

APAC OFFICE REPORT OUTLOOK 2020

A Challenging 2020 Ahead But Greater Opportunities for Occupiers

March 2020

A Challenging 2020 Ahead But Greater Opportunities for Occupiers

EXECUTIVE SUMMARY

Just as trade-related tensions appeared to be easing between the U.S. and China, the Asia Pacific region found itself at the forefront of the COVID-19 outbreak. The U.S.-China phase one trade deal was signed on Jan. 15, just as the coronavirus was becoming evident in Wuhan, Hubei. Asia Pacific became the first region to experience the real economic repercussions. China's GDP growth will be dented, which in turn will exert economic stress on the Asia Pacific region and the global economy as a whole.

Our data highlights that Q4 2019 Grade A office rental growth across many markets in the region was already exhibiting clear signs of slowing due to the softer economic outlook and new supply. As a growing number of economies globally downgrade their growth outlook, the fluidity of the situation has prompted us to revisit our longer-term projections for the region's occupier markets. We will review these projections when Q1 2020 and other key data sets become available.

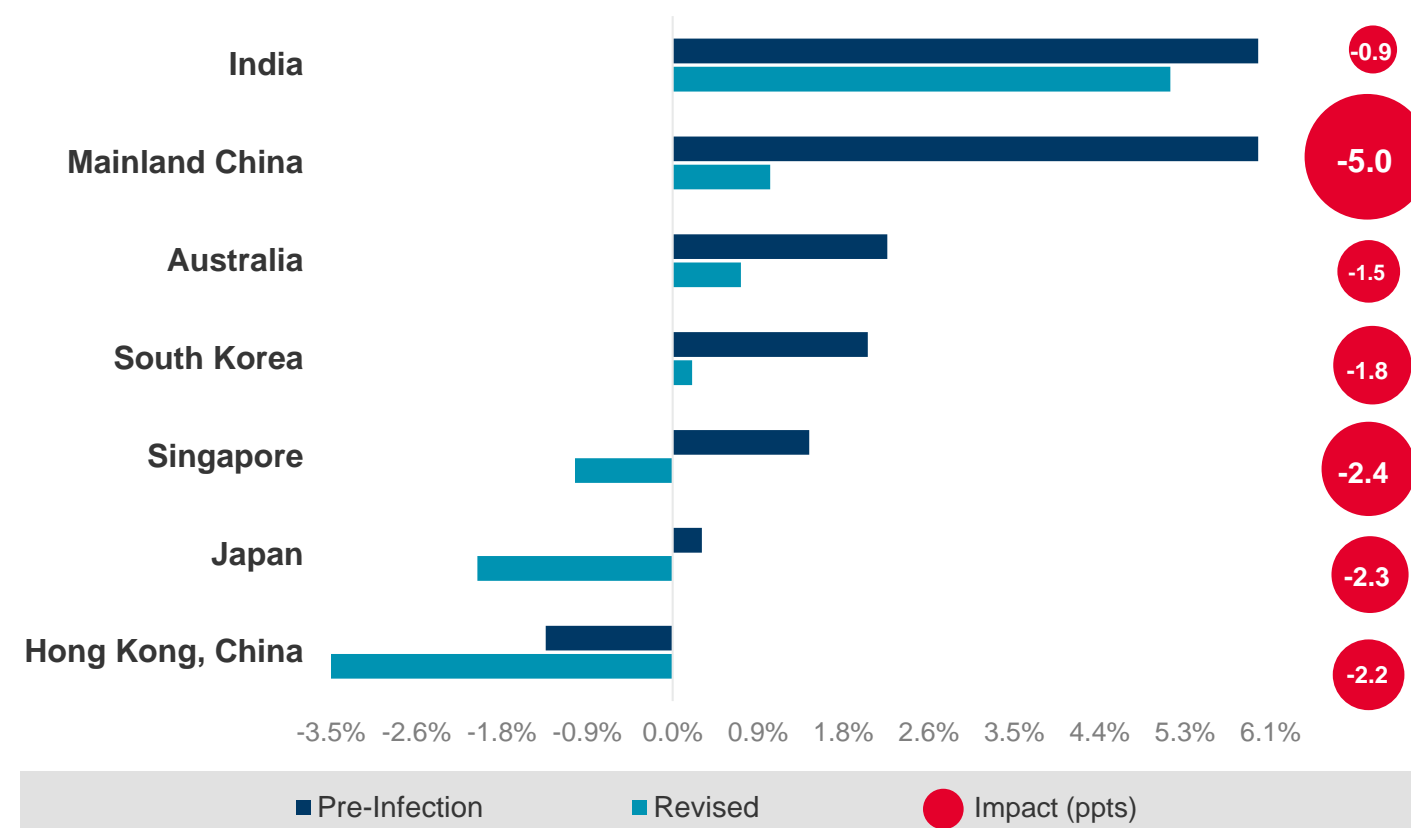
The COVID-19 outbreak, now officially classified by the World Health Organization as a pandemic, has exacerbated office market cycles, particularly in those markets where availability has been rising. As a result, most key markets in Asia Pacific will turn more occupier-friendly. As landlords scramble to protect long-term tenant relationships and defend against increasingly attractive incentive packages from their competitors, the negotiation ball is now more firmly in the occupiers' court.

As seen in all major territories, governments and central banks around the region have been responding to the situation with policy measures and financial aid to mitigate the economic impact. With China now appearing to be succeeding in controlling the outbreak at home, the World Health Organization believes that it is still possible to change the trajectory of the pandemic. Assuming this scenario holds and the global economy experiences a stimulus-fueled rebound, we can expect office leasing activity to pick up in H2 and beyond as normal business activity gradually resumes. Although some local markets

have started to show signs of recovery, global economic headwinds are likely to temper this.

As we navigate currently volatile market conditions, it becomes all the more crucial to stay ahead of the game. In the following pages, you will find detailed but succinct analysis of the trends in each of the region's key Grade A office markets over the next two years that we hope will help refine your organization's CRE strategy. These forecasts are based on current data and we will keep you updated as these are refined over the course of the year.

2020 GDP Growth Forecast



Source: Oxford Economics

AUSTRALIA OFFICE FORECAST SYDNEY

Cautious over a softer economy

MICHAEL KEARINS

Managing Director, Tenant Advisory Group Australia and New Zealand

KEY STATISTICS

GROSS EFFECTIVE RENTAL GROWTH*
CORE GRADE A OFFICE

3.8%
(2020)

2.0%
(2021)

NET ABSORPTION*
OVERALL GRADE A OFFICE

15,000
SQ.M. (2020)

55,000
SQ.M. (2021)

FUTURE OFFICE SUPPLY*
OVERALL GRADE A OFFICE

291,416
SQ.M. (2020 – 2021)

KEY INDICATORS

Australia	2019	2020F	2021F
GDP Growth	1.8%	-0.7%	3.8%
Inflation	1.6%	1.2%	2.4%
Unemployment rate	5.2%	5.6%	5.5%

Source: Oxford Economics

Office (Sydney)	2019	2020F	2021F
Rent (AUD/sqm/year)	1,044	1,085	1,105
Vacancy (%)	3.0%	5.2%	5.3%
New supply (sq. m.)	78,828	174,009	117,407

Source: Cushman & Wakefield

* Based on expected market conditions in February 2020, i.e. pre COVID-19 pandemic.

KEY TRENDS

1. Market expected to slow

Tenant demand softened in 2019, on softer economic growth and business confidence. While economic growth was expected to improve in 2020, the COVID-19 pandemic is having an unprecedented impact on the economic outlook. The Australian Government, as at March 2020, has undertaken an \$189 billion economic stimulus package, though the country is forecast to experience its first recession in 29 years.

Prior to this, office tenant demand conditions had already slowed with our 2020 Office Leasing Trends & Outlook survey indicating that subdued economic conditions have weakened the outlook for the Sydney CBD, contributing to a slow-down in the decision making process and added caution.

In Sydney, strong demand from IMT firms has been a notable trend in recent years; significant IMT leases

Moving into 2020, with the development pipeline for the Sydney CBD not due until 2023/24, we will see continued low vacancy below the average rates. However, the low vacancy rate will soften with the advent of sub-lease space both from outright contraction and company decentralisation.

include Salesforce and Microsoft.

Coworking operators were another major driver of demand in 2019. However, the lease covenants of such operators were already being viewed with caution by landlords before the pandemic, with the business model experiencing further pressure from social distancing measures.

2. Vacancy to rise despite robust precommitments

Sydney CBD's office supply has been below average in the last two years and while demand has been muted Sydney's vacancy rate as at January 2020 fell to 3.9% from 4.1% a year prior.

Pre-pandemic estimates suggested the vacancy rate would increase to around 5% by 2021 as a number of developments complete, though rising unemployment and a delay in business decision making suggests the increase will be larger than anticipated.

The biggest leasing deal of the year allowed construction to commence on a new tower in Circular Quay.

Here, Salesforce precommitted to 28,000 sqm. in the new Premium Grade tower which will now be known as Salesforce Tower (formerly Circular Quay Tower).

With completion due in Q2 2022, the project joins Wynyard Place (Q4 2020) and Quay Quarter Tower (Q1 2023) as major office projects underway in the Sydney CBD.

3. Rental growth to be impacted by pandemic

Prior to the pandemic, Sydney CBD office effective rents were expected to rise over the next few years, with growth slowing and incentives increasing as the wave of new supply nears completion.

The extent and duration of the pandemic and its impact on the Sydney economy remains unknown. However, it is likely rental growth will be weak or negative in 2020.

Relatively muted supply and low vacancy suggests growth can return relatively quickly with economic recovery.

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AUSTRALIA OFFICE FORECAST MELBOURNE

New supply to spur tenant movement

KEY STATISTICS

GROSS EFFECTIVE
RENTAL GROWTH*
CORE GRADE A OFFICE

2.8%
(2020)

-1.7%
(2021)

NET ABSORPTION*
OVERALL GRADE
A OFFICE

74,000
SQ.M. (2020)

77,000
SQ.M. (2021)

FUTURE OFFICE
SUPPLY*
OVERALL GRADE A OFFICE

424,550
SQ.M. (2020 – 2021)

KEY INDICATORS

Australia	2019	2020F	2021F
GDP Growth	1.8%	-0.7%	3.8%
Inflation	1.6%	1.2%	2.4%
Unemployment rate	5.2%	5.6%	5.5%

Source: OxfordEconomics

Office (Melbourne)*	2019	2020F	2021F
Rent (AUD/sq.m./year)	636	655	650
Vacancy (%)	3.2%	3.7%	5.0%
New supply (sq.m.)	77,123	367,765	259,441

Source: Cushman & Wakefield

* Based on expected market conditions in February 2020, i.e. pre COVID-19 pandemic.

