Steady flight to quality demand ensures solid quarter for regional office leasing activity

Key Trends

- The **Greater Seoul** office market remains in favour of landlords amid strong demand and tight availability. Leasing volume remains consistent compared to last year, with steady activity observed across the CBD, GBD, and YBD. Activity has been particularly robust in emerging business districts.
- Broader office market sentiment in **Hong Kong SAR** remains downbeat but prime areas continue to attract solid demand. Flight-to-quality remains a key driver for relocations as tenants upgrade to premium buildings. Most such activity in Greater Central involves relocations and upgrading within the same submarket.
- In Indonesia, broad-based demand is underpinning steady leasing momentum in **Jakarta** as top end of the market continues to stabilise. Cost saving upgrading is the main driver of leasing activity, with tenancies smaller than 1,000 sq. m. most common. With the availability of competitive rents in the Golden Triangle CBD having narrowed the gap between CBD and non-CBD areas, some occupiers are deciding to move to more central locations.

> "Asia Pacific office markets are at different points in the rental cycle. Korea's growth is easing from a high base; the decline in Hong Kong SAR core submarket rents is narrowing; and rents in Jakarta have bottomed-out."

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Market remains in favour of landlords amid strong demand and tight availability

STATE OF THE MARKET

- After surging in recent years, rental growth has been limited this year as tenants can no longer afford elevated rental levels.
- Overall rent-free periods have started to rise due to the significant supply expected to come to market in 2028, coupled with weak leasing sentiment amid the subdued domestic economy.

TRANSACTION ACTIVITY

- Leasing volume remains consistent compared to last year, with steady activity observed across the CBD, GBD, and YBD. Activity has been particularly robust in emerging business districts such as Magok, primarily driven by the influx of large companies, including a major construction firm.
- Leasing is mostly domestic driven, with multinationals accounting for just 20% of volume.
- Some financial and insurance firms are considering upgrading relocations, especially in the GBD, after downsizing during the pandemic.

EMERGING TRENDS

- The substantial volume of new office supply scheduled to come on stream in 2028 is prompting some domestic investors to reduce their office exposure, leading to an increase in assets for sale.
- Interest in sustainability-related features among domestic companies is limited, with local firms preferring to prioritise building image, grade, and accessibility, In contrast, international companies are seeking sustainable features such as green disclosures and green lease agreements due to global mandates.

OUTLOOK

- To prepare for the large amount of supply expected in 2028, landlords—especially owners of Grade B and C buildings—should seek to attract and retain tenants by offering longer rent-free periods or tenant improvement allowances.
- Occupiers should plan ahead to secure attractive terms as rents are expected to increase until supply starts to rise again in 2028.

SIX-MONTH OUTLOOK

RENT SUPPLY VACANCY

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Broader office market sentiment remains downbeat but prime areas continue to attract solid demand

SIX-MONTH OUTLOOK

RENT	SUPPLY	VACANCY
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STATE OF THE MARKET

– Flight-to-quality remains a key driver for relocations as tenants upgrade to premium buildings. Most such activity in Greater Central involves relocations and upgrading within the same submarket.

– Greater Central continues to witness strengthening demand, with brisk leasing momentum supported by renewed activity in the finance sector and a strong IPO pipeline.

– Decentralised submarkets such as Hong Kong East and Kowloon East continue to face headwinds amid weaker demand and higher vacancy, reflecting a bifurcated market. Broader market activity is largely led by existing tenants consolidating or relocating, rather than net new demand.

TRANSACTION ACTIVITY

– Leasing is predominately being driven by the finance and insurance sectors. Highlights include a trading firm securing a landmark pre-leasing deal in a future development along Central harbourfront, signalling continued demand for prime core office space.

– Decentralised areas are attracting upgrading demand. During the quarter, an insurance firm expanded its footprint in Hong Kong East, while a major mainland Chinese bank relocated and consolidated to a new office building in Kowloon East.

EMERGING TRENDS

– Landlords in decentralised areas are adopting a more flexible attitude towards lease terms to attract relocation demand, signalling intensifying competition. The rental gap between submarkets outside of Greater Central is diminishing.

– Educational institutions are leasing commercial space. Examples include an international school taking an office in Kowloon East.

OUTLOOK

– As vacancy in Greater Central begins to stabilise and rents become less volatile, occupiers targeting core premium space must act decisively as delaying decisions may lead to missed opportunities.

– Landlords of properties in non-core submarkets competing for tenants should consider asset enhancement initiatives or provide incentives such as fitout packages and CapEx subsidies rentalised into tenants' lease terms.

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Broad-based demand underpins steady leasing momentum as top end of the market continues to stabilise

STATE OF THE MARKET

- Occupancy and rents in premium grade buildings continue to find an equilibrium, with landlords able to raise or at least maintain current rental levels and provide shorter rent-free periods compared to two to three years ago.
- Cost saving upgrading is the main driver of leasing activity, with tenancies smaller than 1,000 sq. m. most common.

TRANSACTION ACTIVITY

- Demand from new-to-market mainland Chinese companies is steady, with such firms typically leasing first and then purchasing strata title office space once their business has stabilised.
- With the availability of competitive rents in the Golden Triangle CBD having narrowed the gap between CBD and non-CBD areas, some occupiers are deciding to move to more central locations.
- The increasing return-to-office trend and occupiers' preference for fully fitted space is spurring expansion by local co-working space operators through revenue sharing models with landlords.

EMERGING TRENDS

- ESG is a priority for multinationals, with some firms including green clauses in lease terms. However, the green rental premium is limited as Jakarta remains a tenant's market.
- To address vacant space and boost competitiveness, some landlords are adding meeting rooms and wellness space in empty office units as a shared service for tenants.

OUTLOOK

- Landlords of older buildings are recommended to refurbish common areas and add F&B to ensure their properties stay competitive. With cost top of mind for occupiers, owners may also consider providing incentives such as CapEx or fully fitted space.
- Large occupiers seeking high quality space are advised to plan well ahead as vacant units in premium buildings are starting to be filled and supply is limited in the near term.

SIX-MONTH OUTLOOK

RENT	SUPPLY	VACANCY
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