

# Investment volume rises 7% y-o-y with weaker foreign investment offset by growth in domestic acquisitions

▲ **0.73%** <sup>+11bps</sup>  
q-o-q  
10-year JGB yield  
(end of March 2024)

▲ **+7%** <sup>y-o-y</sup>  
Total investment volume  
(Q1 2024)

▶ **3.15%** <sup>±0bps q-o-q,</sup>  
Otemachi Office  
Expected NOI yield (March 2024)

- Commercial real estate investment volume for Q1 2024\*<sup>1</sup> grew 7% y-o-y to reach JPY 1.439 trillion. While the quarter saw a reduction in foreign investment volume, this was more than offset by an increase in domestic acquisitions. Although overseas investors generally maintained a cautious attitude, some large transactions were observed.
- Broken down by asset type, the most significant surge was seen in the logistics sector, where several major transactions pushed up investment volume by 113% y-o-y to JPY 371 billion. Office investment volume recorded a 15% y-o-y increase to JPY 742 billion, driven by a large number of J-REIT transactions, while a decline in the number of portfolio transactions in the residential sector saw investment volume for this asset class drop by 31% from the same quarter of the previous year to JPY 131 billion.
- J-REIT investment volume (all transactions) rose by 36% y-o-y, reaching a total of JPY 502 billion, while total sales volume reached a new all-time quarterly record of JPY 356 billion. With equity financing becoming increasingly difficult, many J-REITs are reshuffling their asset portfolios, particularly in the office sector.
- When asked to divulge their views on the investment market in the latest CBRE Cap Rate Survey, risk factors mentioned by investors for all asset types were “cap rate increases due to rising interest rates” and “higher construction costs”.

\*1 Transaction volume covers deals worth JPY 1.0 billion or more, excluding land transactions and property acquisitions at the time of J-REIT IPO

\*2 Expected yields are based on 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; 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

Investment volume	Q1 2024 (JPY, bn)	y-o-y (%)
Total	1,439	+7
Domestic (J-REITs)	475	+33
Domestic (Others)	744	+29
Overseas	221	-46
Expected NOI Yield *2	March 2024 (%)	q-o-q (bps)
Office (Otemachi, Tokyo)	3.15	±0
Retail (Ginza Chuo-Dori, Tokyo)	3.25	±0
Industrial (Tokyo Bay area)	3.75	+1
CBRE Tankan Survey *3	Grade A Office (q-o-q: pp)	Multi-tenant Logistics (q-o-q: pp)
Sales prices	3 (+1)	22 (-4)
Expected yield	0 (+2)	3 (+2)
Lending attitude of financial institutions	10 (+2)	22 (-3)
Stance on investment and loans	11 (-2)	25 (+1)

Source: CBRE, Q1 2024.

### Total investment volume increases despite y-o-y fall in foreign investment

Commercial real estate transaction volume for Q1 2024 (transactions of JPY 1 billion or larger, Figures 1 and 2) increased by 7% y-o-y to JPY 1.439 trillion. While the quarter saw a reduction in foreign investment volume, this was more than offset by an increase in domestic acquisitions.

