Asia-Pacific Outlook 2026

Value Hunting Amid Volatility: 2026 Sees Investors and Occupiers Rethink Real Estate Strategies

Economy

i. Frontloading of exports buoyed GDP growth in 2025

ii. Impact from tariffs is more evident in 2026

iii. Monetary policy and AI spending to support growth

"Asia-Pacific's resilience is fundamentally structural, not cyclical. While trade tensions and tariffs will temper near-term economic growth in 2026, the region's deepening trade linkages, technology-led investments and emerging economic clusters position it as a primary engine of global growth and wealth creation. Evolving fundamentals over the last decade have made the region a core pillar of global real estate strategy. Its dynamic markets will adapt to the shift in geopolitical realities and continue to remain compelling across a spectrum of strategies and thematic opportunities."

Craig Shute

Chief Executive Officer
Knight Frank Asia-Pacific

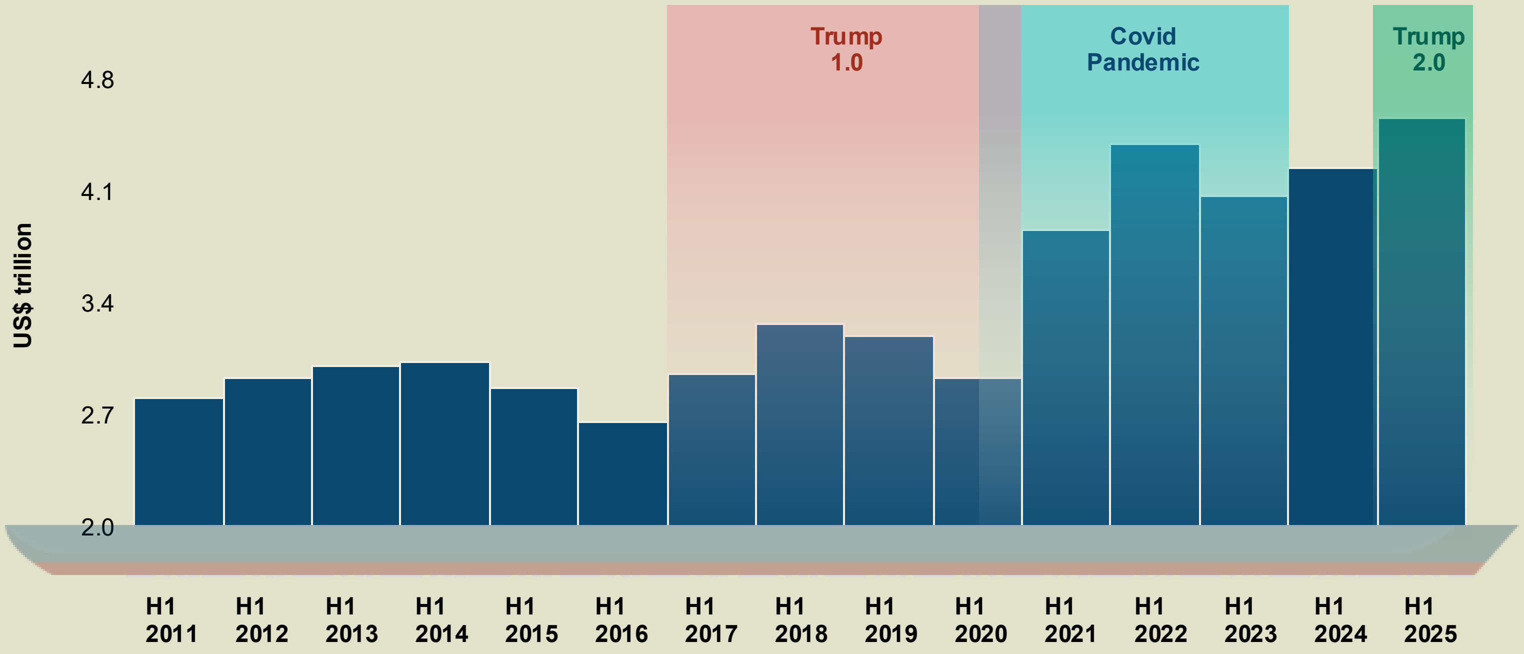
Economy

i. Frontloading of exports buoyed GDP growth in 2025

The Asia-Pacific economy has remained resilient in 2025, with growth holding steady relative to 2024. The acceleration of exports (Chart 1) ahead of tariff implementation has given economies in the region some breathing room, but this will cease in 2026. The full impact of Trump's tariffs is likely to emerge in 2026 to produce a more pronounced drag on investment and labour markets.

Chart 1: Exporters accelerated shipments ahead of tariff implementation

Asia-Pacific Total Export Value



Source: WTO

Economy

ii. Impact from tariffs is more evident in 2026

Consequently, Asia-Pacific GDP growth is expected to slow to 4.1% in 2026, from 4.5% in 2025. Still, the extent of the slowdown will be manageable. Most economies are expected to see growth soften by less than 1 percent. Heavily plugged into the tech cycle, Taiwan and Singapore will see growth cool at a faster pace in 2026, largely off the back of a stronger-than-expected showing in 2025 (Chart 2). Demand for artificial intelligence (AI) technology is driving Taiwan's economy to expand at its fastest pace in 15 years, at over 7%, in 2025.

South Korea is the only trade reliant economy to see growth picking up, aided by a ₩31.8 trillion (US$23.3 billion) supplementary budget to stimulate growth. Growth in New Zealand is expected to improve following an aggressive easing cycle in 2025, while domestic consumption will support the populous economies of the Philippines and Indonesia. Meanwhile, momentum in Australia could be curtailed if inflationary pressures prove to be sticky, thus, compelling its central bank to act. Still, largely powered by its emerging economies, the region will continue to remain a global growth driver (Chart 3).

Chart 2: Growth will mostly slow across Asia-Pacific

GDP Growth Projections

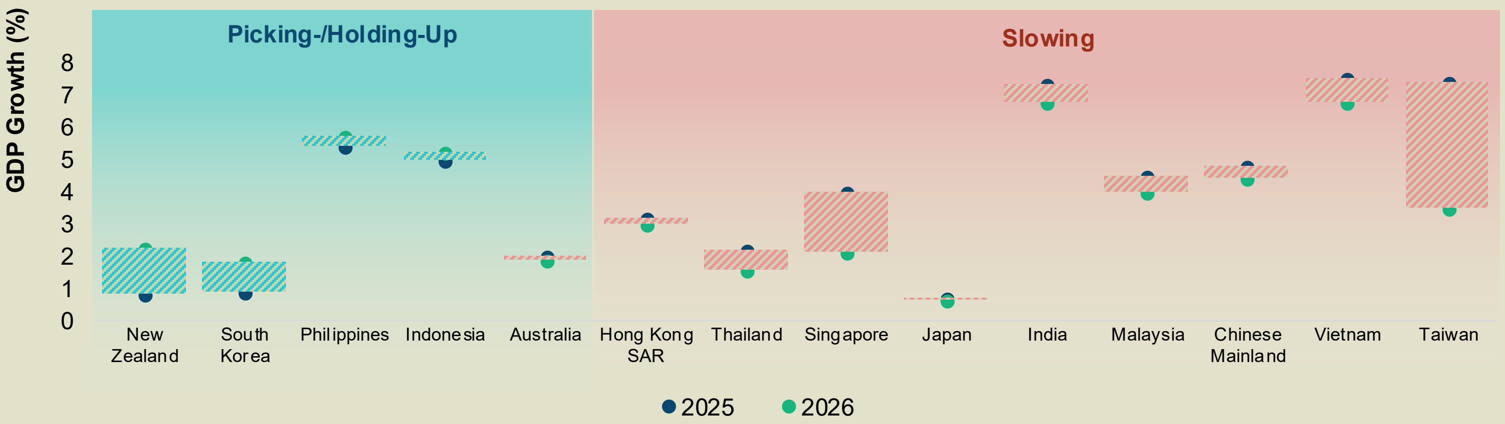
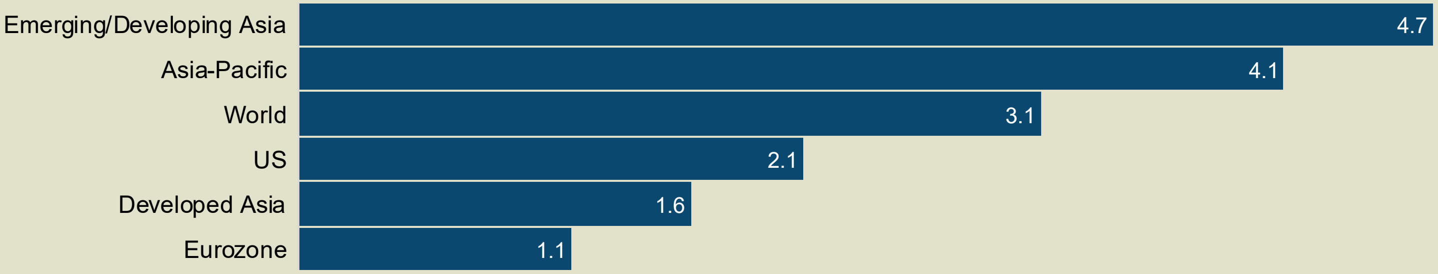


Chart 3: Emerging Asia to power global GDP Growth in 2026

2026 GDP Growth Projections (%)



Source: IMF WEO Oct 2025, Knight Frank Research

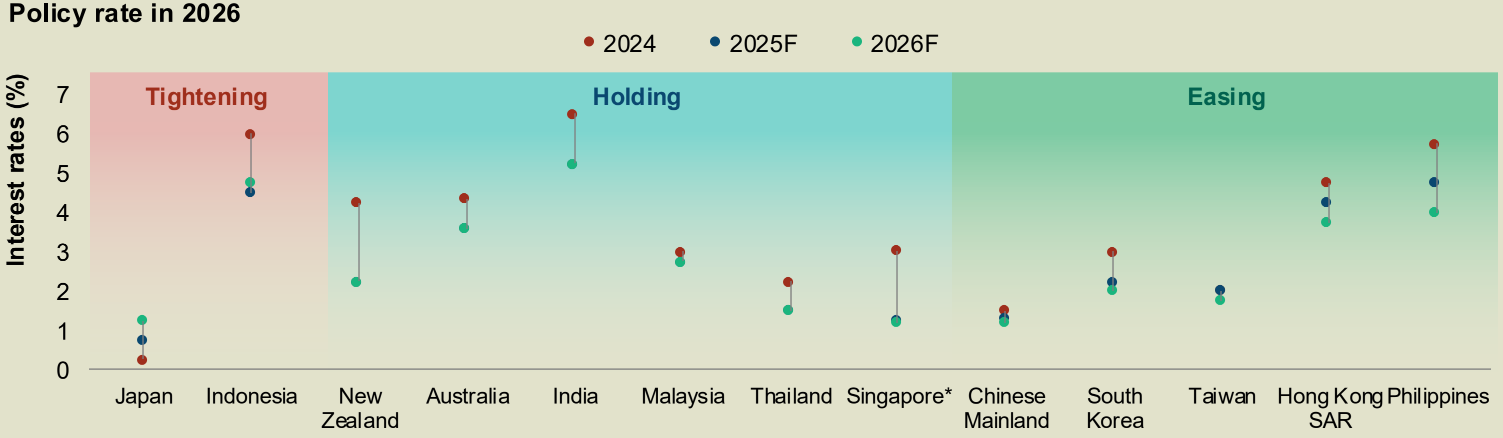
Economy

iii. Monetary policy and AI spending to support growth

Most central banks in the region have cut policy rates since 2024. With the easing cycle likely at its tail end in 2026, the magnitude of rate cuts will be relatively modest (Chart 4). Nevertheless, monetary and fiscal stimulus will still have sufficient flexibility to remain supportive should external conditions deteriorate. Inflation has slowed, and with the Fed likely to ease again in 2026, most central banks in the region will have room to manoeuvre. The recent strengthening of regional currencies against the US dollar further eases imported inflation pressures, allowing for calibrated cuts and a stable environment for real estate markets.

