Property Times
Paris CBD Q2 2014
Still on a high

21 July 2014

Summary

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- Take-up in the Paris CBD stood at almost 191,000 sq m for H1 2014, representing a 32% year-on-year increase.

- All space segments benefited from the upturn in activity although the major space segment recorded the most significant improvement with a take-up of 50,000 sq m, equivalent to the full-year figure for 2013.

- Most major occupiers favoured refurbished space, such as COVEA which took 22,000 sq m of refurbished space in “Tivoli” in what was the largest office transaction in the CBD since 2006.

- The fall in rental values for new office space seen in 2013 came back under control over H1 2014 with an average value of €655 per sq m per year. The prime rent remained stable at €745 per sq m per year.

- The volume of immediately available supply has fallen by 10% since the beginning of the year, leaving 342,000 sq m of available space at the end of June and a vacancy rate of 5.1%. Supply is mainly comprised of second-hand space of less than 1,000 sq m.

- The increase in deliveries seen in 2013 is set to continue over the coming years with over 105,000 sq m currently under development in the Paris Centre West submarket. Speculative projects, which had all but vanished during the crisis, have made a noticeable return with over 71,000 sq m still available in developments underway.

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Economic climate

Ever postponed recovery

With flat growth over Q1 2014, the often-announced recovery is yet to be seen. For the last two years, the French economy has remained locked in a cycle of flat growth (Figure 1).

Various growth drivers appear to be seizing up, one after the other. Demand directed at French companies is flagging with household consumption posting a 0.5% fall over Q1 2014, in spite of inflation being at its lowest level. The decline even reached 0.7% for manufactured goods. Householder confidence is still flagging and has been below its long-period average for the last 6 years (Figure 2).

Business leaders are not much more optimistic and the business climate indicator has been stagnating since September 2013 (Figure 2). Rising margin rates (after hitting a historic low point in 2013), the establishment of the competitivity and employment tax credits (CICE) as well as the reduction in social security contributions have not been enough to boost business investment beyond the financial sector as levels fell by 0.5% over Q1 2014.

INSEE and the IMF, who published their 2014 growth forecasts only days apart, are in agreement on a limited 0.7% increase for 2014, below the government's 1% forecast.

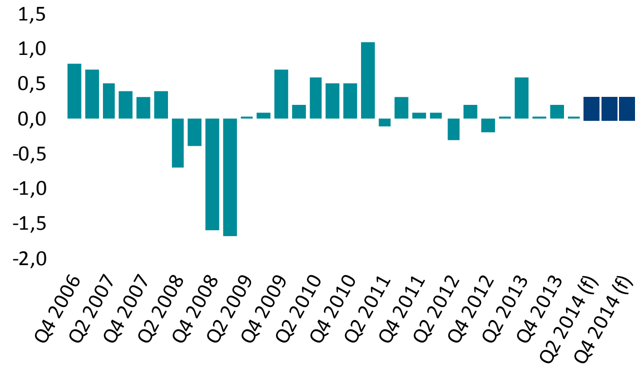
Worrying unemployment

In May, a further 24,800 unemployed joined the ranks of almost 3.4 million jobseekers (Figure 3). Sadly, records are being broken, one after the other with this 7th consecutive increase. After a slowdown at the end of 2013, the influx of new jobseekers rose sharply with an additional 84,000 newly unemployed since the beginning of the year.

The government, which had made the reduction of unemployment its main aim, has had to revise down its ambitions. It aims to keep unemployment below the 10% level by the end of the year (currently 9.7%). The lack of economic recovery does not bode well for any short-term improvement in unemployment. In latest forecasts, unemployment insurance is banking on an increase in unemployment with an additional 100,000 jobseekers in 2014, followed by 60,000 in 2015 before, hypothetically, we see an upturn.