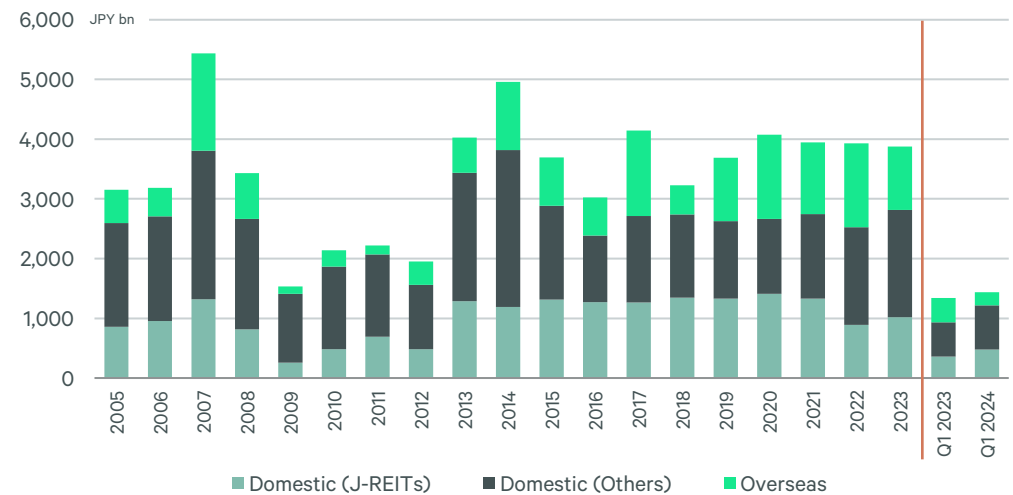
Foreign investment significantly fell y-o-y for a third consecutive quarter. While the 46% y-o-y decline recorded in Q1 2024 did not quite match the precipitous drops registered in Q3 and Q4 2023, it dragged down investment volume to just JPY 221 billion. Although it was not until March 19th, near the very end of Q1 2024, that the Bank of Japan (BoJ) officially announced the termination of its negative interest rate policy, foreign investors had adopted a cautious approach from as early as H2 2023 due to concerns over potential interest rate hikes. While this trend generally continued in Q1, several large acquisitions by foreign investors were observed. In contrast, domestic investment, including acquisitions by J-REITs, recorded a robust 31% y-o-y increase. As a net result, foreign investment as a percentage of total transaction volume, which had averaged around 30% over the five years from 2019 to 2023, dwindled to just 15%.

By asset type (Figure 3), the most significant increase in activity was seen in the logistics sector, where investment volume rose by 113% y-o-y to JPY 371 billion. In addition to the acquisition of a portfolio of 28 properties from Logisteed by Industrial & Infrastructure Fund Investment Corp., several other major transactions contributed to this increase, including the acquisition of DPL Urayasu III by Daiwa House REIT Investment Corporation and the sale of a major logistics facility developed by Hines in Nagoya City.

The office sector registered JPY 742 billion in investment volume, a rise of 15% y-o-y. Numerous assets changed hands for sums exceeding JPY 10 billion, including Toyosu Bayside Cross Tower, GranTokyo South Tower, Garden City Shinagawa Gotenyama, Nakano Central Park East, and JRE Dojima Tower. In addition to the usual acquisitions by J-REITs, real estate companies, and institutional investors, the robust appetite for office assets among domestic investors was underscored by acquisitions by corporations operating primarily in the infrastructure sphere.

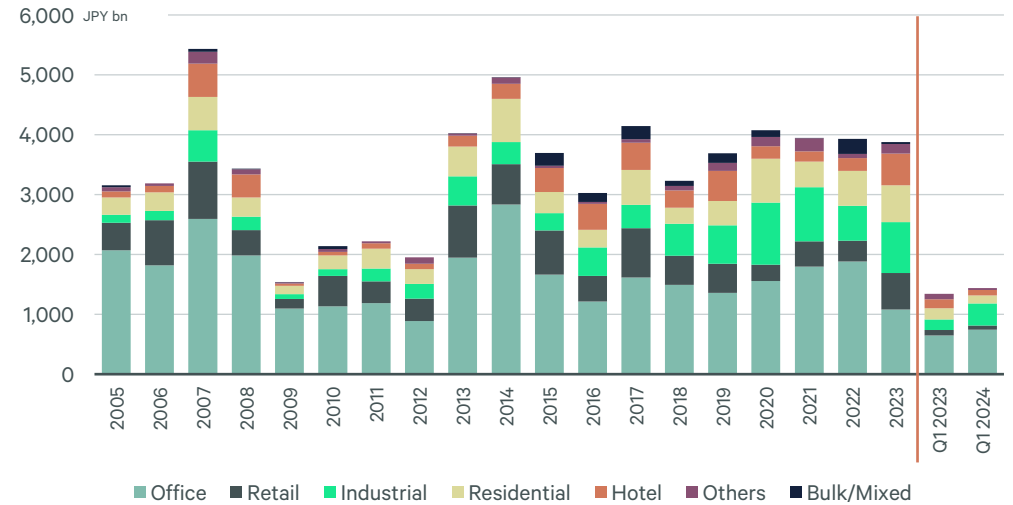
Investment volume in the residential sector dropped by 31% y-o-y to JPY 131 billion. While the number of deals increased, fewer large-scale portfolio transactions resulted in a decrease in total volume. The retail sector slid by 22% y-o-y to JPY 70 billion. The hotel sector recorded a 37% y-o-y decline to JPY 92 billion, despite the completion of several major transactions including the acquisition of Okinawa Prince Hotel Ocean View Ginowan by KDX Realty Investment Corporation, and the sale of the hotel element of Hommachi Garden City by Sekisui House Reit, Inc. CBRE nevertheless believes the decline in hotel investment volume observed this quarter does not indicate any reduction in interest in this asset class among investors.

