

CBRE

Intelligent Investment

JAPAN
Lender Survey
2024

REPORT

CBRE RESEARCH
JULY 2024

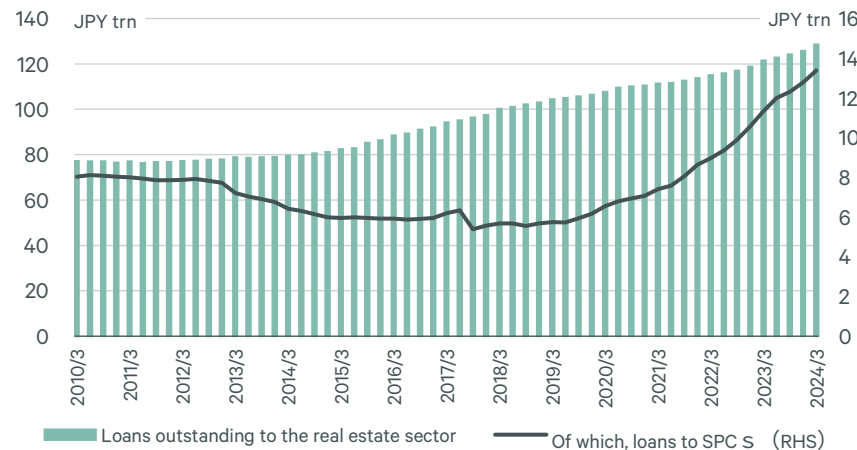


Executive Summary

Financing environment remains generally accommodative

- In contrast to conditions in Europe, the U.S., and many other Asian nations, the financing environment for real estate in Japan remains accommodative. According to data released by the Bank of Japan (BoJ), outstanding loan volume to the real estate sector by Japanese financial institutions (domestic banks, Shinkin banks, and other financial institutions) reached JPY 129 trillion as of the end of March 2024, an increase of 6% from the previous year. Some JPY 13 trillion of this volume was extended to special purpose companies (SPCs) for real estate securitization, which grew by 18% y-o-y (Figure 1). Lending for SPCs has been on the rise since 2019, exhibiting average y-o-y growth of 20% during the three years of the pandemic from 2020 to 2022. While growth slowed slightly in the second half of last year, possibly on the back of increased expectations of a policy rate hike by the BoJ, the rate of expansion remains high.

Figure 1: Loans outstanding to the real estate sector (total of domestically licensed banks, Shinkin banks and other financial institutions)

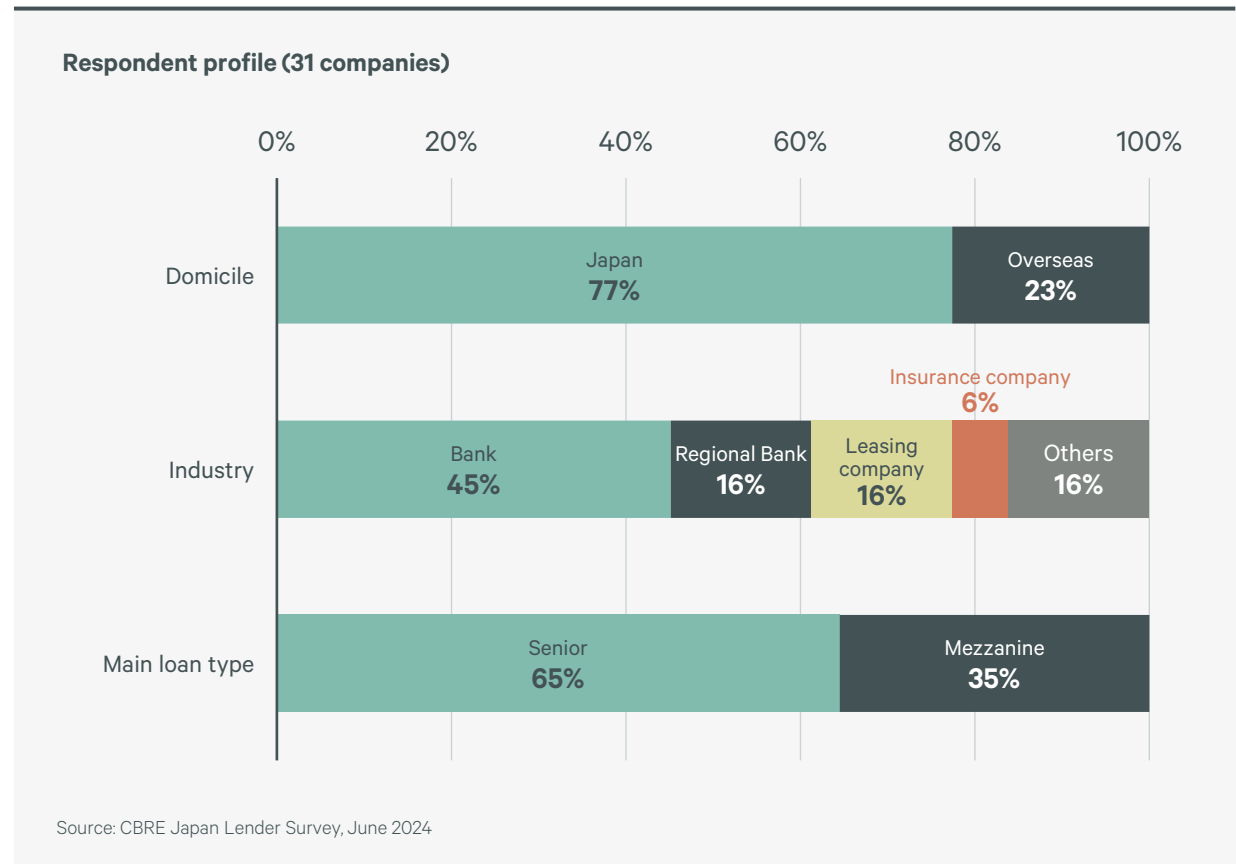


Source: Bank of Japan, Macrobond, CBRE Research, June 2024

- CBRE recently carried out its latest Lender Survey, an annual survey of companies providing real estate loans. Conducted in April and May of this year, CBRE's 2024 Japan Lender Survey asked respondents about the loans extended during the 2023 financial year (FY 2023, which in Japan runs from April 2023 to March 2024) and their expectations for FY 2024. The results underscore the fact that the lending environment remains accommodative.
- The percentage of respondents indicating that 100% of their loan volume was for new acquisitions in FY 2023 reached 25% for senior lenders and 43% for mezzanine lenders, both up from the previous year. Lenders clearly remained committed to providing funding for new real estate acquisitions in 2023. Lending conditions, including LTV and spread, also remained largely unchanged or eased slightly, with lenders to the hotel sector in particular becoming significantly more accommodative than was previously the case.
- In terms of the outlook, approximately 60% of senior and mezzanine lenders indicated that they expected their new loan volume in FY 2024 to exceed that of FY 2023. Lenders' attitudes towards lending conditions and real estate pricing remain largely positive and continue to provide tailwinds for the real estate investment market.
- When asked to forecast the interest rate environment over the next year, 80% of respondents predicted additional rate hikes of up to 50 bps, with none predicting rises beyond this level. This suggests that lenders are basing their lending policies on an anticipated moderate increase in interest rates. Should interest rates be hiked more significantly, there is a distinct possibility that lenders may be forced to reconsider their lending criteria.

