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CBRE Releases Q1 2020 Japan Investment MarketView

Transaction volume rises 41% y-o-y to JPY 1 trillion in Q1 2020; significant increase in purchasing by overseas investors

Transaction volume expected to decline in Q2 2020 due to COVID-19

CBRE today released the Q1 2020 edition of its Japan Investment MarketView, along with its 67th CBRE Japan Cap Rate Survey.

➤ Global investment market

Q1 transaction volumes on the upside but a decline in March foreshadows a weak Q2

The strong momentum of entity-level transactions in the second half of 2019 carried over into Q1 2020, increasing global commercial real estate investment volume by 15% y-o-y to US\$235 billion. The Americas investment volume increased by 8% y-o-y in Q1 to US\$121 billion due to U.S. REITs' investment growth, thanks to their equity prices surging in 2019. EMEA investment volume registered its best Q1 on record, US\$92 billion, a 46% increase from Q1 2019. Entity-level deals larger than US\$500 million made up 25% of the total investment volume. Meanwhile, APAC investment volume fell 22% y-o-y in Q1 to US\$23 billion, mostly due to a decline in mainland China, Hong Kong, and Australia.

COVID-19 significantly cooled investment activity in March. Early signs of COVID-19 impact on CRE investment emerged across regions, signaling a painful Q2 ahead. However, as businesses return to normal in China and other parts of Asia, a rebound in investor confidence and transaction volume will probably arrive first in APAC.

➤ Japan investment market (Figure 1)

Overseas investors drive increase in Q1 2020 transaction volume

Commercial real estate transaction volume (deals worth JPY 1 billion or more, excluding land transactions and property acquisitions at the time of J-REIT IPOs) rose by 41% y-o-y to JPY 1 trillion in Q1 2020. The increase was mainly due to a rise in purchasing by overseas investors. Although J-REITs accounted for the largest share of transaction volume at 42%, transaction volume for J-REITs was flat y-o-y at JPY 446.0 billion. Transaction volume for domestic investors (excluding J-REITs) rose by 32% y-o-y to JPY 335.0 billion, while that for overseas investors increased almost 400% y-o-y to JPY 294.0 billion.

➤ Expected yields for Tokyo assets (Figure 2)

Hotels see rise for second consecutive quarter, while offices and logistics maintain record low

CBRE's latest cap rate survey conducted between March 11 and April 14 found that the average expected yield in Tokyo for hotels (management contract), retail (Ginza, Chuo-dori) and residential (studio-type) rose between 5bps and 20bps q-o-q. Hotels (management contract) registered a second consecutive quarterly rise. The last time expected yield for a major asset in Tokyo rose for two quarters running was in 2009. Other asset types (offices, logistics facilities, residential/multi-family) were unchanged q-o-q, remaining at record lows. In regional cities, expected yield for offices fell q-o-q in Osaka and Sendai, registering new record lows, but rose in Fukuoka by 2bps q-o-q.

➤ **CBRE Tankan Survey (Figure 3)**

Sentiment worsens for offices but unchanged for logistics facilities

CBRE's latest Tankan Survey conducted in March 2020 found that the Diffusion Index (DI) for Tokyo Office Grade A office buildings had worsened in all categories. There was an increase of more than 10 points q-o-q for those responding, "sales prices have fallen compared with three months ago" and "expected yield has risen". The DI for multi-tenant logistics facilities (Greater Tokyo) also worsened in all items except "vacancy rate", although this was due to more respondents seeing no change, with five of the seven categories seeing a higher percentage answering, "no change compared with six months ago". As such, it is fair to say that no significant change was seen in the sentiment for logistics facilities. Although the responses for "financial institutions' lending attitude" and "stance on investment and loans" suggest a cautious attitude for both asset types, there has been no significant change.

➤ **Noteworthy trends**

Muted investment activity expected in Q2 2020 due to spread of COVID-19

Transaction volume is likely to decline in the coming quarters due to the impact of COVID-19 on market sentiment and the deal process. Travel restrictions mean that overseas investors are unable to visit Japan to inspect properties, and an increasing number of transactions are being postponed. CBRE has also observed some hotel and retail transactions being canceled. In April, a few owners were looking to sell properties to generate cash and strengthen its financial standing, although the deals may take some time to be conducted, with uncertainty relating to COVID-19 likely to create a gap in price expectations between sellers and buyers. The CBRE's Investor Intentions Survey 2020 conducted in late March indicated that investment appetite is fundamentally strong, with fewer than 20% of investors responding that they would reduce their acquisition amount due to the spread of COVID-19. While general corporations are more likely to consider non-core assets dispositions or sale and leaseback due to worsening business performance, some investors – particularly domestic financial institutions – view the current environment as an investment opportunity. Once there are signs that the pandemic is being brought under control, transaction volume is likely to rebound.

Asuka Honda, director of CBRE Research, commented: "Investment market activity will slow in Q2 2020 due to the impact of COVID-19, and transaction volume will likely be lower in 2020. While some institutional investors may find investment opportunities, such as asset sales for balance sheet restructuring, the coming quarters will likely see investors adopt an increasingly cautious approach, with a stronger focus on income stability."

