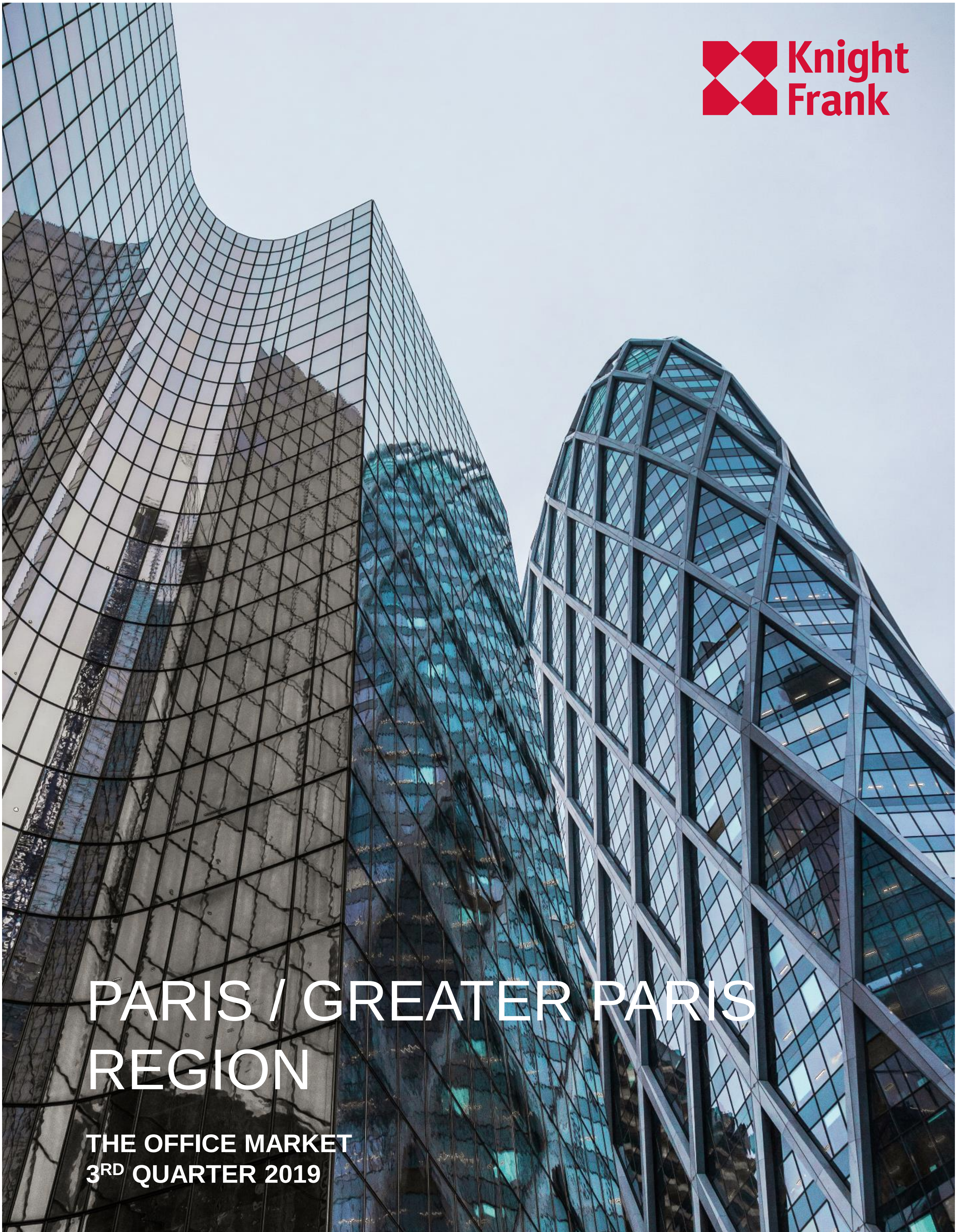


Knight Frank

PARIS / GREATER PARIS REGION

THE OFFICE MARKET
3RD QUARTER 2019

LETTINGS MARKET | INVESTMENT MARKET | OUTLOOK

HIGHLIGHTS

558,000 sq m of offices were let in the Greater Paris Region during the 3rd quarter 2019. The total volume of lettings since January stands at 1.68 million sq m (-12% year-on-year).