Survey Overview

- Purpose: To analyse lenders' approach to real estate financing
- Target: Parties engaged in non-recourse loans for real estate
- Survey period: April 2024 to May 2024
- Total number of respondents: 31 companies
- Respondent companies (in random order):
 - Star Asia Investment Management Co., Ltd.
 - TOPAZ CAPITAL, INC.
 - MUFG Bank, Ltd.
 - Yamaguchi Financial Group, Inc.
 - Mizuho Leasing Company, Limited
 - Mizuho Bank, Ltd.
 - ORIX Bank Corporation
 - Societe Generale, Tokyo Branch
 - HOKURIKU BANK, LTD.
 - Suruga Bank Ltd.
 - Fuyo General Lease Co., Ltd.
 - Sumitomo Mitsui Trust Bank, Limited
 - Chugoku Bank, Ltd.
 - Diamond Realty Management Inc.
 - MetLife Insurance K.K.
 - Kiraboshi Bank, Ltd.
 - North Pacific Bank, Ltd.
 - Mitsubishi HC Capital Inc.
 - SBI Shinsei Bank, Limited
 - Resona Bank, Limited
 - (And 11 other companies)



Appendix: Assumed Property Attributes

	OFFICE	RETAIL	LOGISTICS		HOTEL		RESIDENTIAL	
Type	Multi-tenant	n/a	Multi-tenant	BTS	Management contract, specialised accommodation type, business hotel	Lease, specialised accommodation type, business hotel	Single	Family
Location	Otemachi/ Marunouchi, Chiyoda-ku, Tokyo	Ginza Chuo-dori in Chuo-ku, Tokyo; high street area where leading brands have stand-alone stores	Greater Tokyo area	Greater Tokyo area	Within 5 minutes' walk of a main rail terminal within the Tokyo central five wards	Within 5 minutes' walk of a main rail terminal within the Tokyo central five wards	Within 10 minutes' walk of a rail terminal within the Tokyo central five wards	Tokyo Jonan/ Josai district
Age	Less than five years	n/a	n/a	n/a	About five years	About five years	About five years	About five years
Size	Typical effective floor area 500 tsubo or above, around 20 to 25 floors above ground	n/a	Total floor area: 10,000 tsubo or more	Total floor area: 10,000 tsubo or more	About 100 units	About 100 units	Average exclusive occupancy area 25m ² , total number of units around 50	Average exclusive occupancy area 50–80 sq. m. (3LDK), total number of units around 50
Property price	JPY 50 billion or higher	JPY 20 billion or higher	n/a	n/a	n/a	n/a	n/a	n/a
Other	Free access floor, ceiling height of at least 2,800mm, air conditioning adjustable by zone	n/a	Five to 10-year fixed term lease	Five to 10-year fixed term lease	Occupancy rate: 80% or higher	Occupancy rate: 80% or higher	n/a	n/a

Source: CBRE Japan Lender Survey, June 2024

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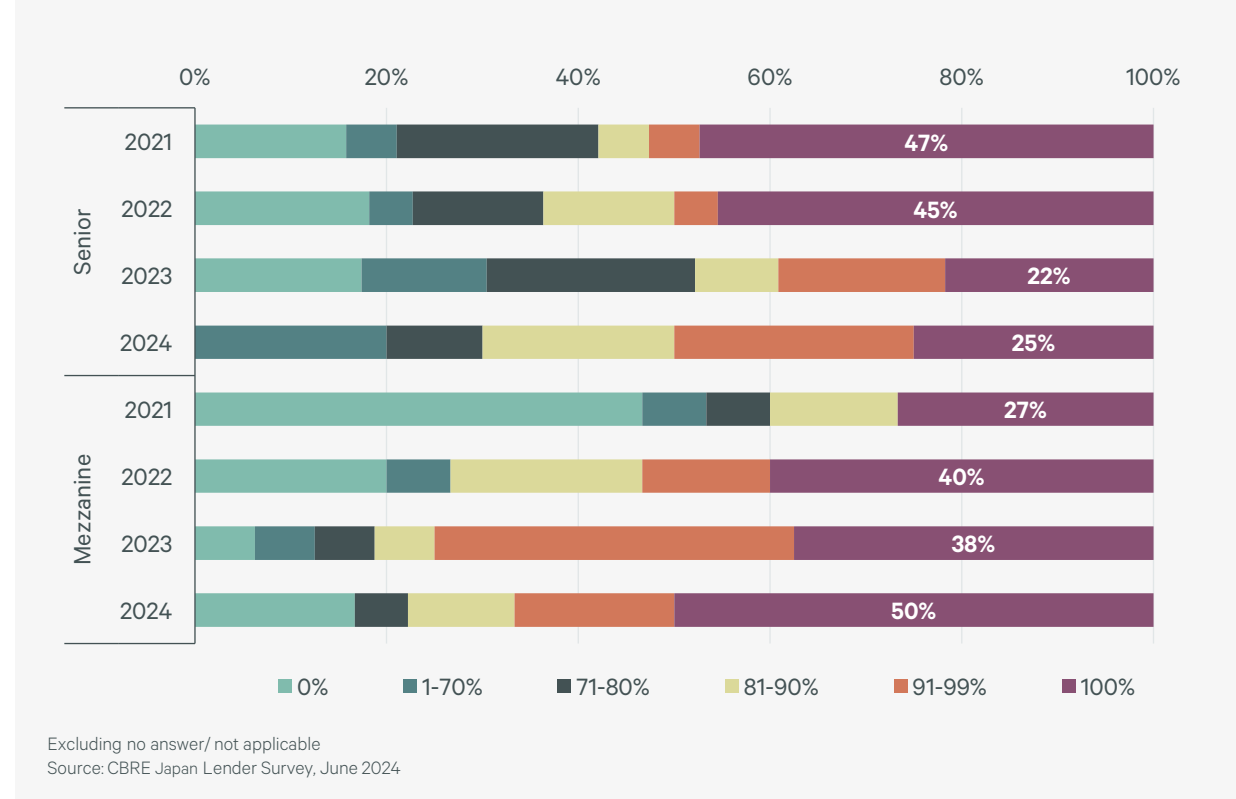
Lenders' Attitudes

Lending activity in FY 2023

Lenders remain committed to funding new acquisitions

When asked what percentage of their loans in FY 2023 were for new acquisitions, 25% of senior lenders and 43% of mezzanine lenders said that 100% of their loan volume was for new acquisitions, both up from the previous year (Figure 2). These figures exceeded 50% when lenders providing “90% to less than 100% for new acquisitions” were included. This data underscores lenders' commitment to providing funding for new real estate acquisitions in the 2023 fiscal year.

