

Savills Prime Office Cost Index Q2 2017

International

August 2017



The Savills Prime Office Cost (SPOC) Index presents a quarterly snapshot of occupancy costs for prime office space throughout the world as provided by our expert, local tenant representation professionals.

The majority of cities saw little or no change in underlying local costs versus Q1 2017 as global real estate markets took a pause following the geopolitical and trade uncertainty of 2016. Our index continues to record volatility outside of the US for USD denominated occupiers in response to currency fluctuations. The Dollar Index is down 9.09% in 2017 against a basket of global currencies, which translates into higher costs as measured under SPOC methodology. Further weakening is expected in response to the Federal Reserve's comments on low inflation and continued political stalemate in Washington D.C.

Table 2 opposite shows the 5 markets which have experienced the greatest year-over-year change since July 2016. Of note is that 4 of the 5 are negative. Political factors have been influential in London (Brexit) and Mexico City (Trump's election). The fall in commodity pricing created additional downward pressure on Mexico City whilst also weighing on Houston. Currency volatility between the dollar and yen / euro was the primary cause of price movements in Tokyo and Frankfurt.

TABLE 1.

Top 10 Prime Markets by Total Cost

Rank	City	Total Occupancy Cost USD / USF
1	Hong Kong	\$251.02
2	London (West End)	\$212.09
3	Tokyo	\$184.71
4	Singapore	\$132.18
5	Shanghai	\$129.04
6	Paris	\$117.99
7	New York (Midtown)	\$106.51
8	Seoul	\$104.94
9	San Francisco	\$99.79
10	Mumbai	\$95.86

TABLE 2.

Greatest Percentage Change (Y-O-Y)

Rank	City	Y-O-Y Change
1	Mexico City	-24.94%
2	Tokyo	-12.34%
3	London	-9.68%
4	Houston	-9.14%
5	Frankfurt	+8.42%

The SPOC Global Rankings

Quarterly Highlights

- The Americas region is becoming increasingly favourable for occupiers. Underlying costs are down in the most expensive, prime markets (New York, San Francisco and Washington D.C.), and flat in all others. Pro-growth policies at the Federal level have not yet materialised and the relentless densification trend has fundamentally changed supply / demand dynamics in favour of the tenant.

1 Hong Kong



Headline Occupancy Cost	\$239.16
Amortised Cap Ex	\$23.73
Credit Value of Abated Rent	(\$11.86)
Total Occupancy Cost/USF	\$251.02
Local Face Rent	HKD 125.00 SF/MTH
Typical Lease Term (Years)	6
Local Efficiency Factor	1.11
Who Pays Broker?	New: Landlord Renewal: Tenant

2 London (West End)



Headline Occupancy Cost	\$224.43
Amortised Cap Ex	\$12.59
Credit Value of Abated Rent	(\$24.94)
Total Occupancy Cost/USF	\$212.09
Local Face Rent	GBP 115.00 SF/YR
Typical Lease Term (Years)	10
Local Efficiency Factor	1.00
Who Pays Broker?	Tenant

3 Tokyo



Headline Occupancy Cost	\$140.54
Amortised Cap Ex	\$50.19
Credit Value of Abated Rent	(\$6.02)
Total Occupancy Cost/USF	\$184.71
Local Face Rent	JPY 36,000.00 Tsubo/MTH
Typical Lease Term (Years)	5
Local Efficiency Factor	1.11
Who Pays Broker?	Tenant

4 Singapore



Headline Occupancy Cost	\$95.21
Amortised Cap Ex	\$42.66
Credit Value of Abated Rent	(\$5.69)
Total Occupancy Cost/USF	\$132.18
Local Face Rent	SGD 8.00 SF/MTH
Typical Lease Term (Years)	3
Local Efficiency Factor	1.18
Who Pays Broker?	New: Landlord Renewal: Tenant

5 Shanghai



Headline Occupancy Cost	\$105.78
Amortised Cap Ex	\$31.30
Credit Value of Abated Rent	(\$8.03)
Total Occupancy Cost/USF	\$129.04
Local Face Rent	CNY 13.50 SM/DAY
Typical Lease Term (Years)	3
Local Efficiency Factor	1.43
Who Pays Broker?	New: Landlord Renewal: Tenant

6 Paris



Headline Occupancy Cost	\$116.48
Amortised Cap Ex	\$14.17
Credit Value of Abated Rent	(\$12.66)
Total Occupancy Cost/USF	\$117.99
Local Face Rent	EUR 715.00 SM/YR
Typical Lease Term (Years)	6
Local Efficiency Factor	1.33
Who Pays Broker?	Tenant

