

Knight Frank launches *Global Cities: The 2017 Report*

- ***Australian cities to lead regionally whilst Singapore to continue to see correction: Prime Office Rental Growth Forecasts***
- ***Asia-Pacific cities experienced highest rental growth; Hong Kong skyscrapers the world's most expensive: Skyscrapers Index***
- ***Hong Kong, Tokyo & Singapore – amongst the top 5 most expensive cities to own prime office space***

15 September 2016, Singapore – Knight Frank, the independent global property consultancy, launches *Global Cities: The 2017 Report*, examining the market performance of 31 global cities across the world in light of three major trends shaping the times:

- Negative interest rates have reduced investors' expectations on what constitutes an acceptable return, which is drawing capital towards real estate.
- Despite the volatile economic environment, the avalanche of technological innovation continues to drive demand for property on a global scale.
- Fast-growing cities are centre stage in the digital and creative revolutions, and in many of those at the forefront, supply is not keeping pace with demand for both commercial and residential real estate.

Prime office rental forecasts

Of the global cities analysed, 12 are in Asia-Pacific – a region continuing to grow in economic importance globally. The **prime office rents forecast** from Q4 2015 to Q4 2019 however show a huge range of future performance prospects:

- Asia-Pacific markets show a huge range of growth prospects, with **Sydney** projected to see the strongest growth of 27.5% and **Singapore** the weakest with a forecast rental decline of 14.0%.
- **Kuala Lumpur** and **Beijing** are also expected to experience negative growth at -1.1% and -4.4% respectively.
- **Shanghai** (19.2%), the only Chinese city on the top 10 chart, sits in the sixth position, a notch down from **Melbourne** (19.3%).

Nicholas Holt, Head of Research, Asia Pacific, Knight Frank Asia Pacific, says, "Our prime office rental forecasts stretching to the end of 2019 offer an insight into how demand drivers will interact with supply dynamics over the coming cycle.

"**Sydney**, along with **Melbourne**, continues to see diversified demand drivers, as the Australian economy continues to show resilience despite the slowdown in demand for commodities; while **Shanghai** has boomed on the back of strong growth from technology related companies.

"In many ways the weakest projections come down to supply, with **Kuala Lumpur**, **Beijing** and **Singapore** markets all seeing a significant amount of new supply come to the market that new demand is being challenged to absorb."

With prime office rentals in **Singapore** seeing six consecutive quarters of decline to Q3 2016, **Alice Tan, Director and Head of Consultancy & Research, Knight Frank Singapore**, explains, “Singapore’s office market continues to be largely impacted by economic headwinds and cautious business sentiment. The high influx of about 6 million sq ft GFA of office spaces island-wide for 2016 and 2017 are envisaged to weigh on rentals in the short term.

“Beyond the near-term pressures, the medium-term prospect for the office market is expected to improve beyond 2018 as new supply tapers off substantially and demand potentially supported by Singapore’s rising status as a key global financial and business hub.”

Between landlords and tenants, what are the strategies adopted in today’s office market in Singapore? **Calvin Yeo, Executive Director and Head of Office Advisory, Knight Frank Singapore**, highlights, “Existing businesses are taking advantage of the market situation to relocate to upcoming or newer buildings with some taking the opportunity to restructure their current leases as landlords compete to attract and retain tenants. Although such relocations cater for future headcount growth, they are largely without exponential expansion in size given the enhanced floor plate efficiencies of the latest buildings and fit-out configurations.

“The vacancies in buildings arising from these relocations would in turn put pressure on overall rents but offer opportunities in buildings that were previously well occupied. The increasing competitiveness in office occupancy costs would also bode well for multinational companies looking to grow or set up their footprint in Singapore.”

