REAL ESTATE SECTOR INSIGHTS
ASIA PACIFIC – Q4 2024

In this issue

DECEMBER 2024

That's a wrap on 2024

Reflections on this **year**

As we reflect on the commercial real estate market in Australia for 2024, it's clear that this year has been a tale of adaptation and resilience. The landscape has shifted dramatically, shaped by the lingering effects of the pandemic and evolving work habits.

In the office sector, many businesses have embraced hybrid work models, leading to a significant transformation in how office spaces are utilised. This shift has resulted in increased vacancy rates, particularly in traditional office buildings. Companies are re-evaluating their space needs, often opting for smaller, more flexible environments. Consequently, property values in this sector have faced downward pressure, as landlords grapple with the challenge of attracting tenants in a market that has fundamentally changed.

Meanwhile, the retail sector has emerged as a surprising beacon of resilience. Non-discretionary retail spaces, such as grocery stores and pharmacies, have thrived as consumers continue to prioritise essential goods. This demand has attracted investment, with many investors recognising the stability offered by these types of properties. Additionally, the rise of experiential retail — where shopping is combined with entertainment — has also gained traction, drawing consumers back into physical stores.

The industrial sector, as well, has navigated its own set of challenges and opportunities. The surge in e-commerce has driven demand for logistics and warehousing spaces, as businesses seek to optimise their supply chains. While some areas have seen a slowdown in rental growth due to new supply entering the market, the overall outlook remains positive. Investors are increasingly drawn to industrial properties, viewing them as a safe bet in an uncertain economic climate.

Outlook for **2025**

Looking forward to 2025, there is a sense of cautious optimism. Analysts predict that as economic conditions stabilise and interest rates begin to level off, we may witness a resurgence in investment activity across various sectors. Well-located core assets, particularly in urban centres, are expected to rebound, presenting lucrative opportunities for savvy investors. The build to rent (BTR) sector is also poised for growth, especially if government policies support its development, catering to the increasing demand for rental housing.

In this evolving narrative, sustainability is becoming a central theme. Investors are increasingly prioritising properties that meet environmental standards, recognising that sustainable practices not only benefit the planet but also enhance long-term value. As the market adapts to these new expectations, properties that incorporate green technologies and energy-efficient designs are likely to attract more interest.

In conclusion, the story of the 2024 commercial real estate market in Australia is one of resilience and transformation. While challenges persist, the outlook for 2025 suggests a gradual recovery, driven by strategic investments and a focus on sustainability. As the market continues to evolve, those who stay informed and adaptable will be best positioned to navigate the changing landscape and seize emerging opportunities.

Investment Climate

Fast 5: What we're seeing in the industry

Alternate assets shine bright

Tell me more: Alternative sectors like manufactured housing estates and senior living are thriving, showcasing resilience amid economic challenges. A critical housing shortage combined with a favourable planning landscape has been driving investment into co-living, making it one of the few real estate sectors with any active development. Their affordability makes them appealing to investors seeking stability, especially as traditional sectors grapple with structural shifts. This trend highlights a growing recognition of the importance of these assets in diversifying investment portfolios and mitigating risks associated with more volatile markets.

Private Credit: The New Frontier

Tell me more: Private credit is emerging as a dominant force in Australian real estate financing, filling critical funding gaps as traditional banks tighten lending standards. This shift enables developers to pursue innovative housing solutions and address the ongoing supply crisis, particularly in social and affordable and build to rent projects. The agility of private credit providers allows for quicker decision-making and tailored financing options, making them essential players in the current market landscape. As demand for private capital grows, it is expected to play a significant role in expanding Australia's housing stock and alleviating affordability pressures.

Economic rebound on the horizon

Tell me more: Easing monetary policy and a trend of disinflation are expected to bolster GDP growth in 2025. Current conditions suggest the economy is at or near the bottom of the cycle, with a gradual recovery anticipated. This positive outlook is likely to encourage renewed investment across various sectors as confidence returns.

2025: the year of the comeback

Tell me more: As falling bond yields create a more favourable environment, we can expect a reduction in price anxiety surrounding transactions. This easing of financial pressure is likely to stimulate a recovery in transaction activity throughout 2025. Investors, feeling more confident with lower borrowing costs, will be encouraged to engage in the market, leading to an uptick in deals. Looking ahead, the momentum is expected to build into 2025, when a resurgence in transaction activity could occur. This anticipated rebound will likely be driven by a combination of improved economic conditions, stabilised interest rates, and a renewed appetite for investment across various sectors. As confidence returns, we may see a wave of strategic acquisitions and developments, positioning the market for robust growth.

Join the club – joint ventures and strategic collaborations on the rise

Tell me more: With the current scarcity of quality acquisition opportunities, strategic joint ventures and consolidations among major players are becoming increasingly common in 2024. Firms are seeking to enhance their portfolios and navigate market challenges through these collaborations. Additionally, club deals are gaining popularity as a structure for foreign investors to enter the Australian market, allowing them to pool resources and share risks. This trend not only fosters innovation but also positions companies to capitalise on emerging opportunities more effectively.

Key Resources

- JLL Australian Economic and Real Estate trends Q3 2024
- RBA Inflation Overview
- Joint ventures driving new property market opportunities
- Australian Real Asset Review Q4 2024
- Investors look to Sydney for co-living opportunities

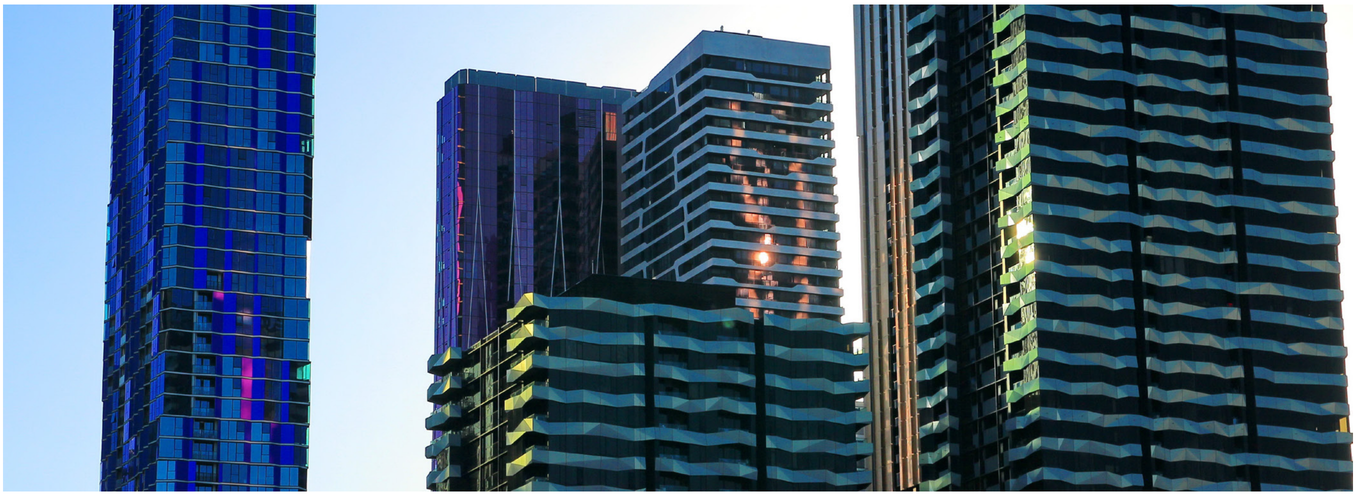
Australia's investment trends

- **Australia's GDP grew by 1.5% in the 2023-24 financial year, with an 0.3% increase in the September quarter**. This reflects ongoing economic resilience, although it marks the weakest annual growth excluding the pandemic period, and compared to 0.8% in the September quarter of 2023. GDP growth is expected to lift from 1.2% in 2024 to 1.8% in 2025.
- **The RBA kept the cash rate on hold at 4.35%, with inflation remaining a significant concern**. Analysts predict potential easing of rates in early 2025 as inflation trends downward. The RBA has stated they would need to see two strong quarters of low inflation before joining other central banks in lowering the official cash rate, according to newly released minutes from the November Board meeting.
- **The unemployment rate remained at 4.1%, indicating a cooling labour market**, yet the participation rate remains robust at 67.2%.
- **In Australia, annual CPI inflation was 2.8% in the September quarter**, significantly down from 3.8% in the June quarter. The major reason for lower CPI inflation was due to a fall in prices for electricity and automotive fuel.
- **There is still considerable uncertainty regarding the international outlook**. Many central banks have relaxed their monetary policies, reflecting growing confidence that inflation is gradually returning to their target levels. The RBA Board also considered the results of the US presidential election, concluding that "a wide range of alternative outcomes was possible." In response to a sluggish economic outlook, Chinese authorities have adopted more expansionary policies, although the effects and specifics of these measures are yet to be fully understood.
- **Australia's three-year government bond yields ended the month 1bp lower at 3.54%**, while 10-year government bond yields were unchanged at 3.97%. Against the current cash target rate of 4.35%, three-month bank bills ended 4bps higher at 4.43%. Six-month bank bill yields ended 9bps higher at 4.62%. The Australian yield curve steepened modestly.
- **Australia's economy is projected to maintain a slow growth trajectory for the rest of 2024**. However, the expected easing of tight monetary policy and a continuing trend of disinflation are likely to bolster GDP growth in 2025. Consequently, current economic conditions are viewed as being at or near the bottom of the cycle, with a gradual but sustained recovery in growth anticipated moving forward.
- **Housing supply continues to lag, with national commencements at their lowest since 2012**. The government aims to deliver 40,000 social and affordable homes by 2029, but high construction costs and lengthy approval processes pose significant barriers.
- **Housing vacancy rates remain critically low at 1.3%**, leading to sustained upward pressure on rental prices, particularly in urban centres.
- **The Australian office market recorded 24 major transactions across CBD and metropolitan markets over the quarter, totalling $2.1 billion**. Of this total, $1.7 billion across 12 office assets was concentrated in Australia's CBD markets. Global capital is expected to maintain interest in Australian real estate, attracted by the country's strong fundamentals, including political stability, high credit rating, and transparent regulations.
- **Commercial Real Estate values are recalibrating amid economic uncertainty, but core sectors have reset rents, showing positive growth**. This trend is likely to boost investment as confidence returns and anticipated lower interest rates may further stimulate activity. As a result, bid-ask spreads are expected to narrow due to improved liquidity.
- **The industrial sector continues to thrive**, characterised by low vacancy rates and strong demand for high-quality logistics assets.
- **National quarterly gross take-up rose for consecutive quarters in Q3 2024, increasing 9.8% quarter-on-quarter to 864,023 sqm**. The ongoing improvement was largely driven by increased occupier appetite for mid-sized warehouse space between 10,000 and 19,000 sqm. On a sector level, the transport, postal and warehousing sector accounted for the largest share of gross take-up nationally in Q3 2024 (36.1%). Demand from the retail sector remains low, with the Q3 2024 take-up share totalling 10.1%, less than half the long-term average.
- **Quarterly retail transactions totalled $2 billion across 31 transactions**, on par with the long-term quarterly average. Unlisted funds (32%) represented the largest group of retail real estate vendors in Q3 2024, while A-REITs returned to the buyer pool, becoming the largest buyers of retail real estate over the latest reporting quarter (31%). Retail transaction activity is expected to lift as other property sectors still lag the retail sector in the yield softening cycle.
- **Despite ongoing economic challenges, many alternative sectors have shown strong resilience, proving less vulnerable than core sectors facing structural changes**. For instance, while the rising cost of living created difficulties in 2023, sectors like manufactured housing estates and senior rental assets performed well due to their affordability. Additionally, the essential nature of services such as education, healthcare, and aged care supports a positive medium to long-term investment outlook, even amid short-term pressures on operating margins.
- **Many investment managers pursued capital raising for funds focused on alternative assets in 2023 but struggled to secure funding without identified acquisitions**. Those who did raise capital face pressure to demonstrate portfolio growth beyond initial assets. This ongoing dilemma affects new entrants in the Australian alternatives sector due to a lack of quality, large-scale acquisition opportunities. Consequently, more strategic joint ventures or consolidations among major players are anticipated in 2025.

