

Results for Q2 2018

Knight Frank Asia-Pacific Prime Office Rental Index rose by 2.4% quarter-on-quarter and 4.3% year-on-year in the second quarter of 2018

The index rise was primarily driven by rent increases seen in Tokyo, Bengaluru, Hong Kong, and Sydney

Our expectations for rents to remain steady or see marginal increases for the rest of 2018 remains

UPBEAT ASIA-PACIFIC GROWTH AND FORECAST BOLSTER POSITIVE OUTLOOK FOR PRIME OFFICE SECTOR

Fuelled by economic growth, office rental remains positive throughout Asia-Pacific

The Asia-Pacific office markets attained a positive Q2 2018 economic report card which was driven by a rebound in consumption metrics across its major markets. Similarly, the International Monetary Fund (IMF) also revised its previous 5.5% (October 2017) growth forecast for the region to 5.6%, citing the region's supportive broad-based economic expansion trends and accommodative financial position. Our research team hold similar views and maintain our expectations for the Asia-Pacific Prime Office markets to see sustained growth heading into H2 2018.

For Q2 2018, Knight Frank Asia-Pacific Prime Office Rental Index grew by 2.4% quarter-on-quarter to 137.2 points, surpassing the 0.9% growth recorded in Q1 2018. The main cities driving the growth this quarter were **Tokyo, Bengaluru, Hong Kong** and **Sydney** – the markets that are facing supply constraints.

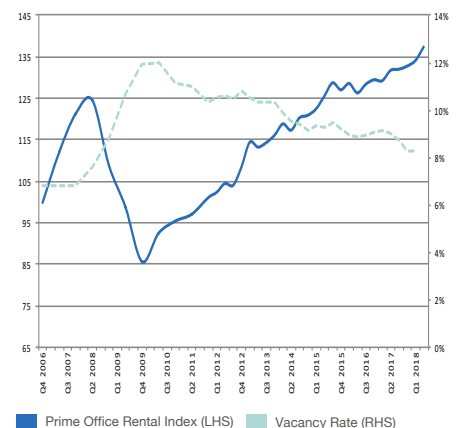
Bengaluru, India's largest office market by size, saw a solid 7% quarter-on-quarter rise in rents as corporate occupiers jostle for large quality space within the tightly supplied CBD and off-CBD districts, while others are pre-committing to upcoming supply, exacerbating the supply situation further. For the other markets in India, rental growth was generally flat this quarter.

In East-Asia, **Tokyo's** Central 5 Wards Grade-A rents grew 5.5% quarter-on-quarter as limited supply drove vacancy levels down to 1.1% during the period – a ten-year low. A near full occupancy **Hong Kong** Central sub-market saw rents up 1.7% quarter-on-quarter, while **Taipei's** downtown rents were up 0.6% quarter-on-quarter.

Beijing rents grew 0.6% quarter-on-quarter as domestic financial, internet, and high-tech occupiers continue to consume real estate within the capitals' core business districts. However, pending supply pressures going forward in these same districts could weigh on rents. **Shanghai** rents again trailed this quarter, falling 0.7% quarter-on-quarter, as looming supply concerns weigh on leasing sentiment and occupiers opt to relocate to cheaper alternatives at other business districts.

Within the ASEAN markets, **Manila** continued to do well with rents up 2.4% quarter-on-quarter as demand for business processing offices remains robust. However, with more supply due to come online over the next 12 months, rental growth could be limited. Supply concerns in **Kuala Lumpur** pushed rents down another 0.8% quarter-on-quarter.

FIGURE 1
Prime Office Rental Index



Source : Knight Frank Research

Bangkok CBD rents rose 1.7% quarter-on-quarter on a continued 'flight to quality' trend and tight supply fundamentals. CBD rents in **Singapore** were up 0.8% quarter-on-quarter as landlords adjusted rents upwards in lieu tapering supply.

Melbourne topped expectations in Q2, recording a 4.6% quarter-on-quarter rental rise on the back of limited foreseeable supply over the coming 24 months, a strengthening labour market and limited large leasing options (i.e. 3,000 sq m and above). Expectedly, the persistent supply demand imbalance in **Sydney** continues to support rental growth which was up 4.2% quarter-on-quarter. **Brisbane** rental growth of 1% quarter-on-quarter was supported by relocating landlords from the fringe markets back into the CBD.



