PARIS / GREATER PARIS REGION

THE OFFICE MARKET
2ND QUARTER 2019

HIGHLIGHTS

Down 15% compared to the same period in 2018, take-up in the first half of 2019 was 6% higher than the ten-year average.

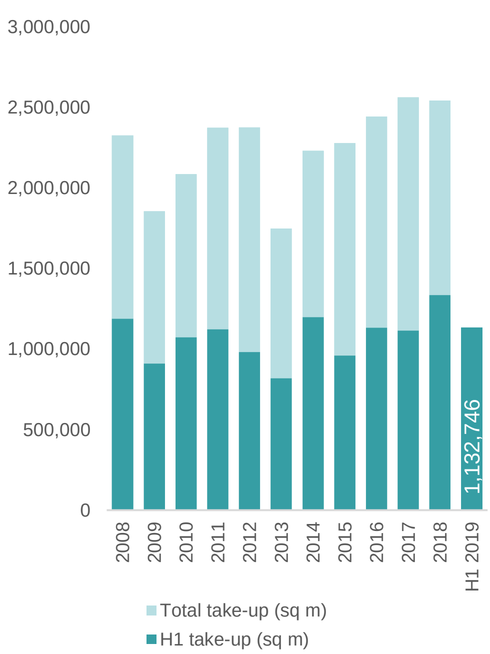
With eight transactions > 5,000 sq m in the first half of 2019, coworking accounts for 62% of the volume of large transactions recorded in Paris.

Office supply was stable over a quarter. With 2.87 million sq m available, the vacancy rate in the Greater Paris Region stands at 5.3%, but 1.8% in Paris CBD.

Investment volumes in the Greater Paris Region office market reached €8.6 billion in the first half of 2019, up 13% year-on-year.

Koreans accounted for 31% of the amounts invested in offices in the Greater Paris Region by foreign investors, compared with 7% at the same time last year.

Greater Paris Region take-up
In sq m



Source: Knight Frank

THE LETTINGS MARKET

A RESILIENT ECONOMY

The international climate has further deteriorated in recent months. This is due to strong commercial and geopolitical tensions and the still real possibility of a hard Brexit. This deterioration weighs on the global growth outlook, which the OECD has recently lowered to +3.2% for the current year, while other forecasters expect growth of less than 3%.

The slowdown is noticeable among several of France's key trading partners, including Germany, Italy and the United Kingdom. Foreign demand in France will be affected, with the result that GDP growth will slow down again in 2019 (+1.3% following +1.7% in 2018).

Economic activity should nevertheless be resilient. Whilst the French have so far increased their savings, they could gradually increase their spending, in a more favourable context marked by a sharp rise in purchasing power gains, an improvement in household confidence and the slowdown in the yellow vests movement. Other indicators have improved: although still far from its December 2017 high, the business climate has gained four points since the beginning of the year after having lost almost ten points in 2018. Furthermore, the increase in business start-ups should remain steady, following the almost 20% year-on-year increase recorded in 2018 in the Greater Paris Region.

The employment market is also showing a positive trend: while it remains slightly above its pre-crisis level, the unemployment rate fell to 7.6% in the Paris region in the first quarter of 2019, and remains significantly below the French average (8.7%).

RESPECTABLE

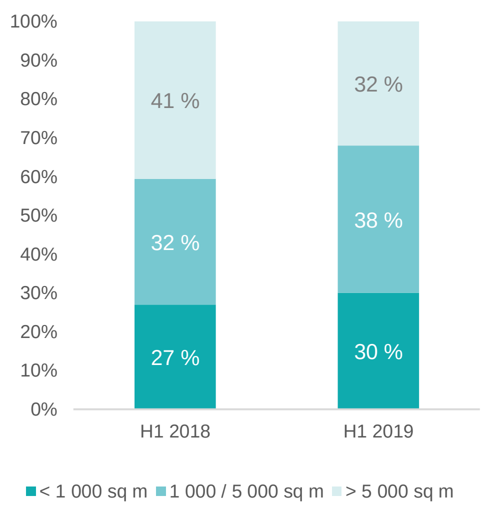
593,000 sq m of office space was let or sold to occupiers in the Greater Paris Region in the second quarter of 2019. Slightly higher than in the first quarter, this volume brings total take-up for the first half of the year to 1.13 million sq m. This is down 15% compared to the same period in 2018, but still 6% higher than the ten-year average.

