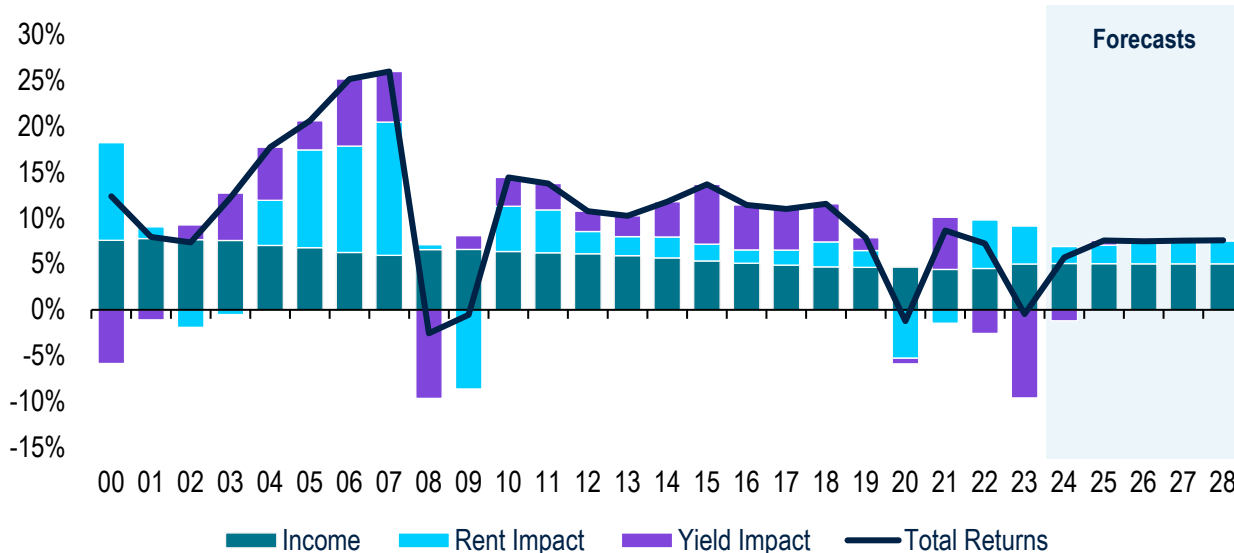


# Why Asia Pacific Rental Growth Might Prove to Be Stronger Than Expected

As with real estate markets across the world, the prime market returns outlook for major Asia Pacific markets speaks more to rental growth than yield shift – after all, we’re not expecting a world in which interest rates fall back to near 0%. And yet the rental growth story does not look that spectacular (see **Exhibit 1**). In part there is an averaging effect going on – there are wide variations in performance

expected. For instance, in Japan there is pressure on returns from expectations of cap rates moving out, whilst in Australia pricing and occupier fundamentals look near ready for a recovery. But it is also because across the region economic growth is forecast to continue to slow in line with weak demographic, poor fiscal and slower productivity growth pressures.

**Exhibit 1: Estimated Unlevered All Property Prime Market Returns, Major Developed Cities (% p.a.)**



Sources: JLL, PGIM Real Estate. As of February 2024.

