

MARKETBEATS

JPY 982.8 billion

TRANSACTION VOLUME, Q3 2019

-35.6%

VOLUME GROWTH, YoY

WHAT'S NEXT

KEY TAKEAWAYS

- Economic growth continued but slowed by rising trade tensions
- Investment volume decreased by 35.6% y-o-y (preliminary)
- Office transaction volume scaled down
- Real estate lending keeps the market overheated

Economic growth continued but slowed by rising trade tensions

Japan's economy sustained growth for four straight quarters but slowed to an annualized 0.2% in Q3 of 2019. Weak exports and stagnation in private consumption contributed to the moderation. As trade disputes persist, Japan's exports to China, the U.S. and South Korea, specifically of electronic parts and vehicles, dropped in this quarter.

Moreover, private consumption slowed as typhoons and rainy weather in the summer offset strong pre-tax hike demand. Post-tax hike, the decline in demand will further hinder economic growth. The Bank of Japan (BOJ) views the impacts of trade tensions and the tax hike to be temporary and that both are on a moderate increasing trend under accommodative financial conditions and optimal public spending.

Economic Indicators (Japan)

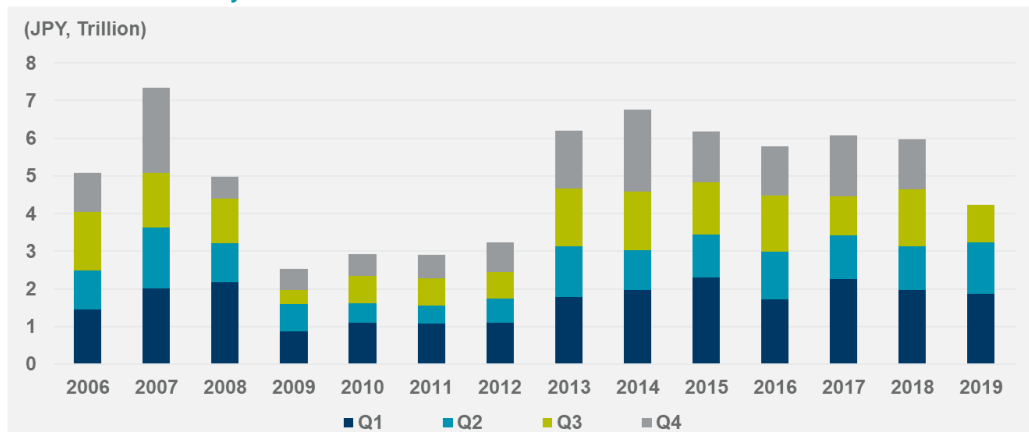
	Q2 19	Q3 19	12 Months Forecast
Real GDP Growth	1.8%	0.2%	—
Core Consumer Price Index (CPI)	0.6%	0.3%	—
Unemployment Rate	2.3%	2.4%	—

Source: Cabinet Office, Statistics Bureau. GDP growth is annualized based on the real seasonally-adjusted quarterly figure & Core CPI is YoY figure, seasonally-adjusted.

Investment volume decreased by 35.6% y-o-y

Total real estate investment volume of transactions over JPY 500 million (preliminary results) contracted by 28.0% q-o-q and 35.6% y-o-y to 982.8 billion yen in the third quarter of 2019. All players in the market including J-REIT (-48.3% y-o-y) and institutional investors (-40.8% y-o-y) have cut their investment volume.