Alongside the region's long-term growth drivers is an AI driven cycle that will continue to fuel growth by boosting tech exports and strengthening intra-regional trade (Chart 5). Investments in AI-related equipment, facilities, and data centres have supported robust performance through 2025. Key Asian economies – including Taiwan, South Korea, Singapore, Malaysia, Thailand, and Vietnam – integral to the global tech supply chain are benefiting from sustained global technology spending.

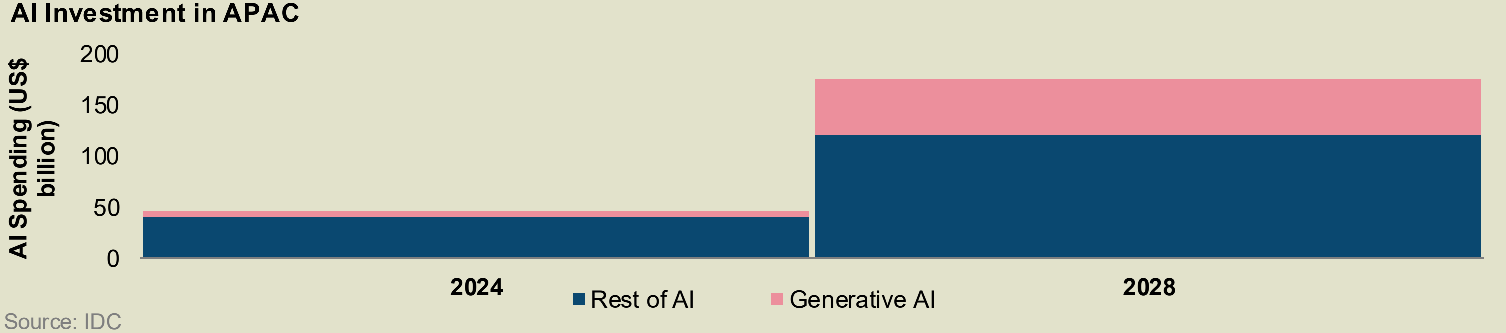
Chart 4: Rate cuts to be more modest in 2026



*proxied by 3-month compounded Singapore Overnight Rate Average

Source: SP Global, Knight Frank Research

Chart 5: Generative AI-related spending in Asia-Pacific to rise by close to 10-fold by 2028



Source: IDC

Office

"Economic volatility, geopolitical instability, digital acceleration are the new forces reshaping occupiers' priorities. In this environment, real estate is emerging as a strategic platform that underpins future growth. 2026 is shaping up as a year where it is not about choosing between cost control and transformation – it's about delivering both. The most effective leasing decisions will anticipate disruption, delivering flexibility with proven operational infrastructure. Occupiers will have to think beyond cost metrics and align leasing decisions with purpose, productivity, and performance."

Tim Armstrong

Global Head of Occupier Strategy and Solutions
Knight Frank Asia-Pacific

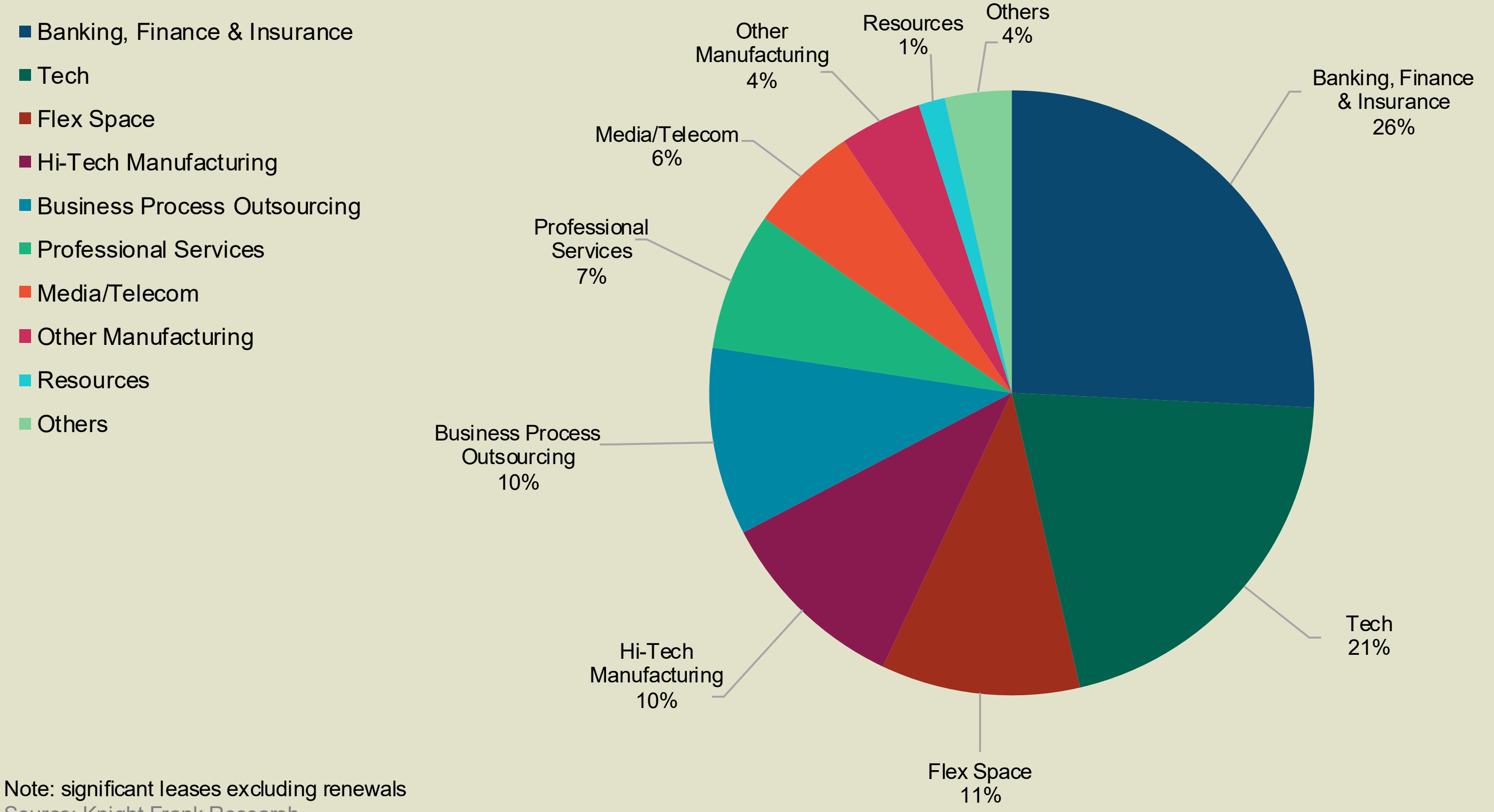
Office

i. Demand stays resilient in 2025

Asia-Pacific office leasing demand has remained resilient in 2025. Despite the delivery of over 10 million square metres (sqm) of new space in 2025, vacancies have been contained near 2024 levels at under 15%, underscoring the depth of demand in the region. Leasing activity in the financial sector, which accounted for over a quarter of new spaces leased in the region (Chart 6), has been robust, driven by expansionary demand from Global Capability Centres (GCCs) in India, which is on track for record leasing volumes. Hong Kong's resurgent IPO scene has also spurred a recovery in demand from financial and legal firms.

Chart 6: Financial and tech firms power half of leasing activity

APAC Leasing Activity by Sector



Note: significant leases excluding renewals
Source: Knight Frank Research

Office

ii. Options remain ample in 2026

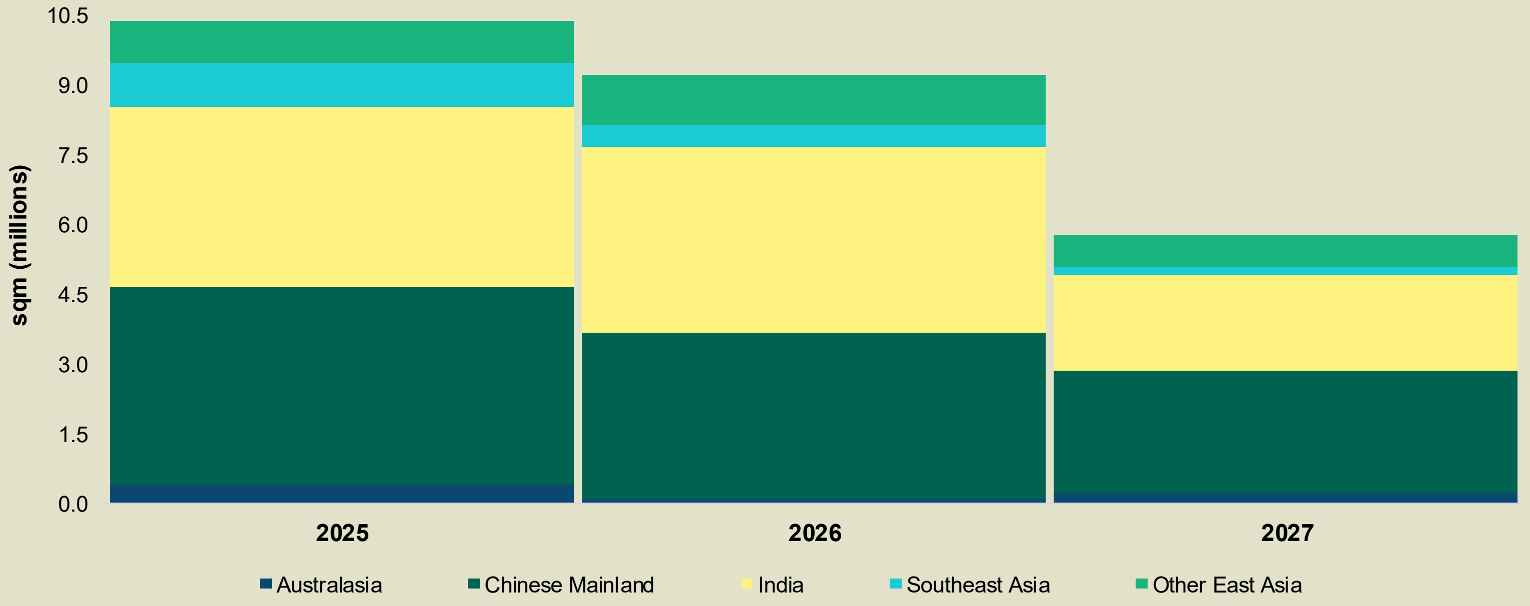
While occupiers will continue closely monitoring costs against a backdrop of moderate economic growth and prevalent geo-political risk, the overriding focus on workplace optimisation will continue to drive flight-to-quality demand in 2026.

