

THE LETTING MARKET - Q3 2015

ILE-DE-FRANCE

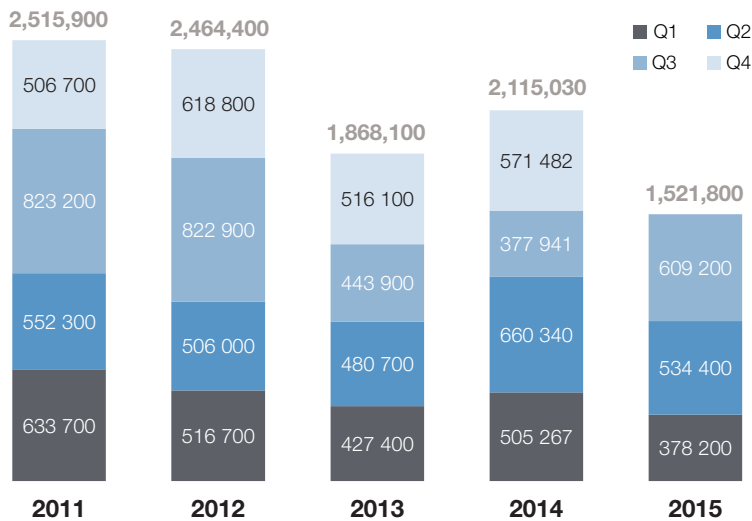


Take-up

1,521,800 sq m

(Source: Knight Frank)

Take up in sq m

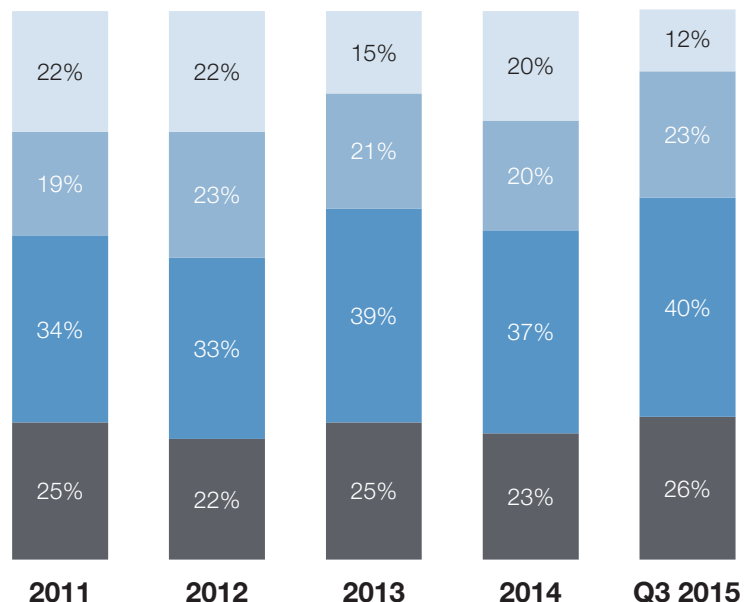


- 1%: transactional activity in the Paris region has returned to a level similar to where it was a year ago
- Following the sharp downturn seen over H1 2015 (-22%), credit for this recovery goes to large occupiers (+5,000 sq m), who suddenly leapt back into action in Q3 2015. Fifteen large transactions were recorded over the past three months, four of which represented over 20,000 sq m
- The influence of this market segment has once again been proven and it explains the volatility of transactional activity in the Ile-de-France
- The fluctuations seen in large transactions have tended to overshadow a trend which is essential for the leasing market – the dynamism of small (- 1,000 sq m) and medium (1,000 sq m to 5,000 sq m) transactions, which increased by 17% and 4% respectively
- This dynamism from small and medium occupiers – the traditional core target for central markets in the Paris region – is one explanation for the strong performance seen in inner Paris. 46% of regional transactional activity was concentrated in the city centre, up 19% since the beginning of the year

Size of transactions

(Source: Knight Frank)

- 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 (≥ 5,000 sq m)

(Source: Knight Frank)

