

THE LETTING MARKET - Q3 2015

LA DÉFENSE

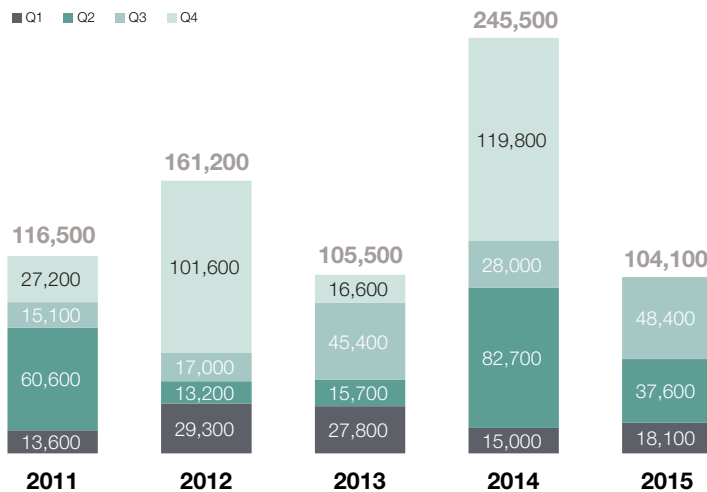


Take-up

104,100 sq m

(Source: Knight Frank)

Take up in sq m

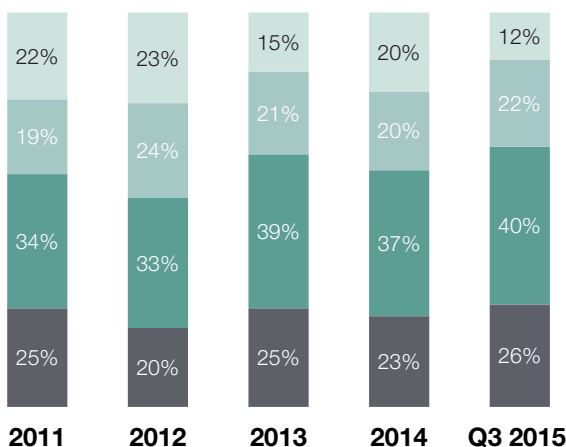


- 17%: La Défense again recorded a sharp decline in activity in the first nine months of the year, despite a correction due to strong results in Q3. At the end of the H1 2015, the fall in activity was again -43%
- The decrease in transactional activity was inevitable, given the high level of take-up in 2014. It also needs to be considered in context, since in just nine months La Défense has already achieved the level of annual activity recorded in 2011 and 2013
- La Défense is structurally volatile, since its market relies on a few large transactions: five leases for over 5,000 sq m have been recorded since the start of 2015, representing 41% of take-up
- The La Défense market nevertheless remains fragile, with no large transaction (over 20,000 sq m) signed this year. At least two out of the five large transactions are unusual (with one temporary lease by Allianz and the lease by a Société Générale group entity of premises in the tower of another Société Générale entity)
- The recovery observed since 2014 has largely been due to the significant discounts granted on headline rents, with price remaining a decisive factor in a market driven by cost-reduction objectives

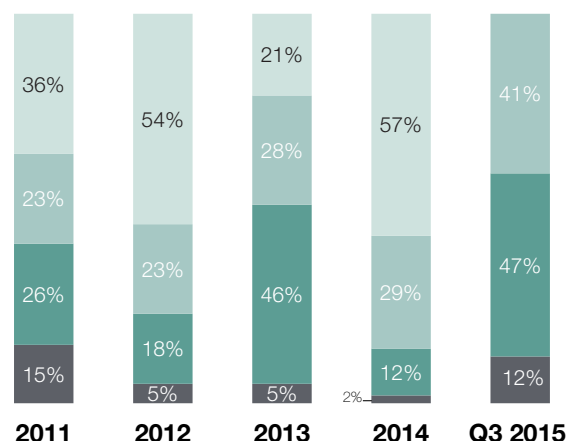
Size of transactions

(Source: Knight Frank)

