

France Q4 2024

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SPOTLIGHT
Savills Research

Lettings market Ile-de-France offices



Trends and outlook for the office lettings market

Highlights

1. As expected, take-up at the end of 2024 was below the 1.8 million sq.m mark. With 1,750,352 sq.m transacted, the annual total declined -11% year-on-year and -19% compared to the ten-year average. In detail, inner Paris lost ground (-9% year-on-year), La Défense outperformed (+60%) and the Western Crescent retreated (-32%).
2. The slowdown in transactional activity seen in Paris should be put into perspective, because the sector is facing two phenomena: the sharp increase in lease renewals (not counted in the take-up figures) and the appeal of subletting to occupiers. In fact, occupiers are once again taking a close look at the costs of office property, and the question of 'stay versus go' is more relevant than ever in the most centrally located geographical sectors.
3. In the lettings market, glaring inequalities between the sectors across the whole of Ile-de-France remained: at the end of 2024, Paris alone accounted for 47% of regional take-up, while its share of immediate supply was only 18%. Conversely, the Inner Suburbs only represented 17% of transactions in Ile-de-France but 28% of available space.
4. Immediate supply increased by 19% year-on-year and reached a new record at the end of 2024 with 5,642,000 sq.m vacant. All sectors except La Défense saw an increase in availability. In Ile-de-France, Grade B floorspace still accounted for the majority at almost 70%. The vacancy rate stood at over 10%, an unprecedented level for this region.
5. Prime rents were also a good indicator for highlighting persistent imbalances within the Ile-de-France region. At the end of 2024, these ranged between €228/sq.m/year (Outer Suburbs) and €1,167/sq.m/year (Paris CBD), a difference of more than €940!



Economic context: Neurotic

Economic players don't like uncertainty, especially when mixed with irrationality. Yet they have been served up a multitude in this regard. Whether it be the budgetary psychodrama, from which we are only just emerging, and the fragility of the government in France, or, internationally, the tumultuous arrival of the Trump administration, which has revived the trade war, and Europe's weaknesses, there are indeed many causes for concern. Economic activity is clearly suffering, and the indicators are deteriorating.

One figure says it all: the business climate index in France. It fell to 95 in January 2025, whereas, according to INSEE, it was still at 98 in September 2024. It therefore continued to move away from its long-term average of 100, with a clear deterioration in services and trade. Budgetary and fiscal uncertainties, as well as international tensions, have undermined the morale and outlook of decision-makers and have compounded the effects of reduced demand, relatively high energy costs in Europe and the resurgence of Chinese competition.

All this unnerving background means that the positive factors, and there is no shortage of them, took a back seat. Starting with the victory over inflation: 2024 ended

with price increases close to the European Central Bank's target of 2%. This meant that the ECB could step up reducing its key rates, with two additional cuts in December and February 2025. There were five in total in just over six months. The deposit rate was thus reduced to 2.75%, having remained at 4.00% until June 2024.

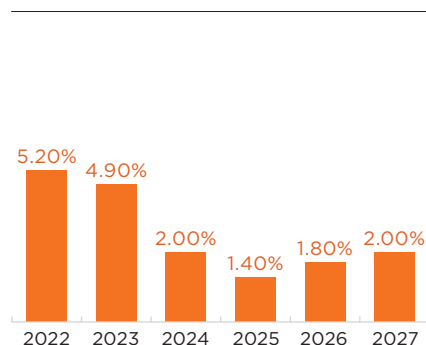
This monetary policy easing impacted credit rates, which fell, and lending conditions, which became more flexible. However, the average interest rate on home loans, for example, fell by only 43 basis points between January and November 2024, while the ECB's key policy rate fell by 75 basis points. The fall in borrowing costs was therefore not as sharp as it could

have been in France, particularly because of credibility difficulties regarding our budgetary control and adaptability to the competitive international environment. French economic growth was limited as a result, reaching 1.1% in 2024, with the majority forecasting an estimated 0.8% for 2025. As a logical corollary, the job market also deteriorated, with a rise in the unemployment rate that is expected to continue until 2026.

