HERBERT SMITH FREEHILLS KRAMER

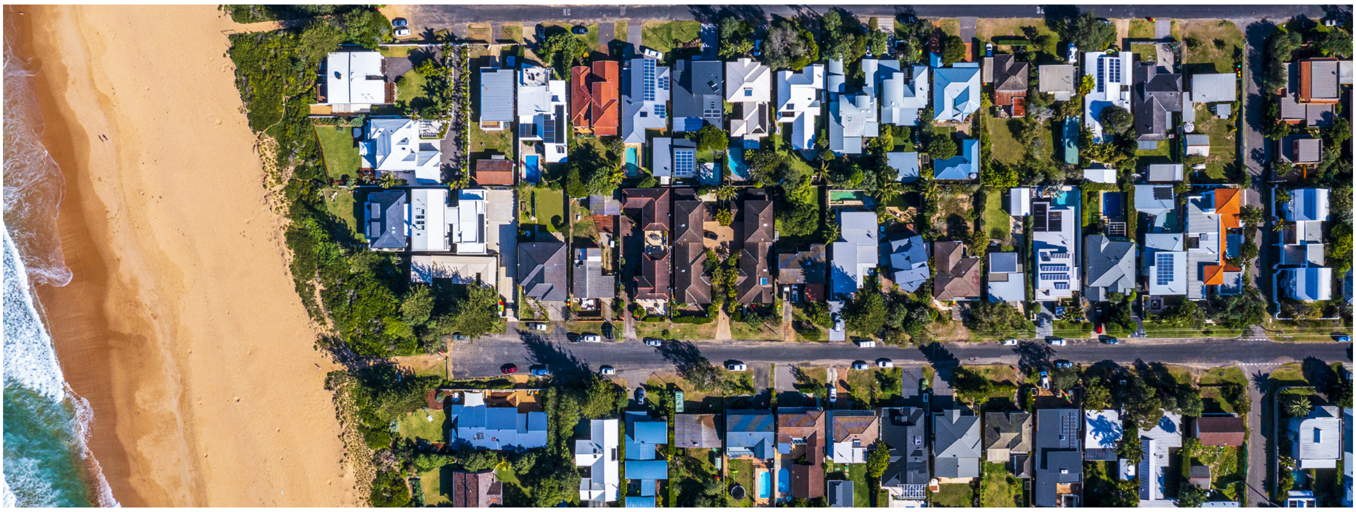
REAL ESTATE SECTOR INSIGHTS

ASIA PACIFIC – Q3 2025

In this issue

SEPTEMBER 2025

Investment Climate



Fast 5: What we're seeing in the industry

Capital moves & power plays: APAC's investment pulse

Tell me more: Australia is leading the charge in Asia Pacific's evolving M&A landscape, with Q2 2025 marking its strongest quarter since 2021. While global uncertainty has prompted a more cautious tone, dealmakers are still getting deals done – especially in the living sector, where the $3.85 billion Aveo acquisition set a new benchmark. Fundraising has slowed overall, but private equity and infrastructure remain bright spots, and foreign capital continues to flow, drawn by Australia's stable currency and safe-haven status. Meanwhile, boardroom dynamics are shifting, super funds are challenging fund managers, legal disputes are surfacing, and capital is being reallocated to more agile players. The message? The market is moving, but the rules of engagement are changing.

Australian hotel market dubbed a 'safe haven' for investors

Tell me more: The tourism and hospitality sector in Australia has become an increasingly attractive focus for investors, supported by a sustained recovery in tourism levels, robust hotel trading performance, and global market volatility that enhances Australia's reputation as a 'safe haven' for investment. Australia is currently the second most popular investment destination in the APAC region, behind only Japan. The sector's strength is reflected in the H1 2025 transaction volumes which rose 56% compared to H1 2024, with foreign investors comprising 45% of total activity.

The office sector recovery continues

Tell me more: The office market is continuing to recover. Rents recorded positive growth in Q2 and in H1 2025, all four of the major CBDs recorded positive net absorption. National average national CBD capital values experiencing three consecutive quarters of positive growth, notably achieving the first y-o-y increase since December 2022, registering at 1.4%. While global uncertainty may pose a challenge, the office sector is well positioned to continue its recovery.

Total returns for healthcare assets are on an upward trajectory

Tell me more: Although there have been relatively few major transactions in Q2, investor demand in the healthcare sector remains strong, with a shifting focus toward day hospitals, specialist clinics, and life sciences hubs. Despite recent pressures from operating costs, market conditions are expected to improve over the next several years, supported by a moderation in inflation, increased investment in workforce training and enhanced funding through the Medicare and Private Health Insurance schemes.

Supply constraints continue across multiple sectors

Tell me more: The commercial office market's limited new supply is driving medium-term rent growth as tenants increasingly prefer premium-grade spaces. Likewise, in the retail sector, steady demand coupled with scarce new supply has reduced vacancy rates to 11.1%, the lowest since CBRE began tracking in 2021. In the living sector, innovative construction methods, including prefabricated homes, are gaining momentum as solutions to the national housing shortage, alongside sustained investment in the BTR sector. Overall, constrained supply across commercial, retail, and residential sectors is shaping market dynamics, driving growth and innovation to meet evolving demand.

Key Resources

- Property Council of Australia: Offshore capital reignites Australia's hotel market
- JLL: Asia Pacific Capital Tracker 2025
- Dexus: Australian Real Asset Quarterly Review Q3 2025
- Colliers: Quarterly Asset Class Snapshots Q2 2025
- Retailbiz: International retailers drive CBD retail recovery as vacancy falls to record low

Australia's investment trends

- **Inflation continues to ease.** Inflation has fallen substantially since the peak in 2022, with trimmed mean inflation at 2.7% in the June quarter, and headline inflation at 2.1%, which has partly been affected by temporary cost of living relief measures.
- **Cash rate cuts continued in Q2.** The RBA cut the cash rate from 4.10% to 3.85% in June and again in August to 3.6%, which is expected to further ease cost of living pressures, particularly for households with mortgages. Market economists are predicting additional cuts this year.
- **Business confidence saw an overall uptick during Q2.** While business confidence weakened following tariff announcements, a positive shift has occurred due to recent interest rate reductions, the deferral of US tariff implementations, and a rebound in global equity markets. In July, business confidence increased by 2 points, reaching +7 on the index, surpassing the long-term average of +5. Should this trend persist, a corresponding increase in leasing activity across various real estate sectors is anticipated in H2.
- **Transaction activity remains robust.** Despite persistent geopolitical challenges, Australia's commercial real estate investment sector is demonstrating continued signs of revitalised strength. Q2 2025 saw transactions reach ~$16.6 billion, marking the highest quarterly volume since the final quarter of 2021. This performance highlights heightened investor confidence and continued market momentum.
- **Spotlight on AREITs annual report trends:** Several prominent listed real estate companies, including Mirvac, Charter Hall, Lendlease, Stockland, Dexus and Goodman Group, released their annual reports, with GPT reporting its interim (1H25) results. A clear theme has been a return to profitability for Dexus, Mirvac and Lendlease, which all rebounded from losses in the prior year. Capital inflows and funds under management grew strongly, particularly at Charter Hall and Goodman, reflecting continued investor demand. Several groups, notably Stockland and Goodman, are expanding into digital infrastructure, with data centres becoming a major component of development pipelines. Occupancy levels remain high across portfolios, logistics continues to underpin earnings, and land lease communities feature in growth strategies. Portfolio optimisation is also evident, with groups such as Dexus and Lendlease recycling capital through disposals of non-core assets to sharpen focus on growth sectors.
- **The retail sector continued to grow.** In Q2 retail transaction volumes reached ~$2.346 billion, representing a 39.4% increase compared to Q2 2024. Q2 investment activity rose by 51% relative to Q1. This positive trajectory is expected to continue, particularly as retail spending will likely see an increase as a result of the RBA's recent cash rate cut to 3.6% and easing inflation.
- **Investment in PBSA is expected to increase.** The Albanese government's announcement to increase international student intake by 250,000, reaching a total of 295,000 in the coming year, has sparked excitement in the sector. Investor activity is already present with major players such as Scape as a result of the policy announcement.
- **Unlisted real estate investment performance has shown marked improvement.** Following a period of subdued results, all segments within the unlisted real estate market experienced significant gains in the twelve months ending June 2025. Retail and industrial property funds delivered robust annual returns of 7.6% and 6.2% respectively. Meanwhile, office property funds demonstrated a notable recovery, posting a less negative return of -0.6% over the same period.
- **Retail funds have demonstrated exceptional performance.** Within the MSCI Australian Wholesale Index, retail unlisted wholesale funds emerged as the top-performing sector, delivering a strong total return of 7.6% for the year ending June 2025. This notably surpassed the broader market's annual return of 2.4%.
- **Australia's data centre boom is continuing.** More than $26 billion in investment is forecasted and a projected doubling of national capacity by 2030. In Q2, data centre transactions exceeded $2.4 billion, driven primarily by the Future Fund's $1.9 billion co-investment alongside New Zealand's Infratil in CDC.
- **Investor interest in alternative assets is continuing.** In particular, Australia's cold storage sector is expected to increase in the coming years, driven by rising demand, increased online food consumption, and population growth. Other alternatives such as self-storage facilities, childcare centres, yacht marinas, and PBSA are also expected to grow.
- **Uncertainty remains for M&A transactions.** Market volatility has been intensified by escalating global tariffs imposed by the Trump administration, coupled with stringent messaging from newly empowered competition regulators. Together, these factors have introduced considerable uncertainty and instability, weighing on deal activity throughout the region. In the Australian market, Q2 2025 experienced a reduction in both transaction count and average deal size, with 252 deals completed compared to 281 in the same period last year.

Key Resources

- RBA: Market expects rate cut in August after inflation slows
- Dexus: Australian Real Asset Quarterly Review Q3 2025
- Nab: Monthly Business Survey – July 2025
- RBA: Statement by the Monetary Policy Board
- Cushman & Wakefield: Australia capital markets
- RBA: Market expects rate cut in August after inflation slows

Sub-sector snapshots

Office

Fundamentals within the office sector have shown ongoing improvement during Q2 2025, supporting a sustained recovery nationally.

