

**RESEARCH**

Japan Real Estate Market Quarterly Review

Third Quarter 2020

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Summary

Macro Economy

- Japan's real GDP is expected to expand by 3.8% q-o-q (annualized 16.1%) in Q3 2020, unlikely to recover the pre-pandemic level.
- Economic recovery is expected to be moderate going forward. GDP is expected to contract by 5.8% in FY2020, followed by 3.6% growth in FY2021.

Real Estate Market

- Tokyo grade-A office rents declined by 2.1% q-o-q in Q3 2020. Tokyo multifamily rents also seemed to hit the peak.
- Hotel and retail sectors seeing signs of recovery, while outlook remain gloomy in both sectors as the second wave of COVID-19 infections picking up.
- Amid the steady market fundamentals, logistics rents have continued to increase in Q3 2020.

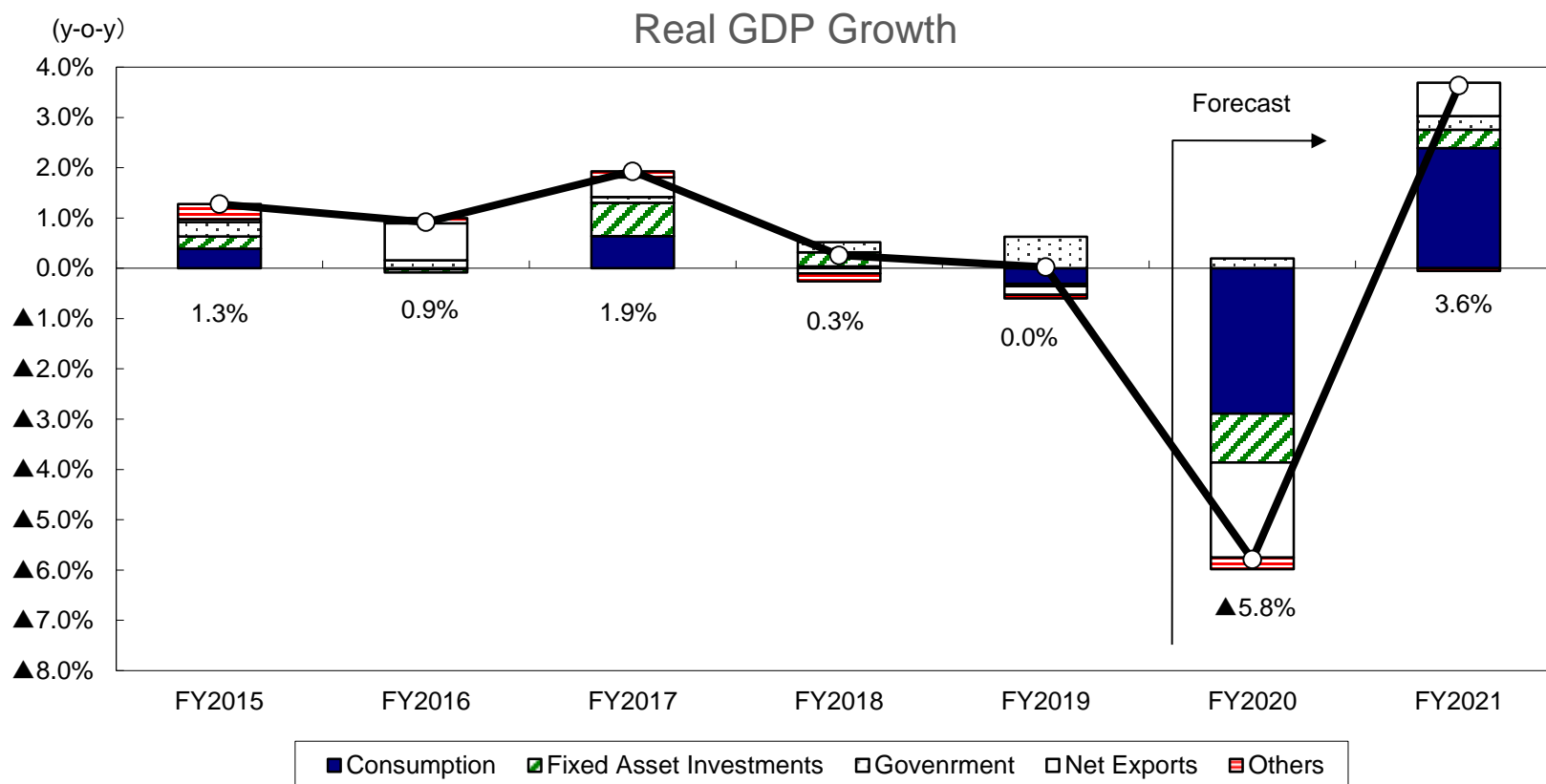
Capital Market

- J-REIT Index increased by 3.6% q-o-q in Q3 2020, underperforming TOPIX for fourth consecutive quarters.
- J-REITs acquired property assets totaling JPY266 billion in Q3 2020, decreasing by 8% y-o-y.

Pace of economic recovery to be modest after sharp contraction



- Japan's real GDP is expected to expand by 3.8% q-o-q (annualized 16.1%) in Q3 2020, unlikely to recover the pre-pandemic level.
- Modest recovery likely due to continuing COVID-19 impacts, surge in bankruptcy filings and weakening labor market.



