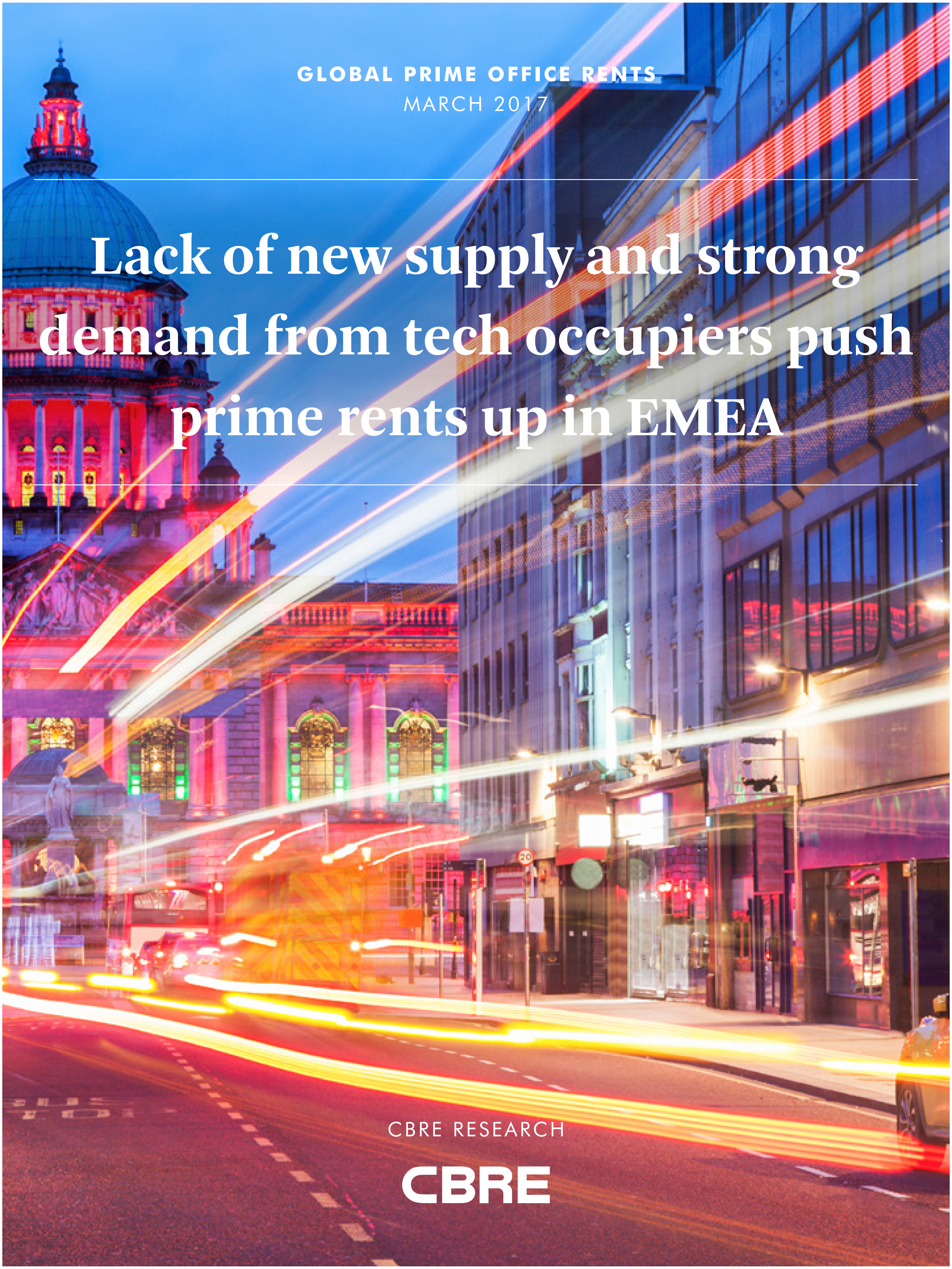

GLOBAL PRIME OFFICE RENTS

MARCH 2017

Lack of new supply and strong demand from tech occupiers push prime rents up in EMEA

CBRE RESEARCH

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Executive Summary

Most expensive locations in Hong Kong

Hong Kong has two of the top three most expensive locations: Central and West Kowloon. With very low vacancy levels and strong demand from Chinese companies for premium locations, prime rents are likely to remain high in the immediate future.

