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RESEARCH

# Japan Real Estate Market Quarterly Review

Second Quarter 2020

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# Summary

## Macro Economy

- Japan's real GDP plunged by 7.8% q-o-q (annualized 27.8%) in Q2 2020. GDP is expected to contract by 5.4% in FY2020, followed by 3.6% growth in FY2021.
- Economic recovery is expected to be moderate despite massive fiscal and monetary measures.

## Real Estate Market

- Vacancy rate of Tokyo office market remains at near historical low, but expected to trend upwards in the latter half of 2020.
- Amid the steady market fundamentals, logistics and multifamily rents have continue to increase in Q2 2020.
- The COVID-19 pandemic have severely impacted hotel and retails, which remain highly unpredictable.

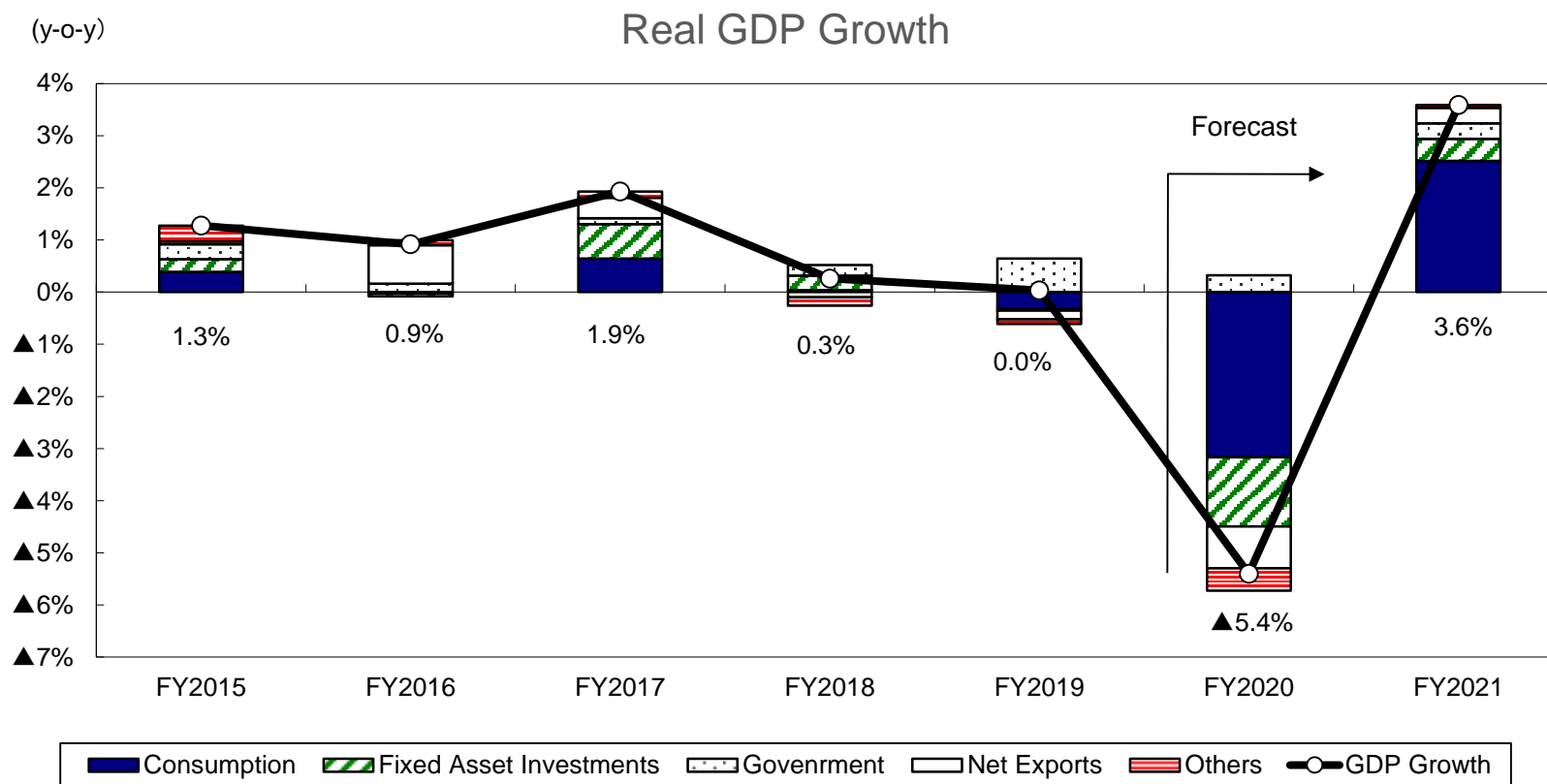
## Capital Market

- J-REIT Index increased by 4.5% q-o-q in Q2 2020, underperforming TOPIX for third consecutive quarters.
- J-REITs acquired property assets totaling JPY241 billion in Q2 2020, decreasing by 47% y-o-y dragged by stagnate share prices.

# Pace of economic recovery to be modest after sharp contraction



- Japan's real GDP plunged by 7.8% (annualized 27.8%) in Q2 2020, the biggest quarterly contraction on record dating back to 1955.
- V-shaped recovery is unlikely due to continuing COVID-19 impacts, surge in bankruptcy filings and weakening labor market.

