

Q3 2019

Asia Pacific Office Trends

Leasing demand remains weak

Occupiers focus on lease renewals

Tech firms continue to drive take-up

Agile space expansion slows

Occupiers to stay in wait-and-see mode

Renewals likely to take longer to negotiate

Contents



03 Overview

04 China

05 Hong Kong

06 Japan

07 Korea

08 Singapore

09 India

10 Australia

Overview



Asia Pacific office leasing demand remained weak in Q3 2019 due to continued slow global economic growth and the ongoing U.S.-China trade conflict.

- Occupiers turned more cautious and shifted their focus to lease renewals amid increasing reluctance to approve the large CapEx required for relocations.
- Demand in China tier I cities was slow while ongoing sociopolitical unrest in Hong Kong ensured occupiers stayed in wait-and-see mode. Many firms in the SAR have even delayed decisions around cost-saving initiatives including decentralisation.
- Tech firms continued to drive the take-up of office space but requirements were noticeably smaller this quarter. Most large tech occupiers have already completed major expansionary moves and are now only leasing space to house specific functions such as R&D.
- Following rapid expansion in previous quarters, agile space operators are now focusing on increasing occupancy in existing centres. Some international operators have turned more reluctant to commit to new leases but several well-capitalised firms are still looking to cautiously extend their footprint.
- Occupiers are expected to stay in wait-and-see mode and renewals are likely to take longer to negotiate. Leasing demand will remain subdued in most markets.

China



Slower economic growth and trade conflict with the U.S. continued to drag on leasing activity. Demand was led by TMT, finance and professional services firms.

More Active



Less Active



SECTOR DEMAND



Financial (Banking)

Financial sector companies were active in Beijing as several insurance and fund management firms moved to take advantage of lower rents. Shenzhen also saw some new entrants from overseas insurance firms and investment banks looking to capitalise on the Greater Bay Area.



Others

Professional services firms continued to benefit from the outsourcing of supporting functions such as legal, finance and human resources. Several such companies completed new set-up, expansion and upgrading moves this quarter.



Technology

Demand from TMT firms weakened. Activity remained focused on tech-oriented cities including Hangzhou, Shenzhen, Chengdu and Wuhan but average deal size was smaller than in previous quarters.



Coworking

Coworking demand was weak in major cities except for Guangzhou where a few local operators were expanding.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▼
Supply	▲
Vacancy	▲

- The government's steps to remove limits on foreign ownership and business scope in the financial sector and loosen the lending environment via lowering the RRR and LPR could stimulate new set-up and expansion among foreign institutions and higher corporate CapEx in the coming months.
- The current supply peak will extend to the end of next year but may decrease in 2021.

EMERGING TRENDS

A stronger focus on cost control and space efficiency is driving more consolidation among occupiers although many groups remain in wait-and-see mode in anticipation of obtaining more attractive deals when new supply peaks next year.

The trade conflict is prompting more Chinese TMT companies to invest in homegrown research and development and lease space in business parks.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ M GFA)	PROPERTY	DISTRICT
UnionPay	20,000	Lujiazui Century Financial Plaza #1	Lujiazui, Shanghai
China Universal Leasing	15,000	Ha Ta Men Plaza	Wangfujing, Beijing
Century Securities	3,000	Shenzhen International Energy Mansion	Futian CBD, Shenzhen
NetEase	2,080	Pearl River Tower	Zhujiang New Town, Guangzhou

Hong Kong



Leasing activity weakened further over the quarter as economic headwinds strengthened. Demand was led by coworking and insurance companies.

More Active



Less Active



SECTOR DEMAND



There was some activity from agile space operators on Hong Kong Island at the beginning of the quarter, with 89,000 sq. ft. of new commitments signed. Recent months have also seen an increase in enquiries for coworking space from large occupiers with lease expiries in 2020.



Some insurance companies were observed to be considering leasing space in coworking centres for sales teams. Other major transactions included a public relations agency consolidating multiple offices across Hong Kong into a single location at a new building in North Point.



Several virtual banks secured space this quarter ahead of launching services by the end of the year. However, with just eight licenses issued thus far, demand from this segment will be modest.



Law firms were inactive with no major leasing transactions reported.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▼
Supply	▼
Vacancy	▲

- With corporates set to remain cost-conscious, decentralisation activity in non-core submarkets is likely to weaken.
- Limited sources of demand, coupled with ample availability, is set to exert downward pressure on rents over the next 12 months.
- Occupiers are nevertheless advised to begin looking for options 12-18 months ahead of lease expiry due to weaker new supply.

EMERGING TRENDS

Slowing global economic growth, the U.S.-China trade conflict and local social unrest are deterring multinationals from investing CapEx in Hong Kong at present. Some companies are reviewing regional headquarters headcount located in Hong Kong as a contingency.

