

Transactions normalize in 2022

▲ 2,108,300 sq m ▲ 4.3 M sq m ▲ 7.2%

Take-up 2022 Vacant space Vacancy rate

▲ €1,000

Prime rent

Note: The arrows indicate annual variations

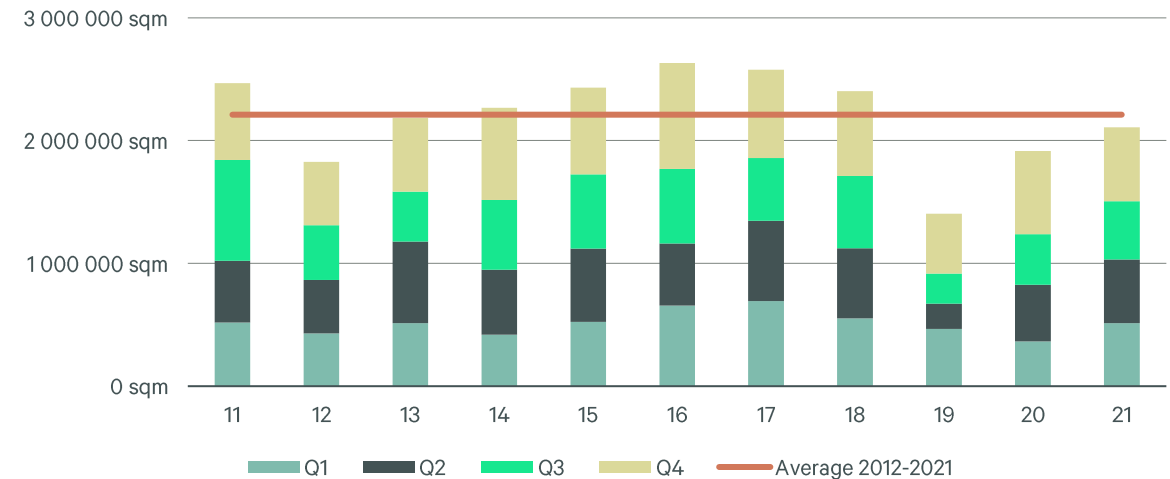
Strong take-up in 2022

After two difficult years, 2022 marks a return to normal in the Paris Region. Take-up totalled 2,108,300 sq m (+10% y-o-y and -5% compared to the ten-year average).

2022 was marked by transactions concentrated on the most established business districts. The Greater Paris region office market is currently divided in two. On the one hand, take-up exceeds long-term trends in Paris and La Défense. On the other hand, areas such as the Western Crescent and the Inner and Outer Rims are struggling to record satisfactory take-up levels. Strong take-up in highly visible and well-connected business districts can be explained both by some companies' desire to relocate to more central locations, and by the dynamism of certain fast-growing business sectors (banking/finance, coworking, legal consultancy, luxury industry, etc.), which are often located in Paris city.

The first signs of a slowdown emerged in Q4 2022, with a take-up of 602,300 sq m (-11% y-o-y and -9% compared with the long term average). This deceleration is particularly tangible in the <5,000 sq m segment, and is due to the economic downturn.

FIGURE 1: Take-up - Paris Region



Source: CBRE Research / Immostat, Q4 2022

Given the worrying economic outlook, office space take-up in the Paris region is expected to fall by 5% to 10% in 2023, totalling 1.9 to 2 million sq m.

