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India helps drive pre-pandemic levels of office demand, but regional vacancy ticks higher: 2024 Office Outlook

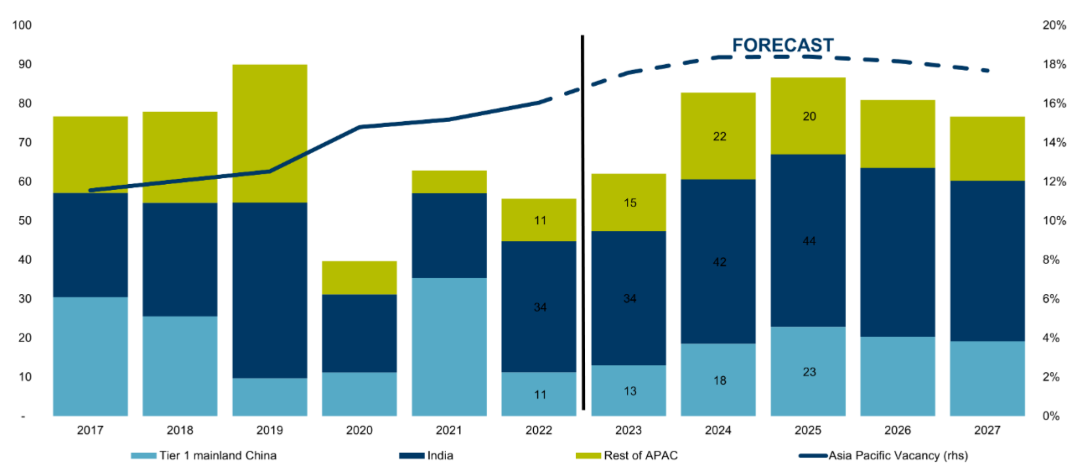
SINGAPORE, December 14, 2023 – Demand for Grade A offices is forecast to return to pre-pandemic levels in 2024, but record levels of new supply will cause vacancy rates to also tick upwards, according to Cushman & Wakefield.

The global real estate services company [NYSE: CWK] said in its [2024 Asia Pacific Office Outlook] that the top eight Indian real estate cities were expected to cumulatively account for just over half of the region's total demand. The combined demand forecast for Ahmedabad, Bengaluru, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune is around 40 million square feet (msf), which is equivalent to around 52 percent of regional demand.

Mainland China's four key office cities—Beijing, Shanghai, Guangzhou and Shenzhen—were also expected to continue a gentle recovery, with demand of 18 msf forecast for 2024, up from the 13 msf expected by this year-end.

Southeast Asia markets would also contribute to regional topline demand, with Kuala Lumpur and Manila office markets in particular likely to benefit from their countries' expansive economic growth outlooks, and Singapore likely to remain a steady performer.

Figure 1: Regional annual grade A office net absorption (msf) and vacancy rate by broad geography*

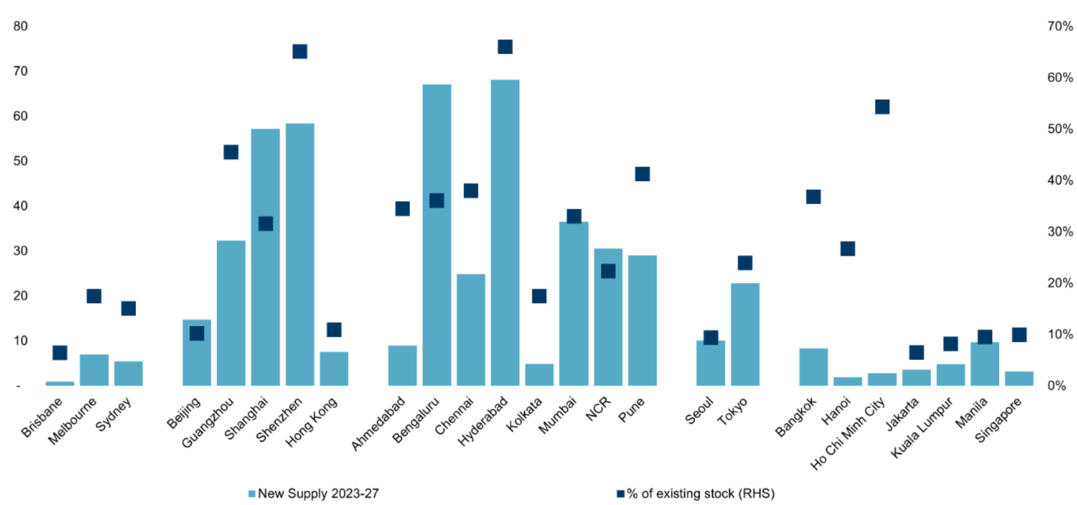


MEDIA CONTACT: Amy Kelly | Associate Director Public Relations | +65 8725 0663 | amy.kelly@cushwake.com

Tier 1 mainland China: Beijing, Guangzhou, Shanghai, Shenzhen; India: Ahmedabad, Bengaluru, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai, Pune; Rest of APAC: Bangkok, Brisbane, Hanoi, Ho Chi Minh City, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Seoul, Singapore, Sydney, Tokyo.

