

The office market
Lettings and investment



The office market

Paris / Greater Paris Region | 3rd quarter 2021

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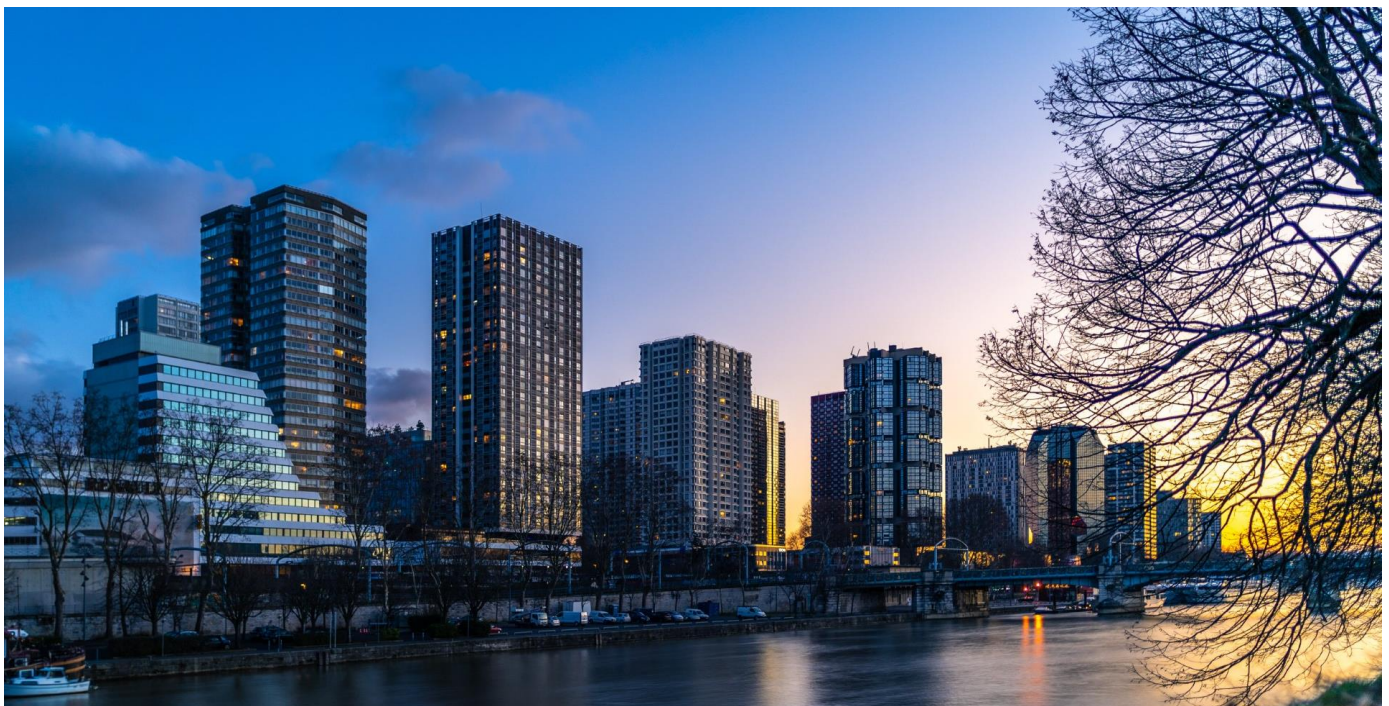
THE OFFICE MARKET IS RECOVERING

Following the first signs of recovery in the 1st half of 2021, activity accelerated in the 3rd quarter in the Greater Paris Region office lettings market. The volume of take-up since January now totals 1.3 million sq m, an increase of 32% compared to the same period last year.

The Greater Paris Region market, which has benefited for several quarters from the strength of small and medium-sized areas and strong demand in Paris, has also benefited in recent months from the increase in the number of transactions over 5,000 sq m. This renewed activity in the large areas category is a sign that companies are speeding up their decision-making as employees return to the office, and means that we can expect to see higher

than expected take-up volumes in 2021 (around 1.7 million sq m, compared with 1.38 million sq m in 2020, although 2.4 million in 2019).

On the other hand, volumes invested in the Greater Paris Region office market are still below the 2020 level (-25% at the end of Q3 2021) due to the lack of secured opportunities and investors' persistent caution. This trend should nevertheless be reversed in 2022. The improvement in the economic and health context, and the recovery of the lettings market, could thus encourage them to take more risk, allowing the Greater Paris Region market to regain depth and gradually return to its pre-crisis levels.



ECONOMIC CONTEXT

RETURN TO PRE-CRISIS LEVELS

A year and a half after the outbreak of the health crisis, the global economic recovery is gathering pace. The OECD has raised its growth forecast for Europe, predicting a 5.3% jump in eurozone GDP in 2021 after the sharp 6.5% decrease in 2020.

In France, INSEE also anticipates a significant and lasting increase in activity. After the 1.1% rebound in the 2nd quarter of 2021, GDP should remain stable in the 3rd quarter (-0.6%) before increasing slightly in the final quarter (+0.5%). GDP growth should reach +6.3% for the whole of 2021, before increasing by around 4% in 2022. French economic activity should thus return to its pre-crisis level by the end of 2021, even if the situation obviously remains contrasted depending on the business sector. Accordingly, the services sector has rebounded strongly since the end of the 3rd lockdown, while the accommodation and catering sector remains far from its normal level of activity.

The acceleration of growth is due in particular to the success of the vaccination campaign: almost 75% of French people had received at least one dose by the end of the 3rd quarter of 2021 and 66% were fully vaccinated. Contributing to the clear improvement in the business climate, the removal of the health risk and the easing of restrictive measures are also enabling the employment market to recover. As a result, paid employment exceeded its pre-crisis level as early as the 2nd quarter of 2021, and around 500,000 net new jobs are expected to be created in total this year after the 300,000 job losses of last year. Moreover, the unemployment rate, which remained stable between the 1st and 2nd quarters of 2021 (8.0% in France), should continue to fall in the 2nd half of the year, reaching 7.6% at the end of the year.

COMPANIES HAVE COPED WITH THE EFFECTS OF THE CRISIS

The situation of companies also improved, as their profit margins benefited from government support and lower taxes on production. Thanks to this aid, but also because their financial situation was much better before 2019 than before the financial

crisis of 2008-2009, the cash flow of companies has coped well with the effects of the crisis.

Business investment is also stronger than during the great international financial crisis. Accordingly, investment continued to grow in the 1st half of 2021, exceeding its level at the end of 2019 by almost 2%. By the end of 2021, it is expected to grow by 13% year-on-year, almost 4% higher than before the crisis.

