



*Global Research | Q4 2017*

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# The JLL Global Premium Office Rent Tracker

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This third edition of JLL's **Premium Office Rent Tracker** (PORT) compares occupancy costs for premium office buildings across a broad range of the world's major cities. PORT includes the key elements of occupancy costs – net effective rent, service charges and government tax on rent – all standardised to enable true international comparisons.

## Trends to watch



Occupancy costs for premium buildings have continued to rise in major office markets over the past year, despite many being in a late-cycle phase. Costs have grown by an average of close to 4% in US dollar terms during 2017.



Increasing recognition by corporate occupiers that their workspaces can be a key differentiator in the battle for talent has meant that well-located premium space with access to excellent amenities in talent hotspots is highly prized and in strong demand across the globe.



Globally, the supply of premium space is gradually expanding and, while there is now greater occupier choice, premium space is still not in abundance. Among the top office markets, the overall vacancy remains in low single-digits – for example, 3% in Tokyo CBD and close to 5% in Hong Kong and London.



The pace of growth in occupation costs is likely to decelerate in 2018 as new supply comes through but, while rents are expected to slow, there are very few major markets where a downward correction is projected for 2018. In fact, the delivery of new premium buildings will set fresh rental benchmarks in several markets.



Affordability continues to be a concern, particularly in the top tier of markets such as Hong Kong, New York and London, although considerable discounts can still be found in other well-located business districts within these cities.

