

Quick Stats

	Change from	
	6-months	1 year
GDP growth	↓	↓
Rent	↑	↑
Vacancy	↓	↓
Net Absorption	↑	↑

Rental change table

	No. of mkts	Avg. chg.
Increase	16	4.8%
Stable	5	-
Decrease	3	-1.3%

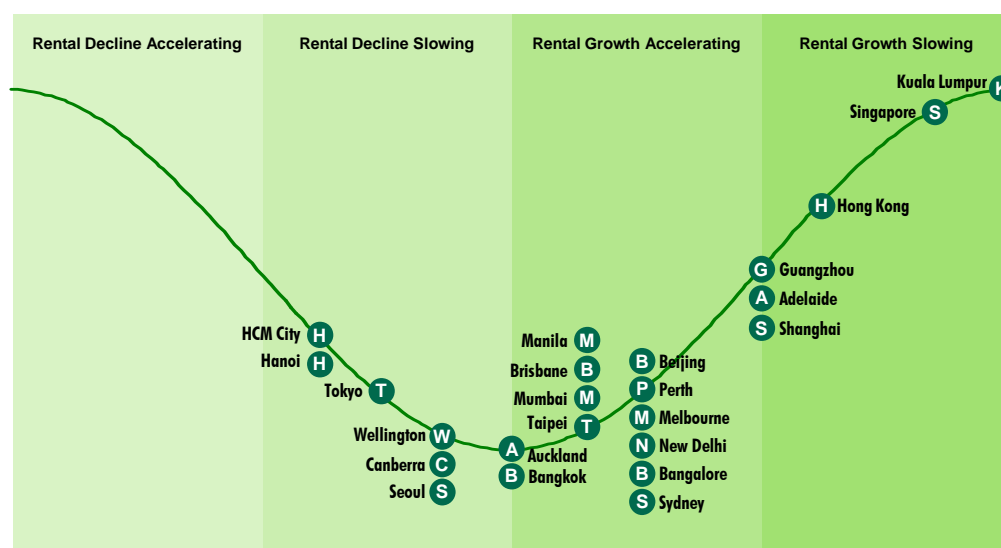
Hot Topics

- Economic growth moderates as the impact of natural disasters in Japan and the Pacific interrupts momentum
- The Tokyo office market shows signs of stabilising in May with occupiers displaying a distinct preference for Grade A buildings with disaster prevention features
- The growth of expansionary demand in Hong Kong and Singapore declines as the period of rapid take up of prime office space witnessed since last year comes to an end

OVERVIEW

- Expansionary demand focuses on China whilst flight-to-quality increases**  
Demand for prime office space in Asia Pacific continued to grow in the second quarter with corporates remaining focused on expanding in the key Greater China markets. However, further deterioration of the economic situation in the United States and Eurozone would have a knock on effect on the regional economy. The period saw a significant increase in flight-to-quality activity, particularly in newly launched high-profile buildings and other iconic projects currently in the pipeline.
- Rental growth moderates in Asia but gathers momentum in the Pacific**  
The CB Richard Ellis Asia Pacific Office Rent Index rose 3.7% q-o-q in the second quarter thanks to robust occupier demand. Rental growth slowed in a number of Asian markets but falling vacancy in Australia provided rents with a boost. Greater China continued to enjoy the strongest growth in the region with rental increases in Beijing and Guangzhou exceeding expectations.
- Vacancy falls in most markets; Beijing witnesses biggest decline**  
Vacancy rates generally declined in most cities across the region during the second quarter. There were a few exceptions, however, with Sydney, Shanghai, Guangzhou and Mumbai recording a rise in vacancy following the addition of a large amount of new space. The rate of decline in Beijing was faster than had been anticipated as demand strengthened and the supply pipeline remained tight.
- Supply pipeline continues to diverge across Asia and the Pacific**  
Asia's substantial development pipeline continues to contrast with the lean supply outlook in the Pacific, although both regions expect the impending completion of new trophy buildings to stimulate relocation activity. In Australia the focus is on whether the pending influx of second hand space over the next five years will be absorbed, whilst in Greater China the outlook is brighter as potential secondary space has already been under active negotiation.