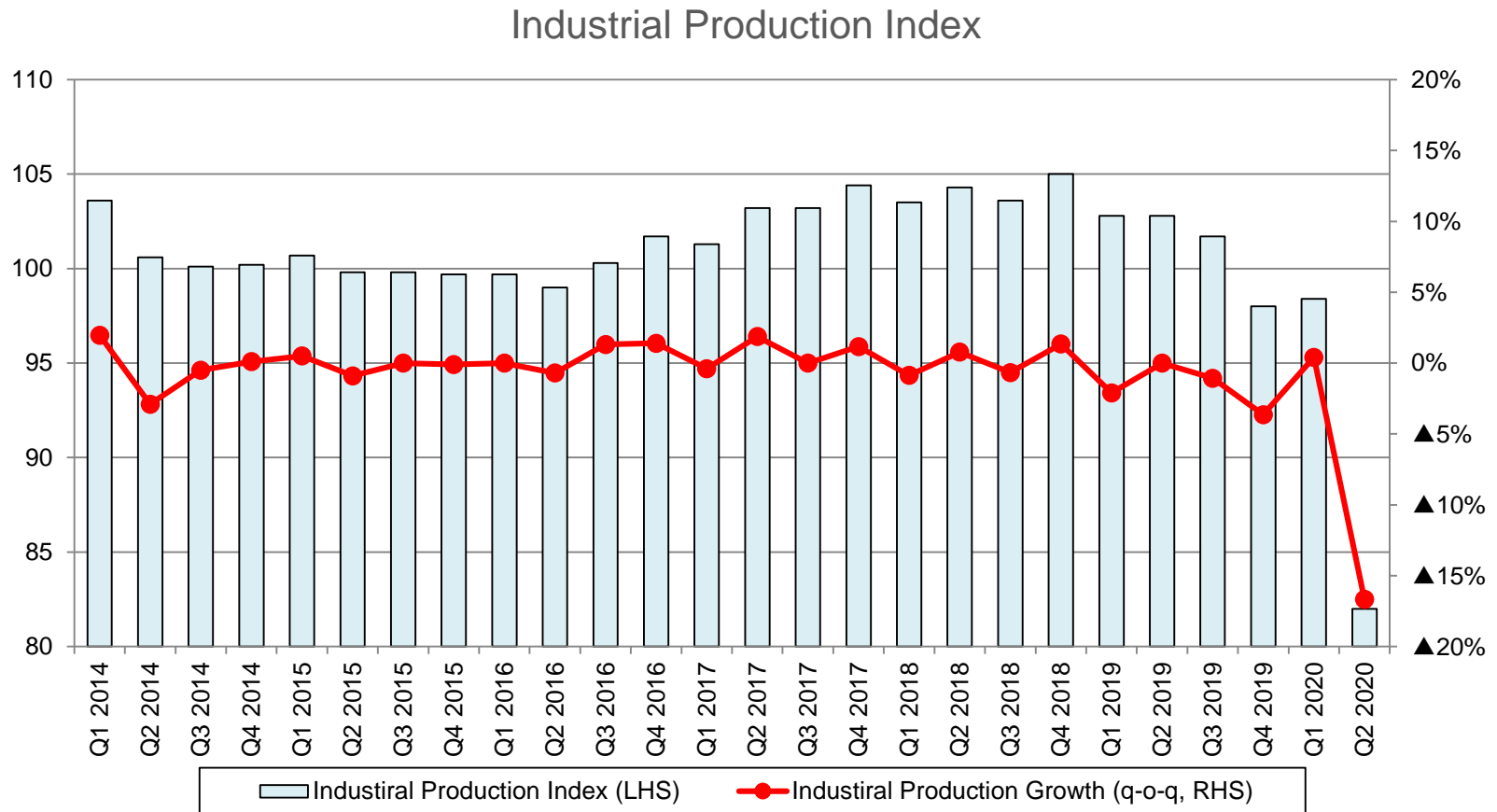


Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2020) "Weekly Economist Letter" NLI Research Institute June, 2020



## Industrial activity recovering from July, but at a moderate pace

- Industrial production declined by 16.7% q-o-q in Q2 2020, the sharpest decline since Q1 2009 of 20.5% q-o-q decline.



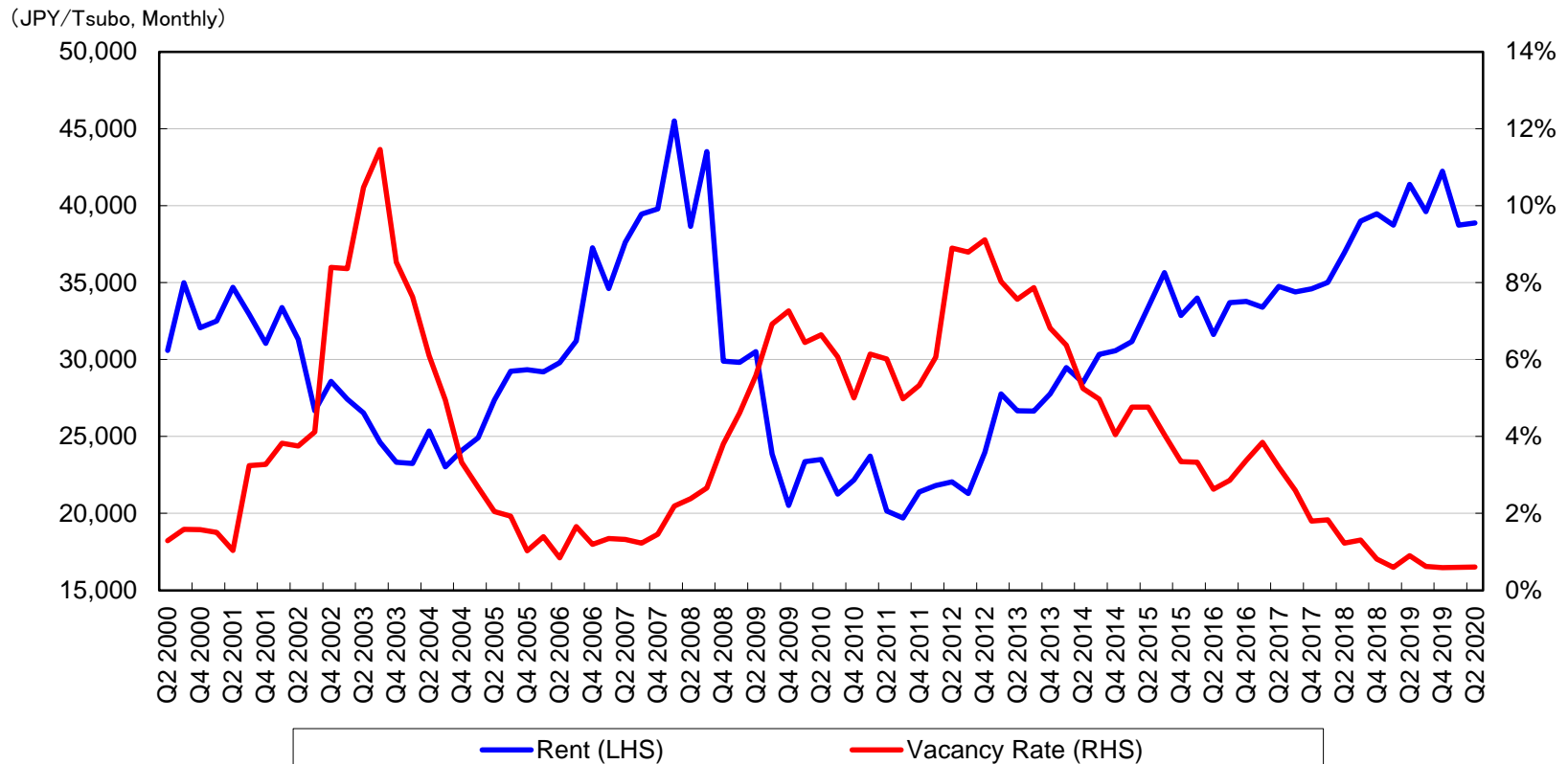
Source: The Ministry of Economy, Trade and Industry

