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Contents

Overview	1
Office market overview	2
Outlook	4
Economic overview	5
Market statistics	6
Appendix	7
Definitions	10

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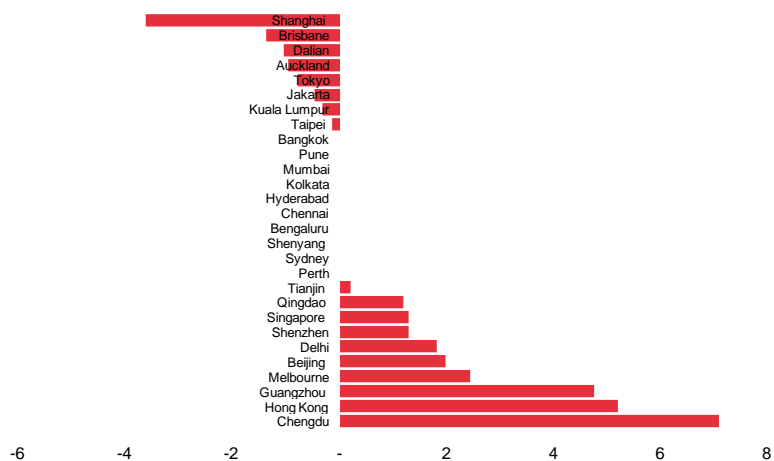
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- Occupied space in Asia Pacific increased significantly in Q2 2010 as companies resumed expansion plans and upgraded to better quality space on the back of strong economic growth.
- In line with resurgent demand, prime rents increased across much of the region (Figure 1). Elsewhere in Asia Pacific, rents have either bottomed out or are close to bottoming out. Notable exceptions include Tokyo, Brisbane and Shanghai, where rents continue to fall due to weak demand and increasing vacancy.
- We forecast that the best performing rental growth markets in 2010 will be Chengdu (13.4% growth), Hong Kong (11.8% growth) and Guangzhou (9.7% growth). These three markets are characterised by strong demand and a shortage of prime space. We forecast negative rental growth for only a handful of markets in 2010.
- Office markets in India and China dominate the recovery, with net absorption showing robust growth in both primary and secondary markets. The rebound in demand has been particularly strong in the primary markets of Beijing, Delhi, Mumbai and Hong Kong and in the secondary markets of Chengdu and Dalian.
- Vacancy continued to decline in Q2, albeit from a high level. However, the substantial development pipeline, namely in China and India, gives us cause for concern, especially in less mature markets where future new supply represents a considerable proportion of existing stock - as much as 67% in Delhi.

Figure 1

Q-o-q prime rental growth, Q2 2010 (%)



Source: DTZ Research

Office market overview

Activity continues to rebound

- Demand for space picked up across Asia Pacific in Q2 as companies revived expansion and relocation plans that had been put on hold at the onset of the financial crisis. Aggregate net absorption was almost 1.5 million sq m, a significant improvement over the circa 0.3 million sq m recorded at the same time last year (Figure 2). Better than expected economic conditions are boosting business sentiment, and demand has gradually strengthened as a result of companies hiring more workers or upgrading to better quality space.

India and China lead the recovery

- Office markets in India and China – both countries were relatively unharmed by the global recession – are leading the recovery, with leasing activity in primary and secondary markets improving noticeably over the quarter (Figure 3).
- In Beijing, net absorption increased 50% quarter-on-quarter (q-o-q), taking net absorption for the first half of the year to 277,890 sq m – only 5% less than the amount recorded for the whole of 2009. Similarly, the strong comeback in Hong Kong in Q1 continued into Q2, with market-wide net absorption for the first half of the year reaching 158,091 sq m. International finance institutions are expanding their businesses and competing with companies from the mainland for the limited amount of prime office space available.
- In Delhi, a 30% increase quarter on quarter meant that take-up in H1 2010 surpassed the full year 2009 level. Mumbai also saw a healthy rise in absorption. We believe that pent-up demand from both IT and non-IT sectors will drive absorption for the remainder of the year in India as occupiers seek to secure space before rents return to positive growth.

