

**RESEARCH**

Japan Real Estate Market Quarterly Review

Fourth Quarter 2022

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Summary

Macro Economy

- Japan's real GDP is expected to increase by 0.3% q-o-q (annualized 1.0% increase) in Q4 2022, led by private consumption and foreign demand.
- Japan's real GDP is expected to expand by 1.4% in FY2022, 1.0% in FY2023, and 1.6% in FY2024.

Real Estate Market

- Tokyo grade-A office rents have risen, but it's too early to tell if they have bottomed out
- Multifamily market in Tokyo exited an adjustment phase after the COVID-19 pandemic
- Hotel market recovered to pre-COVID level in December 2022
- Retail sales are recovering due to the recovery of people flow in urban areas
- Logistics markets in Greater Tokyo continue to ease, while Greater Osaka remains tight.

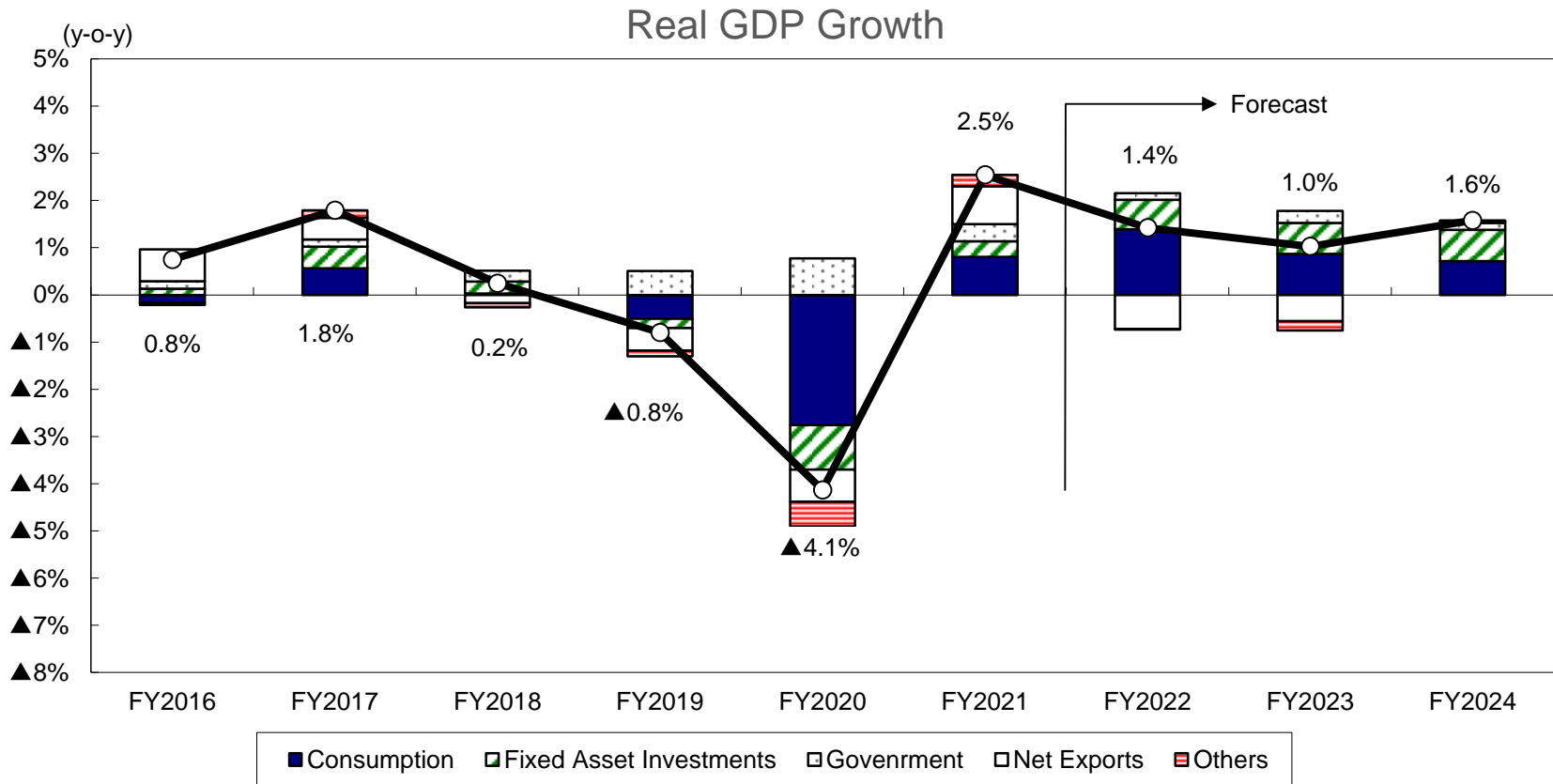
Capital Market

- J-REIT Index declined by 2.6% q-o-q in Q4 2022, trading at a price to NAV ratio of 0.96x, dividend yield at 3.9%, and dividend and JGB spread at 3.5% in December 2022.
- Annual J-REITS acquisitions decreased to JPY878 billion in 2022, falling below JPY1 trillion for the first time in 10 years

Positive growth is expected to continue, mainly due to an increase in private consumption and capital investment



