HERBERT
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REAL ESTATE SECTOR INSIGHTS

ASIA PACIFIC – Q1 2025

In this issue

MARCH 2025

Investment Climate

Fast 5: What we're seeing in the industry

Alternate assets set for a boost

Tell me more: AI continues to propel the prominence of data centres as investment opportunities, and this trend is unlikely to slow in the next decade. However, there is also a resurgence of investment into healthcare assets as another facet of the alternatives industry. Collectively, there is likely to be an imminent boost in these alternate asset classes from government funding. See our Spotlight section on page 16 for more on Alternative Assets and how they will look going forward.

Macroeconomic stabilisation to boost sector normalisation

Tell me more: Despite persisting macroeconomic uncertainty regarding the loosening of Australia's monetary policy, the first of three interest rate cuts forecasted by analysts across 2025 has been announced in February. This will reduce borrowing costs, lower the cost of capital and boost investor confidence. As sectors including the retail, office and industrial sectors continue to normalise in alignment with strong fundamentals including population growth and employment growth, decreases in the interest rate will help restore equilibrium.

The 'flight to quality' prevails

Tell me more: Across the office and industrial sectors, there remains the trend of a 'flight to quality' as tenants seek higher quality assets to meet their changing preferences and pursue better commercial offerings. Resultantly, it is anticipated that this will drive stronger yields and persistent rent growth to reflect better business confidence.

Consumer confidence resuming despite cost pressures

Tell me more: Falling inflationary figures and prevailing stagnation in online shopping are leading the way for the retail sector as large format brick and mortar stores in metropolitan areas create value, with a limited supply pipeline. The flow-on effects of consumer optimism will also come through clearly – hotel sector demand will be rejuvenated as the post-pandemic restoration of tourism levels remains, and businesses in the logistics sector will act on expansionary decisions. However, both sectors will be fraught by a lack of investor confidence in lending and rising concerns for labour and construction costs.

Build-to-Rent and Social & Affordable Housing retains its popularity

Tell me more: The ongoing cost of living concerns across Australia and the shift towards social and affordable housing means that Build-to-Rent and Social & Affordable Housing projects will continue to dominate the large-scale residential project landscape. This area is likely to continue to receive government funding despite the impending May Federal election.

Key Resources

- Is 2025 the inflection point for the office market?
- JLL Asia Pacific Capital Tracker Q4 2024
- Colliers Australian Investment Review and Outlook 2025
- CBRE 2025 Pacific Market Outlook

Australia's investment trends

- **Australia's GDP grew 0.6% in Q4 2024, its fastest rate since December 2022 and increasing 0.3% on Q3 figures**. Economic activity was driven by Federal Government spending and increases in household disposable income seeing household spending grow 0.4% across the quarter despite being negligible in recent quarters. With GDP growing an overall 1.3% throughout 2024, analysts see this as indicative of an economic turnaround and re-strengthening.
- **The cash rate has been cut to 4.1% in the RBA's February 2025 decision.** The RBA board announced its 25 bps cash rate cut from 4.35% to 4.1%, a first since 2020 after 13 consecutive rate hikes. This follows Australia's lag to its Asia-Pacific and Western peers in cutting interest rates, including the leading cut of 25 bps by the US Federal Reserve.
- **Interest rates are forecast to come down a further twice in 2025,** according to analysts who predict further slashes throughout 2026 for the interest rate to reach a terminal 3.1%. However, this will unlikely affect voting intentions as primary concerns of inflation remain at the forefront and independent from budget decisions.
- **Australian inflation comes down below forecasts to the lowest in three years**. The Australian Consumer Price Index grew 2.4% across Q4 2024 – marginally lower than analyst forecasts of 2.5%, and a material dip from 2.8% in the September quarter, representing the lowest figure in three years.
- **Australia's unemployment rate rose slightly to 4.0% in January 2025, up from 3.9% in November 2024** on seasonally adjusted terms. The former November figures represented an increase of 2.4% across the preceding 12 months.
- **Australia's three-year government monthly bond yields ended at 3.90% at the end of January 2025**, while 10-year government bond yields increased from 3.93% in December to 4.04%. Against the former cash target rate of 4.35% prior to cutting, three-month bank bills ended in January 10 bps lower at 4.33%. Six-month bank bill yields ended 20bps lower at 4.42%.
- **Deal volumes slowed in Q4 but are forecast to pick up again.** Whilst deal volumes slowed in Q4 by 65% on Q3 levels and 35% on Q4 2023 levels, pending transactions also make up a significant portion of deal value. Pending and closed deals accordingly total $9.23 billion, where closed office, industrial and retail transactions representing $4.15 billion of value. Increased pending deals are a healthy sign of investor confidence.
- **Office sector set to stabilise** as interest rate cuts and a slowdown in corporate 'right sizing' normalises this maturing sector, where the flight to quality continues to prevail.
- **Logistics sector wanted for strong, stable returns** as e-Commerce uptake picks up and the sector's resilience becomes attractive to investors. Even though demand continues to outstrip supply, supply continues to deliver.
- **Pickups in domestic tourism may not be enough to meet hotel supply issues**: consumer spending has somewhat improved due to tax concessions, the holiday season and less inflationary concerns. This will drive demand but will bear fruitless if hotel labour and construction costs remain elevated.
- **AI remains a persistent growth point** as data centre demand continues to grow. Goodman Group recently raised $4 billion in support of said data centre expansion, following the two standout transactions by Blackstone and HMC Capital's REIT in Q4 which has invigorated interest in the space. There is undeniable demand for this digital infrastructure which is becoming rampant even in the government sector.
- **Labour government childcare policies** are likely to drive already growing demand in the healthcare sector, where the Albanese's government for a three-day childcare subsidy per week will likely boost investor confidence in the sub-sector's demand.
- **Q4 2024 saw its third consecutive quarterly increase for the first time since Q4 2020**, indicating a recovery of the Australian real estate market, with momentum building into 2025. Activity is likely to be driven by further better alignment between purchaser and vendor price expectations.
- **The office sector attracted the highest transaction values with $3.4 billion in investment**, where the alternatives space was boosted by the Blackstone-AirTrunk transaction.
- **Vacancy rates fluctuate from sector to sector**, where the office sector is seeing some increase in vacancy rates attributable to new project spaces which have yet to be absorbed, but the living and retail vacancy rates continue trending downwards.
- **Foreign investment continues its significance**, but domestic institutional investors take on the industrial and logistics space. Foreign investors have retained their attraction to the living sector, in particular build-to-rent developments, domestic investors including superannuation funds are recognising the potence of these assets.
- **US tariffs disrupt the market with uncertainty** where 25% tariffs on Mexican exports and 50% on Canadian exports may have flow-on effects on the Australian economy, compounded by Australia's failure to obtain an exemption from tariffs on steel and aluminium exports.

Key Resources

- Australian Bureau of Statistics – Australian National Accounts: National Income, Expenditure and Product
- Australian Bureau of Statistics – Employment and Unemployment
- Australian Bureau of Statistics – Consumer Price Index
- Statement by the Reserve Bank Board: Monetary Policy Decision
- Savills Asia Pacific – Q4 2024 Investment Quarterly
- Rate cuts won't move voting intentions: AFR readers
- RBA Statistical Tables
- MarketBeat Australia Capital Markets Q4 2024
- Knight Frank Leading Indicators February 2025
- GDP grows at fastest pace since 2022

Sub-sector snapshots

Office

Modest optimism in place for the office sector

Q4 represented the Australian office sector's market strongest quarter since Q3 2022 with $2.83 billion in transaction volumes, and CY2024 transaction volumes building on CY2023 levels with a 57% increase.

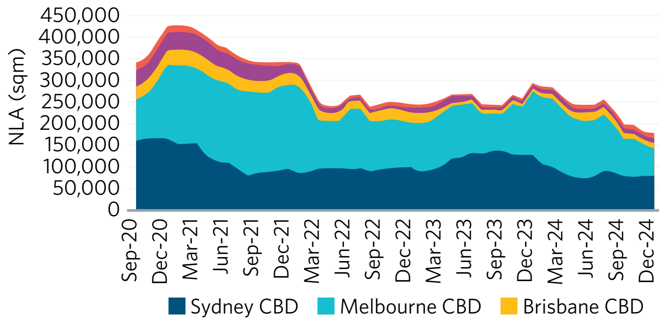
FY25 is set to be optimistic for the office sector which stabilises with interest rate cuts. Whilst office yields fell throughout 2024 with the rise of flexible work arrangements and forced down valuations by 29.6%, the next two years anticipate a reversion to equilibrium catalysed by population-led employment growth and office attendance mandates.

