ASIA PACIFIC

2025 Real Estate Outlook

Investment Research

EXECUTIVE SUMMARY
ASIA PACIFIC

PGIM REAL ESTATE

Real estate returns to continue to improve but this is still an income and income growth driven outlook, helped by an ongoing low development pipeline.

Investor acumen to be tested as city and sector variations to the outlook remain large. Nonetheless history suggests markets will do better than expected.

Opportunities continue to span the needs-based living, logistics, data centers and credit markets alongside the demand recovery in hotels, retail and offices.

PGIM REAL ESTATE

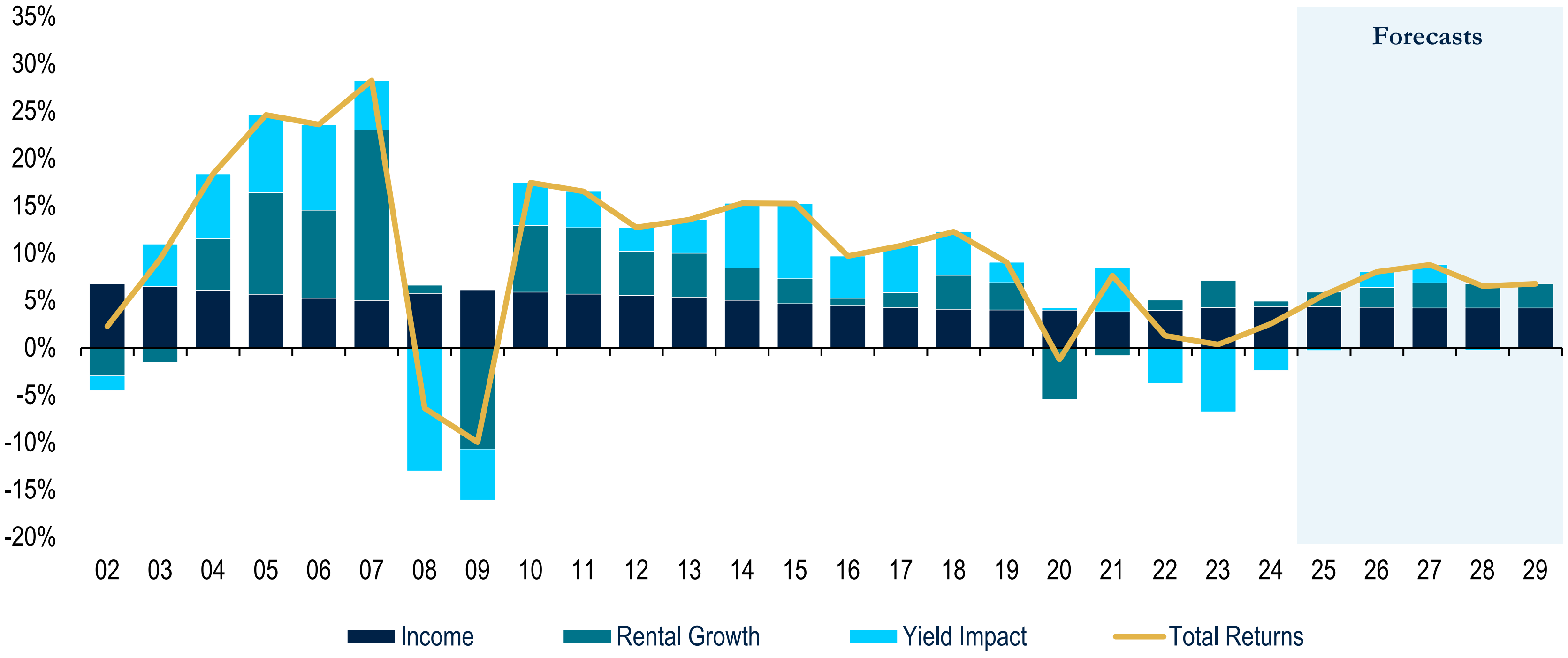
MARKET OUTLOOK

An improving regional outlook is set against country by country differences, but in most markets values have corrected and we are at the start of a recovery that rewards early movers across all investment styles

1

Asia Pacific Returns to Continue to Improve

All Commercial Property Prime Market Total Return (% p.a.)



Forecasts are not guaranteed and may not be a reliable indicator of future results.

Note: Average of total returns across office, retail and logistics sectors in Australia, Hong Kong, Japan, Singapore and South Korea. Sources: MSCI, JLL, PMA, PGIM Real Estate. As of November 2024.

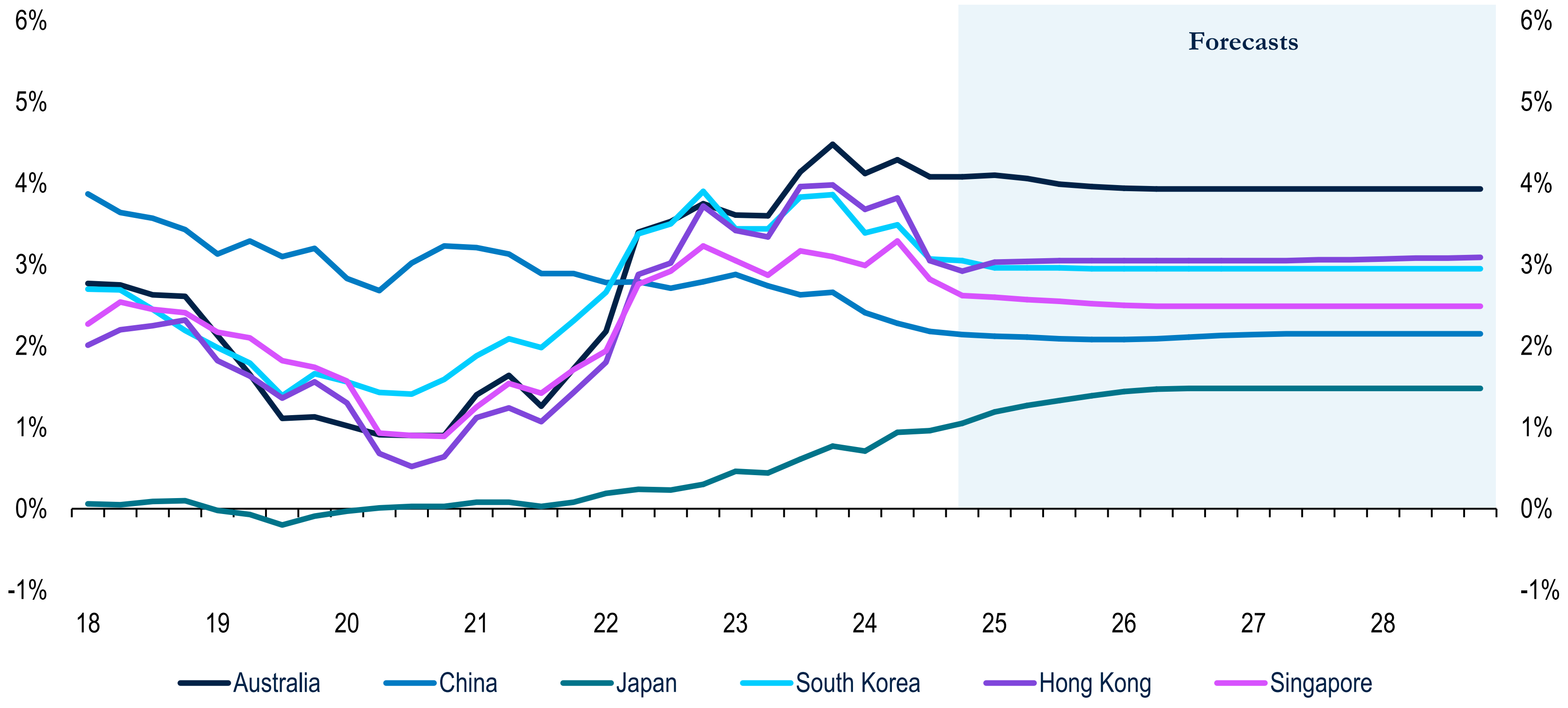
Real estate returns will continue to improve.

But the outlook is one of lower returns thanks to higher interest rates.

Nonetheless, some cap rate compression is expected in line with improving occupier demand and falling bond yields.

The Interest Rate Cycle Still Matters for the Outlook

10-Year Government Bond Yields (%)



Forecasts are not guaranteed and may not be a reliable indicator of future results.

Sources: Oxford Economics, PGIM Real Estate. As of November 2024.

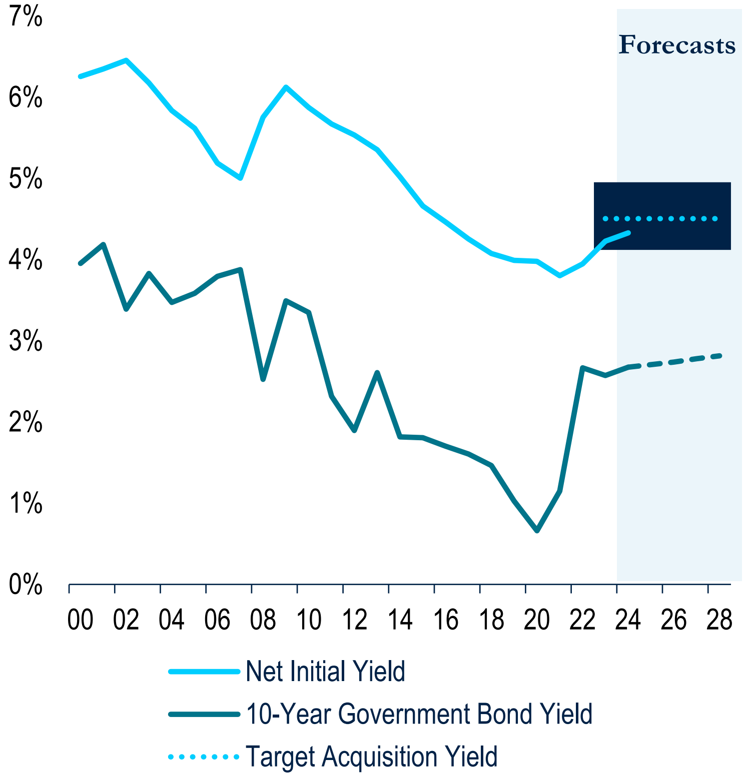
Japan's bond yield forecasts are tied to rising inflation.

Nonetheless, even with inflation set to hit around 2% across the region, interest rates are not set to converge mostly due to differences in GDP growth rates.

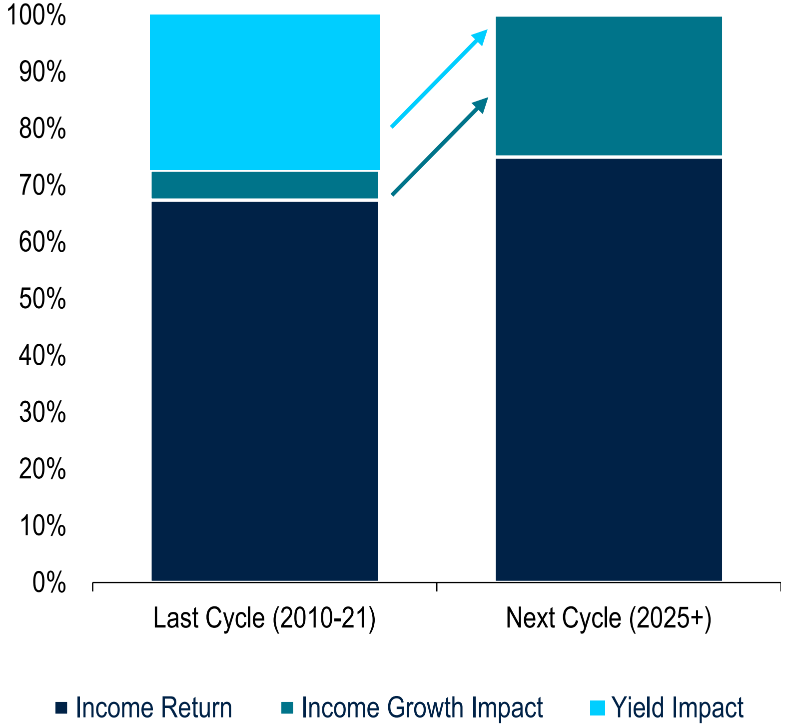
With bond yields set to shift down slowly, there is room for some yield compression – but not a lot.

The Outlook to Be Driven More by Occupier Than Capital Markets

All Property Prime/Grade A Net Initial Yield and 10-Year Bond Yield (%)



Breakdown of MSCI Asia Pacific All Property Total Returns (%)



Forecasts are not guaranteed and may not be a reliable indicator of future results.

Sources: MSCI, JLL, PMA, Oxford Economics, PGIM Real Estate. As of November 2024.

