

# OFFICE SPACE ACROSS THE WORLD

November 2017



# HIGHLIGHTS

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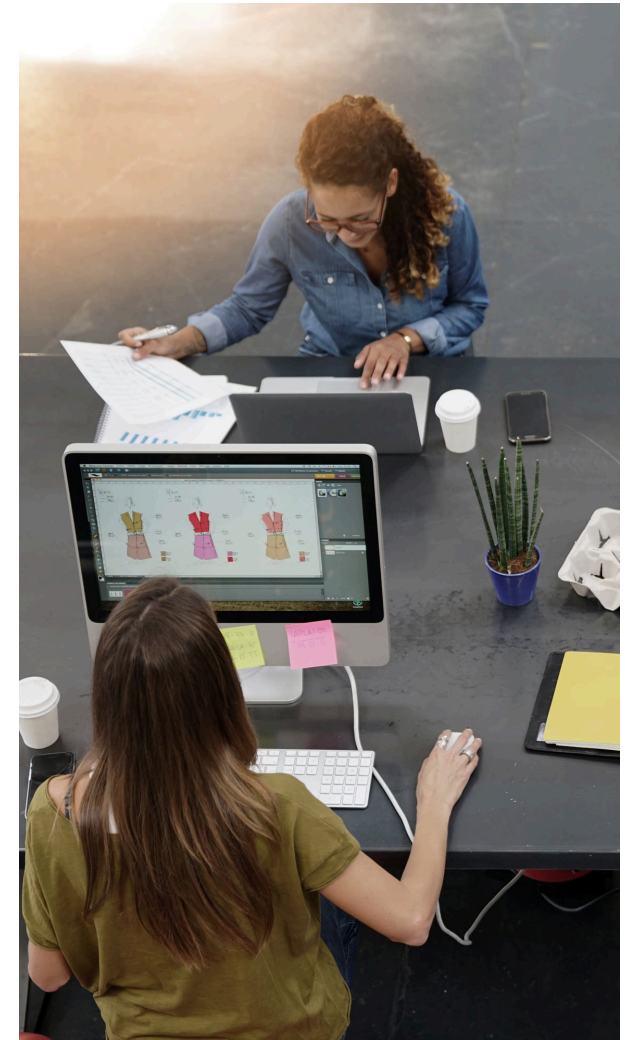


Office Space across the World surveys occupancy costs across 215 office markets in 58 countries worldwide. Using data collected from our extensive network of local Cushman & Wakefield offices, we rank occupancy costs per workstation for prime office space globally. Readers can model total occupancy costs and compare cities on our [\*\*Occupier Metrics toolkit\*\*](#).

- Hong Kong and London remain by far the most expensive office markets in which to accommodate staff. But all across the world, occupancy costs are rising and many employees are working in more dense environments.
- Finding the tipping point when density and the lack of collaborative space becomes a hindrance to people getting their work done is becoming increasingly important for workplace design. This is particularly true as businesses use the office as a tool

for talent attraction and performance enhancement.

- The technology sector is growing, thereby creating a new generation of firms. When it comes to location, these companies are more 'footloose' than their traditional counterparts. This allows 'outlier' cities to compete in ways not possible during the industrial age. As a result, these secondary cities are moving up our cost rankings.
- By 2025, more than 45% of the Fortune Global 500 are expected to come from the emerging markets (compared to 5% in 1990). In the long-term such advancements will partially erode regional occupancy cost differentials.

