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RESEARCH

Japan Real Estate Market Quarterly Review

Second Quarter 2021

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Summary

Macro Economy

- Japan's real GDP is expected to grow by 0.4% q-o-q (annualized 1.5%) in Q2 2021, likely to avoid entering a technical recession.
- Japan's real GDP is expected to expand by 3.5% in FY2021 and 1.9% in FY 2022.

Real Estate Market

- Tokyo Grade-A office rents are hovering from Q4 2020 to Q2 2021, after declining to the same level of Q4 2017.
- Multifamily rental growth flattened in Tokyo as net migration slowed.
- Hotels and retails are continuing to struggle due to resurgence of COVID infections and renewed state of emergency.
- In major logistics markets, supply-demand balance remain robust.

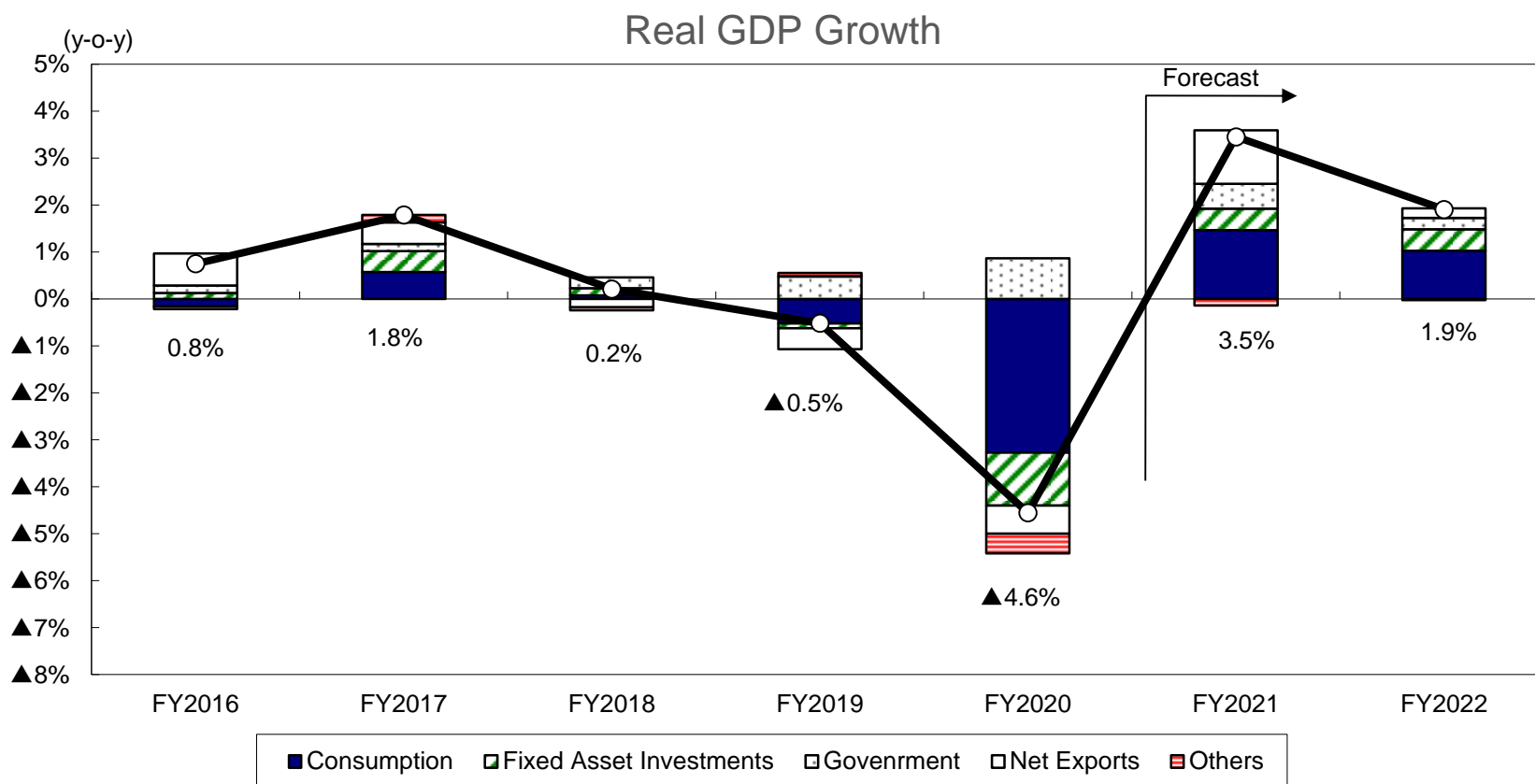
Capital Market

- J-REIT Index increased by 6.8% q-o-q in Q2 2021, trading at price to NAV ratio at 1.17x, dividend yield at 3.3% and dividend and JGB spread at 3.3%.
- J-REITs acquired property assets totaling JPY230 billion in Q2 2021 (5% decrease y-o-y).

Japan's economic recovery is expected to be slower than expected as reopening delay due to the spread of Delta variant



- Japan's real GDP is expected to grow by 0.4% q-o-q (annualized 1.5%) in Q2 2021, likely to avoid entering a technical recession.
- Japan's real GDP is expected to expand by 3.5% in FY2021 and 1.9% in FY 2022.

