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RESEARCH

Japan Real Estate Market Quarterly Review

Third Quarter 2021

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Summary

Macro Economy

- Japan's real GDP is expected to contract by 0.2% q-o-q (annualized 0.9%) in Q3 2021 dragged by the continued state of emergency and global chip shortage.
- Japan's real GDP is expected to expand by 3.1% in FY2021 and 2.0% in FY 2022.

Real Estate Market

- Tokyo Grade-A office rents are hovering from Q4 2020 to Q3 2021, after declining to the same level of Q4 2017.
- Multifamily rental growth appearing to have hit their peak in Tokyo as net migration slowed.
- Hotels and retails are continuing to struggle due to continued state of emergency.
- In major logistics markets, demand remained resilient, while large supply weighed on some submarkets in Tokyo.

Capital Market

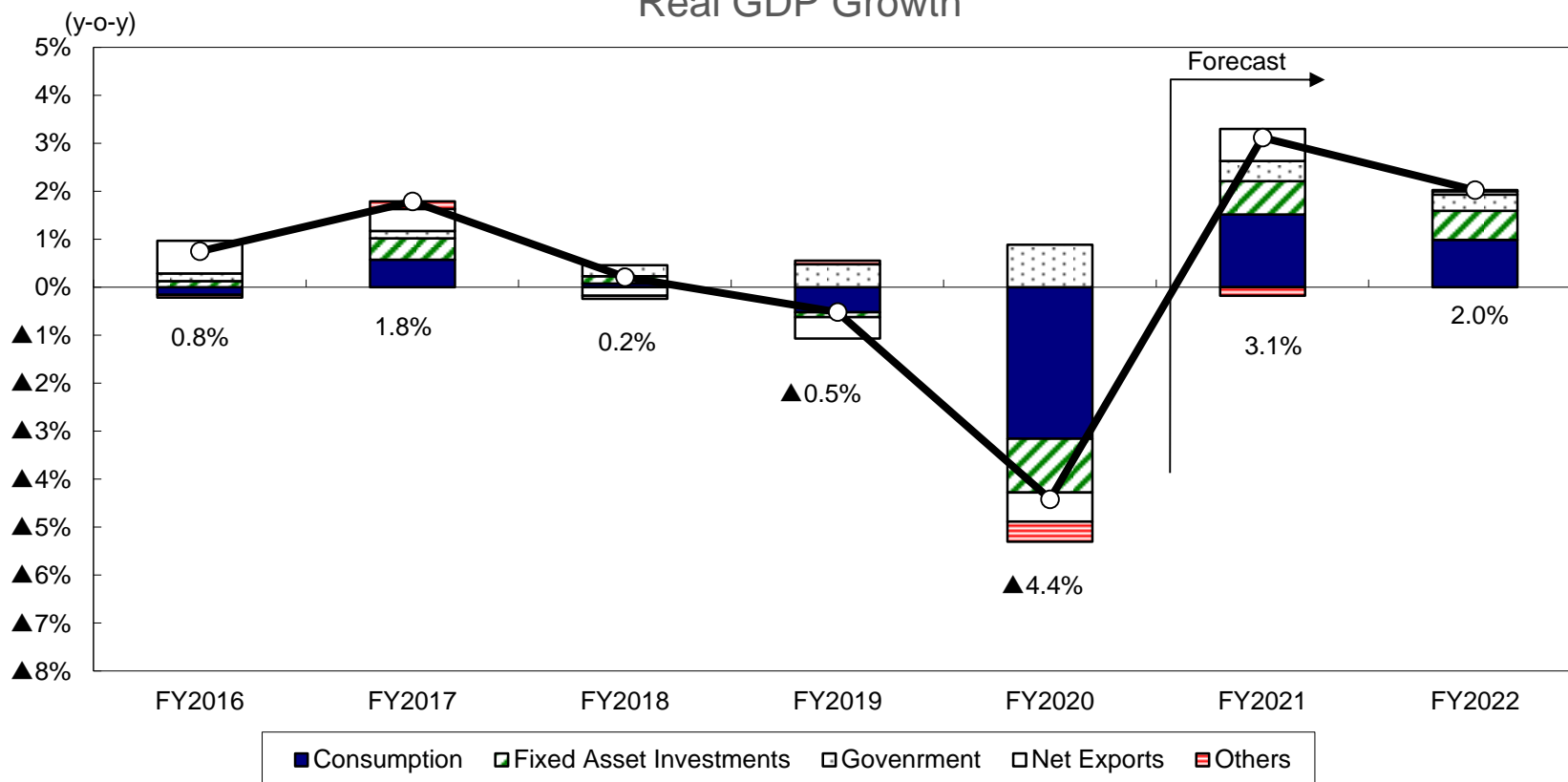
- J-REIT Index declined by 3.7% q-o-q in Q3 2021, trading at price to NAV ratio at 1.12x, dividend yield at 3.5% and dividend and JGB spread at 3.4%.
- J-REITs acquired property assets totaling JPY486 billion in Q3 2021 (82% increase y-o-y).

Japan's economic recovery remains stagnant due to the spread of Delta variant and the global supply chain pressure



- Japan's real GDP is expected to contract by 0.2% q-o-q (annualized 0.9%) in Q3 2021 dragged by the continued state of emergency and global chip shortage.
- Japan's real GDP is expected to expand by 3.1% in FY2021 and 2.0% in FY 2022.

