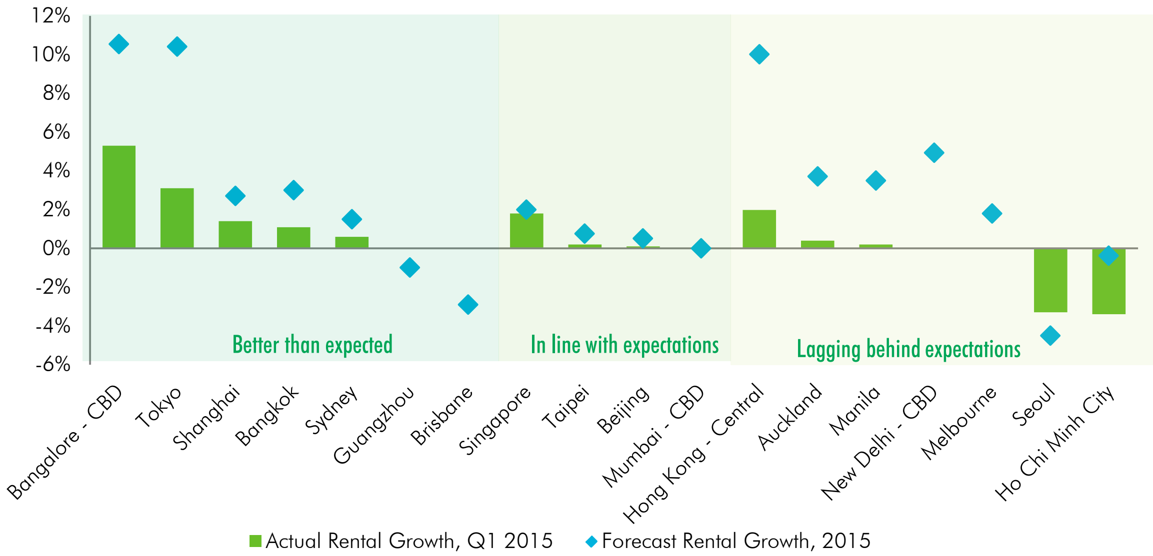
Asia Pacific Office, Q1 2015

Leasing demand weakens but rental growth holds firm

Rents Down 5 Markets | Rents Stable 12 Markets | Rents Up 8 Markets | Vacancy Up 18 Markets | Vacancy Stable 1 Markets | Vacancy Down 6 Markets

Figure 1: Asia Pacific Rental Growth in 2015



Source: CBRE Research, Q1 2015

HOT TOPICS

- Business sentiment **remained upbeat**, with Indian companies retaining the most confident outlook for the fourth consecutive quarter.
- This optimism is feeding into **positive hiring intentions** among employers, although readings were slightly less positive compared to the previous quarter.
- New Grade A completions in Asia in Q1 2015 totalled over 13.7 million sq. ft., **the highest quarterly total in ten years.**
- Overall vacancy in Asia **increased for the first time since 2013**, rising to above 9.0%.
- **Tight availability and healthy occupier demand** in key gateway cities such as Hong Kong, Singapore, and Tokyo resulted in solid rental growth of around 2.0% q-o-q in those markets.
- The CBRE Asia Pacific Office Rental Index is forecasted to record **growth of 3.5% in 2015**, an improvement on the 3.2% forecasted in January 2015.

Office leasing demand in Asia Pacific weakened in Q1 2015, with seasonal factors including the holiday period and a focus on long-term strategic planning pushing down regional office net absorption by 35% q-o-q to 7.1 million sq. ft. However, after discounting the unusually large negative net absorption in Seoul, net absorption during the quarter was almost unchanged on a y-o-y basis. In spite of the more subdued leasing market, the CBRE Asia Pacific Office Rental Index increased by 0.6% q-o-q, a similar rate of growth as in Q4 2014.

Improving business sentiment and the positive job market is expected to support steady office leasing demand over the course of the year. The market experienced a quiet start to 2015 during what is traditionally a quiet period for leasing activity but several markets recorded a significant uptick in enquiries in March, which suggests net absorption will increase in Q2 2015.

