

**RESEARCH**

# Japan Real Estate Market Quarterly Review

First Quarter 2021

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# Summary

## Macro Economy

- Japan's real GDP contracted by 1.3% q-o-q (annualized 5.1%) in Q1 2021, posting negative growth for the first time in three quarters.
- Japan's real GDP is expected to expand by 3.7% in FY2021 and 1.7% in FY 2022.

## Real Estate Market

- Contraction in office markets started in Tokyo and spreading to other major cities.
- Multifamily rents remained on the upward trend, but occupier activity easing in urban residential areas.
- Hotels and retails are continuing to struggle due to prolonged COVID pandemic.
- Major logistics markets remain robust and rents are remaining on an upward trend.

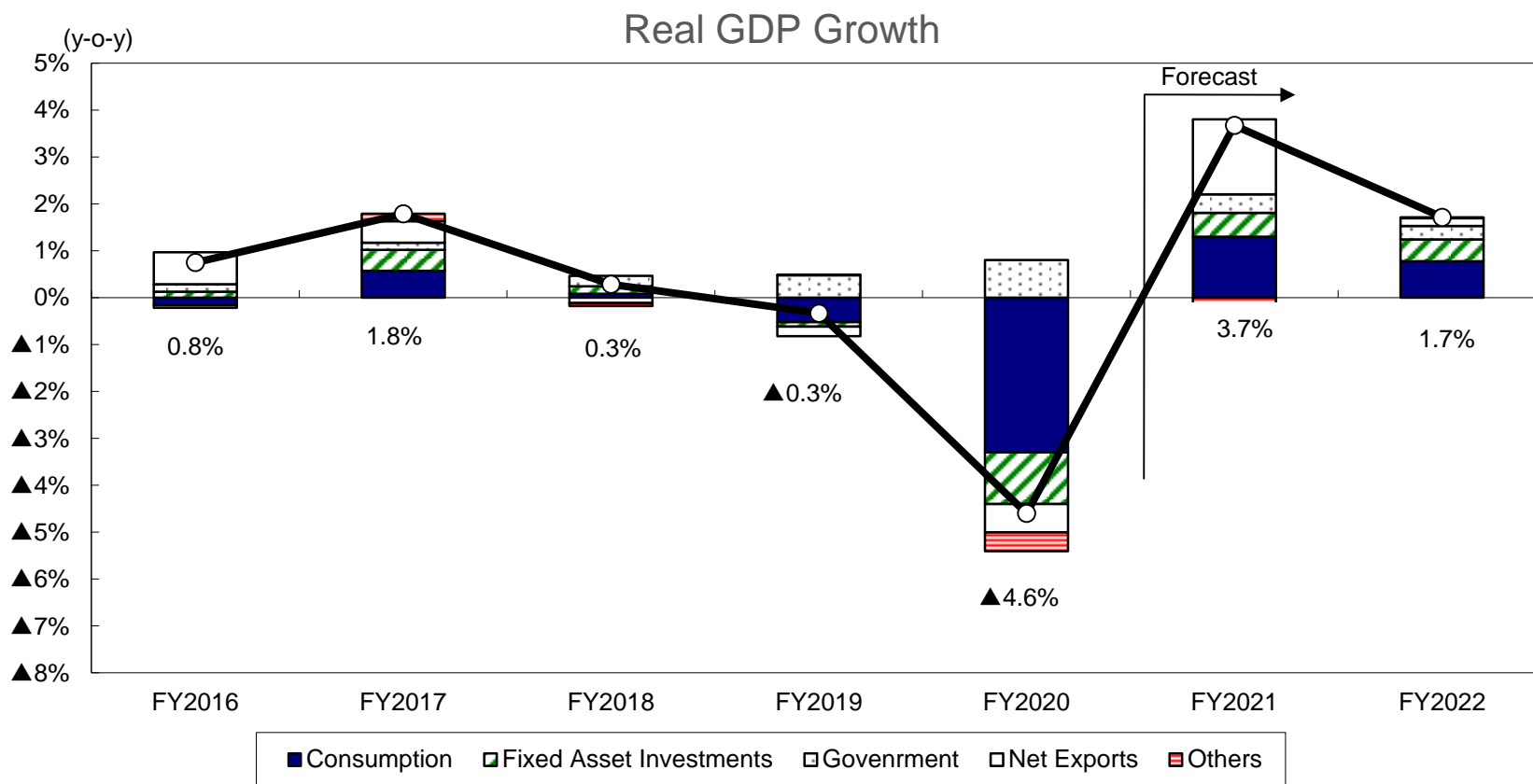
## Capital Market

- J-REIT Index increased by 12.8% q-o-q in Q1 2021, trading at price to NAV ratio at 1.1x, dividend yield at 3.6% and dividend and JGB spread at 3.5%.
- J-REITs acquired property assets totaling JPY443 billion in Q1 2021 (6% decrease y-o-y).

# Japan's economic recovery is expected to be moderate, exerted by sluggish employment and income growth



- Japan's real GDP contract by 1.3% q-o-q (annualized 5.1%) in Q1 2021, posting negative growth for the first time in three quarters.
- Japan's real GDP is expected to expand by 3.7% in FY2021 and 1.7% in FY 2022.

