The Greater Paris Region office market
1st quarter 2020

Covid-19

What are its implications for the Greater Paris Region office market?

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COVID-19

WHAT ARE ITS IMPLICATIONS FOR THE GREATER PARIS REGION OFFICE MARKET?

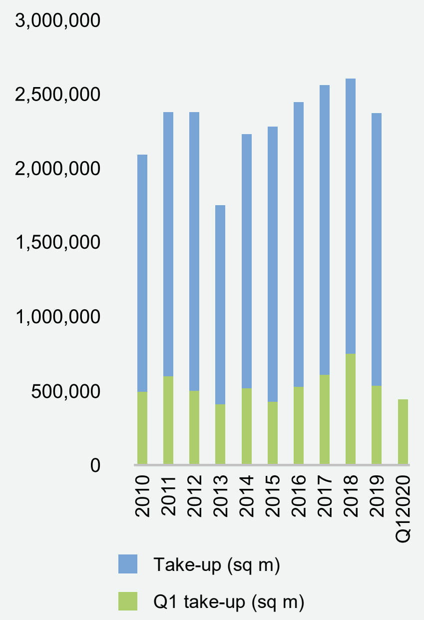
2020 had begun at a slower pace than 2019. Then from mid-March, the spread of Covid-19 and the implementation of drastic restrictions suddenly brought the Greater Paris Region office market to an unprecedented standstill, abruptly postponing a large amount of transactional activity.

The consequences of the pandemic on office property could be even more severe than those experienced during previous economic crises, although the situation is difficult to compare. Knight Frank France presents this first detailed analysis written at the end of March 2020, when the precise duration of the lockdown period was still very uncertain.

REVIEW OF LETTING ACTIVITY IN THE 1ST QUARTER 2020

Almost 465,000 sq m of office space was let in the Greater Paris Region in the 1st quarter of 2020 compared with 538,000 sq m in the 1st quarter of 2019 (-14%). It is impossible to know what the level of take-up would have been if the health crisis had not broken out. That said, the downturn in the lettings market had begun before the spread of Covid-19, as early as 2019. As with the 1st quarter of 2020, the result for the 1st quarter of 2019 was significantly lower than that of the 1st quarters of 2017 (611,000 sq m) and 2018 (747,000 sq m).

Take-up change in the Greater Paris Region
In sq m



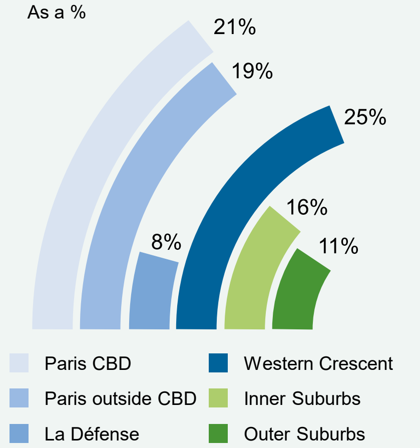
Source : Knight Frank

The decrease seen in 2019 was exacerbated at the beginning of 2020 owing to **an even smaller number of transactions > 5,000 sq m** (only 9 in 2020 compared with 21 in Q1 2018 and 14 in Q1 2019). In the 1st quarter of 2020, the volume of large transactions fell by 46% year-on-year and by 78% compared with the 1st quarter of 2018.

It should be noted, however, that several large transactions were well advanced before the outbreak of the health crisis and will probably be completed in the coming months. These include lettings to LVMH of 103 avenue des Champs-Élysées in Paris, to Total of "The Link" in La Défense, to Engie of a campus of more than 100,000 sq m in La Garenne-Colombes and the extension of the Dassault campus in Vélizy.

In contrast to the sharp decrease recorded in the large transaction category, **the small and medium transaction segment held up rather well**, with only a slight year-on-year decrease in volume. In line with last year's trend, the medium-size area category (1,000 to 5,000 sq m) remained the strongest, with a 2% year-on-year decrease in volume, while the category for areas under 1,000 sq m fell by 3% over the period. The results for small and medium-sized areas are therefore positive overall, confirming that **the fundamentals of the Greater Paris Region office market were quite good before the start of the health crisis**. That said, this area category could be more impacted than that of large transactions due to the expected impact of Covid-19 on the activity of very small businesses and SMBs.

Share of take-up by geographic sector in Q1 2020
As a %



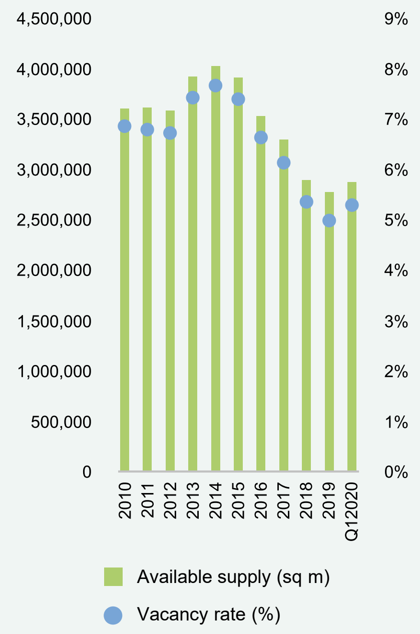
Source : Knight Frank

An analysis of take-up by geographic sector confirms the resilience of the Paris market. Despite available supply being at its lowest level, take-up for office space in the Inner Suburbs of Paris is close to last year's level (190,000 sq m between the beginning of 2020 and mid-March, compared with just over 200,000 sq m in Q1 2019). Its share is almost identical to that recorded for the same period in 2019, i.e. around 40% of areas let in the Paris region. Whilst the medium-size areas category has fallen sharply, the Paris market has benefited from the relative resilience of small areas (-8% year-on-year) and, above all, the increase in the letting of large areas (+57%), due in particular to the lease to Boston Consulting Group of 20,000 sq m in "L1VE". In La Défense, take-up of space increased by 30% year-on-year. The other Greater Paris Region office sectors are almost all trending downwards. This decrease is particularly significant in the Western Crescent (-28% year-on-year) which is suffering from a lack of large and very large transactions, to an even greater extent than last year.