ECONOMIC OUTLOOK IMPROVES MARGINALLY

Oxford Economics forecasts that economic growth in Asia Pacific will improve slightly to 4.5% in 2015 from 4.3% in 2014. Stronger expansion in Japan, India and Thailand is expected to lift regional growth this year. However, growth in China and Malaysia is expected to slow in 2015 as a weak residential property sector and low oil prices, respectively, drag on growth.

The picture in Japan is mixed, with an increase in industrial production recorded this quarter but a slower rate of inflation. The depreciation of the Yen may help boost the domestic economy by spurring tourism spending and domestic demand.

BUSINESS SENTIMENT REMAINS POSITIVE

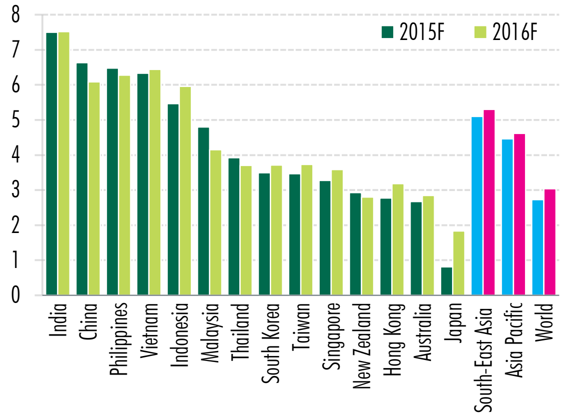
Business sentiment remained upbeat at the start of 2015, with Indian companies retaining the most positive outlook for the fourth consecutive quarter, buoyed by the confidence in the new government's economic reform agenda.

HIRING INTENTIONS STAY FIRM

This optimism is feeding into positive hiring intentions among employers in the region, although readings were slightly less buoyant compared to the previous quarter. The services and property sectors expect to see the largest increase in headcount. Companies in the financial sector are the least optimistic towards hiring.

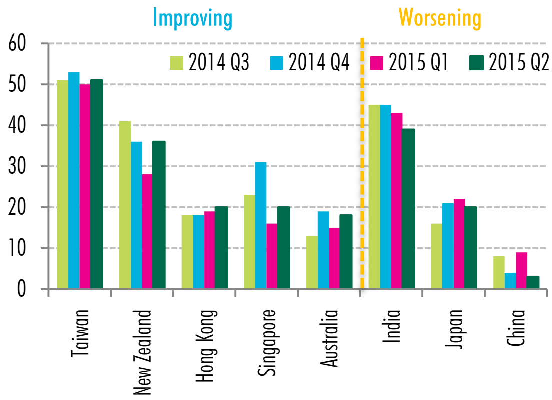
The big Western banks remain focused on cost reduction and are closing down non-profitable business lines. However, many firms are still eyeing business growth in Asia and are hiring cautiously. Within the sector, asset management, insurance and wealth management firms are more aggressive in recruiting new talent.

Figure 2: Asia Pacific GDP Growth (%, Y-o-Y)



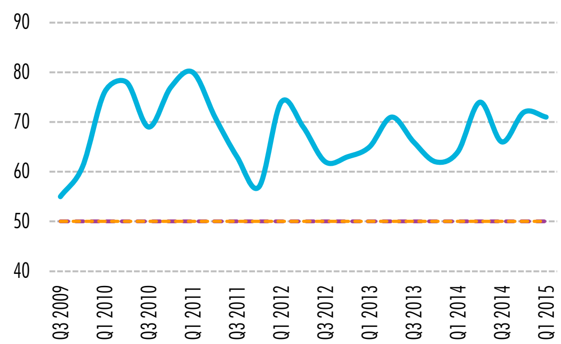
Source: Oxford Economics, Q1 2015

Figure 3: Asia Pacific Employment Outlook (FIRE Sectors)



Note: Net employment outlook: net % of companies plan to increase hiring
Source: Manpower Employment Outlook Survey, Q2 2015.

