

MARKET INDICATORS

Market Outlook

Prime Rents:	Mainly stable, but areas with very tight supply have started to see sustained upward pressure on rents.	▼
Prime Yields:	Stable in Greater Paris Region and slightly decreasing in some major Regional Cities	▲
Supply:	Decreasing due to high absorption levels but also large amount of speculative development to be pre-let on some Greater Paris Region submarkets	▲
Demand:	Still high, with companies showing strong appetite for core and value-added investments.	▼

Prime Office rents – December 2018

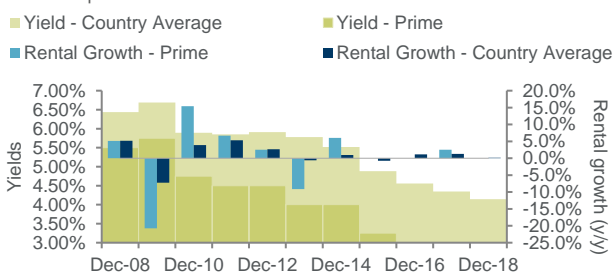
LOCATION	€	US\$	GROWTH %	
	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Paris (CBD)	810	85.8	0.0	1.7
Paris (La Défense)	550	58.3	1.9	-0.4
Lyon	300	31.8	0.0	2.1
Marseille	260	27.5	0.0	-0.8
Bordeaux	180	19.1	0.0	0.0
Strasbourg	190	20.1	0.0	0.0
Lille	190	20.1	0.0	0.0
Toulouse	190	20.1	0.0	0.5
Nice	195	20.7	0.0	0.0

Prime Office yields – December 2018

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Paris (CBD)	3.00	3.00	3.00	6.00	3.00
Paris (La Défense)	4.00	4.00	4.00	6.50	4.00
Lyon	3.85	3.90	3.90	7.30	3.85
Provinces other	4.10	4.10	4.90	7.25	4.10

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



Overview

In Q3 2018, thanks to an increase of French household consumption (+0.4% after -0.2% in Q2), high investments and a positive commercial balance (+0.7%), French GDP grew up by +0.4%. However, this economic improvement was quickly stopped by the “yellow vest” protests in the middle of year-end period with a -0.1% effect expected on Q4 GDP Growth (+0.2% forecast for Q4 2018). Both household and business sentiment decreased sharply in 12 months (respectively -12 and -8 points). First indicator reveals the social contest climate whereas the second one highlights an expected global commercial decrease under protectionist pressures and European politics uncertainties (Brexit, Italian budget, French crises duration). Because of less steady growth, job creations weakened in 2018: +107,000 trade salaried employments in 2018 against 341,000 in 2017. Although revised, unemployment rate forecasts remain positive at 9.0% expected at 2018 year-end (down from 9.4% in 2017).

Occupier focus

Despite a slowdown in H2 and especially in Q4 (642,100 sq. m, -27% year on year) but thanks to a high activity in H1, take-up at the end of December stood at 2.5 million sq. m (-5% year on year but +9% against the 10year average). Take-up significantly varies from one submarket to another. For the third consecutive year, Paris performed above 1 million sq. m while Outer Suburbs surprised the market with the only increasing take-up over 2018 (+26% y-o-y). Paris low supply benefits to Inner Southern and Eastern Suburbs while Inner Northern Suburbs, on its side, only recorded 93,100 sq. m in 2018 to be compared with 217,900 sq. m in 2017. In the meantime, despite a high supply, Western Crescent and La Défense markets recorded a decrease in volume respectively by 7% and 28% y-o-y. In 2018, number and size of transactions above 5,000 sq. m declined (81 in 2018 against 87 in 2017). Companies maintain their interest for first-hand assets and pre-letting (70% of surfaces). Only 2.9 million sq. m are immediately available at year end, reflecting a 5.3% vacancy rate. On the one hand, Paris supply remains historically low with 2.3% of vacancy rate, while on the other hand, Inner Suburbs and Western Crescent ratio respectively stands at 7.5% and 10.1%. Rents upward pressure is seen on stretched submarkets like Paris CBD with now 1st hand offices average rents standing at 710€/sq. m/year.

Investment focus

€22.9 billion was invested in Offices over 2018; this represents a new record, a 15% year-on-year increase and is 10% higher than in 2007 (€20.7 billion), the previous benchmark year! With €5.0 billion corresponding to one fourth of Greater Paris Region Office Investments, Paris CBD remains the heart of the French market. Greater Paris Region prime yields were remaining stable for the third consecutive quarter while some regional ones - Lyon, Bordeaux and Toulouse - slightly decreased in the 4th quarter. 2018 definitely stands as the year of investment funds. In 2018, cross-border investors' appetite reveals French real estate market attractiveness (market depth, interesting long-term return & volatility, leasing market activity...). Consequently, domestic investors market-share fall to 57% in 2018 from 70% a year ago.

Outlook

The outlook for French investment market in 2019 still looks strong, although levels may suffer from uncertainty in the social climate as well as an increase in interest rates over H2 2019. On the occupiers' side, take-up should stabilize at 2.5 million sq. m.

FRANCE Office Market Snapshot

Fourth Quarter | 2018



LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP Q4 2018 (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
Paris city	17,437,833	388,000	2.2%	264,040	1,038,894	527,366
La Défense	3,957,898	164,000	4.6%	14,622	135,338	410,085
Western Crescent	8,591,885	804,000	9.4%	137,003	607,402	550,048
Inner suburbs	7,465,789	597,000	8.0%	112,490	376,718	457,975
Outer suburbs	18,298,351	991,000	5.4%	113,885	346,062	129,557
Greater Paris Region (Overall)	55,751,756	2,944,000	5.3%	642,040	2,504,414	2,075,031

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
EUROPA	Neuilly Levallois	WPP	27,883	NEW LEASE
ROUTE DE LA POMPADOUR	Eastern Inner Suburbs	VALEO	20,702	OWNER OCCUPIED
1 AVENUE DU GOLF	St Quentin	RENAULT SAS	17,826	TURN KEY
16 AVENUE DESCARTES	Southern Outer Suburbs	MBDA	17,400	OWNER OCCUPIED
LE FLORESCO	Eastern Inner Suburbs	UBISOFT	16,400	NEW LEASE

Source: Cushman & Wakefield, Immostat for transactions in the Greater Paris Region

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER
CAPITAL 8	Paris CBD	UNIBAIL RODAMCO / INVESCO REAL ESTATE
87 RICHELIEU	Paris CBD	ALTAREA COGEDIM / CNP ASSURANCES
PORTFOLIO EUROSIC REGIONS	Portfolio	GECINA / BATIPART
ARIANE TOWER	La Défense	UNIBAIL RODAMCO / GIC
WINDOW	La Défense	GROUPAMA IMMOBILIER / OXFORD PROPERTIES - HINES

Source: Cushman & Wakefield, Real Capital Analytics, Immostat for transactions of assets located in the Greater Paris Region

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Magali Marton

Head of Research – France
21 rue Balzac, 75008 Paris, France
Tel: +33 (0)1 86 46 10 95
magali.marton@cushwake.com
cushmanwakefield.com