

Q3 2018

Asia Pacific Office Trends

Leasing demand weakens slightly

U.S.-China trade conflict causes concern in selected markets

Bangalore, Tokyo and Singapore record strong leasing activity

Finance, TMT and coworking drive demand

Occupiers expected to retain cautious approach

Continued focus on building flexibility into portfolios

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Overview



Leasing activity slowed as the U.S.-China trade conflict and P2P crackdown prompted more caution among selected occupiers in China and Hong Kong

- Selected occupiers in China adopted a more cautious approach towards leasing, while landlords turned more reluctant to lease space to tenants from industries perceived to carry greater risk. Leasing momentum in Hong Kong weakened as new set-ups and expansions by Chinese firms slowed.
- Leasing activity in most other major cities remained solid, led by Bangalore, Tokyo, and Singapore, which continued to see flight to quality relocations. In Japan, the labour shortage is driving upgrading demand from domestic companies as they seek to attract talent.
- Financial sector leasing activity picked up in Singapore as Asian and European banks turned more active. The sector also accounted for a large portion of leasing activity in Beijing and Shanghai. Tech firms remained active in India, with several large transactions completed. Domestic and international coworking operators continued to implement aggressive expansion plans, particularly in Hong Kong, Seoul and Singapore.
- Leasing demand is set to soften further along with weakening market sentiment. The U.S.-China trade conflict and its possible negative effect on global economic growth is expected to ensure occupiers retain a cautious approach and focus on integrating flexibility into their portfolios.

China



The ongoing U.S.-China trade conflict weakened business sentiment and prompted occupiers to adopt a more cautious approach

More Active



Less Active



SECTOR DEMAND



Financial (Banking)

Shanghai saw steady financial sector demand for prime CBD space, primarily from domestic firms. A few foreign banks completed small expansionary moves.



Technology

TMT companies were active in Beijing and Shenzhen. The period saw rapid expansion from unicorns backed by large domestic tech firms.



Coworking

Local and international coworking operators continued to expand as they aggressively grab market share. More firms are considering leasing space in alternative formats such as shopping centres and industrial buildings. Their user base now includes unicorns, start-ups domestic firms and multinationals.



Legal

The legal sector turned more active in Shanghai as several firms expanded and upgraded from older buildings. Many firms have focused on cost control over the past few years and are now on a stable footing to expand and restack their space.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▼
Supply	▲
Vacancy	▲

- Financial deleveraging and trade conflict may weigh on office demand in Q4 2018.
- Coworking operators are gearing up for expansion in tier II hub cities after establishing a strong presence in tier I locations.
- Space availability will remain tight in Beijing. New CBD supply has been delayed due to issues around electricity generation.

EMERGING TRENDS

Factors dragging on occupier demand this quarter included the ongoing regulatory clampdown on the P2P lending sector, which has forced many firms out of business and resulted in large-scale office lease withdrawal.

The U.S.-China trade conflict has affected overall business sentiment. Some occupiers, especially manufacturing sector tenants in Southern China, have adopted a wait-and-see attitude.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ M GFA)	PROPERTY	DISTRICT
JD Group	25,000	North Star Century Centre	Beijing - Olympic Area
NHK	20,000	One Museum Place	Shanghai - Jiang'an
Digital Guangdong	5,760	Yide Centre	Guangzhou - Yuexiu
China International Capital Corporation	3,500	PingAn IFC North Tower	Shenzhen - Futian

Hong Kong



Net absorption surged as new stock came on stream. However, excluding the new supply, leasing momentum slowed significantly due to U.S.-China trade conflict

More Active



Less Active



SECTOR DEMAND



Coworking

Flexible space operators continued to drive demand in the Grade A office market, committing to a sizable volume of new space, mostly in Kowloon. Recent expansion by coworking operators has mainly occurred in prime offices.



Technology

Tech sector demand was steady. Recent quarters have seen expansion by cryptocurrency platforms in Grade A offices in Central.



Financial (Banking)

Financial sector demand weakened amid growing concern over U.S.-China trade conflict and weak stock market performance. Activity by Chinese firms weakened, with only a few medium sized deals completed during the quarter.



Insurance

The period saw some activity by professional services firms, much of which involved relocations from core areas to decentralised locations.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▲
Supply	▼
Vacancy	▲

- The impact of U.S.-China trade conflict on the Hong Kong economy will become more visible in Q4 2018 and prompt greater caution towards office expansion.
- Cost saving will remain a key theme, although this could generate stronger demand for cheaper space outside core areas.

EMERGING TRENDS

The escalating trade conflict between the U.S. and China prompted a slowdown in demand by Chinese companies this quarter, which had a knock-on effect on leasing activity in the Central CBD.

