



RESEARCH

Japan Real Estate Market Quarterly Review

Third Quarter 2022

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Summary

Macro Economy

- Japan's real GDP is expected to increase by 0.4% q-o-q (annualized 1.5% increase) in Q3 2022, with steady domestic demand covering the decline in external demand.
- Japan's real GDP is expected to expand by 1.8% in FY2022 and 1.6% in FY2023.

Real Estate Market

- Tokyo Grade-A office market continued to soften.
- Multifamily rents of family-type increased significantly in Tokyo.
- Domestic tourists are leading the recovery of hotels.
- Recovery in retails stalled in Q3 2022 after a sharp recovery in the previous quarter.
- Logistics markets in Greater Tokyo continue to ease, while Greater Osaka remains tight.

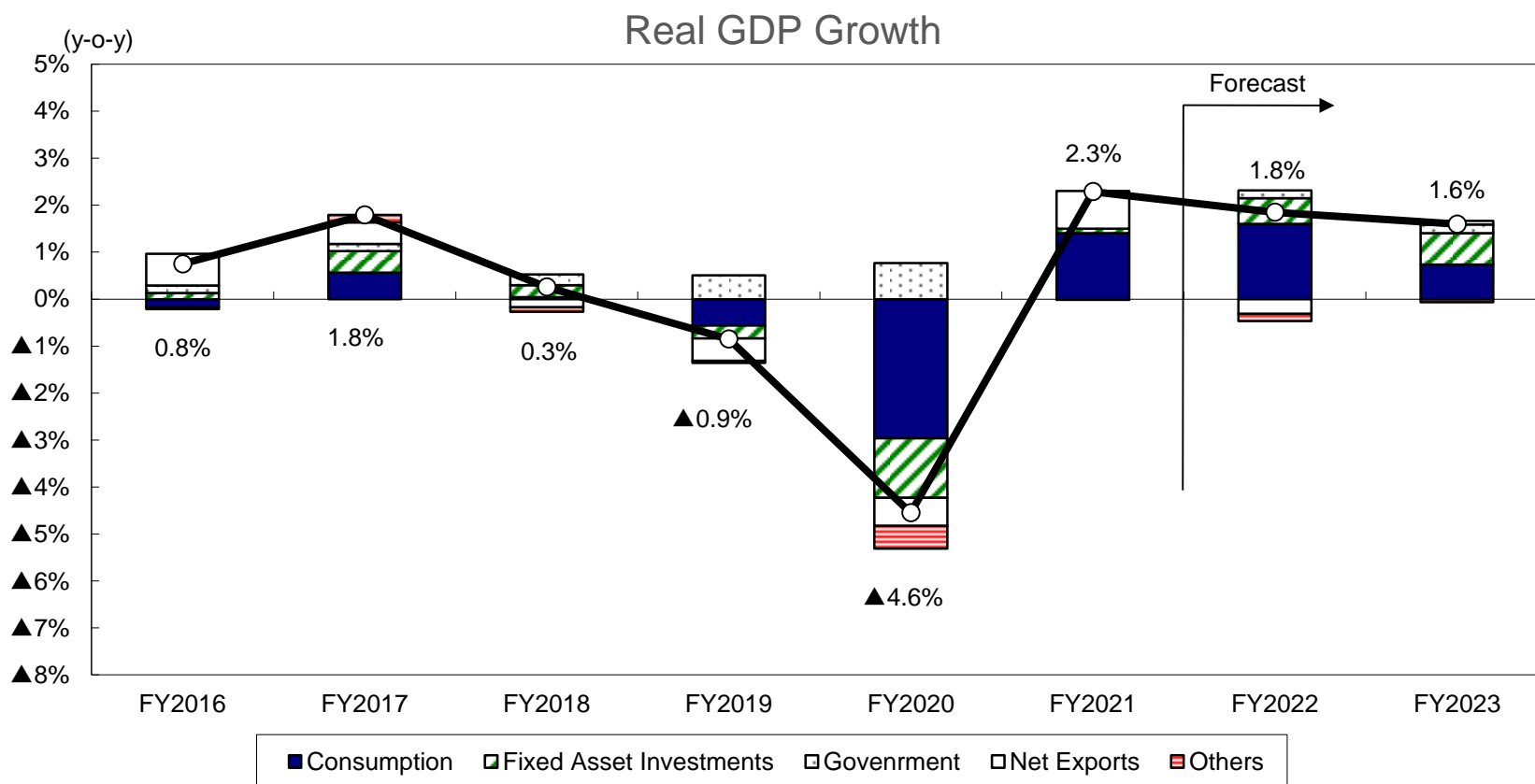
Capital Market

- J-REIT Index declined by 1.1% q-o-q in Q3 2022, trading at a price to NAV ratio of 1.0x, dividend yield at 3.7%, and dividend and JGB spread at 3.5%.
- J-REITs acquired property assets totaling JPY104 billion in Q3 2022 (79% decrease y-o-y).

The Japanese economy is expected to continue to grow buoyed by steady domestic demand



- Japan's real GDP is expected to increase by 0.4% q-o-q (annualized 1.5% increase) in Q3 2022, with domestic demand covering the decline in external demand.
- Japan's real GDP is expected to expand by 1.8% in FY2022 and 1.6% in FY2023.



