

London versus Paris

So far, so close

ABSTRACT

Atisreal International Research is dedicated to designing new office market indicators to make Pan-European market analysis easy. This first houseview compares the two leading European real estate markets, London and Paris, and proposes changes to make them more comparable.

Paris and London are the two largest commercial office property markets in Europe. They are regularly compared along with other global markets. They attract international occupiers and international investors. Because of their weight in any pan-European index, they strongly influence what happens to the pan-European market.

However, we are not comparing like-with-like. Treating the Ile-de-France as a single market disguises the separate local, regional, national and international functions within that market. How more tightly should the boundary be drawn? Looking purely at the Parisian central business district is to lose the importance of the surrounding areas. Staying with Paris 'intra muros' would ignore La Défense and its stock of major buildings and occupiers. In London, focusing purely on the traditional core market of City, Midtown and West End, leaves unresolved which neighbouring areas should now be included. If there are sound arguments for extending the boundaries of Central London, where should they be drawn?

In what follows we provide arguments for new boundaries for both Paris and London. The end result is an expansion of Central London and a contraction of Paris. We have avoided the naivety of aiming for the same size in square kilometres of extent or square metres of stock. We have also eschewed statistical analysis of census data to find functional regions in terms of population, employment or commuting patterns. Instead we wanted to capture how these two office markets functioned as national capitals and global nodes. Therefore the first part of the report brings out how different or similar the two markets are in their current boundaries. In the second part the functional patterns of the two cities is brought out, taking the analysis in the first part further. The third part adds a review of where some international occupiers have chosen their location in both cities. The fourth part examines how quickly rents fall away from the core and the new developments taking place. The final part builds on this analysis and argues for the new boundaries.

From now on, London and Paris office market will both be named "Central". The districts included in the new perimeters are:

- **Central London:** West End, Midtown, City, Docklands, Southbank, Western Fringe and Northern Fringe.
- **Central Paris:** CBD, Paris out of CBD, La Défense, Western Crescent and Inner Rim.

INTRODUCTION

France and the UK have more or less the same populations and the same gross domestic products. The dominance of the capitals in these two countries clearly emerges in economic, social, cultural and demographic terms. There are around 11.5 million inhabitants in each of the two metropolitan areas.

Yet they are very different in a number of basic features. The stock of offices in London is less than 20 million square metres. In Paris the stock is over 48 million square metres. Take-up in 2006 in Paris was 2.9 million square metres. London's take-up amounted to 1.2 million square metres, considerably less than half of what Paris achieved. This difference was not due to different positions in the property cycle, but reasonably reflects typical rates of turnover.

The area covered by each provides a clue to the reason for these differences. Paris spreads itself across 12,012 square kilometres. London contains itself within a mere 55 square kilometres. Paris, in these statistics and comparisons, is not Paris, the City of Light, but 'Paris', the abbreviated name of the regional authority, Ile-de-France. Paris may be the heart of this area, but even the department/commune of Paris, to use another administrative unit, covers only 105 square kilometres. No more is London, as used here, either the small City of London or Greater London, the regional authority. London refers to the Central London office market.

PART I – LONDON AND PARIS ON THEIR CURRENT BOUNDARIES

Comparing London to Paris is not easy, since the two cities have different histories, structures and administrative organisations. Paris and London are, after Moscow, the biggest metropolitan cities in Europe with estimated populations of 11.5 million each. However, the two metropolitan areas are not comparable in terms of space: 8,920 km² in London and 12,012 km² in Paris. Even the administrative divisions are different.

1) GEOGRAPHY IS DIFFERENT AND DOES NOT HELP

In the United Kingdom the administrative unit covering most of the built-up area of London is the Greater London Authority (GLA).

The GLA covers an area of 1,579 km² and has a population of 7,500,000. With the GLA are 33 lower tier administrative areas, consisting of 32 London Boroughs and the City of London.

The Central London office market has no official status as either an administrative area or a statistical unit for the collection of data by the Office of National Statistics. It is solely a unit of convenience for commercial property analysts. Consequently there is no fixed definition, with advisors liable to use their own areas and rendering comparison of reports difficult. However there is a broad consensus that the area should be defined in terms of post districts. While drawn up by the Post Office for organising the delivery of mail, they make a useful basis for data collection as all offices will have a postal code showing in which district they fall. In this report we have used Atsireal UK areas that match this common consensus: West End, Midtown, City and Docklands. This represents an area of 55 km² and an office stock of 19.5 millions m² (see Table 1).

In France the administrative area that covers the built up area of Paris is the Ile-de-France. The Ile-de-France covers an area of 12,012 km² and contains a population of 11,500,000. Within the Ile-de-France are 8 lower administrative areas, consisting of 7 departments and the department/commune of Paris. Further lower administrative units are the communes and the 20 arrondissements inside Paris.

The Parisian office market geography is built up from a mixture of departments and communes. It gains in clarity from the use of standard administrative and statistical units and from the agreement of several property advisors through Immostat¹.

Table 1 – Area and stock in 2006

London			Paris		
District	Area	Office Stock (m ²)	District	Area (Km ²)	Office Stock (m ²)
City	10.7	7,550,000	CBD	8.5	6,545,000
Midtown	3.4	2,130,000	Paris out-of-CBD	96.9	9,541,000
West End	25.9	8,060,000			
Docklands	15.0	1,730,000	La Défense	1.6	3,050,000
			Western Crescent	108.5	6,510,000
			Inner Rim	96.5	4,714,000
			Outer Rim	11,700	18,098,000
Central London	55	19,470,000	Paris-IdF	12,012	48,458,000

Source: Atisreal

The CBD plus Paris out-of-CBD constitute the department of Paris, often referred to as Paris 'intra muros'. Intriguingly its combined building stock of 16 million square metres plus the 3 million in La Défense almost match Central London's 19 million square metres. Unfortunately this would be too easy a solution to the problem of finding matching market areas in the two cities. Occupiers, developers and investors all operate over a wider area. In fact, companies can move and relocate outside of Paris' administrative borders, in all the Inner Rim cities.

