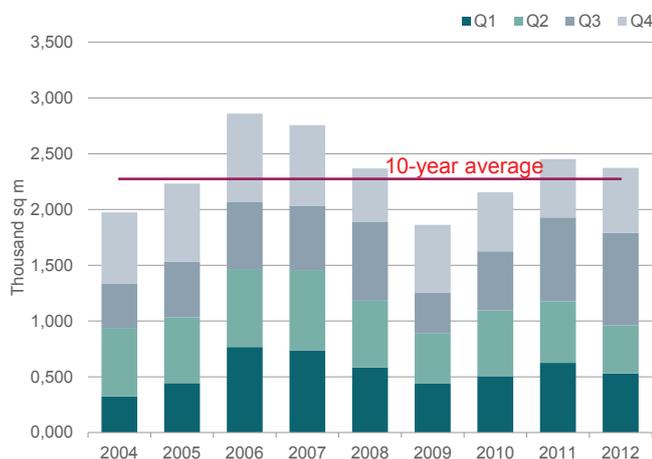


Market report Ile-de-France Offices

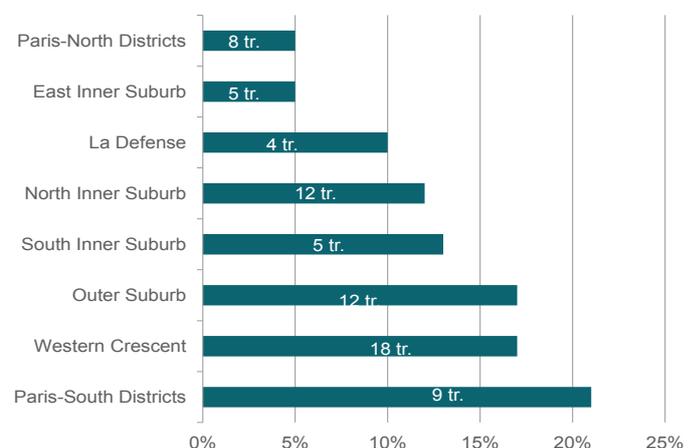
Q4 2012

GRAPH 1 **Take-up** Remains above the ten-year average



Graph source: Savills, Immostat

GRAPH 2 **Transaction** Southern Paris and the Inner Suburb account for 50% of the > 5,000 sq m transactions



Graph source: Savills

SUMMARY

Sustained take-up despite relatively weak activity

■ GDP edged up 0.1% in 2012. The economy is not moving forward and the confidence of the French is low, this is causing market players to take a more cautious approach. The forecast is for a gradual recovery in the second half of 2013.

■ In 2012, take-up reached 2,38m sq m representing a fall of 3.4% yoy, which put an end to the upward trend of the last two years. The biggest falls were recorded in Paris (-10%) and in the Western Crescent (-14%).

■ The > 5,000 sq m category accounted for 73 transactions and

51% of take-up. The public and semi-public segment played a key role.

■ Available supply in Ile-de-France remains stable at 3,59m sq m. Speculative developments and development starts remain limited. The vacancy rate stands at 7.1% in Ile-de-France and 4.5% in Paris.

■ The prime CBD rent, down 11.7% year-on-year, is now €706 per sq m/year. Rental values for the rest of the market have experienced a gradual fall that, generally speaking, is barely noticeable. Thus, the average rent for Ile-de-France is practically unchanged

at €318 per sq m/year.

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 “The lettings market has benefitted strongly from the activity of the public and semi-public sector, which accounts for 32% of the lettings exceeding 5,000 sq m.” Marie-Josée Lopes, Head of Research Savills

➔ **Economic background**

Focus Economics forecasts a weak GDP growth for 2012 of +0.1%, then a very limited return to growth in the following years.

The usual growth drivers are bogged down and the decline of economic indicators has, yet again, delayed the long awaited recovery. Unemployment has reached 10.1% of the working population. There is a growing imbalance between stable business start-ups and the increasing number of insolvencies. The increasing cost of raw materials is accompanied by a 0.1% fall in household consumption. Household purchasing power is diminishing and, in spite of a slight dip in the saving rates, consumer spending is unlikely to grow in the coming months.

The lack of predictability, due to the current gloom, is now enhanced by the fear that the crisis will extend into 2013. This has hit morale in France, where confidence is at a low ebb, and is encouraging occupiers to remain very cautious.

In the Eurozone, economic difficulties are spreading and GDP showed a fall of 0.4% in 2012. 2013 is likely to be difficult for all of the Eurozone countries, including Germany, which will have to face up to new difficulties, particularly in terms of employment. Nonetheless, according to the IMF, the steps taken by public bodies have reduced the risk of a serious crisis in the Eurozone.

“Forecasts are favourable for pre-lets, notably large-scale spaces and the strength of top rents in the Central Business District for the most prestigious locations and properties.” Raymond Genre Grandpierre, Director of Savills

On a global level, the economic recovery foreseen by the IMF for the third quarter of 2013 could be hampered in the short term by the management of problems associated with US public debt (107% of GDP) and the Japanese recession. Worldwide growth (+2.3%) will be principally underpinned by results from emerging countries and the newly industrialised economies of Asia. Certain specific economic sectors may still benefit from growth, notably those linked to new communications technologies (telephony and tablets, for example).

