

**RESEARCH**

Japan Real Estate Market Quarterly Review

First Quarter 2022

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Summary

Macro Economy

- Japan's real GDP is expected to decline by 0.5% q-o-q (annualized 2.1% decline) in Q1 2022, dragged by the quasi-state of emergency and a decrease in net export.
- Japan's real GDP is expected to expand by 2.1%, revised downward by 0.4% from the previous forecast due to Russia's invasion of Ukraine.

Real Estate Market

- In the Tokyo Grade-A office market, vacancy rates remained flat, but rents continue to fall amidst the concerns over large supply in 2023.
- Multifamily rents in Tokyo declined modestly in single-type but rose in family-type.
- Recovery in hotels and retails remained stagnant, weighed by a quasi-state of emergency.
- In Greater Tokyo logistics markets, the supply-demand balance started to ease.

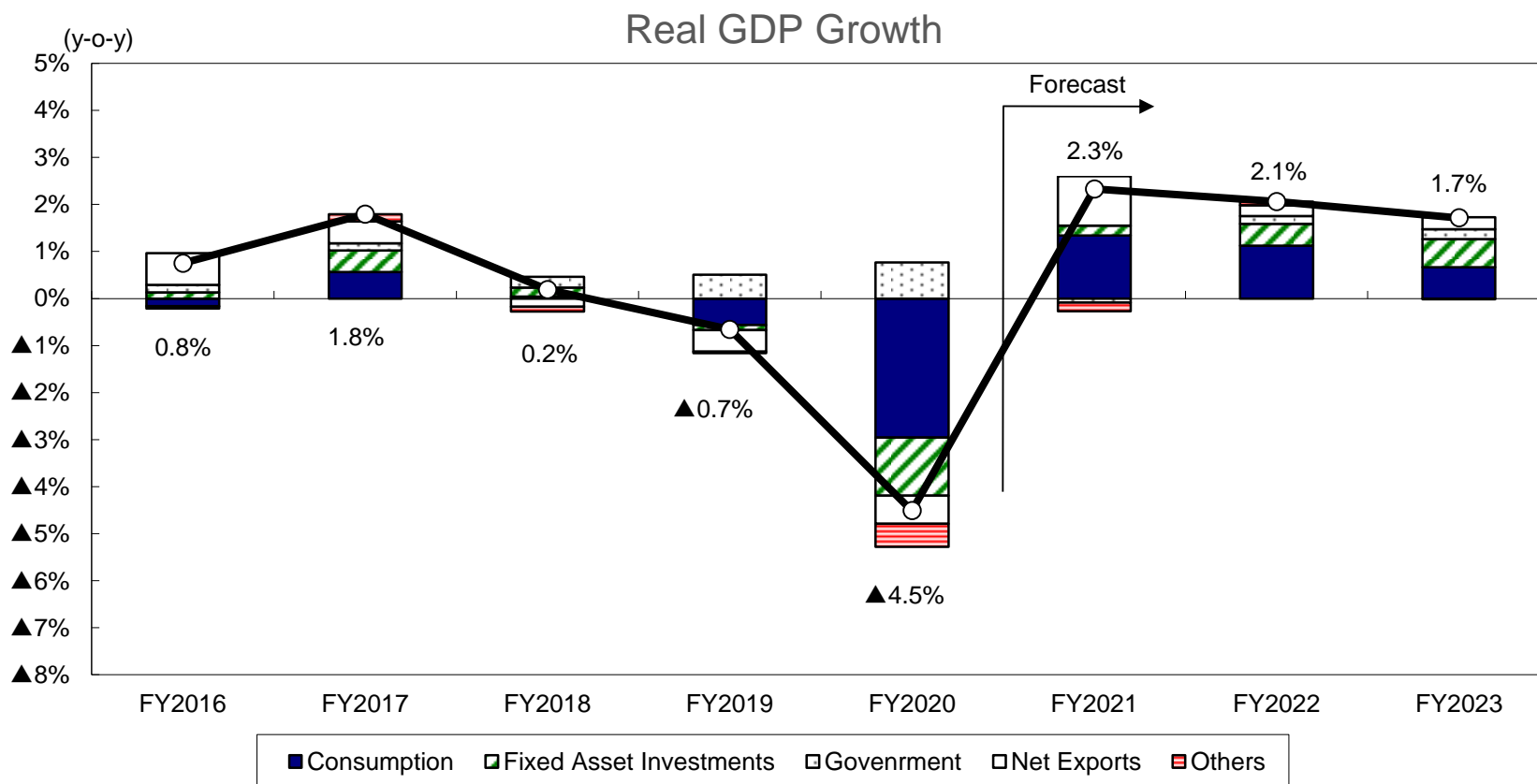
Capital Market

- J-REIT Index declined by 3.1% q-o-q in Q1 2022, trading at a price to NAV ratio of 1.06x, dividend yield at 3.7%, and dividend and JGB spread at 3.5%.
- J-REITs acquired property assets totaling JPY360 billion in Q1 2022 (19% decrease y-o-y).

The repeated tightening of behavioral regulations casts a shadow over future economic growth



- Japan's real GDP is expected to decline by 0.5% q-o-q (annualized 2.1% decline) in Q1 2022, dragged by the quasi-state of emergency and a decrease in net export.
- In FY2022, Japan's real GDP is expected to expand by 2.1%, revised downward by 0.4% from the previous forecast due to Russia's invasion of Ukraine.

