

ASIA PACIFIC INVESTMENT TRENDS Q3 2024 | Intelligent Investment

Investment activity increases as Federal Reserve rate cuts materialise



Key Trends

- Offices, residential and hotels have accounted for the bulk of investment activity in Japan so far in 2024. Domestic capital continues to dominate, with corporates looking to buy assets to lease out to generate extra income and improve balance sheets. Firms are also keen to explore headquarters sales and sale leasebacks. J-REITs have been quiet.
- Purchasing activity in Australia has picked up from last year's low base but most investors remain on the sidelines. The interest rate outlook has improved, with the market pricing in five cuts by the end of 2025. While some vendors may delay sales in anticipation of higher returns, lower rates will have an impact on the cost of debt and should stimulate more buying interest.
- In Hong Kong SAR, investment volume saw an increase q-o-q in Q3 2024, albeit off a low base. Local buyers such as family offices and high-net-worth individuals are the key purchaser group at present but are tending to focus on smaller lump sum acquisitions. Full-year investment volume is expected to be on par with 2023's HKD 40 billion but achieving this total rests upon the completion of a few large deals currently under negotiation.

Japan

Domestic capital continues to dominate; overseas buyers target offices, residential and hotels

State of the market

- Corporates are looking to buy assets to lease out to generate extra income and improve balance sheets. Firms are also keen to explore headquarters sales and sale leasebacks.
- J-REITs have been quiet aside from some recycling involving the sale of previously core assets and purchasing from sponsors. Some J-REITs are re-weighting away from offices to residential.

Transaction activity

- Offices, residential and hotels have accounted for the bulk of investment activity in 2024.
- While retail continues to attract strong demand, deals are limited as assets remain tightly held. Some buyers are looking at value-add plays involving the acquisition of units in prime locations with upcoming lease expiries which offer prospects for rental hikes.
- Multifamily demand remains strong but most buyers are targeting individual properties rather than portfolios. Interest is focused on Greater Tokyo and Greater Osaka.

Emerging trends

- Despite recent interest rate hikes being only minor, they have slightly changed the paradigm around investing in Japan as further increases are expected at a time when rates in other markets have entered the downward cycle.
- Rising rental growth, particularly in the residential sector, is anticipated to counterbalance any potential softening in cap rates due to slightly higher borrowing costs.

Outlook

- Japan will continue to offer myriad attractive opportunities, especially in the office, residential, hotel sectors. More opportunities for data centre investment will arise.
- Investors are recommended to focus on sectors offering rental growth and opportunities where they can actively manage assets to offset any softening of cap rates that may occur.

SIX-MONTH OUTLOOK



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Australia

Purchasing activity picks up from last year's low base but most investors await interest rate cuts

State of the market

- The interest rate outlook has improved, with the market pricing in five cuts by the end of 2025. While some vendors may delay sales in anticipation of higher returns, lower rates will have an impact on the cost of debt and should stimulate more buying interest.
- Improved REIT performance may lessen their pressure to sell, with secondary rather than quality assets likely to be offloaded.
- Some property funds are under increasing pressure to sell ahead of the upcoming redemption window in 2026.

Transaction activity

- Office activity has been led by Sydney, with Mirvac's sale of a 66% stake in 55 Pitt Street the headline transaction. Brisbane also saw some office deals conclude mid-year.
- Other recent activity includes the sale of whole or portions of logistics portfolios. Most deals in the retail sector have been focused on Western Australia.

Emerging trends

- Aside from super premium projects catering to the best tenants, new office developments are still unable to stack up due to the high cost of construction and debt. The situation for retail is similar but logistics projects continue to get underway.
- Debt pressure has weakened slightly and there remain very few examples of forced selling. Syndicates are the exception, but their exposure is largely confined to the secondary market.

Outlook

- Buyer sentiment will improve in 2025 along with interest rate cuts. Domestic super funds could emerge as purchasers as their property weightings are light compared to previous historical averages.
- Recommended office markets include Brisbane and Sydney. For retail, shopping centres located in inner regional areas around 10 – 20 km. from city centres are a sweet spot. Other opportunities include logistics in inner ring areas and build to sell residential.

SIX-MONTH OUTLOOK



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Hong Kong SAR

Investment volume picks up on the back of mainland China and Singaporean inbound investment

State of the market

- Local buyers such as family offices and high-net-worth individuals are the key purchaser group at present but are tending to focus on smaller lump sum acquisitions.
- In most cases, mainland Chinese buyers are targeting smaller ticket sizes of around USD 20 – 30 million rather than the previous USD 100 - 500 million price range.
- The central government's latest stimulus package to support the real estate market is unlikely to trickle down to Hong Kong SAR as it remains challenging to transfer money out of the mainland.

Transaction activity

- Of the big transactions completed of late, the bulk have been direct deals involving developers and real estate companies.
- The asset class that is outperforming from an investor perspective is Purpose Built Student Accommodation (PBSA). While investors continue to seek hotels and residential buildings for conversion, oversupply could become an issue in a few years.

Emerging trends

- The recent relaxation of LTVs for commercial real estate acquisitions has failed to boost investment activity because banks retain a very cautious attitude towards lending. Landlords now have less incentive to divest if refinancing becomes an issue.
- While levels of distress remain high, acquisition opportunities for these assets remain limited overall and are mainly confined to the office sector.

Outlook

- Property owners looking to dispose of assets are recommended to increase fees to attract and motivate agents to expedite sales.
- Full-year investment volume is expected to be on par with 2023's HKD 40 billion but achieving this total rests upon the completion of a few large deals currently under negotiation.

SIX-MONTH OUTLOOK



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