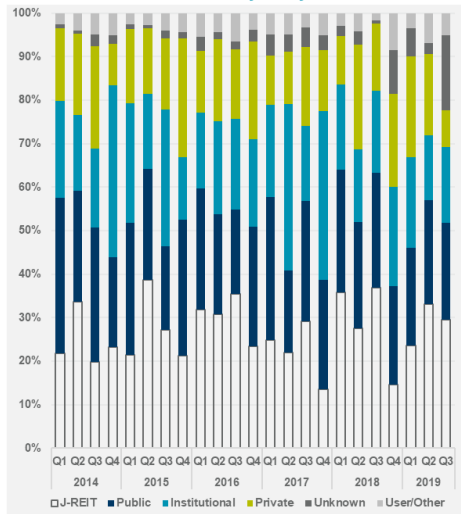
Transaction Volume by Quarter



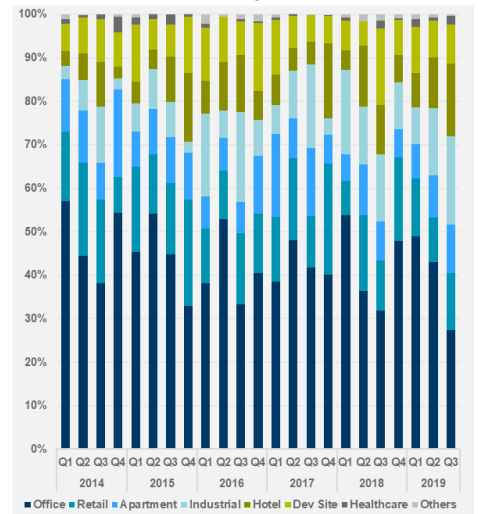
Office transaction volume scaled down

All sectors marked a fall in the third quarter of 2019 (preliminary figures). The office sector, which dropped 44.6% y-o-y, saw its share of overall trading volume drop to below 30% for the first time in the past decade. On the other hand, logistics and hotel sectors, while slid to 199.7 billion and 163.7 billion, raised their share from 15.4% to 20.3% and from 11.3% to 16.7% between 3Q 2018 and 3Q 2019 respectively. The shift is mainly because investors see the office sector's pricing peaking, and logistics properties are now more common in the market, as illustrated by a major deal closed in this quarter by Blackstone's fund, covering six large scale logistics facilities.

Transaction Activities by Player



Transaction Activities by Sector

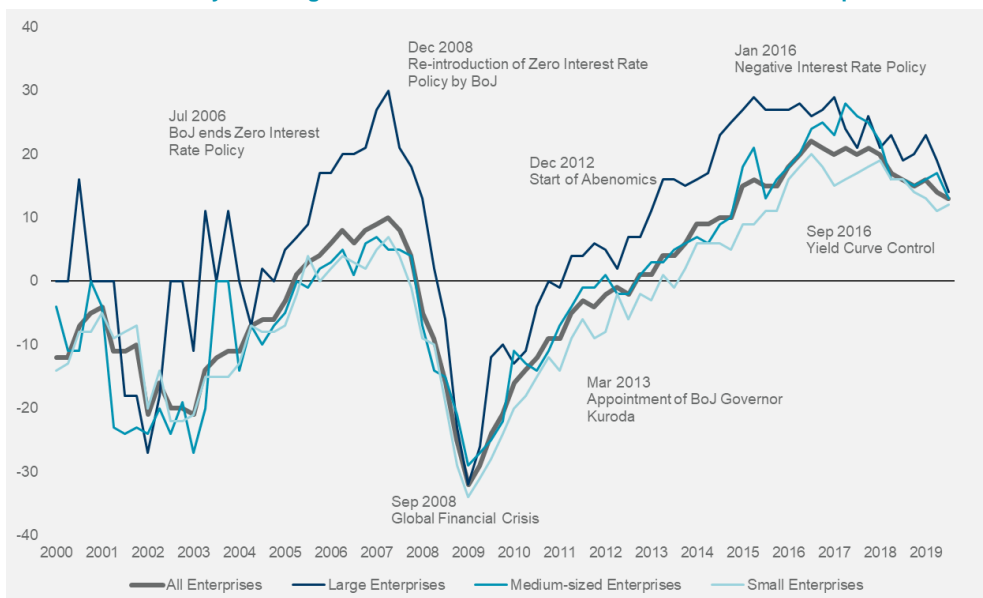


Source: Cushman & Wakefield

Real estate lending keeps the market heated

BoJ's *Tankan Survey: Leading Attitude of Financial Institutes for Real Estate Companies* stood at plus 13 in Q2 2019 for large enterprises. Though on a downward trend since late 2017, the index remains at a high level. According to BOJ's *Financial System Report* published in October, new borrowing y-o-y has been trending down since 2017. While the total loan balance for real estate companies y-o-y is slowly dropping to around 4%, this is still higher than all sectors at 2%. The total outstanding debt has risen to more than 80 trillion yen, exceeding that of the bubble economy period. Real estate lending continues to be a preferred destination by banks. As the BoJ has not set a deadline to current financial policy as of the end of October, the current situation is expected to continue.