Figure 4: Asia Pacific Business Sentiment Index



Source: Thomson Reuters, Q1 2015.
Note: A reading above 50 indicates an overall positive outlook

NET ABSORPTION PULLED DOWN BY SEOUL

Seasonal factors including the holiday period and a focus on longer-term strategic planning pushed down regional office net absorption by 35% q-o-q to 7.1 million sq. ft. in Q1 2015. However, after discounting the unusually large negative net absorption in Seoul, net absorption during the quarter was almost unchanged on a y-o-y basis.

The Seoul office market struggled this quarter as domestic conglomerates scaled back operations due to weak economic growth. Singapore also saw weaker demand in Q1 2015, with very few new expansionary requirements reported.

Markets recording strong demand included Shenzhen, where net absorption totalled 1.4 million sq. ft. (NFA), the highest figure recorded since Q2 2010. Demand was driven by financial services and tech firms. Leasing momentum in Tokyo also rebounded strongly, with net take-up surging by 50% q-o-q.

Demand continued to be led by domestic companies whilst multinationals remained cost sensitive. The TMT sector was the most active.

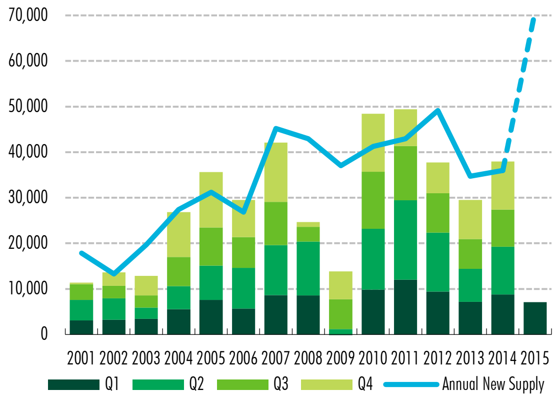
SURGE IN NEW SUPPLY EXPECTED

New Grade A completions in Asia in Q1 2015 totalled 13.7 million sq. ft., the highest quarterly figure in ten years. Around 50% of new space came on stream in Shenzhen and New Delhi.

Several cities in China and India, and also Jakarta, are set to experience a wave of new supply this year. Most new stock will be located in non-core areas. Beijing will see the completion of 2.2 million sq. ft. NFA of new office supply, signaling a shift in market dynamics.

Total estimated new Grade A office supply in Asia Pacific in 2015 currently stands at 71 million sq. ft. NFA. However, taking into account project postponements and slippage ratios, a more realistic estimate of new Grade A supply in Asia Pacific this year is around 50 million sq. ft. NFA.

Figure 5: Office Net Absorption ('000s sq. ft.)



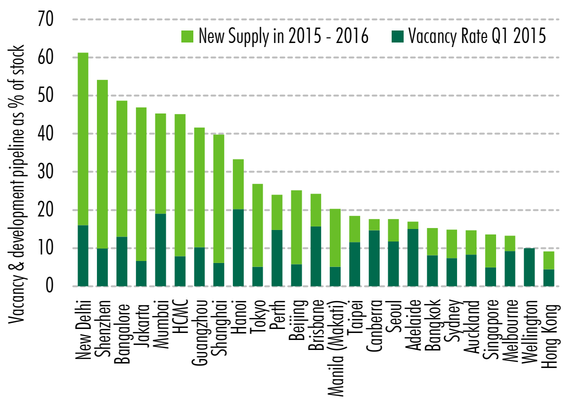
Source: CBRE Research, Q1 2015

Figure 6: Major New Office Completions

	Development Name	Estimated Size (sq. ft.)
Shenzhen	Futian Technology Plaza	1,750,000
Gurgaon	ASF Insignia – Phase 2	1,200,000
Beijing	SOHO Guanghualu II	861,120
Shanghai	Lujiazui Century Financial Plaza (T3)	750,000
Noida	Nehru Place Extension Tower	650,000
Seoul	Tower 8 in Cheongin Dong	557,000
Singapore	South Beach Tower	527,450
Bangkok	AIA Sathorn Tower	414,400

Source: CBRE Research, Q1 2015.

