savills

GLOBAL CAPITAL MARKETS

ASIA PACIFIC | Q2 2026

RESEARCH

GLOBAL SUMMARY

CONFLICTING OPPORTUNITIES

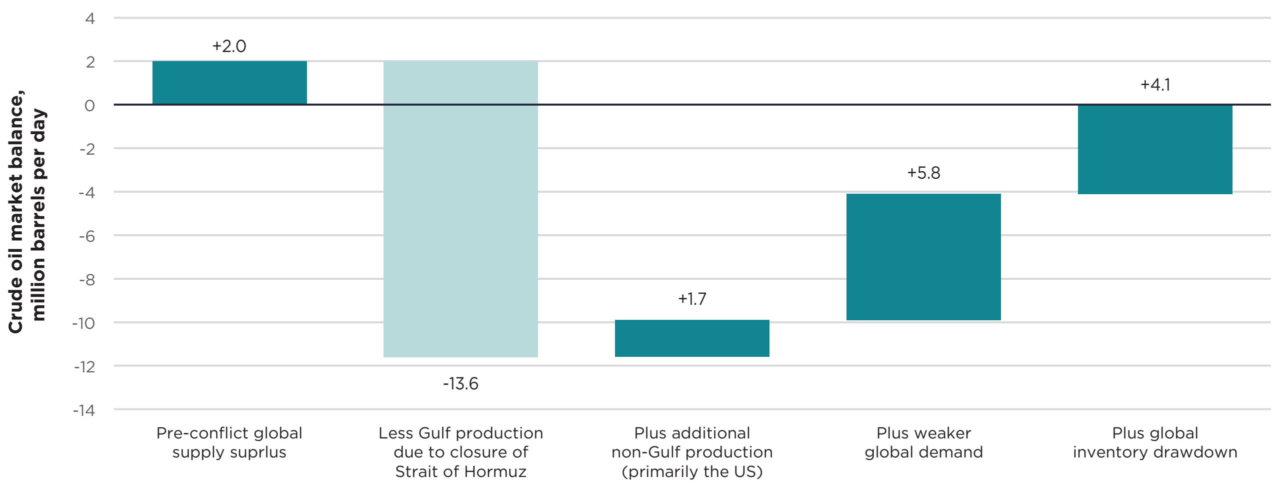
OLIVER SALMON
Director, World Research

As the year unfolds, conflict is becoming a defining global theme. Whether in trade, technology or geopolitics, competition and confrontation are increasingly shaping the economic outlook.

Beginning in Iran, hostilities resumed in July following a brief respite, sending energy prices sharply higher in the process. The global economy has so far proven resilient to what Fatih Birol, head of the International Energy Agency, described as the "biggest energy security threat in history". This resilience reflects weaker energy demand, particularly across Asia Pacific, as well as a substantial drawdown in global inventories, helping to keep the market broadly balanced.

However, reserves have fallen sharply, with inventories held by OECD nations reaching their lowest level since 1990, even before the recent US-Iran framework agreement. This places renewed focus on the duration of the conflict, as the oil market's ability to absorb disruption will diminish over time. The likely result is greater price volatility (even if we get a new deal), with implications extending well beyond energy markets through inflation, consumer and business sentiment, and the fiscal and monetary policy outlook.

GLOBAL OIL MARKET RESPONSE TO IRAN CONFLICT

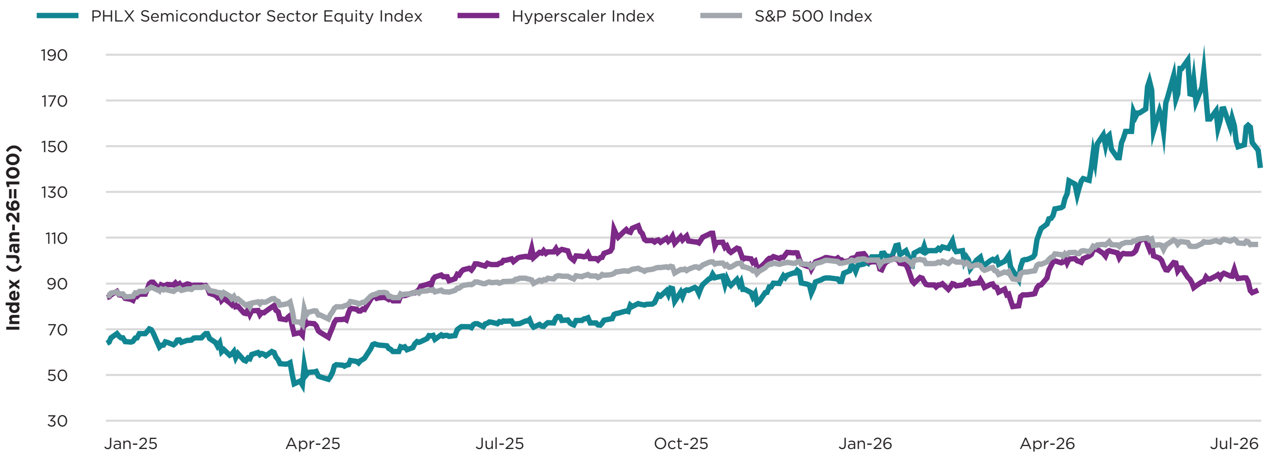


Source: Savills research using IMF. Based on comparison of market conditions in March-May 2026 period vs. January-February 2026.

