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RESEARCH

Japan Real Estate Market Quarterly Review

First Quarter 2023

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Summary

Macro Economy

- Japan's real GDP is expected to increase by +0.1% q-o-q (annualized 0.3% increase) in Q1 2023, with steady private consumption offsetting the downward pressure from sluggish exports.
- Japan's real GDP is expected to expand by 1.2% in FY2022, 1.0% in FY2023, and 1.6% in FY2024.

Real Estate Market

- Tokyo grade-A office rents continue to decline. The vacancy is expected to increase due to new supply.
- Multifamily rents in Tokyo increase modestly or level off depending on the size.
- The hotel market recovered to the pre-COVID level.
- Retail sales are recovering, driven by solid consumption of inbound tourists.
- Population inflow to Tokyo recovered to the pre-COVID level.
- Logistics markets eased due to the large supply in both Greater Tokyo and Greater Osaka.

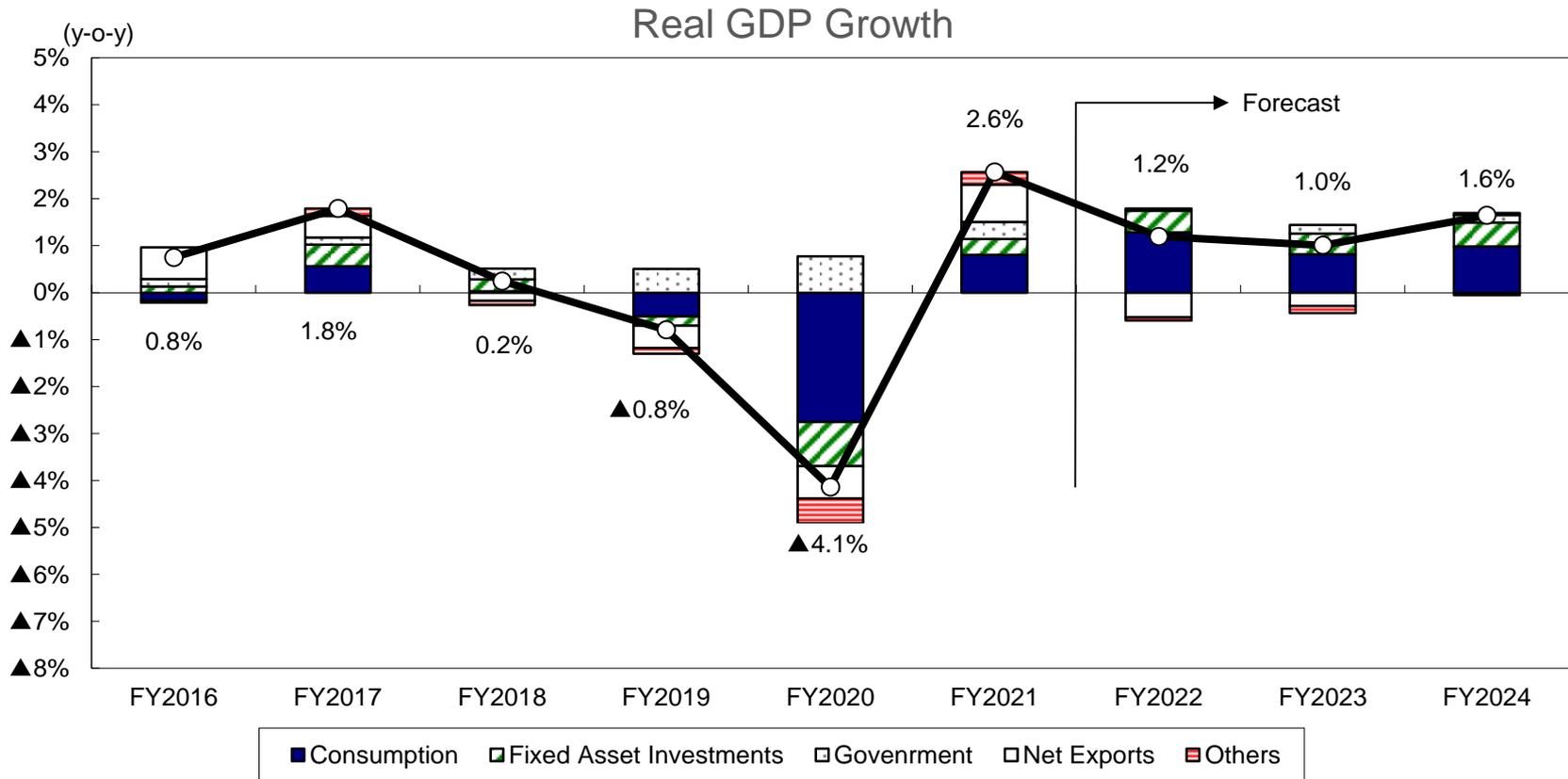
Capital Market

- J-REIT Index declined by 5.7% q-o-q in Q1 2023, trading at a price to NAV ratio of 0.90x, dividend yield at 4.2%, and dividend and JGB spread at 3.9% in March 2023.
- J-REITs acquired property assets totaling JPY367 billion in Q1 2023 (2% increase y-o-y).

In FY2023, economic recovery is expected to continue, driven by private consumption and capital investment amidst weak exports



- Japan's real GDP is expected to increase by +0.1% q-o-q (annualized 0.3% increase) in Q1 2023, with steady private consumption offsetting the downward pressure from sluggish exports.
- Japan's real GDP is expected to expand by 1.2% in FY2022, 1.0% in FY2023, and 1.6% in FY2024.