All these areas are subject to modification as markets change. They are a compromise between the needs of analysts and players in the market. The former require stable boundaries to allow comparisons over time within and between markets. The latter make more of the perception of a market, a perception that changes with market cycles. In expanding markets, occupiers will look more widely for space as supply in core areas falls, while in contracting markets attention refocuses on the core.

In Paris, Immostat has recently revised the boundaries of the Inner and Outer Rim and the re-named Western Crescent to reflect where important developments are taking place. A similar concern has driven the revised boundaries for Central London discussed in this report.

2) ACTIVITY HIGHLIGHTS DIFFERENT LEVELS OF ORGANISATION

The level of activity in London and Paris follows their property cycles. In 2006 take-up in Paris was 2.9 million square metres and 1.2 million square metres in London. London has 40% of the take-up in Paris, matching its 40% of the stock in Paris.

Turnover of stock was at 5.9% in both markets in 2006. This rate varies significantly with the cycle. In Central London the cycle peaked in 2000 when take-up reached 1.8 million square metres, 10.5% of stock. As the cycle ended in 2003, take-up dropped to 500,000 square metres or 3% of stock. In Paris the cycle was less dramatic. Take-up in 2000 was 2.8 million square metres, 6.3% of stock. As the cycle ended in 2002, take-up dropped to 1.6 million square metres or 3.3% of stock.

Table 2 – Office take-up by sub-market in 2006

London		Paris	
District	Volume (in m ²)	District	Volume (in m ²)
City	557,000	CBD	515,000
Midtown	96,000	Out of CBD	520,000
West End	348,000		
Docklands	152,000	La Défense	280,000
		Western Cr.	579,000
		Inner Rim	423,000
		Outer Rim	547,000
Central London	1,153,000	Paris-IdF	2,863,000

Source: Atisreal

The density of office floor space and the density of take-up are higher in the Central London market, as Table 3 shows. This shows the level of market concentration.

Table 3 – Density of stock and take-up

	Central London	Paris-IdF
Surface area (Km ²)	55	12,012
Density of Stock (m ² /Km ²)	354,000	4,034
Density of Take-up (m ² /Km ²)	20,964	238

Source: Atisreal

However this may simply be a product of enclosing London's market in a tight embrace and using a much looser one for Paris. An examination of the market sub-areas (see Table 4) makes it clear that this reservation is justified.

In London, the City has the highest density of stock at almost 704,000 m²/km². However in Paris this is exceeded by CBD at 770,000 m²/km² and La Défense with a striking 1,906,000 m²/km². Docklands, often compared with La Défense, has a meagre density of stock of 115,000 m²/km². But this can be a misleading comparison, since La Défense is tightly restrained, while Docklands includes a much wider area.

Shares of stock, take-up and turnover rate vary interestingly between the sub-markets of London and the sub-markets of Paris. The City and West End sub-markets dominate Central London.

Table 4 – Density of stock and turnover by sub-market

	Area (Km²)	Density of stock (m²/Km²)	Density of turnover (m²/Km²)
City	10.7	703,635	51,911
Midtown	3.4	634,117	28,580
West End	25.9	310,993	13,427
Docklands	15.0	115,387	10,138
Central London	55	354,000	20,964
CBD	8.5	770,000	60,588
Paris out-of-CBD	96.9	97,534	5,366
La Défense	1.6	1,906,250	175,000
Western Crescent	108.5	60,000	5,336
Inner Rim	96.5	48,850	4,383
Outer Rim	11,700	1,547	47
Paris-IdF	12,012	4,034	238

Source: Atisreal

They represent 80% of the office stock between them and took 78% of take-up in 2006, with the City having a 48% take-up share and the West End 30%. But this means a large difference in turnover rate. In the City it was 7.4% and in the West End 4.3%. The rate in the two other markets was a modest 4.5% in Midtown but a very high 8.8% in Docklands.

Table 5 – Sub-market share of total market stock and take-up and turnover within each sub-market

Share of:			
	Stock (%)	Take-up (%)	Turnover (%)
City	39	48	7.4
Midtown	11	8	4.5
West End	41	30	4.3
Docklands	9	13	8.8
Central London	100	100	5.9
CBD	14	18	7.9
Paris out-of-CBD	20	18	5.5
La Défense	6	10	9.2
Western Crescent	13	20	8.9
Inner Rim	10	15	9.0
Outer Rim	37	19	3.0
Paris-IdF	100	100	5.9

Source: Atisreal

In Paris none of the sub-markets dominates to the same extent. The Outer Rim does have a 37% share of the stock, but only a 19% share of take-up and a turnover rate of 3.0% in 2006. Of the other sub-markets, the biggest share of the stock is in Paris out-of-CBD, with 20% and the smallest is in La Défense with 6%. The share of take-up in 2006 was spread between all the sub-markets, lying between 10% (La Défense) and 20% (Western Crescent). However the turnover rate figures are particularly interesting compared with London. Except for the Outer Rim, none fell below 5%, and three had turnover rates close to or above 9%.

If we wanted to model something closer to Central London and used Paris 'intra muros' with La Défense, we would find a parallel set of statistics. Around 84% of the stock would be in two markets, the CBD and Paris out-of-CBD, which would also have 79% of the take-up. The overall turnover rate of 6.9% exceeds both Central London and the broader Paris market.

From these results, it emerges that the office market is more concentrated in certain areas of London than in Paris. There is a higher diversity between Parisian districts. Therefore, the structure and organisation of the two cities are different, making it difficult to find a comparable perimeter.