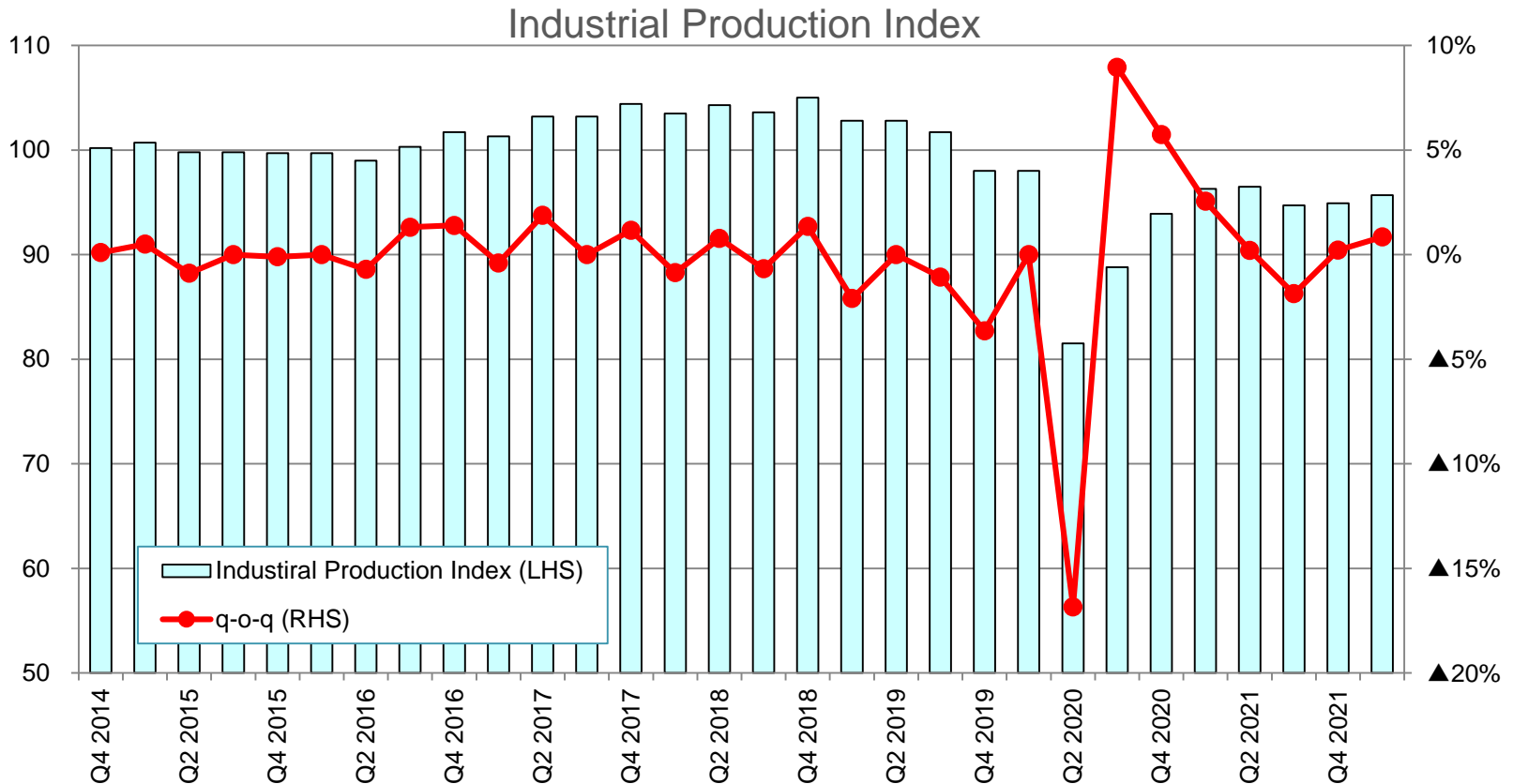


Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2022) "Weekly Economist Letter" NLI Research Institute, March, 2022.

Industrial production increased for the second consecutive quarter, but the pace of recovery was slow



- Industrial production increased by 0.8% q-o-q in Q1 2022, increasing for the second consecutive quarter.
- Automobile sector grew for two consecutive quarters, still 10% lower than the level of Q2 2021 due to a lingering shortage of semiconductors.



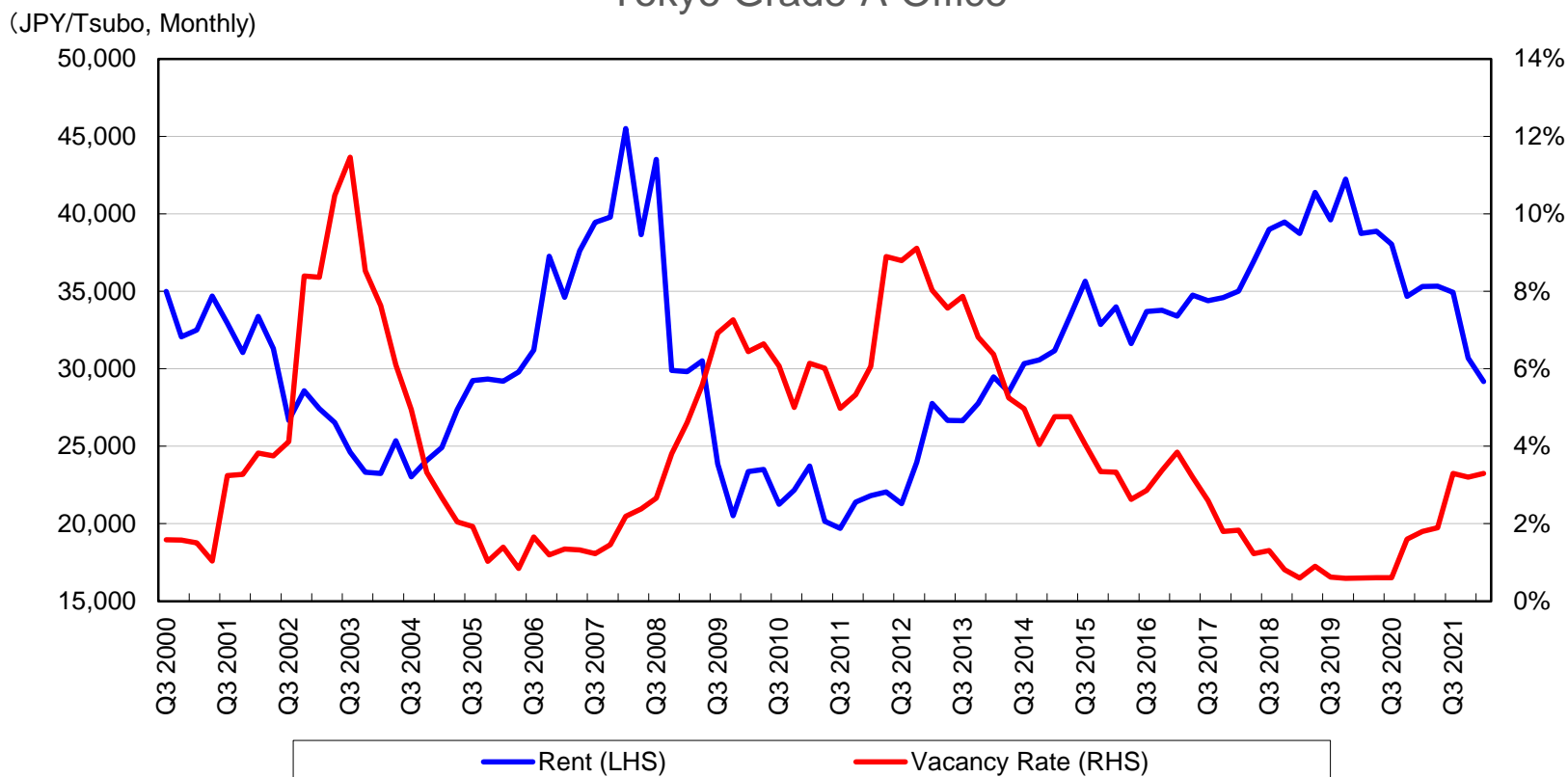
Vacancy rates remain flat, but rents continue to fall in Tokyo