Figure 2: Percentage of loans for new acquisitions in the previous fiscal year (by loan volume)

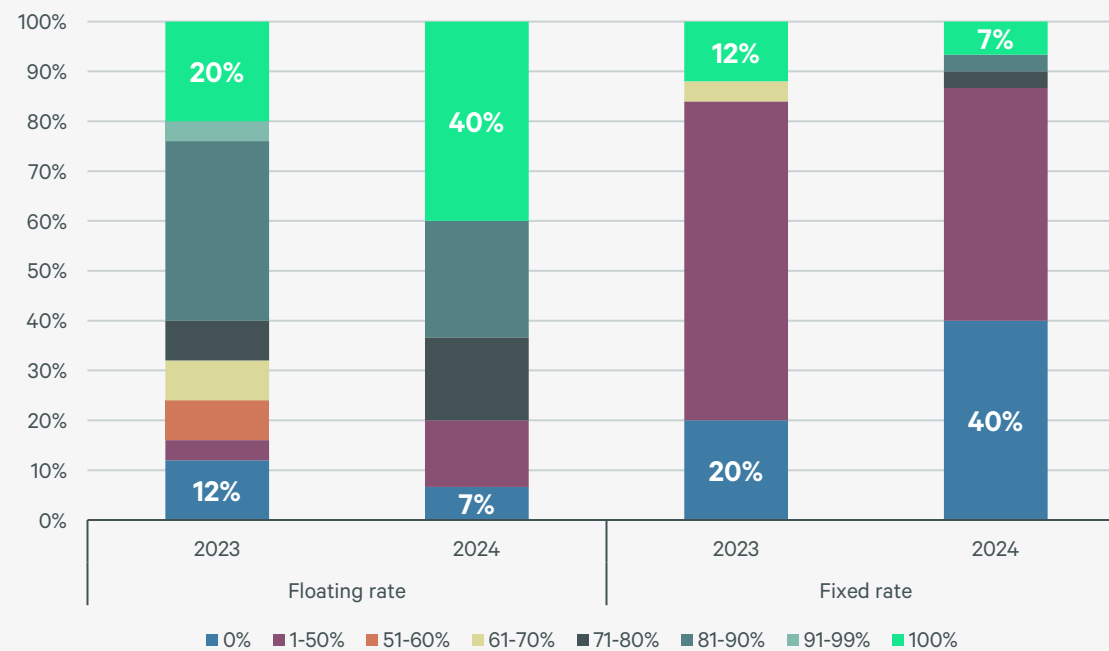


Lending activity in FY 2023

Floating rate loans still the mainstream in FY 2023

When asked what interest rate type was most often used for their loans in FY 2023, 40% of respondents answered “100% floating rate” (in other words 0% fixed rate), well up from the 20% figure of the previous year (Figure 3). At the other end of the scale, just 7% of lenders replied that 100% of their loans were fixed rate, down from last year’s numbers. Although the base interest rate increased from February through to the fiscal year-end (March) due to the anticipated policy rate hike, they remained generally low throughout FY 2023 (with the three-month TIBOR in the range of 0.07 to 0.08%), while long-term interest rates rose ahead of short-term rates. With no drastic interest rate hikes expected, borrowers continued to prefer floating rate loans in FY 2023.

Figure 3: Percentage of loans by interest rate type in the previous fiscal year (by number of loans)



2023: n=25, 2024: n=30 (Excludes no answer)
 Source: CBRE Japan Lender Survey, June 2024

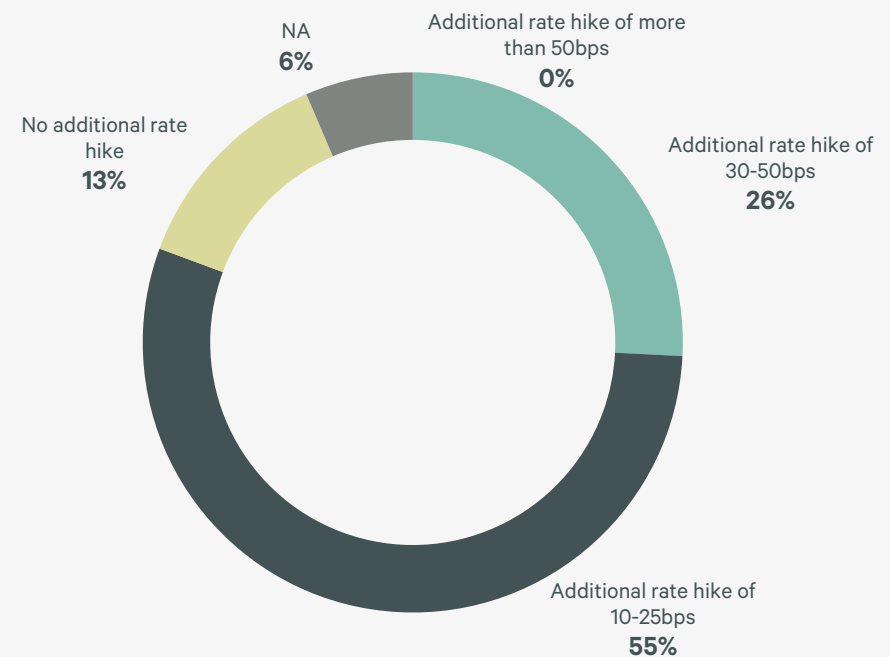
Outlook for FY 2024

Consensus opinion projects a moderate interest rate rise

On March 19, 2024, the BoJ raised the policy rate for the first time in 17 years, from -0.1% to 0.0-0.1% (uncollateralised call rate target). In response to the hike, CBRE's 2024 Japan Lender Survey asked respondents their opinions regarding the possibility of additional rate hikes over the next 12 months. Approximately 80% of lenders indicated that they anticipated additional policy rate hikes of either 10 to 25 bps or 30 to 50 bps, while no respondents projected an interest rate increase of above 50 bps (Figure 4). 13% of lenders foresaw no further interest rate increases.

These results suggest that the primary scenario envisioned by lenders is a moderate interest rate hike of no more than 50 bps. Furthermore, the lending attitudes revealed by the survey results can be said to be based on this assumption of a moderate increase in interest rates.

