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Global prime office incentives fall as green office deficit prevails over economic concerns

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Savills latest Prime Office Costs (SPOC) analysis has revealed that globally landlord incentives to occupiers have declined 1% over the last year, despite the worsening macro-economic backdrop, as occupiers compete for the limited best quality 'green' office space available in each market.

The international real estate advisor says, however, that there is significant regional and even city-level variation.

EMEA has seen the strongest drop in incentives with an annual fall of 5%, largely being driven by decreases in major gateway cities such as Paris, London and Dublin.

Asia Pacific has seen minimal declines in incentives, with the regional average change hovering at -0.5% for the year, while North America has seen an 2% average increase, driven by San Francisco, which is working to retain and attract occupiers in the face of large-scale shifts within the tech industry

Savills forecasts that prime offices across the globe are likely to see flat to slightly positive rental growth during 2023, with Asia Pacific seeing 1% growth, EMEA 2% and North America 0%. Over the past year it says rent increases for prime offices averaged 3% globally, as rising costs were relatively obfuscated through declining incentives and landlord contributions towards fit-outs.

Net effective costs to occupiers – the cost inclusive of rent, fit-out, and any incentives – were up only 4% year-on-year, considerably lower than inflation and increasing energy and labour costs.

Matthew Fitzgerald, director of Savills EMEA tenant advisory team, comments: “Despite the uncertainty in the macro-economic environment, the fundamental supply/demand imbalance of prime office space in many key cities has held rents. Incentives have largely fallen, and rents are actually forecast to increase over the next 12 months, but the inflationary impact on fit-out and service charge costs is now affecting occupiers.

“The situation varies across cities of course, depending on the industry types associated with that city, but an almost-universal rush for ESG compliance with multinational companies considering only ‘green rated’ buildings will likely to continue to push up pricing for the high-quality, certified assets.”

Read Savills full Prime Offices Costs: Quarterly Highlights report here