

FRANCE CONTINENTAL EUROPE INVESTMENT OCCUPIER OFFICE

# La Défense: From bankers and towers to cyber experts and underground art

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**As Parisian workers find their way back to the office, React News analyses why La Défense remains an attractive district for occupiers and investors**



Just across the Seine to the west of central Paris lies [La Défense](#), Europe's biggest business district. Decades before Canary Wharf took on the City of London, La Défense had established itself as a business hub that could compete with central Paris, with leading industrial companies such as Arcelor, Esso and EDF based in its towering office blocks.



Today, the district is home to about 500 companies, 35% of which are in the finance, insurance and banking sectors, 30% in the energy sector and about 15% in the audit branch. An increasing number of new firms have joined these long-term tenants, including Amazon, as well as 20,000 full-time residents. La Défense also boasts the biggest hybrid stadium/arena in Europe, a shopping centre with the highest footfall on the continent, more than 100 restaurants and a range of higher-education institutions, proving that it continues to diversify.



La Défense Arena has hosted a vaccination centre during the pandemic

If La Défense has evolved over the years, it has remained characterised by high levels of speculative development and vacancy rates. During financial crises, the business hub, which spans 556 hectares (2.15 sq miles), tends to fall particularly hard as it is more likely to become over-supplied. Fears that it will become a ghost town might, however, be exaggerated.

Pierre-Yves Guice, CEO of La Défense, estimates that 60-70% of workers have now returned to their office desk, though not necessarily full time. "Many companies allow their workers to

work from home one to three days per week, so this results in changing needs in office space,” he tells *React News*.

Office owners “are coming to see us to see how they could adapt their buildings,” Guice adds, and “dismantle classic office floors to implement co-working spaces or new sorts of meeting spaces.”

## Attractive leasing deals

It is clear that we are still a long way from the average take-up levels reached before Covid-19, but the four leasing transactions of more than 5,000 sq m in La Défense in the first half of 2021 are an encouraging sign. Furthermore, other large deals have been completed since the summer.

By contrast, there were only three transactions for all of 2020. And in 2019, before the Covid-19 outbreak, there were only five transactions of more than 5,000 sq m in the business district, according to David Bourla, chief economist and head of research at Knight Frank in Paris.

“At the beginning of the pandemic, everybody thought that La Défense would be significantly impacted but what we see today is that the companies that want to move to La Défense, or are already in La Défense but want better space, are in a better position to negotiate and go for these attractive deals that landlords are now more willing to offer,” Bourla tells *React News*.

Affordable rents are also an argument put forward by Eric Siesse, deputy general manager in charge of Ile-de-France office letting for BNP Paribas Real Estate Transaction France. He points out that a lease in Unibail-Rodamco-Westfield’s 33-storey Trinity Tower – a 52,600 sq m (566,182 sq ft) development completed last autumn – is about €540/sq m/month on the lower floors, compared with €930/sq

m/month on Rue Bayard in Paris’ 8<sup>th</sup> arrondissement. With loggias and balconies for tenants, 500 sq m of shops and

3,500 sq m of green public places, Bourla describes Trinity Tower as a new benchmark for prime assets in La Défense.

Rents in La Défense are much cheaper than in central Paris

“Paris’ central business district (CBD) remains an expensive market, with limited supply of 5,000 sq m-plus surface areas. It’s not the case for La Défense, which is a big advantage,” Siesse notes. “The rental gap between Paris CBD and La Défense is at historic levels so occupiers can afford to move into very prime buildings.”

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ERIC SIESSE, BNP PARIBAS REAL ESTATE

Over 50% of new lettings this year on buildings of more than 5,000 sq m have been signed by first-time occupiers at La Défense. For spaces of more than 5,000 sq m, tenants are

generally companies that are already present in the business district but looking to upgrade their offices.

“If you are looking for brand new, large space, La Défense is a good location,” suggests Patrick Bosque, deputy general manager at Hines France, which is developing the Tour Hekla skyscraper in the business district with AG Real Estate. “If you are looking for 10, 15, 20,000 sq m [in Paris] ...it will often be a renovation, because now the majority of the city doesn’t want to build any more brand new offices.”

## Tech companies

While La Défense has long been considered a haven for bankers and grey suits, things are changing.

“We’re seeing more and more tenants that are not from the financial sector, especially tech companies,” says Bourla. “That’s also a good sign because La Défense is able to attract a good mix of occupiers.”

