The Asia-Pacific Prime Office Rental Index aims to provide occupiers, landlords and investors with a regular analysis of the rental performance of prime office markets across Asia-Pacific.

Knight Frank

Asia-Pacific Prime Office Rental Index

Q3 2020

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HEADLINES

-2.0%	8	12	Cautious
QUARTER-ON-QUARTER GROWTH FOR ASIA-PACIFIC RENTAL INDEX IN Q3 2020	OF 21 CITIES RECORDED STABLE OR INCREASED RENTS THIS PAST QUARTER	OF 21 CITIES TRACKED FORECAST DECREASE IN RENTS OVER THE NEXT 12 MONTHS	EXPECTATIONS FOR 2020 OUTLOOK

Q3 saw the full brunt of COVID-19's impact on the office sector as markets across the Asia-Pacific region gradually re-opened and occupiers took stock of their corporate real estate needs. Landlords have also largely shifted their strategies and are now focusing mainly on preserving building occupancies at the expense of holding rents, with a majority now offering some form of rental rebate to either retain existing or entice new tenants. However, we believe this is only the start of a cyclical downtrend for the office sector given our expectations for more firms to downsize after finalizing their workplace strategies and landlord's continual flexibility to rental negotiations.

For Q3 2020, Knight Frank's Asia-Pacific Prime Office Rental Index fell -2.0% quarter-on-quarter, led mainly by Jakarta which recorded a -21.6% decline during the same period. On an annual basis, the index was down -4.4% year-on-year. Vacancy rose 0.8% to 12.6% as absorption rates remain subdued and several markets added new stock during the period.

Going forward, despite most economies within the Asia-Pacific having re-opened and economic recoveries expected to occur, the general consensus that corporates will be looking to reduce costs, of which real estate forms a sizable proportion, will remain as an overhang over the sector's growth prospects. As such, we maintain our expectations for rents to decline between -5 to -3% this year.

The office markets across Australia's major capitals remained relatively stable in Q3 2020, with **Perth** (-0.8%) and **Brisbane** (-0.7%) reporting quarterly face rent declines while **Melbourne** and **Sydney** remained stable. However, while face rents have been holding up, incentives have been on the rise; Sydney for example is seeing incentives range from 25% to 30% currently, up from the 15% to 20% range seen in March. While demand from private enterprises has remained weak over the quarter as occupiers reassess their workplace strategies and utilisation needs, a bright spot has emerged in the form of government demand which up until August has accounted for 32% of all leasing volumes; far exceeding its 10% average share witnessed over the past five years.

Grade A rents in **Hong Kong SAR** fell a more subdued -1.7% quarter-on-quarter in Q3, decelerating from the sharp -5.8% decline witnessed previously, as weak economic and business conditions weigh on office demand for space within the CBD. We are starting to see more downsizings occur with large financial stalwarts such as Deutsche Bank and Nomura returning space, while others such as Westpac exit the market altogether. We fully expect to

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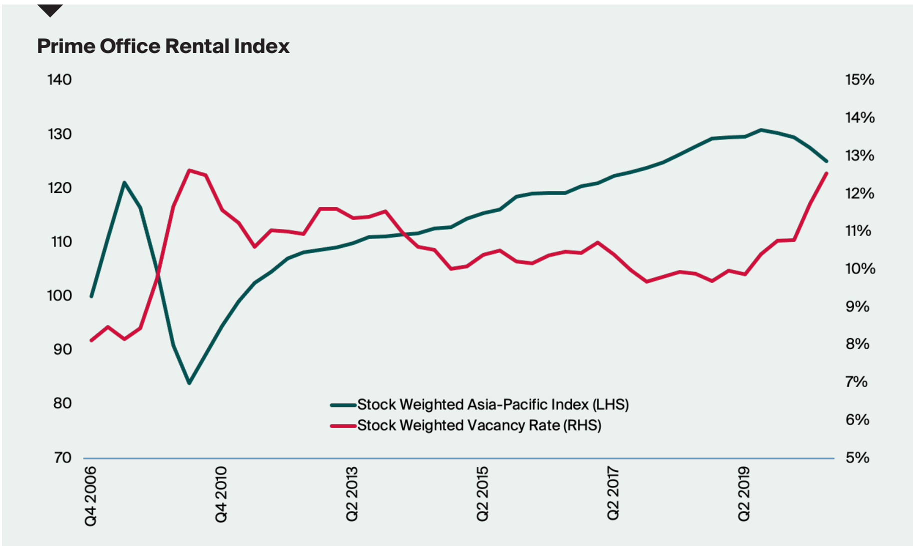
"While leasing activity has picked up in Q3 2020 as markets eased restrictions, we continue to see downward pressure on office rents and expect a similar trend to occur in the coming quarters. Going forward, with market balance now in favour of tenants, this presents opportunities for occupiers to reassess their work place strategies ahead of the eventual recovery."

see vacancies rise further in the coming months while rents continue to soften.

