

**RESEARCH**

# Japan Real Estate Market Quarterly Review

Fourth Quarter 2020

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# Summary

## Macro Economy

- Japan's real GDP is expected to expand by 2.1% q-o-q (annualized 8.5%) in Q4 2020, but likely to slip into negative growth in Q1 2021, due to its second COVID state of emergency.
- Economic recovery is expected to be moderate. Japan's real GDP is expected to recover its cyclical peak (Q3 2019) in FY2023.

## Real Estate Market

- Tokyo grade-A office rents declined by 8.9% q-o-q in Q4 2020, falling to the same level in Q4 2017.
- Tokyo multifamily rents remained resilient, but pockets of weakness have been seen in urban residential areas.
- Amidst the COVID third wave, headwinds for hotels and retails are becoming stronger.
- Logistics rents have continued to increase in Q4 2020 driven by robust occupier demand from e-commerce.

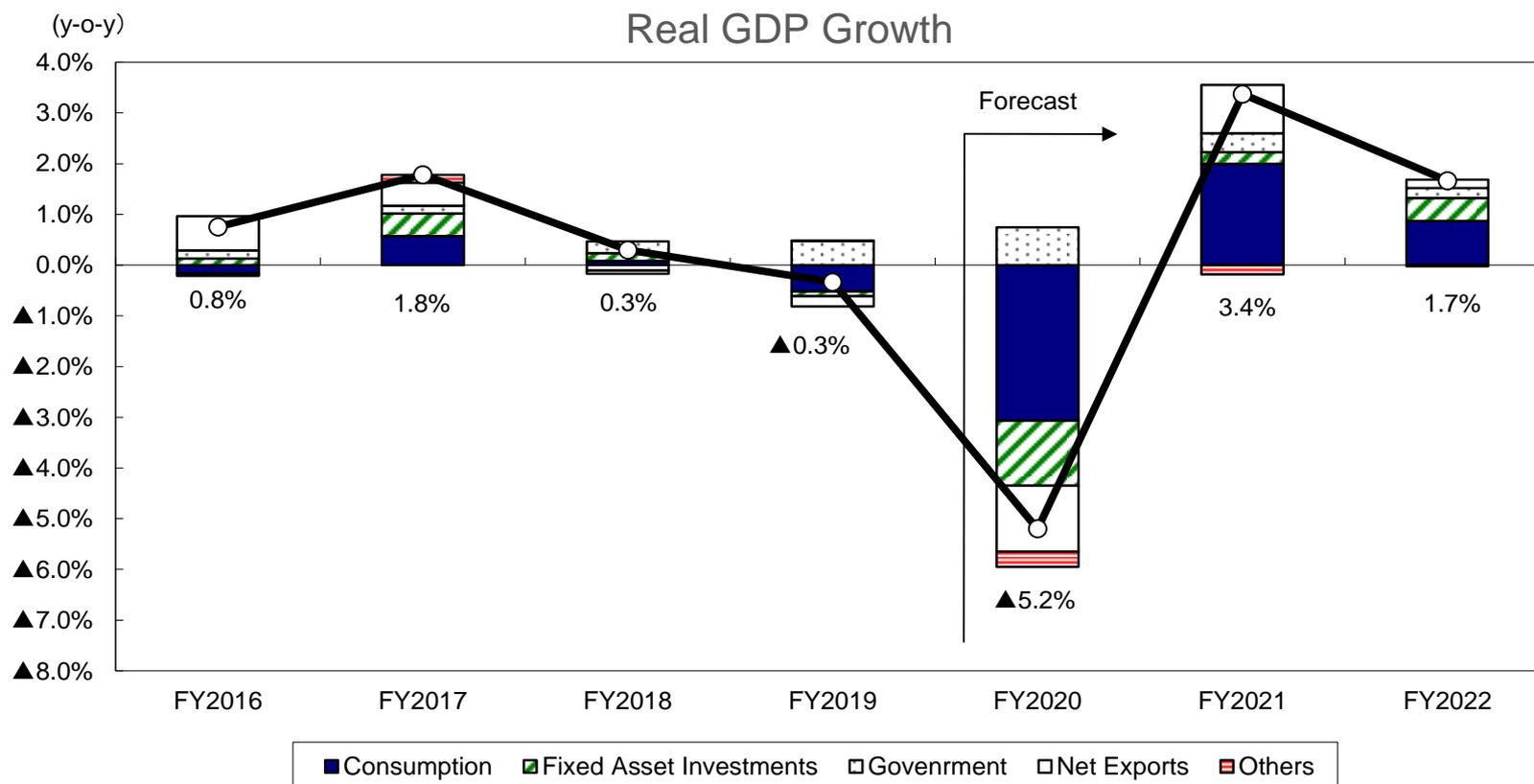
## Capital Market

- J-REIT Index increased by 3.3% q-o-q in Q4 2020 and declined 16.9% y-o-y in 2020.
- J-REITs acquired property assets totaling JPY1,393 billion in 2020, which remained at the same level as the previous years, underpinned by acquisitions of logistics properties.

# COVID-19 emergency to halt economic recovery in Japan



- Japan's real GDP is expected to expand by 2.1% q-o-q (annualized 8.5%) in Q4 2020, increasing for second consecutive quarters.
- Nonetheless, real GDP in Q1 2021 is likely to contract due to the second declaration of COVID-19 state of emergency.