Occupier demand in Tokyo still lags

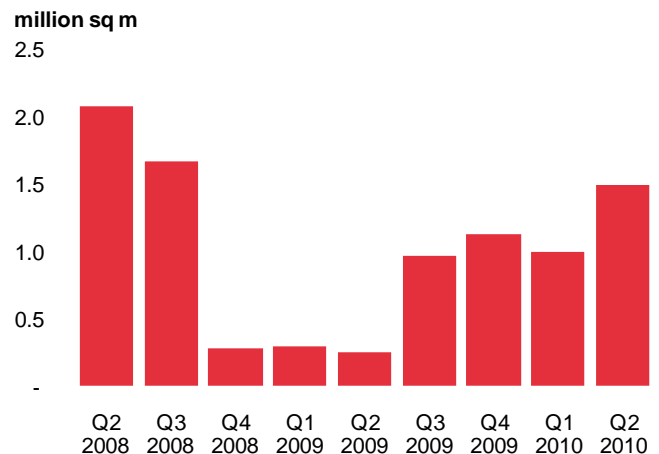
- Tokyo is the only primary market in Asia Pacific to show little sign of revival. The market suffers from weak demand, rising vacancy levels and falling rents. Companies are focusing on consolidation and cost reduction, with very few considering expansion.
- Following a healthy first quarter, leasing activity in Sydney slowed towards the end of Q2, with occupiers showing signs of caution in response to the European debt crisis.

Secondary markets in particular see surge in demand

- Of all the region's secondary markets, Dalian recorded the greatest increase in net absorption over the quarter at 1,200%. Demand for office space in China's northernmost seaport is being driven by real estate, financial and logistics companies and an increasing presence of foreign organisations. New demand is focused on the emerging Qingniwa Bridge district, rather than the traditional prime submarket of Renmin Road.
- Other secondary cities with considerable growth in demand were Chengdu (China), Pune (India) and Kuala Lumpur (Malaysia).

Figure 2

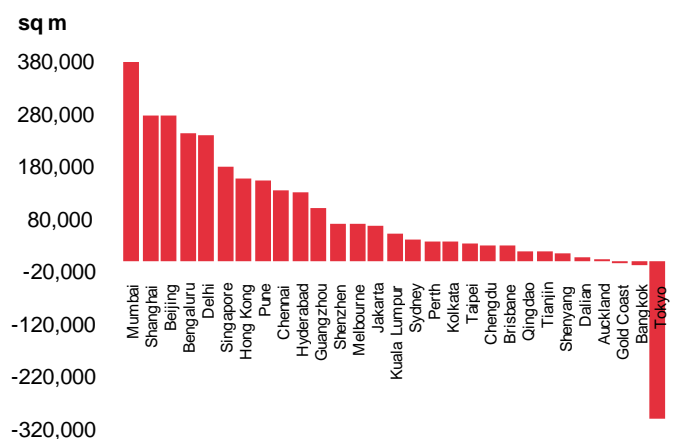
Aggregate Asia Pacific net absorption



Source: DTZ Research

Figure 3

Net absorption by market – H1 2010



Source: DTZ Research/PCA

Office market overview

Down trend in vacancy continues

- Even though vacancy levels continued to fall across Asia Pacific in Q2, they generally remain high, especially in the less mature markets. We believe that with construction activity generally expected to peak this year and next (Figure 4), vacancy levels will likely begin to creep up again in some markets. These include Delhi, Beijing, Shanghai and Mumbai, where planned new supply represents a very large proportion of existing stock (see Map 1 in Appendix).

Greater China records strongest rental growth in region

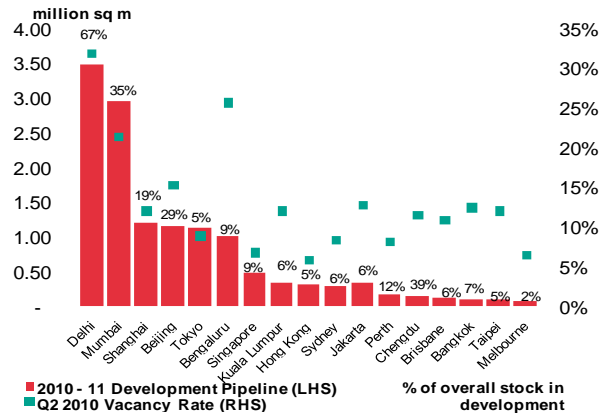
- Owing to solid demand, positive rental growth was recorded in ten of the 29 markets we cover. Nine markets posted negative rental growth over the quarter, whilst rents remained unchanged in the remaining centres (Figures 5 and 6).
- Greater China dominates the rental growth story. Chengdu and Hong Kong had the biggest quarterly increases in Asia Pacific, at 7.1% and 5.2% (Figure 6). Corresponding annual growth was 8.1% and 4.8% respectively. In Hong Kong, healthy demand is matched by a low vacancy rate (the lowest in the region), and this has led to accelerated rental growth since rents bottomed out in September 2009. Chengdu is also characterised by strong demand and a lack of new supply.
- An exception to the China trend is Shanghai, where prime rents in the city's grade A market, Jing'an, continued to fall in Q2, by 3.65%. Prime rents in Shanghai corrected much more sharply during the global financial crisis than in Beijing and continue to slide. Q2 also saw the prime vacancy rate increase to 17%, as two new buildings came on line.