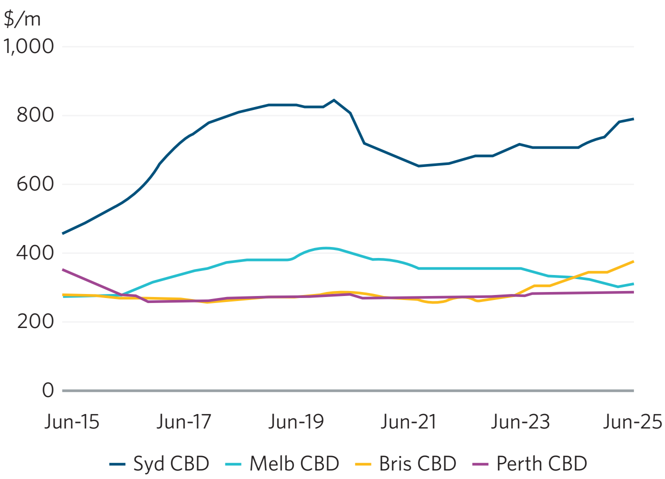
Consecutive yield growth recorded

National average yields remained relatively stable at 6.87% for prime-grade assets and 7.96% for secondary assets. Continued stabilisation of yields coupled with growth in face rents has resulted in average national CBD capital values experiencing three consecutive quarters of positive growth, notably achieving the first y-o-y increase since December 2022, registering at 1.4%.

Although office investment activity remains below initial expectations, with sales totalling $136.5 million in Q2, forecasts indicate a resurgence in the second half of 2025, driven by heightened investor interest aligned with strengthening market fundamentals.

Prime effective rents have experienced notable growth, with Brisbane leading at a 13.1% increase over the past year, followed by Sydney at 11.1% and Perth at 1.8%.

Prime net effective rent growth

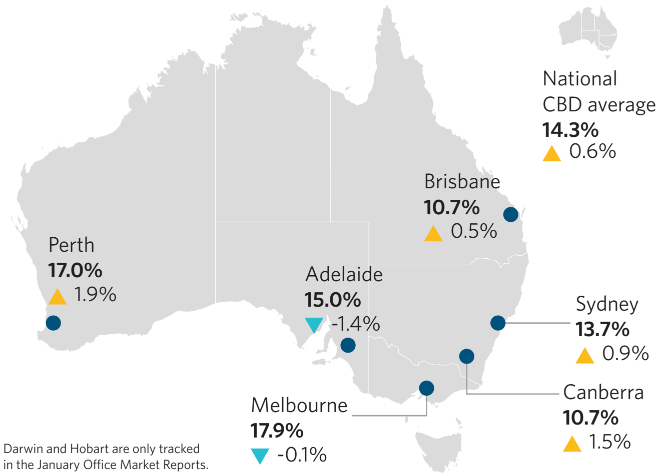


Source: Dexus

Vacancy rates are on the rise

Australia's office market vacancy rate has increased to 15.2% nationwide, marking its highest level in approximately thirty years. The Property Council of Australia attributes this rise to a market shift towards premium-quality office space, alongside the introduction of new supply aimed at meeting tenants' demand for higher quality spaces.

Australian CBD office vacancy rates



Source: Property Council of Australia

Leasing trends continue

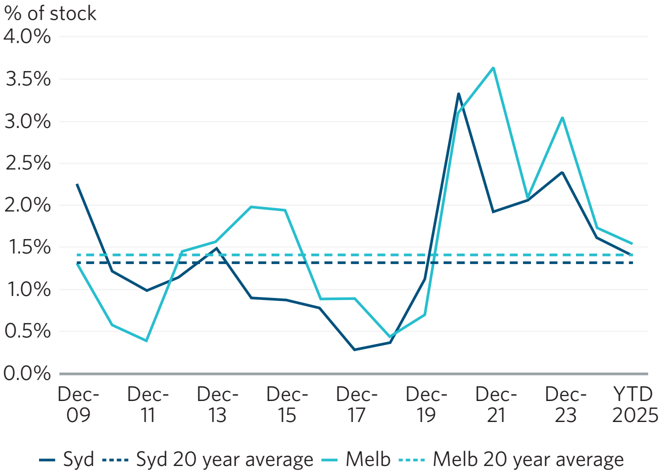
In Q2 2025, gross leasing volumes remained steady at approximately 80,000 sqm, comparable to Q1, with Melbourne and Sydney CBD accounting for 35% and 27% respectively. During this period, 65% of leased space consisted of Premium or A-grade assets, demonstrating tenants' sustained preference for high-quality premises in prime locations. However, this represents a decline from the 75-80% range recorded over the previous year, reflecting a reduction in available Premium-grade options in preferred areas and limited new supply.

Annual gross additions by year-end are expected to be 25% below 2024 levels and 35% beneath the decade-average. Nevertheless, the commitment rate upon project completion increased from 54% in Q1 to 70% in Q2.

Sublease space continues to decline

Sublease space has continued to decline and is now approaching average levels. In Melbourne, sublease space has decreased from 3.7% in 2021 to 1.6% in 2025. The lack of new construction is anticipated to further reduce vacancy rates in the coming years.

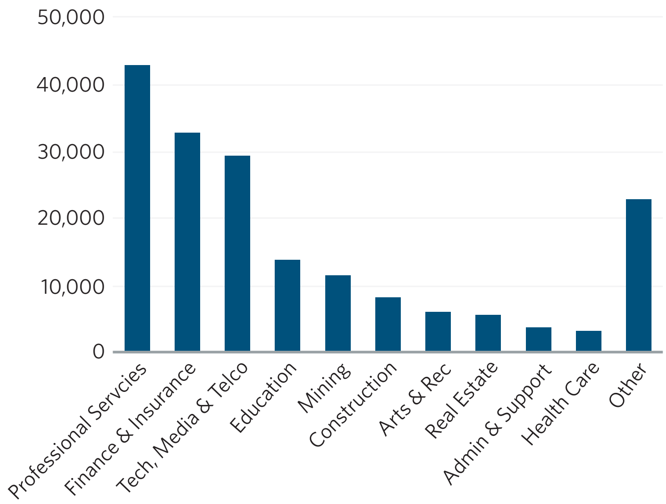
Sydney CBD and Melbourne CBD sublease vacancy



Source: Dexus

The Professional Services, Financial and Insurance, and Technology, Media, and Telecommunications sectors continued to be the primary contributors, collectively representing 60% of the national sublease availability in Q2 2025. Beyond these sectors, the sublease market is relatively evenly distributed across various other industries.

National sublease availability by sector



Source: CBRE

Brisbane leading rent growth

Brisbane data has indicated that tightening vacancy rates and limited new supply exerted upward pressure on rents, resulting in a 6.8% rise in effective rents for higher-quality 'prime' properties during Q2 2025. Brisbane's prime properties now command $448 per sqm per annum, reflecting a 22.6% y-o-y increase. During Q2 2025, the Sydney CBD office market recorded the second-highest growth, with prime net effective rents increasing by 1.7% to $795 per sqm per annum, representing a 5.9% increase y-o-y.

Highlight of key transactions:

- Odakyu Electric Railway Co bought a stake in the **Salesforce Tower**, Sydney's tallest office building.
- Sentinel Property Group bought the **Green Square South office** in Brisbane's Fortitude Valley for **$132.01 million**, anticipating the area will take off due to its proximity to key sites for the Brisbane 2032 Olympic and Paralympic Games.
- Centuria Capital Group has sold its last **Centuria ATP Fund office asset** to Marprop Real Estate Investors and Gresham Property Funds Management for **$116 million**.
- Lendlease acquired an office tower at **175 Liverpool Street** in Sydney for more than **$500 million** from Chinese property giant Shimao.
- Cromwell Property Group has sold its remaining stake in an **A-grade office complex in Sydney's Chatswood** to its co-owner, BlackRock for **$87 million**.
- Funds manager Acure has set up the **Brisbane Office Trust** and is seeking to buy an A-grade prime Brisbane CBD fringe office tower from Keppel Capital for more than **$80 million**.
- **Marquette Properties** has acquired an office tower in Brisbane from QIC for **$52 million**.
- **Dexus** has sold a Melbourne office building for around **$260 million** to Asian private equity and real estate company PAG.
- **Forza Capital** is looking to raise $140 million to fund its **$226.5 million** purchase of ISPT's office tower in North Sydney.

Key Resources

- CBRE: Australian Office Sublease Barometer June 2025
- Colliers: Quarterly Asset Class Snapshots Q2 2025
- Cushman & Wakefield: Australian Marketbeat Reports
- Dexus: Australian Real Asset Quarterly Review Q3 2025
- Property Council of Australia: Office Market Report
- AFR: Office vacancy at 30-year high

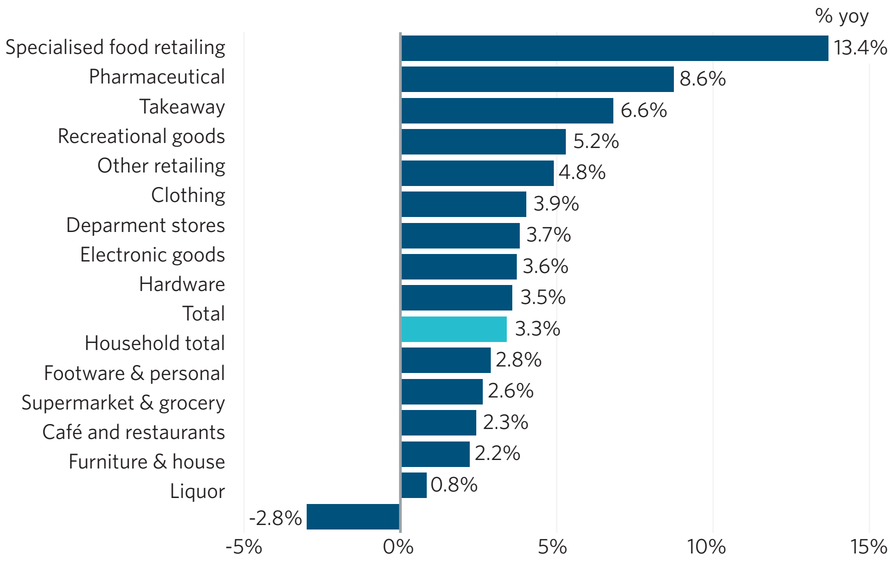
Retail

In Q2 2025, retail transaction volumes reached ~$2.346 billion, representing a 39.4% increase compared to Q2 2024. This rise was partly driven by the court-ordered sale of Dexus' 50% interest in the Macquarie Centre to UniSuper and Cbus Property for $830 million.

