

2026

Asia Pacific

EMERGING TRENDS IN REAL ESTATE®

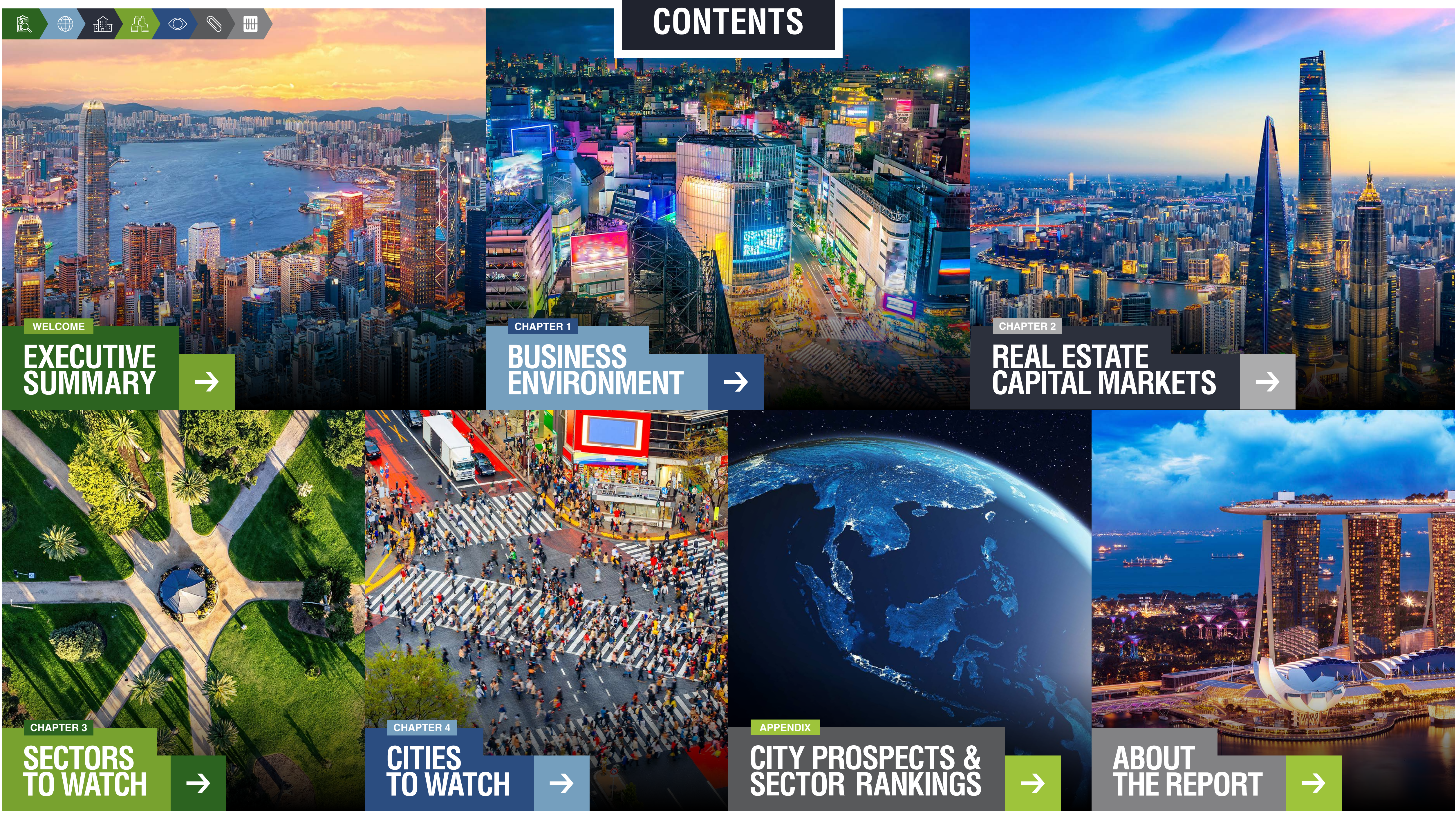
TOKYO MIDTOWN YAESU
Bus Terminal Tokyo Yaesu

TOKYO MIDTOWN YAESU

TOKYO MIDTOWN YAESU, TOKYO



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EXECUTIVE SUMMARY

“Our overall view is that rates are trending downwards; Australia has already cut rates, the US signals a softening stance and Japan remains an outlier, but with minimal upward pressure.”

Singaporean investment manager

HONG KONG, CHINA.

Cautious optimism, lingering concerns

It is fair to report that the mood amongst interviewees and survey respondents for *Emerging Trends in Real Estate® Asia Pacific 2026* is one of cautious optimism, with a broad expectation that 2026 will be better than last year. However, that statement comes with many qualifiers. Market players’ optimism depends very much on where they stand and where they are looking. Those focused on Japan, Singapore, data centres, and the living sectors see a brighter future; those invested in China or in the office sector are less upbeat. Overall, survey respondents are more optimistic about profitability in 2026.

A combination of clear trends and caveats exists: the key trends outlined in the following pages could be qualified with a “but”. For example, an overwhelming preference for developed markets exists, but there is a small group of large investors who have allocated capital to India. Demand for data centres is underpinned by digitisation and the rise of artificial intelligence (AI), but there is little agreement on how real estate investors should access the sector. Sustainability is ingrained in most sophisticated real estate operations, but some investors still see it as a drag on returns. Mainland China is almost entirely disregarded by cross-border capital, but it also has low interest rates and a host of motivated sellers for patient capital to exploit.

The most significant concern for survey participants is construction costs, which have been rising sharply since the pandemic and which act as a constraint on new development in a number of markets.

The preference for developed markets for both investment and development continues from previous years, with a little more room for emerging markets amongst the top 10 cities for development.

Top 10 cities for investment and development



Source: Emerging Trends in Real Estate® Asia Pacific



Interviewees express a desire for liquidity, resilience, and a good balance between demand and supply. Some argue that oversupply is the source of all woes in real estate. Comparing the office markets of major Chinese cities, which suffer double-digit vacancy and falling rents, with Tokyo, which has low single-figure vacancy and rising rents, suggests that is correct.

Resilience is a key factor in decision-making. Investors are looking for sectors which have resilient demand supported by global megatrends, such as digitalisation and the rise of AI supporting data centres or demographic necessity supporting demand for rental housing and senior living. Even in underperforming markets,

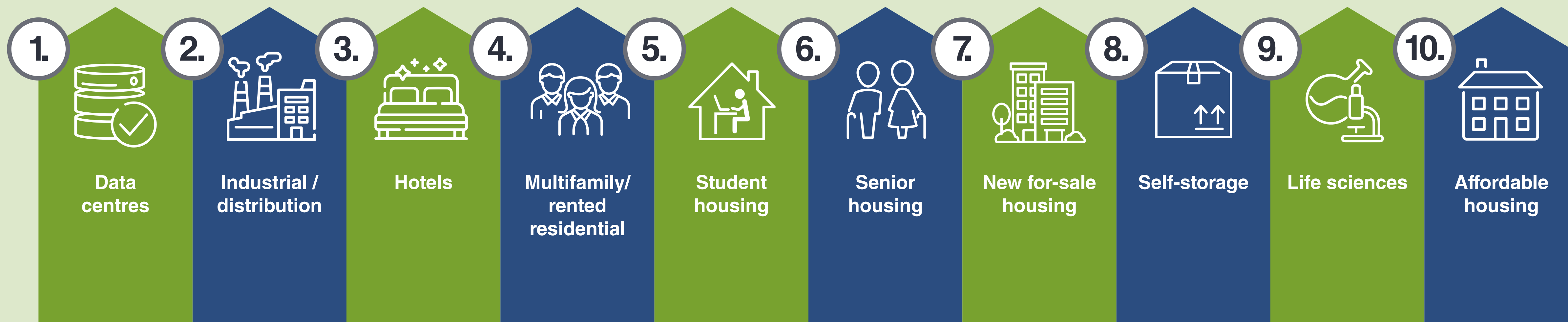
the best assets show resilient occupancy and rental performance. Investors are also looking for assets which are resilient to climate change and to rising energy costs.

While conversations focus on new economy and living sector assets, the traditional core sectors – office, retail, and logistics – are not performing badly, except where they are oversupplied. Asia’s enthusiasm for the office has supported that sector, while many markets still lack modern logistics. Industrial and distribution is the most popular sector with survey respondents; however, they believe data centres will perform better.

Asia Pacific tourism continues its postpandemic recovery, which continues to drive interest in hotels, especially in Japan. Some interviewees see potential in retail in Australian and Japan, but the sector, like office, is out of the top 10.

Global investor interest in Asia Pacific has been muted, as many European and US investors have found better pricing in their home markets. Investors who bought heavily in China have legacy assets to deal with. Nonetheless, there are signs of life in the capital markets and, more widely, a sense of cautious optimism.

Top 10 sectors with the best prospects





Ten key trends for 2026

1 Doubling down on developed markets

Both survey respondents and interviewees express a strong preference for developed markets, with a large focus on Australia, Japan, Singapore and South Korea, and an overwhelming preference for Japan. Mainland China is off the radar for most cross-border investors, and India is the only emerging market namechecked by interviewees.

Potential outcome: more capital will flow to developed markets.

2 Construction costs and geopolitics are the biggest worries

The number one concern for Asia Pacific real estate players is high and rising construction costs, especially in developed markets. Geopolitics also remains a worry for investors, although a minority believe the trade and tariffs environment will be more settled.

Potential outcome: supply pipelines will remain constrained in developed markets, which will support asset values and reuse rather than redevelopment.

3 Corporate deals to unlock Japanese assets

Experienced investors in Japan are looking to the nation's corporate balance sheets as a source of deals and assets. Japanese corporations own billions in real estate, often held at below-market values, and are under pressure to do something with them.

Potential outcome: more large-scale portfolios sourced through corporate and private equity deals.

4 Early signs of a recovery in capital raising

Private real estate fundraising remains difficult, except for Japanese strategies; however, managers report some signs of improvement. Asian capital is expected to play a bigger role going forwards.

Potential outcome: small uptick in capital raising, biased to Japan and the biggest managers.





Limited distress outside China and Hong Kong

More distressed deals were expected in 2025, but these have largely failed to materialise outside China and Hong Kong. In these markets, resolution is being delayed by a bid-ask spread, while banks are under pressure to support major borrowers. Nonetheless, more deal are taking place. Elsewhere, existing pockets of distress are disappearing.

Potential outcome: continued slow pace of repricing and recapitalising in China and Hong Kong.

Investors favour digital sheds and all kinds of beds

Data centres are the top sector pick, based on the expected growth of AI and Asia's relative lack of supply. However, opinions vary over the best way to invest. All sectors in the "living" category remain popular owing to their perceived resilience.

Potential outcome: more capital will flow to these sectors, but with an elevated risk of overinvestment.

Sustainability as a performance driver

Increasingly, sustainability is ingrained into the business plans of large investors and developers, but sustainability initiatives must generate a return on investment. Energy efficiency and resilience rather than environmental, social, and governance are today's keywords. However, opinions vary widely on sustainability.

Potential outcome: more practical sustainability measures which can show a return on investment.

Lower rates boost sentiment

US interest rate cuts have boosted sentiment across the region. In Australia and South Korea, interest rate cuts have revitalised markets, while the prospect of minor rises in Japan does not worry those who plan to invest. Outside China and Hong Kong, banks are generally keen to lend to real estate.

Potential outcome: further interest rate cuts will spark brighter sentiment and more investment activity.

The real estate industry begins to grapple with AI

Asia Pacific real estate leaders are engaging with AI as a tool in their businesses, but they are often behind their gen-Z staff in implementation. The longer-term impact of AI on office employment and occupancy is yet to be fully understood.

Potential outcome: use of AI applications in real estate to accelerate.

Silver linings in cloudy China and Hong Kong

Greater China remains in its multiyear downturn and it has massive oversupply to digest in many cities and sectors. Furthermore, the foreign investors who spent US\$140 billion in recent years are sellers and unlikely to be buyers for a long time. However, domestic capital is available for the right deals, the China real estate investment trust sector is thriving, and investors are talking about Hong Kong making a comeback.

Potential outcome: more sales from foreign to domestic investors and more opportunistic buyers taking the plunge in Hong Kong.



CHAPTER 1

BUSINESS ENVIRONMENT

“Asia Pacific is too diverse to treat as a single geography, the dynamics differ more than in Europe or the US. We have markets which continue to be pretty buoyant and more challenged markets.”

Hong Kong-based investment manager

TOKYO, JAPAN

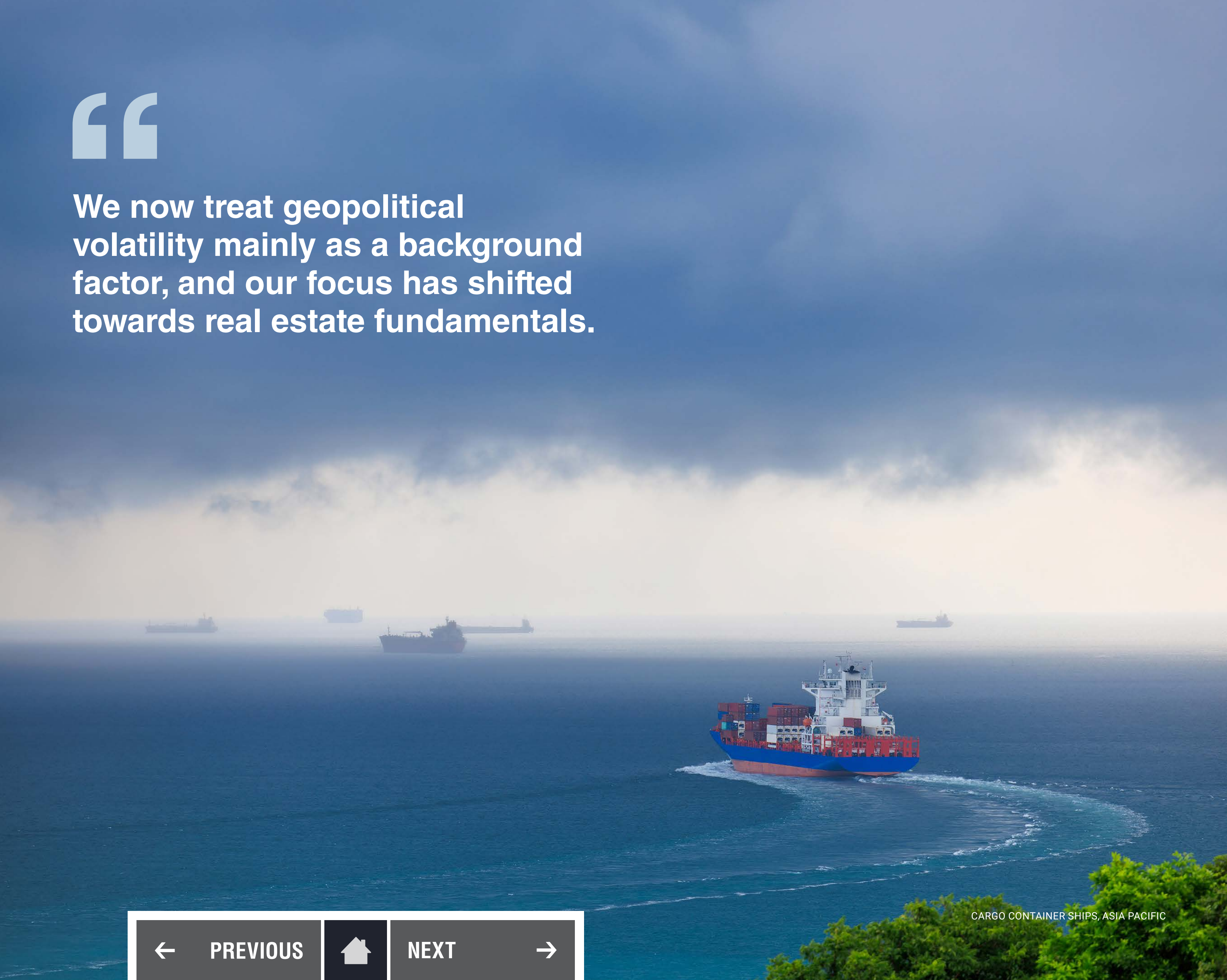
Optimism, but undercut with caution

Market veterans might feel a slight sense of déjà vu about the *Emerging Trends in Real Estate® Asia Pacific 2026* report, not least because survey respondents’ score for their firm’s expected profitability was very close to last year’s score. In last year’s report, the sense was that investors were beginning to get active again and were on the verge of making moves. However, the United States’ imposition of dramatic tariffs on its trading partners in April 2025 caused something of a hiatus in activity and sentiment, which receded somewhat as trade deals and lower levels of tariffs were agreed on. One regional head for a US investment manager says: “The initial shock has gone away and the markets have digested the presence of tariffs. The expectation is that, after the opening salvo, everything will be negotiated.”

Nonetheless, trade frictions and geopolitics remain a major concern for Asia Pacific real estate professionals. Their concerns are substantially higher (a score of 6.69, with 1 being least concern and 9 most concern) than the average for the past five years (6.22). At the time of writing, the United States and China had not come to any agreement on tariffs; and in late October 2025, President Trump said the United States would impose an additional 100 percent tariff on Chinese goods starting November 1, in retaliation for Beijing’s plan to impose new export controls on rare earth minerals. Some interviewees express concern that the industry has become blasé about the impact of tariffs. “It is hard to say if people have given up trying to analyse [the effects of tariffs]

“

We now treat geopolitical volatility mainly as a background factor, and our focus has shifted towards real estate fundamentals.



CARGO CONTAINER SHIPS, ASIA PACIFIC

or they believe the outlook is more certain, but we still need to give this consideration,” the regional head of a European asset manager says.

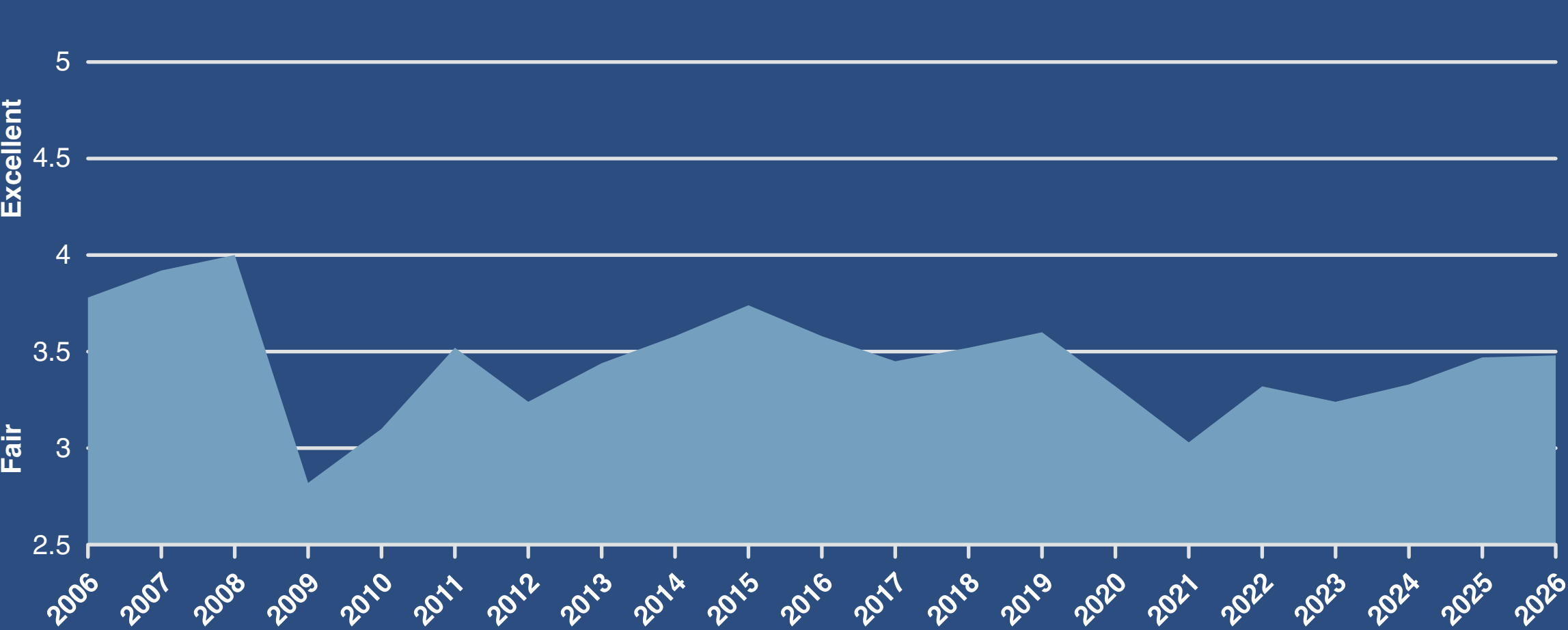
A sense of positivity around the region has grown, and expectations for business profitability are at their highest since 2019 – albeit only marginally higher than last year. Survey respondents are less concerned about Asian and global economic growth than they were last year and less concerned than they have been, on average, over the past five years.

The factor of greatest concern to survey respondents is construction costs, which have risen sharply since the pandemic and continue to rise in the busiest markets, such as Japan and Australia. The most

positive swing in sentiment from recent years is over interest rates. Asia Pacific real estate players are less worried about interest rates than they have been since 2022. In the past 12 months, interest rates have been cut in the United States, Europe, and several Asia Pacific markets. The consensus suggests further cuts will come in Australia and South Korea, while in China rates are low and expected to remain low. The exception is Japan, where rates have risen in the past year, but from a period of record lows. Lower interest rates tend to be good news for real estate, and cuts in Australia and South Korea have “brought some life” to those markets, one Hong Kong-based investor says.

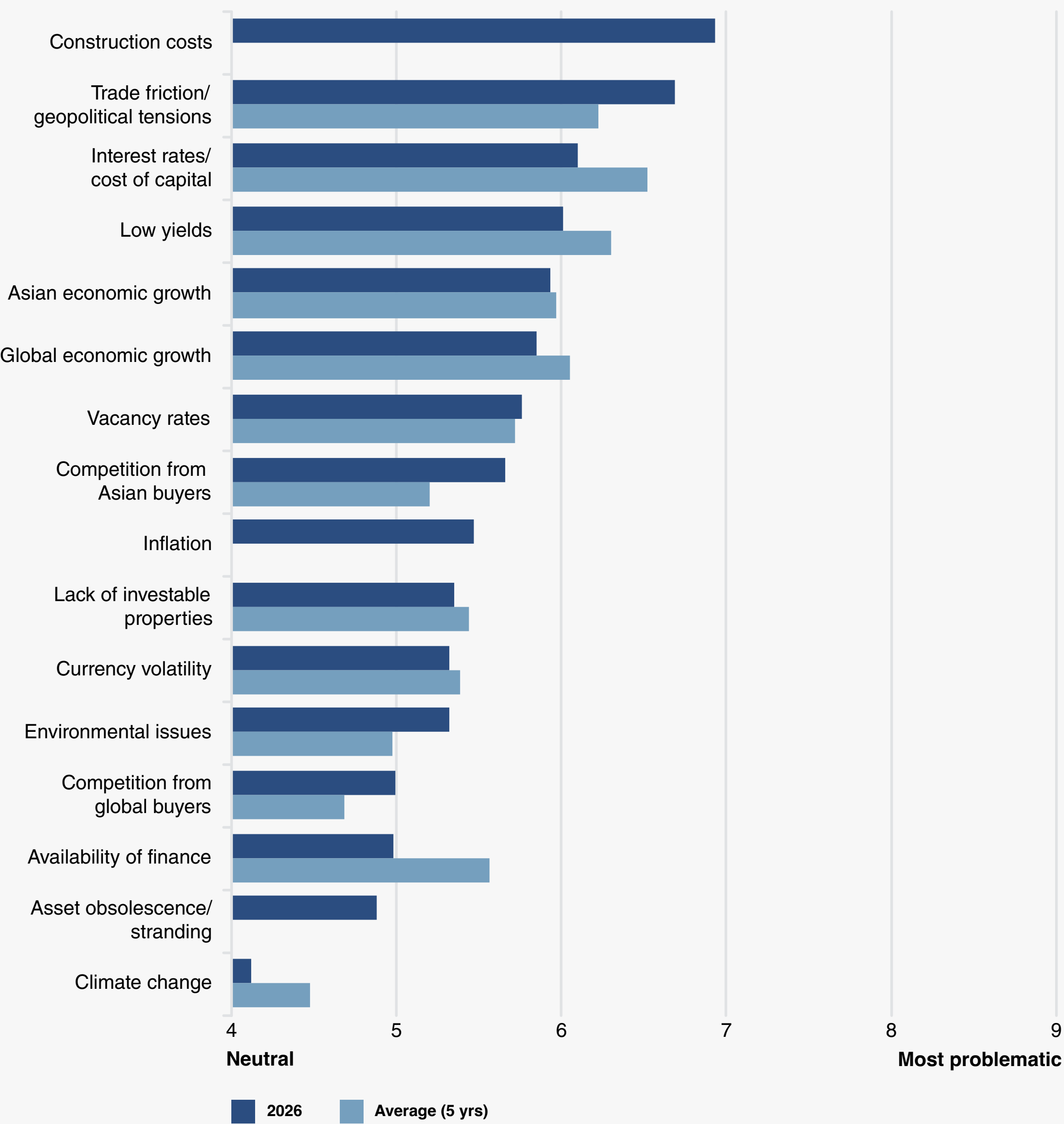
One factor which was rarely addressed by interview respondents has been aired more frequently since

Figure 1-1 Real estate firm profitability trends, 2007–2026



Source: Emerging Trends in Real Estate® Asia Pacific

Figure 1-2 Most problematic issues for real estate investors



Source: Emerging Trends in Real Estate® Asia Pacific

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In April, we were getting phone calls saying: ‘the world is collapsing, what is going on?’ And then in the span of five months, everyone is super bullish because tariffs are lower than expected and interest rates are coming down.

the survey and interviews were completed: concern about an “AI bubble” in equity markets, particularly in the United States. The share prices of the world’s largest companies, most of which are involved in AI in some way, have increased dramatically in 2025, sending the S&P 500 Index to a record high of 6,753.72 on October 8, 2025. That day, JP Morgan Chief Executive Jamie Dimon said he felt there was a 30 percent chance of a serious correction over the next two years.

How much such a crash might affect Asia Pacific real estate investors is an open question. A US stock market correction would affect institutional real estate allocations, as the denominator effect means lower equity values would leave them overweight real estate. More significant could be the effect on investment in data centres – the most talked-about real estate sector in the region. However, Asia Pacific is relatively undersupplied with data centres:

CBRE data show that the combined data centre supply for India and China (5.6 gigawatts, as of August 2025) is only slightly higher than the pipeline in the United States’ eight most active markets (5.25 gigawatts as of June 31, 2025).

Target returns for real estate investments are very similar to 2025 levels, with a slight decrease in core return strategies and a slight increase in opportunistic strategies; this continues a trend which began in 2025, when the percentage of investors with target returns below 10 percent fell from 41 percent in 2024 to 26 percent. Generally, investors’ returns expectations are positive for 2026, with 80 percent of core, core-plus, value-add, and opportunistic investors predicting their 2026 returns will be either the same as in 2025 or better. Opportunistic investors are the most positive, with more than 40 percent believing they will see better returns in 2026 than in 2025. The most pessimistic group is core investors, where 18 percent believe they will see lower returns in 2026 than in 2025.

Investor time horizons are largely unchanged, with a slight increase in the percentage thinking about a 10-year-plus time horizon and a sharp rise, albeit from a low base, in those targeting very short time horizons. Such investors may be targeting distressed opportunities or expecting sharp falls in interest rates and cap rates. However, a more typical view is that expressed by a director of a US-based manager: “Timing is critical, but investments are not treated as short-term trades. Real estate is inherently long-term, and as long as the firm’s assessment of the cycle is broadly correct, entering at the right stage ensures resilience.”

Figure 1-3 Time horizon for investing

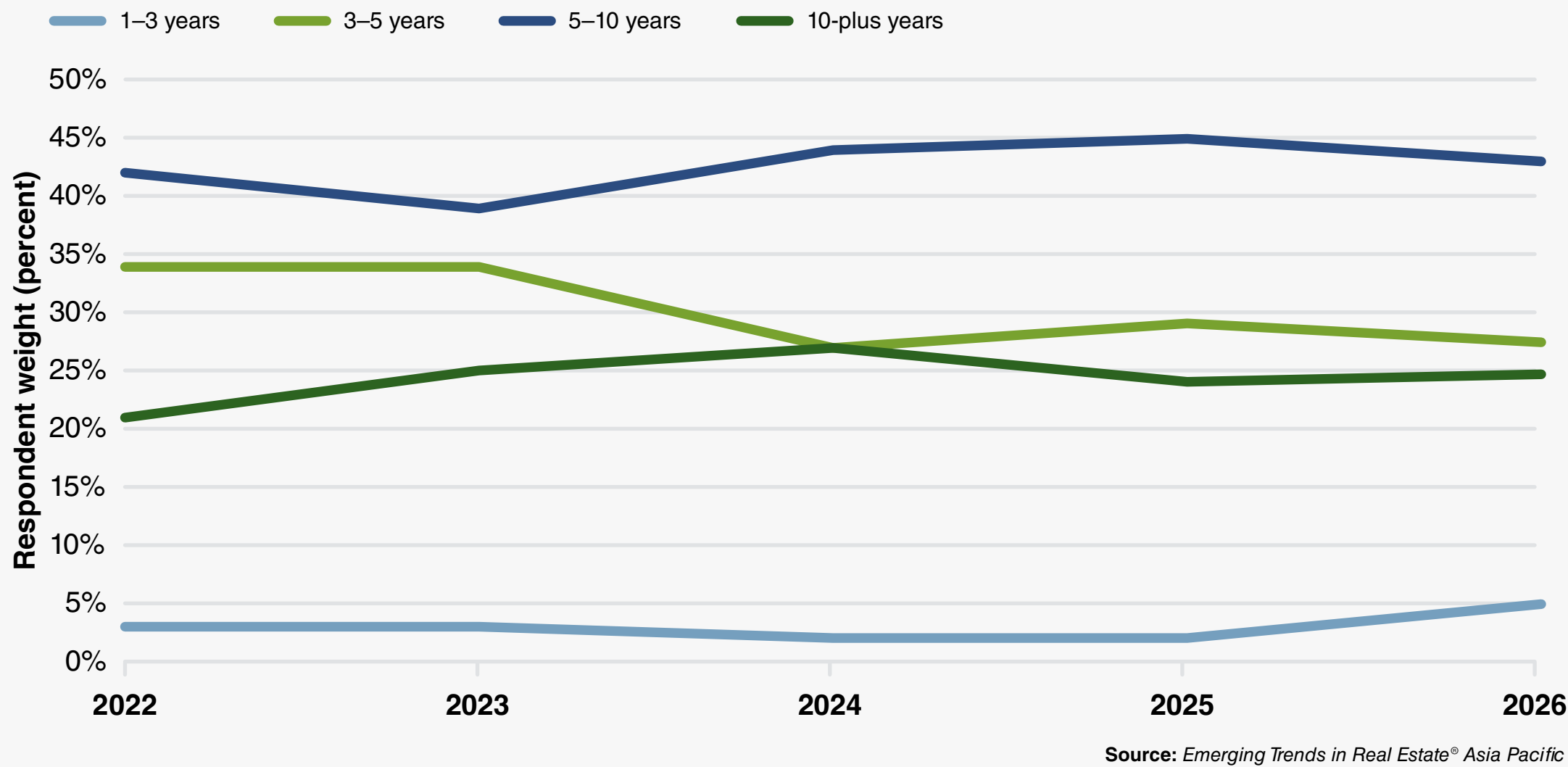
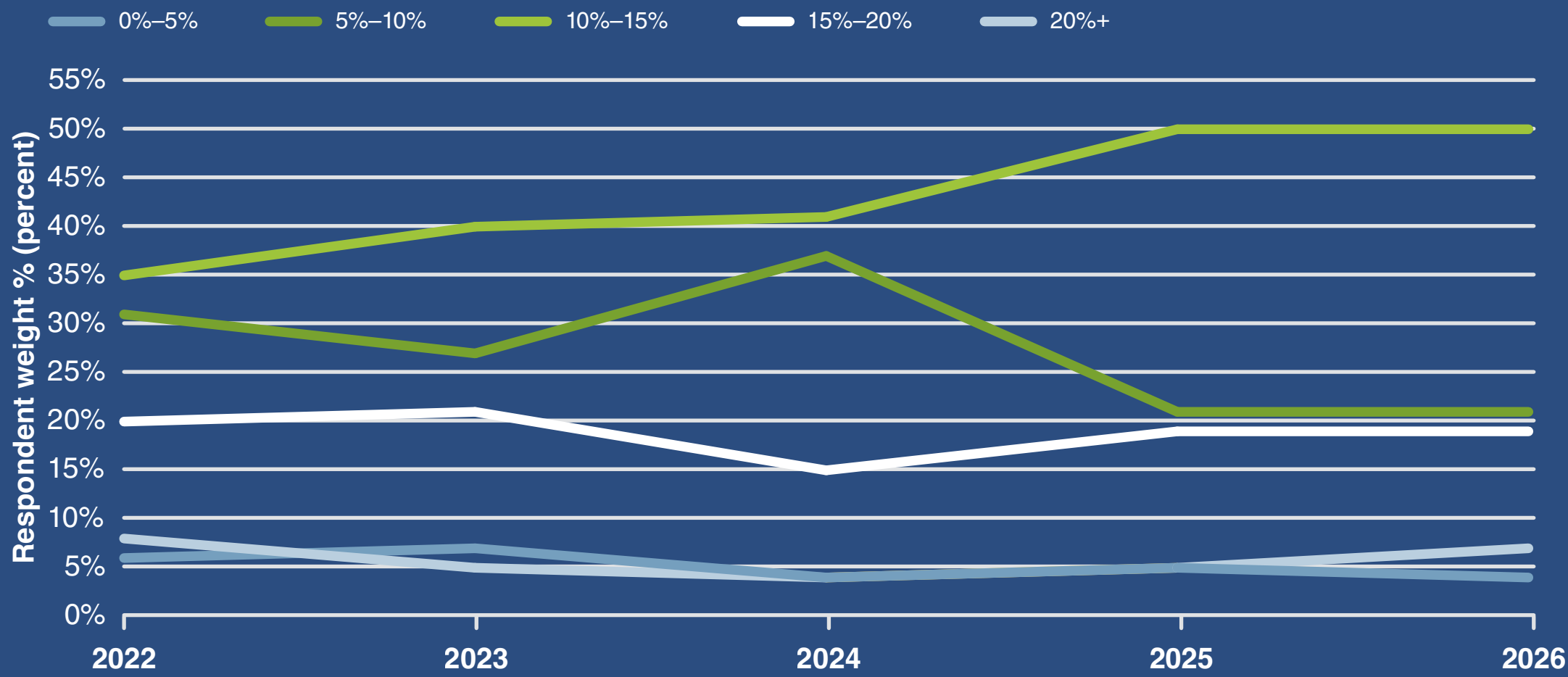