Asia Pacific Rental Cycle, Q2 2011



NB. Markets do not necessarily move along the curve in the same direction or at the same speed. The rental cycle is intended to display the trend in prime rents

## ECONOMIC UPDATE

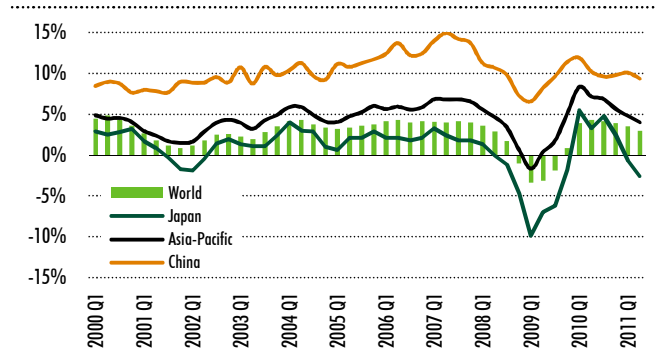
Economic growth in Asia Pacific slowed in the second quarter as momentum was interrupted by the March 11 quake and tsunami in Japan and the series of natural disasters which stuck the Pacific earlier in the year. Retail sales growth and business expansion remained brisk across most parts of the region but manufacturing activity slowed considerably, partly due to the disruption of the regional supply chain caused by the Japan quake. Growth in the manufacturing sector should recover, however, as production capacity in Japan is gradually restored.

Despite the positive economic fundamentals, the region must address a number of key challenges in the second half of the year including high inflation coupled with escalating interest rates, potentially weaker domestic demand should inflation persist, and softening exports as economies in developed nations remain weak. While the United States narrowly avoided default in early August, there are signs that the world's biggest economy may be on the verge of slipping back into recession. In Europe, meanwhile, the debt crisis appears to be deepening with Spain and Italy edging closer to the precipice. Further deterioration of the economic situation in the United States and Eurozone would have a knock on effect on the regional economy.

The labour market remained generally tight across the region during the second quarter with unemployment rates either edging downwards or remaining unchanged at low levels during the period. Employers' hiring intentions continued to be positive across most markets in the region with hiring sentiment particularly strong in China, Hong Kong, India, and Taiwan. An increasing number of employers indicated that they were encountering difficulty in recruiting quality senior talent. A number of major financial institutions announcing job cuts running into the tens of thousands worldwide. However, Asia has escaped the redundancies announced thus far as banks are looking to rebalance their allocation of business and resources towards the region.

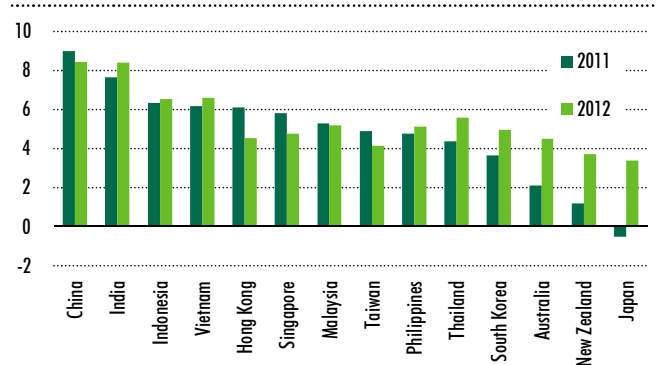
Inflationary pressures continue to build, with Asia's CPI accelerating by 1.5%-pt to 4.4% in the first half of the year. Almost all central banks in Asia are tightening monetary supply and/or raising interest rates in an attempt to avert overheating, although whether these measures will be able to curb inflation remains to be seen. Higher capital costs may dampen corporate investment activity, however. Central bankers will therefore have to strike the right balance between maintaining economic growth momentum and controlling inflation in the months ahead.