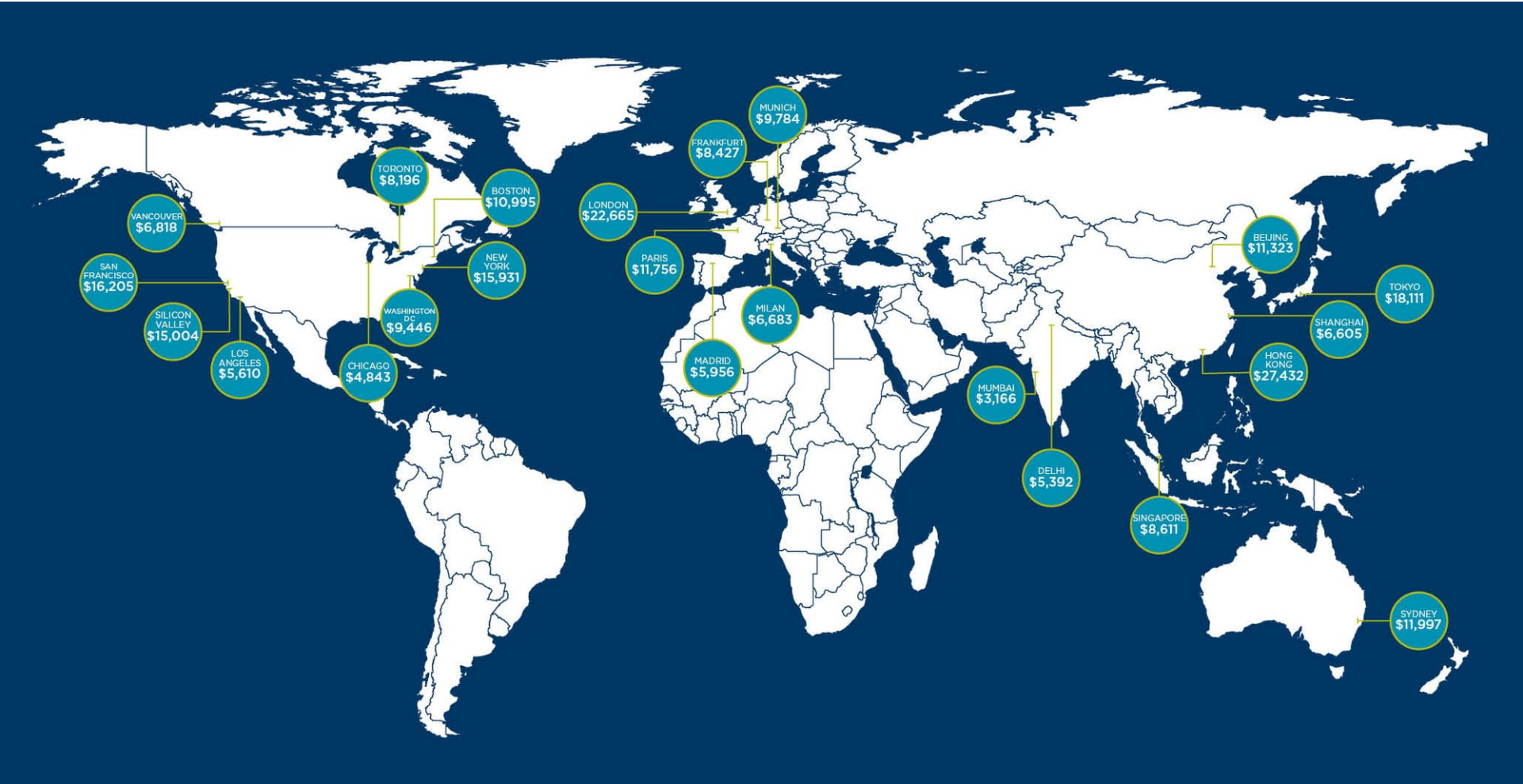


# PART 1

OCCUPANCY COSTS ACROSS THE WORLD

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Occupancy costs (USD per workstation, 2017)

## OCCUPANCY COSTS

Globally, annual costs per workstation rose by 1.5% this year. This was driven by the Americas where costs increased by 4.2% and Asia Pacific where they rose by 3.4%. EMEA posted a fall of 1.3%.

At a city level, costs fell in two of our top 10 office markets; London and Paris. Hong Kong saw annual costs per workstation increase by 5.5%, while New York and Silicon Valley experienced growth of 6%.

