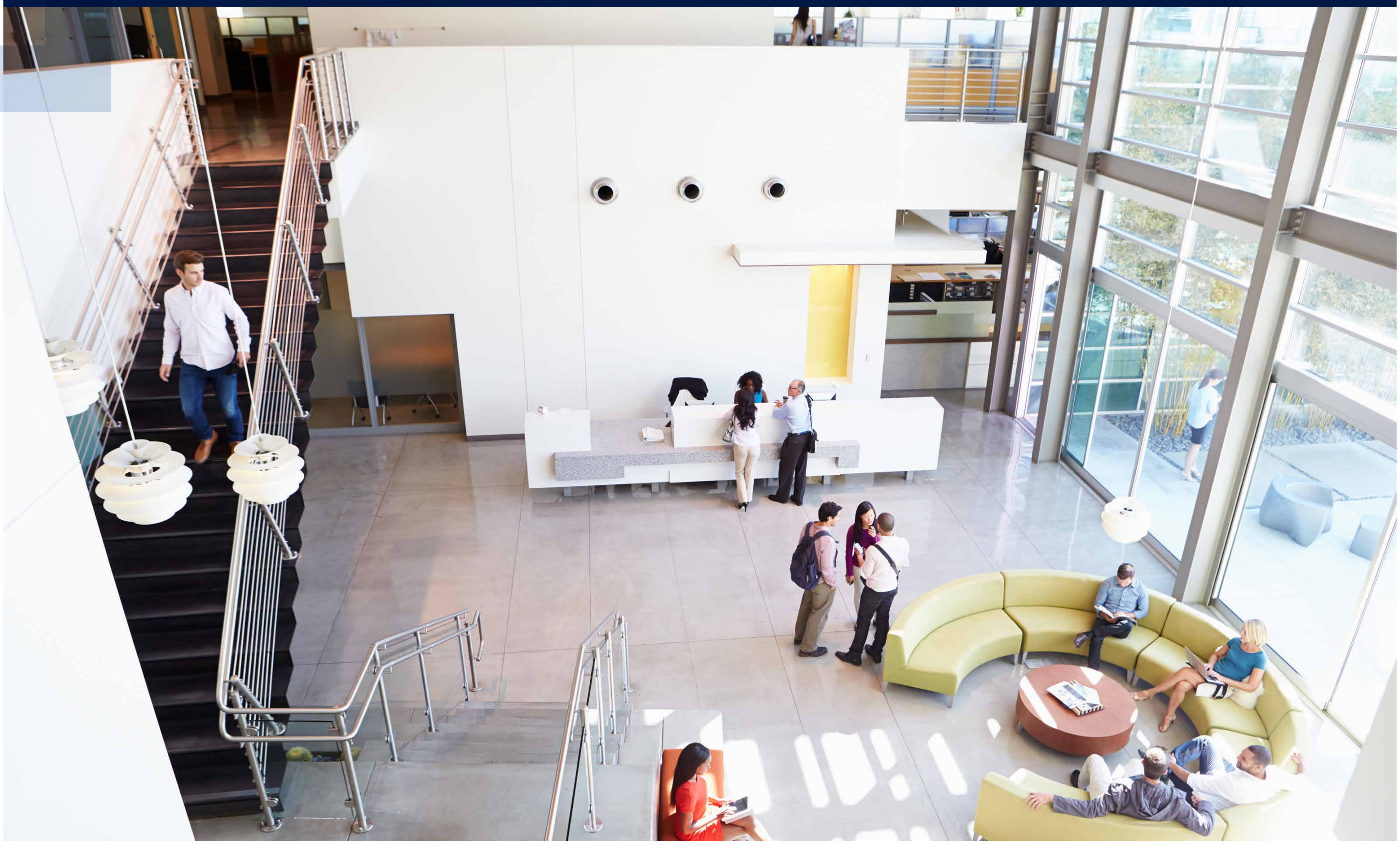
Savills Prime Office Cost Index
Q1 2018

International | May 2018



Overview

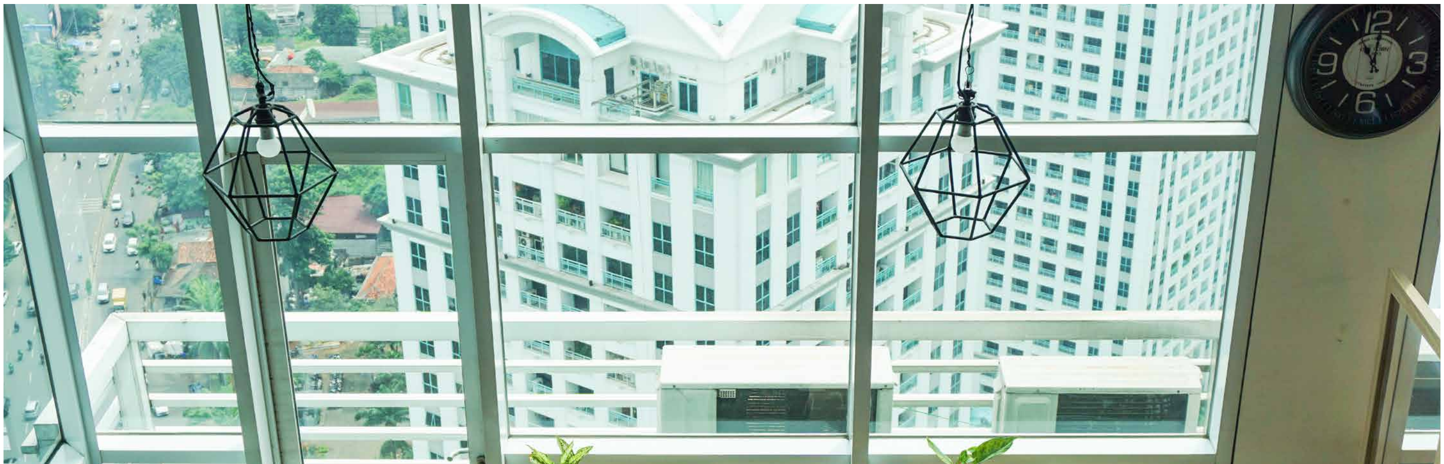
Over the first quarter of 2018, what appears to be a broad-based upward trend in occupancy costs across our select cities is in fact a combination of modest tightening of markets combined with a dollar that was weaker in the first quarter against key currencies, notably the yen and the pound sterling. In the US, New York, Los Angeles, Washington DC, Houston, and San Francisco, which jumped two spots in our Top 10, got more expensive for occupiers. However, we forecast that tenants will mostly remain in the driver's seat across the country as landlords increase concessions, even if asking rents remain steady.

While oncoming supply and increasing concession packages are important forward-looking headlines we lead our clients in turning our attention to the critical driver of demand in the prime office space: people and the workplace experience. For the Q4 2017 Savills Prime Office Cost Index, we asked our brokers to identify the key occupancy trends in their market. Virtually all of them recognized "war for talent" and "impact of co-working," but only EMEA and AsiaPac brokers listed "occupant health and wellness" as relevant. In the following pages, we explore why the rest of the CRE world should follow suit and observe the importance of Occupant Experience, along with what this shift means for the profession.

Top 10 Markets by Cost

Rank	City	Total Occupancy Cost / USF
1	Hong Kong	$271.54
2	London (West End)	$217.83
3	Tokyo	$198.54
4	Singapore	$144.73
5	Paris	$138.48
6	Shanghai	$127.51
7	San Francisco	$110.05
8	New York (Midtown)	$109.65
9	Seoul	$102.01
10	Dublin	$99.68

See appendix for detailed breakdown of total occupancy cost.



By Melissa Marsh

Putting People First: The Experience Factor in Global Leasing

Before he was a character in The LEGO Movie, Vitruvius was the Ancient Roman architect who distilled the essential elements of successful architecture into three words: firmitas (firmness), utilitas (utility) and venustas (delight). The first two of these have long been easily quantified, but the third has remained difficult to measure. Now, that is starting to change.