BoJ's Tankan Survey: Lending Attitude of Financial Institutes for Real Estate Companies



Source: Bank of Japan

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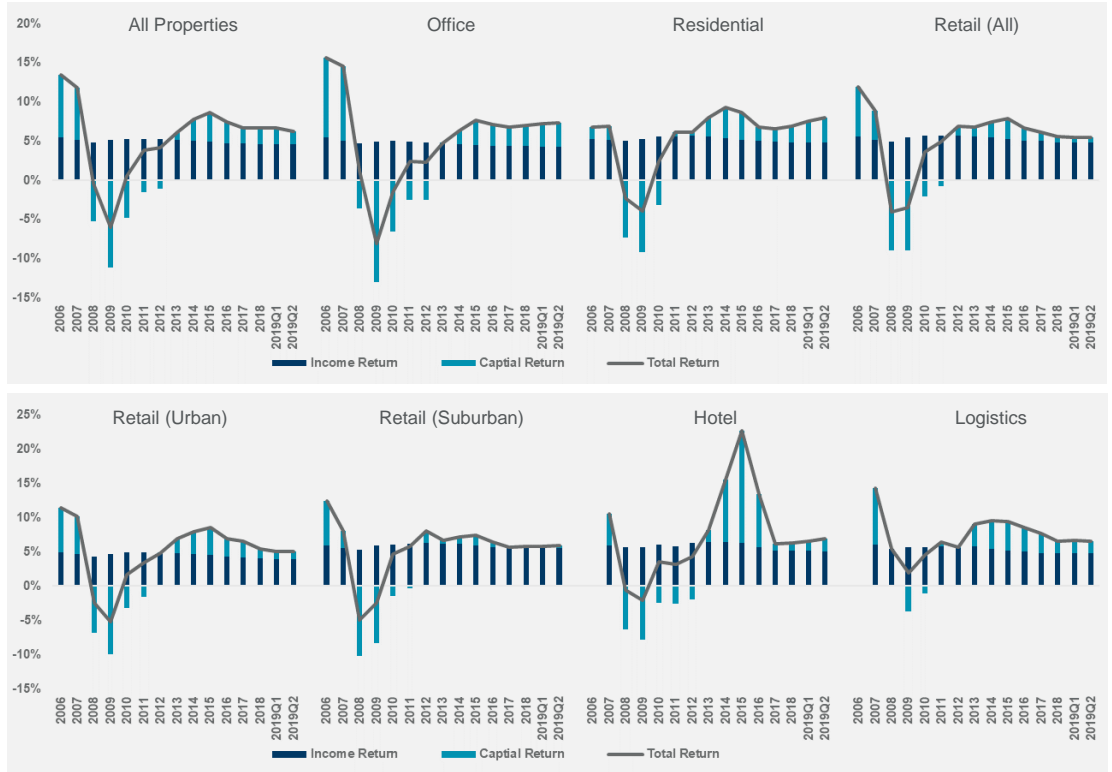


Major Transactions, Q3 2019

Asset Name	Sub Market	Price (Enc. Estimate)	Yield	Size
Shinagawa Seaside TS Tower	Shinagawa Seaside	c. 10 billion yen	Valuation NOI 4.0%	GFA 11,433.26 m ²
Fuchu Data Center	Tama, Tokyo	-	-	GFA 44,487.43 m ²
Aeon Mall Fukutsu	Fukuoka	c. 18 billion yen	Valuation NOI 5.7%	GFA 10,020.87 m ²

Source: Nikkei Real Estate Market Report

Property Return



Source: ARES



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