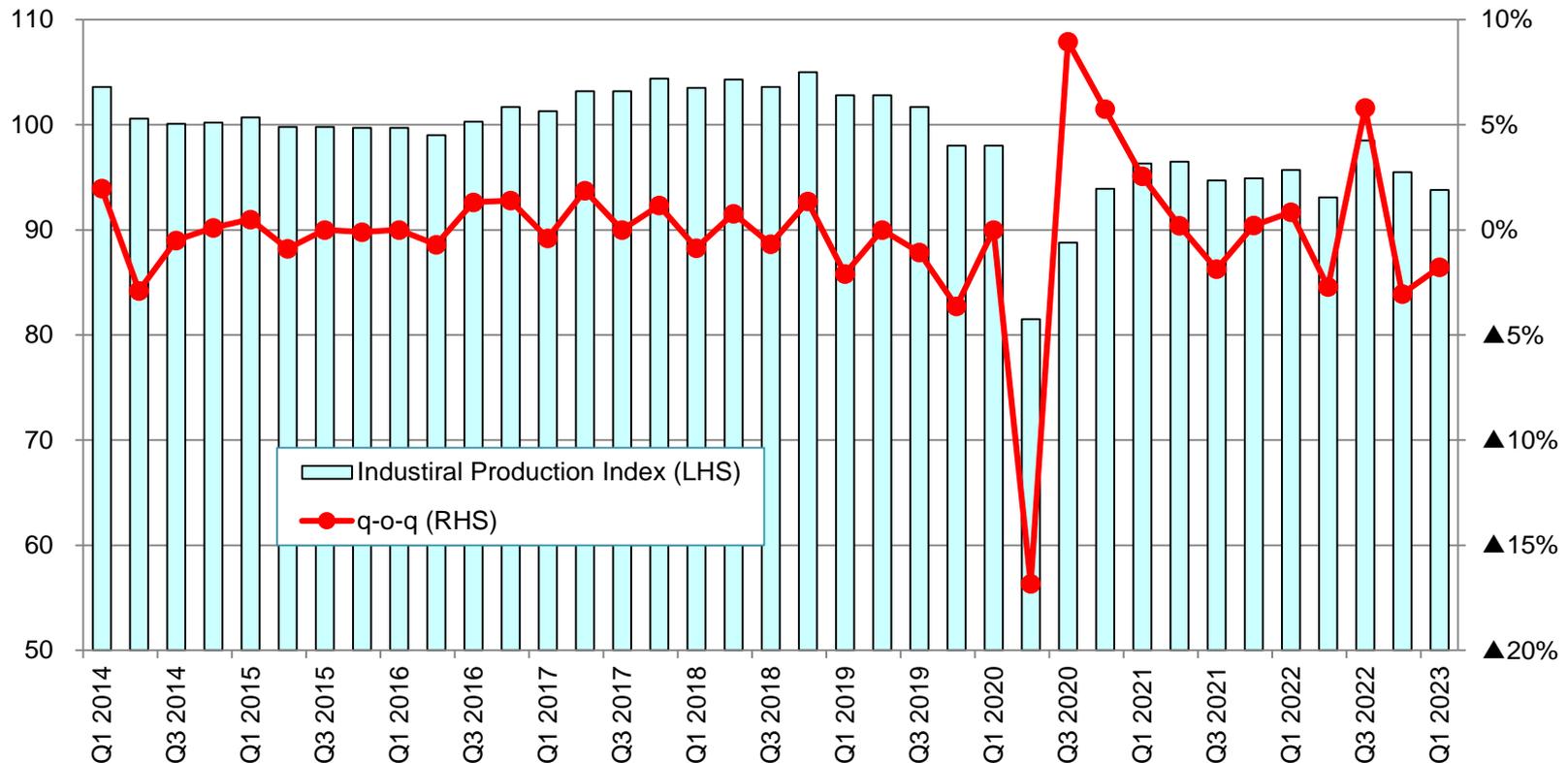
Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2023) "Weekly Economist Letter" NLI Research Institute, April, 2023.

Industrial production is expected to recover gradually supported by resilient domestic demand and pick up in the Chinese economy



- Industrial production decreased by 1.8% q-o-q in Q1 2023, declining for the second consecutive quarter.
- In addition to a sharp decline in production machinery (-9.9%), electronic parts and devices declined by -3.7% due to a global slump in the semiconductor sector.

Industrial Production Index



Source: The Ministry of Economy, Trade and Industry

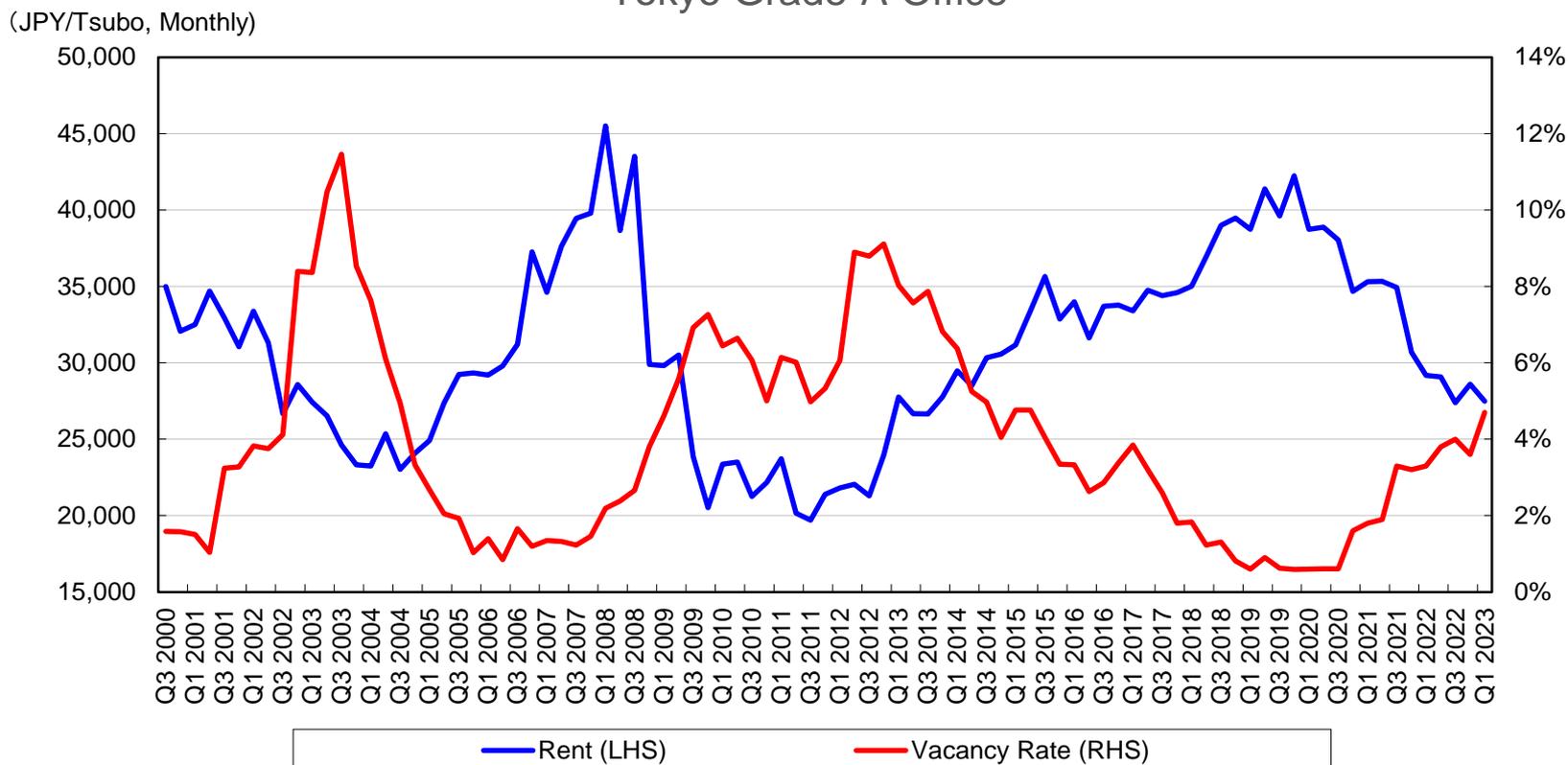
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In 2023, vacancy rates are expected to rise due to an increase in new supply



