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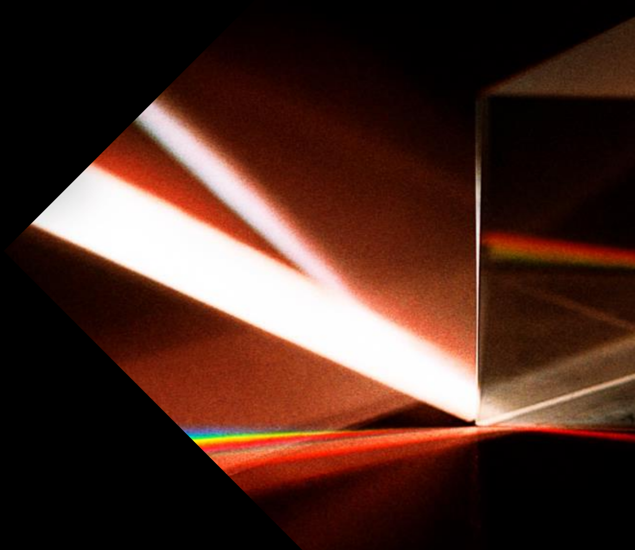

Real Estate APAC Quarterly Spotlight

What is happening in Asia Real Estate?

June 2025

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A renewed stretch of uncertainty, with an added dose of volatility

Global growth forecasts have been downgraded

- The global economy started 2025 with a sense of cautious optimism, but this has rapidly changed over the past few months as the world grappled with the ramifications of the mercantilist policies of the US administration and tariff volatility.
- With the world facing an unprecedented level of uncertainty, global economic growth forecasts have been revised down – according to the International Monetary Fund (IMF) as of 4 April 2025, global growth is projected to drop to 2.8% in 2025 and 3.0% in 2026, down from 3.3% for both years.
- The macro-economic outlook for Asia has also weakened and growth for the region is projected by the IMF to slow to around 3.9% and 4.0% in 2025 and 2026 respectively, down from 4.6% in 2024.
- While the US Federal Reserve continued to extend its pause in its interest rate cut cycle at its May 2025 meeting, APAC's easing cycle (with the exception of Japan) seemed to be in full swing amid concerns over the weaker growth outlook and trade uncertainties.

What piqued our interest?

While there are indications that the rising macroeconomic uncertainty is impacting investment momentum with buyers steering away from cyclical sectors, there remain some silver linings

- **Global real estate investment momentum hitting a snag.** While geopolitical shifts and the tariff situation remain highly fluid, there are early indications that global real estate markets are starting to feel the heat – according to MSCI Real Capital Analytics (RCA), global investment volume was flat in Q1 2025 on a YoY basis, a sharp contrast after volume increased by close to 50% YoY in Q4 2024.
- **APAC real estate markets drawn into the fray.** Real estate investment activity in Asia Pacific (APAC) also took a beating, with Q1 2025 deal volume falling 45% QoQ and 18% YoY; the pipeline of pending deals also contracted from Q4 2024.
- **Rise in cross-border investments in APAC.** Notwithstanding the weaker investment activity, cross-border investment into APAC commercial real estate continued to increase in Q1 2025, notably driven by inflows from outside the region – a considerable proportion of the capital came from investors based in North America, who have been recently been reigniting their focus in APAC.

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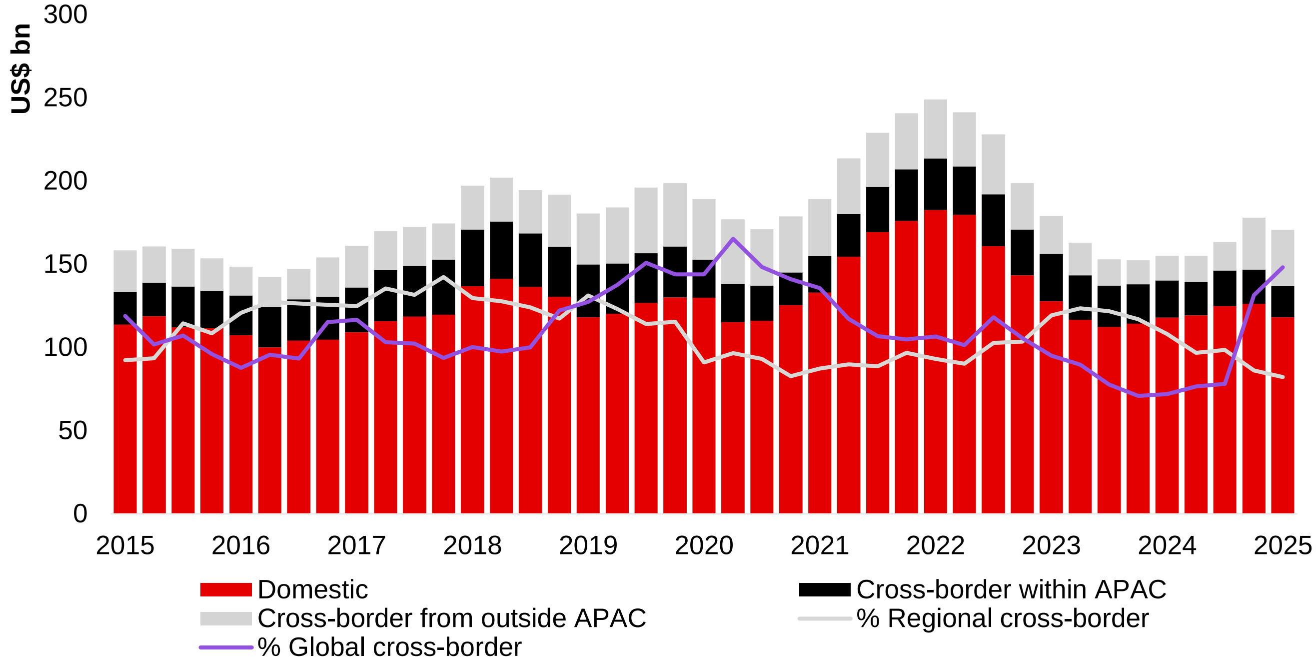
Figure 1: APAC Real Estate Investment Volume* by Source of Capital



