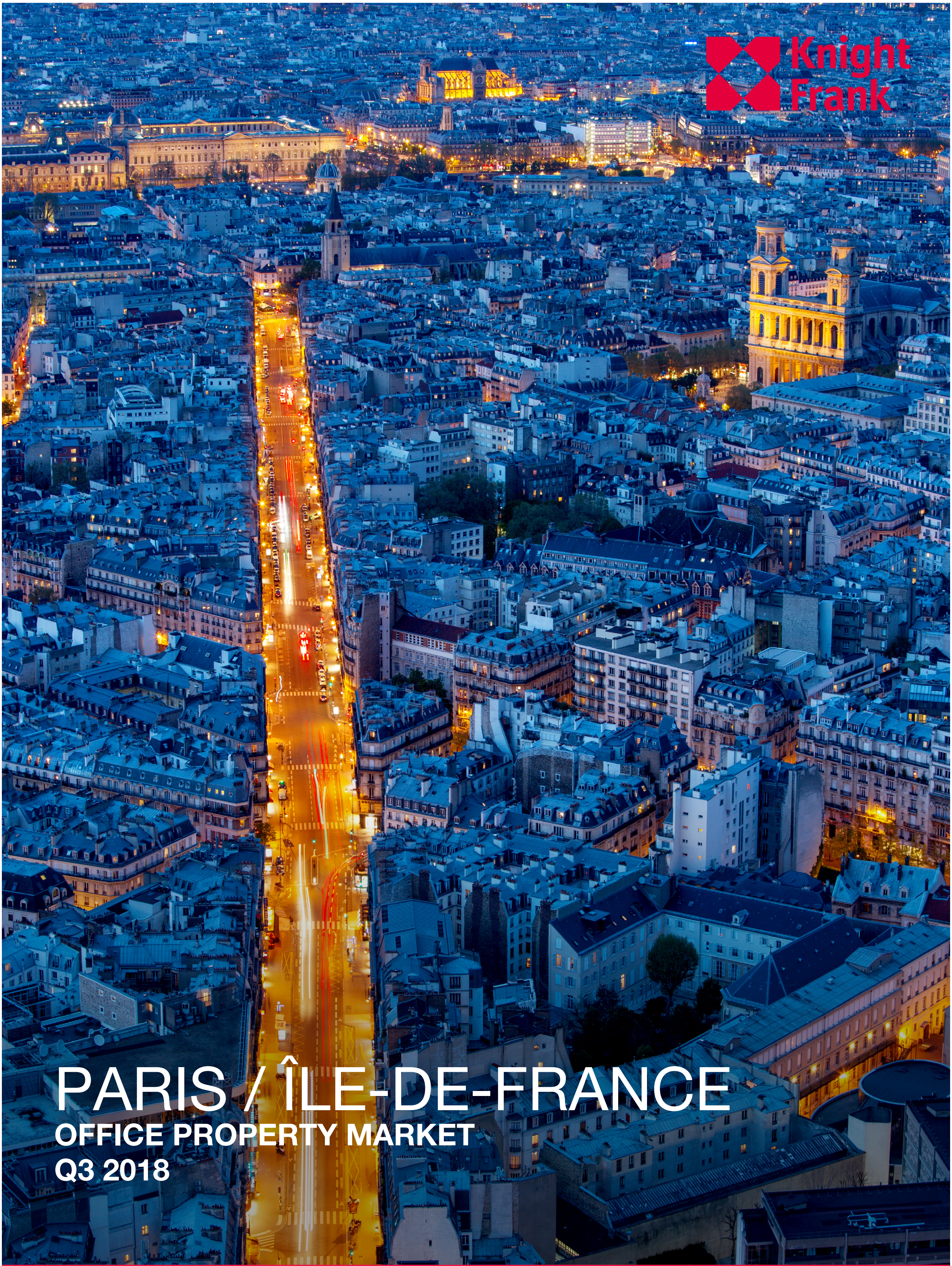


PARIS / ÎLE-DE-FRANCE

OFFICE PROPERTY MARKET

Q3 2018

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

OCCUPIER MARKET

KEY FINDINGS

In 2019, French GDP growth will maintain the same growth rate as in 2018 (+ 1.6%).

Lettings activity slowed during Q3, with take-up volumes down 3% compared to the previous quarter.

In inner Paris, take-up volume is likely to exceed one million sq m for the whole of 2018.

Prime rent currently stands at €840 /sq m/year (+ 9% year-on-year).

9.7 billion euros were invested in the Greater Paris Region office market over the first nine months of 2018, an increase of 15% year-on-year.

