

France
Q3 2019

The office market in the Greater Paris Region



Key office figures for the Greater Paris Region

> Q1-Q3 2019 take-up

1,655,150 sq m -11% y-o-y

Small space segment (<1,000 sq m) -3%

Medium space segment (1,000 – 5,000 sq m) +3%

Large space segment (>5,000 sq m) -29%

DOWN

UP

DOWN

Number of major transactions (>5,000 sq m)

50 vs. 59

DOWN

> Immediate supply (end of period)

2,790,000 sq m



> Proportion of new space

19 % vs. 15 %

UP

> Vacancy rate

5.1 %

DOWN

> Projects under construction, due in 3 years

2,240,000 sq m



> Proportion of pre-lets

41%

DOWN

> Prime rent (sq m/year)

€830

UP

€530

UP



Paris CBD

La Défense

> Av. 2nd-hand rent (sq m/year)

€624

UP

€433

UP



Key points

Almost 1.7 million sq m of take-up was recorded over the first 9 months of the year in the Greater Paris Region (-11% year-on-year); this is in line with the average of performances since 2000.

The medium space segment (1,000 - 5,000 sq m) was the only one to post a year-on-year increase in activity (+3% by volume).

Availability in the Greater Paris Region continued to fall with 2,790,000 sq m of vacant space by the end of September 2019 (-6% year-on-year) and a vacancy rate of 5.1%.

Prime and average rental values rose across most markets in the Greater Paris Region; the benchmark prime rent in the CBD now stands at €830 per sq m/year.

Key office figures for the Greater Paris Region

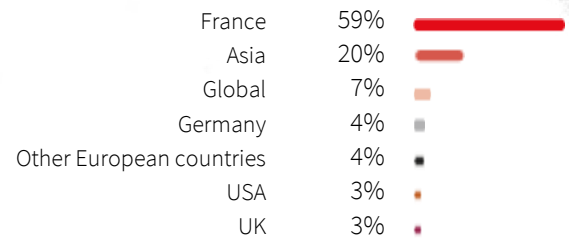
> Investment volume Q1-Q3 2019

€16.396 billion +25% y-o-y

> Asset type



> Purchaser nationality



> Transactions €50 - €100 million

33 vs. 33

STABLE



> Transactions >€100 million

40 vs. 36

UP



> Prime yield

2.75-3.25%

STABLE



Paris CBD

Key points

Year to date, the investment volume for the Greater Paris Region market stands at €16.4 billion; this is the highest level on record for this period for the last 10 years.

This volume was mainly driven by transactions in the >€100 million segment, including 3 transactions for lot sizes over €900 million.

With €13.8 billion in investments, office assets remained firmly in the majority (84%).

South Korean investors were particularly active over the last 9 months (20% of the overall activity). Prime yields for office and retail space may have remained stable over the last 3 months, but further compression was seen for logistics with yields now at 4.20%.

Economic climate

Economic climate - uncertainty persists

Global economy

The clouds are continuing to gather over the global economy with an escalation in the trade war between Europe and the United States; in response to Europe granting subsidies to AIRBUS, the World Trade Organisation (WTO) authorised the United States on 2 October to apply \$7.5 billion in import taxes on European imports. Next January, the WTO is due to issue its verdict against the United States on the same issue and Europe could impose up to \$10 billion in tariffs on American goods. This escalation will inevitably have an impact on global retail which has already started to slow.

Economic growth may have been higher than expected in some developed countries over H1 due to sustained domestic demand (particularly in the United States, Japan and Canada) but GDP rose more slowly than expected in most emerging economies in Asia and Latin America, while growth in India fell for the 5th quarter in a row.

Meanwhile, the United Kingdom is suffering from the effects of Brexit with a reduction in GDP (-0.5% over Q2) for the first time since 2012.

Growth in key countries

	Q2 2019
Developed countries	
<i>United States</i>	0,5
<i>United Kingdom</i>	-0,2
<i>Japan</i>	0,3
<i>Canada</i>	0,9
Emerging countries	
<i>China</i>	1,6
<i>India</i>	1
<i>Brasil</i>	0,4

Source: OCDE, Oxford Economics, National institutes

Eurozone

Growth also slowed in the Eurozone with just a 0.2% increase in GDP over Q2 compared with 0.4% over Q1. This decrease was primarily due to a slowdown in trade.

Germany, which is highly reliant on industrial output and exports, was particularly affected - German GDP fell by 0.1% over Q2 leading to fears of a recession this year.

Despite the difficult economic climate, unemployment continued to fall, reaching 7.4% in August. However, there are some marked disparities between countries with very low unemployment, such as Germany (3.1%) or the Netherlands (3.5%), and Greece (17%) or Spain (13.8%) where rates are highest.

After rising to 1.7% in inflation started falling again to 1.3% in June followed by 1.0% in July and August.