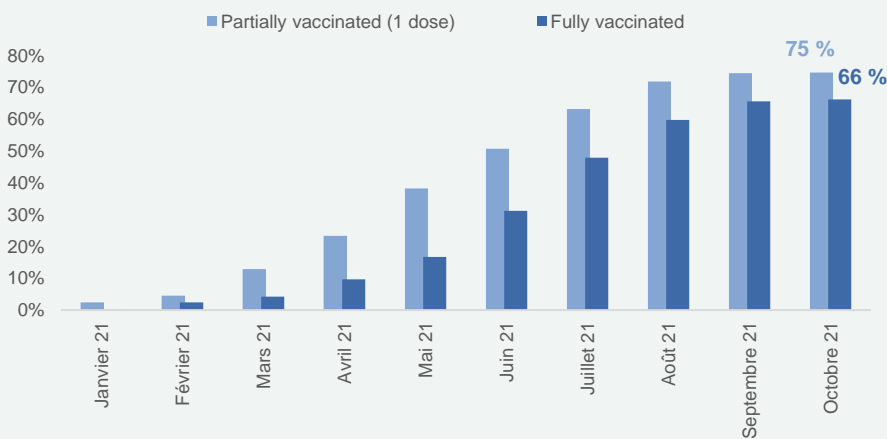
Finally, the level of business failures has remained particularly low thanks to the continuation of the partial activity scheme and state-guaranteed loans (€142.3 billion outstanding in mid-September). In the 1st half of 2021, 13,200 bankruptcies were recorded in France, a figure 53% lower than the average recorded for the 1st half of the year between 2011 and 2020. After the 40% drop in 2020 and the 17% drop in 2021, Euler Hermes expects insolvencies to rebound by 40% in 2022.

RISKS TO KEEP AN EYE ON

While the improvement in the health and economic situation is undeniable, the context remains highly volatile and several risks remain, starting with the appearance of new variants. Other factors could also slow down growth, from the possible deterioration of the social climate linked to the forthcoming presidential election in 2022, to recruitment difficulties and the persistence of pressures on certain raw materials.

Vaccination trends in France

Weekly change, % of population



Source: ARS

FRENCH ECONOMIC INDICATORS

As a % of annual changes

	2019	2020	2021 (Forecasts)	2022 (Forecasts)	2023 (Forecasts)
French GDP	1.8%	-8.0%	6.3%	3.7%	1.9%
<i>Euro Zone GDP</i>	1.3%	-6.5%	5.3%	4.6%	-
Household consumption	1.9%	-7.2%	4.3%	6.5%	1.6%
Unemployment rate	8.4%	8.0%	8.1%	8.2%	8.1%
Change in paid employment ('000)	337	-269	289	142	77
Inflation	1.3%	0.5%	1.8%	1.4%	1.3%
Business climate	105.3	91.2	111 (September)	-	-
Business investment	3.4%	-8.8%	12.9%	3.9%	2.3%
Business bankruptcies ('000)	51.4	31.1	37.0	-	-
Public deficit (% of GDP)	-3.1%	-9.1%	-8.4%	-4.8%	-
Exports	1.5%	-16.1%	8.7%	9.1%	5.7%
Imports	2.4%	-12.2%	9.0%	8.9%	3.5%

Sources: Banque de France, OECD, Insee, Xerfi Previsis, Ministry of the Economy

THE GREATER PARIS REGION OFFICE LETTINGS MARKET

THE RECOVERY IS GAINING MOMENTUM

Following the upturn in the 2nd quarter of 2021, letting activity continued to increase during the summer period. This improvement confirms that companies are speeding up their decision making, against the backdrop of an improved health and economic situation and a return to the office by employees. As a result, 491,500 sq m of office space was leased in the Paris region in the 3rd quarter of 2021, an increase of 13% compared to the previous quarter and 90% compared to the 3rd quarter of 2020, although a slight decrease of 7% compared to the average 3rd quarter over the last five years.

The result of the last three months brings the amount of space leased since the beginning of 2021 to just over 1.3 million sq m. While this is still a long way from the pre-crisis level (1.68 million sq m take-up at the end of Q3 2019, a 22% drop), it is still 32% higher than the same time last year and is close to the level recorded over the whole of 2020 (1.4 million).

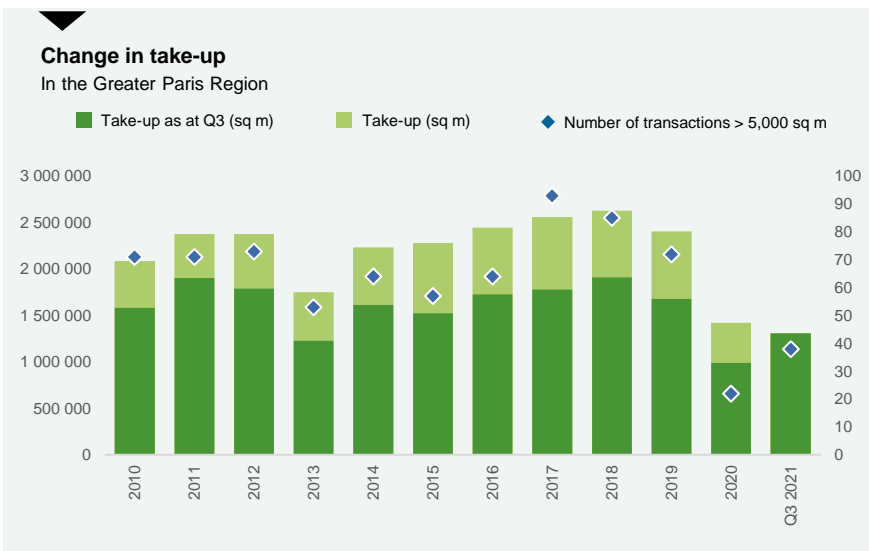
THE DRIVING FORCE BEHIND LARGE TRANSACTIONS IS STARTING UP AGAIN

The rebound in activity from one year to the next concerns all area categories, but it is in the small transaction category (those under 1,000 sq m with a 44% increase in take-up volumes in one year) and the large transaction category (those over 5,000 sq m with a 53% increase in one year) that the increase is most significant. The trend is less marked in the medium-sized category (1,000 to 5,000 sq m), with an increase of 6% compared to the same period in 2020.

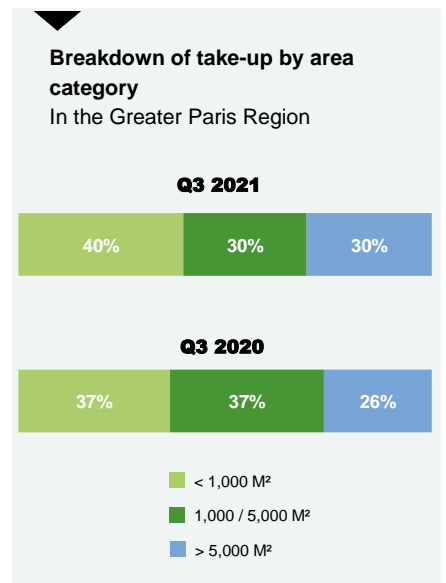
The trend is the same in terms of the number of transactions, with a stable figure in the medium-sized category but a 45% jump in the small area category. This market is particularly dynamic in Paris CBD (+61%). The number of large transactions jumped by 138% from one year to the next in the Greater Paris Region.