Core assets account for almost 60 % of investment volumes since January.

ECONOMY: INCREASED UNCERTAINTY

Weaker household consumption, sluggish manufacturing production and a slowdown in exports all weighed on the French economy during the first half of 2018. During the second half of the year, increased spending power and sustained levels of business investment should lead to a slight improvement in economic activity. Job creations are also expected to increase, even if they will be less numerous in 2018 than in 2017. French GDP will maintain the same growth rate in 2019 as in 2018 (+ 1.6 %). However, **momentum could wane due to a less buoyant and more uncertain international economic context** (Brexit, Italian economic policy, protectionist tensions etc.).

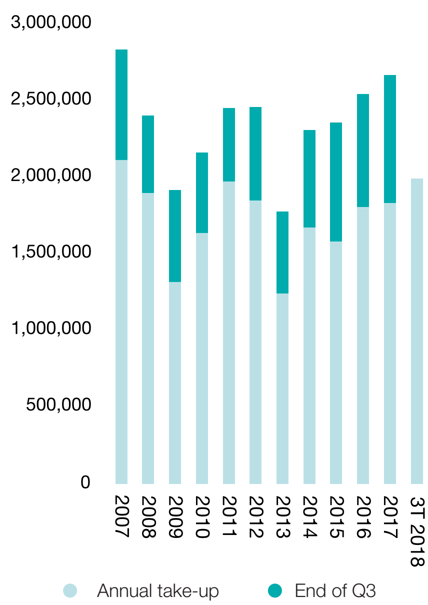
LARGE DEALS PLAY A LESS KEY ROLE

Following an excellent 1st half to the year, the Greater Paris Region office market slowed down during Q3, with **letting volumes down 3% compared to the previous quarter**. This slowdown is without doubt a temporary one, and is not enough to curtail the strong performance of the Greater Paris Region market. Almost 1.92 million sq m of offices have thus been let or sold to occupiers since the beginning of 2018, an increase of 9% year-on-year.

Whilst the market for intermediate sized areas (1,000 – 5,000 sq m) is still very active, with take-up volumes increasing by 37% year-on-year, the market for areas below 1,000 sq m shows a slight decrease of 4% year-on-year, undoubtedly due to the lack of available supply and the rise in the co-working sector, especially in Paris. The slowdown during Q3 can be primarily explained by the less decisive role of large transactions, even if there was still a relatively large number of such deals. Following the 40 deals during the 1st half of the year, 19 deals of more than 5,000 sq m were recorded over the last 3 months, resulting in a total of 59 such deals since the start of 2018. These deals account for 37% of total take-up, a slight decrease in share compared to that recorded at the same time last year (41%). It is therefore the size of the deals that is the issue, rather than their total number. Indeed, following some large-scale company moves during the 1st half 2018 (VINCI and TECHNIP in Nanterre, NESTLÉ in Issy-les-Moulineaux, DANONE in Rueil-Malmaison), **no deal of more than 20,000 sq m was signed during Q3**.

Île-de-France take-up

In sq m



Source: Knight Frank

PARIS: ONE MILLION IN SIGHT

The lack of very large deals directly affected the performance of the Western Crescent market, whose take-up volume showed a slight decrease of 3% year-on-year (compared to + 35% at the end of the 1st half of the year). Two office hubs seem to be particularly impacted : that of the Southern Loop, where the letting of "Shift" to NESTLÉ accounts for a very large share of total take-up volume in the sector (33 %), and that of Neuilly-Levallois, where no deal over 5,000 sq m has been recorded in 2018. Following a sluggish start to the year, **La Défense on the other hand is back in the spotlight** with three large deals during Q3, all of which were for second hand space. These company moves result in total take-up in the business district of almost 115,000 sq m, an increase of 11% year-on-year, but still 10% below the average of the last 5 years. Elsewhere in the Greater Paris Region, activity remains solid. This is the case in the Outer Suburbs where NIELSEN has just signed a lease for office space of just over 7,700 sq m in “Sceneo” in Bezons. Whilst take-up volume in the Inner Suburbs is generally stable year-on-year, **the pace of lettings significantly increased in 2018 in the Inner Southern Suburbs**, bolstered by the signing of several large deals, including the recent letting of 16,000 sqm of offices in Châtillon. This sector also benefits from the availability of new or recent large office areas at competitive rents, which are potentially appealing to certain Parisian companies. The Inner Southern Suburbs will also be one of the first markets to benefit from the commissioning of the future Grand Paris Express metro line (the “15 South”), which explains the growing interest of occupiers and investors.

