

Cyclical opportunities emerge as asset pricing diverges across region



Key Trends

- Investment sentiment in **Australia** has continued to improve after a strong finish to 2024. Investors are especially keen on office and retail opportunities, where pricing has reached, or is about to, reach a consensus bottom, and income growth forecasts are solid. More opportunities to invest at scale will arise in 2025, especially in the form of joint partnerships with local and international investors. These deals will involve both direct asset transactions and operating company (OpCo) opportunities.
- In **Japan**, commercial real estate investment activity ended 2024 on a strong note, with momentum continuing into early 2025. While interest rates were hiked by a further 25bps in January, this indicates healthy economic growth and price inflation. Hotels remain a favoured sector given that inbound tourism continues to be robust on the back of the weak Japanese yen. Investor sentiment towards the office sector has also bounced back.
- Domestic investors continued to drive the **mainland China** market in Q1 2025. Despite some deals completed by Hong Kong SAR-based capital, most foreign buyers are not adding to their mainland China portfolios or considering disposals. Market participants perceive this period as an opportunity for asset allocation as prices are adjusting and loan interest rates are favourable.

“ Despite recent economic headwinds, investment in the region remains robust, particularly in Korea and Japan, on the back of healthy income growth and robust interest from cross-border investors.

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Greg Hyland
Head of Capital Markets
Asia Pacific

Australia

Investment sentiment and volumes improve, with pricing at or nearing top of cycle

STATE OF THE MARKET

- Investment sentiment has continued to improve after a strong finish to 2024. While February's cut of 25bps, which brought rates down to 4.10%, was a vote of confidence in the economy, the consensus for the magnitude of rate cuts to occur this year is varied.

TRANSACTION ACTIVITY

- Offices are becoming more sought-after, particularly in Sydney. Big ticket deals have started to materialise in recent months, led by 55 Pitt Street (AUD 2.0 billion) and IAG House (AUD 920 million). However, owners are turning more selective when selling and are waiting for pricing to improve before disposing of assets.
- Retail was the most favoured sector in Q1 2025. Amid improving valuations, investors are looking across all retail subsectors, particularly neighbourhood and subregional centres, to capture strengthening fundamentals. While liquidity for larger assets remains scarce, wholesale funds are gearing up for increased investment activity from 2026-2028.

EMERGING TRENDS

- Domestic investors and developers are looking to be more balance sheet-light by increasing their AUM through co-investment and trying to pay down current debt. After a period of inactivity, enquiry levels from Australian superfunds are picking up, particularly in the office and living sectors.

OUTLOOK

- More opportunities to invest at scale will arise in 2025, especially in the form of joint partnerships with local and international investors. These deals will involve both direct asset transactions as well as operating company (OpCo) opportunities, particularly in the industrial and living sectors.
- Premium office fundamentals are projected to remain solid nationwide. Replacement costs for such assets are significantly higher than a few years ago, with expectations that this will remain the same for the medium-term. This will ensure future office supply across Australia remains limited, supporting stronger fundamentals.

SIX-MONTH OUTLOOK



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Japan

Investment activity continues to surprise on upside as purchasing momentum remains strong

STATE OF THE MARKET

- Investment activity ended 2024 on a strong note, with momentum continuing into early 2025. While central policy rates climbed by a further 25bps in January, this indicates healthy economic growth and price inflation. Forecasts are currently for a further 25bps rate hike before year end to 0.75%. However, this is dependent on the continuation of economic and wage growth.

TRANSACTION ACTIVITY

- Hotels remain a favoured sector given that inbound tourism continues to be robust on the back of the weak Japanese yen. The weak currency is also encouraging Japanese tourists to remain in the country, boosting the domestic tourism market. Several assets in core markets such as Tokyo (The Prince Gallery Tokyo Kiocho) and resort markets (Hilton Fukuoka Sea Hawk) transacted in Q1 2025, indicating that both urban and resort locations are popular with investors.
- Investor sentiment around the office sector has also bounced back, with net absorption outperforming expectations and new supply either being pushed back or cancelled because of high construction costs and labour shortages. This was reflected in the Seibu Tokyo Garden Terrace portfolio deal, which included the sale of Kioi Tower for JPY 346.9 billion, marking the largest office transaction in Asia Pacific in Q1 2025.

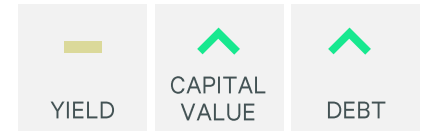
EMERGING TRENDS

- Growth in rental income should support values and help offset any upward pressure on yields even as interest rates continue to creep up. As a result, investors are increasingly looking at Japan from a growth perspective instead of viewing it as just a market offering low yields.
- Conversion plays are becoming more popular, including those from rental housing to short-term stays; from offices to research & development facilities; and from dry logistics to cold logistics.

OUTLOOK

- The coming quarters may see buyers shift away from development given rising construction costs and labour shortages, instead focusing on refurbishing or repositioning older existing assets. Asset managers may consider divesting of assets to realise returns given the sustained run up in prices.

SIX-MONTH OUTLOOK



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Mainland China

Local buyers dominate purchasing activity as market sentiment improves

STATE OF THE MARKET

- Market sentiment improved after Chinese New Year, supported by advancements in the AI and the technology industry. While investors are looking for asset allocation opportunities, current economic conditions have led them to adopt stricter return requirements, with many buyers opting to seek a larger cushion to hedge against further rental pressure.
- Domestic investors continued to drive the market in Q1 2025. Despite Hong Kong SAR-based capital completing a few deals, most foreign buyers are not adding to their mainland China portfolios or considering disposals. CBRE sees market participants perceiving this period as an opportunity for asset allocation, as asset prices are adjusting and loan interest rates are favourable.

TRANSACTION ACTIVITY

- Despite the current repricing period, some office transactions were seen in tier I cities. The top transaction this quarter was One Museum Place, which sold for CNY10.9 billion at a 4.5% yield. However, pressure on occupancy and rents means office deals require discounts or structured formats such as income guarantees or buyback options.
- While some owners are willing to lower asking prices, distressed asset disposals are limited and differ on a case-by-case basis. Some distressed assets have been returned to banks or assigned to Asset Management Companies (AMCs) for processing.

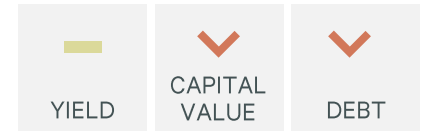
EMERGING TRENDS

- Amid growing interest in AI and rising demand for computing power, investors are targeting data centres. Well-located existing facilities and operators that can directly generate cash flow are most sought-after. Availability of high-quality assets is limited, resulting in heightened competition.

OUTLOOK

- Institutional investors seeking stable cash flows are recommended to focus on rental apartments and logistics facilities.
- Private enterprises, high-net-worth individuals, and family office investors are advised to target office properties priced under RMB 2 billion and located in prime locations attracting strong leasing demand. Such assets will provide better long-term investment value and liquidity.

SIX-MONTH OUTLOOK



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