THE LETTING MARKET

LA DEFENSE

Q1 2017

THE LETTING MARKET
LA DEFENSE

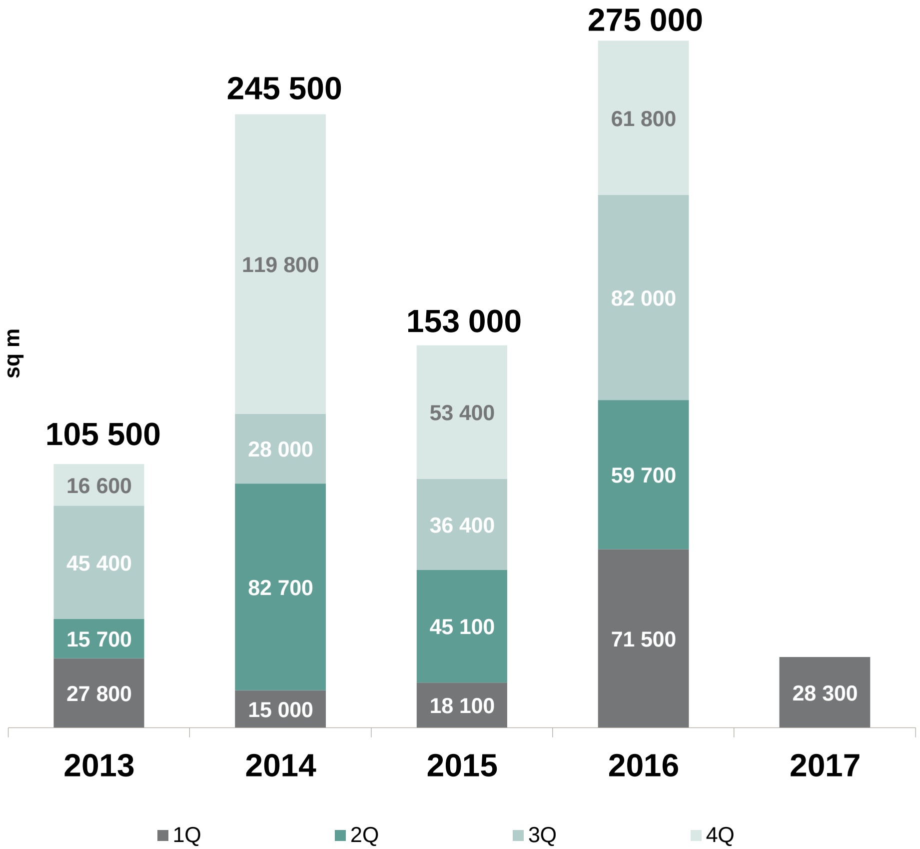
Map
Source : Knight Frank

Take up

28 300 sq m

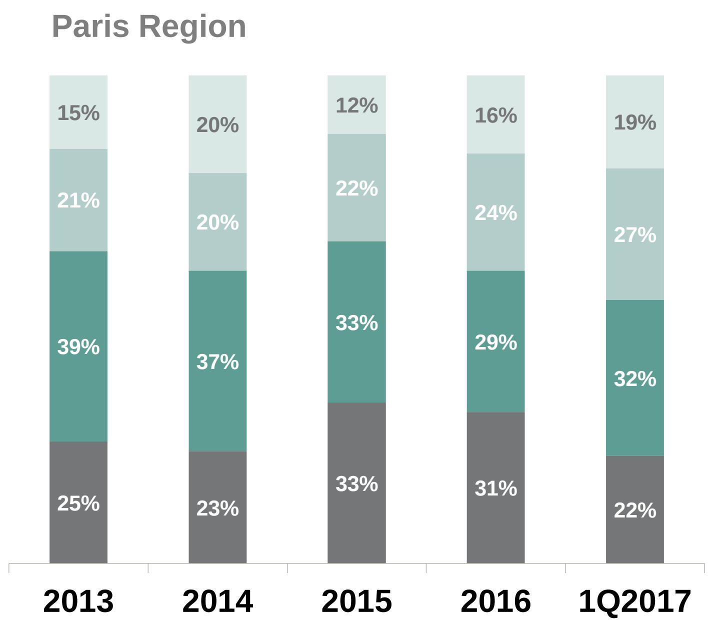
Source : Knight Frank

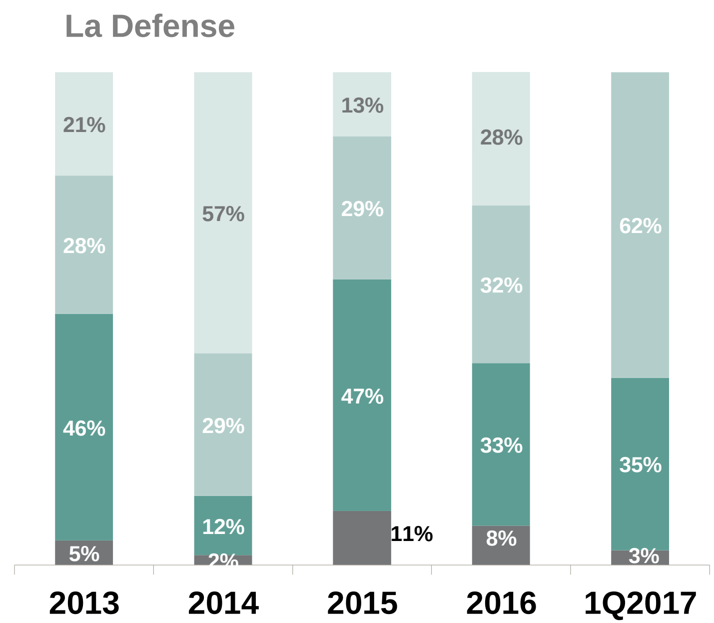
- -60%: transactional activity in La Défense falls very sharply, showing an underperformance compared with the region where there is an increase of 8%
- La Défense is a market which is closely dependent on large and very large users and is consequently a structurally volatile market. This quarter, it has only witnessed one large transaction, which explains its disappointing transactional performance
- 2016 proved to be an exceptional year, and it will be difficult to repeat these results: it is extremely likely that performance in 2017 will contract
- The segment of surfaces of less than 1000 sq. m, which grew strongly in 2016, has returned to its more normal levels, and only accounts for 3% of 2017 activity
- The improved transactional activity seen for some years now in La Défense is largely due to incentives added to headline rents: price remains a deciding factor in a market where investors, particularly large users, are seeking to rationalise



THE LETTING MARKET – Q1 2017
LA DEFENSE

Size of transactions
Source : Knight Frank





- Very large areas (> 20 000 sq m)
- Large areas (from 5 000 to 20 000 sq m)
- Medium areas (from 1 000 to 5 000 sq m)
- Small areas (≤ 1 000 sq m)

Transactions > 5 000 sq m

Source : Knight Frank

Tenant	Adress	Date	Area	Rent	Condition of premises
Orange Business Services	Cœur Défense	February 2017	17 500 sq m	€530	Used

