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AEW

Investing Forward

Insights from the Asia Pacific Real Estate Market

PART ONE
Asia Pacific Real Estate: The Big Picture

PART TWO
Why Invest in Asia Pacific?

PART THREE
Strategic Opportunities and Risk Navigation in Asia Pacific

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The Road to Maturity: Why Invest in Asia Pacific?

PART THREE
Positioned for Change: Strategic Opportunities and Risk Navigation in Asia Pacific

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PART ONE | ASIA PACIFIC REAL ESTATE

The Big Picture

Asia Pacific benefits from unique structural drivers that will continue to support real estate demand and values over the long term. The region continues to gain from population growth, the rise of the middle class, increased mobility, ongoing infrastructure investment, and deepening intra-regional trade cooperation. Forward-looking growth is expected to remain positive, though likely to be more moderate than the exceptional performance of the past decade as economies have matured.

Real estate in Asia Pacific has shown its resilience across past economic cycles. Each cycle acts as a filter—leaving behind only the most robust assets, strategies, and stakeholders. The result is a more adaptable and refined market. However, resilience is not universal. Outcomes depend on geography, sector, and timing. At every stage in the cycle, it is essential to distinguish good value from value traps, and long-term growth stories from short-term momentum swings.

We believe Asia Pacific's combination of nascent and maturing markets presents compelling opportunities for the next decade of real estate investing. The strength of the region lies in its ability to offer both value and growth - enabling investors to construct a well-balanced, forward-looking portfolio.

Investing in Asia Pacific is, fundamentally, an investment in the future. We intend to illuminate that future by drawing on insights from the past, anchoring ourselves in today's realities, and outlining the trends we believe will shape the years ahead. We believe it's not binary whether to invest in Asia Pacific; it's about navigating where the momentum lies, what's investable, and when the window is open.

TO ANSWER THESE, WE EXPLORE A FEW CRITICAL DIMENSIONS:

1. **How has Asia Pacific private real estate performed historically relative to other regions and asset classes?**
2. **What are the key structural reasons to invest in Asia Pacific real estate today?**
3. **From Growth to Value, which opportunities stand out across markets?**
4. **What risks or shifts could alter the outlook—and how should investors prepare?**

Private Real Estate vs. Other Asset Classes

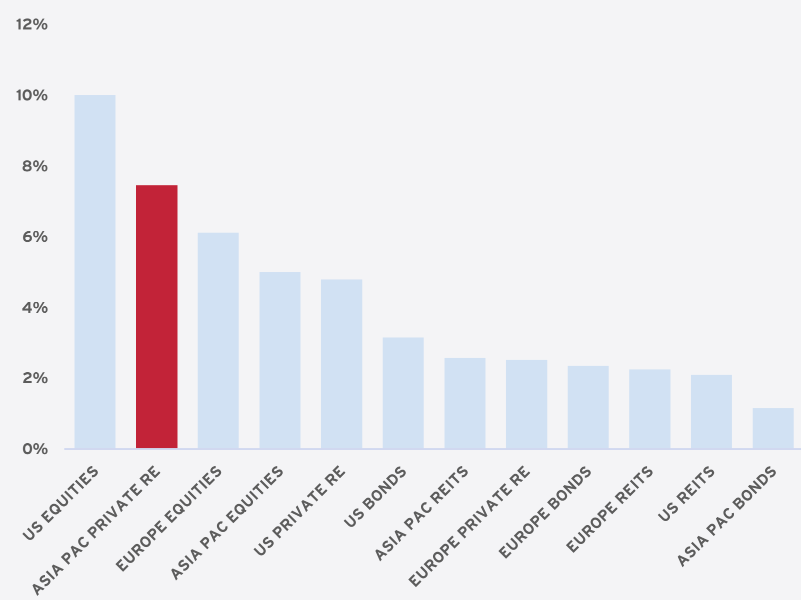
Private investment vehicles are traditionally aimed at minimizing volatility and seeking higher returns for investors. While limited volatility has held, generating outperformance has been challenging in recent years.

TOTAL RETURNS ACROSS REGIONS AND ASSET CLASSES (%) P.A.

ASSET CLASS	REGION	2022	2023	2024	Q1 2025
PRIVATE CORE REAL ESTATE	ASIA PAC	6.3%	-0.5%	-0.6%	-0.1%
	EUROPE	-1.3%	-10.4%	0.6%	1.5%
	US	6.5%	-12.7%	-2.3%	0.9%
BONDS	ASIA PAC	-12.8%	-0.9%	-4.5%	1.3%
	EUROPE	-17.2%	7.2%	2.6%	-0.9%
	US	-13.0%	5.5%	1.3%	2.8%
EQUITIES	ASIA PAC	-16.8%	12.0%	10.2%	1.0%
	EUROPE	-9.0%	16.5%	9.2%	6.1%
	US	-19.2%	25.9%	23.8%	-4.7%
REITS	ASIA PAC	-11.0%	-0.6%	-7.5%	4.0%
	EUROPE	-36.7%	17.3%	-2.9%	-1.1%
	US	-27.5%	8.6%	3.8%	0.0%

Source: Bloomberg, ANREV, INREV, NCREIF
Notes: Indices used are the following: FTSE EPRA NAREIT US Index, FTSE EPRA NAREIT Dev Europe Index, FTSE EPRA Nareit Developed Asia Index, Russell 3000, MSCI Europe Index, MSCI AC Asia Pacific Index, Bloomberg US Agg Total Return, Bloomberg EuroAgg Total Return, Bloomberg Asia Investment Grade Bond Index, U.S. ODCE TR Index, Europe ODCE TR Index, Asia Pacific ODCE TR Index

TOTAL RETURNS P.A. (2006 TO Q1 2025)



Source: Bloomberg, ANREV, INREV, NCREIF
Notes: Indices used are cited above

But perhaps when we apply some historical context, Asia Pacific core real estate has generally demonstrated relatively stable and attractive performance. From 2005 to 2024, the sector has delivered a total return of 7.45% p.a. marking the second highest asset class performance across a mix of asset classes globally.

However, looking ahead, a "higher for longer" rate environment and a steeper yield curve will make it harder to replicate past performance. Investors will need to work harder to uncover true value, drive stronger income growth, and explore new or overlooked sectors to build institutional-quality assets and gain early-mover advantage – this is the angle investors in the region are taking today.

Asia Pacific vs Europe & the US: Clear Contrasts

SUMMARY OF DIFFERENCES: ASIA PACIFIC VS EUROPE AND THE U.S.

	ASIA PACIFIC	EUROPE	NORTH AMERICA
NOMINAL GDP IN USD	36.6 TRILLION	27.6 TRILLION	32.7 TRILLION
VALUE OF RE HELD BY INST INVESTORS	3.3 TRILLION	3.8 TRILLION	5.2 TRILLION
AVERAGE LIQUIDITY P.A.	195 BILLION	301 BILLION	479 BILLION
NO. OF ACTIVE INST BUYERS (2024 TO 2025)	~ 590	~ 880	~ 630

Sources: AEW Research, CBRE, MSCI, Real Capital Analytics

There is no disputing Asia Pacific's real estate sector is smaller in scale and less liquid than Western counterparts. According to MSCI estimates, the size of the institutional real estate market in Asia Pacific is only a fraction of that in the U.S. and Europe. Transaction volumes tell a similar story, where Asia Pacific real estate trades at about half the volume of those in the West in any given year.

