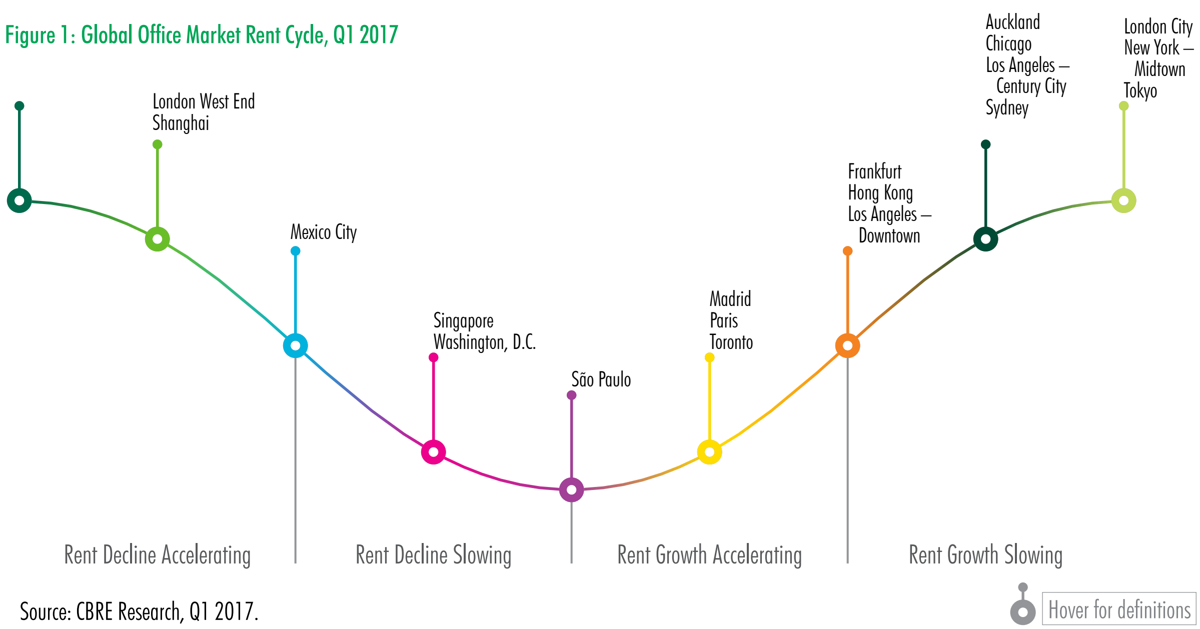
Global Office Rent Cycle, Q1 2017

Office rents see fastest growth since Q3 2015 amid strong global economic expansion

Global Office Rent Index	Americas Office Rent Index	EMEA Office Rent Index	Asia Pacific Office Rent Index
+0.9%	+1.4%	+0.6%	+0.6%

Arrows indicate change from previous quarter (quarter-over-quarter).

Figure 1: Global Office Market Rent Cycle, Q1 2017



Source: CBRE Research, Q1 2017.

- The global economy picked up speed in Q1 2017, despite a slow start in the U.S. Oxford Economics forecasts global economic growth to accelerate to 3.5% in 2017.
- The Global Purchasing Managers' Index (PMI) of Business Service Activity stood at 53.6 in March 2017, indicating healthy growth in office employment. This helped the Global Office Rent Index register growth of 0.9%, quarter over quarter, and 1.8%, year over year.
- The Americas Office Rent Index increased by 1.4%, quarter over quarter, and 1.3%, year over year. The Southern and Western regions of the U.S. remained strong while office demand improved in Canada.
- In EMEA, the ongoing fall in unemployment and strong demand in tech-related markets contributed to positive growth this quarter. The region's Office Rent Index rose by 0.6%, quarter over quarter—an increase on the 0.2% growth recorded in Q4 2016.
- The Asia Pacific Office Rent Index edged up 0.6%, quarter over quarter, and 2.1%, year over year, driven by outperforming markets like Sydney and Melbourne.

The global economy picked up speed in Q1 2017 despite weaker-than-expected growth in the U.S. Oxford Economics' 2017 global growth forecast has increased to 3.5% (versus 3.3% forecasted in February), thanks to fiscal initiatives in major countries and growing market confidence. Emerging markets like Brazil and Russia are also expected to support growth in 2017.