Despite improvements in demand, approximately half of the 25 markets forecast will see vacancy rates increase between 2023 and 2027. The largest vacancy rate increases are forecast for Guangzhou (to almost 30% by 2027 from 20% in 2023) and Shenzhen (to almost 35% by 2027 from 27% in 2023). Hyderabad, Kuala Lumpur and Bangkok are also forecast to exceed vacancy rates of 25% by 2027. Singapore and Seoul are both expected to retain vacancy rates below 5% while Tokyo and Manila are forecast below 7% through 2027. Key Australian markets are likely to remain stable at around 10%.

Figure 2: New supply in 2023-27* (msf) and as a percentage of existing stock in 2023



Forecast author and Head of International Research for Asia Pacific Dr Dominic Brown said it was unsurprising that the region's largest office markets would continue to drive both demand and supply in 2024.

"Asia Pacific has entered into a period of above average new supply, which is expected to continue through to 2025 before starting to ease. Sixteen of the 25 markets forecast will see more supply in the 2023–25 period than in 2017–19 as pandemic-delayed construction projects continue to enter the market."

CUSHMAN & WAKEFIELD

Figure 3: Forecast indicators for key Asia Pacific office cities

Stock		Vacancy	
2023	**2027**	**2023**	**2027**
1.86 msf	2.27 msf	17.6%	17.7%

Hyderabad and Bengaluru in India, and Shanghai and Shenzhen in China are all expecting more than 55 msf of new supply by 2027 – additions of between 32% and 66% of their existing stock, with Hyderabad expecting a record 15.6 million square feet (msf) in 2024. Shenzhen, Hyderabad and Ho Chi Minh City in Vietnam each expect to welcome more than fifty percent of their existing office stock in 2024.

In contrast, supply pipelines through to 2027 in each of Brisbane, Jakarta, Seoul and Singapore total less than 10% of their existing stock.

At a sub-regional level, Australian markets led rental growth in 2023 and are expected to continue showing the strongest growth through 2027, averaging between 4% and 7% per annum. Singapore can also expect growth of around 4% from 2025, driven by strong demand and limited supply; rental growth elsewhere in the region will remain more muted.

Dr Brown said: “The combined effect of improving demand and strong new supply pipelines means there will be comparatively little upward pressure on near-term rental growth at the aggregate level. This is not universally true at the local level, where higher-quality stock can out-perform the wider market and poorly located, lower-quality buildings will remain under significant pressure.”

He said there was reason for ‘cautious optimism’ in the office market despite the global economic uncertainty that was likely to continue into 2024.

“There remain opportunities for both occupiers and investors who understand the nuances of local sub-markets. The ongoing flight to quality by tenants looking to improve their ESG and wellness offerings to employees will continue to encourage supply-led demand across the region while investors who understand true, rather than headline vacancy rates, and who seek out either high-quality assets, or assets with repositioning potential in good areas, will reap the benefits.”

Economic context

Dr Brown added: “Inflation, while improved, remains elevated in most economies across Asia Pacific. Trade has slowed as businesses and households alike have reined in expenditure in response to interest rate increases.

“On the positive side, growth of between 3.5 and 4.0 percent is forecast for Asia Pacific in 2024, which, while slower than the 4.5 percent forecast for this year, is stronger than both the eurozone, where growth of 0.9 percent is forecast next year, and the US, which is expecting -0.3 percent."

Within Asia Pacific, growth forecasts are varied. Emerging markets Vietnam, the Philippines, India and Malaysia are likely to benefit from strong domestic consumption and increasing foreign direct investment, while a potential rebound in tourism, which remains 25 percent below pre-pandemic levels in Asia Pacific, could support growth in Thailand in 2024.

Among the more mature economies, Singapore and South Korea are expected to see the beginning of a rebound as trade starts to recover; Australia and Japan are likely to trail the region's growth expectations. China's outlook, impacted by weaker export demand and soft domestic consumption, remains mixed.

Notes to editors*:*

- *Forecasts cover stock that is either Grade A or higher in 25 cities across 11 Asia Pacific markets: Australia's Brisbane, Melbourne, Sydney; Greater China's Beijing, Guangzhou, Hong Kong, Shanghai, Shenzhen; Indonesia's Jakarta; India's Ahmedabad, Bengaluru, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai, Pune; Japan's Tokyo, Malaysia's Kuala Lumpur, Philippines' Manila, Singapore; South Korea's Seoul; Thailand's Bangkok; Vietnam's Hanoi and Ho Chi Minh City.*
- *The 2024 Asia Pacific Office Outlook is available online here.*
- *A PDF version of the data for each city is available on request or you can view the flipping book.*
- *This press release is available on the Cushman & Wakefield website here*

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MEDIA CONTACT: Amy Kelly | Associate Director Public Relations | +65 8725 0663 | amy.kelly@cushwake.com