Rather than the slowdown in economic activity, which has been fairly favourable despite the expected decrease in GDP growth, it is the absence of very large transactions that is the main reason for the decrease in take-up since the beginning of 2019. The scarcity of available supply and the increase in Market Rents have also limited the number of new transactions, slowing down decision-making and encouraging occupiers to renegotiate their leases rather than move.

The analysis of take-up by area category illustrates the strength of the Greater Paris Region office market. The small and medium-sized transactions category, the backbone of letting activity, showed only a slight decrease of 3% year-on-year, despite the severe shortage of supply in inner-Paris and the continued increase in coworking spaces. Intermediate sized areas (1,000 - 5,000 sq m) remain particularly popular, with a take-up volume of 426,000 sq m, of which 38% was concentrated in the capital.

This resilience contrasts with the sharp decrease observed in the > 5,000 sq m area category. There were 34 transactions in the first half of the year 2019 (compared to 39 for the same period last year), totalling almost 360,000 sq m, a 34% decrease year-on-year. Lettings between 5,000 sq m and 15,000 sq m formed the vast majority of these movements, while very large transactions > 20,000 sq m were quite rare and were exclusively found in the Inner Suburb markets.

Take-up by area category in the Greater Paris Region



Source: Knight Frank

THE WEST IS STRUGGLING

The Western Crescent recorded the largest decrease in the first half of 2019, with take-up 30% lower than in the first half of 2018. This sector has essentially suffered from a limited number of large transactions: only eight transactions > 5,000 sq m, totalling 81,000 sq m, have been signed since January, reflecting an annual decrease of 62% due to the very sharp slowdown in activity in the Péri-Défense sector.

The decrease in demand for large areas also weighed on La Défense's performance. With 51,000 sq m, of which only one transaction was for > 5,000 sq m, the volumes let there show a 29% decrease over the year and a 35% decrease compared to the average over the last ten years. However, the expected completion of TOTAL's lease of approximately 130,000 sq m on "The Link" will increase take-up in the business district by the end of 2019.

The Inner Suburb markets show much more positive results. They are the only markets in the Greater Paris Region to see their volume increase from one year to the next (+ 45%), even if this increase is the result of a limited number of large transactions which total eight, including three of over 20,000 sq m: SOCIÉTÉ GENERALE in "Sakura" in Fontenay-sous-Bois, EDF in "Flow" in Montrouge and, more recently, SOCIÉTÉ DU GRAND PARIS in "Moods" in Saint-Denis. Already present in each of these towns which are future Grand Paris Express hubs, the three aforementioned occupiers are consolidating their presence by leasing new buildings, buildings that have been recently delivered or that are under construction.

Examples of large letting transactions in Q2 2019

Asset / Address	Tenant	Area (sq m)
Moods / Saint-Denis (93)	Société du Grand Paris	30,000
Le Blériot / Suresnes (92)	Skema Business School	14,000
Ateliers Gaité / Paris (75014)	Wojo	12,800
Résonance / Bagneux (92)	Orange	12,400
Le Sémaphore / Levallois-Perret (92)	Doctolib	11,200
46 avenue de Breteuil / Paris (75007)	*Confidential*	9,500
Sense / Puteaux (92)	Hewlett-Packard	9,200
98-100 rue de Courcelles / Paris (75017)	Valeo	7,500
170 bd de la Villette / Paris (75019)	WeWork	7,300
22 bd Malesherbes / Paris (75008)	Kwerk	5,300

Source: Knight Frank

The last three months have confirmed the downward trend seen at the beginning of the year in the capital. With take-up of almost 453,000 sq m in the first half of 2019 (-16% year-on-year), the Paris market is nevertheless proving resilient in view of the severe shortage of available supply and a vacancy rate that has been maintained below the 3% threshold for seven quarters now.