Figure 7: Vacancy Rate and Development Pipeline



Source: CBRE Research, Q1 2015.

VACANCY RISES AMID NEW SUPPLY INFLUX

Slower leasing activity and the large volume of new office supply scheduled for completion in 2015 began to push up vacancy this quarter. Overall vacancy in Asia increased for the first time in two years, rising to 9.0%.

Vacancy in the Manila CBD increased by 5.2% q-o-q as one owner-occupied office building was made available for lease. In Bangkok, vacancy increased to 8.1% following the completion of the first new Grade A office building in three years. However, demand in both markets remains healthy and vacancy is expected to fall in the months ahead.

Shenzhen and New Delhi both saw the addition of a large volume of new supply, which pushed up vacancy. Oversupply will persist over the remainder of the year and vacancy will continue to rise. Vacancy also continued to increase steadily in several key Pacific markets as demand remained weak in the absence of any catalysts.

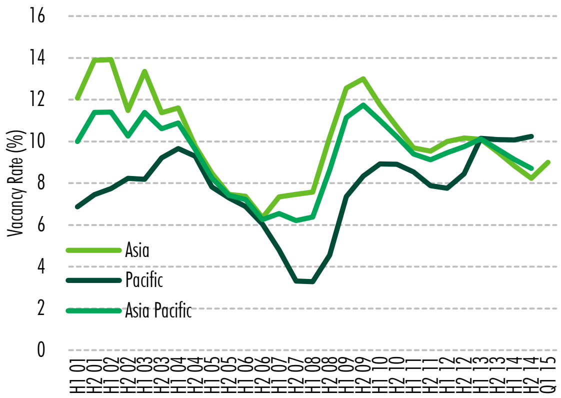
GATEWAY CITIES DRIVE RENTAL GROWTH

In spite of weaker leasing demand, the CBRE Asia Pacific Office Rental Index increased by 0.6% q-o-q, a similar rate of growth as in Q4 2014. Tight availability and healthy occupier demand in key gateway cities such as Hong Kong, Singapore, and Tokyo resulted in solid rental growth of around 2.0% q-o-q in those markets, which helped offset weaker rents elsewhere.

CBD submarkets continued to see comparatively stronger rental growth. In Hong Kong, rents in Central recorded their strongest gains since Q2 2011, increasing by 2.0% q-o-q. In Shenzhen, the Luohu CBD outperformed the overall market.

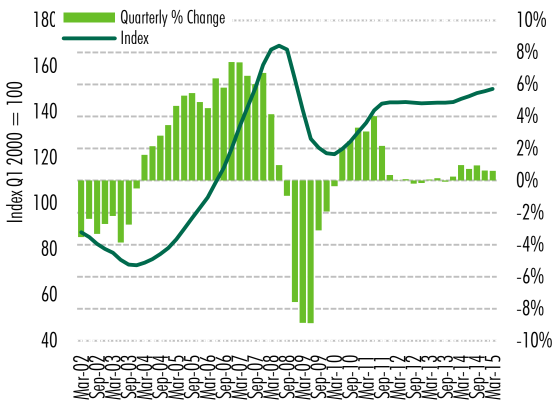
Landlords in weaker markets were observed to be offering longer rent free periods. This trend was especially prominent in Seoul, where landlords of new projects found it challenging to secure tenants. A few major markets in Australia saw a marginal drop in incentives this quarter but levels have yet to peak in several cities.

Figure 8: Asia Pacific Vacancy Rate (%)



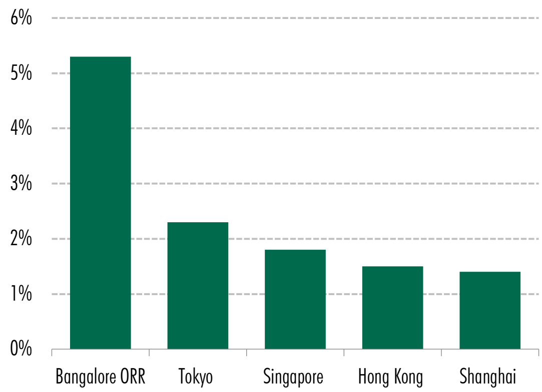
Source: CBRE Research, Q1 2015

Figure 9: Asia Pacific Office Rental Index



Source: CBRE Research, Q1 2015.

