

CBRE

Intelligent Investment

2022 Japan Investor Intentions Survey

REPORT

JAPAN
REAL ESTATE

CBRE RESEARCH
FEBRUARY 2022



Executive Summary

Strong appetite among Japanese investors points to active market in 2022

CBRE's 2022 Investor Intentions Survey was conducted between November and December 2021 and asked respondents a range of questions regarding their appetite and preferred strategies, sectors and markets for 2022. This report focuses primarily on the answers given by Japan-based investors and overseas investors targeting the Japanese market.

54% of Japanese investors indicated that they expected their acquisition volume in 2022 to exceed that of the previous year. While this represents a 10pp increase from the previous year's results, the number of investors who answered that their disposition volume would exceed 2021's also showed an increase. This suggests that investment volume is likely to increase in 2021.

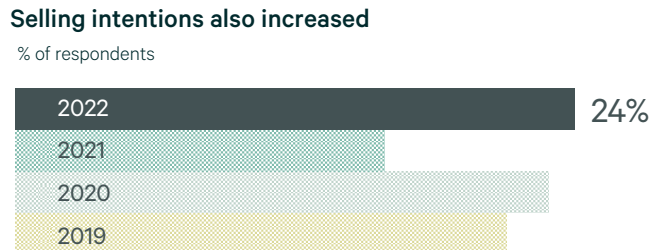
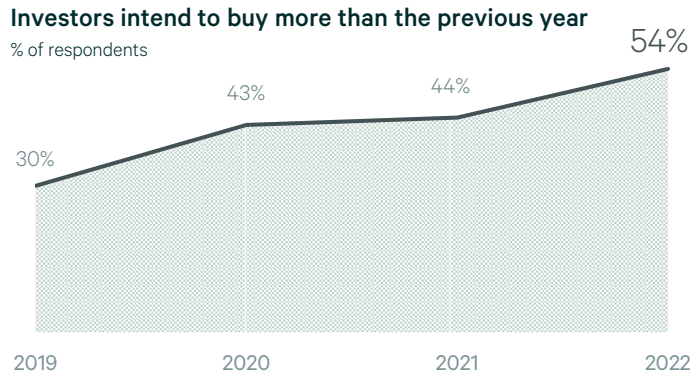
Other key findings

- While Japanese investors continue to prefer core strategy, an increasing number are selecting value-add strategy in pursuit of higher yields.
- Investors' view on office demand is improving, with Japanese investors selecting them once again as the most attractive asset type.
- An increasing number of Japanese investors are pursuing alternative investment targets including data centers and cold storage facilities.
- Tokyo was selected as the most attractive city for investment in Asia Pacific for the third successive year.
- Awareness of Environmental, Social and Governance (ESG) criteria continues to rise among Japanese investors, with J-REITs and real estate funds increasingly keen to implement such considerations in investment decisions.
- ESG investment is seen as key in raising corporate brand value, with a property's environmental certifications viewed as important when investing.

2022 Japan Investor Intentions Survey

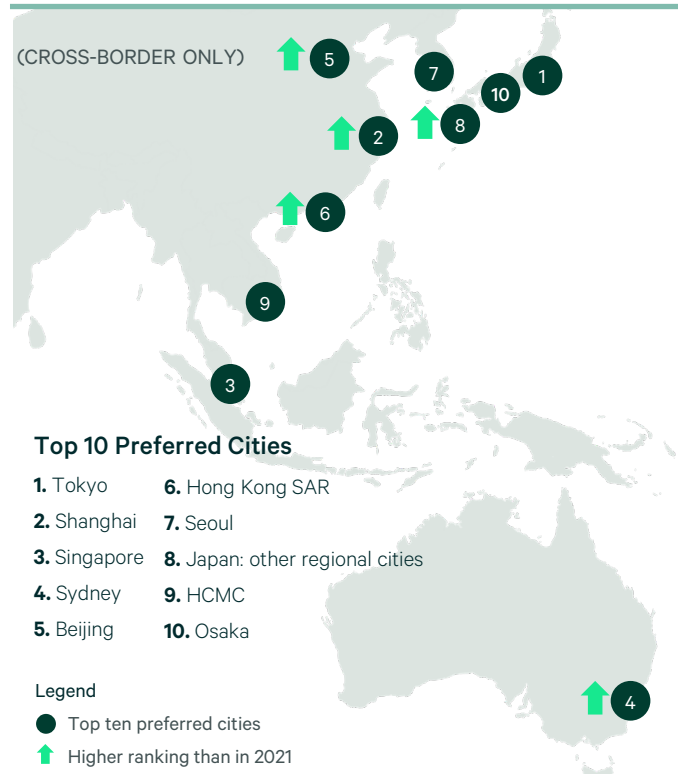


APPETITE REMAINS STRONG AMONG DOMESTIC INVESTORS



Source: Japan Investor Intentions Survey, CBRE Research, December 2021

TOP CITIES FOR INVESTMENT

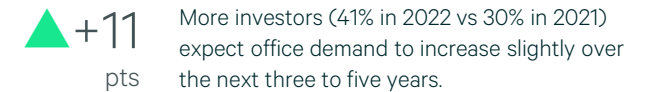


OFFICE DROVE THE PANDEMIC-ERA INVESTMENT

1 Core remains the most preferred strategy



2 Concerns over declining office demand recede



3 While appetite for logistics receded, office regained its position as the most attractive sector.



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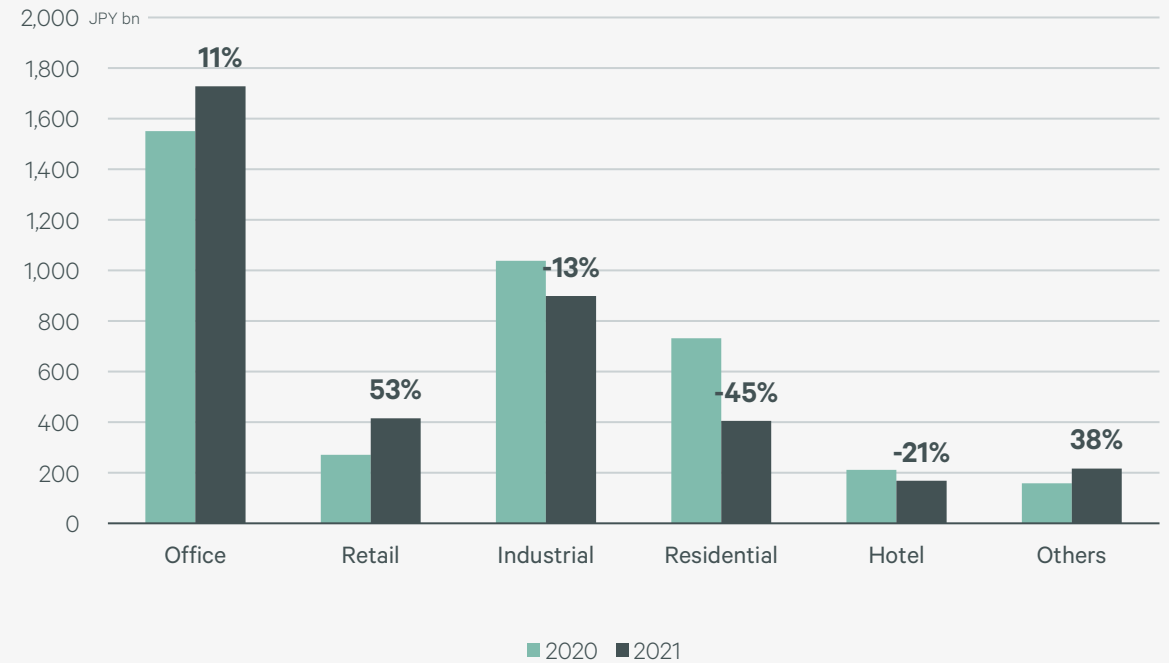
01

