

Savills Prime Office Cost Index Q4 2017



International

January 2018



Overview

At the close of 2017, a majority of SPOC markets outside of the US and Mexico increased in overall costs (year-over-year as measured in USD) as global real estate markets strengthened and the dollar depreciated against 2016 highs. The greatest change occurred in continental Europe where the economic recovery gained momentum following a prolonged period of stagnation. Corporate profits in Europe are beating estimates and consumer confidence is at its highest level since 2001. Uncertainty surrounding Brexit continues to weigh on underlying costs in London, but a recovery in GBP following December's agreement to proceed with trade negotiations offset lower face rents and larger incentive packages.

Asia saw rising costs across all markets, apart from Hong Kong and Mumbai, as the region benefited from a healthy global economy and a policy of economic stimulus. In the US, despite a steady flow of strong economic data, gains on Wall Street, and the prospect of corporate tax reform, all markets trended down through 2017 in response to localised occupier densification and rising supply.

In our annual global survey, we asked the most senior brokers across the Savills tenant rep platform to share their view for the year ahead with a particular focus on occupancy and market trends influencing New York, London and Hong Kong. Finally, we also asked which trends will influence real estate decisions in the coming year.

Top 10 Markets by Cost

Rank	City	Total Occupancy Cost / USF	Year-Over-Year
1	Hong Kong	\$250.40	-0.93%
2	London (West End)	\$211.29	2.23%
3	Tokyo	\$192.56	7.01%
4	Singapore	\$143.73	12.27%
5	Paris	\$134.72	16.25%
6	Shanghai	\$126.59	0.96%
7	New York (Midtown)	\$106.50	0.65%
8	Seoul	\$103.28	9.76%
9	San Francisco	\$102.19	-0.26%
10	Mumbai	\$96.30	-2.82%

See appendix for detailed breakdown of total occupancy cost.

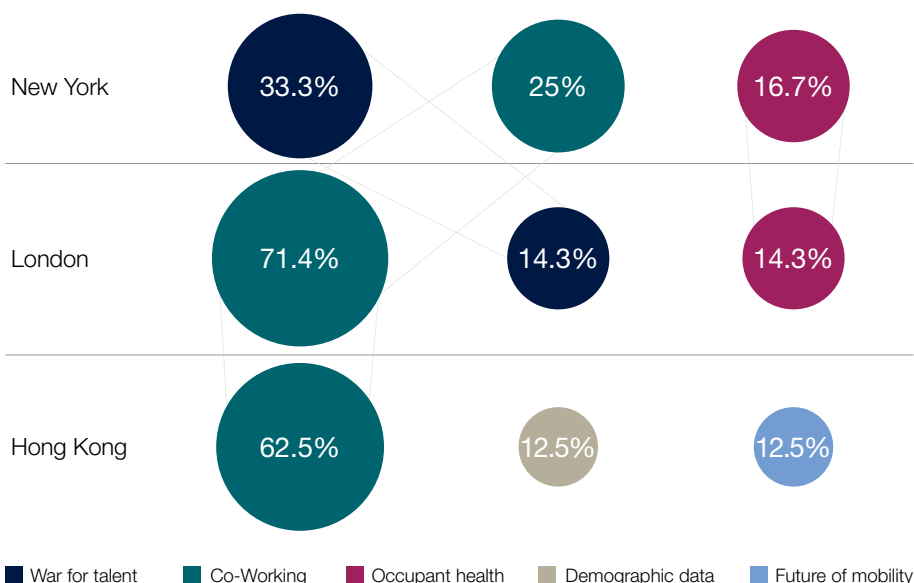
Tenant Favorability Index by Region

Prime Office Market 2018	Americas	AsiaPac	EMEA
Very Tenant Favourable	13%	0%	0%
Tenant Favourable	65%	33%	0%
Neutral	23%	33%	66%
Landlord Favourable	0%	33%	34%
Very Landlord Favourable	0%	0%	0%

Co-Working & War For Talent Impacting New York City, London & Hong Kong

Our tenant rep professionals in both London and Hong Kong overwhelmingly identified co-working/shared office space as the number one occupancy trend for 2018. New York generated a far more balanced response with the war for talent as the most popular result, perhaps in recognition of the city's position as an early adopter and pioneer in the new wave of co-working / shared spaces.