Corporates' highly selective approach will see demand channelled to high-quality and ESG-compliant spaces in prime core locations. Higher utilisation targets, rightsizing and a shift towards centralised locations, as tenants upgrade into higher-quality space, are expected to support leasing activity into 2026.

While 2026's pipeline supply is expected to be reduced by over 11% from 2025 levels, it will remain substantial, with close to 9.4 million sqm expected to be completed across the region (Chart 7). Regional vacancies are likely to post a moderate rise to 16-18%, while rental growth is expected to be under 2%.

Chart 7: New supply remains substantial in 2026

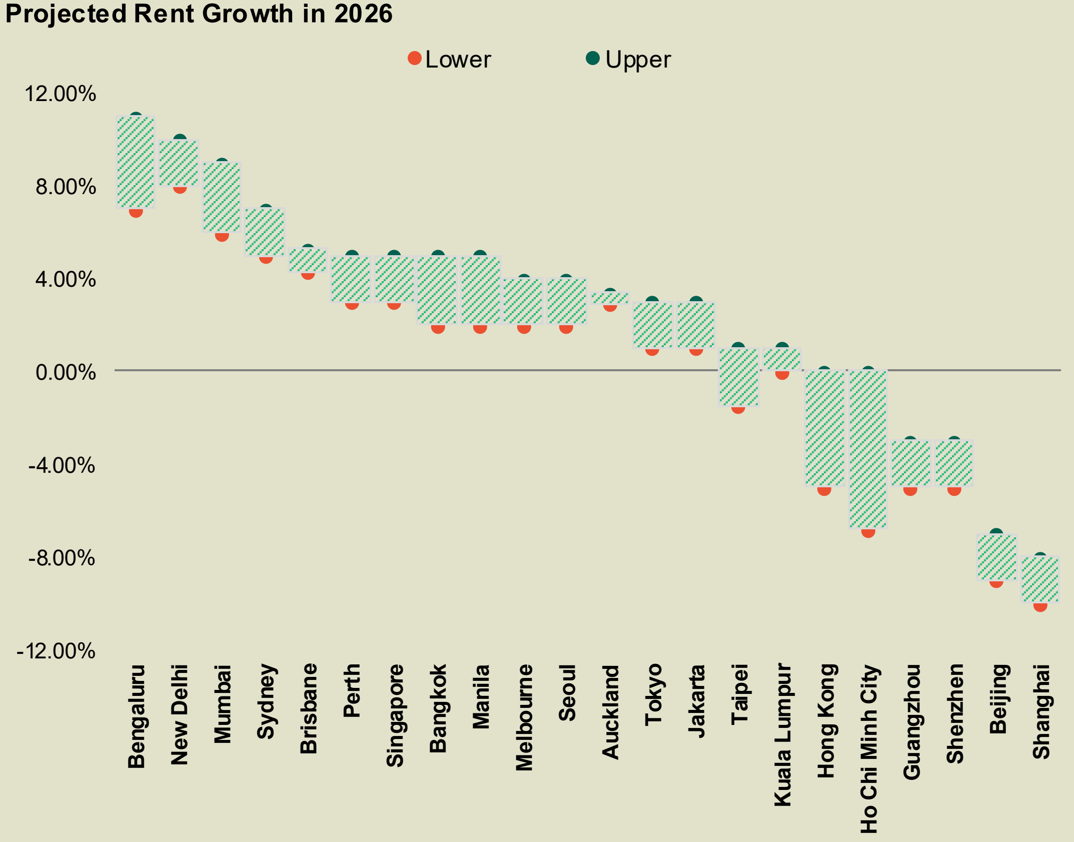
Development Pipeline



Source: Knight Frank Research

Office

Chart 8: Average rent growth to be under 2% in 2026



Source: Knight Frank Research

Sub-Region	Market	2026 Forecast (YoY)	2026 Market Conditions
Australasia	Brisbane	4.8%	Landlord
	Melbourne	3.0%	Tenant
	Perth	4.0%	Tenant
	Sydney	6.0%	Tenant
	Auckland	3.1%	Balanced
East Asia	Beijing	- 8.0%	Tenant
	Guangzhou	- 4.0%	Tenant
	Shanghai	- 9.0%	Tenant
	Shenzhen	- 4.0%	Tenant
	Hong Kong	- 2.5%	Tenant
	Taipei	- 0.3%	Tenant
	Tokyo	2.0%	Balanced
	Seoul	3.0%	Balanced
India	Bengaluru	9.0%	Balanced
	Mumbai	7.5%	Balanced
	New Delhi	9.0%	Balanced
Southeast Asia	Jakarta	2.0%	Tenant
	Kuala Lumpur	0.5%	Tenant
	Singapore	4.0%	Balanced
	Bangkok	3.5%	Tenant
	Manila	3.5%	Tenant
	Ho Chi Minh City	- 3.4%	Tenant

Office

iii. Occupier Themes in 2026

a. Cost Efficiency & Workplace Transformation

Office occupiers across Asia-Pacific are expected to stay cautious on costs, as economic uncertainty, elevated interest rates, and rising fit-out expenses persist. However, they will face multiple and often competing mandates to respond to transformation pressures (Chart 9). AI integration, sustainability commitments, and workforce evolution will drive investment in workplaces that support collaboration and talent strategies. Cost efficiency will become a means to enable re-invention, with occupiers sequencing cost measures alongside capability-building initiatives.

b. Stay vs Go

While leasing activity in 2025 has been dominated by renewals as companies seek to avoid incurring relocation capital expenditures (CapEx), this trend is ultimately not sustainable, as the shift towards future-ready spaces intensifies. Given business transformation pressures, the balance will likely tip in favour of relocation at some point. 2026 is likely to be pivotal.

As new office supply in the region is set to fall by over a third in 2027, occupiers will be compelled to rethink their occupational strategies amid a tightening development cycle that could set rents rising at a faster clip. We expect boardrooms to debate this more intently in the year ahead.

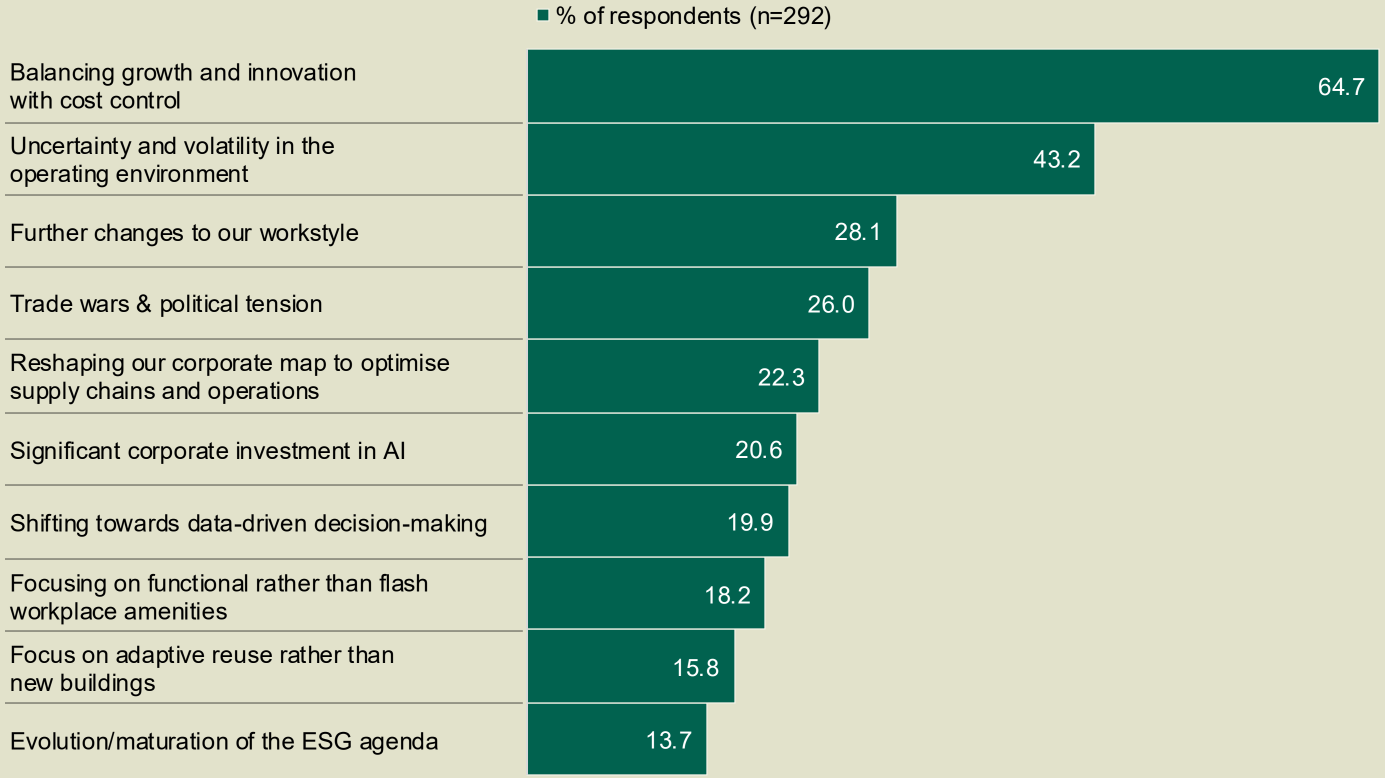
c. Flex space is gaining traction

The region's office occupier markets are not just defined by flight-to-quality – it's also being reshaped by flexibility, especially against the backdrop of rising geopolitical risks. The role of flexible workspace in corporate real estate has expanded, as agility, scalability, and cost efficiency have become even more important to occupiers. The use of managed offices, which offers more customisation and privacy within a shared workspace facility, has made flexible workspaces more viable for corporates by bridging the gap between traditional leases and coworking spaces. Co-working operators are also seeking closer ties with landlords to expand. This allows the operator to do away with a conventional lease while asset owners are able to provide flexibility to tenants without the operational burden. For instance, Singapore-based flex-space operator, The Work Project, has struck JV-agreements with CapitaLand, and most recently, with Dexus, to expand in Australia.

Office

Chart 9: CRE strategy faces a balancing act

Which of the following are most likely to influence your real estate strategy over the next 3-5 years? (Choose three)



Source: Knight Frank (Y)our Space 2025

iv. Strategies for 2026

	Occupiers	Landlords
i.	Elevate the CRE function to support business growth and transformation and avoid strategic misalignment.	Deliver more meaningful workplace amenities and services.
ii.	Utilise workplace technology and data to quantify usage and track occupancy patterns, amenity use to optimise space configurations and performance.	Collaborate with occupiers to understand requirements to maintain occupancy.
iii.	Explore options while leasing terms remain attractive.	Build in optionality through shorter leases to attract new tenants and capture market recovery.