Key Resources

- Australian Bureau of Statistics – Employment and Unemployment
- JLL Australian Economic and Real Estate trends Q3 2024
- RBA Inflation Overview
- Australian economic view – October 2024 Janus Henderson Investors
- RBA Monetary Policy Decision – November 2024
- Cushman & Wakefield Australia Alternate Assets Outlook 2024

Sub-sector snapshots



Office

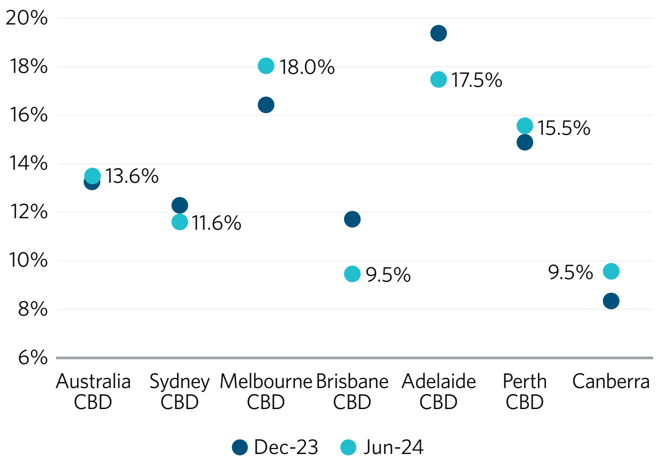
Activity in the office sector continues to remain subdued compared to historical standards, driven by a combination of rising interest rates, softened tenant demand and the persistent impact of hybrid work models. However, return-to-office mandates by employers are beginning to support demand, and there are signs of stabilisation in vacancy rates.

Mixed signals across CBD markets

The national CBD office vacancy rate tightened by 0.3% to 15.1% at the end of September 2024. However, demand remained varied across the CBD markets in Q3 2024. **Sydney CBD** outperformed with net absorption of 54,000 sqm, driven by reabsorption of sublease space, especially among financial institutions and smaller tenants. **Brisbane CBD** faced weaker demand than anticipated, with negative net absorption of 1,300 sqm, although it maintains the lowest vacancy rate among the CBDs at 10.5%. Brisbane's prime grade vacancy tightened to 8.3% in Q3 2024, the lowest level since Q3 2019. **Perth CBD** saw a reduction in vacancy and positive net absorption, demonstrating resilience. **Melbourne CBD** continues to face soft demand and higher vacancy pressures.

National Office Vacancy Rates

Figure 4: Total Vacancy

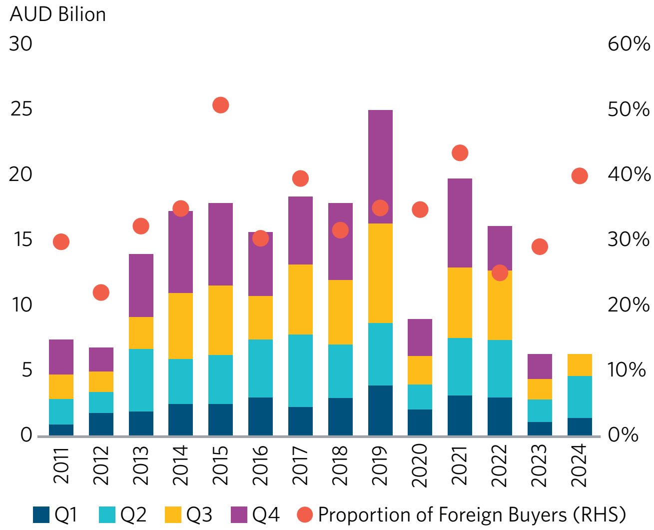


Source: CBRE Research

Transaction volumes overtake 2023 levels

2024 transaction volumes have outpaced 2023, suggesting growing investor confidence. In Q3 alone, $1.7 billion worth of office disposals occurred, with Sydney's CBD remaining a focal point for major acquisitions, such as Deka Immobillen's $395 million purchase of 333 George Street from Charter Hall. This uptick reflects a cautious but renewed interest in quality assets.

Australia office investment volumes



Source: CBRE Research

Office mandates on the rise amid job market shifts

The shift to
hybrid work models
has been detrimental to the sector. However, as the jobs market softens, employers are gaining the upper hand and are increasingly mandating a return to office attendance.

Recent directives from corporations like Amazon and Tabcorp, which now require employees to be in-office five days a week, indicate a growing trend of stricter workplace attendance mandates. This shift is likely to support office demand as companies look to maximise productivity and make efficient use of their leased spaces. JLL Research is attributing the improved performance of Sydney and Brisbane CBDs to more organisations locking in office leases after issuing mandates for employees to be in the office.

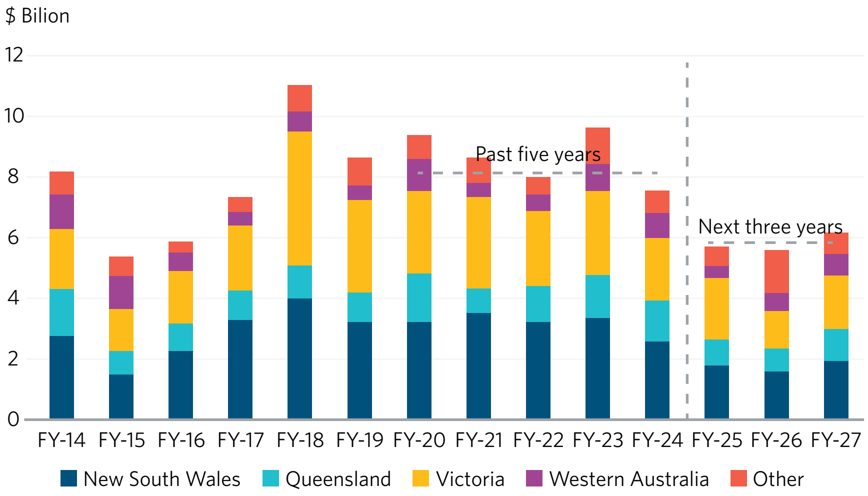
Significant contraction in supply pipeline

The current supply pipeline is elevated in Q4 2024 with major projects being delivered in Sydney, Melbourne and Canberra. However, supply will contract sharply, with projected commencements for FY24-27 down by 33% against the five-year average.

This reflects ongoing pressures from elevated construction costs, cap rate softening, and funding hurdles. As a result, the pipeline from 2027 onwards is likely to be well below average across Australia. Over Q3 2024, 165,000 sqm of office space completed with 72% of the additions attributed to two of the three Sydney CBD Over Station Developments.

Looking forward, according to Colliers only 273,500 sqm of supply (new and refurbished) is forecast for 2025, 60% below the 10 year annual average. CBRE predicts that cost pressures mean it's now likely that, following 2027, the next wave of office development won't occur until after 2030.

Office commencements



Source: Dexus

Developer V-Leader, in October, abandoned $1 billion worth of planned office projects in the Melbourne CBD and fringe suburb of Collingwood, due to high borrowing and construction costs.

Sustained interest in prime office assets

Despite overall market challenges, demand for high-quality office spaces remains robust. Prime-grade assets accounted for 81% of the area leased in Q3, with many tenants preferring quality spaces that align with ESG and amenity-focused requirements. Additionally, Aware Super's anticipated purchase of a 27-storey tower on Brisbane's Ann Street highlights continued interest in premium office assets, particularly in well-located CBD towers.

The tenant "right-sizing" phase might be coming to an end

Larger tenants have demonstrated a trend of contraction when looking to relocate or renew. This contraction is predominantly attributed to the adoption of hybrid working models, which has led to lower attendance rates on specific days. However, in late 2024, this contractionary activity has been decreasing in frequency. This shift is indicative of the fact that many larger tenants have already adapted to "right-sizing" their spaces in response to the new hybrid world. Right-sizing involves adjusting the office footprint to accurately match the number of in-office employees, ensuring that space is utilised efficiently without large pockets of underutilised space.

Looking forward

According to Macquarie analysts, the values of office towers could fall even further despite losing more than 20% already over the past two years. The market outlook is still very bearish, with the stock prices of major listed office landlords heavily discounted against their portfolio valuations. Given the pipeline from 2027 onwards is likely to be well below average across Australia, the market is expected to tighten over the medium term.

