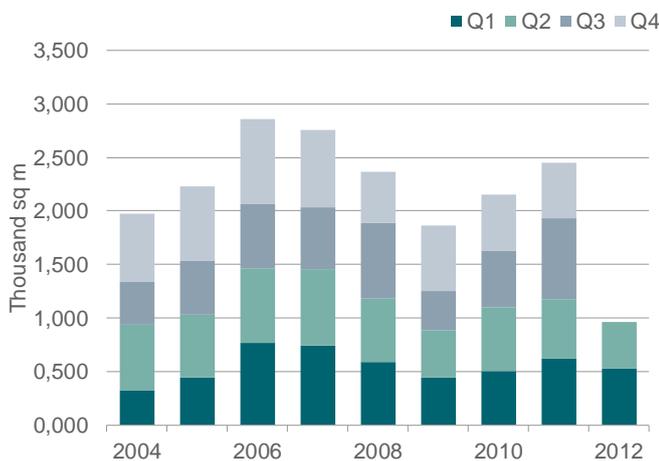


Market report Ile-de-France Offices

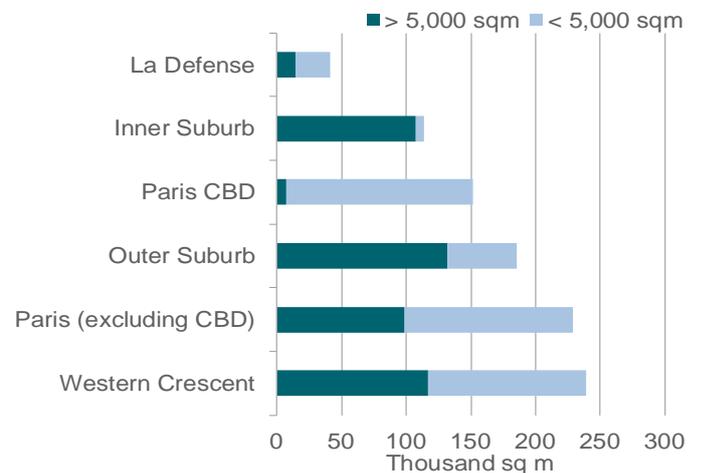
H1 2012

GRAPH 1 **Take-up** Overall office demand is weakening



Graph source: Savills, Immostat

GRAPH 2 **Large transactions** Large office users have been driving demand notably in suburban areas



Graph source: Savills

SUMMARY

Letting activity has been on hold during the first six months of 2012

■ GDP growth forecast is slowly improving (+0.3% for 2012). Meanwhile the economy remains slow with numerous company failures and a rising rate of unemployment.

■ Take-up fell by 18% this half compared to the first half of 2011. In this falling cycle where the consolidation of companies is key to real estate decisions, large scale lettings have boosted the market, especially in the suburbs.

■ Lettings to new technologies, communication and distribution have led activity in the medium and large

floor plate sector.

■ Prime rents have risen slightly to stand at €742 per sq m/year. The supply and demand balance has allowed rents to remain more or less stable, despite some adjustments.

■ End users have the upper hand in negotiations and are able to obtain numerous incentives.

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 “The IDF office cycle is trending downward. However the southern area, where office supply is meeting the need of companies currently undergoing consolidation, recorded good performances.”
 Marie-Josée Lopes, Head of Research
 Savills

➔ **Economic background**

After a 2011 troubled by a number of extreme events (natural phenomena, political and financial crises throughout Europe, etc.), 2012 has so far been distinguished by a relative period of respite internationally, leading to a rise in the household confidence index in France.

However, the Eurozone economy continues to be slow moving, and the many issues troubling European nations are no closer to being resolved. Periphery European countries are still toiling to manage their ever increasingly more fragile debt situations, whilst Core European countries are attempting to put on a brave face despite growing fears and their own worrying levels of debt.

As one of the most highly rated countries in the Eurozone, France has played a dynamic role in managing the 'European crises'. However, despite the fact that the Franco-German team of Sarkozy and Merkel were able to provide leading players in the markets with reassurances over the future of Europe, the change in political colours in France has reignited concerns regarding European instability.