Figure 4: Projected policy rate hikes in FY 2024



n=31

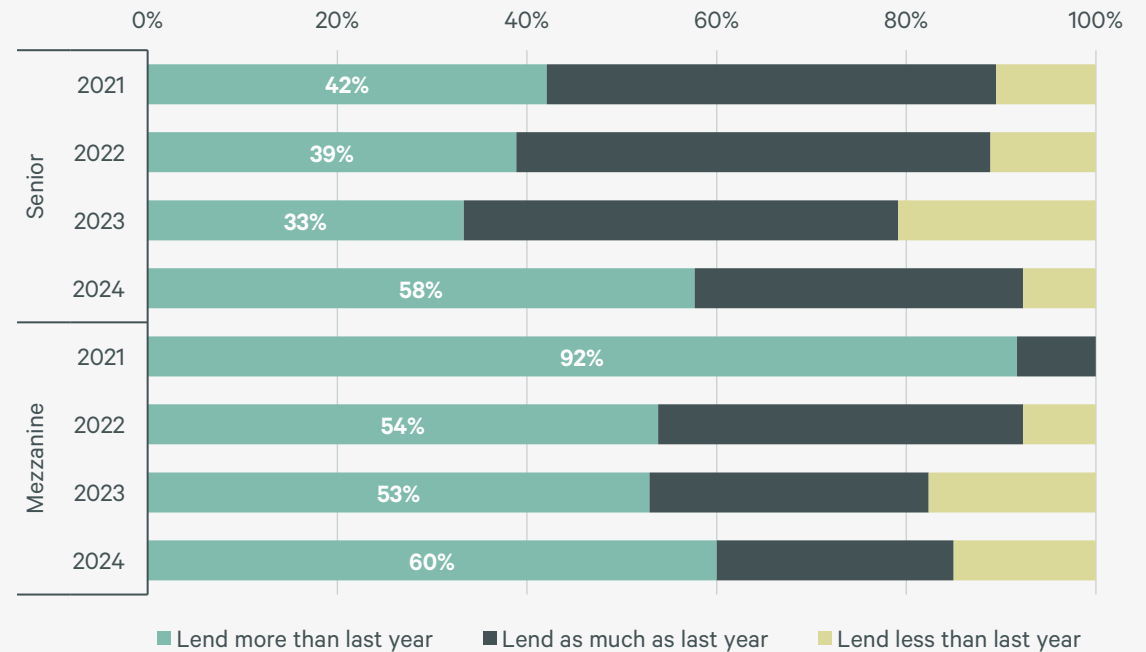
Source: CBRE Japan Lender Survey, June 2024

Outlook for FY 2024

60% of lenders plan to increase loan volume in FY 2024

In terms of future projections, approximately 60% of both senior and mezzanine lenders indicated that they expected new loan volume in FY 2024 to exceed that of the previous year (Figure 5). This represents an increase from the results of the previous year's survey, with a particularly large rise recorded among senior lenders. When combined with those anticipating no change in loan volume, a total of 92% of senior lenders and 85% of mezzanine lenders projected no decrease in the amount of loans they plan to provide. Should the primary projected scenario of a moderate rise in interest rates come to fruition, lenders can be expected to maintain their proactive lending stance in FY 2024.

Figure 5: Anticipated new loan volume in FY 2024 compared to FY 2023



Excludes no answer/ not applicable
 Source: CBRE Japan Lender Survey, June 2024

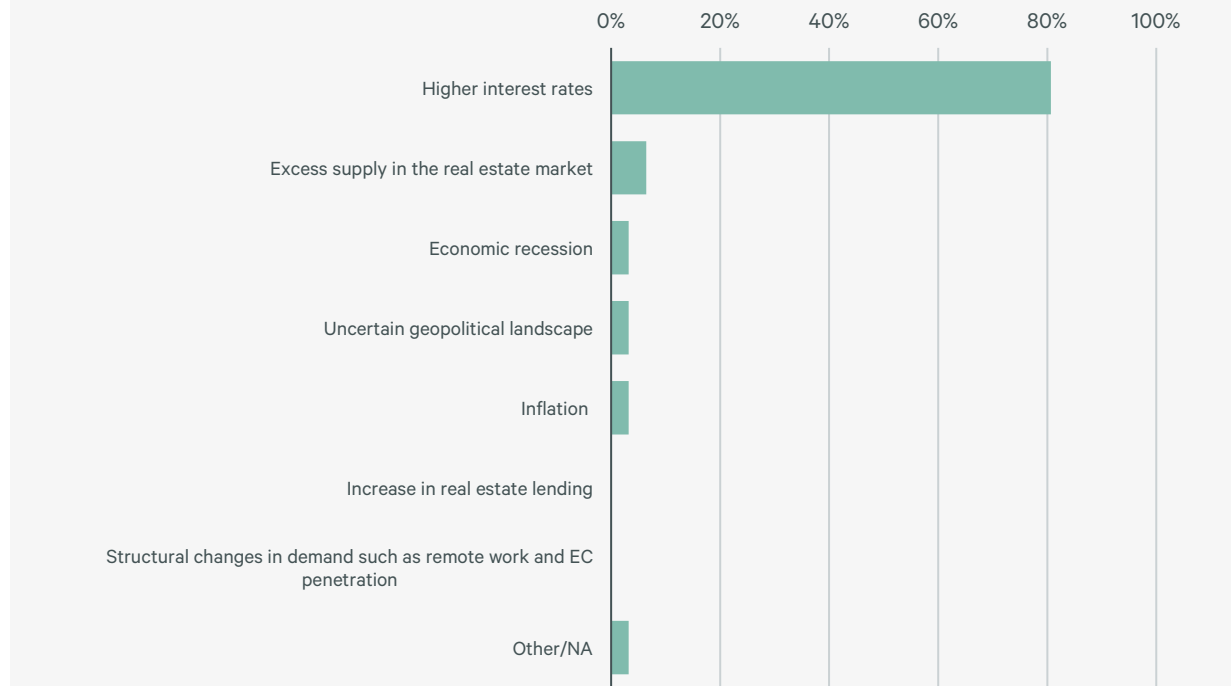
Outlook for FY 2024

Greatest risk factor continues to be “higher interest rates”

When asked what they saw as the greatest risk factor threatening debt market expansion over the next 12 months, 80% of respondents selected “higher interest rates” (Figure 6). This factor had already been identified as the greatest threat last year, when it was selected by 70% of respondents to the same question. While most lenders foresee a moderate increase in interest rates, there does appear to be a widespread concern over the opacity of the future of the interest rate environment, and the possibility of hikes that exceed expectations.

When asked in a separate question how they would respond to a significant change in interest rates, many respondents indicated that it could exert an influence on their lending attitude in the form of tightening loan conditions by reassessing property values or lowering LTV; the adoption of a more selective stance concerning risk-return analyses; or a shift from real estate lending (non-recourse loans) to corporate lending (recourse loans).

