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**>>>> ABSTRACTS <<<<**

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## Real Estate Strategic Outlook: Australia

### Foreign capital increases as pricing stabilises

#### Interest rate cuts likely over the first half of 2025

The Reserve Bank of Australia (RBA) has left the cash rate unchanged at 4.35% over the past twelve months; inflation figures continue to trend lower, with interest rate cuts on the horizon. Australia's headline inflation rate has seen a sharp decline to 2.8% (Sep 24), however, the RBA has cautioned that the underlying inflation rate remains marginally higher at 3.5% (Sep 24), attributable to sticky services inflation and a challenged housing market. Economists and major banks have since pushed out their forecasts to a first rate cut in the first half of 2025. The RBA remains optimistic that the underlying inflation rate can reach the target band of 2-3% by mid-2025, though remain vigilant to geopolitical risks. Nonetheless, a period of falling interest rates and declining inflation should support a rebound in economic growth 2025+.

#### Price certainty becoming more evident across most sectors

A stabilisation in the cash rate and expectation of interest rate cuts has led to an acceleration in transaction volumes accelerated over the second half of 2024, now sitting above 2023 levels, buoyed by demand from foreign capital. Transaction yields have largely stabilised across most sectors, however for the office market, there is greater certainty within newer prime grade assets in core locations. Lending conditions remain favorable, despite short term volatility in swap rates with a preference towards the Industrial and Residential sectors. Declines in the cash rate and subsequently 10yr gov bond yields over 2025 should further support liquidity and a moderate decline in property yields.

#### Residential: Supply-demand imbalance continues

Residential supply remains constrained. Dwelling approvals have improved, however completions remain subdued, more challenged in apartment product. Vacancy rates remains tight sub 2%. Rental growth has moderated from record highs, though elevated on historical levels. Build-To-Rent remains in its infancy, with demand driven by declining purchase affordability, weaker in Sydney & overseas migration. Capacity constraints within the construction sector and high build costs are likely to see vacancy remain lower which bodes well for rent growth prospects.

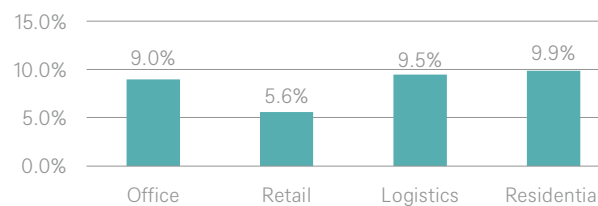
#### Logistics: Rental gap to widen in favour of 'Infill'

The industrial market continues to normalise, with differing performance at a precinct level. Weaker household consumption continues to weigh on leasing markets as businesses right size space requirements. Elevated levels of supply and increased sub-lease availability has seen vacancy rise, with infill locations proving more resilient. Capital values have been protected by continued growth in face rents, however at the expense of higher incentives. The outlook for supply has improved with tighter lending conditions for speculative development and higher construction costs seeing a pivot towards pre-commitment. However, supply remains heavily concentrated in 'greenfield' locations which will see greater competition. We expect the rental gap to widen in favour of infill markets close to population catchments & key infrastructure.

#### Office: Potentially attractive buying opportunity for the right location

Office fundamentals continue to improve, however location and grade remain key. The return to office thematic has gathered pace with office 'utilisation' rates now sitting above 80% of pre-covid levels. Sub-leasing volumes have steadily declined as larger occupiers re-absorb space, signalling that the right sizing cycle may be coming to an end. There continues to be a divergence in leasing performance with a preference towards newer prime grade assets in core locations, influencing vacancy and incentives at a sub-market level. Limited upcoming new supply should further support vacancy, incentives, and ultimately effective growth. Large discounts to book values amid improving occupier fundamentals are more favourable in the Sydney office market, which may present an attractive buying opportunity over the next 6-12 months.

#### Total Return Forecast in Australia, 2025-2029f, p.a.



Source DWS, December 2024.

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## Real Estate Strategic Outlook: India

### Demographics and Services to drive Growth

#### Economic Resilience: Robust Growth, Stable Inflation, Sustainable Fiscal and Current Account Policies

In 2024, India's economy has shown robust growth, stable inflation, and proactive policies, remaining on track to become the world's 3<sup>rd</sup> largest economy by 2030. The Reserve Bank of India has maintained the repo rate at 6.5% for the past nine months, aimed at anchoring inflation expectations and macroeconomic stability. The recent uptick in core inflation (breaching 6% target) due to rising food prices seems manageable but may drive small rate cuts in Q1 2025.

#### Real Estate Capital Markets: Growing and evolving

Over the past decade, transaction volumes in India have surged, reaching nearly USD \$11 billion annually by early 2024<sup>1</sup>. Mumbai, Bangalore, and Delhi account for 50% of all transactions. Increased activity and lower borrowing costs have compressed prime real estate yields, with prime office yields decreasing by around 150 basis points to 8-8.5%<sup>2</sup> since the early 2010s.