Occupant experience—how it feels, mentally and physically, to be in a built space—is becoming both more measurable and better recognized as essential to the success of any real estate project. This shift owes largely to three factors: advances in technology, the rise of the knowledge economy and the expansion of sustainable building standards to address human and environmental health.

Occupant focused strategies evolve

First, new technologies are allowing individuals and facility managers alike to better understand human habits and meet human needs. On the individual scale, devices like Fitbit allow us to track how many steps we take in a day. On the CRE scale, smart buildings equipped with activity trackers and preference recorders can tally which conference rooms are booked the most and can help facility managers determine what makes spaces appealing or unappealing (hint: natural light and plant life are two big attractions). Climate control apps like Comfy help FMs see where the office should be made cooler or warmer to meet occupant preference.

Second, the growth of the knowledge economy has spurred the "war for talent"—increased competition for recruiting and retaining top-tier employees who have their pick of great workplaces.

Finally, following on the success of environmental building standards like LEED, other measures have emerged to address occupant experience. For example, the WELL Building Standard rates buildings on a matrix of seven elements including water, comfort and nourishment; and Fitwel certification system, with standards for "increases physical activity" and "promotes occupant safety."

Together, these drivers are refocusing workplace strategy around the world with an "occupant first" outlook.

Technology advancing smart workplaces

A seminal example can be found in Savills client Macquarie Bank, whose iconic Sydney headquarters opened in 2009. The building's activity-based workplace (ABW) layout allows employees to move from setting to setting depending on their work: quiet, cozy spaces for concentration; big rooms with comfortable seating for meetings; communal spaces offering food and drink that foster unplanned "collisions." Clear lines of sight throughout are reminiscent of open vistas; a large and attractive central staircase encourages exercise; and the "virtual hallway"—a live video feed from a hallway in another Macquarie location that's projected into this one—allows workers who would otherwise only know each other from formal contact like video conferences to see and greet their colleagues in a more natural, casual setting.

More owners are now commissioning buildings that will lure savvy tenants. Hudson Yards, on Manhattan's West Side, is one of the first large-scale real estate projects to connect its environments under one digital umbrella: Its vast networks of office spaces, restaurants and retailers, green open spaces, and luxury apartments are supported by a fiber loop for continuous connectivity.[1] Its operations managers tune into the complex's many sensors, then adjust temperatures, air quality and even the flow of nearby traffic in response. Due to its sheer visibility, Hudson Yards is shifting expectations and influencing the next generation of real estate developments.

Evolving customer demand is changing roles, expectations and stressors for CRE professionals. For a recent edition of The Leader, Savills interviewed CFOs to glean their insights about the current environment. Brian Steiner, CFO for PricewaterhouseCoopers US Advisory, said, "The expectations of the CRE function have changed significantly in recent years. The discussion isn't simply around negotiations and the bottom line anymore. A higher-level strategic discussion of the alignment of CRE with business goals is imperative. This strategy must… include our evolving workforce, work spaces and work styles, collaborative spaces, adaptable station design, and amenities."

1) "The Engineered City," Hudson Yards New York, April 2017. hudsonyardsnewyork.com

Occupant experience a factor in lease negotiations

For brokers, incorporating positive occupant experience into lease negotiations now includes facets like protecting a client's ownership of and access to the workplace data produced. From badge swipe records to which conference rooms are most popular, this information can be a tenant's best tool for improving the workplace; it's too valuable to leave on the table. Another facet is ensuring tenants have recourse if the landlord fails to meet agreed-upon healthy workplace standards. Just as compensation for noisy construction on another level of the building might be written into a contract, landlords should now be held to certain thresholds of building performance: Tenants should get the amount of oxygen that's been agreed to, for example, and the level of natural light. Successful landlords will protect themselves against tenant recourse by monitoring and maintaining their buildings to ensure healthy occupancy.