- Tokyo grade-A office rents were JPY27,479/tsubo in Q1 2023, declining 3.9% q-o-q.
- Vacancy rates increased to 4.7% in Q1 2023 from 3.6% 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)

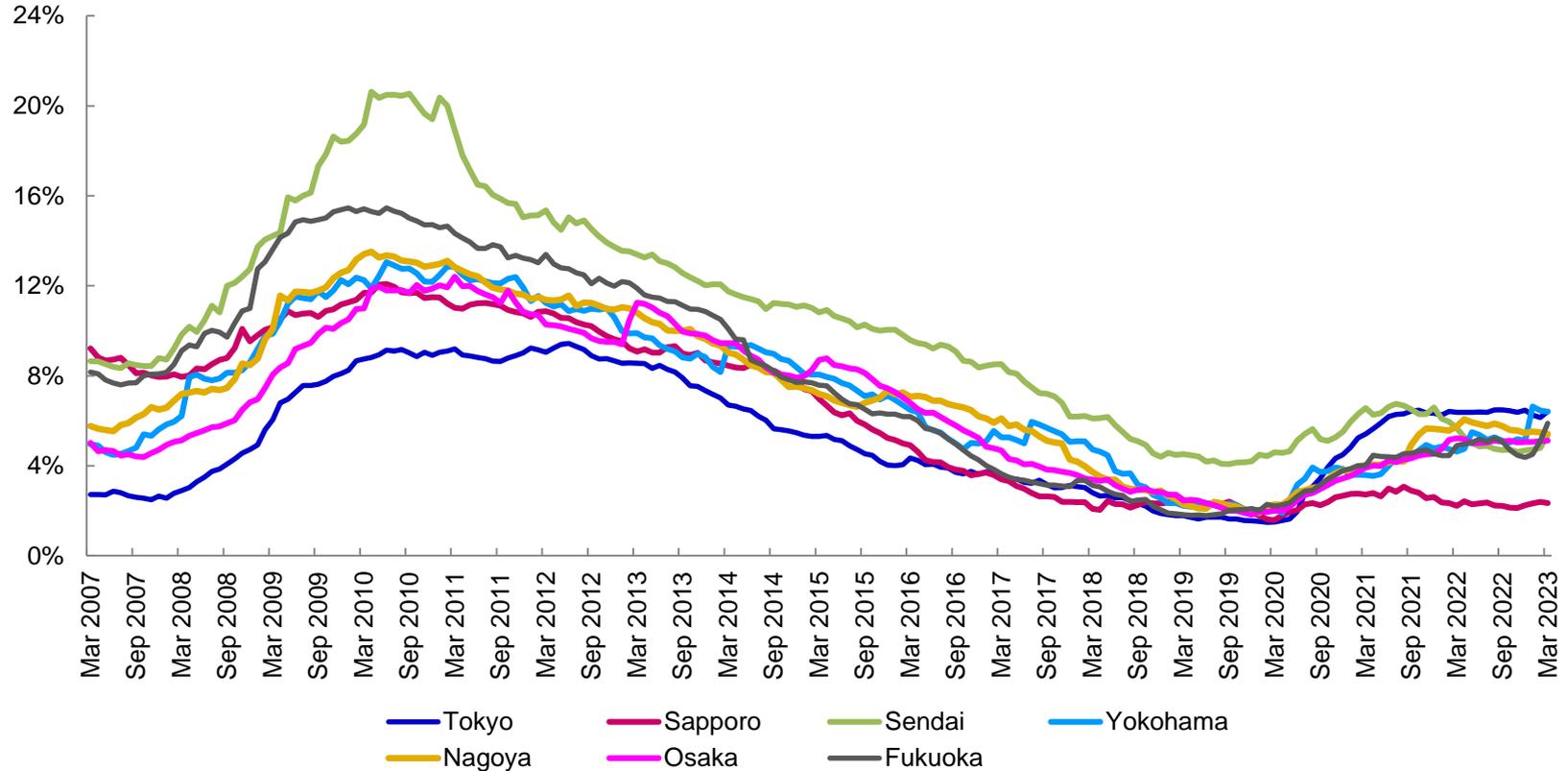
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Office markets in some regional cities begin to soften due to new supply



- Vacancy rates in Yokohama (6.40%) and Fukuoka (5.89%) rose significantly from the previous year due to new supply, while Sapporo, Sendai, Nagoya, and Osaka generally remained flat.