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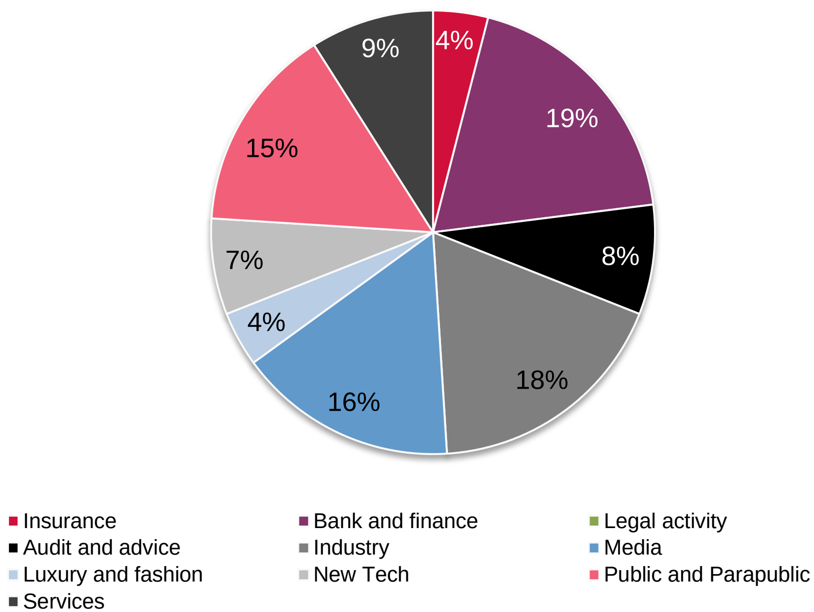
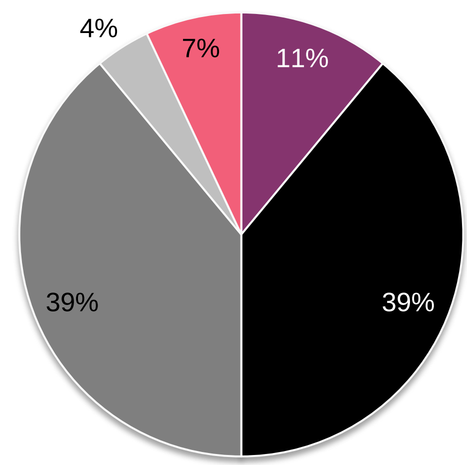
Large users > 5,000 sq m in 2016
Source : Knight Frank

