

Q1 2019

Asia Pacific Office Trends

Leasing activity subdued in traditionally quiet quarter

Tight markets see limited occupier movement

Demand in China weakens slightly

Upgrading relocations continue in Tokyo

Tech demand remains strong

Coworking operators extend footprint in major cities

Contents



03 Overview

04 China

05 Hong Kong

06 Japan

07 Korea

08 Singapore

09 India

10 Australia

Overview



Asia Pacific office markets were subdued in Q1 2019 during what is traditionally a quiet period for leasing activity

- Softer demand and limited occupier movement in tight markets weighed on leasing momentum this quarter.
- Leasing demand in China tier 1 cities weakened, with Shanghai reporting the largest decline in net absorption. Although leasing activity in Beijing gradually picked up, momentum remained weak.
- Demand in India increased marginally this quarter, with Hyderabad and Bangalore leading office take-up. However, in Delhi NCR, lease discussions slowed and deal closures were delayed due to the general election. Elsewhere across the region, Tokyo continued to see solid upgrading demand amid a sustained war for talent.
- Tech demand was strong, led by IT companies forming offshore bases in India. However, demand weakened in most Chinese cities, with several firms setting up new offices in coworking centres instead of signing long leases.
- Coworking operators continued to add to their footprint in major gateway cities, with Tokyo and Singapore both witnessing steady growth by international operators. However, the pace of expansion slowed in Hong Kong and Shanghai, with several operators requesting fit-out subsidies from landlords, putting expansion plans on hold, or even surrendering space.

China



Occupier sentiment improved slightly amid steady progress in U.S.-China trade negotiations, domestic stock market gains and a more stable RMB

More Active



Less Active



SECTOR DEMAND



Financial (Banking)

Banks, securities firms and insurance companies were active. Many firms in this sector prefer to base themselves in Shanghai rather than Beijing due to cheaper rents. P2P platforms continued to downsize.



Technology

TMT firms completed several major renewals and expansions this quarter. Active markets included Guangzhou and Shenzhen.



Coworking

Co-working operators continued to grow in key markets, although expansion has slowed compared to previous quarters. Recent months have seen an uptick in M&A activity among local operators, a trend likely to result in some consolidation or closures by less successful platforms.



Others

Other demand this quarter originated from upstream and downstream enterprises in the real estate sector, including development, design and construction companies.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▶
Supply	▲
Vacancy	▲

- Markets in Western and Central China with high vacancy may come under pressure from the addition of new stock.
- Many tenants are likely to reactivate new set up or expansion plans once a formal U.S-China trade deal has been confirmed.
- Office demand is also set to benefit from tax cuts and the Foreign Investment Law, which take effect at the beginning of 2020.

EMERGING TRENDS

Occupiers are closely watching U.S.-China trade negotiations. Recent months have seen some progress but in the absence of a formal deal many companies to remain in wait-and-see mode.

The government's pledge to allow overseas financial firms greater access to the domestic market has yet to stimulate in an uptick in demand.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ M GFA)	PROPERTY	DISTRICT
Longfor Properties	15,000	North Star Century Centre	Beijing – Olympic Area
Huaan Securities	10,400	Lujiazui Fuhui Plaza	Shanghai – Pudong
Shenzhen Cloud Network Technology	10,000	China Resources Tower	Shenzhen - Nanshan
Shanghai Stock Exchange South Centre	1,000	Pearl River Tower	Guangzhou – Zhujiang New Town

Hong Kong



Despite encouraging progress in U.S.-China trade negotiations, office leasing momentum remained slow this quarter

More Active



Less Active



SECTOR DEMAND



Insurance

Several professional services companies, including insurance and accounting firms, completed leasing transactions in Q1 2019. The bulk of these moves involved decentralisation from Hong Kong Island and Tsim Sha Tsui to Hung Hom and Kowloon Bay.



Coworking

Expansion by agile space operators also slowed during the quarter, with firms in this sector committing to just 39,000 sq. ft. of Grade A office space.



Financial (Banking)

The volume of leasing transactions by banking and finance firms contracted by 72% q-o-q, with this quarter's total accounting for just 6% of the sector's leasing activity in 2018, as U.S.-China trade conflict and global economic concerns continued to weigh on sentiment. However, a few large deals were completed by Chinese securities firms, all of which had an existing presence in Hong Kong.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▼
Supply	▲
Vacancy	▲

- Expansionary demand from Chinese occupiers will remain limited. Some underperforming firms may reduce their footprint or decentralise to cheaper areas.
- Multinational occupiers will remain cost-conscious amid the uncertain global economy.
- Kowloon East will receive relocation demand from Hong Kong Island, particularly from Wan Chai/Causeway Bay and Hong Kong East.

EMERGING TRENDS

Leasing demand by Chinese companies remained sluggish in Greater Central. Gross leasing activity by companies in this segment shrank by 48% q-o-q in Q1 2019 to a figure equivalent to just 17% of their total leasing volume in this submarket in 2018.

