France - March 2019

SPOTLIGHT

Savills Research

Ile-de-France Office Market

savills

Upbeat lettings activity • Waning supply • Rents trending upwards

1.5%
GDP growth in France in 2018

1.5% estimated
GDP growth in France in 2019

Economic climate

Between dusk and dawn

At the global level, growth remains sluggish. Amid international trade tensions, uncertainty over how Brexit will play out and various other destabilising factors (social and political unrest in several European countries, volatility in the financial markets, emerging economies in flux, etc.), the economic climate is looking distinctly stormier than it did at the outset of 2018.

GDP growth for the Eurozone as a whole came in at 1.8% in 2018, trailing far behind the 2017 figure of 2.7%. Q4 2018 was particularly lacklustre, and there are no signs that early 2019 will be much better. The Eurozone is projected to grow by just 1.6% in 2019 (down 0.3 of a percentage point) and 1.7% in 2020.

While clouds continue to gather, France appears to have escaped the worst. Here, the IMF expects to see a rate of growth similar to that of 2018, estimated at 1.5% in 2019 (a downward revision of just 0.1 of a percentage point) and 1.6% in 2020. The impact of the "yellow vest" (gilet jaunes) movement, while clearly unhelpful, has been less damaging than once feared.

In Q4 2018, the French economy grew by 0.3%, level with the previous quarter. Unemployment continues to fall; at the close of 2018, France's unemployment rate stood at 8.8%. Although well above the European average, this is the lowest level of unemployment the country has seen since 2009.

Household morale, after plummeting from November 2018 on, bounced back by five points in January [1]. Meanwhile, and almost in step, movement in the PMI index signalled an upturn in the business environment, bucking the forecast for the start of 2019 [2].

Finally, international investors are still keeping a close eye on the opportunities presented by the French market. That is the view expressed by the French-American Chamber of Commerce, for example, in reporting its annual survey of American companies: 'For American investors, France is more attractive now than ever before'[3]

A relatively safe harbour in a global landscape that has grown gloomier and more turbulent over the last few months, France should continue to reap the rewards of a flexible monetary policy and favourable financing conditions. Recent fears of a significant tightening of monetary policy in the USA or the Eurozone in 2019 have now abated. Jerome Powell, Chair of the Federal Reserve, has pledged 'patience', and his counterpart at the ECB is of the same mind. It seems likely, then, that Mario Draghi will reach the end of his term without having overseen a single rate rise. The maintenance of this so-called 'monetary bazooka' should have a stimulating effect on economic activity in 2019.

These unexpectedly favourable monetary conditions may be augmented by various new steps aimed at boosting household consumption. In France, measures announced on 10 December in response to the yellow vest movement are expected to give rise to a significant jump in purchasing power. The Public Policy Institute (IPP) puts this at 0.8% on average [4], while the French Economic Observatory (OFCE) estimates that each household will see a gain of €440, which could potentially boost economic growth by 0.3% [5]. This recent spotlight on purchasing power is not a purely French phenomenon. Spain, despite parliamentary rejection of its 2019 budget, has approved a dramatic hike in the minimum wage, and Germany's social partners have reached agreement on numerous salary adjustments that are being rolled out over 2018 and 2019. Demand for similar action is mounting in Belgium and Italy.

Were it not for fears of a transpacific trade war and trepidation surrounding Brexit, there would still be some hope of offsetting the slowdown that struck in 2018. On presenting these latest forecasts, the IMF made its position clear: the priority for the international community should be to resolve its differences quickly and in a spirit of cooperation, rather than risk further escalation of uncertainty and damaging barriers to trade. The next few months will tell whether Christine Lagarde and her team are just whistling in the wind.

[1] INSEE, 29 january 2019
[2] Markit Composite PMI Index, 5 February 2019
[3] Marc-André Kamel, partner at Bain & Co. and vice-president at AmCham, Les Echos, 6 February 2019
[4] Public Policy Institute, January 2019
[5] OFCE, 30 January 2019

-5%
Y-o-y decline in the Ile-de-France take-up in 2018

+7%
Difference between 2018 take-up and the ten-year average

81
Number of transactions in the >5,000sqm segment in Ile-de-France in 2018

Market Trends in Ile-de-France

Take-up in Ile-de-France has topped 2.5 million sqm for the second consecutive year.

After a distinctly upbeat first half of 2018, with almost 1.4 million sqm let, take-up in Ile-de-France flagged slightly in Q3, never quite managing to make up the ground lost over the summer.

For the year as a whole, take-up reached 2.5 million sqm, down 5% on the 2017 figure of 2.6 million sqm. Considering that 2017 was an exceptional year, this slackening should be viewed in context — 2018's take-up figure is still far higher than the ten-year average (2.33 million sqm).

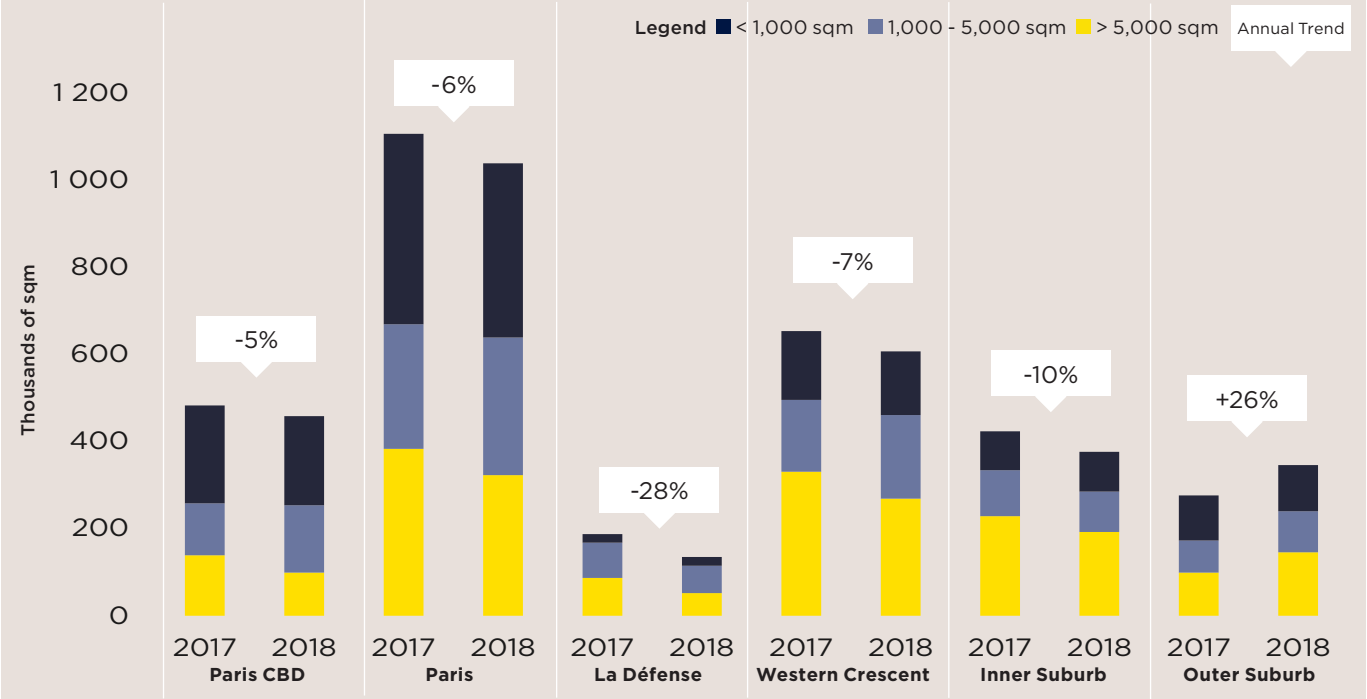
The downturn in the market was particularly pronounced in the >5,000-sqm segment, both in terms of the number of transactions (81 in 2018, compared with 87 in 2017) and the total area let (982,000 sqm versus 1,130,000 sqm). In this part of the market, take-up has fallen by 13% y-o-y, accounting for only 39% of the total, compared with 43% in 2017. The slump is also evident for small-scale transactions, where take-up ended 2018 at 763,650 sqm, down 5% from the 2017 figure of 807,810 sqm. Only in the middle of the scale (i.e. offices of between 1,000 and 5,000 sqm) did take-up increase, rising by 8% y-o-y to almost 760,000 sqm.

