

Overall investment activity remained stable; expected yields fall across almost all sectors



- Total commercial real estate investment volume*¹ grew by 3% y-o-y to reach JPY 749.0 billion in Q2 2023, slightly above the average Q2 figure over the past five years.
- Logistics sector recorded the largest Q2 volume on the back of several major transactions including a portfolio, which changed hands for a sum in excess of JPY 100 billion. Residential investment volume registered a y-o-y increase for the fourth consecutive quarter, underpinned by strong purchasing by Asian investors.
- Tokyo expected yields for major asset types*² fell in all sectors other than office, which remained unchanged. Hotels (management contract) recorded a 10 bps q-o-q decline in expected yields, bringing them within 10 bps of Q4 2019 levels.
- Meanwhile, the percentage of investors who indicated that expected yields for Tokyo offices and logistics facilities should rise over the next 12 months increased from a year ago. Fewer investors are willing to meet sellers’ asking prices, as the scope for upside in cashflow is seen to become more limited.

Figure 1: Quick Stats

Investment volume* ¹	Q2 2023 (JPY, bn)	y-o-y (%)
Total	749	+3%
Domestic (J-REITs)	206	+169%
Domestic (Others)	271	−37%
Overseas	273	+22%
Expected NOI Yield* ²	Jun. 2023 (%)	q-o-q (bps)
Office (Otemachi, Tokyo)	3.15	±0
Retail (Tokyo Ginza Chuo-Dori)	3.25	−3
Industrial (Tokyo bay area)	3.83	−2
CBRE Tankan Survey* ³	Grade A Office	Logistics facilities (multi-tenant)
Sales prices	5 (−3)	28 (−7)
Expected yield	0 (−3)	10 (+6)
Lending attitude of financial institutions	9 (+2)	26 (+3)
Stance on investment and loans	11 (−2)	20 (−2)

Source: CBRE, Q2 2023.

*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 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.

Investment volume rises on back of major logistics and residential transactions

Commercial real estate investment volume (transactions of JPY 1 billion or larger, Figures 1 and 2) in Q2 2023 increased by 3% y-o-y to JPY 749.0 billion, which is slightly above the average transaction volume registered for the same period over the past five years (JPY 707.0 billion). Investment by J-REITs and overseas investors grew by 169% y-o-y and 22% y-o-y respectively, while transaction volume by other domestic investors fell by 37%.

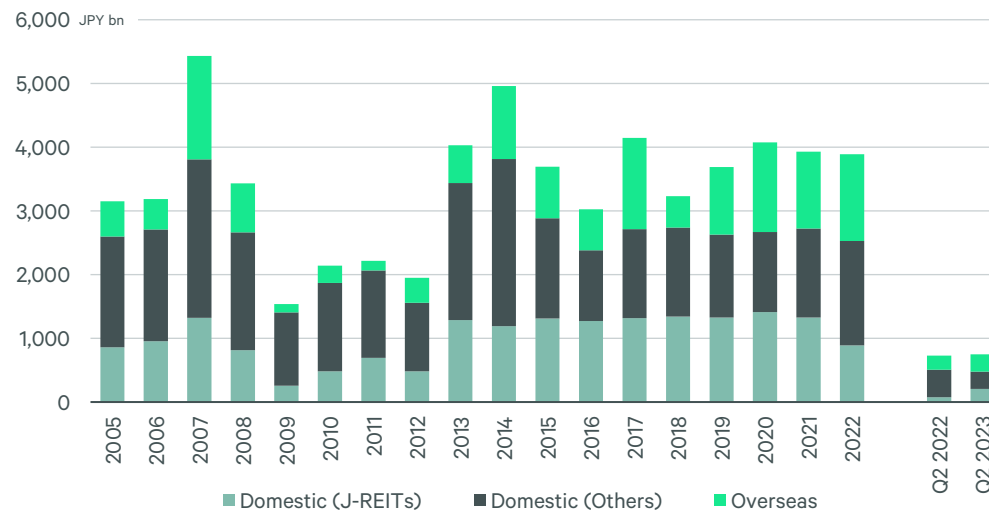
The logistics and residential sectors registered the most significant y-o-y increases in investment volume. Logistics sector recorded the largest Q2 investment at JPY 378.0 billion, well up from the JPY 17.0 billion recorded in Q2 2022. The period saw a 20% y-o-y increase in the number of transactions in excess of JPY 10 billion, some 70% of which were in the logistics sector. Of these, the largest single transaction was GIC’s acquisition of a portfolio from the Blackstone Group for JPY 106.4 billion. Elsewhere, Nippon Prologis REIT acquired a portfolio of logistics facilities from its sponsor, Prologis, for JPY 51.4 billion, while a fund backed by institutional investors from Dai-ichi Life Insurance Company and others purchased several logistics facilities from its partner, Prologis, for JPY 30.0 billion.