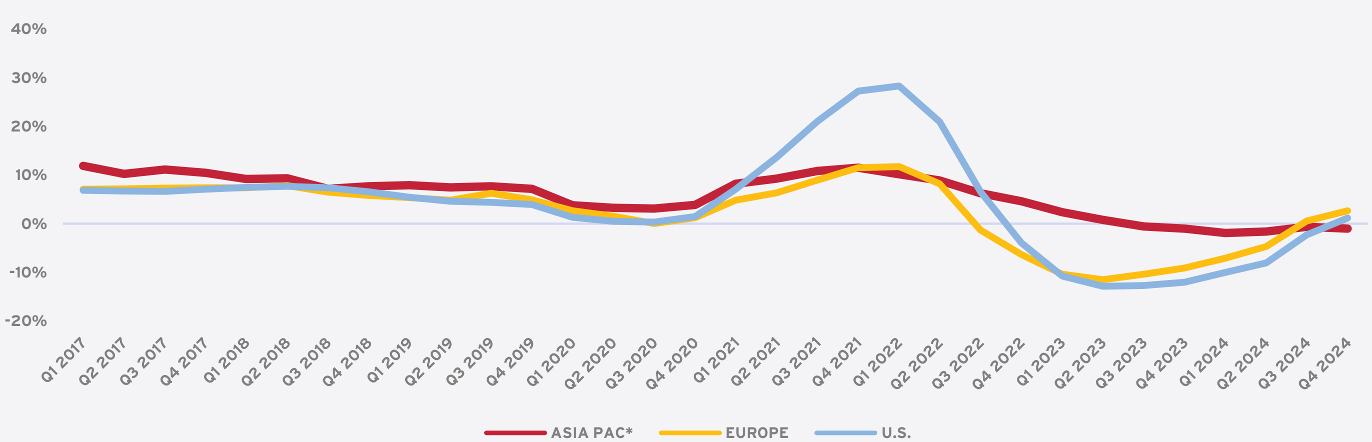
However, when analyzing buyer participation, measured by the number of distinct institutional investors active over a period, a different picture emerges. Real estate is inherently local, and across all regions, most transactions are driven by domestic institutions. In Asia Pacific, the count of active domestic institutional buyers are large, showing meaningful buyer engagement. The depth and consistency of local institutional participation point to a level of maturity that is frequently under appreciated.

HOW HAS ASIA PACIFIC PERFORMED RELATIVE TO THE US AND EUROPE?

Asia Pacific Returns on a Local Currency Basis Have Shown Resilience

Between 2017 and 2019, performance in Asia Pacific was broadly in line with the U.S. and Europe—and even slightly higher on a rolling 12-month basis when measured in local currency terms.

12-M ROLLING TOTAL RETURNS P.A. PER REGION FOR PRIVATE CORE REAL ESTATE RESILIENCE



Sources: AEW, ANREV, INREV and NCREIF, as of Q1 2025 *Please note that returns for Asia Pacific are presented in local currency

A divergence is clear from 2021 onwards - Asia Pacific had a more stable profile, highlighting the intra-regional diversification benefits (which we elaborate on later). In contrast, in the U.S., low interest rates and strong institutional demand for sectors like logistics and multifamily drove significant growth. By 2022 onwards, rising interest rates led to sharper repricing in the U.S. and Europe. While parts of Asia Pacific also underwent price adjustments, the region overall saw a more moderate response, helped by less aggressive rate hikes and continued accommodative interest rate policy in Japan. At the same time, growth in segments like South Korea office and Australian logistics helped offset declines elsewhere. Taken altogether - these dynamics highlight the collective resilience of the Asia Pacific region, where sectoral and geographic diversity help smooth through performance cycles.

Currency Has Been the Silent Drag on Real Estate Return, but Could Reverse

Most private equity funds in Asia Pacific are USD-denominated, making performance sensitive to currency moves. From 2021 through 2024, the U.S. dollar appreciated materially against many regional currencies. What this meant was even strong local-currency asset performance in markets such as Japan, South Korea, and Australia was partially or entirely offset by adverse FX translation effects. It highlights the importance of considering currency hedging strategies and that managers can't necessarily rely on passive offset in the short to medium term. While FX effects can reverse over time, the timing is uncertain. However, it is good to note that based on currency movements for the last 20 years, the AUD, JPY and KRW are currently undervalued, creating room for near-term local currency gains that could ease the FX drag and lift USD returns.

Z SCORES OF REAL EFFECTIVE EXCHANGE RATES (REER)

(REER Z-scores indicate relative currency value vs history: above zero = stronger than average, below zero)

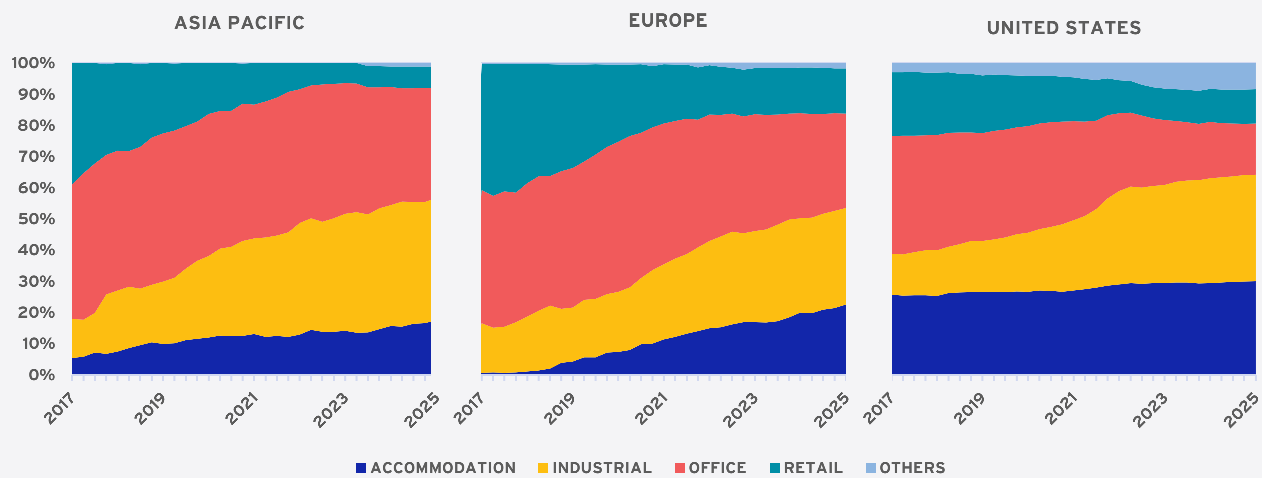
Source: AEW Research, Bloomberg
Note: We leave out SGD, CNY, and HKD given their managed regimes, where policy interventions dominate price dynamics and can mask true mean-reversion signals.

Sector Evolution in Asia Pacific

An analysis of the ODCE[1] indices show sector allocations evolve over time, adjusting to prevailing market tailwinds and headwinds. Asia Pacific remains behind the US and Europe in diversifying sector exposure – particularly in residential/accommodation, suggesting considerable scope for expansion as current tailwinds strengthen demand in this segment. Today, based on core fund exposure, the accommodation sector in Asia Pacific is just USD 3.6 billion vs USD 10.3 billion and USD 83.7 billion in Europe and the U.S. respectively.

