

## REGIONAL FINANCIAL HUBS OF HONG KONG, SINGAPORE AND TOKYO SEE PRIME OFFICE RENTAL GROWTH IN Q1 2014

### Results for Q1 2014

The Knight Frank Asia-Pacific Prime Office Rental Index increased by 1.3% in Q1 2014, and now sits 3.6% above its pre-crisis (Q2 2008) peak

For the first time this quarter, we have added Phnom Penh, Cambodia's capital city to the Prime Office Rental Index, increasing our coverage to 20 office markets across the region

Phnom Penh saw the largest increase in prime office rents across the region, with an 18.6% increase in Q1 2014

Only 7 of the 20 prime office markets tracked saw prime rents soften in Q1 2014, mostly due to relatively high vacancy rates, providing tenants with options and negotiation power



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Asia Pacific Head of Research

"While 16 of the 20 markets tracked are projected to see rents remain steady or even increase, we note that much will hinge on China's economy, which poses the most significant downside risk to our forecasts."

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### Banking and finance industries likely to become more active as Knight Frank's Asia-Pacific Prime Office Rental Index climbs 1.3% in the first quarter of 2014

Hong Kong saw activity increase slightly over the quarter, with the recently announced connection between the Hong Kong and Shanghai Stock Exchanges improving sentiment in the financial services sector. Singapore, which witnessed a solid gain in rents, is expected to ride the momentum and deliver a further 10% growth by year end amid tight supply and rising market confidence. Rental growth remained strong in Tokyo as domestic firms became more active in centrally located Grade-A office accommodation.

Phnom Penh, included in our Prime Office Rental Index for the first time this quarter, saw rents grow by an impressive 18.6% quarter-on-quarter, the highest in the region, as the vacancy rate in this small office market dropped to 5.5%. Due for completion this year and adding a substantial amount of supply, Vattanac Tower will be the first LEED-certified Grade-A office building in the market.

Notwithstanding the largest quarterly net increase in total stock in ten quarters, Bangkok saw a continued decline in its vacancy rate, as net absorption rose 24.3%

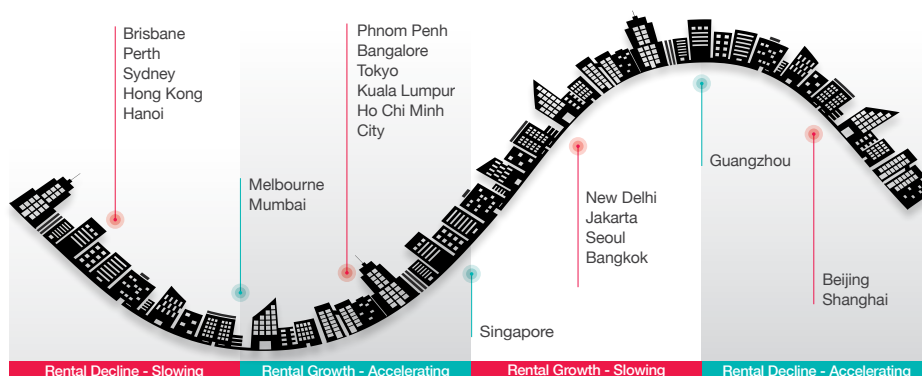
quarter-on-quarter, to hit nearly 49,000 sq m. Although the uncertainty caused by ongoing events is likely to soften demand over the coming months, the lack of new supply is likely to underpin further rental growth in 2014.

Prime office rents in Kuala Lumpur continued to see moderate growth, with the relatively high vacancy rate and upcoming supply more likely to impact rents in secondary office buildings. In Southeast Asia's largest economy, Jakarta experienced a slowdown in rental growth as landlords became more realistic in pricing.

In Australia, the growth in incentives decelerated in Q1 2014 across all key cities and there were signs of demand recovery and tenant mobility, particularly in Melbourne and Sydney. We expect the leasing market along the east coast to bottom out and see rental improvement by year end.

India continued to see little rental movement. However, our [Q1 2014 Real Estate Sentiment Index](#) indicated a surge in optimism in the future of the leasing market, in terms of both rent and volume, as a result of the change in government. *(see overleaf)*

FIGURE 1  
**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.