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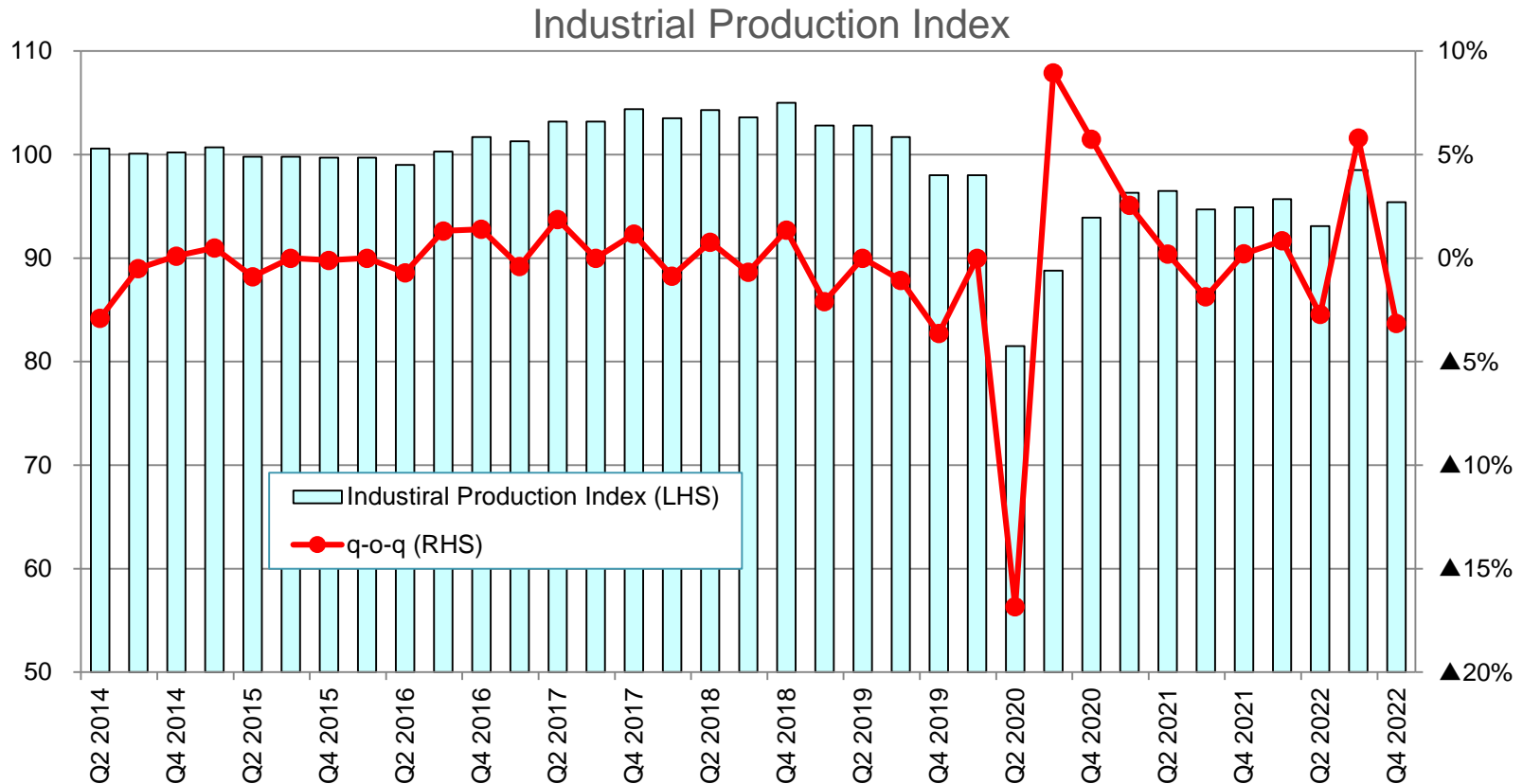


Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2022) "Weekly Economist Letter" NLI Research Institute, December, 2022.

Industrial production is expected to remain weak due to a backdrop of deteriorating foreign economies



- Industrial production decreased by 3.1% q-o-q in Q4 2022
- In addition to the decline in automobile, electronic parts and devices declined by -5.9% q-o-q, declining for three consecutive quarters, reflecting a global slump in the semiconductor sector



Source: The Ministry of Economy, Trade and Industry

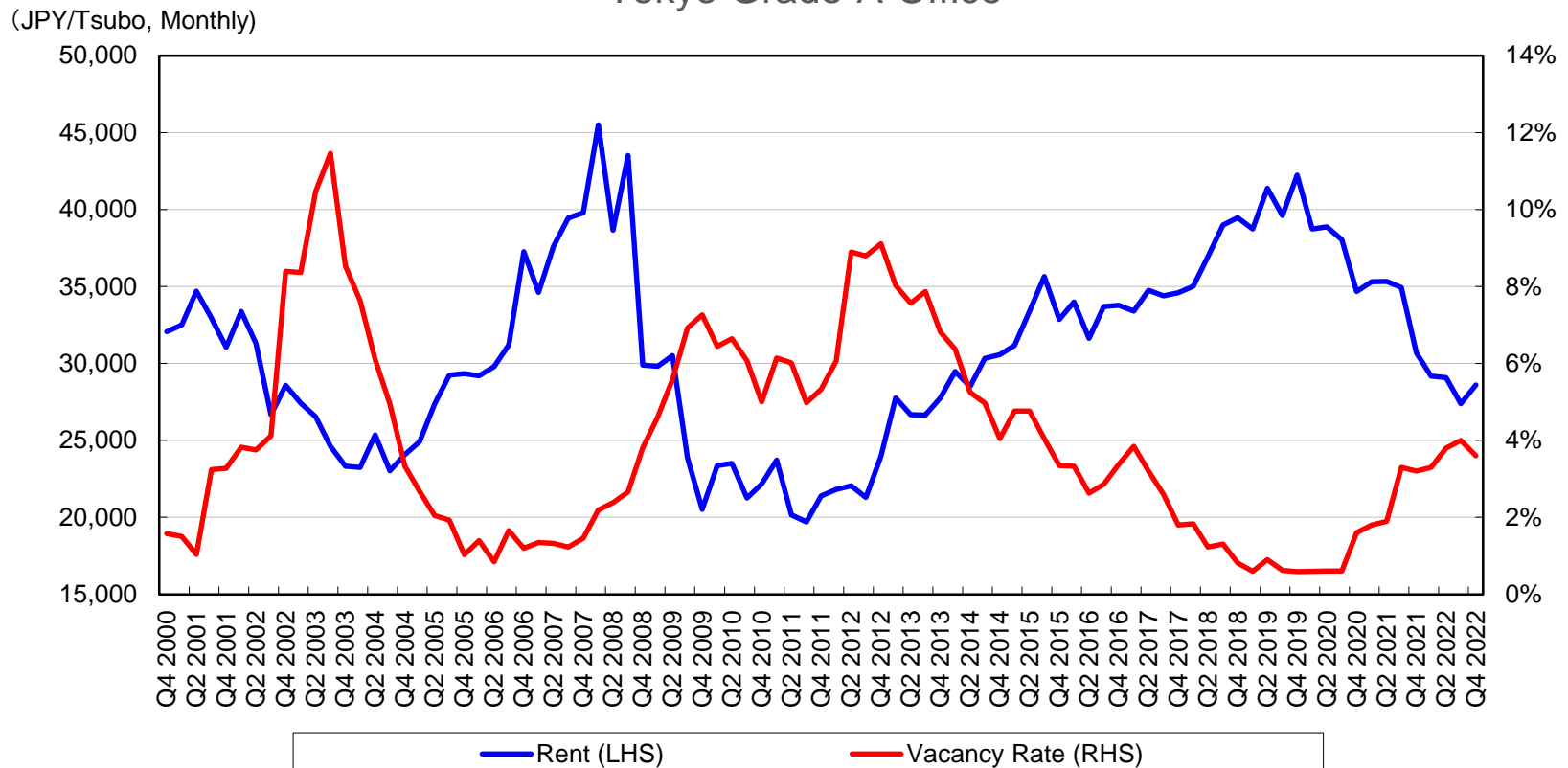
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Tokyo grade-A office rents have risen, but it's too early to tell if they have bottomed out