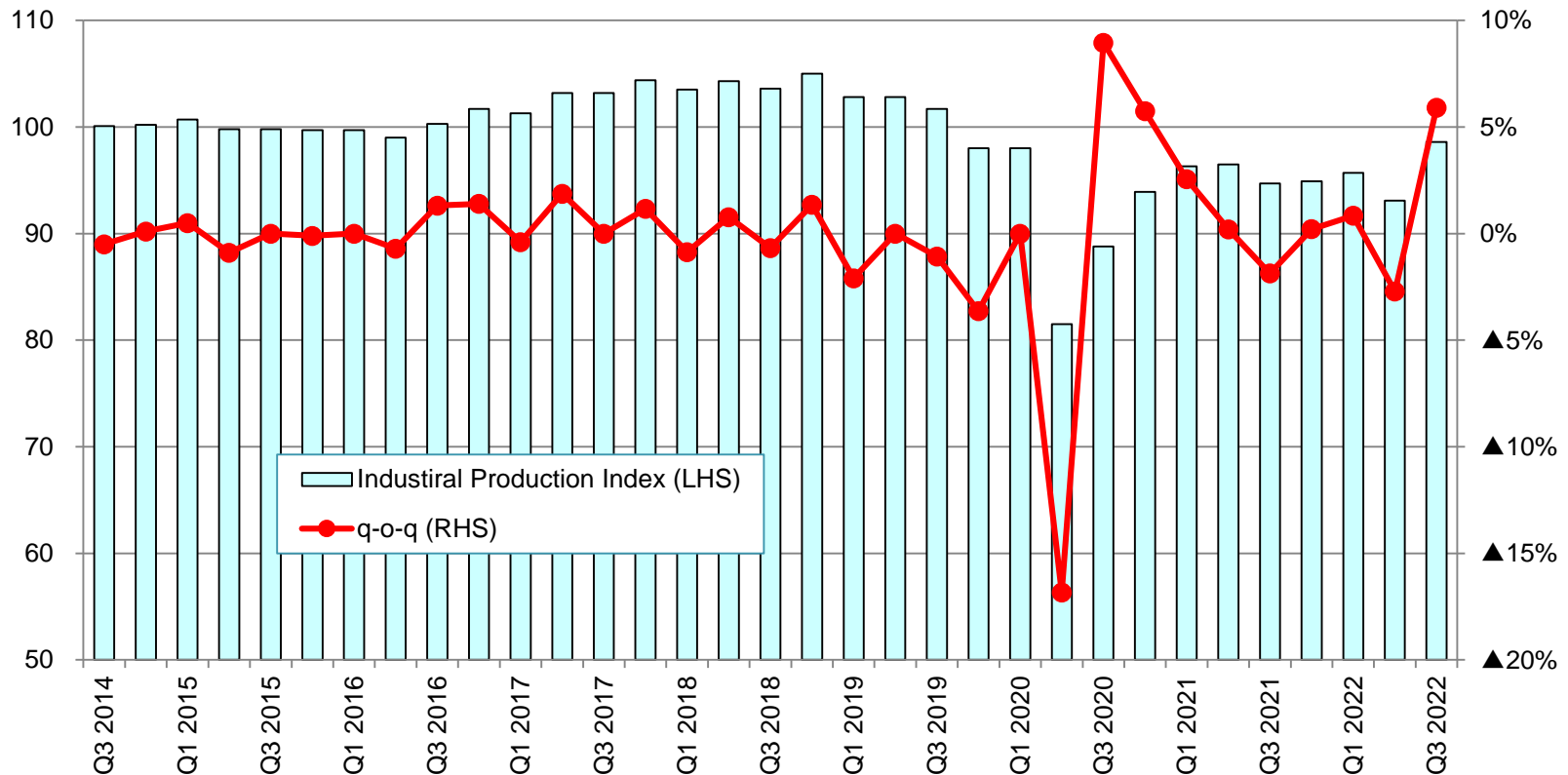
Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2022) "Weekly Economist Letter" NLI Research Institute, September, 2022.

Industrial production has recovered in Q3 2022, but looking ahead, is likely to be stagnant due to long-lasting supply constraints



- Industrial production increased by 5.9% q-o-q in Q3 2022.
- In addition to a significant increase in automobile production following the lift of the China lockdown, production machinery grew steadily, driven by strong capital investment.

Industrial Production Index



Source: The Ministry of Economy, Trade and Industry

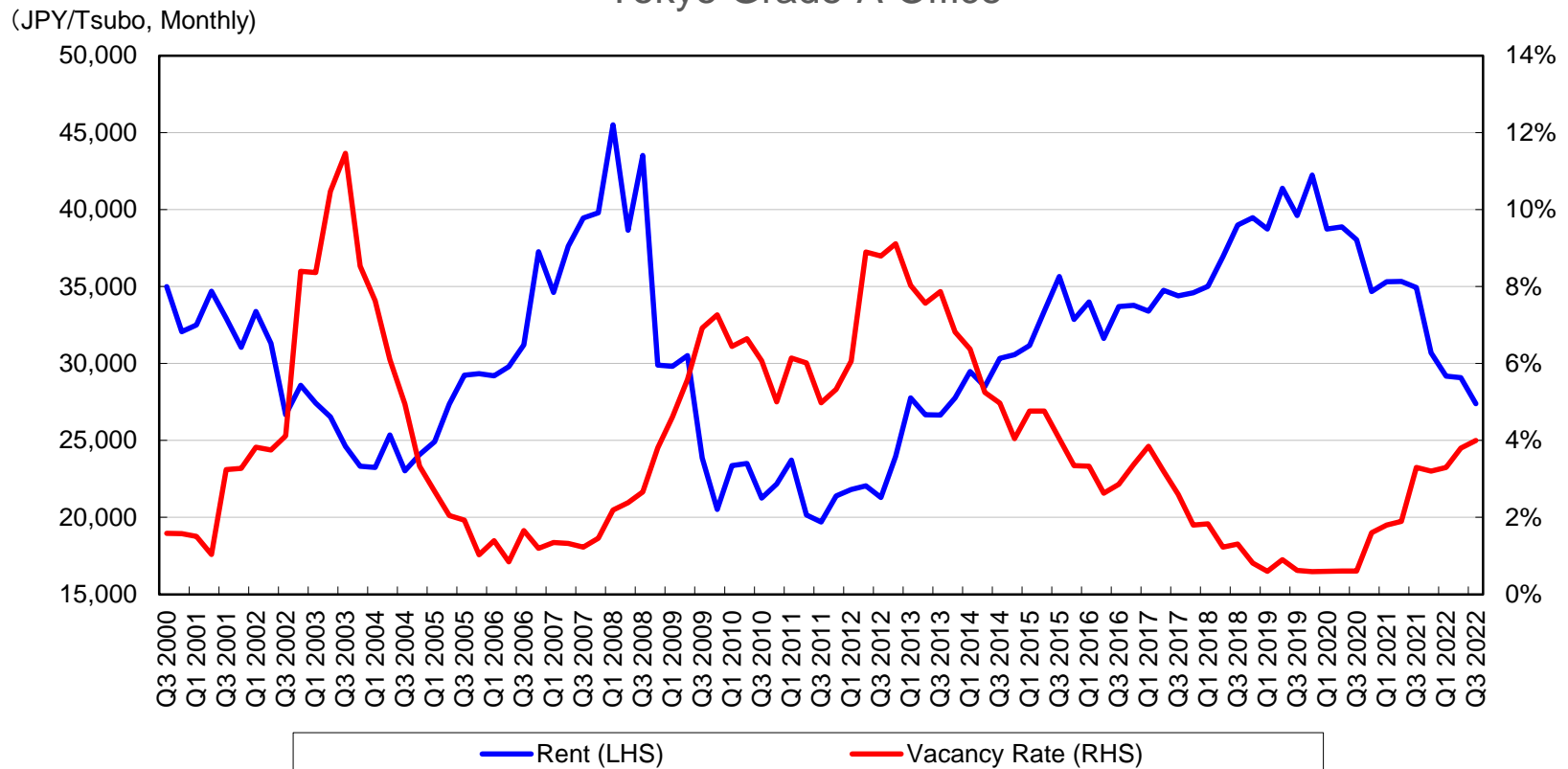
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In Tokyo, the grade-A office market continues to soften



- Tokyo grade-A office rents were JPY27,379/tsubo in Q3 2022, declining to Q3 2013 levels.
- Vacancy rate increased to 4.0% in Q3 2022 from 3.8% 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.

