Intelligent Investment

Investing in Asia Pacific Real Estate: Structural vs. Cyclical Strategies

REPORT

CBRE RESEARCH
AUGUST 2024

01

Executive Summary & Outlook

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The Asia Pacific commercial real estate market currently sits at the top of the interest rate hike cycle (excl. Japan), and repricing for assets is beginning to materialise. Now is the opportune moment for investors to acquire discounted assets in specific markets and sectors which are expected to see both pricing and performance rebound over the medium-term. This report identifies opportunities for buyers and sellers seeking to capitalise on changing market dynamics.

Offices in markets such as Australia, Korea, and India, albeit on a case-by-case basis, could offer an attractive entry point in 2024 with rental growth prospects looking more positive. Core assets with strong Environmental, Social and Governance (ESG) performance are increasingly sought after, with deadlines for occupiers' commitments to net-zero targets approaching more rapidly than those for owners and landlords. In Seoul, although rental growth is expected to continue, owners should realise returns as growth is expected to normalise.

Industrial & logistics assets in locations with higher potential for manufacturing occupier demand, such as Southeast Asia, India and regional areas in Japan are expected to outperform.

With **retail** occupier demand shifting back to core locations, the rental outlook has been upgraded for Vietnam and Hong Kong SAR. Vacancy in Ginza, Japan now stands at 1.0%, making core retail assets appear attractive.

Living sector demand continues to accelerate despite the limited scale of this asset class in Asia Pacific. Investors are advised to stay focused on established markets such as Japan, where cash-on-cash yields remain attractive. Other options include developing or acquiring projects for build-to-rent or student accommodation in markets with significant supply shortfalls, such as Australia and Hong Kong SAR.

Credit strategies continue to offer cyclical and vintage opportunities. Bridge loans and development finance remain available for credit funds in markets with larger funding gaps, such as Australia and Korea. Opportunistic and credit fund investors are looking more closely at the office and residential sectors in mainland China, where weakening fundamentals have led to significant discounts.

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Key Strategies

Office

- Prime offices in Sydney, Seoul and Indian cities offer attractive entry points.
- Investors should consider realising returns in Seoul ahead of significant new supply in 2026.
- Prime assets in core locations continue to outperform; ESG credentials will be essential.

Industrial

- Greenfield developments in Southeast Asia and India, where manufacturing demand is growing, will offer the choicest opportunities.
- Consider realising returns in Australia.
- Modern facilities in prime locations with high ceilings, electric vehicle (EV) charging stations, and ESG certification will outperform.

Retail

- Secure core/CBD locations as vacancy continues to fall, with Japan, Singapore, and selected Hong Kong SAR assets the key focus.
- Differentiate assets through omnichannel retail; innovate through retail entertainment events and activities.

Living

- Japan multifamily (build-to-rent) and the Australia living sector (build-to-sell) will offer attractive returns.
- Develop/convert assets to co-living in Hong Kong SAR and student accommodation in Australia and Hong Kong SAR, where student migration far exceeds available beds.

Hotels

- Vacant possession and/or globally branded hotels should be preferred, especially in markets with strong demand, such as Japan, Korea, India, Singapore, and Australia.
- Owners are advised to work with operators to establish strong loyalty programmes to drive up operating income.

Credit / Data Centres

- Bridge loans/development finance in Australia and Korea and distressed loans/NPLs in mainland China and Hong Kong SAR are the main opportunities.
- Develop data centres in emerging Southeast Asian markets as well as in Japan, which is also seeing more opportunities for existing investment grade assets.

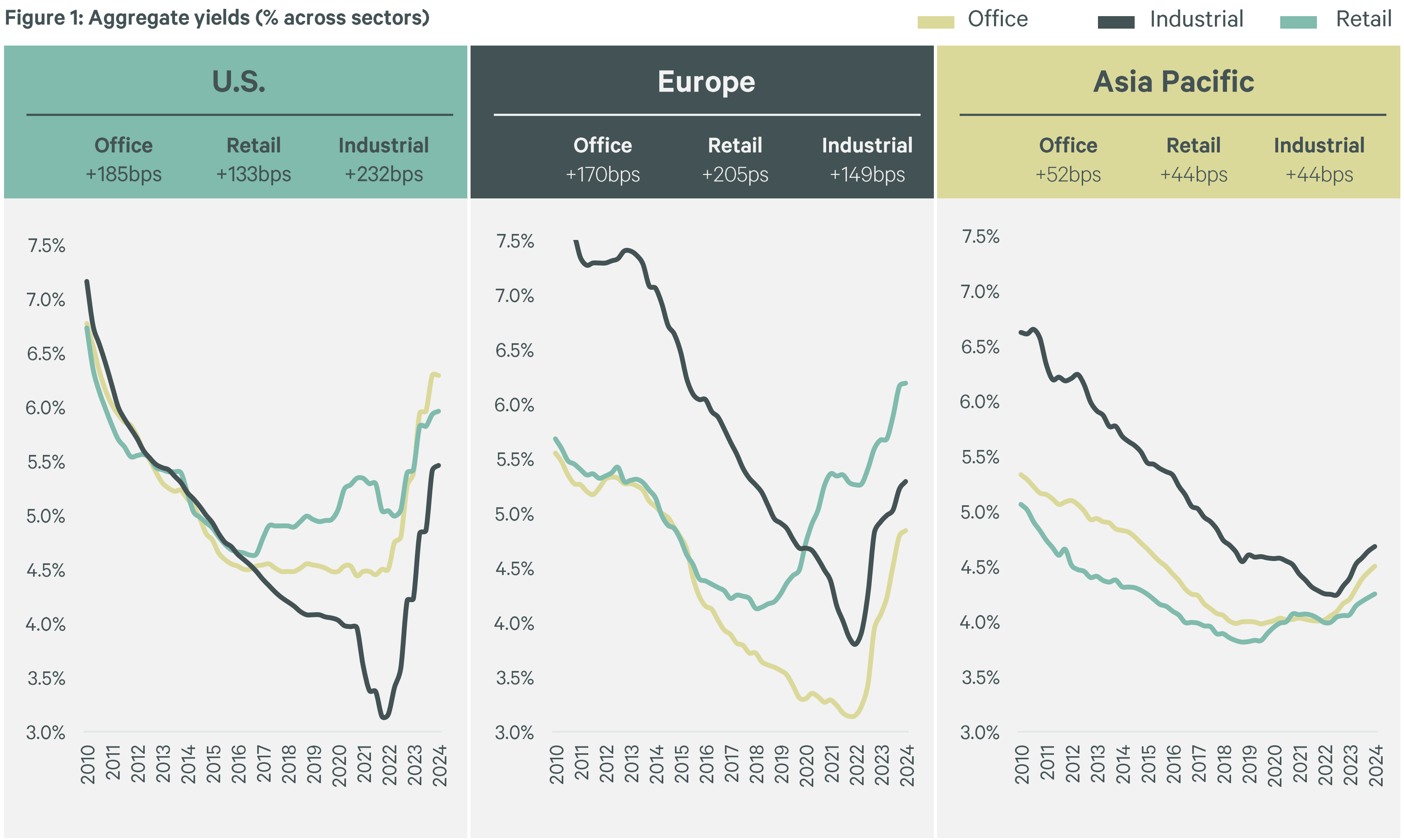
02

Market Conditions

More significant asset repricing has been observed in the U.S. and Europe than in Asia Pacific

- Cap rates are now at the end of the repricing cycle in the U.S. and Europe, with assets in these regions having have seen much greater cap rate growth than those in Asia Pacific. However, after significant repricing in Australia, Korea and New Zealand, other markets in the region, mainly mainland China, Hong Kong SAR and Singapore, are seeing investors become more willing to reprice their assets to match what has been seen globally.
- Amid a lag in valuations and a lack of transactions, CBRE expects some further repricing to occur throughout 2024, particularly in Australia, mainland China, Korea, Singapore, and Hong Kong SAR.
- Due to repricing in Asia Pacific being somewhat limited compared to that in other regions, funding gap pressure is far more limited than what has been observed in the U.S. and Europe.

Figure 1: Aggregate yields (% across sectors)

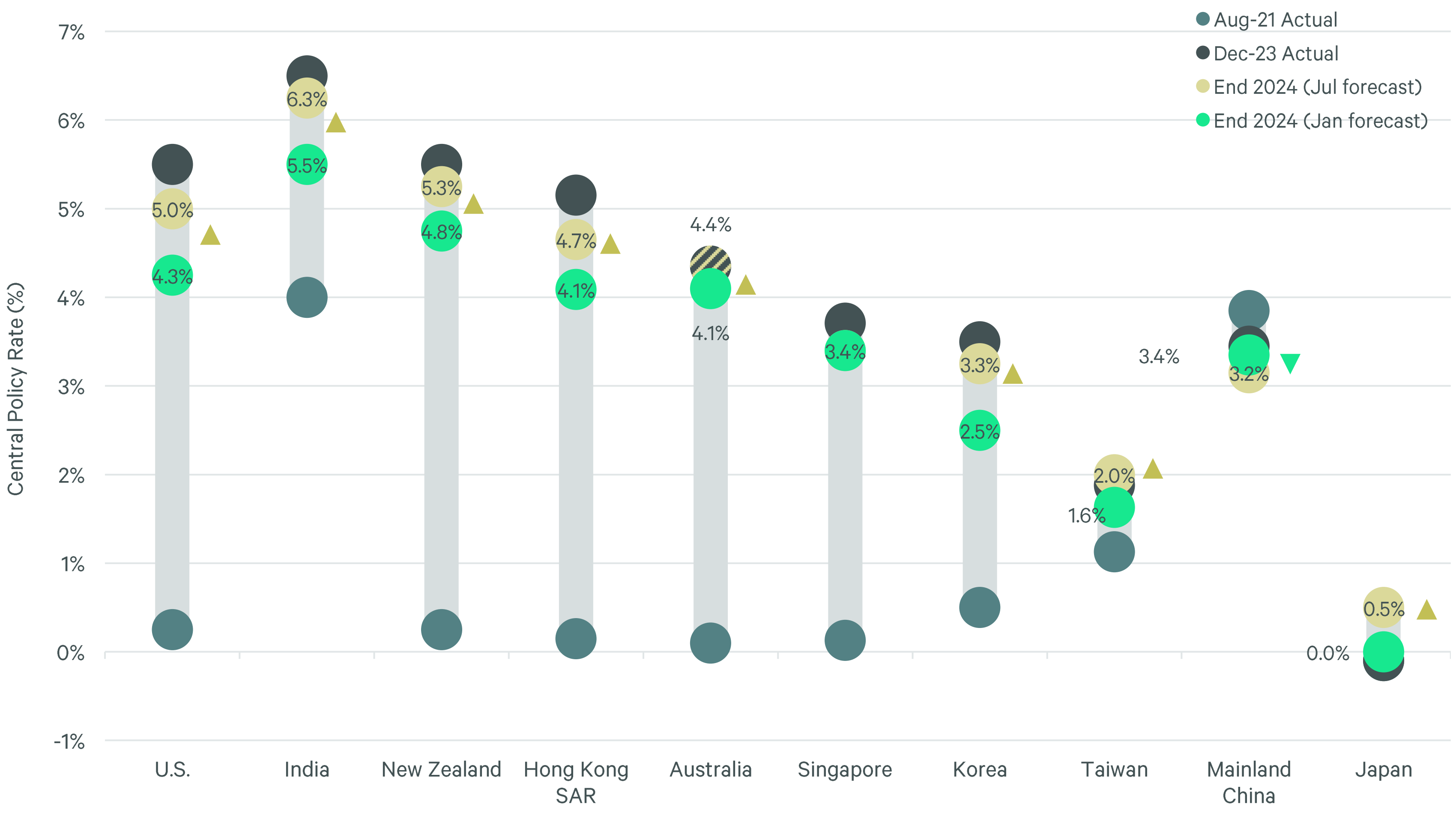


Source: CBRE Research, Q1 2024.

