JLL | Achieve Ambitions

Global Research | Q4 2019

Global Premium Office Rent Tracker

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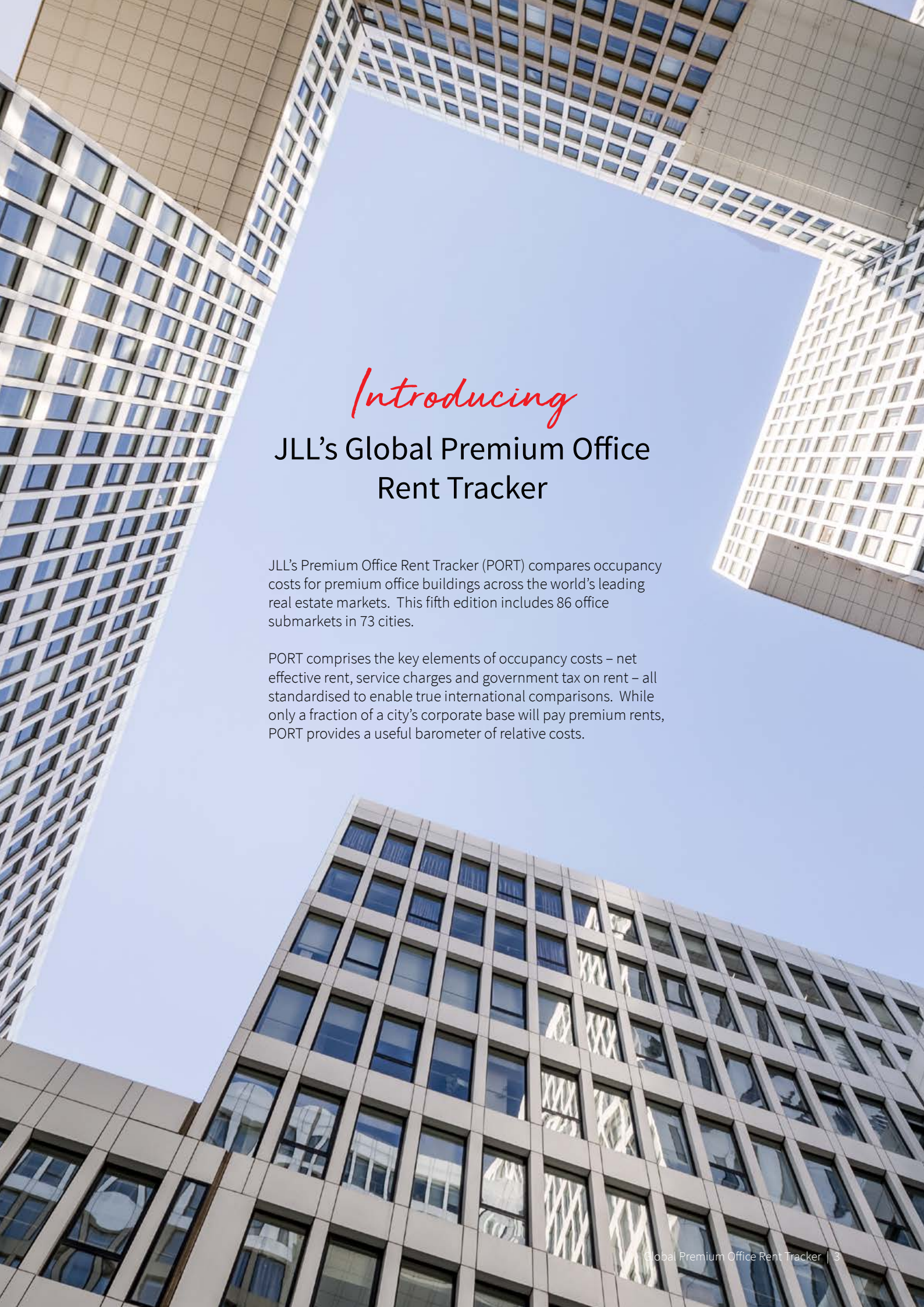


Introducing

JLL's Global Premium Office Rent Tracker

JLL's Premium Office Rent Tracker (PORT) compares occupancy costs for premium office buildings across the world's leading real estate markets. This fifth edition includes 86 office submarkets in 73 cities.

