COMMERCIAL RESEARCH

ASIA PACIFIC PRIME OFFICE RENTAL INDEX

SEOUL AND TOKYO: A TALE OF TWO OFFICE MARKETS

Northeast Asian powerhouses show similar headline growth figures for Q1 2015, but have significantly differing market characteristics and drivers

Results for Q1 2015

Knight Frank's Asia-Pacific Prime Office Rental Index increased 1.3% in the first quarter of 2015, and now sits 5.3% above its pre-crisis (Q2 2008) peak

Rental growth was experienced in 13 of the 19 markets tracked, with three recording no rental movement and three recording rental declines

Although vacancy is tightening in many markets, the Asia-Pacific regional vacancy rate increased on the back of rising inventories in Greater China's tier-one cities

Over the next 12 months, we expect rents in 14 cities out of the 19 tracked to either remain steady or increase, which is in line with our previous forecasts

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Asia Pacific Head of Research

"In Tokyo... the structure of traditional Japanese leases (which prevents significant rental hikes), has held back rental growth to only 1.9% in a very tight market with little vacancy."

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Seoul's prime office market surprisingly saw its prime headline rents rise 2.3% in the first quarter of 2015. This is despite fairly subdued demand and a significant increase in market vacancy, with the CBD seeing the addition of two new prime office buildings. The real story, however, is that effective rents have declined, due to a significant increase in incentives, with the rise in headline rents representing an attempt by landlords to maintain a building's grade in a slowing market.

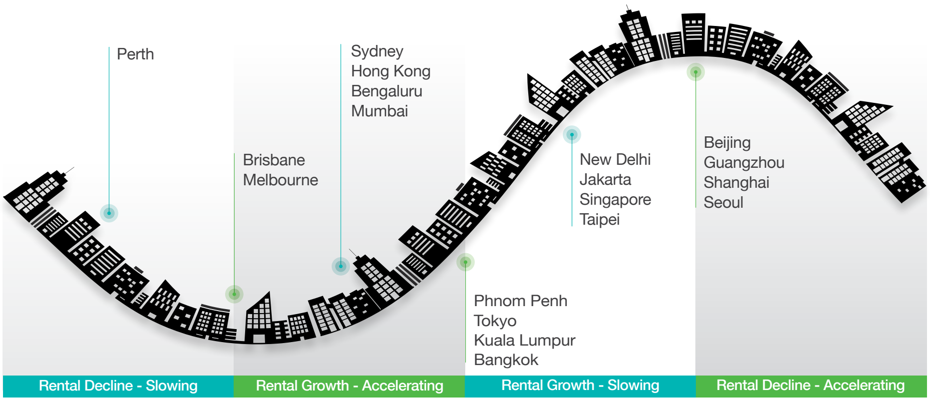
Tokyo, which saw similar rental growth over the period, is a different case entirely. The majority of Marunouchi, the city's financial district, is owned by Mitsubishi Estate. Its close relationship with a large number of domestic occupiers, combined with the structure of traditional Japanese leases (which prevents significant rental hikes), has held back rental growth to only 1.9% in a very tight market with little vacancy.

Elsewhere, in the major Chinese cities, as anticipated in our previous report, a surge in new prime office supply in Q1 2015 amid a cooling economy has pushed up vacancy rates. Beijing and Shanghai, in particular, both witnessed a 0.5% rental decline over the quarter. Given prevailing conditions, we expect rents to soften further this year.

Taipei similarly saw new supply swell in the first quarter, much of which, however, was already taken up amid robust demand from foreign firms. For the whole of 2015, office completion will increase by more than 50%, pushing vacancy rates upwards towards the back end of this year. Rents, however, should remain steady. In Hong Kong, limited supply and continued healthy demand will continue to support the market.

Throughout Southeast Asia, markets remained fairly robust. Bangkok topped rental growth across the region, with a 3.8% increase quarter-on-quarter, as the market continues to defy the political uncertainty still hanging over the country. In Phnom Penh, rents climbed marginally despite a significant increase in net absorption as landlords vied for new tenants in a more competitive market following the completion of Vattanac Capital Tower. Singapore and Kuala Lumpur both saw their upward momentums continue, while rents in Jakarta remained steady, as leasing plans

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.

