ASIA PACIFIC

2024 Real Estate Outlook

Investment Research

Hear From Our Experts

EXECUTIVE SUMMARY
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We expect real estate returns to start recovering in 2024, driven by stabilized capital values and resilient income returns.

Recovery will be uneven with momentum varied across major geographies and sectors.

The most pronounced variation in market trends is between Japan and the rest of APAC.

Investment opportunities will be driven by a combination of better entry prices and rental growth prospects underpinned by structural shifts in occupier trends, including digitalization, demographics and decarbonization.

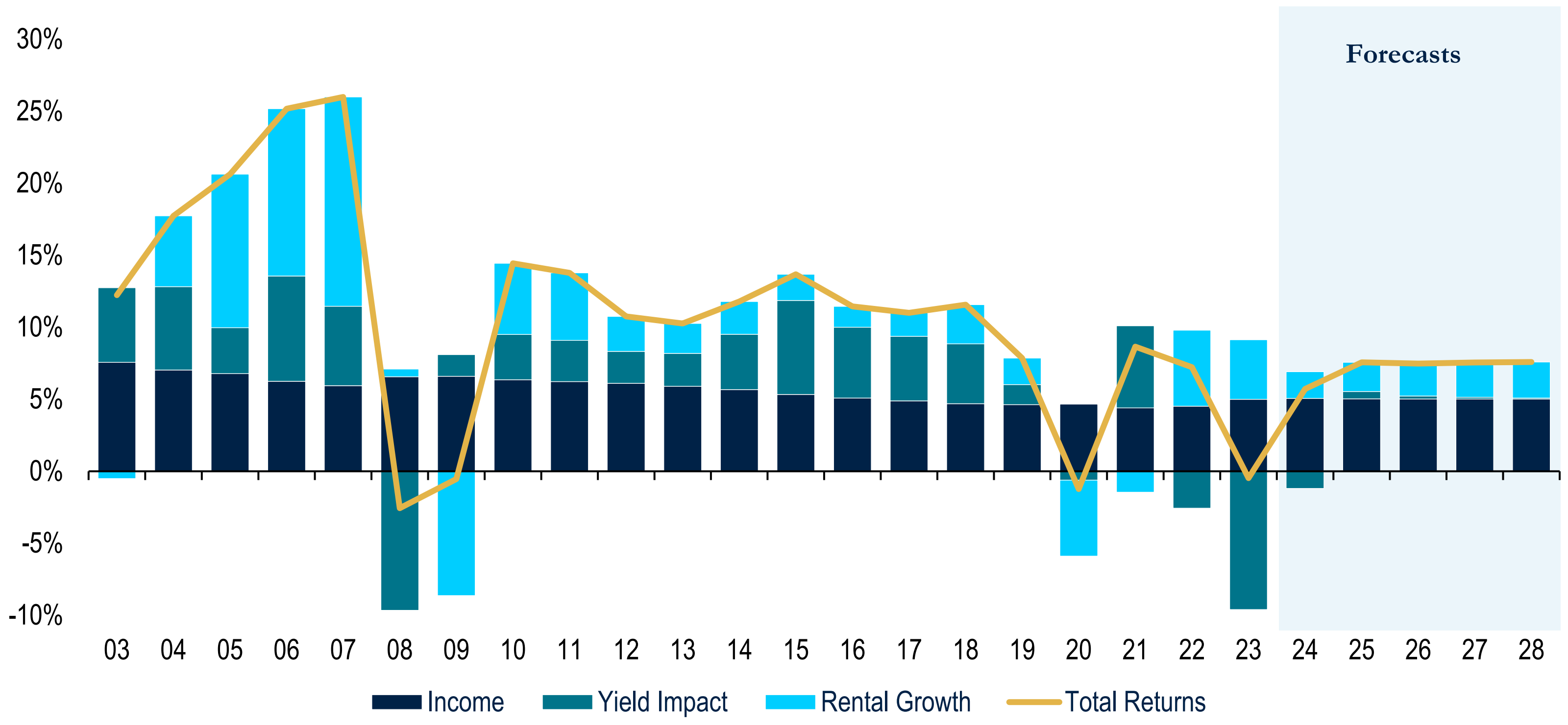
MARKET OUTLOOK

The Asia Pacific real estate market outlook is stabilizing, with the prospects of recovery starting in 2024. However, leasing fundamentals and capital market conditions will remain highly diverse across the region.

1

Asia Pacific Returns to Improve in 2024

APAC Real Estate All Sector Returns* (p.a.)



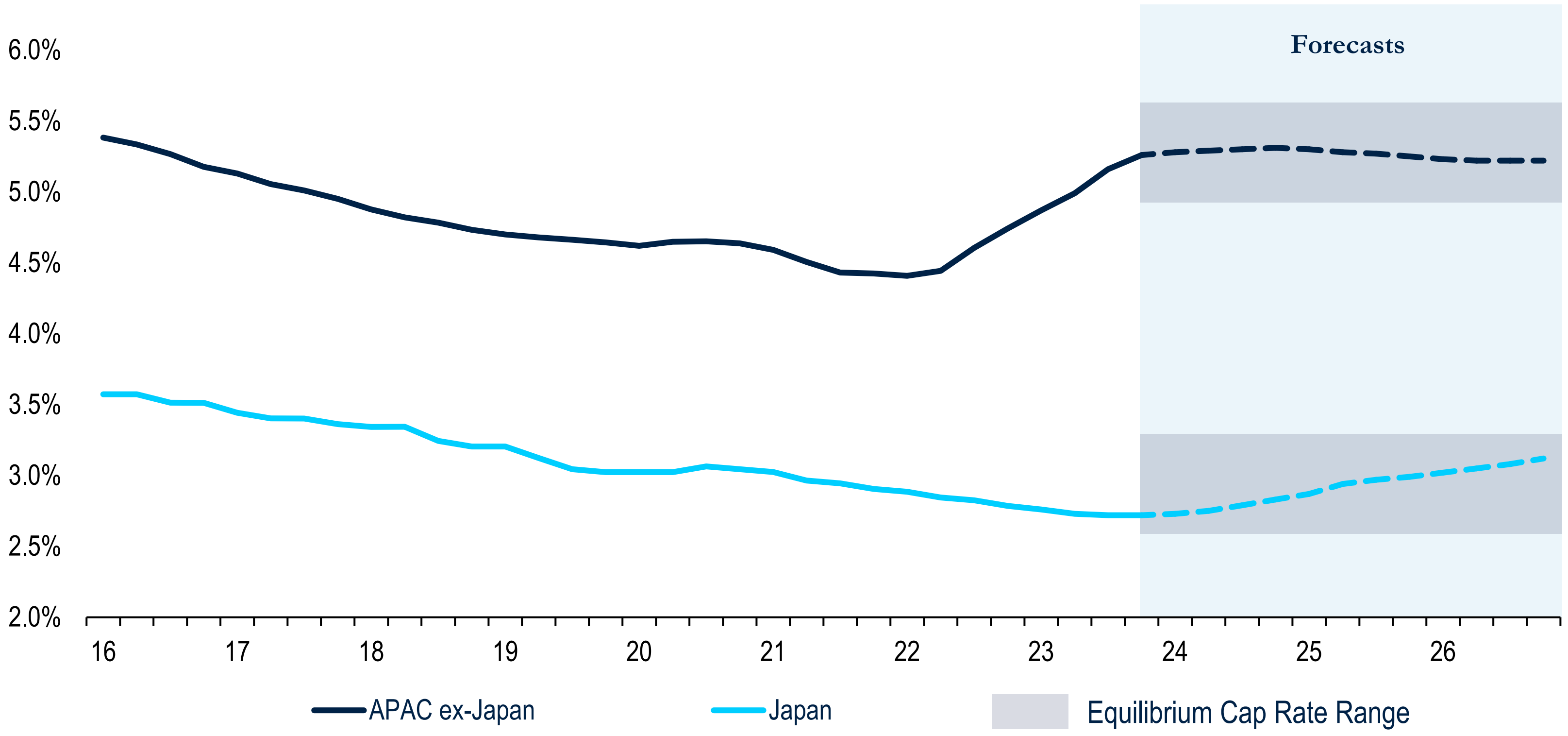
*Note: Average of Total Returns across office, retail, logistics and residential sectors in Australia, Hong Kong, Japan, Singapore and South Korea.
Sources: JLL, PGIM Real Estate. As of November 2023.