Singapore's Grade A office rents contracted a further -2.6% in Q3, as landlords continue to dole out rental reliefs and lowered rental expectations amidst weak business sentiments. However, vacancy improved 0.8% to 9.9% mainly due to stock withdrawals for redevelopment. In total over the coming 18 months, around 2 million sqft of stock is expected to be withdrawn from the market, potentially driving vacancy lower and generating some demand from displaced tenants. Nonetheless, these factors are still expected to be insufficient to mitigate rental declines this year which we expect to reach 10% by the end of the year.

Jakarta's Grade A market saw its rents capitulate in Q3, recording a -21.6% quarter-on-quarter decline as the pandemic, high vacancy, and weak business and economic environment took its toll on the market. Going forward, market conditions are expected to deteriorate further, even as the rate of infection slows, given that the Jakarta office market is expecting to see more supply come onto the market over the next 12 to 24 months; adding more pressure to its already high vacancies.



Asia-Pacific Prime Office Rents

Region	City	Submarket(s)	Prime Net Headline Rent	Local Measurement	12-MTH% Change (Q3 2019 - Q3 2020)	3-MTH % Change (Q2 2020 - Q3 2020)	Forecast Next 12 Months
AUSTRALIA	BRISBANE	CBD	601	AUD/SQ M/ANNUM (NET FLOOR AREA)	-2.0%	-0.7%	Decrease
	MELBOURNE	CBD	708	AUD/SQ M/ANNUM (NET FLOOR AREA)	2.0%	0.0%	Decrease
	PERTH	CBD	615	AUD/SQ M/ANNUM (NET FLOOR AREA)	0.8%	-0.8%	Decrease
	SYDNEY	CBD	1,189	AUD/SQ M/ANNUM (NET FLOOR AREA)	2.1%	0.0%	Decrease
EAST ASIA	TOKYO	CENTRAL 5 WARDS	31,243	JPY/TSUBO/MONTH (NET FLOOR AREA)	2.5%	-2.8%	Same
	BEIJING	VARIOUS	332.5	CNY/SQ M/MONTH (GROSS FLOOR AREA)	-7.6%	-0.9%	Same
	GUANGZHOU	CBD	185	CNY/SQ M/MONTH (GROSS FLOOR AREA)	-4.4%	-1.2%	Same
	SHANGHAI	PUXI, PUDONG	256	CNY/SQ M/MONTH (GROSS FLOOR AREA)	-9.5%	-2.7%	Decrease
	SHENZHEN	CBD	208	CNY/SQ M/MONTH (GROSS FLOOR AREA)	NA	-0.5%	Decrease
	HONG KONG SAR	Central	121	HKD/SQ FT/MONTH (NET FLOOR AREA)	-19.4%	-1.7%	Decrease
	TAIPEI	Downtown	2,837	TWD/PING/MONTH (GROSS FLOOR AREA)	1.8%	0.1%	Increase
	SEOUL	CBD, GBD, YBD	35,091	KRW/SQ M/MONTH (GROSS FLOOR AREA)	3.8%	1.4%	Same
INDIA	BENGALURU	CBD	1,600	INR/SQ FT/ANNUM (GROSS FLOOR AREA)	-0.9%	-1.2%	Increase
	MUMBAI	BKC	3,680	INR/SQ FT/ANNUM (GROSS FLOOR AREA)	1.1%	0.0%	Same
	NCR	Connaught Place	4,079	INR/SQ FT/ANNUM (GROSS FLOOR AREA)	0.0%	0.0%	Same
ASEAN	PHNOM PENH	CITY CENTRE	26.7	USD/SQ M/MONTH (NET FLOOR AREA)	12.8%	4.8%	Same
	JAKARTA	CBD	2,999,220	IDR/SQ M/ANNUM (SEMI-GROSS FLOOR AREA)	-28.6%	-21.6%	Decrease
	KUALA LUMPUR	City Centre	5.8	MYR/SQ FT/MONTH (NET FLOOR AREA)	-2.2%	-1.5%	Decrease
	SINGAPORE	Raffles Place, Marina Bay	9.7	SGD/SQ FT/MONTH (NET FLOOR AREA)	-6.0%	-2.6%	Decrease
	BANGKOK	CBD	1,109	THB/SQ M/MONTH (GROSS FLOOR AREA)	-1.8%	-2.5%	Decrease
	MANILA	Various	1,139	PHP/SQ M/MONTH (NET FLOOR AREA)	3.9%	0.0%	Decrease

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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