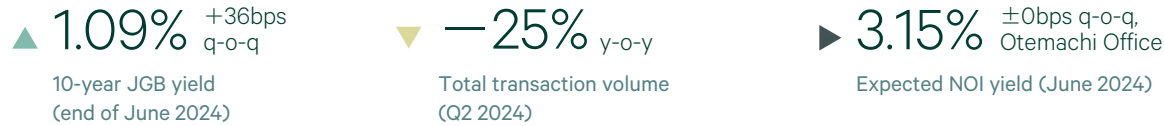


Transaction volume falls 25% y-o-y; hotel investment surges to account for 40% of total volume



- Japan commercial real estate transaction volume*1 for Q2 2024 fell by 25% y-o-y to JPY 663.0 billion. Several major hotel transactions pushed up the sector’s acquisition volume to JPY 280.0 billion, some 2.6x the volume recorded in the same quarter of the previous year, and roughly 40% of the total transaction volume for the quarter. Cumulative transaction volume for the hotel sector in H1 2024 was up by 49% from the previous year. Office transactions also rose this quarter, registering a 47% y-o-y increase to JPY 180.0 billion. In contrast, investment volume for the retail, residential, and logistics sectors all declined.
- J-REIT acquisition volume for the quarter (all transactions, including those below JPY 1 billion) slipped by 22% y-o-y to JPY 169.8 billion. This also represented a significant decline from the January-March quarter, when several major J-REIT transactions were announced. Over half of all J-REIT transaction volume this quarter was in the hotel sector. While the TSE REIT Index has dropped since the beginning of the year, hotel REITs have posted positive returns.
- The results of this quarter’s CBRE Cap Rate Survey reveal that expected yields either fell or remained unchanged for Tokyo prime assets across all sectors. For offices in regional cities, no areas saw expected yields increase. Shrinking yield spreads appear to have largely absorbed the effects of the recent rises in interest rates.

*1 Transaction volume covers transactions of JPY 1 billion or larger, excluding land transactions and acquisitions by J-REITs at IPO.

*2 Expected yields are based on the results of CBRE’s investor survey (CBRE Cap Rate Survey), calculated as the average of the median of upper/lower value on a NOI basis. Surveys started in July 2003 for offices; in October 2007 for residential; and in January 2009 for retail, hotels, and industrial.

*3 CBRE Tankan Survey (DI = Diffusion index) subtracts the ratio (%) of respondents that expected an “improvement” from the ratio (%) of respondents that expected a “deterioration”.

Figure 1: Quick Stats

Transaction volume*1	Q2 2024 (JPY, bn)	y-o-y (%)
Total investment volume	663	−25
Domestic (J-REITs)	165	−22
Domestic (Others)	357	+19
Overseas	141	−62
Expected NOI Yield *2	June 2024 (%)	q-o-q (bps)
Office (Otemachi, Tokyo)	3.15	±0
Retail (Ginza Chuo-Dori, Tokyo)	3.25	±0
Industrial (Tokyo Bay area)	3.73	−2
CBRE Tankan Survey *3	Grade A Office (q-o-q: pp)	Multi-tenant Logistics (q-o-q: pp)
Sales prices	5 (+2)	18 (−4)
Expected yield	2 (+2)	5 (+2)
Lending attitude of financial institutions	12 (+2)	15 (−7)
Stance on investment and loans	7 (−4)	22 (−3)

Source: CBRE, Q2 2024.

