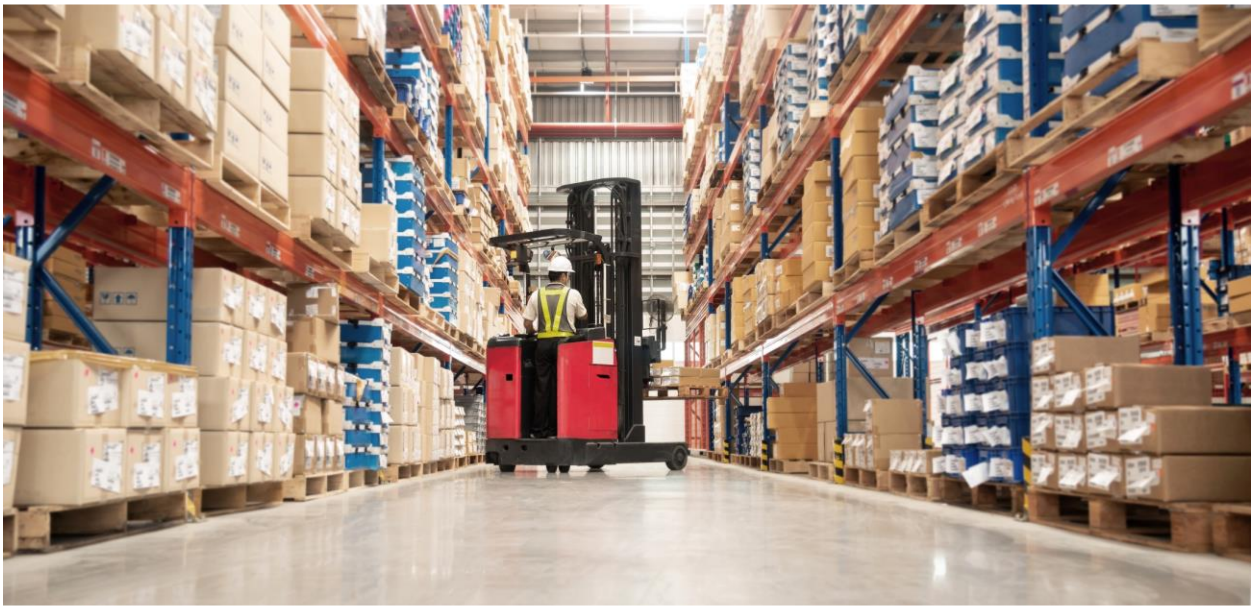
ASIA PACIFIC INDUSTRIAL & LOGISTICS TRENDS Q3 2024 | Creating Resilience

Landlords turn more flexible as leasing demand loses momentum



Key Trends

- Leasing demand in Hong Kong SAR remained subdued in Q3 2024 but momentum is expected to improve amid the recovery in trade business and growing deal pipeline. Rental performance continues to diverge, with rents for new leases declining but selected properties implementing hikes for renewals.

- In Korea, landlords of recently completed assets or properties about to come on stream are finding it challenging to repay project financing, forcing them lease space at lower rents and more aggressive incentives. With financially-stable owners unwilling to offer substantial discounts to compete with financially-stretched assets, and other landlords wanting to wait for supply to decrease in 2025, leasing activity has slowed.

- Take-up in Singapore remains healthy despite softer demand as landlords turn accommodative to secure tenants. Larger 3PLs are consolidating operations into flagship buildings and sites without any change to their overall footprint, leading to higher availability of smaller spaces and units in satellite locations. Looking ahead, landlords are expected to be more proactive in securing tenants, such as by offering more rent-free or fitout incentives.

Hong Kong SAR

Leasing demand remains subdued but momentum set to improve amid growing deal pipeline

State of the market

- Rental performance continues to diverge, with rents for new leases declining but selected properties implementing hikes for renewals.
- Rents for industrial offices (I/O) remain under pressure due to Grade A office oversupply in new properties in Kowloon.
- Incentives are rising as the market stays in favour of tenants. Vacancy has increased further along with the rise in shadow space.

Transaction activity

- Leasing activity is being led by 3PLs and firms in the automotive sector. Other recent activity includes a flight to quality relocation by a luxury brand. New leases typically involve consolidation or downsizing.
- 3PLs are tending to incorporate new business/functions into their existing facilities instead of looking for more space. Selected occupiers are upgrading to better quality assets able to accommodate automation.
- Recent months have seen several occupiers relocate their warehousing functions to locations in the Greater Bay Area, partly due to their growing business operations in mainland China.

Emerging trends

- Many occupiers prefer to renew due to ongoing economic uncertainty and a lack of CapEx.
- Institutional grade landlords are preferring to keep face rents stable and offer more incentives. Deep discounts are mainly available in older properties with long-term vacancies.

