AEW

AEW RESEARCH & STRATEGY

Asia Pacific Research Perspective

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More Questions Than Clues

PRIVATE REAL ESTATE SHELTERED FROM MARKET VOLATILITY

The unknowns continue to build in 2025, casting a shadow over broad decision making and growth prospects in the Asia Pacific region. Still, there are some assurances from private real estate; 1) the price floor is seemingly firming, but for some markets in APAC, a significant gap remains between transaction pricing and valuations, 2) pending interest rate cuts in Asia Pacific could support liquidity, and 3) private investments are largely shielded from the volatility experienced in public markets. Even so, real estate doesn't exist in a vacuum. The global economy looks more fragile than it did six months ago, and as growth forecasts are downgraded, real estate—which underpins and is a broad reflection of economic activity—will likely face pressure on near-term returns.

REITS SLIDE ON HEIGHTENED UNCERTAINTY, LIQUIDITY STABLE BUT SUSTAINED RECOVERY IN DOUBT

Listed markets performed well in Q4 and early 2025, particularly in Australia and Japan. However, that momentum faded quickly as evolving tariff regimes—with ongoing adjustments and directional shifts—introduced fresh volatility into public markets. This near-term volatility is expected to continue, and it's becoming increasingly difficult to rely on public REIT performance as a precursor for private market trends.

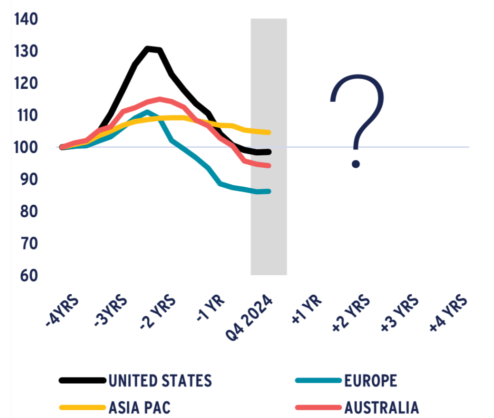
At the start of the year, expectations were for transaction volumes to increase by approximately 20% year-on-year. That now appears optimistic, as rising risk premiums and market uncertainty have led to delays in planned sales/purchases. Still, falling interest rates and capital on the sidelines mean some investors are stepping in to take advantage of the dislocation. By March 2025, investment volumes in Asia Pacific were more or less in line with volumes recorded in the same period last year but with meaningful variation by sector, market, or both.

THE NEXT REAL ESTATE INVESTMENT CYCLE

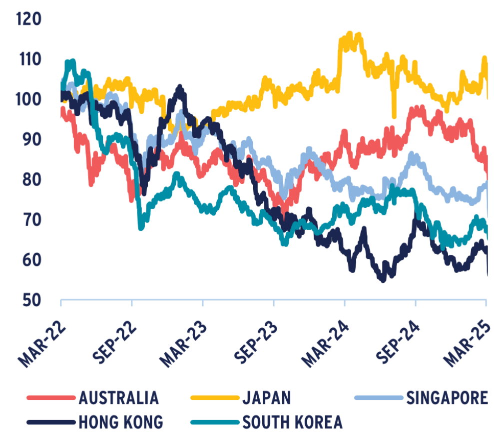
While the broader environment remains uncertain, there's a notable shift among allocators toward markets and sectors perceived to carry less downside risk – in an environment like this, it is less about chasing returns, but rather, avoiding regrets.

Sectors that were gaining momentum but riding more on a cyclical upswing (like offices, hotels and discretionary retail) are likely to see interest deferred given the current economic landscape. Instead, sectors that are arguably more recession-resilient like residential/ multifamily, necessity retail, last mile logistics and critical infrastructure like healthcare, data centers would continue to garner more attention this year.