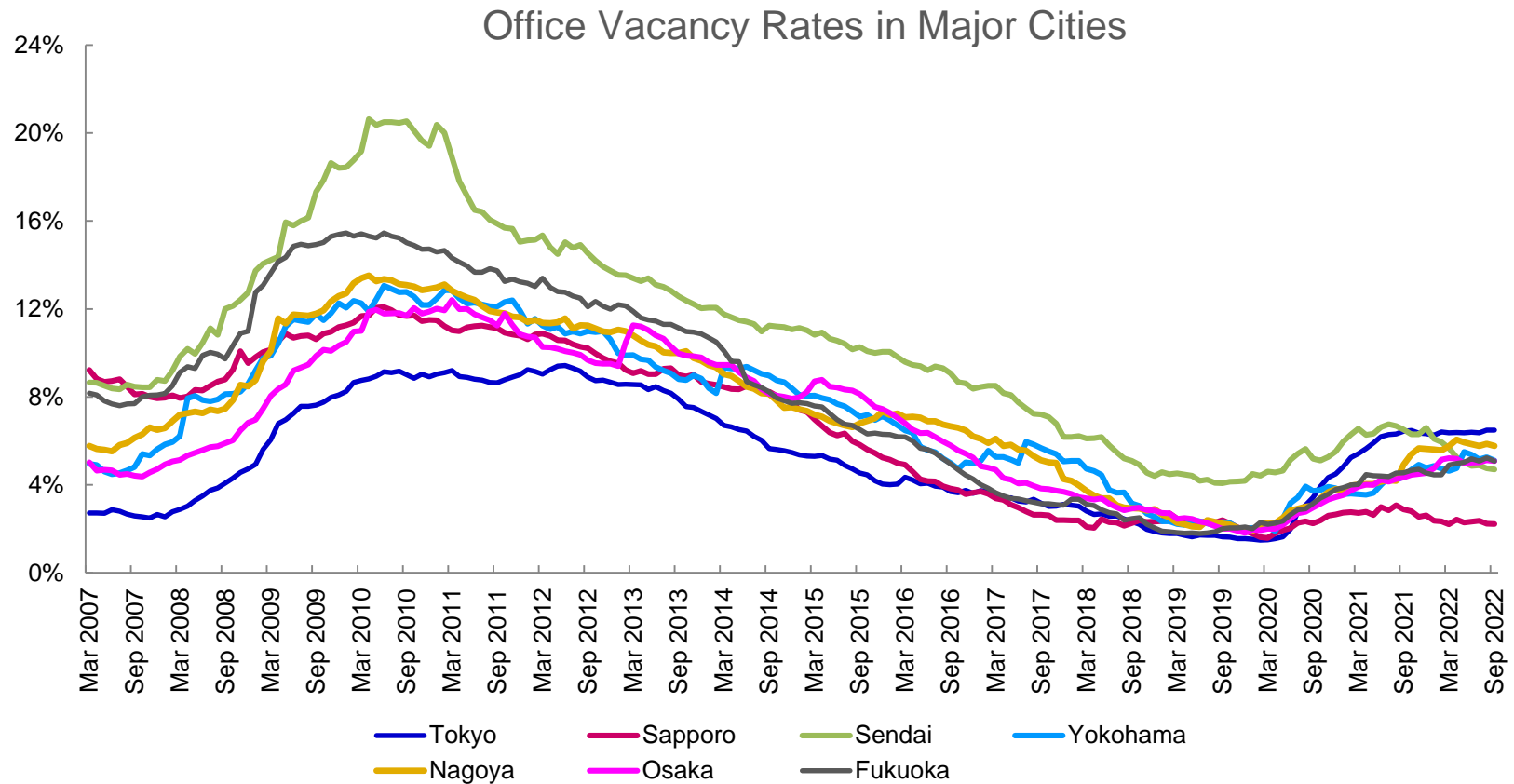
Source: Sanko Estate (Vacancy Rate), Sanko Estate and NLI Research Institute (Rent)

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Trends in the major office markets are mixed



- Vacancy rates in Sapporo and Sendai are declining due to little new supply, while vacancy rates in Tokyo, Yokohama, Nagoya, Osaka, and Fukuoka remain rising.



