

**AEW RESEARCH & STRATEGY**

# Asia Pacific Research Perspective Q2 2025

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# Allocations Start to Shift, Asia Private RE Lags

## EQUITY INVESTORS RETHINK GLOBAL EXPOSURE, APAC BENEFITS

Q2 2025 was a turbulent period for financial markets, driven by tariff threats, protracted negotiations, geopolitical tensions, and heightened bond volatility. In equity markets, US exceptionalism was challenged, prompting investors to reallocate in search for more attractive valuations, eventually resulting in Asia Pacific benefiting.

Reflecting this broader shift, Asia Pacific REITs also delivered strong performance in 2025. Notably, office and retail REITs have outperformed year-to-date, while residential, industrial, and data centers REITs have cooled off after a strong 2024. Sustained momentum here could point to a delayed but forthcoming rebound in private real estate, which typically follows REIT market movements with a two to four quarter lag. For now, however, market inefficiencies in private real estate remain, and bid-ask spreads have widened again amid ongoing uncertainty.

## PRIVATE REAL ESTATE TRANSACTION VOLUMES UNIMPROVED YTD

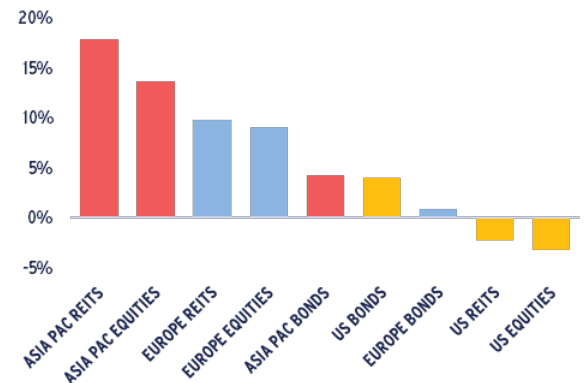
While the cost of debt has retreated in the last 12 months, private real estate transaction volumes in developed Asia Pacific are largely unimproved. Volumes YTD 2025 have reached USD65.6 billion, only 2% higher from the same period last year, falling far short of our expectations of a 20% increase at the start of the year. In Q2 some related-party sales and a REIT privatization inflated transaction volumes in both Singapore and Australia. At the same time, there was slower momentum in Japan, a distinction from Q1 where it was the most active market. The pull back in Japan was most noticeable in the office sector where yield spreads have reached decade lows.

## THE NEXT REAL ESTATE INVESTMENT CYCLE

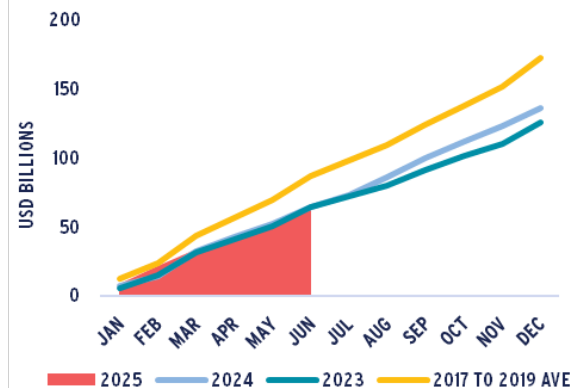
In the US and Europe, there are clearer signs that the private real estate market has bottomed and is beginning to recover, however it might be too early to draw the same conclusion for Asia Pacific. The region is lagging, with wide gaps between valuations and transactions in several markets. The one market in Asia Pacific that might be an exception is Australia, where pricing is seemingly bottoming and cap rate compression is starting to peek through in select corners of the market.

Unlike the more synchronized recovery in the West, Asia Pacific's private real estate cycle is expected to be more fragmented, with varied outcomes across sectors, countries, and cities—driven by uneven fundamentals, capital preferences, and interest rate cycles.