Singapore rental growth turns positive

- In Southeast Asia, office rents increased in Singapore's Raffles Place following six consecutive quarters of decline. In Q1, net absorption turned positive after a gruelling 2009 and the market strengthened further in Q2. The revival is being driven by a broad-based economic recovery and, in particular, strong employment growth. Elsewhere in the subregion, prime rents decreased marginally in Kuala Lumpur despite a considerable increase in demand over the quarter; anticipated new supply (241,545 sq m by the end of 2010) has led to the formation of a tenant's market, with occupiers able to negotiate lower rents on lease renewals and when signing new leases.

Figure 4

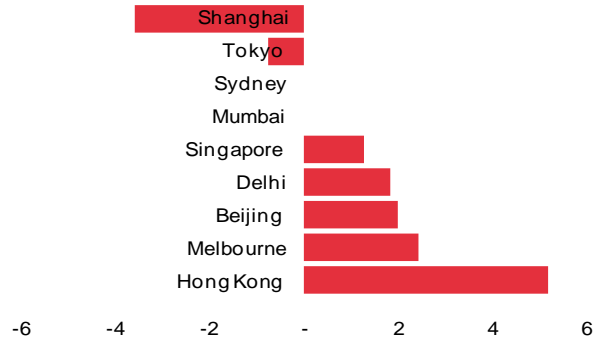
2010-11 development pipeline, % of overall stock & Q2 2010 prime vacancy rate – selected markets



Source: DTZ Research/PCA

Figure 5

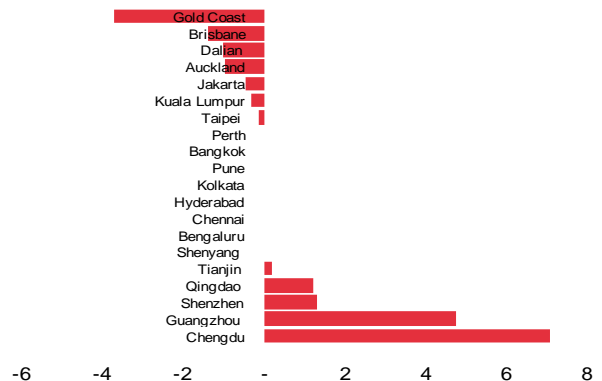
Quarter on quarter prime office rental growth – primary markets



Source: DTZ Research

Figure 6

Quarter on quarter prime rental growth – secondary markets



Source: DTZ Research

Rental growth to gather pace across the majority of markets

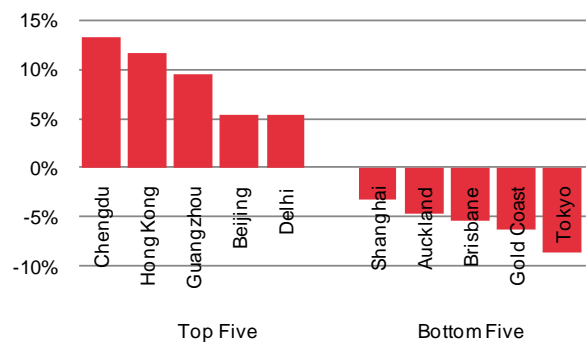
- Q2 saw continued improvement in Asia Pacific office leasing markets. Whilst the pace of recovery will vary across markets, our rental growth forecasts have largely returned to positive growth, and we expect rents to decline in only a handful of markets for the year as a whole. We forecast that average prime rents (on a capital-weighted basis) will increase by 4.6% in 2010. This follows a 21% fall in rents in 2009.
- Rental prospects are underpinned by increasing demand as companies restart recruitment and expand accordingly. At the same time, in markets where rents appear to be bottoming out (e.g. India), tenants are relocating to better premises before rents begin to rise, and this too is stimulating demand.
- We expect the strongest rental growth in 2010 to be in Chengdu, at around 13.4%, and in Hong Kong, at 11.8% (Figure 7). Prime rents in Guangzhou, China's third-largest city, will increase by almost 10% over the same period, in our opinion. Rental growth in all three markets is being driven by increased take-up, particularly from the financial and business services sectors, coupled with a shortage of prime space.

A large development pipeline looms

- A cause for caution in Asia Pacific is the large development pipeline. We expect construction to peak in 2010–11, and this may dampen rental growth in some markets as vacancy levels increase.
- We believe prime rents will remain under pressure in 2010 in the Chinese markets of Tianjin and Shanghai, both of which have a large supply pipeline. We are also forecasting rental falls in Brisbane and Auckland.
- We believe that Tokyo's rents will fall the most in 2010 among the Asia Pacific markets we cover. Although we expect vacancy levels to begin to decline, in the absence of both a sustainable economic recovery and improved corporate performance, a recovery in the Tokyo market will be slow to materialise.
- Looking further ahead, we forecast Asia Pacific prime rents to grow by an average of 6.2% between 2010 and 2014 (on a capital-weighted basis), with two of Asia's "tigers", Hong Kong and Singapore, expected to outperform this forecast (Figure 8).

