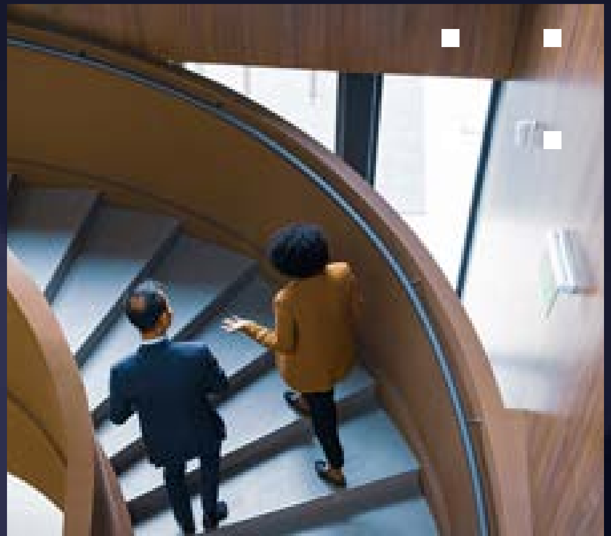
Savills Takes Stock

Global Capital Markets Q1 2025



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Savills Takes Stock: Q1 2025

Global outlook

Oliver Salmon

Director, World Research

Taxing times as global economic outlook deteriorates

The current global economy as we know it can be divided into two states of being; pre- and post-'Liberation Day'. In the first, growth was steady, if unspectacular, as falling inflation and robust labour markets supported rising household real incomes, creating a virtuous cycle in activity. In the second, volatility and uncertainty are the prevailing characteristics, following a series of tariff announcements from the US Administration, disrupting a status quo that has persisted for the last 80+ years.

The extent of the economic impact remains highly uncertain, not least because the tariffs are changing on an almost daily basis. The IMF expects a hit to global economic growth of around 0.5%, incorporating tariff announcements up to mid-April (and so not including the deal with China), with the US economy seeing the most significant damage. But the initial hit to sentiment data could lead to a more severe downturn. In the US, for example, consumer confidence has fallen sharply since the tariffs were first announced.

What we do know is that President Trump has now blinked several times due to various external pressures, first providing a 90-day reprieve to most trade partners from his 'reciprocal tariffs', and then exempting some consumer electronics and automobiles from the most punitive of duties. This would indicate that he does indeed have a pain threshold, which should rule out the most extreme downside scenarios. But tariffs are also ideological to the President, which means that while he remains in power, they are here to stay. Even with a temporary deal with China, the average US import tariff has risen from 2.5% at the end of 2024 to nearly 18%, according to the Budget Lab at Yale. So we are not returning to the pre-Liberation Day steady state either.

Until there is some clarity over where we land in the wider spectrum of possible scenarios, a period of caution will grip global real estate capital markets.

> "Discretionary vendors have a tried and tested gameplan from recent years: sit tight and wait for better times ahead"

Real estate is a GDP-linked asset class, so it stands to reason that many investors would prefer to sit on their hands, and their cash, rather than deploy into this economic environment.

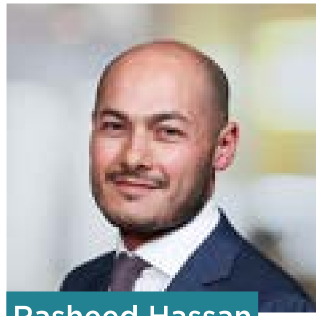
Ultimately, weaker global growth will feed into the outlook for occupational demand and rents across all sectors. Investors underwriting new deals will need to consider the impact on their tenants. This will impact expected returns, and therefore yields may need to rise. But real estate is not a liquid market, and with few motivated sellers to support turnover and price discovery, discretionary vendors have a tried and tested gameplan from recent years: sit tight and wait for better times ahead. In the interim, expect more deliberation over the prevailing 'bid-ask' spread.

This comes at an inopportune moment for the real estate market, after finally showing signs of emerging from a two-year period of malaise, underpinned by a surge in global interest rates. Global real estate investment rose by nearly 20% in the second half of last year, compared with the with same period in 2023. The first quarter of this year, while not quite hitting the same heights, was encouraging in other ways, for example, there was continued growth in the market share of domestic institutional and cross border investors.

There may be some solace for investors, in the form of lower interest rates and less development. Outside of the US, where monetary policy is conflicted by the dual mandate of full employment and price stability, this is a deflationary demand shock. The major global central banks are expected to cut interest rates at a faster pace than in the pre-Liberation Day world. This could provide a mechanical boost to risk premiums and negate the need for any further yield adjustment. Meanwhile, if it is a risky environment in which to acquire a stabilised asset, then it is even riskier to break ground on speculative development. Scarce assets, with natural-monopoly characteristics in their location, or high quality of amenities, will be well placed to outperform. As the proverb goes, 'fortune favours the brave'.

Savills Takes Stock: Q1 2025

Market view



Rasheed Hassan

Head of Global Cross Border Investment
shares his view on the market

Are we on or are we off?
We remain in a start-stop market, struggling to recover the momentum we had pre-interest rate hikes. However, despite the various macro challenges, I believe that we are currently more 'on' than 'off'.

Unsurprisingly, 'Liberation Day' has been unhelpful and provided further justification for caution and procrastination, as well as driving some opportunistic, albeit largely unsuccessful, attempts at price adjustments.

Despite this, the market is being supported by rental growth, the falling cost of debt, and a dearth of truly actionable transactions. Pricing is improving for the best assets, and not just in the darling sectors.

In some cases where owners haven't liked pricing holding firm has borne fruit and buyers have come to them. Where this hasn't been the case, the debt market is offering better than expected pricing in many instances, providing motivation to extend hold periods in the hope of better bids in the next 12-24 months.

There's definitely a market out there, and I'm pleased to say that it feels like it's growing. Transaction volumes may not be showing positive growth in all areas, but the breadth of opportunities that investors will consider is certainly improving in terms of sector, geography and risk profile.

There is no let-up in the appetite for 'beds' of all types. The test for investors, however, is their willingness to underwrite the necessary rental growth and exit pricing to be competitive. Industrial and logistics, for the first time in a long time, has shown some signs of vulnerability. But this doesn't seem to be turning investors away. Instead, they are approaching the sector with a little more discernment. Office demand is strengthening, even in the US where it feels like things are finally turning a corner. Yes...US offices. We are also witnessing a similar story in retail.

In recent years, the combined impacts of rising inflation, higher interest rates, falling property prices and Covid-19 (working from home and increased online shopping) have underpinned a major slowdown in development activity, either because of a lack of confidence or financial viability, or both. The resultant positive impact on rents is providing investors with the necessary assurances to both buy standing assets and re-start developments.

Rents are now growing at such a rate that it's increasingly difficult to use initial yields as the benchmark for comparison. Instead, the 'stabilised' yield is the metric that investors with conviction to buy are scrutinising.

The credit opportunity remains one of the biggest competitors for more equity into real estate. Many investors are being presented with returns that seem more compelling, on a risk-adjusted basis, than those available in the equity. If the interest rate trajectory remains downward (perhaps with the current exception of the US and Japan) and occupational markets hold up, then this narrative will continue to tilt towards the equity. However, the size of the current market opportunity also favours credit. Lenders like new transactions with greater clarity on market values, but they can also participate in refinancing, which the equity can't.

The fall in transaction volumes does not mean there is less real estate, just less of it changing hands. The growing book of pent-up stock not being sold will be a test for the market. Right now, this is holding back fundraising as equity needs to be released to reinvest and/or investors would like to see some round trips on existing commitments before investing more. Time will tell how this story plays out.

Will market dynamics continue improving to support more selling at improved pricing? Will there be enough capital to absorb the volume and keep prices elevated? Will we see more IPO attempts to help liquidity? Though there are still plenty of questions and an absence of clear answers, for now the resilience of the market continues to not disappoint.

PRIME LIVING YIELDS, Q1 2025 (AS AT END-MARCH)

City	Sub-sector	Prime net initial yield	Outlook for yields, next 12 months	Typical LTV	Total cost of debt	Cash-on-cash yield	Risk premium
Tokyo	Multifamily	3.40%	→	60%	1.3%	6.6%	1.9%
Berlin	Multifamily	3.60%	↓	55%	3.6%	3.6%	0.9%
Copenhagen	Multifamily	3.85%	↓	63%	3.2%	4.9%	1.3%
Madrid	Multifamily	3.90%	↓	55%	4.0%	3.8%	0.5%
Sydney	Multifamily	4.00%	→	55%	5.7%	2.0%	-0.4%
Paris	Multifamily	4.25%	↓	55%	3.6%	5.0%	0.8%
Stockholm	Multifamily	4.25%	→	60%	3.9%	4.8%	1.3%
London	Multifamily	4.25%	↓	60%	5.2%	2.8%	-0.4%
Melbourne	Multifamily	4.50%	→	55%	5.7%	3.1%	0.1%
London	Student	4.25%	↓	60%	5.2%	2.8%	-0.4%
Paris	Student	4.50%	↓	55%	3.6%	5.6%	1.1%
Berlin	Student	4.70%	↓	55%	3.6%	6.0%	2.0%
Madrid	Student	4.75%	↓	55%	4.0%	5.7%	1.4%

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. Values based on end-of-quarter data. See Methodology for details.

Methodology: Net initial yields are estimated by local Savills experts to represent the achievable yield, including transaction and non-recoverable costs, on a hypothetical grade A asset of institutional scale, in a prime location, fully let. The typical LTV and cost of debt represent the anticipated competitive 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 ten-year government bond yield (as a proxy for the relevant risk-free rate of return) from the net initial yield. Data is end-of-quarter values.

PRIME LOGISTICS YIELDS, Q1 2025 (AS AT END-MARCH)

City	Prime net initial yield	Outlook for yields, next 12 months	Typical LTV	Total cost of debt	Cash-on-cash yield	Risk premium
Tokyo	3.30%	→	60%	1.3%	6.3%	1.8%
Hong Kong	4.06%	→	40%	6.3%	2.6%	0.5%
Cologne	4.40%	↓	55%	3.6%	5.4%	1.7%
Madrid	4.75%	→	55%	4.0%	6.2%	2.4%
Île-de-France	4.75%	↓	55%	3.6%	6.2%	1.3%
Amsterdam	4.75%	→	55%	3.6%	6.2%	2.4%
Sydney	5.00%	→	53%	5.3%	4.7%	0.6%
London	5.00%	↓	60%	5.2%	4.7%	0.3%
Northern New Jersey	5.25%	→	60%	6.3%	3.8%	1.0%
Los Angeles	5.25%	→	60%	6.3%	3.8%	1.0%
Shanghai	5.25%	↑	50%	3.7%	6.8%	3.4%
Chicago	5.50%	→	60%	6.3%	4.4%	1.3%
Seoul Metropolitan Area	5.50%	→	60%	5.0%	6.3%	2.7%
Houston	5.75%	→	60%	6.3%	5.0%	1.5%
Singapore	6.50%	→	55%	3.6%	10.0%	3.8%
Dubai	7.50%	→	50%	7.0%	8.0%	3.3%

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. Yields in Singapore reflect 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.

Methodology: Net initial yields are estimated by local Savills experts to represent the achievable yield, including transaction and non-recoverable costs, on a hypothetical grade A big-box logistics facility located in a prime location, fully let to a single good profile tenant on a 10-15 year open market lease. 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 ten-year government bond yield (as a proxy for the relevant risk-free rate of return) from the net initial yield. Data is end-of-quarter values.

PRIME OFFICE YIELDS, Q1 2025 (AS AT END-MARCH)

City	Prime net initial yield	Outlook for yields, next 12 months	Typical LTV	Total cost of debt	Cash-on-cash yield	Risk premium
Hong Kong	1.97%	→	40%	6.3%	-0.9%	-1.5%
Tokyo	2.60%	→	60%	1.3%	4.6%	1.1%
Singapore	3.75%	→	55%	3.6%	3.9%	1.1%
Seoul	4.25%	→	60%	4.1%	4.5%	1.5%
Paris	4.25%	→	55%	3.6%	5.0%	0.8%
Milan	4.25%	↓	55%	4.2%	4.3%	0.4%
Frankfurt	4.50%	→	55%	3.6%	5.6%	1.8%
Shanghai (Lujiazui)	4.75%	↑	50%	3.7%	5.8%	2.9%
Madrid	4.90%	↓	55%	4.0%	6.0%	1.5%
London (City)	5.25%	↓	60%	5.2%	5.3%	0.6%
New York	5.50%	→	55%	6.5%	4.3%	1.3%
Sydney	5.85%	→	53%	5.4%	6.4%	1.4%
Dubai	6.75%	→	50%	7.0%	6.5%	2.5%
Los Angeles	8.00%	→	55%	6.5%	9.8%	3.8%
Mumbai	8.25%	↑	60%	9.5%	6.4%	1.6%

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. Values based on end-of-quarter data. See Methodology for details.

Methodology: Net initial yields are estimated by local Savills experts to represent the achievable yield, including transaction and non-recoverable costs, on a hypothetical grade A building located in the CBD, over 50,000 sq ft in size, fully let to a single good profile tenant on a long lease. The typical LTV and cost of debt represent the anticipated competitive 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 ten-year government bond yield (as a proxy for the relevant risk-free rate of return) from the net initial yield. Data is end-of-quarter values.

