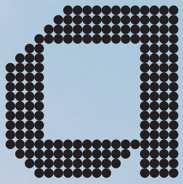

Asia-Pacific Real Estate Market Outlook

Q3 2022

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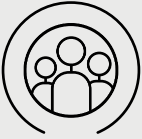
“The global economy is facing multiple headwinds, which in our new baseline end in recession.”

Executive summary



- The global economy is facing multiple headwinds, which in our new baseline end in recession. Our baseline envisages further sharp interest rate hikes and tighter financial conditions that will eventually cause a recession. A contraction in the world's largest economy will in turn have large negative implications for global growth, especially when combined with rapid tightening in a number of other economies. The outlook for monetary policy is complicated by a recession entering our forecast horizon. We expect further sharp rate rise between now and mid-2023 to a peak of 3.375% in the case of the Fed. As the recession becomes apparent in the data, we expect the start of a cutting cycle in 2024 and policy rates to return to around zero by the end of 2024.
- We have further cut our total return forecast for APAC real estate over the next three years, following the downgrade in our global economic outlook with a recession in the next 18 months now our base case. We think the upcoming downturn may play out differently, vs. the previous episodes. For one, unlike the previous downturns when the starting point was typically a more robust occupier market, the current market is just exiting a global pandemic with rents just off the recent bottom for many sectors. The upshot is that the correction in rents could be smaller in magnitude this time round, compared to previous downturns, especially in sectors where landlords are able to pass through higher costs because vacancy is tight and scheduled new supply is relatively limited.
- History suggests an opportunistic investment strategy may work better heading into a recession, compared to a value-add one. The opposite appears to be true when the market is coming out of a recession. Rising interest rates and more limited access to credit are also likely to benefit private real estate debt investment strategies. This is on top of market opportunities that are already being created as a result of tightening regulations on banks' commercial real estate lending. The appeal of a private real estate debt strategy to institutional investors could be further enhanced by connecting the lending to sustainability targets. Green financing for APAC's commercial real estate still has a lot of room for catch-up, compared to other regions such as North America.
- Relative investment performance will still be largely determined by occupier market fundamentals since most markets will be facing the same macro headwinds of slower growth and higher interest rates. Notwithstanding market concerns around slowing e-commerce growth, we remain positive on the outlook of industrial/logistics properties in most markets but especially in Australia. While the gap between cap rates and bond yields has mostly disappeared or turned negative, we expect faster-than-expected market rent growth to support valuation. We see similar dynamics at play in the Seoul and Singapore office markets where vacancy is low and scheduled new supply in the near term is relatively limited. Finally, we expect worsening housing affordability and greater flexibility to work from anywhere to support Build-to-Rent (BTR) demand.

Economic Outlook

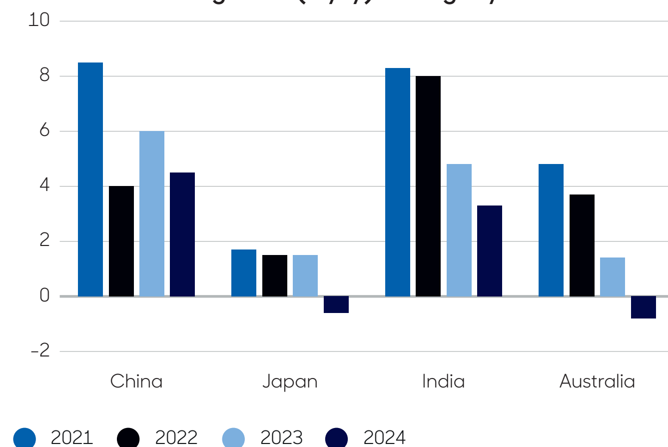
- **Global outlook: the Fed kills the cycle**
  The global economy is facing multiple headwinds, which in our new baseline end in recession. China is contracting as a result of its zero-Covid strategy but growth will rebound as the worst of the lockdowns ease. Russia is in a sharp recession as a result of Western sanctions, even if the depth is not as bad as first expected. In Europe, the energy price spike is driving a rapid terms of trade deterioration, squeezing real income and crimping consumption. The biggest challenge, however, lies in the US. The inflation overshoot likely requires a significant rise in unemployment to be brought under control. Our baseline envisages further sharp interest rate hikes and tighter financial conditions that will eventually cause a recession. A contraction in the world's largest economy will in turn have large negative implications for global growth, especially when combined with rapid tightening in a number of other economies. History suggests engineering a soft landing will be difficult and hiking cycles that do not lead to a recession are the exception, not the norm, in major DM economies. We expect the recession to resemble the business cycle downturns of the 1980's and 90's (vs. more recent experiences, such as the Covid shock or the GFC).
- **Monetary policies: new cutting cycle could start by end-2023**
  In terms of the global inflation outlook, we expect headline inflation rates to peak in Q2 and Q3 of 2022 in most countries and moderate as energy base effects drop out and supply chain disruptions slowly ease.

