

ASIA-PACIFIC PRIME OFFICE RENTAL INDEX

Results for Q4 2016

Knight Frank's Asia-Pacific Prime Office Rental Index increased 1.3% quarter-on-quarter and 2.0% year-on-year in the last quarter of 2016

The increase in the index was the result of rising rents in 12 of the markets over the quarter, with rental declines experienced in seven of the 19 markets tracked

Across the region, international companies are taking a cautious approach to mitigate the negative effects of an uncertain global economy. Increasingly, markets with robust absorption and sustained demand from a diverse group of local firms will continue to experience growth

Over the next 12 months, we expect rents in 12 cities out of the 19 tracked to either remain steady or increase, which is down from 14 in our previous forecast



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“The importance of domestic demand is set to increase amidst economic and trade uncertainty.”

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DOMESTIC DEMAND THE KEY DRIVER IN ASIA-PACIFIC OFFICE MARKETS

Cities with strong local fundamentals will continue to thrive in 2017

A combination of softer external demand and tightening global financial conditions is continuing to dampen international office occupier's demand for office space, with the importance of domestic demand set to increase amidst economic and trade uncertainty. The diverse performance of Asia-Pacific office markets during the fourth quarter continues to reflect this reality where economic resiliencies and vulnerabilities coexist across the region.

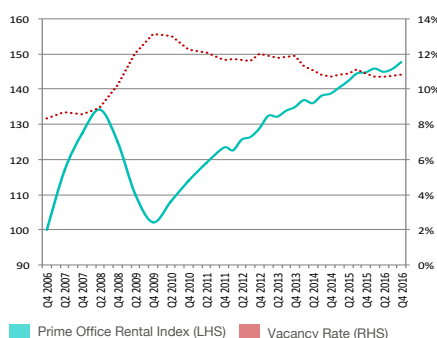
Registering strong growth of 5.0% quarter-on-quarter and 8.7% year-on-year, **Bangkok** was the strongest-performing office market across major Asia-Pacific cities last quarter. Demand is likely to remain strong with limited high-grade office supply in the CBD. With wholly different fates, the office markets in **Kuala Lumpur**, **Jakarta** and **Singapore** remained subdued in Q4 2016. Large incoming pipelines in all three cities in 2017 and subdued demand will likely exert further downward pressure on rental and occupancy levels. In **Phnom Penh**, rents rose by 2.9% year-on-year while vacancy rates continued to decline.

In **Beijing**, **Guangzhou** and **Shanghai**, new supply drove vacancy rates up. However, as this was counterbalanced by strong domestic demand, rental movement remained minimal last quarter. In 2017, occupancy levels in Guangzhou are set to tighten as there will be significantly less Grade-A office supply. Meanwhile, Shanghai and Beijing will see close to 2.9 million sq m and 0.6 million sq m of prime space respectively coming on-line this year. As international companies in China remain wary of the economic uncertainties, more time may be needed to digest this fresh stock. Prime office rents in **Hong Kong** grew for the eighth consecutive quarter, with a growth of 2.8% in Q4 2016. Looking ahead, the uptrend for office rents on Hong Kong Island is likely to continue in 2017, with and Central set to outperform the wider market, given the tight availability of space.

Elsewhere in East Asia, office markets remained stable. Rents in **Taipei** slid slightly by 0.4% in the quarter. With no new prime office space supply from Q4 2015 to Q3 2017, the market may still be in stabilisation for the coming months. **Tokyo's** rents stayed flat while its vacancy rate fell for the sixteenth consecutive quarter since Q1 2013. Though the Japanese economy is in a moderate recovery trend, the cautious attitude adopted by businesses may result in a steady office market, even with limited supply in 2017. In **Seoul**, prime rents dipped marginally quarter-on-quarter to a level similar to a year ago. The outlook there for rental growth looks muted, with an expected 430,000 sq m of premium supply this year.

Rents continued to rise in Australia except for **Perth**, where vacancies and incentive levels are close to the bottom. Year-on-year, **Melbourne** and **Sydney** witnessed rental increases of 7.0% and 10.1% respectively. With falling vacancy rates, landlords are offering less incentives in these cities. Rents in **Brisbane** have not declined since Q2 2015, signalling a possible recovery. The services sector, including technology and creative industries, will continue to drive leasing activity in Australia in 2017.