Ile-de-France



La Défense



Small areas (≤ 1,000 sq m)
 Medium areas (from 1,000 to 5,000 sq m)
 Large areas (from 5,000 to 20,000 sq m)
 Very large areas (≥ 20,000 sq m)

Examples of transactions

Transactions ≥ 5,000 sq m (Source: Knight Frank)

Tenant	Address	Date	Area	Rent	Quality
Sogessur (Société Générale)	Tour D2	Sept. 2015	12,900 sq m	NA	New
Allianz France	Tour Dexia (ex CB 16)	June 2015	9,700 sq m	NA (short term lease)	Recent
Demos	La Grande Arche	June 2015	5,020 sq m	€320	State of repair
B2V Gestion Association	Immeuble Between	April 2015	9,700 sq m	€385	Redeveloped
Natixis	Tour Kupka B	March 2015	5,700 sq m	€360	State of repair

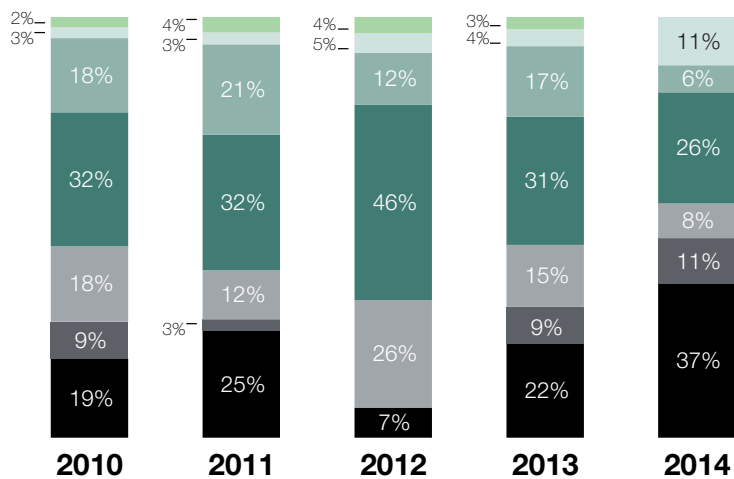
Large occupiers

(> 5,000 sq m)

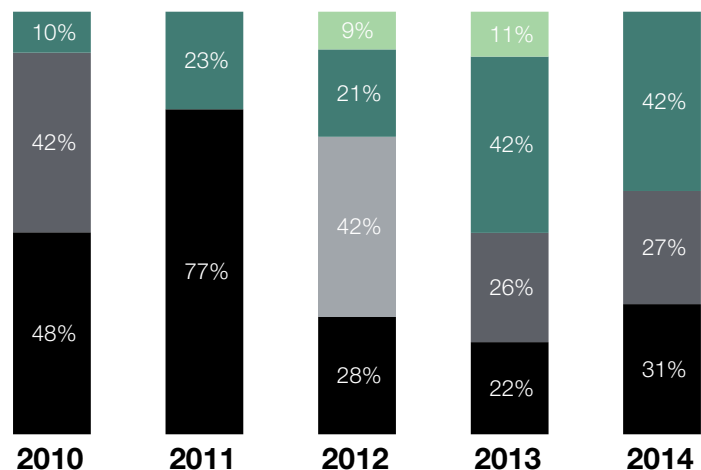
(Source: Knight Frank)

- Banks/Finance & Insurance
- Legal activities, Audits & Advices
- Public/Para-public/ Professional and international organisations
- Industry
- TMT
- Luxury & fashion
- Others

