

ASIA-PACIFIC PRIME OFFICE RENTAL INDEX

Results for Q3 2019

Knight Frank Asia-Pacific Prime Office rental index rose 0.1% quarter-on-quarter in the third quarter of 2019.

Overhang from various global uncertainties continue to weigh on occupier sentiment.

Impact from The We Company's recent troubles minimal on region.



TIM ARMSTRONG
Head of Occupier Services and Commercial Agency, Asia-Pacific

“With the trade tensions, cooling economies, social and political unrests; occupiers and landlords continue to face mounting pressures that are likely to depress growth prospects going forward.”

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ASIA-PACIFIC PRIME OFFICE REMAIN STABLE DESPITE COOLING ECONOMY

Markets catching a chill as winter comes early

The office markets across the Asia-Pacific region continue to face familiar foes as aftershocks from the ongoing US-China trade tensions continue to shake market confidence, a concrete Brexit conclusion remains elusive and Hong Kong, a major office market within the region, grapples with unprecedented social unrest. For Q3 2019, Knight Frank's Asia-Pacific Prime Office Rental Index rose 0.1% quarter-on-quarter to 157.3. Year-on-year the index rose 1.8%, decelerating from the 3.4% rise witnessed in Q2. Of the 20 cities tracked by the index, 12 recorded either stable or increased quarterly rents; 3 less than the 14 reported in the previous period. As we head towards the end of 2019, we maintain our expectation for a softer result for the full year with the rental index expected to rise between 0 to 3%, down from the 7.7% witnessed last year.

Australia's office markets had a healthy Q3 2019 underpinned by a steady economy, low unemployment, low interest rates, continued demand for quality space and limited supply. **Sydney**, the strongest performing market this quarter, witnessed rents rise 2.5% quarter-on-quarter on the back of limited available supply and continued occupier appetite for prime space. Similarly, **Perth** recorded a 2.3% quarter-on-quarter rental growth during the period as the recent sustained recovery in the commodity sector continues to drive a turnaround for the office market.

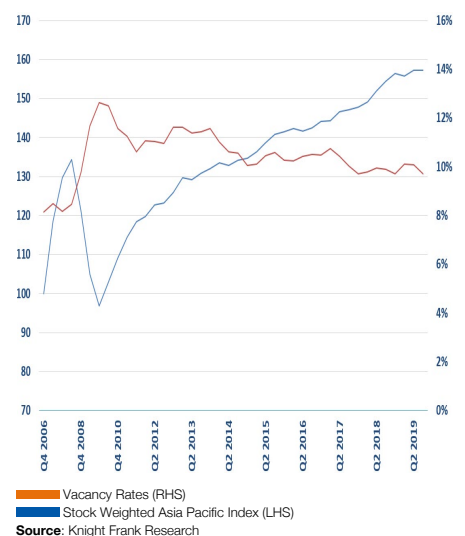
The Indian office markets did well in Q3 with **Mumbai** and **NCR** recording 1 to 3% quarter-on-quarter rent growth, while **Bengaluru** outperformed with an 8% increase as corporates both expanded and consolidated multiple locations into larger campuses. A major factor has been the IT industry's recent 33% year-on-year growth in H1 2019; Bengaluru itself saw a 20% growth in new hiring in H1 2019. While more supply is expected over the horizon, demand is expected to keep net absorption positive as the IT sector continues to grow.

After experiencing a strong supply led rental growth over the past 18 months, **Tokyo's** office market took a breather in Q3 with rents declining -4.3% quarter-on-quarter despite the market's record low vacancy. A major driver behind this has been the growing concerns over corporate earnings growth, a result from the ongoing US-China trade tensions,

as the economy heads towards its March financial year end reporting season which has reigned-in occupier appetite. While the low vacancy should continue to provide downside support, any further upside to rental growth is expected to be minimal. In **Hong Kong**, office rents fell -5.6% quarter-on-quarter as the tenant decentralization trend continued and the ongoing social unrest drags on.

The office market in **Manila** expectedly saw rent growth slow in Q3, declining -0.4% quarter-on-quarter, as occupiers adjusted their rent expectations ahead of oncoming supply over the next few years. However, growth going forward is expected to remain healthy given the continued strength of both the BPO and POGO sectors. **Kuala Lumpur's** office rents recorded a 2.1% quarter-on-quarter rise this past quarter, mainly due to the addition of two new office towers in the TRX financial district, The Exchange 106 and Menara Prudential, which commanded higher rents. However, with Kuala Lumpur City's overall office market still under pressure and landlords continuing to offer attractive lease packages to retain or attract tenants; the sector is expected to remain challenged in the short to medium term.

