

# Investment volume falls 57% y-o-y due to high base of comparison and sharp decline in foreign purchasing



- Commercial real estate investment volume\*<sup>1</sup> in Japan fell by 57% y-o-y to JPY 660.0 billion in Q4 2023. While this was largely a product of the high base registered in Q4 2022, during which Otemachi Place changed hands for JPY 440.0 billion, it was also due to a 78% y-o-y decline in foreign investment, with overseas investors maintaining the cautious attitude they have adopted since mid-2023.
- By asset type, the most significant increase this quarter was seen in the residential sector, for which investment volume surged by 50% y-o-y to JPY 187.0 billion. The acquisition of a 20-property portfolio by a J-REIT for a total of JPY 46.9 billion contributed significantly. The retail sector also recorded a strong increase in investment volume, which rose by 48% y-o-y to JPY 115.0 billion.
- Full-year 2023 investment volume was down by 3% from 2022, predominantly due to a 28% slide in foreign investment. By asset type, office transaction volume recorded the largest decline, falling by 43%.
- According to the results of CBRE's latest survey of investors in Japan\*<sup>4</sup>, the percentage of investors planning to increase their acquisition volume in 2024 was down 6 pp. from the previous year's survey, while those planning to increase sales volume were up by 9 pp. This suggests a weaker purchasing appetite among investors.

\*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 a "contraction (fall)" from the ratio (%) of respondents that expected an "expansion (rise)."

\*4 2024 Asia Pacific Investor Intentions Survey: Japan Results, conducted during November 2023

Figure 1: Quick Stats

Investment volume	Q4 2023 (JPY, bn)	y-o-y (%)
Total	660	-57%
Domestic (J-REITs)	172	-52%
Domestic (Others)	400	-48%
Overseas	88	-78%
Expected NOI Yield *2	Dec. 2023 (%)	q-o-q (bps)
Office (Otemachi, Tokyo)	3.15	±0
Retail (Tokyo Ginza Chuo-Dori)	3.25	±0
Industrial & Logistics (Tokyo bay area)	3.74	-4
CBRE Tankan Survey *3	Grade A office	Logistics facilities (multi-tenant)
Sales prices	2 (+1)	26 (-9)
Expected yield	-2 (±0)	1 (-5)
Lending attitude of financial institutions	8 (-1)	25 (+2)
Stance on investment and loans	13 (-2)	24 (+3)

Source: CBRE, Q4 2023.

### Investment volume falls 57% y-o-y largely due to high base of comparison and slowdown in foreign investment

Commercial real estate investment volume (transactions of JPY 1 billion or larger, Figures 1 and 2) fell by 57% y-o-y to JPY 660.0 billion in Q4 2023. This was a product of the high base registered in Q4 2022, during which Otemachi Place changed hands for JPY 440.0 billion. The decline was also due to overseas investors maintaining the cautious attitude they have adopted since the middle of 2023, with foreign investment slipping by 78% y-o-y. Another factor was that acquisitions of logistics facilities by J-REITs dropped sharply by 98% compared to the same quarter of the previous year.