Office Vacancy Rates in Major Cities



Source: Miki Shoji

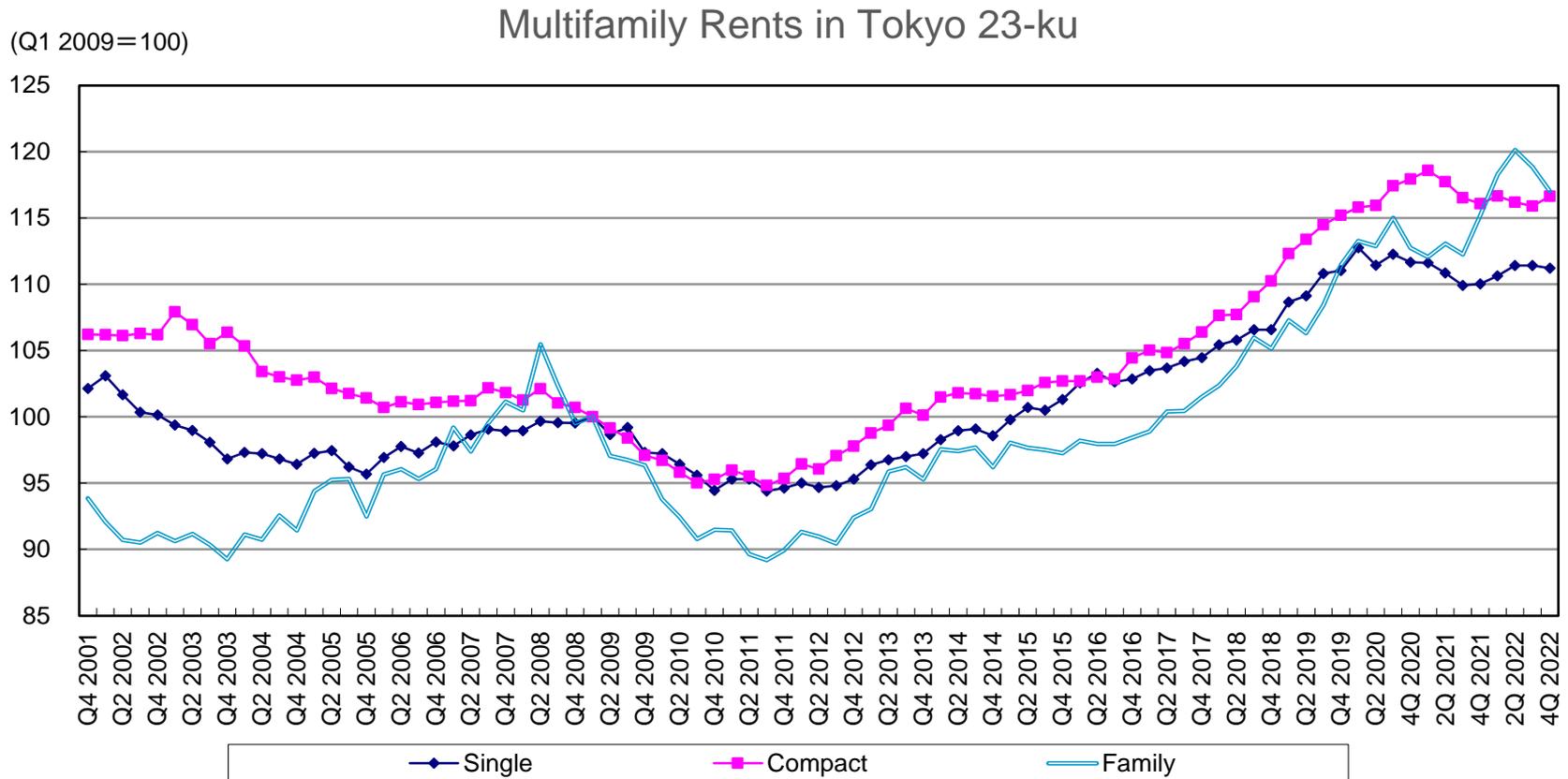
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Multifamily

Tokyo 23-ku multifamily rents are rising moderately or leveling off at higher levels, depending on the size



- In Q3 2023, multifamily rents of single-, compact- and family-type In Tokyo 23-ku changed by +1.2%, +0.6%, and +1.9% y-o-y, respectively.
- According to five major residential REITs, rent increases at the time of tenant replacement are expanding.



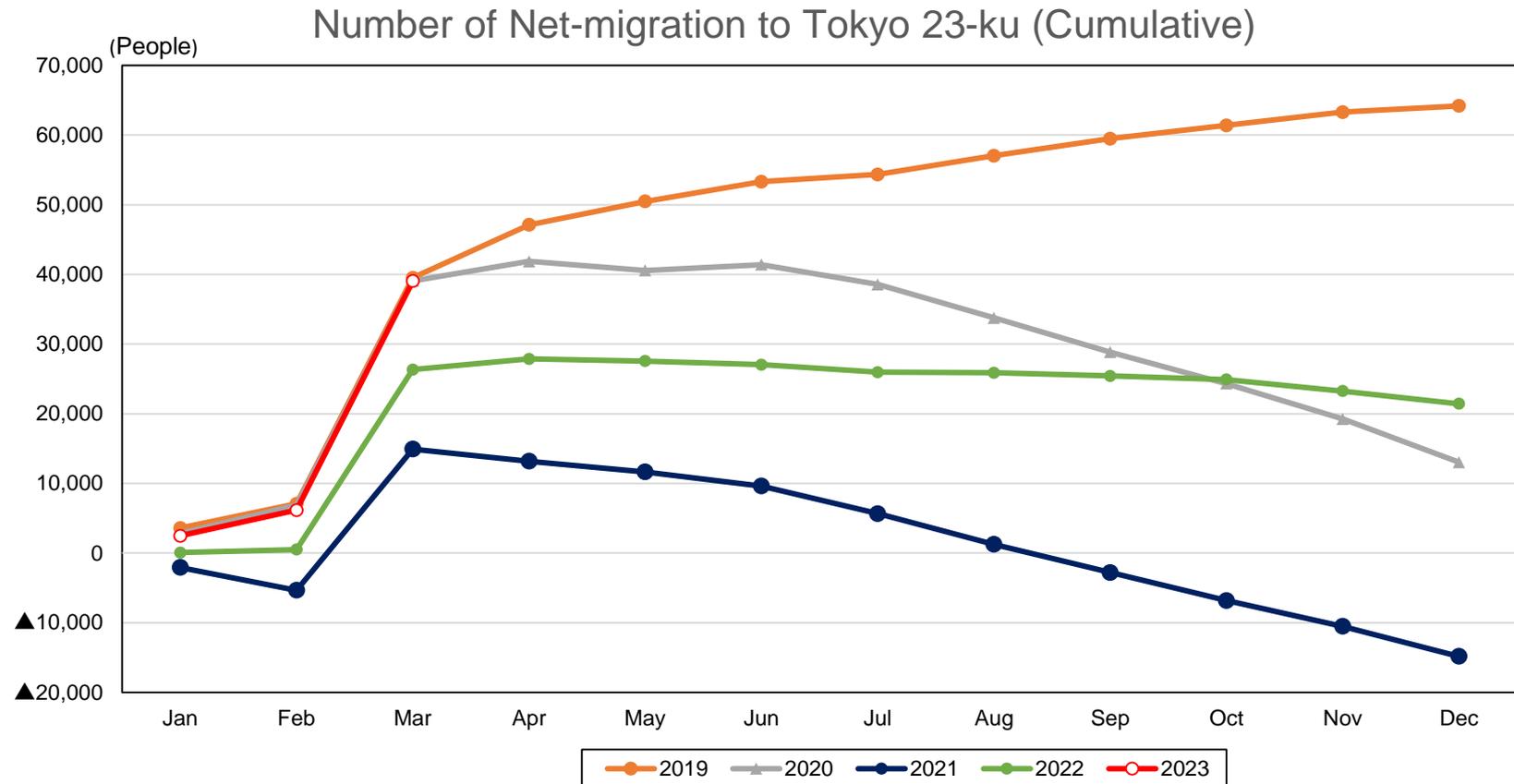
Source: Mitsui Sumitomo Trust Research Institute and At Home

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In 2023, population inflows to Tokyo recovered to pre-COVID level



- Population inflow to Tokyo was 39,026 in Q1 2023, recovering to the level before the COVID-19 pandemic.