Tech-hubs growing strongly

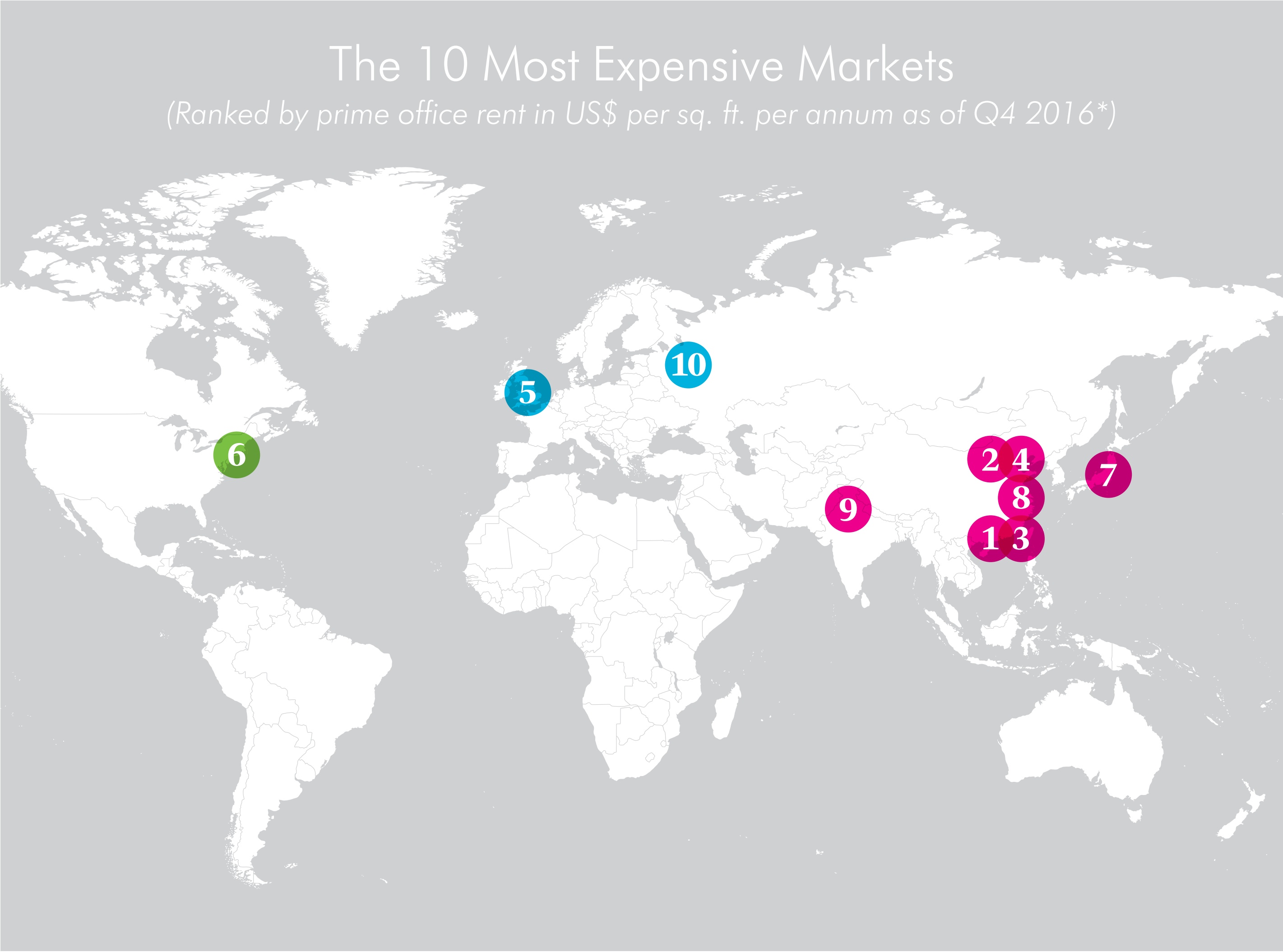
In every region, markets with the strongest rates of growth also featured a high proportion of technology, media and telecommunications (TMT) occupiers seeking new space. Examples include more established tech hubs such as Seattle, Berlin and Stockholm, and emerging centers in Dublin and Cape Town.

Mixed growth in the Americas

The Americas features some of both the fastest-growing and fastest-declining rental markets. While Chicago was the second fastest-growing market, Calgary (Downtown) had the largest decrease. The recent weakness in oil and commodities prices was a key driver for rent declines in some U.S., Canadian and Latin American cities. At the other end of the scale, constrained supply and strong demand for space—often from tech-related companies—have driven rents up in other markets.

Strongest rent increase in EMEA

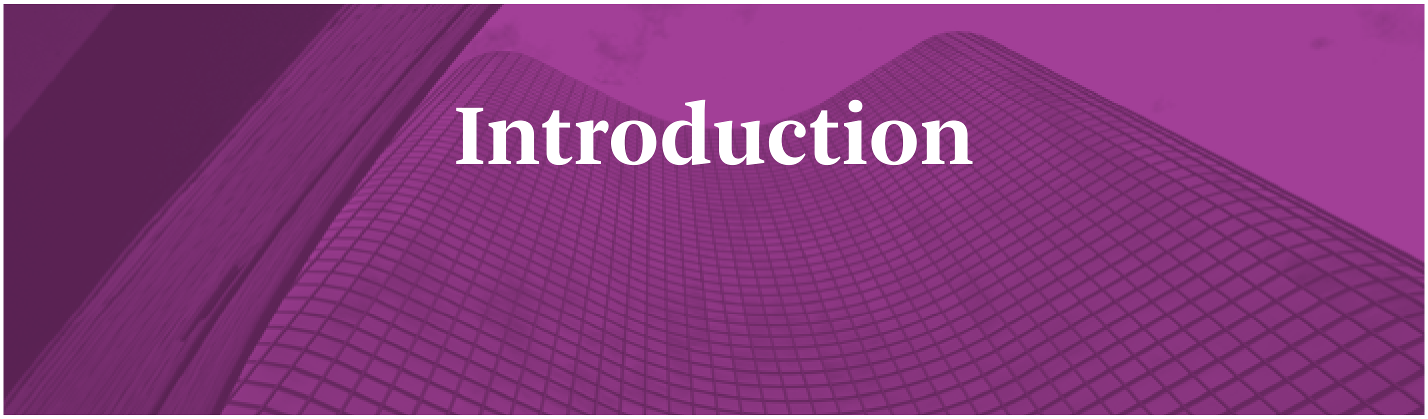
Rents in European markets showed the most consistent growth. A lack of supply in many central areas has played a role, coupled with steadily growing employment and therefore demand. Belfast, U.K. has seen the fastest increase, thanks to a shortage of supply and attractive business tax incentives.