Ile-de-France



La Défense



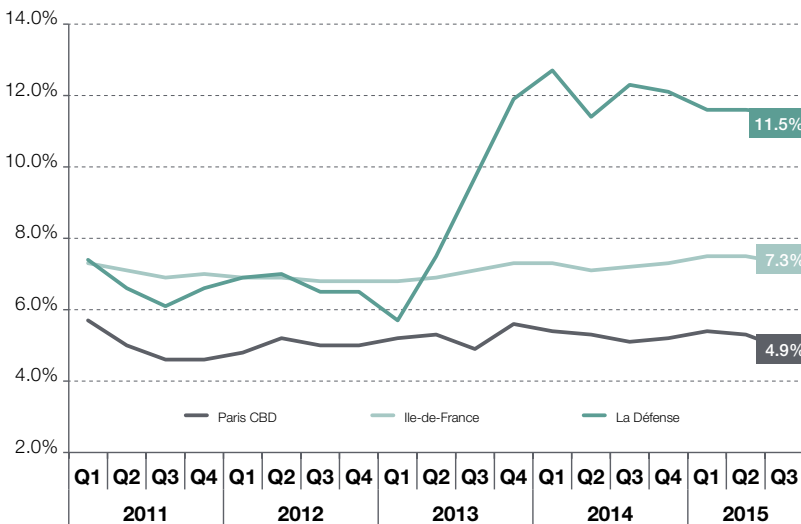
Available supply

11.5%

Vacancy rate

(Sources: Knight Frank, ORIE)

Vacancy rate in %



- ◆ La Défense has fallen below the symbolic threshold of a 12% vacancy rate
- ◆ With a rate of 11.6%, La Défense is still, however, one of the markets with the highest supply in the Paris region
- ◆ The dramatic rise in vacancy that marked 2013 and the start of 2014 seems to have come to a halt: La Défense has entered a phase of stabilisation and gradual absorption
- ◆ The end of 2015 and 2016 are likely to see an intensification of this downward trend, particularly due to a decline in construction activity in the coming months
- ◆ A high level of supply is not an anomaly in a market dedicated to large users: in the past, La Défense has often experienced double-digit vacancy rates
- ◆ The rise in the vacancy rate has led owners to make substantial efforts in relation to prices: if a recovery of transactional activity and reduction in vacancy is confirmed, they may be a lot less accommodating

Grade A supply

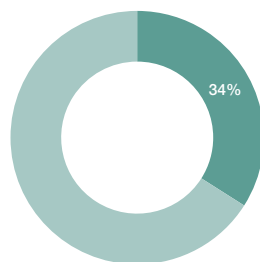
34%

(Source: Knight Frank)

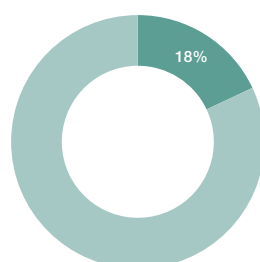
- Second hand
- New or redeveloped

Share of new or redeveloped areas in the available supply

La Défense



Ile-de-France



- ◆ The supply of Grade A (new or redeveloped areas) has fallen for nearly two years now but is much more abundant than in the rest of the Paris region: it now represents 34% of the supply compared to 40% one year ago
- ◆ In a context of a regional lack of quality supply, the atypical profile of La Défense becomes an opportunity: Grade A office areas, which enable real gains in terms of efficiency and charges, are preferred by users (81% of office areas taken up in large transactions in 2014 in the Paris region corresponded to Grade A)
- ◆ The prolonged lethargy of the La Défense market shows that the issue of price positioning of Grade A supply is just as crucial for users: if the bulk of transactional activity has long been confined to renovated or second-hand office areas, it is because Grade A supply seemed too expensive for very large users when they had a large back office

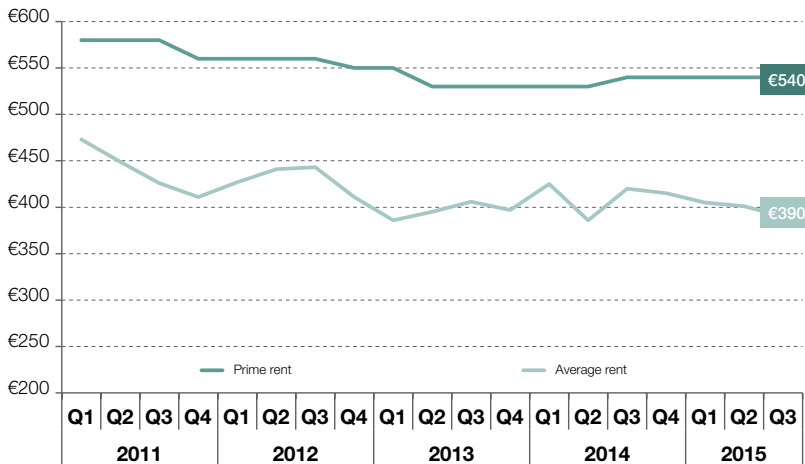
Rents

€540 /sq m/year excl. taxes and charges

Prime rent

(Source: Knight Frank)

