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GUEST WEBINARS

An Introduction to Commercial Office Markets Paris

In partnership with:



An Introduction to Office Investment Markets: Paris



Sinéad Murphy
BA (Hons) MSc

- Senior Valuer, Knight Frank Valuation & Advisory, Paris.
- Over 8 Years of commercial real estate experience in French property sector.
- Specialist in the valuation of commercial property of all asset types for both national and international clients.
- She has carried out valuations in the process of an acquisition, financing and for internal accounting purposes.
- Clients include:
 - » LaSalle Investment Management.
 - » Union Investment.
 - » Swiss Life.
 - » Eurocommercial.
 - » Helaba.



David Hourihan
MSc FSCSI FRICS FHEA

Academia

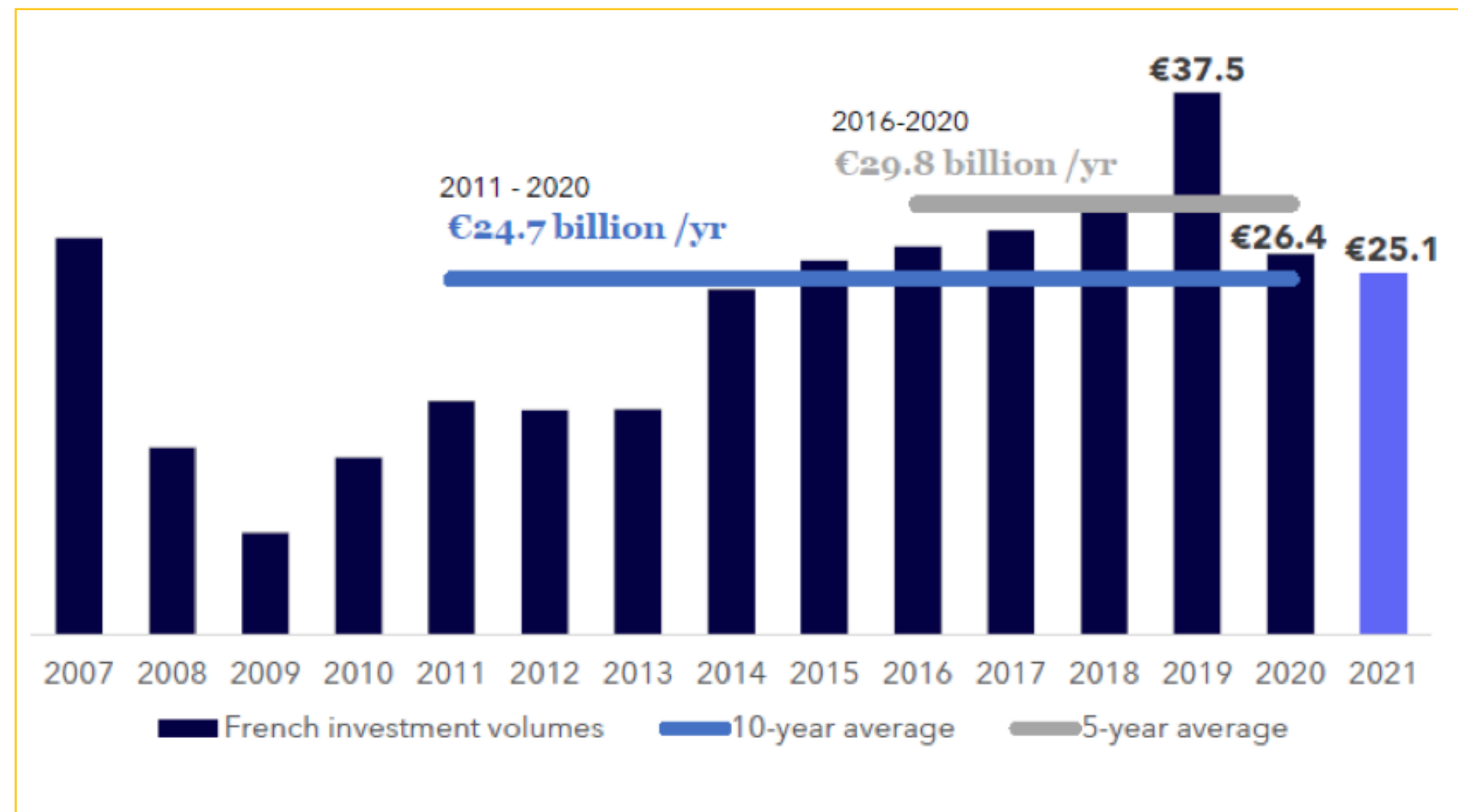
- Graduated from UCEM MSc in Property Investment in 2008.
- UCEM Programmes Leader for the BSc Real Estate Management and MSc Real Estate.