The scarcity of supply is weighing on the performance of the small and medium-sized lettings market in the CBD, with office letting volumes for areas of less than 5,000 sq m down 19% compared to the first half of 2018. Across all area categories, the volume of take-up in the central business district fell by only 11% over the year as a result of several large transactions and the continued expansion of coworking players.

The decrease is more marked in the Paris South sector (-16%), where large transactions did not play their usual leading role in the first half of 2019. Once again, it is the shortage of real estate solutions that is the issue. This market now has only four offers > 5,000 sq m immediately available, totalling approximately 50,000 sq m, while take-up on this area category averaged 93,000 sq m over the last five years.

COWORKING: 62% OF THE PARISIAN MARKET

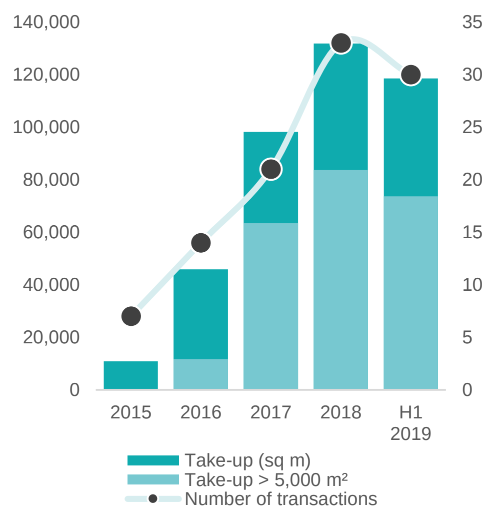
Following 130,000 sq m in 2018, coworking players have already let 119,000 sq m of office space in the first half of 2019. Several small and medium-sized transactions have been recorded. It is in this market category that DESKEO has stood out. Recently acquired by KNOTEL, the No. 3 player in the New York market, they have leased more than 15,000 sq m in approximately ten transactions in Paris and Boulogne. But the rapid growth of coworking is due above all to the increase in the number of large areas being let. Since January, coworking has been responsible for eight transactions > 5,000 sq m in the Greater Paris Region, making it the most dynamic sector of the first half of the year, ahead of the services and new technology sectors.

Although some movements have been recorded in the Inner and Outer Suburbs, coworking remains a very Parisian phenomenon. It is in the capital that all the major coworking transactions have been signed since January. With 8 of the 14 transactions > 5,000 sq m in the first half of 2019, coworking thus represents 62% of the volume of large transactions recorded in Paris since January, whereas this share was "only" 25% in 2018 and 8% in 2017.

While the largest operators are expanding their network within the CBD (KWERK at 18 rue de Courcelles and 22 boulevard Malesherbes in the 8th district), the coworking space supply is also expanding in other less well supplied areas of the capital. For example, WOJO has just pre-let 12,800 sq m in the "Ateliers Gaité", a mixed programme that UNIBAIL-RODAMCO-WESTFIELD will deliver in 2020 near Montparnasse Station (Paris 14th). WEWORK has also let 7,300 sq m at 170 boulevard de la Villette in the 19th district, in addition to the five other leases signed since January by the American giant. With a total of 150,000 sq m leased since 2015, WEWORK consolidates its leading position in the Paris Region market, even if it is even less present there than in New York (840,000 sq m) and London (a little more than 300,000 sq m).

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

By volume sq m



Source: Knight Frank

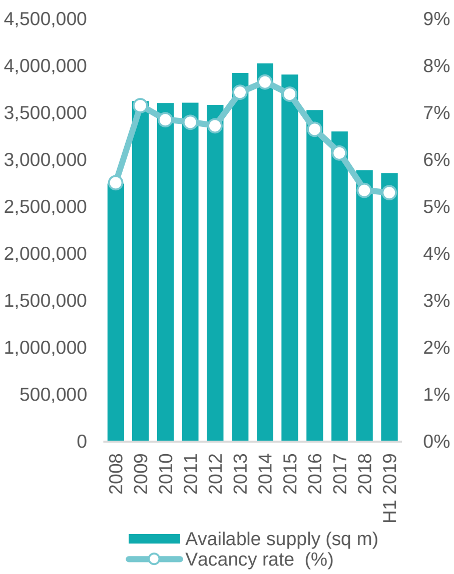
SUPPLY: WAITING FOR 2020…

After a sharp decrease between the beginning of 2015 and mid-2018 (-23%), the volume of immediate supply in the Paris region gradually stabilised, with a 7% decrease between the end of the first half of 2018 and the end of the first half of 2019. Total supply now stands at 2.86 million sq m of offices, 17% of which is Grade A space, reflecting a vacancy rate of 5.3% compared to 5.7% a year ago, and 6.6% for the same period in 2017.