Investment activity within the retail sector has remained strong, with Q2 volumes rising by 51% relative to Q1. This increase has been underpinned by enhanced market confidence following recent reductions in interest rates.

Australia's retail sales growth has moderated, with monthly growth numbers about half the long-term average. However, growth in the year to May was 3.3% y-o-y, with growth led by specialised food retailing at 13.5%, pharmaceuticals at 8.6%, and takeaway food at 6.6%.

Retail sales growth by category



Source: Dexus

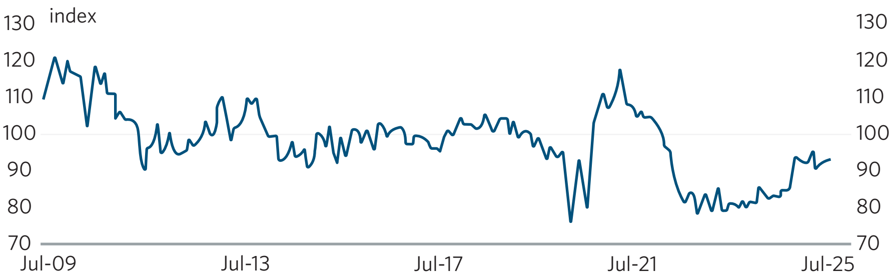
Consumer sentiment remains steady

Consumer confidence has been growing steadily amid the prospects of further interest rate cuts and subsequently, retail spending is poised to ramp up in mid-late 2025.

After a strong start to the year, consumer sentiment has fluctuated over the quarter as the index dipped to 92.6 in June but ticked up to 93.1 in July. While sentiment remains cautious with inflation, taxation, and global uncertainty, the recent RBA rate cuts are providing a meaningful lift in consumer sentiment.

There are good reasons to be positive about an improvement in sales growth over the next year. Wages are now rising faster than inflation and mortgage interest rates are falling, both of which should provide relief from cost-of-living pressures. The RBA rate cut is expected to further ease cost of living pressures, particularly for households with mortgages.

Consumer sentiment index

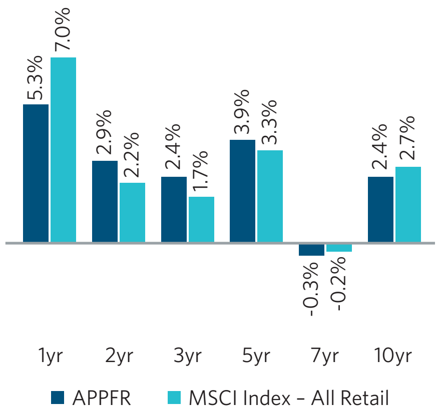


Source: Westpac

Investor sentiment is firming

Investor sentiment towards retail assets is firming, underpinned by steady income streams and favourable supply dynamics. Retail unlisted wholesale funds were the best-performing sector in the MSCI Australian Wholesale Index, posting a solid total return of 7.6% in the year to June 2025, significantly outperforming the broader market's 2.4% p.a. return. For example, Lendlease's Retail Fund outperformed industry benchmarks over 2, 3, and 5 years.

APPF performance vs MISC Index



Source: Lendlease

Legacy pandemic changes continue shape the retail experience as online sales grow

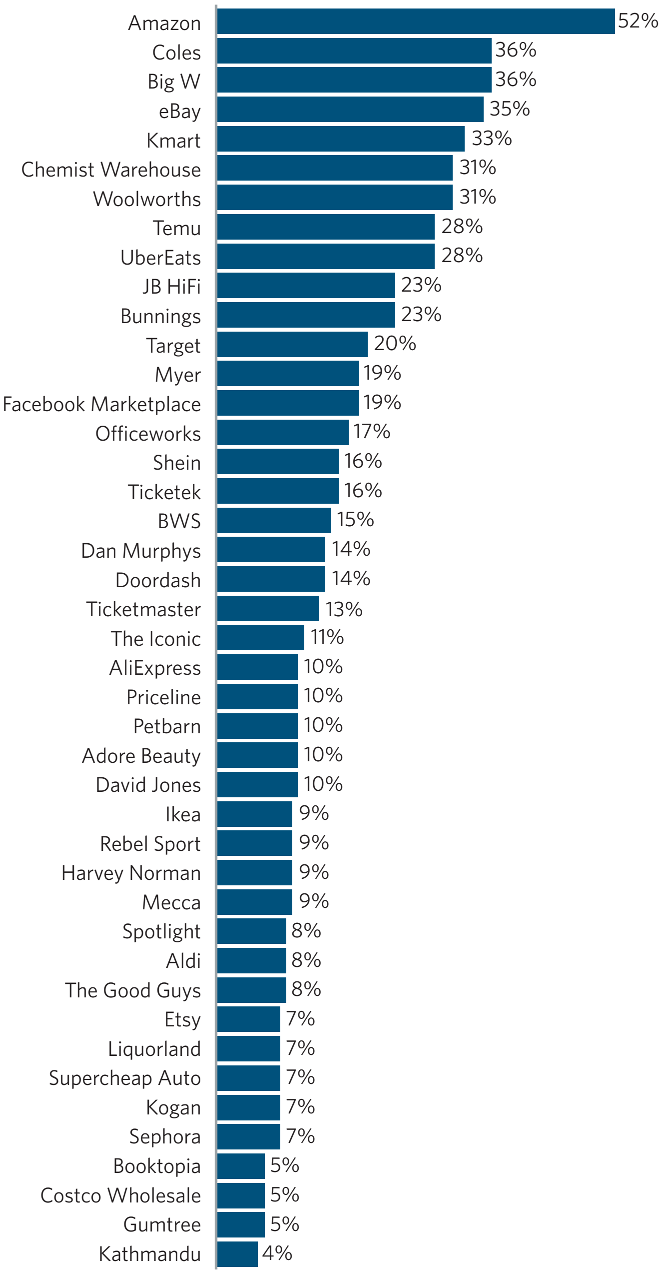
Major retailers, particularly supermarkets, are maintaining the tri-channel strategy adopted during the pandemic era, encompassing physical stores, collection points, and delivery services. Notably, a majority of landlords have further supported this evolution by collaborating with tenants to facilitate drive-through and curb side pickup arrangements.

The recent IAB Australia report has shown that over the 12 months ending May 2025, Australians spent over $63 billion on online retail purchases, reflecting a ~13% y-o-y increase as measured by NAB's online retail sales index. This growth underscores the enduring nature of pandemic-induced shopping patterns, with six out of ten online consumers now purchasing at intervals of every two to three weeks, and eight in ten engaging in monthly online shopping.

Supermarket online sales currently represent around **8%** of total supermarket sales

Amazon retains its position as the leading online retailer, followed by Coles, Big W, eBay, and Kmart to complete the top five.

Online retailers and marketplaces Australians have purchased from in the last year



Source: IAB

Highlight of key transactions

ISPT sold **Karoomba Village** in the Blue Mountains for **$34.8 million** to Sydney-based asset manager **Precept Property Partners**.

Sydney developer **Third.i Group** purchased the harbourside **Gladesville Shopping Centre** and its commercial village in Sydney, with plans to build a $1 billion mixed-use masterplan precinct.

Charter Hall acquired two malls in Sydney and Melbourne for a total of **~$300 million** as it launches a specialist wholesale trust.

Alceon Private Equity and **CP Retail Asset Management** agreed to acquire **The Strand Coolangatta**, a four-level shopping centre in Coolangatta for **~140 million**.

Dexus Wholesale Shopping Centre Fund agreed to acquire a 25% stake in **Westfield Chermside** in Brisbane from **Scentre Group** for **~680 million**.

AFM and **PGIM** jointly acquired the **Woodgrove shopping centre** for **$440 million**.

Charter Hall has launched a **$2.5 billion** convenience retail vehicle and has flagged it will push further into the sector as major shopping centre assets swing back into favour.

Key Resources

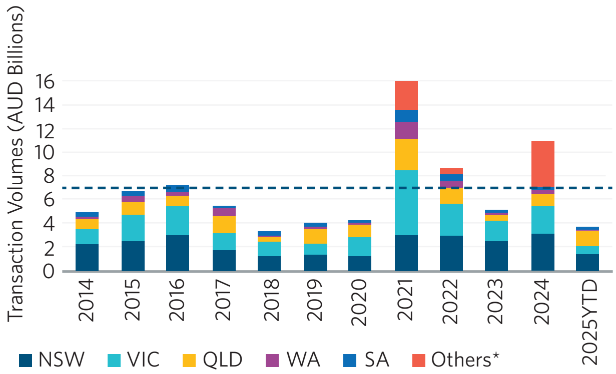
- Melbourne Institute: Consumer Sentiment
- Lendlease: Media Release – Wholesale Funds Outperform Industry Benchmarks
- Dexus: Australian Real Asset Quarterly Review Q3 2025
- IAB: Commerce Report
- Westpac: Consumer Sentiment Bulletin
- ABC: RBA cuts interest rates in August
- CBRE: Australia Retail Figures Q2 2025

Industrial and Logistics

Investment activity

In the first half of 2025, the investment sales volume of industrial and logistics income-producing assets in Australia valued above $10 million reached approximately $3.7 billion. The majority of transactional value was concentrated in Sydney, accounting for 35%, with Brisbane following closely at 34%.

Industrial investment sales for income producing assets (>$10 million) 2014 – Q2 2025



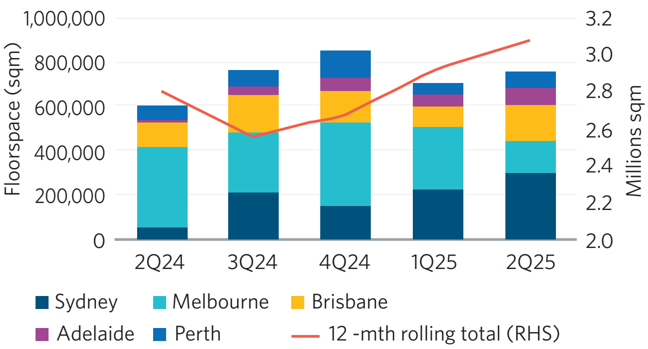
To note Reflects investment sales of income producing assets AUD 10 million and greater.
*Other reflects portfolio sales across multiple cities where individual asset price has not been disclosed.