38 transactions over 5,000 sq m have been completed since the beginning of 2021, including 15 in the 3rd quarter. In 2020, there were only 16 at the same time, and 22 were recorded over the whole year. Despite this significant rebound, the weight of large transactions remains much lower than before the health crisis. With 395,000 sq m let since the beginning of 2021, their volume is thus 36% lower than the average recorded each year at the same period between 2015 and 2019. This decrease confirms the impact of the health crisis and remote working on the resizing of real estate projects by large companies.

On the other hand, as in the previous year, movements of over 5,000 sq m recorded in the Greater Paris Region confirm the qualitative leap taken by companies to improve their workspaces, perfect their image and achieve their optimisation objectives. Since the beginning of 2021, 27 of the 38 major transactions have involved new/redeveloped space.



Source: Knight Frank



Source: Knight Frank

The resumption of movements by large companies concerns a multitude of economic players, from finance to industry, including consulting, insurance, new technologies and public companies. After those seen in the 1st half of 2021 (CAMPUS CYBER in La Défense, EM NORMANDIE in Clichy, FUTURE4CARE in the 13th arrondissement), it is also worth noting the recent finalisation of new projects for teaching buildings, incubators and other research centres, testifying to the growing role of this type of asset in the office property market (INRIA on 11,500 sq m in the 13th arrondissement and PARISANTE CAMPUS on 13,700 sq m in "Fresk" in Issy).



THE RECOVERY IS SPREADING TO THE WHOLE OF THE GREATER PARIS REGION

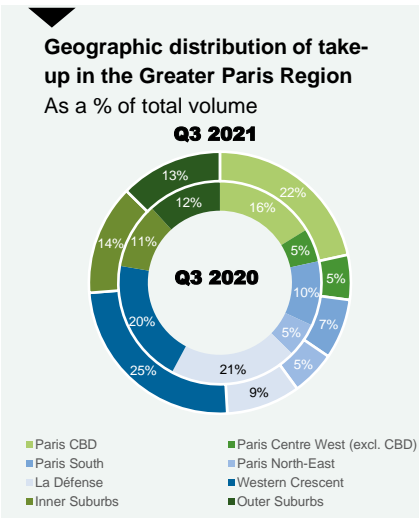
The geographic distribution of large transactions is also more balanced, a sign that the recovery is not based on a limited number of locations but is spreading to the whole of the Greater Paris Region. Accordingly, the number of transactions over 5,000 sq m benefited a number of the Greater Paris Region's office hubs, most of which also saw an increase in the volume of take-up across all area categories. The increase is particularly marked in the Inner Northern Suburbs (+89% year-on-year) due to the five major transactions recorded since the beginning of 2021, including the SNCF's leasing of almost 30,000 sq m in "Hamo" in Saint-Denis.

Elsewhere in the suburbs, the increase in the number of large transactions has benefited certain Outer Suburbs and above all the Western Crescent, all of whose sub-sectors show an increase in take-up from one transaction to the next, such as the Northern Loop, Neuilly-Levallois and the Southern Loop, where AEMA has finalised the acquisition of the 25,000 sq m "Keiko" project in Issy-les-Moulineaux.

La Défense is an exception, being one of the few sectors to record a drop in take-up volumes from one year to the next (-41%). However, these had been boosted in 2020 by an exceptional transaction: TOTAL's lease of 130,000 sq m of "The Link". Since the beginning of 2021, the business district has been doing reasonably well, with an acceleration in activity in the large areas category and an increase in the total number of transactions.

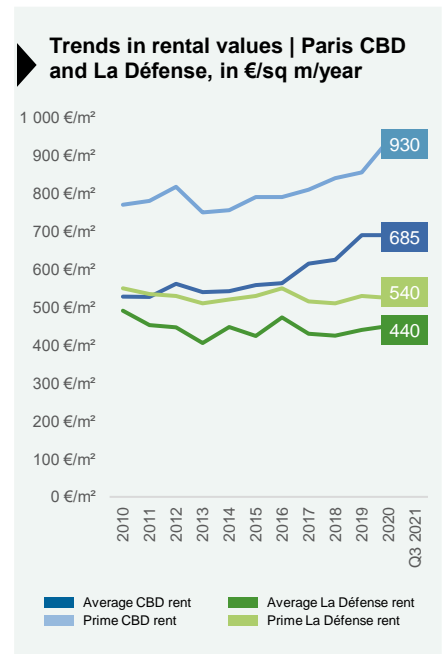
the same period in 2019. This does not mean that the CBD has not suffered from the pandemic. However, it has recovered very quickly, as we suspected from the first lockdown. The CBD has all the necessary advantages to resist the health crisis, benefiting from certain structural changes in the demand for offices (search for centrality, urban amenities, etc.) and remaining the priority target for captive companies and high value-added business sectors such as luxury, consulting, new technologies, finance and legal activities.

Movements in the 3rd quarter are a perfect illustration of this, such as ALLEN & OVERY's lease of 6,700 sq m in "Renaissance" or DECHERT LLP's lease of 3,190 sq m in "Maison Bayard", two buildings located in the heart of the Golden Triangle. The take-up of heavily renovated or refurbished buildings in the Étoile sector has therefore enabled prime rents to be maintained at a high level: they stand at €930 /sq m/year, a stable value over the quarter and up 2% compared with the same period last year.



PARIS CBD: WHAT CRISIS?

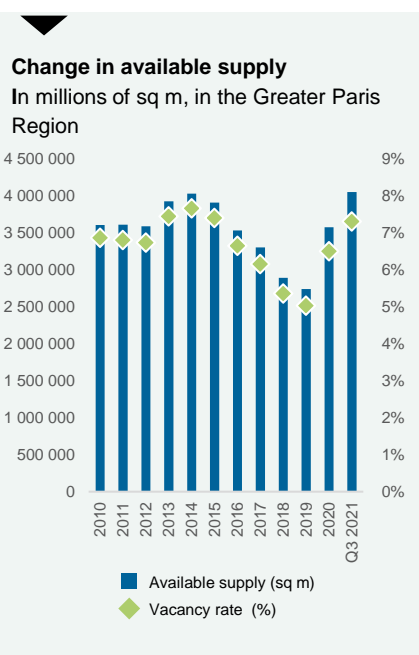
In Inner Paris, volumes have increased by 41% year-on-year, due in particular to the dynamism of small areas. The CBD remains the driving force behind letting activity: 284,000 sq m have been let or sold to owner occupiers there since the beginning of 2021, compared with 160,000 sq m for the same period last year (+75%). While the year-on-year increase was expected, the scale of take-up is remarkable, with performance in the first nine months of 2021 only 7% lower than



The rest of the Parisian market is less active due to a limited number of transactions over 5,000 sq m, three since the beginning of 2021 compared to an average of 12 each year at the same time between 2015 and 2019. This lack of large transactions is impacting results in areas where they usually drive activity, such as the 15th and 13th arrondissements.