### GDP growth, y-o-y



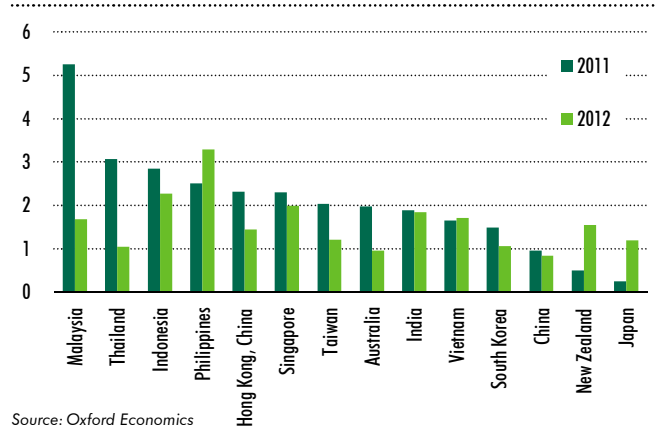
Source: IHS Global Insight

### GDP growth by country (%)



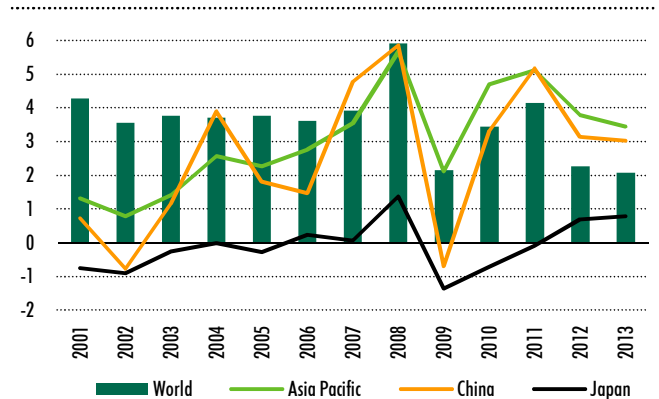
Source: Oxford Economics

### Employment growth by country (% y-o-y)



Source: Oxford Economics

### Inflation rate (% y-o-y)



Source: Oxford Economics

## Key indicators

Country	City	Per Local Measurement	Prime Office Rent Local	US\$ / sq ft/ Annum	Q-o-Q Change (%)	Y-o-Y Change (%)	Vacancy Rate (%)
Mainland China	Beijing - CBD	RMB sq. m. p.m.	411.0	70.8	27.5	68.6	12.8
Mainland China	Beijing - Zhongguancun	RMB sq. m. p.m.	279.4	48.2	7.9	32.5	1.2
Mainland China	Beijing - Finance Street	RMB sq. m. p.m.	413.7	71.3	9.3	32.8	1.8
Mainland China	Shanghai - Pudong	RMB sq. m. p.m.	343.4	59.2	7.1	19.3	11.7
Mainland China	Shanghai - Puxi	RMB sq. m. p.m.	308.5	53.2	6.4	22.3	9.3
Mainland China	Guangzhou	RMB sq. m. p.m.	155.6	26.8	9.9	20.5	12.4
Hong Kong	Hong Kong	HK\$ sq. ft. p.m.	60.9	93.9	5.0	33.3	5.1
Hong Kong	Hong Kong - Core Central	HK\$ sq. ft. p.m.	124.5	192.0	4.5	31.5	3.8
Taiwan	Taipei	NT\$ ping p.m.	3,883.8	45.5	0.2	0.9	12.5
Japan	Tokyo	JPY tsubo p.m.	34,350	143.5	-1.3	-5.2	5.4
South Korea	Seoul - CBD	KRW sq. m. p.m.	51,390	53.7	0.0	-0.5	12.4
South Korea	Seoul - Gangnam	KRW sq. m. p.m.	47,692	49.8	0.0	0.5	1.1
South Korea	Seoul - Yeouido	KRW sq. m. p.m.	42,971	44.9	0.7	1.7	4.2
India	New Delhi - CBD	INR sq. ft. p.m.	353	94.9	6.0	10.4	2.7
India	New Delhi - Gurgaon	INR sq. ft. p.m.	113	30.4	13.3	30.8	21.2
India	New Delhi - Noida	INR sq. ft. p.m.	48.0	12.9	2.9	-5.3	23.8
India	Mumbai - Nariman Point	INR sq. ft. p.m.	400	107.4	0.0	3.4	6.5
India	Mumbai - BKC	INR sq. ft. p.m.	414	111.2	1.8	5.5	13.7
India	Bangalore	INR sq. ft. p.m.	120	32.2	5.9	25.0	0.8
Malaysia	Kuala Lumpur	RM sq. ft. p.m.	7.2	28.5	0.6	2.6	11.6
Philippines	Manila	PHP sq. m. p.m.	809	20.8	2.7	2.1	4.6
Singapore	Singapore	S\$ sq. ft. p. m.	8.8	86.0	2.3	27.5	5.4
Thailand	Bangkok	THB sq. m. p.m.	680	24.7	0.0	0.0	15.1
Vietnam	Ho Chi Minh City	US\$ sq. m. p.m.	38.5	42.9	-1.8	-8.8	34.2
Vietnam	Hanoi	US\$ sq. m. p.m.	30.6	34.1	-5.0	-4.1	5.0
Indonesia	Jakarta	IDR sq. m. p.m.	124,824	16.2	0.1	4.4	9.0
Australia	Adelaide	A\$ sq. m. p.a.	373.6	37.2	1.2	8.1	7.3
Australia	Brisbane	A\$ sq. m. p.a.	624.2	62.1	0.0	0.8	7.4
Australia	Canberra	A\$ sq. m. p.a.	352.0	35.0	0.0	1.0	14.2
Australia	Melbourne	A\$ sq. m. p.a.	439.8	43.7	1.3	4.3	5.8
Australia	Perth	A\$ sq. m. p.a.	673.0	66.9	3.5	5.3	7.8
Australia	Sydney	A\$ sq. m. p.a.	632.3	62.9	4.3	4.7	9.3
New Zealand	Auckland	NZ\$ sq. m. p.a.	357.3	27.4	0.0	-1.0	13.3
New Zealand	Wellington	NZ\$ sq. m. p.a.	325.0	24.9	-1.8	-2.5	9.8