The risks are however skewed to the upside, if energy prices rise further or China's zero-Covid strategy means fresh disruptions at major ports and manufacturing hubs. The biggest concern is sticky core inflation generated by tight labour markets and other persistent supply constraints. In our base case, we expect tight policy and a recession that raises unemployment are needed to generate target-consistent inflation by end-2024. The outlook for monetary policy is complicated by a recession entering our forecast horizon. We expect further sharp rate rise between now and mid-2023 to a peak of 3.375% in the case of the Fed. As the recession becomes apparent in the data, we expect the start of a cutting cycle in 2024 and policy rates to return to around zero by the end of 2024, which is consistent with work showing lower bound episodes will be more frequent in the future. Needless to say, the Fed's tightening will not only cause a US recession but have negative implications for other markets too.

- **China: zero-Covid is still the main drag**
  We have cut their forecast of China's real GDP growth in 2022-24 to an average 4.5% (from 5.3% three months ago). China increasingly stands out in terms of its Covid strategy, doubling down on "Zero" and abandoning attempts to manage cases in a targeted manner. The Omicron shock – epitomised by the two-month Shanghai lockdown – will impose a large cost on economic activity in Q2, putting the government's growth target of c.5.5% in 2022 out of reach. This remains the case even after taking into account the notable rise in the June PMIs as lockdown restrictions were eased. Policy may be easing but it is difficult for it to gain traction while structural headwinds from Covid restrictions and property de-risking remain in place. Rising vaccinations for the over-60s should allow the authorities to usher in a gradual move towards endemic living, giving growth a boost in early 2023. However, China cannot avoid a drag from a US recession at end-2023, even if it is better placed than other countries. Meaningfully looser Chinese policy could offer some shelter from US headwinds for its closest trading partners but China is unlikely to bail out the global economy by launching a stimulus on the scale of its post-GFC package.
- **Japan: US recession spill-overs ahead**
  We cut our forecast of Japan's real GDP growth in 2022-24 to an average 0.8% (from 1.4% three months ago), with a contraction of 0.6% now projected in 2024. As domestic Covid restrictions ease and Shanghai reopens, two major headwinds to the Japanese economy look set to fade. However, Japan's reliance on trade leaves the economy vulnerable to US recession spill-overs later in our forecast horizon. Speculation over inflation and BOJ policy outlook is likely to intensify again in the coming months. Our baseline is for unchanged BOJ policy this year. The pandemic recovery has been sluggish and remains below pre-Covid trend while underlying inflation pressures remain stable and consumers tend to reduce spending in the face of rising prices. Recent comments from the Cabinet also suggest firm backing for the BOJ policy stance. The coming months will see much stronger inflation readings, especially as the economy reopens. However, as the US enters a recession at end-2023, we expect weaker domestic demand and commodity prices to push inflation back into deflationary territory. In the event that inflation remains elevated for longer, we think the BOJ could announce a widening or even abandoning of the band around the 10Y yield target of 0%.
- **Australia: a sharp hawkish turn to tackle inflation**
  Our forecast of Australia's real GDP growth in 2022-24 is cut to an average 1.4% (from 2.7% three months ago), with a contraction of 0.8% now projected in 2024. A large upside surprise to both the headline and core inflation during the first quarter finally spurred the RBA into action to raise rates. While wage growth is more subdued than in the US and the UK, the tight labour market suggests the RBA had fallen behind the curve. We now expect the cash rate to be above 2% by end-2022 (from 0.85% in June) and 2.75% by mid-2023 but would not rule out even more adjustments to bring inflation under control. Per the minutes of the June RBA meeting, the upswing in public and private sector investments was putting additional pressure on inflation and, while the housing market was rolling over in Sydney and Melbourne, growth in private rents remained strong and had yet been fully fed through to the CPI. In our base case, the Australian economy falls into a recession shortly after the US on account of both the effect of its own tightening as well as the negative spill-overs from the US tightening and the resulting global slowdown.