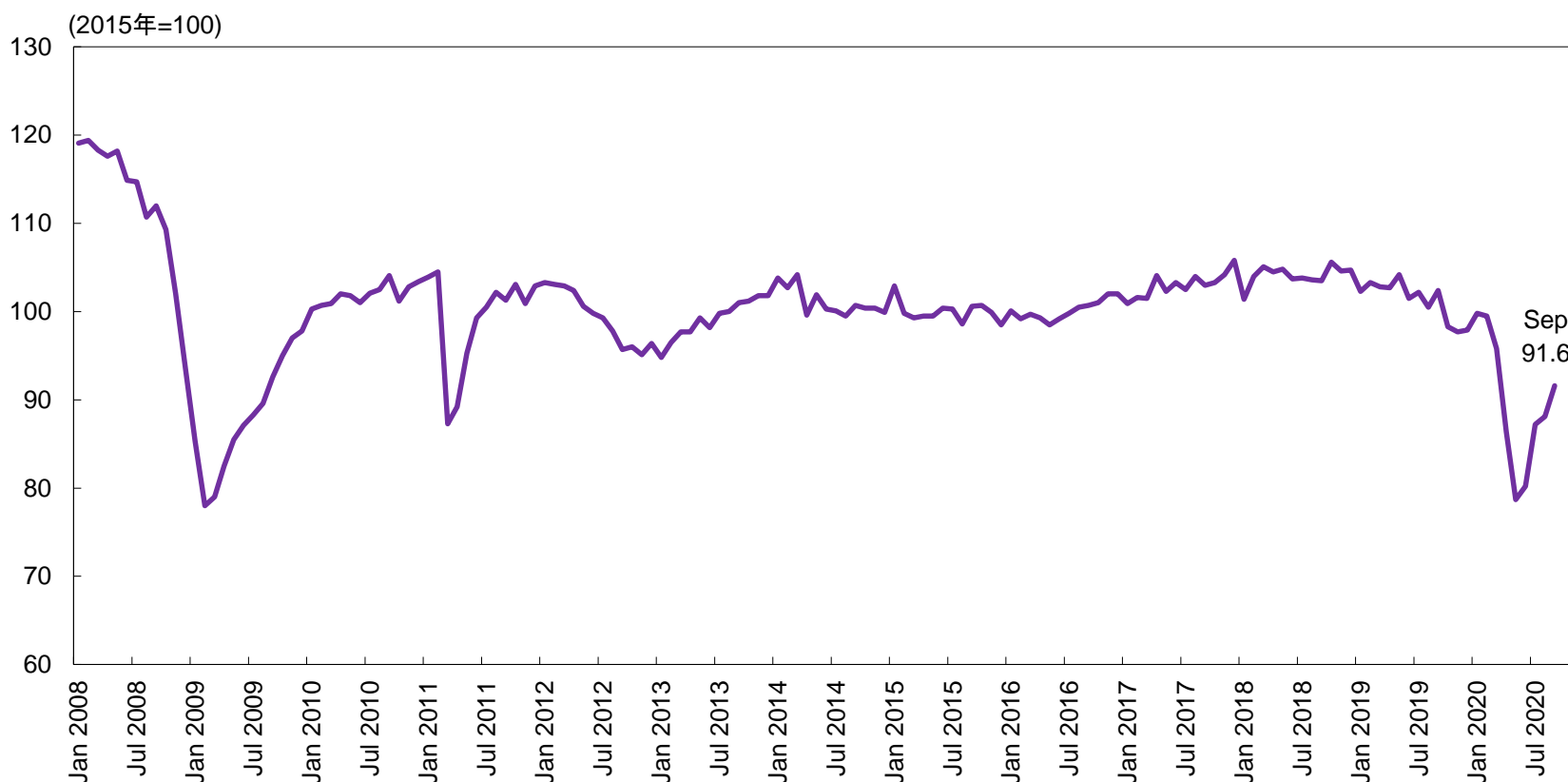
Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2020) "Weekly Economist Letter" NLI Research Institute September, 2020

Industrial activity recovering from June, but at a moderate pace



- Cumulative increase of Industrial production from May to September was 16.4%, recovering 60% of the contraction from February to May.

Industrial Production Index



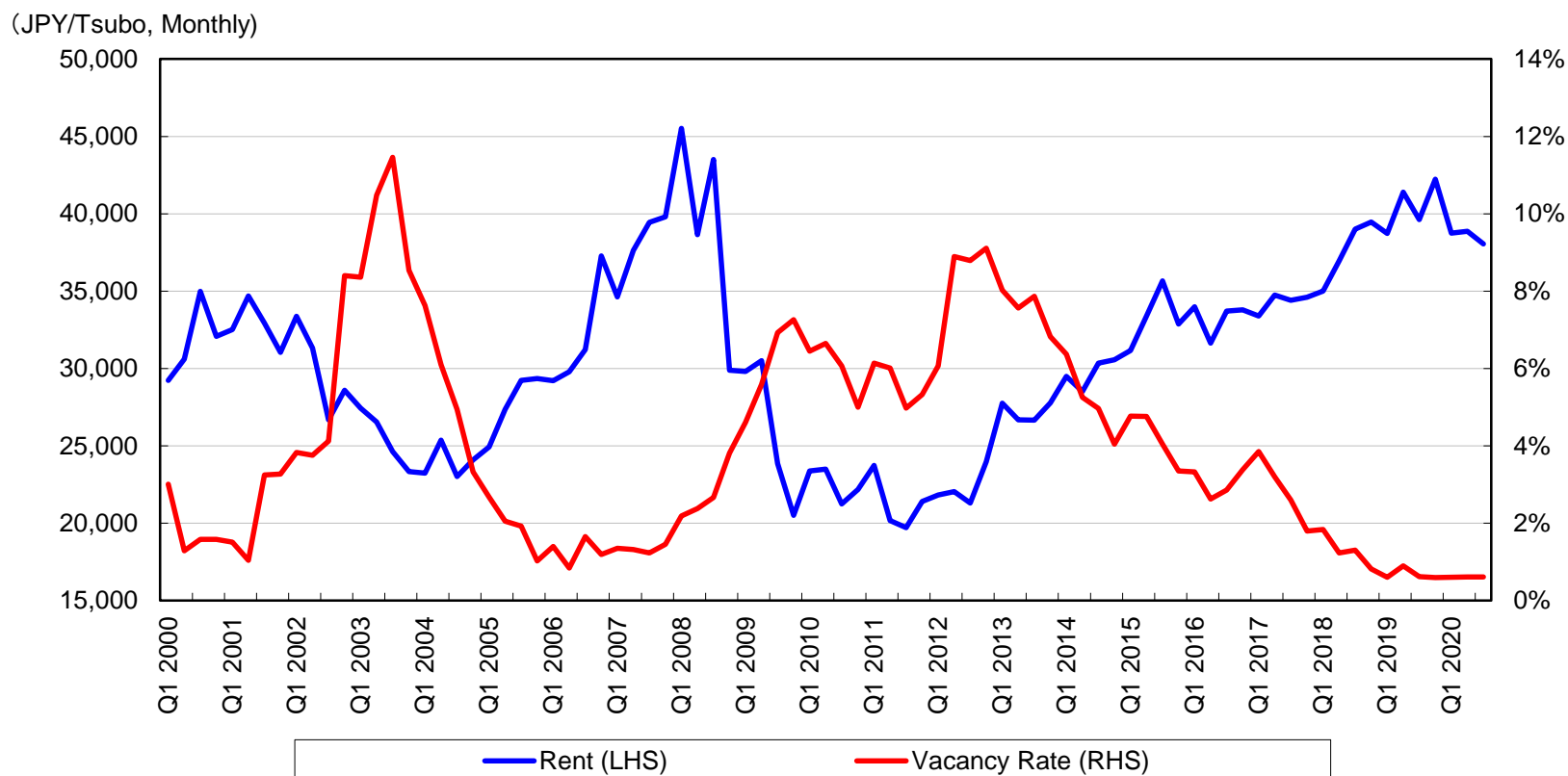
Source: The Ministry of Economy, Trade and Industry