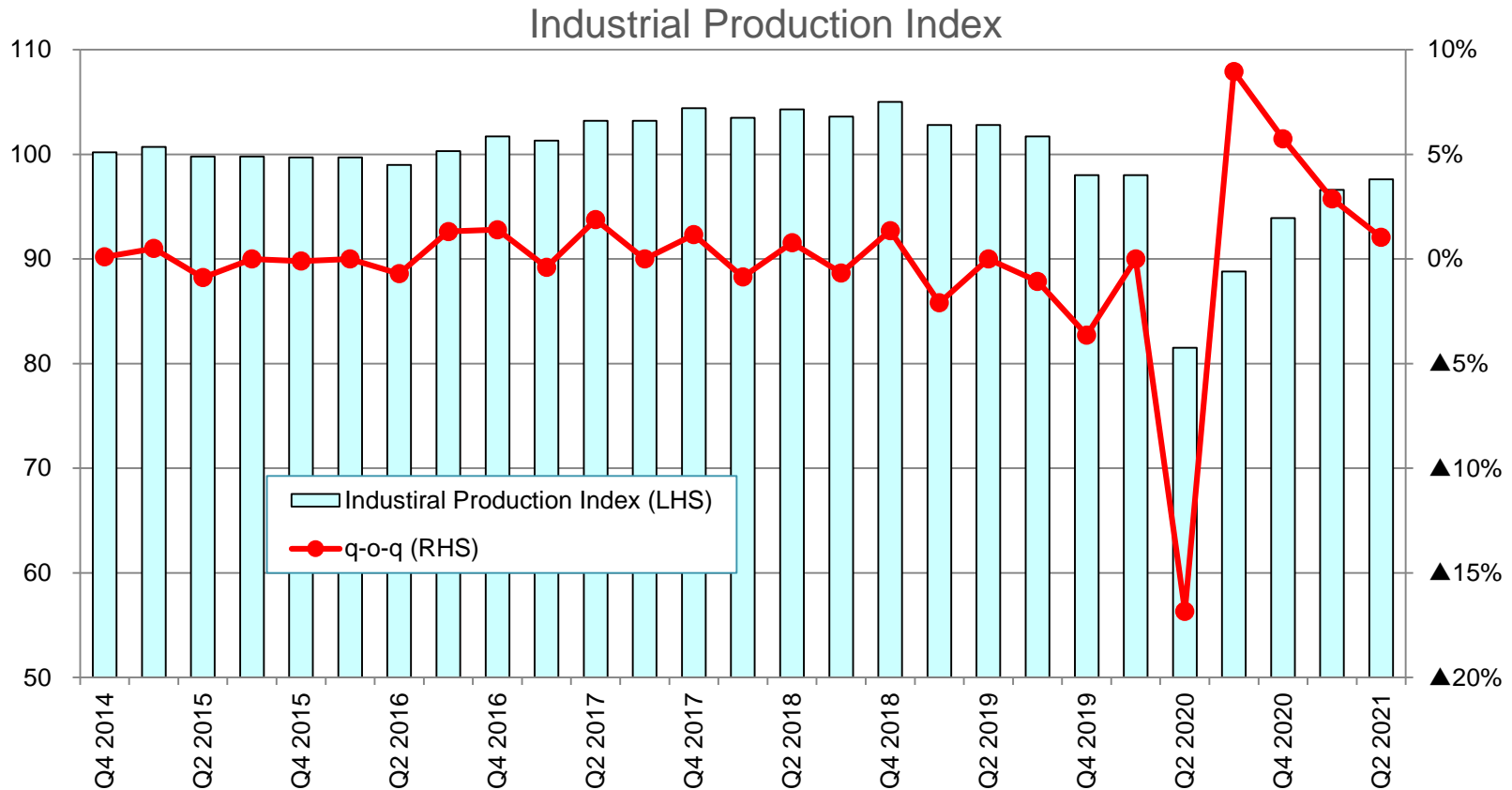


Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2021) "Weekly Economist Letter" NLI Research Institute, June, 2021.

Industrial production is expected to remain robust driven by the recovery of global economy



- Industrial production increased by 1.0% q-o-q in Q2 2021, almost recovering the level before the COVID-19 pandemic.
- Manufacturing activity buoyed by a strong recovery of external demand, while domestic demand remains sluggish.



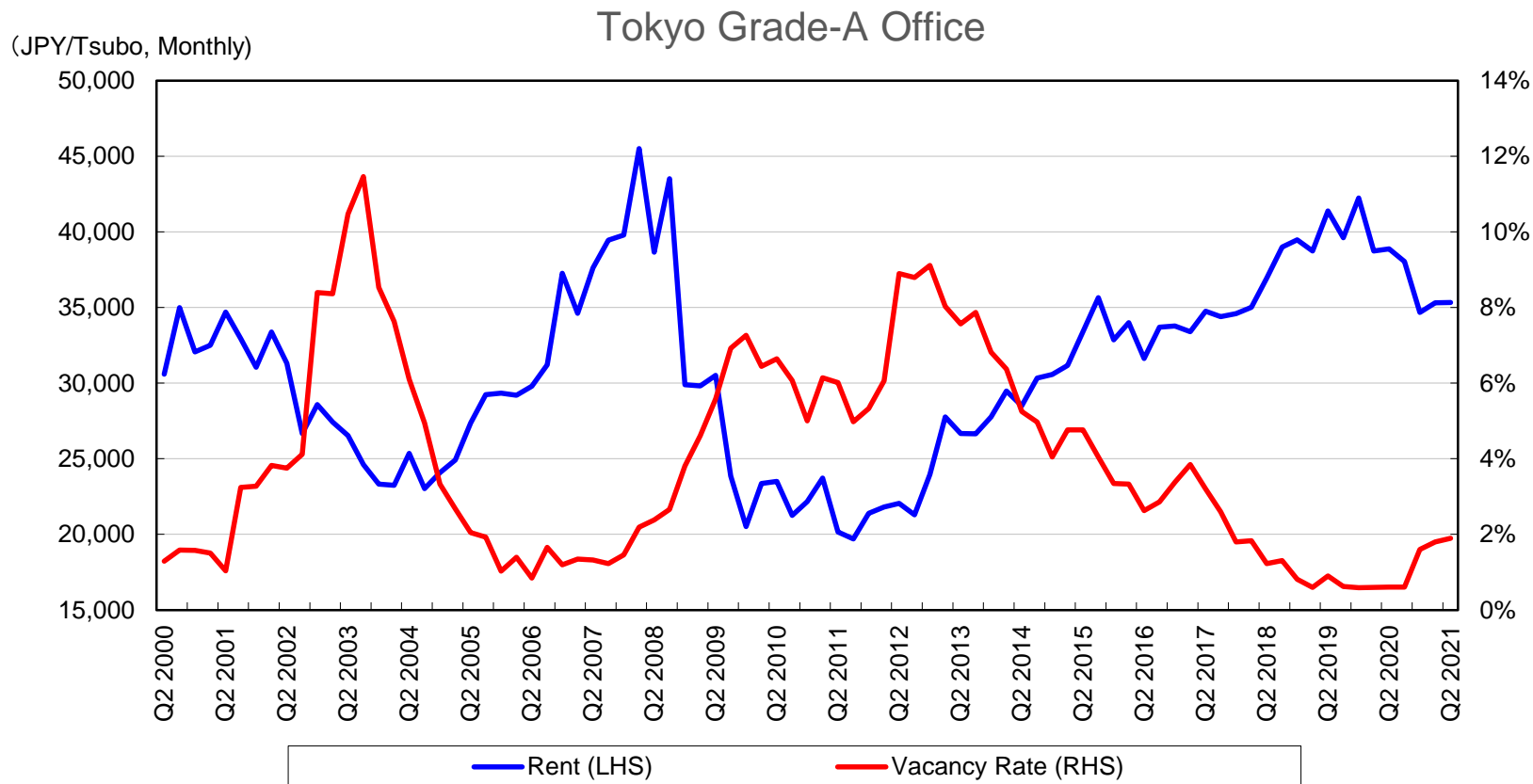
Source: The Ministry of Economy, Trade and Industry

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Grade-A office vacancies remain low as some landlords are pre-emptively lowering rents to attract tenants



- In Q2 2021, Tokyo grade-A office rents remain flat for two consecutive quarters, after declining 17.9% from the previous peak in Q4 2019.
- Vacancy rate increased to 1.9% in Q2 2021 from 1.8% in the previous quarter.