Real GDP Growth

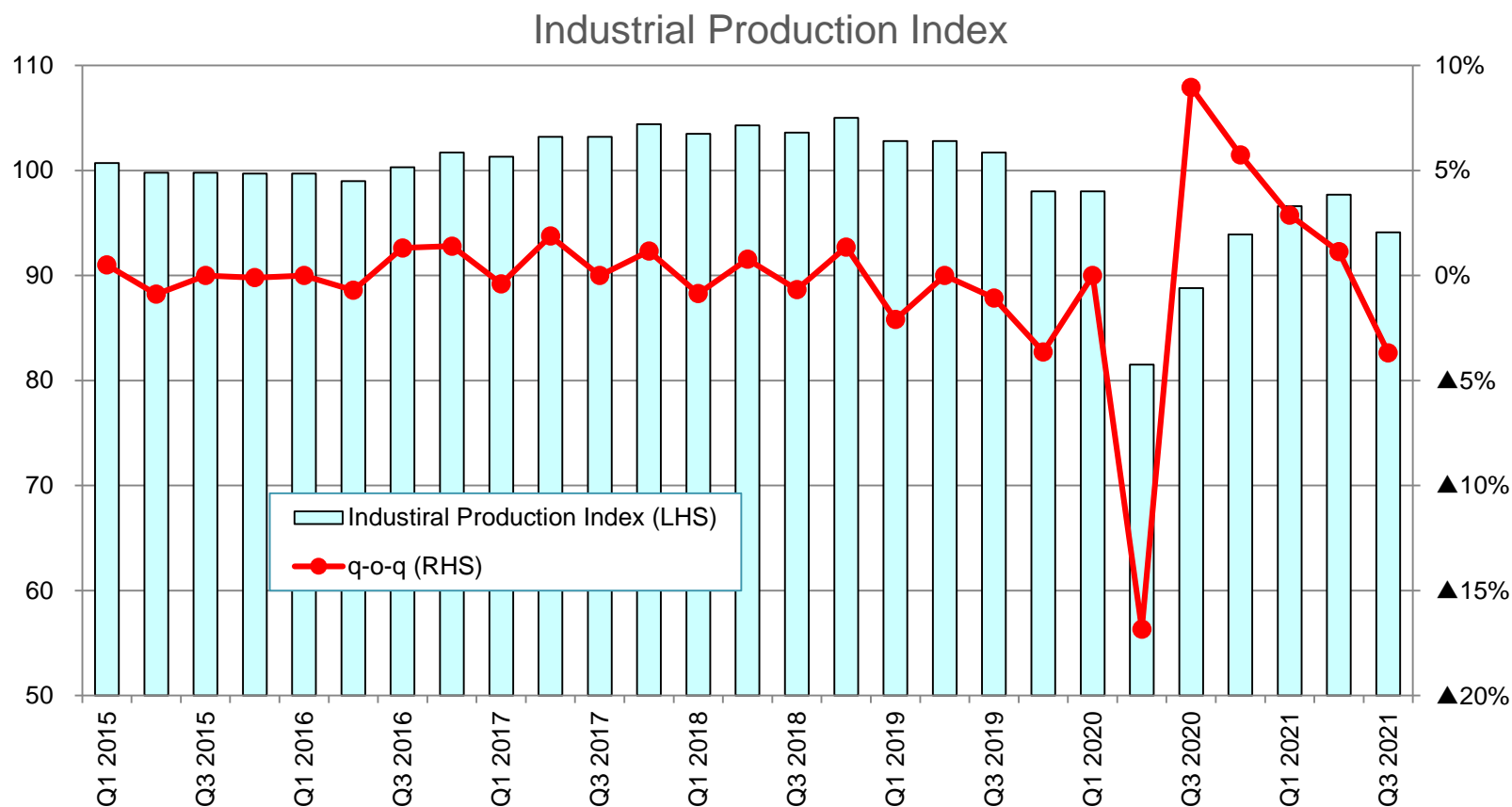


Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2021) "Weekly Economist Letter" NLI Research Institute, September, 2021.



Stressed supply-chain weighing on manufacturing industries

- Industrial production decreased by 3.7%% q-o-q in Q3 2021, the first decline in five quarters.
- Extended semiconductor shortage hits automobile-related industries.



Source: The Ministry of Economy, Trade and Industry

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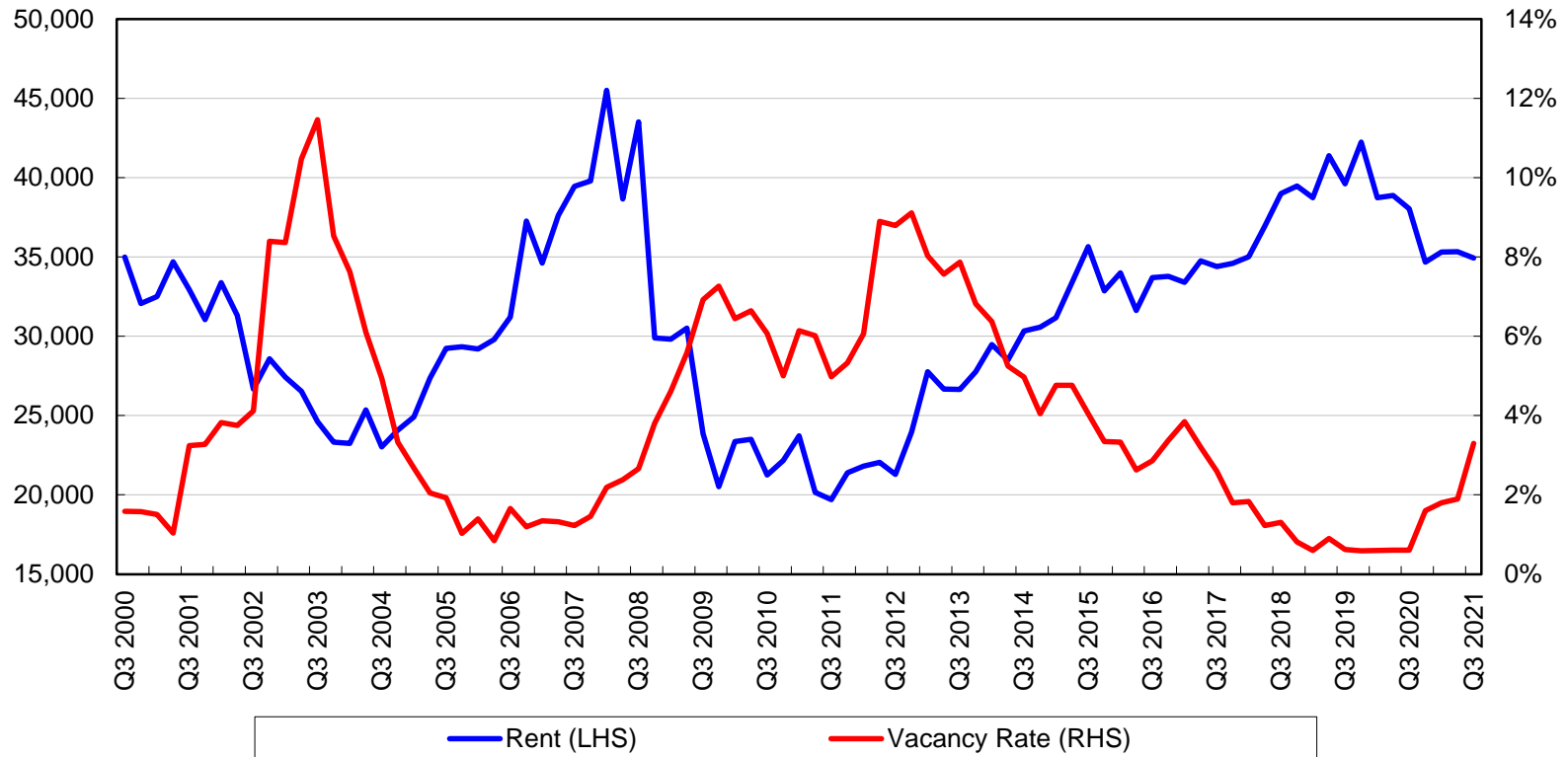
Grade-A office vacancies increased partly driven by relocations to adapt to Work-From-Home trend



- In Q3 2021, Tokyo grade-A office rents remain flat for three consecutive quarters, after declining 17.9% from the previous peak in Q4 2019.
- Vacancy rate increased to 3.3% in Q3 2021 from 1.9% in the previous quarter.