1	**2**	**3**	**4**	**5**
Hong Kong (Central)	*Beijing (Finance Street)*	*Hong Kong (West Kowloon)*	*Beijing (CBD)*	*London (West End)*
$264	$179	$163	$156	$146
6	**7**	**8**	**9**	**10**
New York (Midtown Manhattan)	*Tokyo (Marunouchi/Otemachi)*	*Shanghai (Pudong)*	*New Delhi (Connaught Place - CDB)*	*Moscow, Russian Federation*
$144	$127	$117	$105	$101

* Standardized on a net internal area basis.
Source: CBRE Research, Q4 2016.

Introduction



The service sector accounts for 70% of GDP in OECD countries and remains the key driver of economic growth. This is especially the case in global cities, where the global and regional head offices of the world's major service-sector companies reside. These businesses tend to cluster, and often compete for the best and most prestigious locations in both the downtown and key suburban markets. In most cases, the office market responds with development of high-quality buildings that cater to large, often international service firms. Sometimes the size of new development is limited due to physical constraints or land-use planning regulations.

Prime rents—those paid for the best buildings in what the market considers the best locations—are often much higher than those in surrounding areas. An overall market's average rents may in some cases be only 40% to 50% of prime rents, but their rates of growth are correlated in the long run. Prime rents are typically highest in the world's great financial centers, but other factors are also in play. An upturn in development can depress rents for some time, whereas a change in the business environment—such as a surge in the technology sector—can send prime rents rapidly higher. Prime rents can give important clues about broader market movements, which is what makes them so interesting.

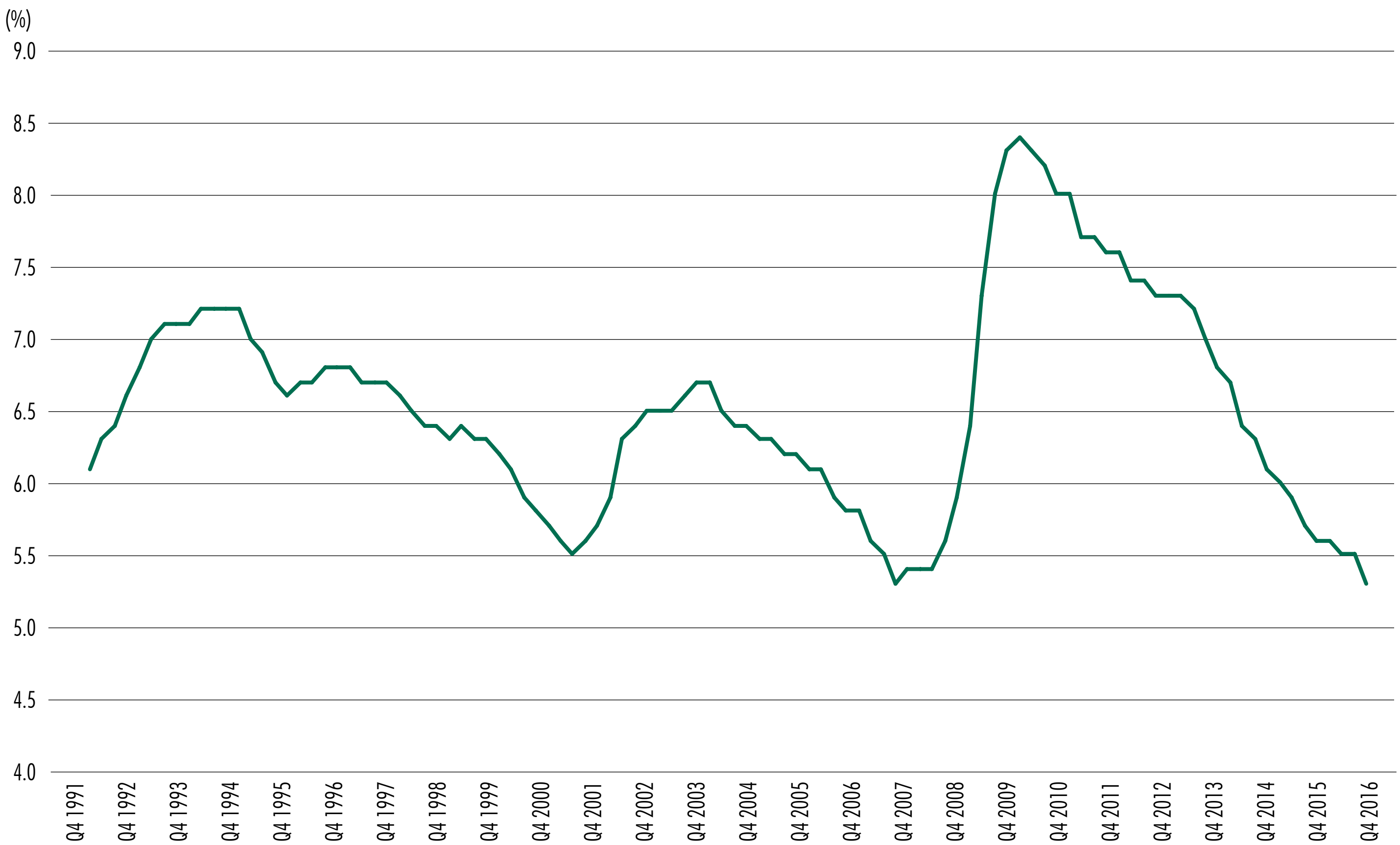
Prime rents are typically highest in the world's great financial centers, but other factors are also in play.

This semiannual Global Prime Office Rents report provides a snapshot of prime office rents in 121 markets tracked by CBRE Research. It identifies key trends at the top end of the office market that drive increases or decreases in rent.

