



CATELLA

Focus on Office Supply in Ile-de-France

**MARKET
SUMMARY**

MARCH - 2022



For the past three years, the Île-de-France office market has been faced with a series of issues that have affected take-up levels. Among concerns about remote working, office flexibility and the ever-increasing need for centrality, major decisions have had to be delayed during this period. However, 2021 saw a recovery in take-up, with renewed interest in small and medium surfaces, a robust market in the 5,000-to-10,000 sq.m market, and a concentration of companies in the better established Île-de-France submarkets, especially within Paris and in the West CBD.

The outbreak of the war in Ukraine and the uncertainty regarding its impact on both the global and the French economy could cloud the prospects for a rebound in take-up in 2022. Nevertheless, the positive market indicators from 2021 could persist, or even grow stronger. The increasingly pressing need for more energy-efficient buildings will strengthen demand for compliance-certified buildings. With so many energy concerns, the need to reduce buildings' carbon footprints should also continue to favour established, centralised business districts that have good public transportation links.

With these considerations in mind, two market trends appear to be of particular importance in our following analysis:

Firstly, new supply is plentiful. Its generally high quality and competitive economic rents should, however, encourage absorption of excess space, especially as construction starts have been lower. The speed of this absorption will depend on resumed take-up activity, especially for large surfaces. The submarkets with the most developed business districts, especially those having the best public transport networks, should experience market recovery ahead of their less established competitors.

Secondly, second-hand supply has experienced unprecedented growth. Since this is of mixed quality and has been driven by a high level of releases, it risks having a negative impact on vacancy rates throughout Île-de-France if no action is taken in the long term. Among possible measures, the transformation of some obsolete office buildings into housing or other types of businesses is an increasingly appealing option. A growing number of building owners appear ready to pursue these alternatives, and the success of the first reconversions is an encouraging sign, both for the absorption of existing stock and for the urban renewal of neighbourhoods in many cities.

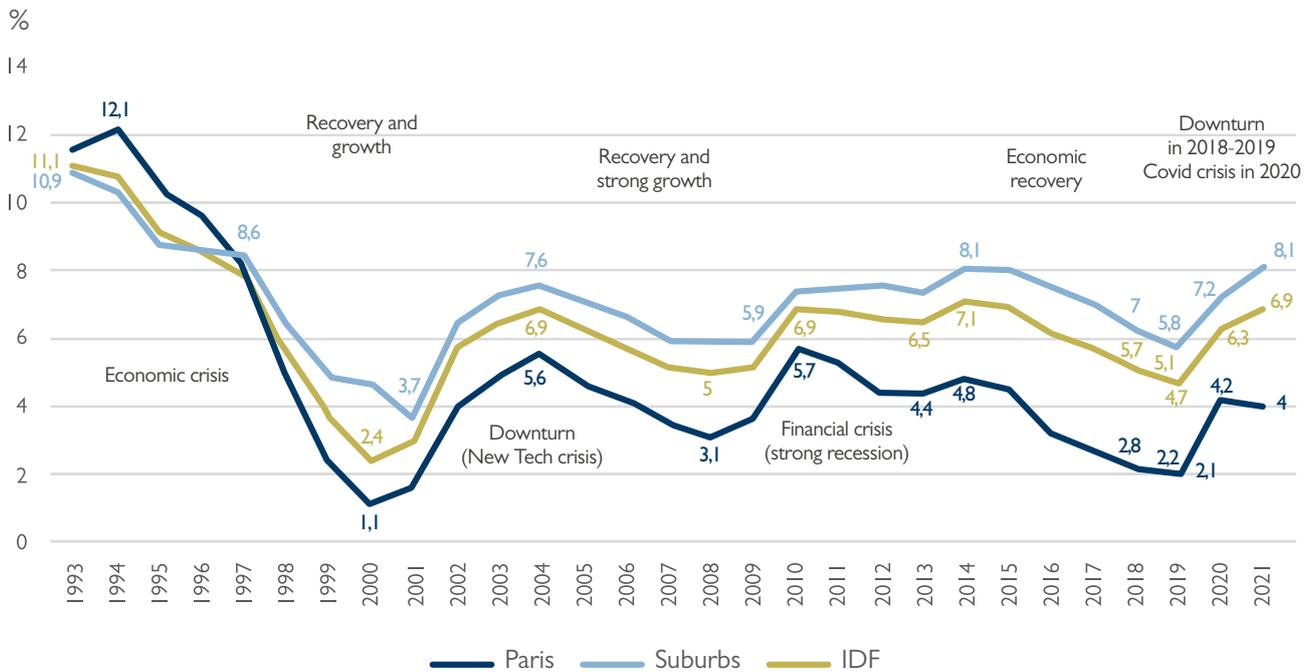
DECLINE IN VACANCY STARTED IN PARIS – HAVE SOME OTHER SUBMARKETS PEAKED?

As the Île-de-France market was being hit by the Covid health crisis, the overall vacancy rate rose sharply between 2019 and 2021. This was largely due to the combined effect of deliveries of new buildings, a high number of vacancies and a decline in take-up. With a steady increase in office stock (40 million sq,m in 1993 vs. 58 million sq,m in 2022), the vacancy rate is still far from reaching the levels of the early 1990s. Rather, the situation in 2021 was largely comparable to other peak periods over the past 20 years. One encouraging sign is that the last two quarters of 2021 witnessed a

near-stabilization of the regional vacancy rate. While nearly all Parisian markets were undersupplied to varying degrees, rates continued to rise in most other submarkets.

The recovery in take-up, as well as the slowdown in construction starts, offer hope for a gradual absorption of supply in the medium term. Any imminent market recovery should, however, mainly benefit the most established submarkets initially, and the high amount of second-hand supply will likely remain a concern.