Prime office rents forecast (Q4 2015 to Q4 2019)

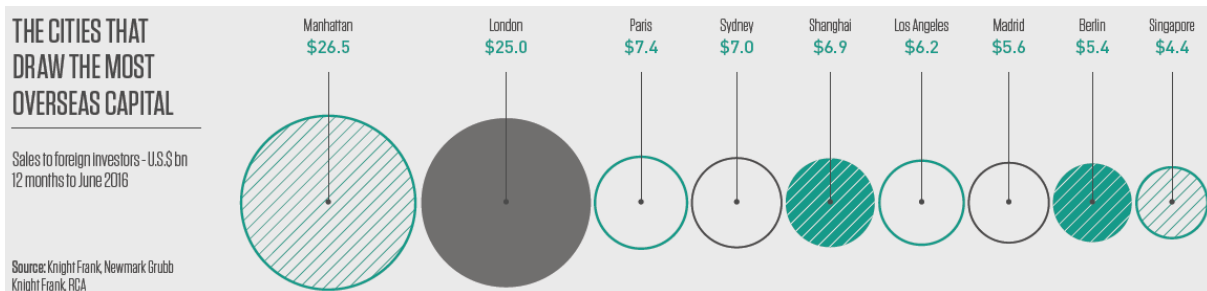
Ranking	Global City	% Growth
1	Sydney	27.5
2	Berlin	25.0
3	Austin	24.9
4	Madrid	21.0
5	Melbourne	19.3
6	Shanghai	19.2
7	Seattle	17.0
8	Los Angeles	15.9
9	Dublin	15.5
10	Boston	11.1
11	Mumbai	11.1
12	Tokyo	10.3
13	Paris	10.0
14	Bangkok	8.3
15	London	7.1
16	Amsterdam	6.8

Ranking	Global City	% Growth
17	Miami	6.0
18	San Francisco	5.1
19	Washington, DC	5.0
20	Hong Kong	4.5
21	Seoul	4.3
22	Frankfurt	3.9
23	Chicago	2.9
24	Brisbane	2.7
25	Mexico City	0.6
26	Toronto	-0.1
27	Kuala Lumpur	-1.1
28	New York City	-2.5
29	Beijing	-4.4
30	Singapore	-14.0
31	Bogota	-17.3

Source: Knight Frank Research, Newmark Grubb Knight Frank Research, Sumitomo Mitsui Trust Research Institute

Capital flows

Neil Brookes, Head of Capital Markets, Asia Pacific, Knight Frank Asia Pacific, comments, “The *lower-for-longer* interest rate environment around the world continues to accentuate the attractiveness of prime real estate in the world’s leading business hubs. It is the dynamic cities attracting new sources of growth, including the wave of creative and technology industries that continue to be high on long-term investor’s wish lists.”



Source: *Global Cities: The 2017 Report, Page 47*

Brookes continues, “Globally, **New York** and **London** remain the largest markets for overseas capital by some way, the success of these financial giants in attracting institutional capital from around the world is down to the huge liquidity and their strong occupier fundamentals. In the UK’s capital, despite near term jitters following Brexit, pricing looks to be relatively unchanged and we expect it to continue to be one of the key global markets. In Asia, **Shanghai** saw the largest amount of foreign capital invested in the last 12 months, and as the market continues to mature, this is offering buyers attractive growth prospects in China’s financial capital.”

Capital values

Three of the five costliest cities globally are in Asia-Pacific, with **Hong Kong** boasting the highest capital values for prime central office space, followed by **Tokyo** in second place and **Singapore** in fifth.

Ian Loh, Executive Director and Head of Investment and Capital Markets, Knight Frank Singapore, highlights, “The flurry of big-ticket transactions made by foreign investors (the sale of trophy office asset Asia Square Tower 1 and Straits Trading Building) testifies to Singapore’s appeal in office asset ownership and confidence in the Singapore’s long-term stability. Long-term capital preservation and appreciation would be the main selling point for Singapore’s office assets.”

Brookes adds, “The analysis shows good value in major US cities when compared to their Asian and European counterparts. Even in the more expensive, supply constrained cities of New York and San Francisco, the differential in price per square foot versus Hong Kong and Tokyo looks attractive considering solid US economic prospects over coming years.

“With significant caution still prevailing around some secondary markets, investors are generally focussed on liquidity, stability and security of income. For this reason, we expect the global gateway cities to remain as key investment destinations over the coming 12 months.”