# More headwinds to come on Tokyo Office Market



- Expect 14% y-o-y decline in Tokyo grade-A office rents in 2020. The rent decline is expected to be milder than the GFC period cushioned by relatively low vacancy rates.

## Tokyo Grade-A Office



Tokyo Grade-A Office: Sanko Estate selects high grade buildings individually based on its guidelines such as GFA of more than 33,000 sqm, main floor sizes of more than 990 sqm, building age of 15 years or less and so on.

Source: Sanko Estate (Vacancy Rate), Sanko Estate and NLI Research Institute (Rent)

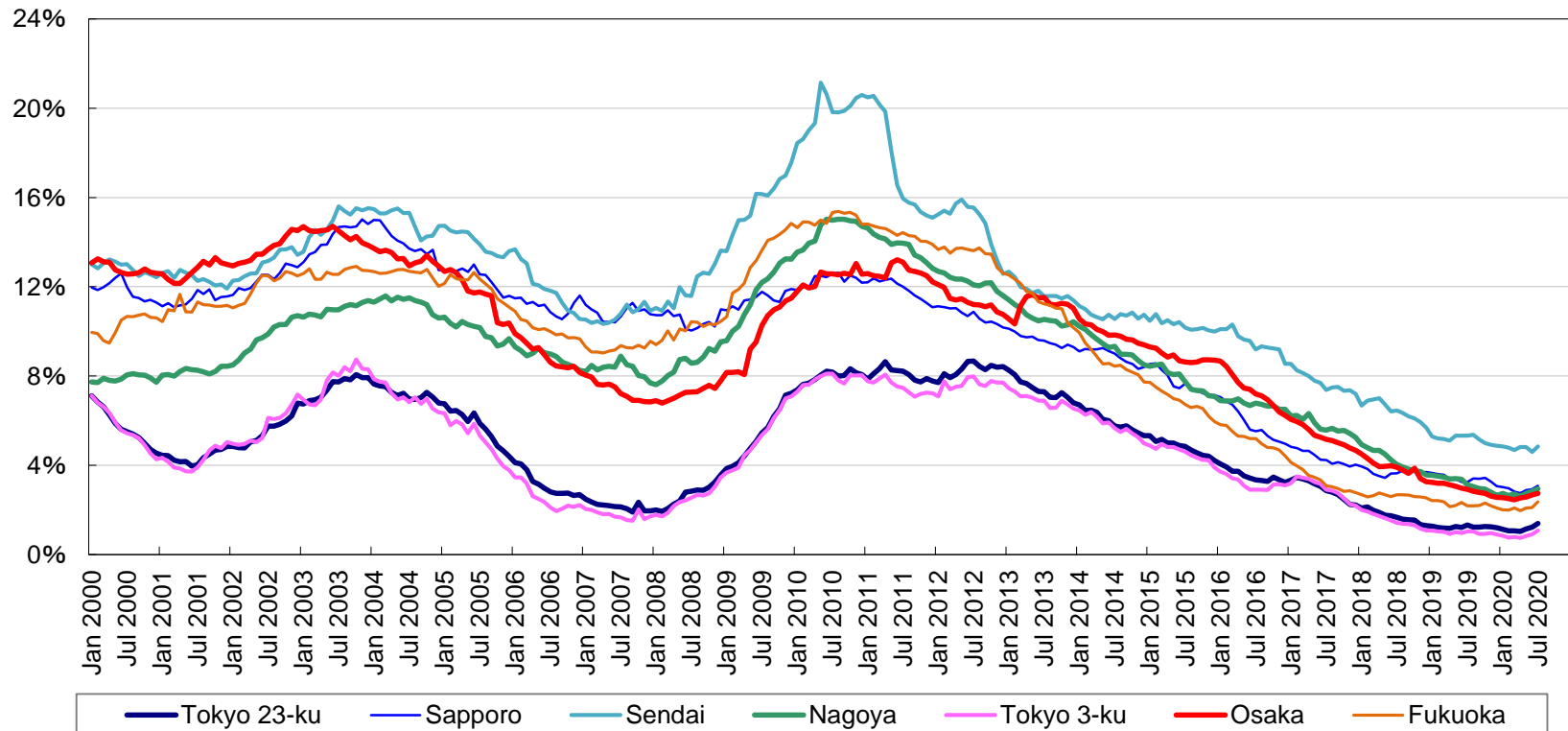
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## Office markets in major cities have seemed to peak



- Vacancy rates in major cities likely to rise from the historical lows, as the impact of COVID-19 pandemic filter through to the office markets in the remainder of the year.