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)

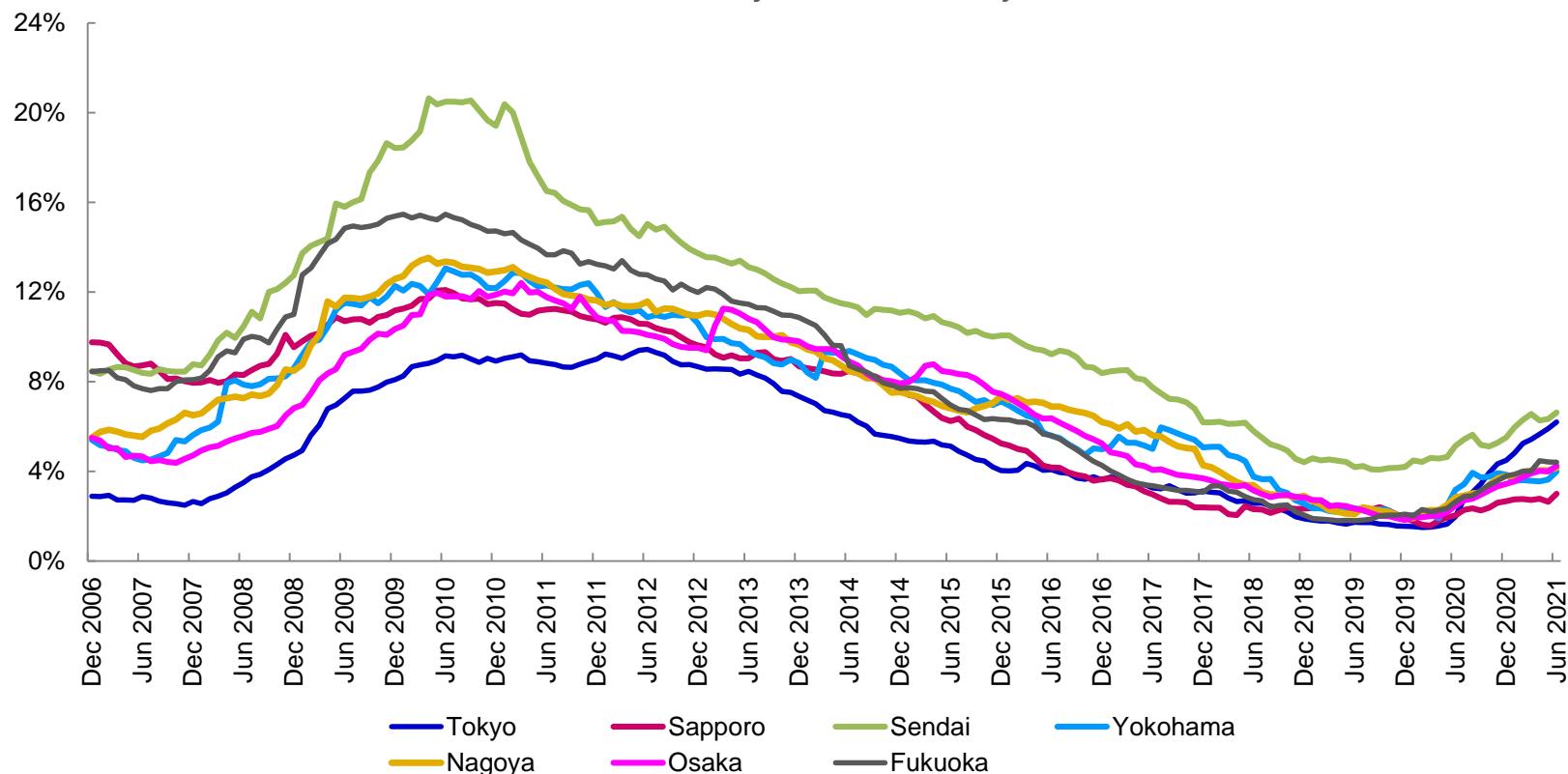
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Office markets in major cities continue to soften at a moderate pace



- Vacancy rates in Tokyo 5-ku increased to 6.19% in June 2021, increasing 4.7% from the cyclical low in February 2020. Office markets are also softening in other major cities in Japan, although at a very moderate pace.