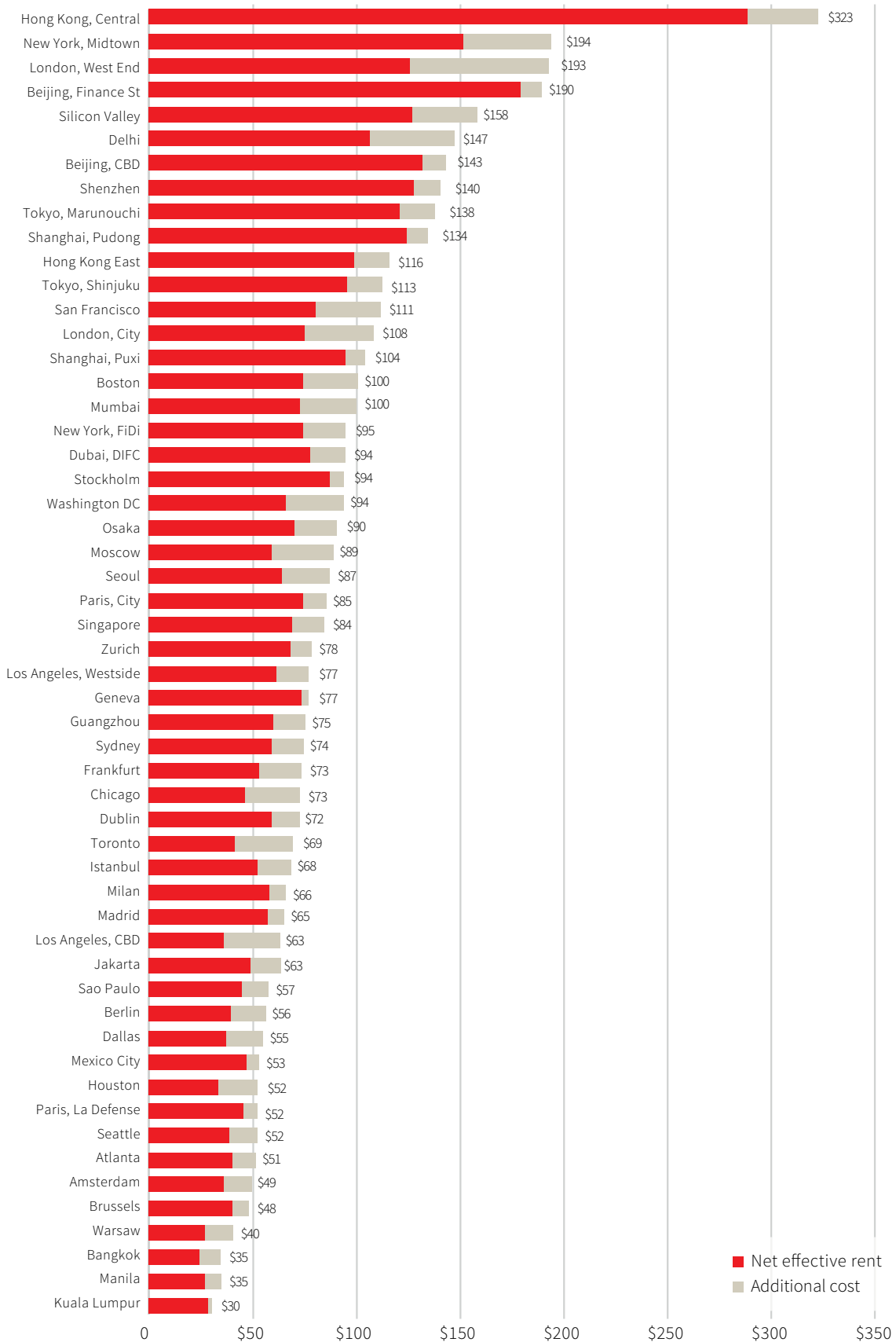


Cities that offer more affordable premium office space are attracting significant corporate interest, especially in talent hotspots in Northern Europe (such as Amsterdam, Berlin and Warsaw) and Southeast Asia (including Kuala Lumpur, Bangkok and Manila).



We continue to see a greater number of tenants from the technology sector targeting premium buildings so as to entice top talent and to enhance their brand equity.

# Premium Office Rent Tracker



Data as at end Q3 2017, (US\$ / sq ft / year)

Source: JLL

## The global ranking of office occupancy costs

- **Hong Kong Central** continues to be the world's most expensive office submarket by a large margin, maintaining a substantial gap in premium office rents in excess of 50% over those of either **New York's Midtown** or **London's West End**. This is driven by strong demand from firms from mainland China and compounded by ongoing supply shortages. The high cost of office space in **Hong Kong Central** will continue to encourage decentralisation into alternative office districts that offer significant rental discounts, such as **Hong Kong East**.
- **New York's Midtown** replaces **London's West End** as the world's second most expensive office market, with rents having moved in opposite directions over the past year. London has seen a marginal fall in premium rents in 2017, although the decline has been far softer than anticipated and rents are expected to stabilise in 2018.
- Testament to the ongoing robust market fundamentals of Greater China, the region accounts for 5 of the global top 10 most expensive office markets – **Hong Kong Central, Beijing Finance St, Beijing CBD, Shenzhen** and **Shanghai Pudong**. Together with **Delhi** and **Tokyo Marunouchi**, Asia Pacific markets make up 7 of the world's 10 most expensive locations.
- Technology-rich cities feature heavily among the most expensive markets, including the U.S. tech hubs of **New York Midtown, Silicon Valley, San Francisco** and **Boston**; as well as **London** and **Stockholm** in Europe; and **Beijing, Shenzhen** and **Tokyo** in Asia. But these cities will need to work hard to maintain their attraction for technology firms and start-ups in the face of strong competition from more affordable tech hubs like **Berlin** and **Amsterdam**.

