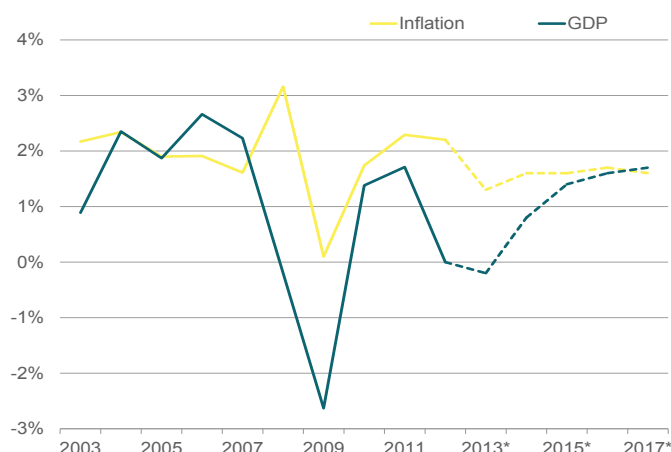


# Market report Ile-de-France Offices

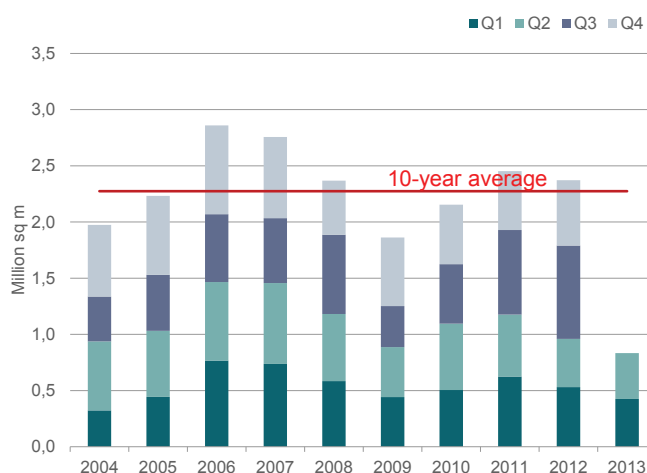
H1 2013

GRAPH 1  
**Economy** Recovery is slower than expected



Graph source: Focus Economics / \* forecast

GRAPH 2  
**Take-up** The slump persists



Graph source: Savills, Immostat

## SUMMARY

### The letting market has slowed again

■ In Ile-de-France, 832,874 sq m was let in H1 2013, down 19% against H1 2012. Whereas demand in Paris, and Inner and Outer Suburbs has fallen by 15%, 25% and 45% respectively, it has risen by 17% in the Western Crescent.

■ Floor space exceeding 5,000 sq m accounted for 32% of take-up in Ile-de-France. Volumes transacted within this size segment have contracted compared to H1 2012, due to a fall in very large transactions (exceeding 15,000 sq m) over the first half of 2013.

■ Available supply in Ile-de-France, which stands at 3,684,000 sq m, has increased somewhat (up 2.8% against Q1 2013). The vacancy rate has almost stabilised at 7.1%, concealing persistent disparities in the submarkets. There are pockets of scarce supply, notably in inner Paris.

■ Prime CBD rent has fallen 3% to stand at €730 net per sq m/year. The average prime rent in Ile-de-France is €310 per sq m/year for 2013, compared to €319 per sq m/year in Q1 2013. Negotiation is commonplace and tenants have the upper hand. Landlords are ever more fearful of

tenants vacating and they may well agree to rent reductions, as well as several months of rent-free periods.

.....  
“Signs are positive in the Western Crescent, where take-up is up 17% and the proportion of over-5,000 sq m property transactions is 47%.”  
Marie-Josée Lopes, Head of Research  
Savills  
.....

## → Economic background

The lacklustre economic situation continues to prevail in France. Following a 0.2% drop in GDP during Q1 2013, Focus Economics anticipates a second fall in Q2 (-0.1%) but a slight recovery from Q3 2013 onwards (+0.2%).

