The office market
Lettings and Investment

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The office market

Paris / Greater Paris Region | 2nd quarter 2021

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BETWEEN REAL ESTATE RECOVERY AND PANDEMIC RESURGENCE

After an encouraging start to the year, the recovery in the lettings market was confirmed in Q2 2021 with a 14% rebound in take-up compared to the previous quarter, the completion of new large transactions and a prime rent that remains high despite the increase in available supply.

The investment market, on the other hand, has stalled, even though the acceleration of economic activity, the recovery of the lettings market, abundant liquidity and the large transactions that are in the process of being completed point to a rebound in investment volumes from the third quarter.

The rapid spread of the "Delta" variant, which has caused the number of infections in France to rise again, now poses the risk of new restrictive measures. But the worst-case scenario doesn't always come to pass and the good fundamentals of the French real estate market, as well as the effectiveness of the vaccines, still gives hope that the recovery will accelerate in the second half of the year.

ECONOMIC CONTEXT

SPECTACULAR RECOVERY OF THE BUSINESS CLIMATE

After the deep recession in 2020, the world economy will recover in 2021. The OECD's forecast for the eurozone is for growth of 4.3% this year, compared with a drop of almost 7% in 2020.

In France, the improvement in the health crisis and the easing of restrictive measures also point to a clear increase in GDP, following the slight increase in the 1st quarter of 2021 (+0.4%) and the larger-than-expected increase announced by INSEE for the 2nd quarter (+0.7%). The Banque de France has also just raised its growth forecasts for 2021, with an increase of almost 6% in GDP.

Finally, business leaders are also showing much more optimism. As a result, having reached its lowest level for 15 years in 2020, the business climate indicator has recovered spectacularly, reaching 113 points in June 2021. In the services sector, it stands at 105 points, its highest level since September 2000.

THE LABOUR MARKET REMAINS STRONG

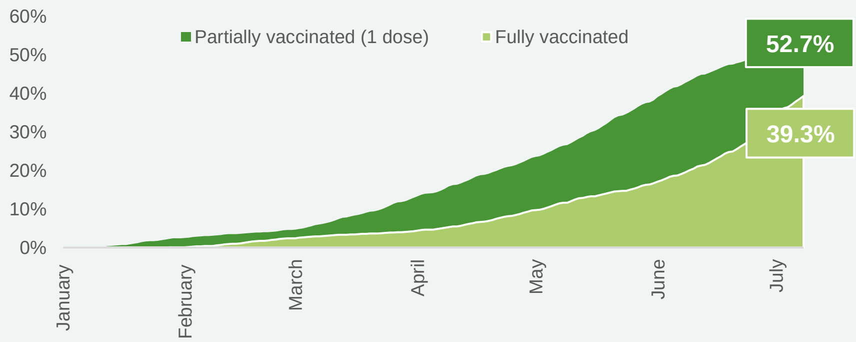
Most other economic indicators are back in the green. This is the case for consumption, which is expected to grow by 3.2% in 2021 and then by 6.8% in 2022, having fallen by 7.2% in 2020. Household spending could thus return to its pre-crisis level from next year owing to the use of precautionary savings accumulated since the start of the Covid-19 pandemic.

The recovery in profit margins will also support business investment, which will likewise benefit from the measures provided for in the recovery plan. It is also the support measures put in place by the government, such as the state-guaranteed loan, that have helped to limit insolvencies, even if these could increase between now and the end of the year in the most affected sectors (hotels and restaurants, events management, etc.).

The labour market has also held up well so far. At the end of May 2021, DARES still counted 2.3 million employees engaged in partial activity (compared with 3.2 million in June 2020), while INSEE recorded 2.4 million people without jobs at the end of the 1st quarter of 2021, corresponding to an unemployment rate of 8.1% compared with 8% at the end of 2020.

Change in vaccination rates in the Greater Paris Region

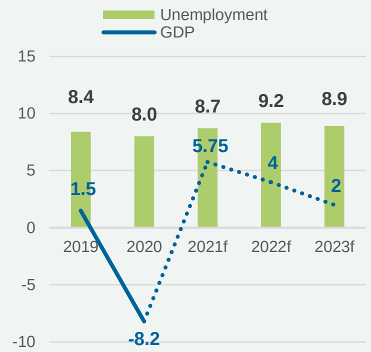
Weekly change, as a % of the total population



Source: ARS

Change in unemployment and GDP

In France, as a %



Sources: Insee, Banque de France

However, unemployment could start to increase again in the 2nd quarter due to the resumption of active job searches, and then continue to rise in the following quarters if government support schemes are stopped. Nevertheless, the deterioration in the labour market is expected to be modest and short-lived, peaking in 2022 (9.2%) before easing from 2023.

THE THREAT OF VARIANTS

The proliferation of the 'Delta' variant could change these forecasts. In the UK, the number of new infections has soared, reaching its highest level since late January on 30th June. The situation is also getting worse in other European countries. This worsening of the health situation has not however been accompanied by a significant increase in the number of deaths, which remain very low.

Although uncertainty remains high, it is less so than it was a few months ago: the vaccines have proved to be effective, resulting in less pressure on health systems, while the availability of doses means that we can expect a gradual improvement in the population's vaccination coverage.

FRENCH ECONOMIC INDICATORS

As a % of annual changes	**2019**	**2020**	**2021 (Forecasts)**	**2022 (Forecasts)**	**2023 (Forecasts)**
French GDP	1.5%	-8.2%	5.75%	4.0%	2.0%
Euro Zone GDP	1.3%	-6.7%	4.3%	4.4%	-
Household consumption	1.9%	- 7.2%	3.2%	6.8%	2.0%
Unemployment rate	8.4%	8.0%	8.7%	9.2%	8.9%
Change in paid employment ('000)	326	-310	38	61	136
Inflation	1.3%	0.5%	1.5%	1.2%	1.2%
Business climate	105.3	91.2	113 (June)	-	-
Business investment	3.4%	-8.9%	9.7%	3.4%	3.3%
Business bankruptcies ('000)	51.1	31.3	65-100	-	-
Public deficit (% of GDB)	-3.1%	-9.2%	-9.4%	-5.3%	-4.4%
Exports	1.5%	-16.1%	10%	8.5%	5.1%
Imports	2.4%	-12.2%	8.4%	8.0%	3.7%

Sources: Banque de France, OECD, Insee, Xerfi Previsis, Ministry of the Economy, Confederation of Small and Medium-sized Enterprises

THE GREATER PARIS REGION OFFICE LETTINGS MARKET

ENCOURAGING SIGNS OF RECOVERY

More than a year after the start of the Covid-19 pandemic, the Greater Paris Region office market remains less active than before the health crisis but has begun to show some signs of recovery. For example, almost 430,000 sq m were leased in the 2nd quarter after 375,000 sq m in the 1st quarter, bringing take-up to just over 800,000 sq m for the 1st half of 2021. Although the increase is 10% higher than the 1st half of 2020, the result is still 24% lower than the average for the last ten years.

