

## Asia Pacific Real Estate Strategic Outlook

Mid-Year 2026

### IN A NUTSHELL

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- Real estate fundamentals look poised to strengthen as new developments remain economically unfeasible, limiting supply and supporting occupancy levels.
  - Notwithstanding the tightening in monetary conditions, strong rental growth expectations could limit cap rate expansion and support capital values.
  - Our preferred investment targets currently include prime logistics and offices across key gateway cities in Australia, Japan, South Korea and Singapore, as well as the Living sector in Australia (Built-To-Rent) and Japan (Multifamily).
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## 1 / Market Outlook

During the first half of 2026, the macroeconomic environment in Asia Pacific has been dominated by the Iran conflict and elevated crude oil prices. While the impact varies across the region, inflationary pressures have been building since the start of the conflict, with official inflation readings across developed APAC<sup>1</sup> at 1.5%-2.5% levels in April (albeit climbing).

The regional economic outlook hinges on the resolution of the Iran conflict and the speed of normalization of oil prices from current levels. Based on current available forecasts and adopting a baseline economic outlook (assuming the conflict is not prolonged for several more months), there are some significant changes to our macroeconomic assumptions for developed APAC<sup>2</sup> compared to six months ago:

- 1) **Economic growth:** Slightly higher (+20 bps) averaging an annual 2.5% in 2026 and 2.3% over the next 5 years with China's economy appearing to show less exposure to energy prices while the Artificial Intelligence (AI) investment cycle is expected to help offset weaker domestic demand, particularly across North Asia.

<sup>1</sup> Developed Asia here refers to Japan, China, Australia, South Korea and Singapore

<sup>2</sup> Adopted from DWS CIO View 2026 Q2 and Oxford Economics, as of May 2026

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- 2) **Inflation:** Higher inflation forecast, averaging 2.6% (+90bps) in 2026 and 2.2% (+40bps) in 2027. Australia is expected to bear the brunt, with inflation averaging 4.5% this year before easing to 3.0% in 2027.
- 3) **Monetary Policy:** With higher inflation and weakening currencies (Japan, South Korea), immediate rate cuts appear to be off the table. The Bank of Japan is expected to continue policy normalization raising rates to 1.25% by June 2027. Australia has already raised interest rates three times year-to-date and further hikes may yet come, while the Bank of Korea may be pressured to raise rates as well after a year of inaction.

These assumptions are also dependent on events in the Middle East, and opening the Straits of Hormuz, with any prolonged delays posing downside risks to the regional economic outlook and our real estate forecasts.

In the real estate market, the immediate impact on the occupier and investment markets is less obvious. The most visible impact is financing, where compared to six months ago, all-in borrowing costs for senior loans have increased by approximately 50 to 80 bps, led by Australia, driven by higher base rates in line with tighter monetary conditions.

Through the first quarter of 2026, transaction activity in Asia Pacific remained buoyant, continuing the recovery which started in mid-2025. Transaction volumes climbed 26% y-o-y to US\$47 billion<sup>3</sup> with cross-border investors constituting 36% of capital inflows, one of the highest levels over the past decade.

This was reflected in performance, with the ANREV ODCE Index registering its fourth consecutive quarter of positive net total returns (in local currency terms), and a quarterly return of 1.1% in Q1 2026, the highest recorded since Q2 2022. However, with the war, anecdotal evidence suggests a higher degree of market caution, with buyers adopting a wait-and-see approach.

## Sector Update

**Office:** Overall office leasing demand across Asia Pacific remains resilient, with tenants continuing to favour newer and higher quality buildings in core locations. Regional prime rental growth was healthy, led by Japan's office sector – the top performing market in APAC supported by corporate expansions amid robust economic and tight labour market conditions. Grade A office rents rose around 14% year-on-year in Tokyo and Osaka in the first quarter of 2026, reflecting very low vacancy particularly in Tokyo (0.7%) where over 85% of the Grade A buildings are fully occupied.<sup>4</sup>

In Australia, the ongoing recovery in office market conditions saw prime effective rents record strong growth of 6.4% y-o-y during the first quarter of 2026, led by Brisbane (+12.8%) and Sydney (+8.5%). Flight to quality continued, where premium assets outperformed Grade A by 4 percentage points.<sup>5</sup> Elsewhere, rents in Singapore built on their highest levels in 17 years, driven by a diversified tenant base while office leasing volumes in Seoul rose modestly on relocations and expansions.

The outlook in Greater China is less positive. Against challenging macroeconomic conditions and elevated vacancy pressures, there are no signs of a bottoming out of office rents across Shanghai and Beijing. Already more than 40% off their recent peak, rents could fall even further this year. However, office rents in Hong Kong's core business districts do appear to be finally seeing some signs of recovery, led by falling vacancy in Central – although fringe locations continue to record declines.

**Industrial:** Logistics leasing momentum was strong during the first quarter of 2026, with quarterly net absorption in first tier cities in APAC reaching its highest level of 1.7 million sqm since late 2023.<sup>4</sup> E-commerce companies and third-party logistics providers (3PL) continue to drive leasing demand, particularly in prime central locations where rental growth is stronger compared to fringe areas. With real estate rents accounting for only 3-6% of overall logistics costs while transportation

<sup>3</sup> MSCI-RCA data, figures exclude development sites and data centers. As of May 2026

<sup>4</sup> JLL Research data, Q1 2026

<sup>5</sup> CBRE Research data, Q1 2026

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accounts for the majority (up to 70%),<sup>6</sup> it is not surprising that occupier demand has been focused on prime assets in good locations with well-established transport links.

