

H2 2025

CBRE Investment
Management

Asia Pacific

Real Estate House View



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Introduction and key calls

Multi-speed recovery

Asia Pacific's real estate recovery continues to unfold at various speeds, shaped by monetary policy divergence that has influenced differing pricing cycle timelines. This divergence creates a tactical window for investors to deploy market-specific strategies aligned with risk appetite, macro shifts, and sector-specific tailwinds.

Japan remains the region's lowest-rate market, sustaining accretive financing and positive yield spreads throughout our five-year forecast. Despite policy normalization, Japan continues to offer a compelling environment for leveraged returns and inflation-linked income growth, reinforcing its enduring cost-of-capital advantage globally. We are cognizant of the potential risks associated with a rising interest rate environment and recommend focusing on sectors and submarkets forecast to benefit from cyclical upswings in rent growth.

Australia and South Korea are in the early stages of recovery and growth, with valuations largely rebased and a narrowing window for tactical investment at cyclical lows. Cap rate compression is forecast in both markets over the next five years as investors look to secure discounted pricing before further rate cuts and recovering fundamentals accelerate upward repricing.

China has been cutting key lending rates over the past two years to support its economy and struggling residential market. However, the Chinese real estate outlook is generally weak, despite positive yield spreads to lending costs. Vacancy remains elevated across most sectors, although stabilization is expected towards the end of the five-year outlook.

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KEY CALL 1

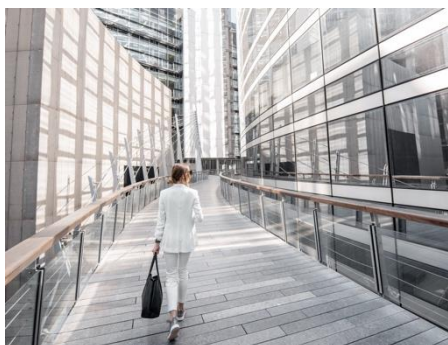
Modern logistics in developed Asia Pacific

A growing consumer base, urbanization, e-commerce growth, a lack of modern logistics stock and sustainability requirements continue to support Asia Pacific logistics demand. We recommend a strategic focus on key developed logistics markets such as Japan, Australia, South Korea and Singapore. We also recommend prioritizing submarkets characterized by resilient domestic demand and active Asia Pacific intraregional trade.

KEY CALL 2

Japanese residential and Australian student accommodation

Japan’s residential market shows continued resilience amid low residential supply and net migration into gateway cities. The Australian purpose-built student accommodation (PBSA) sector is positioned well to benefit from demand from international students and low residential vacancy. We recommend focusing on student demand from the higher education segment, which continues to see growth in enrollments, despite higher international student visa fees.



KEY CALL 3

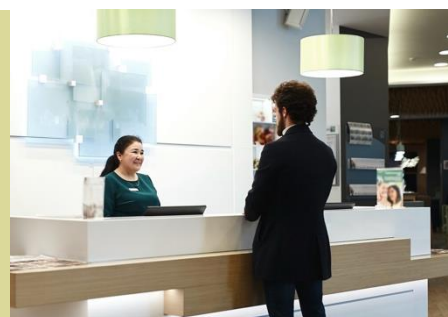
Cyclical office opportunities in Australia and Japan

Focus on select, although limited, Australian submarkets, where cap rates are expected to decline from cyclical highs, supply is forecast to moderate and demand remains robust for the premium segment. We recommend Japanese office opportunities where lease terms provide the ability to capture cyclically strong rent growth, driven by limited supply.

KEY CALL 4

Modern mid-segment hotels in Japan

Japanese tourism figures continue to rebound and have surpassed pre-pandemic levels. Capture the opportunity to modernize and upgrade amenities in the mid-segment market. Target locations near tourist destinations in low supply submarkets.



Asset selection and management to drive performance

Asset selection and asset management will be key to performance during this recovery period. “In periods of dislocation and correction, the quality, location and characteristics of individual assets matter even more, as does active asset management to drive occupancy, rents and value,” according to MSCI. During this cycle, it is critical to focus on enhancing cash flows and driving NOI.

Transaction volume

Cross-border capital increasing into Asia Pacific (ex-China)

The cross-border capital share into Asia Pacific (ex-China) increased to 30% in Q2 2025, compared to 19% in Q2 2024 (on a rolling four-quarter basis), reflecting renewed investor confidence and accelerating market momentum in the region (**Figure 1**). Japan and Australia were the top two investment markets for cross-border capital in H1 2025, with both markets recording sharp increases in cross-border investment of 63% Y-o-Y and 104% Y-o-Y, respectively, in H1 2025 (**Figure 2**). South Korea and Singapore also saw increased cross-border investment in H1 2025. China is the clear outlier with its cross-border capital share declining to a decade low of 4.0% in Q2 2025, due to geopolitical concerns and a weak leasing market.

Within Australia, Sydney is the largest cross-border investment market. We are cautious about Melbourne, as the increase in real estate tax on foreign investors in the state of Victoria is discouraging foreign investment.