With the wait-and-see policy traditionally played out prior to presidential elections now at an end, France has entered a 'defensive' phase in response to the change in government strategy. Indeed, the new direction taken to reduce debt and stabilise public finances, though still somewhat hazy, is likely to lead to an

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 "Rationalisation strategies have fuelled the large transaction market segment." Hervé Blanchet, Head of Savills Paris

increase in taxes, particularly those levied against companies.

From an economic standpoint, the fleeting recession that had been anticipated for the middle of the year no longer appears to be on the cards, and the French GDP forecast has been revised upwards slightly to +0.3%. That said, several key economic indicators have deteriorated: household consumption (+0.2% forecasted for 2012) is likely to provide less support to economic growth this year, and the rise in unemployment levels seen in the first half of the year (up to 10.1% in June) came about due to a fall in the number of jobs being created and the exceptional number of company bankruptcies. All those factors, combined with the annual increase in the price index (+2% in 2012), are likely to erode household-purchasing power slightly more.

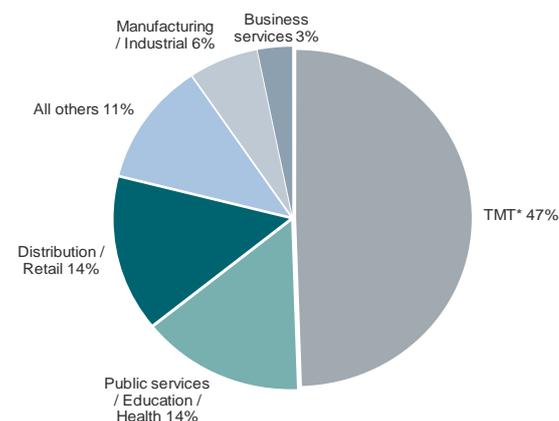
Take-up and demand

The rental market in the Ile-de-France region has been in a bear cycle since mid-2011, with some pockets of resistance amongst the submarkets. The principal drivers behind take-up remain cost rationalisation and opportunism, though activity has been slowed by the length of time it takes for occupiers to think things through

and the increase in the number of guarantees demanded by landlords. Following a dynamic first quarter to 2012 in terms of take-up, the second quarter once again showed a slight slowdown (429,052 sq m). Half-yearly take-up therefore hit 960,000 sq m, down 18% compared to the first six months of 2011. That drop affected the majority of submarkets: La Defense (-45%), Western Crescent (-33%) and Paris (-23%). Only the suburb saw an improvement (+34%) thanks to lower prices and an abundant amount of supply.

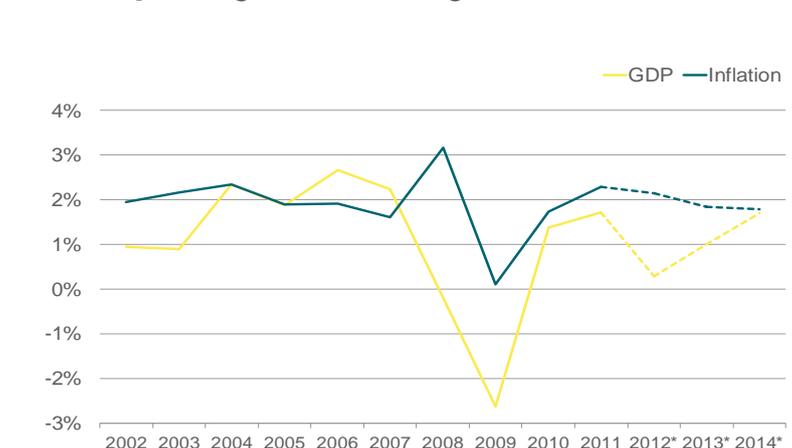
However, the traditional business districts remain the preferred targets of those end-users who are once again gravitating towards the more highly priced areas of Paris, such as Paris Centre West, which accounted for 21.5% of take-up in the Ile-de-France region during the first half of 2012, including 15% in the Central Business District. The South End market was also highly favoured with 117,433 sq m taken up, representing an annual increase of 60% thanks to the media and technology sectors and the progress made in terms of large-scale spaces. Overall, the business districts on the southern outskirts were bolstered during the first part of the year, whereas La Defense continued to suffer, with only one large-scale

GRAPH 3 **Volume breakdown per sector TMT***
 companies have been very active



Graph source: Savills / * Technology, Media, Telecommunication

GRAPH 4 **Economy GDP growth is slowing down**



Graph source: Focus Economics / * forecast

transaction being completed there (RTE in Cœur Defense).

