

Results for Q2 2017

Knight Frank's Asia-Pacific Prime Office Rental Index increased 1.2% quarter-on-quarter and 0.6% year-on-year as at the end of the second quarter of 2017

The increase in the index was the result of rising rents in 15 of the markets over the quarter, with rental declines experienced in two of the 20 markets tracked

Over the next 12 months, we expect rents in 15 cities out of the 20 tracked to either remain steady or increase, which is the same as our previous forecast



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"The pickup in global trade and domestic demand has negated geo-political risks to a certain extent, thereby providing a strong foundation for the Asia-Pacific prime office markets."

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BETTER-THAN-EXPECTED ECONOMIC RESULTS LIFT ASIA-PACIFIC PRIME OFFICE MARKET

Sustained pickup in economic activity paves the way

In the first half of 2017, the regional economies of China, ASEAN-5 and Japan performed considerably better than expected, as the IMF revised its growth projections upwards for emerging and developing Asia. The pickup in global trade and domestic demand has negated geo-political risks to a certain extent, thereby providing a strong foundation for the Asia-Pacific prime office markets.

Bengaluru continued to attract occupier interest from the IT/ITeS sector with a 4.0% increase quarter-on-quarter and 7.1% year-on-year in Q2 2017. Office project delays have plagued **New Delhi** in H1 2017, leading to an all-time low in new completions. Coupled with a stable pace of absorption, vacancies have dropped whilst rentals have risen. **Mumbai** witnessed a fresh office supply of close to 530,000 sq m last quarter, causing vacancy rates to soar by 2.0 percentage points.

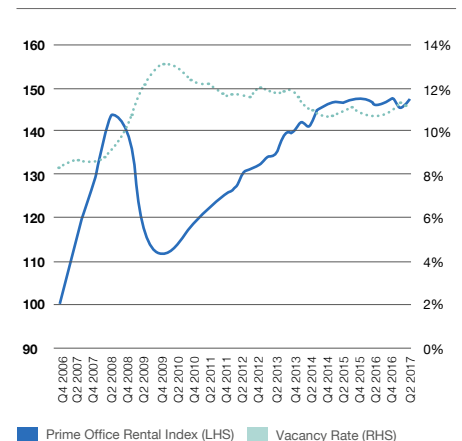
In **Beijing**, domestic corporations were involved in most of the leasing activities, especially those from the finance, Internet and high-tech sectors. Rents and vacancies remained stable in **Shanghai** in Q2, with new supply concentrating in Pudong. No new offices were added to the **Guangzhou** and **Taipei** markets, where vacancy rates dropped and rents rose further. The former will see limited supply of less than 300,000 sq m in 2017 while the latter is witnessing a relocation trend from Grade-B to Grade-A offices.

In **Hong Kong**, as prime rents continued to edge higher, cost-conscious tenants are expected to continue to relocate to other areas such as Wong Chuk Hang. **Seoul** experienced a 3.5% increase in rents supported by healthy absorptions even with new supply and relocation of several large occupiers. While a positive economic growth bodes well for the **Tokyo** office market, the looming supply influx for the next few years is set to turn the market in favour of tenants.

Despite delivering around 92,000 sq m of new prime supply, **Singapore's** prime rents held steady in Q2 2017 after a two-year decline, owing to continued demand from sectors such as technology, co-working and professional services. In **Jakarta**, rents remained unchanged but a downward trend

is expected for the next 12 months due to a huge incoming supply. Prime rents in **Kuala Lumpur** had been sliding for a year, coupled with creeping overall vacancy rates. In the mid to long term, the city's improving public transport may drive demand for offices near the new transport lines.

FIGURE 1
*Prime Office Rental Index



Source: Knight Frank Research
*The historical index series has been revised following the addition of Manila into the basket.

Bangkok experienced its first rental decline in close to three years, having slid marginally by 0.2% in the quarter. Given a limited supply, a rising trend may resume for the remaining of 2017. Contrastingly, more than 132,000 sq m of office spaces were added to **Manila's** office stock in Q2 which contributed to a significant rise in vacancy rate. A new Grade-A office building boosted the overall office stock in **Phnom Penh** by close to one-fourth, exerting upward pressure on both rents and vacancies.

All four Australian cities performed strongly with rising rents and dropping vacancy rates in Q2. **Perth** continued its rental recovery track, aided by minimal new stock. **Sydney** prolonged its rental growth for 18 consecutive months, albeit slowing to 1.0% compared to 1.4% in Q1. A landlord-favourable market condition in the **Melbourne** CBD has led to a gradual drop in incentives over the past few quarters. With an improving market sentiment and tight supply, **Brisbane** office market is set to extend its acceleration for the next 12 months.

