

An aerial night photograph of Paris, France, centered on the Arc de Triomphe. The monument is brightly lit and stands out against the dark cityscape. The surrounding streets are filled with lights from buildings and traffic, creating a vibrant urban scene. The overall atmosphere is that of a bustling city at night.

# PARIS / ÎLE-DE-FRANCE

## OFFICE PROPERTY MARKET

### Q1 2018

## KEY FINDINGS

The French economy is expected to grow steadily from 2018 to 2020, with annual GDP growth in a range of 1.6%–1.9%.

With lettings of 748,000 m<sup>2</sup>, take-up in the first quarter of 2018 rose 18% year on year, the best Q1 since 2007.

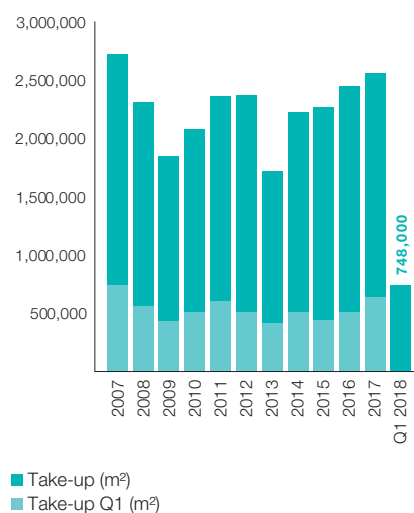
Two sectors stand out: Paris CBD, where take-up increased 47%, and Nanterre, which had two deals of more than 50,000 m<sup>2</sup>.

Total available supply in the Paris region declined 13% year on year, totalling 3.1 million m<sup>2</sup>. The vacancy rate stands at 5.8%.

2.4 billion euros were invested in offices in the Greater Paris Region since January, of which 68% inside Paris.

With a range that has remained between 3.00 and 3.25% since mid-2016, the prime CBD office yield remains at a historical low.

Île-de-France take-up  
In m<sup>2</sup>



Source: Knight Frank

# OCCUPIER MARKET

## OPTIMISM IS THE ORDER OF THE DAY

After a rise in GDP of 2% in 2017, the French economy is expected to continue to grow steadily from 2018 to 2020 at an annual rate of 1.6%–1.9%. Improvement in the job market is already visible. Over the past year unemployment fell from 9.7% to 8.6% in metropolitan France

and now stands at 7.7% in the Paris region, which remains one of the main beneficiaries of economic growth. Market conditions continue to improve, fuelling the confidence of business leaders and boosting demand for office space from large tenants.

## OFF TO A FLYING START

Although the first quarter of 2018 did not reach the heights of the fourth quarter of 2017, the performance of 2018 has so far been quite remarkable. With 748,000 m<sup>2</sup> of office space let since January (i.e. +18% year on year and +46% compared to the ten-year Q1 average), the office market is off to its best start since 2007.

The Île-de-France market has once again ridden a wave of large deals, though unlike last year there has not been a mega transaction to underpin growth. For example, in Q1 2017, Natixis's letting of 90,000 m<sup>2</sup> in the "Duo" towers accounted for nearly one-third of all take-up of properties larger than 5,000 m<sup>2</sup>. By contrast, the largest letting

in Q1 2018 accounted for less than 20% of total take-up. This deal, 64,000 m<sup>2</sup> for Vinci's new headquarters in Nanterre, is just one of 24 transactions for more than 5,000 m<sup>2</sup> made since January, four more than the 20 deals in Q1 2017 and corresponding to 342,000 m<sup>2</sup>, or 46% of total take-up (all surface areas). Like last year, demand from large tenants was focused mainly on grade-A properties. In Q1 2017, new-redeveloped buildings accounted for 71% of take-up for properties of more than 5,000 m<sup>2</sup>, compared with 73% for FY 2017.

Lettings of small and medium-sized spaces are regaining strength, in contrast with 2017's lacklustre performance.