Examples of office lettings > 5 000 sq m in Q3 2018

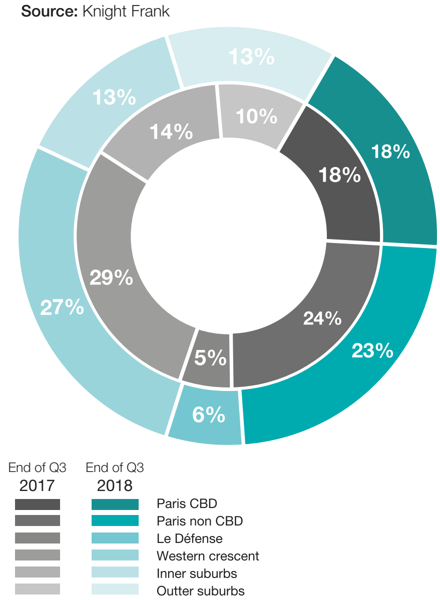
Building/Address	Tenant	Area (sq m)
Freedom / Paris 17th	Murex	16,600
Gambetta Village / Paris 20th	*Confidential*	16,000
2-4 Jules Lefebvre / Paris 9th	WeWork	12,000
#Curve / Saint-Denis (93)	ARS	12,000
Tour Europe / Courbevoie - La Défense (92)	Dalkia	10,900
14-16 bd Malesherbes / Paris 8th	AG2R La Mondiale	7,900
Sceneo / Bezons (95)	Nielsen	7,700
9 avenue de Messine / Paris 8th	Freshfields	6,300
Tour Voltaire/ Puteaux - La Défense (92)	Louvre Hôtel	6,250
2 rue Dieu / Paris 10th	Morning Coworking	6,000
Digital / Montreuil (93)	UCANSS	5,600

Source: Knight Frank

In Paris, the pace of lettings remains strong and suggests that 2018 will be another exceptional year, with **take-up volume likely to exceed one million sq m**. A little over 780,000 sq m of offices have already been let or sold to occupiers at the end of Q3 2018, an increase of 7% year-on-year and 41% of all areas let in the Greater Paris Region since January. Whilst letting activity is down in the Paris South (- 10 %) and Paris North East (- 14 %) sectors, the last three months have confirmed the strength of the west of Paris. **The CBD and Paris Centre West show an increase of 22% year-on-year**, related to the marked increase in lettings of intermediate sized areas and office space over 5,000 sq m. The latter market sector is particularly active, with 16 deals recorded since January, including 7 during Q3. Whilst take-up includes some second-hand or recently completed areas, pre-lettings remain one of the driving forces of letting activity, as illustrated by **the most significant deals of the summer: the letting of the 16,600 sq m “Freedom” building in the 17th district of Paris to MUREX**. Sectors other than those of Tech and finance help to sustain demand, for example, co-working which accounts for 24% of the volume of large deals signed in the capital since the beginning of 2018.

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

Source: Knight Frank



VALUES ON THE RISE

The restricted number of opportunities, and the level of demand from occupiers, is pushing values upwards in the new asset market sector, with **the prime rent reaching €840 /sq m/year in the CBD (+ 9% year-on-year)**, as well as in the second-hand sector which saw an average rent increase of 4%. This trend has primarily been observed in Paris and the upwards pressure is expected to continue over the coming months due to the progressive decrease of available supply. **The volume of available supply in the Greater Paris Region has once again fallen below the threshold of 3 million sq m – the first time since the start of 2009** – reflecting a vacancy rate of 5.4% at the end of Q3. Available supply in the region decreased by 5% over one quarter and 18% year-on-year. The situation is not expected to change much next year. Of the 1,320,000 sq m currently under construction in the Paris region with completion due by the end of 2019, only 44% is still available to let. This level of supply is grossly insufficient to meet occupiers’ demand and is likely to encourage them to make decisions on assets that are to be developed or refurbished. It could also persuade them to renegotiate their lease, or encourage them **to move to quality assets in sectors that have good public transport links**.