The 2021 Japanese Real Estate Investment Market

Investment volume exceeds pre-COVID levels despite slight fall y-o-y

Japan commercial real estate investment volume fell by 6% y-o-y to JPY 3.8 trillion in 2021, primarily due to the high base in 2020, which saw the completion of several large transactions of in excess of JPY 50 billion. However, 2021's volume exceeded the level recorded in the pre-COVID years of 2018 and 2019. Total transaction volume for deals of less than JPY 50 billion showed an 18% increase on the previous year. By asset type, office rose by 11% y-o-y to JPY 1.7 trillion, while investment in logistics facilities fell by 13% over the same period to JPY 899 billion. For smaller transactions of less than JPY 50 billion, office investment surged by 53% y-o-y, while the logistics sector saw a 24% y-o-y decline.

Figure 1: Japan real estate investment volume by sector

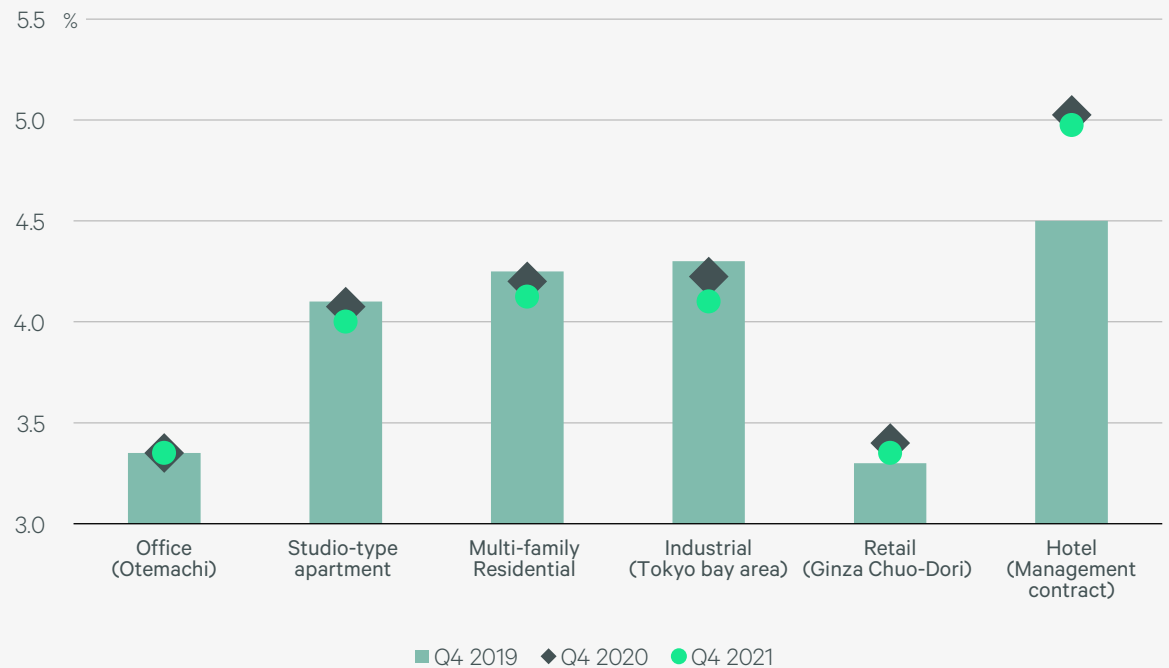


Transactions of at least JPY 1bn, excluding acquisitions by J-REITs at IPO. Source : RCA, CBRE, Q4 2021

Expected yields in 2021 remain low

Expected yields generally fell over the course of 2021 despite the pandemic. By major asset type, Tokyo expected yields for Q4 2021 fell by 13 bps y-o-y for logistics facilities (Tokyo Bay Area), with the residential sector (both Studio-type apartment and Multi-family Residential) recording the next largest decline of 8 bps. Both these asset types were preferred by investors due to their robust demand and stable cashflow, even amid the pandemic. While expected yields for offices remained stable, there were several deals which suggested a lowering of transactional yields. With market rents for office on the decline, investors have carefully selected those properties from which cash flow stability and/or growth can still be anticipated.

Figure 2: Expected NOI yields (Tokyo; average by sector)



Source: CBRE, Q4 2021

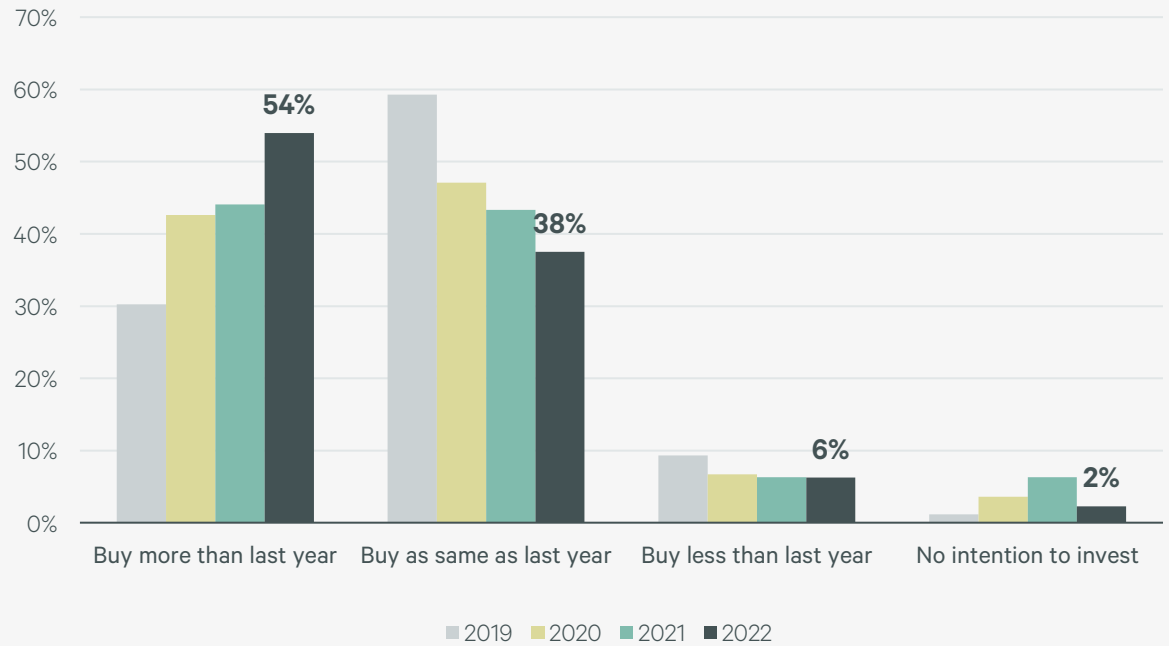
02

Real Estate Investment Strategies

Appetite remains strong among domestic investors, led by real estate funds

Some 54% of Japanese respondents stated that they expected their investment volume in 2022 to exceed the previous year, a 10pp increase on the results of the same survey conducted in December 2020, and the highest figure recorded since the survey began in 2015. By investor type, the group which had the highest percentage of its members respond that they anticipated investment volume to increase from the previous year was real estate funds (74%), followed by developer/owner/operators (51%) and institutional investors (50%).