The inner-Paris office market has been in a marked shortage situation for several months, with an average vacancy rate of 2.3%. In Paris CBD this rate is 1.8%, with an available volume of 115,000 sq m, 12% of which is Grade A space. Other districts, such as Paris Centre West or Paris 18/19/20th, seem better supplied even if the offer is largely inflated by a few large new or second-hand areas ("Rezo" or "Thémis" in the 17th, "View" in the 20th, etc.).

Available supply in the Greater Paris Region

Immediate supply, in sq m



Source: Knight Frank

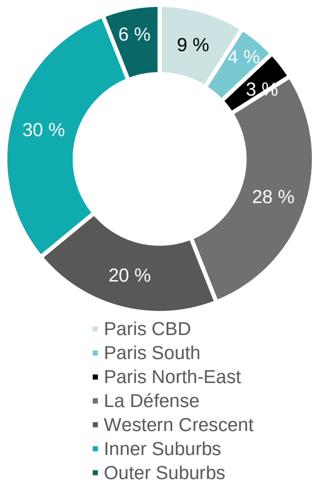
The solutions available to occupiers are also very limited in the Inner Eastern Suburbs, Neuilly-Levallois and La Défense, with vacancy rates ranging from 4.4 to 4.9%, below the Greater Paris Region average.

Elsewhere, the situation remains very contrasted, from the relatively balanced situation observed in the Southern Loop and in the Inner Southern Suburbs – which has enjoyed an increase in interest from large occupiers in recent months – to the numerous available assets in the Northern Loop and in the Péri-Défense sector.

The Paris Region office stock should not change significantly by the end of the year. In fact, while the volume of deliveries planned for 2019 could be almost 19% higher than in 2018 (956,400 sq m compared to 764,000 sq m), only 29% of the projects completed in the first half of the year or expected in the second half are still available. Two markets account for just over half of this remaining supply: inner-Paris, with a few large assets mainly located in the CBD ("Sixteen Matignon", "83 GA", "36 Kléber"), and the Péri-Défense sector, where recent and future developments are mainly concentrated in Nanterre.

Geographic breakdown of available supply under construction in the Greater Paris Region

% of total volume in sq m



Source: Knight Frank

While the second half of 2019 will not change the situation, 2020 and 2021 should, on the other hand, allow for a more significant renewal of supply. The volume of deliveries of certain and potential projects announced over the period totals almost 3.2 million sq m, of which 1.8 million are under construction and 1.1 million are still available.

Once again, the West concentrates a large share of developments, with a volume evenly distributed between the Western Crescent ("Parallel" in Courbevoie, "Upside" in Nanterre, etc.) and in La Défense. In the business district, 280,000 sq m will be delivered in 2020 and 2021 ("Trinity", "Alto", "Landscape", "Curve", "Akora", etc.), returning to the high level of the mid-2010s; an abundant production that the market has taken five years to fully absorb....

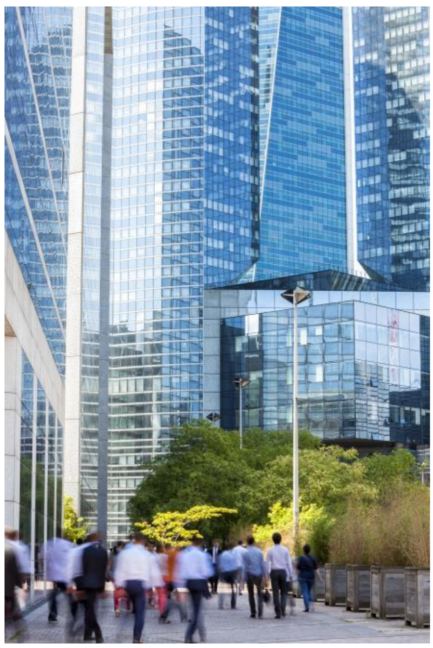
Deliveries will also intensify in the Inner Suburbs, particularly in the Northern and Southern sectors, supplied by several large properties ("Stories" in Saint-Ouen, "Symbiose" in Bagneux, etc.) and boosted by the prospects for the commissioning of the Grand Paris Express and the hosting of the 2024 Olympic Games.