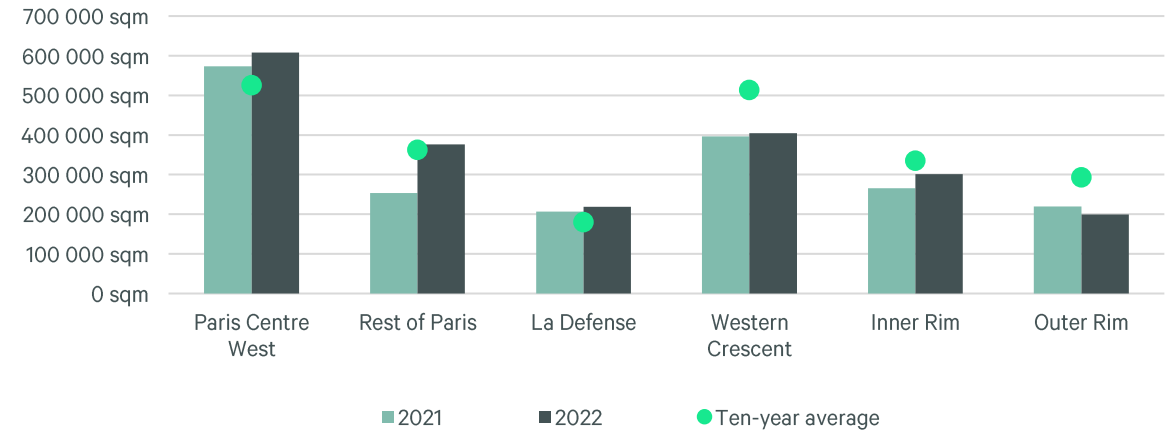
Vacancy rising in Q4

Vacant space has remained relatively stable since 2021 at 4 to 4.1 million sq m. However, vacant office space in the Greater Paris region increased in Q4 2022 to 4.3 million sq m and an average vacancy rate in the Greater Paris region of 7.2%. This marked increase in vacant space is mainly due to the markets of La Défense and the Inner Rim North and East, where several major new/refurbished/renovated projects still awaiting tenants were completed in Q4 (Hekla in La Défense, Rhapsody and Made in Saint-Ouen in St Ouen, Helia in Fontenay-sous-Bois).

Vacant space within the year (vacant space + definite future supply within the year) remains high at 5.6 million sq m. The slight fall in definite future supply within the year (1.3 million sq m, all conditions) compensates the increase in vacant space in Q4. Geographical and structural discrepancies will remain strong in 2023. The increase in vacant space within the year in Southern Paris will bring a little more fluidity to the Parisian market; vacant space will remain very scarce in Paris Centre West. In the other business districts, vacant and future supply continue to rise slightly, except in the Western Crescent.

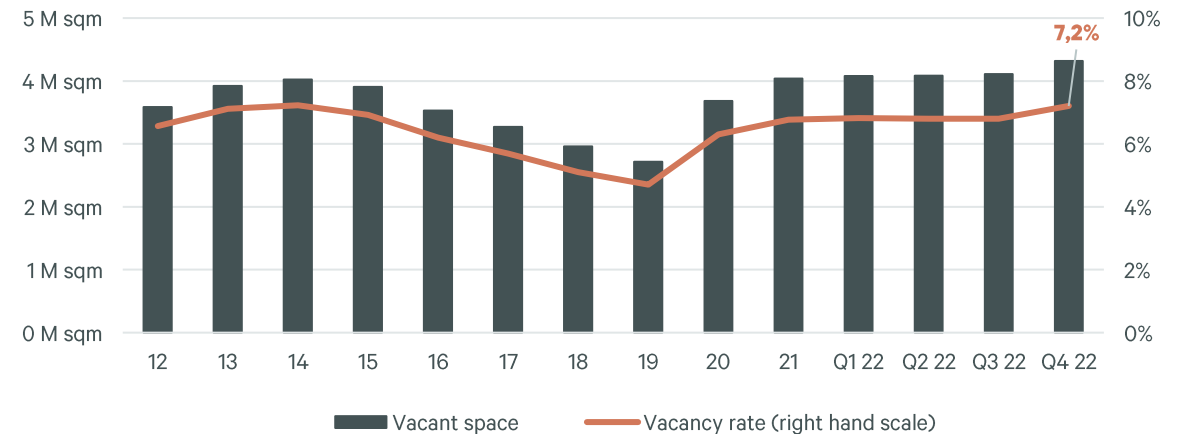
Probable future supply fell in Q4 to 2.4 million sq m, including 1.8 million sq m of new build or refurbished space across 87 projects. The number of projects and building permits submitted continues to contract. This is due to developers and property owners taking a cautious approach in the face of rising interest rates and inflation, the cost of raw materials, concerns about vacant space volume and the market's ability to absorb this stock quickly. At the same time, ready to launch projects are piling up. Most risk-averse developers prefer at least a partial pre-let before starting construction.