SLOWDOWN IN SUPPLY INCREASE

In Q3 2021, the volume of available supply increased more moderately as a result of the rebound in demand and fewer deliveries. As a result, after a 33% jump between mid-2020 and mid-2021, supply increased by only 2% over the period and now totals 4.05 million sq m in the Greater Paris Region. The vacancy rate, which stood at 5.9% a year ago and 7.1% in the previous quarter, now stands at 7.3% and is a little closer to its previous high point (7.7% in Q4 2014).



Source: Knight Frank

The situation remains very contrasted depending on the geographic sector. Some office hubs remain relatively under-supplied or more balanced, such as the CBD where the vacancy rate is 5% (compared to 3% a year ago and 1.7% two years ago) or, outside of Paris, the Eastern (4.5%) and Southern (6.8%) Inner Suburbs.

Examples of letting transactions as at Q3 2021

In the Greater Paris Region

Asset / Address	Tenant	Area (sq m)
Hamo, rue Camille Mokke / Saint-Denis (93)	SNCF	29,500
Keïko, quai du Président Roosevelt / Issy-les-Moulineaux (92)	AEMIA	24,300
Alphabet, rue Raoul Nordling / Bois-Colombes (92)	SAGEMCOM	19,500
Fresk, rue Jeanne d'Arc / Issy-les-Moulineaux (92)	PARIS SANTE CAMPUS	13,700
46 rue Barrault / Paris 13 ^e	INRIA	11,500
Great, 46 avenue de la Grande Armée / Paris 17 ^e	SANOFI	9,200
Renaissance, 26 rue François 1 ^{er} / Paris 8 ^e	ALLEN & OVERY	6,700
Le Franklin / Suresnes (92)	DOC CITY	6,150
Tour Alto / Courbevoie (92)	B2V	5,100

Supply is more abundant in the Inner Northern Suburbs, where the vacancy rate continues to rise despite the recovery in rental activity (16.5% at the end of Q3 2021 compared with 12.9% a year earlier). Indeed, most of the large transactions recorded since the beginning of 2021 have been for buildings under development, which has not significantly reduced the existing stock. In the West, pockets of availability are mainly concentrated in the Péri-Défense sector (20.1%) and in La Défense. In the business district, the volume of supply has increased by 79% in the last year and 33% of it is comprised of new/redeveloped space, compared to an average of 23% in the Greater Paris Region and 21% in Paris.

The acceleration of deliveries and the fall in take-up since the outbreak of the health crisis have increased the Grade A stock, which has also had the effect of slowing the take-up of second-hand space. This now represents 3 million sq m, a significant proportion of which is located in the Outer Suburbs and has been available for several years, increasingly raising the question of the future of obsolete space.

SHORTAGE IN SIGHT IN THE CBD

Just over 1.3 million sq m of new/refurbished office space will be completed in 2021 in the Greater Paris Region. Inflated by some deliveries initially planned for 2020 but postponed due to the pandemic, this volume is significantly

higher than the average for the last five years (807,000 sq m delivered each year between 2016 and 2020). Development rates will be more moderate in 2022 (1.05 million sq m) and 2023 (0.9 million sq m) due to the postponement, delay or, more rarely, the resizing of certain projects. Difficulties in the supply of building materials could also cause delays.

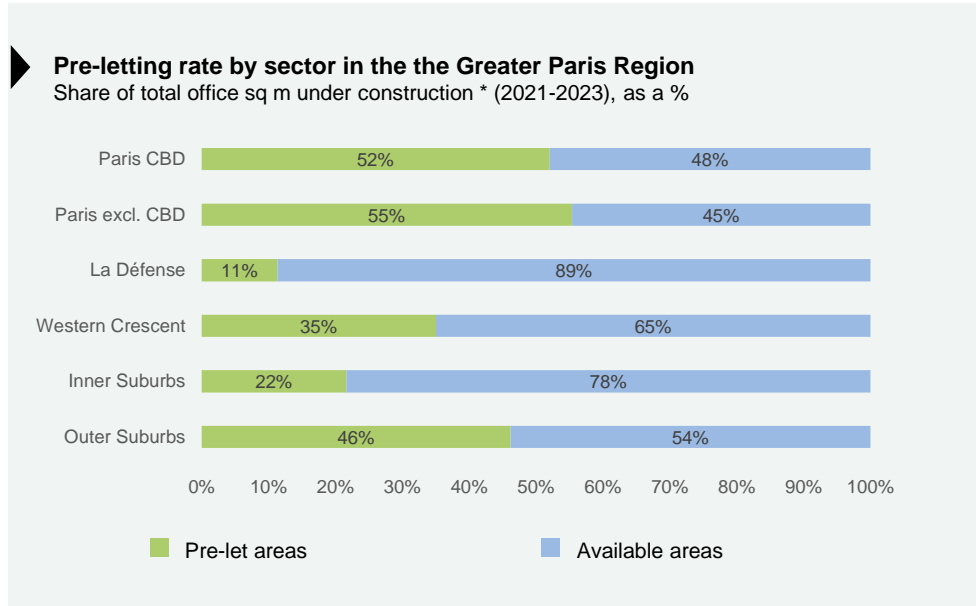
Regionally, 2.1 million sq m of areas over 5,000 sq m is undergoing redevelopment and construction for delivery by the end of 2023, of which 67% is still available. The pre-letting rate, which stands at 71% for supply to be delivered by the end of 2021, is still modest for supply expected in 2022 (26%) and 2023 (25%). As with the immediate supply, the situations are nevertheless very varied depending on the office sectors.

Accordingly, the Eastern, Northern and Southern Inner Suburbs account for almost a third of future supply in the Greater Paris Region, the majority of which is located in the North. The Western Crescent accounts for 24%, compared with 9% in La Défense (190,000 sq m under construction, of which almost 90% is still available). Nevertheless, after the completion of more than 300,000 sq m in the business district since 2019, deliveries will gradually slow down with just over 100,000 sq m announced in 2022 (including the 70,000 sq m of the "Hekla" tower), then 53,000 sq m in 2023.

In Paris, the trend is already towards a scarcity of supply. In the CBD, 52% of areas over 5,000 sq m expected by the end of 2023 is already pre-let, compared with an average of 33% in the Greater Paris Region. Given the rapid recovery of the Paris market and the strength of the economic recovery, supply under development in the capital may soon no longer satisfy the strong demand from companies: just under 300,000 sq m of office space over 5,000 sq m is expected to be available by the end of 2023, mainly located in the CBD (39%) and Paris Centre West (23%), while take-up has averaged 290,000 sq m each year since 2016. The rent for the best supply in the CBD could therefore continue to rise.