Highlight of key transactions in Q3 and Q4 2024:

Brookfield sold **388 George Street, Sydney** to United Overeases Land for **$460 million.**

BGO acquired **10-20 Bond Street, Sydney** for **$580 million** from Mirvac and Morgan Stanley Real Estate Investing.

Deka Immobilien **acquired 333 George Street, Sydney** for **$395 million** from Charter Hall.

SLMC Property Australia's acquired **1 Castlereagh Street, Sydney** for **$196.4 million**

The sale of **2 Constitution Avenue, Canberra** for **$90.1 million**

Upcoming transactions in Q4 2024:

Aware Super is preparing to acquire **145 Ann Street, Brisbane** from Dexus and Canada Pension Plan Investment Board for approximately **$200 million,** representing an 8% drop from its June book value of **$217.6 million.**

The headquarters of Google in **Sydney and Melbbourne's Media House** are for sale, worth close to **$440 million** in total.

Key Resources

- CBRE Australian Office Figures Q3 2024
- CBRE Sydney CBD Office Figures Q3 2024
- Colliers Australian CBD Office Market Q3 2024
- Dexus Australian Real Asset Review Q4 2024
- More pain to come for office tower values despite 20pc tumble: AFR
- Office mandates on the rise as jobs market softens: AFR
- Office market posts strongest net absorption result since 3Q 2018
- Office tower values: Major funds drop 27 percent in value, but the downturn may soon be over: AFR

Retail

The retail sector is witnessing a revival driven by population growth and strong investor interest. Consumer sentiment is increasing as the interest rate cutting cycle is expected to commence in 2025, despite stagnant wage growth and inflationary pressures.

Shopping centres back in the spotlight for investors

Shopping centre sales have soared, with transaction volumes up over 50% the first three quarters compared to the same period in 2023. The sector looks poised for growth, with vacancy falling and rents growing again. Investors are increasingly targeting resilient retail assets, particularly grocery-anchored centres, which are viewed as recession-proof due to their non-discretionary appeal. Population growth will underpin the performance of shopping centres over the coming years, particularly as the supply of new centres is set to slow.

Spotlight on record breaking deal

The biggest deal of the year occurred in Q3,

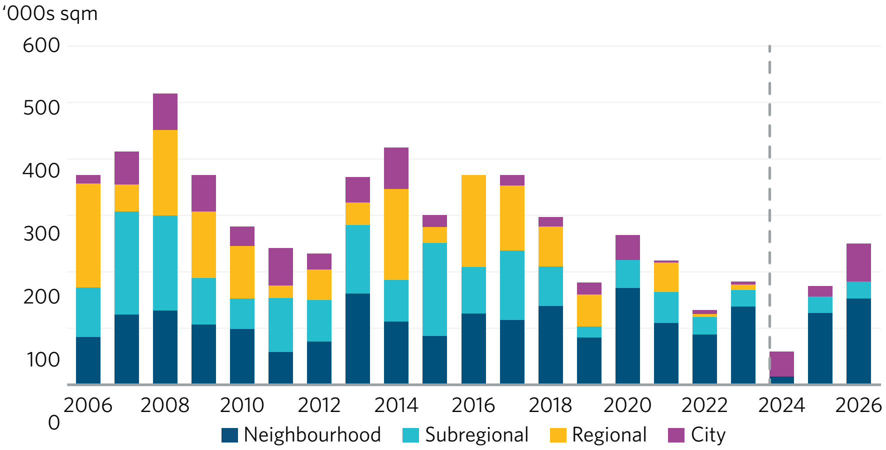
Westpoint Shopping Centre in Blacktown was purchased by US-based Hines for **$900 million**

making it the largest single retail sale in Australia's history. The deal is a strong signal of robust international confidence in Australian retail assets, underpinned by population growth and a limited supply pipeline.

Constrained supply pipeline

According to CBRE, Dexus and JLL, new supply over 2024 to 2028 will be less than half the historical average level. A lack of new shopping centre supply is a positive, particularly given population growth is adding to aggregate demand. There is no development of regional shopping centres. Supply of shopping centre space is being held back by construction costs and planning constraints.

Enclosed shopping centre supply



Source: JLL Research

Leasing trends: solid demand across categories

Large format retail remains sought after, and there is no vacancy on the Eastern seaboard, with above-average rents driven by population growth. The luxury segment is seeing strong demand for flagship locations in Sydney and Brisbane, particularly Brisbane ahead of the 2032 Summer Olympics. Fine dining faces challenges amid reduced corporate spending, while the drive-through category continues stead growth. Although supermarkets are under pressure due to the Australian Competition and Consumer Commission's (ACCC) inquiry into pricing practices, they remain strong performers, drawing consistent foot traffic. Backed by robust consumer demand, entertainment is expanding, with tenants in this category adopting a bolder approach to the types of space and rents they are willing to take on.

Snapshot of consumer activity

Overall retail sales grew modestly in Q3 by 0.5%, with a warmer than average end to winter boosting sales in summer clothes and outdoor goods. According to the ABS, spending rose 0.1% in September 2024. Household goods had the largest rise, followed by cafes, restaurants and takeaway food services. However, department stores, clothing, footwear and personal accessory retailing, and food retailing all had small falls following August.

Monthly turnover by industry – percentage change from previous month

Source: ABS

Consumer confidence hits 2½ year high as rate rise fears ease

According to the AFR, consumer sentiment hit a 2 ½ year high in November 2024, as Australians are becoming increasingly confident that interest rate rises are over. The Westpac-Melbourne Institute consumer sentiment index posted another monthly gain in November, jumping 5.3% to 94.6 points as fears about future job losses dropped to a 19-month low. Consumer sentiment has been in the doldrums since 2022 as household budgets have taken a battering from the country's worst inflation outbreak in decades.

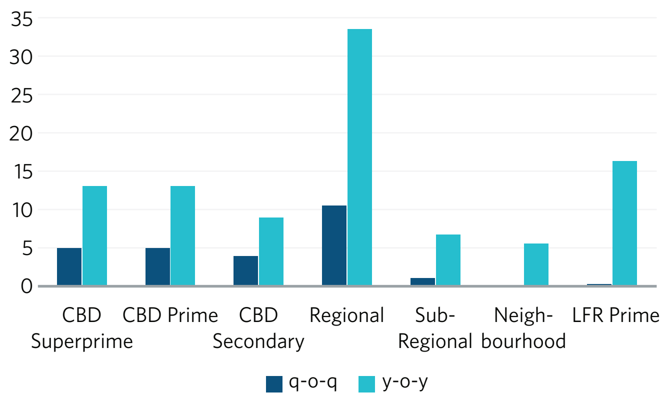
Impact of the election on consumer sentiment

Australian households have experienced the largest fall in disposable incomes across the OECD over the past two years. The challenging economic conditions have driven a decline in voter support for the Albanese government. With voters due to go to the polls by May 2025, Labor is hoping the RBA will deliver its first cash rate cut early next year, restoring its credibility with voters. Money markets, however, do not expect the RBA to cut the cash rate until July 2025, as the central bank awaits further evidence that inflation is on track to return to its 2% to 3% target range.

Consumers surveyed after Donald Trump won the US election on Wednesday 6 November were notably gloomier than those who were surveyed before, making it difficult to assess whether the increase in sentiment would be sustained in December. According to the AFR, about 35% of consumers said they planned to cut back on Christmas gift spending this year, down from about 40% in 2022 and 2023

Yields close to the peak of the cycle

Although most retail assets saw some yield expansion in Q3, the rate of increase is starting to slow according to CBRE. The largest q-o-q increase in yields was for regional centre assets which increased by 11bp q-o-q and 33bp y-o-y. It is anticipated that these assets will see some further expansion in Q4. While interest rates have pressured yields, stabilisation is expected with the commencement of rate cuts in 2025.



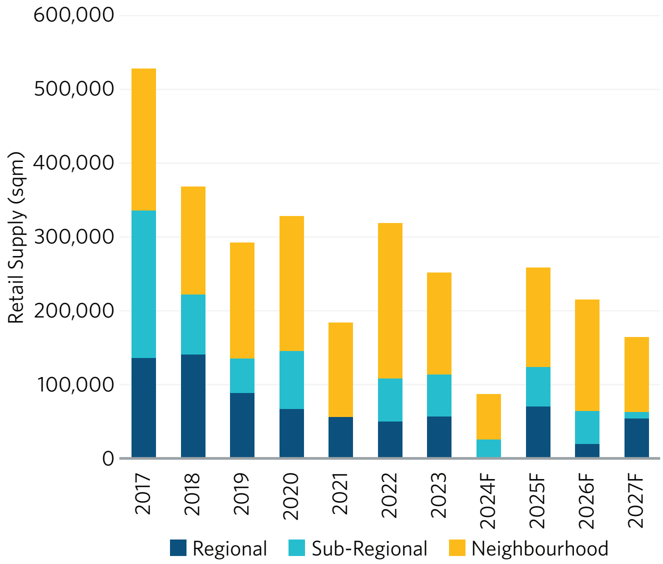
Source: CBRE Research

Neighbourhood centres continue to dominate

Neighbourhood centres have remained the dominant force in retail investment across the region and will continue to dominate the supply pipeline. Future supply is expected to be heavily concentrated in neighbourhood centres, which will account for 60% of expected retail supply through 2027. These centres, with their focus on non-discretionary spending, are seen as attractive, defensive investments in a risk-averse market and remain a key focus for major players.

Types of supply of retail shopping centres in Australia

Figure 10: Australian Shopping Centre Retail Supply



Source: CBRE Research

Highlight of key transactions in Q3 & Q4 2024:

QIC sold **Westpoint Shopping Centre, Sydney** for **$900 million** to Hines, the largest individual retail asset transaction in Australian history.

Market Central Lutwyche Shopping Centre, Queensland acquired from Abacus Group and ISPT by HMC Capital for **$120 million.**

JY Group has purchased a half stake in **Westfield Whitford City Shopping Centre, Western Australia** for **$195 million.**

Scentre Group and Barrenjoey have acquired a half stake in **Westfield West Lakes, Adelaide** for **$349 million.**

Dexus sold **Willows Shopping Centre, Queensland** to Fawkner Property Group for **$212 million.**

Unisuper and Cbus have won the right to buy **$830 million** **Macquarie Centre** off Dexus, after a breach of contract.