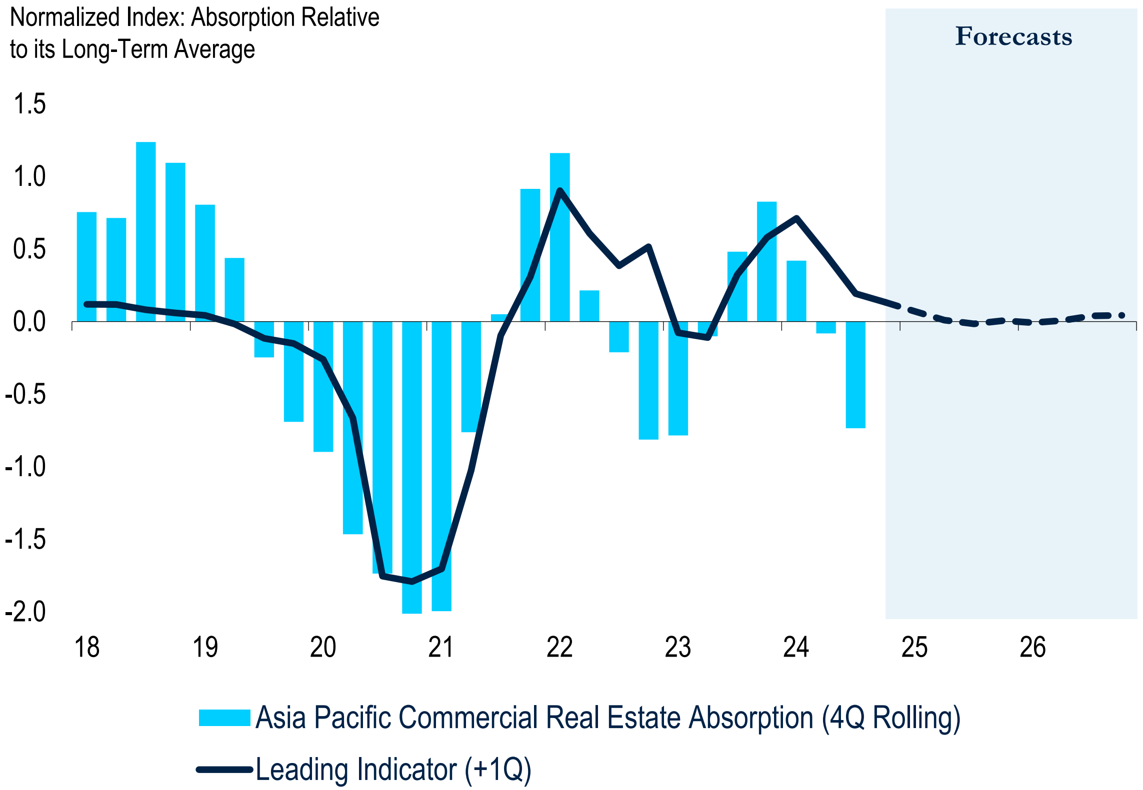
For the region, yields have corrected and are now within our target range.

But unlike across the rest of the world, this was not a large correction. Yields did not get that low and bond yields have not jumped up as much.

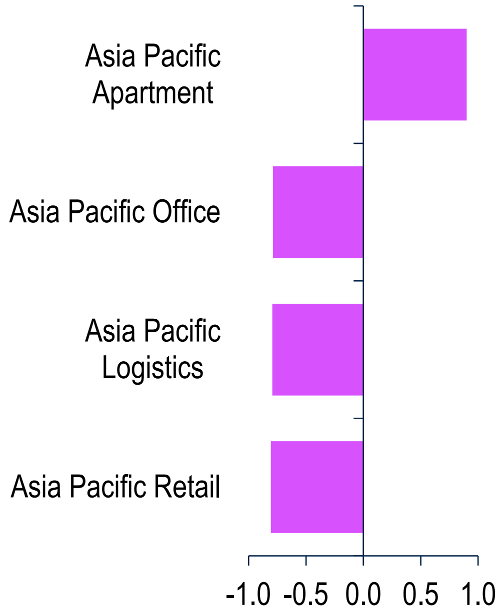
But like the rest of the world, income and income growth are set to be the key drivers of returns.

But Occupier Dynamics Set To Slow To Trend

Commercial Property Absorption & Leading Indicator (Long-Term Average = 0.0)



Normalized Absorption by Sector and Region (2024, Normalized vs. Last Cycle Average)



Forecasts are not guaranteed and may not be a reliable indicator of future results.

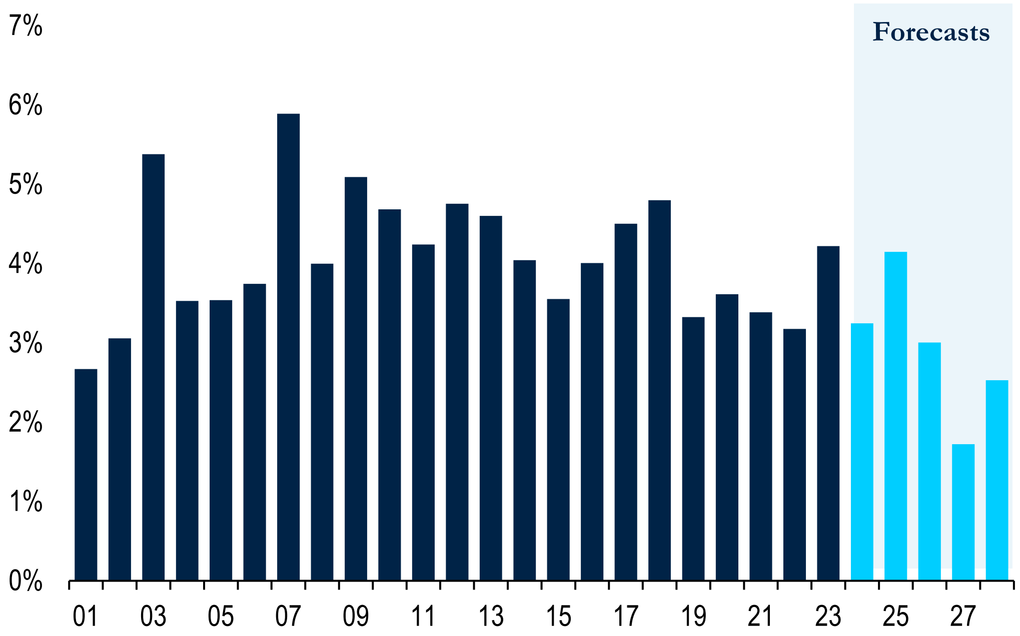
Sources: JLL, PMA, Oxford Economics, Manpower, PGIM Real Estate. As of November 2024.

Net absorption of space is down and, other than residential, set to be weaker than the last cycle in line with weaker economic growth.

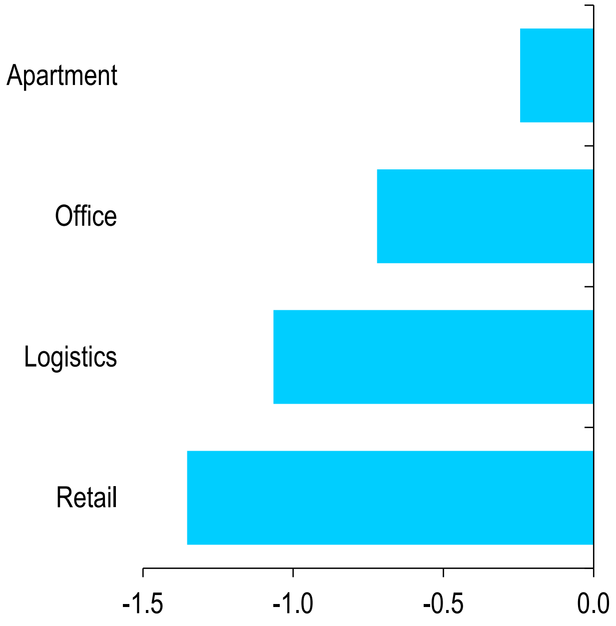
There are variations across the region with weakness in absorption more pronounced in China and Japan.

As Does Supply

Net Additions to All Commercial Property Supply (% p.a.)



Forecast Supply Growth by Sector (2025-29, Normalized vs. Last Cycle Average)



On current forecasts sectors with the strongest real rental growth will see relatively more new supply.

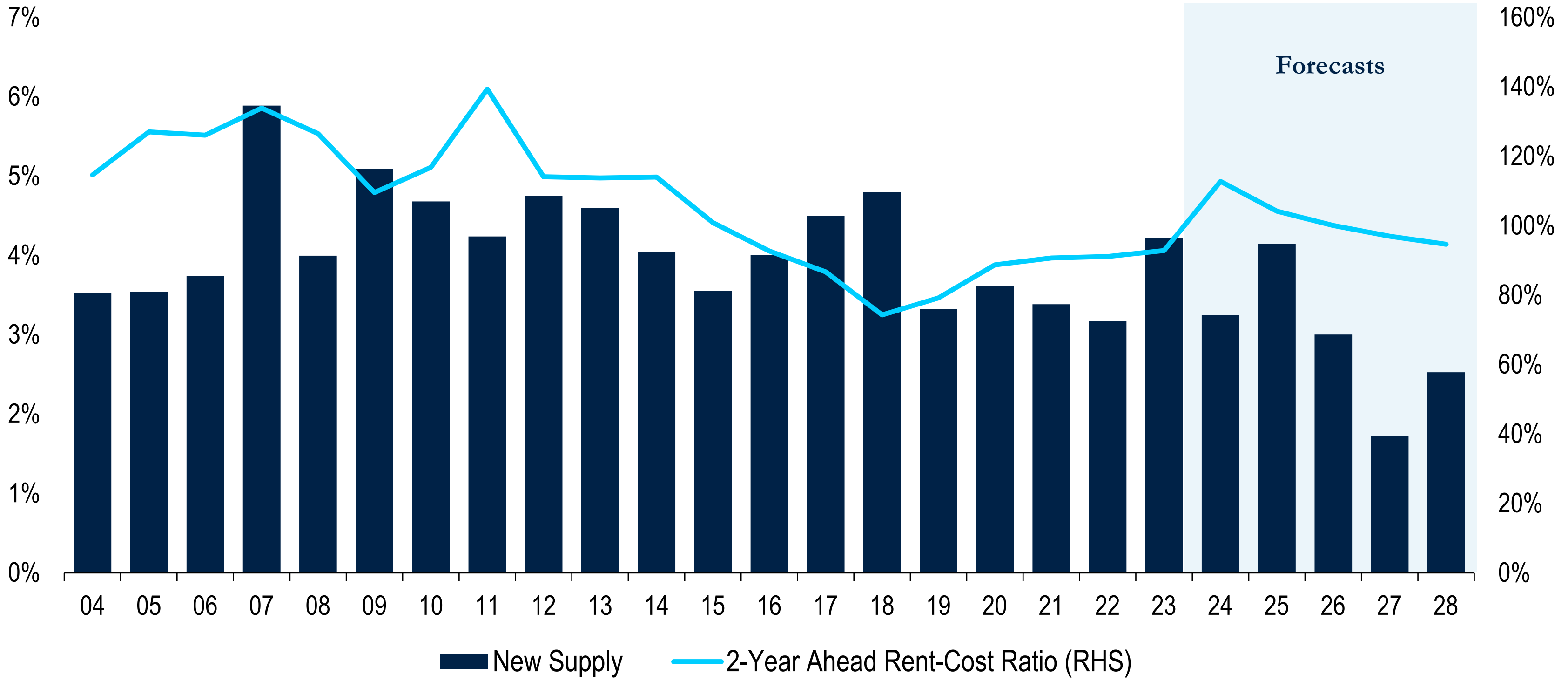
Compared to the last cycle, all sectors are set to record a lower development pipeline. Retail continues to stand out as having the weakest.

Forecasts are not guaranteed and may not be a reliable indicator of future results.

Sources: Oxford Economics, MSCI, JLL, PMA, PGIM Real Estate. As of November 2024.

High Costs to Restrain Development

Aggregate Supply and Real Estate Rent to Construction Cost Ratio (% p.a.)



Forecasts are not guaranteed and may not be a reliable indicator of future results.

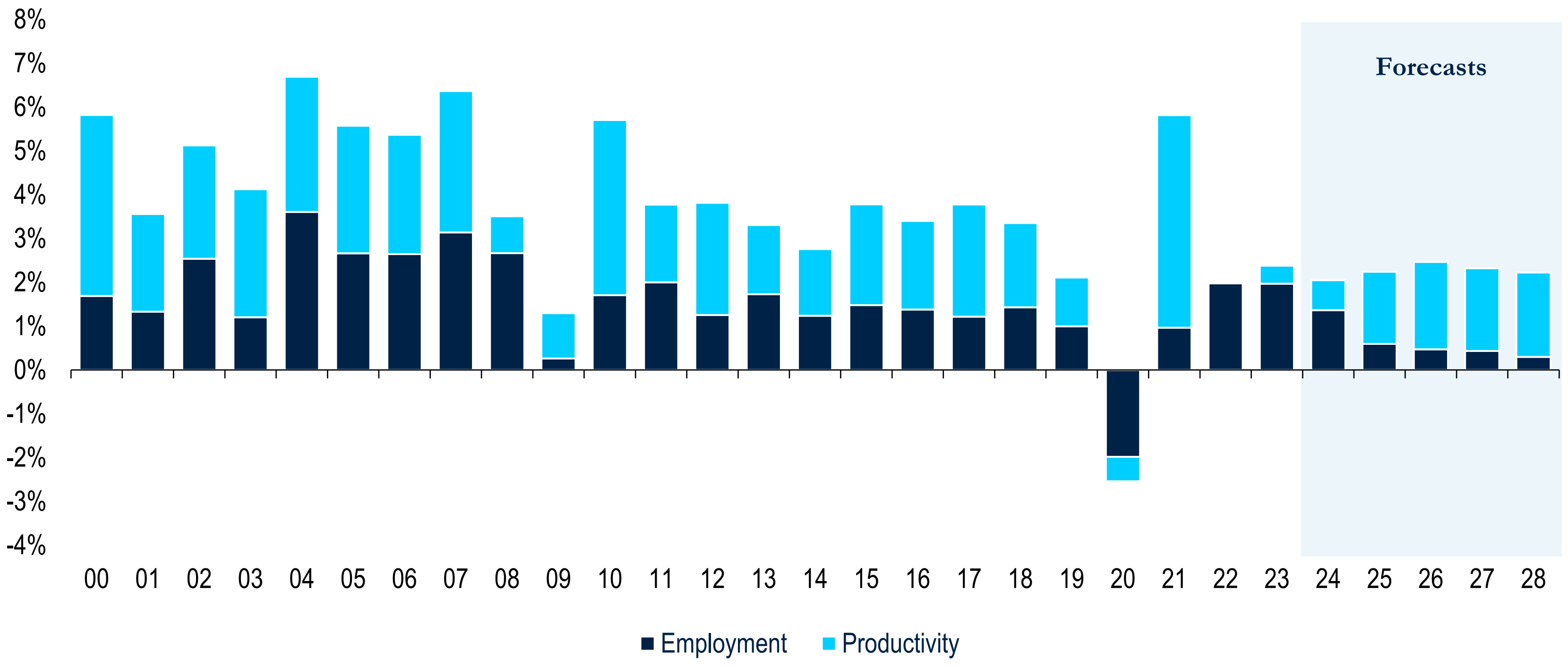
Sources: JLL, World Bank, PMA, Oxford Economics, PGIM Real Estate. As of November 2024.

