RESEARCH

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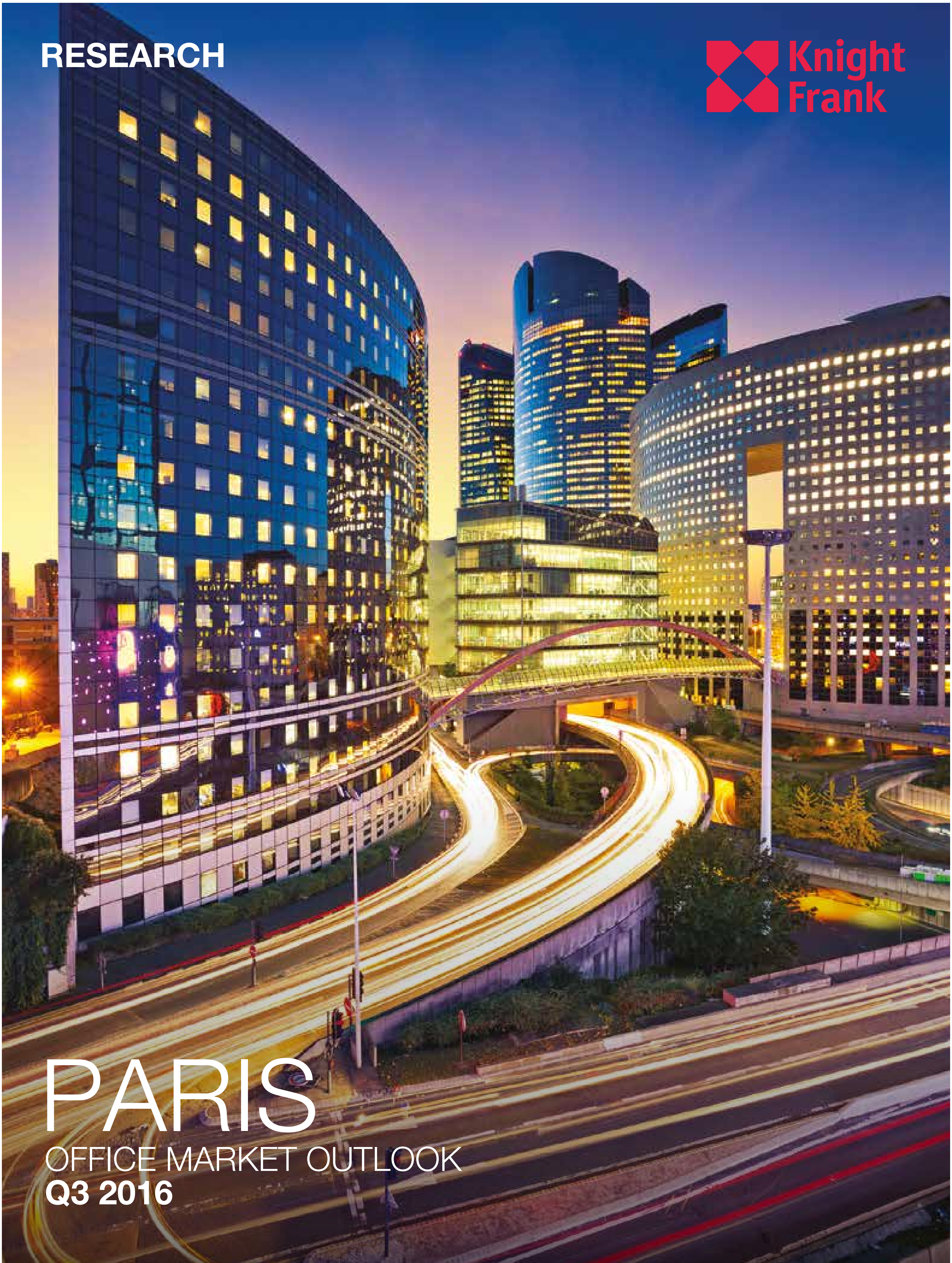


PARIS

OFFICE MARKET OUTLOOK

Q3 2016

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

KEY FINDINGS

Office take-up was 1.2 million sq m in H1 2016 and full-year take-up is expected to exceed the long-term average.

Vacancy levels have continued to fall in the CBD due to a constrained development pipeline and increased pre-leasing activity.

Prime rents have increased in response to a constrained pipeline to €760 per sq m per annum during H1 2016, following a three-year period of stability.

Office investment volumes in Île-de-France totalled €6.4 billion in H1 2016, a fall of 18% year-on-year.