Office Vacancy Rates in Major Cities

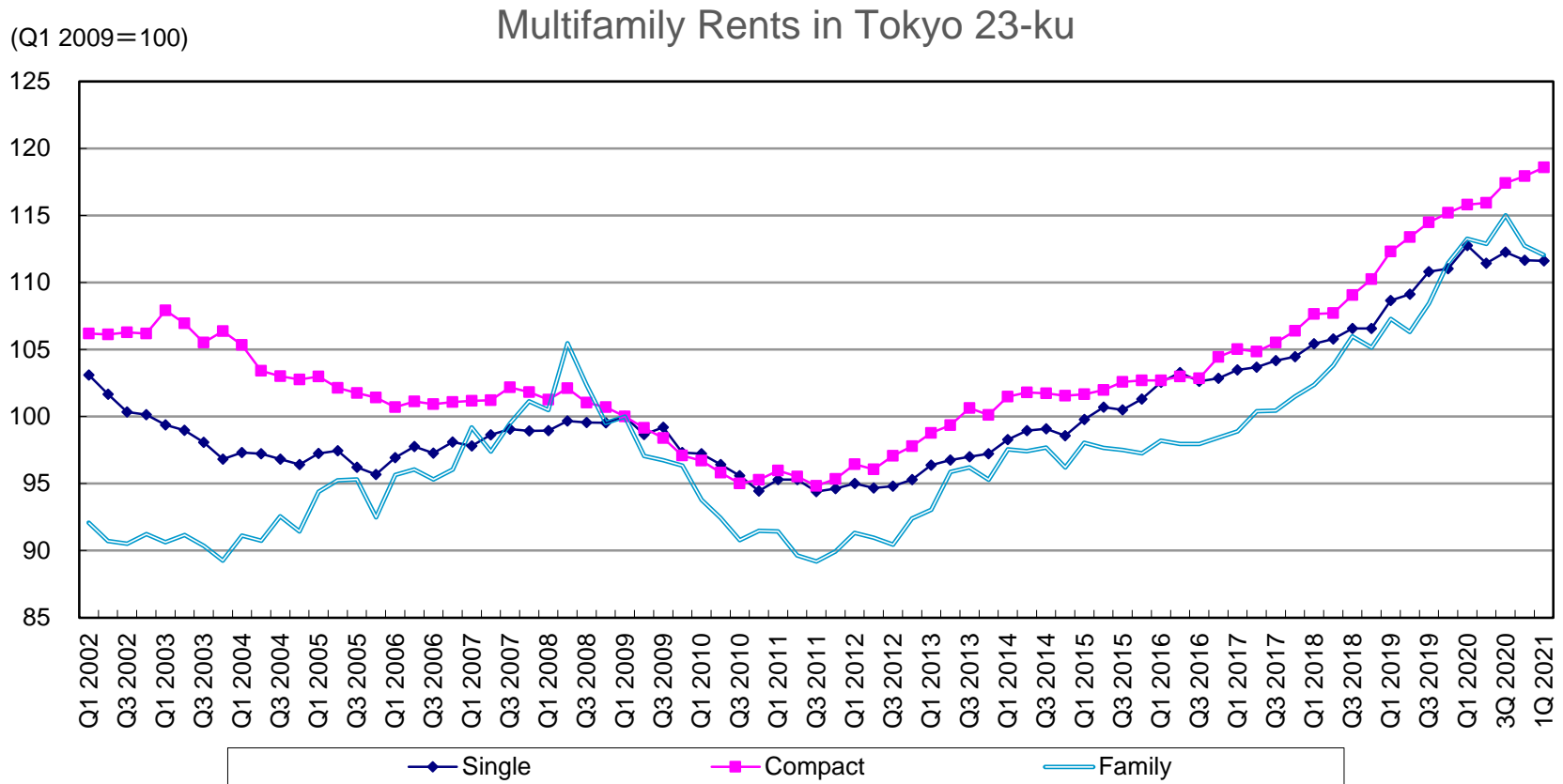


Source: Miki Shoji



Multifamily rental growth flattened in Tokyo

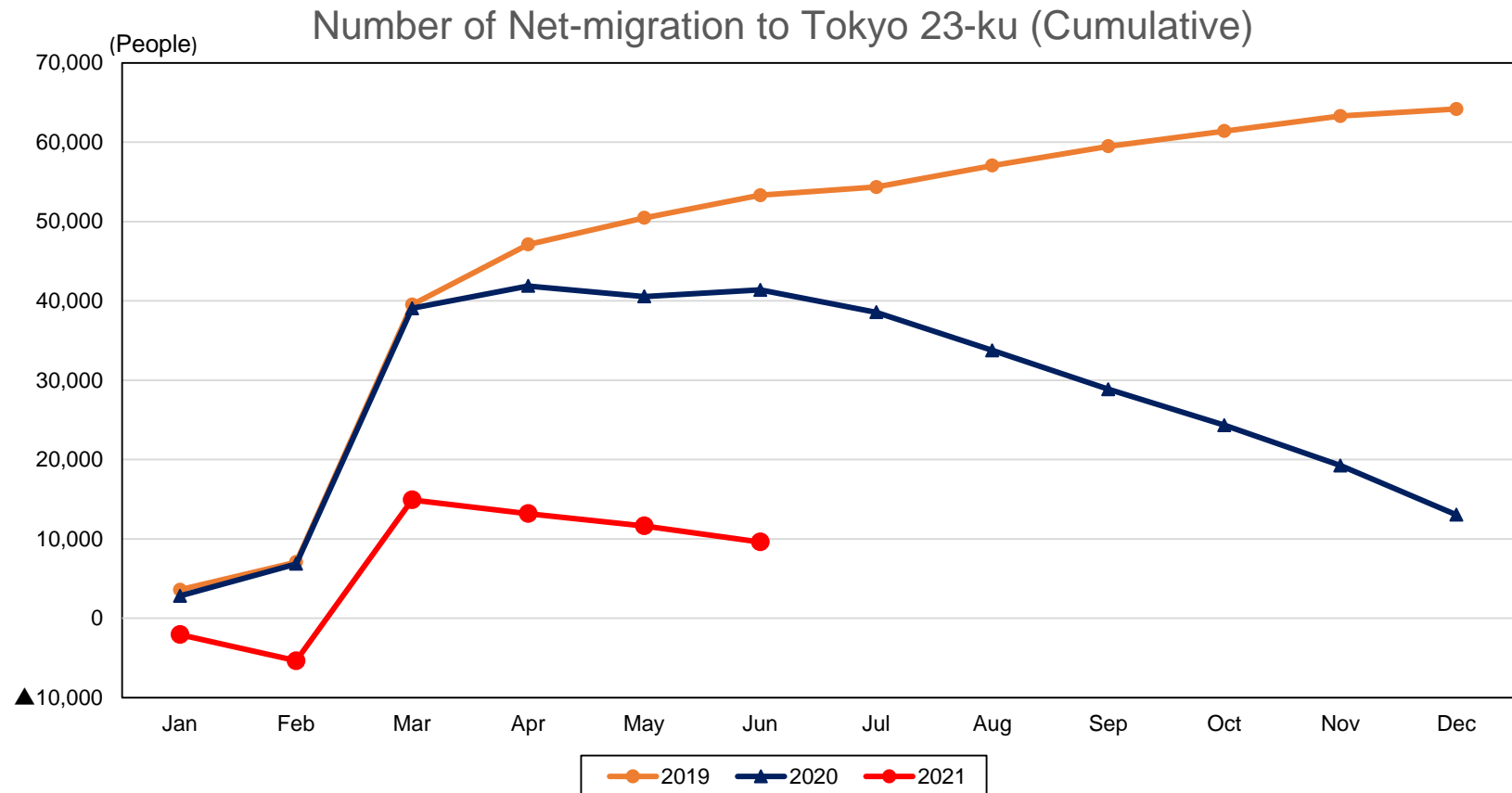
- In Q2 2021, multifamily rents of single-, compact- and family-type In Tokyo 23-ku changed by -1.1%, +2.8% and -1.2% y-o-y, respectively.
- Luxury multifamily rents increased by 2.6% y-o-y in Q2 2021, increasing for third consecutive quarters, according to Ken Corporation.