How much prime office space will US\$100 million buy? *

* Based on Q2 2016 prime capital values, 30th June 2016 exchange rates

Ranking	City	sq ft
1	Hong Kong	13,966
2	Tokyo	32,694
3	Paris	41,534
4	London	45,326
5	Singapore	50,124
6	New York City	53,763
7	Dublin	70,608
8	Sydney	85,517
9	Frankfurt	89,347
10	Beijing	97,782
11	San Francisco	100,000
12	Shanghai	111,705
13	Madrid	114,785
14	Berlin	121,406
15	Washington, DC	121,407

Ranking	City	sq ft
16	Boston	122,347
17	Miami	127,129
18	Seattle	129,245
19	Los Angeles	134,016
20	Amsterdam	135,690
21	Melbourne	149,305
22	Austin	163,119
23	Toronto	163,636
24	Brisbane	167,842
25	Chicago	204,988
26	Mumbai	212,472
27	Bangkok	256,637
28	Mexico City	307,542
29	Bogota	354,380
30	Kuala Lumpur	392,758

Source: Knight Frank Research, Newmark Grubb Knight Frank Research, Sumitomo Mitsui Trust Research Institute

Skyscraper Index

The Skyscraper Index examines the rental performance of commercial buildings over 30 storeys.

Looking at the performance of skyscrapers in the six months to Q2 2016:

- Asia-Pacific cities experienced the highest rental growth across the 23 global cities tracked.
- Skyscrapers in **Shanghai** recorded the strongest rental growth in the first half of 2016, at 7.6%, followed by **Sydney** (6.5%), **Hong Kong** (5.9%) and **Taipei** (5.7%).
- **Singapore** sits at the bottom of the chart with a decline of 7% attributed to significant upcoming new supply and a slowdown in the local economy.
- **Hong Kong** remains the most expensive city to rent a prime office space, at US\$278.50 per sq ft. This is significantly higher than the runner-up **New York (Manhattan)** where rents have reached US\$158 per sq ft.

Skyscraper Index – % rental growth in six months to Q2 2016 for upper floors in skyscrapers

Rank	Global City	% growth in six months to Q2 2016
1	Shanghai	7.6%
2	Sydney	6.6%
3	Hong Kong	5.9%
4	Taipei	5.7%
5	Toronto	4.9%
6	Mumbai	4.7%
7	Beijing	3.3%
8	Melbourne	3.0%
9	San Francisco	2.7%
10	Los Angeles	2.2%
11	Miami	2.0%

Rank	Global City	% growth in six months to Q2 2016*
12	New York (Manhattan)	1.9%
13	Mexico City	0.6%
14	Seoul	0.2%
15	Tokyo	0.0%
16	London (City)	0.0%
17	Boston	0.0%
18	Chicago	0.0%
19	Paris (La Défense)	0.0%
20	Frankfurt	0.0%
21	Dubai	0.0%
22	Madrid	0.0%
23	Singapore	-7.0%

Skyscraper Index – Prime office rents for upper floors in skyscrapers

Rank	Global City	Rent* (US\$ / sq ft / per annum)
1	Hong Kong	\$278.50
2	New York (Manhattan)	\$158.00
3	Tokyo	\$149.50
4	London (City)	\$114.00
5	San Francisco	\$113.00
6	Sydney	\$90.75
7	Boston	\$77.00
8	Singapore	\$72.00
9	Shanghai	\$72.00
10	Beijing	\$63.00
11	Chicago	\$59.00

Rank	Global City	Rent (US\$ / sq ft / per annum)
12	Paris (La Défense)	\$56.50
13	Mumbai	\$53.00
14	Miami	\$53.00
15	Frankfurt	\$52.50
16	Toronto	\$49.00
17	Melbourne	\$47.00
18	Los Angeles	\$46.00
19	Mexico City	\$44.59
20	Dubai	\$43.50
21	Taipei	\$38.50
22	Seoul	\$32.50
23	Madrid	\$28.50

* Excludes exchange rate effects; conversion to US\$ based on 30 June 2016 rates

Holt comments, “At the mid-point of the 2016, the global skyscraper story really has an Asia-Pacific flavour, with the top four performing cities in terms of rental growth situated in this region.

“Home to the largest cluster of super tall buildings in mainland China and the tallest skyscraper in the region (*Shanghai Tower*) – Shanghai’s skyscrapers saw the strongest rental growth rates over the first six months of the year. Tight vacancy rates in the city’s Lujiazui district are likely to further encourage rental growth over the coming months.

“In terms of actual rental levels, Hong Kong’s skyscrapers remain the highest in the world, and with demand likely to outstrip supply for the foreseeable future in the city’s central business district Central, we expect the city to retain its top position in the Index.”

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To download the report, please click: www.knightfrank.com/globalcities

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Notes to Editors

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