For example, Savills recently led a series of studies with Singapore telecommunications giant, Singtel, to assess its current space portfolio (totaling nearly 1.5 million square feet) and to review three new potential sites for its continuing expansion. Our methodologies, which included leadership interviews, staff surveys, targeted observations and site selection criteria, all incorporated a prominent occupant experience element. By focusing Singtel's space evaluations and choices at the intersection of what its employees want and the specific building features that can deliver on those preferences, we're helping the company ensure it will be leveraging its real estate to its best advantage for years to come.

Focus on tenant wellness produces big results

Technology, knowledge-based work and new construction standards have coalesced to produce the most sophisticated, tech-equipped and demanding tenants to ever rent workspace. As a result, property owners, CRE professionals and brokers must expand their awareness of occupant experience. Not only will shifting our attitudes result in happier end-users, and therefore more business, it will also go a long way toward changing global real estate for the better. Vitruvius would be proud!

Quarterly Change

The SPOC Global Rankings

Quarterly highlights

- Our fourth quarter 2017 forecast held true, total occupancy costs have indeed been trending upward in Hong Kong, which posted the largest quarterly increase among our select cities, and downward in Mexico City, driven by a decrease in face rent and build out costs coupled with increased landlord concessions. Global locations continued to show pricing stability while key US markets tightened.

1 Hong Kong — 8.4%

Headline Occupancy Cost	$257.49
Amortised Cap Ex	$23.61
Credit Value of Abated Rent	($9.56)
Total Occupancy Cost/USF	**$271.54**
Local Face Rent	HKD 135.00 SF/MTH
Typical Lease Term (Years)	6
Local Efficiency Factor	1.11
Who Pays Broker?	New: Landlord Renewal: Tenant

2 London (West End) — 3.1%

Headline Occupancy Cost	$231.25
Amortised Cap Ex	$13.56
Credit Value of Abated Rent	($26.98)
Total Occupancy Cost/USF	**$217.83**
Local Face Rent	GBP 105.00 SF/YR
Typical Lease Term (Years)	10
Local Efficiency Factor	1.00
Who Pays Broker?	Tenant

3 Tokyo — 3.1%

Headline Occupancy Cost	$152.99
Amortised Cap Ex	$52.16
Credit Value of Abated Rent	($6.61)
Total Occupancy Cost/USF	**$198.54**
Local Face Rent	JPY 38,000.00 Tsubo/MTH
Typical Lease Term (Years)	5
Local Efficiency Factor	1.11
Who Pays Broker?	Tenant

4 Singapore — 0.7%

Headline Occupancy Cost	$105.11
Amortised Cap Ex	$44.69
Credit Value of Abated Rent	($5.06)
Total Occupancy Cost/USF	**$144.73**
Local Face Rent	SGD 8.50 SF/MTH
Typical Lease Term (Years)	3
Local Efficiency Factor	1.18
Who Pays Broker?	New: Landlord Renewal: Tenant

5 Paris — 2.8%

Headline Occupancy Cost	$134.80
Amortised Cap Ex	$15.20
Credit Value of Abated Rent	($11.52)
Total Occupancy Cost/USF	**$138.48**
Local Face Rent	EUR 780.00 SM/YR
Typical Lease Term (Years)	6
Local Efficiency Factor	1.33
Who Pays Broker?	Tenant

6 Shanghai — 0.7%

Headline Occupancy Cost	$100.93
Amortised Cap Ex	$31.63
Credit Value of Abated Rent	($5.04)
Total Occupancy Cost/USF	**$127.51**
Local Face Rent	CNY 11.80 SM/DAY
Typical Lease Term (Years)	3
Local Efficiency Factor	1.43
Who Pays Broker?	New: Landlord Renewal: Tenant

