

# Briefing note

## Flying start to the year for the lettings market

Q1 2018



### SUMMARY

#### Promising start to 2018

■ Q1 2018 saw almost 741,800 sq m of office space let in the Ile-de-France region, up 13% y-o-y and the strongest first quarter seen for a decade.

■ Occupiers looking for large space were even more active than last year, completing 23 transactions compared to 19 in Q1 2017, with the market for lettings exceeding 5,000 sq m representing 47% of all take-up in Q1 2018.

■ This upward trend was observed across all Ile-de-France markets, except La Defense, where take-up dropped by 23%. In Paris, take-up is up by 11%, with particularly strong activity in the small and medium-sized office segment.

■ After seeing the number of lettings increase for several consecutive quarters, immediate supply in Ile-de-France fell by 10%, and is estimated to have ended Q1 2018 at 3,159,000 sq m. As a result, the

vacancy rate dropped below the 6% threshold, to 5.8%. This downward trend in immediate supply is now apparent across all Ile-de-France markets.

■ Within this context of rising take-up and waning immediate supply, rental values in Ile-de-France are being put under upward pressure, with several geographic sectors seeing rents spike considerably.

### A still tentative economic recovery

France's economic recovery, as evidenced by 2% GDP growth in 2017, should continue in 2018, driven by a favourable international backdrop (+1% eurozone growth forecast for the first half of the year). However, the pace at which it will recover, remains uncertain.

Dwindling household spending and a slowdown in the rate at which unemployment is falling may weigh on the economy. Despite these clouds on the horizon, there are other indicators which paint a more positive picture for solid growth of the French economy. Favoured by a business-friendly political environment, companies are set to benefit from a raft of fiscal measures in 2018. Spurred on by an upbeat business climate, they are expected to create more jobs, something which would have a positive impact on both the unemployment rate, and the office real estate market.

Having observed the effects of recent reforms, OECD experts believe that the initiatives announced are steps in the right direction, and have revised their growth forecasts for France upwards, to 2.2% in 2018 and 1.9% in 2019. The French government is more modest, predicting 1.7% growth over the 2018-2020 period.

### An exceptional start to the year

The Ile-de-France office market's excellent performance in 2017 continued at the beginning of 2018. Take-up was up 13% y-o-y, with almost 741,800 sq m let in the first quarter; the strongest first quarter seen for a decade.

The upward trend in the market is evident across all segments: +17% for small lettings (213,280 sq m), +20% for medium-sized spaces (176,300 sq m), and +9% for large transactions (352,207 sq m). Occupiers looking for large offices were even more active than last year, completing 23 transactions compared to 19 in Q1 2017. The market for lettings exceeding 5,000 sq m represented 47% of all take-up in Q1 2018.

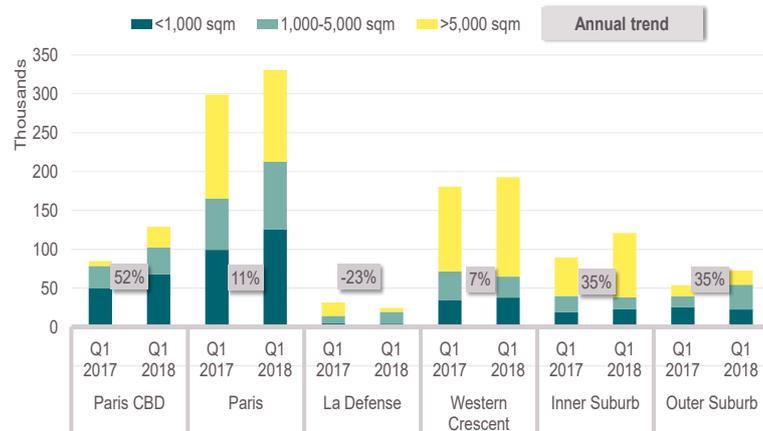
This upward trend was observed

across all Ile-de-France markets, except La Defense, where take-up dropped by 23%. The lack of new available supply set to come onto the market within the year is hitting the large offices segment particularly hard in this business district, which traditionally targets occupiers looking to lease large spaces. On the other hand, there has been a marked increase in signings in the medium-sized transaction segment (+54%), reflecting how this sized space is becoming evermore popular in the La Defense district. It is also worth noting that several large deals are currently under negotiation, and with their signings seeming likely, they could stimulate activity in La Defense in the months ahead.

In Paris, take-up is up 11%, with particularly strong activity in the small and medium-sized space bracket (+26% and +33% respectively). Large deals have not been absent however, with nine transactions completed in Paris, three of which were in the CBD. Activity was particularly upbeat in the Centre West sector (+52%), whereas the North and South sectors saw a slower start (-14% and -19%). It is worth noting that no large lettings were completed in these markets, unlike at the beginning of 2017, when Natixis signed 90,000 sq m in the Tours Duo.

