The Asia-Pacific Industrial report aims to provide occupiers, landlords and investors with a regular analysis of the rental performance of warehouse and logistics markets across the Asia-Pacific.

Knight Frank

Asia-Pacific Warehouse Review

H1 2021

HEADLINES

Beijing	13	17	Stable
RECORDED THE HIGHEST HALF-ON-HALF GROWTH IN H1 2021	OF 17 CITIES RECORDED STABLE OR INCREASED RENTS THIS PAST HALF	OF 17 CITY MARKETS TO IMPROVE OR REMAIN STABLE OVER THE NEXT 12 MONTHS	OUTLOOK FOR 2021

Tim Armstrong
HEAD OF OCCUPIER SERVICES AND COMMERCIAL AGENCY ASIA-PACIFIC

"Despite operating under the shadow of the pandemic, warehouse markets across the region have remained largely stable, driven by sustained demand from the e-commerce sector. Recent events that have impacted commitments to customers have put the development of supply chain resilience into focus and major occupiers are responding by re-configuring their strategies through building out inventory buffers and expanding urban distribution nodes. This will have positive knock-on effects for demand to strengthen for logistics spaces. Developers in the region remain on the hunt for opportunities to capitalise on growth trends, indicating sustained confidence in the region's warehouse markets."

Demand in the region's warehouse markets remained robust in the first half of 2021, driven by e-commerce tailwinds as consumers and businesses continued to pivot online. According to Transport Intelligence, Asia Pacific's e-commerce logistics market expanded by an estimated 22% to almost €153 billion (US$182 billion) last year, with growth bolstered by the coronavirus pandemic. Defying the unfortunate resurgence of infection caseloads in the region, rents for prime warehouses across Asia-Pacific remained largely unchanged, falling by a marginal 0.1% year-on-year. On the back of resilient fundamentals, market conditions in the region's warehouse sector are expected to stay positive, fostering rental stability for the rest of the year.

Australia's prime warehouse markets on the Eastern Seaboard stood out in the region in the first half of the year, buoyed by healthy tenant demand. The Eastern Seaboard experienced its largest quarterly vacancy decline in a decade, led by above-average take-up levels in **Sydney**, **Melbourne** and **Brisbane**. The upswing in confidence by developers to build speculatively has been notable, with these project completions growing rapidly in Sydney and Brisbane. With the return of lockdown conditions to the Eastern Seaboard, an increase in distribution and storage demand is expected on the back of a further surge in e-commerce. This will intensify the pressure on available options in areas with historically low vacancy levels. We expect conditions in Australia to transition and favour landlords with rents likely to be on an upward trend.

Prime warehouse rents in **Singapore** fell 3.9% year-on-year as an elevated supply pipeline, estimated at about 6.2 million sqft for delivery from now to 2022, weighed on the market. Still, conditions are assessed to be largely stable, underpinned by healthy tenant demand with occupancy remaining at close to 90% as of H1 2021, which has tightened year-on-year. Its resilience will continue to be supported by sustained space appetite from the e-commerce and manufacturing sectors, and most recently from the setting up of vaccine production facilities. The outlook for warehouse rents is likely to remain steady, with conditions expected to be conducive for a moderate 1-3% upside for rents island-wide in the next 6-12 months.

Rents in **Hong Kong SAR** also remained largely stable, registering a marginal rise. Similar to the rest of the region, e-commerce continued to be the main demand driver in the territory. Occupancies were sustained at 90%, with increased utilisation from the retail sector's pivot to e-commerce channels. The fundamentals in the city's warehouse market are expected to be unchanged with rents remaining stable for the rest of the year.

With economic activity largely reverting to pre-pandemic levels in the Chinese Mainland, logistics facilities and warehouses remained in high demand. E-commerce third party logistics and cold storage accounted for over 70% of new leases in 2020. These sectors are expected to continue as major demand drivers for warehouse leasing activity this year, supported by strong domestic consumption benefiting from internal circulation – a pillar within the country's economic plan to tap the potential of its huge domestic market – and consumption upgrading.

Tier-one cities in Chinese Mainland's northeast, which continued to be dogged by a lack of new supply, enjoyed healthy rental growth of around 1.5-3%. Rents in **Beijing** recorded the sharpest increase in the region, rising 4.4% YoY, as the country's economic rebound gathered pace. Similarly undersupplied, the demand for storage space in **Shanghai** also remained buoyant, led in part by a pickup in storage demand from cold chain operators as a large chunk of daily necessities consumption shifted online. Owing to the delays in project completions, vacancy rates fell to 9%, tightening from the 12% registered in the same period last year. The limited supply of warehouses has led to an overflow of logistics and warehousing demand, promoting the development of logistics clusters surrounding Shanghai's peripheral.

With virus variants intensifying the pandemic in certain parts of Asia Pacific, market conditions in some of the region's warehouse markets were not without challenges. **Jakarta** and **Kuala Lumpur** managed to stave off the uncertainty, remaining largely stable-to-increasing, supported by favourable supply conditions. While rents are expected to remain stable for the rest of the year, the pandemic's drag on the Indonesian economy could hold back consumption while occupiers in Malaysia's capital are noted to be turning cautious on leasing commitments. **Bangkok**, however, is expected to remain resilient, due to a predominantly built-to-suit market and demand growth from the e-commerce and logistics sectors.

Rents for warehouses in **Mumbai** and **Bengaluru** have corrected while **NCR** has seen marginal YoY growth in H1 2021. While higher construction costs, due to the increasing prices of steel and other input materials, are expected to leave little room for asset owners to compromise on rent in the next 12 months, the improving but uncertain demand environment could still cause significant headwinds for rental growth. This stalemate could well break towards the end of the 12-month period as vaccinations gather pace and occupiers eventually submit to higher rents due to inflationary pressures.

Asia-Pacific Prime Warehouse Rents

	CITY	PRIME HEADLINE RENT	LOCAL MEASUREMENT	USD/SQ M /MONTH	YOY% CHANGE (H1 2020 - H1 2021)	FORECAST NEXT 12 MONTHS
AUSTRALIA	BRISBANE	115.00	AUD/sqm/annum	7.18	2.0%	↑
	MELBOURNE	101.00	AUD/sqm/annum	6.31	0.6%	↑
	SYDNEY	122.00	AUD/sqm/annum	7.62	0.8%	↑
EAST ASIA	TOKYO	4,536.00	JPY/tsubo/month	12.36	0.0%	↑
	BEIJING	61.30	CNY/sqm/month	9.49	4.4%	↑
	GUANGZHOU	37.80	CNY/sqm/month	5.85	-1.6%	↑
	SHANGHAI	48.94	CNY/sqm/month	7.58	1.9%	↑
	HONG KONG SAR	19.13	HKD/sqft/month	26.52	0.2%	→
	TAIPEI	1,178.00	TWD/ping/month	12.76	2.9%	↑
INDIA	BENGALURU	18.80	INR/sqft/month	2.72	-4.6%	→
	MUMBAI	20.20	INR/sqft/month	2.93	-7.8%	→
	NCR	17.90	INR/sqft/month	2.59	1.1%	→
ASEAN	JAKARTA	828,036	IDR/sqm/annum	4.92	5.6%	→
	KUALA LUMPUR	1.90	MYR/sqft/month	4.93	0.0%	→
	SINGAPORE	1.72	SGD/sqft/month	13.76	-3.9%	↑
	BANGKOK	158.00	THB/sqm/annum	4.93	0.5%	→
	MANILA	235.00	PHP/sqm/month	4.81	0.0%	→

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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