Figure 1-4 Investors’ targeted returns



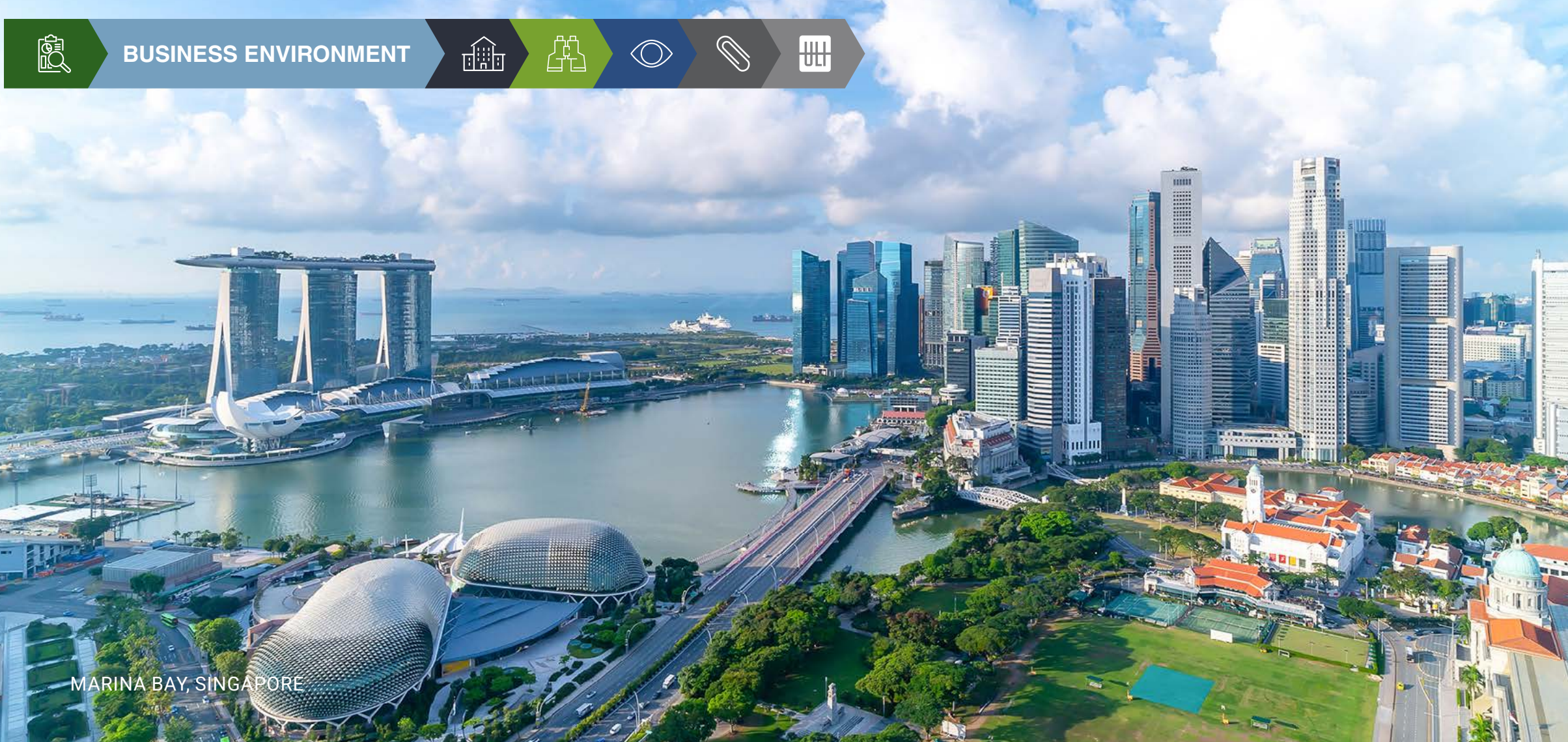
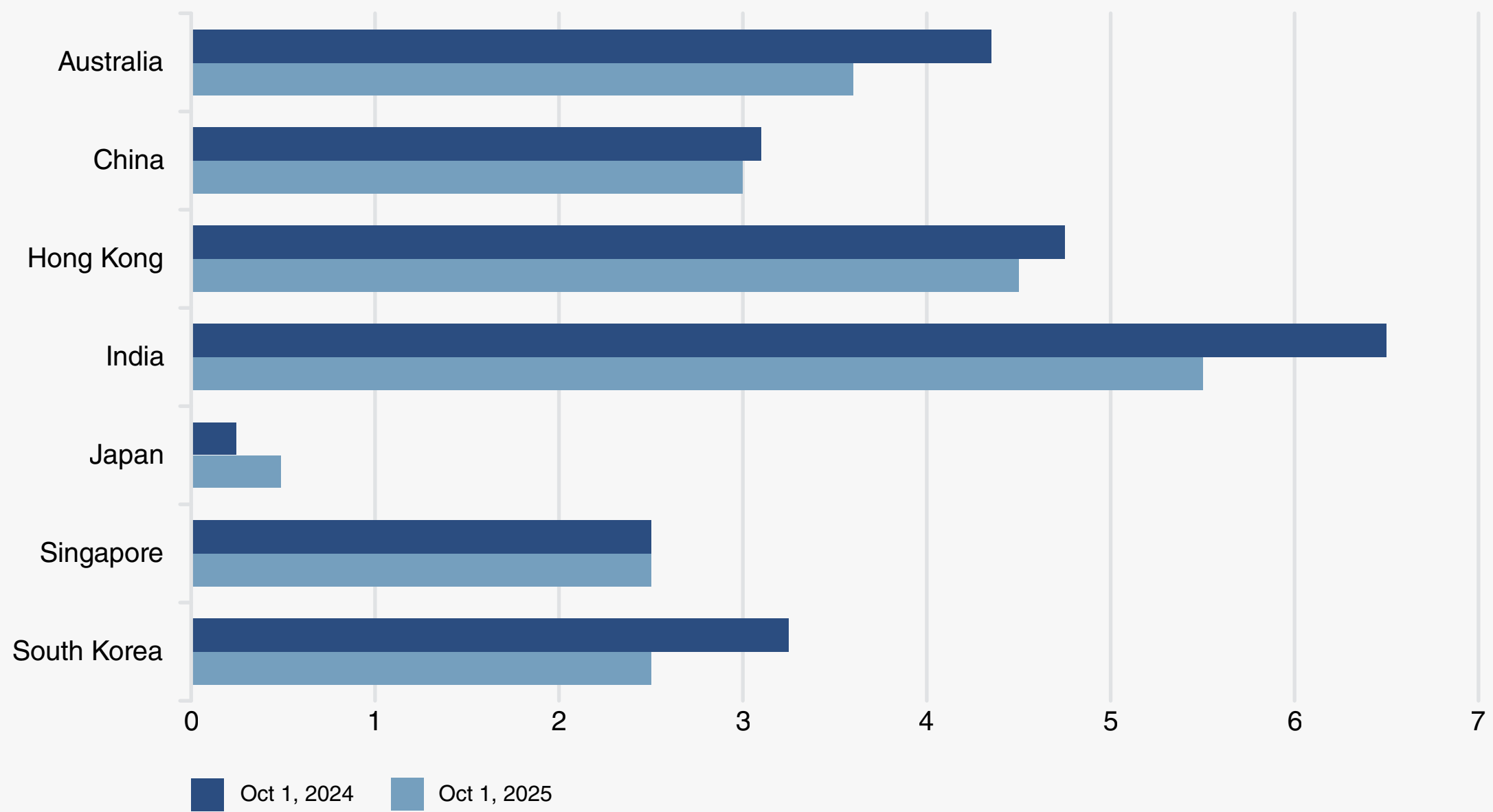


Figure 1-5 Key base interest rates, 2025 versus 2024



Source: ULI Research

Doubling down on developed markets

Tokyo, Singapore, Sydney, Osaka, and Seoul are the top five city investment markets in Asia Pacific, the top five development markets, and the cities where survey respondents expect to see the most office rental growth. The same was true in last year’s survey, with the exception that office rental growth expectations were much lower for Singapore. In recent years, a sharp polarisation has arisen between these markets and Mainland China, where a deadly combination of political concerns and legacy asset performance has kept foreign capital almost entirely out of the market.

Japan, in particular, is the market on every regional player’s lips. Its positives include liquidity, political stability, low supply in all sectors except logistics, being the region’s largest multifamily residential market, low interest rates and supportive banks, the positive impact of booming tourism, and opportunities to buy assets from domestic corporations which are under pressure to freshen up their balance sheets. One Sydney-based executive says: “Japan offers attractive opportunities due to its gradual interest rate approach, cheap debt environment, and growth in sectors like multifamily and hotels, which have strong local demand dynamics.”

Global and regional investors’ positivity towards Japan is completely reversed when it comes to Mainland China. North Americans are concerned with geopolitics and trade, while European investors express concerns about human rights. What unites

Our core focus remains on Japan and Australia – two of the most mature, transparent, and liquid markets in the region. Geopolitical uncertainty, interest rate volatility, and inflation have underlined the importance of staying in markets with strong governance and depth.

both is the poor performance of their Chinese assets. MSCI data show foreign investors spent US\$140 billion on Chinese real estate between 2005 and 2024, and many of these investments incurred losses. One Hong Kong-based manager quips: “I don’t think we would see so many concerns about geopolitics and China if everyone had been making money there.” MSCI data show that China office prices have fallen nearly 20 percent since 2019, retail prices are down more than 35 percent, and logistics pricing – while up since 2019 – is down 36 percent from its 2022 peak. Anecdotal evidence suggests much more dramatic falls for particular asset types and locations.

Ironically, according to one European investment manager, China offers a potentially significant opportunity: “There are sensational spreads between yields and borrowing costs, discounted



asset prices and motivated sellers, which are the ideal conditions for long-term money.” However, “international capital markets have abandoned China.” Most foreign investors are looking to sell their China exposure – into a market with limited liquidity and domestic investors in no hurry to buy. “Core central Shanghai residential showing record-high prices proves liquidity exists. The challenge is redirecting it,” the manager says. Bright spots do exist in the China market, and domestic players are exploiting them. However, foreign capital is expected to be on the sidelines for some time, until investors can dispose of legacy assets.

Another fundamental concern is that “China is like Japan” and in for a long period of deflation. Like Japan, demographics are not on the nation’s side. UN population projections show China’s population halving to 630 million by 2100, from 1.4 billion in 2025. However, as one Hong Kong-based investment manager points out: “The macro picture isn’t everything, because look how well real estate in Japan has performed despite the weak macro and demographic outlook. China is still going to be the largest economy in Asia.”

Distress is on the rise, but localised

Considering the upheaval of the past five years, the surprise is that real estate markets in Asia Pacific have not seen more distress. In fact, their resilience has become a barrier to new investment. Managers report that investors

from outside the region are reluctant to allocate new capital to Asia Pacific because they can see compelling opportunities driven by distress and dislocation in their home regions, despite Asia Pacific’s lower leverage and better supply and demand fundamentals.

The Asia head of a US investment manager explains: “The resilience in Asia was great, but right now there’s just a real value opportunity elsewhere. You might approach an investor and point out that they lost no money in offices in Asia but lost 70 cents on the dollar in the United States. Their response will be: ‘Yes, that was painful, but that’s behind me. I’ll keep my exposure, but for new investment, I’m going to look for the cheapest point of entry.’”

A few pockets of distress do exist in otherwise strong markets. For example, South Korea has seen some localised oversupply of logistics space, especially in the cold storage niche, which some investors have targeted via debt investment, in a “loan to own” strategy. Australian offices have offered, if not distress, keen pricing opportunities in recent months. The window for these may be closing in 2026, except in Melbourne, where Cushman & Wakefield data show prime office yields are 150 basis points above 2022 levels. Referring to markets outside China, one investment manager says: “Distress exists but is gradually resolving as refinancing options improve. Some large players face heavier debt burdens and a narrower set of refinancing options than six months ago. But overall, we believe most of the distress cycle is behind us. We are less focused on



Banks are happy to extend and pretend, because they do not want to own these assets.



MELBOURNE, AUSTRALIA



distressed sales and more on finding opportunities that will perform over time.”

The picture is different in Greater China. Distressed sales of China commercial real estate assets totalled renminbi (RMB)114 billion (US\$16 billion) over 2023 and 2024 and made up a record 22 percent of total transactions in 2024, according to Bloomberg Intelligence. Nonetheless, observers say there are fewer opportunities than might be expected. In Mainland China and increasingly Hong Kong, banks are under pressure from regulators to support domestic borrowers. In both China and Hong Kong, foreign private equity funds are the ones selling at a discount or handing the keys back to the bank, because they have bought assets through closed-ended funds which are coming to the end of their life.

With huge inventories to be worked out, the beneficiaries of foreign funds’ China travails will be domestic investors. For example, in January 2025, CPP Investments sold its 49 percent interest in four real estate joint venture projects with Chinese real estate company Longfor Group Holdings to an affiliate of Dajia Insurance Group. The sale includes four retail malls, along with connected office and rental housing, in Shanghai, Suzhou, Chengdu, and Chongqing. Media reports Dajia secured a 7 to 8 percent cap rate from the deal, showing a spread of up to 500 basis points over the loan prime rate of 3 percent.

Meanwhile in Hong Kong, banks have been losing patience with extending and pretending, while higher interest rates have sapped investors looking

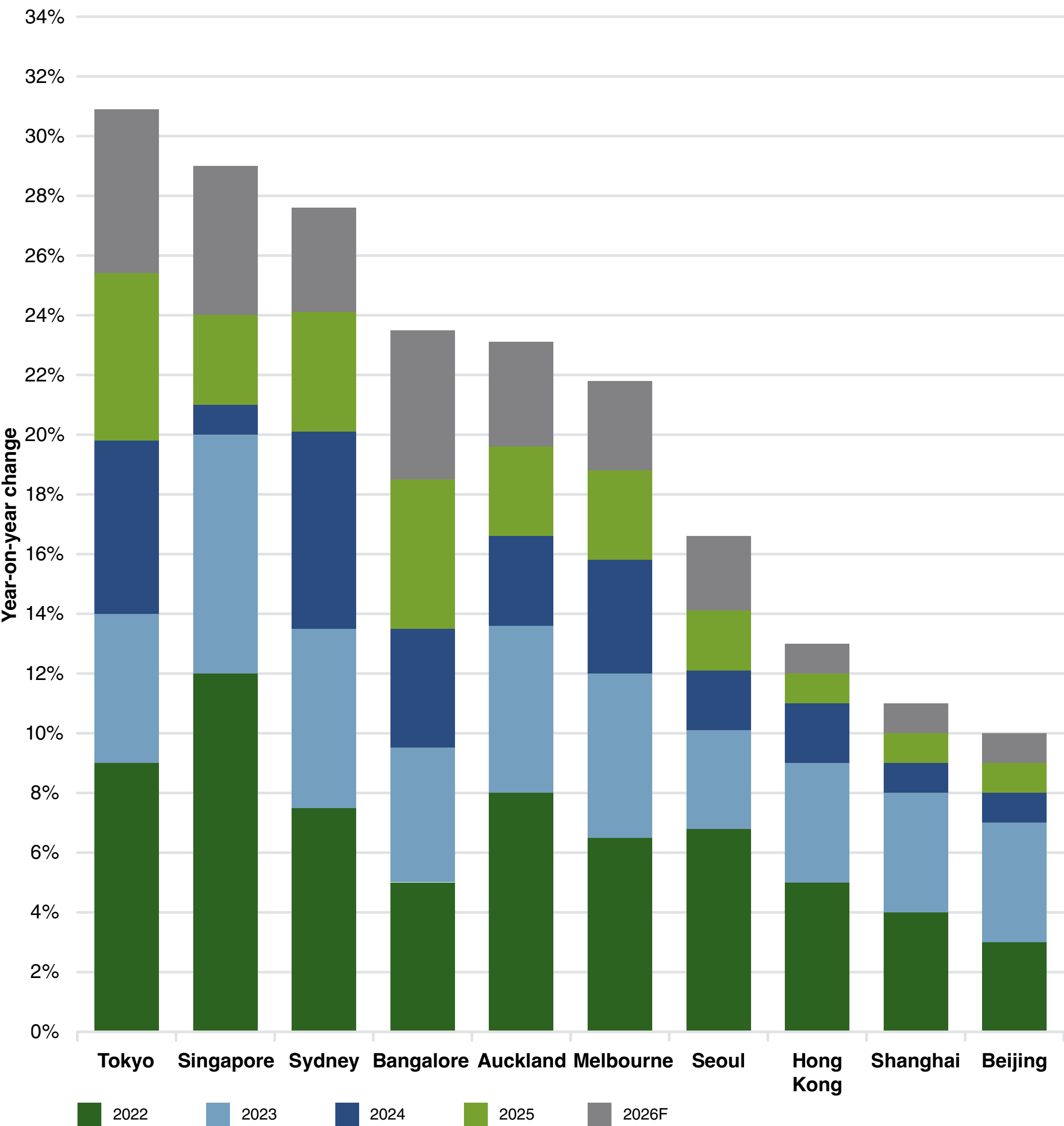
to keep up their payments and avoid foreclosure. Capital is available for distressed asset purchases in Hong Kong, but most of it remains on the sidelines. Even so, survey respondents have shown more optimism about the outlook for Hong Kong in 2026 than they have for a number of years.

Construction costs constrain development

Construction costs were rated the most problematic issue for real estate investors in the *Emerging Trends* survey. They began to rise across the Asia Pacific region during the pandemic, when supply chain disruption affected the supply of construction materials. These costs have continued to rise across the region and added to them is the rising cost of labour. Rising labour costs have been most significant in developed markets. However, the booming office market in Bangalore – where CBRE predicts 3.15 million square metres of office space will be added in 2025 and 2026 – has pushed costs up there as well.

Labour-starved Japan is seeing the largest rises. Turner & Townsend data show that construction costs in 2026 in Japan will be more than 30 percent higher than five years ago. Japan is also suffering a lack of construction capacity: there are not enough contractors to meet demand, which is affecting development timelines. “You need good relationships to secure construction firms and to get projects delivered,” a Tokyo-based investment manager says.

Figure 1-6 Asia Pacific construction costs, 2022–2026F



Source: Turner & Townsend, CBRE Research, Q2 2025



CONSTRUCTION IN TOKYO, JAPAN

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Construction costs are very high and materials are difficult to access, which is limiting new supply across the region.

The effects of rising construction costs have spread beyond Japan, with Australian interviewees reporting that developers are expecting losses on projects previously forecast as profitable. Across developed markets, interviewees report that stricter environmental regulations are adding further complexity and costs to development projects.

To mitigate these problems, market players suggest using fixed-price contracts, building buffers into underwriting, and transferring risk to contractors when possible to ensure predictable project delivery. However, for many investors, the difficulties in construction are simply driving them to avoid development altogether, especially as assets can be purchased for less than replacement cost in a number of markets. Regional or global private equity players are more likely to stay out of ground-up development and report less ambitious value-add projects. “We are much less keen on underwriting substantial refurbishment work due to increased costs and delivery times,” says one manager.

One result is the growing issue of asset obsolescence around the region. A regional real estate head estimates that nearly three-quarters of Asia Pacific office stock “does not meet the new specifications of office occupiers, creating a bifurcation in demand, favouring premium stock and accelerating the need for renovations or redevelopment”

Mainland China is an exception: construction cost inflation has been less than in developed markets and slowed considerably in recent years, primarily because of a weaker labour market. Despite high vacancy, substantial office supply – 6 million square metres, according to CBRE – is expected to be delivered in Shanghai, Shenzhen, Guangzhou, and Beijing between 2025 and 2027. Elsewhere, Tokyo is the only market expected to deliver more than 1 million square metres over the same period.

Property begins to get to grips with AI

This year’s survey recorded a sharp increase in the percentage of respondents whose companies plan to adopt innovative technology across the whole business. Nearly half (47 percent) have pledged to do so, up from only 35 percent in the 2025 report and an average of 38 percent over the past five years. Artificial intelligence (AI), big data, and analytics have leapfrogged smart energy solutions as the technologies which real estate professionals expect to have the biggest impact on their businesses.

Institutional investors have begun to get serious about using the technology. Singaporean sovereign investor GIC has developed a new internal tool which uses AI as a virtual devil’s advocate to challenge investment decisions. This AI chatbot, named “Ask Charlie,” has been trained on decades of GIC’s proprietary data to generate tough and unexpected questions during the deal process, helping to test assumptions and sharpen decision-making for GIC’s human investment teams. Other major investors are understood to be using AI to support decision-making.

A key area where AI can support real estate owners is in asset management, with lease reviews. At present, AI still underperforms humans when it comes to reading lease agreements. But as one investment manager says: “It’s getting better at a rapid pace. And once it gets to the point where the rate of error is below that of a human, then it becomes something that can quickly replace services provided by asset management providers.” AI applications are also useful for any type of data analytics, but the data need to be in a usable format. Many investors are prioritising data cleansing to create a usable pool of information – a data lake.

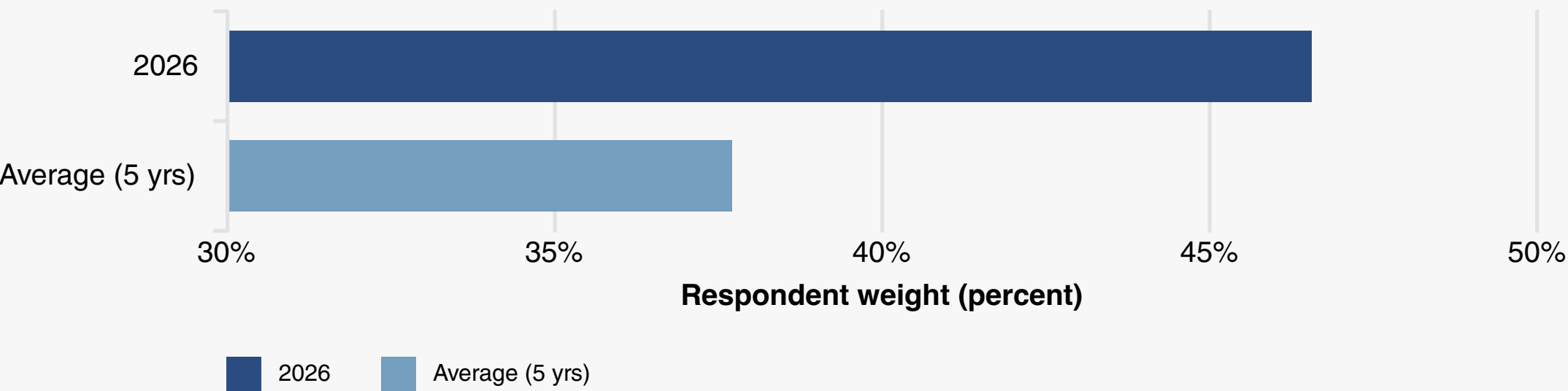
AI is becoming so ubiquitous in asset management that asset owners do not always realise that the software which is helping them manage water use or heating, ventilation, and air conditioning (HVAC) efficiency is AI-driven. Some investment managers say intelligent building systems are already saving them 10 percent on their energy bills and boosting net operating income (NOI). AI-enabled predictive maintenance is cutting life-cycle costs and boosting NOI.

“Machine learning is rapidly approaching the accuracy threshold where it can replace human lease review processes; once error rates drop below human levels, AI will proliferate across asset management.

Brokers are investing in AI because it enhances their existing data and enables them to match potential tenants to vacant space. The role of the real estate broker has been under threat from disintermediation for some years. However, the model has persisted and AI enhancement is seen as a way to stay ahead. “Global real estate services companies are investing a lot in this space, because they can see their business being disrupted,” a property technology (proptech) expert says. “There will be a big advantage to being a first mover in this space.”

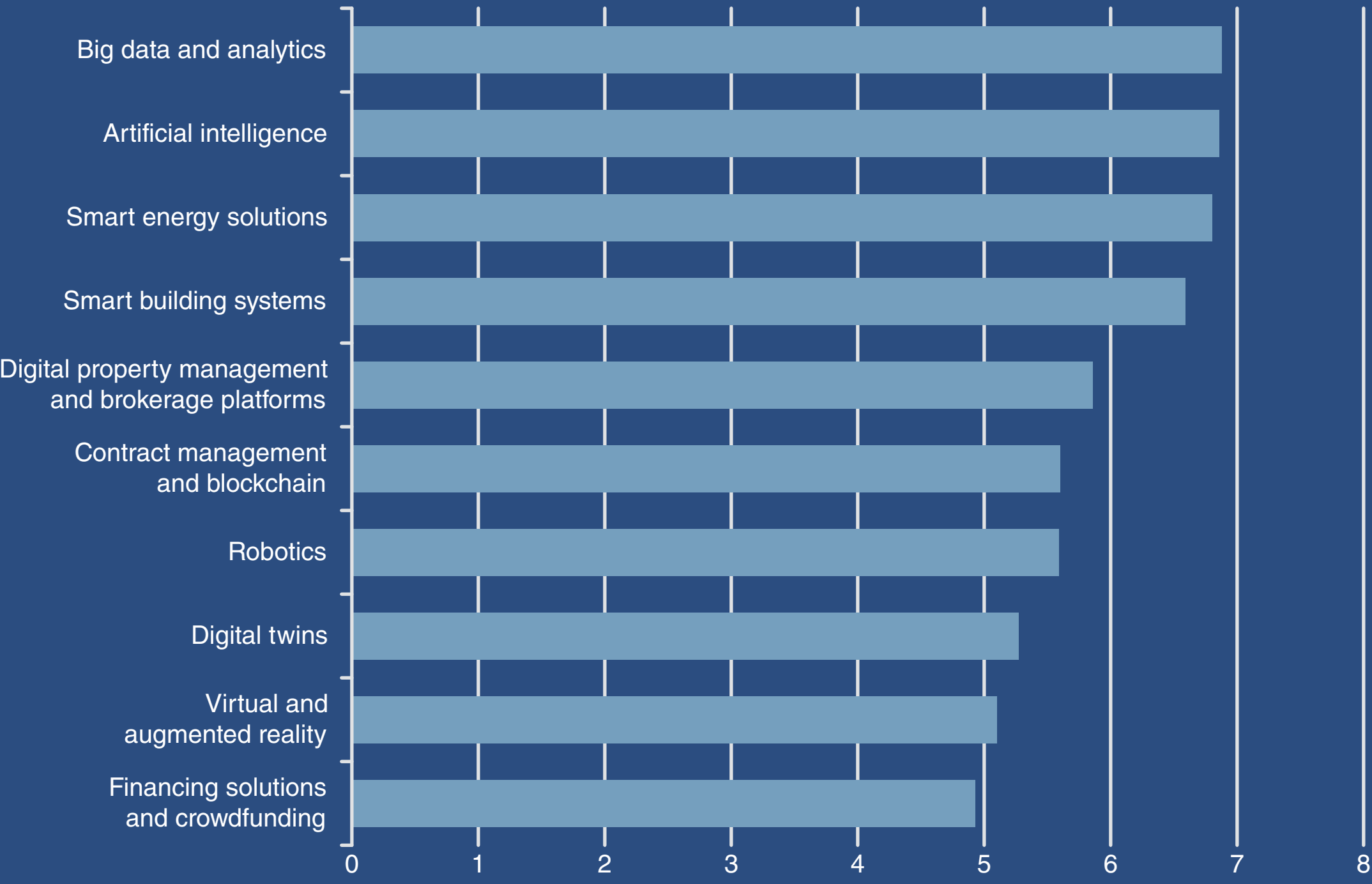
The technology is also proving increasingly useful in construction; as one example, using AI overlays to compare completed work with Building Information Modelling can save 5 to 7 percent on construction costs by reducing costly errors – for instance, by identifying misaligned steelwork before concrete is poured. “These savings are greater than the typical margin in construction, so you can see

Figure 1-7 Does your organisation have a defined policy to adopt innovative technology?



Source: Emerging Trends in Real Estate® Asia Pacific

Figure 1-8 Highest-impact technologies in the next five years



Source: Emerging Trends in Real Estate® Asia Pacific



“

AI is an extension of digitisation and will accelerate productivity across real estate.

Ai

how transformational this technology can be,” says one proptech expert.

However, a considerable gulf remains between the senior leaders interviewed for this report – who still rely on their experience, contacts, and interpersonal skills – and junior staff – who tend to lean on AI, even if that just means using ChatGPT to tidy up their presentations. “The main thing I notice is that my guys are now coming up with much better written material and much more professional presentations,” says one senior broker.

Despite these positive reviews, concerns have emerged that AI might supplant junior roles and risk a hollowing out of talent development. One investment manager pointed to the example of US law firms, which are hiring fewer graduates because work once carried out by junior staff is now done by AI. “The problem is that they still need the senior lawyers to run the business. And where are they going to come from if you stop hiring juniors? And how will those juniors you do hire gain foundational experience?” Several interviewees worry this could become a problem for real estate. However, others believe AI will support their staff, not undermine them. “We use AI more and more,” says one real estate researcher, “but we still keep adding headcount.”

More serious worries concern the impact of AI on office occupation in the business process outsourcing (BPO) and global capability centre (GCC) businesses, which are central to office occupation in the Philippines and India. Opinion is divided amongst interviewees: some consider

that the human side of these businesses is not fully replicable, while others fear that AI could cause a crisis in the Philippines and India. One investment manager asks: “Does the use of AI enhance the productivity of outsourcing functions or do corporations now look at outsourcing as redundant? This is going to be played out much faster than people realise. Whatever happens will happen within five years.”

The growing use of AI is also one of the key drivers for the data centre sector. While this is seen by most investors in the sector as an unalloyed positive, some interviewees pointed out that the rapid evolution of technology means the overall obsolescence risk in the sector is high.

From compliance to value creation: ESG as a performance driver

While views on sustainability diverge widely across the region, consensus is growing that asset owners need to focus on deliverable and measurable initiatives. Institutional owners and developers increasingly regard decarbonisation and resilience as strategic imperatives tied to capital access, valuation stability, and insurance viability. Momentum is strongest where investors, particularly those based in Europe, impose stringent disclosure requirements. North American and Middle Eastern investors tend to be less stringent. For some, this is due

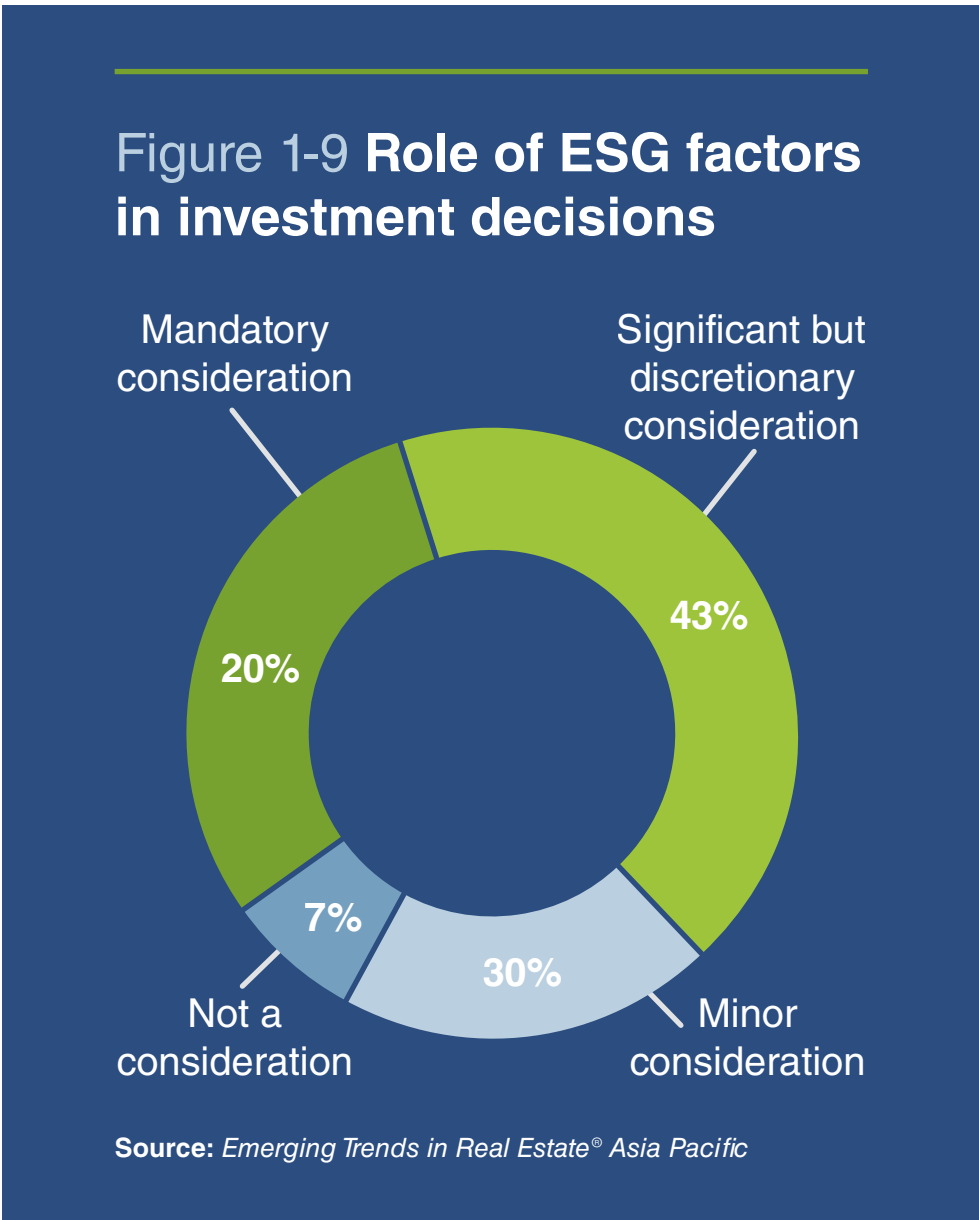


to a focus on return on investment (ROI); for others, it reflects concerns over “greenwashing”. For example, CPP Investments dropped its net zero commitment in May 2025, following similar actions from other Canadian institutions.

Nonetheless, 80 percent of survey respondents say their organisation’s commitment to environmental, social, and governance (ESG) principles has either remained consistent or strengthened over the past 12 months. However, data integrity, tenant collaboration, and embodied carbon tracking persist as weak points. Interviewees repeatedly cite the “last mile” challenge: clear goals but fragmented execution. Climate risk, once a disclosure requirement, now directly constrains investment decisions. Rising insurance premiums and transition risk assessments are recalibrating valuations, prompting retrofits and energy efficiency programmes which deliver both cost savings and resilience gains.