WHAT IS THE OUTLOOK FOR THE NEXT FEW MONTHS?

The recovery of the Greater Paris Region office market should continue in the 4th quarter, meaning that take-up volumes are likely to be higher than was expected at the beginning of the year. After the slump in 2020 (1.38 million sq m), take-up should reach at least 1.7 million sq m in 2021. This result would be at least a third lower than the average of the five years preceding the health crisis. But after so much uncertainty, the improvement in recent months is not insignificant. Companies are now clearer about the economic outlook and the impact of remote working on their organisation, and are able to look to the future and carry out their real estate projects.



Source: Knight Frank / *Areas over 5,000 sq m



SPOTLIGHT ON... THE SAINT-OUEN OFFICE MARKET

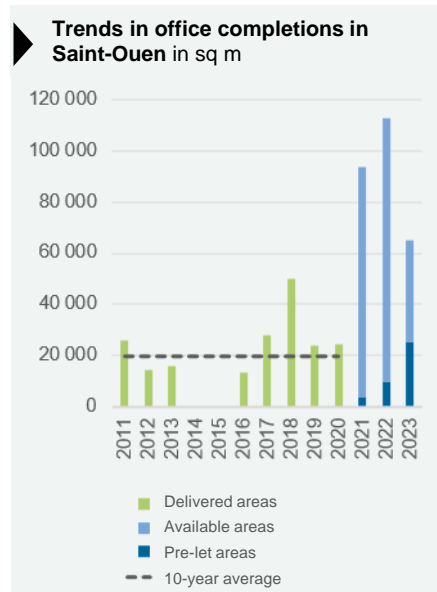
Knight Frank reviews the office market in Saint-Ouen, the first suburban office market to benefit from the Grand Paris Express project thanks to the opening of the extension of line 14, and one with the largest supply of office space under development in the Greater Paris Region.

A STOCK UNDERGOING EXTENSIVE RENEWAL

With just over 620,000 sq m of office space, Saint-Ouen's office stock has grown by 82% in 20 years (compared to an average of 28% in the Greater Paris Region) and is now the third largest in the Inner Suburbs behind Saint-Denis and Montreuil. This stock continues to move upmarket with the arrival on the market of new or redeveloped buildings such as "Evidence", "So Pop" or "Stories". In fact, the renewal of the stock will continue over the coming months. With more than 170,000 sq m under construction or redevelopment (projects > 5,000 sq m due for delivery by the end of 2023), Saint-Ouen is ranked third in the Greater Paris Region in terms of the number of sq m under development, behind Paris and Puteaux. Over the period, the town also accounts for 56% of future supply in the Inner Northern Suburbs. The geographic distribution of projects under construction is fairly balanced, with half concentrated in the ZAC des Docks ("Harmony & Rhapsody", for a total of 57,000 sq m), and the other half spread out near Paris, such as "So Pop" and "Reiwa" (32,600 sq m and 25,300 sq m respectively) near Porte de Saint-Ouen, and "Cinetika" near Porte de Clignancourt (8,500 sq m).

WHAT IS THE ABSORPTION CAPACITY?

At a time when competition between the Greater Paris Region office sectors is intensifying and the health crisis has reduced take-up volumes, the influx of new/refurbished space in Saint-Ouen, 80% of which is still available by 2023,

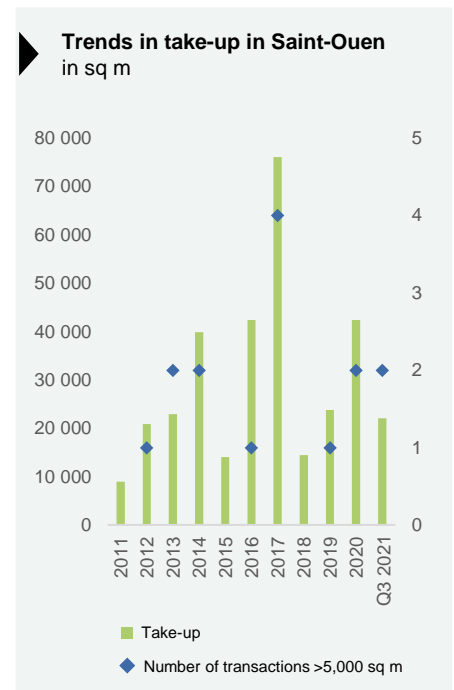


Source: Knight Frank

raises questions about the market's absorption capacity. At the end of the 3rd quarter of 2021, the vacancy rate in the town stood at 20.6%, compared with around 10% at the end of 2019. By way of comparison, Saint-Denis currently has a vacancy rate of 17.2%.

Structural vacancy was already high before the outbreak of the Covid-19 pandemic, but the health crisis will irreparably lengthen the time it takes to market second-hand supply. Although the volume of Grade A supply is high, it will be absorbed more quickly. However, its absorption will depend on the quality, level of services and positioning of each asset. The proximity of the two new stations on metro line 14 ("Mairie de Saint-Ouen" and "Saint-Ouen") is a major advantage in this respect, as is the improvement of the urban surroundings next to Paris and the Porte Pouchet sector in particular. At a time when large users are placing more emphasis than ever on the centrality and accessibility of their offices, the best located new supply in Saint-Ouen will provide tenants with

large, efficient premises located less than 10 minutes from Saint-Lazare station, while benefiting from prime rental values that are 50 to 60% lower than those found in the CBD and western Paris.



Source: Knight Frank

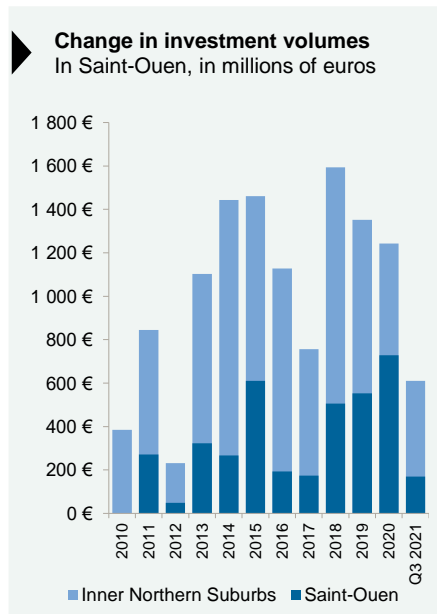
While take-up volumes in the Greater Paris Region remain below the 2019 level (-22% at the end of Q3 2021), this is not the case in Saint-Ouen. With 22,000 sq m let in the town since the beginning of 2021, the increase is 12% compared to the same period in 2019, 182% compared to the end of Q3 2020, and 48% compared to the ten-year average. These are very encouraging figures in the current context. Since the beginning of the year, activity has benefited in particular from two large area leases: FRET SNCF's leasing off 6,700 sq m in the "Evidence" building and SAMSUNG's leasing of 10,500 sq m in "So Pop". Given the abundance of future supply, Saint-Ouen must now "convert the try" by multiplying the number of movements

over 5,000 sq m. The challenge is to retain the large companies already present in Saint-Ouen and wishing to modernise their offices, whilst also attracting occupiers from not too distant sectors.