Note: Rents refer to prime office rent on net floor area basis in core business districts if not otherwise stated.

## OFFICE RENTS

Robust occupier demand ensured prime office rents continued to rise across Asia Pacific in the second quarter of 2011, with the APAC-24 rental index increasing by 3.7% q-o-q. Rental growth slowed in a number of markets, however, whilst Tokyo continued to be stuck in a prolonged downward rental cycle. The picture was brighter in Australia with falling vacancy in a number of cities providing rents with a boost.

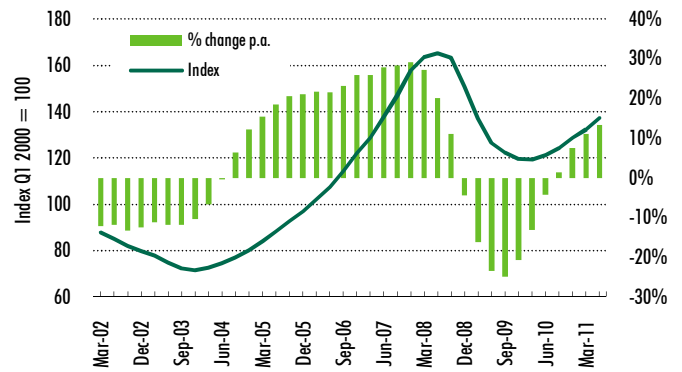
Rental growth remained at its strongest in Greater China on the back of strong expansionary demand. Beijing and Guangzhou recorded brisk growth of 20% q-o-q and 10% q-o-q respectively as tenants competed to secure quality space in prestigious locations at above-market rents. Growth in Shanghai and Singapore stabilised due to supply pressures whilst Hong Kong also saw rental growth moderate as tenants turned more resistant to the high rents demanded by landlords. Oversupply continued to restrain rental growth in Hanoi, Mumbai, Seoul and Kuala Lumpur despite signs of recovery in demand. Prime rents in Tokyo fell by 1.3% q-o-q as landlords compromised on pricing following the quake and tsunami to retain tenants. In the Pacific, although an increase in demand and enquiry levels led to a reduction in incentives being offered, prime rental growth continued to be driven by the local development supply pipeline. The newly completed One Bligh Street raised the rental threshold in Sydney while the lack of supply drove rents in Melbourne.

## OFFICE DEMAND

Demand for prime office space in Asia Pacific continued to grow in the second quarter. China retained its position as the key market for expansion domestic and foreign companies across multiple sectors comprising the bulk of demand. In Hong Kong and Singapore banks and professional companies continued to hire new staff but the period of rapid take up of prime office space witnessed since 2010 was reaching an end as firms retrained their focus on lower-cost options in decentralised areas. Demand in India continued to be driven by the IT sector with activity once again focused on Bangalore.

The period saw a significant increase in flight-to-quality activity in almost all markets. In Sydney and Melbourne companies were either extending their existing leases or relocating to new buildings, whilst strong take up in major projects in Beijing and Guangzhou triggered further upgrading activity by a wide array of occupiers. Markets with abundant new supply such as Seoul, Kuala Lumpur, Hanoi and Ho Chi Minh City saw companies capitalise on attractive rents and incentives to relocate to higher quality buildings. In Tokyo relocations were being driven by occupiers' preferences for buildings with disaster prevention features.