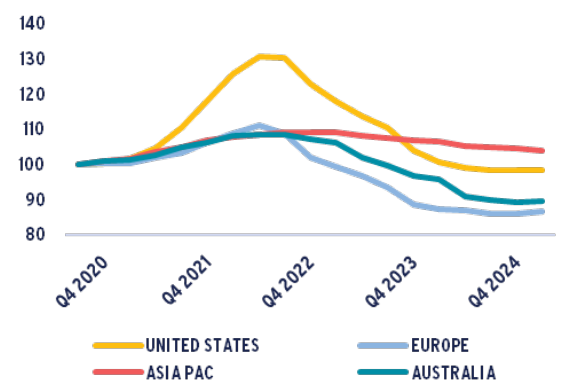
**TOTAL RETURN OF REITS, STOCKS, BONDS  
H1 2025 (31 DEC 2024 TO 30 JUNE 2025)**



**DEV APAC INCOME PRODUCING TRANSACTION VOLUMES  
2015 TO 2024**



**GLOBAL CORE CAPITAL VALUE INDICES  
LAST 4 YEARS**



Source: AEW Research, Bloomberg, MSCI, ANREV, INREV, NCRIEF as of end June 2025  
In top chart, following indices are used: FTSE EPRA NAREIT Dev Asia, MSCI AC Asia Pacific Index, FTSE EPRA NAREIT Dev Europe Index, MSCI Europe Index, Bloomberg Asia Inv Grade Bond Index, Bloomberg US Agg Total Return, Bloomberg EuroAgg Total Return, FTSE EPRA NAREIT US Index, MSCI Inc

# Setbacks to Growth, Policy is Supportive

## EXPORTS SURGE AHEAD OF TARIFFS, DOMESTIC CONDITIONS WEAK

While effective tariff rates on US imports should end up lower than April 2nd's "opening salvo", the impact remains significant, with an expected USD2trn deduction from global GDP from 2025 to 2027. Fears of higher tariffs led to a front-loading of exports, boosting Q2 GDP in Singapore, China, Hong Kong, and South Korea. However, this does not signal sustained momentum.

At the same time, domestically, slower retail sales growth and a loosening labor market reflect a broad weakness taking shape. Weak consumer sentiment points to a bearish outlook, though South Korea stands out, with greater political stability and fresh stimulus under the new administration helping to lift confidence.

Across Asia Pacific, governments are stepping in to support industries and workers impacted by tariffs. Meanwhile in China, despite multiple rounds of stimulus to boost consumption, savings rates remain high, sentiment is weak, and youth unemployment has hit record levels.

## INTEREST RATES EDGE LOWER IN ASIA PACIFIC...

Broadly, the consensus is that tariffs will be inflationary for the US, but disinflationary for the rest of the world. This divergence has prompted central banks in Asia Pacific to adopt a more accommodative stance, leading to a decline in interest rates across the region. In the first half of 2025, two-year swap rates fell between 30 to 115 basis points. Even in Japan, (where the risks had previously been skewed towards rising rates) concerns have eased slightly, reflected in a slight drop in the two-year swap rate from March 2025.

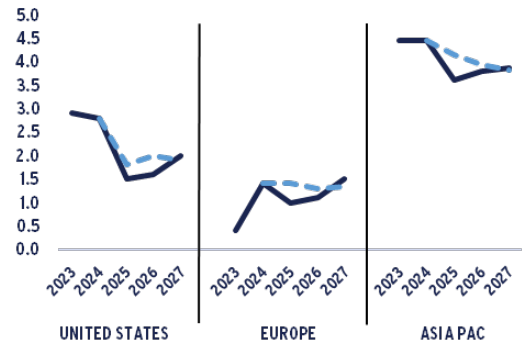
## HIGHER BOND YIELDS IN JAPAN COME AT A COST

While the BoJ is signaling caution on further rate hikes, helping anchor the short end of the curve, longer-dated government bonds are under pressure. Investors are growing wary of fiscal risks, and at the same time, BoJ and other major institutional investors are tapering bond purchases. With fewer buyers, yields are rising, and this could start to place pressure on discount rates and property prices that lack NOI growth.

