

# NEWS RELEASE



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CBRE Releases Q1 2019 Japan Investment MarketView

## Q1 2019 - Drop in J-REIT Acquisitions Leads to 30% y-o-y Decrease in Transaction Volume (JPY 761 billion)

### Expected Yields for Offices, Logistics, Residential and Hotels Fall to Lowest Recorded Levels

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CBRE today released the Q1 2019 edition of its Japan Investment MarketView along with its 63<sup>rd</sup> CBRE Japan Cap Rate Survey.

➤ **Global investment volume fell by 16% y-o-y to US\$190 billion**

Global commercial real estate investment volume was down 16% y-o-y to US\$190 billion in fixed exchange rates in part due to fewer mergers and acquisitions, and large portfolio transactions. Following the stock market turbulence at the end of 2018, investors were worried about rising borrowing costs and the prospect of a global economic slowdown. By region, investment in the U.S. dropped by 13% y-o-y to US\$102 billion in Q1 but accounted for more than half of the total global investment volume. EMEA investment volume fell by 23% y-o-y to US\$62 billion and Asia Pacific investment had the smallest decrease of 1% to US\$27 billion.

➤ **Japan investment market (Figure 1)**

**Q1 2019 transaction volume fell 30% y-o-y to JPY 761 billion, led by drop in J-REIT investment activity**

Japanese commercial real estate transaction volume in Q1 2019 (deals worth JPY 1.0 billion or more, excluding land transactions, as well as J-REITs' property acquisitions through IPO) fell by 30% y-o-y to JPY 761 billion, the lowest first quarter total since 2013. The period also saw y-o-y declines in investment volume amongst all investor types, with the largest drop among J-REITs. The lack of properties being sold on the market has forced J-REITs to continue to draw on the sponsor pipeline. Many transactions by J-REITs this quarter were aimed at improving portfolio quality, and the sharp fall in acquisitions via public offerings was the main factor behind the fall in transaction volume.

➤ **Expected yields (Figure 2)**

**Expected yields in Tokyo at new low for office, logistics, family-type apartment, and hotel**

CBRE's latest quarterly real estate investor survey in April 2019 found that average expected yield

(NOI basis)<sup>1</sup> in Tokyo fell q-o-q for four asset types (including office, logistics, family-type apartment, and hotel) to new lows, while retail and studio-type apartment were unchanged q-o-q. Expected yields for offices in four regional cities (Osaka, Nagoya, Sendai, Fukuoka) also fell to record lows.

➤ **CBRE Tankan Survey (Figure 3)**

**No visible deterioration in funding environment or loss of investment appetite**

CBRE's Tankan (DI<sup>2</sup>) Survey of Tokyo Grade A buildings conducted in April 2019 found that the DI worsened in all categories. However, the main reason for the deterioration was an increase in those answering "No change". For logistics facilities (Greater Tokyo, multi-tenant type), the DI improved q-o-q for "rent", "vacancy rate" and "expected yield", but worsened in the remaining four categories. The biggest deterioration was seen in "stance on investment and loans" (-12pts q-o-q), mainly due to an 8-point increase in those answering "maintaining the current level". No significant loss of investor appetite was observed.

➤ **Noteworthy trends**

**Investment stance becomes more selective**

CBRE's Investor Intentions Survey carried out in January 2019 found that appetite for acquisition has not weakened since 2018. This quarter's expected yields and the CBRE Tankan Survey also indicate no weakening of appetite in Q1 2019. However, there are few properties on the market, real estate prices remain high, and there are growing concerns about the global economy. These factors are prompting investors to become more selective. CBRE's survey showed that the appetite for disposition in 2019 has weakened slightly y-o-y. The continued tight supply-demand balance is likely to result in stagnant total transaction volume in 2019.