Large supply is expected in 2023



- In Q1 2022, Tokyo grade-A office rents declined by 17.3% y-o-y, falling below 30,000 yen/tsubo for the first time since Q2 2014.
- Vacancy rate increased to 3.3% in Q1 2022 from 3.2% 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)

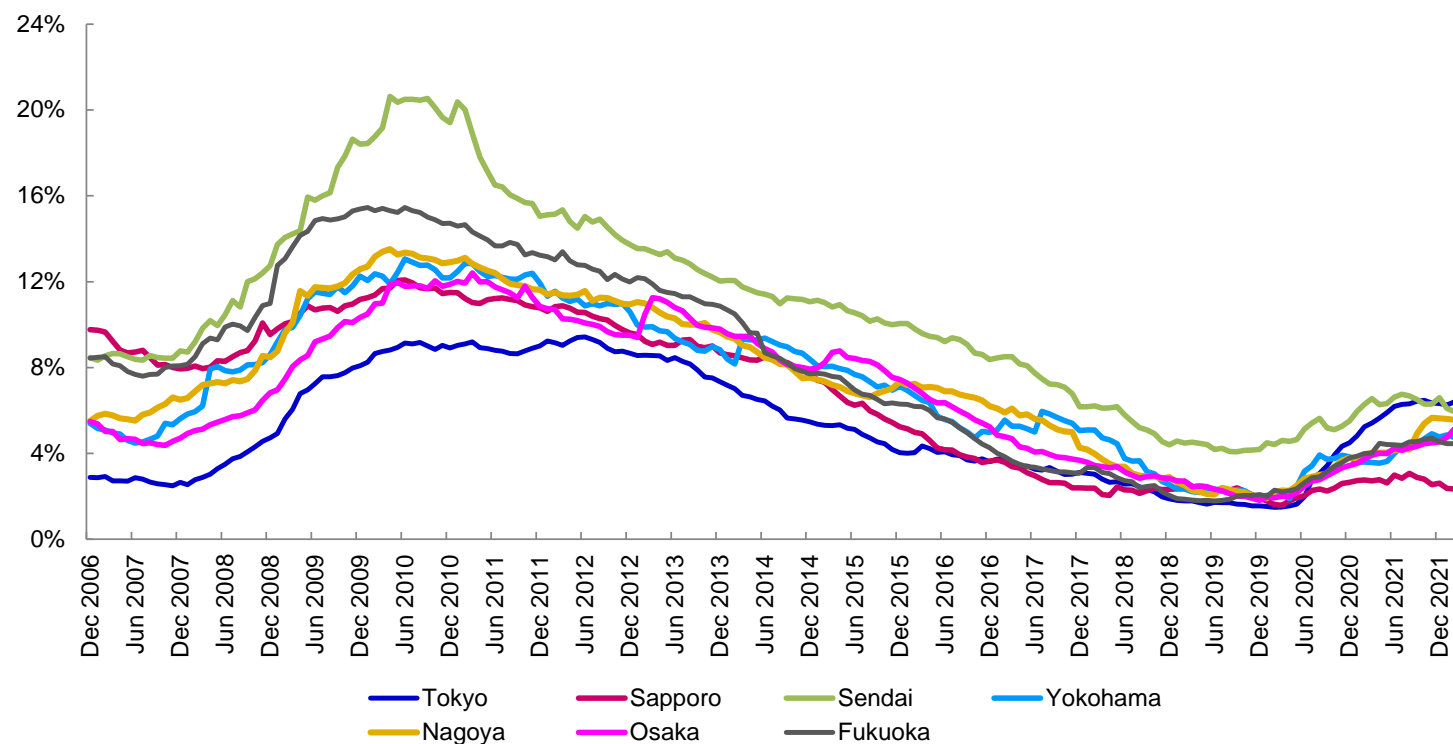
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Gradual adjustment in office markets in major cities comes to a lull



- Vacancy rates remained on an upward trend in Osaka, Nagoya and Fukuoka, but the increase in other cities has leveled off.
- Rents are still increasing in Nagoya, Sapporo, Fukuoka, and Yokohama, but rents in Tokyo, Sendai, and Osaka are declining.