In geographical terms, all parts of the Ile-de-France region recorded a dip in take-up, with the exception of the Outer Suburb, which saw y-o-y growth of 26%. Again, we need to bear in mind that the figures for 2018 are being measured against an exceptionally strong year in 2017.

The boom in letting activity is putting a squeeze on immediate supply in Île-de France. At 2.9 million sqm, availability has fallen 10% y-o-y. The vacancy rate has followed suit, dropping to 5.4%. Nonetheless, it is interesting to note that new-build stock is on the rise again (up 2% y-o-y); Grade A space now accounts for 18% of the region's total supply, compared with 16% at the close of 2017. There is significant geographical variation; while immediate supply has shrunk dramatically in central Paris, the situation in the immediate and outer fringe is quite the opposite.

Against this backdrop, a number of trends with respect to rental prices are taking shape. There is strong upward pressure on rents in the most prestigious locations, but also in less central areas, popular for their good transport links that place them within easy reach of the city's main business hubs. In more outlying areas, where availability is less constrained, rents have remained largely stable or even fallen.

Take-up by geographical area Activity has slackened across the region, with the exception of the Outer Suburb



Source Savills Research - Immostat

Paris

Office property in the capital remains highly sought after, accounting for 42% of take-up in Ile-de-France.

Letting activity remains strong, in line with the three-year trend, with more than one million sqm let. With almost 1.05 million sqm let in 2018, Paris is undoubtedly in a minor slump in comparison with 2017 (-5%), consistent with what we are seeing at the regional level. However, by no means should this market be regarded as underperforming.

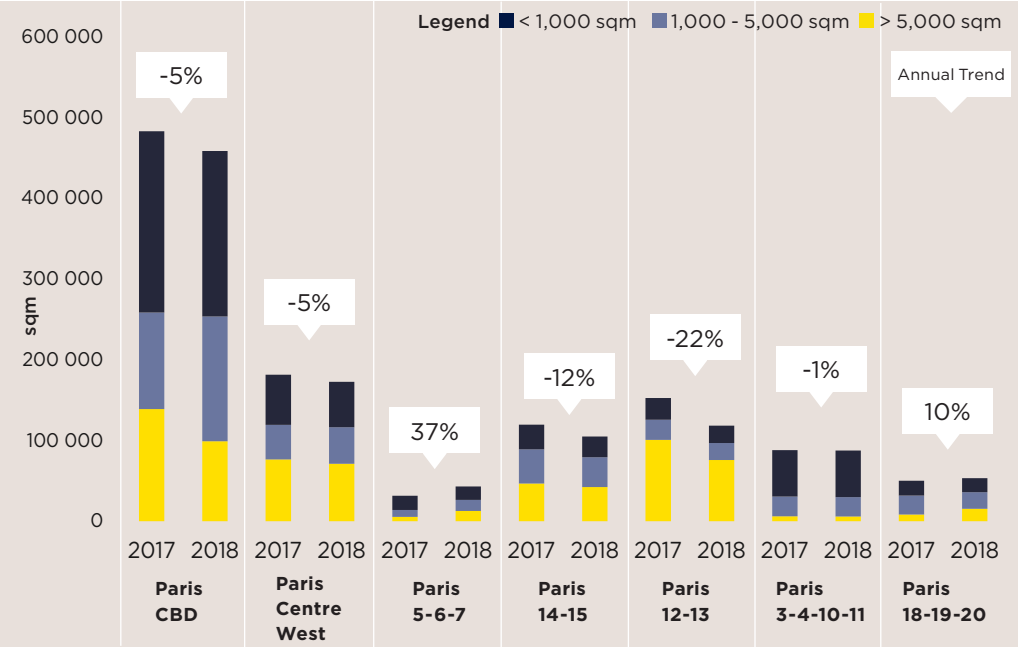
The buoyancy of the Paris lettings market is being supported by the medium-scale transaction segment (i.e. 1,000–5,000 sqm), which is up 12%. That said, the bulk of transactions are still driven by occupiers seeking space of less than 1,000 sqm, who represent 38% of all transaction activity. In the >5,000-sqm segment, take-up is falling (down 11%), despite the fact that major occupiers still favour city-centre locations as far as possible (32 transactions involving floorspace of more than 5,000 sqm have been recorded in Paris). There is no question that major occupiers are finding it increasingly difficult to gain a foothold in Paris, due to a shortage of available property and rising rents.

With demand running high and a swell of transactions dating back more than three years, the available stock has been slashed. At the end of 2018, immediate supply stood at 388,000 sqm and the vacancy rate had dropped to 2.3%. These levels are symptomatic of a situation of under-supply, in which occupiers are struggling to find suitable space without turning to pre-lets. The currently available stock is sufficient to meet only six months of market demand.

In certain areas, particularly the CBD, the contraction in immediate supply has been dramatic. Here, less than 93,000 sqm was available at the end of Q4 2018; immediate supply in the CBD has shrunk by 51% y-o-y. Accordingly, the CBD is experiencing one of the lowest vacancy rates in the Paris region (1.4%). This is now becoming a serious threat to the current high levels of letting activity; scarcity effectively reduces occupier choice and inevitably puts upward pressure on rental prices.

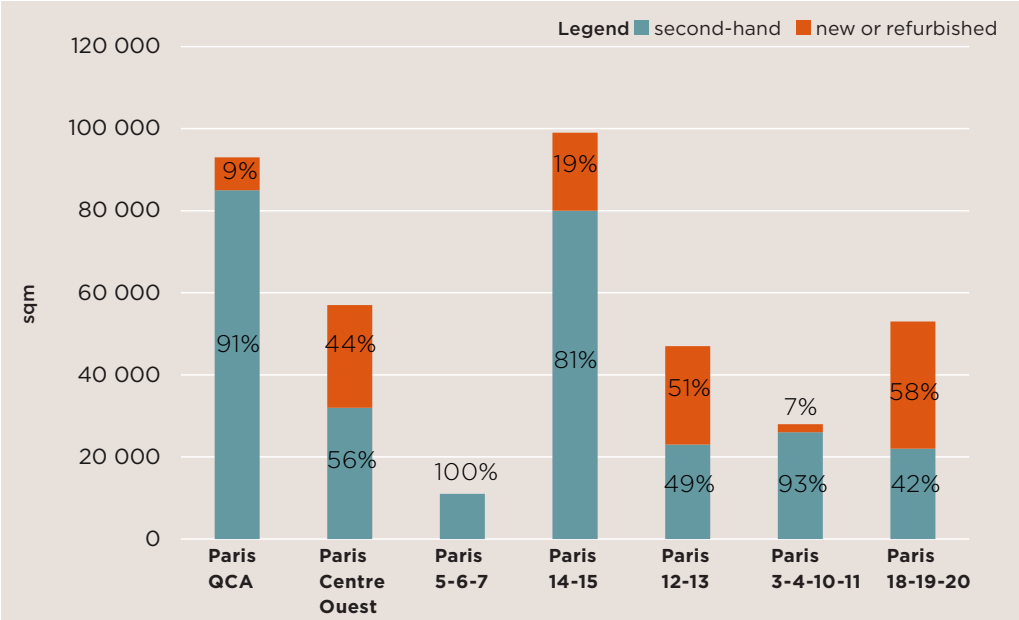
On the other hand, and unusually for central Paris, the 14th, 15th, 18th, 19th and 20th arrondissements are seeing a glut in