FIGURE 1
Prime Office Rental Index



Source: Knight Frank Research

ASIA-PACIFIC PRIME OFFICE RENTAL INDEX

FIGURE 2

Asia-Pacific Prime Office Rents

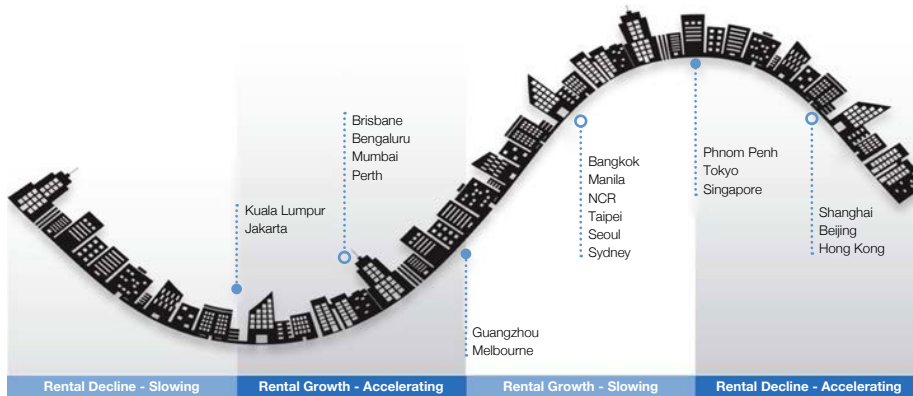
↑ Increase
↔ No Change
↓ Decrease

Markets	City	Submarket(s)	Prime Net Headline Rent	Local Measurement [^]	12-month % change (Q3 2018- Q3 2019)	3-month % change (Q2 2019 - Q3 2019)	USD/sq m/month	Gross Effective Rent** USD/sq m/month	Forecast next 12 mths
Australia	Brisbane	CBD	613.0	AUD/sq m/annum (Net Floor Area)	3.0%	1.2%	34.5	28.3	↑
	Melbourne	CBD	694.0	AUD/sq m/annum (Net Floor Area)	15.5%	2.1%	39.1	38.4	↑
	Perth	CBD	610.0	AUD/sq m/annum (Net Floor Area)	3.4%	2.3%	34.3	30.2	↑
	Sydney	CBD	1,165.0	AUD/sq m/annum (Net Floor Area)	6.4%	2.5%	65.6	61.7	↑
East Asia	Tokyo*	Central 5 Wards	39,624.0	JPY/tsubo/month (Net Floor Area)	1.6%	-4.3%	110.9	106.4	↔
	Beijing	Various	360.0	CNY/sq m/month (Gross Floor Area)	-4.7%	-0.8%	50.3	74.4	↓
	Guangzhou	CBD	193.4	CNY/sq m/month (Gross Floor Area)	1.4%	0.2%	27.0	45.6	↔
	Shanghai	Puxi, Pudong	282.9	CNY/sq m/month (Gross Floor Area)	-2.1%	-1.1%	39.6	60.3	↓
	Hong Kong	Central	150.5	HKD/sq ft/month (Net Floor Area)	-8.3%	-5.6%	206.6	210.7	↓
	Taipei	Downtown	2,788.0	TWD/ping/month (Gross Floor Area)	2.2%	0.0%	27.2	41.3	↑
	Seoul	CBD, GBD, YBD	33,954.7	KRW/sq m/month (Gross Floor Area)	0.5%	-0.4%	28.2	69.2	↔
India	Bengaluru	CBD	1,615.0	INR/sq ft/annum (Gross Floor Area)	17.6%	8.0%	20.5	34.6	↑
	Mumbai	BKC	3,640.0	INR/sq ft/annum (Gross Floor Area)	2.0%	1.0%	46.2	77.9	↑
	NCR	Connaught Place	4,079.0	INR/sq ft/annum (Gross Floor Area)	4.4%	3.0%	51.8	87.3	↔
ASEAN	Phnom Penh	City Centre	23.6	USD/sq m/month (Net Floor Area)	0.5%	0.0%	23.6	30.9	↔
	Jakarta	CBD	4,200,624.0	IDR/sq m/annum (Semi-Gross Floor Area)	-10.8%	0.0%	24.7	30.8	↔
	Kuala Lumpur	City Centre	5.9	MYR/sq ft/month (Net Floor Area)	1.5%	2.1%	15.2	17.9	↓
	Singapore	Raffles Place, Marina Bay	10.35	SGD/sq ft/month (Net Floor Area)	4.5%	-0.6%	80.5	92.7	↔
	Bangkok	CBD	1,129.0	THB/sq m/month (Gross Floor Area)	9.4%	-1.2%	36.9	41.0	↔
	Manila	Various	1,095.0	PHP/sq m/month (Net Floor Area)	7.5%	-0.4%	21.1	24.5	↓

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

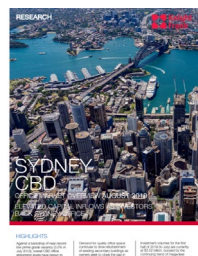
FIGURE 3

Prime Office Rental Cycle



Source: Knight Frank 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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ASIA-PACIFIC RESEARCH

Nicholas Holt
 Asia-Pacific Head of Research
 +86 10 6113 8030
 nicholas.holt@asia.knightfrank.com

Justin Eng, CFA
 Associate Director, Asia-Pacific Research
 +65 6429 3583
 justin.eng@asia.knightfrank.com

ASIA PACIFIC GLOBAL CORPORATE SERVICES

Tim Armstrong
 Head of Occupier Services and Commercial Agency, Asia-Pacific
 +65 6429 3583
 tim.armstrong@asia.knightfrank.com

Josephine Lee
 Head of Global Corporate Services, Asia-Pacific
 +65 6429 3599
 josephine.lee@asia.knightfrank.com



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