Key Resources

- CBRE Australia Retail Figures Q3 2024
- Colliers Australian Retail Snapshot Q3 2024
- Consumer confidence hits 2 ½ year high as rate rise fears ease: AFR
- Dexus Australian Real Asset Review Q4 2024
- KPMG Australian Retail Outlook 2024
- QIC quits Sydney shopping centre for record price
- Retail spending steady in September: ABS
- Retail Trade, Australia: ABS
- Savills Asia Pacific Investment Quarterly Q3/2024
- Shopping centres back in the spotlight for investors
- Unisuper, Cbus win right to buy $830m Macquarie Centre
- Westpac IQ: Australian real retail sales Q3 – Retail volumes bounce back

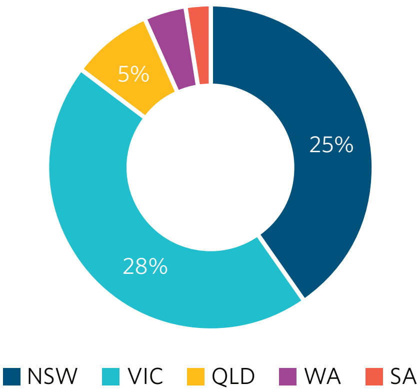
Industrial & Logistics

Investment sales surpass long-run average

Australia's industrial and logistics investment sale volumes have increased over Q3 and have now surpassed the 10-year long run average of $6.3 million. In Q3, investment sales for income producing assets over $10 million totalled just over $5 billion, with the concentration of activity (by value) occurring in Melbourne. Greater investment sale activity is expected over the next 12 months.

According to Knight Frank, industrial property remains the most sought-after asset class, with both local and offshore investors pursuing opportunities. Investment activity has been backed by institutional investors acquiring facilities in sought after locations. Acccording to Savills, they accounted for 54% of total investment volumes in Q3. Melbourne's proximity to distribution hubs make it a focal point for major transactions.

State share of industrial investment sales by value

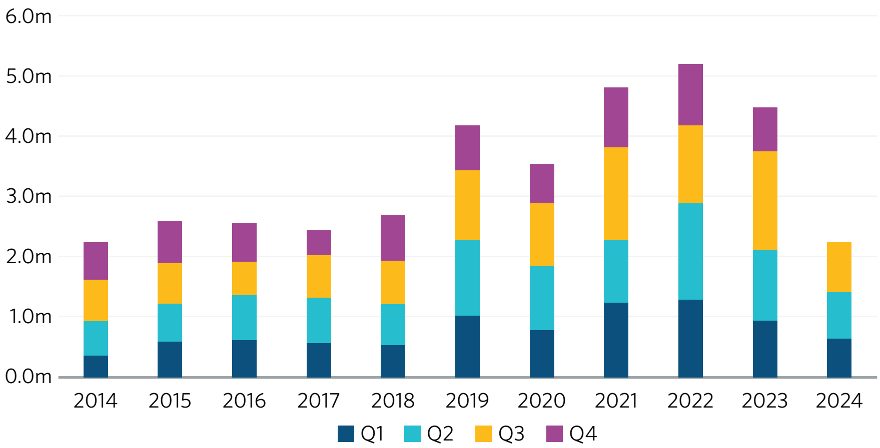


Source: CBRE Research

Leasing take-up starts to show signs of stability

According to Savills, rental growth rates are easing from their peak as the market consolidates. Rental growth in Q3 slowed across most major markets in Australia. It appears that leasing fundamentals are undergoing a rebalancing following the end of the record growth and take-up cycle that spanned the previous three years.

Quarterly leasing volumes



Source: Savills Research

The sector remains the most-favoured for cross border capital in Australia

The industrial sector remains the most attractive for cross-border capital in Australia, sharing the top spot with the office sector. Both sectors account for 27% of international capital allocations, according to Knight Frank. This reflects growing confidence in Australia's logistics infrastructure and its strategic role in the global supply chain. Offshore investors, particularly from North America and Asia, are actively targeting high-quality industrial portfolios.

Spotlight on data centres: the 'Airtrunk effect'

Demand for data centres in Australia is surging, fuelled by generative AI, machine learning, cloud computing, and 5G network deployment. In this context, the 'AirTrunk effect'—a term coined after the $24 billion data centre deal this year—highlights the lucrative investment opportunities in this niche subsector.

HMC Capital, led by David Di Pilla, plans to list a $4 billion data centre investment trust on the ASX in December 2024, after securing crucial seed assets for the platform. This IPO, set to be the largest for the REIT sector in years, underscores the robust demand for infrastructure supporting digital transaction.

HSF recently published the Data Centres Guide: Global perspective on key issues, exploring the surge in global demand, investment strategies and development opportunities.

Supply: record activity and high pre-commitment levels

The supply pipeline in 2024 remains unprecedented, with around 3 million sqm of new space forecast – nearly double the long-term average. Approximately one-quarter of the year's anticipated supply was delivered in Q3 2024 across 40 projects. The concentration of new floorspace over the quarter was delivered in Sydney (43%), followed by Brisbane (34%) and Melbourne (12%).

Notable development completions over Q3 included:

Brookfield's Connect Estate (speculative) in Sydney's Central West.

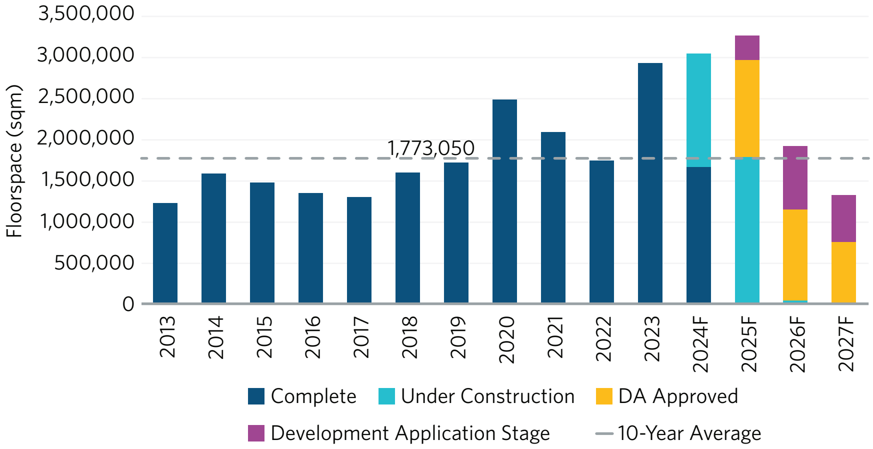
Woolworths Distribution Centre in Moorebank, Sydney's Outer South West.

Link Industrial Park (speculative) in Brisbane's South.

Lighthorse Interchange in Sydney's Outer North West, pre-committed by ALDI.

There is c.14 million sqm of stock currently under construction for completion in Q4 2024, and 1.8 million sqm for 2025.

Development supply pipeline



Source: CBRE Research

Institutional investors double down on industrial

Institutional investors account for a significant portion of the activity in the sector, showcasing their confidence in its long-term growth. The appetite for industrial assets is fuelled by a combination of robust demand, resilient rental performance, and the sector's critical role in e-commerce and supply chain efficiency. Global and domestic institutions are targeting prime locations near urban centres, transportation hubs, and ports. Melbourne, Sydney, and Brisbane remain key focal points due to their population growth and infrastructure investment. Notably, superannuation funds, real estate investment trusts (REITs), and sovereign wealth funds have been particularly active. Major players include Charter Hall, Dexus and GPT.

Why industrial?

E-commerce boom: The continued expansion of online shopping drives demand for warehouses and distribution centres, with investors focusing on assets that support last-mile logistics.

Defensive returns: Despite broader economic uncertainty, industrial properties offer reliable cash flows, often secured by long-term leases with strong covenants.

Premium locations: High-quality facilities in strategic locations command premium rents and provide strong capital growth potential.

Outlook

Looking forward, institutional investors are expected to increase allocations to industrial assets. The sector's resilience and evolving nature – particularly the growing integration of data centres and automation – make it a cornerstone of diversified investment strategies. With pre-commitment levels high and speculative developments finding success, institutional players are betting big on industrial for both security and growth.

Highlight of key transactions in Q3/Q4:

Aware Super and **Barings** jointly acquired Austrak Business Park in Melbourne for **$600 million.**

PGIM Real Estate, in a joint venture with **Elanor Investors**, acquired the Woolworths Distribution Centre site in Victoria for **$200 million.**

Blackstone acquired a last-mile logistics site with a shore WALE from Dexus next to Brisbane Airport for **$50 million.**

Goodman acquired 247 King Street, Mascot near Sydney Airport from Pittwater Industrial for **$75 million.**

Partners Group sold Gold Coast logistics hub to **Shayer Group** for **$200 million.**

Key Resources

- Australia Industrial Spotlight – Shed Briefing: Savills
- CBRE Figures Australia Industrial and Logistics 3Q24
- CBRE Figures Sydney Industrial and Logistics 3Q24
- David Di Pilla flags $4b data centre float: AFR
- Dexus Australian Real Asset Review Q4 2024
- ESR, Partners Group Sell Logistics Estate on Australia's Gold Coast for $137M
- HSF Data Centres: Global perspective on key issues
- Industrial rents in Australia still have further to rise, according to Knight Frank's Australian Horizon 2024 report
- JLL: 3Q rental growth slows for logistics and industrial real estate markets
- Knight Frank Sydney Industrial State of the Market
- What are the latest trends in Australia's industrial market? Knight Frank

Hotels and Leisure

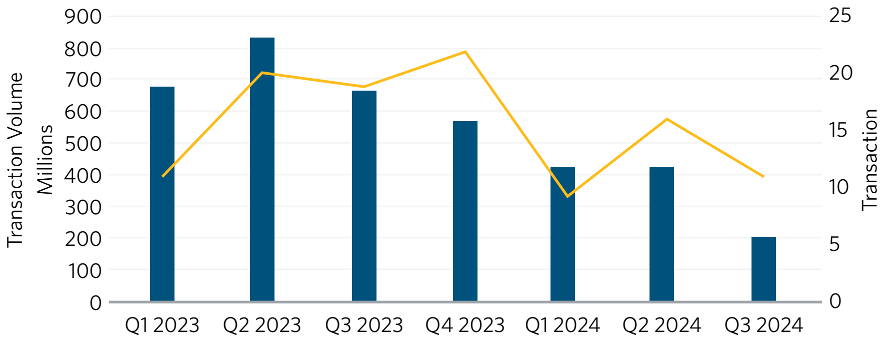
Australia's hotel industry presents a mix of challenges and opportunities, shaped by subdued transaction activity, rising costs, and evolving tourism dynamics. While investor sentiment is positive, the market continues to navigate rising construction costs.

