MARKETBEAT

# LA DÉFENSE

## Offices Q2 2020

CUSHMAN & WAKEFIELD

| | Change Y/-Y-1 | Forecasts |
|---|---|---|
| **156,200 sq.m** Take-up | ▼ | ▼ |
| **€540 /sq.m/yr** Prime rents | ▬ | ▼ |
| **5,8%** Vacancy rate | ▲ | ▲ |

*(Take-up, prime rents and vacancy rates as at Q2 2020)*

### ECONOMIC INDICATORS

| | Change Y/-Y-1 | Forecasts |
|---|---|---|
| **-9,8%** GDP growth in France | ▼ | ▲ |
| **10.2%** Unemployment rate 2020 | ▲ | ▼ |
| **78** Business climate – June 2020 | ▼ | ▲ |

*Source: INSEE for Business climate index and OXFORD ECONOMICS for unemployment rate and GDP growth in 2020*

### TAKE-UP: Uptick misleading

Just over 156,000 sq m of office take-up was recorded in La Défense over H1 2020. This level of activity, which is far higher than many full-year results, almost allows us to forget the series of poor quarterly figures and missed opportunities in the La Défense. However, most of this volume was attributable to the TOTAL transaction for 126,000 sq m at “The Link” (the first transaction for over 25,000 sq m since 2016). Without this transaction, La Défense would have seen a -44% reduction over H1 2020. The lockdown measures have certainly led to many real estate projects being put on hold and have undoubtedly hampered market activity. These unfavourable conditions mean that the rate of activity remains low with just 11,100 sq m of take-up over Q2 2020. This external shock has compounded with a pre-existing issue of low take-up in La Défense and it will take several quarters before things return to normal. Of course, full-year figures for La Défense will be lower than for the last 3 years, but the conclusion of the transaction at “The Link” was encouraging and should give the market a jump start to get over the hump.

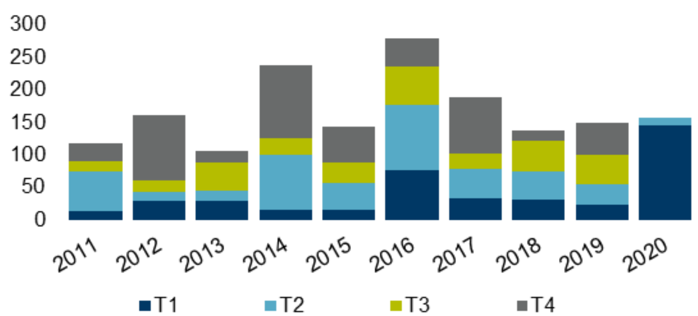
### Low activity, but activity nonetheless

Of the 25 transactions recorded in La Défense over H1, the largest after Total was KPMG's lease for over 5,000 sq m in "Europlaza". There was a sudden drop in both the medium and small space segments (-40% and -50% respectively), although levels did remain above record lows. Behind this rather gloomy landscape, a certain number of office moves and completed extensions over the course of H1 2020 do offer some positive signs, such as AIG, AVRIL, CETELEM, SD WORX or SPB in the resilient medium space segment.

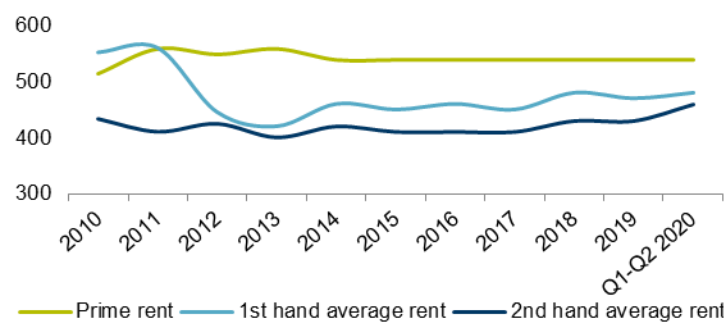
### RENTAL VALUES: So far, so good

The average transaction rent for new and second-hand space currently remains stable (€480 and €460 per sq m per year respectively). The vast majority of headline rents also remained stable. The handful of corrections in rental values could however open the way for a recalibration of rents if transactional activity remains low and vacancy continues to rise. For the time being, incentives are maintaining the statu quo for rental values.

### OFFICE SPACE TAKE-UP IN LA DÉFENSE, 000 SQM




### OFFICE SPACE RENTAL VALUES, €/SQM/YEAR



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### IMMEDIATE SUPPLY: Towards a new cycle

Immediate office supply in La Défense stood at 192,000 sq m by the end of Q2 2020, representing a +20% increase since the end of 2019. The contraction in immediate supply to the minimal levels seen between 2018 and 2019 reflects the fact that transactional activity was mainly for existing space. The composition of immediate supply, mainly second-hand space, hampered transactional activity in La Défense for a while, without occupiers taking advantage of new or refurbished office space from new production. Occupiers were already adopting this wait-and-see approach before the covid-19 crisis.