Source: Miki Shoji

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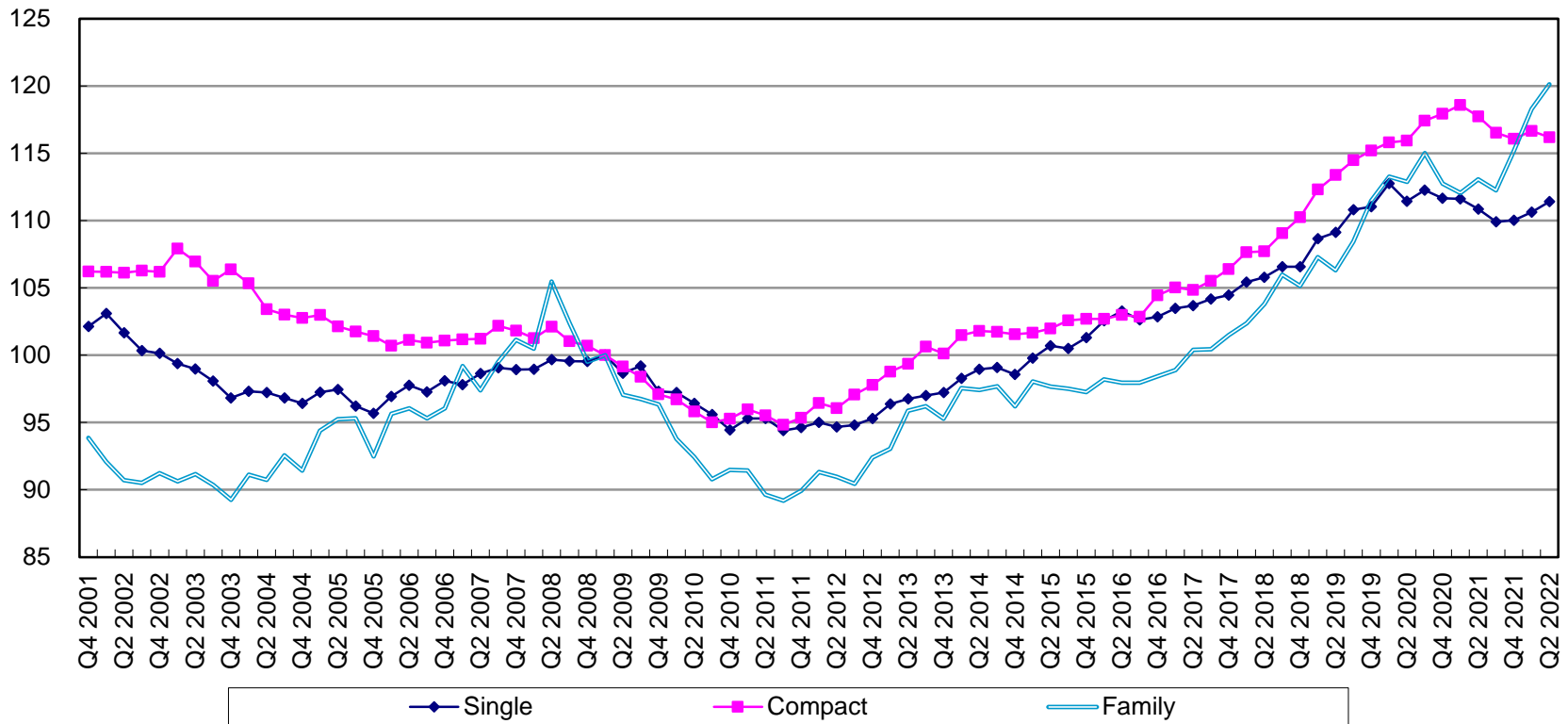


In Tokyo, multifamily rents of family-type are rising noticeably

- In Q2 2022, multifamily rents of single-, compact- and family-type In Tokyo 23-ku changed by +0.5%, -1.5%, and +7.0% y-o-y, respectively.
- According to LMC, multifamily rents in Tokyo 5-ku increased in all wards except Shibuya-ku.

Multifamily Rents in Tokyo 23-ku

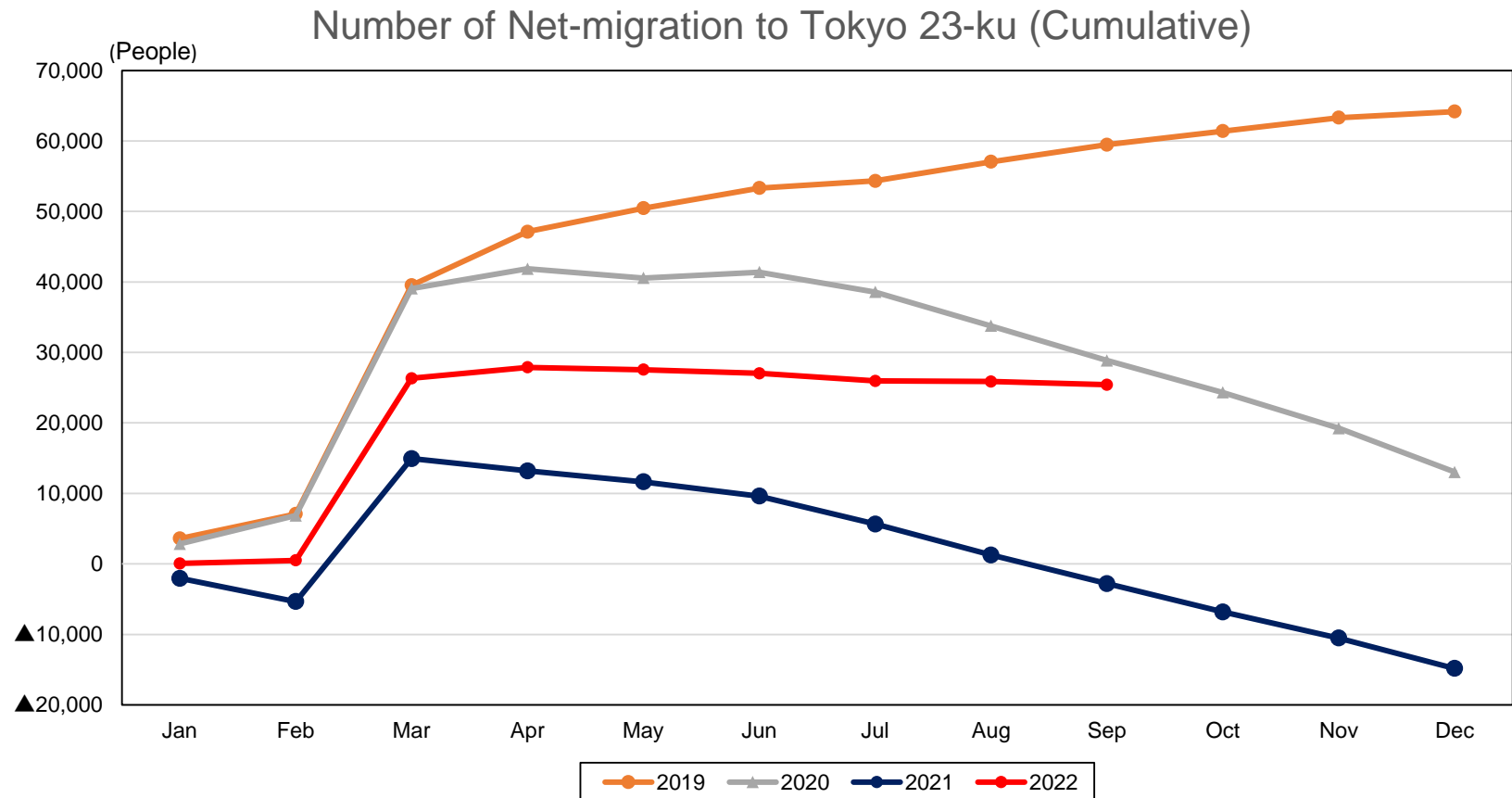
(Q1 2009=100)



Population outflow from Tokyo has remained almost flat since April 2022



- Population outflow from Tokyo was 1,621 in Q3 2022, but cumulative inflow remained positive at 25,416 from January to September 2022.



