**COMMERCIAL RESEARCH**

# ASIA-PACIFIC PRIME OFFICE RENTAL INDEX

## Results for Q1 2017

The Knight Frank Asia-Pacific Prime Office Rental Index increased 1.0% quarter-on-quarter and 2.3% year-on-year as at the end of the first quarter of 2017

Manila is introduced to the index for the first time, bringing the total number of markets tracked to 20

The increase in the index was the result of rising rents in 10 of the markets over the quarter, with rental declines experienced in five of the 20 markets tracked

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


NICHOLAS HOLT
**Asia Pacific Head of Research**


"Recovering commodity prices, higher exports and strong consumer demand helped boost market sentiment in this region. An improving outlook for Asia-Pacific prime office markets is expected with stable economic growth strengthening occupier demands."

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# STABILITY IN ASIA-PACIFIC PRIME OFFICE MARKETS DESPITE AN EVENTFUL QUARTER

**Improved economic sentiment supports solid growth in select markets**

US political uncertainty, rising interest rates and Chinese capital controls all made waves during the first quarter of 2017. Amidst all these uncertainties, however, IMF forecast global economic activity to gain momentum with 3.5% growth expected this year compared to the 3.1% increase in 2016. With a moderate rise in commodity prices and improving market sentiment, these positive elements bode well for several Asia-Pacific prime office markets for the rest of the year.

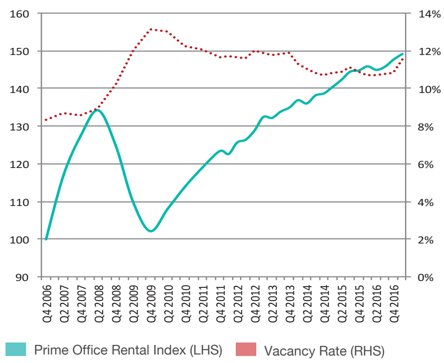
**Bangkok** continues its strong performance, recording both the highest year-on-year (9.6%) and quarter-on-quarter (3.1%) growth rates in Asia-Pacific. Rents have been increasing for more than two years and it may persist due to strong absorption amidst tight supply. **Jakarta**'s rents inched up slightly by 0.5% in Q1 2017 - while in **Phnom Penh**, prime rents and vacancy rates largely stayed the same. With healthy demand and no new prime space in the past seven quarters, rents in **Manila** increased 3.0% and vacancy rates tightened by 5.35 percentage points from a year ago. Quarter-on-quarter, rents in **Singapore** and **Kuala Lumpur** declined by 0.9% and 0.8% respectively, with both markets anticipating significant incoming supply this year.

In Q1, Grade-A office rents in **Shanghai** remained unchanged for the third consecutive quarter, as strong demand from fast-moving consumer goods and retail enterprises counterbalanced the completion of 720,000 sq m of prime space. Similarly, **Beijing** welcomed 135,800 sq m of prime stock last quarter with rents staying high, as finance, internet and high-tech sectors continue to drive leasing activity in the Chinese capital. In **Guangzhou**, the vacancy rate declined by 3.5 percentage points to 13.0% with practically no new prime office space coming on line during the quarter.

Mainland Chinese companies remained the most important source of new take-up in Central, **Hong Kong**. Landlords stayed aggressive due to limited supply, thus further pushing rental levels upwards. **Taipei**'s vacancy rate rose by 0.7 percentage points with this trend expected to continue with more supply anticipated later this year.

With more completions in **Tokyo**, vacancy rates for prime space increased slightly while rents decreased 1.8% year-on-year and 1.1% quarter-on-quarter. **Seoul** experienced a similar situation with more than 800,000 sq m of office space supplied last quarter, pushing the prime vacancy rate up to 15.7%.

FIGURE 1
**Prime Office Rental Index**




**Source** : Knight Frank Research

Across Australia, all four major cities tracked saw their prime rents increase last quarter. Strong demand continued to drive rental growth in **Sydney** and **Melbourne** CBDs, reinforced by these periods of little new development and stock withdrawals. Net absorption for premium office buildings in **Perth** has benefited from the flight-to-quality with tenants relocating from Grade-A and below to higher quality premium space. **Brisbane** experienced a decline in vacancy rate due to a combination of rising demand from the expanding state government workforce and the withdrawal of office stock.

In India, as the impact of demonetisation gradually subsides, stronger domestic consumption and fiscal reforms are expected to improve business confidence. Year-on-year, **Bengaluru**, **Mumbai** and **New Delhi** experienced respective rental growths of 4.7%, 3.4% and 4.3%, even as these three cities collectively saw close to 2.4 million sq m of new office space completed since Q1 2016. Moving forward, leasing demand is expected to be driven by various sectors such as financial services, manufacturing and technology.