3) THE IMPACT OF LEASE STRUCTURES ON TURNOVER

The higher rate in the Paris sub-markets, except the Outer Rim, could have an explanation: the difference in the lease structures of France and the UK.

The legal duration of a lease in Paris is 9 years. The landlord may either renew the lease at an adjusted rent or refuse renewal. Should he refuse to renew, he is obliged to pay compensation to the tenant. The tenant has the right to break the lease at the end of the 3rd and 6th year, unless otherwise provided in the contract. Therefore, the leases lengths are usually considered to be of 3, 6 or 9 years, but can also reach 12 years². Rents are adjusted annually, using the Construction Costs Index (INSEE index), without taking in consideration rents trend.

In London, until the 1990s, occupiers of commercial buildings were expected to sign leases that bound them by contract to their landlords for no less than 25 years, made them responsible for maintaining and repairing the internal

environment, and committed them to an upward-only rent review every five years, irrespective of what was happening in the economy generally. This kind of 'institutional' lease still exists, but their terms have become more flexible. Typically, leases last longer in London: 15 years instead of 6 years in Paris.

Since the leases are shorter in Paris, companies tend to look for new and better accommodation more frequently than in London. Consequently, take-up volume is likely to be higher in Paris than in London, due to this higher level of market churn. The highest recorded level of take-up in Paris was in 2000, when transactions reached 2.8 million m². Last year, a new record was registered thanks to what has been called the "2000 effect". Companies that signed for expensive offices in 2000 decided to move into more modern and cheaper space. The "2000 effect" has been quantified at approximately 200,000 m².

Behind the differences between the two cities set out above, are their distinctive histories, physical structures and administrative organisations.

On the other hand, in both the transformation of France and the UK from manufacturing to service economies led to radical shifts in the morphologies of London and Paris. Service employment became dominant and the needs of service occupiers came to determine the architecture and urban structure of the two capitals. Industrial companies remaining in the two cities are represented by their headquarters only, geographically removed from the production side of their businesses.

The analysis so far has shown that the superficial differences in terms of bare area, stock and turnover can be partly explained by the accident of the boundary definitions. Had Paris been drawn more narrowly then the differences between the two markets would have narrowed. Had London's boundaries been extended to include the South-East region, then the additional sub-regions may have resembled the Inner and Outer Rims of Paris.

The next section looks more closely at the functional characteristics of the two markets as these offer a more promising basis for re-drawing the market boundaries.

PART II – A FUNCTIONAL ANALYSIS OF THE MARKETS

The first part of this analysis uses data from transactions in Central London and Paris-Ile-de-France between 2002 and 2006. In this we look at the contributions of different business sectors to take-up and then at which sub-markets are favoured by which sectors. The second part takes a selection of international companies and looks at their favoured locations. These are four consultancies, a selection of banks and, rather obviously, five real estate advisors.

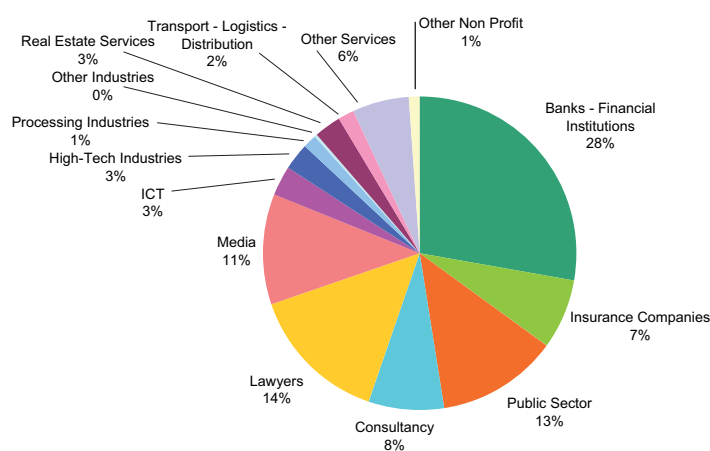
Our analysis of the Paris and London office markets has made use of transactional data for all deals registered in the markets over the period 2002-2006. In particular, the analysis focuses on transactions of more than 2,000 m² by business sector. The companies are classified into 14 business sectors.

In both cities the financial sector dominates, though to a greater extent in London than Paris. Legal occupiers rank second in London for several reasons. There is a traditional concentration of lawyers around the courts of law in Midtown. London's role as an international financial centre attracts international legal groups. Furthermore, several large deals involving legal firms were concluded during the sample period, boosting their ranking in the statistics. In Paris it is the public sector that ranks second, reflecting Paris's role as the administrative sector and the larger role the public sector plays in the French economy. The public sector is reorganising and rationalising its offices, moving in new and modern spaces, more adapted to its needs.

Privatisation in the UK of parts of the public sector is partly responsible for its lower share in London. It is unsurprising that the two markets closely echo each other in the business sectors active in taking space. Each is the capital city of a long unified and centralised state with a consequent centripetal pull on all companies with a claim to a national or international profile.

The clearest difference is that the Parisian market is more diversified than London. The top five sectors in London provide 71% of the space. In Paris the share is 60%. The tenth ranking sector in Paris has 4.5% of the space. In London it represents 2.7%, a far sharper drop away from the number one spot. The most common business sectors are banking and the public sector.

Figure 1a – Share of take-up by business sector in London in 2002-2006 (> 2000 m²)



Source: Atisreal

In London, there is a higher concentration in fewer sectors than in Paris. For example, in Paris, the industry sector is still important and represents 25% of deals while in London it represents just 4%. The question then becomes how far this concentration at the whole market level is reflected in a concentration at a sub-market level.

This part of the analysis has selected seven business sectors common to both markets to see how their location preferences are expressed in the take-up of space from 2002-2006. A cautionary point here is that this analysis reflects the direction of activity; it does not necessarily reflect where the sectors are currently located.

