

B&I Capital

# Asian Market Outlook

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## Market Outlook

February will be an active month with results coming from all major markets. In general, we enter this earnings period expecting strong growth particularly in Japan, Australia and a nascent recovery in Hong Kong. Given the strong run-up, we would not be surprised to see some profit taking in Japan and Hong Kong but remain overall constructive. Australian REITs, particularly large cap diversified with residential exposure, have corrected as macro-economic releases supported the recent rate hike by the RBA. Historically, the AREIT sector does underperform ahead and at early stages of rate hikes. However, given the strong earnings and recent corrections and likelihood that there could be an extended pause we think a lot has been discounted and that demand for housing remains high and supply remain low. Upcoming inflation and jobs data for the US will be closely scrutinized. We have noticed a recent recovery in US REITs as large cap rotation from technology stocks has been evident. This should also help to support Asia's REIT sector, which has lagged real estate developers over the last several years.

## Japan

Takaichi's resounding victory for the LDP coalition is seen as a JPY and JGB negative. Her recent comments, which have been perceived as indifferent to the JPY weakness and her desire to increase spending in several areas, may be a concern. However, there are several positives as some of her targeted sectors are worthwhile investments and overall support for her remains strong, which will help sentiment. The inflation trade (long Banks, Developers) is likely to continue, and it is hard to see the JREITs in the short-term outperforming. Results have just started in Japan for the Developers and show very strong trends for office leasing, residential sales and hospitality trends. Mitsui Fudosan reported its earnings on February 6 and posted records across segments with property sales being the strongest growth. It has also stated that it has achieved a JPY 100k rent per tsubo commitment in its upcoming Yaesu development which smashed the highest rent level in Tokyo. We believe that all landlords will be successful in raising rents in Tokyo given the very low vacancy rate (approximately 2.2%) which we think could continue to fall while construction costs limit future supply response. Other than short-term profit-taking on the sector as a near-term risk, it is hard to be negative on the group. Many of the developers will have met their midterm plans early and will set new ambitious targets. The JREITs have again lagged the Developers year-to-date. There is likely some selling pressure on the sector ahead of the fiscal year-end in March from Regional Banks that historically book some gains in the sector when they have losses on bond investments. We believe it will likely be via sales of ETFs and could have another month of impact. We remain optimistic on Office and hospitality-focused JREITs. Large Cap Office REITs have underperformed since last year despite strong fundamentals, but we think they could see interest in the sector once selling pressure lifts due to the same strong office leasing trends illustrated by the Developers. Chinese New Year tourism appears strong despite the continuing spat between China and Japan and ADR and occupancy rates remain firm with growth in several other markets helping to grow tourism numbers.

## Australia

Australian inflation ended 2025 above target across all measures, with December CPI stronger than expected, prompting the RBA to deliver a 25bp hike in early February. While trimmed-mean inflation and certain components (electricity, housing, holiday-related demand) support a hawkish tilt, underlying inflation persistence remains debatable. This may lead to a long pause after the February hike giving the RBA time to assess labour market conditions. Looking later into 2026, the outlook is broadly unchanged, with a higher probability that labour-market weakness emerges following tighter policy. Against this backdrop the upcoming results and full year guidance will be important events in February. Residential related names have suffered ever since economic data removed all possibilities of future rate cuts. Higher rates may not be yet factored into guidance, but we believe residential demand will remain solid given the overall shortage of housing and recent policies to help first time buyers. Clearance rates at housing auctions during the weekend of February 7-8 rose to the highest since last year's spring selling season. Clearance rates rose to 79.6% in Sydney which is the highest since August last year for that market and show that higher rates have not hurt the market as employment remains firm and supply of housing remains low. Other markets showed strong trends. Given the strong correction in housing related names, Stockland and Mirvac, we see a decent opportunity for recovery if guidance, which was confirmed in the fall last year, is reiterated this month. Goodman Group will also be a large market moving event. Guidance is traditionally lifted in February as they typically issue below consensus guidance in the summer. Given the company has multiple earnings sources including performance and establishment fee recognition, they are likely to at least show low double-digit growth. Given its low leverage and solid growth, we expect investors to find some safety in this large cap especially as interest rates remain a concern.

## Singapore/Hong Kong

Singapore REIT earnings and business updates failed to trigger a strong rally in the sector despite strong office fundamentals and solid retail rental reversions for the domestic focused names. Capitaland Integrated Commercial Trust was a standout with over 6% DPU growth but a large part was credited to funding costs improvements. Developers continue to benefit from equity flows and the strong residential market. Other than rotation from other sectors, it is hard to see a near term catalyst to generate interest in SREITs but there is clearly value and improving fundamentals coupled with falling debt costs. We remain positive over the year but think the sector may lag more aggressive beta plays. Capitaland Investment could benefit the most from the sector's improvement as it generates large recurring AUM based fees and we expect them to potentially sell down stakes in some of the REITs to generate additional gains and improve their ROE. CICT looks like an obvious candidate.

Hong Kong residential stocks look set to continue their strong run as upcoming property launches are likely to provide positive catalysts. SHK's upcoming launch of Cullinan Harbour Phase 2 could test demand for luxury and follows on the recent success of its Sierra Sky 2A and 2B. At HKD 45k per sqf, it will be a test for the luxury market but given the recent sales numbers it is likely to be a success. SHK will generate a 15% margin on this project whereas many launches for developers this year are likely to be much lower. We do not expect strong results from most of the Developers but as this appears to be the beginning of an upcycle, investors are likely to ignore results unless they also come with a dividend cut. We expect continued positive news on HK's Central office market which will be an additional bonus for HK Land which has risen significantly on its office

sales and Singapore fund launch. We also expect continued recovery in retail sales but expect negative reversions for Supermarket tenants for the two retail REITs due to the high base set during Covid. Earnings and dividend recovery for Link and Fortune REIT is likely only to take place next year. Developers' performance is often more correlated to property launches than to earnings whereas REITs often react to dividend growth. The reason for weak earnings is that historic land costs remain high for current projects so only later projects will start to generate growth.

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