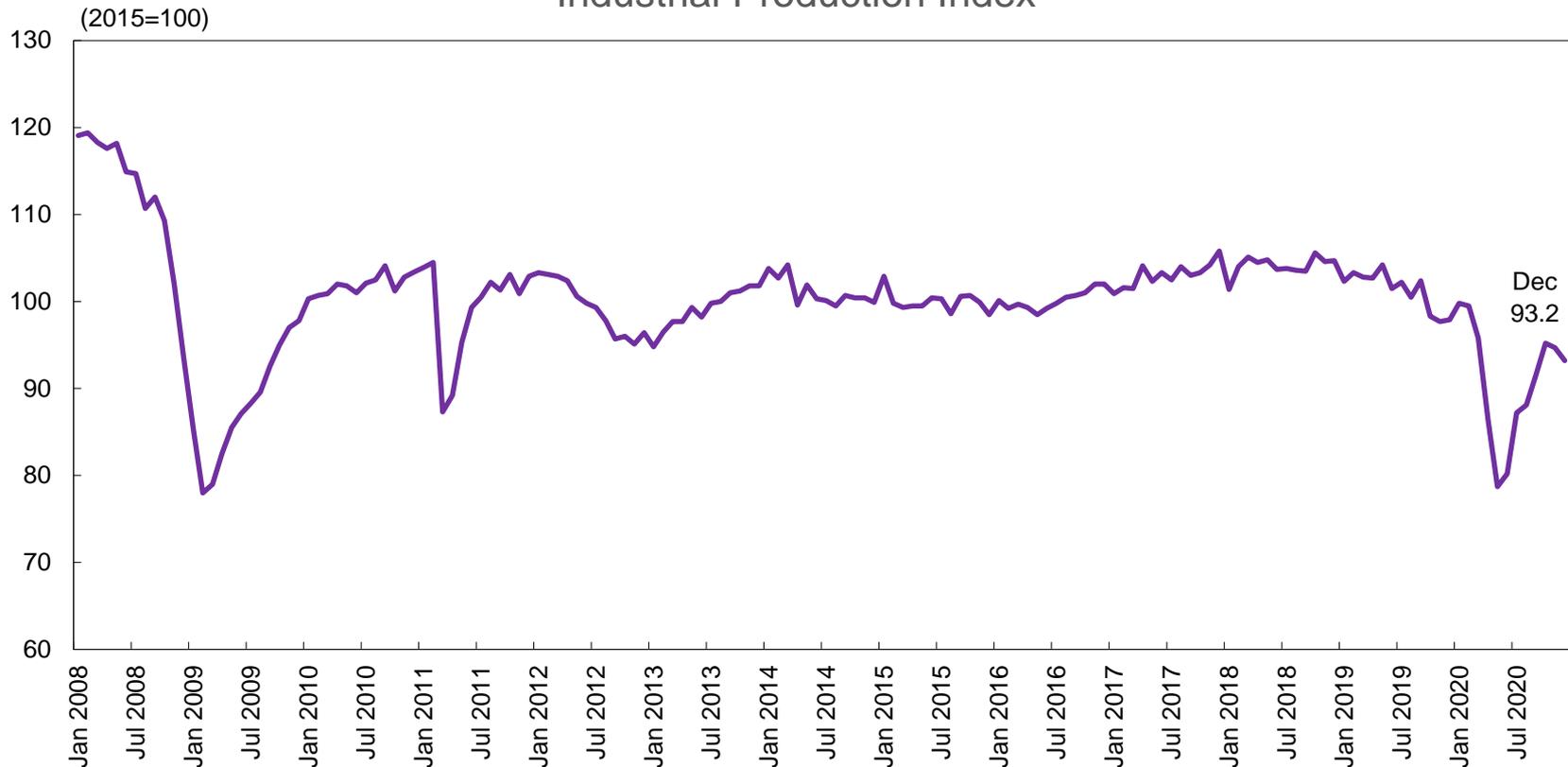
Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2020) "Weekly Economist Letter" NLI Research Institute December, 2020

# Industrial activity is likely to remain resilient, but the recovery is expected to be moderate due to the global resurgence of COVID



- Industrial production increased by 6.2% q-o-q in Q4 2020, following 8.7% growth in the previous quarter.
- Still, the level of production in Q4 2020 remains 4% lower than that in Q1 2020.

Industrial Production Index



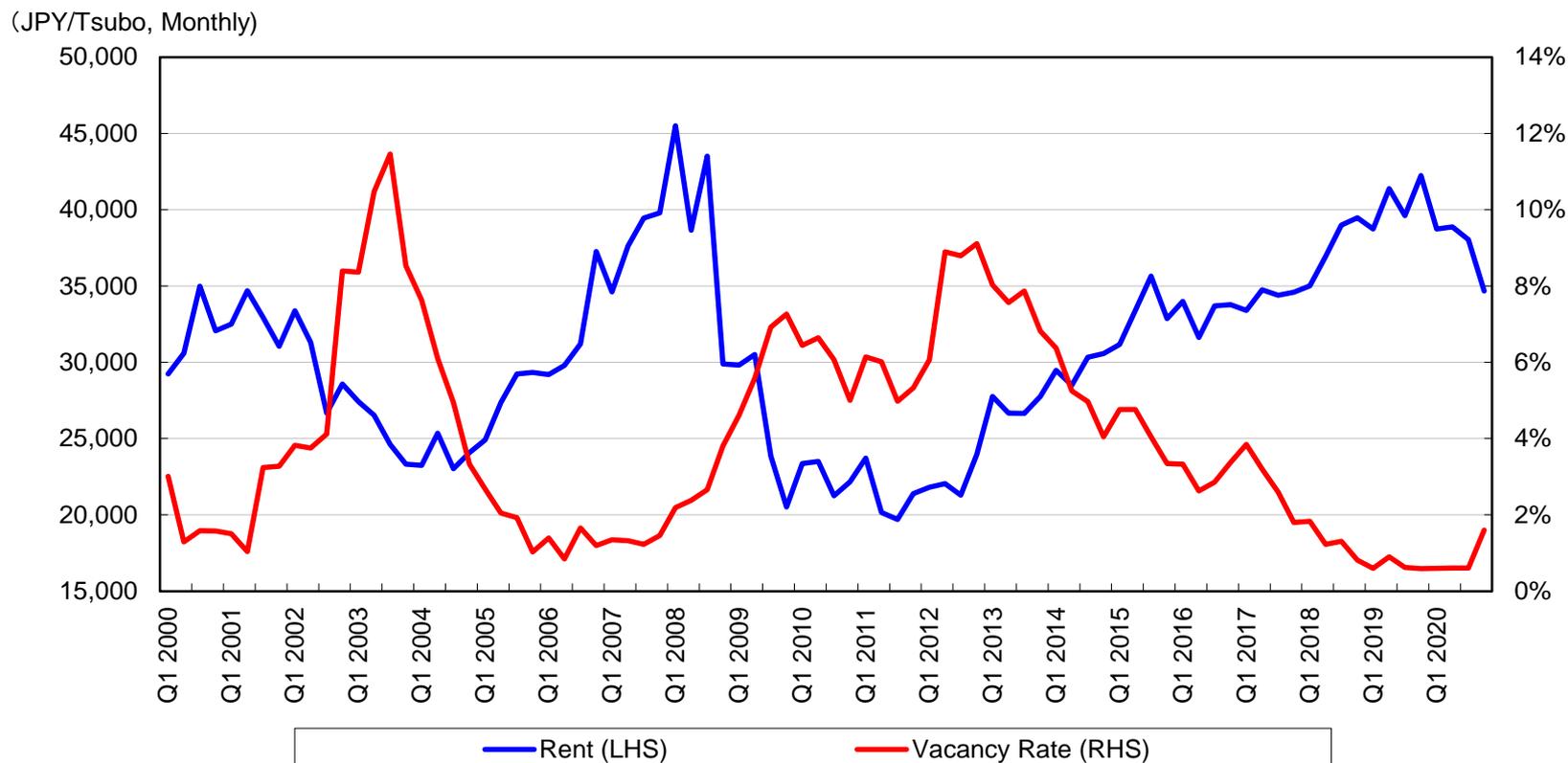
Source: The Ministry of Economy, Trade and Industry

## Office rents declined amid the lingering uncertainty driven by the COVID situation and work-from-home trend



- Tokyo grade-A office rents declined by 8.9% q-o-q in Q4 2020.
- Vacancy rate increased to 1.6% in Q4 2020, from 0.6% in the previous quarter.