Source: The Statistics Bureau of Japan

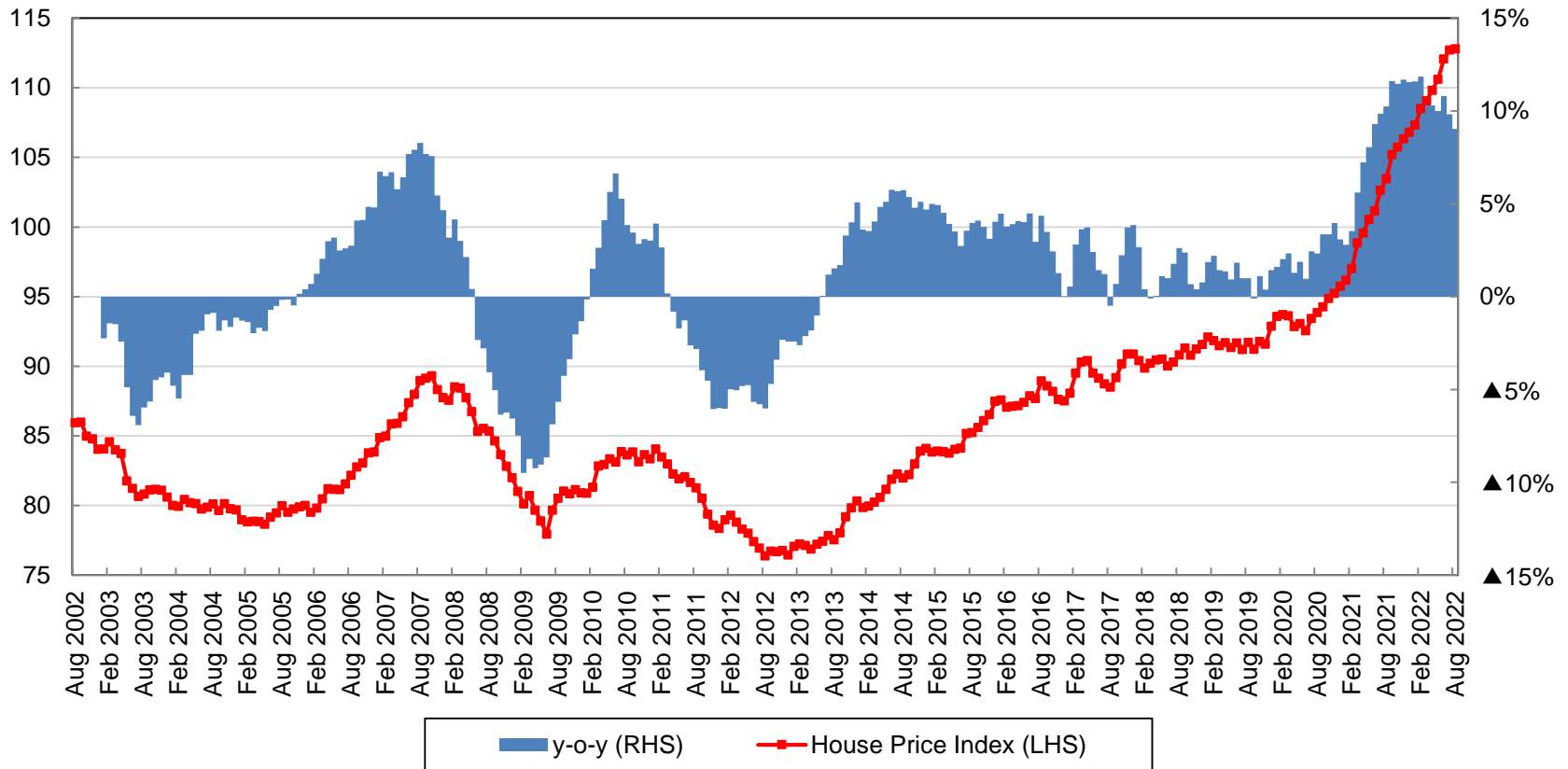
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Monthly home price appreciation decelerated to mostly flat



- Japan's home price gained by 9.0% y-o-y in August 2022, rising for 26 consecutive months, but the monthly increase decelerated to 0.1%.

