PARIS VISION

DETAILED UPDATE WITH FIGURES

The letting market in the Greater Paris Region in Q1 2015

TRUMP CARD

The resounding form of the CBD and central markets compared to the weaker outskirts

Letting market trends at the start of 2015 have been disappointing. A 25% drop in transaction activity is indeed severe and casts doubt on the recovery initiated last summer.

However, a more detailed analysis of the figures reveals a more complicated – and no doubt more reassuring – picture.

What emerges is the continuous progress, and therefore solidity, of the markets at the heart of Greater Paris, at the expense of its outskirts.

Transaction activity: The CBD again and again has come to the fore, accounting for 26% of transaction activity in Q1 2015, which is well above the 17% observed on average over the past five years. Though the start of 2014 had already been satisfying, the CBD continued its rise (up 5% compared to Q1 2014) by drawing on the dynamism of small transactions (under 1,000 sq m). This segment is its traditional mainstay (which rose 27% in the CBD) and it thus offsets the slowdown noted on surface areas exceeding 5,000 sq m. Moreover, such a slowdown was inevitable because of the exceptional Q1 2014 in the CBD, with five transactions exceeding 50,000 sq m in total. Ultimately, it is limited anyway since the CBD still attracted three large users in Q1 2015 (for a volume of 29,000 sq m), which is more than its cruising speed.

The rest of inner Paris and La Défense also posted satisfactory, indeed good, results. In fact, the rise in transaction activity was spectacular (up 87% for Paris 5/6/7 or up 500% for Paris 18/19/20) even if it was greatly amplified by much lower activity volumes than in the CBD and therefore much more volatile. All these markets are benefiting from users turning towards the most central locations, which are real commercial and human resources assets. As in 2014, these assets, together with price stability, are a powerful driver of the letting activity.

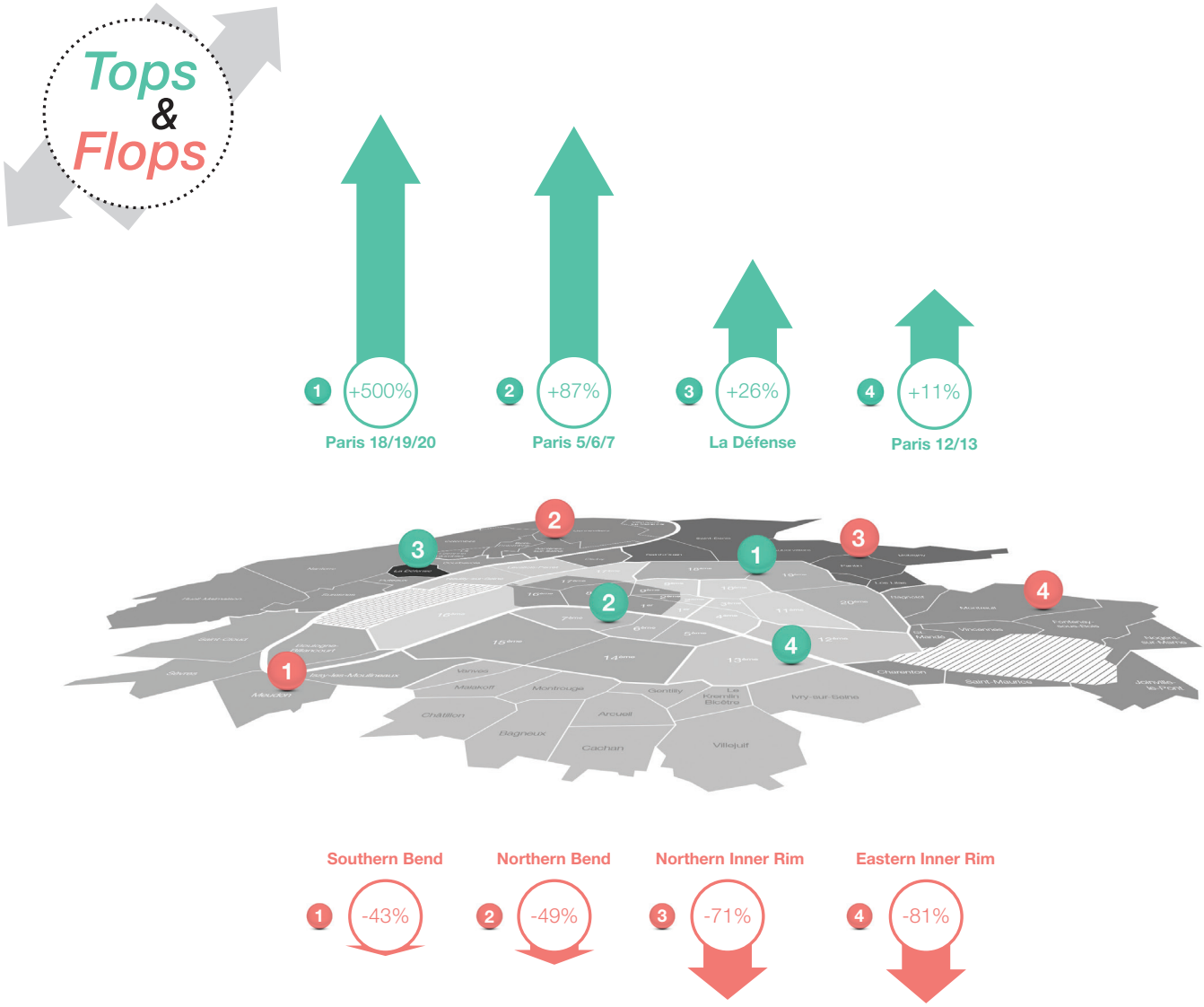
So, glory to the victors… And woe to the vanquished. At least it appears that way.