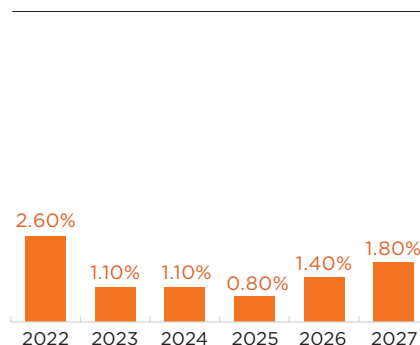
The French economy's growth outlook is therefore rather bleak at the start of 2025. Stability of the national environment, even if only for a few months, would be more than welcome.

Graph 1:
Economic indicators

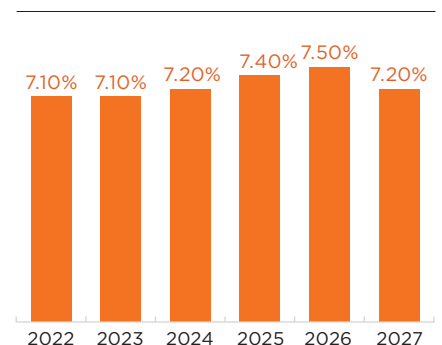
Inflation



Growth



Unemployment



Sources: Insee, estimation, Oxford Economics, January 2025

Take-up: Disorder

In 2024, take-up of 1,750,352 sq. m marked an 11% decline in transactional activity in Ile-de-France. However, disparities and trend reversals by sector are the main features of this annual assessment: inner Paris dropped back (-9% on an annual basis), La Défense outperformed (+60%), the Western Crescent collapsed (-32%) and the Inner Suburbs held their own (+8%).

No surprise then that, at the end of 2024, the take-up in Ile-de-France in 2024 remained below the 1.8 million sq.m placed mark, down 11% year-on-year and 19% below the ten-year average. Usually, the last quarter of the year sees stronger transactional activity, but 2024 was an exception, with take-up of only 460,000 sq.m in the last three months. This could be due to the uncertainty facing market players with parliamentary instability and the lack of a budget. The end-of-year results were therefore rather dismal, as this was the worst performance in the last decade, excluding 2020 (the year of lockdowns and the pandemic).

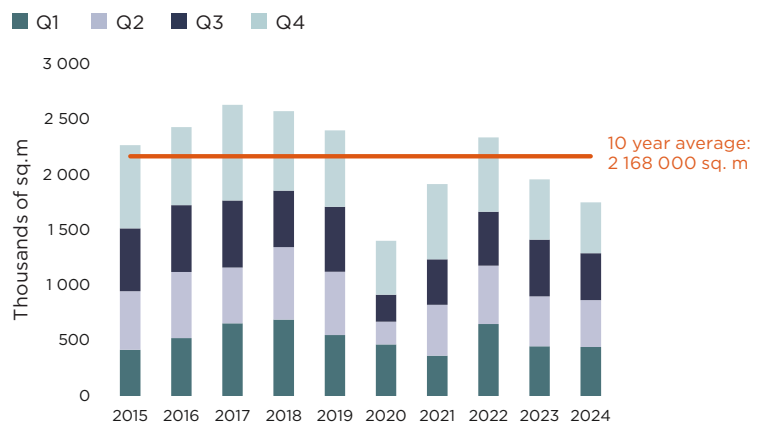
In Ile-de-France, the desertion of the large floorspace occupiers in particular dragged down the annual results. This segment was down by 13% year-on-year. However, it was closely followed by the medium-sized floorspace segment (1,000-5,000 sq.m), which fell by 10%, and then the small floorspace segment, where the volume of transactions dropped by 9% over the same period.

In terms of floorspace quality, Grade A only represented 35% of regional take-up (compared with 38% a year ago), a drop in volume of -20%. Grade B floorspace suffered a smaller decline, falling by only -5% year-on-year, by attracting cost-conscious occupiers who are always watching rent as a proportion of property costs.

