CUSHMAN & WAKEFIELD

APAC MACRO OUTLOOK

RESILIENT GROWTH AMID ECONOMIC UNCERTAINTY

MIDYEAR 2024

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KEY TAKEAWAYS

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KEY TAKEAWAYS

ECONOMY

Robust regional economic growth led by emerging markets in 2024 before growth is forecast to normalise the year after, while current slow growth in advanced economies is expected to accelerate through 2025.

CAPITAL MARKETS

Transaction volumes have likely found nadir across most sectors as investors gain greater conviction that interest rates cuts are on their way. Expect activity to improve over H2 2024 before accelerating more meaningfully through 2025.

OFFICE

The region continues to demand more office space, with India forecast to lead regional demand over the near- to medium-term resulting in average regional demand of approximately 80msf per annum. However, vacancy will tick up as new supply continues to enter the market, suppressing stronger rental growth.

INDUSTRIAL

Overall, industrial remains a strong growth sector but performance will be bifurcated across the region reflecting local supply and demand dynamics. Expect ongoing evolution in the location and specialisation of the region's manufacturing hubs.

RETAIL

Underlying population growth and a rising middle class will continue to fuel retail growth, especially in emerging markets. The near-term outlook appears K-shaped, with greater performance in non-discretionary and luxury goods, while discretionary retail is likely to under-perform.

ALTERNATIVES

Secular demand drivers continue to favour most alternatives, especially those with residential underpinnings and data centres.

CUSHMAN & WAKEFIELD RESEARCH

APAC MACRO OUTLOOK

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ECONOMY

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A BIFURCATED REGIONAL ECONOMY

Robust regional growth but with differing near-term growth trajectories

What We Are Seeing

- In line with the slowing global economy, economic growth in Asia Pacific has decelerated in 2024 to record estimated real average annual GDP growth of 4.1% at the end of the second quarter.
- The regional growth figure hides considerable variation in growth trajectories at the local level. In broad terms there is a bifurcation between slow-to-anaemic growth in the region's advanced economies and much stronger growth in emerging markets.
- India, Vietnam, Indonesia and the Philippines are experiencing strongest growth, fuelled by robust domestic consumption, near record levels of foreign direct investment and ongoing infrastructure investment. India is currently the fastest growing major economy at approximately 7.5% y-o-y.
- The labour market remains a source of almost universal strength, with practically every economy experiencing unemployment levels below their respective longer-term averages.

