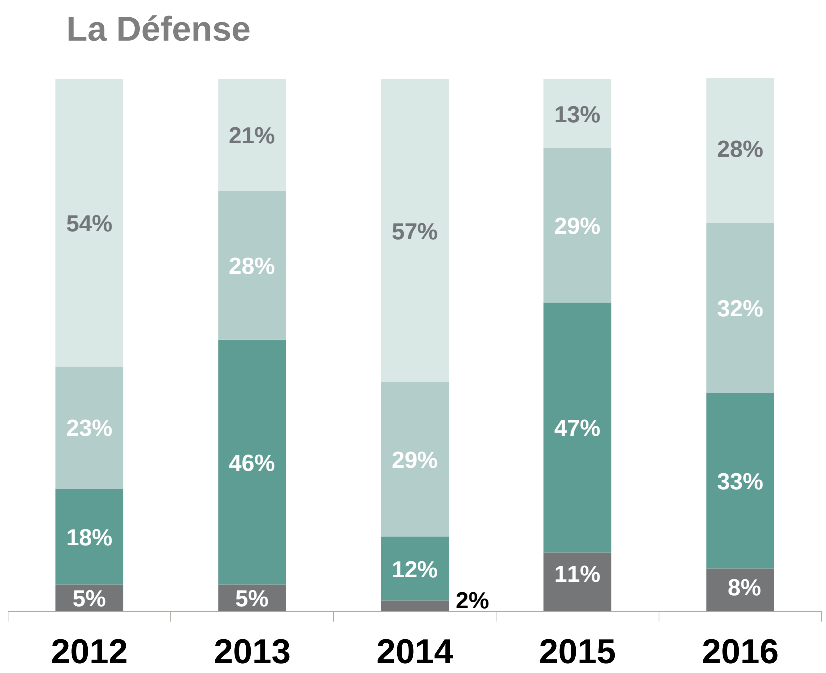
Size of transactions
Source: Knight Frank





- Very large areas (> 20,000 sq m)
- Large areas (from 5,000 to 20,000 sq m)
- Medium areas (from 1,000 to 5,000 sq m)
- Small areas (< 1,000 sq m)

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Transactions > 5,000 sq m

Source: Knight Frank

Tenant	Address	Signature date	Surface area	Rent	Condition of premises
RTE	Window	Sept. 2016	44,000 sq m	€500	New
Deloitte & Associés	Majunga tower	January 2016	31,000 sq m	€550	New
Crédit Mutuel ARKEA	D2	Sept. 2016	17,800 sq m	€480	New
Bureau Véritas	Le Triangle de l'Arche	April 2016	12,000 sq m	€400	Renovated
IMS Health France	D2 tower	March 2016	11,400 sq m	€460	New
Nexans	Le Vinci	May 2016	10,000 sq m	€390	Used
INVIVO	Carpe Diem tower	February 2016	8,000 sq m	€460	New
Pricewaterhouse	PB5 tower	July 2016	7,900 sq m	€390	Renovated
Axway Software	W tower	April 2016	7,200 sq m	€390	Used
Expanscience	First tower	Dec. 2016	5,900 sq m	€480	New
GIE Logement Français	Between	March 2016	5,600 sq m	€372	New

N.B. the transaction relating to the new Saint-Gobain headquarters (49,000 sq m) was posted by Knight Frank in 2015