PORT comprises the key elements of occupancy costs – net effective rent, service charges and government tax on rent – all standardised to enable true international comparisons. While only a fraction of a city's corporate base will pay premium rents, PORT provides a useful barometer of relative costs.

Key Trends

Occupancy costs continue to rise for premium offices
Occupancy costs for premium buildings have continued to rise in major office markets over the past year, albeit growth has slowed compared to 2018. Costs have grown by an average of 2.1% in local currency terms and the median premium office occupancy cost now stands at US$74/sq ft/year.

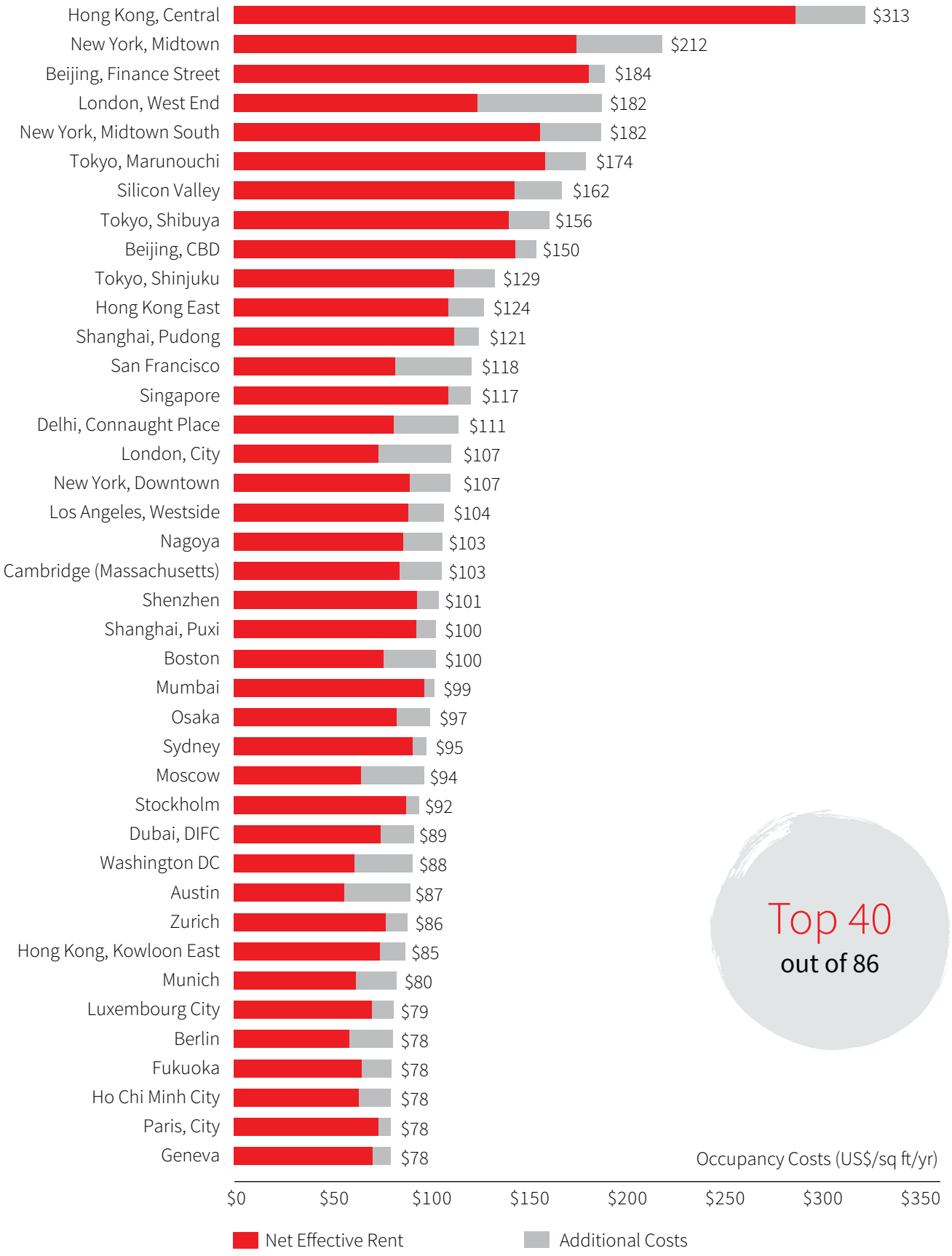
Growth in occupancy costs is set to decelerate in 2020
Growth in occupation costs is likely to slow further in 2020 as new supply peaks. Most markets surveyed are projected to see a deceleration in rental growth over the next year, yet only a few markets are likely to register actual downward rental corrections.