The analysis of take-up by business sector needs to be put into perspective given the limited number of large transactions. The absence of very large transactions explains the fall in the share of the two business sectors that usually dominate in the Greater Paris Region: industry-distribution and banking-insurance. Coworking operators, meanwhile, have remained fairly active, leasing almost 30,000 sq m between 1st January and mid-March 2020 (compared with 38,000 sq m in Q1 2019), including two areas over 5,000 sq m. Most of this volume is concentrated in Paris (19,000 sq m, 70% of which is in Paris CBD), although the Hauts-de-Seine department has captured a significant share (40%, in towns including Issy-les-Moulineaux, Montrouge and Puteaux).

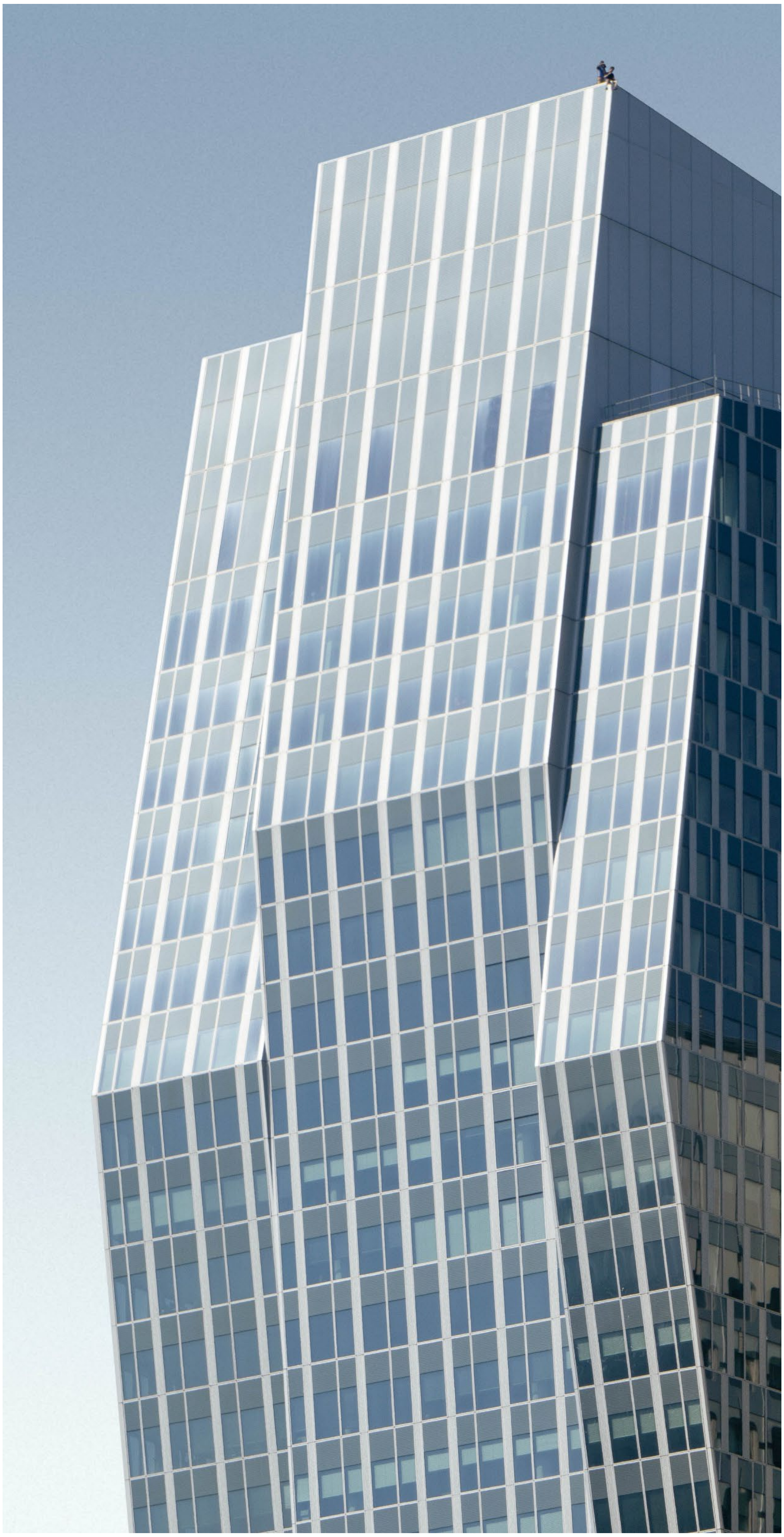
Two operators account for a large proportion of the office space let since the beginning of 2020: Morning Coworking, who leased 6,000 sq m in the "Hôtel de la Marine" in Paris, and Deskeo who leased nearly 30 small and medium-sized areas in 2019 and have already leased around ten since the beginning of 2020.

Change in available supply in the Greater Paris Region
In sq m



Source : Knight Frank

After its last high point in 2015 (4.01 million sq m in Q2), the volume of immediate supply in the Paris region steadily decreased to reach 2.37 million sq m at the end of 2019. According to initial estimates, the volume of supply is expected to increase again in the 1st quarter of 2020. With a stock of immediately available office space currently estimated at 2.9 million sq m, **this figure is stable year-on-year but has increased by 5% in one quarter**. The vacancy rate will thus increase from 5% at the end of 2019 to 5.3% at the end of March 2020. The increase remains limited in Paris. In the CBD, supply fell by 3% year-on-year but rose by 10% in one quarter, resulting in a vacancy rate that now stands at 1.6%. Outside Paris CBD, both Paris South and Paris North East have virtually identical volume as in the previous quarter.