While the conflict in Iran represents a clear headwind to the global economy, the risks surrounding AI are more balanced. AI remains firmly in a 'build-out' phase, with global hyperscalers competing aggressively for first-mover advantage. This race for technological leadership has already become a significant demand-side tailwind for global growth. The US sits at the centre of this trend, but China is not far behind, while other economies—particularly across East Asia—are benefitting through supply-chain exposure to a seemingly insatiable demand for semiconductors. The gains, however, are unevenly distributed, with other locations currently less exposed to the AI ecosystem and therefore capturing fewer benefits.

At the same time, the AI boom is creating growing concentration risks. Economic growth, corporate investment and equity market performance are becoming increasingly dependent on a small group of technology companies, while AI-related sectors continue to dominate stock market returns.
The sustainability of this trend ultimately depends on whether AI can deliver meaningful productivity gains and whether firms can generate sufficient revenues to justify unprecedented levels of investment. While adoption is occurring faster than in previous technological revolutions, evidence of widespread productivity gains remains limited. Any disappointment in productivity, earnings or growth expectations could prompt a reassessment of valuations, reduce investment and tighten financial conditions, particularly as higher interest rates raise the cost of capital.

US EQUITY MARKETS



Source: Savills research using Macrobond. 'Hyperscaler Index' based on equally-weighted index of Microsoft, Amazon, Alphabet, Meta and Oracle.

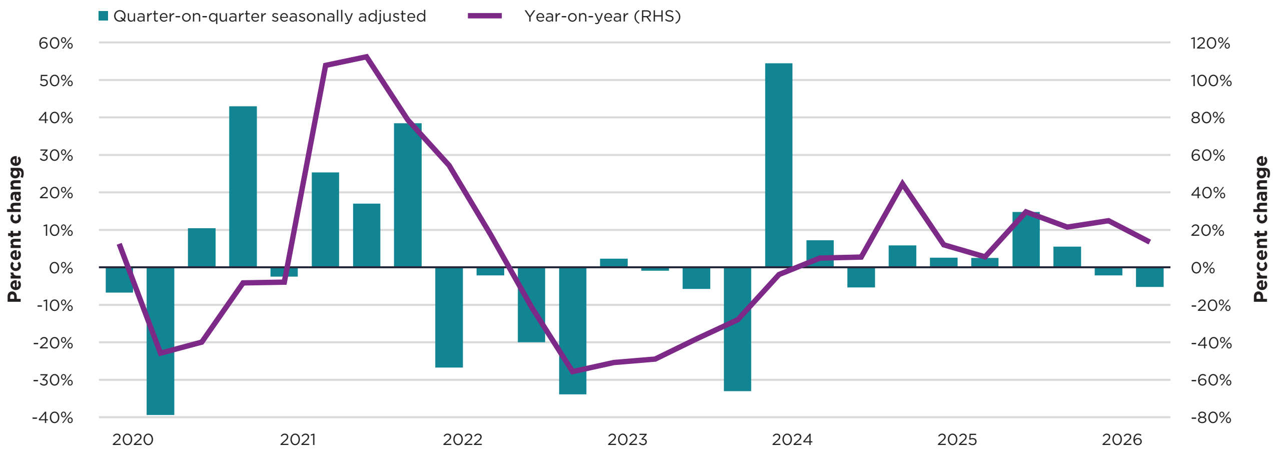
Finally, trade wars are back in the spotlight. US President Donald Trump has announced a new round of broad-based tariffs, using legislation originally designed to combat the use of forced labour. Levies of 10–12.5% have been applied to most US trading partners, replacing temporary rates that were due to expire after 150 days. The move represents the latest legal manoeuvre by the administration following the Supreme Court's decision to strike down the Liberation Day tariffs over the misuse of emergency powers earlier this year.

Tariffs have done little to reduce the US trade deficit or revive domestic manufacturing. However, they have become an important source of government revenue, helping to offset some of the fiscal costs associated with the One Big Beautiful Bill. As a result, while the latest measures do not materially alter the status quo, they signal a continued willingness by the administration to maintain—and potentially increase—tariff rates. Meanwhile, Europe is beginning to face a 'China Shock 2.0', as a wave of competitively priced Chinese exports puts pressure on domestic manufacturers. If met with additional trade barriers, this could become the catalyst for a much broader and more entrenched global trade war.