New supply is unlocking decentralisation demand, with new properties in Wong Chuk Hang and Quarry Bay luring tenants from Wan Chai and Causeway Bay.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT NFA)	PROPERTY	DISTRICT
Tricor Services	70,500	Mapletree Bay Point	Kowloon East
LVGEM	49,100	NEO	Kowloon East
Swire Resources	47,000	Kingston International Centre	Kowloon East
Hong Kong Government	38,400	The Hub	Wong Chuk Hang



Japan

Strong flight-to-quality demand, primarily from domestic companies, ensured another upbeat period of leasing activity

SECTOR DEMAND

More Active



Technology

There continued to be solid relocation demand among IT and services companies. Many such firms are considering relocations to higher grade offices to attract and retain staff.



Coworking

Flexible space operators are expanding rapidly, aided by a greater willingness among domestic landlords to lease space to coworking and serviced office providers. More multinationals are purchasing memberships to reduce costs and improve collaboration.



Financial (Banking)

Japanese financial firms retained a healthy appetite for relocation and expansion. Other activity involved large companies consolidating multiple premises into a single location.



Legal

Activity within from the legal sector was led by domestic firms displaying demand for space in prime locations in Central Tokyo.

Less Active



6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▲
Supply	▼
Vacancy	▲

- Occupiers are advised to commence lease negotiations early, preferably at least one year ahead of expiry due to tight availability.
- Considerable time and effort will be required for tenants to secure attractive opportunities in new supply and secondary space.
- The U.S.-China trade conflict is not expected to have a direct material impact on office leasing in Japan in the short run.

EMERGING TRENDS

The lack of space availability is prompting more companies to encourage their staff to work from home.

Demand in regional cities remains solid, led by relocations for proactive reasons such as increasing floor space; establishing new offices or improving their location; or relocating due to the rebuilding of an ageing existing building.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE(TSUBO NFA)	PROPERTY	DISTRICT
Toyota Research Institute-Advanced Development	6,500	Nihonbashi Mitsui Tower	Nihonbashi
SEKISUI CHEMICAL	3,440	The Okura Prestige Tower	Toranomon
Tokai Tokyo Financial Holdings	2,800	Nihonbashi Takashimaya Mitsui Building	Nihonbashi
Toshiba Memory	2,500	Tamachi Station Tower South	Tamachi

Korea



Leasing demand was solid across all major business districts and continued to be driven by relocation demand for space in new buildings

More Active



Financial (Banking)

Financial companies, especially local firms, drove leasing demand in Q3 2018. Foreign corporates were less active and continued to evaluate renewal versus relocation decisions.



Coworking

Demand from coworking operators remained strong. Major leasing deals included a U.S.-based provider signing a contract for six floors in Textile Center.



Technology

Demand from TMT firms was stable. While several foreign companies expanded during the quarter, the lack of space options in the GBD is preventing relocations by some firms.



Legal

The legal sector was quiet this quarter following several foreign firms' decision to surrender space or terminate leases early prior to closing their operations in Korea.

Less Active



SECTOR DEMAND

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▶

Supply ▼

Vacancy ▶

- Local companies are expected to turn more cautious due to the recent increase in the minimum wage and reduced working hours.
- While the impact of U.S.-China trade conflict has been limited thus far, it may influence domestic firms' planning strategy.
- Pangyo is set to attract decentralisation demand from the I.T. sector once its new phase is completed next year.

EMERGING TRENDS

Magok-dong is emerging as a popular new location for large scale local companies, especially firms operating in the research and development sector. Many such companies are exploring opportunities to buy land and develop their own buildings in this district.

The decision by several local conglomerates to renovate their headquarters buildings is driving additional leasing demand for space, primarily in the CBD.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ M GFA)	PROPERTY	DISTRICT
Yanolja	20,000	MDM Tower	Seoul – GBD
KB Kookmin Bank	17,200	FKI Tower	Seoul – YBD
SK Group	16,500	Gran Seoul	Seoul – CBD
Hana Financial Group	12,500	Center Place	Seoul – CBD

Singapore



Leasing demand strengthened, backed by diversified demand. There was an uptick in interest for Grade B properties due to tight availability of Grade A space

More Active



Coworking

Flexible space providers continued to expand aggressively to capture market share. Some mergers and acquisitions were completed.



Technology

Tech firms were active in taking up pockets of smaller space. A number of startups are looking to expand after recent injections of funds.



Financial (Banking)

Financial sector demand improved as some European and Asian banks turned more active. However, their focus remained on achieving high floor efficiency.



Maritime

Increased trade volumes and rising commodity prices stimulated stronger activity from the maritime sector this quarter, led by shipping companies.



