B&I Capital

# Asian Market Outlook

June 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

We remain cautiously optimistic on Asian RE Securities and REITs for the reasons we mentioned in last month's outlook. A lower growth, lower inflation outlook in Asia ex-Japan has led to a fall in interest rates which brings two benefits: lower interest expense and accretive acquisitions are now possible in some cases. Capitaland Ascendas recently purchased an SG Data Center on a 7% cap rate and a Business Park asset on a 6.1% cap rate (based on today's rent which is 15% below market) using new equity issued at a premium to its NAV, and debt issued in the low 3% range. While few REITs are in such a position today, we do expect more to be able to start their accretive acquisition cycles as unit prices recover and debt costs fall. While US tariff policy will remain volatile, there are recent indications that the impact is starting to appear on the US economy, and while inflation remains high and tariffs may exacerbate prices, ultimately the tariffs will prove to be a regressive tax and the current "big, beautiful bill" may not offer enough stimulus to offset this impact on lower income households. Non-farm payrolls for May were slightly higher than consensus. However, there were large revisions to the previous two months (-95k) with the three-month average falling to +135k from +155k indicating that job growth has slowed. In addition, the household survey showed a decrease in labor force by 813,000. Given the likelihood of future revisions to May's number and weak underlying trends, we think that the initial selloff in bonds and recovery in the USD triggered by a better than forecasted employment is unlikely to last. We see any selloff in Asian currencies and Asian interest rate sensitive names like REITs as another opportunity.

## Japan

Despite messy bond auctions and sharply higher rates for long duration JGBs, JREITs have managed to climb higher in 2025 and have delivered 8.04% YTD (USD 18.04%) and have outperformed equities. The inverse relationship JREITs have had with bond yields has broken down recently, likely due to the extremely large discount many JREITs trade on despite strong property market fundamentals and numerous property transactions that support current valuations. JREITs continue to expand the use of buybacks funded by asset sales with 14 JREITs announcing buybacks in the first half already. While it is too early to know if the BOJ is done with its policy normalisation, we believe that much of the impact of higher rates is already priced into JREIT unit prices. And if we get a gradual slowdown in the global economy, increased tariff impact on Japanese exporters and/or a stronger JPY, there is a case for inflation to start to moderate, which would be positive for the sector. In any case, unlike the rest of Asia where refinancing (or lower floating rates) will lead to earnings upside, JREITs still have historically low cost of debt in place and refinancing at today's rates will have a negative impact on earnings. We believe large cap Office, Hotel, Diversified with office, urban retail and hotel assets and some Logistic REITS with short weighted average lease expiries (WALE) will be able to increase rents to offset interest rate cost pressures. Large cap office REITs have a high percentage of five-year average lease expiries that are fixed term type. This means they can raise rents at expiry unlike with traditional two-year leases that smaller offices have. Leases signed during COVID will mature in the coming years giving landlords the ability to raise rents by 10% based on today's rent gap and likely more if market rents continue to rise. Hotels continue to benefit from strong inbound trends despite some concern regarding a slowdown in visitors from Hong Kong due to earthquake concerns. We expect Invincible REIT to revise its second half expectations due to strength particularly coming from Osaka which hosts the EXPO this year. As mentioned last month, we reduced Developers as we feel their strong results and ambitions Mid Term Plans were already discounted by investors and see few fresh catalysts for the sector. Typically, upward revisions and additional buybacks are announced around the second quarter results in October. We remain bullish on Mitsubishi Estate due to its strong commitment to deliver higher ROE and aggressive stance on share buybacks and cross shareholding sales, but overall prefer JREITs at this stage. We anticipate that Nippon Building Fund (8951), a large cap Office JREIT, may come to raise new equity in the summer and would look to add to our JREIT exposure if they deliver an accretive capital raise.

## Australia

Excluding Mega large cap Goodman Group, Australian REITs have performed strongly so far this year. Large cap asset manager, Charter Hall Group (CHC), is up 34% and our housing recovery plays Mirvac and Stockland have risen 22% and 14% respectively. We have tactically reduced CHC as its valuation is now approaching Goodman's and while the sector is in early recovery we feel the upside is becoming limited. We remain bullish but see better value in housing adjacent names like National Storage which is currently flat for the year despite its peer, Abacus Storage King (ASK), rising 36% thanks to a takeover bid at 1.47/share from its main shareholder (Kirsch family) and US giant, Public Storage. The ASK board has rejected the bid as too low versus the revised NAV of over 1.70/share. Applying a similar multiple to NSR which has traditionally traded at a premium over ASK, would suggest a share price closer to 2.65-2.70 vs. its current level of 2.33. We have entirely exited our position in ASK and have added to our NSR position and made it a full weight. Assuming the Kirsch family and Public Storage are successful and delist ASK, NSR will be the only pure play Self Storage REIT listed in Australia and given its recent JV partnership with GIC we see this company as potentially trading with a takeover premium given its scale and internal management model. The RBA is likely to continue to be accommodative, but we also feel that the market has priced this in for many of the traditional sector names that will benefit from lower rates and an improving residential market. We have reduced Australian exposure and see better relative value in Singapore which has lagged the region despite a favorable macro backdrop (falling inflation, stable rental markets).

## Hong Kong

HIBOR 1m rate continues to stay at a steep discount to USD rates. On Friday, June 6, HIBOR 1m closed at 0.63% vs. its end of 2024 level of 4.57%. We don't expect HIBOR to stay at these levels as the carry trade into USD is too high and this will ultimately push the HKD back to the weak side of the band and rates will need to rise to maintain the peg. Nonetheless, if the USD continues to fall vs. other global currencies the HKMA will need to also weaken the HKD to fall along with the USD and as a result we anticipate HIBOR staying at a large discount to USD as long as the USD remains weak against other currencies. This is extremely positive for the HK REIT sector which often relies on floating debt and which has been a major headwind to earnings. In addition, the residential market is showing strong recovery and recent home launches have seen strong take up as mortgage rates are below rental yields as the Hong Kong population has started to grow. Removal of stamp duties last year are making the investment in residential more attractive and rising rents are encouraging some renters to buy. We continue to like non-discretionary Retail REITs as retail sales trends have stabilized. Sales leakage to Shenzhen has peaked, Hong Kong outbound travel to Japan has slowed, and inbound visits from the mainland visitors have started to recover. We expect Link REIT and Fortune REIT to be included in the HK Stock Connect which will bring additional volume to the sector. The resurgence of IPOs in Hong Kong is a positive for the Central office sector but given the current oversupply we are less optimistic that rent growth will be possible in 2025 despite the improving employment picture at investment banks in HK.

## Singapore

We see good relative value in large cap SREITs, CICT and CLAR. We continue to like Fraser Centrepoint due to its dominant retail position and both its organic and inorganic opportunities. We recently added CLAR during its placement mentioned above and like the Singapore focused acquisitions that have some rental upside and are day one accretive. While we do not expect many more secondary offerings in the short term, we do feel the acquisition cycle for our names will provide growth. We would like to see Parkway REIT acquire Mount Elizabeth Novena and expect Keppel DC to continue to grow its Data Center portfolio with an emphasis on future acquisitions in Singapore and Japan. We are somewhat surprised by the weak sector performance despite the sharp drop in interest rates. Admittedly, earnings and dividend growth have been flat but given the large gap between rates and dividend yields we expect that generalist investors will start to rotate from large cap bank stocks which will see falling margins as rates continue to drop into SREITs which are beneficiaries of rate declines.