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DAVID BOURLA, KNIGHT FRANK

Among the new leases signed in the first half of 2021, one of the biggest ones was the [Cyber Campus](#), a project initiated by French president Emmanuel Macron that moved into the brand new 26,000 sq m Eria office tower. The cybersecurity hub will welcome companies, government departments, training organisations, research players and associations.



A lease has been signed for Emmanuel Macron's new cybersecurity hub

Other first-half 2021 leases include Ingenico moving from Bezons to take 13,700 sq m in the renovated Tour Voltaire, CGI leasing 11,500 sq m in Carré Michelet and Technip leasing 7,000 sq m in the Trinity tower, and also a brand new tower.

About 58% of take-up in La Défense in the first half of 2021 was for space of more than 5,000 sq m, while 1,000-5,000 sq m transactions – such as Welkin & Meraki in Trinity Tower; Fujitsu moving from Asnieres to Tour Alto; and Cromology moving from Clichy to Carré Michelet – represented about one-third of take-up, according to Knight Frank data.

Pursuing a greater mix of tenant types is “hugely important for us,” says Guice, “because it enables the district to be more resilient, more robust, in times of crisis like this one. It’s also more interesting for the social interactions of the companies that are already there.”

### **From vertical towers to US-style campuses and green spaces**

Another cliché that stakeholders in La Défense are looking to challenge is that of a grey landscape of dull towers.



“There are a lot of preconceived ideas about La Défense but today lots of the district’s buildings are buildings where the air supply is 100% fresh air, where the windows can be opened and with outside space. Today, about one out of three buildings in La Défense has a loggia, a rooftop or some other sort of outside space,” Siesse says. “The experience offered in the buildings has also improved significantly. There is a lot more mix of uses and more services.”

He adds: “What makes La Défense attractive today is the variety of buildings. That’s a very important point. La Défense is not only about vertical buildings. There are also lower buildings and campuses. There are lots of new projects.”

‘La Rose de Cherbourg’ is the most eye-catching example. It is both an urban redevelopment project and a new skyscraper: Tour Hekla, designed by Jean Nouvel.

Hekla, named after an Icelandic volcano, is set to reach 220 metres when it is completed in 2022, making it the tallest new building in Paris. Meanwhile, an old highway interchange has been dismantled and converted into a footbridge for pedestrians and cyclists, connecting the tower to a new urban park with 25,000 sq m of outdoor space. In the summer months, people will be able “to go outside easily and to work on this footbridge, which is very peaceful,” Bosque explains.





The base of Tour Hekla will feed into a 450m walkway. Credit: L'Autre Image

Further efforts to bring the district up to modern standards include redeveloping the underground spaces in the centre of the public plaza into a new shopping centre with indoor sports facilities and “temporary artistic experiences”.

While the district has managed to attract more tech firms, some sectors remain absent from La Défense, preferring the buzz of central Paris. “What could probably be improved is the tenant mix in La Défense. There are too few luxury firms or startup companies, including unicorns,” notes Siesse.

“I think the intermediate companies are more and more interested in La Défense, but it is still difficult to attract startups and American companies, because they have their idea of what Paris is: the central part, the 2<sup>nd</sup> arrondissement,” adds Bosque.

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PATRICK BOSQUE, HINES

“And the typical aspects that are very interesting for bigger tenants are not working with little ones. For example, the capacity of La Défense to attract 90% of people via the high level of transport we have is very interesting for bigger tenants; not that interesting for startups, who expect more of their people to come in by bike or by foot. This is a good challenge for the next few years: to have more restaurants, more services, more nightlife. That has the capacity to attract these people.”

Currently unused underground space in La Défense will be regenerated into a shopping and cultural centre with “temporary artistic experiences”

**Too many big projects?**



La Défense certainly offers a great choice for brand new office space. But are there too many projects, especially as companies are looking to cut space requirements?

“New buildings account for about 40% of the office supply in La Défense today so it is not an ageing district at all. More than two-thirds of the large transactions are new buildings. And nearly all the towers that will be delivered in the next year can be divided into single office spaces of less than 5,000 sq m,” says BNP Paribas Real Estate’s Siesse.

According to the executive, the average lease was 13,000 sq m in the Paris region between 2010 and 2019, but since the beginning of 2021, it’s about 9,000 sq m.

“Companies are reducing the size of the new leases they’re signing. There are fewer very large leasing deals. However, to a certain extent, the reduction in size will be compensated by the focus on quality of collaborative spaces,” estimates Bourla.

The stakeholders in projects such as Tour Hekla, which began construction in 2018, have had to adapt to these new constraints – but they’re not worried.

