

The opportunity in Asia's new-economy real estate

In recent years, Asia has seemingly emerged as a compelling destination for global real estate investors, offering opportunities that differentiate it from more developed markets in the West. Several factors contribute to this trend, making Asia, we believe, a vibrant and attractive landscape for real estate investment.

Strong demand trends and global economic themes

One of the primary reasons global investors are increasingly drawn to Asia is the region's robust demand trends, which align with global economic themes. The themes of digitalisation, supply-chain transformation, health and wellness, and climate transition are impacting the global economy and real estate investment worldwide. In Asia, these themes are as dominant and durable as they are elsewhere, but they are also further accentuated by secular demand trends.

Demographic shifts, particularly the densification of wealth in urban areas, play a pivotal role in shaping real estate demand in Asia. Existing property stock is also often undersupplied or of insufficient quality to meet demand. These trends drive income generation, which is crucial for real estate value. We think this is especially true in new-economy real estate, which is in high-growth sectors aligned to the thematic transformations of the global economy, such as data centres, industrial and logistics assets, and life sciences facilities.

Furthermore, the demand for yield, especially from local institutional capital, remains strong. Asian institutional investors are still in the early stages of using real estate as a long-term asset class, providing an established market for income-producing assets aligned with these global themes. We believe this demand is driven by the need for stable, long-term returns in a region where traditional asset classes, such as bonds, may not offer the same yield potential.

In sum, we believe the themes driving global economic growth are even more pronounced in Asia due to these strong, long-term secular demand trends, but the region also offers other advantages we think help generate opportunities for attractive risk-adjusted returns. Asian markets have faced fewer disruptions than those in the West, for example, as a result of remote working. Likewise, the availability of cheap and abundant leverage, a significant driver of returns and valuations in Western growth markets until recently, does not play as significant a role in Asia, contributing to more defensive investment performance through economic cycles with Asian assets less leveraged and more often underpinned by operating performance and stronger fundamentals.

Diversification and market dynamics

Diversification remains a key consideration for investors, and Asia represents a terrific region for this criterion. The region is large and diverse, offering many different market opportunities, including several that provide a real differentiation to real estate markets in other parts of the globe.

Given the sheer scale of the region and its heterogeneity, Actis narrows its focus to a particular combination of markets. Some are already economically developed but still offer high-growth sector opportunities – South Korea and Japan being good examples – while others are more developing and high-growth economies that also offer high-growth sector opportunities – such as India and Southeast Asian markets, such as Vietnam and Malaysia.

These latter markets are characterised by rapid urbanisation, a burgeoning middle class, and increasing demand for modern infrastructure and consumption, making them fertile ground for real estate development and investment. And while the former markets are largely urbanised and already benefit from a large and wealthy middle class, their built environments are often older and short on property required for new-economy uses. There is a need for new-economy real estate on both fronts.

But we think, to achieve success, investors need to take both a top-down and bottom-up view, comprising both a macro- and micro-market understanding. The global themes and regional demand trends discussed above are certainly important, but they are not, in and of themselves, necessarily sufficient to create strong opportunities. Generating attractive returns also means looking at investments from the ground up – having the builder-operator mindset and expertise, as well as the local and sector knowledge necessary to make the most of such opportunities is critical. It is through such analysis and action, both top-down and bottom-up, that leads us to believe we can identify the right assets within new-economy real estate sectors to deliver for investors.

The rise of new-economy real estate

The concept of new-economy real estate is gaining traction, characterised by properties that converge with the aforementioned themes and trends driving global economic growth. For Actis' approach to real estate investing in Asia, this has led to a focus on sectors, such as data centres, industrial and logistics, and life sciences.

An example of this approach in action is Actis' investment in Epoch Digital. This platform, announced in 2024, aims to develop, own and operate a portfolio of scalable data centres across targeted Asian markets. Thus far, the platform has invested in and is building data centres in Taipei, Taiwan; Seoul, South Korea; and Johor Bahru, Malaysia. These assets aim to provide critical infrastructure to meet identified demand from hyperscalers and cloud service providers at a time of accelerating data needs, digital transformation and AI adoption, both in Asia and globally.