Take-up in Paris The CBD still leads the board



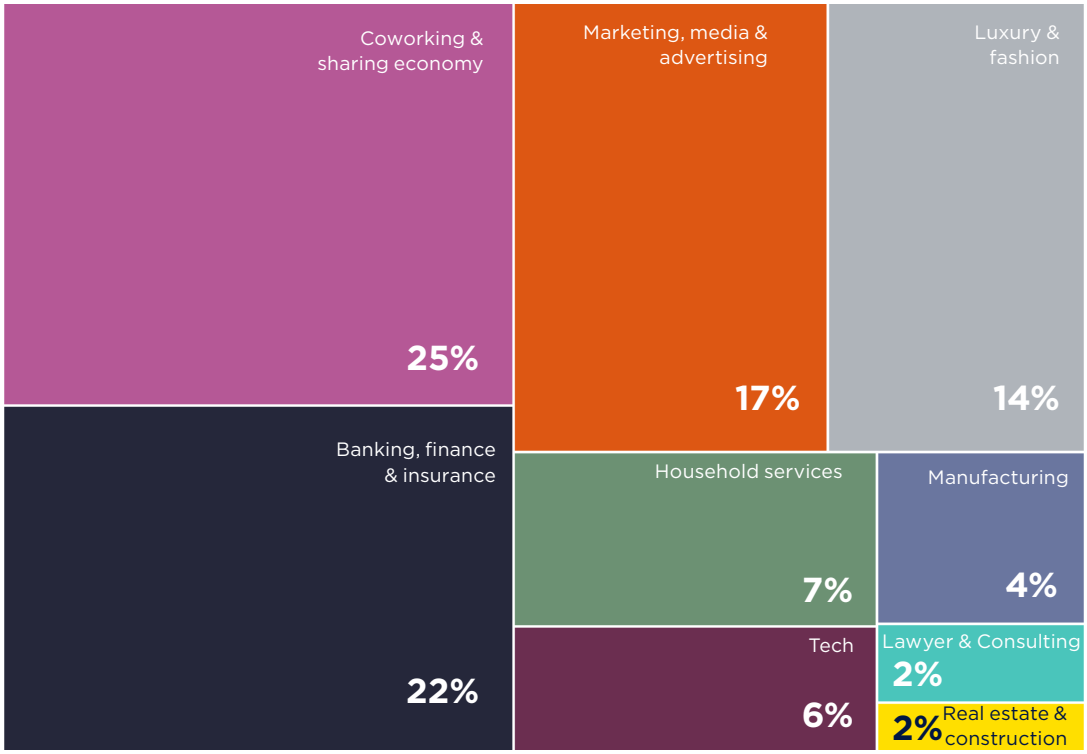
Source Savills Research - Immostat

Distribution of immediate supply in Paris Upswing in immediate supply of new-build property in secondary locations



Source Savills Research - Immostat

Take-up in the >5,000 sqm segment by business sector Once again, co-working operators played a pivotal role in the Parisian market in 2018



Source Savills Research

immediate supply as new developments are delivered and large offices vacated. In a high-pressure environment like Paris, that is quite a boon.

With property in the city becoming an increasingly rare prize, there has been a noticeable and generalised spike in rental prices, both for new-build and existing property. Rental incentives that occupiers have customarily enjoyed are being cut, sometimes drastically.

The steepest rents are found in the CBD, where the average cost of a Grade A property has risen by 6% to €722 per sqm per year (source: Immostat). For certain properties, agreed rents have topped €850 per sqm per year. At the same time, the average rent for existing property hit €622 per sqm per year in Q4 2018, representing a y-o-y increase of 12%. However, the strongest rental growth is happening in the 12th and 13th arrondissements, where the average rent for new-build property now stands at €569 per sqm per month, up 11% y-o-y. Certain high-profile deals helped push up the average rental price in Q4.

> **Rents rose all over Paris, both for new-build and existing property. Rental incentives that occupiers have customarily enjoyed are being cut, sometimes drastically.**

KEY FIGURES FOR THE PARIS LETTINGS MARKET

42%
Share of Paris in the total regional take-up

2.3%
Vacancy rate in Paris (down 50 bps y-o-y)

€839 sqm/year
Prime rent

€376-722 sqm/year
Average rent for new-build and refurbished property, depending on location

€336-622 sqm/year
Average rent for existing property, depending on location

Source Savills Research - Immostat

La Défense

Hamstrung by scarce supply, La Défense ended 2018 on a down note in terms of take-up.

After a strong start to the year, letting activity in La Défense flagged in Q4 2018, with less than 15,000 sqm let over the course of the quarter. Overall, take-up reached 135,300 sqm in 2018, marking a slump of 28% with respect to 2017.

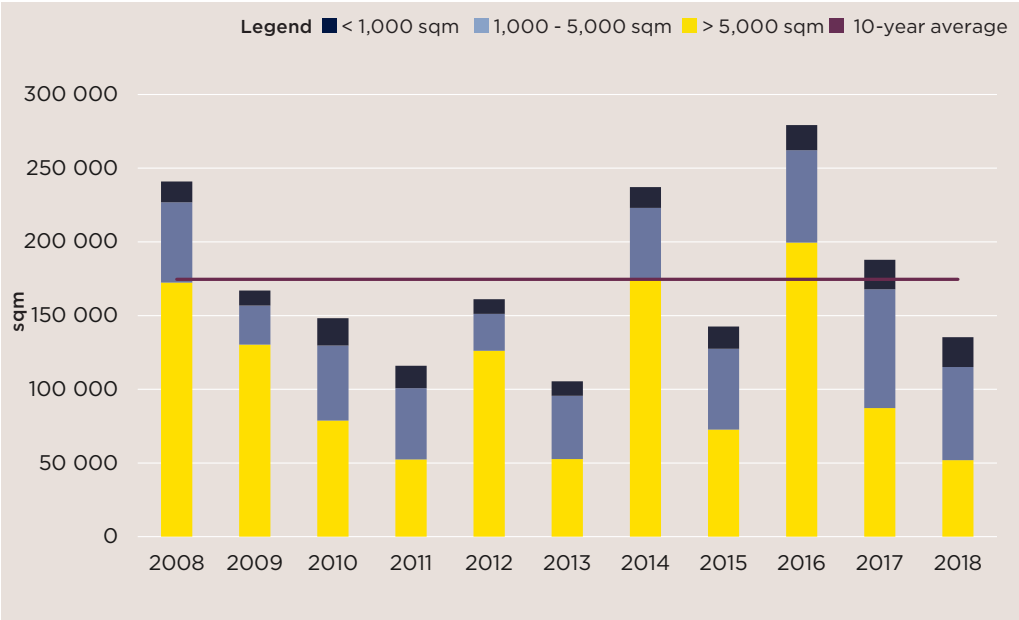
This figure falls far short of the ten-year average for this sector (175,000 per sqm per year). The slowdown is largely attributable to more subdued activity in the medium and large-scale transaction segments. Due to insufficient supply, there was no market uplift from major occupiers, as seen in 2016 and 2017.