Despite a slowdown in the number of lettings in the 3rd quarter, coworking players remain the most active large occupiers, behind those in the manufacturing-distribution industry.

The Inner Suburbs is the most active market. Take-up volume there increased 30% year-on-year due to the completion of ten large transactions.

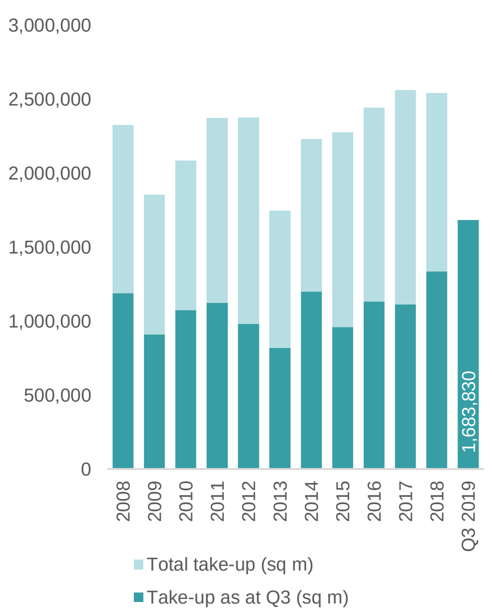
Immediate supply decreased 4% year-on-year and totals 2.78 million sq m, equating to a vacancy rate of 5.1%.

Office investment volumes total 13.8 billion euros in the Greater Paris Region (+35% year-on-year).

36 transactions > 100 million euros account for 74% of office investment volume in the Greater Paris Region since January.

Take-up in the Greater Paris Region

In sq m



Source: Knight Frank

THE LETTINGS MARKET

ECONOMY: NOT TOO BAD

The international context continued to deteriorate in the 3rd quarter of 2019. Protectionist tensions have risen a notch further, while the situation in the Middle East is increasingly uncertain. Finally, British and European leaders have still not reached an agreement to ensure an orderly exit for the United Kingdom from the European Union. These increased risks weigh on growth prospects. In its latest forecasts, the OECD indicated that the world economy could record its worst performance in 2019 and 2020 since the 2008 crisis.

While challenges remain for some of its largest trading partners, such as Germany, France continues to show resilience. Economic activity is expected to remain stable in the 2nd half of 2019, with GDP growth estimated at 0.3% in the 3rd and 4th quarters. Growth could reach an annual average of 1.3% over 2019 as a whole and maintain the same pace in 2020. While business investment and job creation are expected to decline, the overall trend remains positive, owing in particular to the dynamism of the services sector and the expected pick-up in domestic demand. The context remains favourable for growth in household spending, with inflation still low, purchasing power boosted by the various support measures adopted by the government and the modest, but steady, improvement in the labour market. In France, the unemployment rate is expected to fall by 0.1 percentage points per quarter to reach 8.3% at the end of 2019. In the Greater Paris Region, this rate was 7.4% at the end of the 2nd quarter, compared with 8% a year earlier.

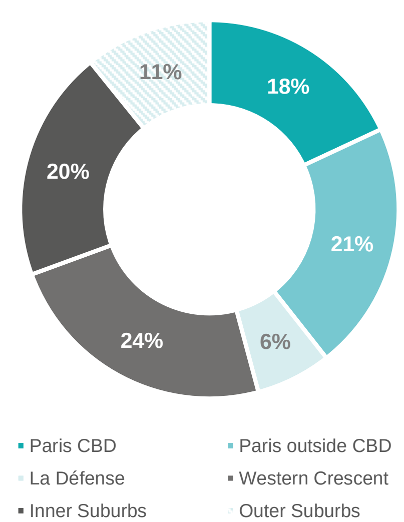
AN AVERAGE YEAR

With office take-up of 558,000 sq m during 3rd quarter 2019, lettings activity decreased slightly compared to the previous quarter (- 5%). This volume takes total office lettings over the first 9 months of 2019 to 1.68 million sq m, a decrease of 12% compared to the same period last year.