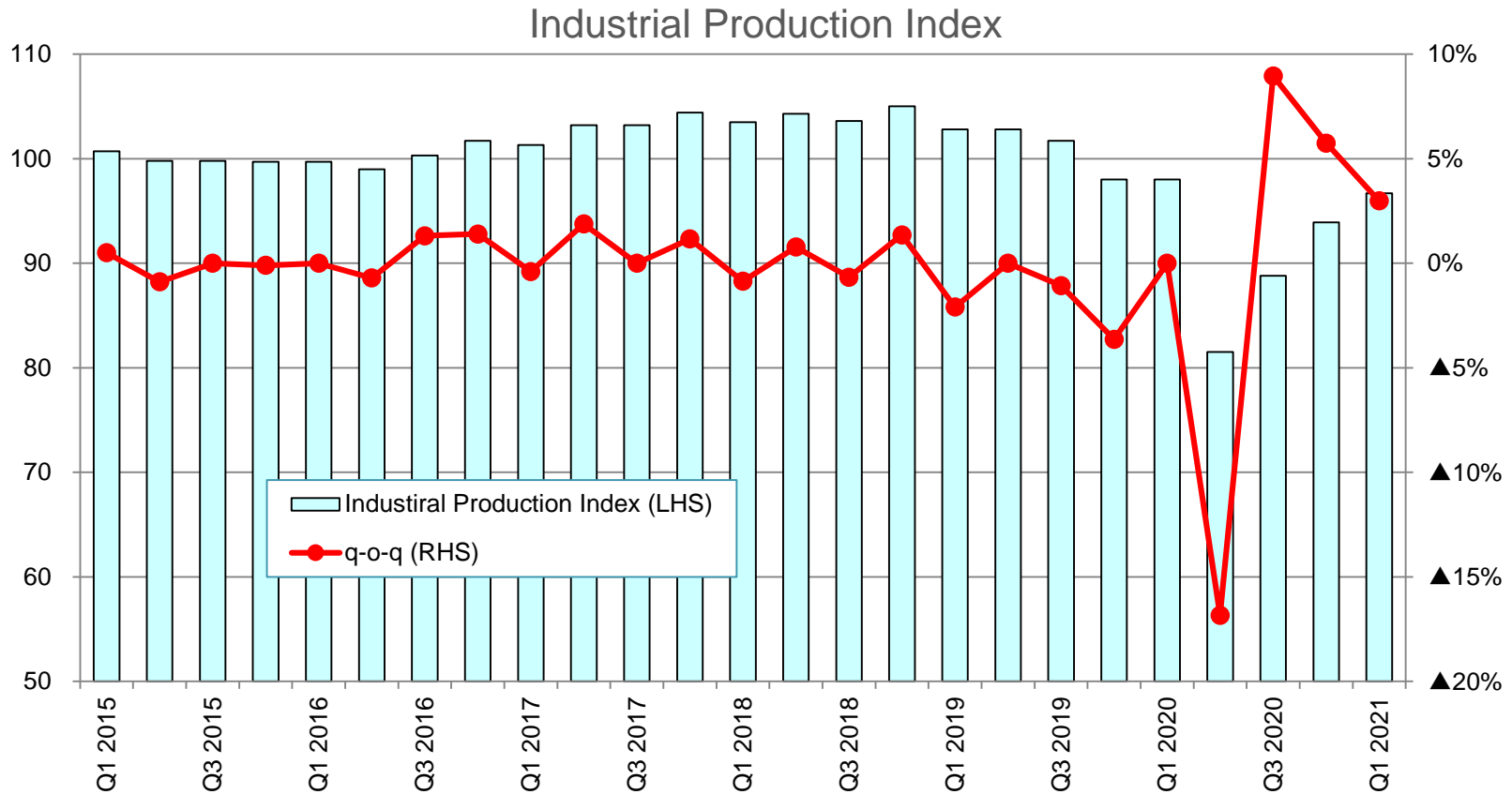


Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2021) "Weekly Economist Letter" NLI Research Institute, March, 2021.

# Industrial production growth is decelerating dragged by sluggish recovery of domestic demand



- Industrial production increased by 3.0% q-o-q in Q1 2021, decelerating from the previous quarter's 5.7%.
- The level of production in Q1 2021 still remains 1% below than that in Q1 2020 due to sluggish recovery of domestic demand.



Source: The Ministry of Economy, Trade and Industry

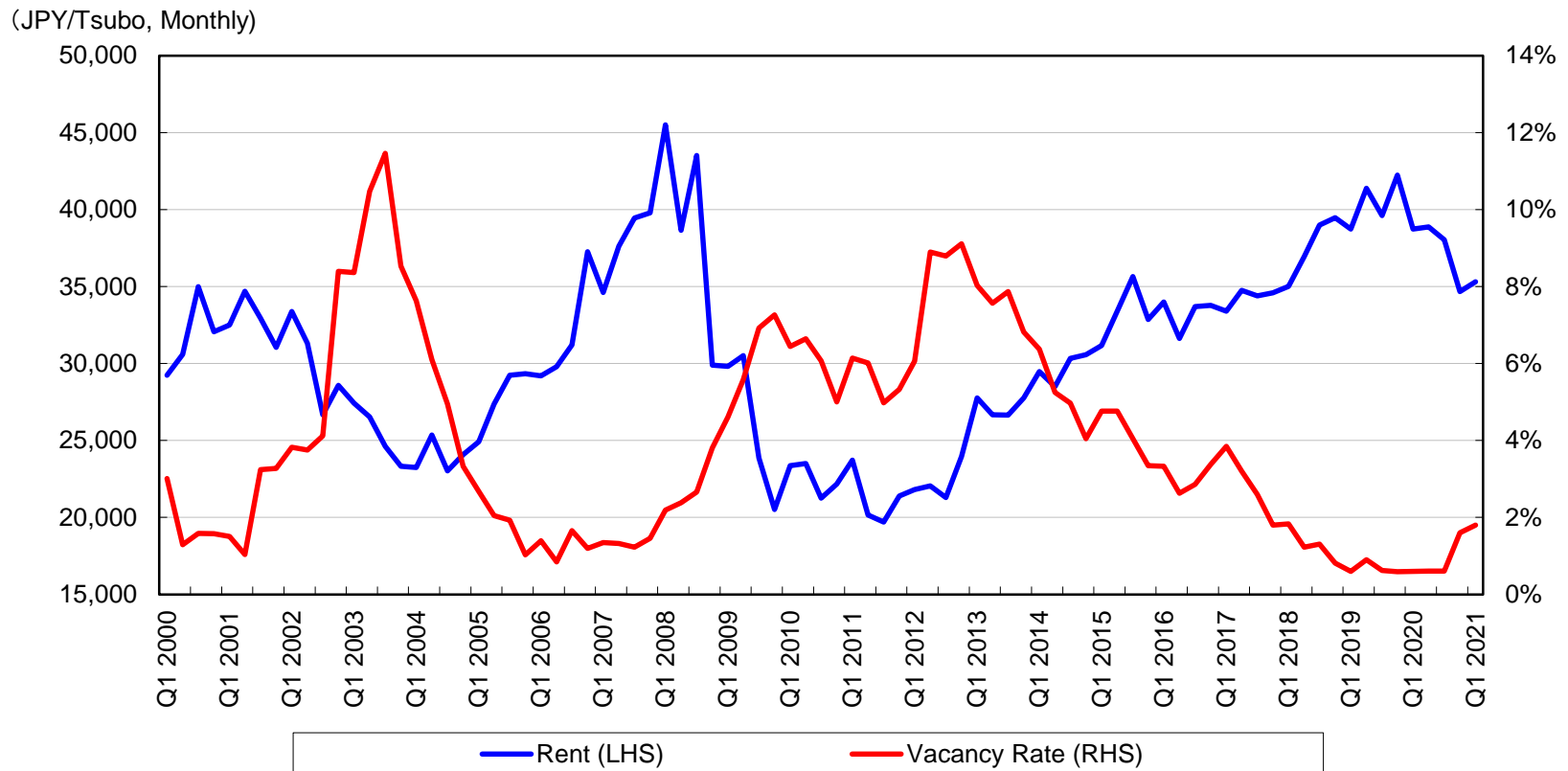
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Uncertainty in the office markets remain high driven by the work-from-home trend and sluggish economy