### Vacancy Rates of Large Offices in Major Cities



Source: Sanko Estate

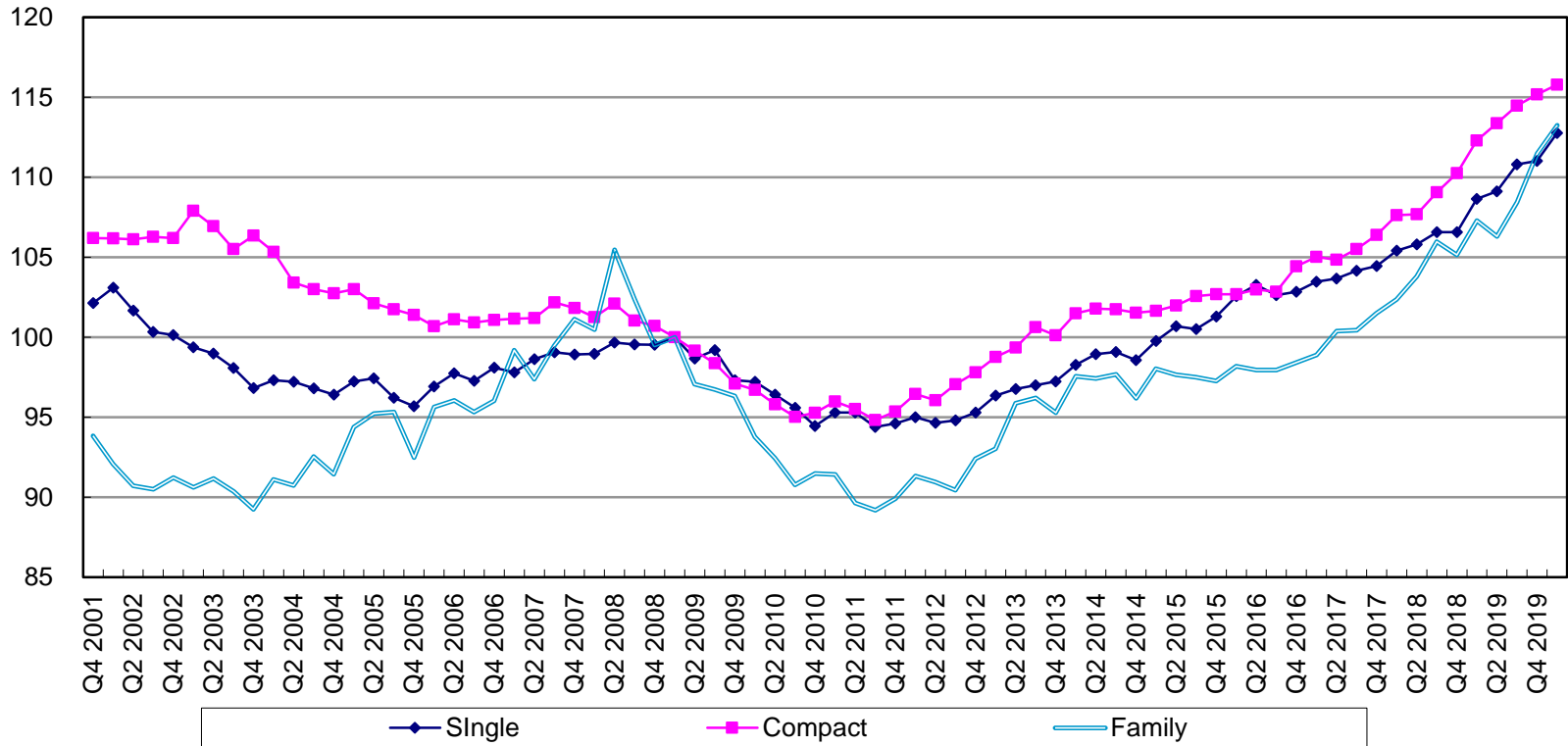
# Multifamily remains relatively resilient amid the pandemic



- Rental growth in Tokyo 5-ku remained positive in June, according to LMC.
- Nonetheless, rents may decline if the population inflow to Tokyo decelerates.

Multifamily Rents in Tokyo 23-ku

(Q1 2009=100)



Source: Mitsui Sumitomo Trust Research Institute and At Home

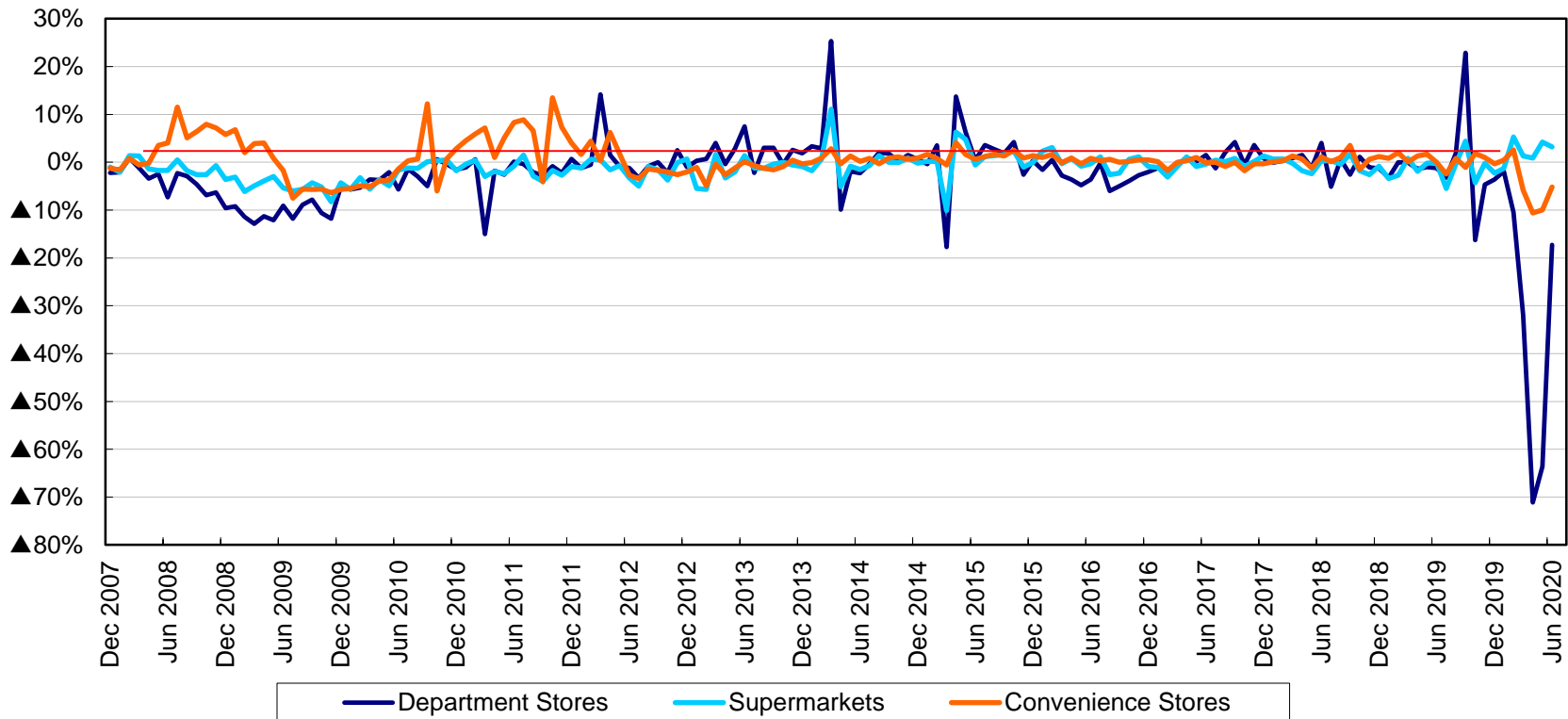
## Discretionary retail have been hit hard, while necessity remained resilient