Tokyo Grade-A Office

(JPY/Tsubo, Monthly)



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)

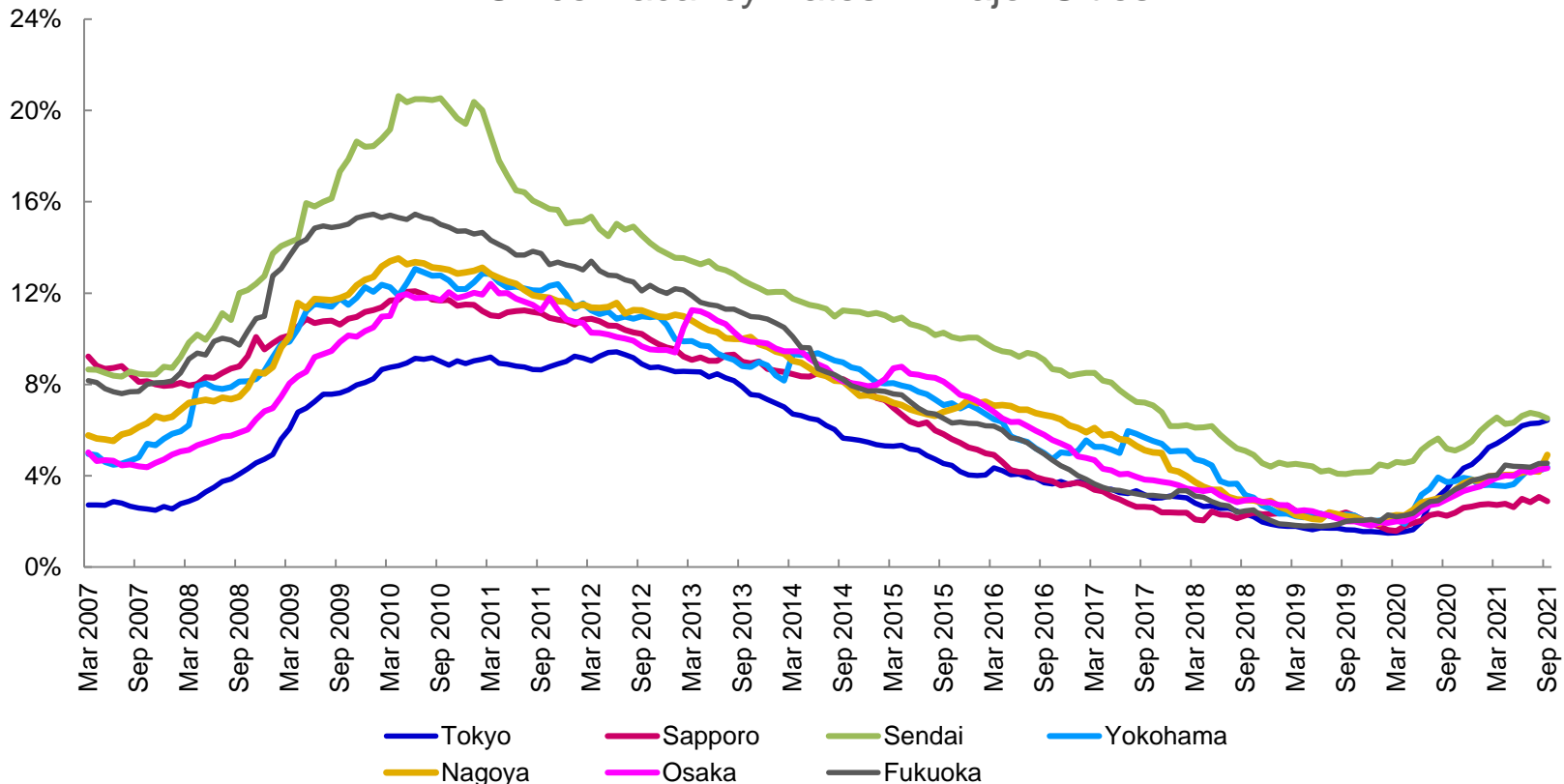
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Office markets in major cities continues to undergo a modest correction phase



- Vacancy rates in Tokyo 5-ku increased to 6.43% in September 2021. From the cyclical low in February 2020, vacancy rates in Tokyo 5-ku increased 4.9%, followed by Nagoya (2.71%), Yokohama (2.41%), Osaka (2.39%), Fukuoka (2.26%), Sendai (2.09%) and Sapporo (1.27%).