Figure 1: Cross-border capital share of total volume into Asia Pacific real estate, %

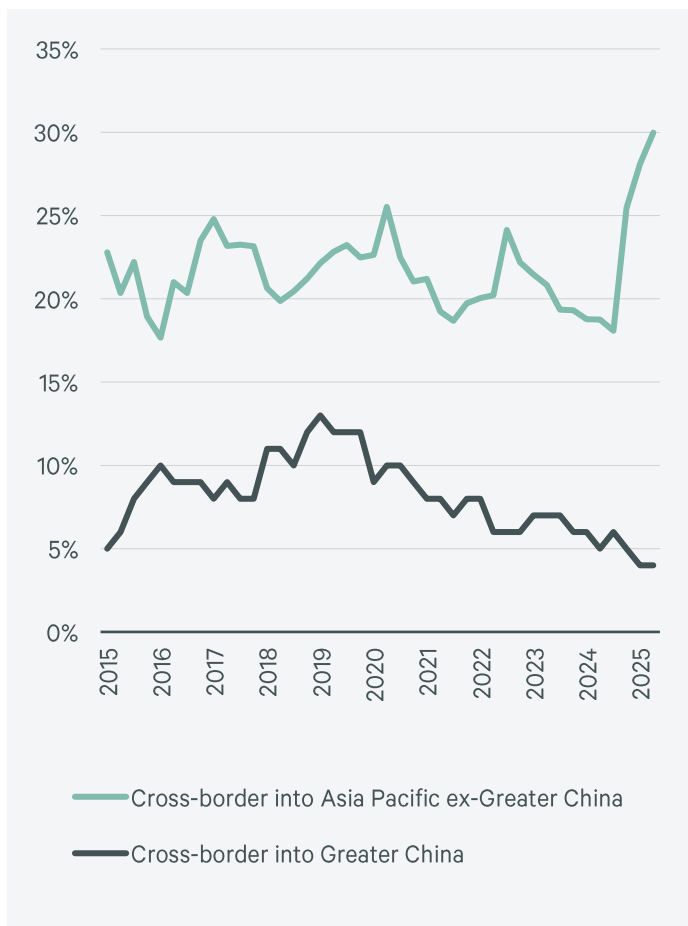
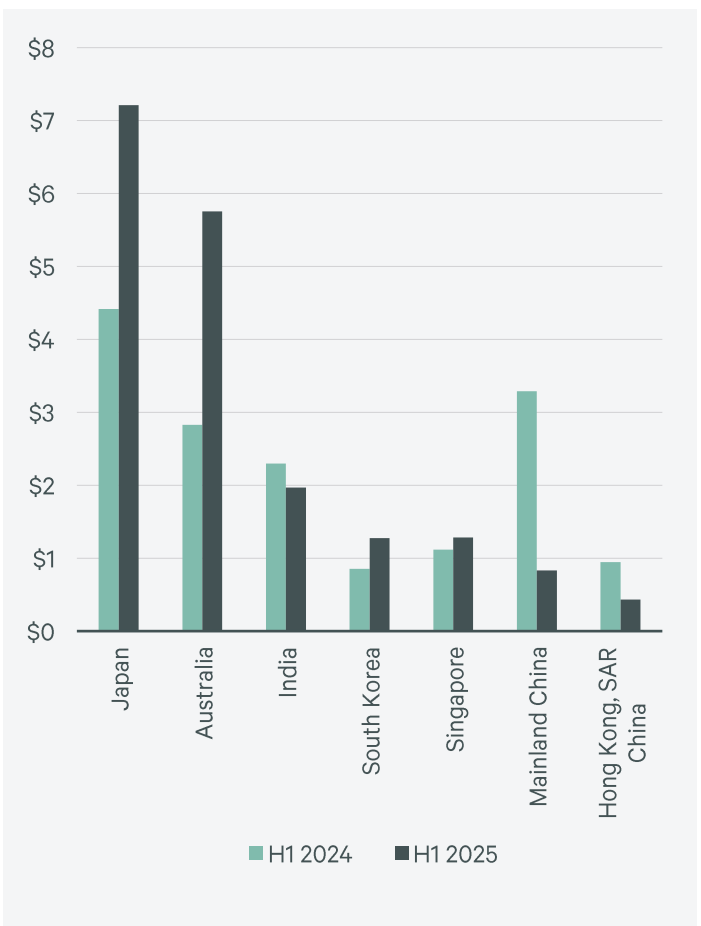


Figure 2: Cross-border investment volumes by market, USD in billions



Cross-border share measured on a rolling four-quarter basis.
 Source: MSCI Real Capital Analytics, Asia Pacific Capital Trends, Q2 2025. Portfolios and assets valued at \$10 million and greater (or its LCU equivalent) in apartment, hotel, industrial, data centers, office and retail transactions included. Entity-level deals included. Development sites excluded.

Japan remains the largest investment market in Asia Pacific

Aggregate (domestic and cross-border) Asia Pacific real estate transaction volume totaled USD 69.8 billion and declined by 13% Y-o-Y in H1 2025, mainly due to a sharp decline in Chinese (-26% Y-o-Y) investment volume during the same period. Japan remained the largest investment market in H1 2025 with USD 22.8 billion in transaction volume. Japanese yield spreads over borrowing costs remain positive, despite the Bank of Japan’s normalization in monetary policy (**Figure 3**). Looking ahead, we expect Asia Pacific (ex-China) investment volume to grow, driven by improving fundamentals, cyclical recoveries in key markets and positive yield spreads in most markets.

Japan remained the largest investment market in H1 2025 with USD 22.8 billion in transaction volume.

Figure 3: Prime yield spread against borrowing costs, bps



Source: Prime yields as of Q2 2025 from the CBRE Investment Management H2 2025 Forecast Book. Financing Costs from the CBRE Investment Management APAC Financing Costs Survey August 2025. *Singapore logistics yield is based on 30-year land leasehold tenure. For illustrative purposes only. Current market conditions differ from prior market conditions; including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.