"Investors no longer see Covid as the major challenge but economic uncertainty and higher inflation are now top of mind."

Chart 1: Real GDP growth (%y-y) among key APAC markets



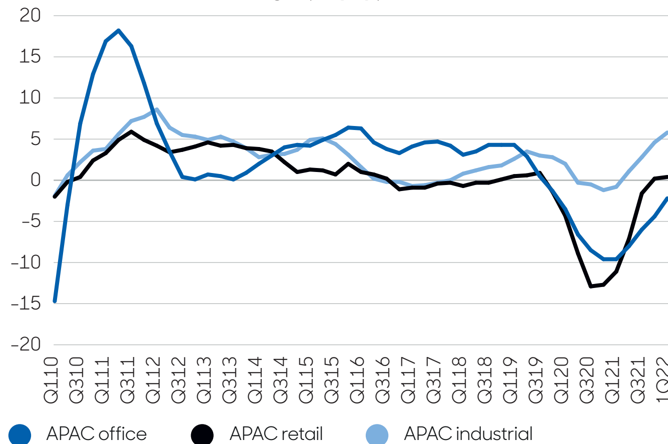
Source: abrdn Research Institute, June 2022.

Real estate occupier trends

- **APAC offices: tech firms still expanding footprint in Singapore**
  On average, office rents across the APAC markets we cover fell by 2.2%y-y in Q1 2022, marking the 10th straight quarter of y-y decline though the pace of contraction had slowed further from the 4.4% during the previous quarter. The average vacancy rate contracted further to 10.9% at the end of the quarter (from 11.2%) – the lowest since Q3 2020. Singapore overtook Seoul to become APAC's best performing office occupier market in Q1, registering a y-y growth of 7.7% (from 4.8% in Q4), while Seoul recorded an average rent growth of 6% (from 7.2%) during the quarter. Tech firms remain keen to expand their office footprint in Singapore, with Amazon reportedly in talks to lease 350k sq ft of office space at IOI Central Boulevard Towers (c.30% of lettable area) which is scheduled for completion in Q3 2023. Meta, which now occupies 600k sq ft across two properties, is also said to be in talks to sign on at the building. In Seoul, The overall vacancy rate of offices contracted further during Q1 to 5.5% (from 8% in Q4) – the lowest since 3Q10. Office space is especially scarce in Gangnam where vacancy fell to just 0.4% in Q1.
- **APAC retail: tenants want pandemic relief clause in new leases**
  Prime retail rents in APAC registered the second consecutive quarter of y-y growth in Q1 at 0.4% (from 0.2% in Q4) even as the average vacancy rate inched up to 5.8% (from 5.7%) during the quarter. HK's prime retail segment was the principal contributor to the rise in vacancy in Q1, with the average vacancy rate at 5.4% at the end of the quarter (from 4%). Strict Covid restrictions introduced in Q1 had significantly hurt leasing sentiment in the territory. While the introduction of consumption vouchers and the easing of restrictions should support an improvement in Q2, the authorities' low tolerance for Covid cases (including strict border controls that are still in place) will continue to weigh on the sector's recovery. On the other hand, prime retail rents in Singapore were more or less flat y-y (-0.2%) in Q1 (from -3% in Q4), with vacancy static at 3.5%. Contrary to the experience in HK, the relaxation of Covid restrictions in Singapore had resulted in more leasing activity in Q1 though longer-term challenges remain. For one, tenants are now requesting the inclusion of clauses in new leases that will permit rental reductions or discounts in the event pandemic-related restrictions return.