By the mid-year point, unemployment had risen to 10.8% (against 10.6% in Q1 2013). According to Focus Economics, this trend could continue into 2014. In just one year, the number of jobs in the traded sector fell by 0.7%, though that particular trend did ease up in Q1 2013 (8,300 redundancies compared to 41,200 in Q2 2012). A rise in temporary employment (+2.69% in Q1 2013) enabled the commercial sector to post positive results in the early part of the year, with 13,300 jobs created.

French consumers also saved less in 2012. Their savings rate hardened by 40 points to 15.6%, though this was not enough to make up for the loss of their individual purchasing power, which, according to INSEE, fell by a historic 1% in 2012. The previous fall, at 0.1%, happened in 2011. This decline is notably the result of continued rising unemployment, low pay rises and the new tax increases.

The impact on consumption has, however, been limited, and a return to a month-on-month increase was recorded in May (+0.5%) thanks to a revival in food purchases.

“Economic forecasts have not yet given sufficiently reassuring indications in order for the letting market to pick up.” Raymond Genre Grandpierre, Director of Savills

The economic indicator slump has had a negative toll on the French consumer confidence, and the confidence index, in decline for several months (78 in May), has reached a new low.

## Take-up and demand

832,874 sq m of office space was let in H1 2013, a 19% drop compared to the first six months of 2012. This decline continued on the second quarter, resulting in the weakest Q2 performance registered over the past 10 years (407,472 sq m). France's entry into a phase of debt repayment has temporarily slowed down office user's real estate plans, who are now investing less in their businesses, due to fears of there being a potential increase in taxes and contributions.

In Ile-de-France, letting activity in all large submarkets is down, except for the Western Crescent. Take-up in Paris has fallen for the third consecutive year. In H1 2013, 321,493 sq m were let, 15% less than in H1 2012. Despite this continued downward trend, there has been a reasonable amount of annual take-up since 2010, with activity generally picking up again over the course of the second half of the year. Paris accounted for 39% of the

volume let in Ile-de-France in H1 2013.

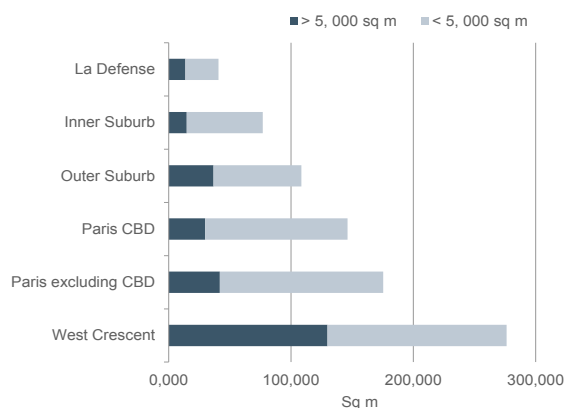
La Defense has continued to trend downwards, registering the weakest six-months of activity for the past decade, with 40,726 sq m let, which is a 4% drop compared to H1 2012. In this traditionally large-transaction market, only one large deal was transacted - 13,627 sq m let by Fidal. Nevertheless, the new wave of “green” towers could lure back occupiers that are more image conscious. La Defense only accounted for 5% of take-up in Ile-de-France.

Activity in the Inner and Outer Suburbs has slowed sharply, falling by 25% and 45% respectively to 85,915 sq m and 108,516 sq m let in H1 2013. This partially explains the fall in the number of large transactions, which were numerous in 2012 (17 in the first six months of 2012 compared to five in the same period in 2013). For example, France Telecom (69,000 sq m in Chatillon), Sanofi Pasteur (50,000 sq m in Gentilly) and Thalès (49,000 sq m in Vélizy-Villacoublay). The Inner and Outer Suburbs accounted for 10% and 13% respectively of the first semester's take-up in Ile-de-France.