Office Vacancy Rates in Major Cities



Source: Miki Shoji

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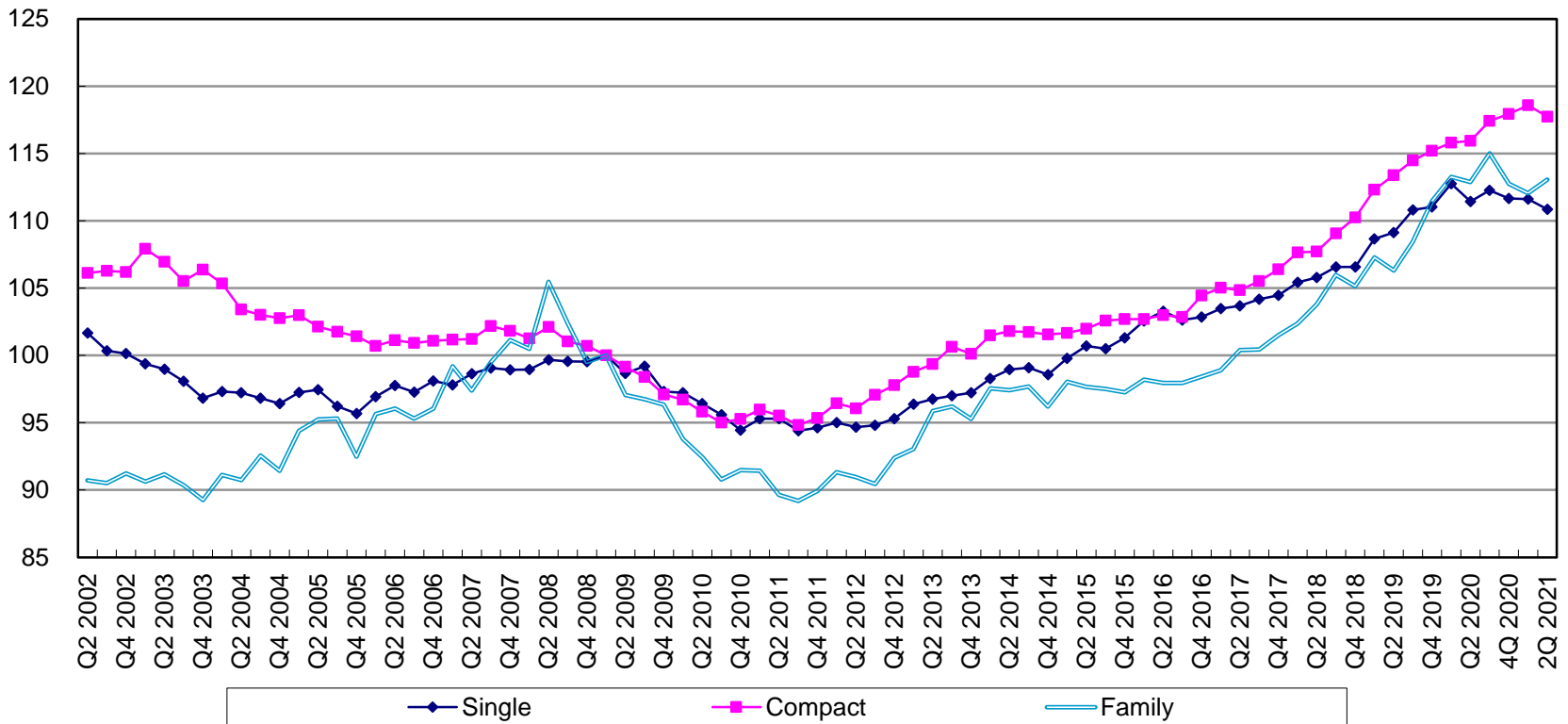


Multifamily rental growth appearing to have hit their peak in Tokyo

- In Q2 2021, multifamily rents of single-, compact- and family-type In Tokyo 23-ku changed by -0.6%, +1.8% and +0.2% y-o-y, respectively.
- Luxury multifamily rents increased by 4.8% y-o-y in Q3 2021, increasing for fourth consecutive quarters, according to Ken Corporation.

Multifamily Rents in Tokyo 23-ku

(Q1 2009=100)



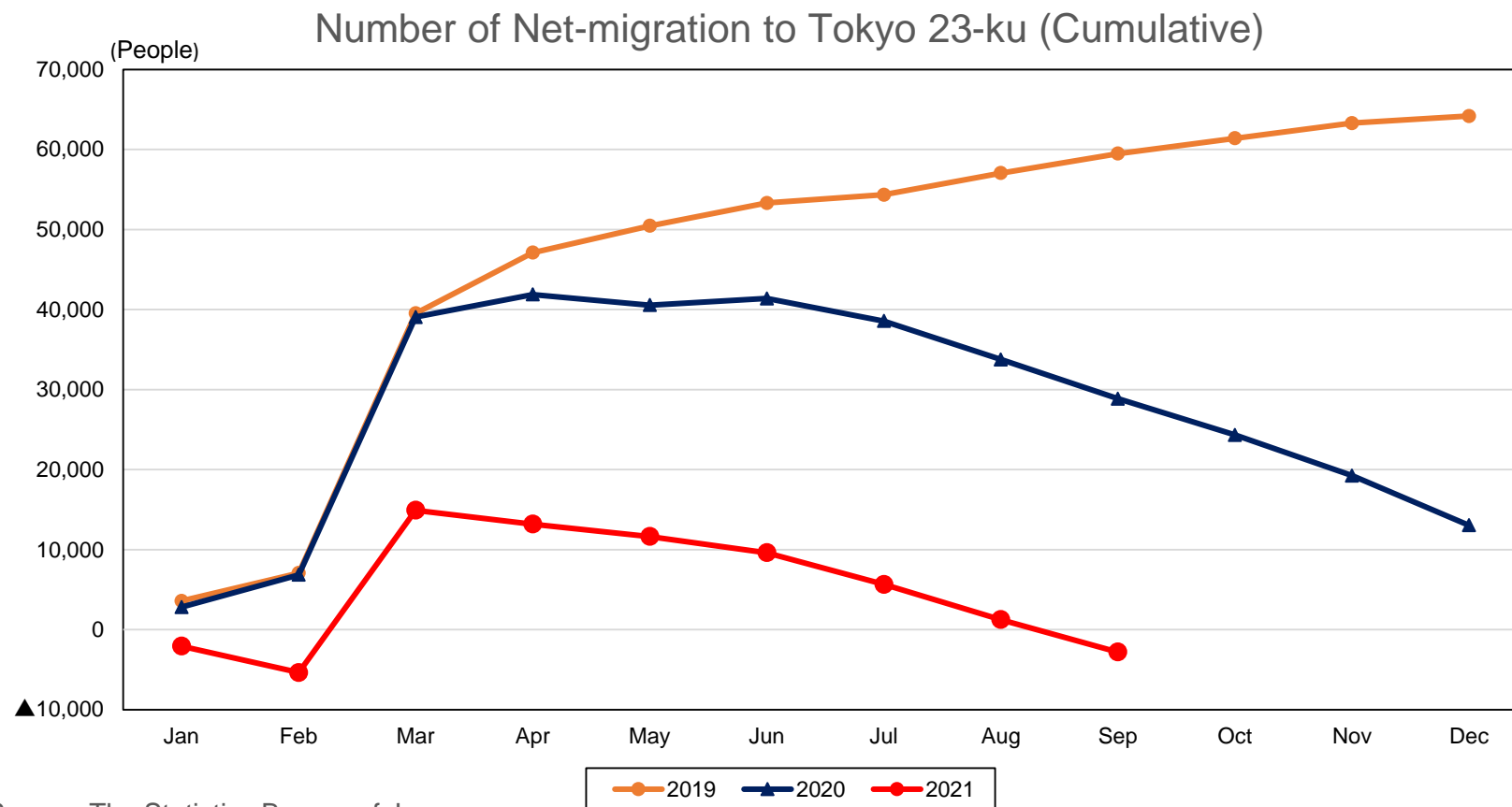
Source: Mitsui Sumitomo Trust Research Institute and At Home

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Year-to-date population influx to Tokyo turned negative



- Cumulative population outflow from Jan 2021 to Sep 2021 into Tokyo 23-ku was 2,794 people, turning negative from influx of 28,851 people in the corresponding period of previous year.

