

B&I Capital

Asian Market Outlook

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Outlook

September delivered the hawkish rates outcome we flagged last month, and then some. The Fed raised rates 25bps to 3.75-4.00% on September 16th in a unanimous 12-0 vote, its first increase since 2023, with the median dot pointing to one more hike before year-end. The BOJ followed two days later, lifting its policy rate to 1.25%, the highest since 1995, and the RBA closed the month with a fourth hike of the year to 4.60%. The data has since turned. September payrolls rose a mere 29k against c.90k consensus, July and August were revised down by a combined 60k, and August core PCE eased to 3.0% vs. expectations of 3.3%. Futures now price an 80% probability of a hold at the October 28th FOMC, while still pricing at least one more hike by December. The September CPI print on October 14th is therefore the key data point of the month: a soft number reopens the case that September was one and done, the most supportive outcome available to the sector.

Now the binding constraint has shifted from policy rates to the long end. US 10-year yields reached 5.24% on October 1st after an intraday high of 5.34%, the highest since 2002, capping the largest quarterly rise since 1994. Meanwhile the 10-year JGB yields breached 3% for the first time since 1996 (keeping in mind that cap rates price off yields, not overnight rates). Oil offers no relief, with Brent at USD 100.87 on October 7th as attacks on tankers in the Strait of Hormuz continue. The calendar is back-loaded: the FOMC and Australian CPI on the 28th, US GDP, PCE and the ECB on the 29th, the BOJ on the 30th, and the RBA and US midterms on November 3rd.

Japan

The BOJ meeting on October 29th-30th carries the quarterly Outlook Report, so the question is no longer whether conditions allow a hike but whether the BOJ moves at consecutive meetings. The summary of opinions from September showed most members favoring further increases, while Asada and Sato dissented from the hike itself. Softer inflation data has since lowered October expectations, and former executive director Kazuo Momma puts the probability of a back-to-back move at 20-30%. We expect a hold, with December the more likely timing; the Outlook Report's inflation projections matter more than the decision. Ironically, we would prefer a hike as it may help to flatten the curve but given the two dissenting voices at the last meeting, we believe market expectations are correct. The more pressing issue for JREITs is the long end. With the 10-year JGB above 3%, the spread to the JREIT average distribution yield (5.15% in early September) has narrowed to roughly 210bps from c.300bps in February, and domestic institutions now have a genuine alternative in government bonds. Having said that, we are very encouraged by the strong rental growth for many sectors led by office and the supply constraint caused by higher construction costs should lead to several years of rent growth.

The Sankei Building sale did not conclude in mid-September as expected. Final bids are now due by the end of October, with Blackstone, Bain Capital, and Warburg Pincus reportedly preparing offers and BGO planning a binding bid. Fuji Media expects the unit to be valued at c.JPY 1tn including debt. A clearing price near that level remains the strongest transaction-market signal available to counter the rates overhang, though an activist shareholder has argued that the size and complexity of the portfolio could narrow the buyer pool. On the micro side, the Real Estate Economic Institute's September contract-rate data will show whether condo demand is holding at a 1.25% policy rate, and Mitsui Fudosan's (8801) and Mitsubishi Estate's (8802) 2Q results remain the likely venue for upsized buybacks. Results for Developers will start at the end of October and continue into early November.

If there is any fundamental concern, it could come from residential. We noted from Star Mica's results that certain higher priced condos (above JPY 100m) continue to struggle while lower priced secondhand condos remain firm. As many of the developers are exposed to condos that are above JPY 100m we could see some deceleration going forward. As a result, we have reduced some exposure to Tokyo Tatemono as they are unlikely to raise guidance further and could be the first sign of the impact of higher rates on demand. Ultimately, this is positive for Residential rents as buyers will choose to rent over buying in certain segments.

Australia

The RBA raised the cash rate 25bps to 4.60% on September 29th in a unanimous decision, the fourth hike of 2026 and the highest cash rate since November 2011. The next decision on November 2nd-3rd hinges on the September CPI release on October 28th, which also carries the September quarter series. August headline CPI ran at 4.0% YoY with the trimmed mean at 3.6%, the highest since September 2024 and slightly below expectation, and ANZ already forecasts a further hike to 4.85% in November. A quarterly trimmed mean CPI of 0.9% QoQ or above would make a November RBA meeting live. We expect a hold as recent data due to weakening fundamentals in the housing market and given the lag between rate hikes and the economy, we think the RBA should take time to observe the effect of the past four rate hikes on the economy.