The growth of the accommodation sector outside the Asia Pacific region has been driven by the rise of rental housing, student housing, aged care, and hotels - sectors where investor activity in Asia Pacific are still in the early stages. Other operationally intensive sectors such as data centers, healthcare and education are also gaining traction. These 'new economy' assets are already attracting investment through development and construction projects and, over time, will likely transition into income-producing core holdings, helping to mature and diversify the Asia Pacific region's real estate landscape.

REGIONAL ODCE BENCHMARK SECTOR COMPARISON 2017 TO 2025



Sources: AEW, ANREV, INREV and NCREIF, as of Q1 2025

1 Open End Diversified Core Equity indices, are the most widely used real estate benchmarks that measure the performance of non-listed, open-end core real estate funds. They are produced collaboratively by NCREIF, INREV, and ANREV.

PART TWO | THE ROAD TO MATURITY

Why Invest in Asia Pacific?

What are the Key Structural Reasons to Invest in Asia Pacific Real Estate Today?

We believe Asia Pacific real estate presents a long-term, compelling investment case. The region offers meaningful diversification, both globally and within Asia Pacific, across economies and property sectors. Its rising interconnectedness supports collaborative growth, while rapid urbanization and sector innovation provide early-mover access to emerging opportunities.

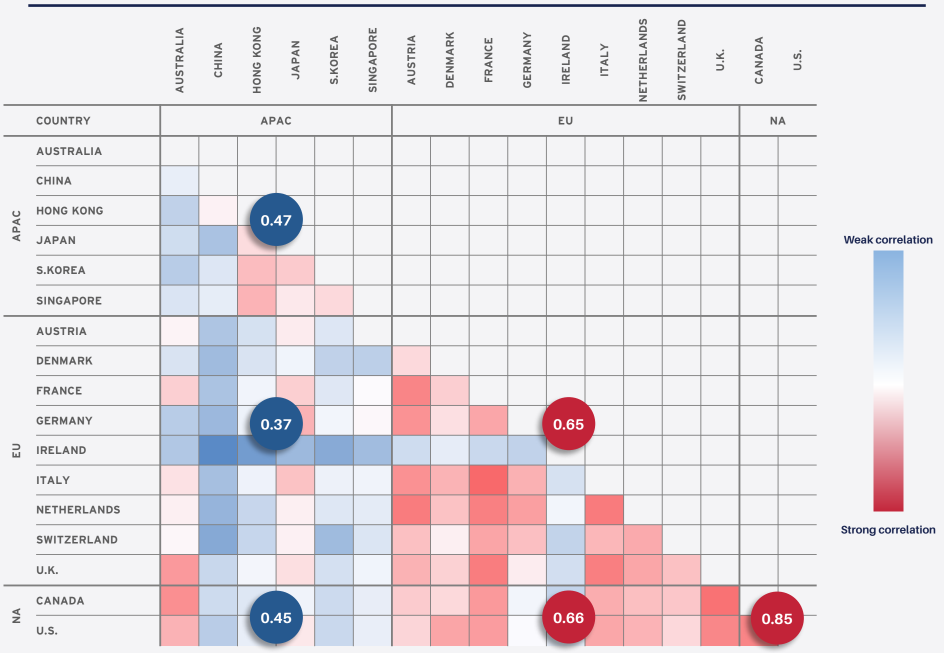
Asia's ongoing development in areas such as transparency, market depth, and institutional stock presents both challenges and opportunities. These gaps can allow investors to source off-market deals, enhance assets, and potentially develop the next generation of core real estate. Over time, these factors may contribute to structural advantages. Investment performance may also benefit from active rotation across sectors and markets within each cycle.

1. DIVERSIFICATION BENEFITS AT THE ECONOMIC AND PROPERTY LEVEL

Low cross-country correlation strengthens diversification

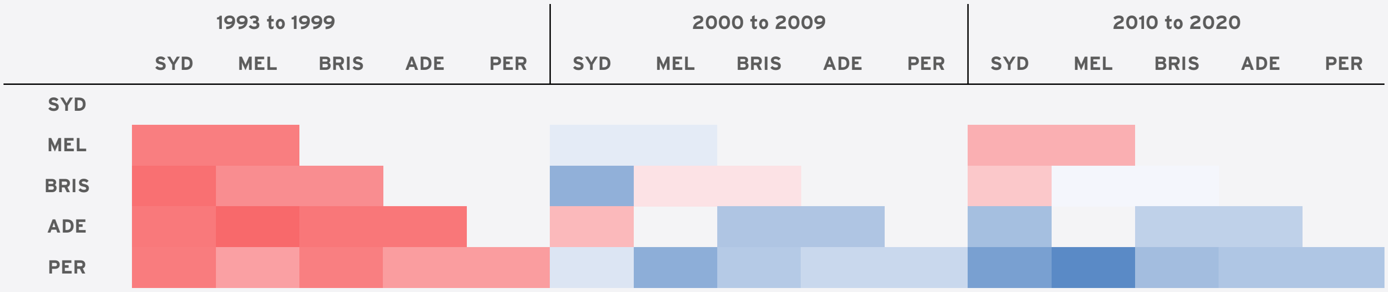
Allocating to Asia Pacific diversifies macro risks, which affect demand for commercial space, interest rates, and consumer sentiment. GDP growth in Asia Pacific countries is weakly correlated, so economic fluctuations in one country do not necessarily impact others. Demand drivers vary across the region (e.g., tech in South Korea, manufacturing in Japan, finance in Singapore), making real estate valuations and rental income less likely to move in sync.

GDP GROWTH CORRELATION – 1990 to 2024



Sources: AEW, ANREV, INREV and NCREIF, as of Q1 2025

GDP GROWTH CORRELATION – AU CAPITAL CITES

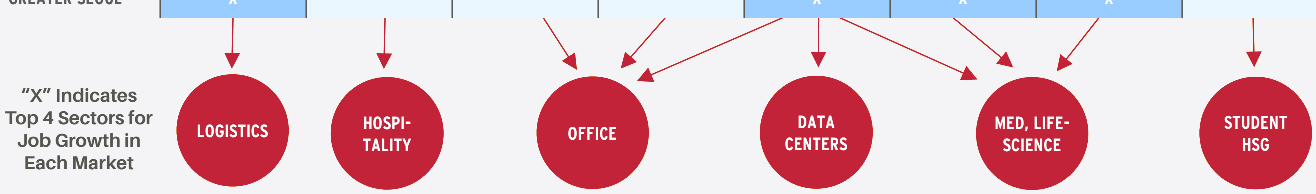


Source: IMF World Economic Database, as of end 2024

The trends mentioned above are largely backward-looking, so understanding the outlook of key sectoral drivers is crucial to evaluating future diversification trends. Gross value-added and employment projections over the next five years continue to show variation at the city level, ensuring diversification benefits remain in place. Health care and engineering type roles should be a blanket driver of employment growth across the region, but beyond these two key sectors- employment drivers are varied, which ensure diversification through growth tailwinds.

