COMMERCIAL RESEARCH

ASIA-PACIFIC PRIME OFFICE RENTAL INDEX

Results for Q3 2016

Knight Frank *Asia-Pacific Prime Office Rental Index* increased 0.6% quarter-on-quarter and 1.0% year-on-year at the end of the third quarter 2016

The increase in the index was the result of rising rents in eight of the markets over the quarter, with rental declines experienced in six of the 19 markets tracked

While it is still early days, the results of the US election is likely to lead to more uncertainty across the region, with the likely end of the Trans-Pacific Partnership (TPP) a blow to export-dependent economies

Over the next 12 months, we expect rents in 14 cities out of the 19 tracked to either remain steady or increase, which is the same as last quarter's forecast

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"While some occupiers could seize the opportunity to upgrade into superior space, many are likely to take a more cautious approach."

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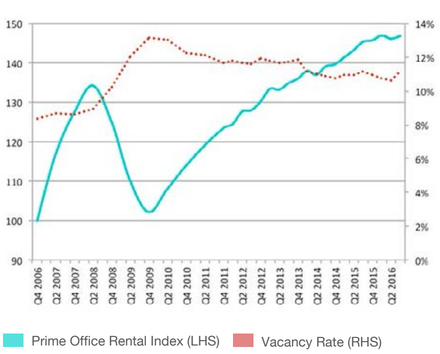
THE DEMISE OF THE TPP TO IMPACT ASIA-PACIFIC OFFICE MARKETS

Q3 results show potential for more flight-to-quality activities in selected Asia-Pacific office markets

Donald Trump's election victory and the certainty that the US will pull out of the long awaited Trans-Pacific Partnership (TPP) is likely to dampen the region's economic prospects with a subsequent impact on office demand.

Following a stable quarter for the majority of the Asia-Pacific office markets, the probable end of the far reaching trade deal, and other policy uncertainties emanating from the US will continue to provide mixed signals for many occupiers, and while some could seize the opportunity to upgrade into superior space, many are likely to take a more cautious approach.

FIGURE 1
Prime Office Rental Index



Source : Knight Frank Research

In terms of rental performance, **Tokyo** was the standout over the third quarter of 2016. Quarter-on-quarter, a 6.5% increase in rents was registered. Drivers included the desire to upgrade to higher quality office space and centralisation towards the Central 5 wards. However, moving forward, it is difficult to project a sustained strong growth with a large supply in the pipeline and a static office workforce. Its East Asian neighbour, **Seoul**, experienced moderate growth of 1.5% quarter-on-quarter.

A slowing global economy continued to cloud over the **Singapore** office market, with rents down 2.8% from the last quarter and 12.8% year-on-year. In **Kuala Lumpur** and **Jakarta**, demand remained muted while fresh supply poured in, contributing to a gloomy 12-month outlook. In these three Southeast Asian markets, more flight-to-quality leasing activities may happen as occupiers seek to take advantage of the compressed rents. **Bangkok**, however, stood out with rising rent and decreasing vacancy. For **Phnom Penh**, rents were relatively flat quarter-on-quarter and year-on-year.

In Greater China, **Beijing** and **Shanghai** experienced rental declines, due largely to the significant new coming into the market. In Shanghai, 250,000 sq m of supply has recently been introduced; in Beijing, a similar amount of new supply is due to come next quarter. In **Guangzhou**, three new Grade A office buildings were completed, imposing pressure on vacancy rate and rentals. In **Hong Kong**, Grade A office rents in some areas are expected to see downward pressure in 2017 with 200,000 sq m of office supply coming online in Kowloon East. In these markets, tenants probably have more rooms for negotiation and chances to upgrade their office spaces. Rents in **Taipei** have been stable and are expected to remain so going forward.

In India, prime office rents have been rising for the past 12 months, although quarter-on-quarter no markets registered any rental movement except **Mumbai** which recorded a 1.3% decline. Vacancy rates in Mumbai and **New Delhi** remained above 20%, creating opportunities for office space upgraders. In general, the outlook for Indian office market is optimistic.

In Australia, the office market metrics remained active and generally landlord favourable. Rents had been growing moderately on the back of improving economic climate and tightening office supply in some markets. **Sydney** is witnessing unprecedented stock withdrawals – about 585,682 sq m will be permanently withdrawn in the next four years, enhancing rental growth prospects. In **Melbourne**, with no new gross supply for the past two quarters, rents are similarly under upward pressure. In **Perth** and **Brisbane**, vacancy rates were relatively high, at 18.8% and 15.7% respectively with a number of tenants looking at relocating into better quality space.

