



# Effects of Globalization on the Spatial Structure and Property Markets of the Paris Region

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**EFFECTS OF GLOBALIZATION ON THE SPATIAL STRUCTURE AND  
PROPERTY MARKETS IN THE PARIS REGION  
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The impressive development of techniques compressing time and (almost) abolishing distance, which support economic globalisation, at first gave rise to expectations that the economy would become independent of concrete territories, and that large cities would be less important.

In fact, it is the contrary that has happened. Far from being dissolved into the non-spatial world of teleworking, global cities concentrate a growing share of wealth and power. In 1990, the Tokyo metropolitan area ranked in the first world position in terms of production, with a GDP of 854,4 billion dollars, amounting to the GDP of the total United Kingdom. Paris ranked in the 5th position, just after Los Angeles and Osaka, with a GDP of 318,1 billion equivalent to that of China.

Researchers have tried to explain the intensification of the metropolisation process (strengthening of the leading activities of large cities) under economic globalisation. The most well-known theory is that of the "global city" by Saskia Sassen (Sassen, 1990). We will not discuss here whether Paris fits in with the model of global city according to Sassen's parameters. It can be assumed that Paris is not a global city because its financial sector (the key industry of global cities) is far less important than that of Tokyo, New York or London.

Globalisation has nevertheless brought about significant transformations in the French economy. Numerous French researchers, mainly geographers, have closely analysed industrial transformations in various large French cities, using census data (in particular, the team working on industrial production in the STRATES laboratory). Other specialists in geography or sociology have focussed on the "dualisation process" of the labour market and its socio-spatial effects, according to Sassen's theory. Research on office real-estate markets has also been undertaken in relation to metropolisation and technopolisation processes induced by economic globalisation. However, approaches connecting industrial transformation, territorial alteration and property markets are extremely rare. We will attempt, in this paper, to use this approach in an analysis of the case of the Paris metropolitan area.

### **Uncoupling of Paris and the provinces**

The compression of distances, the change from distance in space to that in time, under the development of transport and communication technologies, has challenged the well-ordered hierarchy of French cities and the relations between the cities and the territories under their control.

Before the 1980s, the industrial system fitted remarkably with the urban hierarchy in France. A close connection could be observed between the size of the cities and the structure of their industrial labour. The proportion of management staff roughly doubled between a town of 100 000 inhabitants and a town of 200 000, and doubled once again between a town of 200 000 inhabitants and Paris (Thérèse Saint Julien, Denise Pumain, 1989). Yet the 1990 census displays a process of uncoupling between Paris and the provinces, which can be compared to the change in Japan from a bipolar structure of cities to an unipolar structure centred on Tokyo. The capital city has grabbed the major part of economic growth and jobs on the

national scale. From 1982 to 1990, Paris region<sup>1</sup> gained 371 000 jobs, accounting for 53% of the gain in jobs nationally (703 000). This percentage far exceeds the share for the Paris region of national production (28.7% of the GDP) and its demographic weight (10 661 million inhabitants out of a total of 56 614, that is to say 18.83%).

The decline of industrialisation was particularly drastic in France, so these new jobs mostly concerned the tertiary sector. Over the last 20 years, 30% of the jobs have been lost in the industrial sector (1.7 million jobs), which is more than in any other Western country except Great Britain. Paris experienced a more severe drop in industrial jobs than the provinces, but at the same time enjoyed a greater rise in jobs in top-ranking services in the tertiary sector. In particular, producer services such as financial, consultants, insurance, computer, real-estate and advertising services grew dramatically in the capital city, now accounting for one quarter of Paris employment (compared with more than one-third in Tokyo, London and New-York). The Paris region drew half of the top executives of this industry, and specialised in commercial intermediation, market organisational services (logistics), and think tanks, all closely linked to functions of economic leadership.

In counterpart to its economic hypertrophy, Paris seems to be more exposed than the provinces to global economic cycles, their amplitude being accentuated in the capital. When the economic crisis occurred in the early 1990s, private salaried employment in the Paris region decreased by 3% annually from 1992 to 1993, whereas the fall was only 1,5% in the provinces (Veltz, 1996).