Low vacancy is expected to cushion rent decline of Tokyo grade-A offices



- Tokyo grade-A office rents declined by 2.1% q-o-q in Q3 2020, while vacancy rate was 0.6% remaining flat at the historical low.

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.

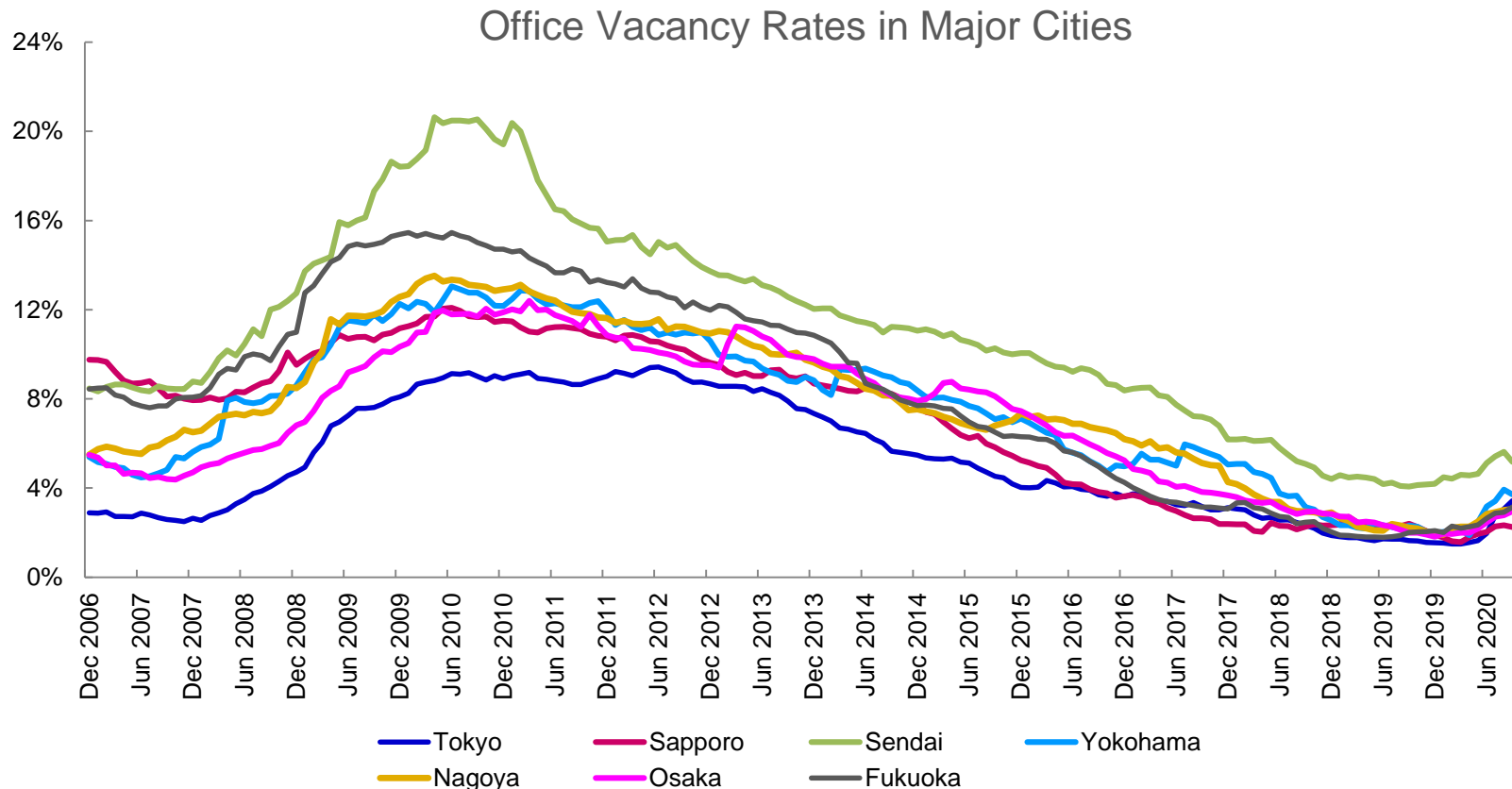
Source: Sanko Estate (Vacancy Rate), Sanko Estate and NLI Research Institute (Rent)

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Vacancy rates rising across major cities



- Vacancy rates in Tokyo 5-ku increased to 3.43% in September, increasing for seventh consecutive months. Vacancy rates in other major cities are also rising, but at a slower pace than that of Tokyo.