CONTINUED INCREASE IN MARKET RENTS IN PARIS

In Paris, there are also many construction sites and projects with building permits. Following 320,000 sq m in 2019 (of which nearly 80% is already pre-let), 616,000 sq m could be delivered in 2020 and 2021 in the capital. However, 55% of this volume is already pre-let due to the very early positioning of occupiers, as recently illustrated by a few large leases ("Cortis" in the 17th district, "Les Ateliers Gaité" in the 14th district).

Several pockets of availability remain in the capital, in more or less central districts. In the CBD, a few large-scale projects are still expected in the Cité Financière ("100 Réaumur", "La Samaritaine", etc.). However, the future supply is much more extensive in the Etoile sector ("22 Bayard", "83 Marceau", "Renaissance" etc.). There is no doubt that the strong demand from large ocupiers, who are keen to accommodate their growth and provide a working environment and address that can retain or attract talent, will enable the absorption of the highest quality office projects before their completion.

In Paris, the scarcity of supply could therefore continue well beyond 2019 and continue to put pressure on Market Rents. While the prime rent is stable from one quarter to the next (€845 /sq m/year), the average rent increased quite significantly. It now stands at €650 /sq m/year in the CBD, an increase of 6% over one year. Rental incentives are decreasing, ranging from 5% to 15% in Paris, while they reach 20% to 30% in the other Paris region office areas.



THE INVESTMENT MARKET

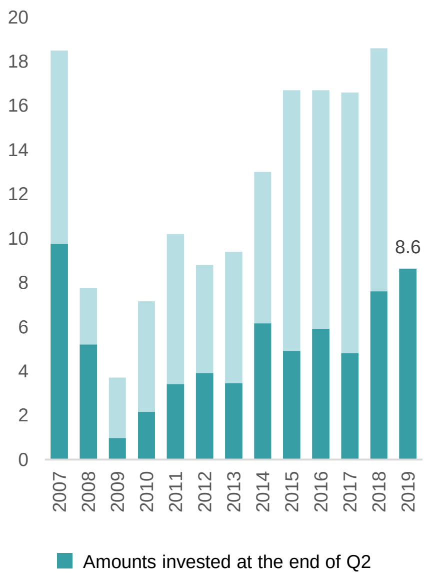
MULTIPLIED BY THREE!

Volumes invested in the Greater Paris Region office market tripled between the first and second quarters of 2019 and totalled €8.6 billion over the first half of the year. Up 13% year-on-year, this amount represents 75% of all amounts invested in France, all asset types combined.

Large transactions played a key role, in particular those undertaken by SWISS LIFE ("Texas" portfolio) and PRIMONIAL REIM associated with the Koreans of SAMSUNG ("Le Lumière", Paris 12th), for a cumulative volume of almost three billion euros. These two large transactions also explain the over-representation of the inner-Paris market. The capital alone accounted for 55% of the total investment volume in offices in the Greater Paris Region since the beginning of 2019, including a significant proportion in the Paris Centre West sector. Among the most significant transactions recorded in western Paris was the sale to GCI and LONE STAR of the former LAFARGE-HOLCIM headquarters at 61-63 rue des Belles Feuilles in the 16th district. Other notable acquisitions include those by UNION INVESTMENT, AMUNDI and LA FRANÇAISE of three buildings leased to WEWORK and SPACES in the 1st, 9th and 17th districts, highlighting the ever-increasing role of the coworking giants in Paris.