Figure 3: Purchase volume projections (single answer)



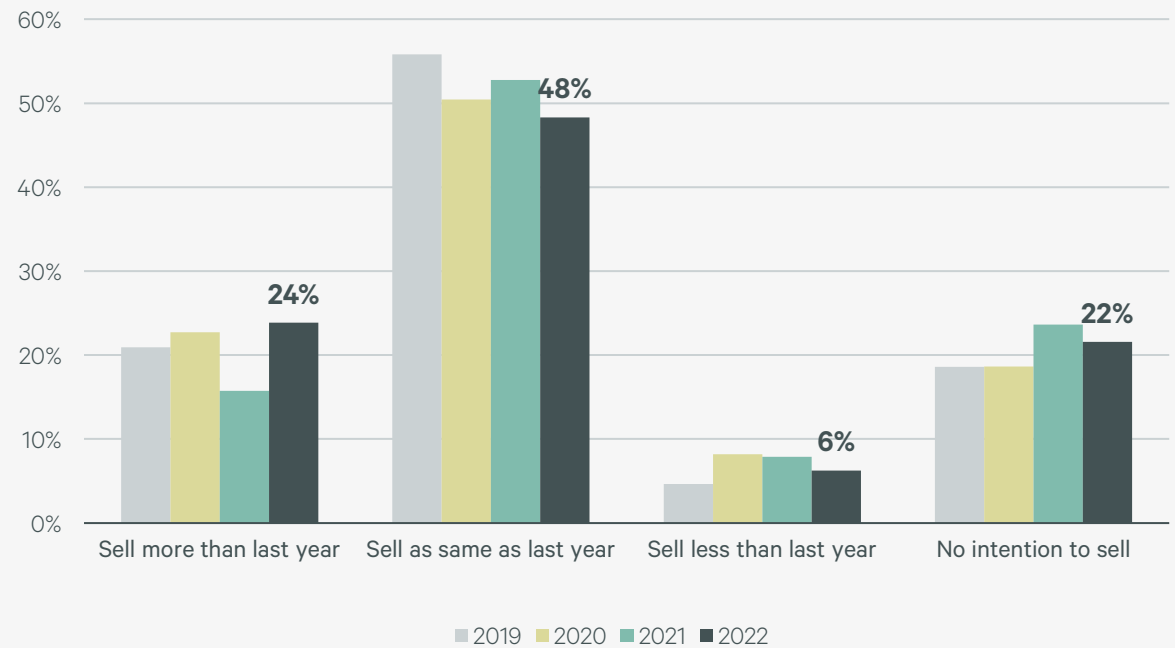
Source: Japan Investor Intentions Survey, February 2022.

Appetite remains strong among domestic investors, led by real estate funds (cont.)

24% of investors surveyed indicated that they expected their disposition volume in 2022 to exceed the previous year, an eight-point jump from the previous survey. This figure was highest among developer/owner/operators, at 32%, followed by real estate funds at 28%, and institutional investors at 11%.

Investor appetite appears to be strengthening further with the anticipation of normalization of the economy. The fact that investor enthusiasm is on the rise not only for new acquisitions, but also for dispositions, indicates that the market is likely to see greater liquidity in 2022. CBRE projects investment volume in 2022 to exceed that of 2021 by approximately 10%.

Figure 4: Disposition volume projections (single answer)



Source: Japan Investor Intentions Survey, February 2022.

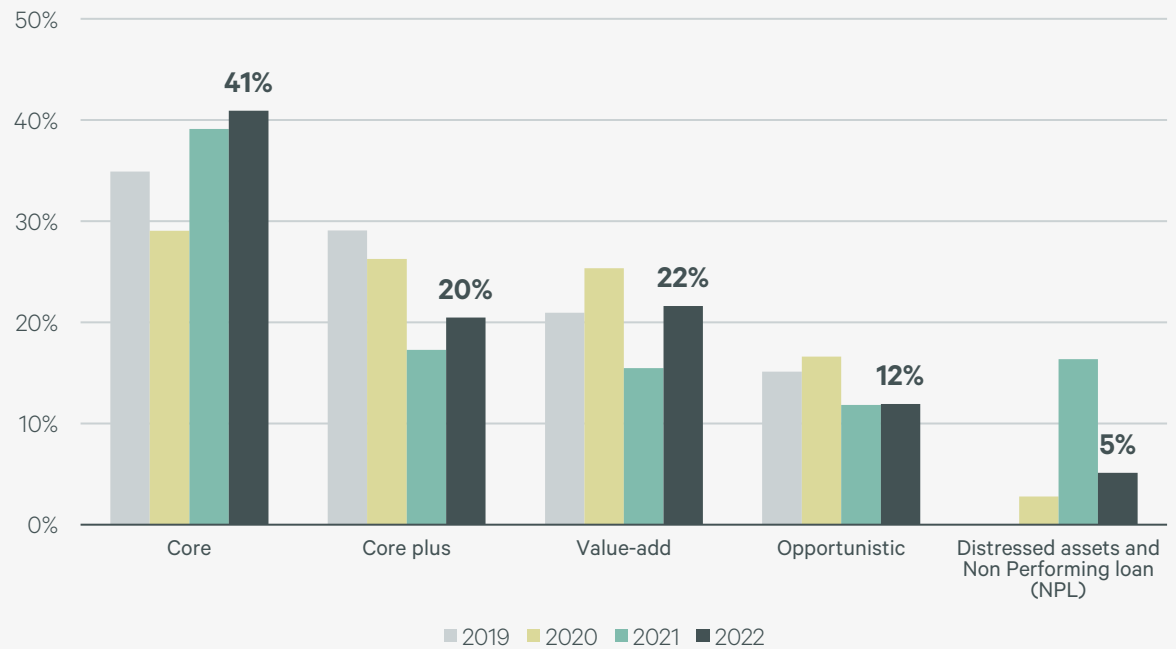
Japanese investors continue to prefer core strategy

When asked what they considered to be their preferred investment strategy for 2022, 41% of Japanese investors replied that they would be focusing on core, an increase of two points from the previous year. Value-add and core plus recorded seven and three-point increases respectively, with value-add now more popular than core plus.

Among those investors who indicated that their primary focus would be on core, the highest percentage was developer/owner/operators at 32%, followed by listed REITs at 31%. Among those who are focusing on value-add strategy, 50% are real estate funds.

2021 saw some cases in which transaction yields fell for properties promising stable cashflow or growth. With core assets set to account for the bulk of transaction activity in the 2022 market, transactional yields are anticipated to trend downwards. At the same time, however, with investors struggling amid an ultra-low interest rate environment, more investors are turning their attention to value-add strategy, in pursuit of higher yields. It is also possible that the acquisition of new developments and conversions will increase.

Figure 5: Preferred investment strategy (single answer)



Source: Japan Investor Intentions Survey, February 2022.