7 New York (Midtown)



Headline Occupancy Cost	\$106.16
Amortised Cap Ex	\$10.96
Credit Value of Abated Rent	(\$10.62)
Total Occupancy Cost/USF	\$106.51
Local Face Rent	USD 77.50 SF/YR Full Service Gross
Typical Lease Term (Years)	10
Local Efficiency Factor	1.37
Who Pays Broker?	Landlord

8 Seoul



Headline Occupancy Cost	\$92.69
Amortised Cap Ex	\$28.92
Credit Value of Abated Rent	(\$16.66)
Total Occupancy Cost/USF	\$104.94
Local Face Rent	KRW 113,300.00 Pyong/MTH
Typical Lease Term (Years)	5
Local Efficiency Factor	2.00
Who Pays Broker?	Tenant

9 San Francisco



Headline Occupancy Cost	\$95.00
Amortised Cap Ex	\$8.75
Credit Value of Abated Rent	(\$3.96)
Total Occupancy Cost/USF	\$99.79
Local Face Rent	USD 76.00 SF/YR Full Service Gross
Typical Lease Term (Years)	10
Local Efficiency Factor	1.25
Who Pays Broker?	Landlord

10 Mumbai



Headline Occupancy Cost	\$79.81
Amortised Cap Ex	\$17.42
Credit Value of Abated Rent	(\$1.37)
Total Occupancy Cost/USF	\$95.86
Local Face Rent	INR 260.00 SF/MTH
Typical Lease Term (Years)	9
Local Efficiency Factor	1.54
Who Pays Broker?	Tenant

11	Dublin
	6.3%
Headline Occupancy Cost	\$81.79
Amortised Cap Ex	\$9.15
Credit Value of Abated Rent	(\$3.43)
Total Occupancy Cost/USF	\$87.51
Local Face Rent	EUR 60.00 SF/YR
Typical Lease Term (Years)	10
Local Efficiency Factor	1.00
Who Pays Broker?	Tenant

12	Washington DC
	-2.0%
Headline Occupancy Cost	\$89.89
Amortised Cap Ex	\$5.62
Credit Value of Abated Rent	(\$8.99)
Total Occupancy Cost/USF	\$86.52
Local Face Rent	USD 80.00 SF/YR Full Service Gross
Typical Lease Term (Years)	10
Local Efficiency Factor	1.12
Who Pays Broker?	Landlord

13	Frankfurt
	8.4%
Headline Occupancy Cost	\$68.27
Amortised Cap Ex	\$5.00
Credit Value of Abated Rent	(\$5.85)
Total Occupancy Cost/USF	\$67.42
Local Face Rent	EUR 39.00 SMMTH
Typical Lease Term (Years)	5
Local Efficiency Factor	1.18
Who Pays Broker?	Landlord

14	Chicago
	0.0%
Headline Occupancy Cost	\$66.27
Amortised Cap Ex	\$5.42
Credit Value of Abated Rent	(\$5.52)
Total Occupancy Cost/USF	\$66.16
Local Face Rent	USD 55.00 SF/YR Full Service Gross
Typical Lease Term (Years)	10
Local Efficiency Factor	1.20
Who Pays Broker?	Landlord

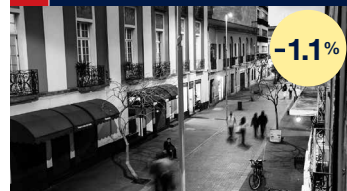
15	Amsterdam
	6.3%
Headline Occupancy Cost	\$57.28
Amortised Cap Ex	\$12.75
Credit Value of Abated Rent	(\$6.30)
Total Occupancy Cost/USF	\$63.74
Local Face Rent	EUR 395.00 SMMTH
Typical Lease Term (Years)	5
Local Efficiency Factor	1.00
Who Pays Broker?	Tenant

16	Brussels
	6.3%
Headline Occupancy Cost	\$46.89
Amortised Cap Ex	\$10.42
Credit Value of Abated Rent	(\$2.97)
Total Occupancy Cost/USF	\$54.34
Local Face Rent	EUR 285.00 SMMTH
Typical Lease Term (Years)	6
Local Efficiency Factor	1.18
Who Pays Broker?	Tenant

17	Los Angeles (Downtown)
	0.0%
Headline Occupancy Cost	\$53.01
Amortised Cap Ex	\$3.01
Credit Value of Abated Rent	(\$4.42)
Total Occupancy Cost/USF	\$51.61
Local Face Rent	USD 44.00 SF/YR Full Service Gross
Typical Lease Term (Years)	10
Local Efficiency Factor	1.20
Who Pays Broker?	Landlord

18	Toronto
	2.6%
Headline Occupancy Cost	\$47.23
Amortised Cap Ex	\$3.94
Credit Value of Abated Rent	(\$1.97)
Total Occupancy Cost/USF	\$49.19
Local Face Rent	CAD 54.00 SF/YR Full Service Gross
Typical Lease Term (Years)	10
Local Efficiency Factor	1.14
Who Pays Broker?	Landlord