In the large-scale segment, seven transactions were recorded in 2018, representing a total of 52,000 sqm. This constitutes a y-o-y fall of 40%. In 2017, the six transactions recorded in this category together amounted to a total area let of 88,000 sqm. The occupiers were inclined to take on much more floorspace in 2017. In 2018, just one transaction involving an area of more than 10,000 sqm was recorded: Dalkia's lease of almost 11,000 sqm in Tour Europe. Only the <1,000-sqm segment held its own in 2018, matching its 2017 performance. However, the impact of this segment is minor, and a strong performance here cannot halt the general decline in a market traditionally focused on major occupiers.

Estimated at 164,000 sqm at the close of 2018, immediate supply in La Défense shrunk by 34% y-o-y, with no new deliveries to boost the declining stock. Today, Grade A space is very hard to come by (accounting for barely 5% of immediate supply) and wholly insufficient to meet the expectations of major occupiers. Since La Defense attracts mainly large tenants, the lack of supply (notably newly-built tower) certainly explains why take-up drop quite significantly. The currently available stock will not meet more than 15 months of market demand.
The vacancy rate has responded accordingly and now stands at 4.6%, down 242 bps in comparison to the end of 2017. This is the lowest point recorded in the last ten years.

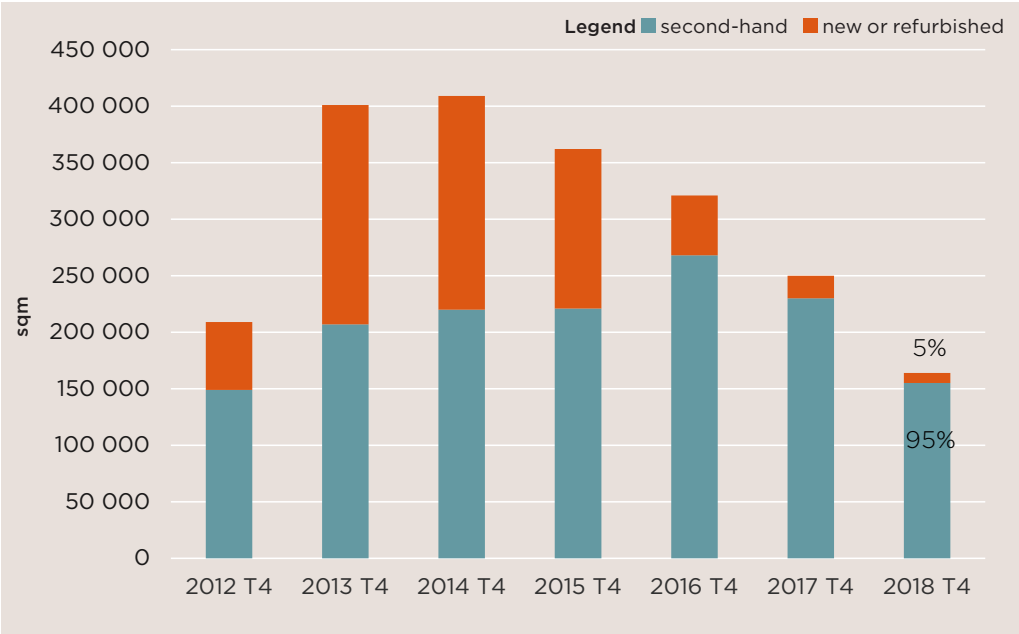
It seems likely that this shortfall will start to be remedied in 2019, with the anticipated delivery of almost 150,000 sqm of new

Take-up in la Defense The 2018 figure fails to live up to the ten-year average



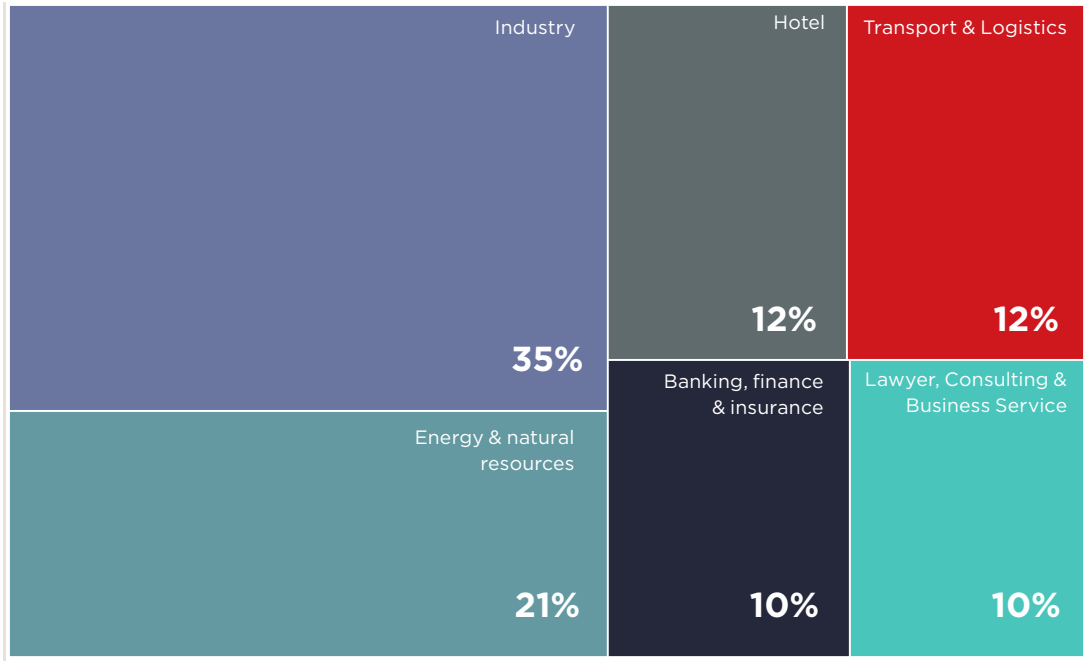
Source Savills Research - Immostat

Immediate supply in La Défense Availability is falling fast



Source Savills Research - Immostat

Take-up in the >5,000 sqm segment by business sector



Source Savills Research

or refurbished space. Among the most prominent upcoming completions are the Trinity (48,000 sqm), Carré Michelet (35,900 sqm) and Akora (16,000 sqm) projects. Together with a number of impending tenant departures, this should increase the range of choices available to occupiers. The effects will be modest in 2019, given that nearly 22% of this space has already been pre-let.

However, in the next few years supply should start to catch up, breathing much-needed new life into this business hub. Various major development projects are already in the construction phase, with deliveries scheduled for between 2020 and 2022 (Tours Sisters, Tour Alto, Tour Hekla, etc.).

As far as rents are concerned, the average for new (or refurbished) property has held steady for the last nine months, following steep rises over the two previous years.

The average rent has remained below the €500 mark per sq m, mainly due to scarce supply of Grade A space. However, the highest-quality properties are commanding figures well in excess of this.