## What do occupiers *seek* from premium space?

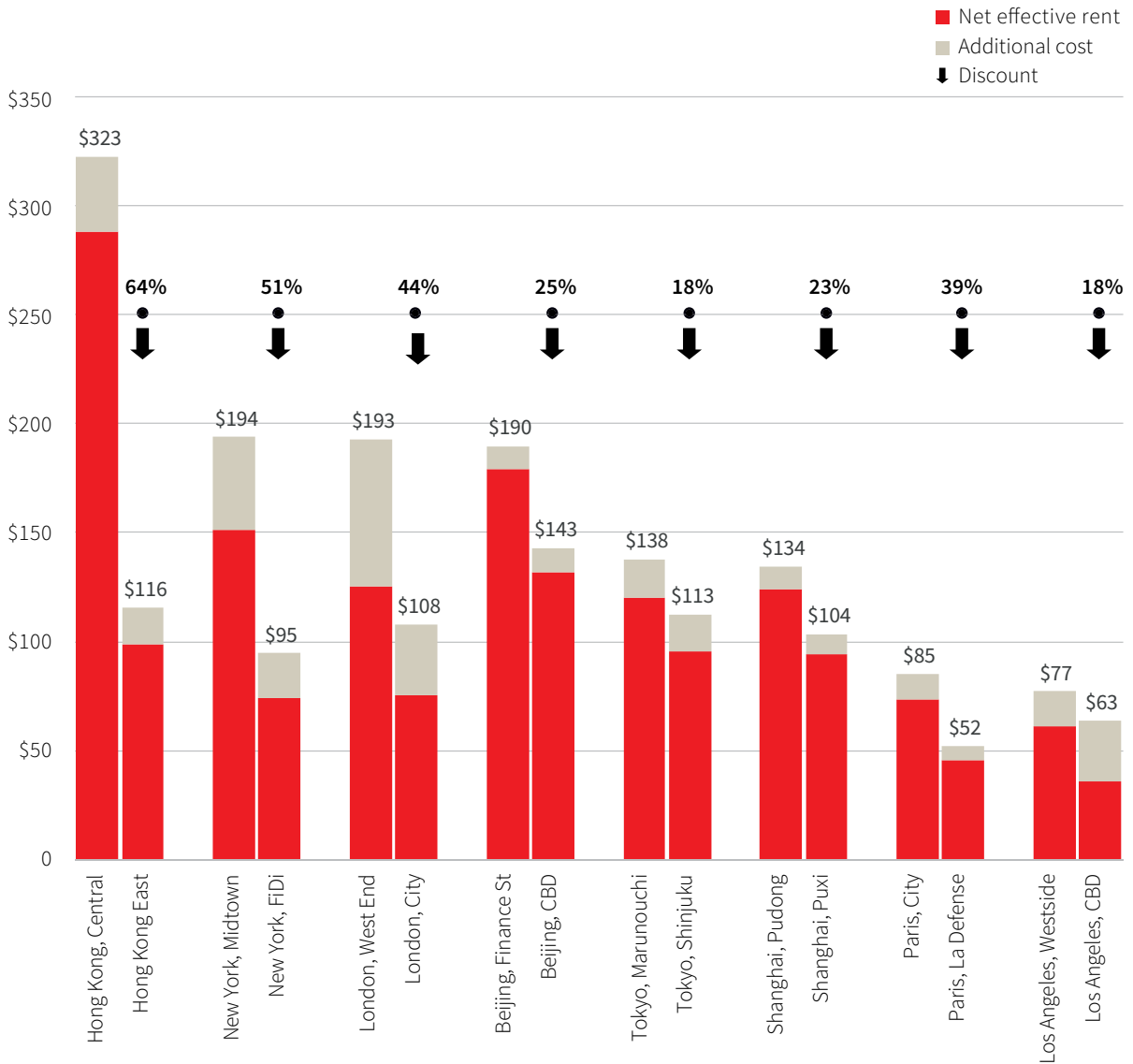


Corporate occupiers are looking to consolidate and streamline their portfolios in strategic locations that are talent hotspots, with a focus on space that facilitates innovation and collaboration, and which is well served by transport, local amenities and technology infrastructure.



User experience is an important factor guiding the design of office environments, providing occupiers with more flexibility and choice over their working environment and access to cutting-edge technology such as virtual and augmented reality. High-quality services, from food and beverages to recreation spaces, gyms and space to support well-being are likely to become standard features in premium locations.

## Cost differentials in key gateway cities



Data as at end Q3 2017, (US\$ / sq ft / year)  
Source: JLL

While **Hong Kong** commands the world's highest office costs by a significant margin, it also has the steepest rental gradients with a 64% cost discount between **Central** and alternative business districts like **Hong Kong East**.

**New York** and **London** also offer substantial discounts of around 40%-50% from their **Midtown** and **West End** cores to their most cost competitive financial districts (i.e. **Downtown** and **the City**).