In Australia, leasing volumes remained modest with national vacancy remaining at 3.2%.<sup>7</sup> There is a greater divergence across submarkets in Greater Tokyo and Greater Seoul, but overall vacancy levels have improved amid healthy absorption and shrinking new supply. Similarly in Singapore, expansionary demand driven by stockpiling needs and regional diversification have supported occupancy levels with vacancy expected to tighten further.

On the demand side, logistics facilities catering to domestic consumption may see relatively resilient leasing activities. The supply outlook is more positive with a subdued pipeline expected as rising construction costs reduce project feasibility and lead to supply cancellations especially for speculative projects lacking tenant pre-commitment. This should support broad rental growth across the region.

**Retail:** Up until the Iran conflict, retail leasing had been relatively resilient, supported by the ongoing recovery in tourism and domestic consumption across most markets. Vacancy levels held firm along with limited new completions, while high-street retail locations in prime locations with high exposure to tourism continue to do well, particularly in Tokyo where tourist arrivals in the country continue to surpass pre-COVID levels.

However, the narrative has shifted, as higher inflation erodes consumer purchasing power. A recent survey conducted by Ipsos<sup>8</sup> showed that in April 2026, consumer confidence across Asia Pacific saw one of the sharpest declines since the pandemic. For retailers in tourism hotspots, the short-term outlook may be further impacted by lower tourist footfall as higher fuel prices force airlines to pass on price hikes to traveling passengers or implement flight cancellations.

**Residential:** Major cities in Japan and Australia continue to benefit from strong rental growth trends, underpinned by structural demographic factors such as population growth via overseas or domestic migration inflows, good rental affordability relative to home ownership costs and a shortfall of adequate housing supply.

Australia's national residential vacancy rate continues to sit tightly at multi-year lows of 1.2%, while apartment rents across Sydney, Melbourne and Brisbane rose 5.0% y-o-y in the first quarter of 2026,<sup>9</sup> reflecting the limited rental availability in several capital cities. The Build-to-Rent (BTR) sector continues to gain momentum with over 6,700 units expected to be delivered in 2026, bringing the number of completed units to over 21,000 units by end of 2026.<sup>10</sup> The federal government's target of 1.2 million new homes by 2029 to alleviate the national housing shortage, and recent policy support measures including MIT legislation and land tax exemption are expected to support further growth in coming years.

Japan's residential market remained buoyant, driven by ongoing urbanization, positive domestic net migration, healthy wage growth and rising household formation around major city centres. Apartments in Tokyo saw rents climbing 9.3% y-o-y<sup>11</sup> during the first quarter of 2026, while Osaka has also benefited from strong rental growth since 2023, underpinned by low vacancy levels and constrained condominium supply arising from elevated construction costs.

## Supply Constraints

In our view, high construction costs continue to appear to remain a major obstacle to the commencement of new developments across all sectors. Figures from Turner & Townsend indicate construction costs across key gateway cities in

<sup>6</sup> CBRE 2025 Asia Pacific Logistics Occupier Survey

<sup>7</sup> CBRE Research data, Q1 2026.

<sup>8</sup> Ipsos: Understanding Asia I Brand Shifts in Asia Pacific Amid the Iran Conflict, May 2026

<sup>9</sup> Domain Rental Report, March 2026

<sup>10</sup> Knight Frank Research, Q3 2025

<sup>11</sup> At Home Data, April 2026

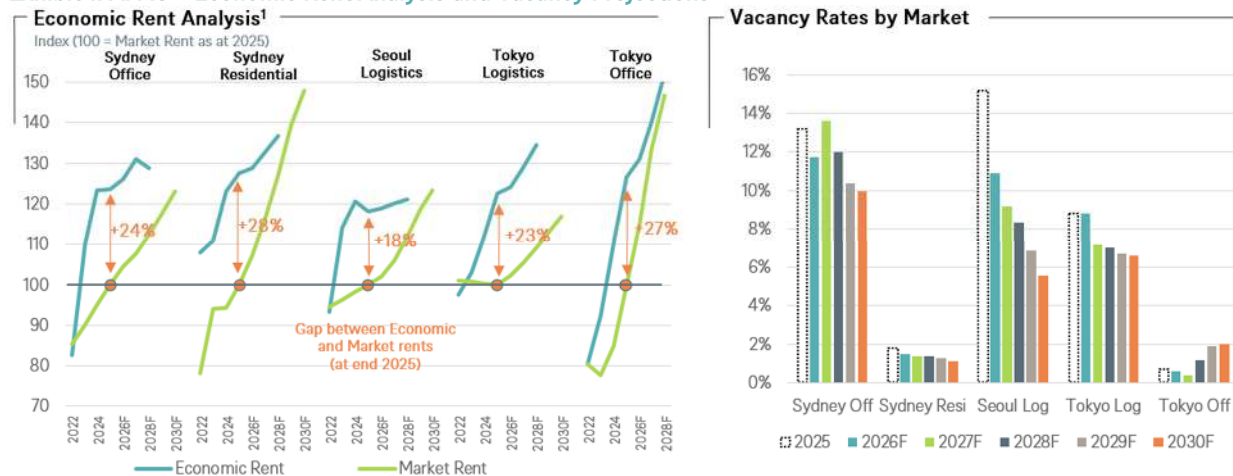
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Asia Pacific increased by approximately 40% from 2021 to 2025,<sup>12</sup> far outpacing inflation and putting significant pressure on the viability of new developments. The conflict in Iran is expected to further exacerbate these constraints.

While the impact of higher construction costs varies by sector and location, our updated analysis of development costs continues to point towards high economic rents for new developments, which may exceed prevailing market rents by as much as 20% to 30% across major sectors in Japan, South Korea and Australia. Importantly, with rising construction costs, even if market rents grow as expected, it may take a few years for the gap between economic rents and market rents to narrow.