New supply is expected to continue to trend down as costs of construction remain elevated relative to the rental outlook.

Higher than expected rental growth and/or falling costs of construction are needed to see supply pick up more than anticipated.

There Is Also The Matter Of The Decline in Employment-Driven Growth

Employment and Productivity Contributions to City GDP Growth (Major Investment Markets, % p.a.)*



Forecasts are not guaranteed and may not be a reliable indicator of future results.

*Note: Brisbane, Beijing, Hong Kong, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney and Tokyo.
Sources: Oxford Economics, PGIM Real Estate. As of November 2024.

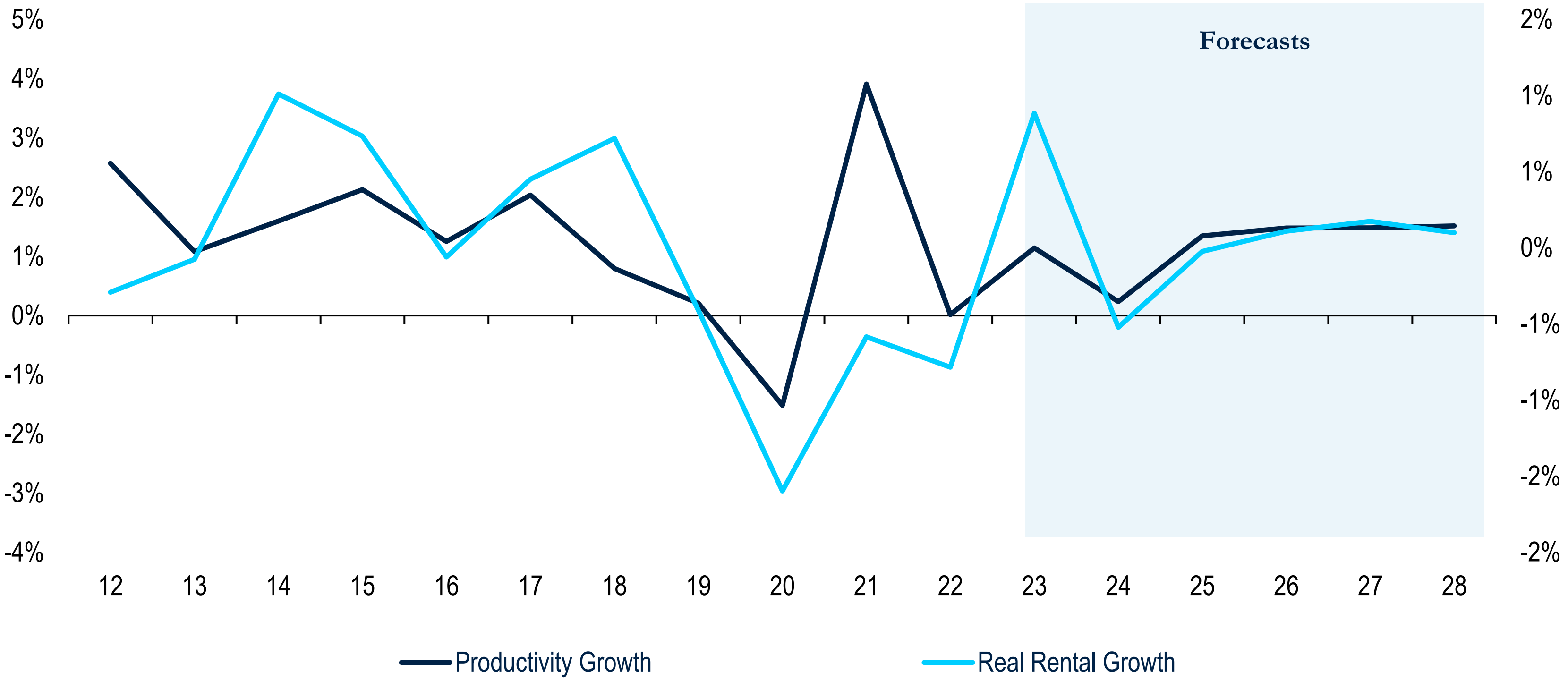
Although employment growth has held up better than expected in recent years in the major investment markets, it is set to decline in line with aging populations.

This points to a future of real estate that will be more about changing the use of existing stock than adding to it.

The hope / expectation is for productivity to return as the key driver of growth.

Rents to Depend More on Cyclically Prone Productivity Growth

Productivity and Real Rental Value Growth (% p.a.)



Forecasts are not guaranteed and may not be a reliable indicator of future results.

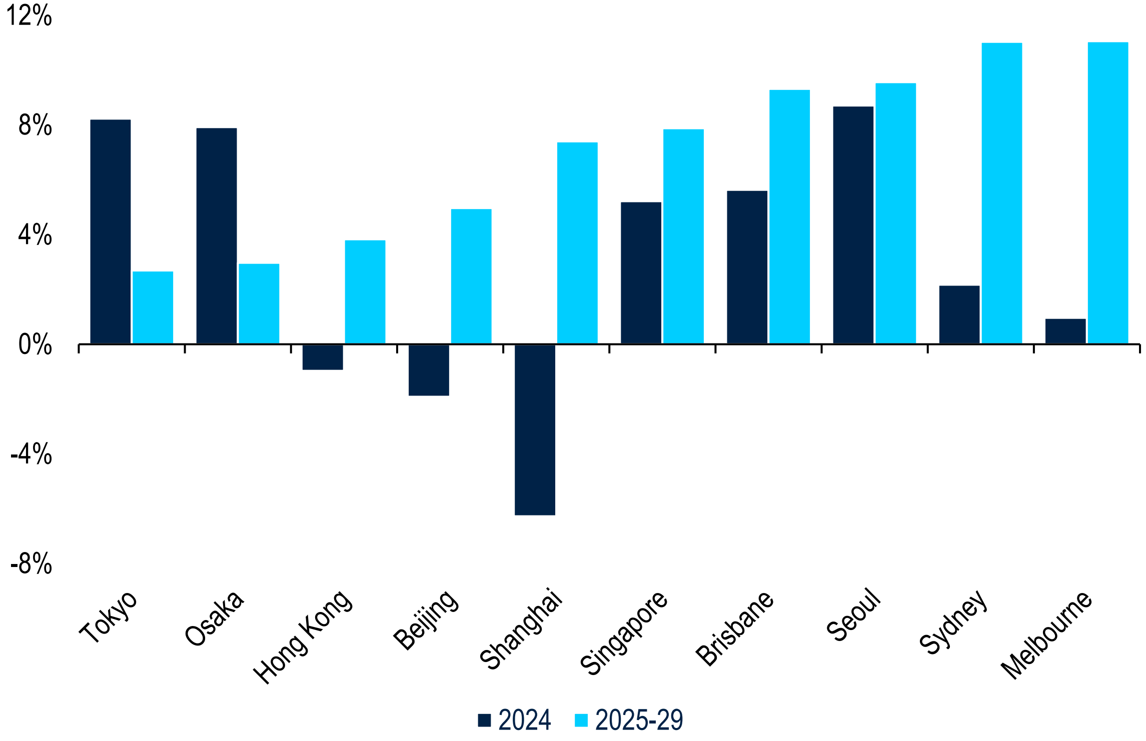
Sources: JLL, PMA, Oxford Economics, PGIM Real Estate. As of November 2024.

Post-COVID-19, productivity growth became a more important driver of real estate rental values than employment growth.

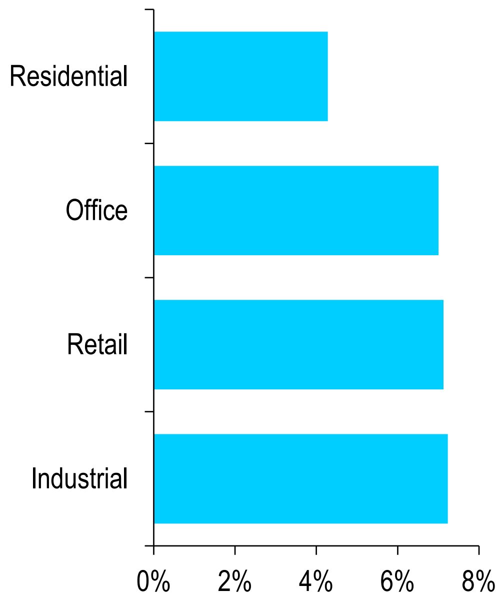
With productivity growth set to become the more dominant driver going forward – and given its cyclicality – this points to a more cyclical real estate outlook.

The Outlook Is Of Wide City Returns Differences

City-Level Annual Prime All Property Total Returns (% p.a.)



Sector-Level Annual Prime All Property Total Returns (% p.a.)



Below the regional aggregate, country differences stand out.

If we focus on the extreme differences, Australian markets and Seoul are set to remain ahead of the regional recovery thanks to strong employment and productivity growth.

At the same time, Japan's interest rate cycle will drag returns down in Tokyo and Osaka.

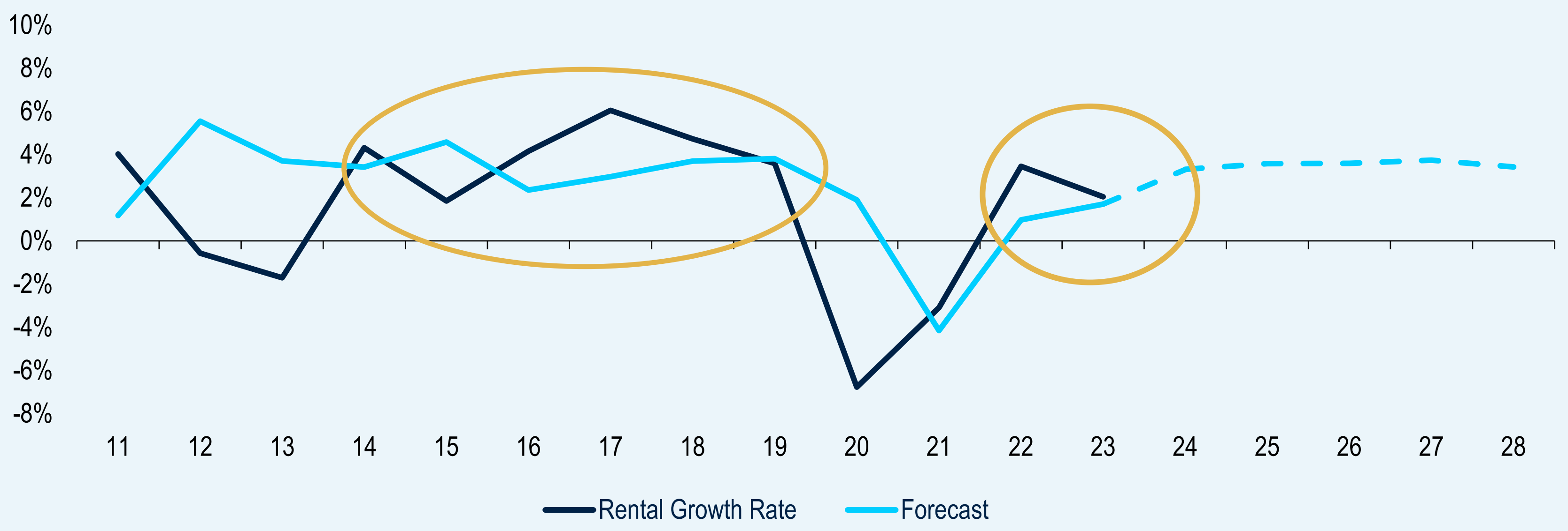
Forecasts are not guaranteed and may not be a reliable indicator of future results.

Sources: Oxford Economics, PGIM Real Estate. As of November 2024.