- Department stores shut down voluntarily responding to the declaration of state of emergency (declared on 7<sup>th</sup> April and effective until 25<sup>th</sup> May). Recovery in sales after reopening remains modest.
- Convenience store sales in the business district remain weak due to work-from-home.

### Retail Sales Growth

(y-o-y, same store sales growth)



Source: The Ministry of Economy, Trade and Industry

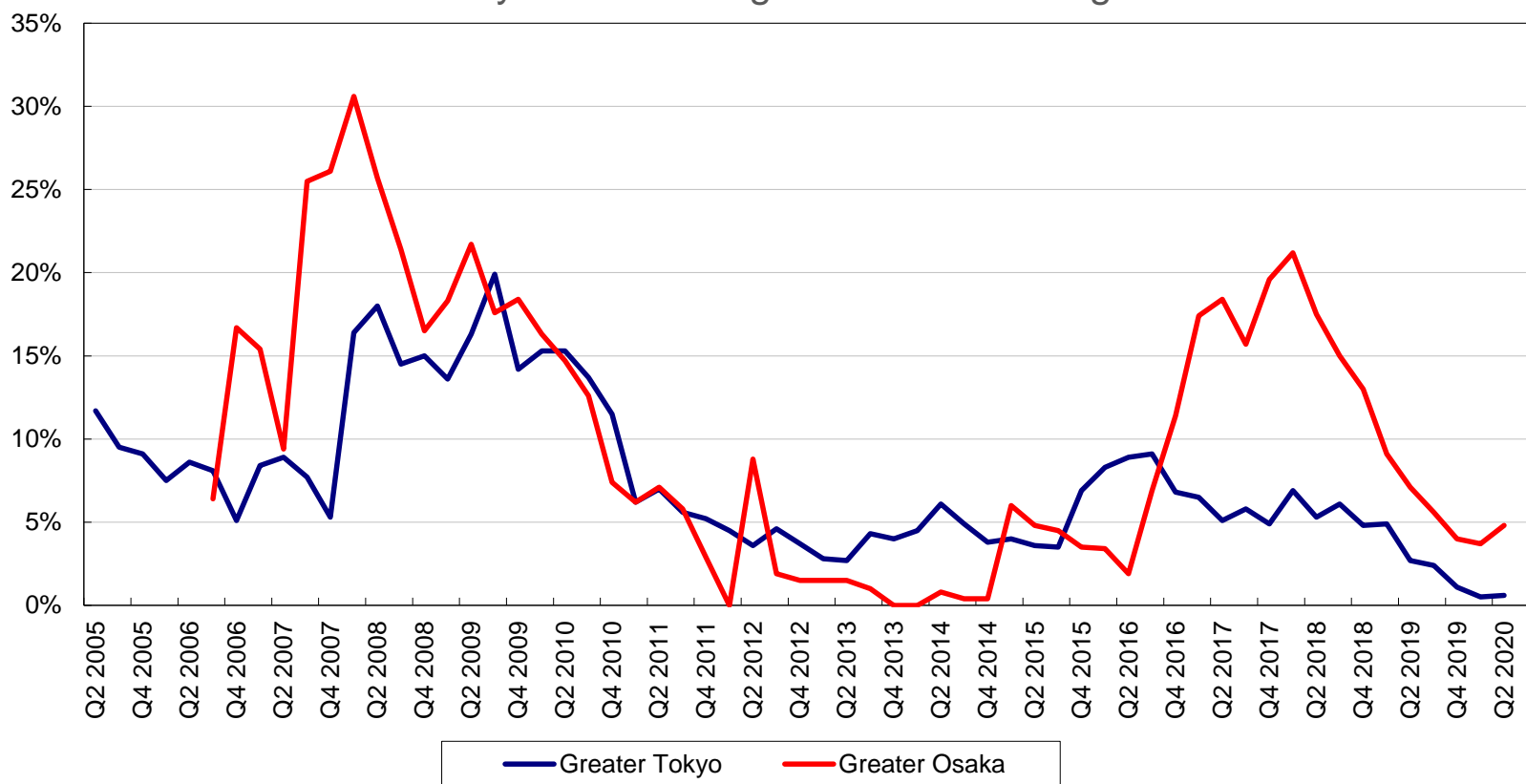


## Vacancy rate in Greater Tokyo logistics market remains at all-time low



- Tenant demand in Greater Tokyo and Greater Osaka logistics markets remain steady after the pandemic.
- Large tenants are the main driver of the demand. Only two properties have availability of more than 3,000 tsubo in Greater Tokyo logistics market.