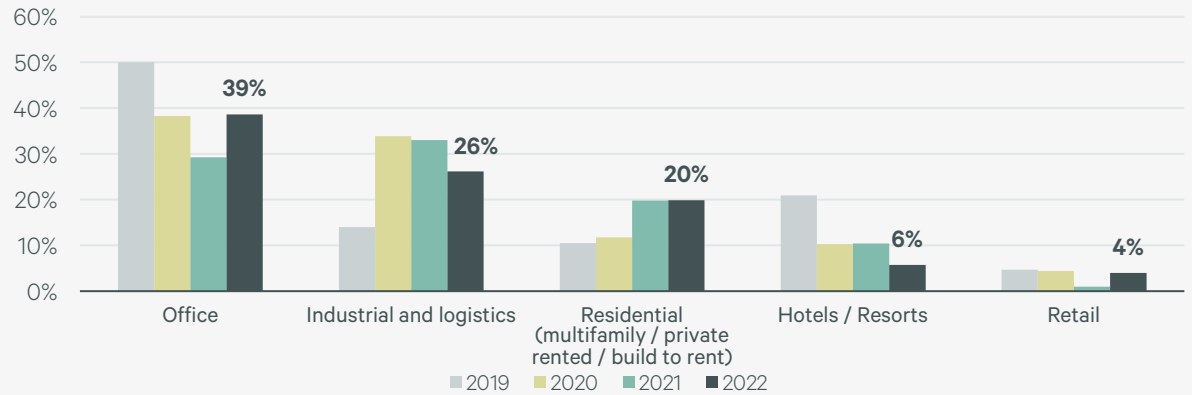
Offices retain status as the most attractive sector

Around 39% of respondents named offices as their preferred asset class for investment, helping the sector regain top spot in the rankings from logistics, for which interest fell 7pp from the previous survey to 26%.

The major factor behind the resurgence in investors favoring offices is believed to be the improvement in investors' views on the outlook for future office demand. While 56% of respondents still anticipate demand for offices to contract over the next three years, this represents a 13pp drop from the equivalent figure in the previous year's survey. 41% of investors expects that office demand would either increase or remain unchanged, an 11pp increase from the previous year.

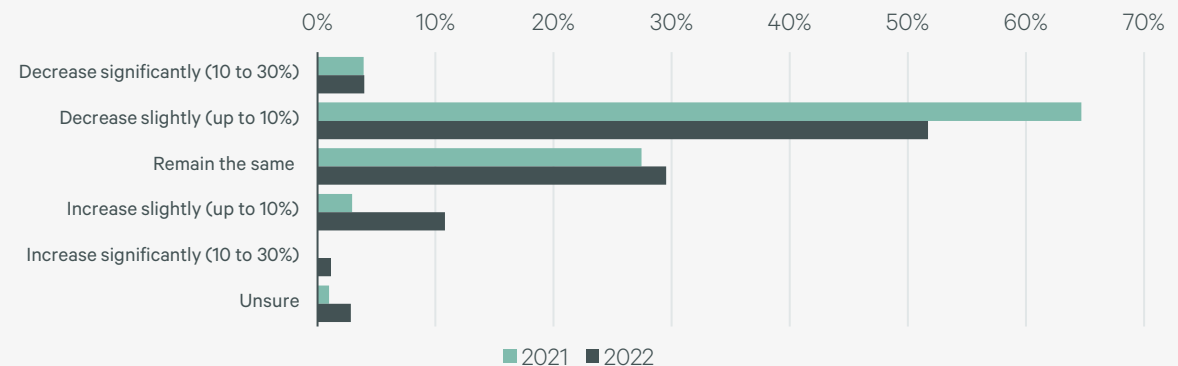
An increasing number of investors appear to believe that previously-held fears of a dramatic drop in office demand are unlikely to eventuate. As of the end of 2021, the Tokyo office vacancy rate remained at the low level of 3.9%. Even in Shibuya, where the closure of multiple offices by IT companies at the beginning of the pandemic was once a major concern, the vacancy rate began to fall during 2021. Lower vacancy is a result of a return to office-based operations by corporations looking to strengthen new hiring.

Figure 6: Preferred sector for investment (single answer)



Source: Japan Investor Intentions Survey, February 2022.

Figure 7: Estimated office demand over the next three years (single answer)



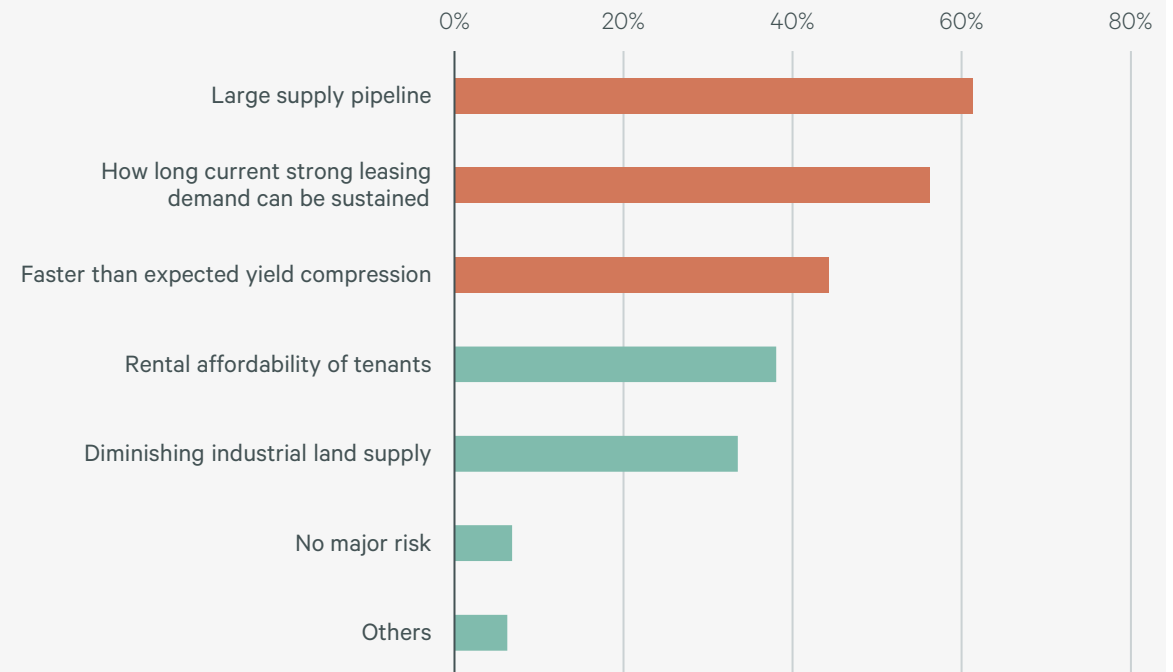
Source: Japan Investor Intentions Survey, February 2022.

Offices retain status as most attractive sector (cont.)

The decline seen in the percentage of investors who selected logistics facilities is a consequence of concerns regarding a potential loosening of the supply-demand balance. When asked what they saw as the greatest risk involved in logistics investment, 61% of investors believed it was the large supply pipeline. While CBRE considers the likelihood of a significant loosening of the supply-demand balance for logistics facilities to be slim, the broader range of options for occupiers means that some properties will take longer to secure tenants. In the investment market, significant price gaps may begin to appear between properties, depending on location and building specifications.