The slowdown in transactional activity seen throughout the year has impacted several geographical sectors, starting with the engine room of inner Paris: take-up was down by -9% year-on-year. However, this figure should be qualified by two phenomena specific to the Paris market in recent months:

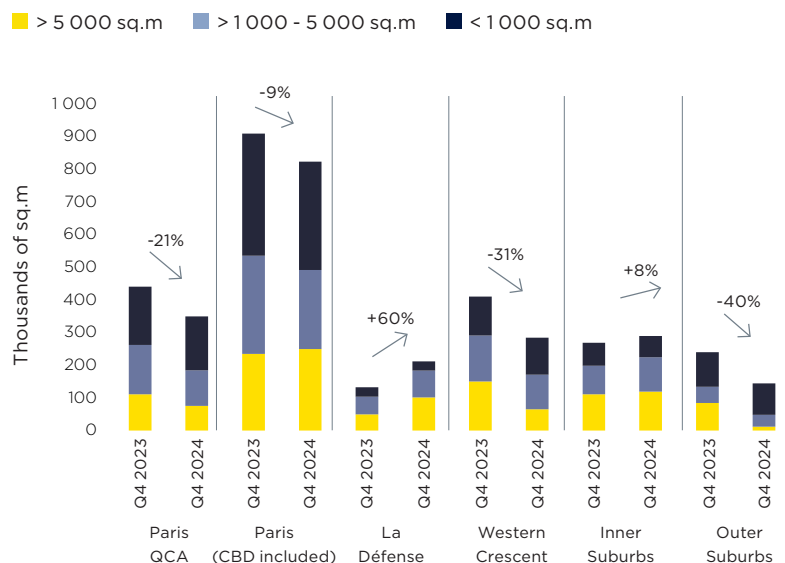
- on the one hand, lease renewals - which have become increasingly common against a backdrop of rising rental values and a cost-reduction quest for stakeholders

Graph 2:
Change in Ile-de-France take-up



Sources: Savills Research / Immostat

Graph 3:
Take-up by geographical sector and floorspace segment



Sources: Savills Research / Immostat

(CAPEX, relocation, etc.) – and are not included in the IMMOSTAT data;

- and on the other hand, subletting, which appeals to occupiers, allowing them to monitor the floorspace they need and have another occupier pay part of the rent.

Within the capital, only two sub-sectors (Paris 12-13 and Paris 3-4-10-11) posted positive changes in take-up: +83% for the first - boosted by large transactions - and

+22% for the second. Conversely, the volumes transacted within the Paris CBD were down by -21% on an annual basis and -23% for Western Central Paris. These were the two sectors - where lettings pressure was strong - that were most exposed to renewals and subletting.

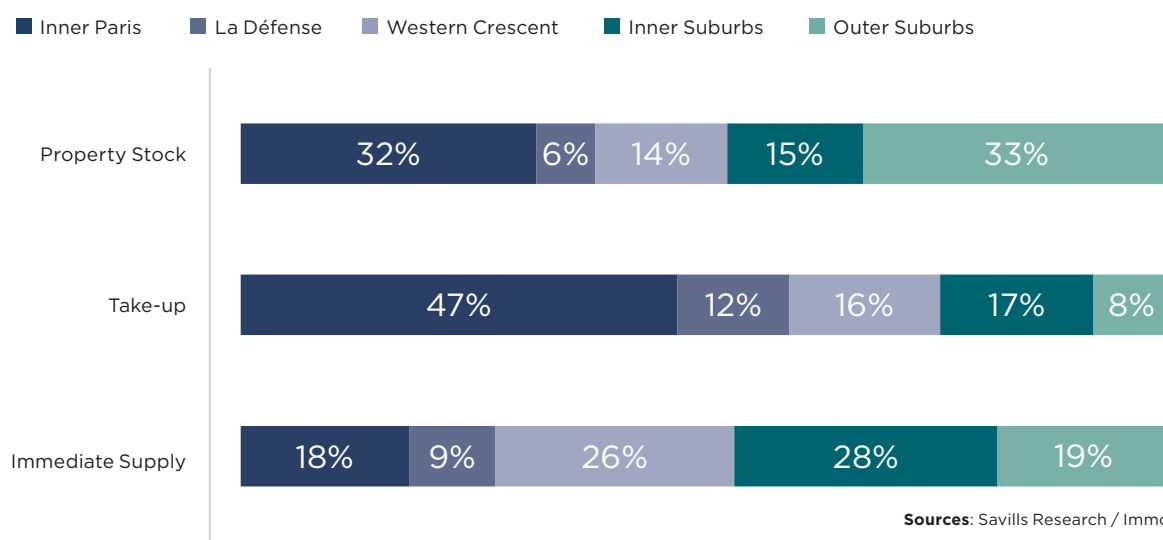
Transactional activity was also in a trough in the Western Crescent (-31% on an annual basis). Except for the North End, which

