Knight Frank

PARIS / GREATER PARIS REGION

THE OFFICE MARKET
1st QUARTER 2019

LETTINGS MARKET | INVESTMENT MARKET | OUTLOOK

HIGHLIGHTS

Take-up in the Greater Paris Region totalled 571,500 sq m in the first quarter of 2019, a 23% decrease year-on-year but a 8% increase over the ten-year average.

The volume of transactions > 5,000 sq m in the Greater Paris Region decreased by half compared to the same period last year.

Available office supply in the Paris region totalled 2.87 million sq m (-1% over a quarter). This volume, 81% of which is second-hand space, equates to a vacancy rate of 5.3%.

2.25 billion euros were invested in the Greater Paris Region office market in the first quarter of 2019. Down 14% year-on-year, this volume is 37% higher than the ten-year average.

Three sectors in the Inner Suburbs concentrate the majority of investment volumes, with seven transactions > 100 million euros.

Take-up in the Greater Paris Region

In sq m

Source: Knight Frank

THE LETTINGS MARKET

UNEMPLOYMENT AT ITS LOWEST LEVEL SINCE 2009

Trade tensions between the United States and China, the slowdown in China and emerging markets, and uncertainties surrounding European countries (Brexit, Italian debt) continue to weigh on the international economy; within this context, the IMF has recently lowered its growth forecasts. Having peaking at 4% in 2017, world growth is expected to slow further in 2019 (+3.3%) before returning to its 2018 level next year (+3.6%).

Despite a less buoyant international context, France appears to be doing well. Less exposed than some of its neighbours to the slowdown in world trade, its economy is expected to grow at the same pace as the euro area in 2019 (+1.3%). Activity will be driven in particular by the increase in household consumption, itself supported by the decrease in inflation and the emergency measures announced in December by Emmanuel Macron. In addition to the confidence of the French, several indicators are better oriented, as shown by the increase in business investment and the recovery of the business climate which has regained some ground since the beginning of 2019, after an almost continuous decline in 2018.

In spite of a slowdown in job creations, the unemployment rate continued to fall in 2018, reaching 8.5% in the fourth quarter in metropolitan France, and 7.6% in the Greater Paris Region. This is the lowest level since spring 2009. The labour market is expected to continue to perform well in the coming months. The results of the latest Pôle Emploi survey on labour requirements in France indicate an increase of nearly 15% in hiring intentions in 2019 (+20% in the service sector), equating to 2.69 million potential hires.

ABOVE AVERAGE

571,500 sq m of office space was let or sold to users in the Greater Paris Region in the first quarter of 2019, an increase of 8% compared to the ten-year average, but a decrease of 23% year-on-year. This decrease was expected given the scarcity of available supply, but also due to the high levels reached during the same period last year. In the first quarter of 2018, activity reached its highest level since 2007, benefiting in particular from the completion of two transactions of more than 50,000 sq m in Nanterre (VINCI in "L'Archipel" and TECHNIPFMC in "Origine").

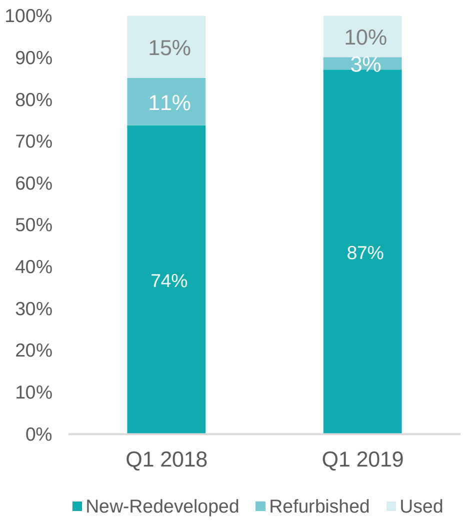
The role of large transactions was less decisive in the first quarter of 2019. Continuing the trends observed since the second half of last year, this drop explains the general decline in take-up: the 15 office transactions of more than 5,000 sq m recorded in the Greater Paris Region since January total 162,000 sq m, i.e. a volume that is half that of the 21 large transactions in the first quarter of 2018.

On the other hand, the concentration of activity in favour of new space increased from one year to the next. New and redeveloped offices, most of which are pre-let, represent almost 90% of take-up over 5,000 sq m in the first quarter of 2019, compared with 74% one year earlier and 71% for 2018 as a whole.

