

# Market in Minutes

## A promising start to the year

Q1 2016

### The anticipated recovery takes hold

■ After moderate growth in 2015 (up 1.1%), analysts expect the recovery in France to consolidate further.

■ Corate investment should pick up again. The ECB has eased monetary policy by lowering interest rates, thereby encouraging external funding.

■ After a decline in Q4 2015, household consumption is expected to recover in H1 2016 once the negative effects have passed, notably those linked to the Paris terrorist attacks in November.

■ Down in March, the number of job seekers decreased by 1.7% compared to February - this is the biggest decrease since 2000. Analysts agree that there has been a slight decline in the unemployment rate, which is expected to stand at 10.2% across France as at mid 2016.

### A return to normality

■ After a lacklustre 2015, Q1 2016 recorded take-up of 492,000 sq m, equating to an annual increase of 19%. However, when we put this increase into context, the comparison with Q1 2015 is distorted given that the results for that quarter were the worst on record since 2009. In addition, take-up levels for Q1 2016 remain slightly below the 5-year average (502,109 sq m). Rather than referring to an "increase", it would be more appropriate to consider that the Paris market has once again returned to a more "normal" level of activity.

■ In general terms, the overall market is improving. Large transactions have been more prolific this quarter than in Q1 2015 (16 compared to 12). There is more pronounced activity across all area segments: up 23% in the over 5,000 sq m, up 26% in the 1,000 sq m

to 5,000 sq m and up 9.5% in the under 1,000 sq m segment.

■ That said, this slight improvement in the market has affected different sectors in differing ways. Paris accounted for almost half of the activity in IDF (47% or 233,847 sq m). The CBD bounced back with take-up of 103,324 sqm.

■ La Defense had an exceptional quarter, with take-up in excess of 74,000 sq m (up 430%). This was due to the 4 signatures exceeding 5,000 sq m, including Deloitte's 31,000 sq m in the Tour Majunga (the largest letting in the quarter) and IMS Health's 11,000 sq m in Tour D2.

■ In the Western Crescent, take-up reached 102,968 sq m (up 47.5%). This equates to almost 21% of take-up in IDF. The only poor performer was the Peri-Defense sector which recorded its lowest level of take-up since 2009 (16,000 sq m).

■ Take-up in the Inner Suburb decreased by 14% standing at

22,506 sq m. This underperformance is mainly due to the significant absence of large transactions.

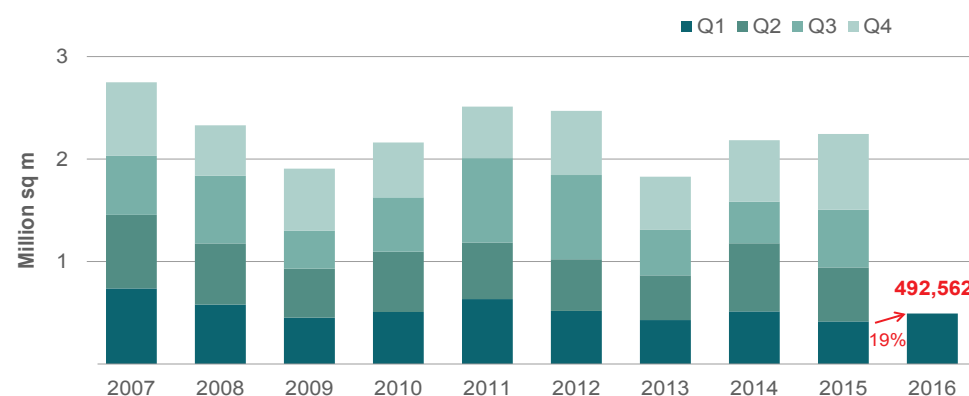
■ Take-up in the Outer Suburb stood at 58,845 sq m (up 14%). This result, which is reasonable for a start to the year, must be put in context, as it is still well below the results of previous years. Overall, the sub-sectors are showing signs of improvement, with the exception of St Quentin-en-Yvelines, which recorded a 93% decrease in activity.

### Less and less available space in Paris

■ The downward trend in supply, which began in Q3 2015, has intensified with immediate supply in the IDF standing at 3,837,000 sq m at the end of Q1 2016. The vacancy rate dropped to 7.3%, previously recorded back in Q3 2013.

■ Depending on the markets, the situation varies significantly. Not surprisingly, those sectors that

GRAPH 1  
**Take-up** An encouraging first quarter for 2016



Source: Savills

→ registered an increase in letting activity saw their vacancy rates fall.

■ Paris has seen a sharp decrease in immediate supply (down 15.5%). Vacancy rates in the central arrondissements are below the 5% mark: immediate supply in the CBD has dropped by 21%.

■ The vacancy rate in La Defense has been trending downwards since Q4 2015, dropping to 8.3% (Q2 2013 level). As a direct result of strong leasing

activity, immediate supply has decreased since Q3 2015 from 397,000 sq m to 310,000 sq m.

■ The Western Crescent presents a more varied picture. All sectors, with the exception of Peri-Defense, saw their vacancy rates fall and a contraction of immediate supply at the end of Q1 2016. The Peri-Defense sector was particularly affected by the increased competition in La Defense (vacancy rate of 17.5% - the highest in the IDF).

■ As a direct result of weak rental activity in the Inner and Outer Suburb, there has been an increase in the levels of immediate supply (y-o-y increase of 6.3% and 5.9% respectively).

## Rents on the up

■ The most dynamic markets registered slight increases in their prime rents at the end of Q1 2016. Prime rents in the CBD climbed to €736 per sq m/year (up 1.4% compared to Q1 2015). The prime rent in La Defense reached €548 per sqm/year (up 2.4%). Up 9%, prime rental levels in the Western Crescent reached €524 per sq m/year: the Boucle Nord subsector recorded the best performance in the IDF in Q1 2016 with an increase of 32% (€345 per sq m/year).

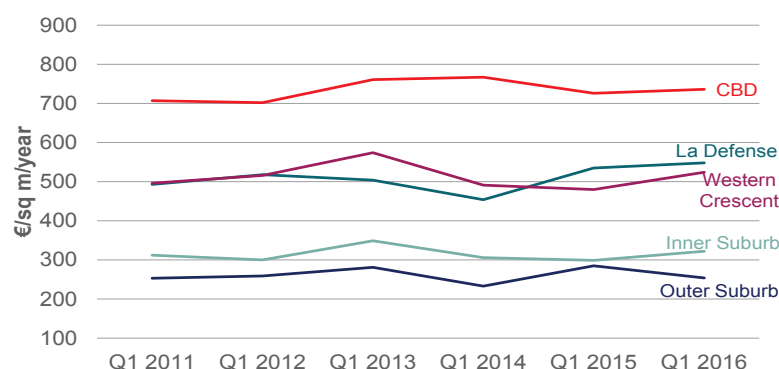
## Outlook

■ Prime rental levels in the most sought after sectors will continue to rise.

■ Tenant incentives will remain, but will reduce to an average of two months rent-free per year of fixed commitment, as opposed to the two and half months we are currently seeing.

■ In the more dynamic sectors, users will need to be quicker off the mark and shorten their reflection and decision-making times. ■

GRAPH 2 **Rental values** Prime rents are increasing except in the Outer Suburb



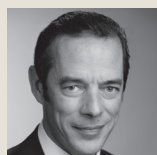
Source: Savills

## Savills France

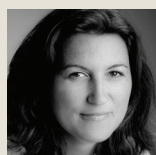
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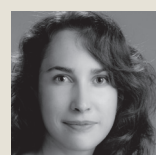
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