In accordance with traditional consolidation strategies, over the first six months of 2012, end-users favoured either new, often large units or less expensive properties. The proportion of occupied office space let therefore rose (48% against 43% in H1 2011), whilst that of new premises remained at 43%.

One striking feature of the first half of 2012 was the improvement made in terms of the number of large spaces let, which were mainly prompted by company consolidation. Although less numerous, deals exceeding 5,000 sq m (35 compared to 41 during the first half of 2011) were, on average, larger and represented 50% of overall take-up. That figure is particularly impressive given that it has fluctuated between 35% and 45% over the last ten years. Of the 35 deals completed during the first six months of 2012, 19 exceeded 10,000 sq m.

Large office occupiers were drawn to the south of the region. The South Outer Suburb, South Inner Suburb, South End and Southern Paris districts accounted for more than half of the total take-up of these large spaces. The public/semi-public sector particularly favoured large spaces and 5 transactions exceeding 5,000 sq m were completed in the second half.

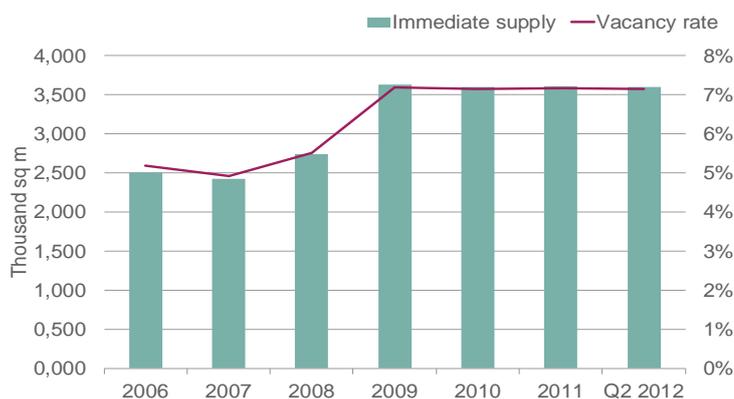
Those companies related to technology / IT, industry, pharmaceuticals and large-scale

distribution have essentially boosted the Ile-de-France market. In fact, their searches brought about several standout deals: Sanofi Pasteur (50,000 sq m in Gentilly), Thalès (49,000 sq m in Vélizy) and Système U (19,400 sq m in Montigny-le-Bretonneux). The multimedia and communication sectors also heavily stimulated the market in large and medium-sized spaces, most notably in Boulogne-Billancourt (Canal+ with 10,500 sq m and TF1 with 7,315 sq m) and Aubervilliers (Endemol with 7,000 sq m). The industrial, luxury goods and banking/insurance sectors were also represented in the 1,000 sq m+ segment (Schneider Electric, Mercedes Benz, PPR, Chanel, Banque Populaire, GMF...). Such diversity in rental players highlights the depth and wealth of the Ile-de-France market, even in times of crisis. With the trend towards cost control and obtaining the maximum number of guarantees possible, for a number of months now, larger end-users have been opting for the more numerous turnkey and purpose-built properties.

Supply

The level of immediate supply in the Ile-de-France region has changed little since mid-2010. Estimated at 3,597,000 sq m in mid-2010, it fell by 1.6% over the period of a year. With the net absorption of office space in Ile-de-France close to zero, the market has managed to maintain a balance between supply and declining level of take-up. It should also be noted that the quality of available stock →

GRAPH 5 **Supply and vacancy rate** Immediate supply remained stable in spite of the weaker demand



Graph source: Savills, Immostat

La Defense

The "green wave"

Boasting some 80,000 sq m, the Tour First was at the forefront of the new generation in 2011. Others followed: Prisma in 2011 (24,000 sq m), Carpe Diem in late 2012 (46,700 sq m) and, from 2013, EQHO, Manjunga, Air², Chartis, Ava, Phare...