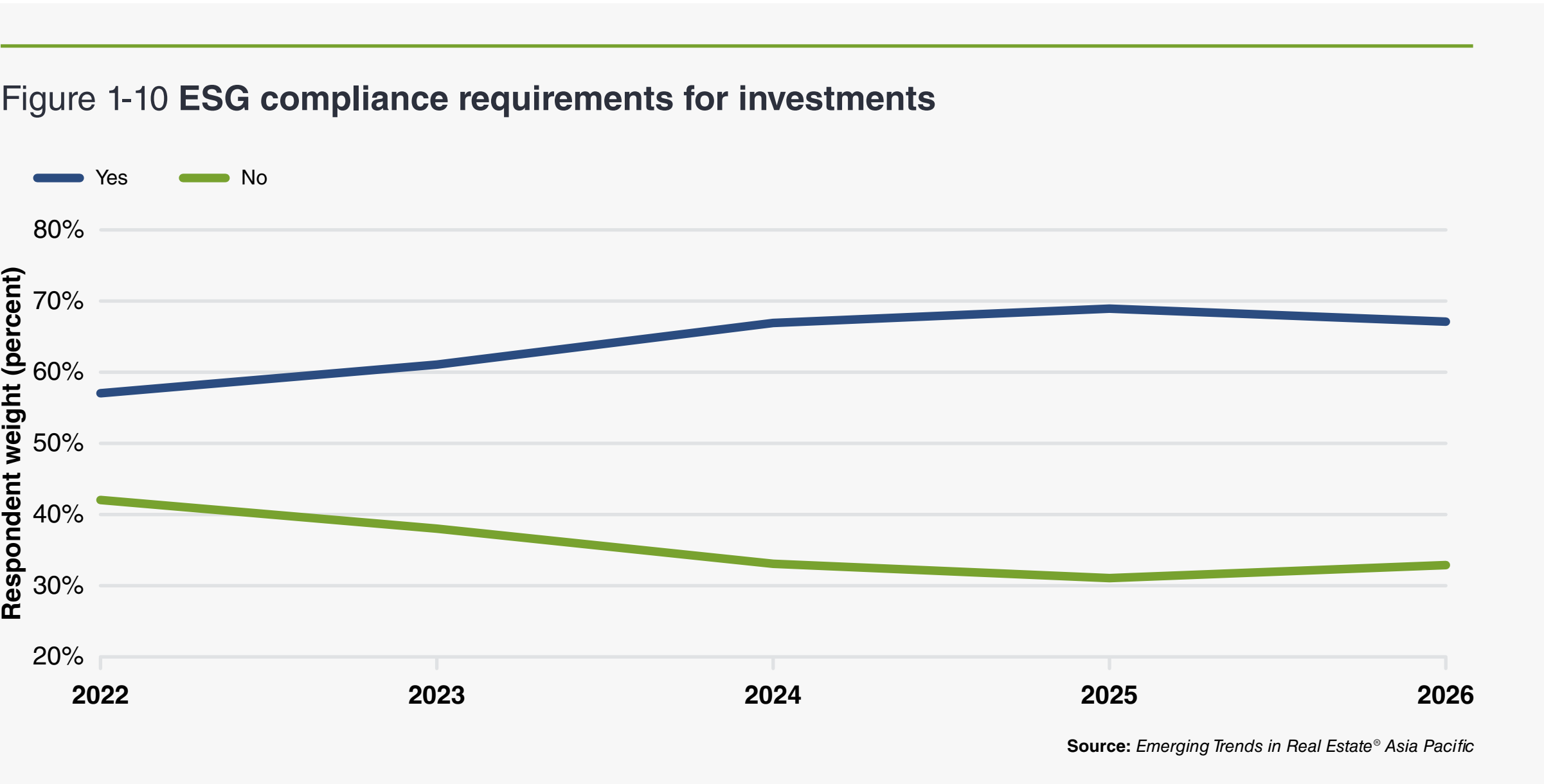
Across interviews, a clear structural shift has emerged: ESG issues have evolved from a compliance obligation into a genuine performance driver. Once driven primarily by regulatory reporting, sustainability is now embedded within underwriting and asset management as a tool to enhance operational efficiency, resilience, and competitiveness. While the proportion of survey respondents reporting that investments must meet baseline ESG criteria has dipped slightly, ESG considerations remain a factor for more than two-thirds of respondents.

Leading institutions are adopting forward-looking performance metrics – such as carbon intensity per square metre, embodied-carbon reduction, and



transition-risk exposure – to inform acquisition, retrofit, and disposal decisions. ESG criteria now provide a framework for active value engineering, guiding where to reinvest, to recycle capital, or to exit underperforming stock.

One indication of normalisation of sustainability is the emergence of “brown discounts” as an alternative to “green premiums.” Investors and lenders are increasingly penalising inefficient or carbon-intensive buildings through higher financing costs, stricter lending covenants, and reduced valuations. The incentive structure has effectively inverted, from rewarding best-in-class performers to penalising laggards. This shift is mirrored in reporting practices:



the share of respondents producing regular ESG reports has risen by 15 percentage points year-on-year, echoing the upwards trend seen in 2024 when the global investment environment strongly favoured ESG-aligned strategies. At the same time, a sharp decline in organisations planning to release their first ESG report in the next three years suggests that reporting has become embedded as a market norm.

Australia exemplifies this transition. Banks and valuers now explicitly factor energy efficiency, climate exposure, and retrofit potential into lending terms and yield assessments. As one interviewee observes: “There’s no longer a green premium, only brown risk.” Assets lacking credible transition pathways or

transparency in disclosure are being priced down because they pose tangible income and liquidity risks.

This pricing mechanism is reshaping capital allocation. Investors are redirecting funds towards “transition assets” – properties with viable upgrade pathways – rather than noncompliant stock that requires excessive capital expenditure. The trend reflects a broader “flight to resilience,” in which ESG alignment becomes a proxy for liquidity and long-term relevance. In Japan and Singapore, lenders are similarly adopting sustainability-linked debt structures and interest-margin ratchets to reward transition progress.

Figure 1-11 Regular ESG reporting

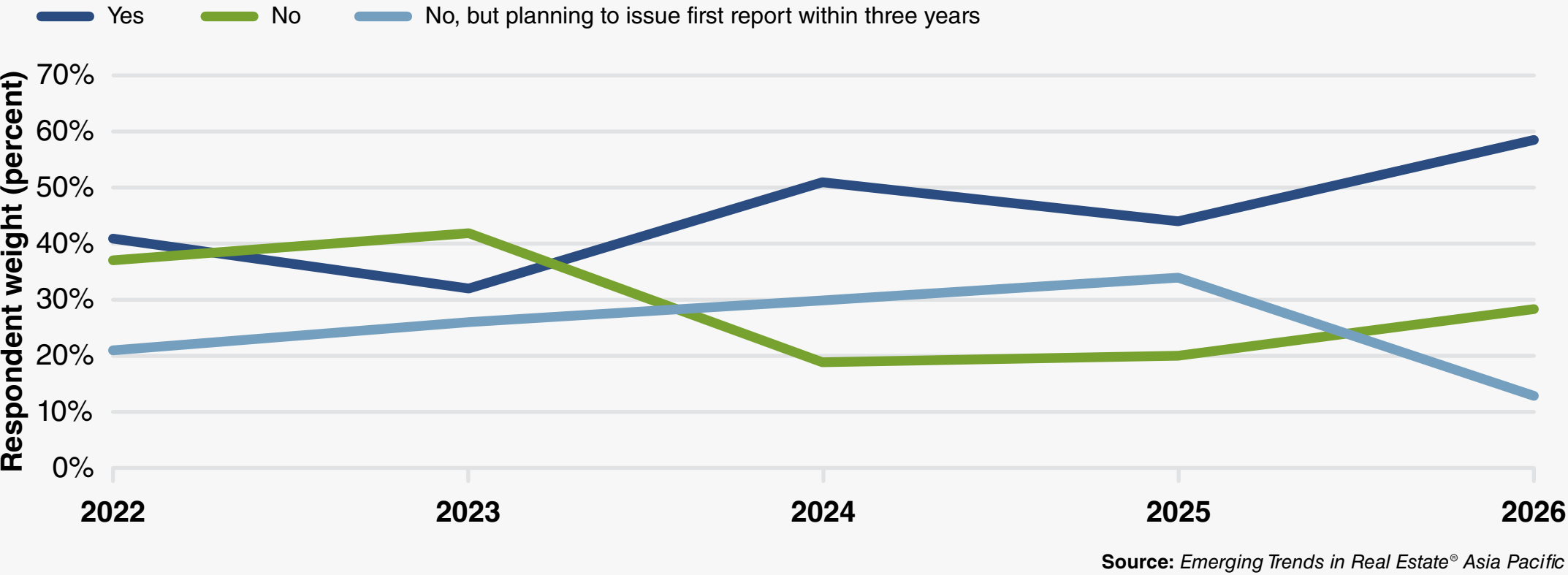
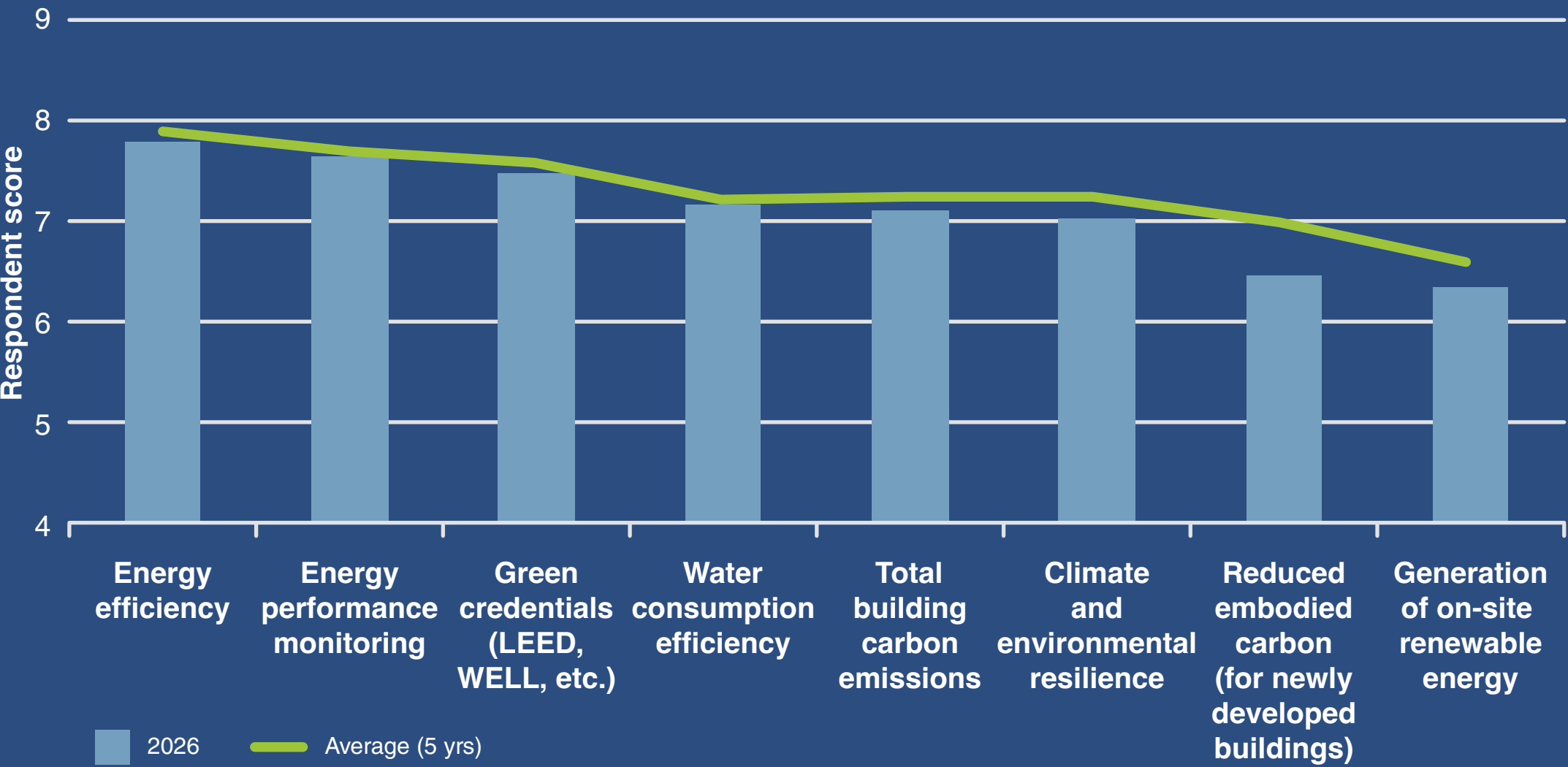


Figure 1-12 Key green building criteria



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ESG is not a standalone investment thesis; it must make financial sense.

The underlying principle is simple: sustainability risk is financial risk. Rising energy costs, tightening regulation, and evolving tenant expectations have created a tangible performance gap between aligned and nonaligned assets – a gap expected to widen. The “brown discount” also drives strategic repositioning at the portfolio level. Fund managers are conducting carbon-adjusted valuations, stress-testing assets under stricter emissions scenarios, and reallocating capital into retrofittable core-plus stock while divesting stranded, older assets. The outcome is a bifurcated market: one where transparency and transition capability attract capital, and another where nonaligned assets face liquidity erosion and accelerated obsolescence.

While decarbonisation remains the dominant sustainability theme, climate resilience – the capacity of assets, portfolios, and cities to endure and recover from physical shocks – is emerging as an investment consideration. As extreme weather, insurance pressure, and regulatory scrutiny intensify, investors are recognising that value now depends on adaptation and survivability. Although pricing models for physical climate risk remain inconsistent, momentum is building. Institutions in Australia and

Japan have led by integrating flood mapping, heat stress, and water scarcity indicators into acquisition due diligence. However, interviewees note that, while carbon disclosure is now standard, resilience disclosure is lagging, with limited frameworks to quantify financial exposure to climate hazards. In dense urban markets such as Hong Kong and Singapore, resilience is becoming a differentiator which influences insurance costs, tenant retention, and operational continuity.

The inadequacy of traditional insurance models is a recurring concern. As one interviewee observes: “Insurance is not a resilience strategy. It’s a short-term hedge.” With premiums escalating and coverage narrowing, investors are reframing physical adaptation as a capital investment rather than a contingency cost. Measures such as enhanced drainage, passive cooling, redundant power systems, and flood-resistant materials are being incorporated into core asset-management plans. Soft adaptation strategies, including flexible leases and emergency-response protocols, complement physical measures to ensure business continuity.

Capital markets are beginning to reward resilience-focused portfolios. Funds that integrate climate-adaptation criteria into underwriting are perceived as better positioned for long-term liquidity. Regulators and central banks in Australia, Japan, and Singapore are tightening expectations, linking climate-risk stress testing to financial stability. As these frameworks mature, resilience will be measured, disclosed, and priced into asset valuation and lending terms.



Key themes: Japan

Japan's prolonged era of near-zero interest rates is ending – cautiously and without unsettling liquidity or investor confidence. The country remains Asia Pacific's most stable and liquid real estate market, supported by strong domestic balance sheets, disciplined monetary policy, and sustained global capital inflows. Tokyo stands out across the region, particularly within the “living” spectrum (hotels, multifamily and coliving,) where structural change rather than cyclical recovery is driving opportunity.

Ageing stock, shifting lifestyles, and new demand from overseas workers and tourism are reshaping requirements. Investors remain wary of over-concentration in Tokyo and characterise Japan as structurally attractive, yet mid-cycle. Construction costs are elevated, interest rates are edging higher, yield spreads are compressing, and competition for off-market product is intensifying – normalising returns from previously outsized levels. Even so, the market is widely described as “fundamentally sound” and structurally advantaged compared with more volatile peers in the region.

In September 2025, the Bank of Japan held rates steady while beginning to sell down risky assets, such as ETF holdings, another step in unwinding its extraordinary stimulus. The emerging consensus from this year's interviews is for gradual increases towards 1.5 to 2 percent, paired with accommodative credit conditions from domestic mega-banks and insurers.



Japanese real estate is an inflation-resistant asset: attractive in a yen-denominated environment free from foreign exchange and tariff risks.

Unlike other markets where tightening has triggered distress, Japan's backdrop remains supportive. Major domestic lenders continue to provide abundant liquidity and stable spreads; internal rent growth across office, multifamily, and hospitality is helping offset higher funding costs; and institutional discipline is deepening as investors prioritise asset performance, operational efficiency, and sustainable income over leverage-driven plays. The shift from yield compression to income stability is reshaping strategy: core capital is rotating into core-plus and value-add with modest gearing, while mezzanine debt and hybrid equity are returning as attractive risk-adjusted options.

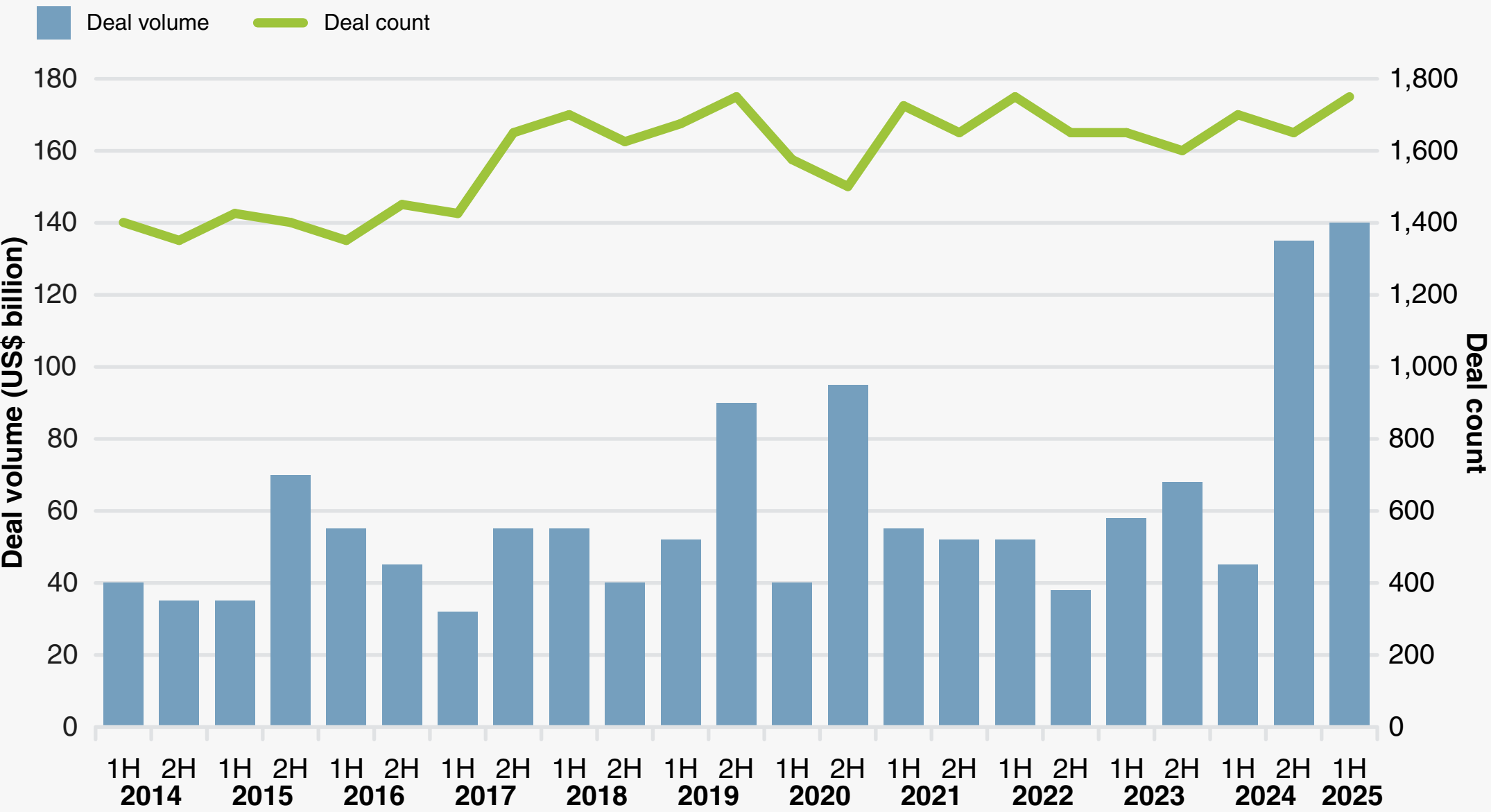
Importantly, modest rate rises are seen as healthy, tempering speculative excess and encouraging better capital allocation. Japan retains its role as the region's “safe-yield anchor,” offering moderate,



TOKYO, JAPAN



Figure 1-13 Japan mergers & acquisitions deals, 2014–H1 2025



Source: Mergermarket, July 2025

predictable returns while other Asia Pacific markets navigate sharper volatility. One investor says: “While difficult to predict, we could see an increase to around 1.5 percent; this will negatively impact sales prices, but rent increases are balancing the effect.”

Reforming from within: corporate restructuring and capital efficiency

Japan’s corporate restructuring and secondary-market activity signals a shift from asset-by-asset trading to corporate finance–led value creation. Rather than chasing standalone properties, investors are forging strategic alliances with corporate partners to unlock value. Government and investor pressure is pushing Japan’s corporations to institute better governance and to optimise their balance sheets. As many corporations hold real estate at low book values, private equity investors are keen to help them tidy up the balance sheet with asset sales.

Foreign capital continues to dominate corporate-level transactions, though domestic institutions and trading houses are steadily regaining ground, narrowing margins in prime segments. Consequently, investors are shifting towards scale-driven opportunities – such as cross-sector platforms, portfolio trades, and large-scale urban redevelopment pipelines – where value creation stems from repositioning and operational enhancement rather than yield compression alone.

According to Mergermarket data, total volumes of mergers and acquisitions in Japan surged threefold year-on-year to US\$140 billion in the first half of 2025.

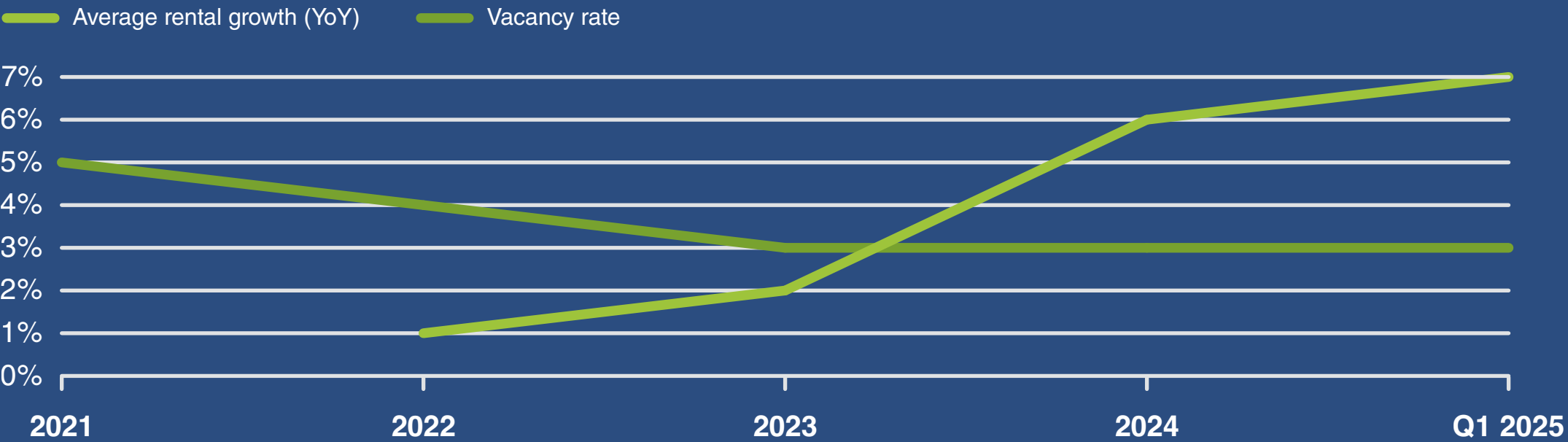
Through 2025–2027, restructuring is expected to remain the central investment theme. It is underpinned by persistent policy emphasis on return on equity and governance transparency; an ongoing pipeline of divestments as companies streamline; and a maturing secondary market that enhances liquidity, recapitalisation options, and reinvestment across asset classes.

“We’re actually seeing some great opportunities emerging as people offload assets – it’s not always about sale and leasebacks,” says one investor. “The return on equity question is all over Japan. And if you look at the scale of Japan and the number of subsidiary companies, there’s a trillion dollars or so to sort out.”

Institutionalising the “living” and hospitality sectors: domestic demand meets inbound revival

Tokyo’s multifamily market continues to tighten, with occupancy around 97 percent and vacancy below 3 percent across the 23 wards. The broader living spectrum (multifamily, hospitality, and hybrid formats) is undergoing rapid institutionalisation, transforming Japan’s risk-return profile. What was once fragmented

Figure 1-14 Japan multifamily, rental growth & vacancy, 2021–Q1 2025



Source: Aberdeen Investments, Savills



and dominated by smaller operators is being consolidated and professionalised as global capital targets durable, income-oriented assets in a low-yield world.

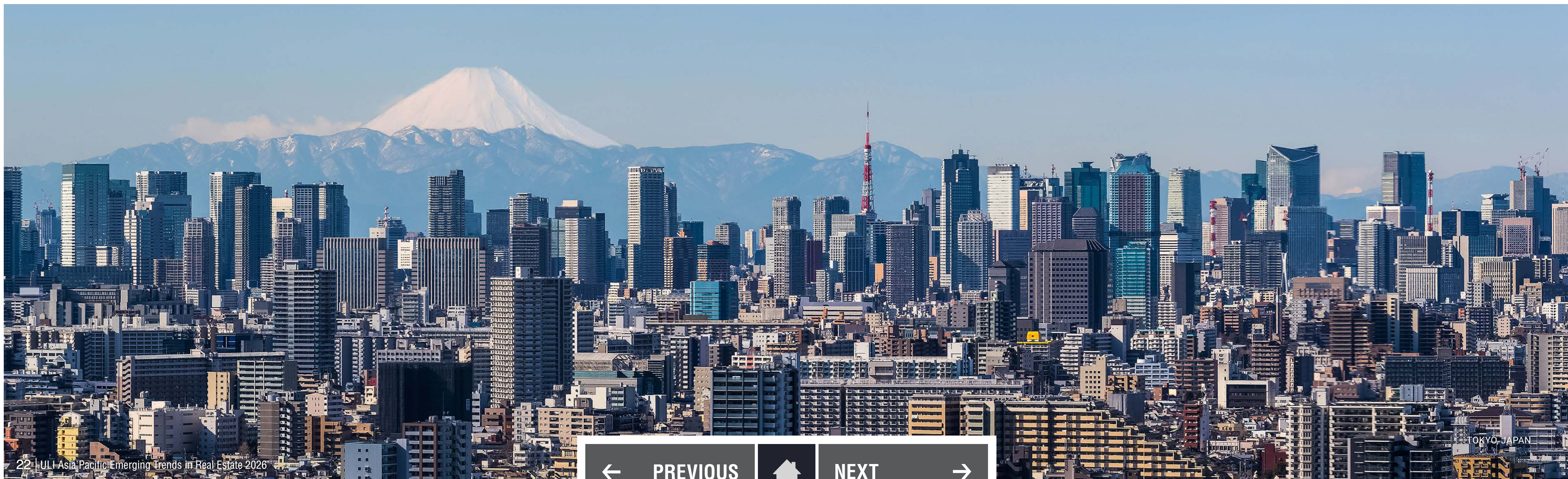
Demographics and behaviour are central to this shift. Ownership affordability is deteriorating: “Residential prices remain very high, resulting in lower cap rates.” So institutional rental housing has become a dependable, inflation-hedged income play, sustained by domestic workforce demand and migration to larger cities from the provinces. In parallel, hospitality is in its most dynamic cycle in decades. Postpandemic tourism has surged, with

inbound guests making up 90 percent of some hotels’ customers, while resilient domestic travel helps smooth seasonality. This dual-demand engine is drawing capital into hotels, serviced apartments, and apartment-hotels – especially in Osaka (from Expo 2025 to Integrated Resorts), Fukuoka (a rising regional hub), and resort markets such as Okinawa. Operators are prioritising flexible typologies, such as extended stay, family-oriented, and apartment-style formats, which enhance operating efficiency and allow assets to be run with fewer staff.

For investors, the opportunity lies in achieving institutional scale and operational modernisation.

Japan’s hotel stock remains largely under-institutionalised, presenting significant potential for aggregation and core-plus or value-add repositioning. Asset-light management structures and deeper foreign participation are accelerating the shift. Boundaries between living and hospitality are also blurring: coliving, serviced apartments, and short-stay models (“minpaku” and monthly rentals) are enabled by technology, flexible leasing, and evolving lifestyles. These options appeal to digital nomads, students, and transient professionals – broadening demand and supporting rental resilience through the cycle.

The direction of travel is structural expansion rather than cyclical rebound. Japan’s living and staying sectors are maturing into stable, income-producing asset classes – much as logistics did a decade ago – underpinned by demographic consolidation, operational sophistication, and steady global capital inflows. Pricing in the main markets is tough, however. “The Tokyo market remains active, with both rents and property prices continuing to rise. Both new and existing properties remain expensive. In particular, residential prices remain very high, resulting in lower cap rates and making it difficult to enter the market,” says a Tokyo-based manager.





SYDNEY, AUSTRALIA

Key themes: Australia



Australia benefits from stability and transparency, attracting renewed Asian capital inflows.

Easing inflation and the prospect of further rate cuts have buoyed market sentiment, signalling potential capital reactivation and yield compression over the next 12 to 18 months. Economic growth of 1.7 to 2 percent remains among the strongest in developed markets, but the market faces high construction costs, productivity inefficiencies, and affordability pressures. Despite these headwinds, Australia is reemerging as a preferred Asia Pacific investment destination, attracting A\$15.9 billion (US\$10.3 billion) in cross-border capital in the first half of 2025, up sharply from A\$10 billion (US\$6.45 billion) in the whole of 2023, according to Ray White Group. Transparency, liquidity, and institutional maturity underpin Australia's appeal as a "core safe haven" as global capital reallocates amid trade friction and US onshoring trends.

Japanese investors have emerged as a key capital source: patient, price-competitive, and

expansionary, though typically less flexible on structured solutions. Structural demand drivers – population growth, chronic housing undersupply, and infrastructure investment – remain intact, but supply-side constraints will dictate outcomes through 2026–2027. Feasibility recovery hinges on cost stabilisation, monetary easing, and stronger federal-state policy alignment.

The “beds and sheds” sectors, living and logistics, remain firm investor favourites, even though the dynamics have changed. Australia's logistics market has seen remarkable rental growth in the past five years, peaking above 30 percent per annum in 2022 and 2023 in Sydney, Melbourne, and Perth, according to CBRE. Now, rental growth is headed to single-digit levels, although interviewees say the fundamentals remain strong due to limited land and planning constraints. Capital is targeting infill, last-mile, and brownfield sites which will deliver steady, inflation-linked returns. “The days of 40 percent rent increases in industrial are behind us, but capital still really likes this sector,” one Australian manager says.

In the living sectors, Build-to-Rent is becoming an institutional asset class, though success depends on scale and operations. A number of investors had their fingers burned in Melbourne, for example, leading one Singapore-based investment manager to quip that they suffered “Asia Pacific's rule of first mover disadvantage.” The combination of rising



PREVIOUS



NEXT



construction costs and affordability concerns make it a tricky sector, despite the underlying demand. Nonetheless, MSCI data show a 9 percent increase in transactions in Melbourne in the first three quarters of 2025.

Purpose-built student accommodation continues to outperform, buoyed by inbound enrolments and chronic undersupply near universities. CBRE estimates potential for up to 180,000 additional beds in this category, with only 6 percent of students currently accommodated; the 2025–2028 pipeline of 28,000 beds leaves major gaps in Melbourne and Sydney. Meanwhile, senior housing and land-lease communities are gaining traction thanks to demand from healthy seniors supported by residential real estate wealth and Australia’s superannuation system. However, regulatory complexity and the need for vertically integrated operations remain barriers to entry.

The post-pandemic environment has seen a greater divergence between the performance of Australia’s states and their capital cities. Fiscal policy, infrastructure pipelines, and political stability are more important than ever. Over 2024–2025, this divergence intensified, with the greatest contrast between Queensland and Victoria.

Queensland’s A\$116.8 billion (US\$75.7 billion) four-year capital programme with new transport infrastructure is catalysed by the Brisbane 2032 Olympics. Savills research estimates that the Olympics and its supporting infrastructure could generate demand for more than 3 million square metres of industrial and logistics space.

In contrast, Victoria illustrates how policy can undermine confidence and investment. Once a magnet for global capital, Melbourne is increasingly perceived as a “sovereign-risk market within Australia.” The 2025 land-tax reform – lowering the trust threshold from A\$300,000 to A\$50,000 (US\$195,000–US\$32,000) – captured even small investors, while a “temporary” COVID levy became permanent and 130 new rental regulations compounded costs. Offshore capital has largely withdrawn from Melbourne’s apartment and office sectors, and domestic buyers remain cautious. As

one investor remarks: “You can buy Melbourne at a discount, but if you can’t sell to a full market, it’s hard to price that.” Another market player notes that confidence will be hard to restore: “Even if the government changes, uncertainty over taxation will scare off any foreign capital.”