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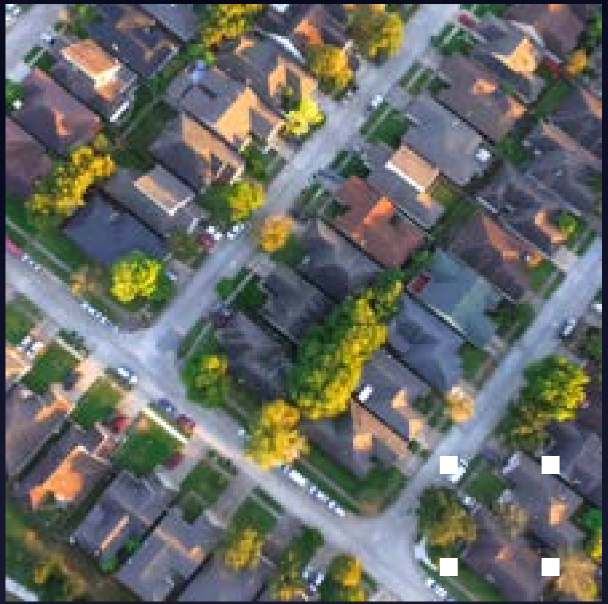
Living
Q1 2025



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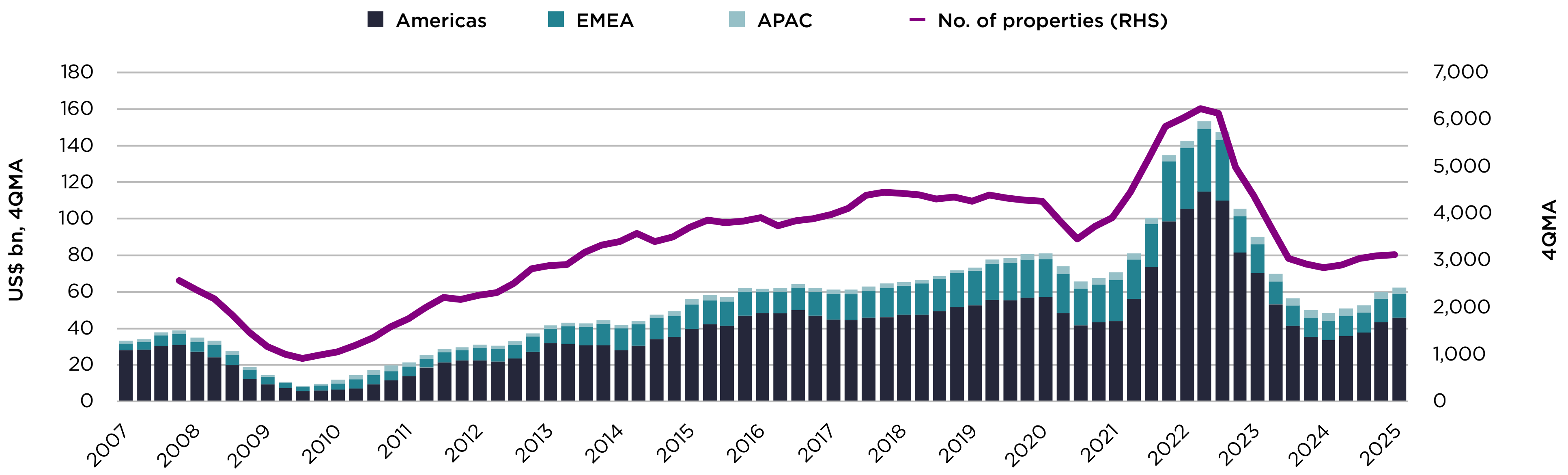
Tariffs favour ‘beds’ over ‘sheds’

Global investment in the living sector rose by more than 27% in the first quarter of this year, with over US$50bn invested across single and multifamily, student, and senior housing. Living was easily the best performing of the core sectors in Q1, accounting for around 30% of global turnover. Investment activity has now risen for four consecutive quarters, after hitting a low in Q1 2024, although it remains around 15% below the pre-Covid average.

The US market is leading the recovery in turnover. However, there was also a notable uptick in activity in Europe, underpinned by a strong rebound in Germany. Investment in Japan remains firm, albeit not quite hitting recent highs, with investors becoming more selective in a rising interest rate environment. Private investors remain the dominant buyer type, accounting for over 50% of all acquisitions year-to-date, a similar share to last year. However, domestic institutions and cross-border investors are net buyers, and this has supported strong growth in larger portfolio and M&A activity over the last 6-12 months.

GLOBAL: LIVING INVESTMENT TURNOVER



Source: Savills Research using MSCI RCA. Based on independent reports of properties and portfolios. Excluding development sites.

While ‘beds and sheds’ were at the top of the wish list for most investors at the beginning of the year, it may be that ‘beds’ are favoured in a post-tariff world. The industrial and logistics sector, particularly in the US, is likely to see the most disruption from any tariff-induced slowdown in the global flow of traded goods. By comparison, the various living sectors are likely to be more resilient, given the defensive nature of the underlying assets, with households prioritising non-discretionary spending, such as accomodation, during periods of uncertainty. This was evident during the recent inflation-driven downturn in activity, and it will again be evident should the outlook for weaker economic growth come to pass.

Meanwhile, a structural undersupply of housing across the major institutionalised markets provides an important backstop to returns, and construction activity in most markets is slowing in line with elevated build costs and growing uncertainty in the outlook. A deterioration in labour market outcomes may lead to weaker household formation, but housing affordability remains constrained in a high interest rate environment, pushing more people towards the rental market. For investors delivering new units into some of the more supplied global markets, which are largely concentrated in the Sun Belt region of the US, a more pronounced slowdown in development activity will be welcomed.

Investor returns have been supported by a combination of high occupancy and solid rental growth. With interest rates stabilising and prices bottoming out, total returns are now back in positive territory in most global markets. However, affordability of rental accommodation is also stretched – rents are 'sticky' price items that can be resistant to downward corrections, particularly when the supply backdrop is so tight. Most markets have seen double-digit rental growth in recent years, which means there is limited further growth until household incomes catch up. This perhaps favours stabilised mid-market accommodation, as opposed to luxury apartments, or student housing (with less regulatory oversight), where the potential upside on rental growth is greater. Much depends on the outlook for labour markets and real wage growth, which could deteriorate over the coming months and quarters.

Savills Takes Stock: Q1 2025

Regional outlook

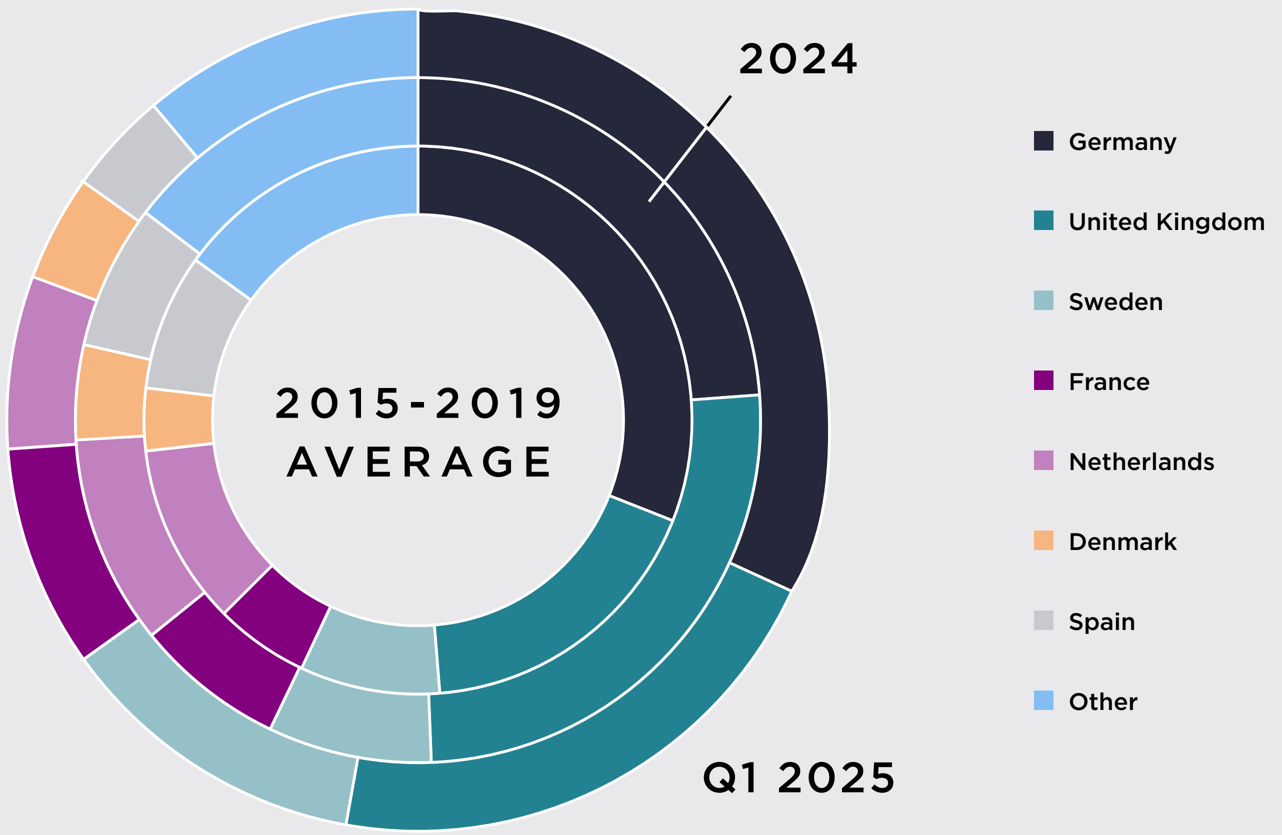
EMEA (Europe, Middle East and Africa)

Total investment across EMEA rose by nearly 17% on the year, with €10.1bn (US$10.5bn) of living deals transacting in the quarter. This represented the strongest start to a year since 2022, and living was the largest invested core sector for the region. The German and UK markets were dominant in investor activity, and it was a strong rebound in the former that underpinned the improved regional aggregate. Sweden also experienced a good start to the year, supported by a single large deal, with the domestic investor Brinova acquiring a 3,800 unit residential portfolio from K-Fastigheter for SEK10.5bn (US$1.0bn).

Across the region, prime yields have stabilised, and we generally see them tightening through the year in line with falling interest rates and strong competition for assets. Meanwhile, increased competition to lend against prime stabilised assets is squeezing margins, compounding a rate-driven decline in the cost of debt.

Investment in the German living sector has more than doubled, following several years of very weak activity, broadly mirroring the sluggish performance of the economy. Activity was boosted by a number of larger portfolio deals, further emphasising the relatively fast about-turn in sentiment. Investors are finding comfort in a more stable and transparent pricing environment, with the benchmark prime yield of 3.6% in Berlin now expected to see some downward pressure due to competitive bidding and falling rates.

EMEA: LIVING INVESTMENT REGIONAL MARKET SHARE



Source: Savills Research using MSCI RCA.

Liquidity, meanwhile, is being supported by an increase in disposals by German developers looking to raise cash. In one of the largest deals this quarter, Orange Capital and One Investment jointly acquired a near 90% stake in the Cosmopolitan portfolio, comprising around 6,800 rental units across the state of North Rhine-Westphalia, for €470m (US$490m). The seller, German investor Adler Group, is reported to be raising cash following two debt restructurings.

Behind Germany, the UK is second largest market in the region, even though investment across the living sectors fell by 7% year on year to £2.3bn (US$2.8bn) in the first quarter. Nevertheless, there is growing confidence in the market, and new sales are receiving plenty of buyer interest. This is supported by the influx of new entrants to the market, and a good pipeline of deals would suggest that momentum will pick up as we move through the year.

Investors are still positive on the dynamics in Southern Europe, although it is increasingly difficult to develop, and the market for stabilised assets is still relatively nascent. Indeed, funding new development is very challenging across much of the EMEA region – build costs remain elevated, even if inflation has slowed, while development debt is expensive. This will only exacerbate existing supply-side challenges. In the UK, we've seen a large decline in new starts of single and multifamily units, and interest rates need to fall further to unlock more development activity. In Spain, most development is driven by public-private partnerships, where developers can get some concessions to make the arithmetic work.

Occupancy rates are generally high for rental units across the region. There are some challenges at the top end of the market due to rising rents, leading to some concerns over the depth of demand, but still plenty of demand for mid-value properties. Student accommodation is generally perceived as more viable than residential – it is easier to develop, and there is more flexibility in the rents relative to multifamily, which have seen strong rental growth in recent years and increased regulatory scrutiny.

EMEA: UK BUILD-TO-RENT CONSTRUCTION

Savills Research using Savills Research using British Property Federation and Molior

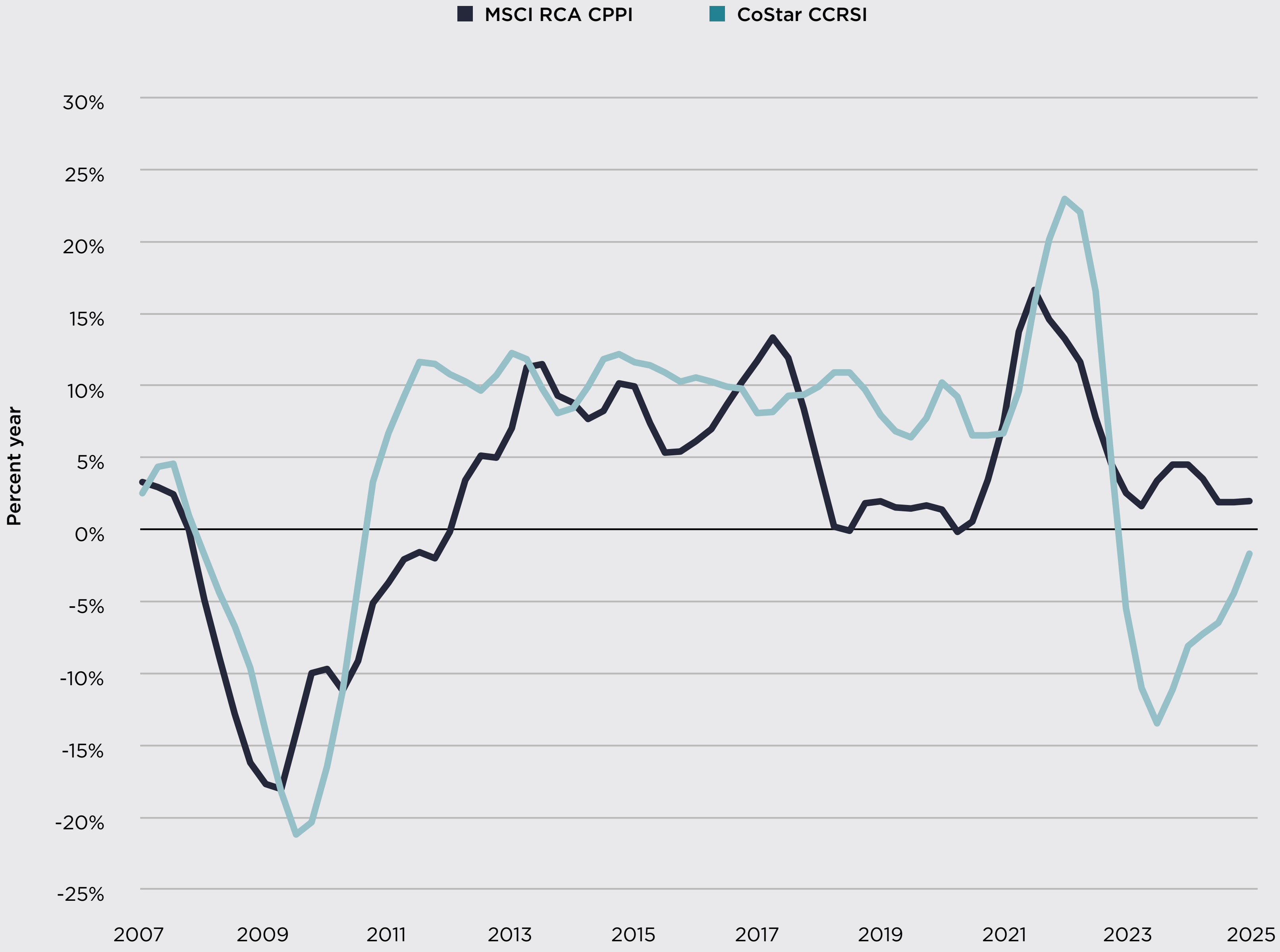
North America

Total investment of US$34.4bn in Q1 across the US living sectors was more than 40% up on the year, continuing the strong momentum in deal activity from the second half of 2024. All subsectors experienced significant growth in activity, including student and senior living. Markets on the East Coast – including New York, Boston, Atlanta, and Miami – in addition to Austin and Dallas in the south, were the best performing major markets in Q1. Both Los Angeles and San Francisco in the west were also prominent in the list of most invested markets, although in both cases turnover was down on the year.