Indeed, endogenous movements (occupiers coming from Saint-Ouen or the Inner Northern Suburbs) traditionally represent a significant share of take-up. However, that of exogenous tenants, who have driven the market in Saint-Ouen in recent years (BELIEVE, CONSEIL RÉGIONAL D'ÎLE-DE-FRANCE, NEXITY, etc.), is likely to increase further due to the very good value for money of supply in Saint-Ouen, the limited number of opportunities for large areas in Paris and rents that are significantly lower than those found in the capital or in certain established sectors in the western part of the Greater Paris Region.

EXPECTED RECOVERY OF THE INVESTMENT MARKET

Saint-Ouen is a significant lettings market in the Inner Suburbs, but has also stood out in recent years for its substantial investment volumes. Between 2011 and 2020, the sums invested in offices in the area reached an average of €370 million each year, with a peak in 2020 of almost €730 million invested due to the completion of two transactions over 200 million euros: the purchase by AVIVA INVESTORS of "Reiwa", the future headquarters of NEXITY, and the purchase by BNP PARIBAS REIM of "Influence 2.0", the headquarters of the CONSEIL RÉGIONAL D'ÎLE-DE-FRANCE.



Source: Knight Frank

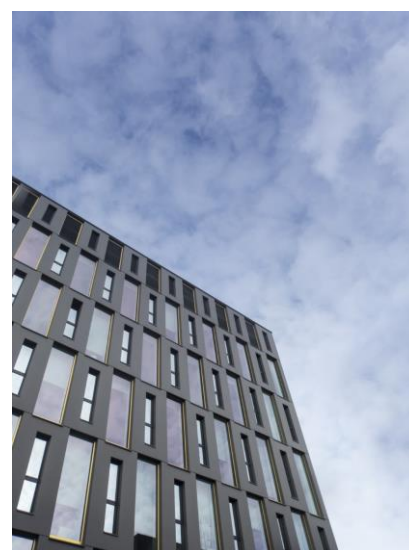
This momentum has pushed down yields, which now stand at 3.85% (-65 basis points compared to the mid-2010s).

Since the beginning of 2021, the Saint-Ouen investment market has contracted, with €170 million invested at the end of the 3rd quarter, largely corresponding to the acquisition of "Omega" by ATLAND VOISIN. This volume, down 54% compared to the same period last year, represents only 28% of the sums invested in the whole of the Inner Northern Suburbs, compared to a peak of 59% in 2020.

As elsewhere in the Inner Suburbs, activity is suffering from investors' greater caution, whereas the Saint-Ouen market had been largely supported in

recent years by acquisitions of non-core assets (44% of the volume invested between 2015 and 2020).

A rebound is nevertheless expected in the coming months as a result of the recovery in letting activity and the completion of large transactions. 700 million euros could therefore be invested in the town over the whole of 2021.

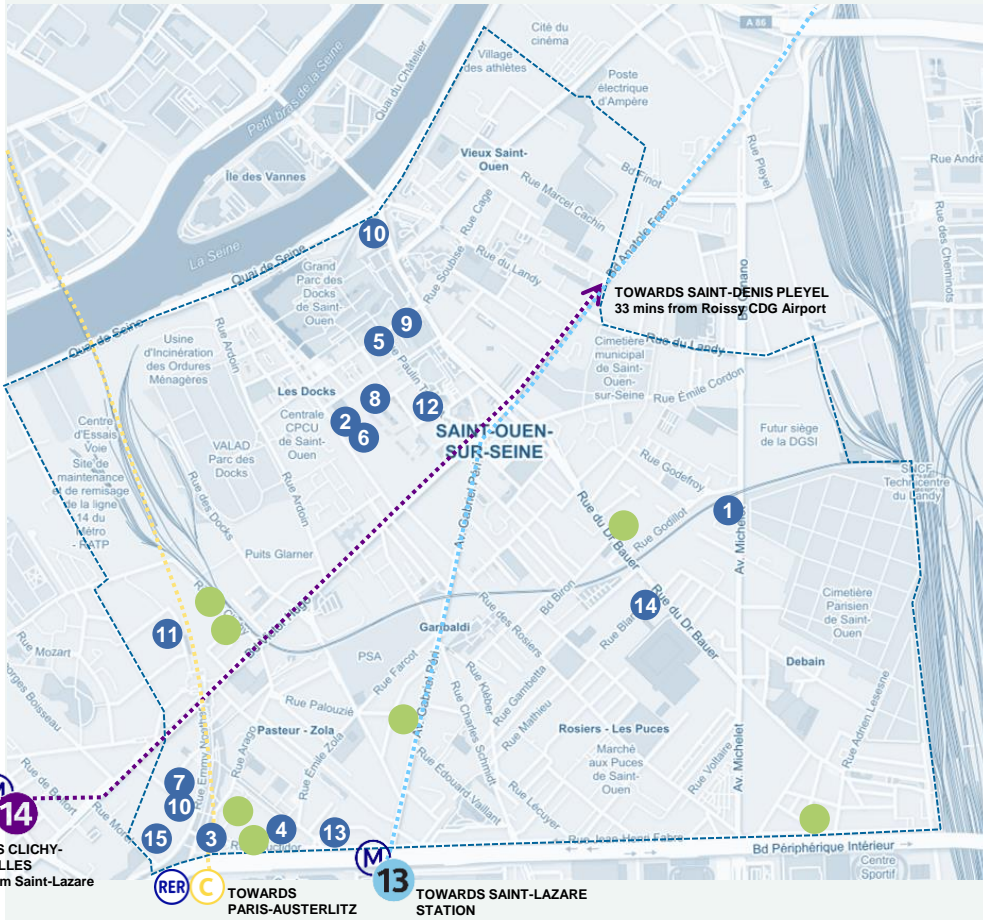


Examples of significant investment transactions in Saint-Ouen 2019-2021

Year	Asset	Seller	Buyer	Area (sq m)
2021	Omega, 48 rue Albert Dhalenne	PRIMONIAL	ATLAND VOISIN	16,700
2020	Reiwa, 67 rue Arago	NEXITY	AVIVA INVESTORS	25,000
2020	Influence 2.0, rue Adrien Meslier	NEXITY	BNP PARIBAS REIM	25,000
2020	Konect, 2-6 rue Lafontaine	HEMISPHERE / INFRARED	MACIFIMO	11,500
2020	Colisée II, 10 rue Fructidor	SMABTP	CAIN INTERNATIONAL / FREQO	11,500
2020	Cinetika, 27 rue Desportes	BRICQUEVILLE	PRIMONIAL	8,100
2019	V2 / V3, rue de Clichy	EMERIGE / BNP PROMOTION	CDC / ALLIANZ	60,000
2019	Evidence B, ZAC des Docks	NEXITY	AMUNDI / CDC	15,400