This year the balance was firmly toward growth, with prime rents rising in 62 markets, stable in 32 and decreasing in 27. Rents increased on average by 2.3% globally. EMEA performed strongest with an average of 3.7% growth, followed by APAC and the Americas, both at 1.8%.

Economic Context

Figure 1: G7 Unemployment



Source: Macrobond, CBRE Research, 2016.

The global economy picked up momentum in Q4 2016, and CBRE Research expects this to continue in 2017. Growth projections are near the top end of those for the past five years, boosted by fiscal expansion in the U.S. and elsewhere.

The pickup in Q4 2016 was due in a large part to the increase in government spending in China, which should continue in 2017. Japan is following a similar route, determined to keep up the momentum of growth and inflation. Since 2012, interest rates across most of Asia have been cut (with the exceptions of Hong Kong and Singapore), paving the way for an expansion in domestic demand.

In Europe, growth is expected to be around 1.5%. Monetary conditions remain highly expansionary, and will underpin growth. With several key upcoming elections in the Netherlands, France and Germany, political uncertainty may feature strongly in 2017. But so far, growth seems unaffected. In the U.K., higher levels of inflation caused by the depreciation of sterling following the Brexit referendum will erode households' spending power and constrain consumption. Despite this, growth since the referendum has exceeded expectations.

With the prospect of tax reform, infrastructure spending and reduced regulation by the Trump administration, growth in the U.S. is expected to pick up. Given that unemployment is near a cyclical low point, some modest overheating in the U.S. economy may occur. If so, this could cause slightly higher levels of inflation and upward pressure on interest rates, with further implications for the relative value of the dollar.

Growth projections are near the top end of those for the past five years, boosted by fiscal expansion in the U.S. and elsewhere.

Service Sector Business Confidence

Figure 2: World PMI Index

Note: A figure above 50 indicates expansion.
Source: Macrobond, 2017.

The Global Purchasing Managers' Index[1] is generally a good indicator of employment growth in the services sector and, indirectly, demand for office space. A reading of more than 50 indicates expansion.

There was some uncertainty in early 2016 and at certain key times throughout the year related to political events of global importance. The outcome of the U.K.'s Brexit referendum was one temporary blip, and the U.S. election in November another. But overall, the trend in 2016 was positive, indicating greater business confidence.

Regionally, the U.S. PMI index registered 55.6 last year, considerably higher than its two-year average of 54.1. The Eurozone and China also demonstrated strong performance, with the index well above respective long-term averages for those regions. These positive numbers give some cause for optimism regarding future office employment growth and prime rents.

1. PMI Index, available at: https://www.markit.com/product/pmi

Regional Performance

Overall, markets in EMEA posted the strongest prime rent growth year-over-year at 3.7%, with growing tech hubs featuring in the global top 10. Constrained supply growth, sustained demand and tightening vacancy levels for prime areas account for much of the gains over the past 12 months. Given that these conditions are expected to persist in 2017, rent growth should continue.

Prime rent growth in APAC averaged 1.8% and was strongest in gateway cities. Hong Kong led the way, due to strong demand from Chinese corporates and very tight supply conditions. Technology start-ups have played a key role in the strongest-growing APAC markets, such as Bangalore, Sydney, Bangkok and Auckland.

Constrained supply growth, sustained demand and tightening vacancy levels for prime areas account for much of the gains over the past 12 months.

Eastern Europe has performed less well, reflecting different drivers in different markets. In Turkey, political instability has been the dominant factor in undermining rents; in Poland, sustained supply growth is outpacing demand. Rents in the West End of London fell by 6.3% last year, somewhat affected by the fallout from the Brexit referendum in July and the uncertainty about the U.K.'s future relations with the European Union.

In North America, local economies that are somewhat dependent on the oil & gas industry for employment—such as Calgary, Houston and Denver—have seen decreases in prime office rents. Tech hubs, such as Seattle, have registered the largest increases, as have other markets with low levels of new construction like Chicago.

Annual Change Breakdown Q4 2015–Q4 2016*

THE AMERICAS	EMEA	APAC	GLOBAL
1.8%	**3.7%**	**1.8%**	**2.3%**
growth in prime office rents	*growth in prime office rents*	*growth in prime office rents*	*growth in prime office rents*