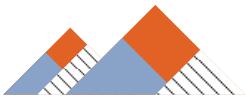
Despite quarterly fluctuations, rents for existing property have remained relatively stable above the €400 threshold.

> **Due partly to insufficient supply, there was no market uplift from major occupiers, as seen in 2016 and 2017.**

KEY FIGURES FOR LA DEFENSE LETTINGS MARKET

5%
Share of La Defense in the total regional take-up

4.6%
Vacancy rate in La Défense (down 242 bps y-o-y)



€510 sqm/year
Prime rent

€486 sqm/year
Average rent for new-build and refurbished property, depending

€418 sqm/year
Average rent for existing property, depending on location

Source Savills Research - Immostat

The Western Crescent

This area is emerging as an alternative to La Défense, offering opportunities that occupiers cannot find in the business district.

At the end of 2018, take-up in the Western Crescent stood at 607,402 sqm, accounting for 24% of the Ile-de-France total. This amounts to a 7% drop in comparison with 2017. There is substantial geographical variation within the Western Crescent area.

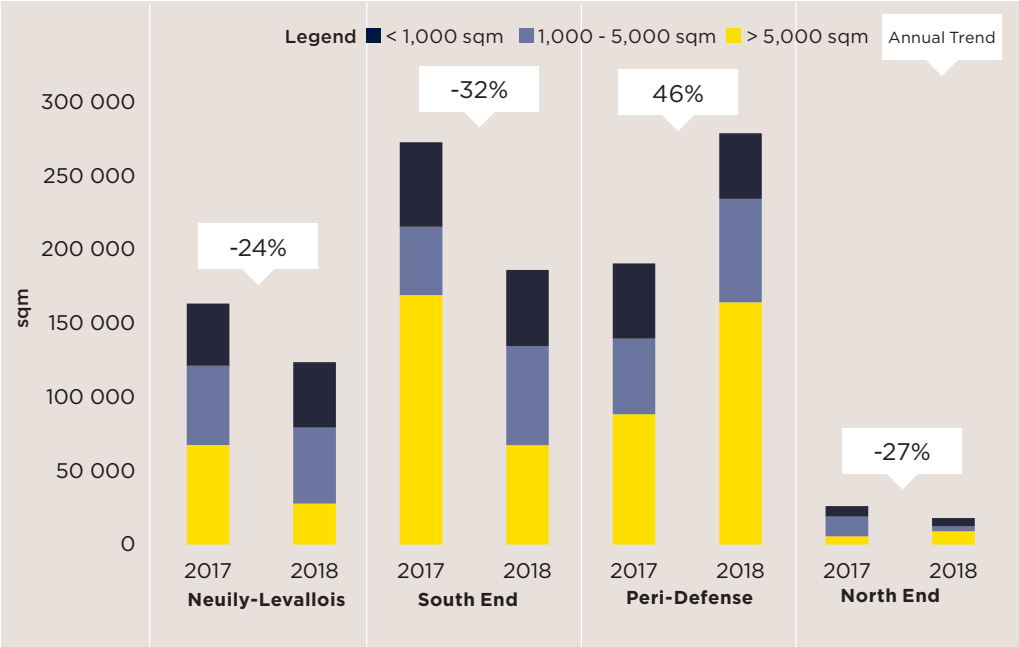
Péri-Défense stood out as the strongest-performing sub-market in 2018. Here, take-up reached 279,150 sqm in 2018, the highest level in ten years. Despite a pronounced slowdown in the market over the second half of the year, the headway made in Q1 and Q2 produced an upswing of 45% compared with 2017. The momentum was carried by large-scale lettings (i.e. >5,000 sqm), up 86% y-o-y. This figure was heavily skewed by the three occupiers who leased floorspace of more than 20,000 sqm (Vinci, 62,000 sqm, Technip, 48,500 sqm and Danone, 26,350 sqm) — accounting for more than half of all transaction activity and giving rise to a potentially acute volatility in the Péri-Défense lettings market.

In contrast, other areas within the Western Crescent struggled in 2018. In the North End, where the total area let was less than 20,000 sqm, take-up fell by 27% y-o-y. Q4 was particularly disappointing, with lettings amounting to less than 3,000 sqm. As in 2017, just one deal involving floorspace of more than 5,000 sqm was recorded: Nexity's lease of nearly 9,200 sqm in the *Ouest to Be* building. This transaction, concerning a property developed by Nexity which can now be sold off-plan, has helped mask the generally poor performance of the North End. This is, however, a cosmetic effect that cannot gloss over the slump in transaction activity in the small and medium-scale segments of the market (down 21% and 75% y-o-y, respectively).

Similarly, take-up has fallen sharply in Neuilly-Levallois (down 24% y-o-y), despite an upbeat end to 2018 that saw lettings in excess of 50,000 sqm in Q4. The post-summer surge was not enough for a repeat of 2017's performance. We should bear in mind that few expected the market to sustain the momentum achieved in 2017, one of the two strongest years of the last decade.

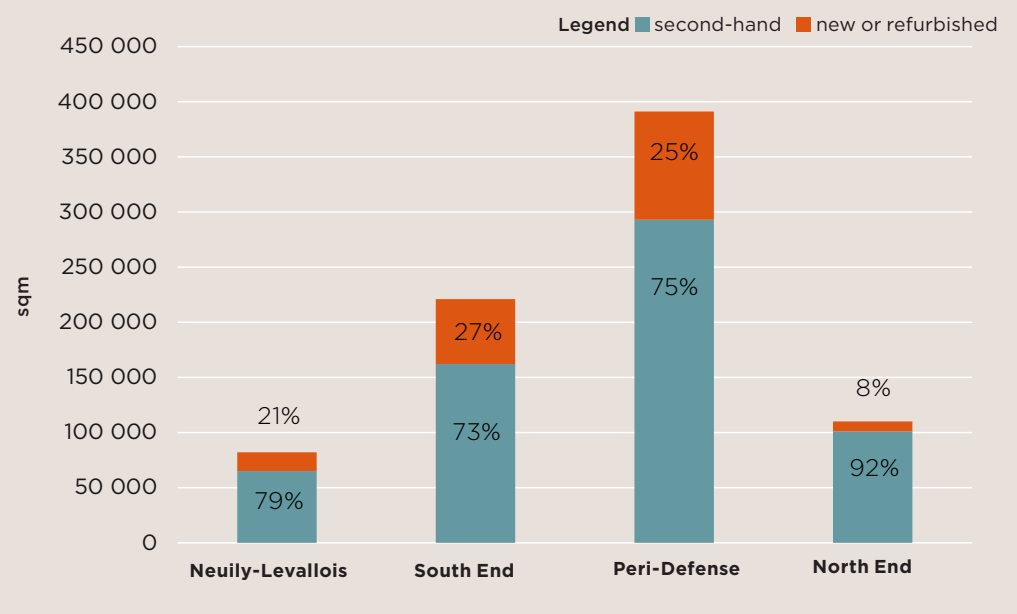
Much the same can be said for the South End. Following an outstanding 2017, the South

Take-up in the Western Crescent Péri-Défense emerges as the choice location in the Western Crescent in 2018



Source Savills Research - Immostat

Distribution of immediate supply in the Western Crescent Immediate supply is on the up again



Source Savills Research - Immostat

24%
Share of the Western Crescent in the total regional take-up

10.8%
Vacancy rate in the Western Crescent (down 80 bps y-o-y)

€555 sqm/year
Prime rent

€244-493 sqm/year
Average rent for new-build and refurbished property, depending on location

€183-397 sqm/year
Average rent for existing property, depending on location

End market ended 2018 on a more subdued note. Total take-up came in at 186,500 sqm, marking a y-o-y drop of 32%. This dip is largely attributable to a fall in large-scale transactions – to be expected, given that the figures for 2017 were given a boost by some bumper deals. In 2018, just three transactions in the >5,000 sqm segment were recorded, and take-up took a 60% plunge. While there was a rebound in medium-scale transactions (+45%), it was not enough to make up for this sharp decline. This tells us that the Western Crescent as a whole is still very much dependent on transactions at the top end of the scale, creating a certain natural volatility in the market.

