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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](https://twitter.com/cbrejapan)

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

CBRE Releases Q2 2019 Japan Investment MarketView Transaction Volume in Japan Rises 60% y-o-y to JPY 861 billion Record Low Expected Yields for All Asset Types in Tokyo

CBRE today released the Q2 2019 edition of its Japan Investment MarketView along with its 64th CBRE Japan Cap Rate Survey.

➤ Global investment market

Q2 2019 global transaction volume falls 7.5% y-o-y to US\$ 231 billion

Global commercial real estate transaction volume decreased by 7.5% y-o-y to US\$ 231 billion (approx. JPY 25 trillion) in Q2 2019. H1 2019 transaction volume similarly fell by 10.6% y-o-y. The Americas was the only region where Q2 2019 transaction volume exceeded the level recorded in the same quarter last year (+0.7% y-o-y to US\$ 128 billion). Transaction volume in EMEA fell by 17% y-o-y to US\$ 74 billion (approx. JPY 8 trillion), and by 14% y-o-y in Asia Pacific to US\$ 29 billion (approx. JPY 3 trillion).

Transactions for office properties underpinned global investment volume this quarter. In the main global gateway cities, including Tokyo, office transaction volume registered growth of more than 50% y-o-y. This was due to solid demand for prime offices, mainly supported by an increase in employment. In the Americas, growth in transaction volume was driven by lower hedging costs for overseas investors purchasing assets in the U.S.

➤ Japan investment market (Figure 1)

Q2 2019 transaction volume rises 60% y-o-y to JPY 861 billion

Commercial real estate transaction volume (deals worth JPY 1.0 billion or more, excluding land transactions and property acquisitions at the time of J-REIT IPOs) rose by 60% y-o-y to JPY 861 billion in Q2 2019, the fourth highest second quarter total since CBRE's survey began recording this figure in 2005. The period saw y-o-y increases in transaction volume among all investor types, with domestic investors (excluding J-REITs) and overseas investors registering higher increase rates than J-REITs. Some of the key transactions this quarter appear to have been finalized at close to the seller's asking price, reflecting a robust appetite among buyers, not to mention sellers' bullish stance.

➤ **Expected yield (Figure 2)**

Expected yield in Tokyo falls for all asset types, reaching record lows

CBRE's latest cap rate survey conducted in July 2019 found that average expected yield (NOI basis)¹ in Tokyo fell q-o-q for all asset types, setting new record lows. Expected yield for offices in five regional cities (Osaka, Sapporo, Sendai, Hiroshima, Fukuoka) also hit record lows.

➤ **CBRE Tankan Survey (Figure 3)**

Diffusion Index for "stance on investment and loans" improves, investment appetite remains strong

CBRE's latest Tankan Survey conducted in July 2019 showed investor appetite to remain strong for both offices and logistics facilities. The Diffusion Index (DI)² for Tokyo Grade A office buildings improved in all four categories, including "stance on investment and loans" and "trading volume". For logistics facilities (Greater Tokyo, multi-tenant type), the DI improved in all categories, except for "expected yield". The biggest improvement was seen in "stance on investment and loans" and "rent" (both up by 12 points q-o-q), which were driven by increase in "Promoting" and "Higher", respectively.

➤ **Noteworthy trends**

Sales transactions increase in size, driven by overseas institutional investors

Commercial real estate transaction for the whole of H1 2019 rose by 0.8% y-o-y to JPY 1,635 billion. While the number of transactions during this period fell y-o-y, the number of deals worth JPY 10 billion or greater increased by 29%, leading to the higher transaction volume. There have been more big-ticket deals so far this year, and the steady pace at which deals are being closed demonstrates the strength of appetite for acquisition. This is being underpinned by an inflow of funds from overseas institutional investors. Transaction volume by the institutional investors in H1 2019 totaled JPY 125 billion, and has already reached 80% of 2018 full-year transaction volume (JPY 155 billion). Almost all such purchasers were by overseas investors, including government funds, pensions, and life insurers.