Currency fluctuations have produced some of the biggest changes in our rankings. For companies looking at their local costs, it is this which will exercise them more than property markets over the next year.

The most expensive cities by far remain London and Hong Kong. For the same cost of accommodating 100 staff in a Hong Kong office, 300 can be accommodated in Toronto, 500 in Madrid, and 900 in Mumbai.



HONG KONG: (\$27,432)

LONDON WEST END: (\$22,665)

TOKYO: (\$18,111)

FAIRFIELD COUNTY: (\$17,414)

SAN FRANCISCO: (\$16,205)

NEW YORK: (\$15,931)

SILICON VALLEY: (\$15,004)

GENEVA: (\$13,424)

SYDNEY: (\$11,997)

PARIS: (\$11,756)



Top 10 most expensive markets (USD per workstation, 2017)

## Fairfield County: Microcosm of a global story

Fairfield County, Connecticut is the 4th most expensive market in which to accommodate staff. Greenwich Connecticut, within Fairfield County, is a city dependent on specialist financial organisations, primarily hedge funds. The area is also home to a number of corporate HQs, but some of these corporations are leaving (2016 saw General Electric announce the relocation of its global headquarters from Fairfield to Boston). As the cost of living in Fairfield County has increased, the talent pool has decreased; the 35-to-44 population has declined by 20% since the mid-nineties. There are also growing inequalities in-state: in Connecticut the richest 0.02% (who tend to work in finance) make more money than the bottom 48%.

Fairfield is a microcosm of a global story. In many cities there is a divide between the rents paid by specialist financial organisations and others, which suggests these organisations are inflating their habitats over the norm. Furthermore, as the cost of living in gateway cities rises, corporations globally are struggling to cultivate the diverse pools of talent they require (77% of the world's CEOs see accessing and retaining skilled labour as the biggest threat to their businesses).

For corporations and developers across the world there is a clear message: cultivating diverse, cohesive and liveable cities must be a priority.

### HONG KONG



### LONDON



### FAIRFIELD COUNTY



● Premium Financial Institution

● Corporate Financial Sector

Finance sector rents (local currency per sq ft, 2017)



# PART 2

OFFICE DENSITIES ACROSS THE WORLD

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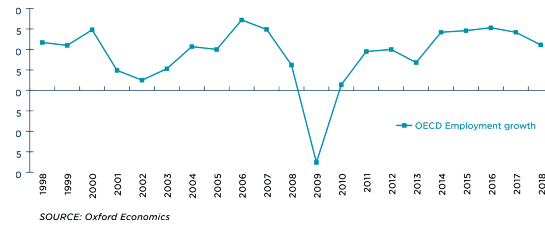
Space assigned (sq m per person, 2017)

## OFFICE DENSITIES

The Global Financial Crisis (GFC) forced many businesses to reassess their financial commitments. Office consolidations and closures enabled companies to realise immediate cost savings, while flexible work solutions – by way of remote working, hot-desking and ad hoc space rental – proved highly effective in reducing real estate footprints and managing uncertainty. Employment in OECD countries had recovered to pre-recession levels by 2012. But sustained growth in workplace-based employment, coupled with rising rents in central business districts (CBDs), meant continued densification.

Globally, workplace density has come in by 3.4% on the five year average.

Workspace densification is more pronounced in some regions; the Americas has lost 5% of space per employee compared to the five year average, Asia Pacific 4.2% and Europe 2.3%.



This confirms what we intuit by common sense: reductions in shared collaborative and isolated work settings, and generally more cramped space.