We expect real estate returns to start recovering in 2024, driven by stabilized capital values and resilient income returns.

The recovery will be led by rental growth with limited cap rate compression at the regional average.

Supported by Stabilizing Cap Rates

APAC Real Estate Cap Rates*



*Note: Average of Cap Rates across office, retail, logistics and residential sectors in Australia, Hong Kong, Singapore, South Korea. Equilibrium Cap Rate Range is the range of cap rates that we believe to be sustainable in the long term, taking into consideration risk free-rates, real estate risk premium and rental growth prospects.
Sources: JLL, PGIM Real Estate. As of November 2023.

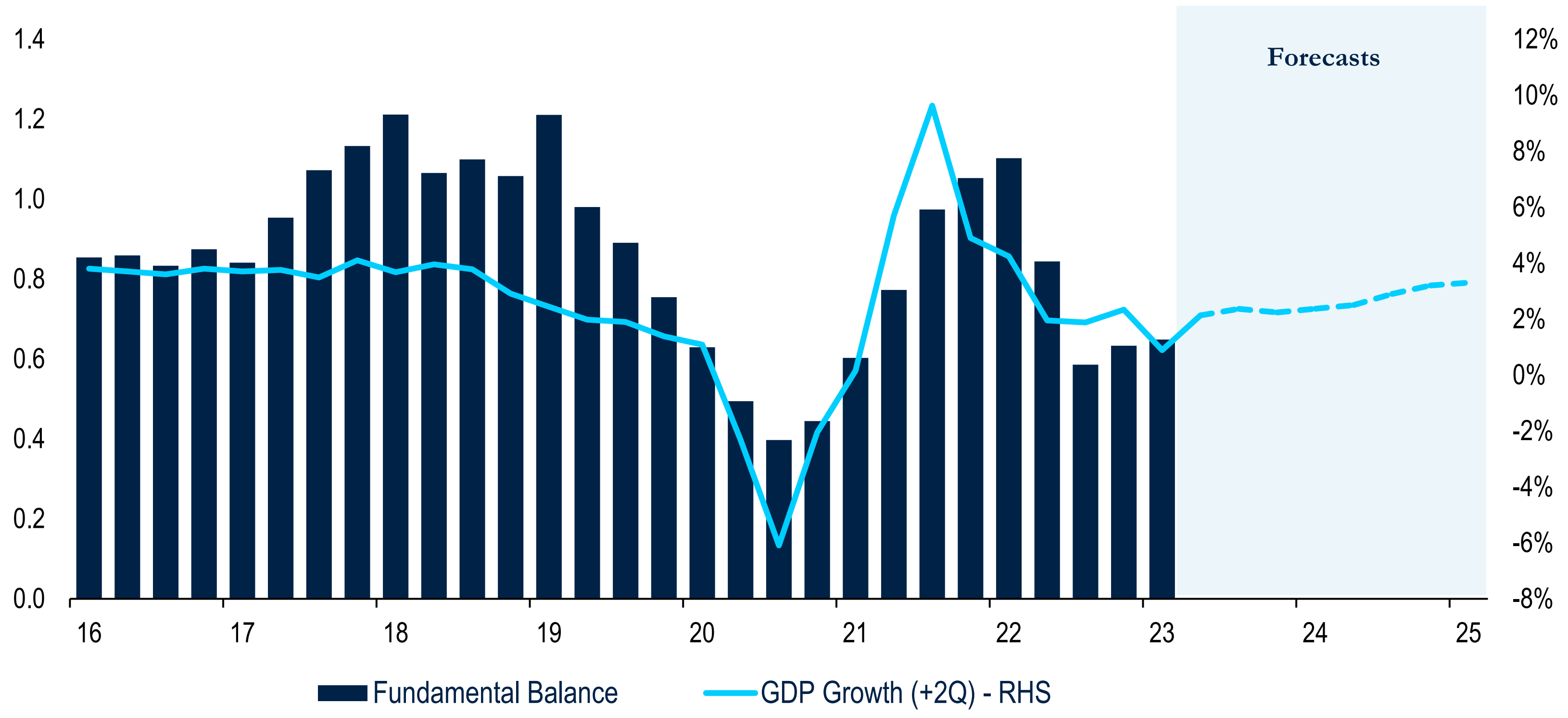
The diversion of pricing trends between Japan and the rest of the major APAC markets will likely continue in the coming years.

Having been a counter-cyclical market during the past two years, Japan's investment market is likely moderating.

By contrast, we expect real estate capital values to stabilize and recover in Asia ex-Japan markets.

And Resilient Occupier Market

Leasing Fundamental Balance* & GDP Growth (p.a.)



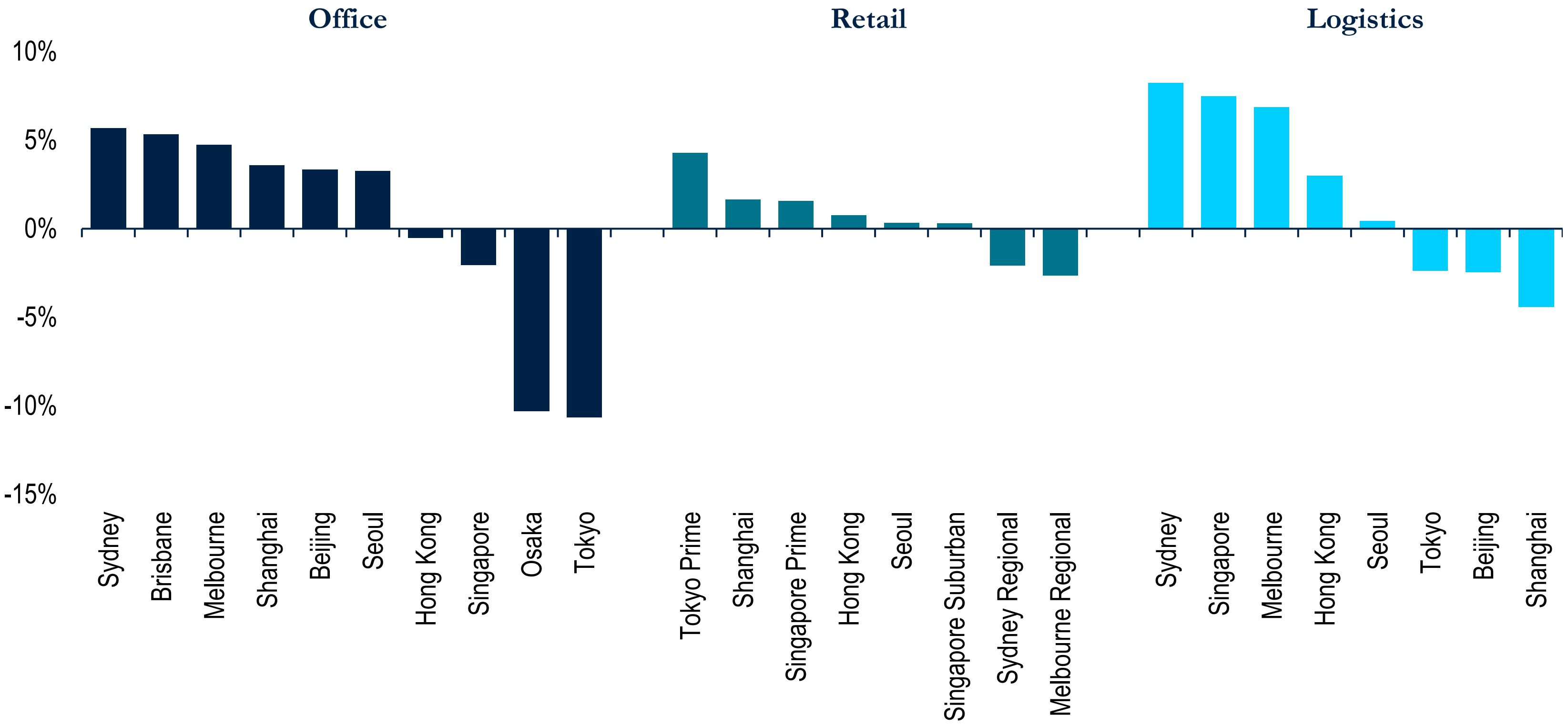
*Note: Ratio of net absorption and new supply completion (4Q Rolling, office and logistics) across major markets.
Sources: Oxford Economics, JLL, PGIM Real Estate. As of November 2023.