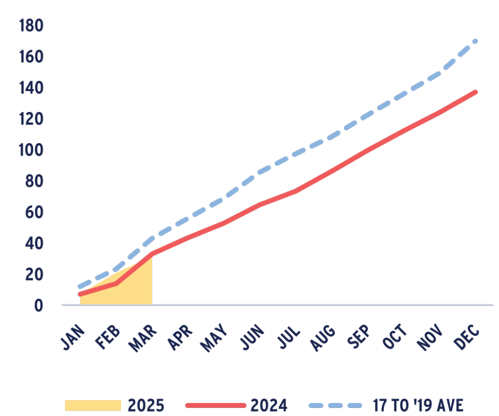
GLOBAL CAPITAL VALUE INDEX LAST 4 YEARS AS OF Q4 2024



FTSE EPRA NAREIT TOTAL RETURN (IN USD) 2015 TO 2024



ASIA PACIFIC TRANSACTION VOLUME BY SECTOR IN USD



Source: AEW Research, Bloomberg, MSCI, ANREV, INREV, NCRIEF as of end April 2025

Hard Truths in Soft Data

GROWTH FORECASTS REORDERED

The shifting rhetoric from the U.S. administration (between combative and constructive) on the delayed reciprocal tariffs holds an unpredictable outcome. However, developed Asia Pacific economies are already experiencing weaker growth, easing inflation, and softer labor markets. Outside of AI-related sectors, capex estimates and consumer confidence points to reduced spending. These trends often precede a broader slowdown or even a mild recession—depending on policy responses and external shocks.

MONETARY POLICY TURNS MORE DOVISH FOR NOW

In recent months, monetary policy in developed Asia Pacific has turned dovish, reflecting concerns over economic weakness stemming from tariff uncertainty—though this shift could be reversed. The Bank of Korea has effectively cut rates three times since Q3 2024 is expected to do so again in June 2025. In Australia, the RBA has adopted a more dovish stance, while Singapore's MAS unexpectedly loosened policy in April, citing downside inflation risks. Even the Bank of Japan's earlier confidence in policy normalization has wavered due to tariff concerns—though with inflation at target and a potentially positive outcome in trade talks, this may be a delay rather than a reversal.

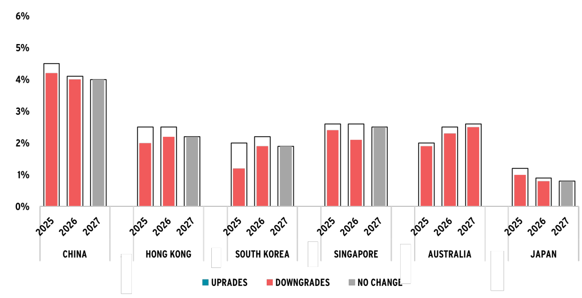
CLOUDS LINGER OVER CHINA'S OUTLOOK

China faces a precarious outlook. Job losses among the 100 million manufacturing workers threaten to deepen existing challenges—housing market downturn, youth unemployment, and demographic decline. The Politburo has signaled further policy support to boost consumer spending, business confidence in sectors. Notably, Hong Kong—once differentiated by its USD peg and alignment with U.S. monetary policy—is now seeing that advantage work against it, as punitive tariffs coincide with limited room for policy stimulus to reignite domestic economic momentum.

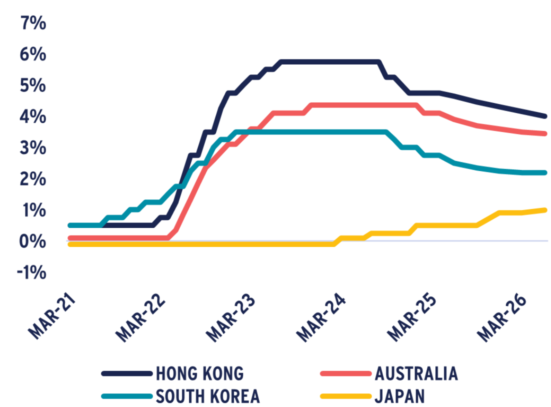
FX DYNAMICS

While trade wars rarely produce clear winners, currency markets are entering a phase of differentiation with USD weakness contrasted with strengthening Asian currencies. The Japanese yen has emerged a standout, benefiting from its safe-haven status, rotation out of the U.S. and renewed interest in undervalued Japanese assets. Other Asian currencies have also gained and could continue for the rest of 2025 as a natural path to trade de-escalation could involve continued dollar deflation.

