

Results for Q2 2016

Knight Frank's Asia-Pacific Prime Office Rental Index dipped 0.6% in the second quarter of 2016, although it still sits 8.9% above its pre-crisis (Q2 2008) peak

The decline in the index was the result of some significant softening of rentals in five markets, even though rental growth was experienced in 10 of the 19 markets tracked

Despite significant new supply coming into many markets, the Asia-Pacific vacancy rate dropped 20 basis points to 10.6% on the back of steady demand in the key hubs

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

WHERE THERE IS TECH, LET THERE BE GROWTH

Q2 results reveal strongest office rental growth in cities attracting technology and creative industries

The top four Asia-Pacific markets for rental growth in Q2 2016 all have one thing in common: a strong and growing technology sector. Complementing existing sector activity, tenant demand in Shanghai, Melbourne, Sydney and Bengaluru was enhanced by growing tech and related sector clusters.

In Shanghai, where take-up by Technology, Media and Telecommunications (TMT) sector increased by 75% between 2007 and 2015, rents continued to rise and vacancy rates tighten. Some of the rental growth however can be attributed to China's Value-added Tax (VAT) reform, effective from 1 May 2016, which saw landlords pass on the additional tax burden to tenants in the form of rental increases. In the other major Chinese cities tracked, rents in Beijing continued to climb, although the vacancy rate edged up slightly with six new projects completed, while Guangzhou was relatively quiet, with minor increases in rents.

Australia's major business hubs, take-up continues to be above the long-term average, driven by a relatively strong economy – while limited future supply coming online in 2017, 2018 and 2019, will underpin future rental growth. Brisbane and Perth, the other major Australian cities in the index saw rents remain relatively stable over the quarter.

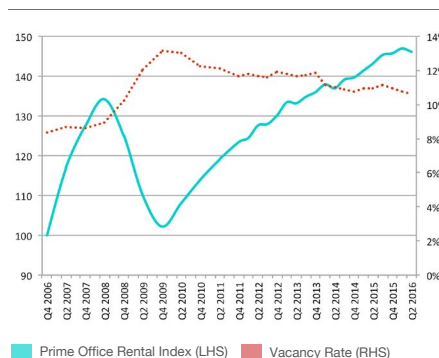
The "Silicon Valley of India", Bengaluru, meanwhile continues to see solid growth as it retained the top slot for the highest volume of office space transactions in the country, with the city's office market clocking a total transaction space of 6.1 m sq. ft. during the first half of the year. The IT/ITeS and e-commerce sectors continue to contribute significantly and the vacancy rate, which had been declining steadily over the years, continue to remain at 7% despite the substantial number of new completions this year. The other major Indian markets, New Delhi and Mumbai saw rents remain stable.

Elsewhere in the region, the Shenzhen-Hong Kong Stock Connect, which will potentially be launched in the second half of the year, is set to shore up the office letting market in Hong Kong – the market that has seen the highest annual rental value uplifts of 11.3% - while in Taipei, the slowdown in the economy has led to a fairly mute office market over the quarter.

At the lower end of the rental growth rankings, Jakarta and Singapore continued to see muted demand and significant supply put downward pressure on rents. With weakening economic growth and cautious business sentiment, prime office rentals are expected to continue to decline in both markets throughout the remainder of 2016.

Looking forward, the future of real estate in many of the regional hubs is analysed in more detail in the recently released **Global Cities: The 2017 report**.

FIGURE 1
Prime Office Rental Index



Source : Knight Frank Research

Mirroring the trend witnessed in the Sydney CBD a year ago, the technology sector has been driving demand for prime CBD office space in Melbourne, with recent commitments including Facebook, Electronic Arts and Amazon. In both of



NICHOLAS HOLT
Asia Pacific Head of Research

“Tenant demand in Shanghai, Melbourne, Sydney and Bengaluru was enhanced by growing tech and related sector clusters”

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ASIA-PACIFIC PRIME OFFICE RENTAL INDEX