STRONGEST JOBS GROWTH SECTORS BY MARKET (2025 TO 2029)

	TRANSPORT & STORAGE	RECREATION	FINANCIAL SERVICES	ADMIN SERVICES & PUBLIC ADMIN	INFO, TECH & COMMS	SCIENTIFIC & PROFESSIONAL	HEALTH	EDUCATION
SYDNEY			X	X		X	X	
MELBOURNE			X	X		X	X	X
BRISBANE	X					X	X	
HONG KONG		X		X			X	X
TOKYO					X	X	X	X
SAITAMA					X		X	X
OSAKA		X			X	X	X	
FUKUOKA		X			X	X	X	
SINGAPORE	X				X	X	X	
GREATER SEOUL	X				X	X	X	

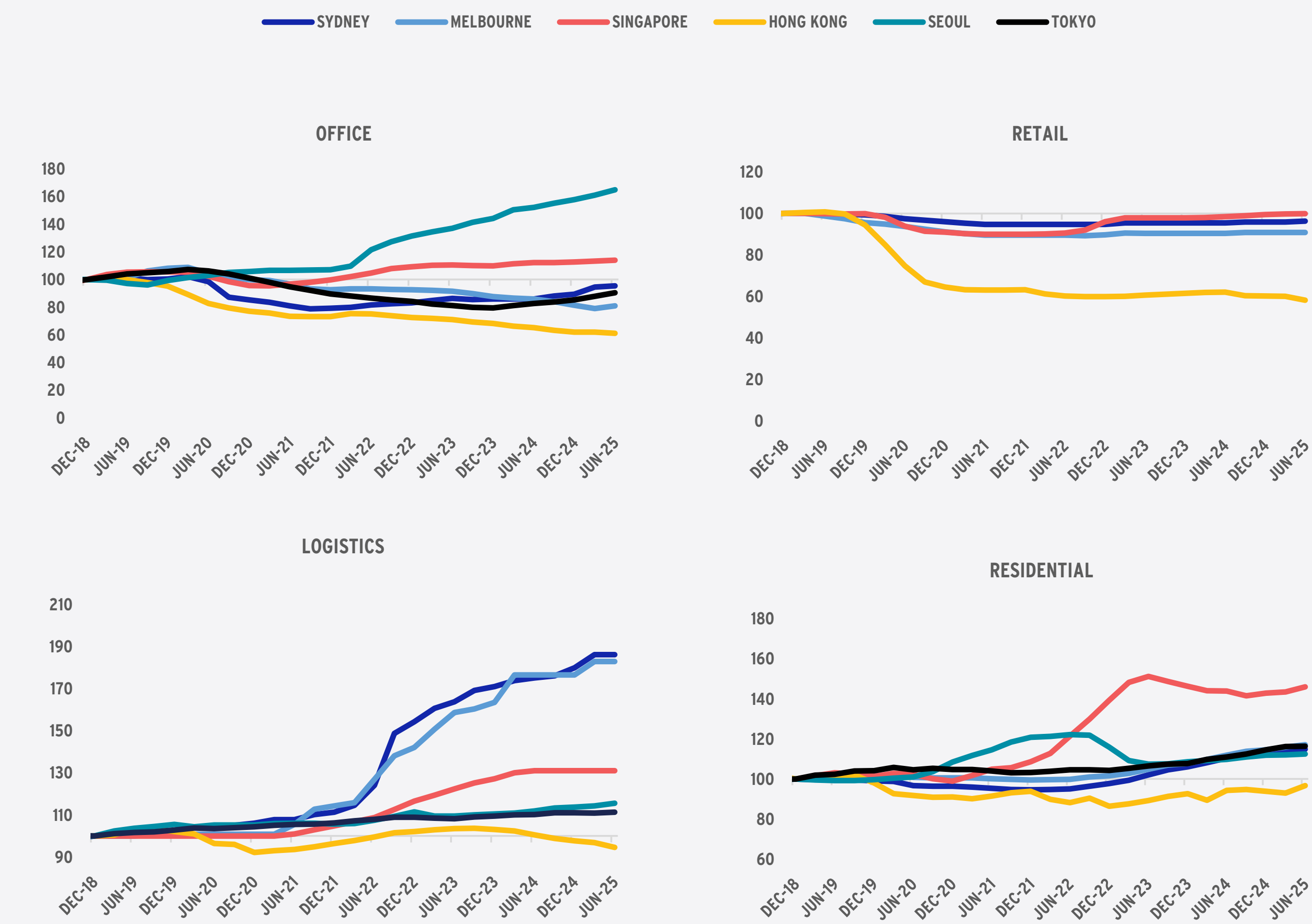


Source: Oxford Economics, as of end June 2025

Non-synchronous property markets all with different characteristics and cycles

Beyond economic cycles, real estate markets in Asia Pacific tend to be weakly correlated with one another, underscoring their local nature. Diversifying across geographies and sectors can therefore enhance portfolio resilience and risk-adjusted returns. That said, correlations are generally higher in retail and logistics, where demand has been more shaped by global structural trends over the past 7–10 years.

HISTORICAL RENTAL GROWTH INDEX , DEC 2018 = 100



Source: JLL, Bloomberg, URA REALIS, HKRVD, Land Institute of Japan, athome Japan, as of Q1 2025

Capital value growth tells a similar story of low co-movement. Since 2010 the logistics sector has generally moved out of sync with the office and retail sectors. As a result, adding logistics to an existing portfolio of office assets should contribute to a reduction of overall portfolio risk.

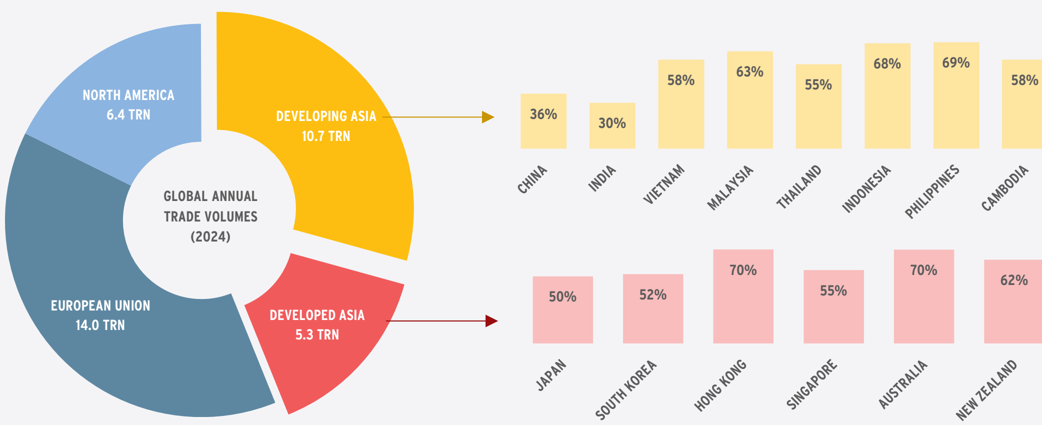
An investment mandate with multiple destinations to choose from enables an investor to select the markets with the best set of fundamentals during its deployment period. It reinforces the adage that "investment performance is no matter of chance, it is a matter of choice".

2. ECONOMIC BENEFITS FLOW FROM A MORE CONNECTED ASIA

Concerns about tariffs and their impact on global trade, particularly in the Asia Pacific region, are valid—but perspective is essential. Asia Pacific is the second-most integrated trade region globally, after Europe. While the U.S. and some western nations are focused on reshoring and nationalistic industrialization, Asia is increasingly centered on regionalization and friend-shoring. The region's trade is characterized by robust intra-regional exchanges, which not only drive economic growth but can also provide resilience against global market volatility. We believe that future growth will largely stem from deeper cooperation among Southeast Asian and broader Asia-Pacific nations.