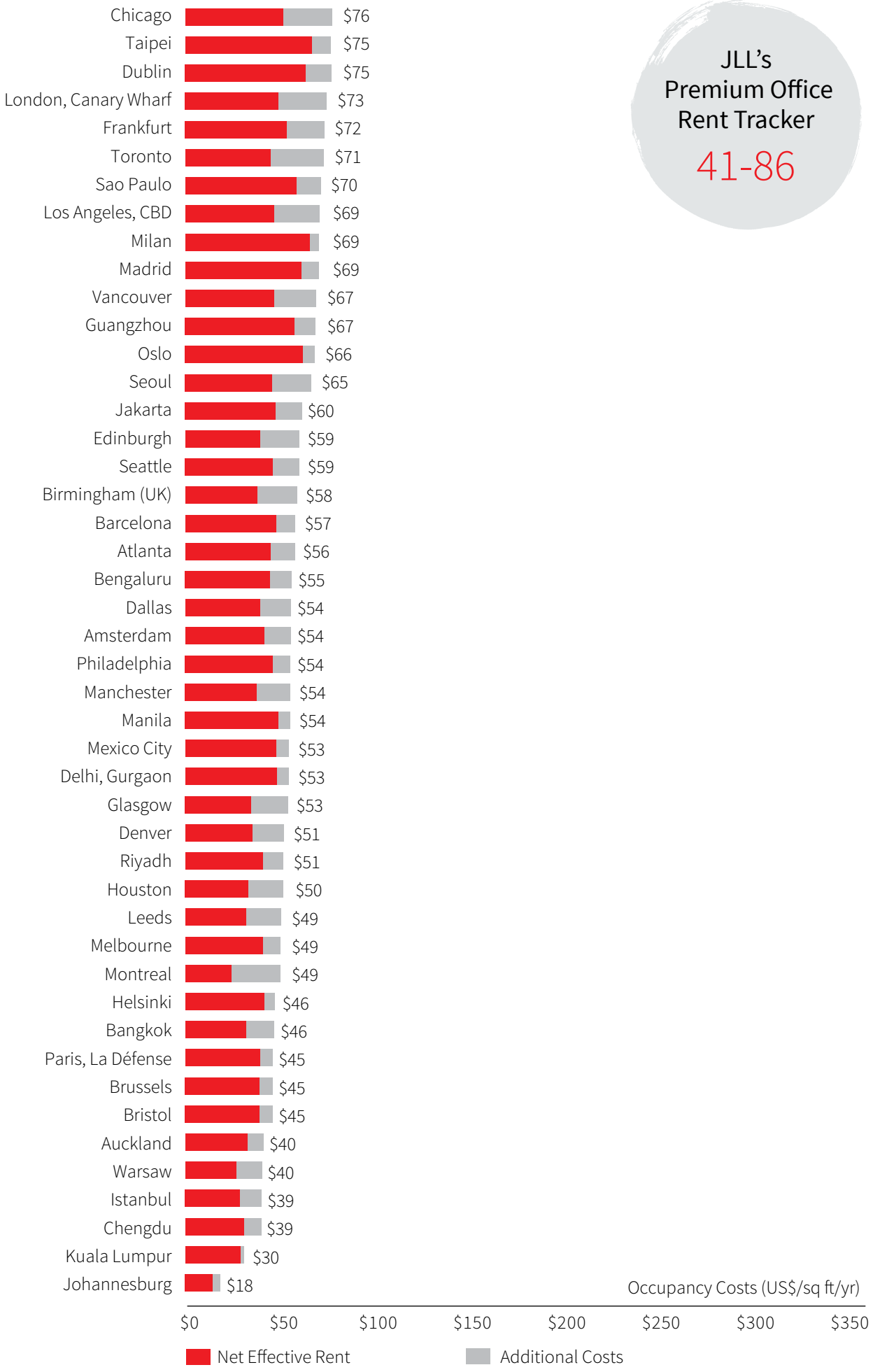
Affordability encourages corporate occupiers to look for alternatives
Affordability continues to be a concern, particularly in the top-tier cities like Hong Kong, New York and London, although considerable discounts can still be found in other well-located business districts within these cities. More affordable cities are also attracting greater corporate interest, such as Helsinki, Montreal, Denver and Manila.