The Western Crescent, which

GRAPH 3

**Large transactions** The Western Crescent has seen a great deal of activity



Graph source: Savills

GRAPH 4

**Supply** Available supply has risen slightly



Graph source: Savills, Immostat

accounted for 33% of take-up in Ile-de-France, is the only large sector to have seen significant growth in 2013 (+17%). The best-performing cities, Neuilly-sur-Seine, Boulogne-Billancourt and Issy-les-Moulineaux, accounted for 60% of take-up. The Western Crescent benefits from an extremely wide range of supply, which suits both occupiers who are expanding and those who are seeking to reduce their costs. The growing share of transactions exceeding 5,000 sq m accounted for 47% of the 276,224 sq m let over the first half of the year.

Rationalisation of space continues to be one of the key drivers of the Ile-de-France letting market. However, its impact on demand has started to have less of an effect, as most of the companies concerned - primarily the large ones - have already carried out their relocations and regrouping. In H1 2013, the number of transactions exceeding 5,000 sq m edged down. This was particularly the case for over 15,000 sq m transactions, which fell from 21% to 13% year-on-year. Major transactions in this period included the pre-letting of Citylights, a 40,000 sq m building in Boulogne-Billancourt, signed by GE Real Estate at a rent of €450 per sq m/year, and the acquisition of 20,000 sq m of undelivered space in Guyancourt by Cr dit Agricole. The same business sectors continue to drive office demand. On the one hand, banking and insurance, retail and the financial/legal sector (Moody's France took 2,257 sq m in Saint-Cloud for €240 per sq m/year).

On the other hand, the luxury goods sector has improved and still continues to see an increase in sales. Active occupiers include: Chanel that let 2,937 sq m in Neuilly-sur-Seine, in its third signing in two years, and Yves-St-Laurent that let 2,287 sq m in Paris's 7th arrondissement at a prime rent of €810 per sq m/year. Lastly, the presence of multimedia/communications and, in particular, e-commerce is on the up. Companies in these business sectors are performing very well and are taking an interest in offices ranging from 1,000 sq m to 2,000 sq m inclusive, which are located in the Inner Suburbs and, increasingly, in the more fashionable parts of Paris. During the first six months of 2013, Le Bon Coin relocated to a 2,707 sq m space in the CBD with a headline rent of €600 per sq m/year. Webmedia, Le Guide.com and Mac Guff, among others, also let offices in Paris. These business sectors will continue to create jobs, albeit in moderation, and will continue to take space in 2013.

## Supply

Although available supply in Ile-de-France had contracted slightly since 2009, it edged up to reach 3,684,000 sq m in Q2 2013, which was a 3% increase compared to Q4 of 2012. Paris, the Western Crescent and the Inner Suburbs continued this trend, with variations ranging between +2% - +3%. Conversely, immediate supply in La Defense rose by 20%, as a result of large deliveries in recent months (Carpe Diem, Eqho, etc.). Lastly, supply

in the Outer Suburbs stabilised.

As at 30 June 2013, the vacancy rate in Ile-de-France rose slightly to 7.1%, compared to 6.9% at the end of 2012. The low vacancy rate in Paris (4.7%) is unsurprising, and is testament to the lack of supply in the area - this was particularly the case in the CBD, where the vacancy rate stood at 4.3%. The vacancy rate in La Defense stood at 7.5% at the mid-year point, implying a theoretical level of fluidity. The Western Crescent has been the sector with the highest level of supply in Ile-de-France, with a vacancy rate peaking at 14.3%. It is also the submarket with the largest amount of supply in the pipeline for the coming two years.

Despite the fact that market players remain cautious and there have been a limited number of speculative projects started, multiple projects should be delivered in Ile-de-France between now and 2016. New construction projects are predominantly pre-lets, turn-key or owner-occupied, particularly in the Inner and Outer Suburbs.