In terms of immediate supply, availability is dwindling throughout the Western Crescent. With less than 804,000 sqm available at the end of 2018, immediate supply has fallen by 7% y-o-y. This downwards trend is perceptible in every sub-market in the Western Crescent. That said, the situation is far from geographically uniform.

With availability of just 82,000 sqm, Neuilly-Levallois is still the most oversubscribed market in the Western Crescent, resulting in a vacancy rate that has dropped from 7.5% to 5.5% in the last year. Grade A space accounts for 21% of availability at just 17,000 sqm – too little to attract much interest from major occupiers, who are often drawn to new or refurbished properties. Going forward, fresh supply of close to 30,000 sqm is expected by the end of 2019 (from new deliveries and tenant departures), including new space in the form of the Pablo Neruda (10,300 sqm) and Sémaphore (11,700 sqm) projects in Levallois-Perret.

Next up is the North End, with availability of 110,000 sqm – down 13% y-o-y. Grade A supply is very poor in comparison to neighbouring markets, accounting for just 8% (or about 9,000 sqm) of the total stock. Meanwhile, the vacancy rate in this area remains relatively high at 13%. We can conclude that it is not a lack of supply that is discouraging potential occupiers; the main issue in the North End has related to quality. In the South End, immediate supply has dipped only very slightly (down 2% y-o-y) and the vacancy rate stands at 9.2%. More than a third of all available stock is new-build or refurbished – a larger proportion than in most neighbouring markets in the Western Crescent. This is one of the very few markets that will be in a position to offer major occupiers a decent supply of high-quality space over the next few months. We might therefore expect to see a resurgence in activity in this area in 2019.

In third and last place is the Péri-Défense area, sitting on a vacancy rate of almost 14% – the highest in Ile-de-France at present. Despite a 2% y-o-y contraction in immediate supply, largely due to brisk letting activity, available space is still relatively easy to come by. Another peculiarity of Péri-Défense is its abundance of Grade A space relative to neighbouring markets. Both of these features are proving advantageous in a regional context marked by narrowing choices for major occupiers, casting Péri-Défense as a 'pool' of high-quality property within easy reach of the city's main business districts.

Sharp geographical disparities can also be seen in rental prices.

The North End, which began to flag in 2018 and has not been caught up in the general upward spiral, offers some of the lowest rents in the Western Crescent (an average of €244 per sqm for new-build and €183 per sqm for existing property).

At the other end of the spectrum, Neuilly-Levallois recorded the highest rents of any sub-market in the Western Crescent, both for new-build and existing property. Here, the average rent for new and refurbished property has climbed back to late-2017 levels, reaching €493 per sqm per year. At the same time, the average rent for existing property has also risen slightly, coming in at €397 per sqm per year.

In the South End, the average rent for new and refurbished property grew by 2% y-o-y to €409 per sqm per year. The average rent for existing property remains relatively high for the Western Crescent (at €330 per sqm per year), marking a y-o-y rise of 4%.

Once again, Péri-Défense is bucking the trend. After an acute squeeze on rents in 2017 (the result of Grade A transactions grinding to a halt), rental prices for new and refurbished property shot up by 27% y-o-y, and are now back within touching distance of €330 per sqm per year. In contrast, the average rent for existing property has been falling since 2017 and currently stands at €237 per sqm per year. Clearly, this segment is feeling the pinch of a market dominated by new-build lettings to major occupiers.

"The Western Crescent as a whole is still very much dependent on transactions at the top end of the scale, creating a certain natural volatility in the market."

Source Savills Research - Immostat

The Inner Suburb

Despite a 10% slump in 2018, the Inner Suburb have strengthened their position within the greater Paris region.

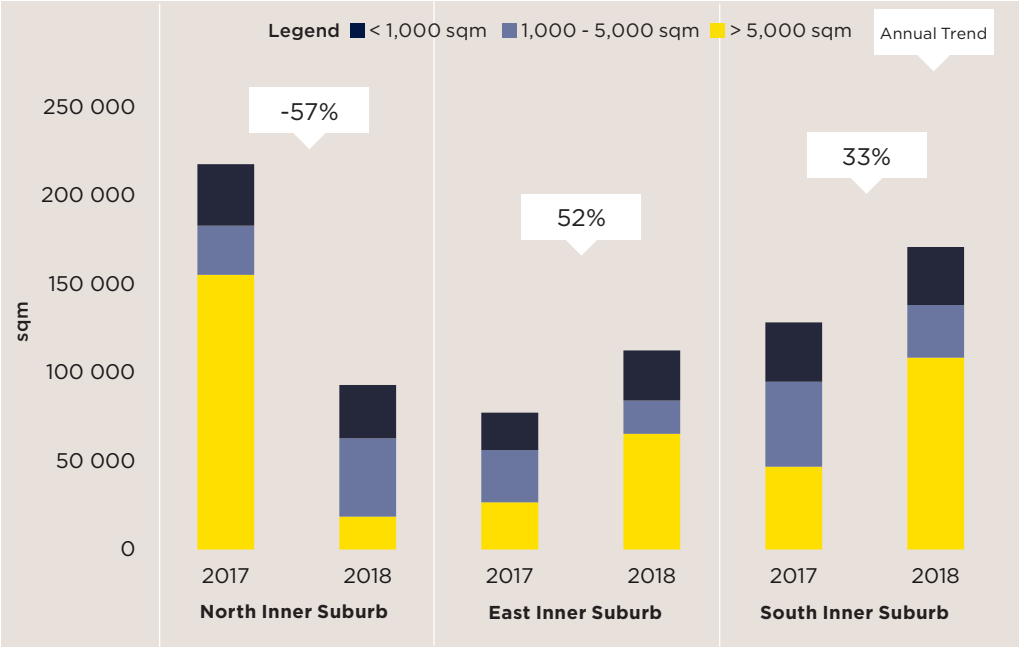
The dwindling take-up levels recorded in 2018 should be seen in perspective; at 363,000 sqm, the total area let remains well above the ten-year average.
The market in the Inner Suburb is still made up of several different pockets, and successes and failures are not equally felt. However, by some strange symbiosis, 2018 largely redressed the balance left by the previous year; this time, it was the East and South Inner Suburbs that had the upper hand, whereas the North Inner Suburb fared best in 2017.

In the East Inner Suburb, take-up rose to almost 113,000 sqm, with almost half of this space being let in Q4. This represents a y-o-y increase of 52%, comfortably outstripping the ten-year average. The market's strong performance in 2018 owed much to the completion of five major transactions which together accounted for almost 58% of all letting activity. There were several deals involving areas in excess of 10,000 sqm, such as the acquisition by Valeo for their own account of 20,700 sqm, Ubisoft's lease of 16,400 sqm in the Floresco building and BNP's lease of 13,500 sqm in the Concerto building in Montreuil.