Figure 7

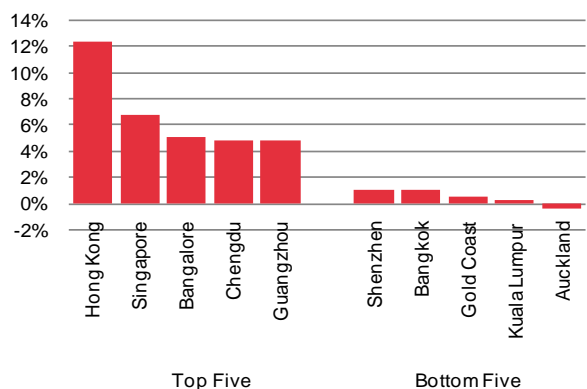
Best and worst rental growth 2010



Source: DTZ Research

Figure 8

Best and worst rental growth 2010–2014



Source: DTZ Research

Economic overview

Strong growth performance in H1 2010

- Asia has recovered strongly from the global recession, with robust growth continuing in H1 2010. Activity has been supported by rebounding exports and sustained growth in private demand. Exports are benefitting from restocking and the recovery of export demand in advanced economies, while private demand in Asia is resilient given rising productivity and wages and low household indebtedness.
- While growth has been rapid in recent quarters, it is expected to moderate as the restocking cycle comes to an end and monetary policy is tightened in China and India. There are already signs of a slight moderation, with growth in industrial production slowing in recent months (Figure 9).
- Drivers of growth differ across the region: China continues to rely on a recovery in exports and continuing domestic demand, India benefits from strong momentum underpinning domestic demand, and Australia is supported by a rapid recovery in business investment associated with the mining sector (Figure 10).

Risks to the outlook

- Amidst the strong recovery, inflationary pressures have mounted. India is the most acutely affected; inflation there is currently running at around 14% as the economy faces capacity constraints (Figure 11). Tighter monetary policy in affected countries is expected to contribute to the slowing in growth momentum later this year.
- While Asia has minimal direct exposure to the fiscal sustainability problems in Europe, if the recovery of advanced economies were to stall, export growth to Europe and the United States would dampen, although strong trade within Asia Pacific has proved to be sustainable and is a major supporter of economic growth at present.

Table 1

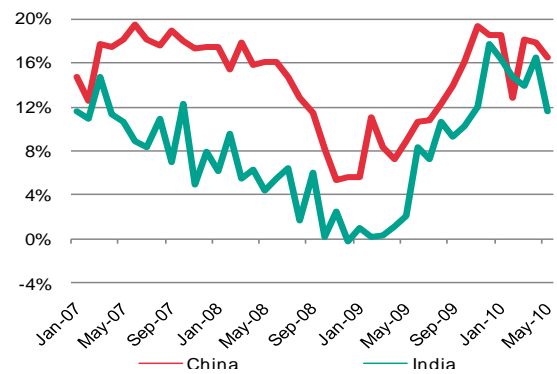
GDP growth forecasts

	2010	2011	2012	2013	2014
Asia Pacific	5.8	5.0	5.5	5.4	5.3
Australia	2.9	3.5	3.8	3.4	3.4
China	9.4	8.9	8.9	8.9	8.7
Hong Kong	6.1	4.3	5.0	4.8	4.7
India	8.2	8.3	9.0	8.8	8.4
Japan	2.8	1.4	2.1	2.0	1.6
Singapore	9.2	5.3	5.2	4.8	4.2

Source: Oxford Economics

Figure 9

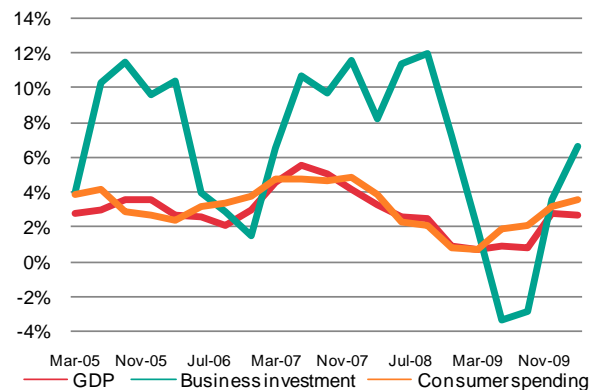
Industrial output growth in China and India (y-o-y)