With office vacancy rates across Australia sitting at approximately **15%**, rapid population growth and a continuation of the influx of white collar workers added across Australia in CY2024 will revert vacancy rates to **a normalised 7-8%.**

Falling subleases point to sector stabilisation

Q4 saw national sublease volumes decline 10% across the 3 months to indicate stabilisation in the CBD office market and growing business confidence from occupier demand as corporate 'right sizing' slows. The main declines stemmed geographically from a fall in subleases in Melbourne and Brisbane. Sector-wise, finance & insurance and technology, media & telecommunications firms saw large occupiers nearing the end of their respective right-sizing cycles. Melbourne's decline in subleasing availability was a result of leasing activity involving reductions in listings by large occupiers and withdrawals from smaller spaces. Whilst Sydney's subleasing activity remained flat, this was attributed to listings added and withdrawn being less than 1,000 square metres.

Sublease Availability by Market



Source: CBRE

Flight to quality and value

The flight to quality and value remain two prominent trends in the office market. Tenants continue to seek quality offerings, particularly in CBD areas, where rent growth of 3.2% across the quarter in Sydney was driven by tenants upgrading into higher quality Sydney CBD core accommodation whilst suburban markets remained characterised by higher vacancy rates.

Return to work mandates mean that the flight to quality will persist to drive up yields for higher grade office towers. This 'flight to quality' will drive stronger demand and yields for new high-quality assets.

The simultaneous flight for value is characterised by commercial tenants searching for equally high quality A-grade buildings just outside of CBD areas – fringe or metropolitan markets – without the prime CBD property price tag. Australia's limited supply pipeline is marked by forecast annual gross supply additions anticipated to fall 73% below the trailing ten-year average, meaning that existing premium assets will see more value as supply outstrips changes in what offerings occupiers seek.

Co-working spaces back in the picture?

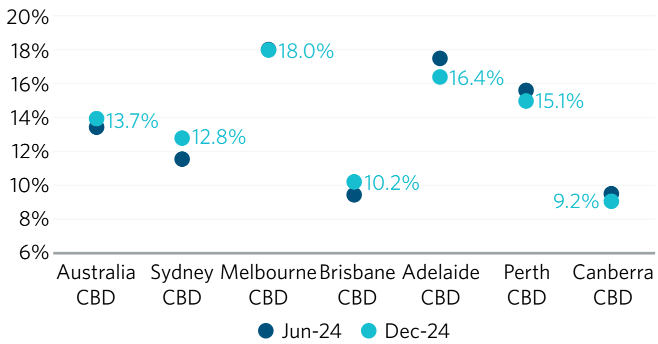
Temporarily elevated vacancy rates bring back the opportunity for co-working spaces to re-enter office buildings, despite the downfall of name-brand WeWork amidst the pandemic. Instead, US player Pembroke has established a flexible office hub on a 3,000 square metre floor in 161 Collins Street as part of its own flexible working 'brand'. National players Waterman Workspaces are looking to reach 30,000 square metres of leased space and Creative Cubes is on track for growth with five sites acquired alone in 2024. Where tenants remain wary to sign long-term leases, these co-working spaces provide a flexible solution, but demand has and will be driven by existing tenants such as luxury retail players, location and the aesthetic ‘feel’ or modernisation of the building.

CBD properties at the core

Occupier demand is more evidently pointing towards the CBD office markets, particularly Sydney CBD's Core and Melbourne's CBD Eastern regions. This is a testament to the core characteristics of their customer base, work force, and quality for value which deem these areas most positively disposed to growth, indicated by 70% of transaction value in 2024 occurring in the Sydney CBD Core precinct.

The national CBD market saw a positive net absorption in 2H24, and its vacancy rate increase only marginally by 0.1% to 13.7% in 2H24. This increase was primarily due to Sydney CBD’s over-station developments.

Total Vacancy Rates across Australian CBD Markets



Source: CBRE Research

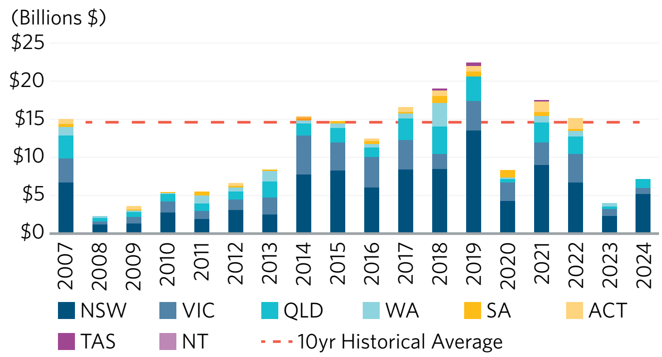
The Sydney office market experienced net positive absorption in Q4 driven by the North Sydney and Sydney CBD areas, where vacancy rates increased 0.5% as new completions increased supply. However, this will dampen in 2025 as new developments and ongoing refurbishments end. Sydney holds a 'first mover' advantage in attracting capital, narrowing the purchaser-vendor gap to recalibrate cap rate benchmarks.

Brisbane also saw positive net absorption in 2024, seeing downwards trends in vacancy rates across all precincts. CBD rents increased 7.2% year-on-year, and increased 8.5% in the Near City region. Construction costs will likely restrict new building growth in 2025, but the introduction of a permanent 50 cent transport fare has seen material improvement in office attendance figures.

Melbourne CBD’s vacancy rates stabilised at 19.8% but increased to 20% in its Fringe market. CBD Prime yields will likely decompress in 2025 from subdued demand. Perth experienced a marginal increase in vacancy rates whilst net absorption fell, primarily due to a four-storey contractual vacation by Shell Australia.

Overall, some concerns remain for secondary-grade assets which continue to be affected by work-from-home trends and higher vacancy rates which dampen valuations, as opposed to prime spaces attracting tenants.

National Sales Volumes by State ($50m+)



Source: Colliers

Highlight of key Q4 transactions

10-20 Bond Street, Sydney – Morgan Stanley/Mirvac sold for **$589.5 million** to BentalGreenOak in November 2024.

100 Harris Street, Pyrmont – Dexus sold for **$244.2 million** to Wentworth Capital/Assembly Funds Management in November 2024.

388 George Street, Sydney – Brookfield Asset Management sold for **$460 million** to Singapore Land JV UOL Group in October 2024.

145 Ann Street, Brisbane – Dexus sold for **$215.5 million** to Aware Real Estate in November 2024.

GIO Building, 66 St Georges Terrace, Perth – RF Corval sold for **$75 million** to Oceania Capital Group in November 2024.

We note that several office transactions in Q4 included buyer requests for energy data from tenants in due diligence, representing tangible steps to integrating ESG into investment decisions.

Key Resources

- Is 2025 the inflection point for the office market?
- Cushwake & Wakefield: Australian Office Outlook 2025
- JLL Australia Office Market Dynamics Q4 2024
- Australian Office Sublease Barometer Dec 2024
- JLL Asia Pacific Capital Tracker Q4 24
- CBRE Talking Property Podcast: 2025 Property Predictions (Part 2)
- Why co-working operators love the weak office market

Retail

Retail transactions surge with restrained supply

2024 saw retail transactions surge, with 131 assets transacted for with a total value of $8.58 billion – an increase of 36.3% on 2023 volumes.

The retail real estate sector consequently contributed to $2.3 billion of investment activity as a proportion of $13.4 billion for deals across Q4 (only deals >$5 million). This was characterised by strong demand for Regional and Sub Regional centres which offer investors reliable income growth and mixed-use development opportunities which are expanding beyond CBD precincts. Regional centre investment was 80.8% higher than the 10-year average, including the sale of Westpoint Blacktown represented the largest single retail asset transaction in Australian history. In 2025, the retail outlook is seeing clearer skies as strong investor demand continues with renewed appetite and an influx first-time asset buyers.