- Tokyo grade-A office rents declined by 8.9% y-o-y in Q1 2021.
- Vacancy rate increased to 1.8% in Q1 2021 from 1.6% 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)

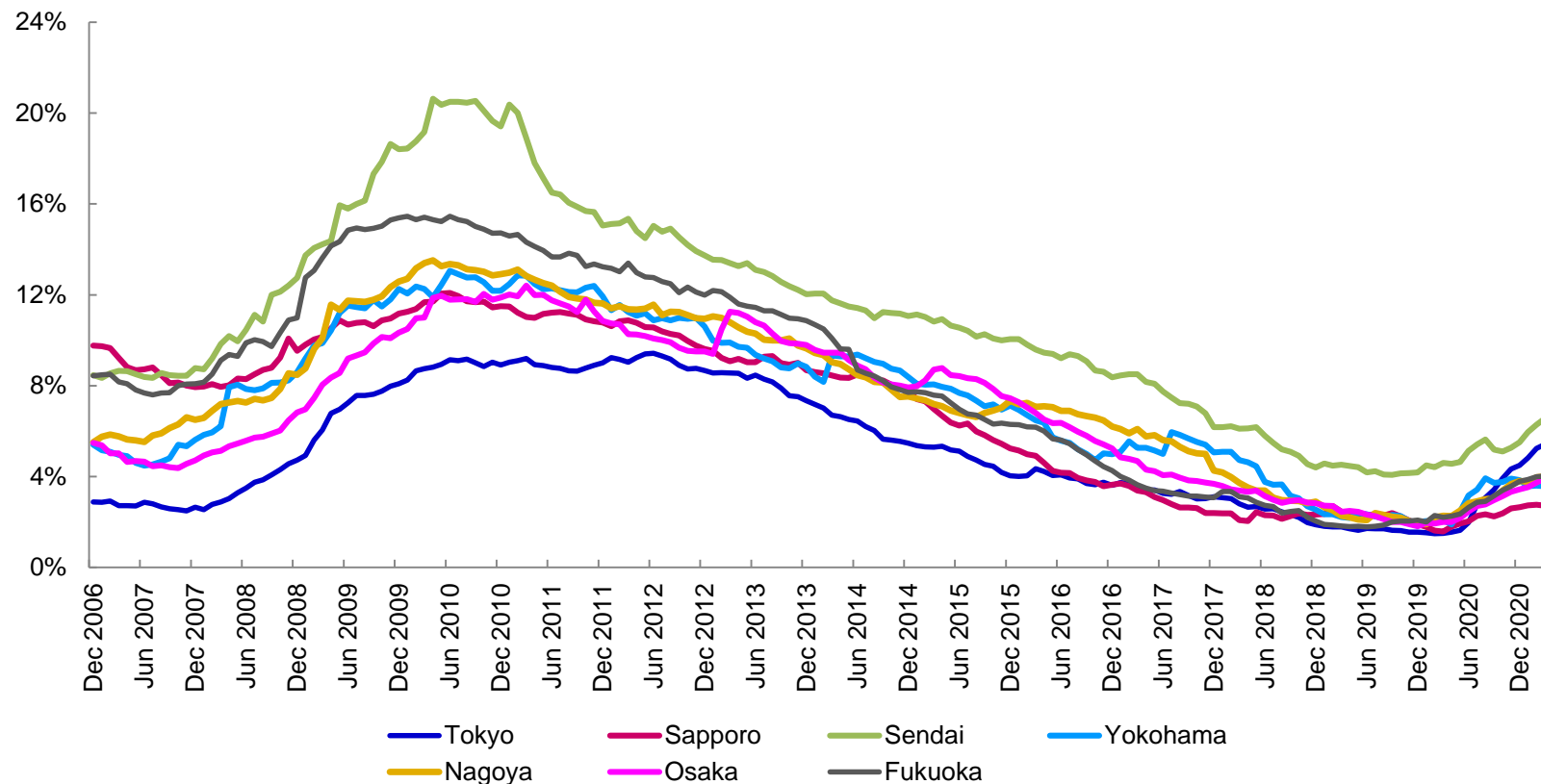
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## Office markets in major cities continues to undergo a modest correction phase



- Vacancy rates in Tokyo 5-ku increased to 5.42% in March 2021, increasing 3.9% from the cyclical low in February 2020. In other major cities in Japan, vacancy rates are also rising, and rents started to decline in Osaka.