Source: CBRE

Take-up on the rise

In Q2 2025, gross take-up of spaces exceeding 5,000 sqm increased by 8% compared to Q1 2025, reflecting a 3.6% q-o-q rise. While take-up activity in Melbourne showed signs of deceleration, Sydney recorded the highest levels nationwide, accounting for 36% of total space leased during Q2 2025. This is primarily attributed to Kmart's take-up of 100,000 sqm in Moorebank. Projections indicate that total take-up for the 2025 calendar year will surpass 2024 levels by approximately 5-10%.

Quarterly gross take-up by city



Source: CBRE

Australia's cold storage sector

Australia's cold storage sector continues to expand, driven by rising demand, increased online food consumption and population growth. To sustain current per capita stock levels, an additional 800,000 sqm of cold storage capacity is needed over the next decade. However, the sector remains undersupplied, with supply requirements estimated closer to 950,000 sqm.

Nationally, cold storage space totals approximately 3.1 million sqm (facilities above 3,000 sqm), accounting for just 3.0% of overall industrial stock. Significant investment from both the public and private healthcare sectors is expected to further fuel demand for temperature-controlled facilities.

The current occupier profile is dominated by logistics and storage companies, led by global players such as Lineage and Americold. Retailers, particularly major supermarket chains, represent the next largest group of occupiers and the rise of meal delivery kit providers has introduced new demand layers from companies such as Hello Fresh and Marley Spoon.

Australia's data centre boom continues

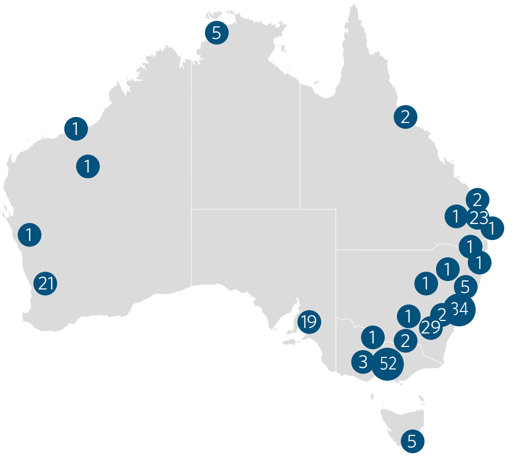
Australia is in the midst of a data centre boom with more than $26 billion in forecasted investment and a projected doubling of national capacity by 2030. In Q2 2025, data centre transactions exceeded $2.4 billion, driven primarily by the Future Fund's $1.9 billion co-investment alongside New Zealand's Infratil in CDC. Momentum is building across the sector, with new entrants, expansions, and strategic partnerships reshaping the landscape. Companies (including operators, investors, developers) are continuing to announce plans and initiatives, including the following.

New data centre highlights:

- **NEXTDC** has recently announced several initiatives, including its plan to invest $2 billion in digital infrastructure in Melbourne; the formation of a **$15 billion** joint venture to fund 850 megawatts of new hyperscale data centres in Western Sydney; and a **$200 million** investment to construct a second data centre on the Sunshine Coast.
- **Amazon** says it will increase its investments in Australian data centres to **$20 billion** between 2025 and 2029.
- **Macquarie Technology** has acquired a site in Sydney's North once earmarked for apartments, but now to host a new data centre aimed at hyperscale, AI, cloud, and government clients.
- **Stack Infrastructure** acquired a second data centre site in Melbourne's West for around **$90.6 million**, more than four times the rate typically paid by industrial buyers.
- **CDC Data Centres** has announced it will spend **$415 million** on the first stage of a Perth data centre to tap into AUKUS-driven demand for computing power. The centre will be operational in 2026.
- **Stack Infrastructure** has secured a **$1.3 billion** loan to expand its west Melbourne data centre campus. The funding was backed by five banks – Deutsche Bank, MUFG Bank, Natixis, Oversea-Chinese Banking Corporation, and Société Générale.
- **Perri Projects** gained approval to develop a data centre in Melbourne's West, with the completed development expected to have an end value of **$1 billion**.

Australia has more than 250 data centres nationally, with facilities primarily located along the eastern coast in Brisbane, Sydney, and Melbourne.

Australian data centre locations



Source: Data Centre Map

Data centre boom brings regulation change

From 1 July 2025, all data centres hosting federal workloads will be mandated to achieve at least a 5-star NABERS Energy rating, in accordance with the Australian Government's Net Zero in Government Operations Strategy. NABERS ratings serve as a key metric for assessing the operational energy efficiency and environmental performance of data centres across Australia.

The introduction of the five-star NABERS threshold now establishes a uniform standard for federal ICT procurement practices, reflecting a comprehensive approach to the standardisation of energy efficiency and reduction of carbon emissions within public sector infrastructure.

Fund formation and capital partnerships gain momentum in the sector

The sector has seen a recent wave of new fund launches and strategic acquisitions, reflecting strong investor confidence in the asset class.

- Gateway Capital has launched a new property fund to accumulate an $800 million portfolio of major logistics facilities along the east coast, where institutional investors are jostling for exposure to some of the world's tightest industrial markets.
- Morgan Stanley has forged into the country's hot industrial property market, striking a capital partnership with real estate group Frasers Property over a $600 million portfolio.
- QuadReal Property Group and GPT Group announced a new Australian logistics joint venture to be known as GPT QuadReal Logistics Trust 2. The Partnership will be seeded with approximately $460 million of high quality, stabilised logistics assets located in east coast urban infill and middle ring locations.
- Canada's Public Sector Pension Investment Board will pour around $800 million into a prime industrial real estate fund run by the Aliro Group. This will give Aliro Group the resources to grow in the increasingly competitive market for warehouses and distribution hubs.

These moves signal a broader trend of institutional capital flowing into stabilised logistics assets and development-ready sites.

Highlight of key transactions:

- **Quintessential** sold a logistics facility located at Port Adelaide for **$216 million**, South Australia's biggest ever industrial deal.
- **Charter Hall** sold a Bunnings store in Southeast Melbourne for **$44 million** to private group **Schiavello**.
- **Barings** has invested **$200 million** in **Swift Storage**, securing a majority stake in the high-tech, contactless self-storage company.
- **Irongate** acquired a large-scale industrial property in Sydney's west for **$66.5 million**, boosting the **$5 billion** investment portfolio it manages.
- **Goodman Group** has completed its first warehouse built predominantly out of timber which has an end value of more than **$50 million**; and is poised to acquire a massive site next to the under-construction Western Sydney International Airport for about **$575 million** from CSR.
- **BlackRock** and **Wentworth Capital** have bought a complex, located in North Ryde, from Aqualand for **c$200 million**.
- **Amazon** is growing its logistics network in Victoria with two new Melbourne facilities, representing a **$200 million** investment for the company.
- **Link REIT** is acquiring a warehouse in Sydney's western suburbs from a Dexus venture. The property, which is under development and jointly owned by Dexus (50%) and its opportunistic fund DREP1, was sold for **$121.5 million**.
- **OneFortyOne** has taken over a near 15,000-hectare timber estate in Southern Australia, securing a sawlog supply that it says will help build new Australian homes for decades to come.

Key Resources

- Cushman & Wakefield: Frozen Logistics – Cold Storage Overview
- The Industrialist: How cold storage is heating up the industrial market
- Information Age: Amazon's $20b Australian data centre spend
- AFR: AI, artificial intelligence, the data centre race
- IT Brief Australia: NEXTDC invests $200 million
- The Australian: Macquarie Technology spends $240m to build data centre
- Australia Data Centers: Map
- Technology Decisions: Australia's new data centre rules
- AFR: Big tech races for data centres
- Gateway Capital connects with e-commerce in $800m fund
- Frasers locks in Morgan Stanley as capital partner in industrial portfolio
- GPT and QuadReal announce new $1 billion Australian logistics Partnership
- Canadian giant PSP Investments forges into industrial sector with $800m commitment to Aliro fund

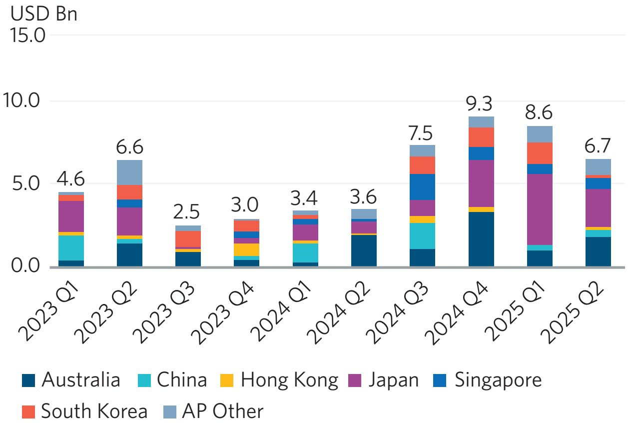
Hotels and Leisure

Australia's hotel market dubbed a 'safe haven' for investors

The tourism and hospitality sector in Australia is becoming an increasingly attractive focus for investors, supported by a sustained recovery in tourism levels, robust hotel trading performance, and global market volatility that enhances Australia's reputation as a 'safe haven' for investment. Transaction volumes have risen 56% in H1 2025 compared to H1 2024, with foreign investors comprising 45% of total activity.

Australia has re-established itself as a premier investment destination within the Asia Pacific region, surpassing China (including Hong Kong) to rank second in hotel transaction volumes, behind only Japan.

Cross border investment volumes into APAC



Source: JLL

Offshore capital inflows are rising

Offshore capital is showing renewed interest in Australia. Ongoing geopolitical tensions and trade wars have led to more segmented capital inflows across the globe trending away from the US, with APAC capital more inclined to remain within the region.