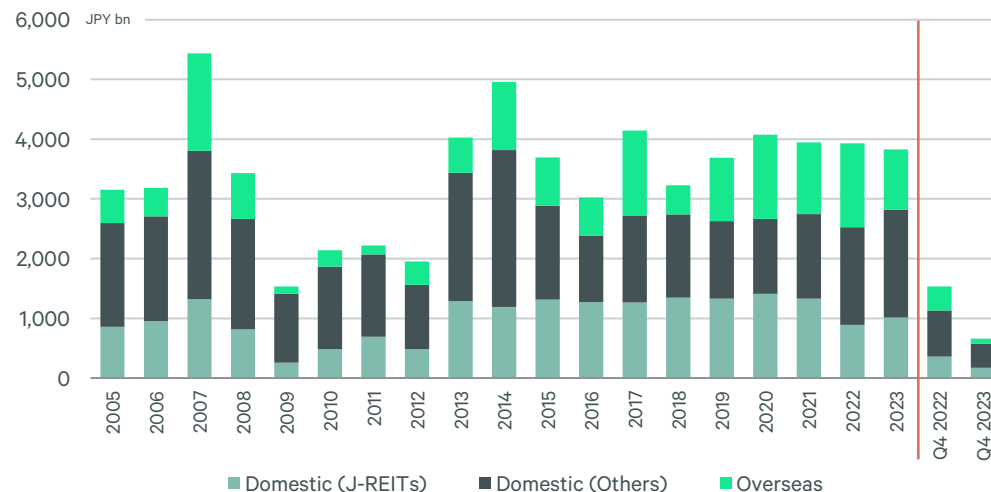
By asset type, investment in the office sector fell by 81% y-o-y to JPY 166.0 billion (Figure 3). Although acquisitions by J-REITs remained relatively robust, waning interest from foreign buyers, combined with the aforementioned high base of comparison with Q4 2022, led to this sharp decline. Logistics investment volume fell by 75% on the back of a significant slowdown in acquisitions by J-REITs.

In contrast, the residential and retail sectors both registered y-o-y increases in investment volume. The most significant rise was seen in the residential sector, where investment volume surged by 50% y-o-y to JPY 187.0 billion. The acquisition of a 20-property portfolio for JPY 46.9 billion by Daiwa Securities Living Investment Corp. contributed significantly to this increase. By region, residential investment in the 23 wards of central Tokyo underpinned market activity this quarter, with transaction volume some 2.7x that of the same quarter of the previous year. Investors are exhibiting a strong preference for residential properties in the capital as they offer the most realistic hope of rising rents triggered by nationwide inflation and wage hikes.

The retail sector also recorded a strong increase in investment volume, which rose by 48% y-o-y to JPY 115.0 billion. The most significant single transaction came in the form of major electronics retailer Edion Corp.'s acquisition of the land and building housing its own flagship Namba store in central Osaka from Mapletree Investments for JPY 54.0 billion.

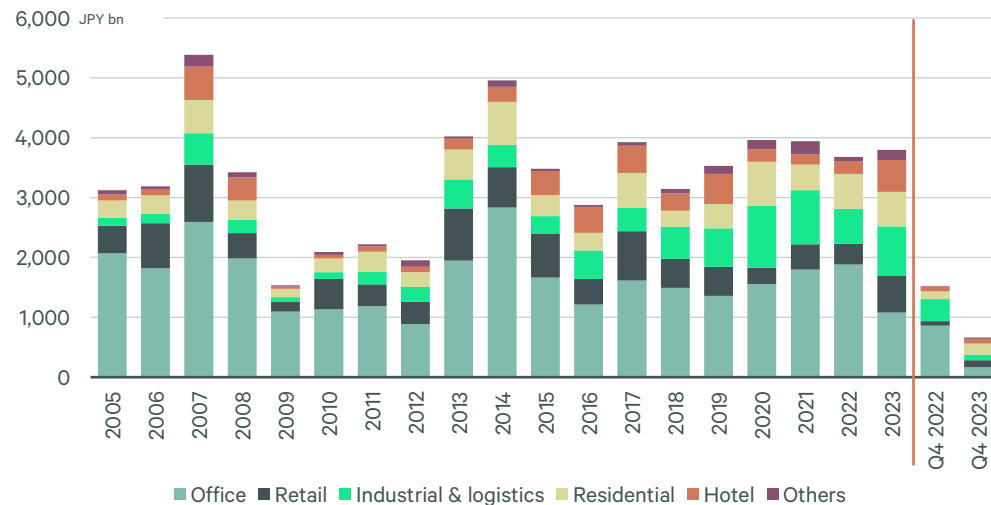
Other major deals included ORIX JREIT's acquisition of the Shin-Yokohama Square Building (JPY 20.3 billion, 3.9% NOI yield), and GMO Group's acquisition of additional ownership in Setagaya Business Square for JPY 15.0 billion.