CHANGE COUNTS BY REGION

	THE AMERICAS	EMEA	APAC
increases	19	30	13
unchanged	4	18	10
decreases	11	8	8

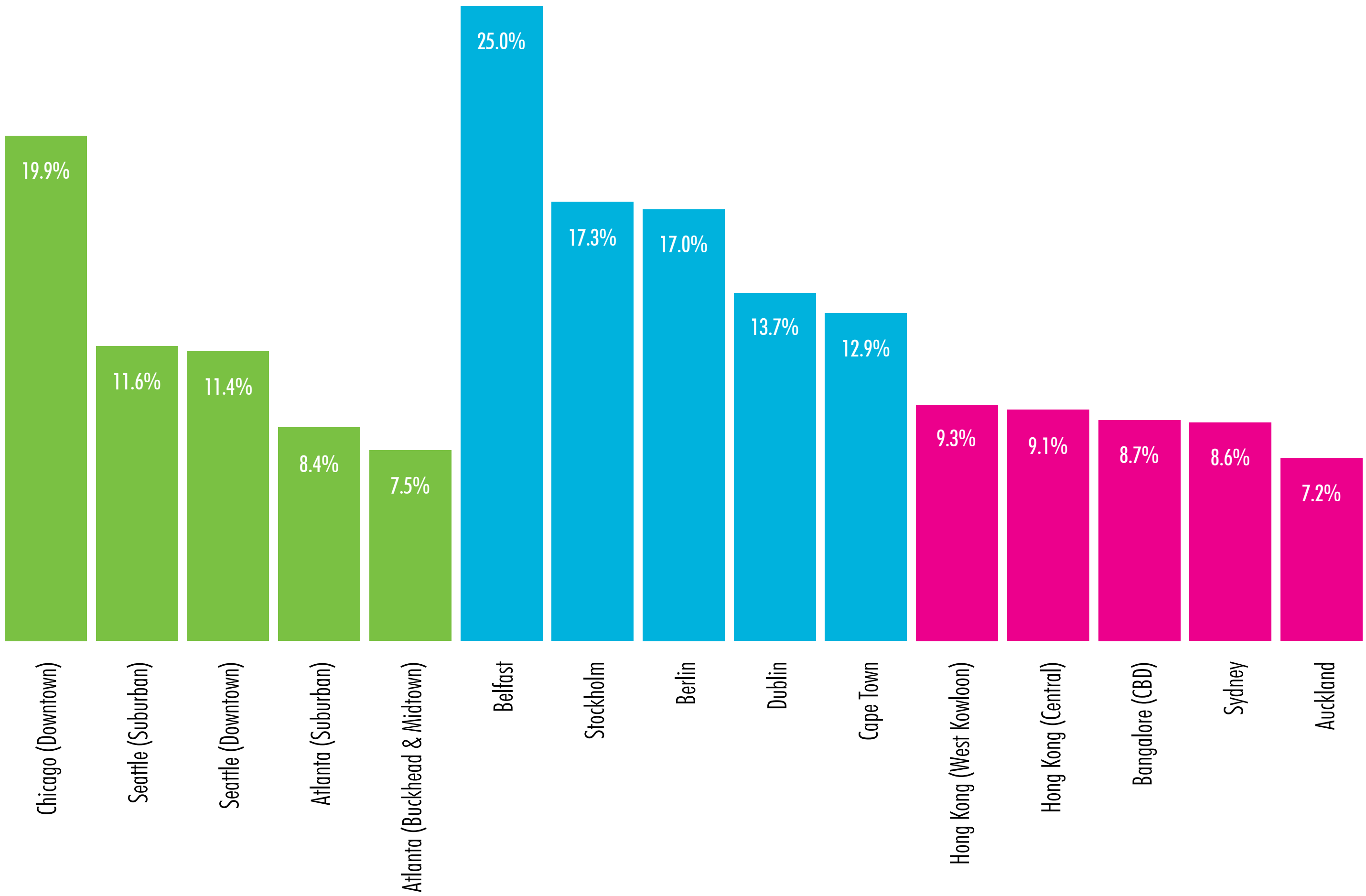
PERCENTAGE OF MARKETS CHANGING BY REGION

	THE AMERICAS	EMEA	APAC
increases	56%	54%	42%
unchanged	12%	32%	32%
decreases	32%	14%	26%

*Annual percent change in local currency and measure as of Q4 2016.
Source: CBRE Research, Q4 2016.

Top 5 Growth Markets by Region*

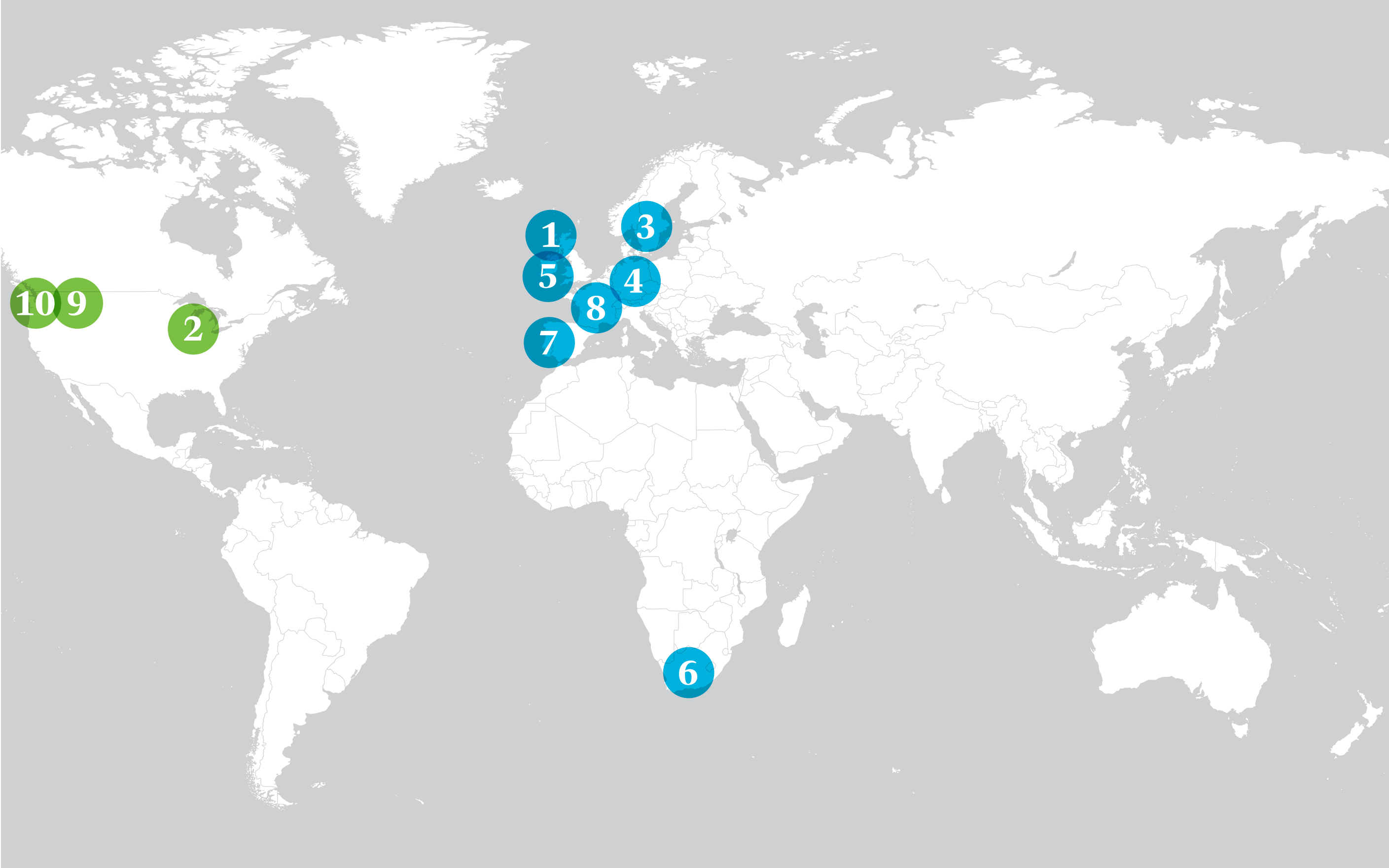
EMEA LEADING RENTAL INCREASE BUT WITH AMERICAS AND APAC ALSO SHOWING POSITIVE GROWTH