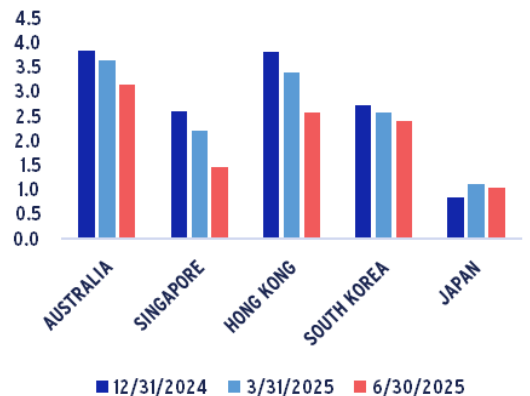
## FX DYNAMICS

Asian currency strength continued into Q2 2025, with the Japanese Yen and Korean won leading gains. While recent moves appear disconnected from interest rate fundamentals, further upside may remain, as most Asian currencies still trade below their long-term historical averages.

## GDP GROWTH FORECASTS RECALIBRATED 2025 TO 2027 (APRIL 2025 VS 6 MONTHS AGO)



## 2 YEAR SWAP RATES TO 3 MONTH FLOATING LAST 6 MONTHS



## CURRENCY MOVEMENTS 2017 TO 2025 YTD

	USDJPY	USDSGD	USDCNY	AUDUSD	USDKRW
2017	3.7%	7.7%	6.3%	8.3%	1.4%
2018	2.7%	2.0%	5.7%	9.7%	4.2%
2019	1.0%	1.2%	1.2%	0.4%	3.6%
2020	4.9%	1.8%	6.3%	9.6%	6.0%
2021	1.5%	2.0%	2.6%	5.6%	9.4%
2022	3.9%	0.7%	8.5%	6.2%	6.4%
2023	7.6%	1.4%	2.9%	0.0%	1.8%
2024	1.5%	3.4%	2.8%	9.2%	4.3%
YTD	8.4%	6.9%	1.9%	6.4%	8.0%

Source: AEW Research, Bloomberg, as of end June 2025



# Sector Nuances Shape Opportunities

## **LIVING & LODGING**

### **PRIORITIZED AS MORE RECESSION RESILIENT**

The living sector continues to gain momentum in Asia Pacific, with growing investor interest reflected in record-high investment volumes. In H1 2025, combined investments in apartments, serviced apartments, student housing, and seniors housing reached nearly USD 10 billion, the highest half-yearly total since data collection began in 2007. Investors are increasingly drawn to residential strategies for their resilient, necessity-based income. At the same time, the sector is evolving with a broader range of offerings that include flexible lease terms, add-on services, amenities, and varying levels of furnishing to cater to diverse tenant needs. We expect the rental residential sector to deliver solid NOI growth of 4 to 6% annually over the next five years in key submarkets where these fundamentals are most supportive.

## **INDUSTRIAL & LOGISTICS**

### **INVESTORS REMAIN ACTIVE, STRATEGIES SHIFT**

Investor appetite for the logistics sector has cooled compared to three years ago, but it remains actively traded across Asia Pacific. Rent reversion potential is about half of the levels seen in the previous two years, reflecting more measured expectations for NOI growth. In Australia, capital had previously prioritized short-WALE assets although the investor mindset is shifting as the implied growth premium in short WALE assets fades, prompting renewed interest in the income security of long WALE assets.

In South Korea, activity is picking up, supported by an improving supply outlook. The market is still largely driven by foreign investors, especially in the dry logistics segment, where strategies often focus on rent reversion or conversion opportunities.

In Singapore, several REITs have become active sellers, and higher yields are drawing investor interest. Japan, by contrast, is seeing growing caution due to rising vacancy risks and compressed yield spreads.

## **OFFICE**

### **MARKET DIVERGENCE, SOME FORWARD SIGNALS IMPROVING**

Office market performance was mixed this quarter. Economic uncertainty is still weighing on tenant decisions, delaying expansion and relocation plans, but in some markets, underlying demand remains relatively resilient. On the supply side, rising construction costs are slowing new development, which is improving the medium-term outlook.

