

Results for Q1 2018

Knight Frank's Asia-Pacific Prime Office Rental Index rose 0.9% quarter-on-quarter and 2.9% year-on-year in the first quarter of 2018

The rise in the index was primarily driven by rent increases witnessed in Manila, Singapore, and Hong Kong

We maintain expectations for rents to remain steady or see marginal increase for the rest of 2018



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"The global growth slowdown seen during the quarter has had limited knock-on effects on the prime office markets in the Asia-Pacific as their supply demand fundamentals remain favorable."

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ASIA-PACIFIC PRIME OFFICE RENTS CONTINUE TO GROW DESPITE WEAK GLOBAL ECONOMIC DATA

Sustained pickup in economic activities paves the way

Global growth slowed in the first quarter of 2018, weighed down mainly by soft consumption trends witnessed across the major economic regions, heightened inflation expectations, and concerns that the Federal Reserve could take a more hawkish stance on interest rates. Nonetheless, the IMF's growth outlook for the Asia-Pacific region remains unchanged at 5.5%, which should sustain its office markets' growth momentum this year.

In the past quarter, Knight Frank's Asia-Pacific Prime Rental Index rose 0.9% quarter-on-quarter, accelerating from the 0.6% rise seen previously; main contributors being **Manila, Singapore, Hong Kong** and **Bangkok**. 17 of the 20 Asia-Pacific office markets we track recorded flat or increasing quarter-on-quarter rents, an increase of one from previously.

In Australia, **Sydney** continues to outperform its domestic peers with rents rising 1.7% quarter-on-quarter as the supply-demand imbalance situation persists in the CBD and the aftereffects from last year's 2% stock removal and 1.9% year-on-year white-collar employment growth continue to play out. The **Perth** office market continues to bottom with rents shrinking -0.2% quarter-on-quarter as the market continues to readjust following the end of the mining construction boom. **Melbourne** rents were flat this quarter.

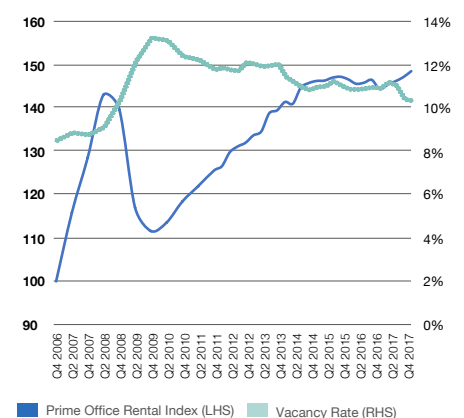
The Southeast Asian office markets mostly continue to do well led by **Manila** with its 3.8% quarter-on-quarter growth as business processing office space demand from multi-national corporates remains robust. **Singapore** grew 3.2% quarter-on-quarter, driven by its Grade-A City Hall micro market being at near full occupancy and the city state's positive economic outlook. **Bangkok** recorded a 2.7% quarter-on-quarter rise on a lack of new supply and the flight to quality trend witnessed among occupiers.

Jakarta's rents were flat as the market remains in favour of tenants. Lastly, **Kuala Lumpur** saw rents fall -0.3% quarter-on-quarter as the market remains subdued with imminent supply concerns coupled with tight leasing as business sentiment remains weak ahead of this year's elections.

In East Asia, **Hong Kong** continues to shine with rents in Central up 3.2% quarter-

on-quarter due to its near full occupancy status and the lack of foreseeable new supply. As a result, tenants are committing to pre-leases as far as next year to prevent operational disruptions. **Shanghai's** rents softened -1.4% quarter-on-quarter as leasing demand wanes and the market braces ahead of the large upcoming supply.

FIGURE 1
Prime Office Rental Index



Source : Knight Frank Research

Beijing rents were up 2.5% quarter-on-quarter on continued demand from the financial and IT sectors, but we caution growth could slow as more supply hits the market later this year. **Taipei** rents rose 1.9% quarter-on-quarter as demand from tech firms continue firm. **South Korea** reversed the rental decline seen previously to record a 2.4% quarter-on-quarter growth. Likewise for **Tokyo** whose rents rose 1.2% quarter-on-quarter compared to 0.6% previously.

