



REPORT

Savills Research

Prime Residential - 2019

Paris



A confident performance

Renewed confidence in France has driven the prime Paris residential property market to new highs. The election of Emmanuel Macron in May 2017 accelerated the recovery of the market, and a pro-business agenda coupled with tax reform has boosted France's appeal as a place to invest and do business. This has stimulated the market for international buyers.

However, Paris's prime residential market remains a domestic one, so it is French buyers who have driven this growth. Prices reached record highs last year, and transactions are at their highest volumes since 2011.

The top prime districts of Paris – characterised by the highest prices and best-quality stock – have all returned to growth in the last two years, but it is the less-established arrondissements that have performed best. The 3rd and 10th are the two stand-outs – where prices have outperformed the top districts from a lower base.

Prime Paris still offers value on the world stage, too. After 10 years of underperforming against its global rivals, a period of catch-up is to be expected.

Highly land constrained, only tiny amounts of new stock are added through conversions, and restricted supply will sustain prices over the long term.

In spite of rising international demand, price growth is likely to increase at moderate levels, given the reliance on domestic wealth.



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Summary

Pricing and demand exceed 2011 peak

Prime Paris prices increased by 3.5% in the year to June 2018. Transaction volumes reached their highest levels since 2011.

The prime market continues to be driven by domestic buyers, but international buyers accounted for 14% of prime transactions last year, up from just 9% in 2016.

The average Paris property is now on the market for 45 days, down from 59 days in 2014. This compares with 78 days across France.

Paris has been selected as the new home for the European Banking Authority, and recently overtook Frankfurt as the top location for anticipated finance job relocations.

HOW WE DEFINE PRIME PARIS RESIDENTIAL

Prime Typically priced between €2 million and €4 million, or €12,000 to €20,000 per sq m, prime property is usually found in the 1st, 2nd, 3rd, 4th, 5th, 6th, 7th, 8th and 16th arrondissements – though it can be anywhere given the right neighbourhood.

Ultra prime Typically priced over €4 million, or above €20,000 per sq m, ultra prime covers the most exceptional properties in the prime arrondissements. They may enjoy a special view, benefit from large outdoor spaces or be in buildings of the highest architectural quality.



Prime Paris on the rise

Paris's prime market has recorded its best performance since 2011, with prices up across the board. However, some arrondissements have fared better than others

Prime Paris residential prices have now risen for four successive years, up 3.5% in the year to June 2018. Transaction volumes exceeded their 2011 peak at the end of 2017, as domestic and international buyers, as well as returning French expats, competed for available stock.

According to the Chambre des Notaires de Paris, average prices across the city stand at €9,300 per sq m (as at Q2 2018). Prime prices range between €12,000 and €20,000 per sq m, with ultra prime prices starting at €20,000 per sq m (see page two for prime definitions). An average Paris property is now on the market for just 45 days (down from 59 in 2014), though momentum is beginning to slow as buyer and seller expectations have become misaligned in a rising market.

Prices are now rising all across Paris, and 86% of transactions over €2 million took place in the prime arrondissements last year (see chart, top right). But our analysis reveals the relative underperformance of some of the best-established prime arrondissements over the longer term.

Prices in the 16th arrondissement grew by 4.6% in the year to September 2018, but remain 2.4% below their 2011 high. Characterised by large properties just outside the core, the 16th was the district hardest hit during the market downturn. The 6th, 7th and 8th – among the most expensive arrondissements – have also recorded lower levels of growth since their former highs, though all are now seeing price rises (see bar chart, right).