INVESTMENT MARKET

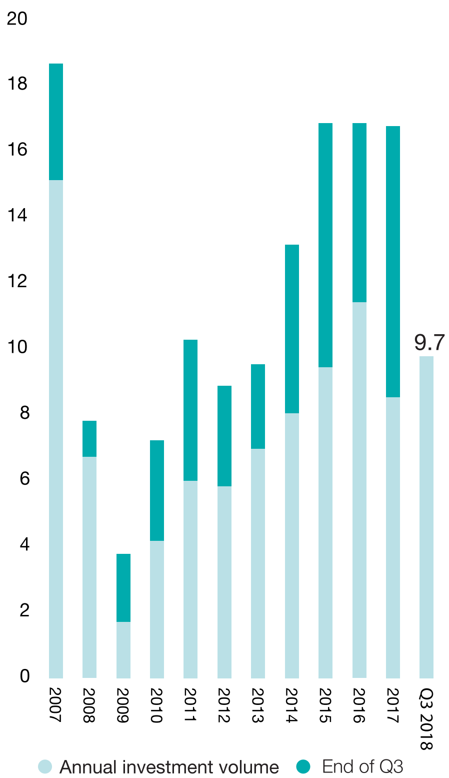
INVESTMENT: A SLOWDOWN BEFORE THE GREAT END-OF-YEAR RUSH

In spite of a less favourable economic context and a decrease in investment volumes during Q3, the Greater Paris Region investment market remained very active due to a combination of favourable factors, including an abundance of cash to be invested, significant interest for areas subject to the Grand Paris project and the strength of the lettings market. 9.7 billion euros were thus invested in the Greater Paris Region office market over the first 9 months of 2018, an increase of 15% year-on-year which is related to the increase in large deals. These total 33 since the beginning of the year, and deals of more than 100 million euros retain a leading role **as they account for 69% of all office investment volumes in the Greater Paris Region**.

Paris itself still comprises a significant proportion of deals, accounting for 52% of office investment volumes in the Greater Paris Region since the beginning of 2018. Investment activity is primarily concentrated in the CBD, where COVEA IMMOBILIER recently finalised their acquisition of the « Neo » building (Paris 9th). Other areas of the capital have also been targeted, as shown by the sale to TH REAL ESTATE of the office, hotel and retail parts of “Morland Mixité Capitale” (Paris 4th), and the sale to GENERALI of “Atrium Bercy” (Paris 12th). Outside of Paris, large deals were few in number during the 3rd quarter, but nevertheless confirmed the **increasing appetite of investors for certain areas subject to developments in the north and south of the Greater Paris Region** (“Network I” in Bagneux, bought by LBO FRANCE, etc.) The most established office hubs to the West of Paris still account for a good proportion of investment activity. Since January, Neuilly-Levallois and the Southern Loop thus total 37% of office investment volumes outside of the capital. This relatively high share contrasts with the low level of sums invested in La Défense, where the summer period was primarily driven by the purchase of “Curve” in Puteaux by MONCEAU ASSURANCES, and where investment volumes since January have not exceeded 200 million euros. That being said, **several large or very large deals are ongoing, and their completion will mark the business district’s return to the forefront**.

Île-de-France office investment volumes

€ billion



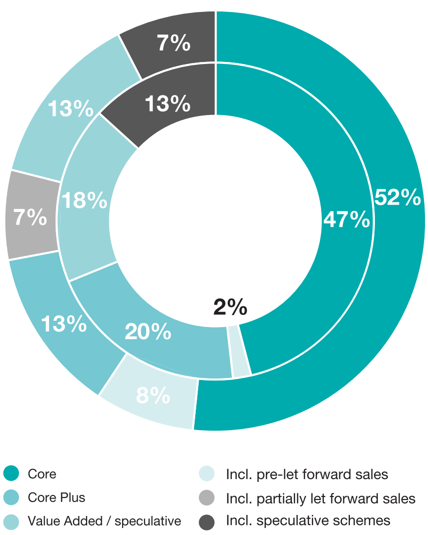
Source: Knight Frank

The breakdown of investment volumes by risk type confirms the appeal of highly secure assets to investors. As such, **core assets account for almost 60% of investment volumes**, a share which has been stable since the start of the year and which has been inflated this quarter by COVEA IMMOBILIER’s acquisition of “Neo”. However, the strength of the lettings market and the lack of prime assets also fuels investors’ appetite for other types of product, whether this be assets that need refurbishing within established office hubs, or new buildings that are developed speculatively in some of the future Grand Paris hubs. Among the most recent and significant deals is the sale by BOUYGUES IMMOBILIER to IVANHOE CAMBRIDGE of the “Outside” building in Nanterre for around 50 million euros.

Prime yields remain unchanged (between 3.00 and 3.25% in Paris CBD), even if **a decrease is possible in certain sectors of the Greater Paris Region**. A general increase in yields is not expected in the short term due to high investor demand. Furthermore, Mario Draghi, President of the ECB, recently indicated that the bank would keep key interest rates at their current level until at least summer 2019. The spread thus remains favourable to the real estate sector which, combined with several other factors (anticipation of the new Franco-Luxembourg treaty, etc.), suggests that investment volumes should bounce back significantly during the 4th quarter.