We acknowledge that these are ballpark market-level projections and the analysis may vary at submarket levels; in addition, some developers may be holding land at lower historical costs which allows more flexibility on their rental assumptions. Nonetheless this analysis is useful in understanding the current challenges of generating new real estate supply.

**Exhibit 1: APAC – Economic Rent Analysis and Vacancy Projections**



<sup>1</sup> Economic rent reflects the required income return (based on prevailing cap rates) for new developments after factoring total development costs (land, hard construction, soft costs and developer margin)  
 F = Forecast. There is no guarantee the forecasts shown will materialize.  
 Source: DWS, Turner & Townsend, JLL, CBRE. As of June 2026.

Available market evidence supports the outlook for lower new completions, with known project completion timelines being increasingly pushed back while some mooted projects are being put on hold or cancelled. Seoul’s logistics sector is a good example, where approximately 81% of projects (by area) have not commenced construction despite having obtained building permits at least three years ago.<sup>13</sup> This has severely restricted new supply, with new completions from 2025 onwards projected at less than one-third of new supply in 2024. Similarly, annual new CBD office supply across Australia till 2030 is expected to fall 45% below the 10-year historical average,<sup>14</sup> which could help support occupancy levels in coming years. Based off current estimates, new supply levels from 2026 to 2028 could fall short of historical levels for almost all markets we cover (See Exhibit 2).

We expect the constraints in new supply to support occupancy levels and drive rental growth across the residential and commercial sectors. In particular, the logistics sector is one of the biggest beneficiaries, given the lower proportion of land

<sup>12</sup> Turner & Townsend, Global Construction Cost Performance 2025

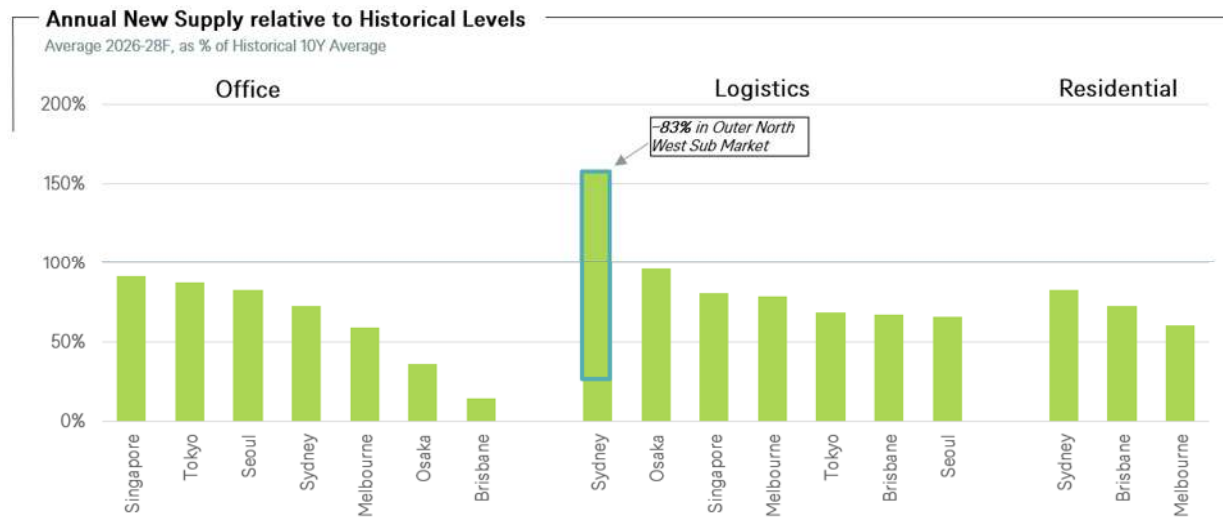
<sup>13</sup> CBRE, A New Equilibrium for the Greater Seoul Grade A Logistics Market, September 2025

<sup>14</sup> CBRE data, Q1 2026

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costs (and conversely higher proportion of construction costs) relative to other sectors. Across markets supported by a strong demand profile – notably the logistics markets in Japan and South Korea, we expect vacancy to fall significantly to mid-single digit levels over the next few years on the back of strong occupier demand and significantly reduced supply pipeline.

**Exhibit 2: APAC – Annual New Supply from 2026-2028F**



F = Forecast. There is no guarantee the forecasts shown will materialize.  
Source: DWS, JLL, CBRE. As of June 2026.

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## 2 / House view Forecasts

### Rental Growth

Firm occupier demand amid supply constraints across the region should underpin favourable rental growth prospects, with core markets resuming an uptrend cycle. While rental growth is forecast to be broad based across most markets, we expect the differentiation between prime and secondary to persist, as occupier preferences towards higher quality projects in core locations could drive higher growth for these assets. Greater China remains the exception where further sharp rental declines are expected as supply pressures persist.