Source: Miki Shoji

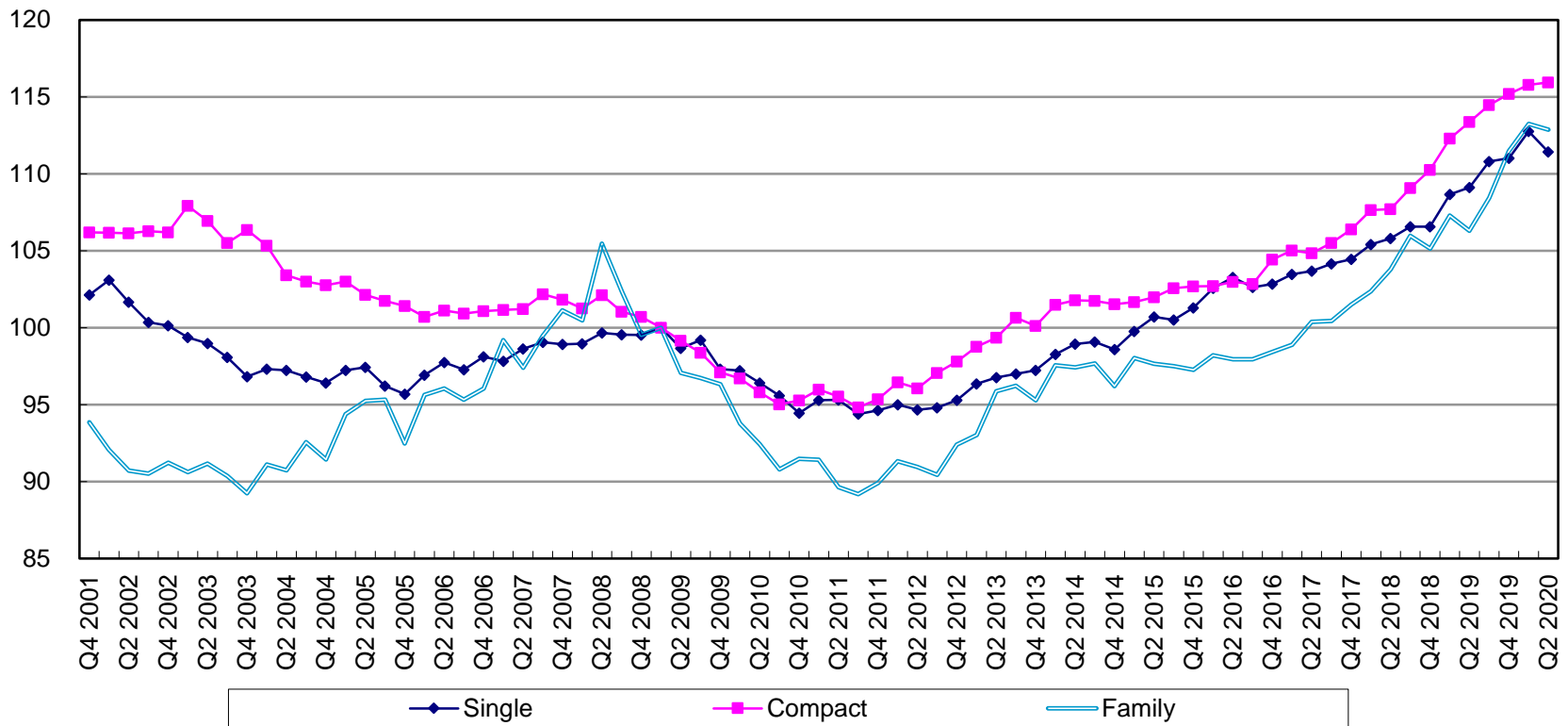


Multifamily rents are expected to past its peak

- Rental growth in Tokyo 5-ku turned negative in September, according to LMC.
- Deceleration of population inflow to urban residential area could further impact multifamily.

Multifamily Rents in Tokyo 23-ku

(Q1 2009=100)