Subdued transaction activity

Transaction activity in the hotel sector has slowed considerably, with only 11 small asset trades totaling $205 million recorded in Q3 2024. This was followed by a single high-value transaction in early October. Year-to-date (YTD), only four major hotel transactions exceeding $90 million have been recorded, underlining a scarcity of prime opportunities, particularly in capital city centers.

According to Colliers, the subdued activity is driven by high debt costs and buyer caution, with investors hesitant to price in future growth. As markets stabilise, focus has shifted back to in-place yields, dampening overall deal momentum.

Transactions by quarter



Source: Colliers

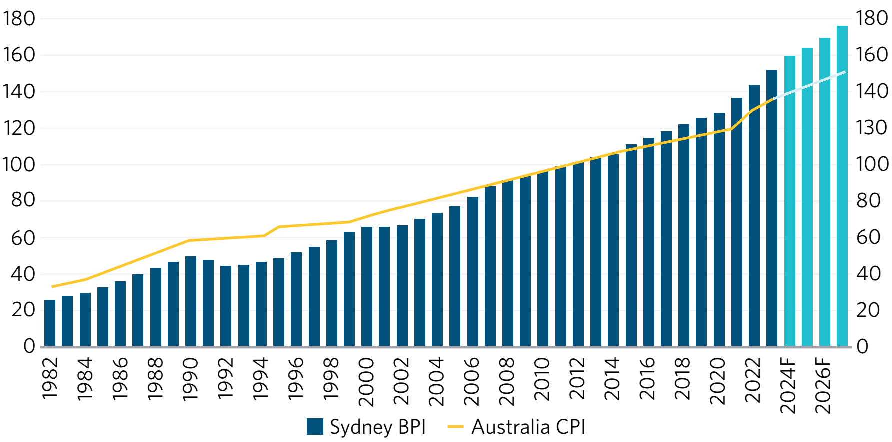
Domestic buyers lead the charge

Australian investors are dominating hotel acquisitions in 2024. Of all national transactions over $5 million YTD, 80% were purchased by domestic investors. Sydney exemplifies this trend, with Australian buyers acquiring four of the last five major hotels transacted since 2022. This reflects confidence in local market conditions despite global uncertainties.

Rising construction costs continue to pressure margins

Construction costs remain a significant headwind for the hotel sector, with escalation rates averaging 2% to 6% in 2024, depending on location. Queensland faces the steepest increases at 8%, driven by the Olympics infrastructure pipeline and healthcare projects. While material cost pressures are easing, labour shortages and global supply chain disruptions continue to inflate project costs. These rising expenses are a key factor behind the limited development of new hotels.

Sydney Building Price Index versus Australian CPI



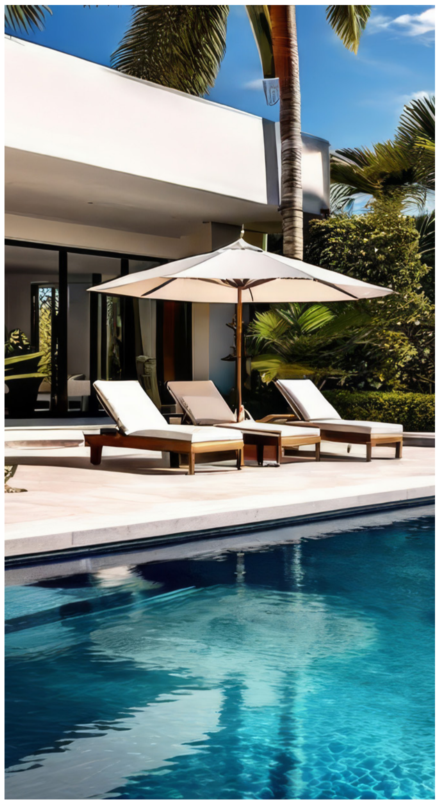
Source: Savills

Supply projects remain challenged

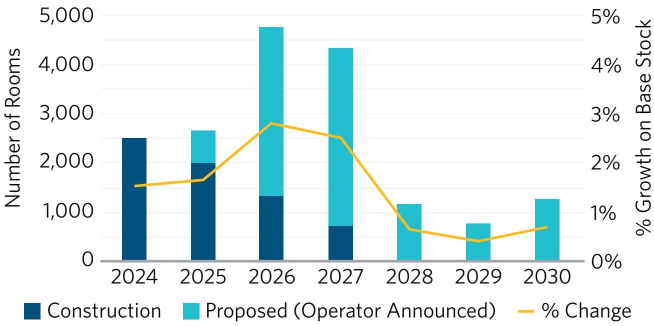
Another major contributing factor remains the equity requirements from lenders. Availability of financing is the biggest driver of new development, and the restrictions and bank regulations will continue to be an obstacle. Given the amount of time it takes for hotel construction and the likely viability of some projects coming to fruition, it is anticipated that supply growth will not materially accelerate until 2029/2030. Private credit offers an emerging and viable alternative, which we have spotlighted on page 18.

Constrained supply pipeline

Australia's hotel supply pipeline has contracted significantly due to rising borrowing and construction costs. Many new projects have been shelved or delayed, with most new stock set to be delivered in 2025, focusing on the premium market segment. The constrained supply environment benefits existing hotels, particularly in central, high-barrier-to-entry markets where limited competition allows for higher daily rates. With supply expected to grow at an average of 1.5% over the next five years, well below the long-term average, the market will likely remain favorable for existing properties.



Accommodation Supply 2024 to 2030F



Source: Colliers

Trading outlook and deal flow

The hotel sector is gearing up for a full trading recovery in 2025, bolstered by stabilising interest rates and rising tourism demand. While trading performance has shown variability across markets and assets, warmer weather and a return to international travel have provided a much-needed boost.

Investors are increasingly targeting high-growth markets, with strong demand from corporate travel and major events driving attention back to core locations like Sydney, Brisbane, Perth, and Melbourne.

Investment funds and privates have been the most active buyer groups but not without the continued dominance of domestic capital. Singaporean capital became active again during Q3 2024 and is expected to grow through 2025 as investors refocus attention back to Australia.

Sydney: a standout performer

Sydney continues to shine as Australia's premier hotel market. In FY24, it delivered 14% growth in RevPAR (revenue per available room), reaching $254, alongside an 80% occupancy rate, the highest among capital cities. Room rates in Sydney are projected to climb further, averaging $426 per night by 2033, according to Dransfield's Hotel Future 2025 report. This performance is underpinned by limited supply growth and strong demand for accommodation in Australia's largest city.

Rising tourism: a tale of two markets

Australia is witnessing a sharp rise in international arrivals, especially from the United States. Additionally, arrivals from China are projected to increase by 25% through the end of 2024. One of the key factors behind this revival is the expansion of air connectivity. Airlines have increased capacity on international routes to the country by 8% for the latter part of 2024. This increase is primarily driven by regional hubs such as Thailand, Japan, Hong Kong, Vietnam, China, and Singapore, making Australia more accessible to tourists across APAC. Qantas recently announced plans to launch the longest flight route in history mid-2026, including direct non-stop routes from Sydney to New York, London and Paris. This follows its recent first non-stop flight from Perth to Paris which commenced in July.

Despite this growth, both Australia and New Zealand face challenges due to the pronounced seasonality of their tourism industries. The end of year holiday season typically marks a peak in tourist arrivals, while the winter months in the southern hemisphere see a sharp decline in visitors. This seasonal dip contrasts with destinations like Japan, which benefits from a more consistent flow of visitors year-round.

Domestic tourism also on the rise

The domestic tourism sector is seeing a remarkable surge, surpassing pre-pandemic levels in both travel nights and spending by 2%. According to Tourism Research Australia's latest figures, there were 29 million domestic overnight trips in Q3 2024. Australians are now opting for local holidays due to the high cost of international travel and geopolitical tensions.

Major openings and what lies ahead

Major hotel openings in Q3 2024

- Marriot Adelaide, South Australia
- The Star, Brisbane
- StandardX, Fitzroy
- Veriu Macquarie Park, New South Wales
- Doubtree Hobart, Tasmania
- Lanson Place, Melbourne
- Punthill, ACT
- Tryp by Wyndham, Queensland

Major upcoming openings

- Waldorf Astoria, Sydney
- Mondrian Burleigh Heads, Gold Coast
- EQ Hotel West, Elizabeth Quay, Perth

A bright outlook amid challenges

While the Australian hotel market faces obstacles like rising costs and limited new supply, the outlook remains optimistic. As global debt costs ease and tourism demand strengthens, transaction activity is expected to accelerate. Investors are increasingly confident in the resilience of Australia's hotel sector, with constrained supply supporting robust room rates and RevPAR growth in the years ahead. The feasibility of new hotels remains very challenged. This is providing investors with strong conviction that new supply will not materialise over the investment horizon and an opportunity to bid with confidence.

Key Resources

- Colliers Hotels Q3 2024 Report
- Savills Australian Hotel Market Outlook Q3 2024
- 'Pay to stay': Average Sydney hotel room rate to hit $426 by 2033: AFR
- Tourism Research Australia: Visitor economy facts and figures – October 2024
- Asia Pacific drives global surge in international tourism with Australia leading the way
- CBRE Asia Pacific Hotel Trends Q3 2024
- JLL: Hotel Investment Highlights Asia Pacific
- Tourism Australia International Market Performance Statistics

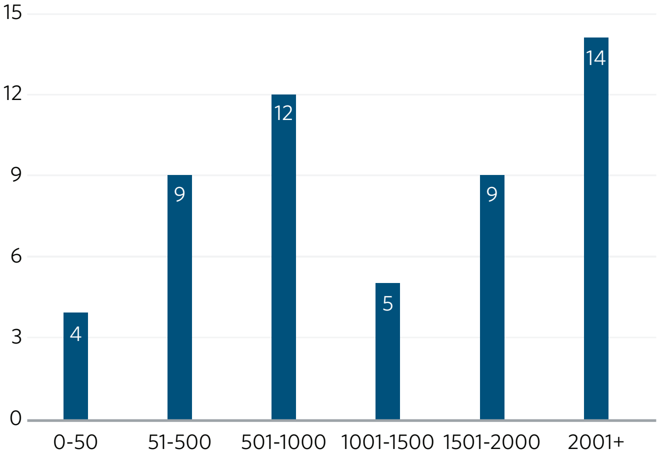
Living Sector: Residential, Build to Rent (BTR), Social & Affordable Housing and Student Accommodation

Australia's living sector continues to grapple with an affordability and supply crisis. Key challenges include economic pressures, high construction costs, lack of government support for housing supply and record high migration levels.