Source: MSCI Real Capital Analytics, May 2025.

- **Growing interest from investors outside APAC.** Cross-border investments accounted for 31% of investments in APAC in Q1 2025 based on a four-quarter rolling view, the highest level since Q4 2020; notably, capital flows from investors headquartered outside the region accounted for 20% share of total investments in the quarter, up from 18% in Q4 2024 and 10% in Q1 2024.

- **Japan remained in vogue.** Japan remained as APAC's strongest performer in terms of investment activity in Q1 2025, with Tokyo ranking as the most active metro across the region based on MSCI RCA data. Backed by robust leasing market fundamentals (especially in the office and multifamily residential sectors), transaction activity was driven by several large-scale acquisitions e.g., Tokyo Garden Terrace Kioicho, Tokyu Plaza Ginza and Akasaka Plaza Building, of which many were led by foreigner investors.

- **China stimulus shaping up.** There have been several developments with regard to China's stimulus efforts which we are of the opinion will be a major determinant of how the Greater China real estate markets will trend going forward amid the escalating trade war between the US and China.

  Notably, the Government Work Report (National People's Congress 2025) in March 2025 set the GDP growth target for 2025 to be "around 5%", as well as a record high budget fiscal deficit ratio at 4.0% of GDP, surpassing levels recorded in the pandemic era. More support schemes for consumption (through a 30-point plan), social welfare and cultivating frontier technologies were also unveiled.

- **Breadth of China's fiscal support was wide.** There was a doubling of support for the consumer goods trade-in scheme, more support for large construction projects of strategic importance and an increase in the Special Local Government Bond quota over last year's, primarily to be used for investment, land acquisition, purchasing existing commodity housing, and settling local government arrears. There were also efforts to accelerate the legislation for a Private Economy Promotion Law to support ongoing technology innovation and adoption e.g., Artificial Intelligence developments.

- **Monetary easing also featured prominently.** The People's Bank of China announced a 10bp policy rate cut and a 50bp cut on the Reserve Requirement ratio in May 2025. It also announced easing measures for other interest rates such as lower relending rates for structural monetary tools and the pledged supplementary lending rate by 25bp. According to HSBC Global Research, these tools collectively have the potential to add RMB2.1trn of additional liquidity to the system.

- **Recovery in China real estate remains nascent.** While there have been more meaningful policy maneuvers from the government, the commercial real estate market in China remains subdued as it continues to grapple with weak liquidity and investor sentiment, as well as lacklustre leasing market fundamentals (especially in the office sector). On a more positive note, there were some encouraging signs – year-to-date high-end residential sales in China remained relatively strong, while land sales momentum seems to be building up[1].

- **Sharp decline in Hong Kong's interest rates.** The 1-month Hong Kong Interbank Offered Rate (HIBOR) rate fell significantly from 4.2% at the start of the year to 0.55% as of 10 June 2025, and this was mainly driven by a spike in demand for the HKD amid heightened Initial Public Offering (IPO) activity and upcoming dividend payouts in the Hong Kong stock market. This has, so far, had some positive impact on mainly the residential sector in terms of sales at some new launches and in the secondary market.

- **Notable office sale in Hong Kong despite its challenging market circumstances.** While Hong Kong continued to perform weakly amid subdued liquidity and investor sentiment, April 2025 saw the one of the largest office transactions since early 2024 – this was namely the sale of the top nine floors of One Exchange Square (Levels 42 to 50) by Hong Kong Land to the Hong Kong Exchanges and Clearing Limited for a total consideration of HKD6.3 bn.