Transaction volume falls 25% y-o-y despite several major hotel transactions

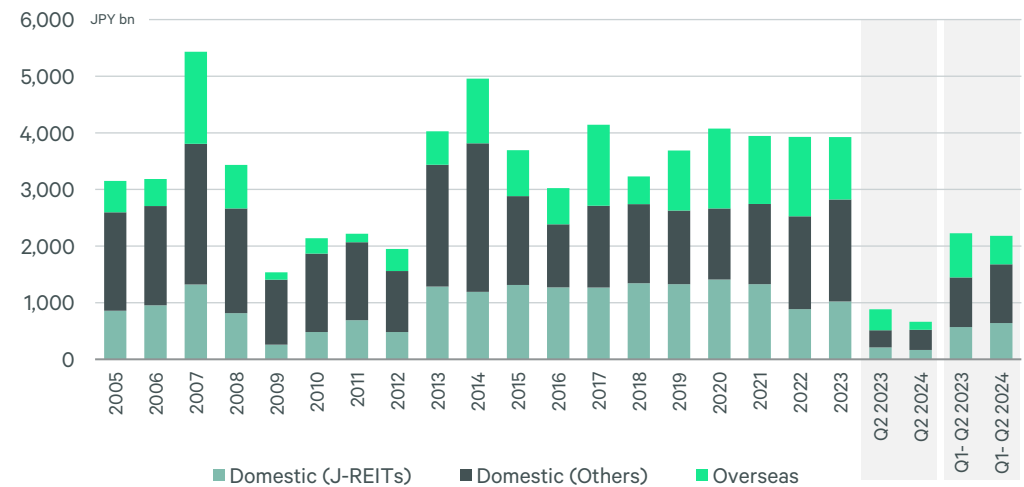
Japan commercial real estate transaction volume for Q2 2024 (transactions of JPY 1 billion or larger, Figures 1, 2, and 3) fell by 25% y-o-y to JPY 663.0 billion.

Despite the overall decline in investment volume, the period saw the completion of several major hotel transactions. J-REITs were active, with major deals including the acquisition of four properties by Japan Hotel REIT for a total of JPY 56.2 billion, along with the purchase of a single property by Hoshino Resorts REIT for JPY 29.0 billion. Also this quarter, Kasumigaseki Capital launched a private fund selling four of its hotels to an SPC for JPY 12.5 billion. Elsewhere, several major acquisitions involving overseas investors were completed, including KKR's acquisition of a portfolio of 14 hotels from Unizo Holdings, and Fortress's purchase of Phoenix Seagaia Resort. Other transactions included Chinese conglomerate Fosun International's sale of Hoshino Resorts Tomamu for JPY 40.8 billion, which generated significant media attention. As a result, total transaction volume for the hotel sector in Q2 2024 surged to JPY 280.0 billion, some 2.6x the volume recorded in Q2 2023, and roughly 40% of overall transaction volume for the quarter. Cumulative transaction volume for the hotel sector in H1 2024 increased by 49% from H1 2023. In addition to investors, lenders have adopted a much more accommodating stance toward the hotel sector over the past year (see [Lender Survey 2024](#)).

Although office transaction volume fell well below that of the previous quarter, during which several major J-REIT deals were completed, it grew by 47% y-o-y to JPY 180.0 billion. In addition to FPG's acquisition of two floors of Roppongi Hills Mori Tower for sale to individuals as small-lot real estate, the quarter saw Ichigo Office REIT acquire six properties from its sponsor for a total of JPY 15.0 billion. Cumulative office transaction volume for H1 2024 increased by 15% from H1 2023. Recent quarters have seen an increase in the number of transactions by corporations, as they look to divest old office buildings when they relocate to maintain an efficient balance sheet, or to acquire buildings they occupy or those nearby as part of their longer-term business strategy.