The post-reopening recovery, which led to a surge in space demand in the occupier market, has normalized.

With economic growth forecast to stabilize around its long-term trend, we expect rental growth prospects to remain solid.

But the Recovery Will Diverge Across Geographies and Sectors

Capital Value Growth Forecasts (p.a., 2024-25)



Source: PGIM Real Estate. As of November 2023.

However, recovery momentum varies across major geographies and sectors, which will lead to a diversion in capital markets. Growth is forecast to be strongest in logistics and office, while retail lags.

At the country level, Australia and South Korea are expected to show a firmer recovery over the next few years.

Driven by a Wide Spectrum of Rental Growth Prospects

All Sector Rental Growth* (% p.a.)

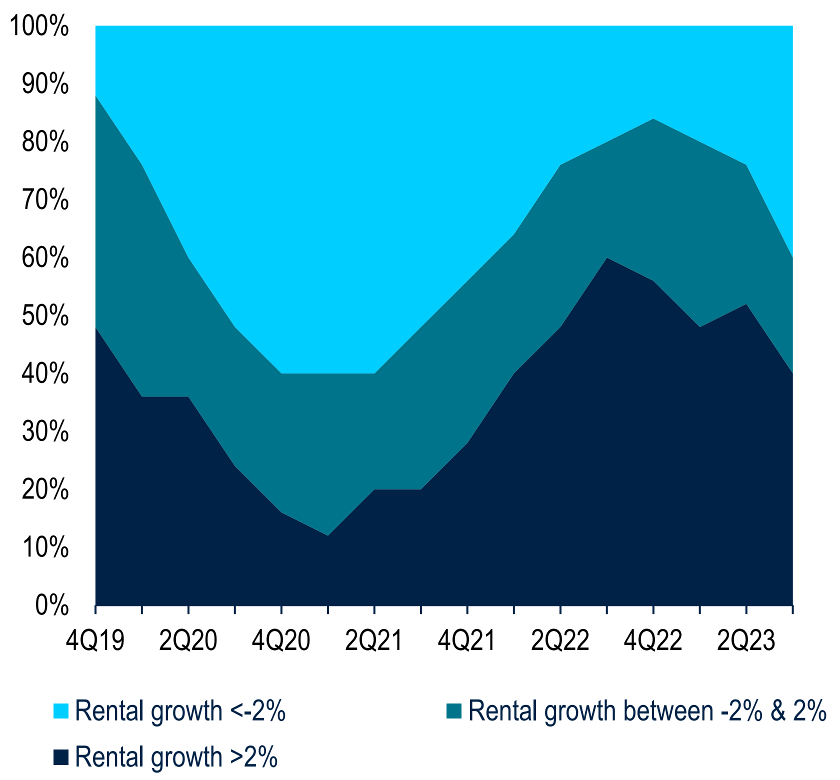
*Note: Including office, retail and logistics markets in Australia, China, Hong Kong, Japan, Singapore and South Korea.
Sources: JLL, PGIM Real Estate. As of November 2023.

Variations in the rental growth outlook are among key drivers of the uneven recovery across markets.

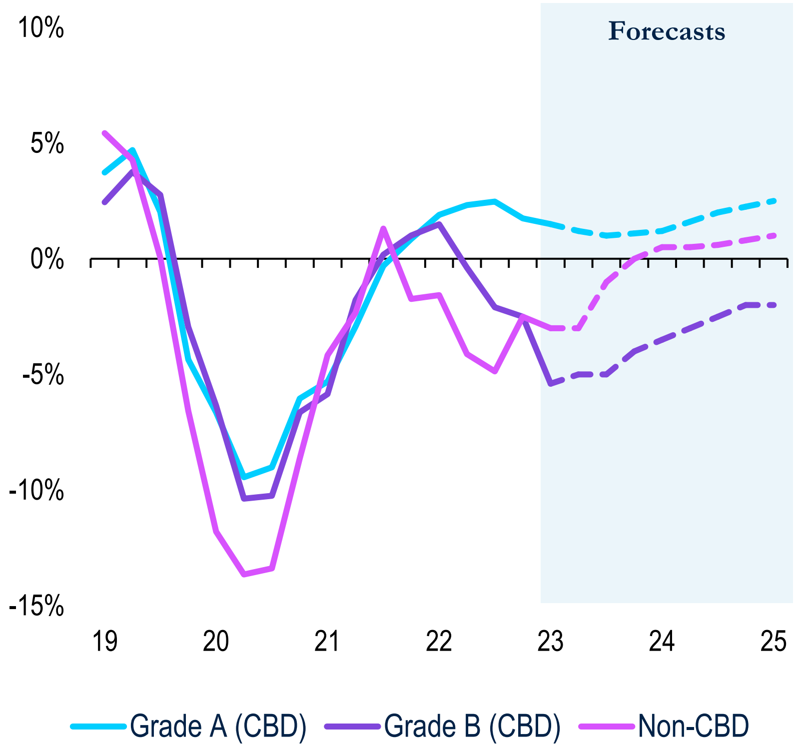
With the overall demand trends staying consistent for major sectors, differences in leasing conditions and rental growth are largely due to differences in new supply.

Which Has Become More Pronounced due to Polarized Leasing Conditions in Office

Effective Office Rental Growth Distribution



Office Effective Rental Growth by Grades and Locations*



*Note: Includes data for major office markets in Australia and Japan.
Sources: JLL, PGIM Real Estate. As of November 2023.

LEFT

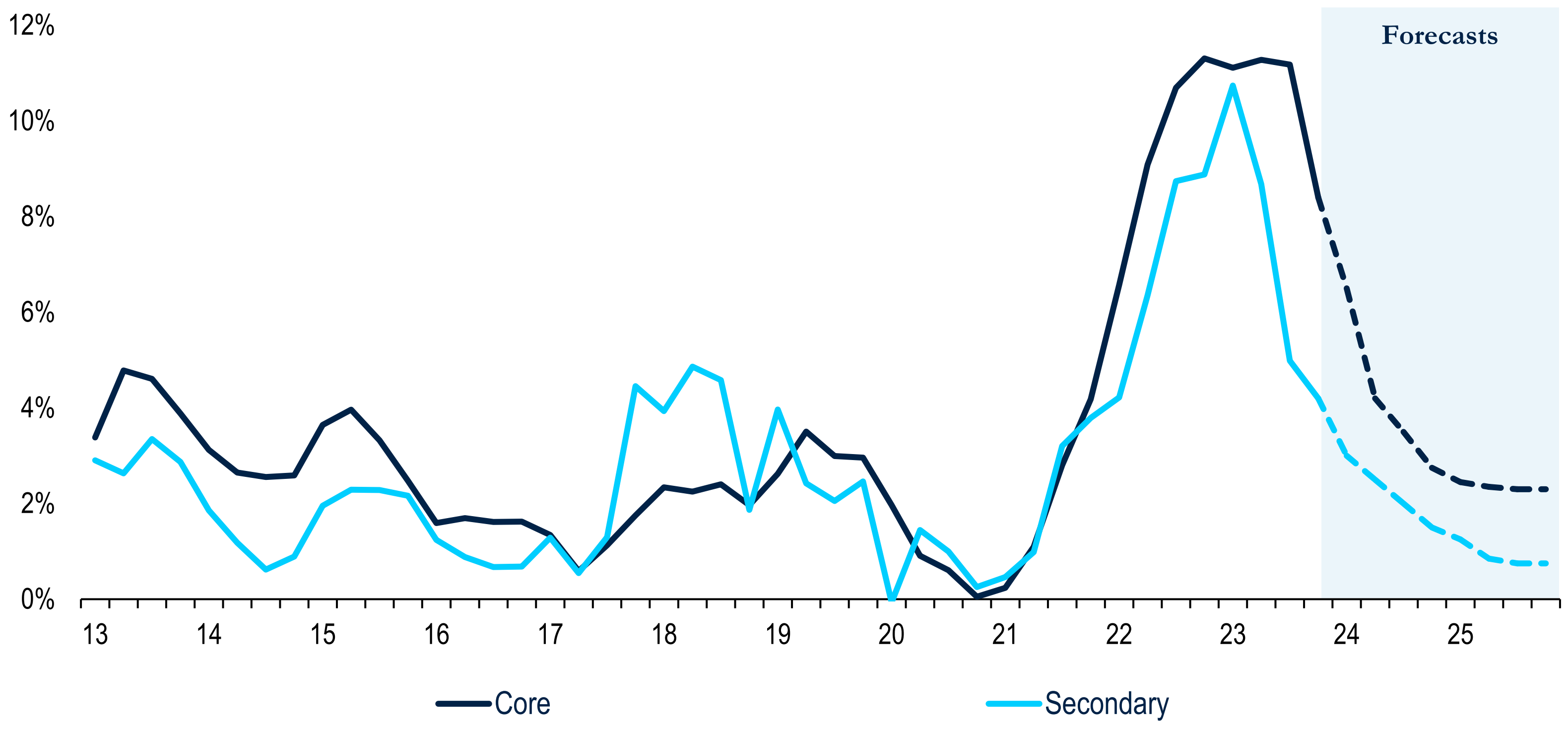
Rental growth momentum is moderating for office, with a rising number of markets experiencing rental declines.