### 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.

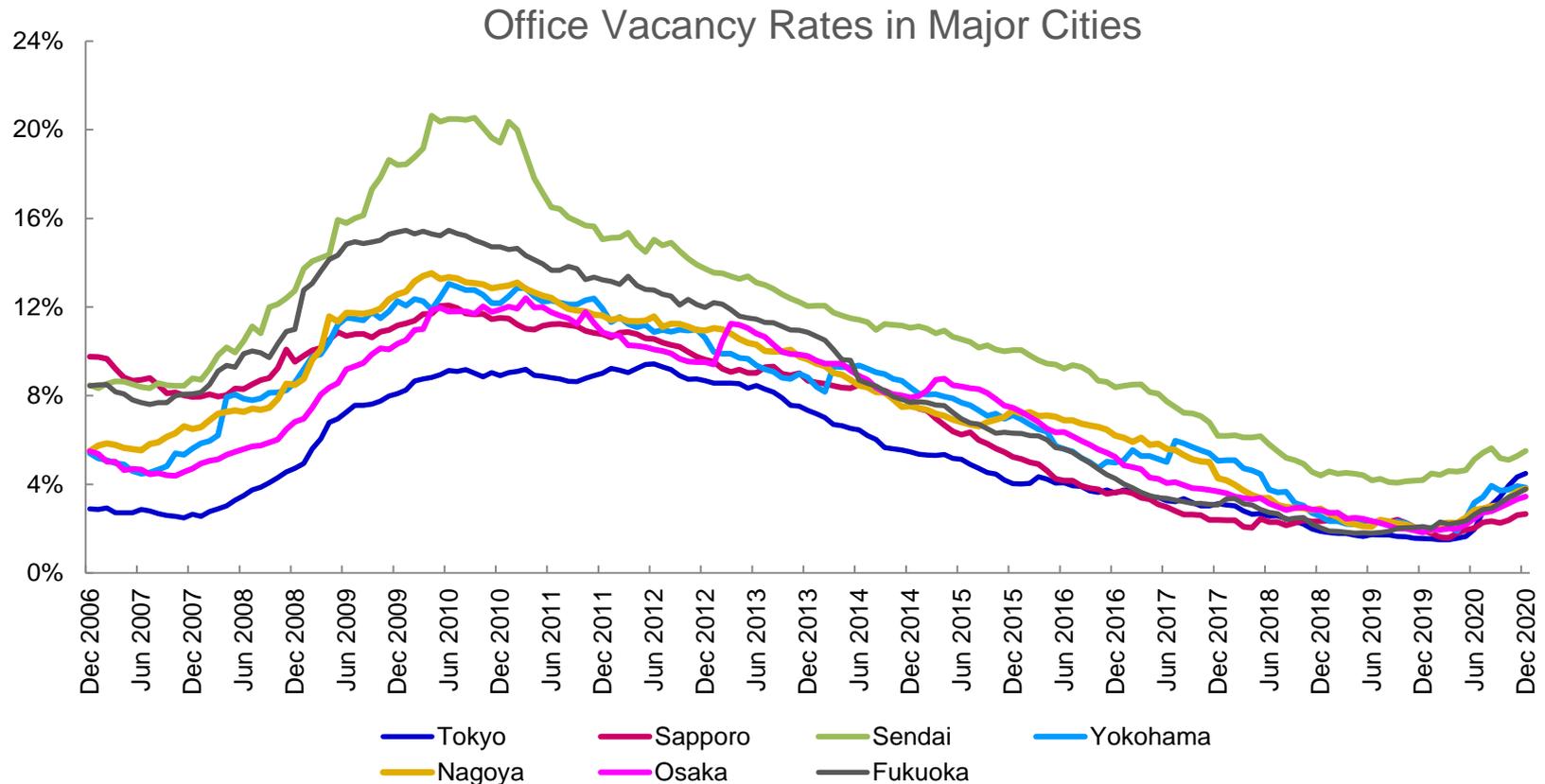
Source: Sanko Estate (Vacancy Rate), Sanko Estate and NLI Research Institute (Rent)

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## Vacancy rates rising across major cities



- Vacancy rates in Tokyo 5-ku increased to 4.49% in December 2020, increasing 3% from the cyclical low in February 2020. In other major cities in Japan, vacancy rates are also rising, but rents remain flat or are edging up slightly.