The rise in logistics prices is also affecting investor sentiment towards the sector; a trend that can also be gleaned from CBRE's analysis of risk factors for real estate investment as a whole (see following page).

Figure 8: Major risks involved in logistics investment (select top three)



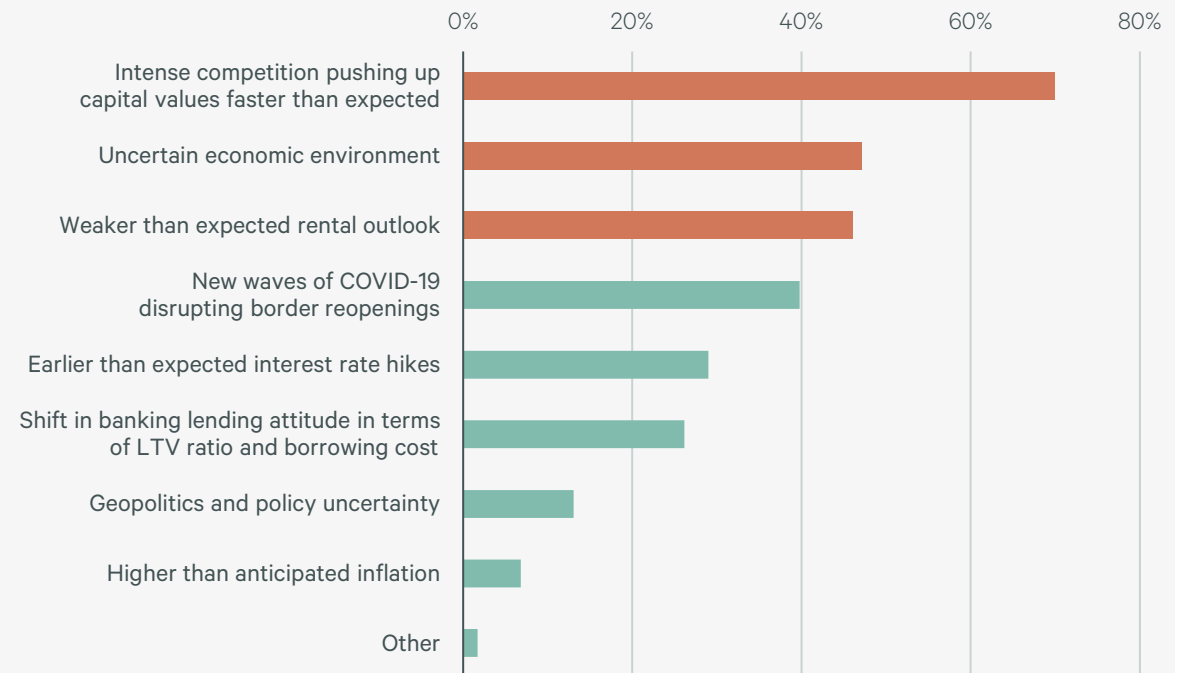
Source: Japan Investor Intentions Survey, February 2022.

Price rises seen as greatest risk factor

Some 70% of Japanese investors stated that intense competition pushing up capital values faster than expected was the number one risk factor for real estate investment in 2022. Investors clearly see acquisition difficulties caused by price rises as a more serious risk than other factors, such as the uncertain economic environment (selected by 47%).

Despite these concerns, increased interest in the logistics sector as an investment target may push prices even higher. When asked what price levels they were willing to consider for each asset type, the ratio of investors who replied that they would be willing to offer above asking prices for logistics facilities stood at 27%, 11pp up from the previous survey. At the same time, concern over new supply has prompted investors to turn more selective when considering potential logistics acquisitions, which should in turn result in price variations based on location and building specifications.

Figure 9: Major challenges facing real estate investment (select top three)



Source: Japan Investor Intentions Survey, February 2022.

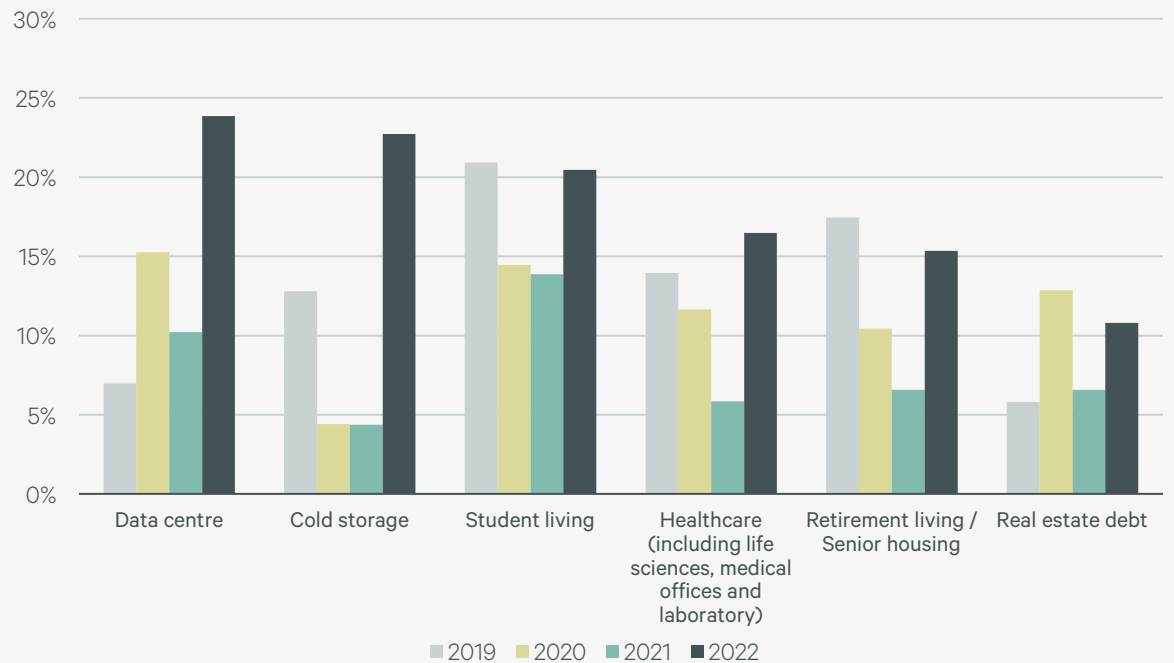
Growing interest for data centers and cold storage

When asked which alternative asset types were likely to be favored, the most common answer from investors was data centers (24% of respondents, up 14pp from the previous survey), ahead of cold storage facilities (23%, up 19pp), and student dormitories and student housing (20%, up 6pp).

The fact that all asset types were mentioned by more investors than the previous year indicates the increasingly attractive profile of alternative assets. There is more to their rising popularity than simply the prospect of higher yields, with interest appearing to have been triggered by the fact that both data centers and cold storage facilities have seen a surge in demand as a result of the pandemic.

By investor type, developers and real estate funds dominate for all asset groups. As alternative assets have limited stock, sales of existing properties are relatively rare, meaning that new developments provide the major source of investment opportunities. The data center sector, in particular, has seen an increase in the number of large-scale development projects by joint ventures between operators and developers or real estate funds.

Figure 10: Alternative asset types considered by investors as targets for investment (multiple answers allowed)



Source: Japan Investor Intentions Survey, February 2022.