The slowdown in activity is primarily due to reduced activity in movements over 5,000 sq m. The 49 large transactions signed since January in the Greater Paris Region (58 over the same period in 2018) total approximately 530,000 sq m, a 26% decrease year-on-year. 59% of this volume is comprised of new and redeveloped offices, compared to 73% for 2018 as a whole. In Paris, Grade A offices represent the largest share of take-up volume over 5,000 sq m (63%), reflecting the sustained take-up of projects well in advance of their delivery. In the suburbs, the share of second-hand offices is quite high (43%), inflated in the 3rd quarter by the letting to SNCF of an additional 30,000 sq m in the former SFR campus in Saint-Denis. This high proportion also shows that the search for economic solutions remains one of the drivers of the large areas market outside the capital.

The scarcity of available supply and increasing Market Rents also limited the number of new transactions, encouraging companies to renegotiate their leases rather than move. Whilst this situation will continue to weigh on lettings activity in the 4th quarter, the strength of pre-letting activity and the ongoing discussions for a few large areas in the West and the Inner Suburbs mean that we can nevertheless expect a fairly strong year-end. Over the whole of 2019, take-up volume could thus reach or even exceed 2.3 million sq m, which is significantly lower than the 2018 performance (2.6 million sq m) but more or less corresponds to the ten-year average.

Geographic breakdown of take-up in the Greater Paris Region



Source: Knight Frank

THE INNER SUBURBS ARE BUCKING THE TREND

The Inner Suburbs market is in contrast to most of the other major office hubs in the Greater Paris Region. Take-up volume there increased by 30% year-on-year due to the completion of 10 large transactions totalling 190,000 sq m, i.e. 56% of total take-up in the sector. Of these ten transactions, five are for areas over 20,000 sq m. In the absence of large-scale transactions in the West of the Paris region, these are the largest movements recorded since January in the Paris region. This situation contrasts with 2018, particularly in the North where two 30,000 sq m movements (SOCIETE DU GRAND PARIS in "Moods" and SNCF in the former SFR campus) enabled the sector to record a significant 81% increase year-on-year. The results in the East are also positive. The South is slightly down compared to the same period last year, but still shows a strong increase of 57% compared to the ten-year average.

Elsewhere, results are more mixed. The decrease is significant in the Péri-Défense sector (-37% year-on-year), which continues to suffer from the absence of very large transactions. In La Défense, take-up volumes are also limited by the small number of transactions of more than 5,000 sq m and an activity mainly comprising second-hand supply. On the other hand, demand remains strong in the Southern Loop. Buoyed by the success of its new supply, this sector should even achieve one of its best results in 2019 as a result of the expected completion of two very large transactions (CNP in "Cœur de Ville" and CANAL + in "Sways" in Issy).

Examples of large letting transactions in Q3 2019

Asset/Address	Tenant	Area (sq m)
Campus Rimbaud / Saint-Denis (92)	SNCF	30,000
L'Académie / Montrouge (92)	CACEIS	28,000
80 boulevard Auguste Blanqui / Paris 13th	Banque Populaire	15,000
23-29 rue de Châteaudun / Paris 9th	Galeries Lafayette	14,500
Les Collines de l'Arche / Puteaux La Défense (92)	WeWork	13,500
Le Cap / Puteaux La Défense (92)	Loxam	10,000
Les Portes de La Défense / Colombes (92)	Pepsico	9,100
Le Square, 7 rue de Téhéran / Paris 8th	August Debouzy	8,700
Hight, 8 rue de Penthièvre / Paris 8th	Hermès	8,500
Le Campus / Massy (91)	Ivalua	5,200

Source: Knight Frank

With take-up of 663,000 sq m since January, the volumes let in Inner Paris decreased by 16% year-on-year, but remain respectable given the severe shortage of office space. Furthermore, this volume is 3% higher than the average recorded at the end of each 3rd quarter over the past ten years. Several explanations can be given to account for this resilience in the Paris market, including the sustained pace of pre-lettings of large areas. Of the 21 transactions of more than 5,000 sq m recorded in the capital since January, 13 relate to areas under development such as, in the 3rd quarter, LES GALERIES LAFAYETTE at 23-29 rue de Châteaudun, AUGUST DEBOUZY at 7 rue de Téhéran and HERMÈS at 8 rue de Penthièvre.