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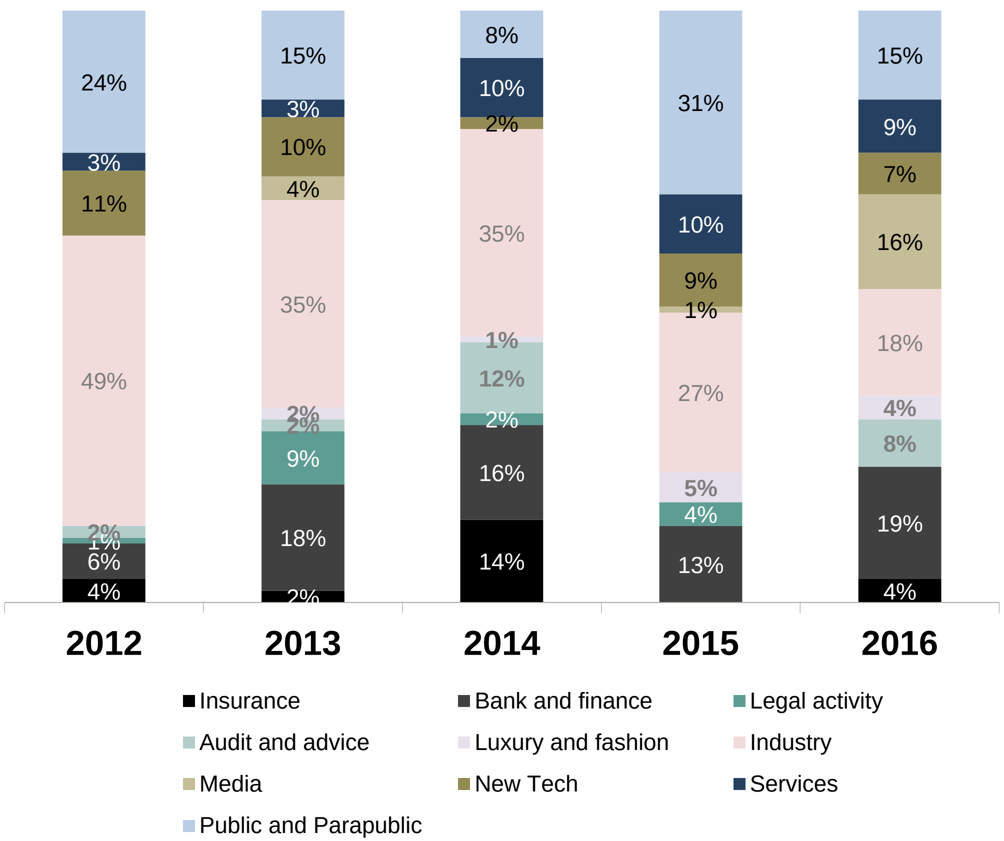
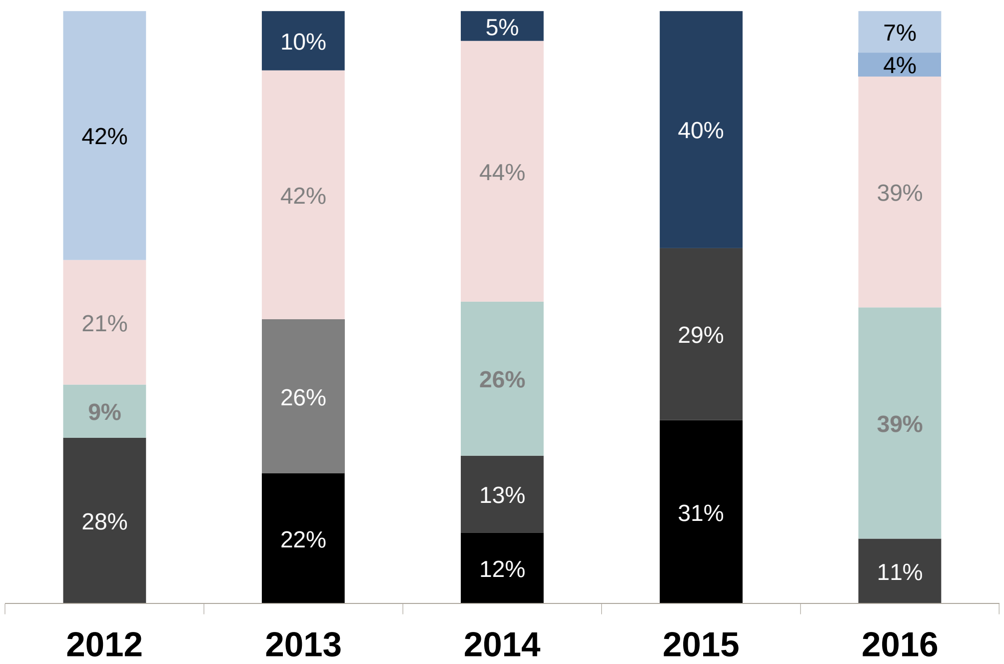
Large occupiers > 5,000 sq m
Source: Knight Frank

Paris Region (Ile-de-France)