FIGURE 1
Prime Office Rental Index



Source : Knight Frank Research

Despite global uncertainties, during the quarter, **Bengaluru**, **Mumbai** and **New Delhi** all saw an increase in rents, accompanied by sliding vacancy rates and strong absorption on the back of an expanding office stock. Evidently, supply struggled to catch up with the robust demand coming from various sectors especially from technology firms.

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FIGURE 2
Asia-Pacific Prime Office Rents

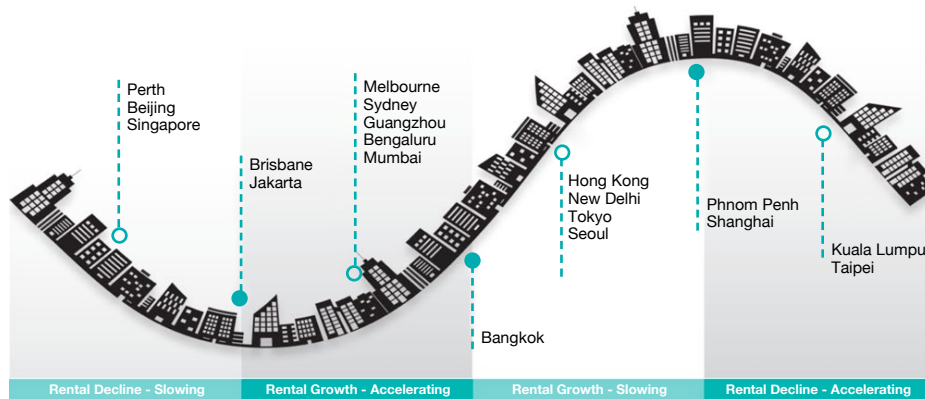
City	Submarket(s)	Prime Net Headline Rent	Local Measurement*	12-month % change	3-month % change	USD/sqm/mth	Gross Effective Rent** USD/sq m/mth	Forecast next 12 mths
Brisbane	CBD	564.0	AUD/sq m/annum	1.0%	0.5%	35.2	28.1	↑
Melbourne	CBD	537.0	AUD/sq m/annum	7.0%	2.5%	33.5	32.7	↑
Perth	CBD	570.0	AUD/sq m/annum	-1.6%	-1.0%	36.3	28.7	↓
Sydney	CBD	927.9	AUD/sq m/annum	10.1%	2.2%	59.0	52.0	↑
Phnom Penh	City Centre	22.9	USD/sq m/month	2.9%	1.6%	22.9	30.0	→
Beijing	Various	373.0	CNY/sq m/month	1.9%	-0.3%	54.6	80.2	↓
Guangzhou	CBD	177.7	CNY/sq m/month	1.1%	0.4%	26.0	44.2	↑
Shanghai	Puxi, Pudong	298.1	CNY/sq m/month	4.5%	0.1%	43.6	66.2	↓
Hong Kong	Central	144.6	HKD/sq ft/month	6.1%	2.8%	200.7	199.4	↑
Bengaluru	CBD	1,212.0	INR/sq ft/annum	5.2%	3.1%	16.1	26.5	↑
Mumbai	BKC	3,300.0	INR/sq ft/annum	4.8%	4.8%	43.9	72.1	↑
New Delhi	Connaught Place	3,720.0	INR/sq ft/annum	4.3%	4.3%	49.5	81.3	→
Jakarta	CBD	4,980,578.1	IDR/sq m/annum	-18.2%	-5.3%	31.3	39.7	↓
Tokyo*	Central 5 Wards	33,785.0	JPY/Tsubo/month	2.8%	0.2%	93.6	92.2	→
Kuala Lumpur	City Centre	5.3	MYR/sq ft/month	-0.9%	-0.2%	13.3	16.2	↓
Singapore	Raffles Place, Marina Bay	8.0	SGD/sq ft/month	-11.9%	-1.5%	61.0	72.5	↓
Seoul	CBD, GBD, YBD	31,745.3	KRW/sq m/month	-0.2%	-1.6%	27.3	73.1	↑
Taipei	Downtown	2,587.0	TWD/ping/month	-0.7%	-0.4%	25.1	38.3	↓
Bangkok	CBD	916.0	THB/sq m/month	8.7%	5.0%	25.8	31.3	↑

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.

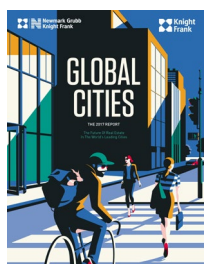
FIGURE 3
Prime Office Rental Cycle



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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