Source: Knight Frank

Map of office occupiers in Saint-Ouen
Office areas > 1,000 sq m



LARGE OFFICE OCCUPIERS

- 1 Bosch
 - 2 SNCF Fret
 - 3 Samsung
 - 4 ISS France
 - 5 Alstom
 - 6 Artelia
 - 7 Wolters Kluwer
 - 8 Saguez & Partners
 - 9 URSSAF Île-de-France
 - 10 Engie
 - 11 L'Oréal (Innovation Centre)
 - 12 Conseil Régional d'Île-de-France
 - 13 Believe
 - 14 Isoset
 - 15 EDF
- Upcoming projects > 5,000 sq m (2021-2023)

Source: Knight Frank

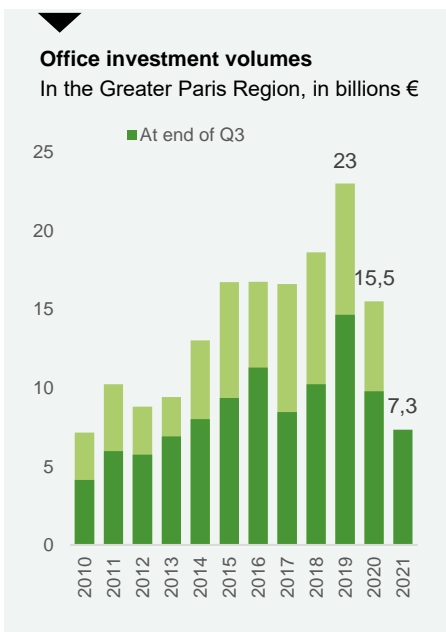


THE GREATER PARIS REGION OFFICE INVESTMENT MARKET

26% DECREASE YEAR-ON-YEAR

With 2.7 billion euros invested in Q3 2021, an increase of 39% compared to the previous quarter, office investment volumes in France since January now stand at 8.5 billion euros. The decrease is 26% year-on-year and 48% compared to the same period in 2019. As a result, the share of office space continues to decrease, reaching 62% of the total amount invested in France, compared with 67% a year ago and 75% two years earlier.

In the Greater Paris Region, where the sums invested in offices have reached 7.3 billion euros since the beginning of 2021, offices continue to represent the vast majority (81%) despite a 25% decrease year-on-year. This drop is due to the limited number of large transactions, with 22 transactions over €100 million recorded since January totalling €4.5 billion, compared with 37 representing €10.5 billion at the same period in 2019.



Source: Knight Frank

THE CBD IS DOWN BUT STILL VERY POPULAR

Investment volumes have fallen in most of the Greater Paris Region office hubs, starting with the CBD, despite a few large transactions such as the sale by CRÉDIT DU NORD to UNION INVESTMENT of its 59 boulevard Haussmann headquarters for 240 million euros. 680 million euros was invested in the 3rd quarter of 2021 in the Paris central business district, bringing the total for the first nine months of the year to €1.7 billion (-25% over one year).

In Paris outside the CBD, volumes are also down year-on-year (-41%) and were mainly inflated by the sale by UNIBAIL-RODAMCO-WESTFIELD to CDC of its offices at 7 place du Chancelier Adenauer in the 16th arrondissement for nearly 250 million euros.

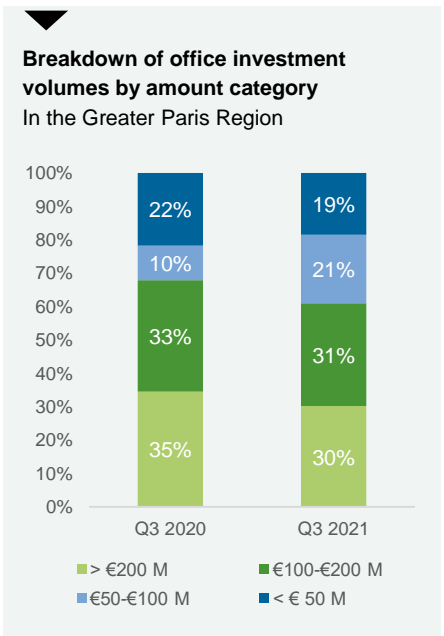
The decrease in activity in the capital is mainly due to a very limited supply rather than to investors' lack of interest. Indeed, their appetite for Parisian offices remains strong. Comforted by the strength of occupier demand, the potential for rental value growth and controlled vacancy rates, they are not hesitating to position themselves on assets that need to be upgraded.

SECURITY ABOVE ALL

Outside of Paris, La Défense is one of the few sectors in the Greater Paris Region to see its performance improve, due in particular to the sale by GENERALI of 50% of the Saint-Gobain Tower ("M2") to ANTIRION. The increase in volumes invested in La Défense, however, needs to be put into perspective. After 2020 which saw almost no transactions, and despite a few large, upcoming transactions, the sums invested in 2021 will remain significantly lower than the annual average between 2015 and 2019, i.e. 2.7 billion euros.

Nevertheless, the recovery of the business district is undeniably underway, especially as letting transactions are also more numerous and deliveries of large new/redeveloped premises will gradually become rarer after a period of high production.

In the other office hubs, activity remained weak in the 3rd quarter of 2021. The Southern Loop sector remains in the lead in terms of volumes invested due to the sale at the beginning of the year of "Shift" in Issy-les-Moulineaux, ahead of the Inner Northern Suburbs where ATLAND VOISIN has just bought "Omega" in Saint-Ouen for more than 130 million euros.



Source: Knight Frank

This acquisition is one of the few transactions of more than 100 million euros in the 3rd quarter. After the sales of "Loire" in Villejuif and "Millénaire 1" in the 19th arrondissement of Paris, ICADE also made a name for themselves recently with the purchase from STARGIME of "Equinove" in Plessis-Robinson. Leased for nearly 20 years by RENAULT, these offices could be converted into housing, illustrating the potential for transformation of certain office parks that are somewhat distant from the heart of the conurbation.

With the exception of "Equinove", the other large transactions in the suburbs mainly concerned core buildings such as "M2" and "Sense" in Puteaux, sold by AXA to AGC EQUITY PARTNERS, or "Les Portes d'Arcueil" sold by GECINA to PERIAL, illustrating the persistent wait-and-see attitude of investors faced with rising vacancy rates and new ways of working.