Where the 3rd comes first

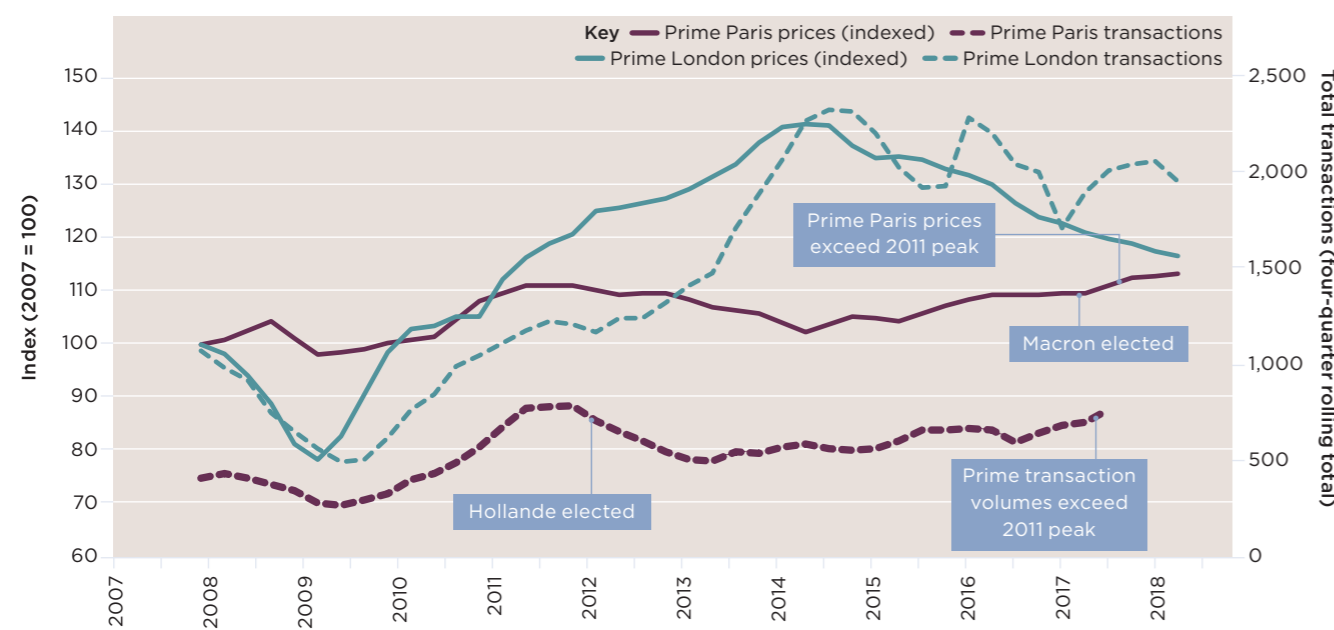
The best-performing prime arrondissement has been the 3rd, where prices stand 16.6% above 2011 levels, increasing by 23.1% in the last five years. North of the Marais, this small but well-located district offers an extensive range of independent retail outlets and restaurants, and has risen in stature.

The 10th, meanwhile, is the best-performing 'mainstream arrondissement'. Prices here are now 21.5% above the former high of 2012, and have increased by 21.8% in the last five years. With parallels to London's King's Cross area, this regenerating district is home to the Saint-Martin Canal and two major railway stations – Gare de l'Est and Gare du Nord – the latter of which provides direct links to London.

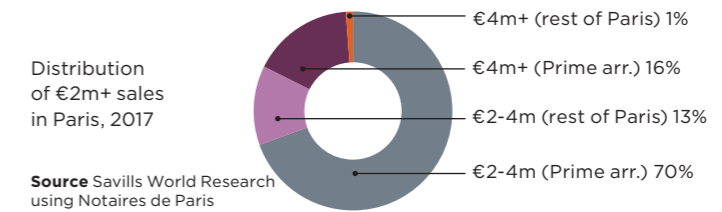
“ Prices are now rising all across Paris, with the 3rd the best-performing prime arrondissement ”

