

Southeast Asia and Japan lead prime office rental growth in Q4 2013

Results for Q4 2013

The Knight Frank Asia-Pacific Prime Office Rental Index increased marginally by 0.8% in Q4 2013, and now sits 3.1% above its pre-crisis (Q2 2008) peak

13 of the 19 prime office markets tracked saw prime rents increase or remain steady in Q4 2013

Region wide vacancy rate increased slightly to 12.0% on the back of significant construction completions

Jakarta and Tokyo's Grade-A office markets saw 8.4% and 4.2% rental growth respectively in Q4 2013, the two highest growth rates in the region over the quarter

"The tightening of monetary conditions still poses a threat in terms of undercutting investment and growth in certain markets."



Nicholas Holt, Head of Research, Asia Pacific

Recovery in Singapore, outperformance in Jakarta, and growth despite uncertainty in Bangkok - Southeast Asian cities dominate the top of our prime rental growth rankings.

Knight Frank's Asia-Pacific Prime Office Rental Index edged up 0.8% in Q4 2013. Only six markets saw rental declines over the period, as net absorption bounced back, increasing 19% on the previous quarter to give a strong end to the year, most notably in Southeast Asia.

Despite unrest in Thailand's capital city, Bangkok, Grade-A rents grew by 1.7% over quarter, given 39,000 sq. m of net absorption and a falling vacancy rate. Although the uncertainty caused by ongoing events is likely to soften demand over the coming months, the lack of new supply is likely to underpin further rental growth in 2014.

Jakarta continued to see the highest prime rental growth in the region with 8.4%. Although we expect rental growth to continue, the upcoming election and significant new supply coming to the market in 2014 are likely to slow this growth over the coming months.

Elsewhere in Southeast Asia, Malaysia and Vietnam look to be at the bottom of cycle, and while there is a feeling that things can only get better in Vietnam, the Kuala Lumpur office market is likely to remain sluggish, with a high vacancy rate.

Recovery in the office market continued in Tokyo, as prime rents increased 4.2%, with corporate earnings boosted, leasing activity up and vacancy rates down across all wards.

China's slowdown has led to mixed performance across its Tier-1 cities. Beijing and Guangzhou saw prime rents soften

slightly while Shanghai saw rents increase by 0.7% - although the significant amount of new supply scheduled between 2014 and 2020 continues to fuel worries of future oversupply in some areas (something we have analysed in depth in: [Shanghai Office Market in 2020](#)).

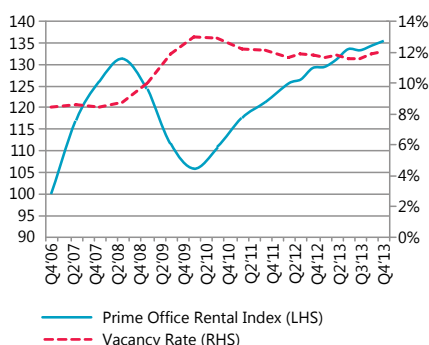
Hong Kong Central office rents meanwhile have continued to soften as occupiers remain costs conscious and net absorption remains subdued. Looking forward, Grade-A office leasing is set to remain stable throughout 2014.

India witnessed rental stagnation in the three main cities tracked, with economic difficulties and the upcoming election continuing to cause some uncertainty. Knight Frank's inaugural [Real Estate Sentiment Index](#) showed that stakeholders are sceptical and anticipate a contraction in demand over the next six months.

Australia continued to see the rental market soften with rising incentives in all major CBDs. With GDP growth below trend and the investment phase of the mining boom having passed its peak, a key concern is how the country can encourage broader-based growth.