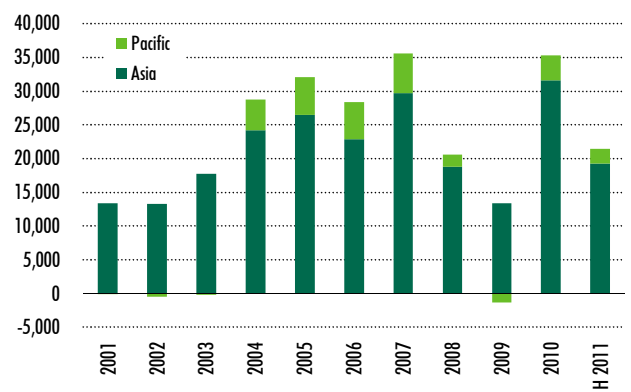
## Asia Pacific office rent index



## Asia Pacific rental movement

	Q2 2011		Q1 2011	
	q-o-q	y-o-y	q-o-q	y-o-y
Asia	4.1%	15.5%	3.4%	13.3%
Pacific	1.9%	3.6%	0.4%	1.5%
<b>Asia Pacific</b>	<b>3.7%</b>	<b>13.4%</b>	<b>2.9%</b>	<b>11.1%</b>

## Office net absorption ('000 sq. ft.)

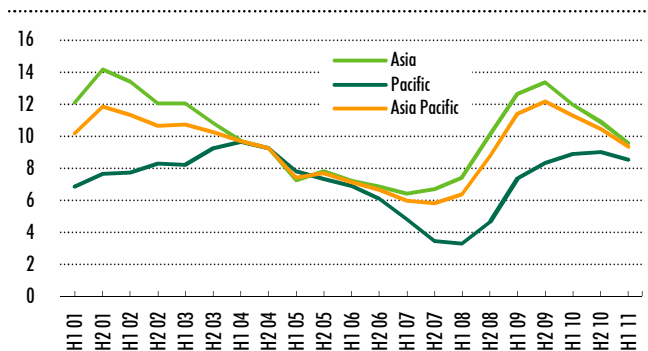


## Office net absorption by market ('000 sq. ft.)

	Rolling four quarters total	Q2 2011
Tokyo	2,565	457
Hong Kong	1,966	346
Shanghai	6,998	2,292
Singapore	2,854	164
Mumbai	1,418	267
Sydney*	719	59 (1H 2011)
Auckland*	622	348 (1H 2011)

\*Cities in the Pacific report net absorption figures half-yearly.

## Asia Pacific vacancy rate (%)



## Office vacancy rate

	Q2 2011 (%)	q-o-q chg. (bps)	y-o-y chg. (bps)
Tokyo	5.4	+30	-70
Hong Kong	5.1	-50	-190
Shanghai	10.1	+210	-180
Singapore*	5.4	-30	-220
Mumbai	25.7	+1,040	+630
Sydney	9.3	+100**	+70
Auckland	13.3	-50**	+50

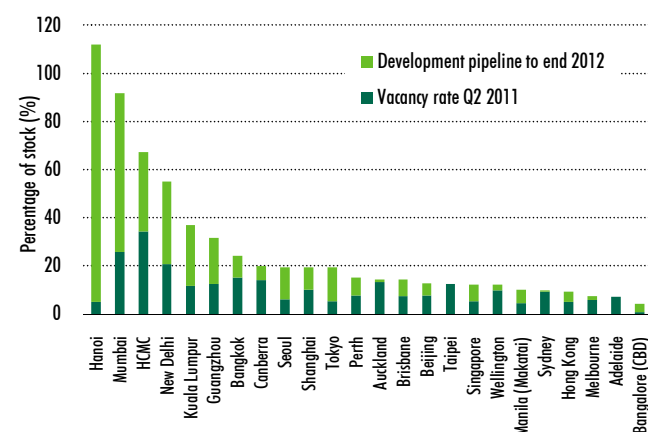
\* Vacancy rate reflects Grade A & B Core CBD, Fringe CBD and Decentralised Area  
 \*\* Six month change

## OFFICE VACANCY

Vacancy rates across most Asia Pacific markets declined in the second quarter. There were a few exceptions to this trend, however, with vacancy in Sydney, Shanghai, Guangzhou and Mumbai edging upwards as a large quantum of new supply came on stream. In Beijing, office vacancy fell to 7.6% from 11.6% within the space of a single quarter as demand strengthened and new supply remained tight, a trend which has driven out a number of multinationals from core areas. In the Pacific the resource driven markets of Perth and Brisbane saw vacancy decline by around 2% over the first half of 2011 due to strong occupier demand.