- Tokyo grade-A office rents were JPY28,594/tsubo in Q4 2022, rising for the first time in six quarters.
- Vacancy rate declined to 3.6% in Q3 2022 from 4.0% 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)

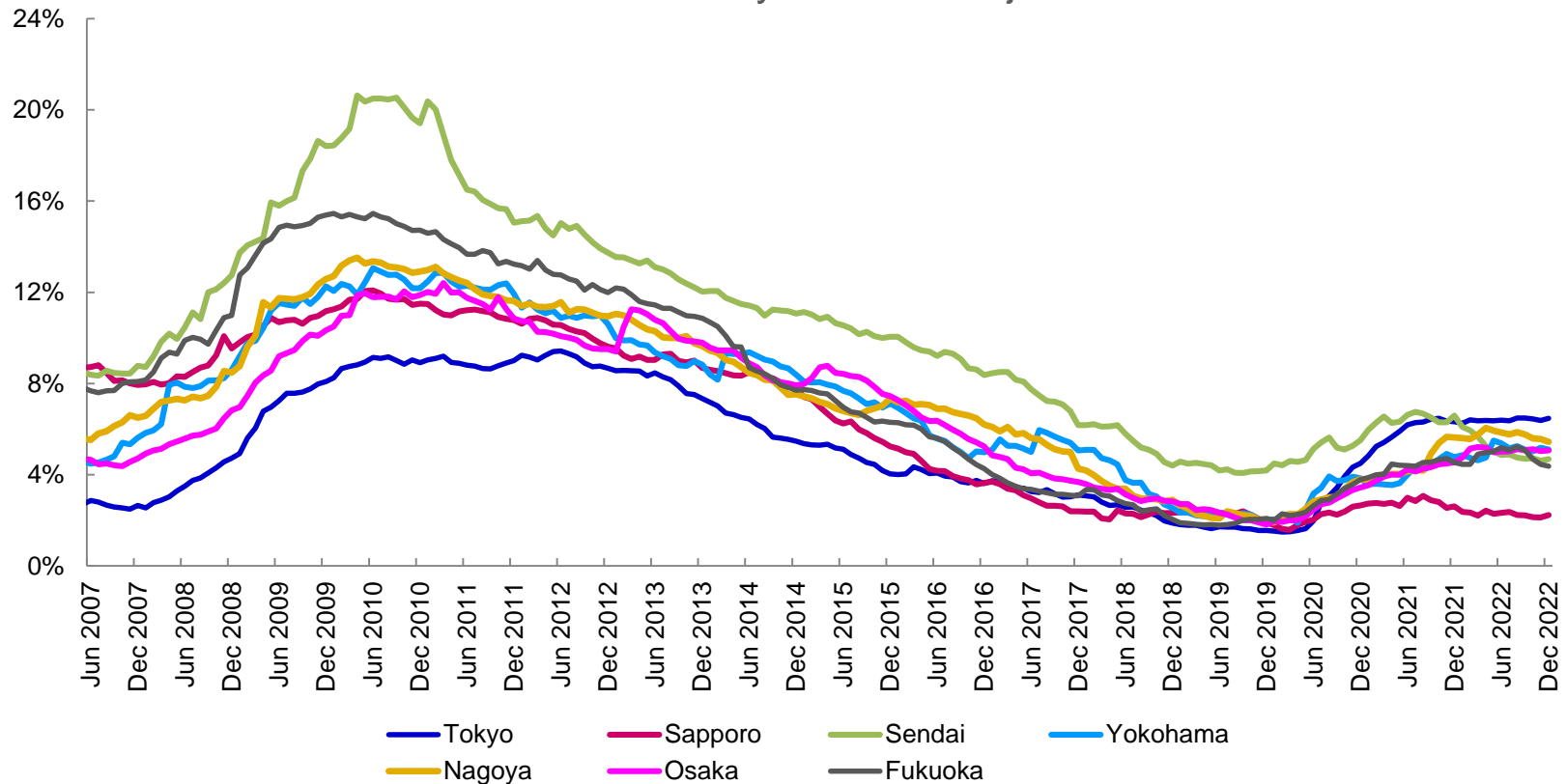
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Office markets in major regional cities remain tighter than that in Tokyo



- In Sapporo, vacancy rates are in the low 2% range, as new supply is scarce. In other major regional cities, vacancy rates have increased somewhat but remain lower than that of Tokyo.

