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RESEARCH

Japan Real Estate Market Quarterly Review

Second Quarter 2022

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Summary

Macro Economy

- Japan's real GDP is expected to increase by 0.8% q-o-q (annualized 3.2% increase) in Q2 2022, driven by the rebound of consumption after the lift of the quasi-state of emergency.
- Japan's real GDP is expected to expand by 2.0% in FY2022 and 1.7% in FY2023.

Real Estate Market

- In the Tokyo Grade-A office market, rents continued to decline, but the q-o-q decline decelerating.
- The decline in multifamily rents appears to have bottomed out in Tokyo.
- The lift of the quasi-state of emergency led to the recovery of hotels and retails.
- In Greater Tokyo logistics markets, the supply-demand balance is expected to continue to ease.

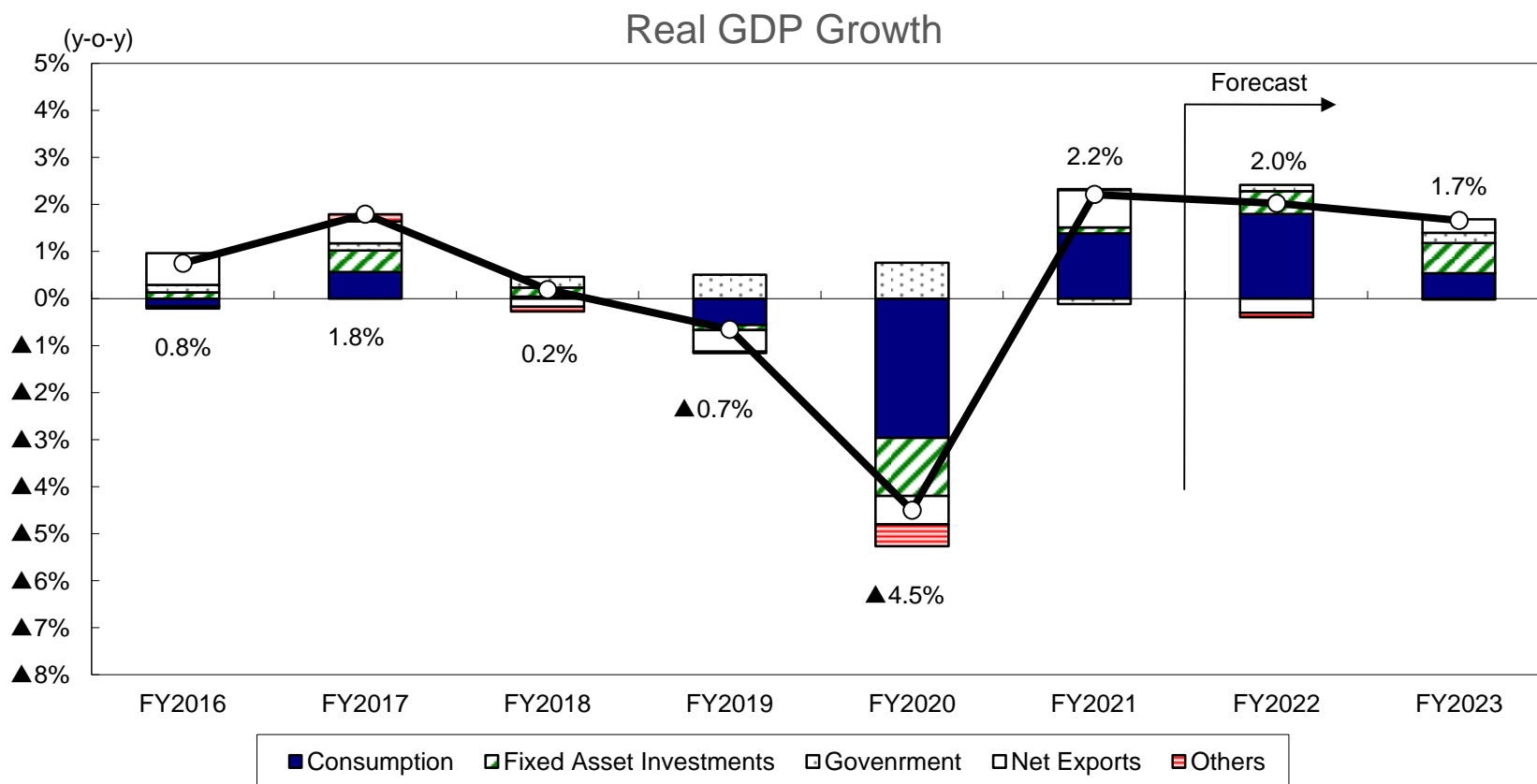
Capital Market

- J-REIT Index declined by 1.8% q-o-q in Q2 2022, trading at price to NAV ratio at 1.02x, dividend yield at 3.7%, and dividend and JGB spread at 3.5%.
- J-REITs acquired property assets totaling JPY112 billion in Q2 2022 (51% decrease y-o-y).

Finally, Japan's real GDP is expected to recover the pre-COVID level of Q4 2019



- Japan's real GDP is expected to increase by 0.8% q-o-q (annualized 3.2% increase) in Q2 2022, driven by the rebound of consumption after the lift of the quasi-state of emergency.
- Japan's real GDP is expected to expand by 2.0% in FY2022 and 1.7% in FY2023.