- **APAC logistics: concerns around Amazon/e-commerce likely overblown**
  Logistics rent growth continues to accelerate in APAC, with the average y-y growth at 5.8% in Q1 (from 4.5% in Q4). Australian logistics properties remained the region's leader in rent growth during Q1 at 9.4%y-y (from 6.7% in Q4). Indeed, the faster-than-expected rent growth in Q1 has led to a significant upgrade in JLL's forecasts over the next three years. In Sydney, JLL now forecasts logistics rents to gain 6.1%p.a. (from 2.5%) over 2022-24. The other two markets that saw a significant upgrade in Q1 were Melbourne (+6.3%p.a., from 3%) and Adelaide (+5.2%p.a., from 1.2%). There have been some concerns around e-commerce operators' demand for logistics space, following Amazon's announcement in late-April that it will be scaling back new space acquisition. We think the concerns may be overblown, especially in the APAC context. For instance, Amazon's footprint in Australia is significantly smaller compared to its presence in North America. Vacancy remains extremely tight in several markets. This, together with construction bottlenecks that are holding back addition of new supply and other demand drivers such as inventory stockpiling, will likely ensure the outperformance of logistics' rental growth continues. Outside of Australia, prime logistics space in Singapore also registered robust rent growth in Q1 (+7%y-y, from 5.3%).
- **Tokyo multifamily: first y-y rent growth in four quarters**
  Tokyo's 23 wards recorded net out-migration of nearly 8k in 2021, which was the first full year of net population outflow since at least 2005. Consequently, the average multifamily rent within the 23 wards was more or less flat in 2021, compared to 2020 when it gained 4.9%, according to Tokyo Kantei's data. The weakness has been concentrated in the smaller apartments catering

to singles while larger apartments have fared better on account of lifestyle changes during the pandemic. Nippon Accommodations Fund (NAF), for instance, reported an average rental change of 0.8% for its portfolio at tenant turnover during the six-month period to February (from 2% during the previous six months) but the weakness was largely driven by smaller units (single: -4%) while larger apartments outperformed (family: +7.9%). There are however signs that the overall occupier market may have bottomed. The average rent in Tokyo registered a y-y growth of 0.3% in Q1, its first in four quarters. As well, the average vacancy rate of rental apartments held by REITs within the 23 wards appears to have peaked at c.4%. Indeed, residential J-REITs, such as NAF, have reported a pick-up in leasing demand during the traditionally busy Q1 in 2022, especially in March.

Chart 2: Net rental change (% y-y)



Source: Jones Lang LaSalle, abrdn, June 2022.

