

Investment activity remains solid but concerns rise over geopolitical volatility



Key Trends

- Following a strong 2025, investment activity in **Korea** enjoyed a solid Q1 2026, driven by renewed domestic and foreign investment demand. The re-capitalisation of domestic investment managers through large blind fund allocations from Korean institutional LPs has injected renewed liquidity into the market, particularly for office and logistics assets. While there is concern over a potential uptick in office supply at the back end of the decade, investment volume should be unaffected in the short term.
- In **Australia**, inflationary pressure pushed up interest rates in early 2026, weighing on investment sentiment. While investment volume will be strong in Q1 2026, purchasing activity over the coming quarters will be negatively impacted. International capital will be the primary source of demand, with investors from abroad holding a medium-term view that now is the opportune moment to access quality Australian assets at repriced levels.
- Investment sentiment in **Hong Kong SAR** has improved modestly in recent months, particularly for living assets and PBSA conversions. Investment volume is forecasted to grow 5–10% y-o-y in 2026, with the market currently tracking toward the upper end of the range. Activity in the residential development site segment is expected to be brisk as developer confidence spills over into broader investment activity.

“ While investment sentiment was strong at the beginning of 2026, the impact of the Middle East conflict on commercial real estate has seen some investors take a more cautious stance given the impact on energy prices, inflation and interest rate movements.

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Greg Hyland

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Korea

Domestic capital drives office investment activity; competition for logistics assets remains strong

STATE OF THE MARKET

- Following 2025's record high investment volume, activity has been brisk in the opening months of the year. Investment volume has been driven primarily by several large domestic strategic investors acquiring office assets for owner-occupation.

TRANSACTION ACTIVITY

- While offices remain the most transacted sector, the market is polarised, with only Grade A and prime-grade assets in core locations attracting competitive bids. However, a potential supply increase at the back end of the decade may limit investment opportunities in the medium term.
- Investors hold the most positive outlook toward logistics, with both domestic and foreign capital competing for prime assets.
- Hotel investment is set to increase in 2026, driven by the strong performance of Seoul's three- to four-star business hotel segment.
- Data centre investment remains nascent but is generating interest.

EMERGING TRENDS

- The re-capitalisation of domestic investment managers through large blind fund allocations from Korean institutional LPs is injecting liquidity into the market. Two years ago, global investors had a relatively clear run at Korean core assets; today, well-funded domestic managers are outbidding foreign competitors for prime offices and, increasingly, for logistics.

OUTLOOK

- Investment volume in 2026 is expected to moderate from last year's record but remain above the five-year average, supported by strong domestic liquidity and continued foreign interest.
- Buyer competition will intensify in the coming months, particularly for prime offices and logistics, as NPS-backed blind funds deploy recently allocated capital.
- Key risks include oil-price-driven inflation triggering inflation increases. The potential for construction cost inflation to stall CBD development, while supportive of existing asset values, would limit future investment-grade stock.

SIX-MONTH OUTLOOK



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Interest rate hikes see investors turn from cautiously optimistic to wait-and-see mode

STATE OF THE MARKET

- Inflationary pressures arising from the Middle East conflict prompted the RBA to increase interest rates twice in Q1 2026 by 50bps to 4.10%.
- Transaction data for Q1 2026 will still reflect the positive momentum of late 2025, with major trades that were in due diligence or post-exchange continuing to close, with no reported deal collapses. However, forward-looking indicators suggest longer transaction timeframes and pricing pressure as funding costs rise.

TRANSACTION ACTIVITY

- Office investment was building strong recovery momentum heading into 2026, with Sydney in particular seeing competitive and intense bidding for what remains a constrained supply of investable stock.
- Retail remains the best-performing sector, with strong operational fundamentals, pure income profiles (no incentives), and healthy yields that provide better insulation against rising debt costs.
- Purpose-Built Student Accommodation (PBSA) remains the dominant living-sector asset class, with five to six times more stock than Build-to-Rent (BTR). However, ultra-tight cap rates in PBSA and BTR (approximately 4.1% for BTR) are creating significant negative carry.

EMERGING TRENDS

- Australian-based investors and developers are more subdued than their offshore counterparts, driven by proximity to domestic policy concerns, fuel supply disruptions, and productivity challenges.
- Construction cost inflation of 10–12% following the escalation in the Middle East is creating a structural supply brake across logistics and apartments. This will support existing asset valuations and rental growth but limit new investment-grade product coming to market.

OUTLOOK

- Investment is expected to slow from Q2 2026 as repricing takes effect and some sellers withdraw to reassess. Cap rates are expected to expand across most sectors and cities, with Sydney more insulated than Brisbane, Melbourne, Perth, and Adelaide.
- International capital will be the primary source of capital as investors look through the volatility to view now as the opportune moment to access quality assets with prospects for income outperformance.

SIX-MONTH OUTLOOK



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Market sentiment improves modestly as HIBOR falls; living sector underpins investment activity

STATE OF THE MARKET

- Market sentiment is gradually improving, underpinned by a surge in student accommodation conversions and a rekindling of residential development confidence.
- While the HIBOR has been declining amid Middle East-related capital repatriation flows, the impact on real estate lending remains muted as major banks clean up distressed loan books.

TRANSACTION ACTIVITY

- Student accommodation conversions have been prominent in recent months, with some 20 hotel/residential blocks acquired for conversion in FY2025 and a further seven transacted in early 2026. However, momentum is expected to decelerate due to a dwindling supply of suitably priced conversion candidates.
- Owner-occupier demand is the primary driver of office deals, with local corporates and seasoned Hong Kong companies acquiring strata floors at what they perceive to be cycle-bottom pricing.
- While some larger hotels that cannot be converted to student accommodation are attracting interest, a bid-ask spread persists.

EMERGING TRENDS

- The depletion of conversion-eligible assets is forcing operators and investors to broaden acquisition mandates beyond student apartments to co-living and potentially build-to-rent strategies.
- A structural shift is evident among global GPs, with on-the-ground teams seeing compelling value and keen to deploy aggressively. However, LP resistance to Greater China allocations, driven by geopolitical uncertainty, is constraining fund-level deployment.

OUTLOOK

- Investment volume is forecasted to grow 5–10% y-o-y in 2026, with the market currently tracking toward the upper end of that range.
- Activity for residential development sites should be brisk as developer confidence spills over into broader investment activity.
- Until major lenders clear distressed exposure and restore real estate loan book appetite, leveraged transactions will remain scarce and LTV ratios will stay compressed.

SIX-MONTH OUTLOOK



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