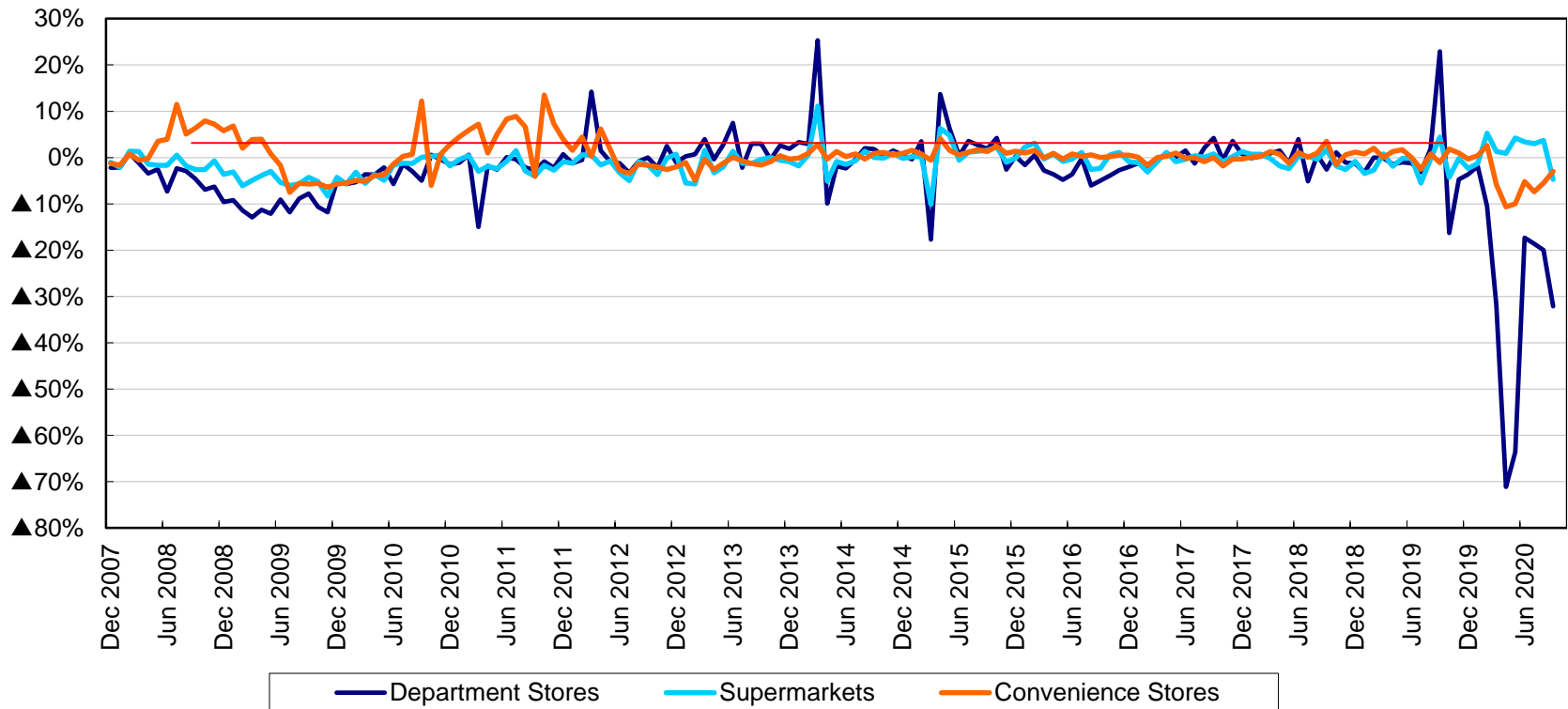
Source: Mitsui Sumitomo Trust Research Institute and At Home

Wide dispersion remains among retail formats

- In Q3 2020, sales of department stores and convenience stores declined by 23.9% and 5.4% respectively, while that of supermarket increased by 0.7%.
- 90.9% retailers in high-street stores requested a rent reduction due to the fall in turnover according to a survey conducted by CBRE.

Retail Sales Growth

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



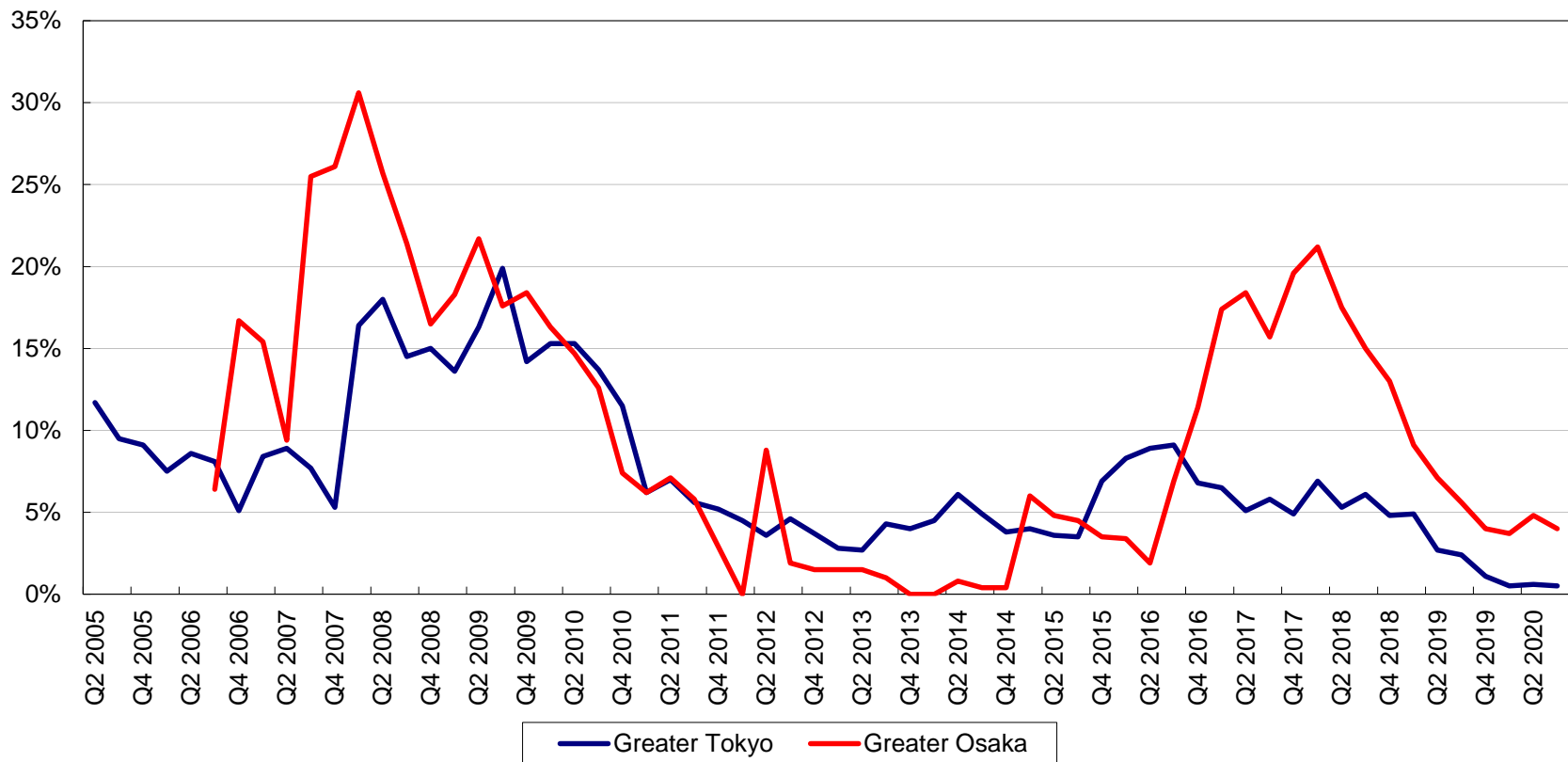
Source: The Ministry of Economy, Trade and Industry



Logistics sector shows the most resilience

- Vacancy rates in Greater Tokyo logistics market remains at all-time low of 0.5% in Q3 2020. Greater Tokyo and Greater Osaka logistics rents increased by 0.7% and 1.0% respectively in Q3 2020.
- 80% of projected supply until Q1 2020 is pre-leased driven by a firm demand of e-commerce companies.