Figure 6: Greatest risk factor to the debt market in FY 2024 (single answer)



n=31

Source: CBRE Japan Lender Survey, June 2024

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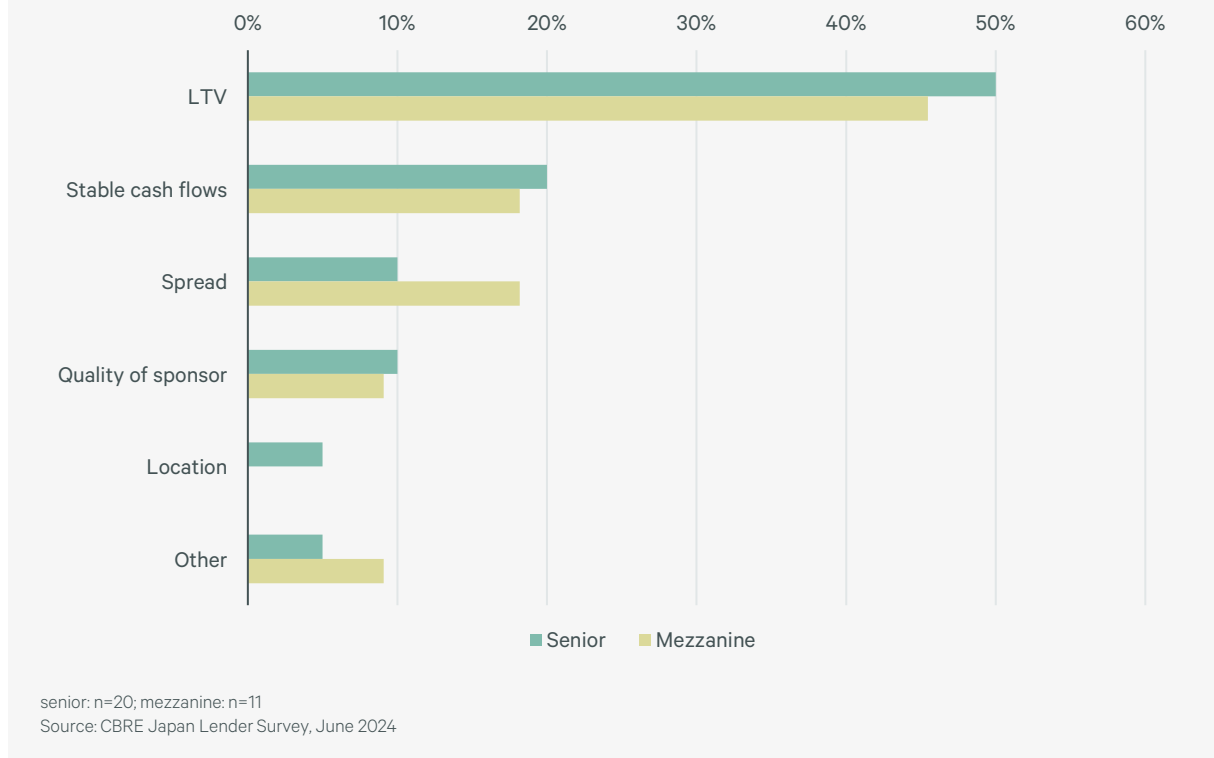
Lending Conditions

Key lending criteria

LTV seen as most important metric, followed by stable cash flow and spread

CBRE’s Japan Lender Survey asks lenders every year about their lending criteria. As in previous years, both senior and mezzanine lenders named LTV as the most important factor for lending judgements in 2024 (Figure 7). Stable cash flow and spread were the next two most important factors, with mezzanine lenders placing a greater priority on spread than senior lenders.

Figure 7: Priority lending criterion (single answer)



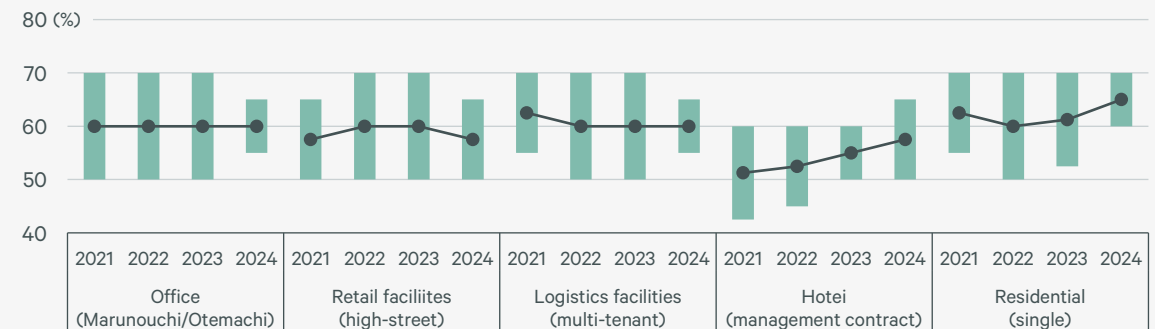
Changes in LTV and spread criteria

LTV criteria remain largely unchanged, lending criteria for hotels easing

LTV criteria, established in the previous question as the most highly valued metric by lenders in their decision-making, was largely unchanged compared to the previous year, according to the results of the 2024 survey, indicating an accommodative financing environment. However, the higher end of the LTV range accepted by senior lenders targeting the office, retail, and logistics sectors has fallen by five points, indicating a slightly cautious stance regarding the valuation of these types of assets (Figure 8).

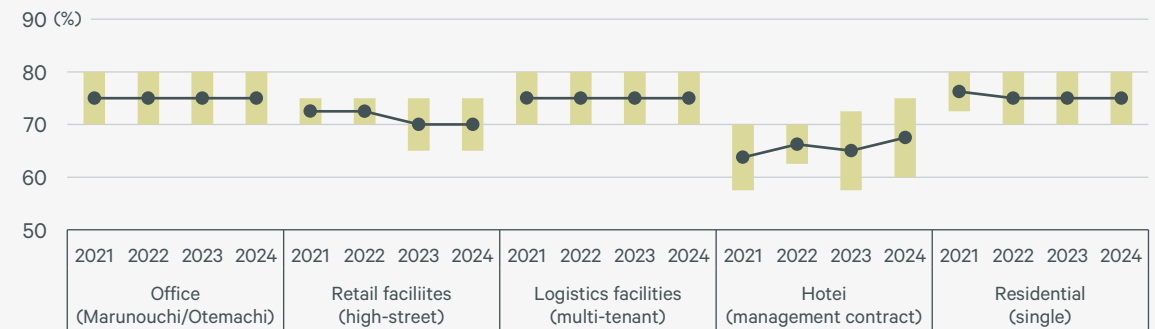
Regarding hotels, on the other hand, there has been a clear trend on the part of both senior and mezzanine lenders to raise, or ease, their LTV criteria, indicating that they have identified an upside in hotels' cash flow and valuation (Figure 9).