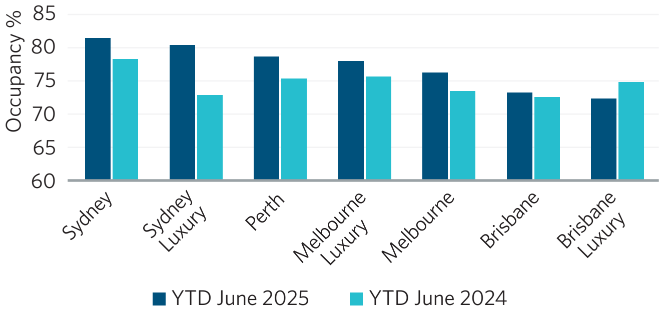
Australia's stable domestic political environment, reductions in the cash rate, lower borrowing costs, and a weaker Australian dollar are further attracting investor interest, enhancing purchasing power for international buyers in the Australian market.

Capital is predominantly sourced from Southeast Asia, with notable investments in the first half of 2025 by Thai and Singaporean groups. Examples include Singapore-based Fragrance Group's $69.8 million acquisition of Savoy Park Plaza Melbourne, Singapore's Furama purchase of Sky Suites Sydney, and Thai hospitality group HS Hotels' acquisition of the Park Hyatt Melbourne.

Occupancy levels remain favourable

Hotel demand and supply dynamics across Australia remain favourable, supported by a moderation in new supply and strengthening demand. Occupancy rates have improved, averaging 81.3% over the first half of 2025, reflecting an increase of 4.1% compared to the previous year. Markets such as Perth and Melbourne, particularly within the luxury hotel segment, are also experiencing high occupancy levels, around 78.0%.

Occupancy comparison YTD June 2025

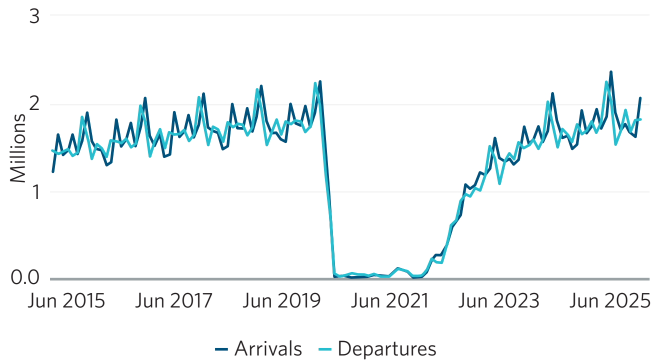


Source: Colliers

Visitor arrivals continue to rebound

The rebound in Australia's tourism industry since mid-2022 is ongoing with visitor arrivals continuing to rise. Short term visitor arrivals in May increased by 1.7% y-o-y and 6.3% y-o-y in June.

Total overseas arrivals and departures: May 2015 – June 2025

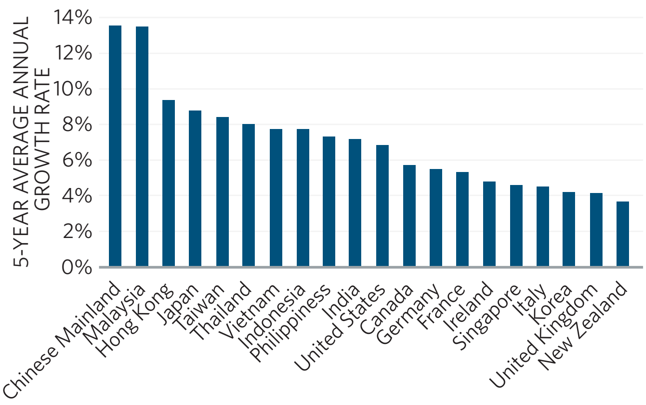


a. Provisional data for the most recent month has not had the full quality assurance methods applied as is done for the earlier months. Provisional estimates will be revised in the next issue of this publication.

Source: ABS

Asia is anticipated to be the primary driver of growth in international visitor arrivals. Visitors from the Chinese Mainland and Malaysia are projected to increase by nearly 14% annually over the five years leading up to 2029, while arrivals from Hong Kong and Japan are expected to grow by approximately 9% during the same timeframe. Collectively, it is predicted that Asia will represent 60% of the total growth in visitor arrivals over the next five years.

Forecasted growth in short-term visitor arrivals: 2025 – 2029.



Source: Savills

Major events like the Australian Open, Comedy Festival, and Formula 1 in Melbourne, Mardi Gras parade and Vivid in Sydney, and Dark Mofo in Hobart encouraged domestic and international travel in the first six months of this year.

In particular, the British & Irish Lions pushed hotel occupancies to record levels with Accor reporting the Sydney game led to its CBD hotels achieving an occupancy rate of **97%**, and its Western Sydney hotels reaching an occupancy rate of **95%**.

Consumers prioritising restaurant and hotel spending

Hotel performance is expected to benefit from stronger growth in household disposable income this year, driven by recent interest rate reductions and wage increases, which are projected to enhance consumer spending and domestic tourism expenditure.

The RBA forecasts that growth in real household disposable income will support a rebound in real household consumption, anticipated to increase by 1.9% in 2025 – more than two and a half times the 0.7% growth recorded in 2024 – before further strengthening to 2.6% in 2026. Additionally, Oxford Economics projects that spending on restaurants and hotels will continue to exceed overall consumer spending growth throughout the remainder of the decade.

Notable hotel openings in Q2 2025

- The Sundays, Hamilton Island – opened April 2025
- Mondrian Gold Coast – opened June 2025
- 1 Hotel Melbourne – opened June 2025
- Hyatt House, South Melbourne – opened July 2025

Highlight of key transactions

The **Panorama Hotel Motel** in the NSW Central Tablelands region sold for **$25 million** to Harris and Narvo Hotels, marking one of the strongest prices for a regional hotel transaction so far this year.

Steven Shoobridge's **Star Group** bought the **Parkhurst Tavern** in Rockhampton for **$24 million** from O'Hara Hotel Group.

Regal Partners acquired a 50% stake in hotel investment platform Ark Capital Partners and secured **Adelaide's Mayfair Hotel** for **$75 million**.

Glenn Piper 's Epochal Hotels acquired the **Bermagui Beach Hotel** in NSW for around **$20 million** in an off-market deal.

Scott Didier purchased **The Beach Hotel** in Byron Bay off market for **$140 million** from Redcape Hotel Group, marking the second-highest price paid in a pub trade on record.

Redcape Hotel Group has bought **The Orion Hotel** in Southeast Queensland for **$30 million** and has announced it will target a raising of $50 million to $70 million in capital to spend on new venues.

Key Resources

- Property Council of Australia: Offshore capital reignites Australia's hotel market
- JLL: Asia Pacific Capital Tracker 2025
- AFR: Hotel occupancy edges up as corporate travel rebounds
- ABS: Arrivals Data
- Colliers: Hotels Q2 2025 update
- Savills: Australia Hospitality 1H/2025
- Colliers: Asia Pacific Hospitality Insights May 2025
- The Australian: Lions tour pushes Accor hotel bookings to record levels

Living sector

Australia's housing market saw a marked slowdown in July after the RBA's unexpected decision to hold interest rates. National house prices remained flat, a notable drop from the strong 1.0% growth recorded in June. However, due to the rate cut to 3.6% in August and another cut expected before the end of the year, this lull is likely temporary as the market anticipates a rebound in growth.

Australia's apartment markets are currently exhibiting a unique trend, with units outperforming houses across the country's three strongest markets. This shift is driven by a combination of persistent undersupply and a development pipeline predominantly focused on luxury projects.

In Perth, unit prices have risen by 13.1% annually, surpassing the 11.6% growth seen in houses. Adelaide apartments have recorded 9.7% growth compared to 8.9% for houses, while Brisbane units slightly outpace houses with 9.5% growth. Despite the relative strength in these three markets, the trend conceals ongoing challenges related to apartment supply shortages and affordability issues.

Major city 12-month growth, June 2025

Major City	House Price	House 1Y Growth	Unit Price	Unit 1Y Growth
Perth	$937,891	11.6%	$617,758	13.1%
Brisbane	$1,058,345	9.1%	$722,437	9.5%
Adelaide	$929,980	8.9%	$642,457	9.7%
Gold Coast	$1,268,710	7.6%	$914,453	6.6%
Darwin	$618,667	7.1%	$384,069	7.0%
Sunshine Coast	$1,206,904	6.9%	$887,166	5.5%
Sydney	$1,638,158	4.5%	$904,149	3.0%
Canberra	$1,066,874	3.6%	$631,698	2.3%
Melbourne	$1,040,072	3.0%	$635,613	2.0%
Australia	**$941,101**	**7.0%**	**$694,510**	**5.2%**

Source: Ray White

Modular housing is emerging as a significant contributor to addressing Australia's housing supply challenges

CBA has entered into a partnership with Queensland-based modular home builder Oly Homes to substantially increase the production of prefabricated residential dwellings. This collaboration includes funding the construction of a new 21,900 sqm manufacturing facility on the Sunshine Coast, which is anticipated to boost Oly Homes' annual output from approximately 200 homes to 550 homes. In addition to this partnership, CBA has announced financing options offering loans up to 80% of a fixed-price build valued at $1.5 million from five approved manufacturers: Modscape, JMB Constructions, Prebuilt, Saltair Modular, and Oly Homes.

Meanwhile, a Melbourne-based modular builder with a background in government projects is preparing to transition its production to focus on prefabricated residential housing, reflecting the sector's expanding market potential.

Although modular housing has yet to establish itself as a definitive solution to Australia's housing crisis, it represents a promising avenue towards meeting the federal government's national housing accord target of delivering 1.2 million new homes by mid-2029.

Supporting this momentum, the largest modular social housing development in NSW has recently been completed, with 24 prefabricated homes constructed on the Central Coast before being transported and assembled in South Grafton as part of a **$9 million** project.

