

NEWS RELEASE



Meiji Yasuda Seimei Building, 18F
2-1-1, Marunouchi,
Chiyoda-ku, Tokyo
100-0005, Japan
T 03 5288 9288
www.cbre.co.jp
Twitter: @cbrejapan

November 15, 2018

For Further Information
CBRE
Marketing & Communications
03-5288-9283

CBRE Releases Q3 2018 Japan Investment MarketView
Global Real Estate Transaction Volume Rises 1.2% y-o-y in Q3 2018 to US\$ 254 billion
Japan Transaction Volume Falls 25% y-o-y to JPY 592 billion
Expected Yields for Offices in Three Regional Cities at Lowest Recorded Level

CBRE today released its 61st CBRE Japan Cap Rate Survey along with the Q3 2018 edition of its Japan Investment MarketView. (The methodology of the survey is detailed on page eight of this release.)

Summary

- ◆ Global commercial real estate transaction volume increased by 1.2% y-o-y in Q3 2018 to US\$ 254 billion. The rise was mainly due to several large mergers and acquisitions in the U.S. Meanwhile, volume in Asia Pacific decreased by 29% y-o-y, mainly driven by China where investor sentiment was somewhat affected by rising trade tensions and stock market volatility.
- ◆ For Q3 2018, commercial real estate transaction volume fell 25% y-o-y to JPY 592 billion in Japan. Investment by J-REITs was up year-on-year, but activity by other domestic and overseas investors fell below the previous year's level. Nevertheless, investor appetite remains strong and the period saw the completion of several large transactions, mainly by J-REITs and overseas investors.
- ◆ CBRE's latest investor survey found that expected yields in Tokyo had fallen to record lows for offices (Otemachi) and retail (Ginza Chuo-dori). There was no change for the other asset types. Expected yields for offices outside Tokyo fell in four cities (Sendai, Nagoya, Osaka, Fukuoka), with yields in three of these cities (excluding Osaka) falling to their lowest levels since the surveys began¹.
- ◆ CBRE Tankan Survey (Tokyo): For Grade A office buildings, the Diffusion Index (DI) for "lending attitude of financial institutions" worsened, but there was no significant change in investor appetite. The "vacancy rate" DI for Large Multi-Tenant Logistics Properties improved for the second consecutive quarter. Solid tenant demand allayed fears of higher vacancy resulting from new supply.
- ◆ Cumulative commercial real estate transaction volume in Japan from Q1 2018 to Q3 2018 fell 18% y-o-y to JPY 2.19 trillion, mainly due to a decline in large transactions. Although lenders are becoming slightly more cautious, sellers remain rather bullish on pricing, meaning that transactions tend to take longer to conclude. Transaction volume for full-year 2018 is therefore expected to register a year-on-year decline.

¹ The survey started covering different asset types in different years: July 2003 for offices and residential; January 2009 for retail, hotels, and industrial.

■ Global Investment Market

Global commercial real estate transaction volume rose 1.2% y-o-y to US\$ 254 billion in Q3 2018. Transaction volume in the Americas rose 13% y-o-y to US\$ 150 billion, declined 6% y-o-y to US\$ 80.5 billion in EMEA, and fell 29% y-o-y to US\$ 24 billion in Asia Pacific. The increase in global transaction volume was mainly due to several major entity transactions in the U.S., where the volume rose 17% y-o-y, accounting for more than half of total global transaction volume. Meanwhile, activity in Asia Pacific weakened, mainly led by China where investor sentiment was somewhat affected by rising trade tensions and stock market volatility.

■ Japan Investment Market

Commercial real estate transaction volume in Japan decreased by 25% y-o-y to JPY 592 billion in Q3 2018. Investment by J-REITs increased by 14% y-o-y to JPY 325 billion, but activity by other domestic investors and overseas investors fell short of the previous year's level. Transaction volume by other domestic investors saw a 40% y-o-y decline to JPY 156 billion, while there was a 54% fall in transaction volume by overseas investors to JPY 111 billion. The main reason behind the year-on-year decline in transaction volume was because there were fewer large transactions concluded by overseas investors compared to the previous year. However, investor appetite remains robust, as indicated by CBRE's Q3 2018 real estate investor survey (see below). Overseas investors concluded a number of major deals during the quarter, including an acquisition of a large logistics facility in the Greater Osaka region.