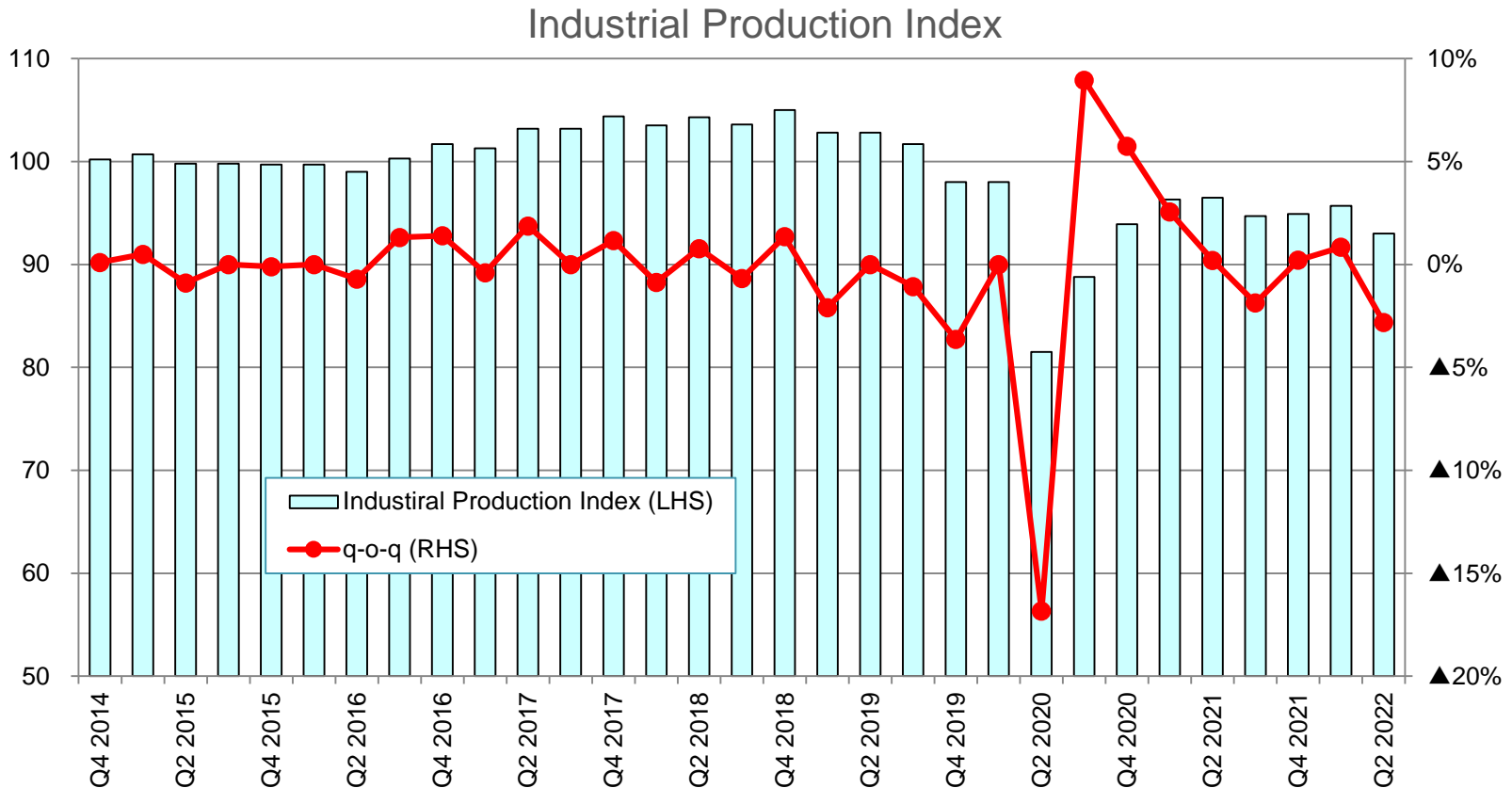


Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2022) "Weekly Economist Letter" NLI Research Institute, March, 2022.

Industrial production decreased for the first time in three quarters due to supply constraints



- Industrial production decreased by 2.8% q-o-q in Q2 2022.
- Due to the lift of China’s lockdown in June and the recovery of domestic demand, production is expected to pick up going forward, while the pace of recovery is likely to be modest.



Source: The Ministry of Economy, Trade and Industry

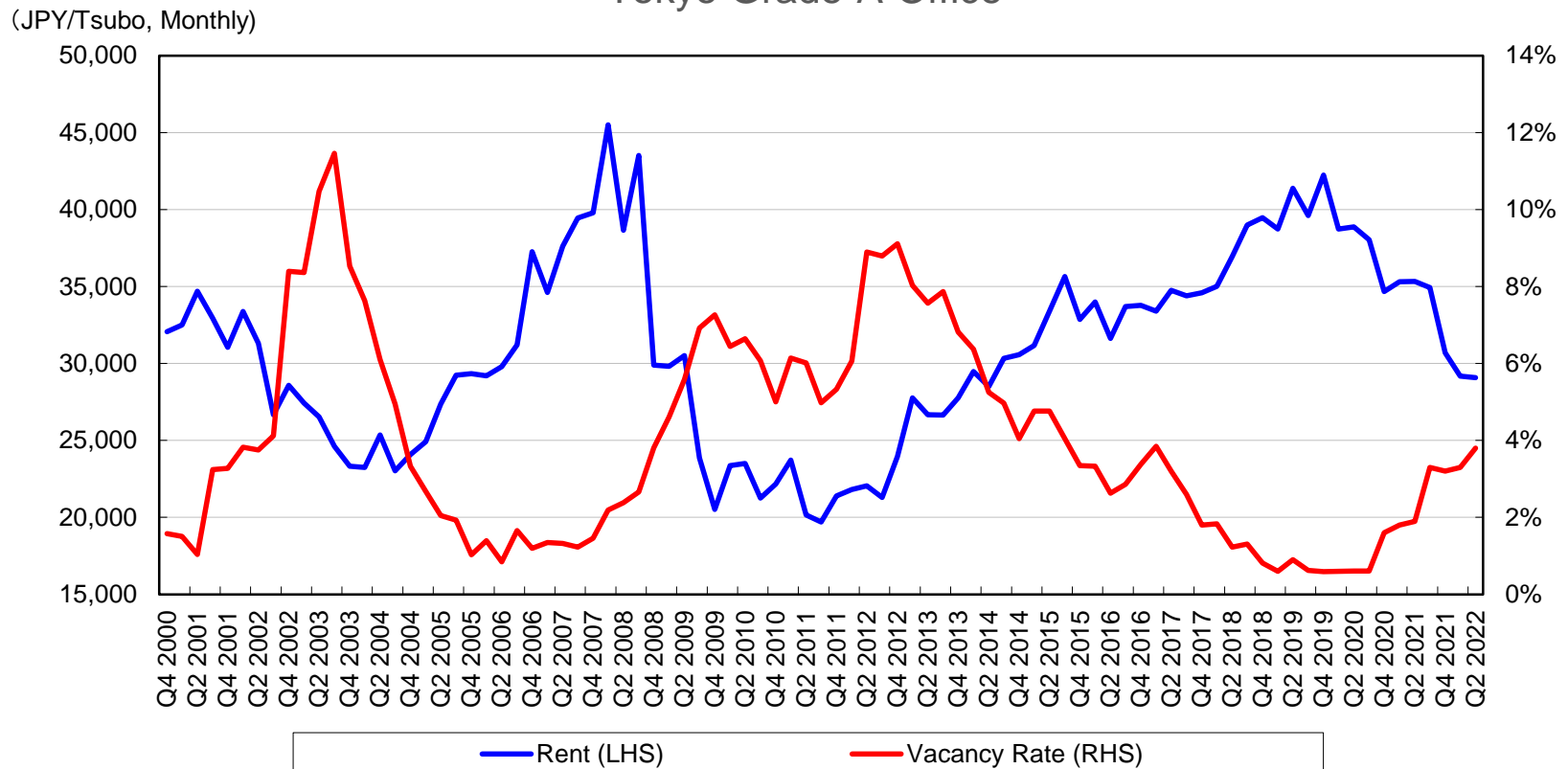
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In Tokyo, Grade-A office rents continued to decline, but the q-o-q decline decelerating