By 2017, definite supply will stand at 543,300 sq m, to which the 160,900 sq m of probable supply should also be added.

GRAPH 6 **Future supply** Development activity is expected to increase



Graph source: Savills, Explore

La Defense is in the process of creating a new 'green' image for itself. The older towers are getting a facelift, as refurbishments are undertaken and new towers are completed. Certified and/or accredited according to French and/or international environmental standards, they should restore the modern and avant-gardist image once held by what is the largest business district in Europe. The new generation of towers are often taller and boast architectural lines compliant with current environmental guidelines, with innovative materials and cutting-edge operating cost management techniques placed to the fore. The green wave has certainly now washed over La Defense, though the process is of little benefit to the district, as the cost of making the towers environmentally friendly has unquestionably caused rents to rise. However, since the economic crisis hit, the take-up rate and rent curve have fallen. Once a symbol of the biggest deals completed in France, La Defense is the district that has suffered the most from the drop in this segment of the market. Peaking at more than €500 per sq m/year before the crisis, prime rent now stands at €490 per sq m/year. Nevertheless, the maximum rental value is higher than the prime rent figure since, of the standout deals of 2011, those agreed in the Tour First were able to achieve rents of €590 per sq m/year.

→ is likely to fall progressively given the search criteria employed by end-users.

However, the picture at micro-market level is more mixed. The majority posted a quarterly drop in their available supply (presence of large transactions often exceeding 10,000 sq m), and in Paris the lack of supply in certain districts has served to limit take-up. By the midway point in 2012, the French capital had seen its available supply fall by 11% in comparison with mid-2011 (-32% in Southern Paris and -61% in the Paris 12-13 districts), whilst that in the Southern Outer Suburb, where several large deals were completed, had dropped by 12%. On the other hand, the delivery of newly completed office developments led to a 49% increase in available supply in Neuilly/Levallois over the last year (So Ouest and Carré Champerret) and an 11% rise in that available in the Inner Suburb.

Immediate supply of spaces exceeding 5,000 sq m in the Ile-de-France region is made up of 156 offers totalling 1,718,800 sq m, including 62 greater than or equal to 10,000 sq m. Construction projects continue to be started and completed, though greater significance is now attached to the pace and general features of the market itself (greater adaptability of properties on the market).

The Ile-de-France market remains relatively fluid, with the vacancy rate stable at 7.1%. However, in Paris the situation has become increasingly strained with a very low vacancy rate,

particularly in the most highly prized areas. By the end of June 2012, the vacancy rate hit 4.6% compared to 5.2% a year earlier. Only the Paris 14-15 area posted a slightly higher rate at 5% (six office accommodations available that exceed 5,000 sq m). On the other hand, the vacancy rates in the Inner Suburb and the Western Crescent rose, moving out from 9.3% to 10.3% and from 8.4% to 9.2% respectively over the period of one year.

The definite future supply of stock exceeding 5,000 sq m is reasonably large, though unevenly distributed throughout the region, with more on the outskirts. It amounts to some 2,500,000 sq m of office space to be completed between 2013 and 2015, with 60% in the Inner Suburb (Western Crescent and La Defense included), 30% in the Outer suburbs and 10% in Paris.

The lack of supply in the Parisian business district will become more pronounced in 2013: of the nine office spaces exceeding 5,000 sq m (129,000 sq m) that will increase the available supply in Paris, only one will be in the Central Business District, on Avenue Franklin Roosevelt. Definite future supply in the Inner Suburb and the Western Crescent will be made up of 18 and 16 office spaces respectively in 2013 (650,000 sq m). Finally, only one property is definitely to be added to the La Defense stock in 2013: EQHO at 88,000 sq m. 2014 will be the year of completions in La Defense with 182,000 sq m listed, though the decline in Paris continues

(seven properties totalling 89,500 sq m). The property completion rate will be maintained in the Inner and Outer Suburb. Otherwise, stocks of potential properties are smaller (800,000 sq m each) and there is no risk of the market being oversupplied for the time being.