Île-de-France vacancy rates



Source : MBE Conseil - Immostat

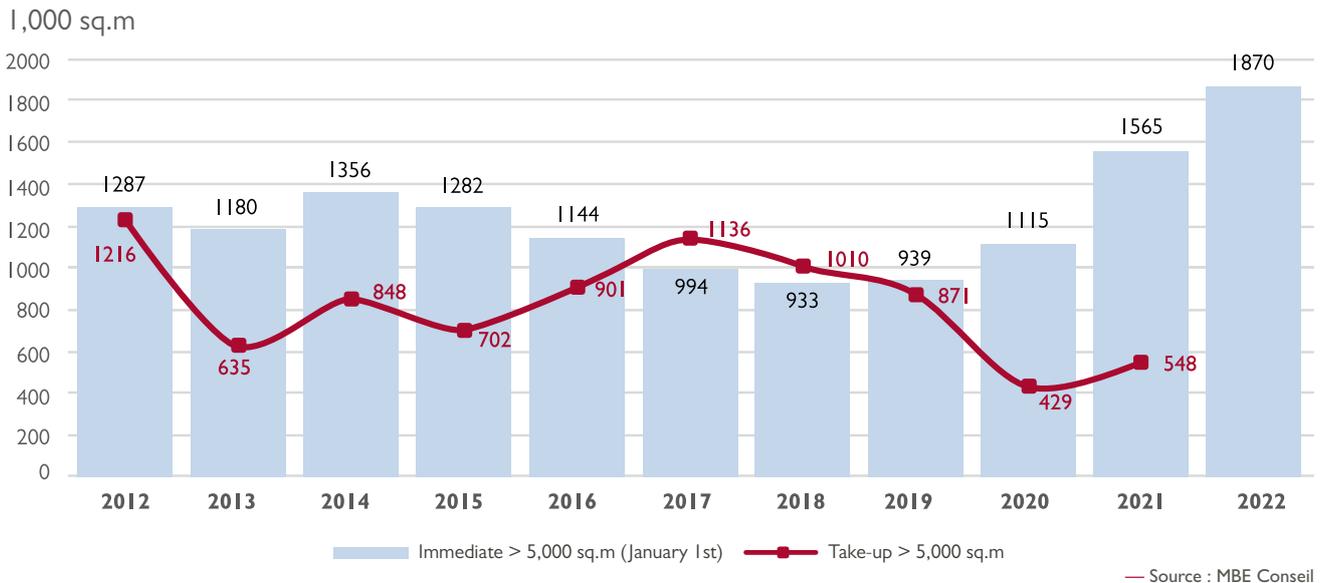
A SUBSTANTIAL DROP IN DEMAND FOR LARGE SURFACES COMPARED TO SUPPLY

At the end of 2021, almost half of the immediate supply in Île-de-France consisted of surfaces larger than 5,000 sq.m. Moreover, since 2020 this size range has seen take-up levels of below the ten-year

average of 831,000 sq.m, with a particular slump in transactions over 10,000 sq.m. A resumption in large-space activity will therefore be necessary to absorb this current high level of supply.



Supply and take-up for surfaces over 5,000 sq.m in Île-de-France



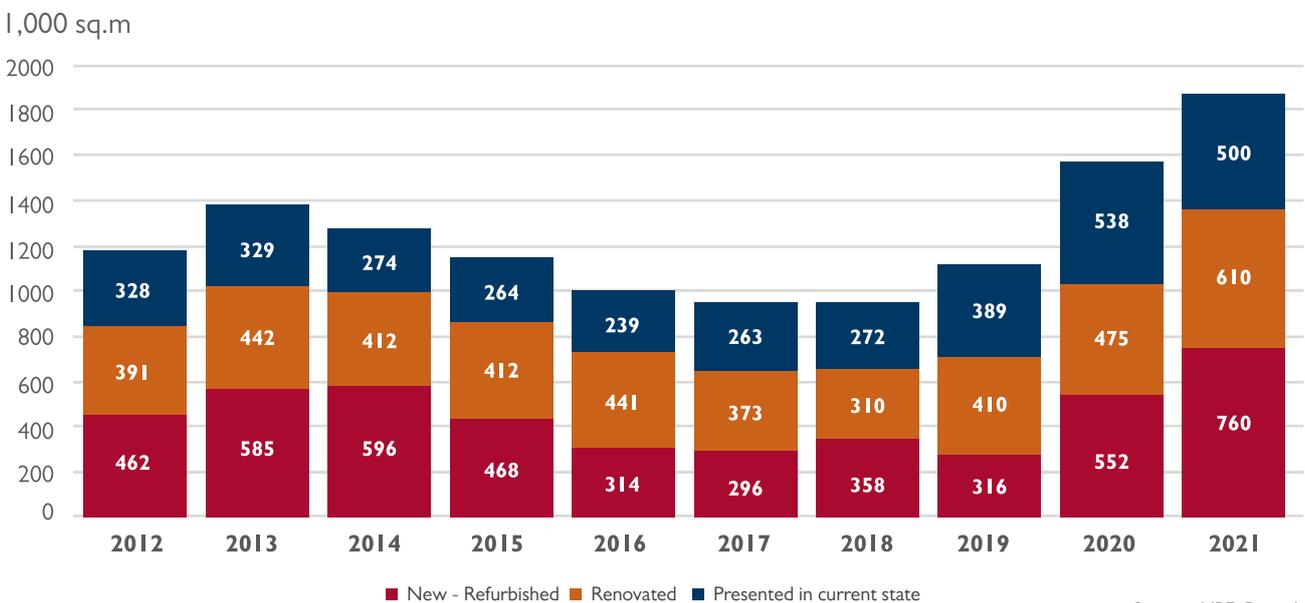
The Covid health crisis has occurred during a period of a high number of speculative construction starts, leading to an increase in new and refurbished large-space supply since 2020 (new supply in this size range, however, is close to 2009 levels of 682,000 sq.m).

Conversely, available large surfaces in the second-hand market have reached a record level (whether being presented in their current state or renovated). However, it is likely that some of the spaces now

being presented in their current condition will be withdrawn from the market in the short-to-medium term to undergo renovation or refurbishment or will be transformed for other uses. Furthermore, given the high number of large-surface deals made in 2017, we can hope for a recovery in large-space take-up in 2023, with many large-surface tenants taking advantage of the six-year breaks in such contracts.



