

Europe - Real Estate/Property

Paris is not New York

Industry Overview

Take-up lower, except CBD areas

We invited experts from JLL France to discuss the Paris office market. Paris office take-up (in k sqm) was down 12% yoy in 2023, but the number of transactions was close to the average (-4%): large and medium-size transactions slowed (-12% yoy), as big corporates took a longer time to decide while small-sized transactions (<1k sqm) held up (-3% yoy only). Take-up in most sub-markets declined YoY and was below the long-term trend average; only CBD and its extensions were up or stable. Incentives in La Defense can go as high as >30% versus in CBD <20%. Green/prime requirement will likely keep driving demand back to inner-city locations, in JLL's view.

Overall vacancy rate should continue to rise in 2024 to c.9%

Given the weak take-up, the overall Paris office vacancy rate is 8.5%, the highest level in the past 10 years. However, different sub-markets vary: a majority of the Paris city loop has a vacancy rate of <5% (CBD <3%) and La Defense 15%-20%. A low vacancy rate implies good pricing power: prime rents in the Paris CBD and 5/6/7 areas are now hitting c.€1,000/sqm. JLL expects a similar level of take-up in 2024, depending on talent retention policies, economic realism as well as strained supply for quality space. As of now, JLL expects 1.4m sqm of supply to come to Paris office in 2024 (41% pre-let already) versus 400k sqm in 2025 (48% pre-let) and 200k sqm in 2026 (60%). With a big supply pipeline coming in 2024, JLL expects the vacancy rate to nudge up to c.9% in overall Paris in 2024. However, rent will likely remain high in the CBD given limited supply: JLL expects another 2% of rental growth in Paris CBD versus -2% in La Defense.

How much more value decline lies ahead?

JLL expects a 180-200bp yield primium on top of the government 10-year bond yield proper (it has c.4.25% prime office cap rate as of 4Q23). The yield gap between the prime office cap rate and the government bond yield was 170bps as of 4Q23, still some distance from the 10-year average (2010-19) of 220bps; however, it is already wider than the 2000-09 average of 110bps. The positive carry should increase the attractiveness of Paris office. In the past 18 months, overall Paris office value is c.-20%. JLL expects valuation in Paris CBD to trough in 2024 with limited downside risk (on the condition of a stabilising yield) but no visibility on peripheral areas (with more value decline likely to come given the very high vacancy rate).

Investment market: 2023 volume only comparable to 2009

JLL reported €6.8bn investment volume in Paris office in 2023, -56% yoy and comparable only to the 2009 market. Unlike the London office market, where investment volume in Q4 rebounded by 47% QoQ and +121% yoy, Paris 4Q investment volume remained sluggish at €1.1bn, -8% QoQ. According to JLL, Investors favour assets with a size of <€50m. Investment activities are concentrated in Paris South, with 25% of total volume, followed by Paris CBD 23%, while La Defense is 0%. JLL expects CBD to remain sought after and investment activities to pick up in 2024.

31 January 2024

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c.: circa

CBD: central business district

k sqm: thousand square metres

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Timestamp: 31 January 2024 01:30AM EST

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