only represented 8% of take-up in the Western Crescent, take-up declined in all the sub-sectors: -27% for Neuilly-Levallois, -32% for the South End and even -42% for Péri-Défense. In the Neuilly-Levallois sector, lack of supply in the commune of Neuilly penalised transactional activity.



Graph 4:

Property stock, take-up and immediate supply: share of sectors at regional level in Q4 2024



On the other hand, La Défense excelled, with a very respectable 60% increase year-on-year and even 15% over the ten-year average. This performance once again proved the resilience of this sector, able to adapt to the market quickly to remain attractive.

Indeed, with adjustments made to rental values and support measures reaching 40% within this sector, many projects flourished amidst a strong desire for diversity (student residences, shops, etc.).

In the Inner Suburbs, the North had a very positive year in 2024: take-up increased by 83% year-on-year, boosted by several large transactions such as the sale of SPALLIS in Saint-Denis (37,000 sq.m taken up by the State Property Management Agency) and RHAPSODY in Saint-Ouen (20,000 sq.m leased to L'Oréal).

Transactional activity in the East also increased by +14% compared with 2023. On the other hand, the volumes taken up in the

Southern Inner Suburbs collapsed by -51% year-on-year.

The rebalancing in 2024 broke a long-term trend of increasingly centralised transactional activity in inner Paris. At the end of 2024, the city centre still represented the majority of regional take-up, at almost 50%. It remains to be seen whether this rebalancing is temporary or a lasting reversal of the trend.

Immediate supply & absorption time: Records

At the end of 2024, immediate regional supply reached 5,642,000 sq.m, an unprecedented level and an increase of 19% year-on-year. Although the share of available Grade A space was up year-on-year (+270 basis points), Grade B space remained the majority share (69%). For the first time in more than 20 years, the vacancy rate in Ile-de-France exceeded the 10% mark.

For several years, the immediate supply curve in Ile-de-France has risen steadily. With the stock little changed, the vacancy rate soared to reach a record level of more than 10% at the end of the fourth quarter of 2024, an increase of 159 basis points on an annual basis. Except for La Défense, immediate supply trended higher in all sectors.

Within inner Paris, immediate supply increased 46% year-on-year, bringing the available stock to 1,023,000 sq.m. While the share of Grade A floorspace has steadily declined for several years in the capital, when boosted by the numerous deliveries throughout the year - it increased across all quarters to reach 26% of available space at the end of 2024 (compared with 20.5% one year earlier).