- Tokyo grade-A office rents were JPY29,073/tsubo in Q2 2022. The decline since the previous peak in Q4 2019 reached 31.2%, while the q-o-q decline decelerated.
- Vacancy rate increased to 3.8% in Q2 2022 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)

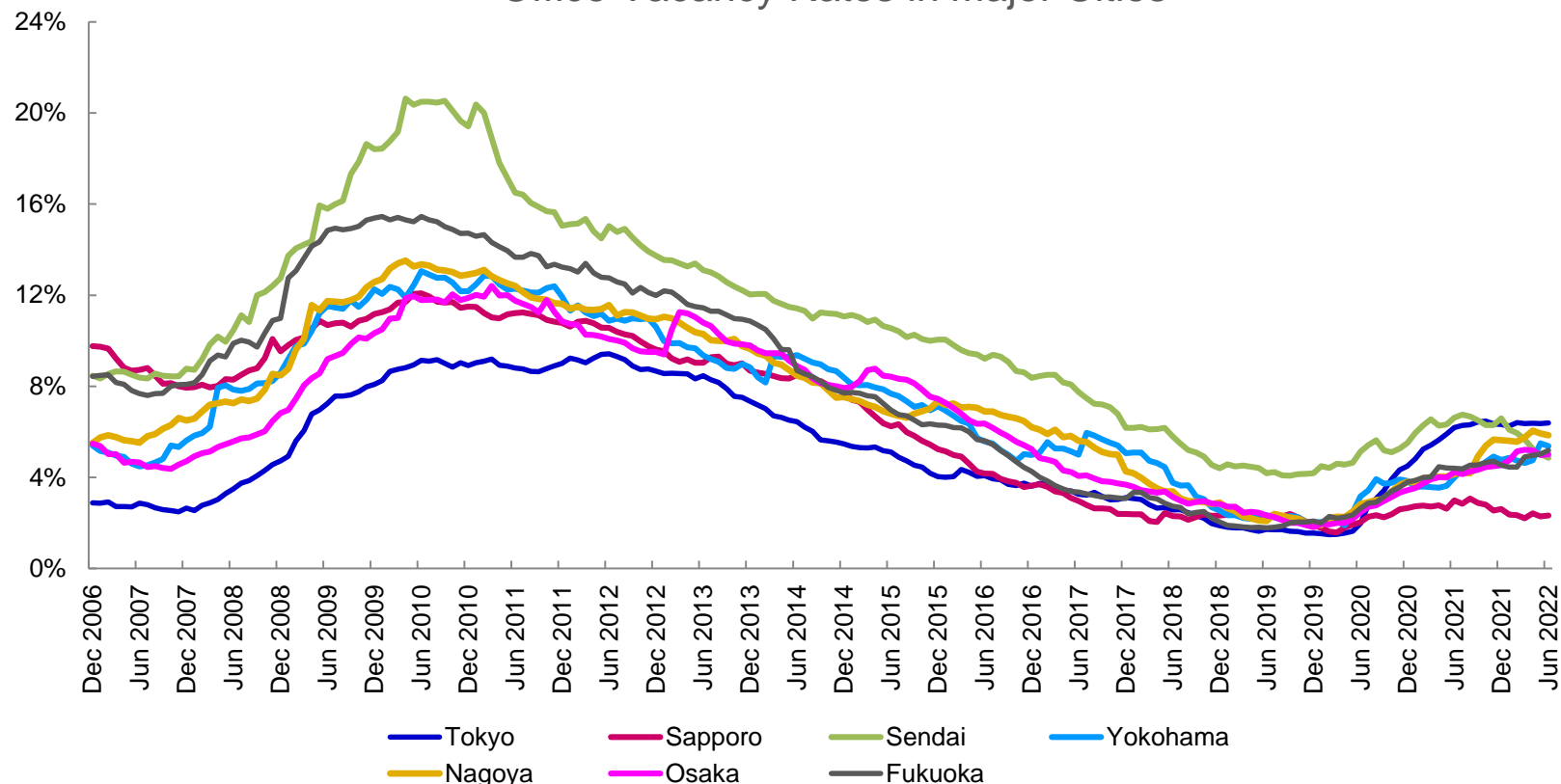
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An increase in vacancy rates has peaked in some major cities



- Vacancy rates in Sapporo and Sendai have declined from their peaks during the pandemic by 0.7% and 1.9%, respectively.
- While, vacancy rates in Tokyo, Yokohama, Nagoya, Osaka, and Fukuoka are near their peak.