Real estate forecasts

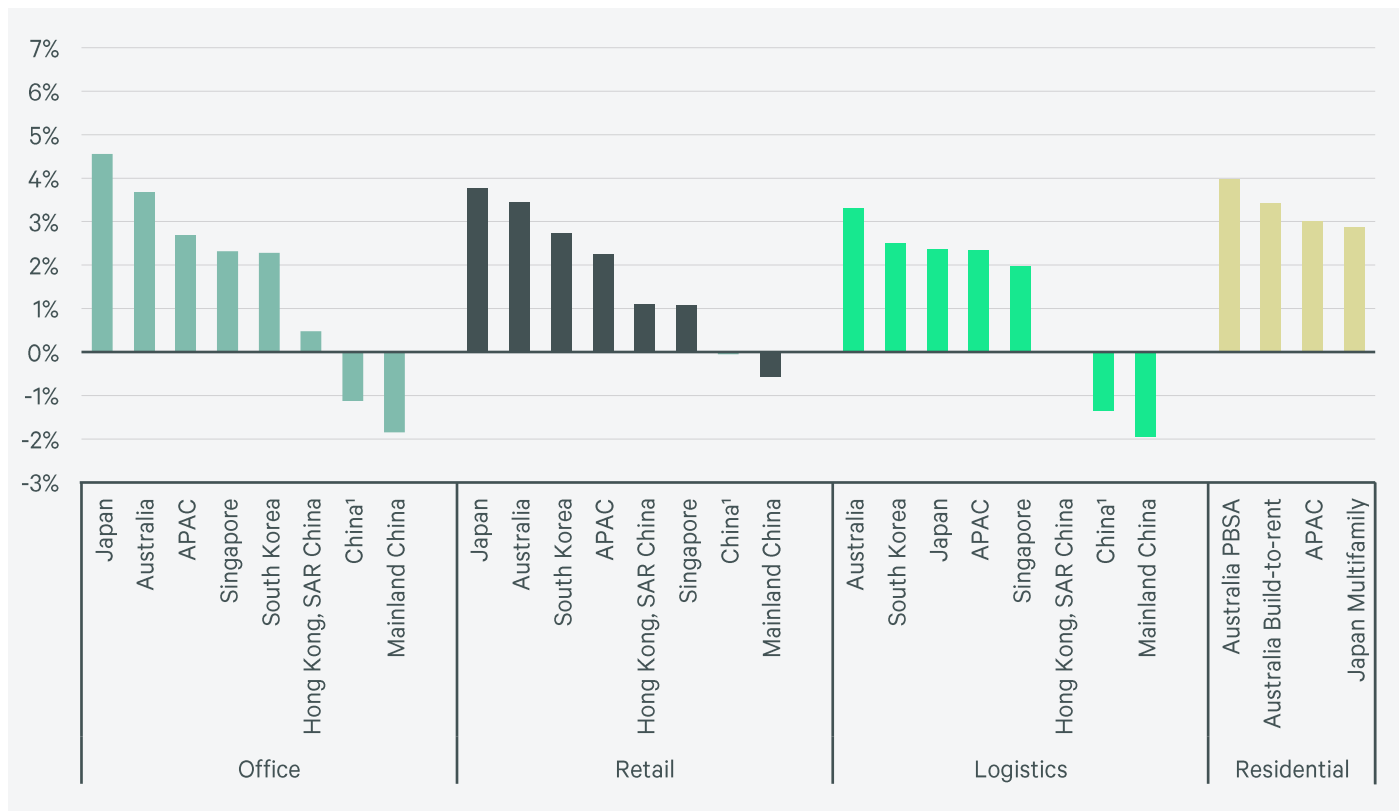
Rent growth outlook varies by market and sector

The Asia Pacific rent growth outlook varies by market and sector (**Figure 4**). Within the office sector, Japan is forecast to produce the strongest rent growth over the next five years. The Tokyo office vacancy rate for all grades of offices, currently at 2.5% as of Q2 2025, is expected to fall to approximately 2.0% by 2027, given limited supply.

Within the logistics sector, Australia is forecast to generate the strongest rent growth, although this rent growth is more modest compared to the prior two years as Australian logistics vacancy normalizes from historic lows. Japan and South Korea are forecast to have stronger logistics rent growth over the next five years than their respective historical averages because of declining supply pipelines and elevated construction costs. The Chinese logistics rent growth outlook is negative due to elevated vacancy, which is expected to stabilize in the outer forecast years as supply levels decline.

Japan’s residential rent growth forecast of 2.9% p.a. over the next five years outpaces the Japanese CPI outlook of 2.1% p.a. over the same time period. Australian PBSA rent growth is expected to outperform Australian build-to-rent (BTR) rent growth. Over the five-year outlook, both sectors generate relatively strong rent growth driven by low vacancy in the Australian residential market.

Figure 4: Prime market rent growth, Q4 2025-Q3 2030, % Y-o-Y average



¹Aggregate of Mainland China and Hong Kong, SAR China.
Source: CBRE Investment Management, forecast as of H2 2025