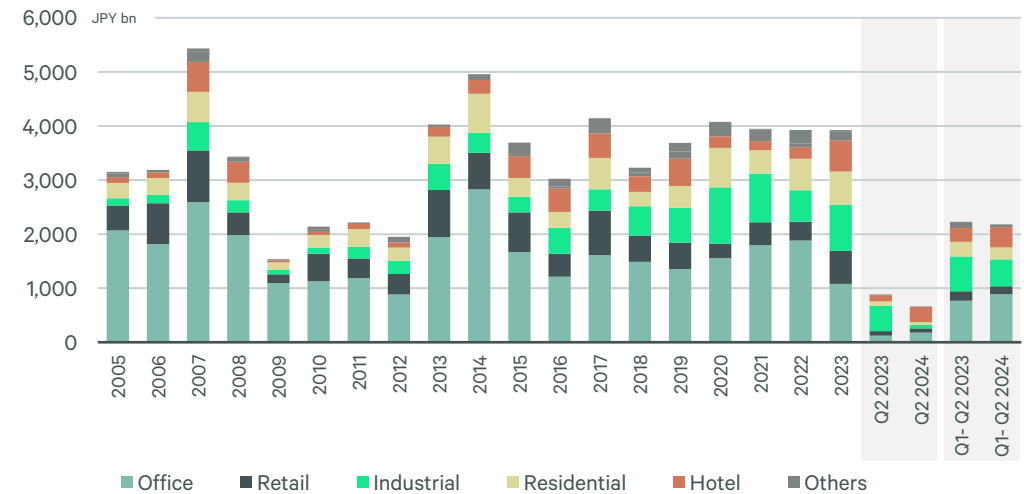
Transaction volume for the retail, residential, and logistics sectors all recorded y-o-y decreases in Q2 2024. The retail sector slid by 8% y-o-y to JPY 76.0 billion as no major properties changed hands, despite an increase in the number of deals. A relative lack of transactions by J-REITs meant that residential investment volume fell to just JPY 51.0 billion, down 39% from the previous year. In the logistics sector, transaction volume declined by 86% y-o-y to JPY 65.0 billion, largely due to the high base effect resulting from the sale of major portfolios in the same quarter of the previous year. In general, large portfolio transactions appear to be on the wane in the residential and logistics sectors as investors adopt a more selective approach.

Figure 2: Transaction volume by investor type



Note: Includes transactions of JPY 1bn or larger, excluding acquisitions by J-REITs at IPO.
Source: MSCI Real Capital Analytics, CBRE, Q2 2024.

Figure 3: Transaction volume by asset type



Note: Includes transactions of JPY 1bn or larger, excluding acquisitions by J-REITs at IPO.
Source: MSCI Real Capital Analytics, CBRE, Q2 2024.

Broken down by investor type, investment volume by overseas investors fell by 62% y-o-y to JPY 141.0 billion. Overseas investors continue to wait patiently for attractive investment opportunities, such as those pertaining to business acquisitions and acquisitions of properties sold by J-REITs as part of portfolio overhauls. In terms of domestic investment, while acquisitions by J-REITs fell by 22% y-o-y this quarter, this was offset by a 19% increase in acquisition volume by non-J-REIT domestic investors, resulting in a 2% net increase over the same quarter of the previous year.

J-REITs adopt more aggressive approach towards hotel sector

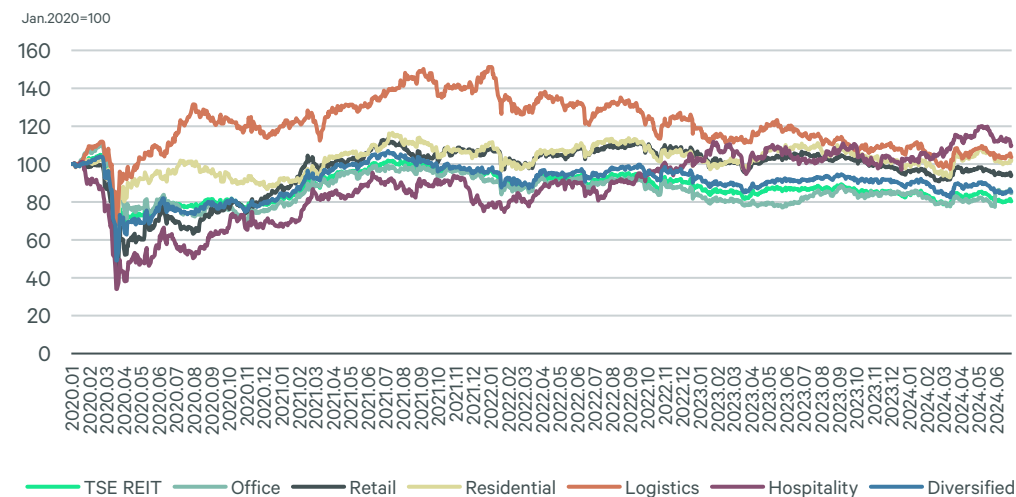
J-REIT acquisition volume (all transactions, including those below JPY 1 billion) slipped by 22% y-o-y to JPY 169.8 billion in Q2 2024. This represented a significant decline from the JPY 501.6 billion recorded in Q1 2024, when several major transactions were announced.

