

# B&I Capital

## Asian Market Outlook

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## Outlook

The outbreak of conflict in Iran introduces a new layer of uncertainty for the sector, with near-term headwinds likely to persist until the scope and duration of hostilities become clearer. Asian economies are particularly exposed to the resulting oil price shock, as evidenced by the swift market reaction at the onset of fighting. While the US appears intent on keeping the conflict contained, the Trump administration's appetite for an off-ramp will grow if equity markets weaken and bond yields and gasoline prices continue to climb – a dynamic that could help cap the downside. Beyond the Middle East, central bank meetings in March will be a key focal point, with policymakers facing the difficult task of weighing inflationary pressure from higher energy costs against the risk of a broader economic slowdown.

## Japan

The BOJ meets on March 18-19, and while a rate hike at this meeting appears unlikely, markets are pricing in an April move as the wage outlook becomes clearer. With many Japanese corporations delivering strong earnings, we expect salary growth to continue this year, reinforcing the case for a gradual tightening path. In the near term, the oil price surge may have a limited direct impact on the Japanese economy, though the Cabinet Office has projected that prices reaching USD 175/bbl would tip Japan into recession – a level worth monitoring if the conflict escalates.

J-REITs have held up reasonably well since hostilities began, though they had already underperformed developers materially YTD heading into the conflict. We also expect that selling pressure from financial institutions, a recurring feature ahead of the March fiscal year-end, will abate as banks close their books, potentially removing a technical headwind. We would view any further weakness as an attractive entry point: current valuations remain discounted and the underlying real estate transaction market stays firm. Japanese Developers continue to deliver excellent earnings across all segments, as reflected in the third quarter results reported in February. Some investors have raised concerns that NAV discounts have all but disappeared following strong share price appreciation, reducing the incentive for further buybacks. We would note, however, that during 2006-07 developers did trade at a premium to NAV as expectations for rent growth and capital value appreciation remained elevated. We believe it is too early to exit the sector as strong earnings expected in May and continued NAV growth should support valuations from here. Hospitality REITs may face headwinds if the Middle East conflict is prolonged, given the sensitivity of inbound tourism to geopolitical risk. That said, we would treat a correction in this sub-sector as an opportunity rather than a reason to reduce exposure: underlying inbound tourism trends remain robust, and the group has already absorbed meaningful pressure from the earlier deterioration in China relations.

## Australia

A-REITs weakness predates the current conflict, with the sector continuing to face selling pressure despite broadly solid February reporting season updates. Stockland and Mirvac have been notable underperformers despite reporting strong residential sales trends, as investors fret over the prospect of further RBA rate hikes. Management teams, however, have largely pushed back on these concerns, arguing that one or two additional increases are unlikely to materially slow demand. It is also worth noting that results highlighted meaningful compression in interest spreads across several REITs, which in some cases has partially offset the impact of higher base rates.

The RBA meets on March 17-18, with the cash rate decision due on the 17th. The meeting is now considered “live”, with all major Australian banks expecting at least one further 25bps hike by May. Governor Bullock has reiterated that every meeting is on the table, making it particularly interesting to observe whether the geopolitical uncertainty and associated equity market weakness influence the Board's tone and forward guidance. Money markets are currently pricing three hikes for the year, though it bears reminding that the same markets were positioned for cuts in 2026 just twelve months ago. Following results season, we spoke with REIT managements and found the residential-exposed names remained confidently optimistic on the demand outlook. Goodman Group has continued to underperform despite carrying one of the lowest debt loads in the sector, which should ordinarily confer defensive qualities in the current environment. We believe management is well-positioned to upgrade guidance in the second half of the year, with leasing announcements in its European and Japanese data centres likely to serve as near-term catalysts for the stock. We have always viewed market expectations regarding leasing for Data Centers to be too optimistic and are not surprised in the slower progress as we have noticed similar trends in other DC operators. However, at the current level the stock no longer is at a premium to peers and is likely to deliver strong earnings from its core business and management conveyed that they expect to be able to announce DC leases by June. The federal budget, expected in May, is likely to bring housing affordability, first home buyer incentives and residential supply firmly into the political spotlight. We anticipate continued pressure from both state and federal governments on local councils to accelerate supply-side responses to the shortage - a development that would be particularly constructive for Stockland and Mirvac.

## Singapore & Hong Kong

Similar to Hong Kong and Japan, Singapore developers have significantly outperformed SREITs over the past year, with the latter broadly flat over the period. Residential sales continue to surge and prices remain elevated, supported by confident local buyers, while foreign demand remains effectively sidelined by the 60% additional buyer's stamp duty.

Last weekend's GuocoLand launch (its 4th new launch YTD) achieved strong take-up of ~90%, with 410 units sold at an ASP of SGD 3,266 psf – ahead of recently launched nearby projects including Zyon Grand, River Green and Promenade Peak, which achieved SGD 3,050, SGD 3,130 and SGD 3,013 psf respectively in late 2025. The continued success of new launches has been a meaningful driver of developer share price performance. We also suspect that capital allocated to fund managers through the MAS Equity Development Programme (EQDP) has helped improve liquidity and investor interest in Singapore developers, though this dynamic appears to have benefited SREITs less. Despite the recent rise in global rates, we continue to expect Singapore rates to remain relatively low, which should provide a supportive backdrop for the SREIT sector over time.

While the resilience of GuocoLand's launch in the face of geopolitical uncertainty is encouraging, we would note that Singapore developers have already re-rated considerably and, unlike their Japanese counterparts, have taken comparatively limited steps to enhance shareholder returns – with UOL's special dividend a notable but isolated exception.

Hong Kong developers reached multi-year highs around the onset of the Iran conflict, and similar to Singapore, recent residential launches have attracted strong buyer appetite. The situations are not entirely analogous, however, as Hong Kong property prices have been depressed for years, and the current recovery remains in its early stages, whereas Singapore prices have risen sharply since the pandemic. It is unsurprising, therefore, that Hong Kong developers have seen a more

pronounced correction in response to the oil price surge. Hong Kong REITs, like their regional peers, have lagged considerably YTD and may offer relative near-term defensiveness as investors rotate out of developers.

Monetary conditions in Hong Kong remain accommodative, with the 1-month HIBOR declining to 2.04% since the conflict began, from approximately 2.5% prior. On the policy front, NPC spokesperson Lou Qinjian confirmed that China's central authorities will introduce more favourable policies for Hong Kong under the 15th Five-Year Plan (2026–2030), aimed at reinforcing Hong Kong's unique advantages and deepening its integration into national development strategies, including preferential tax treatment and financial subsidies. We are also hopeful that China announces plans to include REITs in the Hong Kong Stock Connect programme, which would be a meaningful positive for trading volumes and valuations – particularly for Link REIT and Fortune REIT.

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