FIGURE 2
Asia-Pacific Prime Office Rents

↑ Increase
↔ No Change
↓ Decrease

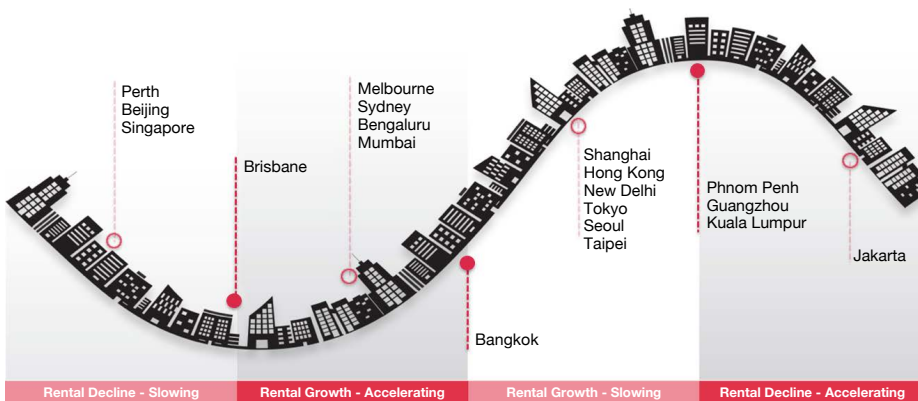
City	Submarket(s)	Prime Net Headline Rent	Local Measurement*	12-month % change	3-month % change	USD/sqm/mth	Gross Effective Rent** USD/sq m/mth	Forecast next 12 mths
Brisbane	CBD	562.0	AUD/sq m/annum	1.4%	0.4%	34.9	27.7	↔
Melbourne	CBD	520.0	AUD/sq m/annum	7.0%	3.6%	32.3	31.4	↑
Perth	CBD	576.0	AUD/sq m/annum	-5.9%	-0.3%	35.7	29.5	↓
Sydney	CBD	896.0	AUD/sq m/annum	10.8%	3.0%	55.6	47.7	↑
Phnom Penh	City Centre	22.5	USD/sq m/month	1.9%	1.1%	22.5	30.6	↔
Beijing	Various	378.0	CNY/sq m/month	2.5%	0.8%	56.9	83.3	↓
Guangzhou	CBD	176.8	CNY/sq m/month	-0.8%	0.3%	26.6	45.3	↔
Shanghai	Puxi, Pudong	304.2	CNY/sq m/month	8.7%	4.2%	45.8	69.3	↑
Hong Kong	Central	138.9	HKD/sq ft/month	11.3%	1.3%	192.7	191.9	↑
Bengaluru	CBD	1,176.0	INR/sq ft/annum	5.4%	1.6%	15.6	25.1	↑
Mumbai	BKC	3,190.0	INR/sq ft/annum	3.2%	0.0%	42.4	68.1	↑
New Delhi	Connaught Place	3,565.0	INR/sq ft/annum	7.9%	0.0%	47.4	76.1	↔
Jakarta	CBD	5,257,217.0	IDR/sq m/annum	-17.0%	-7.4%	33.3	42.1	↓
Tokyo*	Central 3 Wards	31,634.0	JPY/Tsubo/month	-5.3%	-6.9%	93.0	92.8	↔
Kuala Lumpur	City Centre	5.4	MYR/sq ft/month	-0.9%	0.0%	14.4	17.6	↓
Singapore	Raffles Place, Marina Bay	8.4	SGD/sq ft/month	-12.2%	-3.8%	67.3	79.4	↓
Seoul	CBD, GBD, YBD	32,625.7	KRW/sq m/month	4.0%	0.0%	28.3	66.0	↑
Taipei	Downtown	2,600.0	TWD/ping/month	-0.4%	0.0%	24.4	37.3	↔
Bangkok	CBD	863.6	THB/sq m/month	6.2%	0.3%	24.6	29.9	↑

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.

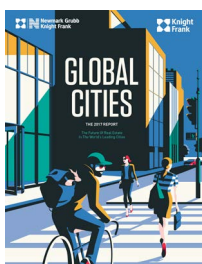
FIGURE 3
Prime Office Rental Cycle



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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