Investment in regional cities also remained active. Transaction volume for regional cities including Osaka and Nagoya increased by 28% y-o-y to JPY 292 billion. Regional cities' share of total transaction volume amounted to 51%, the highest level on a quarterly basis since our surveys began recording this figure in 2005. Among the regional cities, transaction volume in the Greater Osaka region grew particularly strongly – it increased by 74% y-o-y to JPY 218 billion, with Osaka's share amounting to around half of that figure (JPY 106 billion; +67% y-o-y).

■ Expected Yields

CBRE's latest cap rate survey (held in October 2018) found that average² expected yields (NOI³ basis) in Tokyo fell for two asset types compared with the previous quarter and were unchanged for four asset types. There were declines in retail (Ginza Chuo-dori) and offices (Otemachi), which were down by 7bps and 2bps q-o-q, respectively. In both cases, these were the lowest levels since our survey began monitoring this data.

Expected yields dropped q-o-q in four cities, including Nagoya (5.15%, -15bps), Fukuoka (4.85%, -10bps), Sendai (5.46%, -4bps), and Osaka (4.90%, -3bps). Nagoya, Fukuoka, and Sendai were at the lowest levels since the surveys began. Figures for other cities included Sapporo (5.35%, unchanged q-o-q) and Hiroshima (5.75%, +2bps).

■ CBRE Tankan Survey

CBRE's October 2018 Tankan survey asked respondents to compare current conditions to three months ago (with results collected as Diffusion Indices⁴). Topics were: 1) trading volume, 2) sales prices, 3) NOI (or rents and vacancy rates for logistics facilities), 4) expected yields, 5) lending attitude of financial institutions, and 6) stance on investment and loans. For **Grade A office buildings (in Tokyo 23 wards)**, the DI declined for trading volume, NOI, and stance on investment and loans; was unchanged for lending

² Average: Average figure of the median of lowest/highest yield each.

³ NOI: Net income before depreciation and income taxes; total revenues from real estate less total expenses (excluding depreciation).

⁴ DI: Diffusion index subtracts the ratio (%) of respondents that expected a "contraction (fall)" from the ratio (%) of respondents that expected an "expansion (rise)."

attitude of financial institutions; and rose for the other two questions. The biggest deterioration was seen in the stance on investment and loans (-4pts q-o-q), mainly due to a drop in those answering "accommodative", and an increase in those answering "maintaining the current level".

	Real estate trading volume "Higher" – "Lower"	Sales prices "Higher" – "Lower"	NOI "Higher" – "Lower"	Expected yield "Lower" – "Higher"	Lending attitude of financial institutions "Accommodative" – "Severe"	Stance on investment and loans "Promoting" – "Restrained"
Offices (Tokyo wards, Grade A buildings)	-16 (+2) 	32 (-1) 	26 (-3) 	15 (+1) 	41 (±0) 	27 (-4)

Source: CBRE

For **large logistics properties (Greater Tokyo area, multi-tenant-type)**, the DI for current conditions compared with six months ago improved for "vacancy rate" and "expected yield"; was unchanged for "rent"; and declined for the other four questions. The biggest drop was seen in "sales prices" (-9pts q-o-q), mainly due to a drop in those answering "higher", and an increase in those answering "unchanged". Meanwhile, "vacancy rate" (+4pts q-o-q) improved for the second consecutive quarter. There was a fall in those answering "higher", and an increase in those answering "unchanged". Tenant demand for logistics facilities is solid, and the improvement in DI appears to be due to a receding of fears concerning a market downturn resulting from new supply.

