



THE PARIS REGION OFFICE MARKET IN A NEW PRODUCTION CYCLE

THE PARIS REGION OFFICE MARKET HAS DURABLY ENTERED A NEW CYCLE, FEATURING AN ACCELERATION IN THE RENEWAL OF OFFICE STOCK AND ITS CONCENTRATION IN NEIGHBORHOODS WITH SIGNIFICANT URBAN AMENITIES. DRIVEN BY NEW USES, IMPROVED ENERGY EFFICIENCY AND THE “GRAND PARIS EXPRESS” METRO PROJECT, THIS MOMENTUM IS REDRAWING THE MAP OF EMPLOYMENT IN THE PARIS REGION.



OFFICE MARKET KEY FIGURES

53 MILLION SQ. M. OF OFFICE SPACE

6.5% OF VACANCY RATE

2 MILLION SQ. M. OF PROJECTS

The stock of office buildings in the Paris Region as we know it has been shaped by the three major construction cycles which have supported the development of the regional economy for some 50 years. The first one covered the 30-year post-war boom (“the Thirty Glorious Years”) and the birth of modern Paris. Service functions were gradually left to the inner city, allowing the Central Business District (CBD) to emerge. The development of the La Défense business district started in 1958. At the same time, the first office blocks and towers sprang up more or less diffusely in conjunction with the road infrastructures.

The second cycle tied in with the expansion of the Paris region’s services sector after the oil price shocks and the take-off of the new towns. The now established business districts in inner Paris and west of Paris structured themselves, while significant urban centers emerged in the outer suburban rim thanks to the RER Regional Express Railway Network and proactive urban planning policies.

The third cycle was marked by the metropolisation process that had begun in the late 1990s and the development by capillary action of office blocks around the historic business districts. The Saint-Denis (Stade de France) office hub was a product of this dynamic process. The remaining large brownfield sites in the heart of the conurbation were redeveloped into more or less mixed-use neighborhoods, while the upgrading began of the first-generation buildings in the central business districts.

Following the end of the repercussions on the Paris Region’s economy of the so-called sub-prime crisis [Leroi, 2016], a new office construction cycle has been under way since 2009.



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Cover photo: the “new” Montparnasse tower scheduled for delivery in 2024. The building’s technical specifications, its location and its ownership structure have made this refurbishment more complex. The photo shows the hanging garden on the 14th floor, which will be accessible to all users.

THE REFURBISHMENT NEW CYCLE

45% of total office construction since 2012 has been in the form of refurbished office units (compared with 28% in the 1990s and 35% in the 2000s).

400,000 sq. m. of new office space for large units are delivered every year through refurbishments (compared with 800,000 sq. m. per year of new-build schemes in the 2000s).

THE NEW-BUILD OFFICE MARKET IS DIRECTLY LINKED TO THE REFURBISHED OFFICE MARKET

This new cycle is characterized by a significant slowdown in the growth of office stock and by a form of office development that is more intensive than extensive. In the 2000s, office stock in the Paris Region used to increase by 800,000 sq. m. a year. Over the last five years, the average increase has been less than 300,000 sq. m. a year¹. However, the level of new-build office space delivered² remained broadly stable at around 1 million sq. m. in the 2000s and has stood at slightly less than 900,000 sq. m. over the last five years.

The office market is still driven by trends away from existing stock and towards new-build stock, with the level of demand for new-build units exceeding 700,000 sq. m. a year³. In the large-scale user segment, new-build units have been even more attractive: seven transactions out of 10 involve new-build or refurbished buildings.

The break with the preceding cycles lies in the growing number of renovation or demolition-reconstruction schemes initiated to meet this strong demand for new-build office spaces. The proportion of refurbishments as a percentage of total office space construction rose from 28% in the 1990s to 35% in the 2000s and has risen to 45% over the last five years. An analysis of these schemes does not reveal any correlation between renovation and the age of the buildings.

The obsolescence of office buildings has accelerated. As a result, demolition occurs earlier and earlier, affecting numerous buildings of very uneven quality dating from the 1980s and 1990s. Thus, the new office program schemes in Issy-les-Moulineaux for leasing units to the Orange and Capgemini companies have involved the destruction

of existing office buildings. Finally, every year, 400,000 sq. m. of large new-build office space units are produced by refurbishing existing stock.