Office

Insights: **Vivek Rathi**

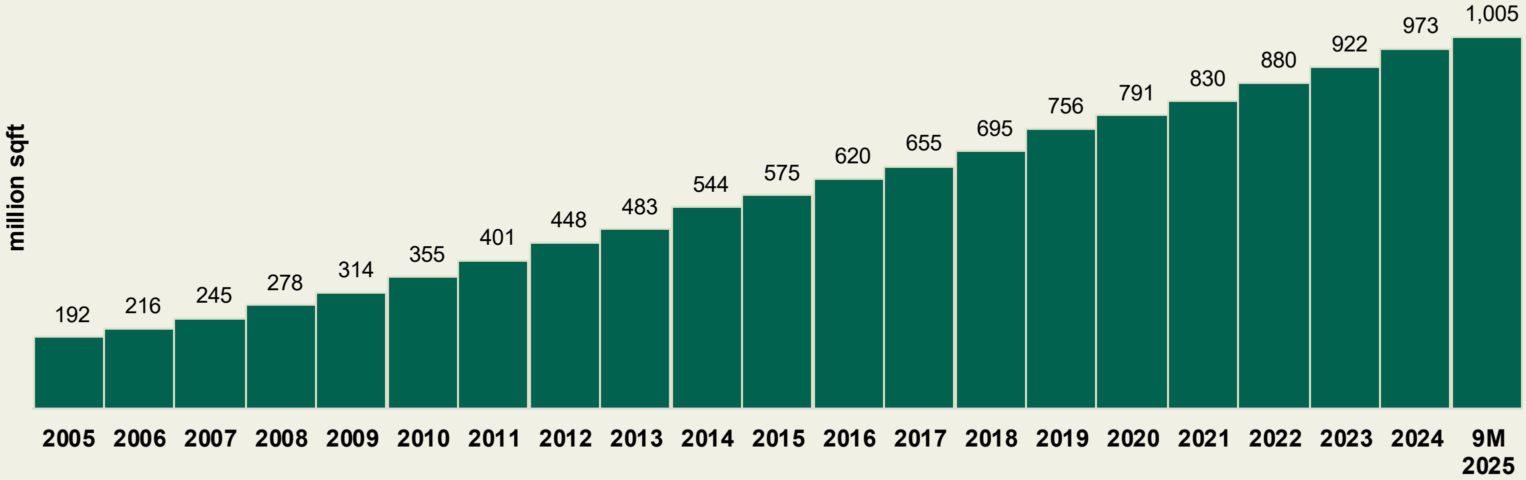
Next stage of growth for India's office market

Vivek Rathi
National Director, Research,
Knight Frank India

India's office market enters 2026 with healthy momentum, supported by a comparatively strong domestic business climate and resilient occupier sentiment. Even as global uncertainties and tariff-related pressures encourage cautious capital deployment among multinational firms, India continues to stand out as a strategic growth market. The country's affordability, talent depth, regulatory stability, and maturing workplace ecosystem strengthen its appeal relative to other global hubs.

The market crossed 1 billion square feet (sqft) of Grade A led stock in 2025 (Chart 10), underscoring the sector's institutional depth and maturity. Yet the next phase of growth will not just depend on adding new supply but also on repositioning existing assets, integrating technology, and navigating a more cautious global economic environment.

Chart 10: India's office market crosses a milestone in 2025
Indian Office Stock across Top 8 cities*



*Ahmedabad, Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai, Pune
Source: Knight Frank Research

Office

A prominent theme for 2026 is the rise of retrofitting and refurbishment, driven by a scarcity of viable, centrally located Grade A assets and tightening occupier expectations. Much of India's early-2000s office stock is approaching functional obsolescence, prompting landlords to modernise buildings with upgraded heating, ventilation, and air conditioning (HVAC) systems, enhanced natural light, ESG-certified materials, and workplace experience technologies. This pivot is accelerating as occupiers show a clear willingness to pay for performance, sustainability, and workforce well-being rather than for mere square footage.

Simultaneously, the macroeconomic climate shaped by shifting global trade policies, tariff-related uncertainties, and measured expansion plans among multinational firms should heighten the demand for flexibility. In 2026, enterprises are expected to favour flexible lease tenures, expansion-ready floors, hybrid-fit layouts, and managed office solutions. Flex operators should see sustained demand as occupiers aim to balance cost optimisation with agility. India's cost competitiveness, with rentals still below US$1/sqft/month in many markets, will continue to anchor global real estate consolidation strategies.

2026 will also mark a widening gap between high-quality developments and the rest of the market. With Grade A already at 54% of stock in 2025 and vacancy steadily declining, occupier preference will increasingly cluster around new-generation, future-ready campuses. Developers with institutional capital, strong ESG frameworks, and digital infrastructure capabilities will retain a clear edge. Aging office buildings with inefficient design layouts, unless substantially refurbished, risk being priced out of consideration.

Technology will amplify this divergence. PropTech, AI-driven building management, energy optimisation tools, and smart workplace analytics will become standard expectations among large tenants, especially GCCs and technology firms. India's strong domestic fundamentals and deep talent pool, which supported robust leasing since the pandemic, will continue to attract global capability centres that seek both cost efficiency and strategic operational depth in 2026.

Overall, 2026 is expected to be a year of qualitative consolidation rather than unfettered expansion. The Indian office market is set to become more polarised, more sustainable, and more experience-oriented while occupier demand continues to favour quality, flexibility, and long-term value creation.

Logistics

> Asia-Pacific's logistics occupiers are taking measured approaches, rather than extensive shifts, and building incrementally to foster resilient supply chain. Occupiers will increasingly optimise for both cost efficiency and strategic proximity, prioritising high-quality, proven locations that support operational efficiency and leveraging the accelerating influence of automation and AI-driven analytics to sustain margins. With supply chains diversifying and e-commerce corridors expanding, managing location strategy and operational agility is likely to shape leasing decisions in the year ahead.

Tim Armstrong

Global Head of Occupier Strategy and Solutions
Knight Frank Asia-Pacific

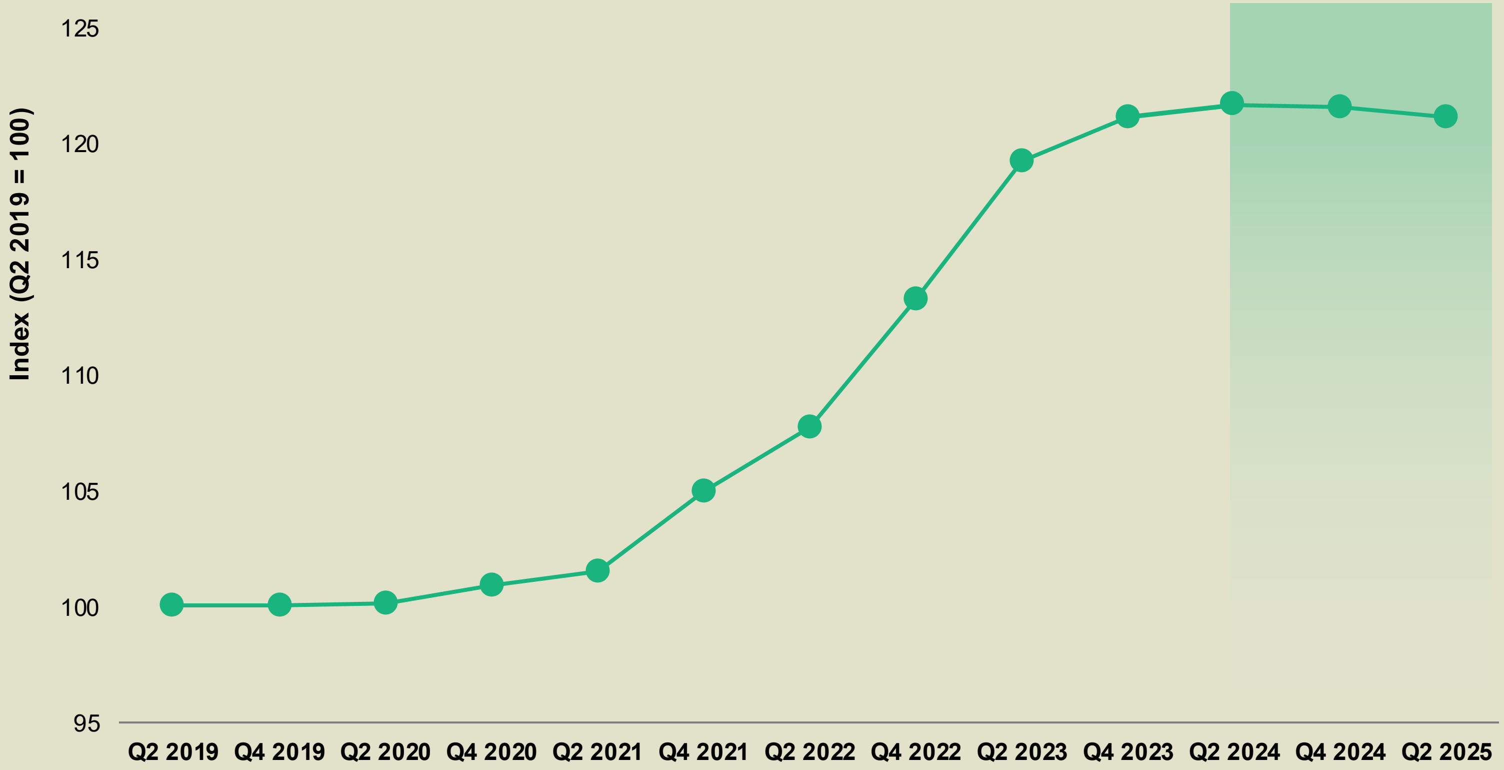
Logistics

i. Rental upcycle ends in 2025

Rents for logistics spaces in the region were largely flat, dipping marginally year-on-year by just 0.4% in H1 2025 amid heightened occupier caution (Chart 11). While rental growth in the Chinese mainland markets continued to decline, it also lost momentum in Australia and Southeast Asia. India was the region's brightest spark, as occupier activity remained robust. The country continued to lead export growth, with the rate of manufacturing activity picking up.