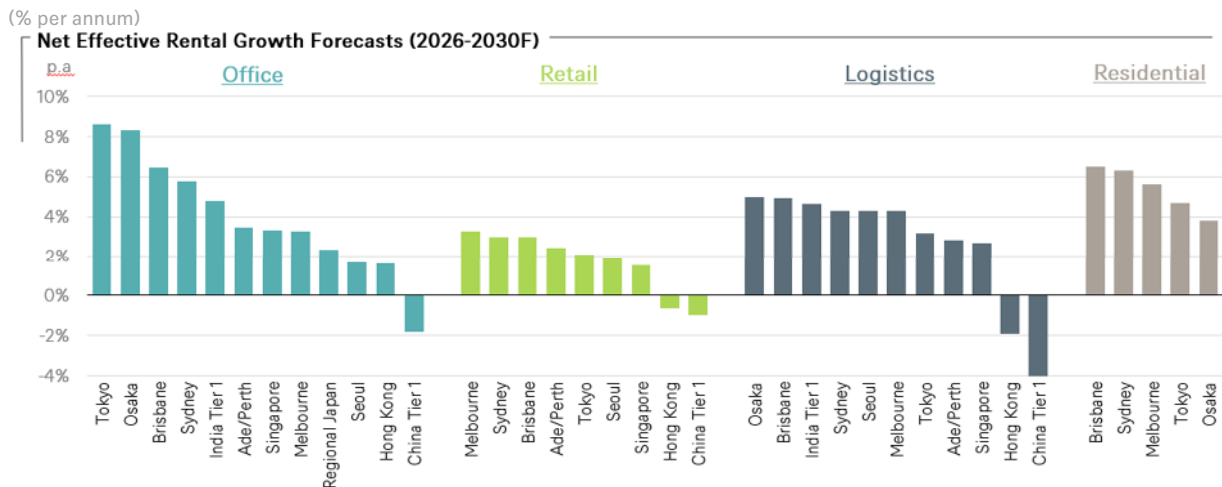
Our revised forecasts show Tokyo and Osaka offices leading regional rental growth, achieving 8% p.a. in the face of a prime vacancy rate of less than 2%. In Australia, Sydney and Brisbane offices are expected to be major beneficiaries of improving occupier demand and very limited new supply, with tightening vacancies driving incentives lower from their current elevated levels (averaging 35%-40%), potentially paving the way for strong effective rental growth.

We have upgraded our forecasts for the Residential sector. Rental vacancies remain tight across Australia (1%-2%) and Japan (2.5%-3.5%) while renter demand remains driven by population migration and high home ownership costs. With the gap between rental affordability and purchase affordability widening compared to a year ago (due to rising housing prices and higher interest rates), rental demand should remain firm even with strong rental growth projections (5.5-6.5% p.a.) in Australia.

In the logistics sector, we expect improving occupancy levels to underpin healthy rental growth of 3%-5% p.a. across markets outside Greater China over the next few years, supported by the structural demand drivers of rising ecommerce sales as well as offline consumption and future supply constraints. We maintain our call for a strong turnaround in Logistics rents across Osaka and Seoul, with rental growth accelerating from next year, as fundamentals turn in the favour of the landlord. In Australia, low vacancy levels particularly in infill areas are expected to support rental growth with incentives stabilizing following a sizable rebound from the pandemic lows.

Shopping malls remain the only sector where it is challenging to make a case for strong rental growth. Cost-of-living pressures and competitive retailer margins are further exacerbated by the recent resurgence of inflationary pressures. Certain other retail formats (for instance prime high-street retail underpinned by good tourist footfall) could potentially outperform in terms of rental growth, but this would likely be asset and location specific.

**Exhibit 3: APAC Rental Growth Forecasts**



Note: Figures shown are on net effective basis after deducting incentives. China Tier 1: Beijing/Shanghai/Guangzhou; Regional Japan: Nagoya/Yokohama/Fukuoka; India Tier 1: Mumbai/Bangalore/Delhi. There is no guarantee the forecasts shown will materialize. Source: DWS. As of June 2026.

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### Cap Rates

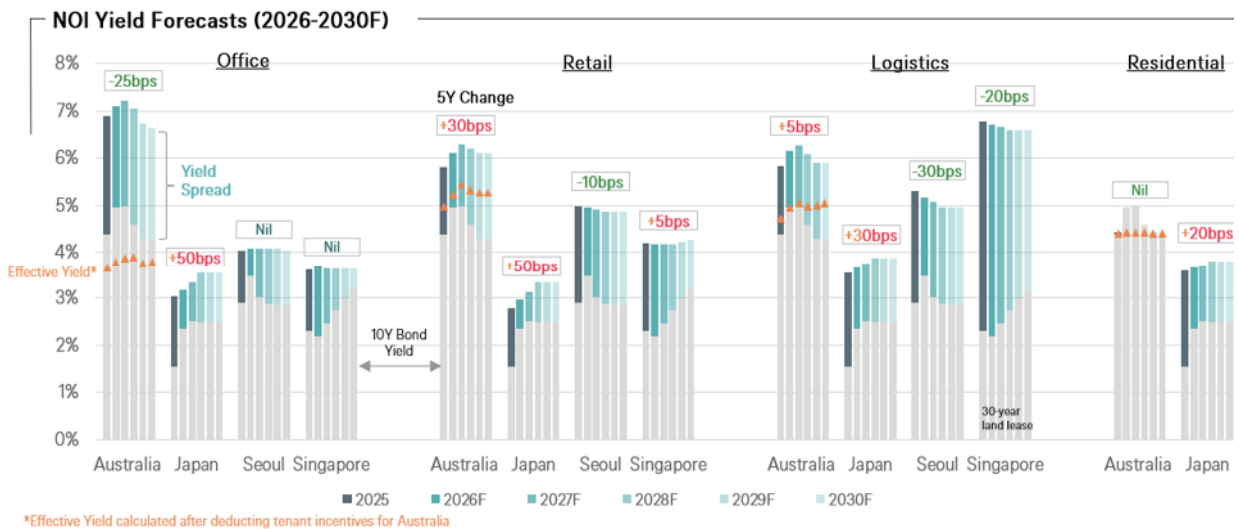
With the recent shift towards rising inflation and tightening monetary policy, compared to our previous forecasts, we have revised our short-term cap rate assumptions upwards.

