FRANCE

PARIS REGION OFFICES

QUARTER 3 | 2020

Key data

913.200 SQ M

Take-up
from Q1 to Q3 2020

15 TRANSACTIONS

Transactions >5,000 sq m
from Q1 to Q3 2020

3.29 MILLION SQ M

Immediate supply
09/30/2020

6.1%

Vacancy rate
09/30/2020

€870

Paris CBD Prime rent
09/30/2020

Summer calm, autumnal worries

The current climate is still one of crisis - and one that is here to stay, unless we learn to live with the virus. In order to avoid national paralysis, the State plans to bolster the country's economy with substantial support measures (motor industry investment plan, Relaunch France plan, continuing the job-retention scheme...). These measures cannot counter all of the difficulties facing some sectors for which 2020 could yet prove to be a disastrous year. However, Insee is forecasting a +16% increase in GDP over Q3 due to the post-lockdown upturn in business activity and consumption. But the situation is still worrying for businesses that have accumulated significant levels of debt over this period and that face high levels of uncertainty over the coming months which has been heightened by the epidemic's resurgence.

The economic crisis and the deep climate of uncertainty due to the health crisis are having direct repercussions for the real estate market which has felt a substantial impact. Office take-up in the Greater Paris Region fell by -46% year on year with 913,200 sq m recorded over the January - September period. The downward trend see over Q2 because of the 8-week lockdown worsened over the summer period.

Businesses have either postponed or cancelled their real estate plans as they focus on cutting costs by renegotiating leases and/or considering reducing their space in line with the rise in remote working. Now is not the right time for many businesses to commit to major real estate projects and this leads us to believe that take-up for the full year 2020 is unlikely to exceed 1.3 million sq m.

Time for an upturn

New post-lockdown surge

Following a -13.8% decrease in GDP due to the halt in economic activity over lockdown, Q3 should see an uptick in growth following the post-lockdown surge.

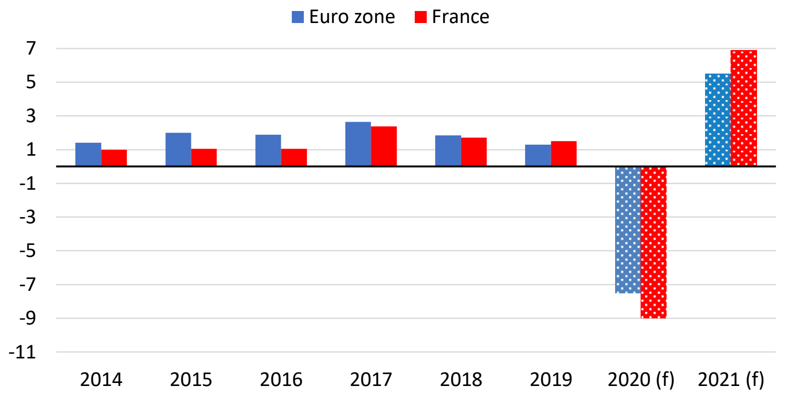
These positive signs were however overshadowed by a resurgence in the COVID-19 epidemic in September which has weakened all signs of recovery. Some sectors have been particularly affected by the health crisis: transport services, hotels and restaurants, cultural and leisure services, events.

Unprecedented economic policies

The scale of the shock initiated by the health crisis may well be unprecedented, but so is the scale of the State's response to counter the economic impact.

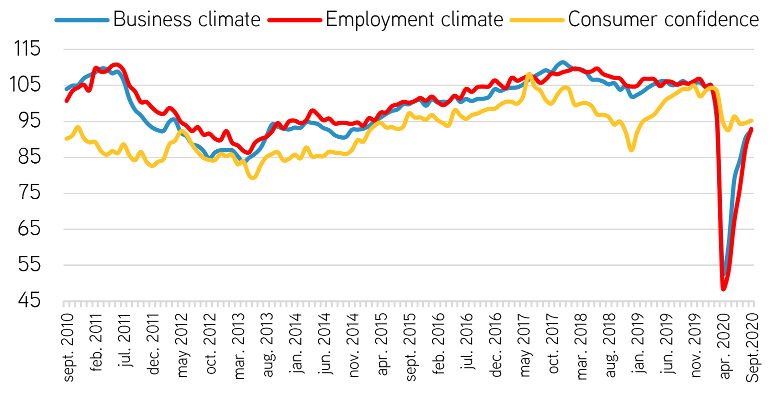
Despite everything, these government policies cannot offset the sharp decrease seen in GDP in 2020 (estimated at -9% in France) and rising levels of unemployment. Over H2, further job losses will be seen in the sectors worst affected by the health crisis, albeit more moderately than over H1, and the French unemployment rate should continue to rise reaching 9.7% by the end of the year.