The recovery in activity is supported by a more encouraging outlook on pricing. Yields have broadly stabilised and prices are either close to bottoming out, or are steadily rising, depending on which source data is preferred.

The growing strength in capital markets activity is mirrored in occupational markets. According to RealPage, Q1 was the strongest quarter on record for net absorption of rental units, spanning three decades of data. Indeed, over the last 12 months, take up was broadly in line with the peak of the market in 2022, with tenant demand improving in line with solid economic fundamentals and constrained housing affordability.

US: MULTIFAMILY APARTMENT PROPERTY AVERAGE PRICES



Source: Savills Research using MSCI RCA CPPI and CoStar CCRSI (equally-weighted index)

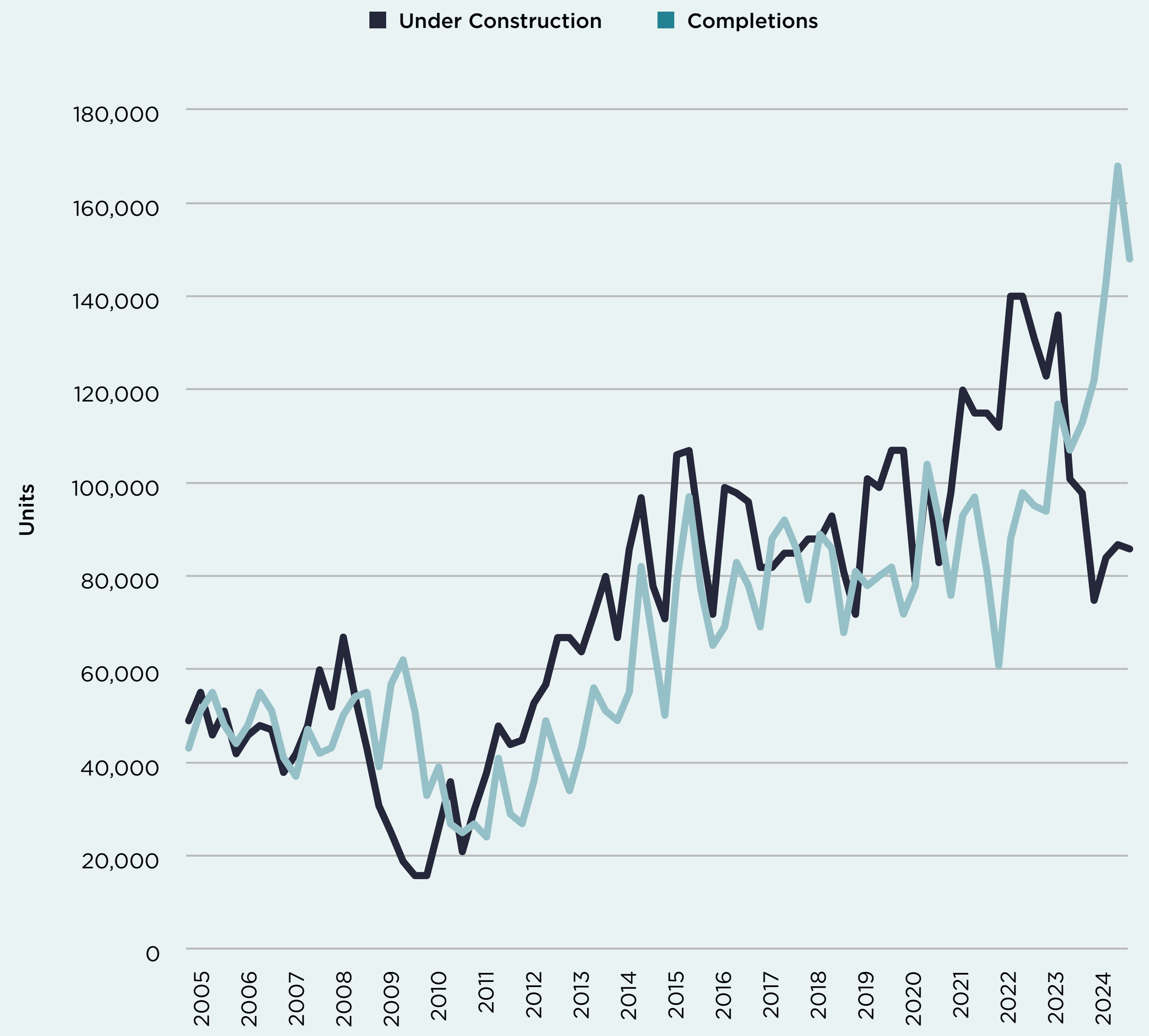
Strong demand is helping to offset a surge in new completions, which continue to run at elevated levels – a legacy of a construction boom in 2022–23. Average vacancy, according to Moody's Analytics, held steady at 6.3% in Q1. This could represent the cyclical peak, after rising from a low of 4.8% over the last three years. Construction activity has rebased to pre-Covid levels, while the number of new permits issued in Q1 hit a seven-year low, which should feed into a more stable supply backdrop over the next 17 months – the average time to complete on a new project.

Furthermore, there is no guarantee that developers will be able to break ground on new projects given the rapidly changing macroeconomic environment. While tariffs might represent a boon for those developers approaching completion on new schemes, tariffs and immigration controls are likely to make new construction more costly and more difficult. The National Association of Home Builders estimate that around 7% of materials used in construction are imported, primarily from China, Canada, and Mexico. Then there are additional considerations around fittings, furniture, white goods etc., as well as the impact of restrictions on immigrant workers on labour availability and costs

Meanwhile, elevated mortgage rates and tighter supply will continue to squeeze affordability in the housing market, pushing people into rented accommodation. An uncertain macroeconomic backdrop may lead to slower household formation, particularly if we see a material weakening in labour market conditions. However, tariff induced inflation will also delay further policy easing from the US Fed, which will keep mortgage rates elevated. According to analysis by the Atlanta Fed, affordability is at the lowest level on record, in a period covering 20 years of data.

With tighter supply conditions and still good demand, we are likely to see some upward pressure on rents. Rental growth remains robust in the more supply constrained Midwest and North East regions. And while new supply onboarding is still weighing on the Sun Belt region (Austin and Phoenix, for example), these markets are also seeing the strongest demand. However, affordability is also a concern in rents after rising by around 50% since Covid-19. Investors may struggle to push rents higher as a result, particularly if tariffs have a meaningful impact on economic and labour market outcomes.

US: MULTIFAMILY DEVELOPMENT ACTIVITY



Source: Savills Research using Macrobond

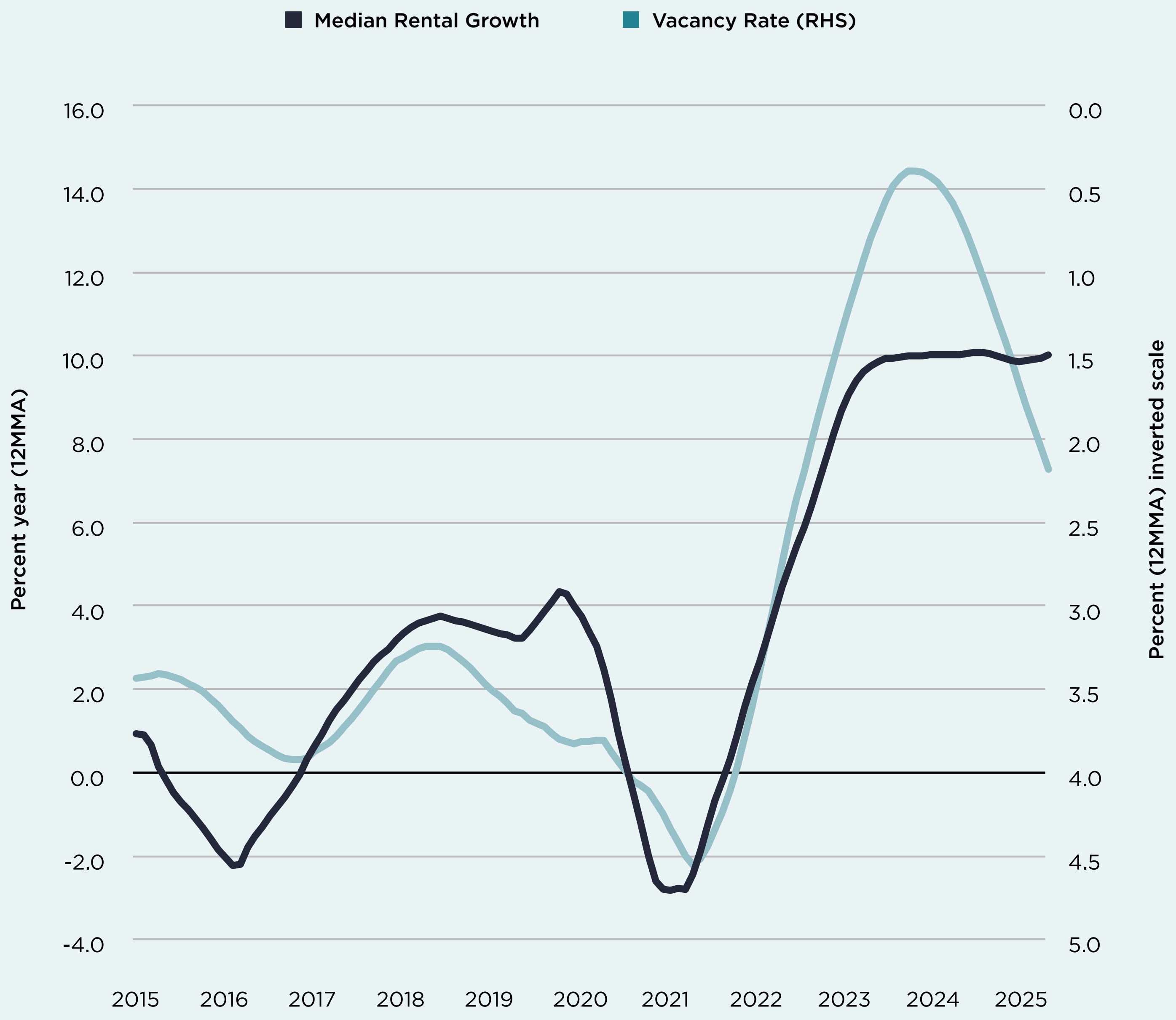
APAC (Asia Pacific)

Total investment across the Asia Pacific region of US$4.0bn in Q1 2025 represented a 12% decline on the year. However, base effects are important to contextualise this decline, with Q1 2024 the strongest start to a year since 2010. In general, the institutionalised market in Asia Pacific continues to grow – while investment in the first quarter was broadly consistent with the post-Covid average, it was more than 80% above the pre-Covid average outturn.

Deal activity was supported by a number of major transactions in China, with the CNY11.8bn (US$1.6bn) of investment rising by more than 150% on the year, representing the strongest quarter on record. Meanwhile, over US$1.0bn transacted in Japan, although this was well down on recent performance. Singapore also had a good first quarter – with Bain Capital acquiring Avery Lodge, a worker accommodation portfolio, from Blackstone for SGD750m (US$550m).

In Australia, it was a relatively quiet start to the year, with only one deal of note to complete – the joint venture acquisition of GIC's stake in a student accommodation portfolio by Greystar and Future Fund for AUD1.6bn (US$1.0bn). However, investment sentiment remains robust, bouyed by the RBA rate cut in February – the first since the depths of Covid in 2020 – and promises of more easing over the rest of this year. Markets are currently pricing around 2-3 further rate cuts this year, which should improve the arithmetic between the benchmark yields of 4.0% in Sydney and 4.5% in Melbourne, and the prevailing cost of debt, which remains above 5.5% (despite coming down since last year). A decisive election result should also provide more certainty to investors.

AUSTRALIA: RENTAL UNITS, VACANCY AND RENTS

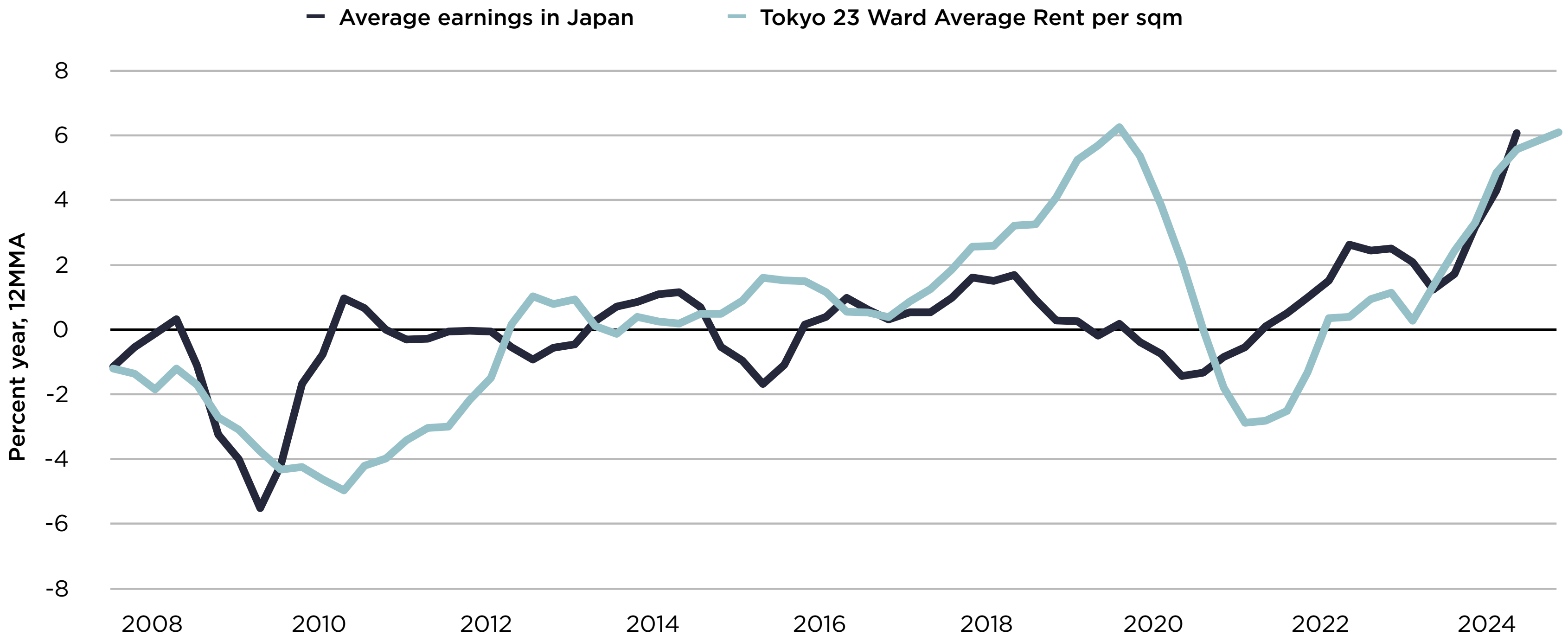


Source: Savills Research using Macrobond

Occupational market dynamics remain solid, supporting investor interest in the sector. A vacancy rate of rental units of just 1.2% in Q1 2025, according to CoreLogic data, remains stubbornly below the pre-Covid average, and is indicative of a tightly supplied market. This should support further rental growth, which despite falling from recent peaks, is still running above 5% per annum.