One positive point in the BREXIT process is that the British Prime Minister has just put forward an alternative suggestion for the backstop which could re-open discussions and lead to a deal.

Growth in key countries

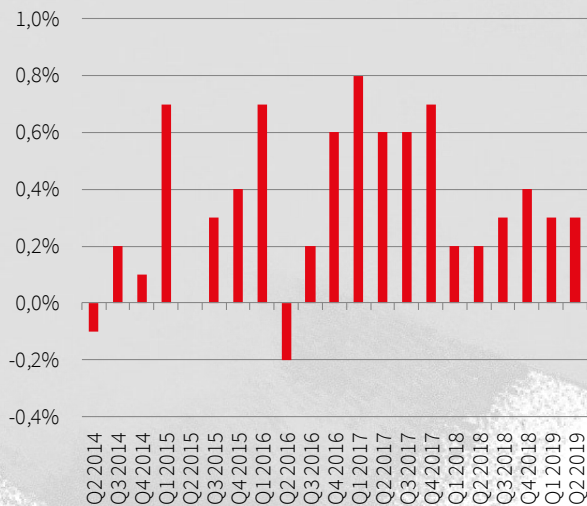
	Q2 2019
Eurozone	0,2
<i>Germany</i>	-0,1
<i>France</i>	0,3
<i>Italy</i>	0
<i>Spain</i>	0,5

Source: OCDE, Oxford Economics, National institutes

France

With 0.3% growth (a similar level to Q1), the French economy proved to be relatively resilient over Q2.

GDP in France (QoQ change)



Source: Insee

This sustained activity was mainly due to robust domestic demand. Tax reductions and the emergency measures announced by the government following the yellow-jacket movement have had a positive impact on household purchasing power which has also benefited from improvements in the job market with increases in salaries and household income. Consumption also rose by 0.2% over Q2 2019 following a 0.4% increase at the start of the year. There was also a marked improvement in householder confidence which, after falling to 87 in December 2018, has been rising. At 102 in August, levels have returned to above the long-term average.

The unemployment rate has continued to fall and stood at 8.5% in Q2; this is the lowest level for 10 years.

Inflation remains at around 1%.

Financial climate

Given the current economic climate, central banks have announced new monetary economic support measures, while a growing number of economists have called the effectiveness of such measures into question, particularly in terms of interest rates. The Fed, which introduced its first interest rate reduction in 11 years at the end of July, announced a further decrease in mid-September to between 1.75% and 2.00%. The Fed has also decided to stop its quantitative tightening and treasury-bond shedding programme 2 months earlier than planned.

At the Governing Council on 12 September, the ECB announced a series of measures:

- a 10-point reduction in the deposit facility rate (from -0.4% to -0.5%),
 - an increase in net asset purchases at the rate of €20 billion per month from 1 November and for as long as required,
 - more flexible terms for granting long-term loans (TLTRO) issued by the ECB to retail banks,
 - introduction of a 2-tier system for reserve remuneration in order to limit the impact of negative rates on bank returns.
- The ECB also stated that “interest rates should remain at their present or lower levels until the inflation outlook robustly converges to a level sufficiently close to, but below, 2% within its projection horizon.”

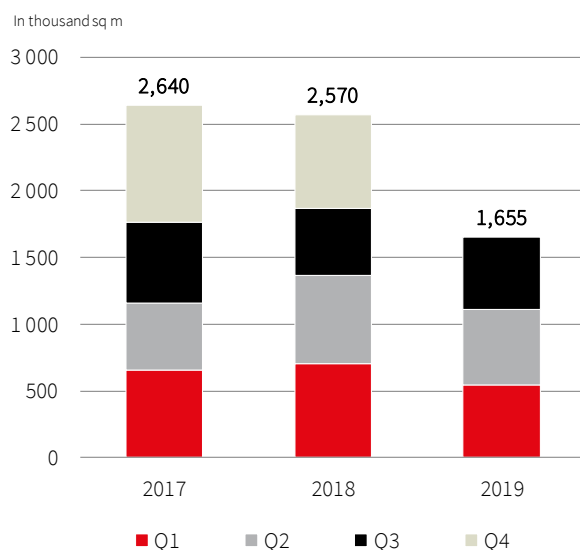
Rental market

Mixed performance

Sharp reduction in the large space segment

The office rental market remains **in line with the average** recorded over the same period since the 2000s. Transactions in the Greater Paris Region amounted to almost 1.7 million sq m over the first 9 months of the year; this is 11% lower than over the same period last year.