Technology firms drive premium rents
While the banking and financial services industry continues to be the main driving force of premium office rents, technology firms – particularly online platforms – are playing a greater role in pushing premium office occupancy costs. This is especially the case in innovation-rich cities like San Francisco, Boston, Berlin, Amsterdam and Tokyo.

Construction is rising – but vacancy remains low
Globally, the supply of premium office space is gradually expanding, with new construction expected to peak over the coming year. Although occupier choice is increasing, premium space is still not in plentiful supply. Among the top office markets, the overall vacancy rate remains in the low single digits – and is as tight as 0.6% in Tokyo, 1.8% in Berlin and 5.1% in San Francisco.

JLL's Premium Office Rent Tracker – 86 markets





JLL's Premium Office Rent Tracker

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The Global Hierarchy of Office Occupancy Costs

- The **Hong Kong-Central** submarket continues to be the world's most expensive market. However, the price gap with the second most expensive submarket – **New York-Midtown** – has narrowed to around 50% from 60% a year ago, and a further closing of the gap is anticipated. **Beijing-Finance Street** now sits in third place, having overtaken **London-West End** in fourth. **New York-Midtown South** rounds off the Global Top 5.

- The Asia Pacific region accounts for six of the top ten most expensive office markets globally; three are in China – **Hong Kong-Central**, **Beijing-Finance Street** and **Beijing-CBD**; and three are in Tokyo – **Tokyo-Shibuya** and **Tokyo-Shinjuku** have joined **Tokyo-Marunouchi** to feature in the Global Top 10 for the first time.

- Technology-rich cities continue to dominate the most expensive markets. Many of the cities that feature at the top of JLL's recently released City Innovation Index[1] – such as **San Francisco**, **Tokyo**, **Singapore**, **Beijing**, **London**, **Silicon Valley** and **New York** – also appear in the Global Top 20 for occupancy costs. This is increasing the attraction for occupiers of more affordable mid-level tech-rich cities like **Austin**, **Berlin** and **Fukuoka**.