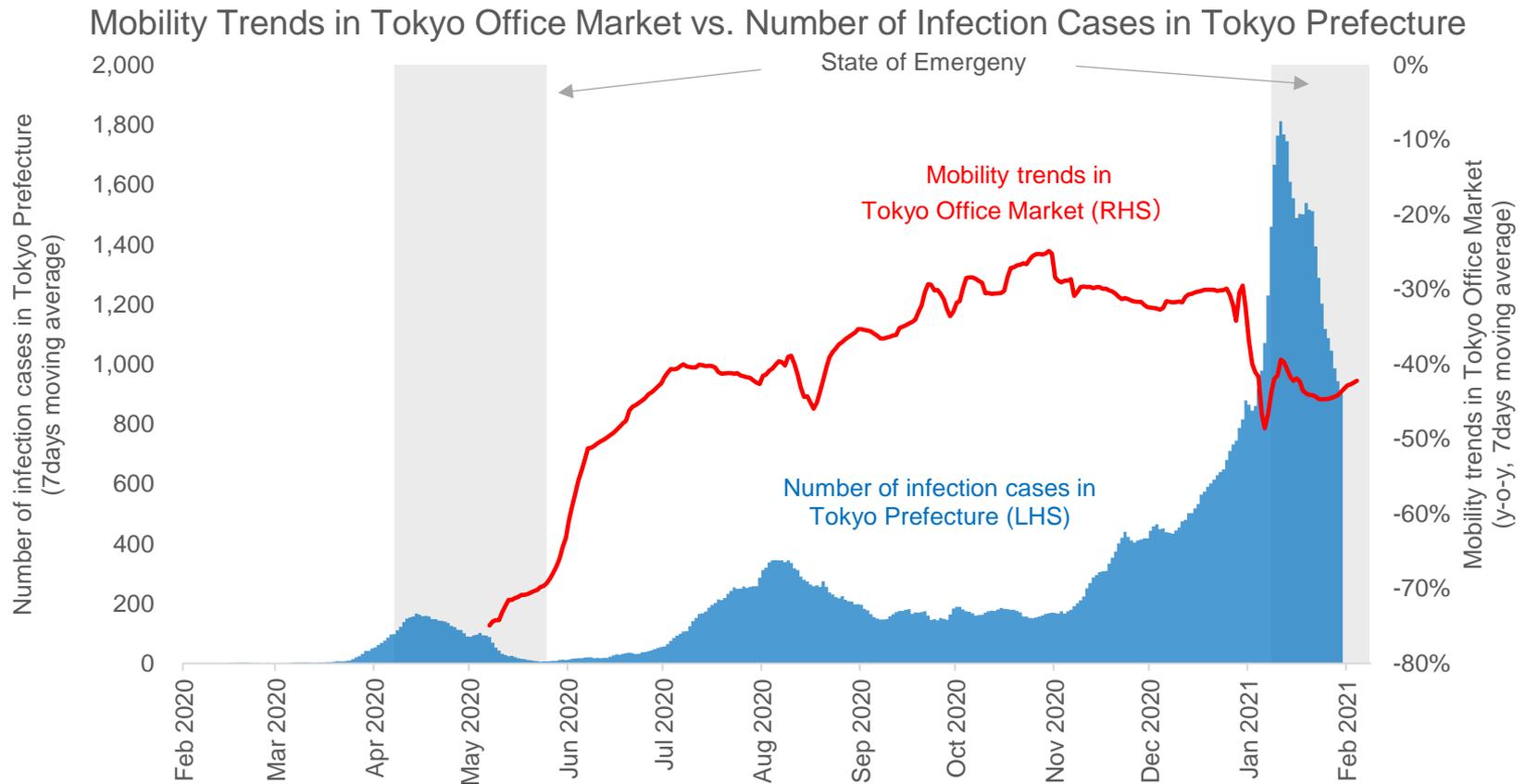


Source: Miki Shoji

## During the second COVID-19 state of emergency, mobility trends in Tokyo office market declined, but not substantially



- Mobility trends in Tokyo office market declined by 42.2% y-o-y in 4<sup>th</sup> February 2021 from circa 30% in late December 2020 due to the declaration of state of emergency in 8<sup>th</sup> January 2021.



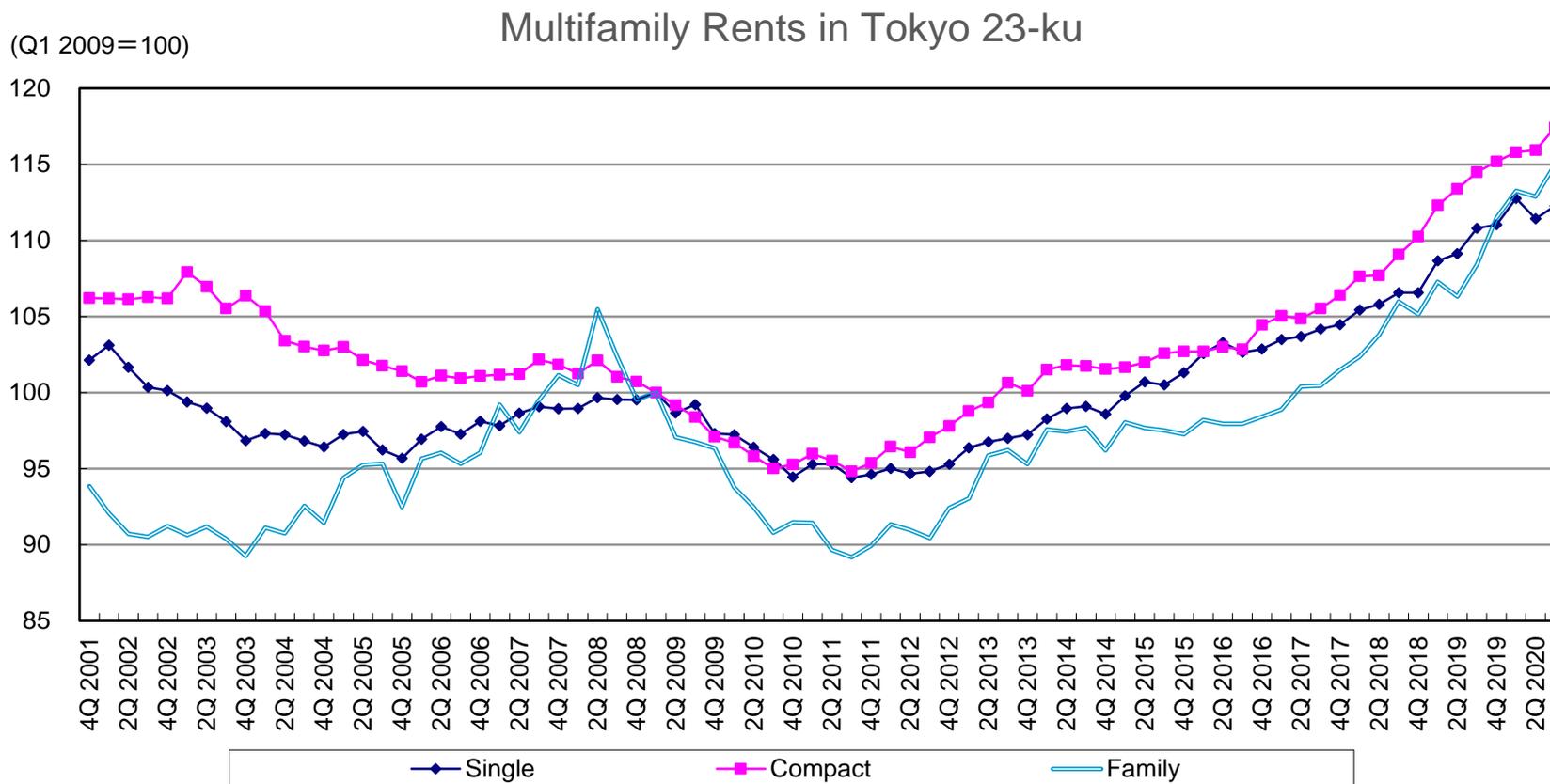
Note: Mobility trends in Tokyo office market are average of Tokyo Station, Tokyo Station South, Marunouchi, Otemachi, Kasumigaseki and Shinagawa Station.