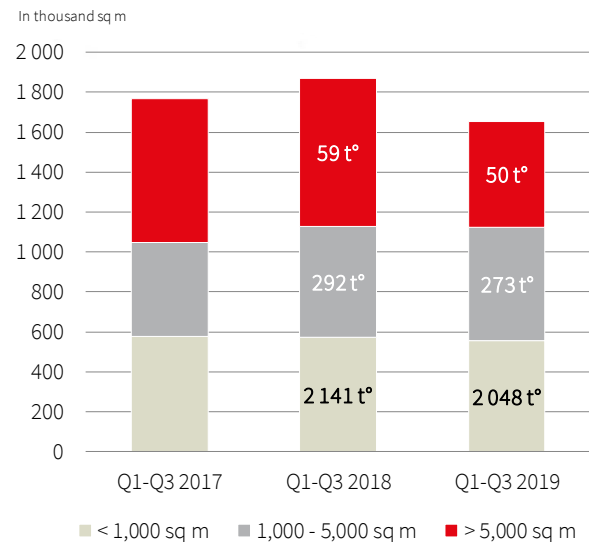
Total take-up



Source: JLL/ImmoStat

The medium space segment (1,000 - 5,000 sq m) was the only one to post a year-on-year increase in activity (+3% by volume) with ~571,000 sq m of take-up over 273 transactions. There was a slight decrease in the small space segment (-3%) with 555,000 sq m of take-up (2,048 transactions). For spaces from 1,000 to 5,000 sq m, the largest transactions (2,000 - 5,000 sq m) were the most active (+17% year on year). The most significant decrease was seen for large transactions, despite a reduction at the end of Q3 (-29% by volume with 529,000 sq m).

Take-up breakdown by surface area



Source: JLL/ImmoStat

This performance was also 20% lower than the levels seen since the 2000s. **50 transactions were recorded by the end of September 2019**, 9 fewer than a year earlier (-15% year on year). Co-working operators account for a substantial proportion of activity in this market segment with 9 transactions since the beginning of the year - although they were less active over Q3 with just one transaction for over 5,000 sq m.

In Paris, the lack of supply is encouraging businesses to renegotiate their leases and to take extensions, in their existing building when possible, or in nearby buildings or even co-working spaces. In addition, businesses in the CBD for example, that signed leases with favourable terms in 2010 or 2013, have little interest in committing to new leases as their rent, even when indexed, is lower than current market rates.

Higher volumes in the Inner Rim

Submarkets in the Inner rim secured the majority of take-up in the Greater Paris Region and accounted for **47% of activity** by the end of September 2019.

In Paris, there has been a year-on-year decrease in the transaction volume (-8%). This reduction was seen to a greater degree in Paris markets outside of the CBD (-12%) which are suffering from a persistent lack of stock.

Although still higher than the 10-year average, take-up in the Western Crescent fell sharply (-28%), this does however need to be considered in context as 3 transactions for spaces over 45,000 sq m were recorded last year for a total approaching 158,000 sq m. The Péri-Défense and the Southern Bend accounted for almost three-quarters of take-up in the Western Crescent. Levels in these 2 markets, therefore, stood at almost 121,000 sq m and 124,000 sq m respectively. The only year-on-year increase was recorded in the Northern Bend which saw strong activity in the small and medium space segments. Take-up in Neuilly-Levallois fell slightly (-2%) with just a single transaction for over 5,000 sq m recorded by the end of the period: DOCTOLIB's acquisition of "Sémaphore" (~12,000 sq m) in Levallois-Perret.

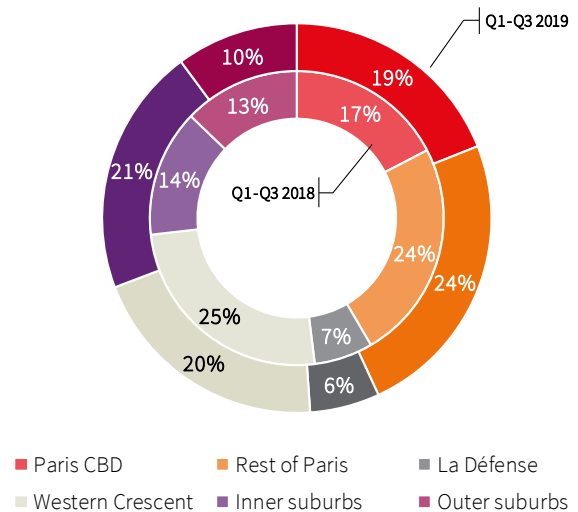
The La Défense rental market is still suffering from a lack of new supply, despite the arrival of new product over the short term. However, activity remains strong in the medium space segment (~58,000 sq m) which is traditionally based on second-hand and renovated supply.

The Inner Suburbs still posted the strongest performance with almost 341,000 sq m in transactions over the last 9 months; this is 31% higher than seen over the same period last year. This market is benefitting from a shift in business focus and is attracting attention due to its reasonable rents.