In fact, the contrast is striking with the markets situated on the outskirts of the city centre. Here transaction activity has fallen sharply, penalised by the slowdown in volumes consumed through transactions exceeding 5,000 sq m. The latter are the usual market driver in the Western Crescent and the Inner Rim.

However, an analysis of the withdrawal of major users must also be explained. In the segment of surface areas from 5,000 to 20,000 sq m, in view of the very high activity observed at the end of last year, this drop is not abnormal or alarming (down 10% compared to Q1 2014 in the Greater Paris region). A real estate search of this size would take some time to generate and finalise.

However, where the drop is indisputable, is in the segment of surface areas exceeding 20,000 sq m. There has been no corresponding transaction registered since the start of 2015, whereas there were three in Q1 2014. In total, close to 110,000 sq m have disappeared. This accounts for the bulk of the drop in transaction activity in the Greater Paris region and therefore in the outskirts. All of which means that there is reason here to put fears into perspective, because need we recall that out of the three very large transactions at the start of 2014, two were carried out outside of the traditional letting market.

Take-up in Q1 2015



Immediate supply and future supply: Available supply has avoided being negatively impacted by the fall in transaction activity. The surface areas immediately available to let or sell are slightly down compared to the end of 2014 (down 1%, with a total of 3,973,000 sq m in the Greater Paris region).

The paradox is that at the same time the vacancy rate has slightly increased, up to 7.5% on the regional average, compared to 7.3% three months earlier. However, this paradox is only an outward discrepancy and is explained by a contraction in office stock, which originates from two phenomena: the increase in restructuring projects, which has led to the withdrawal of certain buildings during the work; a change in the statistical approach of office space of less than 100 sq m, exempt from the Office Tax, and which has led to the withdrawal of a sizeable number of surface areas. The different rises in vacancy rates observed in several market sectors are therefore to be measured by this yardstick and must be set in context.