Home Price Index



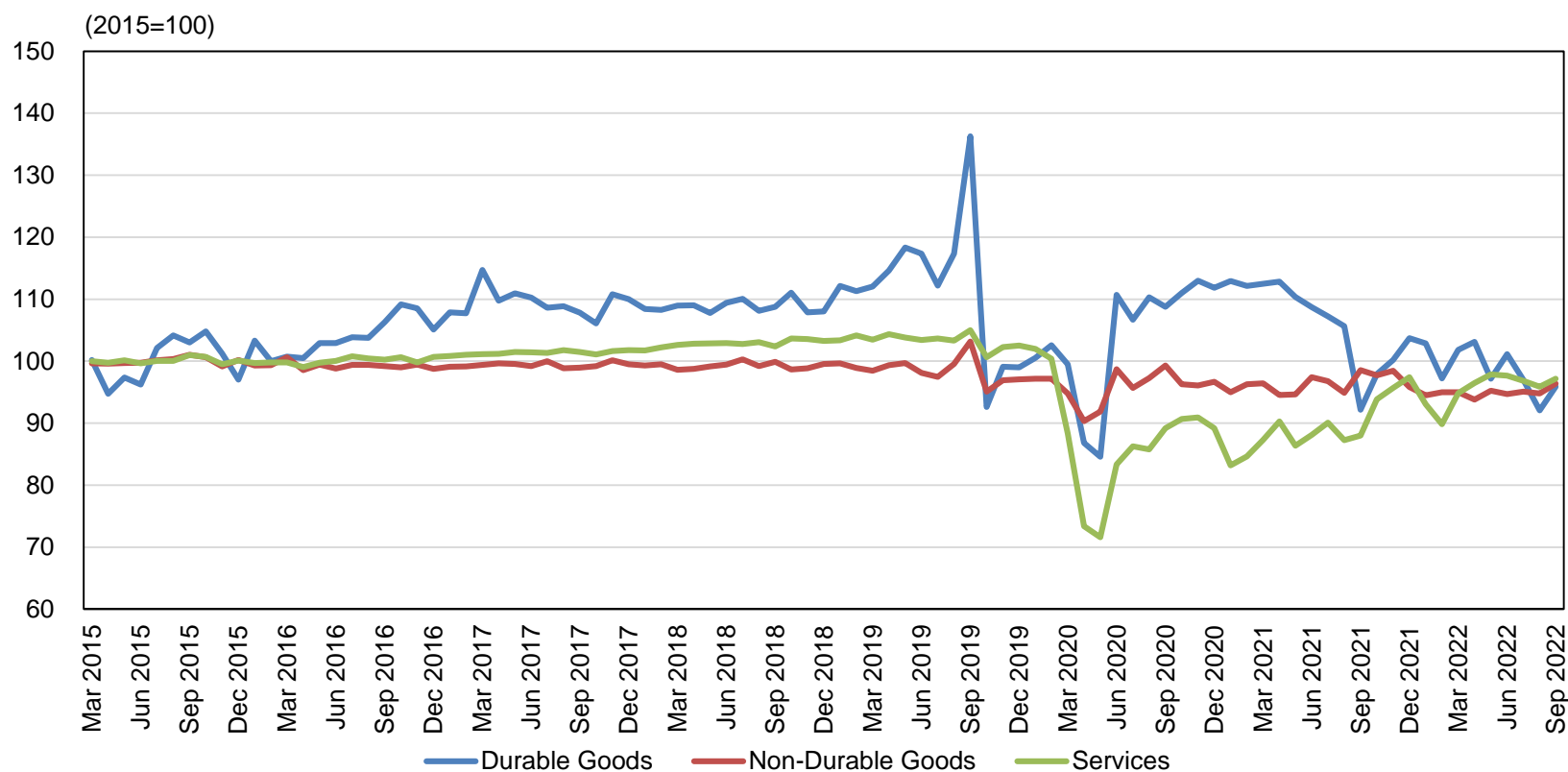
Source: Japan Real Estate Institute

After a clear recovery in Q2 2022, consumption declined slightly in Q3



- In Q3 2022, real consumption activity index of durable goods, Non-durable goods, and services changed by -5.5%, +0.9%, and -0.7 from the previous quarter, respectively.

Real Consumption Activity Index



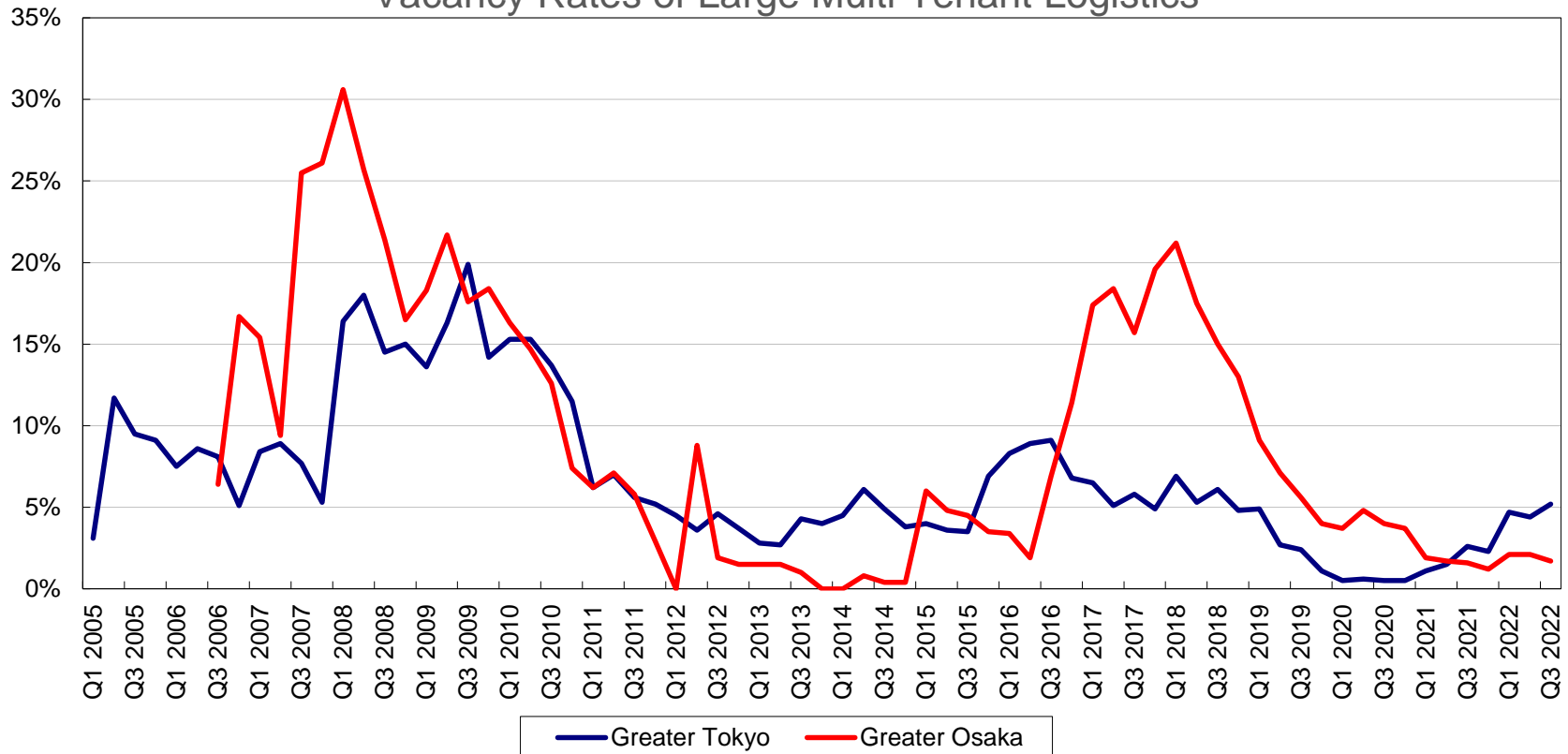
Source: The Bank of Japan

Logistics markets in Greater Tokyo continue to ease, while Greater Osaka remains tight



- In Q3 2022, vacancy rates in Greater Tokyo declined to 5.2% from 4.4% in the previous period due to an increase in new supply amidst the rising uncertainty of the business environment.
- Greater Osaka market remains strong. Greater Tokyo is expected to continue to ease, with new supply expected to reach a record quarterly level in Q1 2023, according to CBRE.

