



Asia Pacific leasing volumes down overall; select markets performed well

Gross leasing activity declined 16% y-o-y in 2Q16, following reasonably strong growth in Q1. The delayed impact of stock market volatility in early 2016 and uncertainty caused by slowing economic growth in China were largely responsible for the drop off in leasing volumes. China leasing volumes, down 42% y-o-y, were the largest drag on leasing activity. However, India also saw volumes decline due in part to a lack of available space in Bangalore and slowing demand from e-commerce firms.

Several markets registered strong growth in leasing volumes led by Tokyo where large ticket pre-commitments underpinned demand. PRC financials and cost-saving relocations supported robust leasing volumes in Hong Kong. Pre-commitments and take-up in newer buildings saw Singapore volumes improve. Sydney leasing volumes continued to perform well while Melbourne (due to a lack of available space) and Perth (due to ongoing weakness in the local economy) saw volumes decline. Overall Australia volumes declined 4% y-o-y.

Asia Pacific rents maintain growth trajectory

In aggregate, Asia Pacific rents grew 0.6% q-o-q, at the same rate as in Q1. Strong tech demand and lack of available space saw Bengaluru (+4.8%) achieve the strongest quarterly rental growth, followed by Manila (+3.4%) where demand from offshoring and outsourcing continued to drive rents higher. Traditional occupier groups such as financials and professional services firms sustained Sydney rent growth (+2.9%) while Mainland Chinese financials were again the most active category in Hong Kong (+2.3%). Tokyo, the largest office market in Asia Pacific, saw rent growth continue to flag in Q2 as landlords were cautious in light of a large supply pipeline. Restrictions on peer-to-peer lending and cost-saving strategies saw rent growth slow in China.

Several markets recorded quarterly rent declines. Continued economic weakness and high vacancy rates continued to put downward pressure on Perth rents (-4.7%). Landlords at older, strata-title buildings in Delhi took a more flexible approach in lease negotiations leading to a 3.7% rental decline there. A large volume of supply and sustained consolidation in the banking sector saw Singapore rents decline 3.3% q-o-q. Jakarta rents (-2.8%) fell amid sustained weakness in the oil and gas sector.

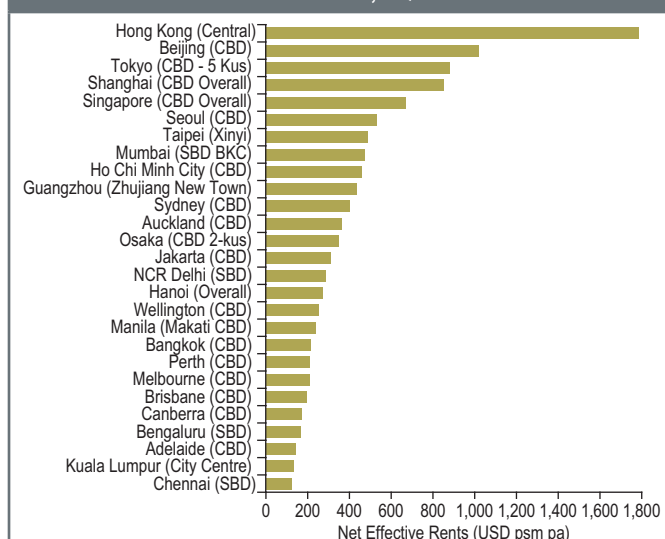
Asia Pacific rents increased 2.9% y-o-y in aggregate in the 12 months to 2Q16. Sydney outperformed the region with annual net effective rent growth of 17.1% followed by Hong Kong (+11.1%) and Bengaluru (+10.5%). Broad based demand bolstered rent growth in Osaka (+9.5%) and Shanghai (+7.8%).

Liquidity and low cost of capital underpin capital value growth

Capital values increased 0.8% q-o-q in aggregate in Asia Pacific in 2Q16, slower than the 1.4% increase recorded in 1Q16. Robust investor interest and the low interest rate environment continue to support capital value growth. Bolstered by strong increases in rents, Bengaluru recorded the strongest capital value growth (+4.8%). Rent growth and transaction volumes have led to solid capital value increases in Seoul (+4.3%).

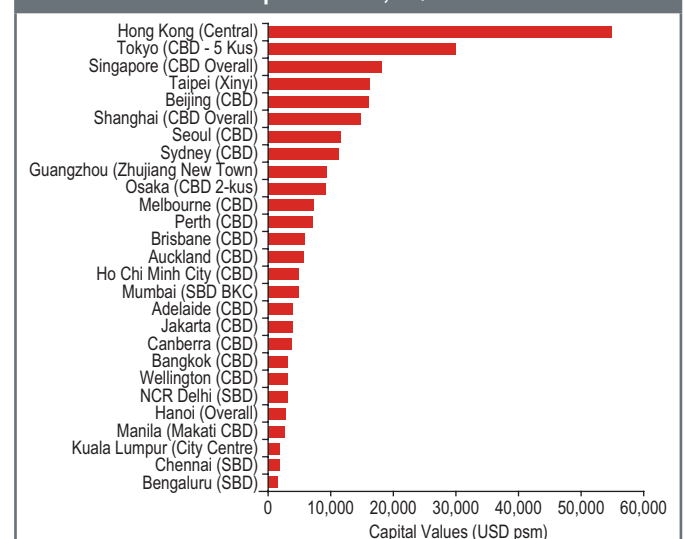
Supported by the low cost of capital in Japan, Osaka (+21.1%) once again led the region in annual capital value growth. Liquidity in capital markets and strong investor appetite underscored a 16.4% y-o-y uplift in Sydney capital values. Shanghai and Bengaluru have also recorded double digit capital value increases.

