

Asian growth to increase office space demand in 2013

An increasingly regionally connected Chinese economy and the knock on effects from Japanese stimulus measures are likely to boost activity across the region, with domestic occupiers leading demand for prime office space.

Results for Q1 2013

The Knight Frank Asia-Pacific Prime Office Index rose for the twelfth successive quarter, increasing 1.7% in Q1 2013 and 5.6% over the last 12 months

15 of the 19 prime office markets tracked saw prime rents increase in Q1 2013

Rents are expected to soften in only three of the 19 markets monitored over the next 12 months

The Asia-Pacific Prime Office Index increased 1.7% over the quarter, down slightly from the 2.0% recorded in the previous quarter. The Asia-Pacific vacancy rate increased marginally to 12.0% as positive net absorption across most markets was met with significant new supply.

Tokyo led the way in terms of rental growth, where Grade A office rents increased over the quarter by nearly 16%. Although still sitting 39% below the Q1 2008 peak, we have continued to see prime centrally-located office space outperform the wider Tokyo market. The unprecedented stimulus measures recently introduced by the Bank of Japan are likely to lead to a bump in growth over the next two years, impacting demand for office space and increasing the prospects of further prime rental growth.

In China, despite a drop in growth levels in Q1 2013, the movement to more domestic demand in the country is likely to lead to more stable but lower growth rates over the coming years. The Beijing office market remains tight, although has likely passed its mid-term peak, while the Shanghai market is likely to continue to become more tenant friendly as the city welcomes nearly 2.5 million sqm of new supply over the next three years.

In Southeast Asia, prime office rents fell for the 7th successive quarter in Singapore,

while the Vietnamese markets have likely hit the bottom of the cycle after over four years of declining prime rents. The Kuala Lumpur prime office market remained steady, with a possible boost in demand following the election tempered by significant new supply. Jakarta continued to see the strongest prime office rental growth across the whole region, while Bangkok rents showed steady growth of 2.6%. More broadly speaking, increasing ASEAN integration over the coming years is set to boost domestic economies and office markets in the region (see Knight Frank's recent [AEC 2015](#) report).

In India, rental markets in the major cities slowed down in Q1 2013 after a very strong last quarter of 2012, with prime rents likely to stagnate over the next 12 months.

Finally, the Australian office markets remained fairly subdued, with rents moving sideways, as the two-speed economy continues to rely heavily on the resources sector.

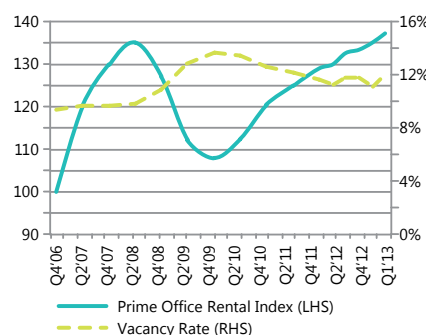
Despite the ongoing difficulties in Europe, the pickup in US growth increases the possibility of more expansion from US corporates following long periods of uncertainty. The fastest growing segments however will likely be Asian occupiers expanding both domestically and around the region.

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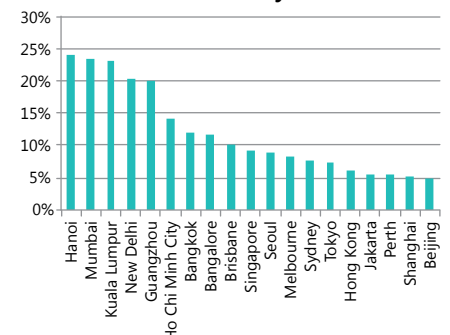
Nicholas Holt, Head of Research, Asia Pacific

Figure 1
Prime Office Rental Index



Source: Knight Frank Research

Figure 2
Asia Pacific Office Vacancy Rates



Source: Knight Frank Research

Figure 3
Asia-Pacific Prime Office Rents
Q1 2013

Increase
 No Change
 Decrease

City	Submarket	Prime Net Headline Rent	Local Measurement	USD/sqm/ mth	12mth % change Q1 '12 - Q1 '13	3mth % change Q4 '12 - Q1 '13	Gross Effective Rent** USD/sqm/mth	Forecast Next 12 mths
Brisbane	CBD	544.0	AUD/sq m/annum (Net Floor Area)	47.3	-6.0%	-3.4%	43.4	
Melbourne	CBD	462.0		40.1	0.0%	0.0%	41.3	
Perth	CBD	774.0		67.2	-0.8%	0.4%	75.1	
Sydney	CBD	748.0		65	3.7%	0.8%	56.7	
Beijing	Various	395.9	RMB/sq m/month (Gross Floor Area)	63.2	9.5%	0.1%	92.2	
Guangzhou	CBD	178.9		28.5	1.6%	0.2%	48.3	
Shanghai	Puxi, Pudong	277.2		44.2	0.9%	0.0%	68.0	
Hong Kong	Central	118.4	HKD/sq ft/month (Net Floor Area)	164.1	-6.4%	1.7%	165.7	
Bangalore	CBD	1,056.0	INR/sq ft/annum (Gross Floor Area)	17.4	8.6%	0.4%	27.5	
Mumbai	BKC	3,300.0		54.5	8.4%	0.1%	87.4	
New Delhi	Connaught Place	3,120.0		51.5	8.3%	0.0%	82.6	
Jakarta	CBD	4,323,834.0	IDR/sq m/annum (Semi-Gross Floor Area)	37.2	74.6%	11.6%	47.1	
Tokyo*	Central 3 Wards	27,760.0	JPY/Tsubo/month (Net Floor Area)	89.2	27.2%	15.8%	88.8	
Kuala Lumpur	City Centre	4.7	MYR/sq ft/month (Net Floor Area)	16.5	3.5%	0.0%	20.7	
Singapore	Raffles Place, Marina Bay	9.1	SGD/sq ft/month (Net Floor Area)	79.0	-4.3%	-2.2%	92.1	
Seoul	CBD	30,200.0	KRW/sq m/month (Gross Floor Area)	27.3	-9.5%	-4.1%	68.9	
Bangkok	CBD	669.7	THB/sq m/month (Gross Floor Area)	23.1	5.8%	2.6%	28.0	
Hanoi	Hoan Kiem District	30.0	USD/sq m/month (Net Floor Area)	30.0	-1.6%	-3.2%	37.7	
Ho Chi Minh City	District 1	31.0		31.0	-3.1%	0.0%	37.9	

Source: Knight Frank Research

*Source: Sanko Estate

**Inclusive of incentives, service charges and taxes. Based on net floor areas.

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Asia Pacific Research

Nicholas Holt

Head of Research, Asia Pacific

T +65 6429 3595

nicholas.holt@asia.knightfrank.com

Asia Pacific Global Corporate Services

Alex Hill

Head of Global Corporate Services,
Asia Pacific

T +65 6429 3599

alex.hill@asia.knightfrank.com

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