Source: The Statistics Bureau of Japan

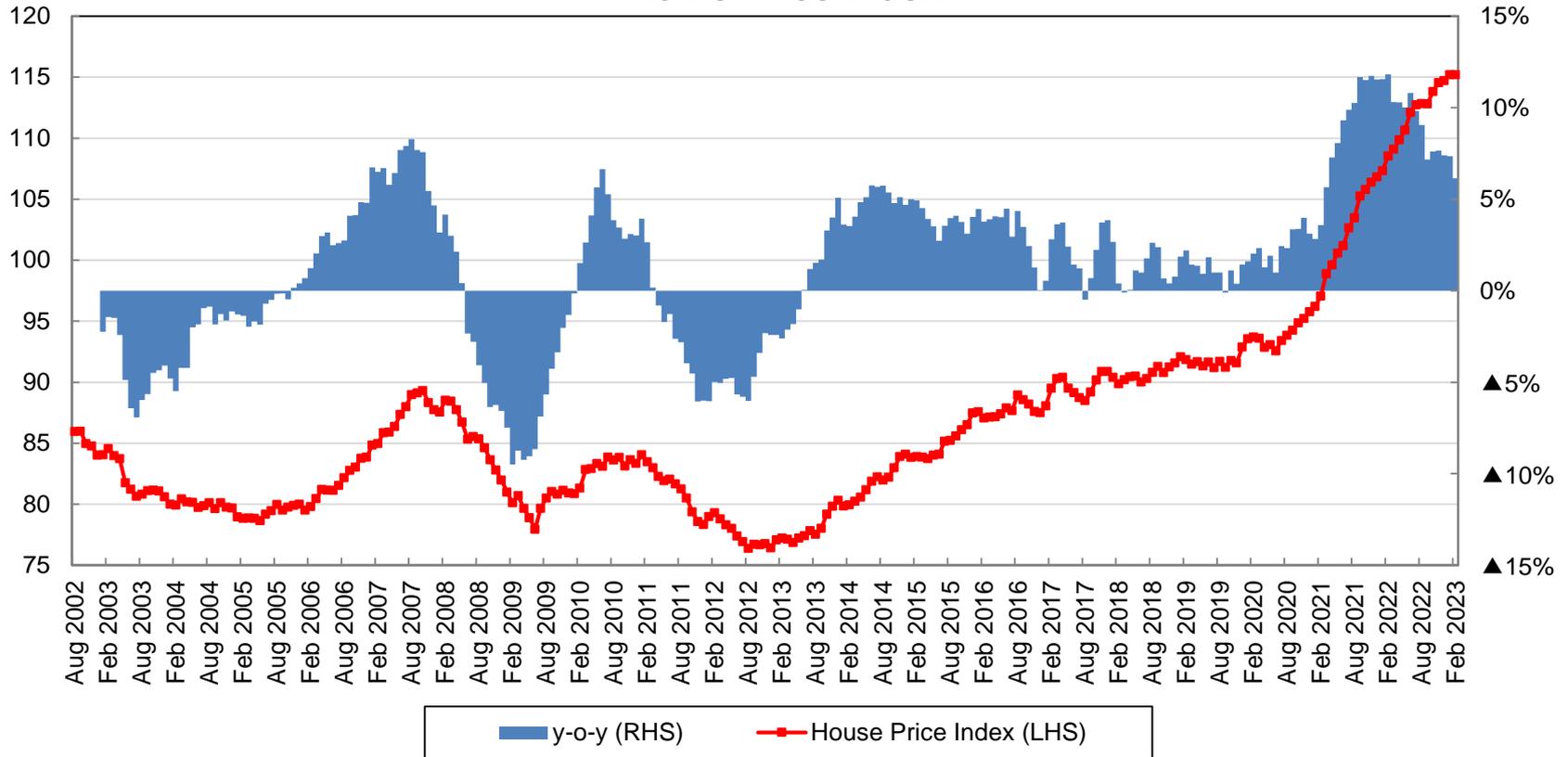
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In the housing market, price appreciation decelerates as inventory rises



- Japan’s home price continued to rise by 6.1% y-o-y in February 2023.
- Existing condominium sales decreased by 0.5% y-o-y in Q1 2023, and the inventory increased for the fourteenth consecutive month.