As described by Dr. Parag Khanna in his book,"The Future is Asian", Geopolitical risks in Asia-Pacific are real, but intra-regional relationships focus more on commercial complementarity rather than political differences. The region's integration, despite diverse currencies, languages, and economic movements, is the product of deliberate agreements like RCEP and numerous bilateral FTAs. This extends beyond goods to include digital trade as well, which also further ensures the growth and support of new economy businesses and services.

ASIA PACIFIC'S INTRA-REGIONAL TRADE

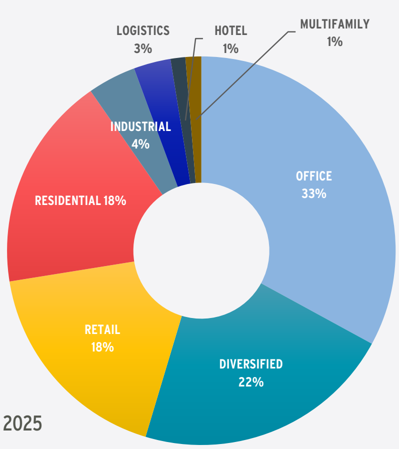


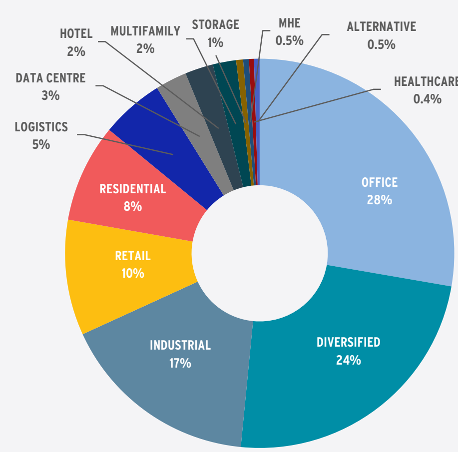
Sources: IMF World Trade, 2024

3. PARTICIPATING IN GROWTH OF NEW SECTORS

As noted earlier, sector diversification in Asia Pacific is expected to accelerate over the next decade, and early participation may offer a first-mover advantage. While looking at the U.S. and Europe are helpful guides to how Asia Pacific's real estate sectors will evolve, closer to home, the Asia Pacific Developed REIT market (the FTSE EPRA NAREIT Developed Asia Index) serves as a useful forward indicator of investor appetite and capital pricing, providing a roadmap as to how private real estate will evolve. REITs, as active buyers and sellers, are often rewarded for rotating into favored sectors—effectively setting the pace for future trends in the private market.

FTSE EPRA NAREIT DEVELOPED ASIA SECTOR BREAKDOWN 2015 VS Q2 2025





Sources: Factset, as of Q1 2025

4. MARKET INEFFICIENCIES CAN UNLOCK OFF-CYCLE OPPORTUNITIES

While transparency levels across Asia Pacific real estate markets are improving, making them appear more institutional and even on par with Western markets - underlying inefficiencies remain. It is evident in transaction-appraisal lags and the large size of the non-institutional owner base – especially in markets like Japan and South Korea. These markets are still highly fragmented and localized, suggesting that on-the-ground presence and strong local networks may provide unique opportunities at attractive pricing, sometimes leading to favorable off-cycle returns.

5. CREATING TOMORROW'S INSTITUTIONAL QUALITY STOCK

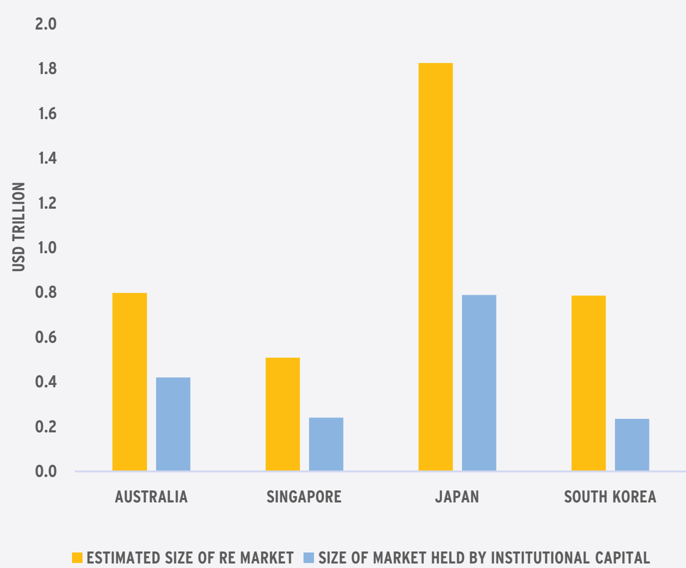
Longstanding real estate ownership in Asia has created a deep reservoir of underutilized assets. As urban needs evolve and economic priorities shift, these legacy holdings, many tied to generational wealth, are ripe for repositioning. At the same time, corporate real estate portfolios, particularly in Japan and South Korea, are being rationalized amid rising shareholder pressure and improved governance, unlocking a broader range of opportunities.

Real estate is closely linked to economic output, so we apply a top-down approach, using GDP as a proxy to estimate the overall market size. We then compare this with a bottom-up view of institutionally held real estate stock, revealing a significant gap and untapped potential- particularly in Japan and South Korea.

Another important feature of creating institutional quality stock is real estate owners participating in sustainable goals and targets. Recent CBRE survey showed that only 45% of asset owners in Asia Pacific report that 80% or more of their real estate holdings are green certified. In the next three years this is expected to change dramatically- a conscious effort by investors to keep their properties relevant, high performing and attractive to investors.

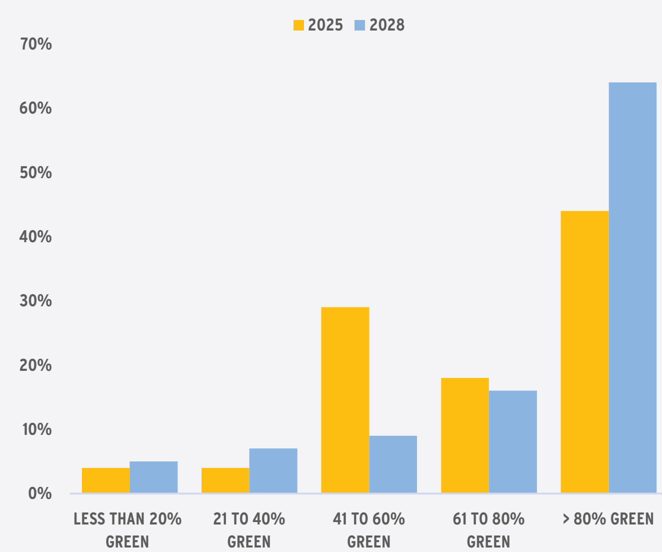
Efforts in the last five years have gotten somewhat derailed due to the surge in financing and construction costs, as well as the slowdown in investment activity – but it is nonetheless a significant scalable opportunity in the region. The potential comes from the collective goal and targets by: 1) governments & regulators; 2) corporate occupiers; as well as 3) landlords. These features combine well to provide clear drivers for investors to invest in green certifications.

