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An Introduction to Commercial Office Markets Paris

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An Introduction to Commercial Office Markets - Paris



Sinéad Murphy
BA Hons MSc

- Senior Valuer, Knight Frank Valuation & Advisory, Paris
- Over 5 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:
 - » Schrodgers
 - » LaSalle Investment Management
 - » Aberdeen Standard Investments
 - » Union Investment
 - » Unibail-Rodamco



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).

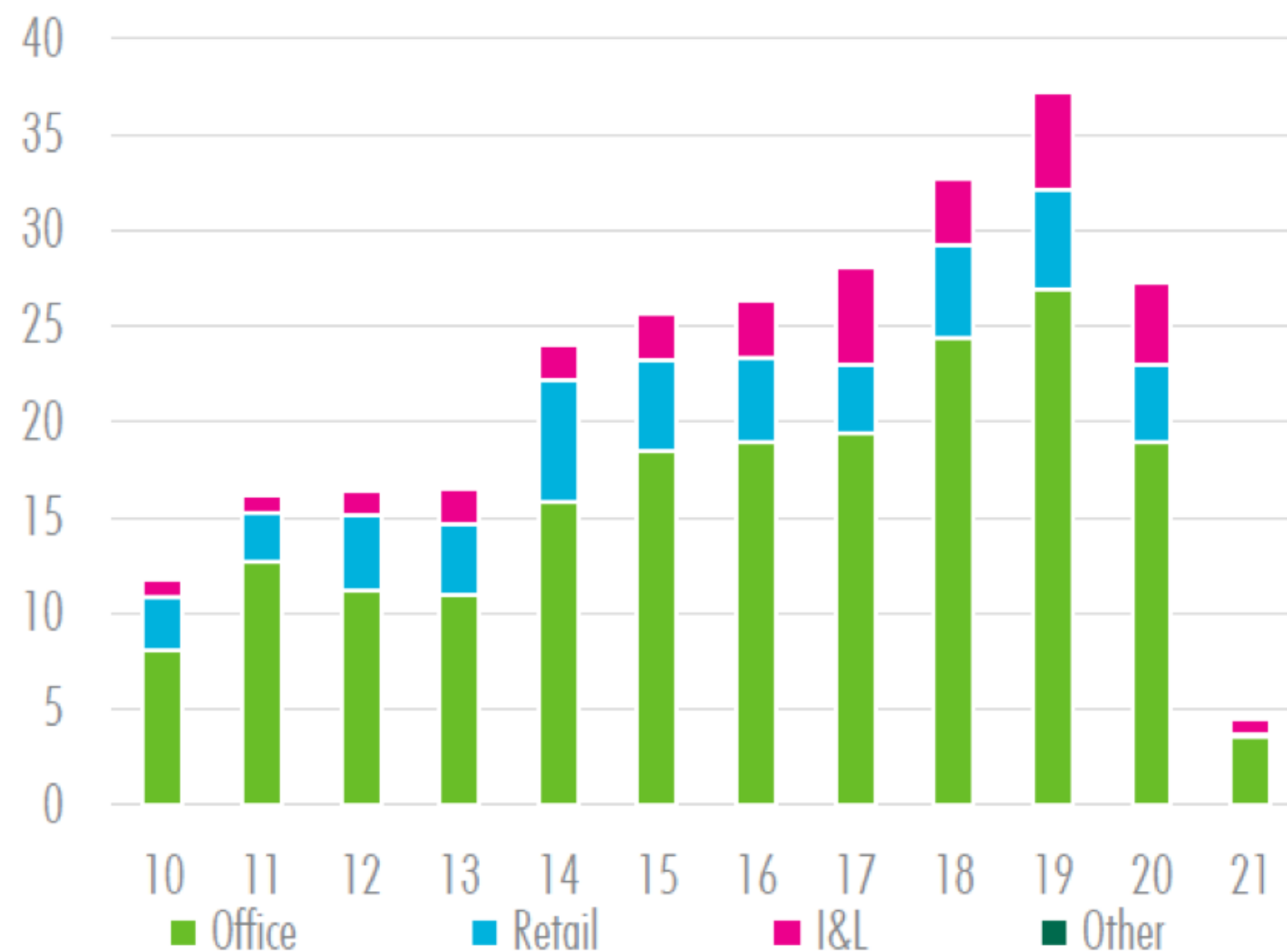
SCSI / RICS APC

- APC Chairman.