Australia’s property sector faces a period of structural development paralysis; projects are “too expensive to build, too stable to reset.” Sustained construction cost inflation, labour shortages, and rigid land values have broken the economics of

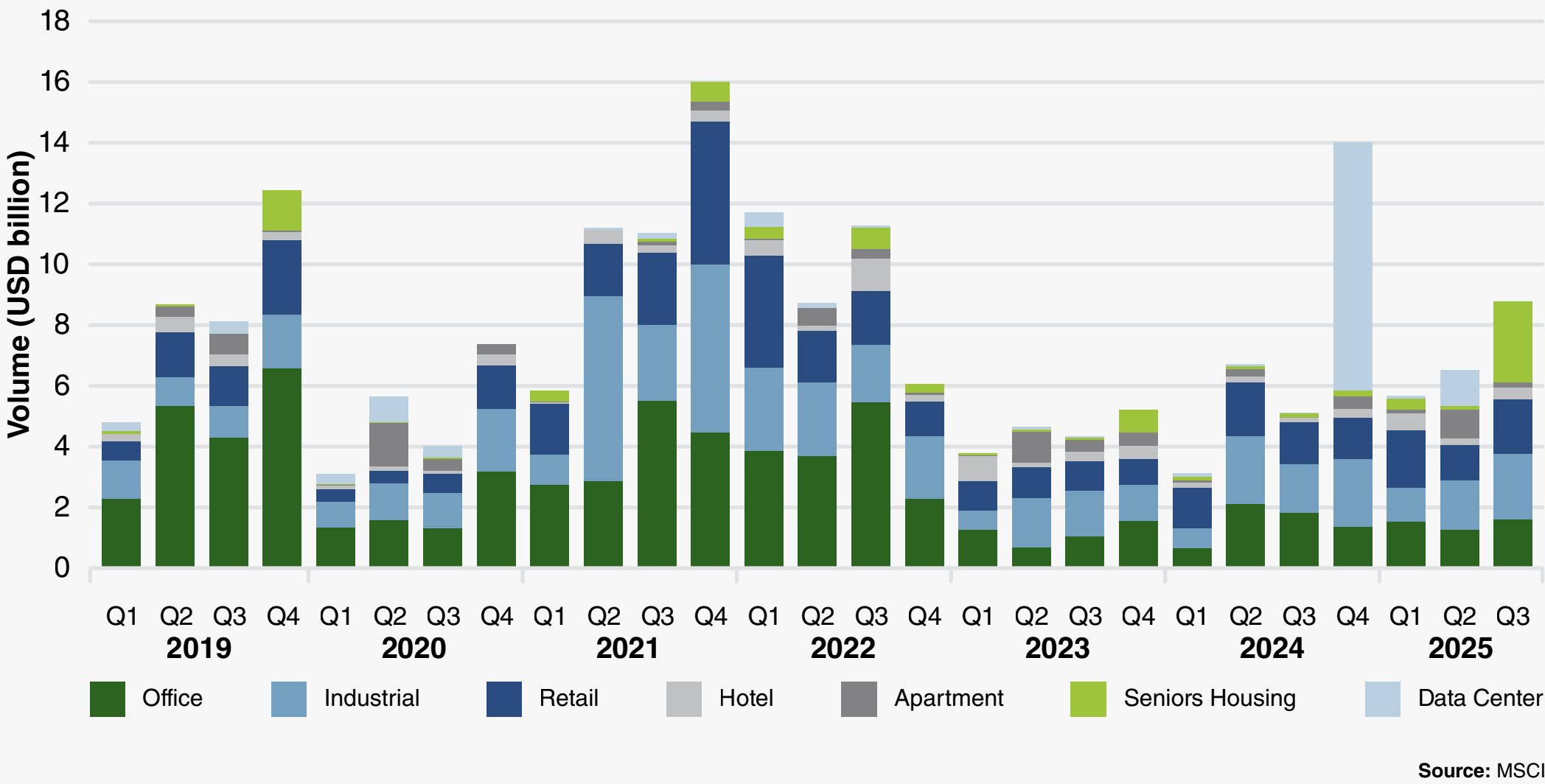
delivery across most asset classes, leaving many developments stranded at the feasibility threshold.

The Cordell Construction Cost Index recorded a 2.9 percent annual rise in residential construction costs to June 2025, pushing prices 30.8 percent above pre-COVID levels. Developers report that even viable projects are operating on wafer-thin margins, such that minor shifts in financing or demand can halt delivery altogether. Average construction timelines have stretched from 24.5 to nearly 29 months, according to Master Builders Australia. Queensland faces some of the longest delays nationally, with labour diverted to Olympics-related infrastructure. However, development difficulties are underpinning existing asset values. Constrained supply continues to drive rental growth and high occupancy across core offices, logistics, and well-located residential stock.

In response, developers are recalibrating their business models, pivoting from speculative delivery towards capital partnerships, forward funding, and adaptive reuse, including office amenities upgrades. As one interviewee notes: “The next phase of value creation will come from repositioning and operations, not ground-up development.”

Australia is thus entering a capital-rich but construction-starved cycle. Supply scarcity will preserve asset values and fuel rental inflation, but it also means owners will hang onto older stock. As one interviewee says: “Feasibility just doesn’t stack up anymore; everything’s too expensive to build, but no one’s willing to sell.”

Figure 1-15 **Australia quarterly volumes by sector, 2019–Q3 2025**



Source: MSCI



Key themes: China

As Chinese developers enter the fifth year of a protracted downturn, divergent opinions among interviewees have obscured a clear trajectory for the country's property market over the next 12 to 18 months. Some investors believe the market is still searching for a bottom. S&P Global, for example, projects nationwide primary sales will fall by 8 percent in 2025 and a further 6 to 7 percent in 2026. Pessimists point to continued vulnerability in traditional office and retail assets, arguing that valuations have yet to fully reflect the depth of the correction.

Others take a more constructive view, suggesting that the worst may now be over, though any recovery will be gradual, uneven, and highly sector-specific. Monetary policy remains accommodative, with borrowing costs continuing to edge down in line with global trends. As one respondent notes: "The long-term downward trend in rates is established." This environment is encouraging insurers and domestic funds to pursue income yield through assets such as multifamily housing, shopping centres, and real estate investment trust (REIT)-linked vehicles. However, this environment and the keenness of banks to "extend and pretend" is also slowing the market recovery.

In the wider economy, deflationary pressures persist, keeping real interest rates elevated and weighing on corporate investment and household consumption.



We are entering an era of 'slow money', where the ability to distinguish quality opportunities becomes crucial. Strong managers and institutions will still have room to thrive.

Consumer confidence and spending are weak. The government's policy stance has shifted from aggressive stimulus towards "stabilisation", reflecting both fiscal caution and a desire to support the real economy without reigniting asset bubbles. Several interviewees say that policy direction in the second half of 2025 will be critical: if the housing market finds a floor, mild tightening could follow; if not, further easing is likely.

China is entering what investors describe as the "slow money" era, a phase defined by the transition from speculative development to income stability. China-based interviewees consistently frame this as an economic and cultural recalibration in which capital now rewards stability over speed. Success increasingly depends on operational performance rather than market timing. The growth of the



SHANGHAI, CHINA



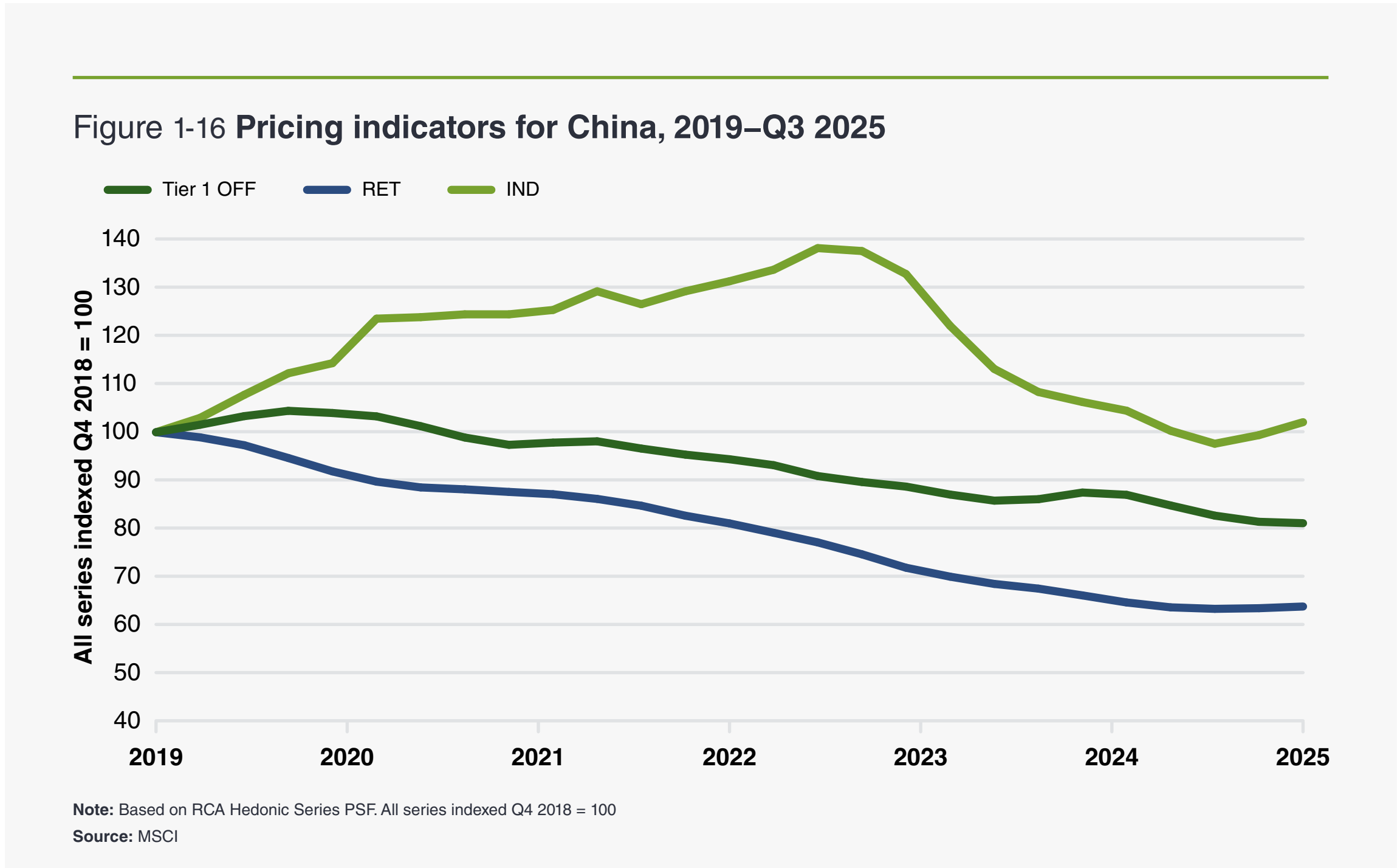
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The growth of the REITs market is strengthening the full investment cycle – from acquisition, financing, and management to exit.

domestic REIT ecosystem, the rise of renminbi-denominated investment vehicles, and the pivot from build-to-sell to build-to-hold strategies are part of the institutionalisation of China’s property sector.

For domestic investors, this maturity phase underscores the importance of stewardship and operational excellence, prioritising assets with resilient cashflows and adaptability over time. A decisive localisation of China’s real estate capital ecosystem is underway. Nonetheless, many interviewees from global or regional investment managers have declared China “uninvestable” at present, not least because so many are bogged down with legacy assets. One manager says: “If you look at the last decade of foreign investment in China, most of those deals are now distressed.” However, domestic liquidity is not sufficient to recapitalise the sector, and there is little appetite for tidying up complex situations. Furthermore, a gulf exists between Shanghai, which has activity across nearly all sectors, and the rest of the nation.

As China recovers, interviewees expect renminbi



fundraising to take precedence, alongside the booming REIT sector, which has seen the first successful floats from foreign investors. This transformation has dual implications. On one hand, it supports market stability by anchoring investment to national policy priorities and limiting exposure to external shocks. On the other, it deepens a more insular and relationship-centric culture in which access and influence often carry more weight than market openness.

Rental housing is seen as the most resilient and investable segment in China’s current real estate

landscape. REIT managers note that “demand for rental and affordable housing remains robust, with high occupancy rates sustained”. This reflects a broader reallocation of capital towards operationally mature, policy-aligned asset classes. Multifamily housing and REITs now sit at the intersection of public policy priorities – housing affordability and capital market reform – and investor goals of liquidity, transparency, and yield.

According to CBRE, commercial real estate investment volume rose 19 percent year-on-year in the first half of 2025, even as the number of

transactions fell 29 percent, signalling a shift towards fewer but larger, more concentrated institutional deals. Institutional investors have shown growing appetite for consumption- and living-related sectors, with retail and rental housing investment volumes doubling over the same period.

This momentum also reflects a cultural shift in housing consumption. As affordability pressures persist and younger generations postpone homeownership, renting has become a mainstream lifestyle choice. Supported by insurers, developers of state-owned enterprises, and emerging REITs, the multifamily sector demonstrates strong defensive qualities underpinned by demographic and behavioural change. Tier 1 and Greater Bay Area cities – where recurring income and operational efficiency increasingly define long-term market sustainability – are leading this evolution.

The “develop–hold–REIT exit” model is rapidly taking root as a defining framework for China’s next stage of real estate institutionalisation. In 2025, Chinese REIT initial public offerings raised a total of US\$4.9 billion, accounting for the majority of the US\$7.6 billion raised across Asia Pacific and underscoring China’s dominant role in regional REIT market growth. The expansion of the REIT market is reinforcing this structural shift by offering a transparent, cyclical investment platform that links development, income generation, and capital-market exit. Cushman & Wakefield reported that in the first quarter of 2025, six REITs were launched, including five backed by real estate assets, maintaining the market’s robust trajectory.

Key themes: India

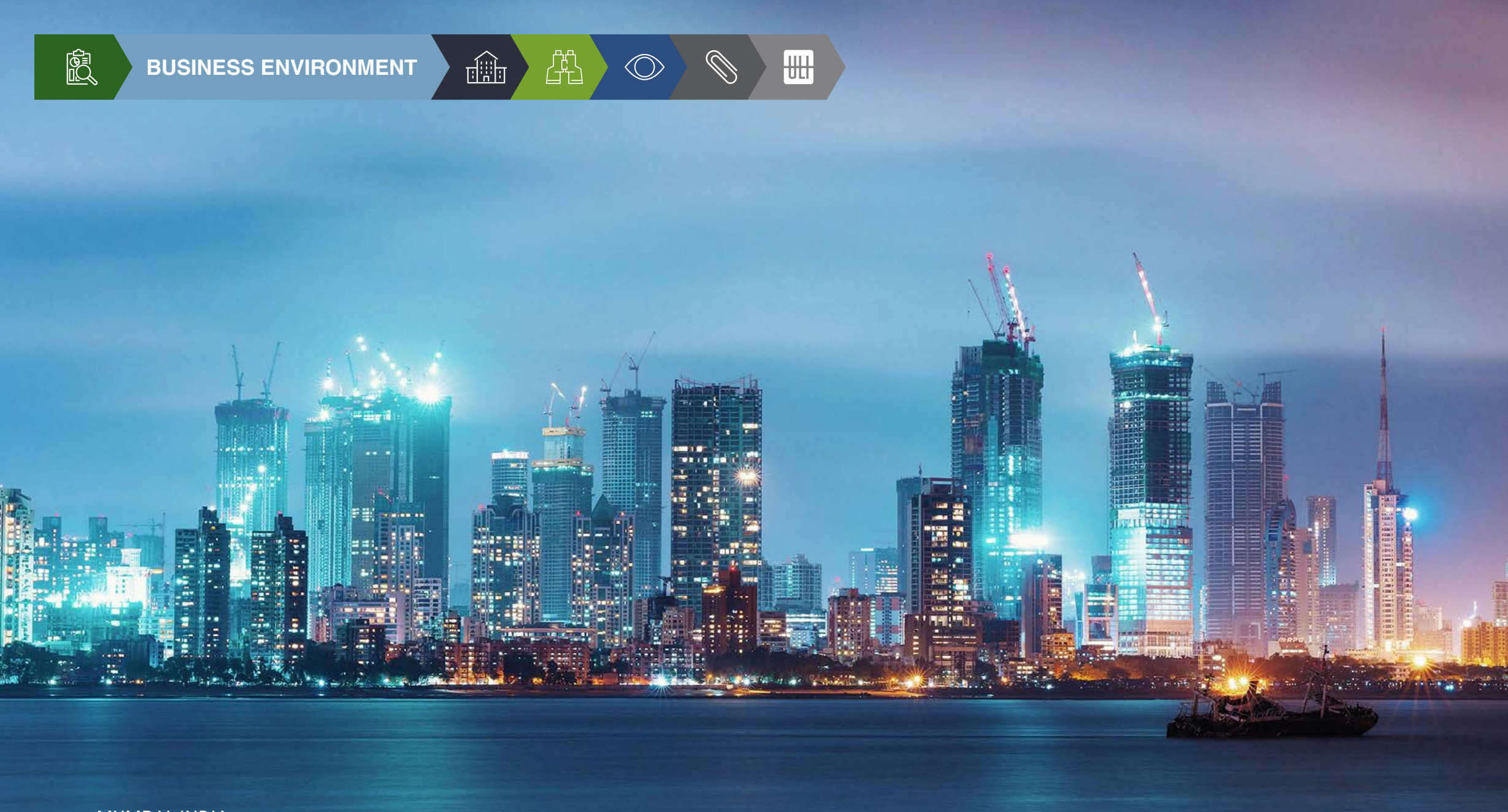
India is the developing nation with the most mentions amongst interviewees, yet it remains an investment destination for only a small number of large global investors, some of which have been backing its real estate growth story for more than a decade.

The country’s key attraction remains its strong macro story. While population growth has slowed to less than 1 percent a year, the United Nations projects there will be 1.6 billion Indians in 2100, up from 1.4 billion today. The median age is under 29, more than a decade lower than China’s and four years lower than Vietnam’s. Gross domestic product (GDP) growth from 2015 to 2024 averaged a whisker under 6 percent, according to the World Bank.

In addition, India has introduced a series of regulatory reforms over the past decade, both general and specific to real estate. And it has spent billions of dollars on new infrastructure. It is emerging as a manufacturing centre, both for its growing domestic market and for export. For example, Apple assembled US\$22 billion worth of iPhones in India in the 12 months to March 2025. India is also seen as geopolitically neutral and insulated by lack of reliance on exports. One investment manager says: “India is largely a domestic consumption economy, and that means tariffs can only have so much impact.”

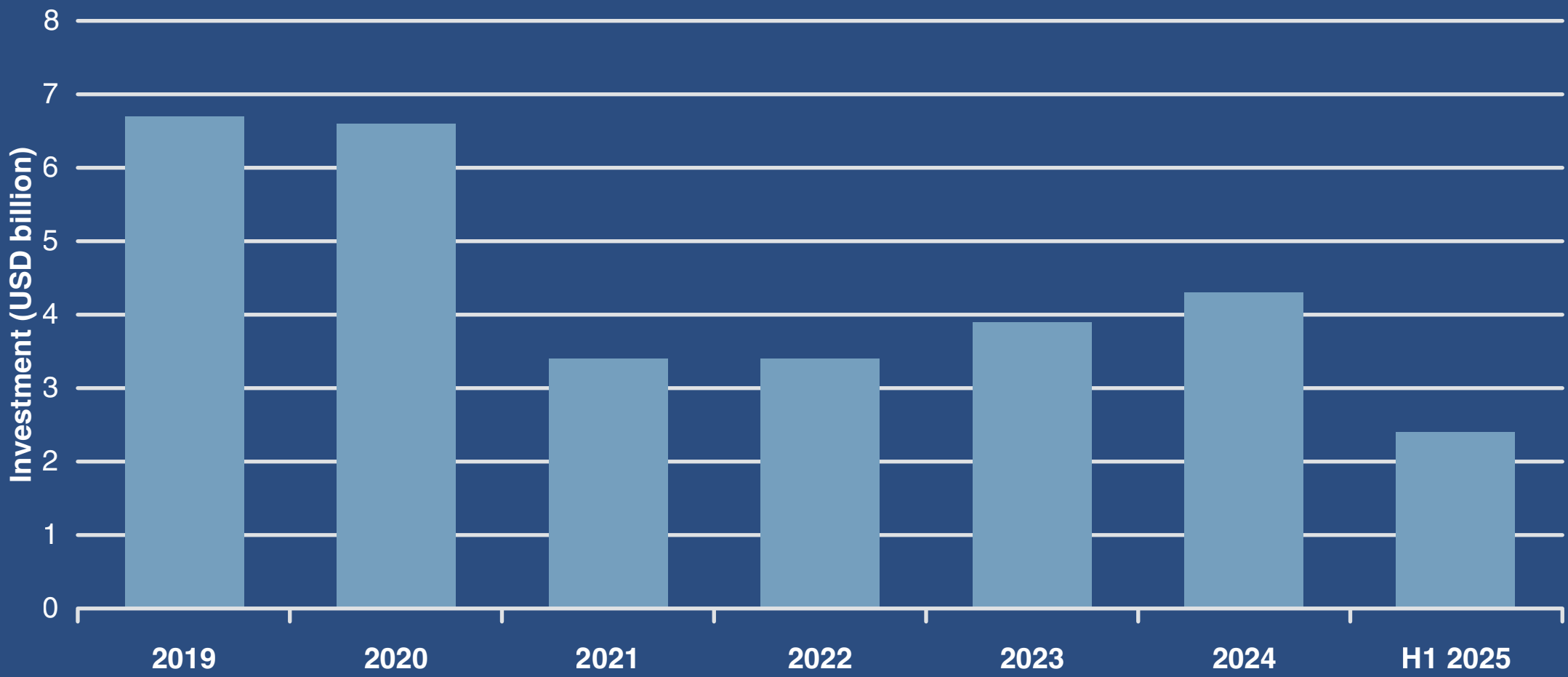


APPLE IPHONES, INDIA



MUMBAI, INDIA

Figure 1-17 Private equity investment into Indian real estate, 2019–H12025



Source: Savills Research & Consultancy

Nonetheless, the number of private equity real estate investors in India is relatively low and the sums invested relatively small – still below the 2019 peak. India has been a focus for large North American investors and managers, as well as those from Singapore and Japan. Some interviewees suggest that Asian investors have been more active buyers in recent months and may continue to be in 2026.

Cross-border real estate investors have focussed mainly on the office sector, with investors such as Blackstone Group and Brookfield creating large portfolios which have been floated as Indian REITs. One Indian market player estimates the office sector accounts for 70 percent of foreign capital invested in India since 2009. More recently overseas investors have focussed on the logistics and retail sectors, the latter described by one private equity player as “amazing, a great proxy for Indian consumption growth”. Some have also focussed on life sciences and pharmaceutical manufacturing space.

The development of the Indian REIT market has been an important proof of concept for investors. Not only have they been able to float REITs, but foreign investors have been able to exit their investments, selling to local capital. For example, in March 2025, Brookfield announced it had sold a 5.13 percent stake in Brookfield India Real Estate Trust via a series of open market transactions. “That domestic demand has been a real eye opener in terms of value realisation,” an investment manager says.

“

As the market is maturing, you see a lot of lot more capital formation, both domestic and foreign capital.

There are concerns that AI could replace much of the work carried out by Global Capability Centres – the back-office operations of multinationals – in India. Some interviewees suggest AI could create both “a macro crisis and an office vacancy crisis.” However, others argue that India’s millions of maths and science graduates will undertake complex and customised work not replicable by AI. Furthermore, new US regulations have made it more difficult and expensive to employ Indians in the United States, so “a lot of US companies are going to move operations to India and employ people there instead.”

Nonetheless, some global and regional investors remain doubtful about India. Some interviewees say they see its attractions but do not see a need to invest there for the moment. Others point to strong competition from local capital, the need for extensive due diligence into local partners, and rising prices. As one executive with a global investment manager says: “Outsized returns are quickly arbitrated away due to the low domestic cost of capital and intense local competition.” For value-driven investors, India remains a challenge.

CHAPTER 2

REAL ESTATE CAPITAL MARKETS

“The end of the tightening cycle, combined with easing supply pipelines and healthier macroeconomic conditions, presents more attractive opportunities than in the past three years.”

Hong Kong-based investment manager

Transaction volumes: same same but different

The cadence of Asia Pacific real estate transactions in 2025 so far looks remarkably similar to 2024: a sluggish first half and a recovery in the third quarter, with expectations of a better final quarter.

Transaction growth stalled in the first quarter of 2025, MSCI data show, and the widespread impositions of tariffs by the United States led to a decline in activity in the second. However, preliminary data for the third quarter show a marked uptick, and a number of interviewees declared themselves to be optimistic about the rest of 2025 and 2026. According to one investment manager: “2025 was better for us than 2024, and it looks like 2026 will be a more active year all round.”

Interviewees say the most popular markets – Japan, Australia, Singapore, and South Korea – are seeing more competition for the best assets. However, a bid-ask spread remains in most markets, with Japan a notable exception. The Asia Pacific head for a US-based manager says: “Sellers anticipate lower interest rates, while buyers remain cautious in underwriting.” Many investors and managers are playing down their expectations of capital growth and looking for strategies to boost net operating income.

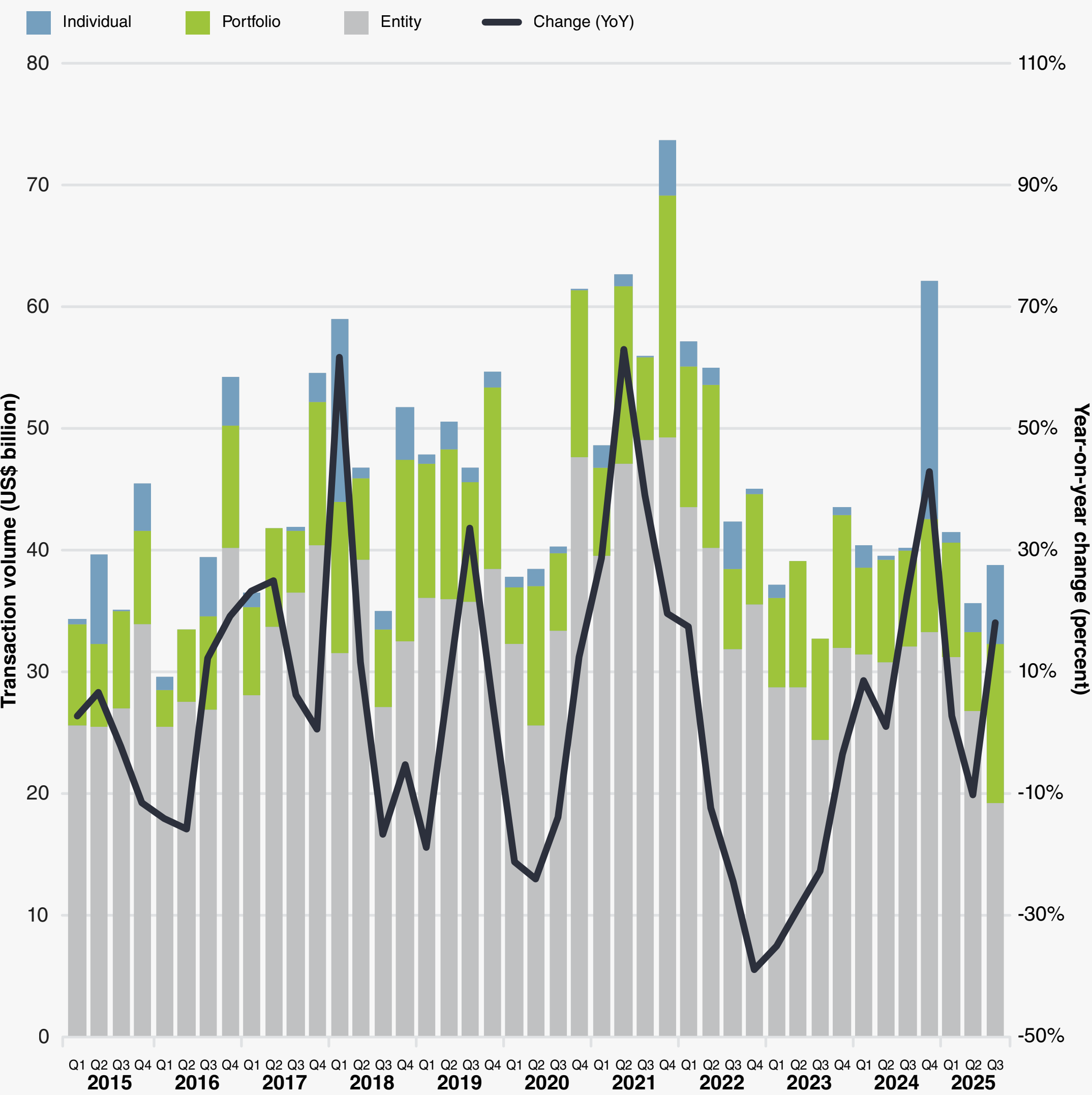
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We are seeing strong buyer interest wherever we have assets on the market, with the exception of China.

The most active metropolitan areas in the region in the first three quarters of 2025 are much the same as the list for the past three years. MSCI data show that Tokyo is the largest market, with close to US\$18 billion in transactions. It was also the largest investment market in 2024 and 2023. Similarly, Seoul, Sydney, and Singapore tend to be in the top five most-active markets. These cities were also selected by survey respondents as having the best investment prospects in the past three years.

A notable exception is Shanghai, which was the fifth most-active metro market in 2024 and the first three quarters of 2025, despite not being in the top five cities for investment prospects since 2018. Interviewees say the continued large transaction volumes reflect Shanghai’s relative attractiveness, compared with the rest of China, for domestic investors. “The opportunities in Shanghai are better than almost anywhere else in China,” says one broker.

Figure 2-1 Asia-Pacific transaction volumes & year-on-year change, 2015–Q3 2025



Source: MSCI

More Asia capital expected, but ex-Asia investors still dominate cross-border activity

Survey respondents expect to see more capital flows within Asia in 2026 and over the next five years, as the region’s investor base continues to grow. Growth is coming from several sources: the increasing sophistication of newer sovereign funds in Indonesia and Malaysia, the expansion of family offices, as well as that of insurers with large Asian businesses, such as AIA and Manulife, and of private banks serving high net worth individuals. “Asia is generating a lot of wealth, and some of that wealth will always want to go into real estate,” one regional investment manager says.

In the short term, however, market participants expect less US capital to flow into Asia, due to a preference for domestic markets. This is partially for political reasons but also because US markets have corrected more rapidly and offer higher returns. One adviser says: “If you look at the reset that’s happened in the US and the European markets over the last couple of years, you know, they’ve repriced their markets, and investors are able to generate some pretty attractive returns back in their home yard. So that’s detracted from capital flows coming into the region.” At the same time, investors perceive a shift of global capital from America to Europe and Asia due to US tax policies and geopolitical concerns. As one investor says: “Global investment committees are discussing taking allocations out of the US, with portions flowing to both Europe and Asia.”

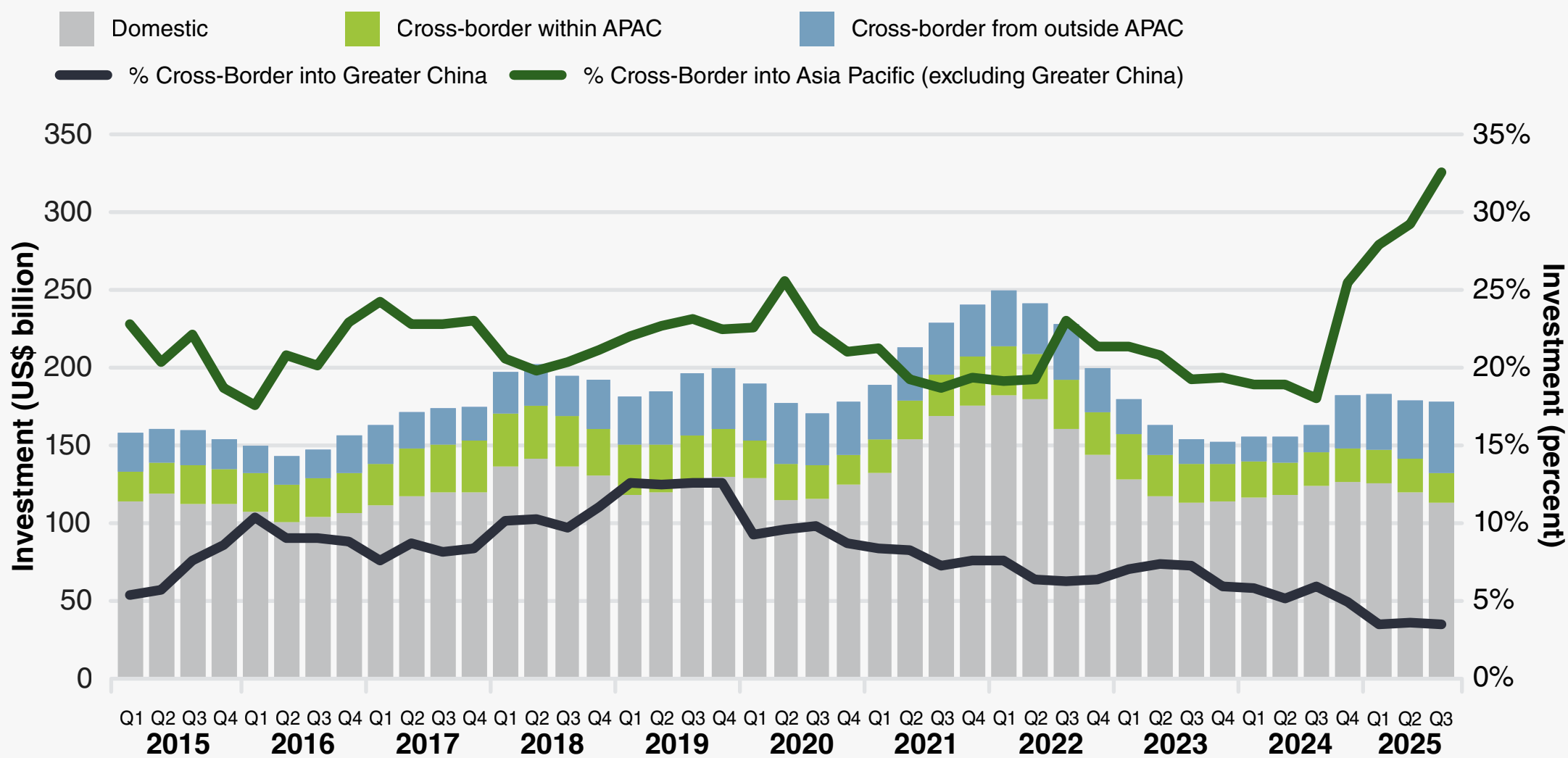
“Intraregional capital flows are becoming increasingly impactful; there’s a lot more Asians for Asia.

Strong expectations of interest from Middle Eastern investors are also a factor. Most significantly, Middle Eastern investors are seen to be less reluctant to go to China. One adviser says: “Middle Eastern investors don’t have the same political concerns and, in some cases, [they have] fewer problems with legacy assets.”

However, MSCI data show that 2025 has seen a substantial increase in the amount of ex-Asia capital in the region, while the amount of cross-border capital from within Asia Pacific has been static or falling. For example, in the 12 months up to the third quarter of 2025, more than US\$45 billion of ex-Asia Pacific capital was invested in the region, compared with less than US\$19 billion of cross-border capital from within Asia Pacific.