3 Factors Driving the Scope for Market Repricing in Asia Pacific

1 A Better Than Expected Outlook? Forecasters Underpredict Cyclical Recoveries

Office and Retail Rental Growth Excluding China and 1-Year Ahead Rental Growth Forecasts (% p.a.)



Forecasts are not guaranteed and may not be a reliable indicator of future results.

Sources: JLL, PMA, PGIM Real Estate. As of November 2024.

Unsurprisingly, forecasters do a bad job at predicting turning points, especially the more cyclical real estate markets are.

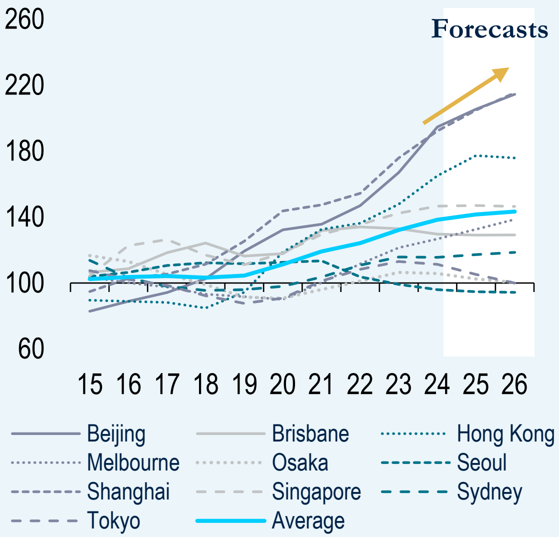
Forecasters typically underpredict the strength of rental growth recoveries.

The likelihood is the same will happen in 2025 where you would see rental growth for office and retail excluding China, beat expectations.

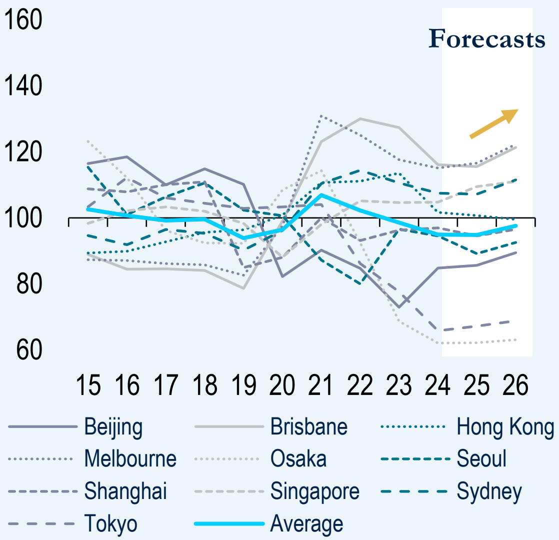
3 Factors Driving the Scope for Market Repricing in Asia Pacific

2 A Better Than Expected Outlook? Office & Retail Rental Growth to Surprise?

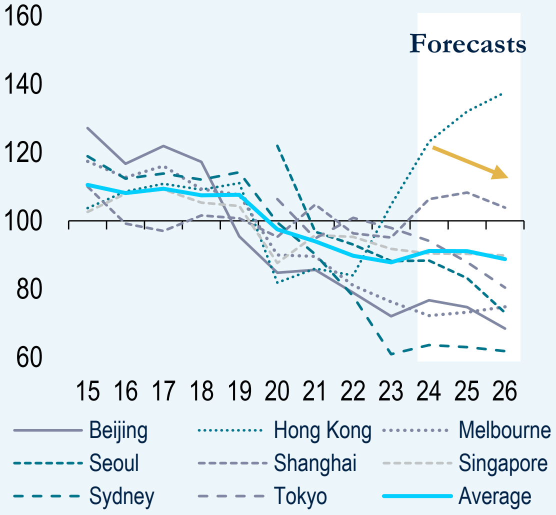
Office Occupier Affordability Ratio (Index, Long-Term Average = 100)*



Retail Affordability Ratio (Index, Long-Term Average = 100)*



Logistics Affordability Ratio (Index, Long-Term Average = 100)*



Forecasts are not guaranteed and may not be a reliable indicator of future results.

*Note: Affordability indices are calculated by taking the ratio of occupier output per sq m of occupier space against rent, where output is proxied by office sector output for offices, retail sales for the retail sector and the transport and distribution output for logistics.

Sources: JLL, Oxford Economics, PGIM Real Estate. As of November 2024.

Markets in which affordability is above 100 point to occupiers being able to pay higher rents.

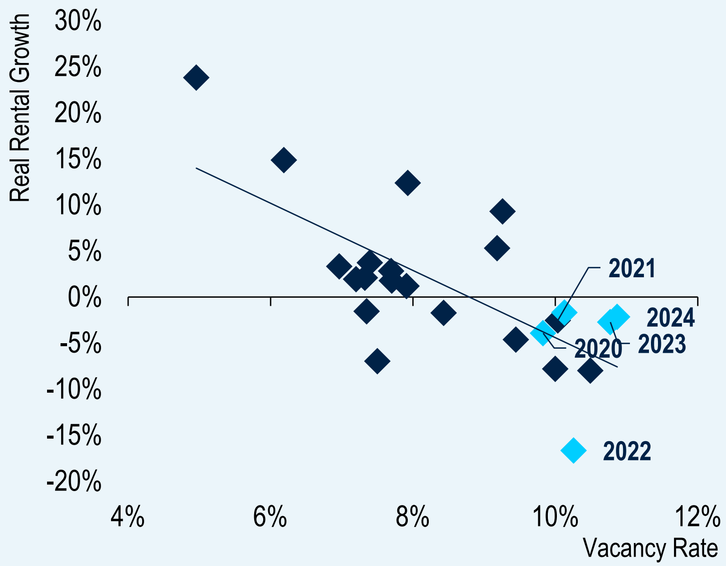
For office and retail occupiers, a competitive chase for stock may well see rental growth beat forecasts in most markets.

Logistics markets look expensive, however. The risk here is that rental growth disappoints in a few markets.

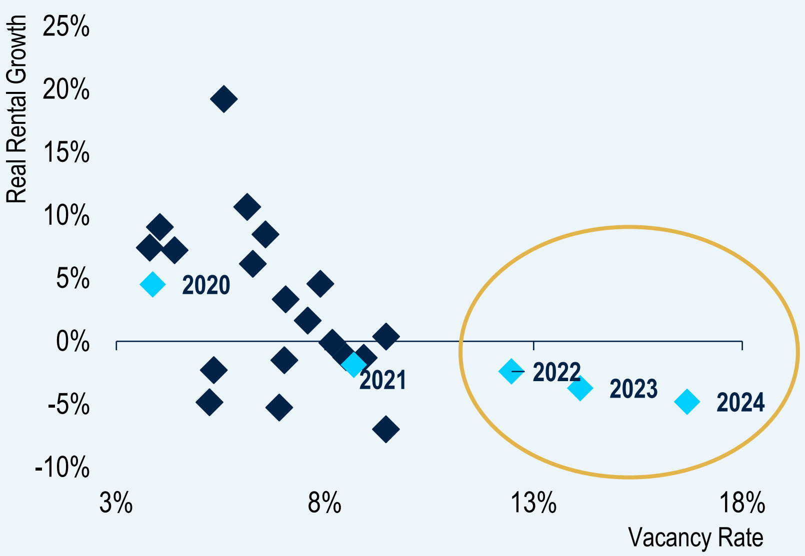
3 Factors Driving the Scope for Market Repricing in Asia Pacific

3 A Better Than Expected Outlook? Signs of Accelerated Obsolescence?

City Office Real Rental Growth (% p.a.) vs. Vacancy Rate (%)*



Melbourne Office Real Rental Growth (% p.a.) vs. Vacancy Rate (%)



*These are Beijing, Brisbane, Hong Kong, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney and Tokyo.
Sources: JLL, PMA, Oxford Economics, PGIM Real Estate. As of November 2024.

For the major office markets* there remains a historically consistent real rental growth to vacancy rate trade-off.

Yet post-COVID-19, this relationship has broken down in a few cities.

For Melbourne for instance real rental growth should be a lot lower. This suggests the vacancy rate includes newly obsolete buildings.

Real rental growth may well end up stronger than expected.

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INVESTMENT OPPORTUNITIES

2

Investment Strategies

Current market conditions give rise to a wide range of risk and return opportunities.

Structural Themes

Investment conviction driven by basic needs and long-term structural trends that support ongoing demand creation.

Tactical Plays

Opportunities arising from near-term growth, the anticipated cyclical value rebound and market dislocation.

Investment Strategies

PGIM REAL ESTATE

CORE/CORE+ STRATEGIES

Market selection will matter in the next cycle.

VALUE-ADD STRATEGIES

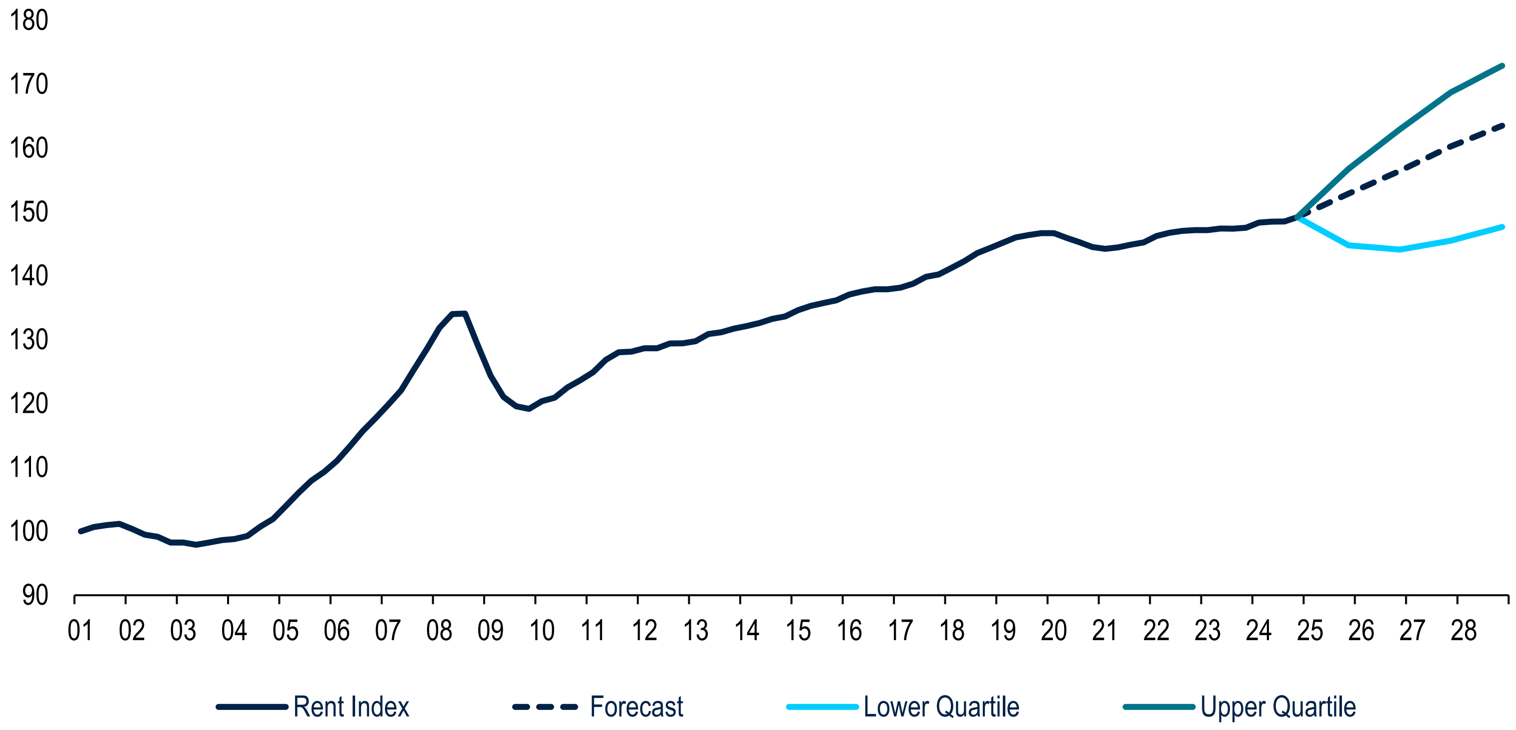
The need for capital injections into existing stock.

CREDIT STRATEGIES

Increased share of non-bank lending will continue in 2025.

Core/Core+ Strategies: e.g.: The Importance of Market Selection

Index of Prime Asia Pacific City All Property Rents (1Q01=100)



Forecasts are not guaranteed and may not be a reliable indicator of future results.