Against this backdrop, global real estate capital markets continue to display notable resilience. Sequential, seasonally adjusted investment growth fell into negative territory in early 2026, reflecting a deterioration in sentiment linked to the conflict in Iran. Yet the disruption has been relatively modest given the scale of the potential economic spillovers, and the broader trend remains positive. Global investment of approximately US$250bn in Q2 was 13% higher y/y. In addition, pending deals data—transactions under contract but not yet completed—points to an active pipeline entering the second half of the year, supporting our forecast for a 16% increase in global investment activity in the full year 2026.

Market activity is being supported by larger single-asset transactions and increased portfolio and M&A activity. This is somewhat counterintuitive in an environment characterised by elevated uncertainty and volatility, but it reflects a growing level of conviction in both market pricing and underlying fundamentals. Deal execution periods have lengthened, yet transactions are still progressing, while substantial pools of capital remain available despite a challenging fundraising environment. More fundamentally, the rebasing in activity that followed the rate-driven downturn of 2022–23 has left behind a more committed investor base that is willing and able to transact through the cycle.

GLOBAL REAL ESTATE INVESTMENT



Source: Savills research using MSCI RCA and Macrobond. Excludes development sites. Based on fixed exchange rates.

Ultimately, current macroeconomic conditions do not support indiscriminate risk-taking. Global growth remains positive, but not strong enough to drive a broad-based acceleration in leasing activity. Inflation risks remain skewed to the upside, keeping interest rates elevated, while geopolitical tensions are likely to remain a persistent source of volatility. The same is true of the financial risks associated with the AI build-out.

The key takeaway is that this is not a market devoid of opportunity, but one that places a greater premium on selectivity, conviction and a clear understanding of fundamentals as the anchor for income growth.

The fundamentals manifest in very different ways across sectors. Within the 'old economy' sectors, scarcity remains a major driver of opportunity, with location increasingly determining asset quality. Development activity across many retail and office markets has fallen sharply in recent years, creating pockets of value where occupiers compete aggressively for the best space.

In the 'new economy' sectors, by contrast, investors are focused more heavily on demand-side dynamics, supported by conviction in long-term structural growth drivers, whether demographic change or the rapid proliferation of new technologies. Investors are also widening their geographic search for value, meaning that while markets are becoming more selective, they are simultaneously broadening in scope.

Amid the noise, the foundations for the next phase of the cycle are being laid, leaving the market on a much healthier footing in the years ahead.

MARKET VIEW

RASHEED HASSAN
Managing Director, Global Capital Markets
shares his view on the market

The overriding theme for this last quarter is one of slight surprise. Since Covid-19, we've spoken often about the resilience of markets. However, that doesn't mean we haven't had 'buyer strikes' and periods of fast moving price falls, particularly after the Russian invasion of Ukraine and the resultant inflation shock and interest rate hikes.

However, overall, Q2 surprised on the upside. The implications of the situation in Iran are not local and the conflict has proven not to be the short, sharp process we were hoping for. Just before the war, oil was trading at c.$70 a barrel. It peaked at over $125, and although by the end of Q2 it was basically back down to where we started (note it has had some significant swings since), the conflict is not over and the World can see there is no simple and lasting resolution to pursue.

Beyond the oil price, the S&P500 was up to 7,500, up over c.7% from pre-war levels and almost 20% from its March low, in the early part of the conflict. Other markets have not had quite the same performance, but globally equity markets have shown strong recovery.

For real estate markets, the key benchmark is not the oil price, nor the equity indices. While these influence sentiment, the relevant risk free rate for government bonds is the measure against which yields/cap rates are compared. The most global metric is, of course, the 10 year US treasury yield. As at the end of Q2 this was up broadly 25bps on the start of the year. Given the macro situation, this doesn't feel dramatic.

When we look at benchmark real estate yields across the key markets and sectors globally, we haven't seen a uniform outward adjustment. Yields have broadly remained flat. I put this down to two things; the first is underlying rental growth/market dynamics, and the second is the low availability of assets to acquire.

To the first point, despite the resilience we speak of, the latest black swan event has knocked confidence again and reconfirmed that we live in a world of semi-permacrisis. The confidence knock affects the courage to develop new assets. Rising risk free rates and the prospect of interest rate rises, or at the very least the deferral of reductions, means aggressive exit underwriting is hard. The result is fewer development starts and those that do, need higher rents to be viable. Fewer starts means less stock availability, which means rising rents for existing assets too. Rising rents means investors can counter any increase in financing costs and exit yields in their underwriting.

The second point has been a feature of the market since 2022. Owners have been waiting for a 'better day' to sell, hoping for interest rates to fall and yields to follow.

As the wait continues, rents have been rising, which is helping asset values, as well as the justification to keep holding. The reduced flow of assets means that when something does become available it gets a greater amount of attention than it might otherwise get in a more liquid market.