Office Vacancy Rates in Major Cities



Source: Miki Shoji

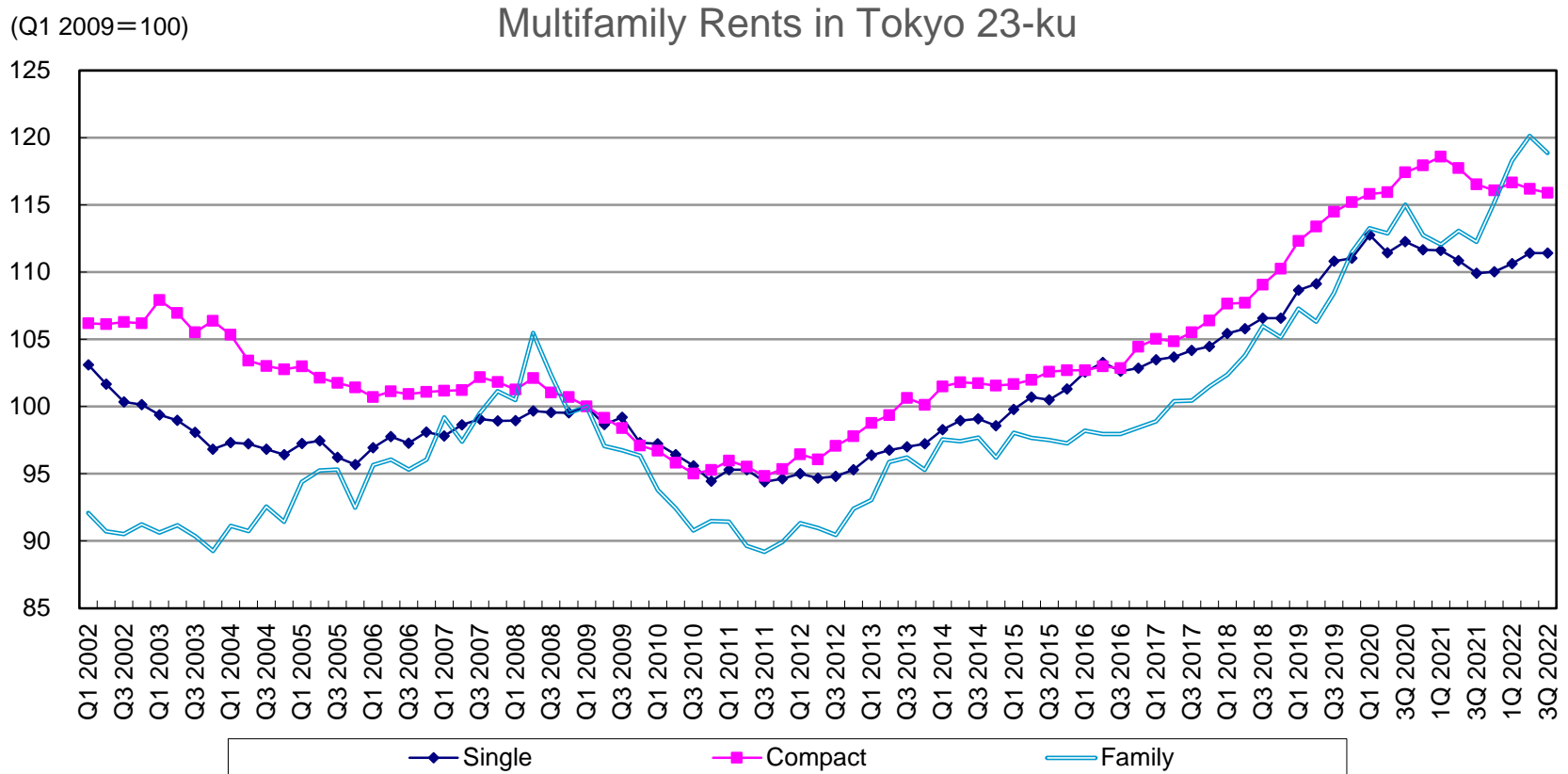
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Multifamily

Tokyo 23-ku multifamily market exited an adjustment phase after the COVID-19 pandemic



- In Q3 2022, multifamily rents of single-, compact- and family-type In Tokyo 23-ku changed by +1.5%, -0.6%, and +6.6% y-o-y, respectively.
- According to LMC, rental growth in Tokyo 5-ku is re-accelerating.



Source: Mitsui Sumitomo Trust Research Institute and At Home

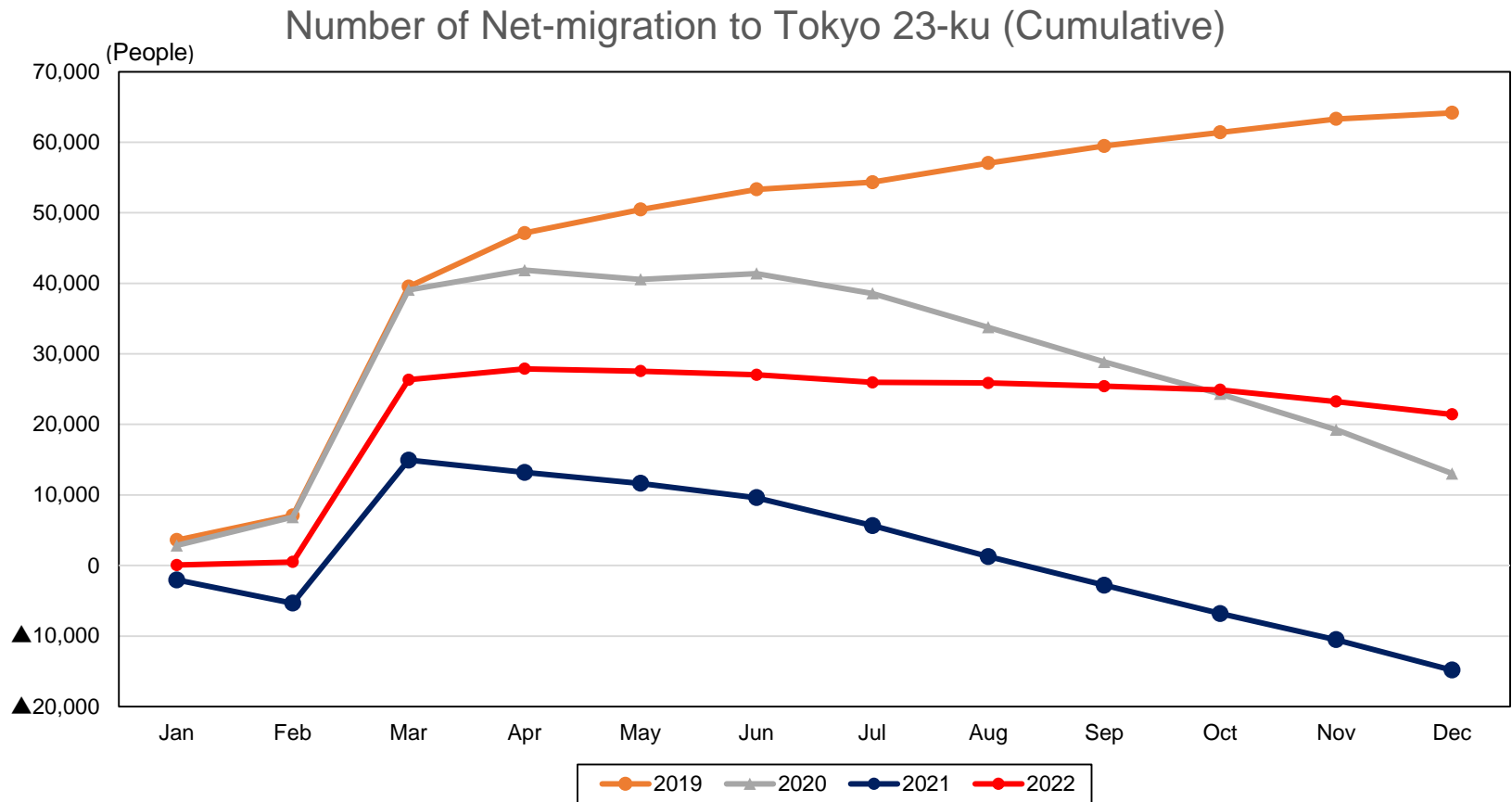
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Multifamily

In 2022, population inflows to Tokyo turned positive as economic activity began to normalize



- Population outflow from Tokyo was 3,996 in Q4 2022, but cumulative inflow turned positive at 21,420 in 2022.