Moderate cap rate compression at the regional level

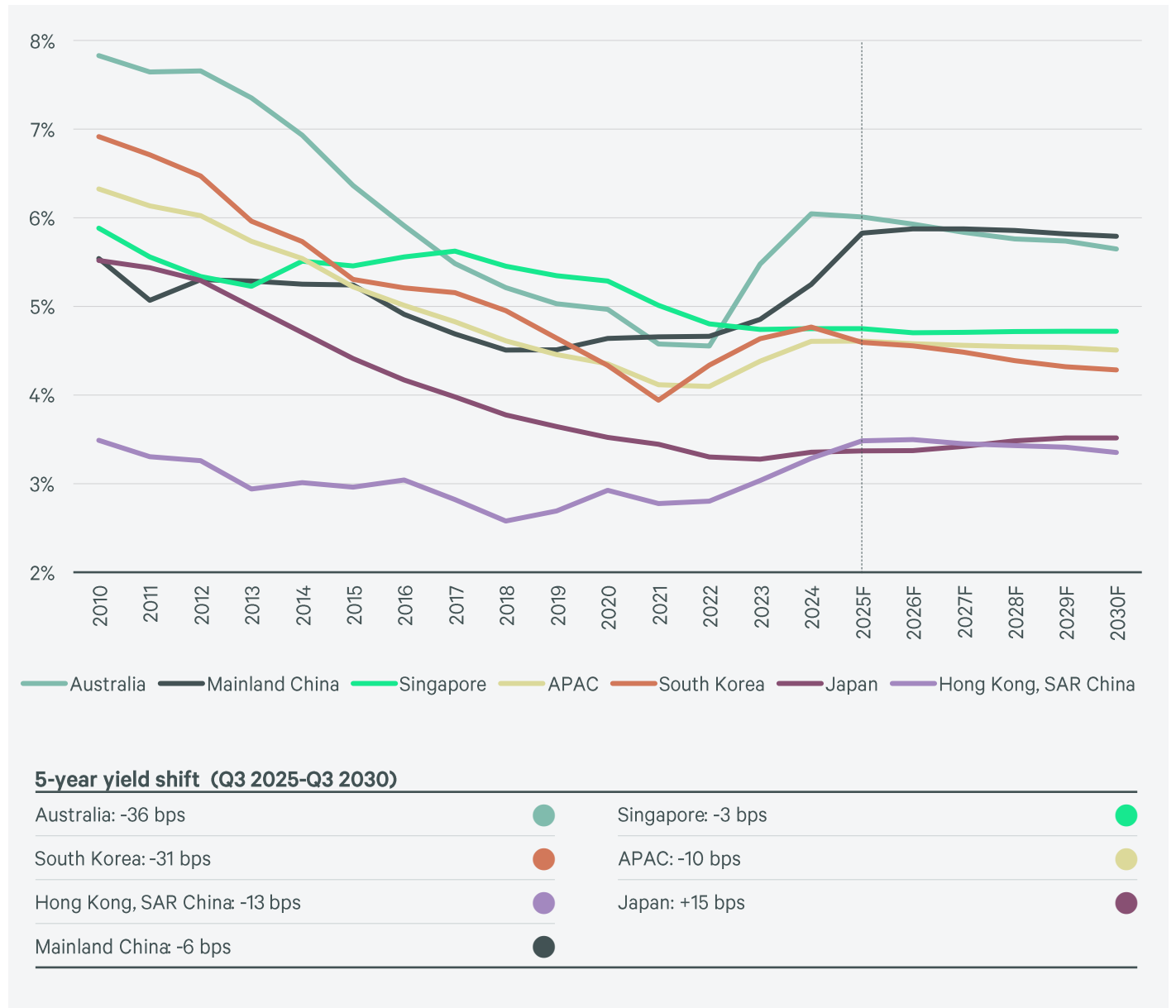
Asia Pacific is expected to see limited cap rate compression at the regional level of -10 bps over the five-year forecast period. However, the cap rate outlook varies by market. **Figure 5** shows all-property aggregate cap rates (history and forecasts) by market to provide a visual of relative movement by market.

- Cap rates in Australia and South Korea are forecast to see the strongest compression over the five-year forecast period. However, there is variation by sector—Australian office, retail and logistics sectors are expected to see stronger compression, relative to residential.
- Forecast cap rate compression in Singapore is modest. Cap rates remained relatively stable over 2022-2023 due to liquidity and investor confidence in the Singapore market.
- Despite the People's Bank of China cutting key lending rates, mainland China cap rates are expected to remain elevated in the near-term due to weak property market fundamentals. However, modest compression is expected at the back-end of the forecast period as the market begins to stabilize.
- Cap rates in Japan are forecast to expand by 15 bps at the all-property aggregate level over the five-year forecast period as the Bank of Japan continues to normalize monetary policy.
- CBRE Investment Management expects that factors, such as cyclically strong rent growth in key sectors, robust Japanese investment demand and lenders supportive of real estate financing will partially mitigate the rise in cap rates over the forecast period.

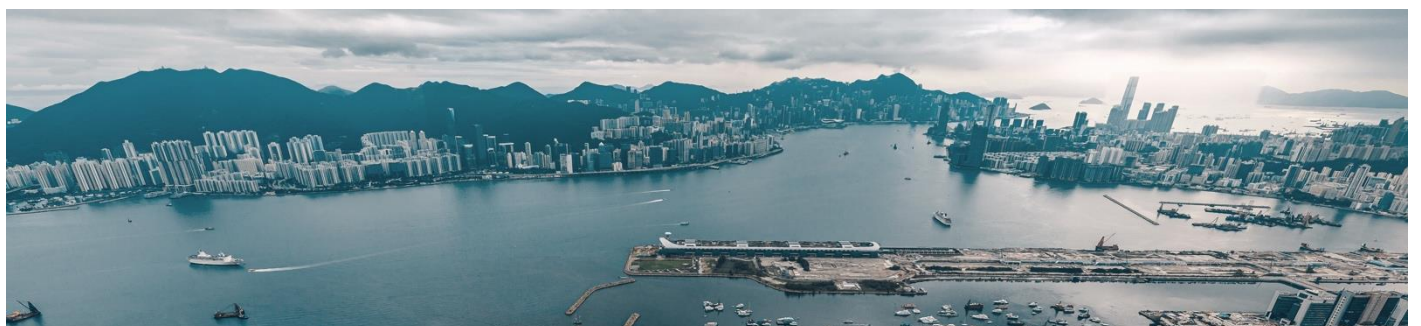
Asia Pacific is expected to see limited cap rate compression at the regional level of -10 bps over the five-year forecast period.