Legal

Demand from legal firms was characterised by decentralisation. One relocation completed this quarter marked the first time in Singapore that a law firm has implemented agile working.

Less Active



6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▲
Supply	▼
Vacancy	▼

- Despite some risks arising from U.S.-China trade conflict and currency volatility, Singapore has so far escaped relatively unscathed and the outlook for now looks mostly positive.
- Landlords have been emboldened by falling vacancy and firming demand.
- Some manufacturing companies are planning to shift production to Southeast Asia. Singapore could benefit indirectly as a potential location for such firms' head offices.
- However, the fallout from the trade conflict could weigh on the economy for the latter part of the year and beyond.

EMERGING TRENDS

Local developers and landlords are actively engaging or incorporating flexible space concepts into their portfolios. Many major landlords have either invested in an operator or created their own co-working brand.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT NFA)	PROPERTY	DISTRICT
HSBC Singapore	140,000	Marina Bay Financial Centre Tower 2	Marina Bay
Allianz	50,000	ASB Tower	Shenton Way
SK Energy	35,000	Marina One	Marina Bay

India



Most cities recorded an uptick in leasing activity this quarter amid stronger economic growth and robust corporate sentiment

More Active



Less Active



SECTOR DEMAND



Technology

Tech firms accounted for just under half of all leasing volume nationwide in Q3 2018. Back office requirements remained limited as firms prepare for the impact of greater automation, which is expected to lead to slower headcount growth.



Coworking

The coworking sector continued to enjoy strong momentum, with global and Indian operators adding to their footprint in tier I and tier II cities during the quarter. In Mumbai, coworking operators were observed to be leasing space in Grade A, Grade B and refurbished buildings, while activity in New Delhi was mostly focused on Gurgaon and Noida.



Others

Engineering and manufacturing companies along with the financial and banking sector were the other main drivers of leasing demand, although most transactions were small and medium sized.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▲

Supply ▲

Vacancy ▶

- Delays to occupancy permits will continue to widen the demand-supply gap and force occupiers to delay leasing decisions.
- More occupiers in Bangalore are expected to consider North Bangalore and Whitefield due to bottlenecks in the Outer Ring Road.
- Activity in Special Economic Zones (SEZs) will pick up further as occupiers seek to avail tax benefits before the March 2020 deadline.



EMERGING TRENDS

There continued to be delays to new supply as developers take longer to obtain occupancy permits due to stricter fire safety requirements..

Many occupiers, especially tech and financial firms in Bangalore, Hyderabad and Pune, are future-proofing their portfolios and hedging against future rental escalations by pre-committing to new space.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT NFA)	PROPERTY	DISTRICT
Synechron	292,500	Bhartiya City Block 2	Bangalore - NBD
GE Alstom	144,000	Axis House	Delhi NCR - Noida
Accenture	140,400	Mindspace (West) Building 4	Mumbai - PBD

Australia



Leasing activity remained upbeat, led by broad-based demand in Sydney and Melbourne, although rental growth in these two cities is beginning to slow

More Active



Less Active

SECTOR DEMAND



Coworking

Coworking operators continued to expand rapidly in Sydney and are focusing on premium grade buildings within the CBD. Non-CBD areas witnessed some demand from local firms. In Melbourne, many landlords and developers have set up coworking platforms within their own properties.



Financial (Banking)

The other main driver of leasing demand this quarter was the financial sector, with some firms in Sydney understood to be considering fringe CBD space. However, there continues to be a strong focus on driving greater efficiency, which is ultimately resulting in less space.



Technology

Demand from tech firms remained strong with many companies still in expansion mode, although space requirements lag those of the financial sector.



Others

The remainder of leasing activity was driven by state government agencies, education and professional services.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▲

Supply ▲

Vacancy ▶

- Occupiers in Sydney seeking additional space are advised to relocate to the CBD fringes.
- Melbourne is likely to record another strong rental growth, supported by solid economic indicators including robust white-collar employment.
- Conditions in Perth are set to improve as new investment and resources projects get underway.



EMERGING TRENDS

State government investment in infrastructure including the light rail and metro may encourage corporates in core areas of Sydney to relocate to Northern areas where will benefit from improved transportation links.

Recent quarters have seen an increase in residential to commercial building conversions in the Melbourne city fringes due to the slowdown in residential sales.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ M NFA)	PROPERTY	DISTRICT
ANZ	26,500	839 Collins Street	Melbourne - Docklands
AMP Capital	9,700	One Melbourne Quarter	Melbourne - Docklands
Havas Worldwide	6,130	The Bushells Building	Sydney - CBD
Deloitte	1,880	20 Bond Street	Sydney - CBD

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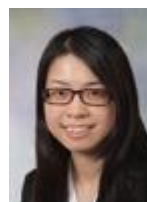
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