Industry

- 17 years of commercial real estate experience across the UK and Ireland.
- Specialist in investment, office agency, retail asset management and valuation.
- Previous positions with international firms including JLL and Colliers International.
- Acquisition and asset management instructions for clients including Société Générale, Metzler Bank, Mobil Oil, Scottish Widows, Aviva and British Land.
- Member of the Investment Property Forum (IPF).

1. Introduction: The French Office Investment Markets: Size

All-property Investment Volumes



French Office Investment Market

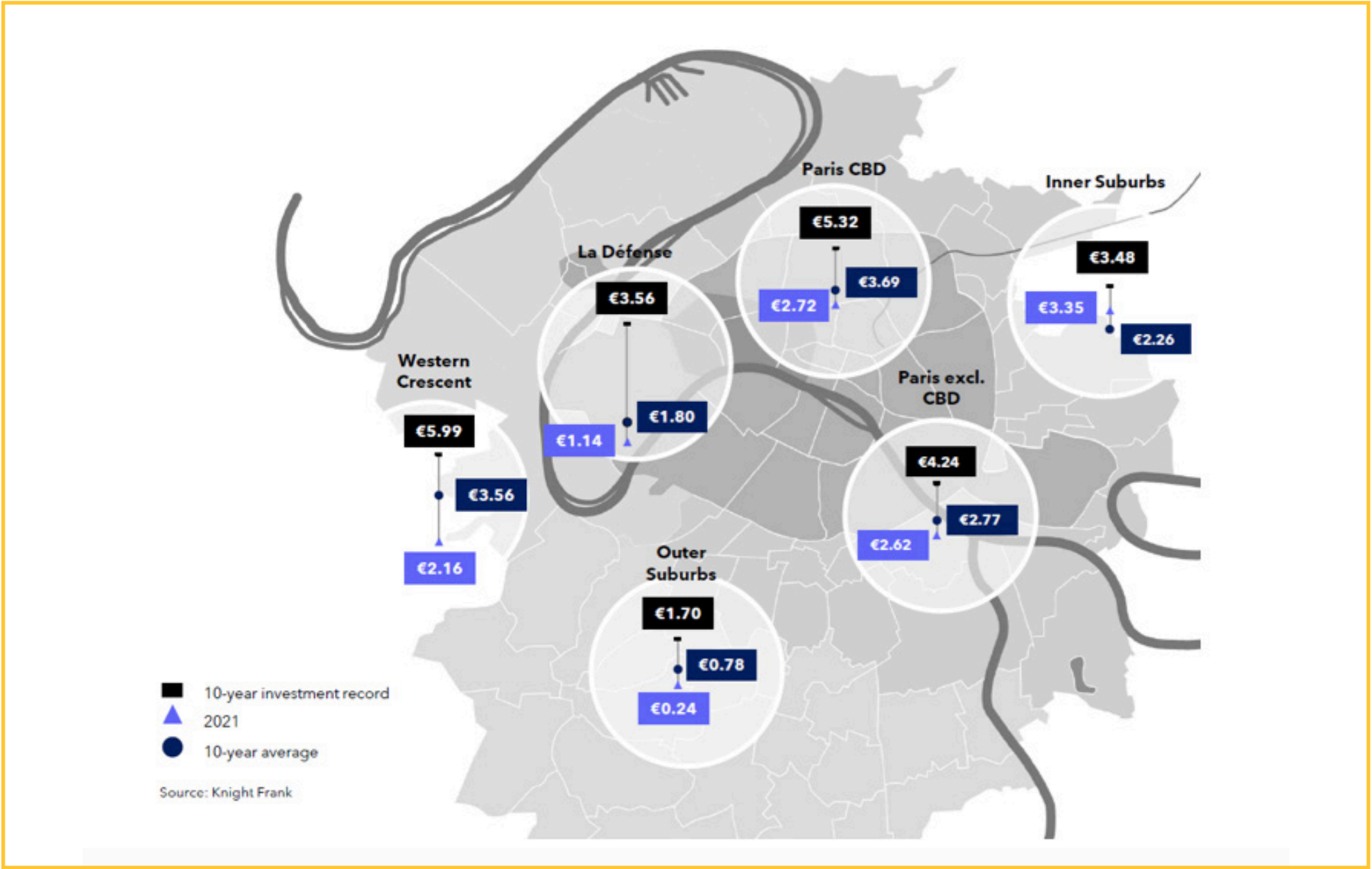
- International investors increasing their presence, while French investors are subdued.
- Office investment dropped 15% year-on-year.
- Continued compression of prime yields.
- Investment activity accelerated in H2, 2021 after a quiet H1.
- 33% decrease in investment volumes from the high in 2019 to the 10-year average level in 2021.
- Change in investment volumes between 2020 and 2021.
- Questions about the future of the office sector is fueling investor caution. Concerns over obsolescence as ESG is critically important for occupants.