Figure 2: Major transaction volume by investor type



Note: Transactions of at least JPY 1bn, excluding acquisitions by J-REITs at IPO. Source : MSCI Real Capital Analytics, CBRE, Q4 2023.

Figure 3: Major transaction volume by asset type



Note: Transactions of at least JPY 1bn, excluding acquisitions by J-REITs at IPO and bulk transactions that cannot be categorized. Source : MSCI Real Capital Analytics, CBRE, Q4 2023.

### J-REIT investment volume down 52% y-o-y

J-REIT investment volume (transactions of JPY 1 billion or larger) declined by 52% y-o-y to JPY 172.0 billion in Q4 2023. Capital raised through public equity offerings amounted to JPY 30.0 billion, down 76% y-o-y. The period saw only three new offerings, down from 10 in Q4 2022. The leading cause of the significant fall in both the number of offerings and amount of capital raised was a lack of activity in the logistics sector. In Q4 2023, there were no new offerings from logistics J-REITs, which had raised JPY 96.6 billion in the same period in the previous year.

In contrast, acquisitions by J-REITs in the residential and hotel sectors grew by 23% and 46% y-o-y, respectively. J-REIT investment volume in the former reached JPY 52.0 billion, the highest quarterly figure for Q4 since 2012. Notably, Daiwa Securities Living Investment Corp. raised JPY 16.0 billion in public equity in October 2023 to acquire residential properties worth a total of JPY 46.9 billion.

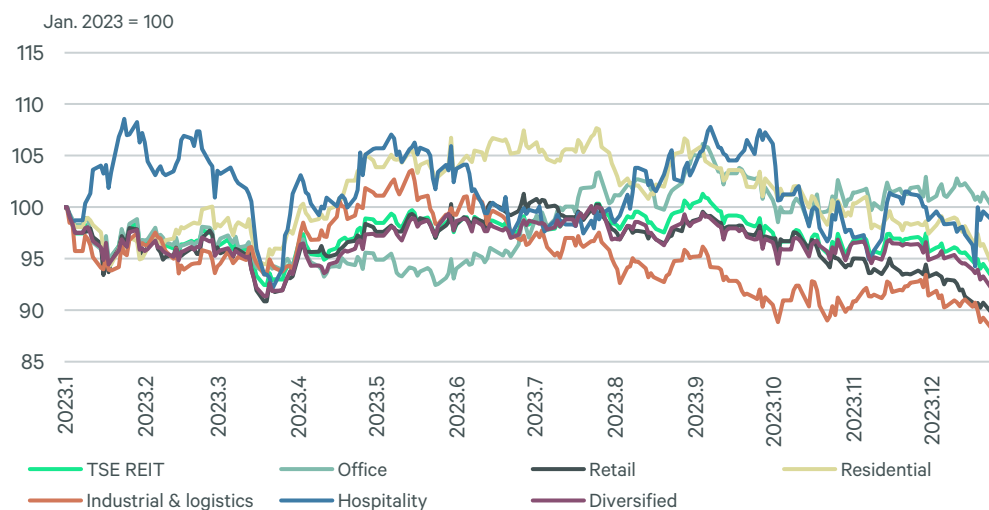
J-REIT share prices generally performed poorly throughout 2023, with the TSE REIT Index slipping by 4.6% over the course of the year (Figure 4). This came on the back of rising interest rates across the globe and the spike in 10-year government bond yields due to adjustments to the yield curve control policy by the Bank of Japan (BoJ). Relatively robust performance was seen in office J-REITs (up 1.6%), hotel J-REITs (down 0.2%), and residential J-REITs (down 3.4%). On the other hand, retail and logistics J-REITs struggled, recording share price drops of 8.3% and 8.2%, respectively, during 2023.