Source: NTT Docomo, Toyo Keizai Online "Coronavirus Disease (COVID-19) Situation Report in Japan" by Kazuki OGIWARA  
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## Multifamily rents remained resilient



- Rental growth in Tokyo 23-ku remain resilient amidst the COVID-19 pandemic.
- Pockets of weakness in urban residential areas could spread throughout Tokyo, if the halt in population inflow to Tokyo continues.



Source: Mitsui Sumitomo Trust Research Institute and At Home

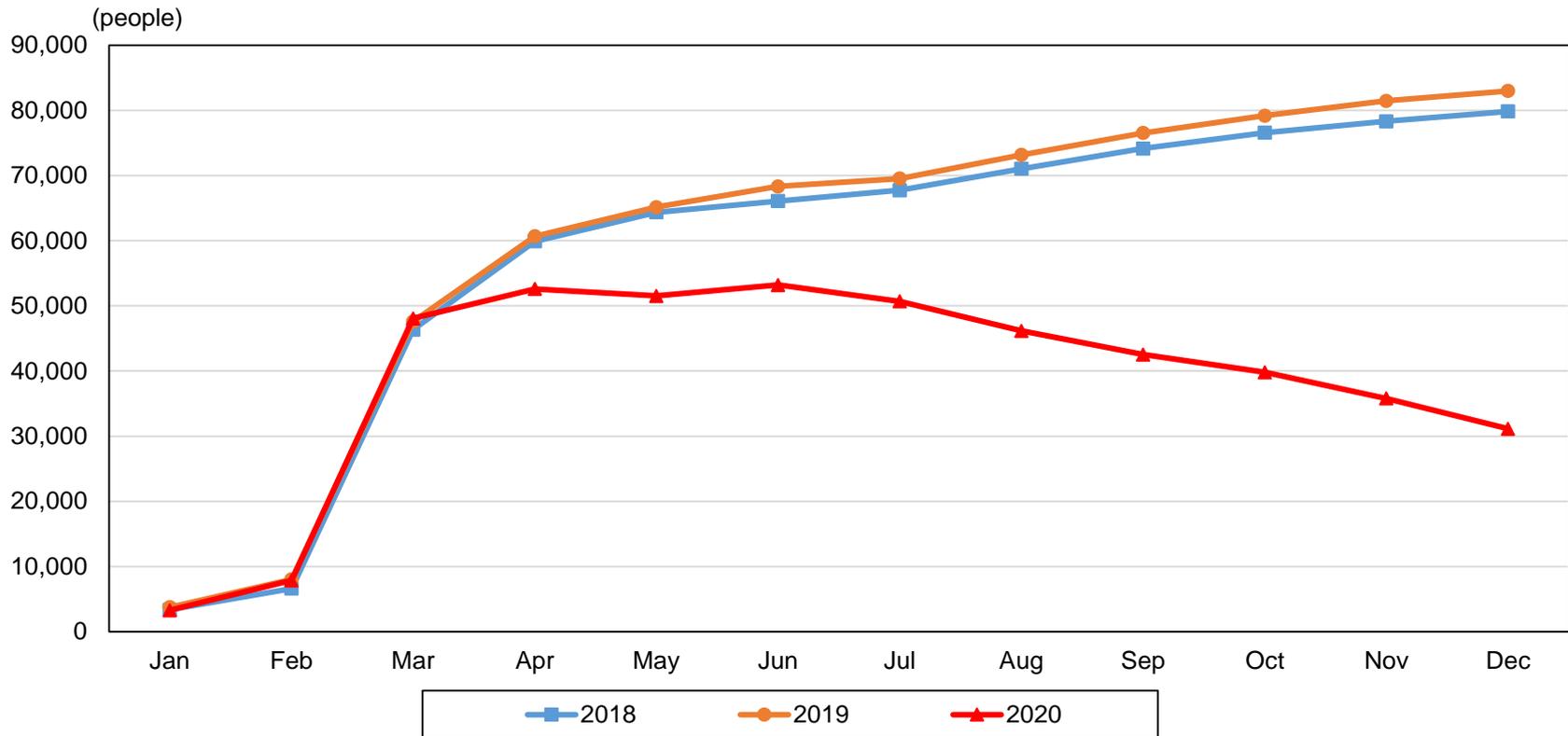
## Multifamily

# Deceleration of population influx to Tokyo is expected to weigh on multifamily



- Population influx to Tokyo was 31,125 people in 2020, decreased from 82,982 people in the previous year.

Number of Net-migration to Tokyo Prefecture (Cumulative)