Figure 10: Strongest Grade A Rental Growth, Q-o-Q



Source: CBRE Research, Q1 2015.

STEADY OFFICE LEASING DEMAND EXPECTED

Improving business sentiment and the positive job market is expected to support steady office leasing demand over the course of the year. Several markets recorded a significant uptick in enquiries in March, which suggests net absorption will increase in Q2 2015.

Mainland Chinese firms in Hong Kong and domestic corporations in Japan will continue to underpin strong office leasing demand in those markets. Seoul will continue to struggle and could negatively impact overall regional demand.

TMT SECTOR TO DRIVE LEASING ACTIVITY

Tech firms will continue to display a strong appetite for high quality space. New start-ups and expansions will account for the bulk of demand from this sector but some cost saving relocations have begun to emerge.

The financial services sector is expected to display steady demand but this will be driven by a few sub-sectors in selected markets, such as small loan companies in China and Mainland Chinese securities and wealth management firms in Hong Kong.

INCREASE IN VACANCY SET TO CONTINUE

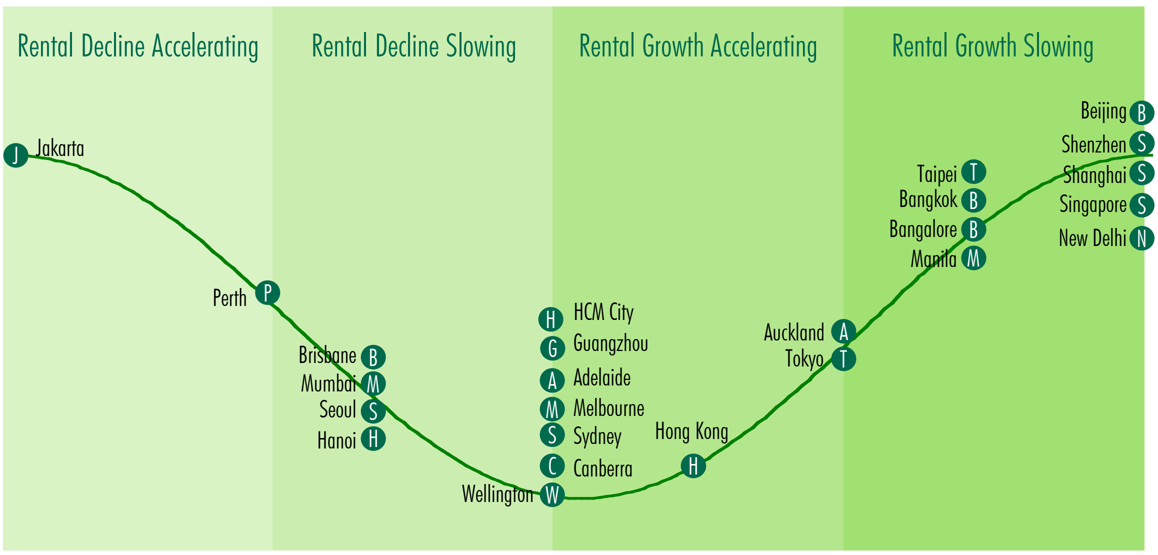
Vacancy is forecasted to increase further over the course of the year. Around 36 million sq. ft. NFA of new Grade A office supply is scheduled to be completed in Asia over the next three quarters, an amount that will exert considerable pressure on landlords of existing and new buildings in a number of markets. However, fears of oversupply have been somewhat allayed by strong pre-leasing activity in Shenzhen, Guangzhou, Bangalore and the New Delhi NCR.

RENTAL GROWTH TO STRENGTHEN IN 2015

The CBRE Asia Pacific Office Rental Index is expected to record growth of 3.5% this year, an improvement on the 3.2% forecasted in January 2015. This is due to the improved outlook for Hong Kong and Shanghai, which is offsetting the downward revision for Singapore and Seoul.