### Office Vacancy Rates in Major Cities



## Multifamily

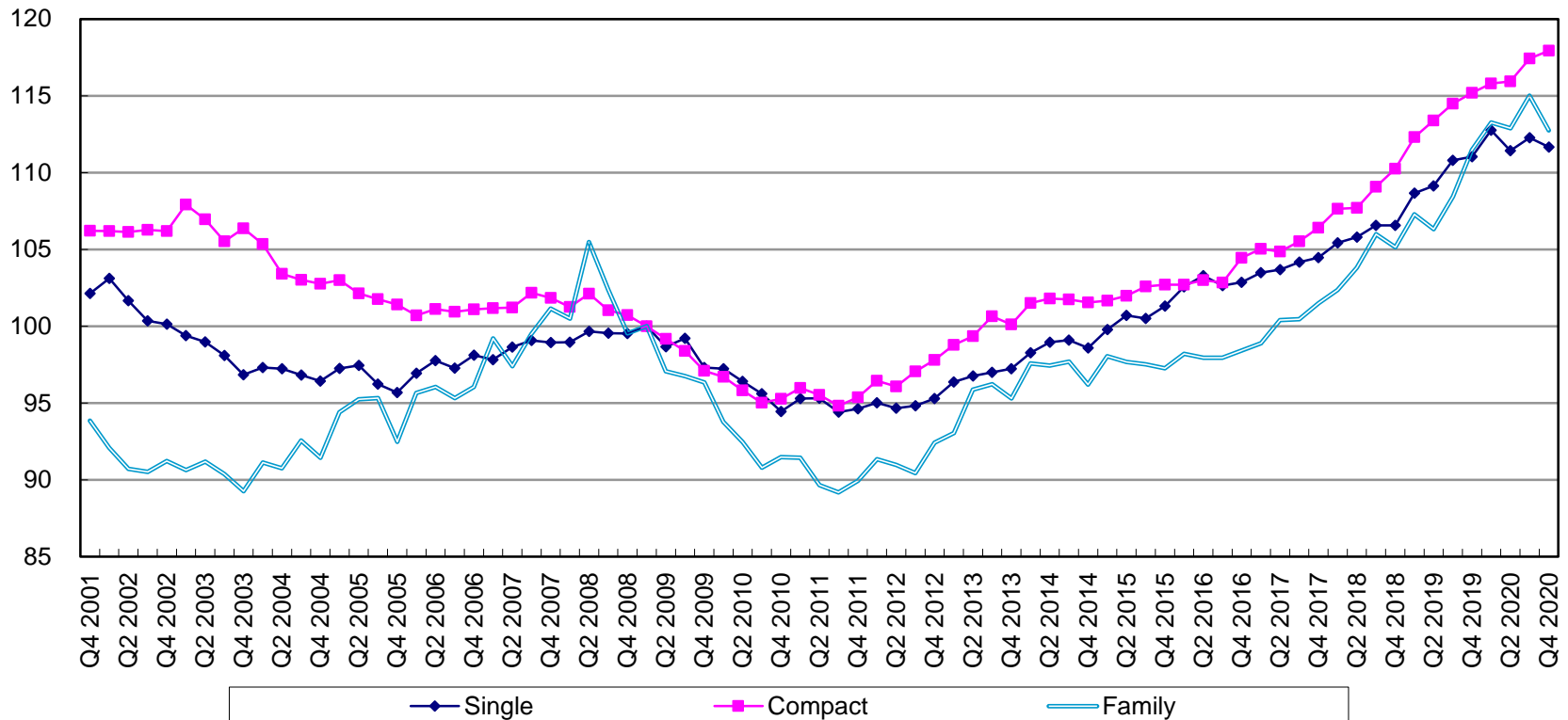
Multifamily rents remained on the upward trend, but occupier activity easing slightly in urban residential areas



- In Q4 2020, multifamily rents in Tokyo 23-ku increased by 2.2% y-o-y, but declined by 0.3% q-o-q.
- To maintain high occupancy rate amidst weaker occupier demand than pre-COVID, rent increase at tenant turnover is decelerating, according to residential J-REIT.

(Q1 2009=100)

