

Briefing note

Paris office market growing "Tech"

March 2017

Tech office demand surging

Demand from Tech occupiers for workspace in Paris has been rising over the past three years, when the government initiated a campaign to promote France as a new "Digital Republic", notably by creating in 2013 a new label named the "French Tech" (see page 2).

Last year, workspace take-up by the Tech sector in Paris and the Western Crescent increased by nearly 10% compared to 2015. During the same period, the share of Tech take-up in the 9th district went from 11% to 21%. Demand is being fuelled by both large digital companies and young start-ups. Of all the leases signed by tech companies between 2015 and 2016, 30% can be attributed to office space below 500 sq m, 38% to office space ranging between 500 sq m and 3,000 sq m and the remaining 32% is office space exceeding 3,000 sq m.

Notably Tech companies are clustering in the 9th district, which is very central and one of the best connected in terms of public transport (9 metro lines, 19 stations, St Lazare metro station, which is the largest in France in terms of footfall). For the young workforce, office location is crucial. They do not want to waste time commuting to offices out of town, away from the buzz of city life. This trend, however, really depends on the size of the company. Large digital companies generally choose prestigious addresses. Since there is a shortage of large office floor space in and around the CBD, they are often forced to look outside the 9th district. This is the case with Ebay, Blablacar and Facebook (located in the 2nd district) for example.

In the search for lower rents, medium sized Tech companies often locate in the northern or eastern part of the 9th district, which is just outside the CBD. Young start-ups will tend to choose co-working spaces, which are flourishing in the French capital. There are currently 88 co-working spaces in Ile-de-France, according to La Fonderie, which ranks the French capital in third position in the world after New-York (119) and Barcelona (92). WeWork recently took 11,000 sq m in 33 Lafayette (9th district) and another 7,000 sq m in 64-66 rue des Archives (3rd district).

More peripheral clusters have recently emerged. One, somehow specialised in marketing and communication, in the Western Crescent, more specifically in Boulogne-Billancourt, Issy-les-Moulineaux and Levallois-Perret. The second one will be in the 13th district. The famous Station F, the world's biggest start-up campus (34,000 sq m), will open its door in April this year. Facebook recently announced their decision to settle in 80 employees and 15 start-ups.

Large digital companies often sign long leases, 6 or 9 years fixed, as opposed to the traditional 3-6-9-year leases. Long leases are asked by the landlords as their Tech tenants often require heavy and costly renovation works. If the rent free period requested by Tech companies is generally in line with the average, the amount of work paid by the landlord can represent an incentive as high as 3-4% of a fix year lease rental income. In return, the well-known brand of a digital companies, will provide the building with free advertisement and a modern connotation.

.....
 "The rising Tech sector is fuelling office demand, notably in the 9th district where it accounted for 21% of the total take-up last year." Serge Vayer, Savills Office Tenant Representation

One size does not fit all

There is no common Tech request in terms of workspace fit-outs. There is a large gap between the needs of a 2-3 person start-up and the ones from a large well-known digital company. Some start-ups may not require any fit-outs either for cost reasons or because they just prefer to work in a raw environment with exposed building structure. For famous digital companies, on the contrary, a fit-out is an investment to create a fun and healthy work environment in order to attract new talent and retain their existing employees. In these companies, employees often enjoy many recreational areas including a fitness centre, table football, or even a kitchen with a chef, which brings their space per employee to more than 20 sq m, compared to 13 sq m per employee on average, whereas their desktop space, when they have one, is relatively small. For this reason, the fit-out cost can range from €0/sq m in co-working spaces up to €1,600/sq m in large digital companies, whilst the average across all sectors is approximately €600-650/sq m.

While all tech companies work in open spaces they tend to move back from a position in which walls were absolutely excluded, to a position in which a few walls are necessary for confidentiality reasons.

→ **Outlook: the digital era will increasingly fuel office demand**

According to Oxford Economics, Tech employment in the French capital increased by 2% per year on average over the past 10 years against 0.5% for total employment. By 2025, the Tech industry is expected to account for 13% of the total employment of the Paris region, and should therefore dethrone the retail sector historically the biggest employer in Ile-de-France.

Given the recent Tech craze going on in France, and more specifically in Paris, fuelled by both public and private initiatives and funds, we believe office demand from Tech occupiers has good days ahead. Based on our analysis, we believe the share of Tech take-up could easily reach 30% of the total take-up in Paris central locations (9th and 2nd districts) by 2020.

The major and imminent risk hanging over the bright future of the tech industry is the outcome of the presidential election. On a more positive note, the outcome of the Brexit could lead the numerous French start-ups, currently located in London, to move back to the French capital, especially if the new government grants tax incentives to UK-based companies.

We believe the opening of Station F will not cannibalise the Tech office demand in the 9th district. It will offer new and modern office premises for start-ups, which will be easily absorbed by the new and fast growing Tech demand. ■

“There is no common Tech request in terms of workspace fit-outs. Hence the fit-outs cost can range from €0/sq m in co-working space up to €1,600/sq m in large digital companies.”

Johanna Zini, Savills Building & Project Consultancy

The "French Tech"

■ Since 2016 the "French Tech" has been all over the news. Over the first nine months of 2016, capital invested in start-ups increased by 71% compared to the same period in 2015. Big fundraisers multiplied last year; turnovers of €10 million are now commonplace whereas it was rare four years ago. In the past three years the volume of venture capital raised has tripled.

■ In January this year, at CES 2017 tradeshow in Las Vegas, the "French Tech" was also in the spotlight with a record number of companies participating. Some 238 French enterprises, of which 170 start-ups showcased their innovations. This was the third biggest delegation following the USA and China.

■ In April, Station F, the world's biggest start-up campus will open its doors. Launched by Xavier Niel, this innovative concept will welcome young start-ups under one roof in a gigantic office space of almost 34,000 sq m within the former Halle Freyssinet in the 13th district of Paris. Facebook recently announced their decision to move in 80 employees and 15 start-ups. Station F will also be home to HEC business school and Vente-privée.com incubators to name a few.

■ Finally, in spring this year the "French Tech" will launch the French Tech Visa with the aim to attract international talents from the Tech sector and facilitate their arrival in France, whether they be entrepreneurs, employees or investors.

GRAPH 1 **France financing trends to Tech companies** Big fundraisers multiplied last year



Graph source: The "French Tech" / CB Insights

Savills teams

Please contact us for further information



Serge Vayer
Tenant Representation
+33 (0)1 44 51 50 28
svayer@savills.fr



Johanna Zini
Building & Project Consultancy
+33 (0)1 80 05 91 67
jzini@savills.fr



Marie Josée Lopes
France Research
+33 (0)1 44 51 17 50
mjlopes@savills.fr



Lydia Brissy
European Research
+33 (0) 624 623 644
lbrissy@savills.com

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.