Rents in €/sq m/year excl. taxes and charges



- ◆ A few transactions, recorded at the end of 2014, have allowed high-end rent to settle at €540/550 (nominal)
- ◆ However, these values only concern a very limited number of buildings: most transactions were signed at values less than €500, including for Grade A office areas
- ◆ After many tough months and faced with competition from markets in the Western Crescent, a drastic price revision began in 2014, including in relation to marketing values
- ◆ The adjustment is now complete and it would not be healthy or realistic to imagine that the contraction in values will continue
- ◆ Saving costs is still a priority for many users, which seems to rule out a dramatic reversal for the time being: rents will remain low
- ◆ Incentives have increased considerably and remain significant (often between 20% and 25% of nominal amounts)

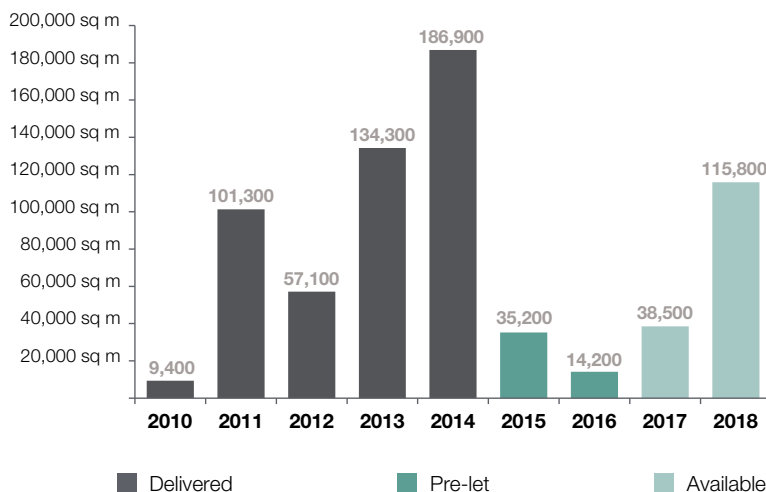
Future deliveries

24%

of new deliveries before Q4 2018 are pre-let

(Source: Knight Frank)