The 'mega' lot trend

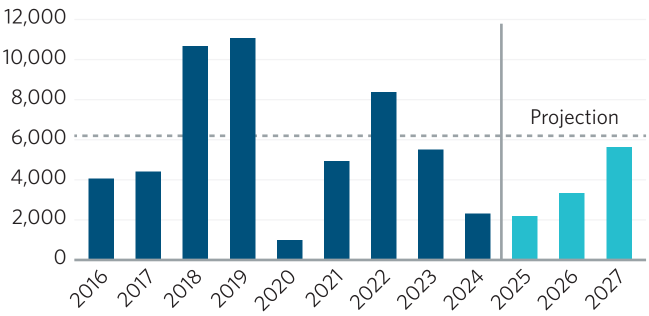
New planning regulations designed to promote medium-density development in middle-ring suburbs have sparked a surge in collective property sales, as neighbours join forces aiming to achieve premium prices. The trend of 'mega lots' is illustrated by recent transactions, for example, six homeowners in Mosman combined their properties for a joint sale value of $60 million, a mega lot in Epping was sold for $30 million – up to three times the value of the individual lots, and 26 residents sold their mega lot in Baulkham Hills for $60 million. This phenomenon extends beyond homeowners, with a consortium of shopfront owners in Bondi following suit. It has been reported that Initium Capital is negotiating to acquire the Bondi mega lot for $80 million.

PBSA

The PBSA sector has received encouraging developments following the Albanese government's announcement to increase international student intake by 250,000, reaching a total of 295,000 in the coming year. Scape has introduced its University Partnership Scholarship, designed to provide immediate accommodation solutions for students currently on housing waitlists. Concurrently, Scape is engaging with universities expressing interest in expanding their student housing capacity under the government's updated policy framework.

Despite this, Australia's PBSA market remains significantly undersupplied, with only 9,759 PBSA rooms approved in the past three years. Notwithstanding this shortfall, market activity and competition are expected to intensify in 2026 and 2027.

National PBSA supply



Source: Property Council

Centurion Corporation has introduced its new PBSA brand, Epiisod, marking a significant milestone more than ten years after the company's initial entry into the Australian PBSA sector in 2014. Centurion has announced intentions to expand its PBSA portfolio in Australia, aiming to establish Epiisod developments at four additional locations across Melbourne and Perth in the coming years.

Retirement living

Investor interest in the retirement living sector persisted throughout Q2 following Scape and South Korea's National Pension Service's acquisition of Aveo. HSF Kramer had a role on this transaction.

Meanwhile, Lendlease's stake in Keyton, Australia's largest retirement village operator, is currently on the market, with prominent investors such as AustralianSuper, GIC, Scape, and Nippon Steel Kowa Real Estate reportedly expressing interest.

Additionally, Q2 saw significant activity with Invesco reportedly agreeing to acquire RetireAustralia for $845 million. RetireAustralia manages 29 retirement villages and has a development pipeline exceeding 800 villas and apartments. It ranks as the fifth largest retirement village operator in Australia, following Lendlease, EQT's Levande, Aveo, and Retirement Villages Group.

Key Transactions

Glenvill Developments secured an **$89.6 million** senior debt facility from CapitaLand-backed private credit group **Wingate.** The project will comprise 115 townhouses upon completion.

Melbourne-based builder **Hickory** won the contract to build and deliver the **$64 million** Mascot 2 project, Iglu Student Accommodation's second PBSA development in the Mascot precinct in Sydney's inner south.

Housing developer **The Living Company** (previously known as Scape) acquired a site in Sydney's inner-city Waterloo for **$32 million** and has plans to develop about 300 student rooms.

The NSW Government approved **Deicorp's** development at Five Dock in inner-west Sydney that will deliver close to 1,200 new homes.

Pro-invest Group has partnered with Japan's **Kajima Corporation** to develop a portfolio of BTR housing across Australian cities that could be worth as much as **$1.5 billion** in five years' time.

Aspen Group agreed to acquire Adelaide Portfolio of Small Retirement Villages from **Aged Care & Housing Group Inc** for **$19 million**.

Barings has topped out of two BTR projects in Melbourne with a combined value of **$320 million**. Both developments will be housed under a new branded BTR living platform, which Barings will deliver on behalf of **Aware Super** in Q4 2025.

Key Resources

- Property Council: Accomodation Benchmarks
- AFR: Modular homes Australia
- AFR: Modular builders are creating affordable housing
- Ray White: Rate hold slows momentum
- Ray White: Apartment completions plunge 40% as units outperform houses
- Green Street News: PBSA sector set to benefit after govt lifts student numbers
- Buyers Domain: The "Mega Lot" phenomenon
- BDO: Build to Rent Report 2025

Spotlight: M&A and capital flows and the changing of the guard

Capital in motion – revitalised strength

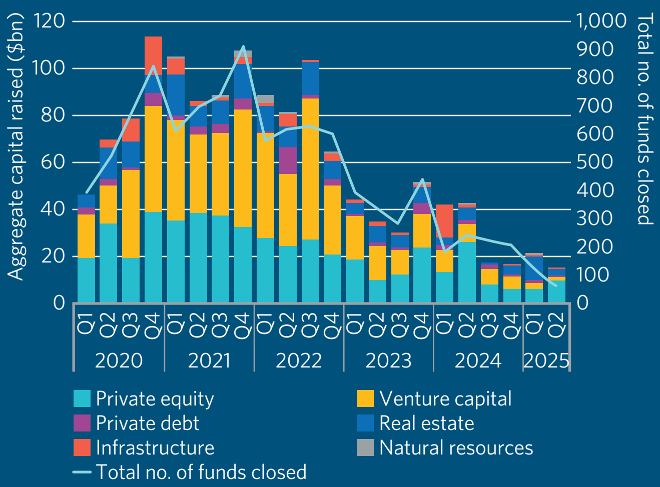
Real estate and real assets investors remain keen to deploy capital, but the optimism that characterised early 2025 has given way to a more cautious outlook. Interest rates, uneven GDP growth and shifting trade policies have prompted a "wait and see" approach for many.

Despite persistent geopolitical challenges, Australia's commercial real estate investment sector is demonstrating continued signs of revitalised strength. Q2 2025 saw transactions reach ~$16.6 billion, marking the highest quarterly volume since the final quarter of 2021. This performance highlights heightened investor confidence and continued market momentum.

Fundraising activity slowed

Fundraising slow on aggregate but deal-making remains relatively resilient, with bright spots appearing across markets. Private equity fundraising increased in Q2, driven by Asia-regional and India-focused funds, but fundraising for most other asset classes fell. Australia continues to lead real estate deal-making, with demand from the living sector.

APAC-focused fundraising by asset class



Source: Preqin

APAC-focused private equity fundraising rose for the second straight quarter, recovering from its recent bottom to reach $9.6 billion – a 58.3% increase q-o-q, with Australia leading APAC in real estate deal value during Q2 2025.

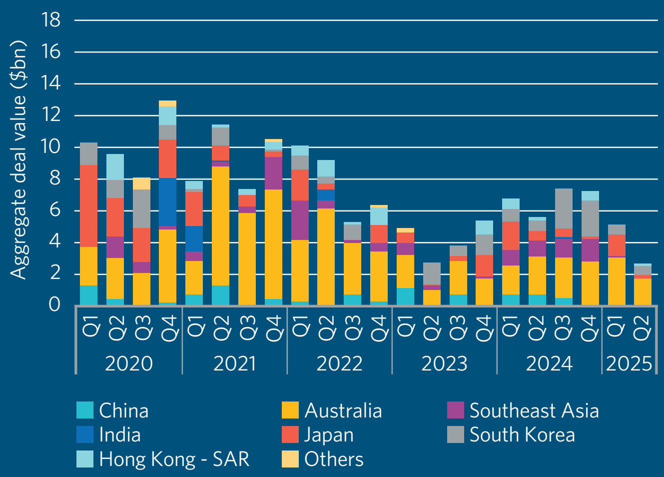
Australia leads APAC real estate investment amid currency stability

In the second quarter of 2025, the Asia-Pacific region recorded a steady volume of direct property transactions, consistent with the previous quarter. However, data from Preqin indicates a decline in the total value of deals. Japan experienced a slowdown in real estate activity, with its share of APAC deal value decreasing between Q1 and Q2. The appreciation of the Japanese yen against the US dollar – driven by its status as a safe-haven currency – resulted in relatively higher property prices for inbound investors, potentially prompting a shift in capital allocation to other APAC markets.

Australia, by contrast, maintained a relatively stable currency against the US dollar throughout the first half of 2025 and emerged as the leading contributor to APAC real estate deal value in Q2, according to Preqin.

Amid a persistent housing supply shortage, the country attracted substantial M&A activity in the living sector. Notably, the $3.85 billion acquisition of Aveo's retirement living portfolio, marking one of Australia's largest direct real estate transactions and the proposed sale of Keyton.

APAC private real estate deal value by location



Source: Preqin

Renewable energy continues to be a major contributor to infrastructure deal activity across the region, maintaining its lead in transaction volume. The declining cost of solar technology, APAC's strategic position as a global solar manufacturing centre, and the scalability of solar deployment are reinforcing the region's attractiveness for solar investment within the broader renewable energy sector.

Activity in capital markets

There is encouraging news on the IPO front, with Blackstone reportedly preparing more companies for public listing than at any time since the record-breaking IPO year of 2021. This activity signals growing market optimism as equity markets continue to advance despite ongoing tariff concerns. Notably, Virgin Australia, GemLife, and Greatland Gold were among the 14 companies to debut on the ASX in the first half of 2025.

While some commentators view this recent wave of IPOs as a sign of renewed confidence in public markets, companies remain cautious due to pricing risks and elevated geopolitical uncertainty.

Flagship funds under fire

Amid a backdrop of slowing deal activity and heightened global uncertainty, several prominent fund managers are encountering challenges in maintaining control over their flagship funds.

Lendlease under pressure

Lendlease is facing a push from super funds to be removed as manager of parts of its $10 billion Australian Prime Property Fund (APPF) platform. Hostplus and UniSuper have called for meetings to replace Lendlease with Mirvac in the APPF Retail Fund, citing liquidity and governance concerns. It has been reported that Mirvac has offered to inject new retail assets if appointed. An independent review has recommended Lendlease stay on, but the final outcome remains uncertain.

Elanor loses key mandate

Elanor Investors Group has lost its $3 billion Challenger Life real estate mandate, which has been transferred to Charter Hall. The move comes as Elanor undergoes a $125 million recapitalisation to shore up its balance sheet. Challenger has also seeded a new $2.5 billion Charter Hall Convenience Retail Fund, signalling a clear shift of capital away from Elanor.

Dexus in legal dispute

Dexus is locked in a court battle with co-investors over its 27.3% stake in Australia Pacific Airports Corporation (APAC), owner of Melbourne and Launceston airports. Other shareholders, including IFM Investors and Rest Super, claim Dexus breached confidentiality rules and are seeking to force a sale of its holding. Dexus has secured an injunction in the NSW Supreme Court, with a full hearing due in November 2025.