Immediate supply over 5,000 sq.m by building status



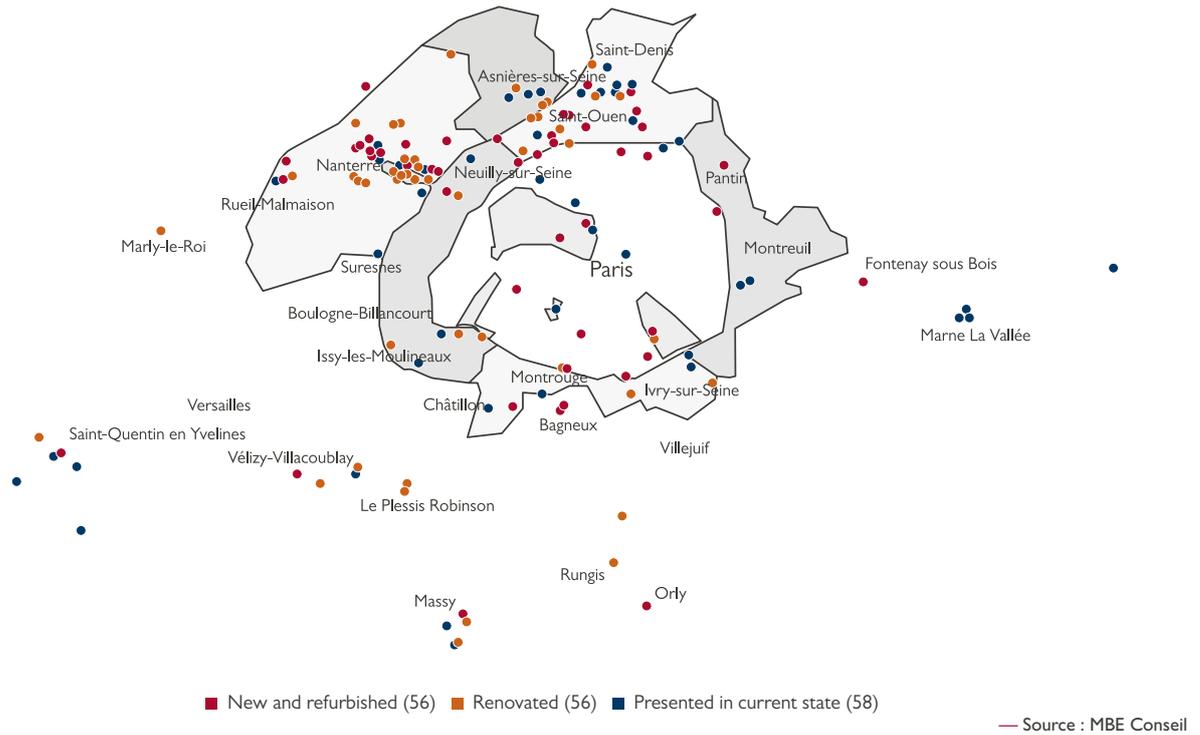
WITHIN-A-YEAR SUPPLY OF LARGE SPACES IS UNEVENLY DISTRIBUTED

Large-surface supply, whether immediately available or scheduled for delivery during 2022, is very unevenly distributed throughout Île-de-France. This is mainly concentrated in the Emerging North, (Clichy, Saint-Ouen, Saint-Denis and Aubervilliers), as well as in

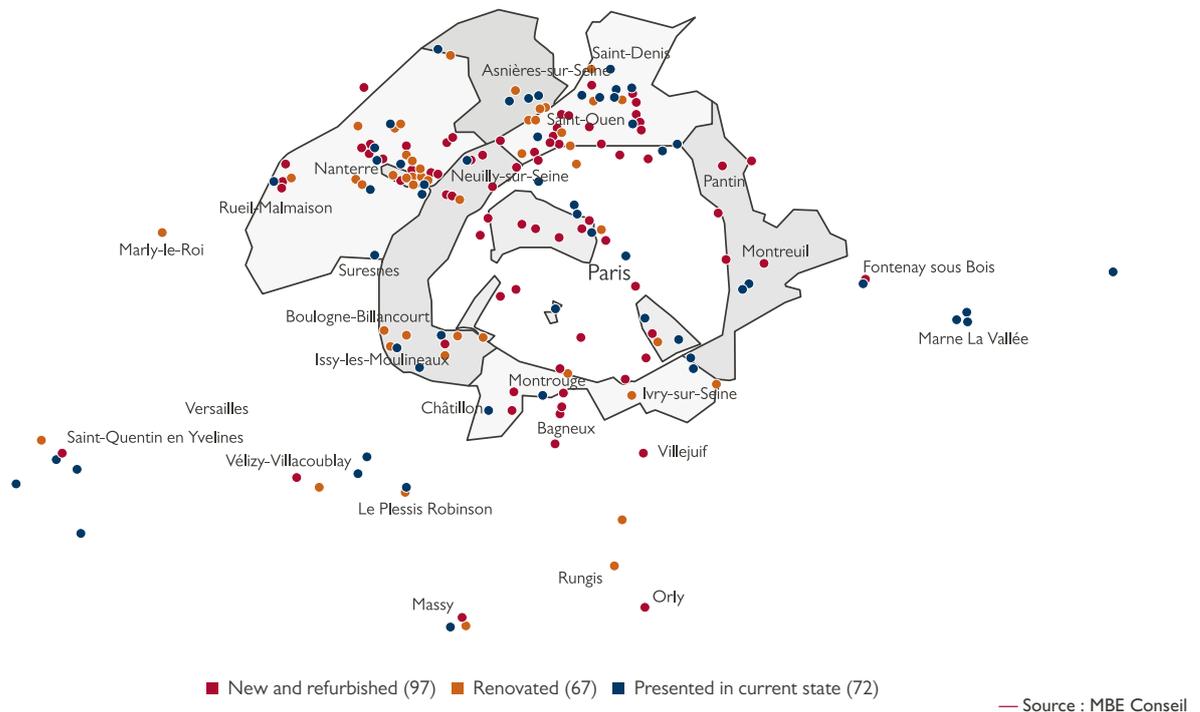
La Défense and PériDÉfense (particularly in Nanterre and Rueil-Malmaison). However, other areas are largely spared from oversupply problems, such as Paris and the East District.



Immediate supply of surfaces over 5 000 sq.m



Within-a-year supply of surfaces over 5 000 sq.m (available or for 2022 delivery)



FOCUS ON NEW SUPPLY OVER 5,000 SQ.M

A peak reached in immediate supply, but a decrease in construction starts

760,000 sq.m Immediately available large-space new supply has seen a sharp increase in the past year, reaching a historic level at the end of 2021 (+38%).

1,386,000 sq.m After the peak reached in mid-2020, new supply under construction fell in 2021 by 9%. However, it remains historically high and the speed of its absorption will depend on a recovery of large-surface take-up activity.

A gradual reduction from 2023-2024?

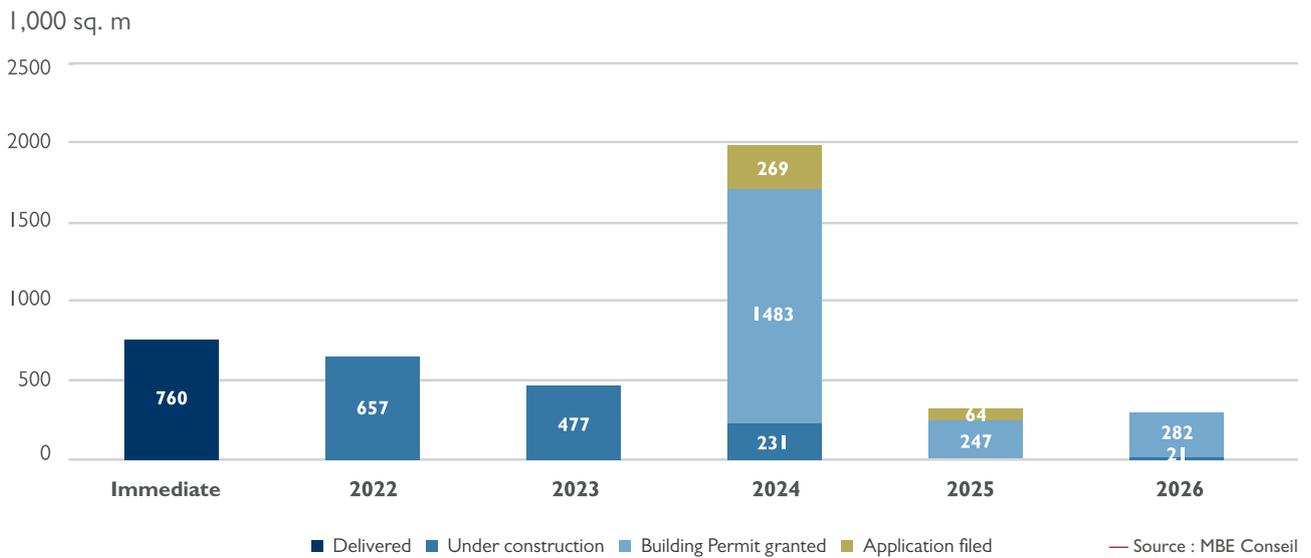
The volume of new large-surface supply available immediately is substantial and should remain so in 2022, with several major deliveries imminent. These include four surfaces of more than 40,000 sq.m: the Tour Hekla and Tour Aurore in La Défense, the Rhapsody

Building in Saint-Ouen, and the Joya Building in Val-de-Fontenay.