Vacancy Rates of Large Multi-Tenant Logistics



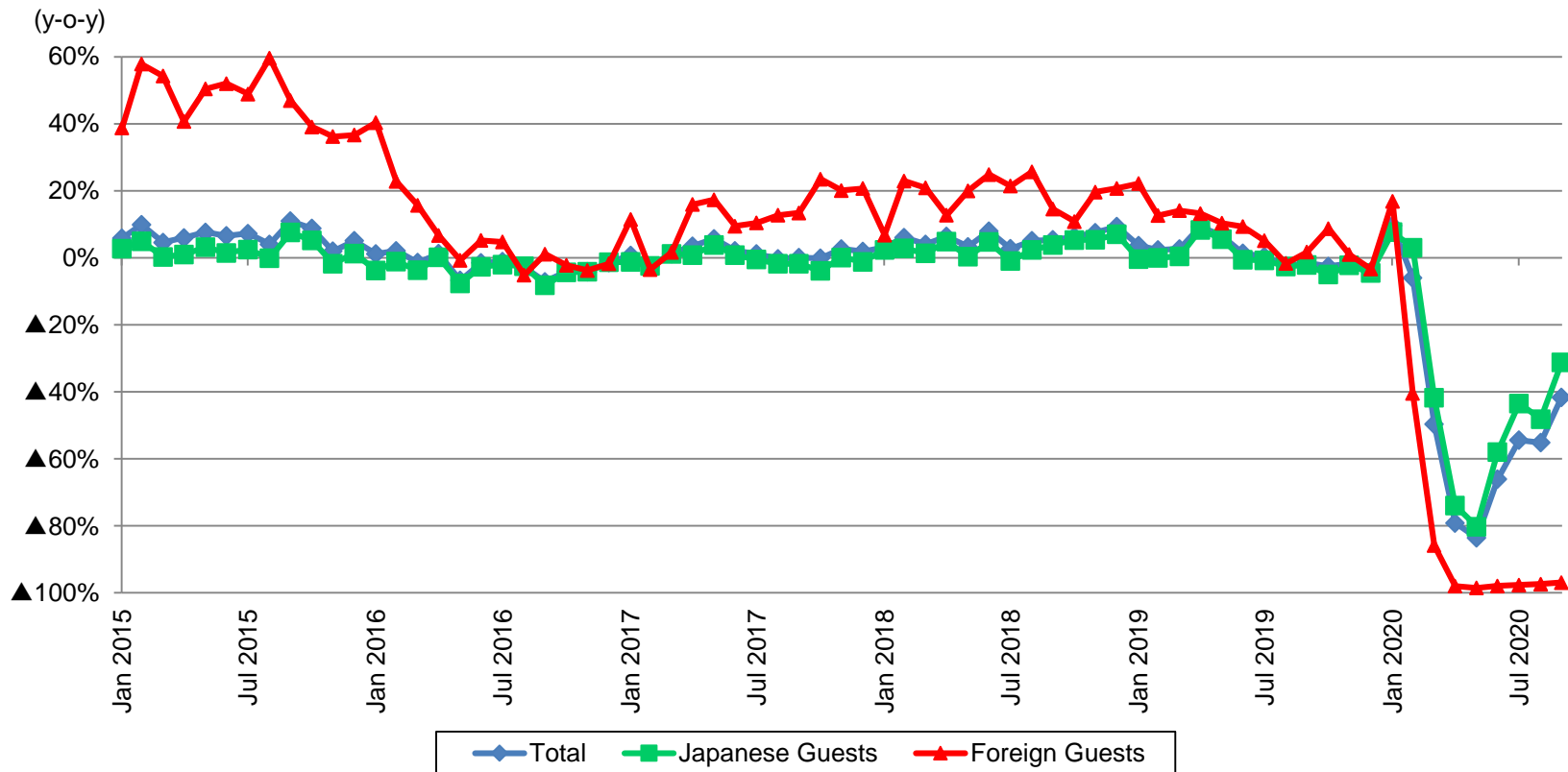
Source: CBRE

Outlook remains gloomy despite moderate rebound of Japanese tourists



- The number of inbound tourists declined by 99.7% y-o-y in Q3 2020.
- “Go to Travel” campaign partly supporting domestic demands particularly in the local cities.