### **Widening of the gap between East and West in the Paris region**

The deepening of the gap between Paris and the provinces accompanies dramatic spatial changes within the Paris region itself. From 1982 to 1990, this region experienced a drastic urban sprawl due to the network structuring of businesses, American-like new living standards and optimistic land-use plans that overestimated population growth rates. The urban area, which was rather compact before, experienced urban sprawl. Growth was nevertheless not homogeneous over the region. It was more acute in the south-western area (the so-called "triangle of economic growth") to the detriment of the north-east, thus strengthening the traditional opposition between north and east, which shares some common features with that of Tokyo (the western area being more residential, made up of green hills and plateau corresponding to the Yamanote, the eastern area being more occupied by manufacturing industries, corresponding to Shitamachi). This division between north-east and south-west is reflected by the changes in land values since the beginning of the 20th century in Paris 20 wards (Henri Heugas-Darraspen, Patrick Petolat, 1998, see map 1).

One can thus observe a shifting of the CBD towards the west. Headquarters of domestic or foreign firms, and service industries working for them (namely computer, accounts and financial services) have progressively moved from Paris or its close western suburbs to more remote western areas, in the Haut-de-Seine Prefecture (in particular Nanterre and Rueil cities).

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<sup>1</sup>The Paris region is called Ile de France. It concerns 8 *départements* (equivalent to Japanese prefectures), i.e. Paris (municipality and department), Seine-Saint-Denis, Hauts-de-Seine, Val-de-Marne, Yvelines, Essonne, Val d'Oise, Seine et Marne.

Of 293,000 new jobs for top executives and professional people created from 1982 to 1990 in the Paris region, Paris captured 97,000 (one-third) and Hauts-de-Seine 16%, the two prefectures accounting for half of the regional gains. The highest concentration of top-ranking jobs can be observed in the new CBD located in Courbevoie and Puteaux cities and called "La Défense". In this French counterpart of West-Shinjuku, 39% and 34% of the employees are executives in Puteaux and Courbevoie respectively, whereas the average ratio on the regional scale is "only" 22%.

The qualitative and quantitative concentration of jobs in the western remote suburbs can be partly explained by the pleasant environment of these areas (plateau, hills, former royal parks), very suitable for executive housing. It was further strengthened by the recent trend in France for greater concern about educational issues. Residential strategies more and more depend on the level of education delivered in the various private or state schools, this level depending on the educational level of families frequenting these schools.

The above changes observed between the 1982 and the 1990 censuses ran counter to town planning policies. In 1960, a procedure (called agreement procedure) was instituted to restrain office construction in the west of Paris, with the intention of progressively restoring the balance in favour of the east. But in 1985, the agreement procedure was suppressed in order not to impede structural economic changes, and construction of office space was immediately boosted in the west to meet the growing demand.

### **Changes in the demand for office space**

Meanwhile, the demand for office space was also subject to a dramatic change due to the globalisation of the world economy. Prior to the 1980s, large firms used to have their headquarters built by developers, acquiring ownership of the property (system called "building for self occupation"). However, the new globalised environment drastically changed the demand factors in the office market. Exacerbation of the competition between firms, induced by the economic globalisation, directed the demand towards the more prestigious and expensive localities, but in the same time new economic constraints (growing flexibility of production, new network-based organisation of firms) made real-estate investment for self occupation too rigid and risky, especially since land values were already high in the Paris region. The demand for new office units consequently turned towards the office rental market, thus provoking the disruption of the construction chain of office building. Developers started to build non allocated office units (system called "bureaux en blanc<sup>2</sup>") to be sold to institutional investors who then rented to business. Nation-wide networks attracting individual savings (SCPI, Societes Civiles de Placement Immobiliers) developed rapidly and targeted the office markets, while banks and insurance companies also invested huge amounts in these markets. The emergence of this new kind of actor, interposed between developers and final users, greatly contributed to worsen myopia in office markets and to perpetuate speculative overheating.