Source: The Statistics Bureau of Japan

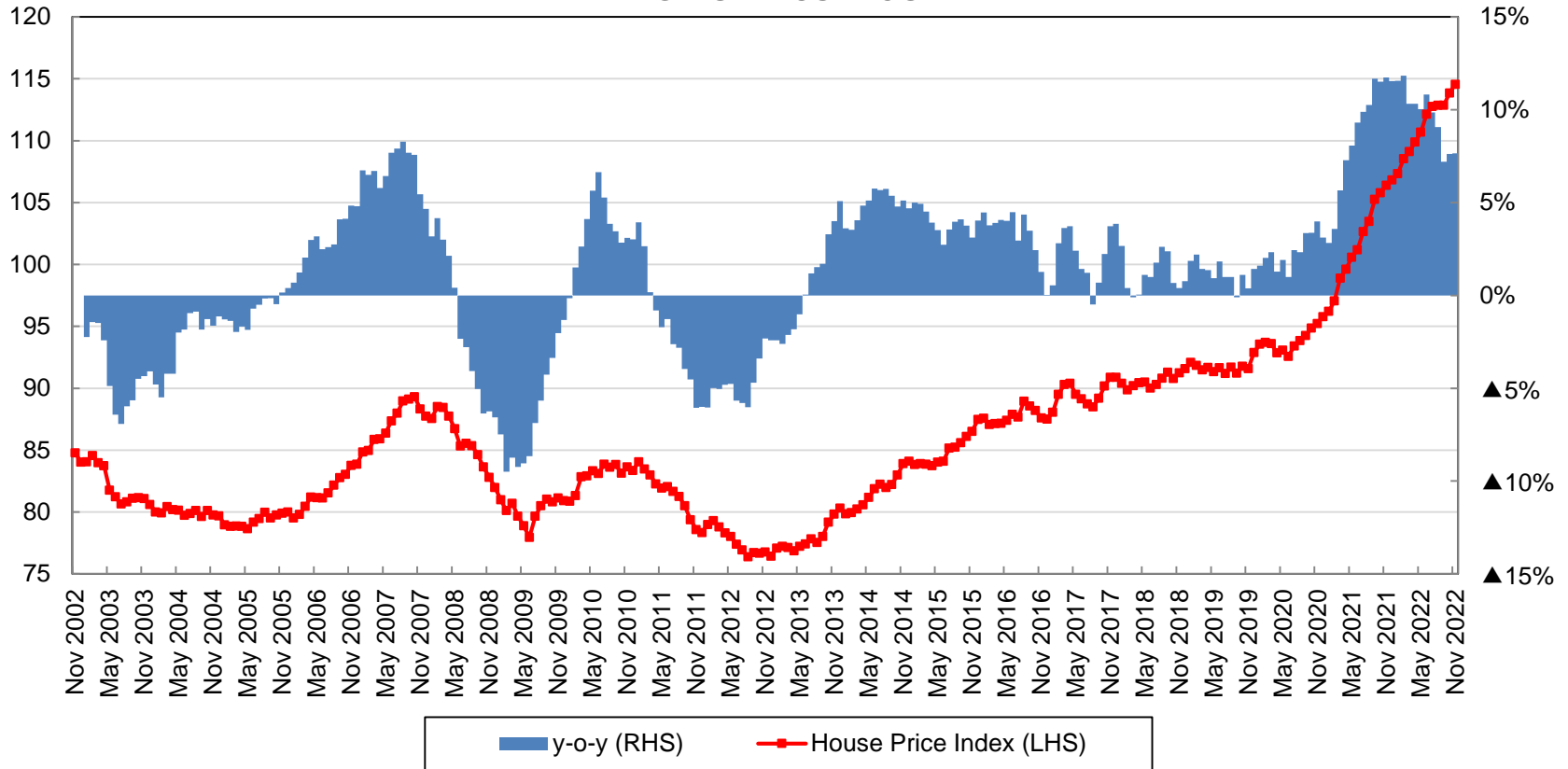
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In the housing market, price appreciation is slowing as sales weaken



- Japan’s home price gained by 7.7% y-o-y in November 2022.
- Existing condominium sales decreased by 10.6%, and the inventory rose to levels not seen since August 2020.