Examples of office lettings > 5,000 m<sup>2</sup> in Q1 2018

Asset/Address	Tenant	Area (m <sup>2</sup> )
Origine / Nanterre	Technip	51,000
Quadrans / Paris 15	Altice	24,250
Grand Seine / Paris 13	Action Logement	21,300
92 avenue de France / Paris 13	Editis	16,500
Enjoy / Paris 17	Axa	15,700
Ipsos Facto / Montrouge	Croix-Rouge Française	14,000
Concerto / Montreuil	BNP Paribas	13,000
7 rue de Madrid / Paris 8	WeWork	11,000
L'Albero / Guyancourt	AKKA Technologies	10,800
Tangram / Malakoff	Spie	7,700
40 rue du Louvre / Paris 1	Spaces	7,500

Source: Knight Frank

Volume has risen 24% year on year and is up 35% from the ten-year Q1 average. Activity has been focused mainly on deals of between 1,000 m<sup>2</sup> and 5,000 m<sup>2</sup>, up 50% year on year. Several significant transactions were carried out in this category, particularly in the tech and finance sectors. Chubb has moved its European headquarters (4,400 m<sup>2</sup>) to the “Carpe Diem” tower, the latest example of Paris’s post-Brexit appeal, after Bank of America’s letting last year of “49–51 rue La Boétie”.

### PARIS REMAINS SOLID, AND NANTERRE IS ON THE MOVE

Paris remains the bedrock of the Île-de-France office market. The capital’s position is even stronger than before, with a little more than 312,000 m<sup>2</sup> let since the beginning of the year, a rise of 4% year on year and accounting for 42% of all lettings in Île-de-France. This performance is due mainly to the revival of the Paris CBD, where nearly 130,000 m<sup>2</sup> was let in Q1 2018 (+47% compared with Q1 2017). The CBD has benefited especially from significant recovery in lettings of small and medium-sized properties, but also from the completion of three large deals, including the letting by Spaces of “40 rue du Louvre” in the 1<sup>st</sup> and the letting by WeWork of “7 rue de Madrid” in the 8<sup>th</sup>. Coworking remains one of the principal drivers of the inner-Paris market and represented 8% of all lettings in Paris in 2017 of spaces larger than 5,000 m<sup>2</sup>. In Q1 2018, coworking accounted for 23% of all such lettings.

The decline of volume let in Paris outside the CBD is unsurprising, given that 90,000 m<sup>2</sup> was let last year in the Duo towers. However, the decline has been cushioned by five leases in southern Paris for more than 5,000 m<sup>2</sup>, including three for more than 10,000 m<sup>2</sup>. In addition to Altice’s acquisition of another building in the “Quadrans” complex (Paris 15<sup>th</sup>), two deals were completed inside the ZAC Rive Gauche (Paris 13<sup>th</sup>): Action Logement’s letting of 21,300 m<sup>2</sup> in “Grand Seine”, and Editis’s letting of

16,500 m<sup>2</sup> in “92 Avenue de France”. These deals highlight the success of this tertiary sector, which is much sought-after by large tenants looking for both new and second-hand office space.

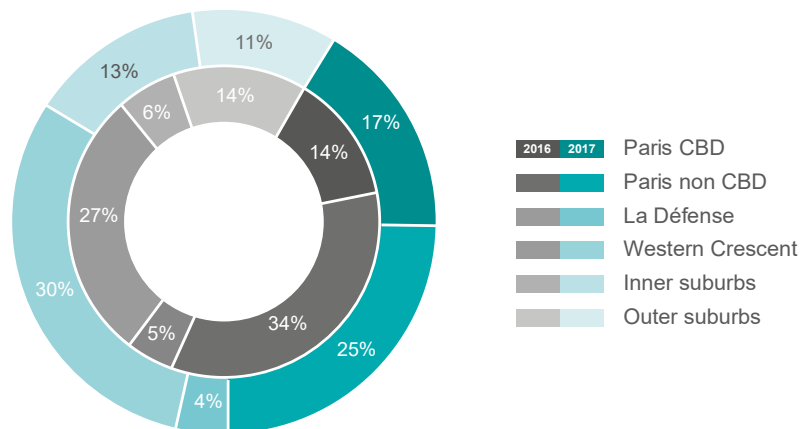
Outside Paris it is Nanterre that takes centre stage. In 2017, nearly 120,000 m<sup>2</sup> of offices was let, an already solid performance which was further enhanced by the more than 130,000 m<sup>2</sup> let in Q1 2018 alone. Two large deals account for 88% of the lettings in Q1 2018: Vinci’s new headquarters (64,000 m<sup>2</sup>) in the rapidly expanding Groues sector, and Technip (51,000 m<sup>2</sup>) in the “Origine” building. In addition, Groupama has let nearly 8,000 m<sup>2</sup> in “Dreamview”, after the 60,000 m<sup>2</sup> let last year in several

buildings in Nanterre. The town’s success is anything but surprising. Nanterre is slowly gaining in importance as it becomes a key tertiary player. Its accessibility will be significantly improved by the gradual opening of new transportation lines: RER E (Eole), and lines 15 and 18 of the Grand Paris Express.

