The French property markets

2023 Review & 2024 Outlook

INVESTMENT

OFFICES

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SUMMARY

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The investment market

France

What we anticipated for 2023

- The economic context remains highly uncertain and **monetary tightening continues**.
- **Differences of opinion between buyers and sellers will continue to weigh on the performance of the French market**.
- The market will only become more fluid **if there is a more pronounced adjustment in values.**
- **Value-added strategies** will increase in pace, and there will be increased emphasis **on acquisitions of assets to be converted.**
- **Greater selectivity on the part of investors, particularly in the Greater Paris Region office market.**
- **Continued diversification** into alternative assets (residential, managed residential, healthcare, etc.) and regional markets.
- **Environmental issues** will have an ever-greater impact: selection criteria for buyers, financing of works to bring assets up to standard, etc.

What actually happened

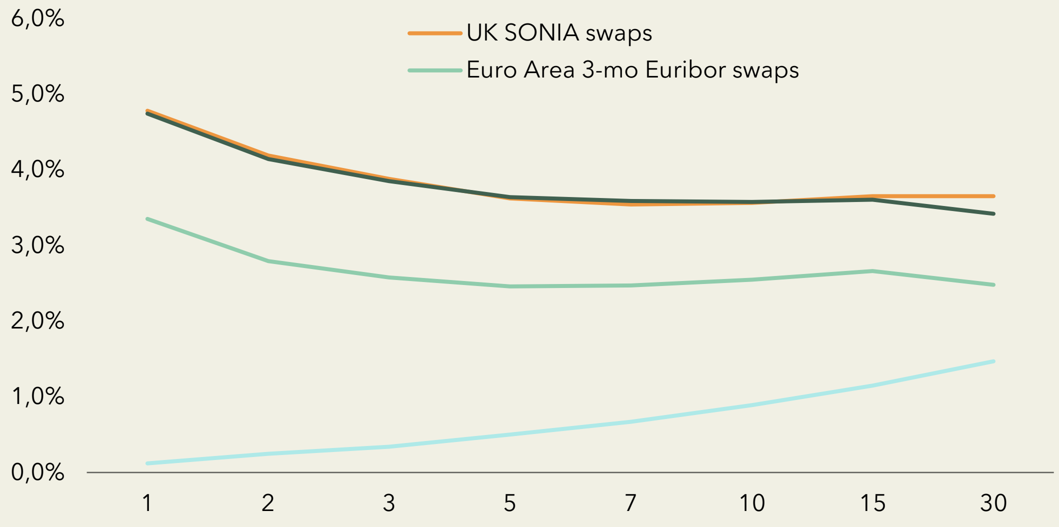
- The economic context remains highly uncertain and **monetary tightening continues**: the ECB raised its key rate by 200 basis points, but it has now stable.
- **The difference of opinion between buyers and sellers weighed heavily on the French market,** resulting in a sharp 53% drop in investment volumes in 2023.
- The market has not regained its fluidity, despite a **sometimes significant adjustment in values**, particularly in the office market. .
- **Value-added strategies** increased in pace, and increased emphasis on **acquisitions of assets to be converted** (amounts up by around 30% in 2023).
- **Greater selectivity on the part of investors, particularly in the Greater Paris Region office market,** where 60% of activity is concentrated in the Inner Suburbs.
- **Continued diversification** into alternative assets, as illustrated by the success of coliving and educational premises. Volumes fell in the regions (-42%), but less sharply than in Greater Paris Region (-60%).
- **Environmental issues** had an ever-greater impact: selection criteria for buyers, financing of works to bring assets up to standard, the tax and regulatory context ("Green Industry" law), etc.

Economic and financial outlook

The rise in central bank interest rates, unprecedented in both its scale and speed, and the tightening of financing conditions led many investors to rethink their exposure to property in 2023. Despite a macro-economic context that remains highly uncertain (armed conflicts, upcoming key elections, etc.), the easing of the bond markets and the stabilisation of key interest rates, before a possible fall in the second half of the year, should provide investors with a degree of visibility in 2024, gradually stimulating activity in the investment market.

The calm after the storm?

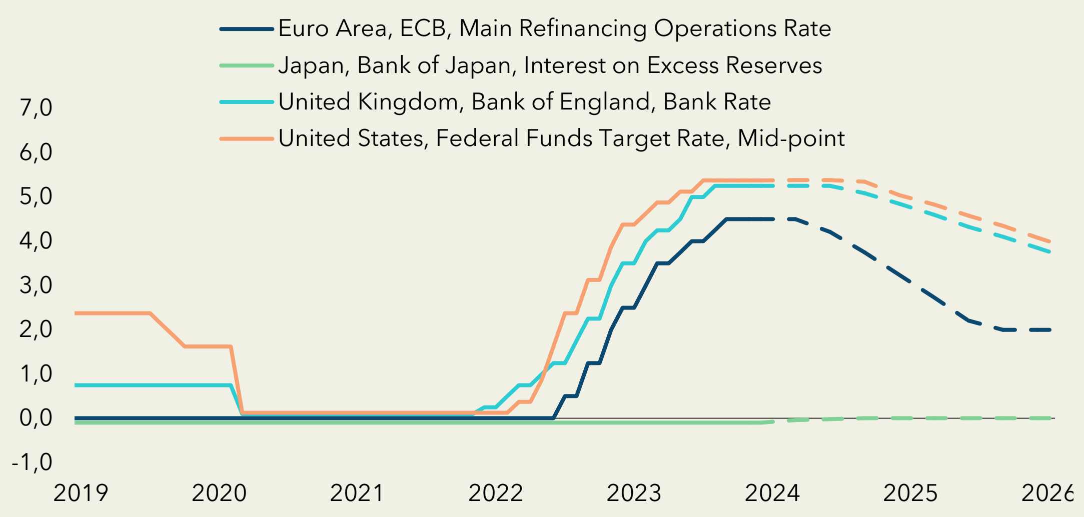
SWAP curves by year of maturity



Sources : Chatham Financial, Macrobond, Knight Frank Research

Central bank interest rate forecasts

As a %



Sources : Macrobond, Oxford Economics,Knight Frank Research

The investment market

International context

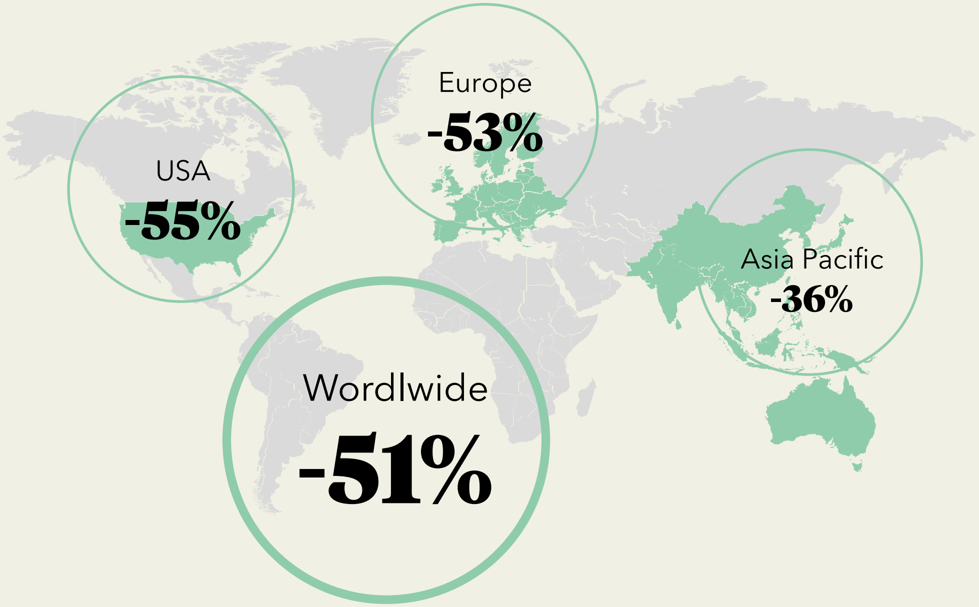
In 2023, the sums invested worldwide (corporate and residential property) fell by half compared with 2022. The scale of the decrease was comparable in Europe and the United States, while Asia-Pacific held up better (-36%).

Moreover, some Asian investors have been more active internationally, such as the Japanese, who were behind a number of large deals in North America, Australia and the UK. In Europe, the drop in volumes invested in France was similar to that seen on the continent (down 53% year-on-year). However, France's share increased slightly, narrowing the gap with the German market.

Volumes halved

Change in investment volumes between 2022 and 2023

All asset types combined, including residential

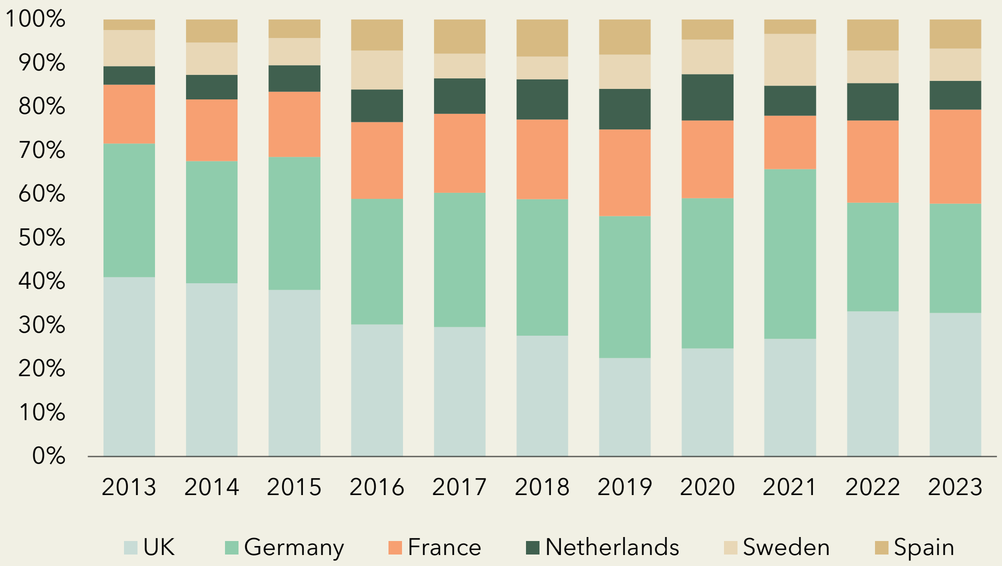


Sources : RCA, Knight Frank

France's share rises in an overall down market

Share of main markets in European investment volumes

All asset types combined, including residential



The investment market

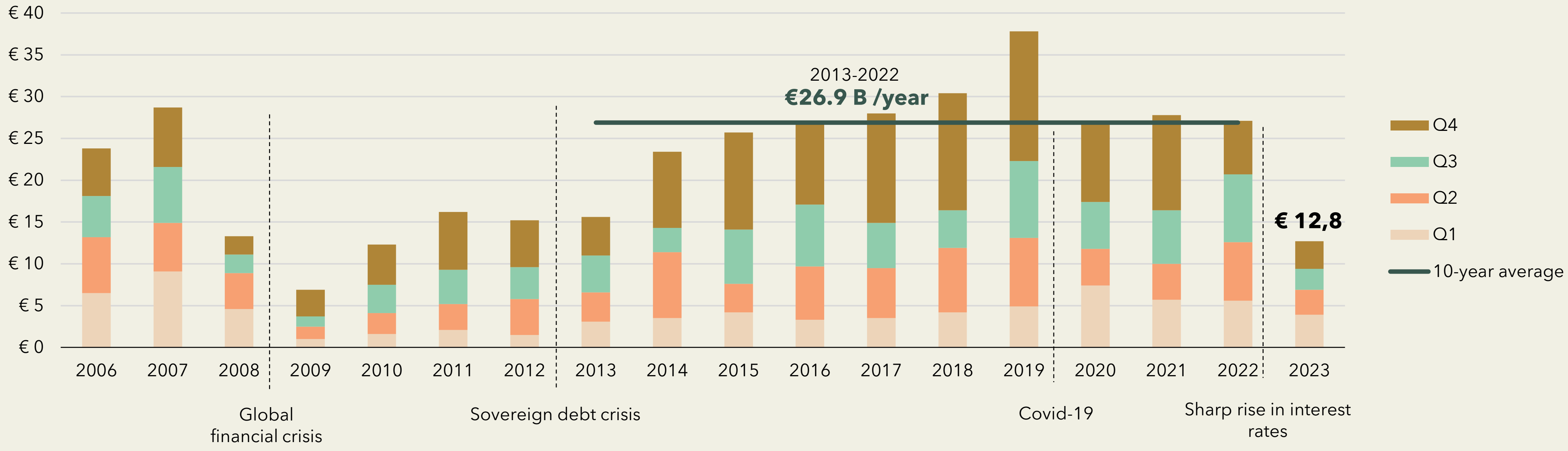
Lowest level since 2010

The last few months have not reversed the downward trend observed in France since the end of 2022. Although this is usually the most active time of year, only €3.3 billion was invested in the French corporate real estate market in the 4th quarter of 2023, compared with an average of €10.4 billion over the last ten years. In 2023, the amount invested in France reached almost €12.8 billion, a decrease of 53% compared with 2022 and the ten-year average. Such low levels have not been seen since 2010, at the height of the international financial crisis.

Investment volumes down 53%

Change in investment volumes in France

All asset types combined (offices, retail, industrial), in billions of euros



Source : Knight Frank

The investment market

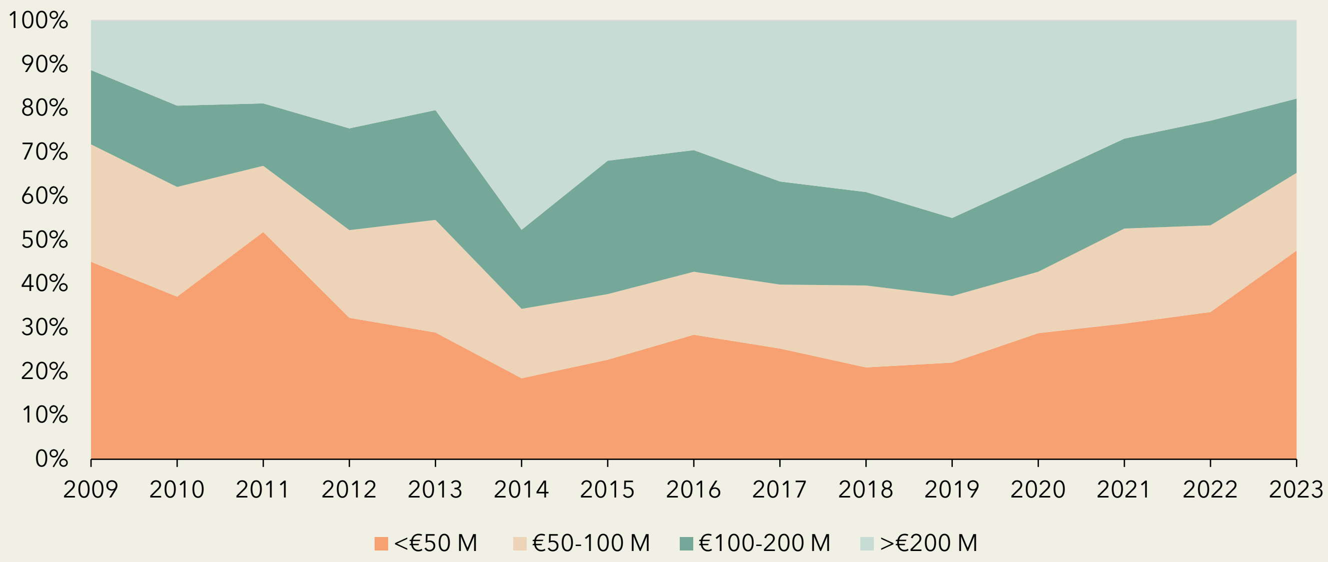
Ongoing decrease in the share of large transactions

The market for large transactions suffered the biggest drop, penalised by tighter financing conditions. Only 22 deals over €100 million were recorded in France in 2023, a threefold drop in one year. Despite a few high-profile deals, such as INGKA INVESTMENTS' purchase of the "Italie Deux" shopping centre and the "Apollo" office building, mega-deals were particularly rare. This is due in particular to the limited number of sales of large portfolios and the slowdown observed in certain key office hubs, such as La Défense. Finally, the decrease in large transactions can also be explained by the drop in metric values, which automatically affects prices.

Transactions over €100 million: only a third of volumes

Breakdown of volumes invested in France by amount bracket

All asset types combined (offices, retail, industrial)



Source : Knight Frank

2023 Vs 2022 key figures

22 **> €100 M**
(65 in 2022)

Total volume
€4.3 **B**
(12.5 in 2022)

-66 %
(vs 2022)

34 %
of volume
(47 % in 2022)

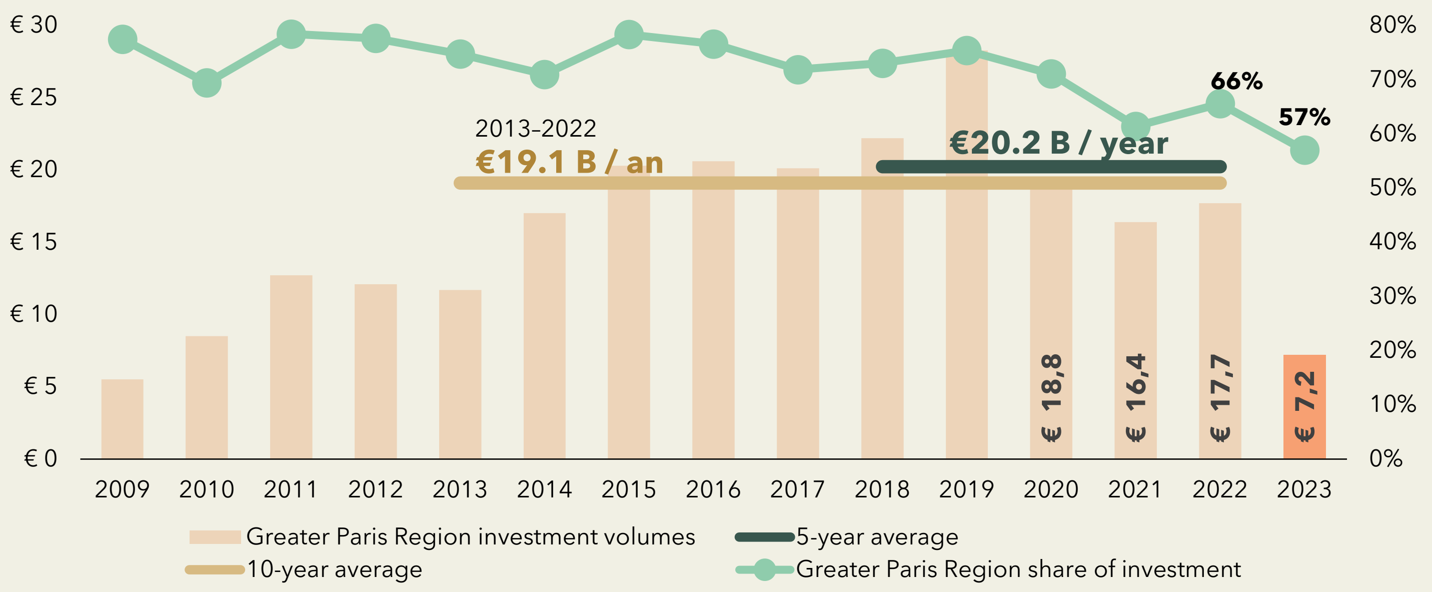
Sharpest decrease seen in the Greater Paris Region

Although the Greater Paris Region continues to account for the majority of investment volumes in France, its share fell even further in 2023 (57% compared with 66% in 2022). For all property types combined, the Greater Paris Region accounted for almost €7.2 billion of investment, a drop of 60% year-on-year, mainly due to the reduction in investment in the office market, the limited number of large transactions and the smaller number of foreign investors. In the regions, the fall was significant but less marked (-42%). Some markets and asset types continued to benefit from investors' diversification strategies.

Share at its lowest level

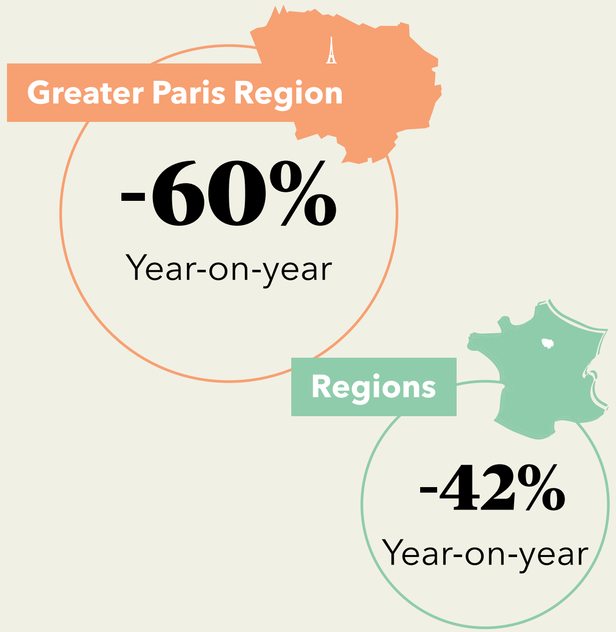
Change in investment volumes in the Greater Paris Region, all asset types combined

In billions of euros



2023 investment volumes

Change, all asset types combined



Source : Knight Frank

The investment market

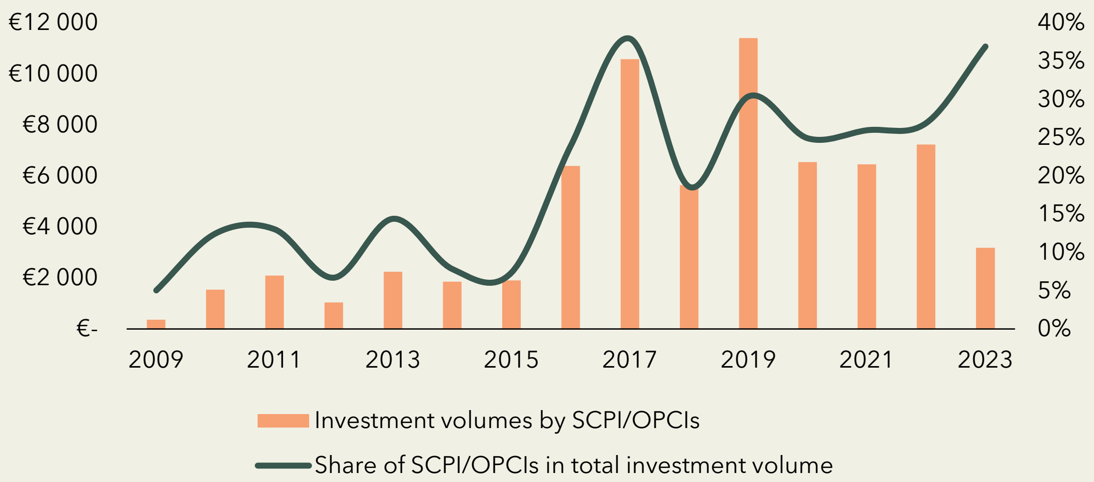
SCPIs, market leaders

In 2023, the acquisition volumes of SCPIs and OPCIs fell by 56% year-on-year, but their share rose from 27% to 37% of the sums invested in the French corporate real estate market. In particular, SCPIs completed a number of large deals in the office market ("Life" in the 13th arrondissement acquired by IMMOVALOR, "V" in Versailles acquired by ATLAND VOISIN, "Massy Campus" sold to REMAKE, etc.), retail ("Passy Plaza" in Paris acquired by AEW) and industrial ("Big Deal" portfolio sold to ALDERAN). Despite decreasing volumes and inflows, players in the real estate-related securities sector have not been idle. They have also stepped up the diversification of their assets through greater exposure to industrial assets and the creation of new vehicles, either diversified or dedicated to fast-growing asset classes such as education.

Investment volumes down sharply, but share up

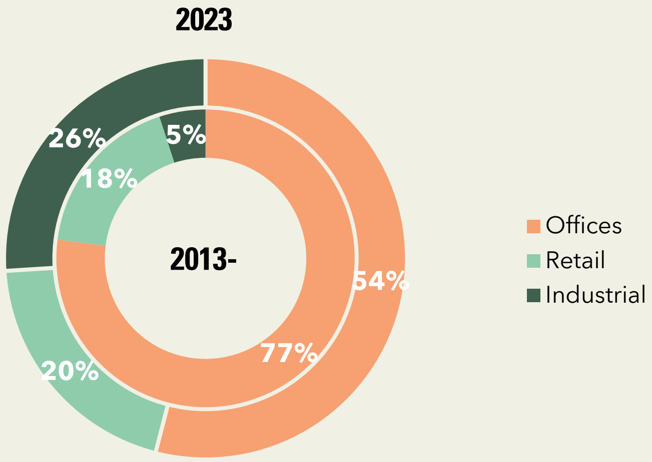
Change in investment volumes by SCPI/OPCIs

All asset types combined (offices, retail, industrial), in millions of euros



SCPI/OPCI investments by asset class

In France, % share of total volume



Source : Knight Frank

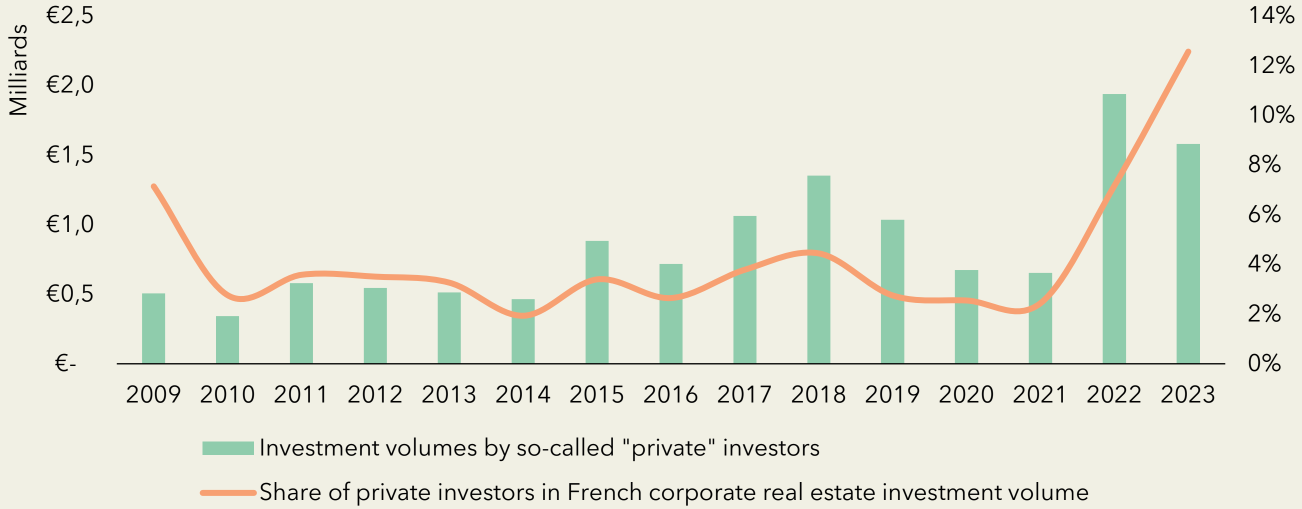
Private individuals, going against the tide

Private investors also made their mark last year, with their share rising sharply to almost 13% of volumes invested in corporate real estate in 2023, compared with 7% in 2022 and less than 3% in 2021. In contrast to the rest of the market, the sums invested in France in 2023 by private investors have fallen only slightly (-18% year-on-year). This trend can be explained by the fact that private investors are highly adaptable to current market conditions, with substantial equity capital and an opportunistic approach that takes advantage of the wait-and-see attitude of institutional investors and the drop in prices.

Up 70% on the ten-year average

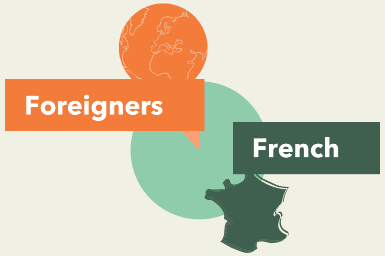
Volumes invested by private investors

All types of assets combined, in billions of euros



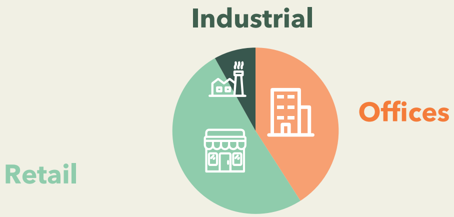
Origin of private investors

In 2023, as a %



Breakdown of private investment by asset class

In 2023, as a %



Source : Knight Frank

The investment market

The year of owner-occupier sales

Owner-occupier volumes increased dramatically in 2023, jumping 122% to a record €5.5 billion. This exceptional performance is largely attributable to luxury brands and companies, which accounted for almost 70% of all owner-occupier volumes in France in 2023. Logically, these volumes are concentrated in Paris (84%), with a significant retail component (37%) resulting from the acquisition of mixed-use properties on the capital's prime streets. Outside the luxury sector, there have also been several large owner-occupier delas in the Paris office market, such as CMA-CGM's purchase of its headquarters at 11 avenue Hoche in the 8th arrondissement, and the more recent purchase by 3F of Parc Avenue in the 13th arrondissement.

Over-representation of luxury goods

€5.5 B
Owner-occupier volumes in 2023 in France

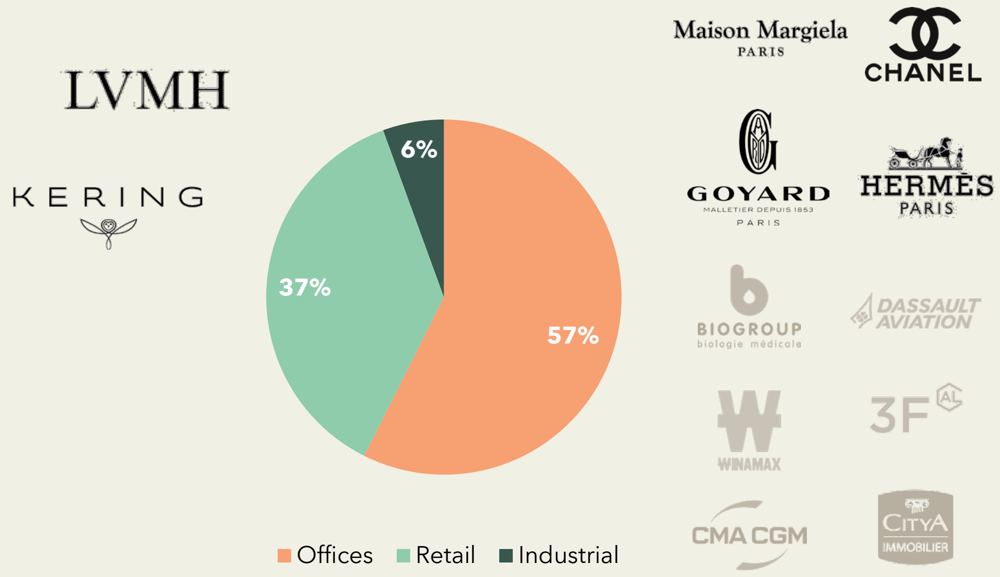
+ 122% vs 2022

69 %
Share accounted for by luxury players

84 %
Paris share

Breakdown of owner occupier sales in 2023 in France

By asset class, as a % and examples



Source : Knight Frank

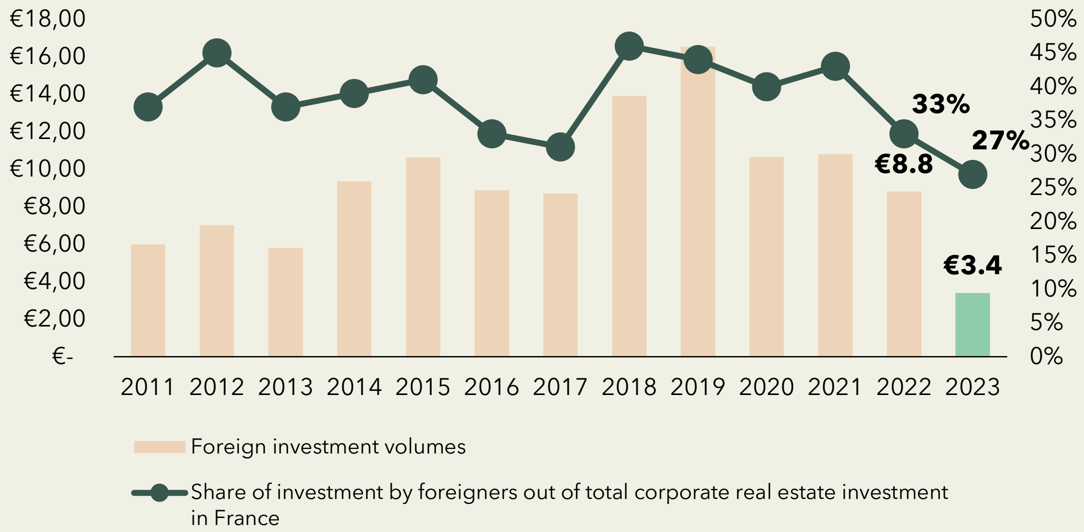
Far fewer foreign investors

Foreign investors, who traditionally account for between a third and 45% of investment in the French market, saw their share fall to 27% in 2023. Across all asset types, their investment volume fell by more than 60% compared with 2022 and has even almost halved compared with the peak in 2019. Nonetheless, foreign investors were behind the two biggest deals of 2023 (INGKA INVESTMENTS' purchase of the "Italie Deux" shopping centre and the "Apollo" office building, and the sale of the "Sequana" tower in Issy-les-Moulineaux to VALESCO). At the end of the year, they also made a name for themselves with the acquisition of large logistics portfolios ("Daisy", "Scott").

