

Net costs for prime office occupiers continued to rise in Q3

1 year ago



[Savills](#) latest global Prime Office Costs (SPOC) analysis has revealed that average net effective costs for occupiers taking top quality office space in key cities around the world rose 0.8% in Q3 2023, bringing the average increase in net effective costs since the end of 2022 to 2.6%.

The international real estate advisor says this is reflective of the ongoing flight of occupiers to top spec office space, which led to annual gross rents increasing by 0.9% across the quarter among the cities it samples, but the more significant proportion of the increase is attributable to the rising expense of fitting-out space across many cities, especially those in the US, which drove up fit-out costs by an average of 3.2% in Q3.

Savills notes that in the US these rising fit-out costs have been mitigated by landlords increasing concessions, leading to total net effective costs to occupiers in its SPOC markets declining -0.7% in Q3, even as average gross rents have risen 0.5% in the past six months. Miami, which Savills is including in SPOC for the first time, is an outlier, however, with net effective costs rising 10.7% across as limited supply and strong demand push rents up for prime space and limit concessions.

Across EMEA SPOC cities, net effective costs rose by an average of 2.1% in Q3, with annual gross rents increasing by 1.1% on the quarter, largely driven by rises in Milan, Frankfurt, and Madrid. Dubai, with new company registrations increasing demand, saw annual gross rents increase 1.2% and net effective costs increase 2.0% in the third quarter.

Asian cities, which have tended to see lower adoption of hybrid working models, have continued to see relatively stable occupational markets, says Savills, although an excess of office development in China and

Hong Kong has led to vacancy rates climbing in these markets, contributing to regional net effective costs decreasing -0.1% in Q3, as average rents fell 0.7% in the quarter.

Christina Sigliano, head of EMEA occupier services at Savills, comments: “Whilst even the best spaces aren’t immune to average vacancy rates creeping up this year, the landlords of top-tier offices in many of our SPOC markets have reasons to remain cautiously optimistic. Where rising fit-out costs in some locations could deter some occupiers landlords have responded by increasing concessions to retain or attract tenants, thereby keeping the markets resilient and prices high. Of course, there are also some exceptional markets such as Miami and Dubai where strong demand and limited supply mean concessions are less of a factor as the structural imbalance has allowed landlords to continue to increase gross rents.”

Kelcie Sellers, analyst in Savills World Research team, adds: “It’s clear that occupiers continue to search for top quality spaces, supporting prime office markets worldwide. For the first time we’ve included Melbourne, Milan, Miami, Seattle, and Zurich in SPOC – all cities that may attract some of the world’s biggest occupiers, but are at different stages of their cycles – to provide an even more nuanced picture of the current state of the top end of the market.”

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Notes to Editor:

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 and researchers. The adjusted annual all-in occupancy cost represents real-time transaction terms for 20,000 sq ft (2,000 sq m) of usable space based on a basket of top 5 most expensive properties to calculate ultra-prime average. The North American markets use a sample of very high rent threshold buildings (leasing occurring at the highest end of market).

All costs are reported in a standardised format of USD per sq ft of usable space per annum at a fixed exchange rate to account for variations in currency, reflect local payment protocols, and adjust for measurement practices across the globe. We have also 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 local Savills teams assuming the leasing scenario described above, plus the following: i) 30% cellularisation with the remainder of space open plan, ii) construction and cabling only (no furniture or professional fees). Data as of 30 September 2023.