Office Vacancy Rates in Major Cities



Source: Miki Shoji

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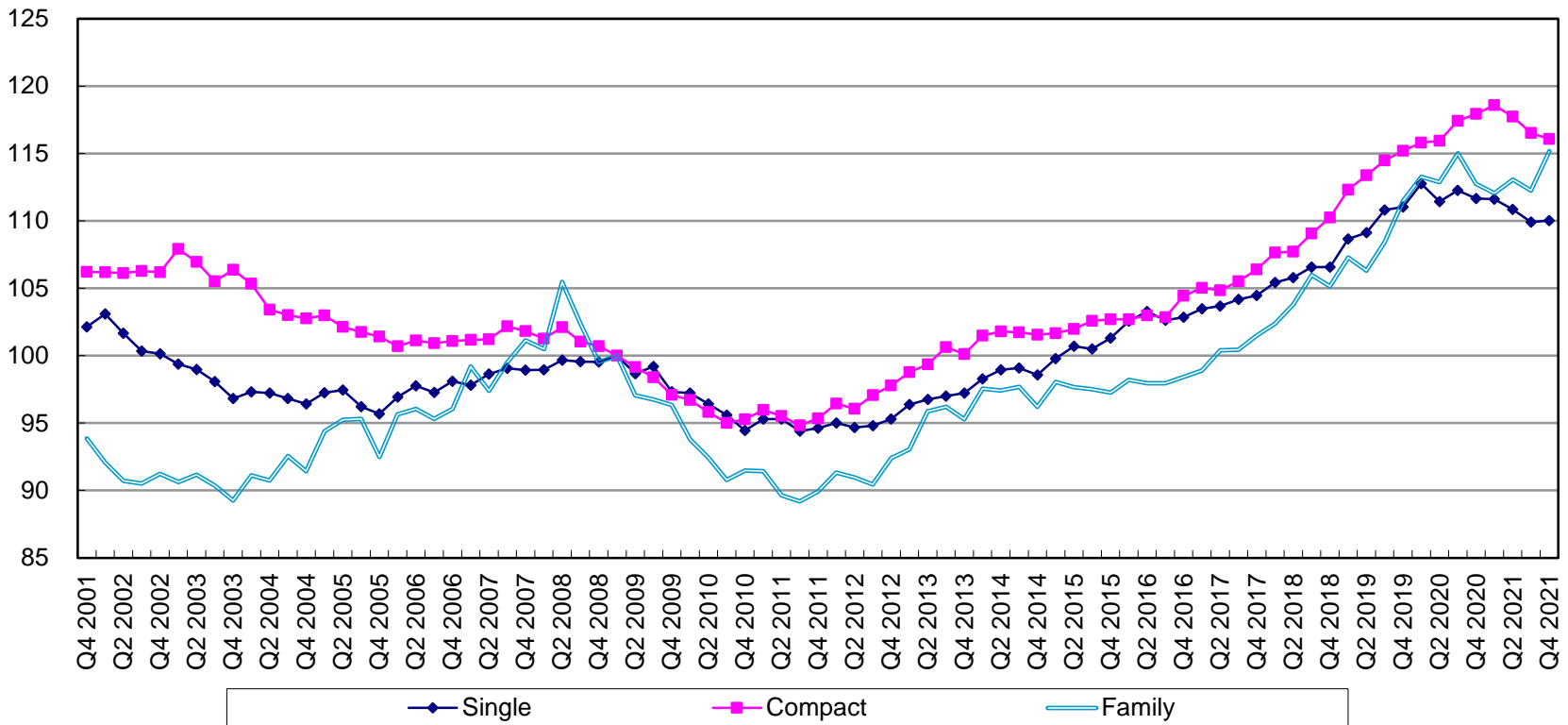
In Tokyo, single-type are struggling, while family-type remain strong



- In Q4 2021, multifamily rents of single-, compact- and family-type In Tokyo 23-ku changed by -1.6%, -1.9%, and +2.4% y-o-y, respectively.
- According to the disclosures of residential REITs, rent growth at tenant turnover peaked in H2 2020, turning negative in some REITs.

Multifamily Rents in Tokyo 23-ku

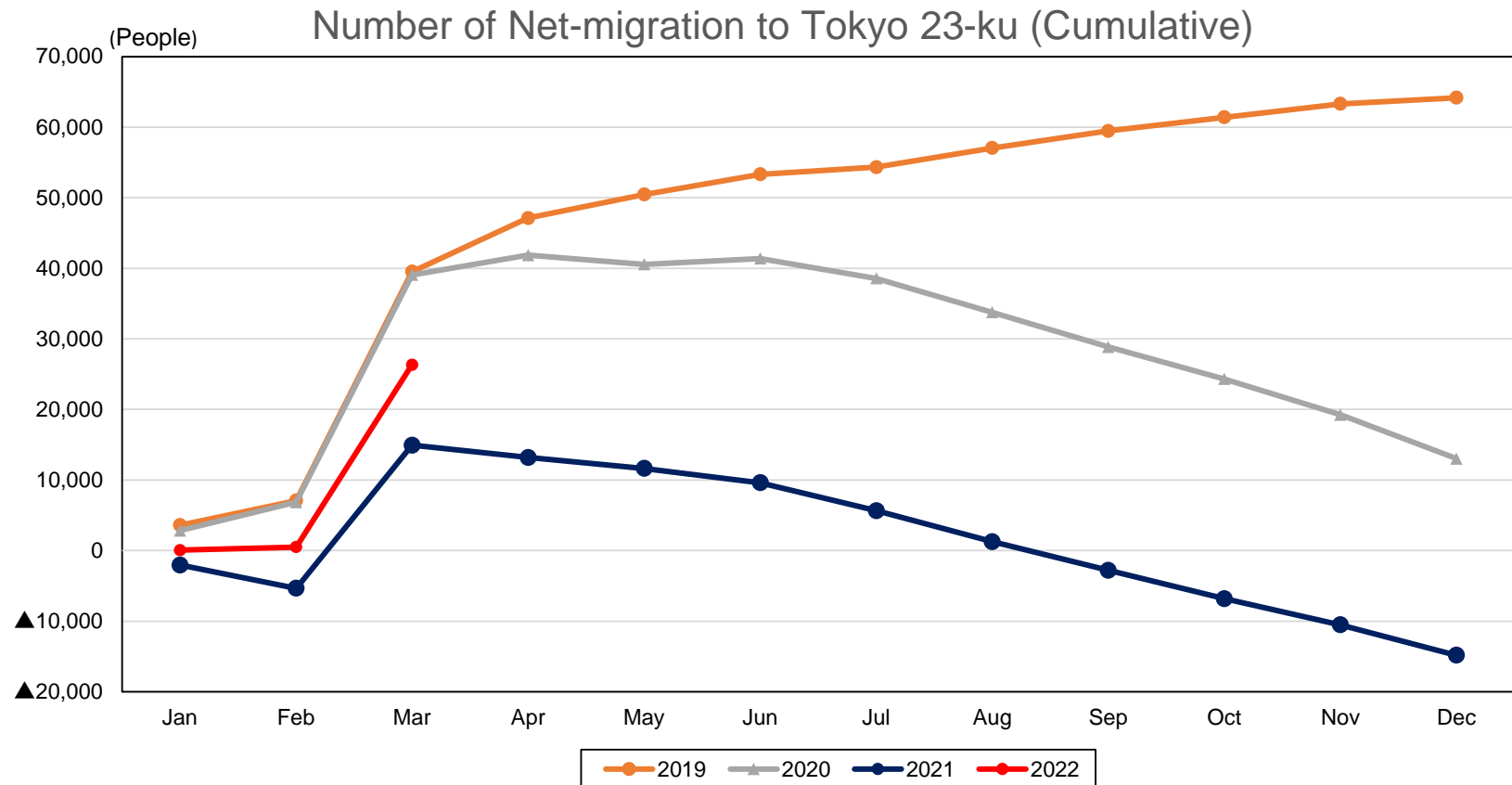
(Q1 2009=100)



Population outflow from Tokyo is likely to stop in 2022



- Population inflow to Tokyo was 26,336 in Q1 2022, 1.7 times of 2021 level, and 70% of 2020 level .