Less than 30% of investment volumes

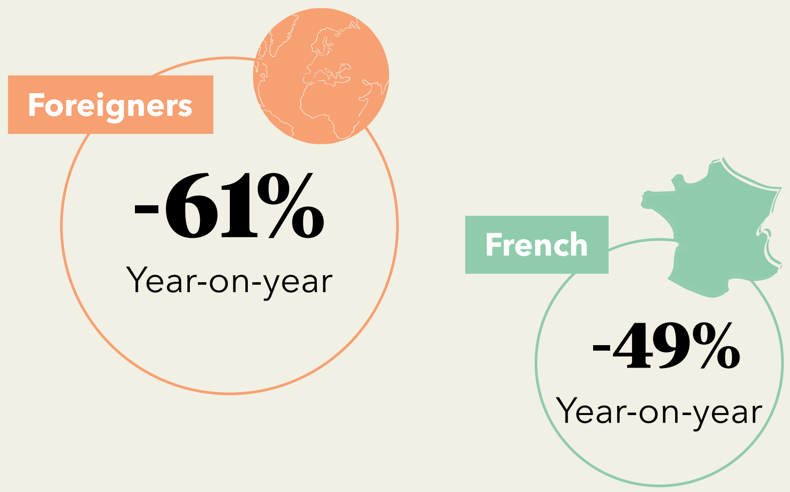
Change in investment volumes by foreign investors in France

All asset types combined, in billions of euros



Change in investment volumes between 2022 and 2023

Change, all asset types combined in France



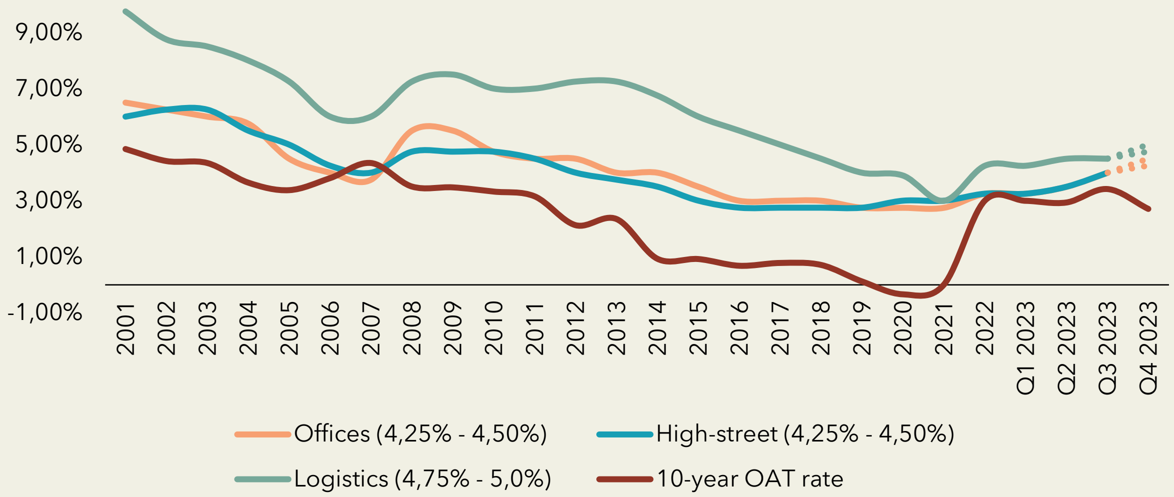
Source : Knight Frank

Stabilisation in sight?

Despite a macro-economic context that remains highly uncertain (armed conflicts, upcoming key elections, global economic slowdown, etc.), the easing of inflation and bond rates should provide investors with greater visibility. After a sharp upward shift in prime yields in 2023 (+75 to +125 basis points in the various corporate real estate categories), values could find their equilibrium point, helping to kick-start a revival of activity in the French real estate markets.

Flattening yield curve provides greater visibility

Change in prime yields in France



Sources : Knight Frank / Banque de France

Change in prime yields

	Year-on-year change	10-year change
Offices	+30%	+5%
Retail	+30%	+15%
Logistics	+10%	-35%

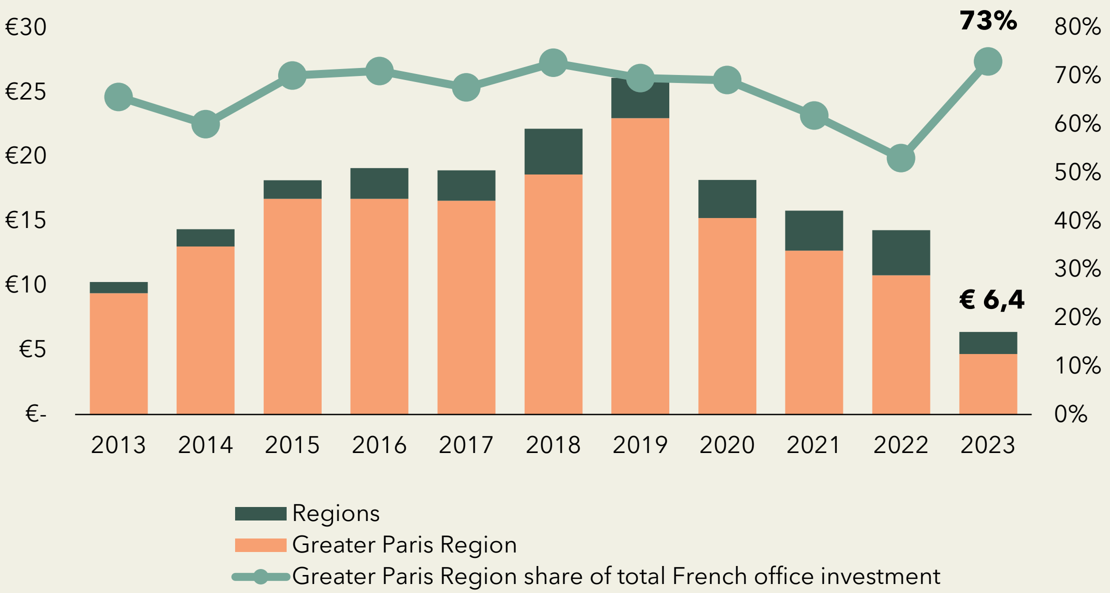
Offices: still more than half of all volume

With €6.4 billion invested in the French office market in 2023, volumes fell sharply by 56% compared with 2022. The decrease was also 56% in the Greater Paris Region, but was slightly lower in the regions (-52%), even though the very limited number of large transactions there also significantly reduced investment volumes. In total, only ten office transactions in excess of €100 million were recorded in 2023 in France, compared with 33 in 2022 and 66 in 2019. Only one such deal was signed outside the Greater Paris Region: AEW's purchase of "Welink" in Lyon, which remains the leading regional city with just over €320 million invested, compared with €1.1 billion in 2022. There were also several significant deals in Toulouse ("Riverside" acquired by LA FRANÇAISE) and Marseille ("Eko Active" acquired by UNOFI).

€6.4 billion invested in the French market in 2023

Change in office investment volumes

In France, in billions of euros

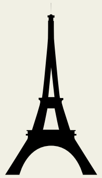


Source : Knight Frank

2023 office investment volumes

Top 3 French cities

Lyon
€322 M
- 71 % year-on-year



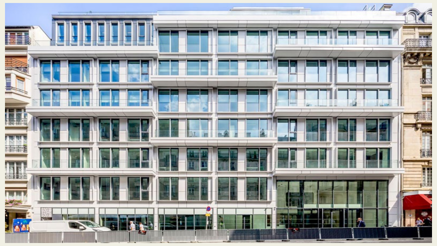
Paris /IDF
€4.7 B
- 56 % year-on-year

Lille
€229 M
- 47 % year-on-year

Exemples of 2023 office transactions

VALESCO GROUP
TOUR SEQUANA
ISSY-LES-MOULINEAUX (92)

COVÉA
VIVACITY
PARIS 12th



CDC
CORTIS
PARIS 17th

IMMOVALOR
LIFE
PARIS 13th

AEW
WELINK
LYON (69)

ATLAND VOISIN
« V » building
VERSAILLES (78)

LA FRANÇAISE / EDF INVEST
MEMPHIS
PARIS 13th

OREIMA
8-10 RUE ROQUEPINE
PARIS 8th

COVÉA
23 RUE DE L'AMIRAL D'ESTAING
PARIS 16th

REMAKE AM
CAMPUS MASSY
MASSY (91)

Source : Knight Frank

Almost no transactions in La Défense

The investment market

Paris accounts for 60% of investment

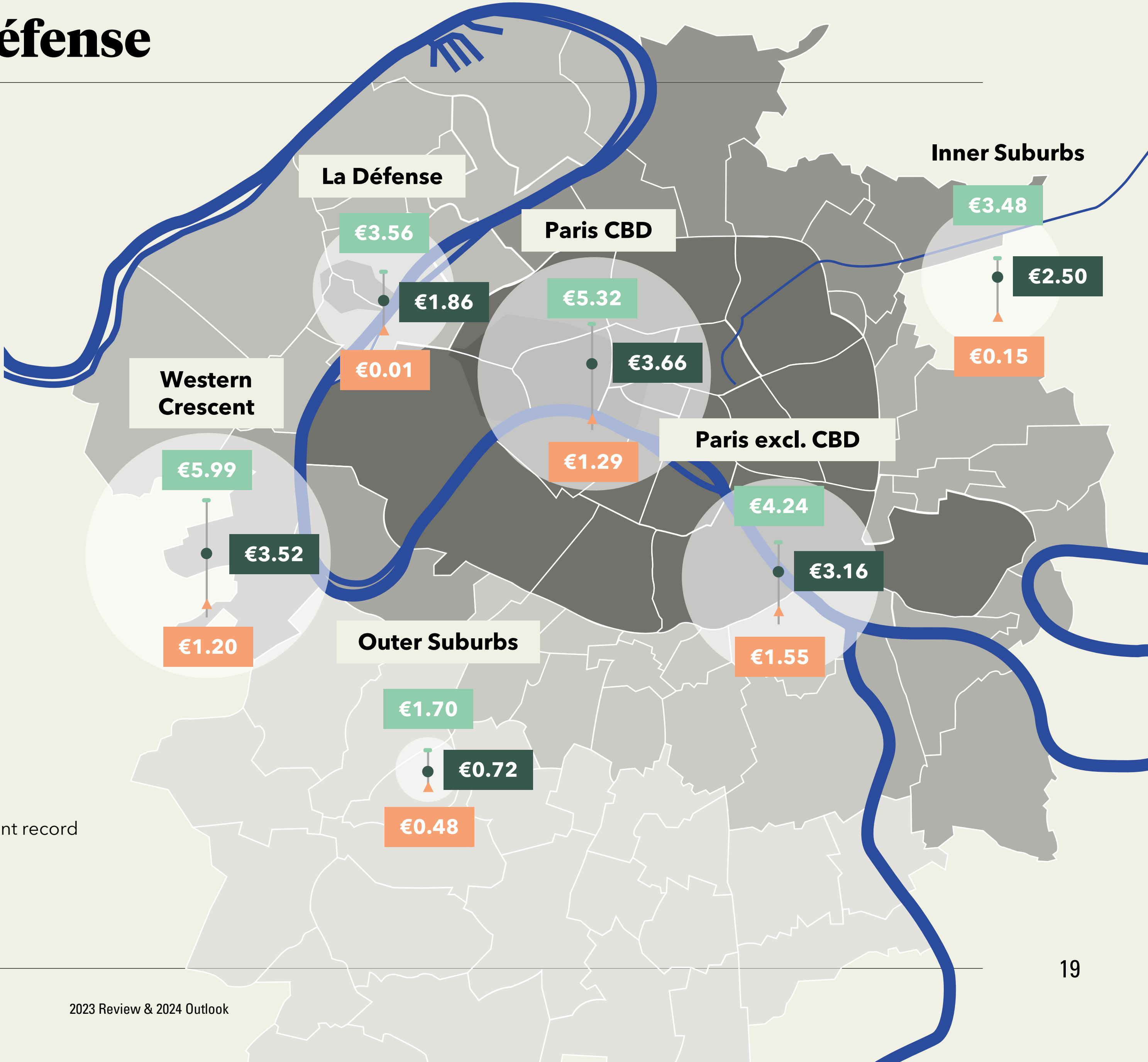
Office investment by geographic sector

In the Greater Paris Region, in billions of euros

The Greater Paris Region remains by far the most important office market in the country. The capital region has even seen its share increase from one year to the next, rising from 53% in 2022 to 73% in 2023, with 4.7 billion euros invested in offices.

However, this should not hide the fact that the Greater Paris Region market is highly polarised, with sectors benefiting from strong demand from users on the one hand, and areas suffering from a more or less significant reduction in lease signings and a sharp rise in vacancy on the other. In 2023, most of this activity was concentrated in Paris, with the capital accounting for 60% of the volume invested in office space in the Greater Paris Region. Despite continuing to be very attractive, the CBD was much less buoyant than in 2022, with a 57% drop in volumes due to the overall financial context, but also to fears and questions raised by the revision of the bioclimatic town planning regulations.

The drop was much greater in other sectors. Around ten transactions totalling almost €150 million were recorded in the Inner Suburbs, while the La Défense market came to a complete standstill.



10-year investment record

2023

10-year average

Source : Knight Frank

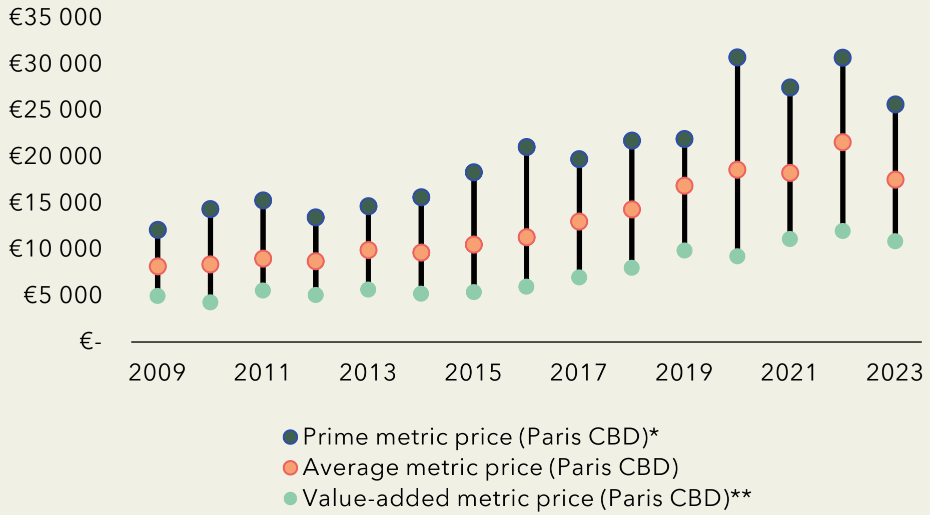
Sharp price correction

Metric office prices in the Paris CBD (excluding owner-occupier sales) softened in 2023, with an average fall of almost 20%, although the value is still higher than in 2019. The correction is expected to continue in the first half of 2024, although it is difficult to measure the exact extent of the forthcoming decrease. Outside Paris, prices have fallen more sharply. Average prices fell by more than 25% on average in the three Inner Suburb sectors, reflecting investors' desire to reallocate a risk premium to market sectors with weaker fundamentals. Occasionally, some deals achieved prices barely above the value of the land. That said, this analysis needs to be put into perspective, as it is necessarily limited by the small number of transactions completed in 2023.

Limited drop in the CBD

Change in metric prices in Paris CBD

In €/sq m

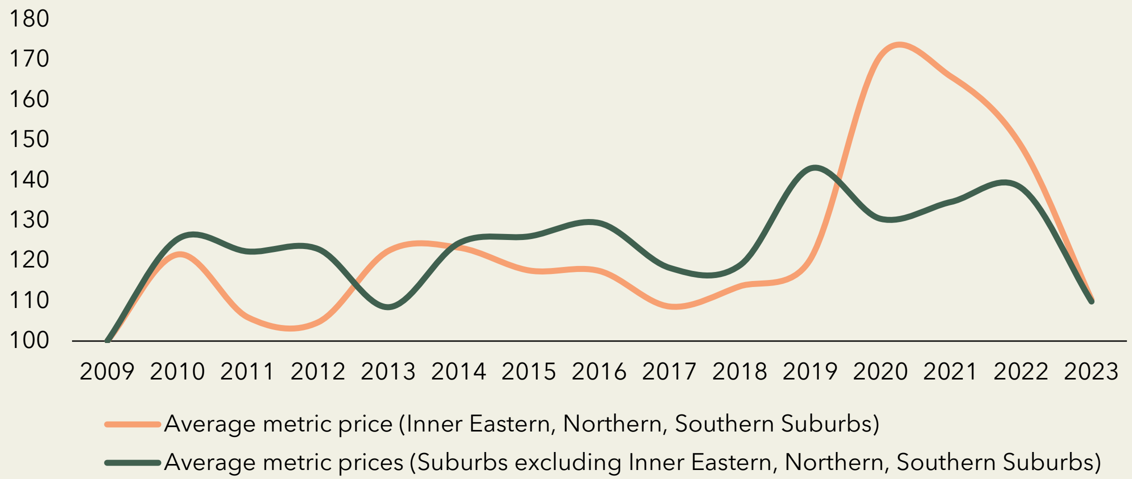


* Average of the 5 highest metric prices
** Average of the 5 lowest metric prices

Highly contrasted trends by geographic sector

Change in metric prices in the Greater Paris Region

Index 100 = 2009



Source : Knight Frank

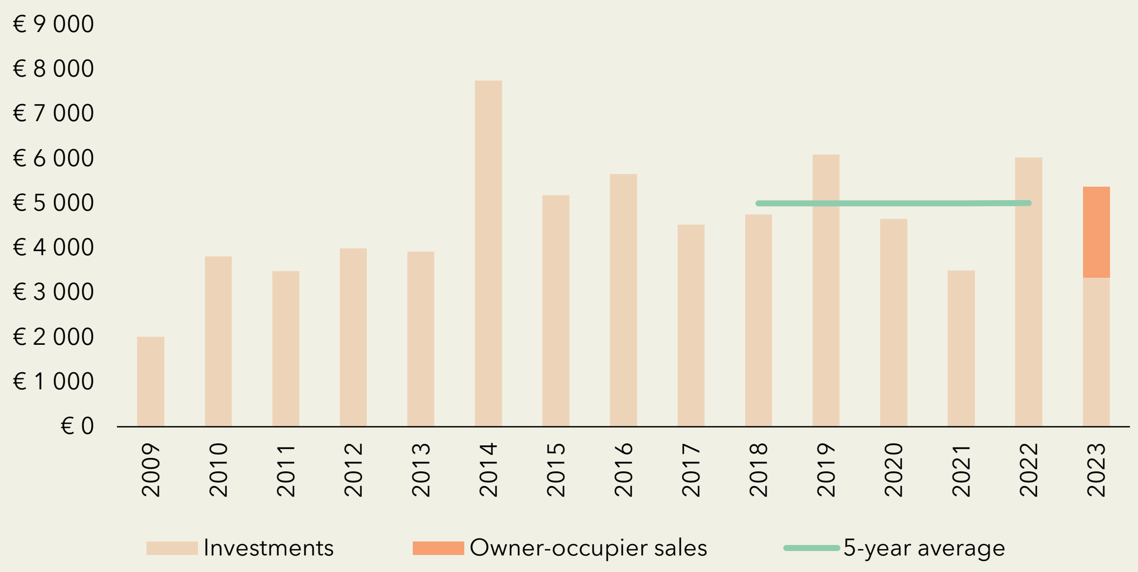
Retail: a respectable result

With €3.3 billion invested in 2023, the French retail market is down 45% year-on-year, a less dramatic decrease than for offices and industrial property. Furthermore, last year was an exceptional year for owner-occupier sales, illustrating the importance of property in the asset management and commercial strategies of major international companies. The value of these owner-occupier sales exceeded €2 billion in Paris, thanks to acquisitions made on behalf of LVMH and KERING on avenue des Champs-Élysées and on several major luxury Parisian streets (rue François 1er, avenue Montaigne, etc.). When these transactions are added to 'traditional' investment volumes, over €5.4 billion was spent on retail premises in France in 2023, equivalent to the ten-year average.

A decrease that needs to be put into perspective

Change in retail investment volumes in France

In billions of euros, all retail formats combined



Source : Knight Frank

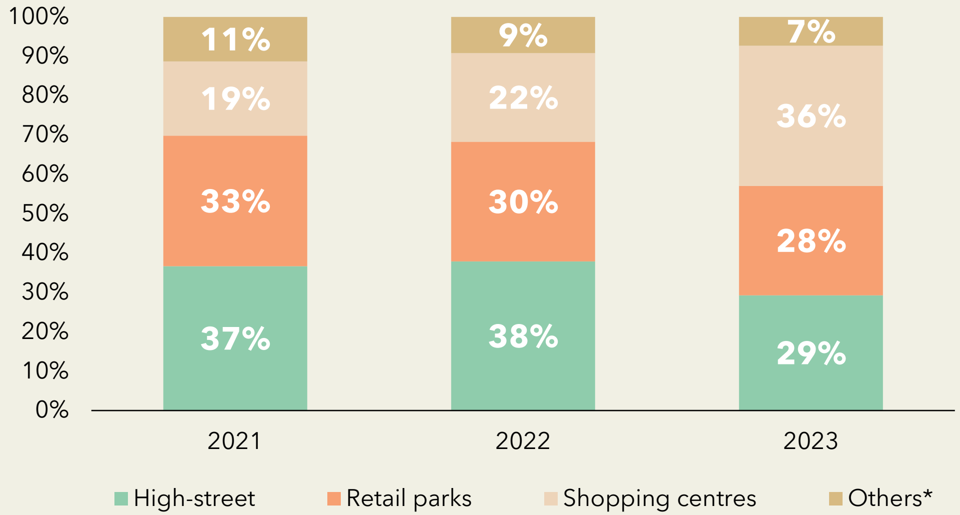
Retail: a fairly balanced market

Excluding owner-occupier sales, 2023 saw a drop of almost 60% in investments in high street retail, which saw their share fall from 38% in 2022 to 29% in 2023. By contrast, the share of shopping centres has risen sharply (36% in 2023, up 14 points year-on-year), driven in particular by sales by French property companies and insurers. A number of hypermarket galleries and shopping centres located in the heart of medium-sized towns were also sold ("Place d'Armes" in Valenciennes, assigned to the GROUPE STRAUSS). The proportion of shopping centres has not been so high since 2020. This increase, and the variety of property types sold in 2023, are a tangible sign of investors' renewed confidence in this market category, in which they are prepared to reinvest provided the asset has good fundamentals and the value has been sufficiently corrected.

Shopping centres back in the spotlight

Retail investment volumes by asset type

In France, as a % of total



Factory outlets, hypermarkets and supermarkets, non-divisible portfolios

Source : Knight Frank

Geographic breakdown of retail investment volumes

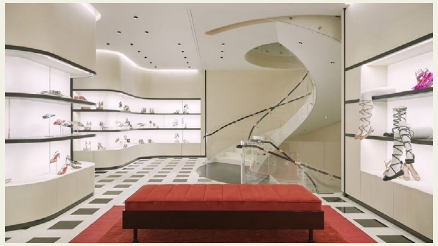
In France, as a % of total

	2023	2022
Paris	44%	36%
Greater Paris Region other	12%	22%
Regions	43%	39%
Non-divisible portfolios	1%	3%

Examples of 2023 retail transactions

INGKA
ITALIE DEUX
PARIS 13th

FREY
POLYGONE RIVIERA
CAGNES-SUR-MER (06)



KERING
35-37 AV. MONTAIGNE (VALENTINO)
PARIS 8th

MATA CAPITAL
PORTFOLIO OF FACTORY OUTLETS
FRANCE

AEW
PASSY PLAZA
PARIS 16th

UNITY
1-3 RUE DU CHEVALIER SAINT-GEORGES
PARIS 8th

GROUPE STRAUSS
PLACE D'ARMES
VALENCIENNES (59)

ETIXIA
BAY 1
TORCY (77)

FINAMAS
62 AVENUE DES CHAMPS-ÉLYSÉES
PARIS 8th

GROUPAMA GAN REIM
HÔTEL DE COULANGES
PARIS 4th

Source : Knight Frank

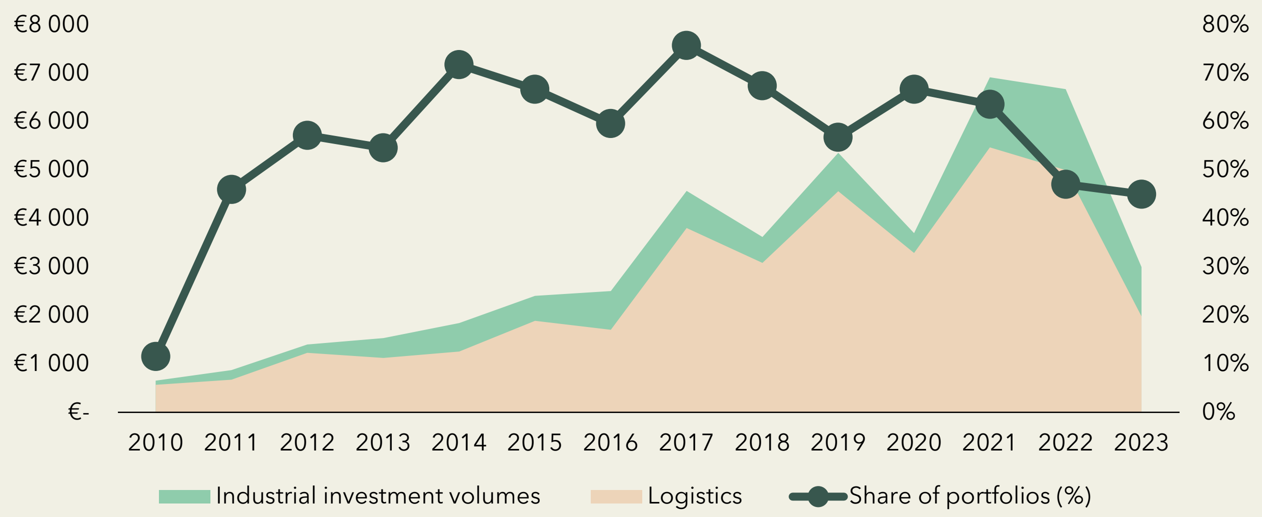
Industrial: sharp decrease but sustained interest

In 2023, the scale of the drop in investment in the industrial market was comparable to that in the office market. With €3 billion invested last year in France, volumes were 55% lower than in 2022. The drop was less marked for light industrial premises (down 39%) than for logistics warehouses (down 63%), which were penalised by the decrease in foreign investment and in the number of large portfolios sold. However, a number of good deals were completed at the end of the year, including AXA IM's purchase of the "Olympe" portfolio and the sale of the "Daisy" portfolio to BOREAL IM and CADILLAC FAIRVIEW. The decrease in volumes invested can also be explained by the absence of large unit transactions (only one in excess of €100 million in 2023, compared with six in 2022). Another key factor to consider is the influence of the target of zero net land artificialisation, which imposes constraints on new developments and may have the effect of restricting the opportunities for new products to be bought. On the other hand, this limits the supply available for letting, and therefore enables investors to rely on sustainable rental growth.

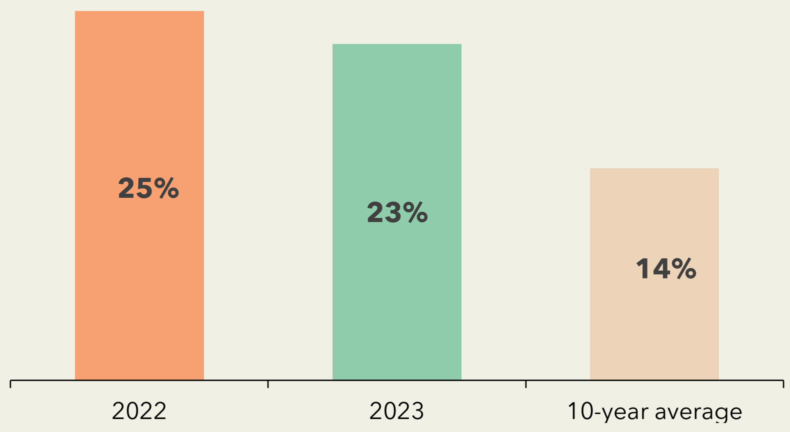
Back to 2016 levels

Change in industrial property investment volumes

In France, in billions of euros



Share of industrial assets in total corporate real estate investment volume in France



Source : Knight Frank

Spotlight on alternative assets

France

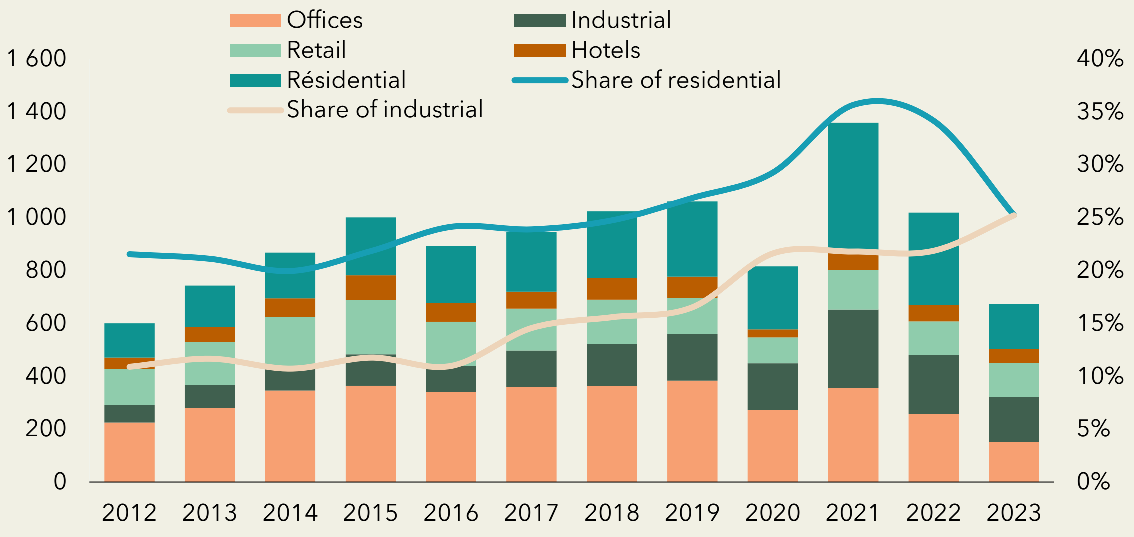
Diversification remains a priority

The trend towards diversification of investment strategies continued in 2023, as investors explored a wider range of possibilities and gradually reduced their overexposure to certain 'traditional' asset classes. In 2023, offices accounted for just 23% of global investment volumes, compared with 40% ten years earlier. On the other hand, the industrial and residential property sectors, despite a sharp fall in volumes last year, saw their share increase significantly in 2023 (50% of amounts invested worldwide) compared with the early 2010s.

Worldwide

Breakdown of volumes invested worldwide by asset type

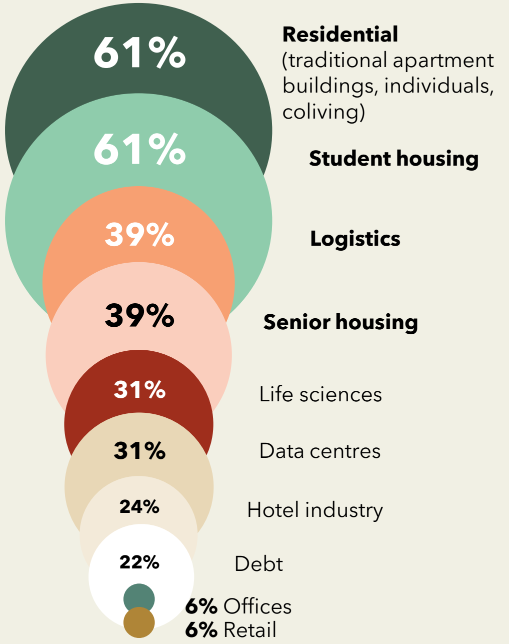
In billions of dollars



Sources : Real Capital Analytics / Knight Frank

In Europe

What will the most attractive asset classes be for investors over the next five years?



Source: Knight Frank. Survey conducted in Q3 2023 among 51 investors managing a total of €67 billion of residential assets in Europe.

Diversification remains a priority

Property types other than offices, retail and industrial came to the fore in the French property market in 2023, confirming that investors are continuing to diversify. Some of these diversification assets even saw investment volumes increase or remain virtually stable from one year to the next (coliving, hotels, education, etc.).