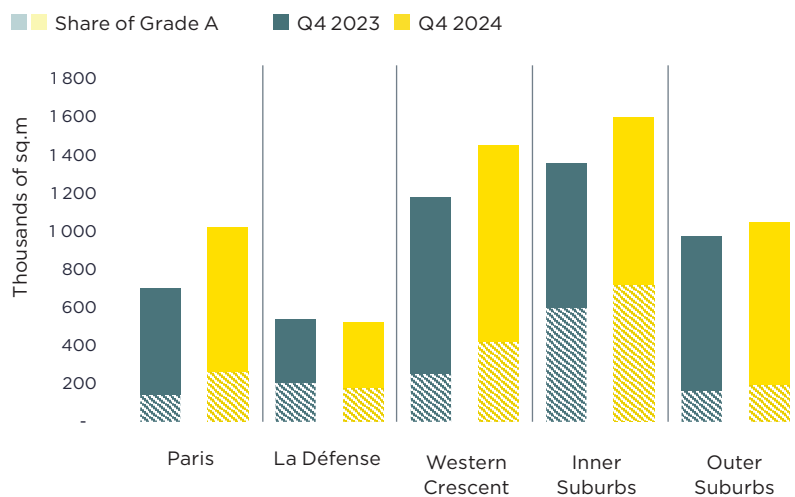
To a lesser extent, the Western Crescent - with 1,451,000 sq.m available - also saw its vacant floorspace increase: +23% year-on-year. Like the capital, this immediate supply is made up of 29% Grade A floorspace, or 417,000 sq.m, the vast majority of which is in Péri-Défense (77%).

Finally, and although still high, the Inner Suburbs showed the lowest increase in its available stock: +17% on an annual basis. Grade A space represented 45% of this stock, the same level as seen at the end of 2023.

As mentioned previously, La Défense was the only sector that could claim a decrease in availability. With an immediate supply of 524,000 sq.m, the decrease was 3%. The share of Grade A floorspace decreased from 38% at the end of 2023 to 34% at the end of 2024. This business district has been able to readjust its supply by dividing offered floorspaces to meet occupier demand, particularly in the medium-sized floorspace segment.

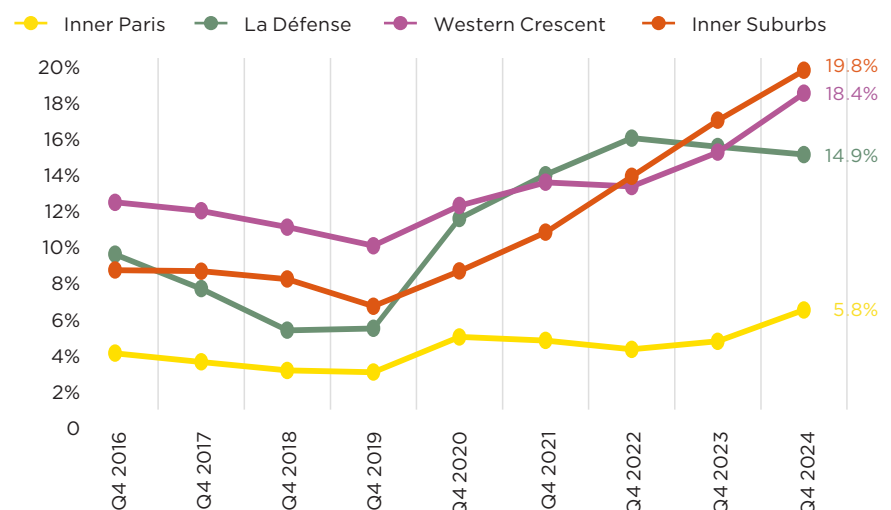
Proof of this could be found in this floorspace segment where take-up at the end of 2024 increased +51% on an annual basis.

Graph 5:
Immediate supply by geographical sector (Q4 2024 vs Q4 2023)



Sources: Savills Research / Immostat

Graph 6:
Change in the vacancy rate by geographical sector



Sources: Savills Research / Immostat

Over the whole of 2025, future supply of floorspace over 5,000 sq.m amounts to 136,000 sq.m, which could boost availability if the sector's transactional activity is not maintained over the coming months.

It is therefore no surprise that the vacancy rates at the end of the fourth quarter of 2024 trended upward on an annual basis: +182 basis points for Paris (5.8%), +380 basis points for the Western Crescent (18.4%) and +370 basis points for the Inner Suburbs (19.8%). La Défense was, as we have seen, an exception: - 45 basis points year-on-year to now stand at 14.9%. As a reminder, over the whole of 2023, this rate had fluctuated between 15.3% and

16.2% before resuming its downward curve at the beginning of 2024.

