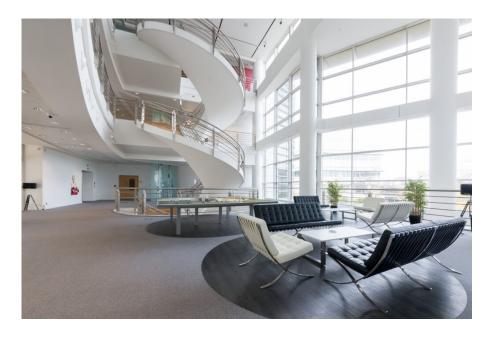


Office occupiers around the world facing a 10% increase in fit-out costs; rental rises also squeezing budgets in EMEA

3 years ago



<u>Savills</u> latest Prime Office Costs (SPOC) analysis for Q3 2022 shows that fit-out costs in key office markets around the world have continued to climb with inflation, rising an average of 10%, with increased rents in many markets also contributing to higher total net effective costs for office occupiers.

Overall, the markets which have seen the largest increases in net effective costs (including fit-out costs, rents and other costs) over the quarter are largely clustered in the EMEA region, including Dublin (+7%), London City (+5%), Dubai (+3%), and Berlin (+3%).

Fit-out cost inflation varies slightly by region, says Savills, from 14% year-on-year (YOY) on average in EMEA, to 9% YOY in Asia Pacific and 7% YOY in North America, as global supply chain issues have affected all markets, albeit to varying degrees. Rental rises have seen much greater variation, says Savills. European and Middle Eastern prime CBD office markets have seen an increase in average gross rents of 6% over the past year, attributable to a prevalence of both index-linked rental increases and energy costs which are often factored into service charges. Furthermore, low vacancy rates in the core markets have supported an increase in asking rents. Most markets in Asia Pacific and North America, meanwhile, haven't seen large changes in rental costs with average prime office rent in Asia Pac falling -1% over a year and the average US rent rising 2%, although there is significant diversity between individual cities.

In addition, the international real estate advisor says that rising costs are slowing down development and refurbishment activity, creating shortages of prime, sustainable office spaces, which is helping to drive the emergence of a green rental premium. This premium stands at between 4%-15% in Asia Pacific



markets, says Savills, 10% in European markets such as the Netherlands, and between 5% and 10% in US office markets as occupiers look to increase their sustainability needs in line with corporate and national targets.

Matthew Fitzgerald, director of Savills EMEA tenant advisory team, comments: "The last quarter is when occupiers have really started to feel the effects of rising inflation in both fit-out and rental costs, particularly in EMEA which is recording the highest average rises in both. Rental markets are more or less exposed to inflation irrespective of the economic situation in individual countries; because the legal framework for leasing commercial property will vary by location, occupiers should explore ways to mitigate rising costs either through the regulatory framework of the country concerned or the existing lease. It's unfortunate that these price rises come at a time when more needs to be spent on 'green' buildings and retrofitting existing stock to match the demand for more sustainable property, which creates complexity when considering long-term options."

View the full Savills Prime Office Costs analysis for Q3 2022 here