Rate cut expectations have been pushed back as the Fed delays decision

- The expected easing of central bank policy rates in mid-2024 should give investors greater confidence to proceed with acquisitions in the coming months.
- With the European Central Bank (ECB) commencing its rate cut cycle in Q2 2024, CBRE expects the U.S. Federal Reserve to follow suit and begin its rate cut cycle in September 2024.
- After ending its negative interest environment and implementing two rate hikes so far this year, expectations are for the Bank of Japan (BoJ) to increase rates one more time in Q4 2024 to around 0.50%.
- The People's Bank of China (PBoC) has already lowered its policy rates to stimulate growth. Other Asia Pacific countries are expected to begin cutting rates before the end of the year.
- While rate cuts are expected to commence in H2 2024, the magnitude of any reductions will be lower than what was expected six months ago. As a result, interest rates are expected to remain above historical levels for the short to medium-term.

Figure 2: Central policy rates (%)



Source: Macrobond, CBRE Research, July 2024.

03

Investment Strategies

Investment Strategies

Cyclical

- While real estate is like other asset classes with cyclical movements, it has a higher correlation with the broader economic outlook.
- Sectors such as office are highly cyclical.
- Short term plays are possible with more volatile sectors and markets.
- Investors are advised to time entries and exits and focus on turning points to enhance returns.

Structural

- Various structural changes to the economy affect demand for different types of commercial real estate.
- Impacts typically become more prominent in the medium and long term. Once structural demand becomes the norm, opportunities become cyclical plays.
- Examples include data centres, demand for which is being driven by the need for data storage; and changes in consumer behaviour, which are influencing requirements for retail and logistics facilities.

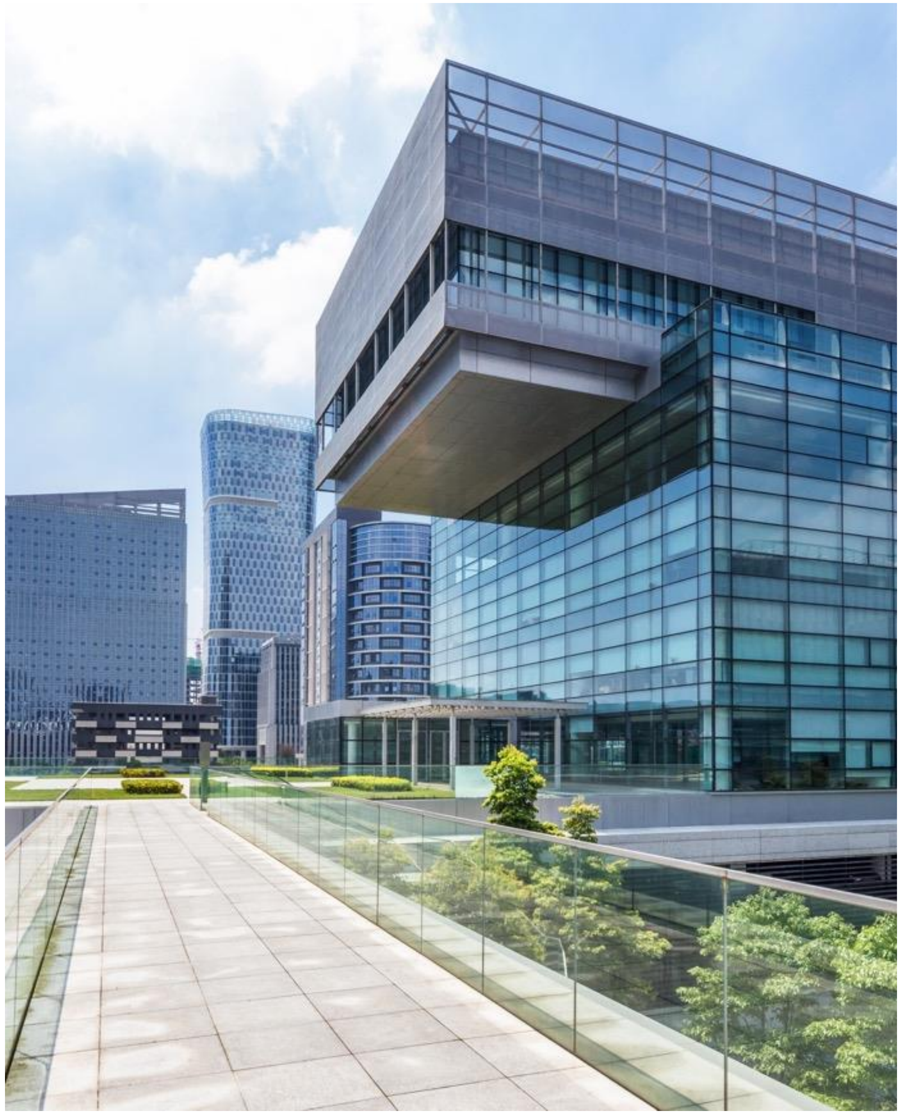
Office

– Cyclical

- Consider offices in markets such as **Australia (Sydney), Korea (Seoul) and India (on a case-by-case basis)** which could offer an attractive entry point in 2024 as rental growth prospects look more positive.
- While the Korea office market continues to offer good returns, **owners in Seoul should consider realising returns** as recent strong rental growth is set to normalise in 2026.
- The Asia Pacific office market offers **diversification benefits in global office portfolios**. Strengthening market fundamentals mean Australian cities, especially Sydney, stand out in the medium-term.

– Structural

- **Prime assets in core locations are outperforming** as cost continues to dominate occupier decision-making. As a result, leasing demand will be concentrated on top quality assets in core locations providing direct access to amenities and public transportation. Buildings with ESG credentials will be highly prized by investors in office assets.

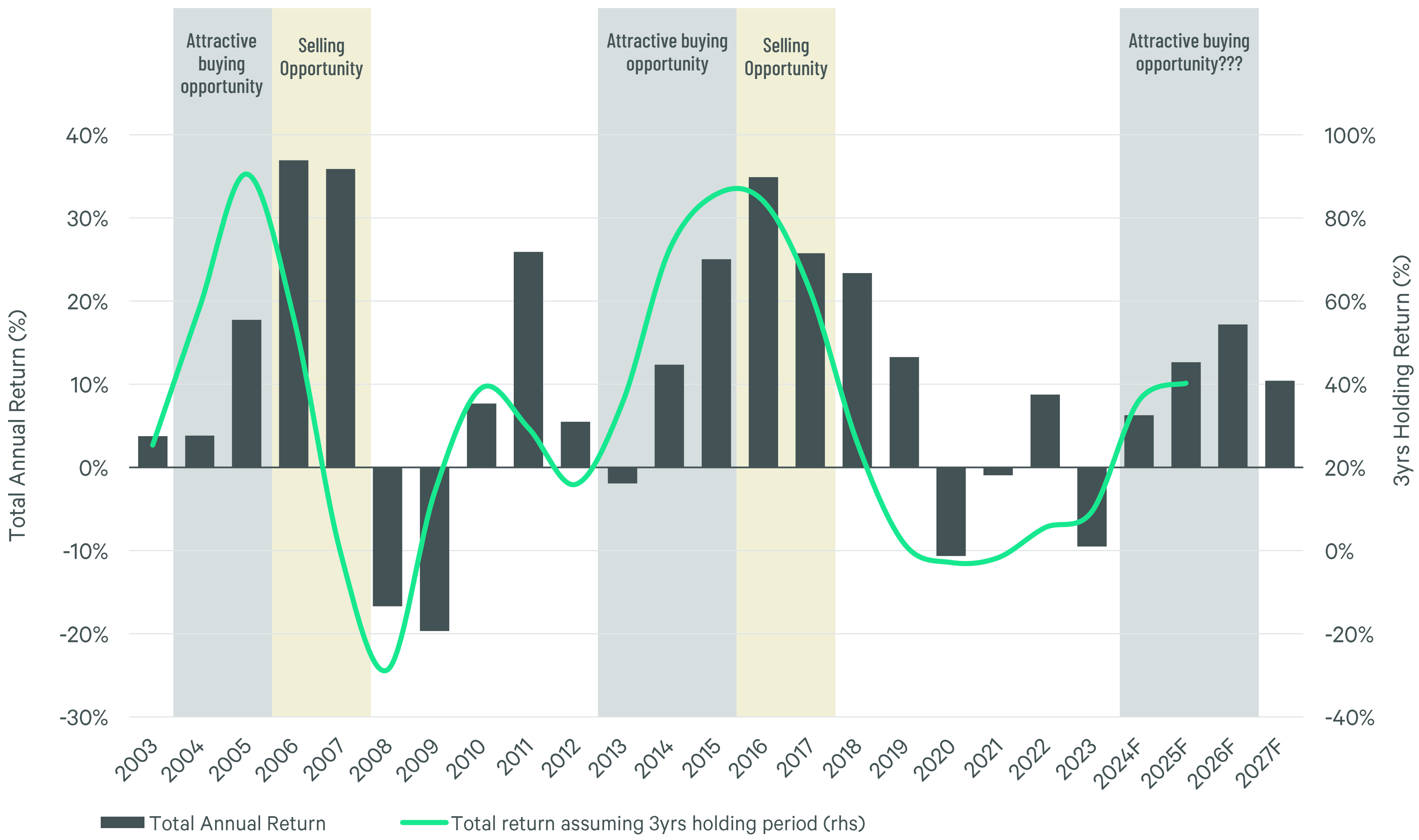


Office markets stand at the bottom of the cycle, creating opportunities to buy

- During the current repricing cycle, core office assets in most Asia Pacific markets have experienced more yield softening than other sectors, with markets such as Australia, Korea and New Zealand now close to the bottom of the pricing curve. While investment sentiment is optimistic in India, transactions are being approached with a degree of caution.
- Occupier sentiment is holding up much better than in previous years. CBRE's 2024 Asia Pacific Real Estate Market Mid-Year Outlook[1] announced upgraded rental forecasts for Australia (Brisbane, Melbourne and Perth), Korea (Seoul), Japan (Tokyo) and India, citing greater expansionary activity from larger occupiers, despite some supply side concerns.
- Based on current discounts for office assets, CBRE believes that there is an attractive window for investment in many markets on a total return basis. Core CBD properties in markets such as Sydney, Seoul and select Indian markets are projected to enjoy attractive returns over the next four years.

[1] CBRE's Asia Pacific Real Estate Mid-Year Outlook

Figure 3: Sydney CBD office – Annual total returns (%)

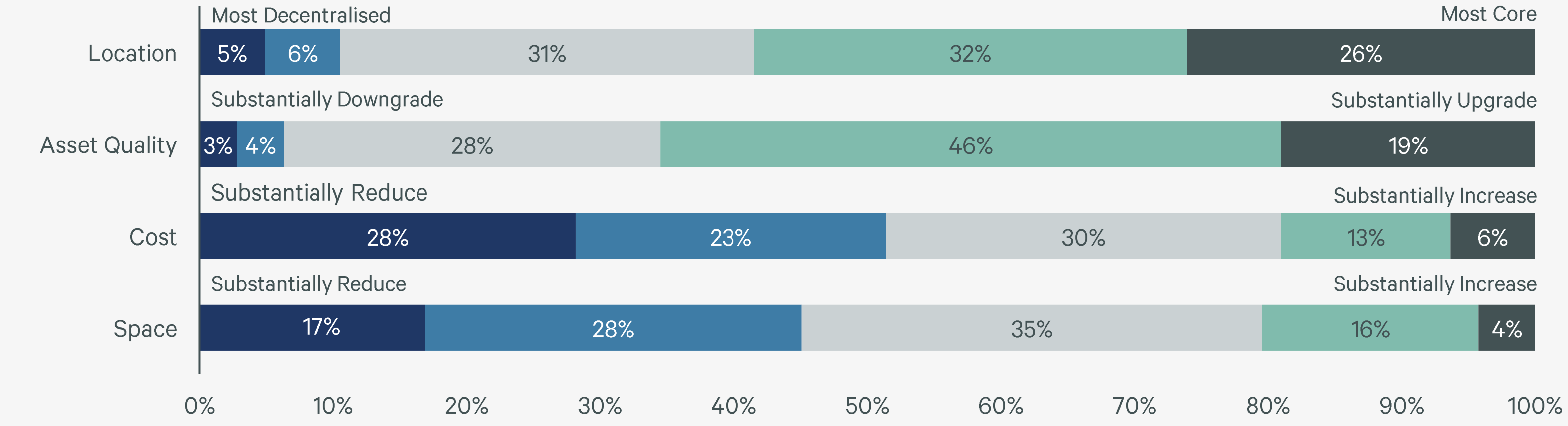


Source: CBRE Research, Q2 2024.