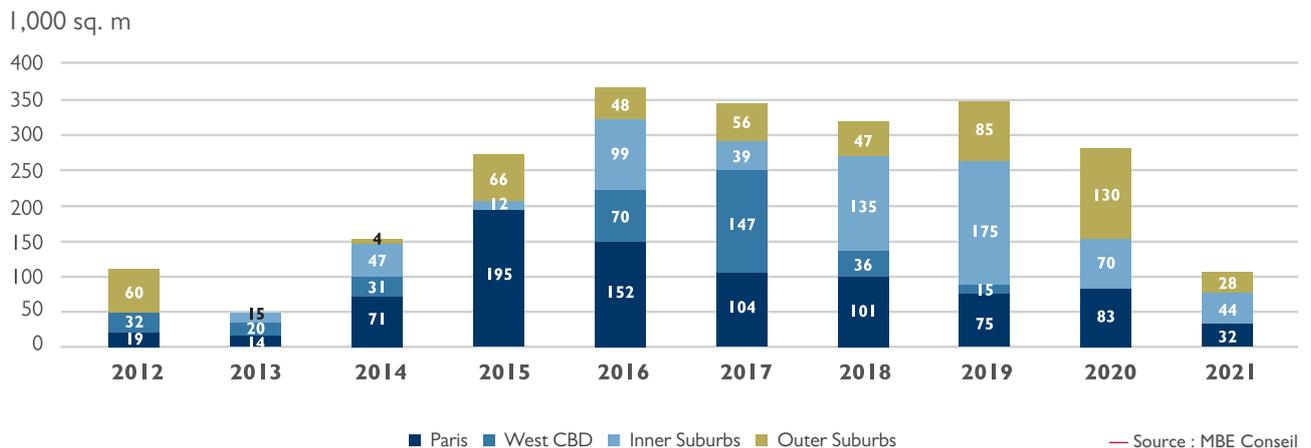
However, a gradual decrease in large-space supply in 2023-2024 seems likely, given the slowdown in construction starts since mid-2020, as well as the sharp decline in speculative investments in 2021. Only five buildings with large surfaces were bought speculatively last year (either new or empty, to be refurbished): 1-11 rue Louis Le Grand in the second arrondissement of Paris (JP Morgan AM/Altarea Cogedim); Urbia in Clichy (Icemap); the Tour Orion in Montreuil (Ginkgo Advisor/Alios Développement); 52 avenue Aristide Briand in Bagneux (Bain Capital Crédit) and 43 rue Louveau in Châtillon (Freo /Anacap Financial Partners).

Although construction starts have generally slowed since mid-2020, several large-surface programmes were launched at the end of 2021 and the beginning of 2022: the Tour Adria in La Défense (PREIM), the Black Building in Clichy (AXA REIM), 94-108 Poissonniers in Paris (18th) (Icawood / WO2) and the Tour Triangle in Paris (15th) (URW / AXA REIM).

Available and future new supply over 5 000 sq.m by building status



Speculatively bought buildings (new or vacant and scheduled for refurbishment)



DECLINE IN SPECULATIVE INVESTMENTS

 Investment transactions - New, speculatively bought buildings or vacant and scheduled for refurbishment - 2021

PARIS

ADDRESS	ARR.	SELLER	BUYER	AREA (SQ.M)	SALE PRICE (€ Million excl. duties)	OPERATION
1-11 rue Louis Le Grand	PARIS 02 CBD	BNP PARIBAS	JP MORGAN ASSET MANAGEMENT / ALTAREA	13 400	194	Vacant, scheduled for refurbishment
13-15 rue Cognacq Jay	PARIS 07	RIVOLI AVENIR PATRIMOINE	JP MORGAN ASSET MANAGEMENT	4 646	75	Vacant, scheduled for refurbishment
32 rue Trévisé	PARIS 09	MARK	SLAM	4 395	95	New spec.
11 avenue Hoche	PARIS 08 CBD	ND	REDTREE CAPITAL INVESTISSEMENT / ETERNAM	3 422	63	Vacant, scheduled for refurbishment
26 bis rue Ordener	PARIS 18	S2FIT1 (GROUPE SNCF)	DEA CAPITAL / EUROPA CAPITAL	2 884	28	Vacant, scheduled for refurbishment
60 bis avenue d'Iéna	PARIS 16 CBD	ZAKA INVESTMENTS	UNION INVEST	2 650	47	Vacant, scheduled for refurbishment
9 rue d'Argenson	PARIS 08 CBD	FONCIERE RAYNOUARD	RHEINISCHE VERSORGUNSKASSEN (RVK)	2 004	58	New spec.
20 rue de la Banque	PARIS 02 CBD	6EME SENS IMMO / TRUSTONE	AM ALPHA	1 500	21	Vacant, scheduled for refurbishment

INNER SUBURBS

ADDRESS	CITY	SELLER	BUYER	AREA (SQ.M)	SALE PRICE (€ Million excl. duties)	OPERATION
Urbia - 12-16 bis rue Henri Barbusse	CLICHY	NOTAPIERRE (UNOFI)	ICAMAP	16 536	76	Vacant, scheduled for refurbishment
Tour Orion 12-16 rue de Vincennes	MONTREUIL	GECINA	GINKGO ADVISOR / ALIOS DEVELOPPEMENT	12 200	26	Vacant, scheduled for refurbishment

OUTER SUBURBS

ADDRESS	CITY	SELLER	BUYER	AREA (SQ.M)	SALE PRICE (€ Million excl. duties)	OPERATION
52 avenue Aristide Briand	BAGNEUX	COFFIM	BAIN CAPITAL CREDIT	13 700	Conf	New spec.
43 rue Louveau 58 rue Pierre Semard	CHATILLON	COFFIM	FREO / ANACAP FINANCIAL PARTNERS	11 143	46	New spec.