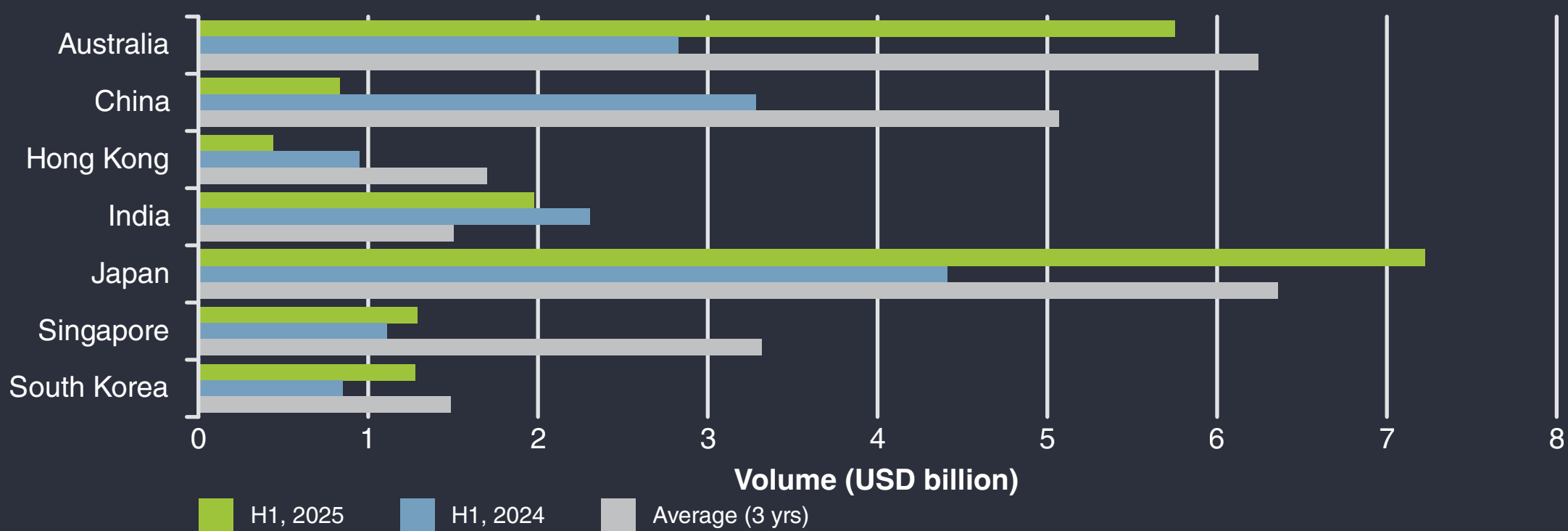
MSCI transaction volume data show a polarisation between the best and rest. Australia saw US\$5.7 billion of cross-border deals in the first half of 2025, up from US\$2.8 billion in the same period in 2024. Japan saw cross-border transactions grow to US\$7.2 billion from US\$4.4 billion in that time period. And Singapore and South Korea both saw an uptick in cross-border activity. However, China and Hong

Figure 2-2 Asia Pacific investment by capital source, 2015–Q3 2025



Source: MSCI

Figure 2-3 Asia Pacific cross-border investment volumes by market



Source: MSCI

Kong saw cross-border activity plummet from levels which were already subdued in 2024. For example, China averaged US\$5 billion of cross-border deals each year between 2021 and 2023 but managed only US\$832 million in the first half of this year.

Capital raising is improving, but only for certain strategies

Capital raising for Asia Pacific private equity real estate funds improved somewhat in the first nine months of 2025 but remained subdued. Preqin data show US\$11.39 billion of aggregate capital raised in that period, following a total of US\$14.07 billion in the whole of 2024. Most of the capital raised has been focused on Japan.

PAG and BentallGreenOak both closed Asia Pacific real estate funds in 2025, raising a total of US\$8.6 billion. The bulk of this equity – at least 70 percent – is expected to be invested in Japan. Meanwhile, Ares Management raised US\$2.4 billion for a Japan data centre fund, and Morgan Stanley Real Estate Investing raised US\$900 million for a Japan-only fund. “Japan is the exception within Asia,” says one manager. One new trend has been the ability of foreign managers to raise capital from Japanese investors for value-add Japan strategies. “It is also unprecedented, I think, for Japanese investors to go up that high on the risk curve,” says one Japan-based leader of a global investment management group.

“Raising capital is still tough, but it is nothing we haven’t seen before. It feels a lot like 2012–2014 . . . the capital was out there but needed a lot of convincing to come to Asia.

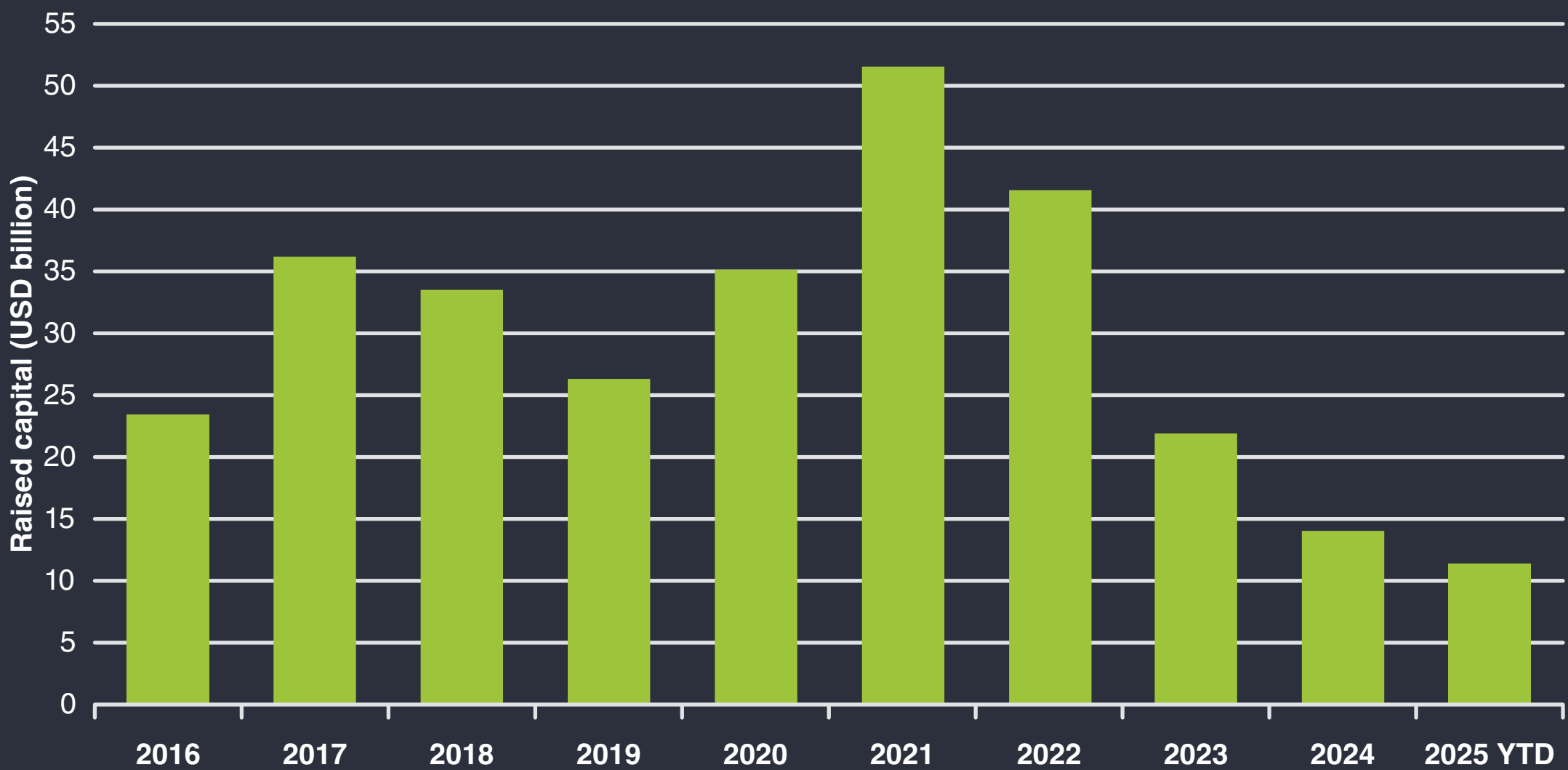
Not only do investors prefer managers who have strategies targeting Japan, they prefer managers who have focused on Japan in the past. “Broadly speaking, if you have had half your assets or more in Japan in the past decade, you will be doing OK; but if you have had half your assets in China, you will be in trouble,” one regional investment manager says

For many investors, interest in pan-regional funds is waning and managers are responding. One says: “We are revising our capital raising strategy to be more country focused. We are finding that there are fewer investors who want to make a regional bet. There are more investors who want to pick and choose the winners.”

When it comes to sectors, investors clearly prefer data centre strategies: Ares Management’s Japan data centres fund was the third largest raised in Asia Pacific in the first half of this year and the eighth largest in the world. Meanwhile PGIM Real



Figure 2-4 Asia Pacific-focused real estate capital raised, 2016–Q3 2025



Source: Preqin Pro



GARDENS BY THE BAY, SINGAPORE

Estate closed a US\$2 billion global data centre fund with an allocation to Asia Pacific.

Another notable investor preference is for larger managers. This preference is not new and is a global phenomenon. The list of largest real estate funds closed this year and the list of the largest funds in the market features many of the same names: Blackstone, Brookfield, Carlyle, and Starwood. Veteran Asia Pacific real estate private equity players expect to see further mergers and acquisitions in the sector and blood in the water as some small- to medium-sized managers struggle to raise capital. A number of Asia Pacific real estate investment managers are said to be up for sale.

“Groups in that middle ground who have no competitive advantage and have been traditionally earning a fee for capital allocation are going to struggle,” says a Singapore-based manager. “Investor dollars allocated to Asia will just be more concentrated in the top tier managers. The biggest will get bigger through asset aggregation work and their dominant distribution channels.”

Several real estate investment manager acquisitions have taken place in the past 18 months. These include Ares Management’s purchase of GLP Capital Partners International, a PAG-led consortium buying Wanda’s China asset management business, and Australia’s Scape buying retirement living operator Aveo from Brookfield.

Nonetheless, at the smaller end of the market, large investors continue to back specialist platforms

which may focus on a single property sector or a single country. Capital “wants to be closer to the investments, closer to the operating team, and with more visibility,” the regional real estate head of a global manager says. “They are no longer keen on paying two sets of fees.”

Buying into a platform brings a range of advantages for investors. First, they have access to a pipeline of assets through a team with specialist knowledge. Second, they are saving on fees: owning 25 percent of a manager is equivalent to a 25 percent fee discount. Finally, the platform itself could be a successful investment and boost returns from real estate.

While some real estate investment managers are having a tough time, other groups have sought to enter the business for the first time. In late 2024, Hong Kong-listed groups Link REIT and Hongkong Land both launched fund management businesses, with the aim of raising long-term capital outside the public markets. Whether other listed real estate entities follow suit may depend on the strength of the recovery in public real estate markets.

Looking further ahead, managers have identified some tentative positive signs for future capital raising. Low or falling interest rates, which prevail in most Asia Pacific markets, are making real estate investments more attractive. Many large investors have been on the sidelines for some time and are under-allocated to the sector. Furthermore, real estate continues to attract new investment from family offices and other private investors, although this type of investor is more inclined towards

boutique solutions and niche investments. Indeed, one Hong Kong-based adviser reports that several family office clients are looking as far afield as Central Asia.

REIT markets point to better times ahead

Asia Pacific real estate equities performed well in the first three quarters of 2025, in line with wider equity markets. The FTSE EPRA NAREIT Developed Asia Index, which tracks 194 stocks with a combined market capitalisation of more than US\$500 billion, rose 23.6 percent over the period, compared to 24 percent for the FTSE Asia Pacific Index. This represents a sharp recovery after five years of negative returns. Real estate investment trusts (REITs) in developed markets have also performed well this year.

“

We were so excited about China and the growth story, but we have just not made much money there. We would have done better in the US.

FTSE Russell research has suggested that listed real estate performance can be a leading indicator for the underlying real estate markets. Listed real estate performance often signals trends for the broader real estate asset class, since equity markets react faster than the relatively illiquid bricks-and-mortar property markets.

This year has also seen a slight recovery in REIT initial public offerings (IPOs). In July, NTT DC REIT, which owns six data centres in the United States, Singapore, and Austria, raised S\$988 million (US\$773 million) in the biggest Singapore REIT IPO for a decade. September saw the float of Centurion Accommodation REIT, which became Singapore’s second-largest IPO this year, raising approximately S\$771 million (US\$599 million). “Singapore is still the hub for the Asia Pacific REIT market, and two successful IPOs this year is a positive sign after a very slow few years,” says one real estate analyst.

Japanese REITs have been trading higher on the back of continued low vacancy in Japan. Lower vacancy in Japan is seen as positive for REIT dividends in 2026. Australian REITs have also performed strongly in line with a burgeoning cross-sector recovery in several state capitals. Nonetheless, expectations for real estate IPOs in both markets are muted.

India saw its fifth REIT listing, Knowledge Realty Trust, which raised US\$550 million in August. The REIT, which owns 30 Grade A office assets across the country, was backed by Blackstone Group and Sattva Group. India’s REIT (I-REIT)

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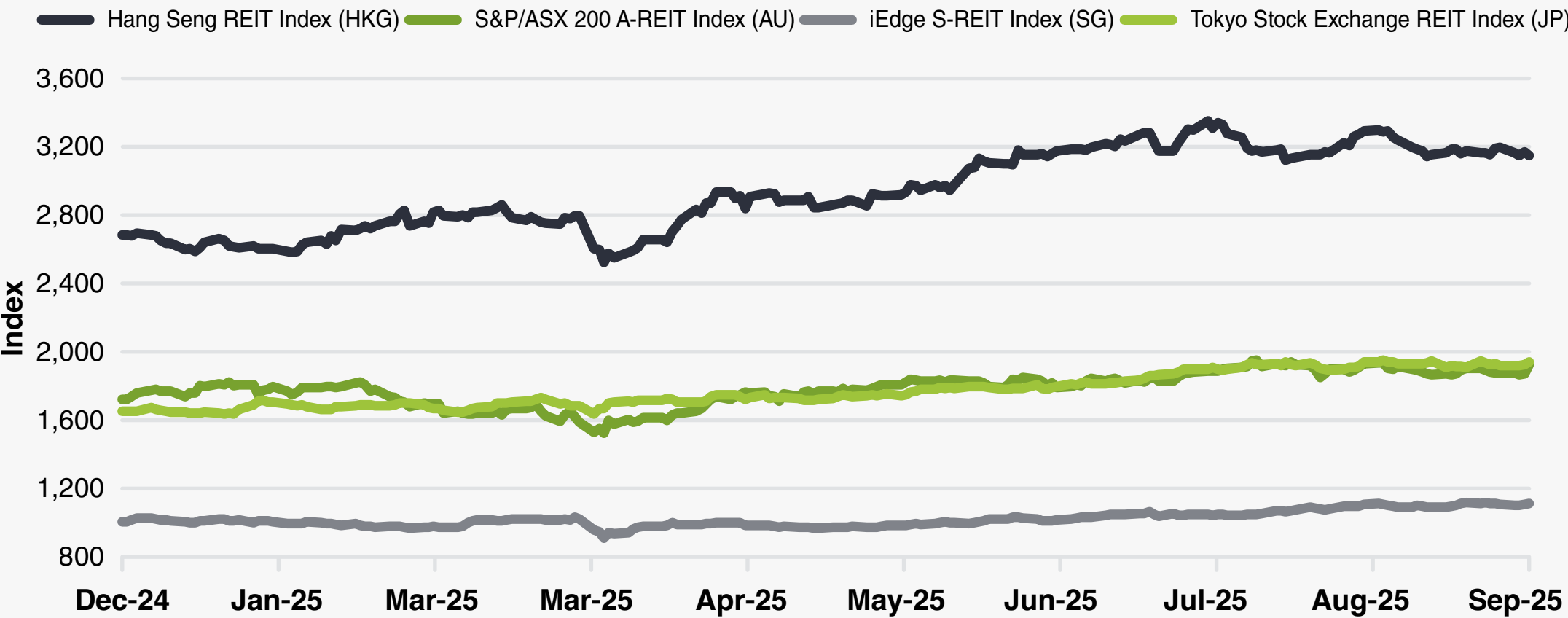
C-REITs demonstrate an exit pathway for China assets at a time when outright asset sales prove very difficult.

sector is heavily weighted towards office properties. However, Indian market players suggest that a number of retail REITs are in the pipelines, which will add to the diversity of the I-REIT sector.

A smaller but significant IPO was the PropShare Titania Small and Medium (SM) REIT, the second Indian SM REIT, following the launch of PropShare Platina SM REIT in late 2024. SM REITs were introduced in 2024 to provide regulated fractional real estate investment schemes. Their distribution requirements are similar to REITs and are governed by the Securities and Exchange Board of India.

The most significant trend in Asia Pacific-listed real estate is the continued launch of China REITs (C-REITs), as discussed in chapter 1. C-REITs are structured so that rental income flows through asset-backed securities, unlike other Asia Pacific REITs which own direct real estate assets. They are widely seen as an important part of China’s capital markets development. One significant step in 2025 has been the listing of C-REITs by foreign managers, with ESR and CapitaLand successfully listing REITs.

Figure 2-5 Asia Pacific REIT indices, December 2024–September 2025



Source: FTSE EPRA NAREIT



WOOLLOOMOOLOO WHARF, SYDNEY, AUSTRALIA



Credit in abundance as interest rates fall

A period of higher interest rates from 2022 onwards made real estate investment more difficult: higher rates were coupled with higher spreads and, often, lower available loan-to-value ratios. While, as ever, the picture varies from market to market, interviewees broadly report they anticipate a more positive lending environment for 2026, with “abundant capital, compressed spreads, and higher leverage availability”, according to one real estate broker.

This outlook for Asia Pacific matches a similarly positive picture for the United States and Europe. Interest rates have been cut in the United States, European Union, and United Kingdom in recent months, and more cuts are expected, depending on the economic picture in these regions. Banks and other lenders are reported to be keen to extend credit to the sector overall.

The survey shows that Asia Pacific real estate players anticipate a more positive lending

“

The Indian REIT sector is small but it is an important part of the market’s development.



ONE HOLLAND VILLAGE, SINGAPORE



PREVIOUS



NEXT



environment across the board in 2026. Expectations for the availability of debt from all types of lenders – for acquisition, refinancing, and development financing – are higher than the five-year average. Furthermore, the outlook for the cost of borrowing is similarly positive: 78 percent of respondents expect the overall cost of borrowing in 2026 to be the same as or less than in 2025.

Markets seeing sharp falls in both base interest rates and margins include Singapore, Australia, and South Korea, with some exceptions in South Korea for cold storage assets. In 2025 in Singapore, some interviewees report the all-in cost of debt has contracted as much as 200 basis points.

In Australia, one adviser reports that a funding deal for build-to-sell residential, where the debt pricing was expected to be as high as 275 basis points, saw banks offering “low 200s, with one coming in under 200.”

These conditions do not apply everywhere. Japan saw its first base interest rate rise in 17 years in March 2024 and has raised rates twice since then. Nonetheless, Japanese banks continue to demonstrate an appetite for real estate lending, interviewees say. Meanwhile in China, interest rates have remained low and are expected to continue at such levels for the time being.

Banks are also becoming more accommodating in terms of loan-to-value ratios, particularly for the best assets and their best customers. As one adviser says: “The sweet spot for banks in Asia is still 50 percent loan-to-value, but we see this

“Where a loan ticks all – or almost all – of the boxes, then there is a lot of appetite from lenders.

going as high as 60–65 percent for better assets in stronger markets, such as Japan.” In Australia in particular, investors and managers report that lenders have boosted their loan-to-value offering by 500 basis points during the course of 2025 to the “low sixties.”

One emerging trend in Asia Pacific real estate lending has been a gradual move to covenant-light lending, particularly when the borrowers are global institutions. Such loans have limited financial covenants, providing greater borrower flexibility while reducing lender protections and oversight during the loan term. Covenant-light lending emerged in the United States in the early 2000s and has subsequently spread to Europe and now Asia Pacific.

“Global investors are pushing for covenant-light loan structures in Asia Pacific to match their US and European lending standards, with lenders increasingly accommodating this as spreads have compressed,” says one adviser.

Real estate lending in Asia Pacific continues to

Figure 2-6 Availability of debt by type of lender

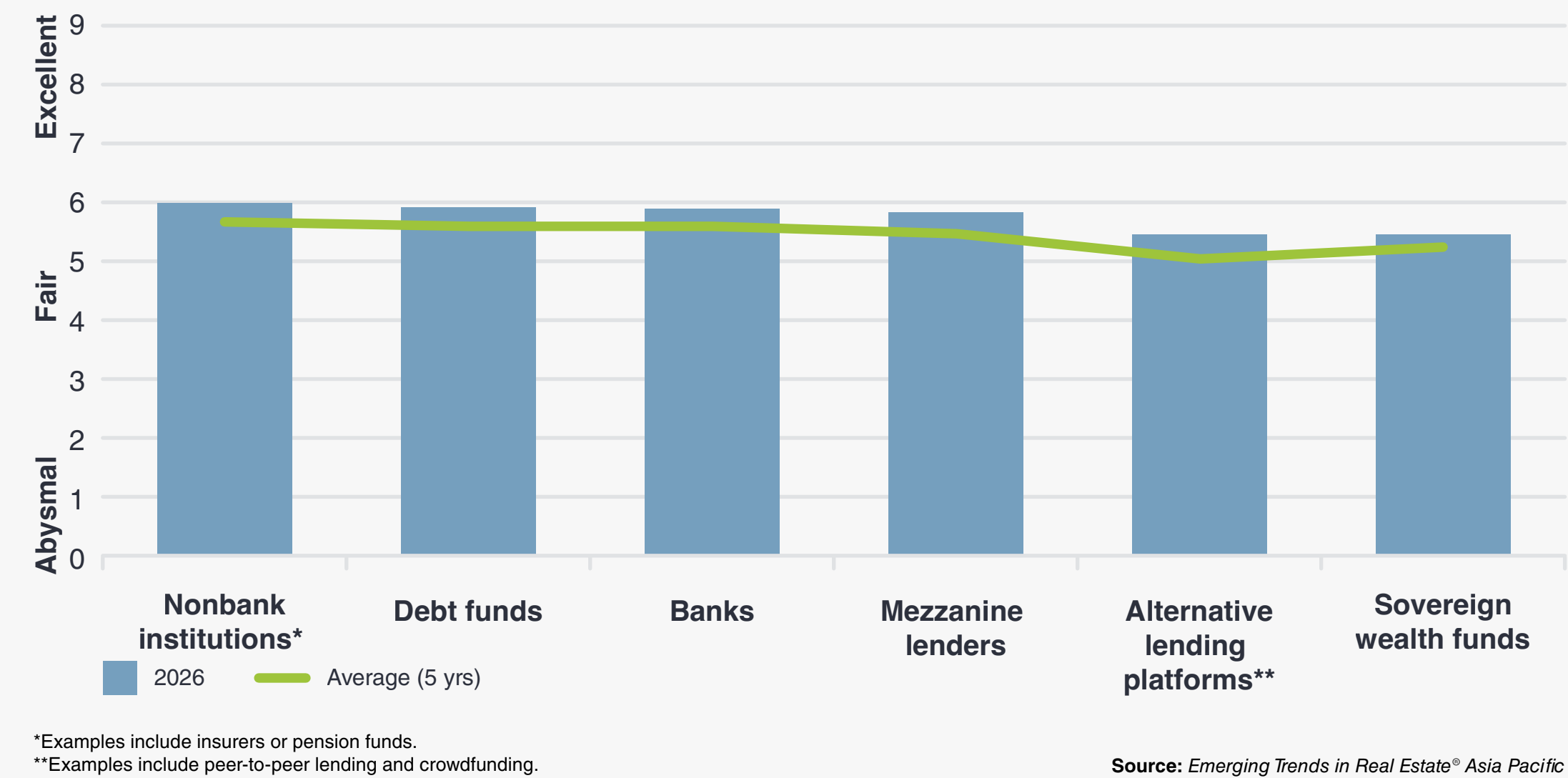
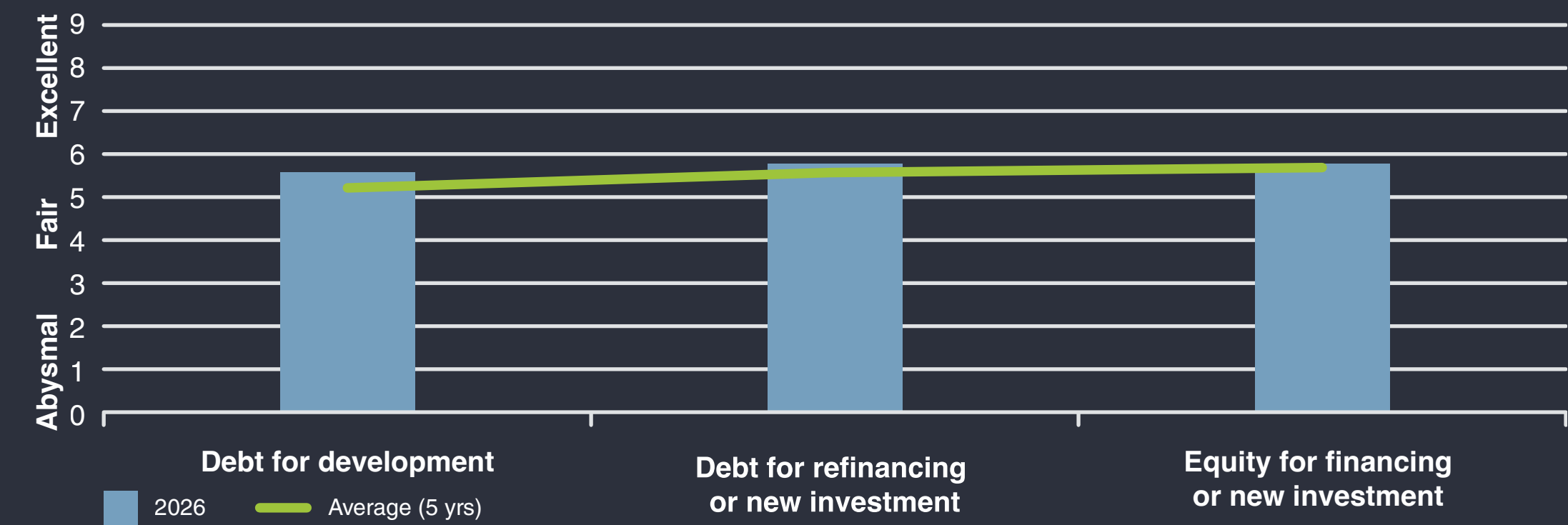


Figure 2-7 Expected change in availability of debt and equity finance



Source: Emerging Trends in Real Estate® Asia Pacific

be dominated by banks in all markets. Data on the extent of private lending are hard to come by. However, an October Knight Frank report noted that private credit accounts for only 16 percent of real estate lending in Australia, which is the biggest market in the region for nonbank real estate lending. Estimates for the percentage of nonbank real estate lending in Asia varies from less than 5 percent to 20 percent.

A number of Asia Pacific–focussed investment managers have launched real estate lending programmes. However, Preqin data show that the amount of private credit dry powder for Asia Pacific real estate has been static at around US\$5 billion to US\$5.5 billion for the past five years. Banks continue to be strong and favourable to real estate lending in all markets, but markets such as Australia and India have emerged as the focus for nonbank lenders.

Preqin data show that 40 percent of all the capital raised for Asia Pacific real estate debt funds between 2020 and 2024 was allocated to Australia and a further 36 percent to India. Australia has been a focus for private real estate debt because the nation’s “Big Four” banks have – under regulatory pressure – moved away from riskier real estate lending. In India, private credit as an asset class is growing rapidly, spurred by regulatory changes and real estate market expansion.

Nonbank lenders in South Korea and Hong Kong have also shown considerable interest, primarily targeting stressed situations. In South

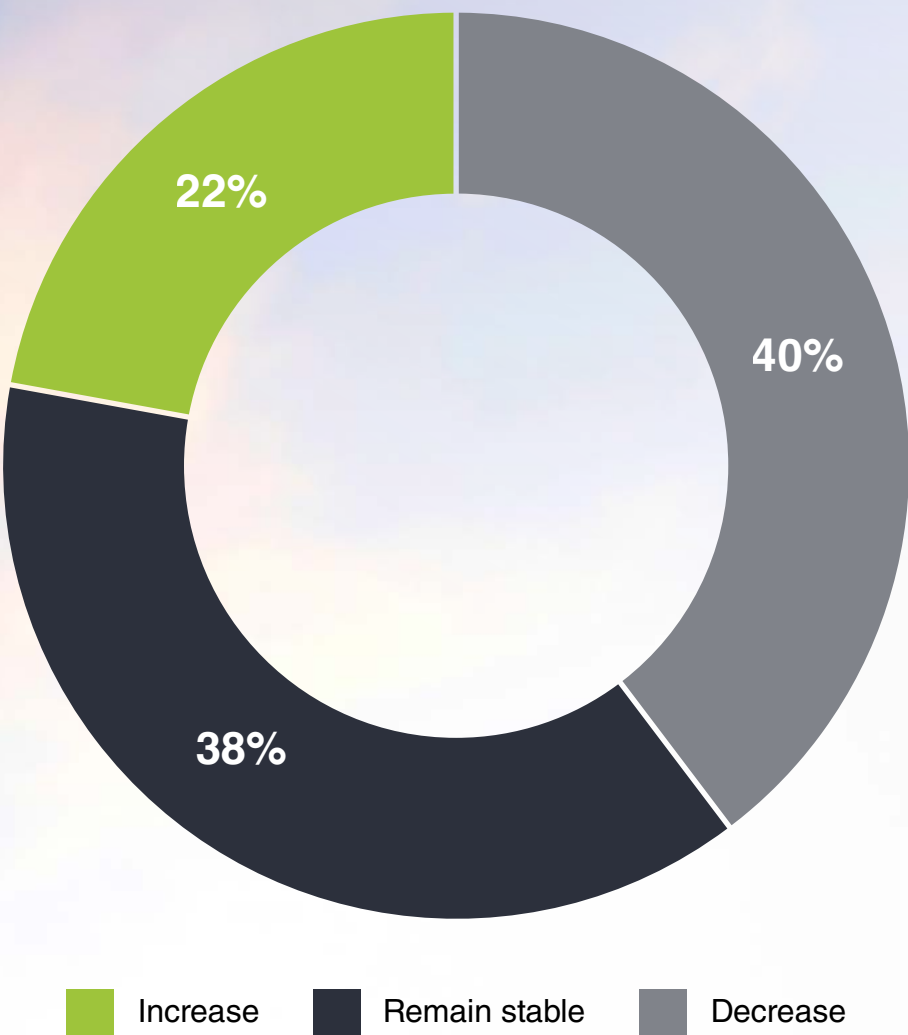
Korea, pockets of oversupply in the logistics market, particularly with regard to cold storage, have driven demand for private credit. In many cases this means refinancing development finance or moving in when a lender tires of extending credit.

The levels of distress in Hong Kong have been more significant, creating more opportunities for nonbank lenders and for investors with a “loan to own” strategy. However, banks are reported to have come under pressure from the Hong Kong Monetary Authority (HKMA) to support asset owners, especially larger developers. The result has been fewer private credit opportunities than expected.

One investment manager complains: “The HKMA has, particularly on behalf of some of the larger developers, really been trying to push the banks to refinance or push out the loans. This does provide stability to the market, but at the same time, it delays the resetting the market needs to function.”

Smaller developers and family office or high net-worth investors are coming under more bank pressure, as are some investment managers with stressed assets. Hong Kong market participants also note that some banks are selling portfolios of real estate loans “in the billions”, but they believe it will take “three years or more” for these situations to be resolved.

Figure 2-8 Expected funding costs to remain stable



Source: Emerging Trends in Real Estate® Asia Pacific



OUR LADY OF LOURDES CHAPEL, MANILA, THE PHILIPPINES

CHAPTER 3

SECTORS TO WATCH

“Our conviction is that demographic-driven demand will underpin resilient returns in the living sectors across the region.”

Sydney-based investment manager

ST KILDA, VICTORIA, AUSTRALIA

“

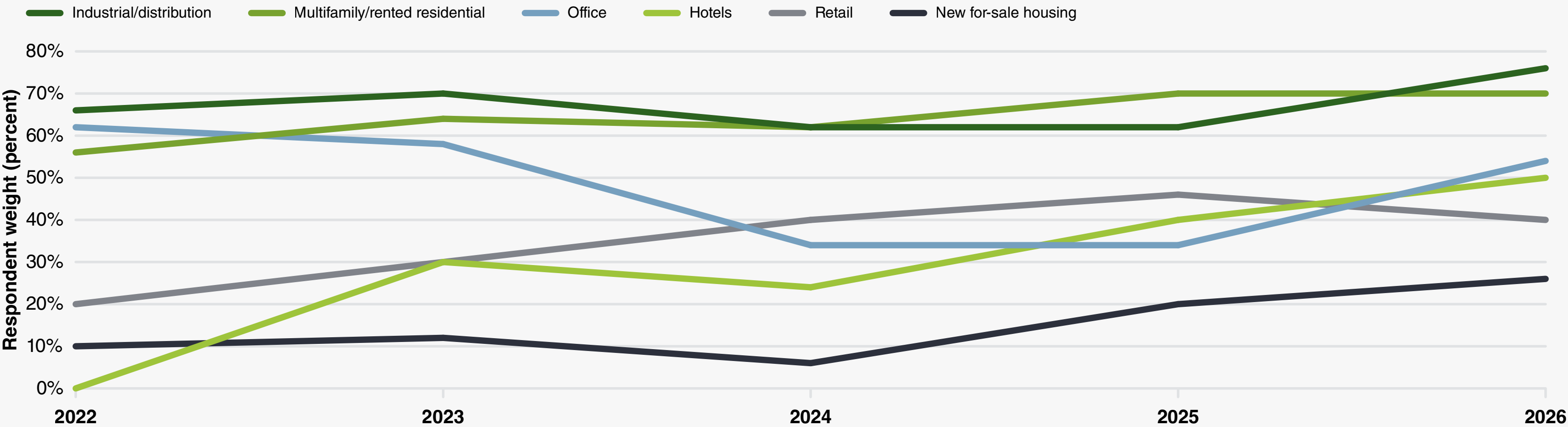
We like sectors supported by demographics and supply constraints.

Investors are still targeting beds and sheds

The figures showing investor expectations and niche property types show a clear preference amongst survey respondents for “beds and sheds” (see Figures 3-1 and 3-2). Industrial and logistics and multifamily residential are at the top of the list, where they have been since 2023. Interestingly, the percentage of survey respondents intending to invest in industrial and logistics is the largest it has been since 2020, even though the prospects for the sector are rated the lowest since 2020.

