

China and Australia lead slowdown in Asia Pacific

Prime office markets showed a notable slowdown in Q2 2013, with China and Australian rents proving to be the most susceptible over the quarter.

Results for Q2 2013

The Knight Frank Asia-Pacific Prime Office Index decreased for the first time since Q4 2009, ending a run of 13 consecutive quarterly increases

Eight of the 19 prime office markets tracked saw prime rents decrease in Q2 2013, with 10 of the 19 seeing rents soften over the last 12 months

Jakarta continued to see the strongest rental growth, with prime rents increasing by 12.4% in Q2 2013

Despite the drop in the index, rents are expected to drop in only six of the 19 markets monitored over the next 12 months, with much dependant on the wider global economic landscape

Knight Frank's Asia-Pacific Prime Office Index decreased by 0.1% over the quarter, its first drop in 14 quarters. This marginal result in the stock weighted index reflected a drop in demand from occupiers in a number of countries that are undergoing slowdowns or multi speed recoveries.

Overall activity across the region has been down in 2013: net absorption in the major cities of Asia Pacific in the first half of 2013 was 22.8% lower than the same period of last year and 13.9% lower than the second half of 2012, with a number of markets recording negative demand for the period.

In China, the general slowdown of the economy has trickled down to the office market, where prime rents in Beijing, Guangzhou and Shanghai declined over the quarter. The rebalancing of the economy that is currently underway has caused some uncertainty and has impacted business expansions into new office space.

A key driver of the health of the Australian economy remains China, given the strong trade ties. In the lead-up to the election in September, the gloomy mood in the Australian economy, given the Chinese slowdown, has been reflected, with all major city CBDs seeing negative absorption and declining effective rents.

In Japan, the prime office rental market actually edged down slightly in Q2 2013 following two quarters of strong rental

growth. The ongoing impact of "Abenomics" and the continuing move towards prime, earthquake tolerant office accommodation however is likely to ensure solid prime rental growth over the next 12 months.

Similarly in India, while the struggling economy is growing at a faster rate than in 2012, rents have moved sideways and are expected to continue to do so, given the significant new supply that is expected to come online.

Elsewhere, prime rents remained stagnant in a number of major cities, with the expectation that markets are at the bottom of the rental cycle, most notably in Seoul, Singapore, Kuala Lumpur and Ho Chi Minh City.

Other markets remain on the upward trajectory of the rental cycle; Bangkok continued to see increases in prime office rents, while Jakarta continued to be the stand out market with rents increasing by 12.4% over the quarter.

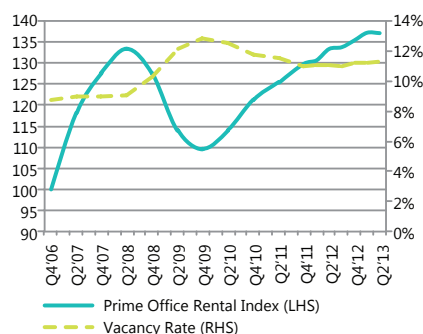
While the decrease in the index in the second quarter is perhaps not too surprising, ultimately the office rental markets are driven by supply and demand. While demand is difficult to accurately forecast in these uncertain times, we can analyse the future pipeline and foresee potential demand-supply imbalances which will impact rents going forward.

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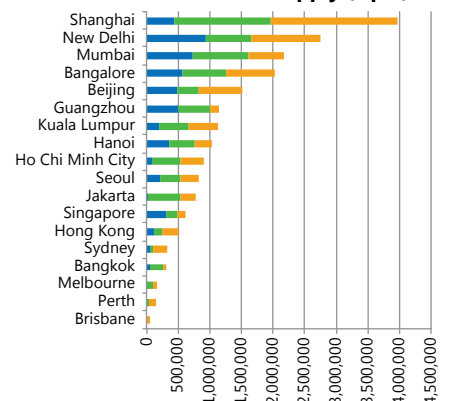
Nicholas Holt, Head of Research, Asia Pacific

Figure 1
Prime Office Rental Index



Source: Knight Frank Research

Figure 2
Asia Pacific Office Future Supply (sq m)



Source: Knight Frank Research

Figure 3
Asia-Pacific Prime Office Rents
Q2 2013

↑ Increase
→ No Change
↓ Decrease

City	Submarket	Prime Net Headline Rent	Local Measurement	USD/sqm/ mth	12mth % change Q2 '12 - Q2 '13	3mth % change Q1 '13 - Q2 '13	Gross Effective Rent** USD/sqm/mth	Forecast Next 12 mths
Brisbane	CBD	530.0	AUD/sq m/annum (Net Floor Area)	40.4	-8.3%	-2.6%	37.0	↓
Melbourne	CBD	462.0		35.2	0.2%	0.0%	34.9	↓
Perth	CBD	760.0		57.9	-5.6%	-1.4%	63.9	↓
Sydney	CBD	740.0		56.4	-0.1%	-0.1%	48.3	↓
Beijing	Various	387.4	RMB/sq m/month (Gross Floor Area)	62.8	2.5%	-2.2%	91.7	↑
Guangzhou	CBD	176.8		28.6	-0.1%	-1.2%	48.5	→
Shanghai	Puxi, Pudong	274.8		44.5	-2.1%	-0.9%	68.5	↓
Hong Kong	Central	119.8	HKD/sq ft/month (Net Floor Area)	166.3	-0.1%	0.6%	167.1	→
Bangalore	CBD	1,050.0	INR/sq ft/annum (Gross Floor Area)	15.8	5.4%	-0.6%	24.9	→
Mumbai	BKC	3,300.0		49.7	0.2%	0.0%	79.9	→
New Delhi	Connaught Place	3,125.0		47.0	0.2%	0.2%	75.5	→
Jakarta	CBD	4,862,076.0	IDR/sq m/annum (Semi-Gross Floor Area)	40.9	71.6%	12.4%	51.7	↑
Tokyo*	Central 3 Wards	26,680.0	JPY/Tsubo/month (Net Floor Area)	81.4	21.0%	-3.9%	81.8	↑
Kuala Lumpur	City Centre	4.7	MYR/sq ft/month (Net Floor Area)	16.1	1.9%	0.0%	20.2	→
Singapore	Raffles Place, Marina Bay	9.1	SGD/sq ft/month (Net Floor Area)	77.4	-4.0%	0.1%	90.2	↑
Seoul	CBD	30,200.0	KRW/sq m/month (Gross Floor Area)	26.5	-12.1%	0.0%	66.8	→
Bangkok	CBD	676.3	THB/sq m/month (Gross Floor Area)	21.8	5.2%	1.0%	26.5	↑
Hanoi	Hoan Kiem District	30.0	USD/sq m/month (Net Floor Area)	30.0	-6.2%	0.0%	37.7	↓
Ho Chi Minh City	District 1	31.0		31.0	-3.1%	0.0%	38.8	↑

Source: Knight Frank Research

*Source: Sanko Estate

**Inclusive of incentives, service charges and taxes. Based on net floor areas.

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