The Greater Paris Region market, in contrast, remained fairly buoyant for areas of less than 5,000 sq m, with a 7% increase in take-up volume of areas of less than 1,000 sq m, and a contained decrease of 9% on areas between 1,000 and 5,000 sq m. In the latter area category, several significant transactions were recorded in Paris CBD, such as GIVENCHY at 16-18 avenue George V and WEWORK at 67 avenue de Wagram.

Breakdown of take-up in the Greater Paris Region by building quality

% of volume of transactions > 5 000 sq m



Source: Knight Frank

NEAR-UNIVERSAL DECREASE

Whilst take-up decreased in most of the Greater Paris Region's office hubs, sectors in the Inner Suburbs are performing quite well. Take-up volumes are virtually stable from one year to the next as a result of three large transactions, two of which exceed 20,000 sq m: SOCIÉTÉ GÉNÉRALE in "Sakura" in Fontenay-sous-Bois and CRÉDIT AGRICOLE in "L'Académie" in Montrouge. Already present in both towns, the two banks are consolidating their staff there, within a context of accelerating restructuring operations in the banking sector and an intensified quest for savings. Inner Suburb markets are expected to remain buoyant over the coming quarters, offering many deferral solutions to large occupiers seeking efficient, well located and cost-effective real estate solutions.

In the West, the Southern Loop stands out, with take-up volume up 90% year-on-year and two movements of more than 10,000 sq m in Boulogne (ALTEN in "Oxalis" and ROCHE in "L'Angle"). It thus takes over from the Péri-Défense sector, whose volumes are down 57% compared to the first quarter of last year, when two transactions of more than 50,000 sq m were signed. La Défense's performance was also down, with a decrease of 8% in take-up compared to an already weak first quarter of 2018. As in the previous year, activity was mainly for second-hand offices, even though several major new redeveloped operations ("Trinity", "Alto", "Landscape", etc.) will be delivered in 2019 and 2020.

The 32% year-on-year decrease in take-up is hardly surprising in the capital given the severe shortage of available supply and a vacancy rate that has remained below the 3% threshold since the fourth quarter of 2017.

Examples of letting transactions in Q1 2019

Asset/Address	Tenant	Area (sq m)
Sakura / Fontenay-sous-Bois (94)	Société Générale	30,000
L'Académie / Montrouge (92)	Crédit Agricole	28,000
Oxalis / Boulogne-Billancourt (92)	Alten	11,900
L'Angle / Boulogne-Billancourt (92)	Roche	11,000
Konect / Saint-Ouen (93)	Believe	9,880
In Défense / Nanterre (92)	Vinci	9,830
Sense / Puteaux (92)	Gefco	9,300
5-7 rue des Italiens / Paris (75009)	WeWork	7,500
Be Issy / Issy-les-Moulineaux	Edenred	5,800
22 rue de Calais / Paris (75009)	Deezer	5,100

Source: Knight Frank

With take-up of just over 200,000 sq m, the Paris market still accounts for 36% of all take-up in the Greater Paris Region.

In Paris Centre West (PCW), the decrease in letting volumes (-20% year-on-year) was offset by the continued expansion of coworking. All areas combined, this activity sector has already leased 30,600 sq m of office space in PCW in the first quarter of 2019, in addition to the 76,000 sq m already let during 2018. Among the main operations recorded since January, WEWORK has taken 7,500 sq m at 5-7 rue des Italiens and KWERK has let 6,400 sq m at 18 rue de Courcelles. New technology companies also remain active on large areas (DEEZER at "22 rue de Calais"), as well as on smaller scale transactions.

Outside the West of Paris, occupiers absorbed almost all of the latest new immediately available supply, as exemplified by the transactions recorded in the "Jour" building in the 14th district.