Home Price Index



Source: Japan Real Estate Institute

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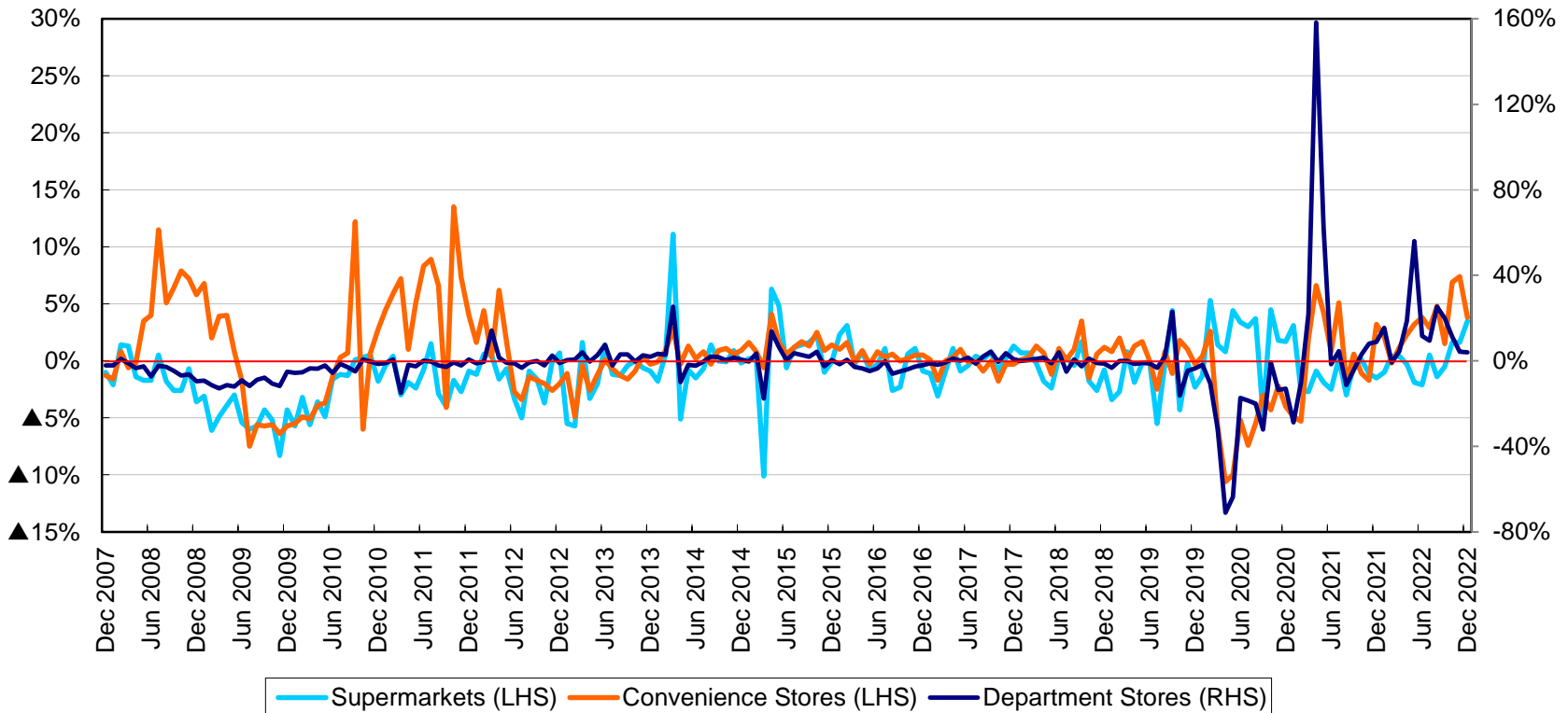
Retail sales are recovering, primarily in department stores, due to the recovery of people flow in urban areas



- In Q4 2022, sales of department stores and convenience stores, supermarkets declined by 6.0%, 5.9% and 2.3% respectively as the COVID-19 infection cases declined

Retail Sales Growth

(y-o-y, same store sales growth)



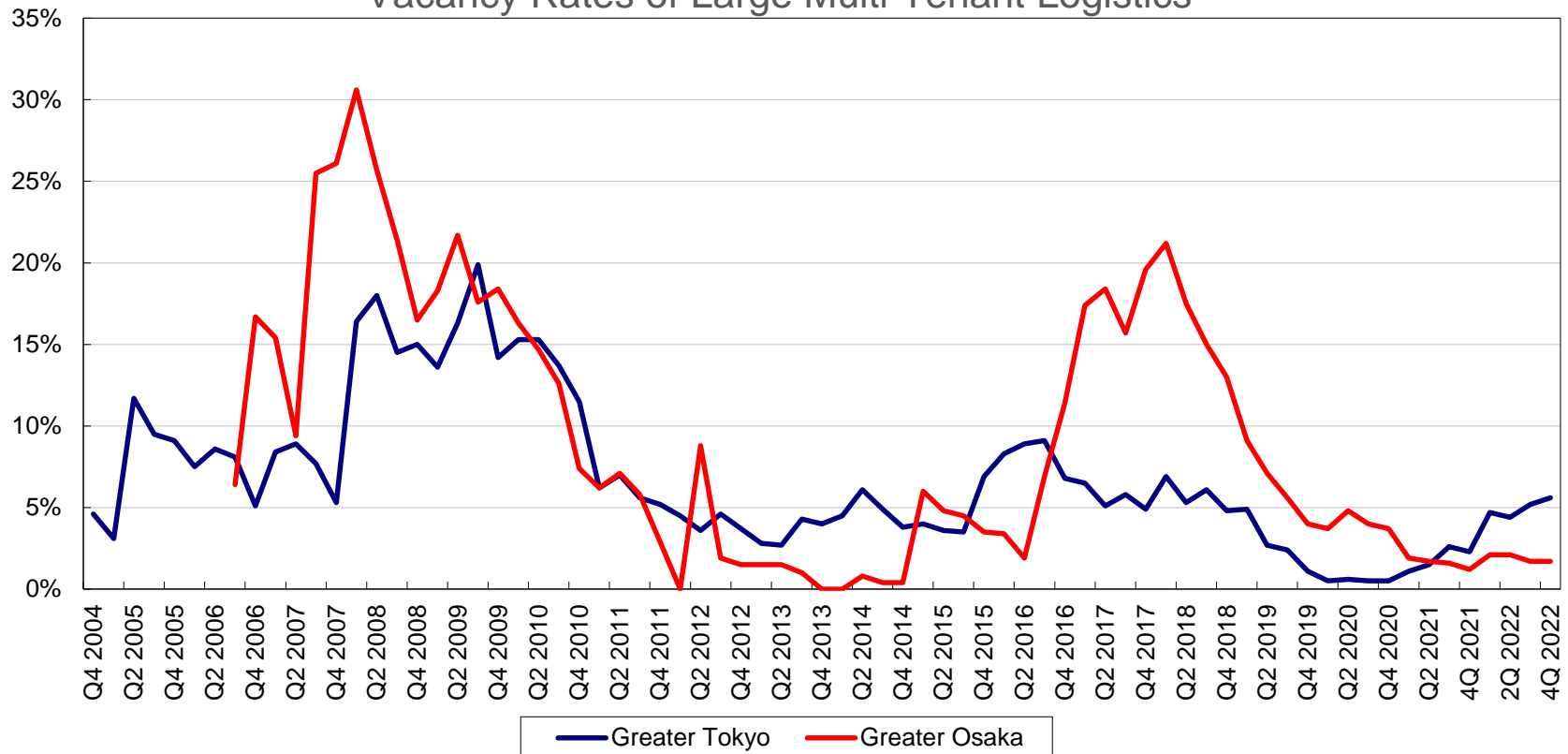
Source: The Ministry of Economy, Trade and Industry

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



- In Q4 2022, vacancy rates in Greater Tokyo increased to 5.6% from 5.2% in the previous period.
- In Greater Tokyo, the new supply in 2023 is expected to be 910,000 tsubo, the largest ever, likely to lead to the rise in the vacancy rate.