New or redeveloped areas in La Défense



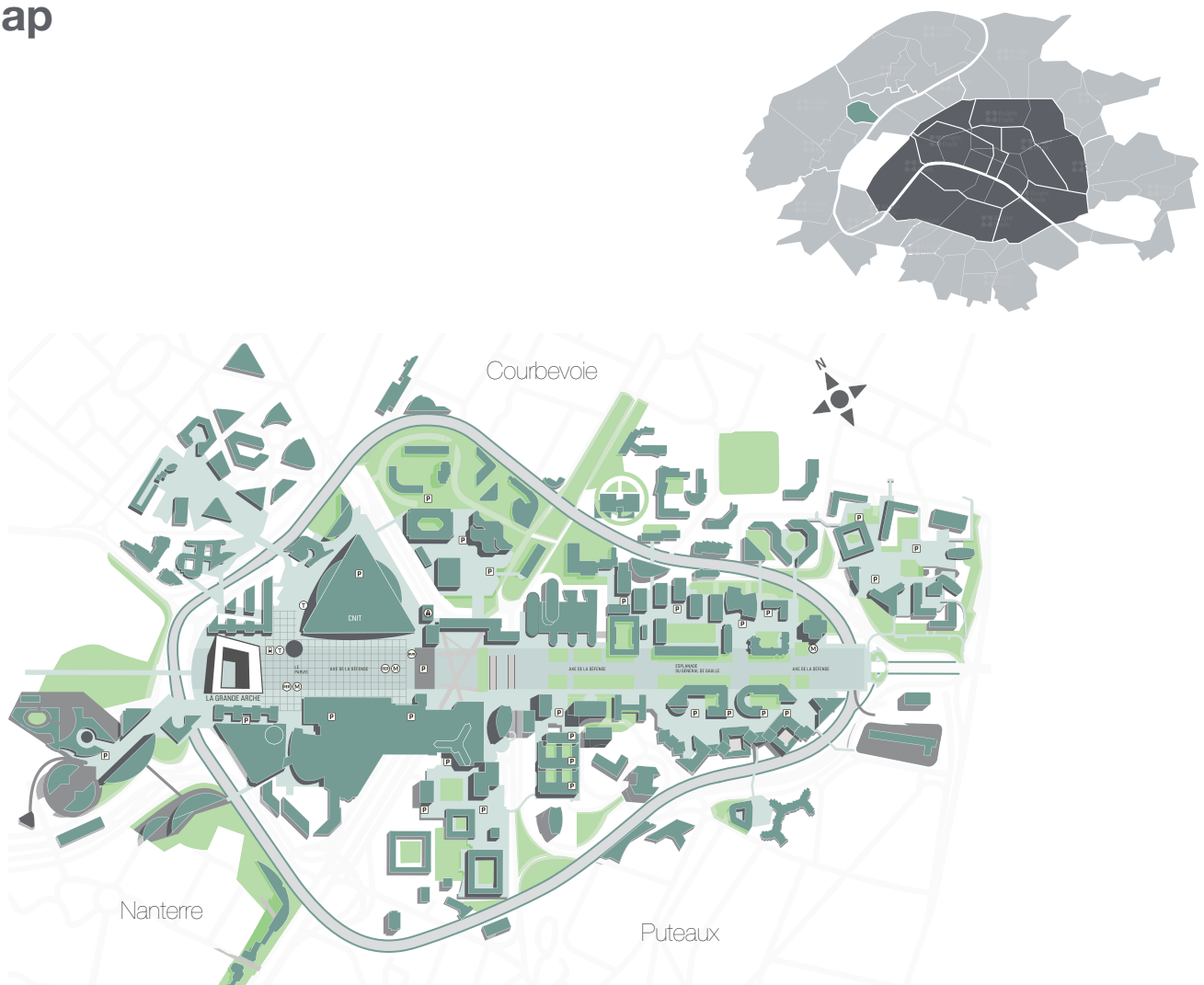
- ◆ Fears of an alarming, structural imbalance in the market were undoubtedly exaggerated: in addition to the upturn in transactional activity, most office areas expected under the La Défense renewal plan have already been delivered
- ◆ 2015 and 2016 will be «lost» years: only the restructuring operation of the future Allianz head office (former Athéna tower) is expected this year, although the construction project has been delayed indefinitely, with E+ (future Sogeprom head office) due for delivery in 2016
- ◆ Window, the first speculative programme launched, is not expected to be delivered before the end of 2017: over the next two years, supply (particularly Grade A) is therefore likely to become scarcer in La Défense
- ◆ In the longer term, the managing body of La Défense has expressed a strong desire to regulate and stagger delivery volumes, to avoid the phenomena of «peak» deliveries seen recently
- ◆ Pre-sales, which made an appearance at La Défense in 2014, will be encouraged

Summary

(Sources: Knight Frank, ORIE)

	La Défense Q3 2015	La Défense Q3 2014	La Défense Annual change	Ile-de-France Q3 2015	La Défense share in Ile-de-France
Stock	3,536,818 sq m	3,452,918 sq m	+2.4%	53,579,120 sq m	6.6%
Take-up	104,100 sq m	125,688 sq m	-17.0%	1,521,800 sq m	6.8%
Immediate supply	405,000 sq m	426,000 sq m	-4.9%	3,933,000 sq m	10.0%
Vacancy rate	11.5%	12.3%	-80 pb	7.3%	-
Average rent	€390/sq m/year	€420/sq m/year	-7.0%	€324/sq m/year	-
Prime rent	€540/sq m/year	€540/sq m/year	-	€750/sq m/year	-

Map



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