Introduction: The French Office Investment Market: Size

French Office Investment Market

- French RE investment market third largest in Europe after Germany and the UK.
- Annual volumes dropped by 37% Year-on-Year (Savills May 2021).
- Q1 2021 turnover: €4.6 bn. Higher than 10-year average.
- Decrease particularly notable in the largest transaction's category (> €500 m).
- Prime office Yield: 2.75%.
- Weight of money in the marketplace.
- Flight to quality.
- Small transaction segment (<€50 m) driving market and dominated by institutional investors.
- Paris Centre West accounted for 19% of investment volume. Followed by Western Crescent.
- European investors (particularly German investors) dominate the French market, US investors also present, South Korean investors have withdrawn from the market.

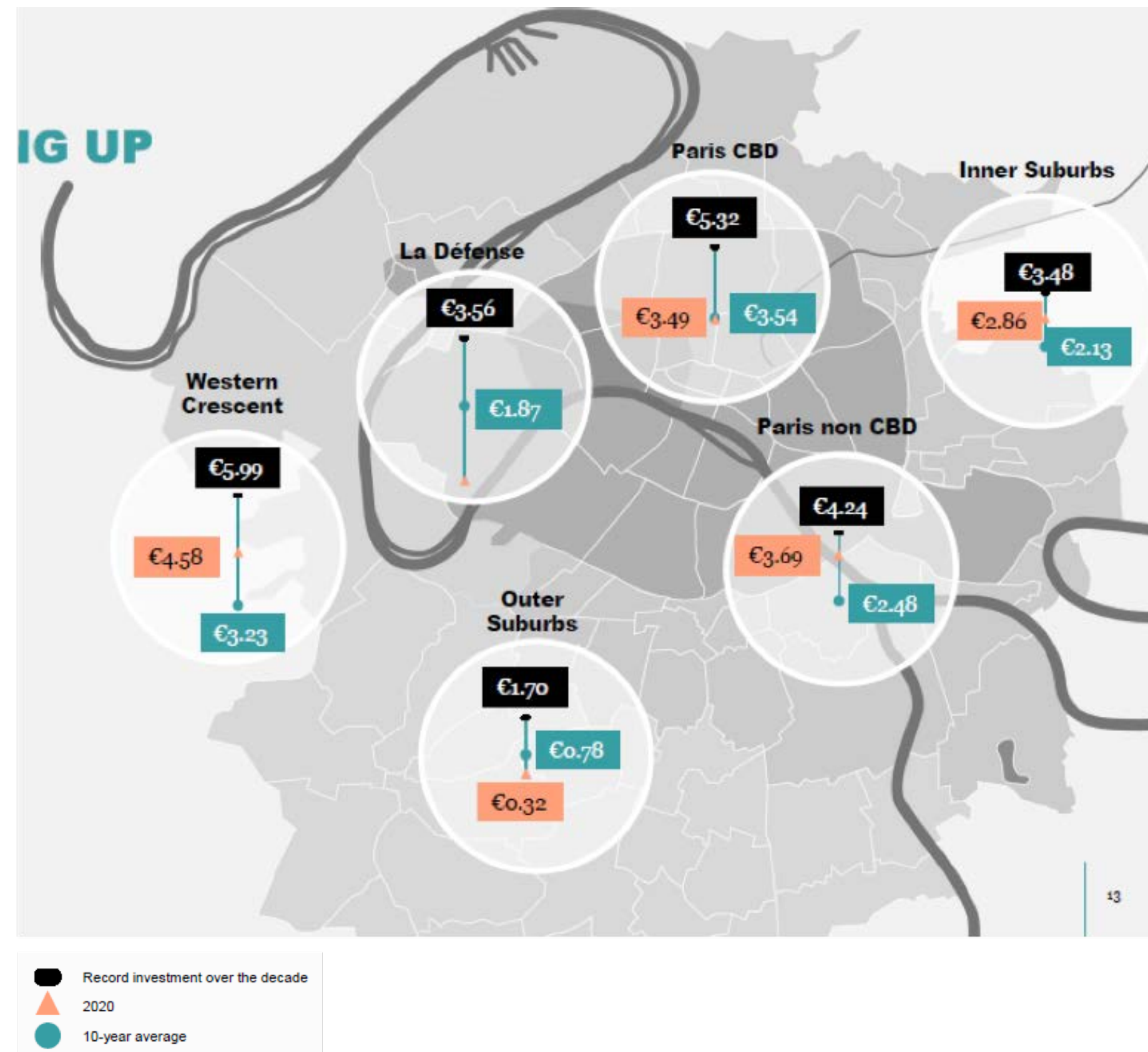


In billions of euros

Source: CBRE Research and Immostat, Q1 2021