La Défense

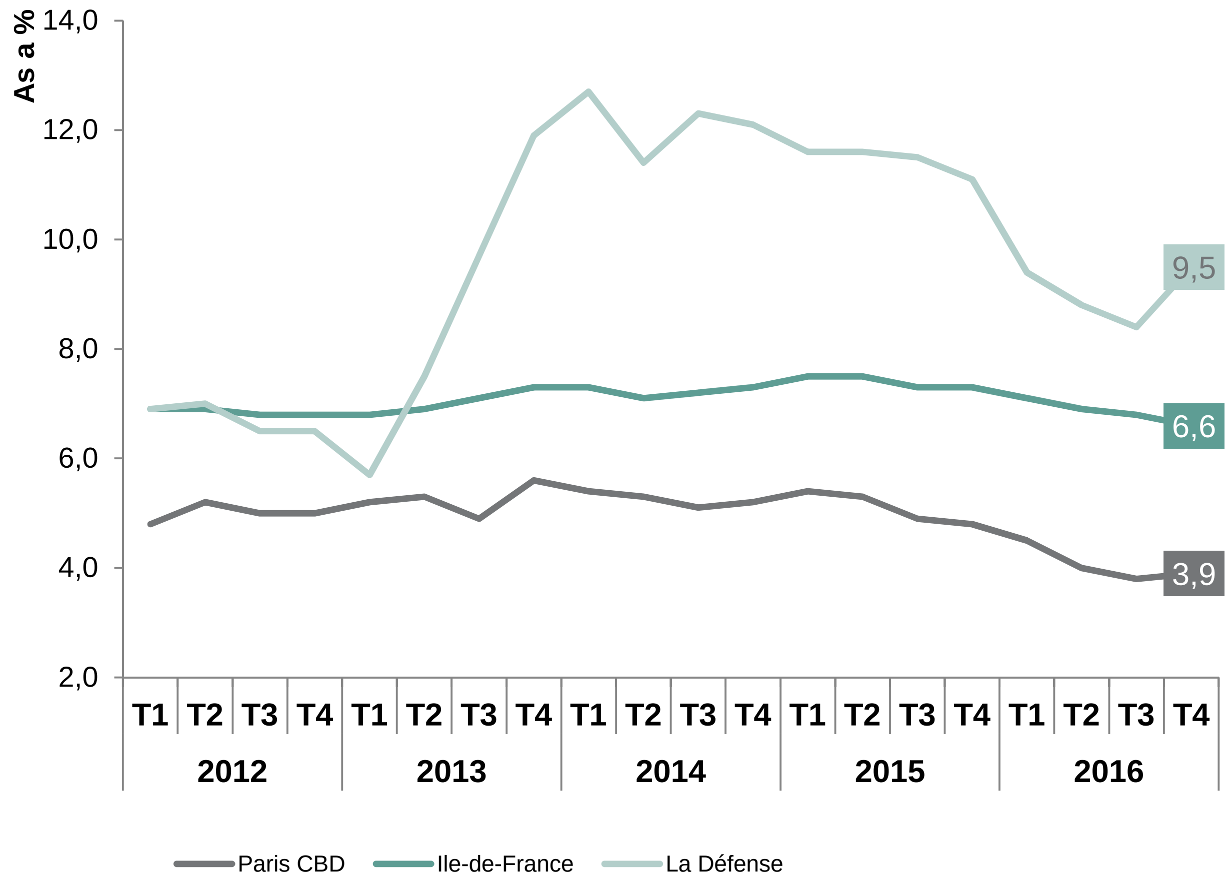


Available supply

9.5%

Sources: Knight Frank, ORIE

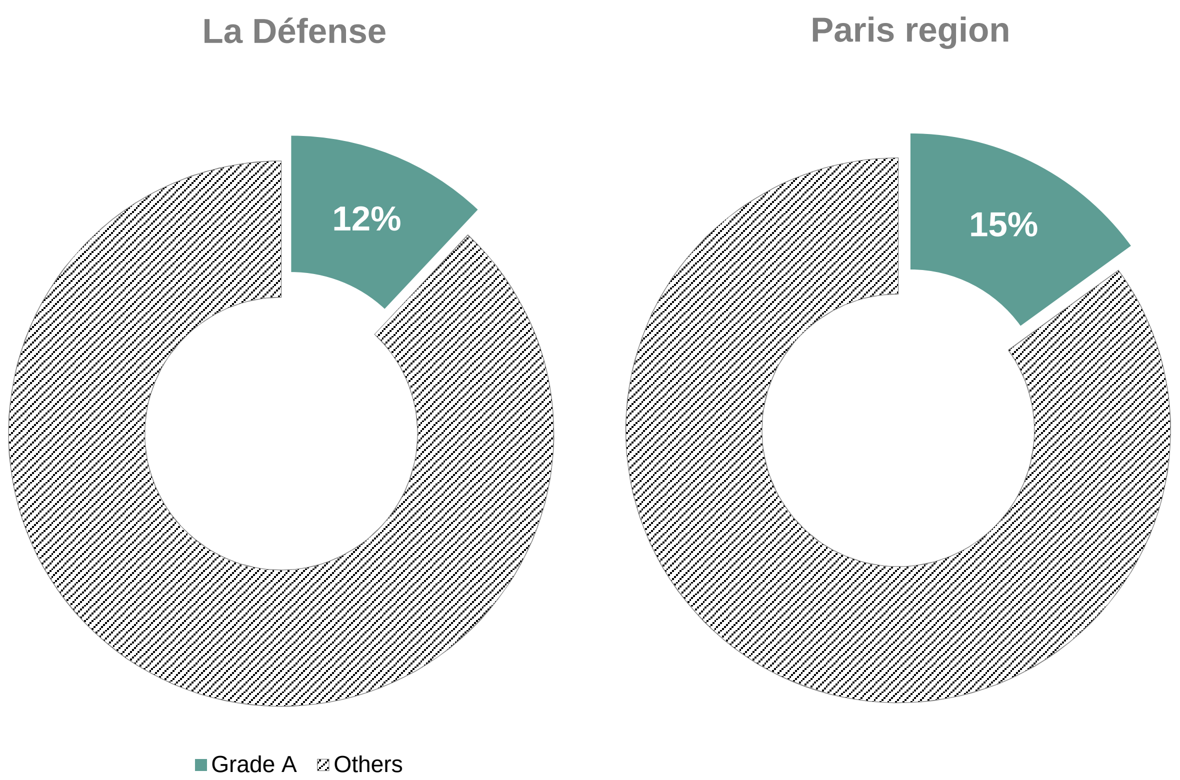
- 9.5%: despite a sharp increase in Q4 following tenant departures, the vacancy rate has clearly been falling in La Défense since mid-2013. It nevertheless remains higher than the regional average (6.6%)
- This decline is explained by a pincer effect between an upswing in transactional activity and a fall in construction activity
- This gradual absorption of available surface areas could accelerate in the coming months due to a lack of deliveries of available surface areas
- A high level of supply is not necessarily a sign of unbalance in a market dedicated to large users: an excessive fall in available supply may become a factor that hampers transactional activity
- The drop in available supply is likely to lead to a change in the financial conditions for the marketing of buildings, tilting the balance of power back in favour of owners



THE LETTING MARKET – YEAR 2016
LA DÉFENSE

Grade A Supply
12%
Source: Knight Frank

- Grade A supply, which had long been abundant in La Défense (new and restructured surface areas), has decreased significantly in recent months, falling in a year from 34% to 12% (below the regional average)
- This is an advantage that is disappearing for La Défense: amid a regional lack of quality supply, the abundant supply of Grade A had become an opportunity for La Défense. These areas, which enable real gains in terms of efficiency and charges, are preferred by users (72% of areas taken up in large transactions in 2016 in the Paris region corresponded to Grade A and 76% in 2015)
- The long lethargy on the La Défense market and then its sudden reawakening show that the question of price positioning for Grade A supply is just as crucial for users: very large users, particularly those who need a large back office, only returned once owners reduced marketing values (headline rents and/or incentives)