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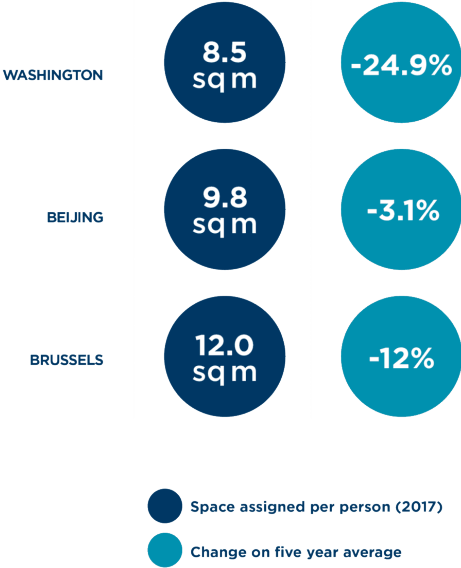
**"Employment in OECD countries recovered to pre-recession levels by 2012. But sustained growth in workplace-based employment, coupled with rising rents in central business districts, meant continued densification."**



## Washington DC: Microcosm of a global story

Around the world, government and public sector organizations are facing pressures from financial crises to constituent upheaval. In greater Washington DC, the government (federal, state and local) employs a quarter of the workforce, and more than a third of the region's jobs (1.2m) can be tied back to federal government activity of some sort. The US General Services Administration's (GSA) launched its Total Workplace program in 2014. Its aim was to help US federal agencies reduce office space and increase efficiency. In large part as a result of this program, Washington DC has seen densities come in to 8.5 sq m per person. This is more than 24% down on the five year average.

An infusion of technologies into jobs has re-written how and where people work. This has allowed governments across the world to use space efficiently and create value for the taxpayer.



# PART 3

POWER CITIES ACROSS THE WORLD

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**IN NEW YORK, LONDON AND THE ASIAN CITIES ALIKE, WE ARE SEEING ADAPTIVE BEHAVIOURS AS EMPLOYERS ADJUST TO RISING WORKPLACE POPULATIONS AND INCREASING OCCUPANCY COSTS.**

### Densifying New York

Densities in New York have come in drastically in the past five years. Hudson Yards is a 28 acre urban development project in the city which will provide several skyscrapers and millions of square feet of commercial space. Here, developers are testing super-dense office space: certain buildings have multiple floors that can provide each office worker less than 78 square feet of space. In The Empire State Building, by way of historical example, most floors provide 150 square feet or more per office worker.



## Coworking in London

When businesses decide to occupy a traditional office in London, a five or ten year lease is the norm. But this is incompatible with many corporations' desire for flexibility. Businesses in London are increasingly taking up coworking space. Coworking providers offer flexible rental packages which operate on a rolling per desk per month, week or day basis - this gives firms the option to expand or relocate quickly, with little upfront capital or commitment. For corporations this is simple, cost effective and requires no long term commitment that either hinders growth or wastes money on unnecessary space.



## Activity-based Asia

Activity Based Working (ABW) has garnered significant interest across various gateway cities in Asia. Instead of assigning employees a seat, ABW offers a variety of environments in the workplace and gives employees the freedom to choose a particular setting tailored to the work they do and the activities they prioritise. ABW has been shown to improve employee satisfaction and boost performance, but typically assigns less space per person. ABW will continue to resonate in the high-pressure and busy environments characteristic of many Asian cities.







Across the world, companies must be able to condense and contract space efficiently, at the same time they must create environments users enjoy and can be productive in. Rather than the debate being about 12:1, 10:1 or 8:1, it is becoming about the quality and flexibility of the workspace that can be created within those demarcations.