Asia Pacific Office Rental Values, 2Q16



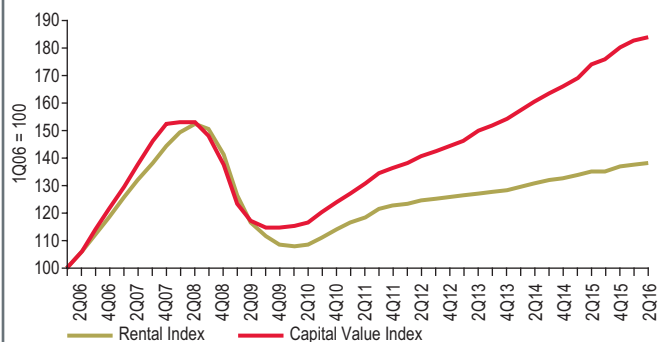
Source: JLL (Real Estate Intelligence Service)

Asia Pacific Office Capital Values, 2Q16



Source: JLL (Real Estate Intelligence Service)

Asia Pacific Office Rental and Capital Value Indexes, 1Q06–2Q16



Source: JLL (Real Estate Intelligence Service)

Note: The Indexes are stock-weighted average of rental and capital value movements across Asia Pacific

Moderate rent and capital value growth to continue

The weaker activity levels in China and India, two of Asia Pacific's largest markets, have led us to revise down our leasing volume forecast and we now expect regional growth of 0–5% y-o-y in 2016. Despite the slower leasing activity in the first half of the year, demand from several markets is likely to offset weakness elsewhere. Broad based demand is set to sustain rent growth in Sydney, which is expected to register the strongest annual rental growth in Asia Pacific in 2016, with Hong Kong and Bengaluru rounding out the top three markets. As such, we maintain our view that Asia Pacific rents will increase 2–3% y-o-y in aggregate over the whole of 2016.

Recent transactions underscore the notion that investors remain interested in Asia Pacific office markets. The low interest rate environment, liquidity, demand for safe haven assets and funds nearing the end of their life are all likely to sustain investment volumes over the near term. In aggregate, we expect capital value growth to continue to outpace rental growth through the end of the year.

	2Q16 Average Grade A Rent (USD psm pa)	Quarterly Change 2Q16 vs 1Q16 (Local Currency)	Yearly Change 2Q16 vs 2Q15 (Local Currency)	2Q16 Average Grade A Capital Value (USD psm)	Quarterly Change 2Q16 vs 1Q16 (Local Currency)	Yearly Change 2Q16 vs 2Q15 (Local Currency)
Hong Kong (Central)	1,789	2.3	11.1	55,090	0.5	5.4
Beijing (CBD)	1,022	-0.5	2.4	16,089	-0.5	2.4
Tokyo (CBD - 5 Kus)	885	0.4	4.1	29,997	0.4	9.4
Shanghai (CBD Overall)	852	0.9	7.8	14,840	1.2	10.9
Singapore (CBD Overall)	669	-3.3	-14.1	18,208	-1.7	-6.9
Seoul (CBD)	530	2.0	3.8	11,674	4.3	7.6
Taipei (Xinyi)	489	-0.9	0.5	16,300	-0.9	0.5
Mumbai (SBD BKC)	477	-0.5	-0.1	4,915	0.7	3.0
Ho Chi Minh City (CBD)	459	0.6	-2.1	4,940	0.6	N/A
Guangzhou (Zhujiang New Town)	434	0.5	1.7	9,377	1.0	0.7
Sydney (CBD)	401	2.9	17.1	11,231	1.1	16.4
Auckland (CBD)	365	0.6	3.0	5,621	4.4	12.9
Osaka (CBD 2-kus)	347	1.6	9.5	9,141	1.6	21.1
Jakarta (CBD)	306	-2.8	-8.2	3,926	-2.8	-9.3
NCR Delhi (SBD)	288	-3.7	-1.4	3,234	-3.7	-1.3
Hanoi (Overall)	274	1.7	-3.5	2,944	1.7	N/A
Wellington (CBD)	251	-1.1	1.0	3,235	-0.7	5.1
Manila (Makati CBD)	241	3.4	5.9	2,623	3.7	6.0
Bangkok (CBD)	216	-0.6	2.2	3,245	0.2	4.5
Perth (CBD)	208	-4.7	-20.1	7,172	-0.8	-0.1
Melbourne (CBD)	207	0.0	1.9	7,312	-0.1	9.4
Brisbane (CBD)	200	-0.6	-3.5	5,850	0.0	6.1
Canberra (CBD)	174	0.3	2.6	3,738	0.1	7.2
Bengaluru (SBD)	168	4.8	10.5	1,631	4.8	10.5
Adelaide (CBD)	148	-0.5	2.0	3,996	-0.4	8.7
Kuala Lumpur (City Centre)	137	-0.7	-2.7	2,015	-0.7	-2.4
Chennai (SBD)	127	0.0	2.9	2,002	0.0	3.1

Source: JLL (Real Estate Intelligence Service)

Notes: All rents are net effective. Rents and capital values are on a net lettable area basis
psm pa – per square metre per annum

CBD – Central Business District; SBD – Secondary Business District ; ZJNT – Zhujiang New Town

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