



RESEARCH

Japan Real Estate Market Quarterly Review

Fourth Quarter 2021

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Summary

Macro Economy

- Japan's real GDP is expected to grow by 1.4% q-o-q (annualized 5.6%) in Q4 2021 driven by a strong rebound of private consumption after the lift of state of emergency.
- Japan's real GDP is expected to expand by 2.7% in FY2021, 2.5% in FY2022 and 1.7% in FY2023.

Real Estate Market

- In Tokyo Grade-A office market, the rise in vacancy rates has paused, but rents continued to fall, reaching the level of Q4 2014.
- Multifamily rents in Tokyo declined modestly as Tokyo population outflow continued.
- Hotels and retails recovered sharply following the lift of the state of emergency declaration.
- In major logistics markets, supply-demand balance remained favorable.

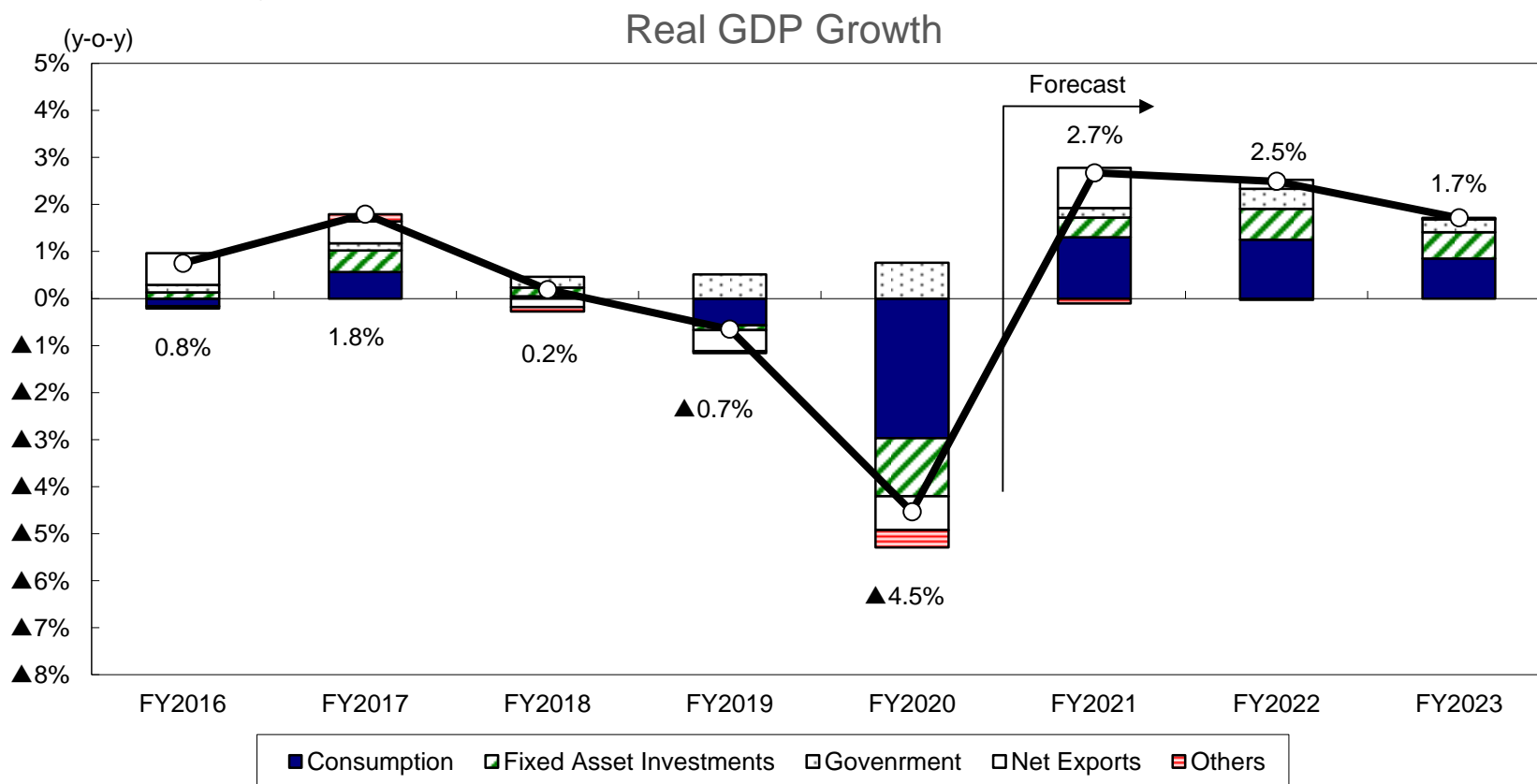
Capital Market

- J-REIT Index declined by 0.3% q-o-q in Q4 2021, trading at price to NAV ratio at 1.1x, dividend yield at 3.5% and dividend and JGB spread at 3.4%.
- J-REITs acquired property assets totaling JPY1,597billion in 2021 (15% increase y-o-y).

The sharp recovery in Q4 2021 is expected to be followed by a sharp slowdown in Q1 2022.



- Japan's real GDP is expected to grow by 1.4% q-o-q (annualized 5.6%) in Q4 2021 driven by a strong rebound of private consumption after the lift of state of emergency.
- Economic Growth is likely to slow sharply in Q1 2022. Japan's real GDP is expected to expand by 2.7% in FY2021, 2.5% in FY2022 and 1.7% in FY2023.