Paris Region



La Defense

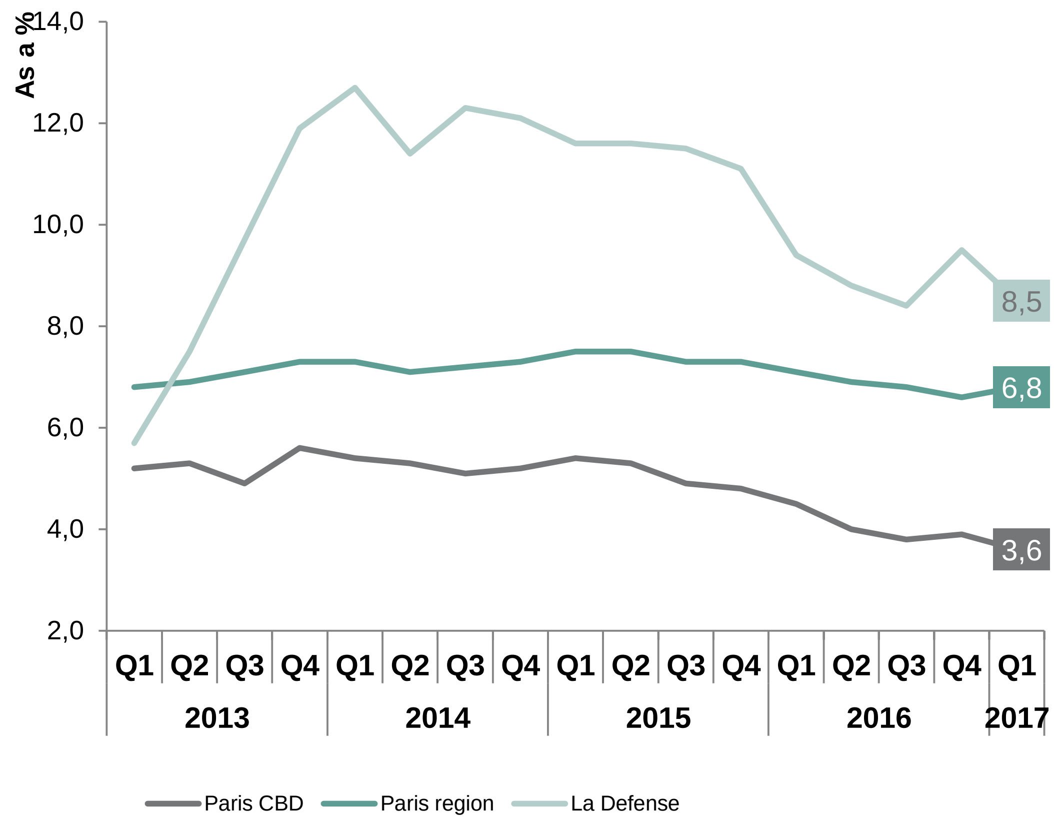


Available supply

8,5 %

Sources : Knight Frank, ORIE

- 8.5%: despite occasional rebounds when properties become available, vacancy rates have clearly been declining in La Defense since late 2013. They nonetheless remain above the regional average (6.8%)
- This decrease is largely due to a fall in construction activity but also says much about the capacity of the La Defense market to absorb large office surface areas
- This contraction in supply may increase over coming months, due to the fact that no available surface areas will be delivered
- A high level of supply is not necessarily a sign of imbalance in a market dedicated to large users: any excessive compression of available supply is likely to become a block to transactional activity
- This fall in available supply should give rise to a change in the financial trading conditions for real estate and tip the balance of power towards owners

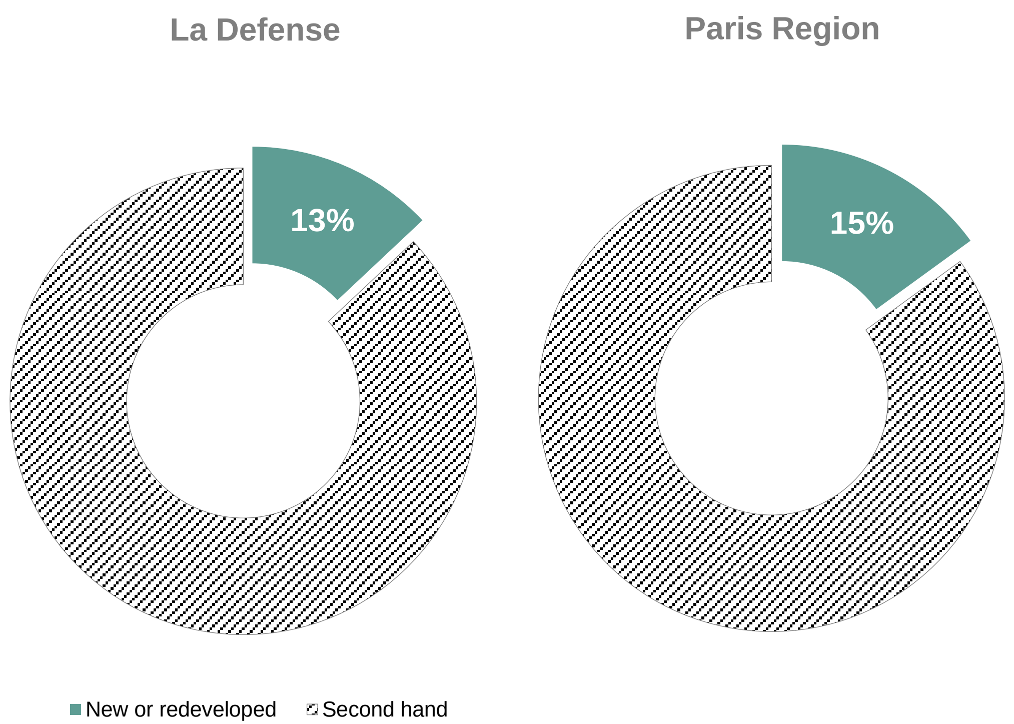


Grade A supply

13 %

Source : Knight Frank

- The supply of Grade A (new and redeveloped surfaces), which was abundant in La Defense for many years, has considerably decreased over recent months: in the course of 1 year, it declined from 21% to 13%, to below the regional average
- Paradoxically, in La Defense this advantage is on its way out: given a general scarcity of quality supply, an abundance of Grade A supply had strengthened La Defense's hand. These surfaces, which are cost-effective and boost efficiency, are effectively favoured by users (72% of surfaces taken up in major transactions in 2016 in the Paris region were of Grade A quality as were 76% in 2015)
- The prolonged sluggishness of the La Defense market, and then its sudden awakening, are clear evidence that the pricing of Grade A supply is just as vitally important for users: very large users, particularly those who have to accommodate a large back office, only returned when owners had agreed a reduction in market values (headline values and/or incentives)