Population influx to Tokyo is expected to turn negative, if the pace after March 2021 continue



- Cumulative population inflow from Jan 2021 to Jun 2021 into Tokyo 23-ku was 9,611 people, decreased from 41,386 people in the corresponding period of previous year.

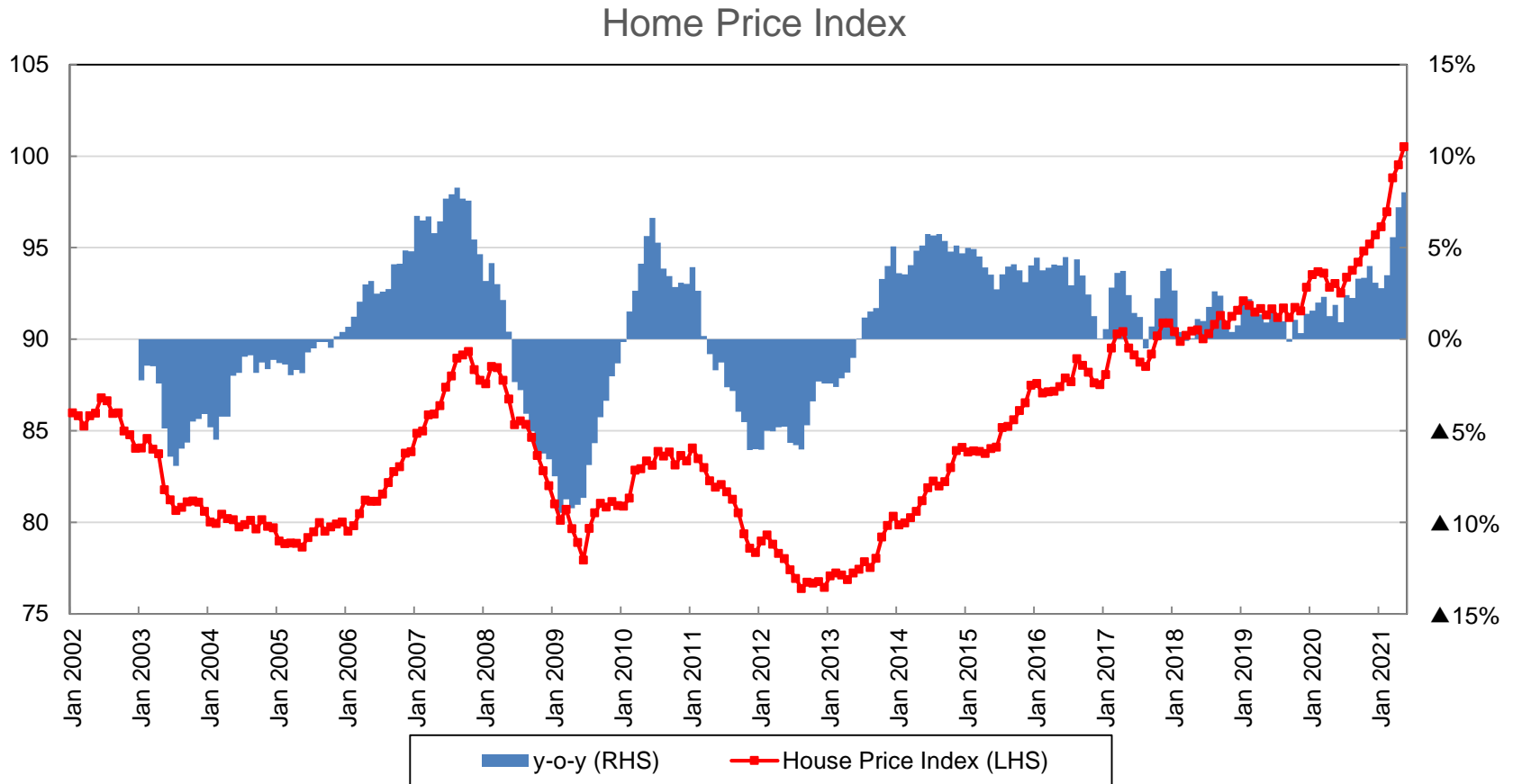


Source: The Statistics Bureau of Japan

Home price growth accelerated after the COVID-19 pandemic



- Japan home price gained by 8.0% y-o-y in May 2021, growing at the fastest pace since August 2007.