Japan continues to outperform, with rent growth forecasts revised upward again. However, investor caution is rising as yield spreads compress to record lows. In Australia, the flight to quality and centralization trend is driving a steady recovery in Sydney's CBD. Meanwhile, in Greater China, Hong Kong is gradually moving ahead of the pack and showing early signs of improvement.

## **RETAIL**

### **DOMESTIC CONSUMER PULL-BACK BUT TOURISM RELATED RETAIL UPBEAT**

Across Asia Pacific in Q2, weaker consumer confidence weighed on retail sales. However, tourism-led retail continues to outperform, particularly in Japan and South Korea, where rising visitor numbers and favorable exchange rates are boosting spending. In Singapore, major events and concerts have supported steady tourism activity. On the occupier side, leasing demand remains concentrated in familiar categories like F&B and experiential retail.

Despite the mixed operating picture, investor interest in retail is showing a modest rebound, supported by limited new supply and attractive pricing. Some investors are pricing in a recovery in consumer spending, underpinned by expectations of lower interest rates. Excluding Greater China, retail investment volumes rose 17% year-on-year, with increased activity even in typically quieter markets like New Zealand.

# Living & Lodging

## JAPAN: RENTAL HOUSING RESPONDS TO NEW DEMAND

Investor interest in Japan's multifamily sector remains strong, underpinned by solid demand and continued urban migration. Foreign resident growth in Tokyo exceeded 10% p.a. from 2022 to 2024- this is boosting demand for flexible rental options like co-living and serviced apartments. While the recent Upper House elections raised some anti-foreigner rhetoric, we see limited policy risk. In fact, more flexible immigration remains essential to offset Japan's aging workforce. That said, affordability concerns are rising, and rental growth is expected to moderate to 2-3% annually, down from 5-6% in 2023-2024.

## SINGAPORE: STUDENT HOUSING ANGLE HAS LEGS

Institutional investment in Singapore's residential market remains limited due to structural barriers: high homeownership, a dominant public housing sector, and hefty stamp duties. In recent months, the private rental market has shifted in favor of tenants, with increased new completions and greater flexibility from landlords. Still, performance will vary by location. For example, areas near universities are seeing stronger demand and rent growth, driven by rising international student enrollment and limited on-campus housing.

## AUSTRALIA: POSITIONED FOR INSTITUTIONAL EXPANSION

Australia's institutional housing sector has the strongest growth potential in Asia Pacific today. Build-to-rent is now a proven model, while student and seniors housing are established sectors, with well-understood demand and supply fundamentals. Active trading in these sectors has also created benchmark pricing, providing greater confidence in underwriting.

Parts of the accommodation market have stalled due to elevated construction and financing costs. As borrowing costs ease, supply is expected to increase, catering directly to the pent-up demand. Apartment rents are forecasted to grow by 5-6% in 2025 before normalizing to around 3% by 2027.