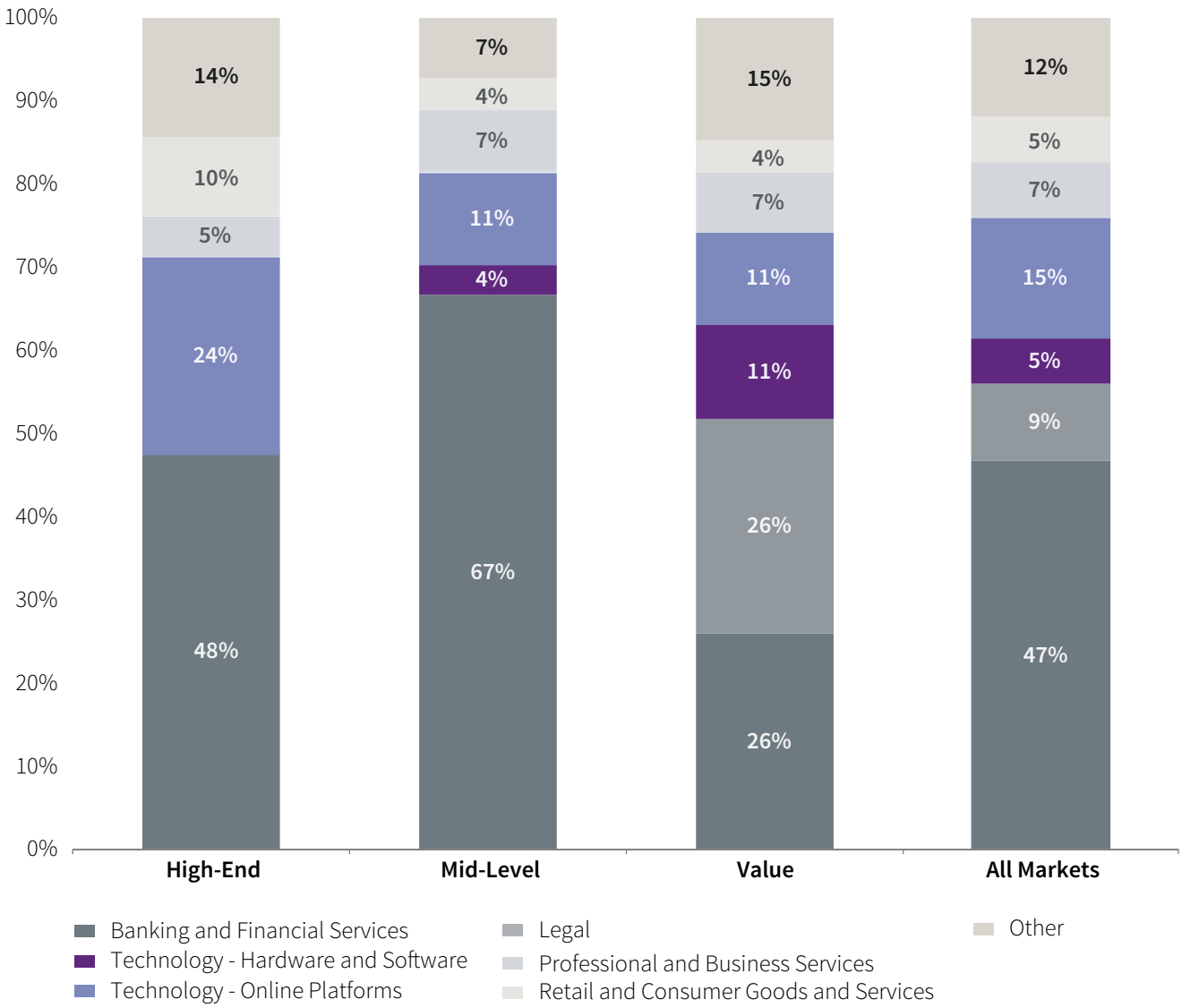
- The African hub of **Johannesburg** currently ranks as the most affordable city of the 73 cities covered by PORT. **Kuala Lumpur**, **Chengdu**, **Istanbul** and **Warsaw** are the most affordable locations in Asia Pacific and Europe respectively. **Montreal** has the lowest premium office occupancy costs in the Americas.

[1] Innovation Geographies, JLL 2019

Technology Firms Playing Greater Role in Driving Demand for Premium Space

While the banking and financial services industry continues to provide the major occupiers of premium office space globally, technology firms – in particular, online platforms – are playing a greater role in propelling demand for premium office space. This is especially pronounced in the most expensive markets (> US$100/sq ft/year) where technology firms are the main drivers of demand in nearly a quarter of the markets. In the more affordable 'value' markets (< US$60/sq ft/year), the legal sector, in addition to technology firms, plays a more substantial role.

Demand for Premium Office Space by Sector



Data as at end Q3 2019
Source: JLL

Note: Market categories defined based on total occupancy costs:
- High-End: > US$100/sq ft/year
- Mid-Level: US$60-100/sq ft/year
- Value: < US$60/sq ft/year

What Do Occupiers Seek from Premium Space?