Although a number of Asian markets have a strong supply pipeline, prime buildings continue to record high occupancy and landlords of these properties are maintaining asking rents at existing levels. At the same time, newly completed buildings with large floor plates are offering attractive packages to improve occupancy. In the Pacific the lack of good quality large floor plate options in prime locations in Melbourne and Adelaide is spurring a rental recovery in secondary accommodation. However, looking beyond 2012, there are a number of secondary space options which are due to become available and could satisfy this demand and stall further declines in the vacancy rate in these and other CBD markets.

## Vacancy rate & two-year pipeline as % of stock



## OFFICE DEVELOPMENT PIPELINE

Asia's substantial development pipeline continues to contrast with the lean supply outlook in the Pacific, although both regions expect the impending completion of high profile Grade A buildings to result in relocation activity to higher quality facilities. The most significant scheme to be completed in Australia in the second quarter was One Bligh Street in the Sydney CBD, with 57% of the space being pre-committed to law firm Clayton Utz. In China, the launch of Guangzhou's International Financial Centre and Beijing's IFC and World Trade Centre III since the beginning of 2011 have raised the standard of Grade A office buildings in those markets. Pre-commitments will account for the majority of new supply due to complete in Australia over the next few quarters along with a number of high profile projects in Asia.

## Development pipeline ('000 sq. ft.)

	2011	2012
Tokyo	2,607	6,079
Hong Kong	1,825	1,299
Shanghai	8,406	3,423
Singapore	3,004	1,370
Mumbai	4,524	4,638
Sydney	913	0
Auckland	425	82

Note: Development pipeline is on net floor area basis

The main concern in most Australian CBD markets at present is whether the pending influx of second hand space due to become available in 2012/13 will be withdrawn and refurbished, or will cause the level of vacant secondary accommodation to increase. Similarly, in the Asian markets which are expecting several major projects to come on stream in the second half of this year, lower quality buildings will struggle to retain tenants and are expected to record an increase in vacancy. The situation is more positive in Greater China as secondary space due to be released within the year has already been under active negotiation.

## MARKET SUMMARIES



Prime office rental growth in **Beijing** accelerated to 20% q-o-q over the second quarter thanks largely to domestic companies relocating to upgrade the quality of their office space and willingness to bid up rents. MNCs in non-financial sectors were

looking for space in non-core office locations and business parks. Vacancy dropped significantly to 7.6% from 11.6%. Just one new scheme in the pipeline is located in the major business districts and upward pressure on rents will therefore continue.

Office rents in **Shanghai** continued to grow rapidly, rising by 5.2% q-o-q amid strong demand from multinational companies across various sectors. Domestic banks and insurance firms were also actively absorbing space but preferred to acquire instead of leasing premises. Net absorption of open market space amounted to 306,000 sq. m. with several transactions involving flight-to-quality and expansionary activity. While strong demand for office space is expected to fuel rental growth, the substantial amount of new supply in the pipeline should be sufficient to meet firms' requirements for larger spaces.

The current supply cycle in **Guangzhou** involves the addition of several new buildings which have significantly improved the quality of stock in the city. This has triggered a chain of upgrading activity and landlords of new buildings have been demanding rents at well above the market average. The five buildings slated for completion this year have already achieved a pre-commitment rate of over 50%, either by pre-lease or pre-sale. Average rents rose 7.4% q-o-q and are expected to remain on an upward trend.

Rents in **Hong Kong** remained on an uptrend over the quarter although the rate of growth slowed considerably at the top end of the market. Rents in Central A1 buildings softened by 0.7% q-o-q, which may be reflect landlords' adopting more realistic expectations. New entrants in the financial and legal sectors continued to seek space in Central although not necessarily in prime buildings. Rents are expected to remain on an uptrend over the next two quarters but the rate of increase will likely be more moderate.

Grade A rents in **Taipei** recorded a marginal increase during the quarter as landlords adopted a firm stance towards rental levels and offered fewer incentives. Demand is strengthening but can be largely met by existing stock. As no new Grade A buildings will come on stream over the next 12 months landlords of Grade A offices will remain bullish on asking rents as availability declines further.