Which Occupancy Trend Will Make the Biggest Impact in 2018?



“The war for talent in the US (and elsewhere) is well on its way to DEFCON 1. We are experiencing a Super Storm of declining population growth, full employment, saturated female participation rates, demand outpacing STEM graduate production, and immigration policies going from bad to worse. Tenants that do not embrace national, regional, and yes, local talent attraction strategies – workforce and workplace – will be the first casualties of this war.”

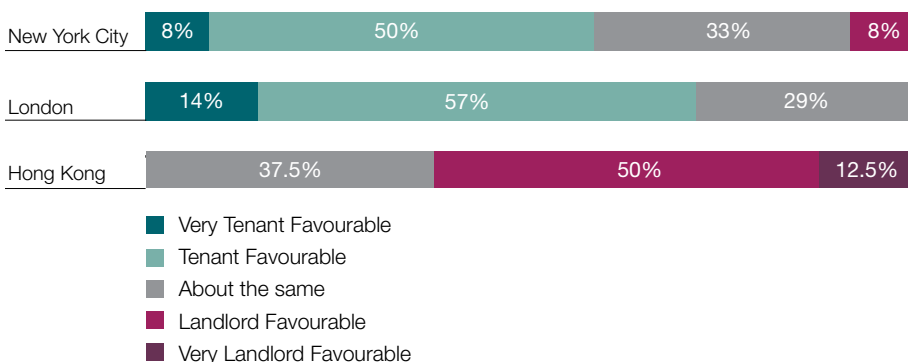
– Doane Kelly, Vice Chairman

NYC & London Tenant Favorable; Hong Kong Leans in Favor of Landlords

Respondents in both New York and London predict that conditions will be better for tenants in 12 months' time. In contrast, the opposite view emerged from Hong Kong where the market for prime office space in the Central submarket is expected to move in favour of Landlords.

How would you compare today's market with the market you anticipate 1 year from today?

Market



“Rising interest rates may not signal the investment sales' market demise, but landlords' increasingly restrained ability to raise rents may limit NOI growth in many markets, which may impact buyers' willingness to pay for assets priced to perfection. Watch the gap between effective rents and base rents. Landlords of second generation stock may try to keep base rents in line with the rents of their higher-priced new construction brethren, but may simultaneously offer aggressive incentives in the form of robust TI and free rent.”

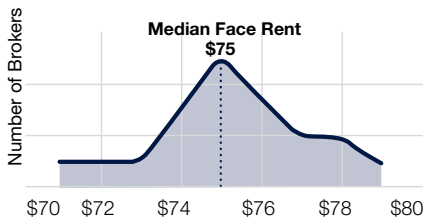
– Heidi Learner, Chief Economist

Market Predictions: New York City, London & Hong Kong

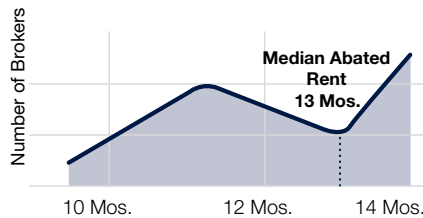
We asked our respondents to predict the value of key real estate metrics in their local currency / unit of measurement at the end of 2018. The resultant distribution charts demonstrate that there is relative consensus in New York on the likely range of Prime Office Rents, but greater uncertainty in London and Hong Kong where respondents had divergent views on where rents would sit in 12 months' time.

