

RESEARCH



# PARIS

OFFICE MARKET OUTLOOK  
Q4 2014



OCCUPIER TRENDS

INVESTMENT TRENDS

MARKET OUTLOOK

## KEY FINDINGS

The Paris office market continues to edge towards recovery

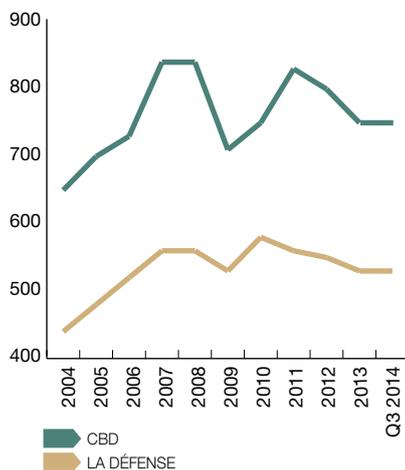
Île-de-France take-up reached 1,530,500 sq m in the first three quarters of 2014, an increase of 13.2% compared with the same period in 2013

The office vacancy rate has stabilised, reaching 7.2% as at the end of Q3 2014

Prime office rents in the CBD remained stable, at €750 per sq m per annum

The office investment market has rebounded strongly, with transactions volumes in the first nine months of 2014 up by 39% year-on-year

FIGURE 1  
Prime office rents  
€ per sq m per annum



Source: Knight Frank Research

## OCCUPIER MARKET

Despite economic headwinds, the occupier market is showing signs of recovery, while investment activity reached a record level since the peak in 2007.

The French economy stalled in the first half of 2014, with GDP growth remaining flat in both Q1 and Q2. A moderate improvement is anticipated in the second half of the year, supported by a pick-up in domestic demand. According to the latest IMF forecasts, GDP growth will be 0.4% in 2014 and 1% in 2015.

Île-de-France take-up amounted to 1,530,500 sq m in the first three quarters of 2014, an increase of 13.2% compared with the same period in 2013. This strong performance was driven by a number of large transactions, which reflected the demand from corporates such as KPMG & L'Oreal. The first nine months of the year saw a large number of big deals (5,000 sq m+). The bulk of activity was recorded in the Western Crescent, followed by the CBD and La Défense.

Development activity in recent years has been limited, maintaining total office availability at 3.9 m sq m. The overall vacancy rate has stabilised, reaching 7.2% as at the end of Q3 2014. Geographical and structural disparities within the city remain significant, with the vacancy rate in La Défense and Western Crescent greater than 11% while in the CBD it is less than 6%.

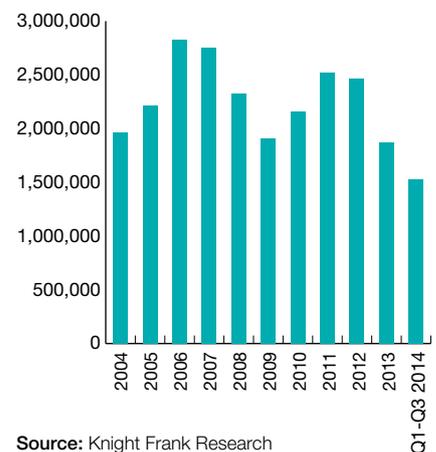
In the short-term, future growth in office stock will be constrained by the limited amount of speculative development, with developers having been cautious in light of economic uncertainty. Future

supply in Île-de-France appears relatively stable, with 2.1 m sq m of office space under construction with a definitive delivery date.

In addition, the number of potential projects exceeding 5,000 sq m to be developed or redeveloped stands at around 2.6 m sq m. The majority of these projects are currently on hold and will be located in periphery locations.

Prime CBD office rents currently stand at €750 per sq m per annum after a downward adjustment of 10% in 2012 and 2013. However, average rents across Île-de-France have remained relatively stable, at €303 per sq m per annum.