Source: Knight Frank

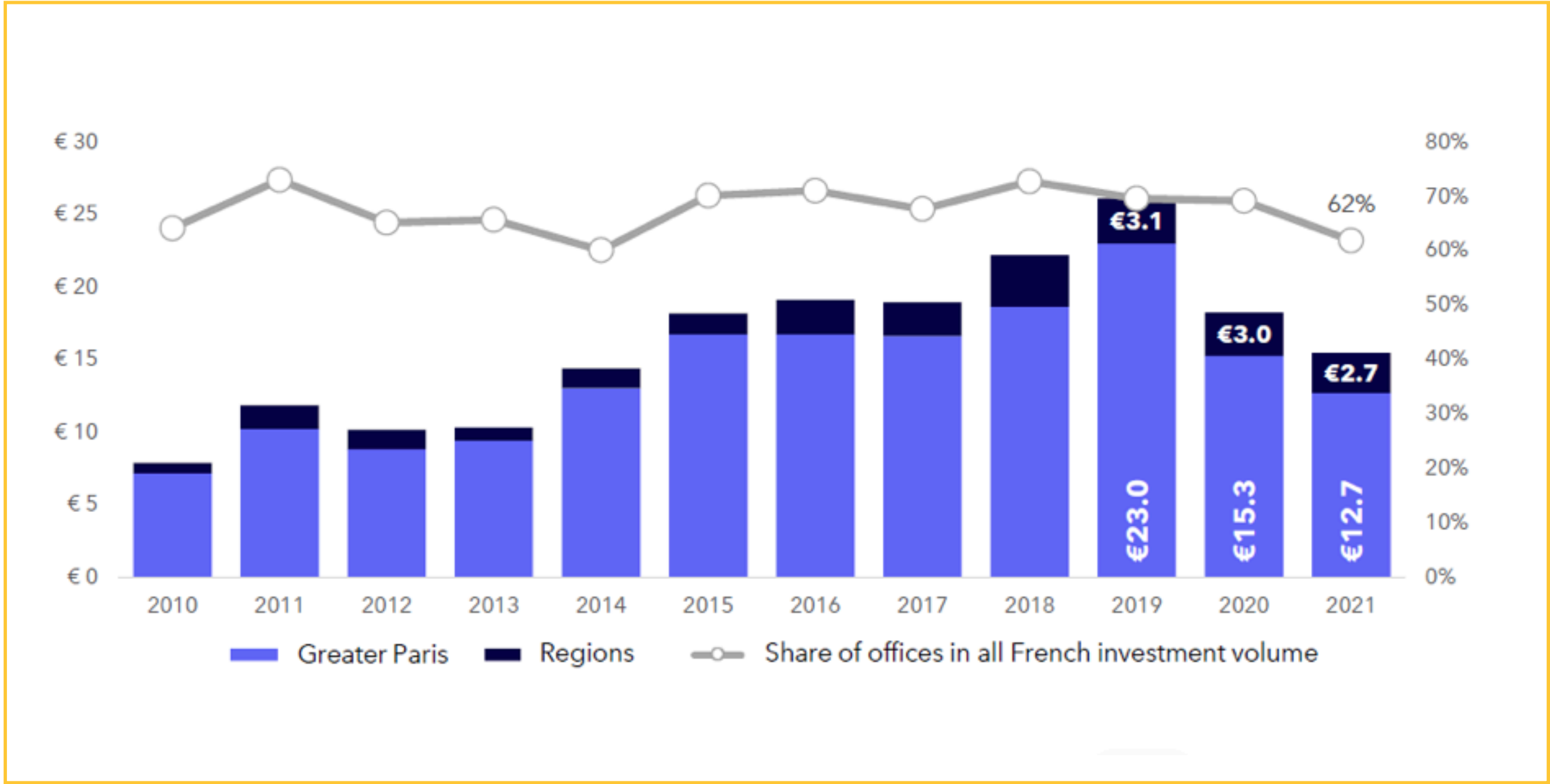
2. The The Paris Office Investment Markets: Structure