The cycle of immediate supply contraction is now coming to an end and the low level of activity expected over the medium term will result in a substantial volume of 6-month second-hand supply into immediate supply. This upward movement will combine with the completions that are scheduled for 2020. The enforced halt in construction activity due to the lockdown has pushed back several completions and some owners are choosing to stagger completions over 2021 and 2022. These tactical choices are provisionally cushioning the supply shock in La Défense and take-up performance over H2 2020 will be crucial in evaluating the paradigm shift currently underway in the Greater Paris Region. As the market climate places a high emphasis on central locations, landlord objectives for filling buildings will have to align with the real estate requirements of corporates who are currently considering new office uses. There are also still a number of unknown factors in the immediate supply equation, particularly occupiers deciding between making an office move and renegotiating the financial terms of their current leases.

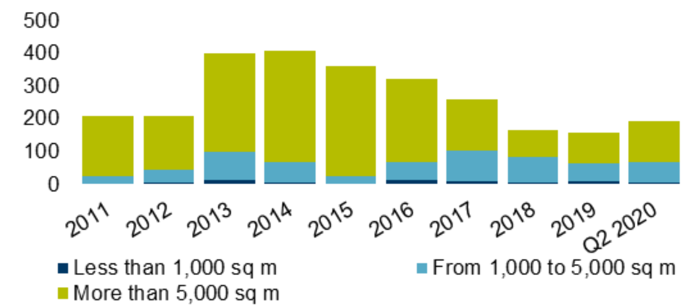
### VACANCY RATE: Trends reversed

The vacancy rate in La Défense stood at 5.8% in Q2 2020 (versus 4.9% at the end of 2019) rising above the level for the wider Greater Paris Region (5.3%), but still far lower than in Péri-Défense (16.2%) and the Western Crescent (10%). Unless we see a dramatic increase in take-up, this indicator, which is at the beginning of an upward cycle, could rise by 10% to 16% by the end of the year.

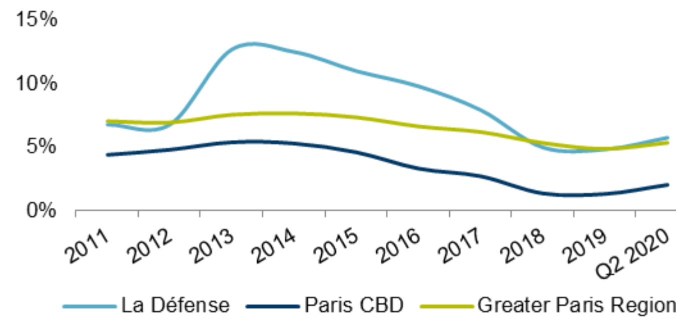
### FUTURE SUPPLY: La Défense in a post-crisis world

La Défense has close to 500,000 sq m of availability through to 2023, almost half of which is already under construction. Assuming that the current completion schedule is respected, just over 255,000 sq m is expected to be delivered by the end of 2020; this represents almost 50% of the completions planned for the whole of the Greater Paris Region. The bulk of new office production is located in La Défense where the major projects schedule for 2020 include “Landscape”, “Alto” and “Trinity”. In addition to the substantial work carried out in recent years to stimulate the attractiveness of La Défense (access, amenities, mix of uses, micro mobility), it is the intrinsic qualities of the buildings themselves that will make all the difference: proximity to the main square and public transport, space flexibility and reasonable rents.

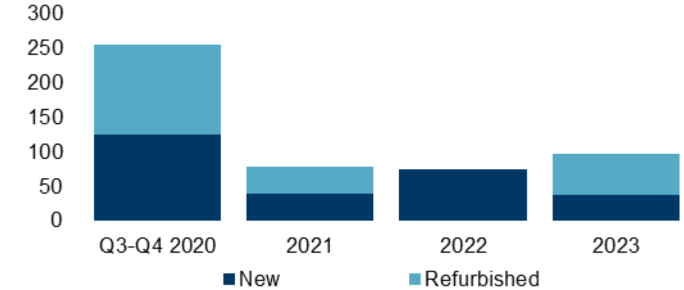
**IMMEDIATELY AVAILABLE OFFICE SUPPLY IN LA DÉFENSE, 000 SQM**




**OFFICE SPACE VACANCY RATES IN LA DÉFENSE**




**FUTURE* NEW OR REFURBISHED OFFICE SUPPLY IN LA DÉFENSE, 000 SQM**




*Sources: Immostat, Cushman & Wakefield*

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## DEFINITIONS

**Take-up**: Total of rental and sales deals carried out by end users including pre-lets, turnkeys and owner-occupier deals.

**Immediate supply** : Total of vacant space offered for sale/lease at a particular time T. Searches for replacement tenants and leases under notice are excluded until the tenant has vacated the premises.

**Average rent – new space** : Expressed in Euro per year, excluding taxes and charges. The average rent corresponds to the average of rents, weighted by the total area of new space transacted (new and refurbished space).

