



CBRE

THE TENANT'S GUIDE IN FRANCE

2017

An overview of the procedures to be followed by a company wishing to secure office accommodation in France



1 IDENTIFYING REQUIREMENT

- Establish the requirement criteria in terms of various aspects including :
 - the company strategy
 - the structure and organization
 - the growth predictions
 - the competition
 - the location
 - the size
 - the technical facilities and equipment required
 - the conditions of the real estate market
- Constitute a preliminary budget and cost simulations with the help of CBRE.

2 MANDATE AGREEMENT

- The law in France stipulates that a mandate document must be signed when working on a real estate requirement. CBRE will supply a draft proposal to the client. The information on the client required to complete the document includes:
 - RIB (Bank account details).
 - Name of the company mandating CBRE
 - Type of company e.g. Inc., Ltd., or if this is a French entity SA, SAS, SARL
 - The share capital of the company
 - Registered addresses of the French company and corporate headquarters
 - Name and position (title) of the person representing the company, who has the ability to contract the mandate on the company's behalf and who is signing the mandate.
 - The approximate surface area and geographical location of the requirement.
- On agreeing the terms and conditions, the two originals of the mandate agreement (*Mandat Exclusif de Recherche*) will be signed by CBRE. These will be issued to the client for countersignature. One original should be returned to CBRE. Each page should be initialled, the last page signed above 'The Client' and complemented with the mention: 'read and approved - given mandate'.
- Signing a mandate with a professional real estate agent like CBRE ensures that the occupier will benefit from experience and customized consulting. The evolution of markets, the increasing sources of information and the complexity of legal issues require an expert knowledge.

3 PROPERTY SELECTION

- CBRE will provide a listing of properties that best suit the requirements. This will involve working with the client to constitute a short-list of sites in terms of their suitability with the criteria.
- Once established, the shortlist will be followed by an organized tour to arrive at a list of say 2 or 3 potential sites. More detailed information, including estimated budgets will be provided on these properties.

4 CANDIDATURE PACKAGE

- The client should create in advance a well-presented and impressive company overview package to confirm the covenant 'signature strength' of the company to a landlord. This should include both information on the company and the financials on a local and, if applicable, on a global basis. The landlord will be most interested with the credentials of the entity contracting the lease. If there are confidentiality issues a non-disclosure agreement should be prepared with the clients' legal advisors in French. This will then be ready to provide to landlords at the appropriate time. The package should include :
 - Financial Data and presentation of the parent company and French operations (number of offices & personnel, date created, credentials, analysts reports)
 - Last two balance sheets (company accounts) of parent and local company (if not available other suitable financial data to sell the company to the landlord)
 - Biography of the top executives, CV summaries with photos, press book
 - Extrait K Bis (Certificate of Incorporation) of company contracting the lease
 - Statuts (Articles of Incorporation) of parent and local company
 - RIB (Bank account details)
 - Identify the position held in company and the ability of the person automatically authorised to sign the lease agreement. If a 'power of attorney' is required in order to permit another person to sign the lease agreement, this document should be executed well in advance.

Note on rents

Rents are mentioned as net. French regulations allow a complete freedom as far as charges and taxes are concerned. The landlord usually pays for their band and is reimbursed by the tenant; they include insurance, building management, office tax, land tax. . .