Against this backdrop, with mainly increasing immediate supply and a slowdown in transactional activity, the FloRa (Flow Ratio) for Ile-de-France highlights the deterioration of the lettings market. In just two years, it went from 22 months to 39 months to market available stock. And the biggest increase occurred in the second half of 2024: over this period, FloRa increased by 5 months. The regional FloRa has never been as high as at the end of 2024.

This indicator also shows the persistent and significant disparities that exist between the

different geographical sectors of the region:

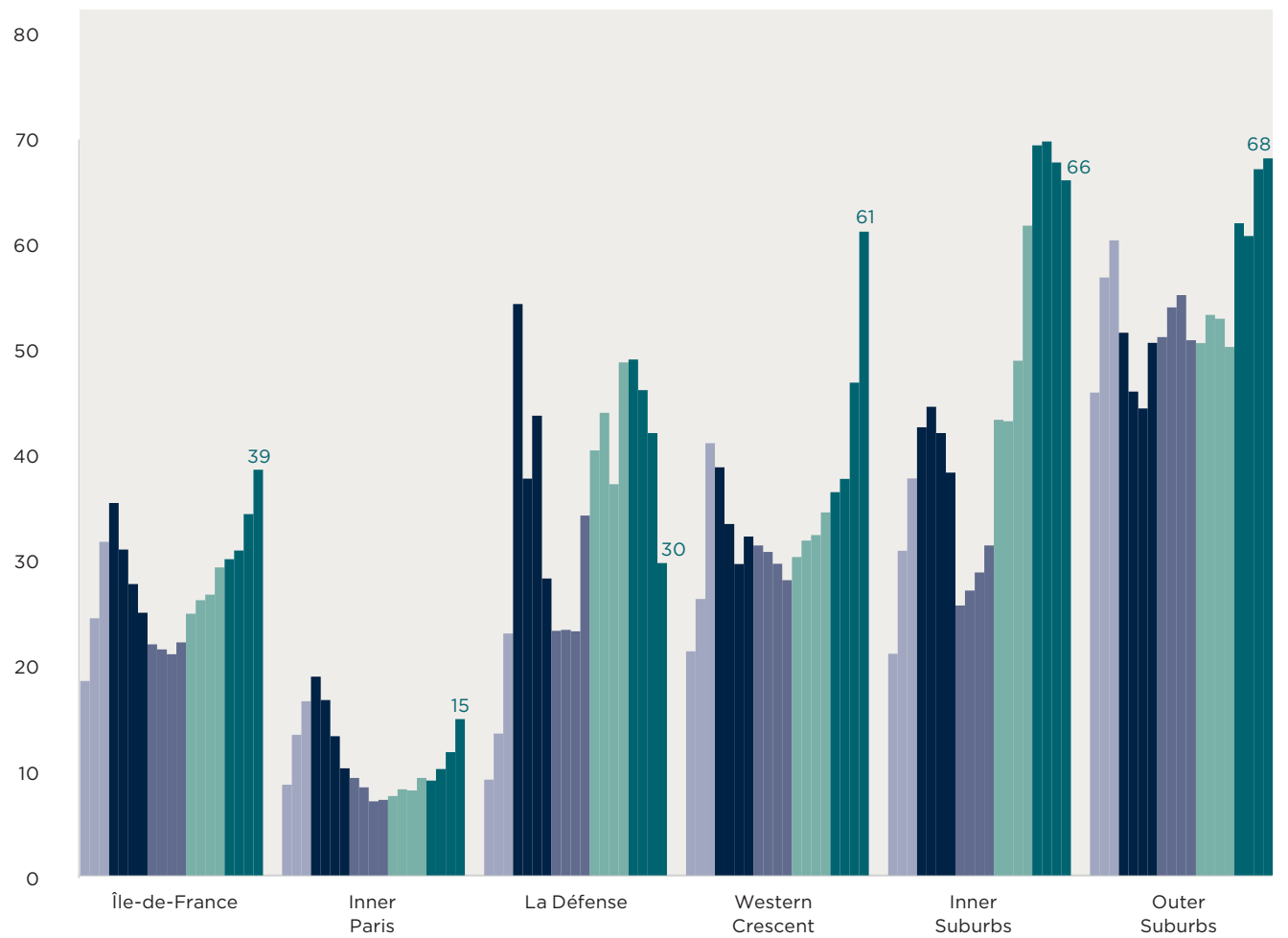
- For inner Paris, FloRa has been on an upward curve for several quarters now and reached 15 months at the end of 2024 (versus 9 months one year earlier);
- Conversely, at La Défense, the FloRa adjusted quickly, going from 42 months to 30 months in just one quarter. A level this low had not been seen since 2022.
- In the Western Crescent, the situation was quite different: this indicator jumped to reach 61 months at the end of 2024 (compared with 35 months one year earlier);
- On the suburbs, FloRa reached its peak at 66 months in the Inner Suburbs and even 68 months in the Outer Suburbs.