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We strongly believe that a lack of options in 2019 and early 2020 has caused tenant intent to slow. With a combination of pent-up demand and backfill opportunities due to hit the market in 2020 we suggest deal activity on existing stock will strengthen in 2020.

CHAS KEOGH

Joint Head of Department, Office Leasing Victoria

KEY TRENDS

1. Positive attributes to support demand

Melbourne continues to offer an attractive combination of talent and real estate value-for-money, in a city rated as one of the best cities in which to live.

Strong employment growth has been recorded in recent years, which has driven demand for office space in both the Melbourne CBD and Melbourne's metropolitan markets.

Prior to the COVID-19 pandemic, employment growth in 2020 was expected to be softer than previous years, however, economic disruption from the pandemic suggests an softer employment a projected recovers suggests unemployment will fall in 2021.

The top industry drivers of demand in Melbourne were expected to be the government and IMT. In particular, the government sector is expected to be boosted by major infrastructure projects, IMT and healthcare.

2. More options to be beneficial and motivate tenant movements

Seven major new developments are anticipated to reach completion in 2020, totaling over 333,650 sqm., with the vast majority precommitted.

Close to 80% of this new supply is forecast to reach completion in H1 2020 which will provide the market some much needed flexibility.

With vacancy under 4%, the Melbourne office market was considered more favourable to landlords than tenants. Prior to the pandemic, the increase in supply suggested vacancy would rise to around 5% over 2020, though pandemic induced economic disruption points to a higher figure.

3. Effective rents to remain largely stable

In the lead-up to major supply additions Melbourne's effective rent growth slowed last year. Incentives tracked upward slightly in H2 2019 as landlords sought to lock in

tenants and secure cash flow.

Despite the additional supply, effective rents were anticipated to remain stable in 2020 before softening slightly in 2021. However, negative growth in 2020 is now an increasing possibility.

Depending on the extent and duration of the pandemic, the market should remain landlord favourable, however the imminent new supply and softening demand environment will increase competition among landlords resulting in greater flexibility for tenants.

This is expected to spur some significant tenant movement and both tenants and landlords may capitalize on the new market conditions.

AUSTRALIA OFFICE FORECAST BRISBANE

Transitioning to a landlord's market

KEY STATISTICS

GROSS EFFECTIVE
RENTAL GROWTH*
CORE GRADE A OFFICE

6.0%
(2020)

2.0%
(2021)

NET ABSORPTION*
OVERALL CBD OFFICE

0

SQ.M. (2020)

17,500

SQ.M. (2021)

FUTURE OFFICE
SUPPLY*

49,200

OVERALL CBD OFFICE

SQ.M. (2020 – 2021)

KEY INDICATORS

Australia	2019	2020F	2021F
GDP Growth	1.8%	-0.7%	3.8%
Inflation	1.6%	1.2%	2.4%
Unemployment rate	5.2%	5.6%	5.5%

Source: Oxford Economics

Office (Brisbane)*	2019	2020F	2021F
Rent (AUD/sq.m./year)	471	500	510
Vacancy (%)	12.7%	11.8%	11.7%
New supply (sq.m.)	50,958	7,200	42,000

Source: Cushman & Wakefield

* Based on expected market conditions in February 2020, i.e. pre COVID-19 pandemic.

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Demand in Brisbane strengthened, led by a boost from the mining and IMT sectors. Demand is expected to be further bolstered with the delivery of new infrastructure projects, including Cross River Rail and Queens Wharf, which will create exciting new opportunities for tenants and landlords alike.

Peter Dodd

Head of Office Leasing, Queensland

KEY TRENDS

1. Broad-based demand trends to remain sustained in 2020

Brisbane's realized demand in 2019 beat expectations. Broad-based strength of demand was also observed in the market.

As expected, demand was led by the government sector, closely followed by mining. Numerous mining firms were active over the year, with Rio Tinto, Theiss, Downer, Sandvik, and Deswik, all among those securing space.

We had expected demand trends from 2019 to remain sustained into the new year. The government sector should continue to be a top demand driver for space, followed by the Information Media and Technology (IMT) firms. However, demand is expected to be tempered by the current global virus pandemic.

2. Limited supply in 2020 to maintain tightening availabilities

The overall vacancy rate for Brisbane was 12.7% as at January

2019 and is expected to remain around 12% over the next few years. Premium Grade vacancy has declined over the past three years following the significant stock additions of late 2016 and early 2017, falling from 21% to just 3.2%. A -Grade vacancy rose at 300 George Street to 13.7%.

New supply for 2020 is expected to be limited to The Annex at 12 Creek Street, which when completed will add just 7,200 sqm. to the market. In 2021, the 42,000 sqm Midtown Centre at 155 Charlotte Street should be delivered.

3. Business sentiment highest in Brisbane

In 2019, Brisbane's office market finally turned a corner to register its first significant effective rental growth since 2012. Growth surprised on the upside with prime gross effective rent rising by 4.7%.

While improving business confidence in 2019 as well as previous forecasts of strengthening economic conditions and demand suggested Brisbane should continue to see solid rental growth and improving conditions for landlords

through 2020. However, following recent global events, forward looking demand forecasts are expected to be revised down, once more data becomes available.

4. CBD Conditions to remain tenant favourable

As confirmation that the overall Brisbane CBD market is more tenant-favourable, Brisbane tenants have been the most open to relocating over the past twelve months.

While the vacancy rate had been dropping and rental rates growing, the above-average vacancy rate in Brisbane as well as a deteriorating global economic outlook suggests that the market will remain tenant favourable in 2020.

Accordingly, large incentives are still dominating the market, allowing tenants to relocate and upgrade their premises with limited capital costs or increase in rental.

GREATER CHINA OFFICE FORECAST BEIJING

Emerging submarkets will usher in opportunities

KEY STATISTICS

GROSS EFFECTIVE RENTAL GROWTH
OVERALL GRADE A OFFICE **-5.9%** (2020) **2.8%** (2021)

NET ABSORPTION
OVERALL GRADE A OFFICE **450,000** SQ.M. (2020) **306,672** SQ.M. (2021)

FUTURE OFFICE SUPPLY
OVERALL GRADE A OFFICE **2.3 MILLION** SQ.M. (2020 – 2021)

KEY INDICATORS

Mainland China	2019	2020F	2021F
GDP Growth	6.1%	1.0%	8.4%
Inflation	2.9%	3.3%	1.9%
Unemployment rate	3.6%	4.0%	3.7%

Source: Oxford Economics

Office (Beijing)	2019	2020F	2021F
Rent (RMB/sq.m./mo)	382	360	370
Vacancy (%)	13.5%	18.4%	17.3%
New supply (sq.m.)	1,018,070	1,930,145	324,000

Source: Cushman & Wakefield

The slowdown in leasing activity will continue in 2020, with the city's rental level continuing to be edged down and the vacancy rate rising further. In the next three-five years, with the service industry further opening and moving to higher-value, related sectors will further stimulate activity in the Beijing office market.

SABRINA WEI

Senior Associate Director, Research, North China

KEY TRENDS

1. Economic headwinds continue, rents to come under further pressure in 2020

Affected by the coronavirus outbreak, Beijing's economy may face severe downward pressure in 2020. The city is set to add 1.93 million sq.m. of new office supply in the year, with 69.9% located in the suburbs. As a result of the outbreak the progress of many developments is uncertain, with construction halted. At the same time, leasing activity is likely to be curtailed in the near-term, with many companies postponing decisions regarding office space requirements.

We expect that the slow down in leasing activity will continue in the year ahead, and the average rental level is likely to further edge down. Further, if new supply enters the market as currently scheduled the city's vacancy rate will rise further.

2. Tenants will favor green and smart offices

Green and smart offices may usher in new development opportunities. Post-outbreak, tenants are likely to pay far more attention to the green and health aspects of office buildings, and growing numbers of landlords will focus more on the overall experience and well-being of tenants. Many existing office buildings are being equipped with advanced air purification systems and high quality equipment and facilities, with such improvements welcomed by tenants and creating greater value for building owners.

3. Further opening up of Beijing's service industry will boost office market demand

In the next three to five years, with the further opening-up of Beijing's service industry to market entry, the high-end services sector will be further boosted with active demand for Grade A office space. Continued development of the technology, finance, culture and tourism sectors will also help drive opportunities to

the Grade A office market.

4. Two emerging business districts

Looking ahead, the Tongzhou Canal Business District and Li'ze Financial Business District are expected to gain traction as major submarkets.

The Tongzhou Canal District will focus on financial and high-end services, and has already attracted finance sector enterprises, such as state-owned banks, city commercial banks and insurance companies, who have purchased office projects. The growing presence of financial enterprises is expected to pull supporting sector industries to the area.

The Li'ze District is expected to add around 1.0 million sq.m. of new office supply over the next three years. With a new airport terminal and improvements to the area's infrastructure, Li'ze is also expected to draw in growing numbers of corporate tenants.

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戴德梁行

GREATER CHINA OFFICE FORECAST SHANGHAI

Space opportunities abound for occupiers

KEY STATISTICS

GROSS EFFECTIVE RENTAL GROWTH
OVERALL GRADE A OFFICE

-1.4%
(2020)

-0.1%
(2021)

NET ABSORPTION
OVERALL GRADE A OFFICE

759,750
SQ.M. (2020)

1,316,629
SQ.M. (2021)

FUTURE OFFICE SUPPLY
OVERALL GRADE A OFFICE

5.9 MILLION
SQ.M. (2020 – 2023)

KEY INDICATORS

Mainland China	2019	2020F	2021F
GDP Growth	6.1%	1.0%	8.4%
Inflation	2.9%	3.3%	1.9%
Unemployment rate	3.6%	4.0%	3.7%

Source: Oxford Economics

Office (Shanghai)	2019	2020F	2021F
Rent (RMB/sq.m./mo)	262	259	259
Vacancy (%)	19.6%	22.9%	24.8%
New supply (sq.m.)	810,011	2,014,736	1,916,809

Source: Cushman & Wakefield

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The COVID-19 outbreak has been an unprecedented event and its impact will be felt in Shanghai's office market into the near-term future. Subsequent amplified vacancy is expected to place further strain on citywide rental. Nevertheless, this situation will be more alluring for tenants as they look to lock in desirable rental rates on longer-term leases.