Occupiers are focusing on quality offices in core locations

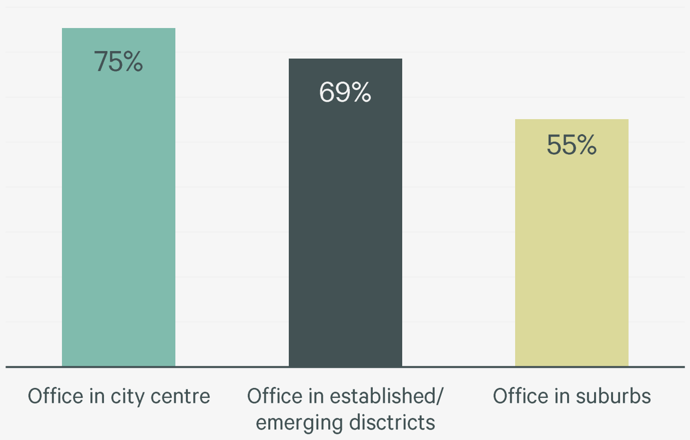
- Office occupiers in Asia Pacific generally remain cost cautious amid slower economic growth; the high interest environment; and elevated fit-out costs. Leasing activity over the past two years has therefore been dominated by renewals as companies seek to avoid incurring extra CapEx upon lease expiry.
- CBRE's latest Asia Pacific Leasing Sentiment Index found that more occupiers are conducting "stay vs go" studies to evaluate options, with almost one-fifth of leasing enquiries related to this analysis. Having decided to relocate, occupiers are prioritising space quality over size. In addition, occupiers usually seek more core office locations and better quality of space while capitalising on the opportunity to save costs.
- CBRE's 2022 Asia Pacific Live-Work-Shop Survey found that 75% of office workers in Asia Pacific prefer offices in city centres or in established/emerging districts with good transport connectivity and high-quality surrounding amenities.
- Building selection is increasingly influenced by companies' ESG aspirations. While half of multinationals aim to achieve net zero by 2030, green building adoption in Asia Pacific stood at just 46% at the end of 2023. Adoption was higher in Australia, Singapore, and Japan, which could further facilitate flight to green activity in these markets.

Figure 4: Occupiers' office relocation preferences (Asia Pacific)



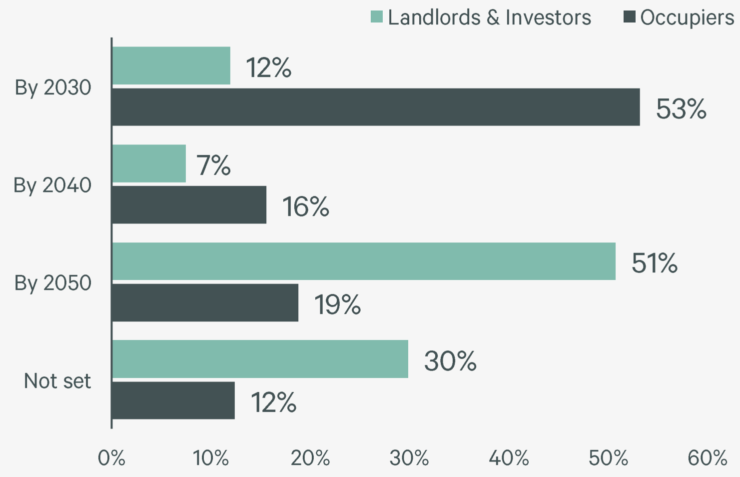
Source: Asia Pacific Leasing Market Sentiment Index, June 2024.

Figure 5: Office satisfaction by location (Asia Pacific)



Source: Asia Pacific Live-Work-Shop Survey, CBRE Research, 2022.

Figure 6: Has your organisation set a net zero target?



Source: APAC CSO Survey, February 2024.

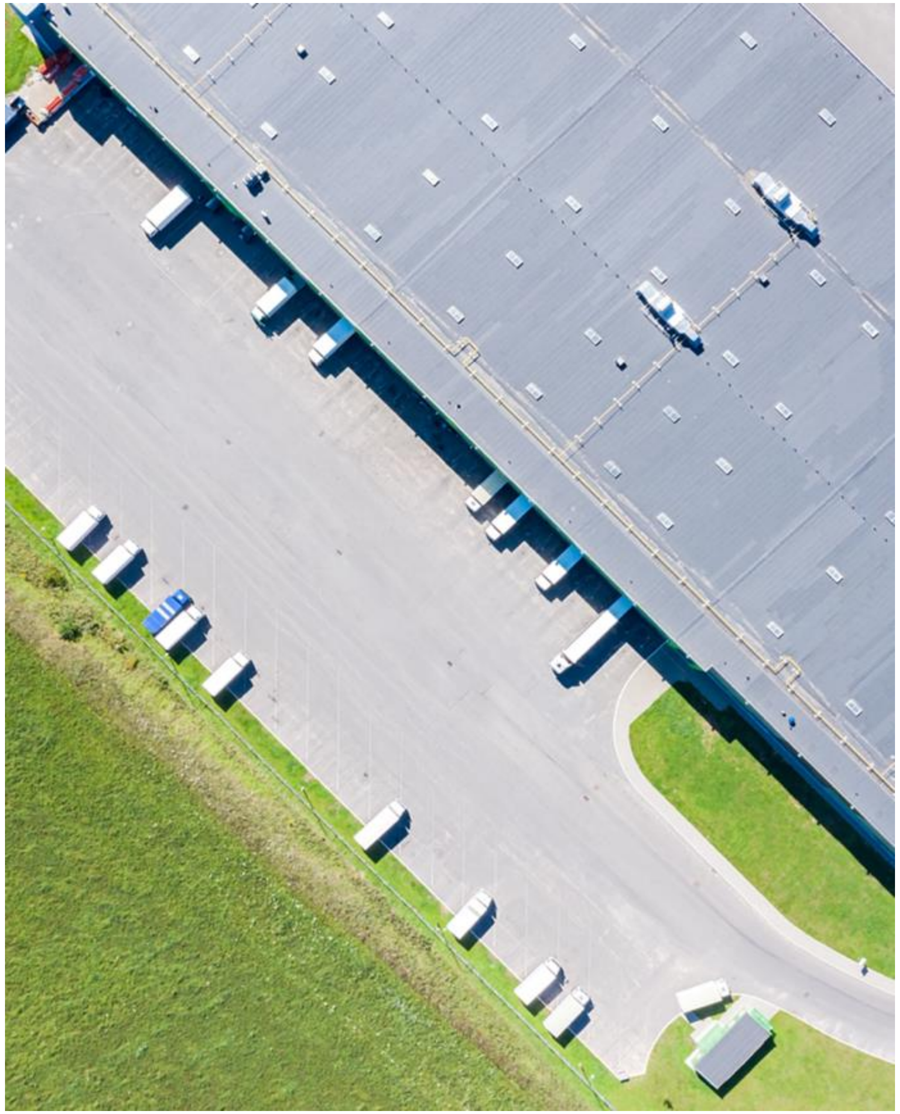
Industrial & Logistics

– Cyclical

- **Greenfield development:** Consider logistics development in locations with higher potential for manufacturing occupier demand, such as Southeast Asia and India, although associated development and legal risk will be higher.
- While rental growth is set to continue in Australia, **asset owners should consider realising returns** by disposing of secondary assets.
- **Repricing and growth opportunities:** Given that repricing in the logistics sector has been most pronounced in Asia Pacific, Australia (Brisbane and Melbourne) and Greater Seoul might start to look attractive in the medium term.

– Structural

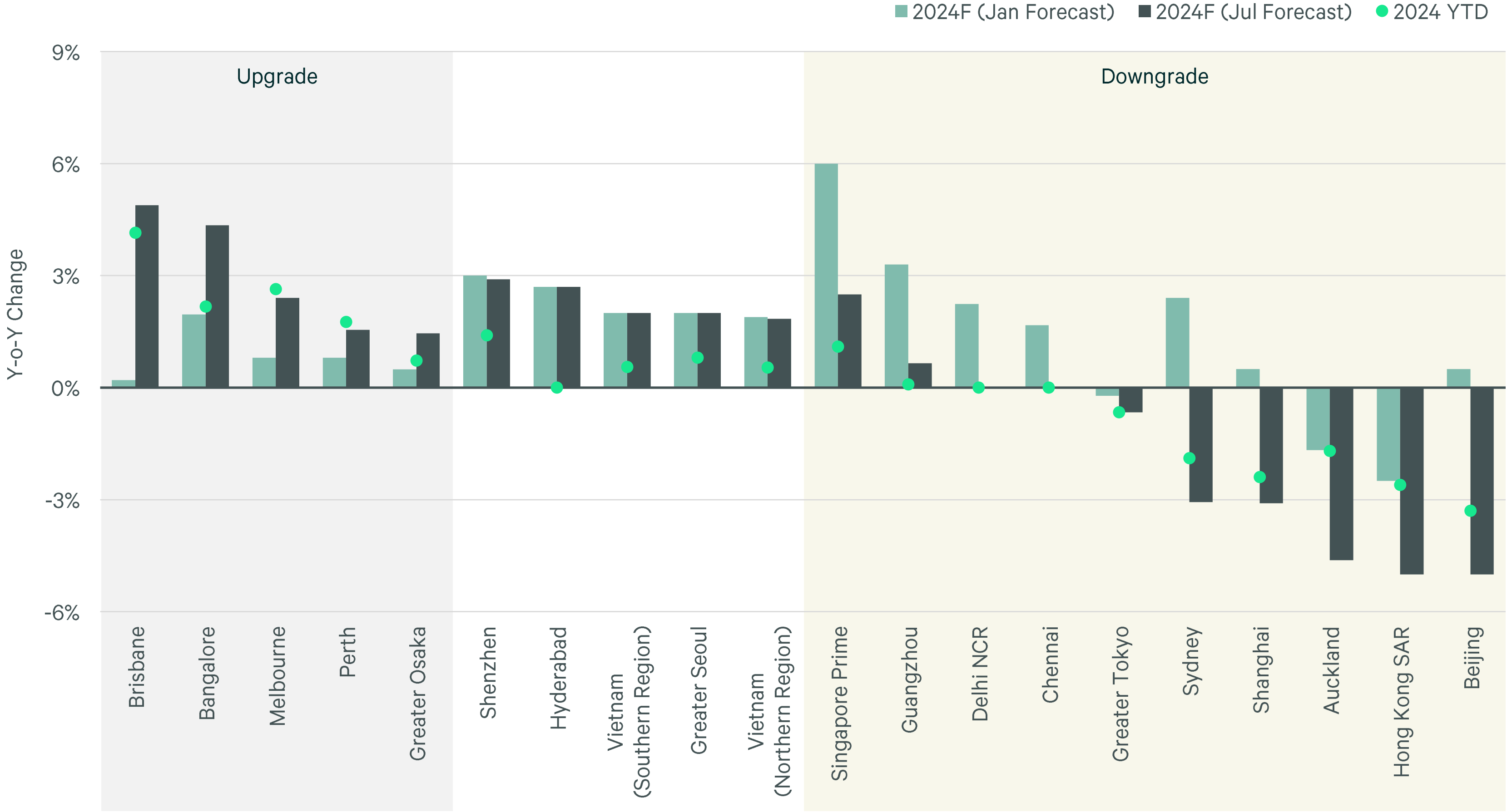
- **Core locations:** Facilities located near to markets and consumers will be strongly preferred by occupiers.
- **Modern facilities:** Occupiers are seeking modern facilities with features including high ceilings, loading bays and power grids on location.
- **Green warehouses:** ESG credentials, renewable energy and EV charging stations will be prioritised.



Despite waning occupier sentiment, selected markets will outperform

- Despite elevated levels of new supply alongside normalising demand, pricing in most markets (excluding mainland China) is set to remain stable for at least the next 12 months.
- Income returns are forecasted to be largely consistent across major Asia Pacific markets over the next three years. With most markets projecting stable yields over during this period, capital value changes will be driven by rental performance.
- Even with normalising rent levels, total returns in markets such as India, Seoul and select Australian markets where rental growth prospects are stronger are still attractive. CBRE is forecasting total returns in most of these markets to surpass 30% between 2024F to 2026F.