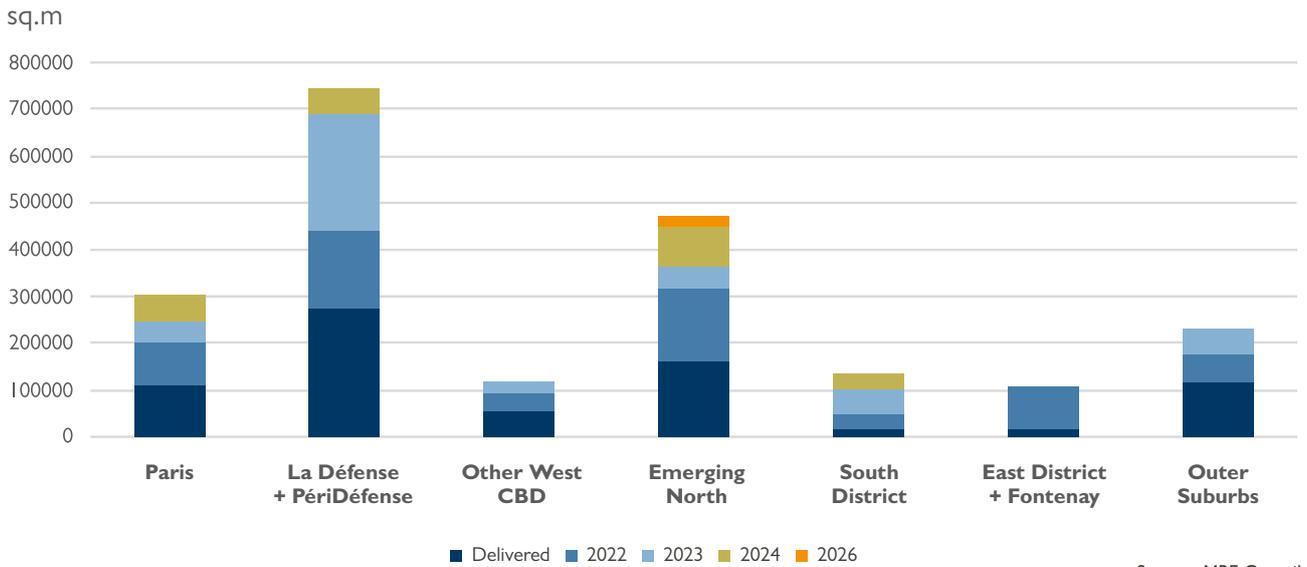
— Source : MBE Conseil

NEW LARGE-SURFACE SUPPLY IS CONCENTRATED IN THREE SUBMARKETS

The geographical distribution of new supply of spaces over 5,000 sq.m under construction corresponds exactly with the supply in this category that has already been delivered. In both cases, three submarkets account for the majority of these buildings: the Emerging North, La Défense and PériDéfense.

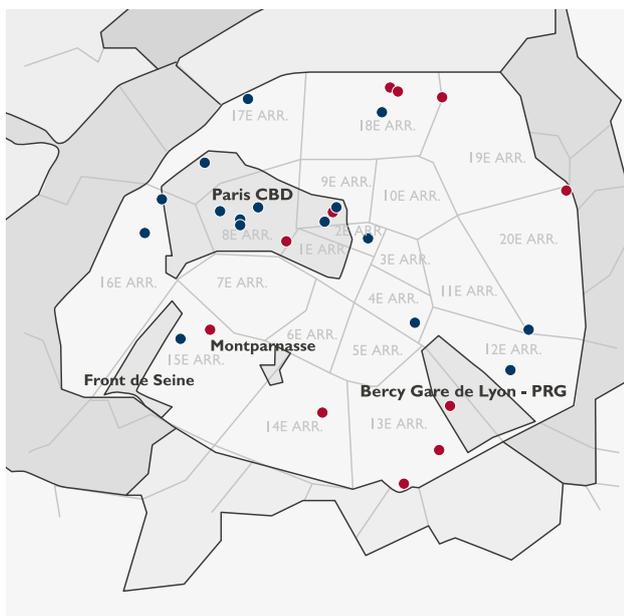
However, 2021 was distinguished by a resumption of speculative launches in the South District, most notably two programmes of 30,000 to 40,000 sq.m in Gentilly: L'Aqueduc by Crédit Agricole Immobilier and Six Degrés by Scor.

New large-size supply



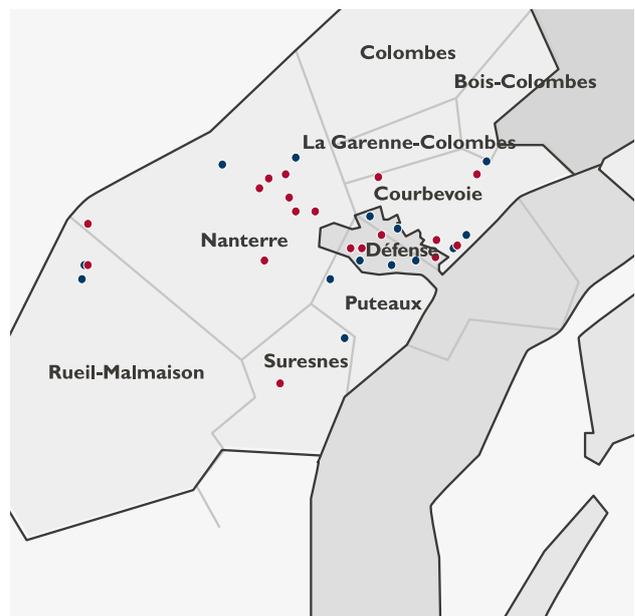
— Source : MBE Conseil

Paris: a current shortage, but refurbishment projects are underway



■ Under construction ■ Delivered

La Défense and PériDéfense: oversupply in the business district and in Nanterre



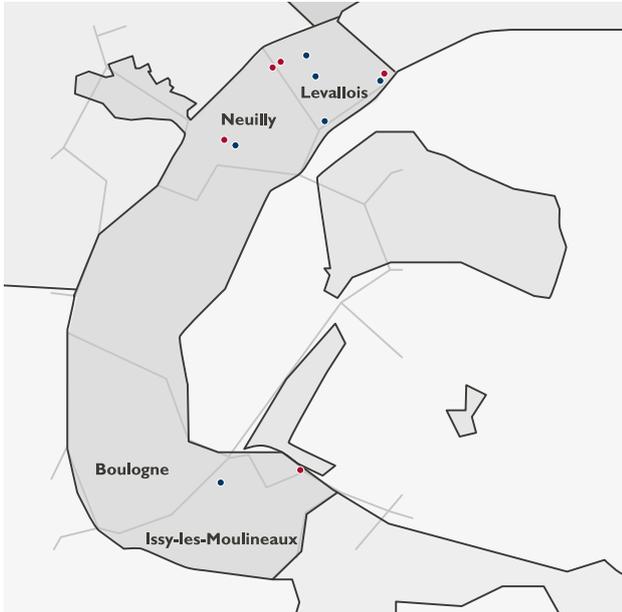
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— Source : MBE Conseil