Take-up and demand

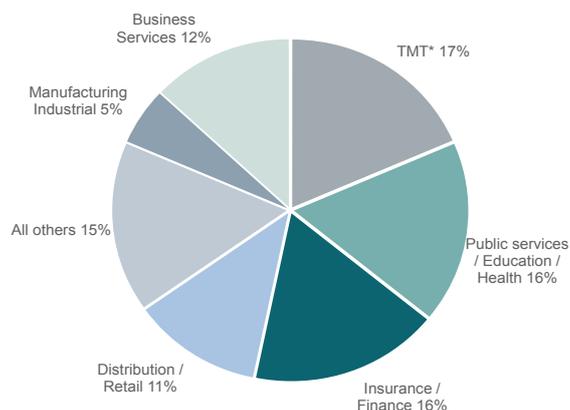
In Ile-de-France, 582,486 sq m was taken up in the fourth quarter, bringing the annual total to 2,38m sq m. In 2012, take-up remained above the ten-year average, although the upward trend of the two previous years came to an end, with a fall of 3.4% compared to 2011. This change in trend is the result of growing tensions, which can be blamed on both the economic slowdown and the business community's distrust of the new

government, which was extremely marked up until the third quarter.

Commercial real estate activity is therefore, once again being driven by cost cutting and space-rationalisation, which particularly favour the periphery markets. The drop in activity has been particularly marked in Paris (-10%), in all of the submarkets except Paris 14/15 (+62%) and Paris 18/19/20 (+18%), and in the Western Crescent (-14%) with the exception of the Southern River Suburb (+38%). By contrast, the Inner Suburbs and La Defense have fared much better, with year-on-year growth of 38% and 39% respectively.

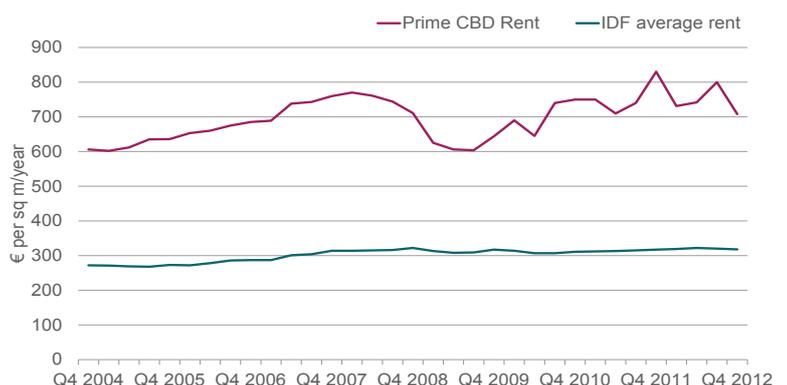
Given the current strategies, large occupiers have shown greater flexibility and propensity to take space in the suburbs and a preference for new properties. Thus, the “new” periphery markets have become alternatives to the traditional markets such as Paris or La Defense. These guarantee improved real estate cost-efficiency thanks to lower rents, a more diverse choice of quality premises with a “greener” image and more real estate

GRAPH 3 **Volume breakdown per sector (>1,000 sq m)** Demand is diversifying



Graph source: Savills / * Technology, Media, Telecommunication

GRAPH 4 **Rents** Rents have started to fall



Graph source: Savills, Immostat

opportunities for turnkey projects.

In 2012, 73 transactions exceeding 5,000 sq m were let in Ile-de-France, putting the total at 1.1m sq m. Although there have been fewer transactions than in 2011 (76 in 2011), they represent 51% of take-up, an exceptional amount, which is similar to that of 2011.

The largest lettings of the year were three pre-lets: the Balard project (135,000 sq m) signed by the Ministry of Defence in the 15th district, the Forum 3 scheme (69,000 sq m) signed by France Telecom in Châtillon and the Tour Esplanade (53,000 sq m) acquired by the Ministry of Ecology, Sustainable Development and Energy in La Defense.

Among the most dynamic markets in the large-scale transactions category, were the Inner Suburbs, which accounted for 30% of take-up of spaces over 5,000 sq m. With 15% of the take-up volume of large transactions, Paris 14/15 accounts for an exceptionally high proportion of this market segment, this is primarily thanks to the 135,000 sq m Balard transaction. Finally, the Western Crescent represents 26% of the large transaction category, of which the most noteworthy areas are Issy-Les-Moulineaux, Rueil-Malmaison and Colombes.

In 2012, the diverse nature of the economic sectors remained unchanged in Ile-de-France, with new Information and Communication Technologies (ICT), public services and

the insurance-finance sectors slightly more prominent than others.

By contrast, the public/semi-public sector is the main taker of large-scale space, accounting for 32% of the take-up of spaces over 5 000 sq m, compared to less than 20% in 2011. For example, SNCF signed three out of 12 of the lettings over 5,000 sq m recorded in Saint-Denis in 2012, i.e. 44.5% of this category in the Northern Inner Suburb. Similarly, two out of four large-scale transactions in La Defense were signed by the State and represent 62% of the take-up of properties of over 5,000 sq m in La Defense.