Decentralisation slowed on Hong Kong Island due to the lack of space but Kowloon received decentralisation demand from core locations.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT NFA)	PROPERTY	DISTRICT
Sun Life	79,000	Cheung Kei Center – Tower A	Hung Hom
Dr. Reborn	38,400	Langham Place	Mong Kok
Cheng & Cheng	26,000	Enterprise Square Five	Kowloon Bay
L'Occitane	25,500	728 King's Road	North Point

Japan



Office markets remained tight despite weaker economic data. Flight to quality demand was firm and landlords retained a bullish stance

More Active



Less Active



SECTOR DEMAND



Coworking

Active Grade A leasing demand was witnessed in Tokyo from coworking operators. Other building grades also reported instances of whole-building leases by large coworking operators. Local firms were comparatively quieter than overseas platforms.



Pharma

Demand from pharmaceuticals and life sciences companies was strong amid a continued flow of M&A deals. Many firms in this sector are streamlining their office footprint to increase efficiency.



Financial (Banking)

Japanese financial firms retained a healthy appetite for relocation and expansion. Larger companies in this sector continue to consolidate multiple premises into a single, usually higher grade, location.



Legal

The legal sector was quiet. Recent activity has mainly involved domestic firms leasing space in prime locations in Central Tokyo.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▶

Supply ▼

Vacancy ▲

- Despite the growing risk of an economic downturn, office demand in Greater Tokyo and regional cities remains solid.
- Occupiers seeking space are advised to move quickly. Buildings due for completion in 2021 have already secured tenants.
- Construction costs will continue to rise due to the allocation of resources to development projects for the 2020 Tokyo Olympics.



EMERGING TRENDS

The labour shortage continues to drive companies to improve workplace environments and efficiency to attract and retain talent, particularly younger workers.

In Osaka, demand for new office space and for relocation to larger premises remained strong. Tight supply is driving interest in coworking space to accommodate demand for additional floor area.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (TSUBO NFA)	PROPERTY	DISTRICT
Yakult	4,500	WATERS Takeshiba	Sinagawa/Tamachi
Asahi Mutual Life Insurance	2,800	YOTSUYA TOWER	Kanda/Iidabashi
Yamato System Development	2,400	Harumi Island Triton Square – Tower Z	Chuo Ward
Look Holdings	2,300	Aoyama 1 chome Building	Roppongi/Akasaka

Korea



Grade A office leasing momentum in Seoul's three major business districts remained stable, supported by steady broad-based demand

More Active



Less Active



SECTOR DEMAND



Coworking

Foreign coworking operators displayed strong expansionary demand. Local conglomerates are also setting up their own brands but are at a relatively earlier stage of development.



Pharma

Pharmaceutical demand is growing, supported by M&A deals. Many firms are adopting activity-based working amid a rapid increase in new headcount. Several major relocations were completed in 2018.



Technology

Demand from TMT firms was steady. New leases were signed by a U.S. games studio and a crypto platform.



Financial (Banking)

Aside from a few local companies and pension funds, financial sector demand was limited, with very few companies expanding. Most multinationals remained quiet.



Legal

Legal sector demand remained subdued. Some overseas firms are downsizing or exiting the Korean market after struggling to generate business, although their overall presence in Seoul remains small.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▶

Supply ▲

Vacancy ▶

- Despite Korean GDP contracting by a seasonally adjusted 0.3% q-o-q in Q1 2019, office leasing demand is forecast to remain steady this year.
- New supply this year is limited, which is likely to ensure vacancy falls slightly.
- The coming quarters will see continued growth by coworking operators, supported by stable TMT demand.



EMERGING TRENDS

Recent demand has been strongest in the GBD, with new buildings completed in H2 2018 continuing to secure tenants.

In the YBD, the recent redevelopment of Teacher's Pension Building has forced the relocation of several tenants to nearby prime office buildings including FKI Tower, bringing down vacancy in the district.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ M GFA)	PROPERTY	DISTRICT
International Coworking Operator	21,300	889 Tower	GBD
Hyundai AutoEver	19,800	Luceen Tower	GBD
SparkPlus	7,100	Center Place	CBD
Just Co	3,300	The Pinnacle Gangnam	GBD

Singapore



Supply fundamentals supported rental growth but there is some concern about the depth of demand and upcoming secondary space

More Active



Less Active

SECTOR DEMAND



Coworking

Coworking operators retain a strong appetite for expansion. Some operators are now leasing space in shopping malls as well as office buildings. Size requirements have also grown larger.



Technology

Tech companies were active, especially in Grade A buildings and decentralised areas. Several large tech firms are seeking space, with some companies considering coworking options as opposed to traditional long term leases.



Financial (Banking)

The banking and financial sector was quiet, with a few leasing deals resulting from M&A. However, recent months have seen growing demand from funds. These include UK-based groups looking to set up operations ahead of Brexit and other firms looking to introduce new areas of expertise to local operations.



Insurance

Stronger demand was witnessed from the insurance sector this quarter, with several companies leasing space in decentralised areas.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▲
Supply	▲
Vacancy	▼

- Landlords continue to enjoy strong bargaining power, supported by the tapering of new office supply in the medium term.
- However, expectations between occupiers and landlords are widening. Lease negotiations for renewals and relocations could become more protracted.
- The URA's announcement of the CBD Incentive Scheme could result in a decrease in supply over the longer term as landlords consider the redevelopment of existing office buildings.