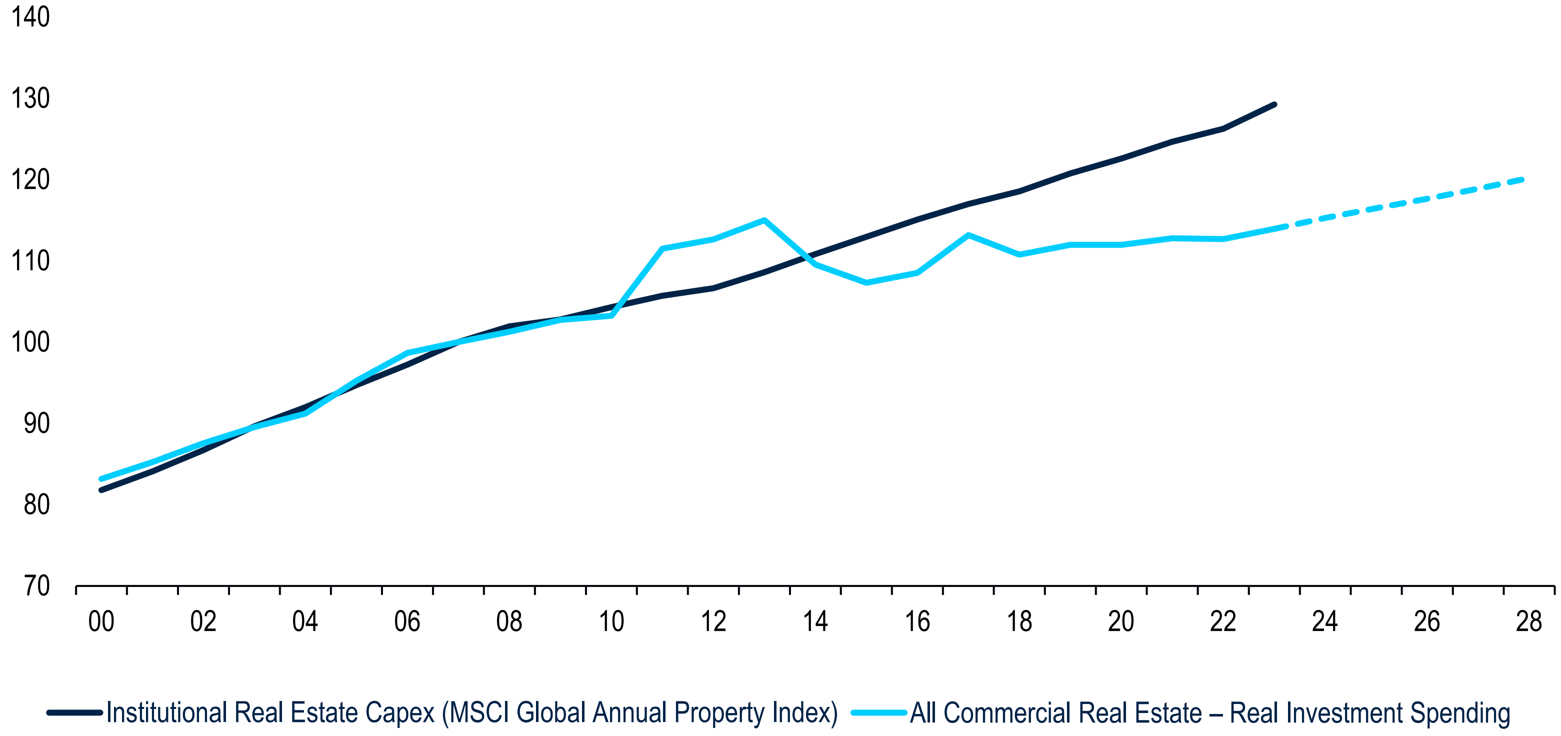
Sources: PMA, JLL, PGIM Real Estate. As of November 2024.

Selecting the right cities and submarkets can lead to outperformance.

Upper quartile markets include CBD office and logistics in Sydney and Melbourne, and CBD office in Seoul, Singapore and Tokyo.

Value-Add Strategies:
e.g.: The Need for Capital Spending

Index of Asia Pacific Capex Spending (%)



The last cycle was characterized by a relatively low pace of investment going into the built environment.

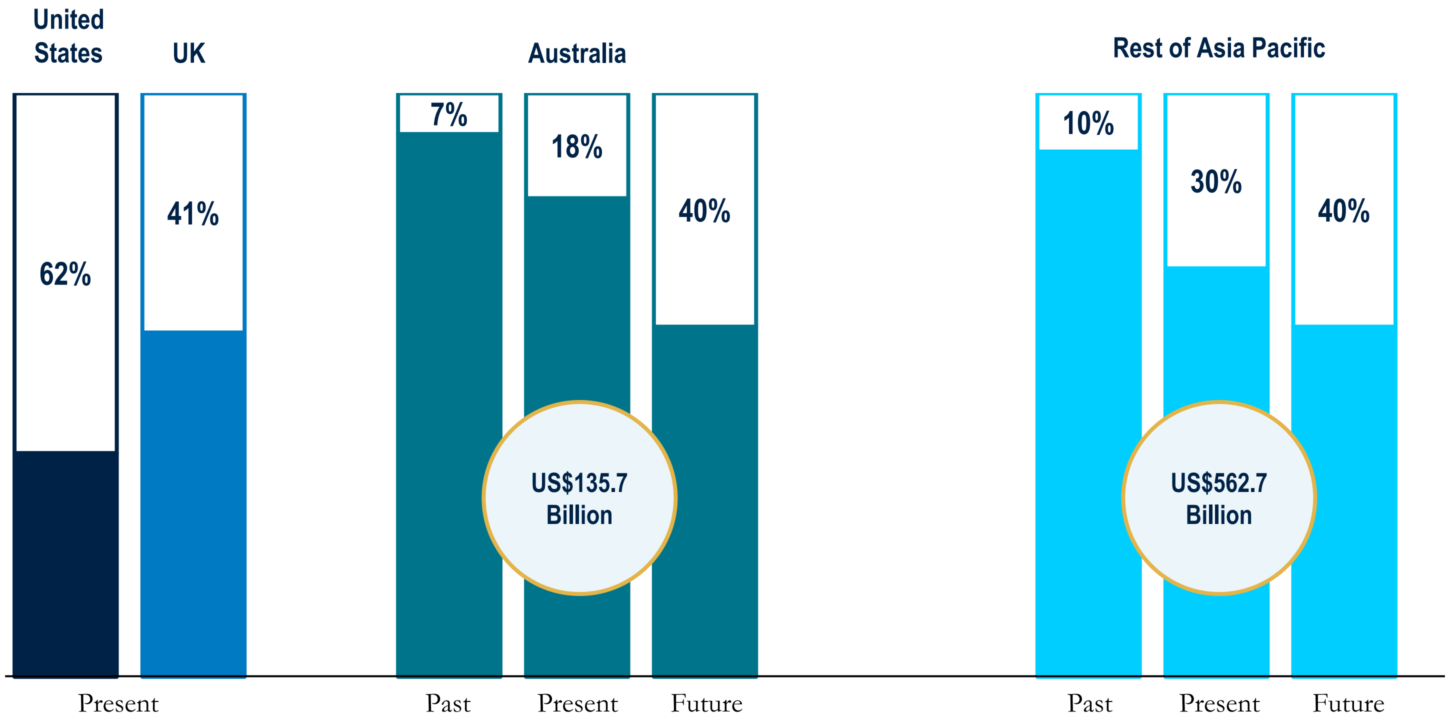
Many buildings will need fresh capital injections, especially as ESG requirements are growing too.

Forecasts are not guaranteed and may not be a reliable indicator of future results.

Sources: MSCI, OECD, Oxford Economics, PGIM Real Estate. As of November 2024.

Credit Strategies:
e.g.: Take Bank Lending Shares

Market Composition: Banks vs. Non-Banks Share of Lending to Commercial Real Estate



Forecasts are not guaranteed and may not be a reliable indicator of future results.

Past refers to 2014, present to 2024 and future to market potential based on the UK and US market compositions. The non-bank lender market in the U.S. includes GSEs (government-sponsored enterprises), which is not prevalent in any other market and comprise 21.8% of the U.S. market. Developed APAC refers to Australia, Hong Kong, Japan, New Zealand, Singapore and South Korea.

Sources: Cushman & Wakefield, Mortgage Bankers Association, Bayes Business School, ECB, IEIF, IREBS, APRA, MSCI/RCA, PGIM Real Estate. As of November 2024.

In Asia, the increased share of non-bank lending to date across suggests there is more to come as banks retreat – a mix of weak appetite and regulations.

This is particularly the case in countries such as Australia as regulations limit bank lending to commercial real estate.

The United States is a case study for potential growth.

The subsequent refinancing and recapitalisation opportunities are set to grow.

Summary of Asia Pacific Investment Opportunities

	NATURE OF OPPORTUNITY	REAL ESTATE APPROACH
LIVING SECTOR	Low homeownership affordability High household growth Strong population dynamics	• Multifamily • Co-Living • Student Housing • Senior Housing
LOGISTICS	E-commerce growth Urban infill supply constrained “Last mile” delivery model	• Urban logistics in core locations
DATA CENTERS	Data demand outstripping capacity Need for new development	• Colocation • Hyperscale
CREDIT	Bank retrenchment Bank regulations Funding gap	• Core and subordinated originations • Loan refinancing • Discounted loan purchases
TACTICAL	Business & leisure traveler rebound Growing household incomes Office market recovery	• Urban hotels in major cities • Prime high street retail • Suburban retail • High-quality CBD offices

Source: PGIM Real Estate. As of November 2024.

Structural Investment Themes for 2025

1. LIVING SECTOR

Needs-based real estate that meets affordability objectives, targeting growing demographic segments in preferred locations.

2. LOGISTICS

Consumer, manufacturing and logistics-driven properties; selective on size and focused on shifting global trade patterns.

3. DATA CENTERS

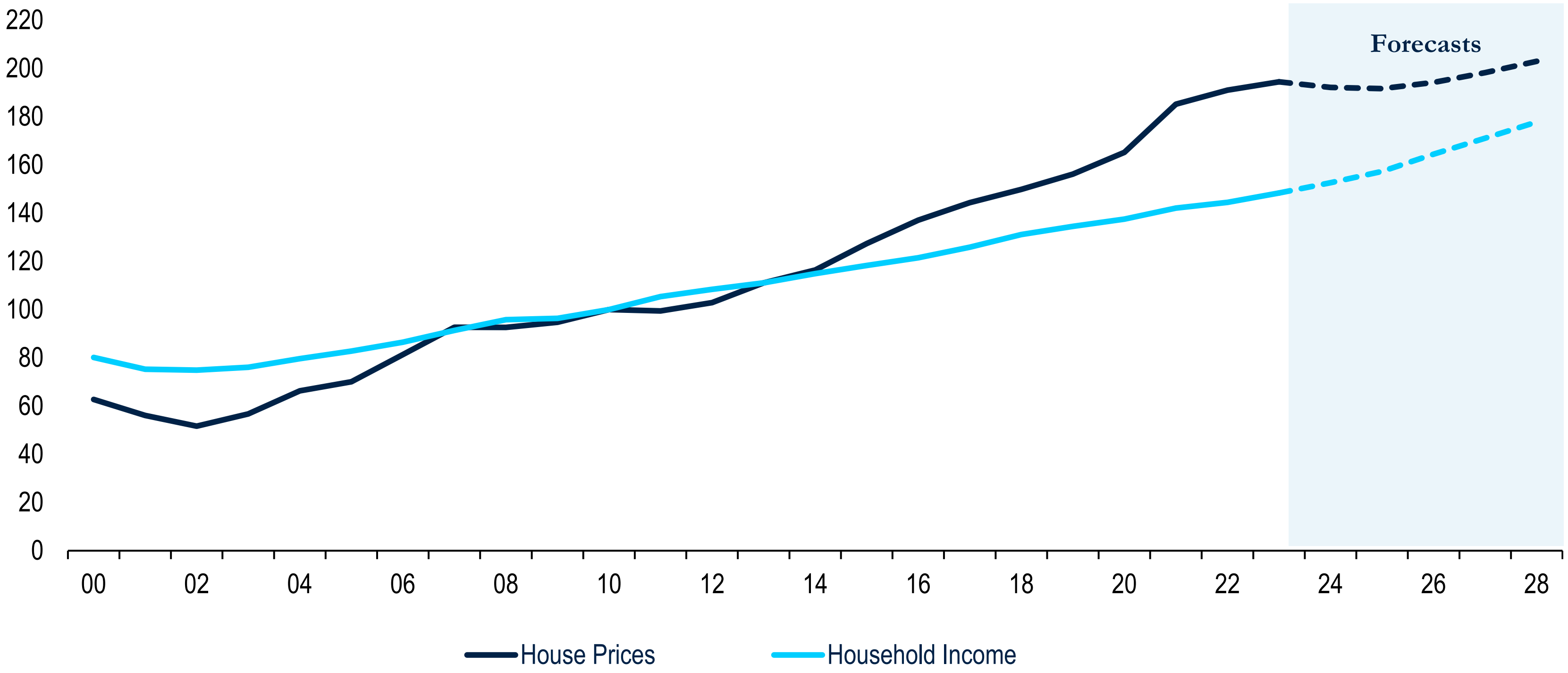
Ongoing favorable demand-supply dynamics due to essential digital infrastructure needs.

4. CREDIT

Capturing opportunities to lend as transaction volumes improve.

Living: The Case for Multifamily: Expensive Housing

House Prices and Household Income
(Index 2012=100)



Forecasts are not guaranteed and may not be a reliable indicator of future results.