Figure 7: Prime industrial rental growth forecast (%) – 2024F

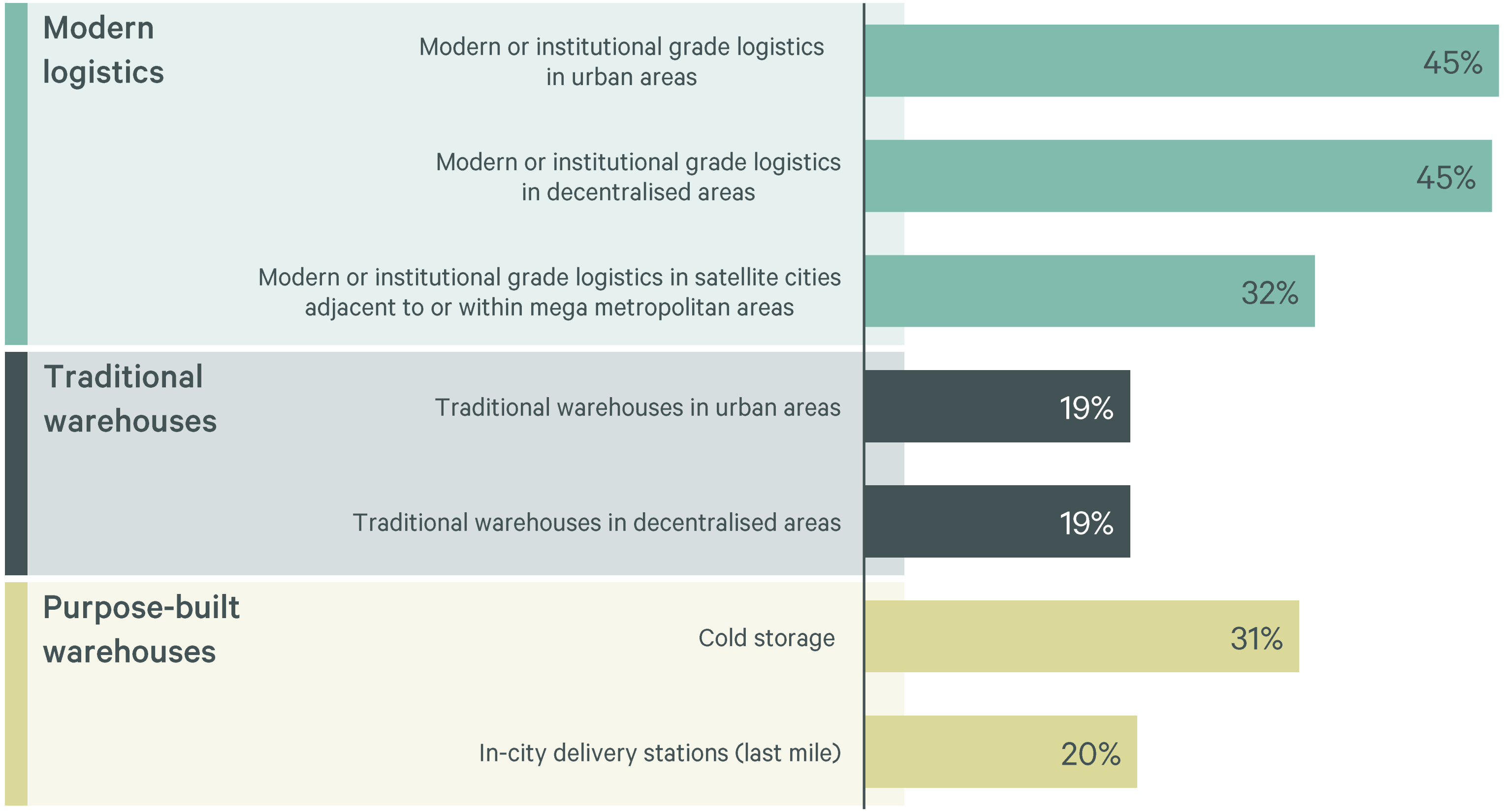


Remarks: Vietnam (Southern Region) includes Ho Chi Minh City, Binh Duong, Dong Nai and Long An while Northern region includes Hanoi, Bac Ninh, Hung Yen, Hai Duong and Hai Phong. Rental growth for Singapore refers to prime logistics rents in the eastern and western areas only. Logistics rental growth for Asian markets refers to face rents while that for Pacific markets refers to effective rents.

Source: CBRE Research, July 2024.

Modern facilities more preferred for new occupiers

Figure 8: Which of the following types of logistics facilities do you expect to use more of over the next three years?



Source: 2023 Asia Pacific Logistics Occupier Survey, CBRE Research.

Key features of modern logistics facilities

Ceiling Height (over 32 ft.)
Some of the latest type of modern logistics facilities normally feature ceilings with a height of over 32 ft. which enables vertical storage or racking systems to be accommodated.

Column Grid (10m x 12m)
Pillars normally divide warehouse space into column grids. An optimised grid can enhance floor usage efficiency.

Floor Loading (>= 5kPa , i.e. 5000 kg. / sq. m.)
Floor loading refers to the upper limit of weight that a standard unit can hold. As certain warehouses store heavy machinery and goods, floor loading is crucial.

Ratio of Loading Bay/ Dock Doors (1:10,000 sq. ft./ 1,000 sq. m.)
This ratio pertains to the size of a warehouses' loading area and its number of designated doors for trucks to load and unload goods. Warehouses that handle a high turnover of goods require more dock doors.

Owners should future proof assets by including more green features

With more occupiers embedding sustainability into real estate strategy, landlords and investors must accelerate the greening of their Asia Pacific logistics portfolios. This includes greater implementation of renewable energy sources, introducing chargers for EVs and increasing their green certification coverage.

Renewable energy

58%

Prefer renewable energy as a green feature

EV charging

28%

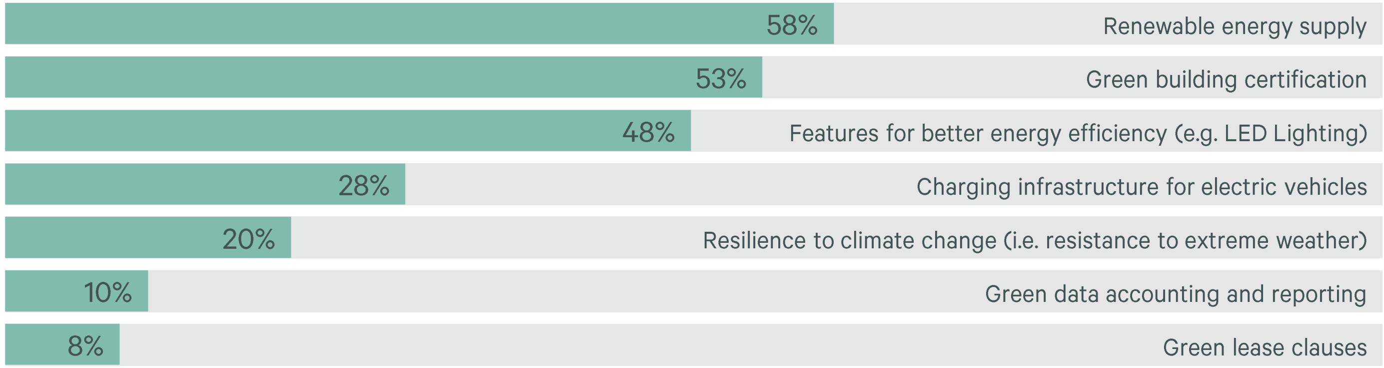
want more chargers for EVs

Green certificates

53%

are interested in green certified warehouses

Figure 9: Most preferred green features among Asia Pacific logistics occupiers



Percentages above are from the latest Industrial Asia Pacific Leasing Sentiment Survey and Industrial Occupier Survey

[1] Includes portfolio of ARA and LOGOS

[2] Estimate by Goodman Group from their Sustainability Report 2023

Sources: Various companies' ESG reports, Asia Pacific Leasing Sentiment Survey, June 2024.

Proposed dates for phasing out the sale of new internal combustion engine (ICE) vehicles

- 2030: Singapore
- 2035: Australia - ACT, Hong Kong SAR, Korea, Thailand, Japan
- 2040: India, New Zealand, Taiwan, Vietnam
- 2050: Indonesia

% of industrial portfolio which has been green certified - global

Goodman Group	~50%	global portfolio[1]
ESR	43%	global portfolio[2]
Prologis	23%	global portfolio
CapitaLand Acendas REIT	46%	global portfolio
Mapletree Logistics Trust	39%	global portfolio
GLP	18%	Global portfolio

Retail

– Cyclical

- **Investment is being underpinned by resilient leasing activity**, including store upgrades in core locations, backed by the strong tourism recovery.
- Occupiers are looking to **secure CBD locations where available** as leasing demand shifts back from suburban locations to the core CBD and the return to office normalises. With markets beginning to bottom out, retailers are taking the opportunity to secure the best quality assets in core locations before rents start to rise.

– Structural

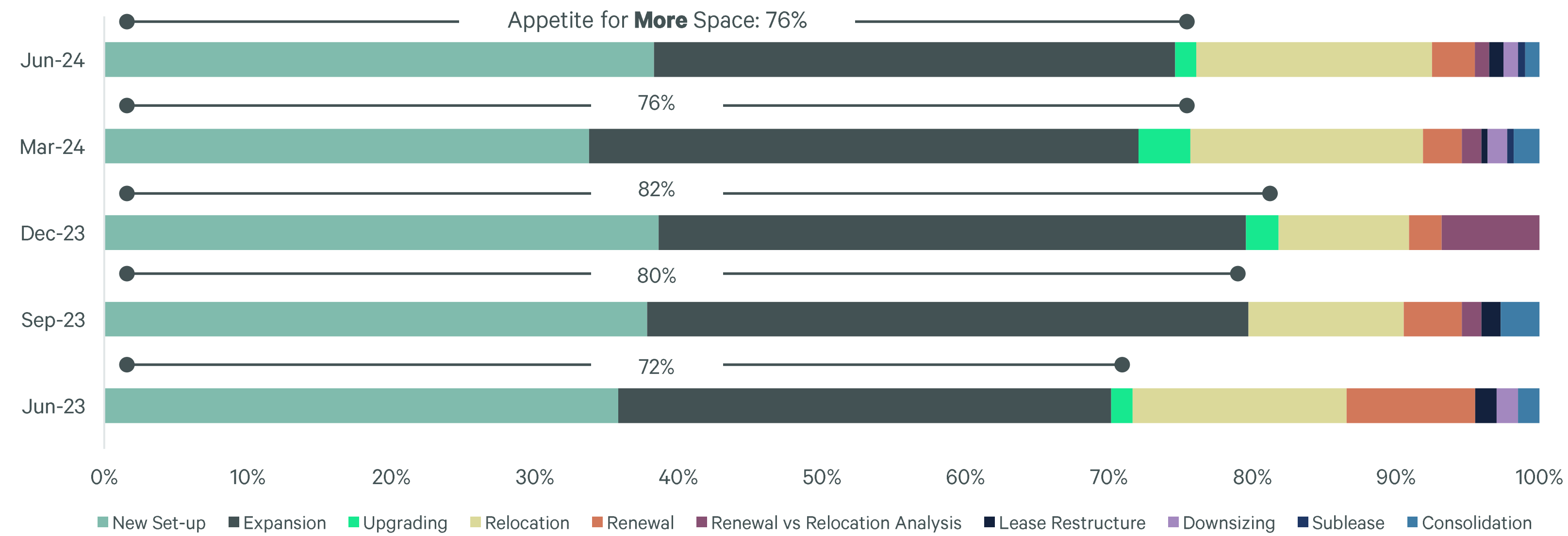
- **Larger spaces are increasingly sought after by occupiers**, especially those in the F&B and luxury segments, in order to accommodate experiential retail designs and fitouts.
- **Accessibility** is key, with destinations offering easy access to public transportation and providing ample car parking facilities most sought after.
- **Omnichannel retail:** landlords can differentiate themselves by creating a shopping experience comparable to online retail. Initiatives may include more creative/innovate retail entertainment events.