Tenant	Address	Geographical sector	Date	Area	Rent	Quality
Mairie de Paris	Passio & Opalia Paris 13 rd	Paris 12/13	Sept. 2015	17,000 sq m	Owner occupier sale	New (VEFA)
Mutualité Sociale Agricole	Luminem Bobigny	Inner Rim/ Northern Inner Rim	Sept. 2015	15,900 sq m	Owner occupier sale	New (VEFA)
Novartis	Silverwood Rueil-Malmaison	Western Crescent/ Péri-Défense	July 2015	42,100 sq m	NA	New (BEFA ¹)
Publicis	PariSquare Paris 11 th	Paris 3/4/10/11	July 2015	21,400 sq m	€430	New
AccorHôtels	Tour Sequana Issy-les-Moulineaux	Western Crescent/ Southern Bend	June 2015	43,000 sq m	NA	Second hand
OCDE	In Out Boulogne-Billancourt	Western Crescent/ Southern Bend	June 2015	35,000 sq m	NA	New
Pôle interministériel	20 avenue de Ségur Paris 7 th	Paris 5/6/7	April 2015	46,000 sq m	NA	New (BEFA ¹)
Pôle Administratif de la mairie de Montreuil	Tour Altais Evolution Montreuil	Inner Rim/ Eastern Inner Rim	April 2015	13,100 sq m	€403	New (BEFA ¹)
SNCF Réseau	Coruscant Saint-Denis	Inner Rim/ Northern Inner Rim	March 2015	14,500 sq m	NA	New
PSA Peugeot Citroën	Art & Fact Rueil-Malmaison	Western Crescent/ Péri-Défense	Jan. 2015	16,200 sq m	€360	New
Thalès	New Vélizy Hélios Vélizy-Villacoublay	Outer Rim	Jan. 2015	14,400 sq m	NA	New (BEFA ¹)

¹VEFA: forward funded sale

²BEFA: pre-delivery letting

Large occupiers

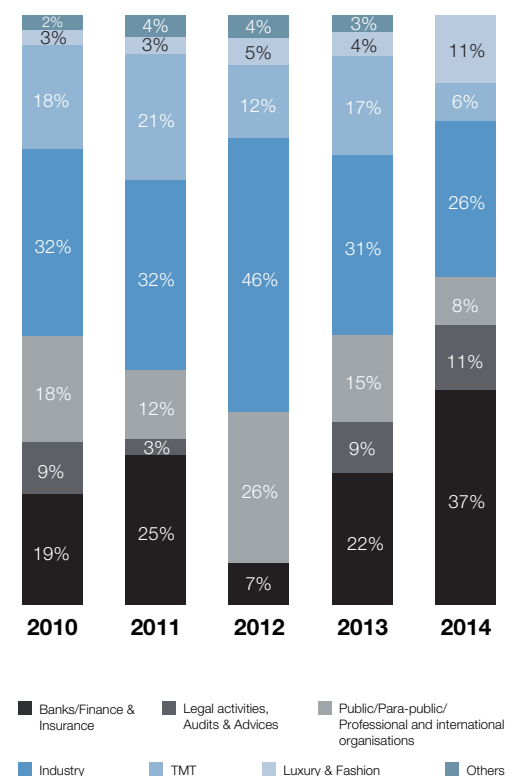
(> 5,000 sq m)

35%
of take up

(Source: Knight Frank)

- Leasing market performance in 2015 demonstrates, once again, the pivotal role of large occupiers in sustaining transactional activity
- Despite strong fluctuations in activity, this segment can count on a valuable asset that secures a certain level of sustainability, and that is its wide range of stakeholders, which saves it from being overly dependent on one specific economic sector
- The year 2014 was marked by the sudden return to the forefront by banking and insurance firms in terms of office consumption – these stakeholders benefited from a more stable environment and were able to accelerate their property rationalisation initiatives
- Luxury and fashion were the other factors contributing to the dynamism seen in 2014
- Conversely, the share of the industrial sector and that of the public/semi-public sector continued to decline