Residential investment volume grew by 371% y-o-y to JPY 91.0 billion, marking the fourth consecutive quarterly increase in y-o-y terms. Investment was once again driven by portfolio acquisitions, with Asian investors leading the way by completing several major purchases. These included the acquisition of six apartment buildings by CapitaLand for a total of JPY 14.1 billion.

One large-scale transaction for a data centre was recorded this quarter. Singaporean REIT Mapletree Industrial Trust acquired an Osaka property for JPY 52.0 billion, marking the REIT’s first Japanese data centre transaction.

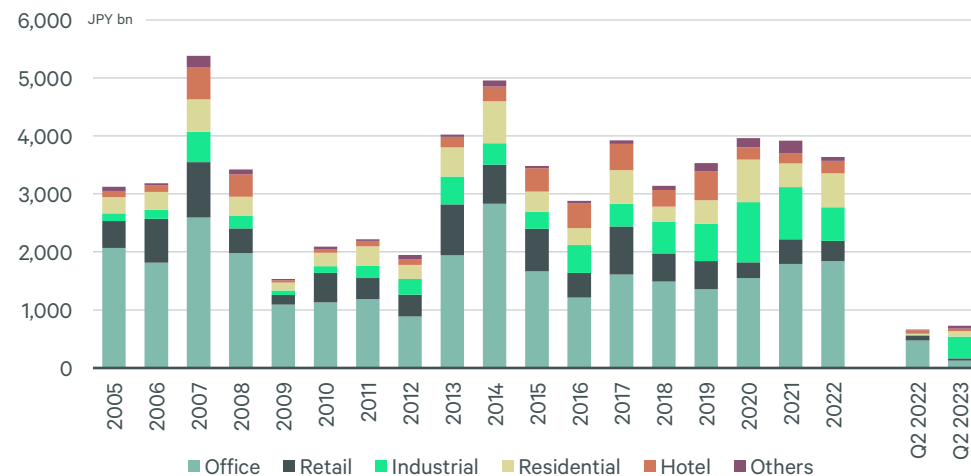
Total Investment volume for H1 2023 reached JPY 2.1 trillion, up 54% from H1 2022. Non-J-REIT domestic investors accounted for 41% of this total, slightly above the average share of 37% seen over the past five years.

Figure 2: Major transaction volume by investor type



Transactions of at least JPY 1bn, excluding acquisitions by J-REITs at IPO. Source : MSCI Real Capital Analytics, CBRE, Q2 2023.

Figure 3: Major transaction volume by asset type



Transactions of at least JPY 1bn, excluding acquisitions by J-REITs at IPO. Source : MSCI Real Capital Analytics, CBRE, Q2 2023.

