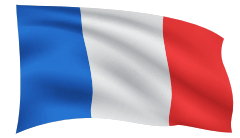


Facing new challenges in the French office market: Statistics and analysis



ANJA DROEGE GAGNIER
Partner, BMHAVOCATS,
Paris, France



AMÉLIE DORST
Senior Associate,
BMHAVOCATS, Paris, France



In 2023, the office market in France has remained highly fragmented, particularly in the Greater Paris Region, in line with the trend observed since the Covid-19 pandemic and the rise of remote working. French brokers report an average vacancy rate of 8.5% for the Greater Paris Region, reaching 4,759,000 sq. m. by the end of 2023.

Vacancy rates and rental levels vary significantly across the Greater Paris Region. The Central Business District of Paris as well as other Paris downtown districts are performing quite well. With vacancies remaining low in the Central Business District of Paris (2.7 %), prime rents have reached an average amount up to €960 m²/year (excluding taxes and charges) with top values in excess of €1,000. If rental levels remain high in Paris, it is a different story for the suburbs, which are experiencing high vacancy rates and therefore falling rental values.

The office market in the suburbs has had difficulties absorbing the available vacant space, which continues to

increase. Indeed, the oversupply of office space will take time to absorb. In addition to this immediate supply, there are new buildings currently under construction, as investors have chosen to defer project completion.

Market impacts

The market has been significantly affected by a reduction in investments. In the Greater Paris Region, 2023 ended with total investments amounting to €6.8 billion, representing a substantial -56% year-over-year drop and a -64% decrease from the 10-year average! This investment contraction can be explained by rising construction costs, ESG constraints, ongoing inflation and increase in interest rates as well as the fears of oversupply of offices.

To attract new tenants, office building owners often have no other choice but to offer various (and significant) commercial incentives (lower rents, longer rent-free periods, no pass on of taxes and charges, etc.). According to brokers, the commercial incentives in the Greater Paris Region have risen

to 26% of headline rent with the figures reaching 35% in La Défense.

As a result, office market financing is currently being threatened, leading office owners and their sponsors to renegotiate terms with their banks and request loan extensions. In some offices, the vacancy rate can be as high as 80%, making any sale in a stagnant market unreasonable, as this would result in a fire sale and the immediate booking of a significant loss. In practice, banks prefer supporting the borrower in refinancing the deal under current terms and conditions. In this context, the banks need to be sure that they will not be in the same situation in a few years' time.

Available legal tools and remedies

In addition to autonomous guarantees granted by the borrower's sponsors, banks increasingly use the 'fiducie' instrument (French trust) to get control over SPVs without taking ownership of the underlying asset. Thanks to *fiducie* instruments, banks can organize an orderly sale of the property at the right moment. Nevertheless, the costs of a *fiducie*, usually borne by the borrower, are generally higher than the use of traditional guarantees.

Conclusion

It is interesting to note that around 1.1 million sq. m. of office space in the Greater Paris Region have been vacant for more than 4 years, representing almost 24% of the immediate supply. Changes to use, including transformation of office space into accommodation/housing, could be considered for these distressed properties. ■



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