



PARIS / ÎLE-DE-FRANCE
OFFICE PROPERTY MARKET
Q4 2017

OCCUPIER TRENDS

INVESTMENT TRENDS

MARKET OUTLOOK

KEY FINDINGS

In 2017, a rise of nearly 2% in French GDP ended several years of sluggish growth. Economic activity is expected to remain steady in 2018.

With 2.57 million m² in 2017 (+5% year on year), take-up is at its highest since 2007.

Last year there were 96 transactions of more than 5,000 m², for total volume of just over 1.2 million m², or 47% of total take-up.

Higher pre-letting rates in Île-de-France provided one of the year's most significant trends.

In 2017, €16.3 billion was invested in office properties in Île-de-France, of which 43% for 14 transactions greater than €200 million.

The prime rate for the CBD remains at an all-time low (3.00%). This compression continued in other tertiary sectors, though stabilization is expected in 2018.

Île-de-France office take-up, in m²

Source: Knight Frank



OCCUPIER MARKET

OPTIMISM IS THE ORDER OF THE DAY

In 2017 French GDP rose nearly 2%, ending several years of sluggish growth. This recovery is all the more significant given the outlook for continuing steady business activity in 2018, in a global context that remains buoyant. Business conditions are at their most favourable in nearly ten years, and they could further benefit over the long term from

reforms launched in recent months and from economic policies set by the new government. These conditions will boost corporate confidence and underpin the slow but incontestable improvement in the job market.

AT ITS HIGHEST SINCE 2007

The year 2017 will go down as one of the best ever for the Île-de-France office market, even if the market has yet to fully benefit from economic recovery. With 2.57 million m² let, take-up has risen 5% year on year, and 15% compared with the ten-year average. This was the best performance since 2007. The 4th quarter was especially strong, with nearly 760,000 m² let, of which 55% was for properties larger than 5,000 m². In 2017, 96 large deals were made for 1.2 million m² (i.e. a 36% rise year on year and 47% of total take-up). Although the performance of small and medium-sized properties was unexceptional – volume was down 13% year on year – take-up remained slightly above the ten-year average.

Boosted by transactions for consolidation and streamlining purposes by occupiers in traditional sectors (e.g. SNCF on the SFR campus in Saint-Denis, AXA in Java in Paris 17th), the market also benefited in the 4th quarter from the expansion of major players in the new economy (e.g.

Free in the 57 M building in the 8th) and from the first large deal related to Brexit (Bank of America at 49–51 rue La Boétie). In addition, coworking spaces continue to open across Île-de-France. In 2017 they accounted for 5% of all take-up for spaces larger than 5,000 m², compared with only 1% in 2016. The coworking phenomenon is so successful that spaces are now opening outside Paris (BAP in Gate One in Clichy, Regus/Spaces in Le Belvédère in La Défense). New leases have been signed inside Paris too, including some of the year's highest rental values (WeWork at 92 Champs-Élysées).

INCREASE IN THE NUMBER OF LARGE DEALS IN THE INNER AND OUTER SUBURBS

Paris accounted for a large part of volume let in 2017 (nearly 40%, compared with 46% in 2016), largely because of a sharp increase in lettings of large properties in the 4th quarter (16, for a total of 33 in 2017 with volume of 400,000 m²). The demand by Parisian occupiers remained strong for new-redeveloped office spaces, which accounted for 93% of properties larger than 5,000 m² let last year in Paris,

compared with 73% in Île-de-France. A few recently completed development projects have been fully let (AXA in Java, Europcar in Metropolitan). Projects which will not be completed for another few months have also been partly or fully let (Chanel at 52 avenue des Champs-Élysées, Pernod Ricard in Grand Central, Willkie Farr & Gallagher in Eureka).

During the year, deal volume also increased outside of Paris. The number of large transactions in the inner and outer suburbs has risen since the beginning of the second half. In the northern suburbs, which in 2017 turned in their second-best performance ever, volume let rose 46% from its ten-year average. The largest transaction was in Saint-Denis, where the SNCF let 43,000 m² of office space on the SFR campus. However, deals of more than 5,000 m² were more numerous in Clichy and Saint-Ouen. If deals made in Paris 17th are also taken into account, in the Pouchet and Clichy-Batignolles designated development zones, or ZACs (AXA in Java, OVH in Graphite, Canon in Ora), this broad north-east sector is one of the most dynamic in Île-de-France. The sector's success is hardly surprising, as it offers a number of high-quality large properties and will be linked to the extended Métro line 14 by the summer of 2020. Other areas also stood out last year, such as Nanterre, where nearly 120,000 m² of office space was let in 2017.