RIGHT

The diversion in occupier market conditions becomes more pronounced across submarkets and asset quality.

Increasingly Differentiated Rents by Locations in Logistics

Logistics Rental Growth by Core and Secondary Markets (% p.a.)



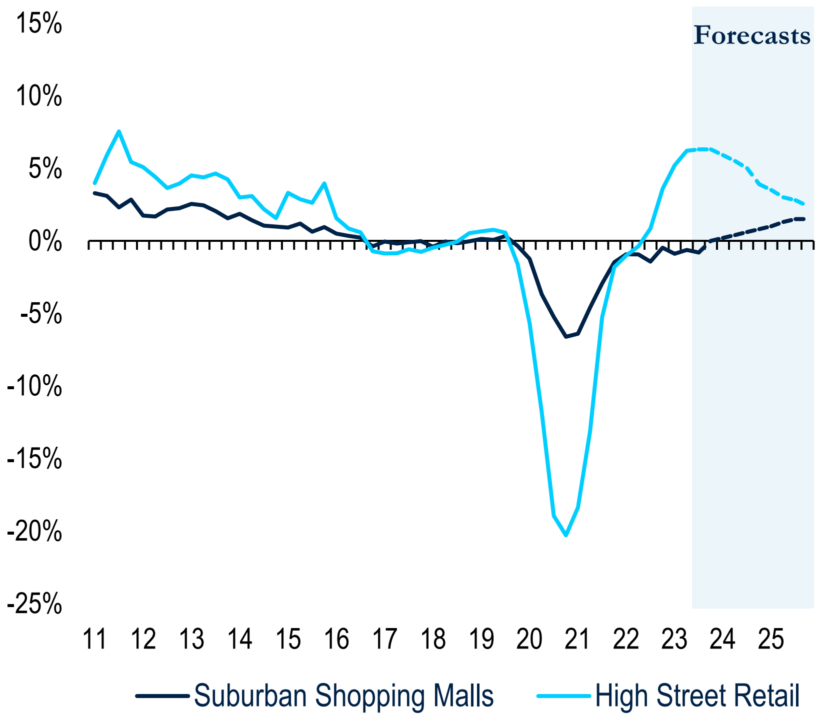
Sources: JLL, PGIM Real Estate. As of November 2023.

A similar occupier trend is seen in logistics, with tenants becoming focused on assets in core submarkets that offer better transportation connectivity and are nearer to established catchments.

We expect an increased differentiation of rental growth between core and secondary submarkets across the region.

And Widening Rental Prospects Across Retail Types

Retail Rental Growth by Segments* (% p.a.)



Retail Rental Growth by Markets (% p.a., 3Q23)

*Note: High street retail represents the average of Tokyo, Seoul, Singapore and Hong Kong. Suburban retail includes Beijing, Shanghai, Sydney, Melbourne, Brisbane and Singapore.
Sources: JLL, PGIM Real Estate. As of November 2023.

LEFT

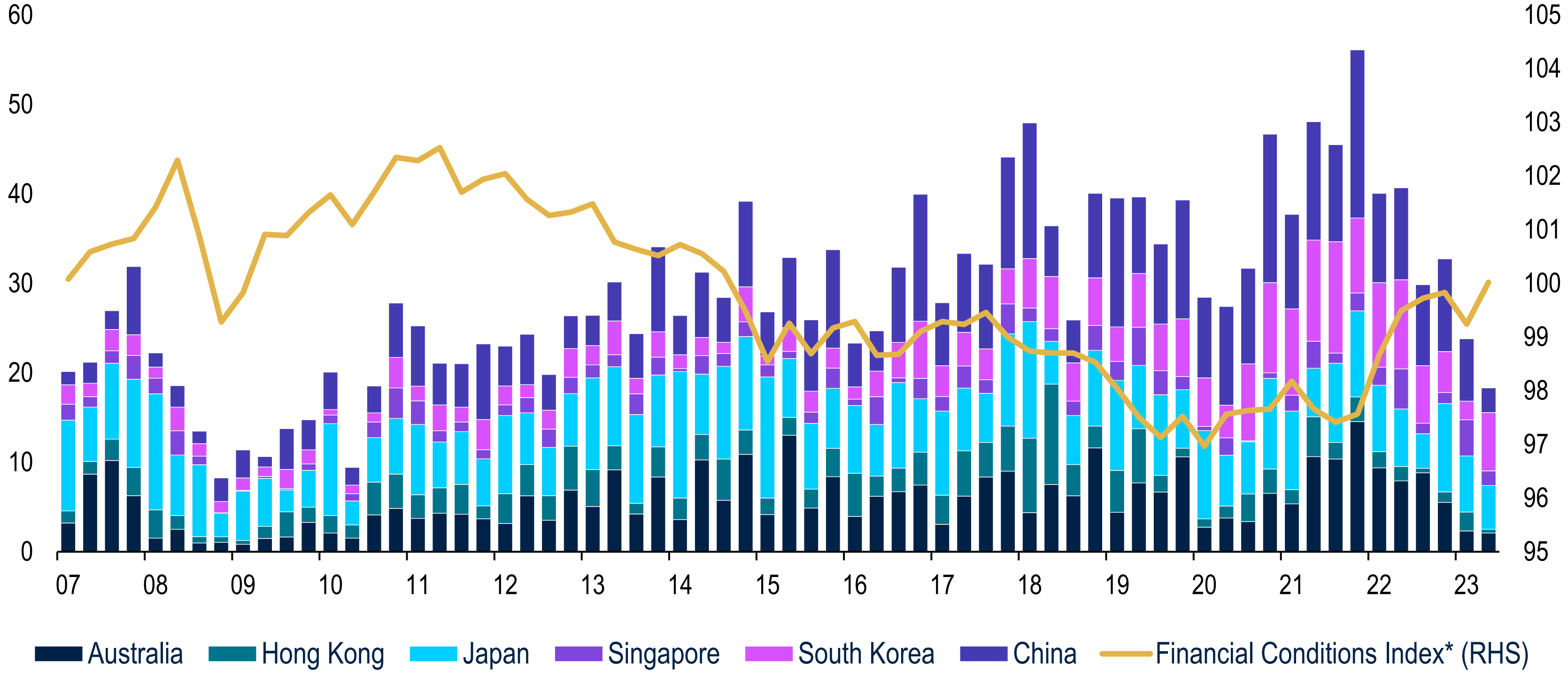
For retail, the growth of tourist spending underpins the widening rental growth rates between prime high street and suburban retail segments . . .

