

# Asia-Pacific Prime Office Rental Index

Q1 2021

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## HEADLINES

**-1.2%**

QUARTER-ON-QUARTER GROWTH FOR ASIA-PACIFIC RENTAL INDEX IN Q1 2021

**Hong Kong SAR**

RECORDED THE HIGHEST YEAR-ON-YEAR DECLINE IN Q1 2021

**8**

OF 21 CITIES RECORDED STABLE OR INCREASED RENTS THIS PAST QUARTER

**Cautious**

EXPECTATIONS FOR 2021 OUTLOOK

Economic conditions for Asia-Pacific are quickly improving; this was confirmed by the IMF's recent April outlook update which saw 2021 GDP forecasts upgraded. Major economies such as Mainland China and Japan are now expected to record GDP growths of 8.4% and 3.3% respectively in 2021 compared to 8.1% and 3.1% previously. However, despite the rosier economic expectations, the office markets across Asia-Pacific during the quarter stayed lacklustre as leasing activity remained subdued and employees have been slow to return to the office – even in markets which have well suppressed COVID-19 infections for a prolonged period.

For Q1 2021, Knight Frank's Asia-Pacific Prime Office Rental Index fell -1.2% quarter-on-quarter, led by large office markets such as Tokyo, Hong Kong and Bengaluru which recorded rental declines of between -3.0% to -2.8% during the same period. On an annual basis, the overall index was down -5.5% year-on-year.

Going forward, while office market conditions are expected to remain soft for most of this year, the rate of rental decline is expected to decelerate, buoyed by improving economic conditions as landlords rein in the rental incentives that were on the table last year and workers gradually re-occupy offices.

As such, we maintain our forecast for rents to decline no more than -3.0% in 2021 compared to the -4.8% decline seen in 2020.

Prime headline rents in **Sydney** remained stable during Q1, with incentives and hence net effective rents also stable. After challenging market conditions during 2020, with negative net absorption and the emergence of significant sub-lease vacancy, 2021 has begun on a brighter note with steadily rising office occupancy and a significant improvement in deal flow. There is the potential for the market to benefit from the release of latent demand, although many tenants will still be adopting a cautious approach given lingering risks of COVID-related disruption until vaccines are fully rolled out and uncertainty over optimal workplace strategies. We expect headline rents to remain stable in the coming quarters, although incentives may edge out slightly further before recovery takes hold more firmly in 2022.

**Singapore's** prime office rents fell -1.0% quarter-on-quarter in Q1 2021, a deceleration from the -2.0% quarterly decline recorded in Q4 2020. This was attributed to improving take-up rates with overall occupancy remaining stable during the same period as the government's plan to quickly vaccinate its entire adult population and reopen the economy later

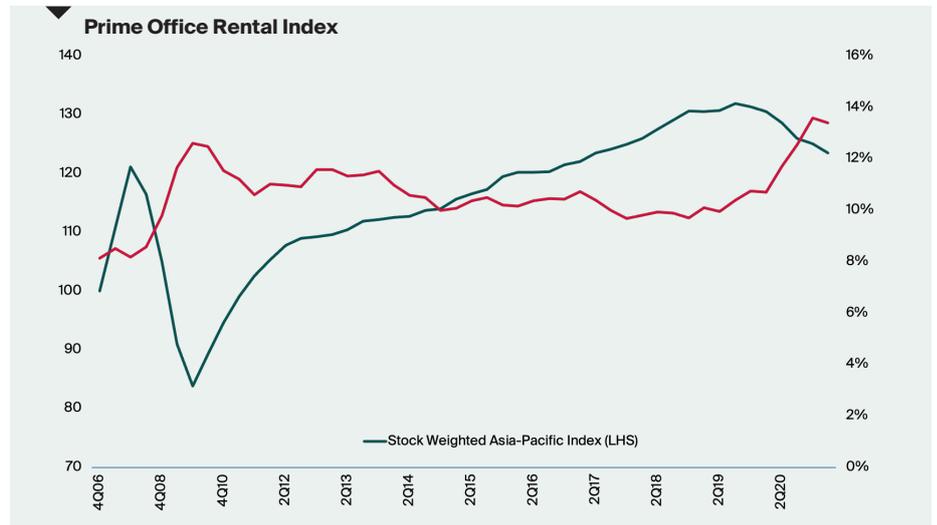
### Tim Armstrong

HEAD OF OCCUPIER SERVICES & COMMERCIAL AGENCY, ASIA PACIFIC

“Even though economies across Asia-Pacific are on the mend, office market environments during the quarter remain challenging as leasing activity remains low and re-occupancy and return to office has been slow, keeping conditions still largely tenant favourable.”

this year have boosted market sentiment. Coupled with this, the increase in shadow or sub-lease space also showed signs of slowing during the quarter with an estimated 344,000 sqft currently available on the market, in contrast to the 170,000 sqft recorded in Q2 2020 and subsequently 330,000 sqft in Q4 2020. Looking ahead, with remote working rules gradually being relaxed by the authorities and businesses rallying their employees back to the office to regain lost ground last year, the rate of rental decline is expected to further decelerate, with rents likely to bottom this year.