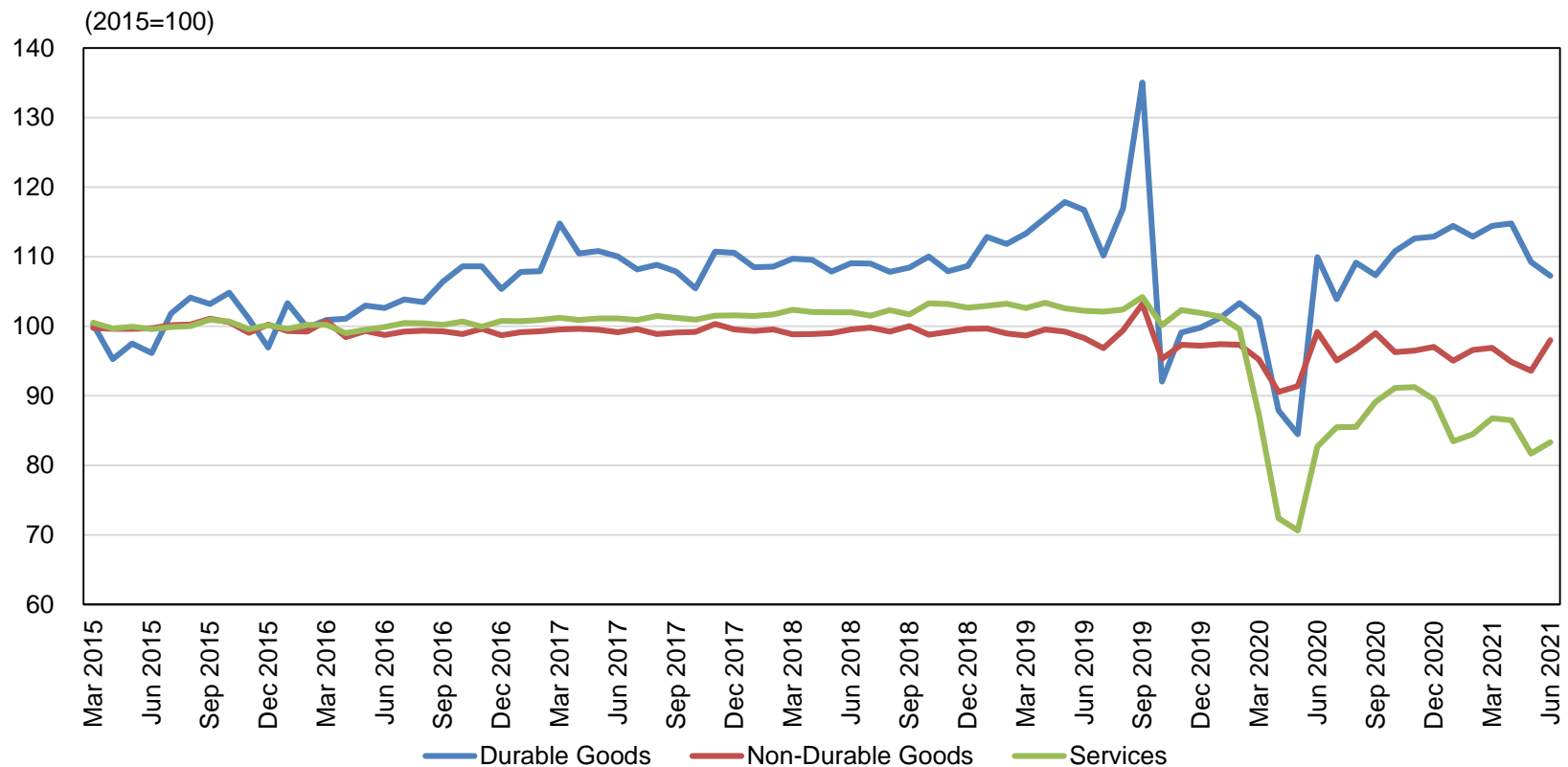
Source: Japan Real Estate Institute

Renewed state of emergency weighing heavily on retail



- In Q2 2021, real consumption activity index of durable goods, Non-durable goods and services declined by 3.1%, 0.7% and 1.2%, respectively.

Real Consumption Activity Index



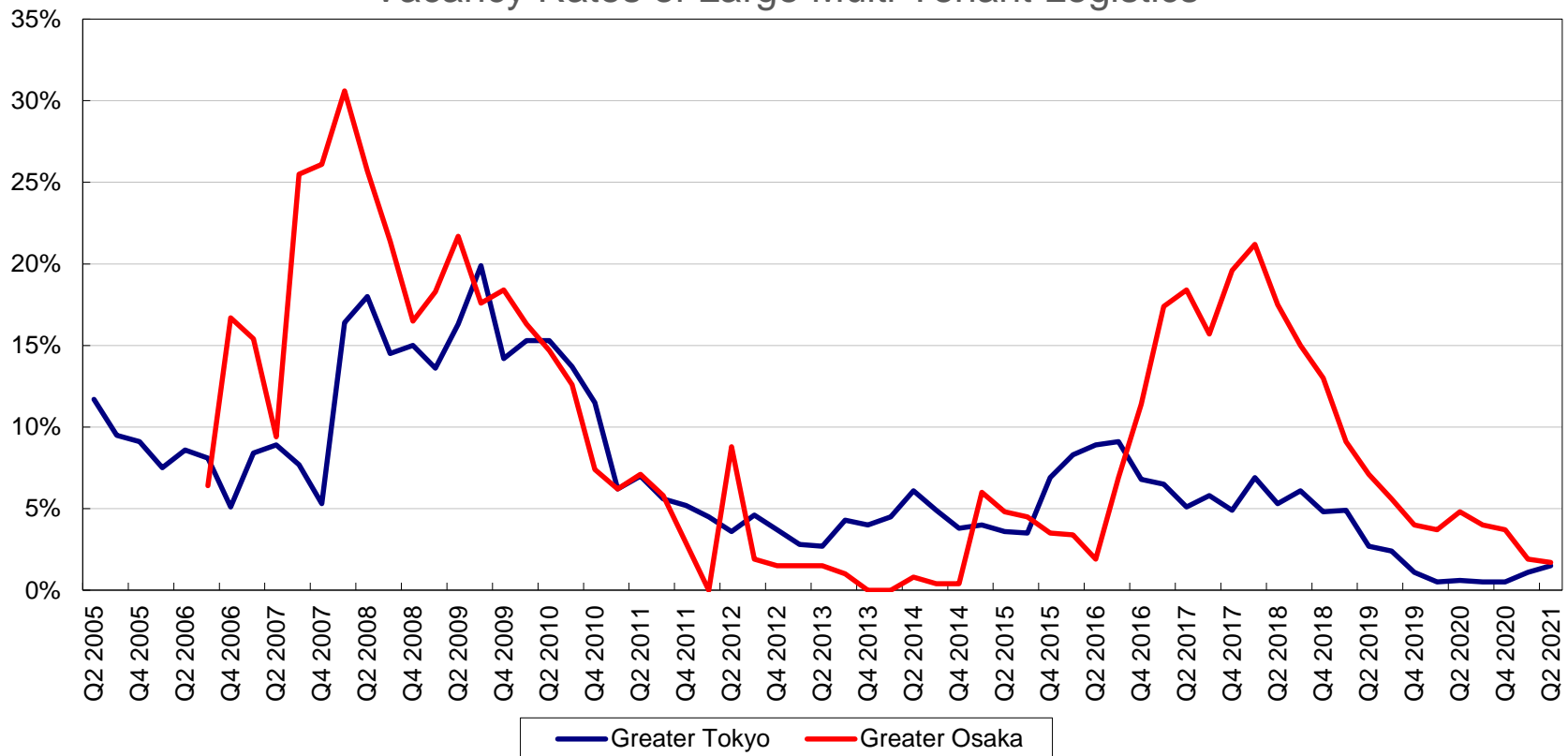
Source: The Bank of Japan

Supply-demand balance in major logistics markets is expected to remain healthy



- In Q2 2021, vacancy rates remain below 2% in both Greater Tokyo and Greater Osaka. In both markets, projected supply is expected to be high in the next two quarters, nonetheless 60% and 90% of new supply are already pre-leased, respectively.