7 San Francisco — 7.7%

Headline Occupancy Cost	$103.75
Amortised Cap Ex	$10.63
Credit Value of Abated Rent	($4.32)
Total Occupancy Cost/USF	**$110.05**
Local Face Rent	USD 50.00 SF/YR Full Service Gross
Typical Lease Term (Years)	10
Local Efficiency Factor	1.25
Who Pays Broker?	Landlord

8 New York (Midtown) — 3.0%

Headline Occupancy Cost	$106.16
Amortised Cap Ex	$12.33
Credit Value of Abated Rent	($8.85)
Total Occupancy Cost/USF	**$109.65**
Local Face Rent	USD 77.50 SF/YR Full Service Gross
Typical Lease Term (Years)	10
Local Efficiency Factor	1.37
Who Pays Broker?	Landlord

9 Seoul — -1.2%

Headline Occupancy Cost	$98.90
Amortised Cap Ex	$20.96
Credit Value of Abated Rent	($17.85)
Total Occupancy Cost/USF	**$102.01**
Local Face Rent	KRW 113,564.00 Pyong/MTH
Typical Lease Term (Years)	5
Local Efficiency Factor	2.00
Who Pays Broker?	Tenant

10 Dublin — 4.1%

Headline Occupancy Cost	$93.86
Amortised Cap Ex	$9.82
Credit Value of Abated Rent	($3.99)
Total Occupancy Cost/USF	**$99.68**
Local Face Rent	EUR 65.00 SF/YR
Typical Lease Term (Years)	10
Local Efficiency Factor	1.00
Who Pays Broker?	Tenant

11 Mumbai -4.1%

Headline Occupancy Cost	$76.60
Amortised Cap Ex	$17.02
Credit Value of Abated Rent	($1.32)
Total Occupancy Cost/USF	**$92.31**
Local Face Rent	INR 255.00 SF/MTH
Typical Lease Term (Years)	9
Local Efficiency Factor	1.54
Who Pays Broker?	Tenant

12 Washington DC 1.7%

Headline Occupancy Cost	$92.13
Amortised Cap Ex	$5.06
Credit Value of Abated Rent	($9.21)
Total Occupancy Cost/USF	**$87.98**
Local Face Rent	USD 57.00 SF/YR Full Service Gross
Typical Lease Term (Years)	10
Local Efficiency Factor	1.12
Who Pays Broker?	Landlord

13 Amsterdam 1.7%

Headline Occupancy Cost	$62.01
Amortised Cap Ex	$13.68
Credit Value of Abated Rent	($6.08)
Total Occupancy Cost/USF	**$69.60**
Local Face Rent	EUR 400.00 SM/YR
Typical Lease Term (Years)	5
Local Efficiency Factor	1.00
Who Pays Broker?	Tenant

14 Frankfurt 1.7%

Headline Occupancy Cost	$74.83
Amortised Cap Ex	$0.00
Credit Value of Abated Rent	($5.36)
Total Occupancy Cost/USF	**$69.46**
Local Face Rent	EUR 40.00 SM/MTH
Typical Lease Term (Years)	5
Local Efficiency Factor	1.18
Who Pays Broker?	Landlord

15 Chicago -1.0%

Headline Occupancy Cost	$66.27
Amortised Cap Ex	$4.22
Credit Value of Abated Rent	($5.52)
Total Occupancy Cost/USF	**$64.96**
Local Face Rent	USD 30.00 SF/YR Full Service Gross
Typical Lease Term (Years)	10
Local Efficiency Factor	1.20
Who Pays Broker?	Landlord

16 Brussels 0.5%

Headline Occupancy Cost	$51.63
Amortised Cap Ex	$11.17
Credit Value of Abated Rent	($3.35)
Total Occupancy Cost/USF	**$59.45**
Local Face Rent	EUR 300.00 SM/YR
Typical Lease Term (Years)	6
Local Efficiency Factor	1.18
Who Pays Broker?	Tenant