In Japan, the latest market expectations signal more rate hikes to come from the Bank of Japan, leading to a higher long-term bond yield. Our current thesis is that strong rental growth in the office sector should keep a lid on cap rate movements over the coming years, but in time with higher bond yields and low NOI yields, office cap rates should eventually move upwards (+50 bps over the next five years). This holds true for logistics and residential as well, though the higher income yields could provide some cushion for a smaller hike in cap rates.

Likewise, cap rates in Australia look at risk of expansion following recent rate hikes by the Reserve Bank of Australia. The difference with Japan, however, is that this is not expected to be a ‘higher-for-longer’ interest rate normalization scenario, rather a response towards transient pricing pressures which should eventually settle lower and pave the way to lower rates. Correspondingly, we expect this should support cap rate compression trends from 2028 onwards, with the repriced office sector being the biggest beneficiary.

Elsewhere in South Korea and Singapore, we expect minimal cap rate movements though some compression may still occur in the logistics sector supported by higher yield spreads (vis-à-vis other sectors).

Exhibit 4: APAC NOI Yields vs Bond Yields



F=forecast. There is no guarantee the forecasts shown will materialize  
 Source: DWS, Oxford Economics, JLL, CBRE. As of June 2026.

### Total Returns

On a five-year outlook, we expect real estate returns to be predominantly driven by income yields and meaningful rental growth, particularly for prime assets across our top market picks. In some cases, this rental growth should help to offset some of the negative impact of cap rate expansion, particularly in Japan.

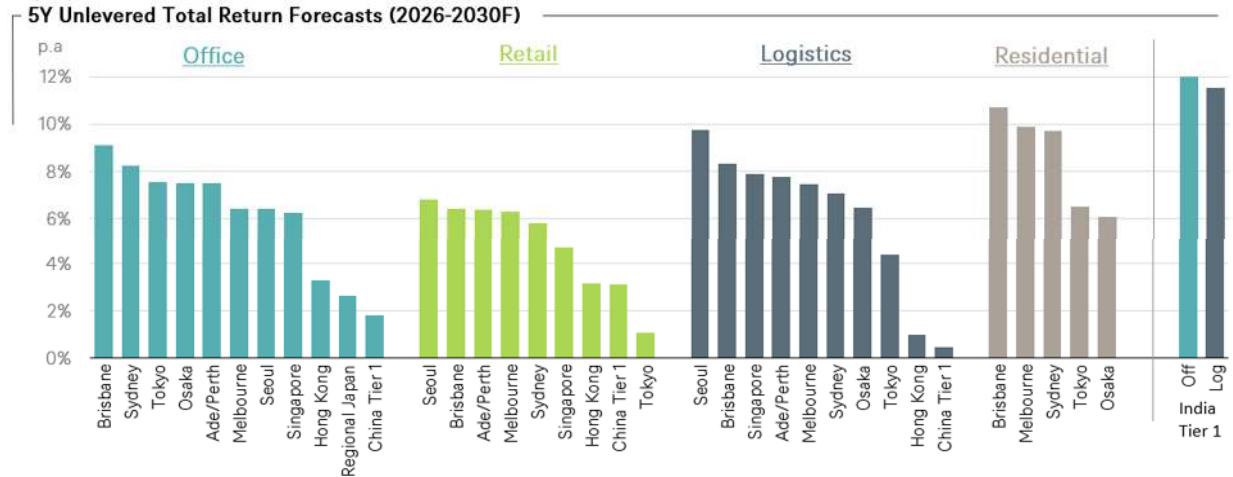
We have upgraded our annual five-year return forecasts for Australia Residential to 10%, given stronger rental growth expectations, while the logistics sector across developed Asia could continue to perform well, particularly prime warehouses in Seoul, Singapore and Brisbane which we think could deliver annual returns of between 8% and 10%. Within the office sector, Sydney and Brisbane line up at the top of our total return expectations, with cap rates expected to ease eventually in later years supported by steady rental growth, while the strong rental growth outlook in Tokyo and Osaka is expected to drive returns over the coming few years despite expectations of rising cap rates. Meanwhile, we expect the sharp divergence in performance between the two major economies in APAC (India and China) to potentially continue, with Indian Tier 1 cities

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projected to lead the region backed by strong structural demand tailwinds while the ongoing market correction in China is expected to persist for at least another one to two years.

**Exhibit 5: APAC Total Return Forecasts**

(% per annum)