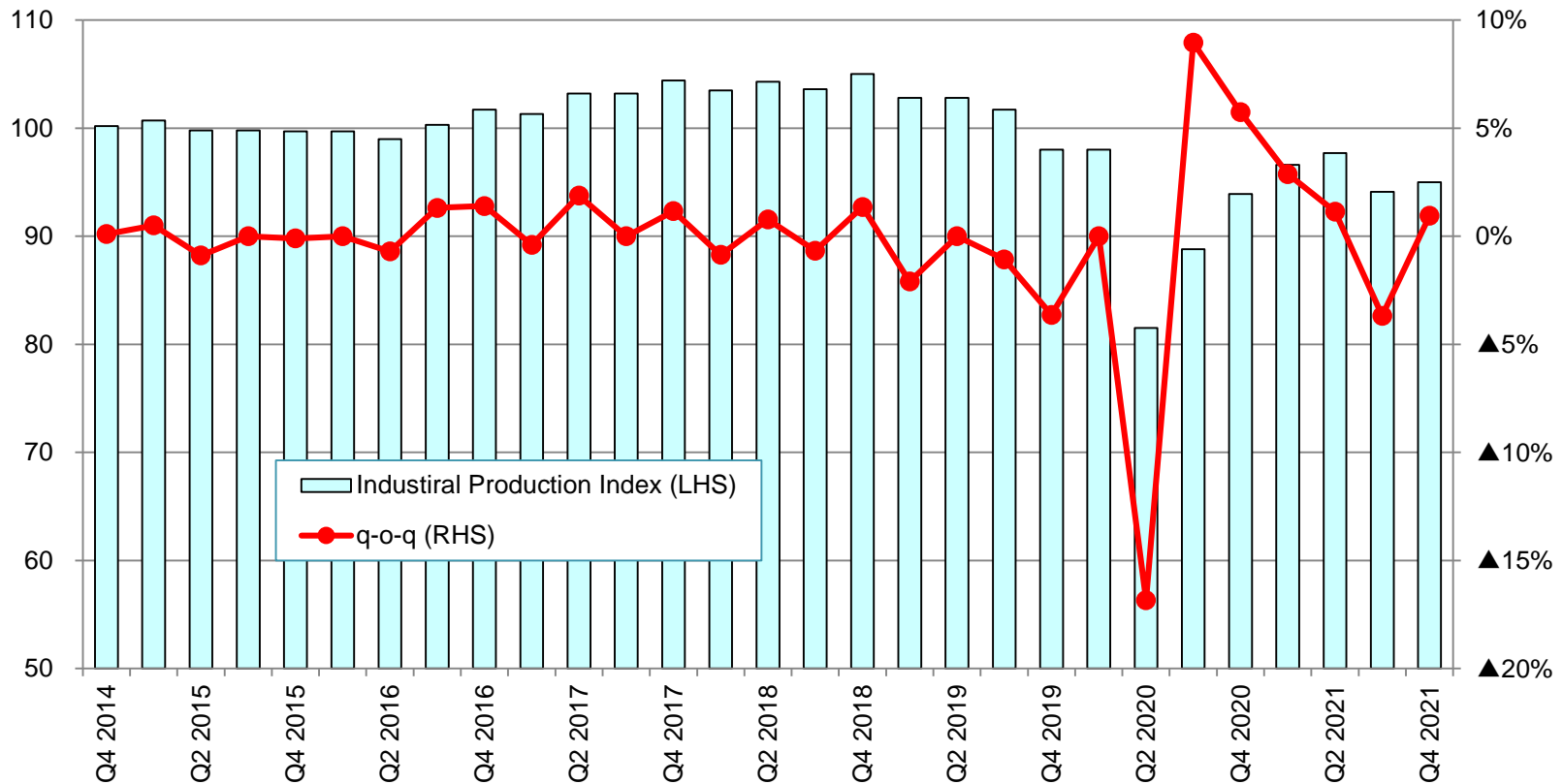
Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2021) "Weekly Economist Letter" NLI Research Institute, December, 2021.

Some easing of supply constraints led to a recovery of manufacturing activities



- Industrial production increased by 1.0% q-o-q in Q4 2021, the first increase in two quarters.
- Although the automobile sector grew at a high rate of 12.0% q-o-q, the information and communication equipment sector declined by 4.2%, still affected by the shortage of semiconductors.

Industrial Production Index



Source: The Ministry of Economy, Trade and Industry

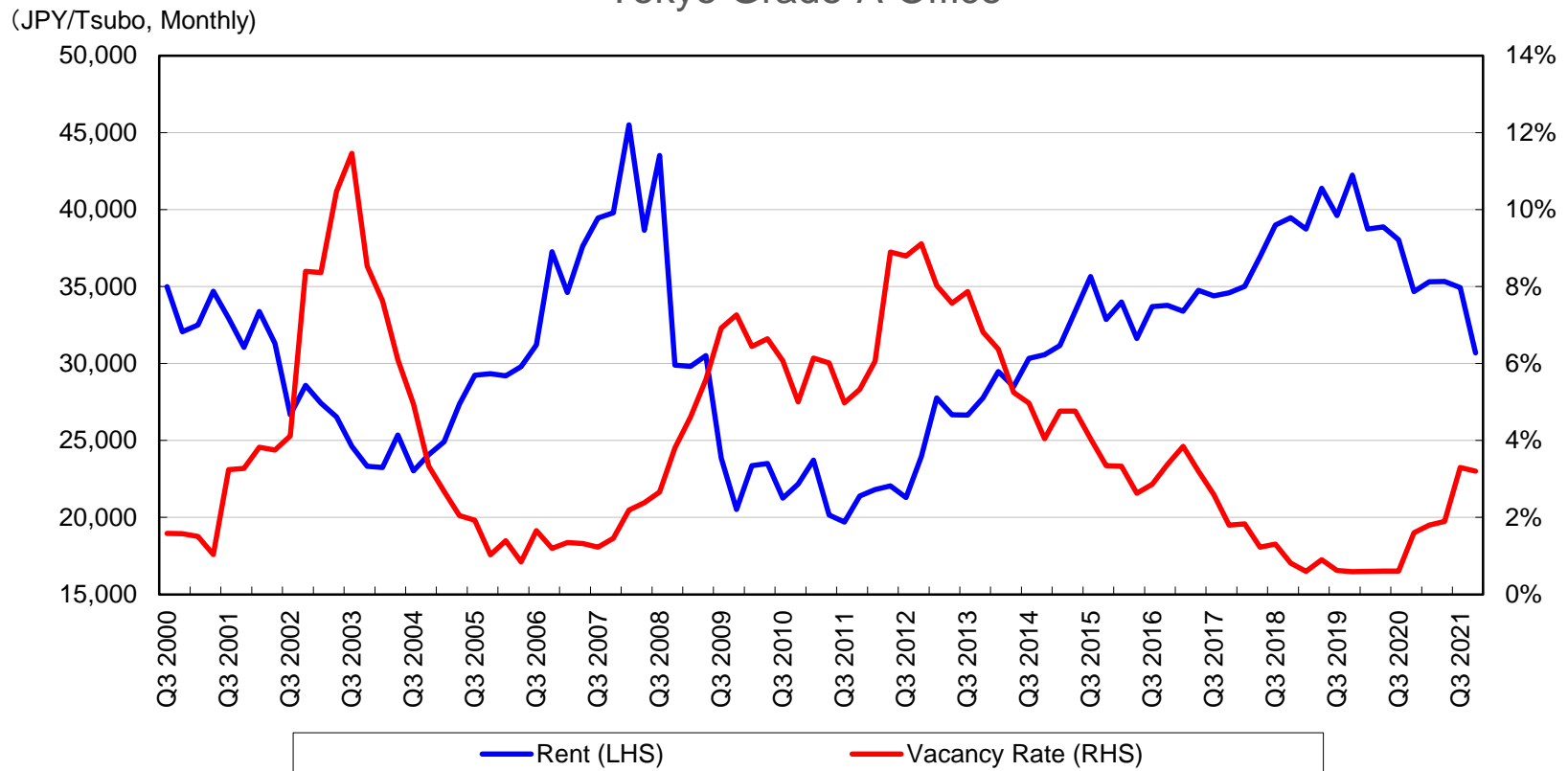
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In Tokyo grade-A office market, the rise in vacancy rates has paused, but rents continued to fall.