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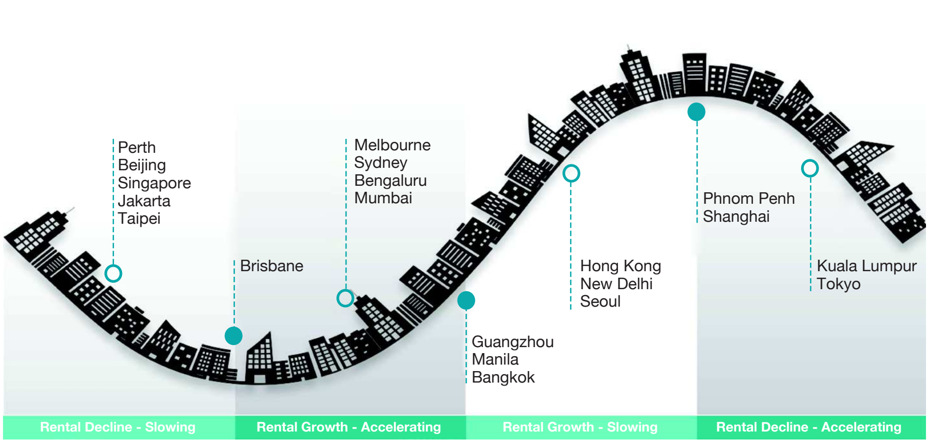
FIGURE 2
## Asia-Pacific Prime Office Rents

↑ Increase
→ No Change
↓ Decrease

| City | Submarket(s) | Prime Net Headline Rent | Local Measurement^ | 12-month % change (Q1 2016-Q1 2017) | 3-month % change (Q4 2016-Q1 2017) | USD/sq m/month | Gross Effective Rent** | Forecast next 12 mths |
|---|---|---|---|---|---|---|---|---|
| **Brisbane** | CBD | 577.0 | AUD/sq m/annum | 3.1% | 2.3% | 36.4 | 29.2 | ↑ |
| **Melbourne** | CBD | 544.0 | AUD/sq m/annum | 8.4% | 1.3% | 34.3 | 33.5 | ↑ |
| **Perth** | CBD | 599.0 | AUD/sq m/annum | 3.6% | 1.9% | 37.8 | 29.4 | ↓ |
| **Sydney** | CBD | 941.0 | AUD/sq m/annum | 8.2% | 1.4% | 59.3 | 53.1 | ↑ |
| **Phnom Penh** | City Centre | 22.9 | USD/sq m/month | 2.7% | 0.0% | 22.9 | 30.0 | → |
| **Beijing** | Various | 370.0 | CNY/sq m/month | -1.3% | -0.8% | 53.7 | 79.2 | ↓ |
| **Guangzhou** | CBD | 181.6 | CNY/sq m/month | 3.0% | 2.2% | 26.4 | 44.7 | ↑ |
| **Shanghai** | Puxi, Pudong | 298.1 | CNY/sq m/month | 2.1% | 0.0% | 43.3 | 65.7 | → |
| **Hong Kong** | Central | 148.3 | HKD/sq ft/month | 7.9% | 2.5% | 205.6 | 207.6 | ↑ |
| **Bengaluru** | CBD | 1,212.0 | INR/sq ft/annum | 4.7% | 0.0% | 16.2 | 26.6 | ↑ |
| **Mumbai** | BKC | 3,300.0 | INR/sq ft/annum | 3.4% | 0.0% | 44.1 | 72.5 | ↑ |
| **New Delhi** | Connaught Place | 3,720.0 | INR/sq ft/annum | 4.3% | 0.0% | 49.7 | 81.7 | → |
| **Jakarta** | CBD | 5,005,272.0 | IDR/sq m/annum | -11.8% | 0.5% | 31.2 | 39.2 | ↓ |
| **Tokyo*** | Central 5 Wards | 33,398.0 | JPY/tsubo/month | -1.8% | -1.1% | 88.8 | 87.7 | ↓ |
| **Kuala Lumpur** | City Centre | 5.3 | MYR/sq ft/month | -1.3% | -0.8% | 12.8 | 15.6 | ↓ |
| **Singapore** | Raffles Place, Marina Bay | 7.9 | SGD/sq ft/month | -8.7% | -0.9% | 60.1 | 71.5 | → |
| **Seoul** | CBD, GBD, YBD | 32,657.9 | KRW/sq m/month | 0.1% | 2.9% | 28.2 | 66.4 | ↑ |
| **Taipei** | Downtown | 2,592.3 | TWD/ping/month | -0.3% | 0.2% | 25.2 | 38.5 | → |
| **Bangkok** | CBD | 944.0 | THB/sq m/month | 9.6% | 3.1% | 26.8 | 32.5 | ↑ |
| **Manila** | Various | 896.3 | PHP/sq m/month | 3.0% | -1.1% | 17.9 | 21.5 | ↑ |

**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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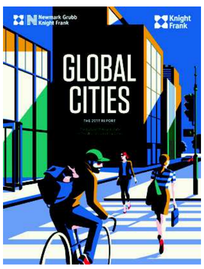


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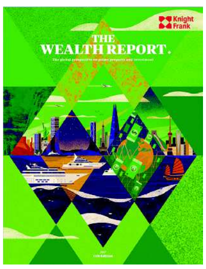


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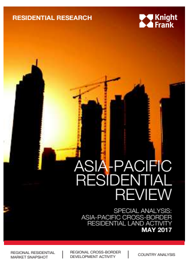


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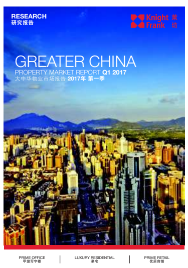


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