Figure 2: Investment volume by investor type



Note: Transactions of JPY 1bn or larger, excluding acquisitions by J-REITs at IPO. Source : MSCI Real Capital Analytics, CBRE, Q1 2024.

Figure 3: Investment volume by asset type



Note: Transactions of JPY 1bn or larger, excluding acquisitions by J-REITs at IPO. Source : MSCI Real Capital Analytics, CBRE, Q1 2024.

### J-REIT acquisitions surge by 32% while sales volume reaches record high

J-REIT investment volume for Q1 2024 (all transactions) reached JPY 502 billion, an increase of 36% y-o-y and marking significant growth from the JPY 179 billion recorded in Q4 2023. Office was the most popular sector for acquisitions, registering total volume of JPY 177 billion. Several purchases of large office buildings for more than JPY 10 billion were recorded this quarter, including Nippon Building Fund's acquisition of further stake in Toyosu Bayside Cross Tower for JPY 43.8 billion, and Japan Prime Realty Investment Corporation's acquisition of a 53% interest in Nakano Central Park East for JPY 28.8 billion. The second most popular sector was logistics, up 107% y-o-y to reach JPY 159 billion. Industrial & Infrastructure Fund Investment Corp.'s acquired a portfolio of 28 properties and land leasehold for a total of JPY 108.3 billion from Logisteed, a subsidiary of its sponsor KKR, and Daiwa House REIT Investment Corporation acquired DPL Urayasu III from its sponsor for JPY 30.0 billion.

Total J-REIT sales volume rose to a new all-time quarterly record of JPY 356 billion, almost twice the figure of 182 billion recorded in the same quarter last year. This was largely the result of the sale of several large office assets. In addition to announcements by Sekisui House Reit, Inc. of the sales of Garden City Shinagawa Gotenyama (JPY 61.0 billion) and Osaka's Hommachi Garden City (office and hotel, combined total of JPY 65.9 billion), the quarter also saw Nippon Building Fund offload a 10.66% stake in GranTokyo South Tower for JPY 41.2 billion, and Japan Real Estate Investment Corporation sell JRE Dojima Tower for JPY 33.4 billion. In all, office sales volume by J-REITs reached a total of JPY 282 billion in Q1 2024 (Figure 4), with a significant percentage of this figure sold to unaffiliated external parties. As of the end of March, the TSE REIT Index had fallen by 0.7% since the start of the year, with equity procured by three REITs reaching a total of just JPY 60 billion, including the JPY 50 billion procured by Industrial & Infrastructure Fund Investment Corp. As equity procurement is becoming increasingly difficult, many J-REITs are looking to reshuffle their asset portfolios, particularly in the office sector.