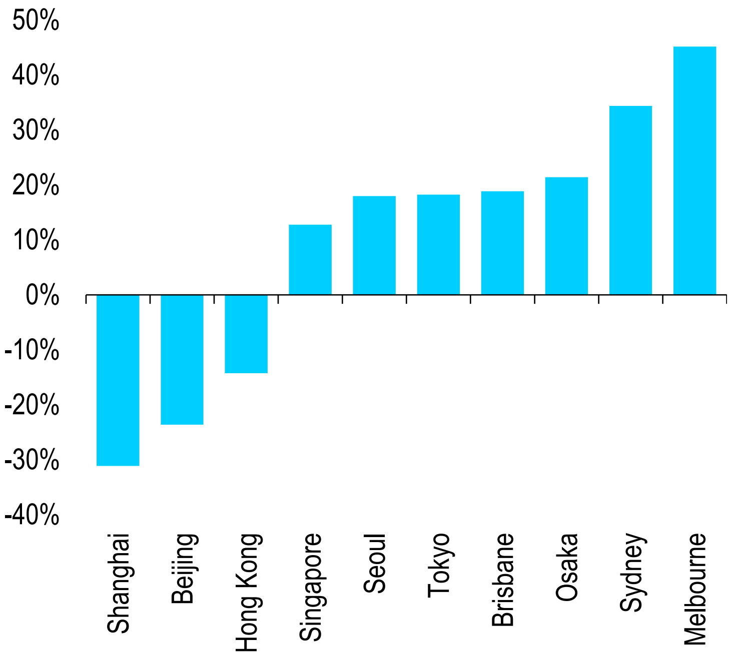
Sources: Oxford Economics, PMA, JLL, PGIM Real Estate. As of November 2024.

LIVING SECTOR

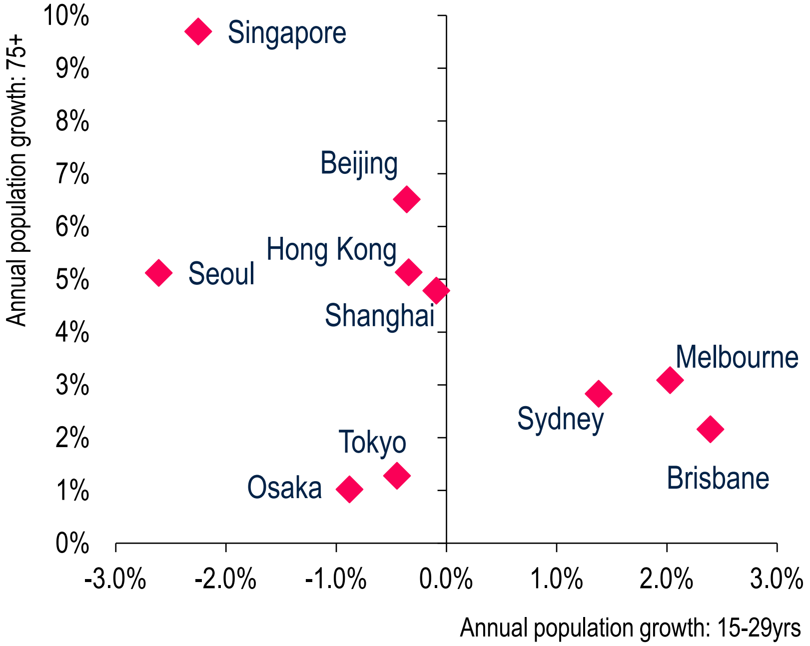
House prices have grown much faster than incomes in recent years, stretching affordability measures especially as mortgage rates have also risen.

Living: The Case for Alternatives

House Price to Household Income Ratio
(2028 Relative to 2015)



Annual Population Growth Forecasts by Age Group
(2024-33, % p.a.)



Forecasts are not guaranteed and may not be a reliable indicator of future results.

Sources: Oxford Economics, CEIC, PMA, JLL, PGIM Real Estate. As of November 2024.

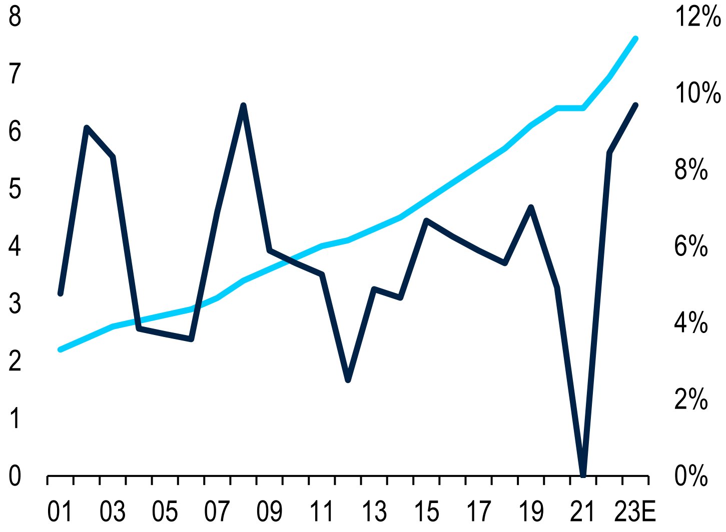
LIVING SECTOR

Expensive housing markets with stable / fast-growing young populations screen well for co-living and student housing opportunities.

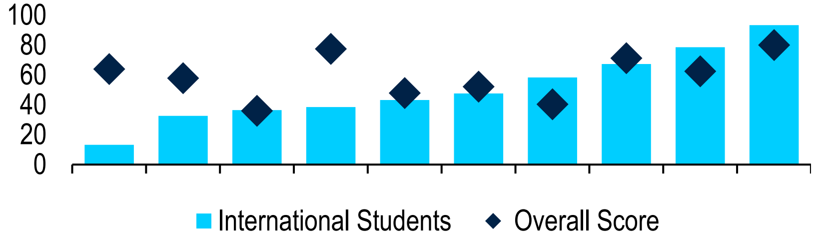
Similar cities with fast growing aging populations also look attractive for senior housing.

Living: The Case for Alternatives: Student Housing

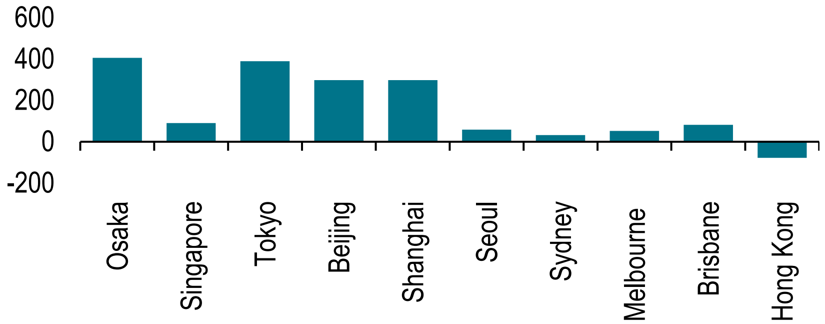
Number of International Students* (Millions)



City University Rankings Based on QS International Students Scores and on QS Overall Scores (2023)**



Yield Spread: Student Housing Minus 10-Year Bonds (2023)***



Forecasts are not guaranteed and may not be a reliable indicator of future results.

*OECD definition: International students are those who received their prior education in another country and are not residents of their current country of study. 2022 & 2023 are global estimates based off annual growth rates in top 10 international student destinations according to UNESCO & IIE.

**Averages of scores given to universities with more than 12,000 students ranked in the top 100 by QS in each city, 2023.

Student housing yields based off market data and historical spreads over multifamily.

Sources: UNESCO, OECD, IIE, QS University Rankings, PGIM Real Estate. As of November 2024.

LIVING SECTOR

Student housing opportunities are largely focused on the international student cohort.

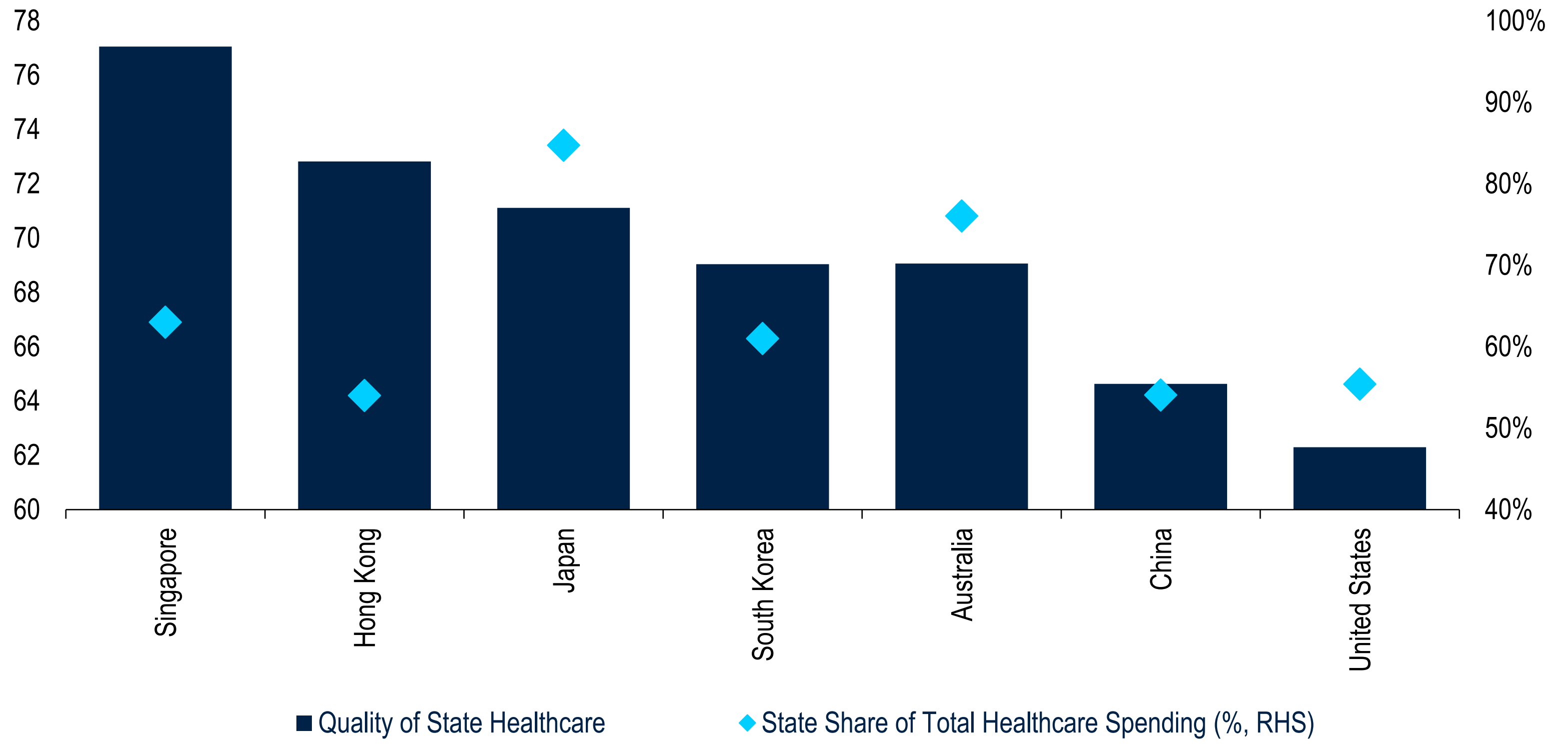
The global trend in international student mobility is expected to continue to grow although countries are starting to impose tougher entry requirements or even caps, e.g. Australia.

Across Asia Pacific, cities with large, highly rated universities screen well for potential student housing.

And given their large spread to bond yields Chinese & Japanese markets look interesting.

Living: The Case for Alternatives: Senior Housing

Quality of State Healthcare & State Healthcare Spending (2023)



Forecasts are not guaranteed and may not be a reliable indicator of future results.

Sources: World Population Review, World Bank, Hong Kong Health Bureau, PGIM Real Estate. As of November 2024.

LIVING SECTOR

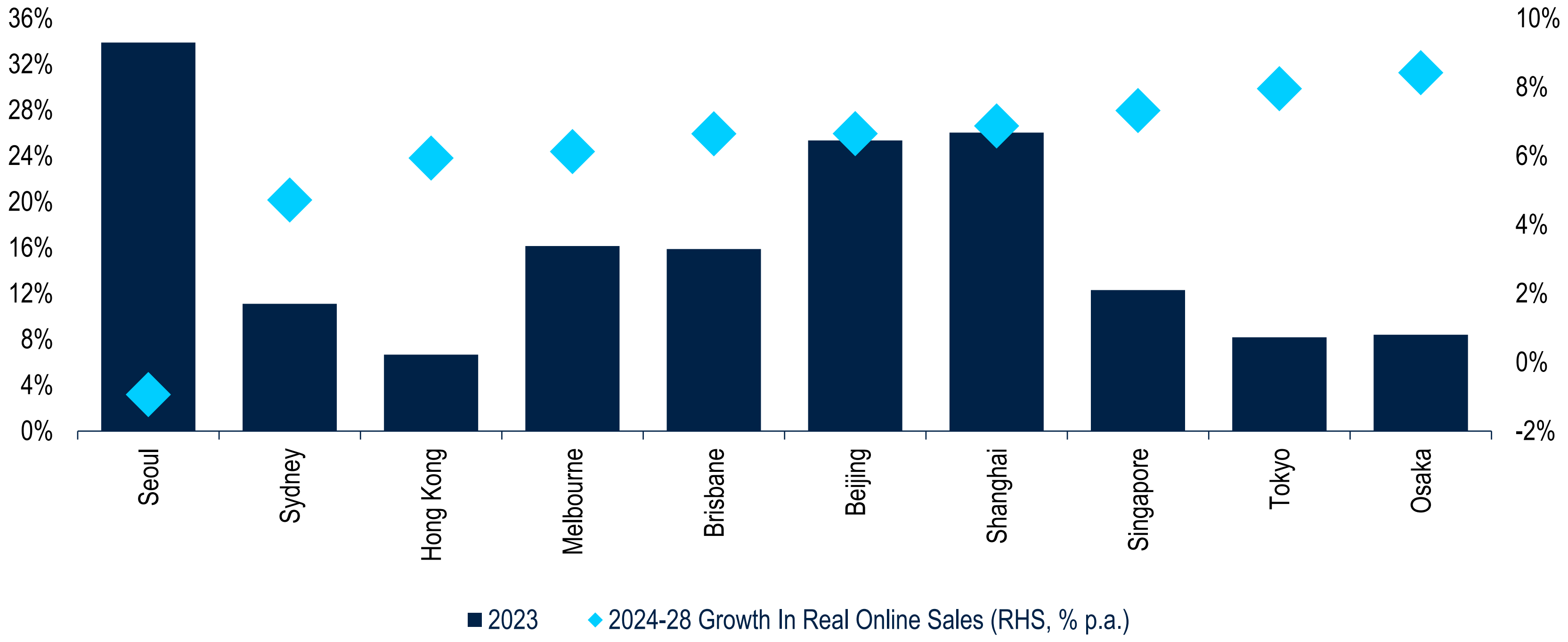
Senior housing opportunities are more attractive in markets where aging demographics meet low-rated state healthcare provision, such as in the United States.