NEW LARGE-SURFACE SUPPLY IS CONCENTRATED IN THREE SUBMARKETS



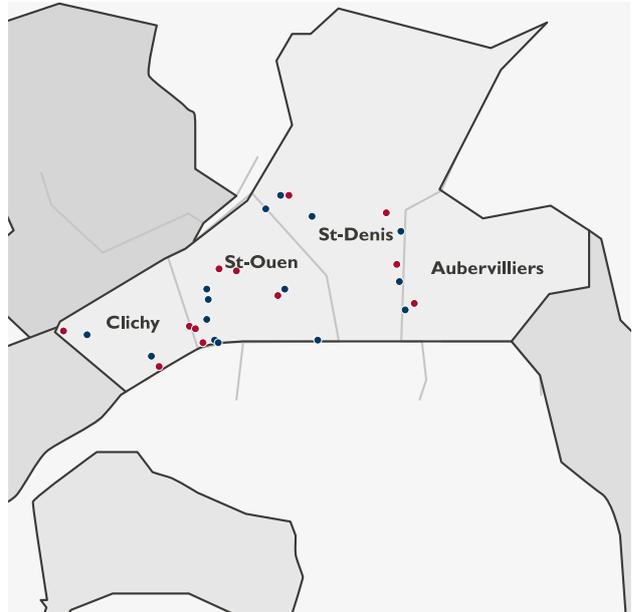
Other West CBD:
limited supply



■ Under construction ■ Delivered



Emerging North: overabundance
of new supply

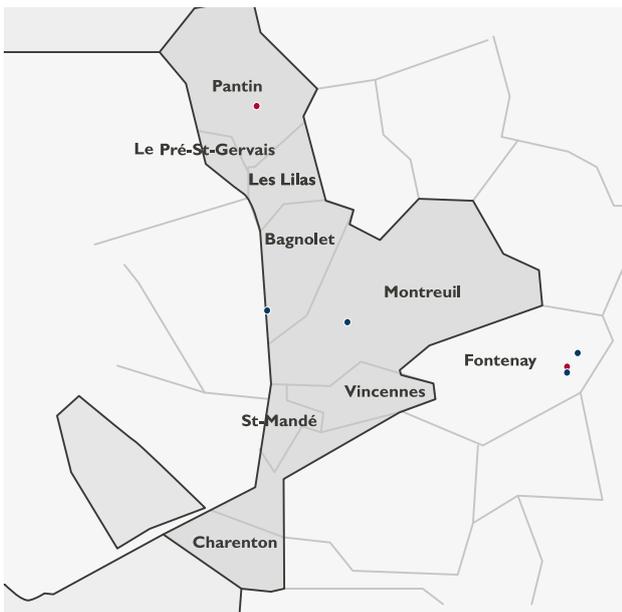


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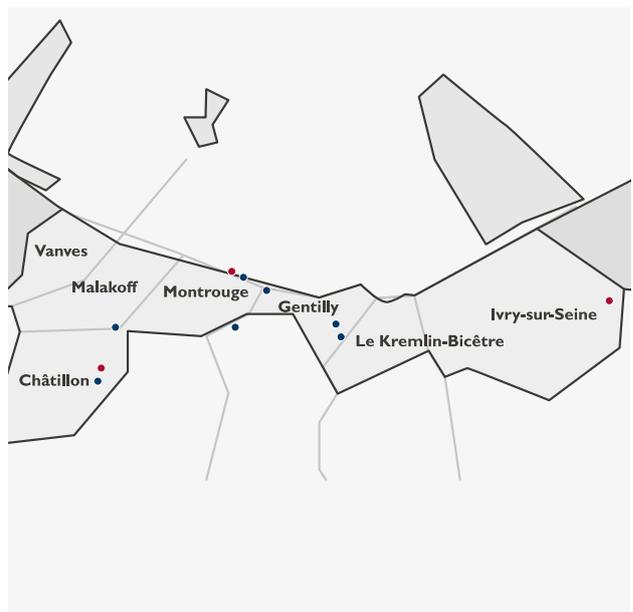
East District: supply almost absent,
except in Val-de-Fontenay



■ Under construction ■ Delivered



South District: recent renewal
of speculative construction starts



■ Under construction ■ Delivered

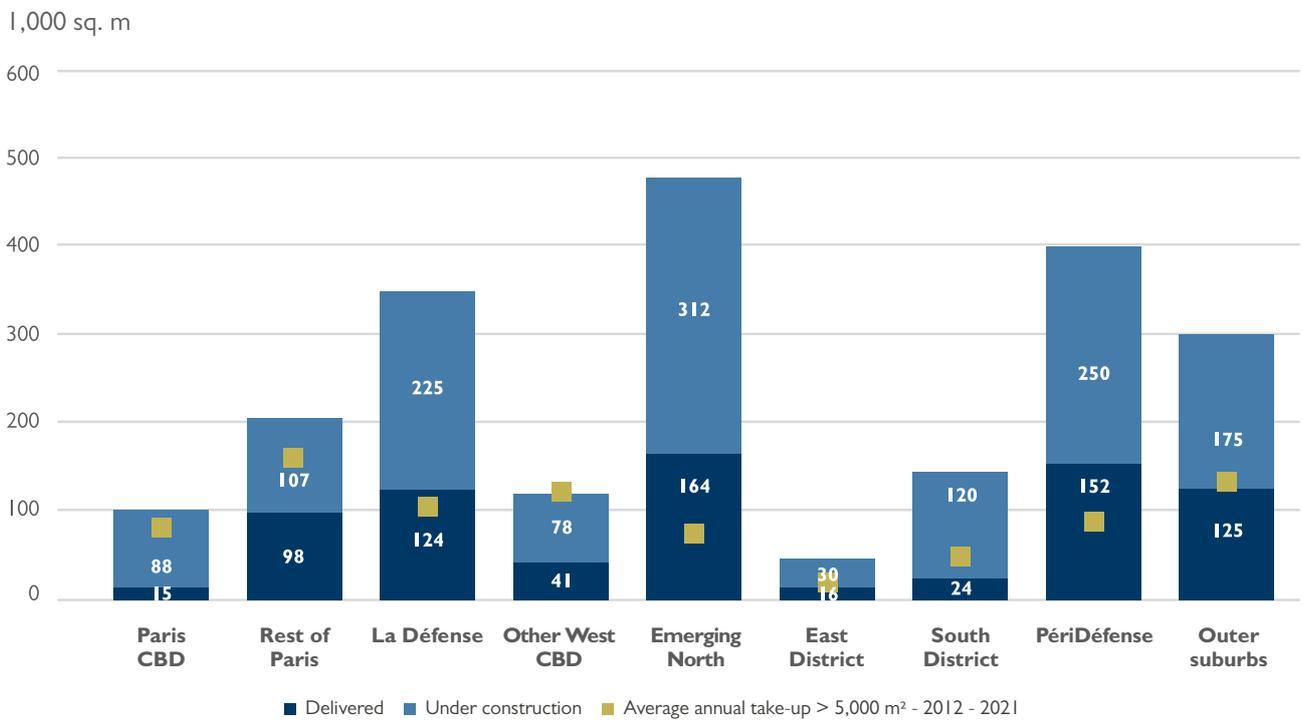
— Source : MBE Conseil

NEW LARGE-SURFACE SUPPLY GENERALLY CORRESPONDS WITH ESTABLISHED ABSORPTION LEVELS IN HALF OF ÎLE-DE-FRANCE SUBMARKETS

Based on the average rates for both new and second-hand large-space take-up over the past ten years, the rate of absorption of new supply of more than 5,000 sq.m will differ according to the various submarkets. Absorption looks likely to be slow in the three submarkets currently with the highest vacancy rates, unless there is a strong rebound in transaction activity. But in most other areas,