J-REIT share prices rise as logistics investment increases

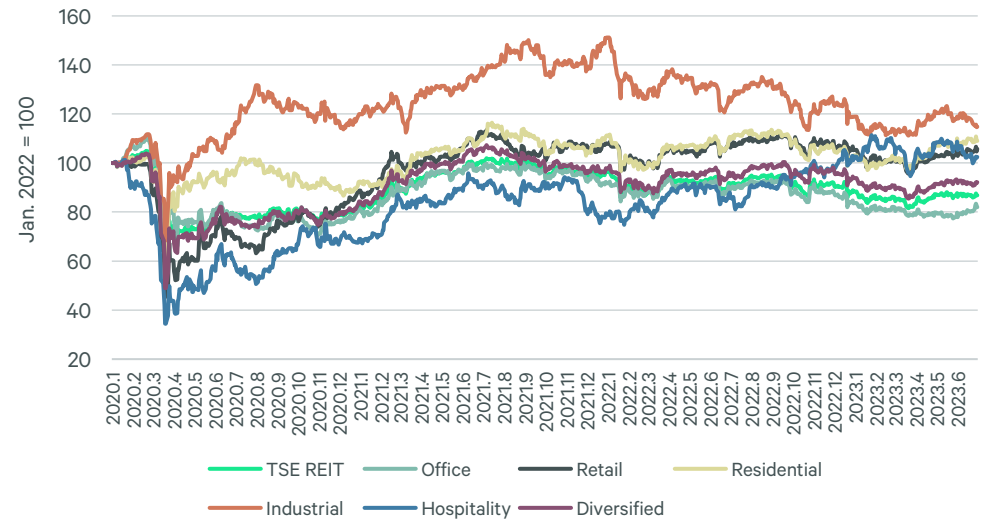
J-REIT investment volume (all transactions except acquisitions through IPOs) increased by 161% y-o-y to JPY 216.6 billion in Q2 2023. Capital raised through public equity offerings amounted to JPY 93.1 billion, around 6x the figure recorded in the same quarter of the previous year. The period saw six new offerings, four more than in Q2 2022. Both new investment volume and capital expansion rebounded strongly from the low levels of the previous year, which had been largely due to stagnant J-REIT share prices on the back of a rise in 10-year government bond yields.

The TSE REIT Index recorded a 4.3% q-o-q increase in Q2 2023, its first rise since Q2 2021. All sectors other than hotels were up (Figure 4), leading to y-o-y increases in transaction volume for all sectors other than the hotel sector. The most significant increase in investment was seen in the logistics sector, which recorded a total investment volume in excess of JPY 100 billion for the first time since Q2 2019.

Expected yields fall across almost all sectors

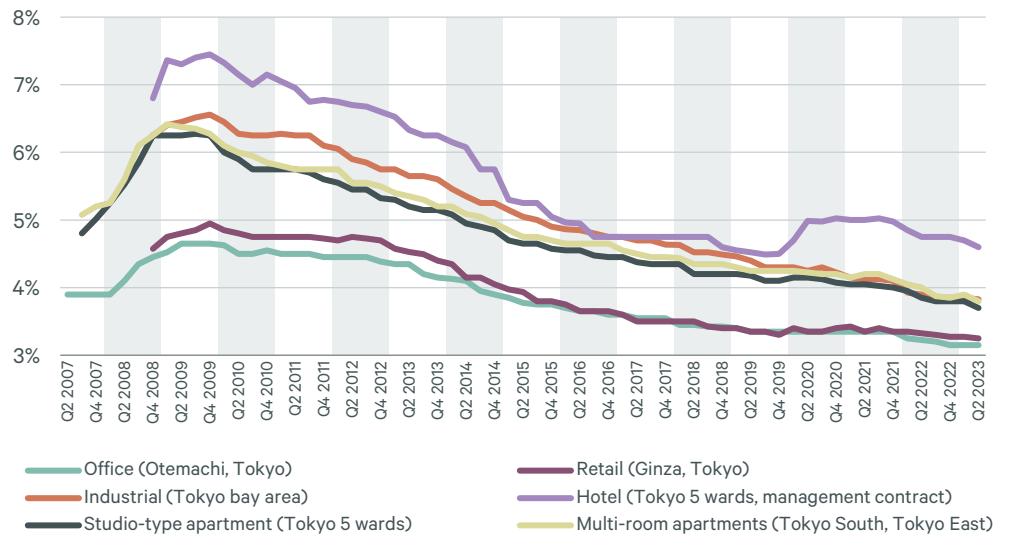
CBRE’s latest quarterly cap rate survey found that expected yields in Tokyo remained unchanged for offices (Otemachi) and fell q-o-q across all other sectors (averages, Figures 1, 5, and 8). Residential (both studio-type and multi-room) and hotels (management contract) recorded q-o-q declines of 10 bps. This meant that expected yields hit new record lows for residential apartments (at 3.70% for studio-type and 3.80% for multi-room), while hotel expected yields fell to 4.60%, just 10 bps above the pre-pandemic level recorded in December 2019. Expected yields for offices in regional cities fell in every major city other than Osaka and Yokohama, where they remained unchanged from the previous quarter (Figure 8).

Figure 4: J-REIT stock price by asset type



Source: Datastream, CBRE, July 2023.