These fundamentals are broadly mirrored in the Japanese market, despite the soft transactional data, with little changing hands outside of Tokyo. In total, investment of JPY161bn (US$1.0bn) was over 50% down on the year. The largest transaction was the residential component of Blackstone's acquisition of the mixed-use Tokyo Garden Terrace Kioicho development.

JAPAN: CASH EARNINGS AND MULTIFAMILY RENTS IN TOKYO



Savills Research using Macrobond. Risk premium calculated by subtracting the 10-year government bond yield from the prime office yield

Investors are becoming more selective due to an increase in the cost of finance. While the prime benchmark yield for Tokyo multifamily of 3.4% is the same as it was in early 2022, the all-in cost of debt has risen to 1.3%, in line with a 75-100bps rise in the underlying five-year swap rate. As such, while cash-on-cash returns are still solid relative to global peer markets, they are not attractive as they have been in this cycle, and the Bank of Japan is not done raising rates.

However, the fundamentals remain strong, with mid-market apartments delivering an average of 7.3% annual growth in rents across the 23 wards of Tokyo in Q1, supported by rising real wages. Occupancy rates remain high at 96.8%, allowing landlords to prioritise income over filling vacancies. A tight supply backdrop will keep occupancy rates high, while continued inflows of migrants and reduced housing affordability (due to rising mortgage costs) will support demand conditions for rental accommodation.

Savills Takes Stock: Q1 2025

Key transactions

Australian PBSA Portfolio

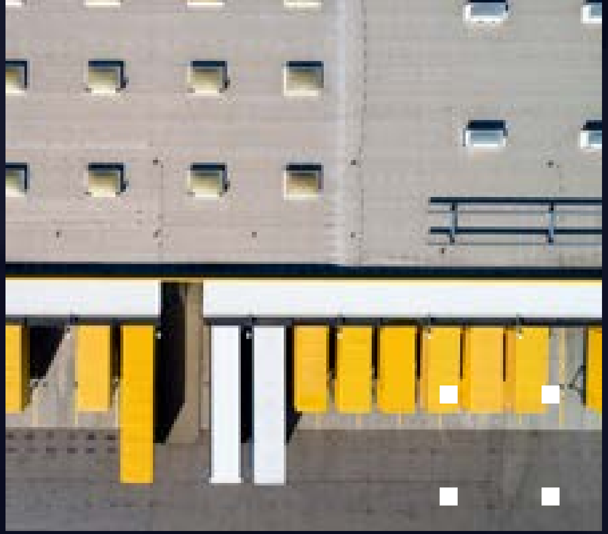
Sub-sector:	Purpose Built Student Accommodation (PBSA)
Units:	5,662
Price/NIY:	AUD1.6bn (US$1.0bn)/5.0%
Vendor:	GIC and Wee Hur Holdings
Vendor nationality:	Singapore
Purchaser:	Greystar and Future Fund
Purchaser nationality:	United States and Australia
Other comments:	Consisting of seven assets located across Sydney, Melbourne, Brisbane, Adelaide, and Canberra, Greystar – with backing from the Australian Future Fund – plan to upgrade the properties and integrate them within their global PBSA brand. The deal represents Greystar's largest acquisition in Asia Pacific. Wee Hur will retain a 13% stake in the portfolio.

Region Syd Portfolio

Sub-sector:	Multifamily
Units:	3,800
Price/NIY:	SEK10.5bn (US$1.0bn)/Undisclosed
Vendor:	K-Fastigheter AB
Vendor nationality:	Sweden
Purchaser:	Brinova Fastigheter AB
Purchaser nationality:	Sweden
Other comments:	Brinova is acquiring the Region Syd portfolio from K-Fast, which consists of 108 properties located in the South of Sweden, and Denmark. Brinova will more than double in size following the transaction, which is being funded by the issuance of new shares.

Savills Takes Stock

Logistics Q1 2025



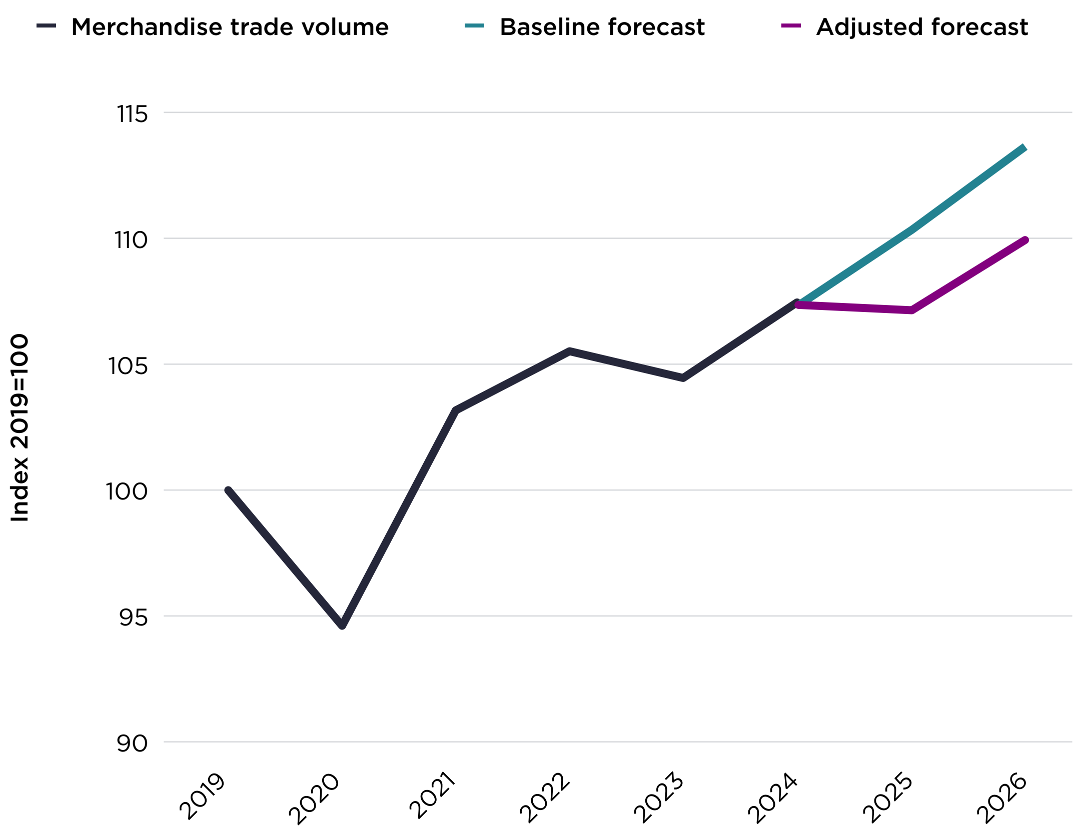
savills

Tariffs cloud the outlook for industrial and logistics

President Trump's 'Liberation Day' tariffs are set to disrupt the sense of normalcy that had descended over global industrial and logistics markets. In many major markets, occupational take up had returned to pre-pandemic levels in recent quarters, and vacancy rates were beginning to peak out as development activity slows. Meanwhile, global investment of around US$41bn, while not building on the momentum of the second half of 2024, was still 3% up on the year.

From an occupational perspective, the industrial and logistics sector has to be at risk from tariffs, with demand driven by a combination of foreign trade and retail sales. Forecasts from the World Trade Organisation (WTO), based on announcements up to 14 April, predict global trade volumes to fall by 0.2% this year, a near three percentage point downward revision from previous expectations. The knock-on impact on consumer spending, from higher import prices in the US, general uncertainty and weaker economic activity globally, will feed into weaker retail sales, both online and in-store.

GLOBAL: WTO TRADE FORECASTS



Source: Savills Research using WTO. Based on tariff announcements up to and including 14 April.

The US market can expect to see the most disruption. In raising the average effective tariff rate to nearly 18%, the current administration is trying to reshape the US trading relationship with the rest of the world. But the benefits, if any, resulting from an increase in nearshoring activity, will only accrue in the very long term. In the interim, according to the IMF, the US economy is expected to experience the greatest hit to GDP over the next few years.

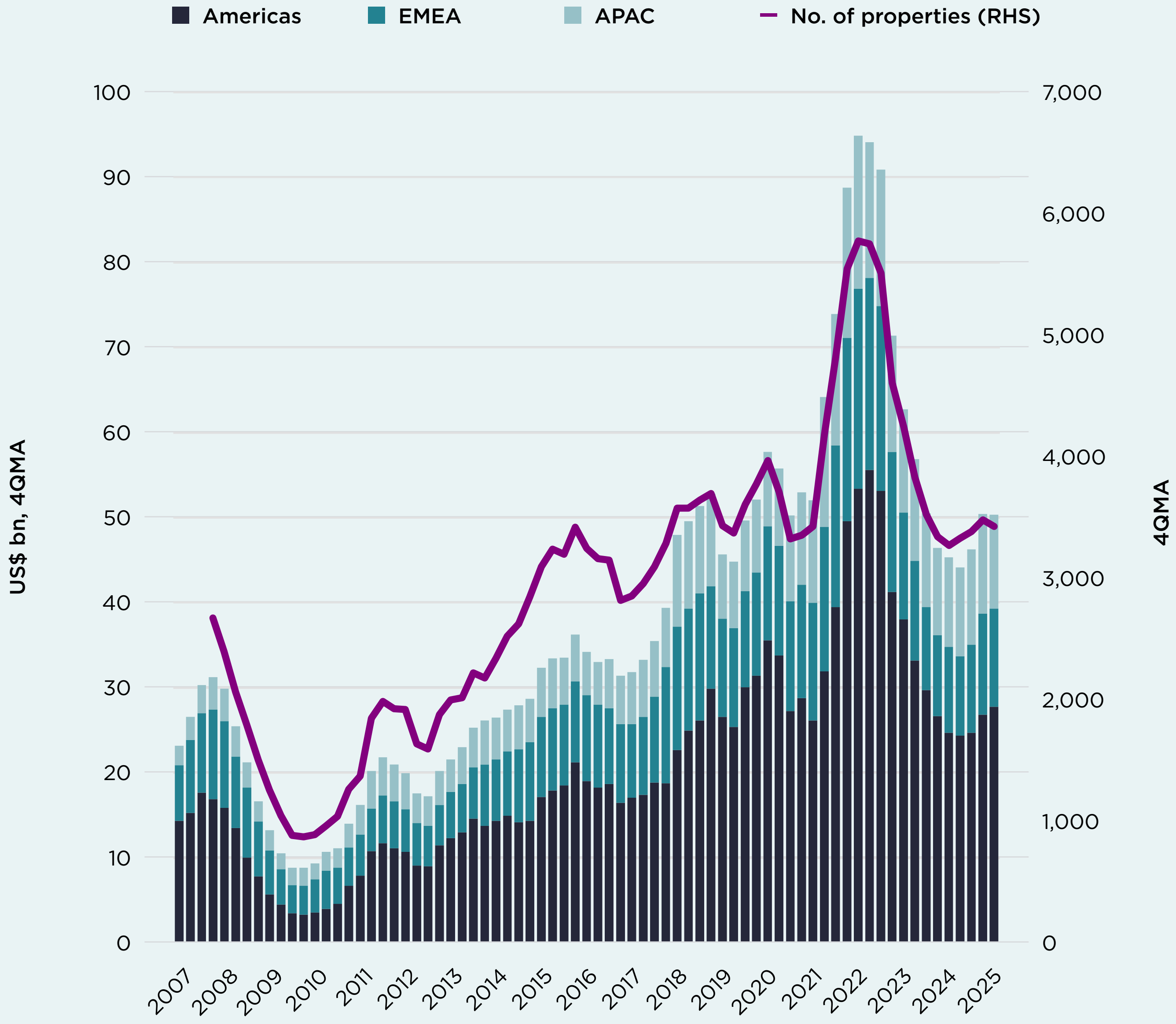
In particular, the tit-for-tat escalation in tariffs between the US and China will have a material impact on trade flows. In 2024, around US$580bn of goods were exchanged between the two largest global economies, according to the US Census Bureau. Even after the recent deal, the average US tariff on Chinese imports is greater than 50%, according to the Peterson Institute for International Economics. This impact will disproportionately affect US West Coast port markets, such as Los Angeles, which handle the majority of these goods.

Elsewhere, major export markets in Asia-Pacific appear vulnerable, especially East and South East Asian markets operating large trade deficits with the US.

Any associated weakness in occupational demand – accompanying a slowdown in exports to the US – will exacerbate concerns over excess supply and rising vacancy in markets such as China, Japan, and South Korea. Australia, by comparison, looks relatively better off, owing to a more balanced trading relationship with the US, and a tightly supplied domestic industrial and logistics market, with Sydney boasting a vacancy rate of below 4.5%.

Europe, also looks to be relatively resilient to rising trade tensions, with total exports to the US accounting for less than 3% of GDP, albeit with some regional variation. For investors, Europe's various land and planning constraints should provide an important backstop to returns, should occupational demand weaken in the coming quarters. It is still generally a tenant-friendly market, with an average regional vacancy rate of 6% nearly double the recent cyclical low. But a scarcity of opportunities remains a key differentiator in the market, and explains why we continue to see downward pressure on prime yields in core markets, as buyers compete for the best assets.

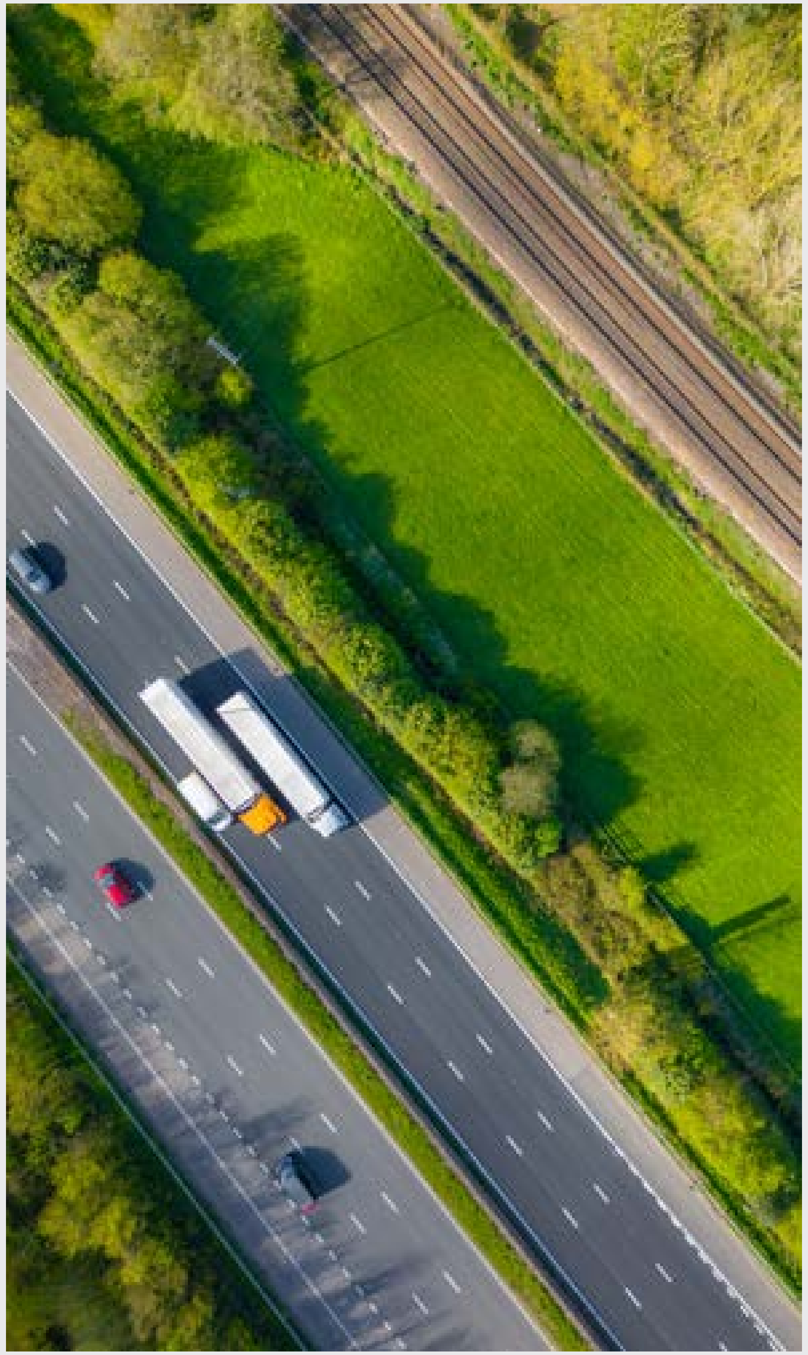
GLOBAL: INDUSTRIAL AND LOGISTICS INVESTMENT TURNOVER



Source: Savills Research using MSCI RCA. Based on independent reports of properties and portfolios. Excluding development sites.