Source: EcoWin

Figure 10

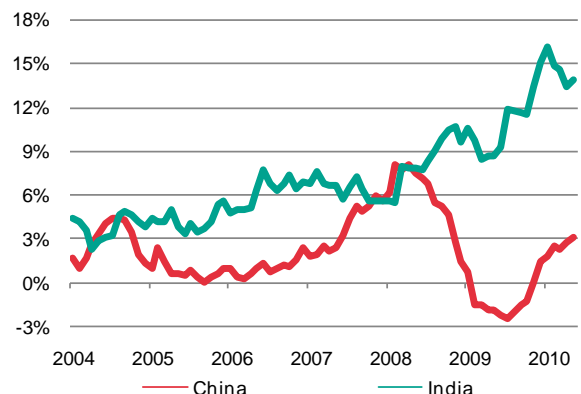
Drivers of growth in Australia (y-o-y)



Source: EcoWin

Figure 11

Inflation in China and India (y-o-y)



Source: EcoWin

Market statistics

Table 2

Market statistics, Q2 2010

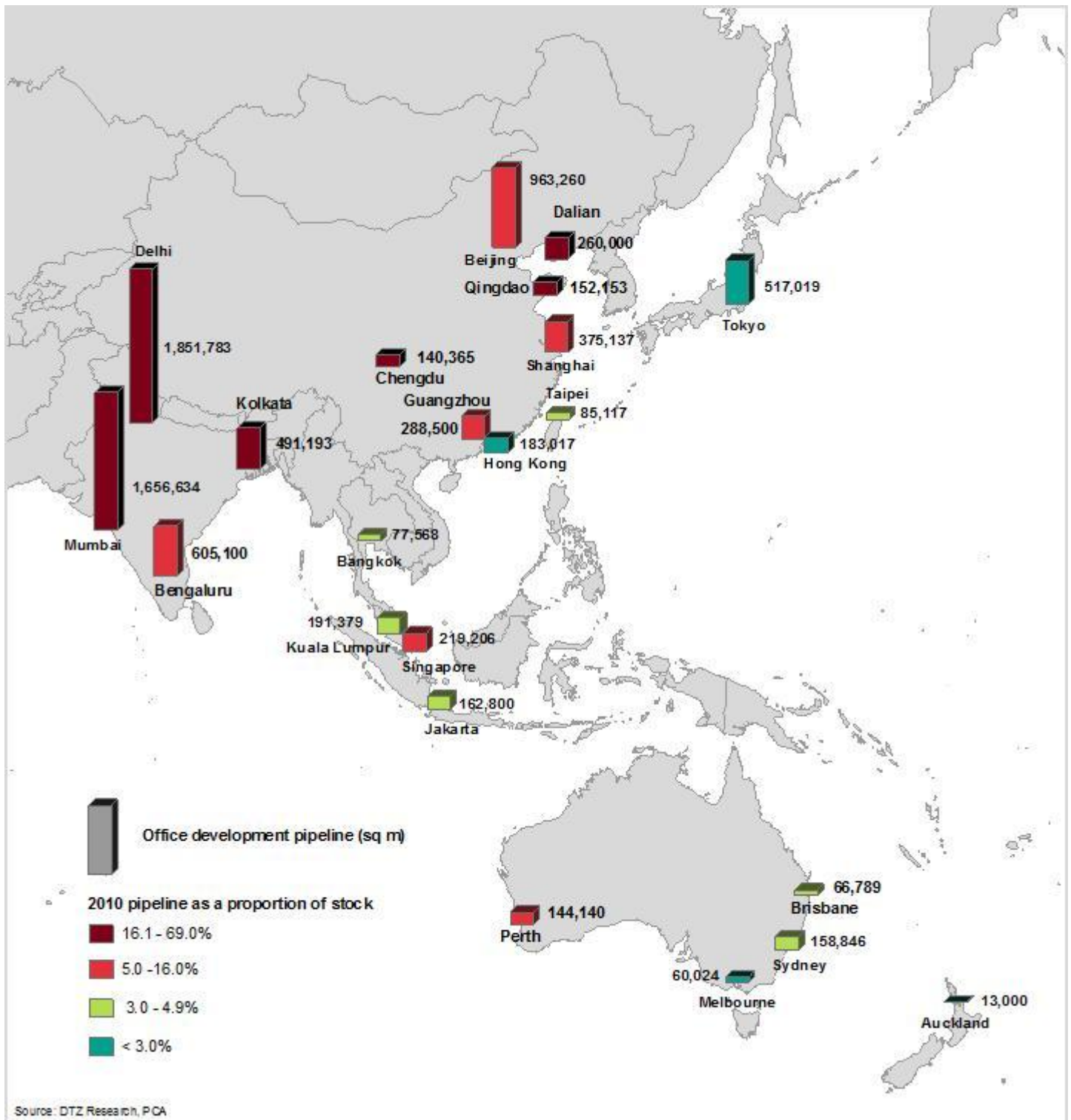
Market	Net absorption Q1 2010, sq m	Net absorption Q2 2010, sq m	Annual change in stock, %	Prime vacancy rate, %	Prime rents	Annual Change in prime rents, %
Brisbane	13,758	13,758	4.1	10.9	AUD 710/sq m/yr	-11.3
Gold Coast	-1,404	-1,404	3.8	23.4	AUD 385/sq m/yr	-9.4
Melbourne	43,887	25,109	4.3	6.5	AUD 420/sq m/yr	0.0
Perth	18,278	18,278	5.4	9.9	AUD 700/sq m/yr	-12.5
Sydney	19,688	19,688	1.2	8.5	AUD 750/sq m/yr	-3.2
Beijing	111,232	166,658	2.6	20.3	CNY 224.3/sq m/mth	13.9
Chengdu	7,537	20,482	0.0	11.6	CNY 115.0/sq m/mth	8.1
Dalian	559	7,333	0.0	11.3	CNY 74.99/sq m/mth	-0.5
Guangzhou	50,198	48,970	7.0	24.1	CNY 136.5/sq m/mth	2.0
Qingdao	15,761	2,485	2.6	16.3	CNY 97.7/sq m/mth	-5.3
Shanghai	114,644	164,016	10.1	17.3	CNY 250.9/sq m/mth	-12.3
