

ASIA-PACIFIC PRIME OFFICE RENTAL INDEX

Results for Q4 2017

Knight Frank's Asia-Pacific Prime Office Rental Index increased 0.7% quarter-on-quarter and 1.1% year-on-year in the last quarter of 2017.

The increase in the index was the result of rising rents in 12 of the markets over the quarter, with rental declines experienced in four of the 20 markets tracked.

Over the next 12 months, we expect rents in 16 cities out of the 20 tracked to either remain steady or increase, which is the same as our previous forecast.



NICHOLAS HOLT
Asia Pacific Head of Research

“Relatively strong economic performance has sustained active office leasing markets across Asia-Pacific in 2017.

sGrowth in demand from co-working and technology-related spaces will continue to be a prominent trend in 2018 across most of the region's key markets.”

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SUSTAINED GROWTH MOMENTUM FOR ASIA-PACIFIC PRIME OFFICE MARKETS

Positive outlook and evolving trends to continue in 2018

In 2017, solid economic performance in Asia-Pacific helped boost the prime office sector as more leasing activities were recorded in select markets. At the same time, the year has also seen continued growth in demand from co-working and technology-related spaces. Looking into 2018, according to the International Monetary Fund, Asia's real GDP is projected to grow by 5.5%, similar to the expected 5.6% growth in 2017, which is likely to maintain momentum in the prime office markets.

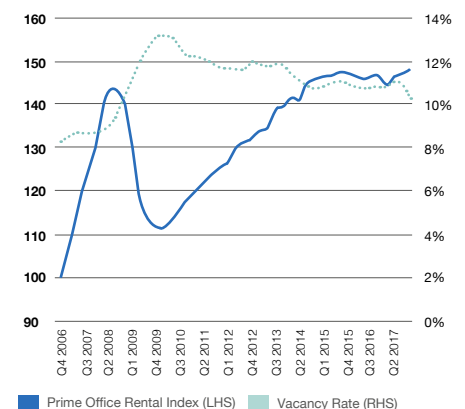
Year-on-year, **Sydney** recorded a 6.9% prime rental increase in 2017 – the highest in all Asia-Pacific markets tracked in this index. In the four major Australian cities, **Brisbane** was the only market with rising vacancy rates in Q4 2017. **Melbourne** experienced its first-ever quarterly decrease since Q3 2012, albeit a meagre 0.2%. Rents in **Perth** remained stable as vacancy rates had been recovering slowly over the past few quarters.

Manila's office sector successfully rose above market uncertainties in 2017 as the business process outsourcing industry continued to drive the performance of the local office sector. Despite a 3.8% quarter-on-quarter increase, prime rents in **Jakarta** is expected to be tenant-favourable for at least the next 24 months. Amidst strong demand with rising rents and low vacancies, the outlook in **Bangkok** remained positive. Vacancy rates in **Phnom Penh** continued to drop as more multinational companies moved in to newly-completed prime office spaces.

In **Taipei**, with no new Grade-A office supply in Q4, rents increased slightly, along with the absorption of existing stock. However, the vacancy rate is expected to increase along with the launch of new office towers, but rents should remain stable. **Shanghai's** Grade-A office rents remained stable, while the vacancy rates edged downward due to increasing demand from co-working companies for Grade-A space. Prime rents in **Hong Kong** continued to rise in 2017, with Admiralty and Sheung Wan recording the largest growth among districts on Hong Kong Island, up 11% and 9% year-on-year respectively. Central's rents are expected

to rise between 2-5% this year with limited supply and sustained demand. Stock in **Pazhou** and **International Finance City in Guangzhou** will increase rapidly in 2018, which will push up the vacancy rates and impose downward pressure on rents.

FIGURE 1
Prime Office Rental Index



Source : Knight Frank Research

The office market in **Singapore** showed continued signs of recovery in Q4 2017, with active leasing activity gathering pace. A stronger performing economy did not help **Kuala Lumpur** office market as it continued to struggle with an oversupply of new buildings and subdued leasing activities. **Seoul** office market suffered a 1.9% decline quarter-on-quarter but for the full 2017, the city still posted a 4.3% increase. Prime vacancy rates in **Tokyo** continued to slide for the third consecutive quarter, down to 1.6% as at the end of last year.

Occupiers in **Mumbai** were impacted in 2017 on account of GST implementation and slowdown in consumer demand. As a result, the corporates focused their attention on getting themselves GST compliant and held back on expansion plans. In **Bengaluru**, the IT/ITeS, e-commerce and co-working sectors remained the important demand drivers in H2 2017. Office project delays in **NCR** resulted in an all-time low in completions – only 4.1 million sq ft of new completions hit the market in 2017, registering a striking 65% decline from the peak in 2015.