“We have a building that is just as well calibrated to accommodate 30 tenants as two or three,” says Vincent Virlogeux, project manager at AG Real Estate. “Until now, we have focused our research towards the second category. As Covid has significantly lengthened the decision-making time for this type of large user, we are considering widening our target on smaller users, as a complement to our initial strategy.”

Small tenants looking for 5,000-6,000 sq m, Bosque points out, can decide between six and 12 months before moving.

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VINCENT VIRLOGEUX, AG REAL ESTATE

According to BNP Paribas Real Estate's figures, less than half of the space to be delivered in Paris' CBD between 2021 and 2023 is still available, whereas in La Défense it is as much as 90%.

"If we look at what will be delivered in the next year, it corresponds to three years of average take-up. It is a lot, yes, but it also gives the occupiers more choice and more bargaining power in terms of rent," says Siesse.

Another indicator is the vacancy rate, which stood at 12.8% at the end of the first half of 2021, compared to only 7.3% for the entire Ile-de-France region, according to BNP PRE data. That rate is set to rise to as much as 15-20% until the end of the year, exceeding the 20-year peak reached in 2013, Knight Frank's Bourla estimates. But he is not overly concerned.

"La Défense has always been a cyclical market. The Covid-19 crisis has coincided with the delivery of a number of large projects but the vacancy rate can also recover very quickly in La Défense. We can be optimistic due to the quality of the location, the infrastructure and the transport network."

Guice is similarly confident that the offices currently being completed will find tenants, but adds: "The real question is in regard to the future, because it seems quite obvious that we won't be able to continue developing hundreds of thousands of sq m of new vacant offices. So we may have to better regulate and plan the use of the land in La Défense better than we may have done in the past.

*"It seems quite obvious that we won't be able to continue developing hundreds of thousands of sq m of new vacant offices"*

 PIERRE-YVES GUICE, LA DEFENSE

“What we should be concerned about is launching new big projects without having a clear idea of which company could occupy them, what use they could have: the more general perspective of the district.”

## The return of foreign investors

If the leasing market definitely shows signs of improvements, the investment market has to face other types of challenges as La Défense has always been a market attracting foreign investors due to the size of the assets.

“La Défense remains a market of very large assets so we need to have buyers that have the capacity to make €500m-€1bn acquisitions. At the moment, there’s a bigger focus on €100m-€200m deals. For €200m-plus, it’s usually club deals,” says Olivier Ambrosiali, deputy general manager, head of capital markets at BNP Paribas Transaction France.

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OLIVIER AMBROSIALI, BNP PARIBAS REAL ESTATE

Investment has undeniably suffered under Covid-19 travel restrictions. According to Knight Frank, only €110m was invested in La Défense last year, compared to the average annual investment volume of about €2.7bn in the five years before 2020. In the first half of 2021, investment reached less than €300m.

The largest deals between January and June were core or core-plus deals and involved French buyers, including Perial’s acquisition of Les Villages de l’Arche complex from URW and La Française’s purchase of Village 3 from URW.

Villages de l'Arche (photo: Unibail)

"On the investment side, activity remains very subdued because La Défense has always been a market that has attracted foreign investors," notes BNP PRE's Ambrosiali. "We've had years with strong presence from Asian investors or US investors, with about €2.5bn of annual investment on average."

"At the moment, there is still a big focus on core assets in Paris' CBD, which is more a stable market with better prospects for future rental growth," adds Knight Frank's Bourla.

However, as the situation normalises, Ambrosiali expects transaction volumes to reach €1.5bn for the full year 2021.

Activity is also likely to pick up due to better alignment between buyers and sellers' expectations. Ambrosiali estimates that about €4bn of offices in the Ile-de-France region did not find a buyer last year because of a divergence in pricing expectations between owners and bidders. He notes that this year, buyers have adjusted prices.

ay, when we put an office on the market, we're almost  
in the deal will be completed," Ambrosiali tells *React*

*News.* “The buyers have taken into account what happened last year and reacted very quickly, which is positive for the market.”

Before the end of the year, Guice says, La Défense will unveil its *'raison d'être'*: its strategy and vision for the next 20-30 years. It is a pivotal point in the history of the district, and while some trends are highly likely to continue, others are much harder to foresee.

“We’re pretty sure we’re not making a big historic mistake when we begin to turn public spaces into urban parks,” he says. “The mix between office space and housing units is a bit more difficult to predict, and for which we launched a series of studies in order to rethink the future of La Défense.”