### Vacancy Rates of Large Multi-Tenant Logistics



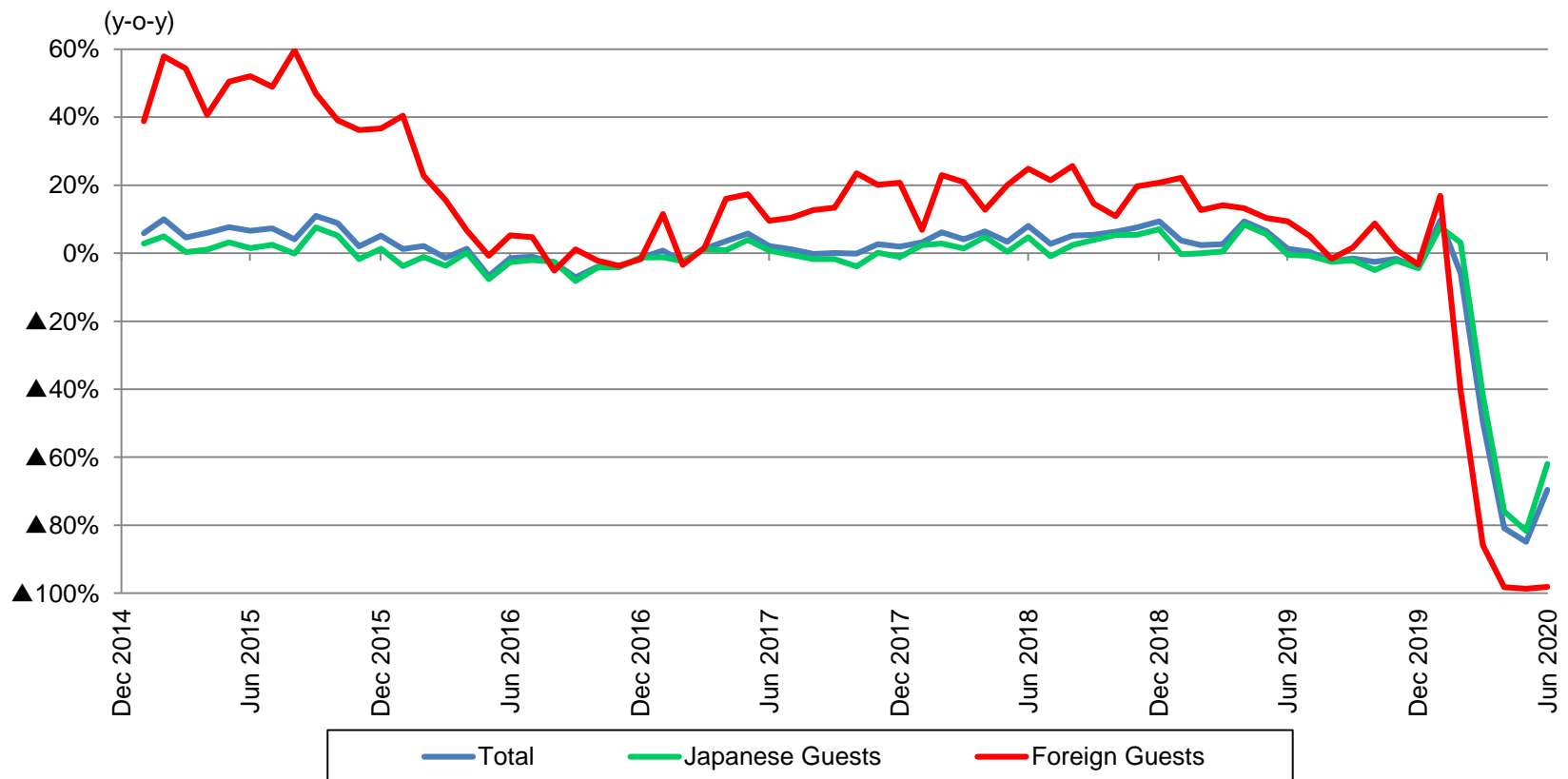
Source: CBRE

# Hotels have been crushed by the COVID-19 pandemic



- The number of inbound tourists declined by 99.9% y-o-y in Q2 2020. The hotel market remains doom and gloom.