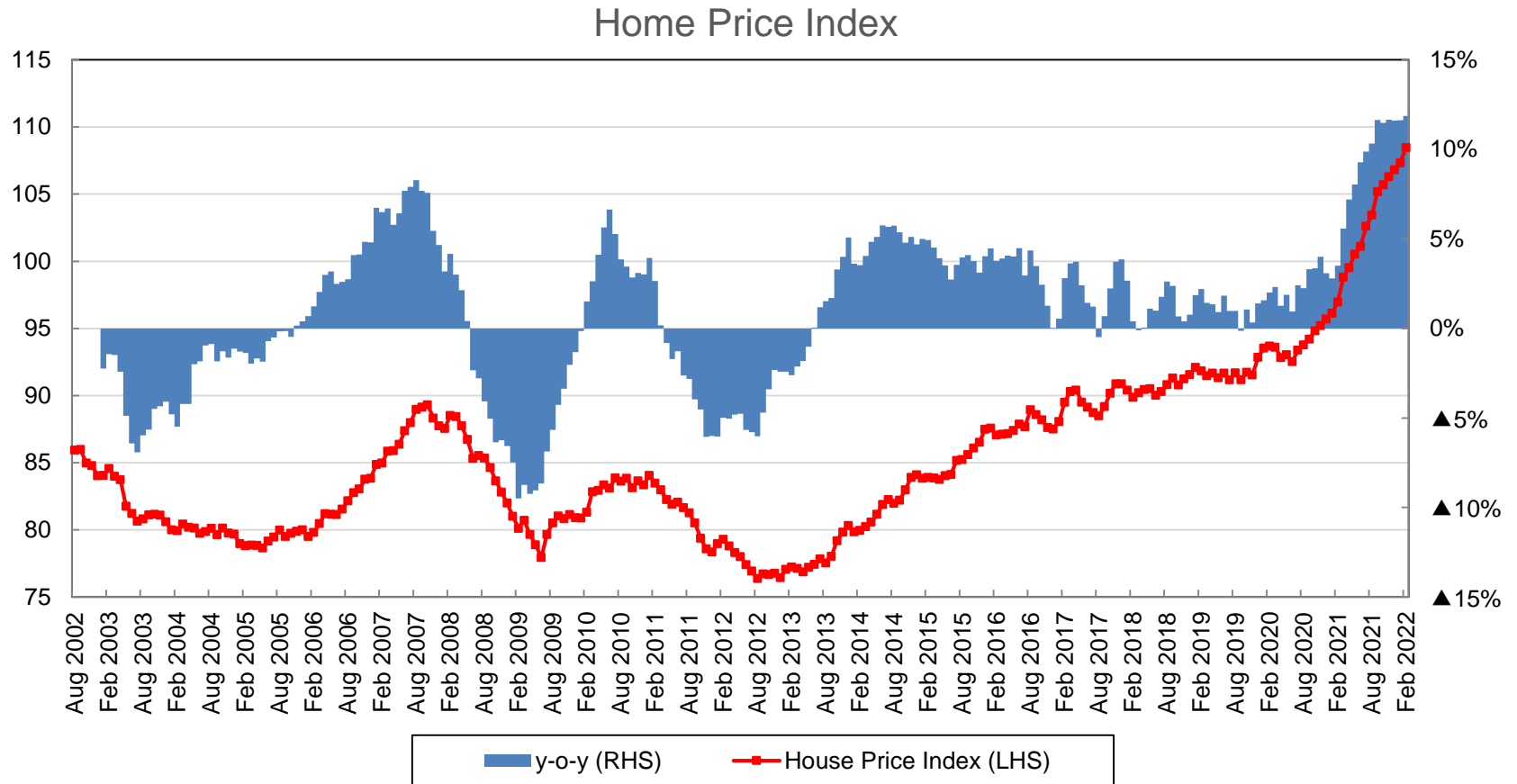
Source: The Statistics Bureau of Japan

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Home price appreciation accelerates amid the COVID-19 pandemic



- Japan home price gained by 11.9% y-o-y in February 2022, growing at the fastest pace since its inception in June 1993.