Large occupiers breakdown per activity



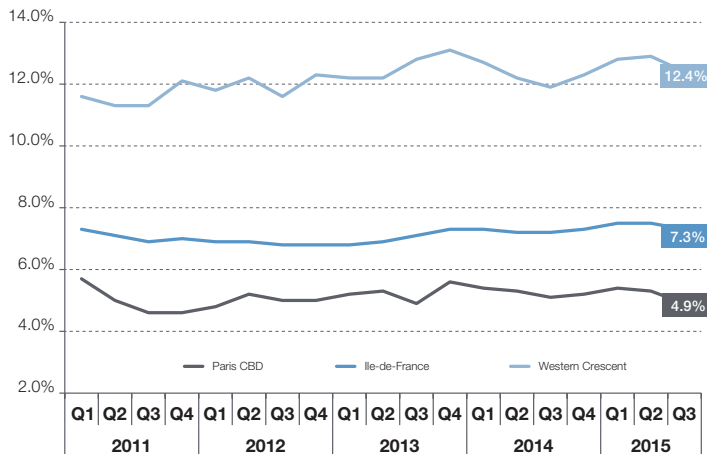
Available supply

7.3%

Vacancy rate

(Sources: Knight Frank, ORIE)

Vacancy rate in %



- ◆ At 7.3%, the vacancy rate remains stable compared to the end of 2014. The volume of office stock immediately available therefore negates the slight rise seen over H1 2015
- ◆ This vacancy level falls within the upper range of the rates commonly seen in the Paris region. However, this does not call into question the positioning of the Ile-de-France as a weak supplier market in a European context
- ◆ The considerable internal disparities in the Paris region remain striking, with a generally under-supplied CBD and city centre, while the Western Crescent and La Défense maintain vacancy levels exceeding 11%

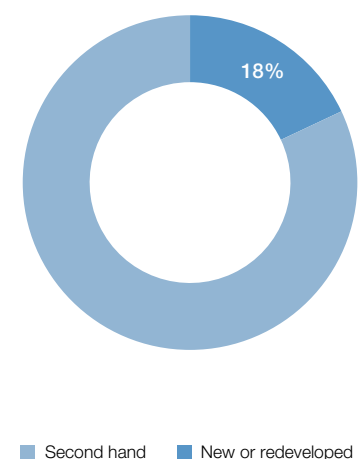
Grade A supply

18%

(Source: Knight Frank)

- ◆ While supply may be quantitatively controlled, it remains qualitatively very weak – Grade A (new or structurally renovated) office stock only represents 18% of available supply
- ◆ This ratio is declining, with the Ile-de-France continuing to pay for the collapse in delivery volumes seen between mid-2009 and the end of 2012. The recovery made since then has not offset the trend (our definition of Grade A excludes buildings delivered more than five years ago)
- ◆ The level of Grade A supply is insufficient in light of the structure of occupiers’ office consumption – 81% of office stock exceeding 5,000 sq m leased in the Paris region in 2014 was Grade A (80% in 2013). This is a potential obstacle for the leasing market
- ◆ There is an almost total shortage in some sectors, such as the CBD and the rest of inner Paris

Share of new or redeveloped areas in the available supply



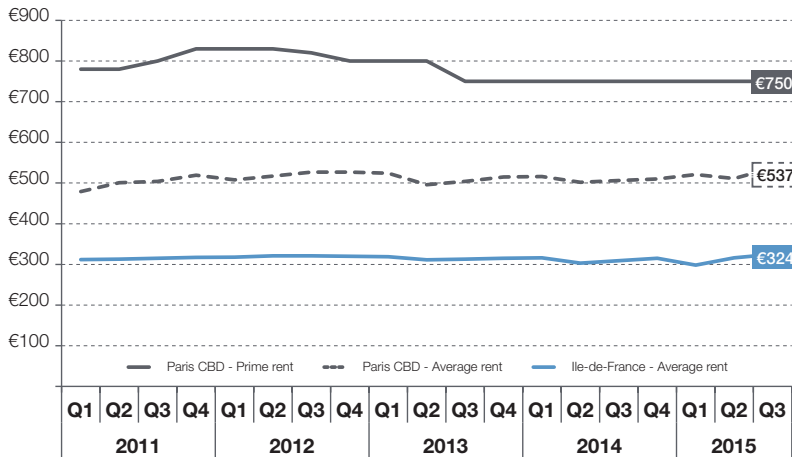
Rents

€750 /sq m/year excl. taxes and charges

Prime Rent

(Source: Knight Frank)