Breakdown of volumes invested in France, by asset type

Share of total volume (%)

	2019	2023
Offices	58%	37%
Retail	13%	18%
Industrial	12%	16%
Residential	9%	13%
Healthcare	2%	3%
Hotels	6%	14%

Source : Knight Frank

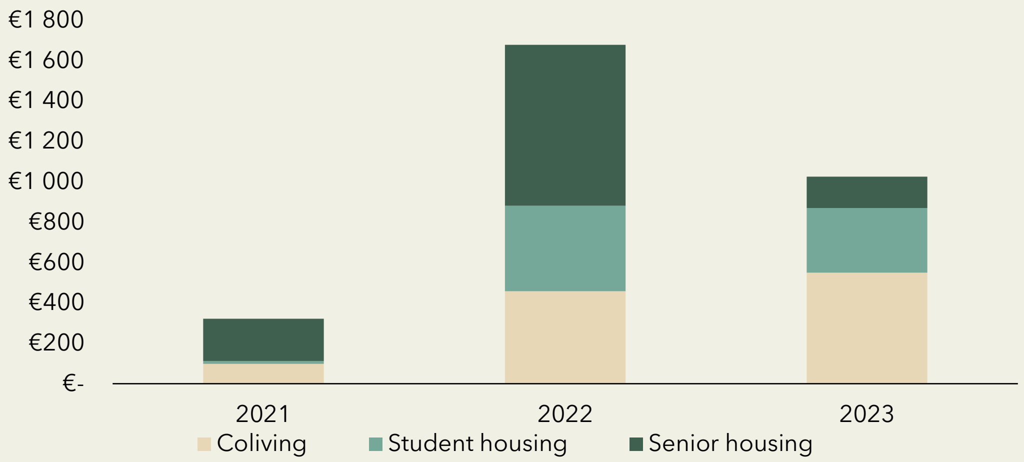
Coliving, a mainstay of managed residential property

In the residential market, the importance that investors attach to diversifying their portfolio and to new uses is illustrated by the dynamism of coliving, a sector that continues to grow. With more than €550 million invested in this market in France in 2023 (+20% year-on-year), coliving accounted for more than half of all investment in the managed residential sector. This success contrasts with the slight decrease in the student housing market and, above all, the sharp drop in investment in the senior housing market.

The success of coliving contrasts with the sharp drop in senior housing

Change in investment volumes in managed residential property

In France, in millions of euros



Source : Knight Frank

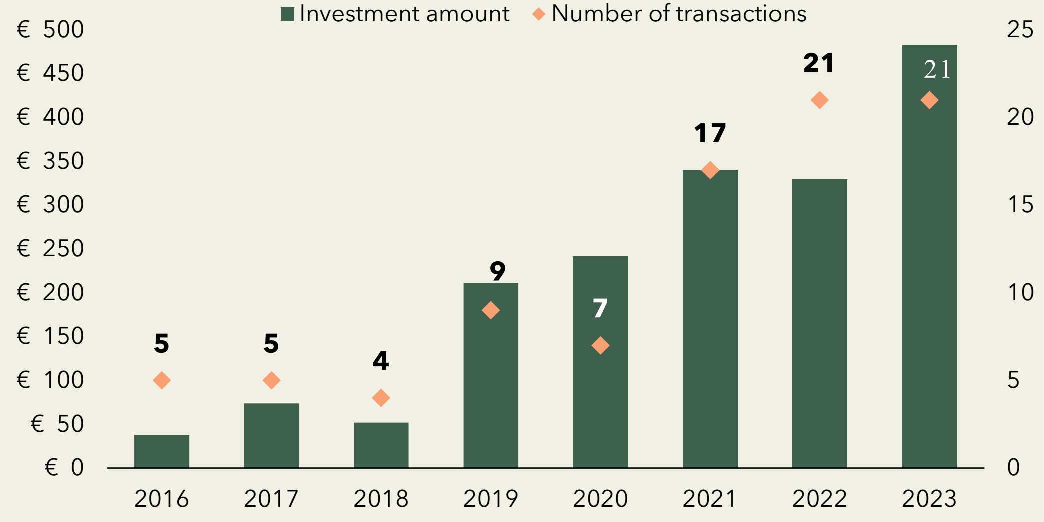
A record year for education

With 21 transactions totalling almost €500 million invested in France, 2023 was a record year for educational premises, reflecting an increase of almost 50% on the already high figure for 2022. This sector should continue to perform well in 2024, driven by rental needs generated by the rise in student numbers in the private sector (+3.3% in 2022-2023, compared with a fall of 3.1% in the public sector) and investors' search for secure, alternative assets to diversify their holdings. While the Greater Paris Region remains the largest market, the creation of campuses outside this region and investors' desire to diversify their portfolio geographically are also driving up volumes in the regions, particularly in Rhône-Alpes.

+ 106 % compared to the 5-year average

Change in investment volumes in the education property market*

In France, in millions of euros



Source : Knight Frank / * Private higher education

89
Investment transactions since 2016

€1.2 billion invested

50 % in **Paris**

37 % in the **Greater Paris Region**

Lyon: Leading regional market

36 % for SCPI / OPCIs

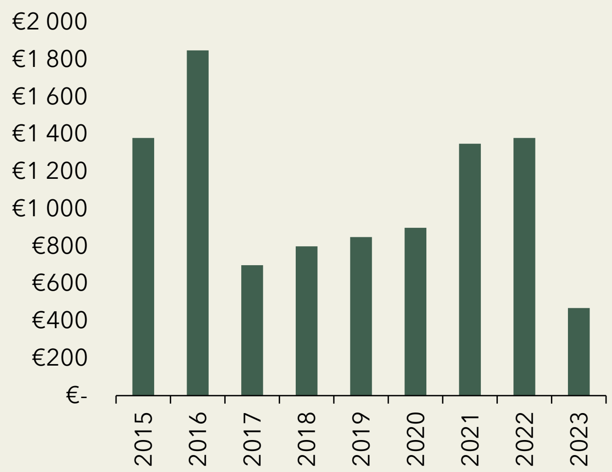
Healthcare real estate struggling, hotels confirm their position

The hotel sector was one of the most dynamic in the French property market in 2023. Against a backdrop of rising occupancy rates and RevPAR (+15% in France, according to MKG), and with the market likely to remain buoyant in 2024, acquisitions of hotels and serviced apartments totalled almost €2.1 billion in France in 2023, a slight fall of 9% year-on-year. On the other hand, the volume invested in healthcare real estate fell sharply. It should be noted, however, that the year was notable for PRIMONIAL REIM's purchase of ICADE's stake in ICADE SANTÉ.

Healthcare: volumes down threefold

Change in investment volumes in healthcare real estate

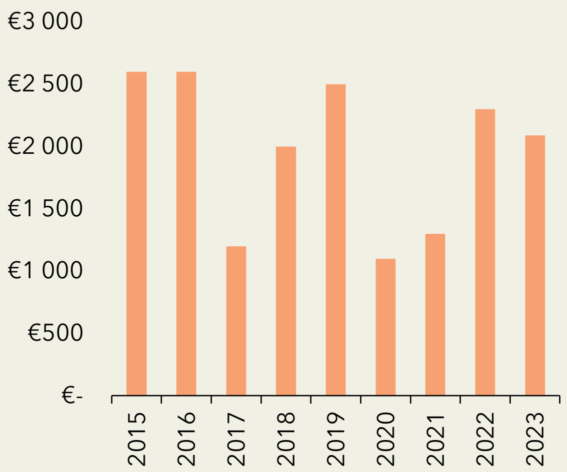
In France, in millions of euros



Hotels: a very dynamic year

Change in volumes invested in the hotel sector

In France, in millions of euros



Source : Knight Frank

Conversions: continued interest

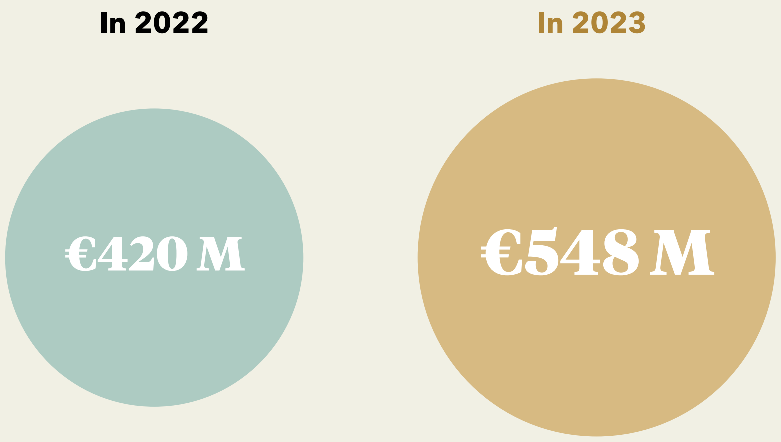
The conversion of existing property is one of the driving forces behind the investment market, offering certain players the opportunity to diversify their portfolio by converting obsolete assets into property types that meet new uses. Because of its large share in investors' portfolios and the high vacancy rates in some areas, the office sector is the main asset class affected by these changes in use, accounting for around 90% of acquisitions of properties for conversion. While there are still many obstacles to conversion (financing conditions, cost of works, etc.), the sometimes significant correction in office prices is making it possible to achieve a degree of financial equilibrium.

Furthermore, the regulatory context is gradually becoming more favourable, as illustrated by the draft law put forward by Romain Daubié, a Member of Parliament, which aims to relax the regulations governing the conversion of office space into residential accommodation.

Volumes still fairly modest but on the up

Estimated volume of assets bought with a view to definite or potential conversion

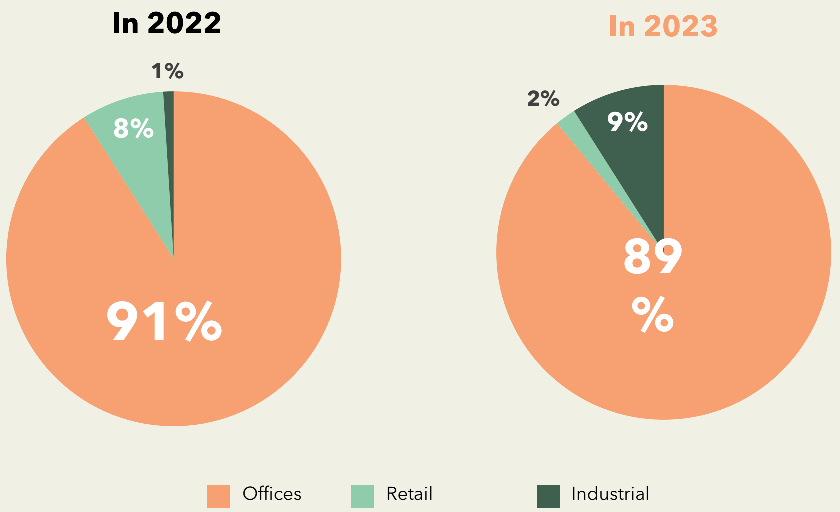
In France, all types combined, in millions of euros



Offices, the most affected sector

Breakdown by asset type

% of total amount



Source : Knight Frank

2024 outlook

- **The macro-economic context remains highly uncertain,** with wars, elections, volatile inflation etc.
- The **stabilisation of key interest rates** will give investors a little more visibility, **gradually boosting activity in the investment market.**
- **Property investment volumes are likely to remain at very low levels,** at least for the first half of the year.
- **SCPIs/OPCIs will be less active in the acquisition market** (due to a drop in inflows, priority given to sales, etc.).
- **Distressed assets will come onto the market,** attracting investors with equity or with favourable financing terms.
- **Metric values should find their equilibrium point** and the downward correction should ease.
- **Acquisitions of properties for conversion will continue,** providing opportunities for assets that have become "non-marketable".
- **Investors will step up their diversification strategy, confirming the growing success of alternative assets** (coliving, student housing, hotels, etc.).
- **Environmental issues** will remain at the heart of investor strategies (Article 8 / European taxonomy, etc.).

2 The office market

Greater Paris Region

What we anticipated for 2023

- A more pronounced slowdown in the economy, but a **moderate downturn in the job market**.
- Slowdown in the post-Covid catch-up effect and **possible reduction** in take-up volumes.
- Confirmation of the dynamism of the Paris CBD market.
- Criteria that remain key (**CSR, well-being**, integration of **soft mobility**, centrality, **flexibility**, etc.), but **tempered by the slowdown in the economy** and companies' streamlining strategies?
- One key question: **will 2023 see a revival of the Inner Suburbs markets?**
- Further drop in deliveries and **uncertainty over several projects that have been announced but not launched**.
- Increasing **oversupply in the suburbs** (Inner Northern Suburbs, Péri-Défense, etc.).
- Accelerated **conversion of office space into residential** and mixed-use developments.

What actually happened

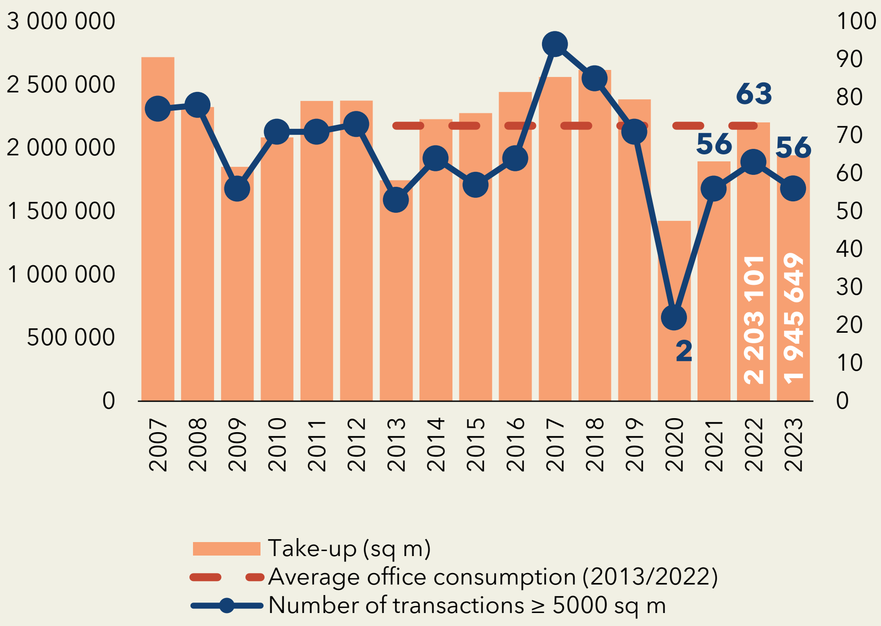
- More pronounced economic slowdown and a **moderate deterioration in the employment market**.
- Slowdown in the post-Covid catch-up effect and **12% decrease** in take-up volumes in the Greater Paris Region.
- Confirmation of the dynamism of the Paris CBD market, despite a **14% drop compared to the 2022 record**.
- Criteria that remain key (**CSR, well-being**, integration of **soft mobility**, centrality, **flexibility**, etc.), **despite the economic slowdown** and companies' streamlining strategies.
- **2023 saw a revival in the South,** but not in the other Inner Suburbs.
- **Sharp drop in deliveries** and **uncertainty over several projects (PLU-B urban town plan effect in Paris).**
- **Historic oversupply in certain suburban markets** (Inner Northern Suburbs, Péri-Défense, etc.).
- Acceleration in the **conversion of office space into residential** and mixed-use developments.

Back to a decline

Take-up volumes drop back below average

Change in take-up in the Greater Paris Region

Total volume in sq m

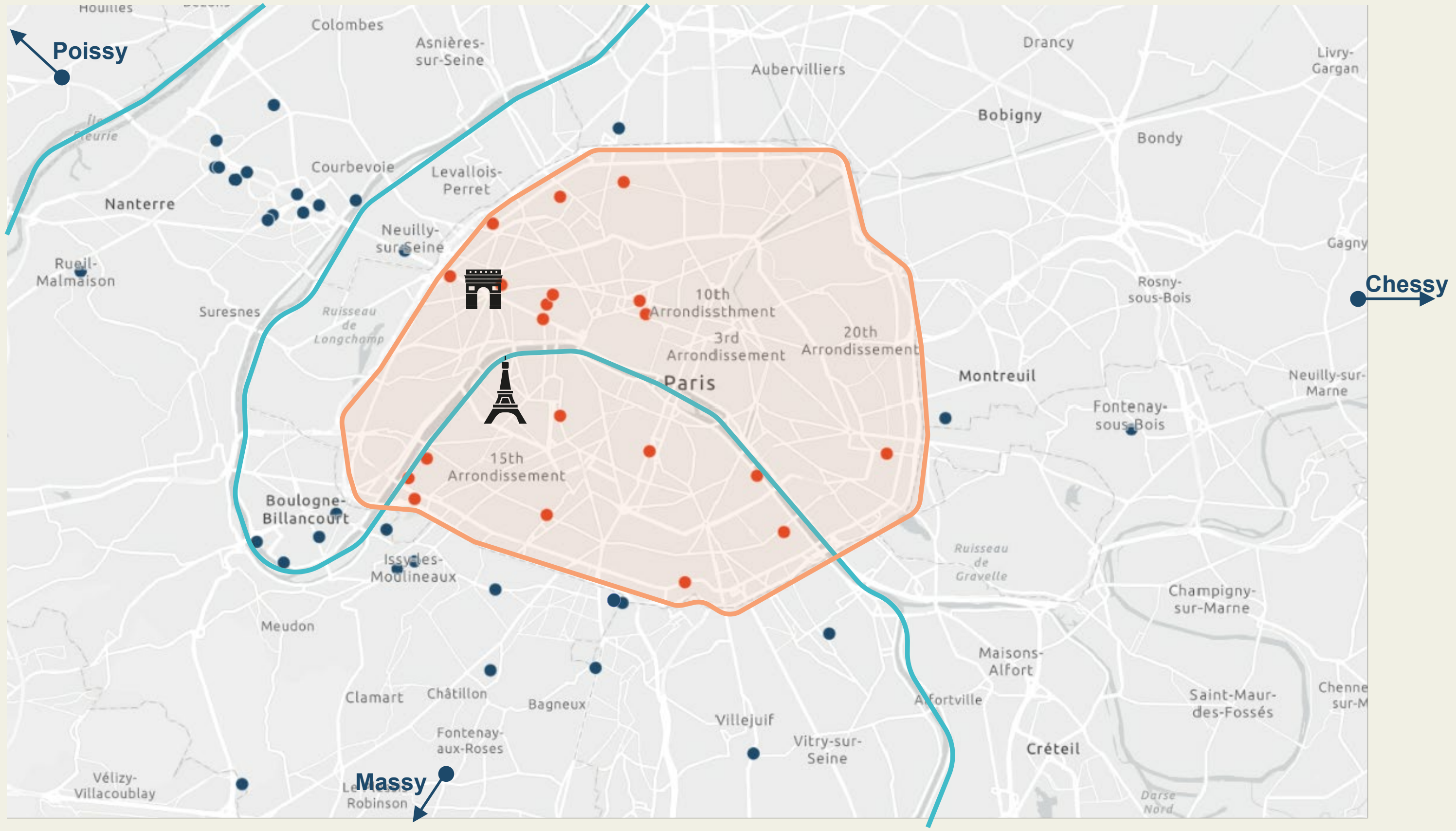


Source : Knight Frank

The office market recovered significantly in 2022 thanks to the completion of transactions delayed by the health crisis and a very buoyant economic climate. In 2023, it once more declined, no longer benefiting from the post-covid catch-up effect or from the dynamism of the French economy, whose activity virtually stagnated last year. The downturn was nevertheless moderate. Take-up totalled 1.95 million sq m in the Greater Paris Region, down 12% compared with 2022 and 11% compared with the ten-year average. The decrease is slightly more marked in the large area category (-15% year-on-year). Accordingly, 56 transactions of more than 5,000 sq m, totalling 625,600 sq m, were recorded in the Greater Paris Region, compared with 63 transactions totalling approximately 740,000 sq m in 2022.

Large transactions in 2023

Transactions ≥ 5,000 sq m in the Greater Paris Region



- Inner Paris: 20 (22 in 2022)
- Greater Paris Region excl. Paris: 36 (41 in 2022)

The distribution of the 56 large transactions in 2023 is fairly uneven across the geographical sectors. In Paris, 20 transactions over 5,000 sq m were recorded, compared with 22 in 2022, including eight in the CBD (PUBLICIS in "Mondo", ROTHSCHILD at 54-56 rue La Boétie, etc.) and nine in the Paris Sud area (3F in "Parc Avenue", FRANCE TV in "Quadrans", etc.).

Outside Paris, 36 large transactions were recorded, compared with 41 the previous year, the majority of which were concentrated in La Défense and its immediate vicinity, in the Southern Loop and in the Inner Southern Suburbs. On the other hand, there were virtually no transactions in the North and East of the city.

Source : Knight Frank

Large transactions in 2023

Examples of transactions ≥ 5,000 sq m in Paris

PUBLICIS
MONDO
PARIS 17th (28,500 sq m)

CDC
AUSTERLITZ II
PARIS 13th (24,000 sq m)

ROTHSCHILD & CIE
54-56 RUE LA BOETIE
PARIS 8th (20,500 sq m)

FRANCE TÉLÉVISIONS
Q4DRANS
PARIS 15th (17,000 sq m)

IMMOBILIÈRE 3F
PARC AVENUE
PARIS 13th (13,100 sq m)

MCKINSEY & COMPAGNY
35 RIVE GAUCHE
PARIS 7th (12,900 sq m)

BARCLAYS
52 AVENUE HOCHE
PARIS 8th (11,900 sq m)

EDF
PALAIS BLEU
PARIS 16th (11,500 sq m)

FRANCE TÉLÉVISIONS
SEINE OUEST
PARIS 15th (8,200 sq m)

UBS
39 RUE DU COLISÉE
PARIS 8th (6,200 sq m)

WINAMAX
LUXSO
PARIS 5th (5,800 sq m)

OPCO
RACINE
PARIS 12th (5,800 sq m)

FONDATION CENTRALESUPELEC
IKOM
PARIS 13th (5,700 sq m)

HIPTOWN
GAVROCHE
PARIS 18th (5,400 sq m)

Source : Knight Frank

Large transactions in 2023

Examples of transactions ≥ 5,000 sq m in the Greater Paris Region

RENAULT / RCI
NEW R & X WORK
BOULOGNE (24,000 + 15,000 sq m)

STELLANTIS
GREEN CAMPUS
POISSY (32,000 sq m)

SUEZ
ALTIPLANO
PUTEAUX (22,000 sq m)

INFORMATIQUE CDC - ICDC
NETWORK 2
BAGNEUX (15,900 sq m)

EDF RENOUVELABLES FRANCE
YUMA
CHATILLON (12,700 sq m)

INFOPRO DIGITAL
AQUEDUC
GENTILLY (12,500 sq m)

ALD AUTOMOTIVE
CITYLIFE
NANTERRE (11,000 sq m)

SIEMENS MOBILITY
YUMA
CHATILLON (10,300 sq m)

WILLIS TOWERS WATSON
TOUR HEKLA
PUTEAUX (9,600 sq m)

BAYARD
KALIFORNIA
MALAKOFF (8,200 sq m)

MALAKOFF HUMANIS
HELIA
FONTENAY SOUS BOIS (8,000 sq m)

ESIEA
ZAC GAGARINE TRUILLOT
IVRY SUR SEINE (7,700 sq m)

BIOGROUP
LE GARIBALDI
SAINT-OUEN (6,300 sq m)

CREDIT MUTUEL ARKEA
TRINITY
PUTEAUX (5,200 sq m)

Source : Knight Frank

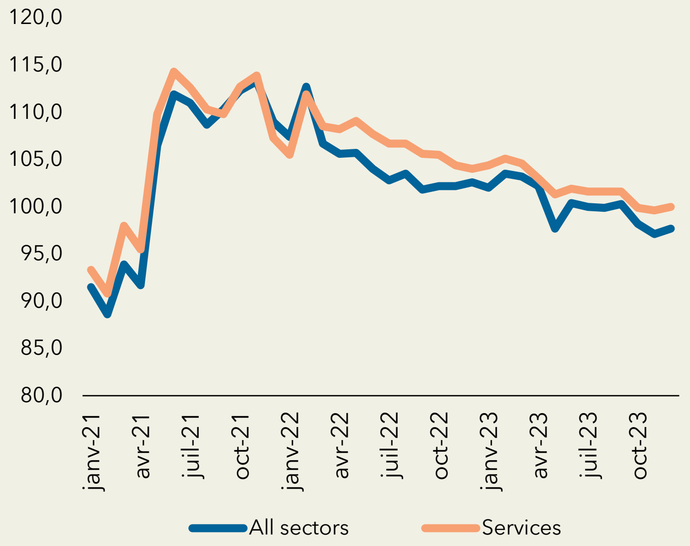
Streamlining remains a priority

The economic context will remain highly uncertain in 2024 (price volatility, slower growth, geopolitical tensions, etc.) and the business climate is unlikely to recover significantly. Furthermore, insolvencies are set to rise sharply again (55,500 bankruptcies in France in 2023, a level close to that of 2019), and companies' cash flow is sometimes more precarious. Against this backdrop, companies will be more attentive to cost control and more concerned about streamlining their real estate. The economic logic of office occupiers could be all the easier to implement as the job market will be less tight, with a rebound in the unemployment rate and fewer difficulties in recruiting. At the end of 2023, 41% of companies said they were having difficulty recruiting, compared with a peak of almost 60% in June 2022.

The climate is getting gloomier

Business climate index

In points, in France

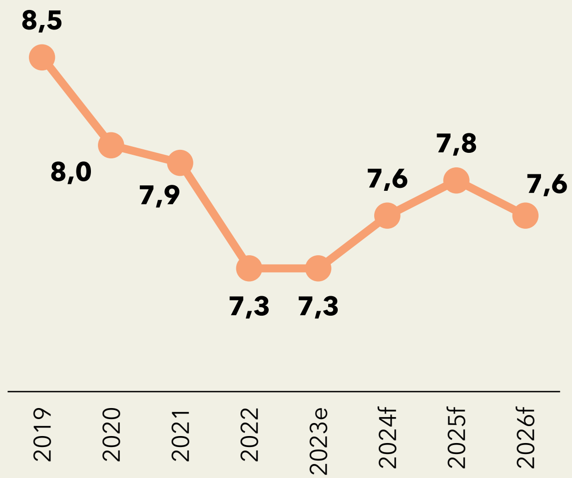


Source : INSEE

Full employment is a long way off

Unemployment rate in France

% of working population, France as a whole

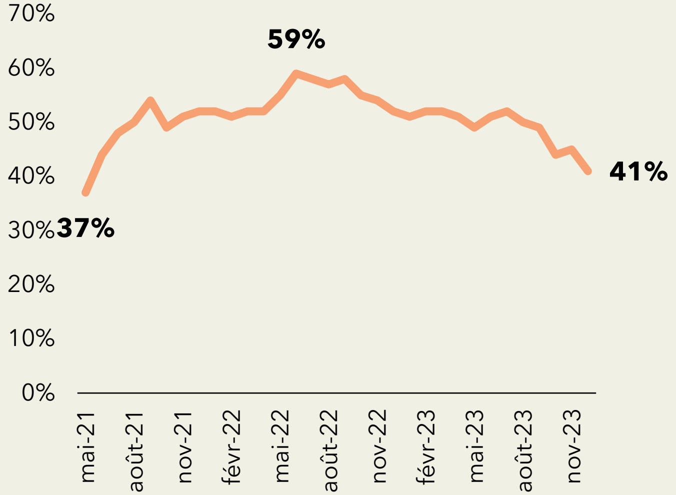


Sources : Banque de France, INSEE

Fewer difficulties in recruiting

Proportion of companies having difficulty recruiting

As a %, in France, all sectors



Source : Banque de France

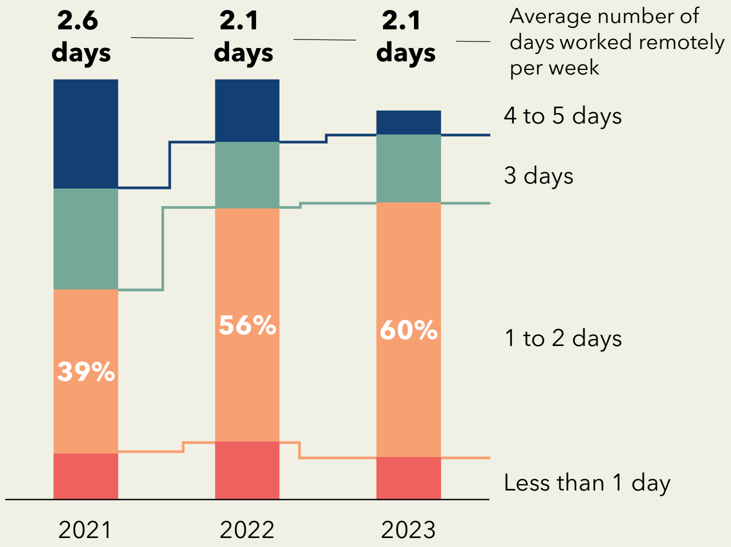
What remains of the health crisis?

The trend towards streamlining the amount of office space let by companies will be even more important as it will continue to be underpinned by remote working. While the return to the office was one of the key themes of 2023, remote working continues to shape organisations, with employees in the Greater Paris Region working remotely an average two days a week. Fridays, and to a lesser extent Wednesdays, are the preferred days for remote working, as evidenced by the fact that fewer people use public transport on Fridays than on other working days. The spread of remote working is also having an impact on the number of people frequenting the main office hubs in the Greater Paris Region. At the end of November 2023, footfall in La Défense was up 20% year-on-year, but down 19% on the same period in 2019.

A partial return to the office

Changes in remote working habits

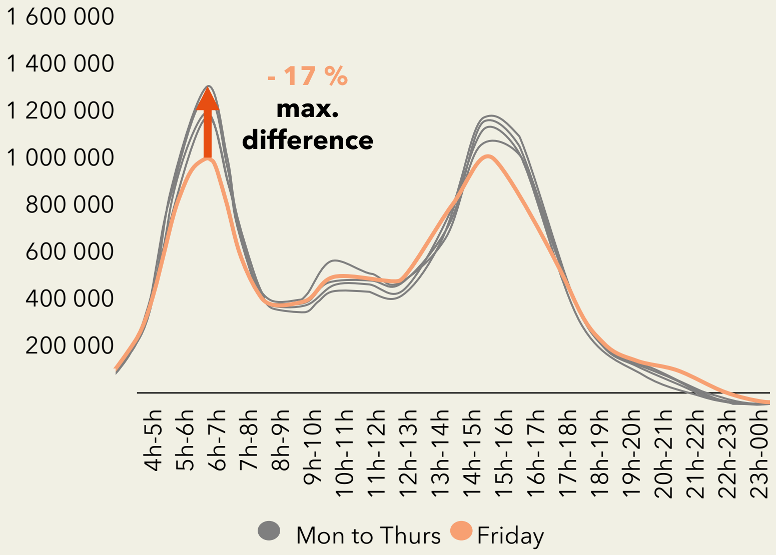
As a % of respondents in the Greater Paris Region



Source : L'Institut Paris Région

Public transport use

By number of electronic ticket validations, in the Greater Paris Region



Source : Open data "Île-de-France Mobilités", data to end November 2023

Visitor numbers in La Défense

Number of people at end-November 2023

329,553
people

+ 20 %
compared to November 2022

- 19 %
compared to November 2019

Source : Open data RATP

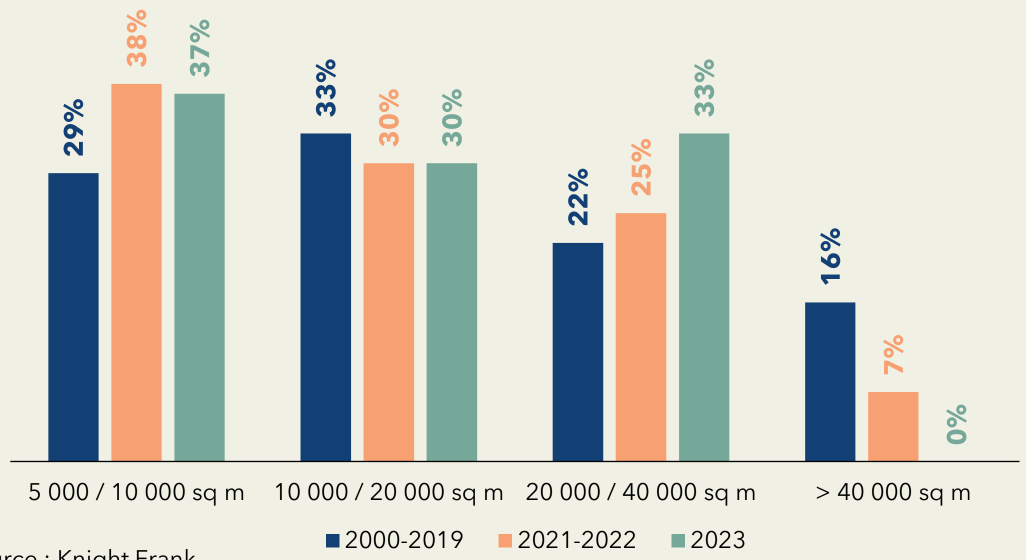
Streamlining: very different results

In 2023, no space category did better than the previous year. Take-up of small (< 1,000 sq m) and medium-sized (1,000 to 5,000 sq m) areas fell by 15% and 5% respectively compared with 2022. The decrease was 15% for floor space over 5,000 sq m, as 2023 effectively confirmed the continuation of companies' real estate streamlining policies and the general reduction in floor areas. The average size of leases over 5,000 sq m in the Greater Paris Region last year was 11,170 sq m, 15% down on the ten pre-Covid years. Of the 56 large transactions in 2023, none was for areas over 40,000 sq m, whereas such areas accounted for an average of almost 20% of take-up in the ten years prior to the health crisis.