Home Price Index



Source: Japan Real Estate Institute

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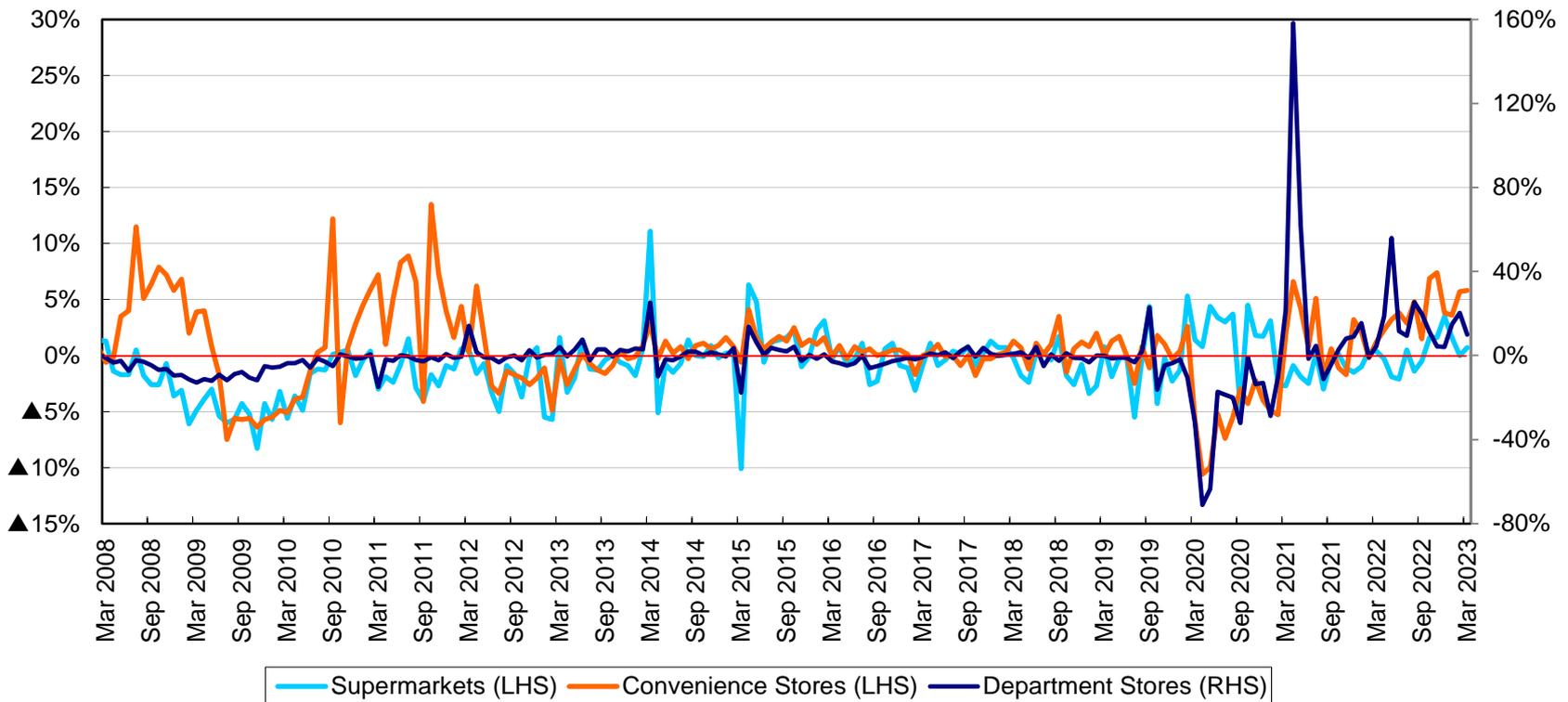
Sales are recovering in the retail sector, primarily in department stores buoyed by solid consumption of inbound tourists



- In Q1 2023, sales of department stores and convenience stores, supermarkets increased by 14.5%, 5.0% and 0.8%, respectively driven by the consumption of inbound tourists.

Retail Sales Growth

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



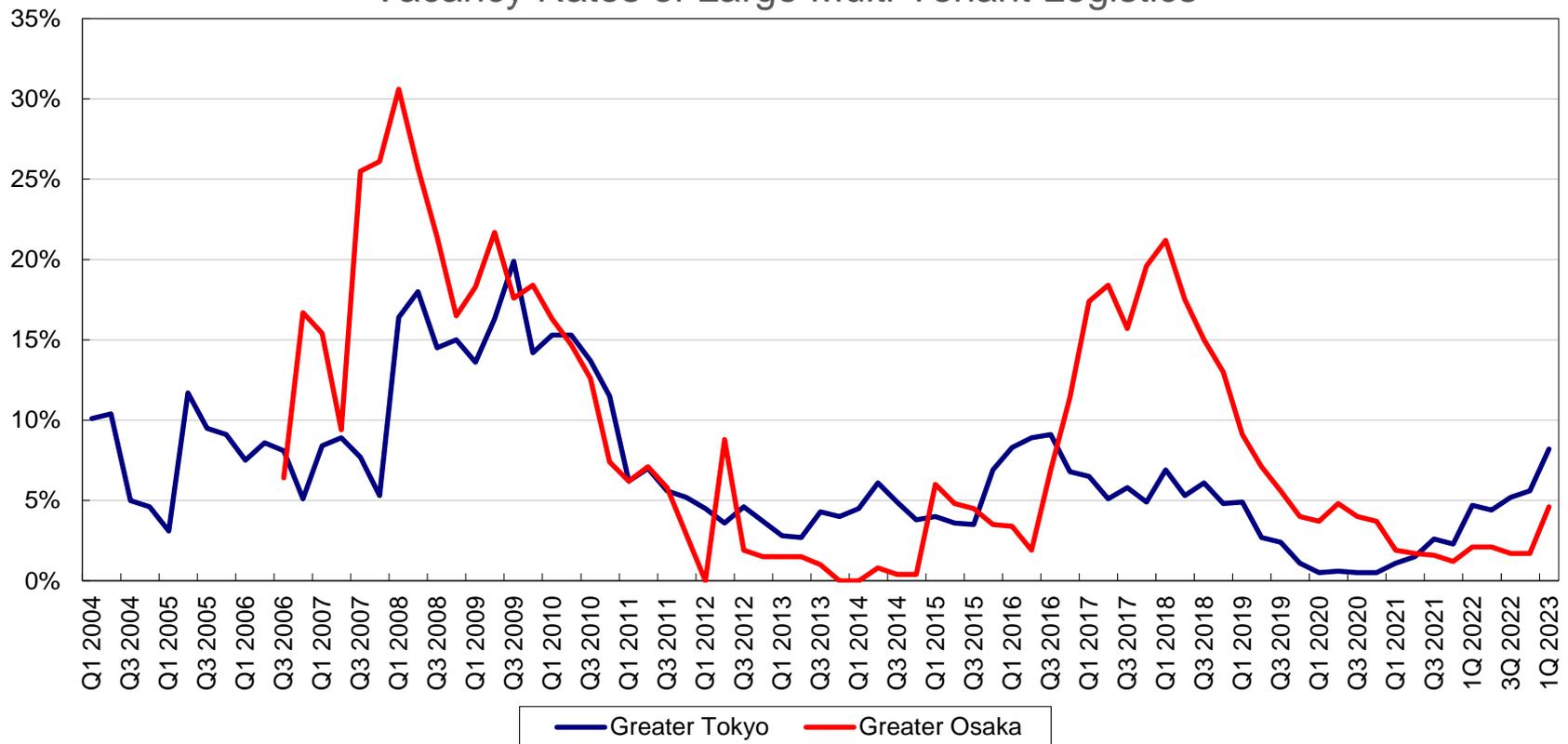
Source: The Ministry of Economy, Trade and Industry

In Greater Tokyo and Greater Osaka logistics markets, vacancy rates rose due to new supply



- In Q1 2023, vacancy rates in Greater Tokyo increased to 8.2% from 5.6% in the previous period due to a new supply of 324,000 tsubo, the largest ever on quarterly.
- In Greater Osaka, vacancy rates will likely decline as supply remain modest over the next two quarters.