	Real estate trading volume "Higher" – "Lower"	Sales prices "Higher" – "Lower"	Rent "Higher" – "Lower"	Vacancy rate "Higher" – "Lower"	Expected yield "Lower" – "Higher"	Lending attitude of financial institutions "Accommodative" – "Severe"	Stance on investment and loans "Promoting" – "Restrained"
Logistics facilities (Greater Tokyo, multi-tenant type)	9 (-4) 	27 (-9) 	5 (±0) 	-12 (+4) 	18 (+4) 	34 (-1) 	24 (-5)

Source: CBRE

Looking at the DI for both offices and logistics facilities this quarter, there was no significant change in either market. The funding environment is favorable and investors' appetite remains high.

■ **Outlook**

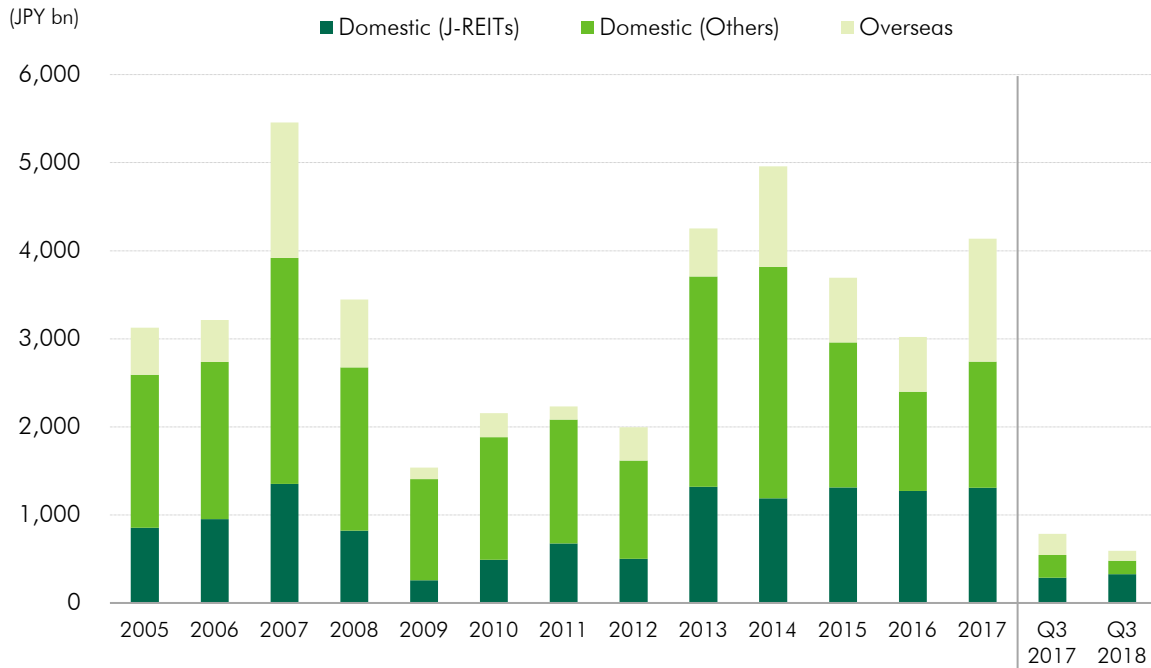
CBRE's "2018 Lender Survey"⁵ published on October 4, 2018 - the first of its kind - found that new lending could exceed the level recorded in fiscal 2017. However, lenders are becoming slightly more cautious with rising transaction prices and appear to be taking a more selective approach to properties. Although the funding environment remains positive, the scarcity of high-quality properties available at favorable terms and the low cap rates being sought by sellers means that transactions are taking longer to conclude, a situation that looks set to continue.

Cumulative transaction volume in Q3 2018 declined by 18% y-o-y to JPY 2.19 trillion, mainly because the number of large transactions exceeding JPY 30 billion (including offices and residential) fell by 30% y-o-y. Full-year transaction volume for 2018 is expected to register a decline from last year's JPY 4.1 trillion.