Results for all markets were above the 10-year average. The South remained stable year on year while the North and the East posted double-digit growth (38% and 91%). Year to date, the 5 largest transactions in the Greater Paris Region were for buildings in the Inner Suburbs, most of which were new space. In Q3, 2 new transactions for around 31,000 sq m each were recorded: SNCF's lease of additional space at the "Campus SFR" in Saint-Denis and another by CACEIS in "Académie" in Montrouge - this building was also sold to an investor this quarter. These transactions are an addition to 2 further transactions for spaces over 30,000 sq m: SOCIETE GENERALE in "Sakura" in Fontenay-sous-Bois and SOCIETE DU GRAND PARIS in "Moods" in Saint-Denis over H1 2019.

There was a sharp reduction in activity in the Outer Suburbs where 168,000 sq m of take-up was recorded (-30% year on year); this was due to a lack of major transactions: 6 compared with 9 last year. However, there were 2 transactions for spaces over 5,000 sq m this quarter including 5,200 sq m by French 'unicorn' IVALUA in the "Campus 2" building in Massy.

Take-up by geographic area
(Q1-Q3 2019 vs Q1-Q3 2018)

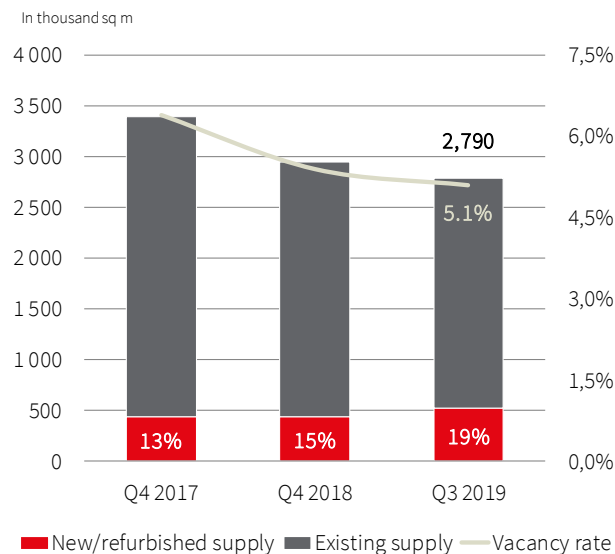


Source: JLL/ImmoStat

Immediate supply dips below 2.8 million sq m

Availability in the Greater Paris Region continued to fall with 2,790,000 sq m of vacant space by the end of September 2019 (-6% year on year) and a vacancy rate of 5.1%. New supply, which only accounted for 15% of overall supply last quarter, posted a slight increase over the last 3 months to 519,700 sq m or 19% of availability.

Immediate supply and vacancy rate



There is a persistent lack of supply in Paris and the vacancy rate posted a further decrease over Q3 2019 to an average of 2.2% and 1.3% in the CBD; these levels are clearly too low to ensure market fluidity.

Availability is falling across virtually all submarkets except for those where buildings have been delivered without having been pre-let, such as Paris 12/13 (2.6% compared with 2% in Q2) and Péri-Défense (15.7% compared with 14.6%).

Average rental values still rising

Prime rental values posted year-on-year increases in most markets across the Greater Paris Region. Some submarkets, such as Paris 3/4/10/11, or Paris 5/6/7, saw double-digit growth reaching €730 per sq m/year over Q3 2019. In the Paris CBD, a benchmark for the Greater Paris Region, the prime rent reached €830 per sq m per year (+4% year on year) due to a high level of transactions at rents over €800 as well as a few for well in excess of €850.

Despite the low level of market activity, the prime rent in La Défense remained at €530 per sq m/year following transactions recorded in “Cœur Défense”.

Average rents for second-hand space also continued to rise and reached record levels by the end of the year. The average rent in the Greater Paris Region therefore stood at €387 per sq m/year by the end of September 2019. Due to the growing imbalance between supply and demand in the CBD, average values have now been steadily rising for the last 4 years and have now reached €624 per sq m/year.

Prime headline rents (€/sq m/yr)



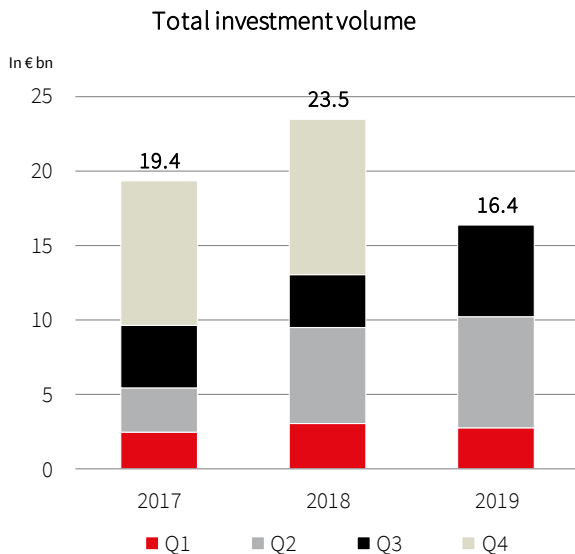
Incentives rose to 19.9% over Q2 2019 across the Greater Paris Region with a low-point of 9.4% in Paris - North East, 23.3% in the Inner Suburbs and 23.9% in Western Crescent and La Défense.