Figure 8: Prime asset loan LTV criteria (range and average figures - senior)



Maximum and minimum range values taken from median value of all answers, average values taken from mean of maximum and minimum values.
Source: CBRE Japan Lender Survey, June 2024

Figure 9: Prime asset loan LTV criteria (range and average figures - mezzanine)



Maximum and minimum range values taken from median value of all answers, average values taken from mean of maximum and minimum values.
Source: CBRE Japan Lender Survey, June 2024

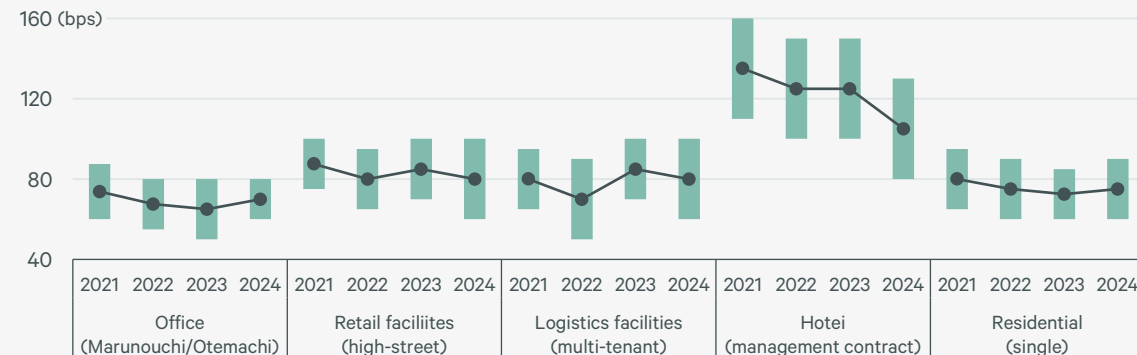
Changes in LTV and spread criteria

Hotel spreads tighten significantly

During FY 2023, a particularly significant easing of the spread criteria (tightening of spread) was observed for both senior and mezzanine loans for hotels (Figures 10 and 11). Senior loans, in particular, underwent a 20-bps tightening of the spread range. When combined with the raising of acceptable LTV levels, lenders' attitude toward the hotel sector has become considerably more accommodative over the last 12 months.

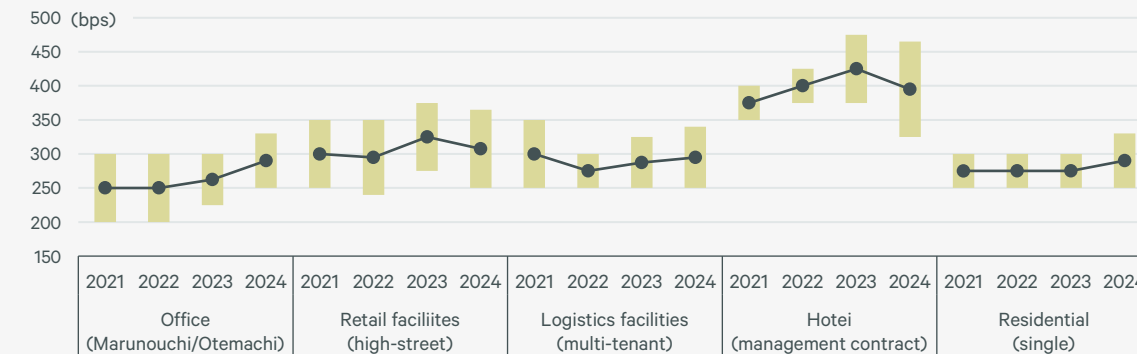
Required spreads also tightened for senior and mezzanine loans to the retail sector. On the other hand, offices saw a slight increase in both senior and mezzanine loan spreads, suggesting that lenders may be adopting a slightly cautious attitude towards this particular asset class. However, across the spectrum of all asset types, required spread levels have remained largely unchanged, with the exception of the hotel sector.

Figure 10: Prime asset loan spreads (range and average figures - senior)



Maximum and minimum range values taken from median value of all answers, average values taken from mean of maximum and minimum values.
Source: CBRE Japan Lender Survey, June 2024

Figure 11: Prime asset loan spreads (range and average figures - mezzanine)



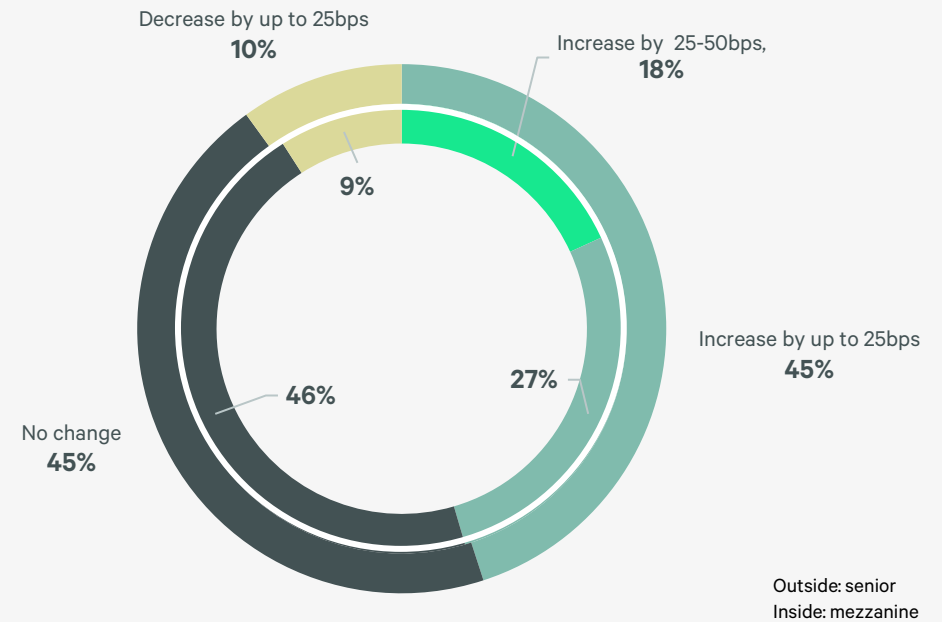
Maximum and minimum range values taken from median value of all answers, average values taken from mean of maximum and minimum values.
Source: CBRE Japan Lender Survey, June 2024

Projections for lending conditions

Lenders evenly split between those who foresee spreads rising and those predicting no change

When asked for their projections of spread changes within the next 12 months, just under half of both senior and mezzanine lenders answered that they expected spreads to remain unchanged, while approximately the same number forecasted spreads to rise (Figure 12). For asset classes without limited cash flow upside, a certain number of lenders appear to be anticipating spreads to be hiked in response to rising interest rates. However, most lenders predicting spreads to rise suggested that any increase would be up to 25 bps, implying that they expect any potential rises in interest rates to be moderate.

Figure 12: Projected spread changes in FY 2024



senior: n=20; mezzanine: n=11
Source: CBRE Japan Lender Survey, June 2024

Projections for lending conditions

Other lending conditions projected to ease

The results of CBRE’s 2024 Japan Lender Survey reveal that lender opinions regarding future movements in other lending criteria (LTV, loan period, property prices) are largely optimistic.

