

Results for Q3 2018

Knight Frank Asia-Pacific Prime Office Rental Index rose 2.3% quarter-on-quarter and 6.4% year-on-year in the third quarter of 2018

Slower index growth mainly due to softer occupier sentiment over US China trade tensions

Despite this, we maintain our expectations for steady growth in 2018 on continued favourable economic conditions

ASIA-PACIFIC PRIME OFFICE RENTAL GROWTH SLOWS

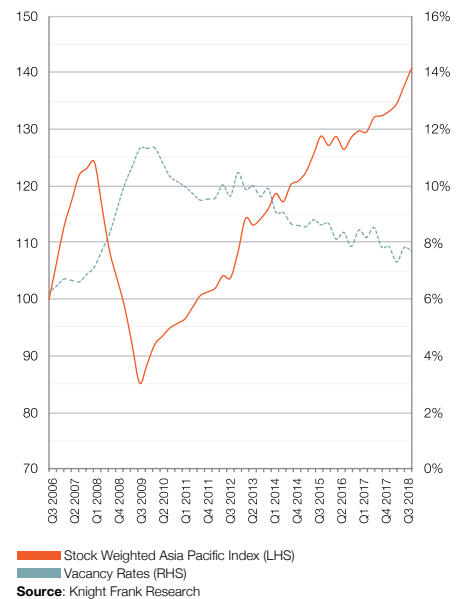
Trade tensions uncertainty led to moderating rental growth in Q3

While economic conditions in the Asia-Pacific remain healthy across the region, the ever-escalating trade tensions between the US and China has created an air of uncertainty among global business leaders leading to softer rental growth this quarter as office occupiers delayed their major real estate decisions. In Q3 2018, Knight Frank's Asia-Pacific Prime Office Rental Index grew 2.3% quarter-on-quarter to 141, slowing slightly from the 2.4% rise seen previously, with 18 cities out of the 20 we track reporting stable or increased rental growth. With economic trends across the region still tracking positively, we maintain our expectation that the Asia-Pacific Prime Office markets will continue to see steady growth for the rest of 2018.

In Australia, **Brisbane** rents rose 0.7% quarter-on-quarter as improving economic activity drove upgrading and inward migration demand in the CBD. **Perth** rents continued their subdued performance with rents up 0.2%. However, ground sentiment is on the mend with on sustained commodity price growth and we could be seeing the light at the tunnel's end soon. **Melbourne's** rapid population and employment growth continues to drive high levels of absorption, as rents rose 2.6%. Financial capital **Sydney** saw rental growth of 2.5%, as it continues to experience tight supply. Looking ahead, economic conditions in Australia remain supportive of the major office markets, although the pace of rental growth is expected to gradually slow in **Sydney** and **Melbourne**.

Kuala Lumpur saw rents decline -0.2% quarter-on-quarter, decelerating from the -0.8% fall seen previously, as the commodity sector starts to see some signs of life on sustained oil price growth and growing co-working sector. However, forward near-term expectations for rental growth should remain subdued as landlords are still offering packages to attract occupiers. **Manila** rents rose 0.8% quarter-on-quarter as the ongoing US China trade dispute has dented sentiment for US multinationals, a large tenant demographic for Manila's booming BPO industry. **Singapore's** rents rose 1.1% quarter-on-quarter as city-states limited office supply outlook continues to favour landlords at the negotiation table.

FIGURE 1
Prime Office Rental Index



After a strong showing in Q2 2018, **Bengaluru's** office market took a breather and returned to a normalised steady state recording a 0.4% quarter-on-quarter growth. Looking ahead, rents in India's IT hub are expected to climb steadily given steady demand and limited supply conditions. Rents in **Mumbai** rose 3.9% on sustained demand from not only the traditional finance and IT sectors, but also co-working operations who have been aggressively expanding in the city.

In north Asia, **Tokyo's** rents continue to see movement, rising 5.6% quarter-on-quarter, on the back of strong occupier demand and limited supply; prime vacancy within its major 5 wards fell to recent low of 0.95%. **Hong Kong** rents rose 2.7% quarter-on-quarter as the near full occupancy market and no foreseeable near-term supply continues to drive rents up in the world's most expensive office market. **Shanghai's** rents remained unchanged while rents in **Beijing** rose 0.7% on steady demand from the technology sector.