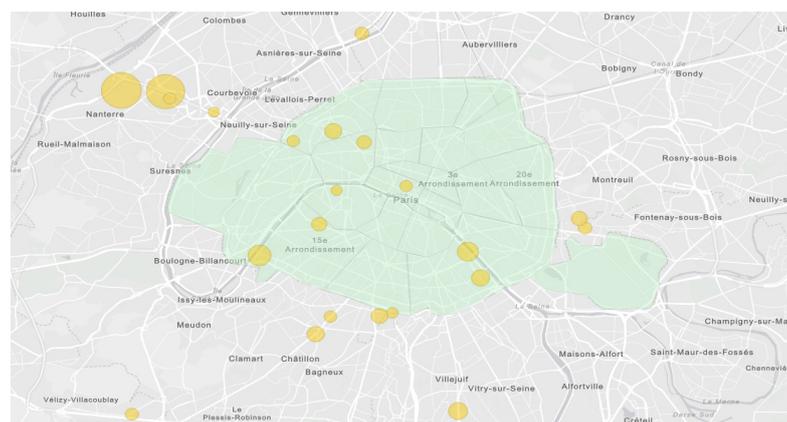
Outside Paris, the trend is also positive. In the Western Crescent (up +7% y-o-y), the Peri-Defense sector is leading the way by far, with →

GRAPH 1 **Take-up per size and sub-markets** La Defense is the only market to have shrunk



Source: Savills, Immostat

MAP 1 **Location of lettings exceeding 5,000 sq m: A considerable amount signed in Peri-Defense**



Source: Savills, Immostat- Size of the icon proportional to the take-up

→ the Vinci (63,000 sq m) and Technip (48,500 sq m) signings in Nanterre boosting Q1's take-up figures. The Inner and Outer Suburbs saw a significant increase in the number of lettings (+35% respectively), with seven leases for spaces exceeding 5,000 sq m signed in the Inner Suburb, including five in the South. Among the transactions for space exceeding 10,000 sq m, it is worth noting the signings by Orange for 18,000 sq m in Villejuif, by Areva for 15,000 sq m in Chatillon, and by the French Red Cross for 14,000 sq m in Montrouge.

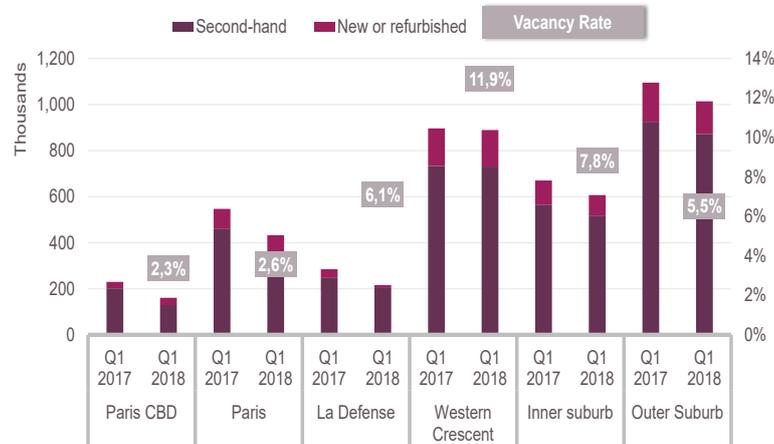
### Drop in immediate supply in Ile-de-France

Following an increase in the number of transactions over several quarters, immediate supply in Ile-de-France fell by 10%, and was estimated at 3,159,000 sq m at the end of Q1 2018. As a result, the vacancy rate dropped below the 6% threshold, to 5.8%.

This downward trend in immediate supply is now apparent across all Ile-de-France markets. In Paris, supply continues to wane (-8%), a situation which is becoming more pronounced and a source of increasing concern, particularly in the CBD, where a new record low was posted (2.3%). Immediate supply in the CBD stood at 161,000 sq m in Q1, down 30% y-o-y.

Availability is also decreasing in La Defense, where it is estimated to have ended Q1 2018 at 216,000 sq m, equating to a 24% y-o-y drop in immediate supply. There were no

GRAPH 2 **Trend in immediate supply: Drop across all Ile-de-France markets**



development completions to boost supply in 2017, which continued to dwindle. Today, quality supply is becoming increasingly rare (barely 6% of immediate supply), and remains insufficient to meet large occupiers' needs.