These large transactions limited the decrease in take-up in the CBD, with a volume of 304,000 sq m at the end of the 3rd quarter, i.e. a decrease of 11% year-on-year. Outside the CBD, it is in Paris Centre West that the decrease is the most pronounced (-51%) following an exceptional year in 2018 that was marked by the completion of six large transactions, four of which were for areas over 10,000 sq m (MUREX in "Freedom", etc.). In Paris South, take-up volume is also down. However, the arrival on the market of several new/redeveloped areas ("Bloom" in the 12th, "Illumine" and "Axiom" in the 13th, etc.), major upcoming tenant departures and occupiers' appetite for Grade A space in Paris should enable lettings activity to be revived.

COWORKING: A DECLINE IN THE 3RD QUARTER

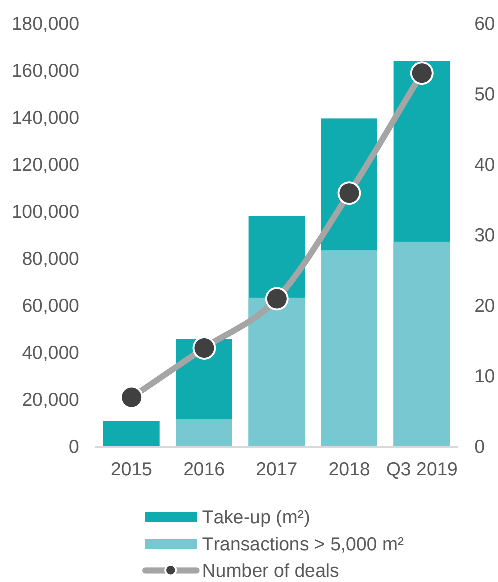
While recent events around WEWORK have not reversed the rising trend in coworking, the pace of lettings has slowed significantly. In the 3rd quarter, lettings totalled 45,000 sq m compared to 80,000 sq m in the previous quarter. This decrease is mainly due to the drop in the number of large transactions, with just one transaction of more than 5,000 sq m signed in the last three months (WEWORK in "Les Collines de l'Arche") compared to six in the 2nd quarter (including three signed by WEWORK). The total number of lettings remained stable and relatively high, due in particular to DESKEO's continued expansion. The latter is thus establishing itself as the second largest operator in the Paris Region market in 2019, behind WEWORK.

Since January, coworking has been behind nearly 165,000 sq m of lettings, a 17% increase compared to the 2018 total. 53% of this volume is comprised of areas larger than 5,000 sq m, making coworking the most active major occupier in the Paris region in 2019, behind the manufacturing-distribution industry. After 2018, which was characterised by a few very large transactions (TECHNIP in Nanterre, NESTLÉ in Issy-les-Moulineaux), the weight of this latter sector on all lettings of more than 5,000 sq m nevertheless fell sharply (20% compared to 41% a year earlier). Finance is in third place. As announcements of restructuring plans increase, three banking groups signed large leases in 2019 including, in the 3rd quarter, CACEIS in "L'Académie" in Montrouge and BANQUE POPULAIRE at 80 boulevard Blanqui, the current headquarters of the LE MONDE group, in Paris' 13th district.

The new technologies sector is also notable for its sustained activity, in the small and medium-sized transactions category as well as for transactions of more than 5,000 sq m. Since the beginning of 2019, four members of the Next40 – the new index unveiled in September by the government and designed to encourage the growth of world leaders in technology – have rented large office areas in the Paris region (DEEZER in the 9th district, DOCTOLIB in Levallois-Perret, IVALUA in Massy, BELIEVE in Saint-Ouen).