Breakdown by risk profile

Transactions > €20 million in Île-de-France



Source: Knight Frank

Examples of investment transactions in Q3 2018

Source: Knight Frank

Building / Address	Seller	Tenant	Area (sq m)
Neo / Paris 9th	Qatar Investment Authority	Covea Immobilier	26,700
Morland Mixité Capitale* / Paris 4th	Emerige	TH Real Estate	28,300
Le Square / Paris 8th	GLL Real Estate Partners	PGIM	6,900
Atrium Bercy / Paris 12th	GLL Real Estate Partners	Generali	11,800
Network I / Bagneux (92)	Codic / Nexity	LBO France	20,900
46-48 avenue de la Grande Armée / Paris 16th	ACFCI	Ardian	8,100
20-24 rue Jacques Ibert / Levallois (92)	Privé	Principal Real Estate	9,800
The Curve / Puteaux-La Défense (92)	Perial	Monceau Assurances	15,000
New / Asnières-sur-Seine (92)	Nexity	Deka	14,700
Le Silly I / Boulogne-Billancourt (92)	Primonial Reim	Principal Real Estate	8,100
Outside / Nanterre (92)	Bouygues Immobilier	Ivanhoe Cambridge	8,900

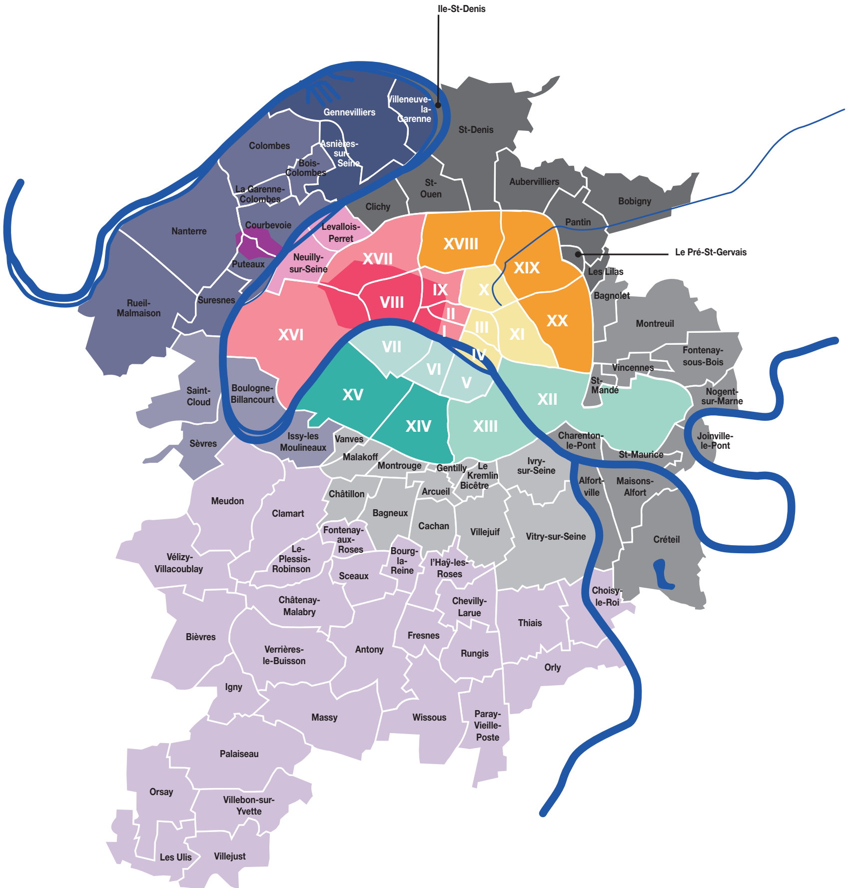
*Office, hotel and retail parts of the development

Office market indicators in Île-de-France

Source: Knight Frank

	Île-de-France End of Q3 2018	Île-de-France End of Q3 2017	Annual growth
Take-up	**1,923,000 sq m**	1,767,000 sq m	+9%
Take-up > 5,000 sq m	**714,000 sq m**	720,000 sq m	-1%
Available supply	**2,900,000 sq m**	3,530,000 sq m	-19%
Vacancy rate	**5.4%**	6.6%	-1,2pt
Prime rent*	**€840/sq m/year**	€770/sq m/year	+9%
Investment volume	**€9.7 billion**	€8.4 billion	+15%
Transactions > €100 million | Share	**69%**	60%	+9pts

*Prime rent: weighted average of 5 transactions> 500 m² with the highest rents of the past 12 months, all asset characteristics include.



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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