### Expected yields remain largely unchanged across most sectors

CBRE’s latest quarterly cap rate survey for Q4 2023 found that expected yields in Tokyo declined from Q3 2023 for logistics facilities (multi-tenant type, Tokyo Bay area) and hotels (management contract-type, Tokyo 5 wards) but remained unchanged for all other sectors (averages, Figures 5 and 8). In terms of offices in regional cities, expected yields rose slightly in Sapporo and fell slightly in Nagoya, but remained unchanged everywhere else (Figure 8).

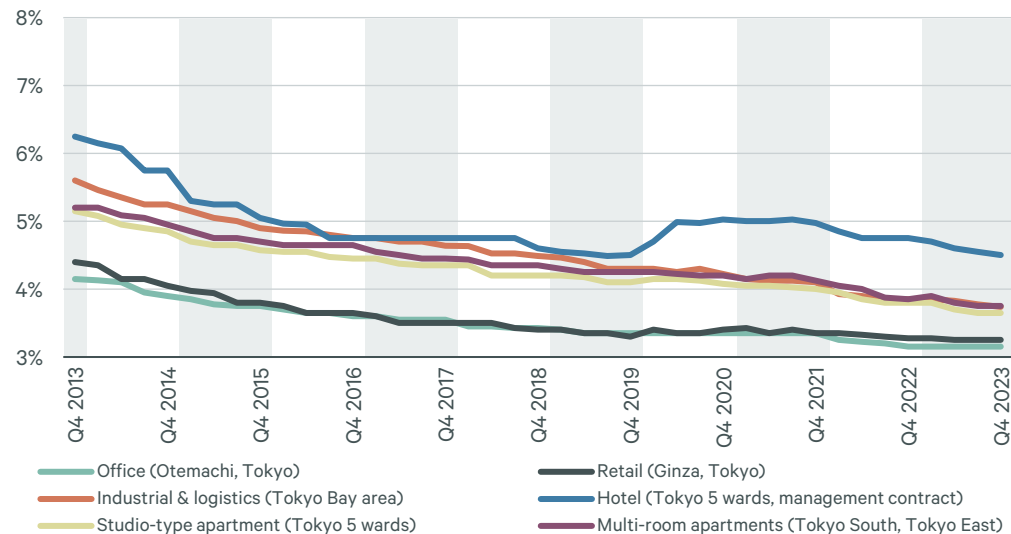
CBRE’s latest Tankan Survey for Q4 2023 revealed that the diffusion index (DI, Figure 9) for Tokyo Grade A office buildings improved q-o-q for both “transaction volume” and “NOI” (each up by 7 pp.). Both indices had displayed worsening figures for some time, with these recoveries representing the first positive movement in five quarters for “transaction volume” and eight quarters for “NOI”. The diffusion index for logistics facilities (Greater Tokyo, multi-tenant type), meanwhile, worsened in several categories, including “sales prices” and “expected yields”.

Figure 4: J-REIT share price by asset type



Source: Macrobond, CBRE, calculated based on each J-REIT share price, December 2023.

Figure 5: Expected NOI yields (Tokyo)



Source: CBRE Cap Rate Survey, December 2023.

### Investment volume for 2023 calendar year down by 3%

Full-year 2023 investment volume (transactions of JPY 1 billion or larger, Figure 6) amounted to JPY 3.8 trillion, a 3% decrease from 2022. When divided by investor type, domestic investors, including J-REITs, recorded a y-o-y increase in transaction volume of 12%, while foreign investment fell by 28%. Foreign investors appear to be wary of a potential cap rate rise in response to rising interest rates, on the back of the speculation that the BoJ may put an end to its negative interest rate policy following its adjustment to the yield curve control measures.