In addition, several large deals have boosted lettings in the inner and outer suburbs. After several large-scale operations (e.g. Orange for 18,000 m<sup>2</sup> in Villejuif) in 2017, momentum continues to build in the southern inner suburbs. Since January, four large transactions have been made, each in a different commune of the sector.

#### Geographical breakdown of take-up in Île-de-France

Source: Knight Frank



### PRE-LETTINGS ON THE RISE

At just over 3.1 million m<sup>2</sup> at the end of the first quarter of 2018, total available supply in Île-de-France declined 6% from the fourth quarter and 13% year on year. The vacancy rate stands at 5.8%. After reaching more than 900,000 m<sup>2</sup> in 2017, completions of new and redeveloped office space are expected to be close to 1 million m<sup>2</sup> in 2018. Of the 2.4 million m<sup>2</sup> currently under construction for estimated delivery between 2018 and 2021, only 54% is available. While nearly 30% of this volume is inside Paris, large

deals due to be completed soon will further absorb this seemingly abundant supply, thereby providing additional confirmation of the rise in pre-lettings. Trends vary in other sectors of Île-de-France. In the western crescent, short-term available supply is particularly weak in the southern loop and Neuilly–Levallois, in contrast with more abundant stock in the Péri-Défense sector.

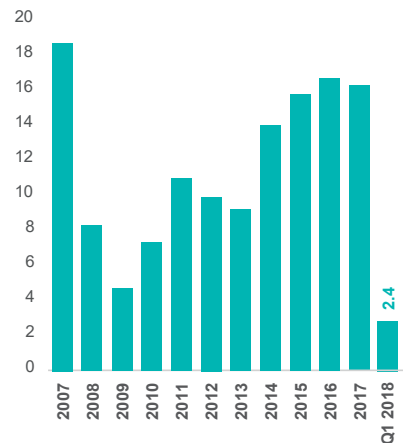
# INVESTMENT MARKET

## A VERY PARISIAN 1<sup>ST</sup> QUARTER

Following an excellent year in 2017, the corporate real estate market got off to a good start in 2018. With almost 3.7 billion euros invested in France during 1<sup>st</sup> quarter 2018, investment volumes are 5% above those seen during the same period the previous year. 2.8 billion euros were invested in the French office market during 1<sup>st</sup> quarter 2018, equating to 76% of all French investment volumes. This represents an increase of 5% compared to 1<sup>st</sup> quarter 2017. Whilst some large deals have been seen in the regions, activity, as usual, was mainly concentrated in the Paris Region. As such, 2.4 billion euros were invested in offices in the Greater Paris Region since January, of which 67 % was for deals over 100 million euros.

Investments over the quarter were concentrated in Paris itself, particularly outside of the business districts. Among the most significant deals, Blackstone sold the “Cœur Marais / Fhive” properties (Paris 3<sup>rd</sup>) to Generali and bought “Chapelle International” (Paris 18<sup>th</sup>) from Linkcity, and Commerz Real sold the 16 000 sq.m “Euro Alsace” building (Paris 10<sup>th</sup>) to Union Investment. Such a concentration of activity is no coincidence. The dynamism of the rental market, the quality of the assets involved – core assets in central areas or mixed-use projects to be developed – and the increasing trend of occupiers to favour the east of the capital, enabled investors to anticipate solid rental increases, supporting their decisions to expand their strategy outside of traditional business districts. That’s not to say that the CBD was inactive; it accounted for 34% of office investment volume in the Greater Paris Region due to a few large transactions, including the acquisition by CBRE Global Investors of a mixed-use building located on place du Marché Saint-Honoré for almost 300 million euros.