This momentum represents a deep-rooted trend, as over one million sq. m. of projects are currently under construction and 600,000 sq. m. of projects are about to start. If small and medium-sized units are counted in as well as major renovation projects exempt from planning permission (not included in official statistics), this process of upgrading existing stock is even more intensive.

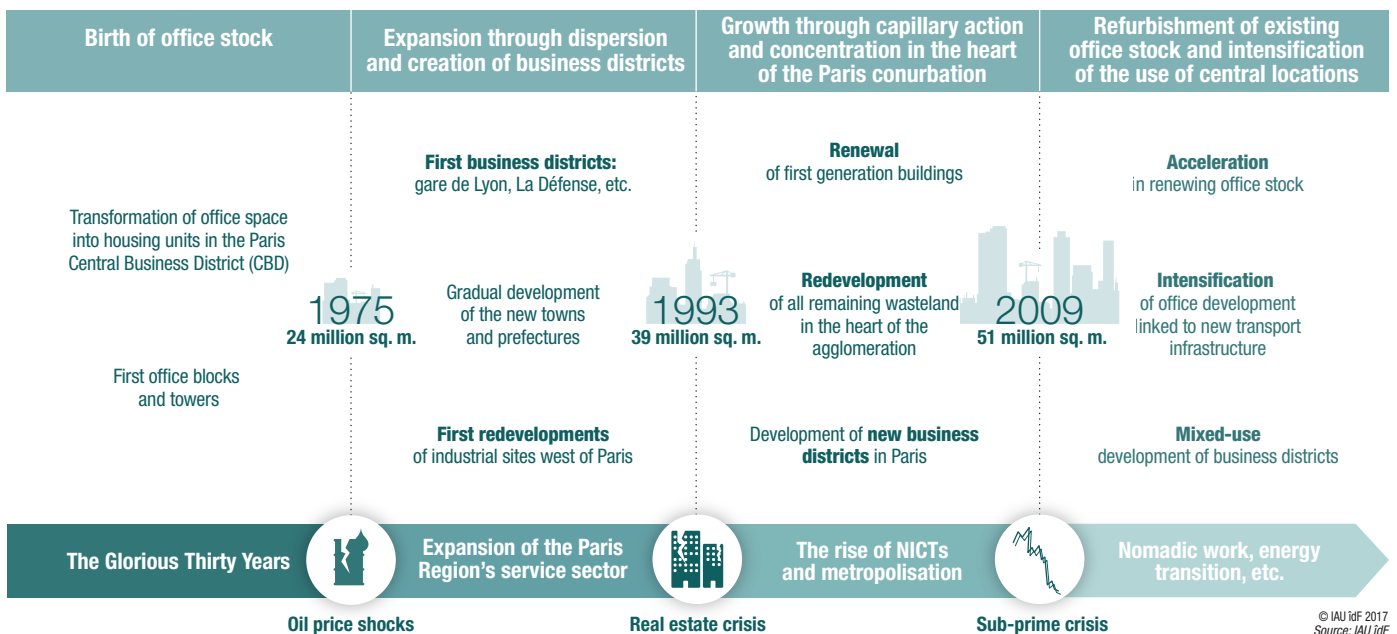
On secondary markets, this path is often chosen because market rental rates are incompatible with a costly renovation scheme. In established markets, large office space units are systematically renovated and brought up to market standards whenever the tenants leave, even in the case of recent office units.

NEW USES AND THE ENERGY TRANSITION HAVE ACCELERATED THE OBSOLESCENCE OF OFFICE STOCK

The significant increase in office space production through refurbishment is partly due to a shortening of building life cycles. The shorter and shorter life spans of work spaces are a sign that businesses are more mobile than before and adapt their work spaces more quickly to new uses and standards.

Recent technical, regulatory and normative changes have also contributed to this acceleration in building obsolescence. The connectivity requirements of buildings have been increasing rapidly (fiber, wi-fi and mobile coverage, etc.), as evidenced by the emergence of wired certification. For many companies, the technical inadaptability of their work spaces has even become so bad that it harms their performance. What is notably at issue is nomadic working, including “within the walls” of businesses.