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



- Following the application of a downward adjustment (-10% in two years), high-end rent has been stable for over a year at €750 in the CBD
- Paradoxically, that downward adjustment was often more limited in outlying markets, where the prices shown leave very little room for adjustment
- From the end of 2014, some upward pressure on the lease values of the top buildings in the CBD was seen, although it was not widespread enough to herald a rise in high-end rents
- Generally, high-end rents apply only to a very small number of buildings in each market
- Incentive measures stabilised in Q3, but remained high (around 10% to 15% in the CBD, reaching up to 20% in the rest of Paris and up to 25% on the outskirts)
- Medium rents remain stable, with occupiers' consumption varying depending on supply characteristics

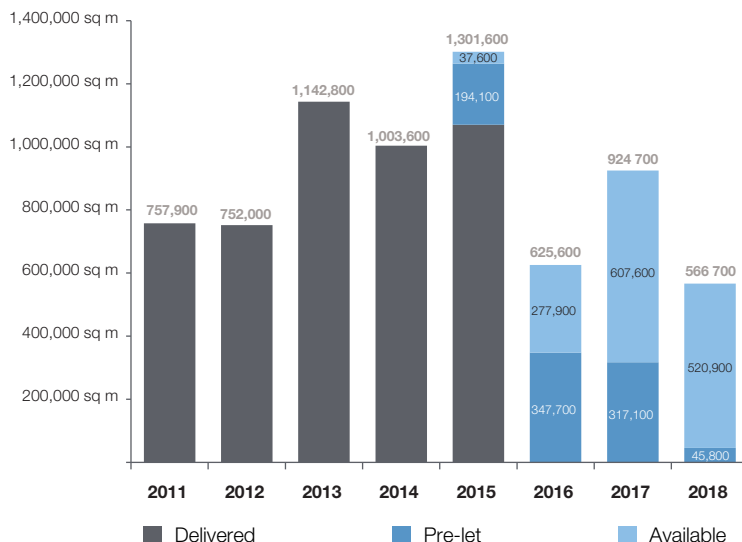
Future deliveries

39%

of new deliveries before Q4 2018 are pre-let

(Source: Knight Frank)