A LOOK BACK AT PREVIOUS CRISES

Although the Covid-19 crisis is quite unique, a comparison with the major crises of the early 21st century nevertheless gives some indication of how the Greater Paris Region office market copes with major economic crises.

THREE MAJOR CRISES

The 2000-2002 stock market crash

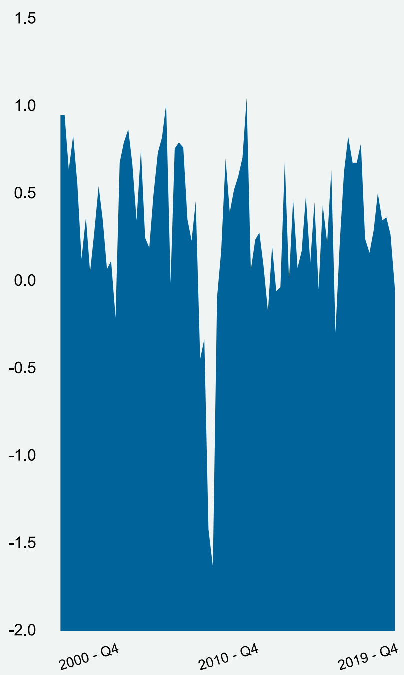
After several years of strong growth and massive investment in new technologies, the Internet bubble burst at the beginning of 2000 and contributed to the stock market crash, while the attacks on 11th September 2001 dealt a further blow to the economy. Following annual increases of between 4% and 5% between 1997 and 2000, GDP growth in the United States remained positive but slowed significantly in 2001 (+1%) and 2002 (+1.7%). Growth in the European Union also faltered a few months after the US (+1.3% in 2002 and 2003, before picking up again in 2004 with +2.3%). In France, the slowdown was more pronounced, with GDP growth of only 0.8% in 2003, before it rebounded in 2004 to 2.8%. The degradation of the labour market was fairly contained. France's unemployment rate rose by 1.3 percentage points between early 2001 (7.3%) and early 2004 (8.6%).

2008 financial crisis and European sovereign debt crisis

The financial crisis of the late 2000s led to the worst global economic crisis since the Great Depression of 1929. In the United States, economic activity declined in 2006 and the slowdown became more pronounced in 2008, and even more so in 2009. In Europe, growth stagnated from 2008 onwards (GDP in the Euro zone, rose very slightly by 0.5%), before contracting sharply in 2009 (-4.5%). The rebound in 2010 was short-lived due to the Greek debt crisis, followed by the Irish and Portuguese crises and the fragility of other European countries. As a result, activity declined fairly sharply in 2012 and 2013, with Euro zone GDP falling by 0.9% and 0.2% respectively.

In France, this double crisis also took its toll: GDP stagnated in 2008 (+0.3% after +2.4% in 2007) and contracted in 2009 (-2.9%). Following two years of recovery, activity slowed down again in 2012 (+0.3%) and 2013 (+0.6%). **The degradation of the labour market was also more pronounced**: the unemployment rate increased by 3.1 percentage points between mid-2008 (7%) and mid-2013 (10.1%), and remained persistently high, taking until the end of 2017 for the unemployment rate to finally fall below 9%.

Change in French GDP
(quarter-over-quarter, in volume as a %)



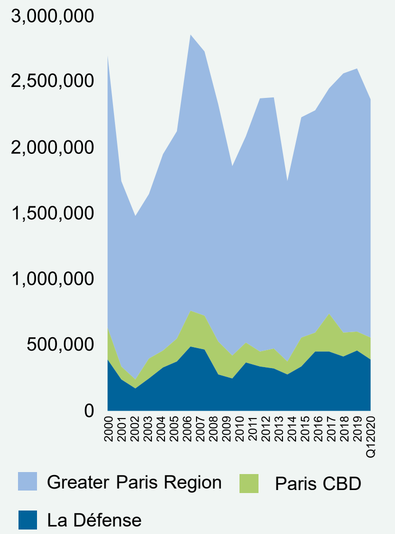
Source : INSEE

CONSEQUENCES ON THE GREATER PARIS REGION OFFICE MARKET

Take-up

In 2000, the Greater Paris Region office market reached a record high with almost 2.7 million sq m of office space let or sold to occupiers. Take-up volumes then fell by 35% between 2000 and 2001, then by 15% between 2001 and 2002. Over the entire period, **consumption of office space fell by almost 45%.**

2000-2019 change in take-up in the Greater Paris Region
In sq m



Source : Knight Frank

The financial crisis at the end of the 2000s also occurred during a phase of strong growth in letting activity. In 2006, 2.85 million sq m were let or sold to users in the Greater Paris Region - a volume that remains the highest ever recorded to date.

The slowdown began in 2007, with a fairly limited decrease of 5% year-on-year. The low point was reached in 2009 with 1.85 million sq m of take-up, **a drop of 35% compared to 2006**. After a short-lived rebound, the sovereign debt crisis caused letting activity to fall again, with a 26% drop between 2012 and 2013.

Rental Values

The average rent in the Greater Paris Region fell by only 3% between 2001 and 2002, before stagnating for several years at between €320 and €330/sq m/year. Average rental values began to rise sharply in 2007 (€356 /sq m/year) and **consequently fell more sharply during the financial crisis** (a fall of almost 9% between 2007 and 2009). In 2010, the average rent returned to its 2007 level, underwent a further correction in 2011, and then started to rise again in 2012.