Figure 5: Prime yield forecast, all property aggregate by market per Q3, %



Source: CBRE Investment Management, forecast as of H2 2025.

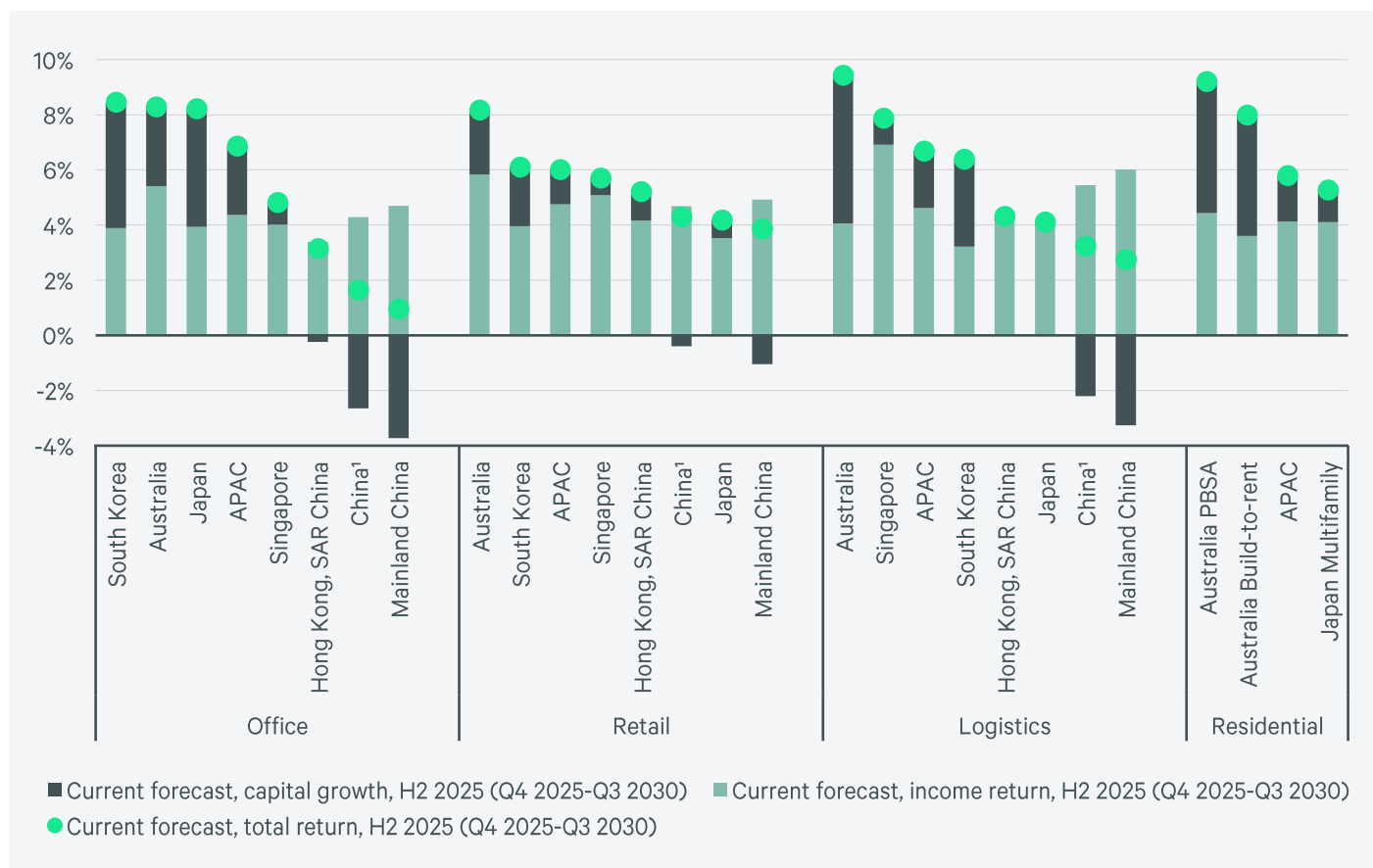


Total return outlook

The unlevered all-property annualized total return forecast at the Asia Pacific aggregate level is 6.6% over the next five years, while the levered (50% LTV) all-property annualized total return forecast is 9.7%. Asia Pacific is a region with diverse monetary policies and lending costs, ranging from 2.2% p.a. in Japan to 5.4% p.a. in Australia based on CBRE Investment Management’s August 2025 Asia Pacific Lending Cost Survey for prime, core, stabilized assets.

- **Figure 6** shows unlevered return forecasts by sector and market; the return outlook can vary sizably depending on the market.
- Within the logistics sector, Australia generates the strongest unlevered total return, on the back of cyclically high entry cap rates and solid rent growth, while China produces the weakest logistics total return. Japan's logistics total return is moderate at the national level. However, there are markets, such as Fukuoka, Nagoya and Osaka, which are expected to outperform the national figure.
- Within the office market, South Korea, Australia and Japan are forecast to generate the strongest unlevered total returns over the next five years. Japan's office total return is driven by cyclically strong rent growth.
- Within the residential sector, Australia PBSA is expected to produce the strongest unlevered total return, driven by both income and capital growth. Japan multifamily generates a more modest unlevered total return but provides compelling leveraged returns and inflation-linked income growth.