Prime Paris and London compared

The French capital is steadily rising

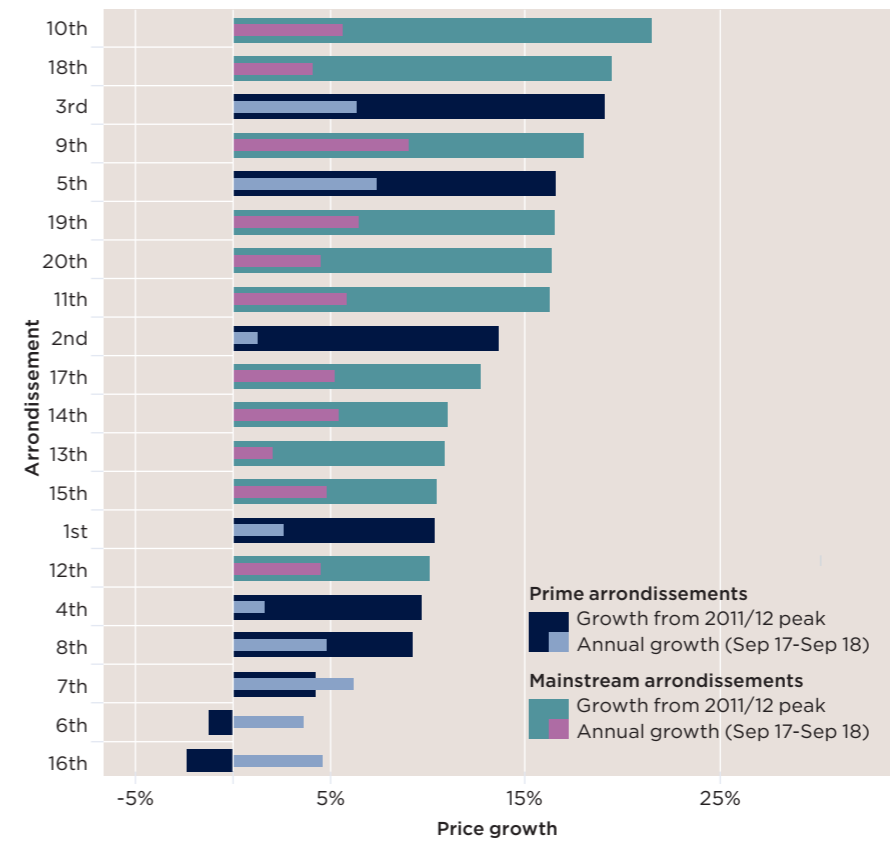


Notes Prime Paris prices: transactions over €1.8m across all of Paris. Prime London prices: Savills Prime London Index. Prime Paris transactions: transactions over €2m across all of Paris. Prime London transactions: transactions over £2m across all of London. Source Savills World Research, MeilleursAgents.com, Chambre des Notaires de Paris, Lonres



Paris price growth by arrondissement

Including prime and mainstream districts, to September 2018



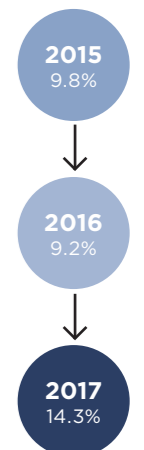
Source Savills World Research, MeilleursAgents.com

FOREIGN BUYERS ARE BACK

In 2017, international buyers made 14% of all purchases in the prime market, up from 9% the year before. This is the highest proportion of international buyers since 2008. President Emmanuel Macron's pro-business stance, along with France's improved economic performance, has helped stimulate demand from foreign nationals.

Americans are especially active, attracted by the political environment and favourable exchange rate. Francophone Europeans – such as the Belgians and Swiss – are also present, along with buyers from the Middle East. The Chinese, a huge tourist group, are still to make their mark – perhaps because these buyers favour new builds, of which there are very few (most prime Paris stock is 19th-century).

Anecdotal evidence suggests that French expats are also returning to Paris. French citizens who left for London and Brussels in the Hollande era are now investing in Parisian property, where they see value and growth potential.



Source Savills World Research using Notaires de Paris



Paris in a global context

Moving up the ranking of top-tier world cities, Paris looks increasingly attractive thanks to tax reforms