SHAUN BRODIE

Senior Director, Research, Greater China

KEY TRENDS

1. Project construction delays likely due to the epidemic

With the COVID-19 outbreak severely affecting transportation networks in China and a return to work after the Spring Festival, many office projects under construction in Shanghai have had to postpone their completion dates.

In Q1 this year, we are only expecting to see two Grade A office project completions in Shanghai, bring a total of 105,000 sq m of new office supply to the market in the quarter.

Over 6.5 million sq m of Grade A office space is expected to be completed in Shanghai by 2024 but into the next few quarters, we do expect further project completion delays to occur.

2. Vacancy to be driven up by a combination of the epidemic and new supply volume

With the epidemic having halted much economic activity across the country, businesses have been heavily impacted. As a result, the city's overall Grade A office vacancy rate is likely to further rise given a slowdown in general office leasing activity coupled with slower take up of space in new supply projects.

What's more, office buildings with a high percentage of SME tenants in their occupier mix might experience spikes in vacancy, given a good number of these companies were hit hard by the compression in business activity in Q1.

Additionally, we may see many office relocation and/or expansion cases being paused or pushed back due to a wait-and-see business attitude adopted by many companies.

Despite the current bleak economic situation, the top three industries expected to drive leasing demand into the rest of the year in Shanghai

are likely to be Healthcare, Professional Services and the TMT sector.

3. Given market pressure, rental to further decline

As the impact of the epidemic will be coupled with new supply completion in Q1, we expect the core area rental to decrease slightly. Following on from this, rental pressure on SMEs due to work resumption difficulties under the epidemic outbreak has not been lost on the government and office landlords, alike.

Many quality office landlords around the country, and in Shanghai, will step up to offer rental and management fee concessions. Meanwhile, the amount of expected future supply in Shanghai is likely to place continued pressure and dampen office rentals in the city over the next several months.

GUANGZHOU

Net absorption to pick up amid surge of new supply

In the next two years Guangzhou's Grade A office market is set to receive approximately 1.4 million sq.m. of new supply – almost a threefold jump over the prior three years. We expect to see citywide net absorption to pick up gradually, with the vacancy rate rising slightly

ZHANG XIAO-DUAN

Senior Director, Research, South & West China

KEY STATISTICS

**FACE RENTAL
GROWTH**
GRADE A OFFICE

-0.4%
(2020)

2.9%
(2021)

NET ABSORPTION
OVERALL GRADE
A OFFICE

303,180
SQ.M. (2020)

507,259
SQ.M. (2021)

**FUTURE OFFICE
SUPPLY**
OVERALL GRADE A OFFICE

1.4 MILLION
SQ.M. (2020 – 2021)

KEY INDICATORS

Mainland China	2019	2020F	2021F
GDP Growth	6.1%	1.0%	8.4%
Inflation	2.9%	3.3%	1.9%
Unemployment rate	3.6%	4.0%	3.7%

Source: OxfordEconomics

Office (Guangzhou)	2019	2020F	2021F
Rent (RMB/sq.m./mo)	191	190	196
Vacancy (%)	5.5%	13.7%	12.9%
New supply (sq.m.)	96,161	573,114	837,618

Source: Cushman & Wakefield

KEY TRENDS

1. Pazhou submarket to dominate new office supply

Average annual new supply of Grade A office stock was at a relatively low 180,898 sq.m. over the past three years, down 55.5% on the average of the past ten years. Many projects previously scheduled to launch in 2019 have been postponed to 2020, resulting in a 10-year low of new supply in 2019. However, in the next two years the Grade A office market is set to receive approximately 1.4 million sq.m. of new supply – almost a threefold jump over the prior three years.

Pazhou submarket is expected to account for more than 67% of the new supply. Several technology sector headquarters buildings are set to be launched in the coming two years, including Alibaba, Xiaomi, Gome and Vipshop -- driving Pazhou's total office stock to 1.7 million sq.m. by the end of 2021 and surpassing Sports Centre to become the second largest submarket for Grade A office stock.

2. Net absorption to pick up amid surge of new supply

Leasing activity remained sluggish in 2019, constrained by the limited new supply and relatively low vacancy, with net absorption scaling back 69.9% y-o-y.

We expect that net absorption will pick up gradually in H2 2020 amid the surge of new supply, as many landlords of new projects construction have employed pre-leasing strategies to attract prime tenants. New headquarters buildings will also take up much of the new space once completed.

By sector, TMT firms have remained most active in Grade A office leasing, accounting for more than 25% of completed transactions by area in the past three years. Supported by rapidly emerging sectors such as 5G and artificial intelligence, demand from TMT firms will continue to dominate Grade A absorption in the next two years.

The steady development of the insurance industry has seen Guangzhou's total premiums payment value rise to third in

mainland China, accounting for 25% of the total premiums value of Guangdong province in the first three quarters of 2019. And, supported by the planned further opening-up of the financial sector, the city is expected to attract more financial institutions, especially insurance companies, to open new branches.

3. Outlook 2020: New supply to drive up vacancy rates and pressure average rents

In the context of the number of headquarters buildings planned for 2020 we expect that the overall vacancy rate will rise slightly to around 10%, a still quite healthy level. And as new projects due in 2020 will predominantly be located in emerging areas, such as Pazhou and Financial Town, we can also expect the new supply to exert pressure on citywide average rent.

In 2021 average rent is likely to pick up, supported by three upcoming prime office buildings in core areas and improved infrastructure and amenities in emerging areas.

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GREATER CHINA OFFICE FORECAST SHENZHEN

Headquarter buildings lead the way

KEY STATISTICS

FACE RENTAL
GROWTH
GRADE A OFFICE

-5.1%
(2020)

0.0%
(2021)

NET ABSORPTION
OVERALL GRADE
A OFFICE

206,896
SQ.M. (2020)

448,121
SQ.M. (2021)

FUTURE OFFICE
SUPPLY
OVERALL GRADE A OFFICE

1.38 MILLION
SQ.M. (2020 – 2021)

KEY INDICATORS

Mainland China	2019	2020F	2021F
GDP Growth	6.1%	1.0%	8.4%
Inflation	2.9%	3.3%	1.9%
Unemployment rate	3.6%	4.0%	3.7%

Source: OxfordEconomics

Office (Shenzhen)	2019	2020F	2021F
Rent (RMB/sq.m./mo)	243	230	230
Vacancy (%)	22.0%	25.9%	28.1%
New supply (sq.m.)	535,590	566,399	810,240

Source: Cushman & Wakefield

The sheer volume of new supply will exert greater pressure on the overall market and increase competition further. To some extent falling rents will stimulate demand, which will mainly be driven from relocation needs towards smaller office spaces and lower rents.

ZHANG XIAO-DUAN

Senior Director, Research, South & West China

KEY TRENDS

1. Greater competition from new completions

Ahead through 2021, approximately 1.4 million sq.m. of new Grade A office supply is forecast to complete in Shenzhen. The expected rise in competition stemming from the new completions is likely to force some landlords to postpone entering the market, or to relax rents to attract quality tenants amid softening demand. Vacancy rates will climb amid the new supply. However, an improving economic environment may help in bringing in new tenants and to provide a lift to the market in the mid-long term.

We expect to see divergence in submarket development. Traditional submarkets will be less active due to limited new supply, while emerging submarkets including Qianhai and Shenzhen Bay Headquarter Base will continue to attract new tenants, supported by improving amenities and transportation links.

On the other hand, high quality properties including research and development premises and non-

Grade A office buildings in the mature business submarkets will continue to absorb tenants at lower rentals, exerting additional pressure on the Grade A market.

2. Rent falls as vacancy climbs and relocation demand is stimulated

Firms continue to be conservative in their leasing strategies amid market uncertainties, impacting office space take-up. While demand slows, the sheer volume of new supply will exert greater pressure on the overall market and increase competition further. To some extent falling rents will stimulate demand, which will mainly be driven by the needs of relocations towards smaller office spaces and lower rents – especially for firms seeking cost reductions to survive the current economic climate.

Meanwhile, the outline development plan for the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) has specified the future development direction for the GBA. The *Building Shenzhen into A Pilot Demonstration Area of Socialism with Chinese Characteristics* plan has also reaffirmed Shenzhen's place at the vanguard of the GBA's development.

Under these initiatives, Shenzhen is expected to become an important metropolis with an even greater international influence, boosting confidence in the region's development. More companies are likely to acquire premises for self-occupation and as branch offices in the region. Office properties with stable tenancies resilient to market risks are expected to be favored by investors.

3. Headquarters will be a key market pillar in the future

A significant proportion of future Grade A office supply will be corporate headquarters, especially organizations in the finance and TMT sectors. Financial corporates generally have higher requirements for hardware and networking facilities, whereas TMT corporates focus more on occupier experience and design, environmental and smart building aspects. HQ premises will be a key pillar of the office market in the future, leading to a higher standards in terms of facilities, smart services and greener workplaces.

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GREATER CHINA OFFICE FORECAST HONG KONG

Falling rents to provide relief to occupiers

A period of market weakness over the near-term followed by a flood of new supply in 2022 is set to push availability higher and put increasing pressure on office rentals. After years of sharply escalating rentals, it is set to become a more balanced and affordable office market with a growing number of options and an opportunity for occupiers seeking to lock in leases at favorable terms.

