

# ASIA PACIFIC PRIME OFFICE RENTAL INDEX

## Results for Q4 2014

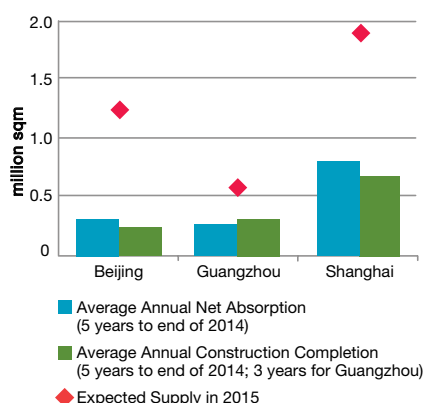
Knight Frank Asia-Pacific Prime Office Rental Index increased 0.5% in the last quarter of 2014, slower than the 1.3% and 0.9% registered in Q3 2014 and Q4 2014 respectively

The average vacancy rate continued falling, as two thirds of the markets surveyed saw improving occupancy rates

Moving forward, a massive supply pipeline will exert downward pressure on rents in the top Chinese cities

Office rents are forecast to stay the same or rise in 14 out of the 19 cities tracked

**Figure 1**  
Massive Supply Pipeline in Chinese Cities



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"The vacancy rate in Tokyo fell to a six-year low of 4.0%, as domestic firms continued expanding while new supply remained relatively limited."

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## SUPPLY TO WEIGH ON CHINESE OFFICE RENTS; PROSPECTS BRIGHTEN IN INDIA

### 2014 ended with vacancy rates achieving multi-year lows in several markets

In Q4 2014, Shanghai was the bright spark among the top-tier cities in China. As take-up surpassed new supply, helped by strong demand from the education and training sector, the vacancy rate dropped 1.2 percentage points to a historic low of 3.0%, while rents rose 1.5% quarter-on-quarter. Meanwhile, Beijing actually saw negative net absorption, at the same time when substantial office space was added; consequently, vacancy jumped by 2 percentage points while rents fell 1.6%. Moving forward, a massive supply pipeline will exert downward pressure on rents in Shanghai, Beijing as well as Guangzhou (see Figure 1).

In contrast, given the tight supply of Grade-A offices in prime location and continued demand from the Mainland Chinese firms, we expect office rents in Hong Kong to inch upwards in 2015, although they dipped slightly in Q4 2014. In Taipei, net take-up surged 143.2% quarter-on-quarter and 275.5% year-on-year, more than sufficient to absorb the huge amount of office space that came on-stream.

The vacancy rate in Tokyo fell to a six-year low of 4.0%, as domestic firms continued expanding while new supply remained relatively limited. Rents edged up slightly. Although headline rents only

declined marginally in Seoul, we saw longer rent-free periods.

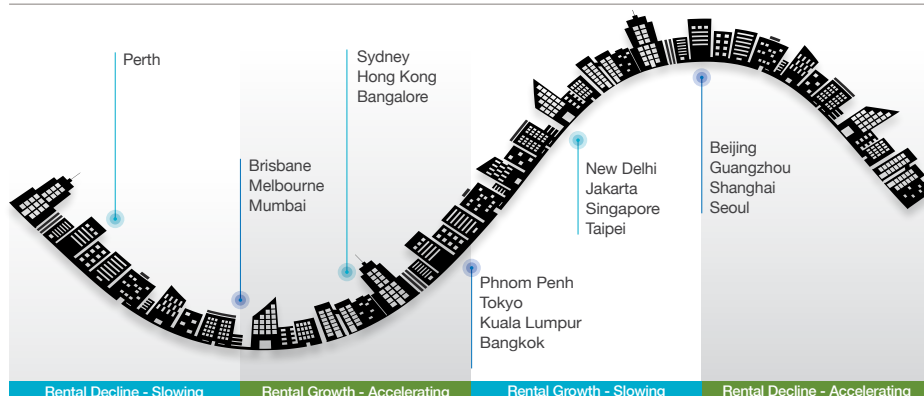
In Australia, performance continued to be mixed. Brisbane and Perth saw negative net absorption for the fourth and fifth consecutive quarter respectively as the mining industry and the government sector pulled back demand. Melbourne and Sydney, on the other hand, enjoyed improved leasing activity.

Little new supply has allowed rents in Singapore to continue increasing. Even though the addition of office space in 2015 will remain similarly modest, economic headwinds will limit future rental growth. Budget-conscious tenants are already exploring high-quality buildings outside the core CBD.