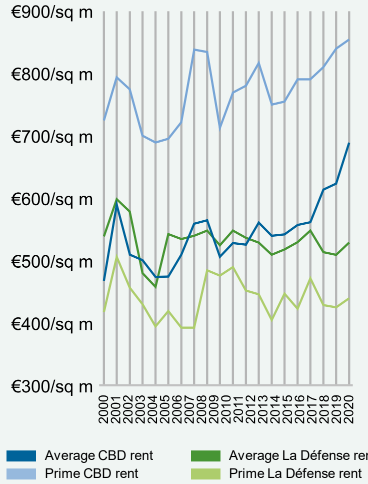
An analysis of changes in rental values by geographic sector provides a more contrasted picture. Different factors (volume and quality of supply, level of rents usually practiced, etc.) must be taken into account, explaining why **each market does not react in the same way to major economic cycles**. Let us look at Paris CBD and La Défense as examples.

Paris CBD: in the early 2000s, the average rent fell almost immediately. Between 2001 and 2002 the decrease was 14% (the average rent lost approximately €80/sq m/year to reach €510/sq m at the end of 2002). It should be noted that rents had reached their all-time high in 2001, approaching €600/sq m/year. The correction continued until 2004, when the average rent reached €475 /sq m/year, a decrease of 20% compared to the peak in 2001. **The decrease in rental values was less pronounced during the financial crisis and the sovereign debt crisis.** Starting from a lower level (€566/sq m/year in 2008), the average CBD rent fell by 10% between 2008 and 2009, then recovered before falling by 4% between 2012 and 2013. The increase in rental values then continued to rise, with the average rent reaching a historic high at the end of 2019 (€690/sq m/year).

La Défense: the average rent had reached a high level in 2001 (€508 /sq m) and the fall was therefore rapid and fairly sharp in 2002 (-10%). The decrease continued in 2003 and 2004, with the average rent falling below €400/sq m/year (€395/sq m/year). Between 2001 and 2004, the decrease was 22% and therefore fairly comparable to that seen in the CBD.

The decrease was more modest during the financial crisis (-2% between 2008 and 2009). On the other hand, **the drop was more pronounced between 2011 and 2013** (- 10%), with an average of €406 /sq m/year. The economic climate was not the only factor at play: although the supply of office space in La Défense remained relatively under control during the financial crisis (the vacancy rate rose from 3.8% in 2008 to 6.3% in 2010), it increased much more significantly between 2011 and 2013. The vacancy rate increased by 5.3 points over the period and then approached 12%, the highest point in the 2000-2019 period.

Change in prime and average rents Paris CBD and La Défense
In €/sq m



Source : Knight Frank

Supply and vacancy rate

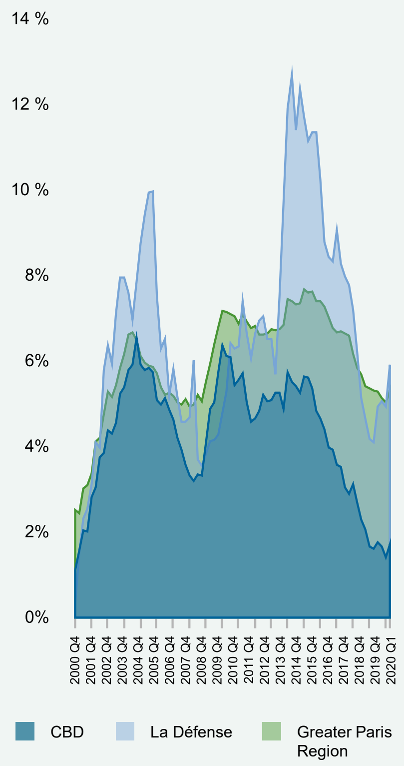
The beginning of the 2000s coincided with both the bursting of the Internet bubble and an acceleration of office deliveries in the Paris region. This resulted **in a very clear increase in the volume of immediate supply**, from 1.1 million sq m in 2000 to more than 2.9 million in 2003 (+162%)! At the same time, the vacancy rate, which was historically low in 2000 (2.5%), exceeded 6% in 2003 (6.2%).

The 2008 financial crisis also came at a time when office production in the Greater Paris Region was accelerating, with office space increasing from 49.2 million sq m in 2007 to 52.5 million sq m in 2011. Combined with the drop in occupier demand, **the proliferation of new developments resulted in an increase of nearly 50% in the volume of available space between 2007 and 2009.**

Supply remained persistently high until 2012, then increased again in 2013 and 2014 and exceeded 4 million sq m for the first time in history.

An analysis of the various office sectors in the Greater Paris Region shows that it generally takes between 12 and 24 months for the vacancy rate to fall again. While this observation applies to most sectors in the Paris region, it should be noted **that the Paris CBD market generally takes less time to regain its balance.** Furthermore, increases in supply are fairly moderate there, and the vacancy rate has only exceeded 6% once over the 2000-2019 period and then only for a relatively short period of time (6.4% at the end of 2009, then 5.6% one year later). This contrasts with office markets in other major European cities, where the stock of office space has been able to increase to a much greater extent.

Change in vacancy rate between 2000 and 2020.
As a %



Source : Knight Frank

COVID-19 CRISIS

WHAT ARE ITS IMPLICATIONS FOR THE ECONOMY?

It is still too early to assess the impact of the spread of Covid-19 on the global economy. While everyone agrees that the impact will be significant, opinions differ as to the exit scenarios (in "V", "U", "W" or "L"). According to some, the crisis could be shorter and shallower than the financial crisis of 2008. Indeed, what we are experiencing is not a banking crisis but a health crisis and its impact on demand, related to travel constraints, could be limited in time as it depends essentially on the duration of the restrictive measures.