5 LEASE CONTENTS

Lease Content	The French commercial lease has a minimum length of 9 years, which the tenant can break every three years unless firm periods were negotiated. Hence the umbrella term of the 3/6/9 lease.
Deposit	Tenants are required to provide 3-month-rent deposit (reimbursed on expiry) and usually a bank guarantee of up to one year's rent
Rent Payment	Rent is payable quarterly in advance and for the majority of properties, is subject to VAT (19.6%)
Rent escalations	Rent is indexed annually in accordance with the ILAT Index, currently between 1 and 2% (some exceptions)
Basis of measurements	Includes usable office area, bathrooms and common parts but excludes vertical circulation
Break & renewals	<p>The tenant has the right to break every three years, unless parties agree to a firm contract period of six or nine years. Landlords achieve such firm contract periods in tight markets, in high-quality buildings, in build-to-suits, and in exchange for free rent or fit-out contributions. To break, notice must be delivered by registered letter with acknowledgement of receipt or by a bailiff.</p> <p>Office tenants have a statutory right to renew at lease end at market rents. This right to renew cannot be waived. However, the tenant must follow formal procedures to renew, or may suffer expensive consequences and lose the right to renew the lease.</p>
Landlord obligations	The landlord is responsible for buildings insurance, external repairs and repairs to common areas
Tenant obligations	Repairs to the tenant's areas are the responsibility of the tenant
Service charges	<p>The service charge is payable quarterly in advance, with a reconciliation statement at year-end. The amount varies according to amenities provided. Since 1 September 2014, each new lease must include a precise and restrictive inventory of all charges and taxes and the breakdown of their payment between the landlord and the tenant. The landlord must then send an annual summary statement to the tenant. A future decree will indicate which charges and taxes cannot be borne by the tenant.</p> <p>Examples of service charges per building €70-80/sqm p.a. in a high-rise building in La Défense €50-75/sqm p.a. for a prime building in Paris CBD</p>
Office tax (Paris Region)	It is levied annually, paid by the landlord and usually reimbursed by the tenant. It varies according to districts and types of buildings
CET (Contribution Economique Territoriale, replaces Taxe Professionnelle)	<p>Occupiers are subject to the CET, which includes the following taxes:</p> <p>Since early 2010, occupiers have been subject to the CET (replacing the <i>Taxe Professionnelle</i>), which includes the following taxes:</p> <ul style="list-style-type: none"> - Real Estate Tax: CFE (<i>Cotisation Foncière des Entreprises</i>), based on the rental tax value of used buildings (local tax rate) - Corporate Tax: CVAE (<i>Cotisation sur la Valeur Ajoutée des Entreprises</i>), based on the corporate added value (national tax rate at 1.5%), excluding companies with an annual turnover below EUR 152,000.
Land tax (Impôt foncier)	The landlord pays the Land Tax annually and the tenant usually reimburses the landlord. The level of this tax varies according to specification (level of equipment in the building, i.e., elevator, facilities, etc.) quality, and the location of the property. The Land Tax ranges from EUR 6-49/sqm/year.

6 BANK GUARANTEE

- In addition to a cash rent deposit, French landlords usually require a bank guarantee or corporate guarantee at lease signature.
- The guarantee is a unilateral contract according to which the bank accepts to reimburse the debt of the occupier, thus providing a guarantee to the tenant.
- It is commonly asked by landlords to most users.
- Obtaining a bank guarantee can be time-consuming, so tenants should contact the bank as early as possible. The bank can often require a specific amount of funds set aside as collateral. There are two types of bank guarantees:
 - A Standard Bank Guarantee requires legal action to release money.
 - A First Demand Guarantee is an automatic option for the landlord to have money released, without a court action. A bank, present in France, guarantees a sum of rent, and often service charges, taxes, etc.; usually on a rolling basis for the duration of the lease. This was the most common form of guarantee in 2010.
- A corporate guarantee is also known as a "parent company guarantee." The guarantee can vary from 1–3 years' gross rent, depending on the financial strength of the tenant. This is less common than a bank guarantee and may apply when a local entity is 100% owned by a major foreign company. French landlords only accept this type of guarantee for well-established companies. Calling on such a guarantee in a foreign country can be difficult and costly. Organize, well in advance, the process so that funds are transferred to a Paris based bank for the rental deposit, the first three months rent and other costs to be incurred.
- After the identification of the bank, they should be briefed on the type and amount to be guaranteed and the implied procedures required to ensure the fast turnaround of the guarantee. If not well prepared this can be a timely process.
- Unlike US practices, French landlords require the provision of the duly executed guarantee at lease signature. Given current market conditions, it is extremely difficult to negotiate with the owner. The guarantee can vary between 1 year and 3 years gross rent depending on the financial strength of the entity contracting the lease. The bank can often require funds set aside in a specific account as collateral to the guarantee..

