

FRANCE Office Market Snapshot

Third Quarter | 2019



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 – September 2019

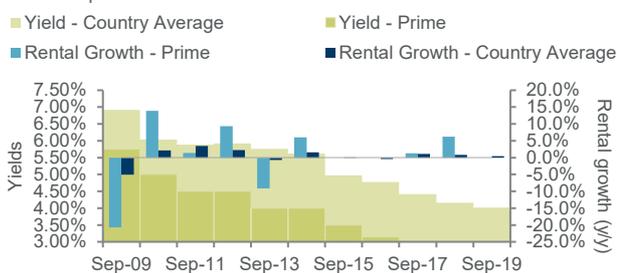
LOCATION	€	US\$	GROWTH %	
	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Paris (CBD)	850	89.2	0.0	1.5
Paris (La Défense)	550	57.7	1.9	-0.4
Lyon	300	31.5	0.0	2.1
Marseille	260	27.3	0.0	0.0
Bordeaux	180	18.9	0.0	0.0
Strasbourg	190	19.9	0.0	0.0
Lille	190	19.9	0.0	0.0
Toulouse	190	19.9	0.0	0.0
Nice	195	20.5	0.0	0.0

Prime Office yields – September 2019

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Paris (CBD)	3.00	3.00	3.00	5.75	3.00
Paris (La Défense)	4.00	4.00	4.00	6.00	4.00
Lyon	3.70	3.85	3.90	6.50	3.70
Provinces other	4.10	4.10	4.10	6.75	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

French GDP growth over Q2 was perfectly aligned with Q1 forecasts and results (+0.3%). Economists are forecasting the same for Q3 and Q4 with full-year growth estimated at 1.3% with levels mainly driven by domestic demand. This is a respectable performance given the decline seen in the European economic climate, with Italy and Germany where competitiveness is struggling to keep up, mainly in the industrial sector. The French economy is being sustained by a robust business climate which has remained at the same level since June 2018 (106.2 points). Household confidence has reached a peak for the last 20 months with gradual but consistent increases (index 104). These achievements have been set amid a turbulent international climate with uncertainties surrounding the ever-nebulous Brexit as well as rising tensions between China and the USA and the repercussions for international trade. Given this context, French foreign trade (+0.1% and 0% over the first 2 quarters) could struggle with a slowdown in exports which have so far been driven by aeronautic and naval deliveries. Job creations continued to rise, although more modestly over Q2 2019 (+0.2% vs +0.4% over Q1) as the effect of state-assisted employment was less evident. This slight slowdown, which was seen across all sectors, did still contribute to a 0.2-point reduction in the unemployment rate over Q2 2019 to 8.2% in June; this represents a low point for the last 10 years. INSEE expects the unemployment rate to stand at 8.3% by the end of 2019 with the net creation of over 250,000 jobs

Occupier focus

Following a complicated H1 2019, the Greater Paris Region office market has seen levels of take-up return to normal with 543,400 sq m in transactions (+8% year on year) over Q3 2019. These good results take the year-to-date figure to 1.7 million sq m, representing just an 11% year-on-year decrease which is directly aligned with the 10-year average. This Indian summer has revived the market from its initial stupor and bodes well for an active end to the year with take-up reaching 2.3 million sq m. Although not one of the best years in terms of take-up volume, 2019 should be in line with the 10-year average underlining the sound fundamentals of the Greater Paris Region marketplace in confronting European and international competition. The under 5,000 sq m segment performed well overall: -3% for spaces under 1,000 sq m and +3% for those from 1,000 to 5,000 sq m. For major transactions, their lower number of transactions (-15%) and the reduction in the average volume (from 12,000 sq m in 2018 to 10,000 sq m this year) has had an impact on take-up (529,200 sq m, -29% year on year). The major office transactions market were back to normal levels with 15 deals for spaces over 5,000 sq m recorded over the course of Q3 2019.

Investment focus

As at 1st October 2019, the investment volume stood at €20.5 billion, representing a 16% year-on-year increase. The office sector has concentrated so far 76% of this total volume with €15.5 bn of transactions over Q1-Q3. La Défense was back in force with major transactions including "Eqho" which was acquired by South Korea's NH INVESTMENT from ICADÉ and "Tour W" which was bought by ARES MANAGEMENT from AEW. A leading transaction was also recorded in Lyon with the "To Lyon" tower which was sold by VINCI IMMOBILIER to APICIL – this illustrates the rising importance of major regional cities.

Outlook

According to our latest estimates, deliveries of new or refurbished office spaces in the Greater Paris Region should reach 844,000 sq m in 2019 and bring an end to the downward trend seen in the market since 2015. Levels could rise even further in 2020 when over 1.1 million sq m is due for completion. Beyond the volume of this new production, the geographic distribution has also changed considerably: a strong focus on Paris is set to give way to a concentration of new office space in both La Défense (251,000 sq m) and the Western Crescent (322,000 sq m).

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP Q3 2019 (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
Paris city	17,251,108	376,000	2,2%	244,117	713,500	166,811
La Défense	3,278,051	164,000	5,0%	42,267	95,900	389,664
Western Crescent	8,117,912	775,000	9,5%	100,864	336,300	297,495
Inner suburbs	8,024,238	498,000	6,2%	105,540	341,400	288,255
Outer suburbs	18,967,918	977,000	5,2%	50,606	168,000	59,347
Greater Paris Region (Overall)	55,639,227	2,790,000	5,0%	543,394	1,655,200	1,201,572

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
CAMPUS SFR	Inner Suburbs	SNCF	31,160	Lease
L'ACADEMIE	Inner Suburbs	CACEIS	30,096	Lease
80 BOULEVARD AUGUSTE BLANQUI	Paris	BANQUE POPULAIRE RIVES DE PARIS	16,600	Sale
21-29 RUE DE CHATEAUDUN	Paris	GALERIES LAFAYETTE	16,190	Turn-Key
LES COLLINES DE L'ARCHE NORD	La Défense	WEWORK FRANCE SAS	13,946	Lease

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

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER
MAJUNGA	LA DEFENSE	UNIBAIL RODAMCO/MIRAE ASSET DAEWOO & AMUNDI IMMOBILIER
CRYSTAL PARK	NEUILLY-LEVALLOIS	ICADE/SAMSUNG SECURITIES / LA FRANCAISE REM
EQHO	LA DEFENSE	ICADE/NH INVESTMENT&SECURITIES
TOUR EUROPE	LA DEFENSE	BLACKROCK/GG KAPITAL- KIS
TOUR W	LA DEFENSE	AEW/ARES MANAGEMENT

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

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