RIGHT

… although variations across markets remain pronounced. Japan is leading the high street retail recovery.

In the Capital Market, Tight Lending Conditions Still Put Investors on Cautious Sentiment

Quarterly Transaction Volume by Country (US$ Billion)

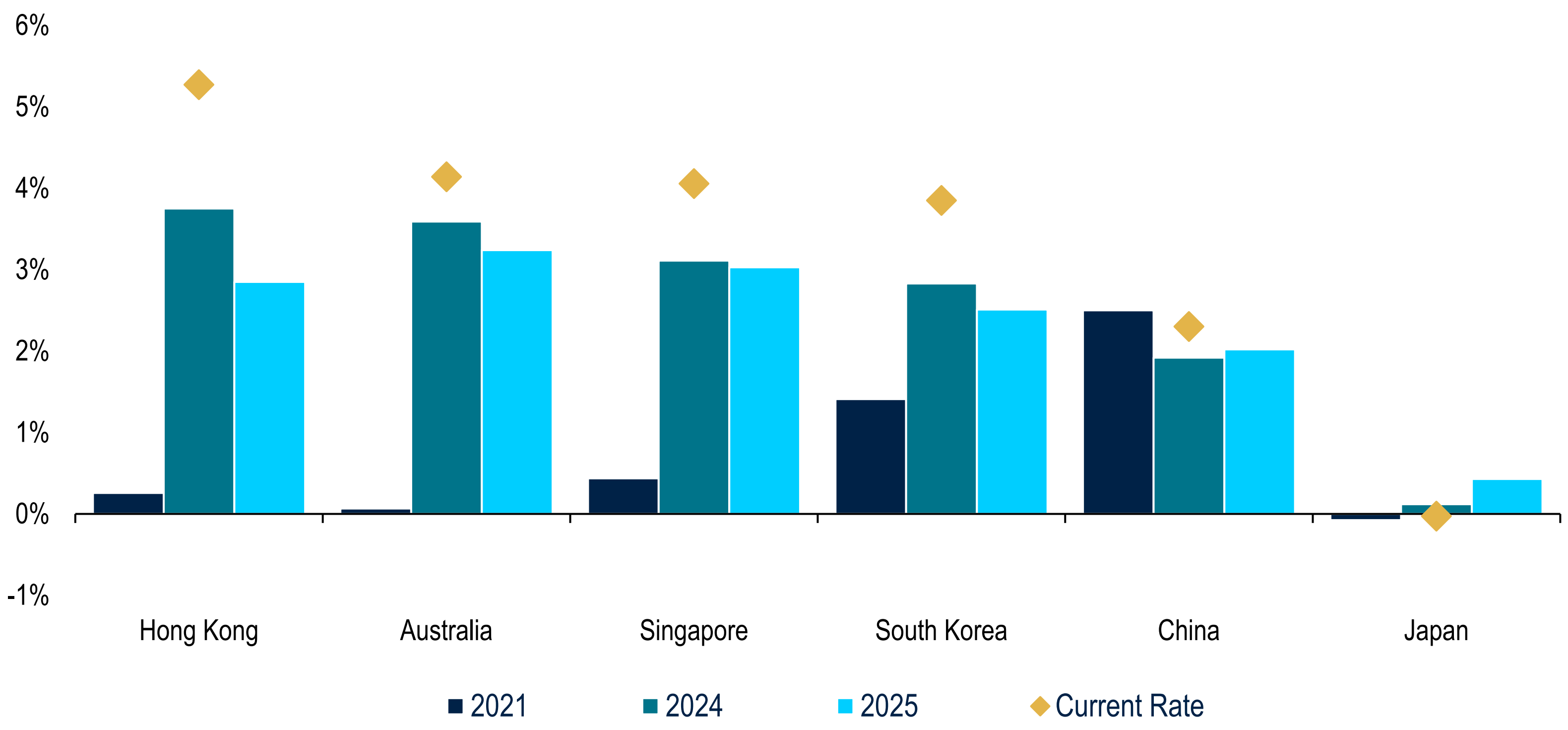


*Note: Financial Conditions Index measures the lending conditions in major Asia Pacific markets including Australia, China, Japan and South Korea. Long-term average is 100, with higher index indicating tighter lending conditions.
Sources: MSCI RCA, PGIM Real Estate. As of November 2023.

Investment volumes fell to their lowest level since the GFC, driven by rising borrowing costs and tight lending conditions…

But Activity to Pick Up in 2024 When Borrowing Costs Are Expected to Fall

3-Month Rates Across Most Major Economies*



*Note: Forecasts of 3-month interest rates are based on analysts' views sourced from Bloomberg, the exception being China, where short-term forecasts are sourced from Oxford Economics. Forecasts are as of October 16, 2023.
Sources: Oxford Economics, Bloomberg, PGIM Real Estate. As of November 2023.

…but investor sentiment and investment activity are expected to improve in 2024 when borrowing costs are forecast to fall and lending conditions ease.

Japan remains the exception, with borrowing costs potentially increasing in the coming years.

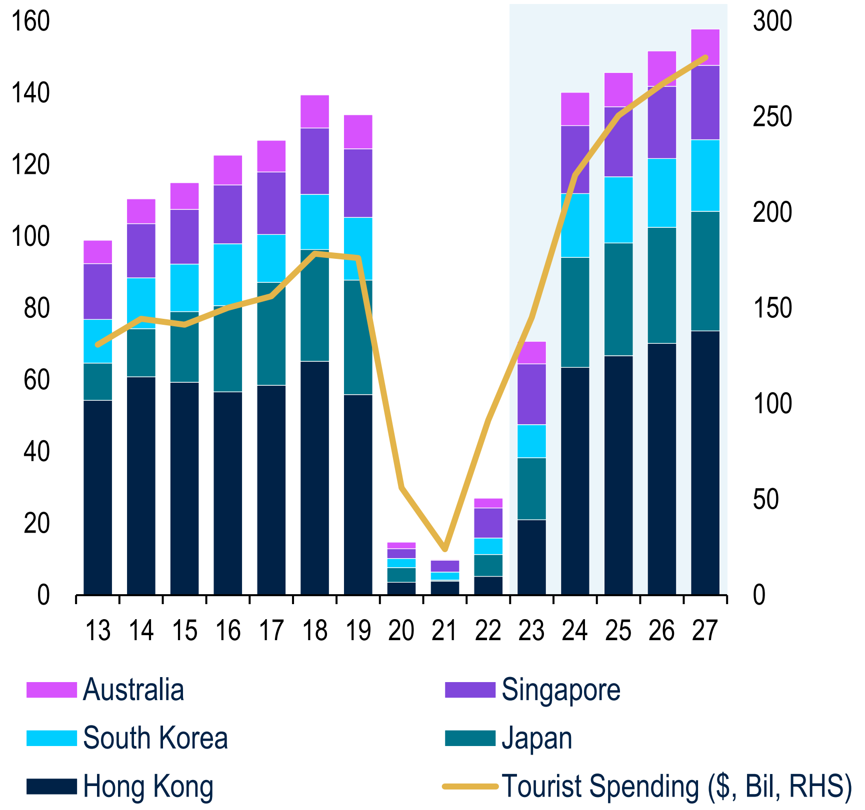
INVESTMENT THEMES

Our investment convictions build upon a combination of structural themes that drive secular shifts in occupier demand and cyclical opportunities that offer attractive entry points and prospects of recovery in the coming years.

2

Retail: Tourism Recovery Continues to Drive Rental Growth for High Street Shops

International Tourist Arrivals (Million Visitors) and Tourist Spending (US$ Billion)*



APAC Retail Rental Growth Forecasts (24-28, % p.a.)

*Note: Including Australia, Hong Kong, Japan, Singapore and South Korea.
Sources: EIU, JLL, Cushman & Wakefield, PGIM Real Estate. As of November 2023.