Figure 5: Expected NOI Yield (Tokyo)



The respondents are Japanese investors, including overseas investors. Source: CBRE Cap Rate Survey, Q2 2023.

Expected yields show signs of resurgence

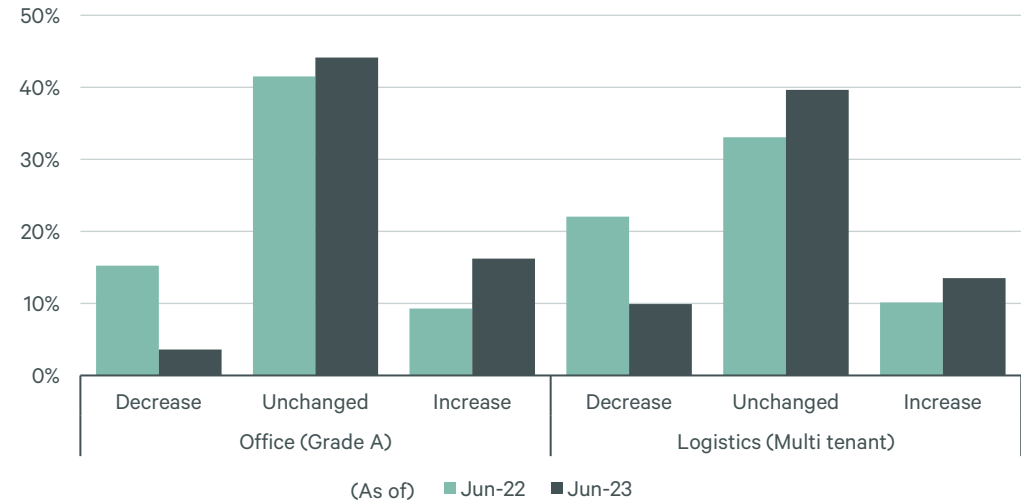
With expected quarterly yields remaining low, actual cap rates for completed transactions are also estimated to have stayed relatively low in Q2 2023. However, CBRE's analysis of actual conditions behind the tenders offered during the quarter reveals that fewer investors are now willing to meet sellers' asking terms, with some investors possibly raising their target returns on their investments.

A rising number of investors are anticipating expected yields to rise. According to the results of CBRE's latest investor survey, conducted in June, approximately 40% of investors anticipate expected yields for Tokyo offices and logistics facilities to remain unchanged over the next 12 months (Figure 6). However, the response rate of investors anticipating a rise in expected yields was up from a year ago and outstripped those expecting yields to fall in all sectors.

Upward pressure on expected yields on concern for leasing markets

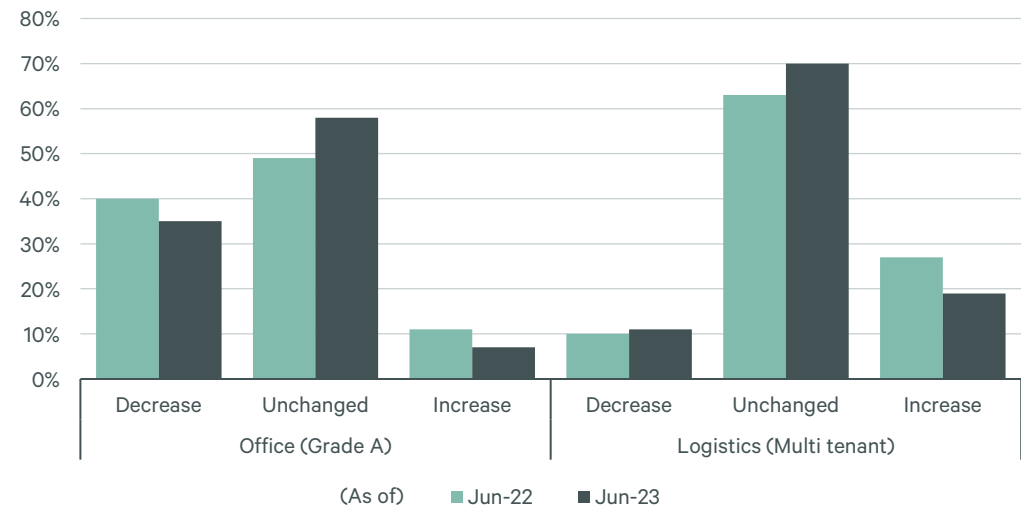
The major factor behind investor projections of an increase in expected yields is not so much related to fear of potential interest rate hikes, but rather, concern about recent leasing activity across the major sectors. Evidence for this assertion can be found in the fact that while just 20% of respondents to the aforementioned survey answered that they expected long-term interest rates to exceed 0.5% over the next 12 months, the proportion of respondents anticipating NOI (or rents) to increase within the next year was limited to just 7% for offices and 19% for logistics, both significantly down from the equivalent figures of a year ago (Figure 7). Rent declines for offices and a slowing of the pace of rent increases for logistics facilities had led many investors to view these sectors as providing limited opportunities for upside in cashflow, which in turn appears to be affecting their expected yields.

