





## **ECONOMIC OVERVIEW**

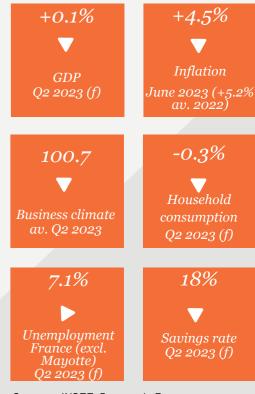
## End of the crisis: a glimmer of light at the end of the tunnel?

Still on a knife-edge, the French economy is close to recession but remained in positive territory over H1 2023 with +0.2% in Q1 and +0.1% in Q2. Business activity was penalised by persistently high inflation, which is hampering domestic demand (the key driver of growth) and a worsening business climate (down 7pts on average year on year). The year is set to end in a similarly sluggish manner, with +0.2% expected in Q3 and +0.1% in Q4. INSEE is therefore forecasting growth of +0.6% for 2023; this is below expectations (1%) and also lower than last year's performance, which was bolstered by the compensatory effect of post-Covid gains due to soaring prices from spring 2022.

Inflationary pressures appear to have slowed since April when levels reached +5.9% year-on-year, with a rise of "only" 4.5% in June due to recent fall in energy prices (oil and gas) and, more recently, a slight lull in the food sector (+7.4% expected in December vs +15% in April). The lull in prices for these two strategic household expenses should stimulate purchasing power (which was also muted at -0.6% over Q2 2023), and breathe some life into consumption (-0.2% estimated in 2023). INSEE is therefore forecasting that inflation will stand at 4.4% by the end of the year, a high level which could continue for several months. The timid reduction in underlying inflation from the April peak (+6.3%) is also prompting caution over the medium term.

The state of public finances remains worrying, with debt still running at 110% of GDP and the public deficit at 5%, well below the government's 2.7% assurances to Brussels. However, the desire to bring a definitive end to temporary State aid is also confronted by the current social tension and the real estate crisis triggered by interest rates hikes that are also amplifying factors weighing on household confidence.

There are some signs of a slowdown in the job market: in addition to the growing number of business failures (+45% year-on-year at the end of June), job creations have slowed with INSEE estimates for 2023 at -60% compared with 2022. Most of these losses are in construction, hospitality and retail - the sectors most affected by rising costs and which are suffering from falling demand. However, due to a proportional reduction in the active population, the unemployment rate is expected to remain at around 7.1% this year.



Sources : INSEE, Banque de France



## **TAKE-UP**

### **Uptick in the suburbs**

The rate of transactions slowed over H1 2023 with a -22% year-on-year decrease to 816,200 sq m. After the low-point recorded in 2020, this is the second lowest volume for the last 10 years. However, Q2 proved to be far more active (421,000 sq m) than Q1 with an uptick in transactions in both the small and large space segments. Transactions for confirmed future space suggest that activity will improve over H2 with a full-year volume of around 1.9 million sq m, on a par with 2021.

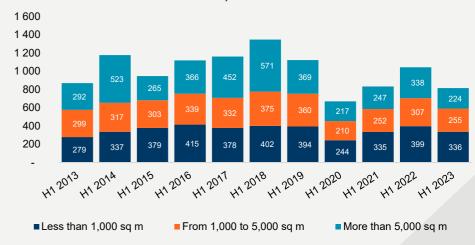
A closer look across the region reveals some contrasting trends: In Paris, activity slowed in terms of both the volume and the number of transactions (-27% and -14% respectively) but an uptick was seen in corporate moves in the Central Business District over Q2.

The Western Crescent (-24%) followed a downward trend, although not in the medium space segment in the Southern Loop, while the number of transactions remained virtually the same as over H1 2022. A year-on-year reduction was seen in the volume recorded for La Défense (-45%), despite an increase in the number of transactions (+23%) and for spaces <1,000 sq m in particular.