Savills Takes Stock: Q1 2025

Regional outlook



EMEA (Europe, Middle East and Africa)

Total investment across the EMEA region of €9.3bn (US$9.7bn) represented a 1.5% rise on the year. This was supported by a solid increase in portfolio and M&A activity – including the completion of AustralianSuper's acquisition of a 50% stake in Oxford Properties' portfolio of 76 assets, located across the UK, Denmark, France, Germany, Netherlands, and Spain. Outdoor storage is a growing area of interest – providing more affordable options to meet tenants' warehousing and storage requirements and a low capital expenditure alternative to investors.

The UK remains the largest regional market, with investment of £2.3bn (US$2.9bn) in Q1 rising by 9% on the year. But in real estate markets, where the UK leads, continental Europe often follows, and this dynamic is supporting a recovery in the rest of Europe, boosted by attractive relative pricing. With the cost of debt falling to around 3.5-4% for prime assets in core mainland European markets, cash-on-cash returns are beginning to look tempting.

The German market is an obvious beneficiary from this process, and the near 120% y/y increase in investment in the first quarter was supported by the continued growth in portfolio deals. Cross-border investors backed around 70% of acquisitions in early 2025, with US institutions prominent. In general, there appears to be good liquidity for these multi-asset deals across the region, underpinned by the major specialist investors or 'aggregators' actively looking to build larger pan-European portfolios.

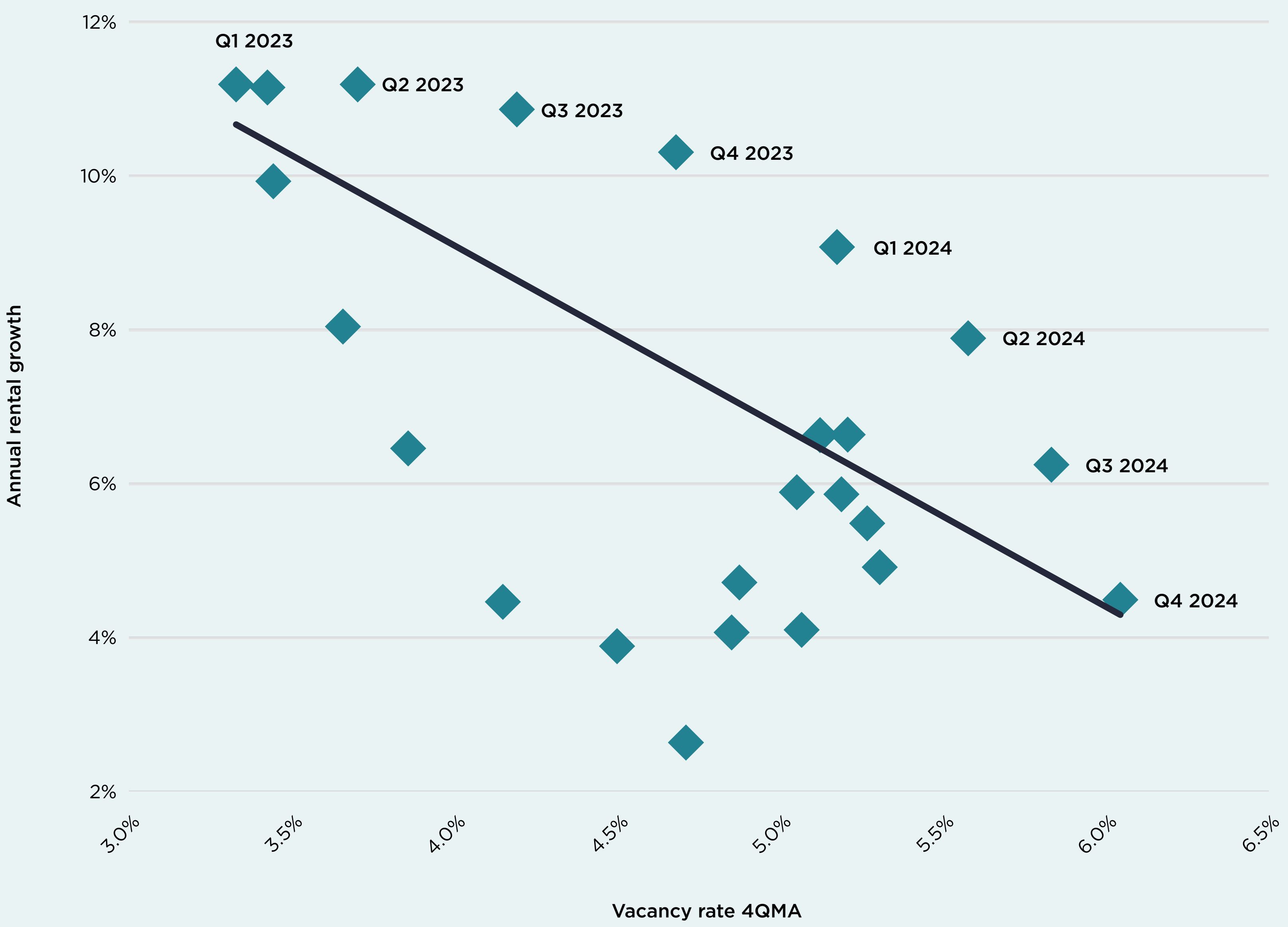
There is also plenty of interest in the Spanish market, and investors are having to compete more aggressively on prices to acquire assets and win processes. The benchmark yield for Madrid now stands at 4.75%, coming in by 30bps on the quarter. This is the same yield available in Paris and Amsterdam – both of which are facing challenges. The former due to a relatively weak economic backdrop, and the latter due to limited stock and tight pricing expectations.

The investment data broadly mimics occupational dynamics, with take-up across the EMEA region also broadly stable in the first quarter. The vacancy rate looks to have plateaued at around 6% on average, providing more tenant-friendly conditions in negotiations, with supply-demand returning to a more balanced relationship following several years of elevated rental growth. But this may not last – it remains difficult to develop on a speculative basis across much of the region.

Increased uncertainty due to the volatile macroeconomic environment will only make development harder to justify. Much of the region has limited direct exposure to US import tariffs, with exports to the US accounting for around 3% of GDP. But the sector remains exposed to a wider slowdown in economic activity and fall in consumer sentiment. Elevated uncertainty more generally will make it difficult for developers to break ground.

In general, there appears to be more activity, and more interest, in the market at the beginning of 2025, with a greater number of investors in the market looking to transact. If 2023 was a year lacking active buyers, and 2024 activity was held back by limited stock and few vendors, then the recent trend is indicative of a more balanced market, with liquidity returning to capital markets. The question now is whether a 'wait-and-see' mentality will return amidst increased uncertainty. The major investors often emphasise a philosophy of investing through the cycle and taking a long-term view, which should support a base-level of activity even if some investment committees are more cautious in the short term.

EMEA: AVERAGE PRIME INDUSTRIAL AND LOGISTICS VACANCY AND RENTS



Source: Savills Research

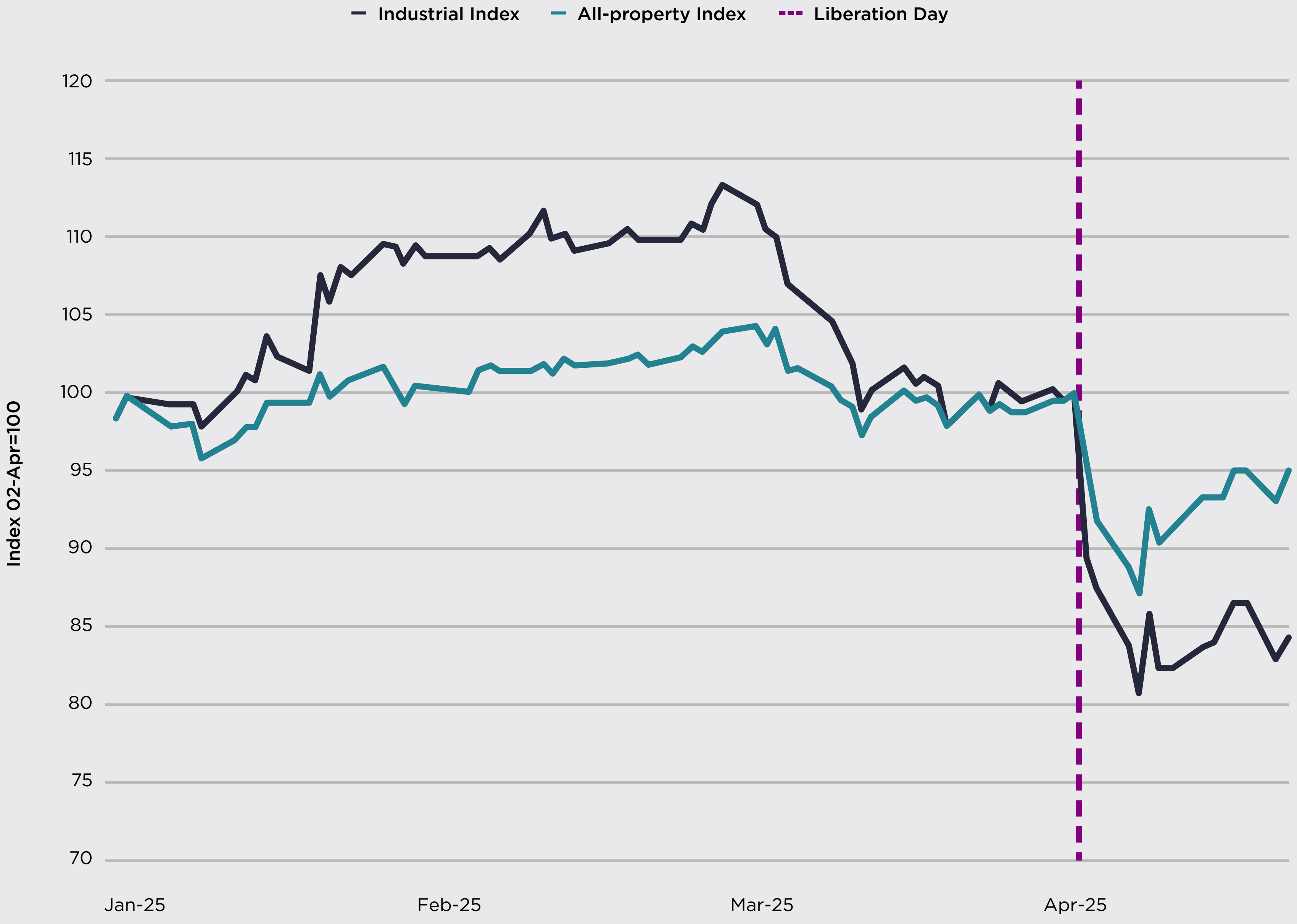
North America

The first quarter data was indicative of a market that is stabilising across both occupational and capital markets. Total US investment of US$24bn in the quarter was 18% up on the year, with the Norwegian SWF Norges Bank undertaking the largest deal of the quarter in acquiring a 45% stake for US$1.1bn in a 14m sq ft (1.3m sq m) portfolio – consisting of 48 buildings spread across Southern California, New Jersey, and Pennsylvania – from the Canadian Pension Fund CPPIB. Pricing has also stabilised since Q3 2024, supported by a decline in the cost of debt over the same period.

Meanwhile, total net absorption of 53m sq ft (4.9m sq m) was in line with recent quarters, and while the national average vacancy rate rose by 0.2% to 7.8% – the highest since 2013 – construction activity continues to slow, providing a backstop to the market that should keep any further increases in vacancy to a minimum. Average rents have been moving sideways for a while now, although remain over 60% up on pre-pandemic levels.

Looking ahead, there is a huge amount of uncertainty surrounding the outlook for trade policy and the economy. The US industrial and logistics sector is probably the most exposed to tariffs from a real estate perspective. This sentiment is reflected in the listed market, where the industrial and logistics REITs sold off by more than other sectors in the aftermath of 'Liberation Day'.

US: FTSE EPRA NAREIT UNITED STATES INDEX



Source: Savills Research using Macrobond

North America

Assuming the US and China remain at loggerheads, it is West Coast markets that are likely to experience the most significant disruption. Over half of all volumes handled at the Los Angeles and Long Beach ports are driven by imports from China, as well as 40% of traffic at the Northwest ports of Seattle and Tacoma. Assuming prohibitive tariffs remain in place, the surrounding areas are likely to see weaker demand for warehousing space, once the stockpiles of inventory are run down.

A wider slowdown in economic activity will impact the market more generally, as higher import prices feed into inflation and weaker retail sales. Over one-third of national leasing activity over the last five years was driven by consumer retail and ecommerce tenants.

A sharp decline in consumer sentiment will only accentuate this dynamic by increasing precautionary savings behaviour. This will lead to weaker discretionary retail, either in-store or online.

A number of Sun Belt markets, which have had to absorb a significant amount of new supply following a recent construction boom, could be vulnerable to this shift in demand. This includes Phoenix, Austin, Dallas-Fort Worth, Atlanta, and Houston. Meanwhile, markets such as Northern New Jersey, where Chinese 3PLs have been actively taking space, could also be vulnerable should they exit the market, even though local ports have a more diversified exposure.

APAC (Asia Pacific)

Before recent tariff announcements, industrial and logistics markets across the Asia Pacific region were generally seeing improved conditions. Concerns of oversupply in South Korea and Japan were easing in line with a slowdown in development activity, and major cross-border investors were active in the region, with a weight of capital particularly evident in the Australian market. This is not necessarily reflected in deal activity, with investment across the region falling by 25% y/y in Q1, but this follows a strong second half in 2024.