Retail leasing demand remains upbeat

- CBRE's June 2024 Asia Pacific Leasing Sentiment Survey[1] found that retailers' expansionary demand in the region remains resilient, with occupier demand for additional space having endured for the past 12 months.
- Despite weak sales, luxury retailers continue to optimise store networks by focusing on bigger but fewer stores. Shophouses in Singapore and bigger flagships in Australia are attracting especially strong demand as retailers strive for differentiation through storefronts.
- F&B demand remains robust. Global F&B players continue to seek market entry into Korea, with prime office arcades in main business districts among their preferred locations. Sportwear, outdoor and designer fashion brands are active in most major markets.
- Vacancy in prime shopping precincts has returned to pre-pandemic levels on the back of solid flight-to-core-and-quality demand as retailers shift focus back to urban locations. CBRE expects this to have a positive impact on core retail rents. The rental recovery will continue to be driven by prime assets in core locations. With retailers retaining a disciplined approach towards real estate planning, weaker interest in secondary assets will translate into softer rental growth for such properties.

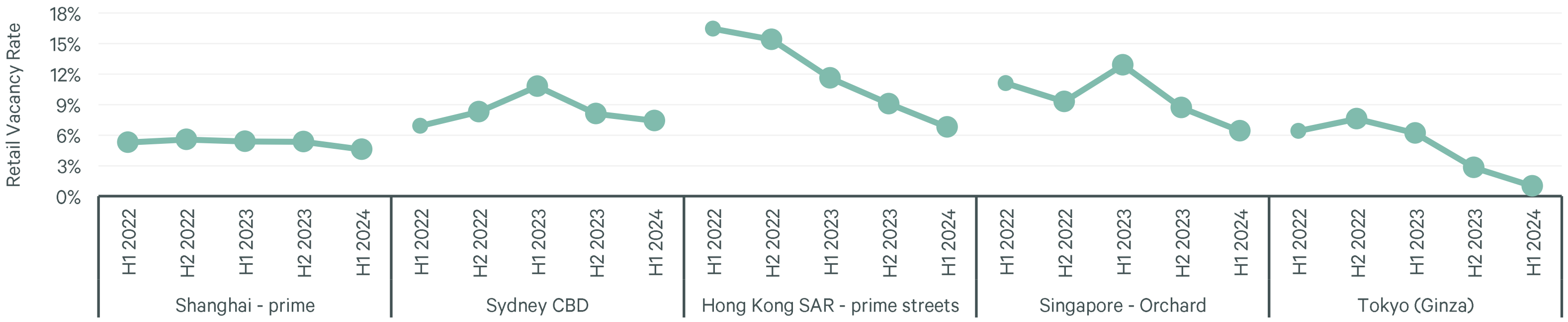
[1] CBRE's June 2024 Asia Pacific Leasing Sentiment Survey

Figure 10: Asia Pacific retail occupier leasing demand enquiry



Source: Asia Pacific Leasing Market Sentiment Index, June 2024.

Figure 11: Core retail vacancy (%) – Asia Pacific markets



Note: CBD Vacancy of Australian markets is available on biannual basis.
Source: URA, CBRE Research, July 2024.

Occupiers are focusing on quality assets in core locations

- Increased demand for core locations has coincided with the return of international tourism, with international arrivals now at around 75% of pre-pandemic levels. The number of mainland Chinese tourists, who are seen as both higher spenders and more likely to visit core locations, is steadily increasing in markets such as Japan, Korea and Southeast Asia.
- CBRE's June 2024 Asia Pacific Leasing Sentiment Survey[1] found that F&B and sports-related retailers are most active in the leasing market.
- Mastercard's recent Travel Trends 2024: Breaking Boundaries[2] report stated that demand from these sectors is being fuelled by a significant change in experience spending. With hotel prices remaining elevated, travellers are allocating a larger portion of their budgets to experience spending rather than accommodation.
- With F&B spending expected to remain resilient despite consumer challenges, F&B outlets will remain the strongest source of leasing demand. However, shopping mall landlords will need to strike an optimal balance of F&B tenants as both turnover and rents for occupiers in this sector are typically lower than those in other retail categories.

Figure 12: Retailers preference for relocation (Q2 2024)

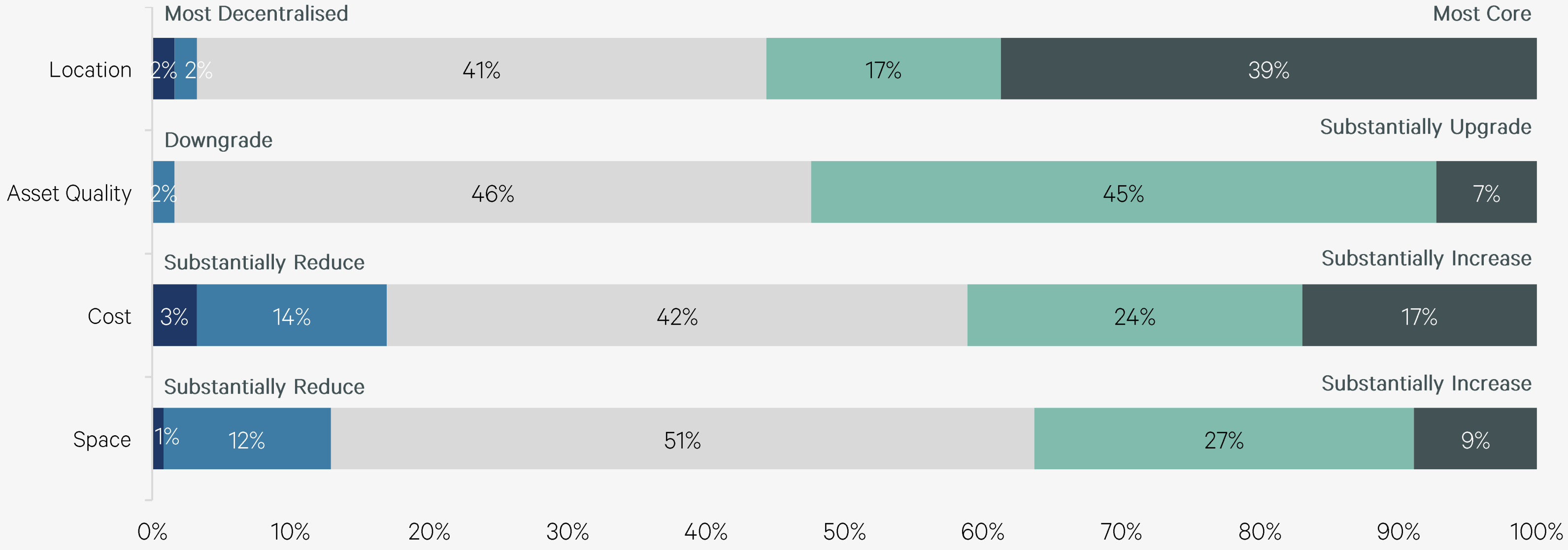
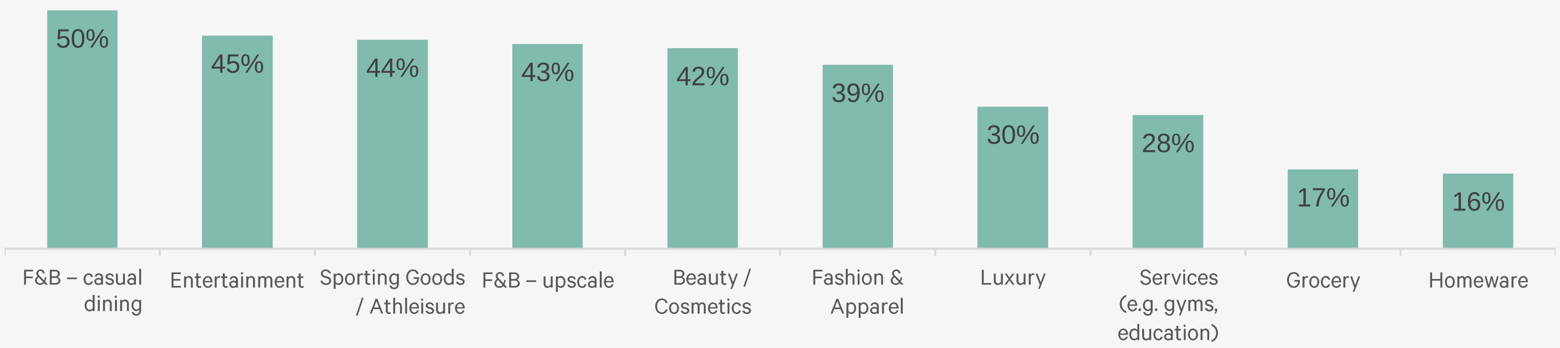


Figure 13: Expansionary demand by sector – by % of total respondents (Q2 2024)



Source: Asia Pacific Leasing Market Sentiment Index, June 2024.

[1] CBRE's June 2024 Asia Pacific Leasing Sentiment Survey
[2] Mastercard - Travel Trends 2024: Breaking Boundaries

Living

– Cyclical

- Investors should look to **develop build-to-rent/build-to-sell properties** in markets with a significant demand and supply imbalance, such as Australia
- **Target well-established institutionalised multifamily markets** such as major cities in Japan, which offer attractive cash-on-cash yield.

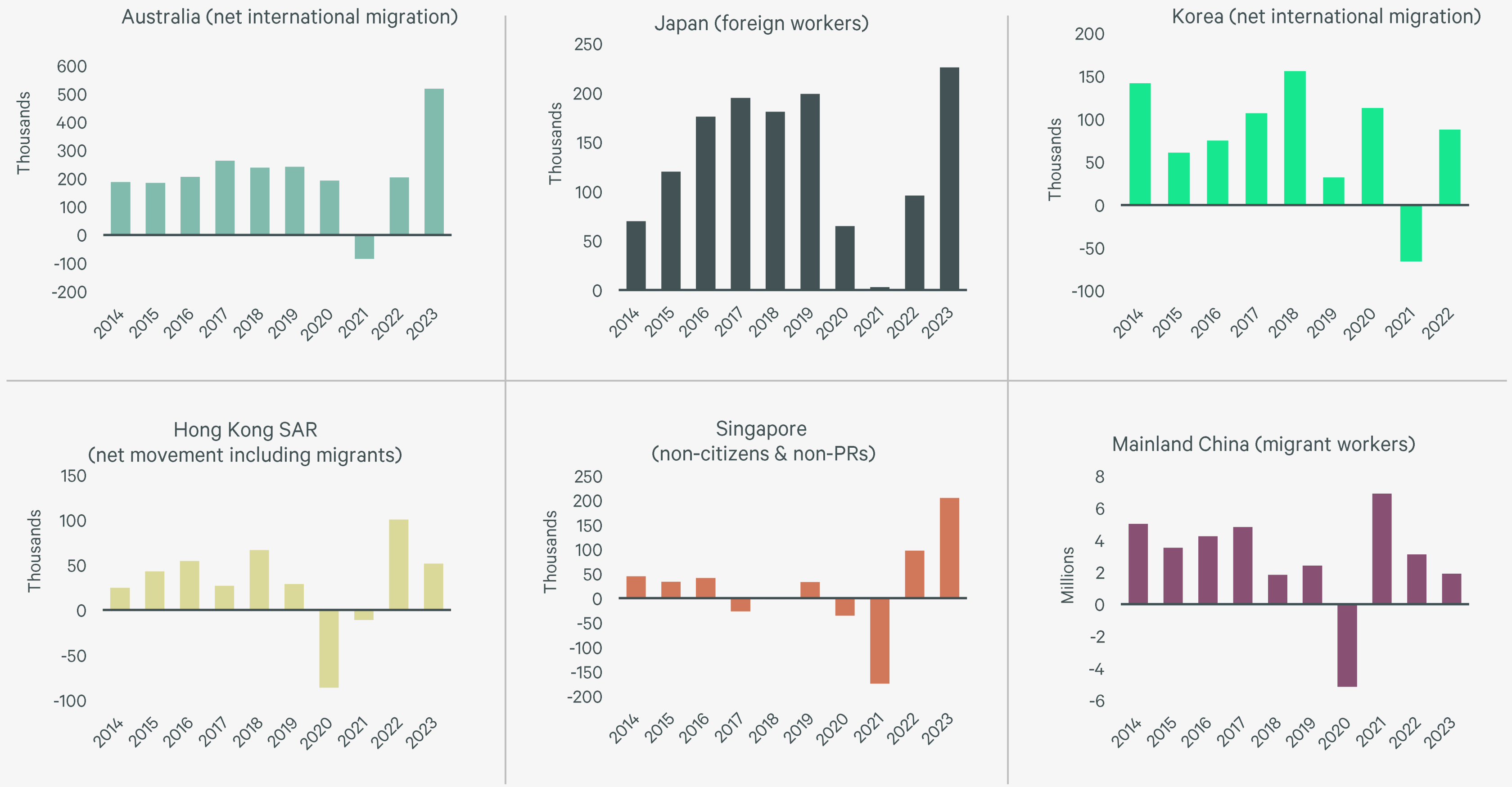
– Structural

- Living sub-sectors continue to evolve across major cities in Asia Pacific, and now include **co-living, build to rent, build to sell and senior living.**
- Investors are advised to seek **co-living and Purpose-Built Student Accommodation (PBSA) assets** in markets with high levels of immigration, such as Australia, Singapore, and Hong Kong SAR.