## Total Numbers of Overnight Stays

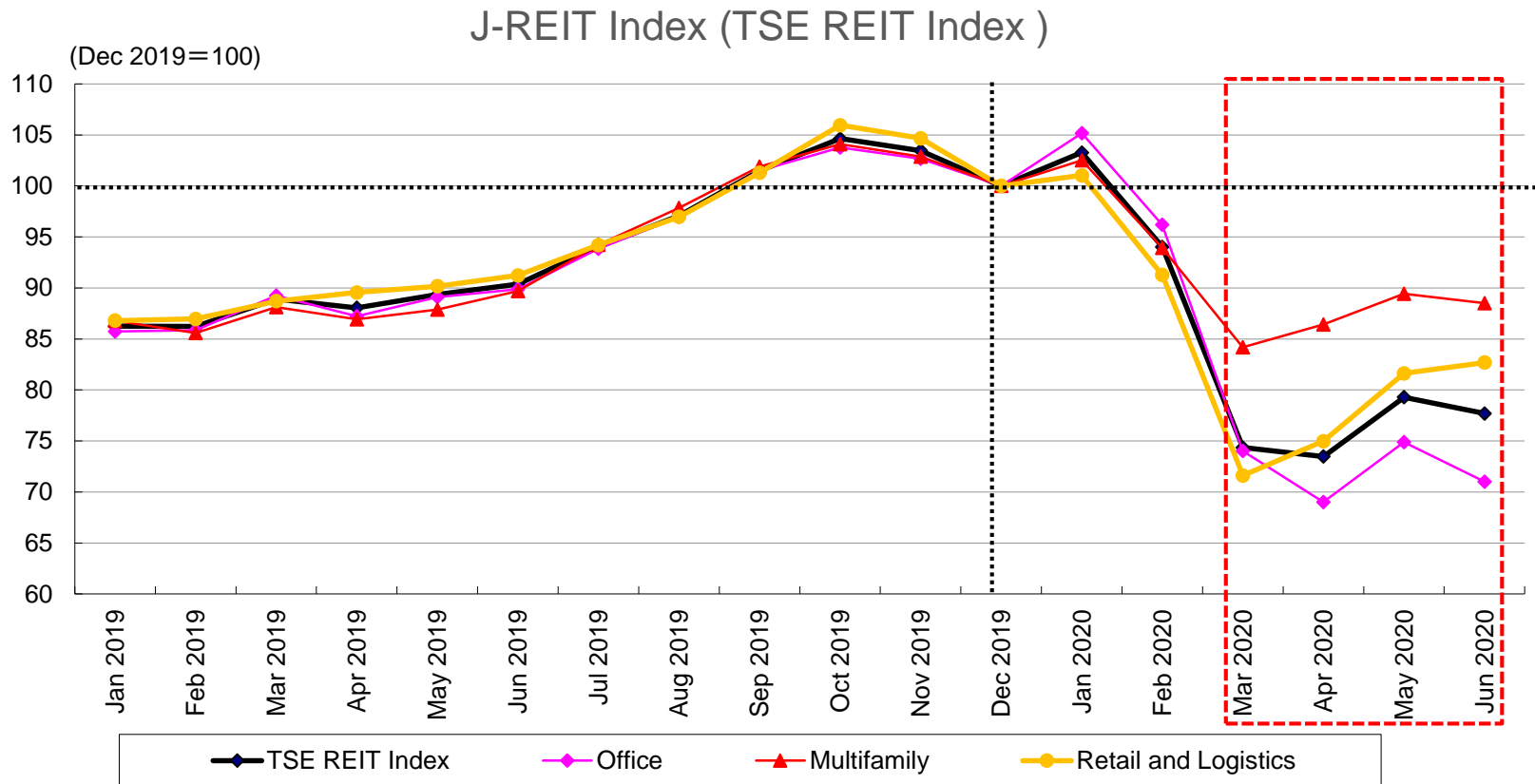


Source: Japan Tourism Agency



# Uncertainty in the real estate fundamentals weighing on J-REITs

- J-REIT Index increased by 4.5% q-o-q in Q2 2020, underperforming TOPIX for third consecutive quarters.
- Office sector is underperforming due to concerns over work-from-home trend.



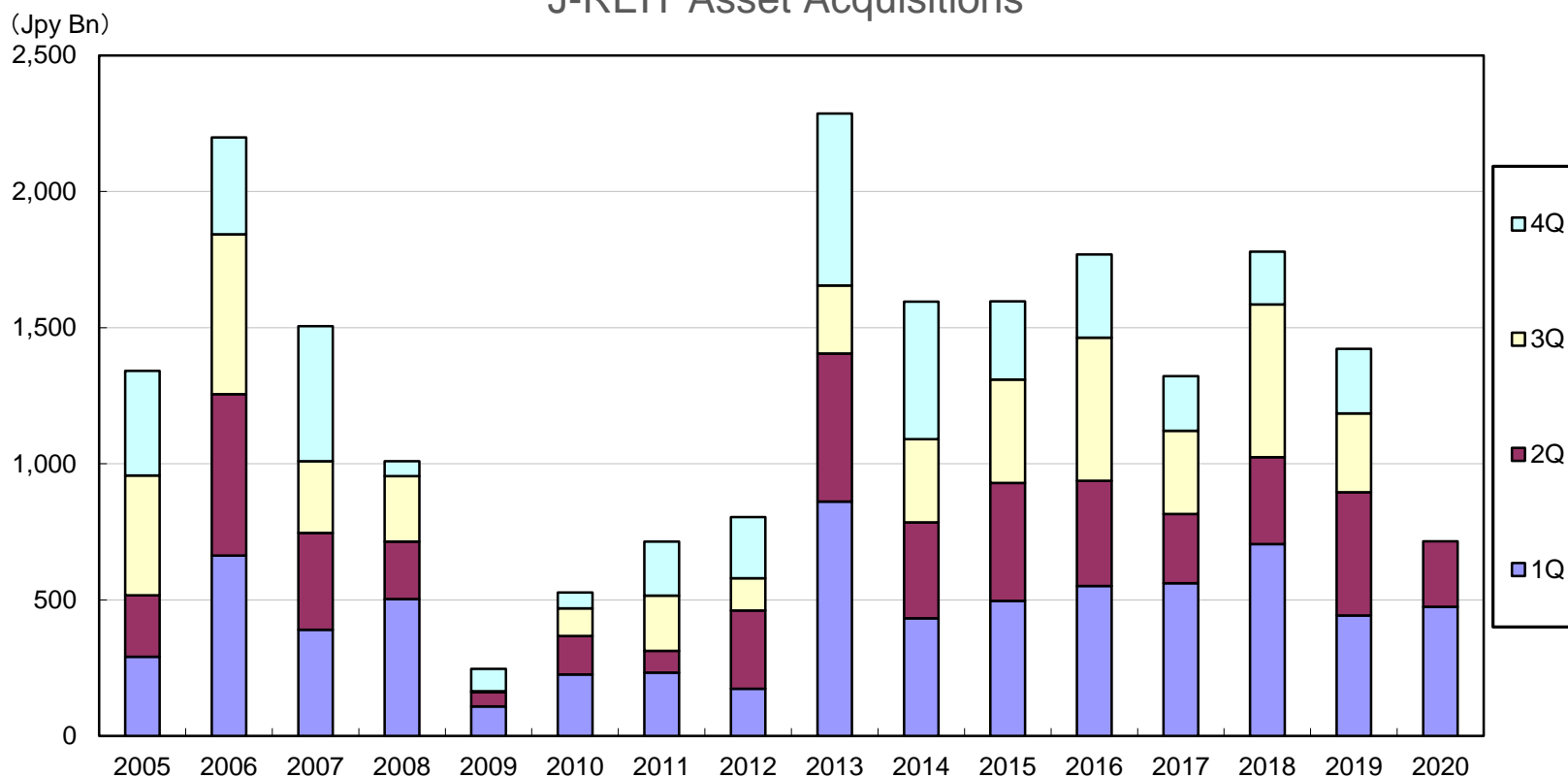
Source: Tokyo Stock Exchange



## Asset acquisition by J-REITs declined sharply as share prices stagnate

- J-REITs acquired property assets totaling JPY241 billion in Q2 2020 (47% decrease y-o-y).
- Logistics sector led the acquisitions by J-REITs, which accounted for 30% of total acquisitions, followed by office, multifamily, retail, hotel and others.