Examples of office lettings > 5,000 m² in Q4 2017

Asset/Address	Tenant	Area (m ²)	Rent (€/m ² /year)
SFR Campus / Saint-Denis	SNCF	43,000	330
Kosmo / Neuilly-sur-Seine	Parfums Christian Dior	25,000	620
Java / Paris 17	AXA	23,000	520
Grand Central / Paris 8	Pernod Ricard	18,000	conf.
Le Belvédère / Puteaux-La Défense	Spaces	17,700	480
Ora / Paris 17	Canon	17,000	420
Montigny-le Bretonneux	BMW	14,400	Sale*
Connect / Vélizy-Villacoublay	Renault	13,600	205
Network / Bagneux	Mondadori	10,000	320
49-51 rue La Boétie / Paris 8	Bank of America	9,300	780

Source: Knight Frank / * Sale to occupier

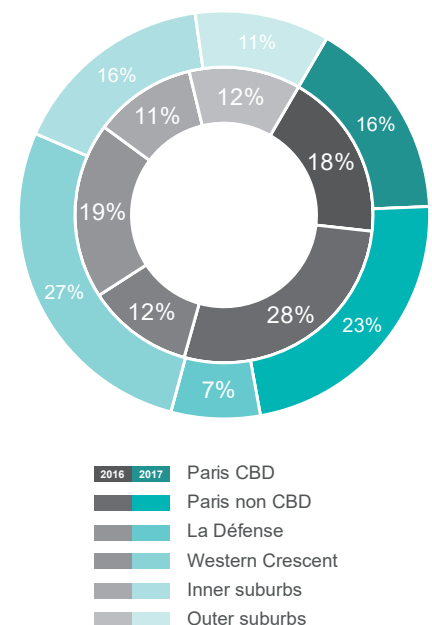
GEOGRAPHICAL RECONFIGURATION UNDER WAY

Total available supply in the Paris region declined 6% from the third quarter and 7% year on year, to a little over 3.3 million m² as at the end of 2017. The vacancy rate came to 6.1%. Despite significant delivery volume (1 million m²), increased construction-redevelopment activity was insufficient to replenish stock. This led to a higher pre-letting rate of 62% in Île-de-France, one of 2017's most significant trends. All indicators suggest that these conditions will continue, particularly in Paris, where only 60% of the 410,000 m² of office space expected in 2018 are still available. Because of a lack of high-quality supply, companies that require a Paris address will likely renegotiate their leases or significantly anticipate the letting of high-quality office space. This will likely also be the case for the most-established communes in the Hauts-de-Seine. However, other sectors

may manage to outperform. Because of their significant growth potential, several areas such as Nanterre, the northern suburbs (Saint-Ouen, Saint-Denis) and the southern suburbs (Bagneux, where Mondadori recently let 10,000 m² in Network, to be delivered by 2020) are increasingly attractive. As work advances on the Grand Paris Express, which will provide occupiers additional cost-efficient solutions, the Île-de-France office market continues to evolve.

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

Source: Knight Frank



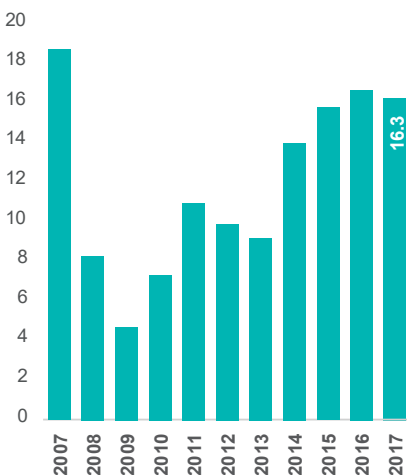
INVESTMENT MARKET

INVESTMENT: RECORD END OF YEAR

Although 2017 may have begun quietly, investments in the Paris region grew steadily over the year as large deals were finalized. Office transactions of more than €200 million came to more than €7 billion in 2017 (+8% year on year), or 43% of total office investment in Île-de-France (€16.3 billion). In the second half, 10 out of the 14 transactions greater than €200 million were completed. In just the last three months of the year seven deals were completed, bringing total office investment in the fourth quarter came to €7.7 billion. A record! Among the most significant deals was the disposal of Cœur Défense for €1.8 billion, the sale of Ecowest in Levallois-Perret for nearly €700 million, and the sales of 6–8 Haussmann and Intown in the 9th.