*Annual percent change in local currency and measure as of Q4 2016.
Source: CBRE Research, Q4 2016.

The 10 Fastest-Growing Markets*

(Annual percent change in local currency and measure as of Q4 2016)



1	**2**	**3**	**4**	**5**
Belfast	*Chicago (Downtown)*	*Stockholm*	*Berlin*	*Dublin*
25.0%	19.9%	17.3%	17.0%	13.7%
6	**7**	**8**	**9**	**10**
Cape Town	*Oporto*	*Lyon*	*Seattle (Suburban)*	*Seattle (Downtown)*
12.9%	12.5%	12.0%	11.6%	11.4%

*Annual percent change in local currency and measure as of Q4 2016.
Source: CBRE Research, Q4 2016.

Fastest-Growing Markets

Notable Markets with Prime Rent Growth

Belfast (25.0%)

Strong demand and a chronic shortage of prime space have led to a sharp increase in rents. Total available space fell by 41% between midyear and year-end 2016. The announced reduction in corporation tax in 2018 to 12.5%, coupled with comparatively low levels of rent versus other cities in EMEA, generated increased activity in the Belfast office market last year. Office absorption was 40% more than in 2015.

Chicago (Downtown) (19.9%)

With no new prime office development since 2010, the downtown Chicago market has a shortage of available first-class space. As supply has tightened and the flight-to-quality gains momentum, Chicago prime office rents have hit historical highs. With an influx of prime office deliveries due in early 2017, supply constraints should ease, but rents will continue to grow because of the high demand for quality space.

Stockholm (17.3%)

Reflecting the strong underlying economy and employment growth, prime rents in Stockholm are at a record high. An increase in supply in 2016 failed to satisfy demand as the majority of this was pre-leased. High demand, especially from tech start-ups, continued to lower vacancy levels, so further rental growth is likely.

Berlin (17.0%)

Office absorption in 2016 was more than twice the 10-year average, thanks to a strong local economy and falling unemployment. Vacancy fell to a new record-low. The technology, media and telecommunications sector is now an integral part of the office market and was the most active sector in driving absorption, representing 34% of the market. With high levels of new requirements, prime rents are expected to rise further this year.

Dublin (13.7%)

Office absorption in Dublin surprised on the upside last year, exceeding 2015's record performance, despite a relative lack of modern prime inventory. A rise in U.K.-originating requirements could emerge this year, which would be welcome in light of likely slower economic growth and a softening in demand from U.S. multinationals.

Cape Town (12.9%)

The market has very strong demand for prime office space in the CBD, with long-standing vacancies in various buildings dramatically falling in Q4 2016. New developments in submarkets such as Century City and Southern Suburbs have been leased quickly. With no further significant new development expected in 2017, rents will continue to increase.

Oporto (12.5%)

Economic and job growth have generated optimism in the occupier market, and an alteration in strategy from cost-optimization to expansion is driving demand for space. New market entrants include the business processing and outsourcing sector.

Lyon (12.0%)

Lyon has benefitted from increased demand, with office take-up increasing by 7% last year. The improvement is particularly noticeable with respect to spaces of more than 10,000 sq. ft., the number of transactions for which has risen sharply. The vacancy rate also edged down last year and is now below 6%. Occupier interest is particularly strong in four districts: La Part-Dieu, The West of Lyons, Gerland and Villeurbanne. With several substantial negotiations in progress, we expect the market to remain strong this year.

Seattle (Suburban) (11.6%)

Tech-sector tenants accounted for several large deals that effectively lowered suburban Seattle's vacancy rate last year. This has piqued the interest of developers, but a large tech occupier's predicted exit from the market in 2019 could dampen that interest and increase the vacancy rate.

Markets Becoming More Affordable

Notable Markets with Prime Rent Decline

Calgary (Downtown) (-26.5%)

Downtown Calgary prime rents have declined by 30.4% since peak levels in 2008. This is a direct result of the steady rise in vacancy caused by oil & gas industry-related layoffs and bankruptcies. Landlords have been aggressively competing with one another by offering lower rent structures, shorter term deals and generous tenant-improvement allowances. However, the rate of decline has slowed, implying that rental rates will bottom out as oil pricing starts to improve.

Jakarta (-19.2%)

Occupier demand remained soft in an environment of challenging economic growth attributable to low oil pricing. Active demand by technology, e-commerce and start-up businesses was offset by a surge in new supply, resulting in a spike in vacancies. Decreasing rent levels should stabilize in 2017, as the e-commerce industry continues to expand.