- In Q4 2021, Tokyo grade-A office rents declined by 11.5% y-o-y, declining to the level of the Q4 2014.
- Vacancy rate declined to 3.2% in Q4 2021 from 3.3% 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)

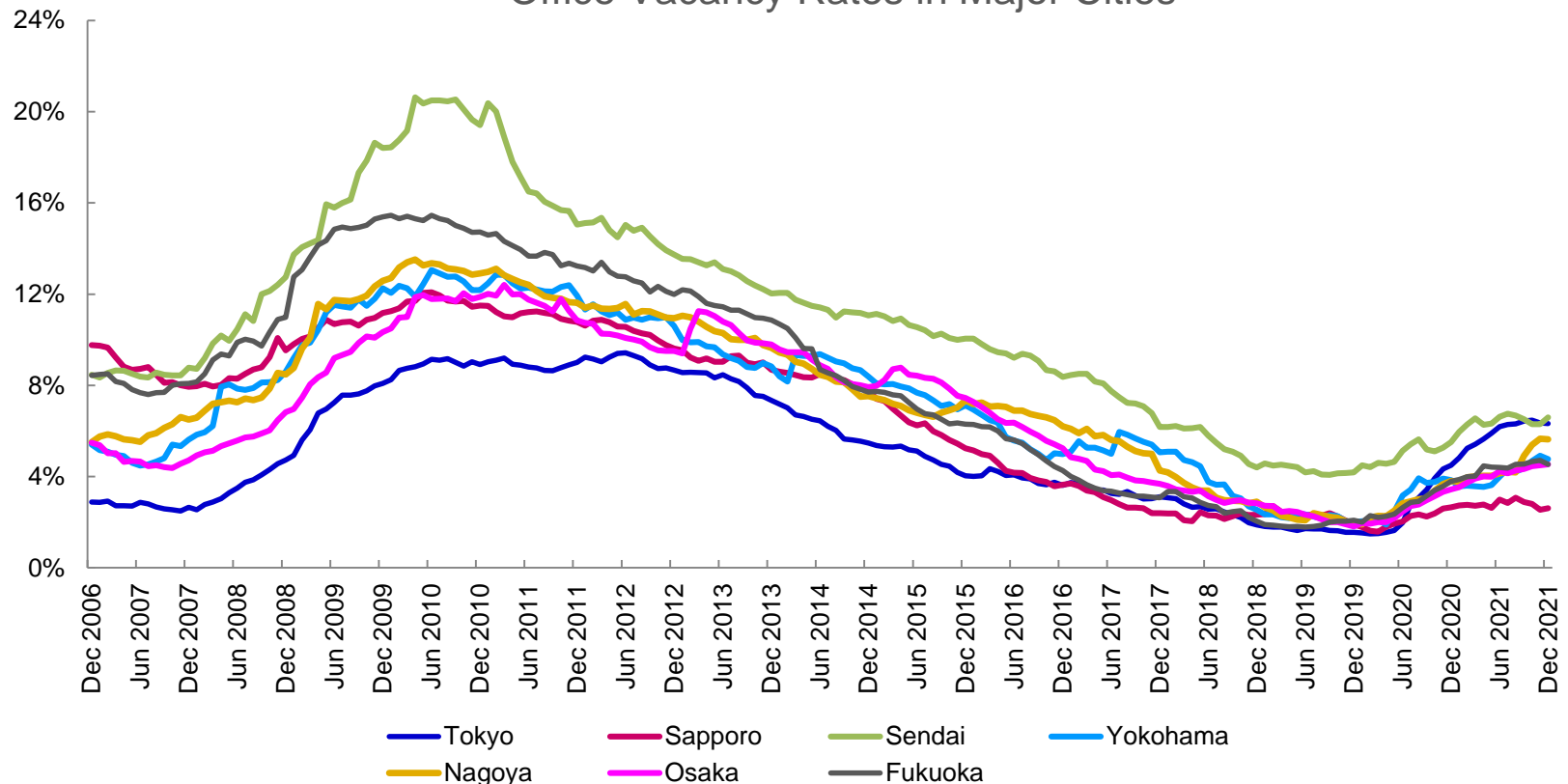
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Office markets in major cities continues to be in a gradual correction phase



- In major cities, vacancy rates are on an upward trend.
- Rents are still increasing in Nagoya, Sapporo, Fukuoka and Yokohama, but rents in Tokyo, Sendai and Osaka are showing signs of peaking out.