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



POLICY RATES 2020 TO 2025



CURRENCY MOVEMENTS 2017 TO 2025 YTD

	USDJPY	USDSGD	USDCNY	AUDUSD	USDKRW
2017	3.7%	7.7%	6.3%	8.3%	11.4%
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	-11.5%	-2.0%	2.6%	-5.6%	-9.4%
2022	-13.9%	0.7%	-8.5%	-6.2%	-6.4%
2023	-7.6%	1.4%	-2.9%	0.0%	-1.8%
2024	-11.5%	-3.4%	-2.8%	-9.2%	-14.3%
YTD	8.6%	5.6%	0.4%	4.5%	4.8%

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

Reordering of Sector Priorities

LIVING & LODGING

PRIORITIZED AS MORE RECESSION RESILIENT

The living sector in Asia Pacific remains relatively small in terms of institutional ownership but is expanding steadily through new construction and conversions. Investor interest spans a range of sub-sectors, including multifamily, co-living, serviced residences, senior housing (independent living and aged care), and student accommodation. This growing appeal is driven by structural demographic shifts, evolving migration patterns, rising international student numbers in the Asia Pacific region, and persistent affordability challenges that is increasing the propensity to rent. From a market perspective we expect the broad rental residential sector to deliver solid NOI growth of 4 to 6% annually over the next five years in key submarkets where these fundamentals hold. However, as is the case with operating assets, success hinges on not only market forces but also the operator model, where revenue and cost management are as important as lease terms and tenant covenants.

INDUSTRIAL & LOGISTICS

OCCUPIER DEMAND CONTINUES TO NORMALIZE BUT INVESTORS REMAIN KEEN

The industrial and logistics sector, long seen as a dependable performer due to its simplicity and strong NOI growth could see some headwinds over the next 24 months. These include rising vacancies from a wave of new completions—particularly in Australia's East Coast and Greater Tokyo—alongside the drag from tariffs and weakening demand. Although investor sentiment has been strong, forecasts now point to a decline in NOI growth over 2025 and 2026 (although still positive). Submarket divergence is expected to widen in 2025, with urban infill locations likely to outperform outer areas facing oversupply.

OFFICE

RISK OF DESTABILIZATION IN IMPROVING MARKETS

Repricing in the office sector has been most pronounced in Australia. In March 2025, office fund returns turned positive—a notable shift after several quarters of declines—suggesting early signs of price stabilization. While demand improved modestly through 2024, the loss of momentum in second half of Q1 2025 raises concerns about potential frictions from a broader economic slowdown. In the near-term, we see relative resilience in markets with limited new supply or where development pipelines are being curtailed due to feasibility constraints. Rent forecasts remain largely unchanged from the previous quarter, but extended macroeconomic uncertainty could lead to downgrades.

RETAIL

DEFENSIVENESS IN NON-DISCRETIONARY

Consumer confidence has weakened, raising concerns about near-term discretionary retail spending. This comes after a recent upswing—particularly in tourism-driven retail in Japan and South Korea. In contrast, necessity-based retail continues to show a more resilient outlook. A shift in central bank policy is driving interest rates lower, which could help restore consumer spending power and sentiment. At the same time, new retail supply has declined significantly, relative to historical norms, tightening market conditions. We see the strongest upside in Australia, where strong population growth continues to support foot traffic and retail sales growth.

Living & Lodging

JAPAN: DEMAND FOR VARIED PRODUCT

The leasing market remains strong, supported by urban migration, solid wage growth, and a 10%+ annual rise in foreign residents over the past three years. The growth in foreigners is driving demand for diverse, internationally-oriented housing such as student accommodation, serviced apartments, and co-living. Rents have grown by an average of 8% over the past year in central Tokyo and Osaka, with similar gains expected in 2025. Investor demand is relatively healthy but tempered by full pricing and anticipated interest rate hikes.