# PART 4

TIPPING POINT

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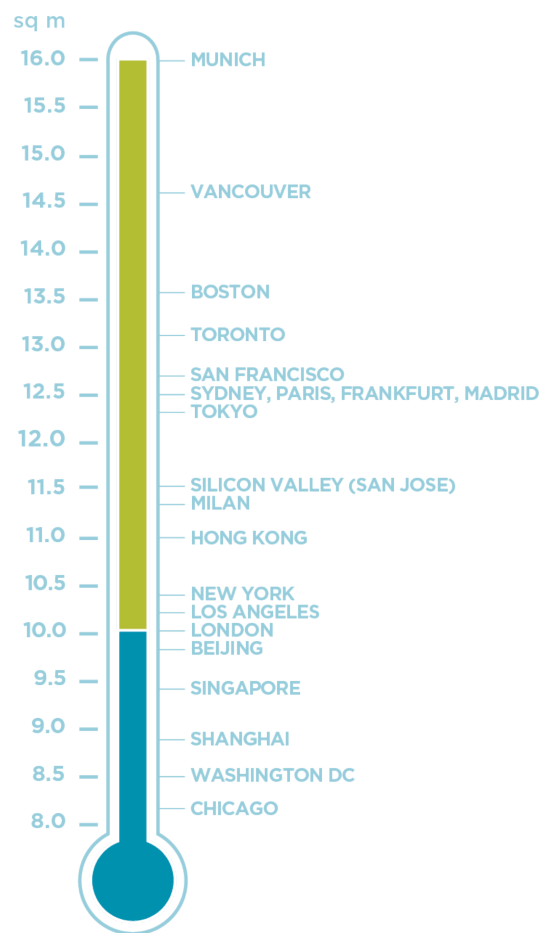


## Tipping Point

Finding the tipping point when density and the lack of collaborative space becomes a hindrance to people getting their work done is the art and science of workplace design. Proxemics - the study of the cultural, behavioural and sociological aspects of spatial distances between individuals - has repeatedly shown that being respectful of 'comfort zones' is crucial for wellbeing and productivity.

As output is increasingly the result of collaboration, workplaces must drastically increase the ratio of collaborative space to individual desk space (advanced occupiers require close to 50 to 60% of collaborative space, while traditional offices provide as little as 20%).

In the coming years working habits will resemble a menu of working environments, including traditional offices, and an assortment of other shared collaborative and third spaces. This will provide employees with the comfort and flexibility they need.



Space assigned (sq m per person, 2017)



## Better Workplaces

Several recently launched initiatives set out to comprehensively measure and better understand the connection between employee productivity and the built environment. These include the WELL Living Lab (a collaboration between real estate specialists and the medical research group Mayo Clinic) and the Green Health Partnership (a collaboration between the University of Virginia School of Medicine and the USGBC).

The growing focus on the user experience presents an exciting future for the workplace and could lead to a wave of offices designed to make each member of staff more comfortable, happy and productive. Those that cannot keep pace with the change taking place will find themselves struggling to attract and engage talent.





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# PART 5

URBAN OUTLIERS ACROSS THE WORLD

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## Technology is redefining the corporate landscape and the workplace itself.

### Tech and the corporate landscape

The total revenue of the tech sector has grown from \$600 billion to more than \$6 trillion over the past three decades, spawning a new generation of firms. These firms are not tied to global 'power cities' in the same way as banks and financial institutions.

### Tech and the workplace

Over 40% of the world's population now have access to internet, marking a 700% growth in the last 15 years. This global phenomenon of technology enablement is redefining the workplace as employees with a laptop computer and internet connection are increasingly able to work anywhere.

These factors have allowed some cities to compete in the digital age in a way not possible during the industrial age.



## Stockholm Tech

In response to the financial crisis of the 1990s Sweden eased its heavily regulated economy, made it easier to license new companies and lowered corporate income taxes (from 52% to 30%, lower than the US). This deregulation coincided with the rise of entrepreneurship and the internet. Today, Sweden is responsible for the second-highest number of billion-dollar tech companies per capita, after Silicon Valley. Global companies like Spotify, the music-streaming service; Klarna, the online-payment firm; and King, the gaming company, were founded here. In Stockholm, Information and communication sector jobs have grown almost five times quicker than finance jobs, and have contributed significantly more to the city's economic growth.