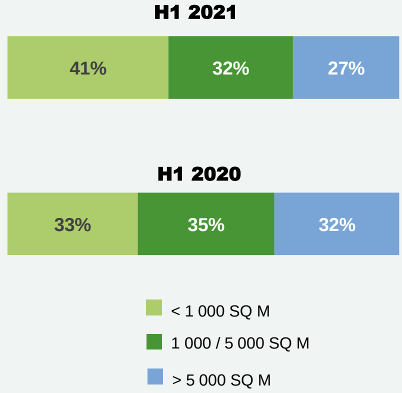
As has been the case since the beginning of the health crisis, the decrease in volume is mainly due to the lack of large transactions, even though this market category is undeniably more active than it was in 2020. Accordingly, 23 transactions over 5,000 sq m were signed in the 1st half of 2021 in the Greater Paris Region, compared with 22 in 2020 (14 in the 1st half and 8 in the 2nd half of the year).

This increase in the number of large transactions is not accompanied by a rebound in take-up volumes: the 23 transactions in the 1st half of 2021 represent a volume of 219,000 sq m, down 5% compared to the same period last year and 43% compared to the average for the 1st half-years of the last ten years. This decrease is due in particular to the absence of very large transactions: at the beginning of 2020, TOTAL's lease of the 130,000 sq m of "The Link" in La Défense inflated volumes, whereas large transactions in the 1st half of 2021 were mostly for areas of less than 20,000 sq m.

REDUCTION IN THE AVERAGE AREA OF LEASED SPACE

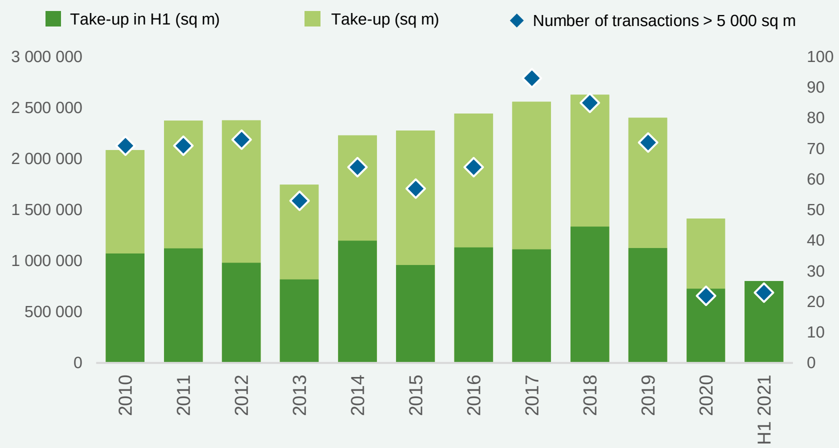
The improvement in the economic and health situation, the gradual implementation of new corporate real estate strategies and a context favourable to mergers (search for savings, dynamism of merger and acquisition operations) point to a further increase in the number of large transactions in the 2nd half of 2021, even if very large-scale movements could remain fairly rare. Admittedly, the impact of the pandemic on the size of office space leased by companies is still difficult to measure due to the ongoing health crisis uncertainty and the continued uncertainty about the future of remote working (see p10). However, recent transactions already show a trend towards a reduction in the average size of leased space over 5,000 sq. m., from 13 000 sq m between 2010 and 2019 to 9,500 sq m since the beginning of 2021.

Breakdown of take-up by area category
In the Greater Paris Region



Source : Knight Frank

Change in take-up
In the Greater Paris Region



Source : Knight Frank

DYNAMISM OF SMALL AREAS

Regarding small and medium-sized areas, activity has recovered more rapidly and more significantly, both in terms of volume and number of transactions. The rebound mainly concerned the small transaction category (< 1,000 sq m), with the number of transactions up by 42% compared with the 1st half of 2020 in the Greater Paris Region.

The volume of space leased for small areas was 36% higher than at the same time last year, and even reached the average level of the last ten years, a sign of a more rapid return to normal in this market category. As for leases of intermediate-sized areas (1,000 to 5,000 sq. m.), they have held up well with a stable volume from one year to the next, but still down 34% compared with the ten-year average.

PARIS EMERGING RELATIVELY UNSCATHED

The beginning of the recovery in the Greater Paris Region office market is therefore real but still very uneven, which is reflected in the geographical distribution of demand. Unsurprisingly, Paris is doing well. The take-up volumes here are up by 19% compared to the 1st half of 2020, and even up by 37% in the CBD.

There are many reasons for the strength of the Paris market, starting with the dynamism of small areas and the wide variety of company profiles seeking premises in the capital. Furthermore, after the dip recorded last year, leases taken on behalf of coworking operators are once again on the rise, with almost 20,000 sq m of office space leased in the 1st half of 2021 in the capital (out of a total of 27,000 sq m in the Greater Paris Region), compared with only 11,000 sq m in the 2nd half of 2020.

In Paris, there is also more supply and the negotiation conditions are generally more balanced, which offers more opportunities to occupiers, particularly in the second-hand market. New/redeveloped offices, the supply of which is more limited and more expensive, remain very popular, as the health crisis has increased the appetite of occupiers in high value-added sectors (finance, luxury, consultancy, new technologies) for the capital's most beautiful properties.