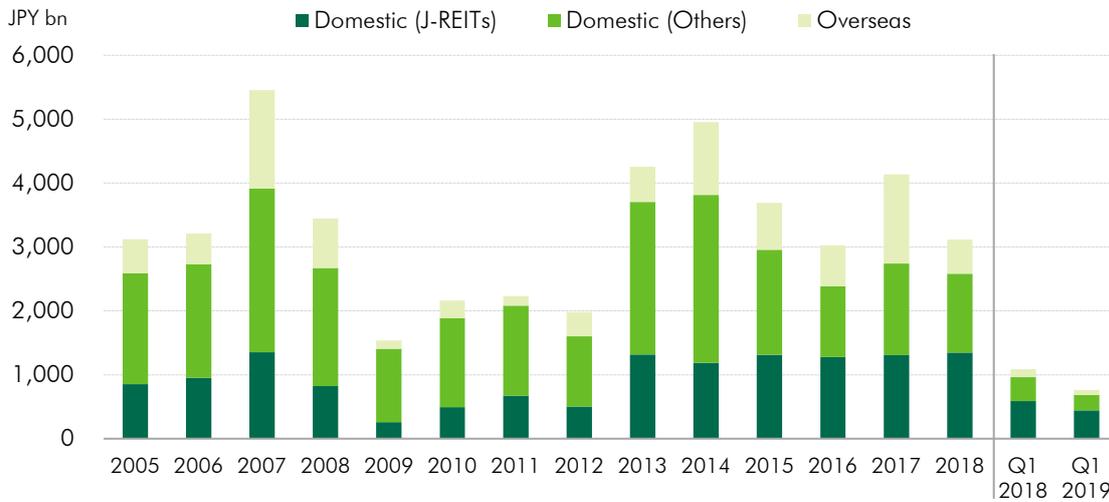
Asuka Honda, Director of CBRE Research, commented: "Commercial real estate investment volume in Q1 2019 was the lowest first quarter total since 2013. Although there were no actual deals which implied further compression of prime yields, the decline in this quarter's expected yields based on investor survey and the CBRE Tankan Survey suggest no weakening of investment appetite."

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<sup>1</sup> Average of lower and upper values in the range. Surveys started in July 2003 for offices and residential; and in January 2009 for retail, hotels, and industrial.

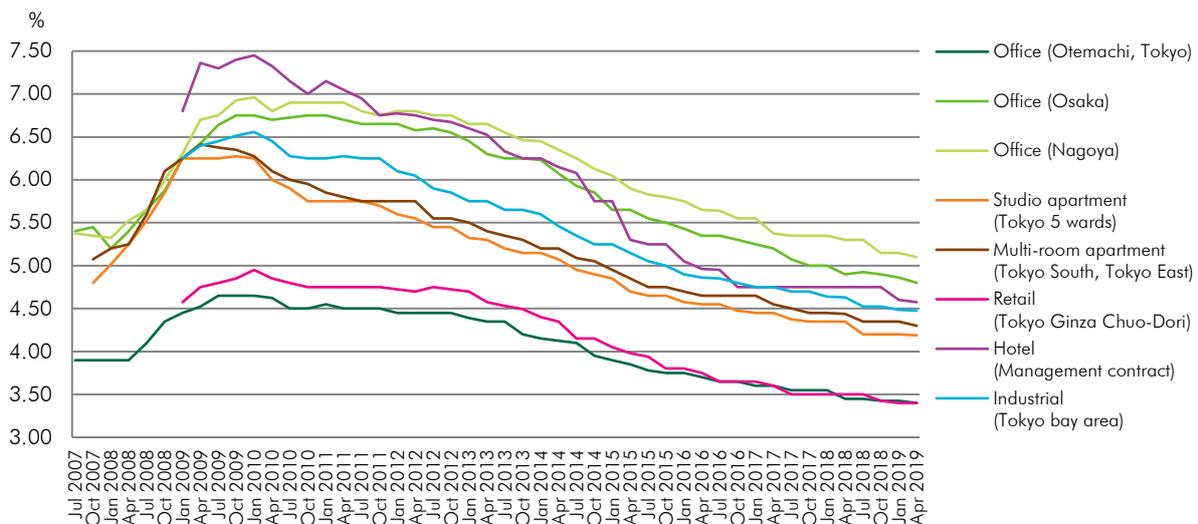
<sup>2</sup> DI (Diffusion index): Subtracts the ratio (%) of respondents that expected a "contraction (fall)" from the ratio (%) of respondents that expected an "expansion (rise)." Expected yield ID subtracts the ratio (%) of respondents that expected a "rise" from the ratio (%) of respondents that expected an "fall."

**Figure 1: Japan Transaction Volume by Investor Type**



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

**Figure 2: Changes in Expected NOI Yield**



Source: CBRE

**Figure 3: CBRE Tankan Survey**

	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)	-14 (-2) ▼	26 (-3) ▼	30 (-3) ▼	15 (-1) ▼	33 (-8) ▼	25 (-1) ▼
Logistics facilities (Greater Tokyo, multi-tenant type)	10 (-4) ▼	27 (-3) ▼	9 (+2) ▲	2 (+8) ▲	17 (+4) ▲	27 (-6) ▼

Source: CBRE

**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 March 14 to April 11, 2019.

## 3. Recipients surveyed and response rate

- Recipients: 162 individuals (158 corporations)
- Responses: 136 individuals (131 corporations)
- Response rate: 84.0% 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>

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