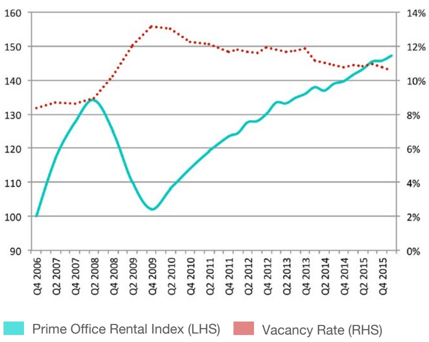
COMMERCIAL RESEARCH

ASIA PACIFIC PRIME OFFICE RENTAL INDEX

Highlights

- Knight Frank's *Asia Pacific Prime Office Rental Index* grew 1.0% in Q1 2016, accelerating from 0.2% in the previous quarter, as the average vacancy fell by 0.2 percentage points
- Domestic leasing demand arrested rental decline in Beijing
- Tokyo saw the highest rental growth, as the prime vacancy rate remained at a multi-year low
- Going forward, we expect rents in 14 cities to increase or remain steady over the next 12 months

FIGURE 1
Prime Office Rental Index



Source : Knight Frank Research

"Although the supply pipeline is strong in Hong Kong, it is concentrated in decentralised areas"

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2016 STARTS ON A MORE POSITIVE NOTE

12 out of the 19 markets tracked registered positive rental growth in Q1 2016, up from 8 in the previous quarter

In the first quarter of 2016, robust leasing demand from domestic firms in the finance and technology sectors drove net absorption to outstrip new supply in **Beijing**, arresting the downward trend in rents. Meanwhile, the lack of new office completion helped rents stabilise in **Guangzhou**. **Shanghai** enjoyed rental improvement, as vacancy continued to tighten. Sustained, significant supply in the coming few years will, however, limit rental growth in these Chinese cities going forward.

Although the supply pipeline is also strong in **Hong Kong**, it is concentrated in decentralised areas. Rents in Central continued to rise as a result of limited available space. Rents in **Taipei**, on the other hand, slid slightly on the back of two quarters of negative net absorption.

Two buildings came on-stream in **Brisbane**, adding a record amount of space. Despite this, effective rents inched up, suggesting that the market has stabilised. Although the total net absorption in the second half of 2015 was negative, prime net take-up turned positive, as tenants took advantage of gross effective rents that have declined 46.7% from their pre-Global Financial Crisis peak to move into quality offices in central locations. Prime offices in **Melbourne** also benefited from the centralisation of tenants, while the demand for those in **Sydney** was augmented by tenants displaced by the withdrawal of secondary stock. Rents in Melbourne stayed flat and those in Sydney saw growth, while **Perth** continued to see rental decline in Q1 2016.

Despite a substantial amount of new space delivered into the **Bengaluru** office market, robust demand buoyed rents upwards. **Mumbai** saw a surprise drop in net absorption, although while the traditional demand drivers – namely finance and IT/ITeS sectors took up less space, manufacturing firms were more active. In **New Delhi**, rents stayed flat.

In Southeast Asia, **Phnom Penh** saw rents remain stable even as a surge in demand drove down the vacancy rate by 10.0 percentage points. With landlords vying to secure tenants as Hongkong Land's Exchange Square nears completion, this trend is expected to continue. Likewise, in anticipation of an influx of new supply, landlords in **Kuala Lumpur** have reduced their asking rents. On the demand side, the technology, media and telecom (TMT) sector has helped to take up some of the slack left behind by the oil and gas industry. There is also anecdotal evidence that start-ups are moving into prime space – demand dynamics which are similarly being experienced in **Jakarta**. Despite this, rents in these two cities slipped marginally. The TMT sector also drove demand in **Bangkok** – where, despite the ongoing political uncertainty, the net absorption of prime space in the quarter was almost two times higher than the 10-year average. With the limited supply in the CBD, this has supported rental appreciation. Meanwhile, **Singapore** continued to be mired in a double whammy of significant supply and weak demand.

The average rent in **Seoul** increased as a 2.3-percentage-point fall in the vacancy rate in the Gangnam Business District lifted rents there. Nearby, the prime vacancy rate in **Tokyo** remained at the tightest level in more than seven years as the market witnessed the strongest rental growth in the region.