Sq m of offices let to coworking players in the Greater Paris Region

In volume sq m



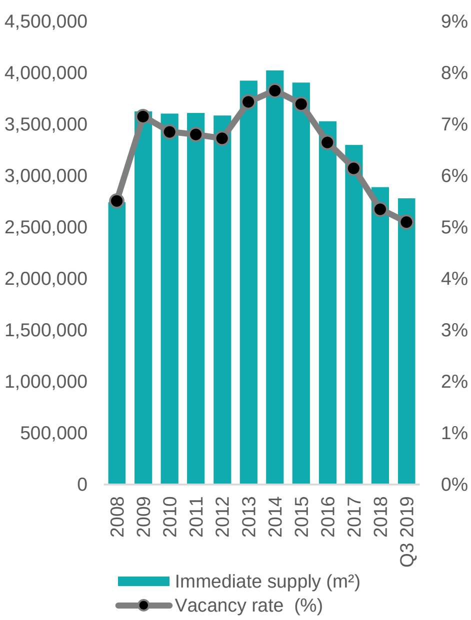
Source: Knight Frank

STILL DECREASING

The volume of immediate supply continued to decrease in the 3rd quarter of 2019 in the Paris region. Down 3% over a quarter and 4% year-on-year, office supply now totals 2.78 million sq m. This equates to a vacancy rate of 5.1%, compared with 5.4% at the same time last year.

Immediate supply in the Greater Paris Region

Immediate supply, in sq m



Source: Knight Frank

With an average vacancy rate of 1.9% compared to 2.2% a year earlier, the shortage in supply has increased in Inner Paris. In the CBD this rate is still below 2%, for an available volume of 110,000 sq m, 14% of which is Grade A space, with only one offer of more than 5,000 sq m. The vacancy rate is also very low in Paris South (2.8%) and Paris North East (2.2%), and only four large new/redeveloped offers are currently available.

Supply is generally more balanced outside of Paris , but some sectors are experiencing a rapid contraction. In the Inner Suburbs, the decrease is 14% in the South. The trend is also a downward one in more established sectors such as Neuilly-Levallois (-39%) and the Southern Loop (-20%). In the latter sector, the vacancy rate now stands at 7.2%, compared to 9% a year earlier and a high of 11.4% in 2013. The lack of supply is expected to be a long-term problem. The situation is not the same in La Défense and its immediate surroundings, where new supply has recently been added to the stock.

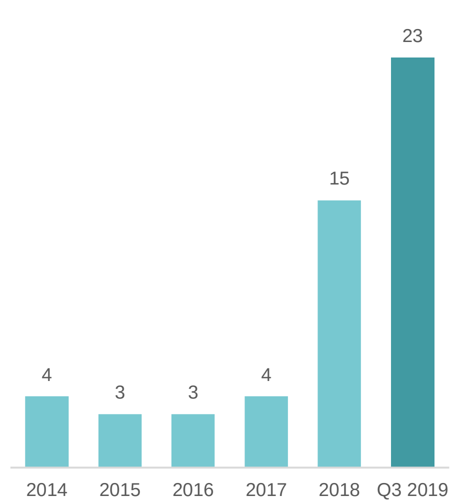
FUTURE SUPPLY: PARIS UNDER PRESSURE

2.7 million sq m of office space is being created and redeveloped in the Greater Paris Region, 54% of which is still available. Paris continues to stands out for its pre-letting rates that are much higher than the regional average, both in the CBD (58%) and in the rest of the capital (67%), where available projects of more than 5,000 sq m under redevelopment can almost be counted on one hand.

Developments planned on the outskirts of Paris and on former railway tracks, as well as those related to the "Reinvent Paris" competitions or major tenant departures, could breathe new life into the office market in certain districts of the capital. That being said, the imbalance between supply and demand is expected to persist at least until the end of 2021 or even 2022, especially as occupiers continue to position themselves well in advance of building deliveries. Furthermore, companies in the most promising sectors (consulting, new technologies, etc.) remain more than ever attached to a Parisian address to retain and attract the best talent.

This situation fuels the increase in Market Rents in Paris in both the second-hand and Grade A office categories. In the CBD, the prime rent thus stands at €855 /sq m/year, an increase of 2% year-on-year, and 2% compared to the previous high point in 2007, with a particularly high number of transactions signed at over €800 /sq m/year (21 since January, all areas combined, compared to an average of 6 in the last five years). Growth is also remarkable outside the CBD and Paris Centre West, where the €500 /sq m/year threshold is increasingly exceeded (88 since January compared to 37 on average over the last five years).

Number of transactions > €800 /sqm/year in Paris Centre West (including CBD)



Source: Knight Frank

INCREASED DEFERRALS

Outside Paris, the situation is very diverse but generally more balanced, with 60% of the office space currently under construction still available. However, some key sectors have an increasingly smaller stock of future supply. As such, in the Southern Loop, two leases that are being finalised (CNP in "Cœur de Ville" and CANAL + in "Sways") will severely limit the planned available supply by the end of 2021. Beyond this date, however, large developments are expected in Boulogne (Trapeze sector, Seguin Island) and in the Pont d'Issy sector.

