ULI Asia Pacific Capital Markets Forum 2025:
Unlocking Value

June 2025

Cover: *Shutterstock*

Urban Land Institute

Key takeaways

1. Regional and global investors and asset managers are primarily focused on developed markets, particularly Japan and Australia.
2. The living sector is top sectoral choice, but there is also strong interest in data centres and logistics.
3. Most investors are interested in data centres, but few have a strategy.
4. Investors have become somewhat inured to volatility, but the current geopolitical environment means they remain cautious.
5. There is little expectation of cap rate compression and investors are cautious over rental growth, which means a focus on adding value to assets.
6. China real estate pricing is attractive but fears over the exit are dissuading investors.
7. India is the preferred developing market in the region.
8. There is resurgent interest in office and retail amongst some investors.

Creating value in uncertain times

The Capital Markets Forum at the ULI Asia Pacific Summit 2025 brought together a pool of major real estate investors, investment managers and other professionals to discuss the state of play in the region's real estate markets.

This white paper reflects the discussions on the day amongst investors with tens of billions of dollars in aggregate invested across in Asia Pacific real estate. A recurring theme of the afternoon's discussions was the need for asset owners to add value to their holdings.

The current market environment, with greater uncertainty and (generally) higher interest rates means investors cannot sit back and expect cap rate compression or rental growth. This pressure to add value is increased due to a widespread requirement for higher returns from Asia Pacific real estate investments.

As well as examining the overall investment environment and investor preferences this paper takes a look at one of the most favoured markets, Japan, and one of the preferred sectors, data centres.

Market volatility following the announcement in April of significant tariffs by the US and, subsequently, other nations has made many real estate investors pause and wait to see how and if trade matters are resolved. This topic was covered in a previous white paper, Tariffs, trade and the impact on Asia Pacific real estate.

Those taking part in the Capital Markets Forum are fairly sanguine about ongoing uncertainty, as markets have been volatile for some time. However it is felt that the redoubling of trade conflicts and the subsequent stock market upheaval undermined the progress Asia Pacific real estate markets had made in late 2024.

While there have been a number of significant Asia Pacific fund closings in recent months, including a reported haul of US$4.6 billion for BentallGreenOak Asia Fund IV and $4 billion for PAG's Secured Capital Real Estate Partners VIII, market uncertainty is considered a headwind against real estate fundraising for Asia Pacific, particularly for new capital.

Those already heavily invested in the region are more inclined to see the virtues of Asia Pacific's growth, diversity and relative value compared with Europe and North America. Within the region, global investors and managers are heavily focused on developed markets, in particular Japan and Australia, to a lesser extent South Korea and Singapore.

The key attributes of these markets are resilience, transparency and liquidity, the latter being crucial for securing an eventual exit. Emerging markets, where an exit is likely to be to a domestic investor, are seen as less certain in this regard. India is considered to be the most attractive developing market, due to its size and growth. It is also viewed as a potential winner from trade-related upheaval.

Nonetheless, global investors in Indian real estate remain few and this is expected to continue in the medium term.

The China and Hong Kong markets remain challenging. A number of global investors have assets in China and most Asia-based investors and managers believe it will be a place to invest in the long term, however few would consider buying at the moment, despite keen pricing. Furthermore, overseas investment committees are reluctant to invest in China today and have also begun to consider Hong Kong as presenting similar risks as the Mainland.

A key concern is the ability to underwrite a future exit. However, Hong Kong and China do offer distressed opportunities at present, which is not the case in most other markets and there are opportunities for investors with longer horizons. Some have already taken advantage: a consortium led by PAG has acquired a 60% stake in Dalian Wanda's China shopping mall business and also bought 48 malls at a substantial discount to past valuations.

In general, market participants are somewhat sceptical that widespread distressed opportunities can be found. This is partially due to continuing bank support for struggling assets and borrowers and also due to a feeling that many distressed assets are suffering for good reason.

Pricing strategies

However, there have been price corrections in several sectors, such as Korean logistics and Australian offices, which some investors consider attractive. Entry pricing is always important in real estate, but is particularly important today, especially to private equity investors with closed-ended funds. The ability to acquire assets at the right price is essentially a function of an investor's operating model. An experienced team on the ground, or an operating partner rooted in the local market and an understanding of the needs of the global capital being invested are crucial. Deal flow and pricing are interrelated.