Note on subletting

Subletting is not common unless an agreement is signed between both parties. The landlord must remain involved in all the decisions concerning the subtenant party and must give his approval.

Usually, subleasing is restricted to less than 50% of the space occupied by the tenant. The regulations imply that the user needs the space for his business only and not for property related gains. This part of the law is more protective towards the landlord's interests. The subtenant must usually be an affiliate to the existing occupier to avoid any complication for the owner.

7 RENT DEPOSIT

- The rental deposit ensures to the landlord that the tenant will fulfil the commitments contracted in the lease (rent payment and maintenance of the premises). If the occupier carries out all the assignments, the amount will be given back at end lease (the deadline is not legally defined).
- Landlords usually require a three-month cash rent deposit at lease signature from all tenants, independent of their financial strengths.
- If the deposit required exceeds more than two terms of rent (6 months), the difference is subject to the interest rate quoted by the Banque de France.

8 TECHNICAL ADVICE

- In France, there is specific legislation that dictates the nature and related permits for works that can be undertaken in a property. These rules and regulations will impact the type of works that a user can undertake in the fitting out of his premises. Labour standards, health and safety, and other legislation will affect, for example, the ability to densify in terms of the number of toilets blocks, the width of corridors, stairwells, occupational costs...
- The project managers at CBRE Design & Project can assume the entire relocation project from drawing up plans to monitoring works and negotiating furniture purchase thanks to an in depth experience of the French regulations, labour standards...
- They will also :
- Assist in establishing the requirements and budgets for the client and negotiating with landlords on technical issues.
- Validate the final short-listed properties to ensure the premises allow the client to exercise their activity in the property in terms of the local administrative rules & regulations in France.
- Undertake fit out cost estimates and timetables
- Manage the fit out process from design through to delivery.

Note on rent free period

Rent-free periods can currently reach up to 2.5 - 3 months per year for long-term leases and large premises taken up in sectors where there is over-supply, although how large these incentives will clearly depends on the balance of specific local supply and demand, the duration the firm period is contracted and the condition of the building. Landlord's contribution to the expenses of fit-out works are also currently negotiable.

9 LEGAL ADVICE

- Identify, agree negotiation fees and instruct a legal advisor specialized in real estate.
- A timetable should be agreed for the review of a lease document.
- Provide for translations to be undertaken of legal documentation if required.
- Provide the legal advisor with a full copy of the candidature package.
- CBRE draft the letters for approval by the client and these should be returned, signed, by both facsimile/scanned by e-mail and post for onward transmission to the landlords. At the appropriate time, the legal advisors should review the lease (all the contractual documentation), provide their written comments and negotiations will take place thereon.
- The negotiations may in certain cases necessitate the presence of the legal advisers at certain meetings. Once a finalized document is agreed with the landlord this should be approved by the client. If a translation is required this should be arranged in advance with the lawyers.

10 CLOSING AND FIT-OUT

- French landlords do not usually accept wire transfers. The most common form of payment is by check.
- Once the lease agreement has been signed and all obligations fulfilled the project management phase can commence with the appropriate timetable.

CBRE TENANT REP

Dedicated to occupiers' needs, Tenant Rep works on behalf of clients to find the best solution for them. Our team is made of consultants who provide occupiers with real estate consultancy services as well as strategies adapted to their specific needs.

They provide a multidisciplinary approach taking into account factors which define real estate strategies (legal, financial, tax, technical and environmental analysis of the real estate context) for customized projects and global adapted solutions.



CBRE WORLDWIDE



70 000 EMPLOYEES
60 COUNTRIES
T.O 2015: \$Bn10.8

CBRE EN FRANCE



1 120 EMPLOYEES
36 OFFICES
T.O 2015: M€173

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