03

Overseas Investors' Investment Strategies

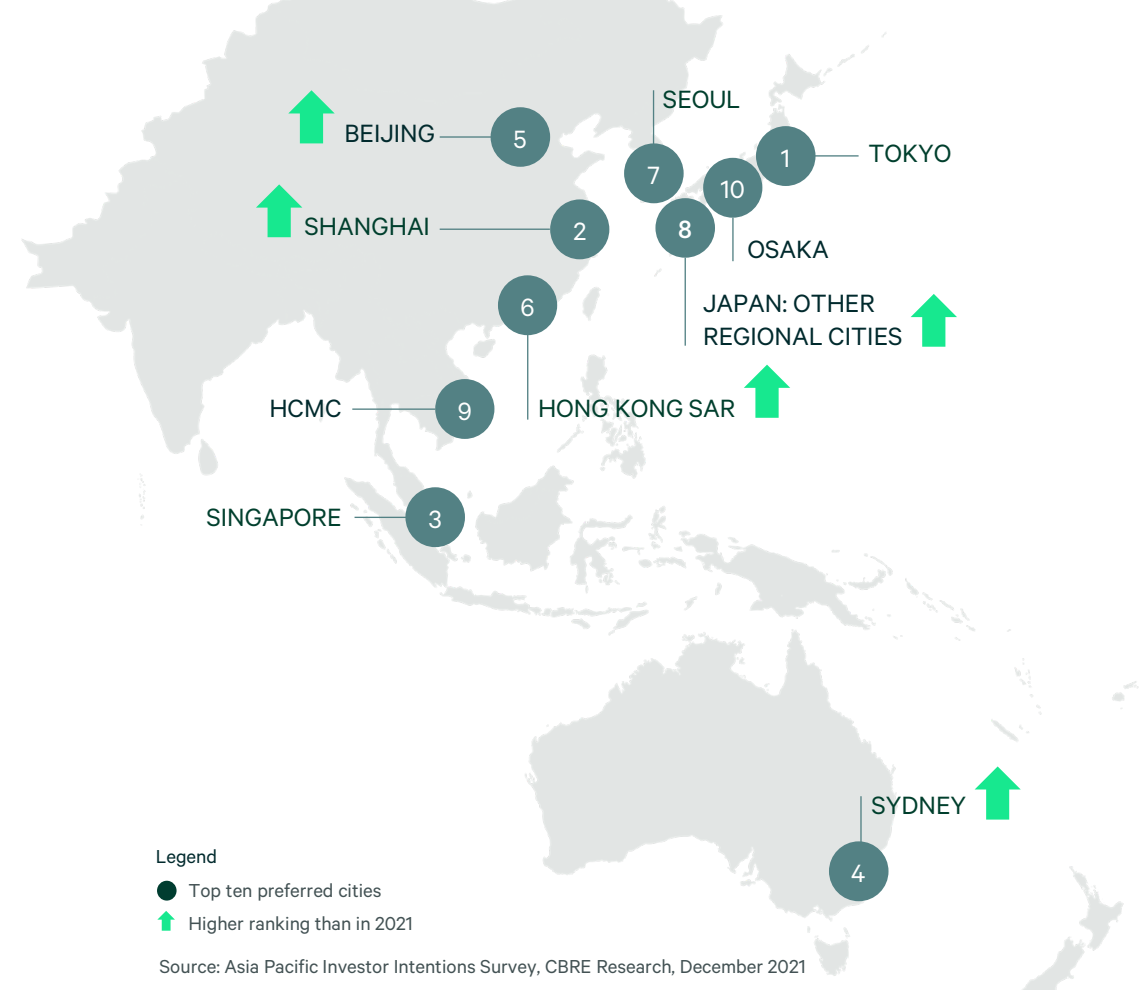
Tokyo selected as most attractive city in Asia Pacific

Interest in the Japanese real estate market remains high among overseas investors, with Tokyo retaining its crown for the third successive year as the most attractive city for investment in Asia Pacific. Other regional cities in Japan also made their first appearance in the rankings in eighth place, while Osaka placed tenth.

The factors behind Tokyo's popularity with overseas investors include the low cost of fund as well as high market liquidity. Increased geopolitical risk in other nations are increasing Japan's appeal as a relatively safe destination for investment.

Strong interest from overseas investors has tightened the supply-demand balance in Tokyo, leading to falling transactional yields for certain asset types. As a result, investor attention has begun to turn toward regional cities such as Osaka and Nagoya, from which higher yields can be anticipated.

Figure 11: Top ten cities for investment and preferred strategies, cross-border only (single answer)



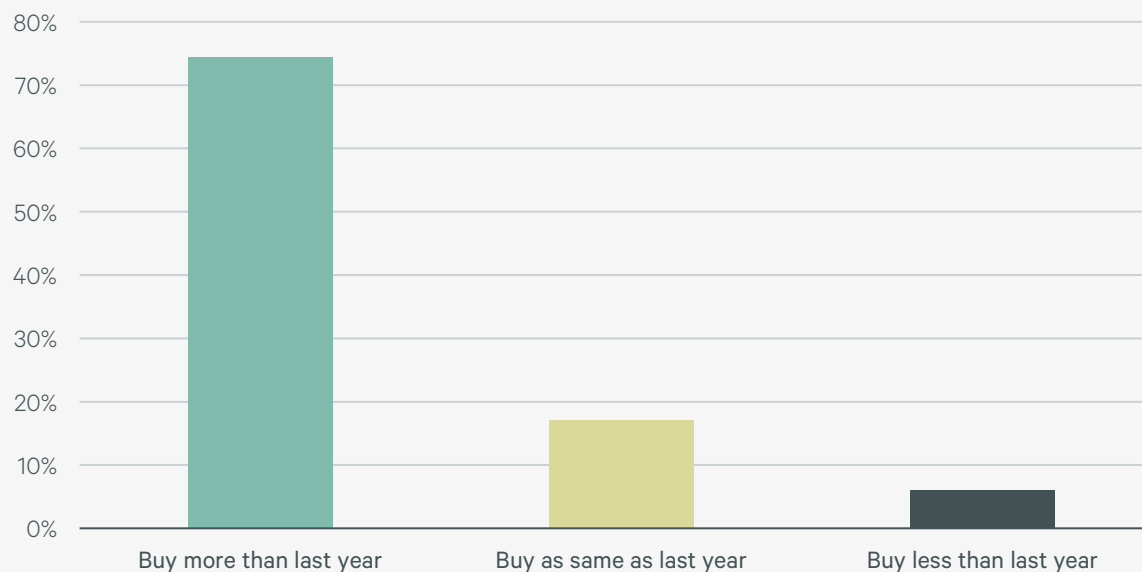
Inbound investment to increase in 2022

Appetite for Japanese real estate is extremely robust among overseas investors. Some 74% of overseas investors for whom Japan is an investment target responded that they intend to increase their investment volume in Japan in 2022. Including those who responded that their investment volume would match the previous year, this figure rises to 96%.

In terms of the investment strategies pursued by overseas investors, 37% indicated they would employ an opportunistic strategy, with 22% focusing on value-add, and 21% on distressed assets. When asked to indicate what asset types would comprise the majority of their portfolio, 38% of foreign investors selected logistics facilities, which was followed by offices at 24% and residential at 13%.