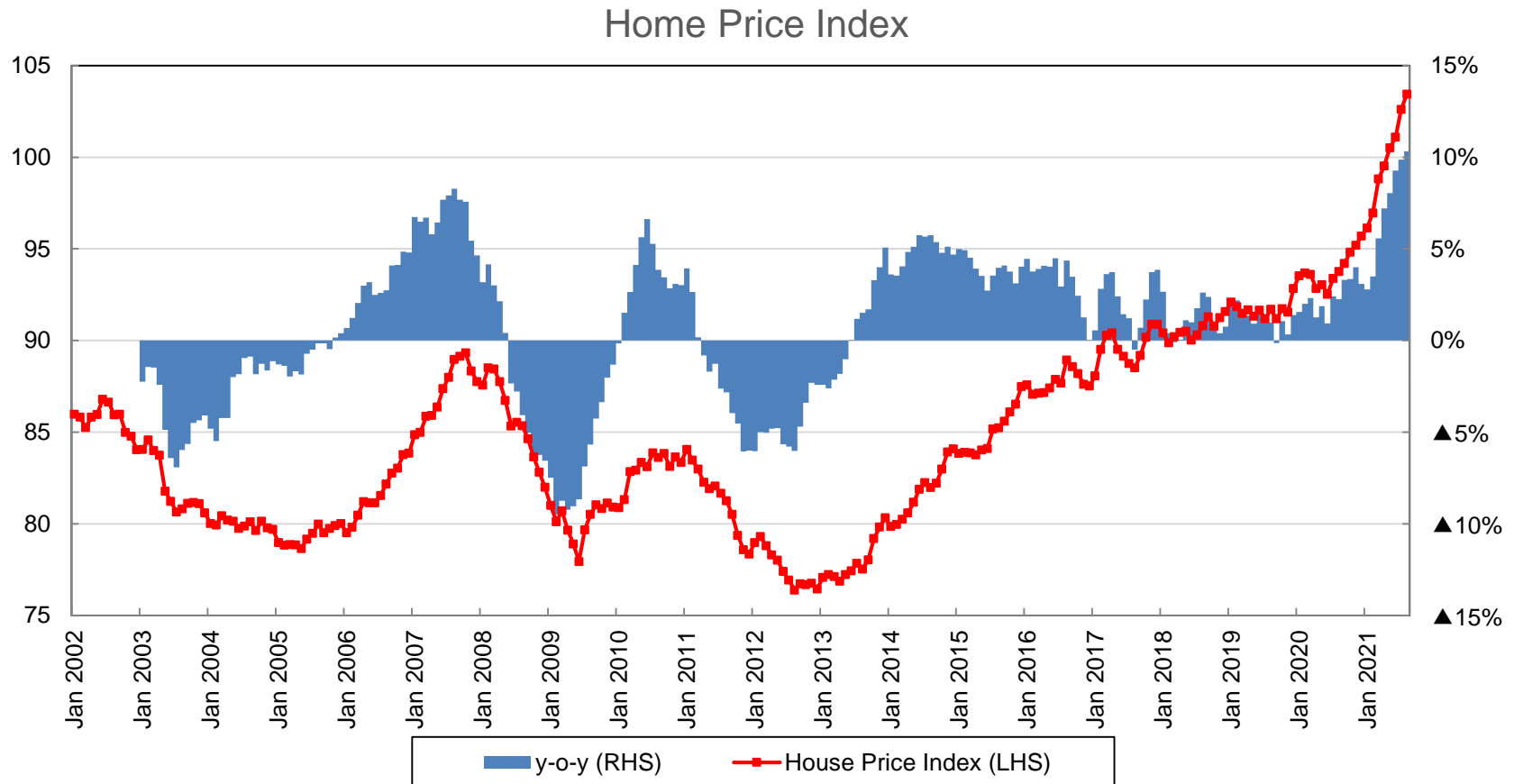


Source: The Statistics Bureau of Japan

Home price growth accelerating after the COVID-19 pandemic



- Japan home price gained by 10.3% y-o-y in August 2021, growing at the fastest pace since its inception in June 1993.