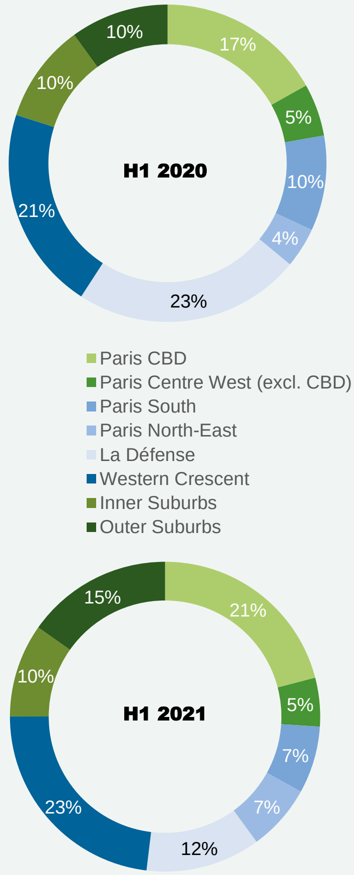
Indeed, the quality of access, workspaces and address are more than ever key factors in communicating a company's image and attracting talent... but also in convincing employees to return to the office at a time when many of them often continue to work from home. Paris therefore has everything it needs to see its office market continue to recover in the 2nd half of the year and in 2022. This should result in an increase in the number of large transactions, which were very few in the 1st half of 2021 in the capital (three, compared with seven in the 1st half of 2020 and 14 in the 1st half of 2019). In the CBD, ALLEN & OVERY has just leased nearly 7,000 sq. m. in "Renaissance", while other sectors, such as Paris 12th and 13th, could benefit from an increase in supply in the near future.

DECREASE TO BE PUT INTO PERSPECTIVE IN LA DÉFENSE

The situation is more contrasted in the suburbs. Several sectors, whose performance usually depends on large transactions, are suffering from their limited number. This is the case for Péri-Défense and La Défense, where take-up volumes are down by 15% and 43% respectively compared with the 1st half of 2020.

The decrease seen in the business district, however, needs to be put into perspective as last year's very good result was mainly due to the TOTAL transaction in "The Link", but also because there was more movement in the 1st half of 2021 in all area categories. In the over 5,000 sq m category, the last few months have been notable for TECHNIP's lease of 7,000 sq m in "Trinity" and the completion of the CAMPUS CYBER project in the 24,000 sq m "Eria" tower.

Geographic breakdown of take-up in the Greater Paris Region
As a % of total volume



Source: Knight Frank

The Neuilly-Levallois sector stood out with an increase in the number and volume of transactions, primarily concentrated in Neuilly where UNOWHY, for example, leased 5,000 sq m at "168 avenue Charles de Gaulle".

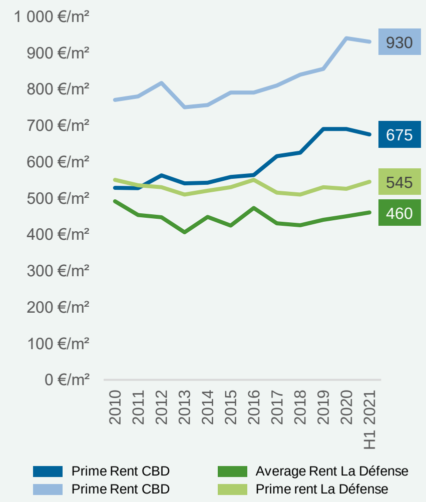
With the exception of certain sectors in the Outer Suburbs or the Northern Loop, where three transactions of more than 5,000 sq m were completed including GROUPE UP on 15,000 sq m in "Gardens" in Gennevilliers, the other office hubs were not very active. One of the most significant transactions was the lease to EM NORMANDIE of "H2B" in Clichy. This movement is a further illustration of the dynamic real estate demand from schools and educational organisations, whose desire is to revamp the student experience in the same way that companies are looking to revamp the employee experience.

SEVERAL TRANSACTIONS ABOVE €900 /SQ M /YEAR

Prime rents remain remarkably high at €930/sq m/year in the Greater Paris Region, compared with €920/sq m a year earlier and €935/sq m in the 1st quarter of 2021. Since the beginning of the year, more than twenty transactions have been signed at values in excess of €800/sq m/year, compared with 12 at the same time last year and 15 in the 1st half of 2019. Seven even exceeded €900/sq m/year. These transactions almost exclusively concerned buildings in the CBD, such as the intermediate-sized transactions within very high-end refurbished complexes in the 8th arrondissement, including "La Maison Bayard", "Rio" and "19-21 rue Jean Goujon", leased by ROLAND BERGER. This confirms the willingness of companies in high value-added sectors, such as finance and consulting, to lease the best Parisian properties.

Generally speaking, the balance of power remains in favour of tenants, as illustrated by the granting of more generous rental incentives in the most buoyant market sectors. This has helped to maintain headline rents, with average rents increasing from €415/sq m/year at the end of the 1st half of 2020 to €425/sq m/year a year later in the Greater Paris Region.

Change in rents | Paris CBD and La Défense, in €/ sq m /year



Source: Knight Frank

Examples of letting transactions in Q2 2021

In the Greater Paris Region

Asset / Address	Tenant	Area (sq m)
Tour Eria, 5-7 rue Bellini / Puteaux (92)	CAMPUS CYBER	24,000
Gardens, 11 bd Louise Michel / Gennevilliers (92)	GROUPE UP	15,400
H2B, 30-32 rue Henri Barbusse / Clichy (92)	EM NORMANDIE	13,734
Tour Voltaire, 1 place des Degrés / Puteaux (92)	INGENICO WORLDWIDE	13,700
Parc Icade, rue des Vanesses / Villepinte (93)	ALDI	8,715
Tour Trinity, avenue de la Division Leclerc / Courbevoie (92)	TECHNIPFMC	6,975
Biopark, 6 rue Jean Antoine de Baïf / Paris 13th	SANOFI	6,231
Mail Gay Lussac, bd Condorcet / Villepinte (93)	INEO SYSTRANS	5,660
168 avenue Charles de Gaulle / Neuilly-sur-Seine (92)	UNOWHY	5,030

Source: Knight Frank

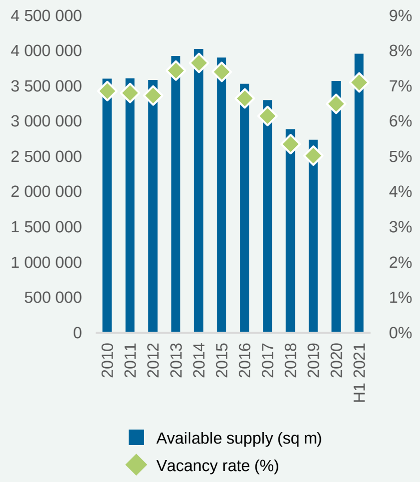
ALMOST 4 MILLION SQ.M. AVAILABLE

The volume of immediately available supply in the Greater Paris Region has continued to increase over the last three months, having been on the rise since the end of 2019. The supply now comprises 3.96 million sq m, an increase of 6% over a quarter and 33% compared with the end of the 1st half of 2020. The 20-year high (4.02 million sq m in 4Q 2014) is likely to be overtaken soon. Indeed, despite the start of a recovery in letting activity, it remains well below its long-term average, while space is still being vacated and the pace of deliveries continues unabated. These deliveries will swell the already substantial Grade A stock, with almost 900,000 sq m of new/redeveloped office space immediately available compared with 476,000 sq m a year ago. Well above the increases observed for renovated (+35%) and used (+17%) supply, the increase for new/redeveloped space is 87%, although this masks significant disparities between geographical sectors.