FIGURE 1: **ANNUAL CHANGE IN GPD (%)**



Source: Oxford Economics

FIGURE 2: **SYNTHETIC INDICES FOR BUSINESS CLIMATE, EMPLOYMENT CLIMATE AND CONSUMER CONFIDENCE IN FRANCE**



Source: INSEE

Long-lasting impact for the real estate market

Greater decrease over Q3

Following the substantial impact of the health crisis over H1 and despite the slight improvement seen in some sectors over the summer, no miracles were seen in the take-up figures for Q3. The year-to-date figure stands at 913,200 sq m with just 246,200 sq m over Q3; this represents year-on-year decreases of -46% and -58% respectively and is far below the 10-year average of 1.6 million sq m. Businesses are currently facing scathing uncertainty due to the health crisis and are struggling with the lack of clarity regarding the economic outlook; with no clear end in sight, many are adopting a wait-and-see stance.

All space segments affected

All space segments have been affected by the exceptional reduction in take-up. The small space segment (<1.000 sq m) appears to have fared better over the first 9 months of the year (-37% year on year), but the large space segment (>5,000 sq m) has been hit hard by the current crisis with just 15 transactions so far this year, compared with 53 over the same period in 2019 and a -56% year-on-year decrease in volume. The same was seen in the medium space segment (1,000 - 5,000 sq m) which also faced difficulties over the Q1-Q3 period with a -45% reduction in take-up compared with 2019.

Widespread decreases across the Greater Paris Region

Take-up plummets across Paris and the suburbs

With 352,000 sq m of take-up over the first 3 quarters in Paris, transactional activity in the capital dropped by half (-50% year on year). The capital may traditionally be more resilient than the suburbs, but the critical nature of the current crisis has put the whole of the Greater Paris Region on a level pegging.

In the suburbs, take-up fell by -48% year on year with some submarkets more harshly affected, such as the Inner Southern Suburbs where volumes plummeted by -78% year on year.

However, the situation in the suburbs is deceptive as, if we were to omit figures for La Défense, the reduction in transactional activity appears to be more severe with -63% year on year whereas, comparatively, other areas such as the Inner Northern Suburbs and the Western Crescent were less affected (-54% year on year).

La Défense, the exception to the rule

In this climate of slowdown, the La Défense business district has stood out since the beginning of the year with an 87% year-on-year increase in take-up.

The completion of 3 major transactions (>5,000 sq m) bolstered activity (the same number as over the Q1-Q3 period in 2019). But it was the conclusion of TOTAL's lease for 126,000 sq m in the future tower The Link that really galvanised these results, accounting for 68% of take-up in the business district.

As across the rest of the Greater Paris Region, levels of transactional activity in all other space segments in La Défense have plummeted by -56% year on year (<5,000 sq m).

