

OPPORTUNITIES FOR OFFICE OCCUPIERS

The construction boom inspired by past rental appreciation will deliver a barrage of new supply in a number of markets in Asia Pacific. This presents opportunities for tenants to upgrade their workspace in order to attract and retain talent.

Results for Q3 2015

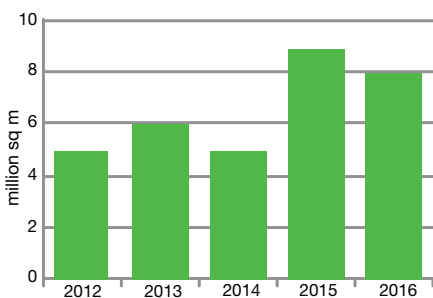
Knight Frank's Asia Pacific Prime Office Rental Index increased 1.4% in Q3 2015, although the average vacancy rate inched up by 0.1 percentage points

10 out of the 19 markets tracked experienced rental growth, while 3 registered no movement

Tokyo saw the highest rental growth in the region for the second consecutive quarter

Going forward, we expect rents in 13 markets to either increase or remain steady over the next 12 months

Figure 1
Gross Supply in Cities Tracked ex. Tokyo



Source: Knight Frank Research

“In India... slack will be taken up very quickly on the back of improving business sentiment, supporting rental growth”

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Guangzhou and **Shanghai** both experienced a significant addition of office space in Q3 2015; however, robust demand, notably from the financial and technology sectors, has helped to cushion its impact, with the latter even enjoying rental growth. Going forward, we expect a sustained influx of new supply amid an economic slowdown to exert downward pressure on rents in Guangzhou as well as **Beijing**.

Similarly, across the strait, a record increase in stock lifted the vacancy rate in **Taipei** by 2.6 percentage points. **Hong Kong**, however, benefitted from the continued demand by Mainland Chinese financial institutions for prime space in Central, their choice location, causing rents there to jump by 4.3% quarter-on-quarter.

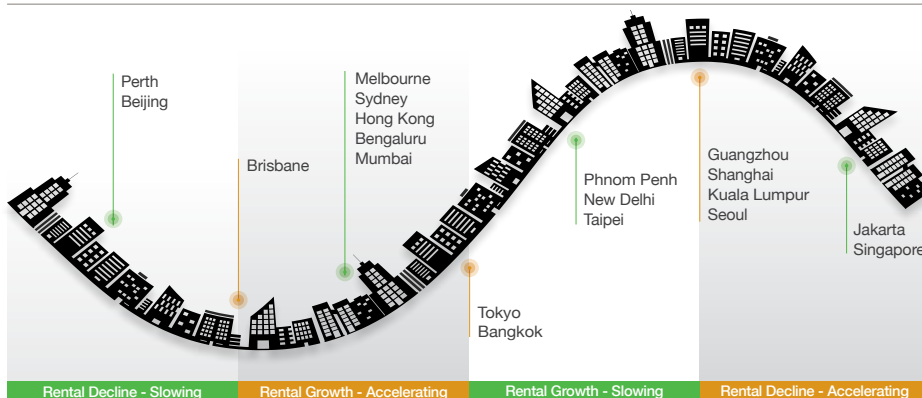
Elsewhere in Northeast Asia, no new space was added in **Tokyo** and **Seoul**. With demand remaining firm, landlords in Tokyo became more aggressive; as a result, rents surged by 6.8% quarter-on-quarter. Seoul, on the other hand, saw marginal rental improvement.

In India, ample new stock entered the **Bengaluru** and **Delhi** markets in Q3 2015. In addition, the supply pipeline in the former will continue to be strong in the next few years. However, the slack will be taken up very quickly on the back of improving business sentiment, supporting rental growth. We expect rents in **Mumbai** to rise as well.

A challenging external trade environment and strong future supply are conspiring to weigh on rents in **Jakarta**, **Kuala Lumpur** and **Singapore**. Moreover, having the worst performing currency in Asia as a result of capital outflow triggered by a political scandal also dampened business sentiment in Malaysia. Meanwhile, escalating costs compounded by an appreciating currency in trade-weighted terms led businesses in Singapore to be more prudent in spending and seek cheaper office space outside the CBD.