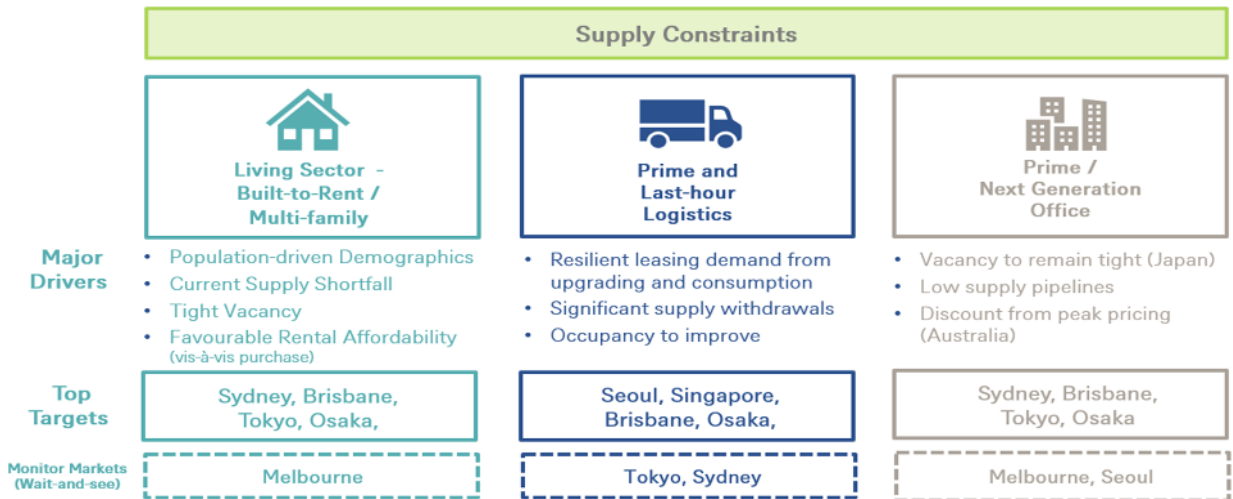


F = Forecast. LCU refers to local currency returns. Note: China Tier 1: Beijing/Shanghai/Guangzhou; India Tier 1: Bangalore/Mumbai/Delhi; Regional Japan: Nagoya/Yokohama/Fukuoka. There is no guarantee the forecasts shown will materialize. The returns are based on our forecasts for market rental growth and cap rates for each city. These are market-level forecasts and not tied to any product or benchmark. Source: DWS, as of June 2026.

**House View Targets**

The table below summarizes our House view targets for core-focused strategies. Given the current high degree of macroeconomic uncertainties, at this juncture we currently prefer core/core plus over value-add strategies. focusing on gateway cities in Asia Pacific with established occupier profiles and liquidity levels. We believe favorable risk-adjusted returns could be achieved with the right selection across the office, logistics and living sectors in Australia, Japan, South Korea and Singapore.

**Exhibit 6: Major APAC Investment Themes**



Source: DWS. As of June 2026.

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# 3 / Investment Strategy

## APAC Living

Given the scarcity of existing assets outside Japan, the Living sector in Asia Pacific remains significantly under-invested, with transaction volumes since 2020 accounting for 7% of overall volumes, a relatively small figure compared to Europe (25%) and US (42%).<sup>15</sup> The sector looks attractive owing to structurally lower vacancy levels and current tailwinds underpinning housing needs including better affordability for renters compared to home ownership costs, given the surge of housing prices and high price-to-income ratios across many major cities in the region.

### Australia Build-To-Rent (BTR):

The BTR sector remains our top pick for the Australian market. Strong fundamentals continue to promote an attractive case for investment: 1) Rental vacancy rates remain incredibly tight with Sydney (1.3%), Melbourne (1.5%) and Brisbane (0.8%) all below this time last year (April 2026). 2) Population growth is forecast to be one of the highest across the APAC region, with markets such as Sydney absorbing a third of overseas migration, 3) Supply constraints are likely to persist and appear to be more pronounced in the apartment segment due to higher construction costs and tight labour conditions. Proposed negative gearing and capital gains tax (CGT) affecting ‘Mum & Dad’ rental stock, could see more pressure on BTR to deliver future supply, and 4) Rental affordability remains more attractive relative to home ownership, though more pronounced in the Sydney and Brisbane markets, due to elevated apartment prices.

We believe underlying fundamentals appear supportive enough to potentially sustain annual rental growth of more than 6% over the short-to medium-term, underpinning investment returns, while supportive government legislation could increase investment in the sector and market liquidity. Deep local market knowledge, and investment and asset management expertise are likely to be highly critical for a successful project, with sub-market analysis required to understand local demographics and appropriate asset mix. We currently favour lower amenity ‘Essential Living’ BTR assets along key commuter rail lines and emerging CBD hubs supported government investment/infrastructure and growing population catchments such as Western Sydney and Brisbane- Inner Ring.

**Exhibit 7: Australian BTR – Our Top Pick For The Australian Market**



Source: DWS Research, SQM Research (March 2026), Domain House Price Report (March 2026), ABS 2021 & 2016 adjusted by Average Weekly Earnings, RBA Household Lending Rate Mortgage reflects 20% deposit, Centre For Population Projections By GCCSA (Jan 2026)

<sup>15</sup> MSCI data, as of May 2026

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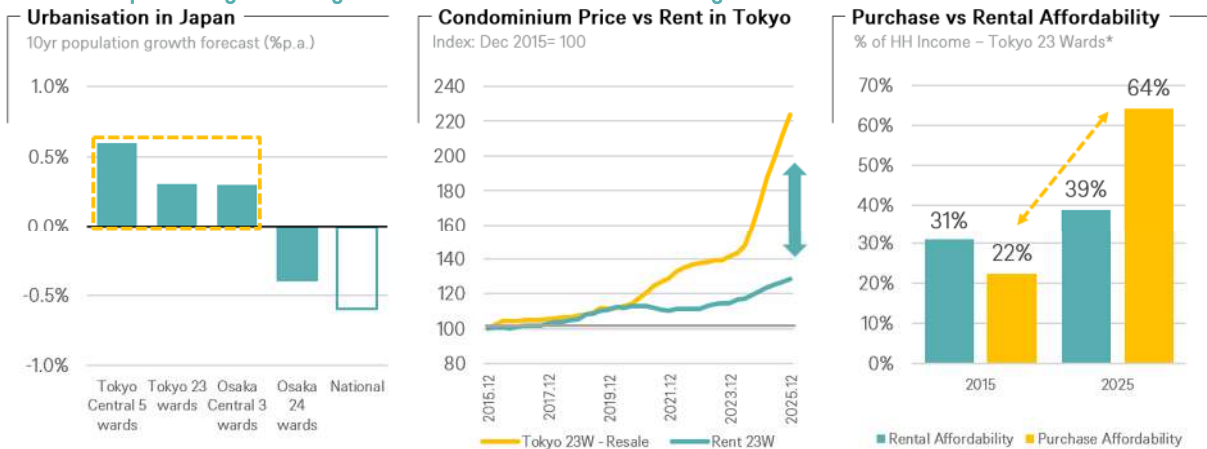
**Japan Multifamily/Co-Living:** Japan’s multifamily apartment sector remains the only mature institutional residential market in APAC, with investment demand driven by ample transaction liquidity and favourable demographic fundamentals. Positively, the emergence of inflation in the Japan market has been met with stronger wage growth, with March 2026 recording the 51<sup>st</sup> consecutive month of nominal wage growth, with labour unions seeing average wage increases exceed 5% during the spring labour negotiations.