FIGURE 3: **CHANGE IN TAKE-UP (THOUSANDS SQ M)**

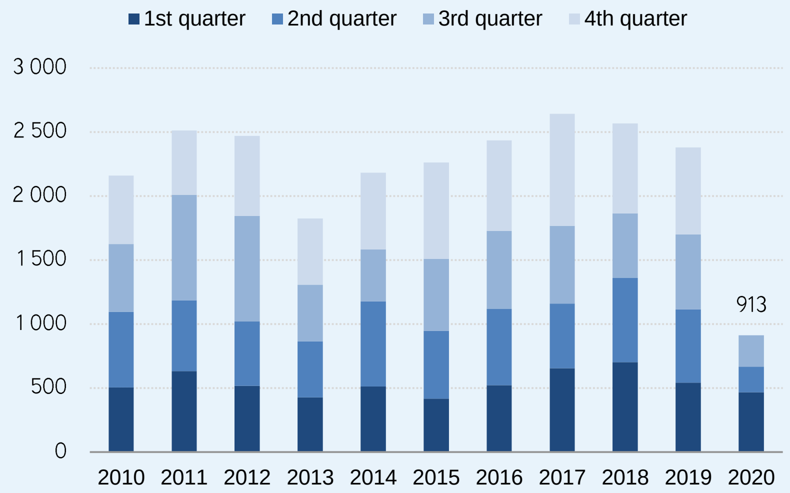


FIGURE 4: **DISTRIBUTION OF TAKE-UP BY SPACE SEGMENT (THOUSANDS SQ M)**

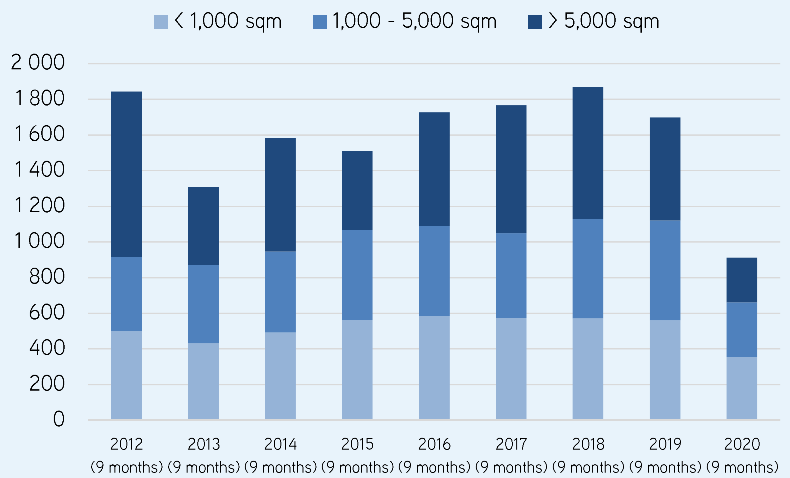
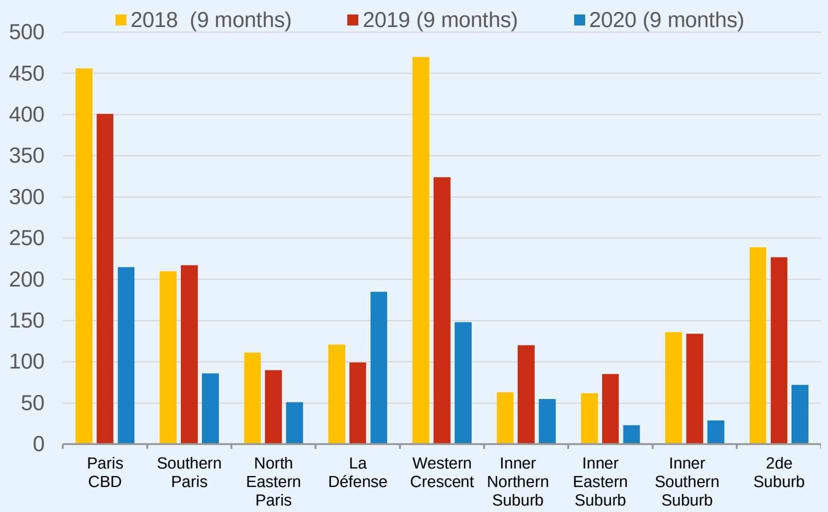


FIGURE 5: **GEOGRAPHICAL DISTRIBUTION OF TAKE-UP (THOUSANDS SQ M)**



Source: ImmoStat

Immediate supply rising again

Over 3 million sq m

Immediate supply has risen consistently throughout 2020 with 3.29 million sq m by the end of Q3, representing a +10% increase over the last 3 months and a +18% increase compared with the same period last year.

This increase in supply is due to the sharp slowdown in transactional activity and the completion of new and refurbished office space. As a result, the supply of available new space rose by +27% over Q3 alone. Levels of supply should continue to rise over the coming months due to further completions and an expected increase in businesses releasing space due to the current climate.

Widespread increases in vacancy

By the end of Q3 2020, the vacancy rate for the Greater Paris Region rose to 6.1%, this represents a +1-point year-on-year increase and +0.6 of a point compared with Q2 2020. Rising levels of vacancy have been seen across all markets in Paris and the Greater Paris Region, with the exception of the Outer Suburbs where the vacancy rate remained stable (5.3%).

The sharpest increases were seen in La Défense (7.6%) and the Western Crescent (11.7%) with +2.8% and +1.6% year on year respectively; this was due to the volume of completions in both of these markets. With falling activity and the scheduled completion of further office developments, rising levels of vacancy have become critical in some submarkets where oversupply was already as issue, such as Péri Défense (19.5%).

Influx of confirmed supply

Even more high-quality space

Confirmed supply of high-quality space (projects completed or new/refurbished space under construction) rose by +38% year on year to 2.1 million sq m. By the end of September, 34% of this space was immediately available (+35% year on year) and 66% was under construction (+40% year on year).