Office Vacancy Rates in Major Cities



Source: Miki Shoji

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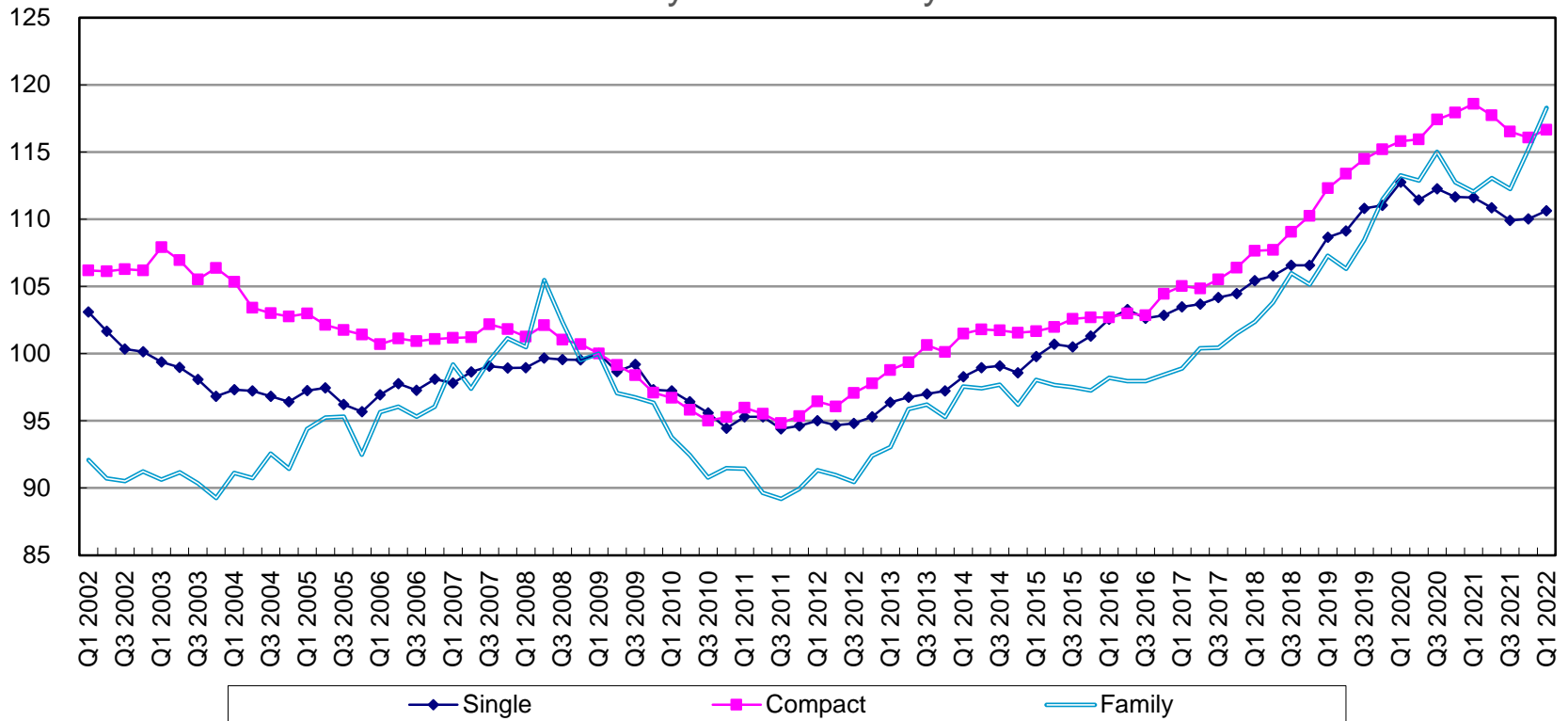


Rent decline have appears to have bottomed out in Tokyo

- In Q1 2022, multifamily rents of single-, compact- and family-type In Tokyo 23-ku changed by -0.9%, -1.6%, and +5.6% y-o-y, respectively.
- Luxury multifamily rents increased by 3.9% y-o-y in Q2 2022, increasing for two consecutive quarters, according to Ken Corporation.

(Q1 2009=100)

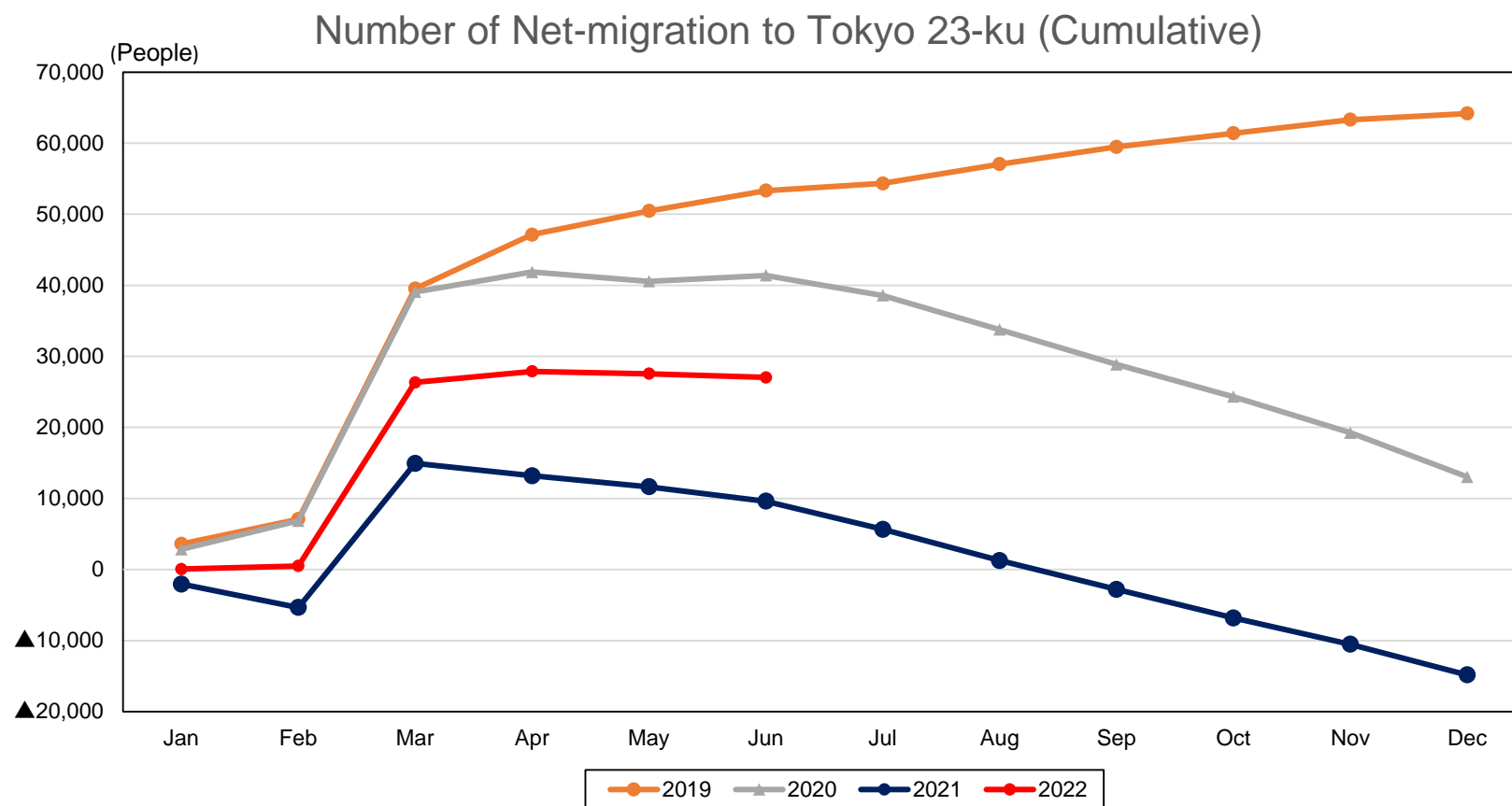
Multifamily Rents in Tokyo 23-ku





Population outflow became flat in Q2 2022

- Population inflow to Tokyo was only 701 in Q2 2022, following a similar trajectory in 2020.