Total Numbers of Overnight Stays

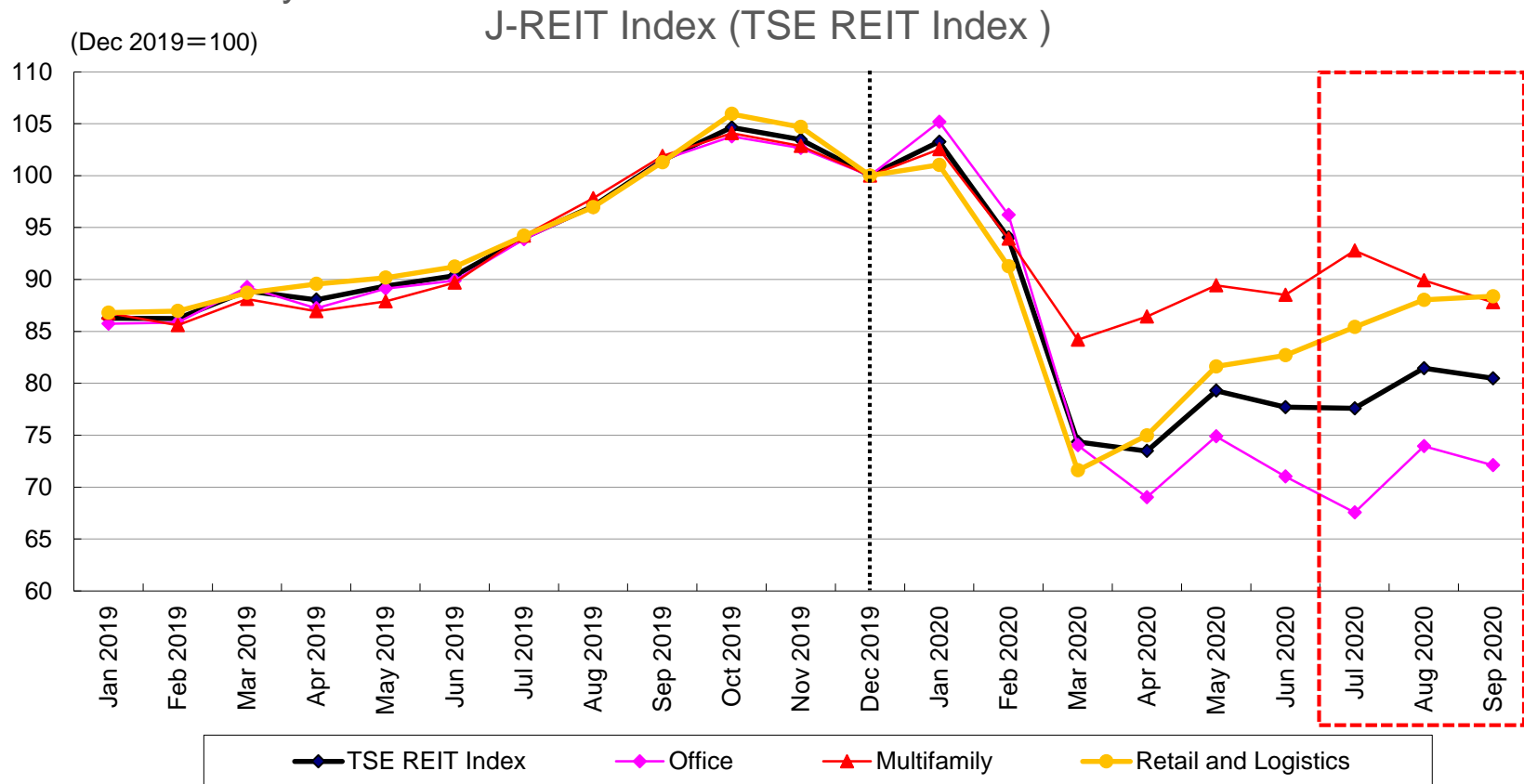


Source: Japan Tourism Agency

Concerns over real estate fundamentals weighing on J-REITs



- J-REIT Index increased by 3.6% q-o-q in Q3 2020, underperforming TOPIX for fourth consecutive quarters.
- Multifamily underperformed other sectors in Q3 2020, as concerns over population decline in Tokyo mounted.