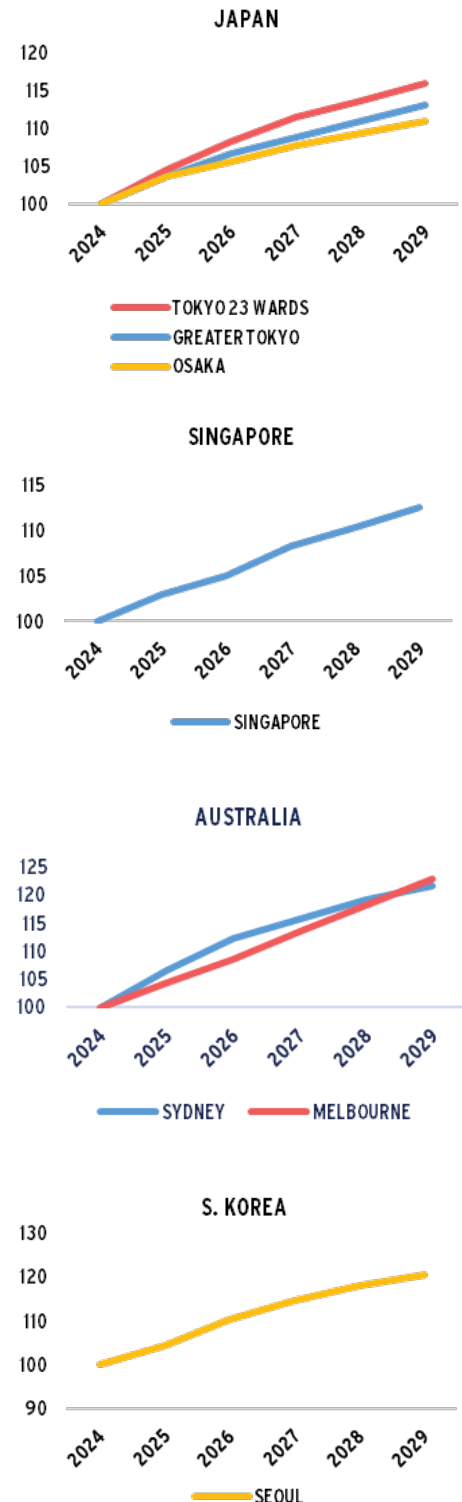
## HONG KONG: STUDENT ACCOMMODATION ON THE RIGHT SIDE OF POLICY

Student accommodation remains a bright spot in Hong Kong. Leasing conditions are extremely favorable, with rent growth more or less aligned with the private residential market. The sector also benefits from being on the right side of government policy, with recent announcements to streamline the conversion of offices and hotels into student housing expected to support further growth of the asset class.

## SOUTH KOREA: CO-LIVING OPPORTUNITIES NEED TO BE PRICED APPROPRIATELY

Investment in residential rental strategies is rising in Greater Seoul, fueled by declining interest in Jeonse leases and growing demand from young commuters and foreigners for housing near the city. High-density studio apartments, or "officetels," present value-add opportunities through conversion to co-living. Some assets are linked to distressed sellers and delinquent project financing (PF) loans, offering potential entry points.

**LIVING RENT INDEX  
2024=100**



Source: AEW Research, Q2 2025

# Logistics

## AUSTRALIA: LEASING ACTIVITY SURPRISES, MARKETS DIVERGE

Resilient H1 2025 leasing highlights that Australia's logistics market is driven by domestic fundamentals, with limited exposure to tariff-related disruptions. Looking ahead, leasing volumes in 2025 are expected to be 10% higher than in 2024. However, rising speculative completions are driving up vacancy risks, particularly in western and northern submarkets along the eastern seaboard, where effective rent growth is likely to fall below the market average.

## SINGAPORE: SAFE HAVEN & ATTRACTIVE YIELDS

Demand in the industrial/logistics sector has softened due to business uncertainty, but supply remains well-managed, with most of 2025 completions intended for owner-occupation. The business park segment on the other hand is contending with disproportionately high vacancy, particularly in fringe locations, which continue to place pressure on rents.

Still, Singapore's safe haven status and higher yields have reinforced investor interest. Year-to-date, USD 1.2 billion has transacted - several of these include REIT divestments.

## HONG KONG: RENT FORECAST REVISED DOWN, LIQUIDITY LIMITED

Front-loaded exports ahead of tariffs temporarily lifted Hong Kong's trade figures, but fundamentals are still soft. Rising vacancy in prime warehouses is pressuring rents, prompting a downward revision in the two-year outlook. Investor activity has been muted, with just two deals over USD 20 million closed in Q1. However, steeply discounted pricing is starting to attract value-add and opportunistic capital.