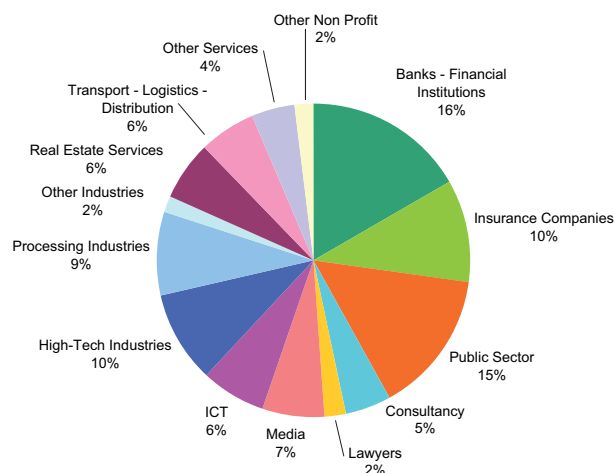
The seven most sectors for both London and Paris that will be analysed deeper are:

- Banks;
- Insurance;
- Public Sector;
- Consulting;
- Lawyers;
- Media;
- ICT.

1) IN PARIS, MAJOR COMPANIES MOVE EITHER IN THE CBD OR IN THE INNER RIM

The Paris perimeter used does not include the Outer Rim, since this market district is not important for the kind of companies we have

Figure 1b – Share of take-up by business sector in Paris in 2002-2006 (> 2000 m²)



Source: Atisreal

chosen to analyse. The seven business sectors chosen represent 56% of the number of transactions and 62% of their volume. In Paris, major companies move either in the CBD or in the Inner Rim.

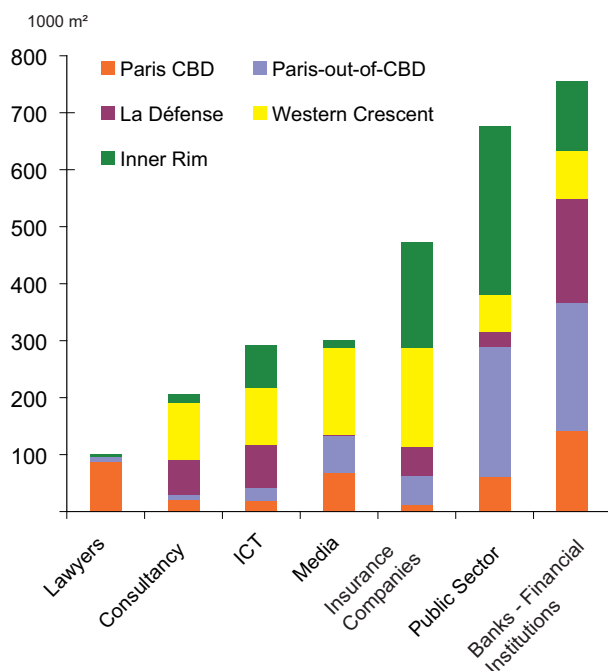
The Western Crescent is the most popular market district, where 28% of the transactional volume was registered, followed by the Inner Rim (24%) and Paris Out-of-CBD (20%). La Défense and the CBD registered only 14% of the transactional volume. Although the CBD and the Western Crescent have the same stock levels, the Western Crescent is characterised by larger transactions while the transaction size in the CBD is constrained by the need to preserve the historic buildings in Paris.

The business sectors that took the most space over the four years were the banks (743,000 m²), the public sector (625,000 m²) and the insurance sector (445,000 m²), a total of 1.8 million m². The Media and the ICT companies took 300,000 m² of space each. Law firms completed very few transactions and almost all of them restricted to the CBD (85%).

Since 2002, ICT companies have relocated to three decentralised districts: the Western Crescent (in particular, Issy-les-Moulineaux), the Inner Rim (close to Issy-les-Moulineaux) and La Défense.

Some insurance companies have relocated out of the 'périphérique', with a preference for new markets such as Nanterre, Saint Denis and Saint Ouen. Consulting companies have moved

Figure 2 – Sub-market by business sector in Paris.



Source: Atisreal

out to offices in La Défense and the Western Crescent (in particular Neuilly-sur-Seine). Meanwhile, the public sector is relocating within Paris itself, but outside the CBD, and into the Inner Rim, mainly Montreuil.

The banks have followed a different pattern from other companies. If they are based in the CBD, they have kept their headquarters there, but not their front or back offices. They can have big office space in La Défense, but can also move their lower value business to cheaper market districts.

2) IN LONDON, FINANCE DOMINATES THE CITY AND MEDIA THE WEST END

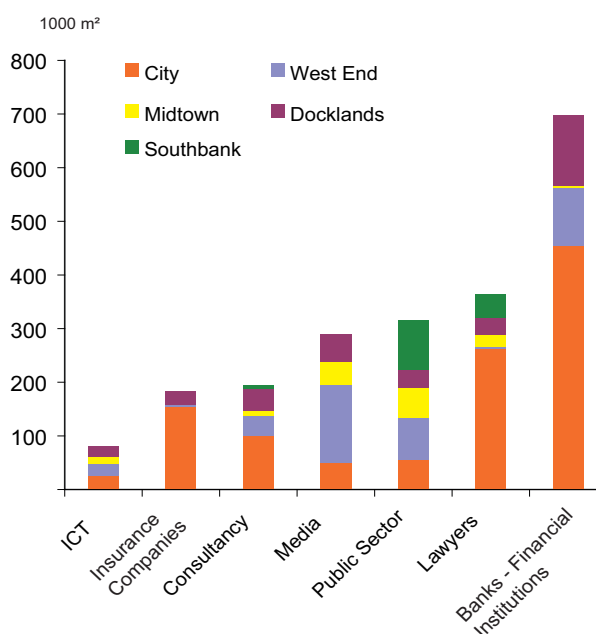
As in Paris, the analysis shows that the business sectors that had the most transactions in terms of square meters were the banks (646,000 m²) and the public sector (303,000 m²). Media companies are the third most active sector in London with 223,000 m² of space taken since 2002. Insurance, ranked third in Paris is ranked fifth in London.