SIZING THE MARKET
INSTITUTIONAL VS TOTAL REAL ESTATE IN DEV APAC 2015 VS Q2 2025



Source: AEW Research, IMF World Economic Database, CBRE Research, MSCI, as of June 2025

PROPORTION OF PORTFOLIOS EXPECTED TO HAVE GREEN CERTIFICATIONS



Source: CBRE Research, as of June 2025

PART THREE | POSITIONED FOR CHANGE

Strategic Opportunities and Risk Navigation in Asia Pacific

Where are the most compelling growth and value plays, and are they consistent across markets?

This next cycle calls for a recalibration of strategy, one that goes beyond traditional sector or geography-based approaches.

A RENEWED FOCUS ON PEOPLE

Understanding where populations are moving and how their needs and preferences are changing is critical to anticipating future demand.

ASIA PACIFIC'S SILVER WAVE

As populations age, the built environment must evolve to support new lifestyle, care, and infrastructure requirements.

BEYOND THE OBVIOUS IN TECH AND AI

While technological advancements and the AI boom continue to reshape demand, some interesting opportunities lie in less obvious, underexplored segments.

TACTICAL RESPONSES AND ATTRACTIVE ENTRY

Demand-supply mismatches are creating pockets of mispriced risk and attractive buying opportunities in this cycle that can be tactically captured.

A Renewed Focus on People

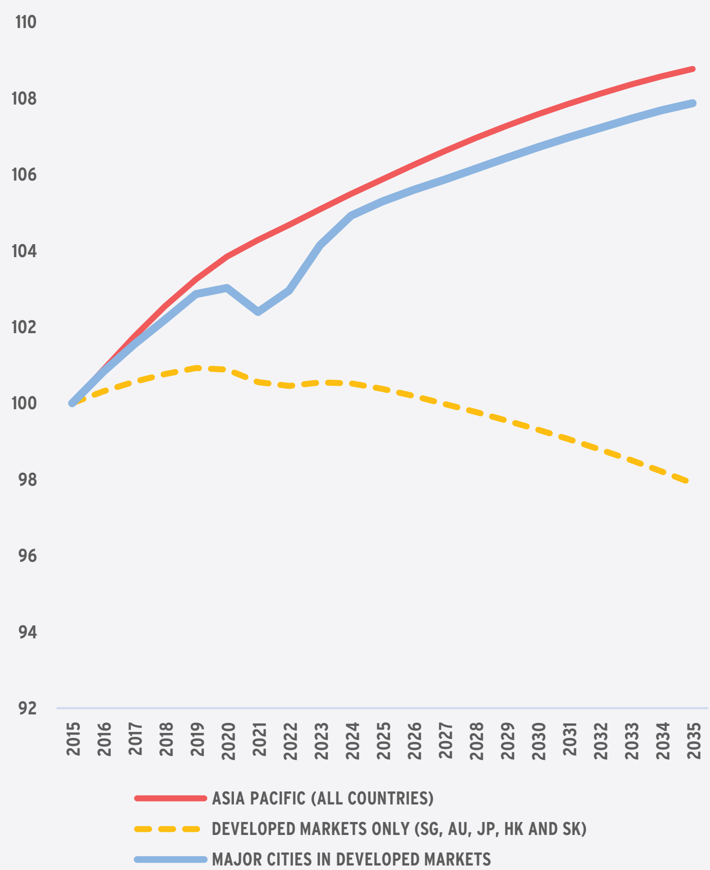
DEMOGRAPHICS & MOBILITY ARE REWRITING REAL ESTATE NEEDS

Asia Pacific's strength lies in its large, diverse, and growing population. By 2035, an estimated 65% of the world's most populous cities will be in this region, underscoring the scale of urban concentration and demographic weight. Most of this growth will be concentrated in emerging markets, but its ripple effects extend within the region through rising migration, talent mobility, and rising consumer flows.

MOBILITY & POROUS BORDERS

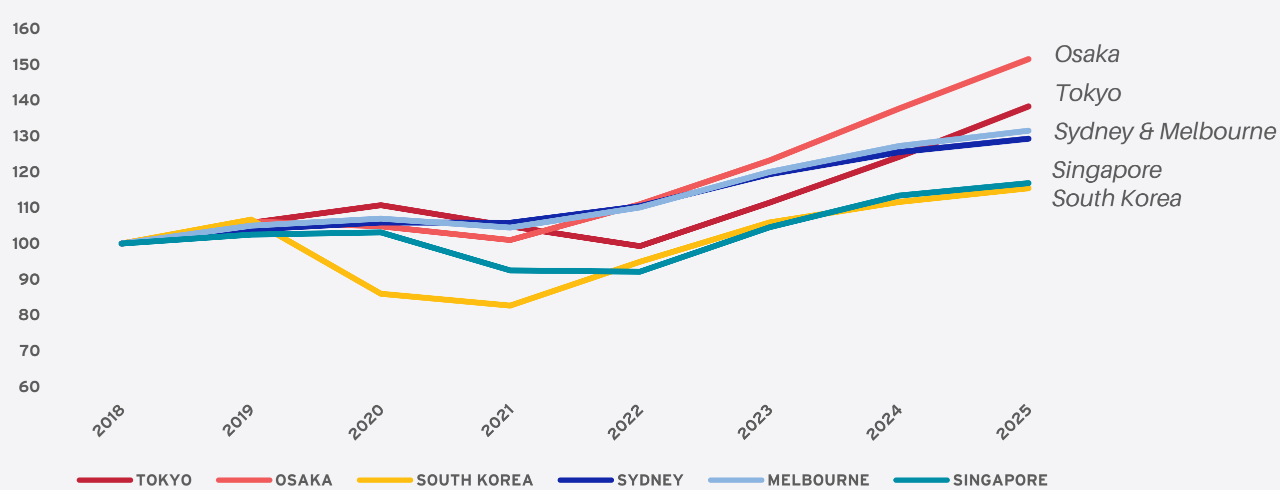
Perhaps underappreciated today is the increased intra-regional migrant flow within Asia Pacific. According to the World Bank, skilled migrants from East Asia and the Pacific are increasingly heading to the major cities of high-income countries within the region—such as Singapore, South Korea, Japan, and Australia. Many Asia Pacific economies have also adopted more liberal immigration policies, setting them apart from more restrictive trends in parts of the Western world. International students now account for a rising share of mobility flows, drawn not only by favorable visa regimes but also by the region's relative affordability.

POPULATION INDEX
DEC 2015 = 100



Source: Oxford Economics, as of Q2 2025

FOREIGN POPULATION GROWTH INDEX - DEC 2018 = 100



Source: Korea Immigration Service, Australia Government – DOHA, Statistics of Tokyo, Department of Statistics Singapore. Hong Kong Census and Statistics Department, as of end 2024

SHIFTING DEMOGRAPHICS, AFFORDABILITY & PREFERENCES

APAC HOUSING BURDEN, HH SIZE, BUY VS RENT

CITY	TOKYO	SEOUL	HONG KONG	SYDNEY	SINGAPORE
Ave Household Size (2020)	1.9	2.4	2.8	2.8	3.2
Ave Household Size (2030F)	1.8	2.2	2.6	2.8	2.9
Median House Price to Annual Income Ratio	15X	13X	14X	14X	11.5X
Median Rent to Income Ratio	20%	26%	45%	32%	31%

Source: Oxford Economics, Demographia International Housing Affordability, Singstat,South Korea Ministry of Land Housing Survey, ULI Home Attainability Index, as of end 2024

At the same time, developed markets face both enduring and emerging demographic shifts in its local population. Urban migration has had long-standing influence on real estate planning. However, newer well-documented dynamics, such as delayed marriages, shrinking household sizes, worsening affordability and changing preferences are introducing more transformations on the rental housing market, forcing changes in housing formats, tenure models, amenity expectations and locational preferences.