REED HATCHER

Head of Research, Hong Kong

KEY STATISTICS

NET EFFECTIVE RENTAL GROWTH OVERALL GRADE A OFFICE **-11.6%** (2020) **-5.7%** (2021)

NET ABSORPTION OVERALL GRADE A OFFICE **200,000** SF (2020) **450,000** SF (2021)

FUTURE OFFICE SUPPLY OVERALL GRADE A OFFICE **1.1 MILLION** SF (2020 – 2021)

KEY INDICATORS

Hong Kong	2019E	2020F	2021F
GDP Growth	-1.2%	-3.5%	3.9%
Inflation	2.9%	1.5%	2.3%
Unemployment rate	3.0%	4.4%	4.2%

Source: OxfordEconomics

Office (Hong Kong)	2019	2020F	2021F
Rent (HKD psf/mo)	72.8	64.3	60.6
Availability (%)	8.8%	8.9%	9.4%
New supply (sf)	2,257,000	275,500	833,600

Source: Cushman & Wakefield

KEY TRENDS

1. New Supply set to be limited over the next two years

In 2020, just one new building will be completed, adding 275,500 sf to the market followed by three buildings with a combined 833,600 sf in 2021. Taken together, the period will see one of the lowest levels of new supply in the past decade.

As the core areas of Hong Kong remain constrained in their growth, the next two years will also continue the trend in recent years of new supply shifting to non-core areas of the city. Notably, all of the new supply scheduled for completion in 2020 and 2021 will be in non-core submarkets, with the vast majority (86%) being located in Kowloon.

Longer term, however, Hong Kong is set to see a flood of new supply enter in the market. In 2022, new Grade A office supply of 3.5 million sf is scheduled for completion, with competition among landlords expected to intensify significantly as they begin launching their marketing campaigns.

2. COVID-19 and social unrest to weigh on demand in the near-term

Despite the recent easing of US-China trade tensions, office leasing demand is expected to remain weak over the next 12 months as the recent COVID-19 outbreak and still simmering local unrest dampens the economic outlook for 2020. Many major occupiers across sectors have adopted a wait-and-see attitude towards relocation or expansion plans, with many opting to renew their leases in the face of uncertainty.

Demand from PRC finance and trade firms, which over the past few years has driven office demand in Greater Central and propelled rentals there to new highs, is also expected to remain weak as China's economy experiences a slowdown.

Meanwhile, demand from co-working, which has emerged as a strong source of demand over the past two years, is set to slow significantly over the next year. In recent months, many operators have quickly reversed course from expansion to focus on filling up their vacant spaces, with some surrendering some of their leased space.

3. Hong Kong transitions to a tenant-friendly market

Grade A office rentals are set to fall sharply in the coming year, particularly in core areas, as availability remains at high levels and firms continue to decentralize to lower cost submarkets. Meanwhile, as market conditions remain weak, landlords are likely to show more flexibility with respect to commercial terms on offer.

Rentals are expected to extend their declines in 2021 and into 2022 as a wave of new supply prepares to enter the market. Many of the new buildings slated for completion are expected to be of higher quality and will provide ample options to occupiers seeking to relocate. At the same time, improvements to transportation infrastructure is expected to increase the appeal of Kowloon submarkets.

Over the longer term, Hong Kong's growth remains well supported by its thriving financial markets and position as a hub for firms focused on Mainland China. The next few years, therefore, will represent an opportunity for major firms to consolidate their position at attractive commercial terms.

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GREATER CHINA OFFICE FORECAST TAIPEI

Limited supply sustaining a landlords' market

KEY STATISTICS

GROSS EFFECTIVE
RENTAL GROWTH
CORE GRADE A OFFICE

0.7%
(2020)

0.3%
(2021)

NET ABSORPTION
OVERALL GRADE
A OFFICE

25,114
PING (2020)

19,469
PING (2021)

FUTURE OFFICE
SUPPLY
OVERALL GRADE A OFFICE

44,703
PING (2020 – 2021)

KEY INDICATORS

Taiwan	2019	2020F	2021F
GDP Growth	2.7%	0.5%	2.9%
Inflation	0.6%	0.0%	1.3%
Unemployment rate	3.7%	4.8%	4.5%

Source: OxfordEconomics

Office (Taipei)	2019	2020F	2021F
Rent (NTD/ping/mo)	2,580	2,600	2,610
Vacancy (%)	4.5%	4.2%	4.2%
New supply (ping)	10,425	24,615	20,088

Source: Cushman & Wakefield

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Amid the lack of current vacant supply and the shortage of new supply ahead, ongoing activities involving urban renewal, upgrades and space consolidation are factors that continue to intensify competition among tenants. Although for the future we see continuing healthy demand, with the upcoming two years' supply earmarked for own-use, a gradual downturn in leasing activity is expected.

WENDY HSUEH

Director, Research, Valuation & Advisory Services, Taiwan

KEY TRENDS

1. Market continues to favor landlords

Over the past year, Taipei's Grade A office market has been a landlord market. A landlord-favorable leasing environment will be the trend ahead, as the lack of current vacant supply and a shortage of new supply are unlikely to be relieved until 2023.

On the supply side, Taipei CBD Xinyi Planned Area, a key district for quality office space and new supply, is about to reach full maturity. In central Taipei City, a notable share of office stock construction 20 or more years ago are being included in urban renewal efforts. With the revitalization works being carried out, and only limited new supply in Xinyi expected to enter the market in late 2022, the stock of lettable office space is likely to continue tightening from 2020 to 2022.

The ongoing urban renewal activities are also impacting the demand side. Occupants of aging buildings are fueling demand for relocation, with headquarters properties especially in

demand. Firms seeking space consolidation and upgrades are also fueling demand, with firms in tech manufacturing, the sharing economy, banking industries and innovative sectors further intensifying competition among tenants.

2. Vacancy tightens on supply, rentals to edge up

Office rental levels are forecast to rise ahead as leasing demand remains strong and little new supply is expected. The overall Grade A office vacancy rate has tightened to a 10-year low in the past year and is expected to keep narrowing down.

Reflecting such supply and demand, the market will be seeing strong pre-leasing performance at newly completed buildings, as large occupiers seek higher quality office space in newly completed properties for relocation or space consolidation purposes.

Older properties at choice locations and at competitive rents will also perform well and support the overall market performance.

However, although for the future we see continuing healthy demand,

leasing activity may stall in the short-term. With the lack of current vacant supply and with the upcoming two years' supply earmarked for owner-occupiers, a gradual downturn in leasing activity is expected.

As a result, transacted rental levels may not accurately reflect market demand amid a low lettable supply environment in the coming two years. Rents are expected to only edge up, with few Grade A buildings available for leasing to push overall rents up further.

3. Coworking market and emerging outer office districts flourish

Facing the lack of future new supply, some tenants are expected to shift to co-working spaces and outer districts of the city, whereas others will remain at current premises and upgrade interiors. Rents are expected to trend upwards both in emerging and mature office districts, with landlords likely to be bullish in their rental terms and conditions in the low-supply environment.

JAPAN OFFICE FORECAST TOKYO

Rising pending vacancy offers more liquidity to occupiers

While rising pending vacancies will provide occupiers with more liquidity, it will also challenge the current tight market conditions. The COVID-19 outbreak and the Consumption Tax hike in combination are softening the national economy.

HIDEAKI SUZUKI

Head of Research & Consulting, Japan

KEY STATISTICS

**GROSS FACE
RENTAL GROWTH**
GRADE A OFFICE

-1.1%
(2020)

-2.6%
(2021)

NET ABSORPTION
GRADE A OFFICE

210,300
TSUBO (2020)

12,600
TSUBO (2021)

**FUTURE OFFICE
SUPPLY**
GRADE A OFFICE

293,000
TSUBO (2020 – 2021)

KEY INDICATORS

Japan	2019	2020F	2021F
GDP Growth	0.7%	-2.0%	1.9%
Inflation	0.5%	0.0%	0.2%
Unemployment rate	2.4%	2.4%	2.2%

Source: Oxford Economics

Office (Tokyo)	2019	2020F	2021F
Rent (JPY/tsubo/mo)	37,736	37,313	36,331
Vacancy (%)	1.6%	2.3%	3.4%
New supply (tsubo)	114,529	238,203	54,311

Source: Cushman & Wakefield

KEY TRENDS

1. Pending increases in vacancy to exert pressure on the tight market

Despite the current historically tight market with actual vacancy below 2% and strong pre-leasing activities of 2020 new supply, we are now seeing growth in pending vacancies (secondary vacancy, associated with supply entering the market for lease) as space at existing properties is released into the market as tenants move out.

Pending vacancies have not yet directly impacted market rents as much of the space will become available in 2021. However, it will exert downward pressure on rents in the face of moderated economic growth. With domestic demand curtailed by the consumption tax hike and trade damaged by the COVID-19 outbreak, office market rents are likely to have seen a peak.

We have also started seeing some cancellations and postponements in leasing activities as corporates hold off their hiring and capital expenditure plans due to the outbreak.

2. Pandemic concerns push work-style reforms, well ahead of 2020 Summer Olympics

On top of the current war for talent that companies face and the government initiative for work-life-balance improvement, the 2020 Summer Olympics gave an initial tailwind to work-style reform, as large numbers of visitors were anticipated to impact Tokyo's already-crowded commuting environment.

This work-style movement has now been accelerated by the COVID-19 outbreak prevention actions taken by companies. These include the corporate giant NTT Group introducing staggered working hours and encouraging its 180,000 employees to telework, and GMO introducing a temporary telework regime for 4,000 staff to name a few.

We believe COVID-19 prevention actions will act as catalysts for greater flexibility in work-style and workplace regimes, though this may reduce future space demand to some extent.

3. The co-working/flex-space sector to moderate expansion

While the co-working space has demonstrated significant expansion by both local and international players in the past three years, new openings are expected to moderate in 2020, as operators shift from expansion to stabilization. With the withdrawal of WeWork's IPO, landlord sentiment towards co-working space providers has become cautious following the segment's prior rapid expansion.

The sector also faces a short-term headwind from the COVID-19 outbreak, with many people adjusting behaviors and refraining from non-essential contact. Despite some consolidation to their rapidly expanded portfolio, continued efforts by corporates to enhance workplace experiences are expected to support demand for flex-space. Nonetheless, flex-space operators, as one of the major office market drivers in the past years, will weaken their office space demand in 2020.

