For Immediate Release

Landlords’ market as industrial rental growth continues

Rental growth follows some lacklustre years but is likely to slow as the effects of the pandemic stabilize, says Cushman & Wakefield.

ASIA PACIFIC, September 28, 2022 – Landlords have the upper hand in Asia Pacific’s industrial real estate market as low vacancy rates and a lack of supply lead to rent increases for tenants.

Over 55% (19) of Asia Pacific markets analysed by Cushman & Wakefield are considered landlord-favourable and only 5% (2) favour the tenant, with the remaining 40% (11) (mainly in India) are considered neutral. In contrast, just 15% of CBD office markets are considered landlord favourable.

Extremely tight vacancy rates are driving some of the rent increase. Logistics space in Shenzhen, Hangzhou and Suzhou have all recorded vacancy rates of around 5 percent, while warehouse space in Hong Kong is approximately 1 percent vacant. Australia’s industrial sub-markets along the eastern seaboard are recording vacancy rates in very low single digits and Tokyo is still seeing vacancy rates of less than 2 percent for large-scale logistics space – a marginal softening from early 2021 when they were practically zero.

In emerging markets like Delhi and Vietnam, demand for high quality assets has outstripped supply in prime locations.

While rental growth is generally strengthening across the region, there is variation at the sub-regional level. The greatest rental pressure is seen in Australia’s eastern seaboard markets, led by Sydney at 24% y-o-y with Brisbane and Melbourne at 13% and 11% respectively. Strong growth ranging from 5% to 20% y-o-y has also been evidenced in Hanoi, Bengaluru, Hyderabad, Singapore and Hong Kong.

Head of Insight and Analysis, Asia Pacific at Cushman & Wakefield Dr Dominic Brown said, “Rental growth is regaining momentum in the region following a lull in the early months of the pandemic. That pressure is greatest in markets that are experiencing constraints in new supply and therefore unable to meet occupier demand.”

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Dr Brown said the strong occupier demand had caught the eye of investors and led to record transaction volume into the sector in 2021, although a lack of stock and a more volatile macroeconomic outlook had slowed purchasing activity in 2022.

Head of Asia Pacific Investor Services and Logistics & Industrial at Cushman & Wakefield Dennis Yeo said that rents were likely to stay high for as long as demand outstripped supply, but that these dynamics would begin to soften in the coming years.

“Last year we saw supply chain issues, COVID-19 lockdowns and limited construction because of movement restrictions. The consequences are acute now but as economies open up, the demand for e-commerce and storage slows and new construction resumes to address the supply side, then the pressure will ease.

“Landlords who want to see rental improvements beyond this time must continue to invest in productivity and efficiency.”

And he said that while tenants were feeling the pinch of higher rents amid short supply, ultimately it was the consumers who would pay.

“Yes, the occupiers are being squeezed at the moment, but ultimately it is the consumer who bears the brunt of inflation as it is passed along the supply chain.”

Tracking rental growth in Asia Pacific 2018-2022 (see figure next page)

- Prior to the pandemic, rental growth across a selection of the region’s Tier 1 and Tier 2 markets averaged 4.5%
- Through 2020 and 2021 rents in most markets were either stable or declined
- In late 2021 more markets registered q-o-q rental growth
- By Q2 2022, 75% of the markets analysed recorded positive growth
- Average annual rental growth improved from a low of 1% in Q2 2021 to almost 6% in Q2 2022
- It should be noted that this is far below the U.S. average of 19%

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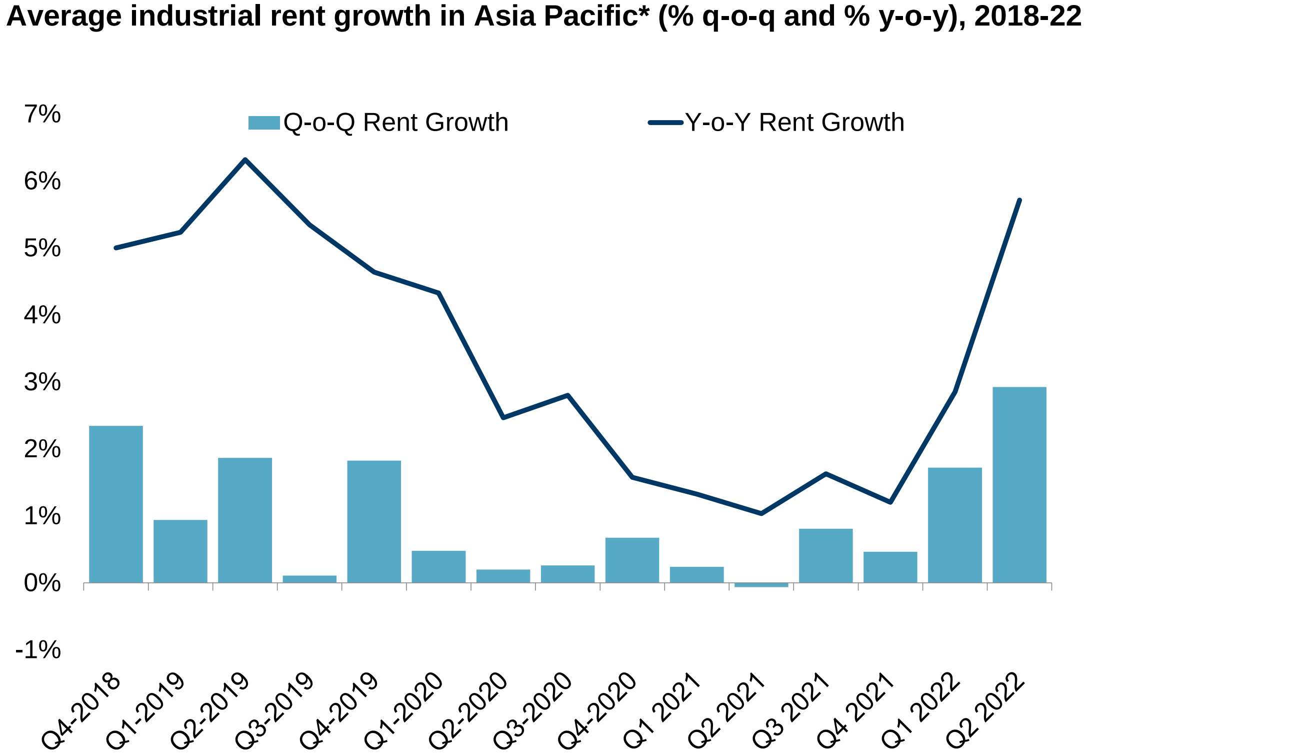

Comprises 22 Tier 1 & 2 markets across Asia Pacific | Source: Moody's; Cushman & Wakefield

Read more in APAC Logistics & Industrial: Changing trajectories as investment cools and rents soar

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