## Where to find affordable space?

PORT identifies that the lowest occupancy costs for premium space are concentrated in four sub-regions:

**Southeast Asia:** **Kuala Lumpur, Manila** and **Bangkok** comprise the three most affordable premium office locations globally.

**Northern Europe:** **Warsaw, Brussels, Amsterdam** and **Berlin** also offer among the world's most affordable office space. These lower-cost markets have attracted considerable corporate interest – leasing volumes in **Warsaw** and **Berlin** have risen significantly since 2014, while take-up in **Amsterdam** is at its highest since the Global Financial Crisis.

**United States Sun Belt:** In the U.S., the most affordable major office markets are traditionally found in the Sun Belt cities, like **Houston, Atlanta** and **Dallas**, where an ample supply pipeline has kept occupancy costs down.

**Latin America:** Both **Sao Paulo** and **Mexico City** are contending with unprecedented supply pipelines, which have put downward pressure on costs in Latin America's two largest office markets.

### The most affordable office markets

Market	Country	Total Occupancy Cost (US\$ / sq ft / year)	
Kuala Lumpur	Malaysia	\$30	
Manila	Philippines	\$35	
Bangkok	Thailand	\$35	
Warsaw	Poland	\$40	
Brussels	Belgium	\$48	
Amsterdam	Netherlands	\$49	
Atlanta	United States	\$51	
Seattle	United States	\$52	
Paris, La Defense	France	\$52	
Houston	United States	\$52	
Mexico City	Mexico	\$53	
Dallas	United States	\$55	
Berlin	Germany	\$56	
Sao Paulo	Brazil	\$57	