Rents

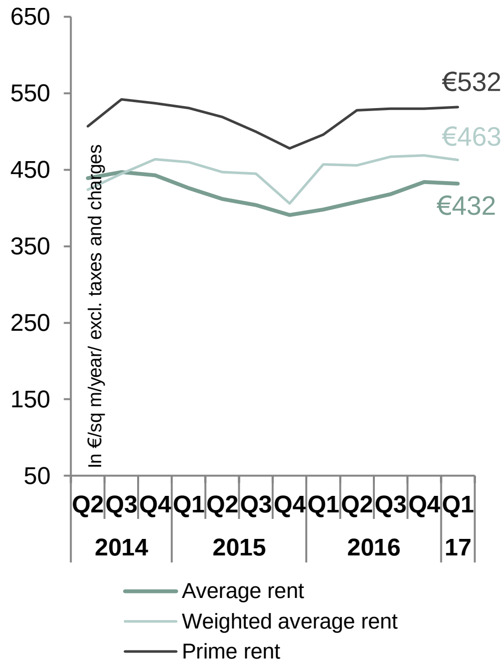
€432 ⟷ €532

/sq m/year excl. Taxes and charges
Prime rents

Source : Knight Frank

- Rents for prime transactions remain steady at slightly below €530. If we take the 5 highest rents recorded on a year-to-year basis, we can see that the market is still restrained
- Owners are well aware of this as the highest indicative values for Grade A supply have remained close to this standard price of €530
- The difference between average transaction rents and prime transaction rents is €100, reflecting a discount for second-hand surfaces
- Incentives remain very high in La Défense, generally between 25 and 30% of the headline rent

Rental transactions
(year-on-year)



Average rental transactions :

La Defense	CBD
€432	€509
(year-on-year)	*(year-on-year)*

Average values of supply presentation:

La Defense	CBD
€375	€500
(last quarter)	*(last quarter)*

Prime values of supply presentation:

La Defense	CBD
€530	€800
(last quarter)	*(last quarter)*

Incentives:

La Defense	CBD
25 / 30 %	8 / 17 %
(last quarter)	*(last quarter)*

Future deliveries

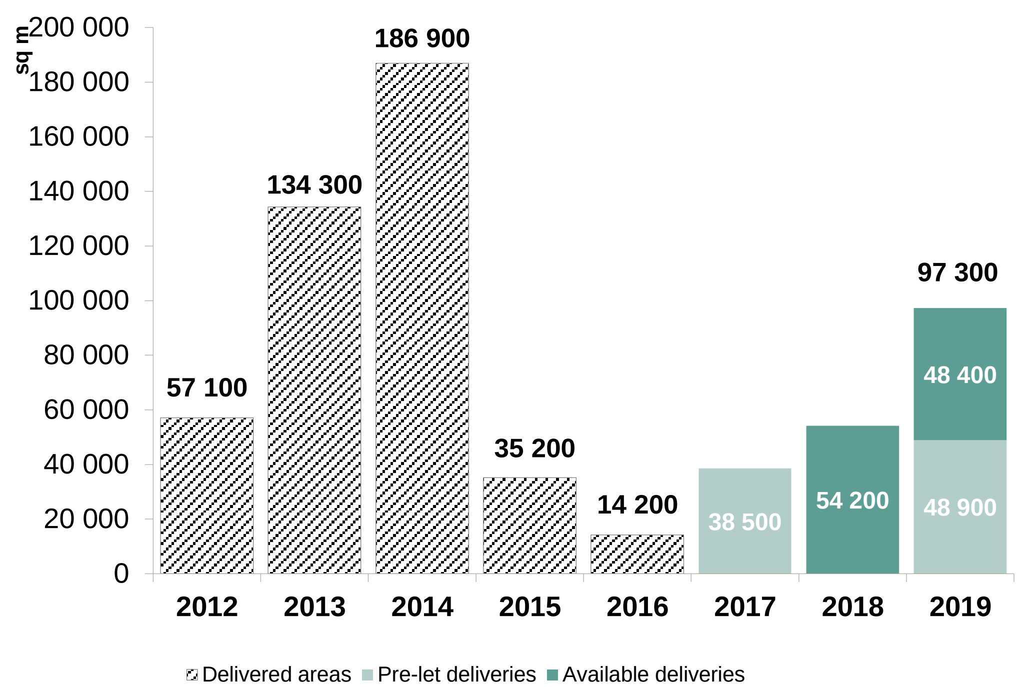
46%

Pre-sale rates from now until the end of 2019

Source : Knight Frank

- 2017 is on track to be the third consecutive "dead" year in terms of construction, with extremely low delivery volumes
- Window was the only speculative programme expected for delivery in 2017: its 44,000 sq. m were pre-leased by RTP in 2016
- Over the next few months, supply (particularly of Grade A) is therefore projected to become scarcer in La Defense. An absorption phase such as this was needed to gradually rebalance the market after the deluge of deliveries associated with the La Defense regeneration plan, but it is important that it does not continue because it risks plunging the market into an imbalance in the opposite direction
- As a result of the increasing scarcity of Grade A, off-plan sales, which were not habitual in La Defense prior to 2014, now account for 46% of volumes expected for delivery before the end of 2019
- In the longer term, the La Defense management body is determined to regulate and stagger delivery volumes in order to avoid peaks and troughs in property coming to market

New or redeveloped areas in La Défense :

