The Asia-Pacific Prime Office Rental Index aims to provide occupiers, landlords and investors with a regular analysis of the rental performance of prime office markets across Asia-Pacific.

Knight Frank

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Asia-Pacific Prime Office Rental Index

Q2 2020

HEADLINES

-1.4%
QUARTER-ON-QUARTER GROWTH FOR ASIA-PACIFIC RENTAL INDEX IN Q2 2020

Hong Kong
RECORDED THE HIGHEST YEAR-ON-YEAR DECLINE IN Q2 2020

12
OF 21 CITIES RECORDED STABLE OR INCREASED RENTS THIS PAST QUARTER

Cautious
EXPECTATIONS FOR 2020 OUTLOOK

Q2 2020 was an exceptionally tough quarter for the Asia-Pacific office markets with most of the region under some form of lockdown or movement restrictions which severely limited economic activity. For Q2 2020, Knight Frank's Asia-Pacific Prime Office Rental Index fell -1.4% quarter-on-quarter, led mainly by **Hong Kong** which recorded a -5.8% decline during the same period. On an annual basis, the index was down -1.6% year-on-year. Similarly, absorption rates have softened during the period as leasing activity slowed significantly. This led the region's vacancy rate to rise by 0.8% to 11.6%, a recent high, with the rise driven rather uniformly across most markets during the period.

Going forward, with the IMF recently downgrading the region's 2020 GDP outlook by -1.8% to -0.8%, the overhang from the weaker than expected economy this year will continue to weigh heavily on the office sector. As such, we continue to maintain our expectations for the rental index to decline between -5 to -3% this year.

Grade A rents in Hong Kong fell -5.8% quarter-on-quarter in Q2 as its economy remains in a recession and sentiment continued to be dampened by both political uncertainty and the ongoing social unrest. On an annual basis, rents were down -22.6% year-on-year during the period. Looking ahead, with the city currently battling a third wave of COVID-19 infections and the subsequent retightening of its social distancing restrictions, the office market is expected to take a longer period to recover back to pre-COVID levels.

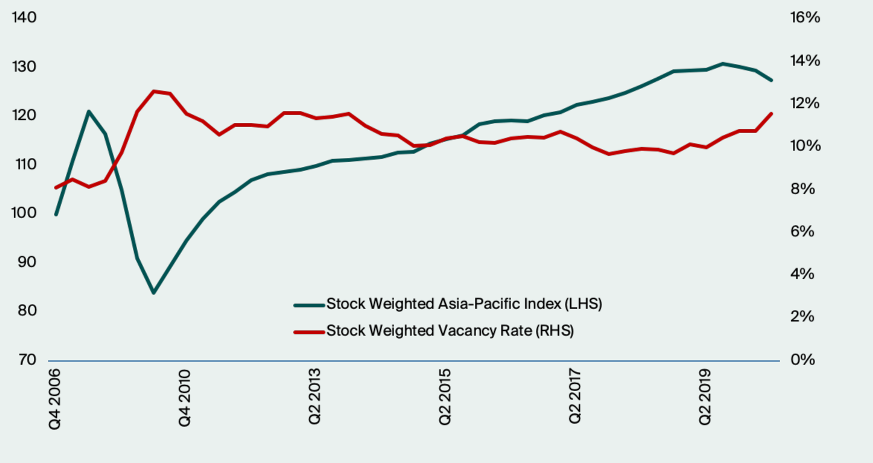
Tokyo's Grade A office rents rose by a marginal 0.3% quarter-on-quarter in Q2 as the market's seven-year office boom looks to have peaked. One indicator of this can be seen from its vacancy rate which rose by 0.2% to 1.22% for the city's 23 wards; this was the largest increase seen over the past several years. The COVID-19 pandemic has been a major factor driving the cycle turnaround as many domestic occupiers have put off signing new leases and have pushed their employees to work from home (WFH); Fujitsu, one of Japan's largest employers, plans to reduce its office footprint by 50% over the coming three years. Looking ahead, we see further softening for Tokyo's office market especially in certain sub-markets, such as Shibuya, which has a higher concentration of tech firms, mainly due to tech's more liberal policies with regards to WFH practices.

Tim Armstrong
HEAD OF OCCUPIER SERVICES & COMMERCIAL AGENCY, ASIA PACIFIC

"While leasing activity has picked up in Q2 2020 with most markets easing lockdowns and office workers gradually returning to the workplace, it was still insufficient to support rents which declined during the period. However, with the market balance expected to tilt more in favour of tenants in the coming months, this presents opportunities for well-capitalised companies to reassess their corporate real estate strategies to prepare for the long road to recovery."