In Singapore, there are concerns over the strength of demand which, combined with a wave of new supply in H2 2016, is expected to ensure rents stay flat over the remainder of the year. Other underperformers include Seoul, Brisbane and Perth, where vacancy is not expected to peak until 2016.

Figure 11: Asia Pacific Rental Cycle Q1 2015



Source: CBRE Research, Q1 2015.

Figure 12: Key Indicators

City	Per local measurement	Prime rent local	US$/sq. ft. per annum	Q-o-Q change (%)	Y-o-Y change (%)	Vacancy rate (%)
Beijing – CBD	RMB sq. m. p.m.	700	180	0.0	0.0	7.0%
Beijing – Zhongguancun	RMB sq. m. p.m.	400	103	0.0	0.0	0.7%
Beijing – Finance Street	RMB sq. m. p.m.	750	187	0.0	0.0	0.1%
Shanghai – Pudong	RMB sq. m. p.m.	456	114	0.0	7.1	3.5%
Shanghai – Puxi	RMB sq. m. p.m.	395	100	0.0	0.0	7.5%
Guangzhou	RMB sq. m. p.m.	225	63	0.0	-2.2	10.2%
Shenzhen	RMB sq. m. p.m.	330	84	0.0	0.0	9.9%
Hong Kong – Core Central	HK$ sq. ft. p.m.	145	224	1.3	5.4	3.6%
Hong Kong – Kowloon	HK$ sq. ft. p.m.	85	132	-0.4	-4.8	3.1%
Taipei	NT$ ping p.m.	3,330	59	0.8	1.5	11.5%
Tokyo	JPY tsubo p.m.	42,850	121	1.1	6.3	5.1%
Seoul – CBD	KRW sq. m. p.m.	38,505	73	0.7	1.5	13.5%
Seoul – Gangnam	KRW sq. m. p.m.	31,080	60	-0.1	-0.1	7.4%
Seoul – Yeouido	KRW sq. m. p.m.	31,535	63	-0.7	-0.4	15.2%
New Delhi – CBD	INR sq. ft. p.m.	400	114	0.0	0.0	1.7%
New Delhi – Gurgaon	INR sq. ft. p.m.	140	40	3.7	9.4	18.5%
Mumbai – Nariman Point	INR sq. ft. p.m.	270	66	0.0	0.0	6.0%
Mumbai – BKC	INR sq. ft. p.m.	310	88	-1.0	-2.5	22.1%
Bangalore - CBD	INR sq. ft. p.m.	130	33	0.0	0.0	4.0%
Manila	PHP sq. m. p.m.	1,292	32	-0.6	14.2	5.1%
Singapore	S$ sq. ft. p.m.	12	108	2.5	11.8	4.9%
Bangkok	THB sq. m. p.m.	900	31	0.0	0.0	8.1%
Ho Chi Minh City	US$ sq. m. p.m.	44	61	-0.7	-1.2	7.9%
Hanoi	US$ sq. m. p.m.	41	45	0.0	-4.0	20.2%
Jakarta	IDR sq. m. p.m.	701,222	66	-2.2	3.2	6.6%
Adelaide	A$ sq. m. p.a.	415	29	0.0	1.8	13.5%
Brisbane	A$ sq. m. p.a.	680	48	0.0	0.0	15.1%
Canberra	A$ sq. m. p.a.	358	25	0.6	0.0	15.4%
Melbourne	A$ sq. m. p.a.	542	38	0.0	0.8	9.1%
Perth	A$ sq. m. p.a.	775	55	-0.8	-5.6	15.0%
Sydney	A$ sq. m. p.a.	1,034	73	-0.8	0.9	7.4%
Auckland	NZ$ sq. m. p.a.	503	35	0.0	3.6	8.0%
Wellington	NZ$ sq. m. p.a.	386	27	0.0	1.6	10.3%

Note: Vacancy in the Pacific reports bi-annually and it represents Q4 2014 figures

Source: CBRE Research, Q1 2015.