Chart 11: Rent growth tapers off

Asia-Pacific Logistics Rent Index



Source: Knight Frank Research

Source: Knight Frank Research

Logistics

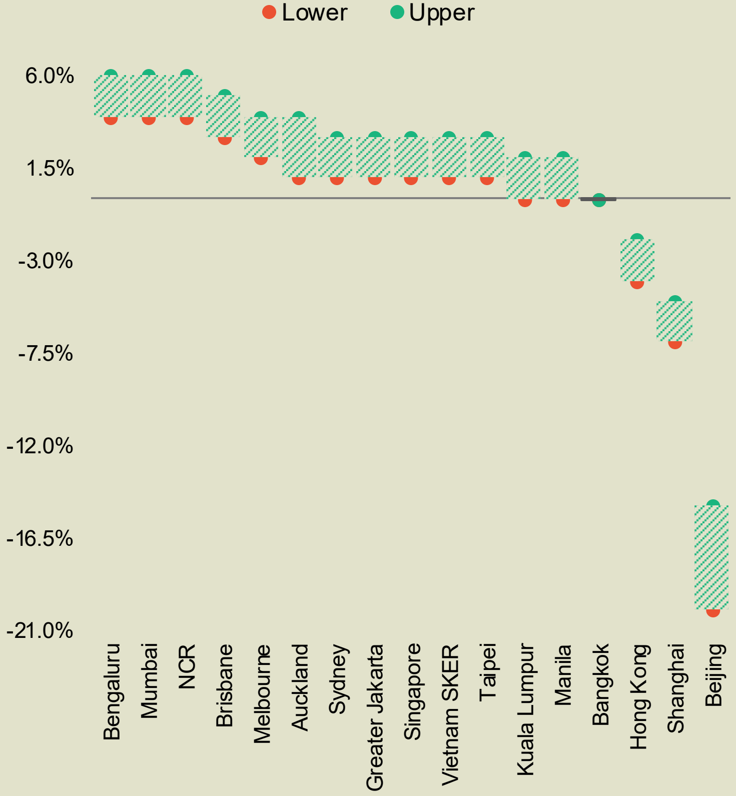
ii. Outlook: Cautious sentiment spills over to 2026

Asia-Pacific's logistics occupier markets will continue to navigate a varied landscape in 2026. Occupier demand will remain driven by 3PLs, e-commerce growth and a regional flight to quality to modern high-spec facilities. With pipeline supply in 2026 remaining elevated, rent growth will largely be restrained to under 2%. An estimated 2.5 million sqm is expected to deliver in Beijing and Shanghai, of which, close to 60% will be in Beijing, primarily in the Pinggu and Shunyi Districts. This is expected to accelerate rental declines in the city. While this will be conducive to a more active leasing market, vacancy levels will continue rising due to lackluster demand. The development pipeline will also remain substantial in the Eastern Seaboard markets in Australia, particularly Sydney and Melbourne. As such, we can expect landlords to remain accommodative.

"With pipeline supply in 2026 remaining elevated, rent growth will largely be restrained to under 2%."

Chart 12: Rent growth to remain marginal

Projected rent growth in 2026



Source: Knight Frank Research

Sub-region	Market	2026 Forecast (YoY)	2026 Market Conditions
Australasia	Brisbane	4.0%	Balanced
	Melbourne	3.0%	Tenant
	Sydney	2.0%	Tenant
	Auckland	2.5%	Tenant
Greater China	Beijing	-17.5%	Tenant
	Shanghai	-6.0%	Tenant
	Hong Kong	-3.0%	Tenant
	Taipei	2.0%	Landlord
India	Bengaluru	5.0%	Balanced
	Mumbai	5.0%	Balanced
	NCR	5.0%	Balanced
Southeast Asia	Greater Jakarta	2.0%	Balanced
	Kuala Lumpur	1.0%	Balanced
	Singapore	2.0%	Balanced
	Bangkok	0.0%	Balanced
	Manila	1.0%	Balanced
	SKER	2.0%	Tenant

Logistics

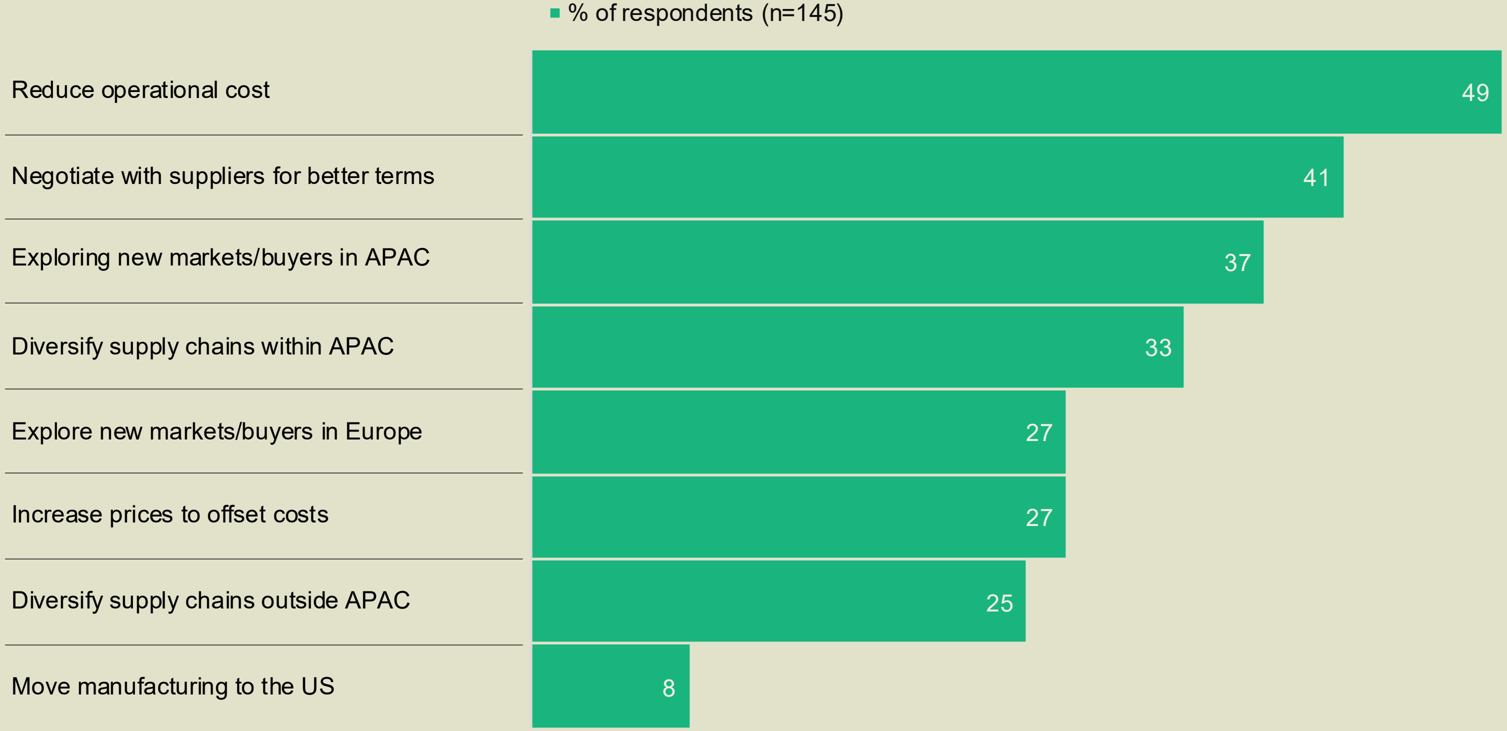
iii. Occupier Themes in 2026

a. Supply Chains: Continued, yet measured, moves to strengthen supply chains amid tariff uncertainty.

Companies are unlikely to undertake major supply chain shifts amid ongoing geopolitical manoeuvring and US government measures to curb transshipment intended to evade duties. While firms will continue to strengthen supply chains, they are cognisant that pursuing resilience at any cost is unsustainable. Instead, they are prioritising strategic diversification through expanding manufacturing footprints, creating multiple supply chains, and adopting dual sourcing to mitigate risks. Shared capacity via contract manufacturing and joint ventures is gaining traction to reduce costs while maintaining flexibility. Firms that enhance risk management, embed climate considerations, accelerate automation and conscientiously track resilience trade-offs will be better to master this balance and gain a competitive advantage in an era of uncertainty and volatility.

Chart 13: Expansion and diversification are key strategies for companies in Asia-Pacific

Q: What strategies are your organisation considering to manage the impact of tariffs on your operations? (Pick all that apply)



Source: Adapting to 2025 Global Economic Shifts – Asia-Pacific Survey (WTW)

Logistics

b. Growing importance of Southeast Asia and India in the region's supply chains.

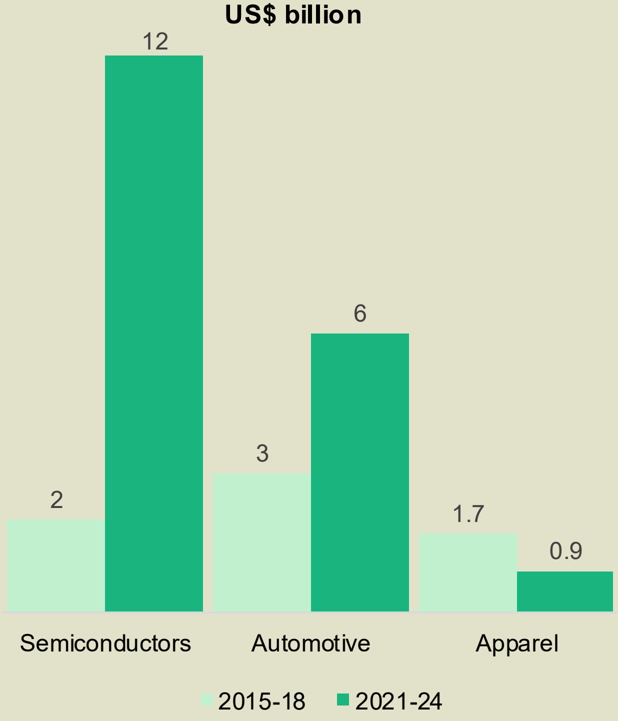
Southeast Asia and India are emerging as key players in global supply chains as companies seek resilience and diversification beyond the Chinese mainland. Rising costs in the Chinese mainland and the adoption of China+*n* strategies have accelerated this shift, with businesses leveraging these regions' favourable demographics, skilled labour, and improving infrastructure.

Southeast Asia sits at the centre of this global trade rebalancing. The region benefits from a young workforce, expanding consumer markets, and established trade agreements, making it an attractive destination (Chart 14). As manufacturers diversify their supply chains, countries within the ASEAN bloc have become preferred alternatives. Its expanding logistics infrastructure and government policies further enhance its role as a major beneficiary of supply chain diversification.

India is also positioning itself as a significant manufacturing hub, particularly in electronics and automotive, supported by government initiatives like "Make in India." Its strategic location, large skilled workforce, and proactive government measures, such as infrastructure upgrades, regulatory simplification, and investment incentives, make it a compelling alternative. Together, these factors underscore a broader trend toward regional resilience and diversified global supply networks.