New York City Predictions

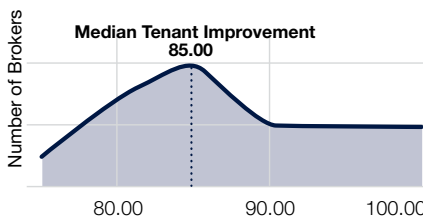
Anticipated Rent Distribution



Anticipated Abated Rent Distribution



Anticipated Tenant Improvement Distribution

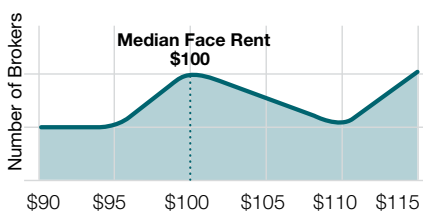


New York (Midtown)

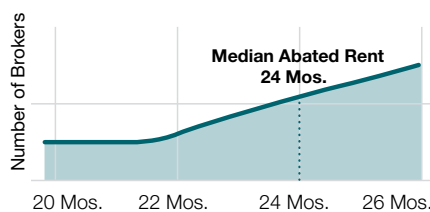
Average Face Rent (USD per sq ft per annum)	USD 75.67
Median Face Rent (USD per sq ft per annum)	USD 75.00
Average Abated Rent (Months)	12.83
Median Abated Rent (Months)	13 Mos.
Average Tenant Improvement (USD per sq ft)	USD 86.25
Median Tenant Improvement (USD per sq ft)	USD 85.00

London Predictions

Anticipated Rent Distribution



Anticipated Abated Rent Distribution

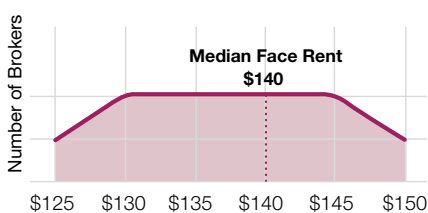


London (West End)

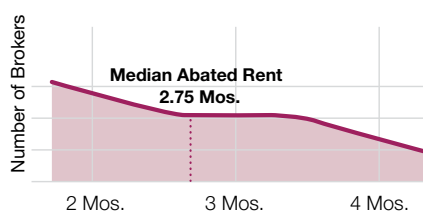
Average Face Rent (GBP per sq ft per annum)	GBP 103.57
Median Face Rent (GBP per sq ft per annum)	GBP 100.00
Average Abated Rent (Months)	24 Mos.
Median Abated Rent (Months)	24.00

Hong Kong Predictions

Anticipated Rent Distribution



Anticipated Abated Rent Distribution



Hong Kong (Central)

Average Face Rent (HKD per sq ft per month)	HKD 138.1
Median Face Rent (HKD per sq ft per month)	HKD 140.0
Average Abated Rent (Months)	3 Mos.
Median Abated Rent (Months)	2.75

The SPOC Global Rankings



Fit out costs in locations such as Paris, Frankfurt, Dublin and Amsterdam are expected to increase over the next two years as a result of Europe's economic recovery as well as corporate occupiers relocating jobs from London ahead of Brexit. There is also added pressure on employers to deliver high quality, innovative, flexible and agile office environments in response to the challenge of talent attraction and retention.

– Sean Monie, Director, Project Management EMEA

1

Hong Kong

-0.2%

Prime Office Forecast		
Headline Occupancy Cost	\$238.56	
Amortised Cap Ex	\$23.67	
Credit Value of Abated Rent	(\$11.83)	
Total Occupancy Cost/USF	\$250.40	
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)

1.7%

Prime Office Forecast		
Headline Occupancy Cost	\$224.31	
Amortised Cap Ex	\$13.15	
Credit Value of Abated Rent	(\$26.17)	
Total Occupancy Cost/USF	\$211.29	
Local Face Rent	GBP 105.00	SF/YR
Typical Lease Term (Years)	10	
Local Efficiency Factor	1.00	
Who Pays Broker?	Tenant	

