

Office Real Estate - Market Share Analysis, Industry Trends & Statistics, Growth Forecasts 2020 - 2029

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Report description:

The Office Real Estate Market size is estimated at USD 2.10 trillion in 2024, and is expected to reach USD 2.71 trillion by 2029, growing at a CAGR of greater than 5.17% during the forecast period (2024-2029).

The market is driven by the growing demand for offices by the new companies entering the market. Furthermore, the market is driven by the increasing demand in the European and GCC markets.

Key Highlights

- Office space absorption in the leading office real estate markets remained negative in the first quarter of 2022, which means that more space was vacated than leased. In San Francisco, California, the hub of American technology, as well as Manhattan, New York, the center of American finance and location of the New York Stock Exchange, these circumstances prevailed. The vacancy rate in Dallas and Houston, Texas, was higher than 29%. The COVID-19 outbreak led to the closure of offices, resulting in a decrease in demand for traditional office spaces. Many companies downsized, switched to a hybrid working style, didn't renew their leases, or put off plans to expand their office space. As a result, leasing activity decreased, and vacancy rates increased.
- Investment activity decreased during the start of the COVID-19 pandemic but surged in 2021 and nearly returned to pre-pandemic levels. Despite the swings, rents have been growing gradually in recent years and are likely to keep doing so. The office rental index shows that as of September 2021, gross rents had increased by more than 24% since the index's base value of 100 was created in 2008. The most expensive office markets were in Manhattan, NY, and San Francisco, CA, with annual square footage rents of 129 and 97 dollars, respectively.
- The COVID-19 pandemic significantly reduced lease activity in the European office real estate market in 2020 and 2021. Although take-up in both years fell short of the five-year norm, there was a noticeable increase in the second half of 2021. The take-up of 4.31 million square meters in the first half of 2022 indicated that the European office market is on the fast track to recovery. Some

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of the busiest office real estate investment markets in Europe continue to be seen in the big four German cities of Berlin, Hamburg, Munich, and Frankfurt, as well as Paris and London. Office space in Metro Manila, Philippines, cost 1,037 Philippine pesos (19.01 USD) per square meter per month in the second quarter of 2022. About 47.4 thousand square meters of Grade A office space were added to the Metro Manila stock during the same quarter. However, office real estate properties typically do not receive the same tax incentives as residential properties do, so property taxes, rental taxes, and the lack of loan repayment rebates may be a factor for potential investors to consider.

Office Real Estate Market Trends

Rise in Demand for Coworking Spaces

- Companies are resuming operations and adapting to the new normal as they recover from the COVID-19 impact, which had previously resulted in restrictive containment measures such as social distancing, remote working, and the closure of commercial activities. COVID-19 accelerated the growth of flexible workspaces significantly. At the year 2019 end, just before the pandemic, the flexible office spaces market was spread over some 30 million sq. ft, with 471,782 seats across the top seven markets in India, per JLL research data. This number plummeted to some 20 million sq. ft and 312,990 seats in end-2020. The recovery since then has been impressive.
- By June 2022, co-working spaces in the top seven cities had grown 117 percent to nearly 43.4 million sq. ft, with over 679,760 seats. By the end-2022, the numbers have grown to 50 million sq. ft and 750,000 seats. India is on the verge of a co-working revolution, with several major players competing for dominance across the country. The Executive Centre's occupancy and foot traffic increased from 75% in 2020 to 90% in October 2021 in major cities in India.
- It is estimated that the number of coworking spaces in the United States will double or triple in the next five years. By 2030, JLL predicts that 30% of all office space will be consumed flexibly. According to the Global Coworking Growth Study, approximately 5 million people will be working from coworking spaces by 2024, up 158% from 2020. As of March 2022, Europe concentrated on approximately 4,200 flexible workspaces. In addition to that, Asia had over 4,100 spaces dedicated to flexible work. In 2020, around 1.93 million people were working in coworking spaces worldwide.
- Moreover, sustainable practices adopted by coworking space providers offer substantial benefits and are economically feasible. For instance, CoCoon in Hong Kong has a floor made of natural bamboo and uses non-toxic paints and LED lights. In addition to this, drought-resistant plants are part of the interior and exterior. Another such example is Green Spaces in Denver uses about 160 solar panels on the roofs of its offices. These allow significant cost savings at Green Spaces. Thus, sustainable coworking space is also growing over the forecast period.

Increasing Demand for Data Centres Driving the Market

- Demand for data center capacity is at an all-time high, with end-user spending on global data center infrastructure approximately hitting USD 200 billion in 2021, up by 6% from 2020. Furthermore, Microsoft's announcement of a plan to build up to 100 new data centers per year suggests that this trend will continue, and other companies may soon follow. For instance, in May 2022, HULIC (a real estate company) started a construction project that will involve the demolition of an outdated office building to make way for a new data center in Nihonbashi, and its completion is expected in 2025.
- Increased demand for data centers was fueled by lifestyle changes prompted by the pandemic throughout 2021, and this growth is expected to continue through at least 2024. As remote work becomes more common and more activities move to the digital realm, internet usage has risen and will continue to rise, implying that data creation will increase as more users seek cloud-based services. As of January 2022, 2,701 data centers were in the United States, with a further 487 data centers located in Germany.

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- The United Kingdom ranked third among countries in terms of the number of data centers, with 456, while China recorded 443.
- In addition, the purchase of internet-of-things (IoT) devices increased. IoT devices will generate 73.1 zettabytes by 2025. About 1,000 data centers will be required to store one zettabyte at the current capacity. Predicted data storage needs are high, and data center operators must make sure they are maximizing every square inch of their facilities to meet current data needs and handle future ones.
 - The data center industry will need to be equipped to store increasingly large amounts of data due to increased demand. Building more data centers may appear to be a solution. However, lockdowns in 2020 caused the postponement of more than 60% of new data center construction.
 - Though server CPUs are still plentiful, recent supply chain shortages worsened the data center construction situation as the industry struggled with absurdly high construction material prices. As a result, data center construction will likely take years to catch up to pre-pandemic levels, which will still make it difficult to match current demand.

Office Real Estate Industry Overview

The report covers major players operating in the office real estate market. The office real estate market is relatively fragmented. The office real estate market is attracting a lot of investments supported by an increasing number of real estate acquisitions as well as an increase in new property builders. Some of the leading players in the office real estate market include Hines, Skanska, Mitsubishi Estate, Delhi Land & Finance, JLL, Colliers International, and many more. Office real estate leases are typically long-term, and every three years, the rental rate increases by 15%, making it profitable for developers. This has fueled the creation of several new office space projects that are currently under construction and will be open soon. For instance, Tata Realty and Infrastructure Limited (TRIL) is constructing grade A+ office space for corporate leasing in Gurugram sector 59, which is 550,000 sq. ft. and will likely be available by December 2026.

Additional Benefits:

- The market estimate (ME) sheet in Excel format
- 3 months of analyst support

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