Outlook

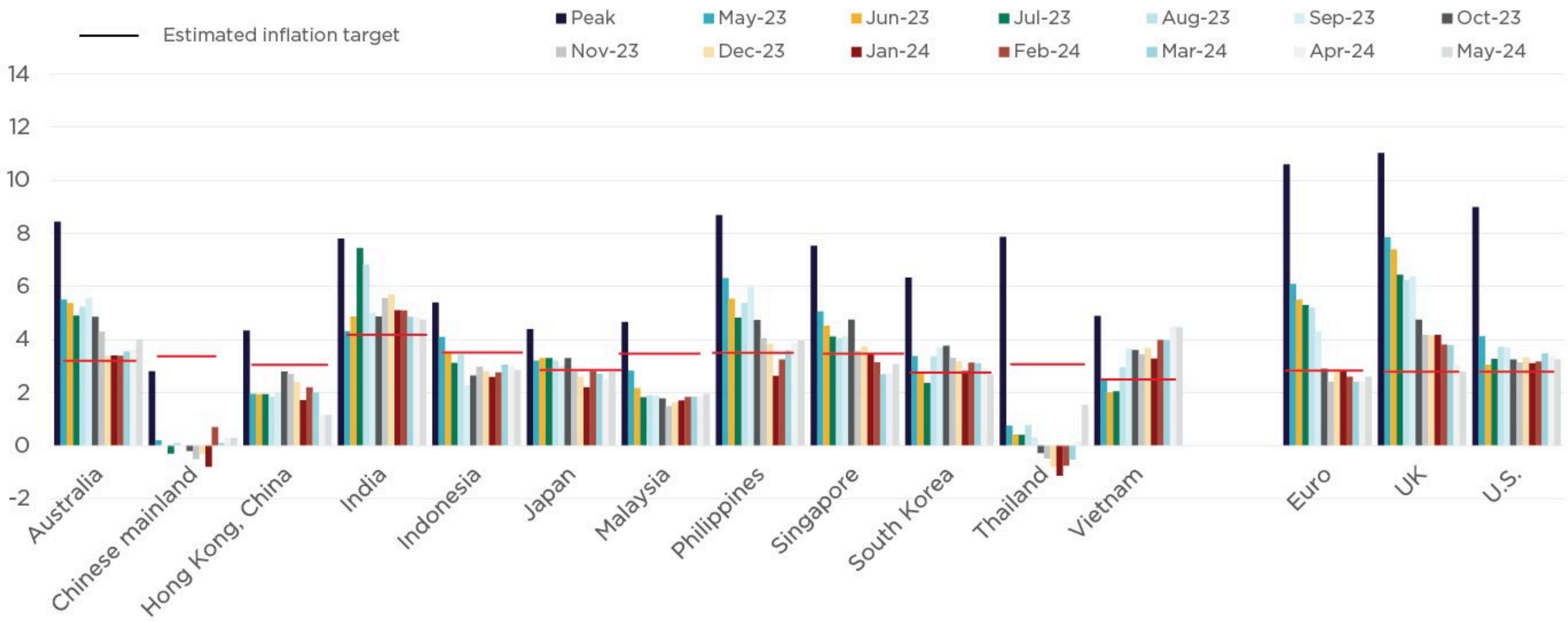
- Regional growth is forecast to stabilise around 4% over H2 2024 and through 2025-26. While this is little changed from current levels, it is reflective of normalising growth in emerging markets and recovery in advanced economies.
- At approximately 50% of regional GDP, forecast sub-trend growth in the Chinese mainland will act as a headwind to stronger regional growth. As issues around the residential real estate market and domestic consumption are resolved this should provide some upside risk to both local and regional economic growth.
- Many central banks will pivot as inflation returns to target levels, though the pace and magnitude of cuts will vary reflecting the pace of decline in "last mile inflation", foreign exchange implications and local wage price pressures. Expect the Bank of Korea, as one of the first banks to raise rates globally, to be amongst the first to cut in the region. In contrast the Bank of Japan, having recently moved from its negative interest rate policy, needs to manage the weak yen versus weak domestic consumption.
- Labour markets are forecast to soften marginally over the remainder of the year, before stabilising into 2025. However, this modest rise in unemployment is more reflective of growing labour forces rather than a contraction in employment levels.

APAC	2022	2023	2024	2025	2026
Real GDP	3.3%	4.3%	3.9%	3.9%	3.9%
CPI Inflation	3.9%	1.9%	2.3%	2.4%	2.5%
Unemployment Rate	5.8%	4.6%	4.7%	4.8%	4.7%
Job Growth, mils	19.3	32.1	9.7	12.9	14.9
Office Job Growth, mils	3.6	5.4	3.0	3.3	3.9

Source: Moody's Analytics; Cushman & Wakefield Research

INFLATION TRAJECTORIES DIFFER WIDELY

CPI growth (% y-o-y)