Over half of all J-REIT investment volume this quarter involved the acquisition of hotel assets. In addition to Japan Hotel REIT’s purchase of four properties (Okinawa Harborview Hotel, Southern Beach Hotel & Resort Okinawa, MIMARU Tokyo Shinjuku West, and Hotel Amanek Shinjuku Kabukicho) for a total of JPY 56.2 billion, Hoshino Resorts REIT bought OMO7 Osaka Hotel from a sponsor for JPY 29.0 billion. Total J-REIT hotel investment volume for the quarter reached JPY 94.5 billion, some 13x the figure recorded in the same quarter of the previous year.

While the Tokyo Stock Exchange (TSE) REIT Index has dropped by 4.6% between the start of the year at the end of June, hotel REIT share prices have risen by 6.8% over the same period, even accounting for a recent slide after peaking in May (Figure 4). In equity procurement moves related to the major acquisitions detailed above, Japan Hotel REIT raised approximately JPY 34.0 billion, while Hoshino Resorts REIT raised approximately JPY 18.0 billion via public offerings. With the current market allowing for public equity offerings, hotel acquisitions by J-REITs are likely to continue in the coming quarters.

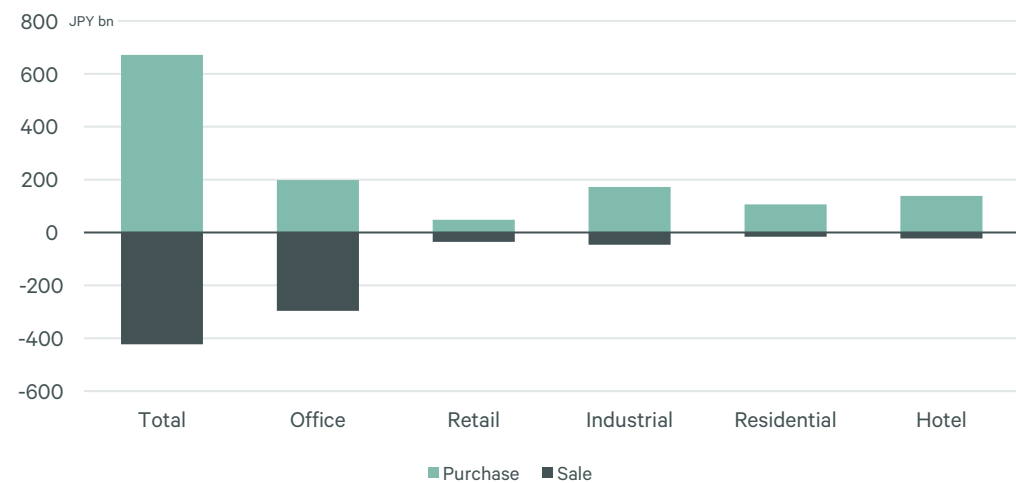
In terms of sales by J-REITs, while the previous quarter saw a record high JPY 355.6 billion-worth of assets offloaded on the back of several major office transactions, the figure for this quarter was a much more modest JPY 67.5 billion. During the quarter, Daiwa House REIT sold three logistics facilities to its sponsor for a total of JPY 22.6 billion, while ESCON JAPAN REIT announced the reshuffling of several retail properties through transactions with its sponsors. For asset classes other than hotels, languishing share prices are making external growth via public offerings less practical. As a result, J-REITs are looking to overhaul their portfolios, as in the examples mentioned above.