Figure 6: Outlook for expected yields over the next 12 months (Tokyo)



* Logistics properties are located in the Greater Tokyo. Source: CBRE, Q2 2023

Figure 7: Comparison between current levels and projections for 12 months' time (Tokyo)



* Logistics properties are located in the Greater Tokyo. Source: CBRE, Q2 2023

Figure 8: Expected NOI Yield

		Jun. 2023 (%)	q-o-q (bps)
Tokyo	Office (Otemachi, Tokyo)	3.15	±0
	Studio-type apartments (Tokyo 5 wards)	3.70	-10
	Multi-room apartments (Tokyo South, Tokyo East)	3.80	-10
	Industrial (Tokyo bay area)	3.83	-2
	Retail (Tokyo Ginza Chuo-Dori)	3.25	-3
	Hotel (Tokyo 5 wards, management contract)	4.60	-10
Osaka	Office	4.38	-2
Nagoya	Office	4.65	-6
Sapporo	Office	4.90	±0
Sendai	Office	5.05	-5
Hiroshima	Office	5.15	-13
Fukuoka	Office	4.46	-14

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 industrial. Source: CBRE, Q2 2023.

Figure 9: CBRE Tankan Survey (DI)

		Jun. 2023	q-o-q (point)
Tokyo Grade A office buildings	Real estate trading volume	-7	-9
	Sales prices	5	-3
	NOI (Net Operating Income)	-34	-5
	Expected yield	±0	-3
	Lending attitude of financial institutions	9	+2
	Stance on investment and loans	11	-2
Logistics facilities (Greater Tokyo, multi-tenant type)	Real estate trading volume	27	+1
	Sales prices	28	-7
	Rent	24	+1
	Vacancy rate	-17	-3
	Expected yield	10	+6
	Lending attitude of financial institutions	26	+3
	Stance on investment and loans	20	-2

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)." Expected yield ID subtracts the ratio (%) of respondents that expected a "rise" from the ratio (%) of respondents that expected an "fall." Values in parentheses are q-o-q comparisons. Units are percentage points. Source: CBRE, Q2 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 (%)
Apr-23	Portfolio of 6 properties	Fukuoka, Aichi, Iwate	Industrial	Blackstone Group	GIC	106,400	N/A	N/A
May-23	Suma DC (98.47%)	Kita-ku, Osaka-shi	Others	N/A	Mapletree Industrial Trust	52,000	N/A	N/A
May-23	Prologis Park Soka	Soka-shi, Tochigi	Industrial	Prologis	Nippon Prologis REIT	51,400	1,293	3.7
Jun-23	Portfolio of 2 properties	Tokyo, Hyogo	Industrial	Prologis	Prologis Japan Core Logistics Fund (Dai-Ichi Life and an institutional investor)	30,000	N/A	N/A
Apr-23	Hulic Ginza 7 Chome Building (95%)	Chuo-ku, Tokyo	Office	Hulic REIT	Hulic	21,870	6,339	3.2

*1 Data of announcement or contract. *2 Including shares of properties. *3 J-REITs' cap rates are based on NOI of either J-REIT asset manager's estimates or appraisal NOI, and the acquisition price. Sources : Information disclosed by companies and information by RCA, media and others, compiled by CBRE, Q2 2023.

<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 Kitasanjonishi, Chuo-ku, Sapporo-shi, Hokkaido</p>	<p>Kanazawa</p> <p>Aube II Building 5-177 Kuratsuki, 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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