In the Western Crescent, the level of immediate supply remains practically unchanged from one year to the next, whilst the relative decline in availability in the Peri-Defense sector is being offset by development completions in the South End. Nonetheless, Peri-Defense still boasts the most available space, and now more than ever, remains a pool of quality offices near La Defense.

In the Inner and Outer Suburbs, supply dipped very slightly (-3% and -4% respectively). Unsurprisingly, given the large number of transactions, supply in the South Inner Suburb dropped sharply (-21%).

### Rental values edging up

Within this context of rising take-up and waning immediate supply, rental values in Ile-de-France are being put under upward pressure, with several geographic sectors seeing rents spike considerably.

In Paris, the increase in the average rents signed was widespread across both new builds and existing properties and across all arrondissements. For example, the average rent for new →

TABLE 1 **Ile-de-France markets** Immostat real estate indicators and trends

	Take up (sq m)		Immediate supply (sq m)		Vacancy rate (%)		Average new rent (€/sq m/year)	
	2018	Annual change	Q1 2018	Annual change	Q1 2018	Annual trend	Q1 2018	Annual trend
Paris CBD	128,962	52%	161,000	-30%	2,3%	↓	688	↔
Paris	330,801	11%	433,000	-21%	2,6%	↓	581	↔
La Defense	24,527	-23%	216,000	-24%	6,1%	↓	466	↔
Western Crescent	192,704	7%	889,000	-1%	11,9%	↓	331	↓
Inner Suburb	120,950	35%	607,000	-9%	7,8%	↔	305	↓
Outer Suburb	72,797	35%	1,014,000	-7%	5,5%	↓	204	↔

Source: Savills, Immostat

→ builds in the CBD reached €688 per sq m/year, up 8% y-o-y.

Rental values in La Defense are more stable. In Q1 2018, the average rent for new builds reached €466 per sqm/year, up 4% y-o-y. Over the same period, the average rent for existing properties increased in similar proportions (+4%) reaching €445 per sq m/year at the end of Q1 2018.

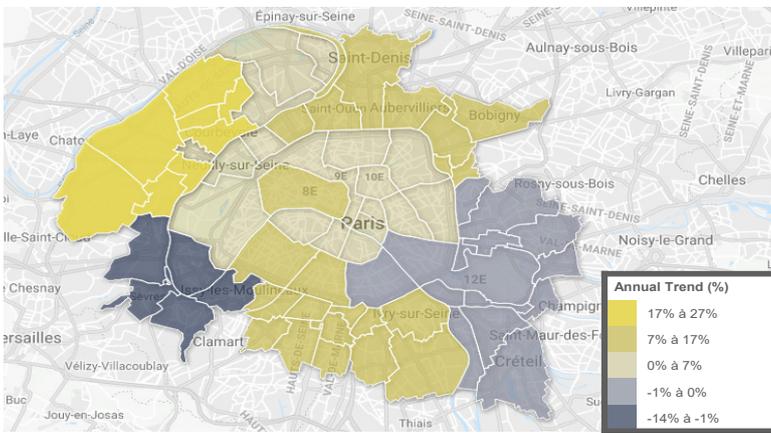
In the Western Crescent, only the South End ran counter to the general

trend, with a 13% fall in rents for new builds and existing properties (falling most sharply at the beginning of 2018). In contrast, rents spiked considerably in the Peri-Defense sector, where average rents for new-builds jumped by 27% (€337 per sq m/year compared to €266 a year earlier).

In the Inner Suburb, rents are also rising, except in the East where rental values have fallen slightly (-1%).

MAP 2

**Rental Values:** Average rents for new builds trending upwards in all but two peripheral markets



Source: Savills, Immostat

## OUTLOOK

■ Co-working companies were key players in the office market in Q1 2018, being involved in several major lettings in the most sought-after business districts, particularly the CBD. Shared workspaces are attracting more and more businesses, who view them as an alternative and/or additional element that allows them to both diversify their real estate strategy, and provide a solution to the lack of quality space. This trend is expected to gather pace in the years ahead.

■ Following on from 2017, the upbeat results recorded in the first quarter of 2018 bode very well for the rest of the year. Buoyed by economic forecasts that have been revised upwards, and particularly by new business registrations, demand for office space is expected to rise rather than fall. Take-up at the end of the year is predicted to reach similar levels to that of 2017 (approx. 2.6 million sq m).

■ The major handicap weighing on take-up is the lack of immediate supply, and the subsequent low vacancy rates in the business districts. Nevertheless, a large volume of new-build stock, around 750,000 sq m, is expected by the end of the year, particularly in La Defense and Paris. Development completions should start to pick up pace between 2019 and 2020, mainly in the Western Crescent and the Inner Suburb.

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