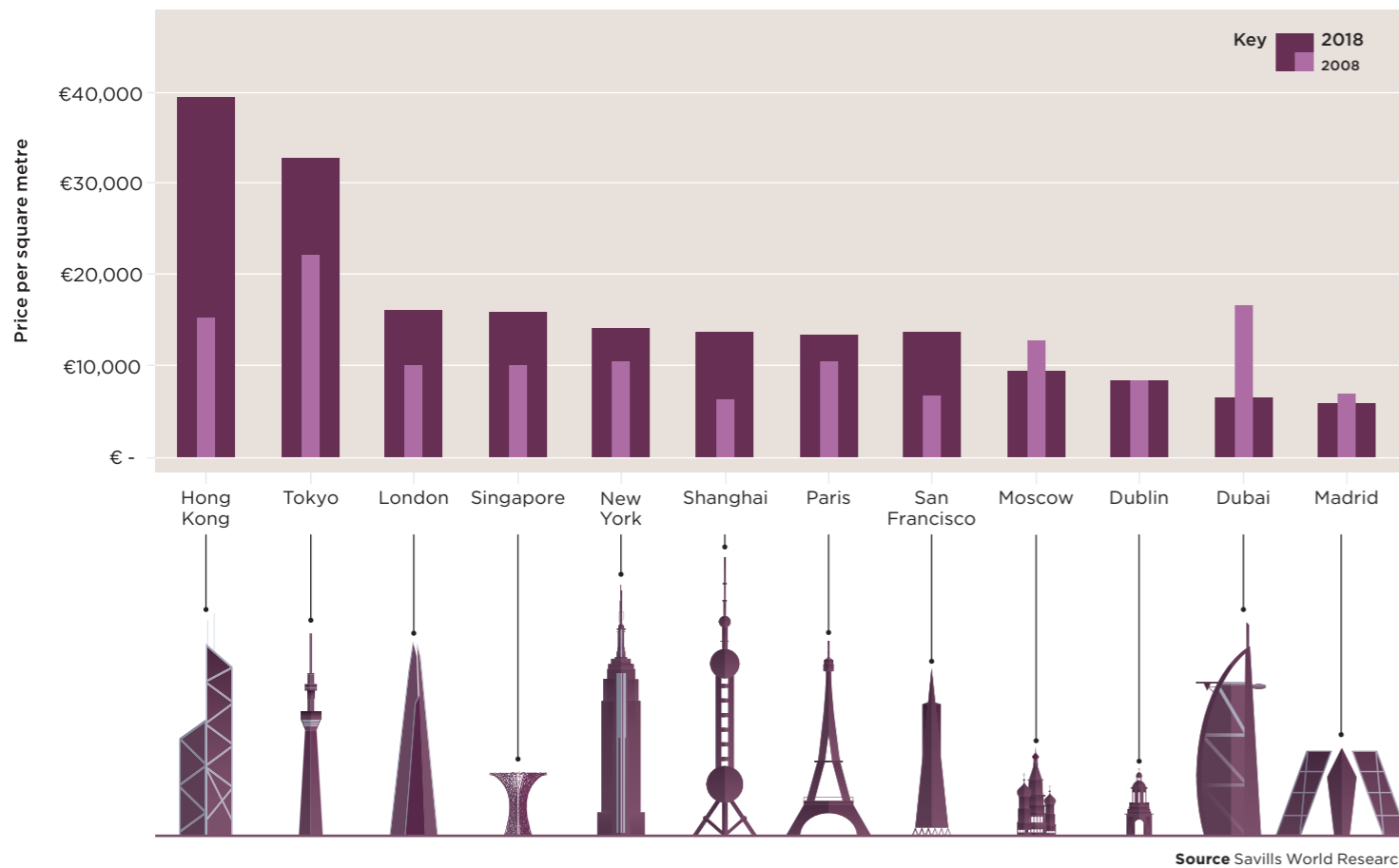
A global ranking

Despite enjoying a strong international standing, the Paris residential market remains mainly domestic. This is a key reason why prime residential prices are well below those of its global peers. The city ranks 7th in our league table of top-tier global cities, having overtaken San Francisco in the past 12 months. Prime prices on a square-metre basis stand 66% below prime Hong Kong and 19% below Prime London, in euro terms.

How has tax reform impacted the market?

The wealth tax has been replaced by a new tax, L'impôt sur la Fortune Immobilière (IFI), which applies to real-estate assets only. It covers real estate held directly by individuals, as well as shares in companies (regardless of legal status and localisation). The threshold remains unchanged at €1.3 million. All other aspects of the former wealth tax (eg taxes on financial assets) have been abolished. This has helped improve the attractiveness of the French tax regime for wealthy individuals.

Prime league of top-tier global cities Prime prices in 2008 and 2018



Tech leads the way

New infrastructure and funding make Paris increasingly attractive for tech investment, while Brexit may fuel finance job relocations