The mobile population continues to trend upwards

- The mobile population is a key demand driver for rental housing in many major Asia Pacific markets. This term includes the expat population in markets such as Singapore and domestic migrant workers in mainland China.
- Except for during the peak pandemic years of 2020 and 2021, the size of Asia Pacific's mobile population has generally trended upwards, with this demographic cohort forming a key pillar of economic growth in these economies. The increase in this population group has helped spur demand for rental accommodation across the region.
- In Japan, where a higher proportion of the total population prefer to rent rather than buy housing, demographic changes within the domestic population are playing a key role as a major driver of rental housing demand.

Figure 14: Change in foreign/migrant population



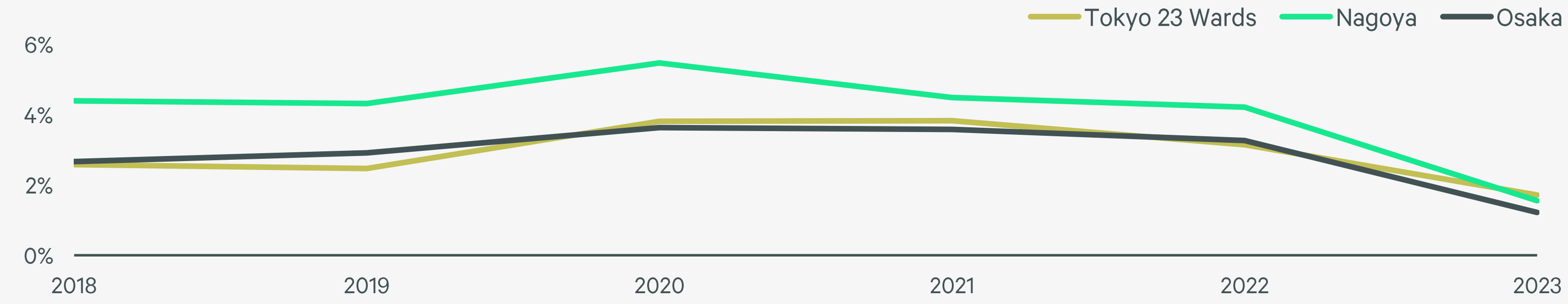
Source: Australian Bureau of Statistics, Japan Ministry of Health, Labour and Welfare, Statistics Korea, Hong Kong Census and Statistics Department, Singapore Department of Statistics, China National Bureau of Statistics, CBRE Research, May 2024.
Note: Figures for Australia net international migration pertain to the 12-month period up to June of each year. Data for 2023 not yet available for South Korea.

Vacancy falls in both Japan and Australia as supply concerns mount

- Association for Real Estate Securitization (ARES Japan) data show that vacancy rates for residential properties in major cities in Japan have stood at around or below 5% for the past several years. Although vacancy increased during the pandemic, particularly in central areas of Tokyo, it has since fallen back to below pre-pandemic levels. This trend mirrors the migration of the population observed during the same period, with the 23 wards of Tokyo reporting net out-migration in 2021 followed by a return to net in-migration in 2022.

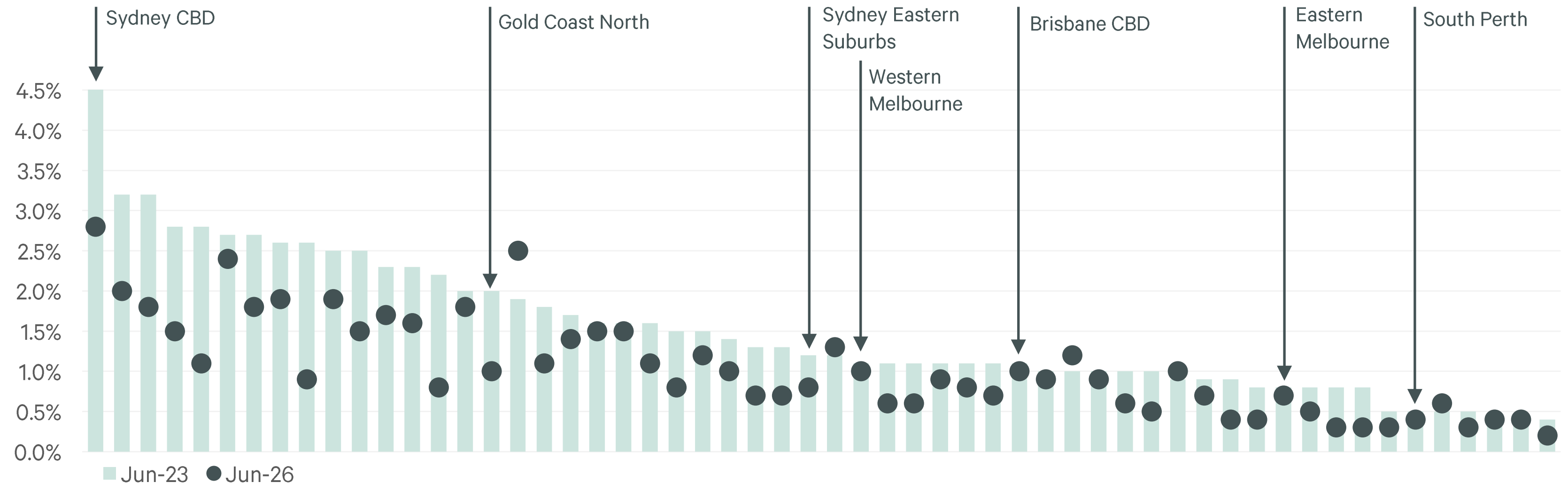
- In Australia, while the overall pipeline of new residential supply is forecasted to pick up somewhat over the coming years, overall supply is expected to remain at around its lowest level since 2014. The limited supply of new residential completions will see market vacancy continue to tighten further across Australia over the next few years, with many submarkets expected to see the vacancy rate dip below 1% by 2026.

Figure 15: Residential vacancy in key markets (%) – Japan



Source: Ministry of Land Infrastructure Transport and Tourism, Macrobond, ARES, Tokyo Kantei, CBRE Research, December 2023.
Note: rent index refer to condominium, NLA > 30m²,

Figure 16: Residential vacancy outlook (%) – Australia sub-markets

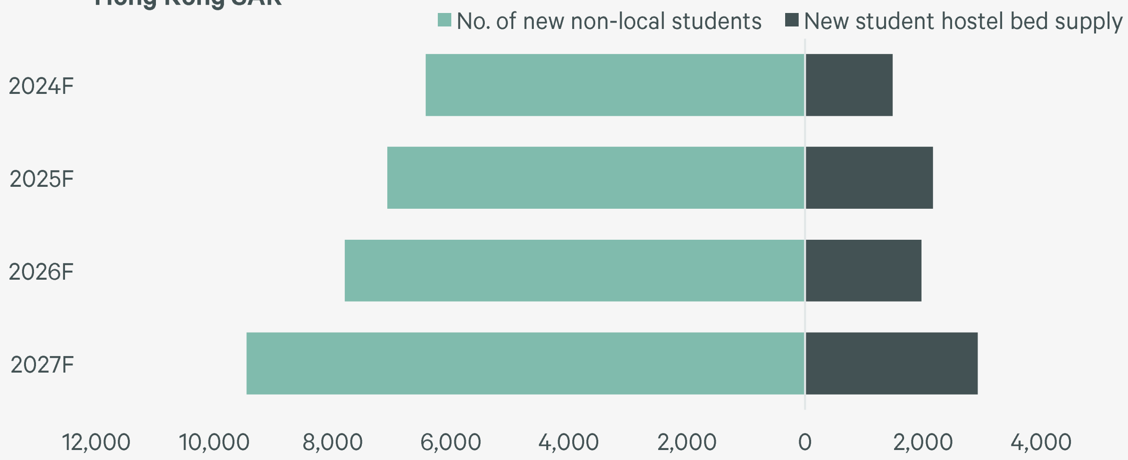


Source: ABS, Cordell's, HIA, SQM, CBRE Research, May 2024.

New student bed supply will be insufficient to offset the influx of international students in Hong Kong SAR and Australia

- In Hong Kong SAR, the supply of new student beds in the 10 student hostels due to be completed from 2024 to 2027 is projected to reach around 8,500. However, the number of new non-local students expected to enrol in the city's higher education institutions during the same period is about 30,700. This would leave a shortage of around 22,000 beds that the 10 new student hostels would not be able to meet by 2027.
- The shortage of student accommodation is also a challenge in Australia. PBSA occupancy is expected to stay high for the foreseeable future, given that the ratio of the number of student accommodation beds to the number of international students remains low. While the supply of student beds has grown in recent years, it remains well below that of Australia's global peers.

Figure 17: Forecasted non-local student demand vs. forecasted student hostel bed supply – Hong Kong SAR



Deficit of supply (beds)
-4,935
-4,907
-5,821
-6,350

Source: Concourse for Self-financing Post-Secondary Education, University Grants Committee, LegCo Document, Websites of the respective universities, CBRE Research July 2024.

Figure 18: No. of undergraduate students vs. available student accommodation beds – Global markets

Market	No. Undergraduate Students	Available student accommodation beds	International student ratio (%)	Penetration rate (beds / students)
Australia	1.6m	102k	31%	**6%**
United Kingdom	1.65m	750k	22%	**45%**
U.S.A	20m	5.8m	5%	**29%**
Germany	2.9m	240k	15%	**8%**
France	2.5m	190k	15%	**8%**

Source: CBRE Research, Q2 2024.

Hotels

– Cyclical

- **Daily rates remain elevated** due to sustained demand, limited new supply and increases in labour and utility costs.
- Investors prefer **vacant possession** at time of transaction to ensure **greater flexibility in development/operator selection.**