Investment market

New record possible for 2019

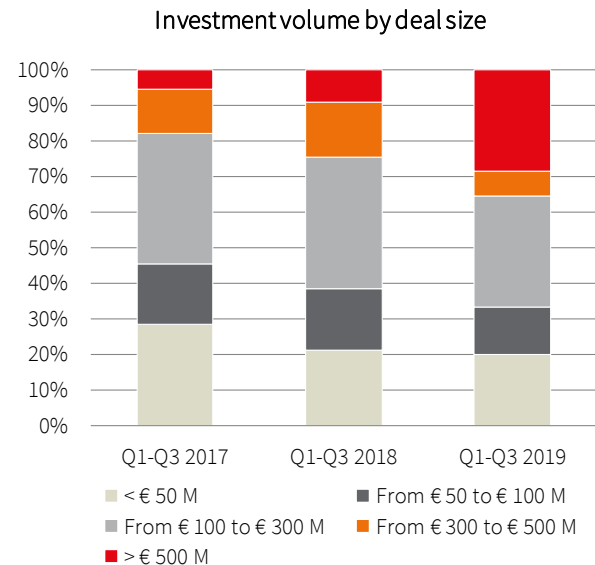
Record number of transactions

Investment was particularly active in the Greater Paris Region over Q3 2019 with a total of €6.2 billion taking the year-to-date investment volume to €16.4 billion; this is the highest level recorded for this period for the last 10 years. This represents a 25% year-on-year increase and is 62% higher than the 10-year average. The market is benefiting from an abundance of supply as low yields are encouraging sales, while market demand is consistently strong.



This volume was mainly driven by transactions for lot sizes over €100 million including 3 transactions for lot sizes over €900 million: SWISS LIFE AM's acquisition of a 28-asset portfolio (110,000 sq m) in the Central Business District from TERREIS for €1.8 billion, another by PRIMONIAL and SAMSUNG SRA for the "Le Lumière" site (120,000 sq m) from TISHMAN SPEYER for approximately €1.2 billion as well as MIRAE ASSET DAEWOO and AMUNDI IMMOBILIER's

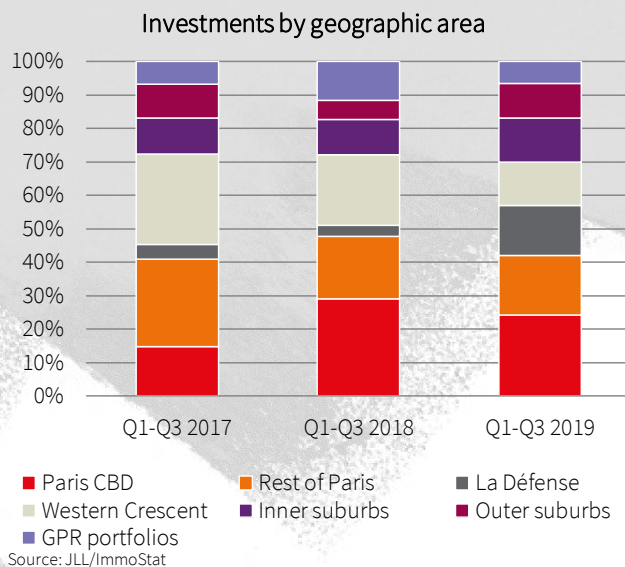
acquisition of the "Majunga" tower from UNIBAIL RODAMCO in Q3 2019 for €910 million. This represents a stark contrast with 2018 when no transactions on this scale were recorded. A total of 40 transactions have been seen in this market segment since the beginning of the year with an overall volume of €11 billion; this is higher than figures recorded in 2018 (36 transactions for €8.1 billion) and constitutes the second-best performance on record after 2007.



In addition, the under €50 million segment achieved a record performance with over €3.2 billion in investments over 173 transactions since the beginning of the year. Year to date, a record level of 246 disposals have been recorded in the Greater Paris Region investment market.

Record volumes for several submarkets

After having posted record figures in 2018, Paris continues to perform well with €6.9 billion in investments setting a new record despite high prices. This performance is closely linked to the transaction for “Le Lumière” as well as activity in the CBD which also posted a record performance with almost €4 billion in investments since the beginning of the year. SWISS LIFE AM’s acquisition of a 28-asset portfolio made a major contribution to these results.