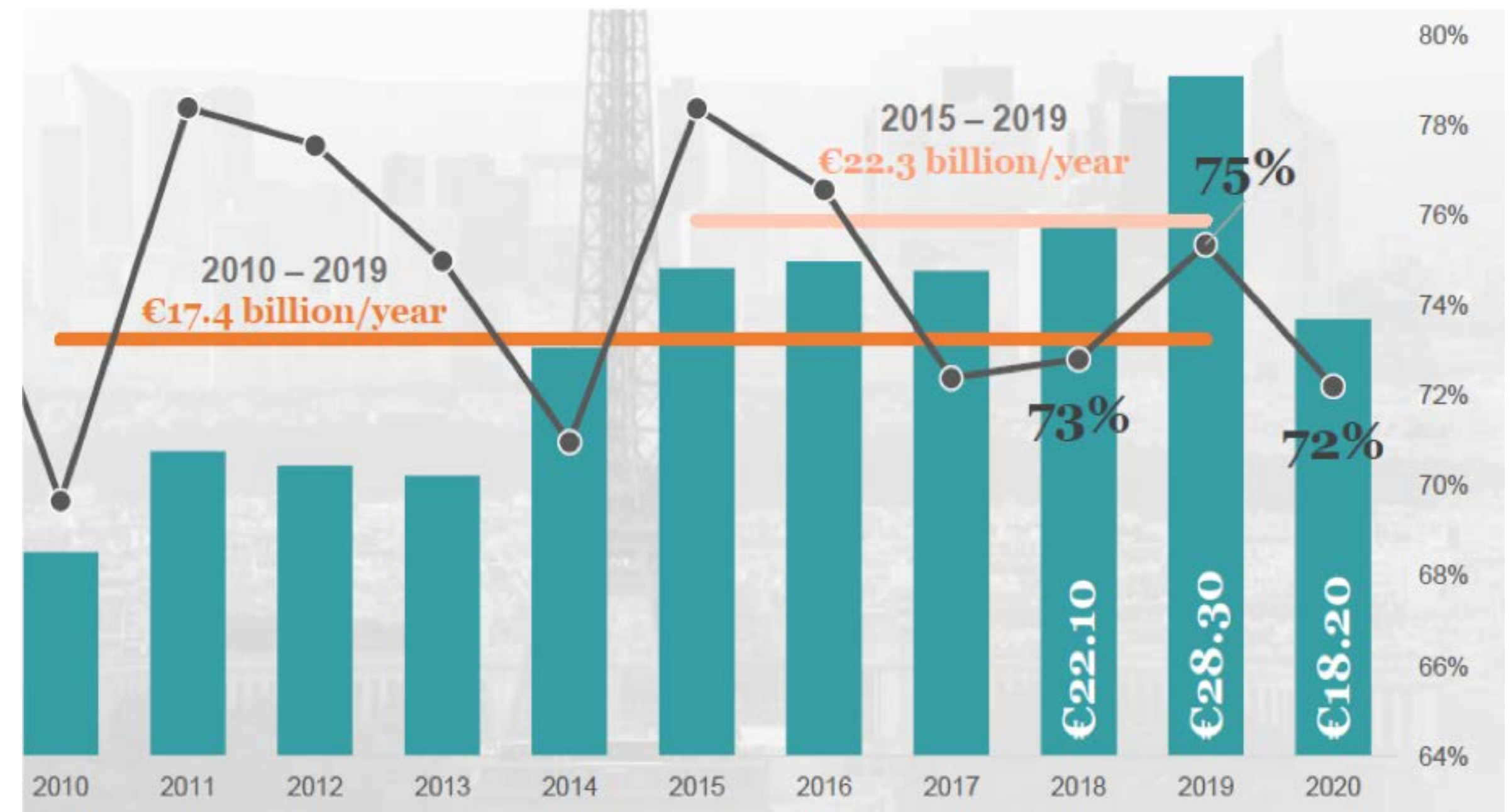
The Paris Office Investment Market: Structure

Paris and its sub markets:



Source: Knight Frank

Paris Office Investment Market - Turnover



Source: Knight Frank

Introduction to the commercial office markets: Paris

Paris Office Investment Market

2021 Q1 - Office Occupier Market

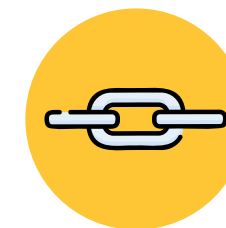
Agents report modest upturn in activity, but no strong rebound expected:

- General downturn slowed in Q1.
- Vacancy rate holding at 6.4%.
- The small unit segment (<1,000 sqm) has been more resilient.
- Large occupiers (5-10,000 sqm) returned to the leasing market.
- Prime rents holding, rents in secondary locations fell.
- However, take-up in Q1 was down 30% y-o-y and down 39% on 10 years average.
- Prime headline rents: Paris Centre West: €940 per sqm pa before taxes and charges.
- Landlord incentives growing in quantum.