Istanbul (-11.1%)

Ongoing political developments overshadowed the market last year and placed significant downward pressure on rents, particularly in the CBD. Vacancy rates increased sharply throughout the year and this is not expected to change in the short term, especially given the rapid decline in demand from foreign companies entering the market. Transactions in 2017 are expected to be driven largely by the attractive pricing of the office market.

São Paulo (-10.3%)

Brazil's economy is emerging from a severe and protracted recession, partly due to low pricing of commodities exports. Rising unemployment has led to increased office vacancy and falling rents, allowing tenants to lease space in more attractive locations and benefit from increasing landlord incentives.

Singapore (-9.4%)

Weak economic sentiment and a strong supply pipeline led to decreased rents in 2016. On the positive side, a number of large anchor tenant deals were closed, mainly in new high-quality buildings. Banking and finance sector tenants are taking advantage of the current down-cycle to lock in attractive rental rates. Prime office space held up well, posting positive net absorption in 2016 despite some downsizing in the banking and energy sectors. The reshuffling of existing occupiers should continue to be the dominant trend in the Singapore office leasing market. Newer projects will be the main beneficiaries, while some older-generation buildings will need to focus on tenant retention. A sizeable amount of new supply is expected to hit the market in 2017.

Houston (Downtown) (-6.6%)

The energy sector that heavily supports Houston office demand has shed more than 70,000 jobs in the metropolitan area since the fall in oil prices. In order to keep or attract tenants, landlords have become much more flexible on negotiated rates and concessions.

London (West End) (-6.3%)

Following the Brexit referendum last year, prime rents fell by more than 6%. This trend is likely to continue in 2017, although overall economic growth has been very resilient. Vacancy rates have risen for two consecutive quarters with a relative absence of large deals in the West End.

Zurich (-6.3%)

Constrained supply growth in recent decades due to political and spatial-planning restrictions have created a climate of low vacancy that has favored continued rent growth without the need for landlords to make any significant investment. However, an easing in supply in 2016 and the tendency of banking and financial companies to relocate out of the CBD to modern buildings in development zones have put downward pressure on prime rents.

Mexico City (-6.1%)

Vacancy levels increased last year due to new high-quality supply coming onto the market in alternative, well-located submarkets such as Polanco and Insurgentes. Consequently, net absorption in Lomas Palmas was negative. The outlook for rents remains negative for 2017 and further decreases are expected, mainly led by exchange rate volatility and a large number of office completions.

Figure 3: Regional Performance, Year-over-Year Change in Rent*

Rank	Market/Country	% Change	Region
1	Belfast, United Kingdom	25.0	EMEA
2	Chicago (Downtown), U.S.	19.9	Americas
3	Stockholm, Sweden	17.3	EMEA
4	Berlin, Germany	17.0	EMEA
5	Dublin, Ireland	13.7	EMEA
6	Cape Town, South Africa	12.9	EMEA
7	Oporto, Portugal	12.5	EMEA
8	Lyon, France	12.0	EMEA
9	Seattle (Suburban), U.S.	11.6	Americas
10	Seattle (Downtown), U.S.	11.4	Americas
11	Amsterdam, Netherlands	11.4	EMEA
12	Barcelona, Spain	10.1	EMEA
13	Hong Kong (West Kowloon), Hong Kong	9.3	APAC
14	Hong Kong (Central), Hong Kong	9.1	APAC
15	Bangalore (CBD), India	8.7	APAC
16	Sydney, Australia	8.6	APAC
17	Tel Aviv, Israel	8.5	EMEA
18	Atlanta (Suburban), U.S.	8.4	Americas
19	Dubai, United Arab Emirates	8.2	EMEA
20	Johannesburg, South Africa	7.7	EMEA
21	Atlanta (Buckhead & Midtown), U.S.	7.5	Americas
22	Durban, South Africa	7.4	EMEA
23	Auckland, New Zealand	7.2	APAC
24	Birmingham, United Kingdom	6.7	EMEA
25	Bangkok, Thailand	5.9	APAC
26	Los Angeles (Downtown), U.S.	5.7	Americas
27	Madrid, Spain	5.6	EMEA
28	Rome, Italy	5.3	EMEA
29	Melbourne, Australia	4.9	APAC
30	Budapest, Hungary	4.8	EMEA
31	Toronto (Suburban), Canada	4.5	Americas
32	Shanghai (Pudong), China	4.5	APAC
33	Rotterdam, Netherlands	4.4	EMEA
34	Beijing (Finance Street), China	4.0	APAC
35	Hamburg, Germany	4.0	EMEA