U.S. real GDP growth slowed to a seasonally adjusted annualized rate of 1.2% in Q1 2017, down from 2.1% in Q4 2016. First-quarter GDP growth rates are generally lower than other quarters during the year, however, being subject to seasonal factors. Confidence-based data suggest that stronger GDP growth is likely over the remainder of 2017. The Canadian economy picked up in Q1 2017, experiencing strong recovery in its oil market; it is forecast to grow at 2.5% in 2017.

Eurozone GDP growth was 1.7% in Q1 2017—a bit weaker than sentiment surveys had suggested, but solid nonetheless. Amid an improving economic environment and steadily rising sentiment, a mild increase to 1.9% is expected in 2017, supported by stronger growth in a wide range of European countries. European markets continue to be affected by political uncertainty related to the U.K.'s Brexit negotiations and the election in Germany, though in recent months economic policy uncertainty[1] in Europe has declined from the highs witnessed during the Brexit vote in June 2016.

Asia Pacific GPD is forecast to increase to 4.4% this year, with the outlook for major economies—including China, India, Australia, Hong Kong and Japan—having improved slightly this quarter. In China, economic indicators have exceeded market expectations, but concerns about the high debt ratio and potential for outflow of capital remain. In India, the impact of banknote demonetization has diminished, and Japan is benefiting from a weaker yen.

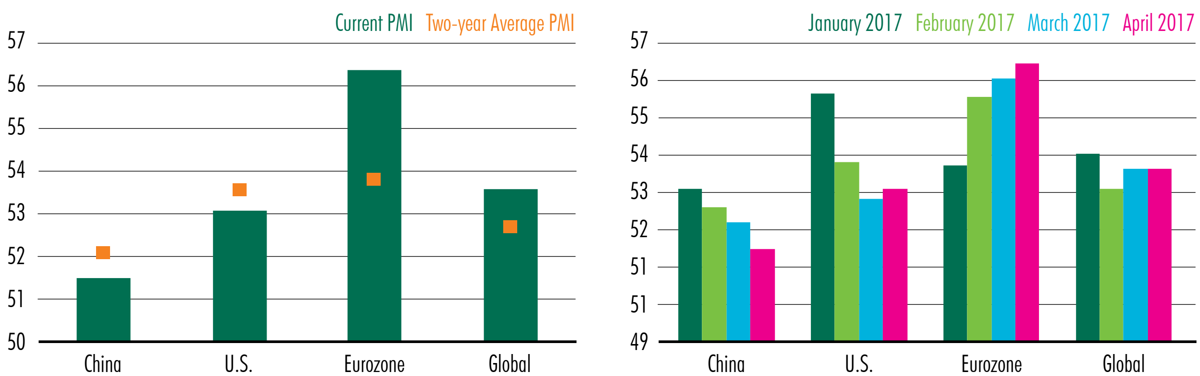
SERVICE SECTOR INDICATES POSITIVE ENVIRONMENT FOR OFFICE EMPLOYMENT

The Global PMI Business Service Activity Index remained robust in Q1 2017, reaching 53.6 in March and reflecting a healthy environment for employment growth (a reading over 50 indicates expansion and is correlated with future employment growth). The Eurozone PMI index showed the strength of the European economy, registering 56.4—well above its two-year average of 53.8. The U.S. and China PMI indices registered well below their two-year averages but nevertheless indicated robust performance. Such figures indicate a healthy environment for office-using employment growth in 2017.

The Global Office Rent Index strengthened significantly in Q1 2017, registering a quarter-over-

1. http://www.policyuncertainty.com/europe_monthly.html

Figure 2: PMI Business Service Activity Index



Note: Readings over 50 indicate expansion.
Source: Markit, Macrobond; May 2017.

Figure 3: Americas Office Market Rent Cycle, Q1 2017

Source: CBRE Research, Q1 2017.

quarter rise of 0.9%, a solid increase on the previous quarter's growth of 0.4%. Gains were led by the Americas, which expanded by 1.4%, while EMEA and Asia Pacific each enjoyed robust growth of 0.6%.

STRONG OFFICE RENT GROWTH IN THE U.S.