Australia's housing supply target unlikely to be met

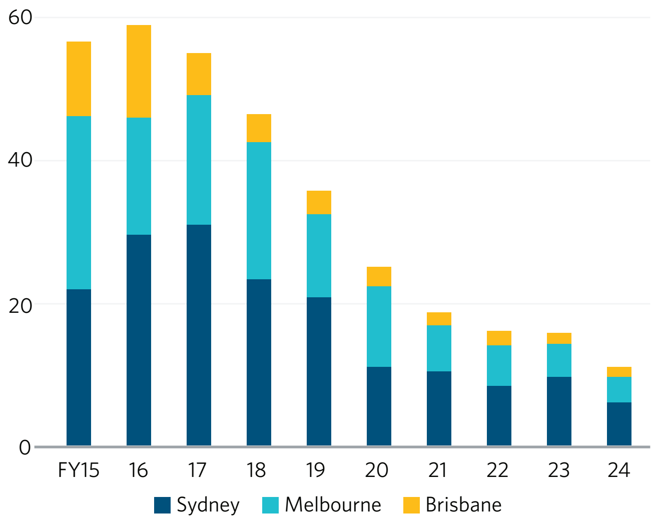
Australia is unlikely to meet its ambitious target of building 1.2 million new homes by 2029. Completions for 2024 are projected at just 176,000 – far below the 240,000 annual benchmark. A CBRE report reveals that projected apartment completions have dropped by 20% over the past year, with more than 34,000 approved homes stuck in development limbo. High land prices, costly construction, and financing delays remain key barriers. Another issue is the high tax rate applied to foreign investment schemes, which contribute a large part of the development capital driving the emerging Build-to-Rent sector.

No. of dwellings intended to be built or acquired in the next five years



Source: Herbert Smith Freehills

Apartment commencements ('000)



Source: Charter Keck Cramer

Sydney suburbs see first house price dip in two years

Sydney's housing market is facing its first downturn in 21 months, with house prices dropping in 40% of suburbs. This fivefold increase from a year ago reflects a growing affordability crisis, as rising stock levels and reduced borrowing power weigh heavily on buyers.

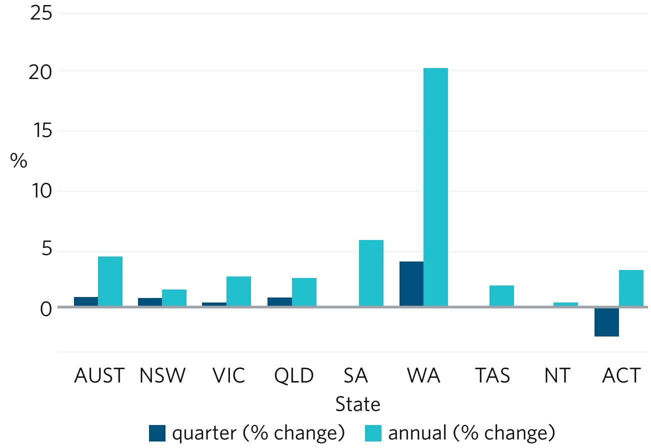
In October, Sydney housing values dipped by 0.1%, driven by elevated borrowing costs, worsening affordability, and above-average listings. CoreLogic data confirms this marks the first fall in values since January 2023.

Building costs skyrocket in WA – a warning for the nation

Western Australia saw residential building costs spike 20.3% over the year to September. These costs, growing four times faster than the national average, could signal inflationary pressures spreading nationwide. According to the ABS, the amount people in WA pay their builder for a newly completed house, excluding land, jumped 4.1% in Q3 2024 alone.

Industry leaders like Lendlease CEO Tony Lombardo and Stockland's Tarun Gupta have highlighted labor shortages and rising wages as major hurdles to increasing housing supply. At a recent roundtable hosted by the Business Council of Australia, they said the government should significantly increase the share of immigrants who are construction workers.

Output of house construction prices



Source: ABS

Caps on student migration update

In our last edition, we discussed the Albanese government's proposed enrolment caps on international students. These impending caps are part of broader migration policy changes aimed at balancing population growth, but they are causing significant concern among the RBA, educational institutions and housing providers alike.

The looming deadline for the introduction of caps on January 1, pending the passage of legislation in late November, has encouraged universities to enrol as many international students as they can before the end of the year. Migration is at record highs, with 391,850 arrivals from January to September 2024, as overseas students and New Zealanders flood the labor market.

However, the property industry says these caps will do little to lower rents and improve affordability. New research suggests mandatory caps on new overseas students will have limited effect, with rent reductions to the tune of about $5 a week and will have zero to no positive effect anywhere else. This reinforces calls for long-term housing supply reforms rather than short-term demand restrictions. The housing crisis remains a structural issue requiring sustained action beyond migration limits.

The role of private capital in supporting Australia's social and affordable housing

New research published in our report, A Pulse on Social & Affordable Housing in Australia, reveals that 35% of leaders directly involved in making decisions about social and affordable housing believe that achieving the government's target will only be possible with private capital investment. You can read more about the importance of private capital in supporting Australia's social and affordable in our recently published blog post here.

BTR making waves in Australia

Herbert Smith Freehills is at the forefront of advising Australia's developments on some of the biggest build to rent and social and affordable housing projects yet.

Scape Australia is planning one of the country's biggest build-to-rent developments yet, a **$1.5 billion** development in Sydney's Inner West. The Timberyards project in Marrickville will deliver up to **1000** apartments including **100** affordable units when complete. Already fully funded, work can begin as soon as planning approval is granted. Herbert Smith Freehills advised on this project.

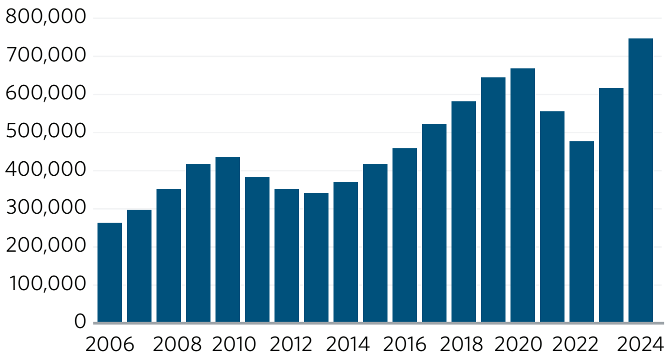
We also recently advised **Lendlease** on its build to rent apartment development in Melbourne's Docklands, a partnership with Nippon Steel Kowa Real Estate to deliver a build-to-rent apartment development at 899 Collins Street, Docklands. You can read more about the development here.

Student accommodation demand persists

According to CBRE, there remains an unmet demand of 25,000-30,000 PBSA beds in Central/Inner-West Sydney to support students at University of Sydney/UTS. There is also an unmet demand of 15,000-20,000 PBSA beds in Melbourne CBD/Inner-North to support students at University of Melbourne/RMIT

CBRE estimate 19,000 beds of new supply (Australia-wide) over 2024-27, which represents 18% uplift to current volumes.

International student enrolment and arrivals



Source: CBRE

Key Resources

- HSF A pulse on social and affordable housing
- NAB Quarterly Australian Residential Property Survey Q3 2024
- CBRE Australian Residential Valuer Insights Q3 2024
- CBRE Australian Residential Figures Q3 2024
- This is why new housing isn't getting built: AFR
- Sydney house prices fall for the first time in two years: AFR
- Surging home building costs in WA could spread across the country: AFR
- Construction workers should be 10pc of migration, big developers urge: AFR
- Buyers switch to apartments amid affordability crunch: AFR
- House prices fall in 40pc of Sydney suburbs: AFR
- Migration at record highs as political pressure builds: AFR
- Impact of foreign student rent caps is a price of coffee: AFR
- Giant $1.5b build-to-rent housing project slated for Marrickville: AFR
- ABS: Producer Price Indexes, Australia
- HSF The role of private capital in supporting Australia's social and affordable housing
- HSF advises Lendlease on build-to-rent apartment development in Melbourne's Docklands
- CBRE: Australian Student Accommodation 2024 Edition

Spotlight on Private Credit in Real Estate

Private credit is emerging as a dominant force in Australian real estate financing, reflecting a global shift toward alternative lending models. Amid tightening lending standards from traditional banks, private credit is filling critical funding caps across the sector. The booming private credit sector will play a crucial role in tackling the housing supply crisis. Developers, investors, fund managers and brokers are now sourcing loans from non-bank lenders.

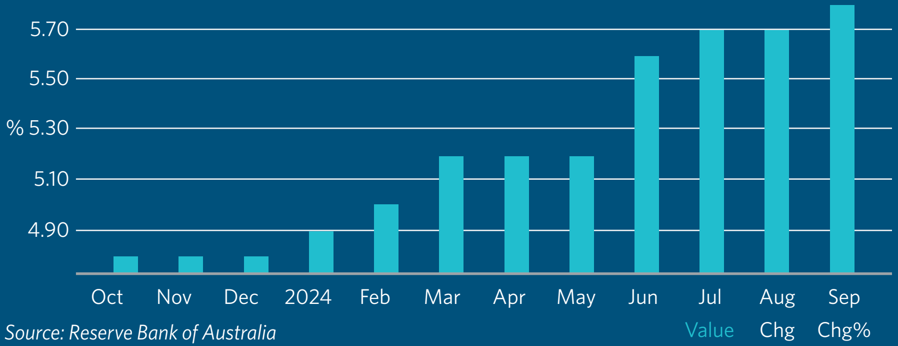
The rise of private credit in Australian real estate

While non-bank loans are more expensive than bank debt, these higher costs are offset by faster decision-making, higher loan-to-value ratios and more flexible terms.