The City is the historic core of London and a major business and financial centre, accounting for 48% of the space let, followed by the West End (22%) and the Docklands (15%). The transactions of the four main business sectors

are heavily concentrated in the City: the insurance companies (84%), the lawyers (68%), the consultancy firms (64%) and the banks (64%). Banks are present in the Docklands (20%) and the Core West End (15%). Lawyers have also spread further afield from their historic base in Midtown around the law courts, first into the City and now increasingly, into the Southbank (20%). Consultancy firms have signed very few deals in the last five years, amounting to some 83,000 m². The larger companies have chosen not to move from their current locations during the four-year study period. When consultancy companies did take space, this was mainly in the City and the core of the West End.

The remaining three sectors are also present in the City, but the volumes of deals are much lower. These sectors are more likely to be located across all the London submarkets, without being concentrated in any specific one.

Figure 3 – Sub-market by business sectors in London



Source: Atisreal

Around half of the take-up by media companies was in the West End, due to the presence of an important film and media cluster in the Soho district. Otherwise no other submarket dominates. In contrast to Paris there are very few transactions by the ICT companies, totalling 81,000 m² in London compared with 292,000 in Paris. In the UK, the ICT and pharmaceutical sectors have principally located to the west of London along the M3 and M4 motorways and along the M11

motorway to the north-east of London towards Cambridge. Only very well established ICT companies, such as IBM, have a major presence in Central London.

Even if the public sector is having a less important role in the UK economy, it has moved within all the sub-markets, with the bulk of deals recorded being in Southbank. Large government departments are located in the Victoria district of the West End, close to the Houses of Parliament. In 2004, the UK Government announced plans to move 20,000 jobs out of London and South East England and to relocate some departments to the rest of the country. However, this has not been done yet. As a preparation for these moves, government departments were prohibited from taking more space in central London. The public sector transactions, reflected in the figures, were by local authorities, public transport operators and the emergency services.

PART III – LOCATION ANALYSIS OF SELECTED BUSINESS SECTORS

London and Paris are major world cities but the two economies do not specialise in the same fields. London is the stronger international financial centre, especially for banks, whence industry has fled. Paris, the only European city that competes with London on an international basis, attracts a wide range of business sectors, including pharmaceuticals and ICT companies.

In this section, two different aspects of company location are analysed. First, the behaviour of certain large international companies, neither French nor British, is examined to see where non-national players take space. Second, there is a more focused study of global financial players located in the core West End.

1) WHERE ARE THE INTERNATIONAL COMPANIES' OFFICES?

Three types of international companies will be analysed: consultancy companies (Table 6), foreign banks (Table 7) and real estate advisors (Table 8). In these tables, besides the already discussed London sub-markets, two more are referred to. These are Southbank, opposite the City on the southern side of the Thames, and West End Fringe, an area to the west and north west of the West End sub-market.

Consultancy companies are concentrated in the City and Southbank. There are also some offices in Docklands (KPMG and PwC) and Midtown (PwC and Deloitte). In Paris, consultancy

companies are more concentrated. They all have offices in La Défense and nearby Neuilly and Levallois. KPMG is the only firm that has also one office within the CBD of Paris.

Table 6 – Consultancy companies

Company	London Office	Paris Office
Deloitte	City (4)	Western Crescent
	Midtown	
Ernst & Young	Southbank (2)	La Défense (2)
		Western Crescent (2)
KPMG	City (4)	CBD
	Docklands (2)	La Défense (2)
	Southbank	Western Crescent (3)
PWC	City	Western Crescent
	Midtown	
	Docklands	
	Southbank (2)	

Source: Atisreal

In Table 7, a list of foreign banks and their location in London and Paris is shown. In London, all the foreign banks have an office in the City, except Bank of America, Citigroup, Crédit Suisse and Morgan Stanley.

Table 7 – Big Foreign Banks

Company	London Office	Paris Office
ABN Amro	City (2)	CBD (2)
	West End	
Bank of America	Docklands	CBD
BBVA	City	CBD
Citigroup	Docklands	CBD
		La Défense
Commerzbank	City (2)	CBD (2)
Crédit Suisse	Docklands	CBD
Deutsche Bank	City (5)	CBD
	Southbank	
Dresdner Bank	City	CBD
Goldman Sachs	City	CBD
Intesa Sanpaolo	City (2)	CBD
		Out of CBD
		La Défense
JP Morgan	City (2)	CBD
Morgan Stanley	Docklands	CBD
Santander	City (3)	CBD
	West End Fringe (2)	
	Southbank	
UBS	City (4)	CBD (2)
	Core West End	
Unicredit	City (3)	CBD (2)

Source: Atisreal

Some of them have additional offices, spread across all the other sub-markets. In Paris, all the banks have their offices in the CBD. Only Citigroup and Intesa Sanpaolo have additional offices in La Défense.

In London, real estate advisors are located in the West End and the City. Only Atisreal and Jones Lang LaSalle have offices elsewhere. The former recently took space in Docklands. In Paris, DTZ is located outside Paris, in the Western Crescent. Atisreal and CBRE have offices in Paris and the suburbs. Cushman & Wakefield and Jones Lang LaSalle have offices only in the CBD.