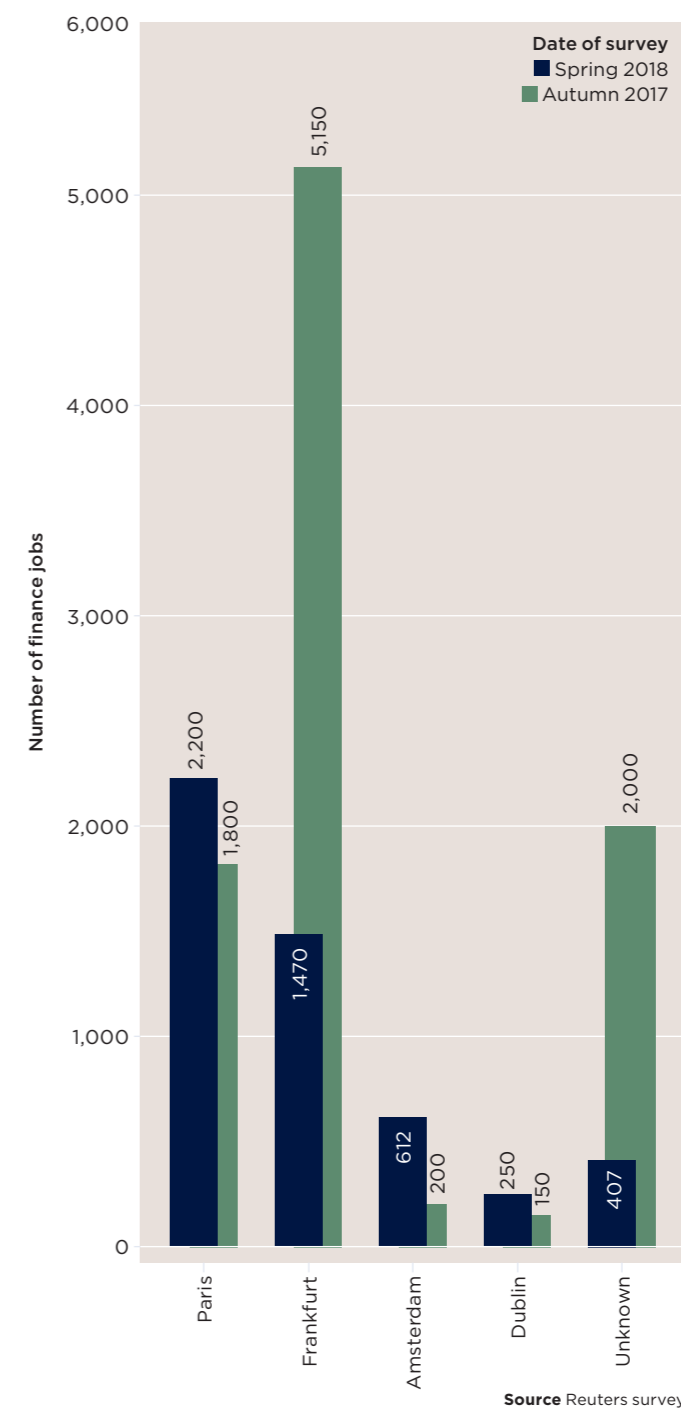


Paris is making a drive to position itself as an attractive destination for tech investment. The government has set up an investment fund of \$12 billion for tech start-ups and introduced a new tech visa, targeting skilled employees from outside the EU. By 2025, the tech industry is expected to account for 13% of total employment in the Paris region, according to Oxford Economics.

Tech employment in Paris has risen by an average of 2% per year over the past 10 years, compared with 0.5% for total employment. Incubator and co-working spaces – such as Station F (above), the world's largest start-up campus – are providing the physical infrastructure to support growth.

Paris is also positioning itself to gain from jobs relocating from the UK as a result of Brexit. The city was selected as the new home for the European Banking Authority, and recently overtook Frankfurt as the top location for anticipated relocations of finance jobs (see chart). Ease of access to London and a vibrant city environment compared with Frankfurt may be contributing factors.

Anticipated finance job relocations from London to Paris and its major rivals



A global icon

Paris is attractive to business, talent and international visitors



Tourist hub Travellers spent a record 17.1 million hotel nights in Paris in the first half of 2018. Visitors spend, on average, twice what they do in London.



Corporate HQs The Paris region is home to more corporate bases than any other city in Europe. Worldwide, it ranks third by the same measure.