### CBRE Cap Rate Survey: Expected yields remain largely unchanged

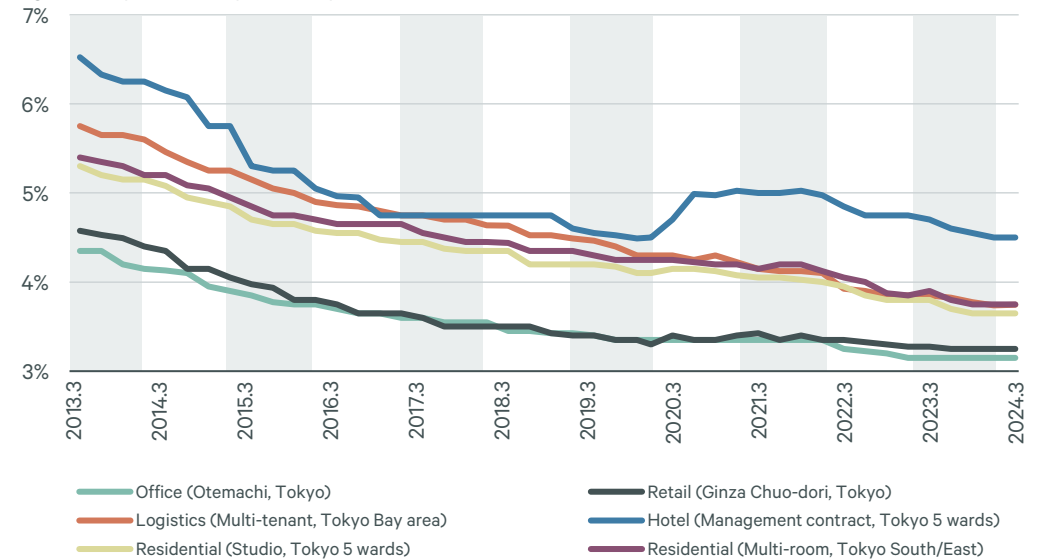
CBRE's most recent quarterly Cap Rate Survey found that prime asset expected yields in Tokyo recorded a rise of 1 bps from Q4 2023 for logistics facilities (LMT, Tokyo Bay area) but remained unchanged q-o-q for all other sectors (averages, Figures 5 and 8). For offices (Otemachi) and retail (Ginza Chuo-dori), this marked the sixth and fourth consecutive quarters, respectively, in which expected yields remained unchanged. In terms of offices in regional cities, expected yields rose slightly q-o-q in Fukuoka (+5 bps) and Nagoya (+3 bps), fell slightly in Sendai (-3 bps), and were unchanged in all other cities (Figure 8).

Figure 4: J-REIT sale and purchase volumes in Q1 2024



Source: J-REIT press releases, CBRE, Q1 2024

Figure 5: Expected NOI yield (Tokyo)



Source: CBRE Cap Rate Survey, March 2024.

CBRE’s Q1 2024 Tankan Survey revealed that the diffusion index (DI, Figure 9) for Tokyo Grade A office showed a significant improvement from the previous quarter for “NOI” (up by 12 pp.), marking a second consecutive quarter of significant gains. However, “Stance on investments and loans” worsened for the second successive quarter, this time by 2 pp. Other categories were generally trending positively. For logistics (Multi-tenant, Greater Tokyo), the DI worsened for “transaction volume”, “sales prices” and “lending attitude of financial institutions”, while showing improvements in the fundamental categories of “rents” and “vacancy rates”.