NICHOLAS HOLT
Asia-Pacific Head of Research

"While we are starting to feel the impact of the trade tensions flow through the Asia-Pacific office markets, sound economic conditions are expected to support office demand and drive steady rental growth across the region"

Follow Nicholas at [@nholtKF](https://twitter.com/nholtKF)

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ASIA-PACIFIC PRIME OFFICE RENTAL INDEX

FIGURE 2

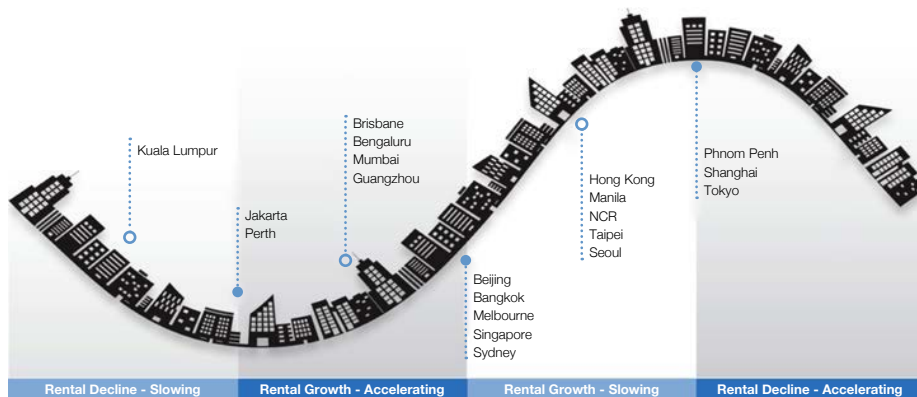
Asia-Pacific Prime Office Rents

Markets	City	Submarket(s)	Prime Net Headline Rent	Local Measurement [^]	12-month % change (Q3 2017 - Q3 2018)	3-month % change (Q2 2018 - Q3 2018)	USD/sq m/month	Gross Effective Rent** USD/sq m/month	Forecast next 12 mths	
Australia	Brisbane	CBD	595.0	AUD/sq m/annum (Net Floor Area)	2.9%	0.7%	35.8	29.8	↑	
	Melbourne	CBD	601.0	AUD/sq m/annum (Net Floor Area)	7.1%	2.6%	36.2	33.5	↑	
	Perth	CBD	590.0	AUD/sq m/annum (Net Floor Area)	0.1%	0.2%	35.5	28.6	→	
	Sydney	CBD	1,106.0	AUD/sq m/annum (Net Floor Area)	13.8%	2.5%	66.6	61.8	↑	
East Asia	Tokyo*	Central 5 Wards	39,003.0	JPY/tsubo/month (Net Floor Area)	13.4%	5.6%	103.8	99.9	→	
	Beijing	Various	385.0	CNY/sq m/month (Gross Floor Area)	2.9%	0.7%	56.1	82.4	↑	
	Guangzhou	CBD	190.7	CNY/sq m/month (Gross Floor Area)	3.6%	0.3%	27.8	46.8	↑	
	Shanghai	Puxi, Pudong	289.0	CNY/sq m/month (Gross Floor Area)	-2.1%	0.0%	42.1	64.1	↓	
	Hong Kong	Central	164.2	HKD/sq ft/month (Net Floor Area)	8.6%	2.7%	23.9	227.3	↑	
	Taipei	Downtown	2,728.0	TWD/ping/month (Gross Floor Area)	2.5%	0.0%	27.1	41.2	↑	
	Seoul	CBD, GBD, YBD	33,651.0	KRW/sq m/month (Gross Floor Area)	-0.2%	-0.7%	30.3	77.5	→	
	India	Bengaluru	CBD	1,373.0	INR/sq ft/annum (Gross Floor Area)	7.4%	0.4%	17.0	28.6	↑
		Mumbai	BKC	3,568.0	INR/sq ft/annum (Gross Floor Area)	6.0%	3.9%	44.1	74.4	↑
NCR		Connaught Place	3,906.0	INR/sq ft/annum (Gross Floor Area)	0.7%	0.0%	48.3	81.4	→	
ASEAN	Phnom Penh	City Centre	23.5	USD/sq m/month (Net Floor Area)	-0.3%	0.1%	23.5	30.8	→	
	Jakarta	CBD	4,707,041.0	IDR/sq m/annum (Semi-Gross Floor Area)	-2.3%	0.0%	26.3	32.7	→	
	Kuala Lumpur	City Centre	5.8	MYR/sq ft/month (Net Floor Area)	-2.0%	-0.2%	15.2	18.2	↓	
	Singapore	Raffles Place, Marina Bay	9.8	SGD/sq ft/month (Net Floor Area)	23.5%	1.1%	77.2	89.4	↑	
	Bangkok	CBD	1,044.6	THB/sq m/month (Gross Floor Area)	5.1%	0.0%	32.3	35.8	↑	
	Manila	Various	1,018.3	PHP/sq m/month (Net Floor Area)	9.7%	0.8%	18.8	22.0	↓	

Source: Knight Frank Research / *Sanko Estate [^]Based on net floor areas for except for China, India, Korea, Taiwan, and Thailand (gross) **Inclusive of incentive, service charges and taxes. Based on net floor areas.

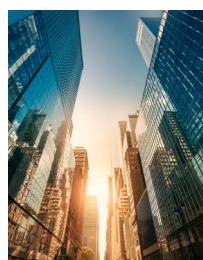
FIGURE 3

Prime Office Rental Cycle



Source: Knight Frank 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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