Equally important for overseas or fund investors is the structuring of the investment, particularly with regard to tax. They will also have to consider that deals are taking longer to complete and that the hold period may also be longer, which must be reflecting in underwriting. Finally, global capital is beginning to insist on a risk premium once more for investing outside its home market.

Economists' forecasts for interest rates vary considerably and some markets – such as South Korea and Australia – have already cut rates from their recent highs, however the feeling is that rates will remain somewhat elevated for the near term. This means the prospects for cap rate compression are muted and a more uncertain economy also means rental growth underwriting should be cautious.

Unlocking value

The combination of added risk premia, lower cap rate compression prospects and potentially limited rental growth means the focus has to be on adding value. As one participant says: "We really push ourselves to think more creatively, even in sectors that are well understood, if you can't differentiate your approach [to an investment], I don't think you should be doing it."

Global investors and managers are more inclined to create or invest in operating platforms, in order to secure value adding expertise. This also reflects the fact that real estate is increasingly an operational business, rather than a bond-plus investment. The operational element is also often more significant in investors' preferred sectors, such as data centres, the living sectors – especially co-living, senior housing and student housing – and hospitality.

There is a divergence of views between investors on the importance of ESG or sustainability initiatives. Some consider them essential, while others are only interested in those which can be shown to add value. In real estate, the most obvious way to add value via sustainability initiatives is in the office sector, where there is substantial evidence that the most sustainable and modern office building achieve better rents and occupancy.

Henderson Land's The Henderson (cover image), a 465,000 sq ft Hong Kong office tower is often cited as an example of this. Despite a subdued Hong Kong office market, with 10.7 million sq ft of vacant space and 6.4 million of new supply by 2027, according to Savills Research, The Henderson had achieved 80% occupancy by March 2025, having been completed the previous June. Its LEED Platinum, WELL Building and Wiredscore certifications are considered an important factor in it attracting tenants from older buildings.

Borrowers and lenders

There was a flurry of interest in Asia Pacific real estate debt investment in 2022, with nine funds raising a total of US$5.2 billion, according to PERE magazine. However, capital-raising for debt strategies has slumped since then.

Nonetheless, investors still see credit opportunities in some markets, particularly those where interest rates had risen sharply, such as South Korea and Australia. The ongoing retreat of Australia's major banks from real estate lending suggests the opportunity there is long term.

For most investors, the key interaction with the debt market is as a borrower. They report that economic uncertainties mean that sentiment and a lender's legacy portfolio form as significant part of lending decisions as the cost of capital.

Diversification of funding sources is crucial, as is keeping a close eye on lending relationships as the preferences and appetites of lenders are subject to change. "We have to be in constant dialogue in order to match debt and equity capital," says one manager.

Just as partnerships with lenders are important, so are those with joint venture and operating partners. Investors are keen to maintain existing relationships but equally prepared to investigate new potential partners who can bring skills and market access.

A more difficult market in recent years has put pressure on relationships but what investors want remains much the same: transparency, accountability, adaptability, robust decision-making, and the desire to build long-term partnerships.

L-R: *Emilia Teo, TE Capital, Graeme Torre, APG*

L-R: *Ellen Ng, Warburg Pincus, John Pattar, KKR*

Japan: getting away from the crowds

Japan is by some way the most popular Asia Pacific real estate market with cross-border investors and has been cited as a top pick in a number of investor intentions surveys and Emerging Trends in Real Estate Asia Pacific 2025, where Tokyo and Osaka were the top cities for investment. However, this popularity can make life difficult for investors, just as the popularity of Japan's prime tourists districts can make them trickier to negotiate.

The attractions of Japan are clear. It is a developed market with very low interest rates over the long term, strong income performance of assets and very stable market. It is straightforward and tax-efficient for overseas investors to structure their investments.

Japan offers unrivalled depth and liquidity; Tokyo is the largest office market in the world and Japan is the largest multifamily residential market in Asia Pacific. For overseas investors, the Japanese market's liquidity has been a prime attraction. "In the past few years, Japan has really been the only market where major fund players could actually sell for profit," says one manager.