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**"Stockholm has the 13th highest occupancy costs per workstation in our ranking, moving up by one place this year. Occupancy costs increased by 4.6% in 2017."**





## Silicon Hills

The shift toward tech brought people to Silicon Valley but experience of the dot.com boom and bust of the 1990s left some tech executives and investors cautious and cost-conscious. As a result, many opened offices and hired talent in secondary cities. Austin has been a big beneficiary; the cost per workstation is 40% cheaper than Silicon Valley and the cost of living significantly more affordable. Austin has now become an established tech hub in its own right; along with long-term resident Dell, Apple, AT&T, Google, HP, Microsoft, and Samsung have operations in the city. Employment growth in the tech sector has outpaced growth elsewhere, and Austin has seen its unemployment rate halve in the past five years.

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**"Austin has the 21st highest occupancy costs per workstation in our ranking, moving up one place this year. Occupancy costs increased by 4.0% in 2017."**



## Miracle on the Han River

Over the past four decades Seoul has transformed into a global tech city. Much of this owes to home-grown and family-controlled business conglomerates including Samsung and LG. The Gangnam Business District is home to multinational companies Oracle, Apple, Facebook and Google. At the smaller end of the spectrum, start-up companies are expected to generate office leasing demand for serviced offices. Seoul faces some challenges; it must open up more to foreign investment, talent and influence. But the city is on the road to competing evenly with western-facing tech cities.

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**"Seoul has the 51st highest occupancy costs per workstation in our ranking, moving up eight places this year. Occupancy costs increased by 5.4% in 2017."**





The digital economy represents one of the world's fastest growing industries owing to a global rise in core technology companies and a reliance on technology by the professional services market.

**Global talent and the firms they choose to work for are more footloose than ever. This has allowed some cities to compete in the digital age in a way impossible in the industrial age.**

Outlier cities where multinationals can easily do business will do well in attracting global tech companies, but their future will depend partly on their capacity to develop and regenerate the type of space firms require.

# PART 6

EMERGING MARKETS ACROSS THE WORLD

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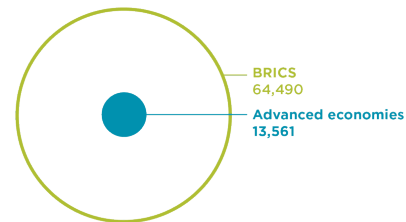


## EMERGING MARKETS

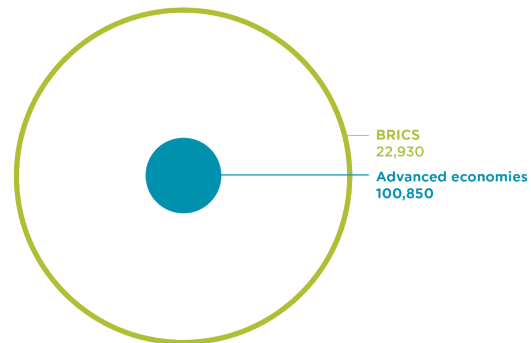
There are now twice as many multinational corporations as there were in 1990. Although two-thirds are still headquartered in advanced economies, the balance is shifting. In 1990, 5% of the Fortune Global 500 came from emerging markets, by 2013 that had reached 26%. By 2025 more than 45% of the Fortune Global 500 are expected to come from the emerging markets. These new competitors are growing more than twice as quickly as companies in advanced economies.

As emerging market companies make inroads they will compete with advanced economies for profit and talent. To win in the war for talent, the world's largest corporations will have to create engaging workplace environments to maintain solid reputations as a good employers. As talent and business orientates towards the emerging economies, there will be some re-balancing of occupancy costs globally.