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**CUSHMAN &
WAKEFIELD**

SOUTH KOREA OFFICE FORECAST

SEOUL

Window of opportunity for occupiers in 2020

We expect demand to remain resilient in 2020. Due to massive supply, the vacancy rate will inevitably rise in the second half of 2020.

PHILIP JIN

Head of Research, South Korea

KEY STATISTICS

NET FACE
RENTAL GROWTH
CORE GRADE A OFFICE

1.2%
(2020)

1.5%
(2021)

NET ABSORPTION
OVERALL GRADE
A OFFICE

467,000
SQM (2020)

222,300
SQM (2021)

FUTURE OFFICE
SUPPLY
OVERALL GRADE A OFFICE

956,000
SQM (2020 – 2021)

KEY INDICATORS

South Korea	2019	2020F*	2021F*
GDP Growth	2.0%	0.2%	3.3%
CPI Growth	0.4%	-0.2%	1.2%
Unemployment rate	3.8%	4.2%	3.8%

Source: Oxford Economic

Office (Seoul)	2019	2020F	2021F
Rent (KRW/sq.m./mo)	41,882	42,358	43,020
Vacancy (%)	6.5%	10.0%	9.3%
New supply (sq.m.)	183,633	766,800	189,128

Source: Cushman & Wakefield

KEY TRENDS

1. Relocation decisions to be delayed despite sustained demand

The vacancy rate for the Seoul's Grade A office market in 2019 recorded an overall decline, continuing a downward trend since the second half of 2018 to achieve the lowest level since 2010.

In particular, vacancy at YBD submarket, which had risen sharply in the first quarter of 2018 due to LG affiliates' relocation to Magok District, dropped in 2019. This was first time that vacancies fell to single digit levels since the completion of IFC in 2011.

Last year's sharp drop in vacancy rates was attributed to higher demand, with the market moving into an excess demand environment as total absorption exceeded new supply completions. This is the first demand-orientated market since 2010, as supply-oriented conditions dominated thereafter.

While the COVID-19 outbreak will delay decisions on relocations, we expect leasing demand to remain sustained for new completions entering the market.

Demand stemming from relocations and expansion is expected to be driven by the service sector and Industry 4.0 sectors. These sectors are expected to be more resilient to the impact of global and domestic economic challenges, which are slowing leasing decisions for other corporations.

2. GBD coworking locations most in demand

Spaces in GBD remains sought after by occupiers which usually have a wait list. With the Grade A vacancy rate at less than 5%, demand remains robust, led by IT firms and co-working operators. We expect some demand to eventually spillover to YBD, which has relatively lower office rents, as occupiers look to an alternative to GBD.

Demand for co-working spaces is expected to continue in 2020, especially in GBD. With WeWork's IPO being shelved last year, public

opinion on the management performance of co-working operators has turned negative. Despite this, co-working trends are expected to continue, although with new lease activities more in the context of sustainable expansion and business performance rather than the aggressive expansion of the past.

3. Inevitable increase in vacancy rate from massive supply

New supply of 884,222 sq.m. is scheduled for Seoul's major districts in 2020. This will be the highest annual supply volume since 2010, and is expected to drive the vacancy rate to 8.8% - 10% in the second half of the year.

However it is expected that the vacancy rate will then gradually stabilize, with limited new supply in 2021 and 2022.

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**CUSHMAN &
WAKEFIELD**

SINGAPORE OFFICE FORECAST

SINGAPORE

Rents nearing peak in current cycle

KEY STATISTICS

FUTURE OFFICE SUPPLY
GRADE A CBD OFFICE

654,000
SF (2020)

763,000
SF (2021)

NET ABSORPTION
GRADE A CBD OFFICE

487,000
SF (2020)

600,000
SF (2021)

GROSS EFFECTIVE RENTAL GROWTH
GRADE A CBD OFFICE

-9.2%
(4Q2019 – 4Q2024)

KEY INDICATORS

Singapore	2019	2020F	2021F
GDP Growth	0.7%	-1.0%	4.3%
Inflation	0.6%	0.9%	2.0%
Unemployment rate	2.3%	2.5%	2.2%

Source: Oxford Economics

Office (Singapore)	2019	2020F	2021F
Rent (S\$ psf/mo)	10.66	9.57	7.67
Vacancy (%)	2.3%	2.8%	3.3%
New supply (sf)	732,000	654,000	763,000

Source: Cushman & Wakefield

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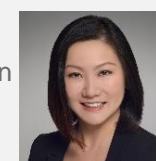
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Despite the tight supply, Grade A CBD rents are projected to decline over 2020-2021 amidst waning leasing demand due to global economic and geopolitical uncertainties, alongside the COVID-19 pandemic. Nevertheless, the moderation of rents will provide opportunities for savvy occupiers to execute a flight-to-quality strategy and relocate to prime properties at favorable rental rates.

CHRISTINE LI

Head of Research, Singapore & SEA

KEY TRENDS

1. Tight supply for the immediate future

Despite lower market confidence, landlords have been able to hold their rents steady for the moment due to tight vacancies and limited upcoming supply.

An annual average of 700,000 sf of new projects will be completed over 2020-2021. This is 42% lower than the historical average of 1.2 msf of new supply injected annually over the past decade. The supply crunch will only ease in 2022 when 1.9 msf of prime space from Central Boulevard Towers and Guoco Midtown are completed.

Although only a few new projects are completing over the next couple of years, pre-leasing activity has been slow. Landlords of buildings under construction have been holding rents firm to take advantage of the rental upcycle at the expense of higher pre-commitment rates. On average, only about 40-50% of upcoming spaces have been pre-leased.

With the office rental cycle already peaking, it remains to be seen if

landlords of these upcoming projects will take decisive action to boost occupancy rates in time.

2. Leasing demand wanes

Global economic and geopolitical uncertainties are taking a toll on the ability of companies to secure budgets for relocation and expansion, limiting the demand for office space.

While office-using employment is expected to grow at a slower pace over 2020-2021, office leasing demand will continue to be mainly driven by finance, tech, and professional services firms.

Unlike other cities where co-working operators are downsizing, the co-working sector in Singapore is stable. It has become the norm for all new projects to include a sizable co-working component. For instance, The Great Room has taken up 26% of the total space in Afro-Asia i-Mark, which is completing in 2020.

With tenants finding it convenient to have a co-working space located in the same building to use for swing space, new co-working spaces in the upcoming projects will help to drive leasing demand over the next few years.

3. Rentals projected to moderate over 2020-2021

Going forward, growth in Grade A CBD rents is expected to moderate as the global economy continues to face headwinds from the unrest in Hong Kong and the on-going U.S.-China trade war. In addition, the COVID-19 pandemic has taken a severe toll on economic activity due to the disruption of supply chains and travel across the globe.

These headwinds will result in slower growth in the US and Eurozone, with a potential U.S. and global recession during 2020. This will impact the Singapore office market, with Grade A CBD rents projected to experience a substantial decline over 2020-2021.

Nevertheless, the period of rental moderation will provide opportunities for forward-looking tenants to adopt a flight-to-quality strategy by locking in long-term leases at favorable rates in prime buildings, in anticipation of a ramp-up of hiring in subsequent years when the global economy recovers. Post-2021, office rents are projected to surge as Singapore remains an attractive destination for regional headquarters.

HANOI

Non-CBD markets to dominate leasing activity

KEY STATISTICS

GROSS ASKING
RENTAL GROWTH
CORE GRADE A OFFICE

-0.9%
(2020)

0.9%
(2021)

NET ABSORPTION
OVERALL GRADE
A OFFICE

70,000
SQ.M. (2020)

130,000
SQ.M. (2021)

FUTURE OFFICE
SUPPLY
OVERALL GRADE A OFFICE

257,257
SQ.M. (2020 – 2021)

KEY INDICATORS

Vietnam	2019	2020F	2021F
GDP Growth	7.0%	5.2%	7.4%
Inflation	2.8%	3.8%	3.5%
Unemployment rate	2.2%	2.7%	2.3%

Source: OxfordEconomics

Office (Hanoi)	2019	2020F	2021F
Rent (US\$/sq.m./month)	32.0	31.7	32.0
Vacancy (%)	6.9%	13.6%	12.8%
New supply (sq.m.)	42,845	112,750	144,507

Source: Cushman & Wakefield

The Grade A market has performed very well for the past few years, making it interesting to see how the significant new Mid-town Grade A supply will sway the market balance.

WILL TRAN

Associate Director, Commercial Leasing

KEY TRENDS

1. Skyline to continue rapid change

All eyes are on the completion of CapitalLand and Mitsubishi Electric's Capital Place project in the Mid-town area in the second half of 2020, pumping approximately 90,000 sq.m. of Grade A stock into the market.

More than 12 months since the release of Thai Square Building in the CBD, which ended a three-year wait for a new Grade A project completion, Capital Place can expect to be asking approximately 20% less in rent in comparison to CBD Grade A spaces.

There is 160,000 sq.m. of new Grade A supply in the pipeline, of which 88% is weighted for completion towards the end of 2021. As the Grade A projects look to take up occupancy there will also be 365,000 sq.m. of Grade B supply expected to be online by the end of 2021.

2. Steady rents and

occupancy levels

Average Grade A rents have increased steadily for three consecutive years, ending the last decade at a high level and with a vacancy rate of 6.9%, well poised to welcome Capital Place into the mix.

Overall interest by sectors was largely led by the banking and finance sectors, followed by coworking operators and manufacturing and technology firms.

Almost all of the new projects in the supply pipeline are to be located between Mid-town and the West regions, along and in between Ring Road 2 and Ring Road 3, giving occupiers significantly greater Grade A options. Generally the market is seeing declining demand for a CBD location.

3. Gradual slide towards being tenant-friendly

Given the large volume of new supply coming into the market versus steady occupancy rates, early signals suggest the market is edging towards an over-supply

situation.

The market can expect to see greater negotiation flexibility should occupancy levels fail to keep pace with the incoming stock.

As well, with growing occupier interest in the West district, the playing field may well even out across the three key business districts.

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HO CHI MINH CITY

Grade B offices the only alternatives for now

A fantastic cluster of new Grade B buildings is expected to come online throughout 2020, providing excellent opportunities for Grade A occupiers who have no expansion options within their existing buildings. The new buildings are leasing up very quickly hence occupiers will need to act fast while they still have negotiation leverage.