Grade A office rents in **Hong Kong SAR** continued their downtrend, dropping by 2.7% quarter-on-quarter in Q1 2021. But like many other markets, the decline narrowed when compared to the 4.3% drop recorded in Q4 2020. After the Chinese New Year holiday, the economy showed signs of recovery. Some companies with better performance are now actively looking for expansion options with lower rental costs, though with longer-term lease commitments. Meanwhile, landlords who remain under great vacancy pressure continue to offer incentives and further adjust rents downward to attract good covenant tenants. Looking ahead, the rental level in Central is expected to stabilise in the coming months as vacancies in the are already backfilled. Also, the expanded quarantine-free travel scheme for Hong Kong residents returning from the Mainland is expected to drive a revival in the office leasing market, given better business sentiment among Mainland companies.



SOURCE: KNIGHT FRANK RESEARCH

Asia-Pacific Prime Office Rents							
CITY	SUBMARKET(S)	PRIME NET HEADLINE RENT	LOCAL MEASUREMENT	ANNUAL CHANGE (YOY %)	QUARTERLY CHANGE (QOQ %)	FORECAST NEXT 12 MONTHS	
AUSTRALIA	BRISBANE	CBD	598	AUD/SQ M/ANNUM (NET FLOOR AREA)	-1.8%	-0.7%	→
	MELBOURNE	CBD	708	AUD/SQ M/ANNUM (NET FLOOR AREA)	0.0%	-0.3%	→
	PERTH	CBD	617	AUD/SQ M/ANNUM (NET FLOOR AREA)	-0.3%	0.0%	→
	SYDNEY	CBD	1,189	AUD/SQ M/ANNUM (NET FLOOR AREA)	0.0%	0.0%	→
	AUCKLAND	CBD	500	NZD/SQ M/ANNUM (NET FLOOR AREA)	NA	0.0%	→
EAST ASIA	TOKYO	CENTRAL 5 WARDS	29,417	JPY/TSUBO/MONTH (NET FLOOR AREA)	-8.2%	-2.8%	→
	BEIJING	VARIOUS	326.6	CNY/SQ M/MONTH (GROSS FLOOR AREA)	-6.1%	-0.6%	→
	GUANGZHOU	CBD	185	CNY/SQ M/MONTH (GROSS FLOOR AREA)	-3.4%	0.6%	→
	SHANGHAI	Puxi, Pudong	253	CNY/SQ M/MONTH (GROSS FLOOR AREA)	-7.7%	-0.4%	↓
	SHENZHEN	CBD	203	CNY/SQ M/MONTH (GROSS FLOOR AREA)	-4.2%	-1.0%	↓
	HONG KONG SAR	Central	113	HKD/SQ FT/MONTH (NET FLOOR AREA)	-13.7%	-2.7%	↓
	TAIPEI	DOWNTOWN	2,856	TWD/PING/MONTH (GROSS FLOOR AREA)	1.0%	0.4%	↑
INDIA	SEOUL	CBD, GBD, YBD	35,859	KRW/SQ M/MONTH (GROSS FLOOR AREA)	4.5%	2.6%	→
	BENGALURU	CBD	1,490	INR/SQ FT/ANNUM (GROSS FLOOR AREA)	-8.0%	-3.0%	→
	MUMBAI	BKC	3,450	INR/SQ FT/ANNUM (GROSS FLOOR AREA)	-6.2%	-0.8%	→
ASEAN	NCR	CONNAUGHT PLACE	4,038	INR/SQ FT/ANNUM (GROSS FLOOR AREA)	-1.0%	0.0%	→
	PHNOM PENH	City Centre	26.7	USD/SQ M/MONTH (NET FLOOR AREA)	7.2%	0.0%	→
	JAKARTA	CBD	304,313	IDR/SQ M/MONTH (SEMI-GROSS FLOOR AREA)	-8.4%	-5.8%	↓
	KUALA LUMPUR	City Centre	5.7	MYR/SQ FT/MONTH (NET FLOOR AREA)	-3.9%	-0.9%	↓
	SINGAPORE	Raffles Place, Marina Bay	10.1	SGD/SQ FT/MONTH (NET FLOOR AREA)	-9.0%	-1.0%	↓
	BANGKOK	CBD	1,135	THB/SQ M/MONTH (GROSS FLOOR AREA)	-3.1%	-0.9%	↓
MANILA	VARIOUS	1,139	PHP/SQ M/MONTH (NET FLOOR AREA)	0.8%	0.0%	↓	

SOURCE: KNIGHT FRANK RESEARCH

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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