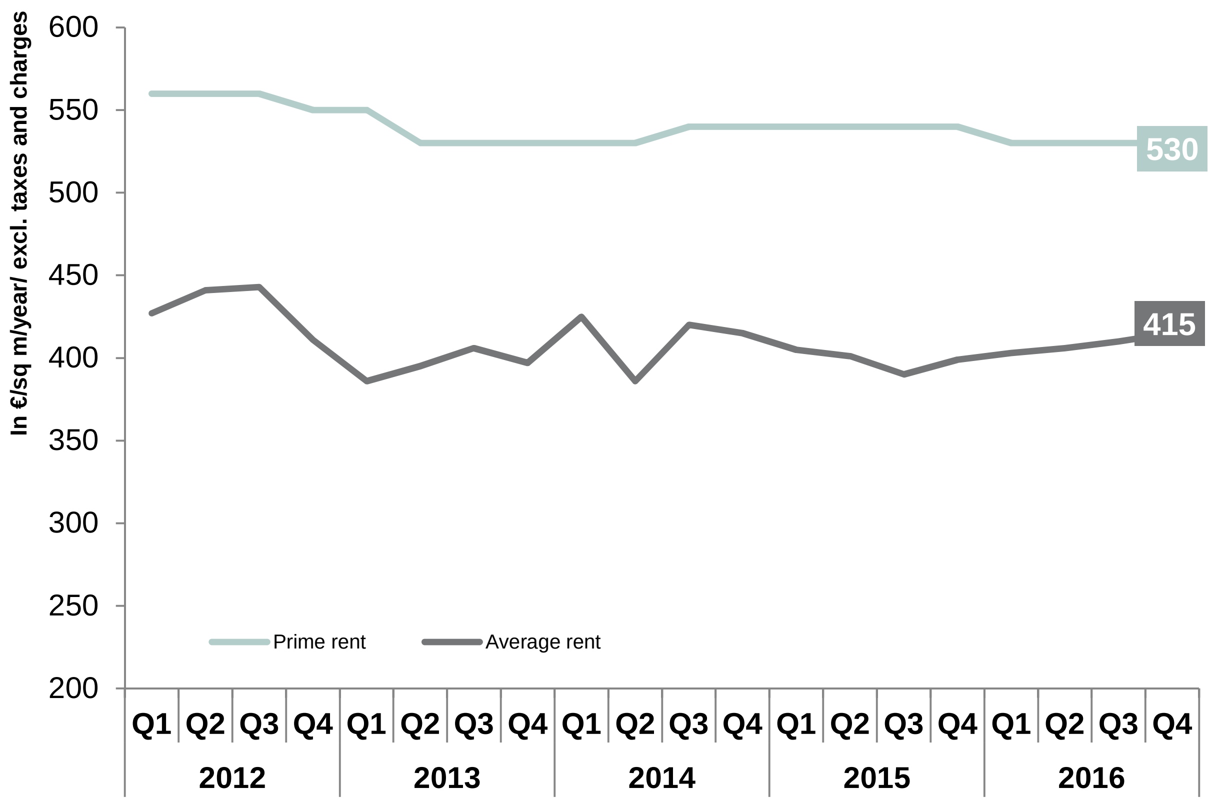
Rents

€530 sq m/year excl. taxes and charges

Prime rent

Source: Knight Frank

- Deloitte's new lease in the Majunga tower was signed on the basis of a headline rent of €550. Such a value nevertheless remains too exceptional to be considered representative for high-end rent in La Défense, which remains closer to €530
- The concept of high-end rent only relates to a very small minority of buildings: most transactions are carried out for values close to or lower than €500, including for Grade A premises
- A drastic revision of prices began in 2014 for most buildings with available space, although this revision was concealed by a preference for offering incentives while maintaining high headline rents in a small number of buildings
- It is likely that rents bottomed out in late 2015/early 2016: the outlook is now towards a gradual reduction in incentives (which are still often around 25% of the headline rent)
- However, this phenomenon will probably remain modest and gradual, at least initially: the users' determination to make cost savings and streamline remains a key criterion in their real-estate choices