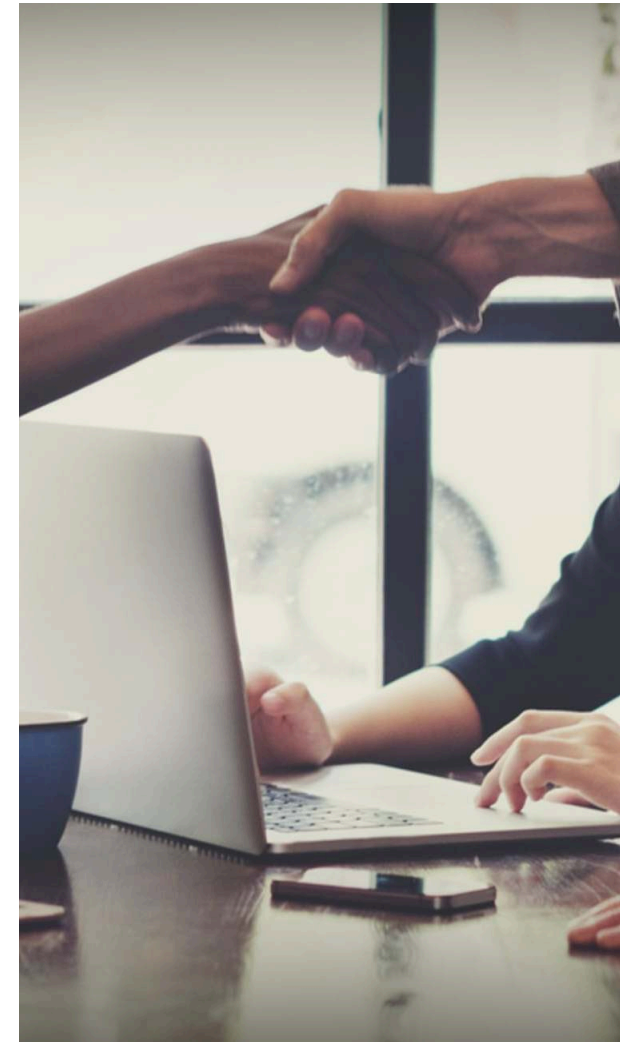
**EMPLOYMENT GROWTH**  
(persons 000s, 2017-22)



**POPULATION GROWTH**  
(persons 000s, 2017-22)



Source: Oxford Economics



# CONCLUSION

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## CONCLUSION

- Hong Kong and London remain by far the most expensive office markets in which to accommodate staff. But secondary cities are beginning to compete in the digital age in ways not possible during the industrial age.
- As emerging market companies make inroads they will increasingly compete with advanced economies for talent. The largest firms will have to create engaging workplace environments to maintain solid reputations as good employers.
- The growing focus on user experience presents a positive future for the workplace and could lead to a wave of offices designed to make each member of staff happier and more productive. But we are only beginning to understand the connection between employee productivity and the built environment.
- In order to transform the office from a container of routine work into a place that enhances user experience, developers and corporations will require a set of metrics that go beyond the traditional markers of cost and density.

## DEFINITIONS

### **COST PER WORKSTATION**

The cost of leasing prime net usable space per workstation. Costs include rents and outgoings. Outgoings refer to costs controlled and charged by the landlord in a multi-tenant building and normally consist of service charge and property tax. Rents used for the purposes of our ranking are prime and based on Q1 2017 figures.

### **WORKPLACE DENSITY**

Workplace density refers to space utilisation per workstation. It is defined as the net internal area divided by the number of planned workstations for which the space is intended. All workplace densities referred to in this report are based on local market best practice as at 2017.

### **PRIME SPACE**

Prime space refers to newly developed or comprehensively refurbished offices which have not been previously occupied.

### **PRIME RENT**

The prime rent is the highest rent that could be achieved for a typical building/unit of the highest quality and specification in the best location to a tenant with a good (i.e. secure) covenant. It is based on a standard lease and excludes rents considered exceptional for the local market.

### **NET INTERNAL AREA (NIA)**

Net internal area refers to space functional to the occupier. It includes internal circulation space and meeting rooms. The area occupied by partitions within the premises is considered part of the net usable area as partitions are often an occupier's option.

It excludes areas occupied by structural columns and common areas such as stairwells, lifts, lobbies, external walls, vertical ducts and common passages that are not used exclusively by the occupier.



## OUR RESEARCH SERVICES

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Thank you for reading

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