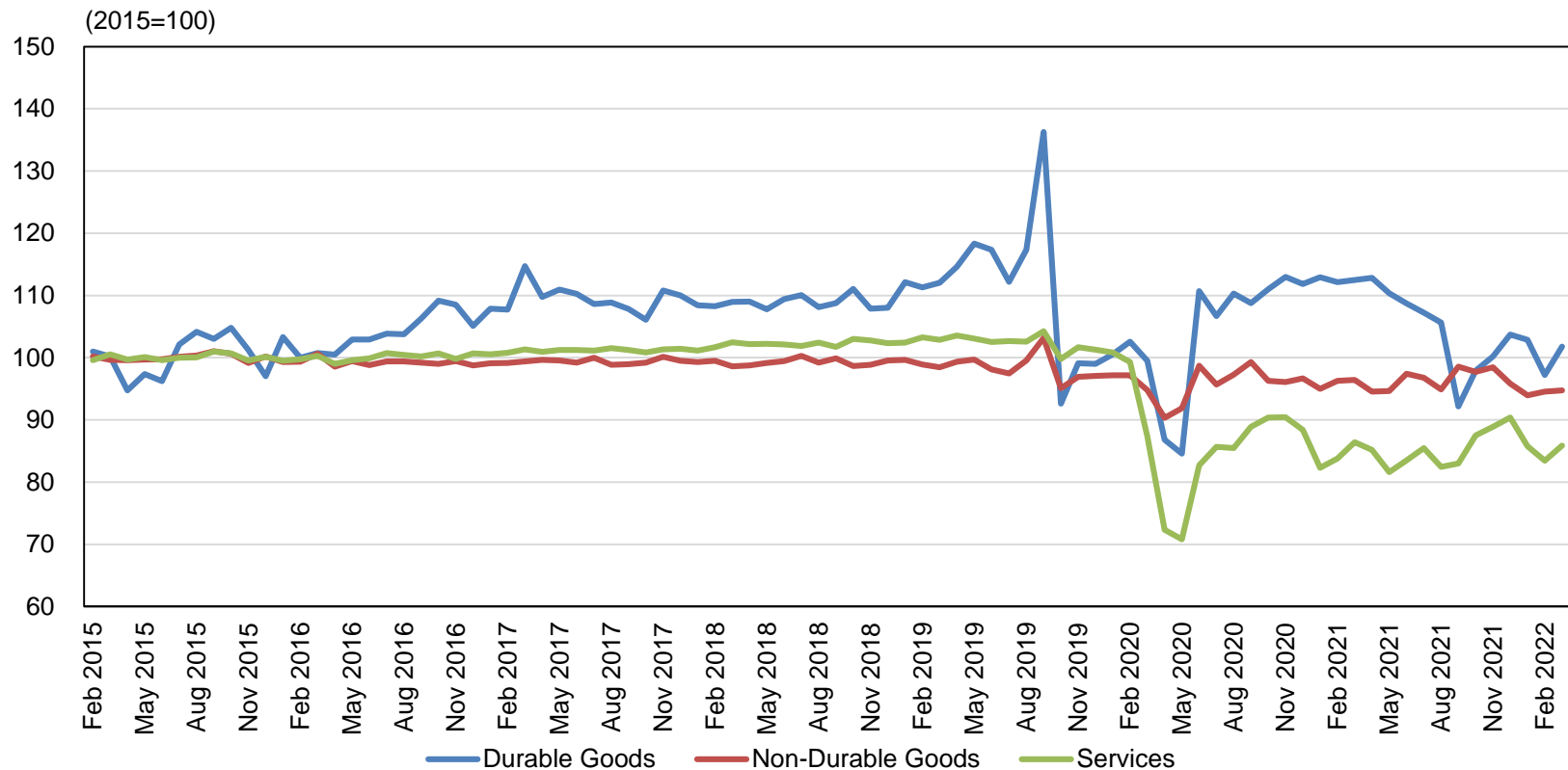
Source: Japan Real Estate Institute

Consumption remained stagnant mainly due to the quasi-state of emergency



- In Q1 2022, real consumption activity index of durable goods, Non-durable goods, and services changed by 0.0%, -3.0%, and -4.4% from the previous quarter, respectively.

Real Consumption Activity Index

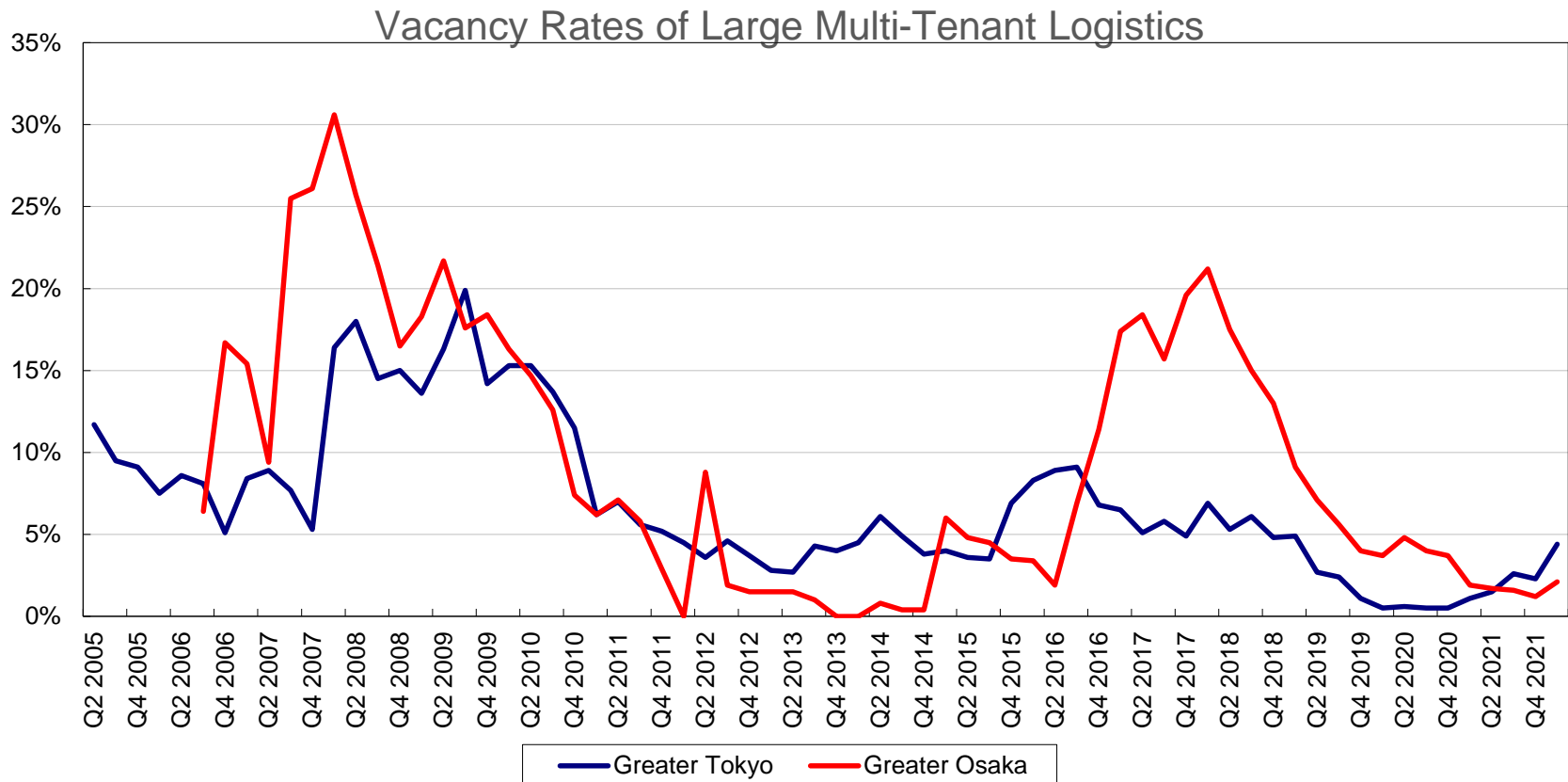


Source: The Bank of Japan

The supply-demand balance started to ease in Greater Tokyo logistics market



- In Q1 2022, vacancy rates in Greater Tokyo increased to 4.4% from 2.3% in the previous period due to the largest quarterly supply.
- Although the vacancy rate is expected to decline temporarily, the supply-demand balance is expected to continue to ease as a large supply continues to come on stream, according to CBRE.