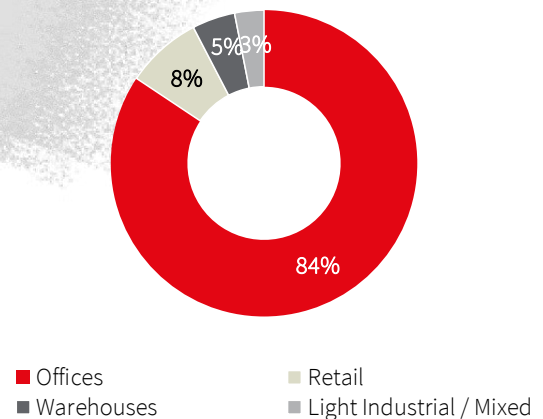
La Défense, which had struggled in 2017 and 2018, has been far more active over 2019 with almost €2.5 billion in investments over 7 transactions, 4 of which were carried out by South Korean investors.

A record investment volume was also seen in the Inner Suburbs with over €2.1 billion, including an unprecedented €1.1 billion in the Southern Inner Suburbs. In the Western Crescent, the volume may have fallen by 23% but Neuilly-Levallois posted a record performance with over €1 billion in investments; this was largely due to ICADÉ’s disposal of the “Crystal Park” project.

3rd best performance on record for offices

Offices continued to account for the vast majority of investments in the Greater Paris Region (84%). With €13.8 billion in investments since the beginning of the year (+24% year-on-year) offices posted their third best performance on record after 2006 and 2007. Core assets, which were already in the majority over H1 2019, were particularly sought after over Q3 2019. They therefore accounted for 53% of transactions and almost 2/3 of the investment volume. Conversely, there were fewer value-add transactions this quarter accounting for just 13% of the investment volume.

Investments by asset type- Q1-Q3 2019



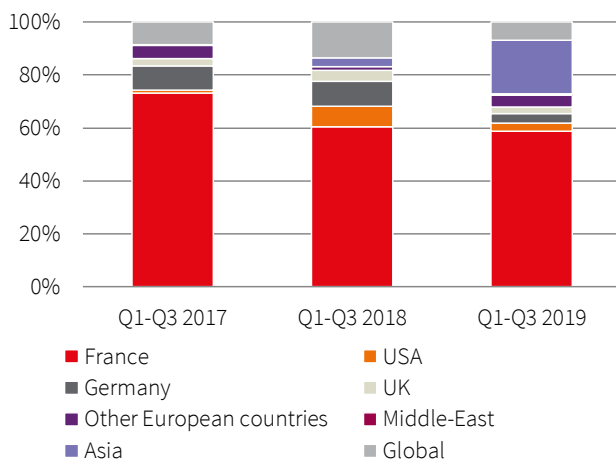
Retail investments, which made a rather timid start to the year, recovered quarter-on-quarter. Since the beginning of the year, they have accounted for over €1.3 billion in investments (+20% year-on-year) with 10 transactions more than last year.

Finally, industrial assets continued to perform particularly well. With €743 and €500 million in investments, warehouses and light industrials posted increases of 72% and 38% respectively.

South Korean investors still active

Foreign investors were just as active as in 2018 and have accounted for **41% of investments** since the beginning of the year. The highlight of Q3 was the **surge in South Korean investor activity** which has taken their proportion of investments since the beginning of the year to 20% with a total of 8 core and core+ transactions, 4 of which were carried out over Q3 2019. Activity by International, German, American and British funds has fallen over the last 9 months in comparison with the same period in 2018 with these groups accounting for 7%, 4%, 3% and 3% of investments respectively.

Investment volumes by nationality



Source: JLL/ImmoStat

Institutional investors retained their leading role in the market with €4.2 billion in investments over the last 9 months or 30% of activity. Next in line were **investment funds (27%)** and **SCPI/OPCI (25%)**.

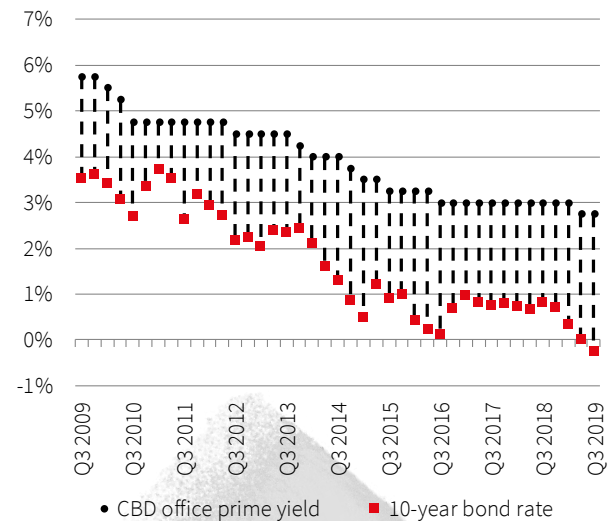
Further yield compression for logistics

Following further compression over Q2 2019, prime office yields remained stable over the last 3 months across all submarkets in the Greater Paris Region. With the French risk-free rate at -0.27%, prime office real estate in the Paris CBD offers a particularly high risk premium (302 basis points).