The three great office construction cycles in the Paris Region



BUSINESS DISTRICTS IN THE PARIS REGION IN 2017

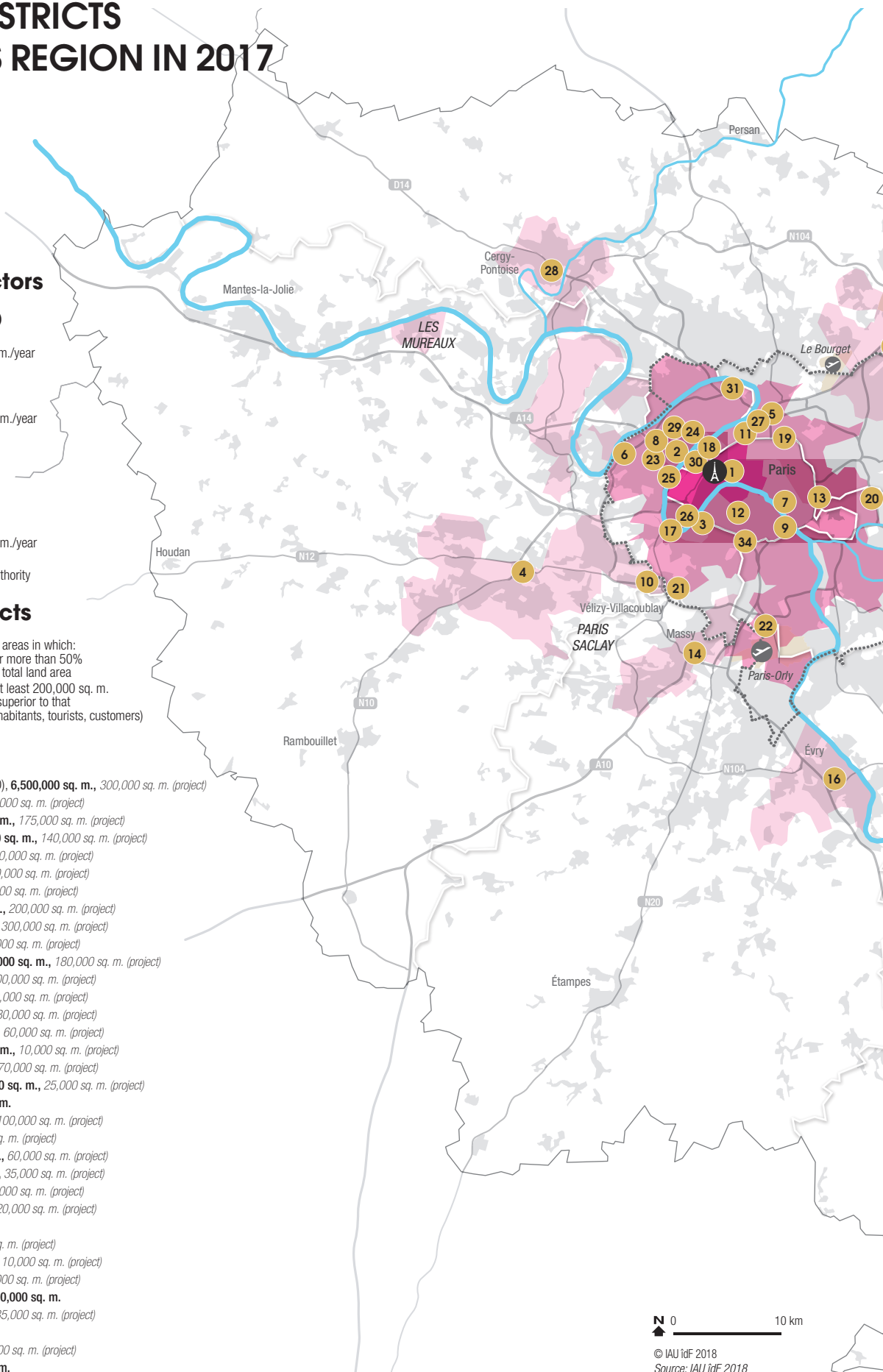
Main geographical sectors

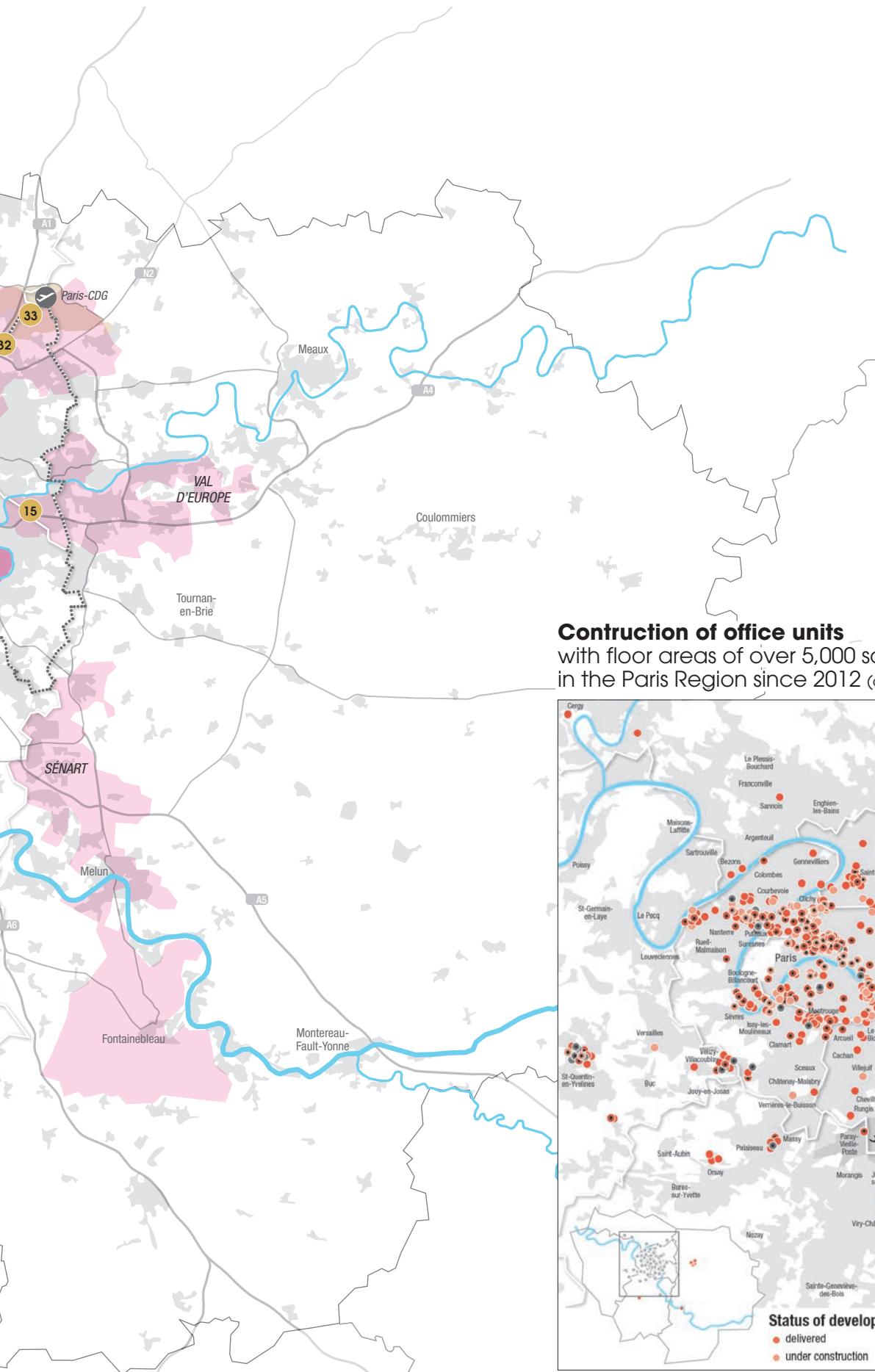
- Paris Central Business District (CBD)**
 - Stock: 9 million sq. m.
 - Prime rent: 650-800 €/sq. m./year
- Extended Paris CBD**
 - Stock: 12.5 million sq. m.
 - Prime rent: 400-550 €/sq. m./year
- Core market (CBD not included)**
- Other markets**
 - Stock: 10 million sq. m.
 - Prime rent: 180-220 €/sq. m./year
- Grand Paris Metropolitan Authority