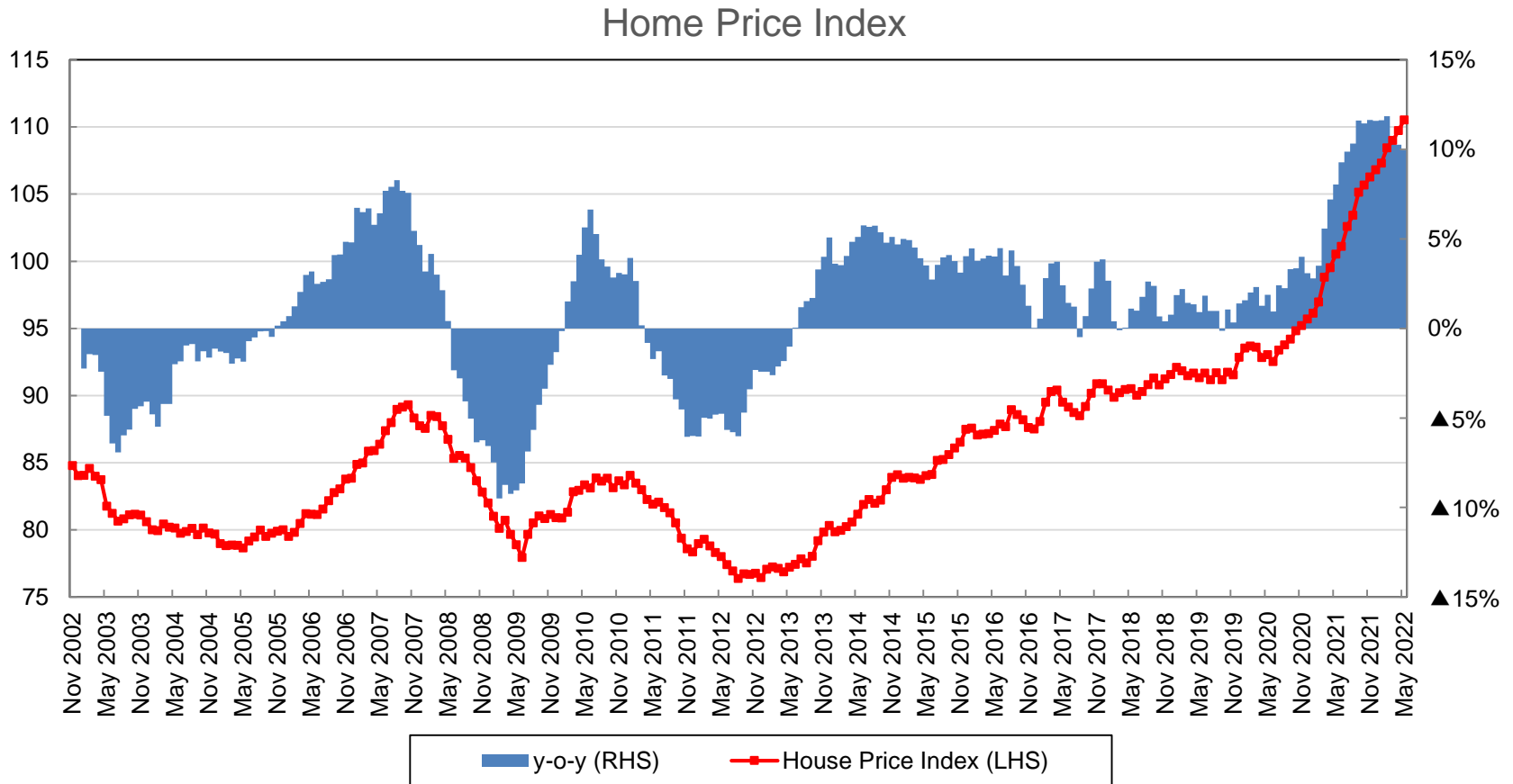
Source: The Statistics Bureau of Japan

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Pace of home price appreciation remains fast, but signs of slowdown



- Japan's home price gained by 9.9% y-o-y in May 2022, rising for 23 consecutive months, but the pace of increase is slowing.