Disappearance of very large transactions

Take-up by area category, in the Greater Paris Region

Share of total volume ≥ 5,000 sq m as a %

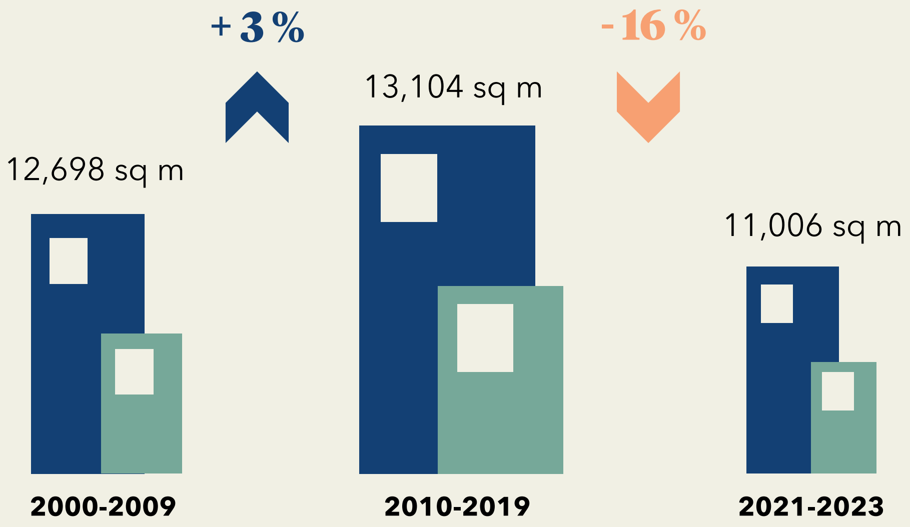


Source : Knight Frank

Average decrease of 16% in large areas leased

Change in average transaction size ≥ 5,000 sq m

In the Greater Paris Region



Source : Knight Frank

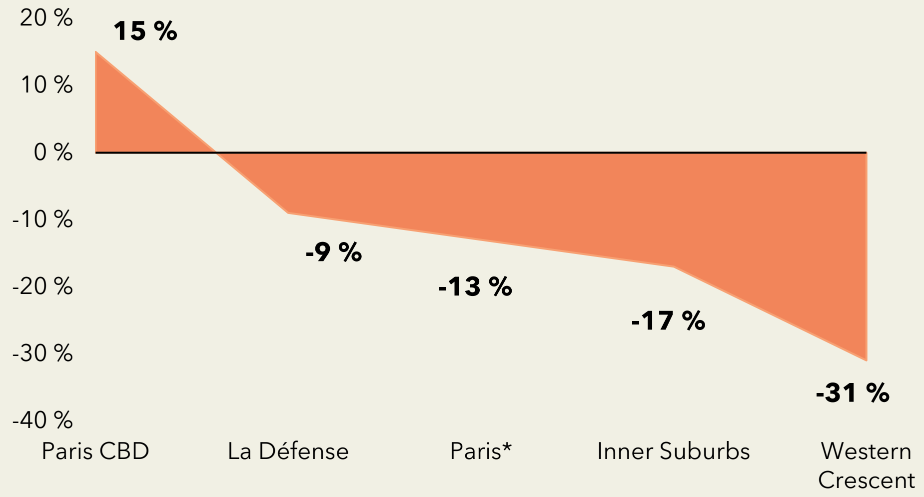
Streamlining: very different results

Not all economic sectors are reducing their office space to the same extent. Average sq m consumption fell by 23% in the manufacturing and distribution sector and by 36% in the banking and finance sector, which were used to mega-transactions prior to Covid-19. Unlike the major French banks, demand from international financial companies remains buoyant and exclusively concentrated in the CBD, where ROTHSCHILD et CIE, UBS and BARCLAYS, for example, leased a total of almost 40,000 sq m in 2023. Other activities, such as luxury goods and consultancy, are also expanding. MCKINSEY & COMPANY leased almost 13,000 sq m of new office space at 35-37 boulevard des Invalides in the 7th arrondissement, more than twice the size of its current headquarters. Higher education also stands out, with an increase in leased space of approximately 30% in 2023, driven by the dynamism of large areas (seven transactions exceeding 5,000 sq m, compared with five in 2022).

But there are disparities between markets...

Change in average transaction size ≥ 5,000 sq m

As a %, in 2023 vs ten-year average



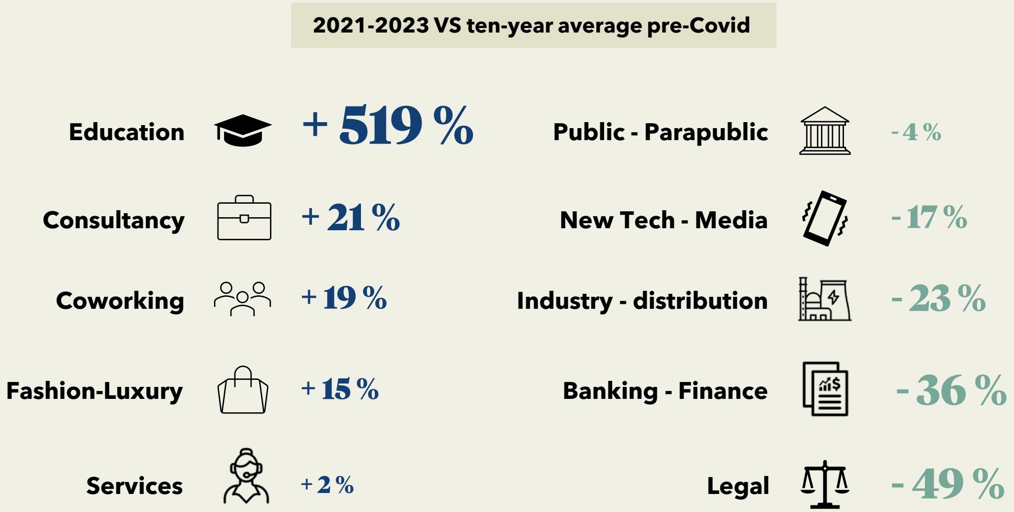
*Inner-city Paris including Paris CBD.

Source : Knight Frank

... and economic sectors

Change in average transaction size ≥ 5,000 sq m

As a %, 2021-2023 vs pre-Covid ten-year average, Greater Paris Region



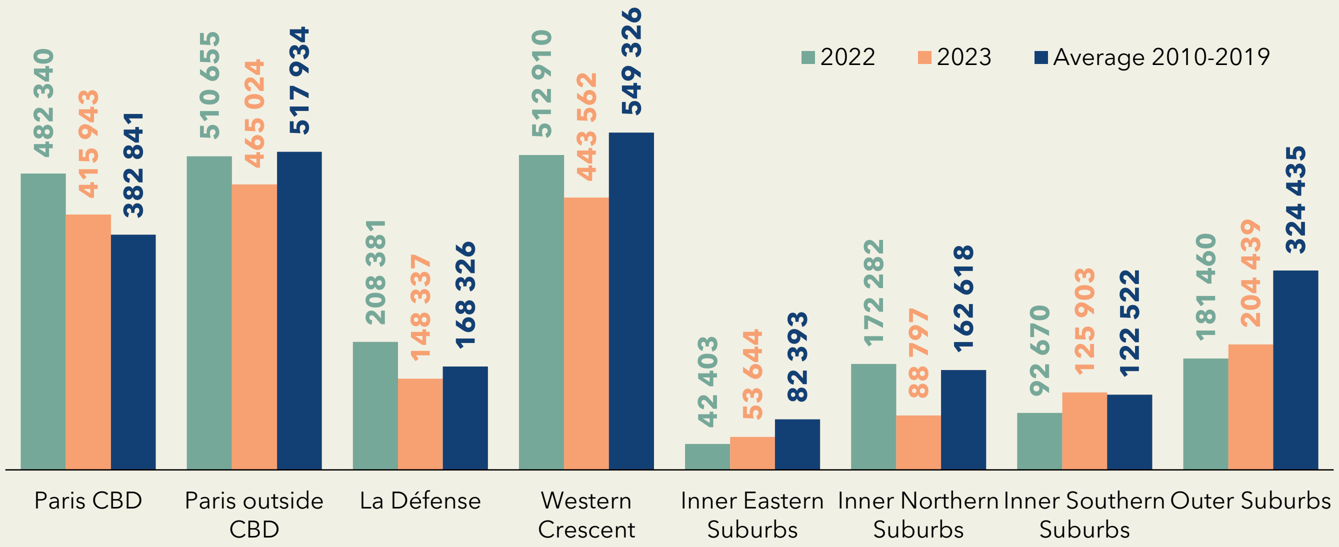
Almost universal downward trend

The various office sectors were not equally affected by companies' real estate streamlining strategies. The Western Crescent and La Défense, for example, show take-up volumes 19% and 12% below their pre-Covid ten-year averages, totalling 443,600 sq m and 148,400 sq m respectively in 2023. The decrease is also significant in the Inner Northern Suburbs, with a drop of 48% year-on-year, contrasting with the significant rebound in the Southern Suburbs, where seven large transactions were recorded in 2023. In Paris, the picture is mixed. While the CBD posted a 9% increase compared with the ten-year pre-Covid average, sectors outside the CBD saw a 29% decrease over the same period. However, activity picked up during the year, particularly on the Left Bank, where ten transactions of more than 5,000 sq m were finalised in the 2nd half of the year, including the purchase by 3F of Parc Avenue in the 13th arrondissement. The Paris 5/6/7 market, which usually suffers from a lack of supply, was boosted by the marketing of several new high-quality properties, which even attracted several occupiers from the CBD.

Only the CBD and the South outperform

Change in take-up by geographical sector

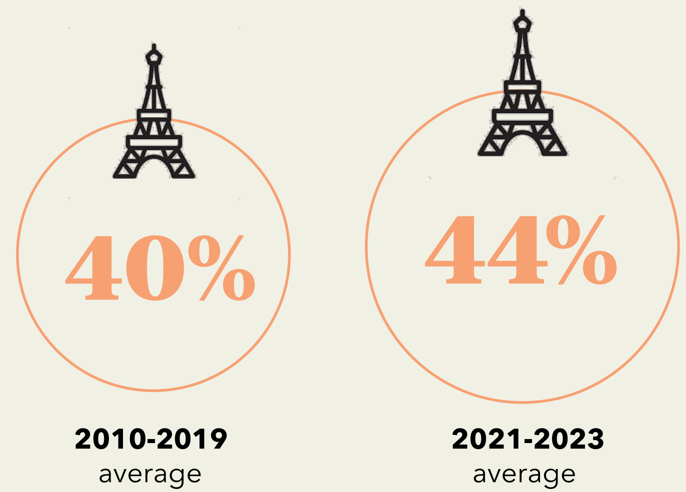
In volume of sq m in the Greater Paris Region, all areas combined



Source : Knight Frank

Share of Inner Paris in Greater Paris Region take-up

% of sq m volume

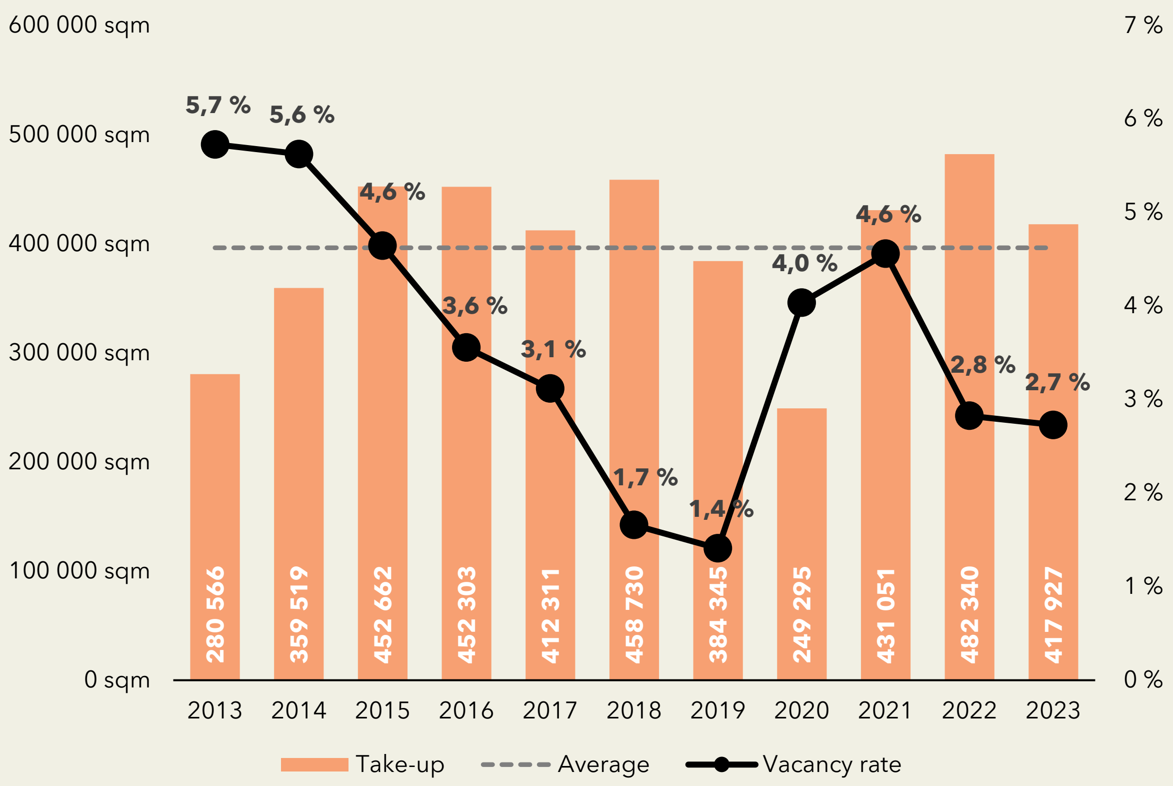


THE OFFICE MARKET

Paris CBD: a loss of steam that needs to be put into perspective?

Activity penalised by a lack of supply

Change in take-up and vacancy rates in Paris CBD



Source : Knight Frank

2023 take-up

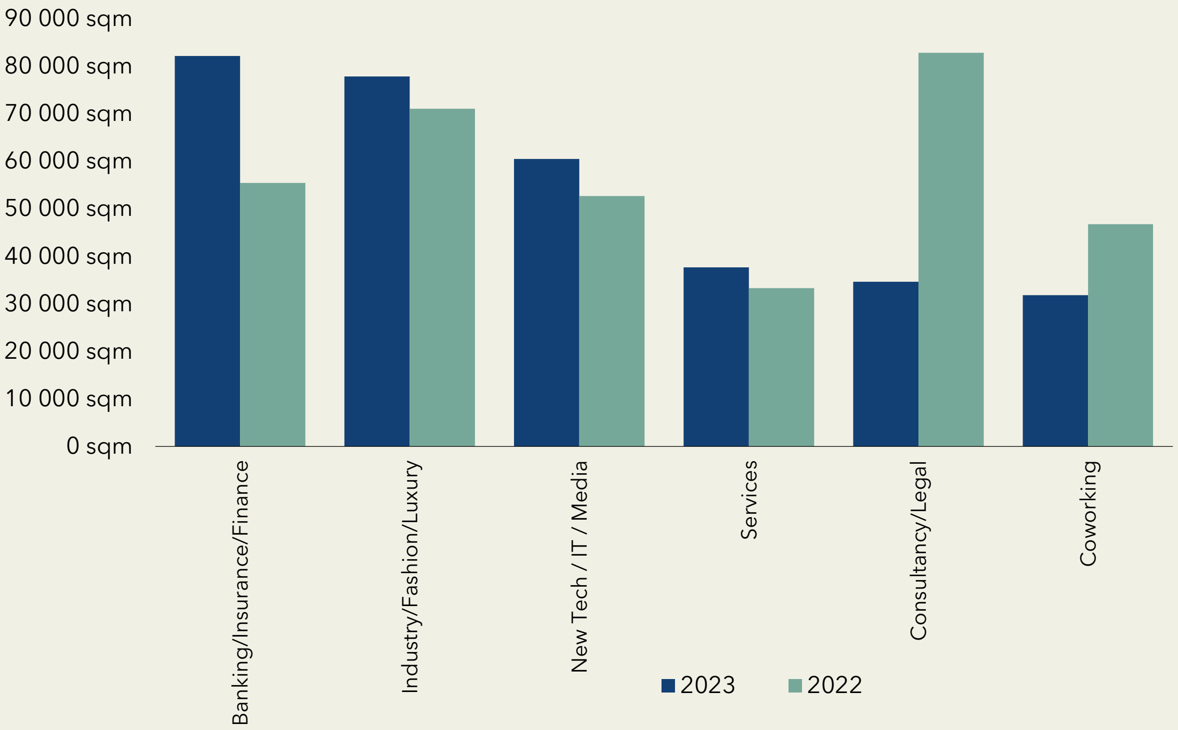
The Central Business District's retention capacity remains high. It has also succeeded in attracting several companies from other parts of the Greater Paris Region and other areas of the capital. PUBLICIS, for example, plans to relocate its teams from the East of Paris to the 28,500 sq m Mondo building in the 17th arrondissement.

Despite this, take-up fell in the CBD in 2023, totalling 417,000 sq m, down 14% on the previous year. This loss of steam should be put into perspective, however, as the 2023 result was still 5% above the ten-year average. Furthermore, the CBD was coming off two record years, 2021 and 2022, and activity was penalised in 2023 by the lack of available supply.

Paris CBD: a loss of steam that needs to be put into perspective?

Falling demand in key sectors

Breakdown of take-up in the Paris CBD by economic sector



Source : Knight Frank

The drop in letting activity in the CBD can be explained not only by the limited supply of available space, but also by the reduced demand from certain business sectors. In total, the consultancy, services, legal and coworking sectors took 105,000 sq m of office space in the CBD last year, a drop of 36% compared to 2022.

As a result, the CBD's performance was even more dependent on leases from luxury and financial companies, which have remained very active. In 2023, these two sectors accounted for 49% of sq m of office space let in the CBD, compared with 36% in 2022.

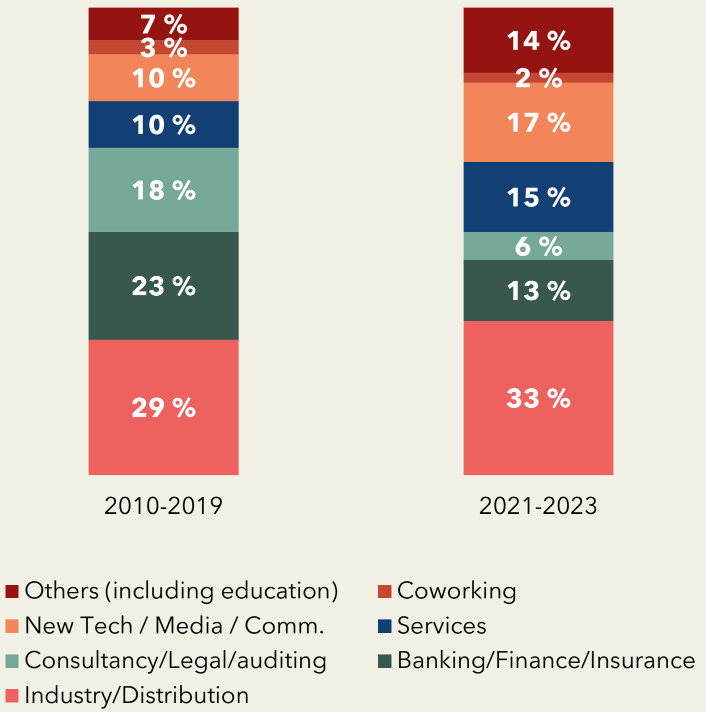
For example, ROTHSCHILD & CIE, UBS and BARCLAYS together leased almost 40,000 sq m in 2023 in the CBD, while the luxury sector was particularly active with the acquisition of iconic Parisian buildings such as 150 avenue des Champs-Élysées, sold to LVMH, and 35-37 avenue Montaigne, sold to the KERING group.

La Défense continues its transformation

More diverse occupiers

Breakdown of tenants by economic sector

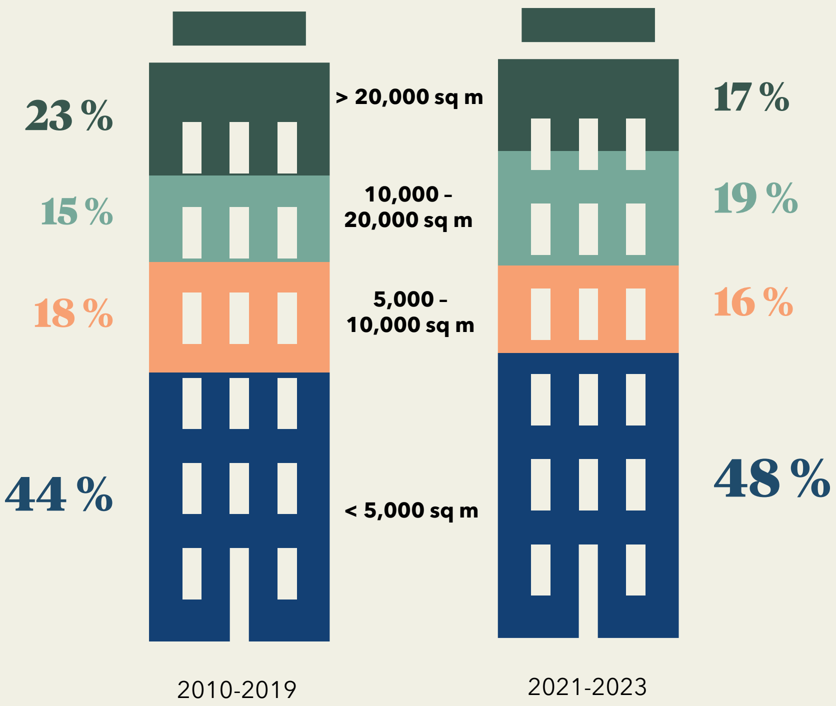
As a % of take-up volume ≥ 1,000 sq m in La Défense



Fewer large transactions

Breakdown of area categories

As a % of total take-up volume in La Défense



Despite a decrease in take-up in 2023, La Défense has attracted a more varied range of occupiers in recent years. For example, the share of auditing and industry fell from 47% between 2010 and 2019 to 39% between 2021 and 2023, while the share of higher education, services and new technologies increased.

Furthermore, La Défense is now less dependent on the signing of very large transactions, which have become quite rare. Its performance is based more on leases for small and medium-sized areas. Another positive factor is that the business district's continued improvement of its environment and accessibility, as over the coming months it will benefit from the extension of RER line E, which will connect it to the heart of the Paris CBD in less than ten minutes.

Source : Knight Frank

La Défense continues its transformation

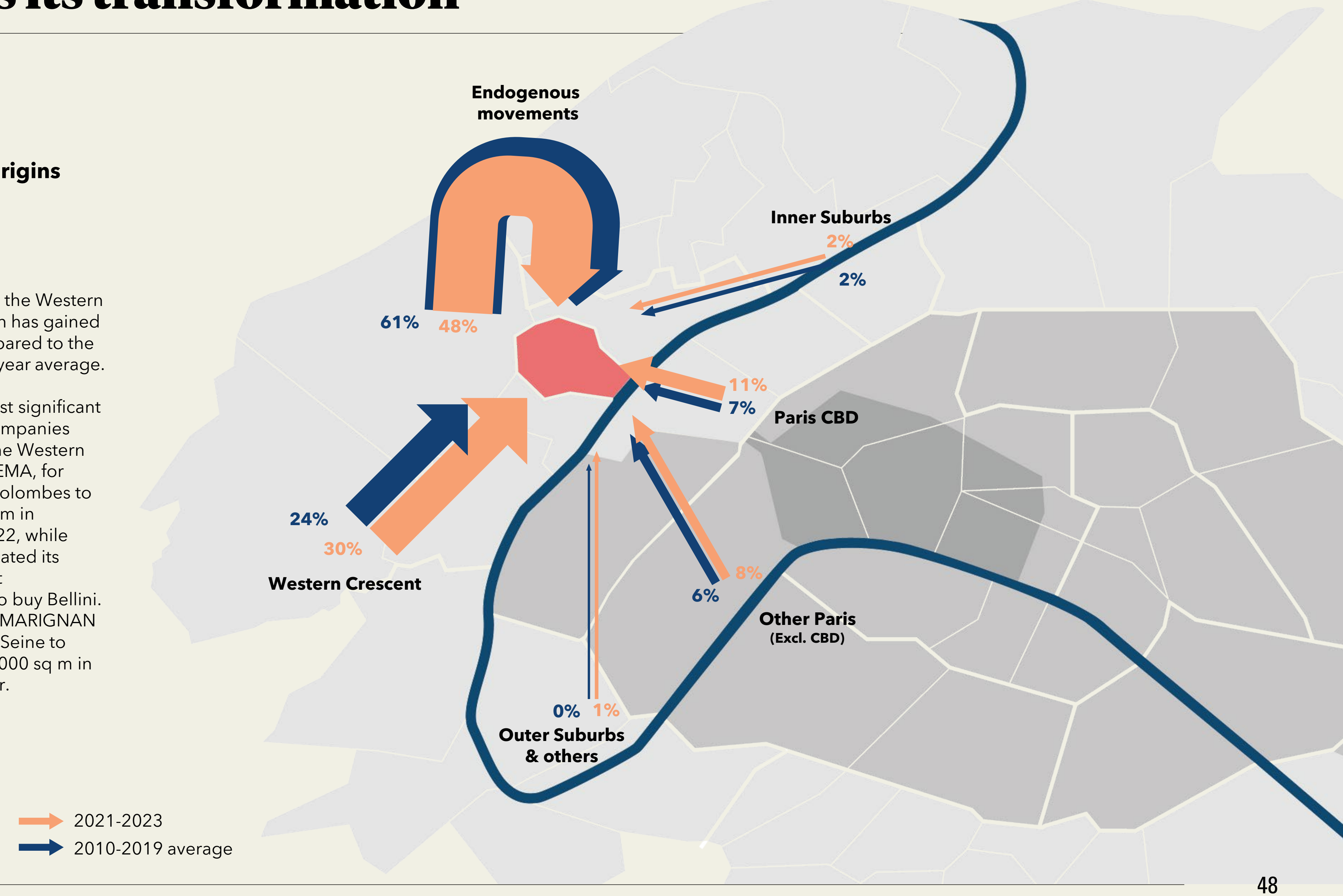
A more attractive destination

Change in occupiers' geographical origins

As a % of take-up volume ≥ 1,000 sq m in La Défense

Reflecting the positive momentum of the La Défense office market, the district is attracting more occupiers from other parts of the Greater Paris Region. While 61% of the volume of leases over 1,000 sq m between 2010 and 2019 were taken by companies already established in La Défense, this share fell to 48% between 2021 and 2023. Conversely, the proportion of new arrivals from other geographical areas has increased, particularly from the CBD, which increased from 7% to 11% over the period, and especially from the Western Crescent, which has gained six points compared to the pre-Covid ten-year average.

Among the most significant examples of companies coming from the Western Crescent, ARKEMA, for example, left Colombes to rent 25,000 sq m in Lightwell in 2022, while SWISS LIFE vacated its Levallois-Perret headquarters to buy Bellini. More recently, MARIGNAN left Neuilly-sur-Seine to lease almost 2,000 sq m in the Hekla tower.



Source : Knight Frank

THE OFFICE MARKET

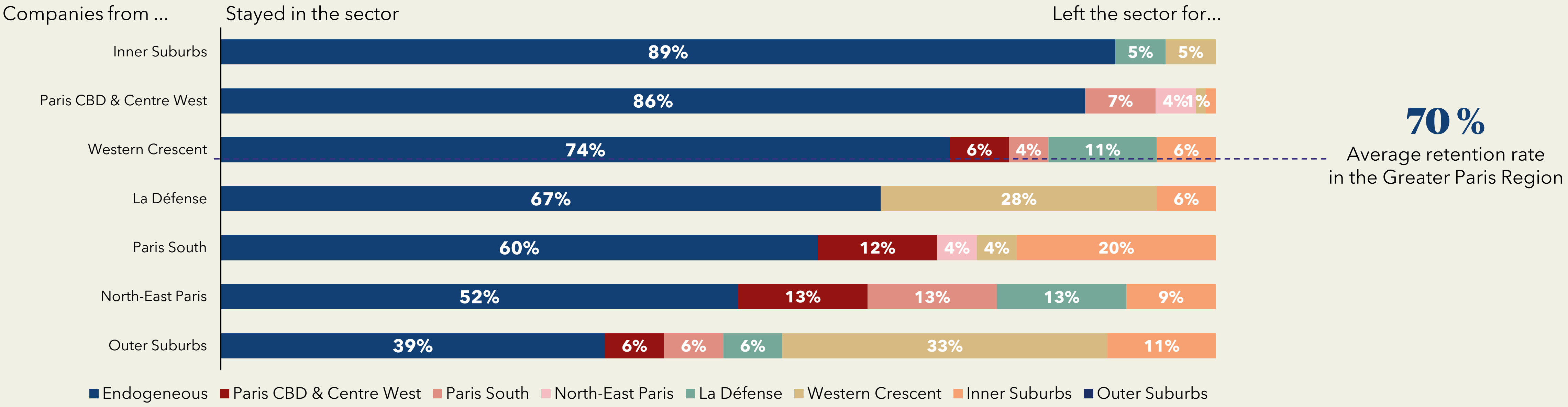
Relocations: impact varies widely from one market to another

While the Inner Suburbs have a very good retention rate, keeping almost 90% of their companies in 2023, they attract few companies from other geographical areas. Contrary to what might have been expected a year ago, the Inner Suburbs did not benefit from a resurgence of interest from occupiers in other sectors in 2023, despite an abundance of new supply and competitive rents. This is the case in the North, although in Saint-Ouen, for example, several medium-sized premises have been let to companies from other sectors looking to benefit from both moderate rents and modern offices with excellent transport links and close proximity to Paris. Elsewhere in the Greater Paris Region, retention rates are mixed, with the CBD and the Western Crescent showing a high retention rate, while sectors of Paris outside the CBD and the Inner Suburbs are seeing more users move to other geographical areas.

The Inner Suburbs are retaining more companies… but still attracting relatively few

Retention rate by geographical sector

As a % of the number of movements ≥ 1,000 sq m, in 2023

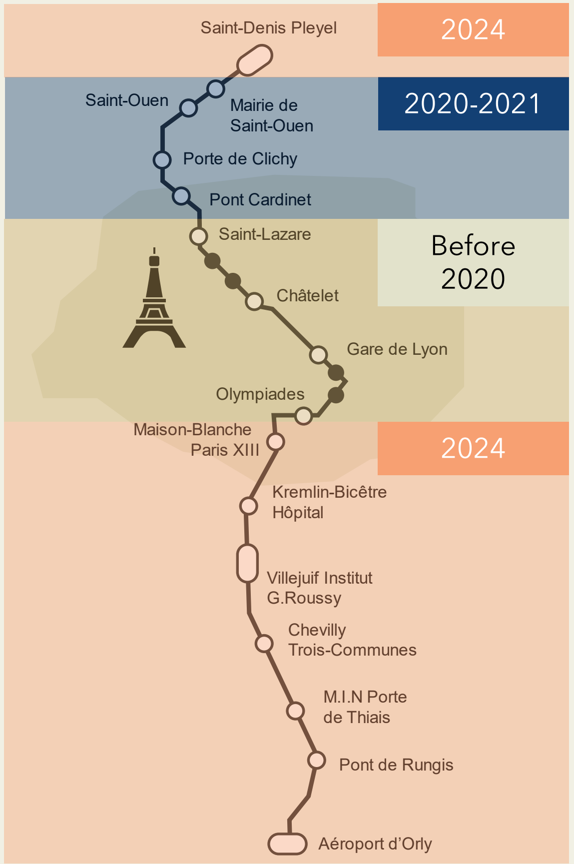


Source : Knight Frank

THE OFFICE MARKET

Grand Paris Express: what impact will the new services have?

Line 14: reviving interest in the North and improving connections with the Outer Southern Suburbs



2020-2021

1 new town served (Saint-Ouen)

711,300 sq m of existing offices (at the end of 2023)

150,000 sq m of offices under construction / planned by 2026 (**21%** of the town's total stock)

36,700 sq m annual take-up since 2020 **+14%** vs average 10 years pre-Covid

2024

8 new towns serves

2.33 million sq m of existing offices (at the end of 2023)

215,000 sq m of offices under construction / planned by 2026 (**9%** of the town's total stock)

558,500 sq m annual take-up since 2020 **-39%** vs average 10 years pre-Covid

Will the office markets benefit in the coming months from the opening of new sections of the metro? So far, the massive investments made in the Grand Paris Express, as well as in the 2024 Olympic Games, have not really stimulated the office hubs in the Inner Northern Suburbs, although the recent trend has been positive for Saint-Ouen, the first town in the area to benefit from the extension of line 14. What will happen to Saint-Denis, which is struggling more and whose offices attract relatively few occupiers outside the public sector?

The Olympic Games will probably have little or no impact on the other sectors of the Inner Suburbs. On the other hand, several communes will see their accessibility significantly improve thanks to the opening of new sections of the Grand Paris Express. This is the case in the Inner Southern Suburbs, where several towns will benefit from the extension of line 14 to Orly. Eight new towns will be served, accounting for more than 2.3 million sq m of existing office space.