U.S. office-using employment expanded for a 30th-straight quarter in Q1 2017 with the addition of 129,000 jobs—more than the quarterly average of 120,000 since 2011. The national unemployment rate was 4.4% in April 2017, the lowest in a decade.

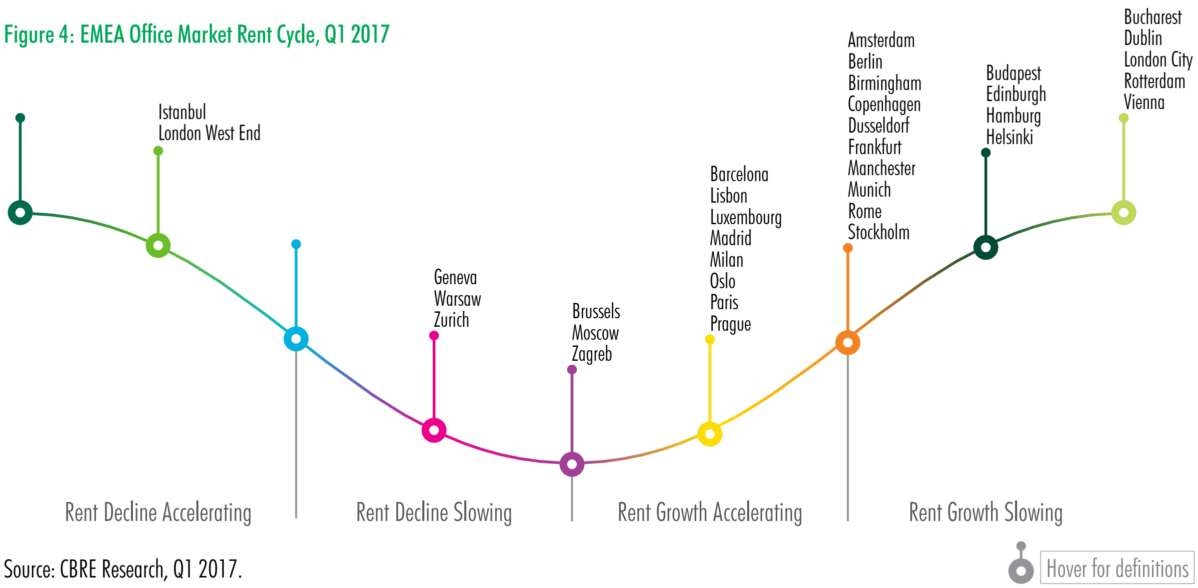
Across the Americas, office rents increased by 1.4% quarter over quarter; they are projected to increase by 1.2% through Q3 2017 (this forecast is for the U.S. only), according to CBRE Econometric Advisors. Slower growth is anticipated in the downtown market (0.9%) than in the suburban market (1.5%), as large amounts of new downtown supply coming online in some cities gradually shift markets in favor of occupiers.

Demand was strongest in Orlando and Tampa during the quarter, followed by other relatively low-cost Southern metros like Dallas, Raleigh, Atlanta, Nashville, Charlotte and Phoenix, which have experienced organic growth and corporate relocations from other markets. Rental growth also remains strong in many tech-driven markets, including Austin, Seattle and the three San Francisco Bay Area markets (San Jose, San Francisco and Oakland).

Development activity has remained highly concentrated in the leading markets during this cycle, among which are many emerging or established tech hubs (e.g. Manhattan, San Jose, San Francisco, Denver, Boston, Seattle and Atlanta). CBRE Econometric Advisors projects construction completions totaling 65.6 million sq. ft. in 2017—a figure below the peak levels of previous cycles, but nearly equal to the combined total of new supply in 2015 and 2016 (75.4 million sq. ft.). It would make 2017 this cycle's peak for construction completions.

In Canada, Q1 2017 office demand was driven by strong leasing activity in suburban markets, which accounted for 79.2% of the overall net absorption. Leasing activity was strongest in Montréal and Vancouver; the Toronto West suburban market was notable as well. The positive leasing environment pushed vacancy rates down for the first time since Q2 2014.

Figure 4: EMEA Office Market Rent Cycle, Q1 2017



Source: CBRE Research, Q1 2017.