LEFT

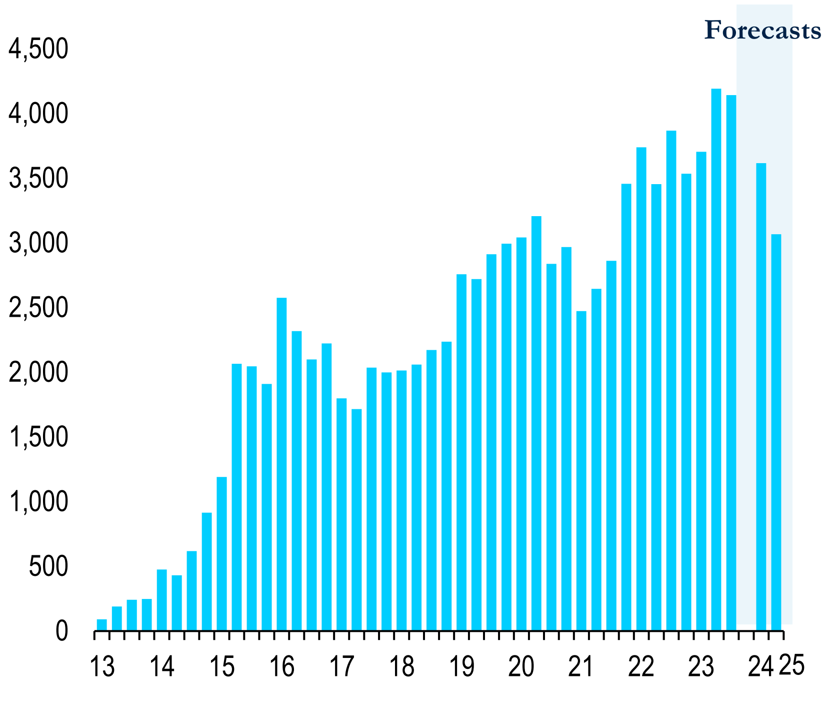
Continued growth of tourist arrivals and spending remains a strong driver for high street retail rents, particularly in Japan.

RIGHT

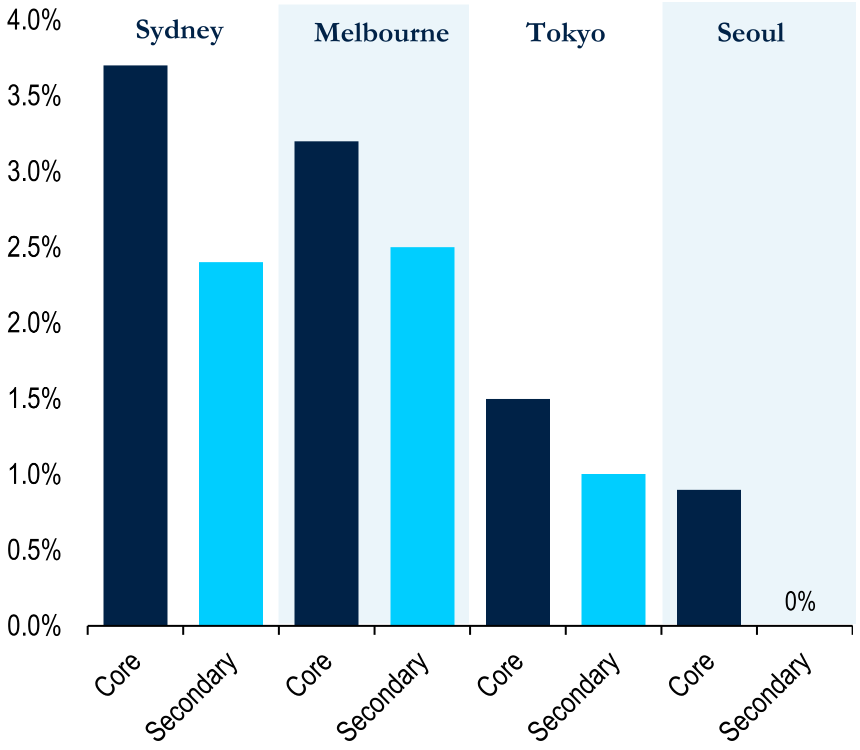
Hong Kong is also expecting to gather stronger recovery despite a slow momentum since re-opening.

Logistics: Stronger Demand Growth for Assets in Core Submarkets

Logistics Net Absorption* ('000 Square Meters)



Logistics Rental Growth by Submarket (24-28, % p.a.)



*Note: Including Tokyo, Hong Kong, Singapore and Seoul.
Sources: CBRE, JLL, Oxford Economics, PMA, PGIM Real Estate. As of November 2023.

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LEFT

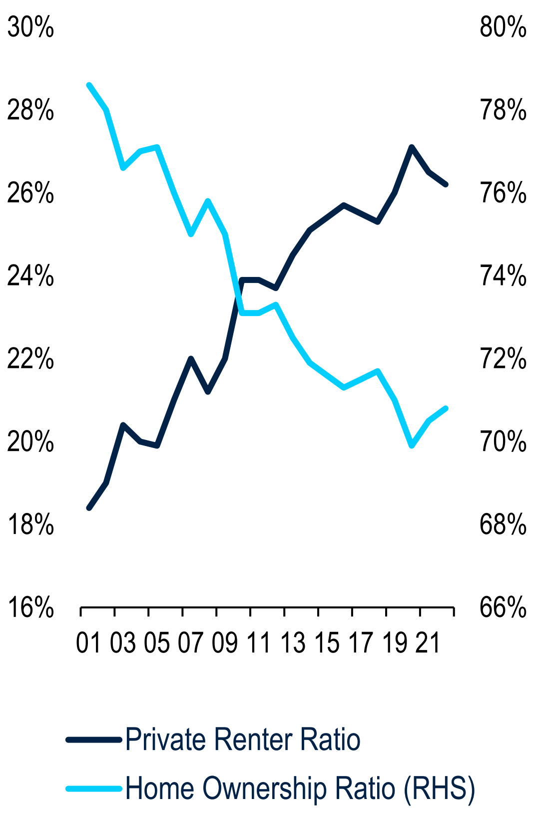
Structural demand continues to underpin solid net absorption of new logistics space but is becoming polarized as occupiers are focused on core locations.

RIGHT

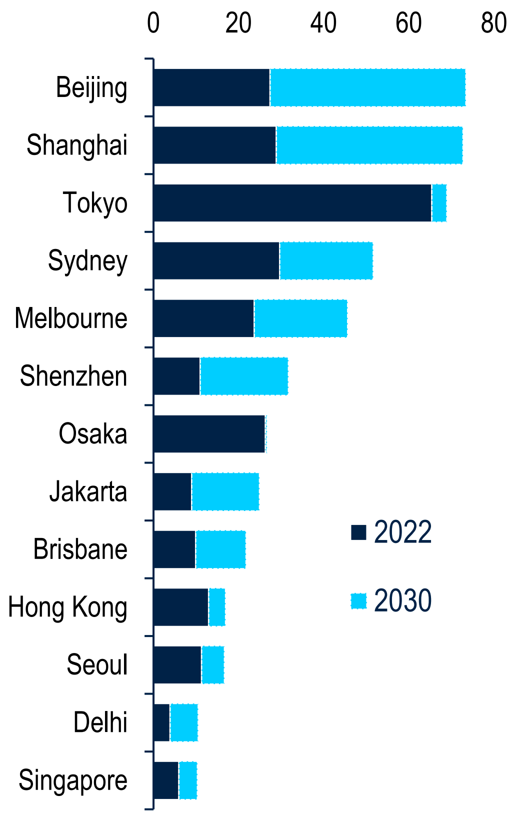
We continue to like logistics as an investment theme, however, we will become more selective with a strong preference for assets in core submarkets.