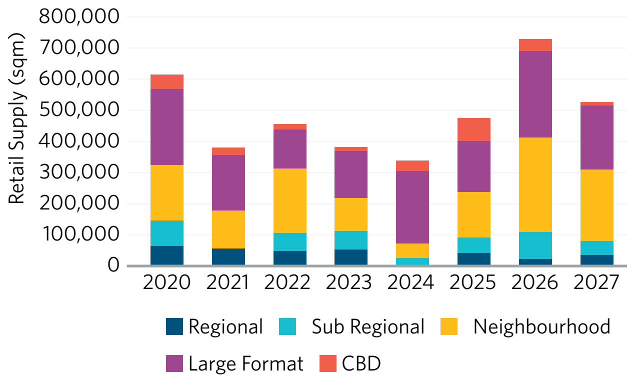
Retail assets in 2025 will likely be characterised by an increase in large format and neighbourhood centres which represent

36% and 39%

of Australia's retail development pipeline respectively, placed in areas of high population growth to meet consumer demand.

CBRE found that in Q4, large format assets recorded the highest growth out of all retail sub-categories at 1.8% quarter-on-quarter growth. However, there is likely to be little cannibalisation for existing centres given these new centres target new urban growth zones.

Retail supply by major category



Source: CBRE

Australia's retail vacancy rates are forecast to continue trending lower, currently sitting below 5% for both shopping centres and large format assets. CBD retail has seen some higher vacancy rates but will likely ease with supply constraints. Occupancy rates are also very high, having remained strong with a 95% occupancy rate for Australian shopping centres, representing good retention of tenant demand. Shopping centre rents are also forecast to increase minimally across 2025 with single-digit growth figures, where net face rents increased across all sectors in Q4 2024 except in prime CBD retail.

However, retail yields for some sub-categories have begun to compress, having reached their peak.

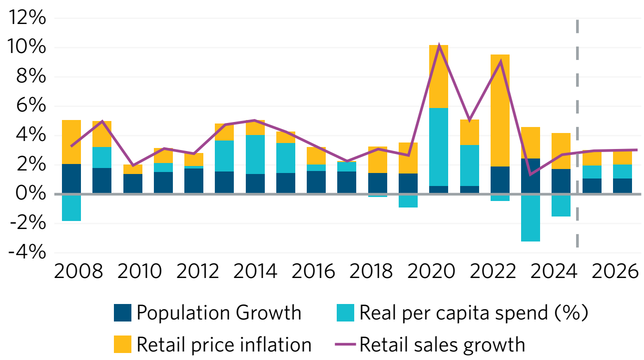
Consumer spending poised to stabilise in 2025

Consumer cost of living concerns are set to abate throughout 2025, as inflation eases and interest rates are set to lower. Stage 3 tax cuts introduced in July 2024 have fallen into place to provide financial relief, and is bolstered by the already-implemented interest rate cut in February.

This reduction in headwinds will be complemented by further drivers of growth, ensuring consistent retail activity. Whilst population growth accelerates at its natural trajectory, consumer spending has also steadily grown at 4-5% per year since 2015, levelling to 3% in 2024 and will likely moderate to 1.5-2% in 2025.

As Australia recovers from its consecutive rate hikes, spending growth on a per capita basis still increased 1.3% in 2H24, and these levers are forecasted to help grow retail sales 3% across the next decade.

Retail sales components and trends



Source: Oxford Economics, Dexus Research

However, there arises divergence between this forecasted retail spending (which has increased 30% on 2018 levels) and future downwards corrections in capital values, particularly for regional centres.

Brick and mortar resilient to e-commerce penetration

Whilst Australian consumers have increasingly taken to **e-commerce,** Australia continues to lag behind its international peers in e-Commerce uptake – only **13.7%** of total Australian retail transactions in 2024 were conducted online, well below the global average of **18%**.

The significance of the consumer experience prevails, as large centres which place weight on non-discretionary tenancy mix blended with entertainment offerings and convenience-based retail garner investor attention. However, retail assets will eventually have to adapt to changes in consumers' experiential preferences.

Highlight of key Q4 transactions

Amusement Park: The sale of **Luna Park** by Brookfield to Oscars Group.

CBD Retail: The sale of **David Jones Bourke Street (VIC)** in December 2024 for **$223.5 million** from Woolworths Holdings Limited (South Africa) to IP Generation.

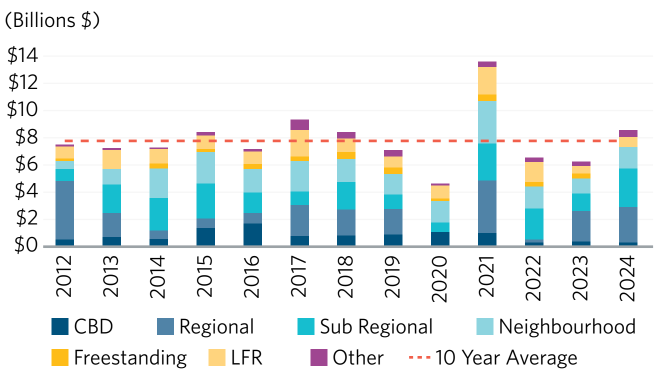
Regional Centre: The sale of **Westpoint Shopping Centre (NSW)** in October 2024 for **$900 million** from QIC to Haben Property Fund JV Hines.

Regional Centre: The sale of **Cockburn Gateway (WA)** in December 2024 for **$300 million** from Perron Group to The GPT Group.

Sub Regional Centre: The sale of **Figtree Grove (NSW)** in November 2024 for **$192 million** from Paragon REIT JV MA Financial to Fawkner Group.

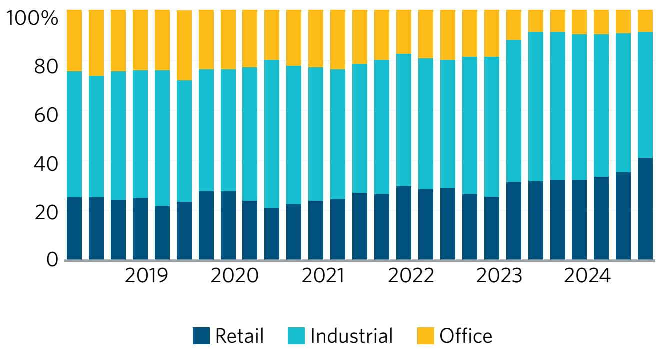
Large Format Retail: The sale of **Joondalup Square (WA)** in December 2024 for **$74 million** from Arise Developments to Barings.

Retail Sales by Sub-Sector (2012-2024)



Source: Colliers

No. of transactions growing in favour of retail assets



Source: Ray White, PIMS, Real Capital Analytics

Key Resources

- JLL Asia Pacific Capital Tracker Q4 2024
- Colliers Australian Investment Review and Outlook 2025
- Ray White – What will 2025 hold for the commercial real estate market
- CBRE 2025 Pacific Market Outlook
- CBRE Australia Retail Figures Q4 2024
- Ray White 2025 Property Outlook Report
- MarketBeat Australia Capital Markets Q4 2024
- Dexus Australian Real Asset Review Q1 2025
- How an additional 340,000 migrants will transform these Australian property sectors

Industrial and Logistics

Elevated supply to normalise

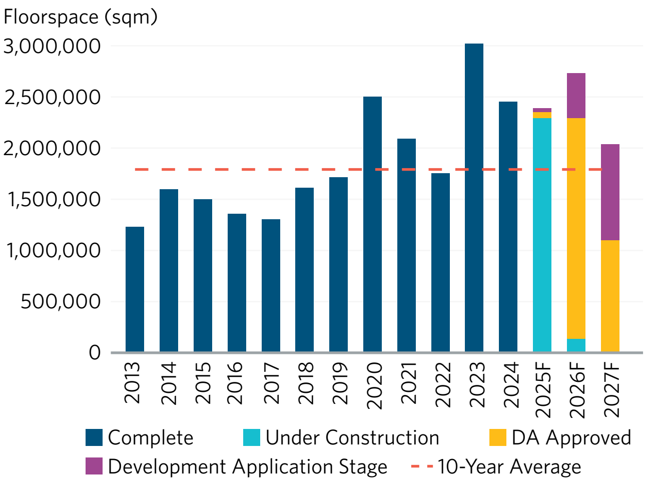
Short-term supply will remain elevated due to a limited supply pipeline and normalise through 2025. CY2024 saw a 27% increase on the 10-year average in square metres added. Whilst across 2H24 the Industrial and Logistics sector experienced a 2.5% increase in vacancy rate, these new spaces were quickly absorbed and the Australian vacancy rate retains a favourable outlook compared to global peers.

Supply delivery is anticipated to remain strong throughout 2025, centralised in Sydney whilst rising labour and construction costs put pressure on Melbourne projects.