Multifamily Rents in Tokyo 23-ku

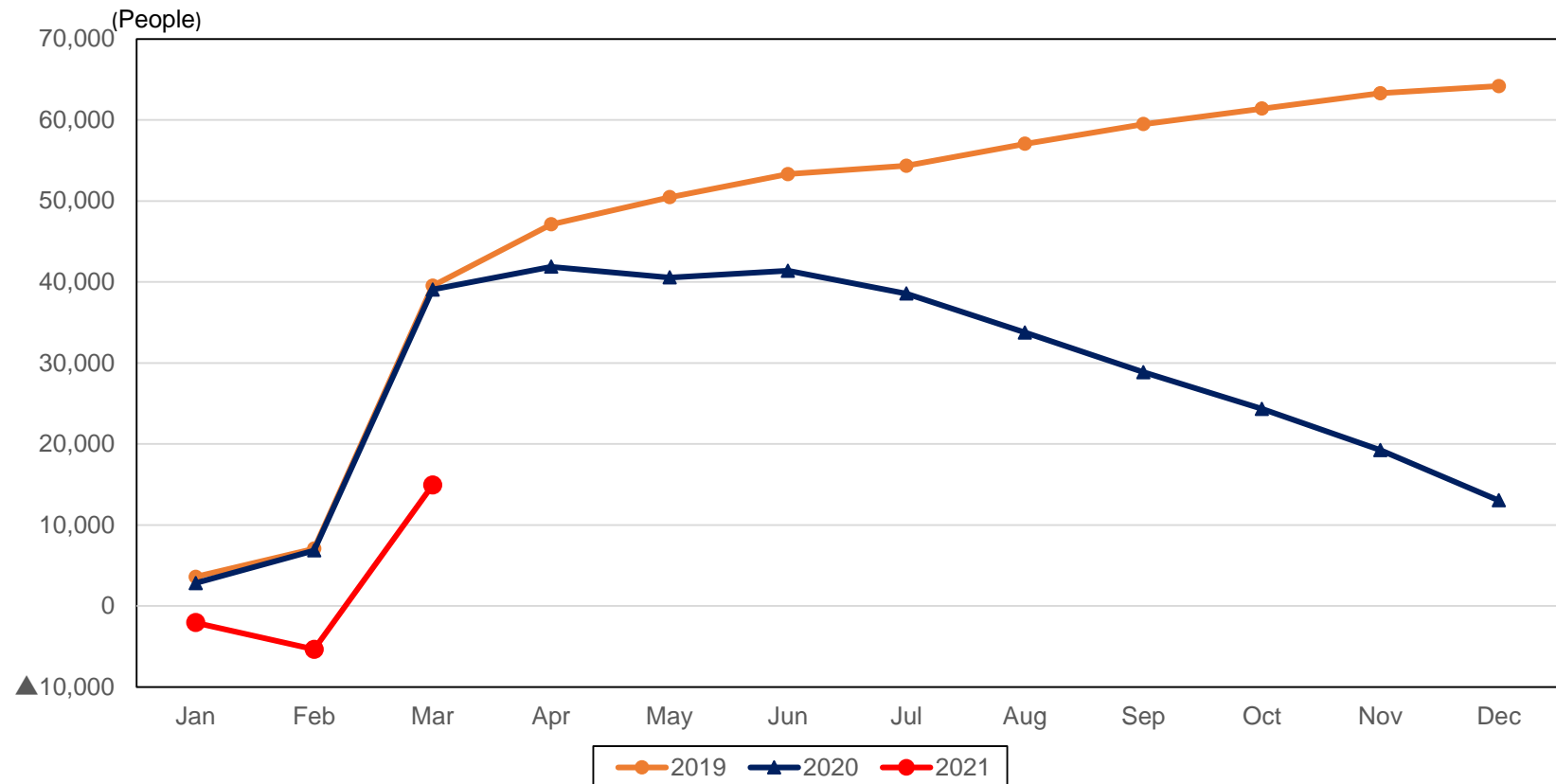


## Deceleration of population influx to Tokyo poses an uncertainty to urban multifamily



- Population influx to Tokyo was 14,929 people in Q1 2021, decreased from 39,066 people in the corresponding quarter of previous year.

Number of Net-migration to Tokyo Prefecture (Cumulative)



Source: The Statistics Bureau of Japan



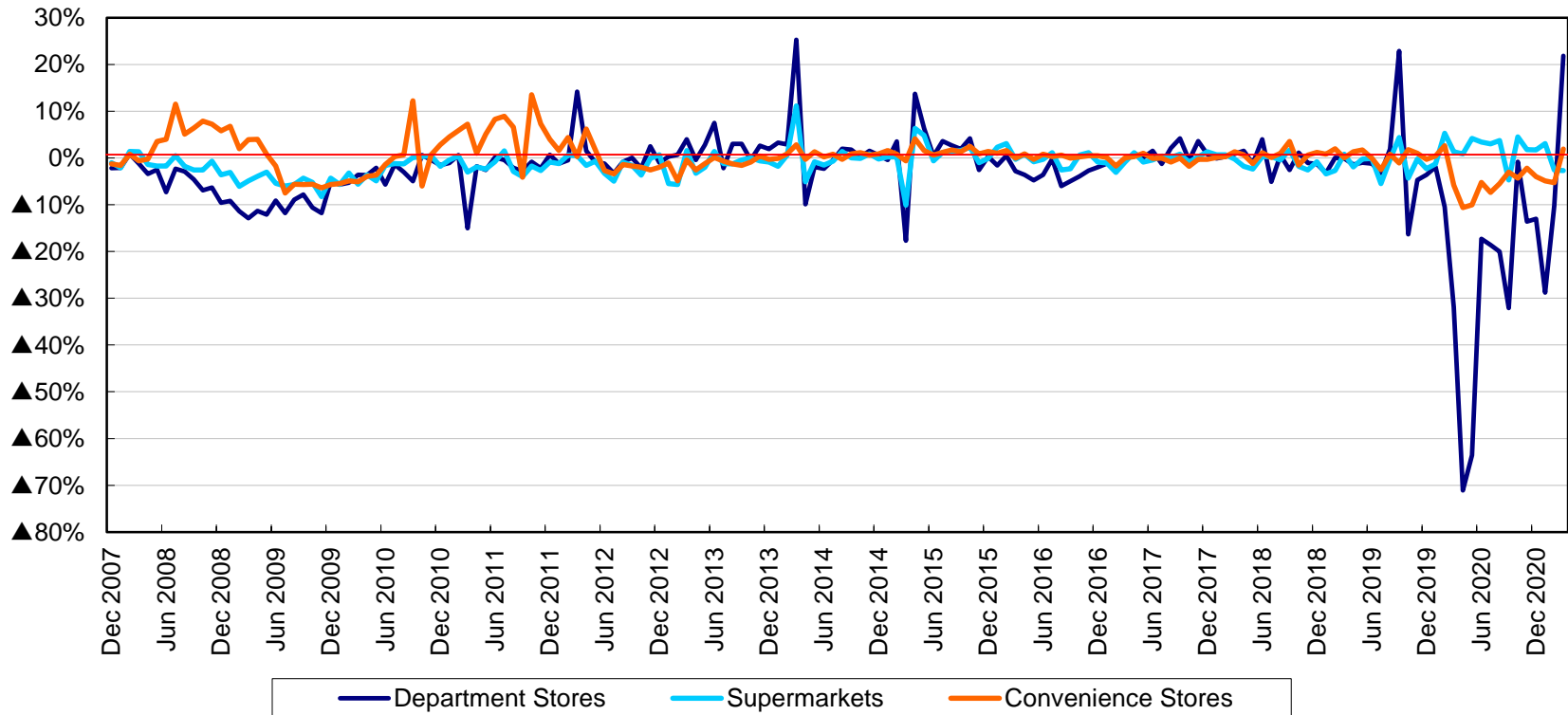
## The third COVID emergency declaration and delayed vaccination are expected weigh on retail



- In Q1 2021, sales of department stores and convenience stores, supermarkets declined by 8.3%, 2.7% and 0.8% respectively, due to the second round of COVID emergency.

