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Corporate Tenancy in France – C'est Magnifique

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 I T R A / T A T H A M P R O P E R T Y S O L U T I O N S
 P A R I S , F R A N C E

France is the second European economy and has great infrastructure, food, wine and flair, so there are plenty of business and cultural reasons to have operations in France. But what are the compelling and motivating factors for the corporate tenant considering expansion into or relocation within the French market?

Here are five great reasons for doing so, along with five potential stumbling blocks to consider when leasing commercial or professional space in France:

1. It is perhaps the most tenant-friendly country in Europe. Tenants are spoiled by the flexible lease patterns in that legislation obliges landlords to provide a minimum nine-year occupancy term, and tenants can leave at the end of the third or sixth year without penalty.

While it is standard for larger lettings (upwards of 10,000 sq. ft./ 1,000 m²) to require a six-year initial commitment, tenants can contract out of notice rights in exchange for commercial advantages such as an additional rent-free period, cash contribution for build-out, extension options, and so on.

It should be noted that rent reviews or escalations are applied annually according to an index. After excessive increases in recent years, the government has just created a new index that is, believe it or not, more protective for tenants.

Watch out for the formalism in a French contract. For example, Notice to Quit must be given by a bailiff or it is invalid. I know of several executives whose careers stalled after

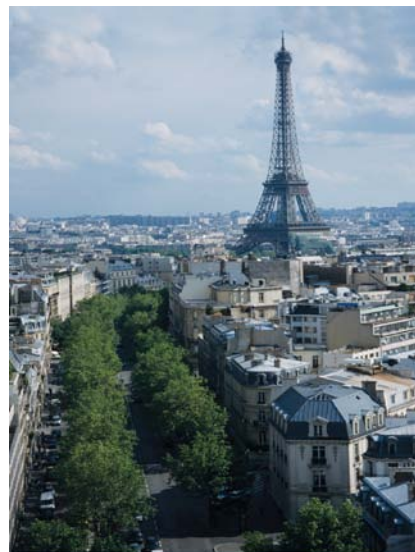
“giving notice” by registered letter and unwittingly committing their corporations to three additional years of occupancy costs.

2. Be savvy about the legal system. In France, the judge is on your side. French lease law is designed for the small shopkeeper rather than office or logistics businesses and is, therefore, generally favorable for tenants who need to be protected from landlords.

For example, increases in the rental index have created opportunities to exercise the “25 percent rule” for leases that originated prior to 2004 – tenants can threaten a landlord with a process to have the rental reviewed by a court. This is an excellent opportunity to bring the landlord to the negotiating table and reduce occupancy costs without giving notice or risking disrupted operations – no owner of real estate wants the delays and uncertainty of a tenant friendly court fixing rent.

We recently shaved over 30 percent off the rent in a French facility of a U.S. based corporation.

Beware the lack of precision in most leases regarding reinstatement obligations and “dilapidations” at the end of a lease. Tenants must return the space to landlords in reasonably good condition, sometimes perfect



condition, if the lease has been inadequately drafted - by expiry. You'll need to allow additional time for construction, or negotiate for the landlord to complete the remedial works to avoid penalties.

3. There's plenty of choice in property. The Paris region office market claims to be the largest in Europe, in excess of 500,000,000 sq. ft. / 50 million m². There's a wide variety of space from converted Haussmann-style apartments (no air-conditioning, no communication/data cabling and an elevator boasting a red velvet bench to rest on) through unfortunate 1960s developments right up to new construction that offers flexible space

and some of the best energy-efficiency in Europe.

The availability of public transportation is a key consideration in the pricing of corporate rentals, and this is reflected in all the major office markets (Paris region, Marseille, Lyon, Lille), which are still recovering from the recent recession and rental rates are now only beginning to stabilize or increase.

While legislation has not yet been passed, it is clear that obsolete buildings will have to be "greened" over time. Therefore, make sure the lease contract protects you from obligatory upgrades. Also keep an eye on unexpected effects of local employment contracts – companies may have to compensate workers who are displaced beyond certain limits.

4. There's advice available, so take it and avoid the frustration of being mistreated by the parties involved in the transaction. Tenant representation is a comparatively new

discipline in France, perhaps because the opportunity to terminate a lease every three years limits liabilities. As is standard in most of Europe, transaction and advice fees are payable by tenants. However, landlords regularly contribute as part of a package of concessions (rent-free periods, cash contributions), and help with build-outs. If you don't ask for concessions, you don't get them.

*French brokers side with landlords since they provide more recurrent business than tenants – so conflict of interest is inherent in the system. It is important to know who is working for you. Some brokers "forget" to tell their client that fees are being duplicated by the landlord, allowing some transactions to generate one-off fees exceeding 30 percent of a year's rental. Our contracts with clients **always** define project responsibilities and commit us to seeking fees from landlords.*

5. France can move fast. Despite the perceived relaxed atmosphere and regulated 35 hour work weeks, the

French workforce delivers. When you need things to happen on a tight deadline, we can assemble the right project team. Recently, we completed a fit-out of 5,000 sq. ft. / 500 m2 in just three weeks.

Remember that the holiday period from Bastille Day (July 14) to the end of August will impact your timetable. You can get the job done, but the best workers will either be on vacation or fully booked.

The key to success in France is knowing how corporate transactions are structured. With ITRA Global representation, you can gain valuable information about the subtleties of the French system to ensure your transaction and overall corporate real estate experience will be *magnifique*.

This article appeared in the September 2011 Issue of ITRA Global's Newsletter, Corporate Real Estate Strategies.