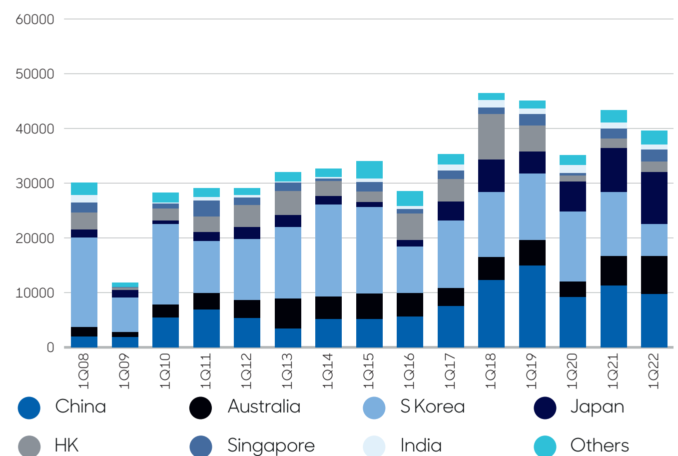
Investment Trends

- **APAC transaction values: slower y-y but still above-average in Q1…**
  The total value of commercial real estate investments (excluding development sites) across APAC in Q1 2022 was USD39.6bn, per the latest data from MSCI Real Capital Analytics (RCA; Chart 3). This represents a y-y decline of 8.6% but the transaction volume in Q1 was still 6.3% higher than the average Q1 volume in the past 10 years. Japan led the fall in transactions during the quarter, with just USD5.8bn (-50.5%y-y) worth of deals closed. In China, transaction volume in Q1 was also 13.6% lower than a year ago. There has been an increase in investors' interest in the Chinese Build-to-Rent (BTR) sector as more exit options become available (including the listing of affordable rental housing REITs and the sale of Cohost West Bund in Shanghai which is believed to be the first successful exit of such projects in China). Elsewhere in APAC, Australia and Korea saw a y-y increase in transaction volume of 28.8% and 17.9%, respectively, in Q1. One of the largest deals closed in Australia during the quarter was Blackstone's purchase of a 49% stake in Dexus Australia Logistics Trust for AUD2.1bn (USD1.5bn). In Korea, the KRW1.02trn (USD853mn) sale of Alpharium Towers 1 and 2 in Pangyo, Greater Seoul, was also completed in Q1.
- **… macro concerns will however weigh on activity going forward**
  Per the latest edition of CBRE's *Asia Pacific Cap Rate Survey* published in late-May, respondents no longer see Covid as the major challenge but economic uncertainty and higher inflation (as well as interest rates) are now top of investors' mind. This is a marked change from the last edition published six months ago when concerns over interest rate hikes and high inflation were "relatively limited". Compared to the last survey, cap rates across all sectors and markets have remained largely unchanged but there are clear indications that investment sentiment has become more cautious. Take for instance the logistics sector – in the survey six months ago, investors had expected 12 of the 18 markets in APAC to see further cap rate compression, compared to the latest edition where only seven markets (all in China and India) are now expected to see lower cap rates while one market (Auckland) could see higher cap rates. Sellers of logistics assets are reportedly less aggressive in asking for higher prices while fewer buyers are willing to bid higher. With investors taking a more cautious stance even on logistics properties (where occupier fundamentals are arguably the strongest), we expect investment activity in APAC to trend lower over the next few quarters.
- **Australian offices: faster capital value growth despite dimming occupier outlook**
  The average capital value of Prime Grade offices in Sydney jumped 6.3%q-q in Q1, which marked a sharp acceleration from the 1.2% gain in Q4 and the fastest sequential growth since 3Q17. Apart from Sydney, offices in Melbourne (+2.3%, from +0.3%), Brisbane (+1.3%, from +0.8%) and Canberra (+2.7%, from +0.8%) also registered a faster q-q growth in Q1. The robust growth in Australian offices' capital values in Q1 was even more remarkable given the sharp rise in bond yields during the same quarter. It appears offshore investors' interest in Australian offices remains solid notwithstanding the threat from remote working (physical occupancy still short

of pre-Covid levels despite easing of restrictions) and higher borrowing costs. Meanwhile, the occupier market outlook has deteriorated further – if JLL's latest forecast of net effective rents (NER) over the next three years is anything to go by. This is especially the case in Melbourne where JLL cut its office NER growth forecast over 2022-24 by 105bp to 3.3%p.a. (the forecast had already been cut by 149bp in Q4) even as capital values climbed 2.3%q-q in Q1. We expect the faster-than-expected rise in interest rates and a weaker-than-expected recovery in the occupier market to dampen investors' sentiment, especially for Secondary Grade offices.

