

ASIA-PACIFIC PRIME OFFICE RENTAL INDEX

Results for Q3 2017

Knight Frank's Asia-Pacific Prime Office Rental Index increased 0.6% quarter-on-quarter and 0.8% year-on-year as at the end of the third quarter of 2017

The increase in the index was the result of rising rents in 11 of the markets over the quarter, with rental declines experienced in six of the 20 markets tracked

Over the next 12 months, we expect rents in 16 cities out of the 20 tracked to either remain steady or increase, which is up from 15 in our previous forecast



NICHOLAS HOLT
Asia Pacific Head of Research

“Amidst growing market confidence and the impressive recovery of Asia’s export markets so far in 2017, leasing momentum remains broadly robust across Asia-Pacific prime office markets.”

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ROSY NEAR-TERM OUTLOOK FOR ASIA-PACIFIC PRIME OFFICE MARKET

Favourable market conditions drive office leasing demand in the region

Stronger trade growth, a moderate recovery in commodity prices and increased activities in manufacturing and investment continue to signal a cyclical upturn in the region. According to the IMF, Asia is projected to grow by 5.6% in 2017 with the region remaining the main growth engine of the world economy, though several external and domestic risks could impact this positive outlook.

The low vacancy rate coupled with strong demand continued to boost prime office rentals in **Hong Kong**. Rents in Central are expected to increase by 5% to 7% for the whole of 2017. In Q3, domestic firms remained the key driving force in **Beijing** leasing market, as tenants from the financial and TMT sectors concluded major transactions. Meanwhile, **Guangzhou**'s prime rents growth slowed to 0.4% last quarter compared to its 4.0% year-on-year growth. Elsewhere **Shanghai** was the only major mainland Chinese city with rising vacancies and sliding rents in Q3 2017.

Prime rents in **Singapore** increased for the first time since late 2014, even as vacancy rates continued to rise above 15% due to the huge supply influx in the last two quarters. Strong economic growth supported **Manila**'s low vacancy rates and solid rental growth in the past few quarters. In the Indonesian capital **Jakarta**, leasing activities remained quiet as tenants adopted a more cautious approach.

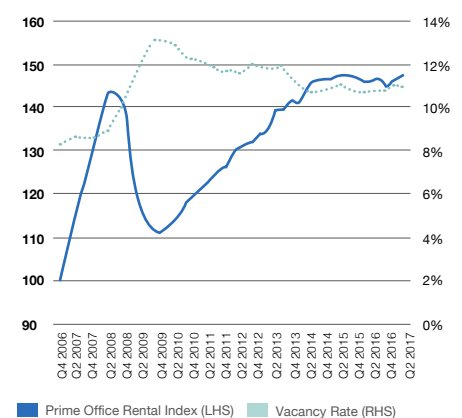
Bangkok was the strongest-performing Asia-Pacific market last quarter, registering a 4.4% quarter-on-quarter increase which was faster than its 3.9% annual growth. This upward trend is expected to continue for at least the next 24 months. Despite the weak office market performance in **Kuala Lumpur**, the country's Budget 2018 introduced encouraging measures and incentives to various property sectors. In **Phnom Penh**, the office supply pipeline for the next two years may more than double its current total stock, which is likely to weigh on rental levels.

Rents in **Taipei** dropped slightly but still posted a 2.4% increase year-on-year. With several major leasing deals, **Seoul** experienced a standout quarter for net absorption as vacancy rates decreased. A similar situation occurred in **Tokyo**, although

as most of the deals concluded in the quarter were in less competitive spaces, prime rents slid marginally.

In Australia's key markets, low supply and declining vacancies are expected for the foreseeable future: supply in the **Melbourne** CBD office market will be significantly constrained over the next 12 months with

FIGURE 1
*Prime Office Rental Index



Source : Knight Frank Research
*The historical index series has been revised following the addition of Manila into the basket.

no developments completing until mid-2018; in **Sydney** CBD, limited supply has pushed the vacancy below equilibrium levels; in **Brisbane** only one new project is currently under construction; and **Perth** CBD has experienced a decline in office vacancy, primarily due to a reduction in sublease availability.

In India, the successful rollout of GST in July has raised government tax on commercial rents to 18% - up from 15% previously. Despite nearly 200,000 sq m of new supply in the quarter, **Bengaluru**'s prime rents continued their rising trend. In **Mumbai**, rents remained steady with declining vacancy rates and low new supply in the quarter. With sustained demand, no negative rental price changes have been reported in **New Delhi** since Q1 2014.