Source: Moody's Analytics; Cushman & Wakefield Research

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CAPITAL MARKETS

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CAPITAL MARKETS

Rolling annual investment volumes to move higher from H2 2024

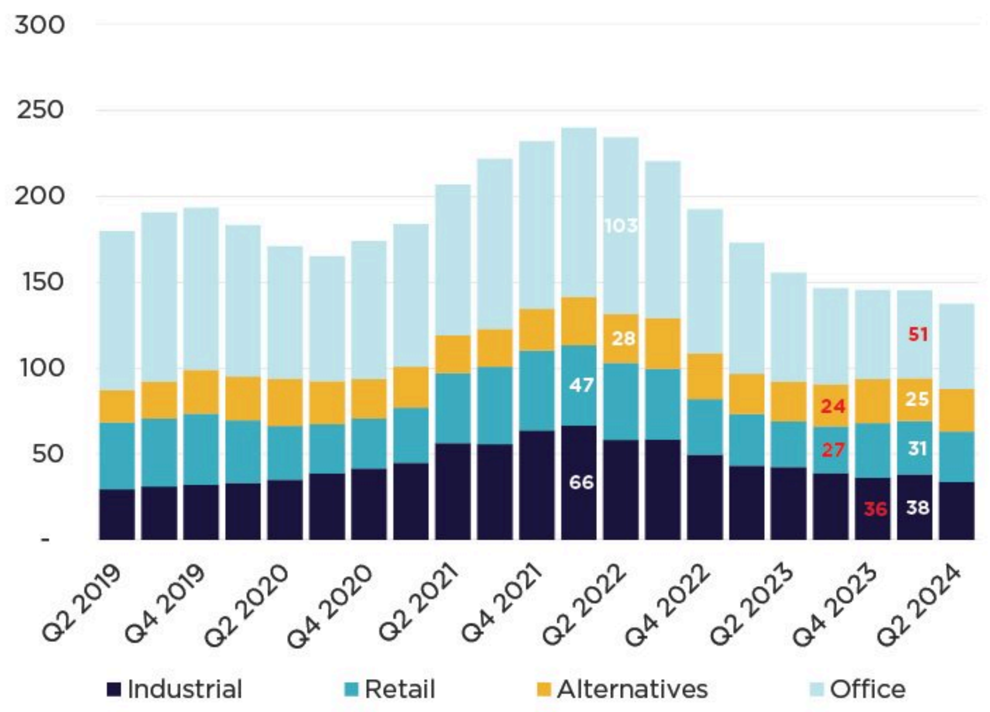
Economic Drivers

- Having seen the Bank of Canada and the European Central Bank both cut interest rates by 25 bps late in H1 2024, the focus turns to when banks in Asia Pacific will start following suit.
- While core inflation is one aspect to consider in interest rate movements, foreign exchange rate movements are also under scrutiny. For this reason, markets with significant USD debt or foreign exchange exposure will lag the US Federal Reserve in their rate cutting cycle.
- Interest rate cuts will relieve pressure on bond yields, which are forecast to trend down gradually over the next two years for those markets participating in the cutting cycle. However, they are not expected to return to the lows seen over the previous decade due to higher prevailing benchmark policy rates.

Outlook

- Rolling annual investment volumes have now stabilised across most commercial real estate sectors and in some cases have moderately increased.
- Investment volumes are expected to continue to recover, with investors targeting sectors and markets with strong income growth. This will favour logistics and industrial assets as well as key alternatives assets including data centres and selective “living” assets. Retail assets are also expected to attract greater investor interest.
- Outside of Hong Kong, China and Australia, which have seen the most significant price declines, there has been limited evidence of repricing across the rest of the region. Consequently, there is limited scope for price growth in the near-term. Indeed, as transactional markets become more active, this could prove the catalyst for further price discovery in markets with weaker outlooks.
- Significant dry powder capital is still waiting to be deployed – some USD70bn as at Q1 2024, with nearly two-thirds targeting debt, opportunistic and value-add assets. A key component of the outlook remains in marrying available capital to appropriate investment opportunities.

Rolling annual investment volume (USDbn) by sector



Source: MSCI-RCA: Cushman and Wakefield (red denotes lowest annual volume) Q2 2024 preliminary data subject to upward revision