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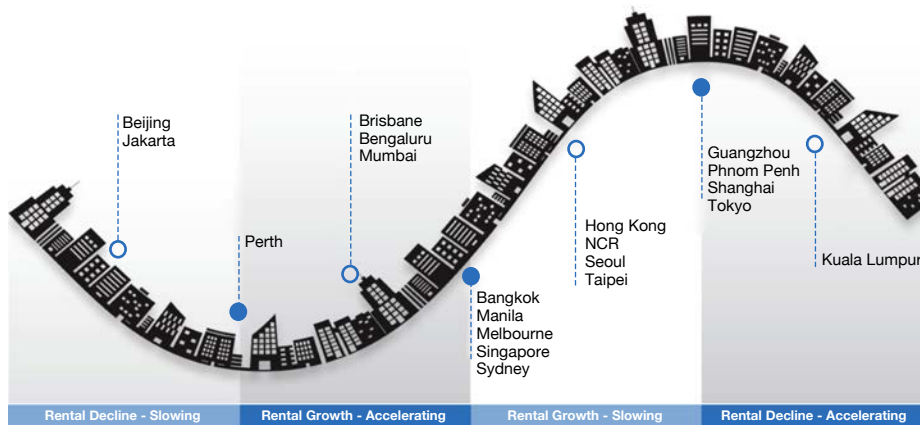
FIGURE 2
Asia-Pacific Prime Office Rents Summary

↑ Increase
↔ No Change
↓ Decrease

City	Submarket(s)	Prime Net Headline Rent	Local Measurement [^]	12-month % change (Q4 2016-Q4 2017)	3-month % change (Q3 2017-Q4 2017)	USD/sq m/month	Gross Effective Rent ^{**}	12-month Forecast
Brisbane	CBD	580.0	AUD/sq m/annum	2.8%	0.3%	37.2	30.4	↑
Melbourne	CBD	560.0	AUD/sq m/annum	4.3%	-0.2%	35.9	36.1	↑
Perth	CBD	600.0	AUD/sq m/annum	2.0%	0.0%	38.4	30.6	↔
Sydney	CBD	992.2	AUD/sq m/annum	6.9%	2.1%	63.6	57.9	↑
Phnom Penh	City Centre	23.5	USD/sq m/month	2.8%	-0.5%	23.5	30.7	↔
Beijing	Various	370.7	CNY/sq m/month	-0.6%	-0.9%	56.0	82.6	↓
Guangzhou	CBD	185.8	CNY/sq m/month	4.6%	1.0%	28.1	47.5	↔
Shanghai	Puxi, Pudong	295.0	CNY/sq m/month	-1.0%	0.0%	44.6	67.8	↔
Hong Kong	Central	152.2	HKD/sq ft/month	5.2%	0.7%	209.8	212.0	↑
Taipei	Downtown	2,668.0	TWD/ping/month	3.1%	0.3%	26.8	40.8	↑
Bengaluru	CBD	1,278.0	INR/sq ft/annum	5.4%	0.0%	17.7	29.8	↑
Mumbai	BKC	3,432.0	INR/sq ft/annum	4.0%	2.0%	47.5	80.1	↑
NCR	Connaught Place	3,906.0	INR/sq ft/annum	5.0%	0.7%	54.1	88.8	↔
Jakarta	CBD	5,000,788.0	IDR/sq m/annum	0.4%	3.8%	30.7	38.5	↓
Tokyo*	Central 5 Wards	34,599.0	JPY/txubo/month	2.4%	0.6%	92.7	91.0	↔
Kuala Lumpur	City Centre	5.3	MYR/sq ft/month	-1.5%	0.0%	13.6	16.7	↓
Singapore	Raffles Place, Marina Bay	8.1	SGD/sq ft/month	1.0%	1.8%	64.1	76.1	↑
Seoul	CBD, GBD, YBD	33,095.0	KRW/sq m/month	4.3%	-1.9%	29.8	73.4	↔
Bangkok	CBD	1,000.2	THB/sq m/month	4.4%	0.7%	30.3	36.8	↑
Manila	Various	950.3	PHP/sq m/month	6.3%	2.5%	18.6	21.9	↓

Source: Knight Frank Research / *Sanko Estate
[^]Based on net floor areas for except for Mainland China, India, Korea, Taipei, 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.

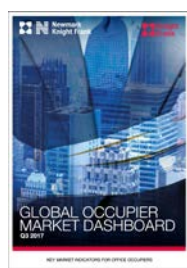
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