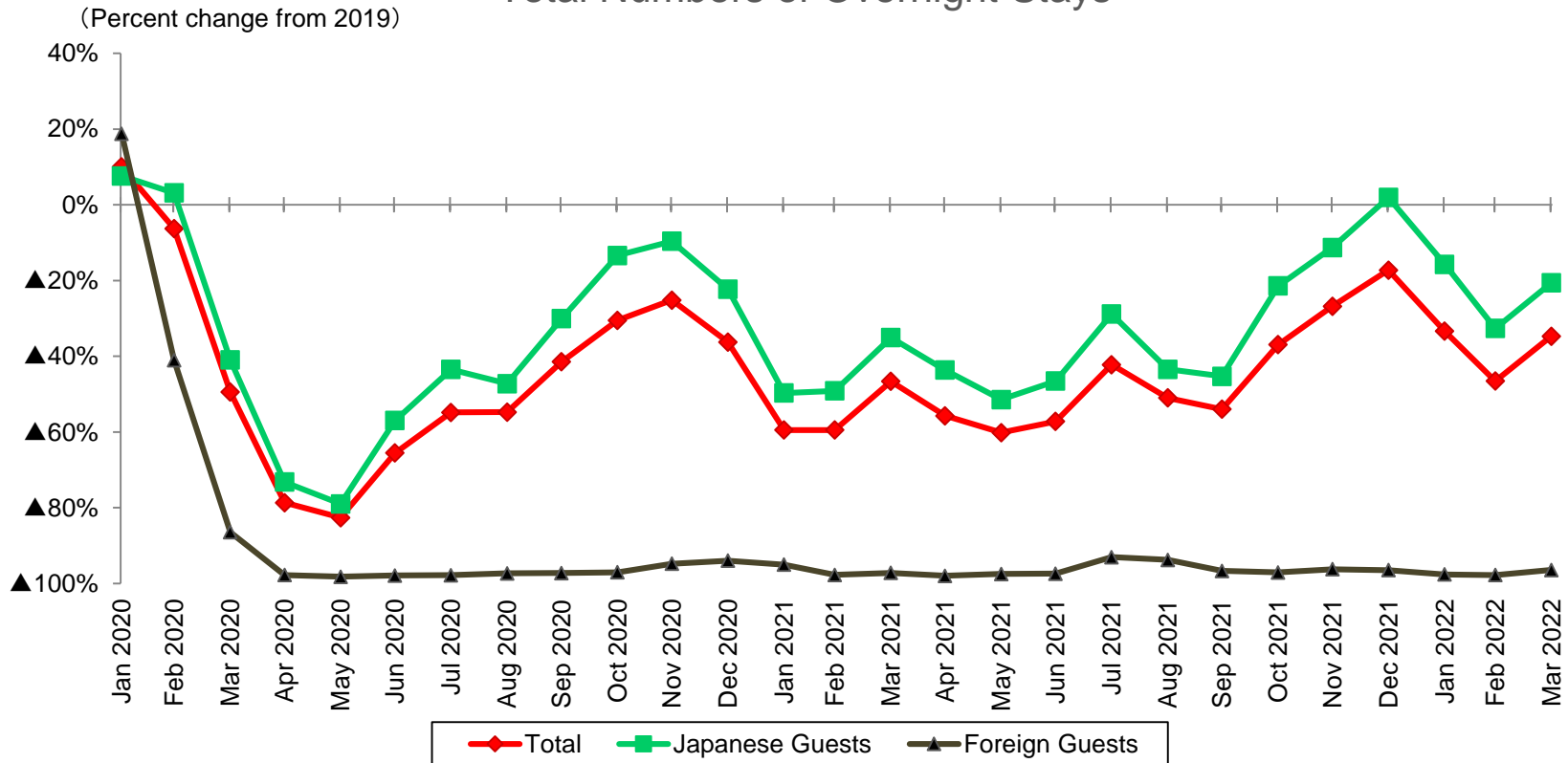
Source: CBRE

Since the beginning of 2022, the hotel market has struggled again, weighed by the 6th wave of COVID infection



- The total number of overnight stays declined by 38.1% in Q1 2022 from the corresponding period in 2019.
- According to STR, hotel RevPAR declined by 64% in Tokyo and 60% in Osaka in March 2022 from the corresponding month in 2019.