Figure 13: Key Leasing Transactions

Market	Address	sq. ft	Occupier	Business sector
Seoul	Three IFC	329,900	IBM	Hardware
Bangalore	Goldhill Supreme	140,000	Tech Mahindra Business Services Ltd.	IT/ITES
Beijing	POSCO	107,640	Meilishuo.com	Tech
Hanoi	Keangnam	107,640	Vietel Telecom	Telecom
Mumbai	Ashar IT Park	78,000	Serco Global Services	IT/ITES
Hong Kong	One Harbour Square	66,400	Social Welfare	Public
New Delhi	DLF Cybercity	25,000	Ramboll India	Engineering/Manufacturing
Taipei	Nangang Software Park III	23,800	HP	Tech
Guangzhou	Leatop Plaza	23,680	Guangzhou Zhongying Real Estate	Real Estate
Shanghai	Jing An Kerry Centre Tower 2	14,262	Temasek Holdings Consulting	Professional Service

Source: CBRE Research, Q1 2015.

Figure 14: Major New Office Developments

Market	Submarket	Development Name	Expected Date of Completion	Estimated size (sq. ft.)
Sydney	Western	Barangaroo Tower 3, Tower 2 & Tower 1	2015-2017	2,735,607
Shanghai	Lujiazui	Shanghai Tower	2015	2,260,440
Shenzhen	Qianhai	One Excellence Phase 1 & 2	2015	1,937,500
Singapore	CBD	Marina One	2016	1,880,000
Guangzhou	Zhujiang New Town	Yuexiu Financial Tower	2015	1,695,300
Mumbai	BKC	One BKC	2015	1,550,000
New Delhi	Noida	World Trade Tower	2015	1,338,000
Bangalore	Outer Ring Road	Mapletree	2015	1,100,000
Taipei	Xinyi-Jilong	Nan Shan Plaza	2016	1,067,500
Jakarta	CBD	Sinarmas MSIG Tower	2015	893,000
Hong Kong	Kowloon East	One Bay East	2015	694,400
Beijing	Zhongguancun	Raycom Tower B	2015	645,800
Seoul	GBD	Parnas Tower	2016	598,550
Ho Chi Minh	District 1	Vietcombank Tower	2015	474,000

Source: CBRE Research, Q1 2015.

City	Market Highlights	Demand	Rents
Beijing	• Rents were stable this quarter. Demand was led by IT firms. • New completions are set to peak over the next six months and will exert downward pressure on rents.	▲	▶
Shanghai	• Leasing demand was led by domestic firms whilst multinationals focused on cost containment and opted to renew. Grade A rents increased by 1.4% q-o-q. • CBD Grade A buildings are expected to record mild rental growth but decentralised submarkets will see some weakness as 60% of new supply set to be completed in the next six months is located outside CBD areas.	▲	▲
Guangzhou	• Rents held firm. Steady leasing activity in newly completed projects pushed down vacancy by 1.3 ppts. • The outlook for rents is stable. The rental gap between new and existing buildings is narrowing.	▶	▶
Shenzhen	• Rents edged up by just 0.2% q-o-q as the large volume of new stock outstripped robust demand from new set-ups. • Pre-leasing activity and overall demand is strong but rental growth will be limited by the huge development pipeline.	▲	▶
Hong Kong	• Grade A rents rose by 1.5% q-o-q as Central and Kowloon saw strong demand from financial services sector tenants committing to space. • The potential launch of the second phase of the Stock Connect scheme in H2 2015 will provide additional momentum for rental growth, particularly in Central.	▲	▲
Taipei	• Steady leasing activity coupled with the lack of new stock ensured Grade A rents increased marginally this quarter. • Landlords will remain firm towards rental negotiations as the availability of medium to large spaces is limited.	▶	▶
Tokyo	• Net absorption improved in Q1 2015 and Grade A rents increased by 2.3% q-o-q. • Lower oil prices and the weaker Yen will support corporate earnings and result in solid office demand. Rents will remain on an upward trend over the remainder of the year.	▲	▲
Seoul	• Restructuring by domestic conglomerates continued to negatively impact office demand this quarter. • Effective rents remained on a downward trend and are unlikely to recover without a strong catalyst for demand.	▼	▼
Singapore	• Rental growth remained solid at 1.8% q-o-q but rents have now peaked. Demand weakened noticeably this quarter. • The increase in secondary space and the forthcoming wave of new supply scheduled to be completed in H2 2016 implies rents will remain flat for the rest of the year.	▼	▶
Manila	• Strong demand for BPO space ensured further rental increases this quarter. • Undersupplied pressure in Makati is expected to ease upon the completion of a few Grade A projects that are now available for lease in months ahead.	▲	▲
Bangkok	• Vacancy temporarily increased this quarter following the completion of one new CBD Grade A office building. • Grade A rents are expect to grow moderately on the back of steady leasing demand from domestic and overseas firms.	▲	▲
Jakarta	• Rental growth slowed further and vacancy trended up due to the lack of new demand and the addition of new supply. • Weaker demand and abundant new supply will ensure tenants gradually gain the upper hand in negotiations.	▶	▼