WHAT DOES IT MEAN FOR REAL ESTATE?

It is the composition and mobility of people that are transforming real estate strategies. We believe the opportunity lies in understanding these market-specific dynamics and matching capital to need, segment, and timing.

The table below outlines our preferences for living strategies in the region.

MAJOR FOREIGN POPULATION GROWTH SOURCES

MARKET	MULTIFAMILY	FLEX LIVING	EDUCATION DISTRICT RENTALS	EMPLOYEE HSG
Sydney		✓	✓	
Hong Kong			✓	✓
Singapore		✓	✓	✓
Tokyo	✓	✓	✓	✓
Seoul	✓	✓	✓	

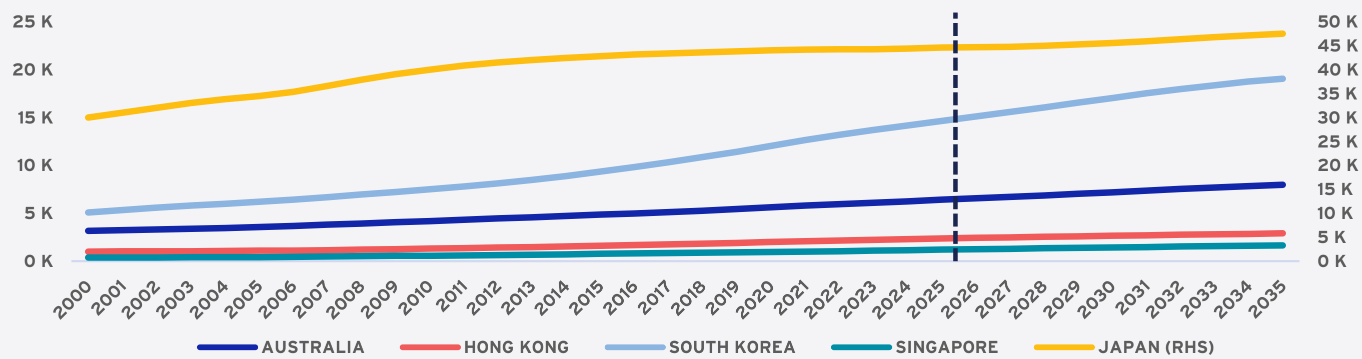
Source: AEW Research

Asia Pacific's Silver Wave

AGEING IS PRESENTING INVESTORS WITH LONG-TERM OPPORTUNITIES FOR HOUSING, HEALTHCARE AND THE RISING INFLUENCE OF THE OLDER CONSUMER

Among the few certainties in today's world is that societies are ageing. While this is a global trend, it is especially pronounced in parts of Asia Pacific, in particular North Asia. Japan led the region's aging curve in the early 2000s, but today it is South Korea's "silver tsunami" making headlines, with its 65+ population projected to grow by 3.0% annually over the next decade.

POPULATION SIZE OF 65+ ACROSS ASIA PACIFIC



Source: Oxford Economics, as of June 2025

AGEING INTERSECTS WITH EVOLVING LIFESTYLES AND SHIFTING TRADITIONS

Societies today are ageing differently than in the past—shaped by better healthcare access, life expectancy, quality of life, and accumulated wealth. Unlike previous cohorts, today's seniors are living longer, staying active, and often wield significant financial influence.

However, it is not just demographics driving demand, cultural norms that once constrained the aged housing sector from taking off are turning, though unevenly, across markets. At the same time, with a rapidly expanding base of seniors today, there are fewer family members able to provide care. These collectively underpin a compelling real estate thesis around evolving housing needs for aging populations. Japan and Australia already have established seniors housing models that will continue to play a role, but we believe the strongest growth potential lies in South Korea. In contrast, market scale and investable opportunities may be more limited in Hong Kong and Singapore.

HOUSING OPTIONS: DIFFERENT MARKETS, DIFFERENT MODELS

The investment opportunity is not uniform across markets – the product spectrum ranges from lifestyle-led communities with optional care services to institutional-grade, long-term care facilities tied closely to public insurance systems.

Japan stands out for its focus on nursing care and long-term care facilities, underpinned by its public Long-Term Care Insurance (LTCI) system. Australia, by comparison, emphasizes retirement villages and land lease communities designed around lifestyle, with care services layered on top as needs evolve. As South Korea's seniors housing market starts to take off, both lifestyle and care products will be available.

CAPTURING THE EDGES OF AGEING DEMAND

Besides the obvious seniors housing opportunities, there are other parts of the real estate market that will start to evolve to cater to the ageing population. Medical facilities / out-patient clinics could end up being more dispersed across the city, and the retail sector could also see tenants pivoting to cater to the needs of seniors. Strategies like this could end up being more interesting in locations which are less dense like Australia – where suburbs could be more defined by demographic traits. For instance, in Greater Sydney alone, we expect there will be close to 10 local government areas (administrative districts) where seniors (aged 65+) make up over 25% of the population by 2035—creating distinct local needs and opportunities across housing, retail, healthcare, and community infrastructure.

Beyond the Obvious in Tech and AI

DATA CENTERS TAKE THE LIMELIGHT, BUT OTHER SUB-SECTORS CAN BENEFIT TOO

Few sectors today offer the structural growth tailwinds of data centers. In the early 2020s, the data center story gained new momentum with AI—driving unprecedented demand and expanding the geographic scope of development. DC Byte's report shares that Asia's operational data center IT power capacity will more than double (between 2.2x to 2.5x), from 2024 to 2029. The bulk of this expansion will be in developed Asia Pacific markets, which account for 92% of the new capacity under construction.

However strong the fundamentals, data centers remain among the most complex real estate assets to develop—characterized by high barriers to entry due to power and land constraints, regulatory hurdles, technical requirements, and the need for long-term tenant relationships. The additional but critical element of assessing an asset's "future-proofness" is extremely important where factors such as upgradeable power density, access to renewable or backup power, flexible cooling systems, and robust physical & network security play a role in long-term viability.

That said, investors can still gain exposure to the data center growth theme without taking on the full spectrum of development risk. Alternative angles include:

- **Power-secured land:** Sites with existing power approvals or grid access.
- **Battery storage facilities:** Important for reducing latency and supporting energy resilience.
- **Proximity to top engineering universities:** Access to talent and potential innovation clusters.
- **Industrial assets near ports:** Critical for importing and staging specialized data center equipment.