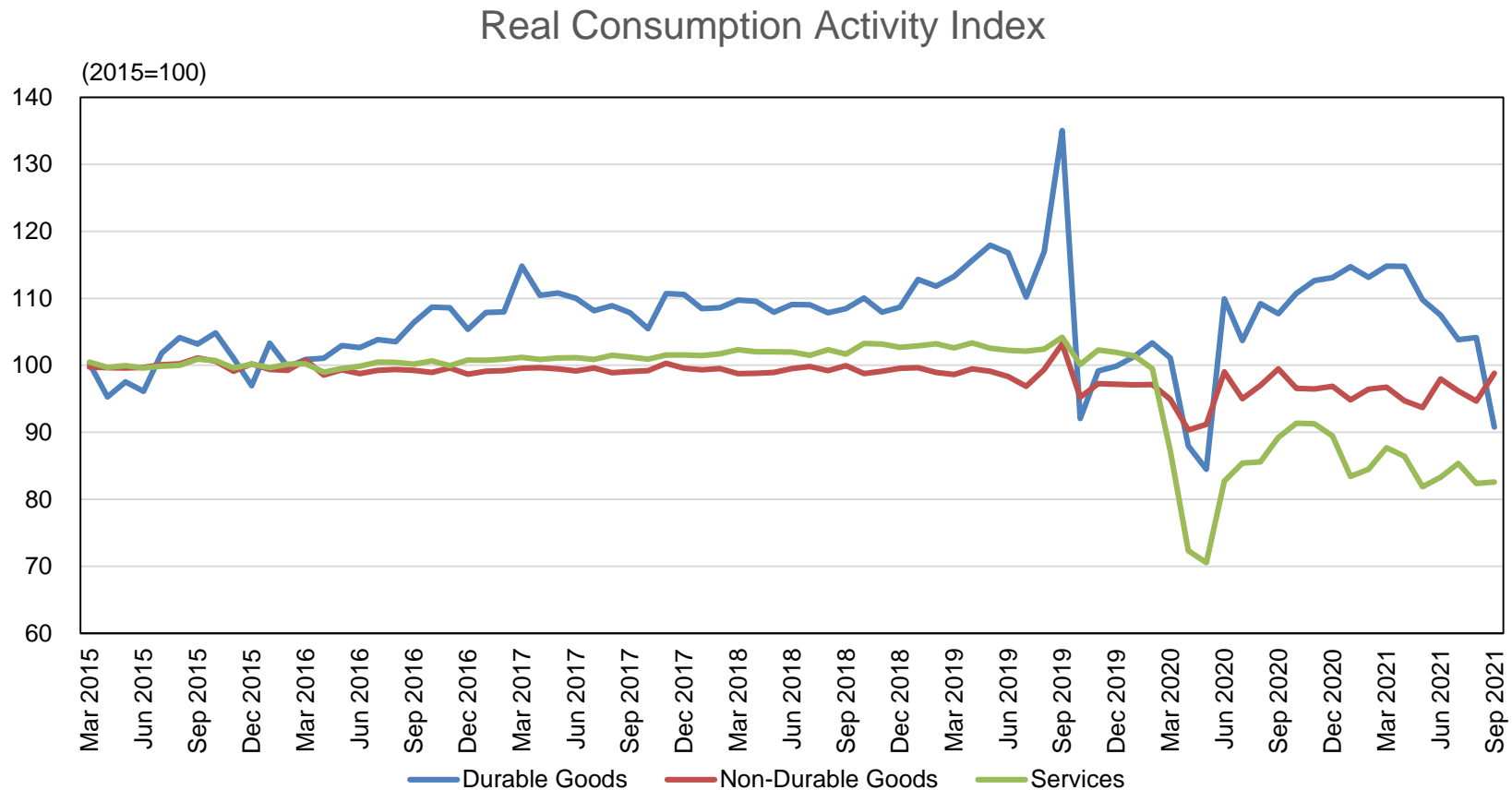


Source: Japan Real Estate Institute

Stay-at-home-demand fading, while the lift of state of emergency is expected to drive services demand upward



- In Q3 2021, real consumption activity index of durable goods, Non-durable goods and services changed by -10.0%, +1.1% and -0.5%, respectively.



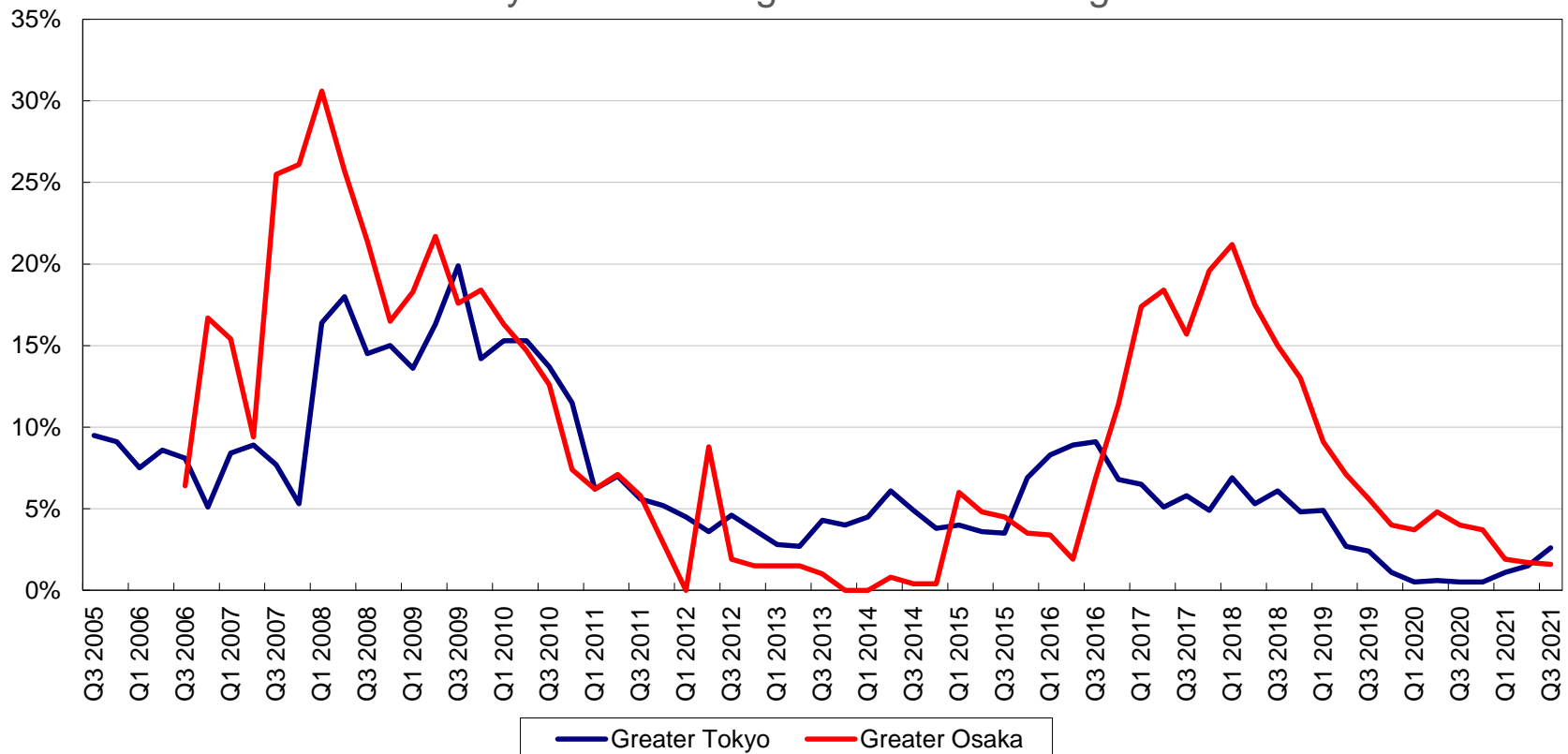
Source: The Bank of Japan

Logistics demand remained resilient. In Q3 2021, large supply weighed on some submarkets in Tokyo



- In Q3 2021, vacancy rates in Greater Tokyo increased to 2.6% from 1.5% in the previous period, due to the completion of large properties. According to CBRE, new supply in Q3 was the fourth largest since the inception in 2004.