3

Tokyo

1.3%

Prime Office Forecast		
Headline Occupancy Cost	\$148.38	
Amortised Cap Ex	\$50.59	
Credit Value of Abated Rent	(\$6.41)	
Total Occupancy Cost/USF	\$192.56	
Local Face Rent	JPY 38,000.00	Tsubo/MTH
Typical Lease Term (Years)	5	
Local Efficiency Factor	1.11	
Who Pays Broker?	Tenant	

4

Singapore

5.3%

Prime Office Forecast		
Headline Occupancy Cost	\$104.38	
Amortised Cap Ex	\$44.38	
Credit Value of Abated Rent	(\$5.03)	
Total Occupancy Cost/USF	\$143.73	
Local Face Rent	SGD 8.50	SF/MTH
Typical Lease Term (Years)	3	
Local Efficiency Factor	1.18	
Who Pays Broker?	New: Landlord Renewal: Tenant	

5

Paris

0.6%

Prime Office Forecast		
Headline Occupancy Cost	\$130.95	
Amortised Cap Ex	\$14.95	
Credit Value of Abated Rent	(\$11.18)	
Total Occupancy Cost/USF	\$134.72	
Local Face Rent	EUR 769.00	SM/YR
Typical Lease Term (Years)	6	
Local Efficiency Factor	1.33	
Who Pays Broker?	Tenant	

6

Shanghai

2.0%

Prime Office Forecast		
Headline Occupancy Cost	\$103.59	
Amortised Cap Ex	\$30.81	
Credit Value of Abated Rent	(\$7.81)	
Total Occupancy Cost/USF	\$126.59	
Local Face Rent	CNY 12.50	SM/DAY
Typical Lease Term (Years)	3	
Local Efficiency Factor	1.43	
Who Pays Broker?	New: Landlord Renewal: Tenant	

7

New York (Midtown)

0.0%

Prime Office Forecast		
Headline Occupancy Cost	\$106.16	
Amortised Cap Ex	\$10.96	
Credit Value of Abated Rent	(\$10.62)	
Total Occupancy Cost/USF	\$106.50	
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

6.9%

Prime Office Forecast		
Headline Occupancy Cost	\$100.13	
Amortised Cap Ex	\$21.22	
Credit Value of Abated Rent	(\$18.07)	
Total Occupancy Cost/USF	\$103.28	
Local Face Rent	KRW 113,564.00	Pyong/MTH
Typical Lease Term (Years)	5	
Local Efficiency Factor	2.00	
Who Pays Broker?	Tenant	

9

San Francisco

0.0%

Prime Office Forecast		
Headline Occupancy Cost	\$97.50	
Amortised Cap Ex	\$8.75	
Credit Value of Abated Rent	(\$4.06)	
Total Occupancy Cost/USF	\$102.19	
Local Face Rent	USD 50.00	SF/YR Full Service Gross
Typical Lease Term (Years)	10	
Local Efficiency Factor	1.25	
Who Pays Broker?	Landlord	

10

Mumbai

2.6%

Prime Office Forecast		
Headline Occupancy Cost	\$79.91	
Amortised Cap Ex	\$17.76	
Credit Value of Abated Rent	(\$1.37)	
Total Occupancy Cost/USF	\$96.30	
Local Face Rent	INR 255.00	SF/MTH
Typical Lease Term (Years)	9	
Local Efficiency Factor	1.54	
Who Pays Broker?	Tenant	

11	Dublin	5.5%
Prime Office Forecast		→
Headline Occupancy Cost	\$89.91	
Amortised Cap Ex	\$9.65	
Credit Value of Abated Rent	(\$3.80)	
Total Occupancy Cost/USF	\$95.76	
Local Face Rent	EUR 63.00 ^{SF/YR}	
Typical Lease Term (Years)	10	
Local Efficiency Factor	1.00	
Who Pays Broker?	Tenant	

12	Washington DC	0.0%
Prime Office Forecast		→
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 55.00 ^{SF/YR} Full Service Gross	
Typical Lease Term (Years)	10	
Local Efficiency Factor	1.12	
Who Pays Broker?	Landlord	