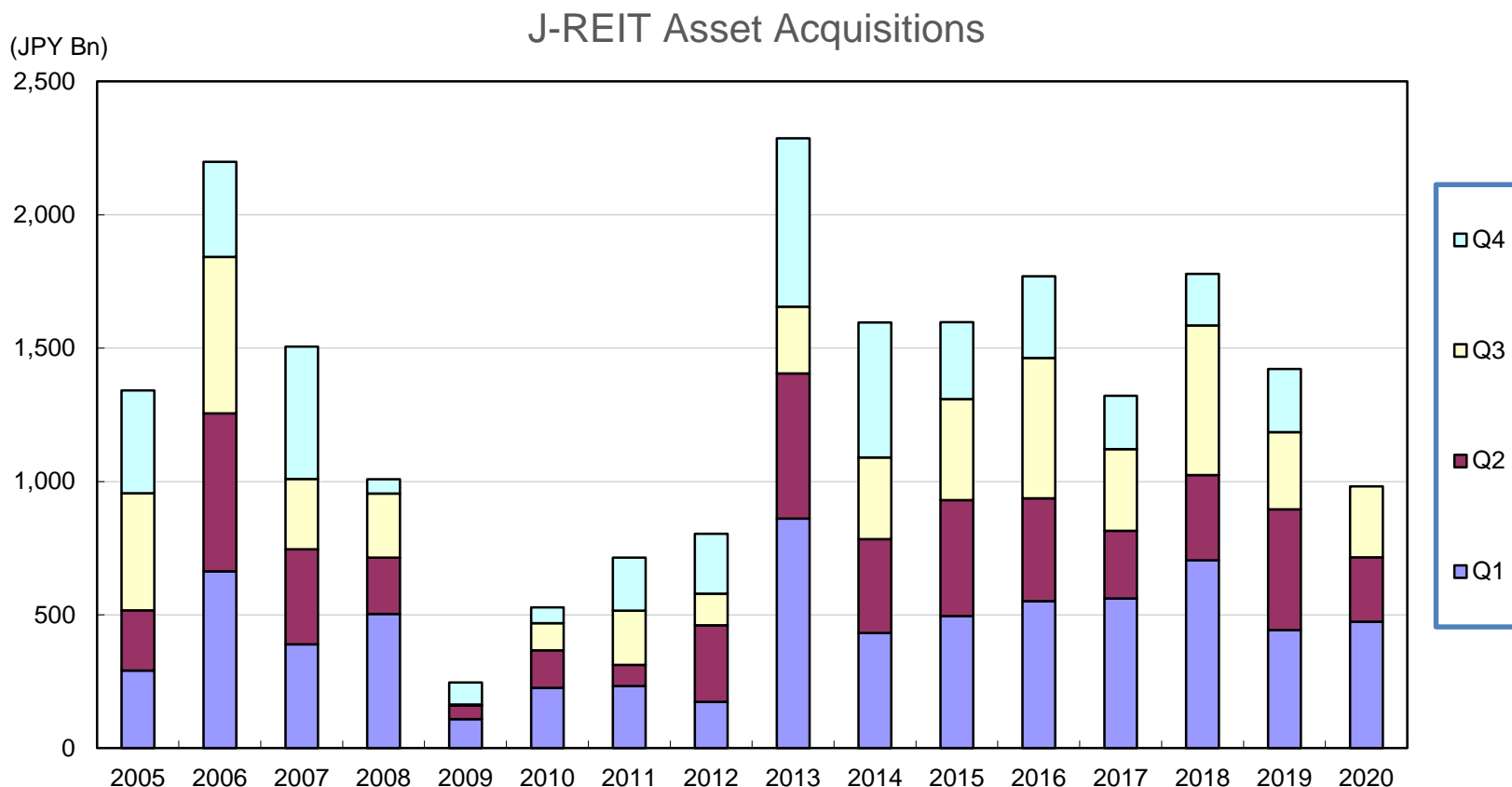


Source: Tokyo Stock Exchange



Asset acquisition by J-REITs recovered to nearly year-ago level

- J-REITs acquired property assets totaling JPY266 billion in Q3 2020 (8% decrease y-o-y), improving from 48% q-o-q decrease in the previous quarter.
- Logistics sector led the acquisitions by J-REITs, which accounted for 40% of total acquisitions, followed by office, multifamily, retail, others and hotels.



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

Source: Disclosure Documents

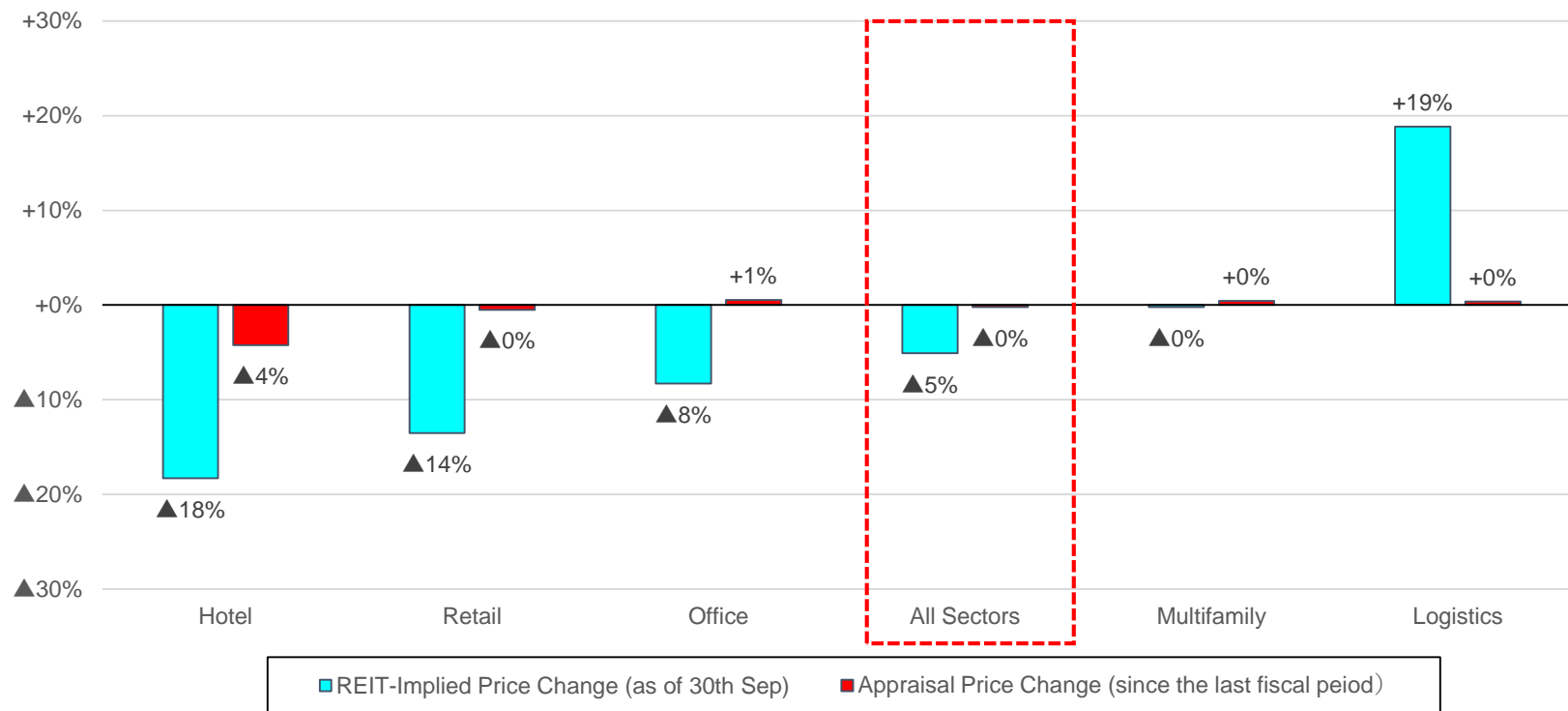
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Price divergence between J-REITs and private real estate remains high



- J-REIT price implies 5% contraction in real estate price, while the appraisal value of J-REITs remain stable during the pandemic, with the exception of the hotel sector.

REIT-Implied Price Change vs. Appraisal Price Change



Note: appraisal price changes are based on disclosure documents from fiscal period ended April 2020 to July 2020.

Source: Disclosure Documents

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