Vacancy Rates of Large Multi-Tenant Logistics



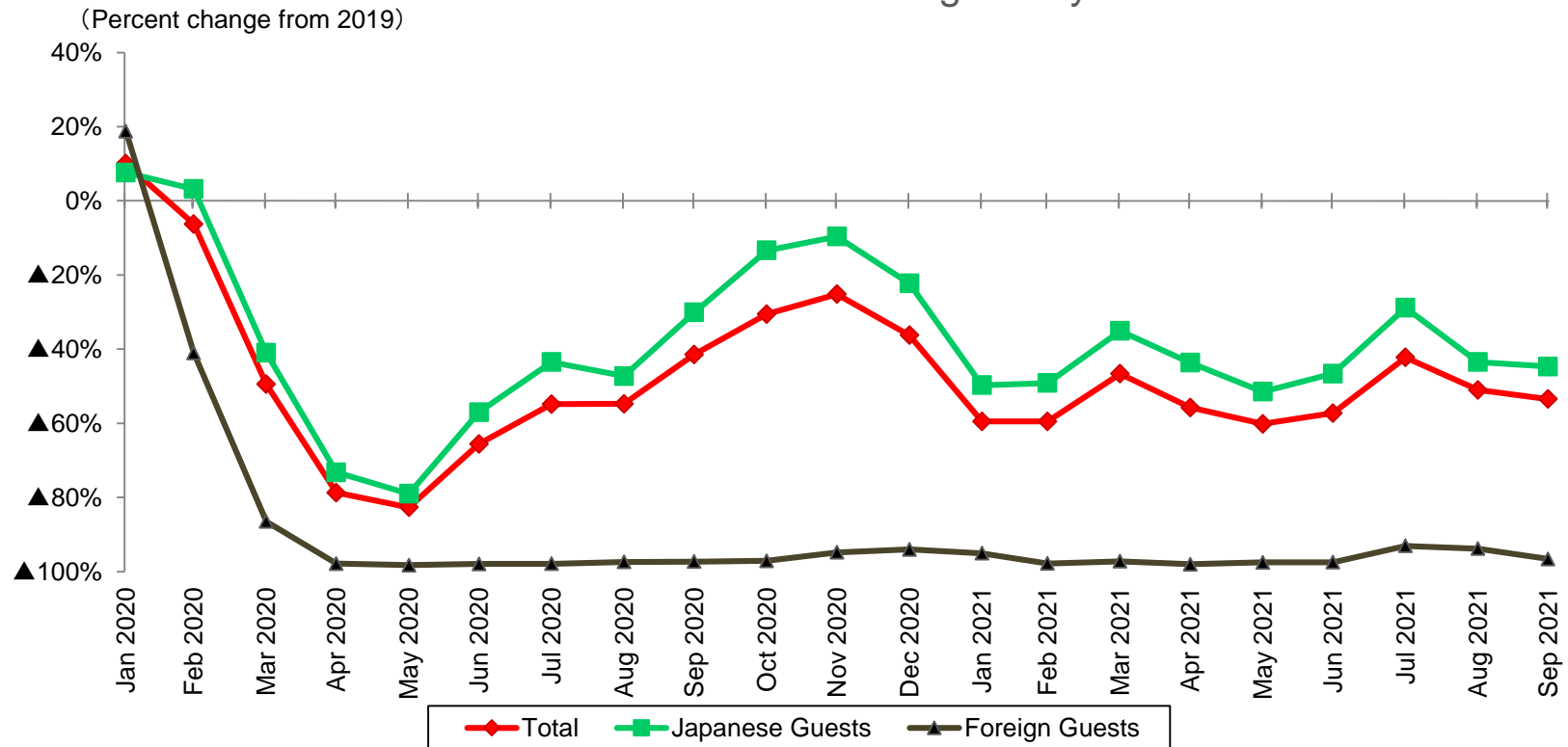
Source: CBRE

Prime minister Kishida is planning to restart the “Go To Travel” campaign, but the full recovery in hotel sector is still far



- Total number of overnight stays declined by 49.0% in Q3 2021 from the corresponding period in 2019.
- According to STR, hotel RevPAR declined by 74.0% in Tokyo and 73.5% in Osaka in September 2021 from the corresponding month in 2019.