Paris and its sub markets:



Source: Knight Frank

Paris Office Investment Market - Turnover



Source: Knight Frank

3. Introduction to Commercial Office Investment Markets: Paris

Paris Office Occupier Market in 2021

Overall

- 1.88m sq m let in the whole of 2021, a 32% rebound on 2020 but still below pre-crisis level.
- Remote working now well established which has impacted on office consumption.
- 'Flight to quality' of large occupiers to Grade A space with 75% of all lettings over 5,000 sq m involving new /redeveloped buildings.
- Demand from tech companies, incubator/flex operators and higher education institutions.
- The pandemic has led other sectors such as French Banks, insurance companies and the public sector to consolidate their office requirements.
- Concerns over obsolescence will lead to repurposing of office to residential.

CBD

- Prime Annual Rents: €935 per sq m (compared to €865 per sq m in 2019).
- 73% increase in take-up in 2021 in CBD with strong demand in CBD from companies in finance, luxury, legal and consultancy sectors.

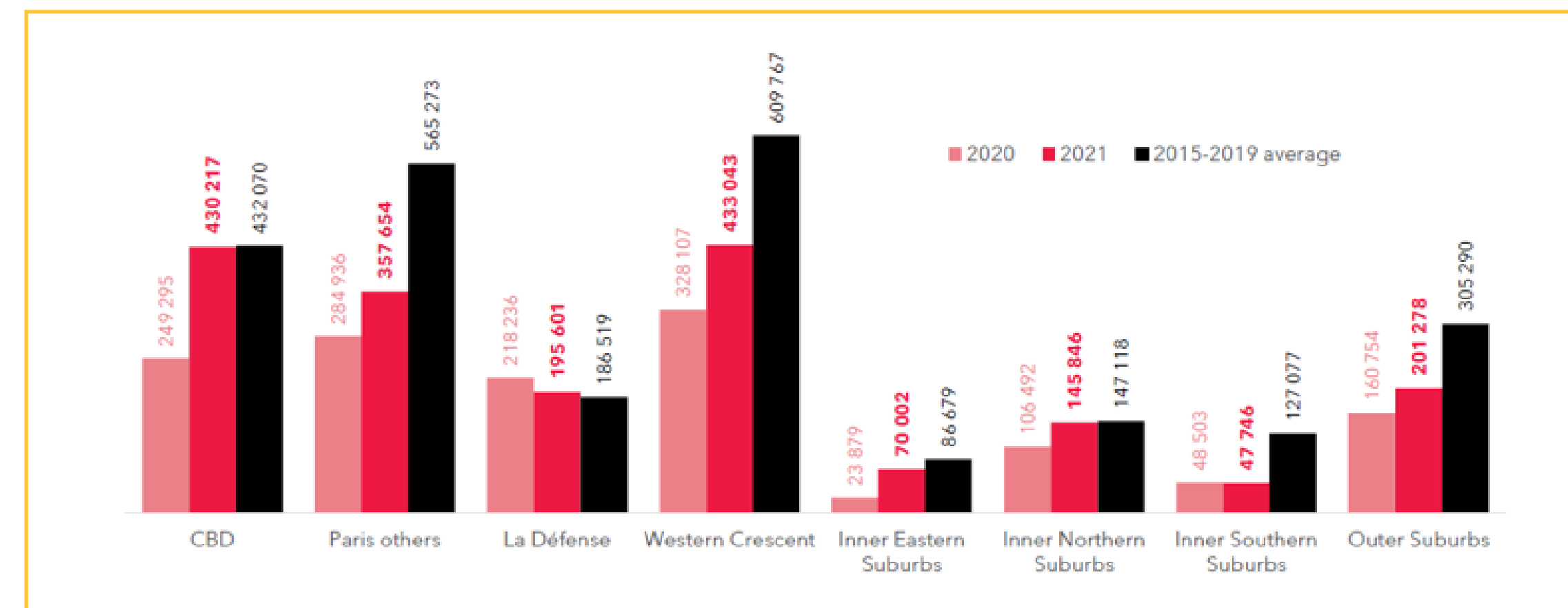
Suburbs

- Vacancy rates high in the western and north inner suburbs.
- Average decrease of 10% in asking rents and increase in incentives on new and older stock. Correction most notable in western markets.
- Large increase in transactions between 5-20,000 sq m in the Greater Paris Region as large companies re-launch the property projects.
- Most large transactions were in La Défense and Western Crescent.