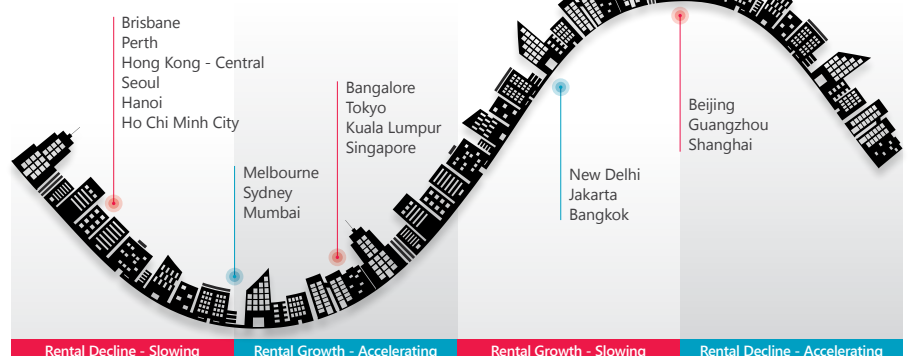
While the global economy is showing more green shoots of recovery, with a strengthening of western economies likely to stimulate multinational occupier demand, the tightening of monetary conditions still poses a threat in terms of undercutting investment and growth in certain markets.

Figure 1
Prime Office Rental Index



Source: Knight Frank Research

Figure 2
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.

Figure 3
Asia-Pacific Prime Office Rents
Q4 2013

Increase
 No Change
 Decrease

City	Submarket	Prime Net Headline Rent	Local Measurement	USD/sqm/ mth	12mth % change Q4 '12 - Q4 '13	3mth % change Q3 '13 - Q4 '13	Gross Effective Rent** USD/sqm/mth	Forecast Next 12 mths
Brisbane	CBD	540.0	AUD/sq m/annum (Net Floor Area)	39.9	-4.1%	-2.9%	33.4	
Melbourne	CBD	462.0		34.2	0.0%	0.0%	32.5	
Perth	CBD	701.0		51.8	-9.1%	-3.0%	54.0	
Sydney	CBD	739.0		54.7	-0.4%	0.0%	46.2	
Beijing	Various	381.5	RMB/sq m/month (Gross Floor Area)	62.4	-3.6%	-0.6%	91.0	
Guangzhou	CBD	176.1		28.8	-1.3%	-0.5%	49.1	
Shanghai	Puxi, Pudong	278.2		45.5	0.3%	0.7%	69.9	
Hong Kong	Central	116.5	HKD/sq ft/month (Net Floor Area)	161.7	0.1%	-1.0%	162.8	
Bangalore	CBD	1,080.0	INR/sq ft/annum (Gross Floor Area)	15.7	2.1%	0.3%	24.7	
Mumbai	BKC	3,033.0		44.0	-3.4%	0.1%	70.7	
New Delhi	Connaught Place	3,180.0		46.2	1.9%	-0.1%	74.1	
Jakarta	CBD	6,749,164.6	IDR/sq m/annum (Semi-Gross Floor Area)	46.1	74.1%	8.4%	58.2	
Tokyo*	Central 3 Wards	27,768.0	JPY/Tsubo/month (Net Floor Area)	79.8	15.8%	4.2%	79.5	
Kuala Lumpur	City Centre	4.8	MYR/sq ft/month (Net Floor Area)	15.6	1.1%	0.0%	19.6	
Singapore	Raffles Place, Marina Bay	9.4	SGD/sq ft/month (Net Floor Area)	80.0	1.3%	2.2%	92.8	
Seoul	CBD	31,100.0	KRW/sq m/month (Gross Floor Area)	29.6	-1.2%	2.6%	81.9	
Bangkok	CBD	696.9	THB/sq m/month (Gross Floor Area)	21.2	6.9%	1.7%	25.8	
Hanoi	Hoan Kiem District	29.9	USD/sq m/month (Net Floor Area)	29.9	-3.5%	2.9%	37.6	
Ho Chi Minh City	District 1	31.0		31.0	0.0%	0.0%	38.8	

Source: Knight Frank Research

*Source: Sanko Estate

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

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