Although **Bangkok** will also witness significant construction completions, the new buildings are mostly located outside the CBD. As the Thai economy

Figure 2
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.

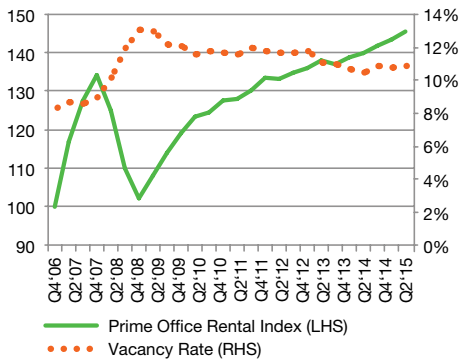
ASIA PACIFIC PRIME OFFICE RENTAL INDEX

FIGURE 3
Asia Pacific Prime Office Rents
Q3 2015

City	Submarket	Prime Net Headline Rent	Local Measurement ^A	12 mth % change	3 mth % change	USD/sq m/mth	Gross Effective Rent ^{**} USD/sq m/mth	Forecast next 12 mths
Brisbane	CBD	558.0	AUD/sq m/yr	0.4%	-0.4%	32.4	25.8	↔
Melbourne	CBD	495.0	AUD/sq m/yr	1.9%	1.9%	28.8	27.9	↑
Perth	CBD	610.0	AUD/sq m/yr	-9.4%	-0.3%	35.5	29.7	↓
Sydney	CBD	809.0	AUD/sq m/yr	3.7%	1.1%	47.0	39.9	↑
Phnom Penh	City Centre	22.4	USD/sq m/mth	5.1%	1.2%	22.4	29.4	↑
Beijing	Various	367.1	CNY/sq m/mth	-3.0%	-0.4%	57.8	84.6	↓
Guangzhou	CBD	178.1	CNY/sq m/mth	1.2%	-0.1%	28.0	47.7	↓
Shanghai	Puxi, Pudong	283.6	CNY/sq m/mth	5.5%	1.3%	44.6	68.1	↑
Hong Kong	Central	130.3	HKD/sq ft/mth	6.0%	4.3%	180.9	180.8	↑
Bengaluru	CBD	1,140.0	INR/sq ft/yr	4.1%	2.2%	15.5	24.8	↑
Mumbai	BKC	3,100.0	INR/sq ft/yr	3.3%	0.3%	42.0	67.5	↑
New Delhi	Connaught Place	3,304.8	INR/sq ft/yr	3.4%	0.0%	44.8	72.0	↔
Jakarta	CBD	6,332,820.0	IDR/sq m/yr	0.5%	0.0%	36.2	45.7	↓
Tokyo*	Central 3 Wards	35,652.0	JPY/Tsubo/mth	17.5%	6.8%	90.1	88.0	↑
Kuala Lumpur	City Centre	5.4	MYR/sq ft/mth	4.1%	-0.6%	13.0	15.9	↔
Singapore	Raffles Place, Marina Bay	10.4	SGD/sq ft/mth	3.7%	-2.0%	78.3	89.7	↓
Seoul	CBD	31,535.2	KRW/sq m/mth	3.7%	0.5%	26.4	60.2	↓
Taipei	Downtown	2,611.0	TWD/ping/mth	2.4%	0.0%	23.9	36.5	↑
Bangkok	CBD	811.6	THB/sq m/mth	7.0%	0.2%	22.3	27.1	↑

Source: Knight Frank Research / *Sanko Estate
^ABased 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 4
Prime Office Rental Index



Source: Knight Frank Research

looked to have bottomed out, rents are expected to continue to grow. Despite intensifying competition from Grade-B office buildings, rents for prime space in **Phnom Penh** increased by 1.2% from the previous quarter, underpinned by a healthy pick-up in net absorption.

Rental trends in the four Australian cities we track continue to diverge, especially on net effective basis after taking incentives into account, with **Melbourne** and **Sydney** seeing improving leasing demand drive down vacancy rates. Although there will be considerable construction completion in the near future, there is also substantial withdrawal of stock, either for conversion or refurbishment, particularly in Melbourne and Sydney.



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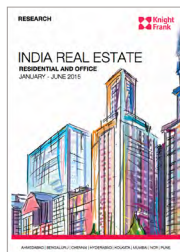
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