Rental Housing: Significant Growth Prospects for Institutional Markets

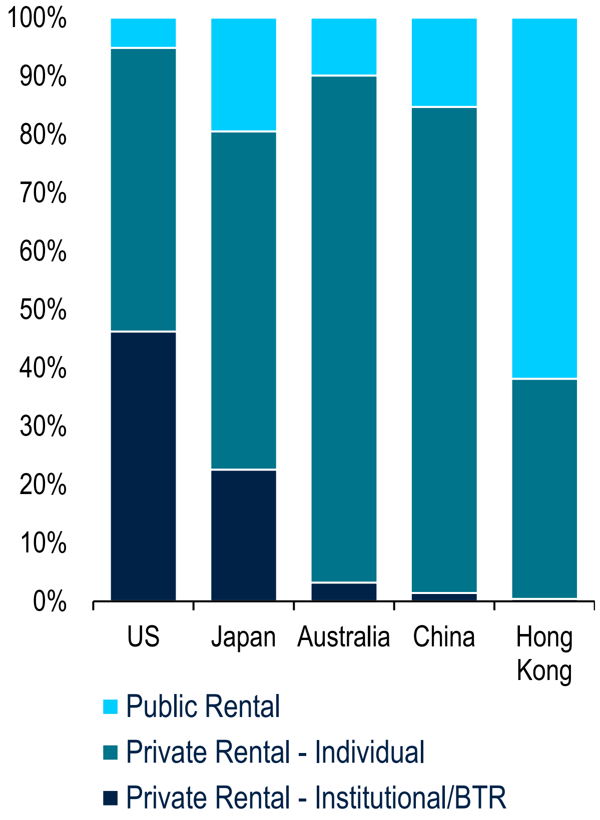
Australia Housing Market – Ratios of Renters & Owners



Annual Housing Rental Expenditure (US$ Billions)



Share of the Rental Housing Market



Sources: Oxford Economics, Australia Bureau Statistics, Cushman & Wakefield, CEIC, PGIM Real Estate. As of November 2023.

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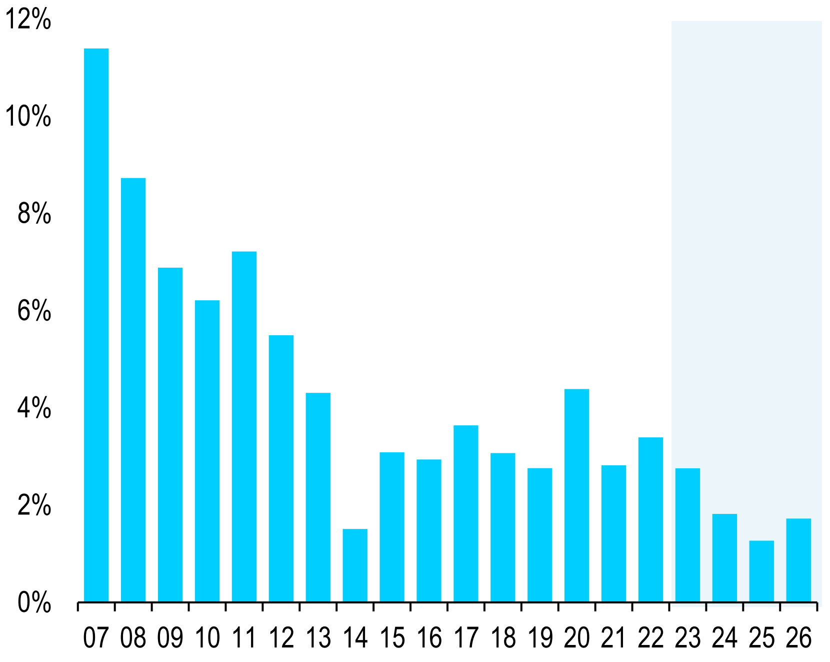
Supported by the secular shift from owning to renting, the rental housing sector offers institutional investors significant opportunity in growing scale and momentum.

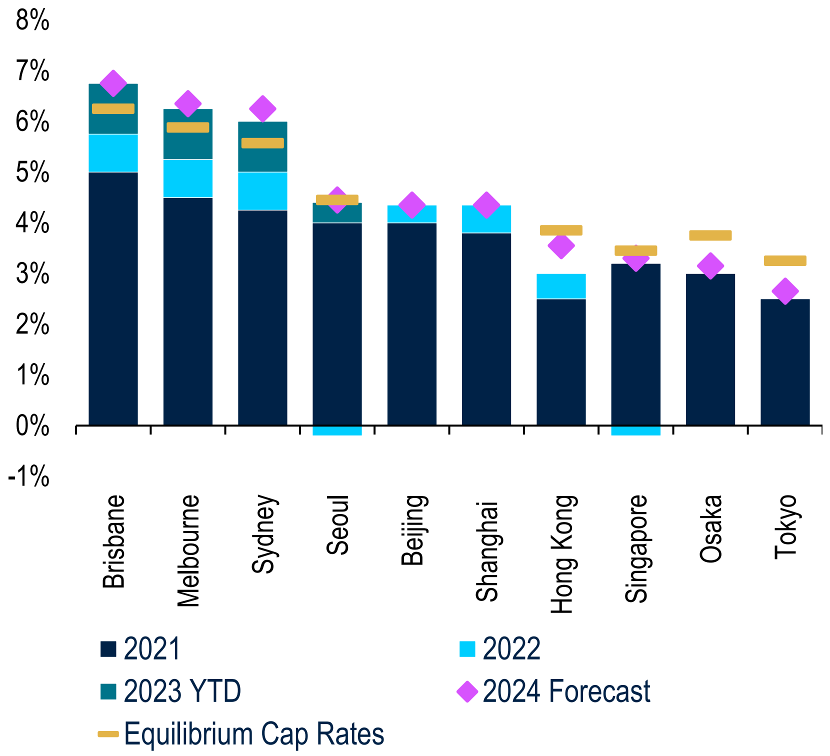
The opportunity set remains broad, ranging from a mature residential market in Japan to co-living in Hong Kong and Singapore, and a fast-growing build-to-rent sector in Australia.

Office: Opportunity from Price Correction, Falling Supply & Market Polarization

APAC CBD Office Net Supply Growth (% of Total Stock)



APAC CBD Office Cap Rates*



*Note: Equilibrium Cap Rate is the cap rate that we believe to be sustainable in the long term, taking into consideration risk-free rates, real estate risk premium, and rental growth prospects for each individual market.
Sources: JLL, PGIM Real Estate. As of November 2023.

LEFT

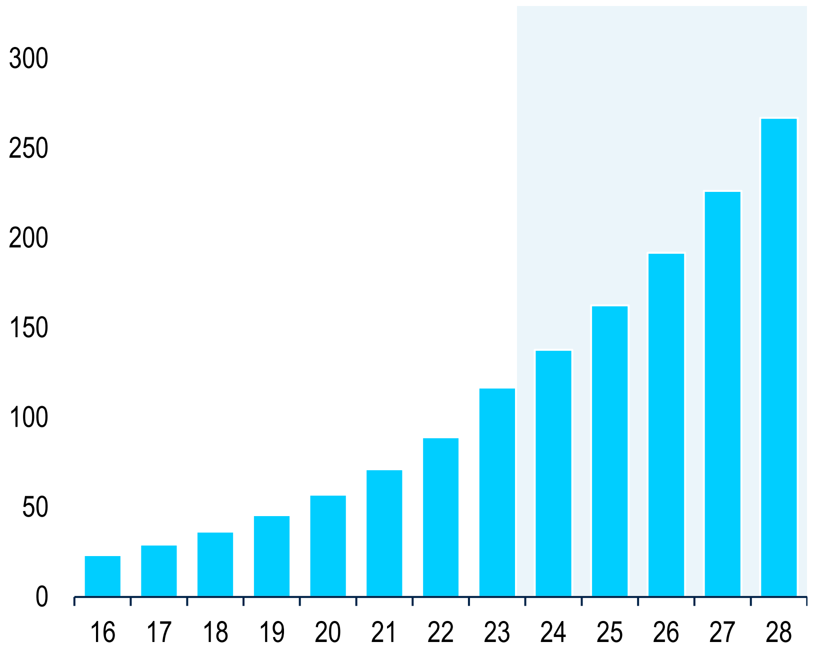
The opportunity in office directly links fundamental drivers, including improved medium-term rental growth prospects due to the fall in supply…