Total Numbers of Overnight Stays



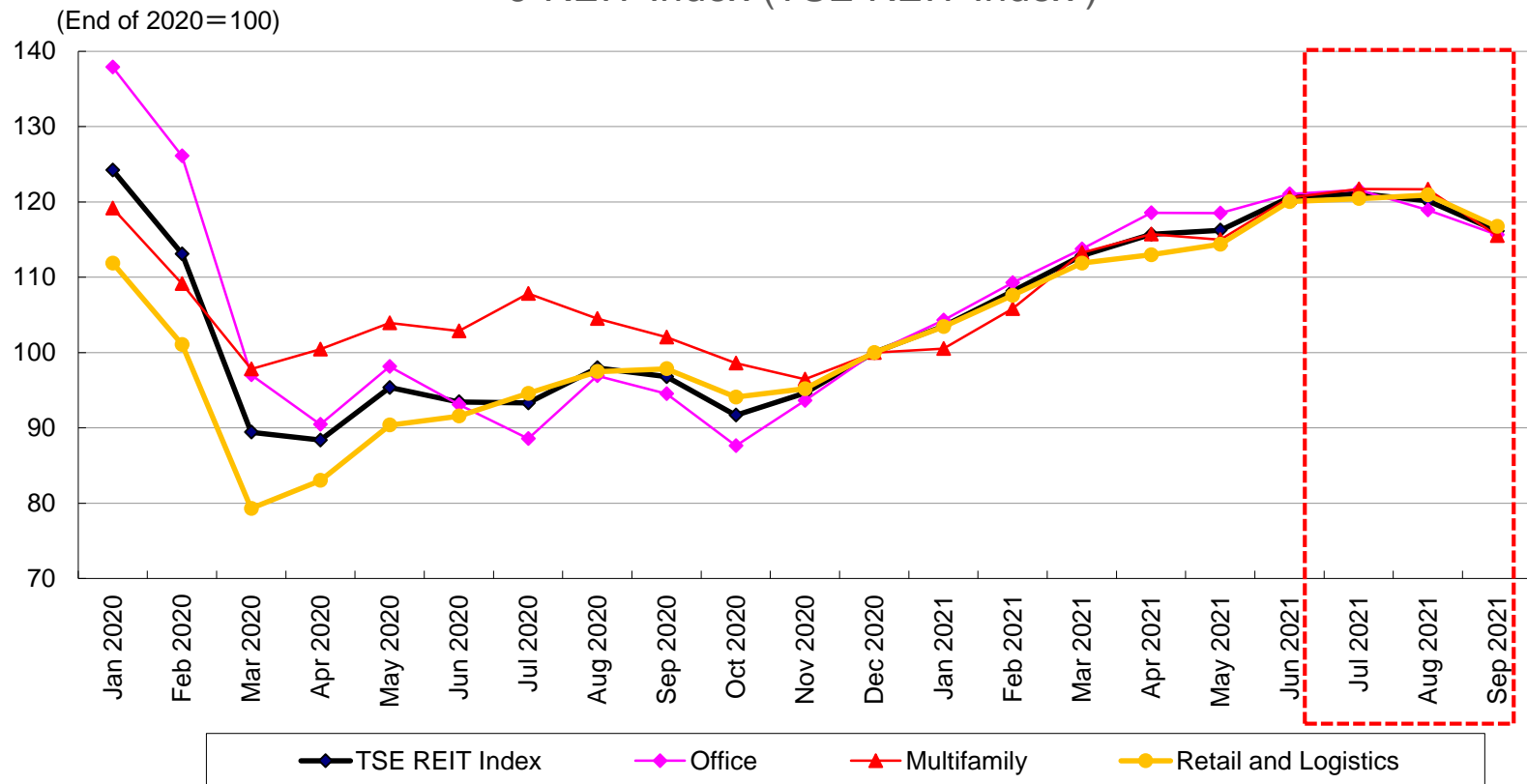
Source: Japan Tourism Agency

The recovery of J-REIT prices came to a standstill at a level slightly below the Pre-COVID high



- J-REIT Index declined by 3.7% q-o-q in Q3 2021, trading at price to NAV ratio at 1.12x, dividend yield at 3.5% and dividend and JGB spread at 3.4% in September 2021.

J-REIT Index (TSE REIT Index)



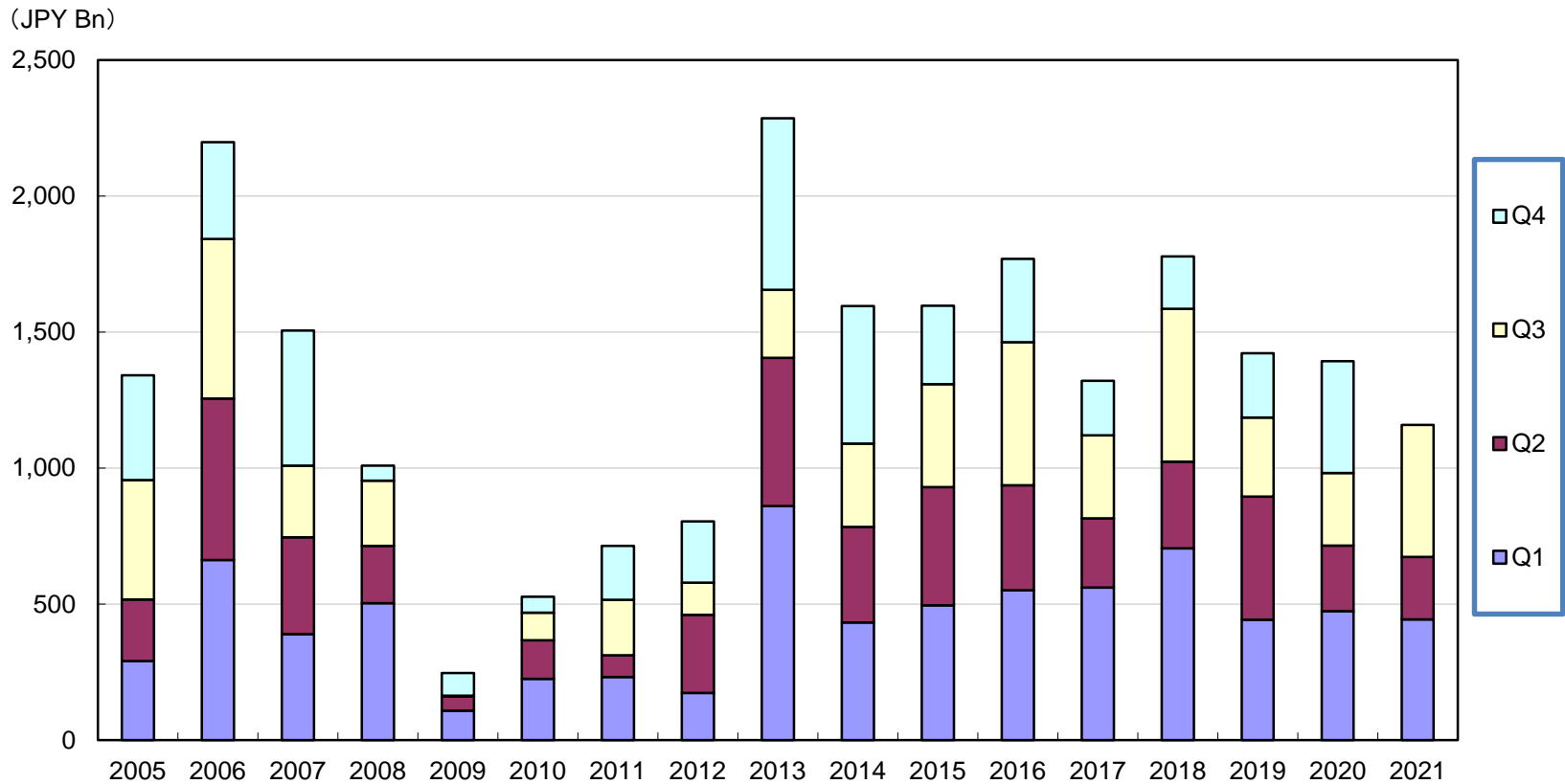
Source: Tokyo Stock Exchange



Asset acquisitions by J-REITs in Q3 2021 surged

- J-REITs acquired property assets totaling JPY486 billion in Q3 2021 (82% increase y-o-y).
- Asset acquisition by J-REITS in the first nine months of 2021 was JPY1,159 billion, recovered to near-2019 level.

J-REIT Asset Acquisitions



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

Source: Disclosure Documents



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