Figure 1

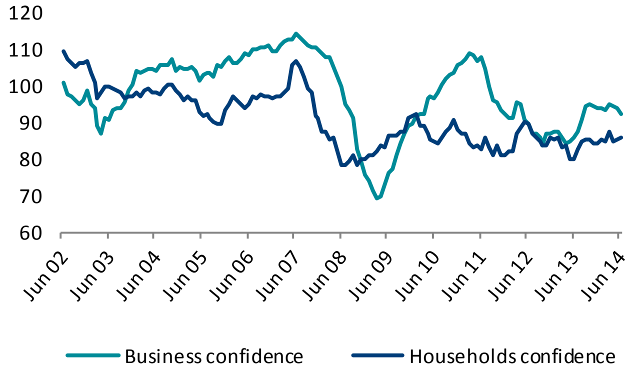
Real GDP growth, %



Source: INSEE

Figure 2

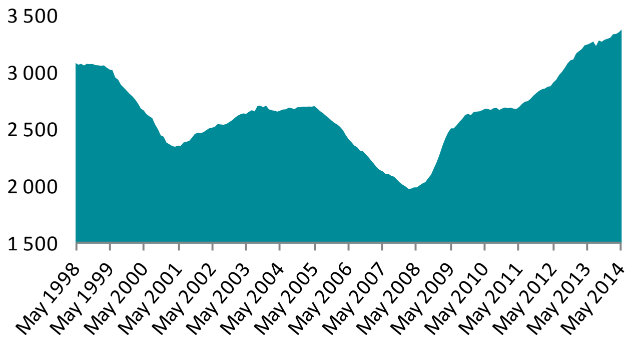
Business and householder confidence



Source: INSEE

Figure 3

Category A[1] jobseekers, thousands



Source: Pôle Emploi

1 Unemployed jobseekers required to be actively seeking employment

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Take-up and rental values

Warning lights back to green

As in the Greater Paris Region market, which posted strong take-up results in H1 2014, Paris CBD saw renewed growth after a downward cycle which began in 2010. With a take-up of 190,900 sq m since the beginning of the year, transactional activity was back to its historical average posting a 32% year-on-year increase (Figure 4).

All space size segments benefited from the upturn in activity in the CBD. The core of activity remains focused in the small space segment which saw 77,700 sq m of take-up over 320 transactions. This equates to 9 out of 10 transactions and more than 40% of space transacted since the beginning of the year in this submarket.

Major transactions, scarce in recent years, have made a strong comeback with 5 transactions for spaces over 5,000 sq m with a total take-up of 50,600 sq m, equivalent to a 62% y-o-y increase.

By taking 22,200 sq m of refurbished office space, COVEA carried out the largest transaction recorded in the CBD since AREVA's move to Rue Lafayette in 2006. Teams that had been distributed across various locations in Paris and the Western Crescent will now be reunited in "Le Tivoli", a building in the St-Lazare district.

Major occupiers like COVEA, who were mainly legal or consulting firms such as CLIFFORD CHANCE (9,800 sq m) or ETUDE CHEVREUX (5,100 sq m), showed a preference for refurbished office space.

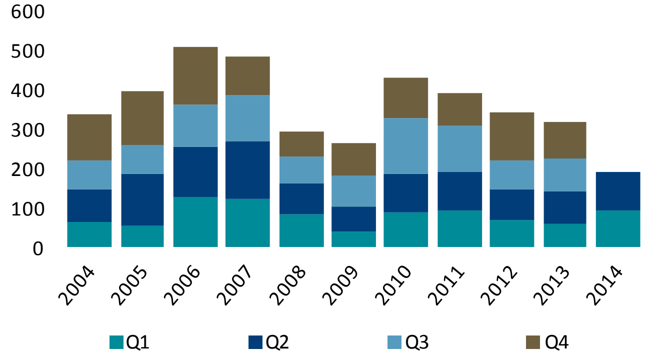
Falling values back in check

The downward trend seen in value in 2013 ended over H1 2014 and rents for new space increased to €745 per sq m per year for prime space and an average of €655 per sq m per year for new office space. A number of transactions were completed at headline rents in excess of €730 per sq m per year; however most of refurbished space transactions were completed at values between €580 and €680 per sq m per year.

Second-hand rental values remained relatively stable over H1 2014 at €509 per sq m per year. However, this average value hides some wide disparities between renovated space around the Champs-Elysées at over €650 per sq m per year and second-hand spaces at less than €400 per sq m per year in the 9th district.

Figure 4

Take-up in Paris CBD, '000 sq m



Source: Immostat, DTZ Research

Table 1

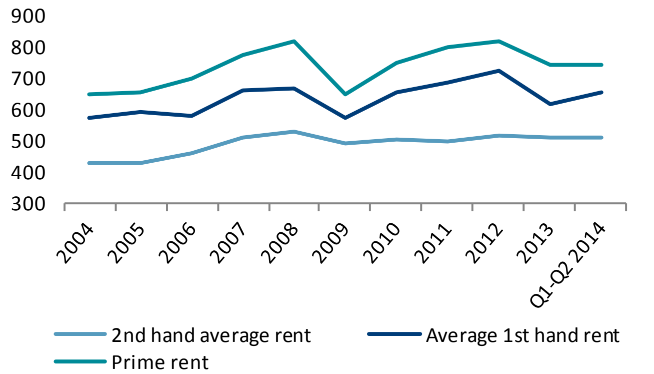
Take-up by surface segment

Surface segment	H1 2014	Share	Annual change
Less than 1,000 sq m	77,700 sq m	41%	+13%
From 1,000 to 5,000 sq m	62,600 sq m	33%	+41%
More than 5,000 sq m	50,600 sq m	26%	+62%
Total	**190,900 sq m**	**100%**	**+32%**

Source: Immostat, DTZ Research

Figure 5

Rental values in Paris CBD, €/sq m/yr



Source: Immostat, DTZ Research

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Supply

Very low levels of new space

With 342,000 sq m of availability at the end of June 2014, immediate supply in the CBD has fallen by 10% since the beginning of the year. Availability was split relatively evenly between small, medium and large spaces (Figure 6).

Immediate supply in the small space segment has been stable for several years at 140,600 sq m of vacant space, a level which is in line with the market's absorption capacity. Supply becomes scarcer in the larger space segments, with 110,000 available in the medium space segment and 92,200 sq m in the over 5,000 sq m segment.