Growth in wages, together with the ongoing inflation, have contributed to upwards pressure on condominiums prices in markets such as Tokyo and Osaka, with resale condominiums surging more than 30% over the 12 months to March 2026. Rising prime lending rates and a doubling of condominium prices since 2015 have seen the economics of renting ‘flip’ with renting now 40% cheaper than the cost of servicing a mortgage in markets such as Tokyo. Looking forward we believe demand for multifamily/co-living product could increase driven by positive migration inflows into the city centres ‘urbanisation’ of Tokyo and Osaka and purchase affordability pressures.

The sector offers stability with high levels of occupancy (97-98%) and a strong rental growth upside – with markets such as Tokyo and Osaka recording high single-double digit growth over the 12 months to March 2026. Yields remain quite competitive, though given the relatively low NOI yields for prime assets, investors may need to incorporate some value-add element or search around key commuter locations for higher cash yields (>4%).

In addition, Japan’s strong positioning as a global tourist destination (record 42.7 million foreign tourist arrivals in 2025) could continue, a major driver of the strong performance in hotels where the average daily room rate (ADR) and Revenue per Available Room (RevPAR) have reached record highs, prompting many visitors to seek alternative, short to mid-term housing solutions. With monthly hotel revenues now exceeding multifamily rents by 7 to 8 times, this may create compelling income-enhancement opportunities for investors through the conversion of well-maintained residential assets into higher yielding operational co-living spaces with moderate capital expenditure (we estimate daily stay Co-Living leases can fetch up to 5x revenues versus typical monthly multifamily leases). But this would require a higher level of operation expertise, operational fees and management costs to potentially realise value creation.

**Exhibit 8: Japan Living – Renting Now More Affordable Than Owning**



Source: DWS Research, At Home (Dec 2025), National Institute of Population and Social Security Research, Ministry of Internal Affairs and Communications 2023 (Adj by WPI), Kantei (Dec 2025) \* Reflects Family Condominiums & household incomes assuming a density of 1.5 persons per household, Purchase affordability reflects a 20% deposit

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## APAC Logistics

The logistics sector in Asia Pacific currently features among our top picks. Demand for modern warehousing remains underpinned by strong e-commerce growth, upgrading demand away from older obsolete warehouses and increased nearshoring practices amid the low availability of good quality warehouses. Combined with expected constraints in future supply, aggregate demand is expected to outpace supply in coming years, leading to declining vacancy levels across most key APAC markets.

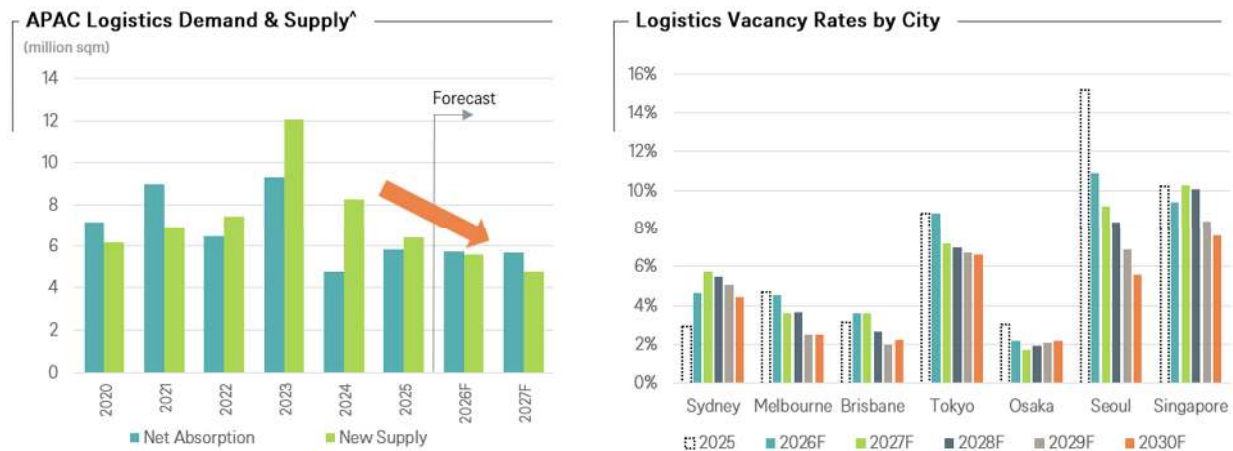
**Seoul** logistics remains one of our top targets. South Korea’s high e-commerce sales growth provides a major tailwind for logistics demand from e-commerce and 3PL tenants (about 80% of overall demand). Given the high divergence in vacancy levels, we favour the Western, Central and Southeast areas where vacancies and new supply are more controlled, over the North where vacancy and new supply pressures are expected to remain high. Vacancies in the dry warehouse segment should fill up relatively quickly over the next 1-2 years as new supply shrinks significantly, which should underpin strong rental growth from 2027 onwards.

While vacancy levels across Australia are expected to normalise, **Brisbane’s** logistics market stands out owing to its strong population growth profile, ongoing infrastructure investments ahead of the 2032 Olympics and rising port trade volumes which hit record levels in 2025. Logistics demand is likely to remain expansionary, underpinning rental growth for well-connected warehouses in infill locations with good population catchments.