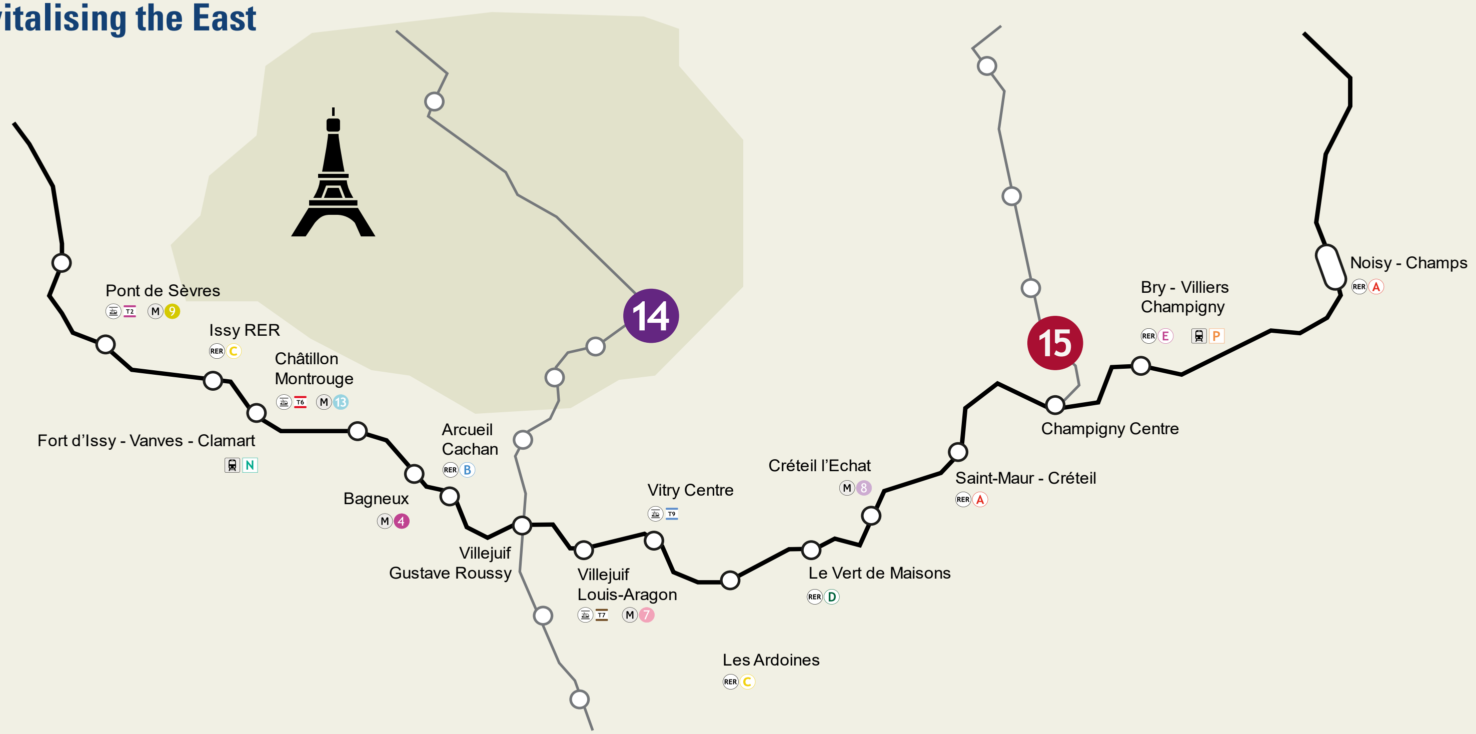
Source : Knight Frank

Grand Paris Express: what impact will the new services have?

Line 15: strengthening momentum in the South and revitalising the East

The South will also benefit from the opening of line 15 South, scheduled for late 2025 at the earliest. This sector seems all the better placed to take advantage of improved accessibility, as letting activity is already buoyant there, with 126,000 sq m of take-up in 2023, a jump of 36% year-on-year and 33% compared to the ten-year average.

In the North, as in the South, the conditions for an acceleration in occupier relocations seem to be more present than last year. This acceleration is one of the prerequisites for stimulating letting activity in suburban office hubs, enabling them to return to a more balanced situation.



2025

19 new towns served

5.8 million sq m of existing offices (at the end of 2023)

490,000 sq m of offices under construction / planned by 2026 (**8%** of the total stock in the 19 towns)

192,700 sq m annual take-up since 2020 - **37%** vs average 10 years pre-Covid

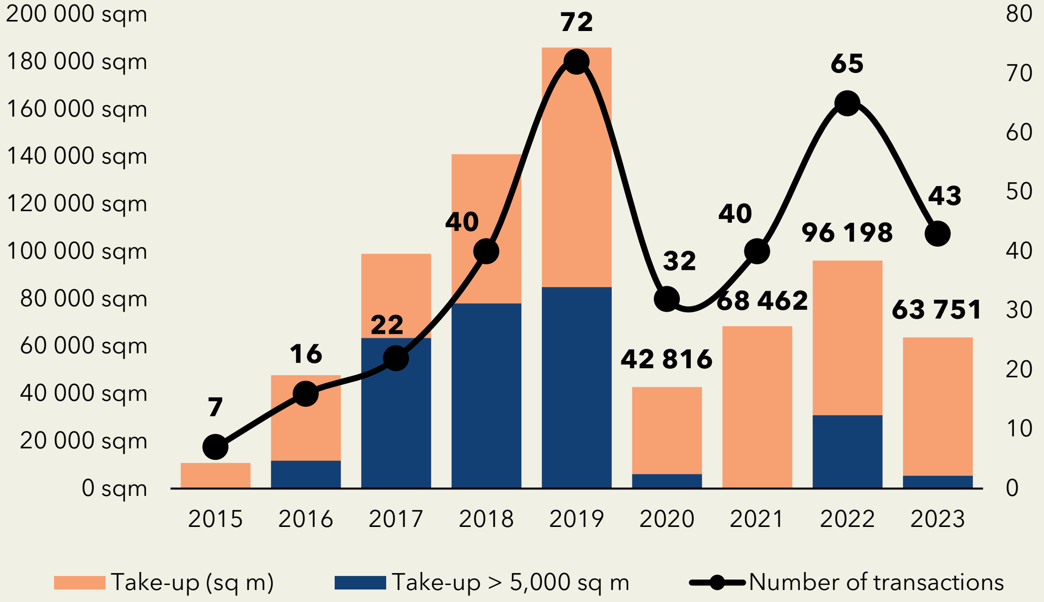
Source : Knight Frank

Spotlight on coworking: slowdown confirmed

With nearly 64,000 sq m let by coworking operators in the Greater Paris Region in 2023, this sector has seen its rental activity drop by 34% in one year, due in particular to the virtual disappearance of leases over 5,000 sq m (HIPTOWN on 5,360 sq m at 190 rue Championnet in the 18th arrondissement). All area categories combined, 43 transactions were recorded in 2023, compared with 65 in 2022 and a peak of 72 in 2019. While take-up volumes have fallen overall, the appeal of the Paris office market remains. In 2023, the capital accounted for 75% of take-up in the Greater Paris Region thanks to the dynamism of the Central Business District. In 2023, the CBD attracted a larger proportion of office space leased by coworking operators in the Greater Paris Region (up 8 points on the 2015-2022 average).

Drop of 34 % in one year

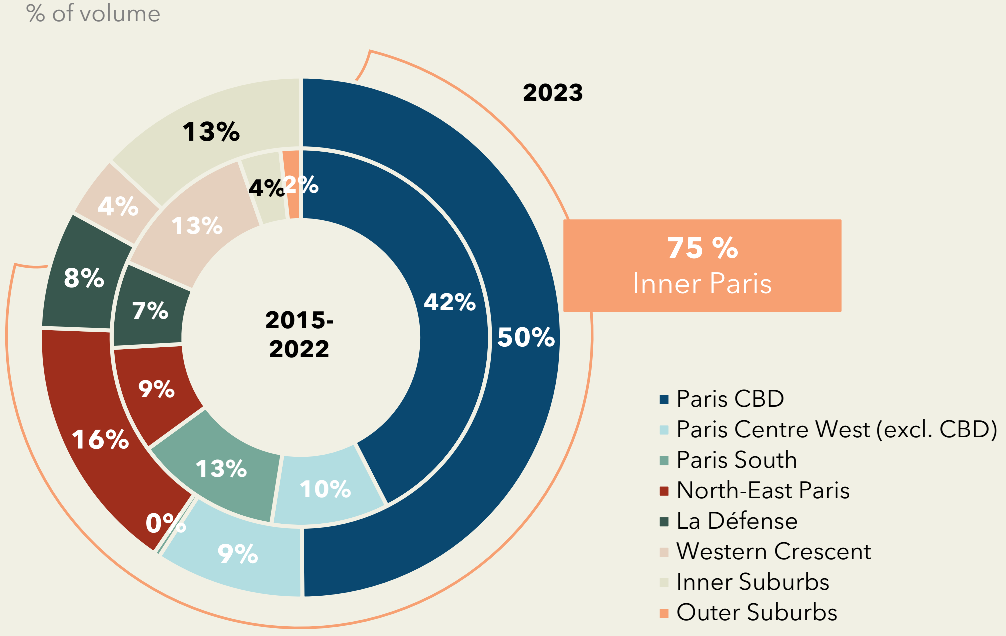
SQ M of offices let in the Greater Paris Region by coworking space providers



Source : Knight Frank

A tighter market

Geographical breakdown of sq m of office space leased by coworking space providers in the Greater Paris Region

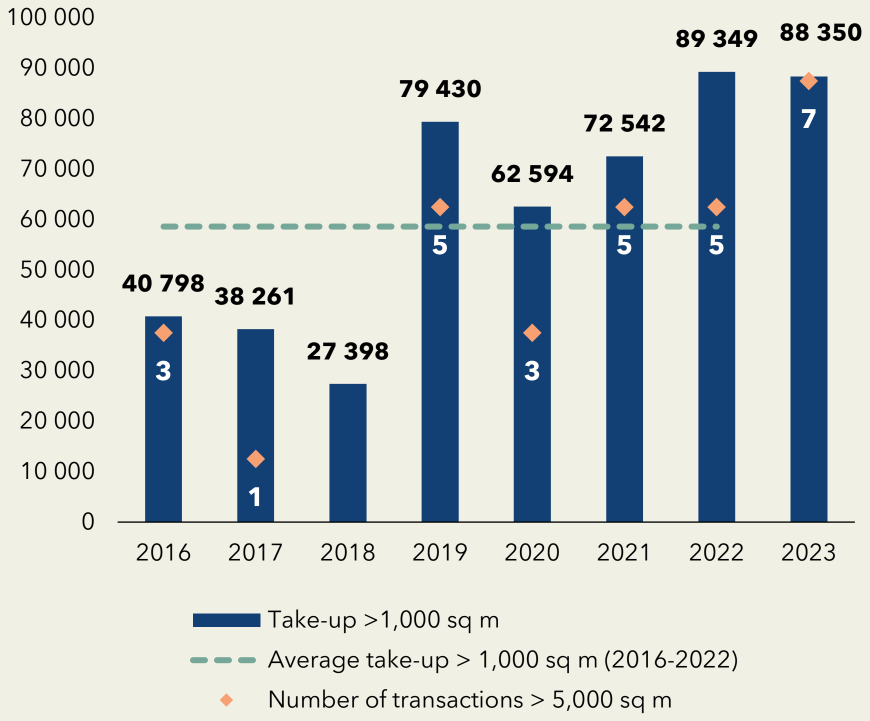


THE OFFICE MARKET

Spotlight on higher education: demand remains high

Record number of large transactions

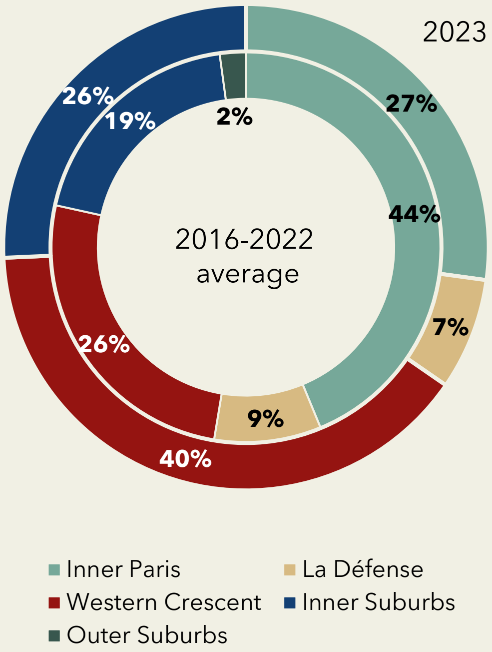
SQ M of office space leased by private higher education establishments in the Greater Paris Region (> 1,000 sq m)



The West accounts for almost half of all activity

Geographical breakdown of sq m of office space leased by private higher education establishments in the Greater Paris Region

By volume, > 1,000 sq m



After a record year in 2022, the private higher education sector remained buoyant in 2023. More than 88,000 sq m of space was let or bought by schools in the Greater Paris Region last year, a level almost equivalent to the record set in 2022 and well above the average recorded between 2016 and 2022 (+51%). Letting activity was mainly driven by seven transactions of over 5,000 sq m, following five in 2021 and 2022 (acquisition by ESIEA of 7,700 sq m in Ivry, lease by COLLEGE DE PARIS of 6,200 sq m in "The Kube" in Nanterre, etc.). The Western Crescent and La Défense account for almost half of all movements over 1,000 sq m in 2023 (compared with 35% between 2016 and 2022), illustrating the growing attractiveness of this sector for schools, which favour the quality of its surroundings, its accessibility and the density of its economic fabric.

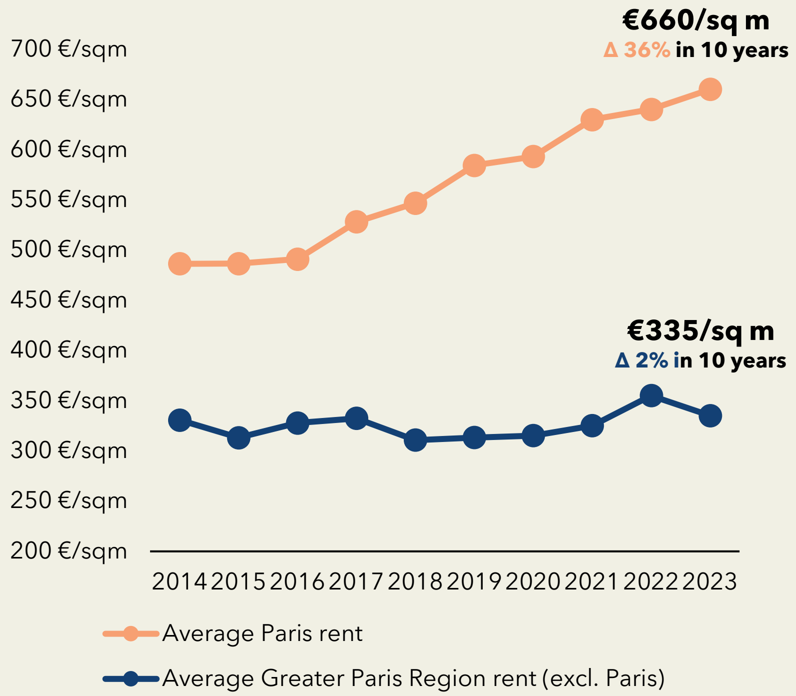
Source : Knight Frank

The wide difference in rents

Paris vs Suburbs: diverging paths

Change in average rents

In €/excl. taxes & charges/sq m/year

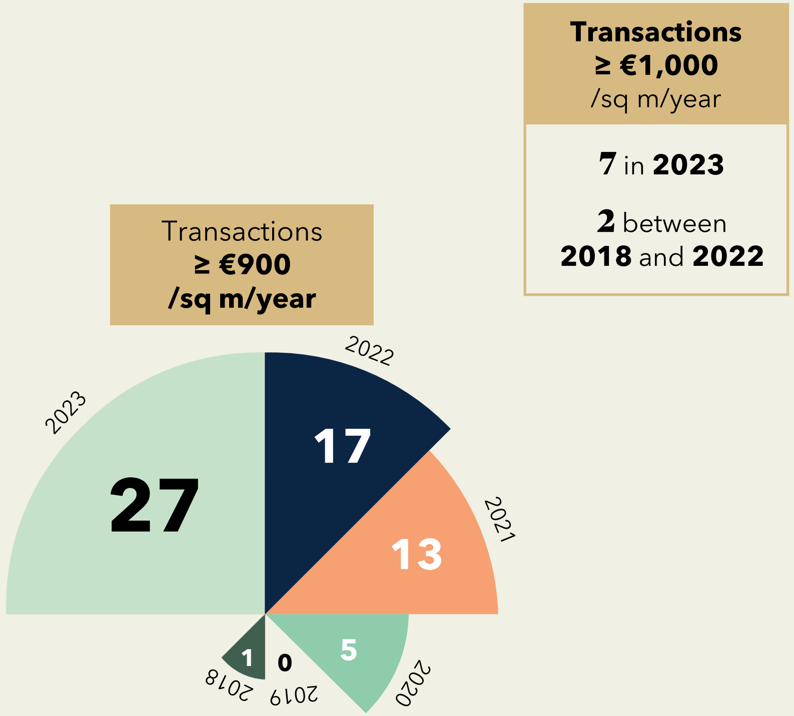


Average rent: weighted average of all transactions recorded over the 12 months preceding the end of the period (all areas and all qualities combined)

New highs

Number of transactions ≥ €900 /sq m/year and ≥ €1,000 /sq m/year

In Inner Paris, on areas ≥ 500 sq m



The gap between rental values in the capital and those in the suburbs continued to widen in 2023. Last year, the average rent fell by 6% compared with 2022 in the Greater Paris Region (excluding Paris), compared with an increase of 3% over the same period in Paris. Over ten years, the contrast is striking, with the average rent remaining stable in the suburbs (+2%), while it has risen sharply in Inner Paris (+36%). Furthermore, prime rents have also risen sharply, reaching €1,000/sq m/year by the end of 2023 (+33% in ten years) thanks to the growing number of transactions signed at over €900/sq m/year since 2020. These transactions, which were virtually non-existent before the health crisis, rose to a total of 27 last year, after 17 in 2022, 13 in 2021 and 5 in 2020. Lastly, seven leases signed at over €1,000/sq m/year were recorded last year, compared with just two between 2018 and 2022.

Source : Knight Frank

The wide difference in rents

The increase in prime rents from €955 /sq m/year to €1,000 /sq m/year in the space of just one year is mainly due to strong demand from luxury and, above all, financial companies. These two sectors accounted for almost 60% of the total number of transactions signed at values above €900/sq m/year in 2022 and 2023. Consultancy firms and lawyers account for a slightly smaller but significant 16%. Other business sectors (coworking, new technologies, services, etc.) are much rarer in this market niche, showing that the number of companies likely to pay such a high level of rent is fairly limited.

Over-representation of luxury goods and finance

Breakdown by business sector of the number of transactions ≥ €900 /sq m/year in 2022 and 2023

Areas ≥ 500 sq m

Banking – Finance
39 %

Fashion - Luxury
18 %

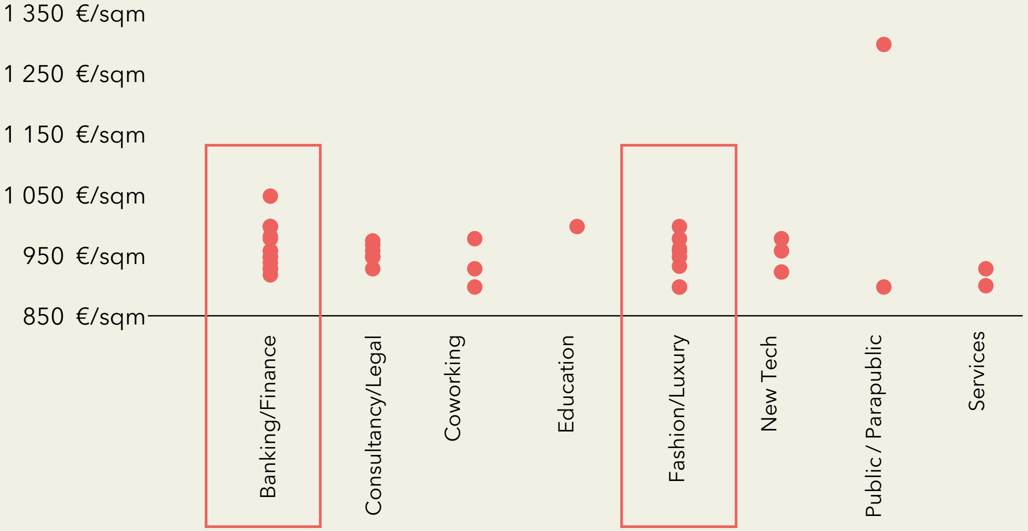
Consultancy - Legal
16 %

Others
27 %

A shallow market category

Breakdown by business sector of the number of transactions ≥ €900 /sq m/year in 2022 and 2023

Areas ≥ 500 sq m, each dot represents one transaction



Source : Knight Frank

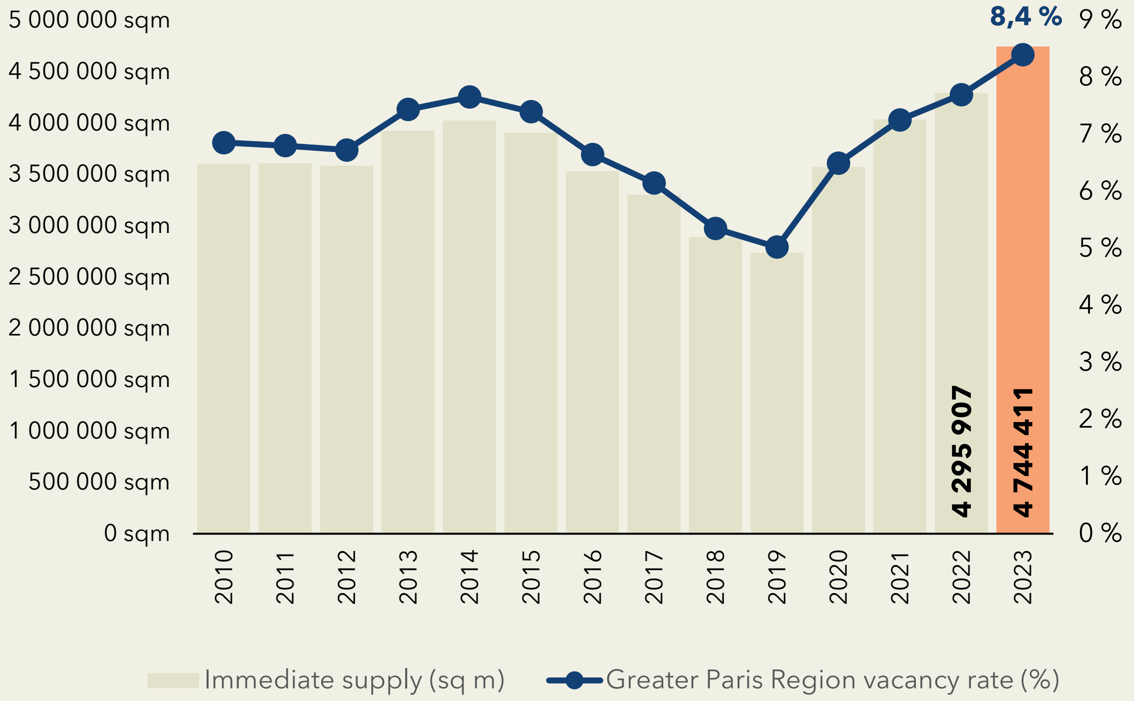
THE OFFICE MARKET

Immediate supply: new highs

+ 73 % since 2019

Change in available supply and vacancy rate

In the Greater Paris Region, as a %



Source : Knight Frank

At the end of 2023, the immediate supply of available office space in the Greater Paris Region totalled almost 4.75 million sq m, an increase of 10% year-on-year and 3% quarter-on-quarter. This increase, which was partly due to a drop in take-up, was tempered by the low level of deliveries. In fact, fewer than 450,000 sq m were delivered in 2023 in the Greater Paris Region, a sharp fall of 54% year-on-year and 52% compared to the average over the last five years.

The average vacancy rate for the Greater Paris Region is now 8.4%, compared to 7.7% a year ago, a level not seen for almost 30 years. In the early 1990s, the vacancy rate was as high as 10%.

The contrasts between the different office sectors in the Greater Paris Region remain significant. Over a quarter, the vacancy rate stabilised in La Défense (14.5%) and even fell by 0.2 point in the Western Crescent (13.4%). On the other hand, the increase continued in the Inner Suburbs, where the vacancy rate reached 15.1% (+1.1 point). The vacancy rate exceeded the 20% threshold for the first time in the North, due to a relatively low level of letting activity. Over one year, the increase is also dramatic in the East, where the volume of supply has jumped by almost 80% and the vacancy rate has almost doubled to over 10%.

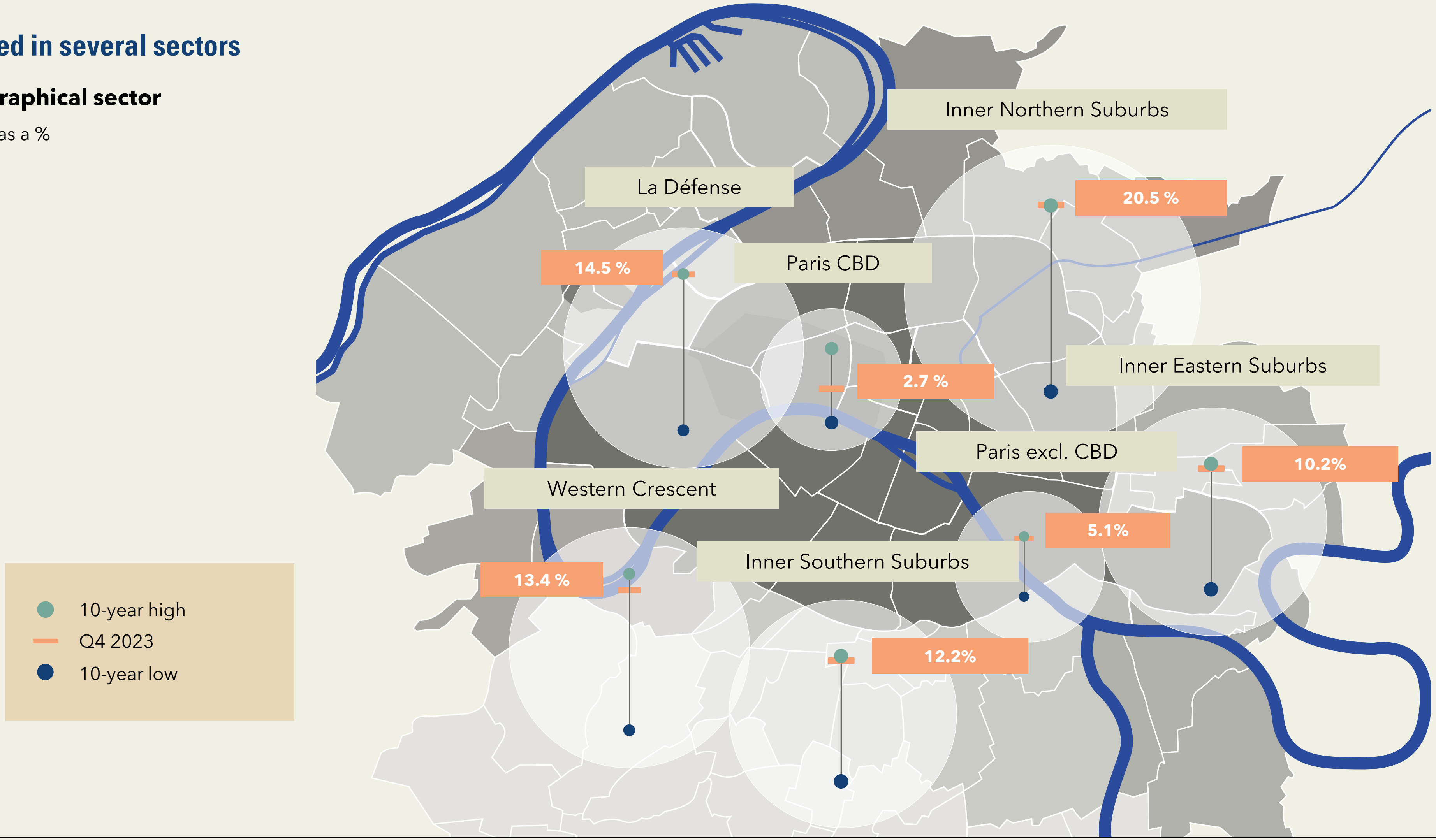
Inner Paris has also seen its vacancy rate rise, but more moderately. With 717,000 sq m of available office space, the vacancy rate stands at 4.2%, 0.4 point higher than at the end of Q3. Furthermore, the CBD remains persistently under-supplied, with the lowest level of availability in the region. Less than 180,000 sq m are immediately available, equating to a vacancy rate of below 3%.

Immediate supply: new highs

Record levels reached in several sectors

Vacancy rate by geographical sector

In the Greater Paris Region, as a %



Source : Knight Frank

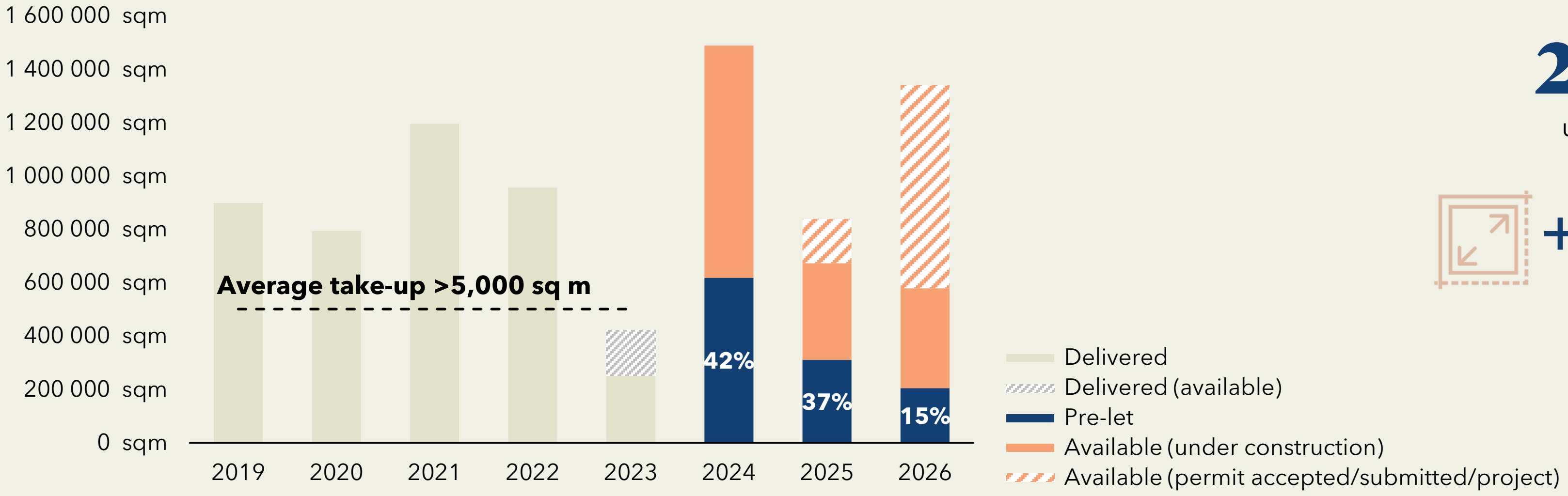
Future supply: deliveries peak in 2024

Despite a drop in deliveries in 2023 (31 projects of over 5,000 sq m in the Greater Paris Region, compared with an average of around sixty over the last five years), over 40% of the office space completed last year is still available and will therefore be in direct competition with buildings due for delivery in 2024. These buildings will be numerous, representing almost 1.5 million sq m, 58% of which is available. With a clear upturn in take-up unlikely in the short term, the vacancy rate in the Greater Paris Region will continue to rise. The increase could then moderate, with fewer deliveries expected in 2025 (0.84 million sq m, 63% of which is still available). The outlook is less clear for 2026, with a potential 1.34 million sq m of new space, of which only 32% has been launched.

Lasting drop from 2025?