Figure 4: J-REIT share price by asset type



Source: Macrobond, CBRE, Q2 2024

Figure 5: J-REIT sale and purchase volumes in H1 2024



Source: J-REIT press releases, CBRE, Q2 2024

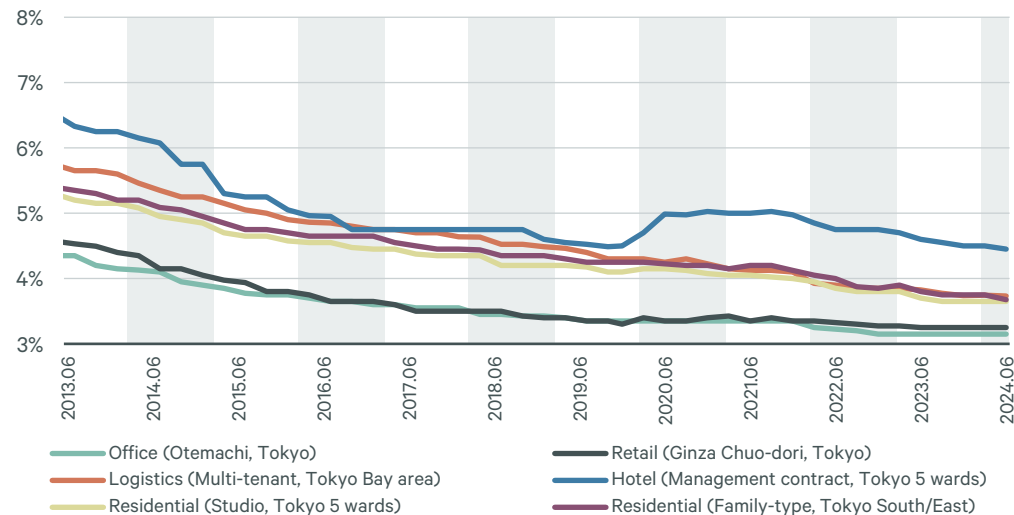
CBRE Cap Rate Survey:
Expected yields fall for hotels and family-type residential properties

CBRE’s most recent quarterly cap rate survey found that expected yields for prime assets in Tokyo (averages, Figures 6 and 8) fell from the previous quarter by 5bps for hotels (management contract, Tokyo 5 wards), and by 7bps for residential properties (family-type, Tokyo south/ east). A decline of 2bps was recorded for logistics facilities (multi-tenant, Tokyo Bay area), while expected yields for all other asset types were unchanged. For offices (Otemachi) and retail facilities (Ginza Chuo-dori), this marks the seventh and fifth consecutive quarters, respectively, in which expected yields have remained stable. For offices in the six major regional cities, no areas saw expected yields increase, with figures falling in four cities and remaining unchanged in the other two (Figure 8).

Meanwhile, market interest rates are on the rise (Figure 7). The 10-year government bond yield stood at 1.09% at the end of June, up 36bps from the end of March, while the three-month TIBOR surged from 0.08% at the end of January to reach 0.31% by the end of June. Shrinking yield spreads appear to have absorbed the effects of rising interest rates thus far.