Almost half of the
2025 construction pipeline
is already pre-committed, with 95% of this supply already under construction

and
one-third marked for completion in
Q1 2025.

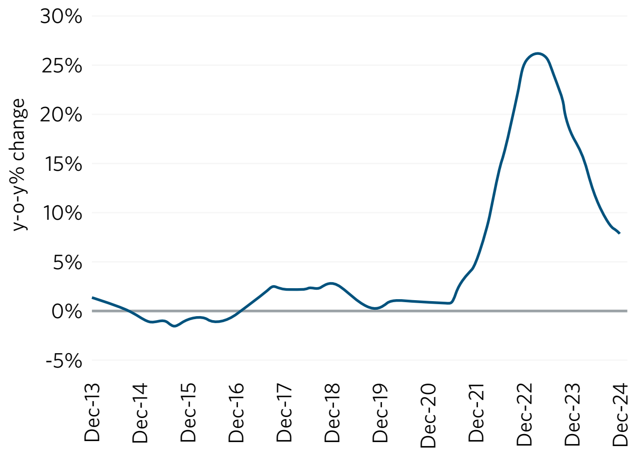
Development Supply Pipeline



Source: CBRE

Rental growth has been minimal across Q4, with the super prime weighted-average net face rent only increasing 1.7% quarter-on-quarter from Q3, with growth only seen in Sydney. Nonetheless, moderate rental growth is anticipated across all Australian states throughout 2025 due to elevated supply levels, although concerns arise in Sydney where rent growth may be constrained as supply significantly outstrips demand.

Australia super prime weighted-average net face rent growth year-on-year

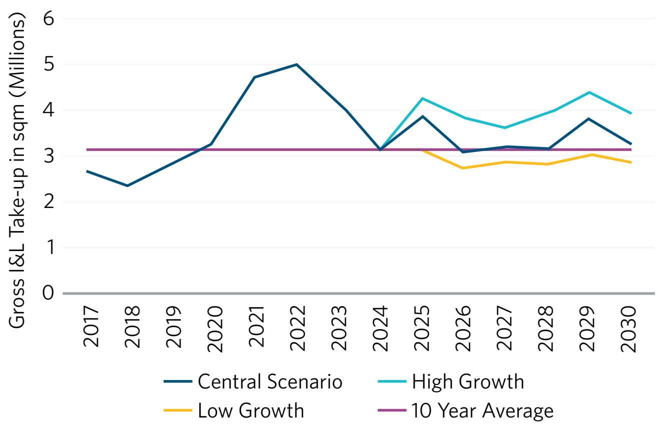


Source: CBRE ResearchQ4 2024

Demand also normalising

Q424 saw gross-take up total 682,000 square metres, cumulating to a 2.5 million square metre total across 2024 – significantly below the 10-year average. Majority of Q4 take-up was from leased spaces in Melbourne which contributed to 40% of the national total. However, gross take-up is forecast to annually average 3.3 million square metres across 2024 to 2030 as downside risk decreases from a high cash rate environment compressing construction margins, and growth opportunities prevail.

Gross I&L Take-up Forecast



Source: Colliers

Q4 saw 70% of completed developments start as speculative builds.

Going forward, the forecasted maintenance of a strong 60% speculative build rate carried across from CY2024 to CY2025 demonstrates a continuation of demand for warehouse and distribution centre spaces due to growing e-commerce uptake, alongside low vacancy rates.

Domestic investors continue to dominate

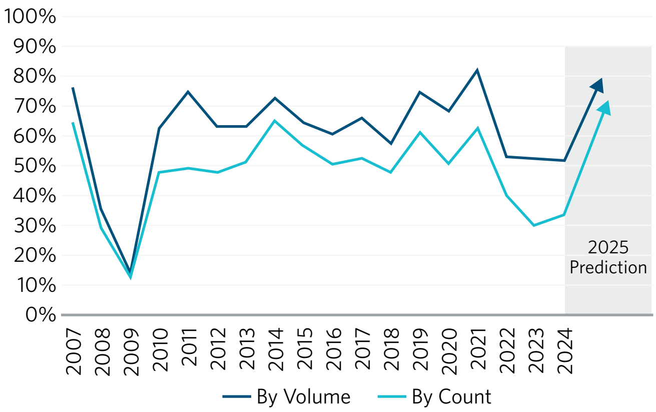
Domestic institutional investors, in particular superannuation fund investments, were the most active buyers of 2024 – representing 58% of investment volumes.

Whilst 2021-2023 was characterised by more aggressive, opportunistic investors capitalising on very high rental growth, now domestic investors seek quality assets with stable cash flows, strong tenant covenants and sustainable credentials.

Late 2024 saw institutional investors invest heavily in industrial and logistics assets in recognition of the structural shift towards e-commerce and international trade opportunities, in particular core or core plus assets which attributed 58% of total trade volumes in 2024. As such, a 'flight for quality' trend emerged and continues, including for infill/last-mile locations, having brought 2024 investment activity to exceed 2023 levels by 16%.

This trend is anticipated to only increase significantly through 2025 as both the market and macroeconomic conditions normalise. Investor shifts in the sector are equally matched by lender investment preferences for industrial assets given their stability, resilience and alignment with population growth. Overall, the Industrials and Logistics sector contributed to $1.4 billion in investment activity as a total of $13.4 billion in investment activity across Q4.

Institutional Purchasers as % of Transactions



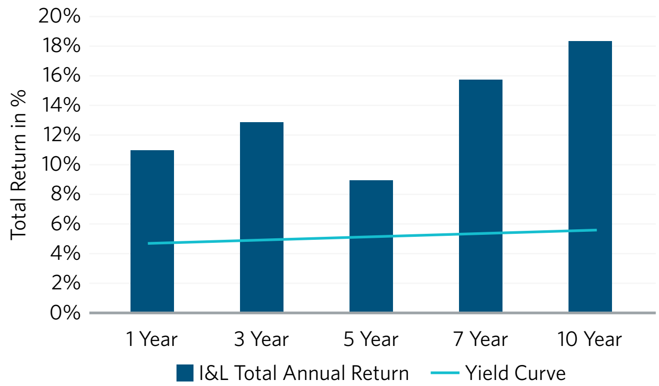
Source: Colliers Research

This is not to say that overseas investors have not continued to contribute to acquisitions in Australia, demonstrated by transactions such as the purchase of TPG Angelo Gordon's 80% stake in Growthpoint Properties.

Yields to stabilise

The stable income and capital returns of industrial and logistics assets retains investor interest. Thus, interest rate cuts will equally benefit yields in this sector as yields too softened across 2024, beginning to stabilise by Q4 with a smaller 31 bps softening. As such, rental growth has offset some yield expansion to stabilise valuations. This will allow industrials and logistics assets to reach their average annual return of 13.3%, 8.3% higher than bond yields across an annual return period.

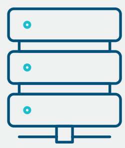
Forward I&L Return if Invested 2 Quarters before the Rate Cut in 2011 Cycle



Source: Colliers Research

Highlight of key Q4 transactions

NextDC acquired the **Eastern Creek NSW S7 Site** for **$353 million** to develop a new data centre.



Charter Hall Limited purchased **99 Harcourt Road, Darra** for a logistics site.

TPG Angelo acquired an 80% stake in **six assets owned by Growthpoint Properties Australia** for **$181 million**.

Goodman purchased **118-124 Bourke Road in Alexandria, Sydney,** from a private investor for **$76 million**.

Key Resources

- Australian Industrial & Logistics Figures 4Q24
- JLL Australia Industrial Market Dynamics Q4 2024
- Colliers Australian Investment Review and Outlook 2025
- JLL Asia Pacific Capital Tracker Q4 24
- MarketBeat Australia Capital Markets Q4 2024
- CBRE 2025 Pacific Market Outlook

Hotels and Leisure

Hotel activity slowing but not stopping

2024 saw 51 hotel assets traded for a total value of $1.5 billion, down 45% from 2023 levels, where Q4 alone attributed to $520 million in value in transactions. This reduction in deal activity was driven by high costs of capital, causing wide bid-ask spreads which have yet to moderate but are forecast to align, and investor preference for assets which require 'rebranding'.

Occupancy rates are reflecting a normalising hotel market. Across the first 11 months of 2024 occupancy rates lifted in all major cities compared to their 2023 levels, and all major cities except Melbourne saw increases in their average daily rates. However, occupancy rates across FY24 only averaged 70.6%, compared to 74% in FY19, representing the impact of long-term interest rate hikes on discretionary spending as well.