It is also one of the few markets in the region with opportunities across multiple cities and multiple sectors. Investors cite the living sectors, office, retail, hospitality and data centres as attractive sectors. Recent oversupply has made logistics less attractive, but the oversupply is expected to dwindle as high construction costs are restricting new development.

Multifamily residential has been the favoured sector amongst investors and this remains the case. In good locations, occupancy is almost always at 90%, cash flow is steady and maintenance costs relatively low. Rental growth is supported by inflation and wage growth. However, the way people invest is changing. A few years ago the focus was on core investors seeking large portfolios, often from private equity players who could aggregate portfolios and sell at a premium.

Quality and growth.

Today the focus is much more on quality and growth prospects, which means investors will not accept a few lower-grade assets slipped into a large portfolio. Indeed, there is now less liquidity for portfolios in excess of US$200 million and sellers often break such portfolios up into smaller ones. More investors are looking outside Tokyo, especially to faster-growing cities such as Fukuoka.

The fundamentals in Japan's office market are also improving. Vacancy rates are in the low single digits in major cities and rents rising in Tokyo. Investors see Class B office stock as an opportunity to buy, fix and sell, as the average Class B office stock in Tokyo is about 35 years old and very much in need of some renovation. Often this will involve improving the asset's sustainability, something which is becoming more important for Japanese occupiers.

With a booming tourism market, hospitality assets are becoming more popular amongst foreign investors. One potential avenue for successful investment will be finding assets in regions which are currently off the main tourist track but likely to increase in popularity, especially with overseas tourists.

Access is essential for investors in Japan, especially those who wish to secure off-market deals. Experienced investors say relationships with domestic corporations and real estate investment trusts (REITs) are crucial, as is an understanding of what they need. Relationships and reputations take work to build but can be easily lost through 11th hour brinkmanship or changes of terms during transactions.

Rising interest rates have become a factor in Japan for the first time in years, however investors remain fairly sanguine about their effect and say there has been little effect on cap rates. An uncertain global economy suggests the Bank of Japan will be cautious over raising rates and banks remain keen to lend to real estate.

Data centres: a sector heading towards the mainstream

The data centre sector is one of the key targets for global investors in real estate and infrastructure, indeed part of the debate around the sector is whether it is the former or the latter. One way of looking at it is that the site and shell of the building are a simple real estate investment, while the interior fit-out and mechanical equipment is infrastructure. How an investor approaches data centres will depend on the model chose. Some real estate players have built an operating platform, others are focused on the real estate.

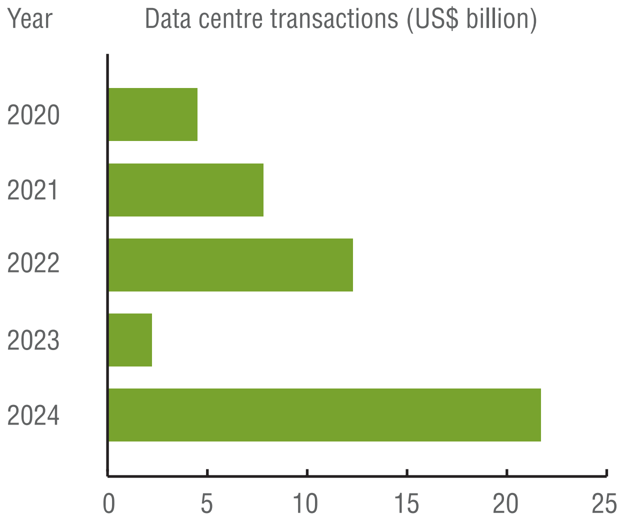
Another way of looking at it is that the categorisation doesn't really matter; data centres are as essential to the digital economy and thus will develop as a distinct sector, perhaps alongside cell towers and other structures and capital will flow to that sector from a number of sources.

The appetite for data centres is huge, but undeveloped. Forum participants suggest most global investors want to gain exposure to the sector but less than 20% have a strategy. One manager likens it to logistics 15 years ago and expects a similar progression which will see data centres feature in every institutional allocation. The weight of capital coming to bear on the sector means it will develop rapidly and also bring much-needed liquidity. Today, there has only been a small number of secondary data centre transactions in developed markets, but this is expected to change as the market matures.

