Asia-Pacific Capital Markets Insights

Q1 2025

This is an investor focused report which provides an in-depth look at the performance of the commercial real estate markets across the region.

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"Asia-Pacific's real estate market held up well in 2025, with cross-border investment activity reflecting sustained interest, particularly in Japan, Australia, and South Korea. Stabilising asset prices and the clear signal that interest rates have peaked are encouraging investors to support renewed capital deployment. As investors gravitate toward office, industrial, and retail assets that offer resilient income and long-term growth potential, improved financing conditions and clearer valuation floors are helping to restore confidence across key markets."

CRAIG SHUTE
CEO, ASIA-PACIFIC

TOTAL CROSS-BORDER VOLUME (Q1)

US$9.5 Billion

YOY % GROWTH

116.7%

DRIVING FORCE

Office

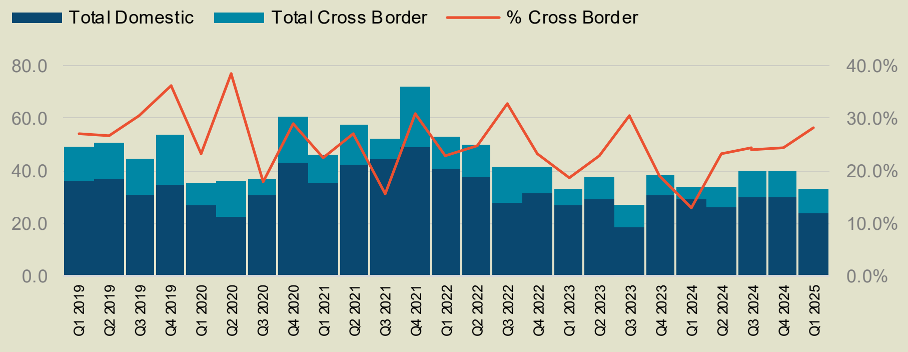
Q1 2025 INVESTMENT VOLUME MAINTAINS STEADY PACE YEAR-ON-YEAR

Asia-Pacific transaction volume registered US$33.4 billion in the opening quarter of 2025, a marginal decrease of 0.8% from the same period in 2024 but a larger contraction of 17.1% quarter-on-quarter (QoQ).

The reduced investment volume in Q1 2025 comes as a contrast to the elevated investment activity witnessed in Q4 2024, where interest rate cuts had prompted investors, who had been cautiously awaiting opportunities, to actively deploy their capital. This surge in investment activity created a high baseline that was difficult to match, leading to the comparatively weaker performance observed in Q1 2025.

Despite this, investment momentum persisted, driven by several substantial transactions materialising during the quarter. For instance, the US$2.6 billion mixed-use Tokyo Garden Terrace Kioicho was acquired by Blackstone from Seibu Holdings, marking it the largest real-estate acquisition by a foreign fund in Japan and the largest transaction in the region over the quarter.

Transaction Volume (US$ Billion)



Source: MSCI Real Assets, Knight Frank Research
Data download as at: 21 April 2025