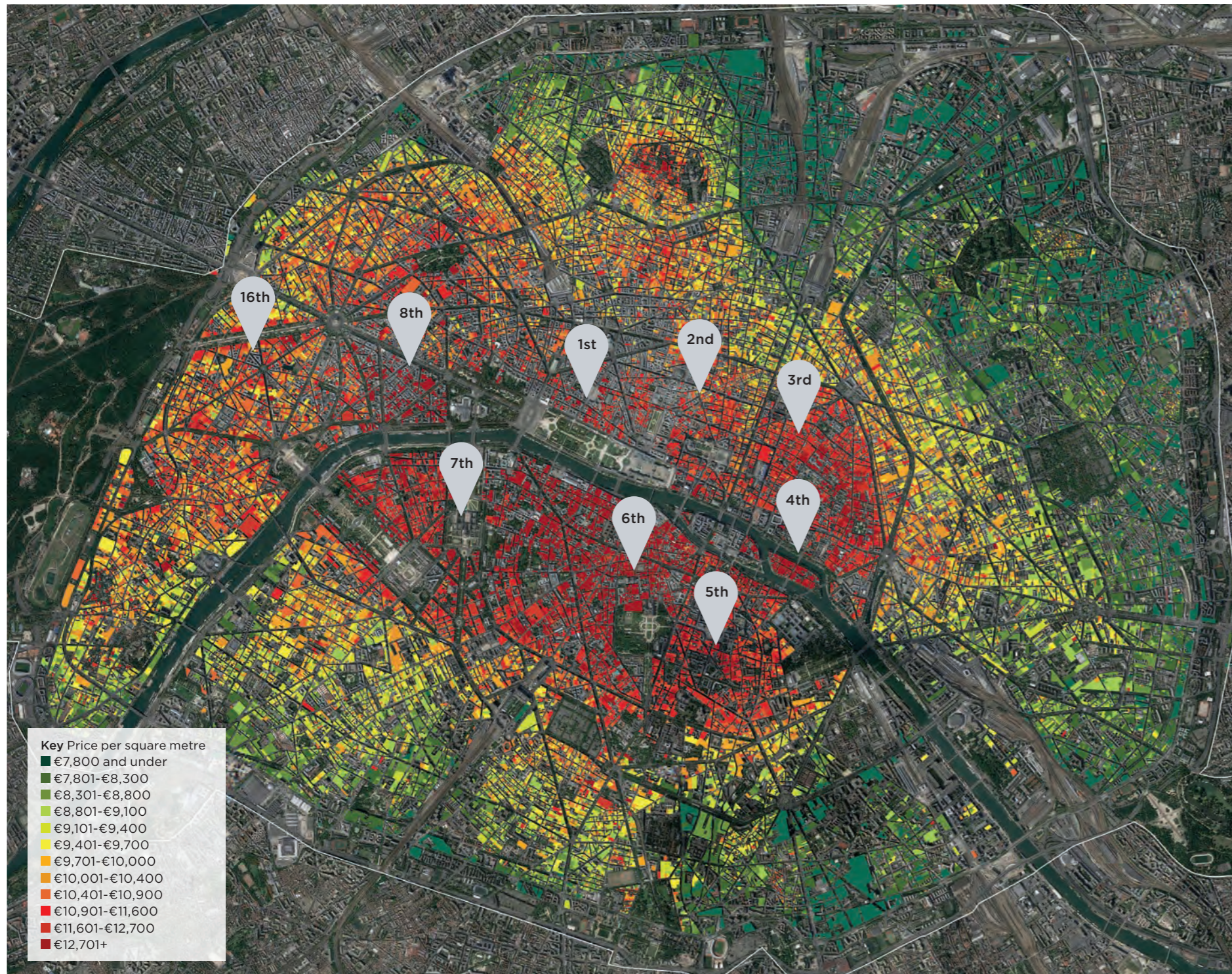
Olympics host In 2024, Paris will host the Olympic Games for the third time. This will be a catalyst for infrastructure investment, especially in the north.



Luxury retail Last year, Paris had the highest share of luxury store openings in the world. Homegrown luxury groups LVMH and Hermès are world leaders.

Prime and ultra prime trends

The latest market intelligence on price growth and residential values in Paris's most desirable arrondissements – and their most sought-after streets



Map source MeilleursAgents.com Note *Price growth, year to September 2018

1st arrondissement

Price growth 2.6%*
Most prestigious streets
 Place Dauphine
 Rue de l'Amiral de Coligny
 Place de Valois

Paris's smallest district is characterised by very low transaction volumes. In the heart of the Right Bank, it offers history, fashion and culture. Iconic addresses include apartments with views on the Le Palais Royal, Tuileries Gardens or Place Dauphine, and prices range between €15,000 and €30,000 per sq m.