Deliveries of new or refurbished premises

≥ 5,000 sq m in the Greater Paris Region



Source : Knight Frank

133 projects
under construction (≥ 5,000 sq m)

2.55 million sq m
under construction (≥ 5,000 sq m)

+16% year-on-year
Areas ≥ 5,000 sq m available under construction

37 %
Proportion of areas ≥ 5,000 sq m under construction and pre-let

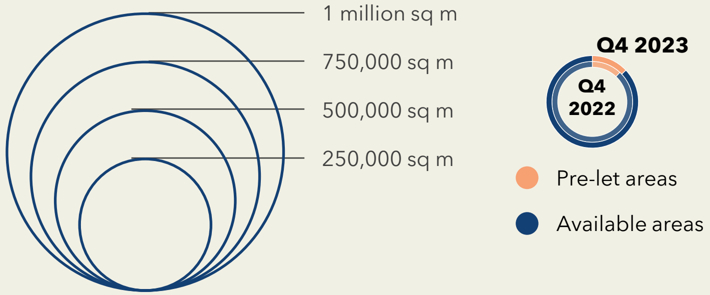
Ongoing imbalances

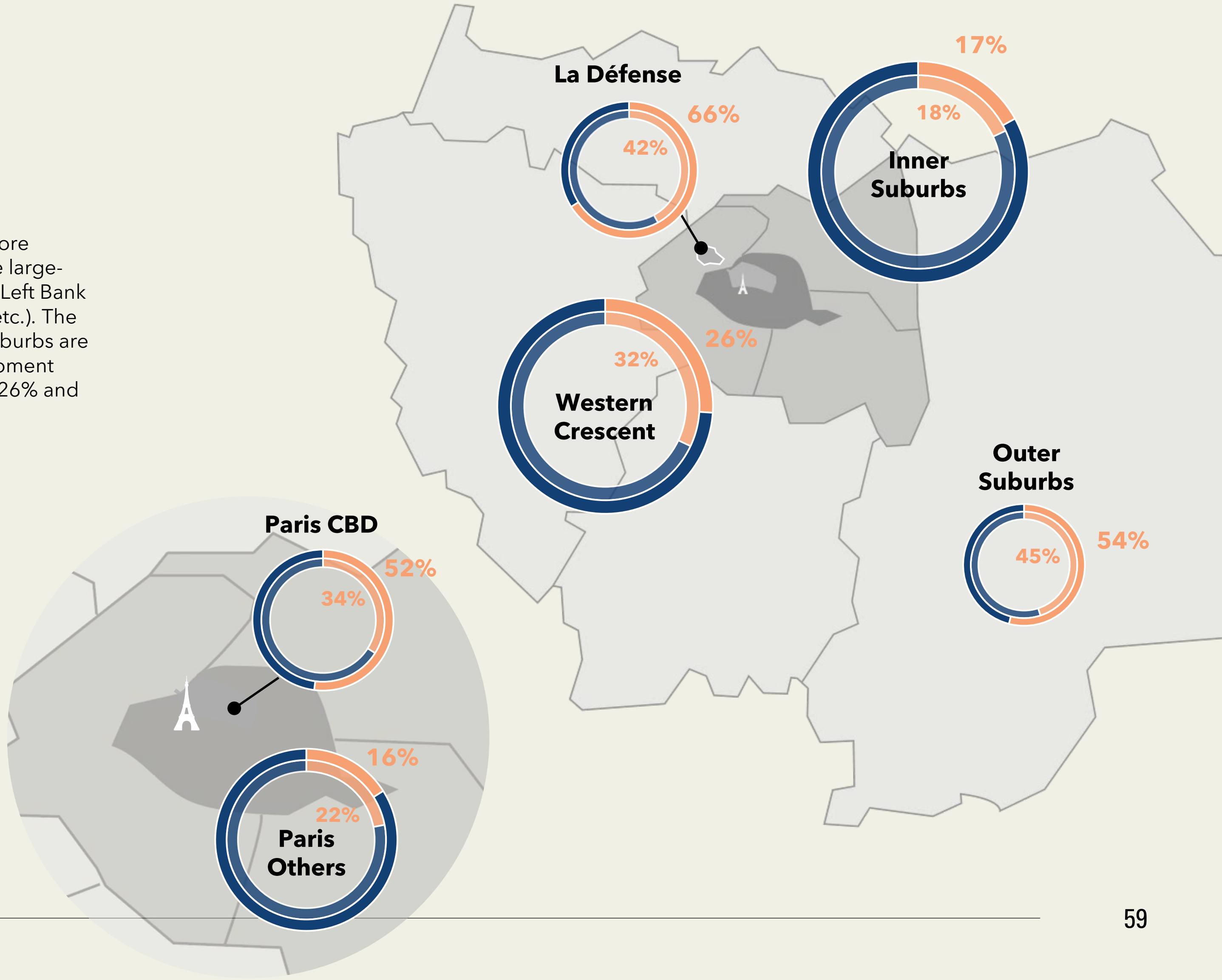
Status quo in the West and the Inner Suburbs

Pre-letting rate by geographical sector

Supply of new/refurbished offices (≥ 5,000 sq m) to be delivered by the end of 2026 in the Greater Paris Region (permit filed / permit accepted / under construction)

The pre-letting rate for areas to be delivered in the Greater Paris Region between 2024 and 2026 is 31%. However, the number of deliveries expected between now and 2026 and the proportion of available space varies greatly from one sector to another. In La Défense, 66% of the areas under development or redevelopment has already been snapped up ("The Link", "Altiplano", etc.). Availability is also limited in the CBD (52% of pre-let space), while it is more abundant in the rest of Paris, where large-scale projects are expected on the Left Bank (Tour Triangle, The Circle, Scope, etc.). The Western Crescent and the Inner Suburbs are characterised by their high development volumes and low pre-letting rates (26% and 17% respectively).





Source : Knight Frank

THE OFFICE MARKET

Paris and the new Bioclimatic urban town plan

A slowdown in activity

Changes in decisions on building permit applications

By number, in 2023 in Paris (at the end of November)

Building permits examined	
- 18 % year-on-year	- 15 % vs 10-year average
Favourable rulings	
- 16 % year-on-year	- 18 % vs 10-year average
Negative rulings	
- 15 % year-on-year	+ 4 % vs 10-year average

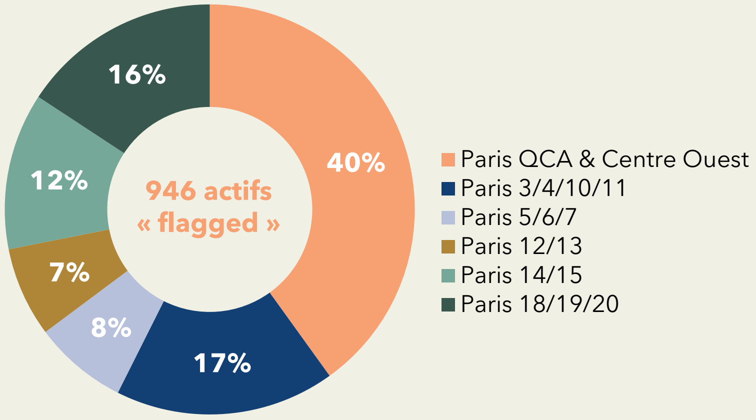
But: **6** deferred decisions for permits (after 1 in 2022 and 1 in 2016)

Whilst there is an abundance of future supply in the suburbs, Paris will struggle to achieve greater fluidity. In the capital, the revision of the new bioclimatic urban town plan and the city's desire to reduce the amount of office space, illustrated by the proliferation of "pastilles" (office buildings flagged for future residential use), has already resulted in a general slowdown in planning permission applications. The City of Paris is also making use of its right to rule on a growing number of projects: at the end of November 2023, six deferred decisions for building permits had been recorded (after 1 in 2022), while more than 360 deferred decisions related to prior declarations for changes of use. The new Bioclimatic urban town plan, whose final approval is expected in a few months' time, is likely to have a lasting effect on the development of new projects, which, given the continuing strong demand for office space in the capital, would help to maintain a low vacancy rate and high rental values.

611 new flags…

Geographical distribution of "flagged" buildings as part of the revision of the Paris urban town plan

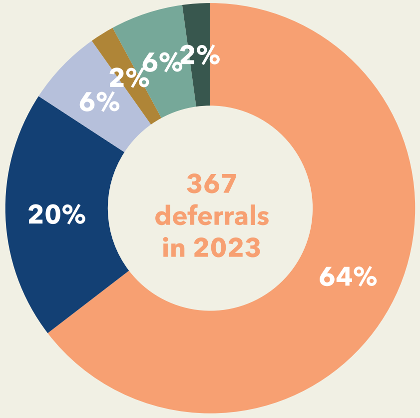
By number, all types of property



… and more and more deferred decisions

Geographical breakdown of deferred decisions for building permits and preliminary planning applications *

In 2023 (data to end of November), all property types, in Paris



Source : OpenData Ville de Paris /* To change use

Conversion remains a key issue

Of the 4.74 million sq m of office space available in the Greater Paris Region, 20% (882,000 sq m) has been vacant since 2017. These 882,000 sq m account for less than 2% of the Greater Paris Region's existing office space but are unevenly distributed geographically. Almost 70% of the space is concentrated in the Outer Suburbs and the Péri-Défense area (Asnières, Gennevilliers, etc.). This imbalance is likely to persist as remote working becomes more deeply rooted in organisations and as companies implement policies to streamline their real estate, turning away from the most remote office hubs and obsolete offices.
Whilst not all these derelict offices are suitable for conversion, they do represent a significant source of sq m that could be converted into other types of property and could help to alleviate the housing crisis.

20 % of total supply

Analysis of available supply since 2017

In the Greater Paris Region, all sizes and qualities combined (% of sq m), fully or partially vacant properties

Available supply over the last 6 years in the Greater Paris Region

240 offers
of which < 5% fully vacant properties

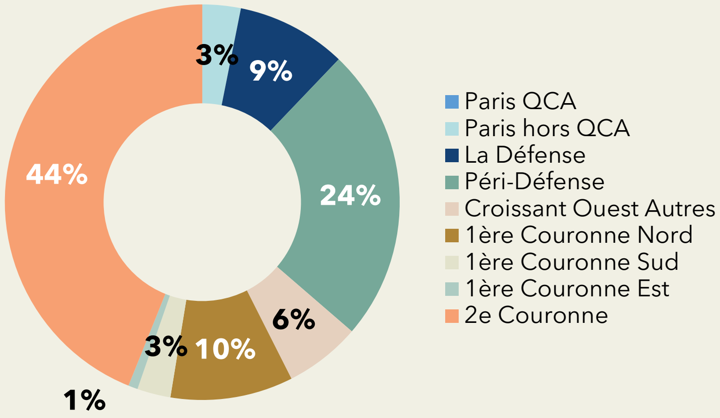
882,000 sq m
Total volume in the Greater Paris Region

20 %
of the total volume of supply available in the Greater Paris Region

The Outer Suburbs are over-represented

Geographical distribution

Available supply since 2017 in the Greater Paris Region, all sizes and qualities combined (% of sq m volume)



Almost half of buildings renovated

Breakdown by condition of premises

Available supply since 2017 in the Greater Paris Region, all sizes and qualities combined (% of sq m volume)

Second hand
57%

Renovated
43%

Source : Knight Frank

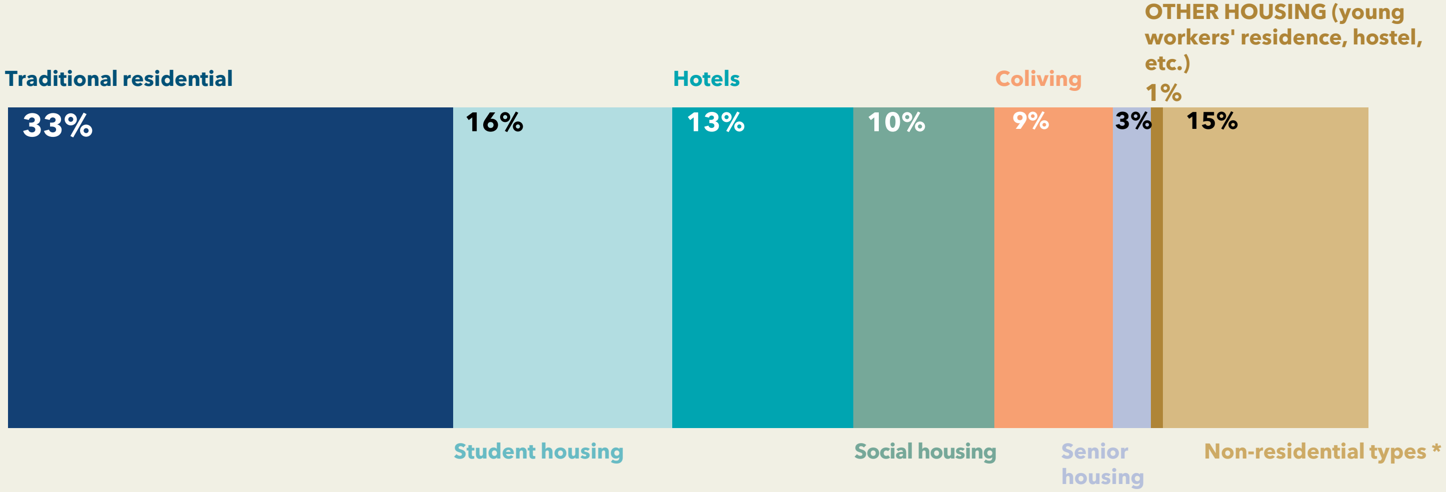
Almost 160 conversion operations

The sharp rise in vacancies and obsolete stock explains the increase in the number of office conversion operations. Since 2019, Knight Frank has identified almost 160 in the Greater Paris Region, concentrated mainly in Paris and the Hauts-de-Seine department. The potential uses for these operations are varied, consisting of 43% "traditional" housing (including 10% social housing), 16% student housing, 13% hotels, 9% coliving, 3% senior housing and 16% other types of property. While there are still some obstacles (cost of works, etc.), the sometimes significant correction in office prices is helping to achieve a degree of financial balance. In addition, a draft law, soon to be examined by the French National Assembly, aims to relax the regulations governing the conversion of office space into residential accommodation. Among the measures announced are the possibility of derogating from the urban town plan if it does not allow an asset to be converted, and the creation of a building permit for successive uses to support the transformability of buildings.

A wide range of opportunities for different types of assets

Breakdown by use of office space converted into accommodation since 2019

By volume (≥ 1,000 sq m) in the Greater Paris Region



* Other types of buildings (offices, retail, education, etc.) in mixed-use developments

Source : Knight Frank

Office to residential conversions (> 1,000 sq m) in the Greater Paris Region since 2019 :

158 operations

10,450 sq m
average area of a project

153 residential units
created on average

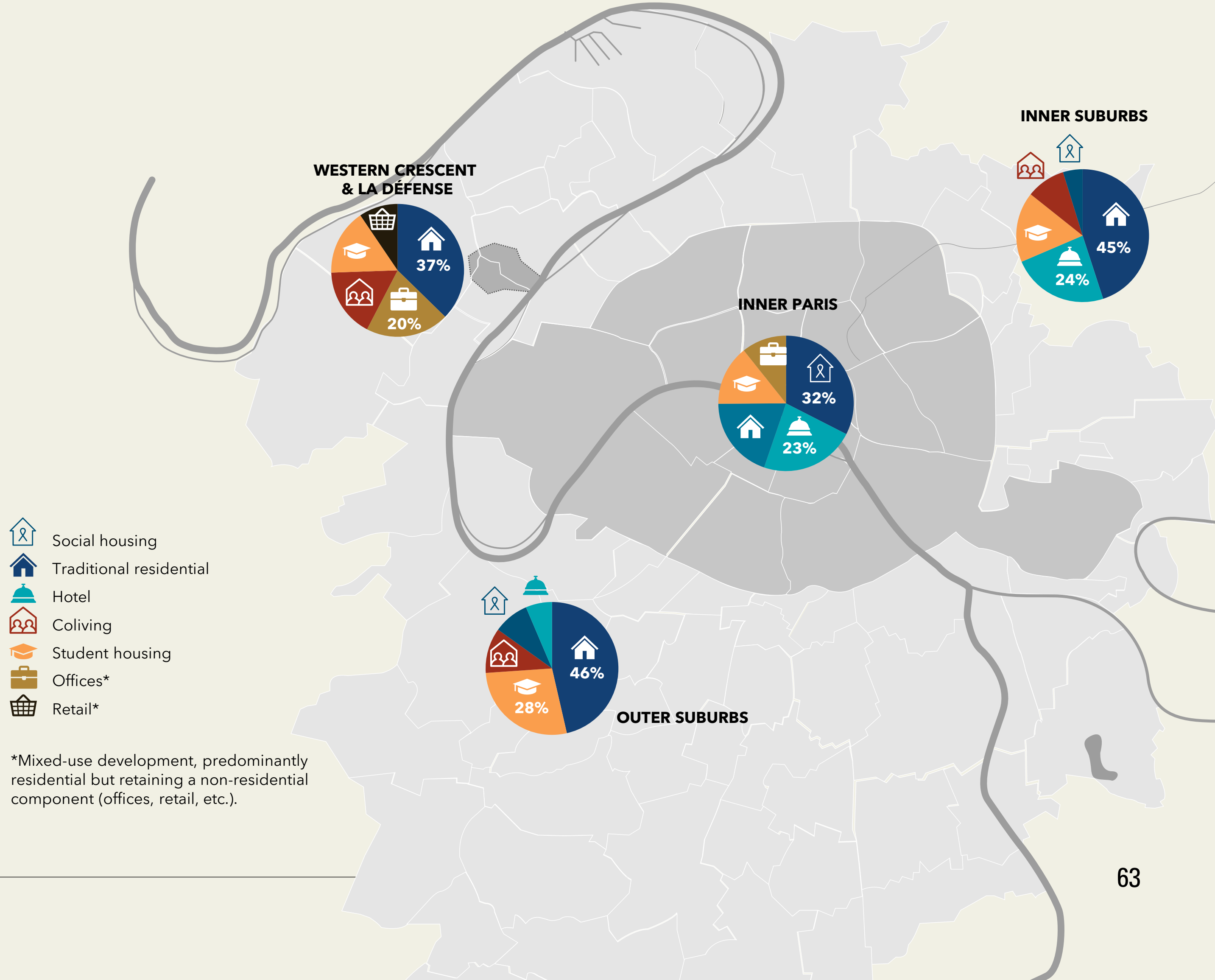
Paris and the Hauts-de-Seine
account for 66% of volumes converted and 67% of the number of operations

A boom in student housing and coliving

A wide range of opportunities depending on the geographical area

Top 5 destinations for office space converted into housing, by geographical sector

Since 2019 (≥ 1,000 sq m), in the Greater Paris Region



*Mixed-use development, predominantly residential but retaining a non-residential component (offices, retail, etc.).

Source : Knight Frank

THE OFFICE MARKET

2024 OUTLOOK

- Sluggish recovery in the French economy and **moderate deterioration in the employment market.**
- **Take-up volumes stabilising** at around 1.8 - 2 million sq m in the Greater Paris Region.
- Letting activity in Paris CBD: how will it change? **Potentially hampered** by the rise in rents and the increase in lease renewals, but available supply is slightly more abundant.
- **A more favourable context for occupiers' economic relocations.**
- Streamlining will **mainly benefit suburban markets offering the best value for money** (La Défense, the new hubs resulting from the Grand Paris Express, etc.).
- **The vacancy rate will reach a new high** due to the sharp rise in deliveries.
- Availability in Paris is likely to increase in the short term. In the longer term, **the scarcity effect will be maintained by the new bioclimatic urban town plan** and the fall in investment volumes.

3 The retail market

France

What we anticipated for 2023

- Fall in consumer spending, with consumers **making more informed choices.**
- Retailers **under pressure from higher charges** (ILC index, energy) and likely **increase in bankruptcies.**
- Priority given to optimising networks (closure of less profitable shops, negotiations with landlords, **seeking synergies between brands** belonging to the same groups, etc.).
- "Less but better": **flagships will continue to play a key role.**
- Paris 2024 **Olympic Games:** what are the implications for the Paris market?
- **Large-scale** retail development projects are **all but disappearing.**
- Increasing number of **conversions of existing assets to mixed-use developments** in city centres and the suburbs.

What actually happened

- Flat consumer spending, with **consumers making more informed choices.**
- Retailers **under pressure from higher charges** (ILC index, energy, salaries, etc.) and **sharp rise in the number of legal proceedings** (54 in 2023 compared with 2022).
- **Continued optimisation of networks** (closure of the least profitable shops, negotiations with landlords, seeking synergies between brands belonging to the same groups, etc.), **particularly in view of the increase in the number of legal proceedings.**
- "Less but better": **flagships have retained a key role**, **particularly in the luxury and sportswear sectors**.
- **2024 Olympic Games**: positive impact for some of Paris's best retail streets.
- **Large-scale** retail development projects have **all but disappeared**, and there has been a general drop in completions (down 59% on the 5-year pre-Covid average).
- The issue of **transforming existing retail premises has taken on even greater importance**, particularly in the suburbs (retail zone transformation plan, proliferation of leisure complexes, etc.).

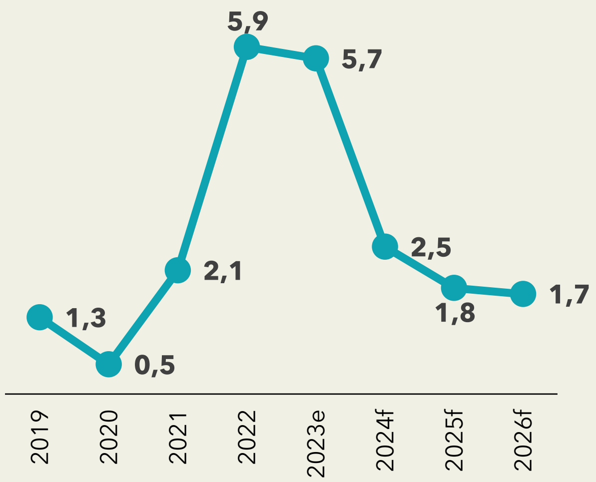
Consumer spending expected to pick up

In 2023, household consumption faltered because of the worsening economic climate and high inflation. According to forecasts published by the Banque de France in December 2023, inflation is set to fall sharply, thanks in particular to lower energy prices. It is expected to reach 2.5% in 2024 before falling below 2% in 2025. The downward trend in prices is therefore underway and will restore some of the purchasing power of households in 2024. After the dynamism of 2021 and 2022 and the sharp slowdown in 2023, French consumption should pick up again. However, the upturn in household spending is likely to be moderate, with consumption growing by just 1.5% in 2024, followed by increases of 1.4% and 1.6% in 2025 and 2026 respectively.

Lasting fall in inflation

Inflation changes in France

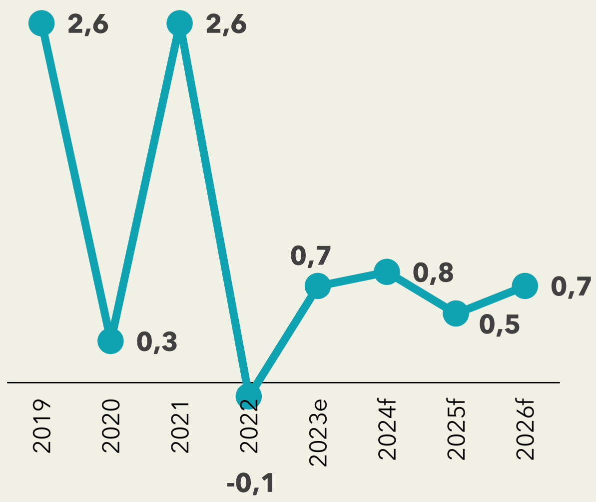
As a %, annual average



Slight recovery in purchasing power

Purchasing power in France

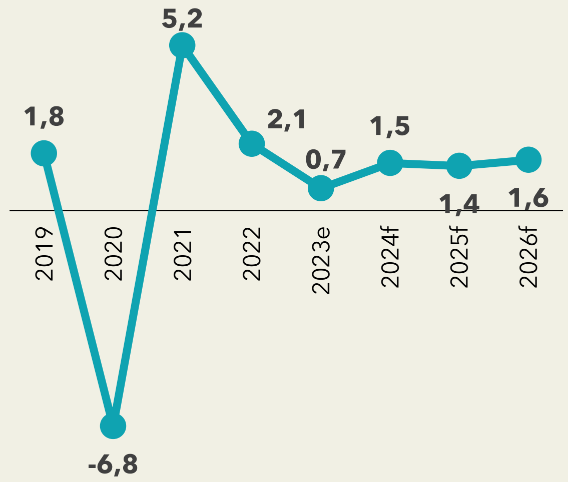
As a %, annual average



Consumer spending picks up a little

Consumer spending in France

As a %, annual average



Sources : INSEE, Banque de France / e : estimation, f : forecast

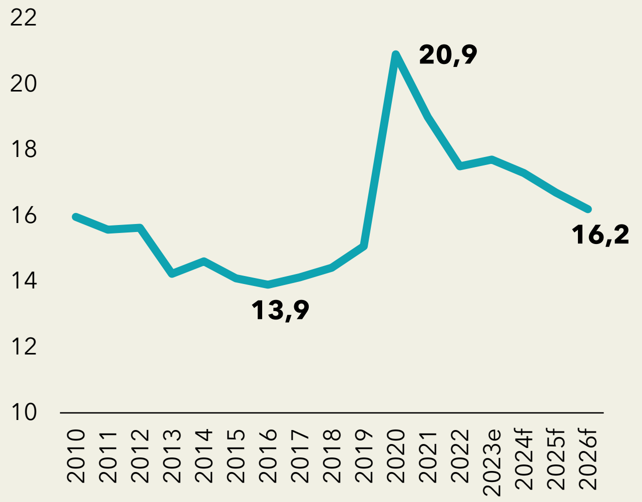
Unfavourable factors persist

Several unfavourable factors remain, however. Despite the decrease in inflation, the mood of the French people has improved only slightly and remains well below the long-term average, which partly explains why the savings rate remains high. This situation could persist, particularly in view of the expected deterioration in the employment market and the possible deterioration in the social climate. Above all, the risk of price volatility remains high due to an international context that remains very uncertain (war in the Middle East and the Red Sea, etc.).

A substantial nest egg

Savings rate in France

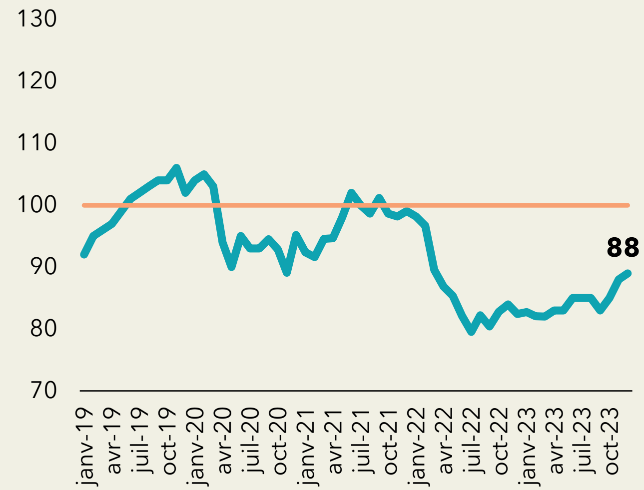
As a % of gross disposable income



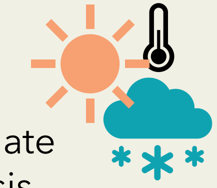
Confidence has not been restored

Household opinion in France

As a %, annual average



Social tensions



Climate crisis

Geopolitical risks

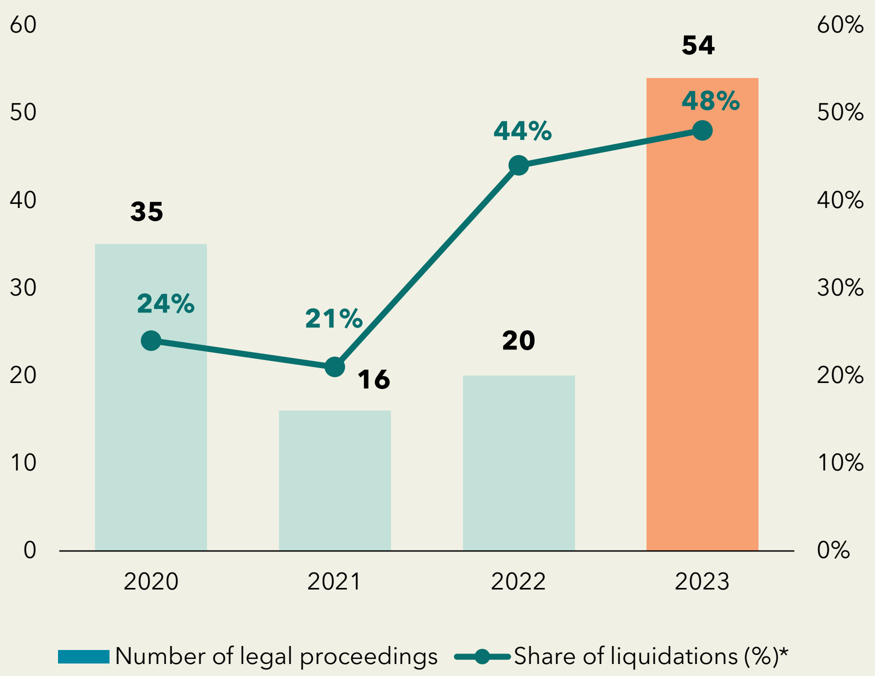
Sources : INSEE, Banque de France

Sharp rise in legal proceedings

Almost threefold increase in 2023

Change in the number of legal proceedings in France

Retail and restaurant sectors



Between 2020 and 2023

125
Total number of legal proceedings

88
Number of brands involved in a procedure

41%
Proportion of brands liquidated (Camaïeu, San Marina, La Compagnie des Petits/Allo Bébé, Habitat, etc.)

The expected upturn in consumer spending should breathe new life into retailers, but not all of them will benefit in the same way, as many remain weakened by high costs and household choices. The development of new brands, the popularity of second-hand goods and the rise of certain pure players are also increasing competitive pressure, which means that concepts need to be renewed frequently and sometimes require substantial investment.

Against this backdrop, the question of survival will continue to arise in 2024 for some retailers, after 2023 was already marked by a sharp upturn in legal proceedings. In 2023, 54 legal proceedings were recorded by Knight Frank in France, compared with 20 in 2022 and an average of 24 each year since 2020. Over the entire period from 2020 to 2023, 125 legal were recorded, involving a total of 88 brands.

Source : Knight Frank / * Of the total number of brands involved in legal proceedings each year

Sharp rise in legal proceedings

Certain economic sectors over-represented

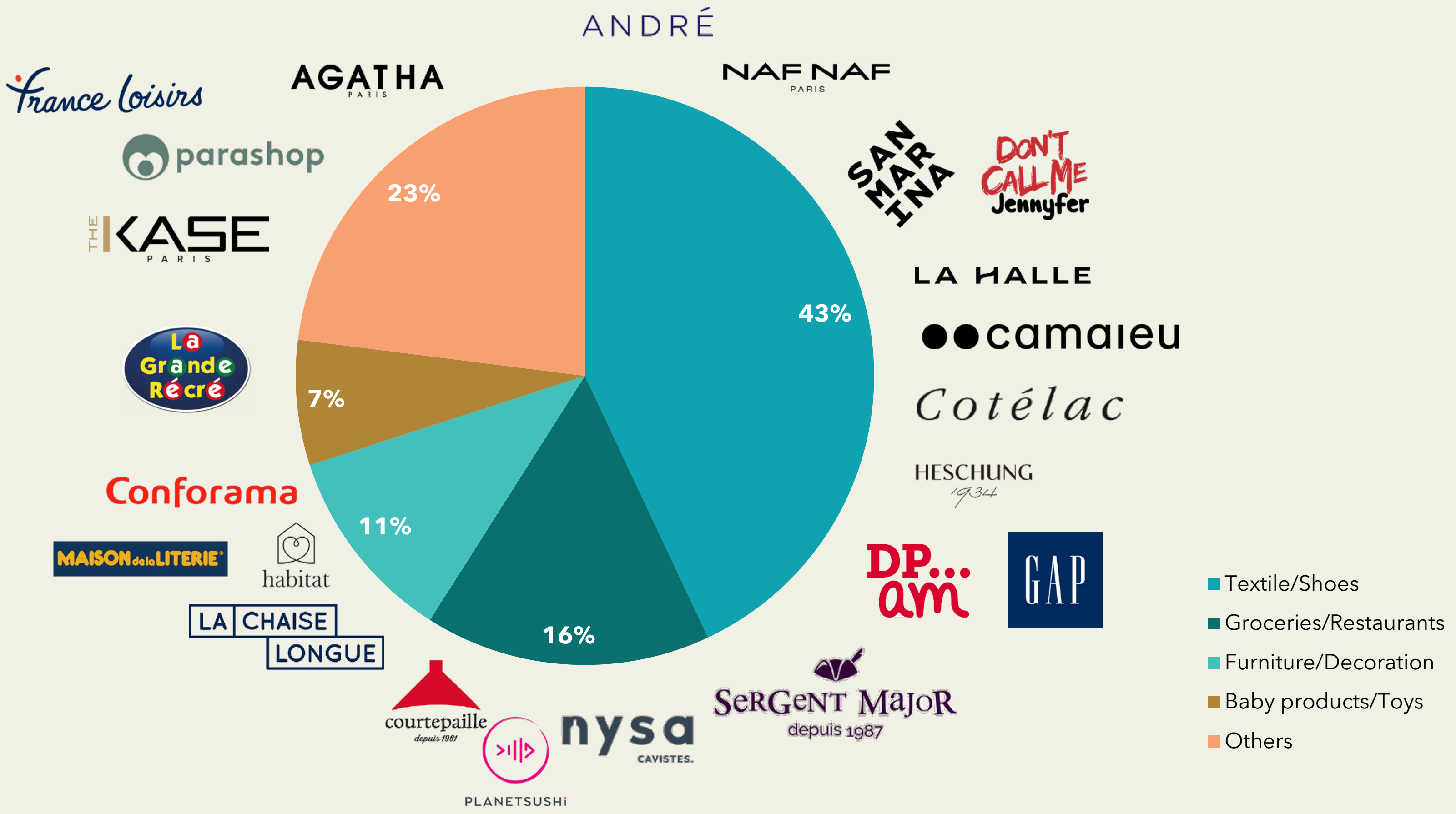
Breakdown of legal proceedings by business sector

Proportion of the total number of brands involved in proceedings since 2020 in France and examples

Since 2020, 43% of retailers in France involved in legal proceedings have been in the fashion sector. The situation deteriorated further last year, with CHAUSSEXPO and TALLY WEIJL going into liquidation, while MAISON LEJABY, BONTON and DON'T CALL ME JENNYFER were put into receivership.

Sectors other than clothing have also been affected, such as groceries and the restaurant sector (16% of retailers subject to legal proceedings since 2020), and furniture and decoration (11%), as illustrated by the recent liquidation of HABITAT.

This wave of legal proceedings, several of which relate to leading brands in the French market, reflects the scale of the reshaping of the retail landscape.