SINGAPORE: STUDENT HOUSING ANGLE HAS LEGS

Investment into Singapore's residential market faces structural barriers—high homeownership, dominant public housing, and steep stamp duties. However, growing university enrollment by foreign students and limited on-campus housing are driving demand for student rentals and co-living near campuses.

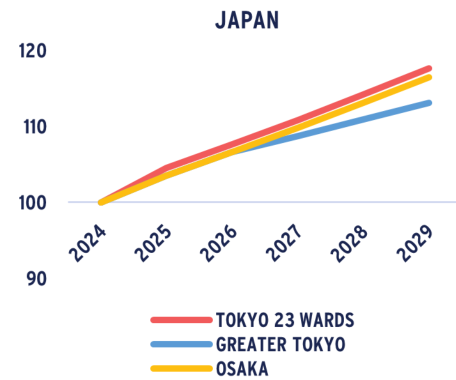
AUSTRALIA: BTR OFFERS STICKY TENANTS AND PREMIUM RENTS

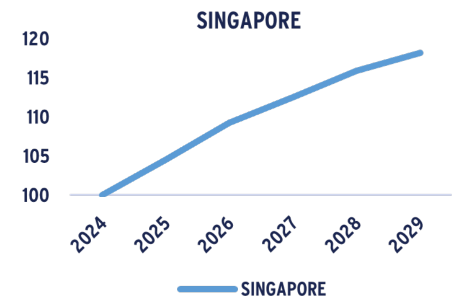
Build-to-rent is viewed as part of the solution to Australia's housing crisis, but challenges remain due to high construction costs, elevated financing, and only core-plus returns for development risk. Still, with rents rising faster than costs, there is some upside potential. Operating assets across Australia indicate a rental premium of about 25% for amenitized housing and on average a 70% retention ratio by tenants. Around 14 new projects are slated for completion in 2025.

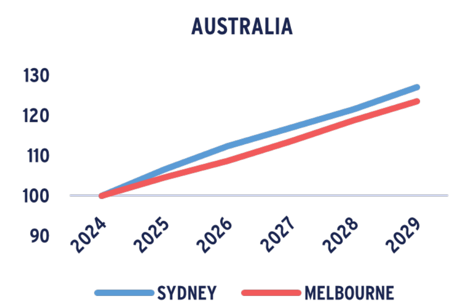
SOUTH KOREA: FROM OFFICETELS TO CO-LIVING

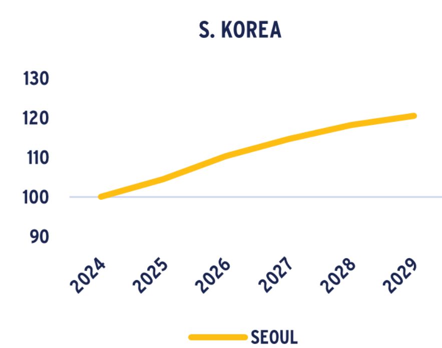
Investment in residential rental strategies is rising in Greater Seoul, fueled by declining interest in Jeonse leases as well as growing demand from young commuters and foreigners for housing near the city. High-density studio apartments, or "officetels," present value-add opportunities through conversion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

LIVING RENT INDEX
2024=100









Source: AEW Research, Q1 2025

Logistics

AUSTRALIA: INCENTIVES RISE AND REVERSIONS NARROW

Australia's eastern seaboard still holds the world's lowest industrial vacancies, but leasing momentum has eased since pent-up demand conditions from 2022 to H1 2024. Incentives have risen to ~20%, and rent reversions are set to narrow to around 10% in 2025.

The sector remains favored by investors on account structural tailwinds and delayed construction timelines that continues to push out vacancy risk. For now, weakness is most apparent in outer-lying Western submarket where new construction is concentrated.

SINGAPORE: CAUTIOUSLY OPTIMISTIC AMID BROADER ECONOMIC UNCERTAINTY

Global trade tensions are expected to weigh on demand in 2025, and Singapore is particularly exposed to a slowdown in both the U.S. and China. With 60% of trade volumes tied to re-exports, the best-case scenario may see firms stockpiling goods and reinforcing supply chains —potentially lifting warehouse demand in the medium- term. Meanwhile, transaction activity slowed in Q1 despite several assets and portfolios being on the market, suggesting an ongoing reassessment of risk and pricing.