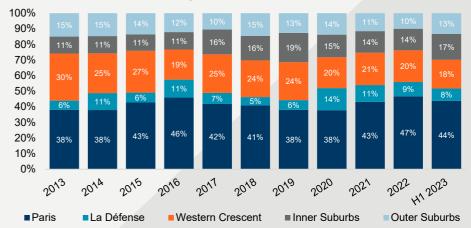
The same was seen in the Outer Suburbs (-5% by volume but +18% by number). Lastly, the number of transactions in the Inner Suburbs fell (-15%) but the overall volume increased (+5%); this was due to a total of 7 corporate moves in this market over the period, with a particular concentration in the South.

The business desire for highly central locations was reflected in the substantial proportion of activity recorded in Paris (44%) but the imbalance between supply/demand in the most central markets combined with continued cost increases is encouraging some businesses to reconsider/postpone moving. This partly explains the uptick seen in the Suburbs and the Inner Suburbs in particular.

#### TAKE-UP BY SPACE SEGMENT, IN SQ M THOUSANDS



#### MARKET SHARE BY AREA, BY VOLUME





## SUPPLY AND VACANCY RATE

## Stabilisation at a peak

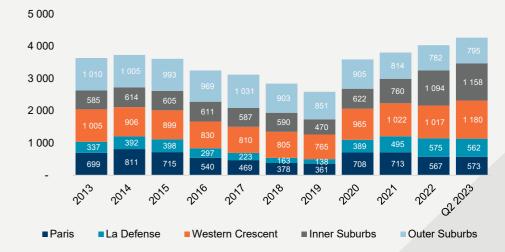
Office completions towards the end of 2022 bolstered immediate supply over Q1 to a new record (4.3 million sq m). This upward trend marked a pause over Q2 as the volume stabilised.

However, this overall stabilisation conceals some diverging trends by location: substantial increases in immediate supply were seen across all markets with the exception of La Défense (-2% vs Q4 2022) and Paris where the volume remained virtually stable. The year-on-year change reflects the duality in the market more clearly with a particularly marked degree of immediate supply erosion in Paris (-24% vs Q2 2022).

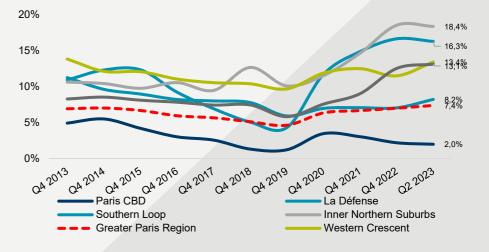
Most of this vacant space is located in Péri-Défense (Western Crescent) and the Inner Northern Suburbs where the vacancy rate stands at 18-19%. At the current rate of take-up, the marketing lead time in these areas currently stands at 3 and 4 years respectively and completions of new space are raising questions regarding the future of obsolete buildings in these markets. At the other end of the spectrum, immediate and 1-year supply fell in central Parisian markets which should benefit the outermost Parisian markets (such as Paris 14/15 or 18/19/20) as well as some suburban markets with a more balanced supply/demand ratio that offer a sufficient level of urban services to meet occupier requirements. Moves within/towards the suburbs and along the Neuilly-Levallois/La Défense route could also be encouraged by businesses seeking more affordable rents in a bid to optimise costs

Lastly, there has been a gradual renewal of immediate supply with new and refurbished buildings accounting for 30% of the overall immediate and 1-year supply (and 47% in the large space segment!). This available new space is mainly concentrated in the suburbs with just under 250,000 sq m located in Paris and La Défense

#### IMMEDIATE SUPPLY BY MARKET, IN SQ M THOUSANDS



### **VACANCY RATE, %**



Source: Cushman & Wakefield



## **FUTURE SUPPLY OF MAJOR PROJECTS\***

### More large projects planned for central locations

Just under 182,000 sq m of office space was completed over H1 2023, the majority of which was in the East and South of the Inner Suburbs. The full-year volume is expected to reach 610,000 sq m, mainly in the Inner Suburbs and the Western Crescent; this marks a return to 2018 levels and lower than those seen for the last 4 years. An uptick is expected over 2024, although some postponements are likely.