Likely supply (building permit secured or applied for) fell by -15% year on year to 2.8 million sq m. This was due to the impact of the health crisis which has led to a reduction in the number of building permits issued (-26% year on year) while the number of building permit applications remained stable (+2%) as developers put the brakes on commitments to new projects.

Substantial increase in the suburbs

Confirmed future supply of new, large spaces in the capital remained stable year on year, accounting for 11% of immediate supply across the Greater Paris Region. By submarket, there was a substantial increase in Paris Centre Ouest (+11% year on year), while a decrease was seen in Paris North East (-15% year on year) and a slight reduction recorded in Paris South (-3%).

A very large +45% year-on-year increase was recorded in the suburbs across all submarkets. It is worth highlighting the Inner Eastern and Southern Suburbs where the volume of confirmed future supply rose by +133% and +86% year on year respectively. However, this supply is concentrated in La Défense, the Western Crescent and the Inner Northern Suburbs, each accounting for 20% to 24% of the overall volume.

FIGURE 6: **CHANGE IN IMMEDIATE SUPPLY (THOUSANDS SQ M)**

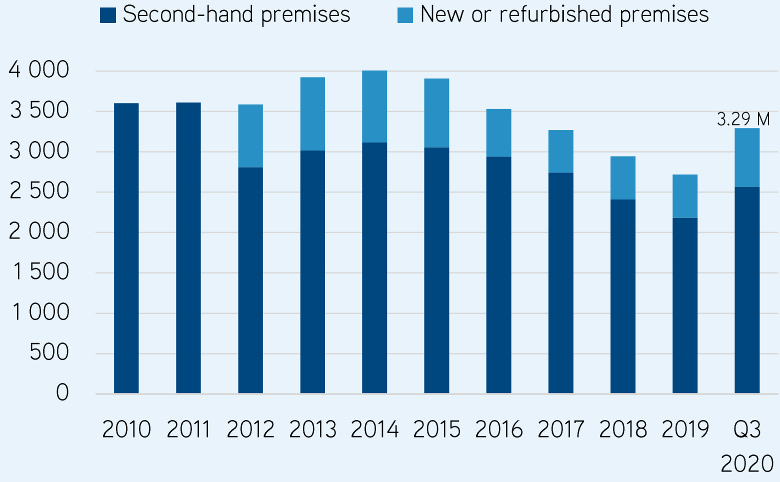


FIGURE 7: **CHANGE IN VACANCY RATES (%)**

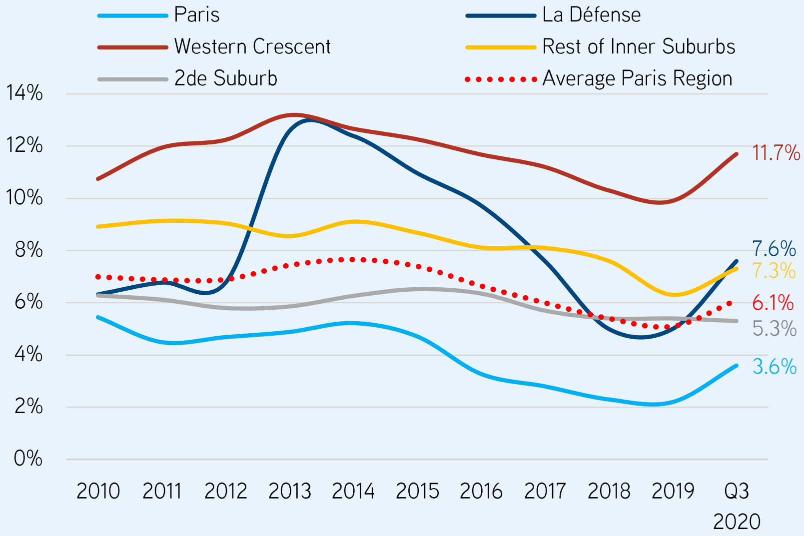
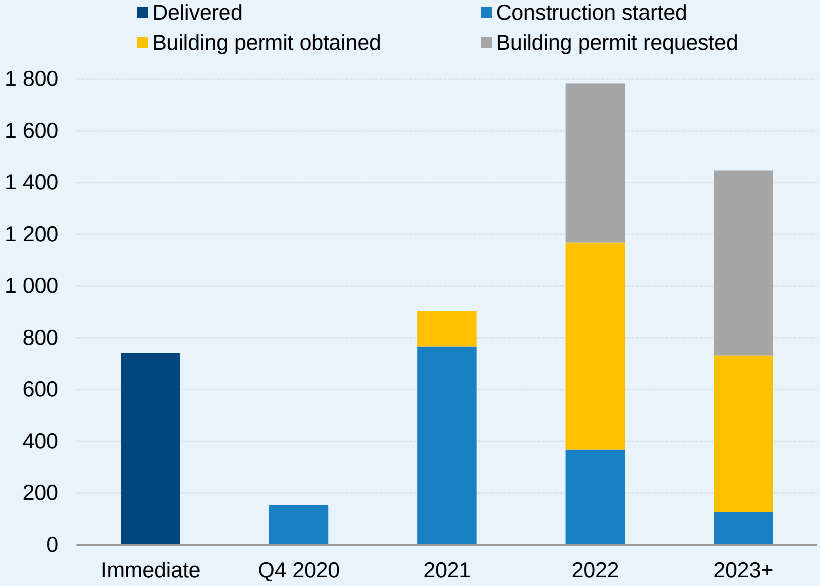