UNDER PRESSURE

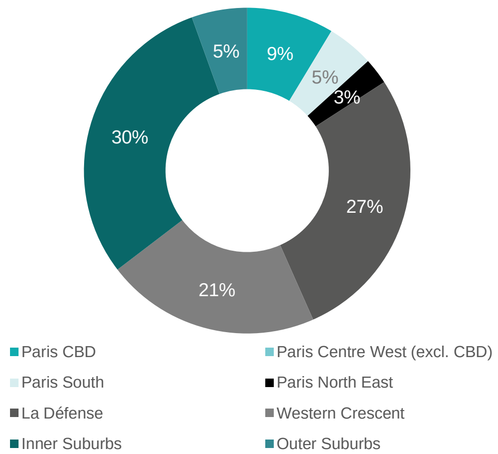
As in the last quarter, available supply in the Paris region contracted slightly during the first three months to 2.87 million sq m, compared to 2.89 million at the end of last year. This volume, 81% of which is second-hand space, equates to a vacancy rate of 5.3% - Its lowest level since the third quarter of 2008. The shortage situation remains very marked in the capital, with a vacancy rate of 2.2%. This is even more the case in the Paris CBD (1.6%), where 105,000 sq m is now available, equating to just 3.5 months worth of lettings.

This shortage explains the upward pressure on market rents in inner-Paris. The average rent is €553 /sq m/year, an increase of 3% year-on-year, while the prime rent is €845 /sq m/year, an increase of 2% over the period. This situation is not expected to change in the short term given the strong occupier demand and the high level of pre-lettings in Paris (72% of projects to be delivered by the end of 2019, and 56% of those planned by the end of 2020).

Other office hubs are undersupplied, but should be able to get some breathing space due to the acceleration in delivery rates. This is the case of Neuilly-Levallois, and especially La Défense. The vacancy rate there is 4.1%, but more than 300,000 sq m of new and renovated offices are expected by 2020, 80% of which are still available. Already well equipped, the towns close to the business district are also seeing an influx of projects. In the Péri-Défense sector, 407,000 sq m should be delivered by the end of 2020, 50% of which has already been pre-let.

Finally, the situation remains mixed in the other Greater Paris Region office hubs, with the Inner Northern Suburbs characterised by a high volume of projects, 78% of which are concentrated in the municipalities of Saint-Denis and Saint-Ouen.

Geographic distribution of available supply under construction in the Greater Paris Region % of total volume in sq m



Source: Knight Frank

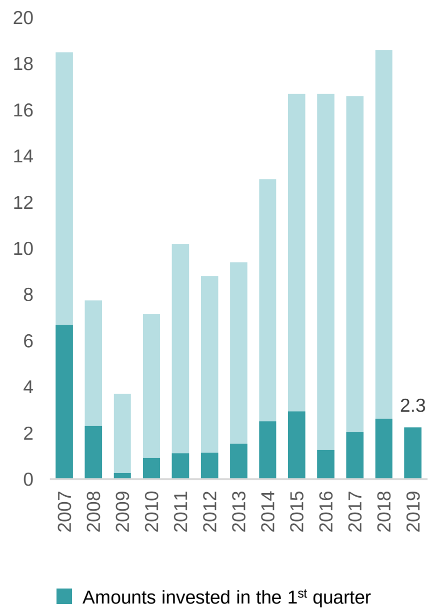
THE INVESTMENT MARKET

THE MARKET IS CATCHING ITS BREATH

2.25 billion euros were invested in the Greater Paris Region office market in the first quarter of 2019, a volume down 14% compared to the same period last year but up 37% compared to the average for each first quarter over the past ten years. Unlike in the first quarter of 2018, and in spite of a slight increase in the number of transactions of more than 100 million euros (11, compared to 10 in the first quarter of 2018), no mega-deals were recorded. But the slowdown at the beginning of the year is also related to the decline in intermediate sized transactions (between €50 million and €100 million), whose volume decreased sharply by 64% year-on-year in the Paris region.

The results of the inner-Paris market have been affected: despite some significant transactions ("40 rue du Louvre" bought by UNION INVESTMENT, "37-39 avenue Trudaine" sold to AMUNDI, "Code" bought by CNP Assurances, etc.), only 800 million euros were invested in the capital in the first quarter of 2019, compared with 1.85 billion a year earlier. However, the decline is expected to be less pronounced at the end of the second quarter due to the expected completion of the €1.7 billion sale to SWISS LIFE of a portfolio of 28 assets owned by TERREÏS.