Vacancy Rates of Large Multi-Tenant Logistics



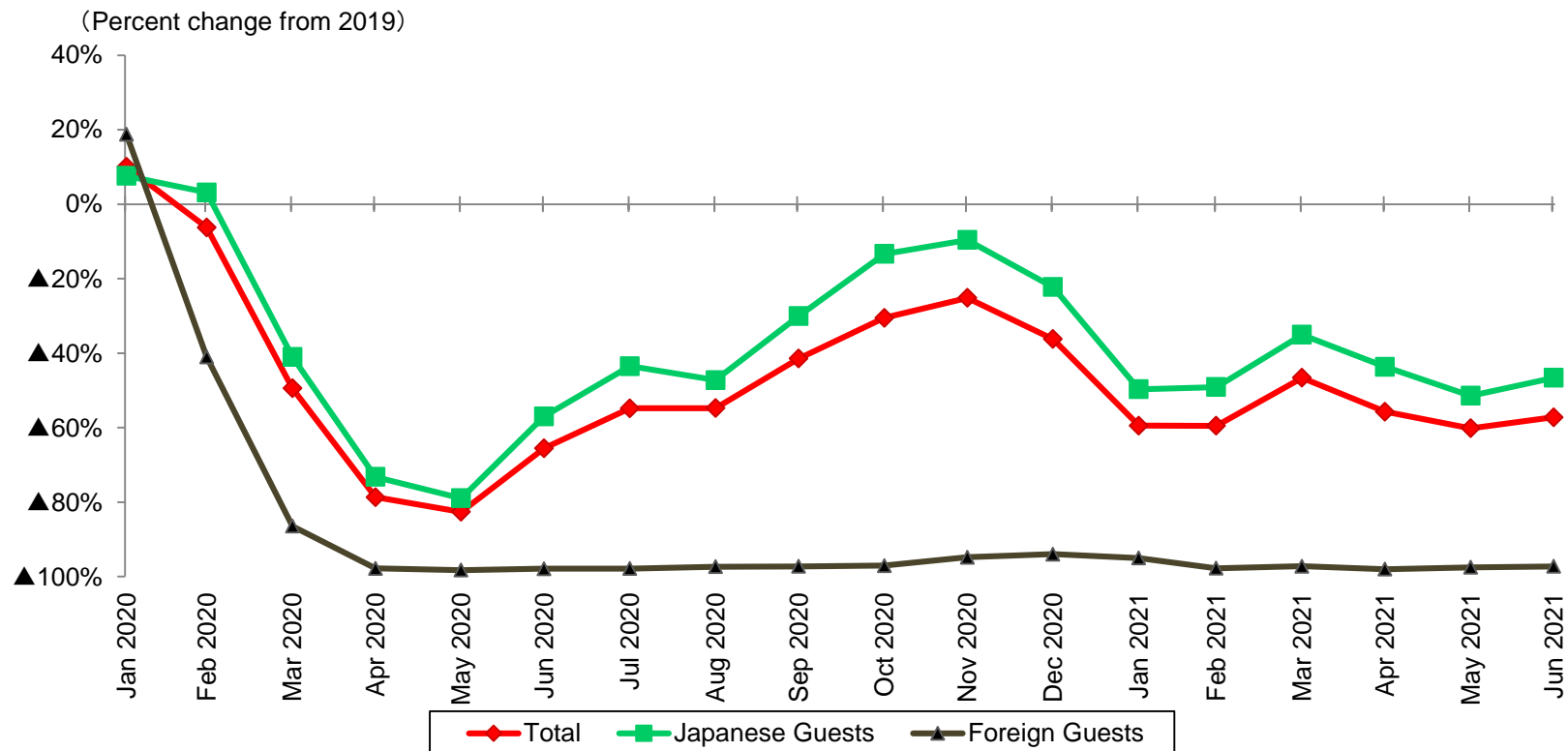
Source: CBRE

Vaccination rollout is likely to support domestic tourists, but full recovery in hotel markets is still far away



- Total number of overnight stays declined by 57.7% in Q2 2021 from the corresponding period in 2019.
- According to STR, hotel RevPAR declined by 77.2% in Tokyo and 81.7% in Osaka in June 2021 from the corresponding month in 2019.