**Average rent – 2nd hand** : Expressed in Euro per year, excluding taxes and charges. The average rent corresponds to the average of rents, weighted by the total area of second hand space transacted (excluding new and refurbished space).

**Prime rent** : The prime rent is the average of the highest transaction values recorded for new or restructured buildings that are in best locations and are let on long-lease terms.

**New development** : Total of new space to be built and under construction with or without authorization (planning permissions and consent) and not yet delivered.

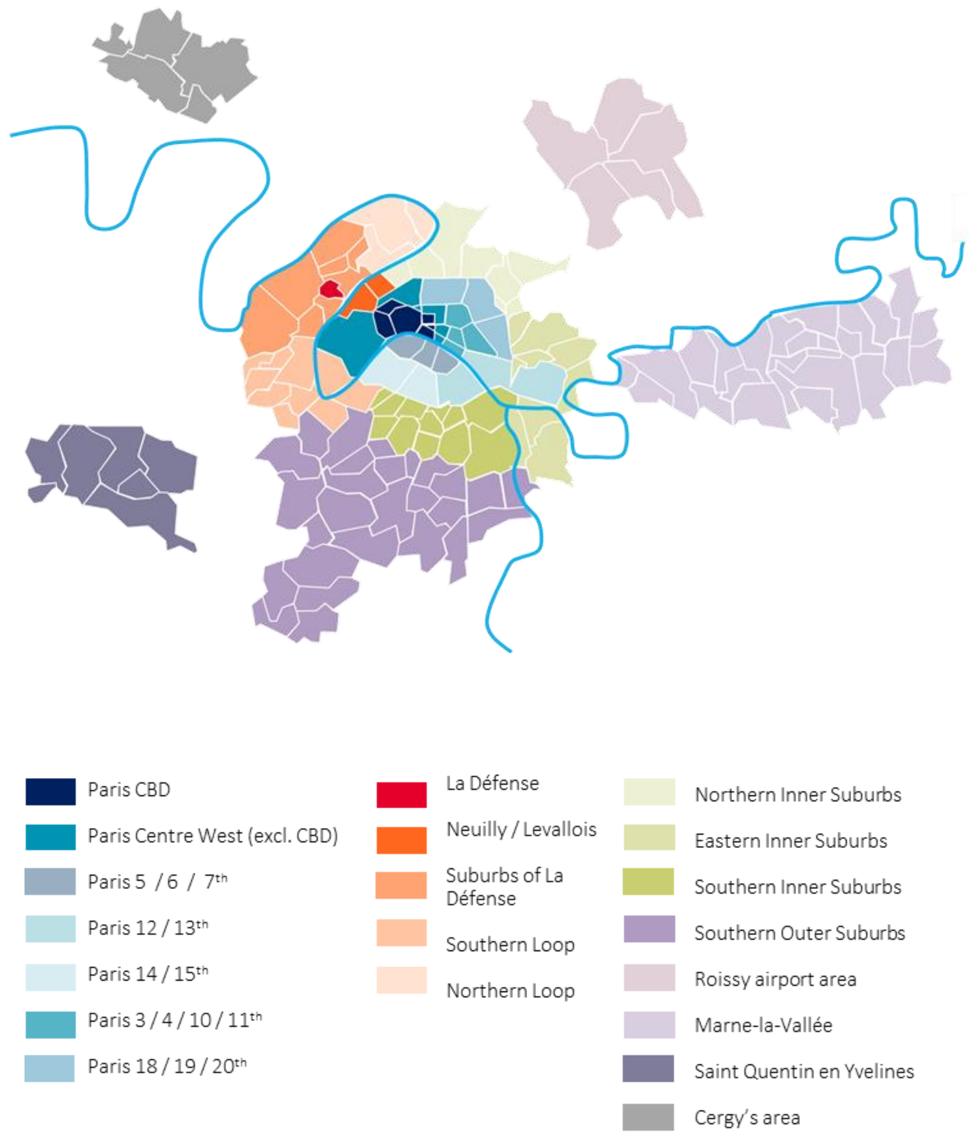
**Confirmed new development** : Total of developments underway at a moment in time T, not yet delivered.

**Likely new development** : Total of developments not yet underway at a moment in time T with consent and/or planning permission

**Potential new development** : Total of projects identified that have not secured consent and/or planning permission.

**VEFA** : Property for future completion

## GREATER PARIS REGION - SUBMARKETS



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## ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of $8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services.

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- Asset Services
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- Facility Services
- Global Occupier Services
- Investment & Asset Management
- Project & Development Services
- Tenant Representation
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## AROUND THE WORLD

**400** OFFICES

**60** COUNTRIES

**53,000** EMPLOYEES

**$8.8 billion*** turnover in 2019
* USD

## IN FRANCE

**14** OFFICES

**+600** EMPLOYEES

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## CUSHMAN & WAKEFIELD RESEARCH



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