Greater Paris Region office investment volumes
In B €



Source: Knight Frank

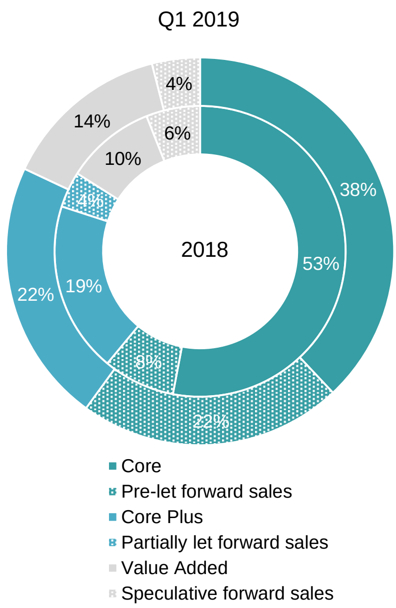
Whilst volumes will occasionally be inflated by large transactions, and the most prestigious Parisian buildings remain highly sought-after, the high level of values, the lengthening of holding periods and the drying up of prime supply could well limit activity in 2019 in the capital. The market is adapting to this context, as shown by the growth in off-market transactions, the generalisation of value creation strategies and the good level of activity in the suburbs.

Furthermore, it was outside Paris that activity was most buoyant in the first quarter of 2019. Three Inner Suburb sectors - the South, East and Péri-Défense - concentrated the majority of investment volumes with 7 transactions of over €100 million, including the sale to PRIMONIAL REIM of "Sakura" in Fontenay-sous-Bois, let to Société Générale, the acquisition by LIBERTY MANAGEMENT of "Spazio" in Nanterre and the purchase by IMMOVALOR of "Synapse" in Châtillon. In La Défense, no major transactions have yet been recorded, but ongoing negotiations, such as the sale of the "Majunga" Tower by UNIBAIL-RODAMCO-WESTFIELD for 850 million euros, and the interest shown by foreign investors indicate that activity should significantly increase over the coming months.

The latter were already active in the first quarter of 2019 and were responsible for three of the five largest transactions over the period. Inflated by these transactions, the sums committed to the Paris Region office market by foreign investors have totalled 940 million euros since the start of 2019. Slightly down year-on-year (-13%), this volume accounts for 42% of all Greater Paris Region investment volumes in the first quarter of 2019, compared with 41% in the same period last year. The Germans are well in the lead (44% of sums invested by foreigners) and are responsible for several significant transactions in the capital (40 rue du Louvre, the headquarters of the Republicans, acquired by REAL IS) and in the Inner Suburbs ("Spazio" in Nanterre). Other nationalities may be lagging behind, but some will see their share increase significantly in the coming months, such as the Koreans, who are positioned on very large office transactions in the Paris region.

As for the French, their share was 58% in the first quarter of 2019 compared to 59% in the same period last year and 55% for 2018 as a whole. They are mainly represented by SCPIs/OPCIs, as in the case of the two transactions completed by PRIMONIAL REIM ("Sakura") and AMUNDI ("37-39 Trudaine").

Breakdown by risk profile
Transactions > €20 M in the Greater Paris Region



Source: Knight Frank

The headwinds blowing over the global economy are not currently affecting the performance of the Greater Paris Region investment market. The latter continues to benefit from the increased interest of foreign investors and the influx of capital favouring the world's most secure destinations. This cautious approach can be seen in the breakdown of activity by risk profile: core assets still accounted for more than half of the volumes invested in the Paris Region office market in the first quarter of 2019, and investors' highly targeted appetite could still occasionally push prime yields down in certain office sectors.

The tendency of investors to diversify their wealth and seek returns was already observed last year and has not diminished. Encouraged by the resilience of the French economy and the strength of the lettings market, investors are positioning themselves more on value-add properties that offer potentially higher returns. Whilst the volumes invested in 2019 could be lower than last year, the core + and value-added strategies should compensate for the scarcity of prime assets and contribute to the "soft landing" of the French market.

Examples of investment transactions in Q1 2019

Asset/Address	Seller	Buyer	Area (sq m)
Spazio / Nanterre (92)	AEW Europe	Liberty Management	36,500
Sakura / Fontenay-sous-Bois (92)	Northwood Investors	Primonial Reim	30,900
40 rue du Louvre / Paris (75001)	Oreima	Union Investment	9,700
Le Cristalia / Rueil-Malmaison (92)	Tishman Speyer	JR AMC / Hana Financial	21,700
37-39 avenue Trudaine / Paris (75009)	Finapar / Nacarat	Amundi	7,300
Code / Paris (75016)	Stam / EQT	CNP Assurances	5,800
Synapse / Châtillon (92)	AXA	Immovalor Gestion	21,400
Fabrik / Montreuil (93)	AG2R La Mondiale	BNP Paribas Reim	18,000
Le Lavoisier / Courbevoie (92)	Primonial Reim	Crédit Suisse	8,900
238 rue de Vaugirard / Paris (75015)	Les Républicains (LR)	Real IS	5,500
20-32 rue de Bellevue / Paris (75019)	Hertel	La Française	4,270