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OFFICE

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OFFICE

India to remain the market leader in office demand

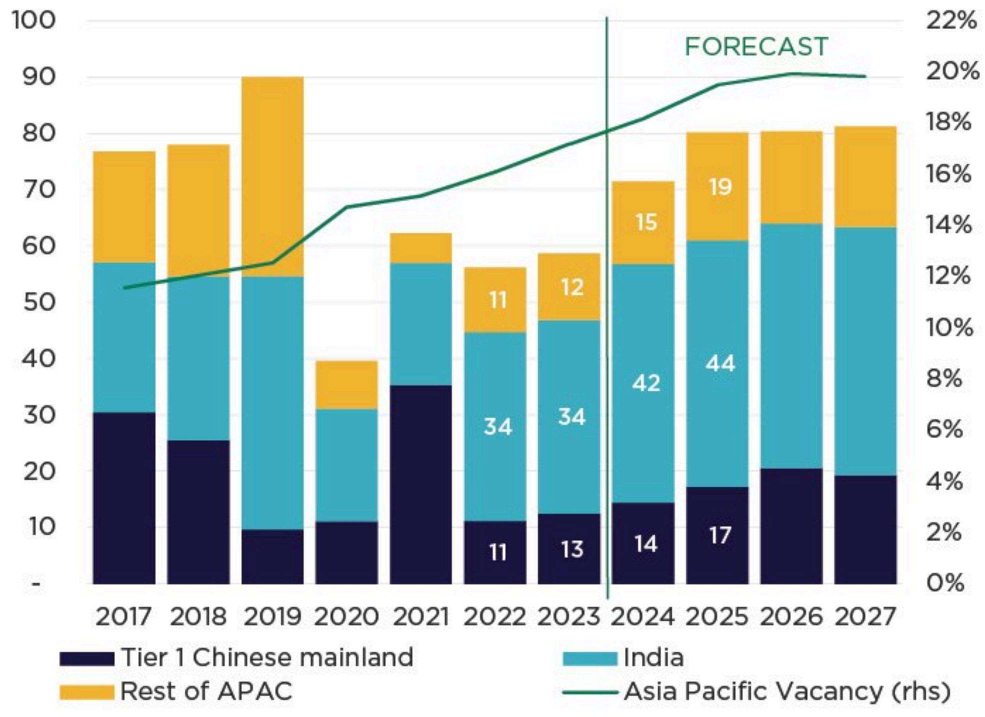
Economic Drivers

- Positive economic growth continues to support office demand across most of the region, with India's globally-leading economic growth reflected in strong net absorption.
- Regional office job creation has slowed through 2024, but remains firmly in positive territory with forecast growth of 3 million office jobs in 2024 before accelerating to almost 4 million jobs in 2026.
- As the largest markets in the region, India and the Chinese mainland account for 76% of jobs growth in 2024-26. In relative terms office jobs growth in Indonesia, Vietnam and Philippines are forecast to exceed longer-term growth trends seen over the past decade. Stable, positive growth is forecast over the region's mature markets.

Outlook

- India has led the region, and arguably the world, in office demand over the past 18 months, recording over 62 million square feet (msf) of net absorption. This has accounted for 62% of the regional total. This trend is forecast to continue with the region's top 25 cities recording cumulative net absorption of 78 msf per annum in 2024-27, with India accounting for 55% of the total.
- Near-term supply of 215 msf (2024-26) continues to exceed demand, which is forecast to push vacancy up to almost 20% at peak in 2026, at which point it stabilises. Vacancy increases are most noticeable in Guangzhou, Shenzhen and Hyderabad, while Jakarta and Manila are expected to experience strong tightening.
- In line with this, rent growth pressures are expected to increase over the forecast horizon. Strong growth is forecast in Brisbane, Sydney and Singapore with more modest growth In India, Seoul and Tokyo. Softening rents are forecast in Greater China over the near term before returning to growth later in the forecast horizon.
- Tenants, especially in more mature markets, remain selective in their office accommodation, targeting high quality buildings in locations with access to transport infrastructure and local amenity. Landlords choosing to undertake capital works to reposition their assets are also seeing positive leasing results, with smaller tenants in markets such as Tokyo, Singapore, and Australia especially, favouring turn-key solutions through fitted out suites.

Regional office demand (msf) and vacancy



Source: Cushman & Wakefield Research

INDUSTRIAL

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INDUSTRIAL

New supply to ease tight conditions, though landlords to retain upper hand in most markets