Rank	Market/Country	% Change	Region
36	Buenos Aires, Argentina	3.8	Americas
37	Leeds, United Kingdom	3.8	EMEA
38	Gothenburg, Sweden	3.6	EMEA
39	San Francisco (Peninsula), U.S.	3.5	Americas
40	Copenhagen, Denmark	2.9	EMEA
41	Munich, Germany	2.9	EMEA
42	New Delhi (Gurgaon), India	2.8	APAC
43	Helsinki, Finland	2.7	EMEA
44	Chicago (Suburban), U.S.	2.5	Americas
45	Los Angeles (Suburban), U.S.	2.3	Americas
46	London (City), United Kingdom	2.2	EMEA
47	Shanghai (Puxi), China	2.0	APAC
48	Milan, Italy	2.0	EMEA
49	Sofia, Bulgaria	1.9	EMEA
50	Canberra, Australia	1.8	APAC
51	Washington, D.C. (Suburban), U.S.	1.6	Americas
52	Edinburgh, United Kingdom	1.6	EMEA
53	Toronto (Downtown), Canada	1.5	Americas
54	Montreal (Suburban), Canada	1.4	Americas
55	Washington, D.C. (Downtown), U.S.	1.3	Americas
56	Paris, France	1.3	EMEA
57	San Francisco (Downtown), U.S.	1.0	Americas
58	Seoul (CBD), South Korea	0.9	APAC
59	New York (Midtown Manhattan), U.S.	0.8	Americas
60	Vienna, Austria	0.6	EMEA
61	Dallas (Suburban), U.S.	0.3	Americas
62	Vancouver (Downtown), Canada	0.3	Americas
63	Boston (Downtown), U.S.	0.0	Americas
64	Boston (Suburban), U.S.	0.0	Americas
65	New York (Downtown Manhattan), U.S.	0.0	Americas
66	New York (Midtown-South Manhattan), U.S.	0.0	Americas
67	Beijing (CBD), China	0.0	APAC
68	Brisbane, Australia	0.0	APAC
69	Guangzhou, China	0.0	APAC
70	Kuala Lumpur, Malaysia	0.0	APAC

*Annual percent change in local currency and measure as of Q4 2016.
Source: CBRE Research, Q4 2016.

Figure 3: Regional Performance, Year-over-Year Change in Rent* (continued)

Rank	Market/Country	% Change	Region
71	Mumbai (Bandra Kurla Complex), India	0.0	APAC
72	Mumbai (Nariman Point - CBD), India	0.0	APAC
73	New Delhi (Connaught Place - CBD), India	0.0	APAC
74	Seoul (Yeouido), South Korea	0.0	APAC
75	Shenzhen, China	0.0	APAC
76	Tokyo (Marunouchi/Otemachi), Japan	0.0	APAC
77	Aberdeen, United Kingdom	0.0	EMEA
78	Belgrade, Serbia	0.0	EMEA
79	Bratislava, Slovakia	0.0	EMEA
80	Bristol, United Kingdom	0.0	EMEA
81	Brussels, Belgium	0.0	EMEA
82	Bucharest, Romania	0.0	EMEA
83	Frankfurt, Germany	0.0	EMEA
84	Glasgow, United Kingdom	0.0	EMEA
85	Lille, France	0.0	EMEA
86	Lisbon, Portugal	0.0	EMEA
87	Liverpool, United Kingdom	0.0	EMEA
88	Malaga, Spain	0.0	EMEA
89	Manchester, United Kingdom	0.0	EMEA
90	Marseille, France	0.0	EMEA
91	Palma de Mallorca, Spain	0.0	EMEA
92	Prague, Czech Republic	0.0	EMEA
93	Southampton, United Kingdom	0.0	EMEA
94	Valencia, Spain	0.0	EMEA
95	Adelaide, Australia	-0.5	APAC
96	Oslo, Norway	-1.2	EMEA

Rank	Market/Country	% Change	Region
97	Taipei, Taiwan	-1.5	APAC
98	Denver (Suburban), U.S.	-1.8	Americas
99	Ho Chi Minh City, Vietnam	-1.8	APAC
100	Dallas (Downtown), U.S.	-2.0	Americas
101	Warsaw, Poland	-2.1	EMEA
102	Wellington, New Zealand	-2.6	APAC
103	Abu Dhabi, United Arab Emirates	-2.8	EMEA
104	Geneva, Switzerland	-2.9	EMEA
105	Houston (Suburban), U.S.	-3.0	Americas
106	Hanoi, Vietnam	-3.6	APAC
107	Vancouver (Suburban), Canada	-3.9	Americas
108	Montreal (Downtown), Canada	-4.6	Americas
109	Perth, Australia	-5.7	APAC
110	Moscow, Russian Federation	-5.8	EMEA
111	Denver (Downtown), U.S.	-5.9	Americas
112	Mexico City, Mexico	-6.1	Americas
113	London (West End), United Kingdom	-6.3	EMEA
114	Zurich, Switzerland	-6.3	EMEA
115	Houston (Downtown), U.S.	-6.6	Americas
116	Calgary (Suburban), Canada	-9.4	Americas
117	Singapore, Singapore	-9.4	APAC
118	São Paulo, Brazil	-10.3	Americas
119	Istanbul, Turkey	-11.1	EMEA
120	Jakarta, Indonesia	-19.2	APAC
121	Calgary (Downtown), Canada	-26.5	Americas

*Annual percent change in local currency and measure as of Q4 2016.
Source: CBRE Research, Q4 2016.

Methodology and Definitions

Methodology

This semiannual report outlines rent for prime office locations in 121 key markets in the Americas, Asia Pacific and EMEA as of Q4 2016. Since office lease rates can vary widely—not only across world markets but also within the same market area—this data is meant to provide comparative benchmarks only.

Terms and Definitions

The Global Prime Office Rents report provides a snapshot of achievable rents for the highest quality office space in a prime location. These rents are reported on a net-basis (exclusive of service charges and taxes) and have been adjusted to a net internal area of measurement. The prime office rents are stated in U.S. dollars per sq. ft. per annum.

The percentage change figures reflect the rate of change in local rents over the preceding 12 months. These changes are calculated on the basis of local currency values to avoid distortions from exchange rate fluctuations.

Regional and Global Percent Changes

Aggregated changes in prime rents both at the global and regional level are based on a weighted average of the rental change (local currency) in the individual cities. The weighting for each city is a function of its country GDP (GDP at purchasing power parity exchange rates), which is divided among the cities in that country covered in the report according to the importance of each city as a commercial real estate market.

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Cover image: Belfast, United Kingdom

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