Those investors that have equity to deploy and a conviction that now is the right time to enter, therefore have limited choices. Additionally, with a lack of new development, there are simply fewer examples of the very best brand new assets being created. Therefore, if one is released to the market, buyers that want the best don't have the luxury of waiting for another one to come along. This puts some of the power back with the vendor. All of this talks to price and is helping markets to withstand the broader turbulence.

This quarter has shown us that investors are trying to find ways to bid through the today and underwrite a better tomorrow, and we are seeing the effects of this in the numbers. For some, returning to my first point, this might be a surprise.

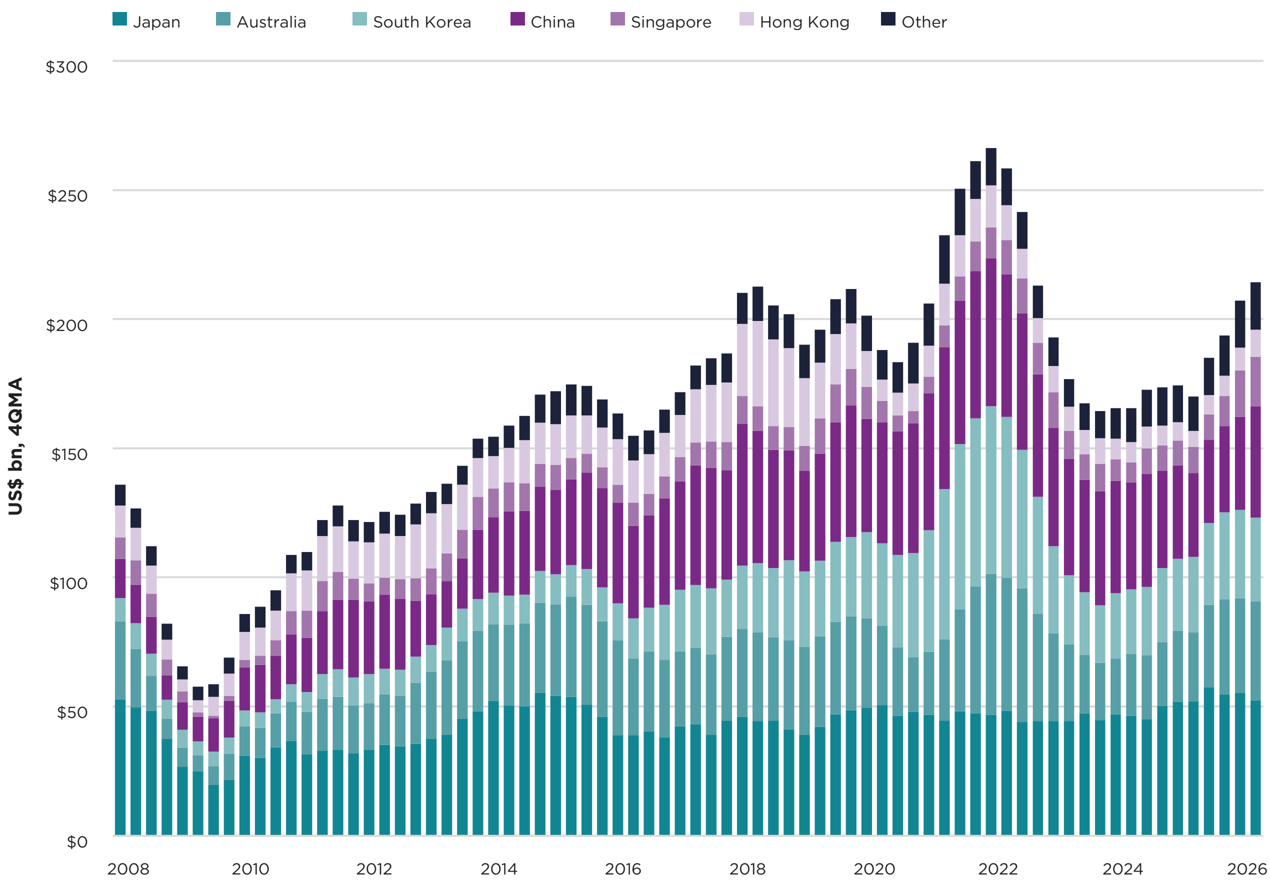
A RECOVERY LED BY SCALE AND SELECTIVITY

NICHOLAS WILSON
Senior Director, Strategic Research & Advisory, Asia Pacific Capital Markets

Total investment turnover in the APAC region reached US$46bn in Q2 2026, up 18% y/y and bringing first half turnover growth to 25%. This recovery, though, is far from broad-based, with Mainland China (+140%) and Hong Kong SAR (+120%) supporting most of the improvement, albeit with activity levels coming off a low base.