Pent-up demand for core prime assets in the CBD has led to yields hardening to a historic low of 3.25%.

OCCUPIER MARKET

Demand in the Paris office market has been emanating from occupiers across a broad range of industry sectors.

Île-de-France office take-up amounted to 1.2 million sq m in H1 2016, surpassing the volumes achieved for the same period last year(+27%, Figure 1). While leasing activity remained robust in the small and medium sized category, (59% of transactions), activity surged among larger corporates. Five transactions materialised for premises above 20,000 sq m. Corporates have been pursuing options in the market, which is expected to lead to increased activity throughout H2 2016 and into 2017.

The locational preferences of 2015 were replicated in H1 2016, as occupiers predominantly focussed on inner-city Paris and La Défense. Notably, the La Défense market posted a record H1 with take-up of 126,500 sq m, as corporates, including Deloitte & Associés and Bureau Veritas, contributed to the significant leasing transaction volume.

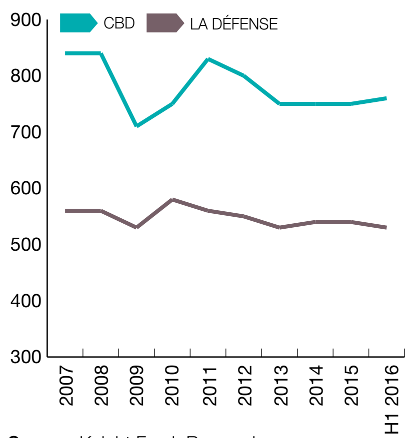
New deliveries in 2016 are forecast to be well below the average volumes of the preceeding three years (-54%). The undersupply of Grade A space is being exacerbated by strong pre-letting activity with over 50% of the development pipeline out to 2019 already pre-let. Development has shown only a moderate recovery since the delivery shortfalls of 2009-2012, and as speculative development has remained limited, this has continued to erode Grade A availability. Notwithstanding this, the buoyant market conditions may give impetus for developers to launch speculative schemes.

Due to the improved demand and limited new supply, the vacancy rate for Île-de-France has continued its downward spiral, falling to 6.9%. Despite reaching a three-year low, disparities are evident across the Paris Region. Strong occupier activity in La Défense has brought a notable reduction in vacancy levels, with rates falling from 12% in 2015 to the current mark of 9%. In contrast, higher vacancy levels in the Western Crescent (11.5%) reflect lower occupier activity. Supported by low availability levels, prime CBD rents increased to €760 per sq m per annum, with significant deals concluded for rents over €750 per sq m. Rents in La Défense have experienced mild fluctuation in the last three years, and are now in the region of €530 per sq m per annum (Figure 2).

FIGURE 2

Prime office rents

€ per sq m per annum

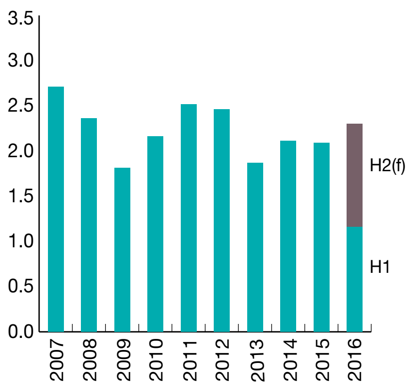


Source: Knight Frank Research

FIGURE 1

Île-de-France office take-up

sq m (000s)



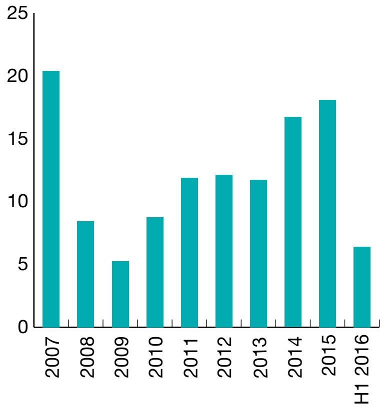
Source: Knight Frank Research

Key office leasing transactions in 2016

Quarter	Address	Tenant	Size (sq m)
Q1	94 avenue de Paris Massy, Southern Outer Rim	Crédit Agricole	38,700
Q2	L'Elyps Fontenay-sous-Bois, Easter Inner Rim	RATP	32,000
Q1	Tour Majunga Puteaux, La Défense	Deloitte & Associés	31,000
Q1	Le Qu4drans 15th, Paris 14/15	Nextradio / Altice Média	25,600
Q1	Parc du Millénaire 19th, Paris 18/19/20	BNP Paribas	24,000
Q2	Lot A2 13th, Paris 12/13	Le Monde Libre	19,500
Q1	39-41 rue Cambon 1st, Paris CBD	Groupe Chanel	17,200