In such markets the prevalence or acceptance of private healthcare continues to grow.

Markets such as China and South Korea stand out.

Logistics: Ongoing Demand From ECommerce

Estimated City Online Penetration Rates (%) and Forecasted Growth in Online Sales (% p.a.)



Forecasts are not guaranteed and may not be a reliable indicator of future results.

Sources: Oxford Economics, World Bank, BLS, EIU, PGIM Real Estate. As of November 2024.

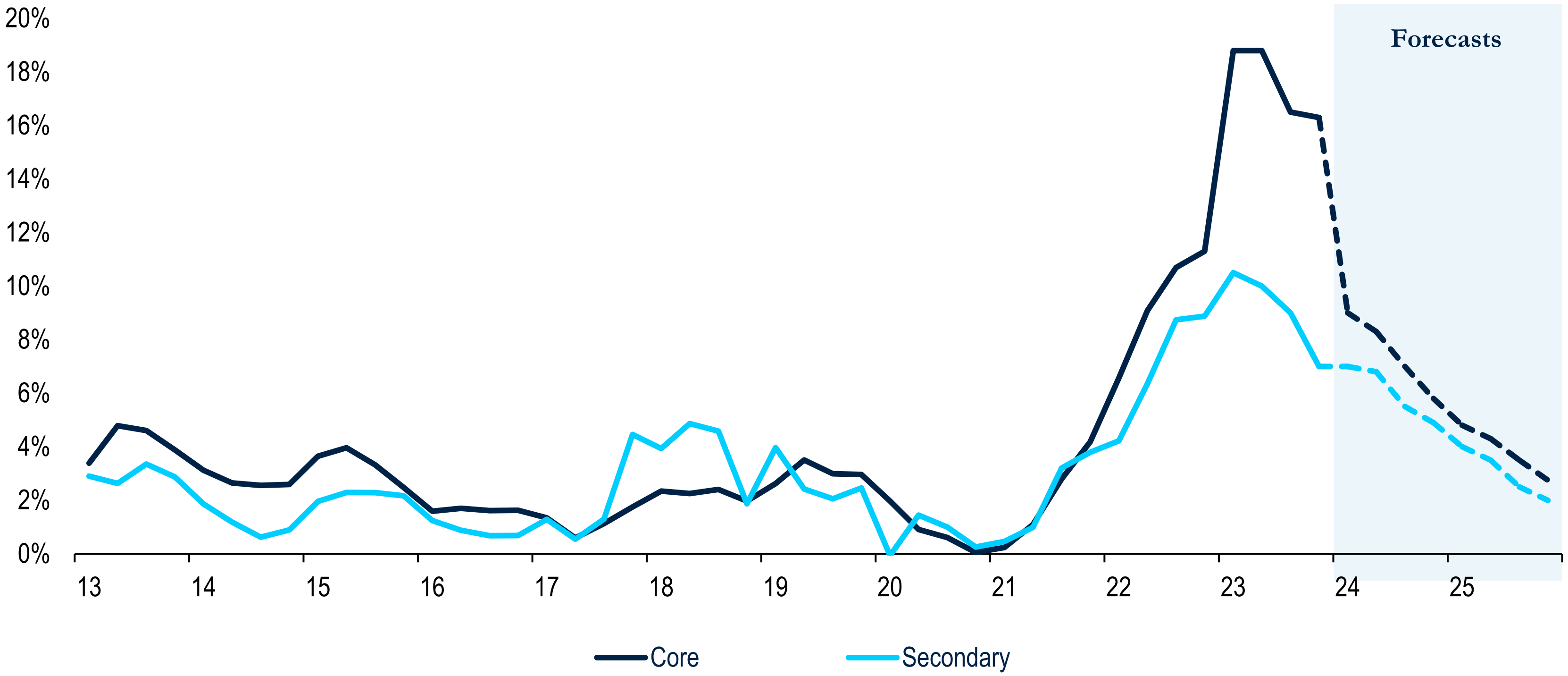
LOGISTICS

Wide variations in e-commerce penetration rates speak to expected future growth in online sales.

But most cities are set to report ongoing strong demand for urban logistics.

Logistics: Ongoing Strength in Urban Markets

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



Forecasts are not guaranteed and may not be a reliable indicator of future results.

Sources: JLL, PGIM Real Estate. As of November 2024.

LOGISTICS

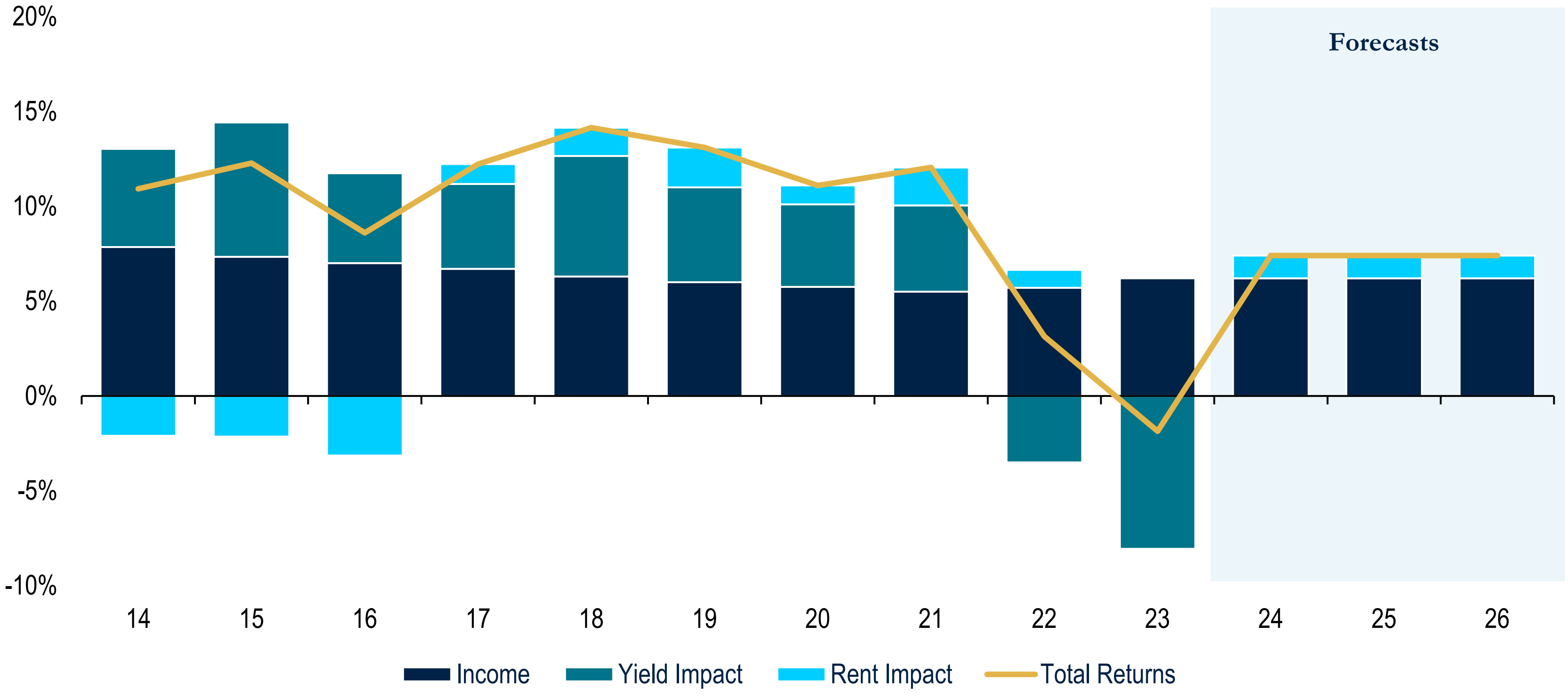
Core locations – those offering high transport connectivity & access to established catchment areas – are again expected to outperform non-core.

These are supply constrained markets with rents being driven by tenants fighting to offer the "Same Day" or "Last Mile" delivery model.

Nonetheless rental growth is set to slow. Rents are becoming expensive and online retail growth is slowing.

Data Centers: Strong Demand Meets Supply Limitations

Prime Data Center Total Returns (Unlevered, Powered Shell (% p.a.))*



Forecasts are not guaranteed and may not be a reliable indicator of future results.

*Note: For Australia, Hong Kong, Japan, Singapore, South Korea.

Sources: Structure Research, DC Byte, Colliers, CBRE, Digital Core REIT, PGIM Real Estate. As of November 2024.

DATA CENTERS

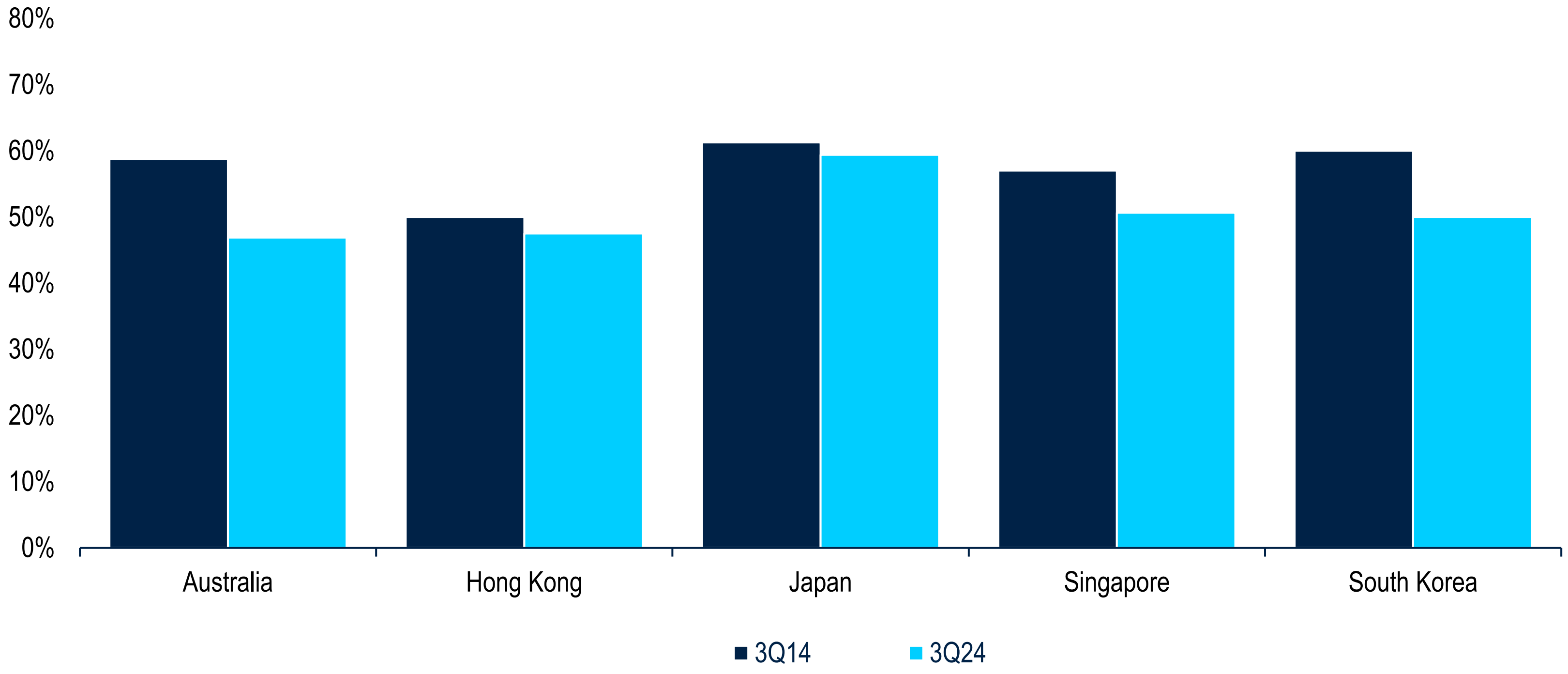
Rental growth driven returns set to persist as supply continues to struggle.

Challenges on new supply to continue pertaining to planning regulations & infrastructure.

The risk that supply will continue to lag market demand remains high – for both colocation and hyperscale data centers. Therefore, rental growth forecasts will likely be revised upwards.