As soon as the agreement procedure was suppressed, investors rushed towards the office markets in La Defense CBD and Hauts de Seine Prefecture. Hence far from allowing a stabilisation of land values by removing a shortage factor, the suppression of the agreement

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<sup>2</sup>It can be translated by "office in white", which means that the developer does not know whether he will be able to sell the whole developed office floor.

procedure induced speculative expectations with regard to future demand for office space, thus leading to even higher increase in rents and land values in the office market.

In the Paris traditional CBD ("Golden Triangle", a former residential area made up of old Haussmann buildings in the neighbourhood of the Champs Elysées) and in La Defense, office rents boomed after 1982, whereas the best locations in Marne la Vallée (a new town to the east of Paris) did not experience significant changes in the office market (chart 1).

This increase in rental levels led to the rise in land values in the Paris region, with even higher rates of increase, because of the leverage effect of higher building densities<sup>3</sup>. In the 42 most expensive municipalities of the Paris region, mainly located in the two prefectures to the west of the 16th ward (namely Neuilly-sur-Seine, Boulogne, Levallois, Saint-Germain-en Laye, Versailles), and some in the Saclay technopolis in the south, land values increased nearly four times, whereas land values remained comparatively stable in 128 other municipalities (classified into three groups, see chart 2). The boom in commercial land expanded into residential land in the western suburbs (Gaubert, Tutin, 1995), and finally towards the second-hand residential markets in Paris. Paris then became the most expensive European capital for residential property. Even after a seven year decrease in prices, apartments are still sold at 3000 euros per m<sup>2</sup>, compared with 2800 euros in London and 2350 in Stockholm (chart 3).

The spreading of the land boom can be compared to that of Tokyo, but in Paris the increase in commercial land values was much more geographically concentrated than in Tokyo. The reason is that the boom concerned only high ranking service industries (leading industries), and not typical tertiary industries. Causality tests on various Parisian property sub-markets made by Gaubert and Tutin have revealed a strong impact of the office real-estate markets upon the commercial land market, but this impact only concerns the sub-market of office units for high-ranking service industries (Gaubert, Tutin, 1995). There is absolutely no causal link between the sub-market in office units for ordinary services industries and the commercial land markets. In other words, the normal office sub-market had no effect on commercial land markets. This is why the rise in land values was mainly concentrated in the 42 richest municipalities of Paris Region, which monopolise the leading functions of the economy.

## **Territorial Fragmentation**

The shifting of the CBD towards the west did not, however, take the compact form of West-Shinjuku or Ikebukuro. Excepting the La Defense area, dispersal of activities diffused towards the west (Hauts-de-Seine prefecture), and sub-centres emerged in other areas well served by expressways, air and railway transport, generally located close to large development areas (new towns, Orly and Roissy airports...). Other kinds of sub-centres also emerged more spontaneously, such as the Saclay technopolis, where industrial and scientific research converge. The compact city with an unique centre thus gave place to a more diffuse and chequered pattern with various sub-centres.

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<sup>3</sup>During the late 1980s, a growing number of development projects were allowed special dispensations from standard building regulations, such as Urban Renewal Projects in Japan. The increase in Floor Area Ratios automatically provoked a rise in land values.

Within this chequered territory, especially in the north-east of the Paris region, are the old industrial areas, severely hit by the decline of industrialisation. The share of the tertiary industry has also increased in these areas, but it is mostly due to the decline of industrial employment. Moreover, this tertiary industry mainly concerns "welfare tertiary" (jobs involved in welfare services for unemployed people and low-income households) which strongly differs from the leading service industries of the west (Tabaries, 1992, see map 2). It is thus not surprising that the revenue gap between rich and poor municipalities has deepened (Chart 4 ).