Île-de-France office investment volumes  
€ billion



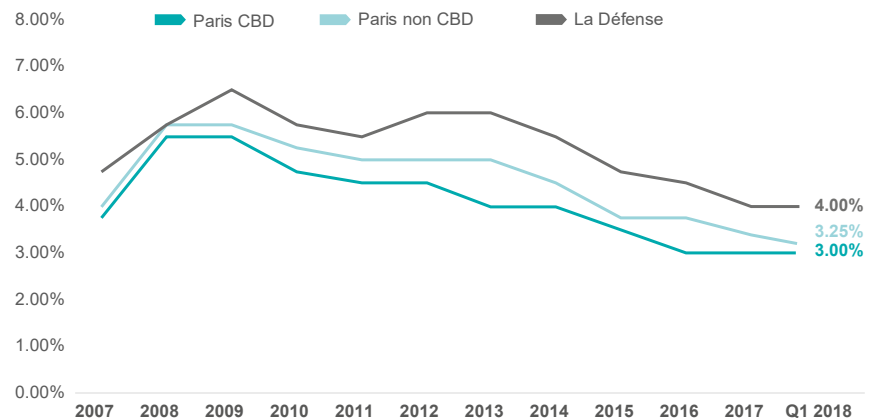
Source: Knight Frank

Following a very active end of 2017, the La Défense market had a relatively calm 1<sup>st</sup> quarter 2018, with a limited number of transactions, including the sale by Carlyle of “Tour Aurore” to Aermont. Finally, with the exception of a few large deals such as “Dock en Seine” in Saint-Ouen, sold by Gecina, and “Green Walk” in Suresnes, sold by AXA IM and NBIM, activity was relatively low in the Inner and Outer Suburbs and was mainly

concentrated in a limited number of transactions below 50 million euros. The coming months could see a geographical readjustment in the investment market. A few large deals should notably be completed in the Inner Northern Suburbs sector, Saint-Ouen and Saint-Denis thus continuing to assert themselves as staples of the Greater Paris Region office market. The hierarchy of the different office hubs, however, will not be disrupted. Ten or so assets of over 100 million euros are already subject to sale commitments or under exclusivity in Paris (of which 6 are in the CBD), while several large deals are also expected in the Western Crescent, such as “M Campus”, currently being sold to PGIM Real Estate.

With a range that has remained between 3.00 and 3.25% since mid-2016, the prime CBD office yield remains at a historical low. Yield compressions continue in other areas of the capital, and the acquisitions of Cœur Marais and Euro Alsace notably created new reference yields. Whilst the trend is one of stability in most other Greater Paris Region office hubs, upcoming sales of large, single assets could result in a slight increase in yields.

Prime yields for office properties, in %



Source: Knight Frank

## Examples of office investment transactions in Q1 2018

Asset/Address	Seller	Purchaser	Area (m <sup>2</sup> )
Cœur Marais - Fhive / Paris 3	Blackstone	Generali	21,600
Place du Marché Saint-Honoré / Paris 1	BNP Paribas	CBRE Global Investors	16,500
Euro Alsace / Paris 10	Commerz Real	Union Investment	16,900
Chapelle International / Paris 18	Linkcity	Blackstone	33,000
Dock en Seine / Saint-Ouen	Gecina	BNP Paribas Reim	16,000
Green Walk / Suresnes	AXA IM / NBIM	M&G Real Estate	24,000
Tour Aurore / Courbevoie-La Défense	Carlyle	Aermont Capital	27,000
Green Height / Paris 17	Oreima	Unofi	6,600
2 rue Lamennais / Paris 8	Pathé	OFI Pierre	3,500
Carré Pleyel 2 / Saint-Denis	Blackstone	Primonial Reim	14,000

Source: Knight Frank

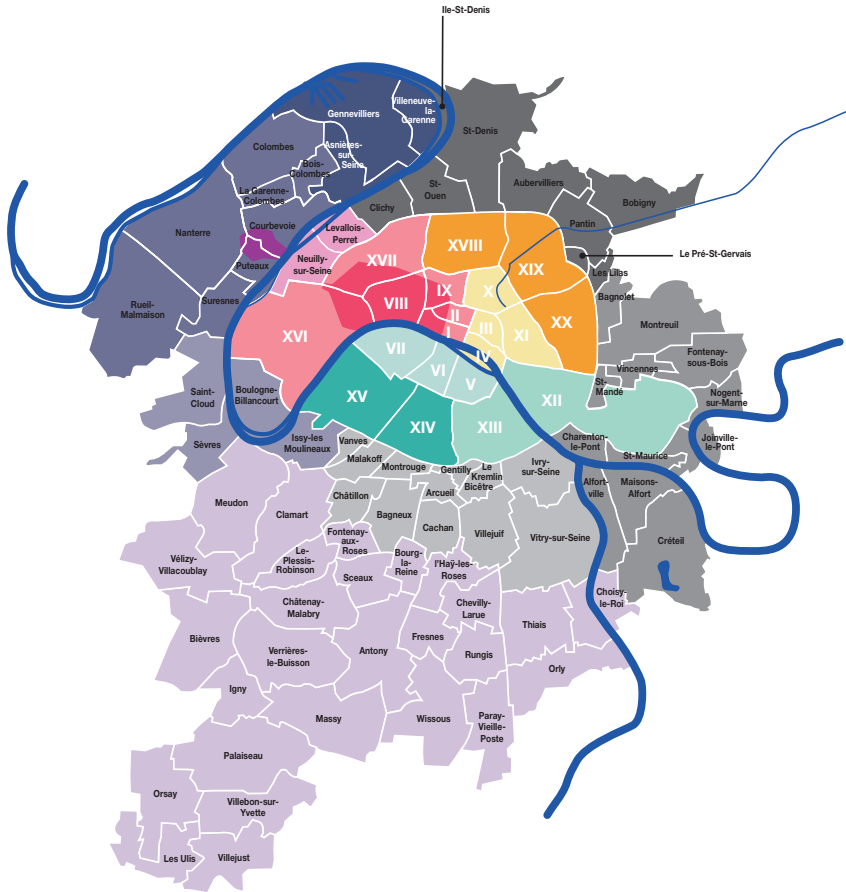
## Office market indicators in Île-de-France