Total Numbers of Overnight Stays



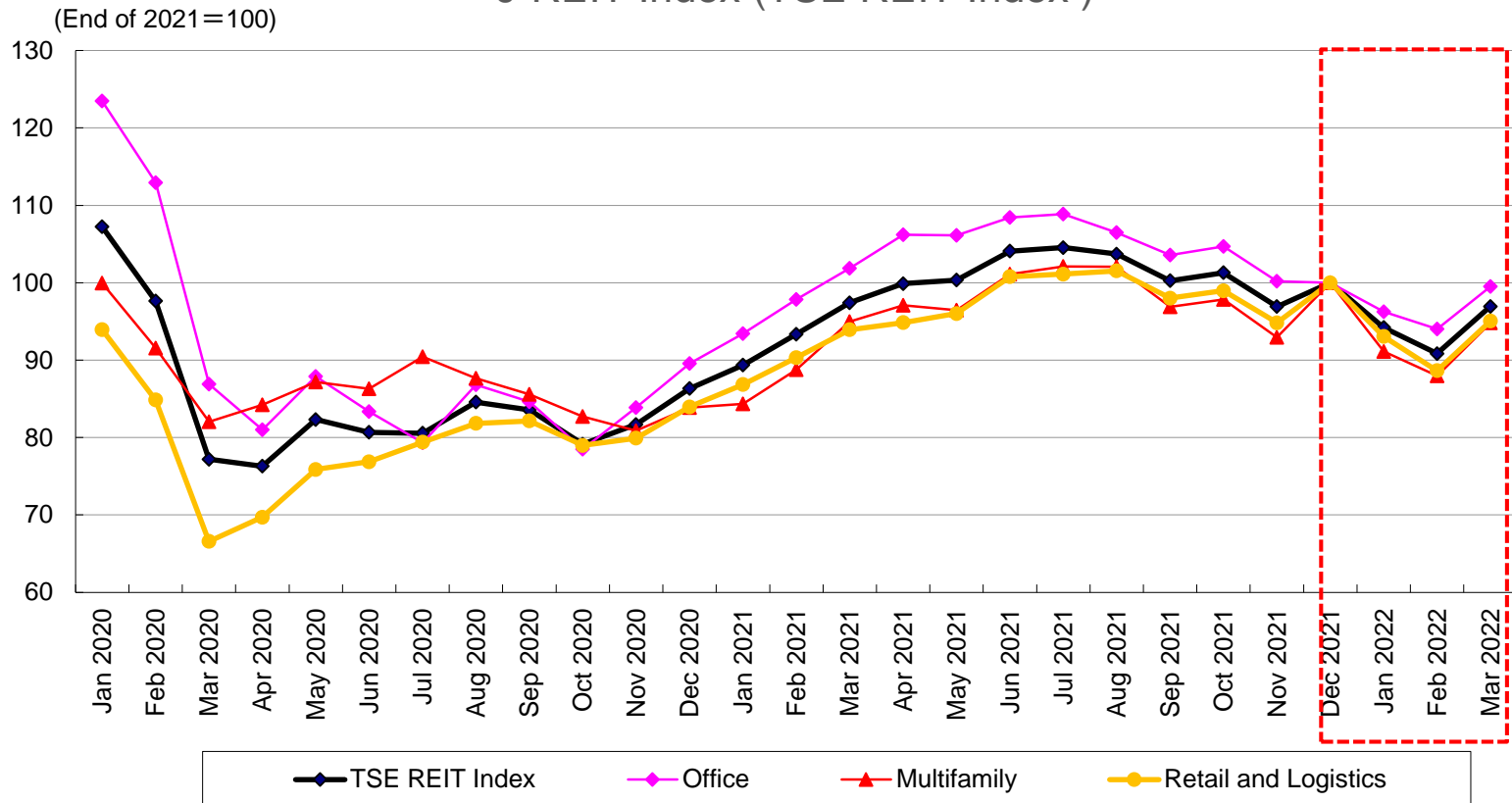
Source: Japan Tourism Agency

J-REIT prices temporarily fell sharply due to rising U.S. interest rates and Russia's invasion of Ukraine



- J-REIT Index declined by 3.1% q-o-q in Q1 2022, trading at price to NAV ratio at 1.06x, dividend yield at 3.7%, and dividend and JGB spread at 3.5% in March 2022.

J-REIT Index (TSE REIT Index)



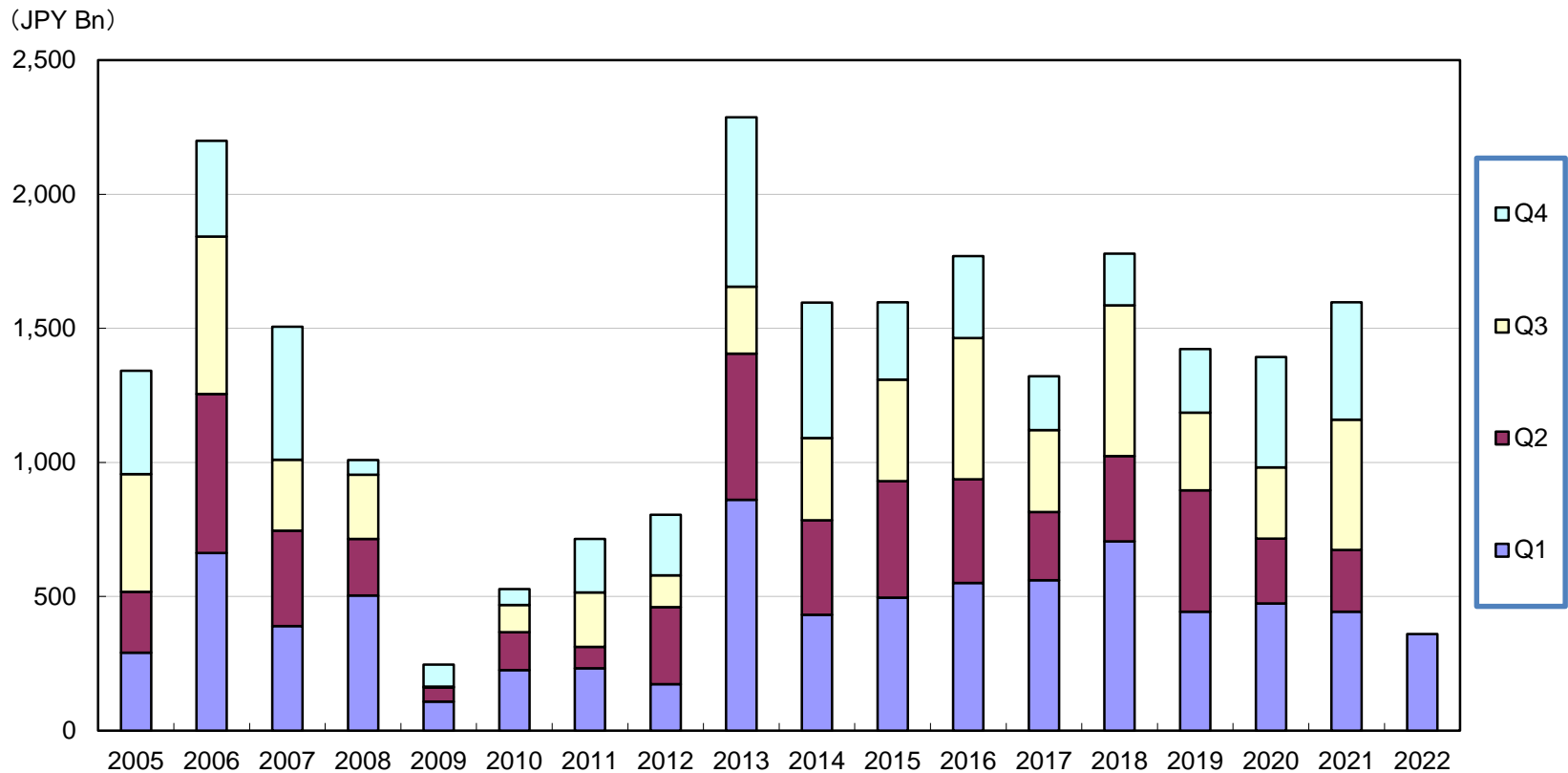
Source: Tokyo Stock Exchange

Office acquisitions which made in conjunction with property replacements and logistics facility acquisitions from sponsors were prominent



- J-REITs acquired property assets totaling JPY360 billion in Q1 2022 (19% decrease y-o-y).
- Office sector led the acquisitions by J-REITs, which accounted for 42% of total acquisitions, followed by logistics, multifamily, retail, others, and hotels.

J-REIT Asset Acquisitions



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

Source: Disclosure Documents



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