#### Logistics: Structural Demand and shortage of Quality Spaces

India's logistics sector is rapidly transforming and is undersupplied, with warehouse stock per capita significantly lower than countries like the US, UK, and China. Additionally, there is a shift towards Grade A warehouses, driven by demand for operational efficiency and rising ecommerce growth, pushing vacancy rates to around 5%. Government initiatives like the National Logistics Policy aim to reduce logistics costs, improve transportation networks, and encourage strategically located warehouses.

The Grade A logistics market is anticipated to remain robust, with low and stable vacancies supporting annual rental growth of 5%-5.5%

#### Office: Occupiers (MNCs) Propel 'Flight to Quality'

The Indian office market has an above-average vacancy rate of around 17%, primarily in older and suburban non-prime stock. This reflects both the level of new development and a

shift in demand towards higher quality spaces, particularly from the rapidly growing BFSI and tech sectors. In H1 2024, office net absorption in India reached a historic peak of 34.8 million sq. ft., driven by the IT Business Process Management and BFSI sectors amid a mandated return-to-office. Record absorption was seen in Hyderabad, Mumbai, and Pune as well.

We anticipate Grade A rents to grow over the next five years, averaging 4%-5% per annum, with Bangalore and Mumbai likely to outperform other major markets.

#### Data Center: Indian Data Center Market Set for Rapid Growth

The Indian Data center market is set for significant growth of 19% CAGR from 2024 to 2029, reaching 5,000 MW<sup>3</sup>. Currently, Mumbai ranks third globally in IT load under construction. Despite robust growth, significant expansion potential remains, with India contributing 15% of global data traffic but only 6% of global capacity.<sup>4</sup>

While India real estate may offer the potential for higher returns, investors should pay attention to avoid potential pitfalls through selecting appropriate local partners and carrying out due diligence checks through qualified industry experts.

#### Total Returns Forecast (2025-2029F), p.a.



Source: DWS, December 2024  
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<sup>1</sup> MSCI, June 2024

<sup>2</sup> JLL, June 2024

<sup>3</sup> CBRE, December 2023

<sup>4</sup> DWS estimates from Care Rating, Biswagner Anarock, May 2024

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**TEMPLATE for <Asset class> Research**  
**Client audience: INSTITUTIONAL**

Publication Name	Real Estate Strategic Outlook: Japan
Publication Date	12/10/2024
As of date	December 2024
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Alternative Investments mentioned?	Yes
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## Real Estate Strategic Outlook: Japan

### Strong business sentiment of consumer-related industries

#### Real wage-driven recovery expected to support GDP growth in 2025

Japan's real GDP is expected to see healthy growth of 1.1% in 2025, as domestic economic developments indicate a continuous wage-driven recovery trend. Despite the ruling parties losing their majority in the October lower house elections, the ruling Liberal Democratic Party's wage-driven growth strategy has broad opposition support.

The Bank of Japan implemented two interest rate hikes bringing its policy rate from -0.1% to 0.25% throughout 2024 with an additional rate hike expected by end of 2024 or early 2025. The latest Tankan survey shows the strong business sentiment of consumer-related sectors driven not only by strong inbound tourism, but also domestic consumption boosted by widespread wage increases.

### Ongoing modest capital value correction and rising construction costs to limit new supply

#### Rental growth expected to be the key driver for returns in the foreseeable future.

Driven by continuous interest rate hikes in Japan, commercial real estate cap rates increased by 20-30 basis points (bps) in 2024 and are expected to rise by another 10-20 bps in 2025. This correction is more pronounced for assets with large vacancies and weak leasing fundamentals, while core stabilized assets have seen only marginal valuation changes so far.

Additionally, the impact of rising construction costs on new developments has become more significant, particularly in the logistics sector where construction costs account for a much larger share in overall valuation compared to other sectors. The weak Japanese Yen and associated inflation pressures may continue keeping replacement costs high across most sectors along with imminent construction labor shortage, constraining new supply with rental growth a key driver for returns in the foreseeable future.

#### Logistics: Soaring development costs

With the surge of construction costs in the last 3 years, breakeven rents for new logistics developments are now 30-35% higher than current market rents. This should support strong rental growth beyond 2026, if the logistics vacancy rate in Greater Tokyo stabilizes from current elevated levels

of 10% in September 2024 following recent record-high new supply.