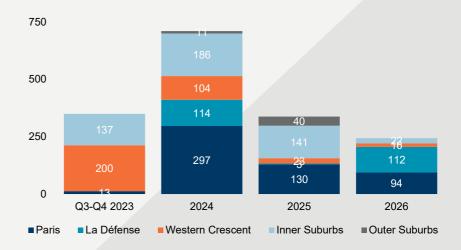
Just under 2.3 million sq m of office projects that are scheduled for completion through to 2026 are currently under construction, 1.6 million sq m of which is still available; this represents a pre-let rate of 30%. Almost 349,000 sq m of available space is scheduled for completion over H2 2023, most of which is in Péri-Défense (particularly in Nanterre with the "Arboretum" campus) and the Inner Northern Suburbs.

With a considerable imbalance in supply and demand in some areas, investors are likely to become increasingly cautious and may even suspend construction starts for projects without pre-lets in higher-risk markets. As businesses have an increased focus on proximity, on-foot access to public transport and the quality of local connections, decisions regarding construction starts in high-vacancy markets should also become more selective. Completion forecasts for 2024 already reflect this shift with more favourable project locations in Paris and within the Western Crescent in the Southern Loop.

\*Forecasts made in light of construction starts for spaces >5,000 sq m at a given point in time



#### FUTURE SUPPLY UNDER CONSTRUCTION BY AREA, IN SQ M



OFFICE COMPLETIONS\* BY AREA, IN SQ M THOUSANDS

<sup>\*</sup>Major office projects >5,000 sq m under construction or being refurbished



## **RENTAL VALUES**

#### **Full steam ahead for Paris**

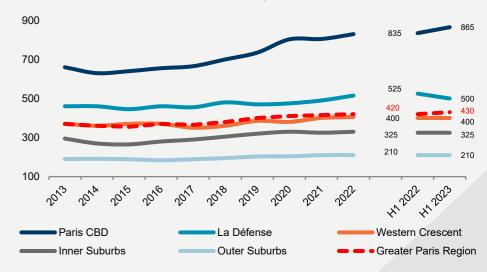
Supply/demand tension in Paris over H1 2023 placed upward pressure on average rental values for both new space (€635 per sq m/year) and second-hand space (€558 per sq m/year). After multiple references were recorded, the prime rent in the Paris CBD tipped over the €1,000 per sq m/year mark. This record value highlights the extreme tension in this market. Prices are rising across all Parisian markets, a trend that is spreading to some neighbouring markets, while more outlying markets are struggling due to a lack of attractiveness.

Average transaction rents for new space (new and refurbished) rose in Paris with increases of +4% in the Central Business District, +1% in Paris South (driven by Paris 5/6/7 and 14/15) and +5% in Paris North East and Paris 18/19/20 in particular. Increases were also seen in the Southern Loop (+11%), Péri-Défense (+12%) and in the Inner Southern Suburbs (+4%). Elsewhere, average values for new/refurbished space remained broadly stable. The average rent for second-hand space in Paris rose (+6%) across almost all inner-city markets as well as in the Inner Suburbs due to activity in the South.

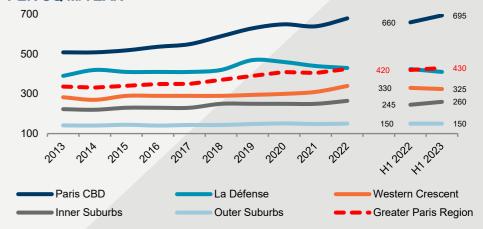
Incentives continued to rise in the Suburbs, particularly in Péri-Défense and the Inner Suburbs where levels for large buildings stand at around 34-35%. In La Défense and the Outer Suburbs, average incentives for medium-sized spaces also at a similar level of >30%.

NB: average rents for new and second-hand space in the Greater Paris Region both stand at €430 per sq m/year without taking market disparities into account. Overall, many rents for new space in more outlying areas have offset a concentration of higher rents for second-hand space rents in central locations.