However, trade tensions cloud the outlook for the region, given that the US Administration is focused on countries with large goods-trade deficits, which include many East and Southeast Asian economies. For much of Asia Pacific, a 90-day delay in ‘reciprocal’ tariffs was a welcome reprieve, but the threat will linger, as it is not obvious how governments can shift the conversation away from deficits in order to secure concessions. Meanwhile, China’s refusal to back down underpinned a rapid escalation, with bilateral tariffs quickly rising in excess of 100%. This matters for the rest of Asia Pacific, even with a temporary de-escalation. A slowdown in China’s economy will have wider implications for trade in the region, as will any policy response, particularly in relation to the value of the renminbi and how this impacts relative competitiveness of regional exports.

In China, domestic institutions are increasingly the only source of liquidity in real estate capital markets. Cross-border investors did not acquire a single asset in China in Q1, according to MSCI RCA data, and are instead largely looking to exit existing investments. Foreign investors were behind around two-thirds of disposals in the quarter, a trend typified by the sale by Blackstone of three logistics assets to Ping An insurance for CNY2.7bn (US$371m).

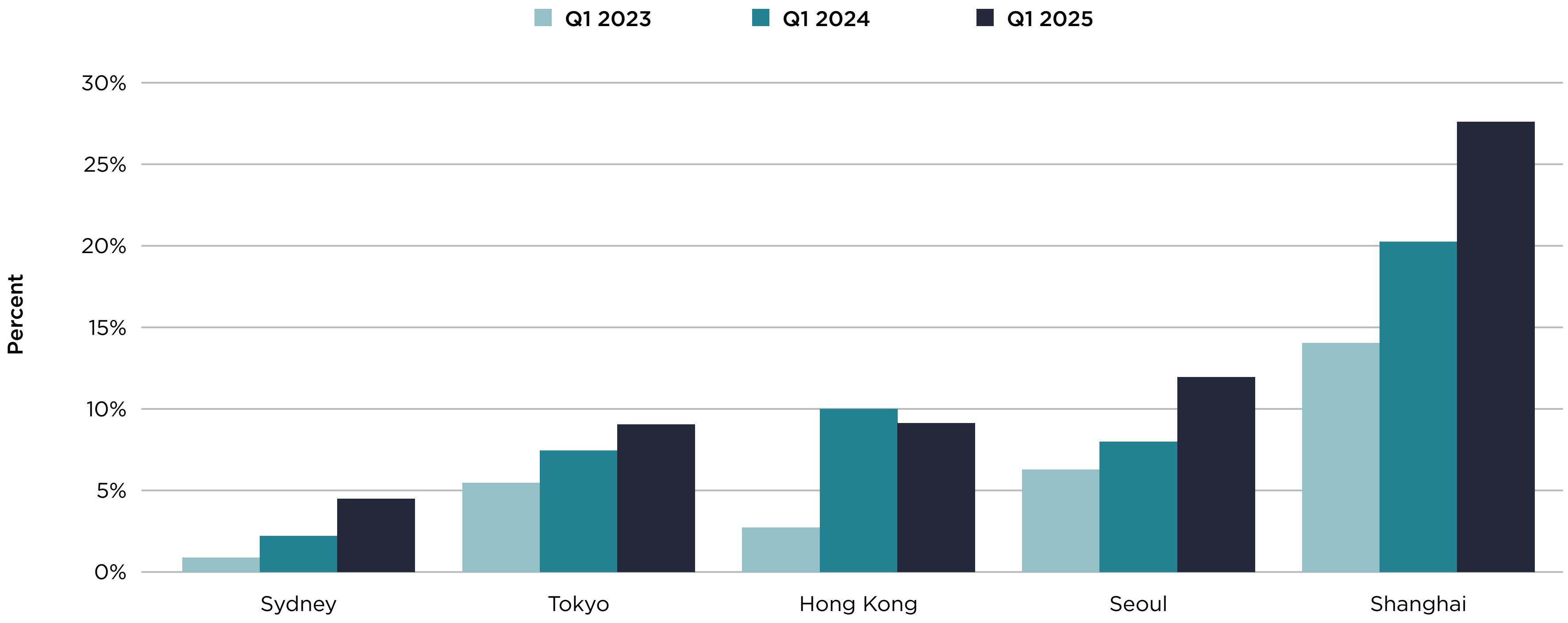
In South Korea, while the vacancy rate has risen to 12%, up from 8% a year ago, there are encouraging signs that the market is bottoming out. New construction of industrial buildings in South Korea was down by 20% y/y in the first few months of this year (by floor area), and landlords are converting excess cold storage space into dry storage, a strategy underpinning two of the largest deals of this quarter, backed by Brookfield and GIC (in an joint venture with the domestic investor Koramco). Indeed, foreign capital was dominant in Q1, accounting for over 80% of deal activity, with Warburg Pincus and Oaktree also prominent this quarter.

With greater deal momentum comes a more balanced outlook on pricing, with the prime yield of 5.5% no longer seeing upward pressure. This is supported by a cost of debt that has fallen by around 100bps over the last 12 months, in line with the prevailing interest rate, and investors are now able to enjoy accretive returns to debt financing. This could be challenged by a deteriorating economic outlook – business sentiment was already at a post-pandemic low before 'Liberation Day' following a period of domestic political turmoil.

APAC: MERCHANDISE TRADE BALANCE WITH THE US IN 2024

Source: Savills Research using Macrobond (US Census Bureau).

APAC: PRIME VACANCY RATE OF KEY INDUSTRIAL AND LOGISTICS MARKETS



Source: Savills Research

Supply is also close to peaking in Japan, with new construction starts falling by 40% y/y in early 2025. This will allow more space for tenants to absorb excess space and return the market to equilibrium – the vacancy rate in Tokyo has risen to 9.0%, up from 5.4% just two years ago. Nevertheless, the industrial and logistics sector remains popular with investors, many of whom are instead frustrated by a lack of opportunity to deploy. This dynamic is supporting a stable prime yield of 3.3%, despite rising interest rates. In the largest regional transaction in Q1, Softbank acquired a former industrial site owned by the electronics company Sharp for ¥100bn (US$664m), located in Osaka, with a view to repurposing the site as a data centre.

In Australia, and particularly Sydney, there is a significant base of capital looking for opportunities to deploy, but the options are limited, particularly at the prime end of the market. Attractive, stable yields and low vacancy combine to provide encouraging market dynamics for those that can transact. Falling interest rates should give the market further momentum. The Reserve Bank of Australia cut the policy rate in February, the first time in this cycle, and markets are currently pricing in a 3.2% policy rate by the end of 2025, down from 3.85% currently. Australia is also more insulated from the direct impact of US trade tariffs, given it imports more goods than it exports to the US. But as a large commodity exporter that trades heavily with China, the spillover effects could still be notable.

Savills Takes Stock: Q1 2025

Key transactions

Portfolio of 48 buildings spanning Southern California, New Jersey and Pennsylvania, United States

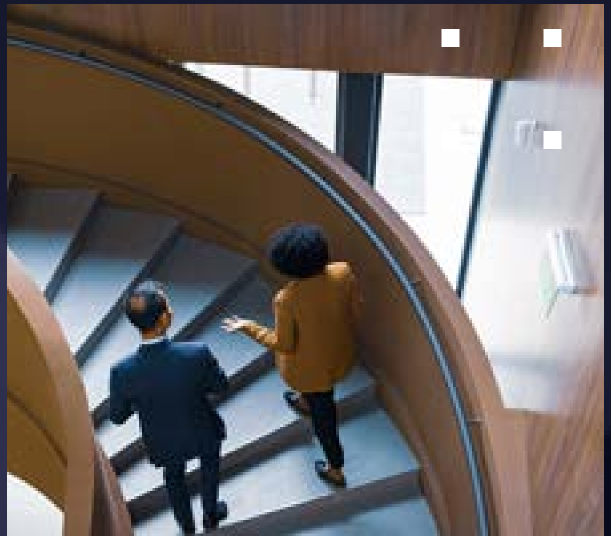
Tenant:	Multiple
Lease length (WAULT):	Undisclosed
Area:	1.3m sqm
Price / NIY:	US$1.1bn/Undisclosed
Vendor:	Canada Pension Plan Investment Board
Vendor nationality:	Canada
Purchaser:	Norges Bank Investment Management
Purchaser nationality:	Norway
Other comments:	The acquisition of a 45% stake values the portfolio at nearly US$3.3bn. Goodman retained a 55% stake.

European Supply Chain Income Partnership, comprising 76 assets located across the UK, Denmark, France, Germany, Netherlands and Spain

Tenant:	Multiple
Lease length (WAULT):	Undisclosed
Area:	730,000 sqm
Price / NIY:	€420m (US$430m)/Undisclosed
Vendor:	Oxford Properties
Vendor nationality:	Canada
Purchaser:	AustralianSuper
Purchaser nationality:	Australia
Other comments:	AustralianSuper acquired a 50% stake in Oxford Properties' European industrial portfolio and operator M7 Real Estate, establishing a new JV with plans to expand the portfolio with 'high-quality last mile and mid-box warehouses' over the next three to five years.

Savills Takes Stock

Offices Q1 2025



savills

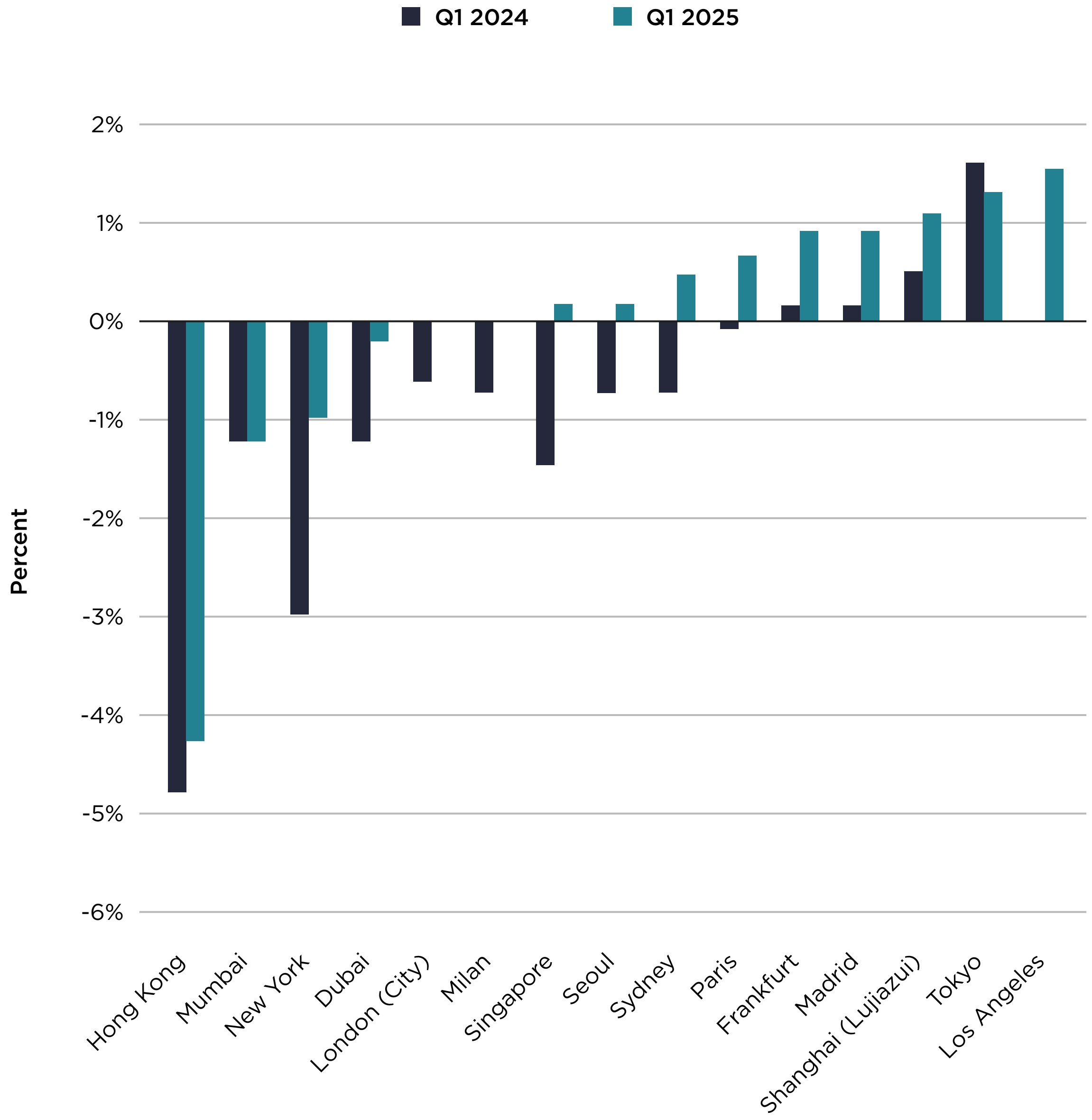
The economics of scarcity supporting offices

The global office sector is in recovery, or at least it was, before 'Liberation Day'. This view is not necessarily reflected in the transactional data, with investment totalling US$35bn in Q1 2025, representing a 20% fall on the year. But it is reflected in the pricing data. Benchmark prime yields are now stable or falling across most markets, with the average yield across the 15 global markets that we track unchanged this quarter for the first time in three years.

Shanghai and Mumbai are the only markets where we see some upward pressure in yields over the next 12 months. The former, due to an oversupply of office space and weak leasing activity, and the latter due to past increases in interest rates (although the recent trend is favourable in this regard, with the RBI cutting rates twice since the beginning of the year). By contrast, a number of European markets, including London City, Madrid and Milan, are expected to see some inward movement over the course of this year.

At the same time, the cost of debt has continued to fall, from a peak of 5.7%, based on the average of the markets covered in this report, to 4.9% this quarter. This is not only driven by policy easing by the major global central banks, but also due to private debt becoming more attractive to investors, driving competition to lend against the best assets. In 2024, global debt funds secured over US$32bn in new capital commitments, 16% more than in 2023. In many markets, investors can now leverage their returns using debt financing. This is an important development that may encourage more core investors to transact, given relatively attractive cash-on-cash returns.