Vacancy Rates of Large Multi-Tenant Logistics



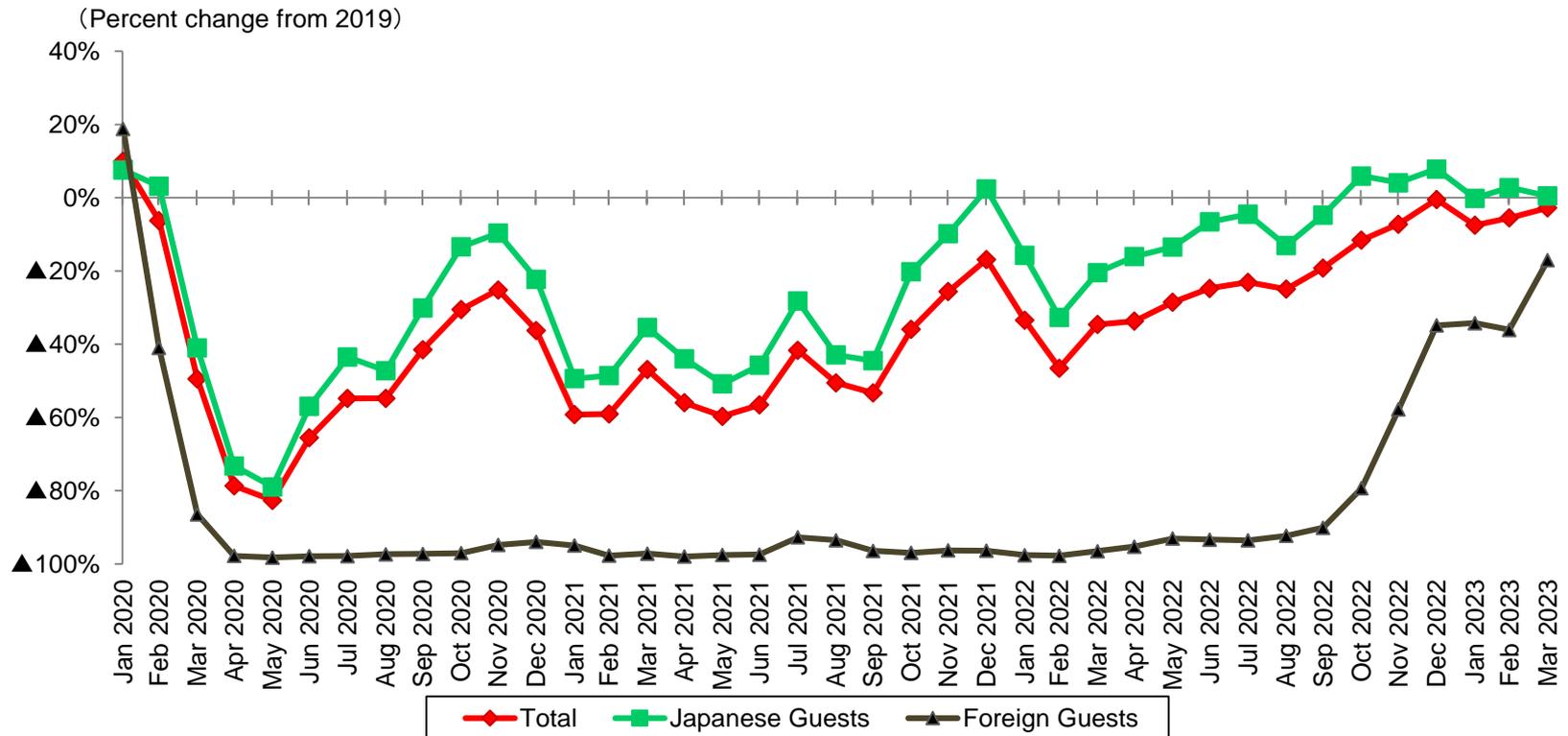
Source: CBRE

Lodging by domestic tourists are exceeding pre-COVID level, and inbound tourists are recovering rapidly



- The total number of overnight stays decreased by 5.1% in Q1 2023 from the corresponding period in 2019, of which Japanese and foreigners were +1.0% and -29.0%, respectively.
- According to STR, hotel RevPAR increased 12.2% in Tokyo and 4.2% in Osaka in March 2023 from the corresponding month in 2019.