WILL TRAN

Associate Director, Commercial Leasing

KEY STATISTICS

**GROSS ASKING
RENTAL GROWTH
CORE GRADE A OFFICE**

0.6%
(2020)

1.6%
(2021)

**NET ABSORPTION
OVERALL GRADE
A OFFICE**

9,338
SQ.M. (2020)

17,892
SQ.M. (2021)

**FUTURE OFFICE
SUPPLY
OVERALL GRADE A OFFICE**

36,200
SQ.M. (2020 – 2021)

KEY INDICATORS

Vietnam	2019	2020F	2021F
GDP Growth	7.0%	5.2%	7.4%
Inflation	2.8%	3.8%	3.5%
Unemployment rate	2.2%	2.7%	2.3%

Source: OxfordEconomics

Office (Ho Chi Minh City)	2019	2020F	2021F
Rent (US\$/sq.m./mo)	62.6	63.0	64.0
Vacancy (%)	2.4%	5.6%	5.1%
New supply (sq.m.)	0	18,900	17,300

Source: Cushman & Wakefield

KEY TRENDS

1. No significant Grade A supply until Q4 2021

Since the inauguration of two office buildings -- Saigon Centre Tower 2 and Deutsches Haus HCMC -- at the end of 2017, the market saw no new Grade A supply until Q1 2020, with the 21-storey structure of Friendship Tower. The next Grade A project will not come online until Q4 2021 when the Spirit of Saigon rises to join HCM's rapidly evolving skyline.

Upon completion, the two projects will increase overall Grade A stock by 13.9%, adding a combined total of approximately 36,200 sq.m stock to the market over the next two years. This is in the context of a shortage of space versus demand, in a market that has averaged quarterly Grade A absorption and take-up of over 4,500 sq.m. from the beginning of the previous decade.

2. Record low vacancy rates to push rentels upwards

2019 registered record low Grade A vacancy rates, meaning highly unfavorable market conditions for Grade A occupiers.

Rent levels can be expected to continue to rise. Even though the market is expecting 175,000 sq.m. of new supply by the end of 2020, 89% of the total is Grade B stock. The new Grade B stock is also registering excellent pre-leasing interests.

Technology, media and eCommerce companies top the business growth charts and enquiry lists. We can expect to see occupiers from these sectors renewing their current Grade A leases and also sign new leases to expand into new Grade B projects, with the main significant projects all completing within the first half of 2020.

Many of these new Grade B projects boast Grade A amenities and are setting new market standards, offering column-free spaces of 1,000 sq.m and above and executive bathroom suites on every floor. As the grading gap narrows between these new Grade B projects to Grade As, expanding occupiers and

new market entrants have the perfect opportunity to lease high quality space and satisfy their business need to remain in the Central Business District.

3. Key land plots await construction permits

Approximately around 500,000 sq.m. of Grade A office supply is in the pipeline awaiting to be constructed in the CBD. Expecting these projects to successfully obtain their licenses, we can expect to see these Grade A office buildings complete and come into play in 2023 - 2025 and until then, the market looks to sustain its bullish tone.

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**CUSHMAN &
WAKEFIELD**

INDONESIA OFFICE FORECAST JAKARTA

Tenant-favorable market set to continue

With tenant-favorable conditions set to continue, occupiers are expected to take advantage of market conditions by actively seeking better quality premises at attractive rental rates.

ARIEF RAHARDJO

Director, Strategic Consulting, Indonesia

KEY STATISTICS

**GROSS EFFECTIVE
RENTAL GROWTH
CORE GRADE A OFFICE**

-5.0%
(2020)

5.0%
(2021)

**NET ABSORPTION
OVERALL GRADE
A OFFICE**

50,000
SQ.M. (2020)

290,000
SQ.M. (2021)

**FUTURE OFFICE
SUPPLY
OVERALL GRADE A OFFICE**

650,000
SQ.M. (2020 – 2021)

KEY INDICATORS

Indonesia	2019	2020F	2021F
GDP Growth	5.0%	3.0%	6.6%
Inflation	2.8%	2.8%	3.2%
Unemployment rate	5.1%	5.6%	4.6%

Source: Oxford Economics

Office (Jakarta)	2019	2020F	2021F
Rent (IDR/sq.m./mo)	354,000	336,000	353,000
Vacancy (%)	27.2%	30.6%	27.1%
Weighted New supply (sq.m.)	224,700	294,000	140,000

Source: Cushman & Wakefield

KEY TRENDS

1. Reduced influx of new supply will induce healthier market conditions

Since 2015, Jakarta's CBD office market has been flooded by 2.2 million sq.m. of new supply, leading to over-supply conditions up until the end of 2018. The influx started to drop in 2019, from around 500,000 sq.m. per annum to 290,000 sq.m., and the trend is expected to continue at about 300,000 sq.m. per annum in the next two years.

In terms of sub-markets, Thamrin and Kuningan are the two most active areas for new developments, accounting for around 70% of the new supply in the Jakarta CBD in 2021 – 2021.

2. Occupancy Drop in 2020 but will Gradual improve in 2021

In-line with ongoing COVID-19 situation that has hit Indonesia and globally, demand for office space in

the Jakarta CBD is projected to drop significantly during 2020 and is now forecast to achieve annual absorption of only about 50,000 for 2020 and 280,000 for 2021.

Relocations and expansions by existing tenants will likely drive absorption in the CBD over the next two years. In terms of business sectors, banking and financial services, insurance, eCommerce, and coworking space sectors will lead leasing activity.

Reflecting new completions due in 2020 and the anticipation of low demand due to the impact of COVID-19 crisis, occupancy levels are projected to drop in 2020. However, occupancy is expected to gradually improve in 2021 following the better economic performance.

For the strata-title office market, sales volumes are projected to remain subdued.

3. Rentals to remain attractive

Gross rentals are expected to decrease in 2020 as the result of slower demand, Landlords will

continue to be very cautious in quoting rental rates for prospective new occupiers and lease renewals for existing tenants, in order to support occupancy levels.

With tenant-favorable conditions set to continue, occupiers are likely to remain active and seek better quality premises at attractive rental rates.

In 2021, base rentals are expected to start seeing upward adjustments following the rising demand and decline in vacancy rates.

INSIGHTS
INTO
ACTION

A Cushman & Wakefield
Research Publication

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**CUSHMAN &
WAKEFIELD**

PHILIPPINES OFFICE FORECAST MANILA

More options outside Metro Manila to temper rental rate growth

KEY STATISTICS

NET RENTAL
GROWTH
CORE GRADE A OFFICE

8%
(2020)

8%
(2021)

NET ABSORPTION
OVERALL GRADE
A OFFICE

890,000
SQ.M. (2020)

604,000
SQ.M. (2021)

FUTURE OFFICE
SUPPLY
OVERALL GRADE A OFFICE

1.4 MILLION
SQ.M. (2020 – 2021)

KEY INDICATORS

Philippines	2019	2020F	2021F
GDP Growth	5.9%	3.9%	7.3%
Inflation	2.5%	2.3%	3.5%
Unemployment rate	5.1%	5.9%	5.4%

Source: OxfordEconomics

Office (Manila)	2019	2020F	2021F
Rent (PHP/sq.m./month)	1,004	1,104	1,192
Vacancy (%)	3.1%	2.3%	1.8%
New supply (sq.m.)	876,747	841,783	573,308

Source: Cushman & Wakefield

The prescribed limits in the supply of Grade A offices with special tax incentives is expected to intensify competition among large IT-BPM occupants. The demand from Philippine offshoring and gaming operations (POGO) and the flexible workspace industry are likely to fill the gap in demand for non tax-incentivized space within Metro Manila, although COVID-19 concerns will affect this growth.

CLARO CORDERO

Director, Research & Consulting, Philippines

KEY TRENDS

1. Intensified competition for space with special tax incentives

Demand for office space with attractive tax incentives is expected to intensify after the government has directed the Philippine Economic Zone Authority (PEZA) to cease issuing new certificates of accreditation for office development projects in Metro Manila to benefit from incentives. The majority of these developments are intended for the outsourcing sector, primarily the information technology and business process management (IT-BPM) industry.

The consistent growth in demand from the IT-BPM industry has been supplemented with growth in supply of office space with special incentives, such as tax holidays breaks and duty-free importation of business materials.

The objective of the moratorium in declaring PEZA zones in Metro Manila is to encourage the development of office projects in

other urban centers.

Office space in Metro Manila is still expected to grow by more than 1.6 million sq.m. from 2020 to 2022, bringing total office stock to around 9.5 million sq.m.

2. Moderate growth in rentals projected

The average net rental rate for prime and Grade A developments, especially in established CBDs such as Makati and Bonifacio Global City (BGC), are expected to rise in view of the tight supply of PEZA-certified developments.

As IT-BPM firms continue to expand in Metro Manila with limited completed office developments, asking rental rates are expected to increase and tenants will need to deal with increasingly landlord-friendly leasing environments. Over the medium-term, as new supply from previously PEZA-certified developments are completed, growth of rental rates are expected to be tempered in core business areas. For non-PEZA developments, rental rate escalation is expected to be moderate.

3. Supply outside Metro Manila likely to grow and provide alternative locations

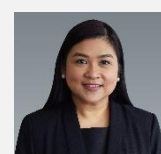
The growth of office stock in non-core areas will temper rental rate escalations. Additional supply of office developments is expected in other growth areas outside Metro Manila. By end-2022, an estimated 300,000 sq.m. of office developments is expected to come online, primarily located in Metro Cebu and Metro Davao.

The other emerging drivers of office space demand include the Philippine offshore gaming operations (POGO) – although the rate of growth has been affected by the stricter licensing regulations for new applications by the local authorities, as well as demand from flexible space/coworking industry. However, the recent COVID-19 pandemic is expected to and will likely restrain the growth trajectory of these demand drivers in the medium-term.