Ample Parks, an industrial and logistics real estate developer and operator created in joint venture by Actis and Mahindra Group, provides another example of a new-economy real estate investment. In 2024 the platform made its first acquisition, a prime 70 acres industrial land parcel within Mahindra World City, Chennai, to develop an integrated industrial and logistics park with institutional-grade facilities to service global and local

corporations. As with Epoch Digital, Ample Parks aligns with the macro themes driving the global economy – in this case, rising demand for Indian industrial and logistics space as India benefits from supply chain reallocation, including India’s position as a China-plus-one destination, and domestic consumption growth.

Mitigating risks, including through sustainability

As we’ve covered, we believe Asia’s real estate environment can provide promising opportunities for investors. That said, as with all investments, investors ought to be prudent and take steps to attempt to mitigate risks and maximise value from their investments. This is baked into the Actis investment approach, thanks to a strong focus on operational capability.

We think key to achieving this is having strong local presence with meaningful local networks, as well as working with high-quality management teams or, in the case of joint ventures, operating partners. This is a constant feature of Actis’ approach and is further underscored by the firm’s builder-operator mindset. Real estate investors ought to have a deep understanding of how development processes work in different markets and for different sectors, as well as what customers need from the specific asset being developed. Having feet on the ground and keeping close to the future customer base is a meaningful part of this method of investing.

Another increasingly important way to mitigate risk is through established sustainability practices. Sustainability is a significant consideration for real estate investors in Asia. As environmental awareness continues to grow, there is a rising demand for properties that adhere to sustainable building practices and reduce carbon footprints. This trend is now driven as much by end-user customers and investor exit requirements as it is by local regulatory requirements.

While investors who prioritise sustainability may benefit from upsides such as premium rents and lower exit cap rates, sustainable practices in real estate are actually driven by the downsides of not doing so – the risks to occupancy and exit are too great. In addition, by embedding a holistic, sustainability strategy that incorporates environmental as well as social impact within a real estate development, investors may be better

positioned to withstand risks stemming from regulatory and environmental challenges, as well as social risks when there is real engagement with local communities, which grants a “social licence” to operate.

An Phat 1 Industrial Park stands as a good Actis case study in sustainable real estate development, strategically located in Vietnam’s northern key economic zone. This industrial park, which Actis exited in 2023 while outperforming its investment thesis, was designed with sustainability as a guiding principle. Actis’ sustainability team collaborated closely with An Phat Holdings, Actis’ partner on the project, to implement a comprehensive array of initiatives. These efforts included employing a local workforce throughout construction and operational phases, sourcing materials from nearby suppliers and exceeding green space requirements by 17 percent. Additionally, the park focused on reducing light pollution, minimising impacts on local wildlife and fostering a positive environment for the surrounding community.

These sustainability policies not only facilitated the acquisition of a crucial operating licence from the local community – an essential element for risk mitigation – but also led to savings in construction and operational costs, thereby boosting the project’s financial performance. The An Phat 1 Industrial Park project is an example of how focusing on sustainability values can help drive financial value.

Conclusion: A forward-thinking approach to Asian real estate

Asia’s real estate markets present a dynamic and diverse landscape for global investors. By taking a holistic approach that combines global themes, regional demand trends and micro-focus, with a great attention to operational excellence and the management teams or partners in place, we think new-economy real estate can deliver attractive returns. Add a further focus on risk mitigation to the mix, and we think this makes for a compelling opportunity.

By embracing the operational detail of the right assets in the right sectors in the right markets, we think investors can position themselves to benefit and reap the rewards.

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COMPANY OVERVIEW

Actis is a leading global investor in sustainable infrastructure, investing in structural themes that aim to support long-term, equitable growth in defensive, critical infrastructure across the energy transition, digitalisation and supply-chain transformation.

Actis believes the firm’s decades of global experience, operational know-how and strong culture allow it to create global sustainability leaders at scale and deliver competitive returns for investors. Actis is one of the longest-standing energy investors globally and a signatory to the Principles for Responsible Investment (PRI), an investor initiative supported by the United Nations.

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