- **Understated resilience in Singapore.** While the interest rate cut cycle pause in the US and global trade war have created uncertainties for Singapore's open economy and real estate investment market, there have been several large-scale transactions over the past few months following a relatively muted start to the year e.g., Northpoint City South Wing (suburban shopping mall), 9 Tai Seng Drive (a data centre) and 5 Science Park Drive (business park development) and South Beach (50.1% interest of a mixed-use integrated development). There were also several major conservation shophouses sold in April 2025 i.e., 21 Carpenter and Duxton Reserve Singapore, Autograph Collection.

- **Renewed interest in the living sector.** While interest in the living sector has been moderating since H2 2024, a reversal of this trend was observed since the start of 2025. This was mainly driven by investors steering away from cyclical sectors such as office and industrial & logistics amid the heightened trade tensions, in favour of sectors that are less dependent on the external environment. Based on MSCI RCA data, apartment and senior housing & care acquisitions rose by 4% and 13% on a YoY basis in Q1 2025 respectively. Japan living volumes were noted to have risen by 16% YoY in Q1 2025 according to JLL, with several portfolios transacted in Tokyo.

- **Major living transactions in established APAC markets**. Most of the living investments in APAC were in well-established living markets. Apart from several student accommodation deals in Australia including Greystar's acquisition of a USD1.0 bn portfolio from Wee Hur Holding and GIC, Japan saw Warburg Pincus acquiring the largest share house[2] portfolio (Tokyo Beta) in the country in April 2025 while Singapore witnessed the sale of the Avery Lodge foreign worker dormitory portfolio (over 20,000 beds) to Bain Capital and several mid-sized serviced residences/ co-living deals in the past four months.

What was concerning?

Downside risks are intensifying

- **Expecting the unexpected.** Our assumptions over the previous two quarters with regard to the trajectory of Asia real estate was largely premised on the grounds that there would be greater clarity in both the US administration's tariff direction and China's stimulus position and unfortunately, this has not been the case. The renewed bout of uncertainty and volatility has affected investor sentiment profoundly and this has been the most apparent in the industrial & logistics sector which saw investment volume decline the most significantly (-37% YoY) compared with other sectors.

[1] Based on data from China Real Estate Information Corp, land sales in the first five months of 2025 were 55% higher on a YoY basis in Hangzhou, Beijing, Shanghai, Chengdu, Shenzhen and Guangzhou (China's top six cities). [2] In Japan, this refers to a co-living space where multiple tenants share common facilities e.g., kitchen, living room, and bathrooms, while having their own private rooms. Spanning across 1,195 assets and amounting to 16,192 rooms, the portfolio accounts for more than half of the share house market in Tokyo.

- **Hong Kong remains one of the most challenging markets in the region.** Softness persisted across Hong Kong's capital and leasing markets in the first five months of 2025. Coupled with the oversupply situation in the office sector, investors and occupiers, by large, continued to be cautious which impacted on overall demand. Demand for prime warehouses also moderated considerably despite performing resiliently over the past few years, amid ongoing US-China trade tensions and a slowing global economy.

  The changing fortunes for the city's industrial & logistics sector have been sobering – based on data from CBRE, warehouse vacancy rate which at some point during the pandemic was below 2%, has since risen to over 10% in Q1 2025. With the current tariff situation, the industrial sector is likely to come under more pressure in the coming quarters. Moreover, distressed sales continued to dominate investments in Hong Kong. Financially stressed assets continued to account for a large proportion of overall investment sales – 74% in Q1 2025 versus 56% in Q4 2024 according to CBRE; the emergence of such 'value buy' opportunities may eventually help stimulate investment activity over time.

What do we expect?

Unsurprisingly, the operative word going forward is 'uncertainty'

- The heightened global downside risks and uncertainties, the prospect of weaker economic growth, the rising possibility of stagflation and interest rate volatility, are likely to impair APAC's real estate market conditions in the short term especially in terms of liquidity.

- While the world has hurtled head on into a "Trump 2.0" scenario, the events that have transpired over the recent months brings us to the view that there still remains little clarity of the way forward for APAC's real estate markets and in particular for Greater China.

- On a brighter note, there may be an accelerated "flight to safety" as we enter this renewed stretch of Volatility, Uncertainty, Complexity and Ambiguity (VUCA), which could see investors, especially private wealth capital, gravitate towards markets and investment asset classes which have proven to be stable and safe.

- In the meantime, we remain cautiously hopeful for more green shoots to take root in Greater China given a combination of factors, including a new home supply squeeze, a lower-for-longer rate outlook, along with credit normalisation. Additionally, the Hong Kong IPO market has shown remarkable momentum in Q1 2025 according to KPMG – six IPOs raised over HKD1 bn in 2025 Q1, compared to just one during the same period in 2024, and this may have some positive impact on the real estate market over the next few quarters.

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