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Graph 7:
Change in FloRa* between 2020 and 2024 by geographical sector

■ 2020 ■ 2021 ■ 2022 ■ 2023 ■ 2024



Sources: Savills Research / Immostat

*: Flow Ratio is the ratio between immediate supply and take-up over a rolling year.

Rents: Stainless

Despite a sluggish lettings market, prime rents continued their overall upward trend through the end of 2024. However, these positive numbers were only seen in best-in-class buildings and mainly in the most established sectors: they cannot be extended across the whole region. However, the rent levels seen should be qualified by the significance of support measures, which can reach almost 40% in a sector such as La Défense.

Even if estimated prime rents taken together for the major sectors of Ile-de-France are up year-on-year, it is indeed Paris - and specifically the CBD - that dominated the market. As seen previously (Graph 3), and even though the sector only represents 18% of the immediately available supply at the regional level, its share of take-up reached 47%.

This dominance helped to maintain pressure on rental values in the sector. Thus, at the end of December, prime rents in Paris increased 11% on an annual basis, reaching €1,167/sq.m/year.

In La Défense, the increase was less dramatic. Although take-up was sustained throughout the year, the sector's recently-reached supply

levels did not (yet) allow prime rents to rise significantly. Nevertheless, they increased by 5% compared with the fourth quarter of 2023 to €592/sq.m/year. This is the highest level reached since 2001 (€610/sq.m/year)!

These positive changes should, however, be seen relative to the ever-increasing number of support measures used to revive the market and attract occupiers. Investors therefore have tended to agree to rent-free periods or tenant improvements to maintain high headline rent levels. In these troubled times, headline rents no longer reflect the value in use of the buildings.

Within the Western Crescent, the disparities between the sub-sectors were very stark. While the prime rent in Neuilly-Levallois is

€657/sq.m/year (+7.5% year-on-year), mainly driven by Neuilly's appeal and the lack of available supply in the sector, that of Péri-Défense is estimated at €370/sq.m/year (-6% on an annual basis).

The prime rent in the Southern River Bend was €528/sq.m/year (+1% year-on-year) and that of Northern River Bend only reached €193/sq.m/year (-1%). These values therefore show a yawning gap of more than €460/sq.m/year.