To download the Q3 2018 edition of the CBRE Japan Investment MarketView, please click on the link below.
<https://www.cbre.co.jp/ja-jp/research-reports/investment-reports>

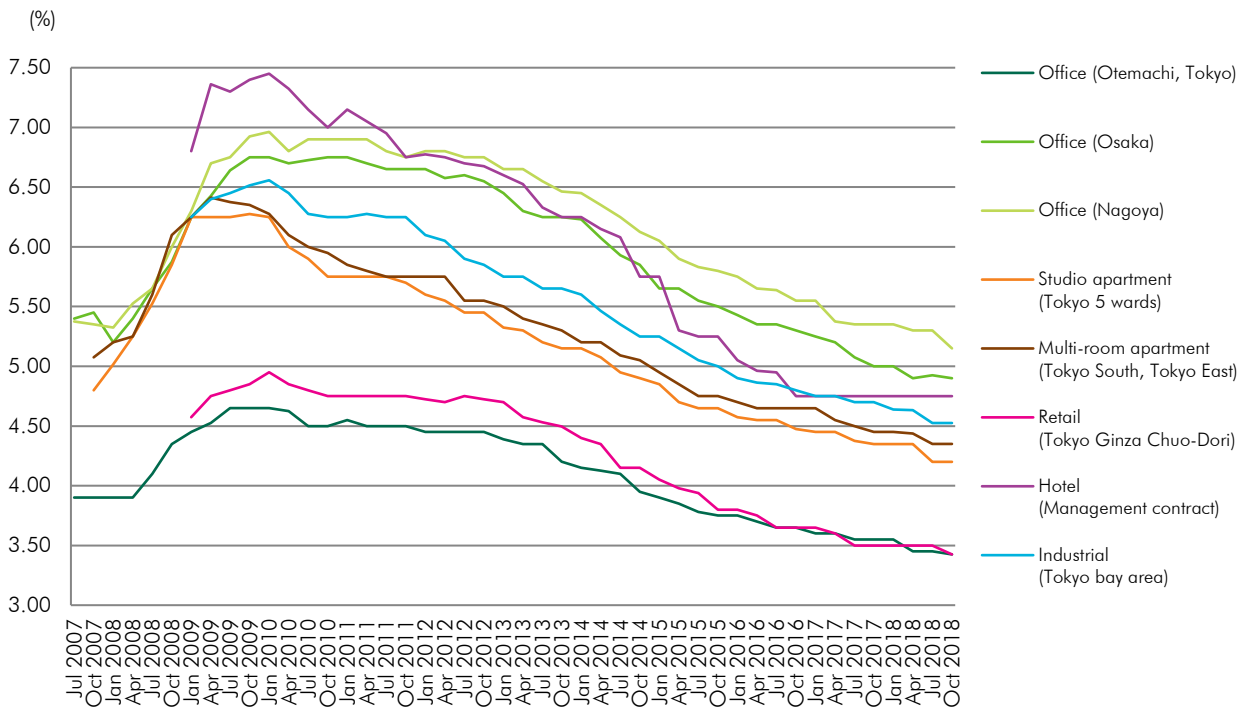
⁵ "CBRE Lender Survey 2018" summarizes the results from a survey of lenders providing finances for domestic real estate investment.