Table 8 – Real Estate Companies

Company	London Office	Paris Office
Atisreal	City	Out of CBD
	Core West End	Western Crescent (2)
	Midtown	Inner Rim
CBRE	City	CBD (2)
	Core West End	Western Crescent
	Docklands	Inner Rim (3)
Jones Lang LaSalle	City	CBD
	Core West End	
DTZ	Core West End (3)	Western Crescent (2)
	City	
C&W	Core West End	CBD
	City	

Source: Atisreal

International companies in London tend, in general, to prefer the traditional business and financial district of the City, though they have started to locate elsewhere. In Paris, the situation is more varied, since the CBD remains attractive only for the banks. The other sectors look at whichever of the business districts that offer modern and large offices.

2) WHERE DO GLOBAL FINANCIAL PLAYERS FROM MAYFAIR HAVE OFFICES IN PARIS?

In this part, we look at a list of global financial players located in Mayfair, a district of the West End where record rents being paid.

These financial businesses occupy offices over 550 m², frequently in buildings listed for historical and architectural merit. Typically, these businesses are active in the private equity or venture capital markets, or are hedge fund

managers. Many have been established by former employees of large City banks and financial institutions. They have chosen to be based in Mayfair for its amenities and prestigious environment. We wanted to discover whether they have a presence in Paris and, if so, where they are located.

We identified 123 companies in the West End, of which 87 (71%) have no office in Paris, while 36 of them (29%) do. Of these:

- 28 in the CBD
- 5 in La Défense
- 2 in Paris out of CBD

Those companies that have chosen the West End, particularly Mayfair, are located in the CBD and La Défense. So where they may choose a prime, if not prestigious, location in London, this is not echoed in Paris.

The majority of the companies present in London market are not in Paris. They may have offices in London, New York and possibly a tax haven, such as the Cayman Islands, Guernsey, Jersey and the Isle of Man. London's advantage over other financial centres is well known. Investors can deal with the Far East financial centres in the morning and New York in the afternoon. English law is the most important and most used contract law in international business. Finally, London attracts workers and businesses from all around the world, reinforcing its status as a global financial centre.

On the other side of the channel, Paris has attracted 29% of these global players. While it may not currently be attractive to this kind of business, it is so for large international finance companies, particularly when compared with the other European cities. According to an Ernst & Young survey of April 2007, London attracted 25% of international establishments with Paris six percentage points lower at 19%. The third most popular city, Madrid, fell a further 11 percentage points below Paris. This shows that Paris enjoys a high ranking among continental cities.

London and Paris are the most attractive cities in Europe for international companies, with London enjoying its position as the top international financial centre in Europe.

PART IV – MARKET GEOGRAPHY

The two cities have a different history and organisation. This continues nowadays and is reflected in the rents levels. Moreover, the new developments will determine where the companies will be able to establish their offices and develop new markets.

In this section, we look at first at the rent profiles of the two centres to see what this reveals about their market structures. As a final step, a description of the new developments taking place in both cities is done.

1) RENT PROFILES OF THE TWO CITIES

Using average rents rather than prime, we looked at the way rents varied between the sub-markets. The key question is how far away from the rent peak does an occupier have to go to reduce its rent significantly?

The West End has the highest rent in London, 895 €/m²/year at the end of 2006. Taking this as the benchmark, rents in the other sub-markets are the following proportions of the West End:

■ City:	77%
■ Docklands:	70%
■ Midtown:	67%
■ Hammersmith:	49%
■ Southbank:	34%

In Paris, using the average rent for new buildings, the CBD has the highest rent: 601 €/m²/year, 33% lower than in London. Taking this as a benchmark, the rent falls away in the following percentages:

■ Paris out of CBD:	84%
■ La Défense:	76%
■ Western Crescent:	55%
■ Inner Rim:	46%

In London, to cut its rent by half, a company has to go to Southbank or Hammersmith, which lies to the west of the West End Fringe. Against this financial advantage there are disadvantages. Hammersmith is a good distance away from the City, while Southbank is poorly connected with the other office markets. Moreover, given that companies tend to cluster, it is difficult for a single firm to take the risk of moving to an entirely new location. Canary Wharf is a classic example of the need to build a critical size

before success is reached, with the involvement of the State that has to build the infrastructures.

In Paris a company would need to relocate to the Western Crescent or the Inner Rim to half its rent. The different districts have their own characteristics and rent levels. A company that wants to pay less knows that if it leaves the CBD, it will be able to pay half the rent by moving into the Inner Rim.

In this market district, the transport system is not as extensive as in Paris *'intra muros'* but can still allow companies that relocate there to be linked with the Parisian market. The *'périphérique'* ring road, built on the last fortifications of Paris, was until few years ago considered as a fence, a barrier between Paris and its *'banlieue'*. However, this is not true anymore. The real estate market straddles over the *'périphérique'*. Moreover, the municipality of Paris has decided to bury the road in certain specific areas in order to eliminate the feeling of crossing a fence. Even if there is still an administrative border, there is no longer a physical one. Therefore, all the different districts effectively belong to the same real estate market.

Queen Victoria and Baron Haussmann

If the cities structures are different, the kinds of buildings that can be found are similar. In the West End, the buildings are predominantly Regency and Victorian in style, often listed and where their façade at least has to be preserved. This happens also in Paris CBD, where the style is *'haussmanien'* and of the same period. The Docklands and La Défense are two modern districts built outside the city centre where major developments are possible and where towers can be built without changing the skylines of the historic centres of the two cities. Buildings in the outside the main market districts are less limited by architectural ties.

The rents structure, the transports system and the dominance of some economic structures imply market geographies very different in London and Paris. In London building of a similar size and layout tend to cluster together: commercial buildings often of a contemporary design in the City of London; smaller but historically attractive buildings in the West End; very large, bespoke designed offices in Canary Wharf and Docklands. In Paris, while historically important buildings are similarly protected, contemporary buildings are to be found settled among them.