Demand from Chinese companies also remains muted due to these factors as well as RMB depreciation.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT NFA)	PROPERTY	DISTRICT
WPP	158,300	K11 ATELIER King's Road	Quarry Bay
Dah Sing Bank	64,800	Sunlight Tower	Wanchai
OneConnect	49,100	NEO	Kwun Tong
China Mobile	18,400	Kowloon Commerce Centre, Tower A	Kwai Chung

Japan



Companies continued to relocate to larger premises and establish new offices although several key economic indicators weakened during the quarter.

More Active



SECTOR DEMAND



Technology

The TMT sector displayed strong demand, particularly firms operating in the entertainment sector such as music and gaming companies. Social media and cloud-based software companies were also active.



Coworking

Demand from coworking operators remained active. Recent months have also seen an increasing volume of enquiries from traditional occupiers seeking short lease terms or memberships in coworking centres. Major developers are also launching their own offerings.



Financial (Banking)

A few international banks are seeking to reduce their footprint. However, Japanese financial firms retain a healthy appetite for relocation and expansion.



Pharma

The life sciences sector has been quiet after several larger companies downsized their office space as part of a broader shift towards new working styles.

Less Active



6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▲
Supply	▼
Vacancy	▲

- Pre-leasing for new Grade A supply due to come on stream in Tokyo in 2019/2020 is progressing well.
- Occupiers with upcoming lease expiries are advised to begin their search for space sooner rather than later as relocation options will remain limited.
- Demand should still remain relatively healthy, led by occupiers seeking to upgrade to decentralised locations. Active sectors will include IT and e-commerce.

EMERGING TRENDS

Flight-to-quality relocation to newly completed buildings is pushing up vacancy in existing buildings and heightening landlords' concerns about backfill space.

Landlords of buildings in the Tokyo 23 Wards with a relatively inferior location or facilities are now offering reasonably long rent-free periods to secure replacement tenants.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (TSUBO NFA)	PROPERTY	DISTRICT
KONAMI Holdings	6,810	KONAMI Creative Center Ginza	Yaesu/Nihonbashi
JT	5,800	Tokyo World Gate Kamiyacho Trust Tower	Toranomon/Shiodome
Hitachi	5,170	Sumitomo Fudosan Akihabara First Building	Kanda/Iidabashi
Mitsubishi UFJ Bank	4,200	Sumitomo Fudosan Kojimachi Garden Tower	Kanda/Iidabashi

Korea



Although the quarter saw steady absorption of office space across the three major districts, new demand weakened in tandem with the slower economy.

More Active



Less Active



SECTOR DEMAND



Financial (Banking)

Domestic and foreign financial companies were active, completing several relocation and flight to quality moves. A few large multinationals currently in older properties were also observed to be seeking space in new buildings which would involve an increase in overall operating expenditure.



Coworking

Coworking remained a major demand driver, with several operators leasing space in Grade B buildings in the GBD due to the lack of Grade A availability. Competition within the sector is intensifying, with several local conglomerates recently launching their own brands. Landlords have adopted a stricter stance towards taking on coworking operators as tenants and are requiring higher security deposits.



Technology

Several multinational tech companies are seeking additional space to satisfy expansionary needs, with one major firm considering leasing space in a coworking centre for greater flexibility.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▶

Supply ▲

Vacancy ▶

- New supply in the YBD next year will be substantial, forcing landlords to offer higher incentives to attract tenants.
- The GBD is set to remain a landlord's market. Incentives will continue to fall and rents are likely to continue to rise until new supply comes on stream in 2021.
- Occupiers with forthcoming expiries are advised to leverage different relocation options.



EMERGING TRENDS

Geopolitical conflict with Japan may affect leasing demand from Japanese companies with a presence in Seoul. Several Japanese companies have put relocations on hold while a few firms are reportedly considering exiting the market completely.

Booyoung Eulji Building and Namsan Central Tower, both located in the CBD, have been acquired by new owners who intend to utilise the buildings for self-use, thereby removing these properties from the leasing market.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ M GFA)	PROPERTY	DISTRICT
Hyundai E&C (TFT)	10,500	Concordian Tower	CBD
Hyundai Motors	6,670	Luceen Tower	GBD
Samho	5,220	FKI Tower	YBD
STX Corporation	3,330	Signature Tower	CBD

Singapore



Economic uncertainty coupled with a mismatch in rental expectations between occupiers and landlords resulted in measured leasing activity.

More Active



Less Active



SECTOR DEMAND



Coworking

Agile space providers continued to drive leasing demand, although leasing volume by this sector is gradually easing. Singaporean operators remain reasonably confident and continue to expand, albeit very carefully.



Technology

Demand from tech firms weakened as most large occupiers have already completed major expansionary moves. The bulk of activity this quarter involved medium-sized companies.



Financial (Banking)

Rightsizing remains high on the agenda for companies in the banking and finance sector. Recent months have seen some companies considering increasing their regional headquarters headcount located in Singapore although this has not yet translated into new office demand.



Insurance

Other demand this quarter came from the insurance sector, with several firms completing sizable leasing transactions.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▲

Supply ▶

Vacancy ▶

- The business outlook will remain challenging amid lingering economic uncertainty.
- New projects in the pipeline will start pre-leasing earlier than usual as space take-up is slowing.
- The coming quarters may see shadow space taken up by a range of small to medium sized occupiers including hedge funds, insurance companies and second-tier tech firms.