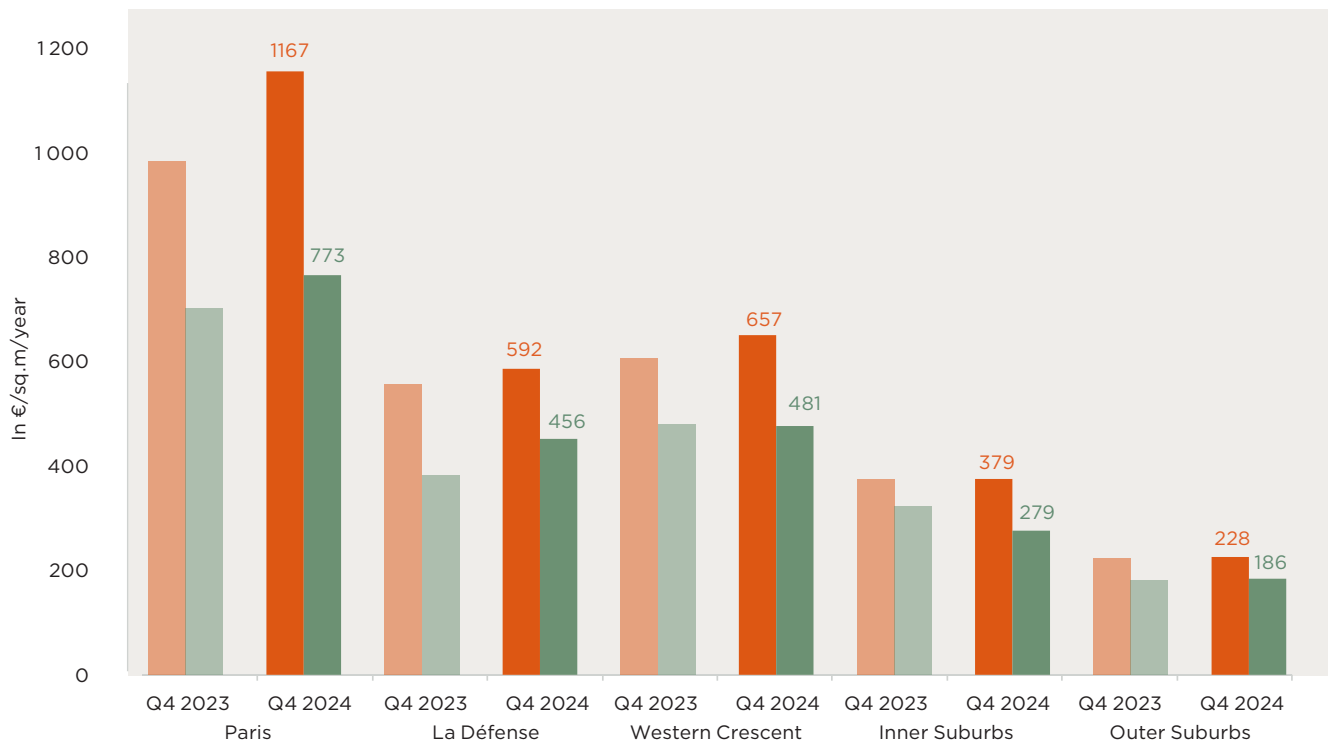
In the lifeless market of the suburbs, changes in rents were more anecdotal.



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Graph 8:
Rental values Q4 2024 vs Q4 2023 by geographical sector (in €/sq.m/year)

■ Prime Rent ■ Average Rent



Sources: Savills Research / Immostat

And tomorrow?

1

For the second consecutive year, take-up in Ile-de-France did not reach the mark of 2 million sq.m. This threshold - which had been the long-time norm - was strongly impacted by the effects of remote working and therefore seems to be a “previous world” norm, now behind us.

2

Grade A supply was fuelled by the numerous deliveries throughout 2024. However, the very clear drop of -20% in the delivery of new or refurbished space expected in 2025 suggests a rebalancing of the Ile-de-France office market. By turning off the tap on deliveries and promoting off-plan transactions, market players are making this rebalancing possible – and probable.

3

However, this situation will slow the pace of modernisation and upgrading to environmental standards of the huge office stock in Ile-de-France (55.5 million sq.m), 5.6 million of which is vacant. Within this vacant stock, 69% of the space is secondary market supply.

4

The reduction in Grade A supply will also keep pressure on rental values in sectors where tension is already high, i.e. the most central sectors. This factor could once again benefit well-established peripheral sectors, as was the case for La Défense this year.

5

Although the return to fully in-person working seems to have been abandoned by many companies, many are still considering reducing the number of days their employees work from home. The consequences of widespread remote working have now been identified (deterioration of the social bond between employees, loss of company loyalty, difficulty for the company to monitor its space requirements according to the days of the week) and these could support take-up but also encourage lease renewals in the most central sectors.



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