Demand-Supply Mismatches & Tactical Entry

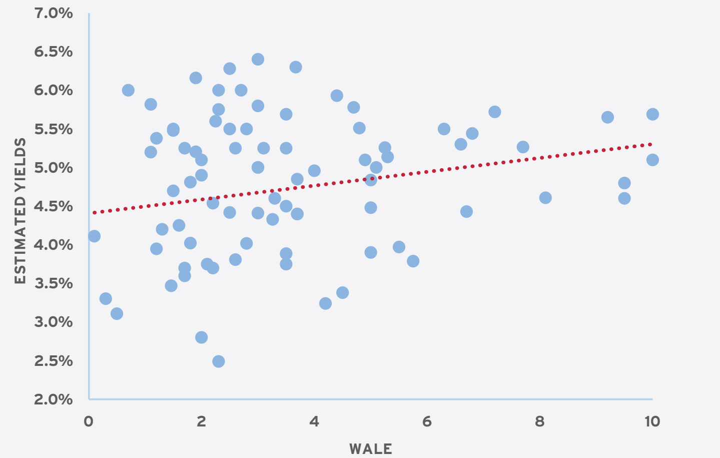
MISPRICED RISK AND GOOD BUYING OPPORTUNITY AVAILABLE

Each downturn leaves investors more risk-aware, often leading to overly cautious positioning as markets start to recover. In our opinion, that creates openings in markets where sentiment could be misaligned with fundamentals. Separately, select markets offer tactical entry points that can reveal interesting sector-agnostic opportunities.

LONG WALE LOGISTICS IN AUSTRALIA

In Australia, long WALE logistics assets were largely avoided over the past four years as investors focused on short WALE opportunities to capture strong market rent growth. But with rental growth now slowing and vacancies rising in some submarkets, the income stability of long WALE assets is regaining appeal. Over time, lease reversion offers potential for further income uplift.

SELECTION OF LOGISTICS TRANSACTIONS IN SYDNEY & MELBOURNE (YIELD VS WALE)



Source: MSCI & AEW Research

ACTIVE SELLERS IN JAPAN

We believe Japan presents a compelling opportunity to invest, particularly as interest rates begin to rise. The market remains highly fragmented, and the real advantage lies with investors who have local teams and partners capable of sourcing off-market deals. Much of the opportunity stems from corporate divestitures driven by governance reforms and a focus on shareholder returns. But equally important are more idiosyncratic situations—such as families selling legacy positions in underperforming companies or disposing of assets to manage inheritance tax liabilities.

BUYING OPPORTUNITIES IN JAPAN

CORPORATE ASSET SALES
Activist funds and PE managers entering the market, driving balance sheet optimization + regulatory & corporate reforms

FAMILY SALES
Families sell assets and gift proceeds to reduce inheritance tax

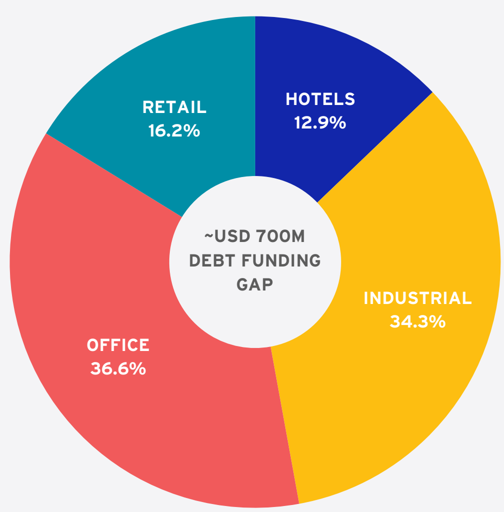
DISTRESS ON CONSTRUCTION PROJECTS
Construction bankruptcies to a 10-year high post rises in input costs

Source: AEW Research

HONG KONG
PLUG THE DEBT FUNDING GAP

We estimate a debt funding gap of approximately 700 million in Hong Kong across all real estate sectors. This can create an opportunity for investors to step in as rescue capital—taking positions with debt-like risk but equity-style control, to reposition assets toward sectors with stronger fundamentals.

HK DEBT FUNDING GAP BY SECTOR



Source: AEW Research, MSCI, JLL, CBRE

Outlook Sensitivities

WHAT RISKS OR SHIFTS COULD ALTER THE OUTLOOK–AND HOW SHOULD INVESTORS PREPARE?

The investment strategies identified are mostly underpinned by structural drivers, but no strategy is without its vulnerabilities. We consider some of the more specific risks, outside of the typical macro-economic trends that could influence outcomes and what investors can do to mitigate them.

RISK / SHIFT	POTENTIAL IMPACT	INVESTOR PREPARATION & MITIGATION
Housing Affordability & Policy Intervention	Rising prices/rents may trigger rent controls, cooling measures, higher foreign-buyer taxes.	Underwrite rental growth conservatively; focus on mid-market/affordable offerings aligned with local incomes to reduce perceived exploitation.
Anti-Foreigner Sentiment	Could reverse liberalized immigration policies, dampening foreign population growth which is a key demand driver for some niche residential segments	Adopt a "barbell" portfolio approach with some assets targeting foreign demand, others serving locals; prioritize markets with structural labor shortages (e.g., Japan, South Korea) where it would be difficult to reverse these policies
Reputational Risk in Seniors Housing	Public perception of profit over care can erode trust, prompt political or regulatory action like rent caps or restrictions on operating models	Partner with reputable local operators and insurance providers to reinforce perception of safety, stability, and long-term commitment. Offer needs-based products and maintain transparent pricing.
Infrastructure Bottlenecks	Energy grid limits, inadequate transport, permitting delays can reduce asset viability—especially in power- or connectivity-intensive sectors like data centers and logistics.	Target submarkets with planned infrastructure upgrades; stress-test for development delays; ensure redundancy in critical utilities.
Tech Disruption & Obsolescence	In tech-linked assets, rapid shifts in technology or user needs could shorten asset relevance.	Prioritize future-proofing—upgradeable infrastructure, adaptable design, strong operator partnerships.
Private Credit Exposure in Funding Gap Markets	Macro volatility or liquidity shifts could impair borrower health and collateral values.	Tighten underwriting standards; focus on resilient borrowers and collateral with multi-use potential.

Source: AEW Research

IN CONCLUSION

Looking Back, Moving Forward: The Next Chapter in Asia Pacific Real Estate

Over the long-term, Asia Pacific real estate has performed well relative to other regions and asset classes. It has demonstrated stability and resilience through multiple performance cycles, supported by the region's unsynchronized economic, monetary, and property cycles.

While the market remains smaller and less institutional than its Western counterparts, this can work to its advantage, as inefficiencies create space for idiosyncratic opportunities. Beyond the obvious diversification benefits, we believe Asia Pacific's structural appeal lies in the fact that it is still maturing, offering investors entry into sectors with significant growth potential as the market institutionalizes. The region is also setting itself apart through collective and cooperative efforts on trade and business, further enhancing its long-term outlook.

Taken together, these factors can position investors well for the future of investing in Asia Pacific.

However, in the next cycle, with limited scope for further cap rate compression and greater instability in demand from traditional real estate segments, a more targeted approach will be required. We see compelling opportunities in structural thematics linked to demographics, mobility, and ageing. We also believe strongly in the AI growth story, with potential "easy wins" in the adjacent sectors that benefit from its expansion. Finally, as in past cycles, certain market conditions may create selective opportunities that appear favorably priced relative to perceived risk, potentially offering higher-than-average returns for well-prepared investors.

In a market defined by change, positioning ahead of evolving market dynamics will be key to sustaining performance. ■