Outlook

- Leasing momentum is expected to improve amid the recovery in trade business. CBRE sees a growing number of sizable leasing transactions in the pipeline.
- Occupiers with upcoming lease expiries are advised to commence negotiations as soon as possible to ensure they secure optimal terms.

SIX-MONTH OUTLOOK

RENT	SUPPLY	VACANCY
⌄	–	⌃

CONTACT US FOR DETAILS

Samuel Lai
Executive Director
Advisory & Transaction Services – Industrial & Logistics business, Hong Kong

samuel.lai@cbre.com

Korea

Weaker demand forces landlords to offer aggressive incentives to secure tenants

State of the market

- Landlords of recently completed assets or properties about to come on stream are finding it challenging to repay project financing, forcing them lease up space at lower rents and more aggressive incentives.
- With financially-stable owners unwilling to offer substantial discounts to compete with financially-stretched assets, and other landlords wanting to wait for supply to decrease in 2025, leasing activity has slowed.

Transaction activity

- 3PLs and e-commerce platforms remain the primary drivers of leasing demand. Among the latter, Coupang has been less aggressive in expanding in Greater Seoul, preferring instead to expand its footprint outside the capital.
- Discount retail chain Daiso has emerged as a new source of leasing demand this year, occupying a large volume of space in Greater Seoul.

Emerging trends

- Bigger facilities with large floorplates continue to attract strong demand, but smaller projects are struggling to attract tenants.
- Many large tenants including multinationals have medium term plans to consolidate multiple warehouses into one single floor warehouse to enhance efficiency.
- Selected institutional investors are converting cold storage into dry facilities due to high vacancy and weak demand for the former.

Outlook

- Occupiers planning to consolidate or relocate are advised to commit to leases before year-end whilst low-cost options are still available and before the market shifts in favour of landlords in 2025.
- The near-term decline in interest rates should have a positive impact on investment decisions and spur more purchasing activity.
- Now is the time for core plus and value-added funds to consider acquiring well-located high-spec properties with some vacancy and/or lower passing rents, as leasing market is expected to shift more in favour of landlords in 2025.

SIX-MONTH OUTLOOK

RENT	SUPPLY	VACANCY
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CONTACT US FOR DETAILS

JiHyun Lee
Senior Director
Industrial & Logistics Services, Korea

ji-hyun.lee@cbre.com

Singapore

Take-up remains healthy despite softer demand as landlords turn accommodative to secure tenants

State of the market

- Larger 3PLs are consolidating operations into flagship buildings and sites without any change to their overall footprint, leading to higher availability of smaller spaces and units in satellite locations.

- A year ago, planning for logistics facilities exceeding 100,000 sq. ft. required two years of lead time. However, immediate requirements can now be met through active sourcing; a trend expected to continue until the end of 2025, presenting a valuable opportunity for cost-conscious occupiers.

Transaction activity

- Recent quarters have seen some enquiries from occupiers seeking space with certain technical specifications, such as that capable of accommodating the storage of dangerous goods such as petrochemicals.

- There is rising interest from food occupiers seeking air-conditioned dry cargo space as well as other groups looking for cold storage facilities.

- E-commerce growth has moderated, with many platforms in this segment consolidating and seeking cheaper space.

Emerging trends

- Occupier interest in Johor Bahru, Malaysia, is growing due to the availability of special economic and free trade zones. Companies prefer this location for its proximity to Singapore and lower costs. Businesses are eagerly anticipating the final details of the Johor-Singapore Special Economic Zone (JS-SEZ) agreement, expected to be finalised by year-end, which will boost economic connectivity between Malaysia and Singapore.

Outlook

- Landlords are expected to be more proactive in securing tenants, such as by offering more rent-free or fitout incentives.

- Occupiers are advised to take advantage of current softer market conditions to secure attractive space. This window of opportunity is expected to close within the next 12 to 15 months as occupancy and rents return to end-2023 levels.

SIX-MONTH OUTLOOK

RENT	SUPPLY	VACANCY
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CONTACT US FOR DETAILS

Graeme Bolin
Executive Director
Industrial & Logistics Services, Singapore

graeme.bolin@cbre.com.sg

Contacts

Asia Pacific Research

Ada Choi, CFA
Head of Research, APAC
ada.choi@cbre.com

Jonathan Hills
Senior Director
jonathan.hills@cbre.com

Liz Hung
Senior Director
liz.hung@cbre.com

Anthony Wong
Associate Director
anthony.wong1@cbre.com

Advisory & Transaction Services

Luke Moffat
Head of Advisory & Transaction Services,
Asia Pacific
luke.moffat@cbre.com

A&T Services – Industrial & Logistics

Michael Bowens
Head of Industrial & Logistics,
Asia Pacific
michael.bowens@cbre.com