Transaction Volume by Investor Type



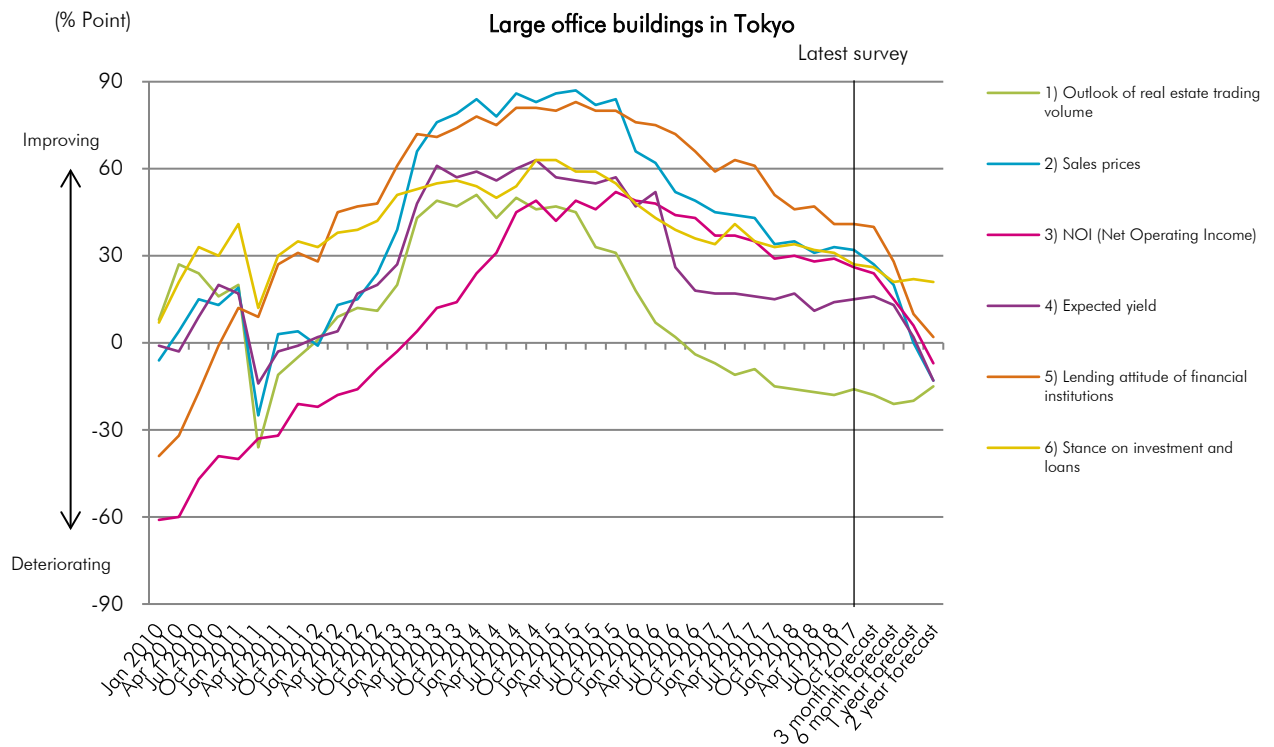
Covering transactions of at least JPY1 bn, excluding acquisitions by J-REITs at IPO Source: RCA, CBRE