GLOBAL: PRIME OFFICE YIELD SPREADS TO COST OF DEBT



Source: Savills Research. Spread shows the difference between the benchmark prime yield and the total cost of debt

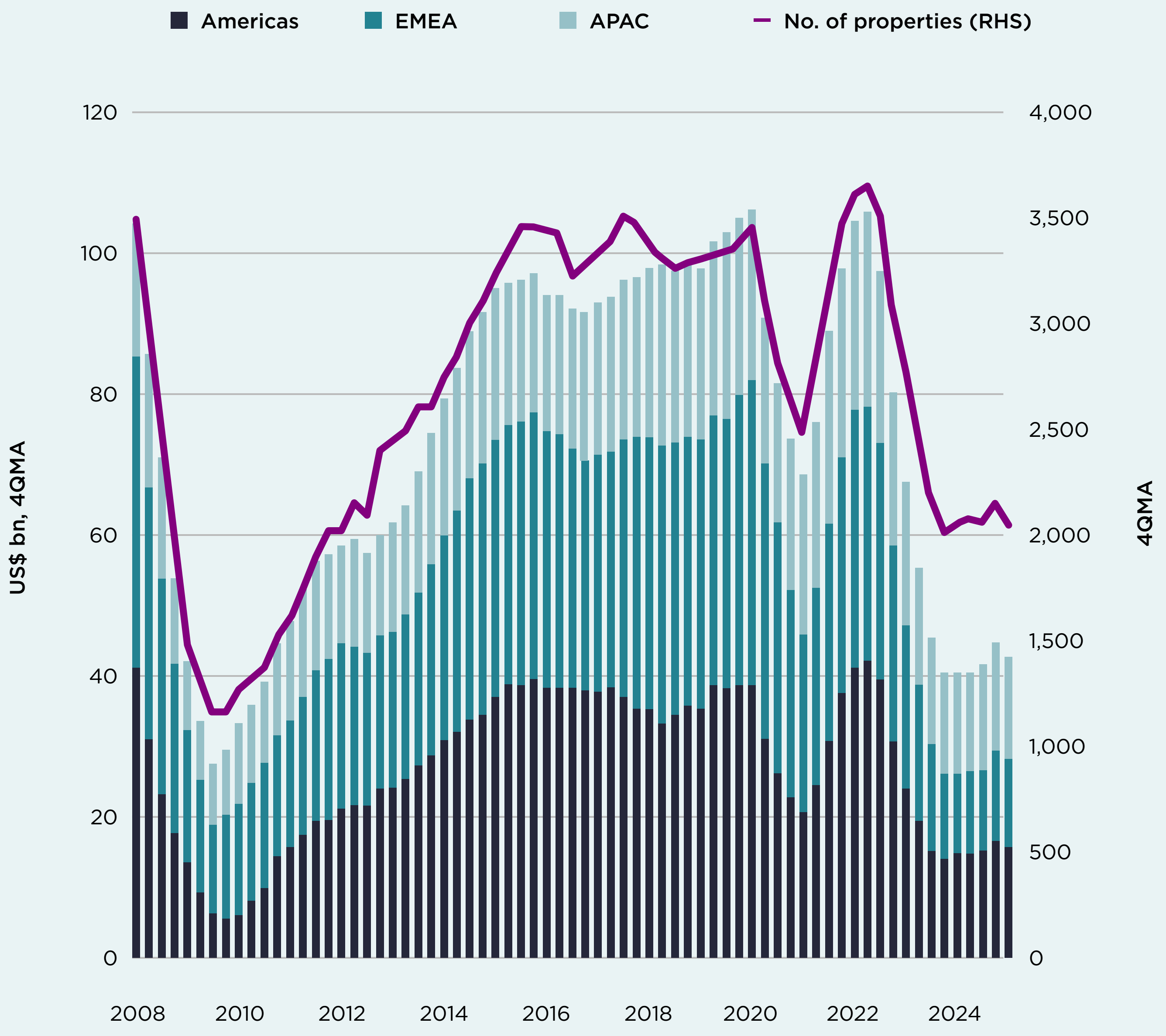
This dynamic is already supporting an increase in interest from larger institutional and cross-border capital. Combined, they have increased their market share in transactional activity to nearly 50% in early 2025, up from around 40% last year. Liquidity for larger deals is gradually coming back as a result, and this has encouraged more vendors to bring forward listings that were perhaps postponed in recent years due to adverse market conditions.

Looking ahead, the ongoing fallout from President Trump's 'Liberation Day' tariffs threatens to disrupt the fledgling recovery in the office market. Occupational demand is largely driven by the services sector – in Europe, around two-thirds of take-up in the first half of 2024 was underpinned by banking and finance, professional services, and technology. These sectors are not directly targeted by tariffs, and there is no indication that they will be, given the focus is squarely on the US goods-trade deficit.

Clearly, however, there is some spillover from a wider slowdown in economic activity, and in the short term rising uncertainty will have an impact on leasing activity. There is a direct correlation between uncertainty and business investment more generally, which includes decisions related to new office requirements. This favours lease renewals and extensions over long term commitments or wholesale moves. If hiring activity slows in line with the early survey data, then businesses will be less inclined to commit to new space.

However, there is every chance that some of these sectors may benefit from an increase in trade and policy uncertainty. A number of major global banks reported strong earnings in Q1 2025, for example, underpinned by trading revenues earnt during the recent market turbulence. Furthermore, uncertainty will feed into weaker development activity – compounding the shortage of good-quality office space in most global markets. Owning a prime central CBD office with a good covenant and long lease might just be the one of the more attractive real estate investments in this environment.

GLOBAL: OFFICE INVESTMENT TURNOVER



Source: Savills Research using MSCI RCA. Based on independent reports of properties and portfolios. Excluding development sites.

Savills Takes Stock: Q1 2025

Regional outlook

EMEA (Europe, Middle East, and Africa)

Total office investment in Q1 across EMEA of €8.5bn (US$8.8bn) represented a fall of 14% on the year. This disappointing transaction data was reflected in the atmosphere at MIPIM, which was more muted than many may have hoped for after a strong end to 2024. This was largely due to the unfulfilled expectations of available capital and product, as buyer and seller expectations have still not quite met.

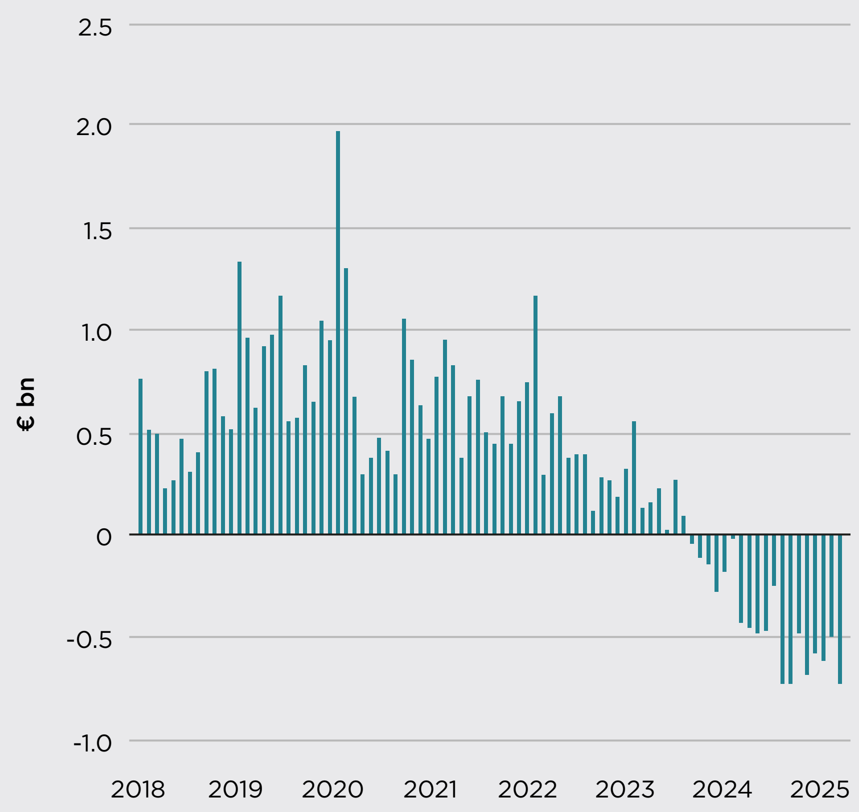
Domestic and short-haul capital remains prominent, including insurance funds – who are active in the core and core+ space – as well as the French SCPIs, which continue to target higher yielding submarkets, diversifying into CEE and regional markets in Western Europe. Long-haul cross-border investors remain more absent by comparison, as they have done since late 2022. US private equity and some Canadian institutions are slowly returning to the market, mostly focused on the UK, but starting to show interest for income-producing assets on the continent. But this is yet to show up in the aggregate transactional data.

Indeed, the UK, and specifically London, stands out from the rest of the region in terms of the depth of investors looking to transact.

In one of the largest deals of the quarter, Norges Bank Investment Management (NBIM) acquired a 25% interest in a mixed-use portfolio of Grosvenor Estate, with a large office component, for £306m (US$410m) – one of several notable London acquisitions by the Sovereign Wealth Fund in the first quarter. And in April, State Street bought 100 New Bridge Street in London City for £333m (US$430m). The asset is for their own occupation, but the pricing was based on a yield of 5%, which will support some downward pressure on the current benchmark yield of 5.25%. More generally, the Australian Superannuation funds, Japanese groups and US private equity are all reported to be active in the UK capital, but are facing a chronic lack of opportunities to deploy.

The concern around the lack of assets may be changing in some markets. In Germany, for example, the open-ended funds continue to face a wave of redemptions, which may lead to more asset disposals in the near term. Net flows have been negative since August 2023, bringing total redemptions to over €7.8bn through this period. We have already noticed an increase in the number of sales processes in Germany, and an influx of stock from motivated sellers may provide some momentum to European office markets more generally.

EMEA: NET FLOWS TO GERMAN OPEN-ENDED REAL ESTATE FUNDS

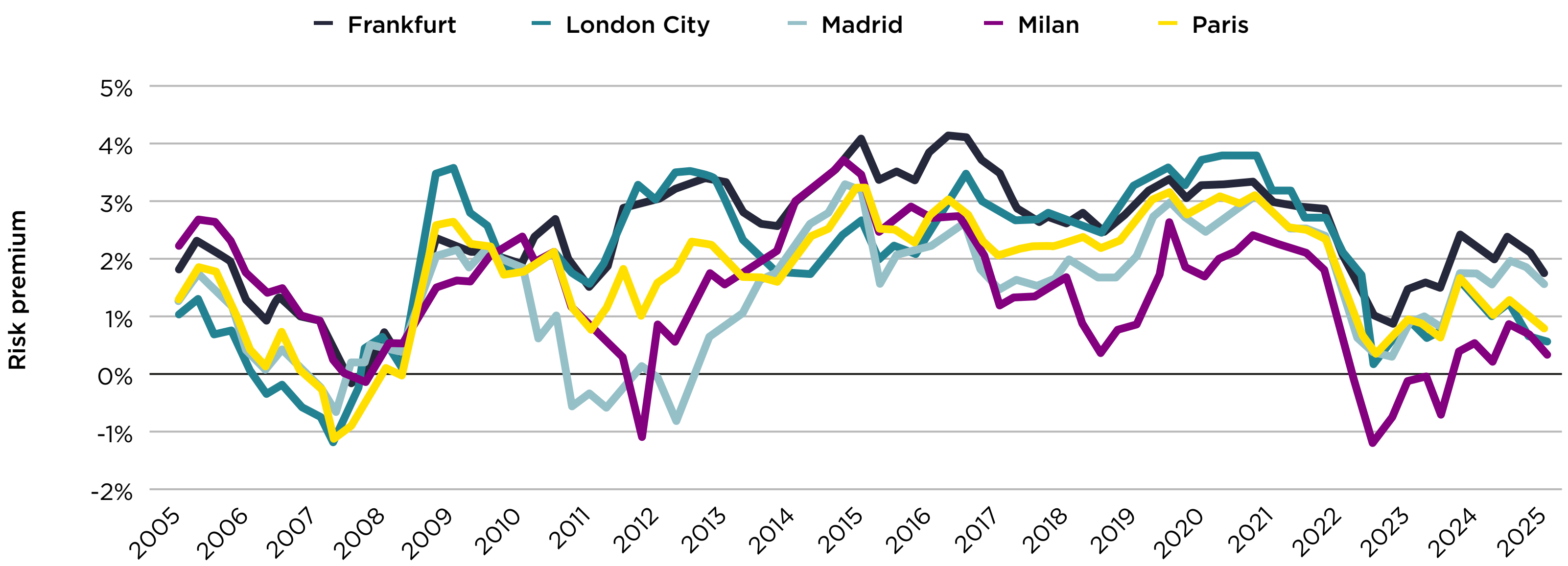


Savills Research using Macrobond

Meanwhile, a deeper pool of capital looking for larger lot sizes of up to €100m will support greater liquidity, as vendors get more comfortable listing their assets. This process is supported by the falling cost of debt. Across the six markets that we track in EMEA, the cost of debt has fallen to 4.5% from its peak of nearly 5.9% in mid-2023. The increase of alternative lending solutions and a lack of deals closing on the equity side has allowed owners to be more aggressive in negotiating terms, with some compression in margins complementing the decline in interest rates.

One downside risk to the outlook is in the volatility in government bond yields. Through the first quarter, long-term bond yields rose by around 30bps, largely following German Bunds after their parliament approved a major fiscal stimulus aimed at infrastructure and defence. This squeezed the prevailing risk premiums, especially in in low-yielding markets such as Paris, impacting the ability of those investors to transact with higher hurdle rates. More recently, US President Trump's tariff announcements have underpinned a decline in European bond yields, easing some of this pressure, but markets remain volatile.

EMEA: PRIME OFFICE RISK PREMIUMS



Savills Research using Macrobond. Risk premium calculated by subtracting the 10-year government bond yield from the prime office yield

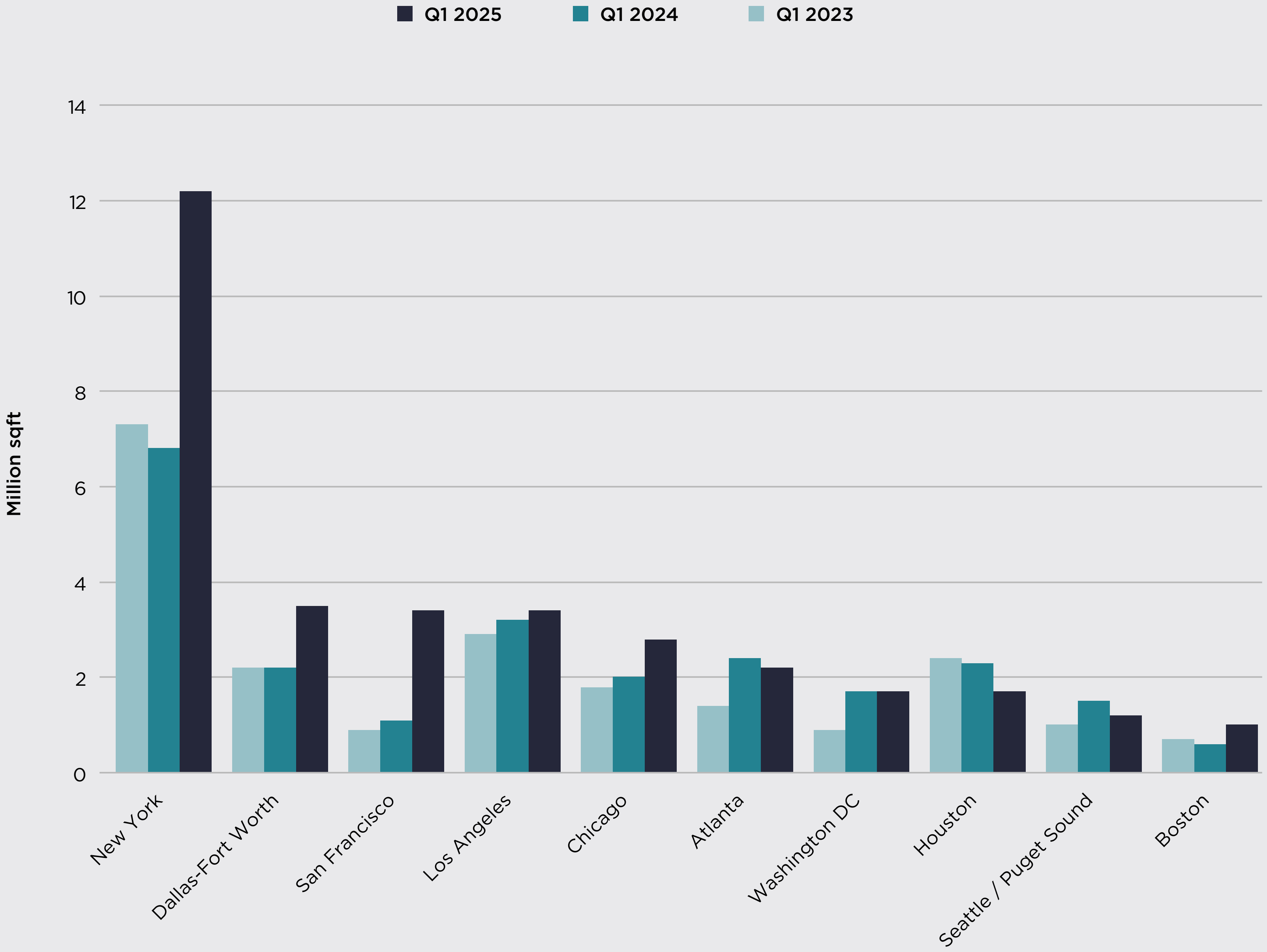
North America

US office investment totalled US$12.6bn in Q1, down by nearly 25% on the year. Towards the end of 2024, investment activity had started to recover, particularly in some of the major CBD markets, underpinned by improved occupational dynamics, and with the Fed on track to deliver lower interest rates and a soft-landing in growth. This optimism was reflected in debt markets, with New York leading a strong recovery in loan origination activity, albeit with a narrow focus on the best-in-class assets.