17 Toronto -1.2%

Headline Occupancy Cost	$52.68
Amortised Cap Ex	$5.67
Credit Value of Abated Rent	($2.19)
Total Occupancy Cost/USF	**$56.16**
Local Face Rent	CAD 30.00 SF/YR Full Service Gross
Typical Lease Term (Years)	10
Local Efficiency Factor	1.22
Who Pays Broker?	Landlord

18 Los Angeles (Downtown) 3.2%

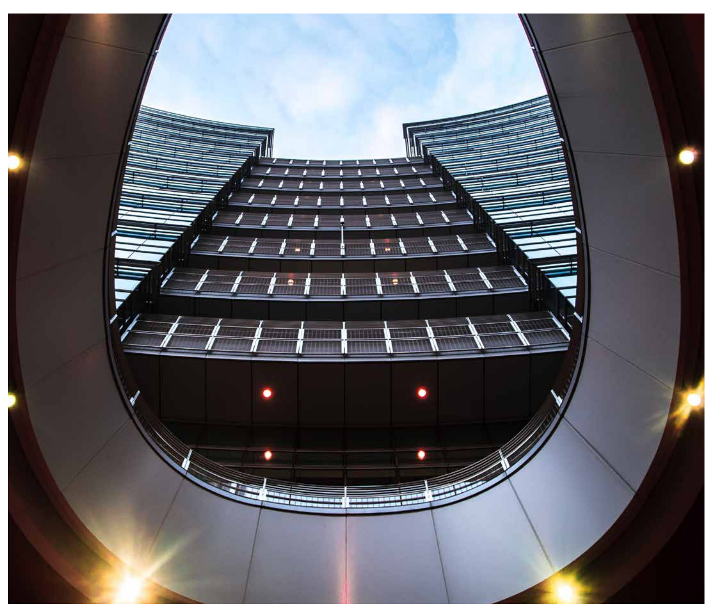
Headline Occupancy Cost	$53.84
Amortised Cap Ex	$3.92
Credit Value of Abated Rent	($4.49)
Total Occupancy Cost/USF	**$53.27**
Local Face Rent	USD 27.25 SF/YR Full Service Gross
Typical Lease Term (Years)	10
Local Efficiency Factor	1.20
Who Pays Broker?	Landlord

19 Houston 6.3%

Headline Occupancy Cost	$53.41
Amortised Cap Ex	$3.98
Credit Value of Abated Rent	($5.34)
Total Occupancy Cost/USF	**$52.05**
Local Face Rent	USD 30.00 SF/YR Full Service Gross
Typical Lease Term (Years)	10
Local Efficiency Factor	1.14
Who Pays Broker?	Landlord

20 Mexico City -12.2%

Headline Occupancy Cost	$34.03
Amortised Cap Ex	$12.71
Credit Value of Abated Rent	($2.88)
Total Occupancy Cost/USF	**$43.87**
Local Face Rent	USD 24.50 SM/MTH
Typical Lease Term (Years)	5
Local Efficiency Factor	1.05
Who Pays Broker?	Landlord



SPOC 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.

The adjusted annual gross occupancy cost represents real-time transaction terms for 20,000 sq ft (2,000 sq m) of usable space with prime views in a top quality asset with i) a stable capital stack, ii) institutional quality ownership, and iii) a quality location in the prime business district. All costs are reported in an annual, standardized format of USD per sq ft of usable space to “level set” variations in currency, reflect local payment protocols, and adjust for measurement practices across the globe. We have 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 Savills project managers assuming the leasing scenario described above, plus the following: i) 30% private offices with the remainder of space open plan, ii) construction and cabling only (no furniture or professional fees).

Glossary

Headline Occupancy Cost
Gross rent including operating expenses and property taxes

Amortised Cap Ex
Net capital expenditure divided by lease term

Credit Value of Abated Rent
Value of rent free divided by lease term

Total Occupancy Cost
Headline Occupancy Cost plus Amortised Cap Ex minus Credit Value of Abated Rent

Local Face Rent
Taking rent quoted in local currency, measurement unit and payment frequency

Local Efficiency Factor
Conversion rate from rentable to usable space

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