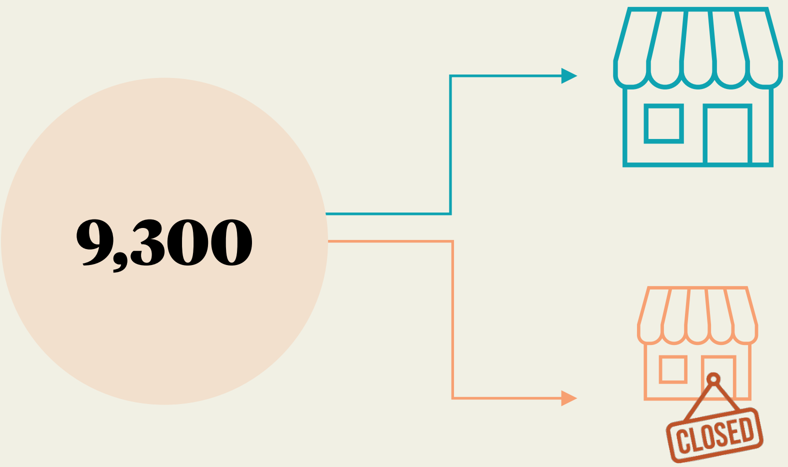
Source : Knight Frank

60% of shops are still open

The reshaping of the retail landscape that has been underway for several years will continue in 2024. Although most of these legal proceedings do not result in liquidations, they will continue to lead to store closures. Of the 9,300 shops initially included in the 88 brands involved in one or more legal proceedings in France since 2020, 3,700 (i.e. 40% of the total) have closed. Some of these stores have been re-let, while others are still vacant and available on the market.

Total number of shops in France BEFORE legal proceedings*

Total number of shops in France AFTER legal proceedings



5,600*

are still open, of which

86 % of shops under the brand name

14 % of shops having changed or due to change their name as part of a takeover

3,700*

Number of closed shops

Still vacant or already re-let (excluding takeover by another brand)

Examples of takeovers

Number of shops taken over out of the total

JouéClub!	TOOK OVER →	La Grande Récré	**127** (139)
	→	MOA	**90** (106)
La Boucherie Restaurant	→	Grill Courtepaille	**87** (216)
Intersport	→	Go Sport	**72** (125)
TEDi	→	Max Plus	**42** (45)

The retail market

Source : Knight Frank /* Total number of shops in the 88 brands subject to legal proceedings since 2020

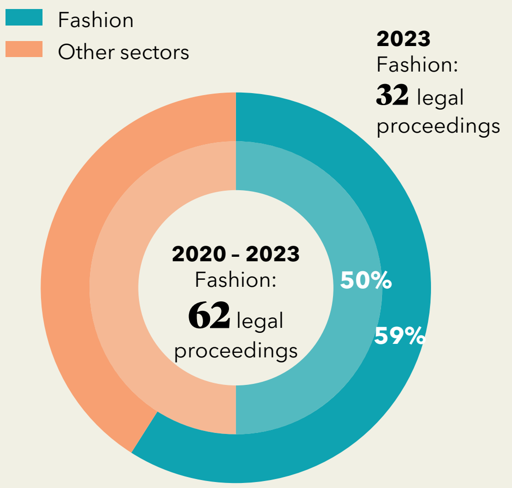
Fashion is facing increasing difficulties

The fashion sector saw its difficulties increase last year. The sector accounted for 59% of all legal proceedings in 2023, compared with an average of 50% between 2020 and 2023. The fashion sector is also more affected by closures: the closure rate for fashion retailers involved in legal proceedings between 2020 and 2023 is 50%, compared with 40% for all sectors combined. Most of these difficulties relate to the mid-range sector. While the premium sector is experiencing fewer difficulties, it has recently shown some signs of weakening. After increasing the number of points of sale in the 2010s, the current trend for accessible luxury is less positive, with several brands downsizing their networks.

2023, annus horribilis

Fashion as a proportion of all legal proceedings in France

As a % of the total number of legal proceedings

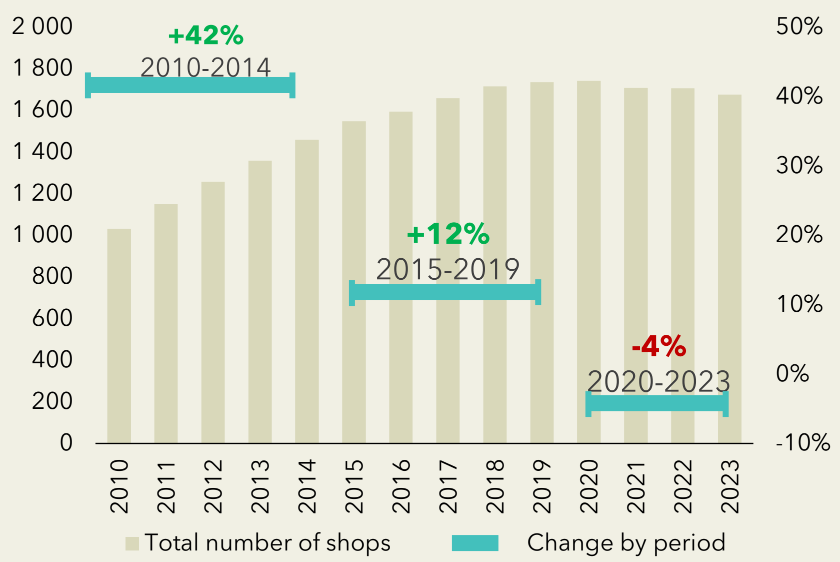


Fashion: fewer brands taken over ...

Are these difficulties extending to premium brands?

Number of premium fashion brand shops in France

From a sample group of 28 brands representative of the sector

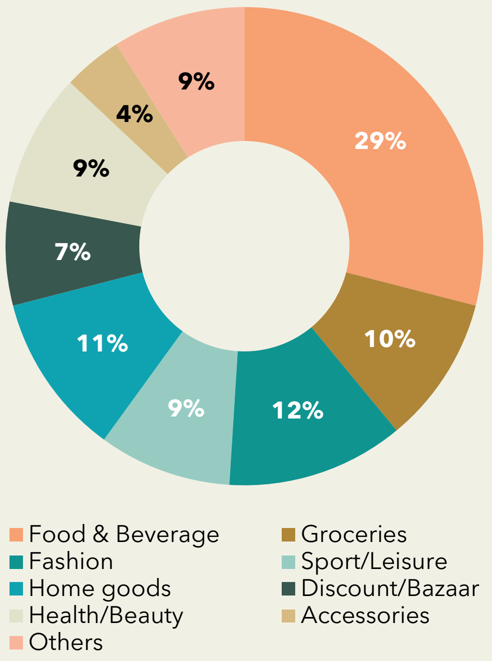


Source : Knight Frank

Support for growth

Restaurant sector still at the forefront of expansion plans

Breakdown by economic sector of the total number of brands reporting expansion plans in France in 2023*



Whilst legal proceedings rebounded sharply in 2023, the French retail market is also benefiting from the expansion strategies of a large number of retailers, in a wide variety of sectors and ranges. In 2023, Knight Frank identified 180 development plans representing a potential of almost 2,500 new retail outlet openings. The property market can therefore count on relatively strong demand from retailers. Some of them, which have become key players in the market, have been expanding their networks for several years, such as ACTION in the discount sector, FITNESS PARK and BASIC FIT in the fitness sector, and MAXI ZOO in the pet shop sector.

Other players are stepping up their expansion, such as SCREWFIX and TOOLSTATION in DIY, and ANGE, SOPHIE LEBREUILLY, MARIE BLACHÈRE, FEUILLETTE and BOULANGERIE LOUISE among bakery retailers. Lastly, several brands have relaunched their development after a period of dormancy, particularly in the restaurant sector.

Across all types of development, the restaurant sector remains the fastest-growing, accounting for almost 30% of all expansion plans in 2023. Other sectors will drive the retail property market in 2024. Low-cost retailers will continue to spread out across the country, capitalising on the quest for savings by French consumers whose purchasing power will increase only moderately.

The sports and sportswear sectors are also likely to remain buoyant, with the Olympic Games in particular and developments following the takeovers of long-established brands (COURIR and GAP acquired by JD SPORTS, GO SPORT acquired by INTERSPORT).

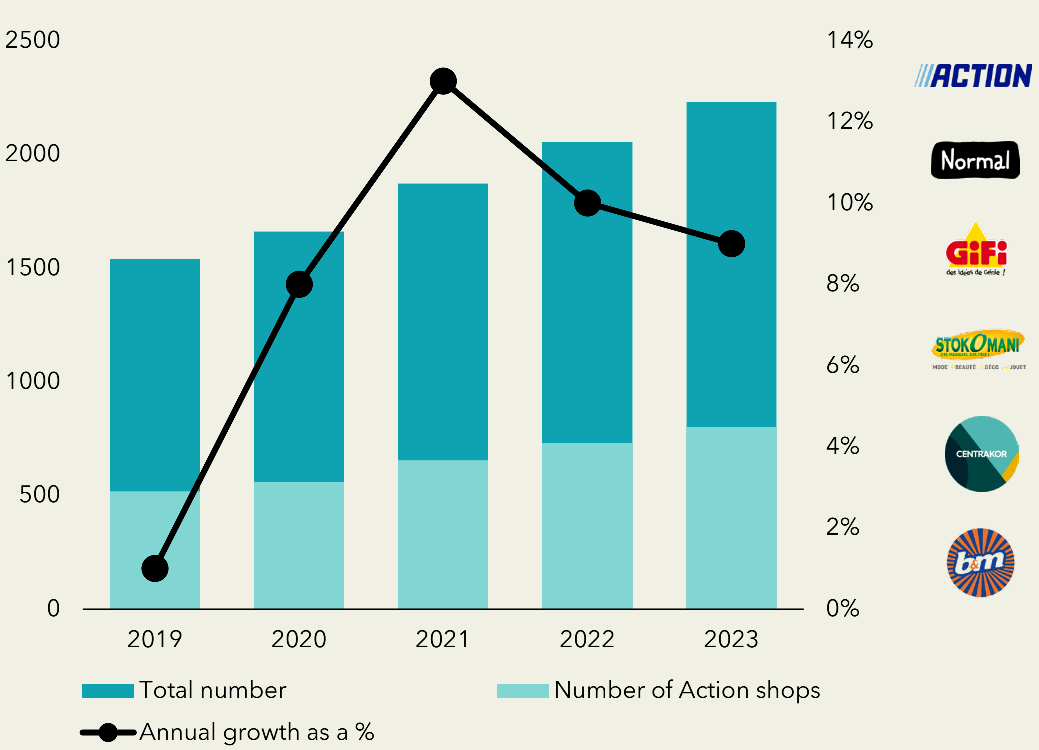
Trends in another major sector, home furnishings and decoration, are more difficult to predict. Competing with discount brands and the growing success of second-hand goods and weighed down by the crisis in the residential property market, this sector saw its sales fall in 2023, with several brands placed in receivership (MAISON DE LA LITERIE, KERIA) or liquidated (HABITAT).

Sources : Knight Frank, others / *≥ 5 openings planned for the year.

Support for growth

The discount boom: how long will it last?

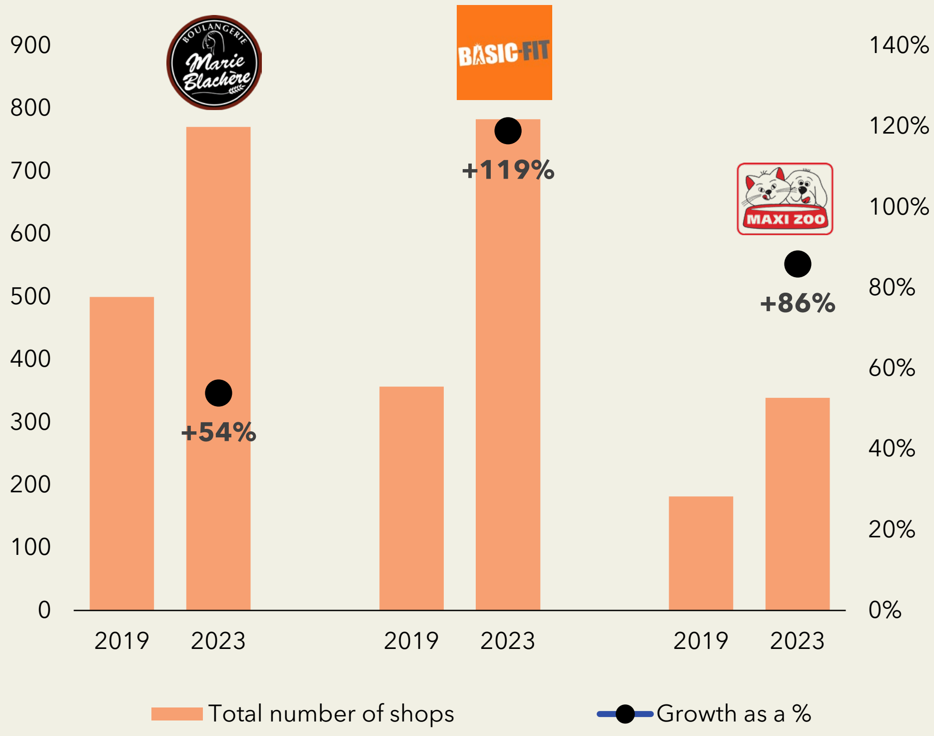
Change in the number of shops of six discount brands in France



Sources : Knight Frank / LSA

Impressive growth

Change in the number of shops for three fast-growing brands in France



Sources : Knight Frank / LSA

The retail market

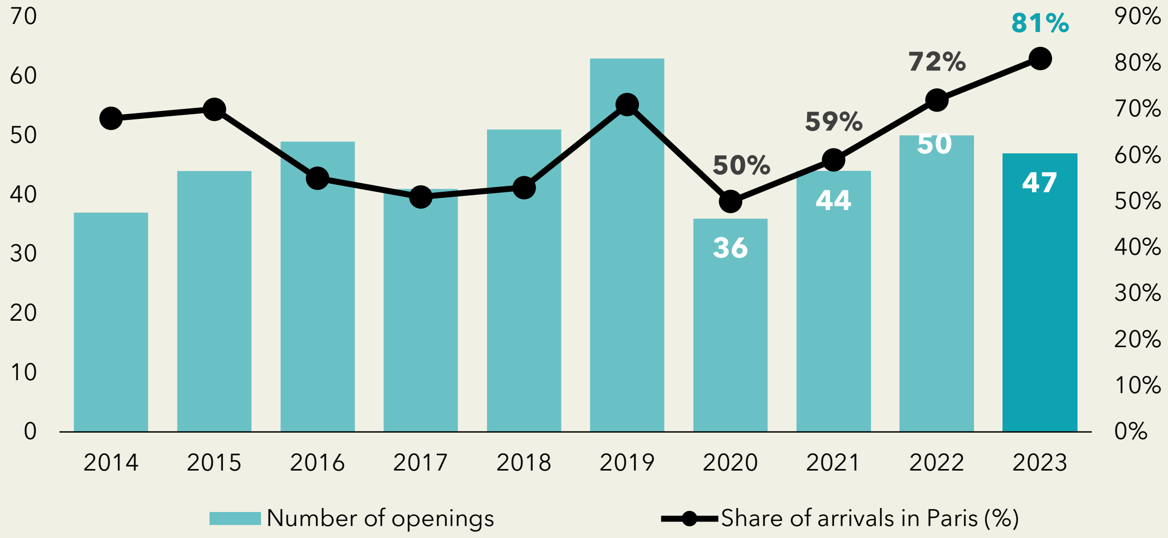
Confirmed appeal

The development of brands already present in France is coupled with a constant and significant influx of new foreign brands. In 2023, 47 new foreign brands arrived in France, down slightly from 50 in 2022. Despite this decrease, the number of new entrants is considerable and is likely to remain so over the coming months, with almost thirty definite or potential projects already identified for 2024. However, as was the case last year, the spread of new entrants will be very uneven, with the vast majority of them establishing themselves in the capital. The fact that most new foreign retailers are setting up first in Paris is logical: it is the heart of France's richest and most densely populated region, and the most visited city in Europe, making it an unrivalled magnet. In fact, over the last ten years, its share has never been so high, with Paris capturing 81% of the total number of new arrivals in France in 2023, compared with an average of 64% over the last ten years.

Paris' share at its highest level

Change in the number of new arrivals

Number of first shops opened in France by new foreign brands



Source : Knight Frank

2023 arrivals

Examples

JUST in CASE, SIGNORVINO, Palm Angels, Krispy Kreme, PIOMBO, Läderach, Valextra, HAUSER & WIRTH, TEDi, CHIMI, HOFF, porada, On, NISHANE, DOPPELGÄNGER, LA CAGE, POP MART

And in 2024 ?

Examples of expected arrivals in France in 2024

RH Restoration Hardware, NAKED Copenhagen, BAO CANTEEN, HOKA, BENIHANA, Flabelus, OTTOLINA Milano 1948, ATACADÃO, alo yoga, FARM RIO, POMANDÈRE

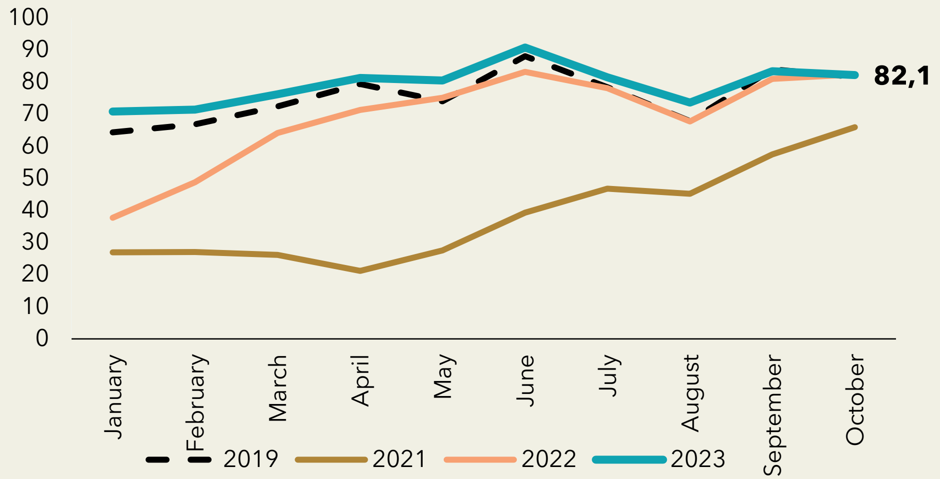
Tourism: a positive outlook

Whilst the French economic situation remained unfavourable to consumer spending in 2023 due to persistently high inflation, the capital's prime locations continued to benefit from the rebound in international tourism. Between January and October, occupancy rates in Paris hotels almost systematically exceeded the levels recorded each month in 2019. With almost 100 million passengers in 2023, traffic at Paris airports rose by 15.1% year-on-year to 92.3% of 2019 levels. Finally, forecasts for 2024 are encouraging: hotel bookings for the 1st quarter are almost 6% higher than for the same period in 2019, while the summer period, which is usually quieter, will benefit from the extra visitors generated by the Olympic Games.

Hotels: better than before the health crisis

Hotel occupancy rates in Paris

As a %, from January to October each year

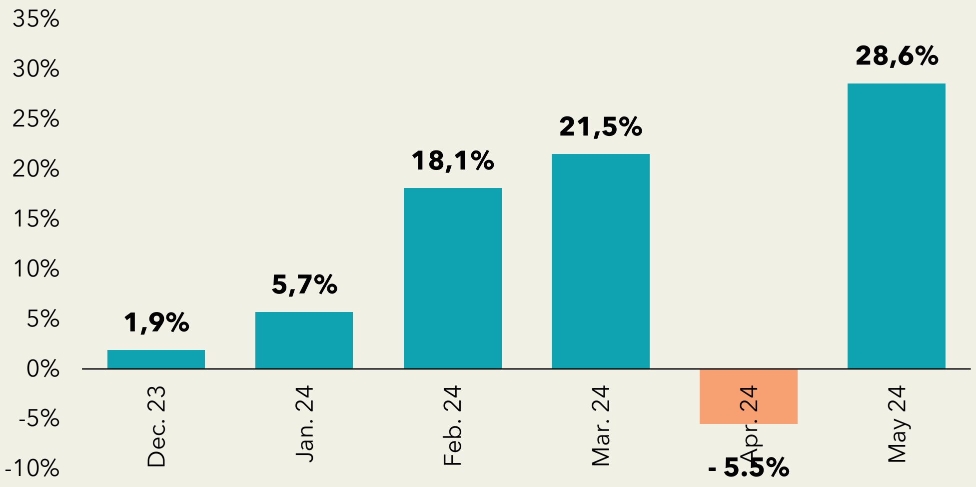


Sources : INSEE, DGE, CRT

Expected increase in 2024

Hotel booking forecasts

Change compared with last year, as a %



Source : Visit Paris Region

Examples of transactions and openings in Paris in 2023

BRAND	ADDRESS	AREA (SQ M)
ADIDAS	88 AVENUE DES CHAMPS-ÉLYSÉES, PARIS 8	3,680
JD SPORTS	118 AVENUE DES CHAMPS-ÉLYSÉES, PARIS 8	1,560
POLENE	2 ROND POINT DES CHAMPS-ÉLYSÉES, PARIS 8	1,190
LEVIS	44 AVENUE DES CHAMPS-ÉLYSÉES, PARIS 8	870
CALVIN KLEIN	44 AVENUE DES CHAMPS-ÉLYSÉES, PARIS 8	850
DIESEL	223 RUE SAINT-HONORÉ, PARIS 1	780
CIFONELLI	35 RUE FRANÇOIS 1er, PARIS 8	740
URBAN OUTFITTERS	102 AVENUE DES CHAMPS-ÉLYSÉES, PARIS 8	680
ISSEY MIYAKE	28 RUE FRANÇOIS 1er , PARIS 8	470
DOPPELGANGER	41 RUE DE RIVOLI, PARIS 1	460
CUPRA	1 BOULEVARD DE LA MADELEINE, PARIS 1	430
ON RUNNING	13 RUE CLÉMENT (MARCHÉ ST-GERMAIN), PARIS 6	400
IWC	73 AVENUE DES CHAMPS-ÉLYSÉES, PARIS 8	400
ARC'TERYX	42 RUE DES FRANCS BOURGEOIS, PARIS 4	360
NEW BALANCE	13 RUE DES ARCHIVES, PARIS 4	360
PANERAI	120 AVENUE DES CHAMPS-ÉLYSÉES, PARIS 8	320
SEPHORA	125 AVENUE VICTOR HUGO, PARIS 16	250
FUSALP	44 AVENUE GEORGE V, PARIS 8	200

Source : Knight Frank

KNIGHT FRANK TRANSACTION

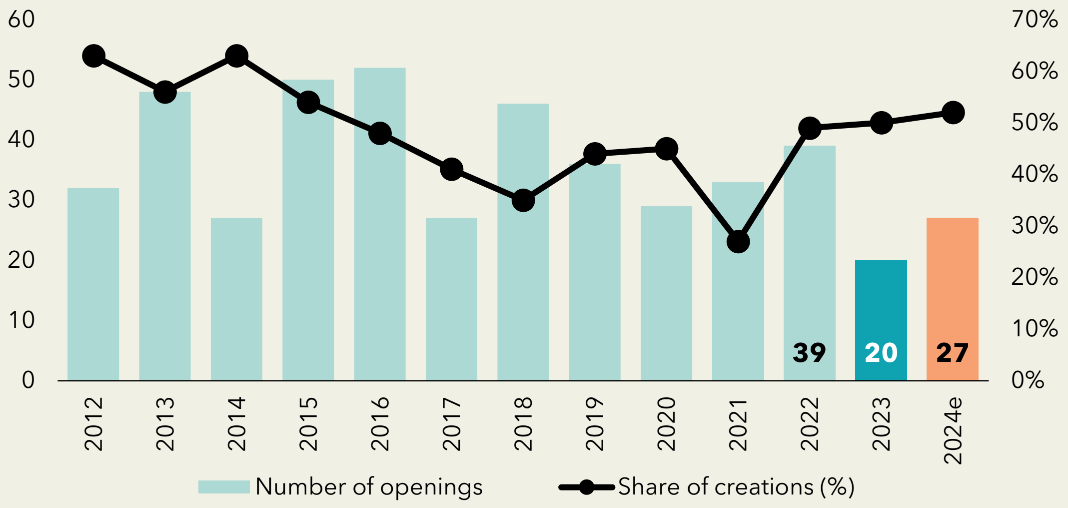
Luxury: fewer openings

In Paris, luxury brands have continued to make headlines in recent months, despite a smaller number of openings. Only 20 luxury shops opened in the capital in 2023, almost half the number seen in 2022. This decrease is not surprising, since the number of openings in 2021 and 2022 had been boosted by the completion of projects postponed by the health crisis; nor is it worrying, since at least thirty openings are already expected in 2024. The Paris luxury goods market is even expected to strengthen, given the scale of some of the projects initiated last year. In particular, LVMH has been behind several large-scale acquisitions of buildings in Paris, extending their presence in the Golden Triangle (a very dynamic sector for the Paris luxury sector) and on the Champs-Elysées, where the group has, for example, acquired no. 150 with a view to creating more than 6,500 sq m of retail space.

Fewer openings in 2023, but a rebound is expected in 2024

Change in the number of luxury shop openings*

Openings in Paris



Source : Knight Frank / * Creations, renovations/extensions, relocations and pop-up shops.

Significant openings in 2023

Renovations – extensions - relocations

Franck Namani, Alexander McQueen, Valentino, A. Lange & Söhne, Bottega Veneta, Saint Laurent

Creations

Goyard, S.T. Dupont, Saint Laurent, Jovadi, Vacheron Constantin, Panerai

Some 2024-2025 projects

Renovations – extensions - relocations

Celine, Loewe, Balenciaga, Burberry, Saint Laurent, Chanel, Omega, Louis Vuitton

Creations

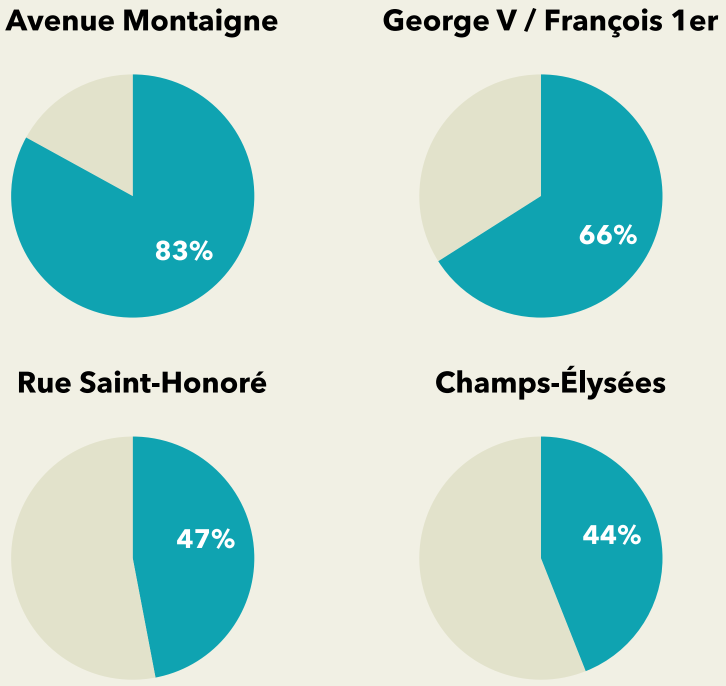
Breitling, Gucci, IWC Schaffhausen, Maison Michel, Alaïa, Alexander McQueen

Luxury: consolidation of the main markets

Luxury is expanding its footprint

Proportion of luxury shop openings in locations where luxury shops are already present*

By street, between 2014 and 2023



Source : Knight Frank / *Excluding pop-up shops

As well as LVMH's purchase of 150 avenue des Champs-Élysées, the luxury group also acquired the building housing its LOUIS VUITTON flagship at number 101 last year. SAINT LAURENT has also just opened its first store on the Champs-Élysées, while IWC is preparing its arrival at no. 73, confirming the interest of watch brands in setting up shop on the avenue.

Whilst the history of the Champs-Élysées is firmly associated with luxury, the avenue is one of the few Parisian streets where this sector is still significantly expanding its footprint through the creation of new flagships. In total, "only" 44% of luxury brands that have opened a shop on the Champs-Élysées in the last ten years have done so in place of another luxury brand. The move upmarket is therefore clear and will continue over the next few years.

In the more mature areas of the Parisian luxury sector, new developments are more sporadic, such as the conversion of the former Canadian Embassy at 35-37 avenue Montaigne, sold to KERING in 2023, or the handful of arrivals in certain streets in the Golden Triangle or on rue Saint-Honoré (VALEXTRA). Here, there are still many projects, but they mainly involve renovating, extending or relocating existing shops (reopening of BOTTEGA VENETA and relocation of VALENTINO on avenue Montaigne, extension of ALEXANDER MCQUEEN on rue Saint-Honoré, etc.).

The driving force behind the Paris luxury property market, rue Saint-Honoré nevertheless retains a more mixed positioning than historic streets such as avenue Montaigne or certain streets in the Golden Triangle. In 2023, for example, the area saw the opening of several trendy or high-end brands including PALM ANGELS, PIERRE HARDY and the Florentine perfumer OFFICINA PROFUMO FARMACEUTICA DI SANTA MARIA NOVELLA.

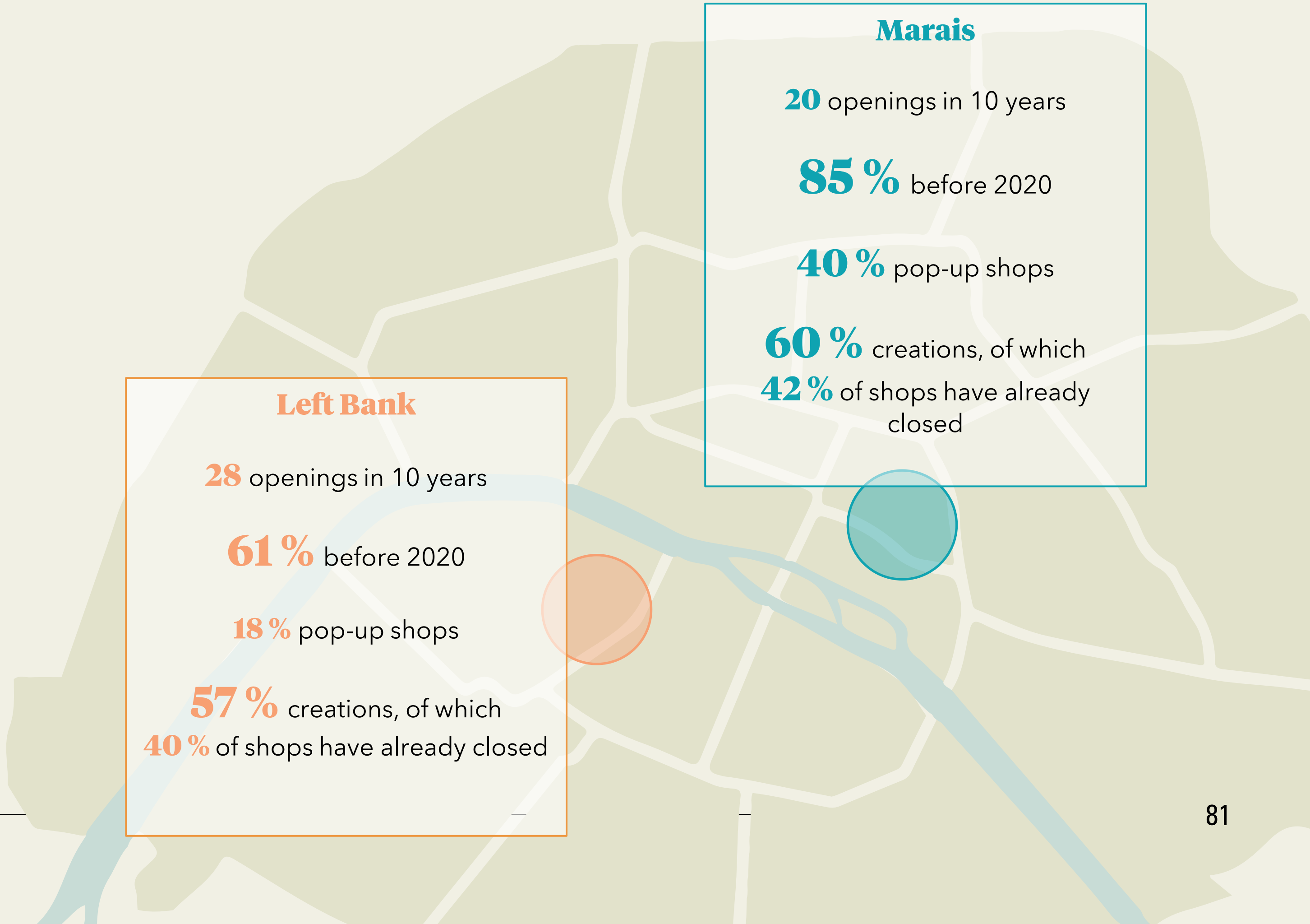
Luxury: consolidation of the main markets

A shrinking market outside the historic heart of the Right Bank

Sample indicators

Between 2014 and 2023

In contrast to the dynamism of the main retail streets on the Right Bank and confirming the geographic contraction of the Parisian luxury market around its most established areas, the number of openings in other areas of the capital (such as the Left Bank and the Marais) has been much reduced or has even dried up. On the Left Bank, the 30 or so openings recorded over the last ten years in the Sèvres / Grenelle / Saint-Germain sector were mostly before 2020 (61% of the total number). In the Marais, the trend is even more marked, with 85% of luxury shop openings in the last ten years taking place before 2020.



Champs-Elysées: the renaissance

Avenue des Champs-Élysées remains one of the most dynamic retail streets in Paris. Taking all categories and activities together, a total of 46 movements* were recorded since 2022, 46% of which were new stores and 54% transfers, extensions or renovations.