Supply

At the end of 2012, immediate supply was 3,6m sq m, almost the same as at the end of 2011. The Southern Outer Suburb is one of the rare markets where stock has been absorbed. The La Defense and Paris markets remain stable while the Western Crescent has improved slightly.

Despite a good performance as regards take-up, the amount of available supply in Ile-de-France has not changed a great deal. The low development, linked to the significant number of turnkey projects and pre-lets of transactions over 5,000 sq m, are limiting any form of change in the amount of available supply.

The vacancy rate for Ile-de-France therefore remains at 7.1%, although this overall figure masks the considerable differences between

sectors and space categories. The vacancy rate in Paris continues to be low, at 4.5% (4.1% in CBD). The 6.6% rate in La Defense is still below the theoretical fluidity rate. The vacancy rates in periphery markets that have more supply, range from 8.6% to 12% in the Inner Suburbs, from 3.5% to 12% in the Outer Suburb and from 6% to 17% in the Western Crescent.

The Ile-de-France has more than 2m sq m of available supply over 5,000 sq m, more than half of which is located in the Western Crescent and the Outer Suburb. In 2013, 650,000 sq m of supply will be delivered, mainly in the Western Crescent, La Defense and Paris. The biggest volumes are in La Defense, particularly the following towers - Egho (79,000 sq m), Carpe Diem (41,800 sq m), and Egee (41,800 sq m) – followed by the Western Crescent, notably the In/Out programme (33,300 sq m). The biggest delivery in Paris will be the Tivoli, in rue Saint-Lazare (22,300 sq m).

It is worth highlighting the large projects in Batignolles and Balard, which will bring a touch of modernity to the Parisian market, by creating two new commercial property hubs of certified and registered large-scale office spaces. Pre-lets have already been signed. A good example here is the 21,500 sq m lot 05, acquired by AG2R La Mondiale, where delivery is expected for the end of 2016.

TABLE 1

Key data

	Take-up (sq m)		immediate supply (sq m)		Vacancy rate		Prime rents (€ per sq m/year)	
	2012	Annual evolution	Q4 2012	Annual evolution	Q4 2012	Annual evolution	Q4 2012	Annual evolution
Paris CBD	344,903	-13.0%	340,000	+9.0%	4.1%	↑	706	↓
Paris	851,998	-10.0%	737,000	+0.8%	4.5%	↑	708	↓
La Defense	162,522	+39.0%	209,000	0.0%	6.5%	→	480	↓
Western Crescent	512,720	-14.0%	978,000	+5.0%	9.5%	↑	444	↓
Inner Suburb	438,974	+43.5%	539,000	-0.7%	10.3%	↓	360	↑
Outer Suburb	414,424	-14.0%	1,123,000	-6.0%	6.0%	↓	270	↑

Table source: Savills, Immostat

→ **Rents**

At the end of 2012, prime rental values reached €708 net per sq m/year in the 7th district of Paris and €706 net per sq m/year in the CBD. The latter fell 4.5% compared to H1 2012.

Due to the lack of large prime office space in Paris we believe the prime rental value should rise again over 2013. In any event, in view of the economic context and the selectiveness of end-users, only the most prestigious properties will benefit from values in excess of €800 per sq m/year.

Other rents are being pressured downwards. The average Ile-de-France rent has hardly changed over the past six months and stands at €318 net per sq m/year. However, in Paris and La Defense, it has fallen by 5% and 7% respectively compared to the previous six months.

The increasingly marked difference between economic rent and headline rents, is due to the significant commercial incentives granted

to occupiers. They can negotiate favourable conditions, particularly if they enter into a long-term lease for a large space. Their requirements, which are ever more demanding, have once again resulted in lengthier negotiations over 2012.

Occupiers are fully aware of the sluggish state of the economy; in addition, they hope to obtain the maximum possible guarantees and commercial incentives in order to reduce their costs. For certain properties, occupiers are negotiating commercial incentives, as well as attempting to reduce headline rents.

In this context of lower rental values, tenants may contemplate renegotiating rents or vacating the property, particularly if the effect of index-linked rent reviews becomes "too" significant. Moreover, a three-year break clause may also offer an opportunity to move, particularly for example, those lease agreements signed at high rents between 2005 and 2007. ■

OUTLOOK

Stability in 2013

- The global economic upturn that is expected for the third quarter of 2013 may help revive the French lettings market, particularly if the strict austerity policies imposed prevent a worsening of the situation in Europe.
- The market will continue to be affected by cost-cutting strategies and more companies will move, due to a drop in rents, if this process continues to occur.
- Top rental values should remain unchanged for prime properties, above all in Paris, while a gradual reduction, as a result of negotiations, seems to be on the cards for the rest of the market.
- The expiry of numerous lease agreements signed between 2005 and 2007 could lead to a peak in companies vacating properties in the coming months.
- We predict a take-up of approximately 2m sq m in Ile-de-France in 2013.

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Savills plc

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