**Singapore’s** status as a strategically located and neutral regional trade hub continues to attract expansionary demand from top-tier logistics players and advanced manufacturing sectors. Anchored by its low currency volatility, rental stability and high logistics income yields of around 6.5% (albeit for 30-year leasehold assets), income-oriented investors can consider securing strong partnerships with a reliable anchor tenant to increase the chances of securing a successful extension of land lease extension, a driver for valuation upside for assets with shorter land leases.

**Osaka’s** logistics vacancy is currently among the tightest globally at 3%, and is expected to remain so, supported by broad-based demand and high pre-commitment levels. The low availability of large multi-tenant logistics facilities, particularly in the Central Area as well as ongoing issue of driver shortages (due to overtime regulations introduced in 2024) could bode well for landlords of well-connected modern distribution hubs with tenants willing to pay higher rents to avoid supply chain disruptions.

**Exhibit 9: APAC Logistics Demand, Supply and Vacancy**



<sup>^</sup> Aggregate figures for Sydney, Melbourne, Brisbane, Tokyo, Osaka, Seoul and Singapore  
F = forecast. There is no guarantee the forecasts shown will materialize. Source: DWS, CBRE, JLL. As of June 2026.

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### APAC Office

Strict return to office mandates continue to support high office utilisation levels, particularly in North Asia. With a limited supply pipeline across most core locations, office vacancy rates in **Tokyo** and **Osaka** are expected to remain near their historic lows, further supported by high pre-commitment levels in Tokyo. Comparatively, Osaka has a smaller proportion of Grade A stock compared to Tokyo, hence the strengthening of demand as evidenced by upgrading trends from companies in a bid to attract talent has had a significant impact on keeping vacancy tight.

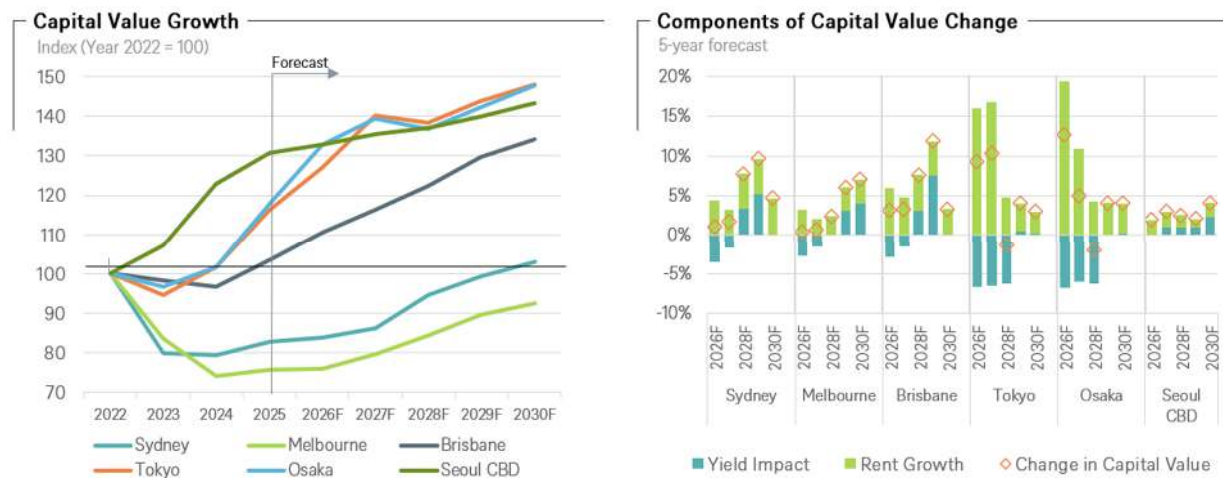
Some investors are concerned by the outlook for interest rates and cap rate expectations. Currently there seems to be two diverging schools of thoughts about how cap rates in Japan will move in the medium term (3-5 years) particularly in office where yield spreads are the narrowest among all sectors. Domestic investors generally seem to be in the camp of cap rates holding firm, supported by the strong rental growth and continued investment demand. On the other hand, foreign investors tend to draw parallels between rising bond yields and higher pressures on cap rates, citing recent corrections that played out in similar fashion in the Western markets including Australia. We sit somewhere in the middle, with the view that cap rates could move out 50 bps over the next few years as strong rental growth partially but not fully offset a sustained increase in bond yields.

Our modelling suggests the combined impact remains sufficient to drive capital growth over the next few years (See Exhibit 10), underpinned by sustained strong rental growth. Against the backdrop of strong market rental growth and low stock availability, we favour a core plus strategy targeting short WALE assets with below-market passing rents. Implementing a proactive leasing strategy while managing vacancy risks could capture positive rental revisions and deliver stronger returns.

In Australia, demand continues to gravitate towards premium grade assets at the expense of secondary grade buildings. We currently favour **Sydney** and **Brisbane** CBD offices for their stronger occupier profile and limited supply pipeline. Incentive levels could fall from their peaks, leading to strong rental growth (on an effective basis) over the next few years (see Exhibit 3). Moreover, office capital values in Sydney remain approximately 20%<sup>16</sup> off peak pricing levels, which should provide a good entry point for investors.

Even after factoring in our assumptions for a 30-basis point increase in cap rates till end 2027 in Australia, we do not expect capital values to decline, instead prices could continue to climb over the next few years driven by rental growth. Investors should focus on premium or Grade A assets within the centrally located financial core submarket in Sydney, with a lower vacancy and stronger tenant demand profile.

**Exhibit 10: APAC Office Capital Value Growth Trends**



F = Forecast. There is no guarantee the forecasts shown will materialize  
 Source: DWS, JLL, CBRE. As of June 2026.

<sup>16</sup> CBRE Research, Q1 2026

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