As has been the story throughout 2021, we enter the new year with cautious optimism for Asia-Pacific office markets. The emergence of the Omicron variant in November 2021, while a cause for concern in its initial stage of discovery, has merely tempered the already moderate expectations for recovery. Many governments have shifted focus away from a zero-Covid strategy to preparing their populations for the endemic phase, which bodes well for the office sector.

For Q4 2021, Knight Frank’s Asia-Pacific Prime Office Rental Index turned the corner, recording a 0.3% growth quarter-on-quarter (QoQ), the first uptick since Q3 2019. On an annual basis, the overall index is down 1.8% year-on-year (YoY), a stark contrast compared to the 4.1% YoY decline observed in Q3. Overall, vacancy remains elevated at 12.8%, similar to 12.7% in Q3 2021. For now, office rents are likely to have bottomed out, thanks to improving business sentiments and a gradual and more sustainable return to workplaces, leading to the reduction of incentives and an increase in asking rents.

We expect ongoing trends from the past year to continue shaping office markets in 2022. Key among these being a flight-to-quality, with big tech occupiers taking advantage of lower rents to move into high quality CBD office spaces amid tightening of premium spaces.

These factors will continue to feed into the positive recovery trajectory of Asia-Pacific’s office markets, with rents continuing to strengthen in H1 2022.

While expecting some headwinds in 2022, due to the rippling effects of policy tightening for property developers in the market, the Chinese Mainland’s office sector is expected to remain resilient. Q4 2021 saw Beijing and Shanghai record rental growth of 0.6% and 1.5% respectively. For Beijing, this is a reversal of a continuous quarterly rental decline since Q3 2018. Net absorption of prime stock in the city averaged 222,353 square metres (sq m) each quarter, outpacing the average new supply of 137,502 sq m. We expect rents in the Chinese Mainland’s Tier-1 cities to remain stable, with business sentiments turning positive, sustaining the demand we saw in Q4 2021.

Kuala Lumpur’s prime office rents have continued to face downward pressure over the past few quarters as supply outstripped demand. As of 2021, approximately 220,000 sq m of office space was added to the cumulative existing stock with net absorption of new stock sitting around 40%. Rents declined 3.0% YoY in Q4 2021, reflecting the growing mismatch in the office market as landlords lowered asking rents to compete for limited occupier demand. For 2022, the Kuala Lumpur office market will remain tenant favourable with occupiers undergoing a flight-to-quality – taking advantage of the lower cost of space for

“Through the fluid Covid situation continues to be the key factor inhibiting a full-speed recovery for Asia-Pacific in 2022. Optimistically, with more governments beginning to take the step to live with the pandemic, making Covid-19 endemic, a gradual return to the workplace seems imminent now. Opportunities will begin to narrow for occupiers on prime office spaces in 2022, as office rates begin to strengthen.”

Tim Armstrong
GLOBAL HEAD OF OCCUPIER STRATEGY AND SOLUTIONS
Of India’s three Tier-1 markets, National Capital Region (NCR) and Mumbai recorded stable rents in Q4 2021, QoQ. The outlier was Bengaluru, which saw rents increase a modest 1.0% QoQ. The results were stable despite India coming off the Delta surge in H1 2021. The vaccination drive for the country has yielded dividends, with more than 60% of India’s eligible population becoming fully vaccinated. This, combined with the strength of the IT and co-working sectors’ office demand and stabilising business sentiments, feeds into our expectations that India’s Tier-1 cities will see modest recovery in 2022.

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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