COMMERCIAL RESEARCH

ASIA PACIFIC PRIME OFFICE RENTAL INDEX

LITTLE RENT MOVEMENT ON SHOW IN ASIA-PACIFIC PRIME OFFICE MARKETS

Only three markets see more than 0.5% rental growth in Q2 2014 despite significant increase in net absorption and a decline in vacancy rates

Results for Q2 2014

Knight Frank's Asia-Pacific Prime Office Rental Index declined 0.7% in the second quarter of 2014, despite a 0.3% drop in the regional vacancy rate

Eight of the prime office markets tracked saw prime rents soften in Q2 2014, with eight equally seeing rental growth; four markets recorded no rental movement

Half of the markets tracked saw less than 0.5% rental movement, demonstrating less volatility than previous quarters

Over the next 12 months, we expect rents in 14 cities out of the 20 tracked to either remain steady or increase, which is in line with our previous forecasts.

NICHOLAS HOLT
Asia Pacific Head of Research

"Q2 2014 registered little rent movement, demonstrating less volatility than the previous quarter. 10 markets, out of the 20 markets tracked, this quarter saw less than 0.5% rental movement..."

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In Beijing, strong demand by domestic firms, reflected by exceptionally strong net absorption, reversed four quarters of rental decline, sending the vacancy rate to a historical low of 3.0%. Meanwhile, with no new supply for two subsequent quarters, rents in Guangzhou inched upward and its vacancy rate dropped. Shanghai is moving at two speeds: rents slid 4.2% quarter-on-quarter in Puxi but climbed 3.9% in Pudong, widening the rental gap, as the vacancy rate in the latter reached a record low of 0.6%, 5.3 percentage points lower than that in the former.

In Hong Kong, while demand from MNCs in the financial sector eased, Chinese tenants are picking up the slack. Overall, rents were steady.

Singapore continued to benefit from a combination of healthy demand, an increase in the take-up of large office space in and a tight supply pipeline, all of which continue to propel rents upwards. This is despite the continued decentralisation of a number of tenants, led by the public sector.

Seoul has also witnessed significant pressure from decentralisation, although the outcome in Q2 was quite different. While empty spaces in the CBD have been quickly filled up by the private sector, the GBD saw its vacancy rate increase as IT firms moved out and consolidated their operations in the city fringe. On the whole, rents fell as the vacancy rate edged up.

Driven by decent domestic demand amid limited new supply in Q2 2014, rental recovery appeared to be taking root in Sydney. As incentives stayed flat, net effective rents registered two consecutive quarters of growth. Melbourne experienced a nascent revival in demand but net effective rents have yet to turn the corner. Brisbane and Perth, however, still saw negative net absorption, although withdrawals have begun to stabilise in the former.

In India, the surge in business confidence resulting from the change in government has yet to translate into rental improvement, although net absorption in Bengaluru did soar 136.6% quarter-on-quarter in Q2 2014 due to robust demand stemming from the emergence of newer sectors besides the IT industry. In Indonesia, businesses took a wait-and-see attitude before the July presidential election, as net absorption in Jakarta turned negative and rents fell.

(see overleaf)

FIGURE 1
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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FIGURE 2

Asia-Pacific Prime Office Rents

Q2 2014

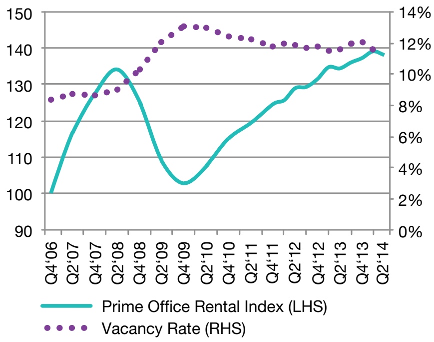
Increase / No Change / Decrease

City	Submarket	Prime Net Headline Rent	Local Measurement^	US$/sqm/mth	12mth % change	3mth % change	Gross Effective Rent** US$/sqm/mth	Forecast next 12mths
Brisbane	CBD	544.0	AU$/sq m/yr	41.9	-2.9%	0.0%	35.6	No Change
Melbourne	CBD	486.0	AU$/sq m/yr	37.4	5.2%	0.2%	36.7	No Change
Perth	CBD	684.0	AU$/sq m/yr	53.3	-8.2%	-1.3%	55.8	Decrease
Sydney	CBD	776.0	AU$/sq m/yr	58.6	2.8%	0.9%	50.4	Increase
Phnom Penh	City Centre	21.3	USD/sq m/mth	20.5	25.6%	3.8%	27.1	Increase
Beijing	Various	378.7	RMB/sq m/mth	61.2	-2.2%	0.4%	89.5	Increase
Guangzhou	CBD	177.7	RMB/sq m/mth	28.8	0.5%	0.3%	49.0	Increase
Shanghai	Puxi, Pudong	270.6	RMB/sq m/mth	44.4	-1.5%	-1.1%	68.2	Decrease
Hong Kong	Central	120.0	HKD/sq ft/mth	166.3	0.8%	0.2%	167.2	Increase
Bengaluru	CBD	1,080.0	INR/sq ft/yr	16.3	0.9%	-0.6%	25.6	No Change
Mumbai	BKC	3,000.0	INR/sq ft/yr	45.6	-2.6%	-1.2%	72.9	No Change
New Delhi	Connaught Place	3,175.0	INR/sq ft/yr	47.7	1.6%	0.0%	76.3	No Change
Jakarta	CBD	6,299,904.0	IDR/sq m/yr	46.7	29.6%	-0.5%	55.6	Increase
Tokyo*	Central 3 Wards	28,503.0	JPY/Tsubo/mth	86.8	6.8%	-3.3%	86.5	Increase
Kuala Lumpur	City Centre	4.9	MYR/sq ft/mth	16.1	1.9%	0.0%	20.3	No Change
Singapore	Raffles Place, Marina Bay	9.8	SGD/sq ft/mth	83.5	8.0%	0.8%	97.3	Increase
Seoul	CBD	30,350.0	KRW/sq m/mth	29.3	0.5%	-3.0%	85.5	Decrease
Bangkok	CBD	700.8	THB/sq m/mth	21.5	3.2%	0.1%	26.2	Increase
Hanoi	Hoan Kiem District	27.2	USD/sq m/mth	28.4	-7.2%	-4.1%	36.0	Decrease
Ho Chi Minh City	District 1	32.0	USD/sq m/mth	32.0	3.2%	0.0%	39.8	Increase

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

FIGURE 3

Prime Office Rental Index



Source: Knight Frank Research

(cont.)

In other Southeast Asian markets: higher asking rents at the newly opened Vattanac Tower and the higher average service charge lifted leasing costs in Phnom Penh; Bangkok, Kuala Lumpur and Ho Chi Minh office markets remained stable; and rents in Hanoi continued to slide as new supply exceeded take-up in Q2 2014.

Moving forward, we expect rents in 14 cities out of the 20 tracked to either remain steady or increase, which is in line with our previous forecasts.

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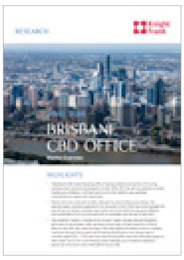

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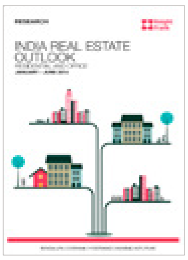

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