Figure 6: Total return and breakdown, Q4 2025-Q3 2030, % Y-o-Y average



¹Aggregate of Mainland China and Hong Kong, SAR China.
Source: CBRE Investment Management, forecast as of H2 2025

Risk-adjusted returns

Risk Adjusted Real Estate (RARE) outlook varies by market and sector

By comparing our unlevered total return forecasts to a calculated required return for each market, the RARE tool assesses whether an investor is being adequately compensated for the risk they are taking. The required return is a challenging hurdle built from fixed income yields, risk premiums and inflation-matching capital growth.

Australia and Singapore are well-positioned with all sectors within those respective markets above or along the relative RARE line (**Figure 7**). China has a relatively weak outlook with all sectors far below the relative RARE line. By sector, residential, hotels and office are well-positioned. The outlook is bifurcated for logistics and retail.

Submarket selection is critical in this bifurcating market. The most resilient assets will be those strategically positioned in submarkets with structural demand advantages, constrained future pipelines and superior tenant accessibility. High-quality, modern assets are expected to benefit from a continued flight to quality in the occupier markets.

For levered and enhanced strategies—where yield on cost and its spread to market yield is a key metric—some Japanese sectors which are below the relative RARE line could provide compelling opportunities, as financing costs, land costs and other variables are factored into the return outlook.

The required return is a challenging hurdle built from fixed income yields, risk premiums and inflation-matching capital growth.

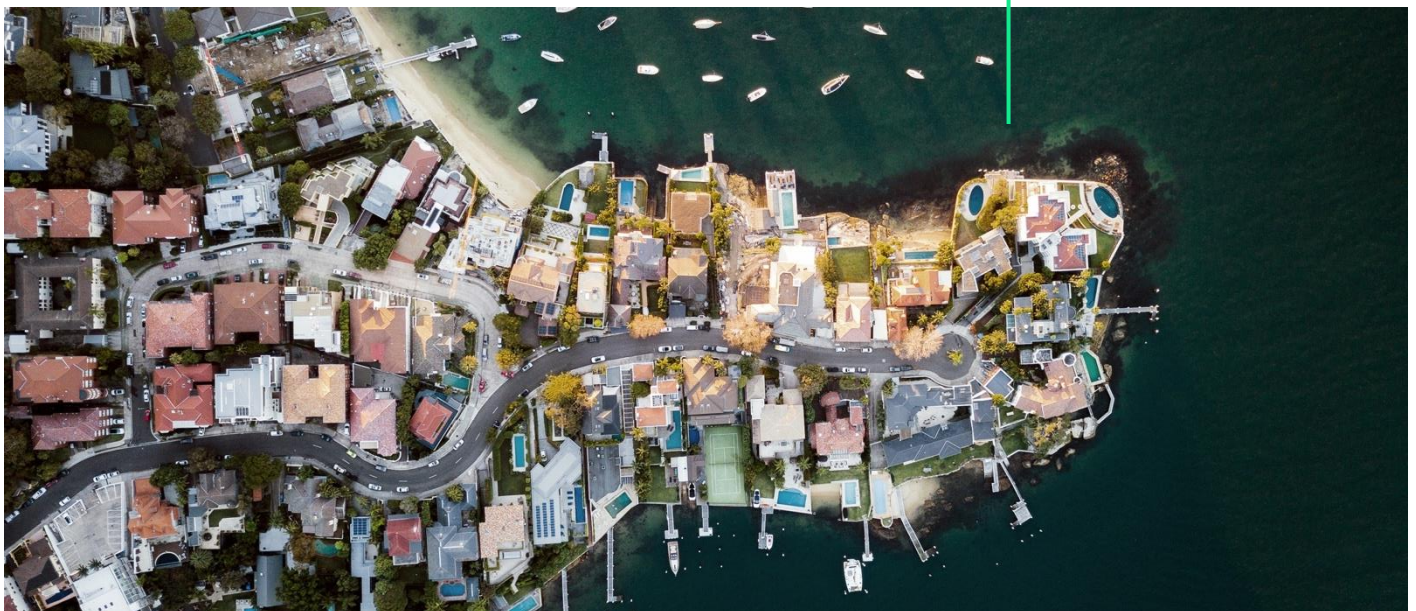
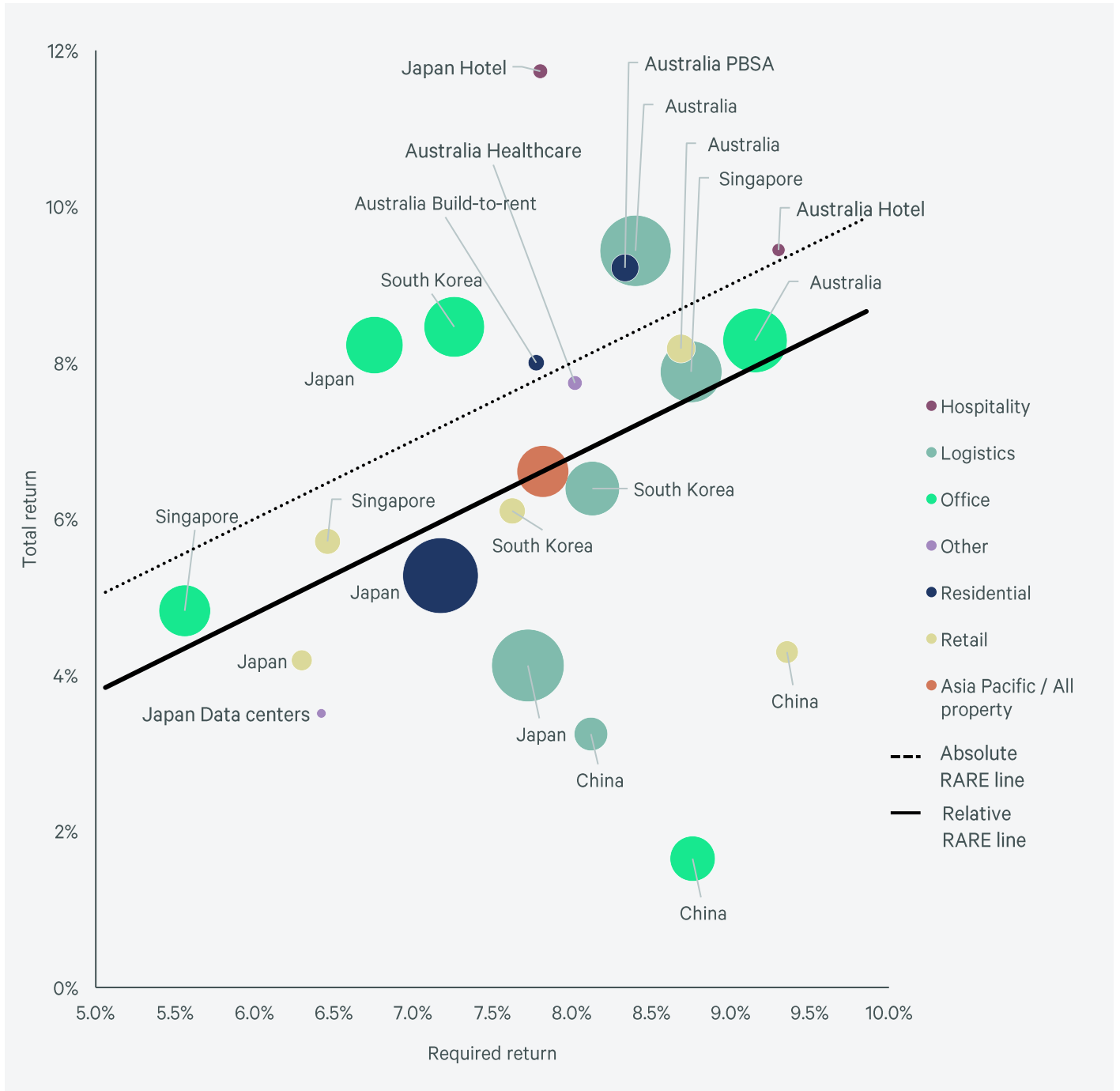