supply levels generally correspond with long-term take-up levels. These are insufficient in Paris and in the West CBD (excluding La Défense), with guaranteed new supply (either delivered or under construction) currently corresponding only to an average year of take-up.

New supply over 5,000 sq.m vs Average large-size take-up



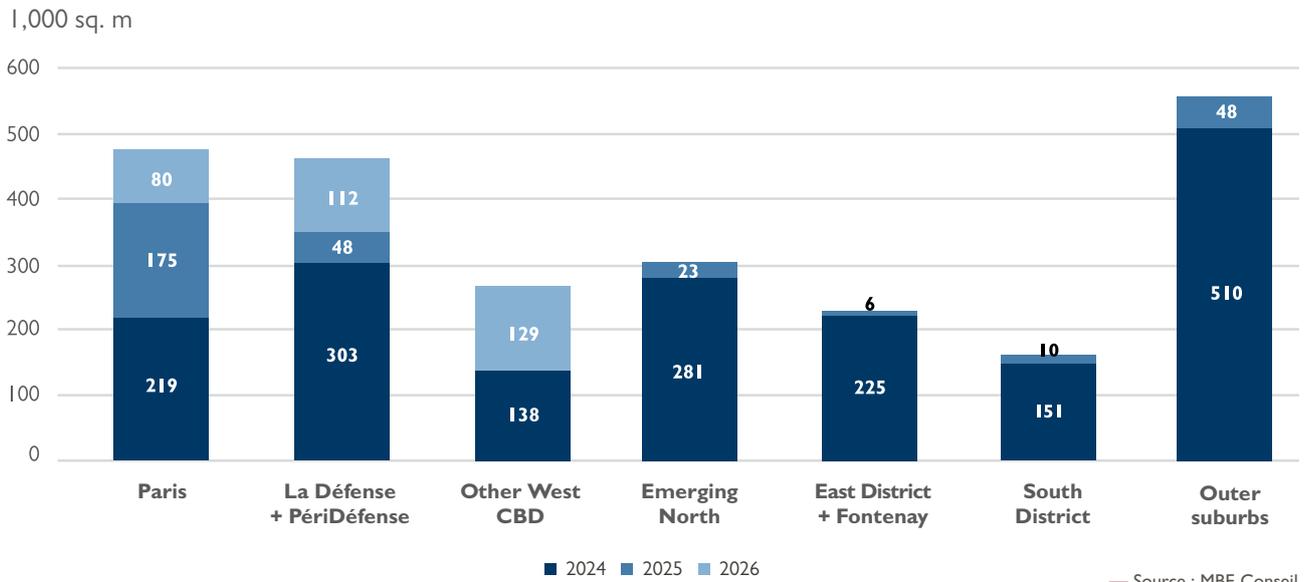
— Source : MBE Conseil

A GEOGRAPHICALLY HOMOGENEOUS DISTRIBUTION OF BUILDING PERMITS

In the outer suburbs, speculative starts have been rare and projects have generally remained at the permit stage, due to a lack of pre-letting activity. Elsewhere, permit-pending or permit-granted

levels have been relatively consistent among the main submarkets, while being higher in certain non-CBD Paris areas due to the large scale of certain projects.

Future supply over 5 000 sq.m: permits granted or pending

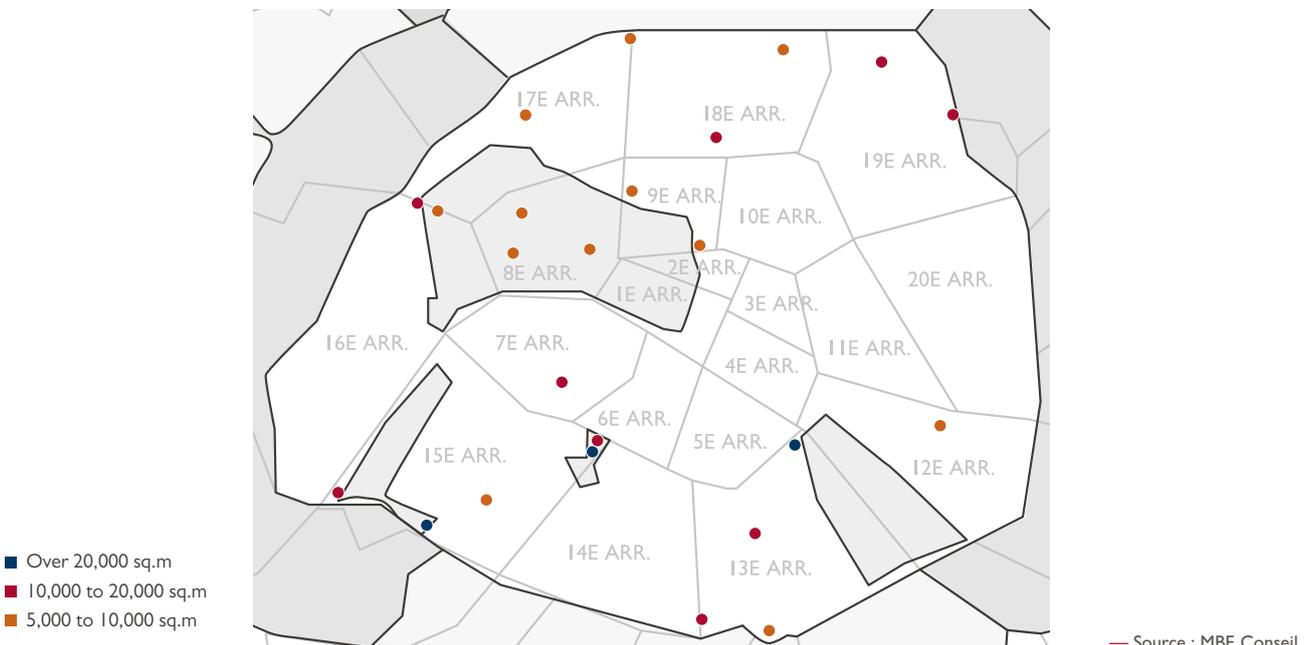


In Paris, abundant future supply in the 15th arrondissement

With one exception, the number of permits granted or pending has been fairly evenly distributed among the arrondissements of Paris. However, the 15th arrondissement has experienced more permit

activity and these tend to involve larger projects. Most notable among these are the Tour Triangle, as well as the refurbishment of the Tour Montparnasse and 4 place Raoul Dautry, which will be vacated by CNP Assurances in 2022. Conversely, few refurbishment projects are upcoming in the Paris CBD.