EMERGING TRENDS

A small but growing number of corporates are exploring enterprise solutions offered by agile space providers. While this trend does not yet pose a significant threat to traditional office demand, it may have an impact in the longer term.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT NFA)	PROPERTY	DISTRICT
Government Body	53,800	Funan	Beach Road/City Hall
Technology firm	35,000	Marina One	Marina Bay
No18	26,000	Capitol Piazza	Beach Road/City Hall
Hedge Fund	16,000	Guoco Tower	Tanjong Pagar

India



Demand remained strong as Hyderabad became the city with the largest quarterly office take-up, overtaking Bangalore

SECTOR DEMAND

More Active



Technology

Tech corporates continued to drive office space take-up, with their share of total leasing activity rising from 22% in Q1 2018 to 33% in Q1 2019. More tech firms now consider India as a destination for higher skilled requirements, rather than low-end processes.



Coworking

Coworking was also among the leading sectors on the demand side. Local and international players leased space in Gurgaon and Noida in the Delhi NCR and were also active in Mumbai, Hyderabad and Pune. More occupiers, including several large firms, are showing interest in taking up space in coworking centres.



Others

Other major sectors contributing to leasing activity this quarter included engineering & manufacturing (10%), BFSI (9%) and research, consulting & analytics (7%).

Less Active



6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▲
Supply	▲
Vacancy	▶

- Leasing activity is expected to be stable in the short term, backed by corporates seeking to expand or consolidate their operations.
- Occupiers will continue to future-proof their portfolios and hedge against future rental escalations by pre-leasing space.
- Take-up of coworking and flexible space is expected to accelerate in the coming quarters.

EMERGING TRENDS

Supply continues to tighten in Bangalore, with many occupiers opting to lease short-term space in serviced offices until their preferred locations become available. Others have adopted a dual or multi-site strategy.

An increasing number of European and Asia Pacific-headquartered companies have set up offices in the country in recent quarters.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT GFA)	PROPERTY	DISTRICT
Cerner Corporation	290,000	North Gate – Wing A	Bangalore - NBD
Indiamart Intermesh	120,000	Knowledge Boulevard	Delhi NCR - Noida
RBL Bank	115,000	Empire Tower	Mumbai – Navi Mumbai

Australia



All major city markets enjoyed solid leasing activity, backed by the coworking and tech sectors. Perth is finally recovering after a long downturn

More Active



Less Active



SECTOR DEMAND



Coworking

Aggressive expansion continued to be observed among coworking operators. New overseas platforms are entering major Australian city markets while existing players are extending their footprint. Local groups are relatively more conservative towards growth.



Technology

Tech firms continue to grow, with many companies still in expansion mode. In Sydney, tight availability in the CBD is encouraging firms in this sector to seek opportunities in Barangaroo.



Financial (Banking)

Banks retain a strong focus on driving greater efficiency which is resulting in footprint reduction and overall less space.



Regulatory

State government agencies have displayed steady demand in recent quarters, with some new leases involving consolidation and relocation away from the Sydney CBD.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▲

Supply ▲

Vacancy ▶

- Sydney will remain a landlord's market, with most new supply already fully pre-committed.
- The gradual recovery in Perth is set to continue. Incentives are projected to fall over the remainder of the year.
- Landlords also enjoy the upper hand in Melbourne amid low vacancy and the bulk of new supply not scheduled to hit the market until 2020.



EMERGING TRENDS

Renewed activity in the resources sector along with an uptick in population and jobs growth resulted in an increase in demand and enquiries in Perth this quarter.

Coworking solutions continue to be keenly sought after as components of a strategic tenant mix in current development and prime assets in major cities.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ M NFA)	PROPERTY	DISTRICT
Deloitte	32,000	Quay Quarter Tower	Sydney CBD
John Holland	6,200	Bay Centre	Sydney City Fringe
Spaces	4,000	Two Melbourne Quarter	Melbourne Docklands
Spaces	3,000	Melbourne Quarter	Melbourne Docklands

Contacts

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at www.cbre.com/research-and-reports.

**Henry Chin, Ph.D.**

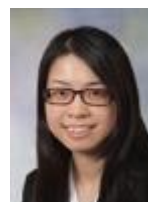
Head of Research
CBRE Research, APAC/EMEA
henry.chin@cbre.com.hk

**Ada Choi, CFA**

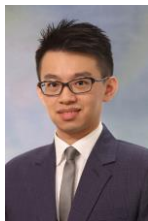
Head of Occupier Research, APAC
Head of Research, Greater China
ada.choi@cbre.com.hk

**Jonathan Hills**

Senior Director
CBRE Research, Asia Pacific
jonathan.hills@cbre.com.hk

**Cynthia Chan**

Associate Director
CBRE Research, Asia Pacific
cynthia.chan@cbre.com.hk

**Felix Lee**

Analyst
CBRE Research, Asia Pacific
felix.lee@cbre.com