FIGURE 8: **IMMEDIATE AND FUTURE SUPPLY >5,000 M² (THOUSANDS SQ M) NEW AND REFURBISHED OR RENOVATED BUILDINGS WITH ENVIRONMENTAL CERTIFICATION**



Source: ImmoStat, ORIE, Colliers International France

Little impact on rents, for now

Rental inertia

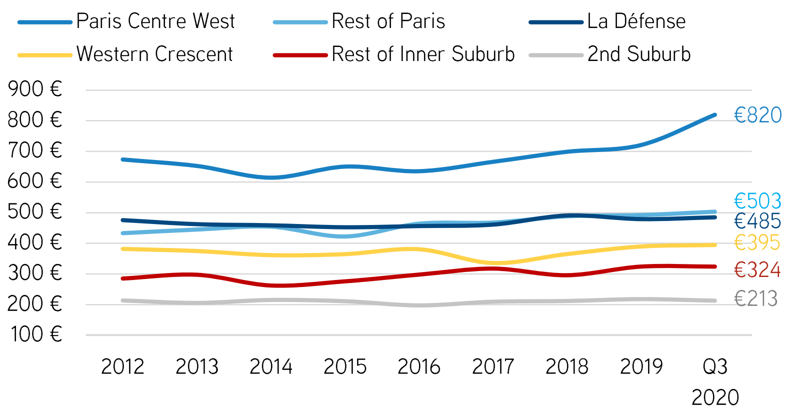
The health crisis has yet to have an impact on average rents which remained broadly stable quarter on quarter and posted a slight increase year on year: +3% for average rents for new space and +4% for second-hand space.

The sharpest year-on-year increase in rents for new space was recorded Paris Centre Ouest, more specifically the Central Business District (+13%). The prime rent in the CBD stands at €870 with some transactions in this submarket recorded at around the €900 mark over the Q1-Q3 period.

Ever more incentives

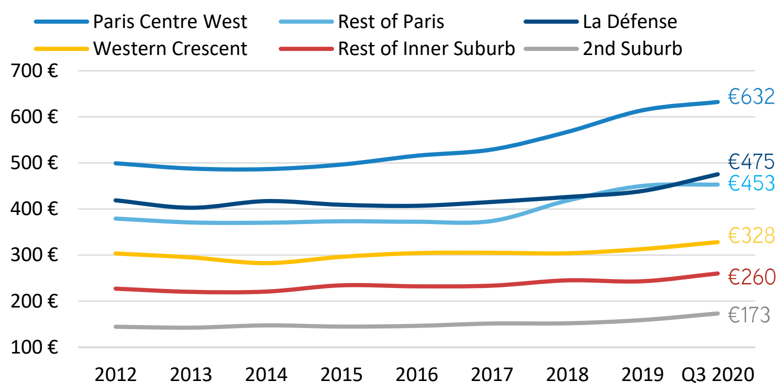
Incentives have been rising across the Greater Paris Region since the beginning of the year. The average for the Greater Paris Region over Q2 stood at 21%. There may still be a gap between Paris and the Suburbs, such as the Northern Loop (39.5%) or La Défense (21.8%), but there is a very high chance that with continued economic uncertainty incentives will rise to benefit both landlords and occupiers in a bid to attract and retain tenant activity before having to reduce asking rents.

FIGURE 9: **HEADLINE RENTS – FIRST HAND PREMISES (€ EXCL. TAXES & CHARGES/ SQ M/YEAR)**



Source: ImmoStat

FIGURE 10: **HEADLINE RENTS – SECOND HAND PREMISES (€ EXCL. TAXES & CHARGES/ SQ M/YEAR)**



Source: ImmoStat

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