It is in the Inner Northern Suburbs that Grade A space is most abundant, with almost 200,000 sq m, of which 70% is concentrated in Saint-Ouen and Clichy. If all qualities of space are considered, the North is the sector with the greatest supply, ahead of Péri-Défense and La Défense, the business district being the area where availability has increased the most in one year in the suburbs (+ 118%). In Paris, the increase is also significant (+80%), in particular in the CBD (+125%), which has gone from a situation of severe shortage to a relative market equilibrium in a few months. The vacancy rate is 5% compared to 2.2% at the end of the 1st half of 2020. In the Greater Paris Region, this rate reached 7.1% compared to 5.5% one year earlier, and exceeded 10% in several sectors (12% in La Défense, 19.7% in Péri-Défense, 16.4% in the Inner Northern Suburbs, etc.).

Change in available supply

In millions of sq m, in the Greater Paris Region



Source: Knight Frank

FUTURE SUPPLY IS STILL PLENTIFUL

31 projects > 5,000 sq m of new or redeveloped offices were delivered in the 1st half of 2021 in the Greater Paris Region, totalling 660,000 sq m, of which 39% is still available. Partly due to construction delays caused by the first lockdown, the increase is significant compared with the same period in 2020 (18 projects) and 2019 (23). Over the whole of 2021, almost 1.42 million sq m should be completed, which is 57% higher than the average for the last five years. Deliveries will be lower in 2022 (1.07 million sq m expected), before rising again in 2023 (1.26 million sq m). In the longer term, the pace of development is expected to slow due to the sustained rise in vacancy and the greater cautiousness of investors, who are likely to limit the number of launches and postpone or downsize some major projects, particularly outside Paris.

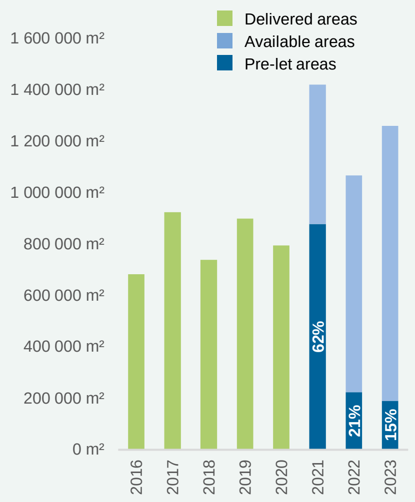
At the end of June 2021, 2.4 million sq m of office space (> 5,000 sq m) was under construction in the Greater Paris Region, 67% of which was still available. While the pre-letting rate for projects to be delivered by the end of 2021 is relatively high (62%), it is very low for projects expected in 2022 (21%) and 2023 (15%).

Consequently, the market's absorption capacity remains one of the main questions for the months to come, particularly in markets with the highest supply in the Greater Paris Region. 66% of the available supply > 5,000 sq m to come between now and the end of 2023 is concentrated in the Inner Suburbs and the Western Crescent, where the pre-letting rates are 16% and 23% respectively.

In the Inner Northern Suburbs, pockets of available space are located in Saint-Ouen and Clichy, and in Bagneux and Gentilly in the South. To the West, Nanterre and Levallois-Perret account for half of the available space in the Western Crescent, while in La Défense, 212,500 sq m of space is still to be delivered by the end of 2023, following the 208,000 sq m completed since the start of the health crisis (79% of which is still available). The quality/price ratio of the business district's real estate will therefore be a key element in encouraging the take-up of this supply.

Supply remains much lower in Paris, where the volume of future supply only represents 16% of the Greater Paris Region total, or about half of what its office stock represents on a regional scale. Furthermore, more than half of the space expected by the end of 2023 is already pre-let (53% in the CBD compared to 50% in the other districts of the capital).

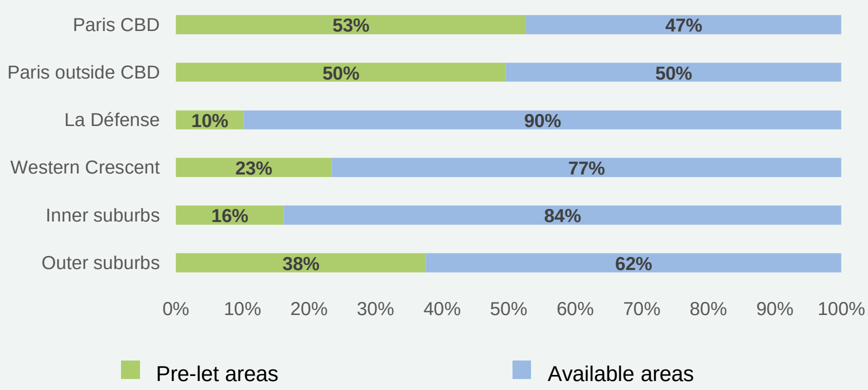
Change in volume of new/refurbished future supply (> 5 000 sq m)
In the Greater Paris Region



Source: Knight Frank

Three projects > 10,000 sq m under construction are notably available in the CBD, while the 15th, 12th and 2nd arrondissements represent the main areas for new/redeveloped projects outside the CBD.

Pre-letting rate by sector in the Greater Paris Region
Share of the total volume of sq m of office space under construction (2021-2023), as a %



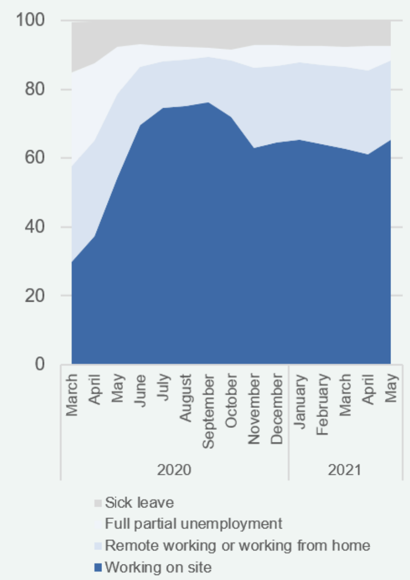
Source: Knight Frank

WHAT NEXT FOR REMOTE WORKING?