Other markets like Australia (+24%) and Singapore (+49%) also showed a meaningful improvement, as large mega-deals drove activity higher. But South Korea (-22%) and Japan (-27%) were a drag on overall momentum, with early signs of a potential bid-ask spread in Japan starting to gather momentum.

APAC REAL ESTATE INVESTMENT



Source: Savills research using MSCI RCA. Excludes development sites.

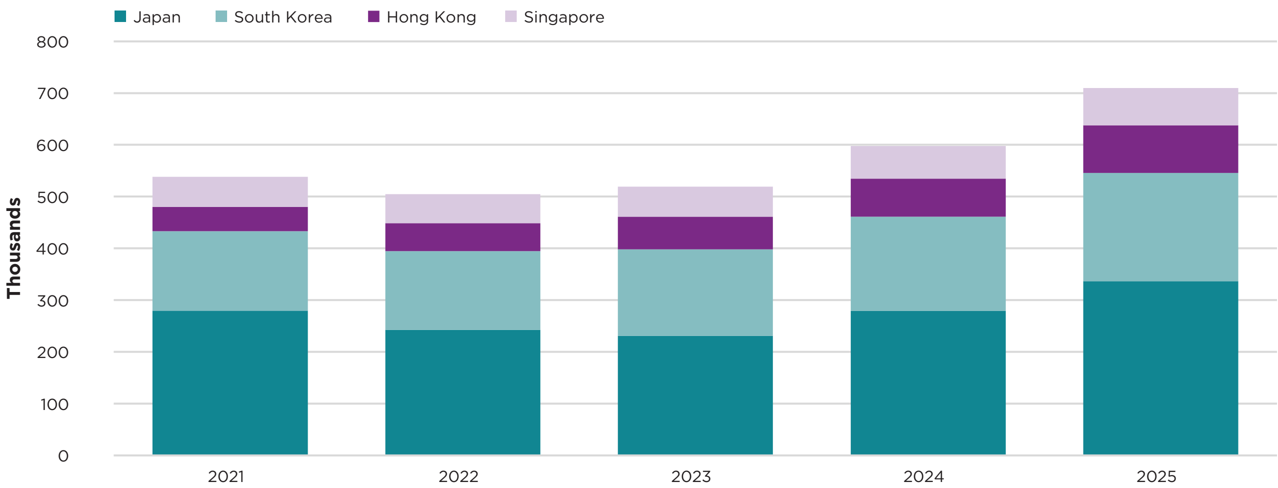
Cross-border investors remain strong net buyers of APAC real estate, accounting for 35% of acquisitions in the first half, up from 28% last year. Activity has been supported by a wave of large transactions, particularly in Singapore, while the investment pipeline continues to build as more large assets and portfolios come to market. Structural trends are also supporting activity despite weaker investor confidence following renewed conflict in the Middle East, with partial stake transactions reaching record levels as investors pursue partner buyouts, minority stake sales and recapitalisations of existing club structures.

Joint Venture (JV) activity has also been a prominent theme of late. To some extent, fundraising has been shifting away from pooled private vehicles, towards more targeted clubs/JV platforms. This is particularly noticeable in large scale living sector developments in Australia, portfolio transactions backed by insurance capital in China, buyouts of corporate held real estate in Japan, and regionwide data centre platform acquisitions.

APAC living sector investment activity softened further in Q2 2026, making the sector a key outlier on trading momentum. But this is largely a result of weaker flows coming from Japan, with turnover down 38% y/y in the quarter. What is not reflected in these figures, however, is a growing number of development deals linked to living sectors, as well as some of the entity-level deals currently under contract.

There is momentum growing in the PBSA sub-sector across the region, as rising international student numbers support the buildout of institutional platforms. Hong Kong has seen a wave of hotel and office acquisitions for the purpose of conversion to student housing. During the quarter, Centaline group closed its acquisition of the Regal Oriental Hotel for US$194m, with plans to convert the hotel into 1,568 student beds. Elsewhere, Warburg Pincus has made a US$1.2bn tender for JSB, Japan's largest student housing operator, and Holdmark Property in conjunction with Western Sydney University is repurposing an office building into a student housing facility with upwards of 600 beds.

APAC INTERNATIONAL STUDENT NUMBERS



Source: Savills research using Japan Student Services Organization (JASSO)/Study in South Korea, and Hong Kong Education Bureau. Singapore data estimated using Ministry of Education and university annual reports.

While activity in Japan has slowed, there has been more movement on the operator level in recent months. Both Dash and Weave Living have undertaken acquisitions this year, with the latter entering into a JV with BGO to acquire a 10-property portfolio. Investors and capital partners are increasingly now sitting behind the operating platforms as a differentiator both in terms of operating capability and for pipeline expansion.

Institutional capital in South Korea continues to build, with Bouwinvest and APG committing US$300m to a living sector fund managed by Tishman Speyer. There is also some pipeline of stabilised assets in the market, with ICG putting a four-asset operating portfolio in play, while KKR is reportedly looking to recycle out of its three asset living portfolio totalling 376 units.