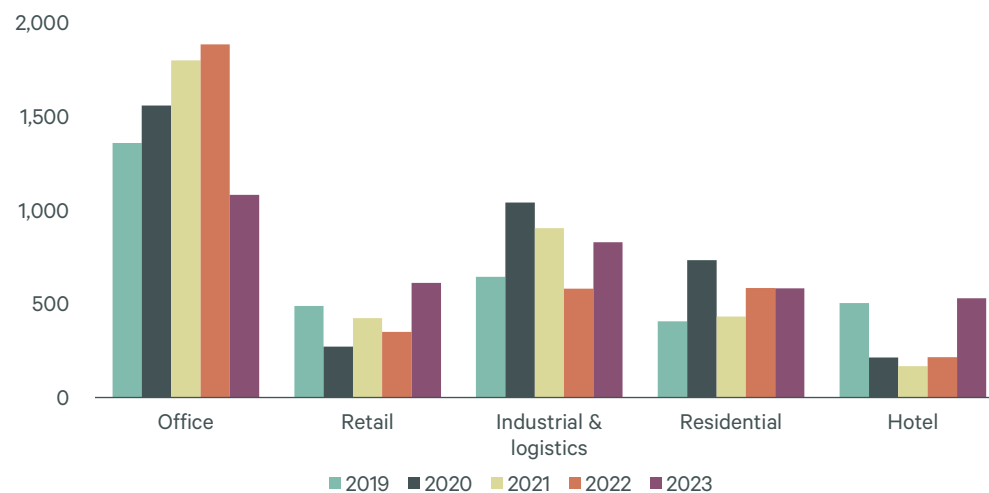
The hotel sector saw the most significant increase in transaction volume in 2023, recording a figure of JPY 529.0 billion, some 2.5x the volume of 2022. Driven by a recovery in inbound tourists and an increase in Average Daily Rates (ADRs), total investment topped 2019's figure of JPY 502.0 billion to reach the highest annual value in the last five years. Investment in the retail sector was also up by 75% from the previous year on the back of several major transactions. In contrast, the office sector saw full-year investment slump by 43% over the same period to JPY 1.1 trillion, the lowest annual level since 2012.

### Latest investor survey data suggests a weakening of purchasing appetite

While investment appetite in Japan has been generally strong since 2021, momentum is now showing signs of waning. According to the results of CBRE's latest survey of investors in Japan\*1, 46% of investors plan to increase their purchasing volume in 2024, down 6 pp. from the survey results of the previous year. Meanwhile, some 38% of investors surveyed indicated that they expected their selling volume in 2024 to exceed that of the previous year, a 9 pp. rise from the previous survey. Net buying intentions, which are calculated by subtracting the percentage of those intending to sell more from those intending to buy more, fell to just 8%, well down from last year's figure of 23%, and the lowest level since 2016. Investors may look to increase their selling activity over the course of 2024 to secure gains on some of the assets in their portfolios. Although long-term interest rates have come down somewhat more recently, any future interest rate hikes would serve to reduce yield spreads and may force investors to target higher cap rates. In light of the above, CBRE forecasts investment volume in Japan to decline y-o-y in 2024 due to a wider price expectation gap between sellers and buyers.

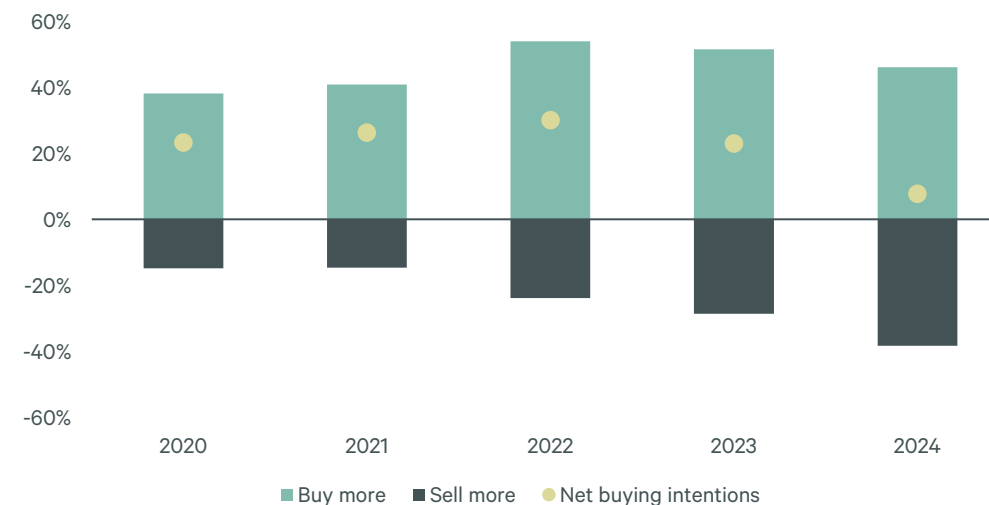
\*1 2024 Asia Pacific Investor Intentions Survey: Japan Results, conducted during November 2023