The **Tokyo** office market gradually began to stabilise in May as relocation activity showed signs of picking up. Grade A rents in the Central Five Wards declined further as landlords compromised on pricing following the earthquake and tsunami which struck on March 11.

Tenants displayed a distinct preference for space in buildings with disaster prevention features. Most relocation decisions will be delayed until 2012 when the market will have a large amount of new supply. Over the next six months rents will likely remain on a mild downward trend and should bottom-out next year.

Landlords in **Seoul** reduced the level of incentives after substantial space was committed in new prime office buildings. Office face rents edged up 0.16% q-o-q led by escalation in Yeouido. Vacancy fell from 7.4% to 6% thanks to rapid flight-to-quality activity at substantial incentive levels, but is likely to increase later in the year as five new prime office buildings are completed.



In **Singapore** office leasing activity remained stable and in line with activity seen at the start of year. The frenetic leasing activity witnessed in 2010 is long gone, however. Both the professional and legal services sectors continued to expand during the quarter

whilst firms in the banking sector were looking for lower-cost options. Rental growth slowed to 2.3% q-o-q and is expected to moderate further as about 8.4 million sq. ft. of space will be completed between the second half of 2011 and 2015. Rising vacancy is therefore inevitable in the next six to 12 months.

Rents in **Kuala Lumpur** were largely unchanged but the period saw higher demand for upgrade or expansion space, particularly from the oil and gas sector. This will stabilise the market under the substantial new supply pipeline which is set to increase total stock in the city by 25% over the next five years.

**Bangkok** turned more active in the second quarter with clearer signs of expansion from existing tenants. Prime rents remained unchanged but some landlords turned more flexible as competition for tenants is set to intensify with the launch of two major buildings in the second half of the year.

Office rents in **Manila** continued to rise amid sustained demand for BPO and traditional space. The Zuellig Building is scheduled to be completed in the first quarter of next year and will ease supply pressure in Makati. However, rents are not expected to decline as the additional supply is of prime grade.

Business activity in **Jakarta** remained robust in the second quarter. The period saw Grade A office buildings in the CBD achieve their highest level of demand for the past 10 years under limited new supply and low vacancy.

Grade A office rents in **Ho Chi Minh City** continued to slide as landlords sought to achieve high occupancy amid the more challenging economic environment. Some projects may postpone their completion date if business sentiment remains weak, which could be an opportunity for Grade A rents to end their decline.

Prime rents in **Hanoi** fell as newly completed buildings lowered asking rents to attract tenants. Rents in established buildings remained stable while ample new supply in the West submarket provided tenants with greater bargaining power. Under the high supply pressure landlords are expected to offer more incentives to attract and retain tenants.



Rents in the **Delhi-NCR** began to accelerate in the key submarkets as corporate expansion activity gathered pace. Gurgaon remained the most active submarket as it provides a healthy range of choices for large occupiers in the IT sector. Rents are expected

to stay on an upward trend but the rate of growth may slow as tenants remain conscious about costs related to expansion and the market still has an overhang of vacant space.

The **Mumbai** office market improved over the quarter as the major submarkets either recorded a stable or minor uptick in rentals. Most submarkets recorded a decline in vacancy but the substantial volume of new completions in Lower Parel led to a vacancy rate of 40% in this submarket. Rents are expected to grow steadily under the pressure of substantial supply along with the stable rate of absorption.

Rents in **Bangalore** continued to rise at a brisk rate as the major office submarkets either experienced a lack of new supply or had already pre-leased most of their new space to large occupiers. Companies, predominantly those in the IT sector, are looking to expand their footprint over the next few quarters.



The **Sydney** CBD office market continued to strengthen in the second quarter as the volume of leasing enquiries and transactions rose. Prime net face rents in the overall CBD market increased by 4.7% driven by growth in the premium market

and a number of re-signed leases in the prime market. Across the precincts the Core has been the

main beneficiary of the rental increases as it has the most premium buildings. In the CBD South and Midtown sub-districts, prime net face rents remained stable over the second quarter.