- Activity remained almost at a stand still in the South suburbs.

Typical Office Lease Terms

- The minimum term for a commercial lease is 3 years (bail précaire – short term lease).
- All leases are subject to rental indexation on the lease anniversary (upwards and downwards).
- Tenant break options in 3-year increments at years 3, 6 and 9.
- Incentive of 2 months rent free for every term certain.
- The tenant retains the right to renew the lease at the end of the contractual term.
- Insurance, building tax and service charges are covered by the Landlord and recovered from the Tenant, with the exception of heavy works (article 606 of the French Civil Code and rent collection fees).
- Rental deposits may be requested depending on the financial standing of the tenant. A maximum of 3 months' rent only can be held.

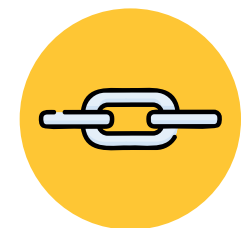
Take up of office space (sq m) in 2021



Source: Knight Frank

4. The Paris Office Investment Market: Key Trends & Forecasts

SWOT Analysis of Paris Office Investment



Strengths

- GRET 2020 – France ranked no 4 out of 99 countries and territories.
- Transparent legal system.
- Stable rental growth in the top 5 markets, Paris, Lyon, Toulouse, Marseilles and Lille.
- Compressed prime yields – Very limited supply of Core investments.
- Transfer costs of either 1.80%, 6.90% or 7.50% for commercial properties.
- Interest rates low.



Weaknesses

- Increased foreign ownership restrictions as of 1st April 2020.
- Economic (GDP) growth slowed in recent years.
- Poor supply of 'Core' type office investments.