India, on the whole, saw flat rental growth across its major cities of **Bengaluru, Mumbai, and NCR** this past quarter. **Bengaluru**, the most prominent office market in the country, continues to see robust leasing demand from the IT/ITeS and Co-Working sectors.

ASIA-PACIFIC PRIME OFFICE RENTAL INDEX

FIGURE 2
Asia-Pacific Prime Office Rents

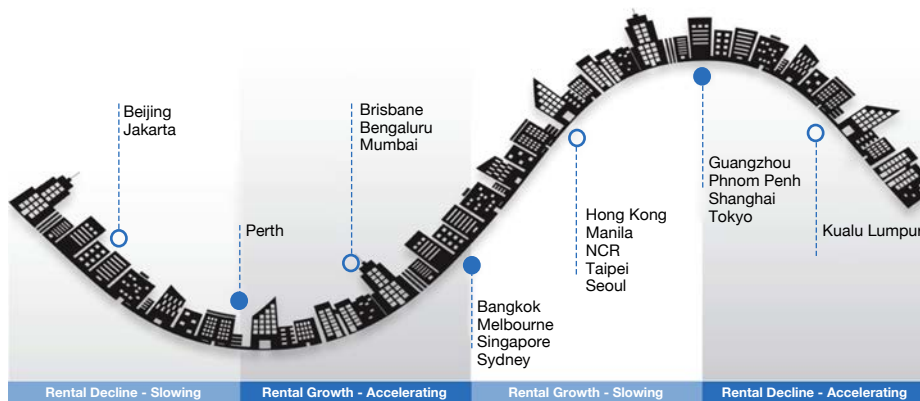
↑ Increase
↔ No Change
↓ Decrease

City	Submarket(s)	Prime Net Headline Rent	Local Measurement [^]	12-month % change (Q1 2017-Q1 2018)	3-month % change (Q4 2017-Q1 2018)	USD/sq m/month	Gross Effective Rent**	Forecast next 12 mths
Brisbane	CBD	585.0	AUD/sq m/annum	1.3%	1.0%	38.3	31.4	↑
Melbourne	CBD	560.0	AUD/sq m/annum	2.9%	0.0%	36.7	36.9	↑
Perth	CBD	587.0	AUD/sq m/annum	-1.1%	-0.2%	38.4	30.7	↔
Sydney	CBD	1,008.6	AUD/sq m/annum	7.1%	1.7%	66	60.1	↑
Phnom Penh	City Centre	23.5	USD/sq m/month	2.7%	0.0%	23.5	30.7	↔
Beijing	Various	380.0	CNY/sq m/month	2.7%	2.5%	59.7	87.8	↓
Guangzhou	CBD	187.9	CNY/sq m/month	3.4%	1.1%	29.5	49.9	↔
Shanghai	Puxi, Pudong	291.0	CNY/sq m/month	-2.3%	-1.4%	45.7	69.6	↔
Hong Kong	Central	157.1	HKD/sq ft/month	5.9%	3.2%	218.1	220.2	↑
Taipei	Downtown	2,718.0	TWD/ping/month	4.8%	1.9%	28.4	43.3	↑
Bengaluru	CBD	1,278.0	INR/sq ft/annum	5.4%	0.0%	17.8	30.0	↑
Mumbai	BKC	3,432.0	INR/sq ft/annum	4.0%	0.0%	47.8	80.5	↑
New Delhi	Connaught Place	3,906.0	INR/sq ft/annum	5.0%	0.0%	54.4	89.3	↔
Jakarta	CBD	5,000,788	IDR/sq m/annum	3.7%	0.0%	30.7	38.5	↓
Tokyo*	Central 5 Wards	35,013	JPY/tsubo/month	4.8%	1.2%	100.1	75.0	↔
Kuala Lumpur	City Centre	5.9	MYR/sq ft/month	-2.1%	-0.3%	16.4	19.7	↓
Singapore	Raffles Place, Marina Bay	8.3	SGD/sq ft/month	5.2%	3.2%	68.0	80.3	↑
Seoul	CBD, GBD, YBD	33,905	KRW/sq m/month	3.8%	2.4%	31.6	68.5	↔
Bangkok	CBD	1,027.4	THB/sq m/month	8.4%	2.7%	32.5	36.1	↑
Manila	Various	986.0	PHP/sq m/month	9.2%	3.8%	19.1	22.4	↓

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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