These figures testify to the scale of the ongoing transformation of the avenue, which is being boosted by major projects in the luxury sector, such as those for top-of-the-range fashion brands like CALVIN KLEIN, or sportswear brands like JD SPORTS and ADIDAS.

As a result of this dynamic letting activity, the vacancy rate continued to fall in 2023, dropping below 4% at the end of the year compared with almost 10% two years earlier. This rate is also below the average of the 12 prime streets monitored by Knight Frank (5.2%).

46 movements

recorded since 2022

OPEN

46 % creations

54 % relocations, extensions, renovations

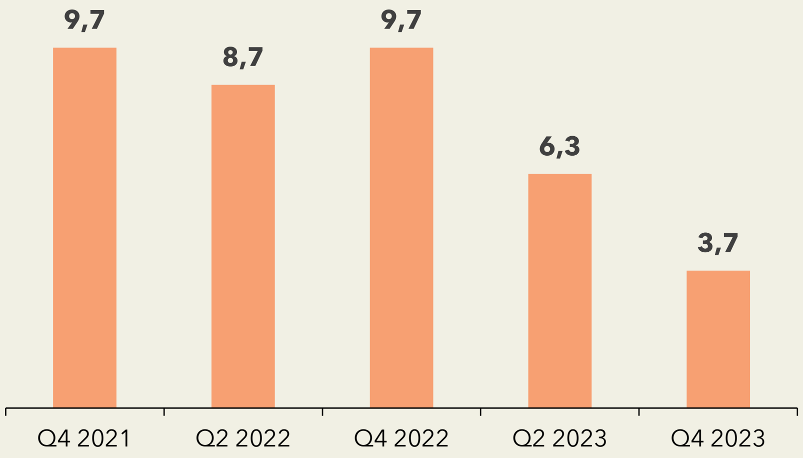
24 % luxury shops

17 % sportswear shops

Sharp fall in retail vacancy

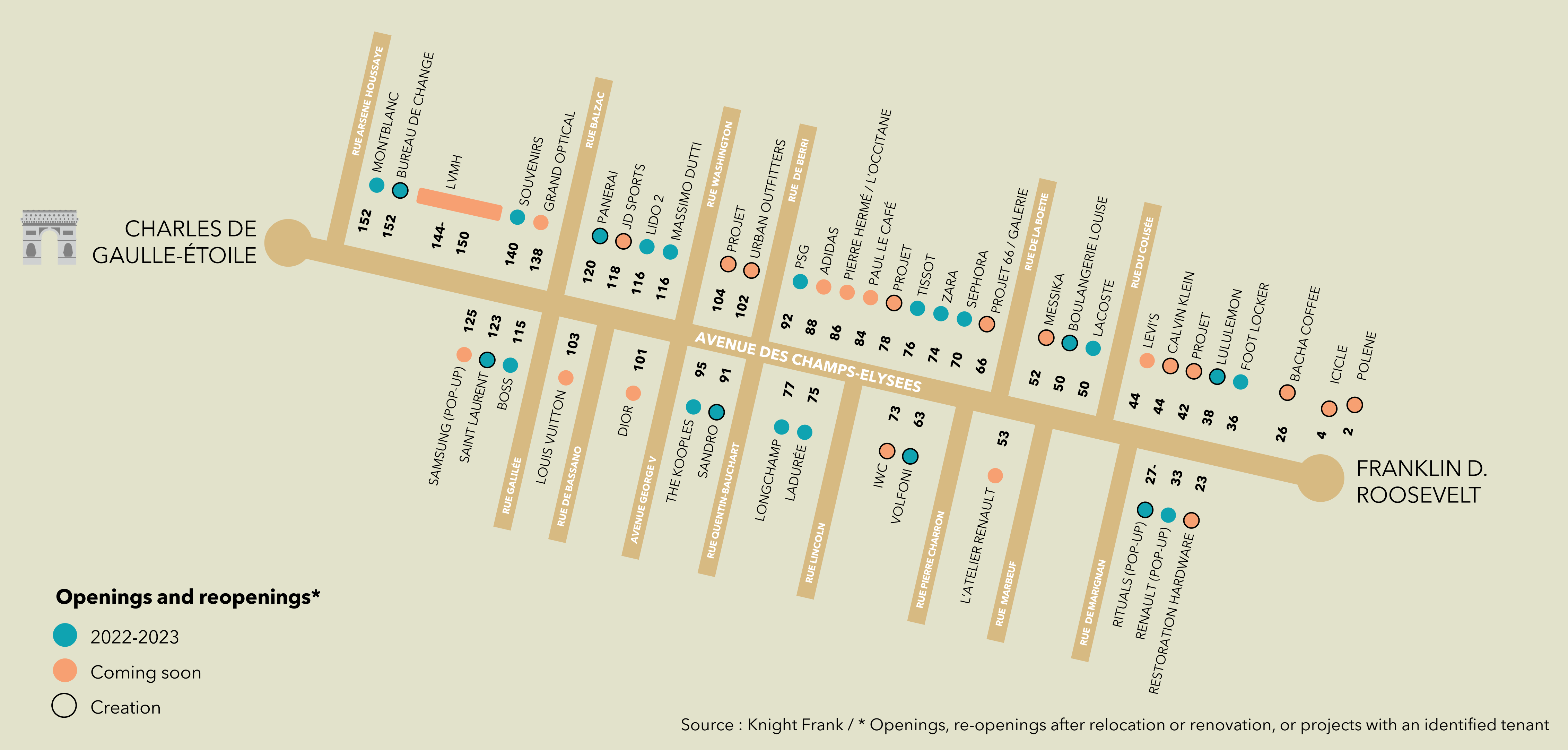
Change in vacancy rate on the Champs-Élysées

As a %



Source : Knight Frank / * Openings or projects with an identified tenant

Champs-Elysées: the renaissance



Source : Knight Frank / * Openings, re-openings after relocation or renovation, or projects with an identified tenant

Vacancy continues to decrease

A reflection of dynamic letting activity

Change in vacancy rate in Paris*

On some prime streets and prime portions of primes streets

Average vacancy rate

5.2 % at the end of 2023

-1.6 pts compared to the end of 2022

-3.1 pts compared to the end of 2021

The scale and diversity of demand from retailers has contributed to a reduction in retail vacancy rates on Paris's main retail streets. From over 8% two years ago, the average vacancy rate for the 12 streets monitored by Knight Frank has fallen steadily since then, from 6.5% at the end of 2022 to 5.2% today.

The foreseeable rise in hotel stays, the dynamism of sectors such as luxury, sport and beauty… with just a few months to go before the Olympic Games, the outlook for the Paris market looks favourable, particularly for its main retail streets, where vacancy is set to remain at a low level.

Source : Knight Frank / * excluding strategic vacancies and projects

Rental values

Almost universal stabilisation

Prime rental values in Paris
In €/sq m/year ZA

STREET / DISTRICT	PRIME RENTAL VALUE END 2021	PRIME RENTAL VALUE END 2022	**PRIME RENTAL VALUE END 2023**	**LEVEL OF DEMAND END 2023**
Avenue des Champs-Élysées	13,000 - 15,000	13,000 - 15,000	**13,000 - 15,000**	● ● ●
Avenue Montaigne	11,000 - 13,000	11,000 - 13,000	**11,000 - 13,000**	● ●
Rue du Faubourg Saint-Honoré	12,000 - 14,000	10,000 - 12,000	**10,000 - 12,000**	●
Rue Saint-Honoré	10,000 - 12,000	11,000 - 13,000	**11,000 - 13,000**	● ● ●
Boulevard Haussmann	4,000 - 5,000	4,000 - 5,000	**4,000 - 5,000**	●
Marais	4,000 - 4,800	4,000 - 5,000	**4,000 - 5,000**	● ● ●
Rue de Sèvres / Bd Saint-Germain	2,500 - 3,500	2,500 - 3,500	**2,500 - 3,500**	● ●
Capucines / Madeleine	2,500 - 3,500	2,500 - 3,500	**2,500 - 3,500**	● ●
Rue de Rivoli	2,000 - 3,000	2,000 - 3,000	**2,000 - 3,000**	● ●
Rue de Rennes	2,000 - 3,000	2,000 - 3,000	**2,000 - 3,000**	●
Rue de Passy	2,000 - 3,000	2,000 - 3,000	**2,000 - 3,000**	● ● ●

Low High

Source : Knight Frank

The retail market

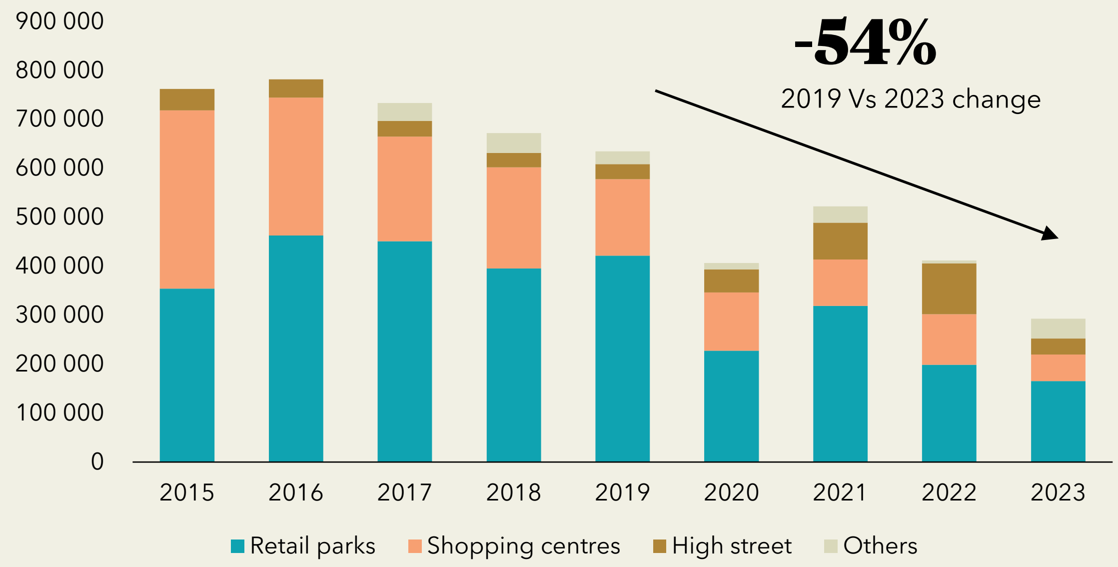
Retail projects are drying up

Supply in the rest of France, although boosted by legal proceedings and retailer closures, is limited by the low level of deliveries of new retail projects, particularly shopping centres and retail parks. Indeed, the market context has changed radically due to financing difficulties, the growing number of appeals, the tightening of regulations linked to the Climate Act and the policy of zero net land artificialisation ("ZAN"), all of which have led to a drop in new developments and have reduced competitive pressure on existing sites. In 2023, the volume of new retail units delivered in France was down 19% year-on-year and by 59% compared with the average for the five years prior to the health crisis. Delivery volumes have been falling since the mid-2010s, when production peaked. For example, the 50 to 60 new projects inaugurated in 2015 and 2016 totalled almost 800,000 sq m, whereas only around thirty opened last year, totalling just under 300,000 sq m.

Opening volumes have fallen since 2015-2016

Change in retail complex openings

In France, in sq m



Source : Knight Frank

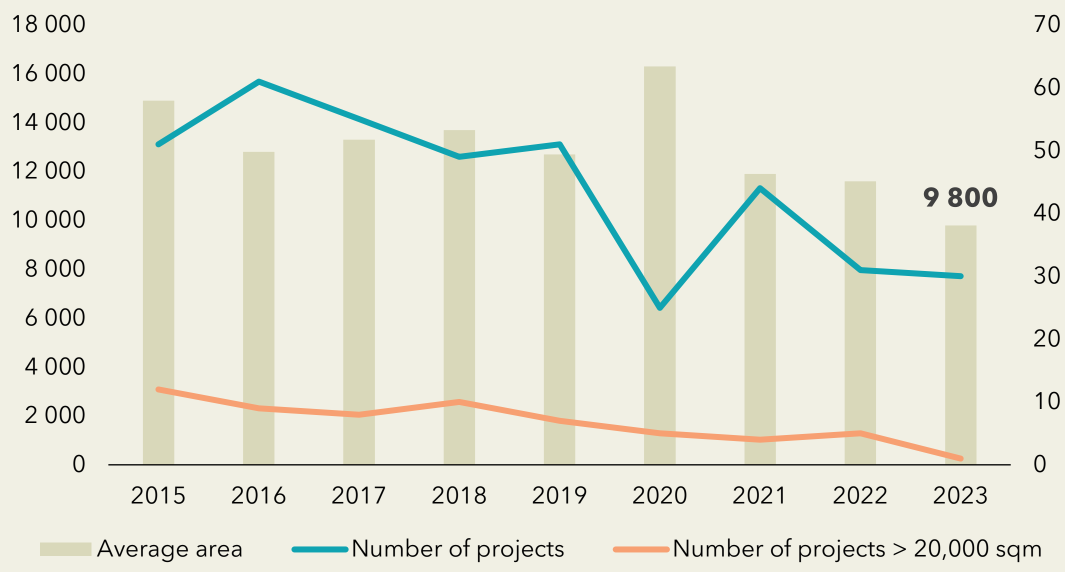
Retail projects are drying up

Although delivery volumes are much lower than in the mid-2010s, and the number of new retail projects is much smaller, they are also smaller in scale. While fifteen or so new developments exceeded 20,000 sq m in 2015-2016 in France, only one surpassed this threshold last year, the "McArthurGlen Paris-Giverny" outlet village in Normandy. There has also been a reduction in the average size of new developments opening in France: from almost 15,000 sq m in the mid-2010s, it dropped below 10,000 sq m by 2023. However, the Climate and Resilience Act specifically prohibits the creation of new retail units or retail complexes of 10,000 sq m or more that would lead to the artificialisation of land.

Average size falls below 10 000 sq m

Change in the number and average size of projects delivered

In France, in number and sq m



Source : Knight Frank

The retail market

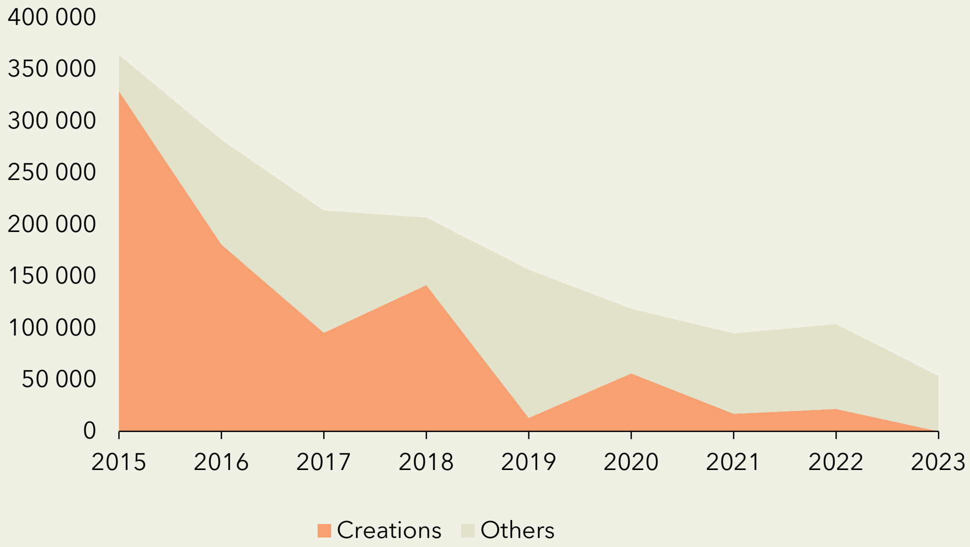
Shopping centres: no new developments

In the mid-2010s, more than 350,000 sq m were still being opened, the vast majority of which were new developments. Since then, deliveries have fallen steadily, although there was a slight upturn in 2022. Last year, the volume of new developments started to fall again, with fewer than 60,000 sq m of shopping centres opened in France. Significantly, no new centres were opened from scratch, with all new openings involving extensions, mainly through transfers and redevelopments. These types of project will continue to dominate the shopping centre market in 2024.

Less than 60,000 sq m opened

Change in shopping centre openings

In France, in sq m



Source : Knight Frank

Shopping centres: examples of projects

2023 and 2024 openings in France

YEAR	CENTRE	CITY	TYPE	AREA (SQ M)
2023	**LE SPOT**	Évry (91)	*Extension / Redevelopment*	20,000
2023	**GRAND PLACE**	Grenoble (38)	*Extension / Redevelopment*	16,000
2023	**BEAULIEU**	Nantes (44)	*Extension / Redevelopment*	7,300
2024	**CNIT**	Puteaux (92)	*Extension / Redevelopment*	10,000
2024	**LECLERC SHOPPING CENTRE**	Honfleur (14)	*Relocation / Extension*	9,700
2024	**INTERMARCHÉ SHOPPING CENTRE**	Solliès-le-Pont (83)	*Relocation / Extension*	8,600
2024	**LES TERRASSES**	Sarrebourg (57)	*Extension*	7,400
2024	**ODYSSEUM**	Montpellier (34)	*Extension / Redevelopment*	6,000

Source : Knight Frank

Retail parks: creations at their lowest level

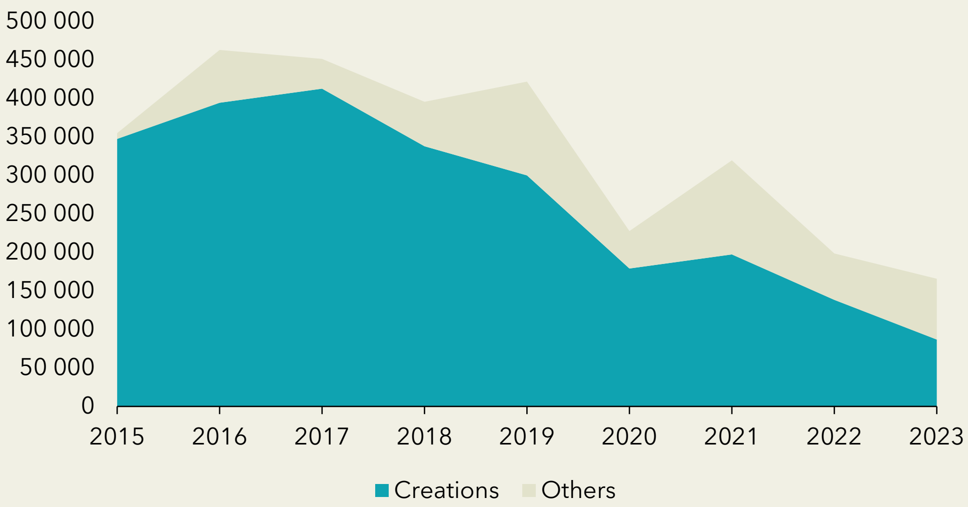
The decrease in openings is particularly marked in the retail park market, with fewer than 170,000 sq m delivered last year in France, compared with 200,000 sq m in 2022 and almost 460,000 sq m at the peak in 2016. Many of these developments had been in the pipeline for several years, and several major projects are still in the pipeline, such as Neyrpic near Grenoble, which is due for delivery in the spring. However, their numbers are dwindling, with the stock of new projects consisting mainly of modest-sized developments, sometimes scaled down and more often than not intended to complement existing retail areas.

The retail market

Creations in the minority for the first time

Change in retail park openings

In France, in sq m



Source : Knight Frank

-17%

year-on-year new sq m of retail parks in 2023

-60%

compared with the average for the 5 years prior to Covid

Retail parks: examples of projects

2023 and 2024 openings in France

YEAR	CENTRE	CITY	TYPE	AREA (SQ M)
2023	**O'CENTRE**	Vendenheim (67)	*Redevelopment-Extension*	12,500
2023	**LE MASCARET**	Bègles (33)	*Extension*	12,000
2023	**LES RIVES DU LOT**	Cahors (46)	*Creation*	11,500
2023	**ZAC DE MONTVRAIN 2**	Mennecy (91)	*Redevelopment-Extension*	11,000
2023	**LA VIGIE**	Geispolsheim (67)	*Extension*	10,000
2024	**NEYRPIC**	Saint-Martin-d'Hères (38)	*Creation*	34,000
2024	**CAP KOAD**	Bain-de-Bretagne (35)	*Creation*	13,000
2024	**LA NEF**	Le Havre (76)	*Creation*	13,000
2024	**ZONE DES PIERRES BLANCHES**	Denain (59)	*Creation*	10,000

Source : Knight Frank

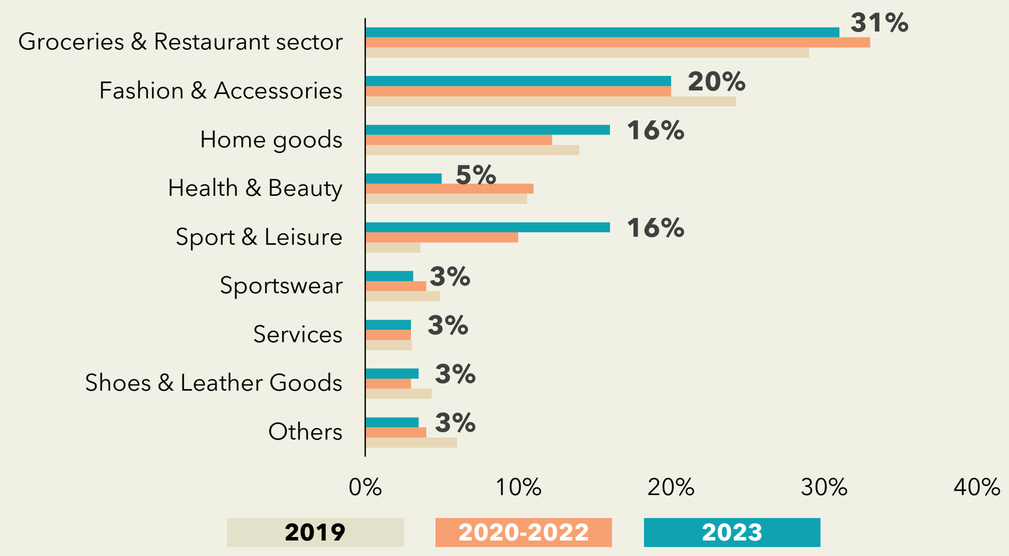
Ongoing transformation of the retail offer

Although its share has fallen compared to the 2020-2022 period, the groceries and restaurant sector remains dominant in the tenant mix of retail projects. What is most striking is the sharp rise in the share of the sports and leisure sector, which accounts for 16% of all retail openings in France in 2023, compared with an average of 9% over the last five years.

Restaurant sector and grocery stores: almost a third of supply

Analysis of the tenant mix of projects opened in France since 2019

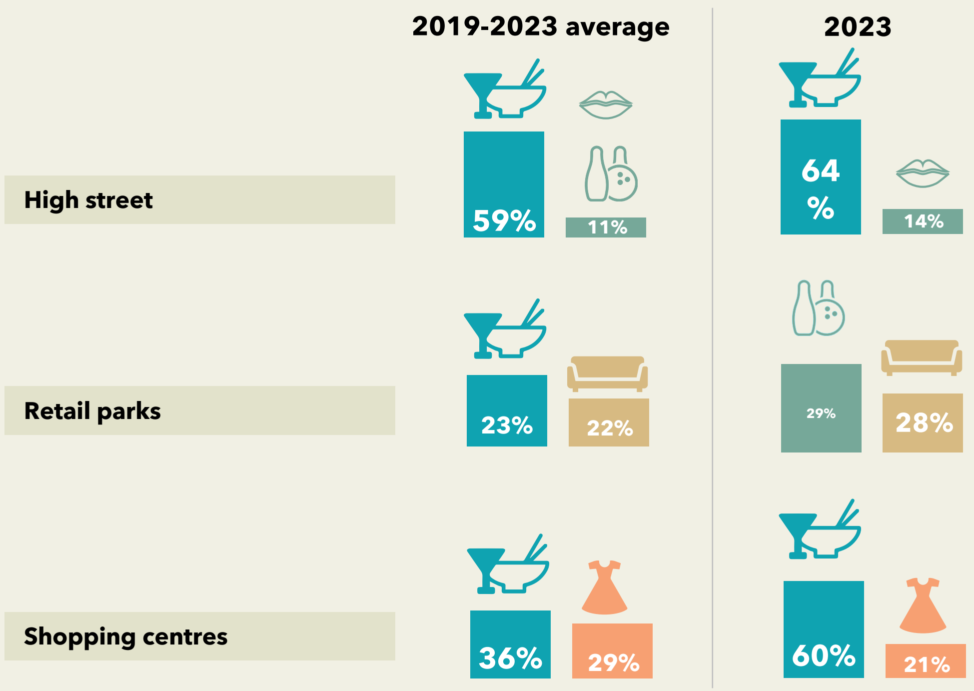
Share of each sector in the total number of shops, all formats combined



A surge in leisure activities in the suburbs

The most represented sectors in projects opened in France

By format, out of the total number of shops in all formats



Source : Knight Frank

The retail market

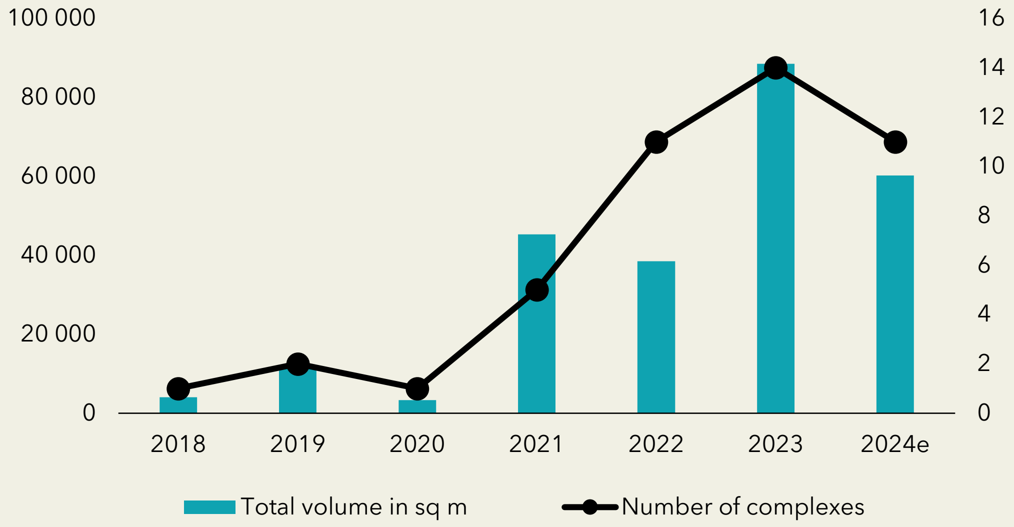
Explosion in leisure complexes

Unlike traditional shopping centres, more and more leisure complexes are opening, with almost 90,000 sq m opening in 2023 ("Up2Play" in Pornichet, "Monky" in Laval, etc.). With varying degrees of restaurant facilities, these projects are enjoying growing success, perfectly illustrating the priority given to the customer experience and the dynamism of the leisure economy. Their growth is also indicative of the trend to recycle existing assets, whether by converting retail assets into leisure centres to revitalise them ('Boom Boom Villette' in Paris, etc.) or by building new leisure complexes on land previously used for other purposes. 49% of leisure complexes opened since 2018 in France are the result of the reuse of non-retail assets, including factories, warehouses and brownfield sites. In the age of zero net artificialisation, this high figure testifies to the growing conversion potential offered by the leisure boom in France.

Going against the grain of " traditional " retail project openings

Leisure complex openings in France

In sq m

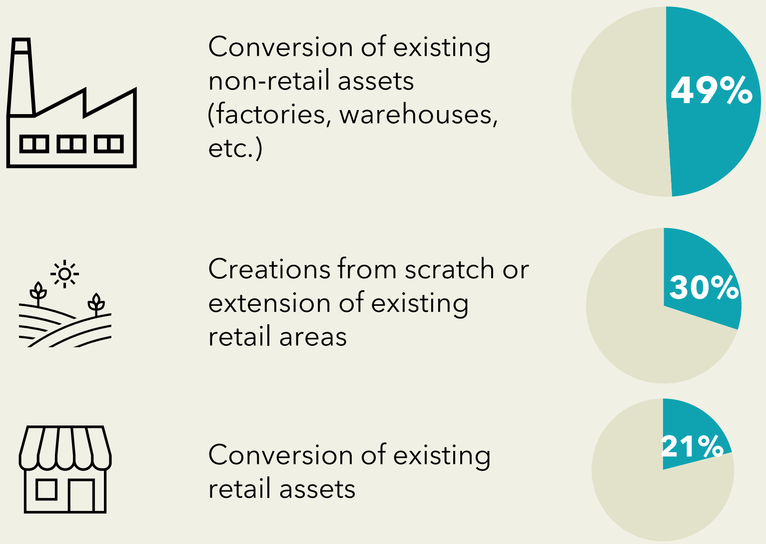


Source : Knight Frank

An opportunity to convert existing assets

Where do France's leisure complexes come from?

Share of the total volume of sq m opened between 2018 and 2023



2024 outlook

- **Slight recovery in consumption**, but unfavourable factors persist (high savings, consumer mistrust, social tensions, etc.).
- Retailers still under pressure from consumers' choices and high costs: **legal proceedings are still at a high level, particularly in the fashion sector**.
- **Development plans still** ambitious in some sectors (discount, restaurants, groceries, pet shops, health, etc.), but possible risk of saturation and sometimes less sustained growth.
- There are **several questions** facing Paris: will the Olympic Games effect continue after the event, and for how long? Will international visitor numbers continue to rise? What will be the impact of traffic restriction policies (introduction of limited traffic zones), etc.?
- Ongoing transformation of the retail offer in large shopping centres **towards restaurants and leisure**.
- Confirmation of the **decrease in the average size of retail development projects** (< 10,000 sq m).

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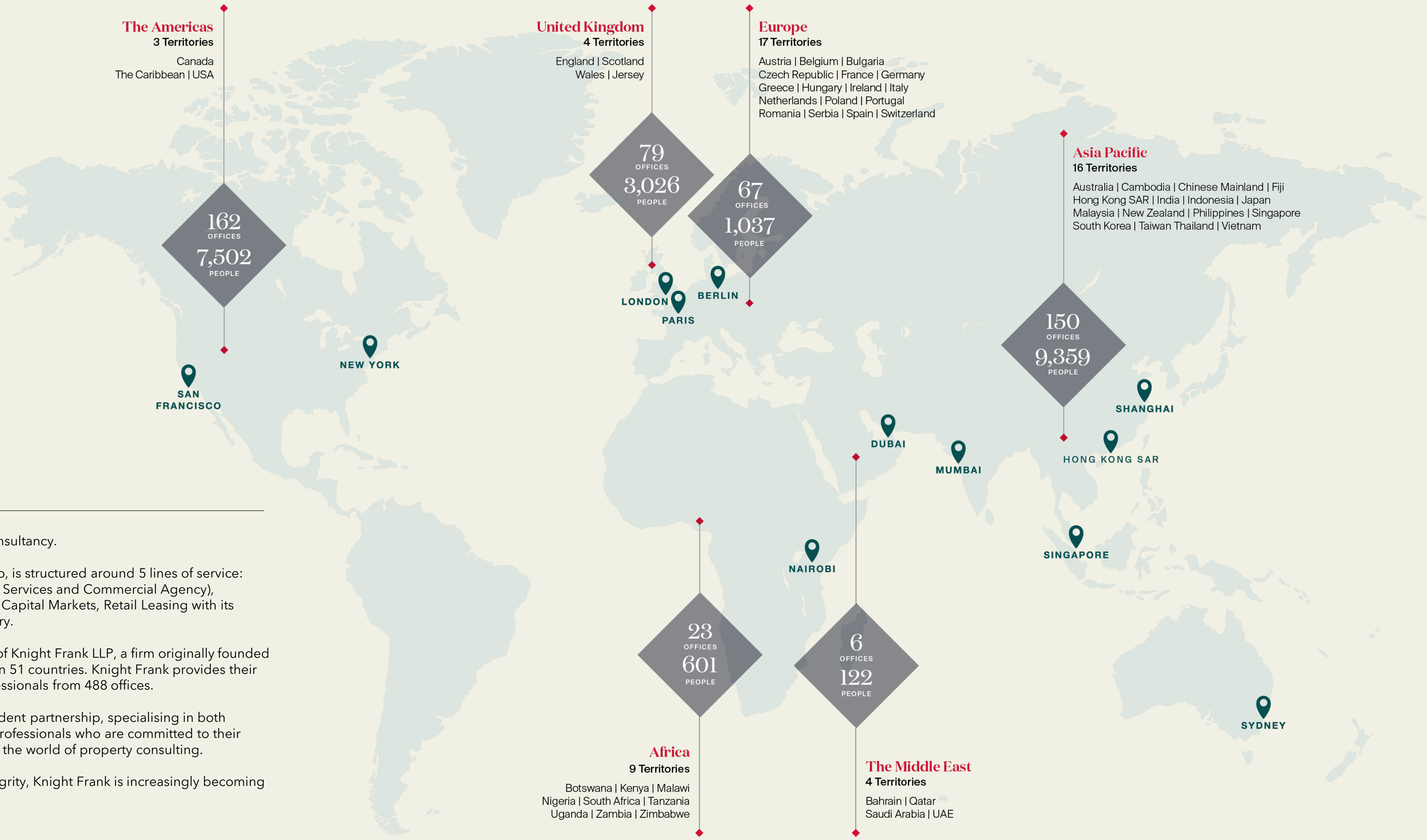

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