Chart 14: Southeast Asia powers supply chain resilience

Inward FDI into SEA supply chain-intensive sectors*



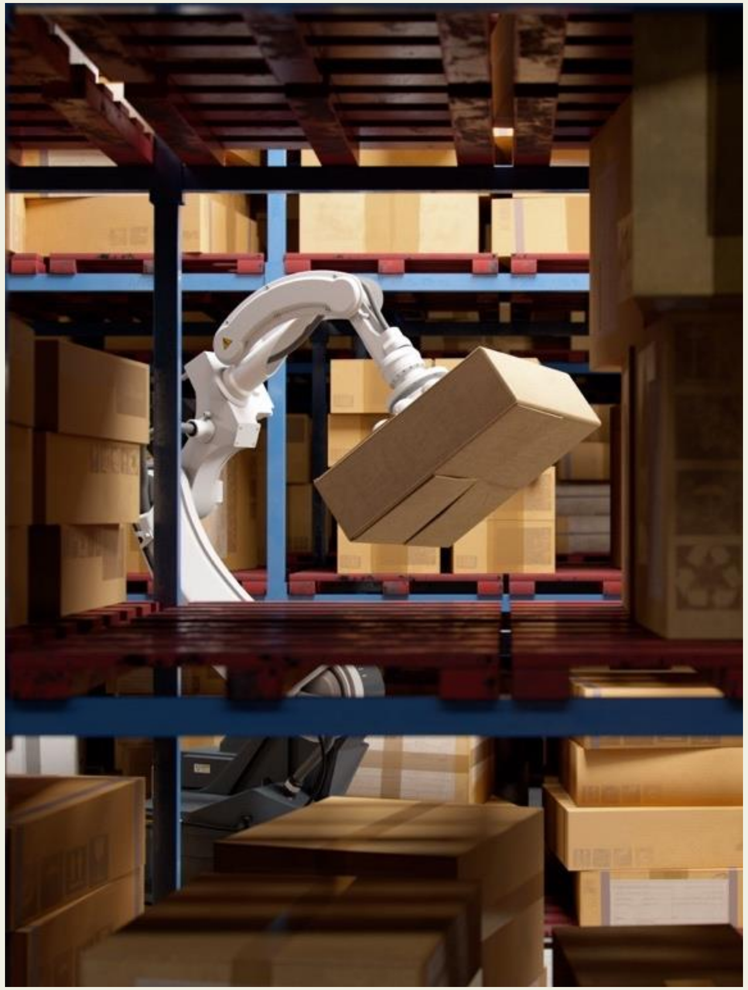
1. Cambodia	2. Indonesia	3. Malaysia	4. Philippines
• Electronics • Apparel	• EV Batteries • Automotives • Electronics	• Semi-conductors • Pharmaceuticals • Automotives	• Electronics • Industrial Machinery
5. Singapore	**6. Thailand**	**7. Vietnam**	
• Semiconductors • Pharmaceuticals • Chemicals	• Automotives • Pharmaceuticals • Electronics	• Electronics • Industrial Machinery • Apparel	

*defined as sectors that rely on complex global networks for production
Source: ASEAN

Logistics

c. Tech/Flexibility: Rising adoption of on-demand warehousing and logistics solutions.

On-demand warehousing is reshaping supply chains by offering flexibility, resilience, and cost efficiency amid e-commerce growth and rising delivery expectations. This model, which converts fixed overheads into variable expenses, enables businesses to scale with demand. Strategic hubs and micro-fulfilment centres near consumers reduce transit times and overall logistics costs, even when rents are higher. Advanced analytics will be key in guiding location decisions and mitigating pricing volatility during peak seasons. A main advantage is optimising total occupancy cost, which goes beyond rent to include labour and transportation savings. By decentralising storage and leveraging technology, expansion into new markets can be explored without heavy capital investment. Companies are likely to experiment with fixed warehouses at the core and flexibility at the edges to create more adaptable supply chains. Amazon, for example, operates a sophisticated hybrid system by combining its vast network of permanent, automated warehouses with on-demand solutions.



iv. Strategies for 2026

	Occupiers	Landlords
i.	**Resilience:** Selectively embed multi-modal flexibility to build resilience into supply chains.	**Intra-Regional Trade:** Position portfolio strategies to leverage growing intra-regional trade (e.g., Southeast Asia, where 88% of trade remains in the Asia-Pacific).
ii.	**Technology:** Leverage data analytics and tech-driven solutions as a growth enabler.	**Urban:** Invest in urban logistics assets and micro-fulfilment centres.
iii.	**Opportunities:** Explore options while leasing terms remain favourable.	**Leases:** Introduce flexibility into leasing terms.

Logistics

Insights: **Martin Wong**

Can the Low Altitude Economy Drive Hong Kong's Logistics Market?

Martin Wong
Head of Research,
Knight Frank Greater China

Hong Kong's low-altitude economy is gradually emerging as a new direction for urban innovation and industrial upgrading. This concept covers a wide range of activities, primarily referring to economic models derived from various aviation operations within the altitude range of ground level to 1,000 meters. These include drone logistics, air transportation, aerial sightseeing, environmental monitoring, and emergency medical delivery. These emerging applications not only represent technological progress but also signify a profound transformation in the utilisation of urban space.

To drive the development of the low-altitude economy, Hong Kong must establish a solid foundation in technology and talent. Currently, local R&D capabilities in related fields remain limited, and there is an urgent need to attract professionals with backgrounds in aviation, artificial intelligence, data processing, and urban planning to carry out systematic technology development and testing. At the same time, the social and economic impacts of low-altitude activities must be comprehensively assessed. In a high-density urban environment, balancing safety, noise, privacy, and efficiency is a key challenge for policymakers.

It is worth noting that Hong Kong's districts have diverse histories of urban planning. Some areas have high building density and complex airspace. If a uniform 1,000-meter upper limit is applied to low altitude activities, it may not fully optimise airspace resources. Therefore, technical standards for the low-altitude economy should be flexible and tailored to regional characteristics.

Emerging Applications and Pilot Projects Driving Innovation

Hong Kong is actively positioning itself as a hub for advanced logistics solutions through low-altitude technologies. The government's Regulatory Sandbox initiative has already approved dozens of pilot projects, covering scenarios such as emergency medical deliveries, drone-based inspections, and cross-boundary logistics routes.

For example, SF Express Hong Kong, in partnership with Phoenix Wings, has successfully launched the city's first cross-sea drone delivery route between Cyberport and Cheung Chau. Covering a 12-kilometre distance in just 18 minutes, the trial flight marks a breakthrough in overcoming traditional ferry scheduling and routing constraints. This initiative demonstrates how low-altitude logistics can unlock faster, more flexible delivery solutions for Hong Kong's outlying island, setting a precedent for scalable urban air mobility across the region.

In addition, Meituan's food delivery brand Keeta has officially launched Hong Kong's first commercial drone delivery route, marking a significant milestone in the city's low-altitude logistics development. The route connects Cyberport to Kennedy Town, with each delivery priced at HK$30 (US$3.80). The drone flight takes approximately 10 minutes, offering a faster alternative to traditional road-based delivery. Keeta Drone also targets the less price-sensitive market for delivering medical samples and diagnoses.

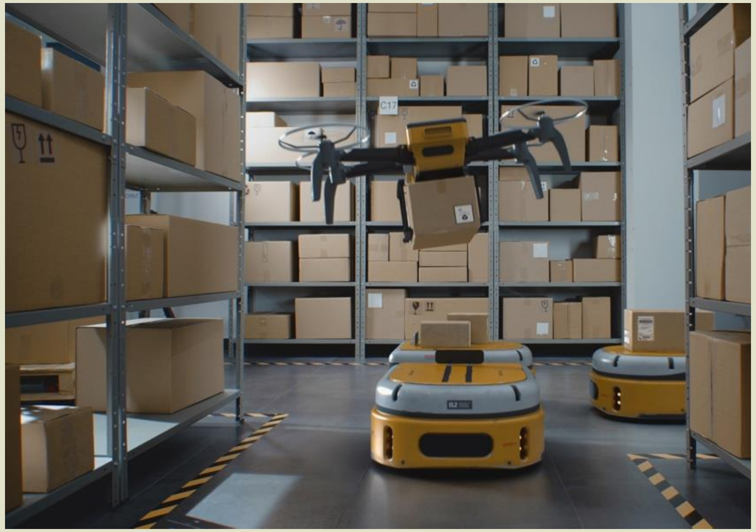
Logistics

Beyond parcel delivery, urban air mobility (UAM) is emerging as a transformative application. Passenger drones and eVTOL aircraft trials are underway on Hong Kong's outlying islands, targeting tourism and short distance transport. These trials are supported by infrastructure planning for vertiports, smart traffic management systems, and spectrum allocation for low altitude communications. Research institutions such as HKUST are addressing critical challenges like noise reduction and flight safety in dense urban environments, ensuring public acceptance and regulatory compliance.

Will Hong Kong's Low-Altitude Economy Drive Modern Logistic Leasing Demand?

We expect the low-altitude economy to stimulate demand for modern logistics leasing, particularly for properties with rooftop access and sufficient structural capacity to support drone pads, charging stations, and vertiports. These features are set to become strategic assets for logistics firms and urban air mobility operators. It will be likely to drive upgrades in older industrial buildings and influence the design of new developments, particularly in the Northern Metropolis, where space for drone operations and related facilities can be more readily integrated.

Moreover, tech parks and innovation hubs such as Cyberport, Hong Kong Science Park and Hong Kong-Shenzhen Innovation and Technology Park, with their proximity to R&D talent and regulatory bodies, are well-positioned to benefit from increased demand as ideal locations for drone command centres, data analytics teams, and other related functions. For instance, Cyberport was appointed by the Hong Kong Government as the venue partner for the "Low-Altitude Economy (LAE) Regulatory Sandbox" to support pilot projects and promote new quality productive forces. It offers advanced IT and communications infrastructure, including the Artificial Intelligence Supercomputing Centre, providing high-performance computing for spatial data applications in these projects.



Hong Kong's Strategic Advantages as "Super Connector"

While APAC markets like the Chinese mainland, Japan, and Singapore are aggressively developing drone logistics ecosystems, Hong Kong's edge lies in its "super connector" role within the Greater Bay Area and its global financial and legal infrastructure, making Hong Kong the ideal showcase for international investors seeking scalable solutions. Especially the Hong Kong Government's working group on developing low-altitude economy will explore with the mainland authorities the joint establishment of low-altitude cross-boundary air routes, immigration and customs clearance arrangements and supporting infrastructure. This unique combination positions Hong Kong as the launchpad for innovations that can transform urban logistics worldwide.

Policy and Infrastructure as Catalysts

The Hong Kong government's Action Plan on Developing Low Altitude Economy focuses on creating a supportive ecosystem through dedicated legislation for unconventional aircraft, investments in vertiports and satellite positioning, smart traffic management systems, and talent development programmes backed by Government R&D fund. These initiatives aim to foster innovation and international collaboration, positioning Hong Kong as a leading hub for low altitude applications in the Asia-Pacific region.

Capital Markets

"Asia-Pacific is entering the tail end of a tough cycle characterised by rising capital costs and geopolitical issues. Capital is rotating back into real estate as pricing stabilises and confidence improves, and moderating interest rates are reopening the financing window. Investors are now far more targeted: leaning into living sectors, Japan multifamily, value-add office repositioning, and income-backed logistics. The opportunities in 2026 sit where demand is structural and pricing has already corrected."