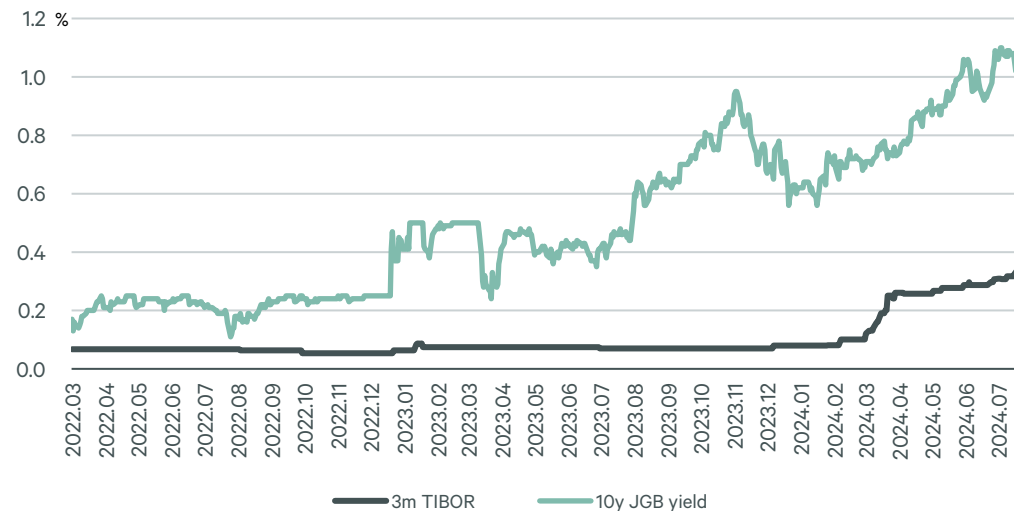
CBRE’s latest Tankan Survey, designed to gauge the current investment environment, revealed that the diffusion index (DI, Figure 9) for Tokyo Grade A office buildings worsened for a third consecutive quarter in the category of “stance on investment and loans” (down 4 pp. q-o-q), and remained unchanged for “transaction volume”, but improved in all other categories. For multi-tenant logistics facilities in Greater Tokyo, the DI improved by 2 pp. for “expected yield” but worsened in the four categories of “transaction volume”, “sales price”, “lending attitude of financial institutions”, and “stance on investment and loans”.

Figure 6: Expected NOI yield (Tokyo)



Source: CBRE Cap Rate Survey, June 2024

Figure 7: 3-month TIBOR and 10-year JGB yield



Source: JBA, Macrobond, CBRE

Figure 8: Expected NOI Yield

		Jun. 2024 (%)	q-o-q (bps)
Tokyo	Office (Otemachi, Tokyo)	3.15	±0
	Residential (Studio, Tokyo 5 wards)	3.65	±0
	Residential (Family-type, Tokyo south/ east)	3.68	-7
	Industrial (Multi-tenant, Tokyo Bay area)	3.73	-2
	Retail (Ginza Chuo-Dori, Tokyo)	3.25	±0
	Hotel (Management contract, Tokyo 5 wards)	4.45	-5
Osaka	Office	4.35	±0
Nagoya	Office	4.50	-8
Sapporo	Office	4.75	-4
Sendai	Office	4.90	-2
Hiroshima	Office	5.10	±0
Fukuoka	Office	4.35	-5

Note: Expected yields are based on the results of CBRE's investor survey, calculated as the average of the median of upper/lower value on a NOI basis. Surveys started in July 2003 for offices and residential; and in January 2009 for retail, hotels, and logistics. Source: CBRE Cap Rate Survey, June 2024