This highlights the growing investor activism, with super funds more willing to challenge managers over performance, liquidity, and governance. They also show how financial pressure can reshape mandates, with struggling groups like Elanor losing ground to stronger rivals such as Charter Hall.

Finally, they underline the rise of legal battles in high-value assets, as seen with Dexus and Melbourne Airport, where shareholder disputes are increasingly fought through the courts.

Recent activity – M&A and funds

(in addition to the transactions highlighted in the Industrial and Logistics section)

Scape and co-investor **South Korea's National Pension Service** acquired Aevo for **$3.85 billion** from Brookfield – a landmark transaction marking Australia's largest ever direct real estate transaction. **Aveo** will now sit under Scape's 'The Living Company' brand.

Scape secured a **A$6 billion** fund from CBRE Investment Management that will be focused on PBSA. It is the first of its kind in Australia with an in-place portfolio of 33 operational student assets with 16,300 beds across the major cities

Trilogy Funds opened a $13.65 million capital raise in July for its newly-launched retail fund to finance the acquisition of its seed asset, Brighton Village, a convenience retail centre 40 km north of Perth's CBD from ISPT.

Charter Hall launched a **$2.5 billion** convenience retail vehicle and has flagged it will push further into the sector as major shopping centre assets swing back into favour.

Foreign capital continues to flow into Australia

During the first half of 2025, foreign investment in Australian commercial real estate rose notably, marking a 17% y-o-y growth. The largest share came from North American investors, who committed $1.7 billion, followed by Japanese investors contributing $900 million.

There is speculation that foreign capital will continue to be injected into Australia due to our reputation as a 'safe haven' for investors compared to other more volatile markets. Q2 saw an increase in joint ventures between foreign capital and domestic groups on acquisitions.

Notable examples include:

Lendlease's partnership with Mitsubishi Estate Asia and Nippon Steel Kowa Real Estate to deliver a luxury residential development at 175 Liverpool Street, Sydney.

Mirvac is seeking capital partners for its Sydney Harbourside development and is rumoured to be in talks with Daiwa House and Mitsubishi Estates Asia. Mirvac has a history of working with foreign investors, for example Daiwa house is backing its BTR project at the Melbourne Quarter.

What is ahead?

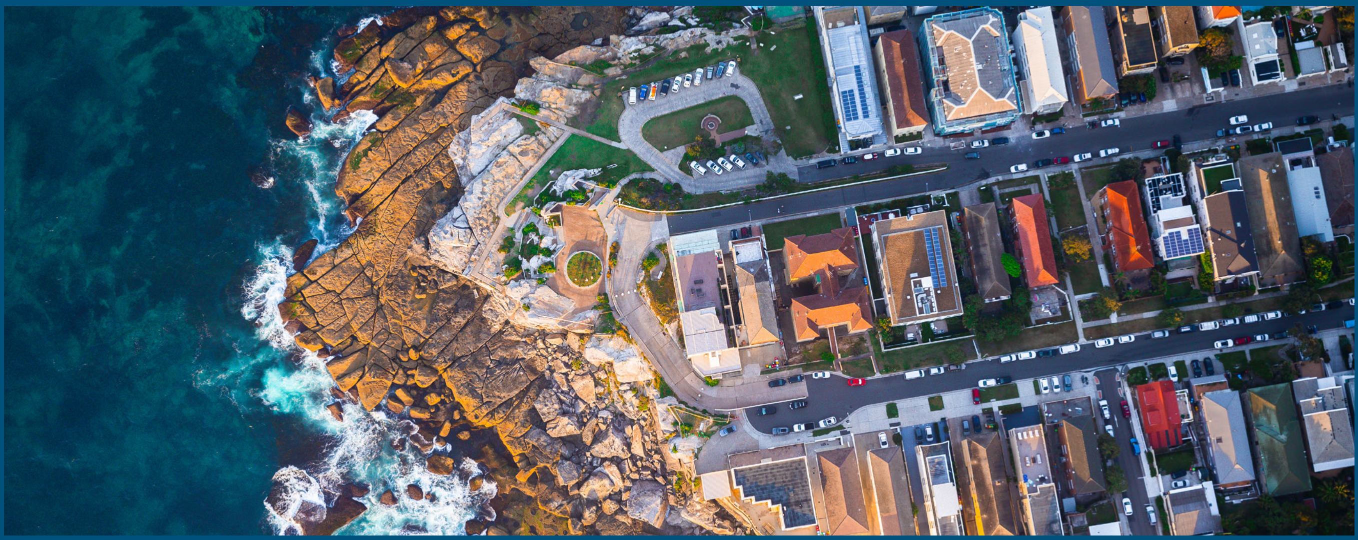
Despite global uncertainty, deals are still getting done – and dealmakers are finding ways to navigate through the uncertainties that prevail in the current M&A market.

M&A activity and capital flows in the APAC region are experiencing a mixed landscape, marked by declines in deal value and fundraising alongside pockets of resilience, particularly in private equity and infrastructure sectors.

Despite global trade tensions and regulatory challenges causing market uncertainty, opportunities arise for smaller funds and foreign investors who continue to show strong interest in the Australian market. Looking ahead, strategic agility and targeted investment approaches will be key for navigating the evolving environment and capitalising on emerging growth sectors.

Key Resources

- CBRE: Australian Capital Flows H1 2025
- Lendlease media release: $2.5b luxury development at Liverpool Street
- The Australian: Lendlease wins Japanese backer for BTR play
- Preqin: Real Estate Q2 2025 Quarterly Update
- Preqin: APAC Q2 2025 Quarterly Update
- AFR: ASX IPO market reopening gives way to a trickle of small deals
- S&P Global: Asia-Pacific M&A activity could get a boost once trade tensions resolve
- Reuters: Blackstone says deal pipeline strongest since 2021 peak
- Real Estate Asia: Australian infrastructure M&A deals hit US$4.6b in Q2
- PwC: Global M&A industry trends: 2025 mid-year outlook
- HLM: MA Report FY2025 Q2
- https://www.pwc.com/gx/en/services/deals/trends/real-estate.html



Asia Pacific Region

Fast 5: What we're seeing across the region

Interest rates are declining in most markets

Tell me more: Amid ongoing tariff uncertainties, the US Federal Reserve is maintaining steady policy rates. June's higher than expected inflation reading of 2.7% suggests that these rates may remain elevated for a longer period. In contrast, interest rates in most Asia Pacific markets fell throughout Q2 2025. By July 29, 2025, the 3-month HIBOR in Hong Kong SAR had decreased nearly 300 bps YTD, while the 3-month SORA in Singapore was over 100 bps below end-2024 levels. Central banks in Australia, Korea, and mainland China also reduced policy rates in Q2 2025.

Demand in the finance and technology sectors is driving growth as activity from other sectors increases

Tell me more: In Q2, the finance and technology sectors continued to be the primary forces driving leasing activity. Banking and financial firms maintained their focus on traditional hubs like Hong Kong SAR and Singapore. In April and May, retail sales in Singapore and Korea remained steady. However, Korea is poised for growth due to an anticipated increase in tourist arrivals and political stability. Meanwhile, Hong Kong SAR experienced a rise in retail sales in May, marking the end of a 14-month decline, thanks to a robust Meetings, Incentives, Conferences, and Exhibitions (MICE) program.

Retail sales maintain consistency

Tell me more: In April and May, retail sales in the Asia Pacific region demonstrated consistent performance. Mainland China's spending stimulus significantly boosted home appliance sales. Japan experienced balanced retail sales, with increased tourist spending offsetting slower domestic consumption. Both Singapore and Korea reported stable retail sales, though Korea is anticipated to see improvements due to rising tourist arrivals and political stability. Hong Kong SAR witnessed a retail sales increase in May after 14 months of decline, driven by a robust MICE program.

The leasing market remains strong, driven by landlords' flexibility with rental rates

Tell me more: Leasing activity remained strong in Q2 2025, despite ongoing trade disruptions. Many occupiers who were previously hesitant have now committed to new leases thanks to landlords becoming more flexible with rents. The demand was primarily driven by third-party logistics providers, domestic e-commerce, and manufacturing sectors. According to CBRE's latest Asia Pacific Logistics Leasing Sentiment Survey, there is a growing preference for consolidation as occupiers aim to right-size amid global trade uncertainties. In mainland China, net absorption was particularly robust for cross-border e-commerce in Southern China.

After a robust first quarter, investment activity has shown signs of moderation

Tell me more: Asia Pacific commercial real estate investment volume fell 17% q-o-q to US$30.9 billion in Q2 2025, but activity increased 22% y-o-y. Hong Kong SAR and Singapore reported the highest quarterly growth in transaction activity this year. In Hong Kong SAR, HKEX's US$807 million acquisition of several strata office floors and retail units at One Exchange Square accounted for 73% of the total investment volume. In Singapore, IOI Properties Group's purchase of a 50.1% stake in South Beach for US$642 million was the largest transaction. Mainland China registered the highest investment volume at US$9.2 billion, with US$6.9 billion from a single large transaction involving a portfolio of Wanda Group's shopping centers sold to a consortium led by PAG.

Key Resources

- CBRE: Asia Pacific Figures Q2 2025
- Preqin: APAC Q2 2025 Quarterly Update
- HSBC: Real Estate APAC – Quarterly Spotlight

Regional Snapshots

China

As of June, China's en-bloc real estate investment market saw a steep 36% y-o-y drop totalling RMB204.9 billion. Foreign investor participation declined to 11.8% reflecting heightened caution amid economic uncertainty.

All major asset classes experienced reduced volumes with industrial and logistics hit the hardest, down 55.5% y-o-y. Vacancy rates surged due to weak domestic demand and evolving supply chain strategies, including offshore expansion by firms like SHEIN. Financial stress is mounting among industrial developers, with rising debt and falling profitability. Landlords are responding with aggressive rental tactics to retain tenants, as manufacturers delay expansion plans. Despite current pressures China's industrial base remains resilient, supported by government investment in R&D and strategic autonomy.

Policy is shifting toward centralized production hubs and national champions, moving away from provincial competition. Stable trade ties with developing markets and targeted tariff regimes continue to support demand. While the sector is consolidating, long-term prospects for industrial real estate remain strong.