#### AVERAGE RENTS FOR NEW SPACE, € PER SQ M/YEAR



# AVERAGE RENTS FOR SECOND-HAND SPACE, € PER SQ M/YEAR



Sources: Immostat, Cushman & Wakefield







## **TOP DEALS IN H1 2023**

Tenant/buyer	Building	Address	Commune	Space	Contract type
STELLANTIS NV	POLE TERTIAIRE PSA	45 RUE JEAN PIERRE TIMBAUD	POISSY	39,104 sq m	TURNKEY
ROTHSCHILD		54-56 RUE LA BOETIE	PARIS 08	21,540 sq m	LEASE
ICDC	NETWORK 1 & 2	40 AVENUE ARISTIDE BRIAND	BAGNEUX	15,951 sq m	LEASE
EDF RENOUVELABLES	ORIGINE	BOULEVARD DE LA DEFENSE	NANTERRE	14,209 sq m	LEASE
INFOPRO	GENTILLY AQUEDUC	161 AVENUE PAUL VAILLANT COUTURIER	GENTILLY	12,368 sq m	LEASE
SIEMENS MOBILITY	YUMA	58 RUE PIERRE SEMARD	CHATILLON	11,160 sq m	LEASE

## MAP AND DEFINITIONS

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

**IMMEDIATELY AVAILABLE 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 – SECOND 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).

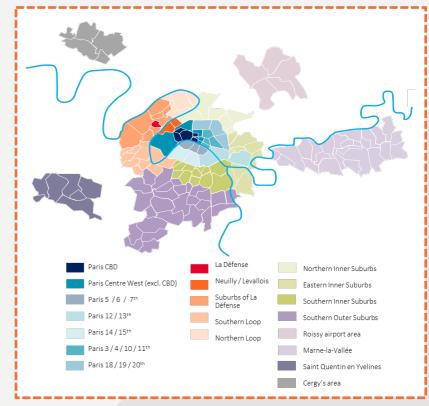
**PRIME VALUE**: The prime rent is the average of the highest transaction values recorded for new or refurbished buildings that are in the best locations and are let on long-lease terms.

**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.

VACANCY RATE: Share of immediately available supply in the existing office stock at a time T



Sectorisation géographique Immostat



## **ABOUT CUSHMAN & WAKEFIELD**

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in approximately 400 offices and 60 countries. In 2022, the firm reported revenue of \$10.1 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), Environmental, Social and Governance (ESG) and more.

For additional information, visit www.cushmanwakefield.com.

## **SERVICES**

- Agency Leasing
- Asset Services
- Capital Markets
- Facility Services
- Global Occupier Services

- Investment & Asset Management
- Project & Development Services
- Tenant Representation
- Valuation & Advisory



## **AROUND THE WORLD**

400 offices
60 countries
52 000 collaborators
\$10,1bn USD turnover 2022

## **FRANCE**

16 offices

+ 500 collaborators

#### CHRISTELLE BASTARD

Head of Research France +33 (0)1 53 76 80 15 christelle.bastard@cushwake.com

#### **AGNES TALENE**

Senior Research Analyst +33 (0)1 53 76 95 56 agnes.talene@cushwake.com

#### BARBARA KORENIOUGUINE

CEO France +33 (0)1 53 76 80 29 barbara.koreniouguine@cushwake.com

#### **OLIVIER TAUPIN**

Head of Leasing Agency - Office & Industrial +33 (0)6 35 88 46 47 olivier.taupin@cushwake.com

#### **CUSHMAN & WAKEFIELD RESEARCH**

This report has been produced by Cushman & Wakefield Inc. for use by those with an interest in commercial property solely for information purposes. It is not intended to be a complete description of the markets or developments to which it refers. The report uses information obtained from public sources which Cushman & Wakefield Inc. believe to be reliable, but we have not verified such information and cannot guarantee that it is accurate and complete. No warranty or representation, express or implied, is made as to the accuracy or completeness of any of the information contained herein and Cushman & Wakefield Inc. shall not be liable to any reader of this report or any third party in any way whatsoever. All expressions of opinion are subject to change. Our prior written consent is required before this report can be reproduced in whole or in part.

©2023 Cushman & Wakefield Inc. All Rights Reserved.

cushmanwakefield.com