### Retail Sales Growth

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



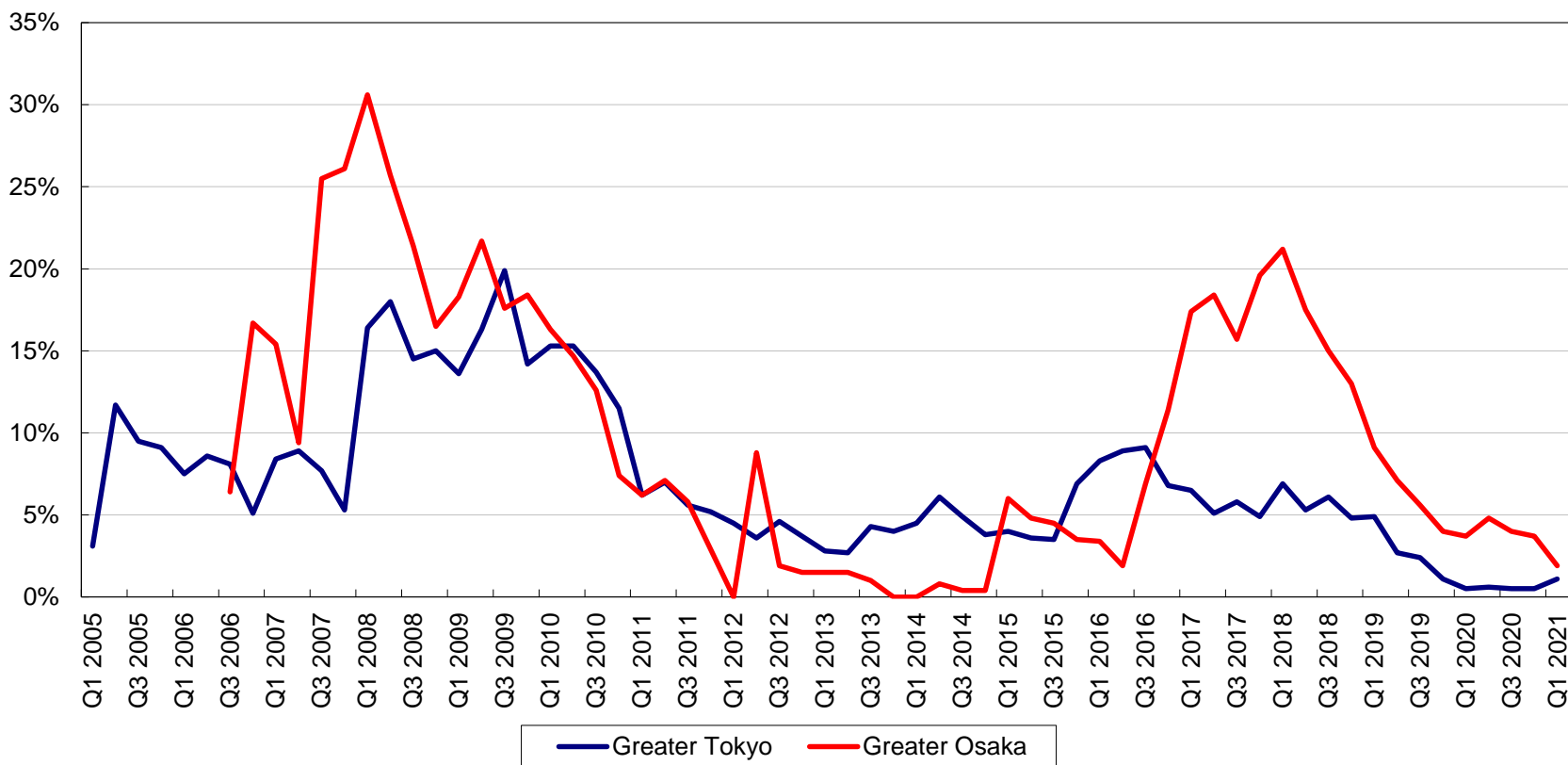
Source: The Ministry of Economy, Trade and Industry

## Major logistics markets remain robust



- In Greater Tokyo logistics market, vacancy rates increased to 1.1% in Q1 2021 from 0.6% in the previous quarter. Nonetheless, rents remaining on an upward trend.