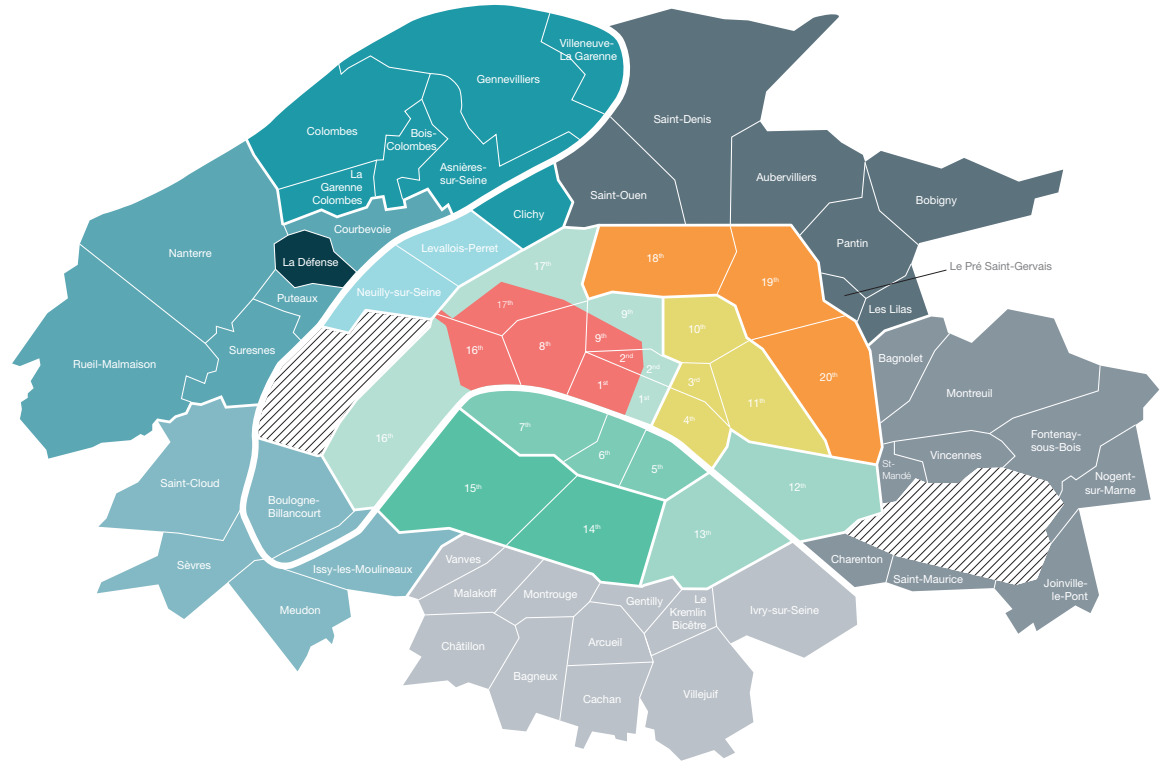
The performance of inner Paris, which, with a 5.0% vacancy rate remains well below the regional average, is all the more remarkable. In fact, this sector is one of those that have, due to its existing buildings, the most small office surface areas.

Therefore, immediate supply has not changed trend in Q1 2015. What was true before remains so: supply has quantitatively fallen on the most central markets and it lacks quality. Therefore, Grade A supply fell to 17% in the Greater Paris region at the end of March 2015. It was still 22% one year earlier and 18% at the end of 2014. To explain the shortage, we only need recall that 81% of the surface areas consumed through large transactions in 2014 in the Paris region corresponded to Grade A.

However, this start to 2015 perhaps provides hope in this regard. For several months, the number of constructions and projects has risen, particularly concerning the restructuring of office buildings. There will be many more Grade A surface areas arriving on the market and this should lead to a rebalancing between supply and demand with regard to the quality of the surface areas. But construction is often long and we should not expect any real change before 2016.

Rent: With regard to rent, above all Q1 2015 was marked by continuity. Little or no change. Apart from a few adjustments inside inner Paris, prime headline rents for the best buildings remain identical and the differences between geographical sectors unchanged. The CBD and Paris 5/6/7 rent at €750, followed by Paris 12/13 and La Défense at €540.
Of course, here it is not only headline rents. Users continue to regularly obtain significant incentive measures, often comprised between 10 and 15% in the CBD, 12 to 20% in the remainder of inner Paris and can rise up to 25% outside Paris.

HIGHLIGHTS IN Q1 2015



- Paris CBD
- Paris Centre West (excl. CBD)
- Paris 5/6/7
- Paris 12/13
- Paris 14/15
- Paris 3/4/10/11
- Paris 18/19/20
- La Défense
- Northern Bend
- Neuilly/Levallois
- Péri-Défense
- Southern Bend
- Northern Inner Rim
- Eastern Inner Rim
- Southern Inner Rim