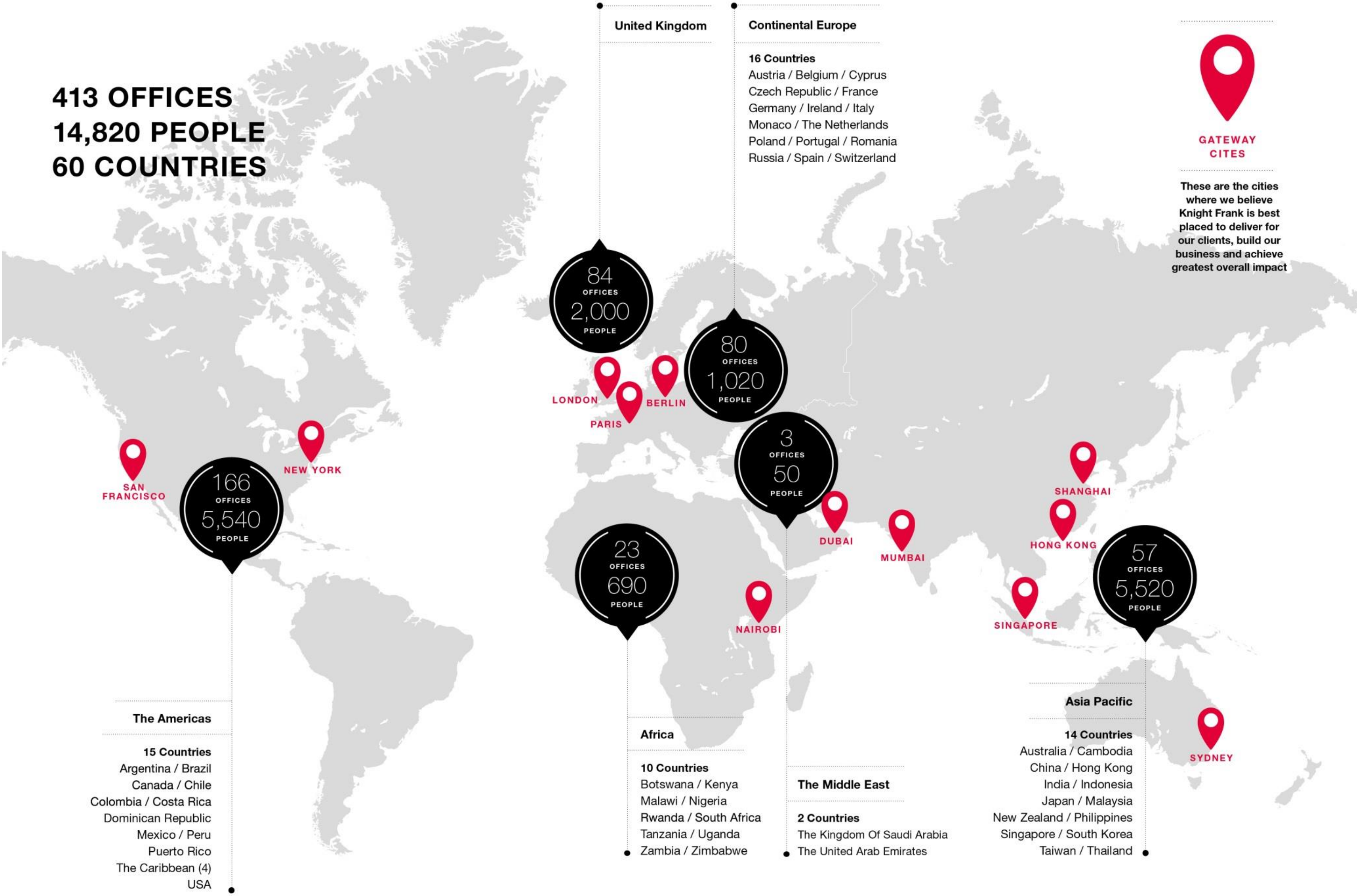


Summary

Sources : Knight Frank, ORIE

	Q1 2017	Q1 2016	Annual change	Paris Region Q1 2017	La Defense share in Paris Region
Take up	**28 300 sq m**	71 500 sq m	-60%	638 800 sq m	4%
Immediate supply	**302 000 sq m**	332 000 sq m	-9%	3 622 000 sq m	8%
Vacancy rate	**8,5%**	9,4%	-90pb	6,8%	-
Average rent	**432 €/sq m/an**	398 €/sq m/year	+8%	399 €/sq m/an	-
High-end rent	**532 €/sq m/an**	496 €/sq m/year	+7%	770 €/sq m/an	-

KEY FIGURES



413 OFFICES
14,820 PEOPLE
60 COUNTRIES
United Kingdom
84 OFFICES 2,000 PEOPLE
Continental Europe
16 Countries
Austria / Belgium / Cyprus
Czech Republic / France
Germany / Ireland / Italy
Monaco / The Netherlands
Poland / Portugal / Romania
Russia / Spain / Switzerland
80 OFFICES 1,020 PEOPLE
GATEWAY CITIES
These are the cities where we believe Knight Frank is best placed to deliver for our clients, build our business and achieve greatest overall impact
LONDON
PARIS
BERLIN
NEW YORK
SAN FRANCISCO
166 OFFICES 5,540 PEOPLE
3 OFFICES 50 PEOPLE
DUBAI
MUMBAI
SHANGHAI
HONG KONG
SINGAPORE
SYDNEY
NAIROBI
23 OFFICES 690 PEOPLE
57 OFFICES 5,520 PEOPLE
The Americas
15 Countries
Argentina / Brazil
Canada / Chile
Colombia / Costa Rica
Dominican Republic
Mexico / Peru
Puerto Rico
The Caribbean (4)
USA
Africa
10 Countries
Botswana / Kenya
Malawi / Nigeria
Rwanda / South Africa
Tanzania / Uganda
Zambia / Zimbabwe
The Middle East
2 Countries
The Kingdom Of Saudi Arabia
The United Arab Emirates
Asia Pacific
14 Countries
Australia / Cambodia
China / Hong Kong
India / Indonesia
Japan / Malaysia
New Zealand / Philippines
Singapore / South Korea
Taiwan / Thailand

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