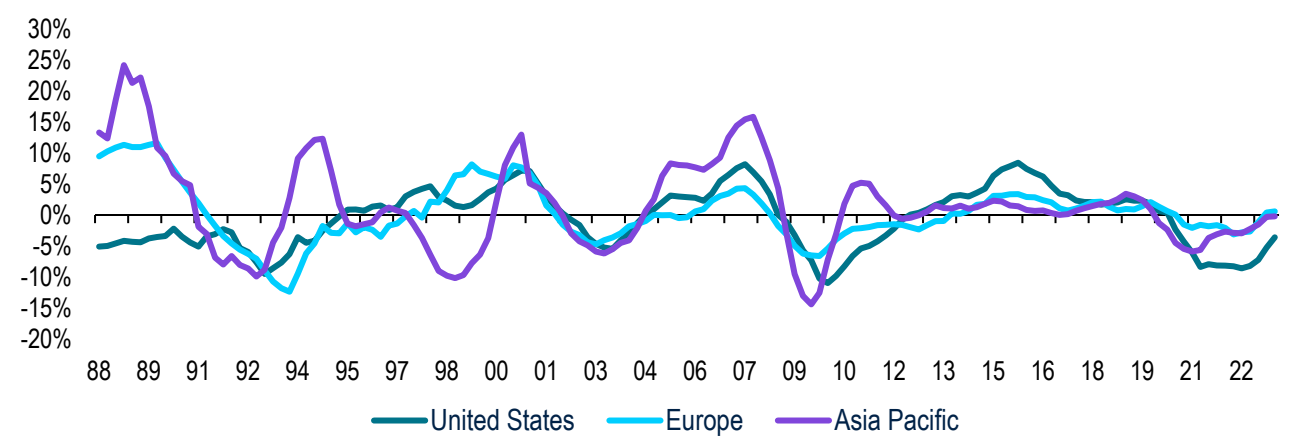
Forecasts are not guaranteed and may not be a reliable indicator of future results.

This outlook is at odds with history. As shown in **Exhibit 2**, in previous recoveries Asia Pacific markets generated strong real rental growth, especially so when compared with Europe and the United States. And whilst this can be linked to the faster pace in which the Asia Pacific economies grow, it is arguably down to the importance of productivity in driving this economic growth. Productivity growth is more

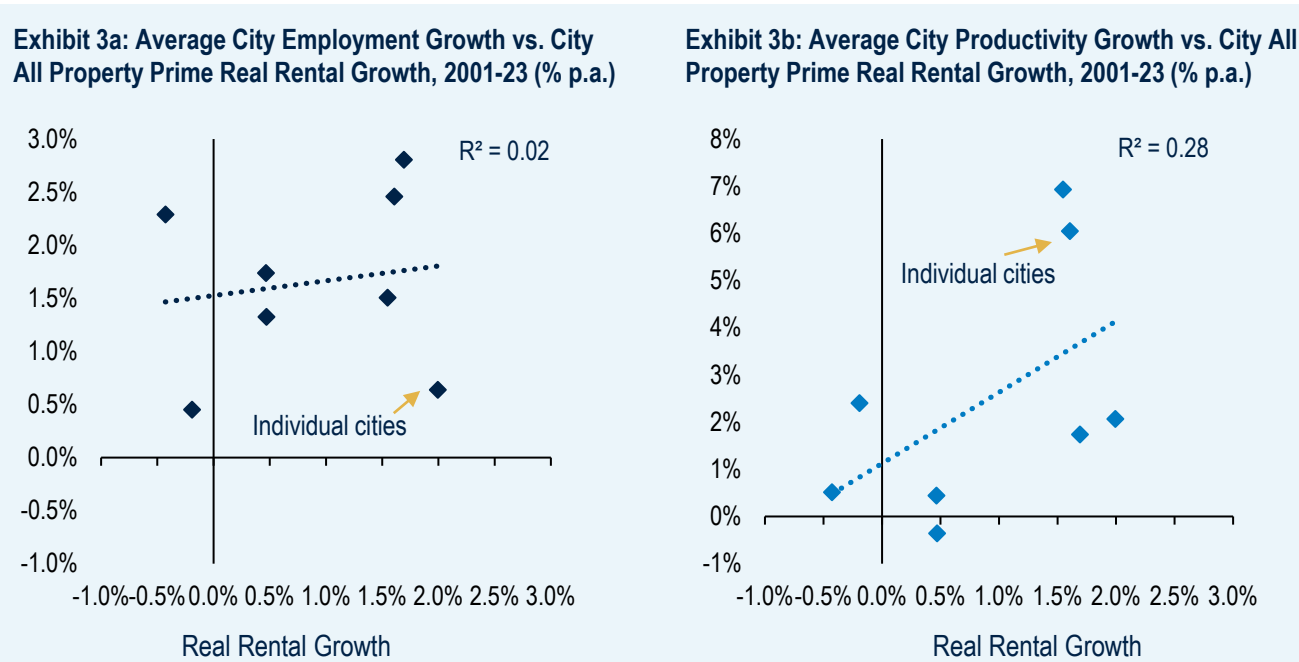
cyclical than jobs growth, and this then gives rise to faster economic growth into a recovery. In turn, this feeds into faster rental growth.