FIGURE 2: Take-up by sub-markets



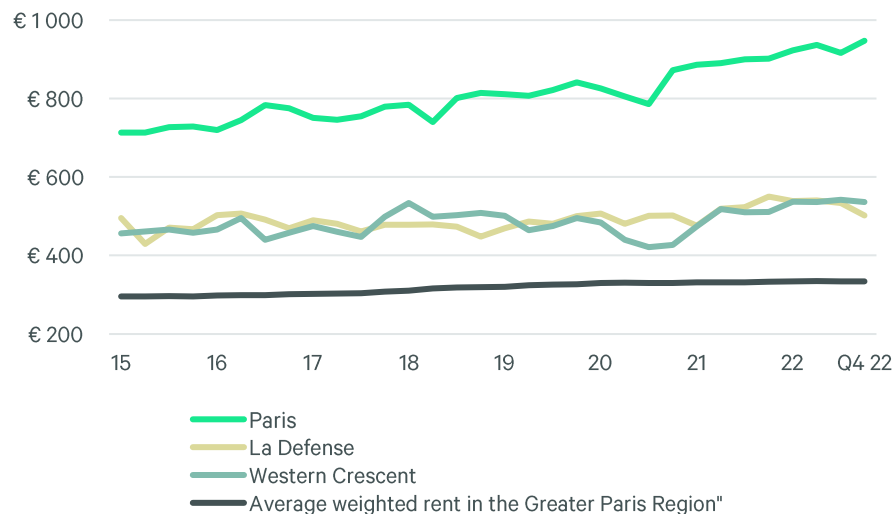
Source: CBRE Research / Immostat, Q4 2022

FIGURE 3: Evolution of immediately available properties and vacancy rate in the Paris region



Source: CBRE Research / Immostat, Q4 2022

FIGURE 4: Evolution of average prime rents



Average prime rent in € pa/sq m excluding taxes and charges: weighted average of the 10 highest rent transactions recorded over the last 6 months for a surface of 500 sq m or more.

Source: CBRE Research, Q4 2022

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Rents rising in Paris city

Rents differences based on property condition are less striking in Paris

Due to land scarcity and users' desire for central locations, headline rents continue to rise in Paris. Prime rent has risen to €1,000 pa/sq m excl. taxes and charges; average prime rent (weighted average of 10 highest transactions) continues to rise in Paris to €947 pa/sq m excl. taxes and charges. At the same time, rent differences between used/renovated space and new/refurbished space are narrowing in Paris. Outside of Paris city, some business districts on the outskirts are managing doing well given occupiers' desire for high quality buildings. For example, prime rent in Levallois-Perret rose to €530pa/sq m excl. taxes and charges in Q4. On the other hand, headline rents in most business districts have stabilised or even fallen. The rent differential between Paris and the rest of the greater Paris region is widening.

Incentives have evolved in line with demand

For two consecutive quarters, the average incentive in greater Paris region for transactions >1,000 sq m has fallen, reaching 23.8% of headline rent in Q3 2022. In Paris Centre West, supply is particularly tight, and incentives have been falling for several quarters (16.7% of headline rent). In more peripheral and/or under-subscribed areas (La Défense, the Western Crescent and the Inner Rim), incentives remain high, approaching or even exceeding 30% of headline rent.

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