Shenyang	7,142	6,798	24.6	24.0	CNY 250.9/sq m/mth	-8.4
Shenzhen	37,767	32,392	12.4	9.7	CNY 119.3/sq m/mth	5.6
Tianjin	13,036	3,631	18.4	17.0	CNY 126.9/sq m/mth	2.8
Hong Kong	75,596	82,495	0.0	4.9	HKD 85.9/sq ft/mth	4.8
Bengaluru	99,811	142,572	12.8	25.8	INR 780/sq ft/yr	-13.3
Chennai	67,927	67,860	17.1	34.6	INR 780/sq ft/yr	-13.3
Delhi	103,552	134,744	9.2	32.0	INR 3360/sq ft/yr	0.7
Hyderabad	109,875	19,577	11.2	15.9	INR 756/sq ft/yr	5.0
Kolkata	20,900	14,679	17.8	21.2	INR 1,008/sq ft/yr	0.0
Mumbai	172,704	220,578	30.7	21.5	INR 3,600/sq ft/yr	-25.0
Pune	40,417	111,954	16.3	24.3	INR 840/sq ft/yr	-12.5
Jakarta	28,600	36,124	6.4	12.8	IDR 125,000/sq m/mth	-4.7
Tokyo	-291,489	-9,860	-0.2	6.9	JPY 29,118/tsubo/mth	-8.5
Kuala Lumpur	11,000	38,499	6.5	12.1	MYR 7.6/sq ft/mth	-2.3
Auckland	700	n/a	4.6	13.3	NZD 407/sq m/yr	-12.5
Singapore	100,980	77,315	4.4	6.8	SGD 7.9/sq ft/mth	-18.6
Taipei	18,688	15,027	2.7	16.6	TWD 2,823/ping/mth	6.0
Bangkok	-19,244	11,226	0.0	12.5	THB 648/sq m/mth	-0.6