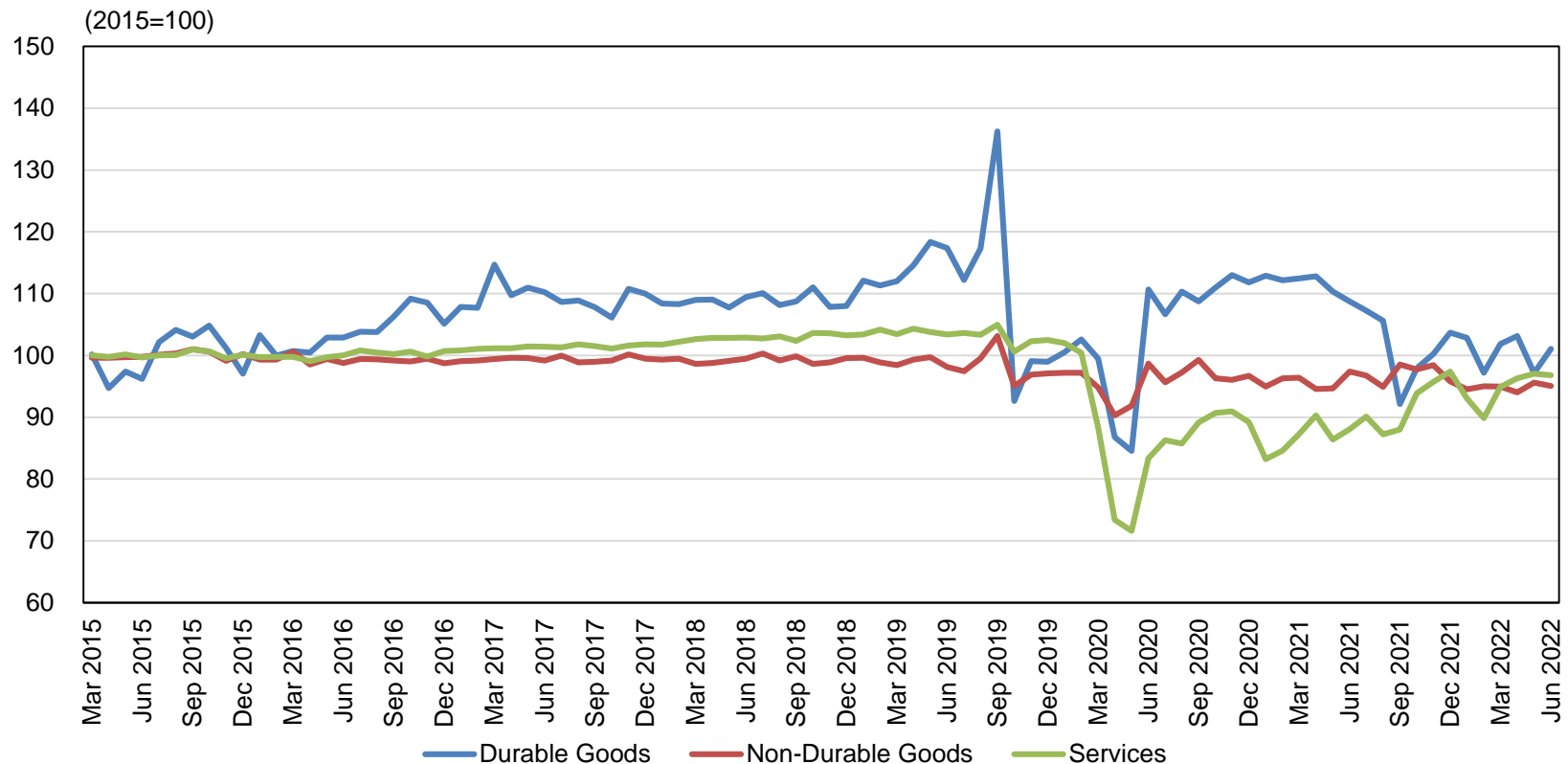
Source: Japan Real Estate Institute

Service consumption recovered driven by the lift of the COVID-19 quasi-state of emergency



- In Q2 2022, real consumption activity index of durable goods, Non-durable goods, and services changed by -0.2%, +0.1%, and +4.4 from the previous quarter, respectively.

Real Consumption Activity Index



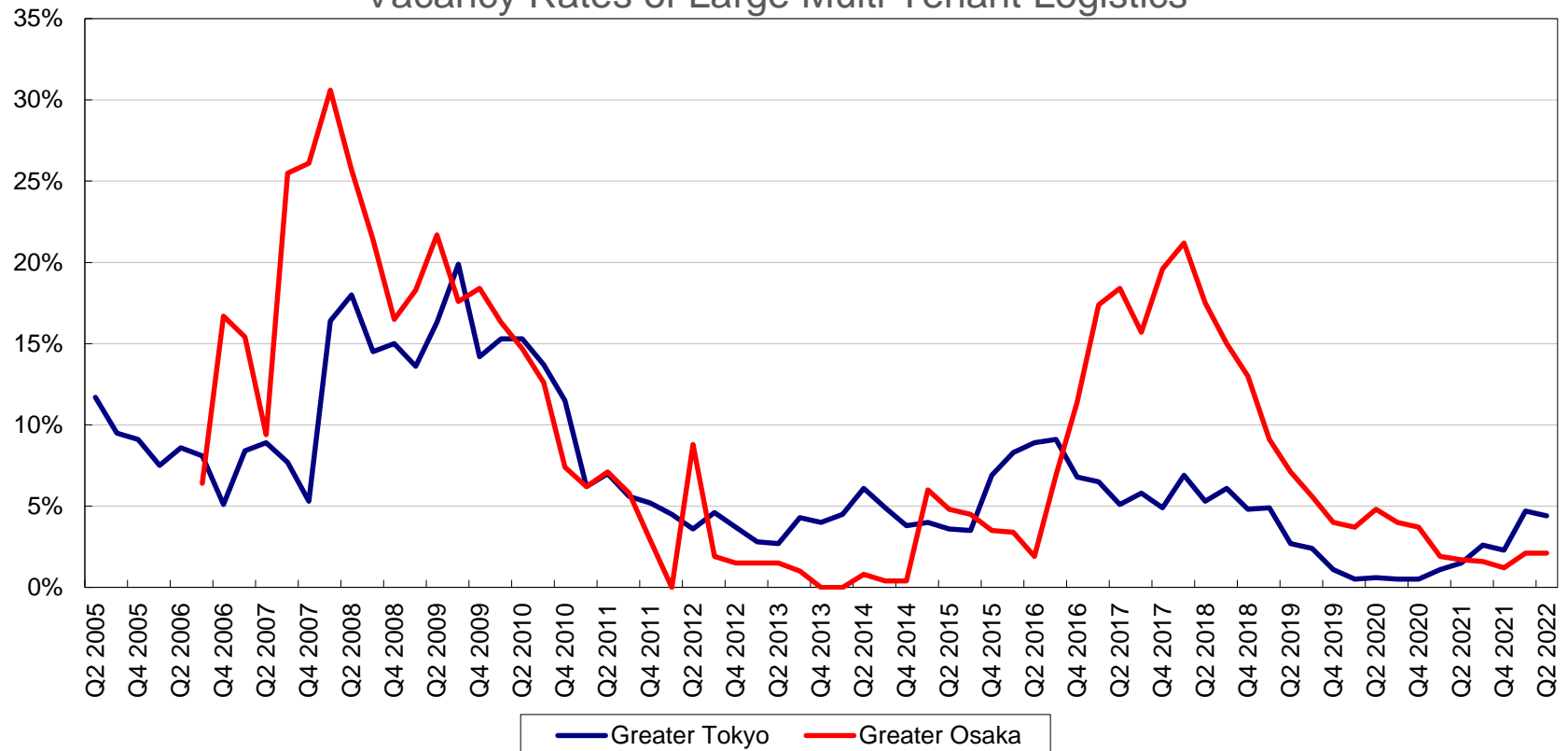
Source: The Bank of Japan

The supply-demand balance is expected to continue to ease in the Greater Tokyo logistics market



- In Q2 2022, vacancy rates in Greater Tokyo declined to 4.4% from 4.7% in the previous period, due to limited new supply.
- Tenant demand driven by e-commerce remains strong, while the pace of leasing decelerates, according to CBRE.