NORTHERN EUROPE LEADS RENTAL GROWTH

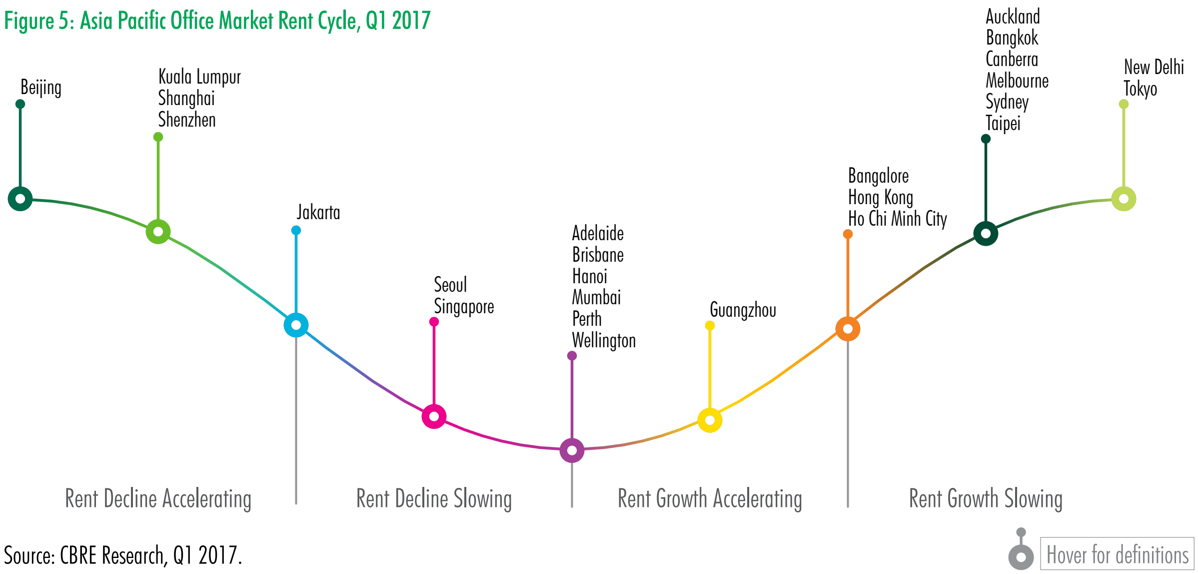
In Europe, unemployment declined by 70 basis points to 8% over the 12 months ending March 2017, though rates varied across the region—from lows in Germany (3.9%) to highs in Spain (18.2%). In Southern Europe, rates of decline have been among Europe's highest; in the U.K. and Germany, unemployment is near or below the previous lows recorded in 2007 and 2008.

Office rents across Europe increased by around 0.6% quarter over quarter in Q1 2017, supported by modest economic growth and rising take-up (a 1.8% increase, year-on-year). Areas of strength (markets that recorded double-digit rental growth last year) included strong local economies (often tech-related and generally Northern European) such as Berlin, Stockholm, Amsterdam and Lyon, along with strong cyclical recovery markets like Barcelona and Dublin (although the rate of growth in the last is slowing as supply responds).

Demand in the region increased 5.4% year over year in Q1 2017, but the past four quarters' take-up is almost flat (-0.3%) versus the previous four. The ongoing disparity of take-up between the U.K. and much of the rest of Europe is continuing due to uncertainty associated with Brexit. Among the primary Western European markets, demand increased significantly in German cities—including Frankfurt, Hamburg and Munich—and in Amsterdam, Paris and Milan.

Europe's overall vacancy level continues to decline. After a drop of 1.5% over the course of 2016, Q1 2017 registered a vacancy level of 9.1%, a 0.2% drop from Q4 2016. Vacancy rates are now below 5% in markets such as Munich, Berlin and London, but are clearly starting to rise in the latter. Development levels are still generally low in major markets, although the pipeline is starting to expand in some cities—most notably in Dublin.

Figure 5: Asia Pacific Office Market Rent Cycle, Q1 2017



Source: CBRE Research, Q1 2017.

STEADY GROWTH IN ASIA PACIFIC

Asia Pacific office rents recorded quarter-over-quarter growth of 0.6% in Q1 2017 (2.1%, year over year), thanks to the continued strength of Australian markets such as Sydney and Melbourne—each of which registered a quarter-over-quarter rental gain of more than 3%. Performance in China is uneven, with rents in Shanghai down 0.8%, quarter over quarter, while Shenzhen and Guangzhou recorded growth. Rental growth is expected to be positive but weak in 2017, due to occupiers' continued focus on portfolio optimization. Core locations will outperform secondary areas.