Greater Paris Region Office Investment Volumes

In B €



Source: Knight Frank

While Paris was the star of the first half of the year, La Défense could well take over by the end of 2019. In addition to the two transactions of more than 200 million euros recorded since January (the "Europe" and "CBX" towers, sold to KIS and HINES), several other major transactions will also be completed, testifying to the confidence that foreign investors, particularly Koreans, have shown in the future of Europe's leading business district.

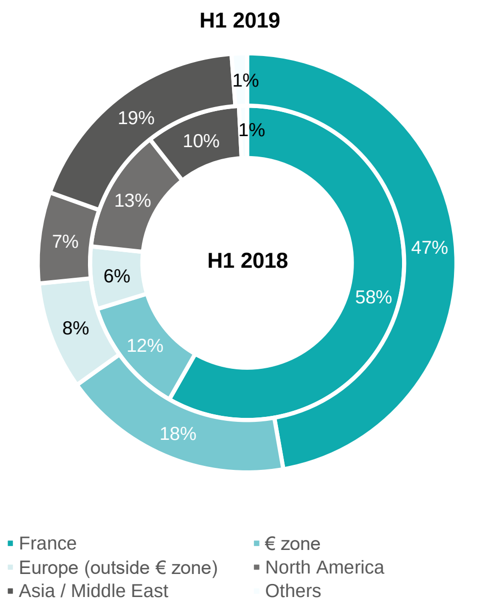
Elsewhere in the Greater Paris Region, the remainder of investment activity is split between Western areas that are located in proximity to La Défense (Neuilly-sur-Seine, Rueil-Malmaison, Nanterre, etc.) and other Inner Suburb markets such as the South. The latter remains very popular: continuing the very good results of the 2nd half of 2018 (715 million euros invested), 650 million euros were invested in the 1st half of 2019, mainly concentrated in the towns of Montrouge, Châtillon and Malakoff. This sector has many advantages for investors (proximity to Paris, quality surroundings, access improved by the creation of Grand Paris' line 15 and the extension of line 4 of the metro, etc.).

The French accounted for 47% of office investments in the Greater Paris Region in the first half of 2019, a share inflated by the few large transactions of savings collectors (sale to LA FRANÇAISE of "Smart Up" in Châtillon, etc.), within a context of a clear recovery in the fund collections of OPCI/SCPIs. The influx of international capital is also one of the key trends of 2019, reflecting the greater depth of the French market. It is mainly Koreans who are standing out: despite a very limited number of transactions they accounted for 31% of the amounts invested by foreign investors since January compared to barely 7% at the same time last year. They have exclusively positioned themselves on large office complexes in Paris and in the West (the "Lumière" in Paris, the "CBX" and "Europe" towers in La Défense, "Cristalia" in Rueil-Malmaison).

Korean acquisitions boosted the share of core assets, which accounted for 72% of all amounts invested in offices. However, the Greater Paris Region office market also remains very attractive for investors who prefer greater risk exposure, encouraged by the strength of occupier demand, a controlled office supply and the potential for growth in Market Rents. This is the case for the British and North Americans, who have targeted several higher-risk transactions and properties that need to be refurbished in Paris and the Inner Suburbs.

Breakdown by nationality

Greater Paris Region office acquisitions



Source: Knight Frank

The high level of investment volumes at the end of the first half of 2019, and the expected completion of other very large transactions, indicate that the Greater Paris Region investment market is set to have another exceptional year. All the conditions seem to be in place to approach, or even repeat, the very strong performance seen in 2018 (€18.6 billion invested in offices), despite an international context marked by strong geopolitical and commercial tensions, the still real possibility of a hard Brexit and the slowdown in the global economy.

This uncertainty, combined with the ECB's accommodating policy, specifically benefits the real estate market, which offers both stability and better returns than equities and bond products. Indeed, the spread is now almost 300 basis points between the between the 10-year OAT bond rate and the Paris CBD office yield. Between 3.00% and 3.25%, the latter remains stable from one year to the next, while downward pressure is being applied to other office areas in the Greater Paris Region.

