

2015 ENDS WITH MUTED RENTAL GROWTH

Notwithstanding economic headwinds and volatility in financial markets, tenants took advantage of the influx of new supply by taking up 14.3% more space in the whole of 2015 than in 2014.

Results for Q4 2015

Knight Frank's *Asia Pacific Prime Office Rental Index* inched up 0.1% in Q4 2015, as the average vacancy fell by 0.3 percentage points, on the back of robust take-up.

8 out of the 19 markets tracked registered rental growth, while 2 saw no movement.

New Delhi saw the highest rental growth.

Going forward, we expect rents in 14 cities to increase or remain steady over the next 12 months.

“In both China and India, shared office space is mushrooming to target the vibrant start-up scene, enabling more cost-conscious start-ups to set foot in prime locations.”

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Although massive new supply entered the **Shanghai** prime office market in Q4 2015, a record high net take-up supported rental growth and lowered the average vacancy rate by 0.4 percentage points. On the other hand, rents in **Beijing** and **Guangzhou** continued to edge down. In the face of a strong supply pipeline, the pressure on rents will persist in all three cities this year, although Shanghai is expected to be more resilient.

After a huge addition of office stock in Q3 2015, **Taipei** will see a dearth of new supply through 2016. As such, rents should resume their upward trend after a marginal drop in the fourth quarter. **Hong Kong** continued to benefit from closer financial integration with China as Mainland financial firms continued to demand prime office space.

Sustained demand from the IT/IT-enabled service (ITeS) and e-commerce sectors, coupled with little new supply in the fourth quarter, pushed the average vacancy rate in **Bengaluru** to a record low of 7.2%. Similarly, net absorption outpaced new supply for three consecutive quarters in **Mumbai**, thanks in part to the take-up of large office premise by IT/ITeS firms in more affordable peripheral markets. In contrast, vacancy in **National Capital Region** continued to climb higher due to sustained strong supply.

Interestingly, in both China and India, shared office space is mushrooming to target the vibrant start-up scene, enabling more cost-conscious start-ups to set foot in prime locations.

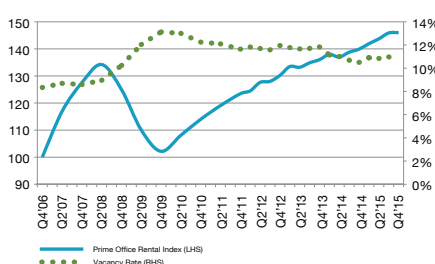
The dip in the average rent in **Tokyo** was probably a blip following a few quarters of phenomenal growth. Robust demand has actually pushed the average vacancy rate to the lowest level post-GFC. Rents in **Seoul** stayed flat.

The confluence of economic headwinds and massive supply is exerting downward pressure on rents in **Jakarta**, **Kuala Lumpur** and **Singapore**. Politics has hampered reforms in Indonesia; however, as the President's position strengthens and more policy packages to spur growth are rolled out, there is hope that prospects will improve. A sharp depreciation of Ringgit, caused by political scandals on top of a correction in commodity prices, compounded the effects of the consumption tax implementation in Malaysia. While exporters benefitted, business sentiments took a hit, as reflected in a 64.6% reduction in office net absorption in Kuala Lumpur in 2015. Meanwhile, weak business confidence in Singapore has resulted in some firms scaling back operations.

Elsewhere in Southeast Asia, **Phnom Penh** saw increased competition from Grade-B offices, forcing landlords of prime buildings to reduce rents marginally to secure tenants. In **Bangkok**, business expansion is driving leasing demand amid limited supply in the CBD, as signs of an economic upturn became clearer.

Rental performance continued to diverge in Australia. While rents in **Melbourne** and **Sydney** improved, they fell in **Brisbane** and **Perth**. The divergence is even more pronounced on an effective basis, as incentives in the former declined.