The market was equally upbeat in the South Inner Suburb in 2018, with lettings amounting to more than 171,000 sqm, generating a 33% bump in comparison with 2017. Q4, however, saw a slight drop-off in lettings (with total take-up of 34,500 sqm). When a market is heavily dependent on activity among major occupiers, it inevitably becomes highly volatile. Here, the nine transactions in the >5,000-sqm segment accounted for 63% of take-up in 2018. This end of the market is fuelling the general momentum, with six lettings of more than 10,000 sqm. In contrast, small- and medium-scale transactions are sluggish in comparison with 2017.

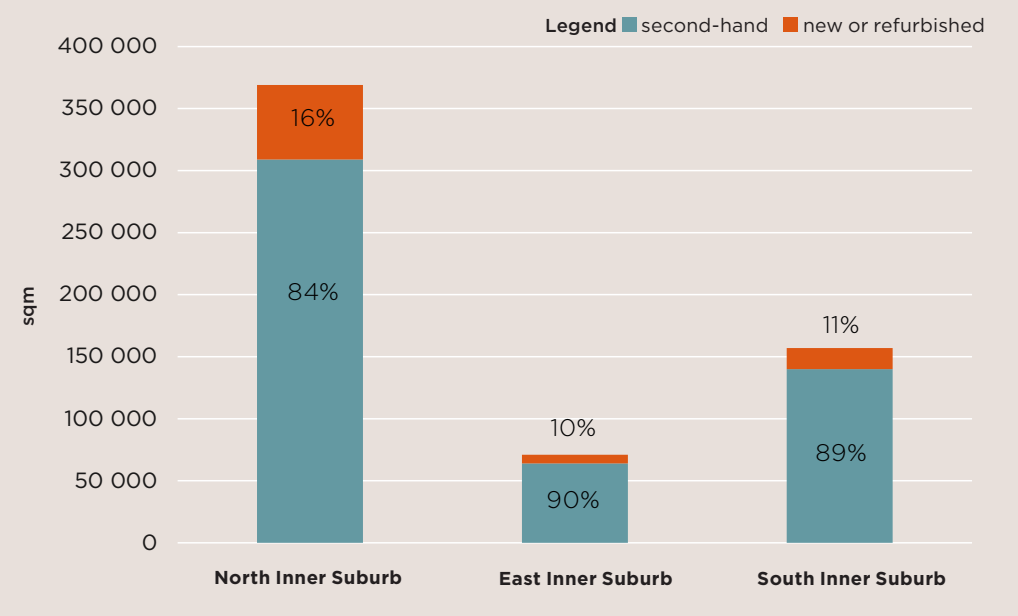
In mirror image to these two sub-markets, the North Inner Suburb saw a 57% decline. The problem here is the sharp fall in large-scale transactions (>5,000 sqm): just two were recorded in 2018, down from ten in 2017. Only the medium-scale transaction segment took a turn for the better, with a y-o-y rise of 59%.

Take-up in the Inner Suburb Solid market performance in the East and South Inner Suburb



Source Savills Research

Distribution of immediate supply in the Inner Suburb Scarcity of Grade A properties in the Inner Suburb



Source Savills Research

As a general rule, immediate supply in the Inner Suburb is in decline (down 5% y-o-y). Consistent with recent trends in the lettings market, the distribution of immediate supply in the Inner Suburb is extremely uneven. In the East Inner Suburb, it barely exceeds 70,000 sqm. Additionally, this supply is ageing, as Grade A space remains very scarce, amounting to just 10% (about 7,000 sqm) of total stock. This is an exceptionally low figure, and it has capped the vacancy rate at 3.1% of total stock in the East Inner Suburb as a whole. This area is quite clearly suffering from under-supply, forcing occupiers (particularly the most space-hungry) to resort to pre-lets. This is exactly what happened, for example, in the case of Ubisoft and the Floresco building.

By the end of 2018, immediate supply in the South Inner Suburb had dropped to 157,000 sqm, down 34% y-o-y. This is the lowest recorded level since 2007. As we would expect, the vacancy rate has also fallen, closing out December 2018 on 6.3% – a historic low for this part of Paris. Such restricted availability could potentially act as a brake on lettings, particularly in the large-scale segment. This quantitative deficit is compounded by a lack of high-quality supply, with Grade A space representing just 11% of available stock.

Again, the North Inner Suburb are marching to their own beat, offering a plentiful supply of immediately available space, 23% more than in 2017. With a total immediate supply of 369,000 sqm, 60,000 sqm of it Grade A, this market accounts for 62% of all available space in the Inner Suburbs. The vacancy rate is also relatively high here, at 12.3%.

This polarisation in the markets is also evident when we look at rental prices. While the East and South Inner Suburb have been swept up in the upwards spiral affecting the whole of Ile-de-France, the North Inner Suburbs have not.

The East Inner Suburb have experienced considerable rental growth in the new-build market (up 21% y-o-y), primarily on the back of Ubisoft's lease in the Floresco building. Space in this development, located in Saint-Mandé, was let at prices rarely seen in this area as a whole.

To the south, rents have grown at more modest rates. Tempting prices are one strong suit of the South Inner Suburb. While many neighbouring markets are seeing rents shoot up due to a dearth of available supply, this area has been largely sheltered from this phenomenon (with the exception of a handful of locations, mainly bordering the Boulevard Périphérique). As for existing property, the South Inner Suburb still have the highest rents of any sub-market in the Inner Suburb, and prices have risen 4% y-o-y.

To the north, rental prices have been dropping sharply y-o-y – down 15% for new-build and 11% for existing property. It's important to remember that rents rose substantially in 2017 as letting activity soared; these short-term variations are also serving to rebalance the market in the medium term.

"2018 redressed the balance left by the previous year; this time, it was the East and South Inner Suburb that had the upper hand, whereas the North Inner Suburb fared best in 2017."

KEY FIGURES FOR THE INNER SUBURB LETTINGS MARKET

15%
Share of the Inner suburb in the total regional take-up

7.7%
Vacancy rate in the Inner Suburb (down 40 bps y-o-y)

€351 sqm/year
Prime rent

€297-310 sqm/year
Average rent for new-build and refurbished property, depending on location

€225-267 sqm/year
Average rent for existing property, depending on location

Source Savills Research - Immostat

The Outer Suburb

The Outer Suburb form an outlier in the Ile-de-France market, with a solid market performance and a 26% jump in take-up.