19	Houston
	0.0%
Headline Occupancy Cost	\$50.00
Amortised Cap Ex	\$3.98
Credit Value of Abated Rent	(\$5.00)
Total Occupancy Cost/USF	\$48.98
Local Face Rent	USD 44.00 SF/YR Full Service Gross
Typical Lease Term (Years)	10
Local Efficiency Factor	1.14
Who Pays Broker?	Landlord

20	Mexico City
	-1.1%
Headline Occupancy Cost	\$34.62
Amortised Cap Ex	\$15.65
Credit Value of Abated Rent	(\$1.44)
Total Occupancy Cost/USF	\$48.83
Local Face Rent	USD 24.50 SMMTH
Typical Lease Term (Years)	5
Local Efficiency Factor	1.05
Who Pays Broker?	Landlord

EMEA Outlook

- The outlook in mainland Europe is for upward pressure during the remainder of 2017. New demand post Brexit is a result of occupiers seeking to hedge against uncertainty around the UK's future relationship with the EU, and European institutions forced to relocate into EU member states, e.g. the European Medicines Agency and European Banking Authority. As these requirements translate into executed leases, rents will increase in markets where supply is limited, e.g. Paris, Dublin and Frankfurt.

SPOC Methodology

The adjusted annual gross occupancy cost represents real-time transaction terms for 20,000 sq ft (2,000 sq m) of usable space with prime views in a top quality asset with i) a stable capital stack, ii) institutional quality ownership, and iii) a quality location in the prime business district. All costs are reported in an annual, standardized format of USD per sq ft of usable space to “level set” variations in currency, reflect local payment protocols, and adjust for measurement practices across the globe. We have factored in the credit value to the tenant generated from abated rent and the cost associated with fitting out the premises in order to provide an “all in” total occupancy cost in USD per usable square foot.

The fit out costs were gathered from Savills project managers assuming the leasing scenario described above, plus the following: i) 30% private offices with the remainder of space open plan, ii) construction and cabling only (no furniture or professional fees).

Glossary

Headline Occupancy Cost

Gross rent including operating expenses and property taxes

Amortised Cap Ex

Net capital expenditure divided by lease term

Credit Value of Abated Rent

Value of rent free divided by lease term

Total Occupancy Cost

Headline Occupancy Cost plus Amortised Cap Ex minus Credit Value of Abated Rent

Local Face Rent

Taking rent quoted in local currency, measurement unit and payment frequency

Local Efficiency Factor

Conversion rate from rentable to usable space

Key Market Contributors

AMERICAS

Chicago

Eric Feinberg
Senior Vice President
efeinberg@savills-studley.com

Los Angeles

Josh Gorin
Senior Vice President
jgorin@savills-studley.com

Mexico City

Carlos Olson
Vice President
carlos.olson@savills.com

New York

Zev Holzman
Corporate Managing Director
zholzman@savills-studley.com

Jarod Stern
Corporate Managing Director
jstern@savills-studley.com

Houston

Jim Bell
Managing Director
jbelle@savills-studley.com

Los Angeles

Andy Lustgarten
Corporate Managing Director
alustgarten@savills-studley.com

San Francisco

Matt Hart
Executive Managing Director
mhart@savills-studley.com

Toronto

Stan Krawitz
Executive Vice President
skrawitz@savills-studley.com

Paul Kay
Vice President
pkay@savills-studley.com

Washington DC

Tom Fulcher
Executive Vice President
tfulcher@savills-studley.com

APAC

Hong Kong

Julian Milne
Director
jmilne@savills.com.hk

Mumbai

Bhavin Thakker
Director
bthakker@savills.in

Seoul

Ian Cho
Director
escho@savills.co.kr

Shanghai

Yann Deschamps
Director
yann.deschamps@savills.com.cn

Singapore

Marcus Loo
Executive Director
marcus.loo@savills.com.sg

Tokyo

Gus Hayward
Associate Director
ghayward@savills.co.jp

EMEA

Amsterdam

Erik Beekman
Director
e.beekman@savills.nl

Dublin

Michael Healy
Divisional Director
michael.healy@savills.ie

London

Matthew Purser
Director
mpurser@savills.com

Freddie Corlett
Associate Director
fcorlett@savills.com

Paris

Serge Vayer
Associate Director
svayer@savills.fr

Brussels

Henry Colle
Associate Director
hcolle@savills.be

Frankfurt

Benjamin Remy
Director
bremy@savills.de

Savills iTeam

Patrick McGrath

Head of Cross Border Transactions
Americas
(212) 326-8665
pmcgrath@savills-studley.com

Will Butler

Managing Director
International Desk
(212) 326-8604
wbutter@savills-studley.com