Hong Kong

In early May, trade tensions between the US and China eased briefly with a 90-day tariff reduction, lowering rates to 30% and 10% which helped lift investor sentiment. The Hong Kong dollar strengthened, and capital inflows pushed the 1-month HIBOR below 1%, it's lowest since 2022, offering short-term relief to property investors facing high debt burdens.

Despite a stock market rebound and lower interest rates, commercial investment sentiment remained cautious in Q2, with transaction volumes falling 20% y-o-yto HK $10 billion. However, distressed sales declined with only 14% of large transactions classified as loss-making, down from 40% in Q1. The standout deal was Hong Kong Exchange's HK $6.3 billion purchase of nine office floors and retail units at One Exchange Square, marking a 70% premium over recent Grade A office sales.

Religious institutions made notable acquisitions, capitalising on declining prices in the commercial sector, while local investors actively listing small street shops to ease financial pressure.

Japan

Japan's commercial real estate market remained resilient in Q2, recording USD $7.6bn in transactions (H1: USD $21.3bn), up 31% y-o-y. Office and multifamily sectors led activity, supported by strong domestic demand and foreign interest from groups like Warburg Pincus and CapitaLand. Grade A office rents rose 3.4% q-o-q, with vacancy tightening to 1.5%, driven by robust pre-leasing and tenant demand for flexible, premium spaces. Corporate profits grew 3.8% y-o-y, capital investment extended its 16-quarter streak, and real wages are expected to turn positive in H2, boosting household spending.

Inflation remains elevated with core CPI at 3.7% y-o-y, while the Bank of Japan held rates steady and signalled slower bond tapering. Despite political uncertainty, investor sentiment is stable, with J-REITs up 4.9% q-o-q. Logistics, hospitality, and residential sectors continue to perform well, though foreign investors remain selective amid limited value-add opportunities and rising financing costs.

South Korea

South Korea's economic outlook has softened, with the Bank of Korea revising its 2025 GDP growth forecast down to 0.8% amid export declines and new US tariffs. In response, the central bank cut its base rate to 2.50% to bolster financial stability in an uncertain global environment. Despite these challenges, Seoul's office investment market showed a strong rebound in Q2, driven by the sale of five major prime assets in the CBD and GBD.

Hybrid deal structures and more realistic pricing helped close transactions. Leasing fundamentals remain solid, supported by low vacancies and limited new supply.

In contrast, logistics investment volume halved due to financing hurdles and delayed closings, though foreign interest remains active. Key deals include acquisitions by DWS AMC, Kreate AMC, and Cube Industrial AMC. While elevated borrowing costs and geopolitical risks persist, South Korea's prime office and logistics sectors continue to attract selective investment, with positive momentum expected into H2 2025.

Singapore

Singapore's real estate investment sales fell for the third straight quarter, down 7.2% q-o-q to S$5.45 billion, driven by a sharp drop in public sector activity. Only two residential land parcels were awarded under the GLS Programme, compared to five in Q1.

In contrast, private sector investment surged 37.6% q-o-q, supported by major deals from CDL, CapitaLand Ascendas REIT, and Mapletree Industrial Trust. While interest in strata retail and shophouses remained muted, residential assets still led overall sales, contributing 34.1% of total volume.

The industrial sector saw an increase in transaction value, reaching S$1.44 billion, as S-REITs actively reshaped portfolios amid easing rates and strong institutional demand. Despite ongoing geopolitical and trade tensions, developer interest showed signs of recovery, with stronger bidding activity for select GLS sites. Although investor caution persists, stabilising yields and improving financing conditions may support renewed momentum in H2 2025.

Malaysia

Kuala Lumpur's office market continued to show strength with positive net absorption and a drop in vacancy rates from 23.6% to 19.2% y-o-y. Demand was led by financial and tech firms upgrading to modern, high-quality spaces supported by new completions like Lendlease Campus @ TRX. The industrial sector also performed well, adding 2.1 million sq ft of new supply while vacancy rates fell to 2.0%, driven by strong demand from automotive, electronics, and logistics players.

Despite tariff-related caution, capital values rose 3.9% y-o-y. Malaysia's data centre market is maturing, with over 1,300 MW under construction and a shift toward strategic partnerships.

Retail vacancies declined to 15.71%, with strong tenant demand and high precommitments for upcoming malls. The residential market saw steady price growth with high-end segments outperforming.

International interest remains strong, especially from Chinese investors, while recent rate cuts and developer incentives are expected to boost residential activity in H2 2025.

Indonesia

Indonesia's economy grew modestly in Q2, falling slightly short of government targets due to global headwinds and tighter fiscal conditions. To support growth, the government introduced stimulus measures during the school holidays, while Bank Indonesia cut interest rates to encourage spending.

However, property market activity remained subdued amid ongoing uncertainty. Demand for landed homes, particularly those under IDR1 billion, weakened, prompting developers to delay new launches.

The high-end residential segment remained active, supported by VAT incentives and entrepreneurial buyers. The office market held steady, with relocations to higher-quality buildings led by tech, finance, and logistics tenants. The hotel sector showed early recovery, driven by MICE events and holiday travel.

Retail performance improved slightly, with F&B tenants benefiting from seasonal demand. The industrial sector remained resilient, supported by logistics, manufacturing, and data centre demand, despite regulatory and cost challenges. Looking ahead, increased government spending and export recovery are expected to drive real estate growth in H2 2025.

Key Resources

- Savills: Investment Quarterly
- JLL: Asia Pacific Capital Tracker
- AEW: Q2 2025 – Quarterly Research Perspective – APAC
- HSBC: Real Estate APAC – Quarterly Spotlight
- JLL: Kuala Lumpur Q2 2025 Market Dynamics Report

Key contacts

Australia

Real Estate

Luke Simpson
Managing Partner, Real Estate Asia Pacific
T +61 7 3258 6612
M +61 405 223 184
luke.simpson@hsfkramer.com

Jane Hodder
Partner
T +61 3 9288 1692
M +61 419 875 388
jane.hodder@hsfkramer.com

Frank Poeta
Partner
T +61 8 9211 7893
M +61 403 304 304
frank.poeta@hsfkramer.com

Michael Back
Senior Advisor
T +61 7 3258 6611
M +61 404 083 512
michael.back@hsfkramer.com

Julie Couch
Partner
T +61 2 9225 5425
M +61 414 787 425
julie.couch@hsfkramer.com

Julie Jankowski
Partner
T +61 7 3258 6515
M +61 404 220 015
julie.jankowski@hsfkramer.com

David Sinn
Partner
T +61 3 9288 1509
M +61 418 399 567
david.sinn@hsfkramer.com

Andrew Leadston
Partner
T +61 2 9322 4236
M +61 403 862 799
andrew.leadston@hsfkramer.com

Niresha Mudalige
Partner
T +61 3 9288 1421
M +61 447 605 868
niresha.mudalige@hsfkramer.com

Corporate – Funds & M&A

Robert Bileckij
Partner
T +61 2 9322 4390
M +61 418 388 629
robert.bileckij@hsfkramer.com

Katrina Swift
Executive Counsel
T +61 7 3258 6664
M +61 478 409 812
katrina.swift@hsfkramer.com

Fiona Smedley
Partner
T +61 2 9225 5828
M +61 405 223 701
fiona.smedley@hsfkramer.com

Clayton James
Partner
T +61 2 9322 4337
M +61 447 392 896
clayton.james@hsfkramer.com

Finance

Andrew Booth
Partner
T +61 3 9288 1269
M +61 419 876 126
andrew.booth@hsfkramer.com

Phillip McMahon
Partner
T +61 7 3258 6558
M +61 407 852 970
phillip.mcmahon@hsfkramer.com

Melita Cottrell
Partner
T +61 2 9225 5199
M +61 410 459 416
melita.cottrell@hsfkramer.com

Lucy McCullagh
Partner
T +61 3 9288 1318
M +61 412 286 832
lucy.mccullagh@hsfkramer.com

Tax and Stamp Duty

Jinny Chaimungkalanont
Managing Partner, Finance, Asia Pacific
T +61 2 9322 4403
M +61 418 479 417
jinny.chaimungkalanont@hsfkramer.com

Ryan Leslie
Partner
T +61 3 9288 1441
M +61 418 186 499
ryan.leslie@hsfkramer.com

Toby Eggleston
Partner
T +61 3 9288 1454
M +61 413 151 183
toby.eggleston@hsfkramer.com

James Pettigrew
Partner
T +61 2 9322 4783
james.pettigrew@hsfkramer.com

Nick Heggart
Partner
T +61 8 9211 7593
M +61 437 001 229
nick.heggart@hsfkramer.com

Environment, Planning & Communities

Heidi Asten
Partner
T +61 3 9288 1710
M +61 448 614 545
heidi.asten@hsfkramer.com

Kathryn Pacey
Partner
T +61 7 3258 6788
M +61 447 319 055
kathryn.pacey@hsfkramer.com

Peter Briggs
Partner
T +61 2 9225 5155
M +61 409 030 299
peter.briggs@hsfkramer.com

Melanie Debenham
Partner
T +61 8 9211 7560
M +61 410 486 327
melanie.debenham@hsfkramer.com

Asia

Glynn Cooper
Partner, Infrastructure & Energy, Singapore
T +6010 882 2371
glynn.cooper@hsfkramer.com

Nanda Lau
Head of Corporate, Shanghai
T +86 21 2322 2117
nanda.lau@hsfkramer.com

Adrian Cheng
Asia Head of Finance Singapore
T +65 6868 8029
adrian.cheng@hsfkramer.com

Vik Tang
Partner, Jakarta
T +62 21 3973 6118
vik.tang@hsfkramer.com

Tommy Tong
Partner, Hong Kong
T +852 2101 4151
tommy.tong@hsfkramer.com

Warathorn Wongsawangsiri
Managing Partner, Bangkok
T +66 2 857 3828
warathorn.wongsawangsiri@hsfkramer.com

Nonnabhat (Niab) Paiboon
Partner, Bangkok
T +66 2 857 3834
niab.paiboon@hsfkramer.com

Benjamin Lohr
Partner, Hong Kong
T +852 2101 4022
benjamin.lohr@hsfkramer.com

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