Over 5,000 sq m supply in Ile-de-France has risen to 4,200,560 sq m, of which 907,250 sq m is in Paris (24 schemes in the CBD, 11 in Central Western Paris excluding the CBD), 982,860 sq m in the Western Crescent (27 on the perimeter of La Defense, 18 in the Southern River Bend) and 737,800 sq m in La Defense (27 by the end of 2013). Deliveries are forecast to peak in 2014, primarily in Paris and the Western Crescent. In 2015, the number

TABLE 1

## Key data

	Take-up (sq m)		immediate supply (sq m)		Vacancy rate		Prime rents (� per sq m/year)	
	H1 2013	Annual evolution	Q2 2013	Annual evolution	Q2 2013	Annual evolution	Q2 2013	Annual evolution
Paris CBD	146,226	-4%	353,000	+1.4%	4.3%	�	730	�
Paris	321,493	-15%	759,000	+0.9%	4.7%	�	730	�
La Defense	40,726	-4%	251,000	+13.1%	7.5%	�	512	�
Western Crescent	276,224	+17%	1,000,000	+5.4%	14.3%	�	486	�
Inner Suburb	85,915	-25%	552,000	+2.6%	10.4%	�	368	�
Outer Suburb	108,516	-45%	1,122,000	-1.2%	8.2%	�	250	�

Table source: Savills, Immostat

→ of deliveries in the Inner Suburbs will increase again.

## Rents

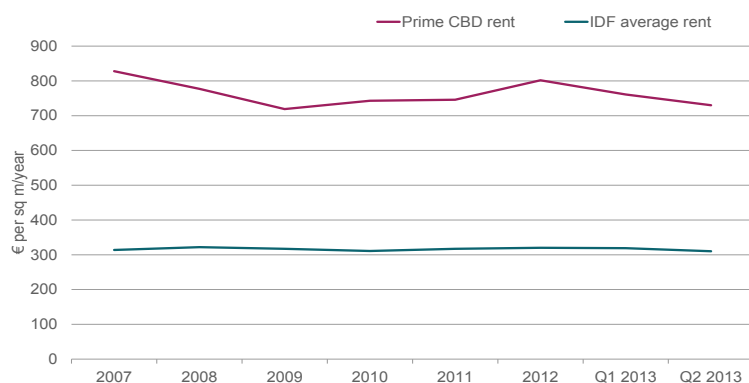
Falling rents are becoming ever more of a common occurrence in Ile-de-France. Prime\* CBD rent stood at €730\* per sq m/year, compared to €802\* per sq m/year in Q4 2012. The average rent, which is also falling, reached €310 per sq m/year, compared to €319 per sq m/year six

months earlier.

Negotiations are ever more common, regardless of the quality of the property to let. In addition to low rents, occupiers are often being granted several months of rent-free periods per year for signing long-term leases. Landlords are also becoming more worried about tenants vacating. There could be an increase in the number of rent renegotiations, which would both allow tenants to make savings and landlords to retain rental income. ■

GRAPH 5

**Rents** Falling rents are becoming more commonplace



Graph source: Savills, Immostat

## OUTLOOK

### Moving towards a two-tier market

■ Despite a dip, the letting market is showing signs of perseverance. The diverse range of supply and business sectors continues to be a major advantage and this is curbing the drop in take-up.

■ Although forecasts are counting on a very subdued economic recovery for the end of 2013, the lack of visibility is not encouraging occupiers to start new projects in the medium-to-long term. Hence, we can expect to see very much the same story in the second half of 2013.

■ Over 5,000 sq m transactions should boost the market again in the second half of the year, helping take-up reach close to the 2 m sq m mark by the end of 2013.

■ Rents will continue to fall, which will help to slightly improve the sluggishness of the markets, in particular those sub-markets with the largest amount of supply. Nevertheless, further transactions will be made in the prime market segment and on occasions values will exceed €800 per sq m/year.

**Note \*:** New calculation method: weighted average of the three rents agreed over the course of the past six months.

## Savills team

Please contact us for further information



**Hervé Blanchet**  
Head of Paris  
+33 1 44 51 73 21  
hblanchet@savills.fr



**Raymond G. Grandpierre**  
Director  
+33 1 44 51 73 19  
rgg@savills.fr



**Pierre-Antoine Matrand**  
Director  
+33 1 44 51 73 22  
pamatrand@savills.fr



**Marie-Josée Lopes**  
Head of Research  
+33 1 44 51 17 50  
mjlopes@savills.fr

### Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 500 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.