Since the end of the third lockdown, the decrease in the number of infections and the easing of restriction measures have allowed companies to envisage a greater return of employees to the office.

While remote working is still practised by a sizeable, but minority, number of French people (23% on average in 2021 compared to 20% between March and December 2020, but less than 10% in 2019), the situation is likely to change in the coming months, even if the context remains very uncertain. Firstly, because the pandemic recovery could once again force employers to limit their presence in the office, but also because decisions on work organisation have not yet been taken in many companies.

Workforce activity and employment conditions during the health crisis
In France, as a % (excl. holidays)



Source: DARES, Acemo Covid survey, 2020-2021

A SITUATION THAT VARIES DEPENDING ON THE ACTIVITY SECTOR

Some key trends can already be identified. To begin with, it is worth noting that agreements on remote working had been adopted before the Covid-19 pandemic in many companies. These were not necessarily applied at that time, but companies now have a framework on which to build to meet the new expectations of employees. Recent announcements and ongoing discussions also highlight the importance of managers, who will have a central role in applying the new remote working rules according to employee profiles and business lines (number of days per week, choice of days worked remotely, etc.).

Another finding is that the approach to remote working and its extent may vary according to the sector of activity. In the industrial sector (aeronautics, agri-food, environment, etc.), remote working was often already regulated before the health crisis, at an average of two days per week (DANONE, ENGIE, SUEZ, DALKIA, etc.). Whilst this number of days might not change in some companies, others have recently decided to increase it (three days a week for non-production jobs at STELLANTIS or RENAULT) or are considering doing so. Arrangements had also been made before the health crisis in some public authorities, again up to two days a week (Greater Paris Region Regional Council, City of Paris).

Remote working is generally more limited in the legal professions, with an average of one day per week (ASHURST, DS AVOCATS, etc.). While it is not necessarily worth going beyond this, as these professions have always practised remote working informally, some law firms see it as an additional argument to attract talent (ALLEN & OVERY).

In other sectors, the adoption of a hybrid model raises issues of fairness between employees. This is the case in some luxury groups, where office presence is strongly favoured because of the impossibility for many employees to work from home (salespeople, craftsmen, etc.).

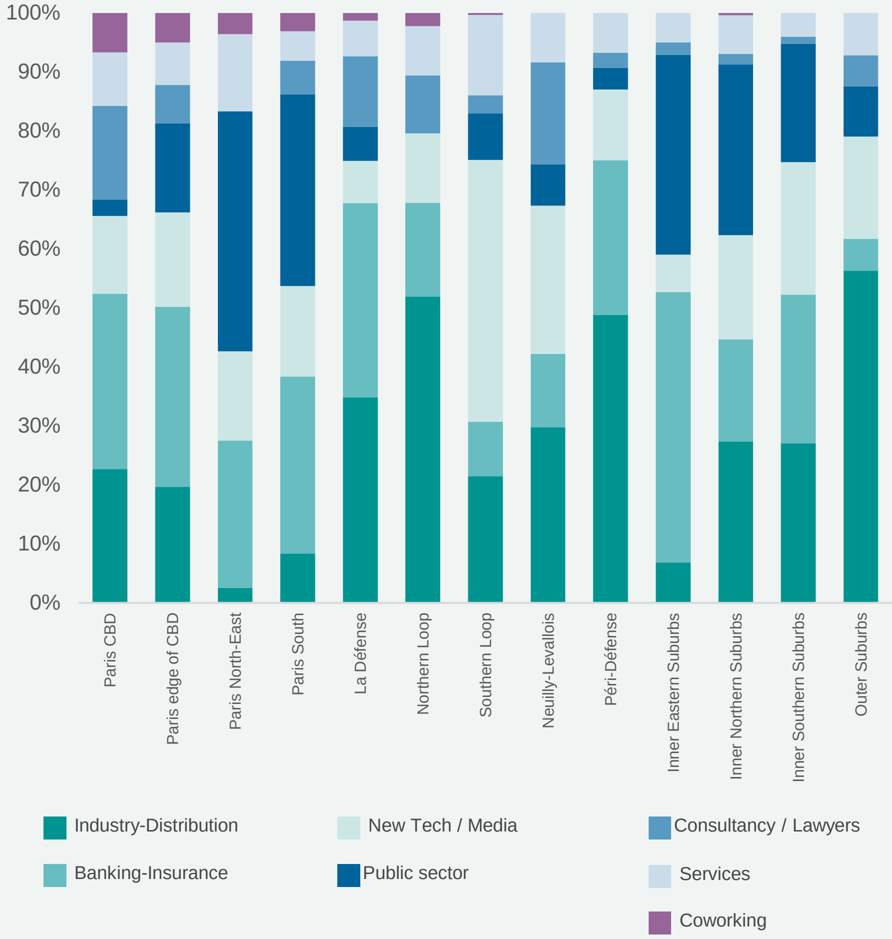
Furthermore, issues of confidentiality and data security are particularly sensitive in certain sectors such as banking, where new agreements have nevertheless extended remote working to a larger number of employees (two days a week at SOCIÉTÉ GÉNÉRALE, with 40,000 employees involved, compared to 12,500 before the health crisis), with the exception of certain sensitive professions (payment operators) or those in contact with clients (front office in branches). In the new technologies, such concerns also exist which, combined with the emphasis placed on collaboration between teams and the corporate culture, have prompted some companies to announce a greater return to the office than might have been expected from the announcements made at the beginning of the pandemic (APPLE, AMAZON, etc.).

WHAT IS THE IMPACT ON THE VARIOUS OFFICE HUBS IN THE GREATER PARIS REGION?

This brief overview shows the disparity of current practices and thinking on remote working, even if it appears that a hybrid organisation will be the most favoured option. In the long term, the consumption of office space will therefore necessarily be impacted. Last January, the IEIF predicted that remote working could lead to a 12-36% reduction in office space. It is far too early to know what will actually happen, especially given that while real estate is an adjustment variable for companies, feedback from users points more to a reorganisation of workspaces than to a desire to drastically reduce their area.