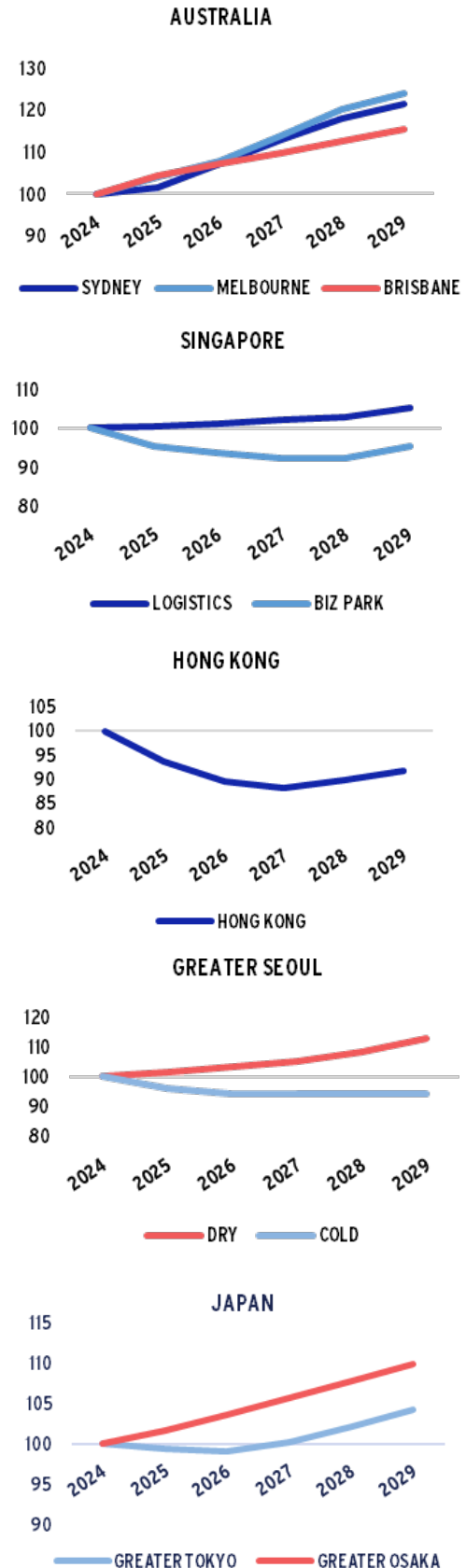
## SOUTH KOREA: DRY STORAGE CONTINUES TO IMPROVE AHEAD OF COLD

Vacancy rates continue to decline, and the outlook for dry logistics space in the Seoul Capital Area (SCA) is improving. New supply in SCA from 2025 to 2027 is expected to be about 70% lower than in the past three years, with new permit approvals also falling sharply. The main challenge in the logistics market remains the cold chain segment. More asset owners are actively converting cold storage facilities into dry space—a move that has often led to successful leasing, though not without incurring conversion costs.

## JAPAN: PERFORMANCE WILL BE LOCATION SPECIFIC, INVESTMENT ACTIVITY MODERATING

Most new logistics supply in the past 16 months will be concentrated in Greater Tokyo's Ken-O Expressway area, now the main source of market vacancy due to poor accessibility. Despite slower incoming supply, vacancy in this area is likely to stay high near-term. In contrast, Greater Tokyo's Gaikando, Route 16, and other regional cities like Osaka and Fukuoka show healthier fundamentals and more landlord favorable conditions. While investment activity has been slower, some buyers are trying to secure higher yields, betting on mispriced risk and a rental rebound as supply eases.

### LOGISTICS EFFECTIVE RENT INDEX 2024=100



Source: AEW Research, JLL, CBRE  
as of Q2 2025



# Office

## AUSTRALIA: PRIME GRADE ASSET LEAD RECOVERY

The flight-to-quality trend remains strong, with prime-grade assets, particularly in Sydney and Melbourne recovering faster than expected. As a result, rent growth forecasts have been revised upward this quarter. In Sydney, cap rates have begun to compress as capital inflows push up pricing. The Sydney CBD led transaction activity in H1, recording USD 1.5 billion in deals with strong cross-border investor participation.