EMERGING TRENDS

Renewal is the major trend at present as occupiers remain highly cautious and reluctant to commit to large scale CapEx. The lack of new supply is further limiting opportunities for expansion and consolidation.

Enterprise deals for coworking space continue to increase as tenants seek greater term flexibility of between 18-24 months.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT NFA)	PROPERTY	DISTRICT
Agile space operator	60,000	PSA Building	Alexandra/ Harbourfront
Agile space operator	51,000	UE Square	River Valley/ Havelock Road
Agile space operator	37,000	Afro-asia i-Mark	Shenton Way
Technology firm	31,000	AXA Tower	Tanjong Pagar

India



The period saw robust leasing demand despite slower economic growth. Bangalore, Hyderabad and the NCR accounted for the bulk of activity.

SECTOR DEMAND

6-MONTH OUTLOOK & OPPORTUNITIES

More Active



Technology

Tech firms drove demand this quarter, accounting for more than 30% of leasing activity in major cities. Bangalore reported strong expansion in tech parks and steady demand from local start-ups, many of which leased coworking space. Hyderabad also saw robust demand from Indian start-ups as well as expansion from large multinationals.



Coworking

Flexible space operators continued to expand in major cities. In the NCR activity was focused on Gurgaon and Noida, supported by solid demand from traditional occupiers seeking flexible solutions. Other hotspots included Bangalore, where coworking remains the preferred option for local start-ups until they reach a certain size.



Financial (Banking)

The banking and financial sector was the third most active sector with steady leasing demand reported across key cities. Mumbai saw steady enquiries across major locations.

Less Active



Rent	▲
Supply	▲
Vacancy	▶

- Leasing demand is expected to remain robust in the short-term, led by the tech sector.
- Occupiers will continue to build greater agility into their portfolios by crafting an appropriate mix of core space and flexible options.
- Flexible space operators will remain a key source of leasing demand and will focus on secondary areas of tier I cities along with core areas of tier II and tier III markets.

EMERGING TRENDS

Occupiers continue to future-proof their portfolios and hedge against future rental increases by pre-leasing space across various cities.

The advent of new technology, insourcing and job preservation in the U.S. and slower economic growth have yet to negatively impact India's status as a preferred outsourcing destination.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT GFA)	PROPERTY	DISTRICT
Optum Global Solution	450,000	International Tech Park (Block 1B)	Golf Course Extension Road, NCR
Mercedes Benz	380,170	Brigade Tech Garden B3	PBD, Bangalore
Tata Communications	263,000	Equinox Business Park Tower 4	BKC Periphery, Mumbai

Australia



Leasing activity continued to stabilise as tenants await new supply, with renewals accounting for the majority of leases signed.

More Active



Less Active



SECTOR DEMAND



Technology

Tech firms drove leasing activity this quarter as they continue to commit to future supply offering large and efficient floorplates, more attractive working environments and better amenities to attract and retain talent.



Coworking

Coworking operators completed a few expansionary moves in Sydney including several new leases outside the CBD but activity is expected to slow before year-end, whilst Melbourne saw limited expansion. The sector remains in its infancy in Perth and other regional markets, with a few providers still testing out the concept with occupiers.



Financial (Banking)

There was some activity in the banking and finance sector as a few firms committed to new leases but overall growth in demand was negligible. Space efficiency is the focus as companies look to right size their office footprint rather than take on additional space.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▲
Supply	▶
Vacancy	▼

- Future supply is limited in Perth with new space not due until 2023, allowing current vacancies to be absorbed.
- Sydney will remain a landlord's market, with most new supply already fully pre-committed, pushing tenants into renewals.
- Tenants in Melbourne are focusing on renewals whilst they wait for new supply to enter the market in 2020/21.

EMERGING TRENDS

Although some occupiers in Sydney and Melbourne are increasing headcount, they are not increasing office take-up. Many companies are focusing on how to maximise current space utilisation.

The period saw some decentralisation by law firms in Sydney and Melbourne seeking cheaper but high quality space outside the CBD.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ M NFA)	PROPERTY	DISTRICT
Agricultural Bank of China	1,590	2 Chifley Square	Sydney CBD
APT Management	700	40 City Road	Melbourne CBD
Star of the South	670	55 Collins Street	Melbourne CBD
Sitzer Daily	550	10 Spring Street	Sydney CBD

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.**

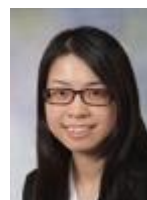
Head of Research
CBRE Research, APAC/EMEA
henry.chin@cbre.com.hk

**Ada Choi, CFA**

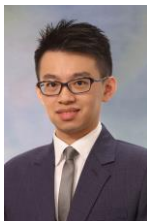
Head of Occupier Research, APAC
Head of Research, Greater China
ada.choi@cbre.com.hk

**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