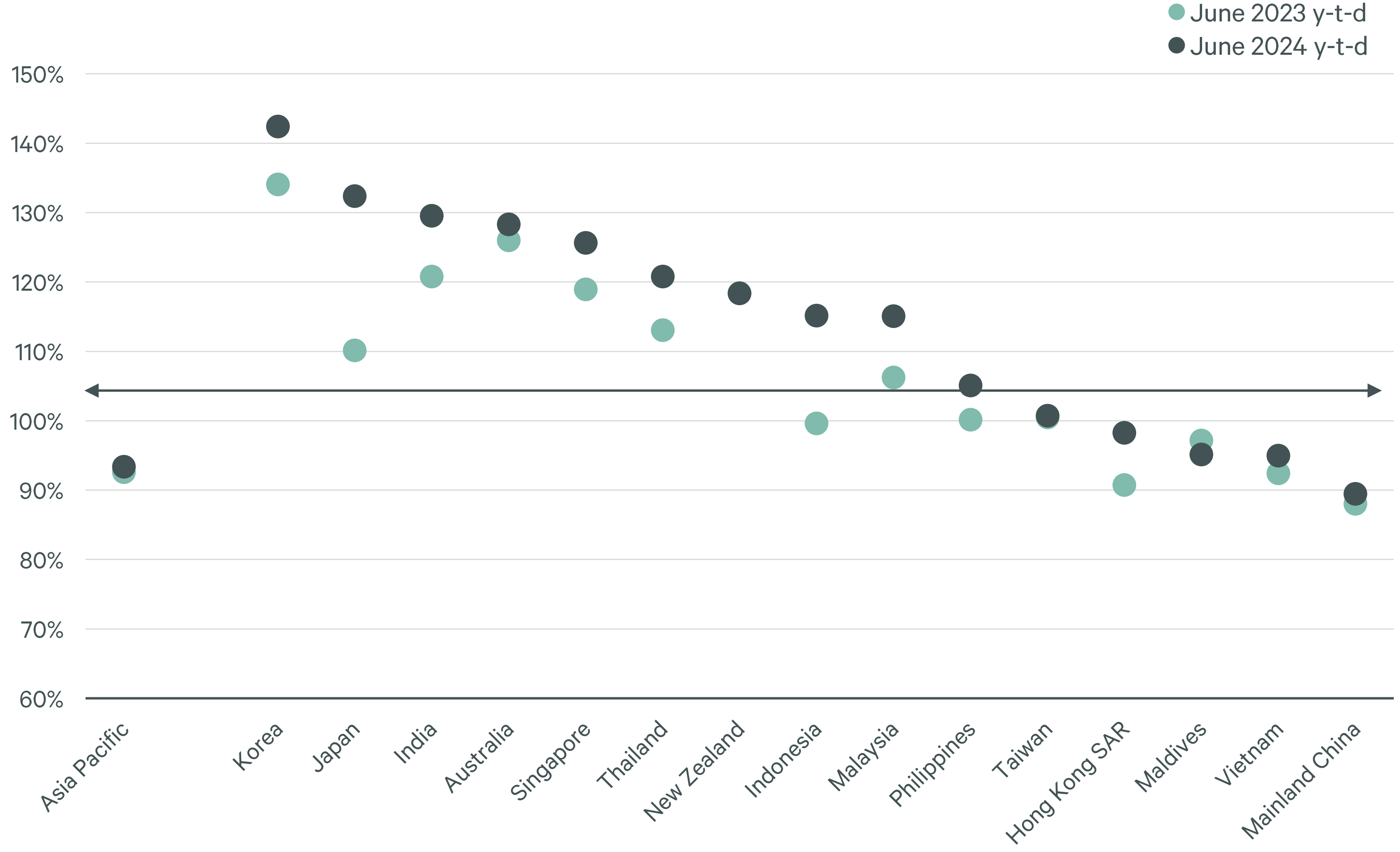
– Structural

- **Strong loyalty programmes** are becoming a more important determinant of hotel performance, driving both occupancy and outpacing overall revenue growth

Hotel daily rates (ADRs) remain buoyant, driven by sustained demand, limited supply and the need to offset operational costs

- After enjoying demand driven growth in 2022 and 2023 as borders re-opened, Hotel ADR growth in Asia Pacific n 2024 has been spurred by enduring demand, limited supply growth and hotel owners' need to offset rising operational costs alongside operators' preference to drive ADR to mitigate inflation.
- Demand-based pricing has allowed operators to use ADR to combat rising inflation across the region, with the ability to change rates enabling hotel owners to respond more swiftly to counteract the increase in underlying operating costs and to counteract inflation.
- Expectations are that whilst ADRs should generally remain at the current levels in most markets, occupancy growth in well-managed assets should drive revenue growth. Operators will look to boost rates in instances where labour and maintenance costs are not being fully absorbed by greater occupancy levels.

Figure 19: Average Daily Rates (ADRs)– Asia Pacific (% change vs June 2019 y-t-d)

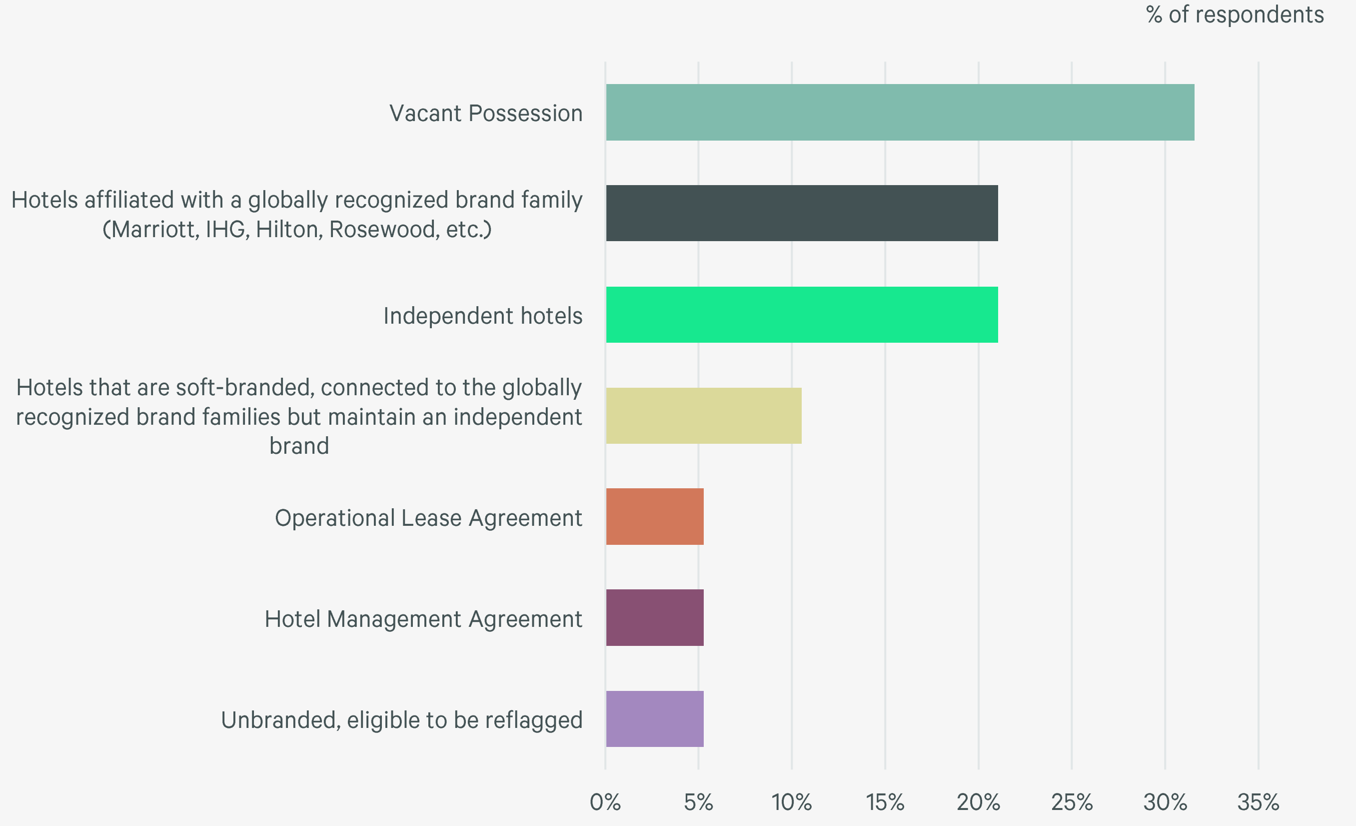


Source: STR, CBRE Research, June 2024.

Investors seek vacant and full-service hotel assets at time of acquisition

- While an increasing number of international brands are entering the Asia Pacific hotels market, investors are expressing a preference for vacant possession at the time of acquisition. Although yields for vacant possession hotels are typically tighter, investors prefer to have flexibility of operator selection while conducting refurbishment works.
- For hotels with global brand management agreements, investors are citing both stable income performance and low exit risks as attractive features. As institutional investors look to increase their footprint within the hotel sector, the long lease structure typically seen with global hotel brand agreements is an attractive prospect for these investor types.
- With investors showing a greater interest for residential assets in 2024[1]; opportunities for hotel operators to expand their branded residence capability within the region is increasing. Investors in Japan, Australia and Korea - all markets with strong residential demand - will be the primary focus for branded residences, alongside the growing co-living sector.

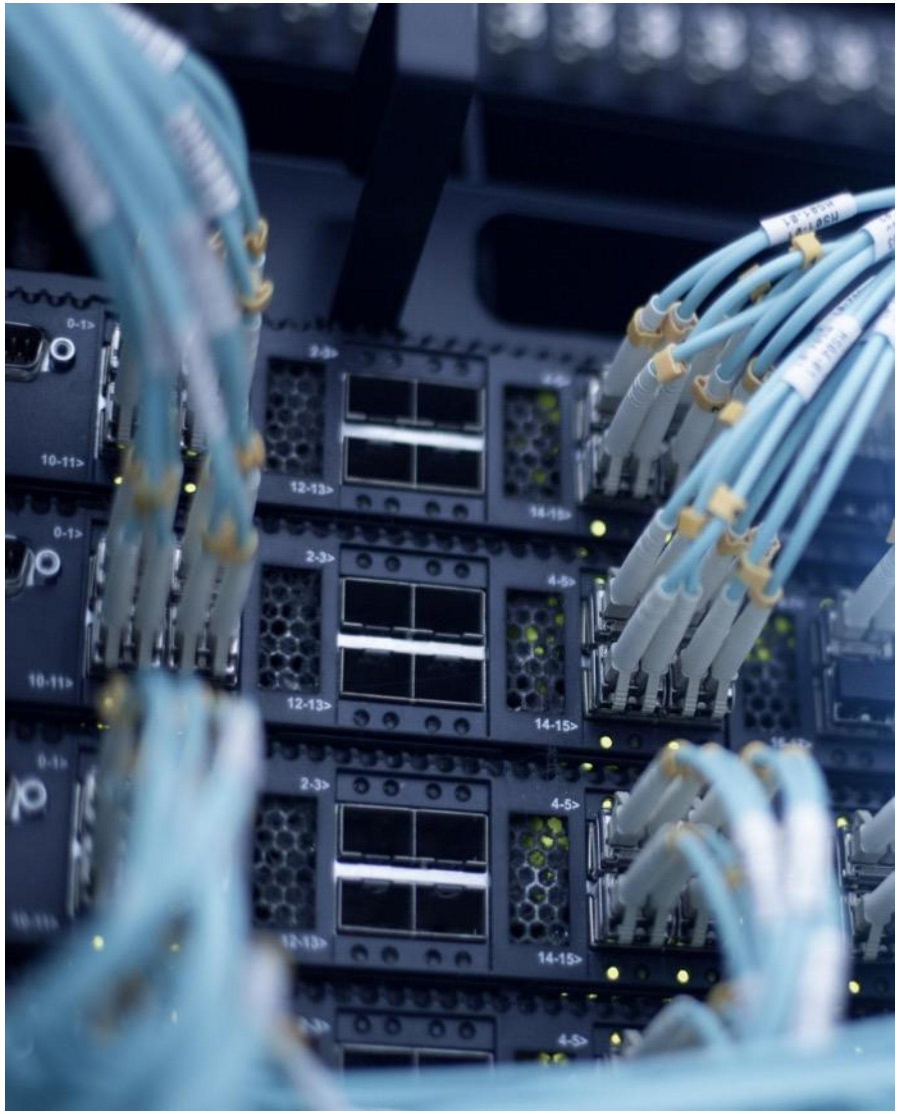
Figure 20: Preferred hotel operational agreement at acquisition



Source: 2024 Global Hotels Investor Intentions Survey, CBRE Research, March 2024.

[1] CBRE's June 2024 Asia Pacific Investor Intentions Survey

Credit Strategies / Data Centres



– Cyclical – Credit Strategies

- **Bridge Loan and Development Finance:** There are still opportunities for private credit, particularly in markets with a greater funding gap, such as Australia and Korea.
- **Distressed loans /NPLs:** Given the greater funding gap and weaker fundamentals in offices and residential projects in mainland China, opportunistic investors and private credit funds are looking at significant discounts. Previously, there were signs of distressed opportunities in Hong Kong SAR, particularly for residential and office properties that were purchased in 2017 and 2018.