The market for forward funded deals in Australia is also heating up, in part due to the higher return premiums available. Kio Investment Management, backed by Warburg Pincus, has forward funded a UEM Sunrise BTR project in Melbourne, with completion expected in 2027. Further, the LIV Mirvac Fund has agreed to forward fund Mirvac's 188 unit build-to-rent development in Crows Nest, Sydney, with the completed asset to be seeded into the fund upon completion.

Investment activity across the industrial and logistics sectors has continued along a recovery path, with Q2 2026 investment rising 17% y/y, and first half turnover up 28%. Gains were mixed across the region, but strong momentum remains evident across Australia, Mainland China, Singapore and Taiwan, China. Surprisingly, the semiconductor boom in South Korea has failed to deliver broader industrial sector depth, with Japan also experiencing a reversal in investment activity in the second quarter, similar to other sectors.

Manufacturing activity remains largely expansionary across the region, with the exception of Mainland China. The regional manufacturing cycle though is increasingly being driven by AI and semiconductor capital spending, rather than a broad based pick up in goods demand. Export volumes remain stronger than expected, particularly in South Korea, Taiwan and Mainland China.

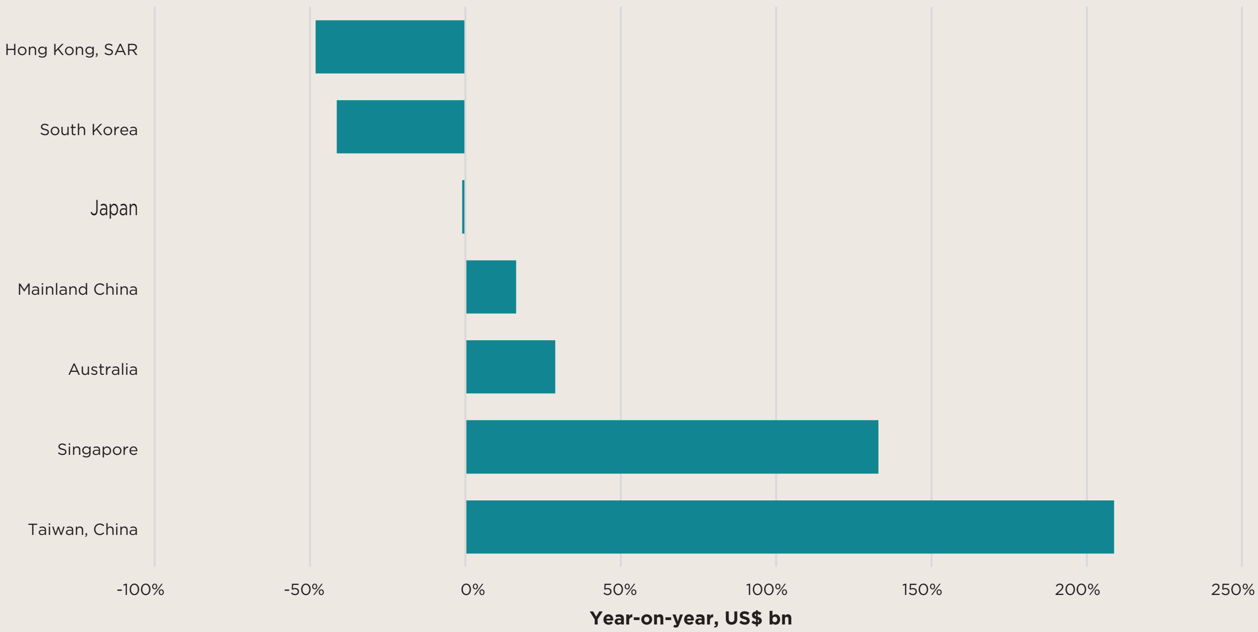
But to some extent, the AI/chip boom is creating a two-tier export market, and it remains a narrow channel to try to get real estate exposure to. Much of the memory chip production in South Korea, for example, is highly capital intensive but not heavily warehouse intensive. The broader industrial and logistics markets are therefore seeing more muted operating fundamentals, with pockets of oversupply in South Korea, Japan and China.

Still, sentiment across the sector is broadly positive, despite the imposition of multiple shocks around energy and trade in recent years. The on-again, off-again conflict in the Middle East has been unhelpful for a sector that relies heavily on goods exports and energy imports, but these challenges have been navigated well and activity as highlighted earlier is building.

Australia has been the region's most active industrial market this year, driven by a combination of portfolio transactions, recapitalisations and partial stake sales. Goodman consolidated its long standing industrial JVs through the acquisition of Brickworks' interests, while Stockland expanded its capital partnership with M&G Real Estate and Goodman continued to recycle mature assets to Aliro.