- **Listed equity fund-raising: dearth of equity fund-raising activity in Q2**
  The average price-to-book (P/B) multiple of APAC REITs contracted further to 1.17x by end-June (from 1.22x at end-March), as bond yields continued to rise during the quarter with the US 10-year bond yield reaching a 11-year high of 3.47% in June. Consequently, the amount of equity fund raising announced in Q2 among REITs listed in Japan, Australia and Singapore shrunk to just USD133mn (from USD1.7bn in Q1, and USD965mn in Q2 2021), according to Bloomberg data. Japan's Heiwa Real Estate REIT raised JPY7.6bn (c.USD59mn) in new equity during the quarter to partially fund its asset replacement program. The REIT had earlier announced the acquisition of Shinsaibashi Front Building in Osaka's Chuo ward for JPY7.3bn (USD57mn) as well as the disposal of three apartment buildings in Tokyo for JPY4.5bn (USD35mn), according to a Nikkei report. The purchase price of the Osaka office asset implies an entry cap rate of 4.4%, per RCA, which would enhance the yield of the overall portfolio, considering the exit yield of the apartment buildings in Tokyo is likely lower. Osaka's office occupier market appears to have stabilised, with the overall CBD vacancy recovering to sub-5% in May, per Miki Shoji's data, and vacancy in the Shinsaibashi/ Namba submarket even lower at 4%.
- **Debt-funding: more equity upfront as yields surge**
  As at the end of June 2022, the option-adjusted spread (OAS) of the Bloomberg Barclays Asia USD Investment Grade (IG) Bond Index was more or less unchanged at 1.43% (from 1.42% at end-March) but the OAS of the High Yield (HY) index continued its hike to 12.63% (from 10.58% at end-March) – the highest level at a quarter's end since the beginning of the index in 2010. Following the Fed's 75bp hike in June – the largest increase since the early 90's (and how an accelerated pace of tightening through the rest of 2022 is now signalled), the longer-term yields across APAC have gapped up (with the exception of China and Japan). The surge in yields is led by Australia (10Y yield +31bp in June, vs. +23bp in May), Korea (10Y yield +31bp in June, vs. +11bp in May) and Singapore (10Y yield +27bp in June, vs. +18bp in May). The surge in interest rates is pushing investors to fund acquisitions with more equity upfront by bringing in more partners, with the longer term plan to refinance with debt when rates eventually subside. An example is the ongoing acquisition of Seoul IFC where the purchaser is assembling more equity investors given the sharply higher cost of debt.

Chart 3: Transaction values for investment properties in APAC (excluding development sites) USD million.



Source: Real Capital Analytics, abrdn, June 2022.

Performance and Risk Outlook

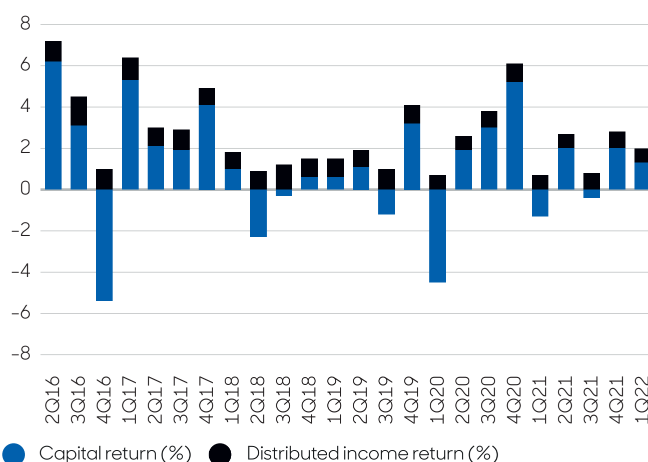
- **Non-listed real estate: pressure on capital returns to increase**
  The Asian Association for investors in Non-Listed Real Estate Vehicles (ANREV) published its quarterly index for APAC Open-ended Diversified Core Funds (ODCF) on 1 June, with the total number of funds unchanged at eight and the total gross asset value up 9.2% to USD21.4bn in Q1 (from USD19.6bn in Q4). On average, net total return in Q1 was 2.1%, compared to 2.8% in Q4 and -0.6% a year ago (Chart 4). In terms of capital growth, Q1 saw an average increase of 1.3% (vs. 2% in Q4 and -1.3% a year ago). On our estimates, allocation to HK and Korea increased during the quarter, led by the industrial/logistics sector, while allocation to Australia and Japan fell. The positive momentum in Investment demand for HK's industrial properties continued into 2022, with total transaction volume in the sector up nearly 10%y-y in Q1 (following the 215% surge