Office Vacancy Rates in Major Cities



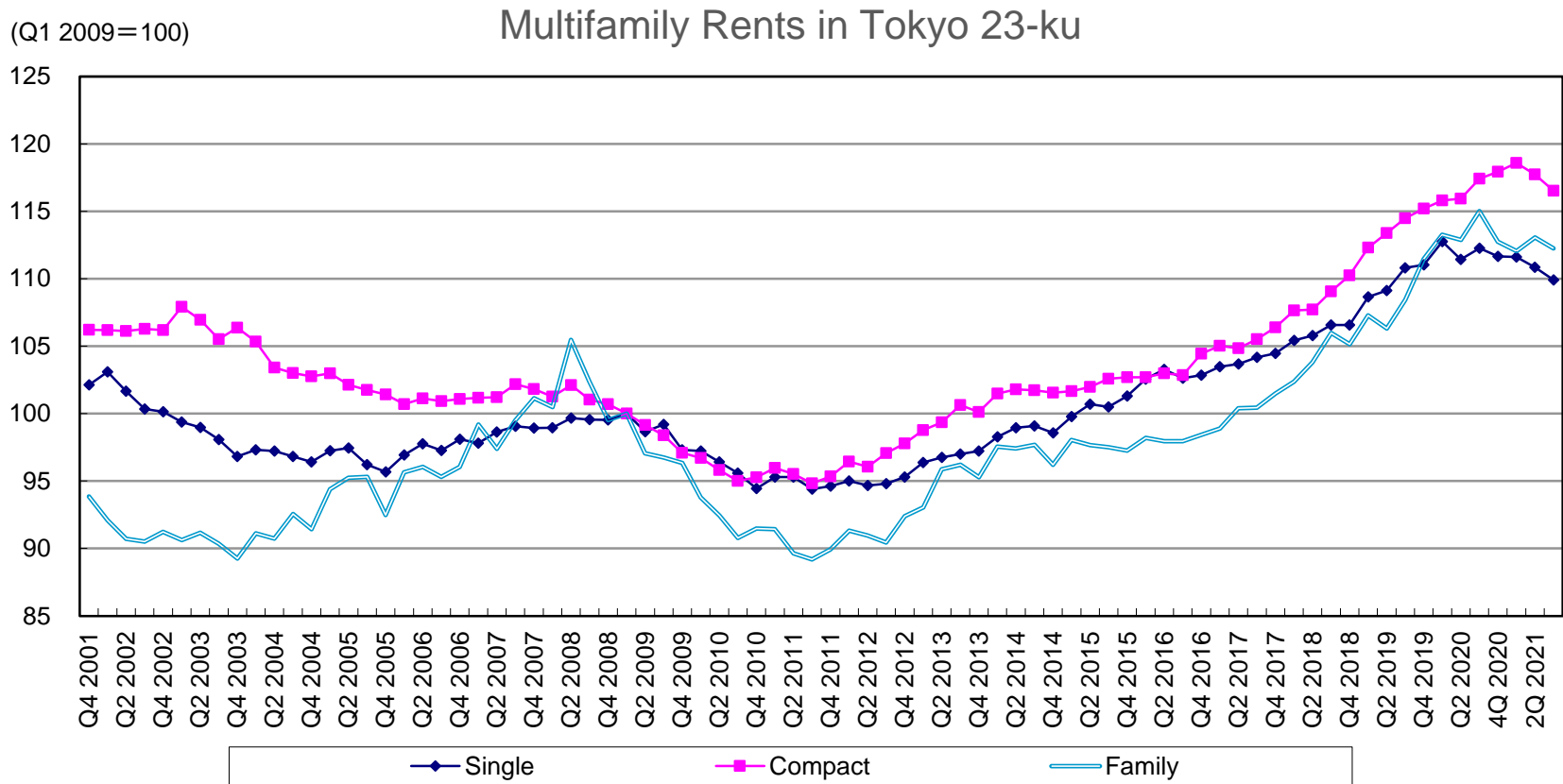
Source: Miki Shoji

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In Tokyo, multifamily rents declined modestly from its peak

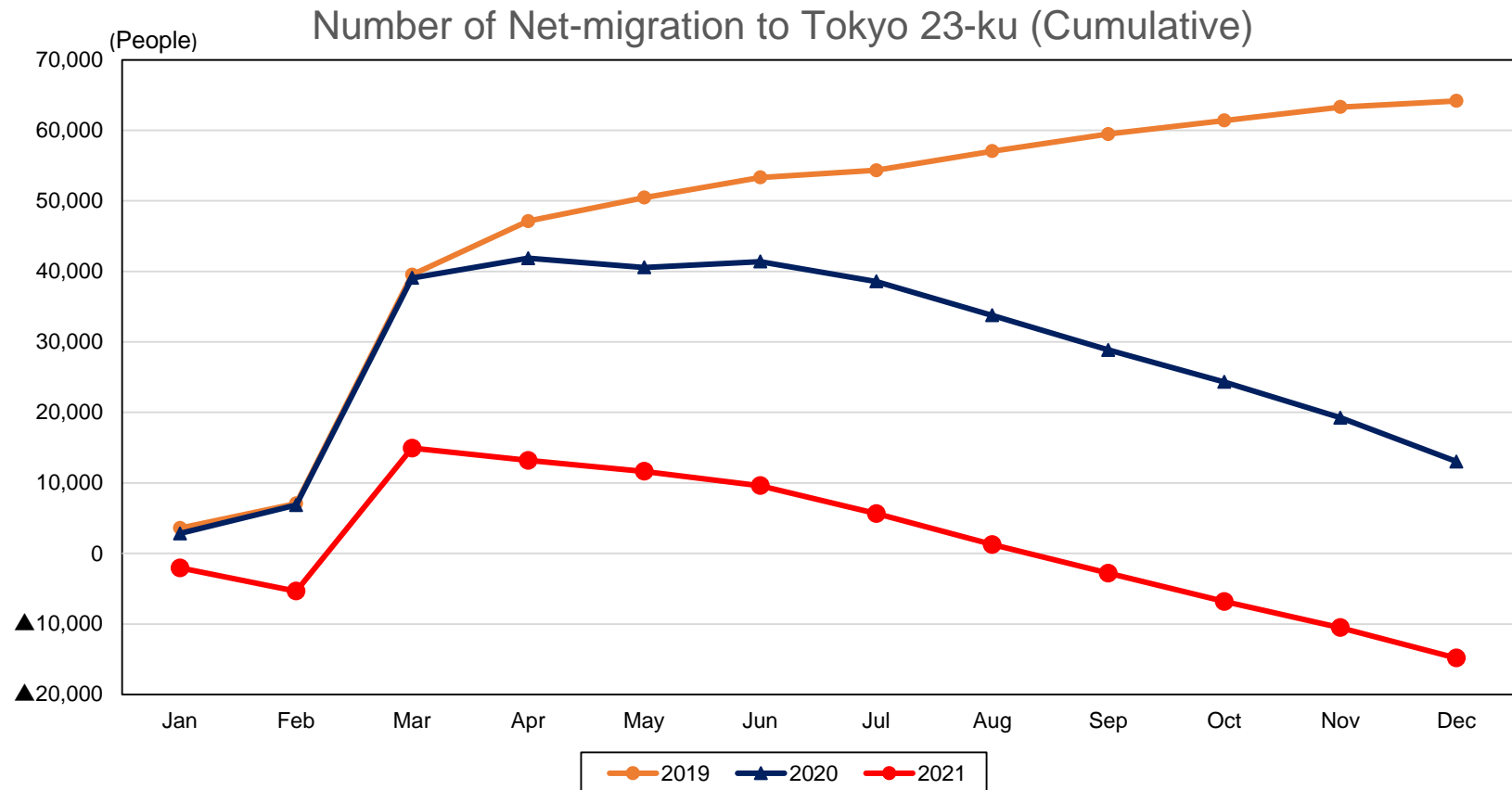
- In Q3 2021, multifamily rents of single-, compact- and family-type In Tokyo 23-ku changed by -2.4%, -0.9% and -2.8% y-o-y, respectively.
- Luxury multifamily rents declined by 0.4% y-o-y in Q4 2021, declining for the first time in five quarters, according to Ken Corporation.