With a vacancy rate of 5.1% at the end of June 2014 (Figure 7), the CBD submarket remains largely below the average for the Greater Paris Region. In this structurally restricted market, supply is largely renewed via releases of space with a further 170,000 sq m expected over the next 12 months. Supply mainly consists of second-hand space (90%), half of which is under 1,000 sq m. Large spaces (over 5,000 sq m) are mainly located in recent or renovated second-hand buildings such as "Capital 8" or "Paris Bourse".

Return of speculative development

Given the relative lack of new supply, developers (reassured by resilience in take-up and rental values) are investing heavily in the Paris Centre West submarket after holding back for many years.

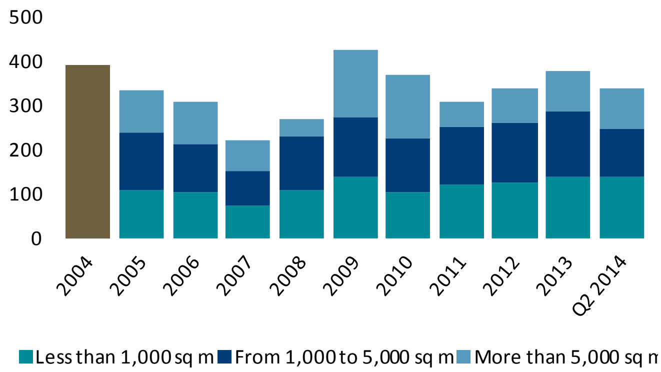
Apart from the upturn in developments underway, with over 105,000 sq m currently under construction in this submarket, the key point is the massive return of speculative developments with 71,700 sq m still available.

The largest of these projects include "#Cloud", a three-building complex refurbished by SFL, located near to the Opéra district with an overall space of 37,900 sq m.

Including projects that have been granted building permits, a further 300,000 sq m of office space could come onto the Paris Centre West market by 2017 (Figure 8) – an unprecedented level of volume.

Figure 6

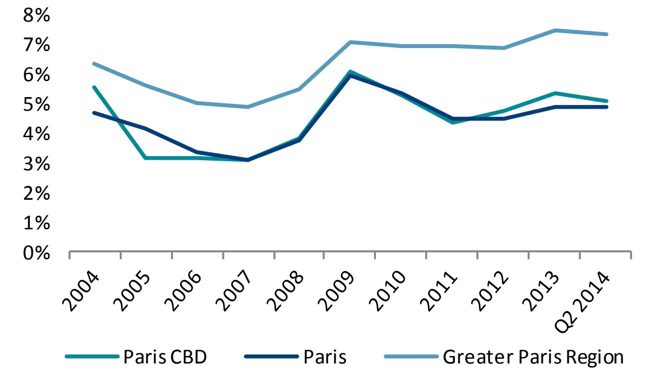
Immediate supply in Paris CBD, '000 sq m



Source: Immostat, DTZ Research

Figure 7

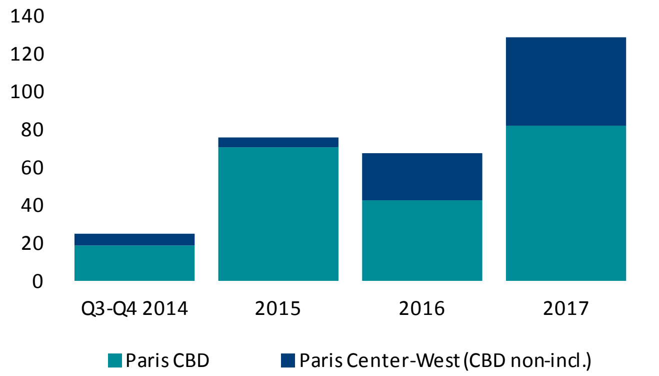
Vacancy rate



Source: Immostat, DTZ Research

Figure 8

Future first-hand supply (above 5,000 sq m) under construction and with building permit



Source: DTZ Research

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Definitions

Average rent – 2nd hand	Expressed in Euro per year, excluding taxes and charges. The average rent corresponds to the average of rents, weighted by the total area of second hand space transacted (excluding new and restructured space).
Average rent – new space	Expressed in Euro per year, excluding taxes and charges. The average rent corresponds to the average of rents, weighted by the total area of new space transacted (new and restructured space).
Confirmed new development	Total of developments underway at a moment in time T, not yet delivered.
Immediate supply	Total of vacant space offered for sale/lease at a particular time T. Searches for replacement tenants and leases under notice are excluded until the tenant has vacated the premises.
Likely new development	Total of developments not yet underway at a moment in time T with consent and/or planning permission.
New development	Total of new space to be built and under construction with or without authorisation (planning permissions and consent) and not yet delivered.
Potential new development	Total of projects identified that have not secured consent and/or planning permission.
Prime rent	The prime rent is the average of the highest transaction values recorded for new or restructured buildings that are in best locations and are let on long-lease terms.
Take-up	Total of rental and sales deals carried out by end users including pre-lets, turnkeys and owner-occupier deals.
VEFA	Property for future completion.

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