Total Numbers of Overnight Stays

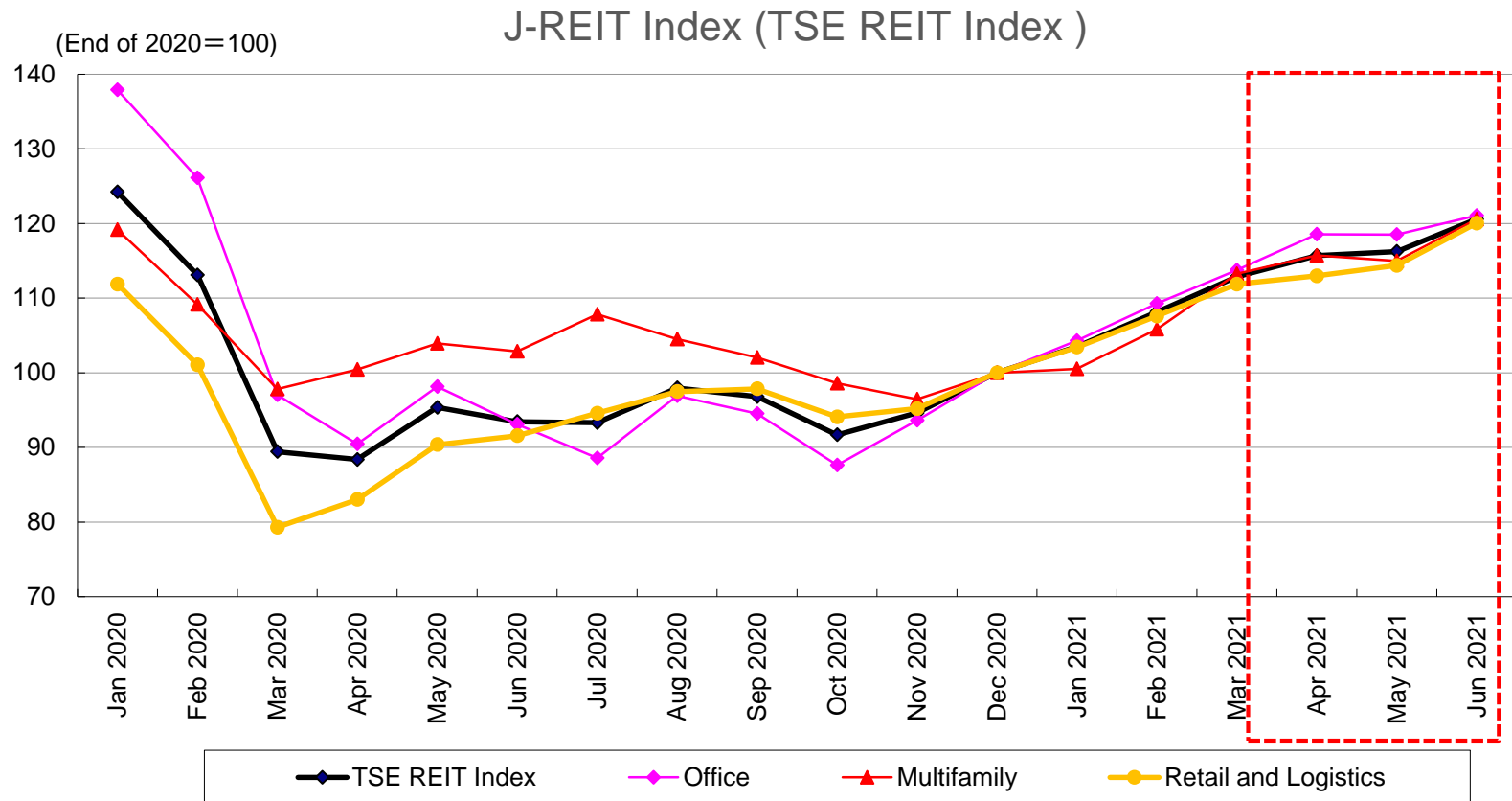


Source: Japan Tourism Agency

J-REIT prices increased for eighth consecutive months in June 2021, reaching to near Pre-COVID level



- J-REIT Index increased by 6.8% q-o-q in Q2 2021, trading at price to NAV ratio at 1.17x, dividend yield at 3.3% and dividend and JGB spread at 3.3% in June 2021.



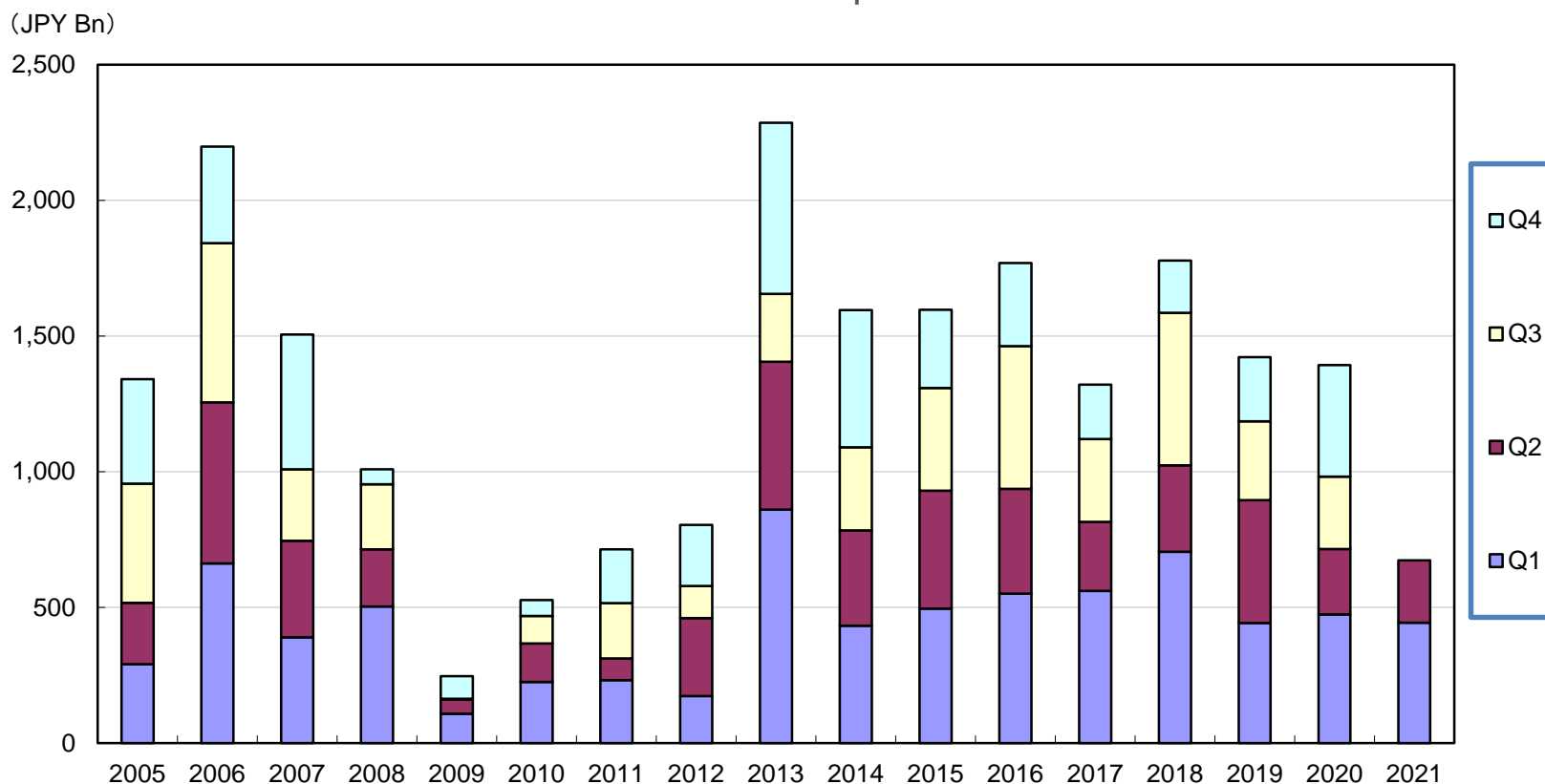
Source: Tokyo Stock Exchange



Asset acquisitions by J-REITs in 1H 2021 remain sluggish

- J-REITs acquired property assets totaling JPY230 billion in Q2 2021 (5% decrease y-o-y).
- Asset acquisition by J-REITS remained stagnant in the first half of 2021 (JPY673 billion), which is less than half of the cyclical peak in 2013 (JPY1,405 billion).

J-REIT Asset Acquisitions



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

Source: Disclosure Documents



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