HONG KONG: DEMAND HEADWINDS INCREASE, LIQUIDITY RESTRICTED

Hong Kong's outlook is getting a double whammy from punitive tariffs, and the lack of policy stimulus to support demand. CBRE noted for the quarter, there were no leasing transactions exceeding 100,000 sq. ft., a first in more than two years. Distress or major capital loss sales make up the bulk of transactions, but appetite among investors is weak, with mostly end-users active.

SOUTH KOREA: BETTER OUTLOOK FOR DRY STORAGE VS 12 MONTHS AGO

New construction has peaked, easing oversupply concerns compared to a year ago, but the Q1 leasing slowdown is clear. Cold storage remains a challenge, with 30-40% vacancy and limited potential for cold-to-dry conversion due to ceiling height, chamber design, and high costs (KRW500,000-600,000 ppy). Despite this, the sector remains liquid—Greater Seoul recorded KRW2 trillion in industrial trades in Q1 2025, making it the 2nd most actively traded industrial market in the region.

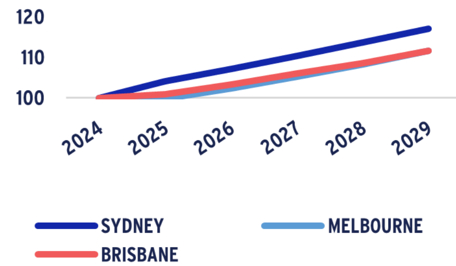
JAPAN: PERFORMANCE WILL BE LOCATION SPECIFIC, INVESTMENT ACTIVITY MODERATING

More caution on the sector amid concerns over rising vacancy, especially in western inland markets in Greater Tokyo, where new completions are failing to secure any pre-commitments in advance of completion, even with generous incentives. Elsewhere however, leasing is more active, indicating some locations are unattractive to occupiers.

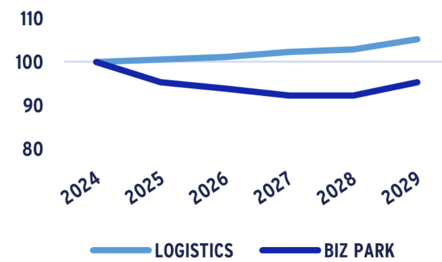
Regional cities like Osaka and Fukuoka are showing more landlord-friendly dynamics and offer a solid yield premium over Tokyo, however in manufacturing and automobile dependent markets like Osaka and Nagoya, tariff impact could be enduring.