Île-de-France office investment volumes
€ billion

Source: Knight Frank



The western crescent played a highly visible role in 2017, with nearly €4.6 billion invested (+12% year on year). In recent months, sales in Levallois have boosted the sector's volume, in addition to activity in Neuilly (Alegria, 164 Peretti). These sales were

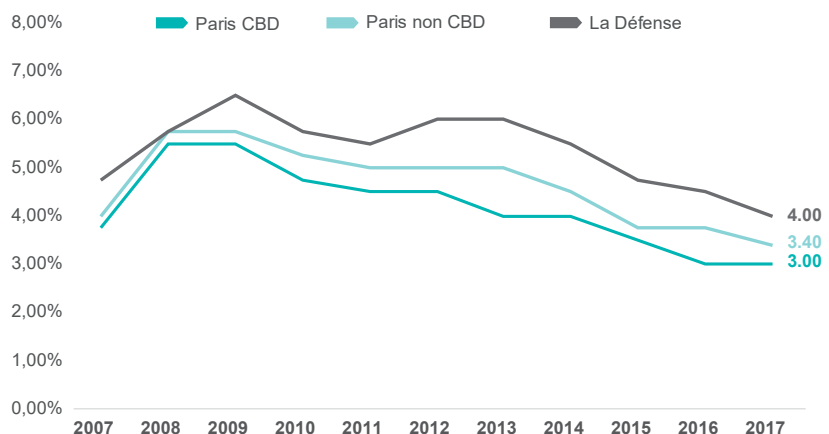
in addition to previous large deals in the Boucle Sud (southern loop) and Péri-Défense (i.e. submarkets surrounding La Défense), such as In/Out in Boulogne and West Park in Nanterre. The trend in La Défense showed a marked decline until the last quarter of the year. Down 70% year on year at the end of the 3rd quarter, investment in the business district ultimately totalled over €3.4 billion in 2017, its second-best performance ever after that of 2007. While Cœur Défense accounted for a significant part (54%) of this activity, three other large deals amounting to nearly €1 billion were completed in the 4th quarter (Hekla, Le Palatin 2 & 3, and the Cèdre tower), with the sale of Window still to come in 2018. The year-end rally also benefited the Paris CBD. While deals in the sector in 2017 declined 36% from a year earlier, the 4th quarter alone accounted for 57% of total office investment last year, including four of the year's six deals for more than €100 million. Finally, business weakened in the 4th quarter outside the Paris CBD and the Hauts-de-Seine. Notwithstanding this slowdown, several significant transactions were completed, nearly all in the inner suburbs (e.g. Evidence A in Saint-Ouen, The Factory in Clichy, Wave in Fontenay-sous-Bois and Cap de Seine in Ivry).

The increase in investment in 2017 outside the core segment reveals heightened investor risk adversity, enhanced by a lively lettings market and by scarcity of high-quality supply. The share of core plus and value-added has risen, which in 2017 accounted for 55% of all deals greater than €20 million. In this market segment, the largest deals are still exclusively for the most-established tertiary sectors (Hekla in La Défense, Grand Central and Kadence in Paris, etc.). However, a number of forward sales were completed in the inner suburbs, including several partially let operations ("Evidence A" in Saint-Ouen) and speculative schemes (Citylife and Upside in Nanterre). These highlight the advantages of zones ideally located to benefit from ongoing work on the Grand Paris Express.

Ranging from 3.00% to 3.25%, prime rates for offices in the CBD remained at their historic low throughout 2017. This compression was also observed in other tertiary sectors, in Paris and in several sectors in the inner suburbs. Despite further decline expected in the first half of 2018, the general trend is towards stabilization.

Prime yields for office properties, in %

Source: Knight Frank



Examples of office investment transactions in Q4 2017

Source: Knight Frank

Asset / Adress	Seller	Purchaser	Area (m ²)	Price (€million)
Cœur Défense / Courbevoie-La Défense	HOLD	Amundi / Primonial / Crédit Agr. Assurances	182,000	1,800
Ecowest / Levallois-Perret	ADIA	AGC Equity Partners	58,000	687
Hekla / Puteaux-La Défense	AG Real Estate	Amundi / Primonial	76,000	conf.
So Ouest Plaza / Levallois-Perret	Unibail-Rodamco	Vestas Investment Mgmt	36,600	474
6-8 Haussmann / Paris 9	ADIA	Norges Bank	24,500	462
Intown / Paris 9	SCOR	Amundi	19,900	370
Alegria / Neuilly-sur-Seine	Servier	ACM	13,000	196
Cityscope / Montreuil	GCI / Infrared	La Française	42,860	185
Cap de Seine / Ivry-sur-Seine	Tishman Speyer	Primonial Reim	32,000	167
Tour Cèdre / Courbevoie-La Défense	Deka	Redtree / Invesco	29,400	165
Evidence A / Saint-Ouen	Nexity	Amundi / CDC	20,000	152