Vacancy Rates of Large Multi-Tenant Logistics



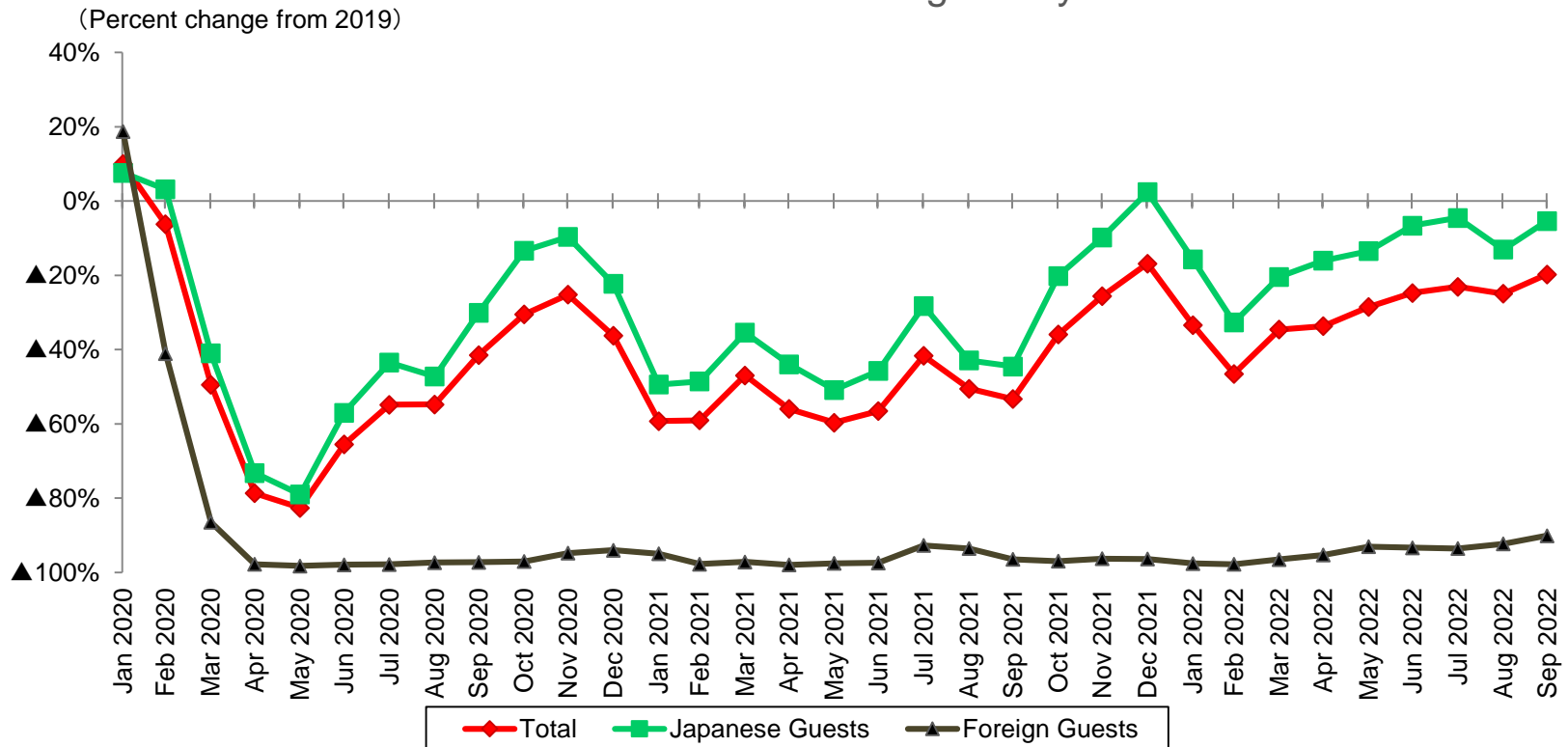
Source: CBRE

The number of Japanese tourists recovering steadily, with no self-restraint restrictions due to the COVID-19 pandemic in Japan



- The total number of overnight stays declined by 22.8% in Q3 2022 from the corresponding period in 2019, led by a steady recovery of Japanese tourists.
- According to STR, hotel RevPAR declined by 43.1% in Tokyo and 39.4% in Osaka in September 2022 from the corresponding month in 2019.