Bigger private credit loans are filling gaps in construction funding to get off the ground and allow developers to acquire further sites to expand their pipelines.

The sector has grown at a 23% compound annual growth rate between 2015 and 2023, expanding from less than $50 billion to be now worth $200 billion. Coupled with this rise has been the banks' shrinking share of commercial property lending – from 10 per cent of their assets at the time of the GFC to 5.5% now. After the Royal Commission into Misconduct in the Banking, Superannuation, and Financial Services Industry, banks became more conservative in their lending practices, particularly for riskier projects. This shift created a vacuum in the market, enabling private credit providers to offer tailored solutions with faster approval times and fewer constraints than traditional lenders.

Private credit growth

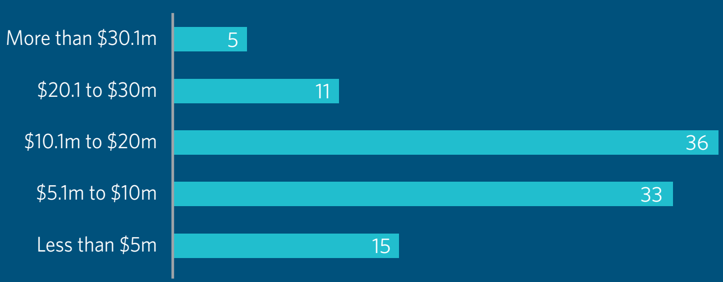


Source: Reserve Bank of Australia

Why private credit is winning the real estate race

The two most profound factors behind the increasing popularity of private credit are speed and the capacity to do higher LVRs. Loans can be approved in as little as three weeks, which is a lot quicker than a bank. Non-bank loans are also getting bigger – the average loan size now sits between $10 million and $20 million.

Average private credit loan size (%)



Source: Centuria Bass

Unlike traditional banks, private credit providers offer more adaptable terms, often bridging gaps for projects with higher risk profiles or complex funding needs.

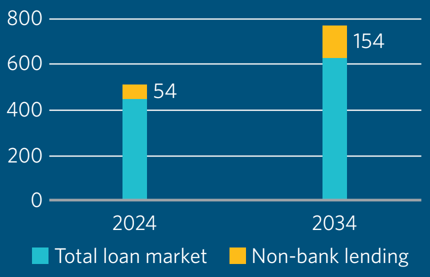
Why now is the time

Some of the main benefits of private credit include income generating opportunities, portfolio diversification, and capital preservation. Private credit is a popular choice for investors as it allows investors to diversity their portfolios and gain high and compelling yields without the volatility of equity and capital markets.

Private credit can enable property developers to complete housing projects more quickly, and it can be tailored to differing needs, such as to support affordable housing projects. Private credit markets have shown they remain strong even when the economy is uncertain.

Private credit lenders manage risk through strong asset backing, careful borrower selection and having a diversity of borrowers from different sectors and geographies. The asset-backed nature of these loans provides an added layer of security, even in volatile markets.

Forecast long-term growth in non-bank lending ($b)



Source: RW Capital Analysis

A catalyst for easing the housing crisis

Private credit is uniquely positioned to address Australia's housing crisis by unlocking capital for projects that might otherwise stall under traditional financing constraints. With a significant housing shortfall and demand projected to grow due to increasing immigration and population growth, developers require flexible and responsive funding options to bring new projects to life. Private credit funds, which often operate with greater agility than banks, enable the rapid deployment of capital to housing developments, including much-needed affordable and build-to-rent projects. By bridging funding gaps and supporting innovative housing solutions, private credit is directly contributing to the expansion of Australia's housing stock, alleviating pressure on affordability and availability in a strained market.

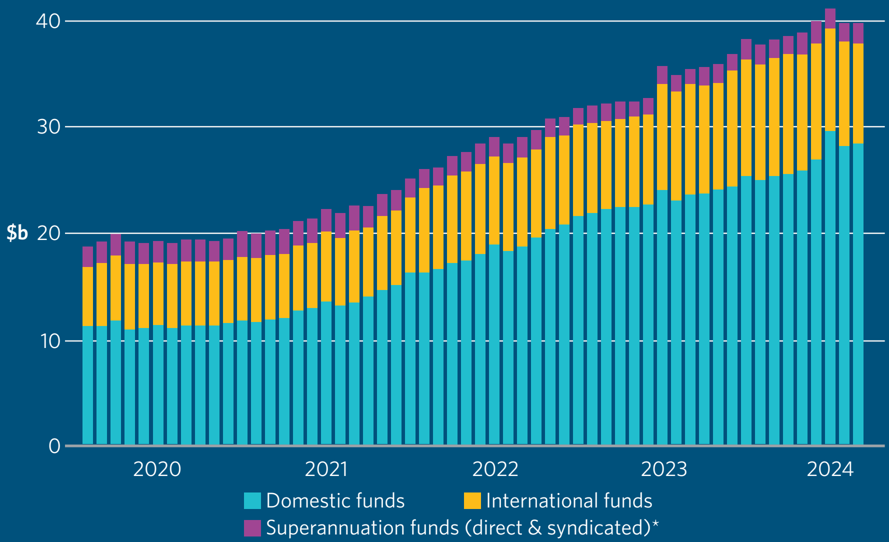
Key sectors benefiting from private credit

- **BTR**: private credit is playing a pivotal role in financing Australia's BTR sector. Developers are tapping into these funds to meet growing demand for affordable housing while sidestepping traditional hurdles like pre-sale requirements.
- **Industrial and Logistics**: The rapid expansion of e-commerce has boosted demand for logistics facilities. Private credit lenders are stepping in to fund speculative developments and smaller projects underserved by big banks.
- **Boutique Residential Projects**: smaller residential developers, often overlooked by traditional lenders, are leveraging private credit to deliver niche projects, particularly in high-demand urban and suburban areas.

Fostering economic resilience

Private credit is not just supporting the real estate market; it's contributing to broader economic resilience. By ensuring a steady flow of capital to critical infrastructure and housing projects, private credit is playing a key role in mitigating the risks posed by the housing affordability crisis and supporting Australia's urban growth.

Private credit outstanding by fund type



*Does not include direct lending assets that are not syndicated.
Superannuation funds also have indirect holdings of private credit through other funds.

Source: Reserve Bank of Australia

The risks: balancing opportunity and caution

While the growth of private credit is impressive, it is not without challenges. Higher risk profiles, potential project delays, and rising interest rates could pressure lenders and investors. However, industry experts highlight that robust underwriting standards, diversification, and active risk management are key to navigating these headwinds.

Regulatory response

The rapid growth of private credit has resulted in regulatory concerns, as private credit lacks the oversight of banks (which are subject to strong prudential regulation), and the disclosure requirements of leveraged loans. International regulators have taken steps to strengthen oversight of the sector. In Australia, the Australian Securities and Investments Commission is examining the growth of private markets as part of its drive for consistency and transparency across markets and products. The Australian Treasury is also reviewing the framework for private credit.

The RBA has identified four key stability risks that loom:

Leverage: funds and inside borrowers are generally more leveraged than companies in public markets.

Liquidity: in the event of a large economic shock, private credit funds may need to call on investors to provide capital within days.

Interconnectedness: banks are among the main providers of leverage to private credit funds, and according to the IMF, about three-quarters of private credit assets are managed by firms that also run private credit strategies.

Transparency of asset quality: Valuations are typically less frequently and subjective. The Australian Prudential Regulation Authority has taken action on this, pushing the super sector to improve the governance of unlisted asset valuations, but there are calls for the Australian Securities and Investments Commission to do the same.

Key Resources

- RBA: Growth in Global Private Credit
- Why property developers are giving up on bank loans: AFR
- Australians can find balance with commercial real estate debt
- Private credit is providing a missing piece in housing supply
- Private credit lenders chase growth in Australia Real Estate
- Investors look to private credit to shore up volatile portfolios
- CBRE: Commercial Real Estate Lending Market
- 'Eyes wide open': how to ride the private credit boom: AFR
- Private credit jumps 45pc in five years and is threatening banks: Citi

Asia Pacific Region

Fast 5: What we're seeing across the region

Asia Pacific investment hits 11-quarter high

Tell me more: Asia Pacific investment volumes staged a comeback in Q3 2024, reaching US$38.8 billion, a robust 82% increase year-on-year (YoY). This marks the fourth consecutive quarter of annualised growth, with year-to-date (YTD) volume hitting US$96.3 billion, up 28% YoY. All major property sectors, except living, recorded volume growth.

Cross-border activity returns with a vengeance

Tell me more: Cross-border investment volumes into Asia Pacific registered USF 14.5 bn YTD (Q3: USD 7.5bn), rising 6% YoY. Overseas investors mostly targeted office and logistics assets. Amongst the various capital sources, Singaporean investors were the most active in Q3 and Q4, as GIC made acquisitions in Japan and China. Global capital was mainly deployed into Singapore and Australia. China volumes rebounded as offshore investors acquired retail assets in Tier 1 cities. Australia became more appealing to foreign investors with the view that interest rates have seemingly peaked. Overseas investors acquired office and industrial assets in Sydney and Melbourne. Looking ahead, investment sentiment is likely to improve alongside further expected rate-cuts.

Rising stars in the East

Tell me more: Emerging cities like Kuala Lumpur, Jakarta, and Ho Chi Minh City are stepping onto the global investment stage, drawing the attention of bold capital with untapped opportunities and strong growth trajectories. These cities are becoming hubs for innovation, driven by their young, tech-savvy populations and expanding middle classes. In Kuala Lumpur, government-backed initiatives like the Digital Economy Blueprint are transforming the city into a tech and digital hub, attracting investments in co-working and flexible office spaces. Similarly, Jakarta's booming e-commerce industry has propelled demand for logistics hubs and last-mile delivery facilities. Ho Chi Minh City is benefitting from robust foreign direct investment and its positioning as a key player in global manufacturing.

While these rising stars are inherently riskier than more established markets like Tokyo or Sydney, the potential rewards are enticing for investors who value growth and diversification over stability.