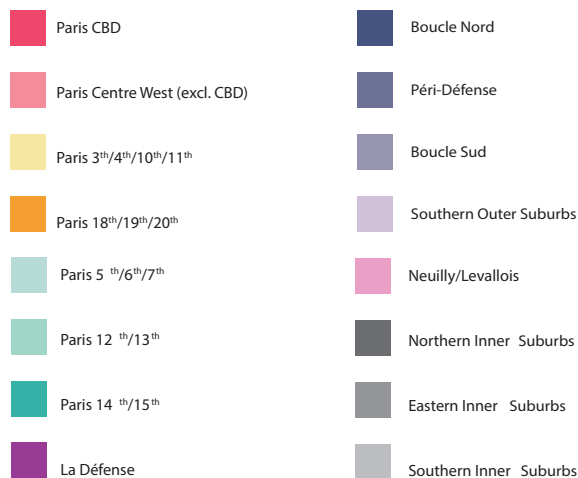
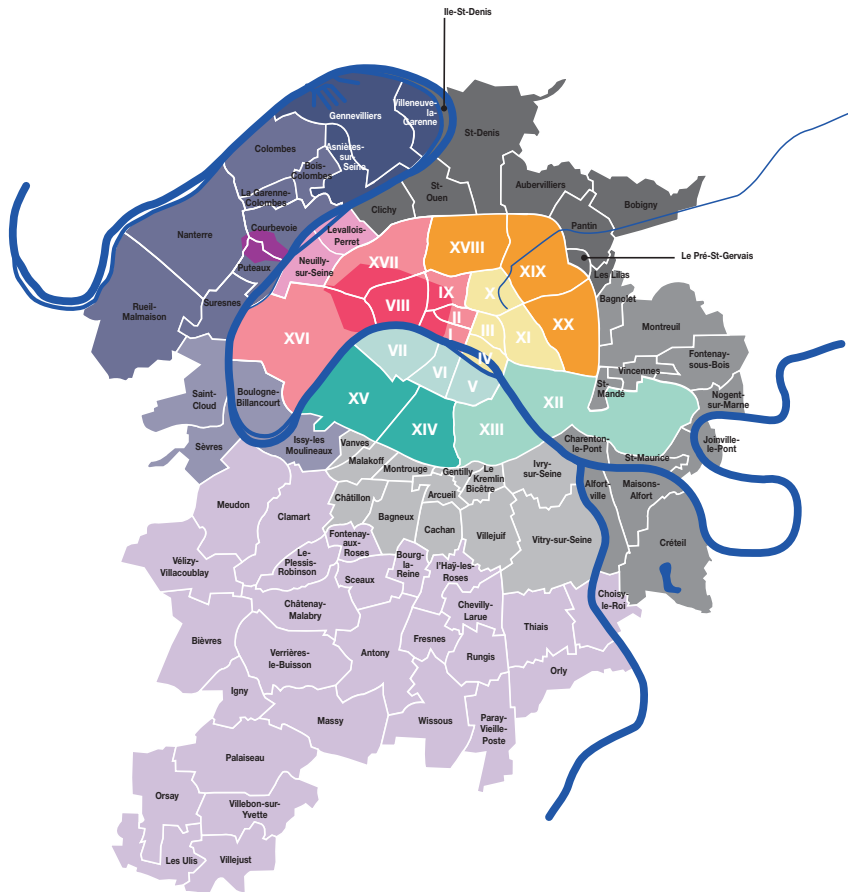
Office market indicators in Île-de-France

Source: Knight Frank

	2017	2016	Annual growth
Take-up	2,576,000 m ²	2,450,000 m ²	+5%
Take-up > 5,000 m ²	1,220,000 m ²	900,000 m ²	+36 %
Immediate supply	3,300,000 m ²	3,530,000 m ²	-7%
Vacancy rate	6.10%	6.60%	-50 bp
Prime rent*	810 €/m ² /year	790 €/m ² /year	+3%
Investment volume	€16,3 billion	€16,7 billion	-2%
Transactions > €100 million Share**	69%	65%	+3%
Prime yield	3.00%	3.00%	-

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

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



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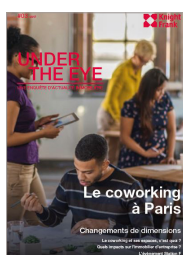
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