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.

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.
- Global economic recession



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.
- Post Brexit business uncertainty with the UK.
- Political instability at home and abroad.
- Social tensions in France.
- Further pandemic lockdowns.

The Paris Office Investment Market - Key Trends & Forecasts



Trends

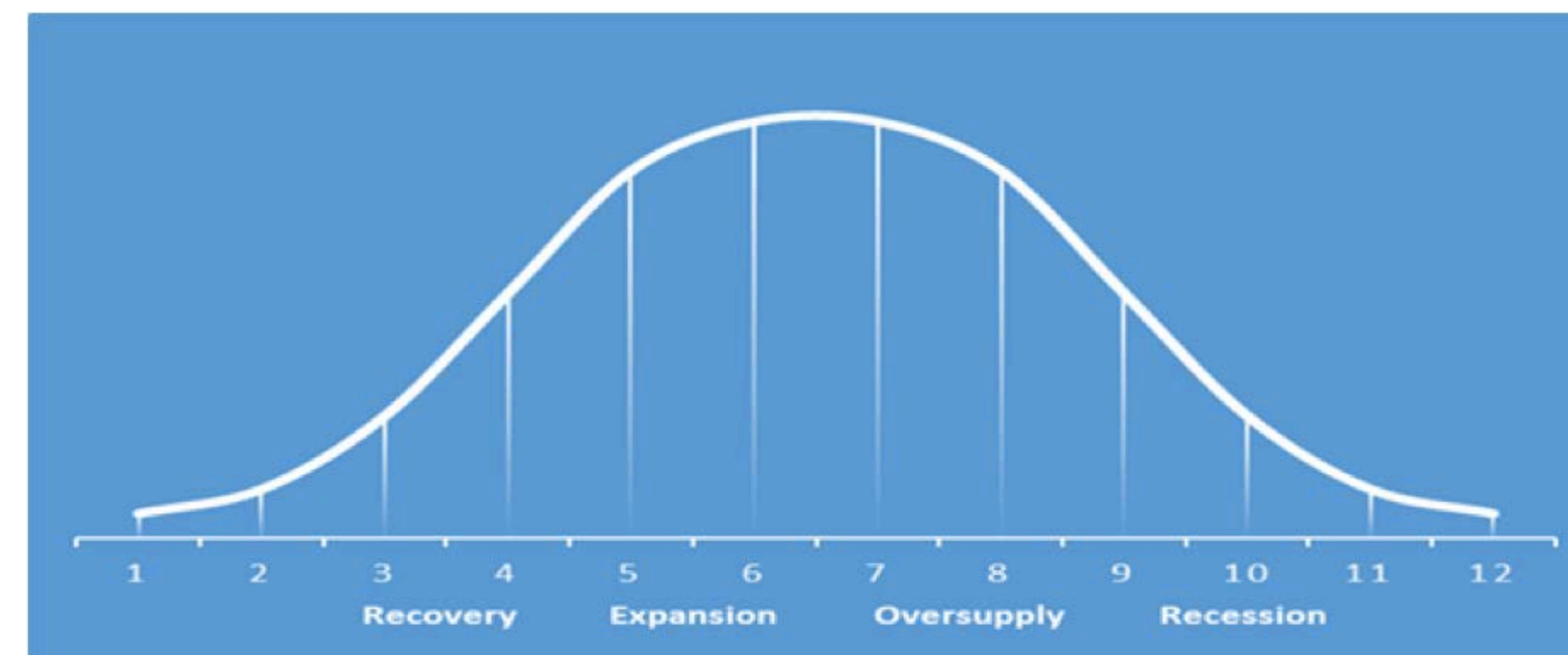
- 1 How has the pandemic affected the valuation process for Paris offices?
- 2 Where currently is Investor appetite: Core, Core Plus, Value Added, Speculative?
- 3 In terms of location - Have certain Paris office sub-markets been affected more than others during the lockdown?
- 4 In lettings - Have lease terms changed as a result of the pandemic?



Forecasts (next 12 months?)

- 1 Will tenants pay more for a high rated BREEAM office building?
- 2 Will Paris office rents remain rise or fall after the lockdown?
- 3 What type of investor will be most active in the Paris office markets?
- 4 How will office design change post pandemic?

Where is the Paris office investment market in its life cycle?



Thank you for attending our webinar.

Here's our upcoming schedule....

**An Introduction to Commercial Office Markets
Frankfurt**

23rd June 2021 | 11:00am BST

**The Perfect Storm – major high street thinking
for malls and small-town retail**

7th July 2021 | 11:00am BST

**Digital and Data led innovations in place making
and development**

14th July 2021 | 11:00am BST



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