Source: Knight Frank

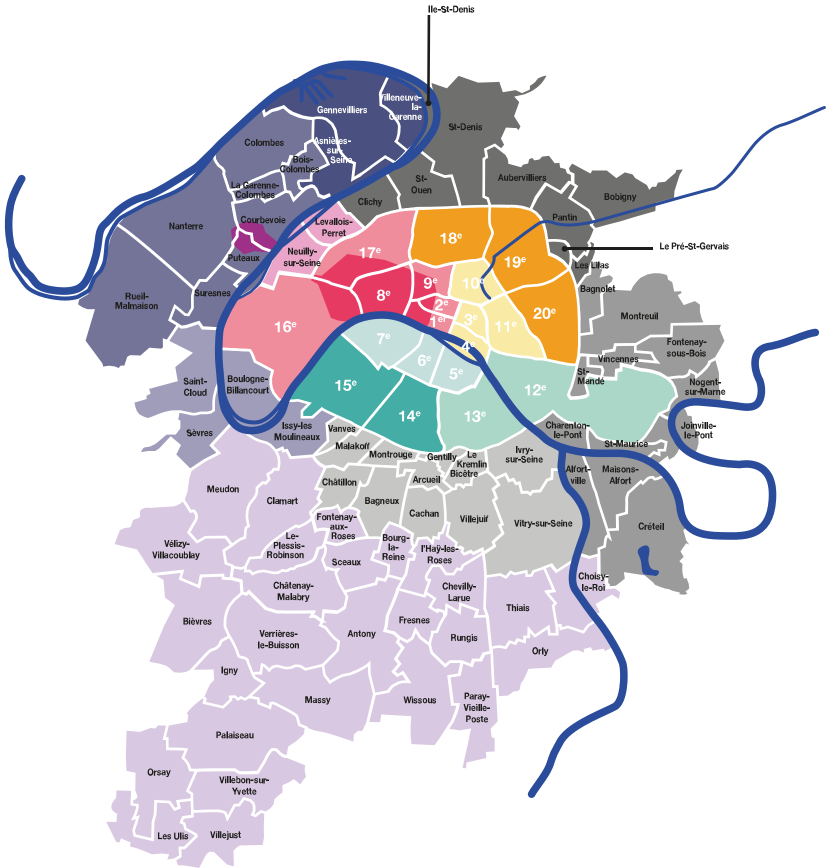
Greater Paris Region office market indicators

	Greater Paris Region Q1 2018	Greater Paris Region Q1 2019	Annual change
Take-up	744,565 sq m	**571,488 sq m**	-23%
Take-up > 5,000 sq m	324,713 sq m	**162,010 sq m**	-50%
Immediate supply	3,138,000 sq m	**2,870,000 sq m**	-9%
Vacancy rate	5.8%	**5.3%**	-0.5pts
Prime rent*	€825 /sq m	**€845 /sq m**	+2%
Investment volume	€2.6B	**€2.25 B**	-14%
Share of transactions > €100 M**	68%	**71%**	+3pts

Source: Knight Frank

*Prime rent: weighted average of the 5 transactions > 500 sq m (all building conditions included) at the highest rents recorded over the last 12 months.

**Of the total volumes invested in Greater Paris Region offices.



Paris CBD

Paris Centre West (excl. CBD)

Paris 3th/4th/10th/11th

Paris 18th/19th/20th

Paris 5th/6th/7th

Paris 12th/13th

Paris 14th/15th

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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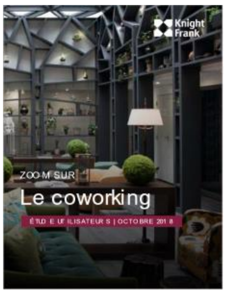

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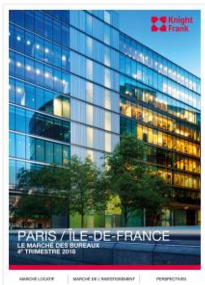

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