J-REIT Asset Acquisitions



Note: assets of new J-REITs are included at IPO.

Source: Disclosure Documents

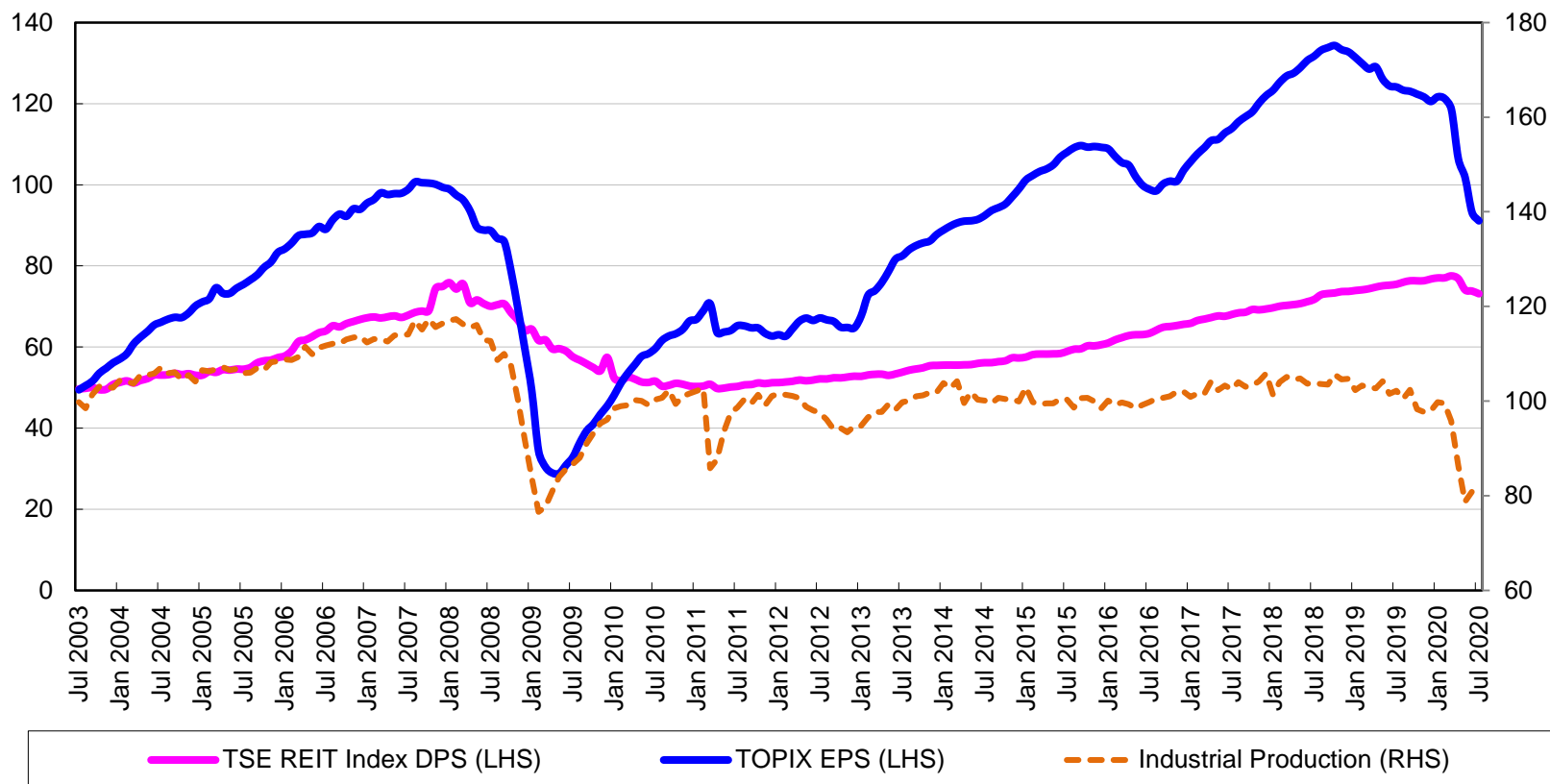
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Negative impact of the pandemic on J-REIT's income is becoming evident



- 19 J-REITs out of 62 J-REITs listed on the Tokyo Stock Exchange, revised down their dividend per unit after the COVID-19 pandemic (as of 31<sup>st</sup> July).

J-REIT Dividend Forecasts, Japanese Equity Earnings Forecasts and Industrial Production



Source: Disclosure Documents and Datastream



## Contacts

### Financial Research Department Real Estate Investment Research

Hiroto Iwasa

+813-3512-1858

[hiwasa@nli-research.co.jp](mailto:hiwasa@nli-research.co.jp)

Tasuku Yoshida

+813-3512-1861

[tyoshida@nli-research.co.jp](mailto:tyoshida@nli-research.co.jp)

Fumiko Watanabe

+813-3512-1853

[fwatanabe@nli-research.co.jp](mailto:fwatanabe@nli-research.co.jp)

Makoto Sakuma

+813-3512-1778

[msakuma@nli-research.co.jp](mailto:msakuma@nli-research.co.jp)

Editors and Contributors:

Makoto Sakuma and Fumiko Watanabe