CUSHMAN & WAKEFIELD

INSTANT INSIGHT

TARIFFS & THE IMPACT ON ASIA PACIFIC

March 2025

What Happened?

The tariff situation is evolving quickly. As it stands today (early-March 2025), President Trump has imposed a circa 20% tariff on all Chinese goods imported to the U.S. This is on top of the roughly 10% that was already in place under Trump's first term and continued by the Biden Administration. China has responded with tariffs of up to 15% on key U.S. farm products, together with similar duties on crude oil, agricultural machinery and large-engine cars imported from the U.S. President Trump also has imposed 25% across the board tariffs on imports of steel and aluminium and is considering imposing reciprocal tariffs to all trading partners.

The degree to which these shifting trade and tariff policies will impact Asia Pacific's property sector is difficult to assess without complete information about the size, scope, timing and length of time that a given tariff or set of tariffs will be enforced. It is also difficult to isolate what may be a negotiating tactic versus an actual trade policy that may or may not go into effect. The trade situation will settle overtime, at which point we will better be able to analyse the macroeconomic effects and the impact on Asia Pacific. Until then, we offer our first take at the potential impact.

Macroeconomic Implications:

Tariffs could result in higher inflation and slower growth…The impact of tariffs is unclear, but most economists warn that they could result in higher inflation and slowing economic growth. There are many channels to which tariffs can impact the economy: uncertainty, retaliation, higher inflation, higher interest rates, etc. But again, without knowing what the precise polices are, or their timing, or how businesses and investors respond, estimates of the impact are at best preliminary, and speculative at worst.

- **It's worth remembering…** President Trump ran on similar policies in his first term, and, for the most part Asia Pacific's economy continued to grow at a healthy rate and inflation largely remained tame. In the 2016 to 2019 period, the Asia Pacific economy increased by almost USD5tn in real terms at an average of 4.6% per annum and inflation averaged 2.1% per annum. Almost 21 million new office jobs were created in the region over the same period fuelling robust demand for office space. In assessing Trump 2.0, and assuming there are more tariffs to come, the key question is: How long will the tariffs stay on? If they are short-lived, then the impact will be small. If they stay on for several months, then the negative impact will be more significant. Of course, past is not always prologue, but if recent history is any guide, property across Asia Pacific was able to navigate these policy changes the first time and performed well.

Higher inflation complicates central banks' jobs… Central banks across Asia Pacific have made substantial progress on inflation so far, but the battle is not yet won; all eyes will remain on price pressures and inflation expectations. Any implicit upward pressure on inflation (potentially arising from tariffs) will require central banks to be even more cautious in further normalising interest rates. It seems likely that interest rates across the region will remain higher for longer, under the tariff scenario, but again, much depends on how the tariffs policy unfolds.

Shifting trade flows create medium- and longer-term challenges and opportunities…Tariffs will negatively impact certain markets (by reducing trade flows) but will also create growth opportunities in others. During Trump 1.0, U.S. trade volumes in Vietnam, Taiwan, South Korea and Thailand increased, allowing them to gain market share. How trade and manufacturing reroute under Trump 2.0 remains unknown, but some stand to benefit from shifting trade flows.

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Impact on Property

It's worth remembering…In general, the Asia Pacific property markets proved to be very resilient under Trump's first term. In fact, Asia Pacific's office vacancy rates hovered in the 12% range, demand for space remained healthy at approximately 80 million square feet per annum, and rental rates continued to appreciate by 3% each year. On the capital markets side, sales volumes achieved record levels (at the time) in 2019 as yields drifted lower. From the time Trump was sworn in to just before the pandemic hit, prime values across office, industrial and retail sectors combined had risen by 25% across Asia Pacific. Again, past is not always prologue, but if recent history is any guide, property across Asia Pacific was able to navigate these policy changes the first time and performed well.

It's worth remembering…There are many engines that drive demand for property. Global trade is one of them – yes, but also e-commerce, domestic consumer spending, housing related demand (construction materials, furniture – all stored in warehouses), workplace strategies and general real estate space needs to run a business. There are many strong offsets to the potential tariff impact.

It's worth remembering…Property markets across Asia Pacific were gaining momentum going into 2025. The region was coming off of two challenging years in the face of higher interest rates. Towards the end of 2024, the regional economy remained resilient, central banks were largely pivoting, CRE values were stabilizing, and optimism was returning to the property sector. Asia Pacific has momentum which will help provide a buffer and likely keep property performing well in 2025.

Capital markets – our first take. The recovery in the capital markets which started in 2024 will continue in 2025; albeit, it will now likely be a bit choppier. The uncertainty around tariffs and inflation and the path of central bank policy adds natural volatility to the bond markets and will make it more difficult for investors to feel confident in where conditions are headed in the near-term. Less confidence translates to less investor and business conviction, implying that investor behaviour will remain cautious. However, the interest rate trajectory is still downwards and the pricing outlook is stable, which should provide baseline support for CRE investment.

Leasing fundamentals – our first take. Despite the tariffs, Asia Pacific's economy is expected to grow by 3.7% in 2025. Economic growth will translate into job creation and positive demand for space. In terms of the office leasing fundamentals, we expect net absorption of approximately 72msf, rising to 77msf by 2027. The logistics sector drew breath in 2024 following outperformance in the preceding 2-3 years. Strong domestic consumption together with near record levels of foreign direct investment will continue to create expansion conditions across India and South East Asia. In addition, the reacceleration of economic growth will support occupier demand in Australia and Japan. Overall, we expect rental growth to occur in more than half of markets forecast and a further 35% to remain stable.

Our advice: Investors and occupiers should remain focused on longer-term trends and themes. From an investor/lender perspective, it is important to keep in mind that CRE is a long-term investment. There are lags in the impacts of policy changes, and many leases and loans are going to outlive these policy changes. From an occupier perspective, look for opportunities to capitalize on the uncertainty, as it may create space options and rental discounts that wouldn't otherwise be there. In general, Asia Pacific CRE has performed well under various political landscapes, so having a long-term view will be a useful strategy in making real estate decisions.

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