Vacancy Rates of Large Multi-Tenant Logistics



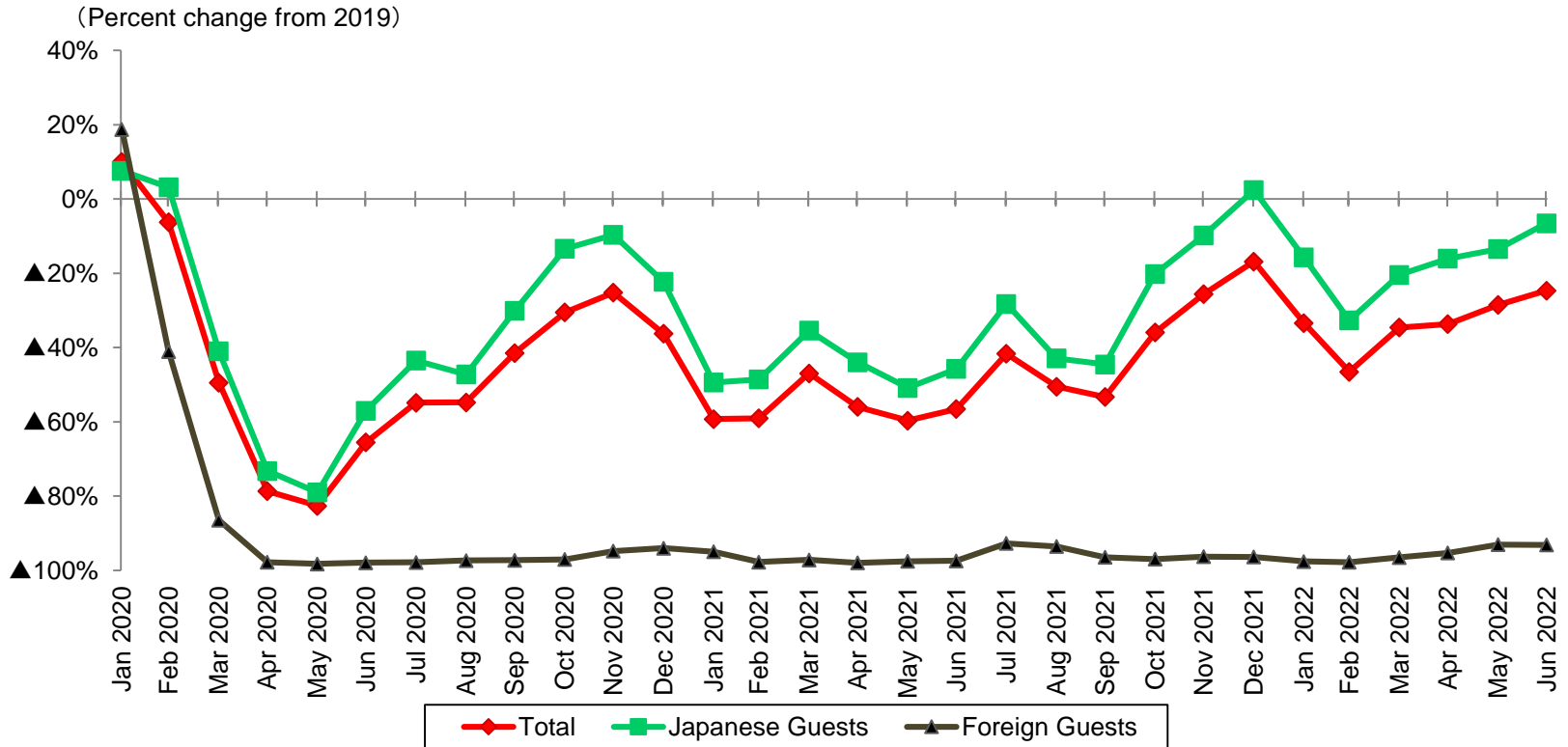
Source: CBRE

The number of Japanese tourists is steadily recovering, while the recovery of foreign tourists remain stagnant



- The total number of overnight stays declined by 29.1% in Q2 2022 from the corresponding period in 2019.
- According to STR, hotel RevPAR declined by 50% in Tokyo and 55% in Osaka in June 2022 from the corresponding month in 2019.