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

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



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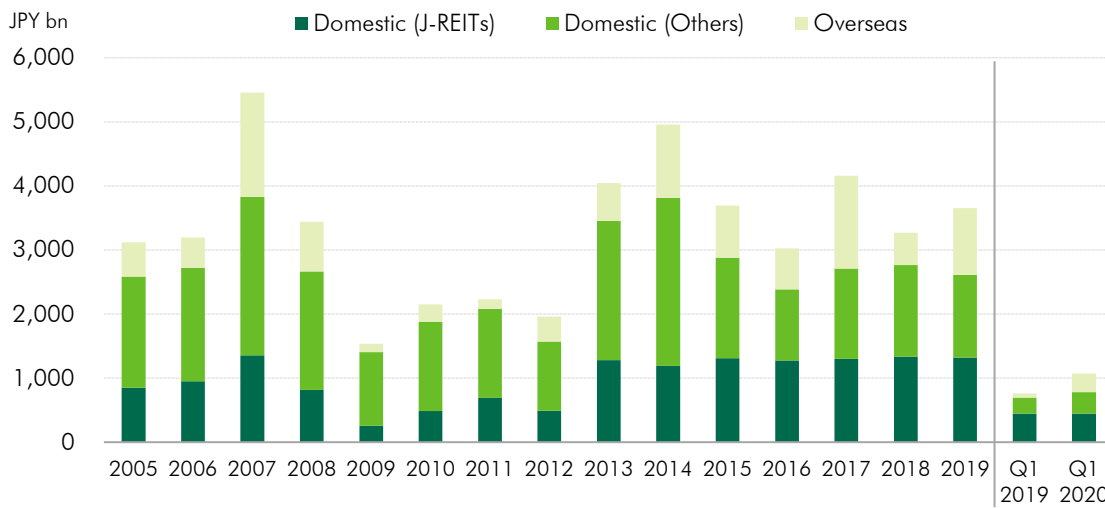
【April 24, 2020】 Japan Investment Major Report - Investor Intentions Survey 2020

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【April 9, 2020】 Japan Major Report - In and Out Japan 2019

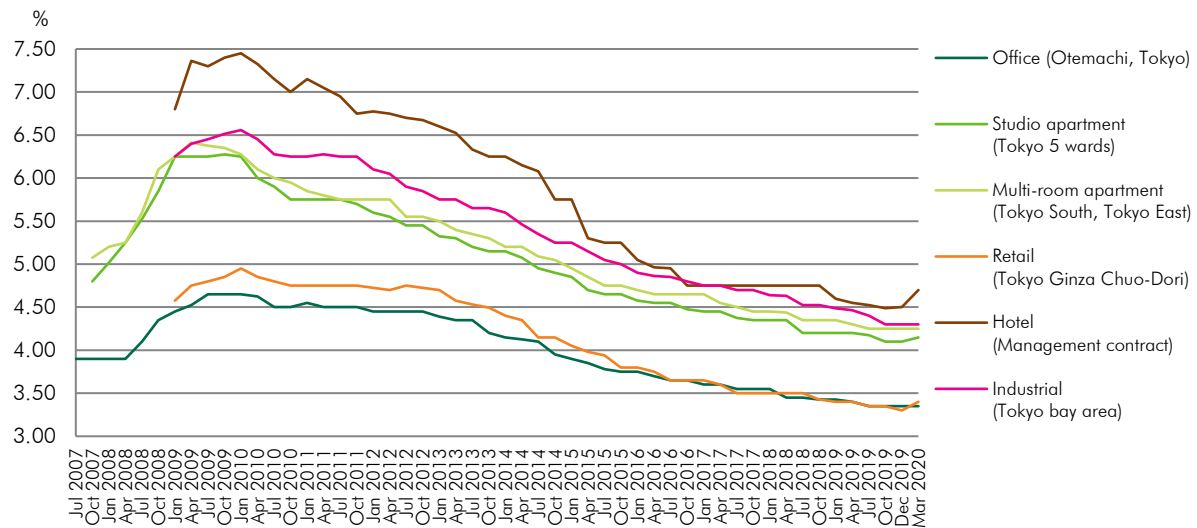
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Figure 1: Japan Transaction Volume by Investor Type



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)	-27 (-12) ▼	-3 (-30) ▼	3 (-30) ▼	-12 (-23) ▼	13 (-20) ▼	14 (-15) ▼	
	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)	3 (-11) ▼	21 (-11) ▼	21 (-6) ▼	9 (-1) ▼	6 (-14) ▼	18 (-11) ▼	19 (-11) ▼

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 10 to March 31, 2020.
3. Recipients surveyed and response rate
 - Recipients: 151 individuals (148 corporations)
 - Responses: 122 individuals (120 corporations)
 - Response rate: 80.8% from individuals (81.1% 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>

CBRE Japan Celebrates Its 50th Anniversary

CBRE Japan marked its 50th anniversary on February 21, 2020.

We value and thank all those who have supported us over the last five decades.

We will continuously aim to deliver advantage for our clients and make a positive impact on society.

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