Permits granted or pending in Paris for surfaces of over 5 000 sq.m



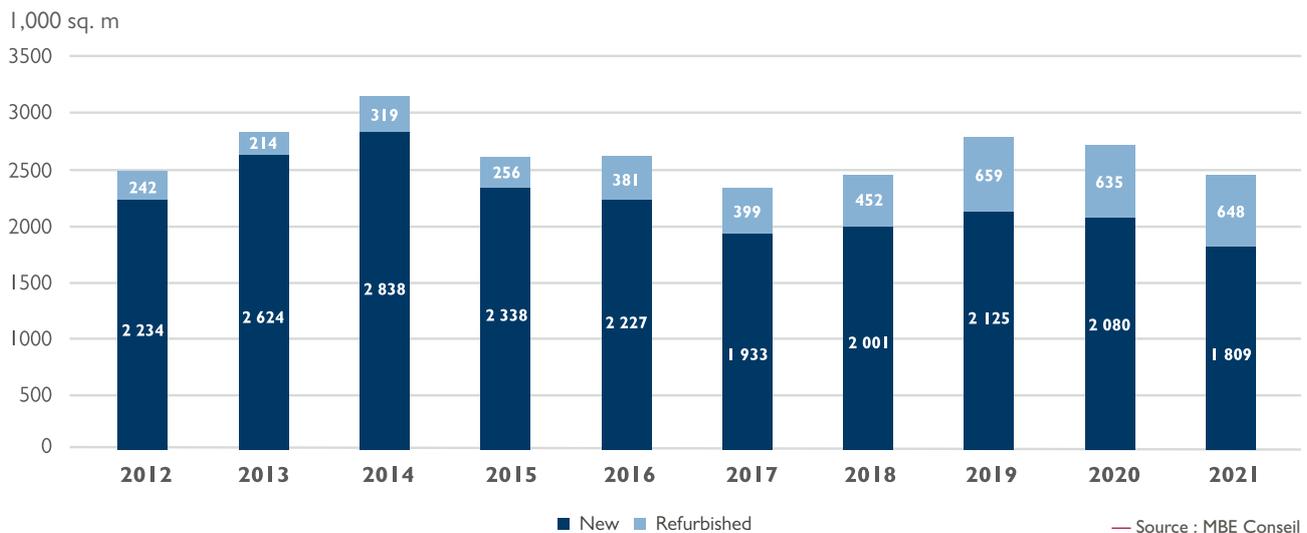
REDUCED NUMBER OF BUILDING PERMITS AND MORE REFURBISHMENT PROJECTS

The regional downward trend seen in 2020 of projects with permits being granted or pending accelerated in 2021, with a 9% decline. This decrease reflects the difficulties in obtaining permits in certain cities, at a time when the needs for creating housing and combating soil artificialisation are prioritized. There has also been an overall decrease in floor space since 2020, linked to the cancellation of several office projects, particularly in Paris, and to fewer office-related development projects within various ZAC programmes throughout Île-de-France.

The number of permits being issued for new building construction has also been decreasing. This has been in favour of refurbishment projects, which now represent 26% of permit-related office market activity. This increase in refurbishments is also due to a general refocusing of the market on the most established business districts, where land availability is scarce.



Future supply over 5 000 sq.m: permits granted or pending



Will there be a slowdown in office stock growth?

The decrease in office-related projects being granted permits should logically lead to a slowdown in the overall growth of stock in the coming years, especially since the number of official authorizations to demolish existing office space was significant in 2021. Thus, while construction authorizations exceeded demolition orders by between 1 and 1.1 million sq.m from 2017 to 2019, this was only 421,000 sq.m in 2021.

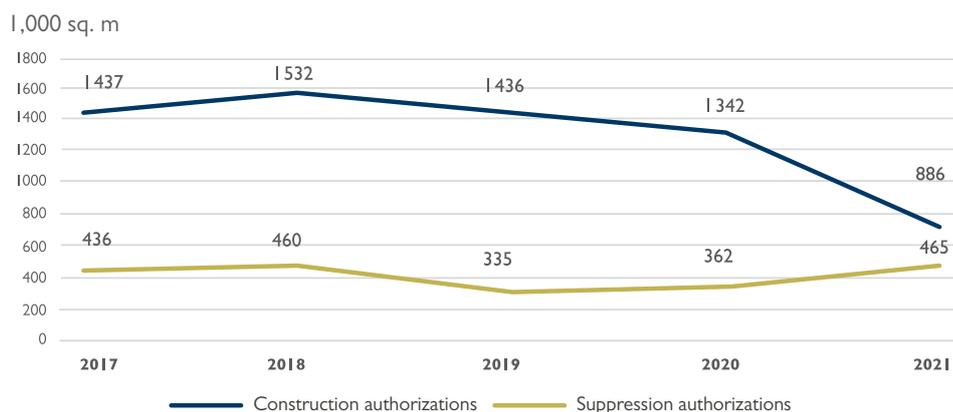
The conversion or demolition of obsolete or long-vacant office buildings should intensify in the years to come, driven largely by energy consumption concerns. A notable example of such activity in 2021 was the delivery of a housing programme in Nanterre after

the demolition of the Fontenelles Building, with 12,300 sq.m of office space being removed. In Suresnes, the 6,400-sq.m Suresnes 2000 Building was also demolished to make way for housing. The acquisition in 2021 by an international fund of the 7,400-sq.m Lindbergh Building in Rungis, which will make way for a logistics park is also notable, as is the purchase by Icade Foncière from Renault of the 64,700-sq.m Equinove Building in Plessis-Robinson, to be converted into housing in the near future.

Although it is still too early to speak of a shrinkage in regional office stock, the slowdown in its growth should have a positive long-term effect on the market, both by reducing the volume of vacant space and by aiding a market refocusing on higher quality assets.



Building permits - Office buildings - Ile de France



Note: the figures opposite take into account all building permits: both regarding future supply, pre-let offices or extensions of already occupied offices.



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Delphine Mutterer, Catella Property
Stéphane Guyot-Sionnest and Emmanuel Schreder, Catella France
Isabelle Ramond and Jérôme Kaplan, MBE Conseil

Catella Property
4 rue de Lasteyrie
75 116 Paris
France
Tél. : +33 (0)1 56 79 79 79
Fax : +33 (0)1 56 79 79 80
info@catella.fr
www.catella.com

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