Source: The Statistics Bureau of Japan

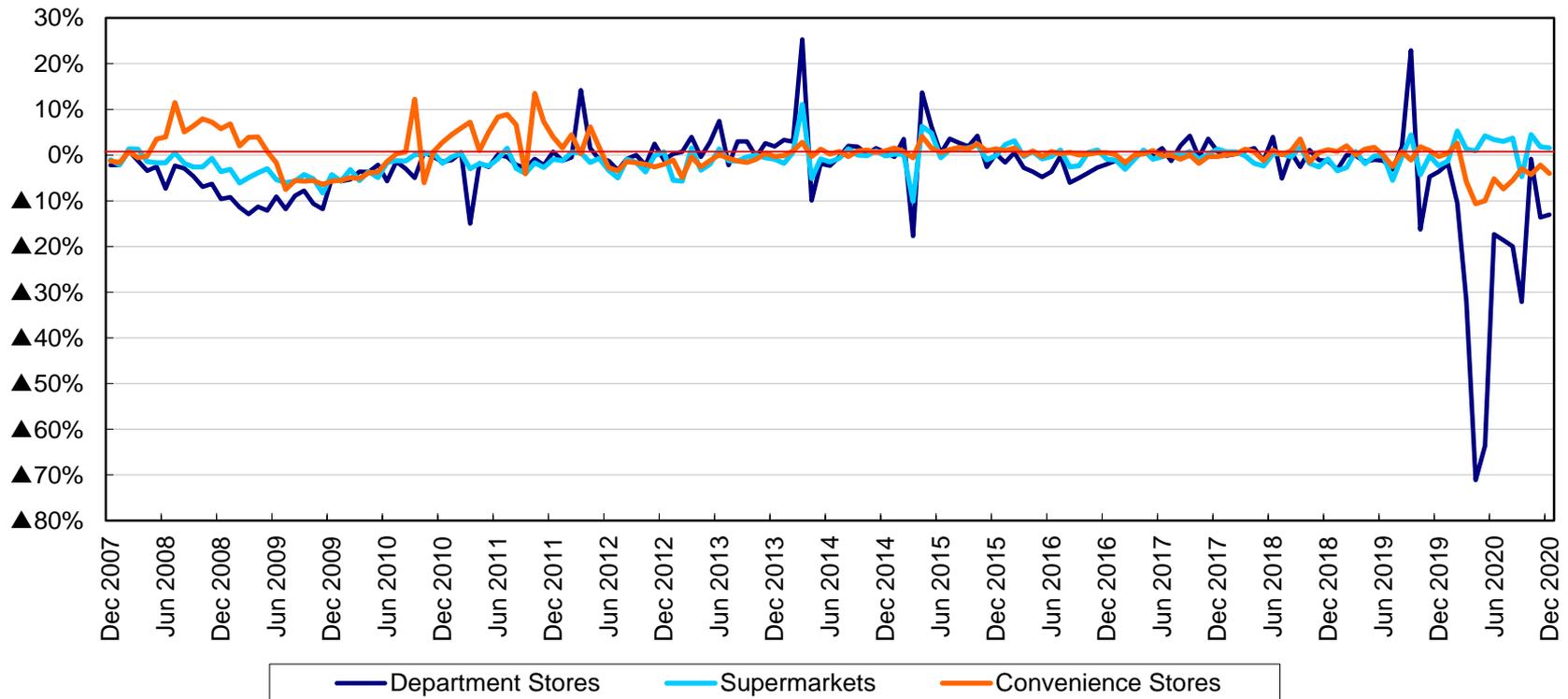
## The divergence among retail formats is likely to re-widen due to the second round of COVID emergency



- In December 2020, sales of department stores and convenience stores declined by 13.0% and 4.0% respectively, while that of supermarket increased by 1.6%.
- Under the COVID-19 state of emergency, the divergence between necessity-anchored retail and other retail formats is expected to re-widen.

### Retail Sales Growth

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



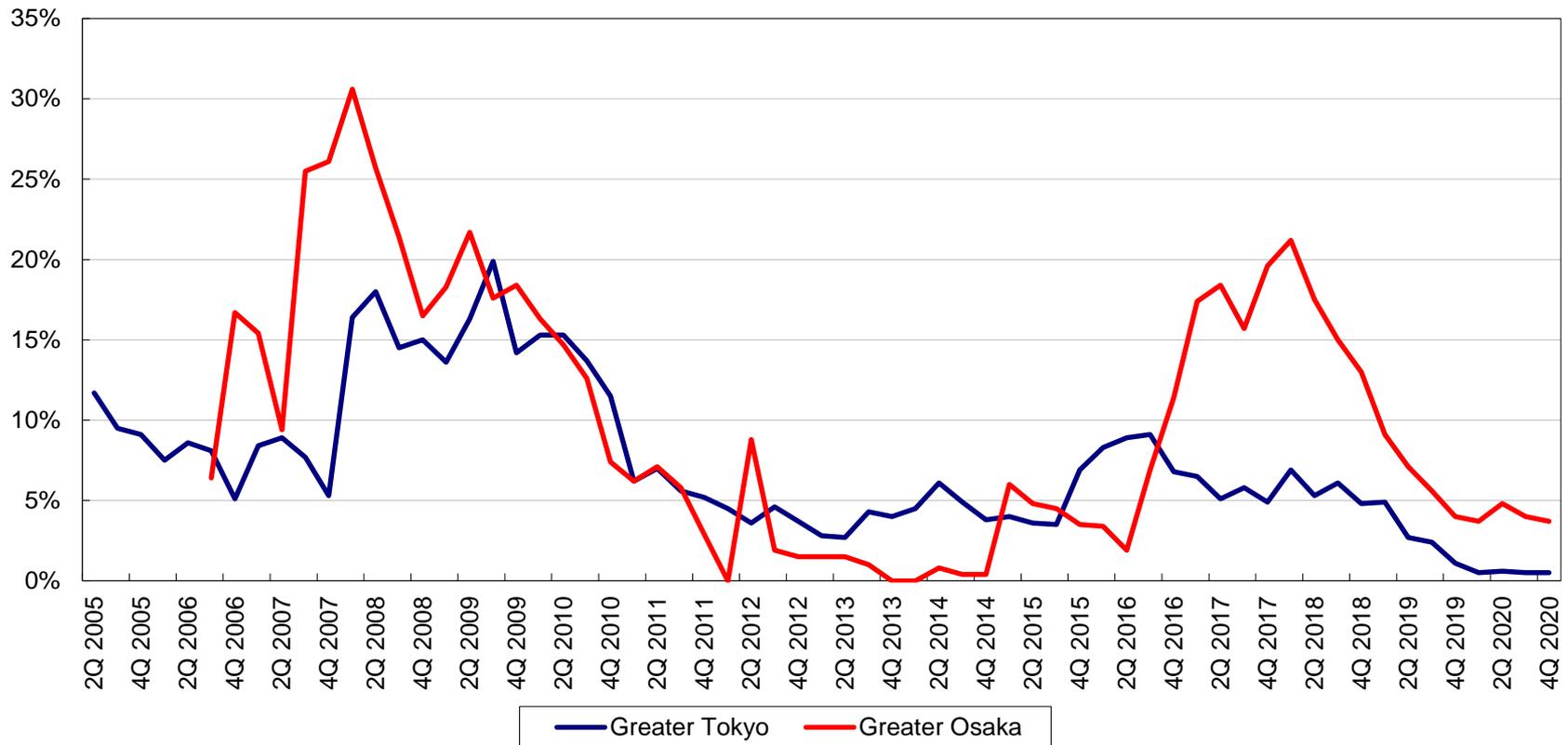
Source: The Ministry of Economy, Trade and Industry

## Amidst historically high supply in major Logistics Markets, strong occupier demand by e-commerce continue to lower vacancy rates



- Vacancy rates in Greater Tokyo logistics market remains at all-time low of 0.5% in Q4 2020. Greater Tokyo and Greater Osaka logistics rents increased by 0.9% and 1.3% respectively in Q4 2020.
- Over 50% of projected supply until Q2 2021 is pre-leased driven by a firm demand of e-commerce companies.