Examples of investment transactions as at Q2 2019

Asset / Address	Seller	Buyer	Area (sq m)
Texas Portfolio / Paris (75*)	Terreïs	Swiss Life	-
Le Lumière / Paris (75012)	Tishman Speyer	Primonial Reim / Samsung	137,000
Tour CBX / Courbevoie - La Défense (92)	Tishman Speyer	Hines	43,000
Tour Europe / Courbevoie - La Défense (92)	BlackRock	KIS	28,500
Newtime / Neuilly-sur-Seine (92)	Officiis Properties	Primonial Reim	15,700
61-63 rue des Belles Feuilles / Paris (75016)	MACSF	Lone Star / GCI	11,700
Smart Up / Châtillon (92)	Tishman Speyer	La Française	23,200
253 bd Pereire / Paris (75017)	6e Sens Immobilier	La Française	7,500
7-9 rue Saint-Florentin / Paris (75008)	Westbrook	Dentressangle	6,500
Native / Montigny-le-Bretonneux (78)	Codic	HSBC Reim	19,000
62-68 rue Jeanne d'Arc / Paris (75013)	AG Real Estate	LIM	9,800
La Coupole Nord & Sud / Charenton (94)	Covivio	DeA Capital	11,300

Source: Knight Frank / *28 assets, mainly located in Paris' 1st, 2nd, 8th, 9th and 10th districts.

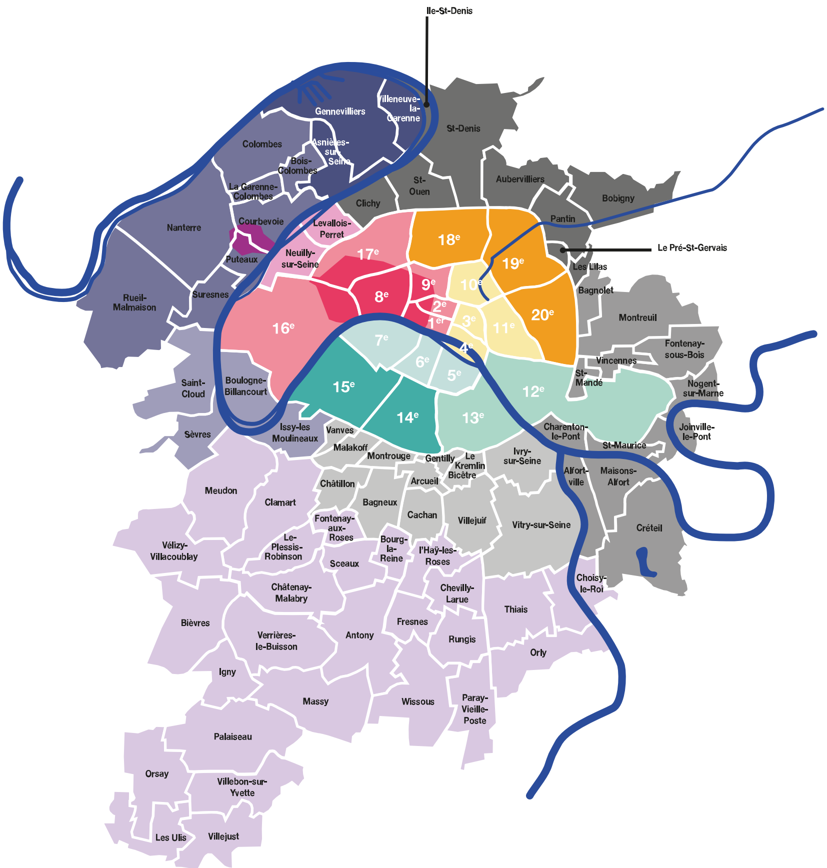
Greater Paris Region office market indicators

	Greater Paris Region End H1 2018	Greater Paris Region End H1 2019	Annual change
Take-up	1,335,200 sq m	1,132,700 sq m	- 15%
Take-up > 5 000sq m	541,700 sq m	357,000 sq m	- 34%
Immediate supply	3,051,000 sq m	2,860,000 sq m	- 6%
Vacancy rate	5.7 %	5.3 %	- 0.4pt
Prime rent*	€830 /sq m	€845 /sq m	+ 2%
Investment volume	€7.6 B	€8.6 B	+ 13%
Share of deals > €100 M**	74%	73%	- 1pt

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 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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