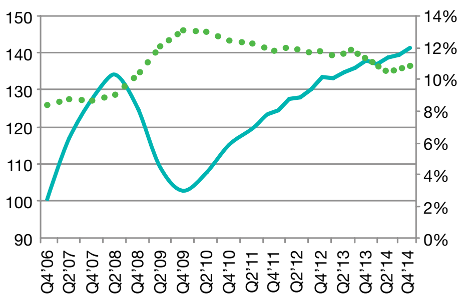
FIGURE 2
Asia-Pacific Prime Office Rents
Q1 2015

↑ Increase
→ No Change
↓ Decrease

City	Submarket	Prime Net Headline Rent	Local Measurement^	12 mth % change	3 mth % change	USD/sq m/ mth	Gross Effective Rent** USD/sq m/mth	Forecast next 12 mths
Brisbane	CBD	560.0	AUD/sq m/yr	2.0%	0.0%	35.9	28.5	→
Melbourne	CBD	486.0	AUD/sq m/yr	0.2%	0.0%	31.1	29.7	→
Perth	CBD	650.0	AUD/sq m/yr	-6.2%	-1.8%	41.7	37.7	↓
Sydney	CBD	793.0	AUD/sq m/yr	3.1%	1.0%	50.8	42.4	↑
Phnom Penh	City Centre	22.1	USD/sq m/mth	7.6%	0.6%	22.1	29.1	↑
Beijing	Various	370.8	CNY/sq m/mth	-1.7%	-0.5%	60.7	88.7	↓
Guangzhou	CBD	177.5	CNY/sq m/mth	0.2%	1.0%	29.1	49.4	↓
Shanghai	Puxi, Pudong	271.7	CNY/sq m/mth	-0.7%	-0.5%	44.5	68.2	↓
Hong Kong	Central	123.5	HKD/sq ft/mth	3.0%	3.2%	171.4	171.9	↑
Bengaluru	CBD	1,104.0	INR/sq ft/yr	1.7%	0.8%	15.8	25.4	↑
Mumbai	BKC	3,100.0	INR/sq ft/yr	2.1%	1.6%	44.5	71.4	↑
New Delhi	Connaught Place	3,240.0	INR/sq ft/yr	2.0%	0.9%	46.5	74.6	→
Jakarta	CBD	6,688,524.0	IDR/sq m/yr	5.7%	0.0%	42.8	54.0	↑
Tokyo*	Central 3 Wards	31,165.8	JPY/Tsubo/mth	5.7%	1.9%	78.8	78.9	↑
Kuala Lumpur	City Centre	5.4	MYR/sq ft/mth	5.3%	3.6%	15.7	19.1	→
Singapore	Raffles Place, Marina Bay	10.7	SGD/sq ft/mth	–	0.6%	84.1	96.0	→
Seoul	CBD	31,538.0	KRW/sq m/mth	0.8%	2.3%	28.5	67.4	↓
Taipei	Downtown	2,590.0	TWD/ping/mth	1.5%	0.9%	25.1	38.4	→
Bangkok	CBD	801.5	THB/sq m/mth	7.3%	3.8%	24.6	29.9	↑

Source: Knight Frank Research / *Sanko Estate
^Based on net floor areas for 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 Index



Prime Office Rental Index (LHS)
Vacancy Rate (RHS)

Source: Knight Frank Research

were put on hold amid slowing economic growth which hit the lowest rate since mid-2009 in the first quarter of the year.

In India, the improvement in market sentiment continued, with Bengaluru standing out as it recorded its largest quarterly absorption figures since Q1 2007. IT and ITeS companies continue to be extremely active.

Australia continues to be a multi-tiered market. Sydney is still showing significant activity and recording rental growth, while Melbourne has seen a pick-up in activity. Brisbane is seeing rents remain flat, while Perth, still struggling from the fallout from the end of the resources boom, recorded a slight softening in rents.

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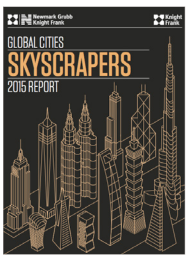

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