In contrast to Japanese investors' continued focus on core strategy, overseas investors appear willing to take more risks. Amid fierce competition between investors in Japan, transactional yields remain very low. As their investment opportunities are more restricted than those of Japanese investors, foreign buyers are attempting to generate higher yields within this environment through new developments and renovations. With domestic investors, dominated by J-REITs, having an overwhelmingly strong presence in the logistics and residential sectors, overseas investors seeking to increase their exposure to these asset types have begun to develop new properties in partnership with developers.

Figure 12: Purchase volume projections of overseas investors (single answer)



Source: Japan Investor Intentions Survey, February 2022.

04

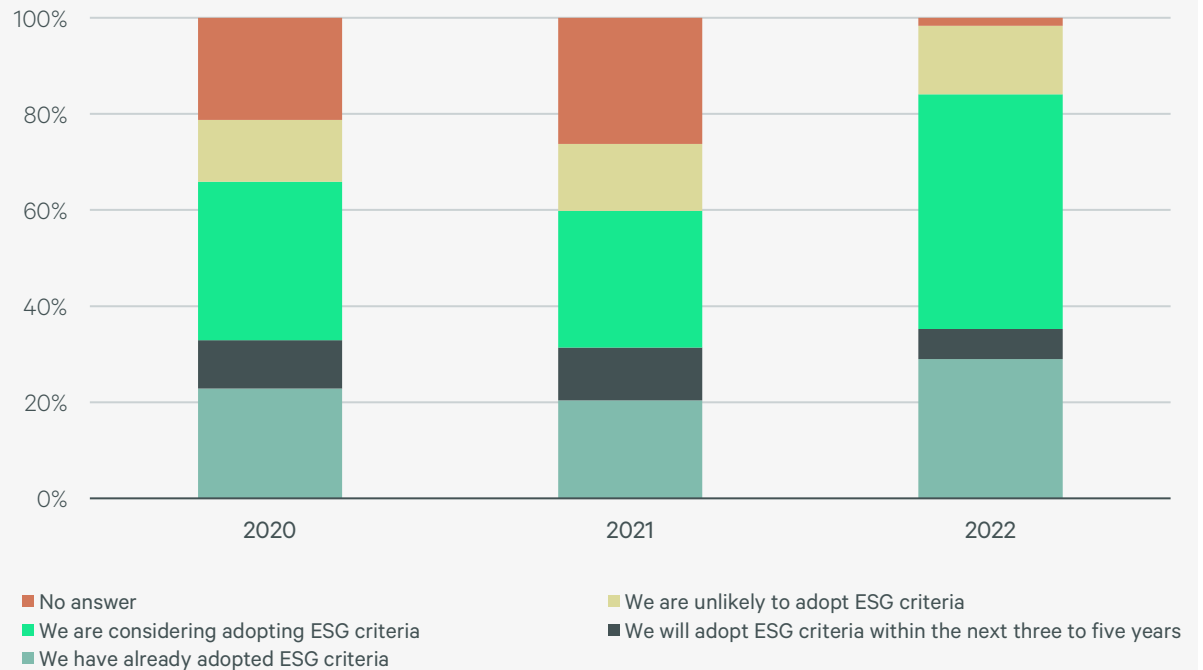
ESG Investment

More investors consider ESG criteria

The ratio of investors incorporating ESG practices and principles in their investment policies rose by 9pp from the previous survey to 29%, while those indicating they were considering their adoption also increased by 21pp to 49%. With the percentage of investors surveyed who answered this question rising to 98% from 74% in last year's survey, consciousness of ESG criteria is clearly on the rise among Japanese investors, with an increasing numbers of groups preparing for their eventual adoption.

The investor types most likely to have already adopted or be considering the adoption of ESG criteria are J-REITs (90%), real estate funds (89%), and developers (78%). For J-REITs, this year's result represented a surge of 43pp from the previous survey.

Figure 13: ESG adoption status (single answer)



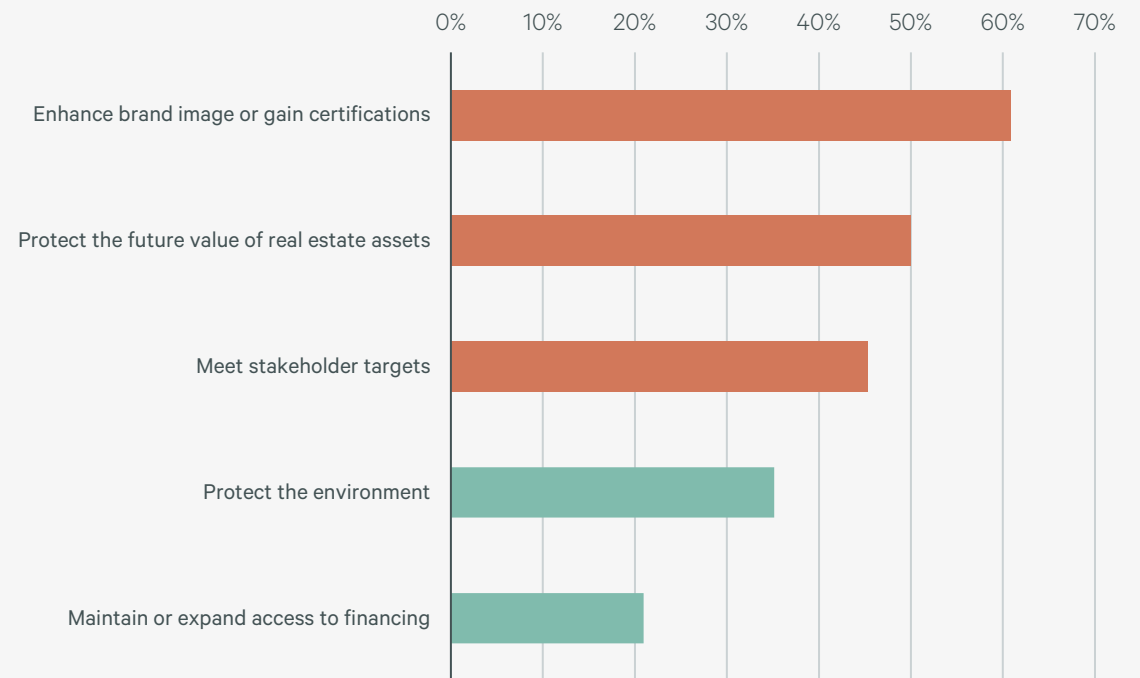
Source: Japan Investor Intentions Survey, February 2022.

Most investors prioritize green certification

When investors already adopting or considering adopting ESG criteria in their investment policies were asked to provide up to three major reasons for doing so, 61% stated that enhancing brand image or gaining certifications was the main driver. With meeting stakeholder targets also coming in third on the list of factors, at 45%, strengthening corporate image is clearly acting as a powerful incentive for investors.

In terms of approaches to ESG investment, the acquisition of environmental certification for properties will remain among the most popular strategies. When asked how they planned to implement ESG investment, 69% indicated that they intended to consult external rating parties (e.g. GRESB) when assessing asset acquisition, while 47% replied that they would upgrade existing assets to obtain green certificates (Figure 15).

