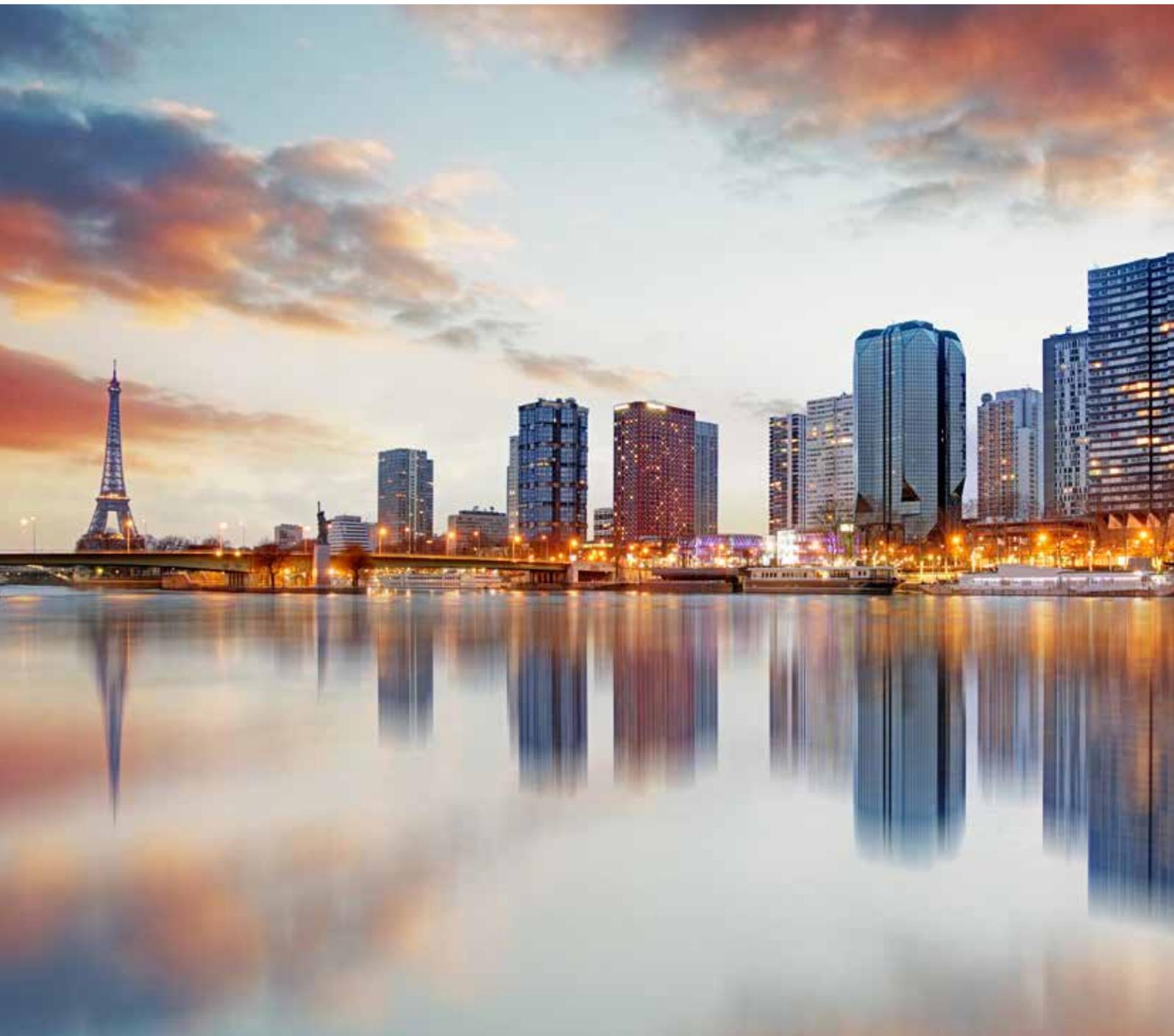

FRENCH PROPERTY IN DEMAND
NOVEMBER 2018



November 2018

MARKET COMMENT

It looks like 2018 will be remembered as a good year for French property. Investments in commercial real estate in France have increased by 25% to €18.3 bn in the first nine months of the year and BNP Paribas Real Estate's forecast is for investments to break through the €28 bn threshold in 2018.

According to the most recent ImmoStat figures, office take-up in the Ile-de-France region increased by 6% to 1,874 million m² in the first nine months of the year, while vacancy rates have fallen to 5.5%.

Paris is doing particularly well. Vacancy rates in the CBD have fallen to 1.5%, which has led to a 3% increase in rents. La Salle Investment Management's just-published European Regional Economic Growth Index shows that London remains the leading city for real estate occupier demand in Europe, but Paris in second place is becoming an ever-closer rival.

There are also signs that the French capital is inching ahead in the race with Frankfurt to lure business away from London as Brexit approaches. The French government's aggressive promotion of the capital as an alternative destination seems to be reaping rewards.

US bank Wells Fargo has just announced it will open an office in Paris, joining a long list of big names like Bank of America Merrill Lynch, Goldman Sachs, Citigroup, Morgan Stanley, JP Morgan Chase and Hsbc that all relocating staff to the French capital.

Japanese bank Nomura is set to make a similar announcement soon and 70 asset managers including BlackRock, the world's largest, are in the process of acquiring a license to operate in France.

A few days ago a delegation from La Défense business district travelled to London to persuade even more banks and companies to leave the City and move to Paris before Brexit becomes a reality in March 2019.

They presented a compelling case, citing the 3.6 million m² of existing office space, with a further 275,000 m² being built, and the ongoing revitalisation of the area. They also showed they have a sense of humour with their slogan "Tired of the fog? Try the frogs!" under a picture of a frog wearing a suit and tie.

Part of London's attraction for US and Asian investors has

always been the offer of big trophy assets. Being the only district in Paris that allows high-rise construction, La Défense is the only other place in Europe that can accommodate the needs of large companies. There are 70 existing skyscrapers and 34 large-scale projects currently being built.

In a big coup for La Défense, GIC, Singapore's sovereign wealth fund, has just invested €465 million to buy Tour Ariane, a 40-storey office building in the district. Another highlight was the decision by the European Banking Authority to relocate from London to La Défense early next year.

Chubb, the largest US damage insurance company, is also relocating its European head office from London to La Défense. It is not all about offices. Residential is doing well, demand for family apartments is increasing and rents are rising. But student accommodation is the sector that is really booming. Student housing is fast becoming an established asset class which is attracting more institutional investors as it is anti-cyclical and offers relatively high yields of between 5% and 7%.

According to specialised research body Student Marketing, Paris is the city that offers the most opportunities in the sector in Europe because of the expected increase in international student numbers and the gap between supply and demand.

It is no coincidence that the leading global provider, Greystar of the US, has just launched a new platform in France to acquire and develop purpose-built student accommodation. Greystar, which has a €7 bn portfolio in Europe, will open an office in Paris and concentrate on the capital, with a plan to branch out later into other French University towns with large student populations.

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