Tokyo continues to experience population outflow, as the pandemic drags on



- In 2021, population outflow from Tokyo 23-ku was 14,828 people, the first outflow since 1996.



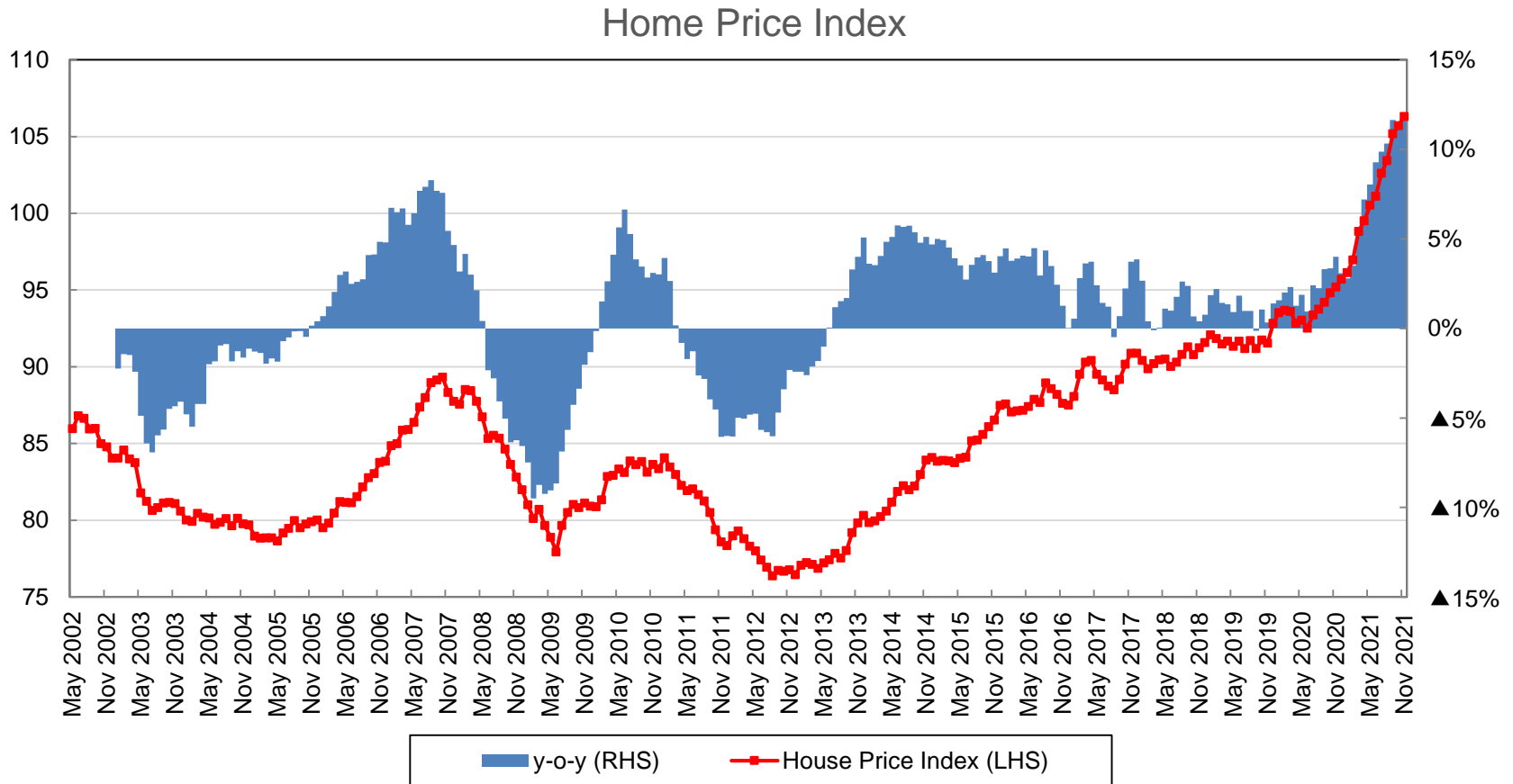
Source: The Statistics Bureau of Japan

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House price soared. In contrast, multifamily rents hit their peak

- Japan home price gained by 11.7% y-o-y in November 2021, growing at the fastest pace since its inception in June 1993.