Figure 14: Main priorities of ESG strategies (select top three)



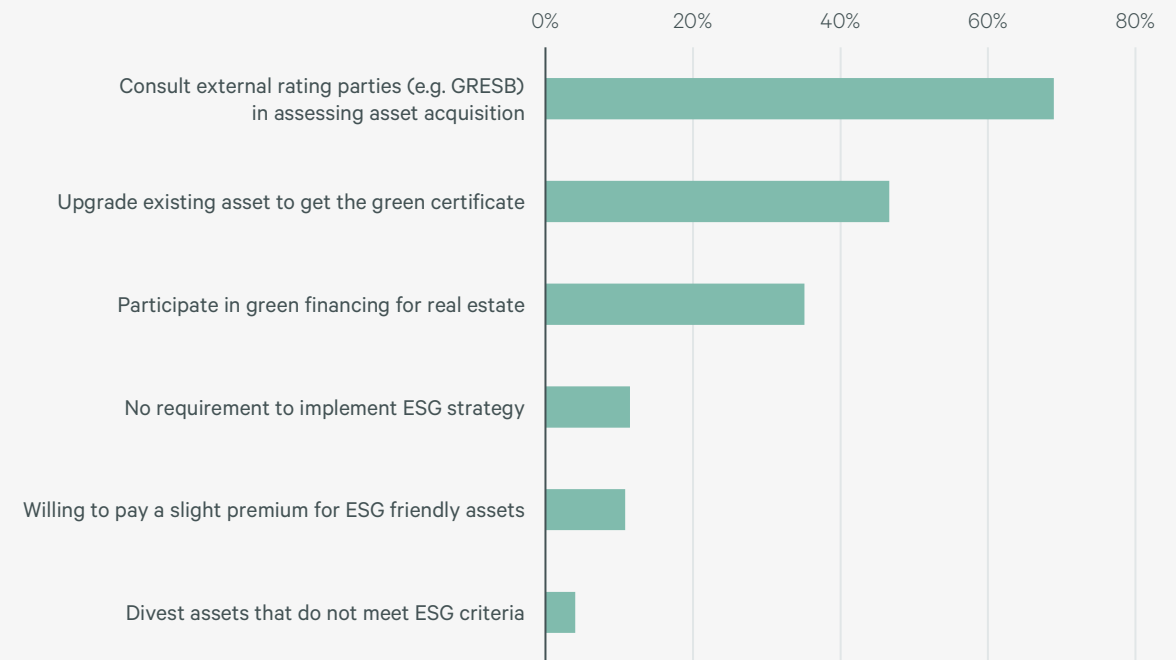
Source: Japan Investor Intentions Survey, February 2022.

Most investors prioritize green certification (cont.)

At the same time, however, just 10% of investors indicated that they would be willing to pay higher prices in order to acquire ESG-compliant properties, suggesting that an environment in which investors pay a premium to obtain such properties remains some way off.

Around 35% of investors already adopting or planning to adopt ESG criteria replied that they intended to use green financing. The figure for Asia Pacific investors reached 40%, well above the Japanese number. Factors behind this discrepancy include a lack of awareness of green financing in Japan, as well as the fact that its framework often fails to correspond to investors' needs.

Figure 15: Implement of ESG strategies (multiple answers allowed)



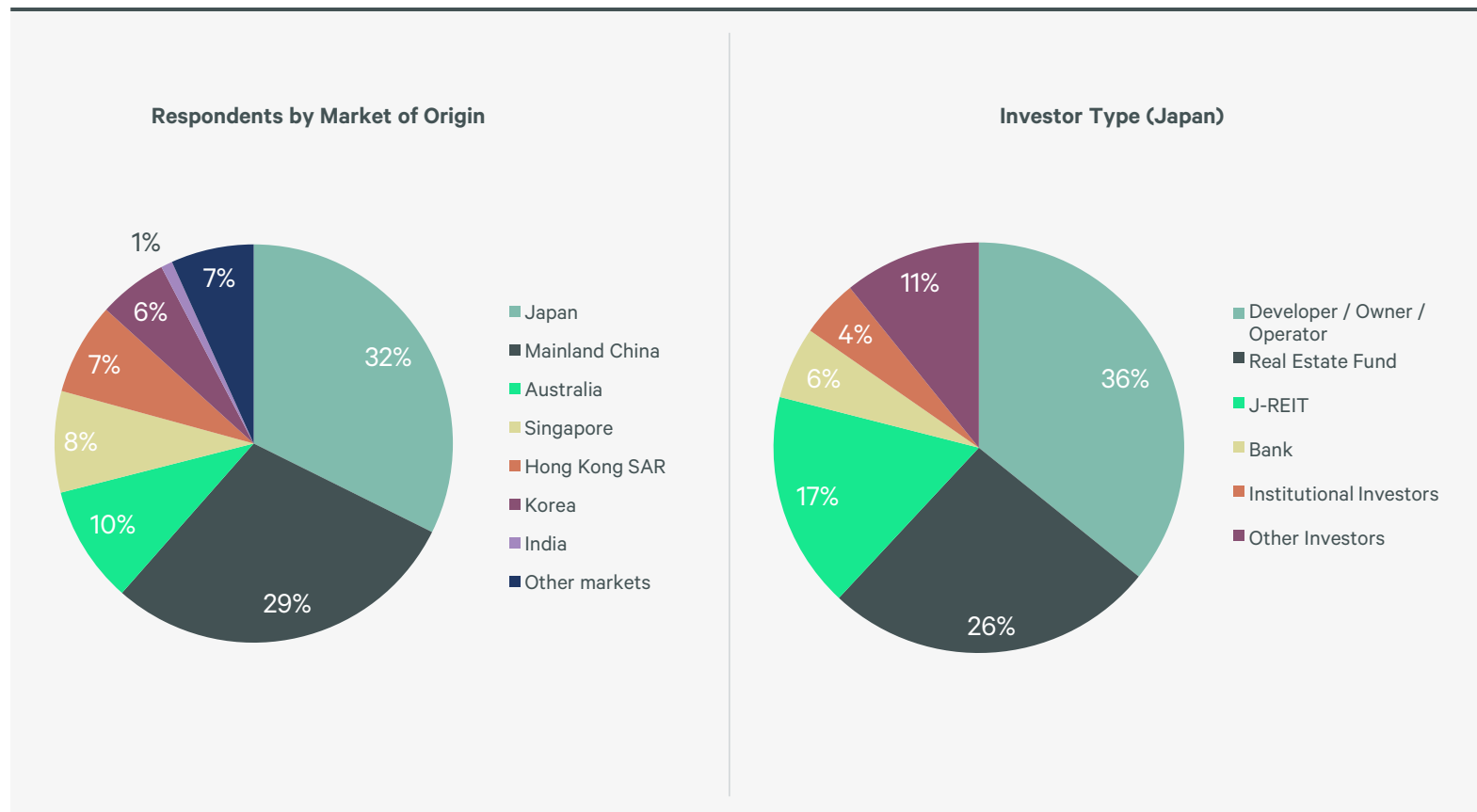
Source: Japan Investor Intentions Survey, February 2022.

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Survey Overview

Survey Profile

- + CBRE's 2022 Asia Pacific Investor Intentions Survey was conducted between November 17th and December 23rd, 2021.
- + The total number of Japanese respondents was 173, which represented 32% of the total number of respondents in Asia Pacific as a whole (535).



Institutional investor includes sovereign wealth fund, pension fund and insurance company
 Source: Japan Investor Intentions Survey, February 2022.

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