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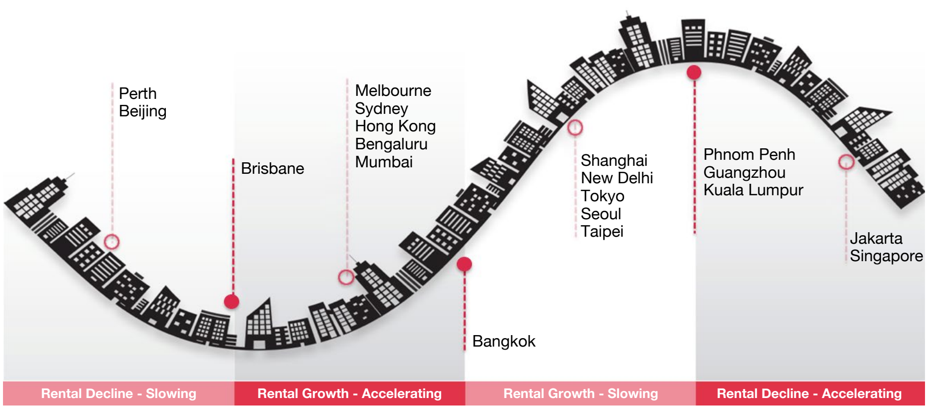
FIGURE 2
Asia Pacific Prime Office Rents

Increase / No Change / Decrease

City	Submarket(s)	Prime Net Headline Rent	Local Measurement^	12-month % change	3-month % change	USD/sqm/mth	Gross Effective Rent** USD/sq m/mth	Forecast next 12 mths
Brisbane	CBD	559.6	AUD/sq m/annum	1.1%	0.2%	35.7	28.4	No Change
Melbourne	CBD	502.0	AUD/sq m/annum	3.3%	0.0%	32.0	31.1	Increase
Perth	CBD	579.0	AUD/sq m/annum	-12.3%	-1.6%	36.9	31.4	Decrease
Sydney	CBD	843.9	AUD/sq m/annum	6.4%	1.2%	53.8	45.9	Increase
Phnom Penh	City Centre	22.3	USD/sq m/month	0.8%	0.2%	22.3	29.3	No Change
Beijing	Various	375.0	CNY/sq m/month	1.1%	2.5%	58.0	84.7	Decrease
Guangzhou	CBD	176.3	CNY/sq m/month	-0.7%	0.3%	27.3	46.4	No Change
Shanghai	Puxi, Pudong	292.0	CNY/sq m/month	7.5%	2.3%	45.2	68.7	Increase
Hong Kong	Central	137.1	HKD/sq ft/month	11.0%	1.1%	190.3	189.6	Increase
Bengaluru	CBD	1,158.0	INR/sq ft/annum	4.9%	0.5%	15.7	25.2	Increase
Mumbai	BKC	3,190.0	INR/sq ft/annum	2.9%	1.3%	43.3	69.4	Increase
New Delhi	Connaught Place	3,565.0	INR/sq ft/annum	10.0%	0.0%	48.3	77.6	No Change
Jakarta	CBD	6,089,220.0	IDR/sq m/annum	-9.0%	0.0%	38.5	48.6	Decrease
Tokyo*	Central 3 Wards	33,995.0	JPY/Tsubo/month	9.1%	3.4%	91.4	90.0	Increase
Kuala Lumpur	City Centre	5.4	MYR/sq ft/month	-0.7%	-0.4%	14.7	17.9	Decrease
Singapore	Raffles Place, Marina Bay	8.8	SGD/sq ft/month	-9.9%	-4.4%	69.8	81.9	Decrease
Seoul	CBD, GBD, YBD	32,628.8	KRW/sq m/month	4.4%	2.6%	28.4	66.2	Increase
Taipei	Downtown	2,600.0	TWD/ping/month	0.4%	-0.2%	24.3	37.2	Increase
Bangkok	CBD	861.1	THB/sq m/month	7.0%	2.2%	24.5	29.7	Increase

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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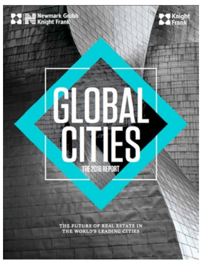

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