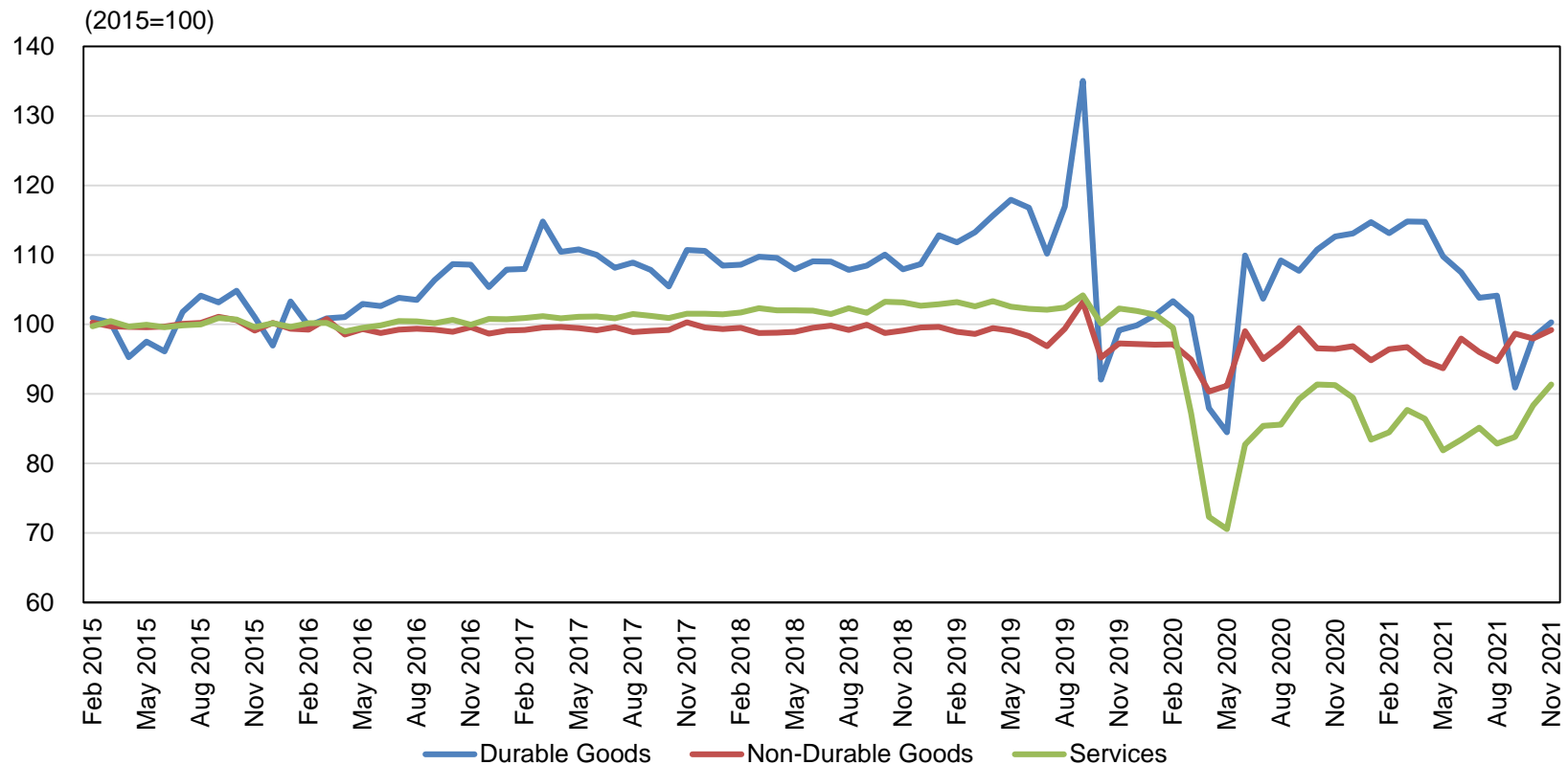
Source: Japan Real Estate Institute

Service consumption rebounded sharply following the lifting of the state of emergency



- In Q4 2021, real consumption activity index of durable goods, Non-durable goods and services changed by +2.2%, +1.3% and +3.4%, respectively.

Real Consumption Activity Index



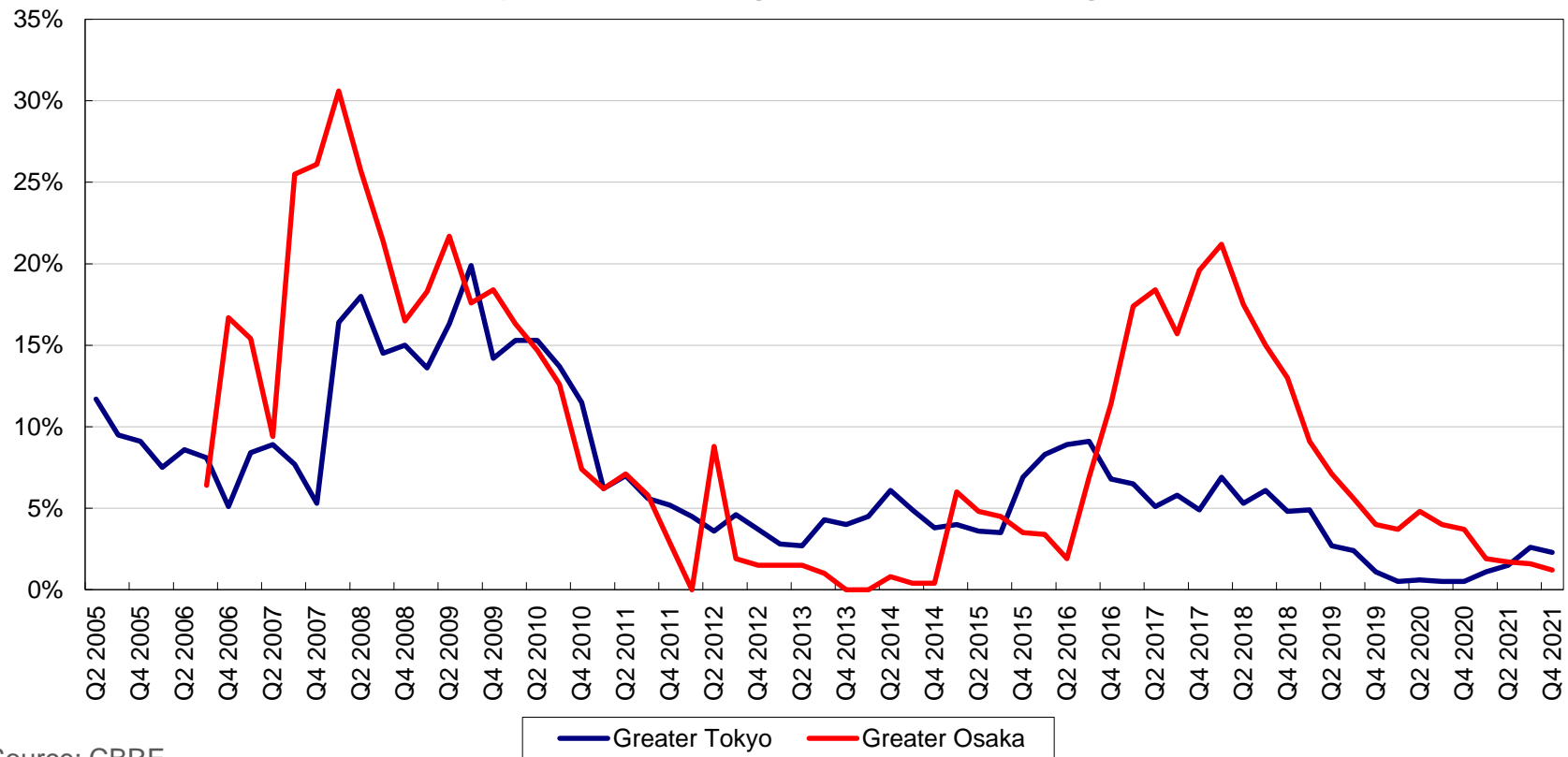
Source: The Bank of Japan

Supply-demand balance remained favorable in both Greater Tokyo and Greater Osaka logistics markets



- In Q4 2021, vacancy rates in Greater Tokyo declined to 2.3% from 2.6% in the previous period.
- In Greater Tokyo, new supply in 2022 is expected to be 720,000 tsubo—the largest ever—but half of the projected supply in the first half of the year is already pre-leased, according to CBRE.