Despite the net absorption rate having been close to zero for several years, the reasonable number of construction projects being started rules out the risk of an oversupply of office space in the Ile-de-France region, which will enable rental values to remain consistent.

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 “Despite a net absorption rate over the past few years at close to zero, over-supply is not anticipated in IDF”

 Marie-Josée Lopes, Head of Research Savills

Rental values

By the end of the second quarter of 2012, average rents were following a slightly bullish trend, with the exception of those in the Inner Suburb and North Eastern Paris. The average rent in the region stands at €322 per sq m/year, representing +2.6% quarter-on-quarter and +2.5% year-on-year.

TABLE 1
Key market indicators

	Take-up (sq m)		Immediate supply (sq m)		Vacancy rate		Rental values (€ per sq m/year)	
	H1 2012	Annual evolution	H1 2012	Annual evolution	H1 2012	Annual evolution	H1 2012	Annual trend
Paris CBD	151,307	-23%	348,000	+3%	5.06%	-15%	742	↑
Paris (rest)	229,140	-18%	404,000	-20%	3.92%	-22%	366-585	↓
La Défense	40,872	-45%	222,000	+6%	7.06%	+6%	490	↓
Western Crescent	239,245	-33%	139,000	+49%	9.19%	+9%	390-436	↓
Inner Suburb	114,037	+32%	538,000	+11%	10.30%	+11%	220-300	↓
Outer Suburb	185,436	+2%	1,136,000	-9%	6.12%	-9%	128-243	↓

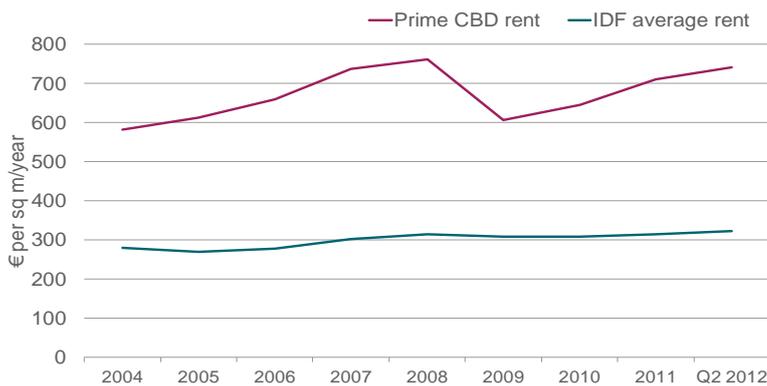
Graph source: Savills, Immostat

→ By mid-year, prime rent had moved up to €742 per sq m/year. The limited number of prime property deals has increased its volatility and explains the fluctuations seen over recent quarters. As prime supply is rare, rents have tended to rise in Paris, with the highest rent recorded so far this year standing at €830 per sq m/year.

As for the remaining markets, rental values do not appear to have lost any ground, though landlords have tended to adjust their rents in certain areas. The economic uncertainty has also prompted worried landlords to demand further guarantees from

their tenants in order to avoid their properties becoming vacant. However, as the current situation does not lend itself to businesses moving, end-users continue to hold the upper hand in negotiations and they have been able to obtain incentives representing between 10% and 20% of their headline rent. ■

GRAPH 7 **Rents** Overall rental values remained stable



Graph source: Savills, Immostat

OUTLOOK

One more year before a better economic outlook

- 2012 has far not proved to be overly successful in terms of lettings activity. The proportion of large transactions is likely to fall during the second half of the year, due to the small number of on-going projects, though the remainder of the market should hold fair and the overall take-up in 2012 should come very close to the 2,000,000 sq m mark.
- Immediate supply will remain as it is, though there will be a net decline in the stock of new and refurbished properties in Paris, where a rise in prime rents is expected.
- The defensive waiting game played by the leading market players should wear off as the government implements its new positioning, thus giving way to renewed restructuring.
- On a European level, the year will be characterised by a certain amount of economic and financial 'redefinition', with the aim of reinspiring confidence into markets and establishing new foundations from which to develop renewed economic momentum.

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