INSIGHTS
INTO
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INDIA OFFICE FORECAST

BENGALURU

Landlords to have the upper hand amid tight vacancy and strong demand scenario

KEY STATISTICS

NET RENTAL
GROWTH
CORE GRADE A OFFICE

4.6%
(2020)

4.8%
(2021)

NET ABSORPTION
OVERALL GRADE
A OFFICE

9,821,751
SF (2020)

10,817,638
SF (2021)

FUTURE OFFICE
SUPPLY
OVERALL GRADE A OFFICE

22.7 MILLION
SF (2020 – 2021)

KEY INDICATORS

India	2019	2020F	2021F
GDP Growth	4.5-5.0%	5.1%	5.7%
Inflation	3.7%	4.2%	3.3%
Unemployment rate	5.5%	6.8%	6.8%

Source: OxfordEconomics, RBI, OECD, S&P, Moody's

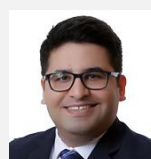
Office (Bengaluru)	2019	2020F	2021F
Rent (INR psf/mo)	79.33	83.0	87.0
Vacancy (%)	5.2%	5.6%	5.7%
New supply (sf)	8,835,099	11,007,030	11,741,215

Source: Cushman & Wakefield

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Bengaluru should continue its strong performance as the country's leading office market, driven by its tech and start-up ecosystem. The core markets shall dominate for the foreseeable future with quality supply and strong occupier demand. New corridors over the long-term also augur well for the city's continued demand momentum across occupier segments.

RAMITA ARORA

Managing Director, Bengaluru

KEY TRENDS

1. Tight vacancy scenario to strengthen occupier preference for pre-leasing

A strong performance in 2019, with 16.47 msf of gross leasing, is likely to sustain through 2020-2021 to keep vacancies within a tight range of 5-6%. With pre-leasing activity (already at 5.3 msf for 2020-21) to gain further momentum, jockeying for space by occupiers is likely. Occupiers will push to lock in rents, even as rents have risen strongly in the main ORR office submarket. Older technology parks will also see active occupier churn, pushing city level rents up further by 4.5-5% on an annual basis.

The key drivers of growth in occupier demand will be the tech sector, flex-space operators targeting enterprise clients, unicorns and tech start-ups, captive centers, and the engineering and manufacturing sectors. There are already 7-9 msf of RFPs active in the market. A diverse and abundant talent pool and renewed focus on infrastructure improvement will also support strong occupier activity,

keeping net absorption volumes trending upwards.

2. Steady supply – ORR leads, peripheral locations to see greater activity

Projected supply for 2020-2021 is 22.7 mn sf, but the strong pre-leasing appetite (23%) and ongoing space inquiries are already reducing the available supply across most office markets. The core markets of Outer Ring Road, CBD and Suburban East account for 43% of the new supply, with one-third already pre-leased.

Peripheral submarkets in the east (Whitefield), north, south (Electronic City) and suburban submarkets in the north-west and south of the city have a 57% share of the upcoming supply, and should see traction for quality projects during the forecast period. Vacancy during the period shall remain ultra-tight in the core markets and in relevant, superior grade projects.

3. Rental appreciation in a landlord-favourable market

Pre-leasing activity and tight vacancies will support rental growth

going forward, especially in institutionally owned assets. The preference for core markets means rent growth will be faster there, at around 4-8% y-o-y. Infrastructure improvements and metro connectivity will also provide a fillip to Whitefield, which is likely to emerge as a stronger office location for large consolidation strategies over the next two-three years. It is likely to see rental growth of 8-10% over 2020-2021.

4. ORR submarket to reign supreme

The Outer Ring Road submarket accounts for 47% of the city's Grade A office inventory today and will contribute a significant 40% of the city's upcoming supply during 2020-21. With vacancy levels at just 0.9% in a 67.8 mn sf market, and 27% of the 9.14 mn sf upcoming supply already pre-leased, ORR will continue to reign supreme for strong occupier demand for new space take-ups, and pre-leasing among both global and domestic occupiers across all major industry segments. The strong supply pipeline will serve mid-term space requirements among occupiers, although longer-term space strategies may see a shift towards North and Whitefield.

INDIA OFFICE FORECAST

DELHI NCR

Supply keeps core markets in action; peripheral corridors to gather momentum

KEY STATISTICS

NET RENTAL GROWTH
CORE GRADE A OFFICE*

4.4%
(2020)

3.8%
(2021)

NET ABSORPTION
OVERALL GRADE A OFFICE

9,050,000
SF (2020)

8,615,000
SF (2021)

FUTURE OFFICE SUPPLY
OVERALL GRADE A OFFICE

21.2 MILLION
SF (2020 – 2021)

*Gurugram CBD

KEY INDICATORS

India	2019	2020F	2021F
GDP Growth	4.5-5.0%	5.1%	5.7%
Inflation	3.7%	4.2%	3.3%
Unemployment rate	5.5%	6.8%	6.8%

Source: OxfordEconomics, RBI, OECD, S&P, Moody's

Office (Delhi NCR)	2019	2020F	2021F
Rent (INR psf/mo)	65	67	69
Vacancy (%)	23.4%	23.5%	22.3%
New supply (msf)	13.4	12.0	9.2

Source: Cushman & Wakefield

Supply infusion in core areas coupled with anticipated healthy levels of occupier demand resulting in robust pre-leasing will be key things to watch out for in 2020-21. Growth corridors have a strong share in the supply pipeline and will increasingly find favour for large requirements, with connectivity and quality completions driving traction from tenants.

BADAL YAGNIK

Managing Director, Leasing - India

KEY TRENDS

1. New supply in core areas and growth corridors of Gurugram and Noida to see sustained traction

The prime Cyber City office corridor in Gurugram is expected to see new supply of 1.7 msf in 2020-2021. With current vacancy levels hovering below 5% and favorable occupier traction, this space is likely to be snapped up. Lease expirations as well as expansion and consolidation needs shall also drive churn in this office corridor. The prime corridors in the vicinity – MG Road, Golf Course Road and Prime NH-8 -- driven by their excellent connectivity, will remain in demand as well.

Growth corridors such as Golf Course Extension Road and Southern Peripheral Road will likely account for more than half of the projected supply of 9 msf in the non-core markets of Gurugram. With both micro-markets having seen a sharp increase in occupancy levels recently, future quality supply is also expected to see appreciable occupier interest.

The Noida Expressway corridor in the Noida submarket accounted for over half of the strong leasing volumes seen in 2019. It is expected to now account for two-thirds of the total projected supply of 10.3 msf in Noida submarket. Demand in Noida is also expected to be robust with quality supply witnessing pre-leasing and likely to see strong occupier traction based on active space requirements.

2. Strong demand with consulting firms, tech, coworking and captives headlining space take-up

The next two years are expected to see sustained momentum with strong space take-up pipeline in the works. Already a combined 3.5-4.0 msf worth of space requirements are active across both Gurugram and Noida. Professional services followed by tech occupiers will drive activity in 2020-21, with space strategies nearly equally split between expansion and consolidation requirements.

Flexible workspace operators will be another key occupier category with home-grown firms expanding rapidly. While Gurugram leads activity from flex space operators, Noida is also emerging as a strong growth market

for them, largely targeting enterprise demand.

Superior grade and institutionally owned office projects shall continue to see single digit vacancies, even as sub-average projects are likely to keep headline vacancy levels slightly elevated in peripheral corridors over the next two years. Vacancy levels in select micro-markets like Cyber City and Delhi Aerocity shall sustain in single digits.

3. Quality supply and low vacancy corridors to drive rental growth

Select micro-markets like Cyber City with its low vacancy levels and demand for new supply is likely to record a 4-5% rental growth over 2020-21. Rent increments will be driven by quality project completions and existing superior projects witnessing occupier churn amid tenants chasing such supply.

Aerocity, Prime NH-8 and Noida CBD corridors shall see rent growth driven by the factors above with their location attractiveness also being a prime consideration. Even the peripheral corridors will see rents rise, albeit driven by project level instances, limiting growth to 2-3% y-o-y.

INSIGHTS INTO ACTION

A Cushman & Wakefield Research Publication

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HYDERABAD

Positive momentum to continue in 2020-21

Affordability, infrastructure and a pro-business environment have been game changers for the city in recent years. Expect healthy business sentiment and robust demand to continue going forward. Rents will continue to grow in the short- to medium-term but the city is still better positioned to meet longer-term growth strategies for major occupiers.

VEERA BABU

Managing Director, Hyderabad

KEY STATISTICS

NET RENTAL
GROWTH
GRADE A OFFICE

6-7%

(2020-21
annual average)SUPPLY PRE-
LEASED
CORE GRADE A
OFFICE

46%

(2020 - 21)

NET ABSORPTION
OVERALL GRADE
A OFFICE9.0 -10.0 million sf
(2020-21 annual average)FUTURE OFFICE
SUPPLY
OVERALL GRADE A OFFICE24.3 million sf
(2020-21)

KEY INDICATORS

India	2019	2020F	2021F
GDP Growth	4.5-5.0%	5.1%	5.7%
Inflation	3.7%	4.2%	3.3%
Unemployment rate	5.5%	6.8%	6.8%

Source: OxfordEconomics, RBI, OECD, S&P, Moody's

Office (Hyderabad)	2019	2020F	2021F
Rent (INR psf/mo)	62	66	70
Vacancy (%)	5.5%	7.4%	6.9%
New supply (msf)	10.1	13.4	10.9

Source: Cushman & Wakefield

KEY TRENDS

1. Strengthening of city profile as a major tech hub, expansion-led demand by captives and tech majors to continue

After hitting an all-time high of 10.0 msf in gross leasing volumes in 2019, the strong leasing momentum is set to continue in 2020-2021. Driven by global capability centers and tech majors -- including global players such as Wells Fargo, Amazon, Google, Qualcomm, UHG and ZF -- exploring space options to set up large scale captive centers in the city, active demand is likely to be in the 8-10 msf range for the next two years. Robust pre-leasing activity on lines similar to 2018-2019 is likely to continue over the next 12-24 months as vacancies continue to remain tight.

2. New markets emerging beyond the core IT and financial districts, strong development pipeline in

key markets

The Hyderabad office market is set to grow by 40% over the next 2 years, supported by a strong supply pipeline. The core IT and financial districts, Madhapur & Gachibowli, account for nearly two-thirds of the new supply. While the core districts remain on a strong footing, emerging corridors are also rapidly expanding along the Outer Ring Road (ORR) towards Kokapet and Manikonda-Khajaguda, accounting for nearly 30% of the projected supply in 2020-2021. Tenants with greater space requirements (>100,000 sf) are actively considering such options to realize cost savings of up to 25-30%. As such, nearly one-third of new supply in these corridors is already pre-leased, with another 15-20% under advanced negotiations.