Office supply under construction in the Greater Paris Region: pre-letting rate by geographical sector

Source: Knight Frank

Combined with the long-term shortage of space located on the Left Bank of Paris, this short-term lack of supply in the Southern Loop should continue to benefit the neighbouring market of the Southern Inner Suburbs. Following some recent successes (CACEIS in "L'Académie" in Montrouge), occupier deferrals could therefore accelerate, particularly since the future supply remains plentiful. As such, almost 60% of the 280,000 sq m of buildings under construction and redevelopment are still available in the South, where there are also numerous potential projects. The Northern Inner Suburbs could also benefit from the deferrals of occupiers from neighbouring markets, as well as from streamlining projects of companies already present in the sector. There are also many opportunities for large new and redeveloped areas, with more than 300,000 sq m under construction still available.

Ongoing developments are even more extensive in La Défense, where more than 400,000 sq m are expected between 2020 and 2022 ("Alto", "Trinity", "Landscape", "Hekla", etc.). The strength of the deferrals will partly determine the marketing of the business district's most qualitative future supply, while its rental market is currently primarily driven by the letting of second-hand space.

THE INVESTMENT MARKET

AT ITS HIGHEST LEVEL SINCE 2007

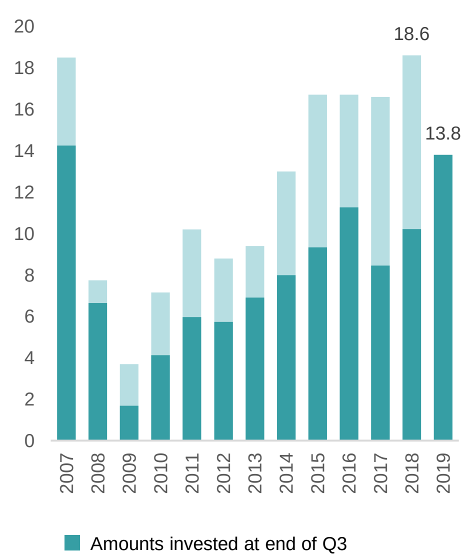
4.8 billion euros were invested in the Paris Region office market in the 3rd quarter of 2019. This represents a 23% decrease compared to the 2nd quarter due to two mega deals that were signed before the summer (sale of the "Lumière" in the 12th district, sale of the TERREÏS portfolio to SWISS LIFE), but an 83% increase compared to the 3rd quarter 2018 figure. Amounts invested since January now total $13.8 billion, a 35% increase year-on-year and a level that, at the end of a 3rd quarter, is at its highest since 2007.

Several large transactions are behind these excellent results. In addition to the 23 recorded in the first half of the year, 13 office transactions in excess of €100 million were recorded in the Greater Paris Region in the 3rd quarter of 2019. These 36 transactions account for 74% of the volumes invested in offices since January. The small and medium-sized transactions market category, on the other hand, remains less active, as illustrated by the 13% year-on-year decrease in the total number of transactions.

La Défense is one of the main beneficiaries of the increased activity in the large transactions category. Among the most recent, three of them relate to towers in this business district for an investment volume of approximately €1.5 billion: the "Majunga", "Eqho" (49%) and "W" towers, which are in addition to the large transactions that took place in the 2nd quarter ("Europe" and "CBX").

Office investment volumes in the Greater Paris Region

In B €



Source: Knight Frank

Given the transactions currently being completed ("PB6", etc.), the sums invested in La Défense could reach €3.5 billion by the end of 2019, which would then be the second best year in the business district's history after 2007 (€4 billion).

In the Inner Suburbs, it was the South that stood out. AMUNDI and CRÉDIT AGRICOLE ASSURANCES recently acquired "L'Académie" in Montrouge. This transaction, the fourth of more than €100 million recorded in the sector since January, brings the total amount invested in 2019 to more than €1 billion, already 15% higher than the previous record set in 2010. Among the reasons for this success: solid rental activity, the lack of available supply in more established neighbouring towns (south of Paris, Issy) and the opportunities related to the progress of works on the Grand Paris Express.