Opportunities

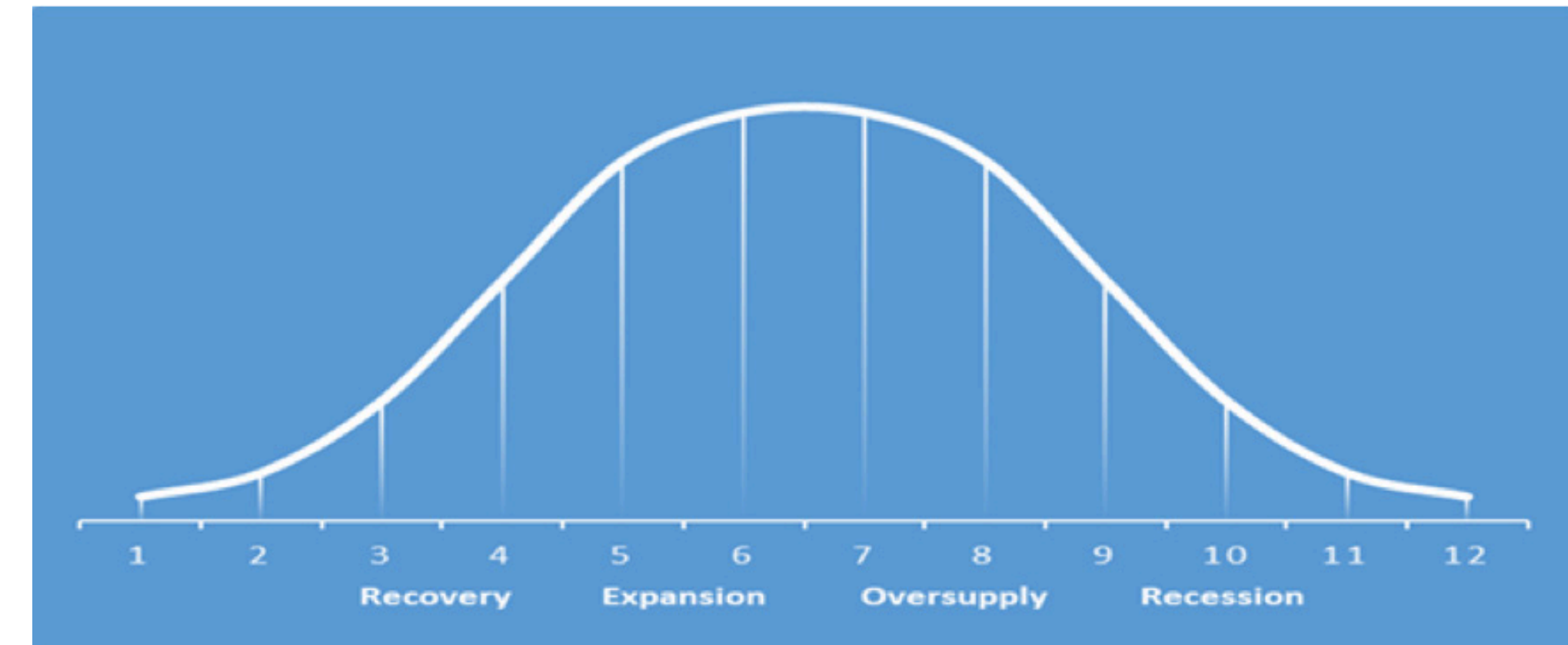
- ECB monetary package as a result of Covid-19 providing financial benefits such as low interest rates to support borrowing.
- Paris Olympics in 2024.
- Influx of office occupiers post Brexit.
- Government infrastructure projects - Grand Paris Express.



Threats

- Unknown long-term impact of COVID-19.
- Uncertainty associated with changing work patterns.
- Post Brexit business uncertainty with the UK.
- Russia/NATO tensions.
- Social tensions in France.
- High Vacancy rates in some Paris sub-markets.
- Obsolescence in older stock.
- Climate change – extreme weather events.

SWOT Analysis of Paris Office Investment



Outlook

- Continued increase in take-up volumes in 2022.
- Increased focus in CSR, well being, centrality and flexibility.
- Demand to increase for coworking space.
- Over-supply to continue in North inner city and Péri-Défence.
- Shortage on the horizon in the Paris CBD.
- Increase in re-purposing of older office stock to residential use.



Thank you for attending our webinar.

Upcoming webinars

- An Introduction to Commercial Office Markets - Hamburg

23rd February 2022 | 11:00am

- Interview: Andrea Carpenter, Founder | Diversity Talks Real Estate

2nd March 2022 | 11:30am GMT

- Interview: Liane Hartley, Founder | Urbanistas

16th March 2022 | 11:00am GMT



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