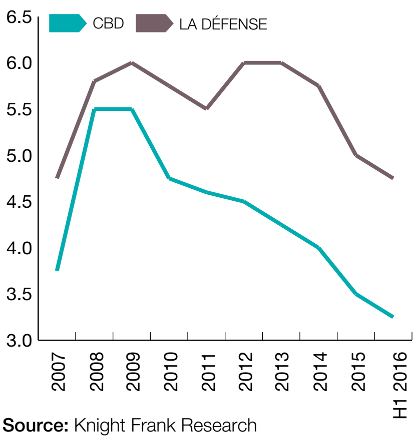
Source: Knight Frank Research

FIGURE 3
Île-de-France office investment volumes € billion



Source: Knight Frank Research

FIGURE 4
Prime office yields
%



Source: Knight Frank Research


The Tour First skyscraper in La Défense

INVESTMENT MARKET

Following a muted first quarter of 2016, which saw a sharp fall in office investment volumes following the outstanding performance of the second half of 2015, Q2 saw investment activity gather pace. Office volumes in Île-de-France reached €6.4 billion, a twofold increase on Q1 (Figure 3).

Investment activity has been fairly well spread across the submarkets in Paris. The market is being largely driven by domestic investors, accounting for around 80% of the H1 transaction volume. US investors have come in second place with around €400 million in investments.

During H1, offshore outfits accounted for a smaller share of the total transaction volume. Consequently, any impact stemming from Brexit has been negligible as relatively little risk is posed from falling demand. The greater challenge that the market faces is the limited availability of core product, which is causing demand to shift to core plus and value-added assets across all submarkets, opening up opportunities in less saturated ones.

Subsequently, the uptick in Q2 volumes was driven by strong investor appetite for higher-yielding non-core assets and the finalisation of several large-scale transactions. The largest transaction was the joint venture acquisition by AXA Real Estate and ACM of Tour First in La Défense for €800 million.

Prime yields in the CBD contracted by 25 bps falling to a historic low of 3.25% in Q2 (Figure 4). La Défense posted a fall in yields to 4.75% in Q1 2016 but yields have remained stable in Q2. The lack of Grade A space may result in further increases in rents and capital values; however these will be confined to areas in high demand, including the CBD.

Key office investment transactions in 2016

Quarter	Property	Seller	Buyer	Approximate price (€ million)
Q2	Tour First, La Défense	Beacon Capital Partners	Axa Investment Managers Real Assets	800
Q2	65-67 Avenue des Champs Elysées, Paris CBD	Thor Equities LLC Meyer Bergman	Qatar Investment Authority	490
Q1	2-8 rue d'Ancelle, Neuilly-Levallois	Unibail-Rodamco	Amundi / Assurance Crédit Mutuel	271
Q1	Tour Alto, La Défense	UBS Real Estate	Abu Dhabi Investment Authority	55

Source: Knight Frank Research

KNIGHT FRANK VIEW

The occupational market fundamentals in Paris are sound and the outlook remains positive. Full-year 2016 take-up is expected to reach 2.4 million sq m, exceeding the long-term average. The looming undersupply of Grade A space in the CBD and inner-city regions may see rents increase and yields sharpen, however only the best locations and assets will be affected. Nonetheless, the CBD will continue to remain popular among investors.

The investment market looks set to remain robust as real estate retains its attractiveness relative to other asset classes. In particular, the Grand Paris Project, currently in its first phase of development, will present opportunities for occupiers and investors over the coming years. Improvements to connectivity and mobility will contribute to the attractiveness of the Greater Paris Region's office markets. La Défense in particular is expected to benefit its international visibility and appeal is elevated under the new plan.

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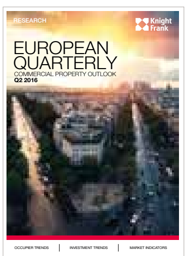
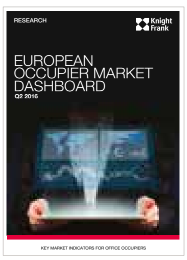
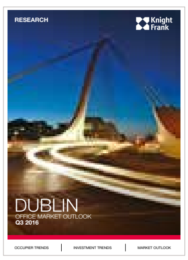


European Quarterly Report - Q2 2016



European Occupier Market Dashboard - Q2 2016



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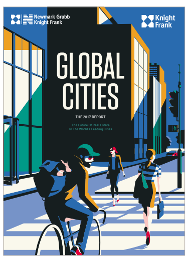

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