– Structural – Data Centres

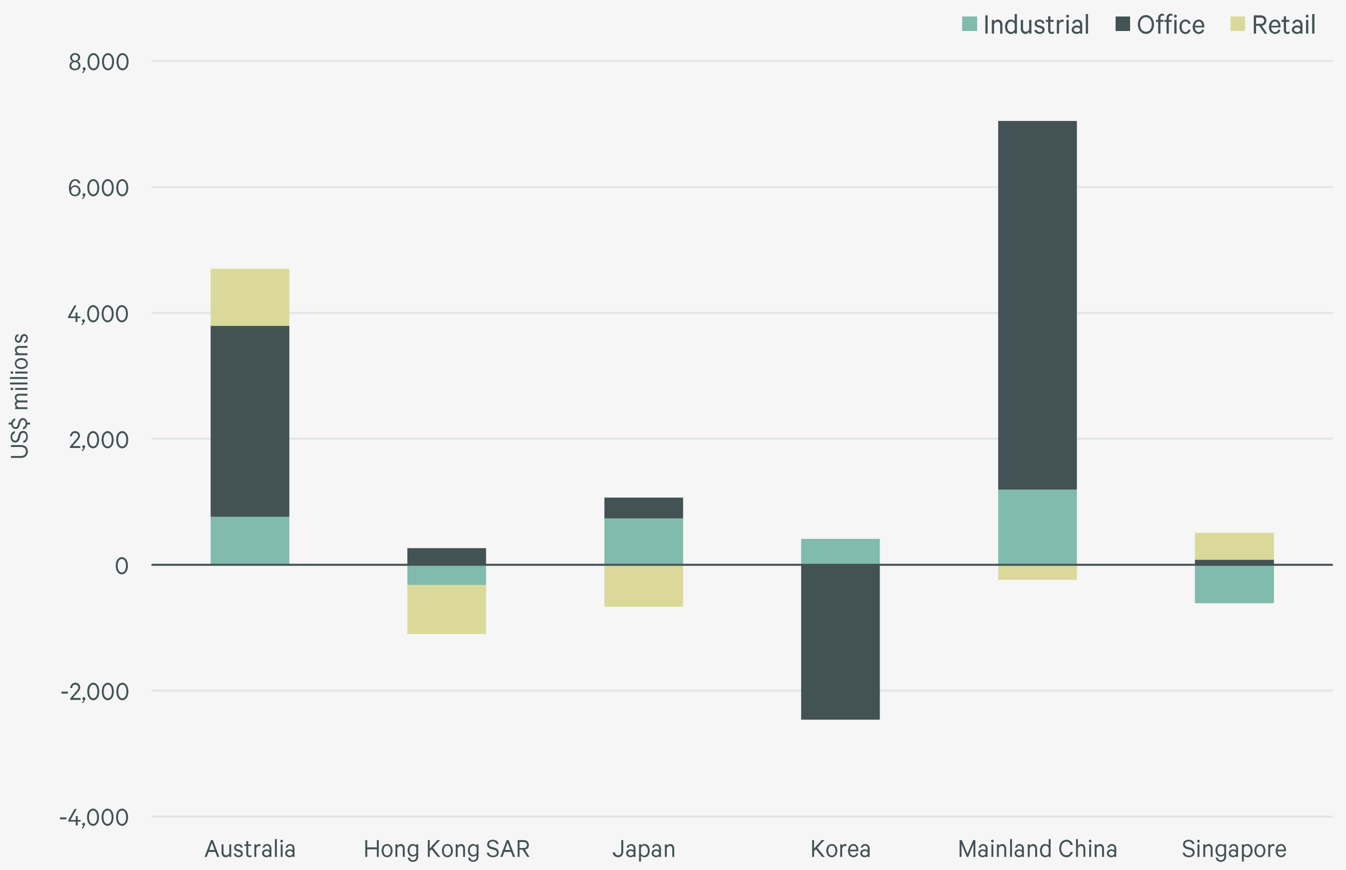
- **Data centre power availability** will remain a top challenge, driven by significant gains in AI usage globally.
- **Hyperscale data centre demand is set to remain strong**, with this category growing in established markets such as Japan and continuing to extend its footprint in emerging Southeast Asian markets.

Funding gap pressures rise as repricing beings to materialise

- With some markets now pricing in further cap rate decompression over the next 18 months, and expectations that yield compression will not materialise until 2026, funding gap pressures have become greater over the past 24 months within Asia Pacific.
- The office sector is most exposed to the debt funding gap in Asia Pacific, with CBRE forecasting a gap of US$9.6 billion over the next three years. The funding gap will be largely concentrated in the office sector in Australia, where repricing has been most significant during the current cycle; and mainland China, where investors have downgraded the outlook for both yields and rents following a period of diminished occupier and investment activity.
- Although the relaxation of LTV ratios has prevented the emergence of a funding gap for offices in Hong Kong SAR, CBRE believes this asset class will continue to face challenges around refinancing discussions. Few offices have been transacted at significant discounts so far in 2024.
- While commercial real estate distress in Asia Pacific remains relatively under control, CBRE recommends investors look to deploy credit solutions in Australia, mainland China and Hong Kong SAR, where there may still be opportunities to enter the market with relatively attractive return profiles.

Note: CBRE uses two components to calculate the funding gap: 1) the change in capital values between the origination of the loan and the refinancing, and 2) the change in LTV ratio available at the time of origination and refinancing. These are both applied to the total investment volumes in each sector/market to determine the overall funding gap.

Figure 21: Funding gap – By market and sector (Asia Pacific, US$bn)



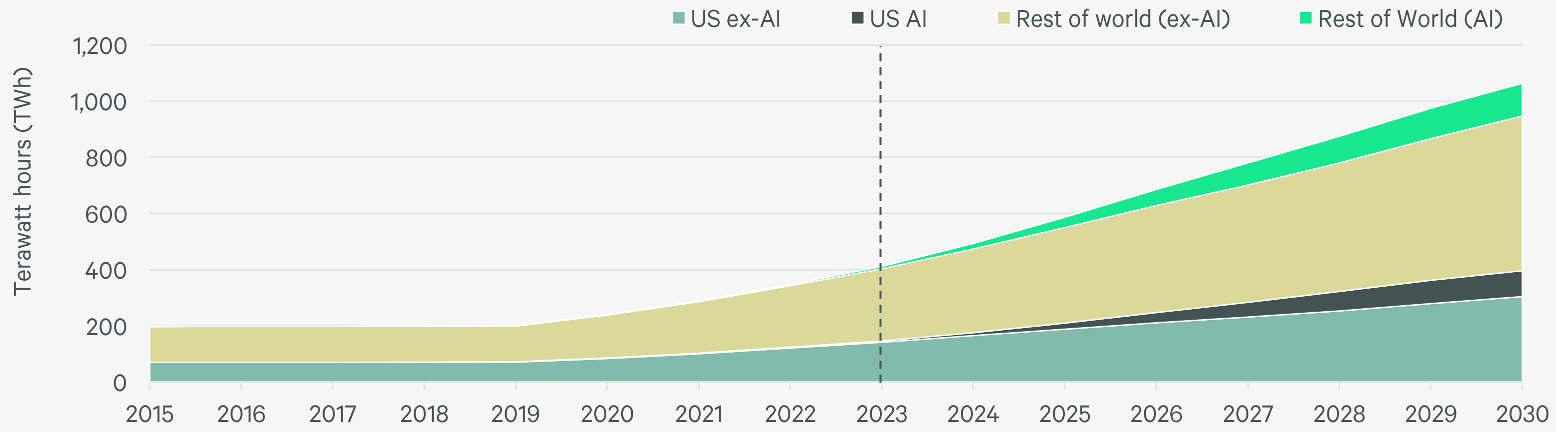
Source: CBRE Research, Q2 2024.

Data centre power demand will rise significantly for the rest of the decade

- Investors are cognisant of the pressures data centres are exerting on power supply. In some markets, particularly Korea, where several deals were recently cancelled after residents' protests forced local authorities to rule against development permit applications, it has become a political and governance issue.
- Demand for power for data centres is set to continue to rise. According to a Goldman Sachs report published in May 2024[1], AI is set to drive a 160% increase in data centre power demand between 2023 – 2030. Data centres currently use ~1% - 2% of the worlds power, but the report estimates this will increase to just under 4% globally by the end of the decade.
- Hyperscalers are responding by expanding aggressively worldwide. Synergy Research forecasts hyperscale providers to double their capacity over the next four years.
- In terms of development opportunities, emerging markets such as Indonesia, Malaysia, Thailand, and India are more attractive, with many investors now seeking to buy land and form joint ventures in the markets. Investors with a preference for established assets should focus on Japan, where the number of investable assets is gradually on the rise.

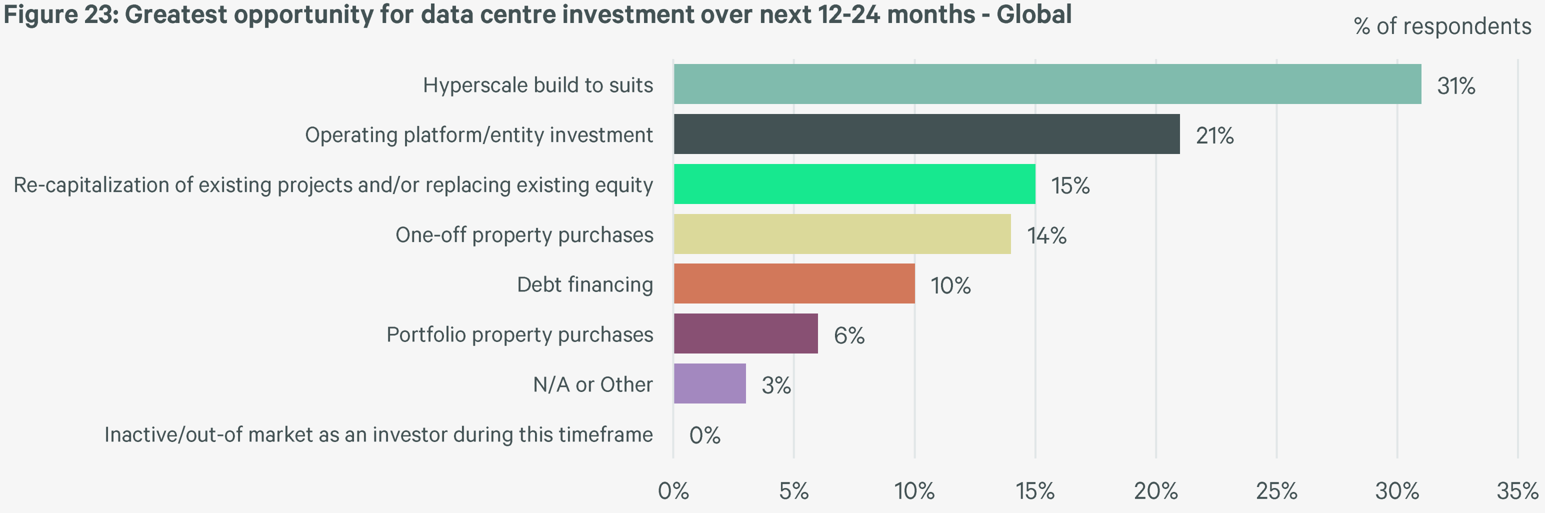
[1] AI is poised to drive 160% increase in data center power demand - Goldman Sachs

Figure 22: Data centre power demand estimate - Global



Source: Cisco, IEA, Goldman Sachs, CBRE Research July 2024

Figure 23: Greatest opportunity for data centre investment over next 12-24 months - Global



Source: CBRE Global Data Centre 2024 Investor Sentiment Survey, June 2024

04

Conclusion

2024 Investment Strategies

Mainland China

Opportunities (core & core-plus/opportunistic):

- Debt: NPL/potential distress
- Residential (multifamily)
- Logistics Park (South China & Greater Shanghai)
- Retail (core & core-plus)

India

Opportunities (value-added/opportunistic):

- Offices and Business parks
- Organised Retail
- Logistics

Other Southeast Asia

Opportunities (value-added/opportunistic):

- Build to Core logistics
- Hotel

Singapore

Opportunities (core-plus to value-added):

- Neighbourhood retail
- Logistics
- Hotel
- Core location office

Japan

Opportunities (core to value-added):

- Residential (multifamily)
- Tourist related strategy (hotel/retail)
- Core location office (value-added)

Korea

Opportunities (core / opportunistic):

- Office
- Logistics
- Debt strategy

Hong Kong SAR

Opportunities (opportunistic):

- Debt: NPL/potential distress
- Living sector (students, new migrants)

Australia

Opportunities (core to opportunistic):

- Sydney prime offices
- Retail (regional malls)
- Build to Core logistics
- Living Sector (i.e. BTS and PBSA)
- Hotel
- Debt: Development/bridge loan

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