B&I Capital

Asian Market Outlook

February 2025

160 Robinson Road
#16-07 SBF Center
Singapore 068914

Talacker 35
8001 Zurich
Switzerland

823 Congress Ave
Austin, Texas
78701 USA

+41 44 215 2888
contact@bnicapital.com
bnicapital.com

Market Outlook

After three tough months, Asian real estate (RE) securities have recovered along with Asian currencies. To some degree, the weakness reflected in interest rate sensitive names and currencies in the region (starting in October and in anticipation of a Trump victory until the announcement of the first tariffs) has become a "buy on news" event. Clearly, we need to be prepared for more policy risk that will affect global interest rate outlooks and currencies as macro conditions play a large role in the region. Recent US economic data however does show signs of a weakening economy, and recent policy statements from the Trump administration may have the effect of slowing investment as companies wait to see how potential tariffs affect their supply chains and operations. Barring any shock in the labour market, most expect the Fed to wait on rates with the ECB, RBA and other Central Banks moving towards cuts. The BOJ will most likely move again but it is worth noting that the JPY has strengthened YTD since the recent hike and this acts to slow inflation if the pace of JPY appreciation continues.

Japan

Results for all the major developers were inline or better than expectation. Despite the strong progress and even upward revisions to full year guidance from Nomura RE (3231) and Mitsui Fudosan (8801), stocks generally did not rise on the back of the numbers so far. There are some concerns that rising construction costs and mortgage rates may slow development. We agree that some large-scale mixed-use projects may be scrapped or delayed until rents rise further but see residential demand remaining firm given the limited supply versus population growth in Tokyo and rising wages which will offset higher mortgage costs. We met with Nomura RE post results, and this was their view as well. If it is true that supply will be curtailed, as we have mentioned in the past few months, this should be a positive for landlords and support valuations in the transaction markets. JREITs are trading near 17% discounts and have been active sellers of non-core assets to fund buybacks. We are seeing decent recovery in office rents and met with Japan RE REIT (8952) a few days ago who mentioned that their occupancy has risen back to near peak levels and rents signed in 2019 are seeing positive reversions which should only get better as they start to renew leases written during and after COVID that are currently significantly below market. Office rents are now inflecting upwards in Tokyo given existing building vacancy rates are extremely low and outer wards like the Bay Area regions are seeing strength. Activist investor 3D Investment announced a tender offer for NTT UD REIT (8956). Their intention was not to take over the entire REIT but rather to build a significant position. Since then, a lot of similar names have been sought after in expectation that more activists would start taking positions or that 3D was planning more purchases. We are slightly confused by 3D's approach however as they disclosed this allocation to be an investment only and are not planning to make any proposals to management. They would need to disclose if they planned to actively engage with management while becoming a large holder. We do expect M&A in the sector but not multiple take private transactions like we have seen by Blackstone in the US.

Australia

We expect this month to be dictated by both macro and micro events. Half year reporting and full year guidance will lead to a lot of moves when reporting gets going in February. We look for signs of stabilisation in office valuations, updates on industrial rents which appear to be softening from years of double-digit growth, recovery (if any) in apartment sales, and updates on developments (WIP, especially for Goodman Group), as drivers of individual names in February. In addition, the RBA meets in February, and it is now widely anticipated that they will make their first interest rate cut in this cycle. This move has to some degree been anticipated as REITs that are more intereste rate sensitive such as Charter Hall Group, Stockland, Scentre Group and Dexus have performed well YTD. Dexus, trading at a near 20% discount to NTA and steeper discount to NAV, is rumoured to be generating buyout interest from names such as KKR, Starwood and ARES. Going forward we would not be surprised to see a resurfacing of M&A activity given the expectation that rates will fall and several AREITs are trading at a discount. Goodman Group's upcoming guidance and WIP will be scrutinized and full year guidance is expected to be raised as they typically provide conservative guidance with full year numbers and then revise during the year. We believe they recently recognized a performance fee and origination fees due to the disposal of CPPIB's stake in a North American Partnership which Norges picked up. MSCI changes could impact Mirvac which will be announced on Feb 11 and implemented at the end of the month. The short interest is very heavy and likely exceeds the amount that will need to be sold for the deletion. Mirvac also reports on Feb 14th, and they have a lot of moving parts with indications that sales of apartments are slow in some projects. Consensus numbers are below guidance meaning that to some degree this is also in the price; we would therefore not be surprised to see this month as a "buy the news" event as Mirvac has lagged its peer, Stockland, over the last few years due to office exposure and slower apartment sales vs. master planned communities.

Singapore

Results have come out for most of the SREITs and there were no strong outliers. Interest expenses have started to become a tailwind. Debt costs went up sharply in 2022 and 2023, so we expect this to continue to be a tailwind as rates are lower today and most of the debt is three-year average. SREITs have struggled since the start of October. We still expect some rotational buying from generalist investors in the region given the robust performance of financials and potential for falling rates in the future which would be seen as a positive for SREITs and negative for banks. Like everywhere in Asia, the Trump trade was negative for REITs and currencies, but we hope that tariffs if announced soon for the rest of the world are more bark than bite. As the US runs a trade surplus with Singapore, tariffs directed specifically at the city state appear unlikely. We are overweight SREITs with a preference for Data Centers, Retail, Healthcare, and Hospitality.

Hong Kong

Hong Kong REITs, Link and Fortune REIT, are likely to be included soon in the HK Stock Connect which could lead to more liquidity for both names as this would permit mainland investors to invest in them. Both offer high yields, 8% and 9% respectively, which are well above the C-REIT sector and are not heavily leveraged. Any formal announcement on this could trigger a strong move and in recent days Link REIT has been trading up on that expectation. Concern regarding grocery store sales seems to also have bottomed and falling HIBOR rates will have a positive impact on earnings especially for Fortune. A fall in 100bps HIBOR translates into approximately 6% DPU growth. HIBOR 1m has fallen from the mid-5's in December 2023 to around 3.8% today.