### Vacancy Rates of Large Multi-Tenant Logistics



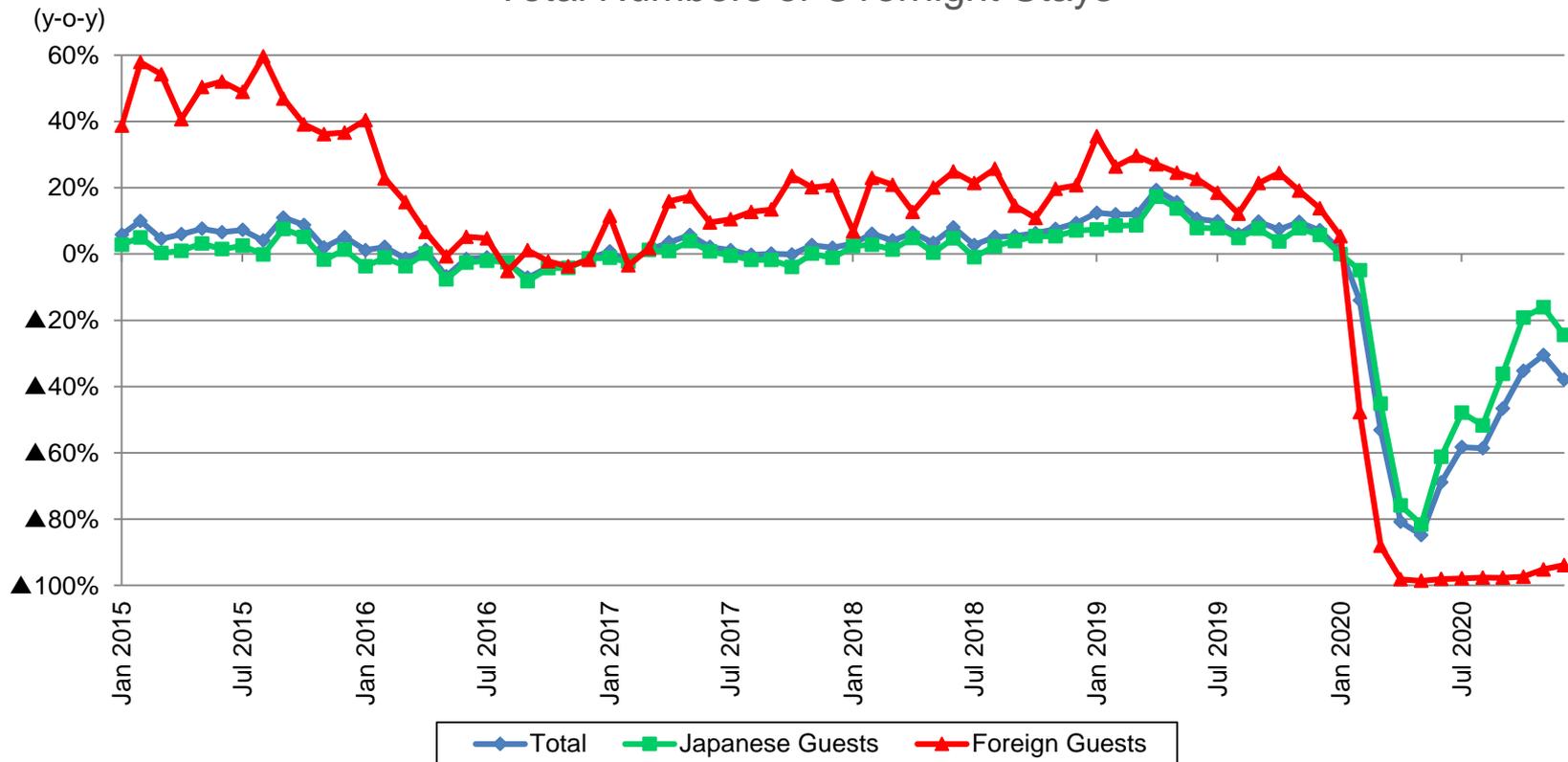
Source: CBRE

# Headwinds for hotels intensify due to the resurgence of COVID infections



- Total number of overnight stays declined by 34.5% y-o-y in Q4 2020.
- According to STR, hotel occupancy declined to 43.0% in December 2020 from 55.1% in the previous month, partly due to the suspension of “Go to Travel” campaign.