ASIA-PACIFIC PRIME OFFICE RENTAL INDEX

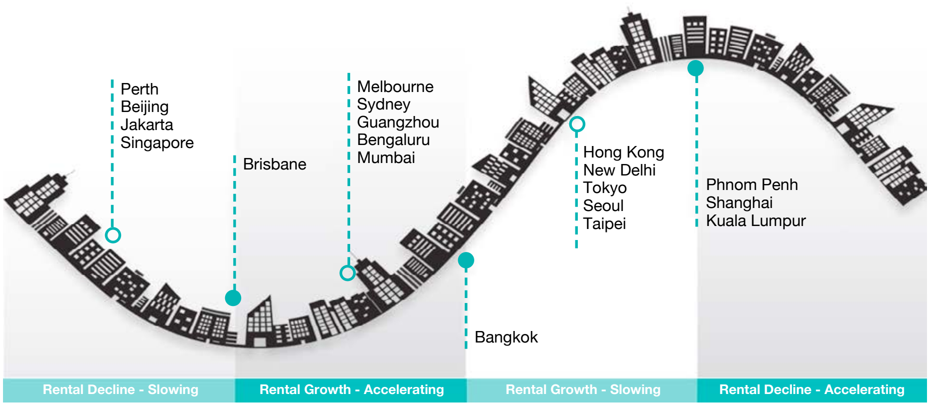
FIGURE 2
Asia-Pacific Prime Office Rents

Increase
No Change
Decrease

City	Submarket(s)	Prime Net Headline Rent	Local Measurement^	12-month % change	3-month % change	USD/sqm/ mth	Gross Effective Rent** USD/sq m/mth	Forecast next 12 mths
Brisbane	CBD	561.0	AUD/sq m/annum	0.9%	0.2%	35.7	28.4	No Change
Melbourne	CBD	524.0	AUD/sq m/annum	5.9%	0.8%	33.3	32.4	Increase
Perth	CBD	576.0	AUD/sq m/annum	-3.4%	0.0%	36.7	30.3	Decrease
Sydney	CBD	908.2	AUD/sq m/annum	10.0%	1.4%	57.8	49.8	Increase
Phnom Penh	City Centre	22.5	USD/sq m/month	0.7%	0.0%	22.5	29.6	No Change
Beijing	Various	374.0	CNY/sq m/month	1.9%	-1.1%	56.1	33.9	Decrease
Guangzhou	CBD	177.0	CNY/sq m/month	-0.6%	0.1%	26.5	45.2	Increase
Shanghai	Puxi, Pudong	297.9	CNY/sq m/month	5.0%	-2.1%	44.7	67.8	No Change
Hong Kong	Central	140.4	HKD/sq ft/month	7.8%	1.1%	194.9	194.0	Increase
Bengaluru	CBD	1,176.0	INR/sq ft/annum	3.2%	0.0%	15.8	25.4	Increase
Mumbai	BKC	3,150.0	INR/sq ft/annum	1.6%	-1.3%	42.4	68.1	Increase
New Delhi	Connaught Place	3,565.0	INR/sq ft/annum	7.9%	0.0%	48.0	77.0	No Change
Jakarta	CBD	5,257,212.0	IDR/sq m/annum	-15.4%	0.0%	33.7	42.7	Decrease
Tokyo*	Central 5 Wards	33,703.0	JPY/Tsubo/month	-5.5%	6.5%	100.8	99.4	No Change
Kuala Lumpur	City Centre	5.3	MYR/sq ft/month	-0.7%	-0.4%	13.9	17.0	Decrease
Singapore	Raffles Place, Marina Bay	8.1	SGD/sq ft/month	-12.8%	-2.8%	64.0	75.9	Decrease
Seoul	CBD, GBD, YBD	32,268.0	KRW/sq m/month	2.3%	1.5%	29.3	69.6	Increase
Taipei	Downtown	2,598.0	TWD/ping/month	-0.5%	-0.1%	25.1	38.3	No Change
Bangkok	CBD	872.0	THB/sq m/month	3.9%	1.0%	25.2	30.6	Increase

Source: Knight Frank Research / *Sanko Estate
^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 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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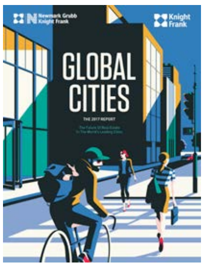

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