Vacancy Rates of Large Multi-Tenant Logistics

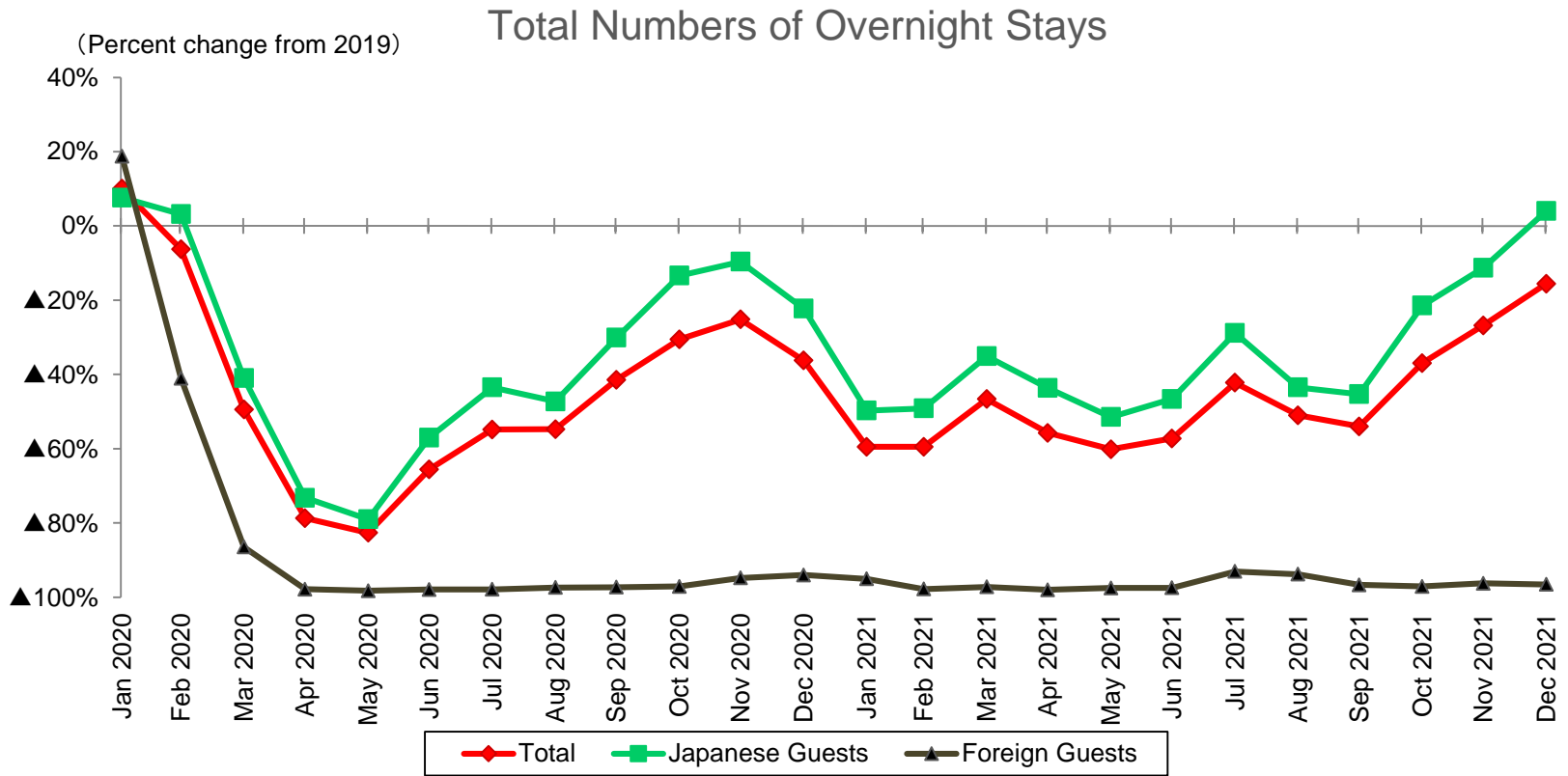


Source: CBRE

The hotel sector saw a stronger recovery following the lifting of the state of emergency declaration



- Total number of overnight stays declined by 26.7% in Q4 2021 from the corresponding period in 2019, higher than Q4 2020, when it recovered the most driven by the "Go To Travel".
- According to STR, hotel RevPAR declined by 54.0% in Tokyo and 44.7% in Osaka in December 2021 from the corresponding month in 2019.