That said**, the impact of the spread of Covid-19 on the economy will be very difficult to assess until we know how long the lockdown period will last.** Furthermore, the outbreak could re-emerge once the restrictions are lifted. Finally, the health crisis has taken on such a scale that it could **accentuate some of the risks that already weighed on the international economic situation when the virus appeared**: geopolitical risks (tension surrounding oil prices, lengthening of the post-Brexit transition period, etc.), political risks (governments accused of having badly anticipated and badly managed the health crisis) and social risks (weakening of underprivileged population sectors, sudden rise in unemployment, decrease in purchasing power, etc.).

> ***This is no longer only a global health crisis, it is also a major labour market and economic crisis that is having a huge impact on people.***
>
> Guy Ryder, Managing Director of the International Labour Organisation (ILO)

Europe's economy, now at the heart of the pandemic, is expected to be one of the hardest hit. For example, Oxford Economics indicated a few days ago that the GDP of the Euro zone could contract by 2.2% in 2020. However, this forecast seems very optimistic in view of the scale of the crisis felt in the main countries of the Union (France, Italy, Spain, etc.) and of the almost total halt in certain sectors of the economy.

Furthermore, **the recovery could be rather slow after the lifting of social distancing measures**, as the Chinese example currently shows. Other forecasters are therefore more pessimistic. Morgan Stanley expects a sharp 5% drop in European GDP in 2020. This estimate seems to be supported by the publication of the latest IHS Markit composite PMI index for Europe, which plunged in March to its lowest level since 1998.

But the worst-case scenario is never guaranteed and France, the sixth most affected country in the world in terms of the number of cases as of 31st March 2020, seems to have **a few advantages to cushion this crisis better than some of its neighbours**: its economy is less dependent on the manufacturing industry than that of Germany and tourism is not as essential in France as in southern European countries such as Italy or Spain. In addition, its economy is dominated by large companies which are better able to withstand the crisis than the very small businesses and SMBs that play such an important role in countries like Italy or Germany.

This idea of greater resilience of the French economy must nevertheless be qualified. To begin with, **several of its major trading partners have been heavily affected**, which will necessarily have an impact on foreign trade. Furthermore, the Covid-19 crisis has also led to a supply crisis that could durably damage France's productive fabric. The latest flash PMI index published by IHS Markit also shows that in March, France's manufacturing output recorded its biggest drop since the 2008 financial crisis.

Services have not been spared either, given the sharp deterioration in the business climate in March (-14 points in this sector, compared with -3 points in industry). Businesses could therefore cut back drastically on investment, while insolvencies will most likely increase. According to Euler Hermès, insolvencies in France are expected to increase by 8% in 2020, after four consecutive years of decline.

Although the extent of the increase is still difficult to predict, and different sectors of activity will not be impacted in the same way (see table on the next page), **a clear increase in job losses is looming**. A recent Allianz study indicates that 65 million full-time jobs are "at risk" in the EU 27, including seven million in France. For its part, the ILO predicts that 25 million jobs worldwide will be lost as a result of Covid-19, compared to the 22 million jobs that were lost during the international financial crisis. What is certain is that the unemployment curve in France will indeed be reversed, even though unemployment had been significantly reduced since 2017 and the government's ambition was to reduce it to 7% by 2022. Within this context, the Minister of the Economy announced on 24th March that France's GDP would drop by well over 1% and that the economic crisis linked to Covid-19 would probably be the worst since the Great Depression of 1929.

COVID-19 CRISIS

WHAT ARE ITS IMPLICATIONS FOR THE ECONOMY?

A HIGHLY VARIABLE DEGREE OF ADJUSTMENT IN DIFFERENT SECTORS
Source: Xerfi, *Covid-19, Sectoral contagion in the real economy, 26th March 2020.*

Sector most directly impacted by lockdown	30%	Tourism, hotels / catering / events, culture, entertainment, social life Air transport Maritime transport Rail transport Specialist retailers
Industrial sectors at a technical standstill or near standstill		Automotive (closing of dealerships) Construction (the agreement of 23rd March between the government and the federations will only marginally reduce the closure of construction sites)
Industrial sectors very heavily impacted (disruption of value chains, downturn in global demand)		Capital goods (frozen investment), materials, intermediate goods, chemicals, luxury goods, household equipment. Aeronautics could be impacted in the medium term by the air transport crisis, especially if the latter leads to more lasting changes in behaviour. But in the short term, order books represent several years of production and make this sector non-cyclical.
Tracking sectors, whose activity is highly correlated to that of industry	20%	Specialised business services Administrative and business support services Utilities (water and energy distribution, reprocessing etc.)
Sectors subject to positive or mitigated impacts	50%	Agriculture and AFI that benefit from household stockpiling purchases and the food distribution sector. The sector is nevertheless hampered by the closure of the catering sector. Food retail trade (stockpiling purchases, positive substitution effects due to the closure of restaurants). Online channels or Drive-through options Pharmacy Telecommunications, certain IT services
Protected sectors		Administration services: Health, housing, social work, education, public administration. Real estate (marginally affected by the partial deferment of commercial rents)

COVID-19 CRISIS

WHAT ARE ITS IMPLICATIONS FOR THE OFFICE MARKET?

LETTING ACTIVITY: A MATTER OF TIME

The introduction of severe restrictive measures has effectively frozen the office market. For the most part, and even though technology can partly compensate for social distancing, office occupiers have postponed their decisions and postponed the completion of their real estate projects. **This is a first difference with the situation in previous crises**, the effects of which were not immediately felt in the office property market and did not lead to such an abrupt stop in transactions. Without certainty about the duration of the lockdown period, it is difficult to know when activity will resume. In China's Hubei province, this lasted almost two months. In France, the Scientific Council suggested on 24th March that it should not be lifted for at least six weeks. It is also difficult to predict the scale of the restart. Indeed, once the restrictive measures have been lifted, **it will take time to restore confidence and provide visibility to companies**, which could further delay the recovery.