The diffusion indices (DI; the percentage of respondents predicting the criterion to decrease subtracted from the percentage of respondents predicting the criterion to increase) for LTV, loan period, and real estate prices all stood in positive territory (Figure 13). All of these figures were either zero or in negative territory in the 2023 survey, possibly because the survey was carried out during a period when some lenders started to consider the possibility of adjusting their criteria in the light of potential rises in interest rates. The subsequent removal of the BoJ’s negative interest rate policy in March 2024 appears to have served to assuage some of the uncertainty surrounding the future of the interest rate environment, leading to greater positivity among lenders.

Lending attitudes towards J-REITs remain less accommodative, with a DI of -6, largely unchanged from a year ago. Slumping share prices leading to a decrease in the number of equity offerings have meant that debt ratios have remained high for many J-REITs.

Figure 13: Projections for lending conditions (DI = “increase” - “decrease”)



Excludes no answer
 DI is calculated by subtracting the percentage of respondents who anticipated a decrease in each metric (indicating a contraction of the real estate market) from the percentage anticipating an increase in the same metric (indicating an expansion of the market).
 Source: CBRE Japan Lender Survey, June 2024

03

Preferred Assets and Locations

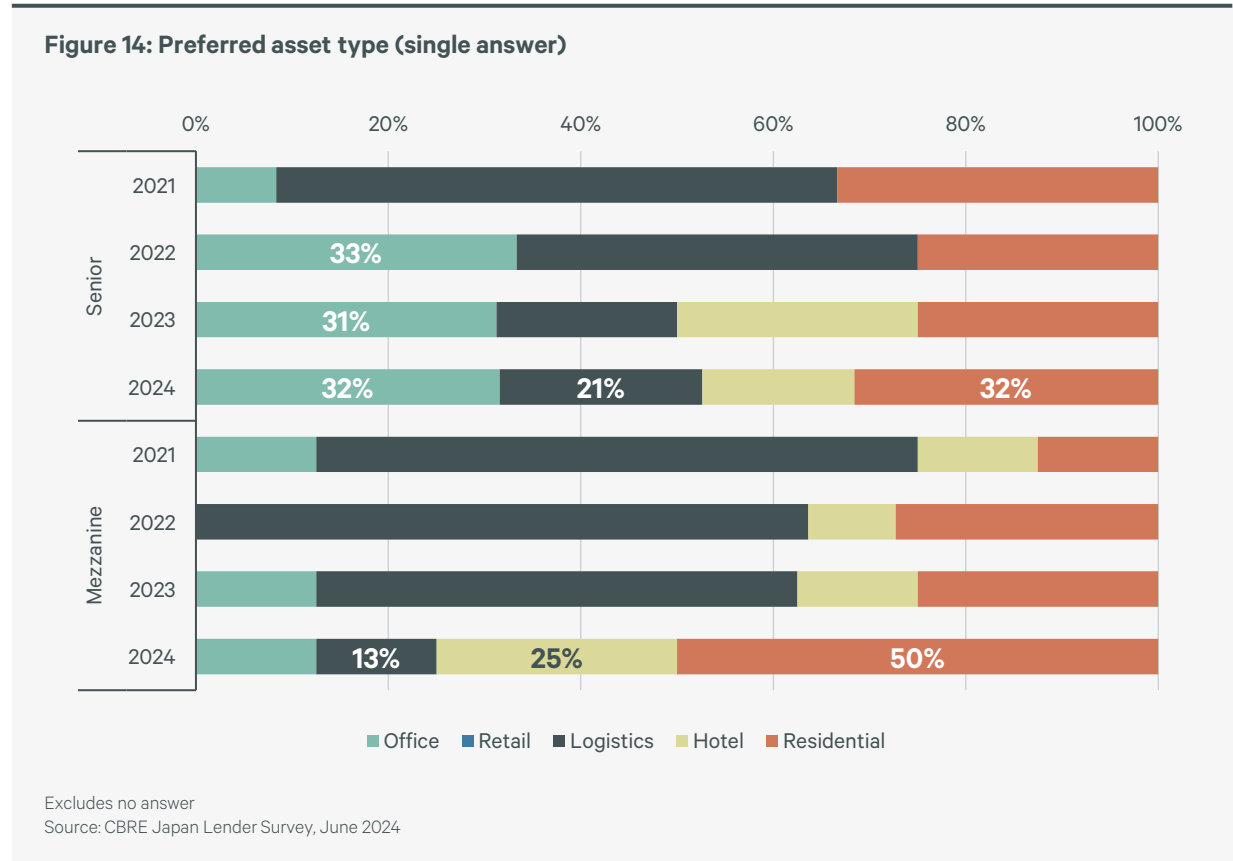
Preferred asset types

Residential properties surge in popularity

Each year, CBRE’s Japan Lender Survey asks lenders to identify the most attractive asset types for which to provide financing. While the logistics sector was the most popular for several years during the pandemic, its popularity has begun to wane since last year, particularly in light of the difficulties landlords are encountering when trying to raise rents in Greater Tokyo. In the 2024 survey, just 21% of senior lenders and 13% of mezzanine lenders selected logistics as their preferred asset type (Figure 14).

Replacing logistics facilities as the new most popular asset type is residential (rental apartments). One-third of senior lenders and half of mezzanine lenders selected residential as the most attractive asset type in this year’s survey, primarily due to potential cash flow upside. Hotels also recorded a rise in popularity among lenders, with 25% of mezzanine lenders selecting the sector as their most preferred asset type.

Among senior lenders, offices remained consistently highly valued. Although their popularity faded during the pandemic in 2021, approximately one-third of all surveyed senior lenders selected offices as the most attractive asset type in every survey conducted between 2022 and 2024.