34 business districts

- Business districts are urban areas in which:
 - office buildings account for more than 50% of the built environment/total land area
 - total office floor space is at least 200,000 sq. m.
 - the number of workers is superior to that of any other population (inhabitants, tourists, customers)

- 1 - Paris Central Business District (CBD), 6,500,000 sq. m., 300,000 sq. m. (project)
- 2 - La Défense, 3,500,000 sq. m., 700,000 sq. m. (project)
- 3 - Balard-Val de Seine, 1,000,000 sq. m., 175,000 sq. m. (project)
- 4 - Saint-Quentin-en-Yvelines, 600,000 sq. m., 140,000 sq. m. (project)
- 5 - Stade de France, 600,000 sq. m., 30,000 sq. m. (project)
- 6 - Rueil-sur-Seine, 550,000 sq. m., 80,000 sq. m. (project)
- 7 - Gare de Lyon, 550,000 sq. m., 40,000 sq. m. (project)
- 8 - Nanterre Préfecture, 500,000 sq. m., 200,000 sq. m. (project)
- 9 - Paris Rive Gauche, 500,000 sq. m., 300,000 sq. m. (project)
- 10 - Inovel Parc, 450,000 sq. m., 110,000 sq. m. (project)
- 11 - Clichy/St-Ouen-Victor-Hugo, 400,000 sq. m., 180,000 sq. m. (project)
- 12 - Montparnasse, 400,000 sq. m., 100,000 sq. m. (project)
- 13 - Bas Montreuil, 400,000 sq. m., 10,000 sq. m. (project)
- 14 - Massy Atlantis, 350,000 sq. m., 180,000 sq. m. (project)
- 15 - Noisy-Mont d'Est, 350,000 sq. m., 60,000 sq. m. (project)
- 16 - Évry-Courcouronnes, 300,000 sq. m., 10,000 sq. m. (project)
- 17 - Rives de Seine, 300,000 sq. m., 170,000 sq. m. (project)
- 18 - Neuilly/Charles-de-Gaulle, 300,000 sq. m., 25,000 sq. m. (project)
- 19 - Porte d'Aubervilliers, 300,000 sq. m.
- 20 - Val de Fontenay, 300,000 sq. m., 100,000 sq. m. (project)
- 21 - Noveos, 250,000 sq. m., 75,000 sq. m. (project)
- 22 - Parc Icade Rungis, 250,000 sq. m., 60,000 sq. m. (project)
- 23 - Champs-Pierreux, 250,000 sq. m., 35,000 sq. m. (project)
- 24 - Les Bruyères, 250,000 sq. m., 45,000 sq. m. (project)
- 25 - Quai de Gallieni, 250,000 sq. m., 20,000 sq. m. (project)
- 26 - Point du Jour, 250,000 sq. m.
- 27 - Pleyel, 250,000 sq. m., 100,000 sq. m. (project)
- 28 - Cergy Préfecture, 200,000 sq. m., 10,000 sq. m. (project)
- 29 - Charlebourg, 200,000 sq. m., 10,000 sq. m. (project)
- 30 - Neuilly/Levallois-rue de Villiers, 200,000 sq. m.
- 31 - Les Louvresses, 200,000 sq. m., 35,000 sq. m. (project)
- 32 - Paris Nord II, 200,000 sq. m.
- 33 - Roissy Pôle, 200,000 sq. m., 15,000 sq. m. (project)
- 34 - Porte de Montrouge, 200,000 sq. m.





Contraction of office units
with floor areas of over 5,000 sq. m
in the Paris Region since 2012 (as of September 1st, 2017)



This now makes businesses totally dependent on large-scale IT infrastructures and on reliable, secured very high-speed internet connections.