Vacancy Rates of Large Multi-Tenant Logistics



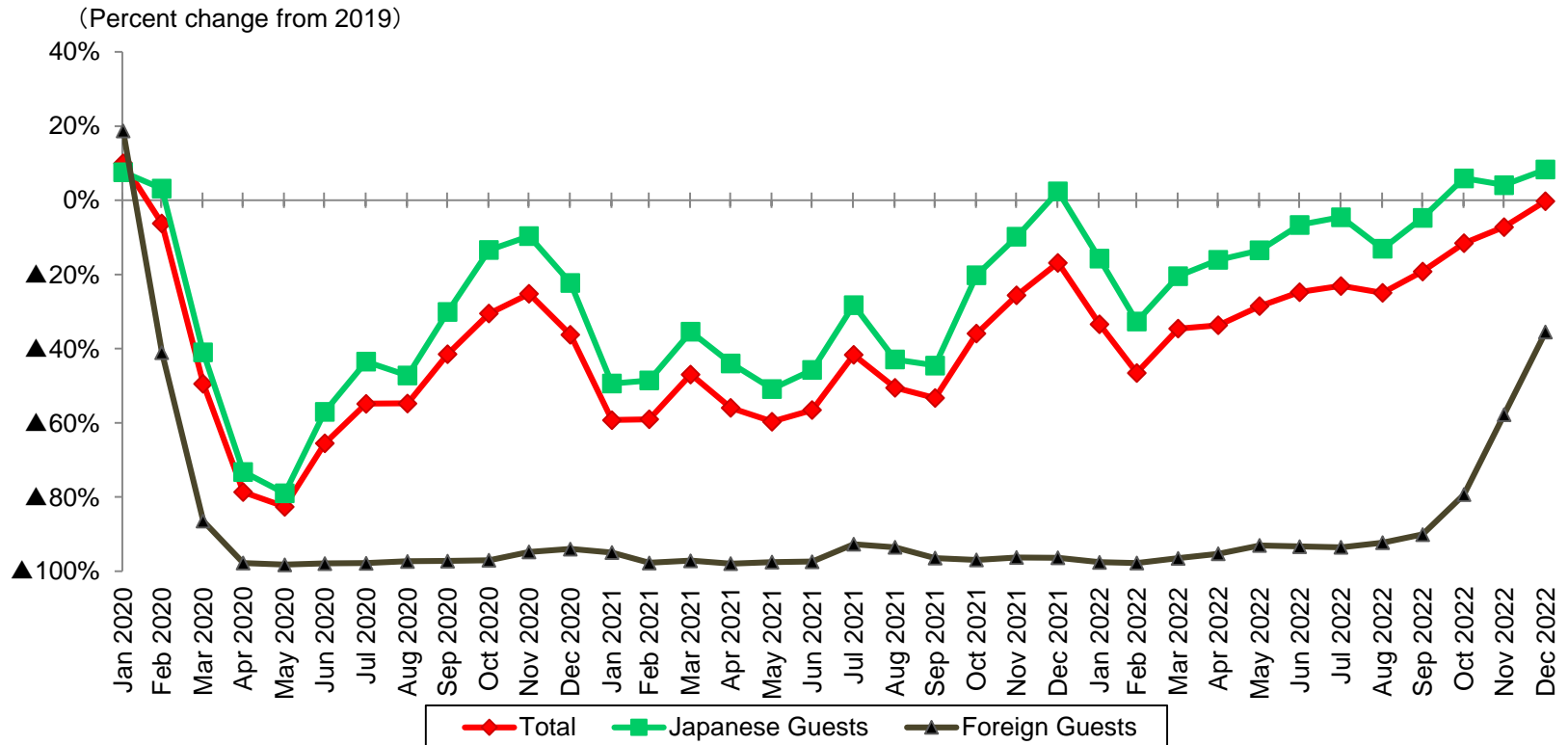
Source: CBRE

The number of tourists recovered to the pre-COVID level, buoyed by the National Travel Assistance and the ease of border control measures



- The total number of overnight stays decreased by 0.2% in December 2022 from the corresponding period in 2019, recovering the pre-COVID level.
- According to STR, hotel RevPAR increased by 3.9% in Tokyo and 16.5% in Osaka in December 2022 from the corresponding month in 2019.