Total Numbers of Overnight Stays

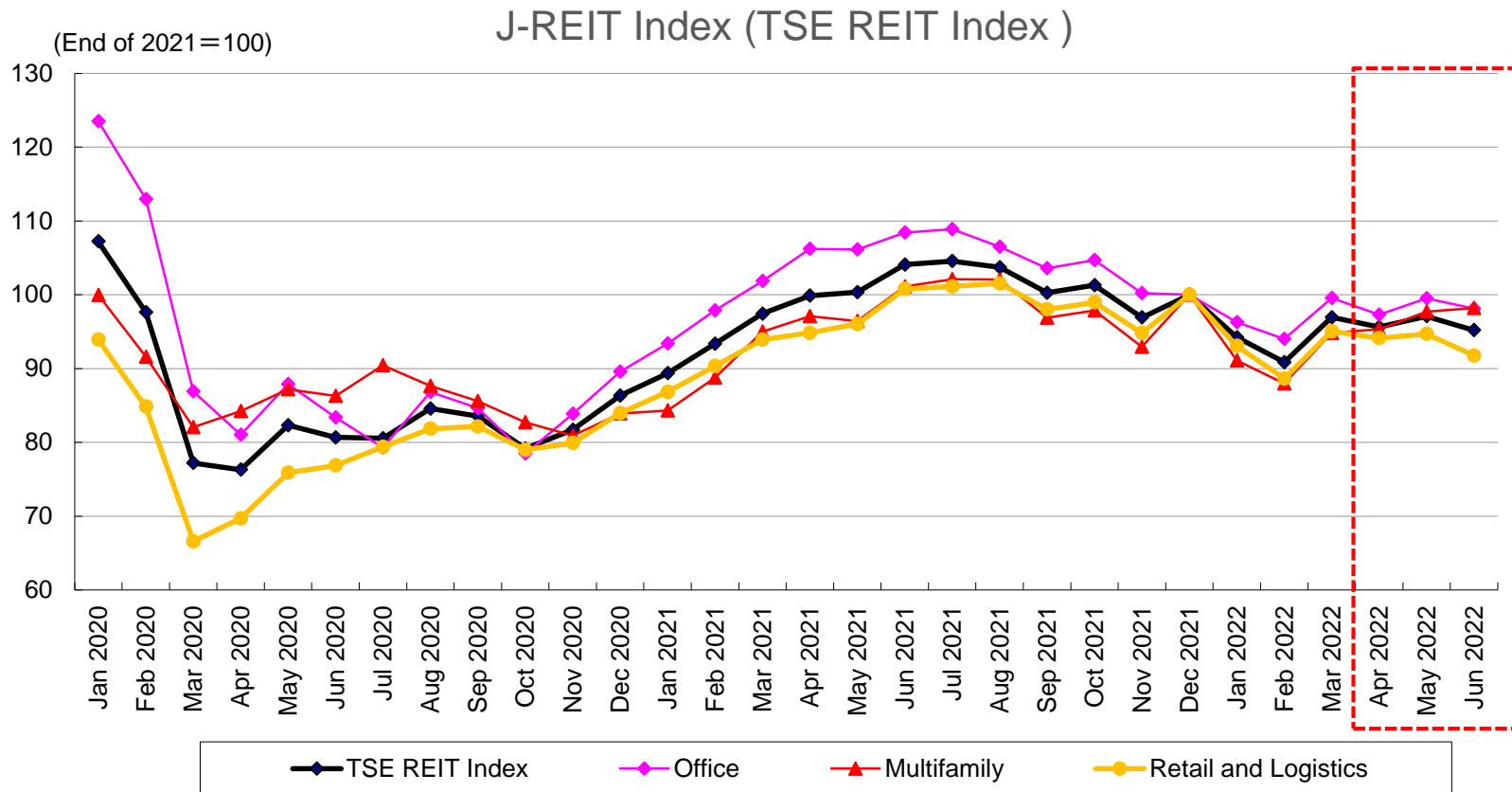


Source: Japan Tourism Agency

As the world moved from pandemic to endemic, logistics facilities underperformed



- J-REIT Index declined by 1.8% q-o-q in Q2 2022, trading at price to NAV ratio at 1.02x, dividend yield at 3.7%, and dividend and JGB spread at 3.5% in June 2022.



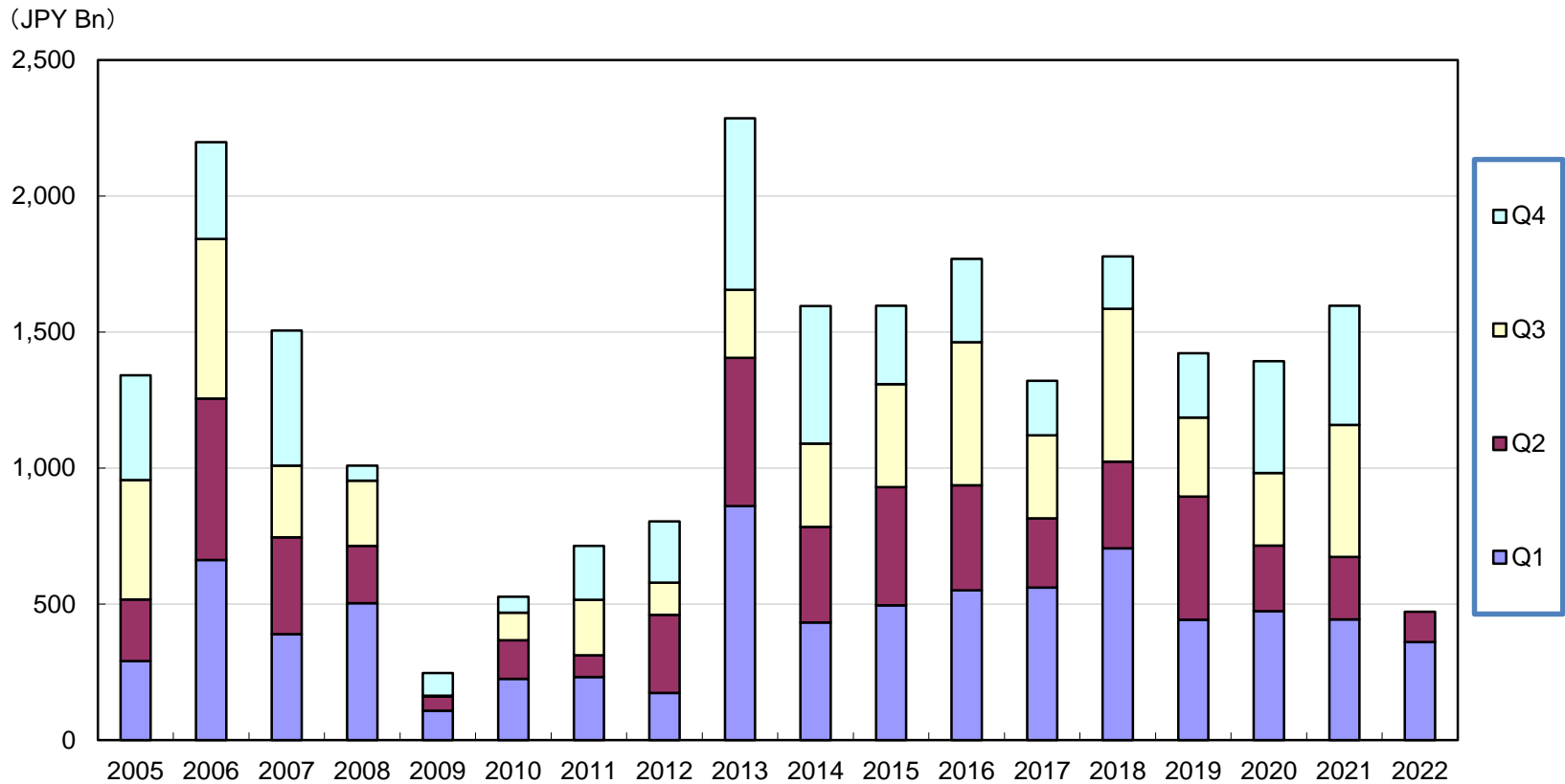
Source: Tokyo Stock Exchange



Weak stock prices led to modest property acquisitions by J-REITs

- J-REITs acquired property assets totaling JPY112 billion in Q2 2022 (51% decrease y-o-y).
- With stock price weakening, many REITs decided not to acquire properties through public offerings, resulting in the first-half figure falling below JPY500billion for the first time since 2012.

J-REIT Asset Acquisitions



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

Source: Disclosure Documents



Contacts

Financial Research Department Real Estate Investment Research

Hiroto Iwasa

+813-3512-1858

hiwasa@nli-research.co.jp

Tasuku Yoshida

+813-3512-1861

tyoshida@nli-research.co.jp

Fumiko Watanabe

+813-3512-1853

fwatanabe@nli-research.co.jp

Makoto Sakuma

+813-3512-1778

msakuma@nli-research.co.jp

Editor and Contributor:

Fumiko Watanabe and Makoto Sakuma