## SINGAPORE: LEASING IMPROVES; LIQUIDITY COULD FOLLOW?

Leasing activity in Q2 exceeded expectations, offering a notable rebound after a weak Q1. While overall sentiment remains cautious, downside risks are easing. Newly completed projects continue to lease steadily, shadow and sublease space is gradually declining, and new CBD supply is expected to remain limited between 2025 and 2027.

With interest rates having declined significantly and positive gearing once again within reach, a pickup in office market liquidity is anticipated. To date, transactions have largely been limited to smaller strata-titled assets and partial stake sales to related parties.

## HONG KONG: WEAKNESS EXTENDS BEYOND 2025

Office leasing market remained slow in Q2, but some high-profile leases and an anticipated record year of over 100 IPOs in 2025 is bringing some positivity back to Hong Kong's office market (especially Central). Despite some changing sentiment, vacancy risks remain, with more than 14 million sq ft of vacant space across the city.

## CHINA: RENTAL WEAKNESS CONTINUES AS MORE CAPITAL MOVES TO THE SIDELINES

No near-term recovery is in sight for Shanghai and Beijing office markets, with effective rents down 35–40% from peak. Intense competition gives tenants full leverage in lease negotiations. While some assets have traded, pricing remains unclear. Notably, domestic insurers have ruled out future office investments for the time being, leaving SOEs and end-users as the only active buyers.

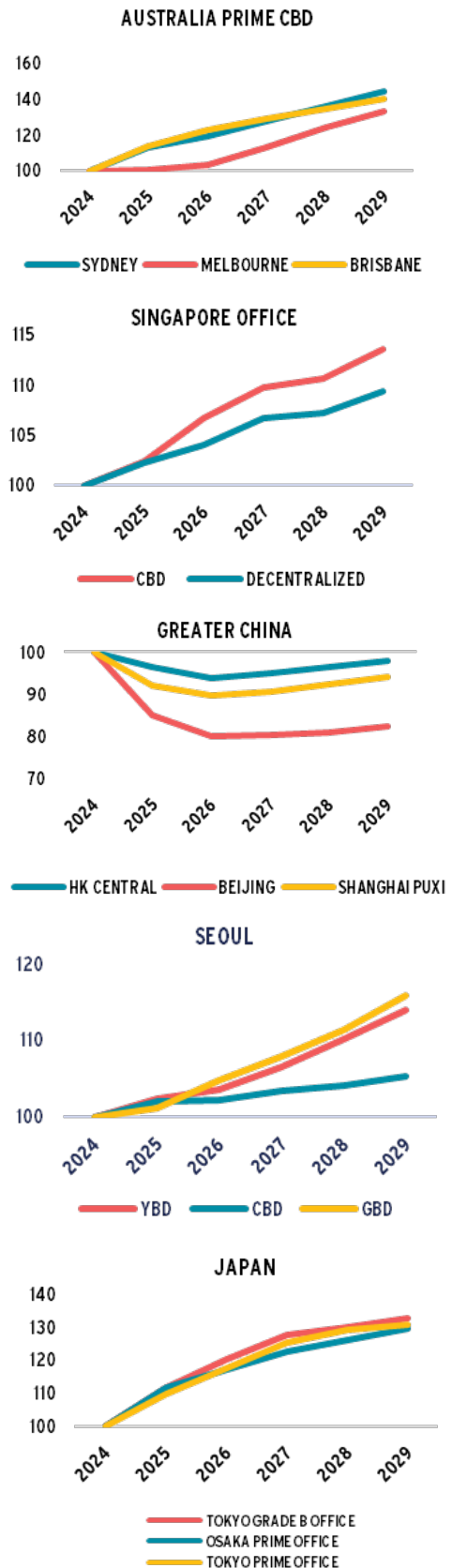
## SOUTH KOREA: LATE CYCLE MOVEMENTS

Landlord-friendly conditions are expected to hold in GBD and Yeouido but may soften in the CBD, where several large-scale projects are under construction. Investment activity remains strong in 2025, with nearly USD 7 billion in transactions YTD, up 75% from the same period last year. Domestic capital continues to dominate, in some cases with pricing so aggressive that foreign investors are not able compete.