Furthermore, the impact on individual office hubs will also depend on their exposure to particular business sectors, as not all will work remotely to the same extent. Consequently, markets dependent on the demand for real estate from a limited number of sectors, some of which make extensive use of remote working such as industry, may suffer more than those with a diverse occupier base, favouring face-to-face work and attributing a highly strategic function to offices (showcasing, attracting talent, etc.).

Share of each activity sector in take-up > 5,000 sq m
In the Greater Paris Region, by geographic sector, as a % of total volume > 5,000 sq m between 2010 and 2021 (H1)



Source: Knight Frank

SPOTLIGHT ON THE NEW YORK OFFICE MARKET AS IT RECOVERS

New York was hit hard by the Covid-19 pandemic, which killed more than 30,000 people (compared to 20,000 in the Greater Paris Region), but it is also one of the world's most successful cities in terms of vaccination campaigns. The improved health situation explains the rapid rebound of the economy, as well as the beginning of the recovery of the office market. The last few weeks have thus provided some initial indications of how one of the world's largest corporate real estate markets is recovering, and some similarities with trends in the Greater Paris Region office market can be highlighted.

With 70% of its residents already vaccinated by mid-June (compared to 40% in the Greater Paris Region) New York City's economy is recovering rapidly from the crisis. After a meteoric rise in unemployment, it has steadily decreased from 20.2% in April 2020 to 9.8% in May 2021.

Unlike the great financial crisis of 2008, when office jobs accounted for almost 90% of the jobs lost, they have been relatively unscathed this time. They represent less than 20% of the jobs lost since the beginning of the health crisis, illustrating the specificity of a recession that has particularly devastated the hotel and restaurant sector.

The economic recovery in the service sector, combined with the marked improvement in the health situation, explains the recovery in the New York office market, which is one of the largest in the world with 43.5 million sq m of office space on the island of Manhattan alone (compared with 16.9 million sq m in Paris and 55.2 million in the whole of the Greater Paris Region). In recent weeks, corporate real estate demand has rebounded sharply: 218 new tenant requirements were recorded between January and June 2021 for a total of 994,000 sq m (compared with 90 representing 520,000 sq m through June of last year and 153 totalling 883,000 sq m through June of 2019). Almost 72% of this new demand comes from companies in the FIRE and TAMI industries, which have weathered the health crisis well. These companies should therefore continue to support demand for office space, which could also be fuelled by the movement of those who signed short-term leases in 2020 that will soon expire (85 leases with terms of two years or less, for a total volume of 280,000 sq m).

For the time being, this improvement has not been reflected in a clear improvement in market indicators. The number of long-term leases signed remains significantly below the pre-crisis level, and supply remains abundant.

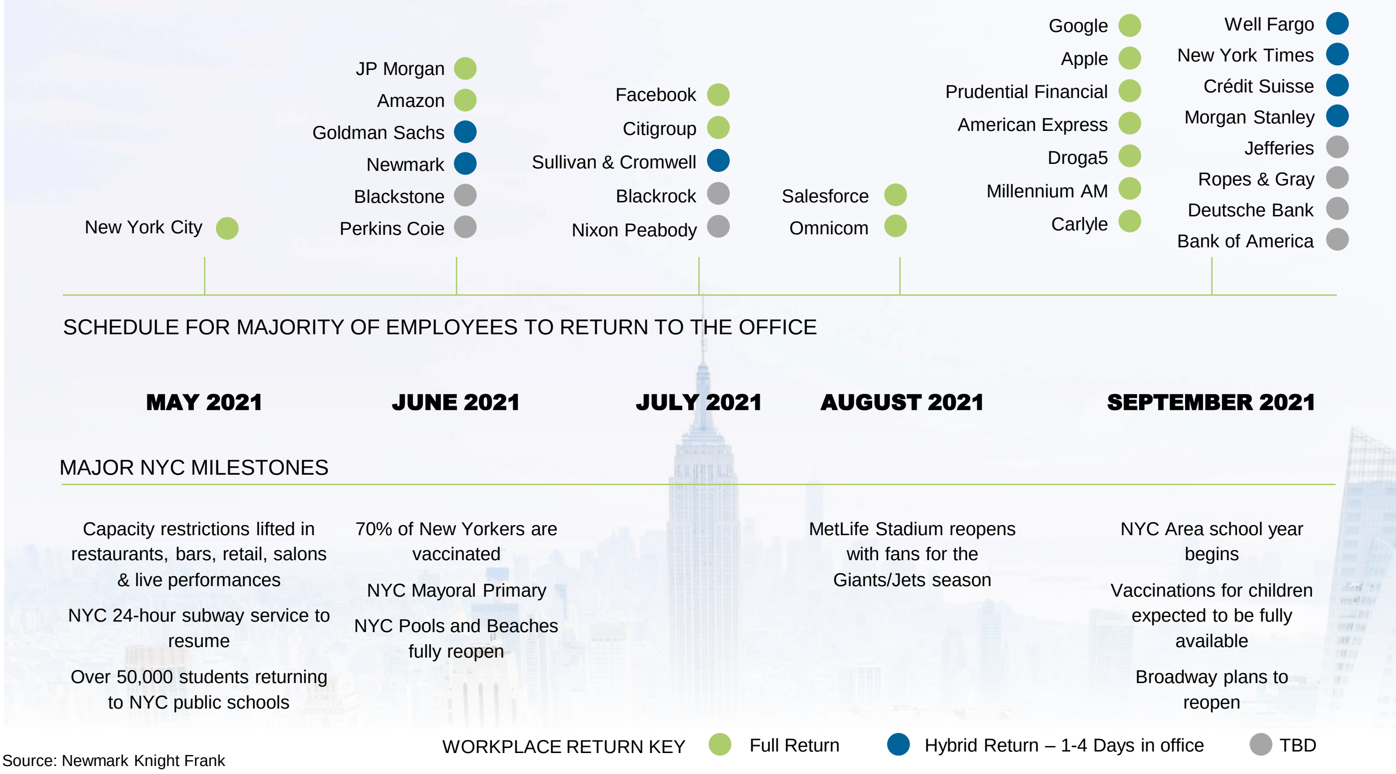
However, following a surge in 2020, the volume of space offered for subletting has started to fall, with 22,300 sq m of office space coming onto the market in Q2 2021 compared to 251,000 sq m in the previous quarter. Furthermore, 195,000 sq m of space available for subletting has already been taken off the market since the start of Q4 2020, 84% of which was taken off in the past three months.

