Flight to Quality Boosts Prime Office Rents

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A continuing flight to quality by office occupiers in Q3 led to further rent growth for prime space in most global markets. While economic uncertainty remained a headwind to overall leasing activity, demand for prime space was resilient.

Americas

Average prime rents increased year-over-year in 25 of the 33 major Americas region office markets tracked by CBRE. Seven of the top 10 markets for prime rent growth were predominantly suburban.

In the U.S., a lack of meaningful improvement in return-to-office plans and concerns about a potential recession led to negative net absorption of 4.0 million sq. ft. in Q3, although it was less than half of the negative 8.4 million sq. ft. in Q2. However, space in newer buildings delivered since 2010 saw positive net absorption.

Dallas led all major Americas markets for year-over-year prime rent growth in Q3 (6.3%), followed by Montreal (4.2%) and both Boston and Houston (3.6%). Atlanta had the biggest year-over-over decrease (-5.6%), followed by Downtown New York (-1.6%) and Toronto (-0.8%).

U.S. leasing activity fell by 13% quarter-over-quarter and 27% year-over-year to 40.6 million sq. ft. in Q3. Renewals comprised 43% of the total, up slightly from their 40% pre-pandemic average. Vacancy is expected to peak in 2024 amid continued economic uncertainty and hybrid working arrangements.

Demand for office space is expected to slightly improve in 2024, particularly in the second half of the year, but remain below pre-pandemic levels. However, available space in modern, prime office space, which remains in high demand, will be reduced as the amount of new construction falls.

Europe

Prime office rents in major European markets rose by an average of 4.9% year-over-year in Q3, as occupiers predominantly sought top-quality space.

Some major markets posted year-over-year prime rent growth of more than 4%, including Manchester (13.0%), Munich (5.7%), Madrid (4.8%), Paris (4.2%), London City (4.2%) and Dublin (4.1%). Lesser increases were recorded in Milan (3.7%), Berlin (2.3%), and Barcelona (1.8%).

While there was a small improvement in leasing activity quarter-over-quarter, it remained well below historic averages in many markets. Total take-up for major European office markets in Q3 was just under 2.5 million sq. m., up by 7.5% from Q2 but down by 14% year-over-year. On a year-to-date basis through Q3, leasing activity fell by 21% from the same period in 2022.

Most of the larger markets posted year-over-year drops in take-up, albeit at a lower rate than in Q3 2022. London (-12.5%) had the smallest reduction, followed by Madrid (-14%), Milan (-23%), Berlin (-24%), Brussels (-28%) and Prague (-42%). Warsaw (42%) had the biggest increase, followed by Amsterdam (19%) and Paris (1.5%). On a year-to-date basis, however, nearly all markets saw a reduction in take up compared with the same period in 2022.

Asia-Pacific

Only 13 of the 25 major Asia-Pacific office markets tracked by CBRE recorded prime rent growth year-over-year in Q3.

Premium office buildings attracted strong flight-to-quality demand. Brisbane (8.3%), Sydney (6.5%) and Seoul (5.0%) led the region for year-over-year prime rent growth in Q3.

The biggest year-over-over declines occurred in Bangkok (-6.3%) and major Tier 1 cities in mainland China such as Guangzhou (-4.2%) and Shanghai (-3.1%). Oversupply prompted landlords to offer lower rents and higher incentives in these markets. Prime rent declines of 2.7% in Hong Kong and 2.1% in Tokyo moderated from Q2.

Asia-Pacific office leasing activity was unchanged in Q3. Economic uncertainty has delayed occupancy decision-making. The amount of time to close deals lengthened, as occupiers took longer to approve capital expenditures. However, the continuing flight-to-quality trend supports sustained demand and rent growth for top-quality space.

Visit CBRE's Global Prime Office Rent Tracker to explore prime office market data for major global markets.

For more information, please contact:

Richard Barkham, Ph.D.

Global Chief Economist & Head of Americas Research
CBRE Americas and Global Research
+1 617 912 5215
richard.barkham@cbre.com

Julie Whelan

Senior Vice President,
Global Head of Occupier Thought Leadership & Research Consulting
CBRE Global Research
+1 617 912 5229
julie.whelan@cbre.com

Jessica Morin

Director,
Head of U.S. Office Research
CBRE Americas Research
+1 602 735 5201
jessica.morin@cbre.com

Richard Holberton

Senior Director, Head of EMEA Office Research
CBRE EMEA Research
+44 7775 818389
richard.holberton@cbre.com

Ada Choi, CFA

Executive Director,
Head of APAC Occupier Research & Head of Data Intelligence and Management
CBRE APAC Research
+852 2820 2871
ada.choi@cbre.com.hk

Charlie Donley

Senior Research Analyst,
U.S. Office Research
CBRE Americas Research
+1 610 727 5921
charlie.donley@cbre.com

Manish Kashyap

Global President
Advisory & Transaction Services
+656 326 1220
manish.kashyap@cbre.com

Guy Holden

Managing Director,
Advisory & Transaction Services, Europe
+44 207 182 3089
guy.holden@cbre.com

Luke Moffat

Managing Director,
Advisory & Transaction Services, APAC
+65 9088 3698
luke.moffat@cbre.com

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Address: 2100 McKinney Ave Suite 700, Dallas TX 75201