Together, these transactions highlight how developers are increasingly using capital partnerships and asset recycling to fund the next phase of industrial development.

APAC INDUSTRIAL INVESTMENT H1 2026

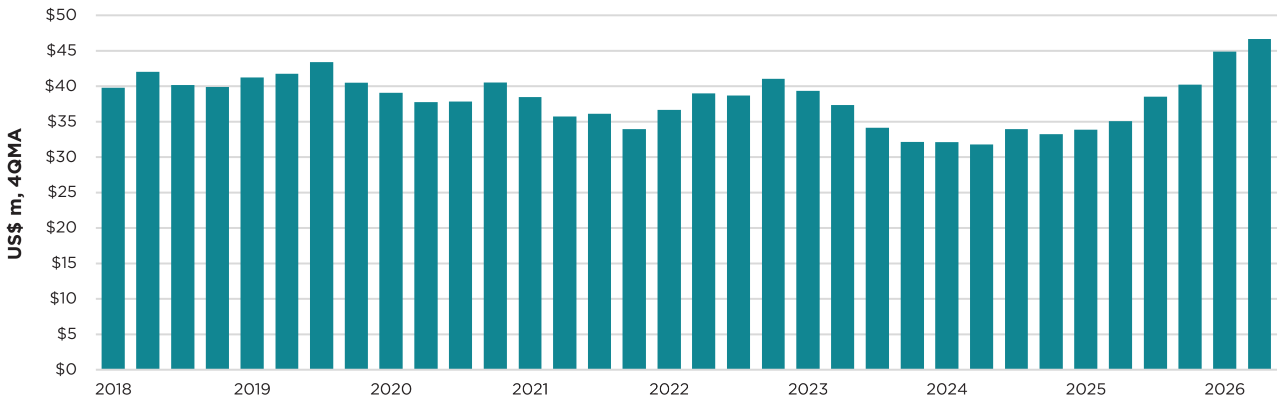


Source: Savills research using MSCI RCA

In South Korea, cross-border capital has become more constructive, as interest is redirected from the office sector towards the logistics market. Starwood, Blackstone, Hines and Phoenix have all closed deals in Q2 2026, but fewer portfolio deals in the market is limiting the scale of investment. Taiwan has seen a notable boost in activity, driven by technology firms and other corporates linked to the semiconductor boom. Micron technology acquired a chip fabrication site for US$1.8bn, which is driving the gains, but a string of other acquisitions by electronics companies have also supported turnover.

Office investment across APAC has now recorded eight consecutive quarters of annual growth, with turnover rising 8% in Q2 2026. Transaction numbers have grown more slowly, however, indicating that average deal sizes continue to increase as investors concentrate on larger core assets. The recovery has been led by a sharp pickup in mega deals above US$500m, which more than doubled in the first half and has supported activity across South Korea, Japan and Singapore, with early signs that large scale transactions are returning to China.

APAC AVERAGE OFFICE TRANSACTION SIZE



Source: Savills research using MSCI RCA

These larger deals in South Korea are being led by cross-border sellers, which have accounted for 35% of selling activity in office assets over US$250m. Brookfield completed a US$2.5bn recapitalisation of IFC Seoul through a continuation fund rather than an outright disposal, allowing existing investors to exit while introducing new institutional capital.

In Hong Kong, corporates continue to be an active stabiliser, accounting for over 40% of turnover so far this year. JD.com acquired CCB Tower for around US$893m, one of the largest owner-occupier office purchases in Hong Kong in recent years, and follows a spate of transactions where occupiers are securing their office space at the newly discounted prices. This, along with opportunistic capital acquiring distressed assets from receivers, has pushed office investment up 70% this year, albeit off a very low base.

In Australia, good quality assets with better income protection characteristics are trading, but some of the lower grade stock continues to struggle on the market. Sydney and Brisbane are both trading actively, with Melbourne lagging. The opportunity though is there for those investors with a 'through the cycle' view. The repricing has pushed cap rates higher, and the supply pipeline is at record lows.

Operating fundamentals will improve from here, and there are a number of large assets entering the market over the coming months. Centuria recently acquired a 50% stake in Brookfield's 680 George Street, a 62,096 sqm asset for AU$454m (AU$908m for 100% value).

Singapore remains the region's primary market for core office deals this year, as lower funding costs and strong operating fundamentals drive activity. The investment pipeline also remains strong, with Khazanah and Temasek reportedly selecting their preferred bidder for the Marina One asset, at a valuation of around US$4.4bn.

Japan has similarly benefited from improving leasing fundamentals and accelerating rental growth over the past year, but investment is starting to concentrate towards the capital city. Tokyo has accounted for 83% of turnover this year, its highest share in over a decade. The cross-border share is tracking at over 40% so far this year, which if sustained, would be a new record. But activity across the broader market is beginning to slow as investors weigh strong near term income growth against the prospect of higher exit cap rates. Investors are becoming increasingly selective, with leasing momentum and asset quality taking precedence over yield alone.