FIGURE 2  
Office take-up  
sq m



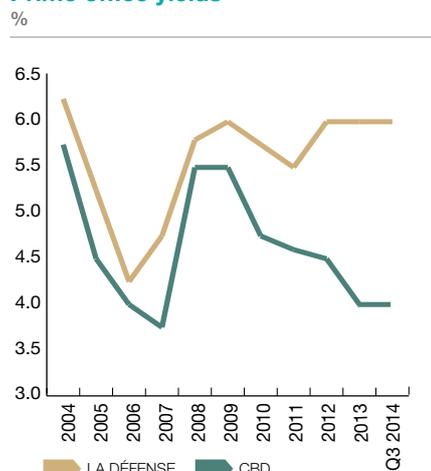
Source: Knight Frank Research

### Key recent office leasing transactions

Quarter	Property	Tenant	Sector	Size (sq m)
Q2	Tour Eqho	KPMG	Audit / Advisory	40,500
Q2	Ecowest	L'Oreal	Industry	38,600
Q2	City Lights	SoLocal	TMT	32,700
Q1	Le Tivoli	Covea	Finance / Banking / Insurance	22,200
Q1	1 rue d'Astorg	Clifford Chance	Lawyers	9,800
Q1	Prime Opéra	Sodiaal	Industry	7,800

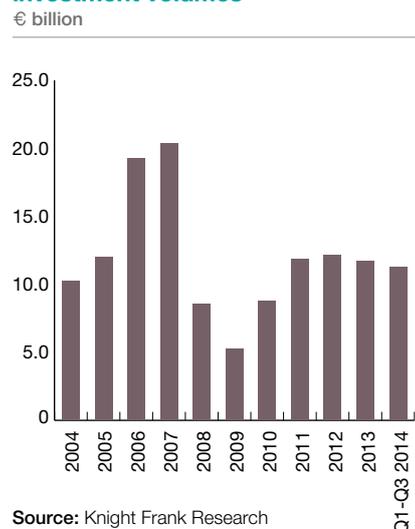
Source: Knight Frank Research

FIGURE 3  
Prime office yields



Source: Knight Frank Research

FIGURE 4  
Paris office property investment volumes



Source: Knight Frank Research



# INVESTMENT MARKET

The office investment market has rebounded strongly, with transaction volumes reaching the highest level since the peak years of 2006 and 2007. Around €11.3 bn was invested in the Paris office market in the first three quarters of 2014, which represents an increase of c. 39% compared with the same period in 2013.

The strong performance was made possible through numerous €100 m+ transactions, which represented almost 80% of investment volumes in H1 2014. This year also saw exceptional transactions such as the acquisition of the Risanamento portfolio by Olayan and Chelsfield for a reported price of €1.1 bn. Another notable transaction was the acquisition of Beaugrenelle by a consortium of French investors comprising Apsys, the Madar Group and Financière Saint-James for approximately €700 m.

French investors have recently been active, accounting for eight out of twelve

transactions above €100 m in Q2 2014. However, as at Q3, international investors have accounted for over 50% of transaction volumes in 2014. While the strongest demand is traditionally for prime stock, investors are also showing interest in non-core assets. However, the supply of such properties remains insufficient to attract a significant number of major foreign investors from the UK or the US.

Prime yields in the CBD have hardened by 50 basis points compared with H1 2013 and stand in the range of 4-4.5%. However, prime yields in La Défense have remained stable in the range of 6-6.5%. While prime yields in both locations are below their respective 10-year averages, they offer attractive risk premiums, considering the historically low yields of the 10-year Obligations Assimilables du Trésor (French government bonds).

## Key recent commercial investment transactions

Quarter	Property	Seller	Buyer	Approximate price
Q1	Cœur Défense	Heart of La Défense	Lone Star	€1,300 million
Q1	Beaugrenelle	Gecina	Private investors	€700 million
Q1	SFR Headquarters	SFR / Vinci	Crédit Agricole Assurances/Aviva	€680 million
Q1	Le Madeleine	MGPA	Norges Bank Investment Management	€426 million
Q2	Marriott Hotel	MCE Propco	Kai Yuan Holdings	€345 million
Q3	32 Rue Blanche	Orosdi	Oxford Properties	€263 million

Source: Knight Frank Research

## KNIGHT FRANK VIEW

The Paris office market experienced a healthy first nine months of 2014, as office take-up increased by 13.2% and investment rebounded by 39% compared with the same period in 2013. Nevertheless, France's economic recovery remains elusive and the short term outlook remains somewhat fragile. We expect leasing to continue at the same pace in the last quarter of the year, reaching the 2 million sq m level by the end of 2014. With a stable supply of new office space and a relatively

weak sentiment among corporates to expand, we do not expect the vacancy rate to fall in the Île-de-France area in the short term.

The office investment market remains decoupled from the occupational market and the strong investor interest in Paris offices – notably trophy assets – is expected to continue, although with fewer larger deals in the pipeline, investment volumes are likely to remain under €15 bn for 2014 as a whole.



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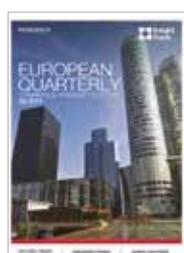
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