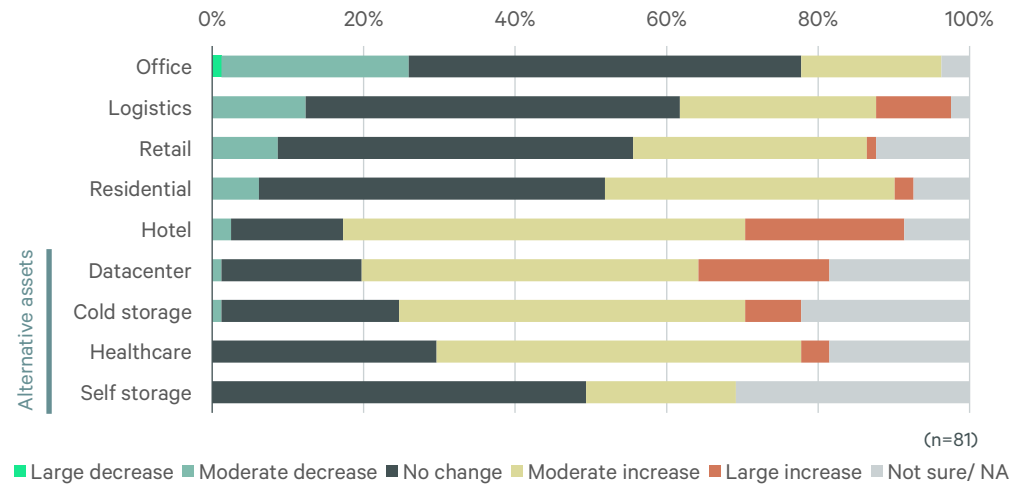
**Investors see rising interest rates and construction costs as primary risks**

CBRE’s most recent Cap Rate Survey asked investors to share their views on tenant demand and risks for each asset type.

When asked to give their opinions regarding tenant demand for each asset type over the next three years, around half of respondents anticipated no change from now for the office, logistics, retail, and residential sectors. A significant minority of 26%, however, foresaw office demand contracting either moderately or significantly, indicating that some investors are becoming more cautious about this specific asset type. Respondents were divided in their opinions on the logistics sector, with 12% predicting tenant demand to decrease, 26% anticipating a moderate increase, and 10% a significant rise in demand. The hotel sector was where respondents anticipated the most room for growth, with a total of 74% of respondents predicting demand to grow either moderately or significantly, backed by the bright outlook for inbound tourist demand. Among alternative assets, data centers and cold storage continued to garner attention, with many respondents anticipating demand to grow.

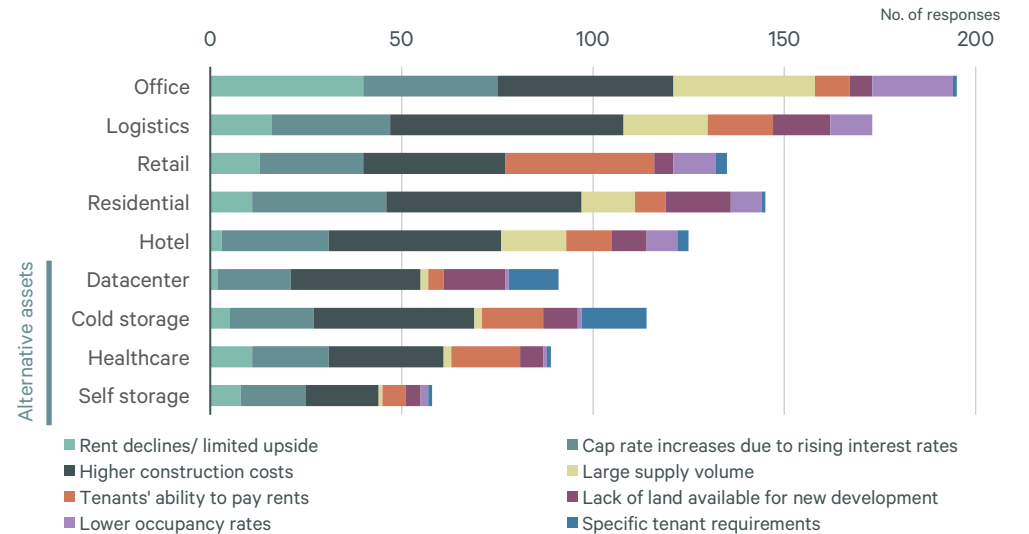
When asked to list the primary risk factors facing investment at present, “cap rate increases due to rising interest rates” and “higher construction costs” were among the top answers across all asset types. This indicates that rising construction costs are not only regarded as an issue facing only the logistics and residential sectors but are also seen as a primary risk factor for offices and other asset types. For investment in offices and logistics facilities, “large supply volume” was also identified as a key risk factor. “Rent declines and limited upside” was selected by many respondents for the office sector, suggesting that while tenant demand is not anticipated to wane, some investors are concerned about potentially weaker leasing activity weighing on rents. On the other hand, the most selected risk factor for investment in retail was “tenants’ ability to pay rents”. In the hotel sector, while most respondents expect demand to increase, several other factors were mentioned as potential investment risks, including “labor shortages”, “stronger yen”, and “slowdown in inbound foreign tourist demand”.