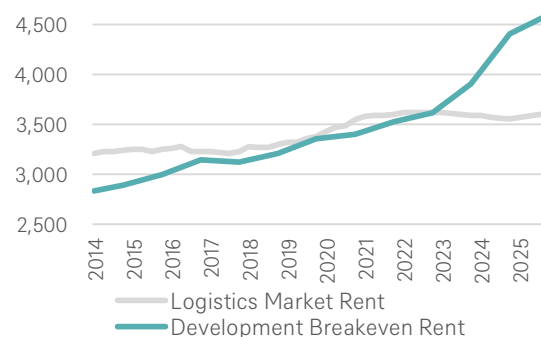
#### Residential: Strong demand for quality rental houses

The average unit sales price of for-sale condominiums in Tokyo's 23 wards rose above JPY 110 million in the rolling six months to September 2024. This has driven the strong leasing demand for quality rental units, mainly among working couples and professionals who prefer larger spaces for their work-from-home arrangements. As for-sale condo prices remain elevated in Tokyo, demand for rental houses is expected to be resilient.

#### Office: A large supply will keep the vacancy rate high

The average office vacancy rate in Tokyo's central five wards fell below 5% in August 2024 for the first time in four years with limited supply in 2024. This improvement is partly due to foreign companies relocating to newly opened buildings in the Minato area and domestic companies encouraging employees to return to the office for better communication and efficiency. Despite a short-term market tightening, Tokyo's office vacancy rate is expected to rise to above 5% level in the longer term due to the large incoming office supply beyond 2025.

#### Logistics Market Rent and Breakeven Rent in Greater Tokyo



Source DWS, December 2024

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**Client audience: INSTITUTIONAL**

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Publication Date	12/10/2024
As of date	December 2024
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## Real Estate Strategic Outlook: South Korea

### Short-term challenges, longer-term chances

The base rate has been cut from 3.5% to 3.0% in late 2024, with potential further reductions anticipated in 2025.

Real GDP growth in South Korea is forecast to be moderate, at 2.2% in 2024 and 1.9% in 2025. Export activities have contracted due to the slowdown in the Chinese economy and global trade activity, while the recovery in investment is expected to support GDP in the next few quarters with modest consumption growth.

With rising household debt and higher real interest rates exerting downward pressure on economic growth and inflation, the Bank of Korea initiated its rate-cutting cycle with a 50 basis points cut in late 2024. The bank is expected to gradually reduce its policy rate to the mid-2% level by the end of 2025.

The brief martial law imposed on 3<sup>rd</sup> December was soon lifted and had limited impacts on the country's economy and capital market. However, political uncertainty is likely to continue to be a risk to the economy until there is more clarity.

### Capital values expected to bottom out in 2025

Logistics and office sectors could see yield spreads turning positive from 2025 onwards

The price correction phase for South Korea's office and logistics sectors is expected to end by 2024, with a modest recovery starting in 2025. The logistics sector experienced a larger price correction of 15-20% for core stabilized assets from its peak valuation two years ago, compared to 8-13% in the office sector, due to differing leasing market fundamentals.

Current negative spreads between cap rates and borrowing costs could gradually turn positive by 2025-2026, as borrowing costs fell from 6.5-8% at the end of 2022 to 4.5% by the end of 2024, potentially dropping further to low 4% levels by 2025. This decrease is driven by a decline of 60 bps in long-term bond yields and narrowing lenders' margins from 290 bps to 150 bps, reflecting increased lender confidence in stabilized assets.

Positive yield spreads are expected for logistics and office sectors from 2025 and 2026, boosting investment demand in both sectors.

### Logistics: Construction cost rises to limit new supply from late 2025

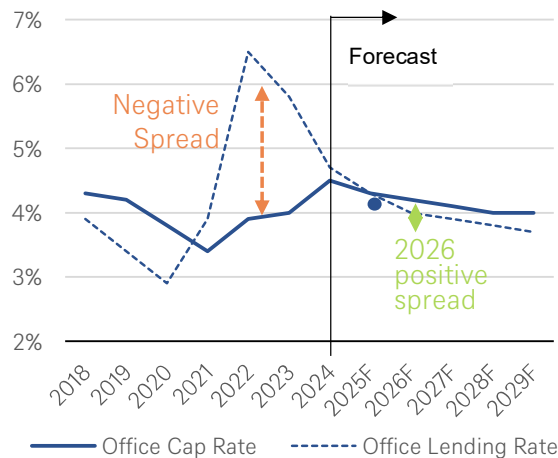
Surging financing and construction costs have become significant obstacles for logistics developments, pushing breakeven rents for new development projects 30-40% above current market rents. This is expected to limit new supply from the second half of 2025 onwards. If the logistics vacancy rate in Greater Seoul stabilizes from its elevated level of above 10% in 2024, strong rental growth beyond 2026 could materialise.

### Office: Healthy fundamentals with limited supply.

The Seoul office occupier market remained the world's most vibrant location, despite office vacancy rising modestly from around 2% in 2023 to 3.5% in Q3 2024. Leasing momentum has slightly softened due to companies relocating their headquarters to decentralized areas and reduced hiring by large corporations amid economic slowdown concerns.

However, rising construction costs and delays in construction plans are expected to limit future office supply until at least 2028, keeping vacancy rates tight in major office districts for the foreseeable future.

### Cap Rates and Lending Rates in Office Sector



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