Total Numbers of Overnight Stays

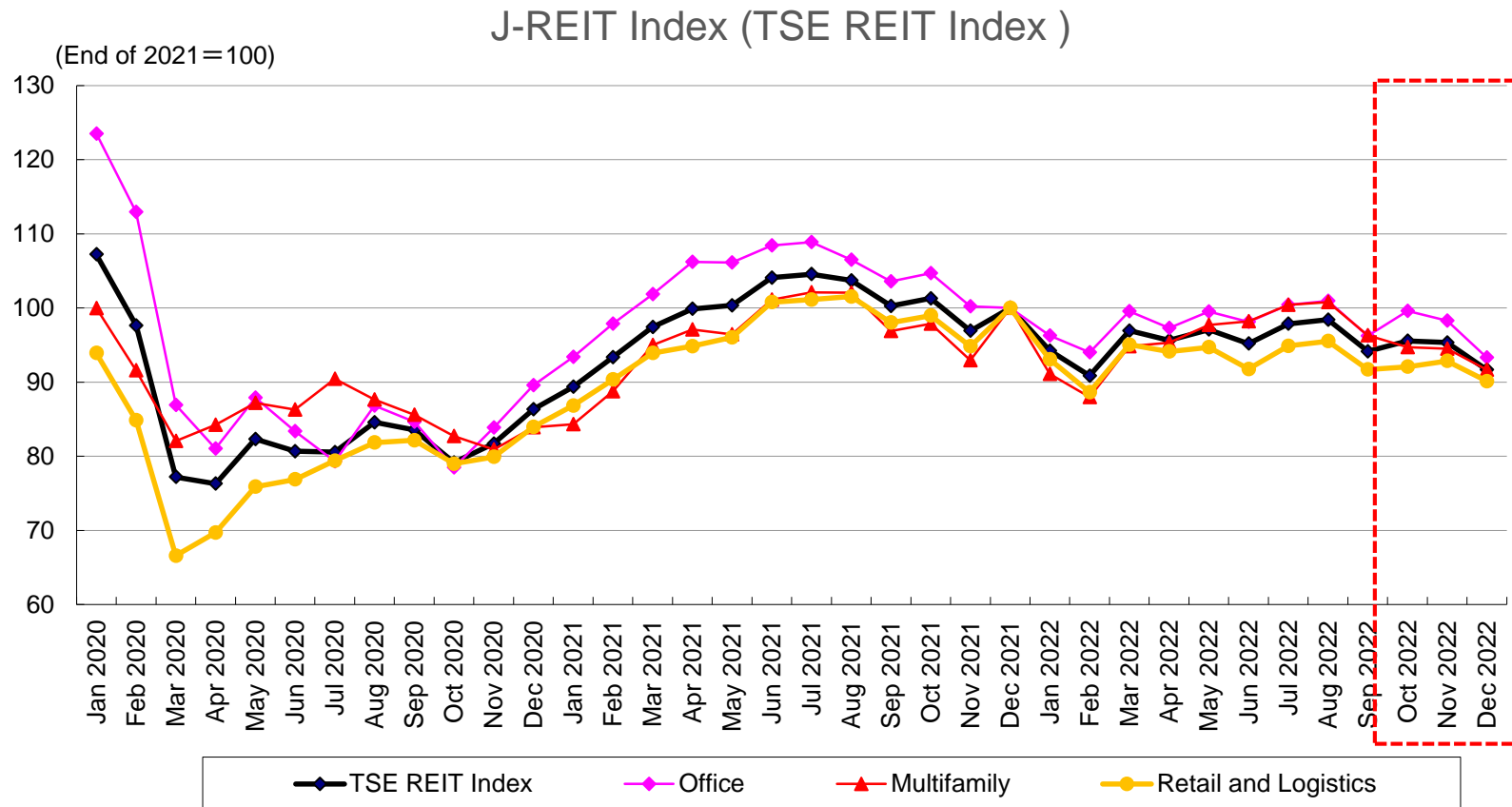


Source: Japan Tourism Agency

J-REIT prices declined after the BOJ announced an unexpected policy revision on 20th December



- J-REIT Index declined by 2.6% q-o-q in Q4 2022, trading at a price to NAV ratio of 0.96x, dividend yield at 3.9%, and dividend and JGB spread at 3.5% in December 2022.



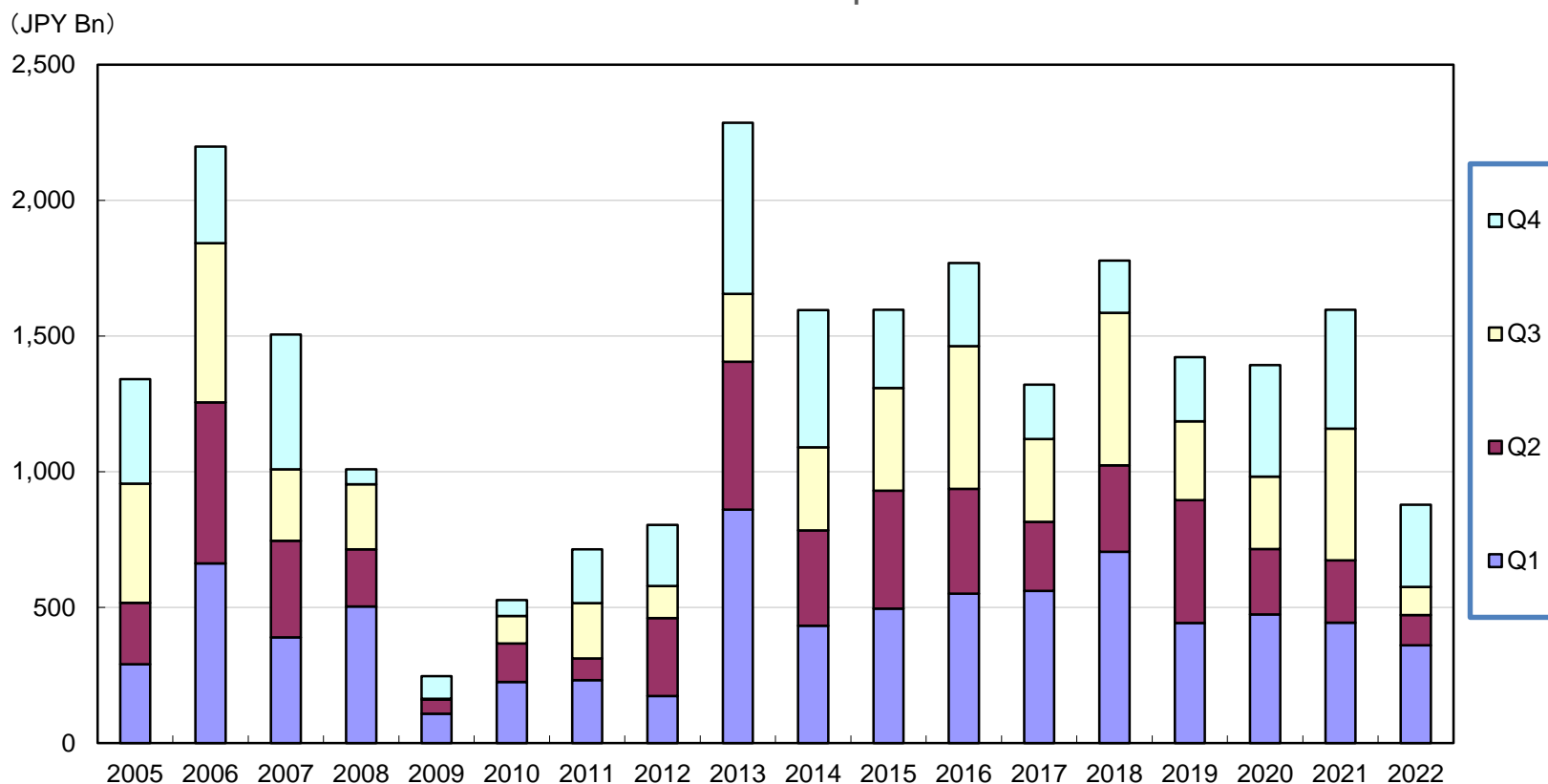
Source: Tokyo Stock Exchange

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



- J-REITs acquired property assets totaling JPY302 billion in Q4 2022 (31% decrease y-o-y).
- Annual J-REITS acquisitions decreased to JPY878 billion in 2022, falling below JPY1 trillion for the first time in 10 years.

J-REIT Asset Acquisitions



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

Source: Disclosure Documents



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