Dan Dixon

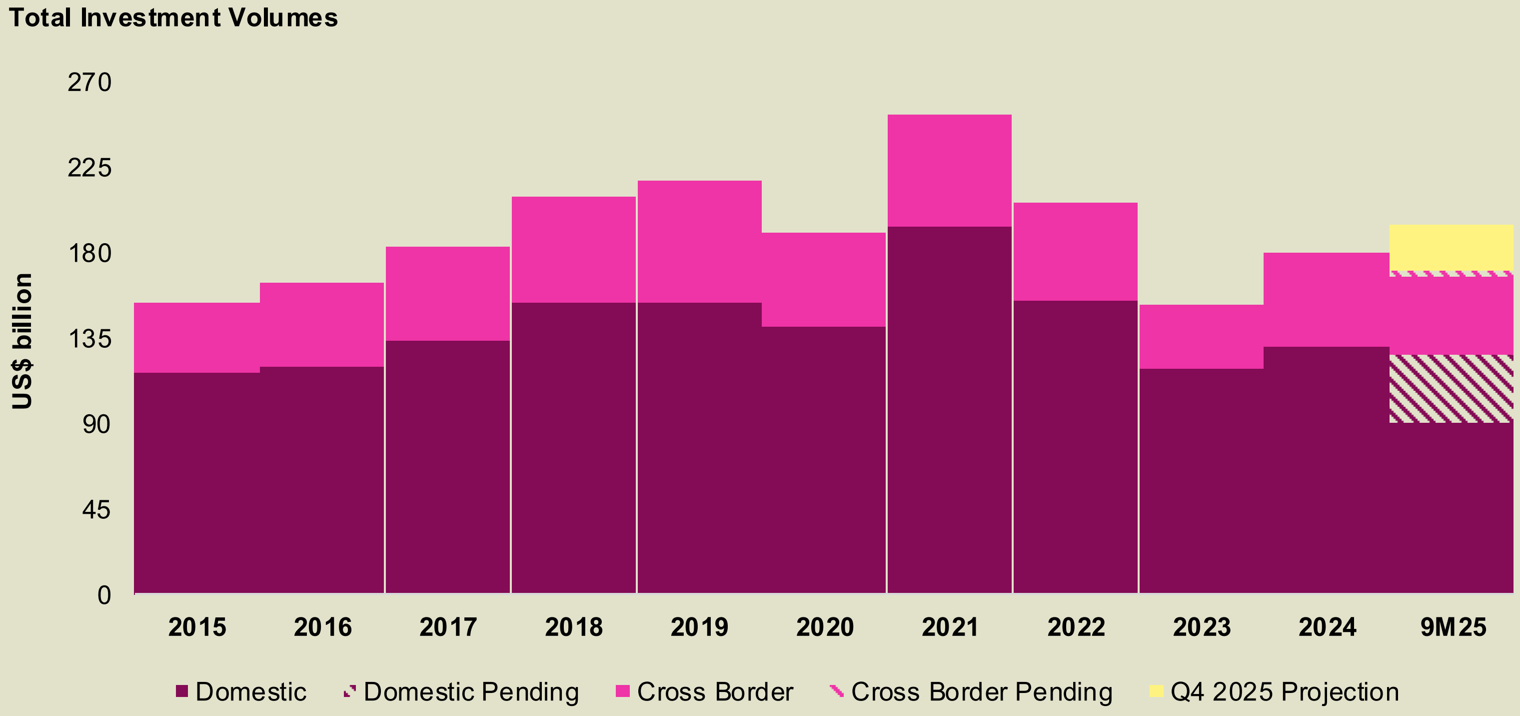
Head of Capital Market
Knight Frank Asia-Pacific

Capital Markets

i. Investor sentiment firms in 2025

Commercial real estate investment in the Asia-Pacific continued to trend higher in 2025 (Chart 15), driven by several large transactions and firming investor confidence. Total volumes in the first nine months of 2025 are up 9.1%, as compared to the same period last year, powered by an exceptionally strong third quarter with domestic transactions racing to a quarterly record. Cross border transactions were also a record for the third quarter. The momentum was largely driven by a number of large entity-level deals that led several landmark transactions. With an estimated US$40 billion worth of deals in the pipeline, 2025 looks set to surpass 2024 totals by 10-15%.

Chart 15: Asia-Pacific investments set to surpass US$195 billion



Source: MSCI Real Capital Analytics (downloaded 11 Nov 2025)

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ii. Outlook: 2026 Primed For Further Growth

While most major investment markets in the region, except for Japan, are still in an easing cycle, strong momentum seen in 2025 is likely to spill over to early 2026. With central banks in the region approaching the end of their rate cut phase, bid-ask gaps are likely to narrow further. We anticipate investment volumes in the region to grow by 5-10% in 2026, underpinned by the following trends, as well as portfolio rebalancing by motivated sellers.

"We anticipate investment volumes in the region to grow by 5-10% in 2026, underpinned by the following trends, as well as portfolio rebalancing by motivated sellers."

a. Alternative sectors gather steam: Living/Data Centres/Life Sciences

Through-the-cycle sectors, particularly data centres, living sectors and life sciences are likely to be in demand for both their income-producing and defensive qualities. Notably, operational knowledge and experience are crucial given the specialised nature of these asset classes, which gives investors the room to create alpha. These sectors are backed by long-term structural trends that provide a balance from traditional property sectors that are prone to cyclical challenges.

Government initiatives to institutionalise and promote rental housing solutions are creating further opportunities while demographic tailwinds are reinforcing demand across the spectrum of living sectors. These same factors are also propelling fundamentals in life sciences real estate, where ageing populations in the developed economies fuel rising healthcare demand and increasing pharmaceutical R&D. While expenditure into AI will continue to power investments into data centres, institutional capital may more likely be drawn to hyperscale data centres due to demand from cloud providers and growing AI workloads.

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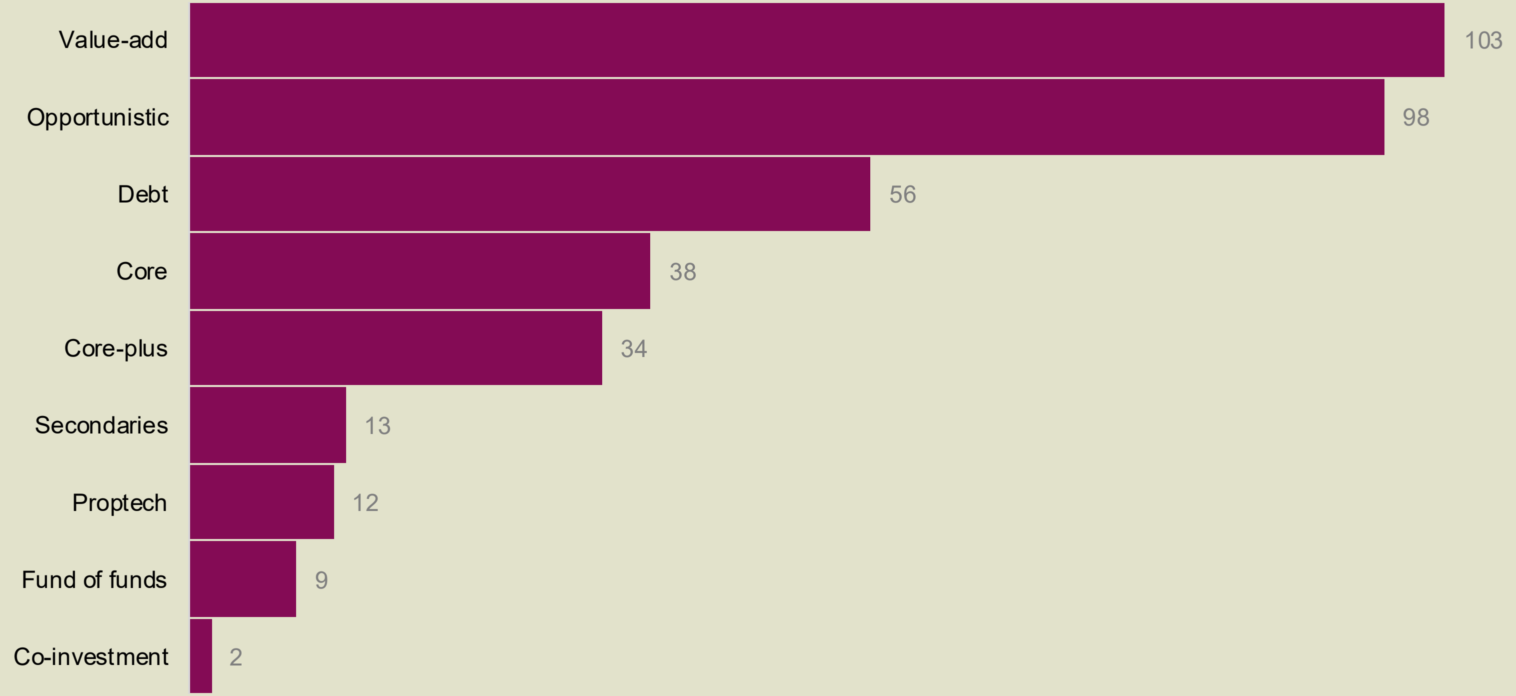
No. of APAC funds closed since 2020

b. Quest for alpha

As investors contend with tight spreads, heightened regulatory requirements, and shifting tenant priorities, a new paradigm for value creation is emerging. The era where broad market growth uniformly elevated asset values has passed. With price discovery uncertain, managers are moving away from market-driven dynamics towards generating asset-level alpha. The emphasis has transitioned from financial structuring to operational execution, where success hinges on strategic capital deployment, sustainability enhancements and innovative leasing strategies. According to PERE, there are more value-add funds targeting the region's real estate than core and core-plus strategies (Chart 16). This evolution underscores a pivot to active management and specialised expertise rather than passive reliance on market appreciation. Across all property sectors, performance now rests on execution capabilities rather than expectations of cap rate compression.