Total Numbers of Overnight Stays

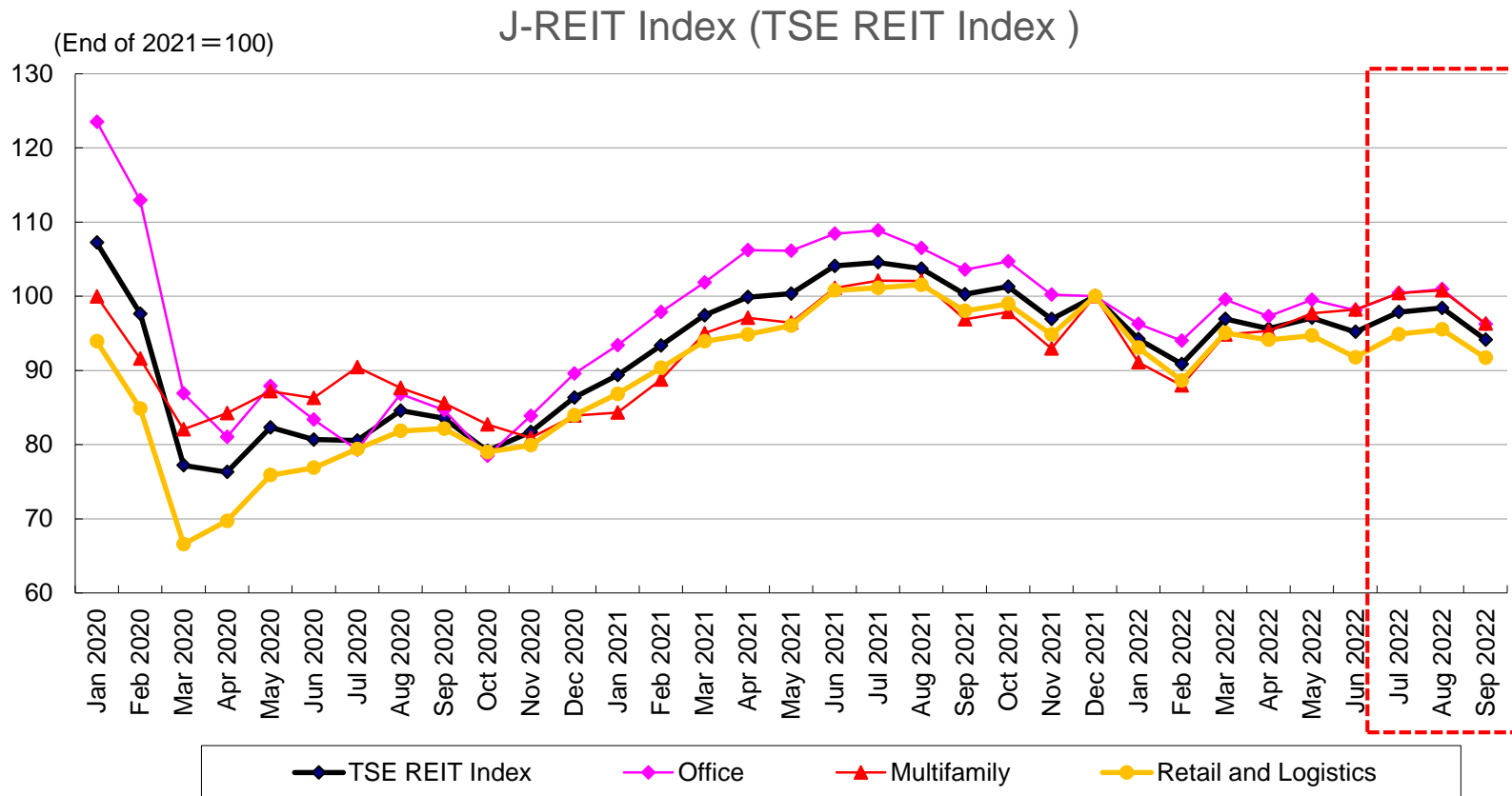


Source: Japan Tourism Agency

J-REIT prices declined mainly for large caps due to the negative impact of an interest rate rise in the U.S.



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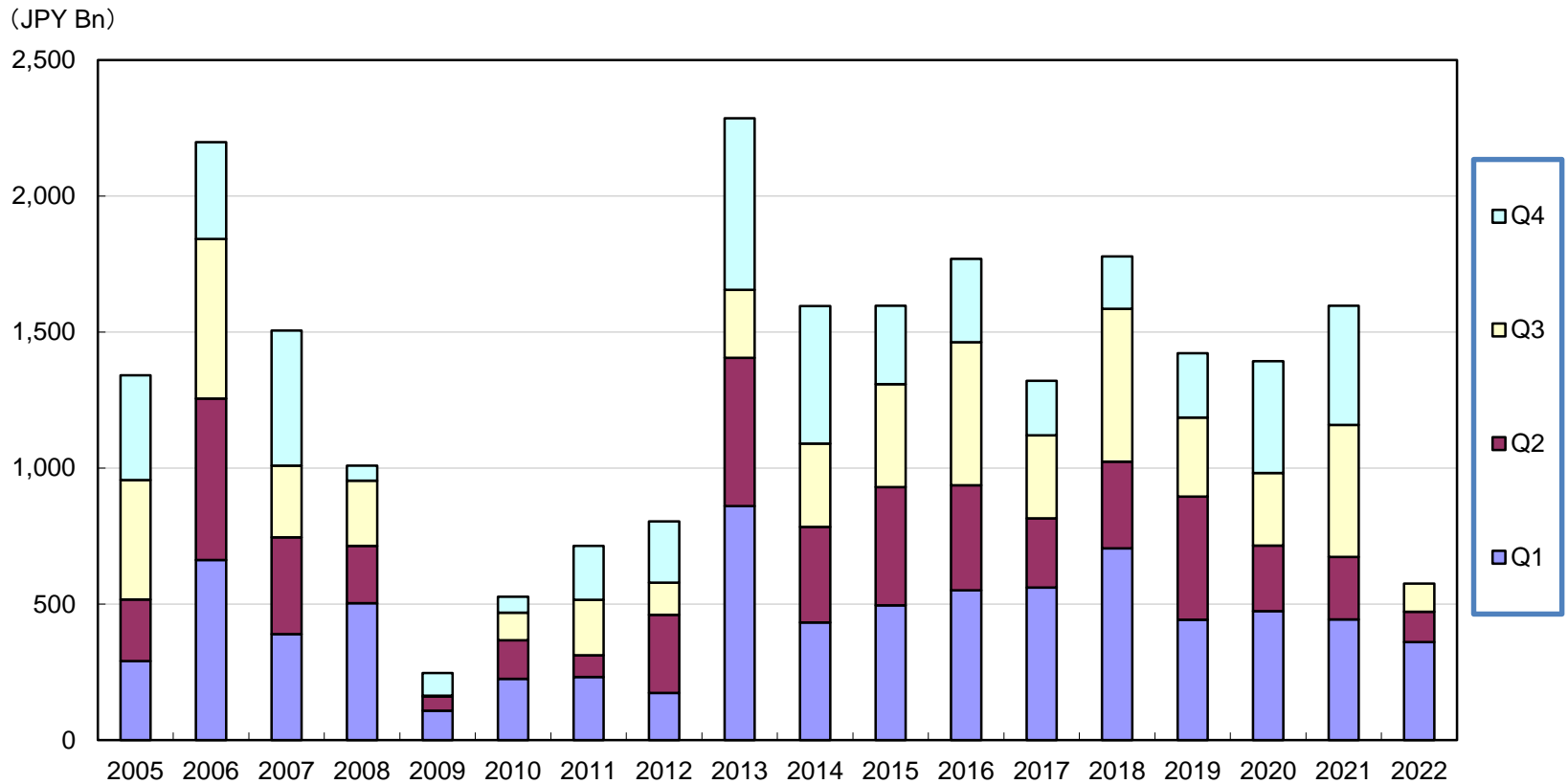


Source: Tokyo Stock Exchange

Rising equity financing costs led to slow property acquisitions by J-REITs

- J-REITs acquired property assets totaling JPY104 billion in Q3 2022 (79% decrease y-o-y).
- Annual J-REITS acquisitions may fall below JPY1 trillion for the first time in 10 years, since 2012, If the acquisition doesn't increase significantly in Q4.

J-REIT Asset Acquisitions



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

Source: Disclosure Documents



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