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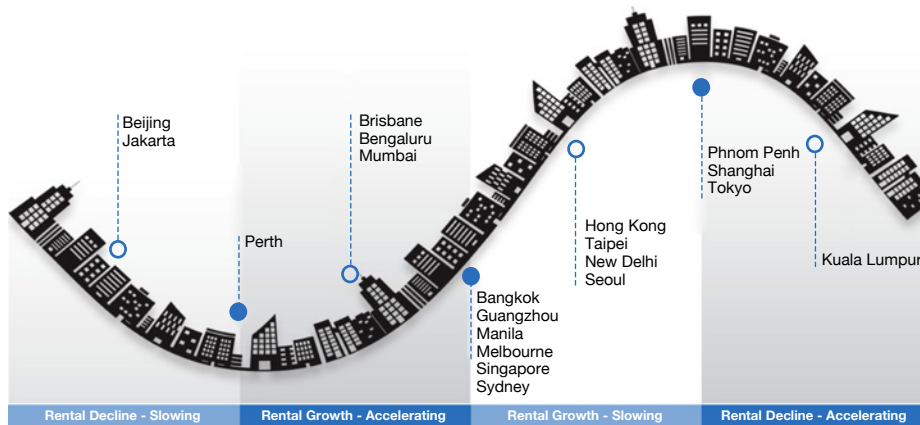
FIGURE 2
Asia-Pacific Prime Office Rents Summary

↑ Increase
↔ No Change
↓ Decrease

City	Submarket(s)	Prime Net Headline Rent	Local Measurement [^]	12-month % change (Q3 2016-Q3 2017)	3-month % change (Q2 2017-Q3 2017)	USD/sq m/month	Gross Effective Rent**	12-month Forecast
Brisbane	CBD	578.0	AUD/sq m/annum	3.0%	0.2%	38.0	31.0	↑
Melbourne	CBD	561.0	AUD/sq m/annum	7.1%	2.0%	36.9	36.9	↑
Perth	CBD	600.0	AUD/sq m/annum	4.2%	0.0%	39.5	31.3	↔
Sydney	CBD	965.4	AUD/sq m/annum	6.3%	1.6%	63.5	57.0	↑
Phnom Penh	City Centre	23.6	USD/sq m/month	4.9%	-1.0%	23.6	30.8	↔
Beijing	Various	374.0	CNY/sq m/month	0.0%	0.8%	56.0	82.5	↓
Guangzhou	CBD	184.0	CNY/sq m/month	4.0%	0.4%	27.6	46.7	↑
Shanghai	Puxi, Pudong	295.0	CNY/sq m/month	-1.0%	-1.0%	44.2	67.2	↔
Hong Kong	Central	151.2	HKD/sq ft/month	7.4%	1.0%	208.3	210.2	↑
Taipei	Downtown	2,661.0	TWD/ping/month	2.4%	-0.4%	26.6	40.5	↑
Bengaluru	CBD	1,278.0	INR/sq ft/annum	8.7%	1.4%	17.8	30.0	↑
Mumbai	BKC	3,366.0	INR/sq ft/annum	6.9%	0.0%	46.9	79.1	↑
New Delhi	Connaught Place	3,880.0	INR/sq ft/annum	8.8%	2.1%	54.1	91.2	↔
Jakarta	CBD	4,819,380.0	IDR/sq m/annum	-8.3%	0.0%	30.0	37.7	↓
Tokyo*	Central 5 Wards	34,401.0	JPY/subo/month	2.1%	-1.0%	93.8	92.2	↓
Kuala Lumpur	City Centre	5.3	MYR/sq ft/month	-1.7%	-0.4%	13.2	16.3	↓
Singapore	Raffles Place, Marina Bay	7.9	SGD/sq ft/month	-2.2%	0.1%	62.7	74.5	↑
Seoul	CBD, GBD, YBD	33,733.0	KRW/sq m/month	4.5%	-0.2%	29.7	75.7	↑
Bangkok	CBD	993.6	THB/sq m/month	3.9%	4.4%	29.7	36.0	↑
Manila	Various	927.3	PHP/sq m/month	9.3%	1.6%	18.2	21.7	↑

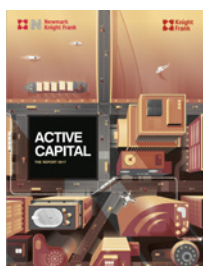
Source: Knight Frank Research / *Sanko Estate
[^]Based on net floor areas for except for China, India, Korea, Taiwan, Thailand (gross) and Indonesia (semi-gross)
 **Inclusive of incentive, service charges and taxes. Based on net floor areas.

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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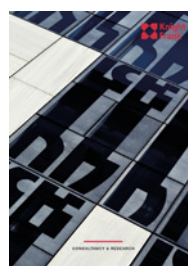
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