Figure 6: Tenant demand outlook for the next three years (single answer)



Source: CBRE Cap Rate Survey, March 2024

Figure 7: Major risks (up to three responses for each asset type)



Source: CBRE Cap Rate Survey, March 2024

Figure 8: Expected NOI Yield

		Mar. 2024 (%)	q-o-q (bps)
Tokyo	Office (Otemachi, Tokyo)	3.15	±0
	Residential (Studio, Tokyo 5 wards)	3.65	±0
	Residential (Multi-room, Tokyo South/ East)	3.75	±0
	Industrial (Multi-tenant, Tokyo Bay area)	3.75	+1
	Retail (Ginza Chuo-Dori, Tokyo)	3.25	±0
	Hotel (Management contract, Tokyo 5 wards)	4.50	±0
Osaka	Office	4.35	±0
Nagoya	Office	4.58	+3
Sapporo	Office	4.79	-1
Sendai	Office	4.93	-3
Hiroshima	Office	5.10	±0
Fukuoka	Office	4.40	+5

Note: Expected yields are based on 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, Q1 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 (%)
Feb-24	Portfolio of 28 properties	Nationwide	Industrial	Logisteed	Industrial & Infrastructure Fund (KKR)	108,260	—	—
Mar-24	Garden City Shinagawa Gotenyama	Shinagawa-ku, Tokyo	Office	Sekisui House REIT (Sekisui House)	Domestic entity	61,000	5,227	3.5
Mar-24	Hommachi Garden City (Office building)	Chuo-ku, Osaka	Office	Sekisui House REIT (Sekisui House)	Domestic entity	44,500	8,650	3.4
Jan-24	Toyosu Bayside Cross Tower (additional 26.72% ownership)	Koto-ku, Tokyo	Office	Mitsui Fudosan	Nippon Building Fund (Mitsui Fudosan)	43,800	5,015	3.5
Jan-24	GranTokyo South Tower (10.66% ownership)	Chiyoda-ku, Tokyo	Office	Nippon Building Fund (Mitsui Fudosan)	Tokyo Central Realty, LLC (Goldman Sachs)	41,200	15,686	2.7
Jan-24	Prime Takanawa Gateway	Minato-ku, Tokyo	Office	GK M3 Project	Daiichi Kosho	32,100	—	—
Feb-24	DPL Urayasu III	Urayasu, Chiba	Industrial	Urayasu Facility Development TMK (Daiwa House Industry)	Daiwa House REIT (Daiwa House Industry)	30,000	1,733	3.5
Feb-24	Nakano Central Park East (53% ownership)	Nakano-ku, Tokyo	Office	Domestic SPC	Japan Prime Realty (Tokyo Tatemono)	28,800	7,040	3.2

\*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, Q1 2024

Figure 9: CBRE Tankan Survey (DI)

		Mar. 2024	q-o-q (pp)
Tokyo Grade A office buildings	Transaction volume	-2	±0
	Sales prices	3	+1
	NOI (Net Operating Income)	-24	+12
	Expected yield	0	+2
	Lending attitude of financial institutions	10	+2
	Stance on investment and loans	11	-2
Logistics facilities (Greater Tokyo, multi-tenant type)	Transaction volume	13	-2
	Sales prices	22	-4
	Rent	20	+4
	Vacancy rate	-16	+8
	Expected yield	3	+2
	Lending attitude of financial institutions	22	-3
	Stance on investment and loans	25	+1

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, Q1 2024.

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

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