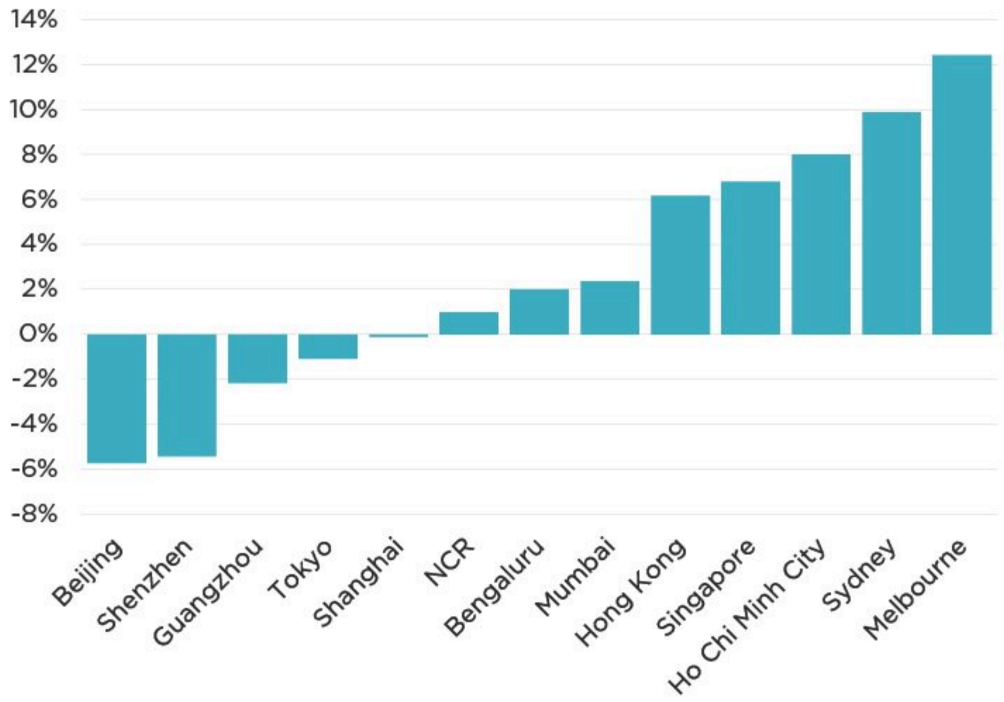
Economic Drivers

- Slowing global growth has limited demand for goods produced in Asia Pacific, with regional export growth turning negative during 2023. However, the worst is now behind as regional exports are forecast to grow by around 5% per annum over the next two years.
- After retreating in 2023, warehousing job growth is forecast to recover the losses in 2024 with further expansion in 2025 and 2026. Over the 2024-26 period a total of almost 1.9 million warehousing jobs are forecast to be created, with India and Southeast Asian markets being the primary growth markets.
- Ongoing population growth and a growing middle class is driving consumption growth in the region. The value of goods manufactured and consumed within Asia Pacific has grown from USD800bn in 2000 to over USD4tn in 2023, representing about half of all regional exports.
- Further support for the logistics and industrial sector is being provided by e-commerce, in which Asia Pacific is the largest market. Globally, the sector is forecast to grow a further USD1.6tn in 2024-26.

Outlook

- The industrial landscape continues to evolve across Asia Pacific. The Chinese mainland has moved up the value chain to produce higher-order goods, such as photovoltaic panels, electric vehicles and batteries. At the same time manufacturers are expanding operations into India and Southeast Asia to capitalise on large, low-cost labour pools and good geographical connectivity.
- Strong demand for space is driving landlord-friendly conditions across much of the region as occupiers compete for limited space. The issue is most acute in Australia, where national vacancy sits at just 2.0% and as tight as 1.3% in Sydney. Similarly, there are limited vacancies in Tokyo and Seoul, though all markets are expected to receive an injection of new supply over the next 1-2 years.
- Economic headwinds in the Chinese mainland have dampened demand for space, which together with recent additions of new supply, especially in Tier 2 and Tier 3 cities, has pushed vacancy levels to 14% nationally.
- Rent growth reflects these trends with the strongest growth seen in Australia and Vietnam. As new supply comes to market, rental growth pressures are expected to ease, though conditions are expected to remain landlord-favourable over the near term.

Industrial rent growth for select markets (% y-o-y)