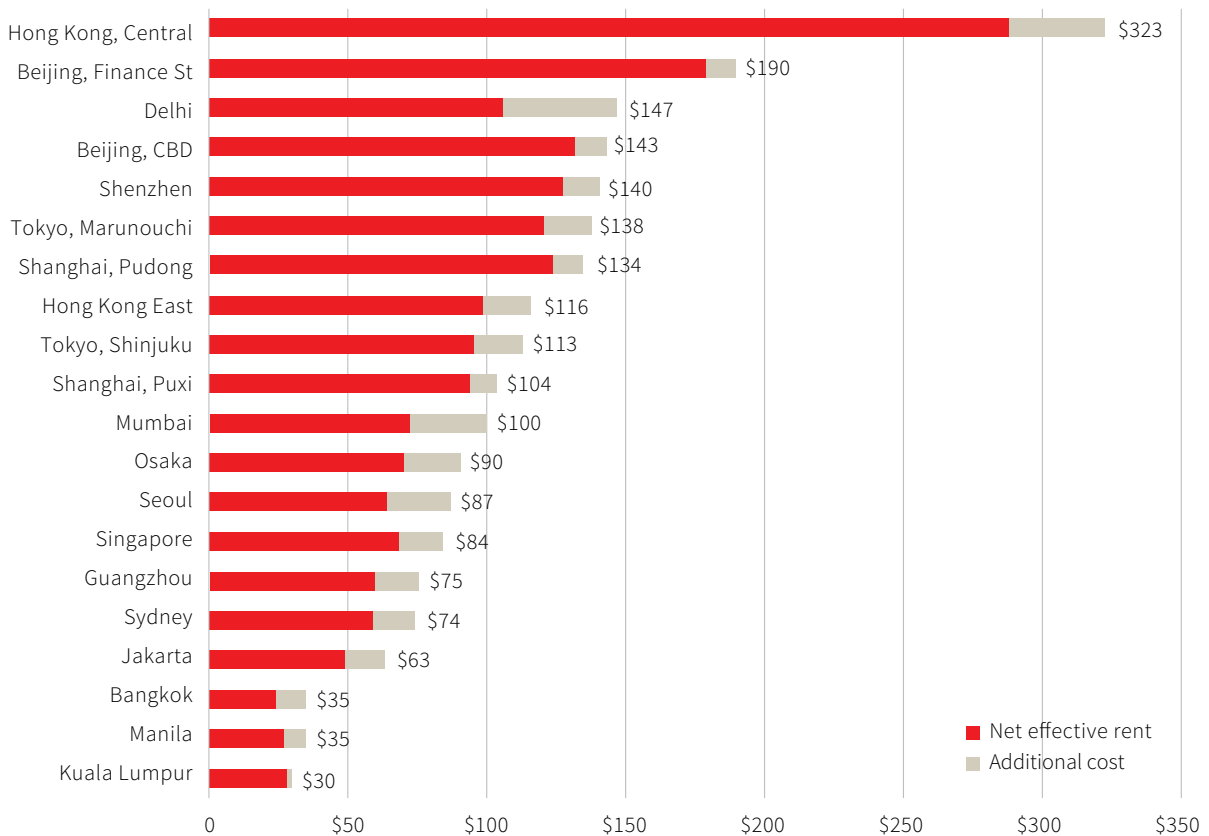
  

Asia Pacific
EMEA
Americas

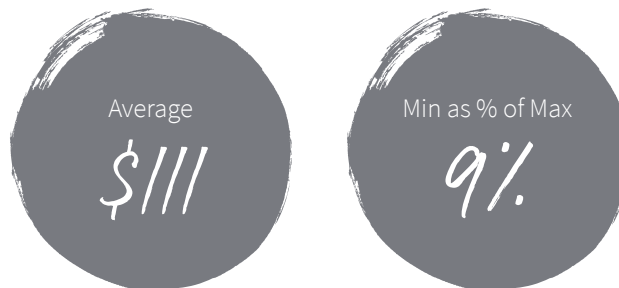


# Regional Perspectives

## Asia Pacific



Data as at end Q3 2017, (US\$ / sq ft / year)  
Source: JLL

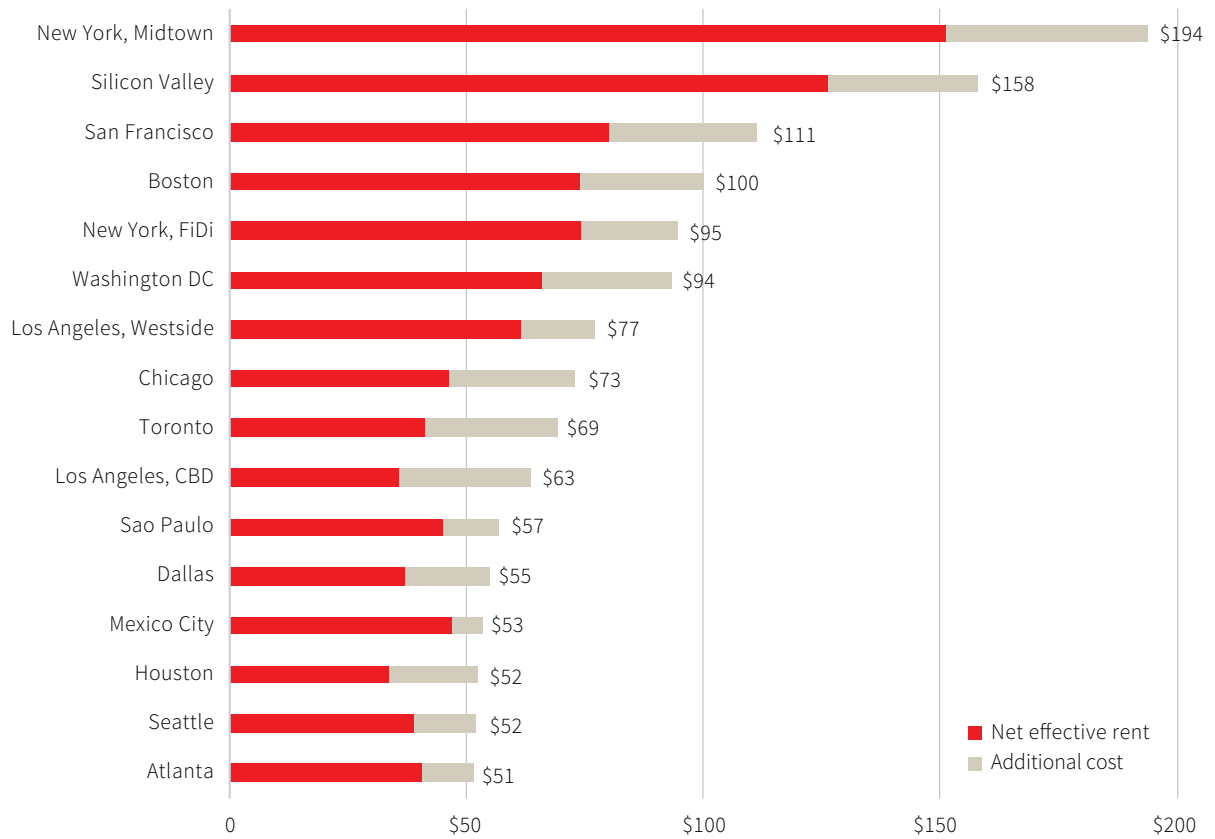


The Asia Pacific region commands the world’s most expensive premium office space – at an average of US\$111 / sq ft / year. But, this is overwhelmingly a function of high costs in **Greater China** where, due to strong demand, 7 out of the region’s 10 most expensive office markets are located.

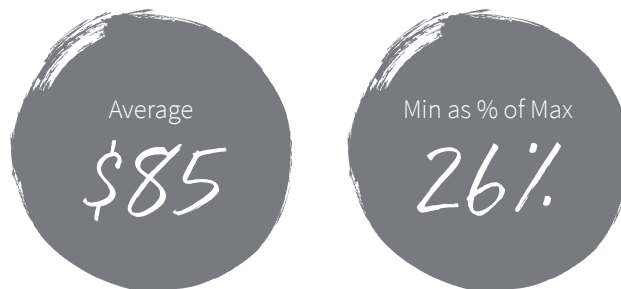
Yet, testimony to the economic diversity within the region, Asia Pacific also offers among the world’s most competitive premium space – with **Kuala Lumpur’s** costs barely one-tenth of those in **Hong Kong Central**.