Elsewhere in Southeast Asia, Bangkok experienced the lowest vacancy rate in eight years, as demand continued to outpace new supply. In neighbouring Kuala Lumpur, office rents barely moved.

Among the cities in our index, Jakarta registered the strongest quarterly rental growth of 6.2%, as vacancy dropped to the lowest rate of 4.2% in our records. It is followed by Phnom Penh, where rents increased by 3.2%, on the back of steady demand from foreign companies seeking

**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.

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FIGURE 3

### Asia-Pacific Prime Office Rents

Q4 2014

Increase  
 No Change  
 Decrease

City	Submarket	Prime Net Headline Rent	Local Measurement <sup>A</sup>	12mth % change	3mth % change	US\$/sqm/mth	Gross Effective Rent** US\$/sqm/mth	Forecast next 12mths
Brisbane	CBD	556.0	AU\$/sq m/yr	2.0%	0.0%	37.8	30.5	
Melbourne	CBD	486.0	AU\$/sq m/yr	0.2%	0.0%	33.0	31.6	
Perth	CBD	650.0	AU\$/sq m/yr	-7.3%	-3.7%	44.2	41.7	
Sydney	CBD	783.0	AU\$/sq m/yr	2.6%	0.5%	53.2	44.6	
Phnom Penh	City Centre	22.0	USD/sq m/mth	26.8%	3.2%	22.0	28.9	
Beijing	Various	372.5	RMB/sq m/mth	-2.4%	-1.6%	60.7	88.7	
Guangzhou	CBD	175.8	RMB/sq m/mth	-0.2%	-0.1%	28.6	48.8	
Shanghai	Puxi, Pudong	272.9	RMB/sq m/mth	-1.9%	1.5%	44.5	68.2	
Hong Kong	Central	120.8	HKD/sq ft/mth	3.6%	-1.7%	167.6	168.3	
Bangalore	CBD	1,095.0	INR/sq ft/yr	1.4%	0.0%	15.4	24.3	
Mumbai	BKC	3,050.0	INR/sq ft/yr	0.6%	1.7%	43.0	69.1	
New Delhi	Connaught Place	3,210.0	INR/sq ft/yr	0.9%	0.5%	45.3	72.7	
Jakarta	CBD	6,688,524.0	IDR/sq m/yr	6.7%	6.2%	44.9	56.7	
Tokyo*	Central 3 Wards	30,573.0	JPY/Tsubo/mth	10.1%	0.8%	77.1	77.4	
Kuala Lumpur	City Centre	4.9	MYR/sq ft/mth	2.9%	0.6%	15.1	18.8	
Singapore	Raffles Place, Marina Bay	10.1	SGD/sq ft/mth	6.9%	1.1%	81.9	94.4	
Seoul	CBD	30,336.0	KRW/sq m/mth	-2.5%	-0.2%	27.7	69.3	
Taipei	Downtown	2,566.0	TWD/ping/mth	0.7%	0.6%	24.5	37.5	
Bangkok	CBD	770.8	THB/sq m/mth	3.2%	1.4%	23.5	28.5	

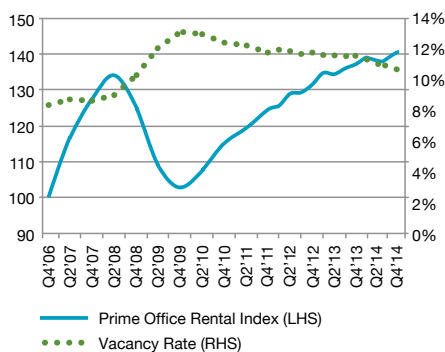
Source: Knight Frank Research / \*Sanko Estate

<sup>A</sup>Based on net floor areas for except for China, India, Korea, Taiwan, Thailand (gross) and Indonesia (semi-gross)

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

FIGURE 4

### Prime Office Rental Index



Source: Knight Frank Research

to capitalise on Cambodia's strong economic growth.

Continued demand for large office space from the Information Technology industry, along with demand from the rising e-commerce sector, has similarly driven the vacancy rate in Bengaluru to just below 10% for the first time in our database. Mumbai appears to be finally bottoming out, after years of stagnation, with improving demand from the financial services and consultancy sectors. Although India's financial capital will see significant supply in 2015, the occupier market will likely be buoyed by a healthier economy. As such, we revised our projections and anticipate office rents in these cities to climb in 2015.



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