However, as the economic outlook for the US has weakened – a trend that pre-dates recent tariff announcements – some of the optimism, and the accompanying transactional activity, has also dwindled. This is also underpinned by reduced optimism for further interest rate cuts, with the Fed largely expected to remain on hold for the rest of the year. Our benchmark prime yields, which were expected to fall over the course of this year, are now expected to remain unchanged as a consequence.

Occupational markets have continued to improve at the beginning of this year. Most major cities in the US experienced robust leasing activity in Q1, with San Francisco notably having its best quarter since 2015. This is reflected in falling sublease space and an overall decline in availability rates across most markets. However, in some cities such as Los Angeles, this is primarily driven by an increase in owner-occupier acquisitions, and some conversions to residential reducing inventory levels. Leasing activity is still predominantly driven by renewals, rather than new leases or expansions.

US: LEASING ACTIVITY IN MAJOR OFFICE MARKETS



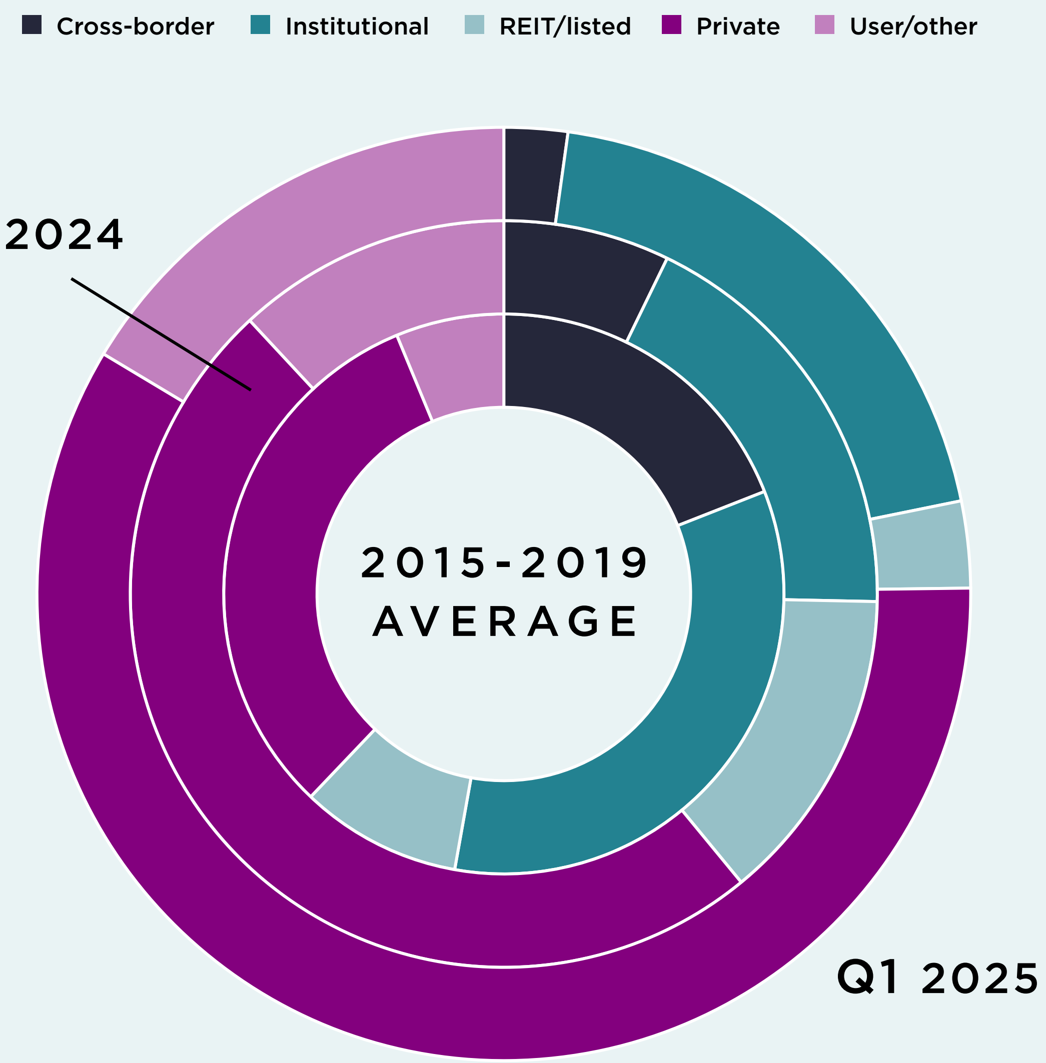
Source: Savills Research

The bifurcation of the office market remains a key theme. While the major cities are seeing overall rents plateau or fall, grade A rents have continued to rise, albeit that rental concessions across all grades of office remain high, as landlords aggressively compete for occupiers. Vacancy remains elevated, providing significant leverage for tenants in negotiating terms. This bifurcation is seen in the premium that newly-built offices can command. The constrained pipeline in Miami and New York is creating a significant uplift for new properties, further driving up prime rents. This trend is mirrored in Silicon Valley.

Private investors continue to be active buyers of US offices, accounting for nearly 60% of deals so far this year. Valuations of CBD offices have fallen by nearly 50% peak-to-trough, according to MSCI data. This repricing is attracting private investors into the market – total investment by privates in Q1 2025 rose by 44% on the year. For similar reasons, end-users are also taking the opportunity to acquire buildings at discounted prices, especially considering rents have not seen a significant repricing.

Institutional investors, both domestic and cross-border, remain cautious. However, the reported listing of 590 Madison Avenue in New York indicates that there is growing appetite to trade, with an apparent price tag of US$1.1bn. Should it successfully trade - with RXR Realty reported to be close to a deal - it would represent the first deal in excess of a billion dollars in two years. New York is however perhaps the only market in the US where an asset of this scale could transact at the moment.

US: OFFICE INVESTMENT BY BUYER TYPE

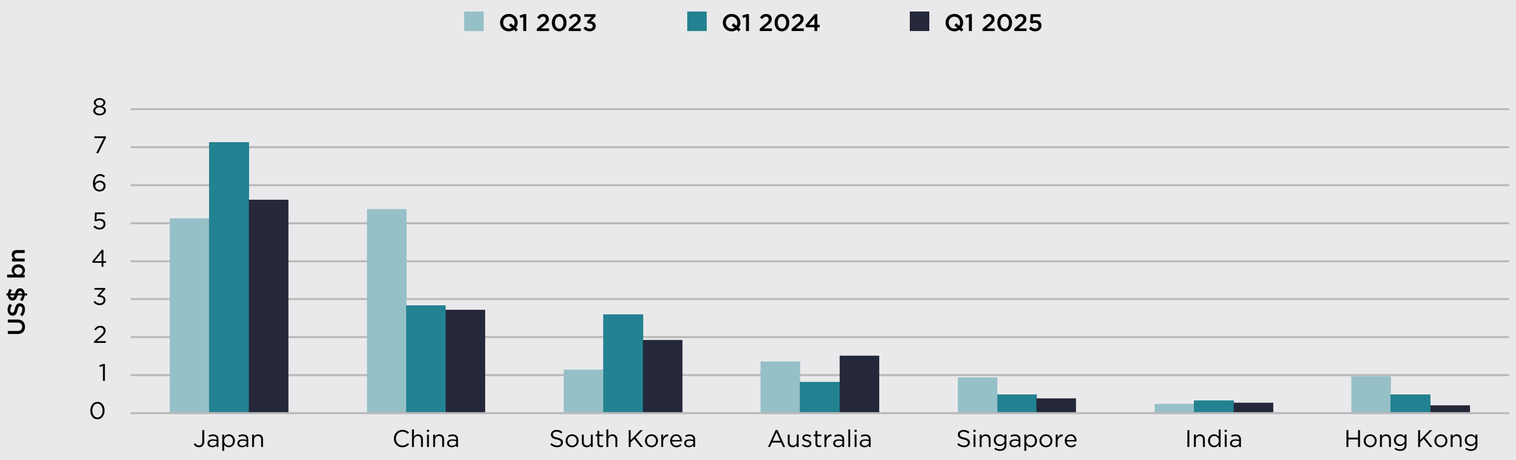


Source: Savills Research using MSCI RCA

APAC (Asia Pacific)

The US$12.9bn invested in offices across the APAC region in Q1 2025 represented an 18% decline on the year. This was largely due to falls in South Korea and Japan, although the latter was underpinned by base effects following an exceptionally strong start to last year. Deal activity in Singapore was also down, with very little of note transacting in the quarter. By contrast, the AUD2.4bn (US$1.5bn) of completed office transactions in Australia was more than 95% higher than Q1 2024, underpinned by several large deals in Sydney, all in excess of AUD500m, including 388 George Street and 10-20 Bond Street. Investment in China was broadly unchanged, potentially a sign of stabilisation in the market, despite zero recorded acquisitions from cross-border investors.

APAC: TOTAL OFFICE INVESTMENT



Source: Savills Research using MSCI RCA. Based on independent reports of properties and portfolios. Excluding development sites.

Throughout 2024, Seoul was one of the hottest office markets globally. However, there is some investor caution creeping in at the beginning of this year, due to a weaker economic outlook and increase in unsold asset listings. Leasing fundamentals have deteriorated since late last year, with both net absorption and rental growth slowing. With buyer appetite fading, there is a concern that vendors may have missed the window to transact, leading to an increase in unsold properties. Total office investment in Q1 of KRW 2.8tn (US$ 1.9bn) represented a near 20% decline on the year.

Sydney has seen a number of new completions, such as Martin Place and Parkline Place, both located in the heart of the CBD. Tenant demand for similar premium offices remains strong, however the onboarding of new supply of premium buildings is further exacerbating a bifurcation between the 'best' and 'rest', allowing tenants to trade up in quality. Overall, the prime CBD vacancy rate rose from 11.9% to 13.3% this quarter, underpinned by negative net absorption in grade A space, with premium vacancy remaining relatively stable. Investor sentiment remains robust, largely thanks to the RBA cutting rates in February for the first time since 2020. Asset prices appear to have bottomed out, with the prime yield expected to stabilise at 5.85%.

The Tokyo office market is expecting a large number of completions throughout the year, but much of this new supply is already pre-leased. As such, vacancy is expected to remain low, allowing rents to rise. These fundamentals continue to attract investors. While total investment of JPY866bn (US$5.6bn) in the first quarter was 18% down on the year, this comes off a very strong base – excluding Q1 2024, it was the strongest start to a year since 2018. The marquee deal was Blackstone's JPY400bn (US$2.6bn) acquisition of Tokyo Garden Terrace Kioicho, a mixed-use development, which would value the offices there at US$2.3bn.

In Shanghai, there was one notable deal in the quarter, with China Merchants Bank and China Post Life Insurance acquiring 60% of One Museum Place from ADIA and Hines. The transaction, which valued the asset at CNY10.9bn (US$1.5bn), a 20% discount from the asking price, is reflective of a wider trend of domestic buyers acquiring assets held by foreign owners, who are generally looking for an exit. A high proportion of deals are underpinned by distressed or motivated sellers, as occupational markets remain very weak, with rising vacancy and falling rents. The benchmark prime yield in Shanghai of 4.75% is expected to move out further over the next 12 months as a consequence.

Hong Kong faces a similarly poor occupational market, and office values have fallen by more than 50% over the past five years. One recent deal was notable, with a strata office floor transacting for the lowest price per square foot since 2008. Banks are reluctant to lend against office assets, which means that cash-rich privates or end-users, including local universities, remain the only active buyers in the market. There is potential for a recovery in market liquidity, fuelled by a rise in distressed sales, as more landlords face financial challenges, and banks call in existing debts.

Savills Takes Stock: Q1 2025

Key transactions

Tokyo Garden Terrace Kioicho

Tenant:	Multiple, including LY Corporation, MetLife Insurance, Dai-Ichi Life Insurance.
Lease length (WAULT):	Undisclosed
Area:	2.4m sqft
Price / NIY:	JPY400bn (US$2.6bn)/ Undisclosed
Vendor:	Seibu Holdings
Vendor nationality:	Japan
Purchaser:	Blackstone
Purchaser nationality:	United States
Other comments:	Mixed-use asset, comprising two grade A offices, 135 residential units, a hotel and exhibition space, and retail space. Reported to be the largest recorded foreign investment in the Japanese real estate market.

One Museum Place, Shanghai

Tenant:	Guotai Junan Securities, Pfizer, Tencent, Gensler
Lease length (WAULT):	Undisclosed
Area:	1.7m sqft
Price / NIY:	CNY10.9bn (US$1.5bn)/4.5%
Vendor:	Abu Dhabi Investment Authority (ADIA) and Hines
Vendor nationality:	United Arab Emirates and United States
Purchaser:	China Merchants Bank and China Post Life Insurance
Purchaser nationality:	China
Other comments:	ADIA and Hines have sold a 60% share in One Museum Place, LEED Platinum building, at a value that is reported to represent a 20% discount from the original listing price more than a year ago. The deal was the first billion dollar real estate transaction completed in Mainland China in 2025.

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