Singapore's Grade A office rents contracted -2.6% quarter-on-quarter during the period as landlords lowered their rental expectations to maintain occupancies either by retaining or attracting new occupiers amidst the city-state's cloudy economic outlook. The market also witnessed the completion of 280,000 sqft of space between two new buildings, 55 Market Street and 30 Raffles Place, which contributed towards the rising market vacancy during the quarter. Overall, vacancy was up by 1.4% to 10.7%. There is also a rising risk of shadow space within the market, currently estimated at 170,000 sqft, which will compound pressures from the weak economic conditions on the Singapore office sector throughout the rest of this year.

Prime Office Rental Index



Asia Prime Office Rents

	CITY	SUBMARKET(S)	PRIME NET HEADLINE RENT	LOCAL MEASUREMENT	12-MTH% CHANGE (Q2 2019 - Q2 2020)	3-MTH % CHANGE (Q1 2020 - Q2 2020)	FORE-CAST NEXT 12 MONTHS
AUSTRALIA	BRISBANE	CBD	605	AUD/SQ M/ANNUM (NET FLOOR AREA)	-0.2%	-0.7%	Decrease
	MELBOURNE	CBD	708	AUD/SQ M/ANNUM (NET FLOOR AREA)	4.1%	0.0%	Decrease
	PERTH	CBD	620	AUD/SQ M/ANNUM (NET FLOOR AREA)	4.0%	0.1%	Decrease
	SYDNEY	CBD	1,189	AUD/SQ M/ANNUM (NET FLOOR AREA)	4.6%	0.0%	Decrease
EAST ASIA	TOKYO*	CENTRAL 5 WARDS	32,134	JPY/TSUBO/MONTH (NET FLOOR AREA)	6.7%	0.3%	Decrease
	BEIJING	VARIOUS	335.6	CNY/SQ M/MONTH (GROSS FLOOR AREA)	-7.5%	-3.5%	Decrease
	GUANGZHOU	CBD	187	CNY/SQ M/MONTH (GROSS FLOOR AREA)	-3.1%	-2.3%	Decrease
	SHANGHAI	PUXI, PUDONG	263	CNY/SQ M/MONTH (GROSS FLOOR AREA)	-8.0%	-3.9%	Decrease
	SHENZHEN	CBD	209	CNY/SQ M/MONTH (GROSS FLOOR AREA)	NA	-1.4%	Decrease
	HONG KONG	Central	123	HKD/SQ FT/MONTH (NET FLOOR AREA)	-22.6%	-5.8%	Decrease
	TAIPEI	Downtown	2,835	TWD/PING/MONTH (GROSS FLOOR AREA)	1.7%	0.3%	Increase
	SEOUL	CBD, GBD, YBD	34,619	KRW/SQ M/MONTH (GROSS FLOOR AREA)	2.0%	0.8%	Same
INDIA	BENGALURU	CBD	1,620	INR/SQ FT/ANNUM (GROSS FLOOR AREA)	8.4%	0.0%	Same
	MUMBAI	BKC	3,680	INR/SQ FT/ANNUM (GROSS FLOOR AREA)	2.1%	0.0%	Same
	NCR	Connaught Place	4,079	INR/SQ FT/ANNUM (GROSS FLOOR AREA)	3.0%	0.0%	Same
ASEAN	PHNOM PENH	CITY CENTRE	25.4	USD/SQ M/MONTH (NET FLOOR AREA)	7.6%	6.7%	Decrease
	JAKARTA	CBD	3,824,988	IDR/SQ M/ANNUM (SEMI-GROSS FLOOR AREA)	-8.9%	-4.1%	Decrease
	KUALA LUMPUR	City Centre	5.9	MYR/SQ FT/MONTH (NET FLOOR AREA)	1.4%	-0.3%	Decrease
	SINGAPORE	Raffles Place, Marina Bay	9.9	SGD/SQ FT/MONTH (NET FLOOR AREA)	-4.0%	-2.6%	Decrease
	BANGKOK	CBD	1,137	THB/SQ M/MONTH (GROSS FLOOR AREA)	-0.5%	0.5%	Same
	MANILA	Various	1,139	PHP/SQ M/MONTH (NET FLOOR AREA)	5.5%	0.8%	Decrease

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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