Future completions

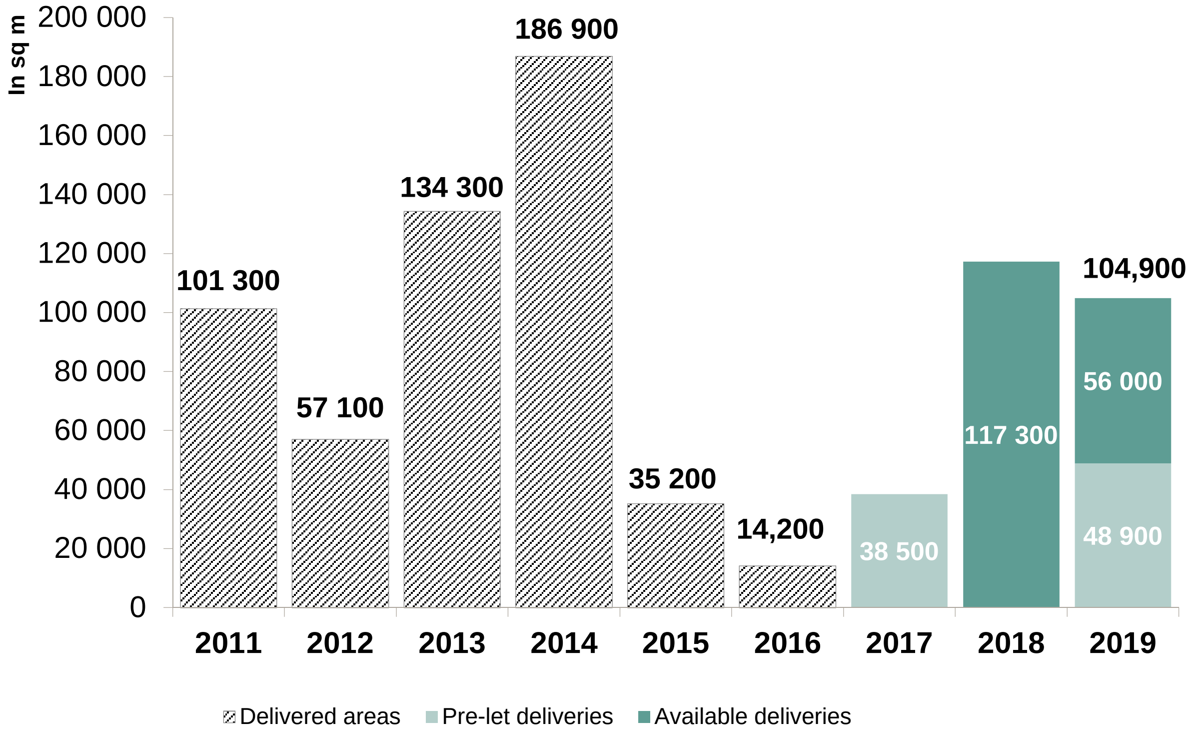
33%

Pre-let rate by the end of 2019

Source: Knight Frank

- 2015, 2016 and 2017 will be remembered as "dead" years in terms of construction, with extremely low delivery volumes
- Window is the only speculative programme due for delivery in 2017 and its 44,000 sq m were recently leased by RTE
- Over the coming months, supply (particularly Grade A) is therefore likely to become even scarcer in La Défense: it now stands at barely 12% of available supply
- This absorption phase and gradual rebalancing of the market was required after the raft of deliveries as part of the La Défense renewal plan, but it cannot continue without the risk of unbalancing the market in the other direction
- As a consequence of the scarcity of Grade A properties, pre-lettings, which did not feature in La Défense before 2014, now account for 33% of volumes expected for delivery before the end of 2019
- In the longer term, the managing body of La Défense has expressed a strong desire to regulate and stagger delivery volumes, to avoid phenomena of peaks and troughs in deliveries

New and redeveloped surface areas in La Défense:



Summary

Sources: Knight Frank, ORIE

	2016	2015	Annual change	Paris Region 2016	La Défense share in the Paris Region
Total	**3,551,000 sq m**	3,537,000 sq m	+0.4%	54,467,000 sq m	6.5%
Take-up	**275,000 sq m**	153,000 sq m	+80%	2,450,800 sq m	11%
Available supply	**336,000 sq m**	394,000 sq m	-15%	3,614,000 sq m	9%
Vacancy rate	**9.5%**	11.1%	-160bp	6.6%	-
Average rent	**€415/sq m/year**	€399/sq m/year	+5%	€324/sq m/year	-
High-end rent	**€530/sq m/year**	€540/sq m/year	-2%	€770/sq m/year	-