This improvement is expected to intensify in the 2nd half of the year due to a better business climate and favourable negotiation conditions for occupiers, with the average rent falling by 9.6% since Q1 2020. As a result of increased vaccination rates and the gradual lifting of restrictive measures, more companies will also bring their employees back to the office. While the office occupancy rate in New York City was still only 21.7% in mid-June (compared to the US average of 32.1%), this is expected to rise sharply after the summer, partly due to the re-opening of schools. According to the latest estimates, 62% of employees could be back in Manhattan in September, most of them at least three days a week. In fact, some of New York's largest companies have been recalling their employees for several weeks now. Their return, most often in a hybrid mode, should be effective from Labor Day (6th September) or sometimes as early as July. All business sectors are concerned, from finance (Morgan Stanley, Goldman Sachs, JP Morgan, Citi, etc.) to the media (New York Times) and new technologies (Google, Apple, Salesforce, etc.).

At a time when companies need to convince employees to return to the office and some are still reluctant to take public transport, commuting conditions and times will play an important role in real estate decisions. This should mainly benefit buildings located in the best connected areas of Manhattan (Penn District, Grand Central, Times Square, etc.), as movements recorded in recent months have shown. In this respect, the situation is quite similar to that observed in the Greater Paris Region, where quality buildings in the central districts of Paris and the suburban office hubs with the best transport links are doing well.

Sources: Newmark Knight Frank, The Partnership for New York City

Tenant reboarding in New York



Source: Newmark Knight Frank

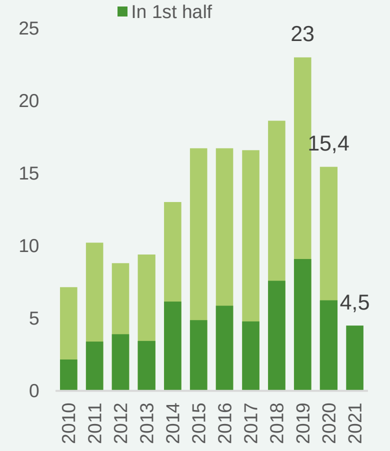
THE GREATER PARIS REGION OFFICE INVESTMENT MARKET

REBOUND EXPECTED IN THE SECOND HALF

While the year started well for the corporate real estate investment market, activity slowed significantly in the 2nd quarter of 2021. Only €3.2 billion was invested in France over the period, including all types of assets (offices, shops and industrial premises), compared with €5 billion in the previous quarter. €8.2 billion was invested in France over the 1st half of 2021, down 30% compared to the same period in 2020 and 12% compared to the average of the last ten years.

With €5.4 billion invested in offices the 1st half of 2021, the French office market is down 28% year-on-year. In the Greater Paris Region, this volume amounted to €4.5 billion (-28% year-on-year), including €1.2 billion in the 2nd quarter.

Office investment volumes
In the Greater Paris Region, in billions €



Source: Knight Frank

This slowdown was expected as some sellers had withdrawn their assets from the market or postponed their marketing at the end of last year, reducing the potential number of transactions to be completed. Furthermore, the deterioration of the health situation and the decision to put the country into lockdown for a third time slowed down the completion of some transactions. Finally, the decrease is also due to the greater selectivity of investors in the face of questions generated by the health crisis and the rise of remote working. Many of them are thus giving priority to prime assets, whose limited supply naturally limits investment amounts.

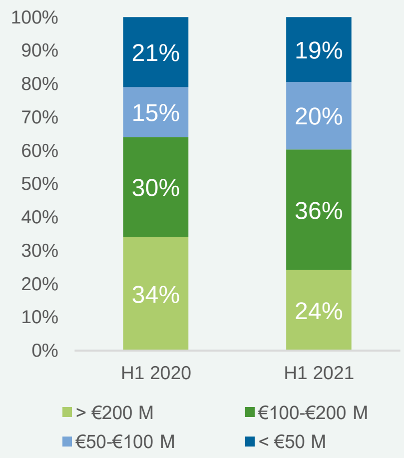
THE CBD SLOWS DOWN

After a relatively busy start to 2021, the office market in the Paris CBD has slowed down. Only €200 million were invested in the 2nd quarter of 2021, bringing the total for the 1st half of the year to €1 billion (-37% year-on-year). This decrease is due in particular to the slowdown in activity in the large transaction category. Of the four transactions in excess of €100 million in the business district in the 1st half of 2021 (five in the 1st half of 2020), none were recorded in the 2nd quarter.

In the Parisian markets outside the CBD, volumes are also down even though activity has been slightly more sustained. This is the case in the North East, where ICADE sold "Le Millénaire 1" for more than €200 million and, above all, on the Left Bank, where several transactions were recorded, such as the acquisition by JP Morgan of 13-15 rue Cognacq Jay in the 7th arrondissement. The south of the capital will remain a favourite target for investors in the coming months, given the continuing low vacancy rate and the marketing of large office complexes in the 13th and 15th arrondissements.

Activity has also slowed in the suburbs. Large-scale transactions are rare and mostly secured, such as the sale by ICADE of the "Loire" building in Villejuif. Nevertheless, the next few months are likely to be busier, with several large-scale transactions expected in La Défense and in certain Inner Suburbs such as the North. Reflecting investors' greater caution, most of these transactions will involve core products, such as the forthcoming sale by GECINA of the "Les Portes d'Arcueil" building, which was recently secured by ORANGE's renewed commitment for 12 years. Speculative forward sales, which were helping to sustain activity in the Inner Suburbs before the health crisis, will be few in number, as was the case in the 1st half of 2021: totalling €1.1 billion in the Greater Paris Region in 2019 and then €1 billion in 2020, this type of transaction has raised only €100 million since the beginning of 2021.

Breakdown of office investment volumes by amount category
In the Greater Paris Region



Source: Knight Frank

WHAT IS THE OUTLOOK FOR THE COMING MONTHS?

In spite of the increase in the Delta variant, the increase in vaccination coverage, the rebound in economic activity, the beginning of a recovery in the lettings market and the large-scale transactions currently being finalised are all factors that suggest a rebound in office investment volumes by the end of 2021. However, the delay incurred in the 1st half of the year and the lack of prime supply is unlikely to enable the results of last year to be achieved (€15.4 billion in the Greater Paris Region). 2021 could therefore be the low point of the pandemic period, even if the impact will be much less than during the great financial crisis (€3.7 billion in 2009).