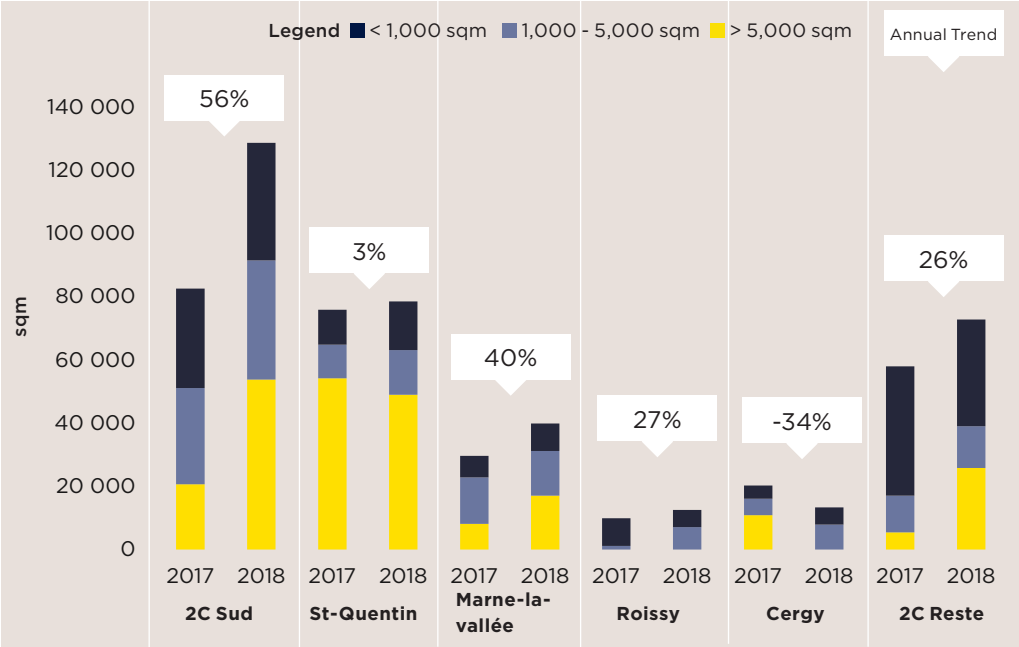
With a total of 346,000 sqm let in 2018, take-up improved by leaps and bounds. While its performance in 2017 left something to be desired, this market has since staged an impressive, if unspectacular, comeback. Take-up was only just ahead of the ten-year average (331,880 sqm).

While the market has picked up in every floorspace segment (+3% for office space of under 1,000 sqm and +28% for medium-sized spaces), this activity has been primarily driven by large-scale transactions (>5,000 sqm), with 14 completed deals in 2018 (up from 9 in 2017) and an increase in the total area let of 46%. All sub-markets, with the exception of Pôle de Cergy, paint a similar picture: the South Outer Suburb are up 56%, Marne-La-Vallée is up 40%, Pôle de Roissy, 30%, etc. Unsurprisingly, the best-placed markets are those that have been successful in attracting major occupiers.

By the close of 2018, amid brisk letting activity, available supply had dipped below the threshold of one million sqm. It seems, then, that the downward trend that emerged at the end of 2017 still holds – immediate supply has shrunk by 6% y-o-y. The South Outer Suburb sub-market has the most available space (41%) in this part of Ile-de-France; 406,000 sqm was unoccupied at the end of 2018. The vacancy rate in this area stands at 11.8%, the highest in the Outer Suburb.

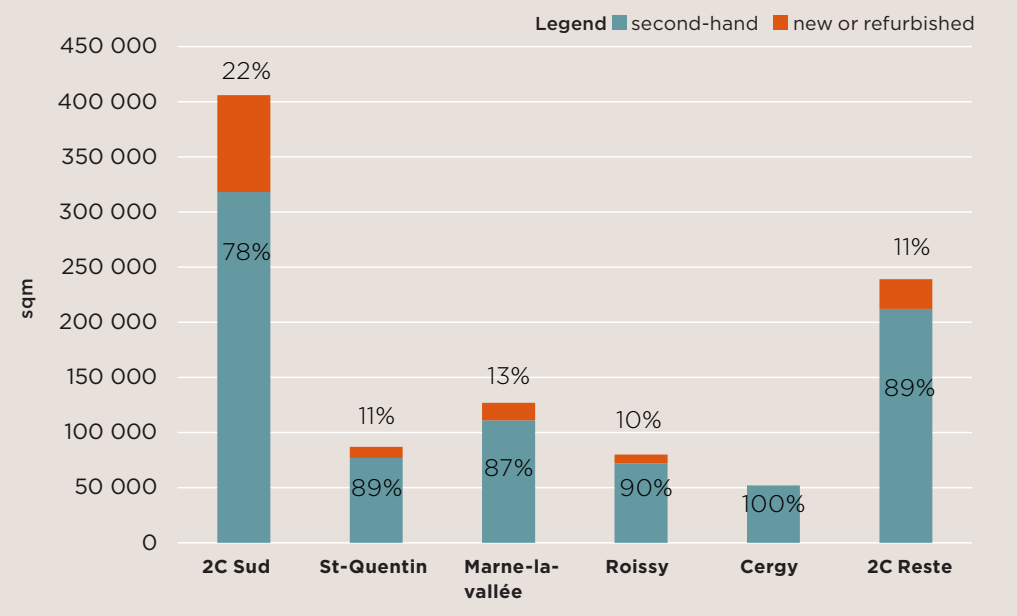
In terms of rental prices, the ongoing upward pressure on rents in Ile-de-France is also apparent, in more temperate form, in the Outer Suburbs. The average rent for new-build property still ranges between €160 per sqm per year (Pôle de Cergy) and €240 per sqm per year (the rest of the Outer Suburb). Rents for existing property vary between €125 and €166 per sqm per year.

Take-up in the Outer Suburb With the exception of Pôle de Cergy, all areas within the Outer Suburb saw take-up rise in 2018



Source Savills Research - Immostat

Distribution of immediate supply in the Outer Suburb The South Outer Suburb have quality on their side



Source Savills Research - Immostat

Outlook

Office market trends in Ile-de-France for the year 2019

The scarcity and unsuitability of the available office supply was one of the distinguishing features of the lettings market in 2018, going some way to explain the slowdown in transaction activity recorded in the second half of the year. All indications suggest that this will continue to be a pressing issue in 2019.

While deliveries scheduled for 2019 are expected to afford more new-build or refurbished space than materialised in 2018 (1,050,000 sqm versus a little under 950,000 sqm), it would be unwise to bank on a significant upswing in Grade A supply or in the vacancy rate – more than 58% of this new space is already spoken for. This leaves less than 440,000 sqm available to let in the entire Ile-de-France region – a paltry amount for a market that has seen average annual lettings of 2.3 million sqm in the last decade. Only towards the end of 2019 and particularly in 2020 can we expect an easing of supply-side pressures and greater fluidity in the lettings market (1.2 million sqm of fresh supply is due for delivery in 2020).

Besides supply-side constraints, occupier demand may slacken off as the economic slowdown rumbles on and uncertainties in the international business environment make large companies inclined to sit tight. Although take-up is only partially correlated with growth, tightening corporate borrowing conditions could push companies to start rationalising their real estate assets (i.e. taking on new leases that allow them to cut loose from less efficient and more costly space). This could create an additional drag on transaction activity in 2019.

Early results for January and February 2019 confirm that we are indeed seeing a slowdown in the market, with transaction activity dropping by almost 25% in comparison with the same period of 2018. The downturn is particularly noticeable in the large-scale segment.

Judging by the deals currently in the pipeline, the next few months should help curb the decline. Nevertheless, there is good reason to suppose that the total area let in 2019 will be lower than in 2018, as the market falls back in line with the ten-year average.

Such market conditions are likely to inspire caution among businesses when it comes to rental prices. It is therefore reasonable to expect that the current upward pressure on rents will abate to some degree. Rents soared in 2018 for Grade A property, both in central Paris and in several peripheral markets, and these pressures have tended to spill over into the existing property segment in areas where supply is particularly tight.

2019 should call a halt to this incipient overheating. That does not necessarily mean that prime lettings (i.e. those valued at around €850 in the CBD) will dry up: this premium segment of the market may in fact continue to benefit from the bullish mood among co-working operators, who are vying hard to offer their clients the most appealing properties in the most desirable locations. However, the rents agreed in this segment will be far removed from general market trends.

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