Changes in NOI Yield

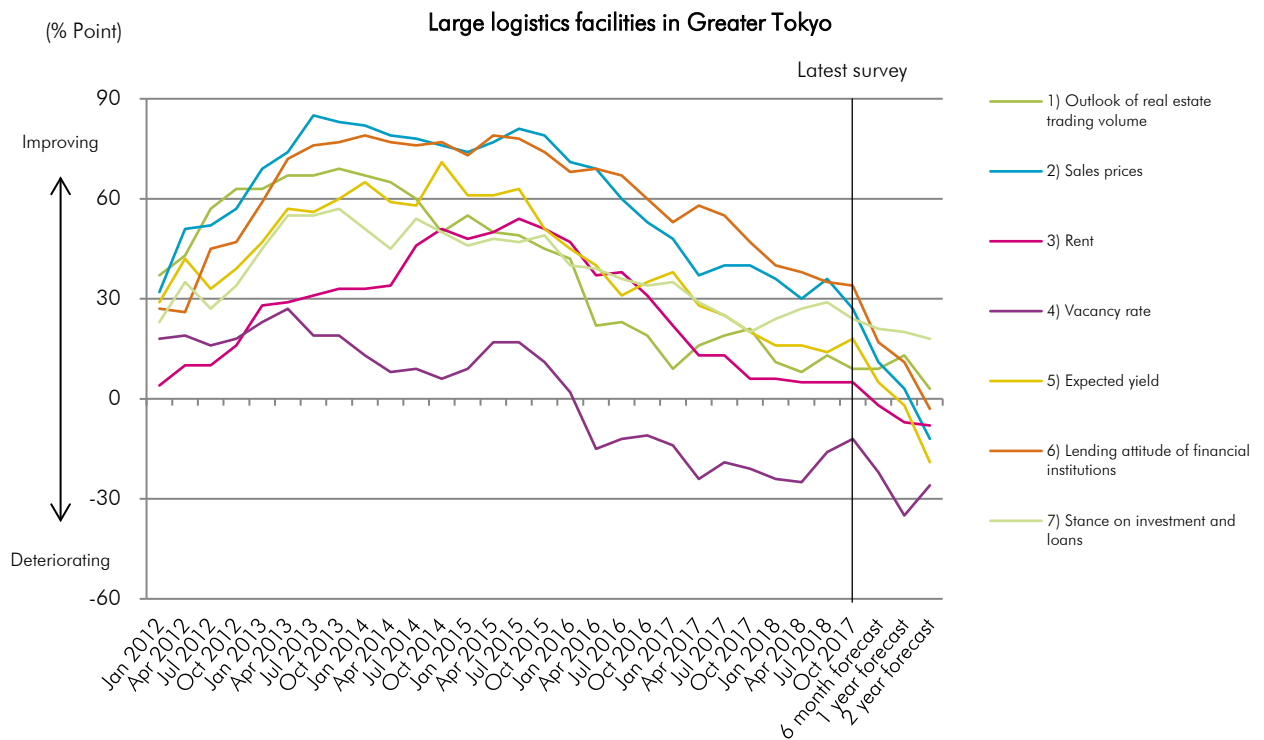


Source: CBRE

CBRE Tankan survey (DI)



Source: CBRE



Source: CBRE

As the survey goes beyond the scope of this publication, full results are only provided to respondents. Please refer to the following list for all surveyed items.

Sector	Subcategory	Location	Survey items		
Office building	Prime	Otemachi	<ul style="list-style-type: none"> • NOI / NCF cap rate *1 • Valuation method for office buildings • Investment period • Comments • Opinion regarding the risk premium in the cases of different ownership and compliance status (not a regularly surveyed item) 		
		Hibiya-Uchisaiwaicho			
		Toranomon-Kamijicho			
		Tameike-Akasakamitsuke			
		Aoyama-Omotensando			
		Shinbashi, Hamamatsucho, Shiba			
		Nishi-bashi			
		Shibuya			
		Ebisu			
		Nishi-shinjuku			
		Kanda-around Kudan			
		Shinagawa (Konan exit)			
		Yakohama (West exit)			
		Omiya			
		Sapporo			
		Sendai			
		Nagoya (Overall)			
		Nagoya (Nagoya station)			
		Osaka (Overall)			
		Osaka (Umeda)			
Hiroshima					
Fukuoka					
Multi-family residential	Studio apartment	Tokyo Central 5 Wards	<ul style="list-style-type: none"> • NOI / NCF cap rate • Comments • Items to be included in the cash-flow (not a regularly surveyed item) 		
		Sapporo			
		Sendai			
		Nagoya			
		Osaka			
		Fukuoka			
	Multi-room apartment	Tokyo (Jonan/Josai area)			
		Sapporo			
		Sendai			
		Nagoya			
		Osaka			
		Fukuoka			
Retail	Stores located in the city center	Near railroad terminal stations, central Tokyo	<ul style="list-style-type: none"> • NOI / NCF cap rate • Comments 		
		Roadside shopping center		Tokyo suburbs	
				Osaka suburbs	
				Nagoya suburbs	
				Sapporo city	
				Sendai city	
	Fukuoka city				
	Premium retail area	Tokyo Ginza Chuo Dori			
		Tokyo Omotesando			
		Nagoya around Sakae			
		Osaka along Midosuji			
		Osaka Shinsaibashi			
		Fukuoka along Tenjin Nishi Dori			
	Hotel	Budget hotel (Management contract)		Near major JR stations, Tokyo Central 5 Wards	<ul style="list-style-type: none"> • NOI / NCF cap rate • Assumed amount for the maintenance of FF&E • Assumed rental level • Comments
				Government-designated city	
		Budget hotel (Lease contract)		Near major JR stations, Tokyo Central 5 Wards	
				Government-designated city	
	Industrial	Multi-tenant		Tokyo Bay area	<ul style="list-style-type: none"> • NOI / NCF cap rate • Comments
Tokyo Inland area					
Aichi					
Osaka					
Fukuoka					
Other regional cities					
Single-tenant		Tokyo Bay area			
		Tokyo Inland area			
		Aichi			
		Osaka			
		Fukuoka			
		Other regional cities			
Solar power generator	Development	Japan	<ul style="list-style-type: none"> • Project IRR / Equity IRR *1 • Comments 		
	Existing facility acquisition				
Data Center		Central Tokyo	<ul style="list-style-type: none"> • NOI cap rate / NCF cap rate / IRR *1 • Future investment plans • Focused area • Comments 		
		Greater Tokyo			
		Osaka			
		Greater Osaka			
		Other regional cities			
Short-term observation for Market Survey		Observing changes in the periods of "Recent", "3 months from now", "6 months from now", "1 year from now" and "2 years from now" covering Grade A buildings and others located in Tokyo 23 wards, using DI (Diffusion Index).			
(CBRE Tankan)		Observing changes in the periods of "Recent", "6 months from now", "1 year from now" and "2 years from now" covering large-scale multi-tenant facilities and large-scale single-tenant facilities located in Greater Tokyo (Tokyo, Chiba, Saitama and Kanagawa prefectures), using DI (Diffusion Index).			
Topic Question *2		Questions concerned with up-to-date events and topics in the real estate industry			