The AFR's 'hotel openings to look forward to in 2025' include:

The Eve Hotel, Surry Hills – joint venture between Toga Group and Singaporean Far East Hospitality Holdings.

Mondorian Gold Coast – Chris Vitale.

1 Hotel Melbourne – Barry Sternlicht.

Crowne Plaza Shell Cove Marina – Oscars Hospitality.

25hours Hotel The Olympia – joint venture between Central Element and Boston Global.

Voco Gosford – mixed-use development by Aland.

Andaz Gold Coast – Hyatt Hotels.

Holiday In Melbourne Bourke Street and Hotel Indigo Melbourne Little Collins – IHG.

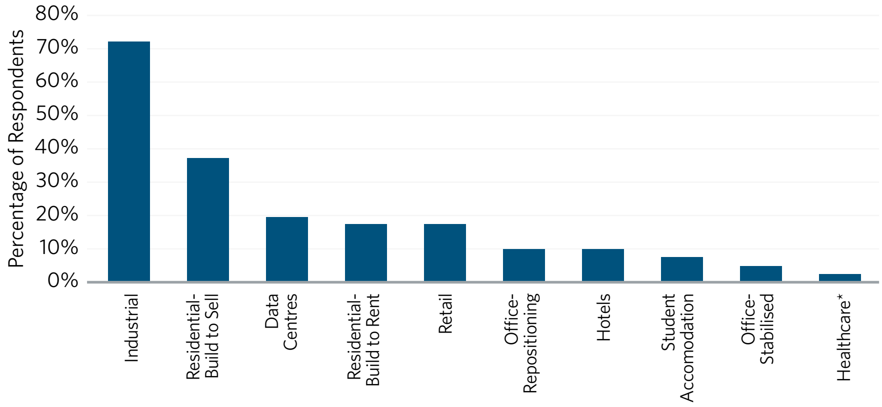
Hannah St Hotel, Southbank – TFE Hotels.

Hyde Perth – partnership between Ark Capital Partners and Kyko Group.

Challenges continue to sweep hotel supply

High inflation has brought high costs of labour and materials costs, serving as hotels' largest operational risk, squeezing profit margins. The construction industry is also reliant on government investment into infrastructure to prop up both public and private sector resources, awaiting pricing stabilisation. Supply constraints also exist from a lack of availability of financing and continued bank regulations – where established hotels are constrained by interest coverage ratios, development markets see lenders uncertain on exit strategies to sell or refinance. In a H2 2024 survey, CBRE found that only 10% of respondents preferred lending to hotels, representing low lending appetite for hotels with uncertain stabilising values.

Lending appetite and preferred asset class for new investment



Source: CBRE Research. Australia Lenders sentiment Survey H2 2024

Interest rate cuts and improving tourism from travel intentions will likely help re-accelerate growth in an industry which is both labour and capital intensive – interest rate cuts will reduce debt costs and the cost of capital, allowing for capital appreciation, and international and domestic travel will lay the foundations for growth in major cities.

Australia's tourism spend is expected to grow at an annual growth rate of **4.7%** **across the next 5 years to 2029**, where international arrivals are forecast to increase **41%** across the same period.

Domestic travel will be characterised by shorter trips closer to home as opposed to long-haul trips. However, both domestic and international travel demand is softer than anticipated. Accordingly, Colliers forecasts that hotel transaction volumes will average $2.2 billion in 2025.

Customers are key

Customer preferences remain at the forefront of hotel choice. In January, Melbourne's hotel scene benefitted from the bump of the Australian Open which saw revenue increase 10% on last year's tennis grand slam event. Whilst this remains to be primarily domestic travel, these multi-day trips are accumulating to become a growing trend, coming off the back of hotelier success from Taylor Swift's 2024 Eras Tour.

Hotels are turning more and more attention to these short-term 'treat yourself' stays, particularly characterised in the fit-out and offered amenities offered in luxury hotels. This includes the newly fitted Waldorf Astoria in Circular Quay as older hotels attempt to keep up with customer demand for a unique hospitality experience.

Highlight of key Q4 transactions

Sale of **InterContinental Sydney Double Bay** for **$210 million** by joint venturers Fridcorp and Piety Group to a consortium including developer Mervyn Basserabie, Allen Linz and Eduward Litver.

Sale of **the Bannisters Hotel portfolio** to **Salter Brothers Hospitality.**

Key Resources

- Hotels love that tennis now means 'spoiling yourself'
- Room to choose: 11 hotel openings to look forward to in 2025
- JLL Australian Hotel Investment Review and Outlook 2025
- Colliers Australian Investment Review & Outlook 2025
- Colliers Australian Accommodation Supply Update Report 2024

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

BTR Demand to continue outgrowing supply

Australia's historically high population growth and immigration rates will drive strong long-term demand for the foreseeable future, where former focus on Melbourne and Sydney is gradually strengthening across all states in stride with interstate immigration patterns.

Supply however is not keeping up, despite strong lender preference for BTR projects compared to other commercial real estate opportunities.

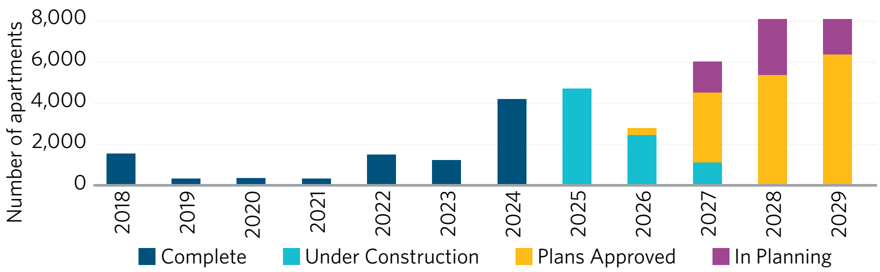
The end of 2024 saw a total of **10,850 BTR units,** approximately **half** of which were centralised in Melbourne, **22%** in Sydney and **20%** in Southeast Queensland.

Whilst Q4 added 5 BTR projects, bringing 2024 to a total of 4,147 apartments added (a 10.5% increase on 2023), the BTR pipeline sits at only 10% of historical apartment construction levels – indicative of a wider national decline in BTR construction.

2024 only saw a total of $1.1 billion in BTR-related sales activity, a significant reduction from 2023 and smaller but material reduction from 2022 as Australia's Living sector moves towards Purpose-Built Student Accommodation (PBSA) and Co-Living projects.

2025 sees 11 BTR projects to be delivered, with 8,199 apartments under construction (4,635 due for 2025 completion), and a 32% increase on 2024 figures with 17,043 plans approved. This will likely represent a 2025 peak before completion levels normalise.

Australian Institutional BTR Supply Pipeline



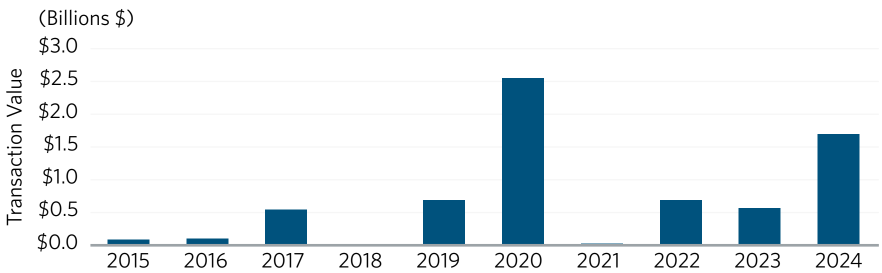
Source: CoreLogic, JLL Research as at Q4 2024

PBSA fundamentals coming through

2024 PBSA transaction volumes jumped significantly compared to previous years at approximately $1.75 billion in investment compared to $0.55 billion in 2023.

In late 2024 the proposed legislation to impose caps on international students in Australia failed to pass, and the introduction of Ministerial Direction 111 in December 2024 instead intends to prioritise a faster and fairer approach to visa applications. Removal of both these administrative barriers will help propagate growth in the PBSA market.

Australian Institutional BTR Supply Pipeline



Source: Colliers

2025 anticipates some reversion of domestic institutional capital which is ready to be deployed as the Australian PBSA market matures, representing a shift away from the foreign investment which characterises the sector. Following current completions, a new PBSA supply cycle is expected which better accommodates student occupiers' functional requirements and preferences.