Credit: Non-Bank Lenders to Capitalize on Refinancing Gap

Projected Loan to Value Ratios (%)



Forecasts are not guaranteed and may not be a reliable indicator of future results.

Sources: APRA, PMA, Cushman & Wakefield, MSCI, Bayes Business School, IEIF, IREBS, ECB, PGIM Real Estate. As of November 2024.

CREDIT

The spike in year one loan maturities is particularly pronounced in this cycle due to a backlog of refinances from earlier years.

By country, Australia is carrying the largest funding gap as banks continue to keep well within regulatory guidelines for commercial real estate lending.

New loans face tighter LTVs due to debt service constraints and stricter lending criteria.

Tactical Investment Plays

PGIM REAL ESTATE

1. HOTEL

Core locations in major urban markets experiencing a spending rebound in tourism and business travelers.

2. RETAIL

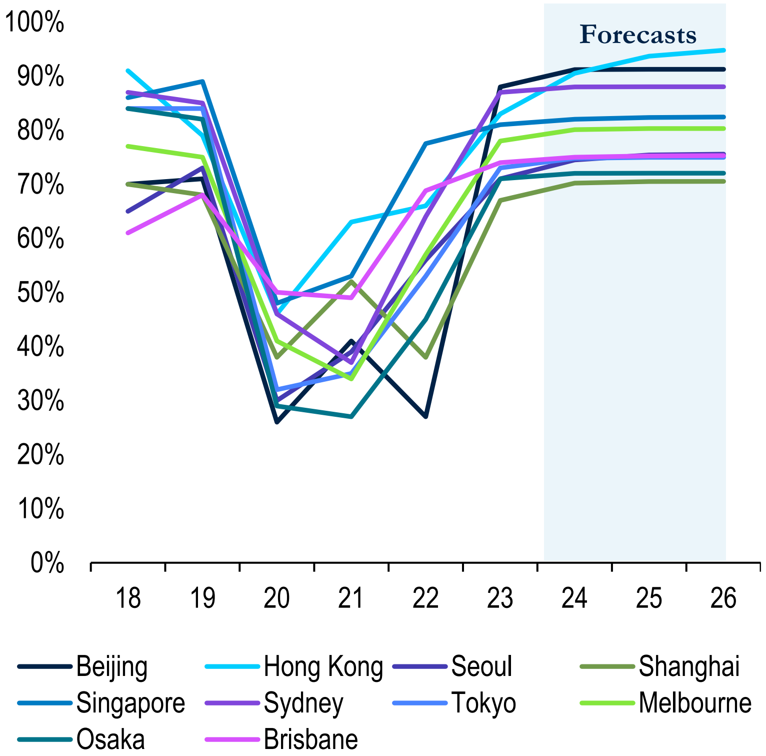
Suburban retail offering resilient income and the cyclical rental recovery in tourism-driven prime high streets.

3. OFFICE

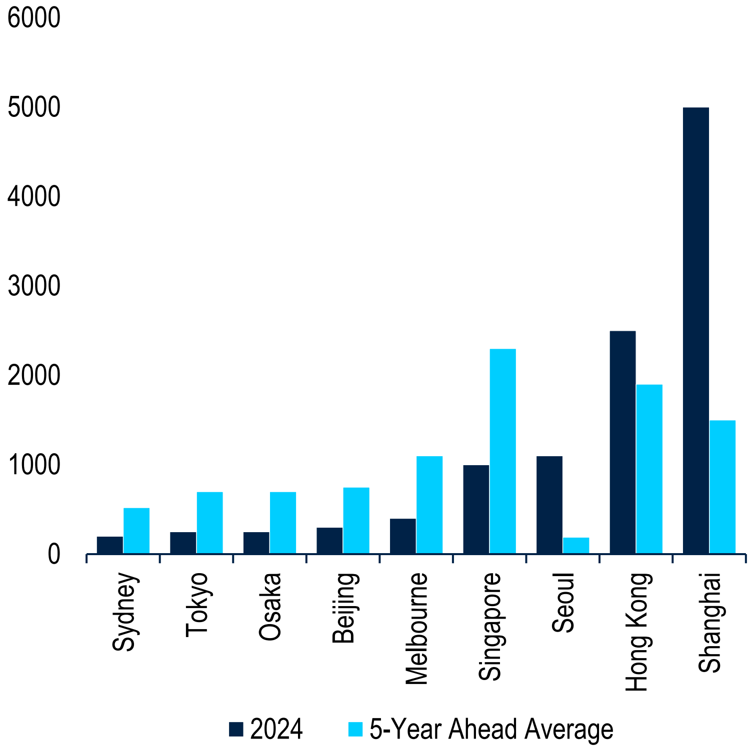
Core modern CBD offices, as flight to quality prevails in recovering markets.

Hotel: Cyclical & Secular Growth in Tourism & Travel

Hotel Occupancy Rates (%)



Hotel Supply: Net Additions (No of Rooms)



Forecasts are not guaranteed and may not be a reliable indicator of future results.

Sources: EIU, Savills, CBRE, Cushman & Wakefield, JLL, Oxford Economics, PGIM Real Estate. As of November 2024.

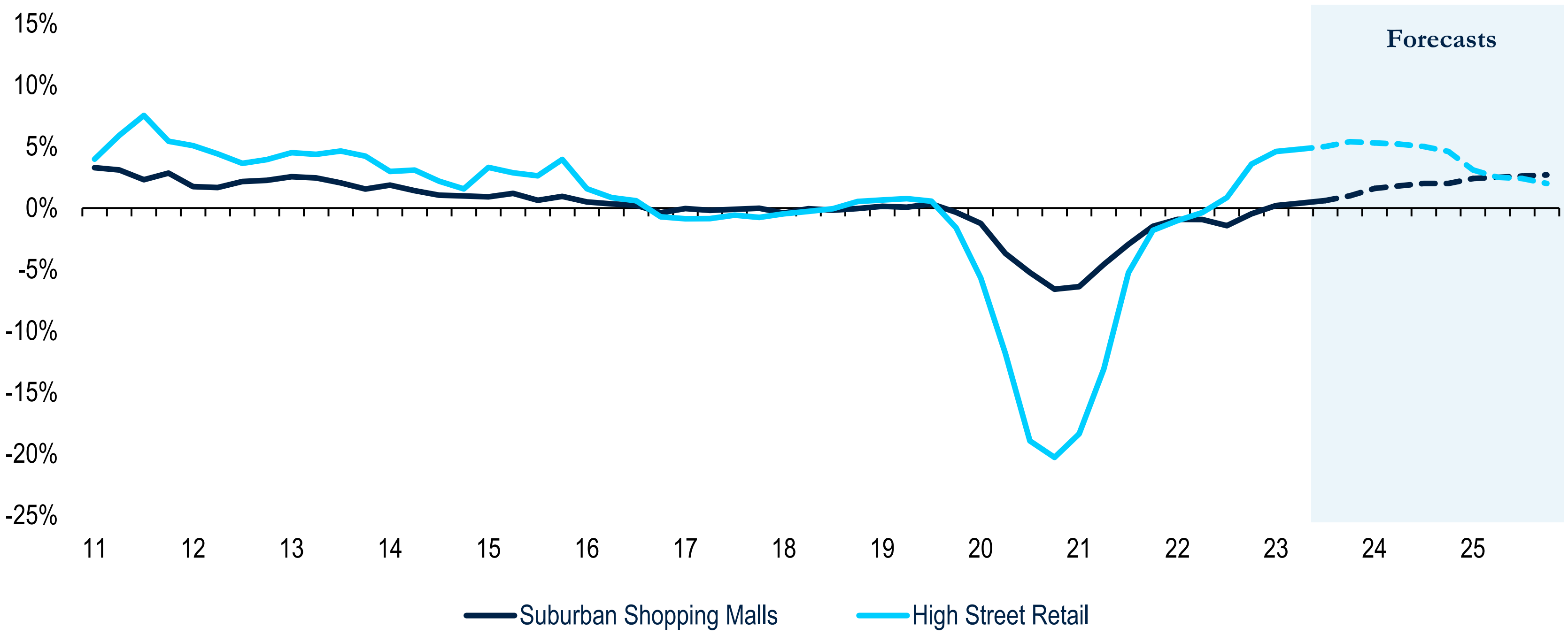
HOTEL

The cyclical rebound in numbers of visitors and spending feeds into the ongoing secular story of growing international tourism.

The case for hotels remains compelling, the relatively low supply pipeline along with business travel spending also recovering, means investor attention has shifted toward urban formats.

Retail: Cyclical Recovery vs. Resilient Income

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



Forecasts are not guaranteed and may not be a reliable indicator of future results.

*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: Oxford Economics, JLL, PGIM Real Estate. As of November 2024.

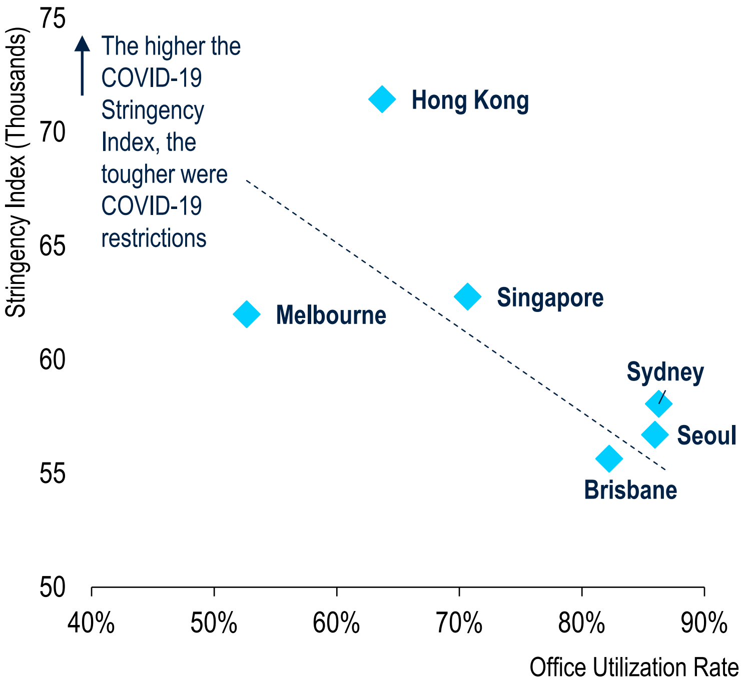
RETAIL

Growth in tourist spending underpins the widening differences in rental performance between prime high street and suburban retail.

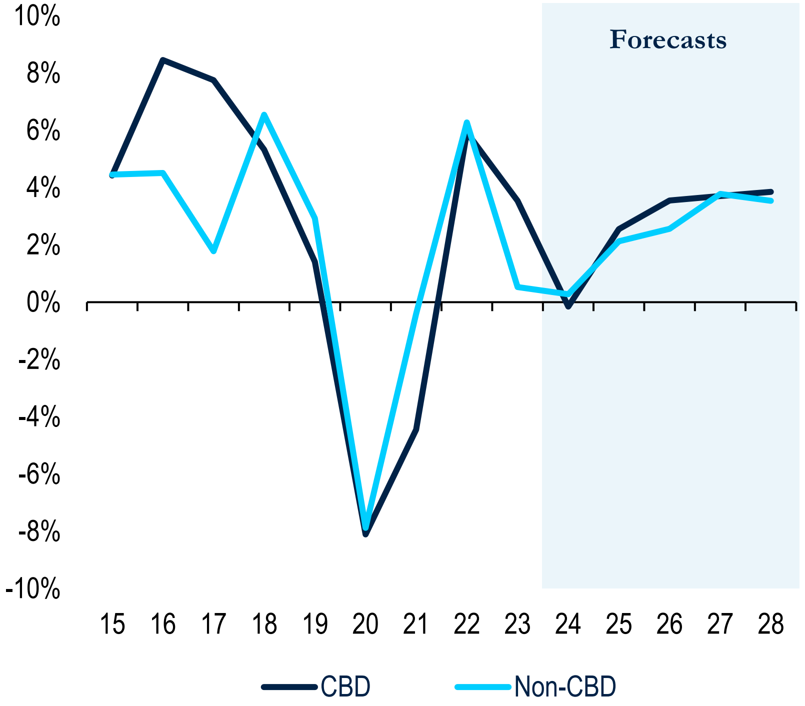
In short prime high street retail offers an ongoing strong rental recovery whilst suburban shopping malls, for instance, offer longer-term income and income growth resilience.

Office: The Slow Return to Office and Flight to Quality

Oxford Stringency Index* vs. Office Utilization Numbers (1H24, %)



Prime Office CBD vs. Non-CBD** Net Effective Rental Growth (% p.a.)



There is a strong and negative relationship between office markets that faced tougher COVID-19 restrictions and utilization numbers. Such office markets continue to report slowly rising occupancy.

Across office markets, though, occupiers continue to fly to quality. This points to ongoing rental outperformance of CBD over non-CBD offices.

Forecasts are not guaranteed and may not be a reliable indicator of future results.

*Note: Technically this is called the COVID-19 Stringency Index, based off the Oxford Coronavirus Government Response Tracker (OxCGRT).
**Note: Based on Sydney, Melbourne, Brisbane, Hong Kong and Seoul.
Sources: Oxford Economics, Our World In Data, CBRE, Savills JLL, PGIM Real Estate. As of November 2024.

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