ASIA-PACIFIC PRIME OFFICE RENTAL INDEX

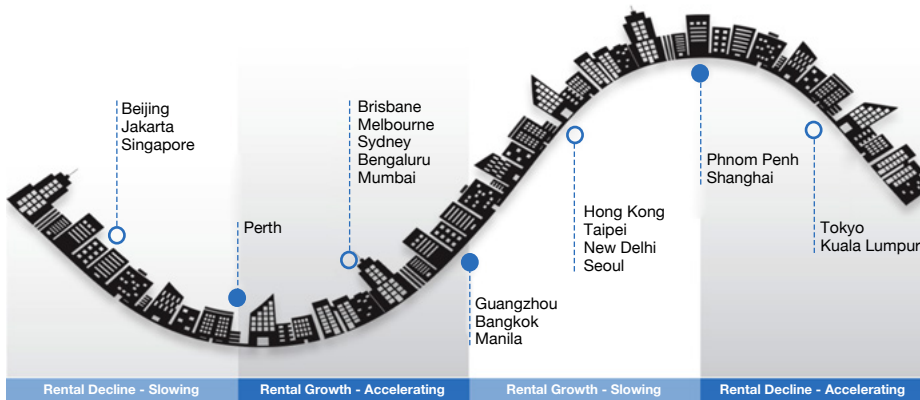
FIGURE 2
Asia-Pacific Prime Office Rents

↑ Increase
↔ No Change
↓ Decrease

City	Submarket(s)	Prime Net Headline Rent	Local Measurement [^]	12-month % change (Q2 2016-Q2 2017)	3-month % change (Q1 2017-Q2 2017)	USD/sq m/month	Gross Effective Rent ^{**}	Forecast next 12 mths
Brisbane	CBD	582.0	AUD/sq m/annum	3.9%	0.9%	36.4	29.2	↑
Melbourne	CBD	550.0	AUD/sq m/annum	5.8%	1.1%	34.4	33.8	↑
Perth	CBD	600.0	AUD/sq m/annum	4.2%	0.2%	37.5	29.4	↓
Sydney	CBD	950.6	AUD/sq m/annum	6.1%	1.0%	59.4	53.1	↑
Phnom Penh	City Centre	23.8	USD/sq m/month	5.9%	4.2%	23.8	31.1	↔
Beijing	Various	371.0	CNY/sq m/month	-1.9%	0.3%	54.1	79.7	↓
Guangzhou	CBD	183.3	CNY/sq m/month	3.7%	0.9%	26.7	45.2	↑
Shanghai	Puxi, Pudong	298.1	CNY/sq m/month	-2.0%	0.0%	43.4	65.9	↔
Hong Kong	Central	149.8	HKD/sq ft/month	7.6%	1.0%	207.0	208.9	↑
Taipei	Downtown	2,673.0	TWD/ping/month	2.8%	3.1%	26.7	40.7	↑
Bengaluru	CBD	1,260.0	INR/sq ft/annum	7.1%	4.0%	17.5	28.8	↑
Mumbai	BKC	3,366.0	INR/sq ft/annum	5.5%	2.0%	46.8	76.8	↑
New Delhi	Connaught Place	3,800.0	INR/sq ft/annum	6.6%	2.2%	52.8	86.7	↔
Jakarta	CBD	4,819,380.0	IDR/sq m/annum	-8.3%	0.0%	30.1	37.9	↓
Tokyo*	Central 5 Wards	34,755.0	JPY/tsubo/month	9.9%	4.1%	94.6	92.8	↓
Kuala Lumpur	City Centre	5.3	MYR/sq ft/month	-1.7%	-0.4%	13.1	16.0	↓
Singapore	Raffles Place, Marina Bay	7.9	SGD/sq ft/month	-5.1%	0.0%	61.2	72.8	↔
Seoul	CBD, GBD, YBD	33,800.0	KRW/sq m/month	6.3%	3.5%	29.7	69.9	↑
Bangkok	CBD	942.0	THB/sq m/month	9.1%	-0.2%	27.4	33.2	↑
Manila	Various	910.3	PHP/sq m/month	3.4%	1.0%	18.2	21.8	↑

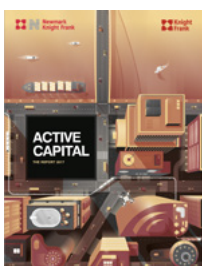
Source: Knight Frank Research / *Sanko Estate
[^]Based on net floor areas except for China, India, Korea, Taiwan, Thailand (gross) and Indonesia (semi-gross)
^{**}Inclusive of incentive, service charges and taxes. Based on net floor areas.

FIGURE 3
Prime Office Rental Cycle



Source: Knight Frank Research
 The diagram does not constitute a forecast and is intended only as an indicative guide to current rental levels.
 Rents may not necessarily move through all stages of the cycle chronologically.

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