Chart 16: Value-add strategies remain a favourite among APAC-focused funds

No. of APAC funds closed since 2020



Source: Preqin

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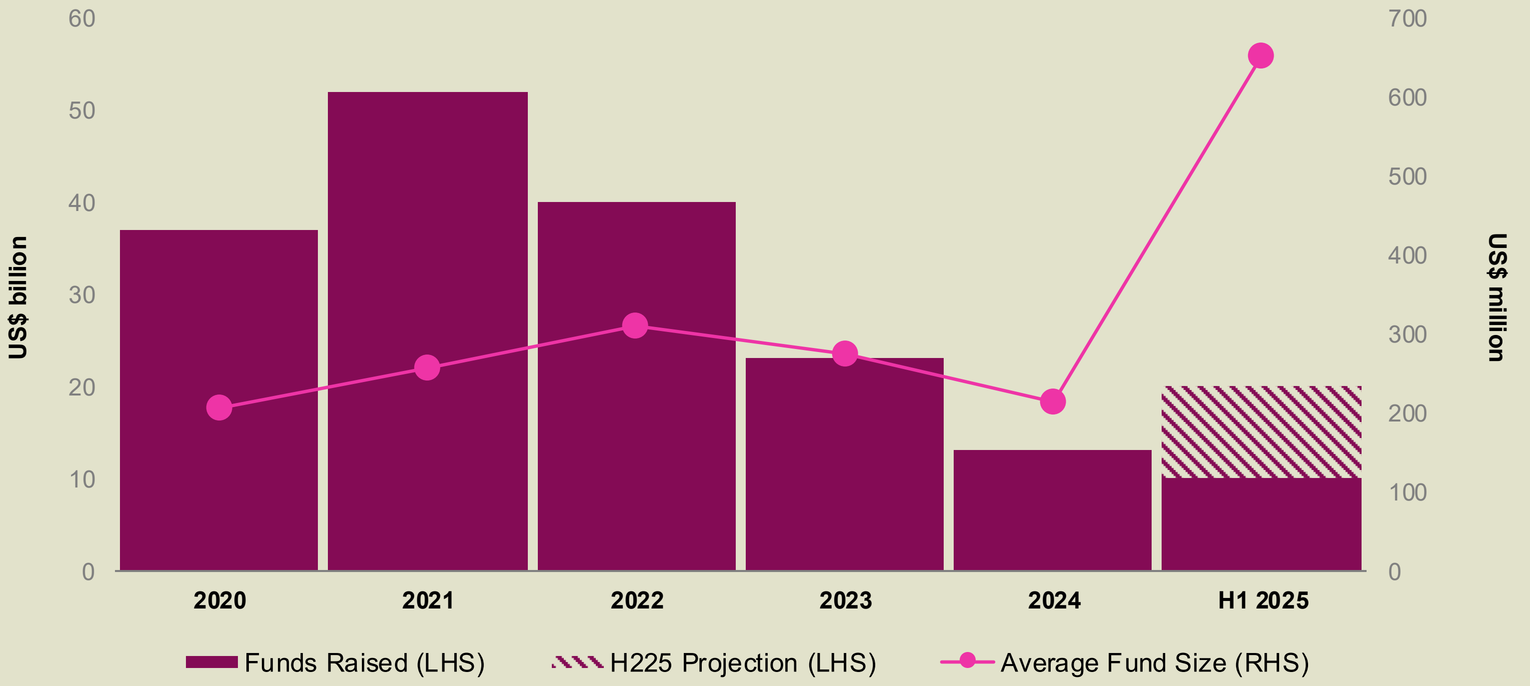
c. Fundraising recovery

While fundraising volumes for commercial real estate in the region have seen a decline from the 2021-22 highs, the market is showing signs of recovery and increasing activity. Investment volumes have rose in 2025, buoyed by stabilising interest rates, rising cross-border capital inflows, and renewed investor confidence in core and alternative sectors. Funds raised in H1 2025, which reached US$10.5 billion, are 80% of the levels in 2024 and remain on track for a rebound (Chart 17). The average fund size has also swelled by more than 3-fold to US$653 million due to the closing of several large funds. With funding costs in the region falling, it sets the stage for a more substantive revival in 2026.

Chart 17: Fundraising geared for 2026 revival

APAC-focus Private Real Estate Funding



Source: Preqin

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iii. Strategies for 2026

Region	City	Core	Core Plus	Value-add	Opportunistic	Repurposing
Australasia	Sydney	Logistics; CBD offices; super & major regional shopping centres	North Sydney prime offices	Fringe offices; brown to green strategies in office and logistics; hotels	Suburban offices; co-living development	Poor quality secondary offices; redundant retail spaces
	Brisbane	CBD Office; super & major regional shopping centres	Logistics	Fringe/suburban office and Inner Ring industrial	Hotels	Poor quality secondary offices; redundant retail spaces
	Melbourne	Logistics; CBD premium offices; super & major regional shopping centres	City fringe office; BTR development	CBD offices; hotels	Suburban offices	Poor quality secondary offices; redundant retail spaces
	Perth	CBD offices; super & major regional shopping centres	West Perth offices	Southern industrial corridor	-	Poor quality secondary offices; redundant retail spaces
	Auckland	Industrial, office	Industrial, office, retail	Industrial, retail	Industrial	Office
India	NCR	Office; warehousing; retail	-	Residential	-	-
	Mumbai	Office, warehousing, retail	-	Residential	-	-
	Bengaluru	Office, warehousing, retail	-	Residential	-	-

Continue…

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iii. Strategies for 2026

Region	City	Core	Core Plus	Value-add	Opportunistic	Repurposing
East Asia	Shanghai	Prime CBD office	Suburban office; business park; senior housing	Retail; hotel	Logistics	Commercial to multifamily; old factory to retail
	Beijing	Prime CBD office	Suburban office; multifamily	Senior housing; hotel; retail	Logistics	Retail to office
	Guangzhou	Logistics; prime CBD office	Suburban office; business park	Retail; hotel	Senior housing	Multifamily; retail to office
	Shenzhen	Logistics; prime CBD office	Suburban office; business park	Retail; hotel	Senior housing	Multifamily; retail to office
	Hong Kong	Logistics; data centre	Private credit; office, retail	Student living conversion	Residential development, student living conversion	Hotel to student living
	Taipei	Green-certified CBD office	Green-certified industrial office	Underperforming mall in urban areas; Well-located hotels	-	Factory into logistics warehouse; well-located hotel to residential/office
	Seoul	Prime office; retail	Hotel; logistics	-	-	Office into multifamily/co-living
	Tokyo	Prime office; retail	Hotel; logistics	Lower grade offices	-	Office into multifamily/co-living

Continue…

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iii. Strategies for 2026

Region	City	Core	Core Plus	Value-add	Opportunistic	Repurposing
Southeast Asia	Singapore	Industrial	Office; industrial; retail; living sectors	Office; residential; living sectors; hospitality; industrial	Industrial; residential; living sectors	Office; industrial
	Kuala Lumpur	Prime office; prime industrial; logistics	Office; industrial; logistics assets	Aged office and retail buildings	Dated office or hotel buildings in prime locations.	Dated commercial and heritage assets to other uses
	Jakarta	Premium retail mall and office; industrial estate	Logistic warehouse; suburban retail mall	4/5-star resort hotel; CBD serviced apartment	Grade B/C office; strata retail	-
	Manila	Hospitality (leisure hotels & resorts); industrial (dry & cold storage)	Hospitality (business hotels); regional malls (in key secondary markets)	Co-working/co-living spaces (in and around Makati CBD and Bonifacio global city); community malls (outside of metro manila)	Data centres; luxury condos/villages; BPO offices (in key secondary markets outside of metro manila)	Offices and condos (particularly in Makati CBD)
	Ho Chi Minh City	Prime office	Green-certified offices in non-CBD areas	Ageing office buildings in the CBD	Underperforming suburban malls	Flexible hybrid industrial properties that can be converted to ready-built factories or ready-built warehouses

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Insights: **Ben Burston**

Strong momentum in Australia's PBSA market

Ben Burston
Chief Economist, Research & Consulting,
Knight Frank Australia

Investors remain keen to allocate capital into Australia's living sectors, driven by a large addressable market, favourable supply dynamics and defensive characteristics.

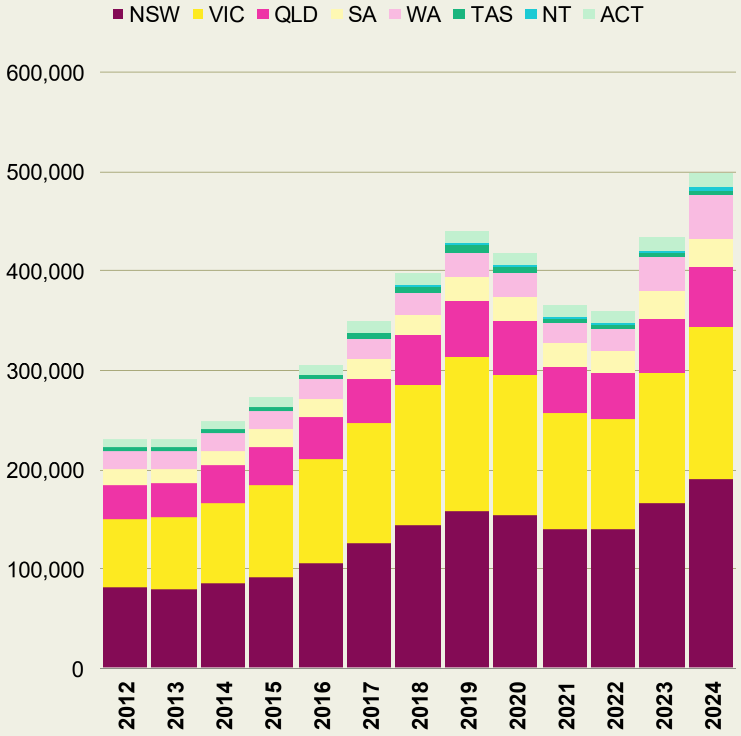
Within this, the purpose-built student accommodation (PBSA) sector continues to be viewed favourably. Firstly, because student numbers continue to increase (Chart 18), with international student enrolments well above pre-pandemic levels and near double the levels a decade ago.

Secondly, the threat of policy change to reduce those numbers appears manageable, with growing realisation among policy-makers and stakeholders that PBSA has a key role to play in supporting the student population while mitigating pressure on wider rental demand.

Thirdly, the sector is more mature than other living sector asset classes, which tend to require hands on development and a build-to-core strategy over the long term. In contrast, the PBSA sector offers more opportunity to acquire stabilised assets with a track record of strong performance over the past decade.

Looking ahead, the outlook remains favourable and we expect sustained interest from domestic and global investors. However, core assets tend to be tightly held by a small group of PBSA specialists and investors may need a flexible approach to location and strategy to deploy capital in the near term.

Chart 18: Student numbers on the rise
International students in higher education per state



Source: Knight Frank Research, Department of Education

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Lower barriers to entry in smaller cities

The sector continues to present high barriers to entry in Sydney and Melbourne that make it difficult for new investors to gain exposure, as established players leverage their scale and competitive advantage to grow market share and compete for the limited number of operational assets that come to market. Smaller cities such as Brisbane, Perth and Adelaide are benefitting from the same tailwinds and potentially offer a quicker window to deploy capital.

Repositioning of existing assets

Adaptive reuse and repositioning strategies are gathering momentum and represent an alternative entry route into the sector, or an opportunity for existing platforms to build scale. For instance, Dexus and Marquette Properties recently announced plans to transform a B-grade office building in Brisbane's CBD, 41 George Street, into a 1,200-bed PBSA scheme. We expect to see further conversion opportunities emerge in 2026, particularly in fringe office markets where the outlook for secondary assets is challenging but the location is attractive for PBSA.

Private sector and universities to increase collaboration

University finances continue to be stretched, and to meet ongoing demand for high quality accommodation some institutions may opt to partner with strategic investors. Leveraging university owned land and utilising structures such as income strips and joint ventures, development viability can be effectively unlocked. Appetite for university-leased assets is also strong and provides an opportunity for new entrants to access the market, with the benefit of long lease terms and security of income.

We would love to help you with your real estate strategies, contact us to get the conversation started!

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2025/2026

For further information on the report, please contact:

Authors

Christine Li
Head of Research,
Asia-Pacific
christine.li@asia.knightfrank.com

Wyai Kay Lai
Associate Director, Research
Asia-Pacific
wyaikay.lai@knightfrank.com

Pamela How
Manager, Research
Asia-Pacific
pamela.how@asia.knightfrank.com

Key Contacts

Craig Shute
Chief Executive Officer
Asia-Pacific
craig.shute@asia.knightfrank.com

Tim Armstrong
Global Head of Occupier
Strategy & Solutions
tim.armstrong@asia.knightfrank.com

Dan Dixon
Head of Capital Markets
Asia-Pacific
daniel.dixon@asia.knightfrank.com

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