Attractive locations

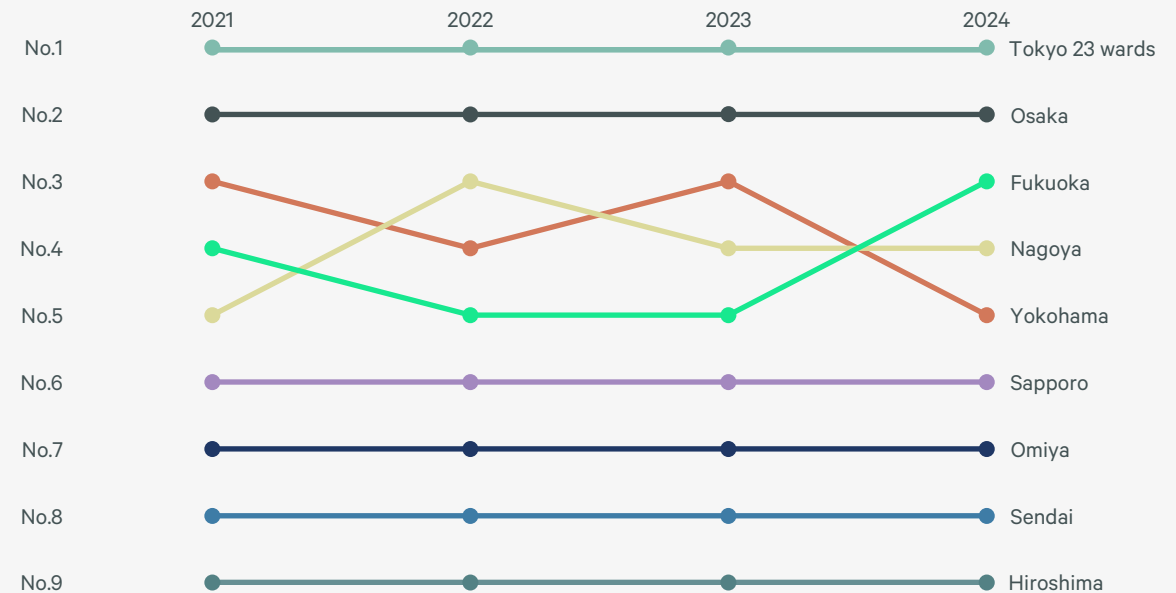
Fukuoka in focus

CBRE’s Japan Lender Survey also asks respondents to rank the various geographical areas of Japan in terms of their attractiveness to lenders. The results are then compiled to give an overview of the most popular locations.

While the Tokyo 23 wards and Osaka remained the top two cities in the office category in 2024, Fukuoka rose from fifth place in 2023 to third this year (Figure 15). In the category of logistics facilities, Greater Fukuoka ranked third, only behind the unchanged top two of Greater Tokyo and Greater Osaka (Figure 16). A similar pattern emerged in the hotel sector, where the Tokyo 23 wards and Osaka remained the top two, while Fukuoka rose to third (Figure 17).

In addition to Fukuoka City’s major redevelopment initiatives, including the Tenjin Big Bang Project and the Hakata Connected Project, the completion of a new semiconductor plant in Kumamoto Prefecture has served to advance the industrial concentration of the Kyushu area as a whole, and raise the real estate investment appeal of the Fukuoka area.

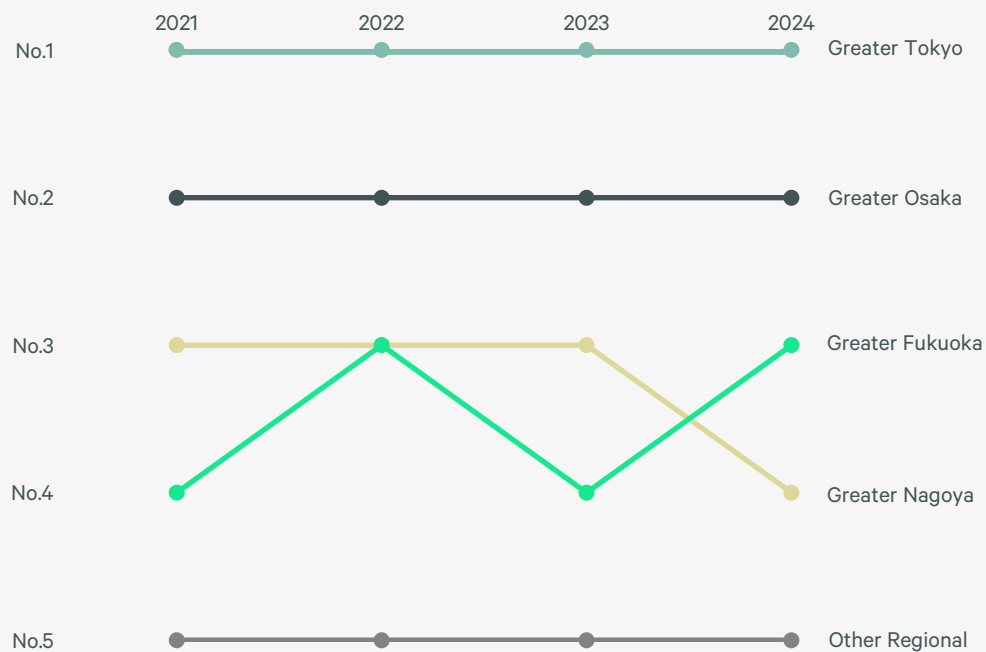
Figure 15: Most attractive area for office buildings (tied rankings permitted)



Areas ranked by quantifying the rankings given by individual answers
 Source: CBRE Japan Lender Survey, June 2024

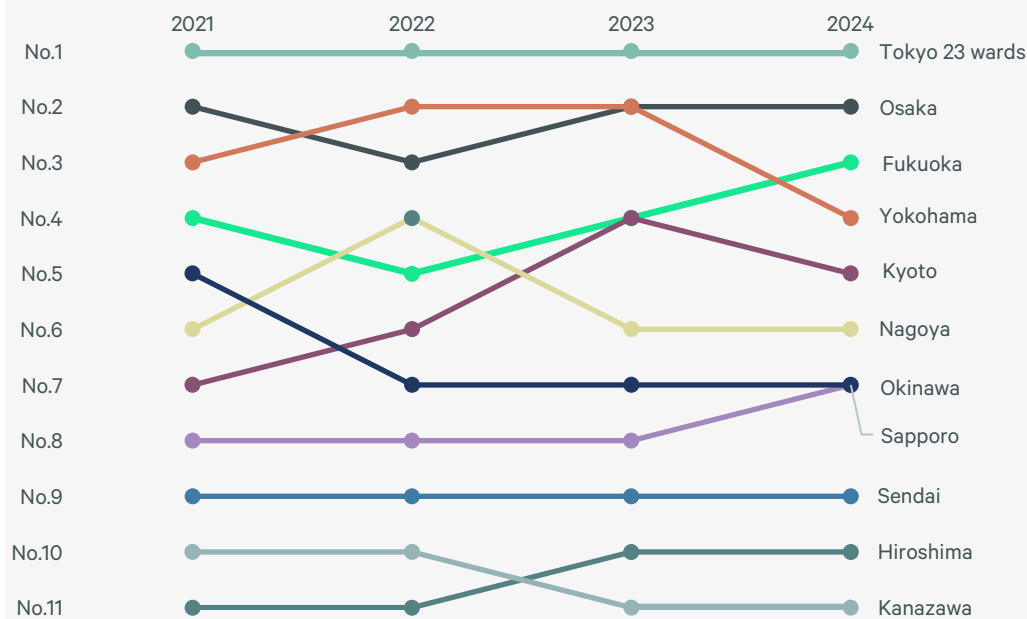
Attractive locations

Figure 16: Most attractive area for logistics facilities (tied rankings permitted)



Areas ranked by quantifying the rankings given by individual answers
 Source: CBRE Japan Lender Survey, June 2024

Figure 17: Most attractive area for hotels (tied rankings permitted)



Areas ranked by quantifying the rankings given by individual answers
 Source: CBRE Japan Lender Survey, June 2024

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