## JAPAN: RENT AND VACANCY OUTLOOK UPGRADED

Positive momentum continues in the Tokyo and Osaka office markets, with leasing activity and near-term rent growth forecasts both upgraded. Prime and S-class buildings have minimal vacancy, and rent reversions remain attractive. However, transaction volumes declined in Q2 compared to Q1, as narrowing yield spreads, driven by rising borrowing costs, are making investments less appealing.

## OFFICE EFFECTIVE RENT INDEX 2024 = 100



Source: AEW Research, JLL, CBRE  
as of Q2 2025

# Retail

## AUSTRALIA: OUTLOOK REMAINS POSITIVE ON LIMITED SUPPLY

Rate cuts in early 2025 have provided a modest boost to retail sales and sentiment, reflecting improved discretionary purchases. However broader household spending remained soft in Q2. That said, there were signs of gradual improvement over the quarter and this momentum could build, especially as lower interest rates over the next 12 months is likely to support further recovery.

Structural tailwinds for the sector; population-driven volume growth and limited new supply, will support rental growth and investor appeal. Like other sectors in Australia, retail repricing has likely bottomed, with yields beginning to compress and investment volumes up 40% year-on-year.

## SINGAPORE: SUBURBAN RESILIENCE BUT RISING CHALLENGES

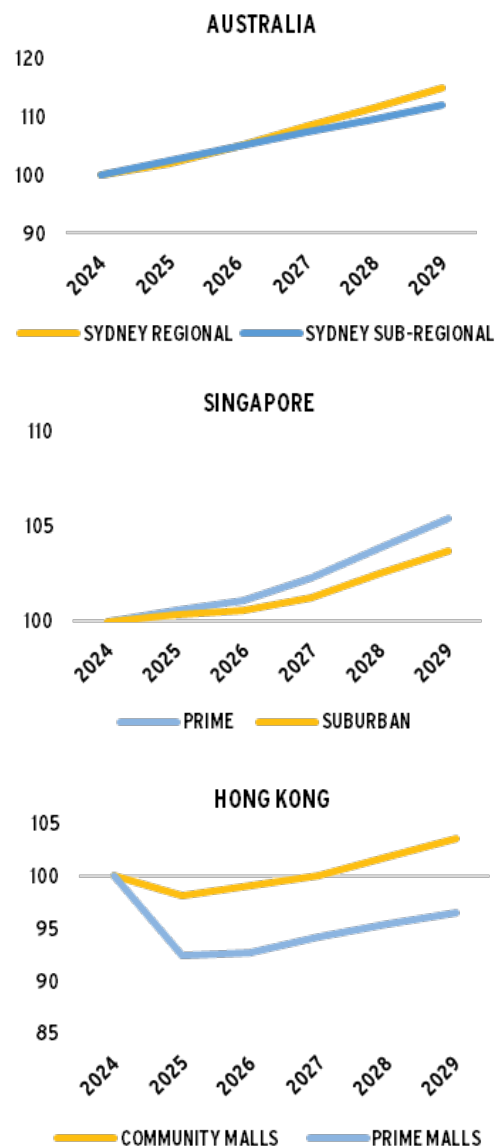
While retail sales in most discretionary categories slowed in Q2, leasing activity remained strong and vacancy rates continued to decline. That said, rental growth may be approaching its ceiling, particularly in suburban areas where rents have been resilient and now exceed pre-COVID levels.

## HONG KONG: LIKELY TO SEE FURTHER DOWNTURN

Hong Kong retail sales turned positive in May 2025, ending a 14-month streak of year-on-year declines, potentially signaling a bottom. The prolonged downturn reflects shifting spending habits among both locals and tourists, who are now favoring more budget-friendly options over luxury goods.

Despite the improvement, shop closures are expected to continue as the retail landscape reshapes to meet changing demand. The already negative rental outlook has been further downgraded, indicating more weakness ahead over the next 12 months.

### RETAIL RENT INDEX 2024 =100



Source: JLL, AEW Research, as of Q2 2025