Note: Demand and rental arrows represent the outlook for the next six months.

City	Market Highlights	Demand	Rents
Ho Chi Minh City	• Leasing demand improved but Grade A rents declined by 3.4% q-o-q as landlords reduced rents to attract tenants. • Rents in existing stock will remain stable but new buildings will need to lower rents to secure tenants.	▲	▶
Hanoi	• Strong demand from domestic occupiers pushed down vacancy by 6 ppts to 20.2%. • No Grade A stock will be completed this year but overall new supply is significant in the West and Midtown. Rents in those areas will continue to decline.	▲	▶
New Delhi	• Subdued demand in what is traditionally a quiet period, coupled with a surge in new supply, pushed up vacancy. • New supply in Gurgaon and Noida will ensure occupiers have plenty of options for cost effective space.	▶	▶
Mumbai	• Demand was the strongest among all tier I cities as occupier activity improved, particularly from the e-commerce sector. • The risk of oversupply remains high and rents are expected to continue on a downward trend in the short term.	▲	▶
Bangalore	• Grade A rents rose by more than 5.0% across most submarkets (CBD, EBD and ORR) amid sustained demand. • Robust demand from the I.T / ITeS sector will continue to support rental growth despite the increase in new supply.	▲	▲
Sydney	• The period saw strong demand from small space users as they took advantage of generous incentives to upgrade. • Incentives fell marginally but a further decline is not expected. Vacancy will remain stable.	▲	▶
Melbourne	• Tenants continued to be attracted by higher incentives and lower effective rents offered in the CBD. • Incentives are expected to peak this year and net absorption will remain positive.	▼	▶
Perth	• The period saw some flight to quality as tenants took advantage of falling rents to upgrade their premises. • Rents are set to fall due to higher vacancy amid substantial new supply in 2015 and the release of sub-lease space.	▲	▼
Brisbane	• Net absorption remained modest with most space absorbed by sitting tenants. • CBD vacancy will remain high and rents will weaken due to new stock and subdued occupier sentiment.	▶	▶
Adelaide	• Increased affordability and the availability of higher grade options spurred flight to quality activity this quarter. • Total vacancy will continue to increase due to slugging demand and new supply to be delivered in H2 2015.	▲	▶
Canberra	• Occupiers continued to enjoy a wide range of space options and remain able to negotiate favourable lease terms. • Demand will remain stagnant over the course of 2015, with limited rental growth and high incentives.	▶	▶
Auckland	• Grade A rents were flat but prime space continued to be sought by occupiers. Vacancy was the lowest since Q4 2008. • Demand will outstrip supply in the short term due to better than expected economic growth.	▶	▲
Wellington	• Demand remained strong and was focused on well located buildings with a new building standard rating of over 70%. • Rental growth will remain stable as new supply is mainly in the form of small scale redevelopments or refurbishments.	▶	▶

Note: Demand and rental arrows represent the outlook for the next six months.

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