New or redeveloped areas in Ile-de-France



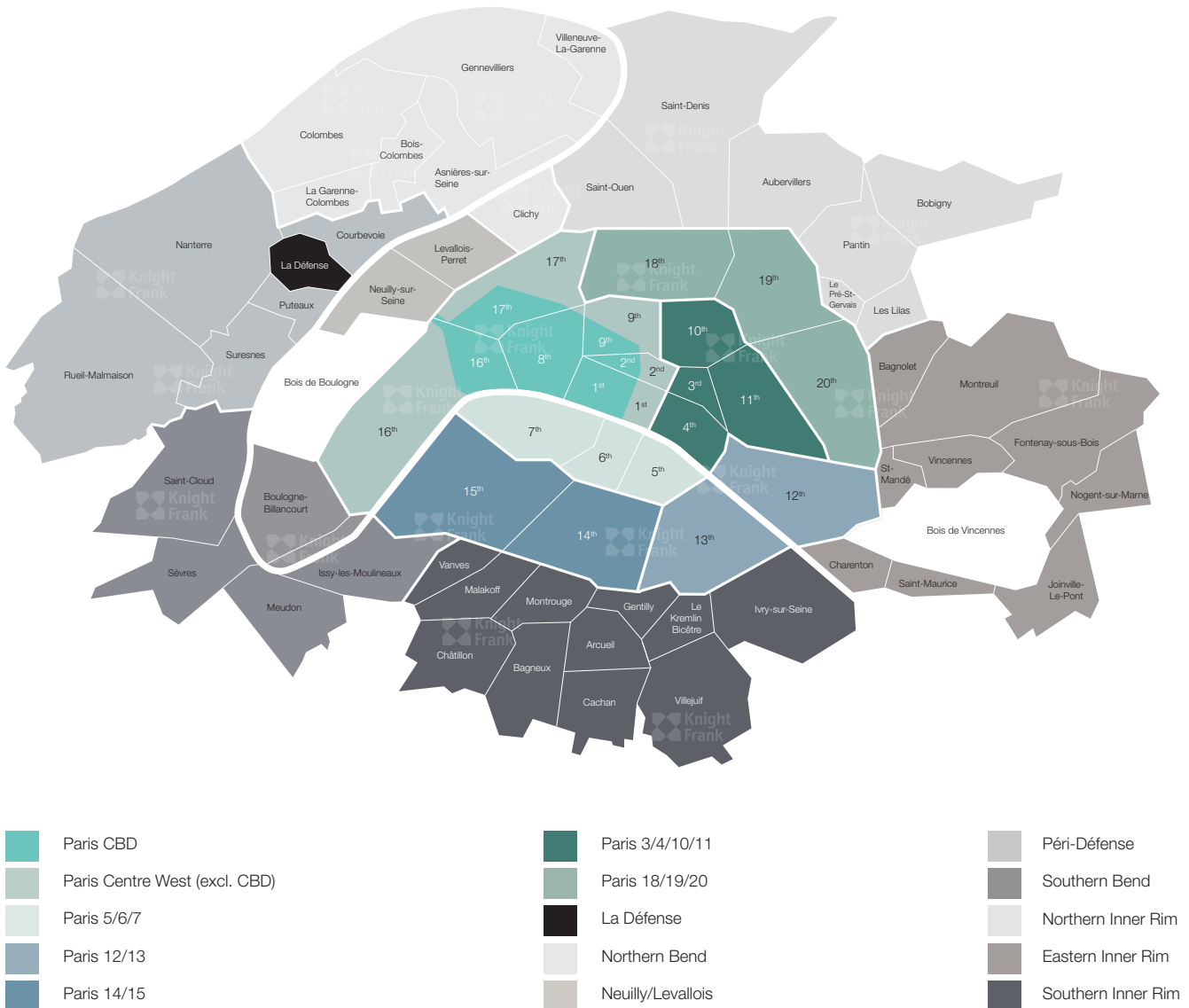
- The Ile-de-France remains an under-supplied market in terms of Grade A office stock – the rise in delivery volumes since the end of 2012 has been absorbed and is therefore not reflected in the supply volume and the level of Grade A availability
- The Grade A supply shortage is fostering the pre-letting trend – more than 39% of office stock expected by the end of 2018 is no longer available
- In light of the state of supply (in terms of size, quality and price), turnkey programmes are becoming more widespread for large office stock and also explain this trend
- Traditionally, pre-lets are unique to emerging sectors, which offer the most attractive prices and in which investors hesitate to make speculative investments
- The positive absorption of programmes delivered recently might encourage greater risk acceptance by investors and boost the launch of new projects in 2016 and 2017 – a trend which has been emerging for a few months now

Summary

(Sources: Knight Frank, ORIE)

	Ile-de-France Q3 2015	Ile-de-France Q3 2014	Annual change
Stock	53,579,120 sq m	54,195,889 sq m	-1.1%
Take-up	1,521,800 sq m	1,543,548 sq m	-1.4%
Immediate supply	3,933,000 sq m	3,906,000 sq m	+0.7%
Vacancy rate	7.3%	7.2%	+10 pb
Average rent	€324/sq m/year	€309/sq m/year	+5.8%
Prime rent	€750/sq m/year	€750/sq m/year	-

Map



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