Social housing unlocked with more government funding

Australia's social and affordable housing pipeline is set to grow by 5,000 homes under Round 2 of the Housing Australia Future Fund as at February 2025, buildings on Round 1 which saw the approval of 23 projects and 13,000 social and affordable homes. Round 2 calls for funding closed in mid-January 2025, with round three consultations to open in mid-2025. The second Round has been lauded by industry players including the Housing Industry Association and PowerHousing Australia.

This investment represents the government's increasing responsibility towards addressing the housing crisis, given Australia needs to deliver **1.2 million** homes by **mid-2029** to ensure universal affordable housing.

However, current forecasts anticipate a 300,000-house shortfall from this target of which the rectification will be dependent on government policy and alleviated costs.

Manufactured housing is moving in

Manufactured (or prefabricated) housing is making a comeback into the Australian market – the Commonwealth Bank of Australia's (CBA) announced at the end of January that it would join prefabAUS, the Australian body for manufactured housing – representing a domestic perspective pivot, suggesting that the sector will more than triple in value in the next ten years.

CBA is the first bank to join in a move that demonstrates decreasing aversion towards off-site construction. Where risks were seen from lending to builders creating value off site rather than on the property site, the collapse of large construction companies from cost pressures has demanded bank sector reconsideration which will now offer a standard-form contracts for loans starting Q1 2025. CBA is offering to lend up to 60% of the contract price, or up to 80% if they use an accredited CBA prefab manufacturer. This paves a way forward to delivering Australia's housing supply, including facilitating social and affordable housing projects such as the Affordable Housing Project in Cairns, and to set a precedent for other banks.

The core barrier exists in deconstructing the perception of the manufactured housing product being 'quick and cheap', but rather a more cost and time effective method which can reduce build times by up to 30 days through avoiding bad weather.

Land lease communities the new thing for over-55s

Land lease communities are the new trend on the Australian property market for luxurious yet affordable retirement options. In February, the Gold Coast saw GemLife obtain approval for Australia's first vertical land lease community as a $450 million over-50s 'lifestyle resort', reflecting a shift towards sustainable yet cash-saving living options for older generations. This indicates a new housing style coming to Australia, where recent and anticipated imminent interest rate cuts will encourage further land lease interest by increasing financial accessibility to land lease communities.

Highlight of key Q4 transactions

Assemble is developing social and affordable housing in **Parcel B of the Fitzroy Gasworks neighbourhood.** HSF advised on this transaction as part of its emphasis on and expertise in the the BTR sector as a means to effectively alleviate the cost of living crisis.

ADCO recently sold **two Brisbane projects** to the **$256 billion** Ontario Teachers' Pension Plan and the US-based Hines – the world's second largest BTR player.

Sime Darby acquired **380 Queen Street** from a confidential vendor for **$115 million** which has Capital City Zoning.

Fabcot (Woolworths) recently sold its premier-approved mixed use development at **25 Ferry Street, Kangaroo Point, Brisbane** for **$210 million** to Mosaic Property Group.

Landmark East sold its mixed-use (pending approval) **142-154 Macquarie Street, Parramatta development** for **$80 million** to JQZ Eighteen Pty Ltd.

Key Resources

- Colliers Australian Investment Review and Outlook 2025
- JLL Australian Apartment Market Overview Q4 2024
- CBRE Australia – Why offshore capital is eyeing Australian build to rent
- CBRE 2025 Pacific Real Estate Market Outlook
- Housing Australia Future Fund Facility and National Housing Accord Facility
- Housing Australia funds over 800 homes under Housing Australia Future Fund Facility
- Second Round of Housing Australia Future Funds opens
- CBA to offer loans for prefab homes, a sector it once shunned
- CBA backs prefabricated construction industry to boost housing supply
- Elevated luxury living on the Gold Coast – Green light for Australia's first 'vertical' land lease community

Spotlight: Alternate Assets poised for long-term growth

With the Australian Federal Election set for May 2025, healthcare and childcare assets are primed for booms as a potential Labour government sees funding fuelling the sectors, driving up their attractiveness as alternate assets.

The recent election of US President Donald Trump not long behind us and rapidly increasing cloud computing uptake also sees a continued riding of the AI wave, but the sudden outburst of DeepSeek onto the AI scene may, in the long-term, disrupt a little of this pent-up demand.

Hospitals set for rebirth

The healthcare sector is set to make a comeback in Q1 2025 driven by stabilising capital values and attractive yields. Fund managers such as RAM continue to demonstrate faith in the sector which rides on the tailwinds of an ageing population and growing government investment.

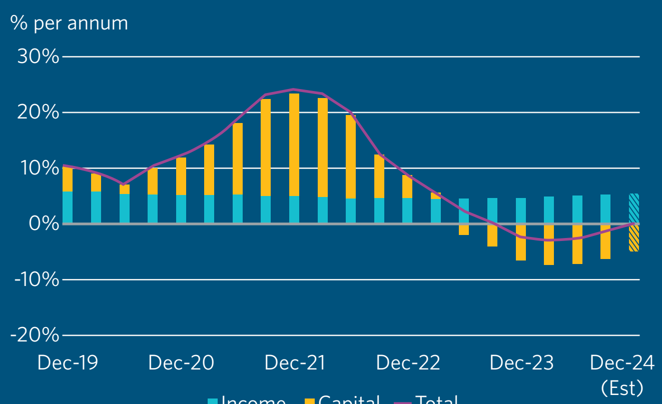
A Labour government is set to invest an additional $1.7 billion into public hospitals and health services across 2025-26, bringing the total investment to $33.91 billion at an increase of 12% in funding from 2024-25. This attempts to systemically help reduce wait lists and waiting times to ease the healthcare system.

Government investment may not be sufficient to offset population growth demands, with 5% capacity and 15 new sites in development to be outrun by 10% population growth by 2030. However, private hospitals deliver 40% of activity and will be driven by private health insurance and government contracts. Government funding will also help alleviate healthcare sector pressures regarding the indexation of Medicare funding and improving bulk billing incentives for GPs threefold.

Workforce shortages remain of concern as fill rates for medical professionals dropped 18% to 44% through 2020-2021, but the shift in demand for same-day services – growing at 3.1% per year – as opposed to multi-day services has reduced overhead costs and streamlined operations. Hence, RAM is seeing the growing profitability of day surgeries and mental health clinics as attractive subsectors.

Public hospital investment will also prove beneficial to public hospital precincts, where mixed healthcare delivery, medical research and worker community purposes drive up rental and land values and thus returns. The US continues to see attractive risk-adjusted returns in its healthcare market which Australia may replicate.

Australian Institutional BTR Supply Pipeline

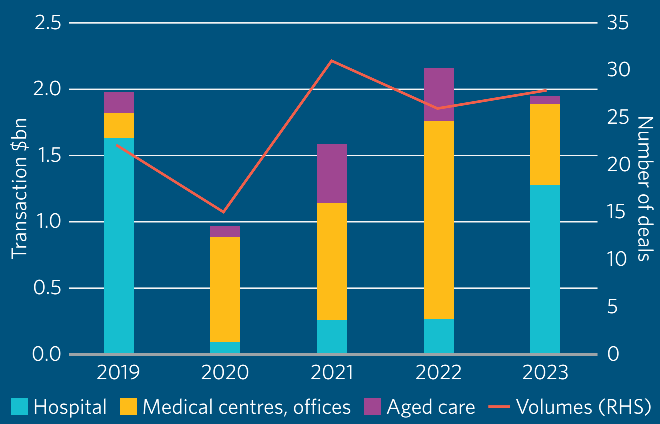


Source: MSCI, Dexus Research

There remain industry concerns nonetheless, for example where December 2024 saw insurance brand name Bupa offer Healthscope doctors and medical specialists $500 to take patients to other facilities due to tensions between private health insurance and patient costs.

The last 5 years have been characterised by significant penetration of institutional investment by private hospital operators such as Ramsay Health Care and Healthscope undertaking sale and leaseback transactions, and account for 65% of market share. Government tax reform for private hospital occupiers, alongside continued investment into public hospitals, will ensure profitability margins remain sustainable and reduce hindrance from wage and utility cost increases.

Australia Healthcare transaction volumes (2019-2023)



Source: RCA, CBRE Research

Healthcare REITs: time to take a look?

Healthcare REITs may present new opportunities as they benefit from both increasing healthcare expenditure and renewed REIT focus.