"History suggests an opportunistic investment strategy may work better heading into a recession, compared to a value-add one."

in 2021) per RCA's data. Notable deals in Q1 include Nuveen's Asia Pacific Cities Fund's HKD2.88bn (USD370mn) purchase of a data centre in Kwai Chung, HK. About 55% of total returns in the last five years has been driven by capital growth on our estimates and this is likely to come under increasing pressure as the uptrend in interest rates continues.

- **Listed real estate: Amazon weighed on industrial REITs' Q2 performance**
  Share prices of the major listed REITs in APAC extended their loss in Q2, registering an average decline of 8.3% (from -3.2% in Q1) in local currency terms. The worst performing subsector during the quarter was industrial (-13.8%, from -9.2% in Q1), followed by office (-7.2%, from flat) and retail (-5.7%, from +0.6%), while residential J-REITs (+5.5%, from -7%) and hospitality REITs (+1.6%, from +12.5%) outperformed. In addition to market concerns over rising interest rates, the news around Amazon "no longer chasing physical capacity" also weighed on the stock performance of industrial REITs (even though, as posited earlier, we think the concern is overdone in the APAC context). On the other hand, the easing of Covid restrictions in Japan and the return of net migrants into Tokyo helped to lift investors' sentiments towards residential J-REITs during the quarter. Besides a pick-up in leasing demand during the traditionally busy Q1, Tokyo registered a positive net migration of 720 in May, compared to negative net migration during the same month in 2020 and 2021. While the figure is still below the 4.5k in May 2019, it points to a potential recovery in Tokyo's population as people return to the city for job opportunities as reopening continues.
- **Non-listed real estate: coming downturn likely to play out differently**
  We cut our near-term total return forecast for APAC real estate over the next three years to 0.8%p.a. (from 3.6% previously), following the downgrade in our global economic outlook with a recession now entering into our forecast horizon. Looking back in history, the average peak-to-trough decline in capital values of APAC's commercial properties was 24% during the last six economic downturns since 1990. This may suggest our forecast is still quite optimistic. However, we think the upcoming downturn may play out differently, vs. the previous episodes. For one, unlike the previous downturns when the starting point was typically a more robust occupier market, the current market is just exiting a global pandemic with rents just off the recent bottom for many sectors. CBD Grade A office rents, for instance, were still registering an average 2.2%y-y decline in Q1, compared to the previous downturns when rents were already up 92% on average from the trough before the start of the correction. The upshot is that the correction in rents could be smaller in magnitude this time round, compared to previous downturns, especially in sectors where landlords are able to pass through higher costs to tenants because vacancy is tight and scheduled new supply is relatively limited.
- **Risks: recession is most likely but upside risks exist**
  Though a recession is now the single most likely scenario in our view, the balance of risks is actually skewed to the upside. For a start, there is still a narrow path to monetary policy tightening just enough to bring inflation under control but not so much as to generate widespread recessions. This scenario, however, requires a lot to go right. Another potential upside scenario is a supply side recovery, in which inflation moderates without further outsized tightening. A rundown of savings accumulated during the pandemic by households and businesses may also help to cushion the economy. More negatively, we continue to see risks of further energy price shocks, a potential spill-over from the imbalances in the Chinese property sector and a resurgence of Covid infections. Our bear case total return forecast for APAC commercial real estate over the next three years is -2.4%p.a., which would imply a correction in capital values that more closely resembles the experience during past downturns. Other real estate-specific risks include higher need for capital expenditure, especially in offices. Sustainability targets and higher wellness standards will hasten the obsolescence of assets. While investors understand the risks, many may hesitate to take timely action in the face of rising construction costs.