Vacancy Rates of Large Multi-Tenant Logistics



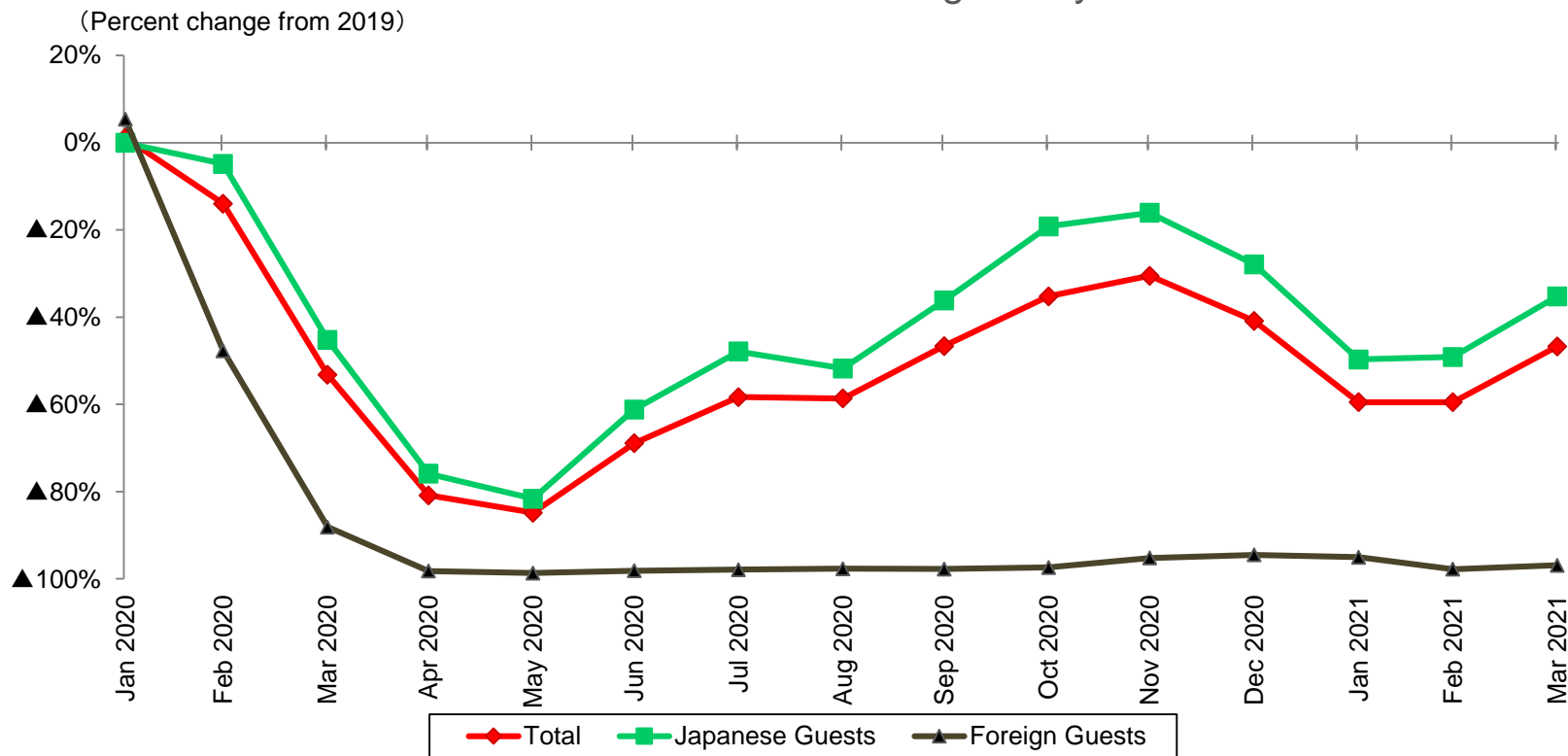
Source: CBRE

# Outlook remains gloomy in hotel sectors



- Total number of overnight stays declined by 54.7% in Q1 2021 from the corresponding period in 2019.
- According to STR, hotel occupancy declined to 30.6% in Tokyo and 34.4% in Osaka.