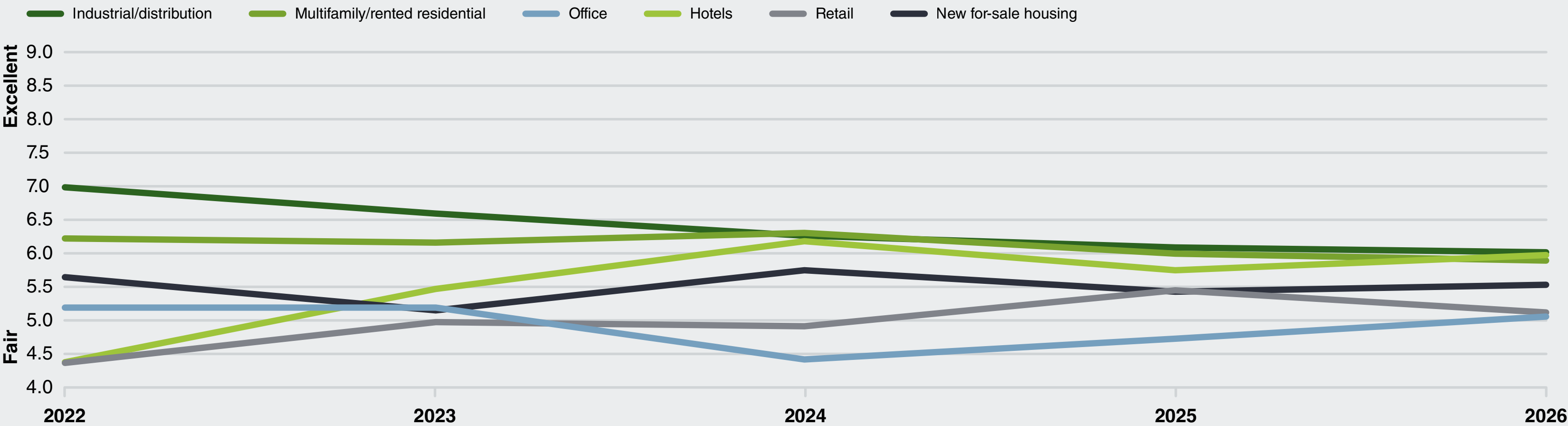
The other notable feature is how much the variance between the “best” and “worst” core property sectors has compressed. In 2022, the gap between the highest-ranked sector (industrial and logistics) and the lowest-ranked sectors (retail and hotels) was 2.5 points on a scale of 1 to 9. In the latest survey, the difference between the sector with the best prospects (industrial and logistics) and the worst (office) is less than one point.

Figure 3-1 Sectors in which investors are or plan to be active



Source: Emerging Trends in Real Estate® Asia Pacific

Figure 3-2 Prospects for commercial property types



Source: Emerging Trends in Real Estate® Asia Pacific

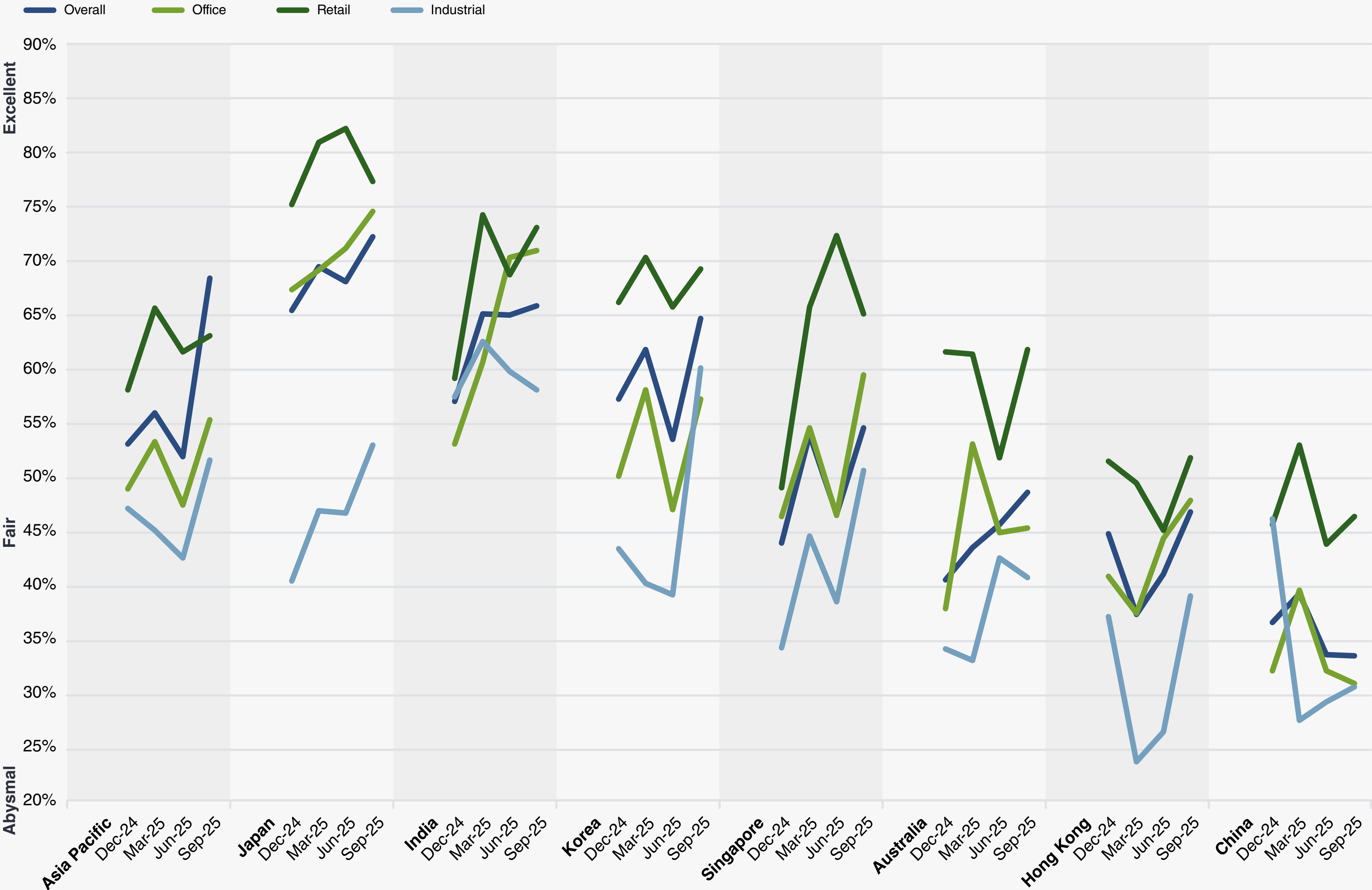
This change reflects a gradual return to a more “normal” environment following the pandemic disruptions. In 2022, the legacy of working from home and closed borders made hospitality and retail highly unpopular. Now, travel has bounced back dramatically, and shops are open once more.

Meanwhile, the pandemic supply chain disfunction has diminished and the demand for industrial and warehousing space has moderated somewhat. The office sector has also had something of a recovery in the past two years, and CBRE data show rental growth is expected across most markets.



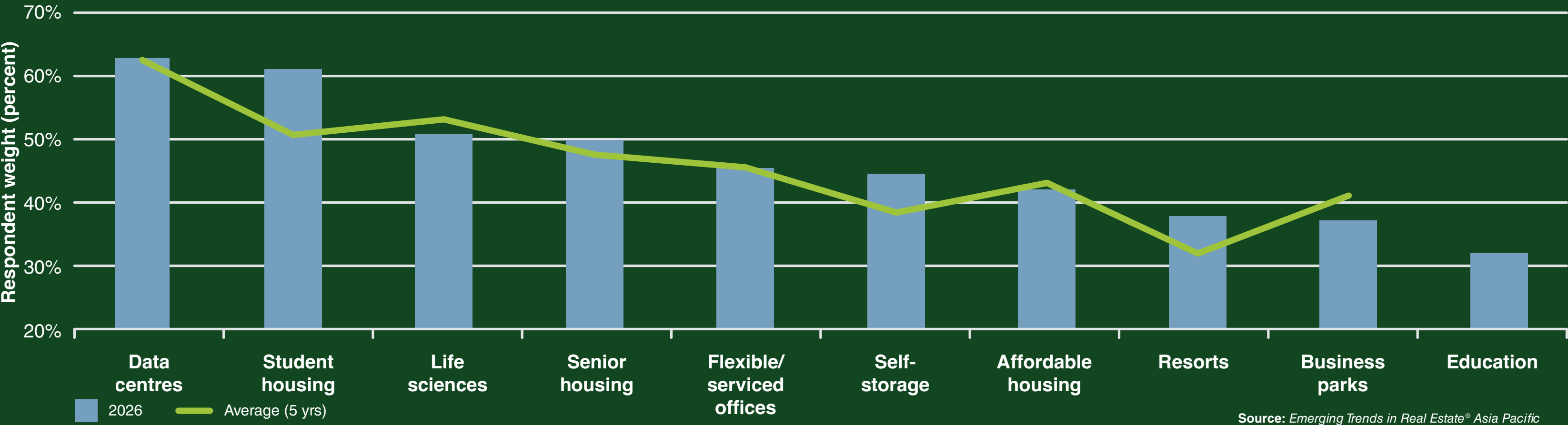
RETURN TO THE OFFICE ENVIRONMENT

Figure 3-3 Leasing sentiment improves across most markets and sectors



Source: CBRE, Asia Pacific Leasing Market Sentiment Index, September 2025

Figure 3-4 Niche property types in which investors are now or plan to be active



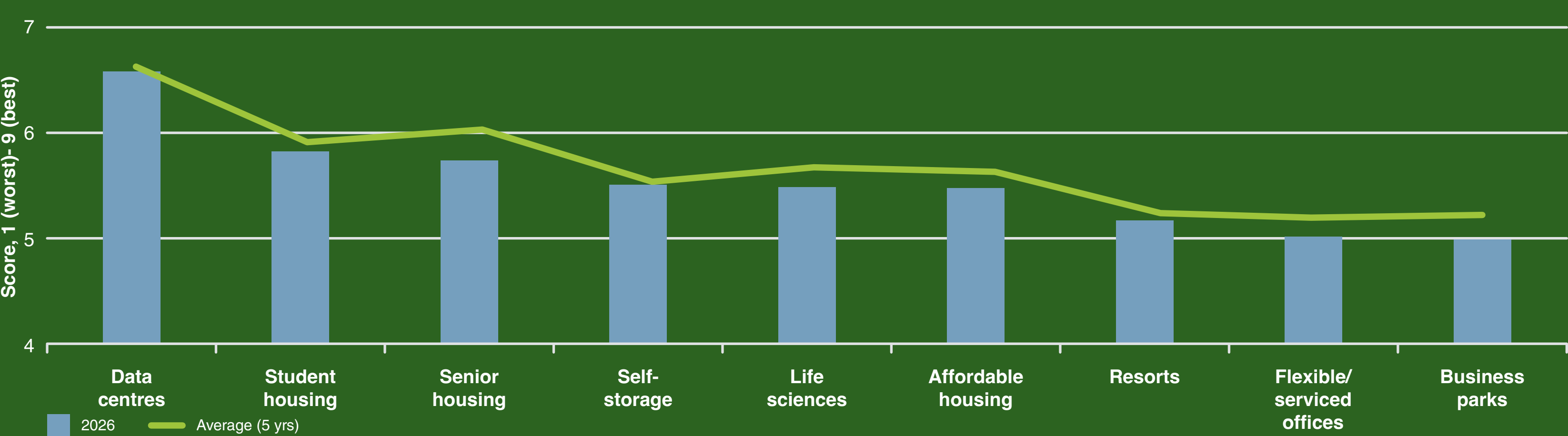
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The data centre sector is probably where industrial was 20 years ago.

The data centre sector is again the preferred niche real estate play for survey respondents, as it has been for the past five years. Other sectors expected to do well in 2026 include student housing, which looks to be considerably more popular than in recent years; the same is true for self-storage. Interest in senior housing and resorts is also ahead of the medium-term trend. All these popular niches fall into the “beds and sheds” category, which is seen as benefitting from structural tailwinds: the digitisation of the economy, ageing populations in developed markets, and Asia’s demand for education.

On the negative side, there is less interest in business parks. This downturn is likely a reflection of that sector’s association with China and with life sciences, which has suffered a global drop in popularity in recent years. During the pandemic, interest in pharmaceutical research and development spiked, along with venture capital fundraising. However, that interest has levelled off in recent years. Education-linked assets were part of the survey for the first time, but interest is limited, despite the growing enthusiasm for student housing.

Figure 3-5 Prospects for niche property types



Data centres, big and clever

At a macro level, the supply and demand factors for data centres seem abundantly clear: Asia Pacific has 60 percent of the world’s population and 40 percent of gross domestic product, but only 30 percent of its data centre capacity. However, the true demand for data centres is unclear; we know what has been built and what is under construction – but not what the big players want.

The hyperscalers – cloud computing firms such as Amazon Web Services, Google, and Microsoft – do not disclose their capacity requirements. They simply sign contracts as the data centre infrastructure is developed. One investment manager notes: “Three years ago, ByteDance wasn’t expected to become a major regional player, but now it is taking out hundreds of megawatts.”

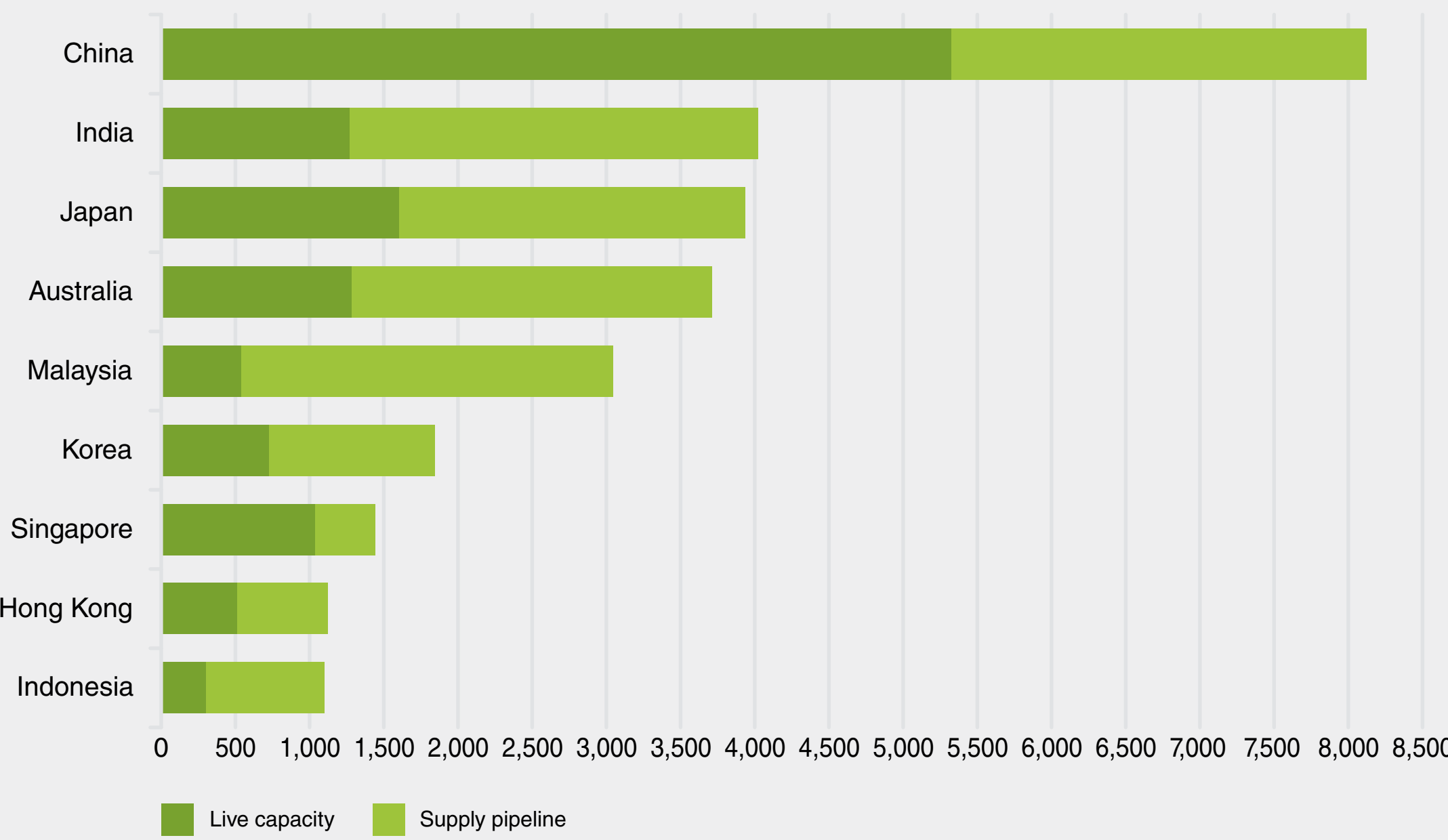
In the United States, the emerging needs of AI are driving the data centre market, and some of that demand is expected to come to Asia Pacific. For now, straightforward cloud computing is driving demand. That said, as AI becomes embedded in people’s working life, the line between AI demand and cloud demand is becoming somewhat blurred. One of the most notable features of the data centre sector is the limited number of huge players: global and, to a lesser extent, Chinese players totally dominate the market. However, some investors reckon the combination of open-source AI software and the keenness of national governments to develop their own technology will lead to the emergence of new players. In the meantime, building and maintaining relationships with hyperscalers is one of the prime concerns for anyone involved in the sector.

“Data centres are where real estate and infrastructure and private equity all converge.

Many challenges face data centre investors – for example, finding land, finding power, and building relationships with tenants. However, real estate investors are wrestling with more fundamental questions: what are data centres and how do we get involved? Many institutional investors treat them as infrastructure rather than real estate, because they support the digital economy and because they are managed differently. Data centres are priced per megawatt of power capacity, not per square metre. Access to power is as important as proximity to users. However, being close to users is not as crucial for data centres used for AI training, as speed of connection to users is not as important, although they still need power. The shell of a data centre is relatively straightforward; the racks, servers, and cooling equipment inside are complicated and hugely expensive.

At one end of the scale, some institutional investors have bought into data centre operating platforms, which provide a full service to hyperscale tenants. This business is technology-heavy, and often the real estate, private equity, and infrastructure arms of an investment house will combine to invest in or build up a platform. Well known Asia Pacific

Figure 3-6 Asia Pacific: distribution of data centre capacity and pipeline, August 2025



Source: CBRE, DC Byte, August 2025



platforms include AirTrunk, with Blackstone and CPP Investments as investors; ST Telemedia Global Data Centres, backed by KKR; and Flow Digital Infrastructure, backed by PAG. At the other end, real estate investors and developers are building powered shells for operators or assembling sites with power and planning permission.

Opinion is divided on which strategy is best. One investor says: “It is an operator game, not an asset game. There are only seven to 10 hyperscalers globally, and the winners are tech-savvy operators with those guys on speed dial. Traditional real estate GPs don’t have a chance.” However, an investment manager in a firm with infrastructure and private equity arms argues that the platform game is tricky for a pure real estate player: “Platforms backed by pure real estate funds haven’t scaled like infrastructure or private equity-backed competitors.” Others consider platform investments to be a private equity play, with all the risks that entails, rather than a real estate investment. In the middle, several large investors have backed both platforms and real estate investments, hedging their bets.

There is demand for data centres across the whole region, but Japan, China, and India are the most significant markets due to their scale. Nonetheless, flurries of activity can be found in markets across the region: Johor Bahru in Malaysia has become a hotspot, and activity in Thailand has recently spiked. Often, market activity follows the availability of power and the demands of hyperscalers. An investment manager says: “In Southeast Asia, we’ve seen Jakarta and then Kuala Lumpur and then Johor being developed, then Bangkok has just

exploded with activity, and we expect Vietnam and the Philippines to come up soon.”

In all these markets, the key challenge is getting access to power. Ideally the power source will be renewable energy, but such is the scale of demand that sustainability considerations come behind the need to fulfil demand. That said, the demands of tenants drive the development of more sustainable data centres. As one leader from a US investment manager says: “Our tenants are paying for power, so they want the most power-efficient data centres available.” The key metric is power usage effectiveness (PUE), which measures how efficiently a data centre uses energy by comparing the total energy consumed by the facility with the energy used by its equipment. PUE numbers have come down from 2, to as low as 1.2, which means considerably more efficient use of power. There has been a lot of talk about powering data centres with renewable energy, especially AI training centres which do not need to be close to cities and which could be located near renewable energy sources. However, interviewees report little activity thus far.

A key challenge for investors in data centres is the exit. Platform owners will hope for a lucrative IPO at some point, but the question is whether there will be a market for the data centres themselves. It may make sense for platforms or hyperscalers to sell the real estate element to free up funding. Again, opinion is divided on how significant this secondary market will be. On the more optimistic side, a Japan-based manager says: “Although there are limited stabilised assets available for acquisition, data centres are transitioning from an alternative or opportunistic development play to a mainstream institutional asset class.”



“The number of investors who are getting comfortable with data centres is increasing by the day.”

POWER-EFFICIENCY IS KEY TO DATA CENTRES

Living sector growth follows demographic and social realignment

The Asia Pacific “living” sector is now central to defensive investment strategies, widely recognised as a counter-cyclical asset class resilient to interest rate and inflation volatility. Consistent with trends over the past two years, about 75 percent of investors remain active – or intend to be active – in both multifamily and rental residential segments. Institutional capital is increasingly concentrated in multifamily and senior housing, while student accommodation and coliving continue to evolve into institutional-grade asset classes.

The market narrative has shifted from yield compression to income durability. Investors now target demographic niches – students, young professionals, and retirees – supported by policy incentives and demand certainty. Coliving and senior living are natural extensions of this trend. Investors are playing through equity and debt in markets such as Australia, where lending to multifamily has been constrained, especially for development.

The living sector’s institutionalisation marks a structural redefinition of how residential real estate is perceived and managed across Asia Pacific. Residential has always been about local Build-to-Sell strategies, but it is evolving into a professionally managed, data-driven, and

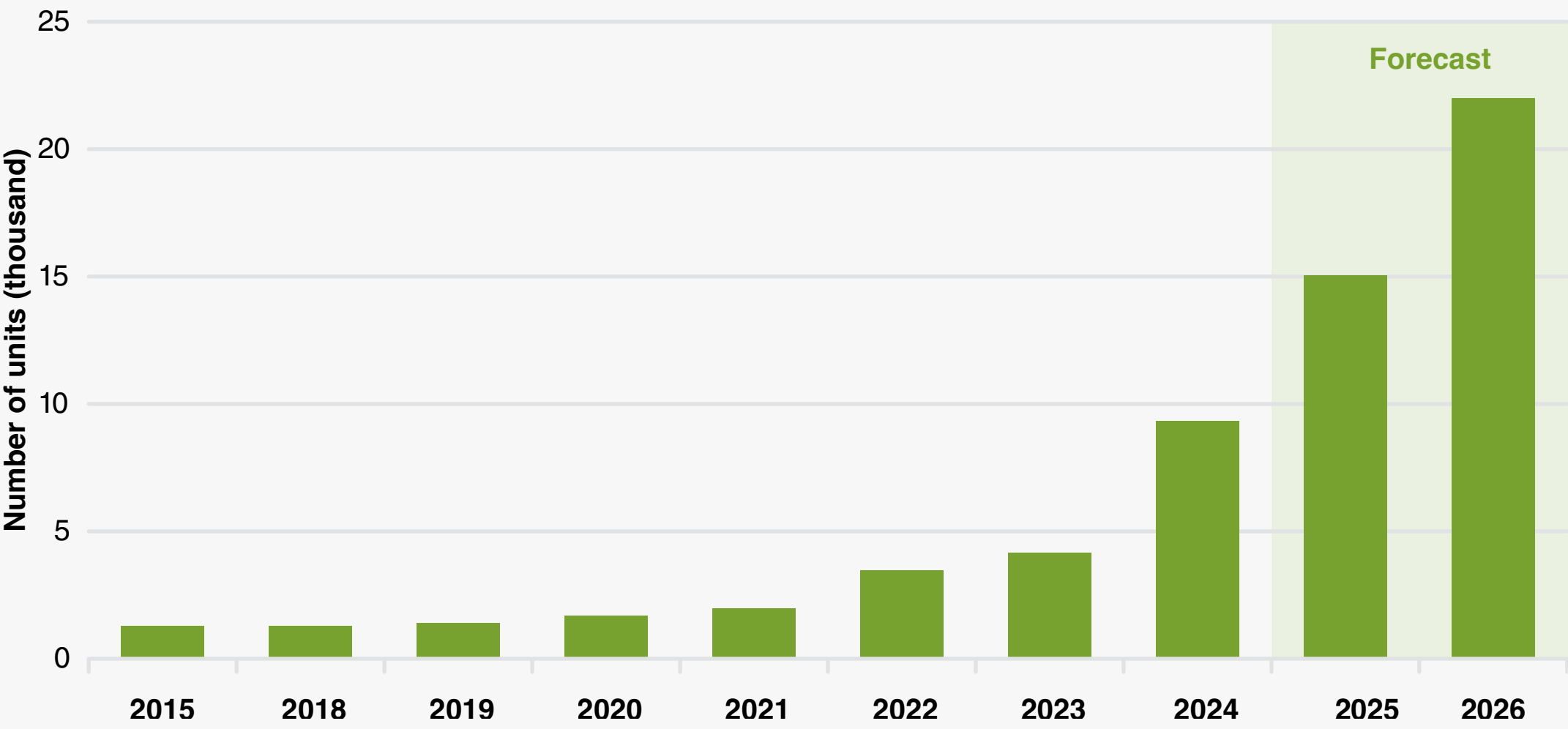
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Single-category housing is no longer seen as the solution. There might be sales to offset costs, but the core is retained as rental. The future lies in mixed communities of rent and ownership.

performance-oriented asset class comparable to office or logistics. Interviewees describe the shift as “a structural reallocation from offices and logistics to beds”, reflecting the appeal of stable occupancy, index-linked leases, and long-duration income streams. According to ANREV, Asia Pacific core real estate funds increased their allocation to residential assets from 11 percent to 16 percent over the past five years. Ernst & Young reports the Build-to-Rent market in Australia is valued at nearly US\$30 billion, including projects in development – a more than fivefold increase in five years. Unit numbers are expected to reach 15,000 by the end of 2025, up from just 1,700 five years earlier. By comparison, according to MSCI, living assets account for 25 to 30 percent of institutional portfolios in Europe and the United States, indicating considerable scope for further growth.



Figure 3-7 Australia Build-to-Rent stock, 2017–2026F



Source: EY Reserach, February 2025



STUDENT LIVING, AUSTRALIA

Institutional players prioritise scale, operational sophistication, and tenant experience. Competitive advantage lies with managers who deliver unified platforms which leverage technology for efficiency and tenant retention.

Japan represents more than 70 percent of the region’s living-sector market share, according to M&G Investments. It has the most advanced ecosystem, with institutional capital, domestic real estate investment trusts, and global investors involved in a mature multifamily market. Lower yields and higher borrowing costs mean the investor focus has shifted from capitalisation rate compression to generating operational alpha, as investors derive value from brand, service quality, and data analytics rather than market timing.

Interviewees consistently note that “operations are now as valuable as development”, underscoring a decisive pivot towards recurring income, tenant retention, and data transparency as core performance drivers. Institutional managers are building vertically integrated operating platforms which consolidate property management, technology, and customer experience under a single framework. Delivering a consistent, brand-driven residential experience becomes a key differentiator, particularly in Australia, Japan, and South Korea, where renters increasingly expect hotel-level service standards.

The living sector is more than just multifamily: it is a surprisingly fragmented opportunity catering to different stages of life – with some overlap. For example, coliving operators in Hong Kong cater to both students and young professionals, depending on location and the type of apartments offered. However, students, young professionals, families, and seniors have unique expectations for affordability, flexibility, and experience.

Student housing continues to institutionalise, supported by strong and sustained demand in Sydney, Melbourne, and Hong Kong. Australia’s purpose-built student accommodation sector exceeded 130,000 beds as of 2024, according to the Property Council of Australia, having doubled in scale over the past decade. In Hong Kong, investors are pursuing adaptive reuse opportunities aligned with government initiatives to attract international students.

In this year’s survey, respondents place notably greater emphasis on student housing, with interest levels sitting around 10 percent above the five-year average. Coliving is also gaining momentum amid affordability pressures, as it provides flexible, community-oriented housing solutions for young professionals in dense urban centres.

One investor observes: “Australia remains attractive for student accommodation development, while South Korea offers compelling multifamily and

senior living opportunities.” South Korea is in the process of a fundamental change to its rental housing model. The old jeonse system, in which tenants paid a substantial deposit to landlords, is being replaced by monthly rental, and this has kickstarted a wave of niche operators.

Across the region, senior living is emerging as a high-conviction theme, particularly in Japan, Australia, and South Korea, where ageing demographics are reshaping residential investment priorities. Developers are introducing continuum-of-care and community-integrated models which blend independence with social connection, bridging the gap between housing and healthcare.

In Japan and Australia especially, senior- and assisted-living assets are increasingly regarded as integral extensions of the living sector, offering stable, long-term income streams and aligning with structural demographic trends. Retirees’ growing financial resilience, supported by accumulated property wealth and pension income, further reinforces demand for high-quality, service-oriented care environments.

Lifestyle fragmentation – driven by hybrid work and shifting household structures – redefines the meaning of home. Smaller households, rising single-person occupancy, and the growth of “digital nomad” culture are driving demand for flexible, amenity-rich spaces which balance privacy with community.

Japan leads the way in hospitality

The hospitality sector in Asia Pacific has bounced back, and although bargains are few and far between, it continues to appeal to investors. Intraregional travel is predicted to be the key to the sector’s success. JLL predicts US\$13.3 billion in Asia Pacific hotel transactions in 2026, up from an estimated US\$11.3 billion in 2025.

One Singapore-based investor says: “Asia is projected to add the majority of the world’s new middle class over the next decade: hundreds of millions of people gaining discretionary income. This surge in intra-Asia travel is set to transform the hospitality sector. We’re already seeing the impact in our Japanese hotels. What surprised us was the shift in traveller demographics: where we once saw mostly Chinese tourists, we’re now welcoming many Indian tourists as well.”

Japan is once more the favoured market, with interest driven by a strong recovery from pre-pandemic numbers. Japan welcomed more than 38 million visitors in 2024 and this number is expected to grow again in 2025. The weak yen has been a significant factor, as have Japan’s food and cultural attractions. The recovery has been so strong that tourism hotspots such as Tokyo and Kyoto have

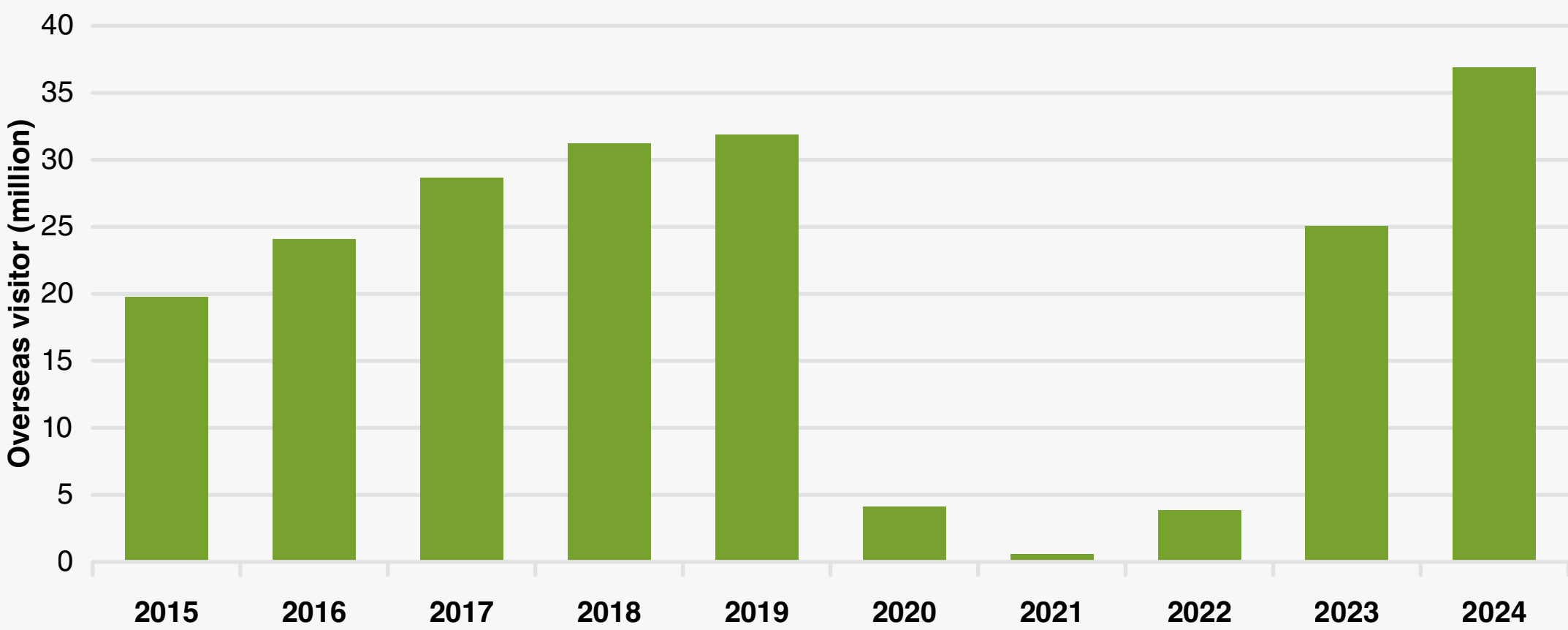
“

We like to reposition mid-tier Japanese hotels to make them more upscale and more international.

seen complaints about “over-tourism.” In response, the Japanese government is trying to boost tourism in places less well-known by overseas visitors. Investors are taking note; in September hotels group Hyatt closed a real estate fund for developing modern luxury ryokan (traditional Japanese inns).

As the nation emerged from its COVID hibernation, investors were able to find keen pricing. Although this is no longer the case, one fund manager with a US-based company says: “Japan’s hospitality market is structurally underdeveloped relative to its global profile, with 99 percent of rooms still designed for business stays. Tourism growth and new demand drivers are reshaping the sector, offering institutionalisation opportunities.” The hotel market is fragmented, with what one manager calls “a surprising number of corporations randomly owning hotels” and many family operators.