	Q1 2018	Q1 2017	Annual growth
Take-up	748,300 m <sup>2</sup>	635,500 m <sup>2</sup>	+18%
Take-up > 5,000 m <sup>2</sup>	341,800 m <sup>2</sup>	308,000 m <sup>2</sup>	+11%
Immediate supply	3,100,000 m <sup>2</sup>	3,565,000 m <sup>2</sup>	-13%
Vacancy rate	5.8%	6.7%	-0.9 pts
Prime rent*	€825/m <sup>2</sup>	€785/m <sup>2</sup>	+5%
Investment volume	€2.4 billion	€2.0 billion	+18%
Transactions > €100 million   Share**	67%	59%	+8 pts
Prime yield	3.00%	3.00%	-

\*Prime rent: weighted average of 5 transactions > 500 m<sup>2</sup> with the highest rents of the past 12 months, all asset characteristics include.

\*\*In total office investment in Île-de-France.

Source: Knight Frank



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| <span style="display:inline-block; width:15px; height:15px; background-color:#e91e63; border:1px solid #000;"></span> Paris CBD  | <span style="display:inline-block; width:15px; height:15px; background-color:#1e3d5d; border:1px solid #000;"></span> Boucle Nord            |
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| <span style="display:inline-block; width:15px; height:15px; background-color:#fff9c4; border:1px solid #000;"></span> Paris 3 <sup>th</sup> /4 <sup>th</sup> /10 <sup>th</sup> /11 <sup>th</sup> | <span style="display:inline-block; width:15px; height:15px; background-color:#5d6d7d; border:1px solid #000;"></span> Boucle Sud             |
| <span style="display:inline-block; width:15px; height:15px; background-color:#ff9800; border:1px solid #000;"></span> Paris 18 <sup>th</sup> /19 <sup>th</sup> /20 <sup>th</sup>                 | <span style="display:inline-block; width:15px; height:15px; background-color:#c09cf2; border:1px solid #000;"></span> Southern Outer Suburbs |
| <span style="display:inline-block; width:15px; height:15px; background-color:#80cbc4; border:1px solid #000;"></span> Paris 5 <sup>th</sup> /6 <sup>th</sup> /7 <sup>th</sup>                    | <span style="display:inline-block; width:15px; height:15px; background-color:#e91e63; border:1px solid #000;"></span> Neuilly/Levallois      |
| <span style="display:inline-block; width:15px; height:15px; background-color:#80cbc4; border:1px solid #000;"></span> Paris 12 <sup>th</sup> /13 <sup>th</sup>                                   | <span style="display:inline-block; width:15px; height:15px; background-color:#5d6d7d; border:1px solid #000;"></span> Northern Inner Suburbs |
| <span style="display:inline-block; width:15px; height:15px; background-color:#008080; border:1px solid #000;"></span> Paris 14 <sup>th</sup> /15 <sup>th</sup>                                   | <span style="display:inline-block; width:15px; height:15px; background-color:#5d6d7d; border:1px solid #000;"></span> Eastern Inner Suburbs  |
| <span style="display:inline-block; width:15px; height:15px; background-color:#9c27b0; border:1px solid #000;"></span> La Défense   | <span style="display:inline-block; width:15px; height:15px; background-color:#9c27b0; border:1px solid #000;"></span> Southern Inner Suburbs |

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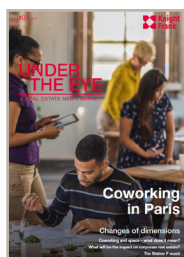
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