After the 4.8 billion euros that were invested in the first half of the year, 60% of which was solely generated by the sale of the "Lumière" building and TERREÏS portfolio, activity in Paris has slowed significantly in the last three months. This is due to a lack of supply in the market, within a context where the upsurge in letting activity and the prospects of rising values are encouraging investors to hold on to and increase the value of their Parisian assets.

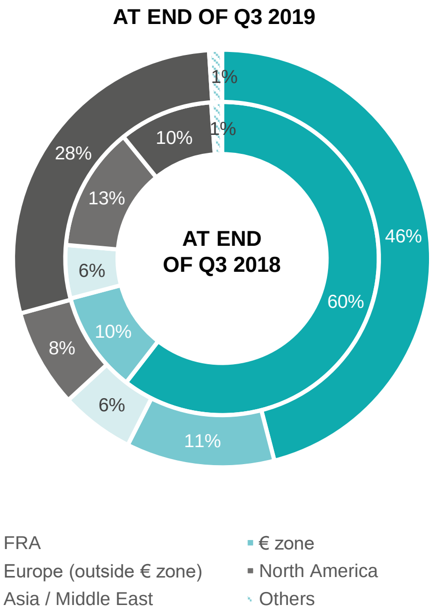
KOREAN BREAKTHROUGH

The increase in the share of foreign investors is the dominant trend of 2019. Once more in the majority, foreign investors accounted for 54% of all office space investments in the Greater Paris Region at the end of the 3rd quarter of 2019, compared to 40% at the same time last year. This significant share is due to the acquisitions made by the Koreans who, having invested extensively in London in 2018, are driving the Greater Paris Region market in 2019. With 3.2 billion invested since January, they precede Europeans and account for 43% of the volumes invested by foreigners in the Paris region, compared with 4% in 2018 and 12% in 2017. Among the most significant and recent transactions are the sale of the "Majunga" and "Eqho" towers (49%) in La Défense, as well as the "Crystal Park" property in Neuilly-sur-Seine.

Investment funds continue to dominate the market, with an inflated share due to Korean acquisitions. They account for 54% of the sums invested in the Greater Paris Region since January, ahead of SCPI/OPCIs (28%), and are primarily represented by the French (PRIMONIAL REIM, AMUNDI, LA FRANÇAISE, etc.).

Breakdown by nationality

Office acquisitions in the Greater Paris Region



Source: Knight Frank

WHAT DOES 2020 HOLD?

Despite a less buoyant context and a relative slowdown in letting activity, the scale of the sums already invested promises another exceptional year for the Greater Paris Region market. In view of ongoing negotiations, 2019 should even exceed the historic record set in 2018 (18.6 billion euros invested in the Paris Region office market).

In 2020, on the other hand, volumes could decrease due in particular to the lack of supply in Paris and the perhaps smaller number of acquisitions made by Koreans following an extraordinary year in 2019. Nevertheless, the Greater Paris Region market should continue to benefit from the abundance of liquidity to be invested, favourable financing conditions and a very favourable risk premium spread for the real estate sector. Moreover, although the scarcity of prime supply could affect the volume of sums invested in Paris, activity will remain sustained outside the capital, despite the pressure on yields recorded in some towns and the most promising development sectors of Grand Paris.

Examples of investment transactions as at Q3 2019

Asset/Address	Seller	Buyer	Area (sq m)
Majunga / Puteaux - La Défense (92)	Unibail Rodamco Westfield	Amundi / Mirae Asset Daewoo	67,000
Crystal Park / Neuilly-sur-Seine (92)	Icade	La Française / Samsung	44,000
Eqho (49%) / Courbevoie - La Défense (92)	Icade	NH Investment & Securities	79,000
Îlot Saint-Germain / Paris 7th	French State	Qatari funds	28,000
L'Académie / Montrouge (92)	Axe Promotion	Amundi / Crédit Agricole Assur.	34,000
Tour W / Puteaux - La Défense (92)	AEW	Ares Management	37,700
Green Corner / Saint-Denis (93)	Covivio	Primonial Reim	20,800
Gaïa / Massy (91)	Primonial Reim	AEW	36,200
Pointe Métro 1 / Gennevilliers (92)	Northwood Investors	Icade	23,500
Énergies / Montigny-le-Bretonneux (78)	DWS	HSBC Reim	26,000
Atria / Paris 10th	Unofi / B&C France	PGIM	5,000
Tour Franklin* / Puteaux - La Défense (92)	BNP Paribas Reim	Paref	12,200