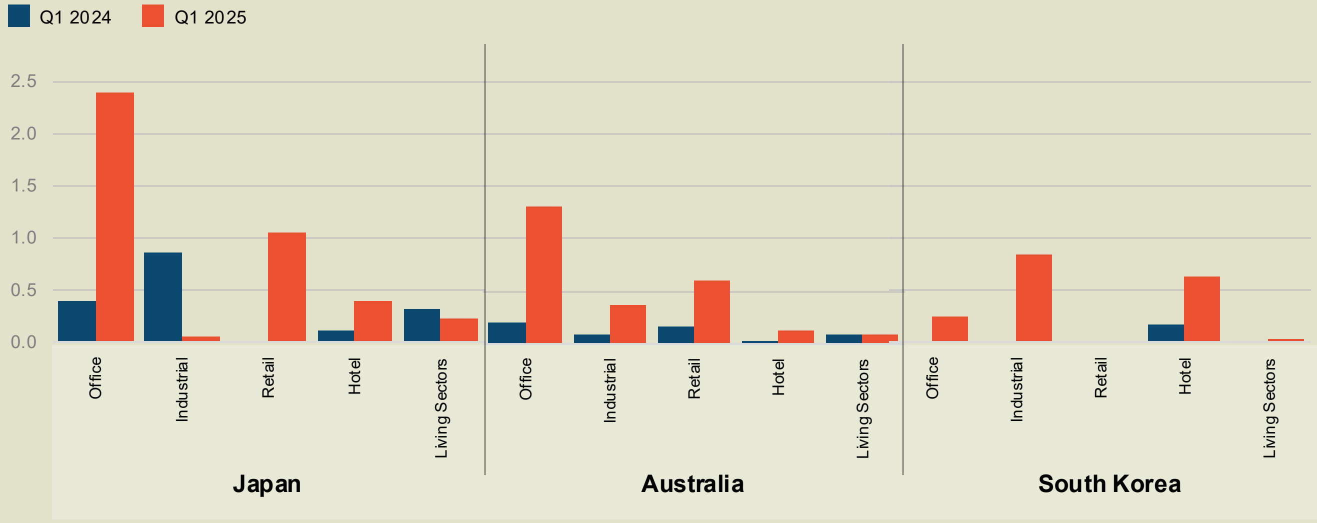
ROBUST APPETITE FOR CROSS-BORDER INVESTMENTS SUSTAINED

Continuing a spending spree from international investors, the proportions of cross-border transactions reached a peak of 28.4%, marking the highest level since Q3 2023. Capital received doubled to US$9.5 billion year-on-year (YoY) although it dipped 4.1% QoQ.

Cross-border institutional investors demonstrated a keen interest in assets located in Japan, Australia, and South Korea, especially in the office, industrial and retail sectors where asset pricing is widely perceived to be either nearing or having already achieved stabilisation, propelling these markets to the forefront of the region in terms of total transaction volumes.

Funds have consistently channelled their capital into Japan's real estate market, enticed by the favourable combination of a weak yen, low borrowing costs, and robust performances. This is especially prominent in their office market, where solid fundamentals were evident, including high occupancies from strong work-in-office commitment and stable

Cross-border Investment Volume by Property Type in Top Three Destinations (US$ Billion)



Source: MSCI Real Assets, Knight Frank Research
Data as of 21 April 2025

rental growth. The net absorption rate has surpassed projections, while new prime supply constraints caused by high construction costs and labour shortages have resulted in a supply-demand imbalance.

Against the backdrop of economic and political uncertainty, the industrial sector in South Korea has experienced a surge in foreign investor confidence over the past year. This renewed optimism can be attributed to several factors, including more acceptable interest rates, the sector's resilience, and growing leasing activities amidst a tightening supply of prime assets.

Global investors also favoured Australian retail assets in Q1 2025, where volume rebounded almost three folds YoY to US$592 million. Renewed economic optimism, fuelled by easing inflation and interest rate concerns, is spurring investors to engage in increased deal activity. Positive leasing trends and rising retail sales signify the sector's resilience amidst consumer struggles, presenting investors with attractive long-term growth opportunities during economic recovery.

OUTLOOK

The Asia-Pacific real estate market continues to exhibit resilience and strong investor confidence, as evidenced by transaction volumes nearing levels seen a year ago. With US$5.6 billion in deals already captured at the onset of Q2 2025, the market shows promising signs of growth.

Central Banks' rate cuts have further enhanced the attractiveness of debt-financed acquisitions, and stabilising asset prices have fueled increased activity in the market.

While we anticipate this positive momentum to gather pace, the on again, off again tariffs are muddying the outlook for further recovery in the investment landscape. Should tariffs lead to a sustained increase in inflation, the Fed would likely raise interest rates, exerting upward pressure on long-term interest rates and cap rates, potentially dampening capital markets activity globally.

If implemented in full force, the industrial and retail sectors are likely to bear the brunt, with decreasing consumer spending and shifting goods movement directly influencing demand.

Not withstanding broader macro-economic uncertainties, the office sector in Asia-Pacific appears comparatively well-insulated, underpinned by a convergence of structural and cyclical tailwinds. In particular, tier-one cities in Japan and Australia continue to exhibit high occupancies and resilient rental trajectories.

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