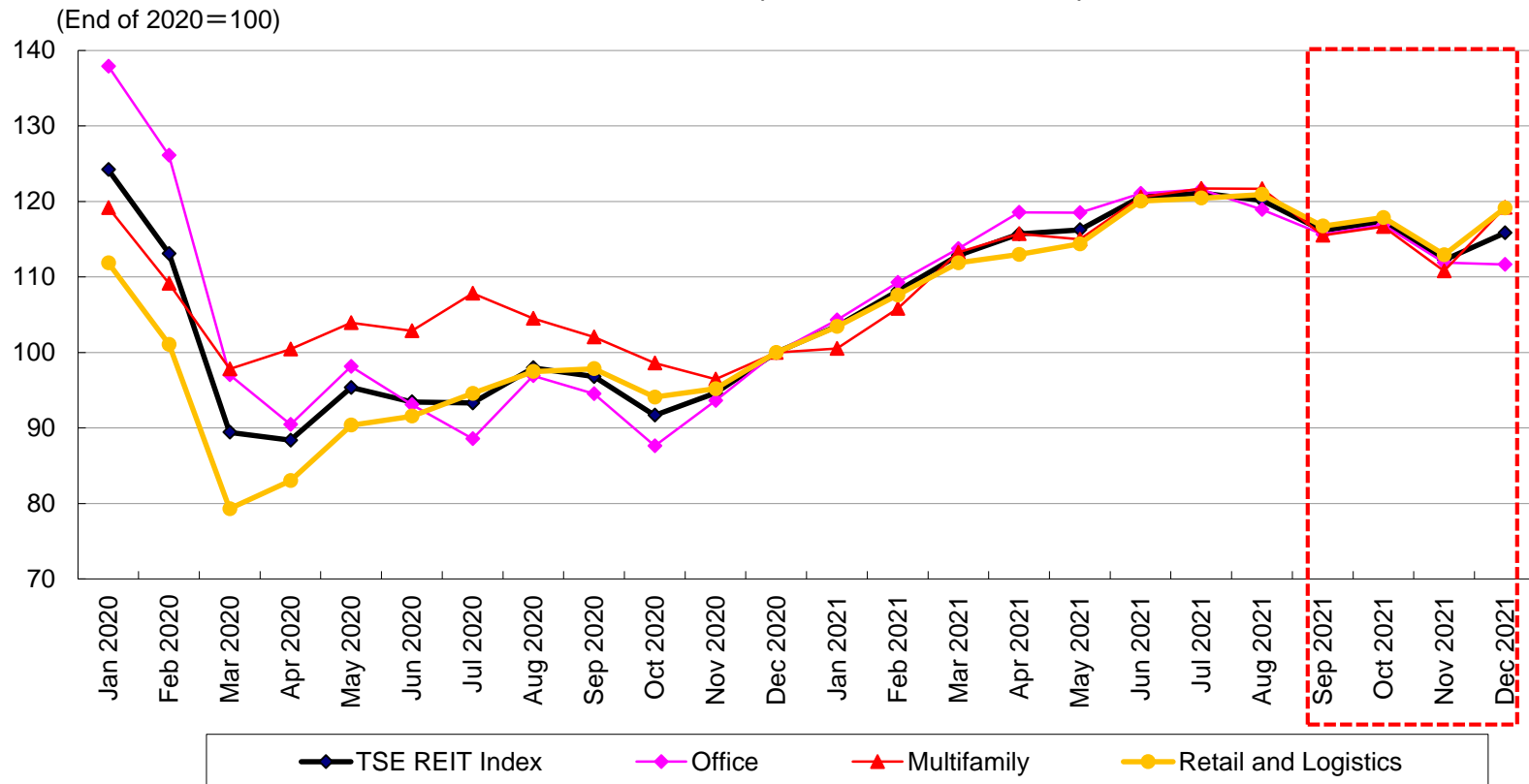
Source: Japan Tourism Agency

J-REIT prices remained almost flat, but the performance gap between sectors widened due to concerns over omicron variant



- J-REIT Index declined by 0.3% q-o-q in Q4 2021, trading at price to NAV ratio at 1.1x, dividend yield at 3.5% and dividend and JGB spread at 3.4% in December 2021.

J-REIT Index (TSE REIT Index)



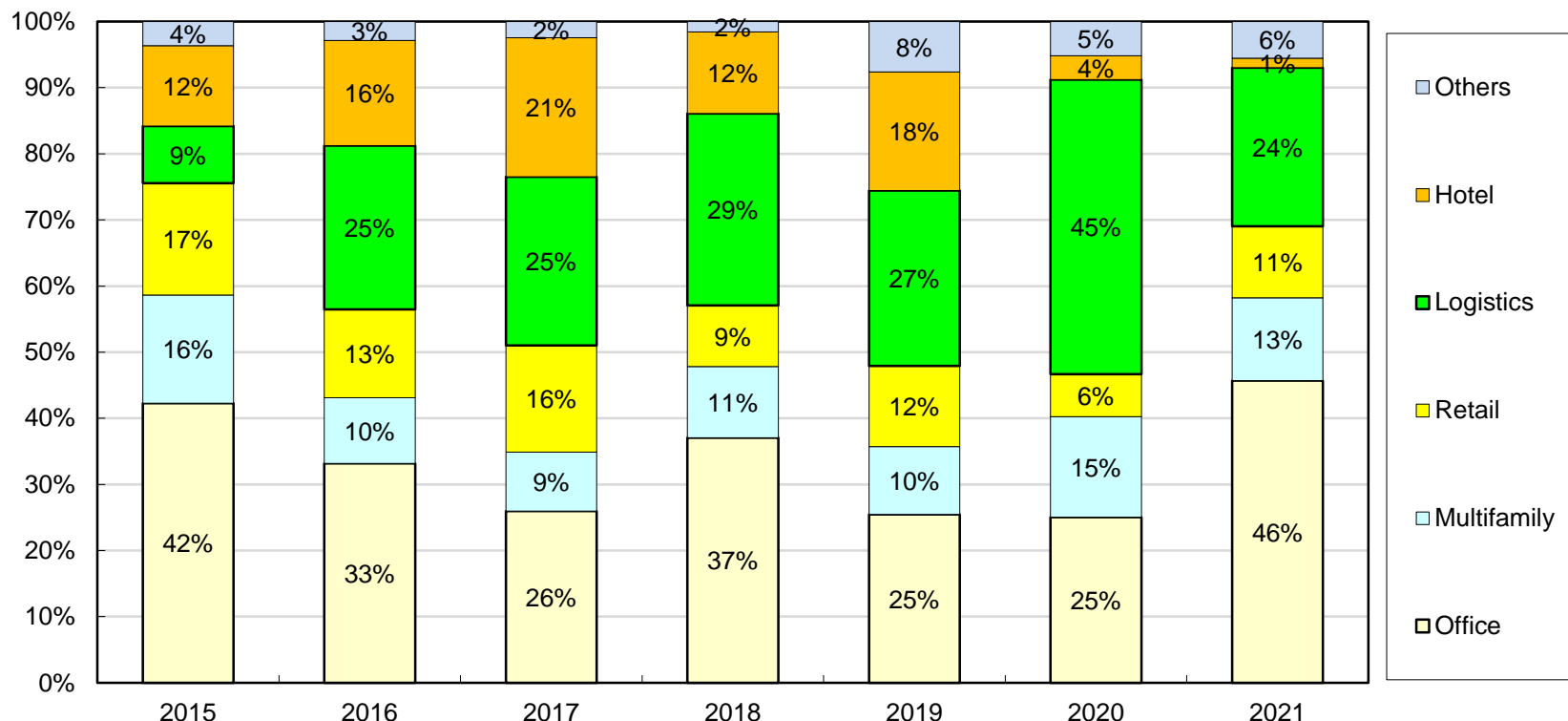
Source: Tokyo Stock Exchange

In 2021, office acquisitions by J-REITs surpass logistics for the first time in three years



- J-REITs acquired property assets totaling JPY1,597billion in 2021 (15% increase y-o-y).
- Office sector led the acquisitions by J-REITs, which accounted for 46% of total acquisitions, followed by logistics, 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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