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## CBRE Conducts Its First Lender Survey in Japan

### Amount of lending expected to increase in fiscal 2018, but lenders remain cautious and rational

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CBRE today released a report titled, "CBRE Lender Survey 2018" which summarizes the results from a survey of lenders providing finances for domestic real estate investment. The survey asked lenders about the outlook for the real estate market and their lending strategy. (See page 2 for an overview of the survey)

#### Highlights

##### 1. Lending strategy

- **New lending expected to increase in fiscal 2018**

Lenders who said that the amount of lending in fiscal 2018 would be "unchanged" or be more ("increase") than fiscal 2017 totalled 78% of lenders in the case of senior loans, and 92% of lenders in the case of mezzanine loans.

- **The most important factor when making a financing decision is "LTV"**

The survey asked respondents what the most important factors were when deciding whether to extend a non-recourse loan for real estate. The most common answer was LTV (the ratio of the loan to the value of the asset), cited by 27% of respondents. According to the survey results, the guideline LTV ratio for lending is currently 50–80%. Given that many projects are seen to have had a much higher LTV ratio prior to the global financial crisis, it seems reasonable to think that lenders have become more cautious than that time.

- **"Offices" are the most attractive asset type for lending (50%)**

Lenders’ preference for office suggests they value the market size, availability of market information, and high liquidity. Meanwhile, relatively high proportion of lenders are involved in development projects for logistics facilities and hotels, compared with other assets. This reflects the fact that with both logistics facilities and hotels, there is a significant number of development projects relative to the quantity of existing stock.

- **Tokyo and the Greater Tokyo area are the most attractive areas for lending; Fukuoka ranks high for offices**

With regard to lending for office buildings, Fukuoka ranked fourth after Tokyo, Osaka, and Yokohama. Supply-demand conditions in the regional office markets are likely to remain tight. The expectation of further rise in rents appears to be the reason for lenders' positive view on regional cities.

**2. Lending criteria: Spreads and LTV ratios in the case of financing for Tokyo prime assets\***

Lending type	Spread (bps)	LTV (%)
Senior loan	80~90	50~70
Mezzanine loan	250~340	70~80

\*Median of upper/lower values in the range. The included asset types were offices, retail facilities, logistics facilities, rental condominiums, and hotels. Respondents were questioned about the attributes of high-quality properties positioned as Tokyo prime assets. See the main report for details.

**3. Outlook**

- The biggest threats in the debt market were cited as "domestic and global economic shock" (38%), followed by the "rapid rise in interest rates that exceeds forecasts" (19%). Looking at lenders' comments, "domestic and global economic shock", included concerns about natural disasters and global political conditions, as well as the U.S.- China trade friction.
- For the outlook for the coming year, the survey suggests that lenders see real estate sales prices rising, LTV ratios falling, and spreads increasing.
- Asuka Honda, Associate Director of Research at CBRE, commented: "Investors' appetite for real estate acquisition is likely to remain strong in light of the prolonged low interest rate policy. However, lenders remain cautious and rational, focusing on the earnings stability, location and LTV level of individual projects, while also being selective about sponsors."

**Overview of CBRE Lender Survey 2018**

1. Objectives and scope of survey

To gather and analyze data to identify the approach to real estate financing. The survey covered parties providing non-recourse loans for real estate.

2. Survey method and period

Conducted using a questionnaire (file sent by email) and website from 10 July to 3 August 2018

3. Respondents and response rate

Targeted companies: 42    Responding companies: 26    Response rate: 62%

4. Main cooperating companies (in random order)

AXA Real Estate Investment Managers Japan K.K.

The Bank of Fukuoka, Ltd.

NEC Capital Solutions Limited

The Tokyo Star Bank, Limited

Nippon Life Insurance Company

MetLife Insurance K.K.

Mizuho Securities Principal Investment Co., Ltd.

IBJ Leasing Company, Limited

Sumitomo Mitsui Trust Bank, Limited

Diamond Realty Management Inc.

Sumitomo Mitsui Finance and Leasing Company, Ltd.

Resona Bank, Limited

Mitsubishi UFJ Lease & Finance Company Limited

MUFG Bank, Ltd.

(And 13 other companies)

5. Publication of survey results

Only some of the survey questions are included in this report

### **Glossary of Terms**

- Senior loan: A form of loan with higher repayment priority, for example with a first priority security interest in the real estate
- Mezzanine loan: A form of loan with repayment priority subordinate to that of a senior loan, for example with a second or lower priority security interest in the real estate
- LTV: The ratio of the loan to the value of the asset (amount of loan divided by the asset value)
- Spread: A rate added by the lender to the reference interest rate (loan interest rate = reference interest rate + spread)

#### About CBRE Group, Inc.

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