LOGISTICS EFFECTIVE RENT INDEX 2024=100

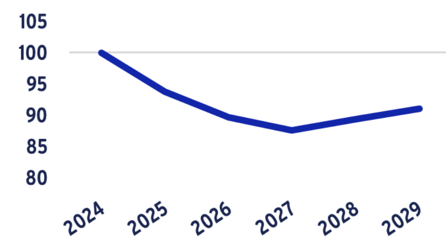
AUSTRALIA



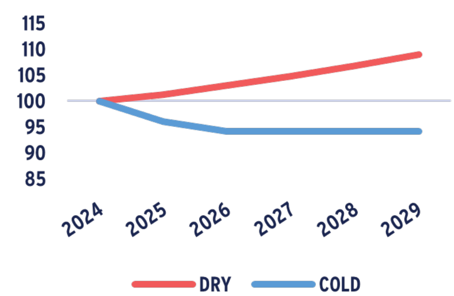
SINGAPORE



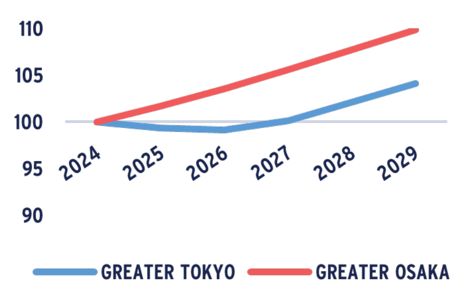
HONG KONG



GREATER SEOUL



JAPAN



Source: AEW Research, JLL, CBRE as of Q1 2025

Office

AUSTRALIA: PRICING STABILIZATION IN CORE MARKETS

Office capital values turned positive in Q1 2025, signaling early pricing stabilization. Leasing remained strong, with demand focused on prime assets. Near-term NOI growth is led by Sydney and Brisbane. Sydney offers the most cap rate compression potential, supported by strong capital interest, though rising supply approvals pose a risk to leasing fundamentals in 2027.

SINGAPORE: RISKS TILT TO THE DOWNSIDE

Demand in recent months has been sustained by generous incentives at newly completed buildings and so far, have held up well by historical standards, but current forecasts bear downside risks, as Singapore's open and trade-dependent economy takes hits from a slowdown in both the U.S. and China and business sentiment turns more cautious.

HONG KONG: WEAKNESS EXTENDS BEYOND 2025

Hong Kong's office market is likely to see continued rental and value declines in 2025. While a slower pace was initially expected, the drop may mirror the 10–12% decline seen in 2024. A high volume of lease expires and new completions will sustain intense leasing competition. Only 12 strata office deals closed in Q1 2025—a sharp drop after steady growth through 2024—reflecting renewed caution amid rising tariff tensions.

CHINA: CHALLENGES SET TO PERSIST DESPITE POSITIVE POLICY SIGNALING

Xi Jinping's early Q1 meetings with tech entrepreneurs briefly lifted business sentiment, but confidence declined following reciprocal tariff hikes. Shanghai and Beijing now have the most negative rental outlooks among target markets over the next two years. With over 40 million sq ft of vacant Grade A space—equivalent to Singapore's entire CBD—the challenges are set to persist.

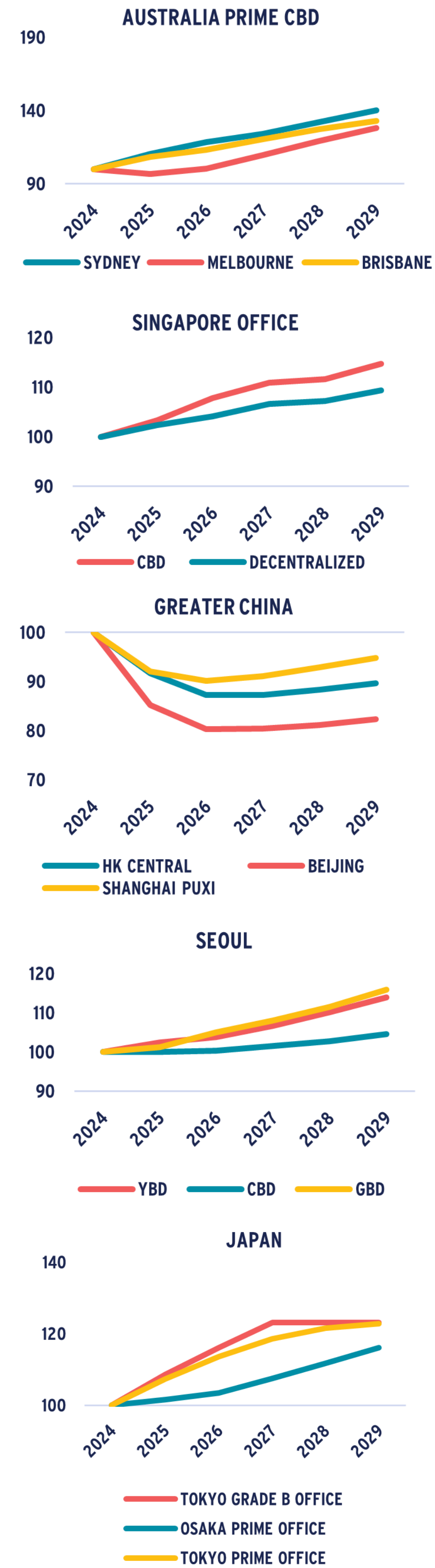
SOUTH KOREA: LATE CYCLE MOVEMENTS

Seoul's office market is late-cycle after nearly four years of rising demand, rent growth, and falling vacancy. Inflation-adjusted effective rents are now 36% above end-2020 levels, raising affordability concerns in some areas. While large-scale decentralization is unlikely, incremental demand could shift from core areas to more affordable submarkets over the next few years.