Chart 4: Composition of net total return (%) – APAC open-ended diversified core funds



Source: ANREV, abrdn, June 2022.

Investment Themes

- **Opportunistic strategies may work better heading into a recession**
  History suggests an opportunistic investment strategy may work better heading into a recession, compared to a value-add one. According to ANREV's IRR data for closed-end value-add and opportunistic funds by year of first closing, opportunistic strategies with their first closing in 2007-08 have generated a higher average IRR of 7% (with less variation to the mean at a standard deviation of 5.7%), compared to value-add strategies of the same vintage (average IRR = -3.5%, with standard deviation 7.9%). The opposite appears to be true when the market is coming out of a recession, with value-add strategies that had their first closing in 2010-2011 and 2012-2013 outperforming the opportunistic ones with less variation from the average IRR. One possible reason why a fix-and-sell strategy may not work too well going into a recession could be a slow recovery in core investors' appetite to acquire. For instance, during the GFC, the average P/B of APAC REITs fell below 1x by end-1H08 and did not trade convincingly above 1x until 3Q12, despite the US policy rate at a low of 0.125% since end-2008. The higher cost of equity had therefore constrained REITs' appetite to acquire, which would have in turn limited the exit options of value-add strategies.
- **Debt strategies to see more demand**
  Rising interest rates and more limited access to credit are also likely to benefit private real estate debt investment strategies, in our view. As discussed before, the widening gap between IG and HY spreads suggests a more cautious lending environment which should in turn translate into higher demand for private credit. This is on top of market opportunities that are already being created as a result of tightening regulations on banks' commercial real estate lending. In Australia, for instance, domestic banks' share of commercial real estate lending is expected to fall further with more onerous capital adequacy ratio requirements on such loans from January 2023. The appeal of a private real estate debt strategy to institutional investors could be further enhanced by connecting the lending to sustainability targets, in our view. Compared to other regions, such as North America, green financing for APAC's commercial real estate still has a lot of room for catch-up. According to CBRE's estimates, green loans account for just 3% of Australia's commercial real estate debt, compared to 16% in North America, for instance. The consultant thinks green financing could account for 20% of the AUD75bn in annual commercial property debt refinancing in Australia by 2025.
- **Relative investment performance still determined by occupier fundamentals**
  The framework of how we think about which market/sectors are likely to do better over the next three years has remained largely unchanged. Essentially, we believe relative investment performance will still be largely determined by occupier market fundamentals since most markets will be facing the same macro headwinds of slower growth and higher interest rates. Notwithstanding market concerns around slowing e-commerce growth, we remain positive on the outlook of industrial/logistics properties in most markets but especially in Australia. While the gap between cap rates and bond yields has mostly disappeared or turned negative as a result of higher interest rates, Australian industrial/logistics properties have the most robust rent growth outlook in the region, in our view, and we expect faster-than-expected market rent growth to support valuation. We see similar dynamics at play in the Seoul and Singapore office markets where vacancy is low, scheduled new supply in the near term is relatively limited, and higher-than-expected market rent growth will help support valuation despite higher interest rates. Lastly, we remain positive on the BTR sector, mostly in Japan but also the nascent Australian market. Worsening housing affordability as a result of higher mortgage rates and greater flexibility to work from anywhere should support BTR demand.

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