Source: DTZ Research/PCA

Appendix

Map 1

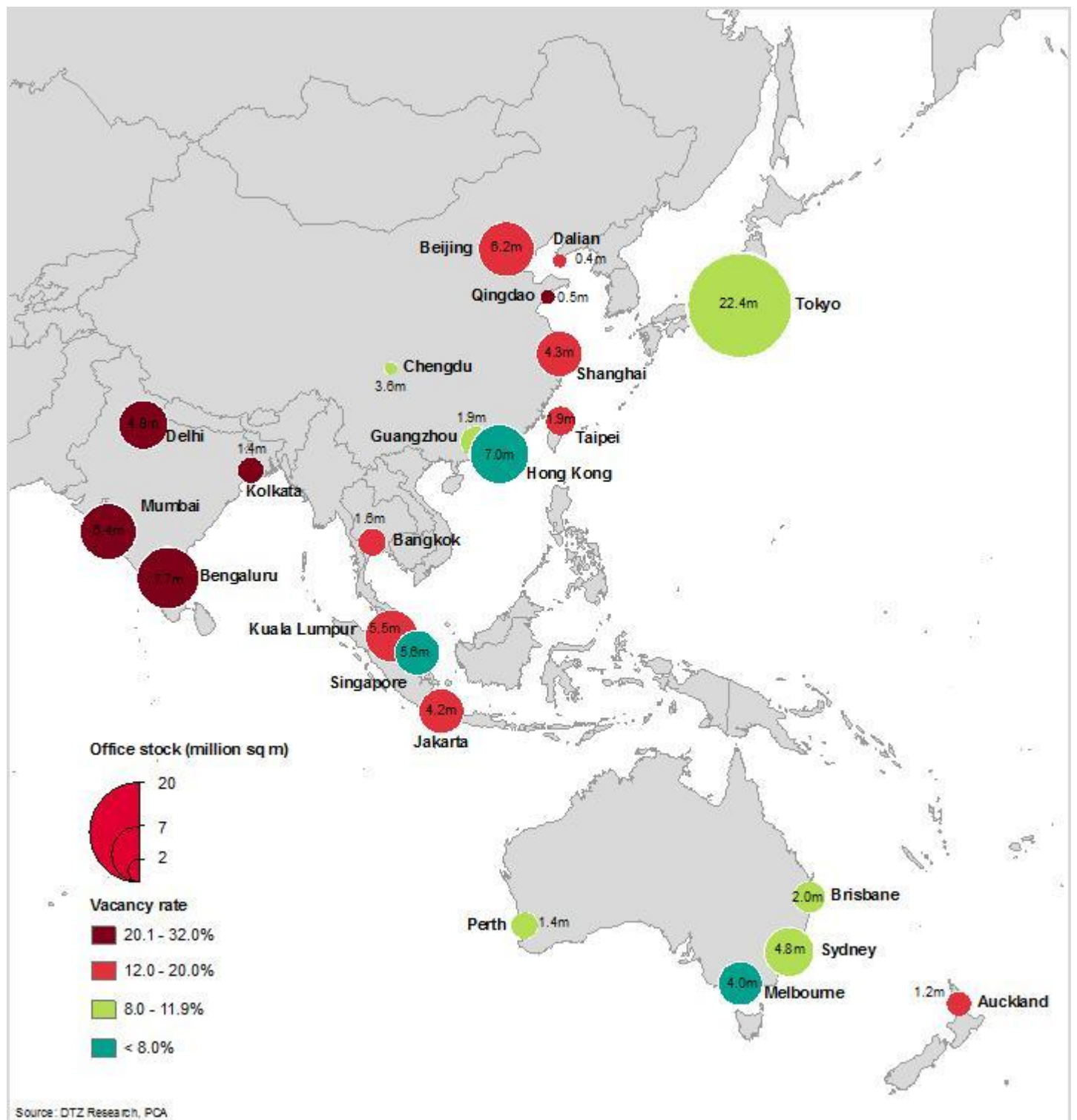
Asia Pacific 2010 new office development pipeline as a proportion of stock, Q2 2010



Appendix

Map 2

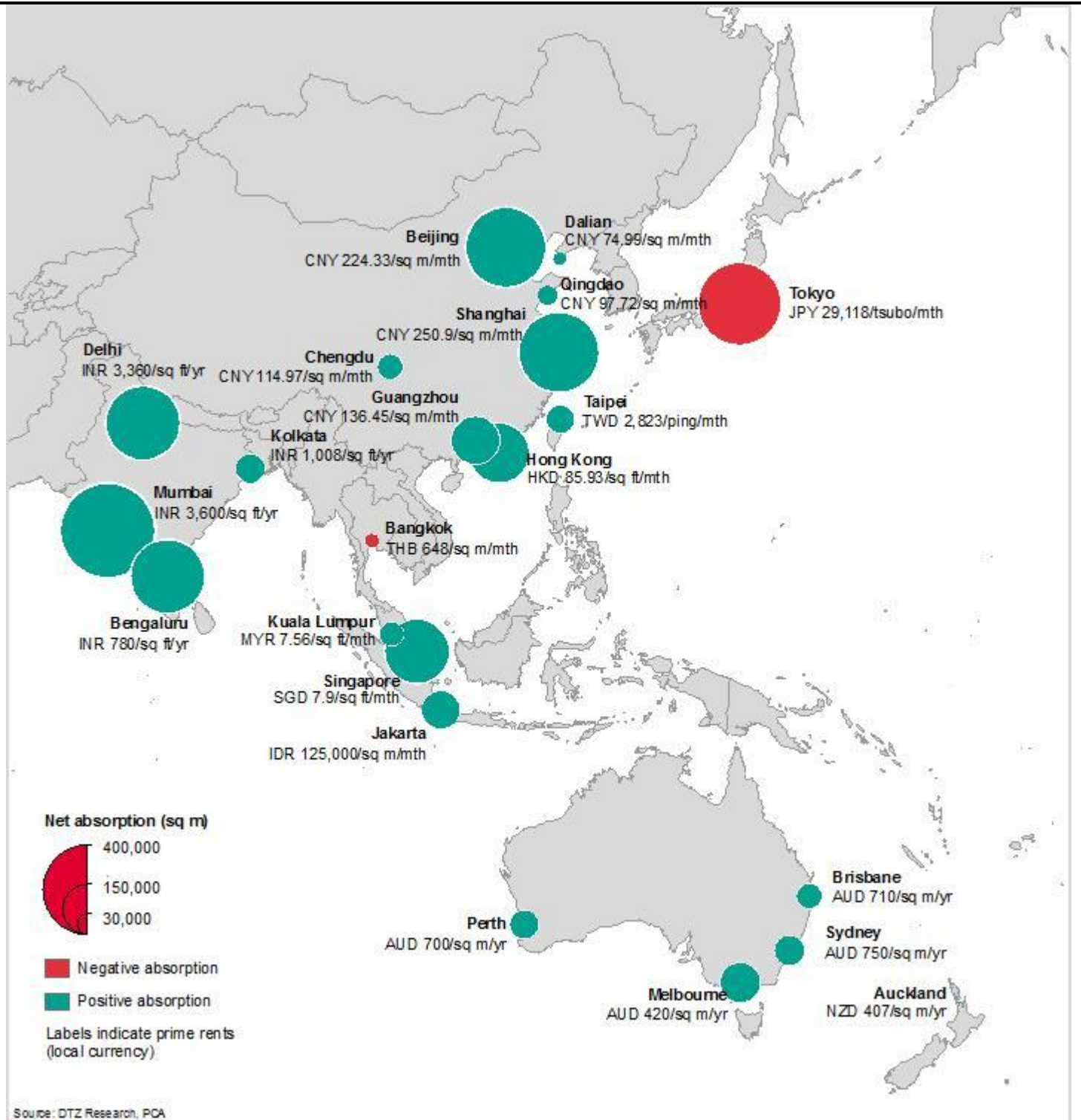
Asia Pacific office stock and vacancy rates, Q2 2010