### Total Numbers of Overnight Stays

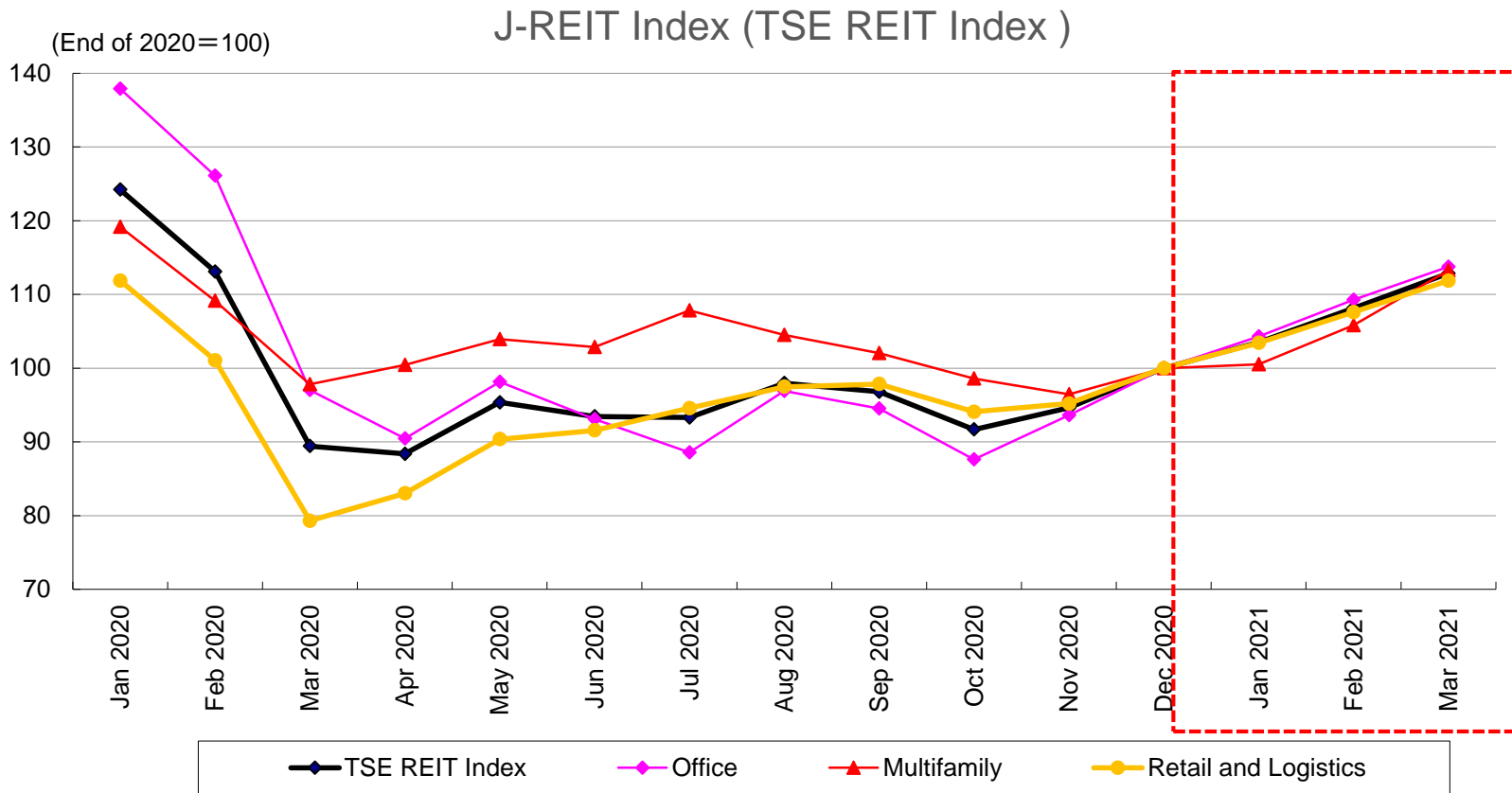


Source: Japan Tourism Agency

Recovery in J-REIT prices were weak compared to stock prices, but increased for five consecutive months in March 2021



- J-REIT Index increased by 12.8% q-o-q in Q1 2021, trading at price to NAV ratio at 1.1x, dividend yield at 3.6% and dividend and JGB spread at 3.5% in March 2021.



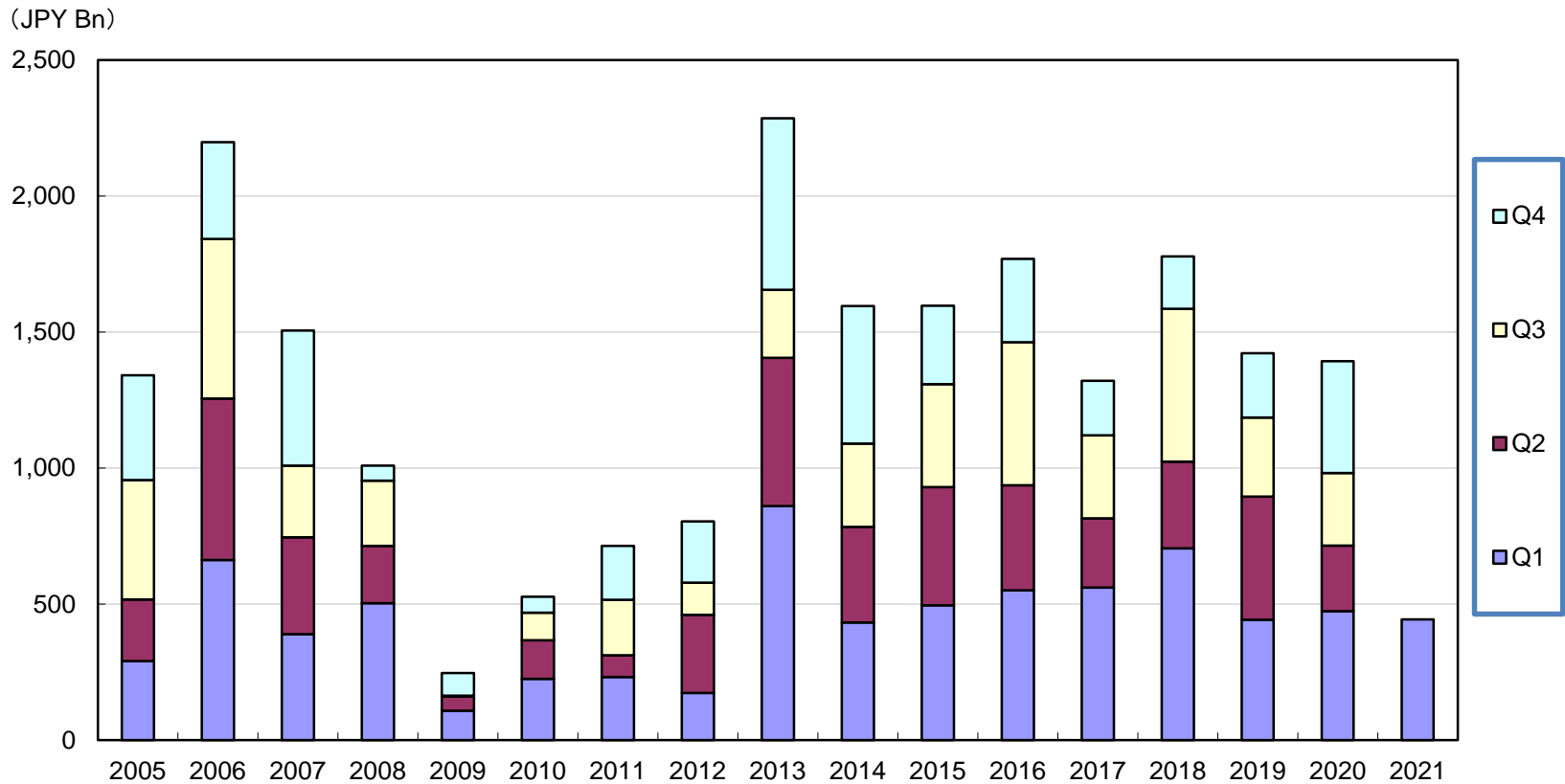
Source: Tokyo Stock Exchange

# Asset acquisitions by J-REITs in Q1 2021 remained at nearly year-ago level



- J-REITs acquired property assets totaling JPY443 billion in Q1 2021 (6% decrease y-o-y).
- Office sector led the acquisitions by J-REITs, which accounted for 61% of total acquisitions, followed by logistics, multifamily, retail and hotels.

J-REIT Asset Acquisitions



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

Source: Disclosure Documents



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