PRIME APAC YIELDS, Q2 2026 (AS AT END OF JUNE)

Sector	City	Prime net initial yield	Outlook for yields, next 12 months	Typical LTV	Total cost of debt	Cash-on-cash yield	Risk premium
Logistics	Tokyo	3.30%	No change	60%	2.1%	5.1%	0.7%
Logistics	Hong Kong	4.10%	No change	40%	5.0%	3.5%	0.9%
Logistics	Sydney	5.00%	No change	50%	6.5%	5.0%	0.3%
Logistics	Seoul Metro Area	5.30%	Up	60%	5.5%	5.0%	1.2%
Logistics	Shanghai	5.50%	Up	50%	3.7%	7.3%	3.8%
Logistics	Singapore	6.50%	No change	55%	2.2%	11.7%	4.5%
Multifamily	Tokyo	3.30%	No change	60%	2.1%	5.1%	0.7%
Multifamily	Sydney	4.13%	No change	55%	6.5%	1.2%	-0.6%
Multifamily	Melbourne	4.25%	No change	55%	6.5%	1.5%	-0.5%
Student	Sydney	4.75%	No change	55%	6.5%	2.6%	0.0%
Student	Melbourne	5.25%	No change	55%	6.5%	3.7%	0.5%
Office	Hong Kong (CBD)	2.03%	No change	40%	5.0%	0.0%	-1.2%
Office	Tokyo	2.60%	No change	60%	2.1%	3.4%	0.0%
Office	Singapore	3.75%	No change	55%	2.2%	5.6%	1.7%
Office	Seoul	4.15%	No change	60%	5.3%	2.5%	0.1%
Office	Shanghai (Lujiazui)	5.25%	Up	50%	3.5%	7.0%	3.5%
Office	Sydney	6.00%	No change	50%	6.6%	6.0%	1.3%
Office	Mumbai	8.25%	Up	60%	9.5%	6.4%	1.5%

Source: Savills Research and Macrobond

Note: yields may be different to quoted values in markets where the convention is to use a gross rather than net value. Logistics yield in Singapore reflects the domestic land tenure system, where the longest lease for new industrial properties is 30 years. Values based on end-of-quarter data. See Methodology for details.

NATIONAL STORAGE PRIVATISATION, AUSTRALIA

Sector: Self-Storage

Tenant: Amazon, Coles, Australia Post and others

Lease length (WAULT): Undisclosed

Area: 14m sqft (1.3m sqm)

Price/NIY: AU$6.7bn (US$4.8bn) / Undisclosed

Vendor: National Storage REIT

Vendor nationality: Australia

Purchaser: Brookfield JV GIC

Purchaser nationality: Canada and Singapore

Other comments:
The acquisition of Australia's largest self-storage provider marks the biggest ever take-private of an ASX-listed REIT, at a 26.5% premium to its undisturbed share price. The transaction provides the purchasers with exposure to a portfolio of 290 storage facilities across Australia and New Zealand.

PARAGON MALL, SINGAPORE

Sector: Retail

Tenant: Multiple including CS Fresh Gold, Marks & Spencer, Gucci

Lease length (WAULT): Undisclosed

Area: 707,000 sqft (66,000 sqm)

Price/NIY: SG$3.9bn (US$3bn) / 3.9%

Vendor: Cuscaden Peak

Vendor nationality: Singapore

Purchaser: CapitaLand

Purchaser nationality: Singapore

Other comments:
A rare trade of a prime freehold Orchard Road trophy asset, the deal followed Cuscaden Peak's privatisation of Paragon REIT in 2025, and represents one of the largest Singapore real estate transactions of 2026. CapitaLand previously announced that it would partially fund the deal by selling its full interest in Asia Square Tower 2, a prime office asset, for SG$2.5bn to IOI Properties.

METHODOLOGY

Net initial yields are estimated by local Savills experts to represent the achievable yield, including transaction and non-recoverable costs, on a fully let hypothetical grade A asset; for logistics, this is a big-box facility located in a prime location, let to a single good profile tenant on a 10–15-year open-market lease, for office, it is a building a located in the CBD of over 50,000 sqft in size, and for living, it is an asset of institutional scale in a prime location. The typical LTV and cost of debt represent the anticipated lending terms available in each market. Cash-on-cash returns illustrate the initial yield on equity, assuming the aforementioned LTV and debt costs. The risk premium is calculated by subtracting the end-of-period domestic 10-year government bond yield (as a proxy for the relevant risk-free rate of return) from the net initial yield. Yields may be different to quoted values in markets where the convention is to use a gross rather than net value. Data is end-of-quarter values.

Savills Research

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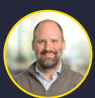

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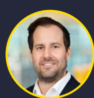

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