Appendix

Map 3

Asia Pacific net absorption and prime rents, Q2 2010



Definitions

Availability

Total floorspace in properties marketed as available to let, whether physically vacant or occupied, and ready for occupation either immediately, or, in the case of occupied space/new developments, within the next 6 months.

Availability Ratio

Total space currently available as a percentage of the total stock of floorspace.

Development Pipeline

Comprises two elements:

1. Floorspace in course of development, defined as buildings being constructed or comprehensively refurbished to grade A standard.
2. Schemes with the potential to be built in the future, though having secured planning permission/development certification.

Grade A Floorspace

Buildings newly developed or comprehensively refurbished (involving structural alteration, and/or the substantial replacement of the main services and finishes), not previously occupied, including sublet space not previously occupied.

Net Absorption

The change in the total of occupied floorspace over a specified period of time, either positive or negative.

New Supply

Total marketed grade A floorspace which is ready for occupation either now or within the next six months. Ready for occupation means practical completion, where either the building has been issued with an occupancy permit, where required, or where only fit-out is lacking.

Prelet

A development leased or sold prior to completion.

Prime Rent

The highest rent that could be achieved for a typical building/unit of the highest quality and specification in the best location to a tenant with a good (i.e. secure) covenant.

(NB. This is a net rent, excluding service charge or tax, and is based on a standard lease, excluding exceptional deals for that particular market.)

Prime Yield

The best (i.e. lowest) yield which could be expected for a typical building/unit of the highest quality and specification in the best location leased to a tenant with a good (i.e. secure) covenant.

(NB. This is a net yield, which uses net income, after deducting all non-recoverable expenditure, divided by the purchase cost, excluding transaction costs and taxes.

Stock

Total accommodation in the commercial and public sectors both occupied and vacant.

Take-up

Floorspace acquired for occupation, including the following:
(i) offices let/sold to an eventual occupier;
(ii) developments pre-let/sold to an occupier;
(iii) owner occupier purchase of a freehold or long leasehold.

(NB. This includes subleases but excludes lease renewals.)

Vacancy

Floorspace that is empty - i.e. not occupied. It may be being marketed, or it may not (whether because a lessee is not occupying, it is being refurbished, or deliberately being left empty by the landlord).

Prime Asia Pacific markets

This report covers 29 prime office markets:

Brisbane	Bengaluru
Gold Coast	Chennai
Melbourne	Delhi
Perth	Bangkok
Sydney	Hyderabad
Beijing (CBD)	Kolkata
Chengdu	Mumbai
Dalian (Renmin Road)	Pune
Guangzhou (Zhu Jiang Xin Cheng District)	Jakarta
Qingdao (Shinan CBD)	Tokyo CBD (5 central wards)
Shanghai (Jingan)	Kuala Lumpur
Shenyang (North Station)	Auckland
Shenzhen	Singapore (Raffles Place)
Tianjin (Heping)	Taipei (XinYi)
Hong Kong (Sheung Wan/Central/Admiralty)	

Note: All space variables for Australia refer to PCA data as at January and July

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