Quarterly results and change compared to Q1 2014

Area	Take-up (sq m)	Change in take-up	Market share in regional take-up	Vacancy rate at the end of the quarter	Change in vacancy rate (in basis points)	Prime rent (€/sq m/ year)	Change in prime rent
Paris CBD	**99,700**	**5%**	**26%**	**5.4%**	**5**	**750**	**-**
Paris Centre West (excl. CBD)	**25,600**	**3%**	**7%**	**6.3%**	**-65**	**540**	**-4%**
Southern Paris							
Southern Paris / Paris 5/6/7	23,500	87%	6%	2.2%	-35	750	-
Southern Paris / Paris 12/13	8,700	11%	2%	3.6%	-30	540	-4%
Southern Paris / Paris 14/15	18,900	-6%	5%	4.3%	70	450	-
Total Southern Paris	**51,100**	**26%**	**14%**	**3.6%**	**10**	**/**	**/**
North Eastern Paris							
North Eastern Paris / Paris 3/4/10/11	10,100	9%	3%	5.7%	250	480	14%
North Eastern Paris / Paris 18/19/20	10,300	500%	3%	5.8%	10	370	9%
Total North Eastern Paris	**20,400**	**104%**	**5%**	**5.7%**	**145**	**/**	**/**
Total Paris intra-muros	**196,800**	**15%**	**52%**	**5.0%**	**20**	**/**	**/**
La Défense	**18,900**	**26%**	**5%**	**11.6%**	**-110**	**540**	**2%**
Western Crescent							
Western Crescent / Nothern Bend	12,900	-49%	3%	15.3%	180	350	6%
Western Crescent / Neuilly/Levallois	14,500	-34%	4%	11.1%	75	560	-10%
Western Crescent / Péri-Défense	26,200	-32%	7%	13.6%	-265	350	2%
Western Crescent / Southern Bend	20,900	-43%	6%	11.0%	65	490	2%
Total Western Crescent	**74,500**	**-39%**	**20%**	**12.8%**	**-**	**/**	**/**
Inner Rim							
Inner Rim / Northern Inner Rim	15,300	-71%	4%	9.2%	50	325	-7%
Inner Rim / Eastern Inner Rim	4,800	-81%	1%	7.8%	-70	300	-3%
Inner Rim / Southern Inner Rim	13,300	-26%	4%	9.9%	25	360	3%
Total Inner Rim	**33,400**	**-65%**	**9%**	**9.1%**	**5**	**/**	**/**
Outer Rim	**53,800**	**-46%**	**14%**	**6.3%**	**70**	**/**	**/**
TOTAL PARIS REGION	**377,400**	**-25%**	**100%**	**7.5%**	**25**	**/**	**/**

Sources: Knight Frank, ORIE

Year-on-year results and change compared to year n-1

Area	Take-up (sq m)	Change in take-up	Market share in regional take-up
Paris CBD	**382,500**	**8%**	**19%**
Paris Centre West (excl. CBD)	**84,800**	**-38%**	**4%**
Southern Paris			
Southern Paris / Paris 5/6/7	65,000	142%	3%
Southern Paris / Paris 12/13	78,100	27%	4%
Southern Paris / Paris 14/15	84,500	9%	4%
Total Southern Paris	**227,600**	**37%**	**11%**
North Eastern Paris			
North Eastern Paris / Paris 3/4/10/11	46,000	17%	2%
North Eastern Paris / Paris 18/19/20	79,500	266%	4%
Total North Eastern Paris	**125,500**	**106%**	**6%**
Total Paris intra-muros	**820,400**	**14%**	**41%**
La Défense	**249,400**	**169%**	**13%**
Western Crescent			
Western Crescent / Nothern Bend	58,500	-30%	3%
Western Crescent / Neuilly/Levallois	177,600	41%	9%
Western Crescent / Péri-Défense	122,800	-23%	6%
Western Crescent / Boucle Sud	121,300	-41%	**6%**
Total Western Crescent	**480,200**	**-16%**	**24%**
Inner Rim			
Inner Rim / Northern Inner Rim	81,200	-39%	4%
Inner Rim / Eastern Inner Rim	21,100	-64%	1%
Inner Rim / Southern Inner Rim	54,900	-7%	3%
Total Inner Rim	**157,200**	**-38%**	**8%**
Outer Rim	**279,900**	**-10%**	**14%**
TOTAL PARIS REGION	**1,987,100**	**2%**	**100%**

Sources: Knight Frank, ORIE

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