NICHOLAS HOLT
Asia Pacific Head of Research

"Steady demand seen in the prime office market is expected to bolster rental growth for the second half of the year. Despite several headwinds, including tensions around trade, regional economic growth continues to fuel demand for Grade-A office space."

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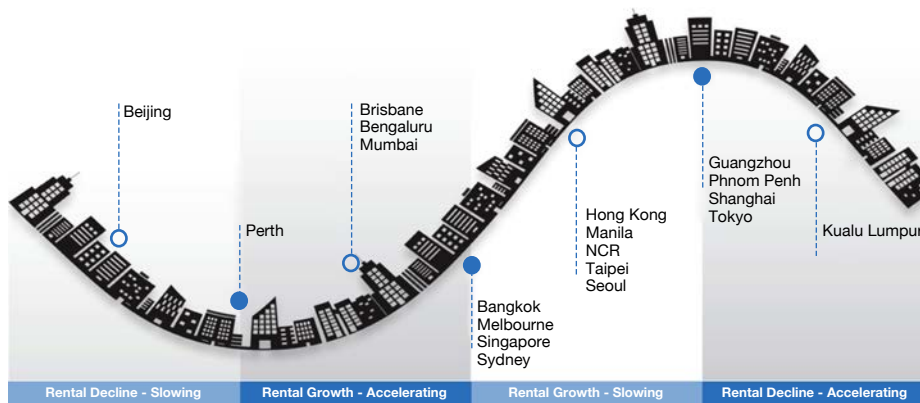
ASIA-PACIFIC PRIME OFFICE RENTAL INDEX

FIGURE 2
Asia-Pacific Prime Office Rents

Markets	City	Submarket(s)	Prime Net Head-line Rent	Local Measurement ^A	12-month % change (Q2 2017-Q2 2018)	3-month % change (Q1 2018-Q2 2018)	USD/sq m/month	Gross Effective Rent ^{**}	Forecast next 12 mths	
Australia	Brisbane	CBD	591	AUD/sq m/annum	2.4%	1.0%	37.3	31.0	↑	
	Melbourne	CBD	586	AUD/sq m/annum	6.5%	4.6%	37.0	37.1	↑	
	Perth	CBD	589	AUD/sq m/annum	-0.3%	0.3%	37.2	29.9	→	
	Sydney	CBD	1,079	AUD/sq m/annum	13.3%	4.2%	68.1	63.1	↑	
East Asia	Tokyo*	Central 5 Wards	36,952	JPY/tsubo/month	6.3%	5.5%	102.5	99.5	→	
	Beijing	Various	382.3	CNY/sq m/month	3.0%	0.6%	60.0	36.3	↓	
	Guangzhou	CBD	190.1	CNY/sq m/month	3.7%	1.2%	29.8	50.3	→	
	Shanghai	Puxi, Pudong	289	CNY/sq m/month	-3.1%	-0.7%	45.4	69.1	→	
	Hong Kong	Central	159.8	HKD/sq ft/month	6.7%	1.7%	219.4	221.5	↑	
	Taipei	Downtown	2,727	TWD/ping/month	2.0%	0.6%	27.7	42.2	↑	
	Seoul	CBD, GBD, YBD	33,905	KRW/sq m/month	0.3%	0.0%	31.4	80.0	→	
	India	Mumbai	BKC	3,433	INR/sq ft/annum	2.0%	0.0%	46.1	77.7	↑
		New Delhi	Connaught Place	3,906	INR/sq ft/annum	2.8%	0.0%	52.4	88.4	→
		Bengaluru	CBD	1,367	INR/sq ft/annum	8.5%	7.0%	18.4	30.9	↑
Phnom Penh		City Centre	23.5	USD/sq m/month	-1.4%	0.0%	23.5	30.7	→	
ASEAN	Kuala Lumpur	City Centre	5.9	MYR/sq ft/month	-2.5%	-0.8%	16.0	19.2	↓	
	Singapore	Raffles Place, Marina Bay	8.4	SGD/sq ft/month	6.1%	0.8%	68.0	80.2	↑	
	Manila	Various	1,010	PHP/sq m/month	10.6%	2.4%	19.3	22.5	↓	
	Bangkok	CBD	1,044	THB/sq m/month	9.9%	1.7%	32.8	36.5	↑	

Source: Knight Frank Research / *Sanko Estate
^ABased on net floor areas for except for China, India, Korea, Taiwan, and Thailand (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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