# Americas

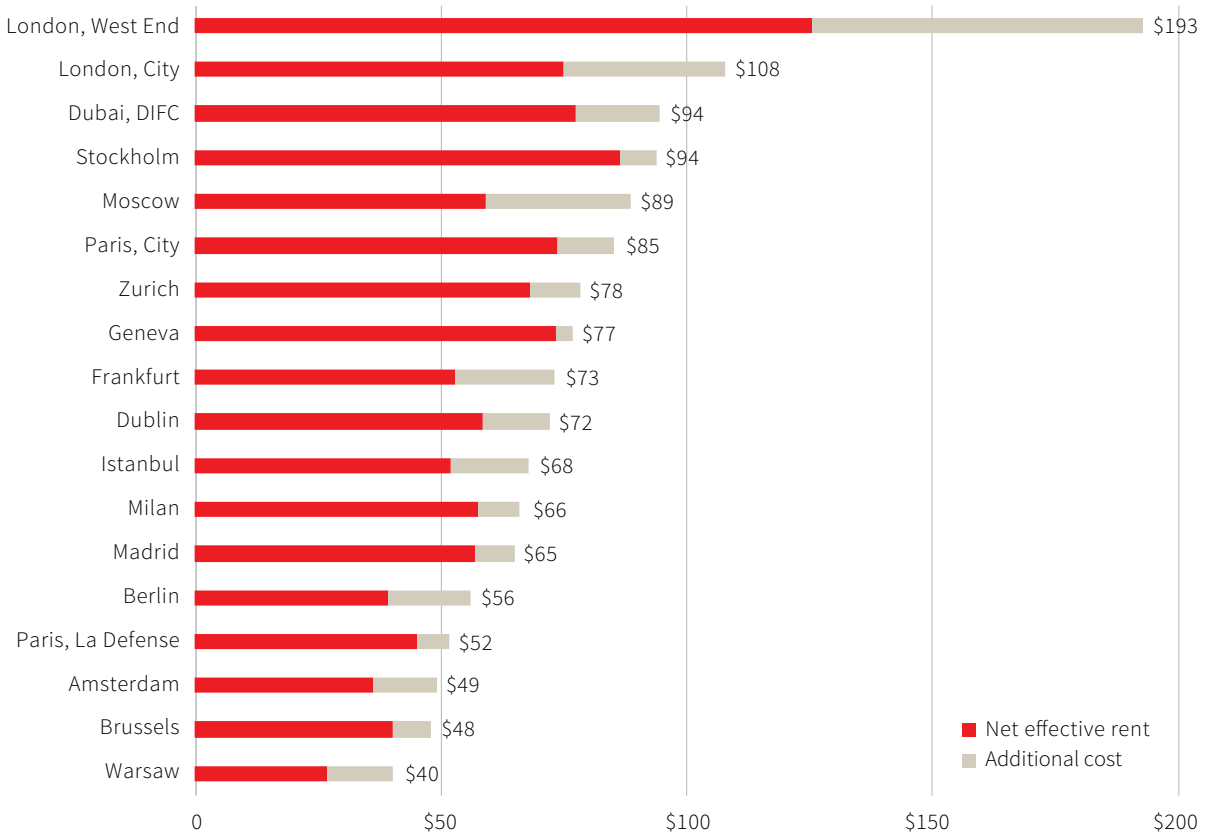


Data as at end Q3 2017, (US\$ / sq ft / year)  
Source: JLL

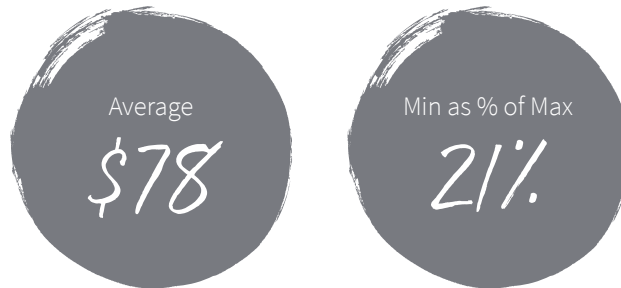


The most expensive markets in the Americas region are dominated by the leading global technology and innovation hubs in the United States – namely **New York Midtown, Silicon Valley, San Francisco** and **Boston**. **New York's Financial District** rounds out the Americas region's top 5 most expensive office markets.

## Europe and Middle East



Data as at end Q3 2017, (US\$/sq ft/year)  
Source: JLL



The average total occupancy cost of premium office space in the **EMEA** region is US\$78 / sq ft / year, the lowest of the three global regions.

The Eurozone offers among the most competitive costs globally, averaging US\$63 / sq ft / year. In fact, all the most expensive markets in the region are found outside of the Eurozone. **London West End** and **London City** are joined by **Dubai DIFC**, **Stockholm** and **Moscow** to round out EMEA's top 5 most costly office markets.

# JLL's approach

## 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.

## PORT Coverage

In this third edition of PORT we have extended coverage to include a further 19 markets. PORT now covers occupation costs across 54 major office markets in 46 cities. Recognising the polycentric characteristics of many premium office markets, coverage in **Beijing** (CBD), **Tokyo** (Shinjuku), **Shanghai** (Puxi) and **Los Angeles** (CBD) has been extended to include additional submarkets. China's two remaining Tier I cities – **Shenzhen** and **Guangzhou**; **Osaka** in Japan; the emerging Southeast Asian hubs of **Bangkok**, **Manila** and **Kuala Lumpur**; the U.S. cities of **Dallas**, **Atlanta**, **Seattle** and **Silicon Valley**; five cities in Europe – **Warsaw**, **Berlin**, **Dublin**, **Stockholm** and **Istanbul** have been included for the first time.

The 46 cities represent the full spectrum of markets of differing function and evolution, ranging from the Established World Cities (of **New York**, **London** and **Tokyo**) through to Emerging World Cities (like **Mexico City**, **Moscow** and **Mumbai**) and New World Cities (as exemplified by **Berlin**, **Boston** and **Seattle**).

To find out more about JLL's City Typologies, visit:

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.



# Contacts

The JLL Global Office Leasing Group 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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