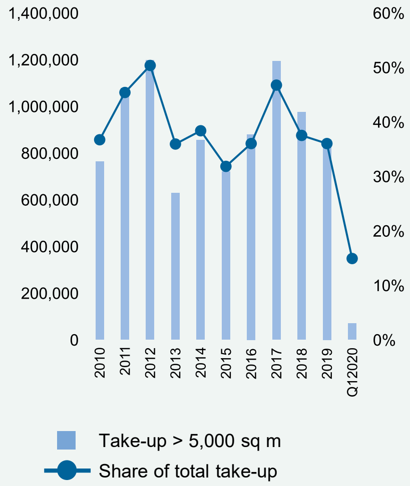
What will the longer-term consequences be on transactional activity?
It should first be noted that the health crisis, unlike previous crises, has not occurred at the top of the cycle, since take-up volumes had already fallen by 8% between 2018 and 2019, and the slowdown had become even more pronounced at the beginning of 2020. That said, **the decrease will obviously be significant due to the halt in activity and a recovery which, if we remain optimistic, is not expected to occur until the end of the 2nd quarter**. With take-up of less than 500,000 sq m in the 1st quarter, the volume of take-up over the whole of 2020 will therefore be well below the ten-year average in the Greater Paris Region (2.3 million sq m) and, at best, close to the two low points of the last two decades (1.48 million sq m in 2002, 1.75 million sq m in 2013).

The behaviour of large occupiers is likely to be decisive. If the weakening of the large areas category, which has been observed for several months now, becomes more pronounced, it will amplify the decrease in take-up volumes. If this market category remains resilient, however, this could help to sustain activity and at least partially offset the effect of the announced difficulties of very small companies and SMBs on the letting of small and medium-sized areas.

This assumption seems rather optimistic under current market conditions, but can still be supported by several considerations. The Greater Paris Region economy relies on large companies, including several international leaders, who will not only be able to benefit from government support but should also, in some cases, benefit from the gradual recovery of business in other parts of the world (Asia in particular). Furthermore, **the strength of the large groups and the diversity of business sectors found in the Paris region has always ensured that the office market in the Greater Paris Region remains dynamic** and is subject to recurring company movements, even in times of crisis. Generally speaking, lettings of office space in excess of 5,000 sq m have averaged 894,000 sq m each year for the past 20 years, representing 40% of the total take-up over the period.

For large groups, a crisis and the pursuit of savings do not necessarily mean a lack of real estate movements. Having lost some of their relevance to the issues of attracting talent and employee well-being, streamlining projects could once again become a driving force in the letting market. The example of banking is particularly telling. Despite a proliferation of restructuring plans and a steady decline in its workforce since the financial crisis, this sector has been the source of several large-scale movements and has maintained a fairly significant share of total take-up above 5,000 sq m (12% between 2009 and 2019).

Change in take-up > 5,000 sq m in the Greater Paris Region
In sq m



Source : Knight Frank

Large occupiers wishing to streamline their real estate will be all the more inclined to move as supply increases and rental values are adjusted downwards.
The economic situation could therefore become more favourable for certain suburb office hubs, particularly in the traditional sectors of the West (Péri-Défense) or the Inner Suburbs (Saint-Ouen, Saint-Denis), which are well connected to public transport and traditionally appreciated by corporate occupiers.

Finally, in the most mature towns with relatively little supply (Boulogne, Issy) or experiencing a lack of supply like Paris, **activity could remain resilient as a result of the expected increase in vacancies and a limited correction in rental values**. Furthermore, Paris should continue to benefit from certain structural changes in demand (search for centrality, urban amenities, etc.) and remain the preferred destination for captive occupiers (luxury, consulting, international finance, etc.).

LANDLORD-TENANT RELATIONS: AN ANTICIPATED SHIFT IN BALANCE

According to article 11 of the emergency law n°2020-290 of 23rd March 2020, the government may, by means of an ordinance, fully defer or stagger the payment of rents.

This provision can only benefit micro-enterprises, those with fewer than ten employees and a turnover or balance sheet total not exceeding 2 million euros. For other companies, the subject of rent payments will therefore be settled on a case-by-case basis with landlords. The situation now seems clearer for shops, whose activity has suddenly stopped due to closures linked to the health emergency, with the exception of certain sectors (food, pharmacies, etc.). Several property companies were quick to announce the suspension, deferral or outright cancellation of rents, such as the measures taken by Ceetrus, Carmila and the Compagnie de Phalsbourg. This is not the case for offices: while most employees are now confined to their homes, remote working makes it possible to ensure at least partial business continuity.

Beyond the admittedly essential question of rent adjustment, the Covid-19 crisis will most likely lead to a rebalancing of relations between landlords and tenants. It is the former who have until now had the upper hand in the Greater Paris Region office market, particularly in the most strained sectors such as Paris. In other office sectors**, the development of these relationships will depend largely on the state of supply and the extent of the rise in vacancy rates.**