Housing has deteriorated further. Cotality's national index fell 1.1% MoM in September, a sixth consecutive decline that leaves values 5.2% below the March peak, with August revised down to -1.2%. Brisbane led the falls at -1.5%, edging past Sydney at -1.4%, 97% of capital-city suburbs declined over the quarter, and sales volumes are down 17.4% YoY. Similar to past periods when rates rose, the test we set for Stockland (SGP) and Mirvac (MGR) last month, a sixth straight month of falling values, has now been met, and at a 4.60% cash rate rather than 4.35%. The upcoming AGM season and first-quarter operating updates give management the first opportunity to address settlement risk on 2027 deliveries, and Cotality's October index on November 1st arrives two days before the RBA decides. We have noticed that Stockland has started some discounting for first time home buyers, which we see as an attempt to attain its sales targets. Stockland does have the full product range to focus on where demand remains strongest and take market share. Current valuations are at trough levels similar to 2022-23 period when rates rose significantly and share prices and sales recovered well before rates fell in 2025.

Hong Kong

The Policy Address, delivered on September 16th alongside Hong Kong's first Five-Year Plan, removes one potential catalyst from the calendar. The housing package is supply-led, demand measures are limited to targeted support for families with newborns, and the stamp duty relief still requires legislation. SHK Properties' (SHKP) (16) FY26 results were better on the surface than underneath. Underlying profit rose 4.6% to HKD 22.85bn and the final dividend increased to HKD 2.93, but management guided FY27 Hong Kong contracted sales to HKD 33bn, 13% below the HKD 38.1bn achieved in FY26. The shares trade 28% below their 52-week high. The cut matches what the transaction data is showing: mainland buyers, estimated by JPMorgan at 29% of volume and 37% of value, have pulled back since new outbound investment rules took effect on July 1st, and residential sales fell 42% in July. Couple this with the HKMA's first rate increase since 2023 and HIBOR pass-through to mortgages, and developers will struggle to re-rate until mainland demand returns. While the overall mainland purchase number appears high, it should be noted that many of the mainland buyers are HK residents. We believe the slowdown in mainland buyers that are overseas residents will likely impact more luxury than mass market and given the recent

correction in SHKP, we added back to this position which we had reduced when measures were initially announced.

For retail landlords, the Golden Week visitor tally is due this week, with mainland arrivals forecast at c.1.29m, up 5% YoY. Arrivals are not the issue; spend per visitor is, and Link REIT (823), Fortune REIT (778), Wharf REIC (1997) and HK Land need tenant sales data, not border counts. Link's interim results, typically in November, will update the buyback, the allocation of the 100 Market Street proceeds and the still unresolved question of Stock Connect inclusion. At the recent policy address, it was indicated that Stock Connect inclusion for REITs is still on track and expect it to happen in the first half of 2027.

Singapore

The October MAS review is the live domestic event, with the statement due no later than October 14th. MAS has already tightened twice this year, steepening the SGD NEER slope in April and again by 25bps to 1.25% in July, and Standard Chartered expects a third move to 1.50%, though it sees a pause as the main risk. A steeper slope strengthens the SGD, neutral for domestic SREITs and a drag on those with overseas income. URA's full 3Q26 release on October 23rd will confirm or revise the flash estimate of a 1.4% QoQ rise in private home prices, the strongest since 4Q24. Transactions through mid-September were 30% lower QoQ, so firmer prices rest on thin volumes.

The SREIT valuation gap is the story. The sector is down c.7% YTD while the STI is up more than 20%, and SREITs yield 6.4% against 3-month SORA of roughly 1.2%. Funding costs are not the problem; the global long end is. The 3Q business updates in late October, led by CICT's progress against its pro forma Paragon guidance, are the first data points since the August results season. We see good value emerging in domestic SREITs as and when US long-end yields stabilize.

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