Figure 3-8 Japan v numbers



Source: Japan National Tourism Organisation

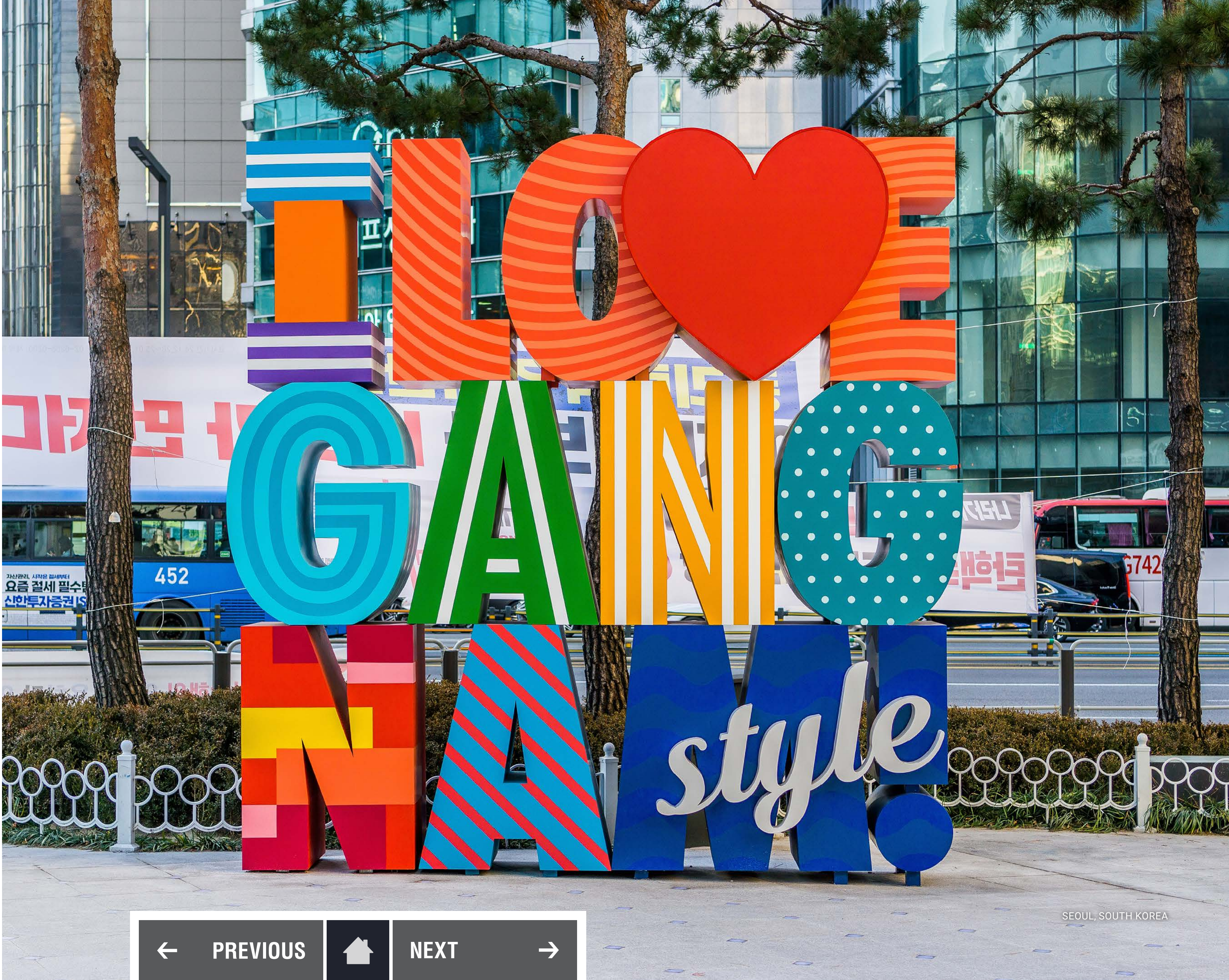


TOURISM, JAPAN

Australia is another popular tourism market, even though international visitor numbers in mid-2025 were still below the levels seen in 2019. Tourism Research Australia predicts visitor numbers will rise by 7.2 percent a year on average between 2025 and 2029. Visitors from Mainland China and Malaysia are expected to increase by nearly 14 percent per annum over the same period, while arrivals from Hong Kong and Japan are predicted to grow by around 9 percent. Overall, Asia will account for 60 percent of the growth in visitor arrivals over the next five years.

South Korea is also set for tourism growth, thanks to its cultural powerhouse status and internationally famous music, film, and television stars. Chinese tourism is important to South Korea though relations have been strained in the past. Recently, South Korea introduced visa-free travel for Chinese tour groups, which is expected to boost the market. Any improvement in the Chinese economy will also help South Korea.

India is also a nation to watch, both as a destination for hotel investment and as a source of tourists. The nation’s growing middle class is travelling overseas more frequently. Meanwhile, improved infrastructure makes domestic travel easier for business and leisure travellers.



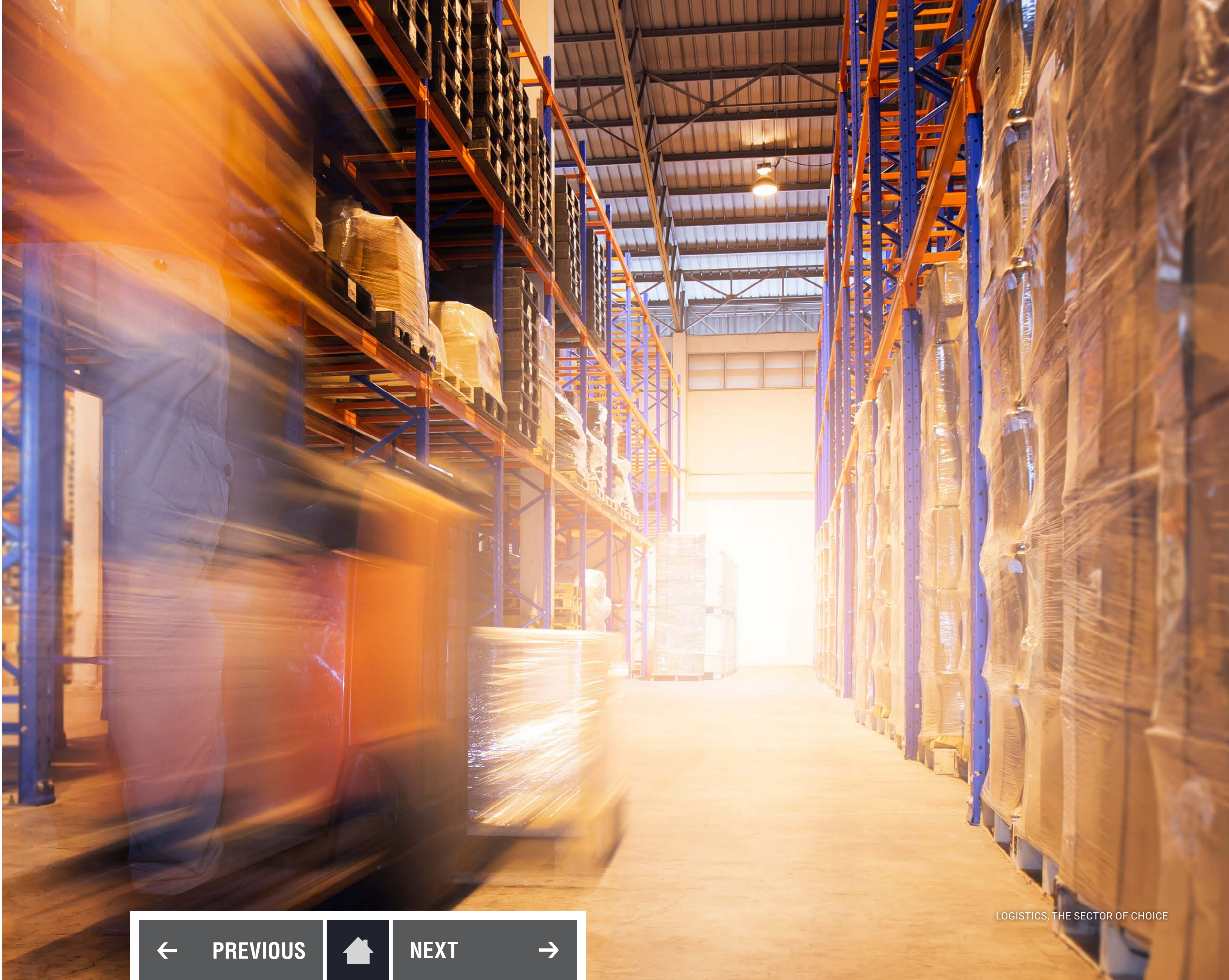
SEOUL, SOUTH KOREA

Tariffs have not muted demand for logistics

Logistics has been the sector of choice for many investors in recent years and continues to attract interest. Even the new US tariff regime has not dampened enthusiasm for the sector. One private equity real estate investor says: “We focus on logistics related to domestic consumption and have not seen any fallout from tariff wars. We continue to think the right assets will be insulated from changes in trade patterns.” Investors continue to follow the structural shift to e-commerce and rising consumption across the region.

The ongoing diversification of supply chains away from China continues to boost the prospects for logistics in Vietnam, even with the 15 percent tariffs imposed by the United States. Vietnam’s logistics and warehousing industry is aligning with global trends, marked by steady costs, increasing operational demands, a growing need for flexibility, mandatory ESG compliance, and renewed interest from international investors. India is also becoming a manufacturing location, both to supply its huge population and for export. Not being an established exporter appears to have been a benefit when it comes to tariffs.

A number of city markets have seen dramatic supply in recent years but have generally managed to digest it. Meanwhile, in markets such as Australia, where supply has been limited, rents have rocketed, even as cap rates also rose due to rising interest rates.



LOGISTICS, THE SECTOR OF CHOICE

New supply is expected to bring down rents. In developed markets, rising construction costs have also kept something of a lid on development activity, which supports values and rents going forwards. In both Australia and South Korea, pricing shifted to account for interest rate movements, which made the sector look relatively attractive compared with other markets.

A number of investors continue to target niche logistics sectors such as cold storage and

self-storage. Cold storage became somewhat oversupplied in South Korea and became a rare pocket of distress in that market, while in Australia, supply has not kept up with demand from a growing population and demand for food security. Self-storage meanwhile remains a niche sector: it can be hard to scale, but it has a handful of supporters amongst regional investors.

In China, what one investment manager describes as “overwhelming supply” has pushed

vacancy rates in some tier-one markets from single digits to 30 to 40 percent. At the same time, rents have collapsed. “This surge stemmed from capital reallocation after developers pulled away from residential and office into industrial,” he adds. While oversupply and poor asset performance are the main factors discouraging investment in China logistics, there are also concerns about trade relations with the United States. At the time of writing, both sides had threatened new measures – China on rare

earths and the United States on tariffs – with no deal in sight.

Interviewee responses to the ongoing trade war are somewhat polarised. Some investors believe the trade conflict will be resolved in time “because it is mainly posturing”; others fear the longer-term impact. One broker says: “We do not know how it is going to pan out or what global trade will look like in a year’s time.”

“
Logistics has been one of the quickest sectors to reprice, which has helped maintain liquidity and attract capital.



SMOOTH SAILING OR ROUGH SEAS AHEAD FOR GLOBAL TRADE

Office sector prospects are defined by supply

The prospects for office rental growth in Asia Pacific have concentrated somewhat, if survey respondents are correct. They expect rental growth in only 10 cities in 2026, compared with 15 in the 2025 report. However, the prospects for all 10 of those markets are rated higher for 2026 than for 2025.

Most dramatically, Singapore has shot into the top five office markets after landing at 16th place in the 2025 report. Optimism for the city-state’s office sector is based on the falling vacancy rate, which brokers predict will fall below 5 percent by 2026, and steady rental gains. Looking further ahead, the Singapore office pipeline is limited for the next three years, with only a handful of larger office projects set to be delivered between now and 2029.

Meanwhile in Tokyo, office vacancy in the Central Five Wards fell below 2 percent for the first time in four years in the second quarter of 2025, Cushman & Wakefield data show, supporting expectations of future rental growth. More than 1.4 million square metres of supply is expected through to 2027, which is broadly in line with average supply and net absorption in recent years.

With little office supply in the past few years, Seoul has seen vacancy rates come down from double-digit levels in 2021 to less than 5 percent across all three of its business districts.

The preference of office workers for their desks rather than home working supported Asian office markets through the pandemic. However, working from home was far more common in Australia and persisted for longer. In Sydney, the tide has begun to turn, and interviewees report a flight to quality amongst central business district office tenants, which is raising investor interest.

Somewhat surprisingly, survey respondents also expect office rental growth in Melbourne in 2026, even though the state government supports working from home. Australian interviewees do not have much positive to say about Victoria’s authorities and are more pessimistic about the city’s office prospects. “The noise around working from home policies, amongst other things, is making Melbourne quite difficult and making investors cautious, especially those from offshore,” says one developer.

At the other end of the scale from Tokyo and Seoul are the Greater China office markets, where high vacancy and gloom abide. The gloom seems unlikely to lift as CBRE data show Shanghai, Shenzhen, and Guangzhou will see close to 7 million square metres of office space delivered from 2025 to 2027, despite all three cities having current office vacancy above 20 percent. Meanwhile, Hong Kong’s office market has shown some early signs of stabilisation, if not recovery. It is set to add more than 500,000 square metres of office space through to 2027, according to CBRE data.



The office sector in Japan is performing well, especially Tokyo, where vacancy is almost zero.

A key trend identified by interviewees is that occupiers in several cities are tending to choose to expand in the same building whenever they can, rather than move to a new building. The driver is fit-out costs, which have been rising along with construction costs since the pandemic. A Tokyo-based investment manager says: “The cost of a whole new fit out is too much for a lot of firms, so they would much rather add another floor in the same building rather than move.”

Figure 3-9 Cities most likely to see office rental growth in 2026

Rank	City	2026	2025
1.	Tokyo	6.51	6.23
2.	Sydney	6.27	5.88
3.	Singapore	6.08	3.98
4.	Osaka	6.01	5.85
5.	Seoul	5.99	5.81
6.	New Delhi	5.73	5.72
7.	Bangalore	5.73	5.73
8.	Mumbai	5.71	5.67
9.	Ho Chi Minh City	5.37	5.33
10.	Melbourne	5.19	5.14
11.	Manila	4.93	5.05
12.	Taipei	4.92	5.50
13.	Kuala Lumpur	4.88	5.15
14.	Auckland	4.88	4.51
15.	Bangkok	4.72	5.08
16.	Jakarta	4.67	5.08
17.	Hong Kong	4.59	3.88
18.	Shenzhen	4.44	5.73
19.	Shanghai	4.30	4.29
20.	Beijing	4.00	3.70
21.	Guangzhou	3.95	3.52
22.	China – second-tier cities	3.59	3.03

■ Increase ■ Decline

Source: Emerging Trends in Real Estate® Asia Pacific

Mixed outlook for retail around the region

The regional macro outlook for Asia Pacific retail is incredibly positive. A growing middle class, growing wealth at all income levels, and continued urbanisation should mean a rosy outlook for owners of shops and shopping malls. However, the gap between the best and the rest is dramatic. CBRE predicts Tokyo will see the greatest rental growth in the region next year, with up to 10 percent growth forecast. Limited options for investors in the key Ginza market will keep prices high there, and the tourist hubs of Shibuya and Omotesando are also expected to see steady growth.

Australia has seen a dramatic uptick in retail investment activity in 2025, thanks to improving performance and a positive outlook for consumer spending. Property Council of Australia data show retail was the best-performing property sector in the 12 months to June 30, 2025. Investment volumes in the second quarter of 2025 rose 53 percent year-on-year to A\$2.9 billion (US\$1.9 billion), according to Savills data. Investors bought a combination of regional and neighbourhood malls. One investor says: “If you look at the regional shopping centres, there is no new supply in the pipeline.” Investors continue to be interested in neighbourhood retail in Australia. For example, Australian listed manager Charter Hall launched a A\$2.5 billion (US\$1.63 billion) Convenience Retail Fund.

India is seen as a bright spot for retail, thanks to growth in consumer spending and an ongoing process of urban transformation, with the development of more formal retail property and growing interest from foreign brands.

In both Mainland China and Hong Kong, increased vacancy and falling rents are evident. Most large Mainland cities are plagued with oversupply and that supply is set to continue in 2026. CBRE data show that China’s first-tier cities will be home to nearly three-quarters of all shopping centre completions in 2025 and 2026.

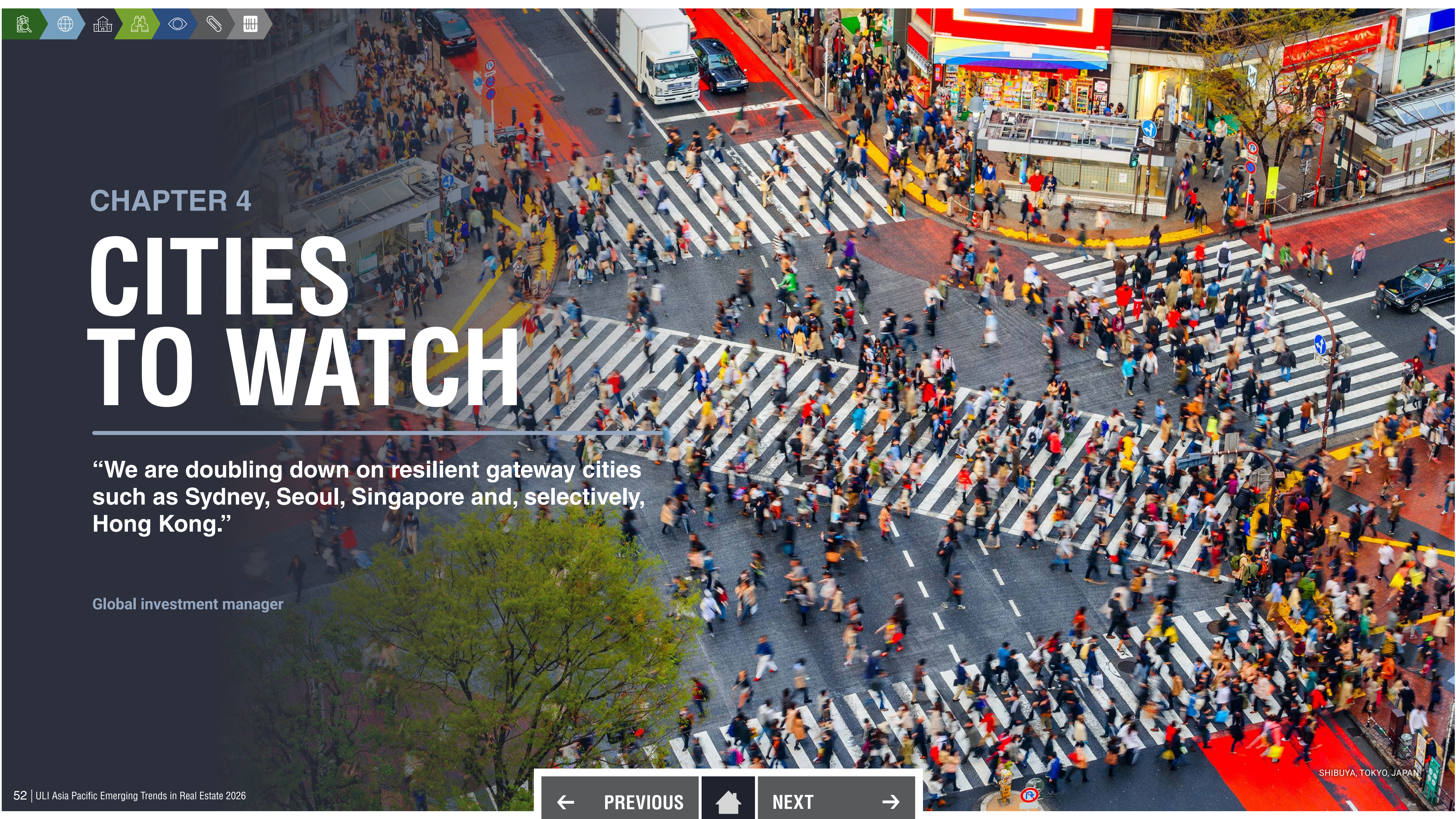
Hong Kong continues to face structural challenges: the new wave of tourists from the Mainland are younger and cost-conscious. Hong Kong has also seen a wave of store closures in recent months, and most new market entrants are budget food and beverage brands. On the positive side for Hong Kong, it is attracting wealthy overseas tourists to events such as Art Basel and the Hong Kong Sevens rugby tournament.

Southeast Asia retail property markets are broadly positive, boosted by a steady recovery in tourism numbers and growing domestic prosperity. Interest rate cuts are also expected to boost consumer spending in markets such as the Philippines. Interviewees in Manila report that brands are “queuing to get in the best malls.” The luxury retail sector is also doing well in Southeast Asia, with markets such as Bangkok attracting luxury brands.



“Retail in India is actually amazing.”

TRADITIONAL INDIAN RETAIL IS TRANSFORMING



CHAPTER 4

CITIES TO WATCH

“We are doubling down on resilient gateway cities such as Sydney, Seoul, Singapore and, selectively, Hong Kong.”

Global investment manager

SHIBUYA, TOKYO, JAPAN

Investors favour developed Asia cities

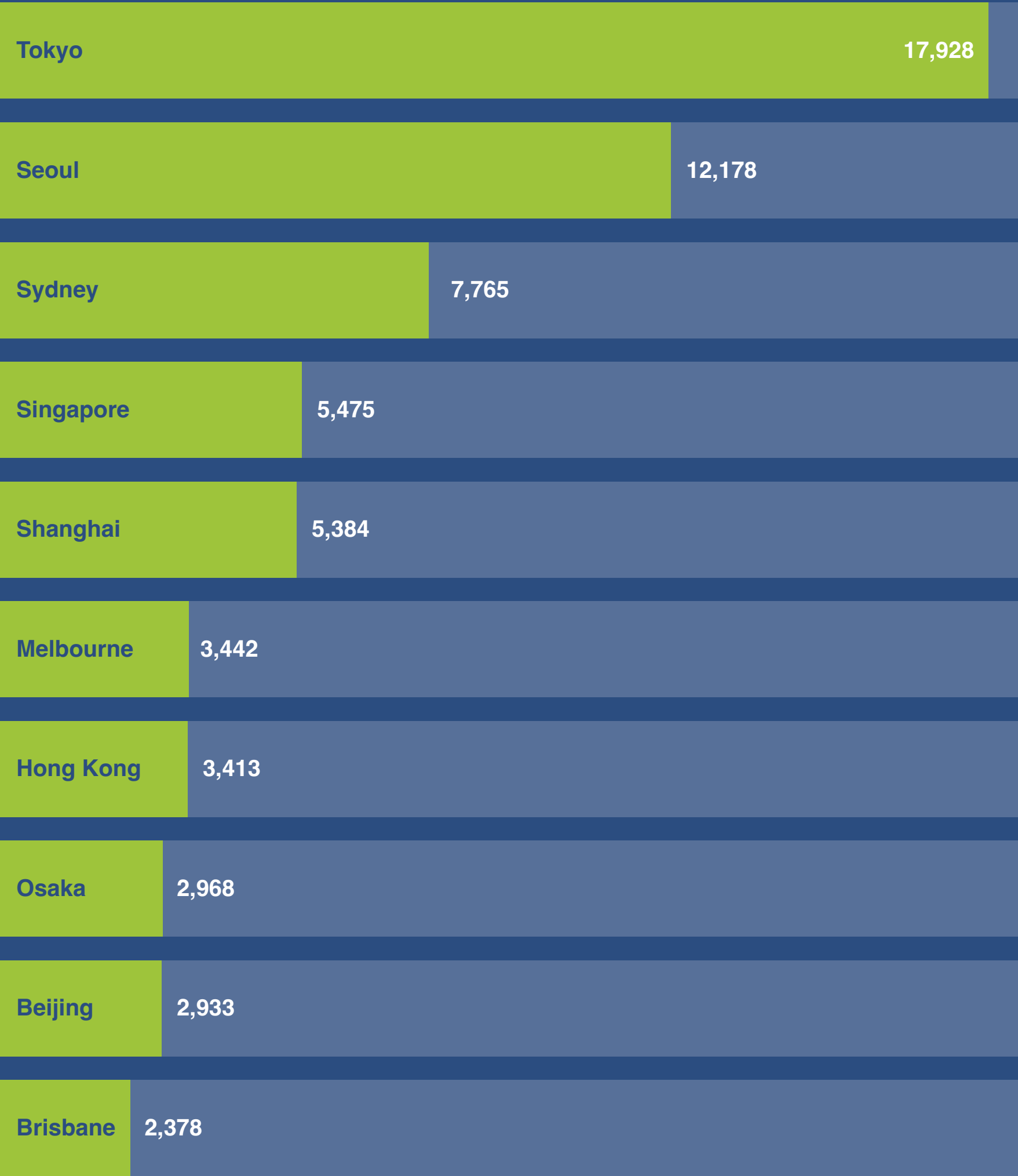
Survey respondents again chose developed cities, with Tokyo, Singapore, Seoul, Osaka, and Sydney making up the top five picks for investment, development, and office rental growth expectations.

These picks line up almost perfectly with MSCI's ranking of the top Asia Pacific cities for investment volumes in the first three quarters of 2025. The only exceptions are Shanghai, which makes it into the top five cities for transaction volumes, and Osaka, which drops to eighth place. Investors and managers interviewed for this report express a strong preference for developed cities with robust capital markets and liquidity.

Although a few large investors have committed significant capital to India, most global and regional players are not active there. And while Ho Chi Minh City was a top 10 pick in the survey, it was scarcely mentioned in interviews, suggesting that limited cross-border capital will be invested there in 2026.

Tokyo remains at the top, the largest and most liquid city in the region, and Singapore moves up as a pick for investment, development, and rental growth. The only developing nation cities in the top 10 cities for investment, development, and rental growth are Ho Chi Minh City, Mumbai, and Delhi. Bangalore also made it into the top 10 cities likely to see office rental growth.

Figure 4-1 Top cities by Q1–Q3 2025 investment volumes (US\$ million)



Note: Q3 2025 data is preliminary

Source: MSCI

Figure 4-2 City investment rankings

Investment			
Rank	City	Score	2025 Rank
1.	Tokyo	6.43	1
2.	Singapore	6.18	4
3.	Sydney	6.06	3
4.	Osaka	5.92	2
5.	Seoul	5.72	5
6.	Melbourne	5.29	6
7.	Ho Chi Minh City	5.16	8
8.	Mumbai	5.04	9
9.	New Delhi	4.88	11
10.	Hong Kong	4.69	19
11.	Taipei	4.61	10
12.	Shanghai	4.57	18
13.	Kuala Lumpur	4.51	14
14.	Bangkok	4.50	7
15.	Bangalore	4.49	12
16.	Manila	4.42	15
17.	Jakarta	4.33	17
18.	Shenzhen	4.32	16
19.	Auckland	4.22	13
20.	Beijing	3.90	21
21.	Guangzhou	3.68	20
22.	China – second-tier cities	3.10	22

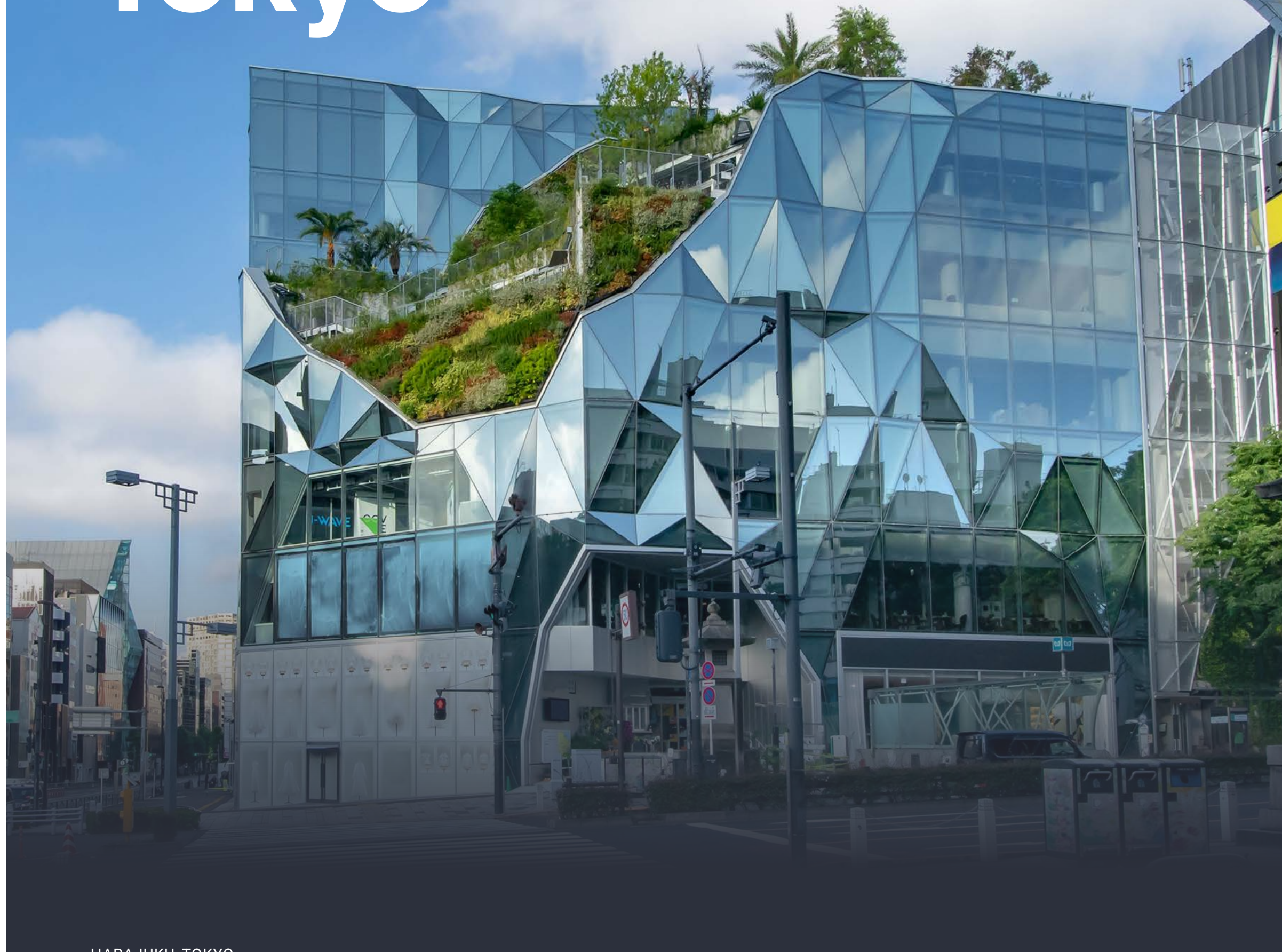
Generally good Fair Generally poor

Note: Cities are scored on a nine-point scale

Source: Emerging Trends in Real Estate® Asia Pacific



1 Tokyo



HARAJUKU, TOKYO

Tokyo remains the investors' hot favourite

Tokyo was the best city for investment and development in 2026, as well as being declared the city with the best prospects for rental growth. It has been the top city for investment for the past three years and has been in the top five for eight out of the past 10 years. A regional investment management head describes Tokyo as “the standout opportunity in the region”

The Japanese capital's popularity reflects a narrowing of investor interest to the region's developed markets, which offer resilience, market depth and liquidity. The largest investment market in the region, Tokyo offers considerable depth and liquidity. It also has an attractive mix of transparency, with good data available from a variety of sources, and the opportunity for those in the know to score off-market deals. Tokyo also offers strong capital markets, with a mix of domestic and local investors, a number of REITs and a host of corporate and private investors. It has continued to invest in new infrastructure, with recent improvements delivered to support the city's pandemic-hit Olympics.

Tokyo is also a global gateway city. Of the estimated 40 million tourists and business travellers to Japan in 2025, most are expected to visit the capital. Its popularity and stability means it is also becoming a refuge for global wealth. An adviser says: “Alongside London, the obvious candidate, Tokyo and Singapore are places where I know that Asian families have placed significant amounts of wealth on a long-term basis.”

There has been an influx of wealthy Chinese buyers of residential property and a new “ultra-luxury” sector of the market is emerging. It is also a magnet for internal migration from all over Japan and the city keeps growing, despite the nation's overall shrinking population.

Interviewees pointed to attractive opportunities in the office, multifamily, data centre, hospitality and retail sectors, with offices and multifamily being the preferred sectors. There is also interest in senior living and self-storage. The office sector benefits from low vacancy – Savills research reports Grade A vacancy below 1 percent and Grade B vacancy below 2 percent – and a healthy business environment. Across all sectors, rising construction costs and labour shortages are restraining development.

The logistics sector has seen a decline in interest, as a reaction to oversupply in recent years. Savills research puts third quarter 2025 Greater Tokyo logistics vacancy rate at 9.6 percent and notes that rents fell 1.7 percent in the first half of the year. Nonetheless, new logistics supply has been falling since the 2023 peak and is forecast to remain well below that level through 2027.

“

Tokyo, particularly the living sector, remains the standout opportunity. Despite competitive capital inflows, it continues to offer structural and cyclical support.



Hong Kong: showing some signs of life

After nearly a decade of gloom, sentiment over the Hong Kong real estate market is improving; Hong Kong has risen a remarkable nine places in the list of cities ranked by investment prospects. However, the prospective recovery is fragile and limited to particular sectors and districts. Interviewees in Hong Kong expressed a wide range of opinions about the market, with some seeing limited prospects for recovery and others seeing “the emergence of green shoots”.