Office demand in the region remained solid. Although net absorption increased 20% year over year, much of this was due to the occupation of pre-leased space in two supertalls in Shanghai and Shenzhen. Excluding both from calculations, net absorption in Q1 2017 was stable. Nevertheless, demand improved in markets such as Brisbane, Canberra, Perth and Singapore, led by the TMT sector and domestic financial institutions. Co-working space operators continue to emerge as an important new source of office leasing demand, completing large transactions in Hong Kong, Mumbai and Bangalore.

New office space totaling 8.4 million sq. ft. was completed in Q1 2017, a figure 32% lower than the quarterly average of 2016. Shanghai and Shenzhen each welcomed the addition of 2.0 million sq. ft., while New Delhi and Bangalore saw delays to major new developments due to stringent government approval processes. Over the remainder of 2017, new supply is expected to exceed 10% of current local stocks in Shanghai, Shenzhen and New Delhi. The former two markets will see new completions in both traditional and emerging areas, while New Delhi will see more than 80% of its new space in emerging locations.

METHODOLOGY: OFFICE CYCLES

CBRE researchers and local market professionals collaborate to develop the global and regional rent cycles discussed above. In each case, the cycle is intended to illustrate the office rent cycle for core locations that attract the highest rents, representing cities' principal concentrations of major occupiers—often, the central business district (CBD). In a given market there may be more than one business district (e.g., London West End and London City), each with unique characteristics and rent dynamics.

Each quarter, local teams determine the position of prime office rents in a market, and then locate the market in its rent cycle on the basis of this position and predefined cycle stages. Each team provides thorough written justification and rationale for the current estimated position and its change versus the last report.

Regional research leadership then reviews all local market segments, positioning, and written justification before providing approval. Global leadership serves as the final review phase. Regional and global leadership focus carefully on ensuring that all position changes are consistent with the position definitions to ensure that each market can reliably be compared—both regionally and cross-regionally—to other markets on the global cycle.

Inflection points in the rent cycle define four broad categories or segments: Growth Accelerating, Growth Slowing, Decline Accelerating and Decline Slowing. Within each segment, there is one sub-position. A definition for each position includes qualifying statements referencing not only what occurred in prime office rents during the previous quarter, but also explanatory statements regarding the anticipated direction (growth or decline) and magnitude (accelerating or slowing) of rental change in the next quarter. In defining the positions with both backward and forward-looking statements, we intend to capture each market's unique stance in its unique rent cycle. The duration and magnitude of rent cycles vary considerably by market. Some may undergo very tight/short cycles with very small peak-to-trough changes, while others may experience longer cycles with much larger rent variations. The forward-looking statements associated with the cycle positions will assist local market researchers in discerning the rent cycle in their respective markets, but they are not intended to serve as a formal forecast of prime rents.

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at *www.cbre.com/researchgateway*.

FOR MORE INFORMATION REGARDING THIS PUBLICATION, PLEASE CONTACT:

Dennis Schoenmaker, Ph.D.
Economist, Global
+44 20 7182 2457
dennis.schoenmaker@cbre.com

FOR MORE INFORMATION REGARDING CBRE RESEARCH, PLEASE CONTACT:

Nick Axford, Ph.D.
Head of Research, Global
+44 20 7182 2876
nick.axford@cbre.com

Richard Barkham, Ph.D.
Chief Economist, Global
+44 20 7182 2665
richard.barkham@cbre.com

Neil Blake, Ph.D.
Head of Forecasting and Analytics, Global
+44 20 7182 2133
neil.blake@cbre.com
Follow Neil on Twitter: *@NeilBlake123*

Henry Chin, Ph.D.
Head of Research, Asia Pacific
+852 2820 8160
henry.chin@cbre.com
Follow Henry on Twitter: *@HenryChinPhD*

Spencer Levy
Head of Research, Americas
+1 617 912 5236
spencer.levy@cbre.com
Follow Spencer on Twitter: *@SpencerGLevy*

Jos Tromp
Head of Research, EMEA
+31 20 626 26 91
jos.tromp@cbre.com