Australian healthcare REITs are currently seeing maturing portfolios which are divesting management-heavy, non-core medical office buildings in favour of class 9a buildings (generally hospitals and day surgery clinics).

REITs more broadly are also proving to have a strong 2025 outlook as APRA has announced intentions to phase out bank hybrids commencing in 2027. With this $40 billion market to be collapsed, retail investors will see REITs as a popular and likely alternative with high distribution yields amongst easing financial conditions.

Childcare assets ready to boom

A potential Labour government will attempt to push through childcare legislation to legislate three days of subsidised childcare, and its ramifications are a clear push towards childcare demand in the Australian real estate market as parents increasingly opt for it. This will be alongside general budget considerations to deliver its Cheaper Child Care policy, budgeting $26 billion on aged care, disability, medicines and childcare. Where the cost of living crisis has reduced accessibility to childcare centres in more affordable suburbs due to high demand hiking up provider hourly fees charged.

Childcare centres in 2024 saw a significant leap to $657 million in transaction value, an increase of 26% from 2023, involving a mix of both local and Asian investors. Private investors continue to dominate the space, where 2025 was kicked off by a slew of childcare centre sales and leases, including CBRE's sale of a $5.36 million Melton childcare to a private investor in early January.

Does DeepSeek threaten the data centre wave?

The launch of Chinese AI model DeepSeek is disrupting the data centre space as the low-cost Chinese alternative to traditional computing power heavy AI models brings into doubt the demand for data centres globally, another consequence of the global tech sell-off following DeepSeek's revelation.

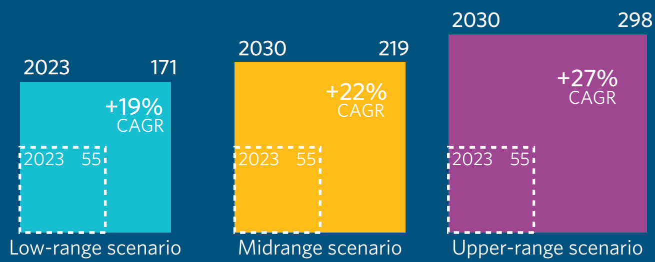
The proposition of DeepSeek as an energy and cost efficient model, requiring less than 10% of its American rivals' power, suggests less physical space may be required to meet demand than expected and catalyse a recalibration of data centre spending plans.

Re-assessing energy demands

McKinsey forecasted in **October 2024** that data centres globally would demand **171 to 219 gigawatts** of power through 2030, a greater than **300% increase** in global energy usage at 60 gigawatts in December 2024.

DeepSeek suggests there will be a dampening in anticipated electricity demand, although NextDC's Chief Executive notes that wider adoption of these more efficient, 'leaner' AI models will bring greater quantity, balancing out so that overall power usage remains 'the same'.

Demand for data center capacity,[1] gigiawatts



[1]Three scenarios showing the upper-, low-, and midrange estimates of demand, based on analysis of AI adoption trends; growth in shipments of different types of chips (application-specific integrated circuits, graphics processing units, etc) and associated power consumption; and the typical compute, storage, and network needs of AI workloads. Demand is measured by power consumption to reflect the number of servers a facility can house.

Source: McKinsey & Company

However, there are several levers which remain intact to drive data centre demand. Importantly, Donald Trump's election brings the US $500 billion Project Stargate which intends to commit to AI infrastructure in an attempt to 'outcompete' China in the AI surge. With that comes a new international wave of data centre demand which Australian operators intend to ride on, where this will drive accelerated investment ripple through to the Asia-Pacific region.

The Project also brings opportunities to introduce data centres globally which run on more sustainable, energy-efficient hardware, producing less heat and requiring less cooling.

Australian domestic demand will also not slow down given AI's sustained growth, and there exists a continuing need to invest in essential digital infrastructure.

Morgan Stanley forecasts that electricity demand for Australian data centres may still reach

8% by 2030

and **15%** 'in its most bullish scenario' – up from **5%** in 2025, which may exert pressure on the domestic electricity grid.

Whilst there may be a mild credit 'slowdown' as lenders re-evaluate data centre demand, some industry executives view this as requisite course correction to what could have been a second 'green investing boom' characterised by an oversupply of data centre assets.

CBRE forecasts that the data centre 'investable universe' will expand four-fold from $23 billion in 2024 to an anticipated $40 billion by 2028, as limited supply draws an attractive investor opportunity and the Australian pipeline in Melbourne is set to grow.

This asset class has sustained attractive yields due to investor interest and its presentation of opportunities for portfolio diversification.

Goodman Group's recent

$4.4 billion

capital raise in support of data centre expansion in February 2025.

and

Macquarie's

$8 billion

investment for a **15% stake** in Applied Digital in the US

demonstrate some large Australian names tapping into the data centre sector, with opportunities for hyperscale customers.

What's ahead?

Land once reserved for traditional industrial assets are now obtaining higher data centre interest, and industrial zoned land is being rapidly absorbed by data centres. Historical industrial land absorption levels for data centres sat at 6 hectares, but have now multiplied to reach 10 to 20 hectares per land sale, largely due to the significant leap in critical IT load capacity from 10 mW a decade ago to now 100 mW projects.

Whilst the government itself has traditionally relied on SaaS and cloud services, the Australian government itself has also demonstrated intentions to rely further on data centre capabilities, where in February 2025 Services Australia has extended its $226 million contract with Canberra Data Centres as part of its IT overhaul across the next decade. The Australian Electoral Commission and Reserve Bank of Australia's existing contracts with Canberra Data Centres are likely to be renewed, driving demand and seeing government investment into the space.

Key Resources

- Savills Asia Pacific Research Q4 2024 – Investment Quarterly
- CBRE Capital Edge Issue 6 Q1 2025
- CBRE 2025 Pacific Market Outlook
- Revealed: The three hot property picks for 2025
- Services Australia signs AU$226m extension with Canberra Data Centres
- Strategic US data centre play for Macquarie Group
- Albanese Labor Government building Australia's future with more money for public hospital reform
- Macquarie hopes for AirTrunk redux with $8b AI data centre bet
- CBRE Healthcare Real Estate – Australia
- How an additional 340,000 migrants will transform these Australian property sectors
- Dexus Australian Real Asset Review Q1 2025
- Knight Frank Australian Horizon Report – 2025
- Why this fund manager is ditching malls for private hospitals
- In their own words: what investment bankers say about real estate
- The Race For AI-led Data Centres In Asia
- Aussies data centres keen to cash in on Trump's $US500bn AI 'Stargate' commitment
- DeepSeek dents outlook for AI-fuelled power boom
- Data Center Euphoria Starts to Ebb After DeepSeek
- 'Childcare deserts' emerge in Sydney's most affordable suburbs
- High-yielding Melton childcare centre sold by CBRE
- McKinsey – AI power: Expanding data center capacity to meet growing demand

Asia Pacific Region

Fast 5: What we're seeing across the region

Investment volumes pick up again

Tell me more: Q4 saw the return of global institutional investors to the APAC region – investment volumes reached US $46.7 billion, representing a fifth consecutive quarter of year-on-year growth at 11%, unseen since Q3 2022. Much of the rebound of investor enthusiasm can be attributed to the prospect of interest rate cuts following the two 25 bps US Federal cuts in late 2024. However, this trend escaped Hong Kong and mainland China which continue to experience distressed real estate markets.

Cross-border purchases at the forefront

Tell me more: Cross-border transactions continue to dominate APAC transactions, with cross-border office transactions growing 264% year-on-year in Q4. Foreign investors also attributed to one-third of APAC industrial and logistics transactions Q4 volumes. Cross-border investment was driven by strong office and logistic sector interest across Australia, Japan and Singapore. This is indicative of the growing return of foreign investor sentiment in the region as interest rates stabilise and market fundamentals shine through former macroeconomic fogginess.

Monetary policy loosening, except for Japan

Tell me more: All APAC markets are anticipated to experience interest rate cuts, except the Japanese central bank which has instead suggested an interest rate hike in light of needing wage and price growth. Nonetheless, the Japanese market is experiencing favourable yield spreads and a tourist boom to uphold its real estate interest.

Deal or no deal? Lower prices prevail

Tell me more: In markets with falling asset valuations such as China and Hong Kong, and others with more fair valuations and perceptions of 'quality for price', investors are nonetheless deploying capital to snatch up assets, with particular focus on the office sector in the pursuit of premium offerings.