Figure 10: Selected Major Transactions

Date*1	Building Name	Location	Sector	Seller	Buyer	Acquisition Price*2 (JPY Million)	Price per Tsubo*2 (JPY Thousand)	Cap Rate*3 (%)
Jun-24	Hoshino Resort Tomamu	Yufutsu-gun, Hokkaido	Hotel	Fosun Int'l Ltd (Yuyuan Tourist Mart)	YCH16 GK	40,837	—	—
May-24	OMO7 Osaka	Osaka-shi, Osaka	Hotel	Shin-Imamiya Development SPC (Hoshino Resorts Group)	Hoshino Resorts REIT	29,000	2,651	5.5
Jun-24	OKINAWA HARBORVIEW HOTEL	Naha-shi, Okinawa	Hotel	Undisclosed	Japan Hotel REIT	21,500	2,692	6.9
Jun-24	Southern Beach Hotel & Resort OKINAWA	Itoman-shi, Okinawa	Hotel	Undisclosed	Japan Hotel REIT	16,200	1,793	7.0
Jun-24	Portfolio of 4 hotels	Japan	Hotel	Kasumigaseki Capital	GK FAV PRF 2 (Kasumigaseki Capital and others)	12,500	—	—
Apr-24	D Project Kuki II	Kuki-shi, Saitama	Industrial	Daiwa House REIT	DH Bridge 1 Godo Kaisha (Daiwa House Industry)	10,100	661	4.3
Jun-24	MIMARU Tokyo Shinjuku West	Shinjuku-ku, Tokyo	Hotel	Undisclosed	Japan Hotel REIT	9,645	7,625	4.8
Jun-24	HOTEL AMANEK Shinjuku Kabukicho.	Shinjuku-ku, Tokyo	Hotel	Undisclosed	Japan Hotel REIT	8,845	6,758	5.5

*1 Announcement or contract date. *2 Acquisition price may be approximate, estimated, appraised, book value, or total asset value. *3 J-REIT cap rates are based on NOI estimated by the J-REIT's asset manager or appraisal NOI, and the acquisition price. Source: MSCI Real Capital Analytics, CBRE, Q2 2024

Figure 9: CBRE Tankan Survey (DI)

		Jun. 2024	q-o-q (pp)
Office buildings (Tokyo Grade A)	Transaction volume	-2	±0
	Sales prices	5	+2
	NOI (Net Operating Income)	-22	+2
	Expected yield	2	+2
	Lending attitude of financial institutions	12	+2
	Stance on investment and loans	7	-4
Logistics facilities (Greater Tokyo, multi-tenant)	Transaction volume	12	-1
	Sales prices	18	-4
	Rent	20	±0
	Vacancy rate	-16	±0
	Expected yield	5	+2
	Lending attitude of financial institutions	15	-7
	Stance on investment and loans	22	-3

Note: CBRE Tankan Survey (Diffusion Index = DI) subtracts the ratio (%) of respondents that expected an "improvement" from the ratio (%) of respondents that expected a "deterioration." Expected yield DI subtracts the ratio of respondents that expected a "fall" from the ratio of respondents that expected a "rise".

Source: CBRE Cap Rate Survey, June 2024

<p>Tokyo</p> <p>Meiji Yasuda Seimei Building 2-1-1 Marunouchi, Chiyoda-ku, Tokyo</p>	<p>Sendai</p> <p>Sendai Mark One 1-2-3 Chuo, Aoba-ku, Sendai-shi, Miyagi</p>	<p>Nagoya</p> <p>Miyuki Building 3-20-27 Nishiki, Naka-ku, Nagoya-shi, Aichi</p>
<p>Osaka</p> <p>Grand Front Osaka 4-20, Ofuka-cho, Kita-ku, Osaka-shi, Osaka</p>	<p>Yokohama</p> <p>Yokohama ST Building 1-11-15 Kitasaiwai, Nishi-ku, Yokohama-shi, Kanagawa</p>	<p>Hiroshima</p> <p>Shishinyo Building 3-17 Fukuromachi, Naka-ku, Hiroshima-shi, Hiroshima</p>
<p>Sapporo</p> <p>Nihon Seimei Sapporo Building 4-1-1 Kitasanjishi, Chuo-ku, Sapporo-shi, Hokkaido</p>	<p>Kanazawa</p> <p>JR Kanazawa Station West 4th NK Building, 3-3-11 Hirooka, Kanazawa-shi Ishikawa</p>	<p>Fukuoka</p> <p>Fukuoka Center Building 2-2-1 Hakata-Ekimae, Hakata-ku, Fukuoka-shi, Fukuoka</p>

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