3. Tight vacancies to prevail despite new supply, rental growth to continue

Madhapur has been an ultra-tight market with vacancies below 5% over the last five years, while vacancy in Gachibowli has gradually

shifted from 30% levels to 10% during the period 2016-19. Pre-leasing has been on the rise over the last two to three years, amidst tight vacancies and strong demand. Similar to the supply situation in 2018-2019, when 50% was fully pre-leased, nearly half of upcoming supply up until 2021 is also already pre-leased. The strong demand momentum suggests tight vacancies are likely to continue over the next 12-24 months. As such, rents are likely to trend up further in 2020, supported by quality project completions, tight vacancies and strong demand. We expect annual rental growth of 5-7% y-o-y across all submarkets during 2020-2021.

INSIGHTS
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INDIA OFFICE FORECAST MUMBAI

Non-core submarkets to gain traction

KEY STATISTICS

NET RENTAL
GROWTH
CORE GRADE A OFFICE

2.8%
(2020)

2.4%
(2021)

NET ABSORPTION
OVERALL GRADE
A OFFICE

7,607,000
SF (2020)

6,089,500
SF (2021)

FUTURE OFFICE
SUPPLY
OVERALL GRADE A OFFICE

14.4 MILLION
SF (2020 – 2021)

KEY INDICATORS

India	2019	2020F	2021F
GDP Growth	4.5-5.0%	5.1%	5.7%
Inflation	3.7%	4.2%	3.3%
Unemployment rate	5.5%	6.8%	6.8%

Source: OxfordEconomics, RBI, OECD, S&P, Moody's

Office (Mumbai)	2019	2020F	2021F
Rent (INR psf/mo)	122	125	128
Vacancy (%)	18.8%	17.7%	17.0%
New supply (sf)	5,209,317	7,950,183	6,467,604

Source: Cushman & Wakefield

Suburban and peripheral sub-markets are expected to drive the overall supply and demand momentum in the coming years. However, core markets will continue to command rental growth, driven by limited availability of quality office space in these markets.

GAUTAM SARAF

Managing Director, Mumbai

KEY TRENDS

1. IT, captive centers and flex-spaces to act as prime demand drivers

The remarkable growth in gross leasing activity that was recorded during 2019 was mainly contributed by occupiers from IT-BPM, captive centers and the BFSI segments. This trend is likely to continue in the coming years, with flexible workspace operators and professional services firms also accounting for an increased share in the city's overall leasing activity. Nearly 20% of the upcoming supply in 2020-2021 is already precommitted with IT-BPM and captive centers of BFSI and professional services firms accounting for a major share of the pre-lease volumes.

While occupiers from the technology sector and captive centers will continue to prefer the non-core submarkets of Thane-Belapur Road, Malad-Goregaon and Central Suburbs, flex-space operators, BFSI firms and consulting firms will continue to scout for grade A space

in the BKC and Andheri - Kurla submarkets.

2. Strong demand to drive vacancy down

A relatively high volume of supply, at 14.4 msf, is slated to become operational during 2020-2021. Nevertheless, the citywide vacancy level in the Grade A office sector is still expected to drop, mainly due to strong precommitment levels in select upcoming projects coupled with anticipated new demand generation from occupiers across industry sectors. This is in evidence from the ongoing RFPs in the market.

Increased net absorption volumes, based on precommitment leases becoming operational as projects complete, will also contribute towards the vacancy rate drop.

3. Strengthening rentals, with declining vacancy the catalyst

Declining vacancy levels on the back of sustained leasing momentum will result in citywide office rent levels moving north, particularly in the core markets, within a range of 2.5-3% y-o-y, during the forecast period.

At the submarket level, Malad-Goregaon and Thane-Belapur Road are likely to witness a rental level appreciation of 3.5 - 5.0% y-o-y. The SBD, Andheri-Kurla, Powai, Central Suburbs and Thane submarkets are likely to record rental increments in the range of 1.5 - 3.0% annually.

This is expected to lead to occupiers opting for non-core office locations, aiming at rental savings or early commitments in growth corridors. Rents in other submarkets are likely to remain stable or witness marginal increases.

4. Competitive environment to prevail among occupiers

Healthy leasing momentum, resulting in declining vacancy levels and rental growth, has always fostered competition for space by occupiers across different sectors. This trend is likely to strengthen, with quality under-construction buildings enjoying considerable pre-leasing in recent quarters, resulting in tight availability for superior office space.

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**CUSHMAN &
WAKEFIELD**

KEY TAKEAWAYS

Overall economic slowdown appears inevitable in 2020

Office market conditions to generally turn more occupier-friendly as the COVID-19 outbreak impacts the global economic outlook

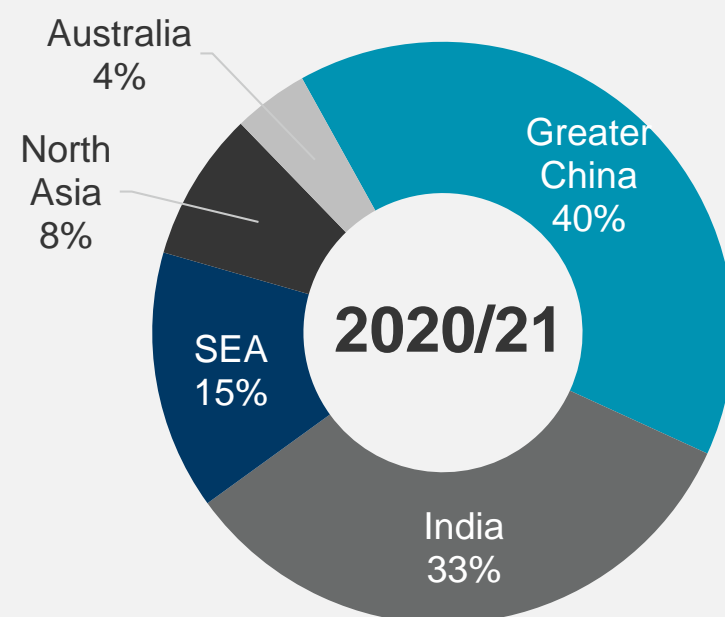
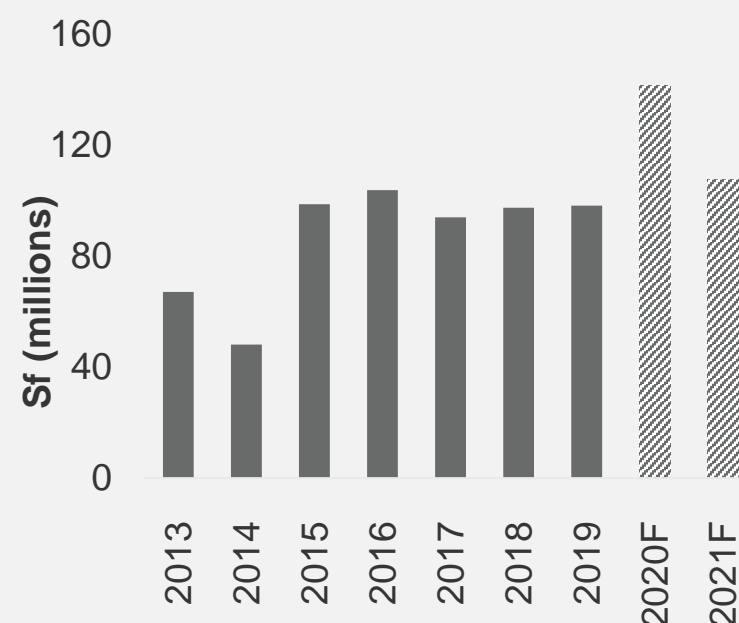
Occupiers will likely enjoy declines in rental levels and enhanced lease terms

Markets with limited supply, such as Taipei and Ho Chi Minh City will be less severely impacted from the outbreak

A rebound in economic activity will prompt a gradual return to pre-outbreak office market conditions by 2021

249 MSF

FORECAST RECORD NEW SUPPLY THROUGH 2021 MAY MODERATE AS DEVELOPERS TURN CAUTIOUS



Sydney

Rental growth is likely to be weak or negative in Sydney over 2020 due to the economic impact of the pandemic. However, relatively muted supply and low vacancy suggests growth can return relatively quickly with economic recovery.

Shanghai/Beijing

An influx of supply had recently prompted a downward rental trend. Given the impact of COVID-19, we expect rentals to slide further.

Hong Kong

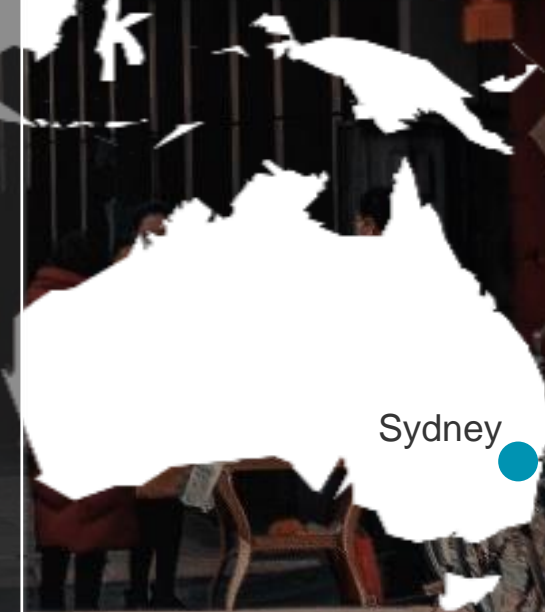
The outbreak deals a third blow to a property market already weakened from trade tensions and social unrest. We expect the premium office market to remain under pressure over the near-term.

Tokyo

An increase in vacancies, currently at historical lows of below 2%, is pending as tenants look to move into new projects and secondary vacancies rise. Consequently, as a result of the outbreak, the market is braced for a change in direction.

India

A continued beneficiary of global outsourcing needs, India's office markets may see a tailwind from the global repositioning of outsourcing bases



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