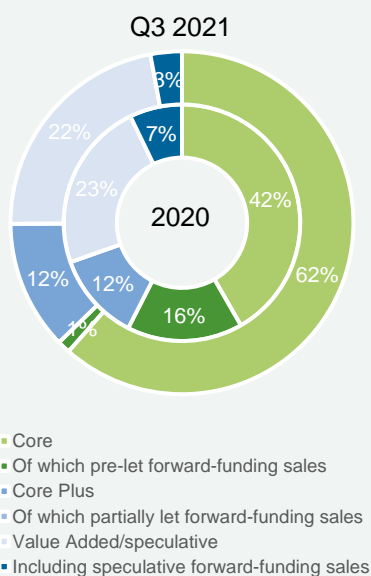
FORWARD FUNDING SALES AT THEIR LOWEST LEVEL

Illustrating this caution, core transactions account for 63% of the sums invested in offices in the Greater Paris Region, compared with 58% for the same period last year. Speculative forward-funding sales totalled 200 million euros in the Greater Paris Region in the first nine months of 2021, compared with 420 and 720 million euros in the same period in 2019 and 2020. Sales of existing non-core assets are also fairly rare and are most often conditional on adjustments to market values.



Breakdown of office investment volumes, by risk profile

In the Greater Paris Region, single transactions > €20 million



Source: Knight Frank

Examples of significant investment transactions as at Q3 2021 in the Greater Paris Region

Asset / Address	Seller	Buyer	Area (sq m)
Les Portes d'Arcueil / Arcueil (94)	GECINA	PERIAL	44,700
Tour M2 (50%) / Courbevoie (92)	GENERALI	ANTIRION	49,000
7 place du Chancelier Adenauer / Paris 16 th	UNIBAIL-RODAMCO-WESTFIELD	CDC	12,100
59 boulevard Haussmann / Paris 8 th	CRÉDIT DU NORD	UNION INVESTMENT	10,800
Sense / Puteaux (92)	AXA	AGC EQUITY PARTNERS	18,600
Equinove / Le Plessis-Robinson (92)	STARGIME	ICADE	64,700
Omega / Saint-Ouen (93)	PRIMONIAL REIM	ATLAND VOISIN	16,700
32 rue de Trévise / Paris 9 th	MARK	SWISS LIFE	4,400
5-7 avenue du Coq / Paris 9 th	INVESCO	UNION INVESTMENT	4,500
17 avenue Hoche / Paris 8 th	ETOILE PROPERTIES / SFO GROUP	DEKA	2,400
Axe Etoile / Nanterre (92)	CATALYST	ANACAP / FREQ	10,600
41 rue Louise Michel / Levallois-Perret (92)	GECINA	UNOFI ASSURANCES	3,100

Source: Knight Frank

WHAT IS THE OUTLOOK FOR THE COMING MONTHS?

The volumes invested in the Greater Paris Region office market during the first nine months suggest that the volume in 2021 will be lower than in 2020 (15.5 billion euros). The trend should nevertheless be reversed in 2022 due to the improvement in the economic and health context, better letting markets and a greater presence of foreign investors. The latter, who represented only 41% of the volumes invested in offices in the Greater Paris Region in 2020, have accounted for a little more since the beginning of this year (43%), with Europeans leading the way as the most dynamic players, ahead of North Americans and Middle Eastern funds.

In the coming months, however, activity could be penalised by the lack of products in the most sought-after market sectors, whether it be Parisian offices or new, well-located assets secured by long leases in the suburbs. This will maintain competition between investors, keeping prime yields at their lowest level. At the end of Q3 2021, these stood at 2.75% in the CBD, and have remained stable since the outbreak of the health crisis.

Range of prime office yields

In the Greater Paris Region at the end of 3rd quarter 2021

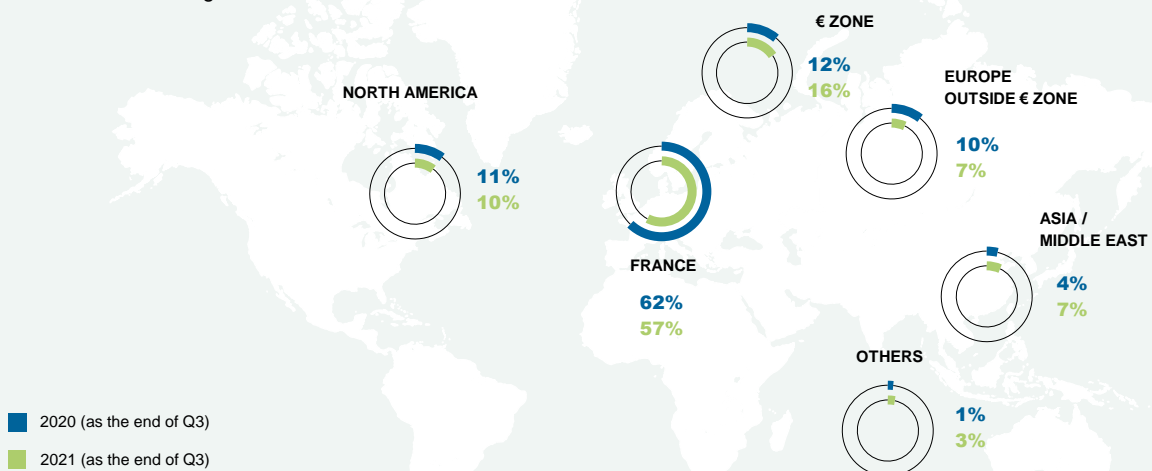


Source: Knight Frank

With prime supply still scarce and yields squeezed, investors may be tempted to take on more risk to meet their yield targets and benefit from the recovery. The improvement in the economic and health context, the gradual return of confidence and the ecological crisis will

encourage them to seize opportunities to upgrade existing assets. The Greater Paris Region market would thus regain depth and could gradually return to its pre-crisis performance.

Breakdown of office investment volumes 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	Q3 2009	Q3 2013	Q3 2020	Q3 2021
GDP (France)	0.2%	0.0%	18.6%	-0.6% (est.)
Unemployment rate (France)	9.2%	10.3%	9.1%	8.0% (Q2)
Business climate (France)	88.1	95.4	93.6	111.5

LETTINGS MARKET | GREATER PARIS REGION OFFICES



Take-up (rolling 12 months)	1,274,849 sq m	1,229,508 sq m	990,462 sq m	1,307,740 sq m
Immediate supply	3,420,000 sq m	3,759,000 sq m	3,247,049 sq m	4,049,400 sq m
Vacancy rate	6.8%	6.8%	5.9%	7.3%
Average rent	€330 /sq m	€365 /sq m	€410 /sq m	€440 /sq m
Prime rent	€785 /sq m	€720 /sq m	€910 /sq m	€930 /sq m
Available areas > 5,000 sq m under construction	720,000 sq m	840,000 sq m	1,680,000 sq m	1,182,000 sq m
Pre-letting rate (2 years out)	30%	60%	36%	35%

INVESTMENT MARKET | GREATER PARIS REGION OFFICES



Investment volumes (rolling 12 months)	€2.7 B	€10 B	€18.1 B	€13.1 B
Prime yield	5.75%	4.25%	2.75%	2.75%
Prime yield / bond yields spread	223	191	251	259

Sources: Knight Frank, Banque de France, Insee

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A pipe dream or a real opportunity?



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