Continuing strong demand for prime office accommodation in **Melbourne's** CBD led to prime rental growth in the second quarter as well as growth in secondary office rental levels. Vacancy levels in prime quality space are expected to be below 5% during the year whilst large contiguous options for tenants are already beginning to disappear. Demand is expected to continue to outstrip supply in the CBD until at least 2013, with focus remaining on the CBD's newest office precinct in the Docklands, which due to pre-commitment levels has a tight vacancy rate of 2.1%.

Despite the **Brisbane** CBD market tightening considerably due to an influx of demand and transactions from resource companies, prime rents and yields remained stable over the quarter. A pending spike in the supply pipeline in 2012 is no doubt a cause for concern amongst landlords. However, as net absorption is likely to remain strong, rental growth should resume over the next twelve months.

Prime office rents continued to grow in **Adelaide** throughout the quarter as a result of a tightening in vacancy. There are no new buildings forecast to complete in the Core during 2011, which combined with an anticipated increase in demand levels should see vacancy tighten prior to a number of completions causing an increase in backfill space in 2012/13.

Companies directly or indirectly associated with the mining and resources sector are leading the push for more office space in **Perth's** CBD. Rental levels rose and are forecast to continue to rise at a modest level as the year progresses. It remains to be seen whether tenant demand is strong enough to take up the backfill space in vacated lower grade buildings.

The **Canberra** office market continued to suffer from poor sentiment as the government, which is the main occupier in the market, remained inactive over the first half of the year. Prime rents remained stable while lower grade accommodation and those in non-city locations continued to decline.

Prime rents in **Auckland** remained unchanged but improved business conditions and falling office vacancy encouraged landlords to reduce incentives on offer. Overall vacancy is declining, particularly in prime areas where growing occupier preference is focused.

Prime net effective rents in **Wellington** softened to NZ\$287 per sq. m. per annum in the second quarter following three consecutive quarters of stability. Secondary rents were under greater downward pressure as tenants either relocated to newer buildings, downsized or retrenched to Auckland.

## MARKET OUTLOOK

Business confidence in the region remains largely positive and companies continue to take on new staff. However, the outlook for the regional economy continues to be overshadowed by the deteriorating economic situation in the United States and the Eurozone. Whilst economists expect Asia Pacific to record more rapid economic growth in 2012, this will be largely dependent on the revival of activity in regional laggards such as Japan and New Zealand. Major export-oriented and resources-led economies may be more vulnerable to the future weakening of global demand, should such a scenario occur.

Corporate expansion and rental escalation will continue to characterise the Asia Pacific office market in the second half of the year. Performance will vary from market to market depending on the local supply situation and demand momentum. China and India are likely to continue to see the strongest expansionary demand, which will be seen across multiple sectors.

In China, international companies will face increasing competition for prime space from domestic enterprises. While Shanghai and Guangzhou will see the completion of a sizeable quantum of new space to meet demand, Beijing only has one project in a core area scheduled to come on stream in the second half of the year, and rental growth in this market is therefore expected to pick up speed.

In India, the IT sector will continue to drive demand and is expected to support rental growth in forthcoming quarters. While oversupply pressures will hinder rental growth in certain areas of New Delhi and Mumbai, Bangalore might witness limited supply addition in the coming few quarters.

Hong Kong and Singapore are expected to see rental growth moderate over the second half of the year as

tenants opt to lease space in more cost effective buildings in decentralised locations, a trend which is resulting in landlords lowering their rental expectations. In Singapore, vacancy levels will inevitably rise over the next six to 12 months as new supply comes on-stream and second-hand space returns to the market.

Tokyo, Hanoi and Ho Chi Minh City are the few markets which remain on the rental downtrend, whilst supply pressures will continue to impact the prime office market in Seoul. The downward rental cycle is expected to persist in Tokyo for the next few quarters although the pace of decline will begin to moderate. There have been a few cases of companies relocating to Grade A buildings by accepting higher occupancy costs but there has been no notable increase in tenant movement.

Demand in Australia remains dependent on the rebound in the resources sector. Supply is likely to remain below historical averages over the next few quarters although demand is forecast to weaken from 2013 onwards as the economy begins to reach capacity constraints. Rents in the Pacific began to recover during the first half of 2011 with prime space highly sought after as vacancy rates begin to decline in most cities.

Sustained economic growth through the second half of 2011 and into 2012 is expected to drive rents in the short term in Asia. Flatter rental growth and the release of a large quantum of new space in multiple cities means tenants will enjoy more options and be in a stronger position to negotiate, factors which should result in the brisk absorption of office space in the months ahead.

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