Figure 7: Required return and total return for all sectors, Q4 2025-Q3 2030



Total returns reflect unlevered property returns of a passive fully invested portfolio before fees and taxes. The return is the five-year average per annum for the period Q4 2025-Q3 2030. Assumptions are generalized to provide a consistent market outlook and asset-specific strategies have not been taken into account. Absolute RARE line: Markets above the line are expected to generate returns higher than their required return.

Relative RARE line: During late cycle phases, markets may not achieve required returns given high pricing. The relative analysis takes the average gap between required and forecasted return (the benchmark bubble) as a given for all markets when setting the hurdle (the benchmark line). Hence, markets above the line are expected to perform relatively better than markets below the line.

Returns for China include Hong Kong, SAR China.

Source: CBRE Investment Management, forecast as of H2 2025.

Model portfolio and preferred strategies

Highest country allocations for Australia and Japan

The H2 2025 Asia Pacific model portfolio (**Figure 8**) shows that Australia has the largest tactical allocation (35%) by country, closely followed by Japan (34%). Australia’s tactical allocation is at the top of its strategic band, which is capped at 35%, mainly due to the smaller size of the Australian real estate investable universe.

By sector, logistics has the largest tactical allocation (32%), followed by residential (23%) in H2 2025. Both sectors saw modest downward shifts in tactical allocation in H2 2025, compared to H1 2025, as the office tactical allocation (22%) moved up slightly, due to an improved Japanese and Australian office outlook. The alternative allocation is overweight relative to its estimated market weight, given a strong Japanese hotel outlook.