Blue collars who lived near these industrial sites, either in social housing estates or in individual houses, are now trapped in these zones because their mobility is impeded by unemployment or employment uncertainty. In the Seine-Saint-Denis Prefecture, the most affected by the decline of industrialisation, (metallurgical and chemical industries), unemployment touched 13.4% of the working population, compared with 10.2% on average for Paris region, and 8.2% in the Essone Prefecture. Those who can afford to purchase housing must move to the remote eastern suburbs poorly served by transport, and endure a longer commuting time. Those more skilled who can find a job in the high-ranking service industries of the west move into the centre of Paris (thus contributing to an general increase in prices in the eastern wards), or to the desirable residential areas of the west if they can afford it. One can thus observe a kind of vicious circle, which seems specific to the Paris region: the most skilled, who get the best jobs, can live close to their place of work, by moving to (or staying in) Paris, or in the sought after residential areas of the west, whereas those left on the scrap heap by economic change concentrate in the less attractive zones, poorly served by transport, and their professional reinsertion is thus impeded.

Comprehensive studies on residential mobility in the four outer prefectures of Paris region ("grande couronne") have showed that the frequency of moving and the average moving distance differ significantly according to the household's social group (map 3). The desirable western residential areas prolonging the Paris prestigious wards show both a strong stability of households (probably owners in most cases) and a high moving turnover within each municipality. It appears that well off households have the opportunity to stay close to their work place, their friends and relatives by moving as often as necessary in the same area. The rather less well-off households, or households who recently moved to the Paris region (originating from the provinces or temporarily transferred) are more influenced by the modernist conception of American suburbs. They have contributed to extending the neighbourhoods of executives towards the south-west, and to develop luxury sub-centres well connected to the centre in the near suburbs of eastern Paris. Low-income households thus remain trapped, as shown by the strong residential stability in the industrial suburbs. This stability goes with that of the decaying housing stock of these areas, strongly contrasting with the careful upkeep of the rich residential areas (Berger, Saint-Guérand, 1992).

The residential map broken down by housing category (from ordinary to luxury housing) shows clearly the homogenisation of the Parisian property market, and the emergence of luxury housing in the east without any development of economic activities in this area (Tutin, 1995, map 4).

The moving of the most well off from decaying areas to residential neighbourhoods with urban amenities gives rise to ghettos. This trend is particularly striking in old cities with rich

historical patrimony, such as Saint-Denis (north) where residential mixity seems to have suddenly disappeared.

### **Factors increasing fragmentation**

This territorial fragmentation was intensified by the fine grained subdivision of the distribution of municipalities. No less than 1281 municipalities are located in Paris region, on a surface of 12 000 km<sup>2</sup>, similar to that of *Tokyo-ken*. The differences in the nature of the population and the housing stock are the most striking at the scale of the municipalities. Three main reasons can be put forward to explain this:

About one-third of local financial resources are accounted for by the professional tax (based on economic activity) and the various taxes on property, all of them levied by local authorities. Rich western municipalities have thus enjoyed increasing tax revenues with the influx of new tertiary firms (professional tax) and the consequent rise in land values (taxes on property). They have thus been able to provide inhabitants with new welfare facilities and urban amenities. Conversely, industrial municipalities are subject to a severe drop in the revenue from both the professional tax (decreasing number of firms) and the taxes on property (low land values). Hence rich municipalities became richer, and poor municipalities became poorer, as shown in chart 5.

Urban planning policies are decided at a local level. Executives who "colonised" the eastern suburbs were able to impose their requirements for a better residential environment. This was encouraged by the small size of French municipalities which facilitates election to the municipal council.

Local social engineering strategies sometimes strongly differ according to the political nature of the local council. Some right-wing councils have impeded the construction of social housing, for both electoral and fiscal reasons. Conversely, some municipalities of the "Red suburbs" (Communist Party) with a strong working-class tradition, did not try to prevent the flight of the richer households. They have implemented pauperisation policies by keeping unchanged the decaying residential neighbourhoods. Between the northern wards of Paris and Saint-Denis lies a large area (700 ha) with an enormous urban and economic potential, extremely well served by transport and called "La Plaine Saint Denis". However, this zone is not considered attractive by business, because of its decaying environment, not really compatible with the residential requirements of top executives, and because of the strong attachment of the concerned local authorities to industrial activity.