A building's technical performance is also measured in terms of energy consumption. In addition to ethical and image-related considerations, this involves keeping an important spending item under control, *i.e.* energy consumption costs. Energy certification of office buildings has gradually become a market standard that excludes part of existing office stock, despite the multiplication of energy efficiency labels, which are not always very clearly understood by companies. Note that the toughening of legal obligations relating to energy consumption in service sector buildings will make some buildings non-compliant, forcing the owners to undertake works or to revise their investment strategies.

Formerly, a work space was just a container or receptacle, but today it is asserting itself as a management tool and a resource serving business performance and acting as a factor of employee productivity. More than ever, the need for flexibility is a key component of business demand for office space. At a time when it is difficult to foresee the growth in staffing, when managing is done in project mode and digital tools make it possible to overcome spatial constraints, the work space must, above all, be versatile and adaptable.

To these flexibility requirements are now added work space sharing practices. Recognizing that certain work stations are unoccupied half the time, desk-sharing or the flex office concept are being introduced. This type of office design, which aims to reduce unit floor areas and costs, is possible only in buildings fitted with sensors and other connected things. Moreover, the adoption of a fresh approach to innovation and productivity models (imported from the start-up ecosystem) translates into the advent of collaborative and mutualized spaces.

The proportion of office units dedicated to "traditional" individual work stations is diminishing, and such units could be in a minority in the coming years. In the recently restructured headquarters of the Danone company in the Paris CBD, only one third of the employees have fixed desks.

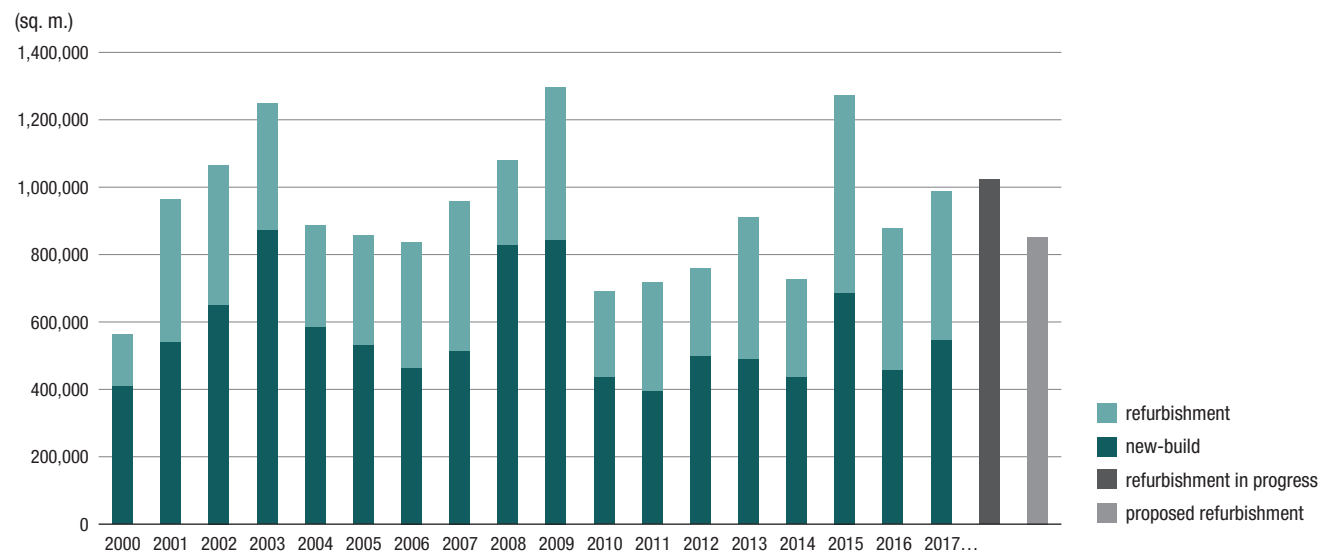
Finally, to foster interaction a strong focus is placed on the quality and comfort of the work environment. The most accomplished expression of these new ways of using the work space has been promoted by the players who have adopted shared offices and coworking spaces. Reflecting the needs of the creative class of people among self-employed workers, these spaces have multiplied exponentially and are beginning to attract the attention of large corporations seeking greater flexibility.