The constraint that does affect new buildings is one of height. The taller buildings attractive to large occupiers are to be found outside Paris 'intra muros', at La Défense and around the 'périphérique'.

2) NEW DEVELOPMENTS TAKING PLACE IN BOTH CITIES

In Paris there are a number of communes, previously in the Outer Rim and now in the Inner Rim, where important developments are now underway. These communes are either well connected to central Paris through the Métro, the Regional Express Rail (RER) or the Tramway networks or will be in future years as current transport plans implemented. To secure the future of La Défense, the main priority is to regenerate the seventeen high-rise buildings that have become too old, outdated and possibly asbestos-ridden to retain viable market value. This will imply demolition and reconstruction operations for several towers. Moreover, new buildings will be constructed. Overall, supply should increase by 700,000 m². Another major development will concern the former Renault industry in Boulogne, the isle of Seguin and Meudon in the Western Crescent. In these areas and in the nearby Issy-les-Moulineaux 200,000 m² of offices are to be built over the next 5 years.

In London, important office developments have been developed in Southbank, across the Thames from the traditional City and West End markets. Until the end of the 1970s, Southbank was dominated by industrial activity, with wharfs, warehousing and light industrial uses. Since the 1980s, the area has been substantially redeveloped. This district is now becoming integrated into the London office market and has proved attractive to major occupiers such as PricewaterhouseCoopers, Ernst & Young and IPC Media. Areas to the north of the core Central London markets are next to see significant regeneration. At King's Cross almost 500,000 m² of offices are to be built over the next 10 years, assisted by a new Eurostar terminal from which services to Paris depart since November 2007.

PART V – A MORE COMPARABLE PERIMETER

The Paris market perimeter is too big while London's is too small. Finding an identical perimeter for the office markets is not a solution since the economic and urban structures are different. Therefore, our solution is to change the perimeters to make the two markets more comparable, even though they will never be completely identical.

Analysis shows that the Paris market does not include the Outer Rim, which is too far away from the city. On the other side of the Channel, London is leaking out of the traditional districts that were the City and the West End. This began in the eighties with the development of Docklands and continues nowadays with developments in Southbank, Hammersmith and the major development beginning in Paddington and King's Cross.

Changing the perimeters will bring the office stock to 30.4 million m² in Paris and 22 million m² in London (see Table 7). The actual difference between the office stocks that currently stands at around 29 million m² will be reduced to 8.3 million m². The stock difference is still large, but significantly less than before. In terms of stock, London would be 73% of Paris (compared to 40% before). They contain similar real estate products and companies generally move within these new perimeters.

Table 7 – New Office Stock in 2006

London		Paris	
District	Surface (in m ²)	District	Surface (in m ²)
Central London	19,470,000	Paris-IdF	48,458,000
Southbank	+ 1,710,000	Outer Rim	– 18,098,000
Western Fringe	+ 780,000		
New Central London	21,960,000	Central Paris	30,360,000

Source: Atisreal

With regard to take-up, the new perimeter will increase transaction volume in London by 233,000 m² and reduce it in Paris by 547,000 m² (see Table 8). The difference between the transaction volumes will then fall from 1.7 million m² to 1 million m². This means that the ratio between the transaction volumes in Paris and London will be 1:1.8 instead of 1:2.5 at the moment.

The new perimeters mean that the ratio transactions to stock will still be 5.9% in Central London, but changes to 7.6% in Paris. This level is the same as the record year of 2000. The difference to the ratio of Paris-IdF shows that the market is more concentrated in the new perimeter.

Table 8 – New Office Take-up in 2006

London		Paris	
District	Volume (in m²)	District	Volume (in m²)
Central London	1,153,000	Paris-IdF	2,863,000
Southbank	+ 112,000	Outer Rim	– 547,000
Western Fringe	+ 21,000		
New Central London	1,286,000	New Paris	2,316,000

Source: Atisreal

In terms of surface area, the new perimeter contains 312 km² in Paris against 12,012 km². Therefore, the transaction volume per km² will increase, going from 238 to 7,423. Adding in Southbank and Hammersmith, London's area will become 70 km² against 55 km², still smaller than Paris. The transaction volume per km² will fall from 20,964 to 18,371.

The surface area indicator is not the same with the new perimeters. However, it shows that reducing the surface in Paris gives us a more comparable office market area.

CONCLUSION

The real estate market in these two cities is different since their histories and their economies are different. Although London and Paris are the leading cities in Europe for real estate, their markets are not evolving in the same way. Many factors explain these differences, but the aim of this analysis was to highlight the problem that until now the office market of a region (Paris) was being compared to the central district of a city (London).

What emerges from this houseview is that current occupiers in London and Paris do not act in the same way. The London market is more concentrated than Paris and is led more by service companies, whereas in Paris 25% of deals are still done by the industrial sector.