FUTURE SUPPLY: BETWEEN OVERSUPPLY AND NORMALISATION

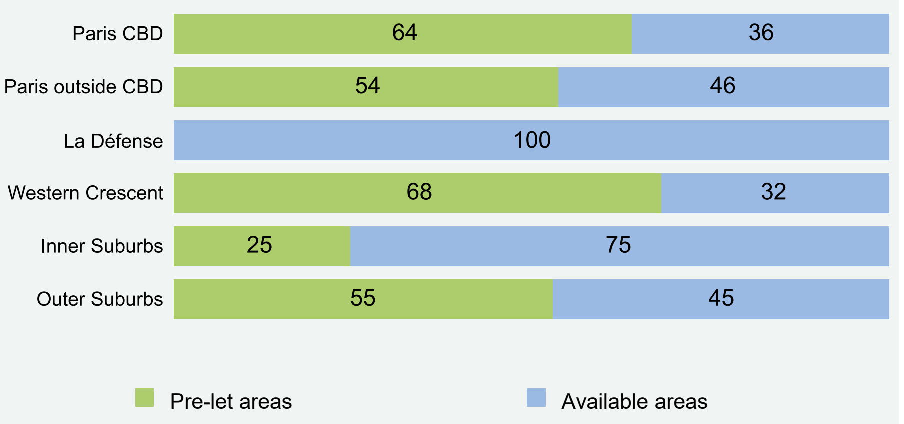
More than 1.5 million sq m of office space was under construction in the Greater Paris Region at the beginning of 2020. This historically high level heralded a general increase in supply even before the start of the health crisis. With the Covid-19 crisis, the rise in vacancy rates is expected to intensify, even if the halt in construction due to restrictions will have the effect of postponing the delivery of ongoing developments and thereby delay the arrival of new supply to the market. The situation will continue to vary greatly from one office sector to another.

The high proportion of pre-lettings in Paris (59% of sq m currently under construction in Inner Paris, 64% in the CBD) should thus make it possible to compensate for the drop in demand and contain the increase in vacancy rates. The trend is therefore towards a normalisation of the market rather than the beginning of a phase of oversupply. Some suburb sectors will also continue to have low supply, such as the Southern Loop.

The increase in supply will be much more marked in other sectors in the Paris region, such as La Défense and certain Inner Suburb markets. In La Défense, a rise in the vacancy rate had been expected for several months. 370,000 sq m under construction are available in the business district, compared with an average consumption of 95,000 sq m over the last five years in the category of areas over 5,000 sq m. As a reminder, the vacancy rate reached almost 12% in La Défense in 2013, compared with 4.9% at the end of 2019. Competition will be all the more intense as several quality large areas will also be delivered in neighbouring towns such as Nanterre and Levallois, adding to the stock of new supply that is already available. Finally, the imbalance is also likely to become more pronounced in the North, where only 10% of the sq m under construction have been pre-let.

Importantly, **the halt in letting activity caused by Covid-19 is expected to prompt investors to postpone or suspend developments that were awaiting launch, which will reduce the potential deliveries expected in 2022 and beyond, and limit downward pressure on rents.**
In addition to the suspension of construction work, the slowdown in authorisations of planning permission will also have consequences for project planning, with the postponement of the second round of municipal elections adding to the uncertainty. Finally, transport projects will be delayed, which will impact the major development sectors of the Grand Paris Express. It should be remembered that work to extend line 14 between Gare Saint-Lazare and Saint-Ouen was in the process of being completed, and that work on other lines, particularly line 15 South, was steadily progressing.

Pre-letting rate in the main Greater Paris Region sectors
Share of the total volume of sq m of office space under construction, as a %



Source : Knight Frank

RENTAL VALUES: THE END OF GROWTH

The change in rental values is undoubtedly one of the biggest uncertainties at the moment. In any event, this lack of visibility will remain as long as the restrictive measures are not lifted. But **the uncertainty could continue even after that, thus encouraging a wait-and-see attitude on the part of occupiers**.

As with supply, the situation will be highly contrasted in the different markets. Contrary to most of the large office hubs in the Greater Paris Region, the correction in values had already been witnessed in La Défense before the Covid-19 crisis occurred. The decrease could now become even more pronounced due to the sharp rise in deliveries and vacating of premises.

With the exception of La Défense, all of the average rents in the Greater Paris Region office sectors were above their ten-year average at the beginning of 2020**. The decrease in values could therefore be fairly sharp for towns that were still recently experiencing upward pressure**, particularly in the Inner Suburbs (North and South). The correction should be more moderate in the Western Crescent, particularly in the Southern Loop due to a fairly limited future supply volume.

Despite historically high values at the beginning of 2020, **the decrease could also be limited in Paris due to the low number of available construction projects, favourable structural trends and a captive occupier base in high value-added sectors**. That said, the Paris market could suffer from a possible drop in demand from coworking operators and Tech. Although these two types of occupiers were very active in 2019 in Paris (accounting for 40% of take-up of areas over 5,000 sq m in the CBD, for example) and were responsible for a growing number of transactions signed at high values, they are likely to be shaken by the crisis.

With regard to Tech, the authorities were quick to take exceptional support measures, with the announcement on 25th March of a €4 billion emergency aid plan. Despite this, the health crisis could dampen the momentum of fast-growing companies, especially those that had planned to raise funds in 2020. Others will fare better, especially those whose business responds to the issues arising from the crisis (teleworking, retail tech, etc.). Finally, while Tech companies preferred to be based in Inner Paris, even if it meant paying a high price to keep their headquarters there, some of them could now consider setting up outside the capital in order to continue their development, as a result of the crisis and the greater attention paid to controlling their real estate costs. This trend had already begun before the crisis, as in the case of Doctolib's recent move to Levallois-Perret and Believe Digital's move to Saint-Ouen.

WORKING MODES AND SPACE: EVOLUTION RATHER THAN REVOLUTION?

The health crisis has disrupted working patterns: within a few days, the vast majority of companies closed their offices or severely restricted access to them, while their employees began to work remotely on a massive scale. **The large-scale strikes in December 2019 were a full-scale test in this respect, with the Covid-19 crisis completing the widespread use of home offices.**

It should be remembered that until recently remote working was only practised by a minority of French people. In a recent study, INSEE indicated that only 11% of managers and 3% of all employees would be remotely working at least one day a week in 2017. Of course, not all employees are in the same boat. While some functions or sectors of activity can only use it to a very limited extent, others have been able to generalise its use. For example, the HR Manager of Allen & Overy's Paris office recently indicated that 90% of the staff of this international law firm are able to work remotely, relying on technological tools such as videoconferencing and electronic signatures.