FIGURE 1
Prime Office Rental Index



Source: Knight Frank Research

ASIA PACIFIC PRIME OFFICE RENTAL INDEX

FIGURE 2

Asia Pacific Prime Office Rents

Q4 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	556.0	AUD/sq m/yr	-0.7%	-0.4%	33.8	26.9	↔
Melbourne	CBD	502.0	AUD/sq m/yr	3.3%	1.4%	30.5	29.6	↑
Perth	CBD	576.0	AUD/sq m/yr	-13.0%	-3.4%	35.0	28.1	↓
Sydney	CBD	857.0	AUD/sq m/yr	9.2%	1.1%	52.1	44.4	↑
Phnom Penh	City Centre	22.2	USD/sq m/mth	1.2%	-0.6%	22.2	29.3	↔
Beijing	Various	366.0	CNY/sq m/mth	-1.7%	-0.3%	56.4	82.6	↓
Guangzhou	CBD	175.8	CNY/sq m/mth	0.0%	-1.3%	27.1	46.2	↔
Shanghai	Puxi, Pudong	285.3	CNY/sq m/mth	4.5%	0.6%	44.0	67.1	↑
Hong Kong	Central	135.6	HKD/sq ft/mth	13.3%	4.1%	188.3	187.8	↔
Bengaluru	CBD	1,152.0	INR/sq ft/yr	5.2%	1.1%	15.6	25.1	↑
Mumbai	BKC	3,150.0	INR/sq ft/yr	3.3%	1.6%	42.7	68.5	↑
New Delhi	Connaught Place	3,565.0	INR/sq ft/yr	11.1%	7.9%	48.3	77.5	↔
Jakarta	CBD	6,09,620.0	IDR/sq m/yr	-8.9%	-3.8%	36.8	46.5	↓
Tokyo*	Central 3 Wards	32,872.0	JPY/Tsubo/mth	7.5%	-7.8%	82.5	81.8	↑
Kuala Lumpur	City Centre	5.4	MYR/sq ft/mth	3.3%	0.0%	13.5	16.5	↓
Singapore	Raffles Place, Marina Bay	10.1	SGD/sq ft/mth	-2.8%	-2.5%	77.1	88.6	↓
Seoul	CBD	31,535.2	KRW/sq m/mth	0.9%	0.0%	26.9	60.7	↑
Taipei	Downtown	2,606.0	TWD/ping/mth	1.6%	-0.2%	24.0	36.6	↑
Bangkok	CBD	842.5	THB/sq m/mth	9.1%	0.4%	23.4	28.4	↑

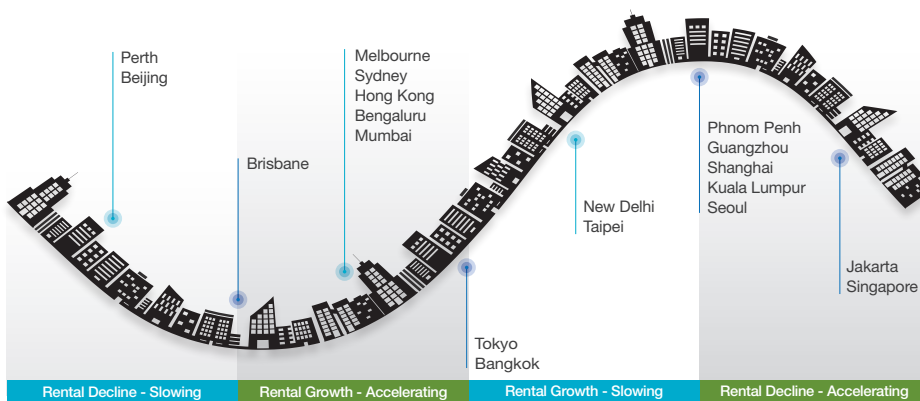
Source: Knight Frank Research / *Sanko Estate

^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 Cycle



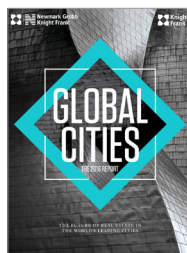
Source: Knight Frank Research

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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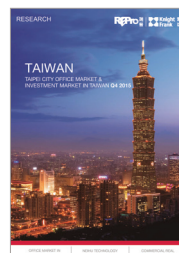
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