*1 NOI cap rate / NCF cap rate / IRR

Minimum and Maximum of the range of Median, Average, Highest, Lowest and Standard deviation
Some of the questions include result by respondent type.

*2 Questions Polled

Questions asked about the position in the investment market cycle "now" (as of the survey date) and "one year from now" in sixteen stages, covering three criteria (trading volume, transaction prices, and NOI) for each sector in Tokyo and the Greater Tokyo area: office buildings (large), multi-family residential (studio-type), retail (city center stores), hotels (based on lease contract), and industrial (multi-tenant).

Note to Editors:**CBRE Japan Cap Rate Survey**

1. Objective
The objective of the survey is to collect and analyze data looking at the level of expected yields for real estate investments.
2. Survey method and period
Sent and received by e-mail primarily between September 19 to October 17, 2018.
3. Recipients surveyed and response rate
 - Recipients: 167 individuals (164 corporations)
 - Responses: 139 individuals (136 corporations)
 - Response rate: 83.2% from individuals (82.9% from corporations)
4. Type of respondents
Arrangers, Lenders (senior), Lenders (mezzanine), Developers, Real property lessors, Asset managers (mainly for J-REITs), Asset managers (mainly for non J-REITs), and Equity investors, among other respondents.
5. Policy regarding the release of survey results
 - This report is an excerpt of the results from our quarterly survey.

The report will be published on the CBRE Japan website at: <https://www.cbre.co.jp/en/research-reports/investment-reports>

About CBRE Group, Inc.

CBRE Group, Inc. (NYSE:CBRE), a Fortune 500 and S&P 500 company headquartered in Los Angeles, is the world's largest commercial real estate services and investment firm (based on 2017 revenue). The company has more than 80,000 employees (excluding affiliates), and serves real estate investors and occupiers through approximately 450 offices (excluding affiliates) worldwide. CBRE offers a broad range of integrated services, including facilities, transaction and project management; property management; investment management; appraisal and valuation; property leasing; strategic consulting; property sales; mortgage services and development services. Please visit our website at www.cbre.com.

Official Twitter account for Japan: [@cbrejapan](https://twitter.com/cbrejapan)

DISCLAIMER: Neither CBRE nor its affiliated companies make any warranties or claims on the implied accuracy of the information contained herein.