Source: Knight Frank / *Six floors

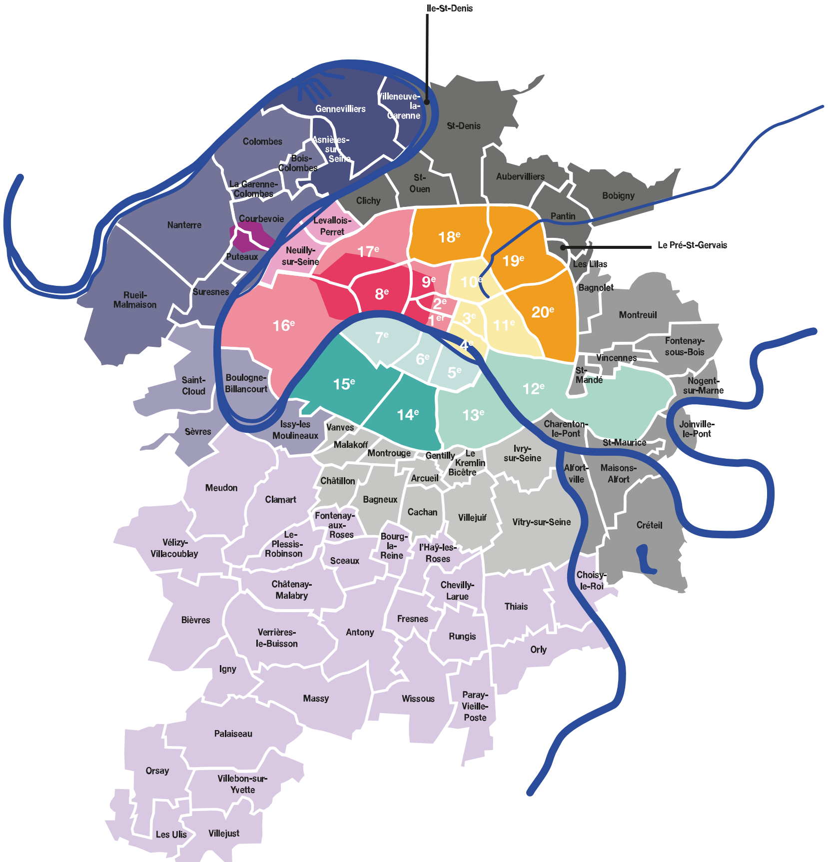
Greater Paris Region office market indicators

	Greater Paris Region End Q3 2018	Greater Paris Region End Q3 2019	Annual change
Take-up	1,907,943 sq m	**1,683,830 sq m**	-12%
Take-up > 5 000sq m	718,424 sq m	**530,532 sq m**	-26%
Immediate supply	2,906,000 sq m	**2,780,070 sq m**	-4%
Vacancy rate	5.4%	**5.1%**	-0.3pts
Prime rent*	€840 /sq m	**€855 /sq m**	+2%
Investment volume	€10.2 B	**€13.8 B**	+35%
Share of transactions > €100 M**	69,%	**74%**	+5pts

Source: Knight Frank

*Prime rent: weighted average of the 5 transactions > 500 sq m (all asset qualities combined) with the highest rents recorded over the last 12 months.

** Of total investment in offices in the Greater Paris Region.



- Paris CBD
- Paris Centre West (excl. CBD)
- Paris $3^{th}/4^{th}/10^{th}/11^{th}$
- Paris $18^{th}/19^{th}/20^{th}$
- Paris $5^{th}/6^{th}/7^{th}$
- Paris $12^{th}/13^{th}$
- Paris $14^{th}/15^{th}$
- La Défense
- Northern Loop
- Péri-Défense
- Southern Loop
- Southern Outer Suburbs
- Neuilly/Levallois
- Northern Inner Suburbs
- Eastern Inner Suburbs
- Southern Inner Suburbs

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