For Asia Pacific, the relationship between jobs, productivity and rental growth is apparent at the city level. **Exhibits 3a and 3b** show that the pass through – at the city level – from productivity to real rental growth is stronger than with employment.

**Exhibit 2: Grade A/Prime Real Rental Growth by Major Real Estate Regions (% p.a.)**



Sources: JLL, PMA, CoStar, PGIM Real Estate. As of February 2024.

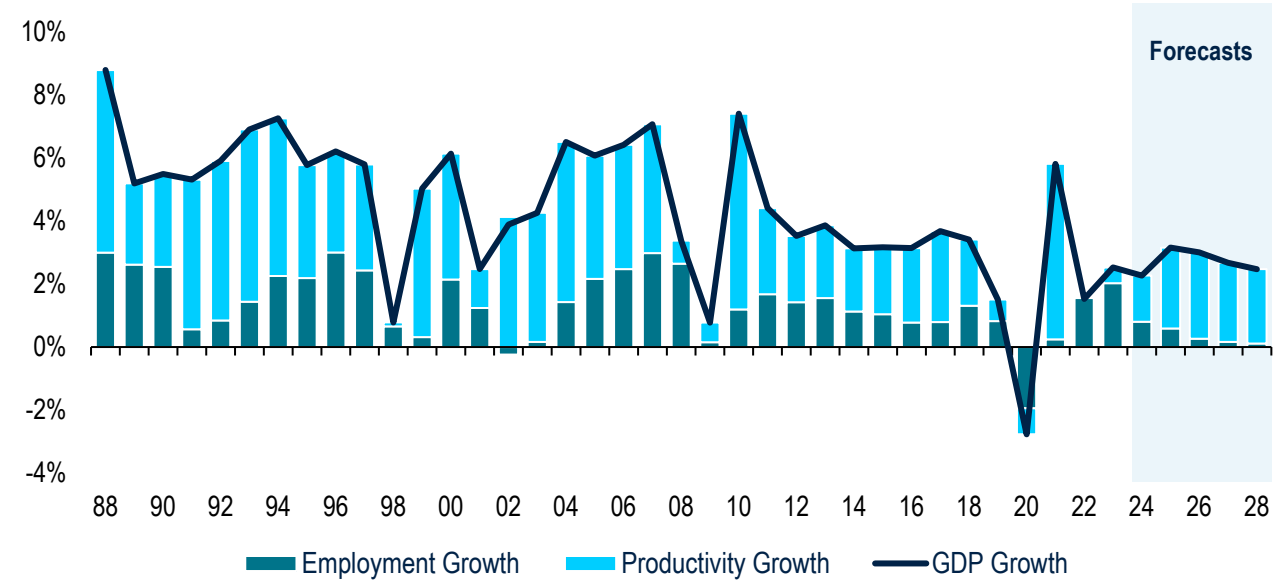


Sources: JLL, Oxford Economics, PGIM Real Estate. As of February 2024.

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So why is this important? It is important because forecasts for economic growth globally, as well as across Asia Pacific, have productivity as the driver over employment (**Exhibit 4**). Aging societies, alongside high employment rates/high labor force participation rates, are causing jobs growth to slow versus a productivity lift due to advances in AI. If this shift to productivity growth arises then for Asia Pacific in particular, where productivity growth is set to be higher than the rest of the world, real rental growth might yet prove to be stronger than expected.

Exhibit 4: Contributions to Real GDP Growth, Major Asia Pacific Economies (% p.a.)



Sources: Oxford Economics, PGIM Real Estate. As of February 2024.  
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