APAC strong despite US policy concerns

Tell me more: Overall, APAC is set to grow as its strong population growth fundamentals and each region's attraction of foreign investment propels transaction volumes forward, particularly in China and Hong Kong which are seeing some distressed assets. Despite the threat of US tariffs as announced by the US government, China has reduced it reliance on exports to the US to only 15% of its export base in 2023, but regions such as Vietnam, Japan and Korea remain strong trading partners likely to feel negative impacts.

Key Resources

- Collier APAC Cap Rates Q4 2024
- JLL Asia Pacific Capital Tracker
- Savills Asia Pacific – Q4 2024 Investment Quarterly
- IMF World Economic Outlook Update January 2025
- CBRE 2025 Asia Pacific Real Estate Market Outlook

Regional Snapshots

China

Indications of economic stability emerged in Q4 for China, with the manufacturing sector's Purchasing Managers' Index (PMI) growing 50.1% in December and the services sector expanding 52.2%, to continue into 2025 as the government pursues the first moderate loosening of monetary policy in 14 years. The IMF and OECD project China's real GDP growth for 2025 at 4.6-4.7%, down from 5% in 2024 as hampered by lower consumer spending and deflationary concerns.

Whilst Q4 overall saw greater investor activity and variety of investor profiles, China's real estate market remains subdued – total transaction volumes in Q4 declined 64% and 24% on a year-on-year basis, and transactions were characterised majority by smaller-scale projects.

Institutional investors remain conservative and cautious to the softened macroeconomic backdrop but have contributed mostly to office sector activity with strategic investments. However, decreases in asset valuations have attracted private capital and corporates have contributed to the sector who are less focused on short-term returns. Cities such as Beijing, Shanghai and Guangzhou, alongside some Indian markets, will contribute to 78% of new office supply.

Similarly, the retail sector has attracted strategic investors and changes in tenant mix to meet market preferences, although rent growth and valuations continued to decline. Shanghai, Beijing and Sanya were the most liquid markets for hotel transactions in Q4 whilst other cities saw majority sales of distressed assets.

Hong Kong

Hong Kong saw investment volumes fall 13% year-on-year for 2024, whilst transaction volumes were largely characterised by distressed asset sales or those sold at a loss by a combination of cash buyers or end-users. As a result, Hong Kong has also seen a greater range and nominal increase in investor participation, alike mainland China.

Banks in Hong Kong are likely to continue pushing for asset sales to recover cash from significant markdowns, likely drawing attention from cash buyers previously unable to access core assets at these heavily discounted prices forcing landlords to sell, posed to recover transaction volumes in Q1 2025. This is particularly prominent in the office sector where transaction volumes were brought up by the sale of Chinese developer Cheung Kei Group's premium office building at a greater than 60% discount to its valuation in 2022.

The retail sector is also seeing mainland Chinese engagement who are cash-rich end-users and ready to invest private capital, where Q4 retail transactions saw high yields indicative of more stable returns.

Japan

Japan's real estate market is showing signs of potential growth despite monetary policy uncertainty. The Bank of Japan is unlikely to cut interest rates, instead likely to hike rates a further 25 bps to boost wage and price growth, although this remains subject to its hesitance towards US policy. Japan's November 2024 CPI increased 2.7% year-on-year, with overall increases in both food and services prices, where the IMF has forecasted 1.1% real GDP growth for Japan through 2025, up from 0.1% in 2024.

However, Japan's positive yield spreads despite elevated interest rates have continued to attract foreign investment, concentrated largely in the hotels and industrial and logistics sectors. Japan's investment volumes rose 145% in Q4, reaching 48% growth year-on-year at USD $10.7 billion for 2024. Logistics transactions made up almost half of Q4 volumes due to foreign investors' attraction to the sector's strong rent growth.

Conversely, insurance companies dominated office transactions, including Japan Post Insurance buying a minor stake from Mitsui & Co for a Tokyo CBD office building. Growing office sector optimism, demonstrated by widening cap rates, will likely continue to persist with moderate rental growth in Q4 of 2% quarter-on-quarter and a decrease in vacancy rates to 2.3%.

The retail real estate sector remained soft throughout 2024, but Q4 saw its 11th consecutive quarter of rent growth and a 14% year-on-year increase in valuations. Japan's strong tourism base continues to counter its weak yen to point to growth in its hotel sector.

South Korea

South Korea's economic activity is likely to experience a slowdown in 2025, decelerating mildly from 2.2% in 2024 to 2.0-2.1% for 2025 supported mainly exports and some improvement in domestic demand to inject into its economy.

In 2024, South Korea garnered USD $21.7 billion in investment volumes with Q4 contributing USD $5.5 billion, rising 31% year-on-year and 31% from Q4 2023. Investors preferred stabilized office assets with medium ticket sizes and logistics facilities. Hotels with value-add potential in prime locations gained momentum.

The office sector is set to remain stable for 2025, building on 2024 which saw good 'quality for value' perceptions by global investment managers. Accordingly, Q4 saw office sector activity top transaction volumes, including seeing NH All One REIT acquire a Seoul CBD asset. Further interest rate cuts and rebounds in institutional investment are also to be expected.

Seoul's logistics sector faced value declines due to oversupply and challenging development conditions. However, transaction activity in 2025 is anticipated to recover as new supply stabilizes. In Q4 2024, forward purchase agreements led to transaction volumes comparable to 2023, with foreign investors capitalizing on market lows.

Corporates and occupiers made up the majority of retail investments in 2024, accounting for 80% of volumes. Future retail transactions are expected to focus on value-add opportunities through redevelopment or conversion to office space.

Singapore

In Q4 2024, real estate investment sales in Singapore fell by 11.6% quarter-on-quarter to S$7.32 billion, with declines in both public and private sectors at 17.8% and 9.1%, respectively. Cap rates remained stable due to favourable macroeconomic conditions, seeing transactional volumes grow 60% year-on-year to USD 11.5 billion for 2024, and an increase of 83% for Q4 alone.

Singapore saw the entrance of more private capital into its market with focus on its office sector which has seen subdued rental growth. This included family offices which have turned their attention to prime retail assets, demonstrated by the Q4 acquisition of an office building by a foreign private investor from a domestic REIT.

Institutional investors targeted suburban retail which present resilient income streams. Retail vacancy rates have reached their lowest levels since Q3 2012, with prime retail rents rising for the 13th consecutive quarter. This is anticipated to continue as sustained domestic spending and tourism support future rent growth. Tourism rebounds will also likely see a growing interest in the hotel sector.

Singapore's logistics market attracted diverse investors, with notable transactions including AEW's sale of a high-spec industrial facility and Frasers Logistics & Commercial Trust's purchase of a warehouse from ESR.

Malaysia

Malaysia’s transaction volumes for 2024 grew 68.9% on 2023 levels to reach RM 18.48 billion, with Q4 contributing to RM 4.57 billion in volumes. This was largely due to KLCC Holdings and Bandar Malaysia Sdn Bhd’s project in developing Bandar Malaysia, a major business hub with transaction value of up to RM 12 billion.

Data centres continue to demonstrate robust growth in Malaysia and demand for AI will continue to outpace supply. Activity in the sector reached a total of RM 784 million for Q4 across both Johor and Negeri Sembilan, bringing data centre volumes for 2024 to RM 3.59 billion. Further growth will also be spurred by the retail real estate sector as Kuala Lumpur possesses some of the highest completion rates in APAC alongside Shanghai and Seoul.

Government incentives will present the Malaysian economy resilient to US policy uncertainty. The 2025 Budget includes a 60% tax allowance for smart housing and housing loan relief. This will stabilise its real GDP as Malaysia is forecast to maintain 4.9% growth in 2025 as in 2024.

Indonesia

Offshore capital groups continue to show interest in Indonesia’s logistics market, and new investors are taking shape through strategic partnerships such as joint ventures. In 2024, 230,000 square metres of new space was added, increasing total stock moderately by 8.7% on a year-on-year basis. Demand remains strong, led by third-party logistics, but also in the IT, retailers, automotive, and e-commerce spaces.

Key Resources

- Collier APAC Cap Rates Q4 2024
- JLL Asia Pacific Capital Tracker
- Savills Asia Pacific – Q4 2024 Investment Quarterly
- IMF World Economic Outlook Update January 2025
- CBRE 2025 Asia Pacific Real Estate Market Outlook

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