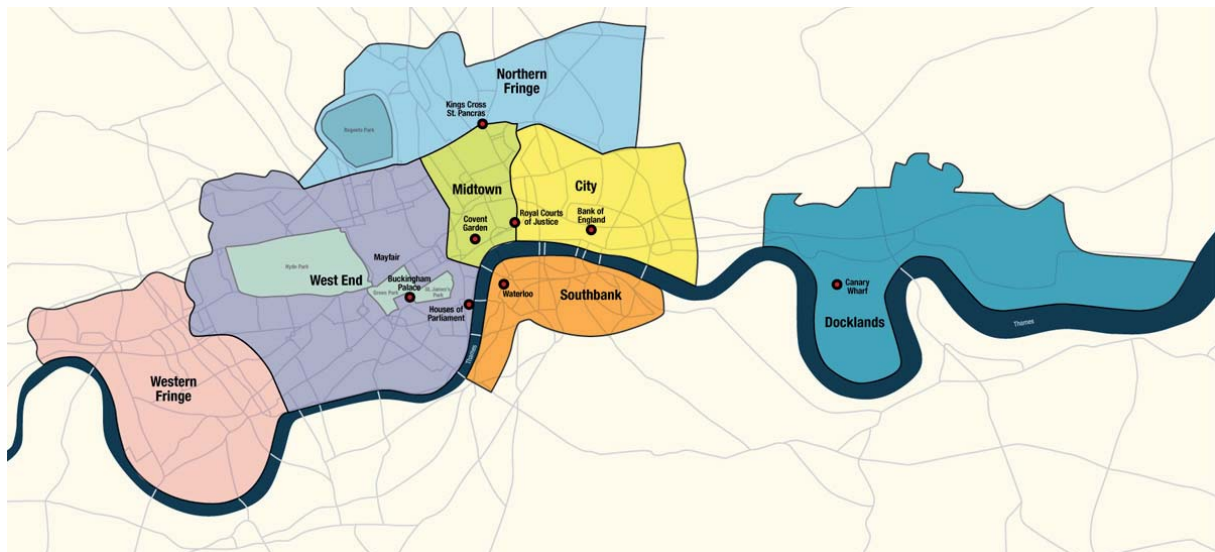
The solution proposed in this document is that the perimeters used must be changed to make the data more comparable. London's office market will grow and that of Paris shrink. Both markets will be called "Central" since they are smaller than the entire agglomeration. This will not eliminate all the differences between the two markets, but it will make them more comparable and therefore make our analysis more accurate.

Notes:

¹ Immostat was established in 2001 by Atisreal, CB Richard Ellis, DTZ and Jones Lang LaSalle in order to have common databases for the Île-de-France markets (investment, office and logistic).

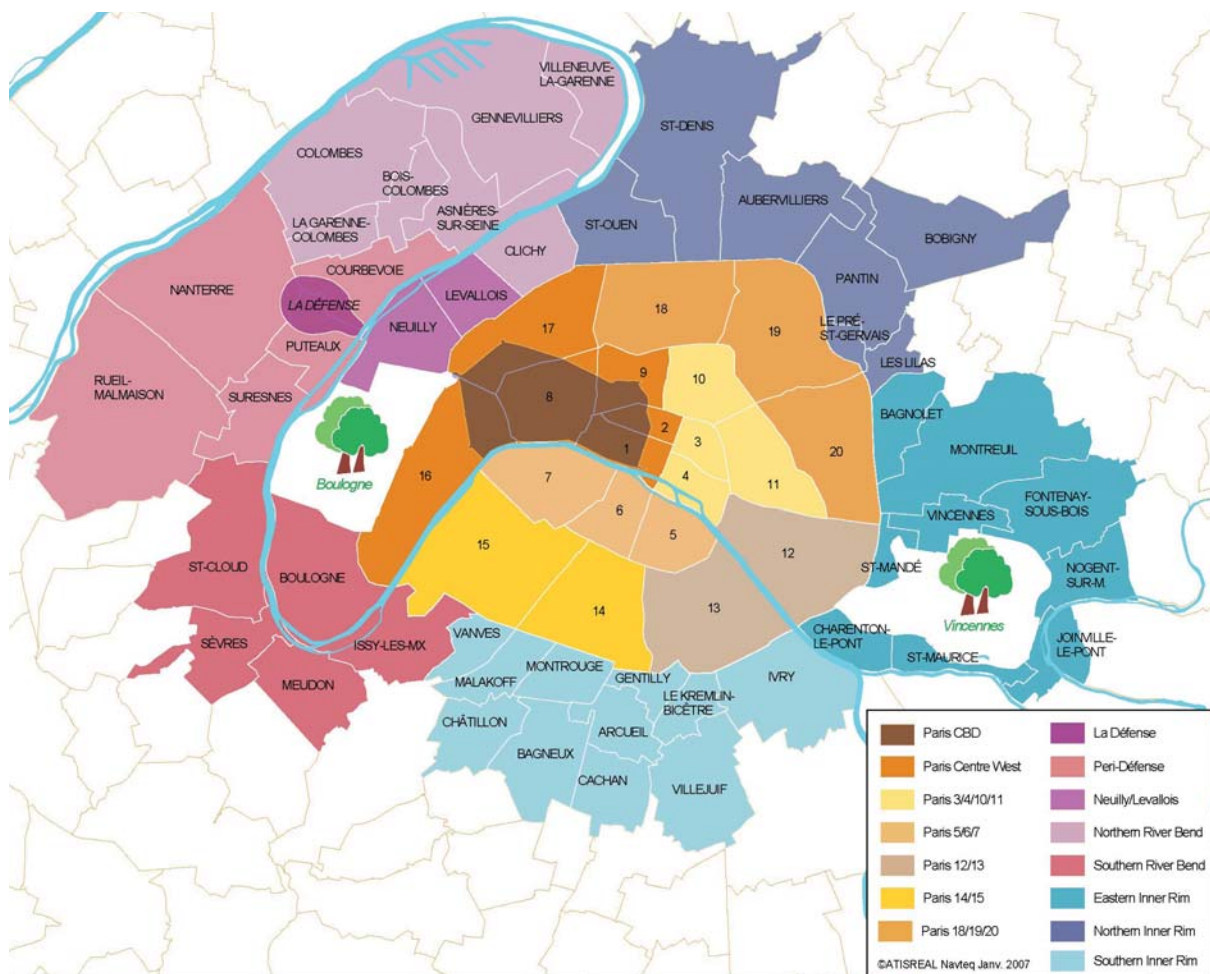
² A contract can be longer than 12 years, but in this case there will be a specific taxation that otherwise is not applicable.

Map 1 - Central London



Source: Atisreal

Map 2 - Central Paris



Source: Immostat