The view of the workplace as a means of driving broader corporate goals – with enhanced experience at its heart – is becoming ever more established. JLL's global Future of Work Survey has found that major corporates seek to achieve a wide range of objectives through improving the workplace experience. 55% say that they hope to enhance collaboration; 48% want to drive innovation; and 42% aim to attract and retain talent.

While optimal experience is by necessity specific to organisations and locations, experience levers include access to spaces for employees across a range of activities, which will be essential ingredients of premium office space going forward. Flexibility is key, with the proportion of portfolios dedicated to flexible and agile workplace concepts expected to rise to 31% by 2020 according to the Future of Work Survey. Sustainability and corporate responsibility are rising on corporate and personal agendas, so green features and services – from access to greenery to minimising resource utilisation – are increasingly important. The provision of community-focused activities and hospitality-style amenities catered to the preferences and needs of employees, and largely underpinned by technology, is also becoming an expectation.

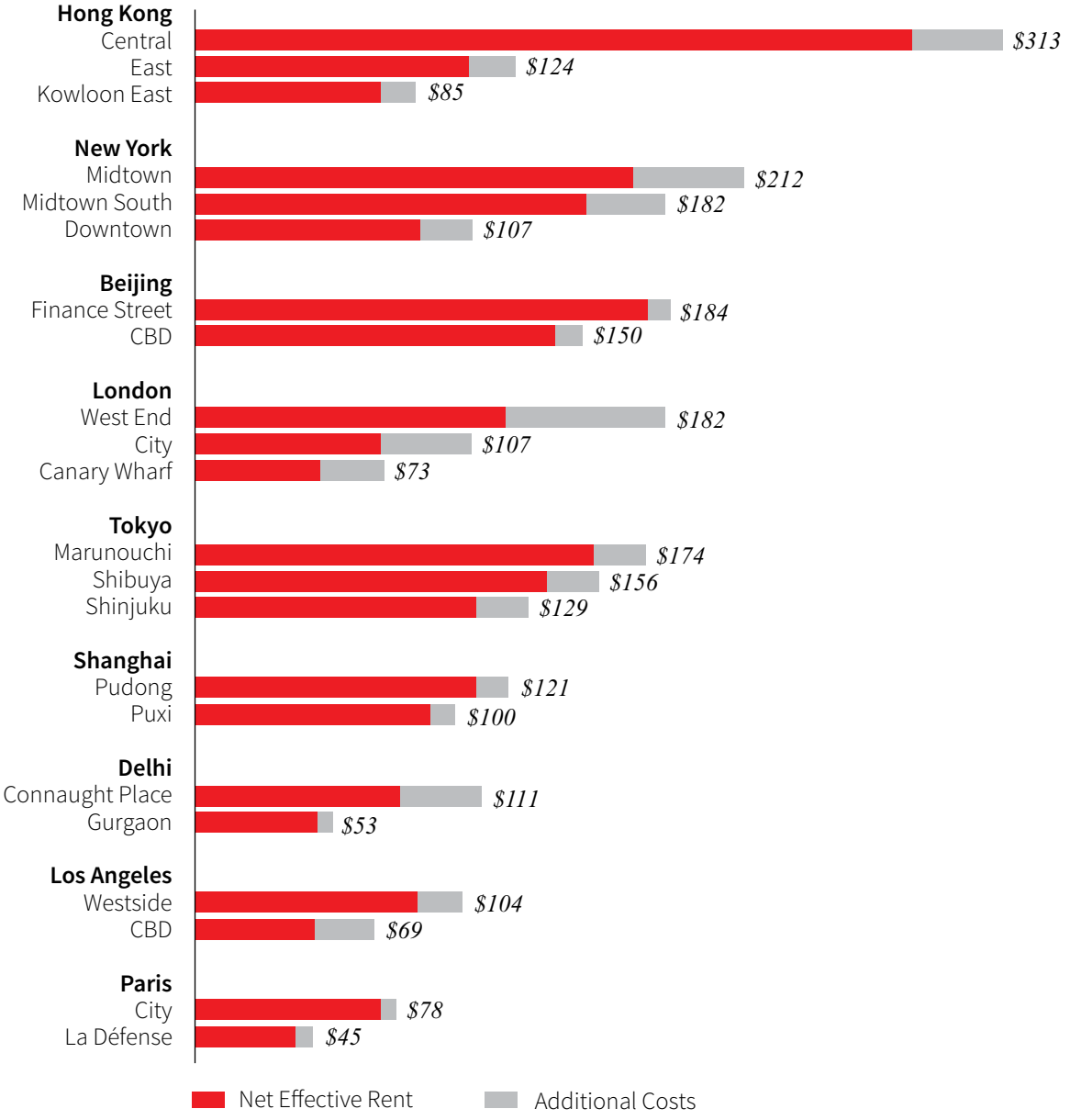
Complementing this is a focus on portfolio strategy centred around access to innovation and technical talent, with savvy occupiers looking at future pools of talent and innovation ecosystems to help define future location choices.