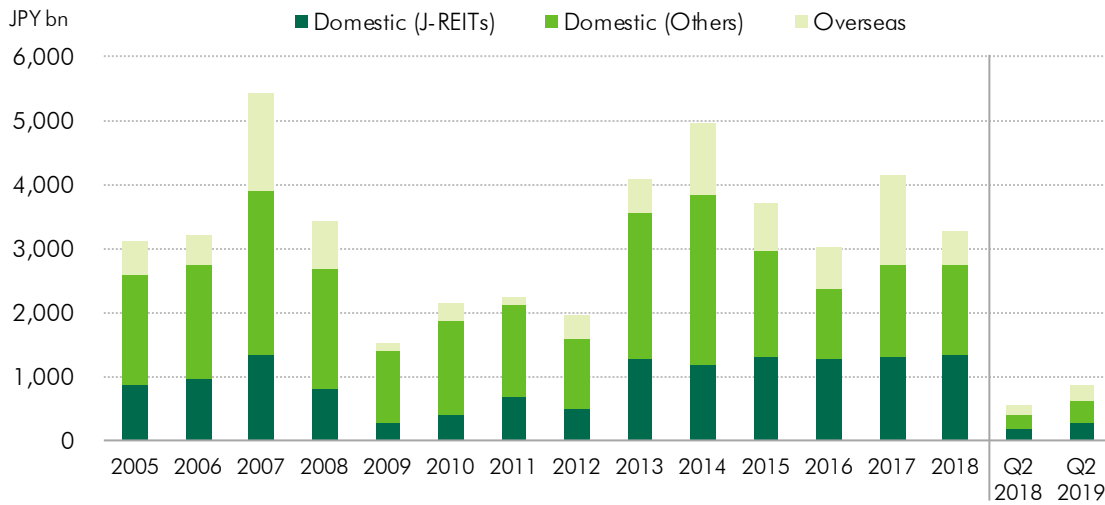
For further details, download the latest editions of our Japan Investment MarketView and Japan Cap Rate Survey.

<https://www.cbre.co.jp/en/research-reports/investment-reports>

¹ 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.

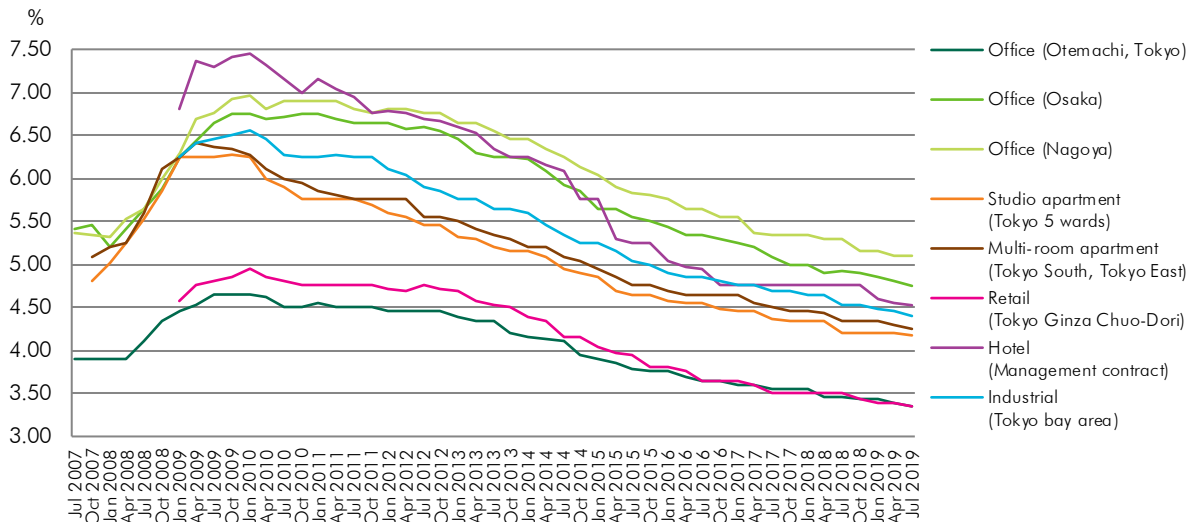
² DI (Diffusion index): Subtracts the ratio (%) of respondents that expected a "contraction (fall)" from the ratio (%) of respondents that expected an "expansion (rise)." Expected yield ID subtracts the ratio (%) of respondents that expected a "rise" from the ratio (%) of respondents that expected an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

Figure 1: Japan Transaction Volume by Investor Type



Covering transactions of at least JPY1bn, 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)	- 10 (+4) 	28 (+2) 	32 (+2) 	13 (-2) 	30 (-3) 	30 (+5)
Logistics facilities (Greater Tokyo, multi-tenant type)	19 (+9) 	33 (+6) 	21 (+12) 	6 (+4) 	16 (-1) 	28 (+12)

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 June 12 to July 12, 2019.

3. Recipients surveyed and response rate

- Recipients: 158 individuals (152 corporations)
- Responses: 132 individuals (129 corporations)
- Response rate: 83.9% from individuals (84.9% 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.

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