The "top down" picture for data centres in Asia Pacific is easy to understand. The region is relatively undersupplied with data centres to support its growing digital economy. There are more data centres in the US (5,426, according to Statista) than in Asia Pacific (1,456, according to Statista). Furthermore, the development of AI applications, which require huge processing power, means even greater demand for data centres.

Tapping into this growth is more difficult. The most desired tenants are the "hyperscalers" such as Amazon Web Services or Google Cloud, which have significant global demand for new sectors. There are also large Chinese players such as Alibaba and Tencent. This handful of major players all have specific demands and data centre developers need to be able to tailor their offer to the requirements of a demanding customer base.

Asia Pacific data centre transactions, 2020 – 2024



Source: *MSCI*

The prime challenge for data centre development is finding land and power, particularly near major cities. Some markets, such as Taiwan and Singapore, have announced moratoria or restrictions on new data centre development and others, such as Tokyo, are severely power-constrained. This means that a number of data centre investors are branching out into the power business, in order to supply their own assets.

This power is often renewable, as both data centre investors and their hyperscaler tenants have ambitious Net Zero targets, which are made more difficult by such power-hungry facilities. For hyperscalers, who are paying for a certain megawattage of data centre capacity rather than a square foot of space, saving energy is as important to the bottom line as it is to Net Zero ambitions.

This is driving demand for ever-more efficient data centres. The key metric is Power Usage Effectiveness (PUE), which measures the efficiency of a data centre by dividing the total facility energy consumption by the energy used by the IT equipment. The closer a PUE is to one, the better. Older centres are likely to have a PUE of 1.8-2, while newer facilities can get as low as 1.3.

There may be potential to redevelop older data centres with a lower PUE score in order to make them more efficient, however low vacancy in the sector makes this a challenge. For the present, most investors in Asia Pacific data centres are focused on buying or developing new stock.

In conclusion, this sector is uniquely challenging but also arguably the most important in real estate. Indeed one Forum participant claims: "It is going to become, one day, the largest single sector."

Capital Markets Forum contributors

Pamela Ambler
Head of Investor Strategy & Intelligence,
Asia Pacific
JLL

Calvin Chou
Head of Asia Pacific
Invesco Real Estate

Gilles Chow
Head of Real Estate Asia Pacific
CPPIB

Jane Drummond
Chief Commercial Officer, Asia Pacific
AON

Trent Iliffe
Chief Executive Officer
LO-GOI Group

Laurent Jacquemin
Head of Asia Pacific
AXA IM Alts

Kyu Baek Kim
Vice President
Trio Capital

Morgan Laughlin
Global Head of Data Centre Investments
PGIM Real Estate

Thomas Liu
Head of Greater China and North Asia Real Estate
Actis

Ellen Ng
Co-Head of Asia Real Estate
Warburg Pincus

Kunihiko Okumura
Asia Pacific Co-CIO
LaSalle Investment Management

John Pattar
Head of Real Estate Asia
KKR

Joel Rothstein
Joel Rothstein
Chair of Asia Real Estate Practice
Greenberg Traurig

Alan Tan
HeaManaging Director, Head of Capital Raising
CapitaLand Investment

Jon Tanaka
Head of Asia Pacific
Hines

Emilia Teo
Managing Director
TE Capital

Graeme Torre
Managing Director, Head of Real Estate Asia Pacific
APG Asset Management

Patrick Wong
Head of Bloomberg Intelligence Hong Kong
Bloomberg Intelligence

Author

Mark Cooper
Senior Director
Thought Leadership
ULI Asia Pacific

ULI Project Team

May Chow
Chief Development Officer
ULI Asia Pacific

Gemma Haimes
Head of Marketing
ULI Asia Pacific

Caneel Chua
Programmes Manager
ULI Asia Pacific

Lawreane Jamie de los Santos
Creative Lead,
ULI Asia Pacific

About the Urban Land Institute

The Urban Land Institute is a global, member-driven organisation comprising more than 45,000 real estate and urban development professionals dedicated to advancing the Institute's mission of shaping the future of the built environment for transformative impact in communities worldwide. ULI's interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics. Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 84 countries.

ULI Asia Pacific
3418 Jardine House
1 Connaught Place Hong Kong
asia.uli.org