Election fever: APAC at the ballot box

Tell me more: The Asia-Pacific is experiencing a series of pivotal elections that could reshape dynamics. In Japan, the October 2024 general election saw the ruling Liberal Democratic Party lose its parliamentary majority for the first time since 2009. The recent election of Donald Trump will have wide-reaching implications for the Asia-Pacific region.

A shift in U.S. foreign policy under a new administration could influence trade relations and supply chain strategies across the region. Ongoing interest rate policies tied to U.S. economic performance will significantly affect capital flows and borrowing costs in markets like Japan and Australia. Meanwhile, Australia's federal election, anticipated in the first half of 2025, is already heating up. With housing affordability and climate policy at the forefront, the outcome could significantly influence economic and investment strategies, particularly in real estate.

Tale of two cities: Seoul and Tokyo

Tell me more: Both Seoul and Tokyo stand out in APAC for their strong office fundamentals, with Seoul experiencing rental growth outpacing inflation due to high demand and limited supply in 2025. In Tokyo, Grade-A office rents have risen for three consecutive quarters, with vacancies steady at ~3%. Foreign investors are pursuing value-add strategies, such as GIC's repositioning of One Sentinel in Seoul and an offshore investor's refurbishment of Harumi Island Triton in Tokyo. Meanwhile, Japan sees rising interest in Kansai and Osaka, with cap rate differences attracting deals like Kanden Realty's USD 201 million purchase in Osaka. In Korea, domestic and foreign investor liquidity is improving, narrowing bid-ask spreads, while LaSalle IM recently secured a land site in Gangnam for USD 115 million.

Key Resources

- JLL Asia Pacific Capital Tracker Q3: 2024
- CBRE Asia Pacific Investment Trends Q3 2024
- Knight Frank Asia-Pacific Horizon
- Savills Asia Pacific Investment Quarterly Q3/2024

Regional Snapshot

China

China's economic growth showed signs of slowing during Q3 2024, with full year real GDP expected to grow by 4.7%, falling short of the government's 5% target. This slowdown is primarily driven by the ongoing downturn in the real estate sector, which continues to weigh heavily on overall economic activity.

To counter the economic deceleration, authorities introduced a comprehensive stimulus package in September 2024 aimed at boosting liquidity, revitalising the property market, and stabilising financial systems. Measures included significant cuts to interest rates and the reserve requirement ratio, injecting approximately RMB1 trillion into the economy to improve credit access. Specific interventions targeting the real estate sector included lower mortgage rates, reduced down payment requirements, and increased lending to select real estate projects.

In the real estate investment space, China-wide en-bloc transactions valued at RMB100 million or more totaled RMB294 billion over the 12 months leading to mid-September 2024, reflecting a 7% year-on-year decline. The office sector, the largest asset class by transaction volume, recorded a 33% year-on-year drop as subdued leasing demand pushed landlords to reduce rents, discouraging investments. Conversely, the retail and hotel sectors experienced robust growth, with investment activity surging by 50% and 82% year-on-year, respectively. One notable transaction in June 2024 saw the Shanghai Catholic Youth Association purchase the MeiCheng Building near Yishan Road metro station for nearly RMB1.5 billion.

Hong Kong

The much-anticipated US Federal Reserve interest rate cut occurred in mid-September, with a reduction of 50 basis points (bps). In response, Hong Kong banks, implemented a modest 25 bps cut to their prime rates. Meanwhile, the Hong Kong Interbank Offered Rate (HIBOR) had already reacted to the anticipation of US rate cuts, dropping by over 100 bps since the start of the year.

Commercial property transactions continued to focus on distressed investors selling prime assets to reduce debt. Notable examples include the sale of the 66th floor of The Center for HK$700 million to DBS, which became a significant owner of this Grade A office building in Central. Similarly, the Camel Paint Centre in Kwun Tong, a seven-story retail property, was sold for HK$410 million under receivership, previously owned by the Tang family as part of efforts to settle their debts.

While the commercial property market remained subdued, the logistics sector experienced renewed activity driven by end-users. JINGDONG Property, the real estate arm of JD.com, acquired the Li Fung Centre in Sha Tin for HK$1.8 billion (HK$3,693 per square foot) from M&G Investment. Investment volumes are expected to rebound in 2025.

Malaysia

In Q3 2024, total real estate transactions in Malaysia reached RM4.66 billion, bringing the year-to-date total to RM13.91 billion. This represents nearly double the RM7.29 billion recorded in the same period of 2023. Transaction activity during the quarter was primarily fueled by commercial and industrial property sales, with RM1.95 billion in commercial assets and RM1.66 billion in industrial deals.

M-REITs remained prominent market participants, highlighted by Axis REIT's acquisition of a warehouse in Port Klang for RM159 million and Sunway REIT's purchase of Kluang Mall in Johor for RM158 million. Other notable transactions included AmanahRaya REIT acquiring a private school in Shah Alam for RM31.4 million, and Hektar REIT purchasing Kolej Yayasan Saad and its dormitories in Melaka for RM150 million.

Singapore

Investment sales in Q3 2024 continued to grow for the second consecutive quarter, climbing 22.7% quarter-on-quarter (QoQ) to S$8.05 billion. This marked a 25.4% increase compared to the same period last year.

Private investment sales saw a significant boost, led by several major transactions. These included the sale of a 50% stake in ION Orchard for S$1.85 billion and a portfolio of industrial assets for S$1.6 billion, resulting in a 67.9% QoQ surge in private sector sales to S$5.71 billion. Meanwhile, public investment sales from five Government Land Sales (GLS) sites totaled S$2.34 billion, reflecting a 25.9% decline from the previous quarter.

Despite the rise in total sales value, the number of private market transactions fell significantly, dropping 21.1% QoQ to 71 deals. Persistent price gaps between buyers and sellers and the impact of the Hungry Ghost Festival further dampened market activity.

The industrial sector experienced a remarkable rebound, recording S$2.45 billion in investment sales—over seven times higher than the previous quarter's S$282.8 million. Key deals included a S$1.6 billion acquisition of business parks and specialist facilities by a consortium of Warburg Pincus and Lendlease, ESR-LOGOS REIT's purchase of a 51% stake in a high-specification manufacturing facility at 20 Tuas South Avenue 14 for S$428.4 million, and Ho Bee Land's sale of a 49% stake in Elementum, a biomedical life sciences hub in one-north, for nearly S$272 million.

South Korea

The Bank of Korea (BoK) anticipates steady economic growth, projecting GDP expansion at 2.4% for 2024. This forecast reflects a slight downward revision of 0.1%, as the stronger-than-expected momentum from Q1 moderates. Nonetheless, underlying economic trends remain positive, with exports expected to sustain growth and consumer spending gradually recovering. Inflation showed signs of stability in September 2024, with the Consumer Price Index rising 1.6% year-on-year (YoY), marking the first time since March 2021 that inflation has remained within the 1% range.

In the commercial real estate sector, Q3/2024 saw a significant transaction with the sale of "The Asset," a prominent property in Seoul's Gangnam Business District, for KRW1.1 trillion (approximately USD 837 million). This deal drove office market transaction volume up by 297% QoQ

to KRW4.0 trillion. Despite these figures and a recent mid-October rate cut, investor caution persists due to an anticipated increase in office supply starting in 2026. The logistics market remains challenging, with elevated vacancy rates continuing in Q3/2024. However, opportunities are emerging as distressed assets attract interest from opportunistic buyers.

Japan

Inflation remained a key focus in Q3 2024, with the Consumer Price Index (CPI) excluding fresh food rising 2.8% YoY. This was primarily due to elevated energy and accommodation costs. In response, the Bank of Japan (BoJ) raised its policy rate to 0.25%, signaling further monetary normalisation. The BoJ also plans to taper its Japanese Government Bond (JGB) purchases by 50% by March 2026. Meanwhile, the newly appointed prime minister on October 1st and an impending snap election are adding political dynamics to the economic outlook.

The Tokyo Stock Price Index (TOPIX) dipped by 5.7% quarter-on-quarter (QoQ) in Q3/2024, pausing after its historical peak in Q2/2024. The TSE J-REIT market remained flat but underperformed global peers, trading at a discount to NAV due to interest rate uncertainty. Despite higher rates, investor sentiment remains positive, with the residential sector gaining interest for its rental growth potential, and logistics appealing as an entry point despite recent dispositions. Hotels, bolstered by strong tourism, and retail properties are also attracting attention, while offices show signs of stabilisation.

In the Grade A office market, rents rose 2.5% QoQ to JPY33,235 per tsubo in Q3/2024, though vacancy rates edged up slightly to 3.1%. Limited supply in 2024 and elevated construction costs are delaying projects, fostering market stability. Major upcoming developments are already attracting tenant interest, supporting the sector's recovery.

Indonesia

The retail sector is experiencing growth as increasing visitor traffic and purchasing power fuel optimism. Many retail centers are adapting by expanding outdoor dining spaces, introducing creative interior designs, and utilising mall atriums for events. Beyond shopping, the focus is on transforming malls into lifestyle and social destinations.

The hotel market saw peak performance in Q3 2024, with occupancy rates and room prices reaching their highest levels. This growth was largely driven by Meetings, Incentives, Conferences, and Exhibitions (MICE) activities from government and corporate sectors, alongside national and international events, concerts, and sports activities, boosting demand in key cities.

Demand for landed houses, particularly those priced below IDR 2 billion per unit, continues to show positive momentum. The government's Value-Added Tax (PPN DTP) exemption for ready-stock residential properties has significantly spurred sales in this segment, particularly among middle- to lower-income buyers who favor landed homes over apartments.

The office sector is seeing gradual improvements in major cities such as Jakarta, Surabaya, and Balikpapan. In Balikpapan, this is driven by increased inquiries from businesses linked to the development of the new capital city.

Key Resources

- JLL Asia Pacific Capital Tracker Q3: 2024
- CBRE Asia Pacific Investment Trends Q3 2024
- Knight Frank Asia-Pacific Horizon
- Asia Pacific Hotel Trends Q3 2024
- Asia Pacific Industrial & Logistics Trends Q3 2024
- Asia Pacific Office Trends Q3 2024
- Savills Asia Pacific Investment Quarterly Q3/2024

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