THE QUEST FOR CENTRAL LOCATIONS AND HOSPITALITY

Although rents remain a major constraint, a building's location and environment play a critical role in a company's decision on where to locate, for two reasons: first, to have access to the labor pool, the market and the largest and most suitable network; second, to attract and retain employees who are increasingly demanding. In this regard, the most popular locations are in the most central parts of the core city with excellent public transport links and in the business districts with the best hospitality.

The search for central locations is a powerful driver of refurbishment of office stock. To start with, as available land is scarce, the production of new office units to meet new uses implies refurbishing and densifying office stock. Next, reconciling a central location with a reasonable real-estate cost means having a high-performing and therefore renovated office space market.

Annual completions of office units of over 5,000 sq. m. in the Paris Region



Although demand is focused on centers of service sector activity, the time of monofunctional business districts is over. What determines the attractiveness of an office building is the quality of its urban environment in terms of atmosphere, public spaces, catering and entertainment facilities, etc. Thus, Paris accounts for over 40% of office space take-up⁴, putting the vacancy rate in the capital at a historically low level. Moreover, the number of jobs in Paris has returned to levels comparable to those of 1990⁵. Beyond the CBD, which remains the market powerhouse, other central districts traditionally not identified as service sector hubs are relatively attractive even to large-scale users such as La Française AM in the 6th district (“arrondissement”), Leboncoin in the 10th district (“arrondissement”), Publicis in the Bastille quarter, Technicolor in the Marais quarter, etc.

At the same time, the developments completed in the last remaining extensive reserves of land in Paris, notably the Paris Rive Gauche and Batignolles projects, have led to the emergence of new central business districts which are finding their occupiers. The repositioning of this demand also seems to have occurred in the inner rim of the Paris suburbs, the most dynamic area over the past 15 years.

For several semesters, demand and thus construction works have been very much concentrated in the historic central districts and fringe locations of Paris. The outward dispersion into the suburbs that occurred in the 2000s has largely abated. In this context, there has been a loss of development momentum in the outer rim, which has impaired the refurbishment process. The only locations that have retained some degree of vitality are the established hubs of Saint-Quentin-en-Yvelines, Vélizy, Massy and part of Marne-la-Vallée.

As regards the other hubs, better-targeted strategies have been adopted focused on key service functions, such as international trade in and around Paris CDG airport or R&D in Saclay. In certain locations, we have even seen the actual or planned redevelopment of office buildings.

Going forward, the trends that began in 2009 will continue. The deployment of the new Grand Paris Express (GPE) rapid transit metro network will be a powerful factor in the future spatialisation of the dynamics of new-build and refurbished office stock. This is reminiscent of the RER Regional suburban commuter railway system between 1970 and the year 2000. However, its effects will be determined mainly by the dynamics already at work in each local area and will be sequenced over time. In other words, the current trends will not be impacted in the short term, especially since the anticipation effects among businesses are limited. The emergence of new centers of service activity is bound to be gradual and will not be linked only to the presence of a railway station, but also, and especially, to the existence of some significant local specialization. By easing interconnections with the existing railway network, the GPE will first help strengthen the existing centers of service sector activity. Note that office accommodation centers will have to be more and more hospitable to businesses and employees, who are increasingly looking for places that provide a convivial and attractive environment thanks to the presence of local amenities (catering, shopping, services, public spaces, public transport, bicycle paths, etc.). ■

Renaud Roger, economic urbanist
under the responsibility of Vincent Gollain, Head of the Economics Department

1. Source: ORIE.
2. Office buildings with floor areas per unit of over 5,000 sq. m. Source: IAU idF.
3. According to research by CBRE, BNP Paribas Real Estate, Jones Lang Lasalle and Cushman & Wakefield.
4. Source: ImmoStat.
5. According to the latest Estel/Insee data, there were 1,927,038 jobs in Paris in 2014.

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ISSN 2555-7165
ISSN online 2497-126X



www.iau-idf.fr/en



RESOURCES

- Leroi Pascale, *Dynamics of the Paris Region economy*, IAU idF, September 2016.

On the IAU idF website

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