B&I Capital

Asian Market Outlook

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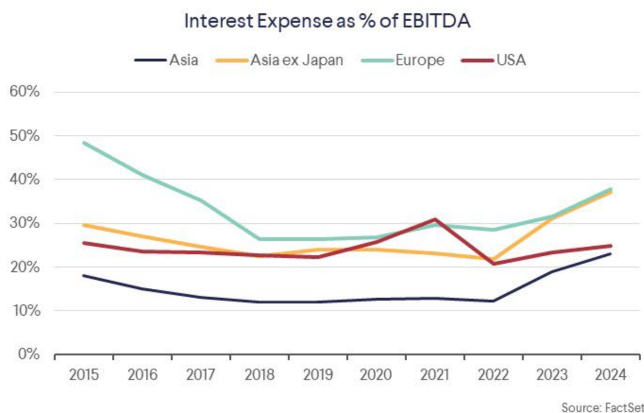
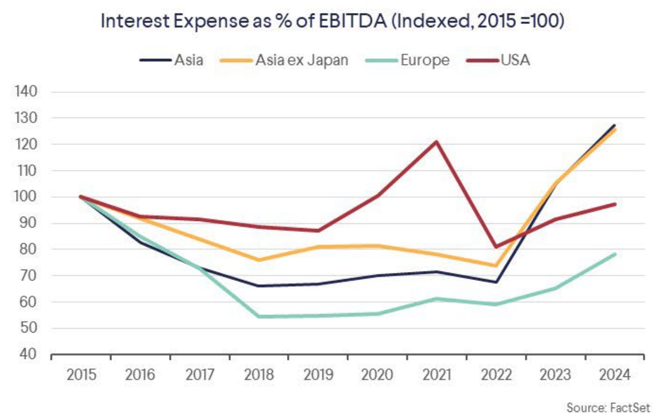
Market Outlook

March starts off with a well-anticipated trade war between the US and many of its allies and adversaries. While this is very unlikely to re-align manufacturing or significantly reduce the US economy's reliance on important goods and food, it is likely to slow global growth and not likely to lead to spiraling inflation; rather it may lead to lead to a one-off impact to prices followed by secondary effects which will likely reduce demand and prices. Asian countries do seem committed to free trade in their region and China's exports to the US only made up 2.9% of GDP in 2023, down from 3.5% in 2018 when the last trade war started, whereas China's overall exports have grown during that period and rose by 5.6% in 2024 showing that trade among other countries is still strong. While there is concern that Asian currencies will be negatively impacted by the US tariffs, during the last trade war initiated by Trump the USD actually weakened against the JPY, US rates fell, and REITs in Asia had a spectacular run in 2019 as lower growth trumped the inflationary concerns caused by the tariffs. Recent US data has been soft, and it is likely that confusion regarding trade policies will lead to lower investment by firms and delay large purchases by consumers. Of course, the situation is likely to remain fluid and geopolitical tensions (e.g., Ukraine-Russia) could support the USD in the short term so the situation is not entirely the same as in 2018-2019. Asian REITs saw interest costs rise by over 80% from 2022-2024 due to greater exposure to floating and shorter duration debt compared to US REITs, and this headwind is already turning into a tailwind as higher cost debt will mature in the coming years making refinancing a positive earnings contributor.





Japan

Although both JREITs and Developers have outperformed the Topix YTD, both types of RE securities remain significantly undervalued. We recently met with companies in Japan after results in mid-February and there is a consistent message regarding the positive outlook for rentals and asset prices. Rising construction costs that we have mentioned several times will constrain future supply of all types of real estate and we expect to see overall office vacancy continue to drop to low levels and rent to continue to climb. January set a record for tourist arrivals at 3.7m as Chinese tourists became the biggest visitors for the first time since the start of Covid. If we simply seasonally adjust those numbers, then total tourist arrivals would hit 50m vs. the current forecast of 40m. With Expo launching soon in Osaka, we expect continued solid RevPAR growth for the hotels given limited new supply. We remain optimistic on Hotel REITs that just reported solid numbers. The JREIT sector was helped by the announcement of two TOBs to acquire large positions in both NTT UD REIT and Hankyu Hanshin REIT at a premium to prevailing

prices. It should be noted that these are purchases of less than 15% and the buyer has indicated that these are purely for investment and will not be making proposals to management. This has helped smaller JREITs as many investors speculate on which JREIT will be next. While we see this as a positive, it is not quite a game changer. JREITs and RE securities have struggled despite a robust outlook for transactions, twenty six unit buybacks since the start of 2024, and strong rental growth due to uncertainty regarding when the BOJ will end its tightening cycle. We are of the view that global growth will moderate due to tariff uncertainty, as mentioned above, and this could influence BOJ policy especially if the JPY were to continue to strengthen against the USD.

Australia

Results and guidance met expectations with few notable exceptions. Goodman Group slumped after announcing no change to guidance and an AUD 4bn capital raise. Combine this with concern regarding hyperscaler Data Center capex, and the name has lost approximately 11% YTD after being the largest contributor to the sector gain last year. Scentre Group (SCG) also lost its YTD gain post results which were strong due to lower than consensus guidance. We believe that SCG is being conservative in their guidance and we continue to like malls due to limited new supply going forward and strong tenant retention and positive reversions due to strong sales. In addition, SCG can buy back its hybrid debt which will be earnings accretive. We see the next catalyst to be an asset disposal into a JV as the sector's attractiveness is noticeably clear and believe capital partners will start to allocate as all indications point to lower rates in Australia. The decline in the AREIT sector appears overdone given lower short-term rates and longer-term bond rates. The sector dropped approximately 7% from its mid-February YTD peak and erased its 6.2% gain and is now down 1.6% YTD. While we are more optimistic on other markets in Asia now, we do think the overreaction in the AREITs to results and guidance seems an opportunity given that results and guidance were mostly in line with analyst estimates (as mentioned above).

Hong Kong and Singapore

Hong Kong has had a strong recovery in the equity market as Chinese economic policy shifts toward higher growth and support for the high-tech sector has led to a strong stock market. This has led to strong southbound flows in the HK stock market which is an overall positive for sentiment. A pickup in IPO activity and trading volumes has traditionally led to an increase in office demand in Hong Kong and should also help consumption. We are not bullish on the office sector but there is some evidence of stabilization. The HK budget announcement was somewhat of a non-event, but we are hopeful the HK Stock Connect with the mainland will soon include REITs which would be a positive for large cap Link REIT, and small cap Fortune REIT. Both offer attractive yields (7-8%) and will benefit from lower HIBOR rates. These yields, which are higher than the CREIT sector, combined with the expectation of a weakening Chinese currency versus the HKD should attract southbound flows into both names when the Stock Connect goes live in the near future. Hong Kong could also benefit more than other markets from a falling USD and lower rates which would reduce sales leakage to Tokyo and Shenzhen and further lower interest expenses.

The Singapore REIT sector continues to struggle despite slightly lower interest rates as DPU guidance remains soft in most sectors. We remain extremely selective favoring Data Center names, Suburban Retail, and Healthcare REITs which have more idiosyncratic catalysts. The

sector has traditionally benefitted from rotational buying in the large caps when the outlook for rates is lower as investors switch out of large cap banking stocks.

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