The prime yield for retail also remained stable over Q3 2019 at 2.75% for high-street retail, 5.00% for the best retail parks and 4.75% for shopping centres.

However, further compression was seen for logistics with a prime yield that now stands at 4.20%.

Risk premium



Source: JLL/Banque de France

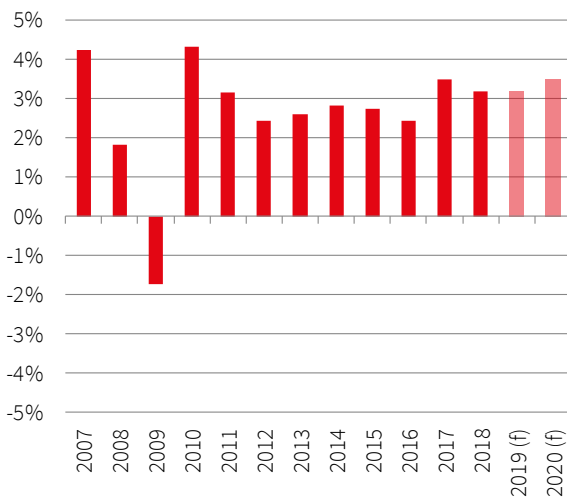
Outlook

Growth forecasts revised down again

Economy

Given the trade tensions and the various uncertainties currently seen in the market, **economists have once again revised down global growth forecasts.**

Global growth

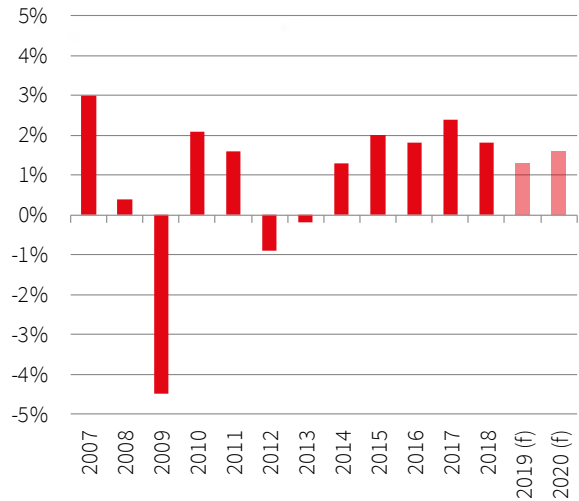


Source: IMF

Last quarter, the **IMF** had forecast global growth to stand at 3.3% in 2019, but has **recently revised down its projections.** GDP growth should therefore stand at **3.2% for 2019 and 3.5% for 2020.** The **OECD** is less optimistic with forecasts of 2.9% and 3.0% respectively or -0.3 and -0.4 points compared with last quarter.

Forecasts for the Eurozone range from 1.1% according to the latest Consensus Forecasts and 1.3% according to the IMF, while **growth should range from 1.1% to 1.6% in 2020.** Germany, for which growth expectations have been sharply cut by the OECD, should see just a 0.5% increase in GDP in 2019, followed by 0.6% in 2020.

Growth in the Eurozone



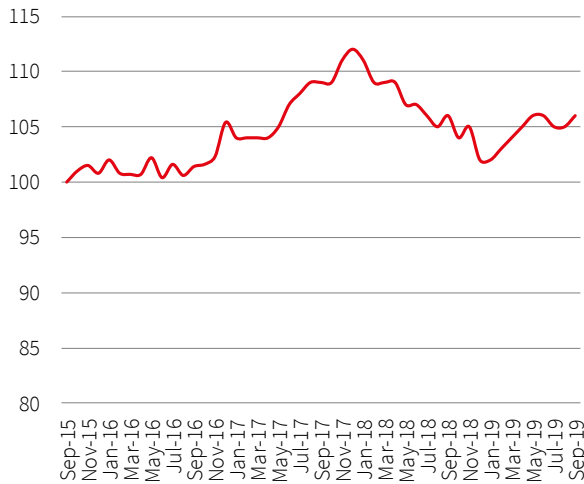
Source: Banque mondiale, IMF

Despite this more challenging international climate, **forecasts for France have remained unchanged at 1.3% for 2019 and from 1.2% and 1.4% for 2020.** France should outperform its European neighbours due to strong domestic demand and a dynamic employment market. **The unemployment rate should continue to fall throughout 2020 and 2021 to below 8%.**

This is due to positive figures seen in the **business climate** (106 points in September) and the **PMI Markit index** which, despite a decrease in September (50.8), remains above the expansion threshold.

However, these forecasts are subject to variations on an international level as well as to the effects of possible social demonstrations as a result of pension reform. Despite this risk, the IMF is encouraging countries to continue to implement reforms in order to secure future growth.