Source: Cushman & Wakefield Research

RETAIL

RETAIL

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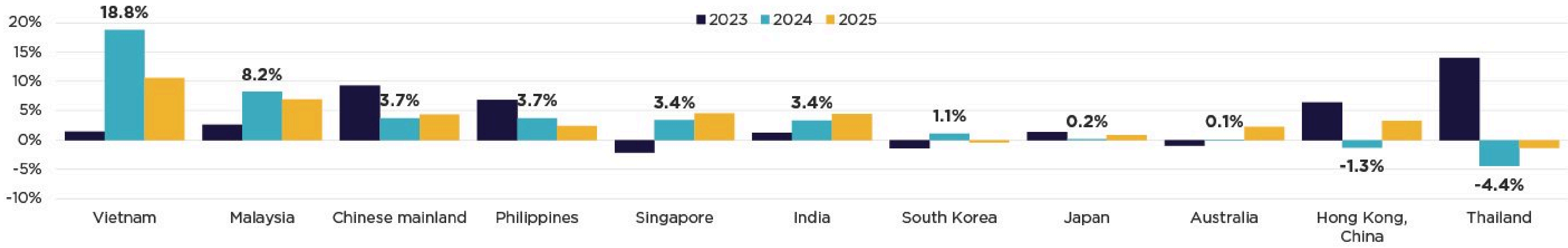
RETAIL

Suppressed consumption growth through to 2025

Economic Drivers

- Overall consumption growth has slowed and remains muted in most mature markets.
- Cost of living pressures have challenged consumer sentiment, which remains negative in many markets. Consumers have shifted their purchasing decisions with a greater focus now on non-discretionary items.
- However, luxury retail continues to gain momentum as its resale price growth continues to increase, outpacing the cyclical inflation.

Nominal retail sales growth (% y-o-y)



Source: Moody's Analytics; Cushman & Wakefield Research

Outlook

- The retail landscape across the region is expected to remain diverse and dependent on the market, geographical location and retail sector. Structurally, ongoing growth in E-commerce will continue as more retailers expand their online platforms. While E-commerce in the Chinese mainland is globally leading, penetration rates across many other markets in Asia Pacific remains comparatively low by global standards and so has potential to lift further.
- In the near term, assets focusing on non-discretionary expenditure are likely to outperform as households continue to focus on cost of living issues. Accordingly, neighbourhood shopping centres, especially those with strong catchment fundamentals and positive rental reversion, will be targeted by investors. In some markets, such as Australia, yields have already started to moderately recompress, reversing trends evident over the past several years.
- The luxury retail is forecast to perform strongly. The sector has several underlying drivers supporting growth. These include favourable demographic tailwinds of increasing population size and rising middle class wealth. In addition, tourism continues to recover, with softer local currencies supporting inbound international tourism from other regions. These trends together with comparatively low vacancy levels should support prime high street rent growth, not least as Asia Pacific markets remain favourably priced compared to other global, super prime retail streets.

ALTERNATIVES

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Demographics, R&D and technology drive secular demand

Living Sector

- The build-to-rent / multifamily sector in Asia Pacific, outside of Japan, remains nascent but is growing quickly in response to both cyclical and structural drivers. Near universal high costs to purchase residential dwellings is fuelling the need for more rental stock across the region.
- In some markets, such as Australia, this is exacerbated by record levels of net immigration. Similarly, Hong Kong, China has seen recent strong growth in inbound movement of students and professionals.
- In the region's most mature market, Japan, high occupancy rates continue to support the sector; especially in Tokyo where an undersupply of serviced apartments and purpose-built houses remains an issue.
- One of the main headwinds to the sector is the current high cost of construction. Although raw material prices are off their peak, they remain elevated while labour costs are still rising. This is likely to keep most markets in a state of undersupply in the near-term, which will support rental growth.
- Long-term, the drivers for a greater amount of housing look almost assured as the region experiences a mix of population growth, increasing student numbers and population ageing, giving rise to the need for more diverse housing options to meet these differing needs.

Data Centres

- The operational capacity of Asia Pacific's data centre markets has now surpassed 10GW, with a further 3.9GW under construction and an additional 9.4GW in planning. Such numbers underscore the rapid growth of the sector within the region.
- While the Chinese mainland, Japan, Australia and India are the region's largest markets at over 1GW each, the fastest expansion is being seen in emerging markets, especially Malaysia which is forecast to experience 600% growth over the next five years. In terms of absolute capacity growth, more than 50% of current under-construction activity is in the Chinese mainland and India.
- Despite such rapid growth, in relative terms Asia Pacific remains under-served given current total capacity is comparable to that of the U.S. though have a 10-times greater population base, suggesting headroom for further expansion.
- Further sectoral tailwinds will come from the growth of AI, greater cloud computing and deployment of 5G networks together with government policy support. The challenge remains matching these growth requirements with suitable power and water networks to support the required expansion.

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