### **The decline of residential mixity**

Until the early 1980s, residential mixity had been somewhat preserved in Paris and its suburbs by the construction of social housing. Paris region is better equipped than the

provinces with social housing. It concentrates 28% of the total number of social housing units (amounting to 3,861,880 units), ranking in the first position for the number of social housing units per capita (99 per thousand). During the 1980 and 1990s, construction of social housing continued, particularly in ZAC zones (zones of urban renewal with high FARs), on sites sold by public administrations (local authorities, the Army or large public industries), but the overall increase in land values had repercussions on rents. For example, in the ZAC of "The Great Library", rents in social housing will be set at 50F/m<sup>2</sup>, half the level of rents in the private market (97,3F/m<sup>2</sup> for new rents), but not tailored to the resources of low-income households (the rent for a 3DK of 90 m<sup>2</sup> being almost equivalent to the standard minimum monthly income).

Many social housing estates were built in large numbers during the 1960s and the early 1970s, close to industrial sites but far away from the central zones and poorly served by transport (map 5). Residential mixity was rather high at first because these buildings had all modern conveniences. However, during the years of high economic growth (until 1974), those who could afford to buy a house left the social housing estates, which now concentrate a "trapped" population severely hit by the decline of industrialisation, mainly made up of jobless or low-income immigrants.

Riots broke out in the early 1980s in these areas, compelling public authorities to take some action. A "Town Policy" (Politique de la Ville) was adopted, but during ten years it consisted only of repairing the most decaying and setting up new social and welfare services. These measures had disastrous effects, because they designated social housing sites as "diseased", labelling them as responsible for the overall urban problem. As a consequence, despite significant efforts to increase living conditions in these zones, their image deteriorated even more, and in adjacent neighbourhoods individual houses were subject to decreasing property values.

Social housing in Paris is not, however, exclusively made up of decaying housing estates poorly served by transport. In Paris 20 wards, part of the social housing stock was made up of very fine apartments in old historical buildings in sought-after areas. But the criteria by which these apartments were allocated by the Paris municipal council appeared to be highly doubtful, as proved by the recent scandals involving both the mayor of Paris Jean Tibéri and the former Prime minister Alain Juppé.

Residential mixity was also preserved in the centre of Paris by a timeworn and inexpensive rental housing stock, with rents "frozen" since 1948 by the "1948 rent Act" (Loi de 1948). However, these rents were deregulated in 1982, and since this period more than half of the housing units concerned have been brought into line with the private market.

François Mitterrand's "Big Projects Policy" (politique de grands projets), which came within the scope of an overall marketing policy to attract firms to Paris, also contributed to equalising rents and property prices within Paris 20 wards. This policy consisted in building large facilities using highly symbolic simple shapes such as a cube (Great Arch), a triangle (the Louvre pyramid), a rectangle (Ministry of Finance in Bercy), a table (Great Library) etc... In particular, the new Opera constructed in the working-class area of Bastille has greatly accelerated the process of gentrification in this neighbourhood.

## What prospects ?

The drop of residential mixity in the various municipalities of the Paris region will certainly have significant repercussions on the future structure of the Parisian economy. Firms are very sensitive to the quality of residential environment in their strategies of localisation, and only those municipalities with the highest tax revenues will be able to attract new economic activities. This will nevertheless probably not be true for all the rich municipalities, because the emergence of new executive neighbourhoods in the east of Paris have not persuaded firms to relocate there as yet. The weight of the distinction between east and west could thus be determinant. It might be difficult to thwart this very old structure which goes back several centuries, to when Louis the XIVth decided to relocate his residence from the Louvre to Versailles. However, redistribution of wealth between municipalities could be greatly improved by reforming the tax system. The public authorities have tried several times without success to promote more redistributive tax systems on a larger scale (metropolitan areas). The last Act adopted in 1999, called the Chevènement Act, comes within this scope, by greatly simplifying inter-municipal co-operation. However, a more drastic reform reducing the number of municipalities could better counter the growing territorial fragmentation.

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