Business Climate Index



Source: Insee

Rental market

The rental market in the Greater Paris Region is currently suffering due to uncertainty in the economic climate, a lack of supply, the arrival of coworking operators as well as record rents in some submarkets; these factors are encouraging some businesses to renegotiate their leases or to move to more affordable markets. Given these various factors, a take-up of around 2.2 million sq m in 2019 appears to be the most plausible outcome.

There will be more deliveries in 2020 than in 2019 with over 1 million sq m. Although the level of pre-lets remains high, these deliveries will bring a welcome influx of new space to several markets and rebalance levels of supply and demand in favour of tenants. Given that the market is slowing, changes in supply will need to be closely monitored in 2020. The vacancy rate in the Greater Paris Region, which stands at 5.1%, should fall further by the end of the year before rising slightly in 2020.

Prime rental values should stabilise at current levels in most markets. Average rents should continue to rise, particularly in Paris where supply remains under pressure.

Investment market

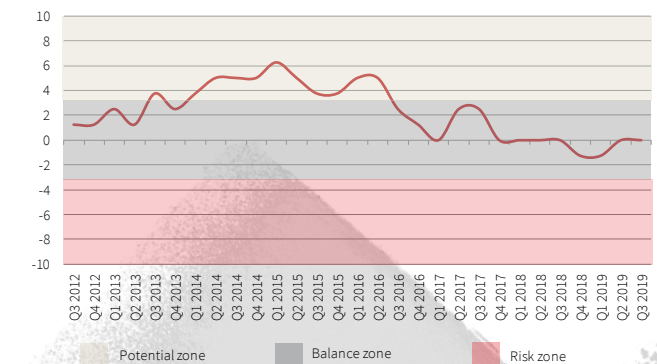
Despite decline in the economic climate, the French investment market's attractiveness remained intact over Q3 2019.

Finance conditions are still favourable and there is still a substantial volume of capital to be invested in France, particularly following a record level of SCPI fundraising over H1 2019 (€4.3 billion) combined with continued foreign investor activity.

Given this climate, we expect the investment volume to at least match 2018 figures with €24 billion in the Greater Paris Region and €8 billion outside of the Greater Paris Region.

With the prime rent considerably higher than the long-term average and a risk premium (302 basis points) that is far higher than the long-term average (223 basis points), the JLL potential indicator, which analyses the capacity for value creation in the Greater Paris Region, remains in the balanced zone at 0.

JLL potential indicator



Source: JLL/ImmoStat/Banque de France

Paris

40-42 rue La Boétie
75008 Paris
T: +33 (0)1 40 55 15 15
F: +33 (0)1 46 22 28 28

Saint-Denis

3 rue Jesse Owens
93210 Saint-Denis
T: +33 (0)1 40 55 15 15
F: +33 (0)1 48 22 52 83

Le Plessis-Robinson

“La Boursidière” - BP 171
92357 Le Plessis-Robinson
T: +33 (0)1 40 55 15 15
F: +33 (0)1 46 22 28 28

Lyon

“King Charles” - 132 cours
Charlemagne 69002 Lyon
T: +33 (0)4 78 89 26 26
F: +33 (0)4 78 89 04 76

Marseille

21 rue de la République
13002 Marseille
T: +33 (0)4 95 09 13 13
F: +33 (0)4 95 09 13 00

Bordeaux

Spaces Bordeaux Euratlantique
Ilôt quai 8.2 – Bât. E1, rue d’Armagnac
33800 Bordeaux
T: +33 (0)5 40 25 58 96

Lille

46 rue de Valenciennes
59000 Lille
T: +33 (0)3 20 17 93 10
F: +33 (0)1 46 22 28 28

Rennes

20 rue d’Isly
35042 Rennes Cedex
T: +33 (0)1 40 55 15 15
F: +33 (0)1 46 22 28 28

Contacts

Delphine Mahé
Market Research Director
Research department
T: +33 (0)1 40 55 15 91
delphine.mahe@eu.jll.com

Manuela Moura
Office consultant Greater Paris Region
Research department
T: +33 (0)1 40 55 85 73
manuela.moura@eu.jll.com

Anas Alioua
Investment consultant
Research department
T: +33 (0)1 53 75 86 74
anas.alioua@eu.jll.com

www.jll.fr

Jones Lang LaSalle

© 2019 Jones Lang LaSalle IP, Inc. All rights reserved. The information contained in this document is proprietary to Jones Lang LaSalle and shall be used solely for the purposes of evaluating this proposal. All such documentation and information remains the property of Jones Lang LaSalle and shall be kept confidential. Reproduction of any part of this document is authorized only to the extent necessary for its evaluation. It is not to be shown to any third party without the prior written authorization of Jones Lang LaSalle. All information contained herein is from sources deemed reliable; however, no representation or warranty is made as to the accuracy thereof.