There is plenty of cash to invest and the spread remains favourable to the real estate sector, despite a rise in bond rates. Although prime yields are generally stable in the CBD (2.75%), they are likely to come under downward pressure in the 2nd half of the year in certain Parisian office hubs outside the CBD and in the Inner Suburbs. This compression is explained by the appeal of secured properties and the limited supply of which is struggling to satisfy investors' appetites. Value-added transactions will continue to attract interest, particularly in Paris where good fundamentals and the first signs of a faster rebound than elsewhere seem to provide good opportunities for value creation.

Range of prime office yields
In the Greater Paris Region at the end of 2nd quarter 2021

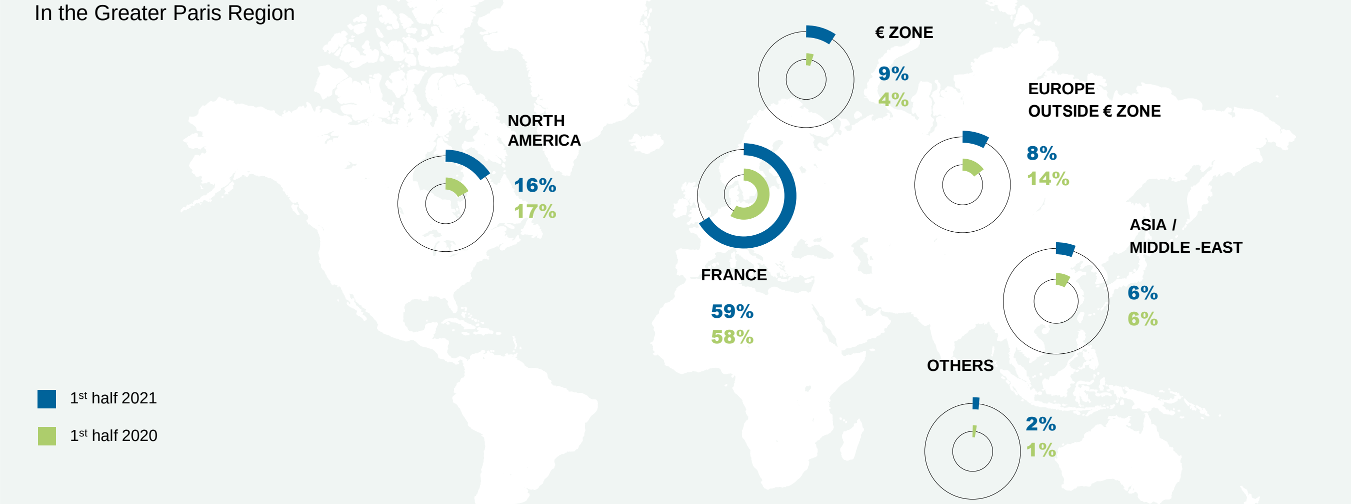
Source: Knight Frank

Competition for the best assets and the most resilient service sectors is all the more intense because, unlike in previous crises, foreign players are very present. They accounted for 41% of the office investment volume in the Greater Paris Region in the 1st half of 2021, with the Americans leading the way ahead of the Germans. As for the French, they have been a little more subdued in recent months.

However, the major savings collectors will return to the forefront in the 2nd half of the year due to the completion of several large transactions, against a backdrop of a rebound in SCPI/OPCI and life insurance inflows.

Despite the sharp decrease in the amount of money invested in the 1st half of 2021, everything seems to be in place for a fairly rapid recovery in activity. This does not mean that the health crisis has not changed anything, nor that its impact on the investment market has to be put into perspective. The Covid-19 pandemic will leave traces beyond the one-off drop in volumes, starting with the recognition of the need for reversibility and SRI criteria, which the health crisis has placed at the heart of investment strategies.

Breakdown of office investment volume by nationality
In the Greater Paris Region



Source: Knight Frank

SUMMARY

Macroeconomic and office market indicators: comparison of different crisis periods
In the Greater Paris Region

MACROECONOMIC INDICATORS	Q2 2009	Q2 2013	Q2 2020	Q2 2021
GDP (France)	-0.1%	0.7%	-13.2%	0.7% (est.)
Unemployment rate (France)	9.2%	10.5%	7.1%	8.0% (Q1)
Business climate (France)	77.6	86.9	78.6	113.0

LETTINGS MARKET | GREATER PARIS REGION OFFICES

Take-up (rolling 12 months)	**2,048,380 sq m**	**2,212,770 sq m**	**2,003,200 sq m**	**1,488,500 sq m**
Immediate supply	3 216 000 sq m	3 683 000 sq m	2 986 153 sq m	3,957,900 sq m
Vacancy rate	6.4 %	6.7 %	5.5 %	7.1%
Average rent	€330 /sq m	€355 /sq m	€415 /sq m	€425 /sq m
Prime rent	€790 /sq m	€805 /sq m	€920 /sq m	€930 /sq m
Available areas > 5,000 sq m under construction	650,000 sq m	840,000 sq m	1,650,000 sq m	1,613,000 sq m
Pre-letting rate (2 years out)	33%	62%	35%	34%

INVESTMENT MARKET | GREATER PARIS REGION OFFICES

Investment volumes (rolling 12 months)	**€3.5 B**	**€8.4 B**	**€20.2 B**	**€13.7 B**
Prime yield	5.75%	4.25%	2.75%	2.75%
Prime yield / bond yields spread (in bps)	212	175	293	262

Sources: Knight Frank, Banque de France, Insee

Recent publications

Paris retail market dashboard
H1 2021

Transformation of offices to residential
A pipe dream or a real opportunity?

The residential property market
Paris Greater Paris Region – 2020 Review & 2021 Outlook

The investment market
Q1 2021

Contacts

Vincent Bollaert
CEO France
+33 1 43 16 88 90
vincent.bollaert@fr.knightfrank.com

Matthieu Garreaud
Co-Head of Capital Markets
+33 1 43 16 65 22
matthieu.garreaud@fr.knightfrank.com

Antoine Grignon
Co-Head of Capital Markets
+33 1 43 16 88 70
antoine.grignon@fr.knightfrank.com

David Bourla
Chief Economist & Head of Research
+33 1 43 16 55 75
david.bourla@fr.knightfrank.com

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