Figure 6: Annual major transaction volume by asset type



Note: Transactions of at least JPY 1bn, excluding acquisitions by J-REITs at IPO. Source: MSCI Real Capital Analytics, CBRE, Q4 2023.

Figure 7: Investor buying and selling intentions



Source: 2024 Asia Pacific Investor Intentions Survey: Japan Results, CBRE Research

Figure 8: Expected NOI Yield

		Dec. 2023 (%)	q-o-q (bps)
Tokyo	Office (Otemachi, Tokyo)	3.15	±0
	Studio-type apartments (Tokyo 5 wards)	3.65	±0
	Multi-room apartments (Tokyo South, Tokyo East)	3.75	±0
	Industrial & logistics (Tokyo bay area)	3.74	-4
	Retail (Tokyo Ginza Chuo-Dori)	3.25	±0
	Hotel (Tokyo 5 wards, management contract)	4.50	-5
Osaka	Office	4.35	±0
Nagoya	Office	4.55	-5
Sapporo	Office	4.80	+5
Sendai	Office	4.95	±0
Hiroshima	Office	5.10	±0
Fukuoka	Office	4.35	±0

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, Q4 2023.

Figure 9: CBRE Tankan Survey (DI)

		Dec. 2023	q-o-q (point)
Tokyo Grade A office buildings	Transaction volume	-2	+7
	Sales prices	2	+1
	NOI (Net Operating Income)	-36	+7
	Expected yield	-2	±0
	Lending attitude of financial institutions	8	-1
	Stance on investment and loans	13	-2
Logistics facilities (Greater Tokyo, multi-tenant type)	Transaction volume	15	-5
	Sales prices	26	-9
	Rent	16	-6
	Vacancy rate	-24	-3
	Expected yield	1	-5
	Lending attitude of financial institutions	25	+2
	Stance on investment and loans	24	+3

Note: Expected yield ID subtracts the ratio (%) of respondents that expected a "rise" from the ratio (%) of respondents that expected a "fall." Values in parentheses are q-o-q comparisons. Units are percentage points. Source: CBRE, Q4 2023.

Figure 10: Selected Major Transactions

Date*1	Building Name	Location	Sector	Seller	Buyer	Approximate Price*2 (JPY Million)	Price per Tsubo*2 (JPY Thousand)	Cap Rate*3 (%)
Dec-23	Edion Namba	Chuo-ku, Osaka	Retail	Mapletree Investments	Edion	54,000	—	—
Oct-23	Portfolio of 20 properties	Japan	Residential	Daiwa Securities Realty	Daiwa Securities Living Investment	46,918	—	—
Dec-23	Shin-Yokohama Square Building	Yokohama, Kanagawa	Office	a Japanese special purpose company	ORIX JREIT	20,300	4,194	3.9
Nov-23	Setagaya business square	Setagaya-ku, Tokyo	Office	Tokyu, Tokyu Bus, CT Realty	GMO Internet Group	15,000	—	—
Oct-23	LOGIPORT NagareyamaB	Nagareyama, Chiba	Industrial	LaSalle LOGIPORT	Undisclosed	13,125	385	3.8

\*1 Data of announcement or contract.

\*2 Transaction amounts include approximate, estimated, appraised, book value, and total assets.

\*3 J-REIT cap rates are based on NOI of either J-REIT asset manager's estimates or appraisal NOI, and the acquisition price.

Source: MSCI Real Capital Analytics, CBRE, Q4 2023.

<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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