JAPAN: RENT AND VACANCY OUTLOOK UPGRADED

The underlying health of the Japanese economy is reflected in the broadening demand playing out in both Tokyo and Osaka. While flight to quality and upgrading is a consistent theme, its benefit is being realized across the various grade stratum of the office market from Prime, Grade A and Grade B. Despite the large supply forecast for 2025 and 2026, rental growth could extend through this period.

OFFICE EFFECTIVE RENT INDEX 2024 =100



Source: AEW Research, JLL, CBRE as of Q1 2025

Retail

AUSTRALIA: OUTLOOK REMAINS POSITIVE ON LIMITED SUPPLY

The first rate cut in four years, delivered in February 2025, offered brief relief to consumers. However, by April, both consumer and business confidence had declined, with high living costs and economic uncertainty curbing spending. Meanwhile, rising retail insolvencies up close to 20% in FY 2025 thus far is raising concern.

Despite these headwinds, we remain optimistic about the medium-term outlook, especially for necessity retail, as strong population growth against a supply pipeline 70% below the historical average provides compelling fundamentals.

SINGAPORE: SUBURBAN RESILIENCE BUT RISING CHALLENGES

Retail sales were up in March but have been bumpy in recent months with risks to the downside. Suburban retail has held steady, but performance in tourism related areas/ malls (or even hotels) could see some drag this year as discretionary consumption takes as hit.

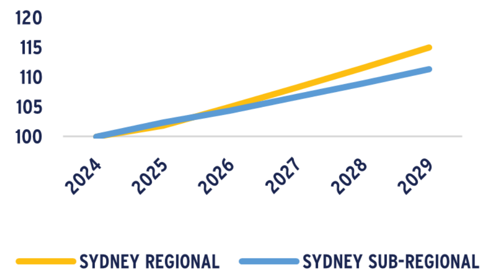
Even with a rental outlook that is more or less in line with inflation, we expect rent reversions to average 4 to 5% p.a. over the next three years, as leases roll off from COVID lows where generous incentives remain in-place.

HONG KONG: LIKELY TO SEE FURTHER DOWNTURN

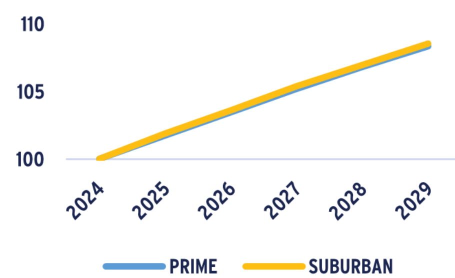
Retail sales continued to decline in March 2025, with overall values about 25% below pre-pandemic levels—despite a 10% year-on-year rise in tourist arrivals in the first quarter. Leasing activity remains sluggish overall, though the education sector, particularly international schools, has emerged as a bright spot, capitalizing on depressed rents. Transaction volumes are subdued, dominated by strata sales and a few en bloc deals, typically at significant discounts.

RETAIL RENT INDEX
2024 =100

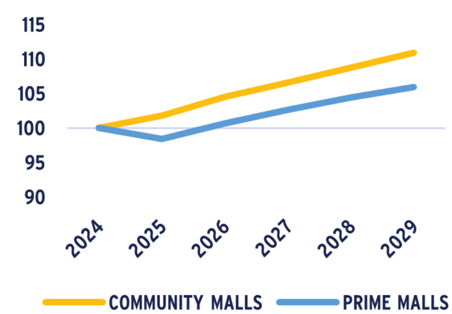
SYDNEY



SINGAPORE



HONG KONG



Source: JLL, AEW Research, as of Q1 2025