

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:	Further hardening of yields for super prime properties in Paris and the Inner Suburbs.	▶
Supply:	Stable due to high absorption levels and large amount of speculative development to be pre-let.	▶
Demand:	Still high, with companies showing strong appetite for core and value-added investments.	▼

Prime Office rents – March 2019

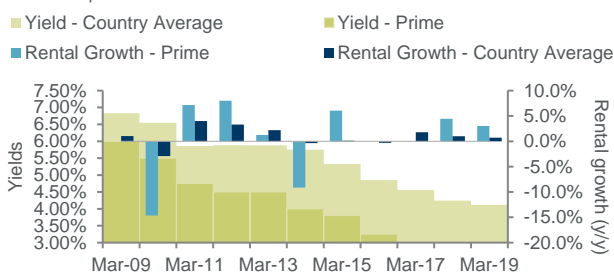
LOCATION	€	US\$	GROWTH %	
	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Paris (CBD)	850	89.2	3.0	2.7
Paris (La Défense)	550	57.7	1.9	-0.4
Lyon	300	31.5	0.0	2.1
Marseille	260	27.3	0.0	-0.8
Bordeaux	180	18.9	0.0	0.0
Strasbourg	190	19.9	0.0	0.0
Lille	190	19.9	0.0	0.0
Toulouse	190	19.9	0.0	0.0
Nice	195	20.5	0.0	0.0

Prime Office yields – March 2019

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	3.85	3.90	7.30	3.85
Provinces other	4.10	4.10	4.50	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 a stormy Global Economic context (Brexit uncertainties, Brake of Chinese Economy, US trade pressure) and facing “yellow vest” crises, the French Economy remained particularly resilient with a +0.3% Q4 growth (10 bps higher than the Euro Zone growth). Thanks to a more expansionary fiscal policy, domestic demand is expected to become the main driver of French growth in 2019. Indeed, household purchasing power induced by both real wage growth and December emergency measures, should stimulate household consumption (+0.5% anticipated for Q1 2019). Both business sentiment and household moral came back to Q3 2018 levels. Because of less steady growth, job creations weakened: +149,600 trade salaried employments in 2018 against 327,300 in 2017. With 85,000 new jobs expected in the first half of the year, 2019 should maintain this moderate tempo. Unemployment rate forecasts remain positive at 8.7% expected at 2020 year-end (slightly decreasing from 9.1% in 2018).

Occupier focus

Despite a slowdown year-on-year (-23%), take up at the end of March (541,300 sq. m) remains in line with its 10-year average. This quarter, market activity was driven by medium sized transactions (between 1,000 – 5,000 sq. m) +17% y-o-y whereas small and large transactions respectively decreased by 10% and 51%. Paris and the Western Crescent are the most dynamic submarkets benefitting from this dynamic. Paris limited supply (2.2% of vacancy) undoubtedly weights on Greater Paris Region results. Due to a lack of large transactions (higher than 5,000 sq. m), La Défense and Outer Southern Suburbs missed 2019 year start (22,100 sq. m and 60,100 sq. m). Greater Paris Region immediate supply is constantly shrinking; in one year, it has lost 7% with just 2.9 million sq. m of vacant spaces available (vacancy rate of 5.3% on average). Here again, Paris and Western Crescent supply showed the most significant declines.

Investment focus

Investment volume (€2.3 billion) decreased by 36% y-o-y. This “pause” reflects more volumes asymmetry by lot sizes than a true slowdown in liquidities available on the French market. For instance, in Greater Paris Region, only one large-scale deal (more than €200 million) happened. Indeed, Paris opportunities shortage forced investors to consider assets in some alternative markets as the Inner Suburbs (34%) and the Western Crescent (24%). Consequently, Paris and Inner Suburbs prime yields slightly decreased, while they remained stable in other regional cities. Cross border activity (51%) reflects foreign investors’ confidence in the French market: good economic prospects and a better risk premium compared to their respective national markets (exchange rate effects). 2019 investor profile is currently in line with 2018 with a market heavily dominated by investment funds and SCPI/OPCI.

Outlook

In 2019, the shortage of supply in Paris will limit the Greater Paris Region take-up increase (2.4 million sq. m anticipated); however, occupiers demand remains strong and will lead to rising trend in rents for some submarkets such as Paris city, Neuilly-Levallois and Southern Loop. The liquidity inflow distributed equally between foreign and domestic players and the upcoming large-scale transactions promises good prospects for 2019, between €23-26 billion.

FRANCE Office Market Snapshot

First Quarter | 2019



LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP Q1 2019 (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
Paris city	17,463,542	384,000	2.2%	211,091	211,091	491,749
La Défense	3,957,898	159,000	4.0%	22,060	22,060	448,435
Western Crescent	8,713,028	779,000	8.9%	141,040	141,040	481,201
Inner suburbs	7,520,741	594,000	7.9%	107,116	107,116	432,389
Outer suburbs	18,319,624	1,012,000	5.5%	59,993	59,993	148,580
Greater Paris Region (Overall)	55,974,833	2,928,000	5.2%	541,306	541,306	2,001,354

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
SAKURA	Eastern Inner Suburbs	SOCIETE GENERALE	30,866	NEW LEASE
L'ACADEMIE	Southern Inner Suburbs	CACEIS	28,144	NEW LEASE
OXALIS	Southern Loop	ALTEN	11,866	NEW LEASE
L'ANGLE	Southern Loop	LABORATOIRE ROCHE	11,043	NEW LEASE
SENSE	Suburbs of La Defense	GEFCO	10,450	NEW LEASE

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

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER
LE SPAZIO	Suburbs of La Defense	AEW CILOGER / BLUE COLIBRI CAPITAL
LOUVRE 4.0	Paris CBD	OREIMA / UNION INVESTMENT
SAKURA	Eastern Inner Suburbs	NORTHWOOD / PRIMONIAL REIM
LE CRISTALIA	Suburbs of La Defense	TISHMAN & SPEYER / JR CRISTALIA OPCI
37-39 TRUDAINE	Paris CBD	NACARAT-FINAPART / AMUNDI IMMOBILIER

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

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