Total Numbers of Overnight Stays

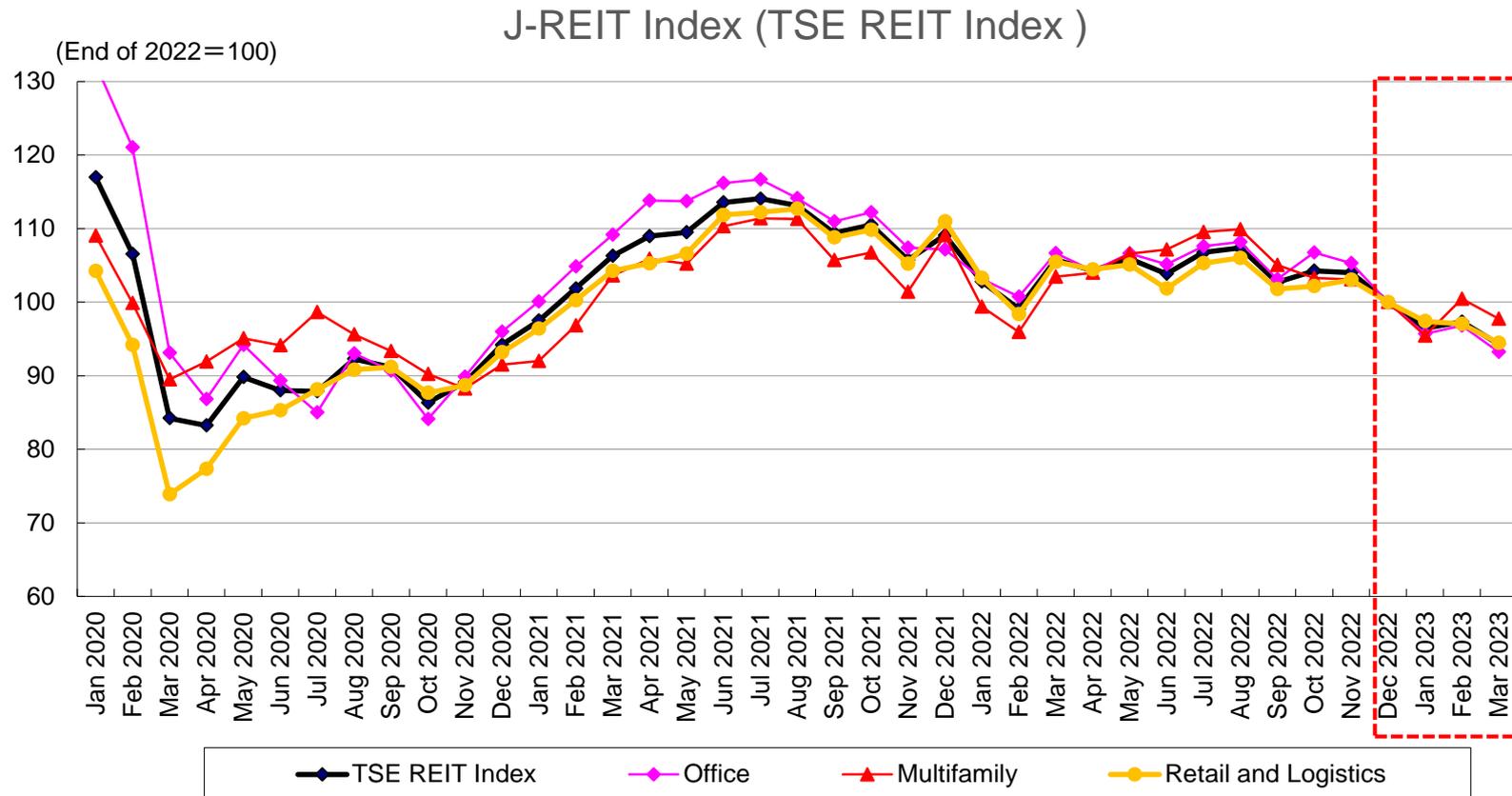


Source: Japan Tourism Agency

J-REIT prices have been stagnant since the BOJ's unexpected policy revision in December



- J-REIT Index declined by 5.7% q-o-q in Q1 2023, trading at a price to NAV ratio of 0.90x, dividend yield at 4.2%, and dividend and JGB spread at 3.9% in March 2023.



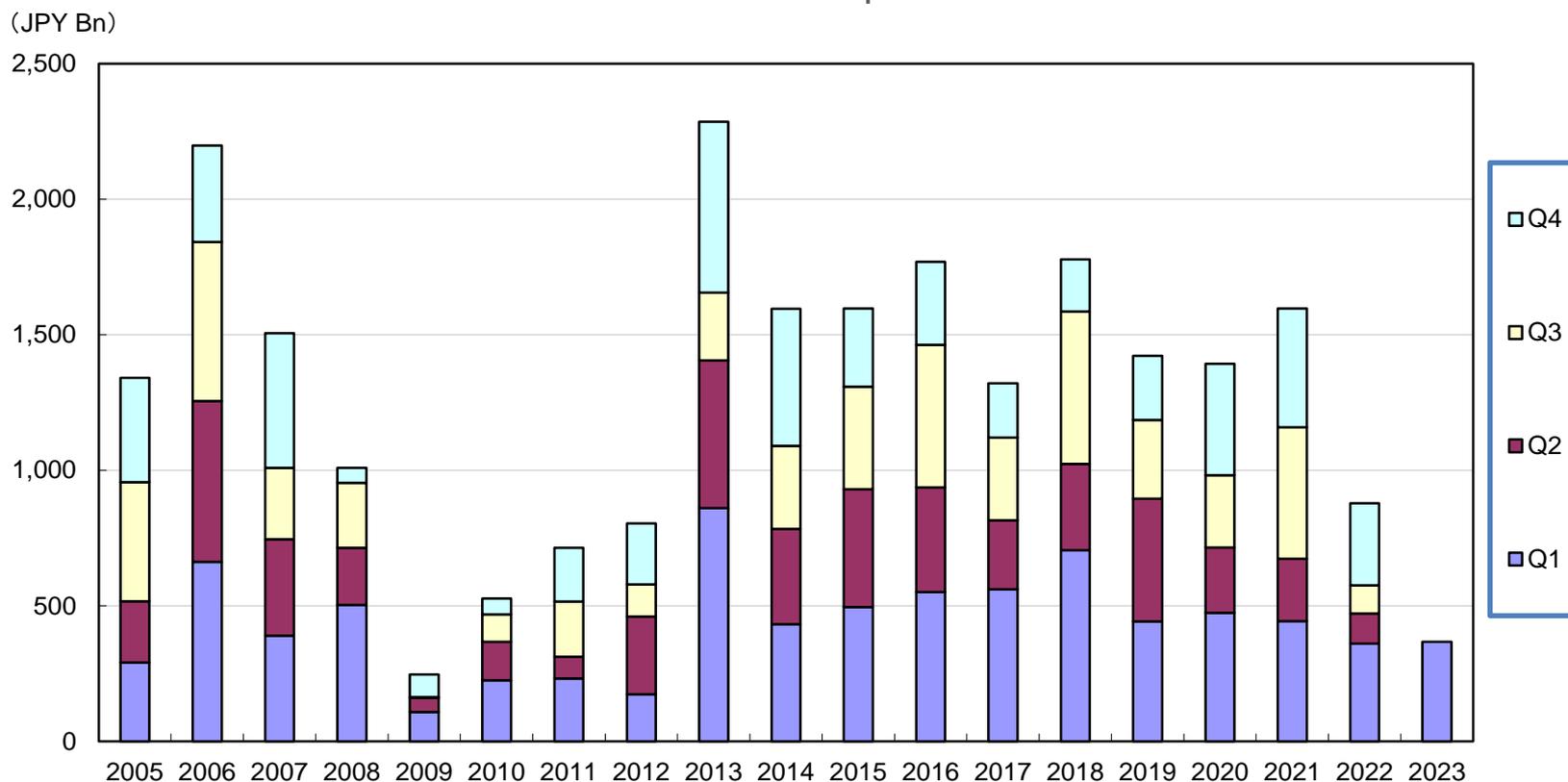
Source: Tokyo Stock Exchange



Acquisitions by J-REITs remain sluggish, weighed by high financing costs

- J-REITs acquired property assets totaling JPY367 billion in Q1 2023 (2% increase y-o-y).
- Office sector led the acquisitions by J-REITs, which accounted for 50% of total acquisitions, followed by multifamily, retail, logistics, hotels and others.

J-REIT Asset Acquisitions



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

Source: Disclosure Documents



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