## ASIA PACIFIC PRIME OFFICE RENTAL INDEX

FIGURE 2

### Asia-Pacific Prime Office Rents

Q1 2014

↑ Increase  
↔ No Change  
↓ Decrease

City	Submarket	Prime Net Headline Rent	Local Measurement <sup>^</sup>	US\$/sqm/mth	12mth % change	3mth % change	Gross Effective Rent** US\$/sqm/mth	Forecast next 12mths
Brisbane	CBD	544.0	AU\$/sq m/yr	41.9	-3.0%	-0.2%	34.8	→
Melbourne	CBD	485.0	AU\$/sq m/yr	37.4	5.0%	0.0%	35.9	→
Perth	CBD	692.0	AU\$/sq m/yr	53.3	-8.7%	-1.3%	55.8	↓
Sydney	CBD	759.8	AU\$/sq m/yr	58.6	2.5%	-0.1%	48.7	→
Phnom Penh	City Centre	20.5	USD/sq m/mth	20.5	17.9%	18.6%	27.1	↑
Beijing	Various	377.2	RMB/sq m/mth	61.2	-4.7%	-1.1%	89.4	→
Guangzhou	CBD	177.2	RMB/sq m/mth	28.8	-1.0%	0.6%	49.0	↓
Shanghai	Puxi, Pudong	273.6	RMB/sq m/mth	44.4	-1.3%	-1.6%	68.1	↓
Hong Kong	Central	119.8	HKD/sq ft/mth	166.3	0.6%	2.9%	167.1	→
Bangalore	CBD	1,086.0	INR/sq ft/yr	16.3	2.0%	0.6%	25.7	→
Mumbai	BKC	3,035.0	INR/sq ft/yr	45.6	-2.6%	0.1%	73.1	→
New Delhi	Connaught Place	3,175.0	INR/sq ft/yr	47.7	1.8%	-0.2%	76.5	→
Jakarta	CBD	6,329,500.3	IDR/sq m/yr	46.7	46.4%	1.0%	59.0	↑
Tokyo*	Central 3 Wards	29,482.0	JPY/Tsubo/mth	86.8	6.2%	6.2%	85.3	↑
Kuala Lumpur	City Centre	4.9	MYR/sq ft/mth	16.1	0.8%	1.0%	20.0	→
Singapore	Raffles Place, Marina Bay	9.8	SGD/sq ft/mth	83.5	7.3%	3.6%	96.6	↑
Seoul	CBD	31,300.0	KRW/sq m/mth	29.3	3.6%	0.6%	81.1	→
Bangkok	CBD	697.2	THB/sq m/mth	21.5	4.1%	0.0%	26.1	↑
Hanoi	Hoan Kiem District	28.4	USD/sq m/mth	28.4	-5.4%	-5.2%	36.0	↓
Ho Chi Minh City	District 1	32.0	USD/sq m/mth	32.0	3.2%	3.2%	39.8	↑

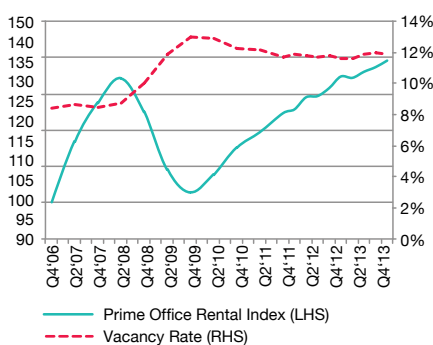
Source: Knight Frank Research / \*Sanko Estate

<sup>^</sup>Based on net floor areas for except for China, India, Korea, Thailand (gross) and Indonesia (semi-gross)

\*\*Inclusive of incentive, service charges and taxes. Based on net floor areas.

FIGURE 3

### Prime Office Rental Index



Source: Knight Frank Research

(cont.)

In China, the 238,000 sq m of new supply introduced in the quarter pushed down rents in Shanghai, while the economic slowdown continued to weigh on Beijing's leasing market.

In Northeast Asia, the prime office market in Seoul continue to see gentle rental growth on the back of a declining vacancy rate.

While 16 of the 20 markets tracked are projected to see rents remain steady or even increase, we note that much will hinge on China's economy, which poses the most significant downside risk to our forecasts.



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