RIGHT

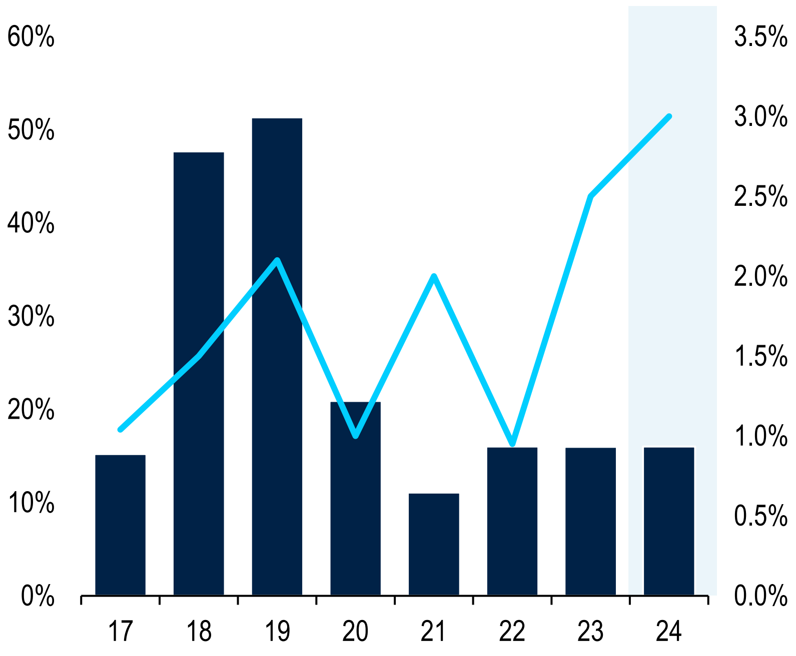
… and the shift of occupier demand toward green-credential and high-quality assets in CBDs following a sharp price correction, particularly in Australia.

Data Centers: Secular Demand Supports Robust Rental Outlook

Asia Pacific Data Center Cloud Revenues (US$ Billion)



Data Center Capacity & Rental Growth (% p.a.)



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The opportunity in data centers is supported by structural growth of demand for data center capacity across the APAC region.

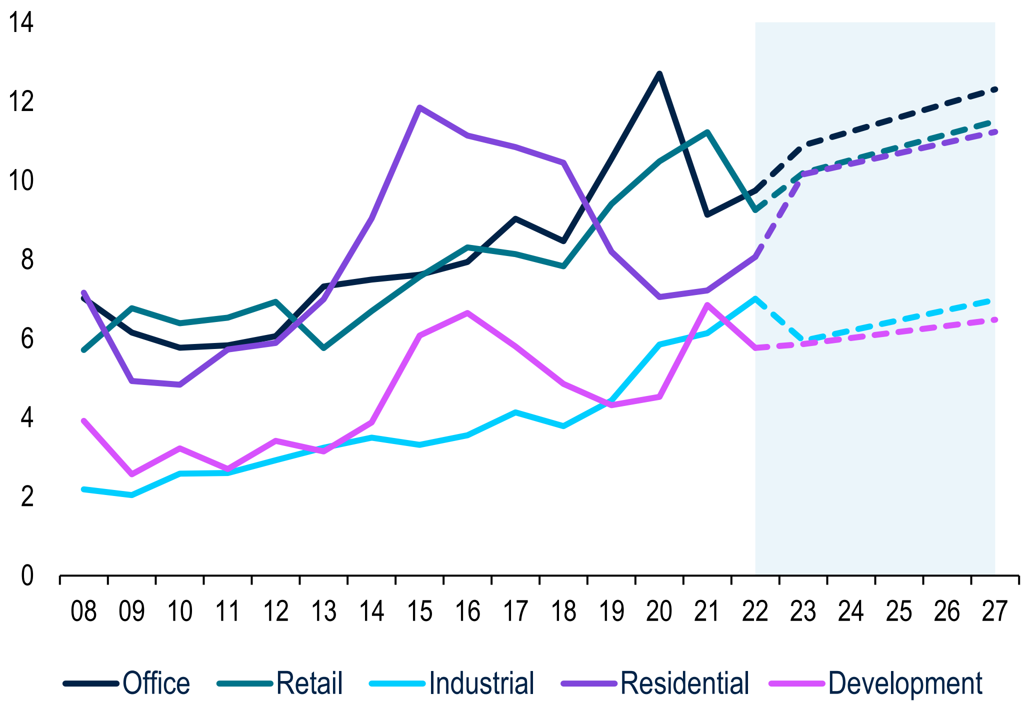
RIGHT

With access to power becoming more challenging in a number of major markets, rental prospects remain robust against favorable fundamentals of solid demand and limited supply.

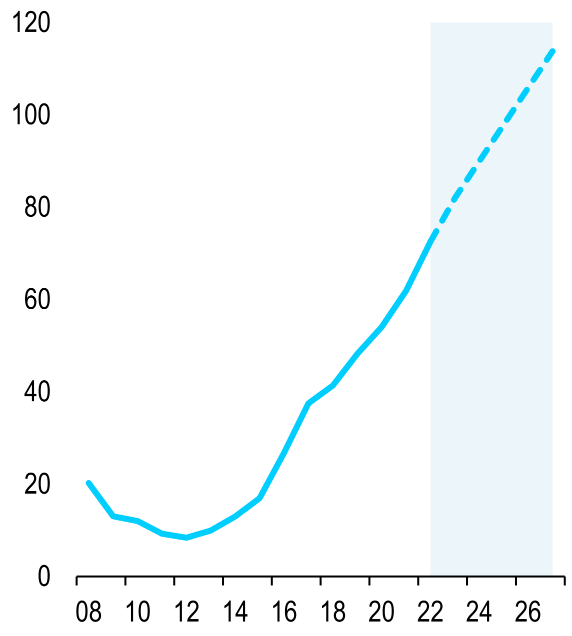
Sources: Cushman & Wakefield, Structured Research, CBRE, PGIM Real Estate. As of November 2023.

Credit: Funding Opportunity in Australia as Regulatory Capital Framework Increases Capital Buffers for ADIs

Authorized Deposit-Taking Institutions (ADIs) Continue to Increase Buffers Toward Commercial Property[1] ($AUD Billion)



Foreign Bank Branches' Commercial Property Exposures[2] ($AUD Billion)



[1]Buffer refers to the difference between commercial property exposure limits and commercial property actual exposures.
[2]Foreign bank branches are foreign banks licensed to conduct banking business in Australia through branches.
Sources: APRA, PGIM Real Estate. As of November 2023.

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Regulatory restrictions, which increase capital requirements on bank lending, will lead to increasing buffers, suggesting that banks will take an even more cautious approach to commercial real estate lending.

RIGHT

As domestic institutions exercise restraint, foreign banks and other non-bank lenders will increase exposure to commercial real estate.

DEBT AND EQUITY INVESTMENT THEMES

Dynamic Opportunity Set

	STRUCTURAL			TACTICAL	
	Demographics	Digital Transformation	Decarbonization	Price Correction Attractive Values	Growth Recovery
Office			**Grade A / CBD Office** *Australia & South Korea*		
Retail					**High Street Retail** *Japan & Hong Kong*
Logistics		**Modern Logistics** *Core Submarkets*		**Logistics in Core** *Australia & South Korea*	
Residential	**Residential / BTR** *Japan & Australia*				
Debt				**Core and High Yield Debt** *Australia*	
Others	**Senior Housing** *Australia*	**Data Centers** *Major Markets*			

For illustrative purposes only. Source: PGIM Real Estate. As of November 2023.

Our investment convictions are built upon the structural growth of digitalization, demographics and decarbonization themes which drive secular shifts in occupier demand across real estate sectors and geographies.

Cyclical opportunities, particularly in office and high street retail, are emerging from the current downturn, which offers attractive entry points and prospects of recovery.

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