Total Numbers of Overnight Stays

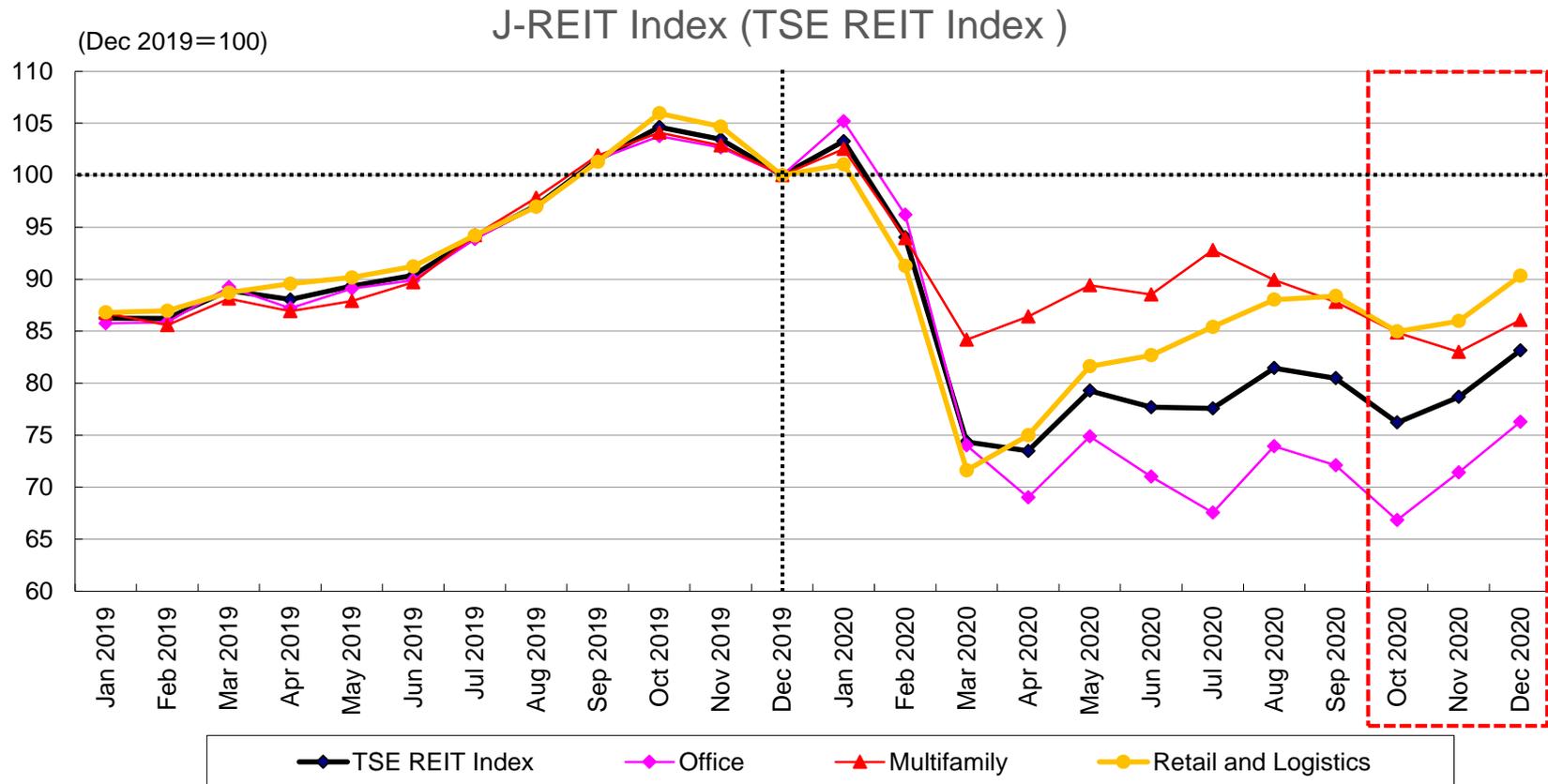


Source: Japan Tourism Agency

## Recovery in J-REIT prices remained stagnant in late 2020 mainly due to the uncertainty in the office market driven by the WFH trend



- J-REIT Index increased by 3.3% q-o-q in Q4 2020, driven by Office and Retail REITs.
- Multifamily underperformed other sectors in Q4 2020 for two consecutive quarters, as concerns over population decline in Tokyo arise.



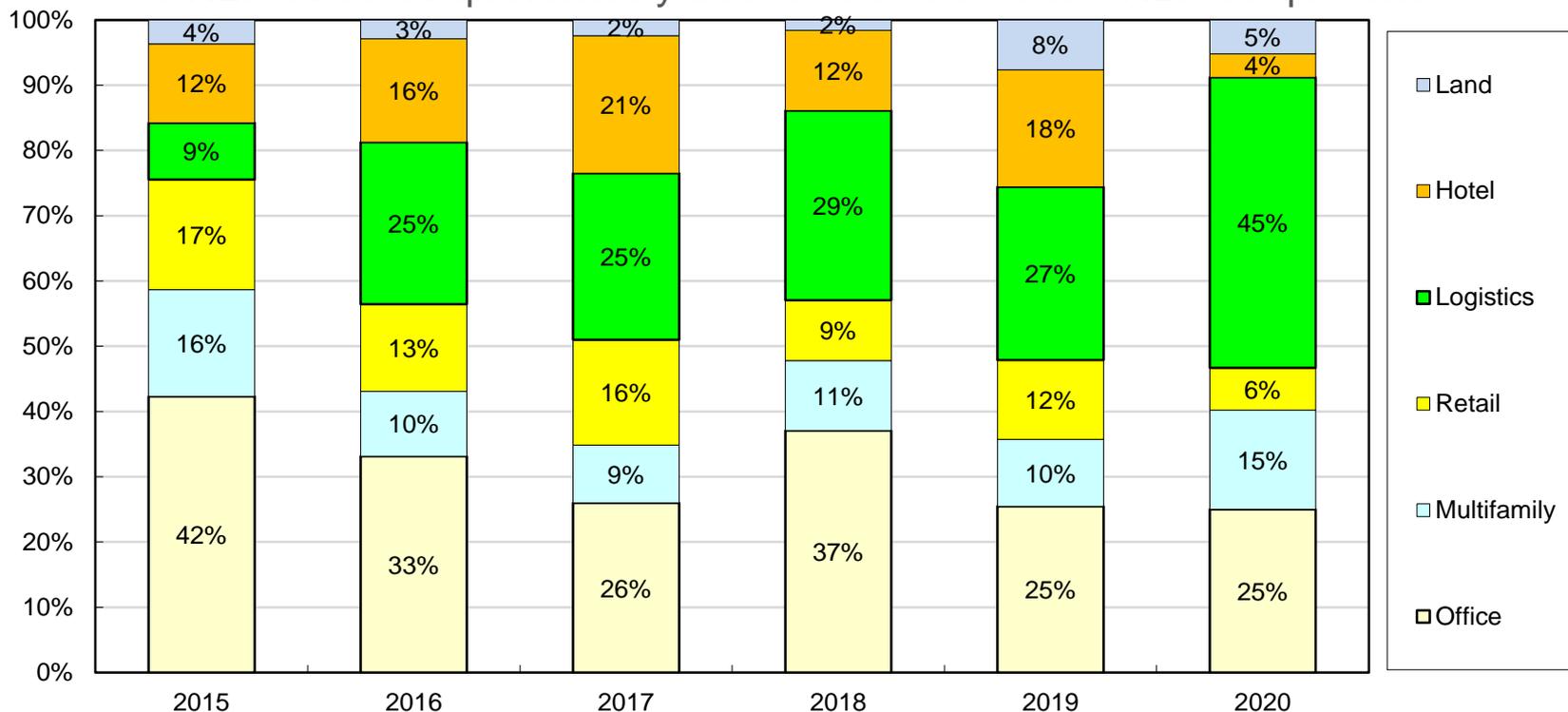
Source: Tokyo Stock Exchange

# Asset acquisitions by J-REITs in 2020 remained at nearly year-ago level



- J-REITs acquired property assets totaling JPY1,393 billion in 2020 (2% decrease y-o-y).
- Logistics sector led the acquisitions by J-REITs, which accounted for 45% of total acquisitions, followed by office, multifamily, retail, others and hotels.

J-REIT Asset Acquisitions by Sector as a % of total J-REIT Acquisitions



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

Source: Disclosure Documents



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