

Global Office Space Market - Growth, Trends, Covid-19 Impact, and Forecasts (2023 - 2028)

Market Report | 2023-01-23 | 120 pages | Mordor Intelligence

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Report description:

The global office space market is expected to record a CAGR of 12% during the forecast period. Leasing momentum is back as most offices are safely implementing return-to-work. Inquiries have picked up around city centers, and so has the leasing activity. In the office space market, net absorption turned positive for the first time since the onset of the pandemic. The IT and ITeS sectors are among the prime drivers of overall leasing activity in the top cities, and bulk-hiring by these firms will influence demand for large quality office spaces.

COVID-19 is expected to influence the medium-term real estate strategy of several global office space occupiers. Renewed COVID restrictions stemming from the spread of the Delta variant impeded the recovery in some parts of the world during the third quarter, but in most countries, the economy continued to rebound. Uncertainty remains an ongoing theme; however, office spaces are now seeing signs of a demand recovery.

While leasing has declined from April 2020, some interesting trends have emerged in the office space. Occupiers, for instance, have been increasingly renewing their office spaces since April 2020, when the pandemic started. Occupiers are looking to be in new-generation offices with modern amenities with a focus on health and wellness. There will be more emphasis on flexibility, with occupiers keen to explore co-working spaces for a decentralized workforce.

Occupiers are using the current favorable market dynamics to negotiate renewals. They are looking at more flexibility in leases too. Occupiers' decisions are quicker than last year, with a focus on new-generation offices. Re-entry of employees has started in various countries, with many companies planning to get back more employees from January 2022. This will prompt occupiers to make leasing decisions quicker. Corporates will face a challenge to design and modify existing office spaces to support a company's established culture while following the new health protocols and yet promoting social interaction and collaboration.

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Office Space Market Trends

Increase in Office Space Vacancy Rate

Overall sentiment and activity in office markets across the world are improving, although at differing speeds. Third-quarter of 2021, global leasing volumes were higher than a year ago. However, they remained 25% lower than Q3 2019, showing that the recovery, although underway, is far from over. All regions are below Q3 2019 volumes. The global net absorption turned positive in the third quarter of 2021 for the first time since the onset of the pandemic.

Vacancy continued its upward trajectory in Q3 2021, adding 30bps over the quarter to 14.6%. This is the slowest rate of increase since the onset of the pandemic. Following delays to project completion, 2022 is anticipated to be the peak of the development cycle. The picture fluctuates significantly by region. In the United States, development completions are expected to hit a high point this year and then slow appreciably next year, while in Europe and Asia-Pacific, the pipeline continues to grow into 2022 by 24% and 13%, respectively. This will add to the upward pressure on vacancy rates over the coming months.

Increase in Office Space Rent

Office re-entry rates still vary significantly by country but are now starting to rise around the world. This is important, as before new space requirements are cemented, corporates need more evidence of how hybrid office and remote work impacts their demand profile. Tenant-friendly conditions persist in most markets, with landlords eager to attract tenants. However, rents for premium or prime buildings have increased in some markets as occupiers increasingly look for quality. The banking and financial services industry continues to be the dominant occupier of premium office space globally.

International businesses are looking to their workplaces to revitalize their corporate brand and culture after the pandemic, which will see significantly improved amenities and services available for employees. Despite over a year of restricted access to offices, businesses continue to identify workplaces as an essential component of their corporate identity and vital to retaining and reinvigorating employees post-pandemic.

Office Space Market Competitor Analysis

The global office space market is highly competitive and consists of several players. These companies are leveraging on strategic collaborative initiatives to increase their market share and profitability. Vendors depend on successive merger and acquisition strategies, geography expansion, research and development, and new product introduction strategies to execute further business expansion and growth.

Additional Benefits:

The market estimate (ME) sheet in Excel format

3 months of analyst support

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