13	Amsterdam	2.9%
Prime Office Forecast		↑
Headline Occupancy Cost	\$60.99	
Amortised Cap Ex	\$13.45	
Credit Value of Abated Rent	(\$5.98)	
Total Occupancy Cost/USF	\$68.46	
Local Face Rent	EUR 400.00 ^{SM/YR}	
Typical Lease Term (Years)	5	
Local Efficiency Factor	1.00	
Who Pays Broker?	Tenant	

14	Frankfurt	4.0%
Prime Office Forecast		↑
Headline Occupancy Cost	\$73.60	
Amortised Cap Ex	\$0.00	
Credit Value of Abated Rent	(\$5.28)	
Total Occupancy Cost/USF	\$68.32	
Local Face Rent	EUR 40.00 ^{SMMTH}	
Typical Lease Term (Years)	5	
Local Efficiency Factor	1.18	
Who Pays Broker?	Landlord	

15	Chicago	0.0%
Prime Office Forecast		↓
Headline Occupancy Cost	\$66.27	
Amortised Cap Ex	\$4.82	
Credit Value of Abated Rent	(\$5.52)	
Total Occupancy Cost/USF	\$65.57	
Local Face Rent	USD 30.00 ^{SF/YR} Full Service Gross	
Typical Lease Term (Years)	10	
Local Efficiency Factor	1.20	
Who Pays Broker?	Landlord	

16	Brussels	1.7%
Prime Office Forecast		↑
Headline Occupancy Cost	\$51.44	
Amortised Cap Ex	\$10.99	
Credit Value of Abated Rent	(\$3.30)	
Total Occupancy Cost/USF	\$59.13	
Local Face Rent	EUR 300.00 ^{SM/YR}	
Typical Lease Term (Years)	6	
Local Efficiency Factor	1.18	
Who Pays Broker?	Tenant	

17	Toronto	1.5%
Prime Office Forecast		↑
Headline Occupancy Cost	\$53.23	
Amortised Cap Ex	\$5.37	
Credit Value of Abated Rent	(\$2.22)	
Total Occupancy Cost/USF	\$55.38	
Local Face Rent	CAD 29.50 ^{SF/YR} Full Service Gross	
Typical Lease Term (Years)	10	
Local Efficiency Factor	1.22	
Who Pays Broker?	Landlord	

18	Los Angeles (Downtown)	0.0%
Prime Office Forecast		↓
Headline Occupancy Cost	\$53.01	
Amortised Cap Ex	\$3.01	
Credit Value of Abated Rent	(\$4.42)	
Total Occupancy Cost/USF	\$51.60	
Local Face Rent	USD 26.00 ^{SF/YR} Full Service Gross	
Typical Lease Term (Years)	10	
Local Efficiency Factor	1.20	
Who Pays Broker?	Landlord	

19	Mexico City	1.1%
Prime Office Forecast		↓
Headline Occupancy Cost	\$35.79	
Amortised Cap Ex	\$15.65	
Credit Value of Abated Rent	(\$1.50)	
Total Occupancy Cost/USF	\$49.94	
Local Face Rent	USD 25.50 ^{SMMTH}	
Typical Lease Term (Years)	5	
Local Efficiency Factor	1.05	
Who Pays Broker?	Landlord	

20	Houston	0.0%
Prime Office Forecast		↓
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 27.00 ^{SF/YR} Full Service Gross	
Typical Lease Term (Years)	10	
Local Efficiency Factor	1.14	
Who Pays Broker?	Landlord	



“Knowledge workers—not machines—are the economic drivers of the 21st century. Workplaces will catch up to this fact and begin to employ a combination of multisensory design (places and experiences crafted to please one or more of our five senses) and new technologies (from smart building sensors to personal activity trackers) to create work spaces that actually support, rather than stifle, human well-being.”

– Melissa Marsh, Senior Managing Director, Occupant Experience

SPOC Methodology

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 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

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