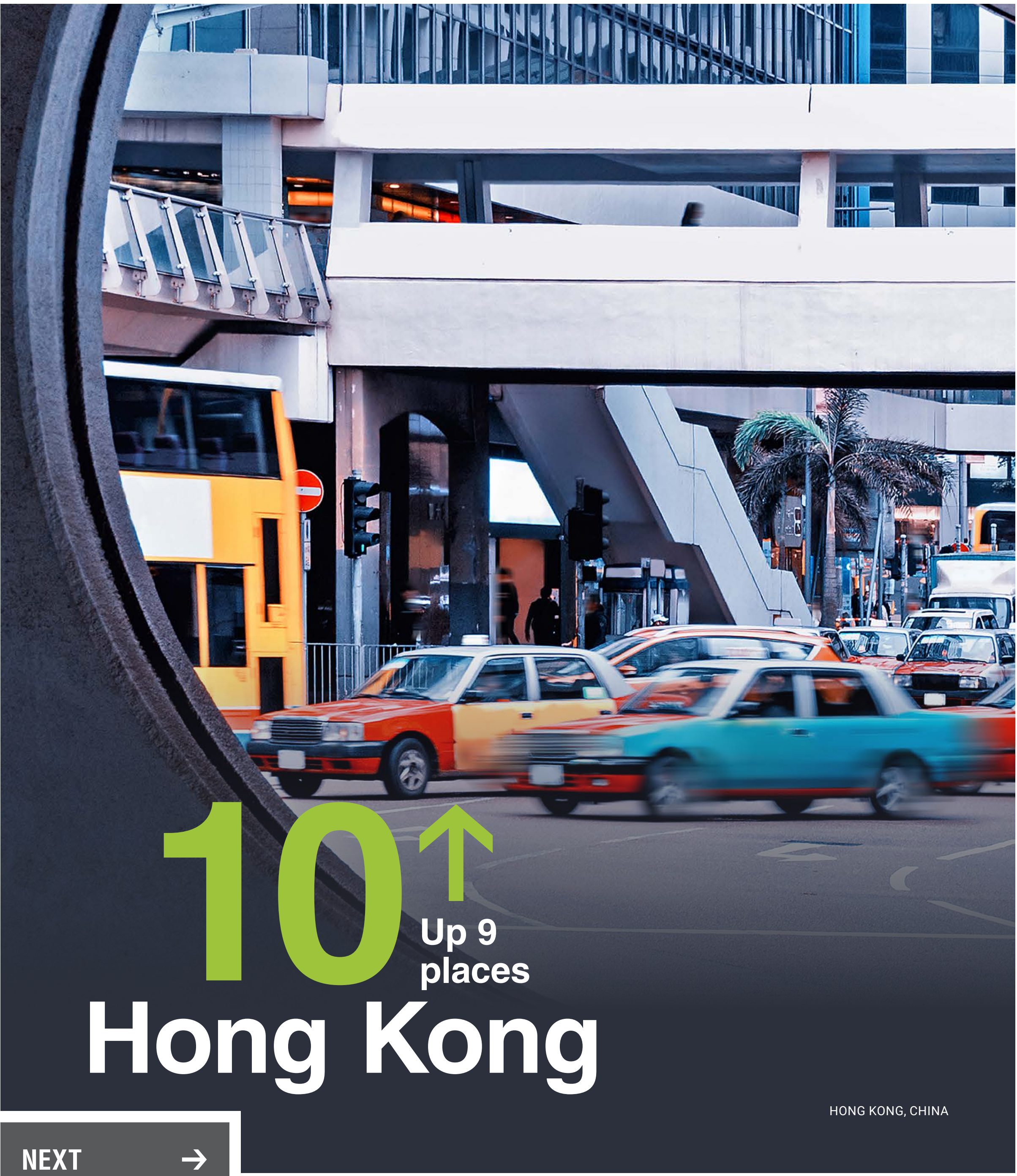
Student housing stands out as a bright spot, with strong demand-supply fundamentals fuelled by an influx of students from Mainland China. Students who might previously have travelled to the United States for their education are now looking at Hong Kong, which has five universities in the global top 100, according to QS World University Rankings. In addition, a demographic glut of 150,000 children born in Hong Kong to Mainland Chinese parents between 2008 and 2012 (after which moving to Hong Kong to give birth was banned) will reach university age in the next five years.

Knight Frank reports that as of February 2025, the university dormitory supply in Hong Kong was 42,093 beds. However, the number of nonlocal students in Hong Kong is expected to reach 97,857 by the 2027/28 academic year. Real estate investors, including Angelo Gordon and PGIM, have invested in properties for conversion to student accommodations. Universities also are purchasing property: Hong Kong

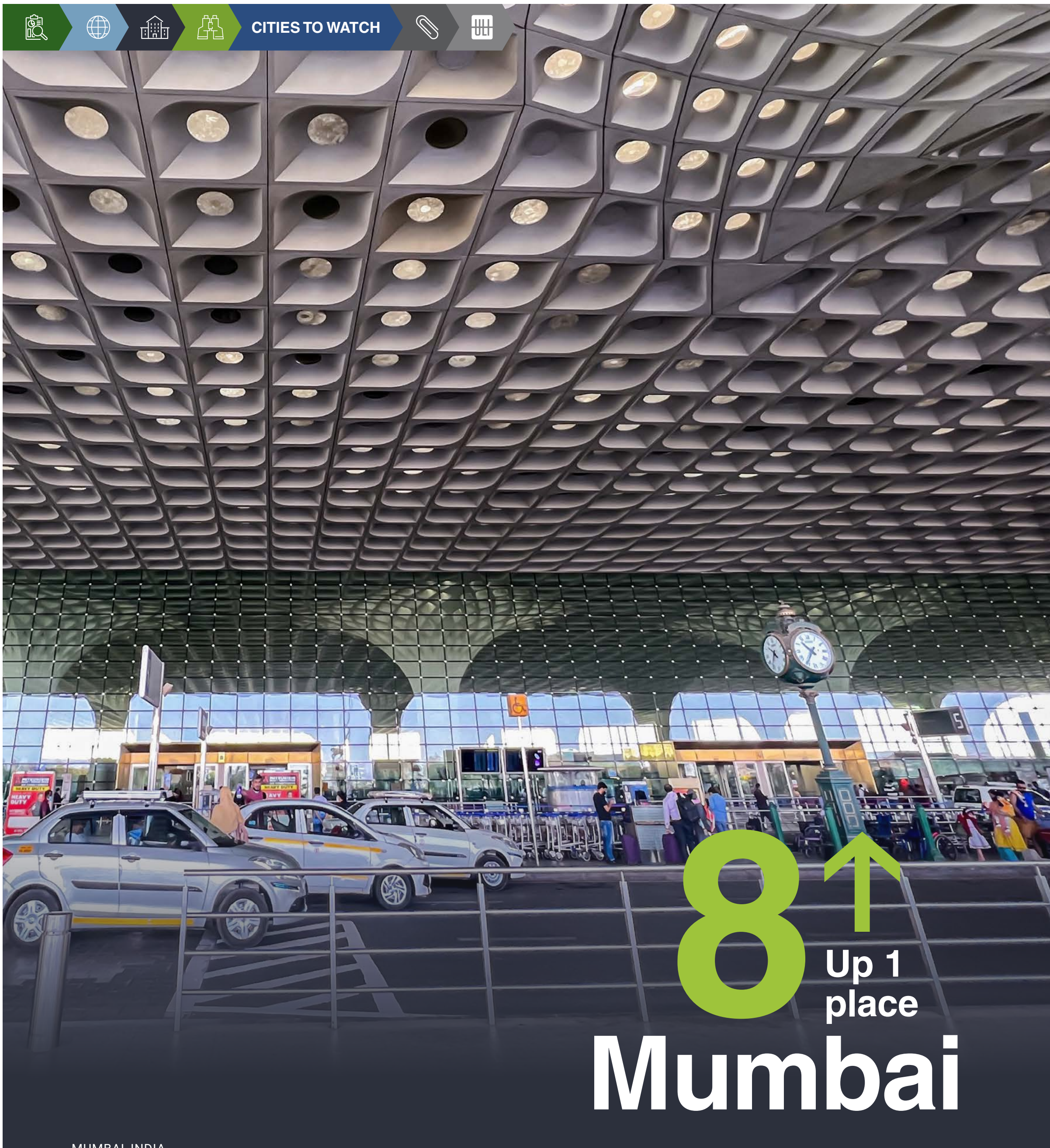
Metropolitan University acquired the Urbanwood Hung Hom Hotel for student housing, and City University of Hong Kong transformed the retail podium at Inter-Continental Plaza in Tsim Sha Tsui into an academic space. Education organisations, both schools and universities, are also buying office space for their own occupation.

In the Central district, Grade A office buildings with strong sustainability credentials are proving resilient: hedge funds are taking space in existing buildings and in those under construction, including Jane Street, which is leasing more than 20,000 square metres in Henderson Land’s New Central Harbourfront Site 3 project. Hong Kong was the biggest IPO market in the world in the first half of 2025, with a host of “new economy” floats, which is bolstering overall economic sentiment. CBRE reports that office net absorption improved over all submarkets in the third quarter, but that rents continued to fall in all districts.

Interviewees report a considerable amount of capital – from family offices, private equity, and private debt investors – lined up for Hong Kong; but, everyone is “reluctant to catch a falling knife” despite asset prices being half their cyclical peak across most sectors. Although there has been some movement from banks, investors report a continued “big difference between the book value the banks have for these assets versus the distressed sale price.” Nonetheless, the atmosphere in the city is more positive than it has been in recent years. Investors are hoping that the market will break one way or the other, with either a host of assets becoming available at realistic prices or a fall in interest rates that will revitalise existing owners.



HONG KONG, CHINA



Infrastructure set to boost Mumbai’s future growth

Mumbai, India’s financial capital, is sometimes overlooked in favour of Delhi, the national capital, and Bangalore, the centre for outsourcing and global capability centres. However, Mumbai remains a corporate and financial hub for the nation, and it is redrawing its own boundaries with new infrastructure.

For instance, work on the Navi Mumbai International Airport was recently completed and commercial flights are set to begin towards the end of 2025. The new airport will be linked to Mumbai by two metro lines; it is also planned to be the terminal station of the proposed Mumbai–Hyderabad high-speed rail corridor. One interviewee says: “Navi Mumbai is going to be the next big thing for the next 20 years, if not longer. The airport is going to be a focus for real estate growth and move the city’s centre of gravity.”

The city is also building transport infrastructure, including metro lines and new roads, which will open up other areas to development and ease pressure in congested districts. New transport infrastructure will support the development of new logistics property and create new residential and commercial districts.

In addition to being an important centre for office and logistics real estate, Mumbai is set for strong growth in the retail sector, which is attracting global and domestic premium brands. According

to JLL, the city is expected to see 130,000 square metres of new retail delivered between 2026 and 2029.

Seoul sees surging interest from foreign investors

Seoul continues to benefit from South Korea’s macroeconomic stability and its own tight supply, reinforcing its status as a “safe harbour” in North Asia. Interviewees described Seoul as “the next most active metro after Tokyo”, supported by rising institutional confidence and liquidity inflows. Foreign investment has surged, doubling from 8.2 to 19.7 percent of total commercial real estate investment between 2020 and 2025, according to the Chosun Daily. A regional investment manager notes: “There’s actually quite a bit of activity in Korea, particularly for the pan-Asian funds, probably more heightened than it’s ever been.”

Investors are targeting the most resilient micromarkets. Logistics remains a favoured sector, but the outlook varies widely across the city. “If you look at Seoul proper, there’s an oversupply of logistics . . . but in certain micromarkets, it’s quite the opposite,” says one market player. New supply declined 40 percent in the first half of 2025 compared with the fourth quarter of 2024, with total completions expected to be just one-third of 2023 levels. CBRE forecasts Grade A vacancy will fall to about 10 percent by 2027, and vacancy for dry storage will be below 4 percent.

The living sector is emerging as a key growth market, driven by the decline of the traditional jeonse system, in which tenants pay large deposits in lieu of monthly rent. “People who used to be in the jeonse system now prefer the modern lease structure,” a manager says. Rising demand from young professionals and international students underpins rental prospects for the sector. Meanwhile, the hospitality sector is seeing “record growth in average daily rates” and in Seoul, data centre expansion continues, led by institutional platforms such as AirTrunk.

Shanghai remains the focus for investors in China

Shanghai has reaffirmed its position as China’s most resilient and liquid real estate market: an “all-weather” city underpinned by depth of capital and diversified demand. Despite nationwide liquidity constraints, it remains the country’s benchmark for pricing transparency and investment confidence. Domestic institutional capital continues to invest in performing assets in core sectors, such as apartments, hotels, and retail. However, they are seeking long-term value preservation rather than performance boosts from distressed opportunities.

Shanghai recorded a 6 percent year-on-year increase in new home prices in June 2025, making it the only first-tier city to register positive price growth whilst Beijing, Guangzhou, and other markets continued to experience declines,

according to *China Daily*. This resilience extends beyond city limits, with nearby Yangtze River Delta hubs, such as Ningbo, Nantong, Hangzhou, and Suzhou, emerging as beneficiaries of Shanghai’s spillover, particularly in logistics and industrial assets.

In Shanghai, a two-speed market is unfolding. Retail and hospitality sectors are recovering on the back of a consumption-driven policy and tourism revival, while the office market continues its structural reset amid persistent oversupply. Adaptive reuse of obsolete office stock into rental living and hospitality formats is a pragmatic pivot towards functional repurposing rather than a cyclical rebound.

Regionally, a “Greater Shanghai” logistics ecosystem is taking shape. Investors are recalibrating towards second-tier cities, mirroring Tokyo’s metropolitan logistics pattern. As supply clears post-2026, these locations are expected to anchor the warehousing and operational backbone of Shanghai’s consumption economy. Overall sentiment remains cautiously optimistic: stabilising policy frameworks, ongoing capital discipline, and the city’s safe-haven reputation position Shanghai for a gradual recovery.





CHANGI, SINGAPORE

Singapore remains a safe haven for wealth

The popularity of Singapore’s property market reflects its resilience amid global uncertainty, though high construction costs, labour shortages, and tight yield spreads continue to constrain development. Despite falling rates, tight yield spreads create a challenging environment in which “positive carry can turn negative quickly”, notes an investor. The most common word used by interviewees to describe the Singapore market is “tight”.

Development activity in Singapore remains highly concentrated and at the premium end for office and luxury retail projects, while the city-state’s developers increasingly explore multifamily opportunities offshore. Office fundamentals are stable, supported by sustained multinational demand and the growing adoption of AI and smart-building technologies to improve operational efficiency and energy performance. The luxury retail sector continues to outperform, with sales forecast to climb 7 percent to S13.9 billion (US\$10.7 billion) in 2025, according to *The Straits Times*, driven by resilient tourism and strong high-income spending.

Singapore also anchors Southeast Asia’s digital infrastructure network, though limited land and power capacity are constraining further data centre growth. This is diverting incremental demand to Malaysia and Indonesia. The residential market remains tightly regulated and yield-compressed,

curbing institutional investment appetite. Meanwhile, private credit platforms are emerging as a key growth avenue, with fund managers broadening debt strategies. The government’s 2025 budget, which introduced a S\$1 billion (US\$ 770 million) Private Credit Growth Fund, reinforces this shift by expanding alternative financing channels and supporting market liquidity.

According to Reuters, the city-state’s family office sector has expanded dramatically, with more than 2,000 single-family offices established in 2024 – quadruple the 2020 figure. This expansion has been driven by favourable tax policies, robust financial regulation, and Singapore’s position as a gateway to Southeast Asia. The presence of this wealth ensures continued interest from real estate investment managers.

“

We’d like to invest more in Singapore. It is a very solid market, but unfortunately everyone thinks that.



Sydney benefitting from a flight to quality

Rising interest rates pushed Sydney cap rates out after 2022; however, cuts from the Reserve Bank of Australia and a gradual return to the office – boosted by new public transport infrastructure – have improved the fortunes of the central business district (CBD). The repricing cycle has stabilised, with investors now prioritising income resilience and rental growth. “Office is starting to come back in Sydney . . . the CBD does have a good story,” says an Australian investment manager.

Premium assets are leading the recovery, supported by tenants upgrading to high-quality, ESG-compliant space. Only three major CBD projects, totalling 152,000 square metres of space, are due to be delivered by 2029 and 65 percent of this space is already pre-committed, according to Knight Frank. This scarcity of new premium supply supports rental growth and investor confidence going forward.

Industrial and logistics assets remain resilient despite short-term oversupply in larger formats. One investment manager says: “Infill industrial in Sydney is highly attractive; urban logistics and light industrial are where we see long-term value.” Vacancy rates edged up to 2.5 percent in early 2025 but remain below equilibrium. Meanwhile, chronic land shortages – just 190 hectares are available in the next year and a deficit of 91 to 319 hectares is projected through 2030 (CBRE)

– reinforce the sector’s strength. “We see strong interest in self-storage and powered land strategies rather than full build-outs,” says one developer, who also notes that competition from data centres is constraining expansion.

Retail assets have re-emerged as high-performing, income-resilient investments. “Turnover is up 30 percent in Sydney’s better malls, while pricing is 30 percent below five years ago,” an investment manager says. Strong transaction volumes have been driven by landmark deals, such as the A\$525 million (US\$345 million) sale of the Top Ryde City mall to domestic investment house MA Financial and Singapore’s Keppel REIT. Overall, capital market sentiment has strengthened, with both domestic and offshore investors viewing Sydney as a safe and transparent market.

3 SYDNEY



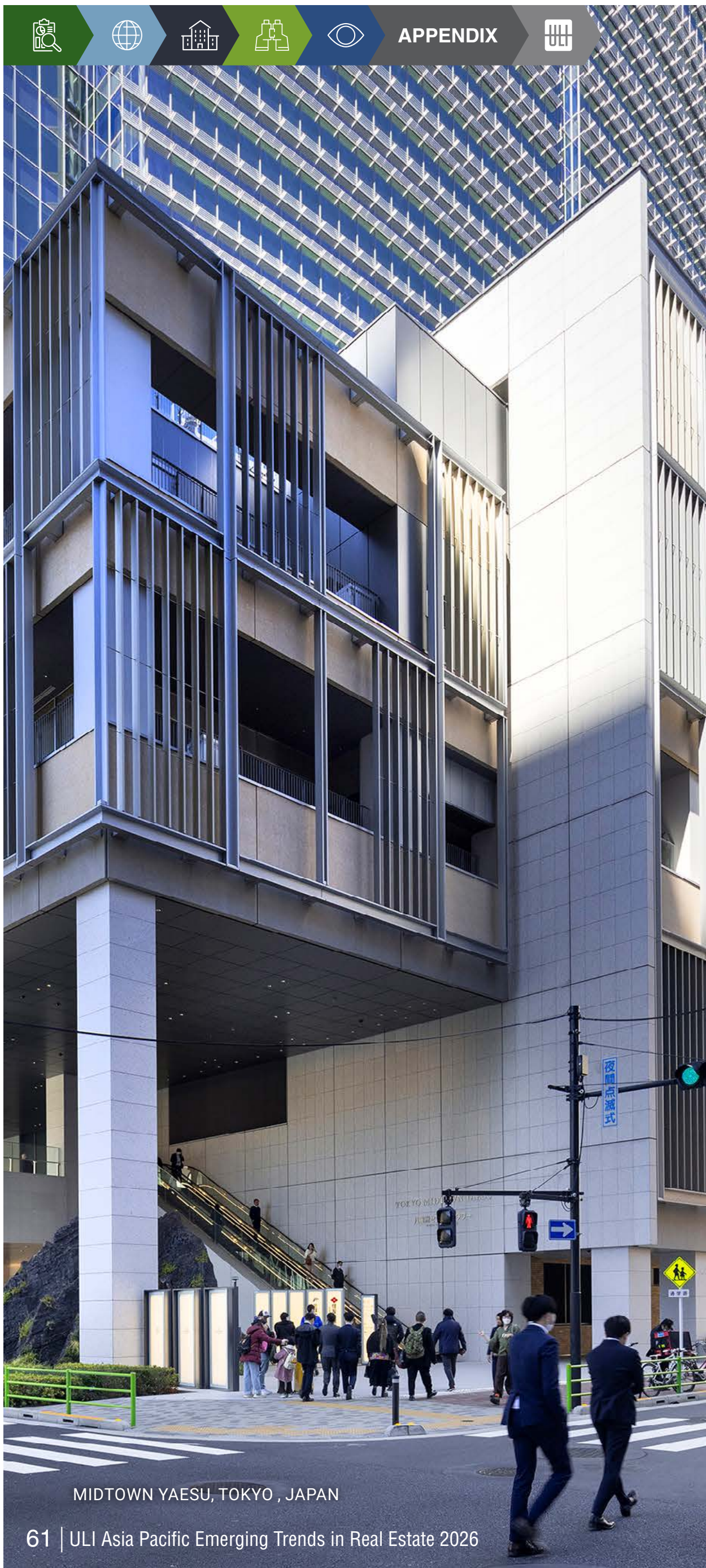
SYDNEY HARBOUR, SYDNEY



APPENDIX



SAFRA CHOA CHU KANG CLUBHOUSE



MIDTOWN YAESU, TOKYO , JAPAN

Figure A-1 Historical city investment prospect rankings

City	Rank									
	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
Tokyo	1	1	1	2	1	2	2	4	7	12
Singapore	2	4	4	1	2	1	1	2	3	21
Sydney	3	3	2	3	3	3	4	3	1	9
Osaka	4	2	3	4	6	8	8	5	10	15
Seoul	5	5	6	5	5	4	10	9	19	17
Melbourne	6	6	5	6	4	6	5	1	2	16
Ho Chi Minh City	7	8	8	7	8	5	3	7	5	4
Mumbai	8	9	9	12	17	15	12	13	12	2
New Delhi	9	11	7	13	19	18	15	17	20	13
Hong Kong	10	19	16	18	14	22	22	14	13	18
Taipei	11	10	19	17	13	11	14	21	22	22
Shanghai	12	18	12	10	7	7	7	6	4	6
Kuala Lumpur	13	14	13	14	22	20	21	22	21	19
Bangkok	14	7	10	11	16	14	11	11	16	8
Bangalore	15	12	15	21	20	16	16	15	1	12
Manila	16	15	17	16	21	19	17	19	18	3
Jakarta	17	17	18	9	18	16	18	15	14	7
Shenzhen	18	16	11	8	9	9	6	8	6	5
Auckland	19	13	14	15	11	13	19	20	9	14
Beijing	20	21	20	19	12	12	13	12	11	11
Guangzhou	21	20	21	20	10	10	9	10	8	10
China – second-tier cities	22	22	22	22	15	17	20	18	17	20

Source: Emerging Trends in Real Estate® Asia Pacific

ABOUT THE REPORT

“Our strategy prioritises stable income streams supported by structural tailwinds such as demographics, digitalisation, and urbanisation.”

Japan-based investment manager

MARINA BAY SANDS, SINGAPORE

About the survey

Emerging Trends in Real Estate® Asia Pacific 2026

This 20th edition of the report, which is undertaken jointly by PwC and the Urban Land Institute, provides an outlook on investment and development trends, finance and capital markets, cities, sectors and other real estate issues throughout Asia Pacific.

Emerging Trends in Real Estate® Asia Pacific 2026 reflects the views of more than 380 property professionals who completed surveys, were interviewed, or took part in a series of roundtable meetings across the region as a part of the research for this report. The views expressed are from these surveys, interviews, and roundtable meetings and do not express the opinions of either PwC or ULI.

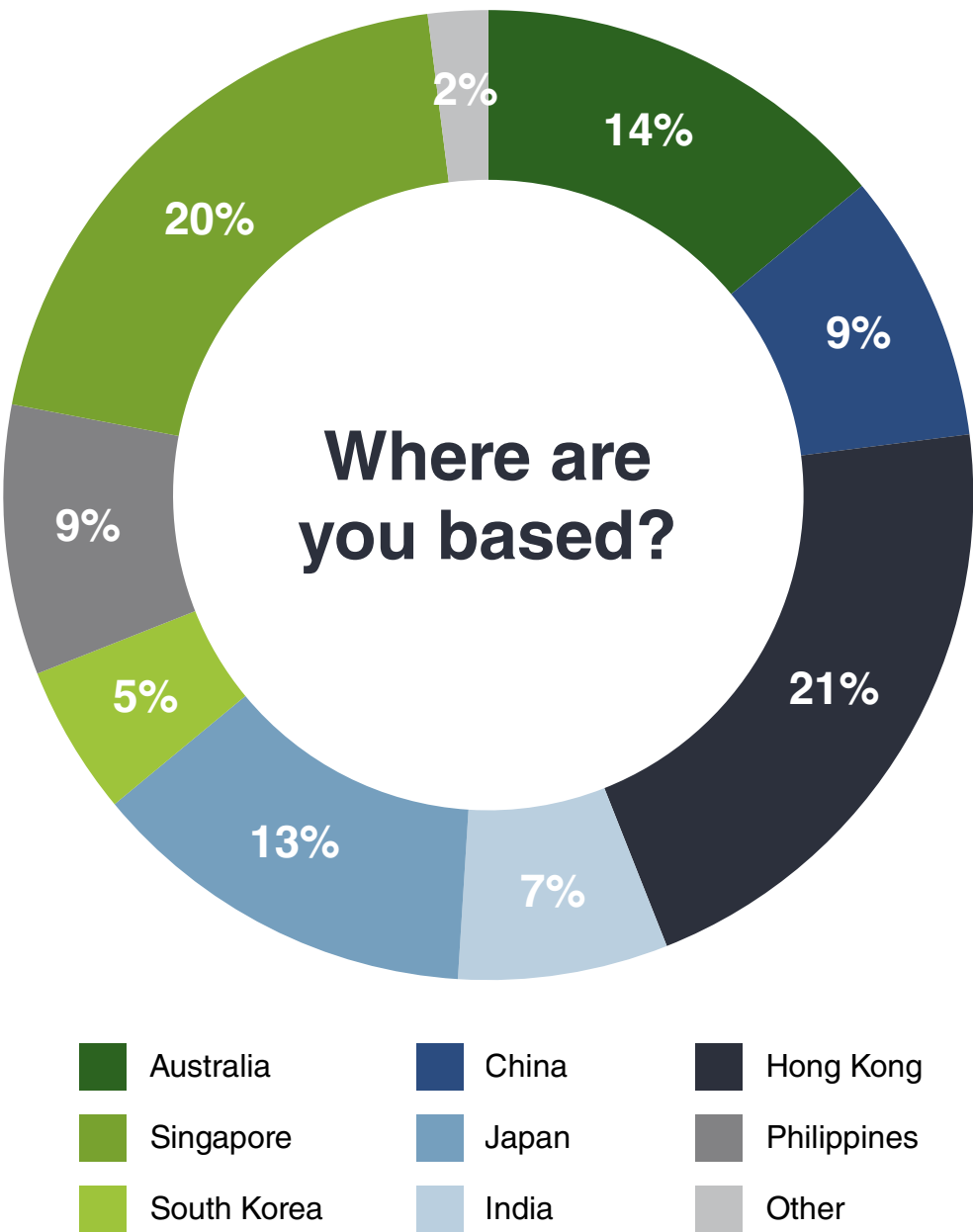
The interviewees and survey participants represent a wide range of industry experts, including investors, fund managers, developers, property companies, lenders, brokers, and consultants. A list of the interviewees and roundtable participants in this year’s study appears on the following pages. Please note that not all interviewees chose to be acknowledged. To all who helped, ULI and PwC extend sincere thanks for sharing valuable time and expertise. Without their involvement, this report would not have been possible.

• This report contains city images sourced from Shutterstock and a selection of images of winners in the 2025 ULI Asia Pacific Awards for Excellence.

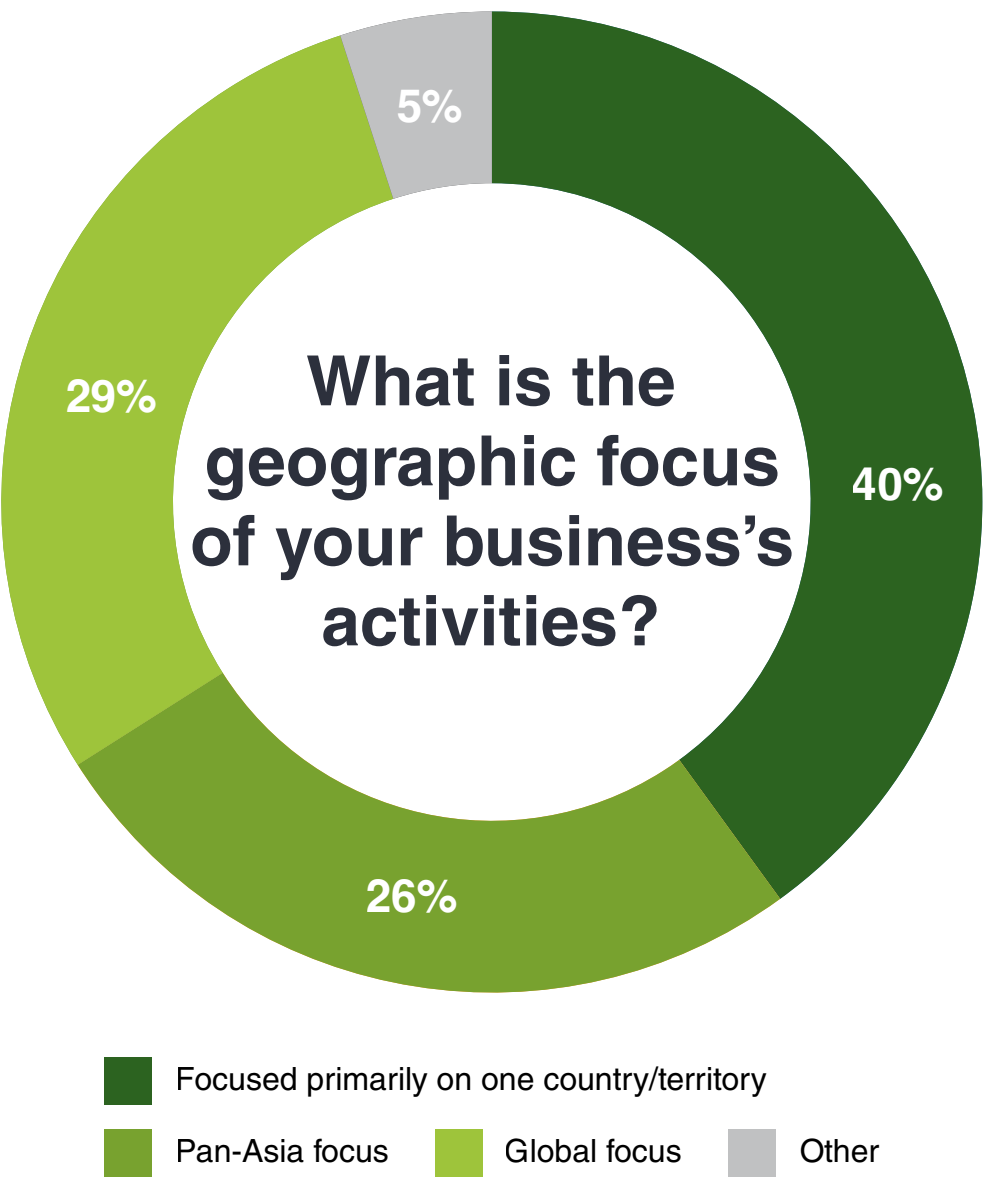
• Cover image: Tokyo Midtown Yaesu, developed by Mitsui Fudosan, a 2025 ULI Asia Pacific Awards for Excellence winner.

• Please note that MSCI data for the third quarter of 2025 is preliminary.

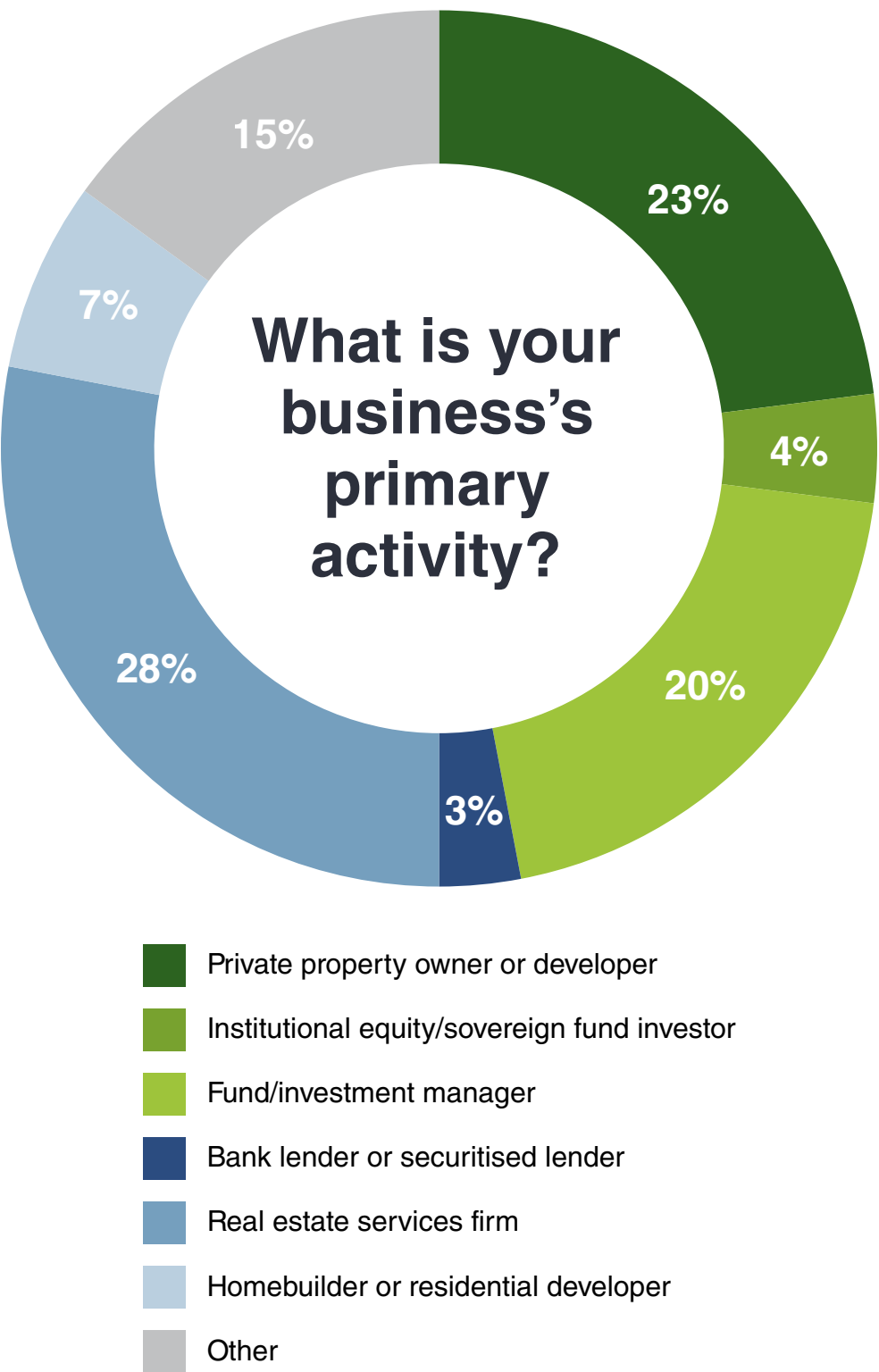
Survey responses by country/territory



Survey responses by geographic scope of firm



Survey responses by primary business activity



Interviewees and roundtable participants

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PwC’s real estate practice assists investment advisers, real estate investment trusts, public and private investors, corporations and management funds in developing strategies, evaluating acquisitions and dispositions, and appraising and valuing real estate.

PwC’s global network of dedicated real estate professionals enables it to assemble for its clients the most qualified and appropriate team of specialists in the areas of capital markets, systems analysis and implementation, research, accounting, audit, as well as tax compliance and advisory.

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About Urban Land Institute

The Urban Land Institute is a global, member-driven organisation comprising more than 46,000 real estate and urban development professionals dedicated to advancing the Institute’s mission of shaping the future of the built environment for transformative impact in communities worldwide.

ULI’s interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics.

Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 84 countries. ULI has been active in Asia Pacific since the early 1990s and today we have 3,000 members and eight Local Councils.

The extraordinary impact that ULI makes on land use decision-making is based on its members sharing expertise on a variety of factors affecting the built environment, including urbanisation, demographic and population changes, new economic drivers, technology advancements, and environmental concerns. Drawing on the work of its members, the Institute recognises and shares best practices in urban design and development for the benefit of communities around the globe.

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2026

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