2nd arrondissement

Price growth 1.2%*
Most prestigious streets
 Rue Volney
 Rue des Capucines
 Rue Danielle Casanova

This small arrondissement is home to La Bourse (the former Paris stock exchange) and numerous bank HQs. It is an area undergoing change, attracting entrepreneurs and start-ups. Prices stand 13.6% above their 2011 peak.

3rd arrondissement

Price growth 6.3%*
Most prestigious streets
 Rue des Quatre-Fils
 Rue du Parc Royal
 Rue Elzévir

Also known as the Haut Marais, this district has seen prices rise faster than in any other prime area – 22.6% in the past five years. Independent shops and a vibrant restaurant scene have supported the district's rise.

4th arrondissement

Price growth 1.6%*
Most prestigious streets
 Quai de Béthune
 Quai d'Orléans
 Place des Vosges

Also known as Le Marais, this area's highest prices range from €15,000 to €30,000 per sq m for property on Île Saint-Louis with views over the Seine. There is high demand for pieds-à-terre and prestigious apartments in 17th- or 18th-century mansions.

5th arrondissement

Price growth 7.3%*
Most prestigious streets
 Quai de la Tournelle
 Place du Panthéon
 Rue Laromiguière

French families are attracted by high-quality schools here, but family apartments are in short supply. Prices grew by 7.3% in the year to September 2018 – outperforming the city average.

6th arrondissement

Price growth 3.6%*
Most prestigious streets
 Rue Guynemer
 Rue de Seine
 Rue Bonaparte

Still the highest-value district in Paris, the 6th arrondissement encompasses both the Jardin du Luxembourg and the Saint-Germain-des-Prés quarter. It is emblematic of 'l'esprit Rive gauche' (the spirit of the South Bank) with trendy boutiques, antique shops and plenty of cafés and bistros. It is a highly sought-after location for pieds-à-terre in the historic heart of the city.

7th arrondissement

Price growth 6.2%*
Most prestigious streets
 Avenue Émile Deschanel
 Rue du Bac
 Quai Voltaire

Home to many state institutions and historic private mansions, prices here have risen steadily – especially in the Saint-Thomas-d'Aquin district. Highest prices (between €20,000 and €30,000 per sq m) are commanded by properties with private gardens and/or panoramic views.

8th arrondissement

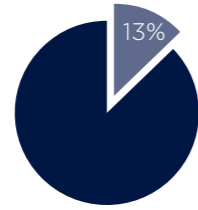
Price growth 4.8%*
Most prestigious streets
 Avenue Montaigne
 Avenue George V
 Rue du Faubourg Saint-Honoré

A district of contrasts – the most luxurious homes in the south and businesses and family homes in the north. Inside the 'Golden Triangle' between the Champs-Élysées, Avenue Montaigne and Avenue George V, prices average €15,000 to €30,000 per sq m.

16th arrondissement

Price growth 4.6%*
Most prestigious streets
 Avenue Foch
 Avenue Georges Mandel
 Avenue du Président Wilson
 Place des Etats-Unis

Paris's largest district is popular with expats and locals, thanks to its beautiful buildings and good schools. The north is defined by prime and ultra-prime homes on broad avenues, with views of the Eiffel Tower and the Arc de Triomphe. Prices here average €12,000 to €18,000 per sq m. In the south, values are much lower.



By 2025, the tech industry is expected to account for 13% of the total employment of the Paris region



La Défense financial district

Outlook for the Paris market

Expansion and infrastructure are key to the city's future growth

We anticipate continued growth in prime Paris prices, but at a slower rate as the 'bounce back' ends. We also expect the geography of prime Paris to expand as demand outweighs limited stock available in this land-constrained city.

Major infrastructure projects, such as Grand Paris and the Olympic Games, will support growth of outer Paris and the Île-de-France residential markets. There is specific growth potential around new and expanded stations.

The European Central Bank is not anticipated to increase interest rates until the autumn of 2019. Any rises in the near term are likely to be small and will mainly impact the mainstream markets.

London looks to remain Europe's financial capital in the wake of Brexit, but Paris is set to be the biggest beneficiary of any job relocations. Paris's vibrancy, relative scale and ease of access to London gives it an edge over its other European rivals.



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