Once the crisis is over, **nothing will be the same again**: remote working will be practised less than at the height of the crisis, but much more than before the spread of Covid-19, which could, incidentally, shake up the culture of working long hours. This would also respond to environmental concerns, enabling a decrease in commuting and a corresponding reduction in CO_2 emissions.

However, the tidal wave created by the health crisis will not call into question the relevance of office buildings. As economist Daniel Cohen recently said, "numerical relations will not replace human relations". On the contrary, the lockdown period, that has more or less been well tolerated by the French, will convince managers of the appropriateness of these spaces and the need for employees to maintain physical contact. **We therefore envisage a midway scenario, between the progression of remote working and the consolidation of offices as social spaces that promote the well-being, productivity and innovation of companies.** A parallel can be drawn with shops: the online boom has not destroyed physical retail but, through the rise of "phygital", has put the shop back at the heart of the relationship with the consumer. That said, the wider use of remote working could have consequences for office consumption. Just as the online boom led many retailers to reduce their store networks in favour of those best placed to deliver the best customer experience, so **some companies may reduce their floor space in favour of more neatly appointed flagship offices in the most desirable locations**. The higher cost would thus be offset by the reduction in occupied space, but also by the gains generated in terms of retaining the best profiles, improving the company's image, etc.

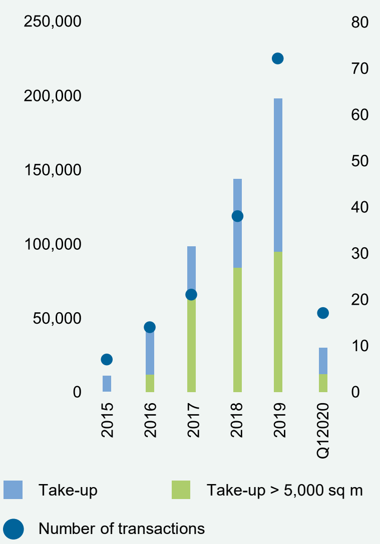
This assumption has yet to be tested, but it is certain that the spread of Covid-19 will increase the attention paid to the use value of property. Beyond the issue of recruitment, it is the well-being and health of employees that will become increasingly important. The major health crisis currently affecting the world could indeed be repeated, and **both occupiers and landlords will therefore be more attentive to the management of risks, be they health-related or environmental**. Within this context, could the tendency of companies to group their staff in large or very large areas be reversed in favour of multi-site strategies? Nothing is less certain, as occupiers continue to favour collaboration between teams while paying more attention to controlling real estate costs, but workspaces will have to **evolve to ensure the safety of employees and business continuity in the event of a new crisis**.

COWORKING: STALLED MOMENTUM

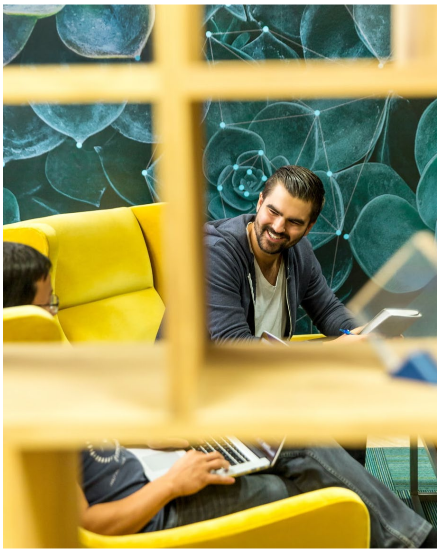
With the spread of Covid-19, most coworking operators have temporarily suspended their services, while some international players have kept their sites open, both in France and abroad. **In the longer term, what could be the impact of the health crisis on this sector?**

The first obvious consequence will be **a reduction in the amount of space leased**, as with all other office occupiers. Before the coronavirus spread on a large scale, coworking operators were still booming in the Greater Paris Region, with approximately 30,000 sq m let in the 1st quarter of 2020 compared to 38,000 sq m in the 1st quarter of 2019, and almost 200,000 sq m let over the past year (+38% compared to 2018). **However, a slowdown was already expected in 2020** due in particular to the halt in the expansion of WeWork, whose leases totalled nearly 50,000 sq m in the first half of 2019 alone. It should also be noted that several foreign operators, not yet present in France and who had planned to penetrate this new market, will put their development projects on hold.

Coworking take-up in the Greater Paris Region, in sq m



Source : Knight Frank



Will the end of the lockdown period nevertheless be accompanied by a recovery in the growth of coworking, albeit less pronounced? **The model could indeed benefit from companies' lack of visibility**, who would thus tend to resort to coworking due to a need for flexibility and the reluctance to commit to firm leases. However, coworking could suffer from the economic difficulties of entrepreneurs and small businesses, the traditional base of their activity.

As for large groups, they might be tempted to repatriate teams installed in coworking areas, to reduce their real estate costs in the short term and perhaps **be able to better control the safety of their employees until the health crisis has been definitively brought under control**. Added to this is the problem of non-collection of rents by coworking operators who may or may not have closed their sites.

In this context, some operators would be forced to end ongoing negotiations, or even to vacate areas. In the central districts of Paris, this could make the market more fluid, particularly in the small and medium-sized area category. In the longer term, however, we again envisage a midway scenario, between continued success in coworking due to structurally favourable trends (collaborative work, need for flexibility, etc.) on the one hand, and a greater concentration of the sector in favour of the strongest operators on the other.

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