35%

Australia has the largest tactical allocation by country

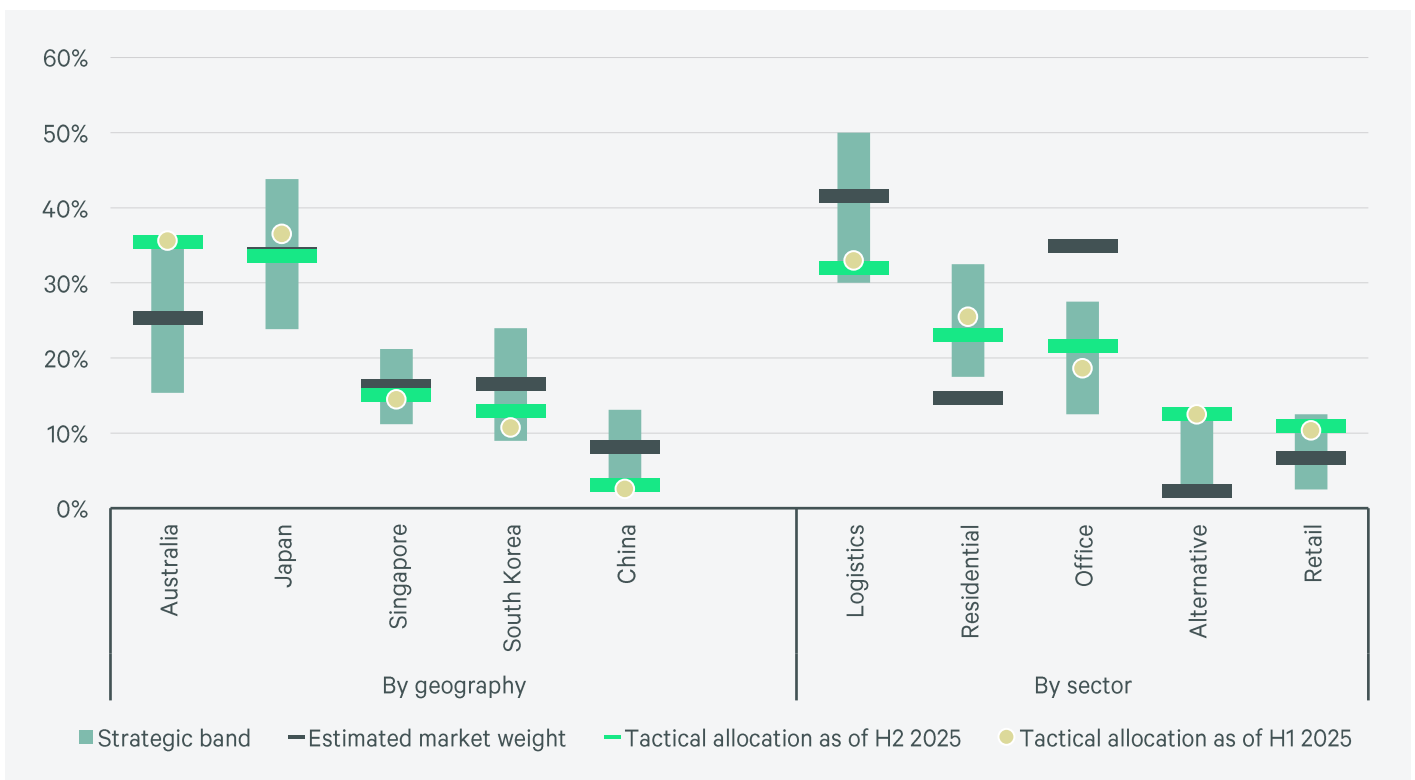


34%

Japan closely followed in tactical allocation by country



Figure 8: Asia pacific model portfolio for core local currency investors, tactical positioning, % of GAV



Alternative includes hotels, data centers and healthcare. Residential includes PBSA.
 Source: MSCI, CBRE Investment Management.

Asia Pacific preferred strategies

Asia Pacific continues to show resilience and is positioned well for recovery. As we navigate this shift in global interest rates, our fundamental approach to selecting preferred strategies (**Figure 9**) has not changed and continues to incorporate CBRE Investment Management’s RARE framework.

Figure 9: Asia Pacific real estate preferred strategies

| Preferred asset types | | | | |
|--|--|---|--|--|
| Modern Logistics | | | For rent residential | |
| Development Build-to-core in undersupplied markets in Japan, Australia and South Korea | Value-add Modernize logistics in key submarkets in Japan, Australia and South Korea | Core Hold high-quality core logistics near major metros in Japan, Australia, South Korea and Singapore | Core plus Modernize Tokyo/ Osaka residential | Core Accumulate Japanese mass segment residential |
| <ul style="list-style-type: none"> – Target markets where deep pools of institutional capital seek this product and where occupier demand is strong. – Target low-vacancy submarkets. – Target developments where yield on cost and its spread to market yield can be maintained by acquiring land at a discount. | <ul style="list-style-type: none"> – Upgrade logistics warehouses to meet local demand for modern logistics stock with high-quality specifications and environmental standards. – Consider converting dry warehouse to cold storage facilities in Japan and converting cold storage to dry storage in South Korea. | <ul style="list-style-type: none"> – Accumulate and hold stabilized, sustainability-credentialed, state-of-the-art logistics facilities in the best locations in/near the major metros. – Target occupiers servicing domestic demand. | <ul style="list-style-type: none"> – Desire of renters for better quality interiors/finishes and modern kitchens/ bathrooms. – Target locations which are close to metro stations. | <ul style="list-style-type: none"> – Formation rates of single-person households remain strong in the inner wards of Japan’s largest cities. – Dual income households are driving demand for larger units. |
| Preferred asset types | | | Execution strategy | |
| Student accommodation | Select Office | Select hotels | Drive NOI | |
| Core Hold Australian student accommodation | Core Consider cyclical office opportunities in Australia and Japan | Core plus Modern mid-segment hotels in Japan | Asset management key to performance | |
| <ul style="list-style-type: none"> – Acquire and hold Australian student accommodation, which is positioned well to benefit from international student demand amid low residential vacancy. | <ul style="list-style-type: none"> – Acquire and hold Australian office in key submarkets of Sydney CBD Core and Melbourne CBD Eastern Core, as cap rates are forecast to decline from cyclical highs and when supply is forecast to moderate. – Acquire and hold Japan office where pricing is attractive and lease terms provide ability to capture cyclically strong rent growth. | <ul style="list-style-type: none"> – Japanese tourism figures continue to rebound. – Capture opportunity to modernize and upgrade amenities. Target locations near tourist destinations in low supply submarkets. | <ul style="list-style-type: none"> – Asset management vital to performance in this bifurcating market for all sectors. – Focus on enhancing cash flows and driving NOI, as asset selection expected to drive performance in the cycle. | |

For illustrative purposes only. Based on CBRE Investment Management’s subjective views and subject to change.

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