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Market in Minutes
2016 - a vintage year

Q4 2016

A mixed bag for the economy

■ In H1 2016, an improved global outlook (oil prices, lower interest rates...) boosted the French economy before running out of steam in H2 2016. By year end, economic growth was only +0.2% higher than in 2015.

■ A downturn is expected in 2017. Given the structural weakness of the French economy, growth forecasts have been revised downwards from 1.3% in 2016 to 1.1% forecast for 2017.

■ Furthermore, the unknowns that still weigh on the global economy (the prospect of a hard Brexit, Trump's foreign policy) will put France's, and more widely the European Union's, fragile recovery to the test.

Paris leads the way!

■ Following on from 2015, the Parisian office market proved particularly upbeat in 2016. Take-up registered q-o-q increases throughout the year to reach 2.4 million sq m; up 7% y-o-y.

■ Spiking 23%, the impressive performance of office space exceeding 5,000 sq m has put the market on course for growth. A total of 65 transactions (891,000 sq m) were completed in this period, compared to 57 in 2015 (721,900 sq m).

■ In Paris, take-up reached almost 330,200 sq m in Q4 2016, which is a record for a single quarter. In total, almost 1,108,300 sq m were marketed in 2016, representing an annual increase of 14%. Most of the Paris submarkets experienced growth, with the exception of the 5th, 6th and 7th arrondissements, which shrank by 72%. Growth was most marked in smaller office spaces of below 1,000 sq m (+3%) and larger spaces of over 5,000 sq m (+69%). This performance offset the drop seen in the mid-size office segment, which shrank 8% y-o-y. Firms from the banking and finance sector were the occupiers to sign the most space: BPCE/Natixis signed three leases in the Elements, France Avenue and Austerlitz buildings, whilst BNP Paribas relocated to the Millenaire and the Bank of France moved into the Intown building (Paris CBD).

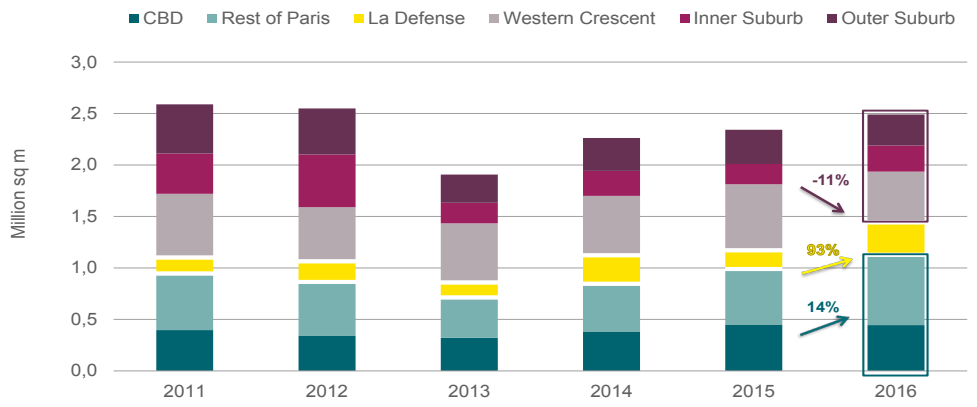
■ In La Defense, take-up reached 274,554 sq m over the year, a figure not seen for 10 years. Following a poor 2015, large firms once again became more active in the sector in 2016. Lettings involving spaces of over 5,000 sq m accounted for 72% of take-up (around 200,000 sq m). 3 deals for spaces in excess of 30,000 sq m were recorded (49,000 sq m by St Gobain in Tower M2, 44,000 sq m by RTE in Window building and finally 31,000 sq m by Deloitte in Majunga Tower).

■ The Inner Suburbs registered an increase (up 29%), driven by the recovery of the Inner Eastern Suburbs (up 94%) and Inner Southern Suburbs (+47%). Only the Inner Northern Suburbs lagged behind with 74,959 sq m marketed over the year (down 16%).

■ The Western Crescent and the Outer Suburbs saw a downturn. With take-up reaching 472,630 sq m, the Western Crescent submarket suffered a sharp y-o-y drop (-24%). 2015 was a particularly busy year with the entry of big-name players such as AccordHotels, OECD and Novartis, whilst in contrast, 2016 saw the return of a more stable business environment. In the Outer Suburbs, take-up fell by 10% while the Outer Southern Suburns saw take-up increasing thanks to a 35,000 sq m deal singed in Massy.

GRAPH 1

Take-up Rising in Paris and La Defense, decreasing in the periphery



Source: Savills

Dwindling supply

■ Down for seven consecutive quarters, immediate supply in Ile-de-France reached 3.53 million sq m by the end of 2016 (down 10% y-o-y). This trend is even more marked in new-builds - at the end of Q4 2016, only 17% of the stock was new or reconstructed, versus 22% one year earlier (dropping 31% y-o-y). In addition, the vacancy rate in Ile-de-France fell to 6.7%, a level not seen since 2009.

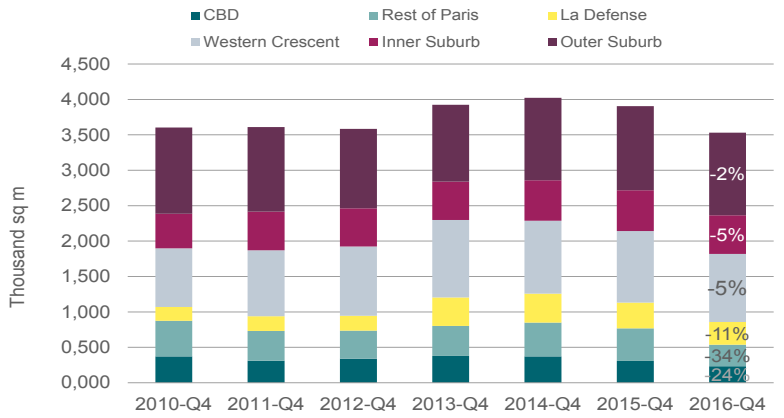
■ Strong occupier activity in the Paris market has led to a reduction in the availability of supply, which now stands at 537,000 sq m, bringing the vacancy rate down to 3.3%. One has to go back to 2008 to see such a low vacancy rate. In the most sought-after arrondissements, the vacancy rate has fallen below 3%.

■ In La Defense, immediate supply has fallen and now stands at 321,000 sq m (-11% compared to Q4 2015). The vacancy rate has dropped to 7.7% compared to 8.7% a year earlier.

■ In the periphery, the vacancy rate is also trending downwards (-4%). Despite this fall, the Western Crescent, the Inner and the Outer Suburbs account for 75% of immediate supply and remain the main supply of office space in Ile-de-France.

GRAPH 2

Immediate supply Stock reduction in Ile-de-France



Source: Savills

Muted rise in rental values

■ At the end of 2016, rental levels remained relatively stable. In Ile-de-France, the average rent for secondary space was €323 per sq m/year, whilst the average rent in the primary market was €374 per sq m/year.

■ Performances across the different sectors vary greatly. In central Paris, the neighbourhoods where stock is most limited in supply saw rents increasing: +19% for Paris 12-13; +13% for Paris 14-15 and +35% for Paris 3-4-10-11. In contrast, Ile-de-France saw the average rent trending downwards.

Outlook

■ Given the uncertain economic outlook and the lack of quality space, take-up should consolidate between 2.1 and 2.2 million sq m. In contrast, the number of pre-lets should increase.

Savills France

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