Occupancy Cost Differentials within Key Cities

Affordability is a particular concern in the top-tier cities, although considerable discounts can still be found in well-located business districts beyond each city's prime pitch, which is providing occupiers with more affordable options within these more expensive cities.

Across nine major cities where more than one market is included in PORT, there is on average a 40% discount between the premium office location and secondary or decentralised business districts. For example, in **Hong Kong** the discount is over 70%, while it is 60% in **London**, 50% in **New York** and close to 40% in **Paris**.

Occupancy Cost Differentials in Key Cities (US$/sq ft/year)



Data as at end Q3 2019
Source: JLL

The Premium Office Rent Tracker

PORT provides a snapshot of the rarefied world of the premium office market. While only a fraction of a city's corporate base will pay such premium rents, the tracker does benchmark office occupation costs on a like-for-like basis. It provides a useful barometer of relative city attraction and highlights the intense strains that many cities are now facing as their real estate markets try to accommodate growth.

Geographical Coverage

In this fifth edition of PORT we have extended coverage to include a further 15 markets. PORT now covers occupation costs across 86 major office markets in 73 cities.

Cities included for the first time:

- Canada: **Montreal** and **Vancouver**
- Japan: **Fukuoka** and **Nagoya**
- Norway: **Oslo**
- Spain: **Barcelona**
- United Kingdom: **Birmingham**, **Bristol**, **Edinburgh**, **Glasgow** and **Leeds**
- United States: **Austin** and **Denver**

Recognising the polycentric characteristics of many premium office markets, coverage in **London (Canary Wharf)** and **Tokyo (Shibuya)** has also been broadened to include additional submarkets.

The 73 cities represent the full spectrum of markets of differing function and evolution, ranging from the Established World Cities (of **London**, **New York**, **Tokyo** and **Hong Kong**) through to Emerging Megahubs (like **Mumbai**, **Mexico City** and **Johannesburg**) and New World Cities (as exemplified by **Seattle**, **Melbourne** and **Geneva**).[2]

JLL's Approach

Our objective is to provide a robust like-for-like comparison of office occupancy costs based on the expertise of JLL's leasing market professionals in each city. The rents refer to the 'top achievable' in units over 10,000 square feet (or approximately 1,000 square metres) in the premium building in the premier office district of each city. In tall buildings, the middle zone is used as the benchmark. We exclude rents that represent a premium level paid for a small quantity of space or highly prestigious units where a significant premium applies.

Rents are standardised on a Net Leasable Area basis and adjusted to take into account tenant incentives/ rent-free periods. Service charges and local government taxes on rent (i.e. additional costs) are added to allow direct comparison of full occupancy costs between cities.

[2] Demand and Disruption in Global Cities, JLL 2019

The JLL Global Office Leasing Group (GOLG) is the world's most connected global office team providing our clients with powerful insights and knowledge. We work together to successfully connect landlords and tenants in offices across the globe. Contact any of the team to find out more.

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