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RESEARCH

# Japan Real Estate Market Quarterly Review

Second Quarter 2023

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# Summary

## Macro Economy

- Japan's real GDP is expected to increase by +0.8% q-o-q (annualized 3.1% increase) in Q2 2023, bolstered by robust exports in both goods and services.
- Japan's real GDP is expected to expand by 1.0% in FY2023, and 1.6% in FY2024.

## Real Estate Market

- The office market's stability remains uncertain amid increasing new supply.
- Tokyo multifamily are seeing renewed acceleration.
- Retail sales rebounds, supported by solid consumption of inbound tourists.
- Population inflow to Tokyo approaching to pre-COVID levels.
- The hotel market anticipates complete recovery as Chinese group travels return.
- In Greater Tokyo logistics markets, vacancy rates remain elevated due to large supply.

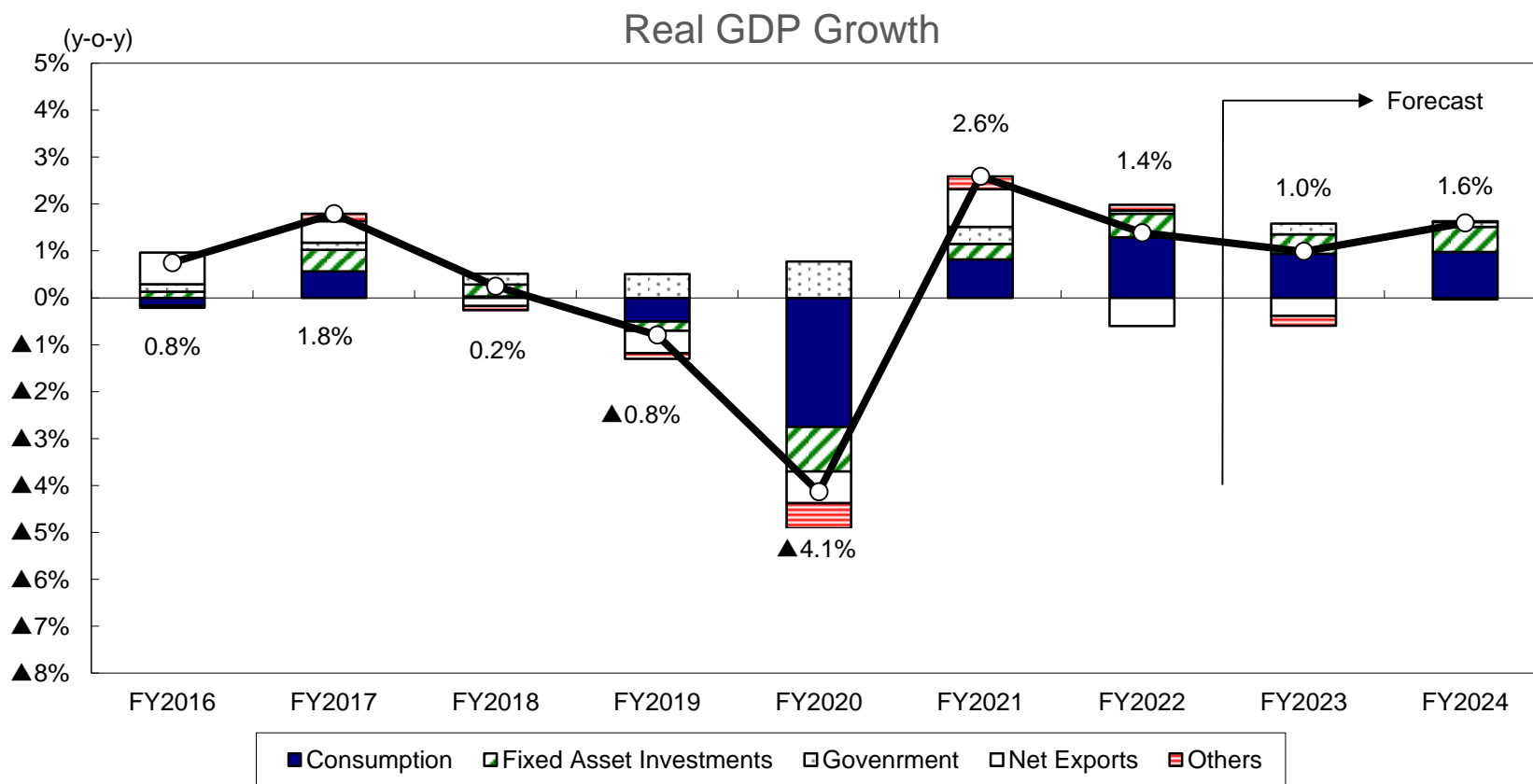
## Capital Market

- J-REIT Index increased by 4.3% q-o-q in Q2 2023, trading at a price to NAV ratio of 0.93x, dividend yield at 4.1%, and dividend and JGB spread at 3.7% in June 2023.
- J-REITs acquired property assets totaling JPY240 billion in Q2 2023 (115% increase y-o-y).

# In FY2023, economic recovery continues steadily, fueled by domestic demand with the easing of COVID-19 restrictions



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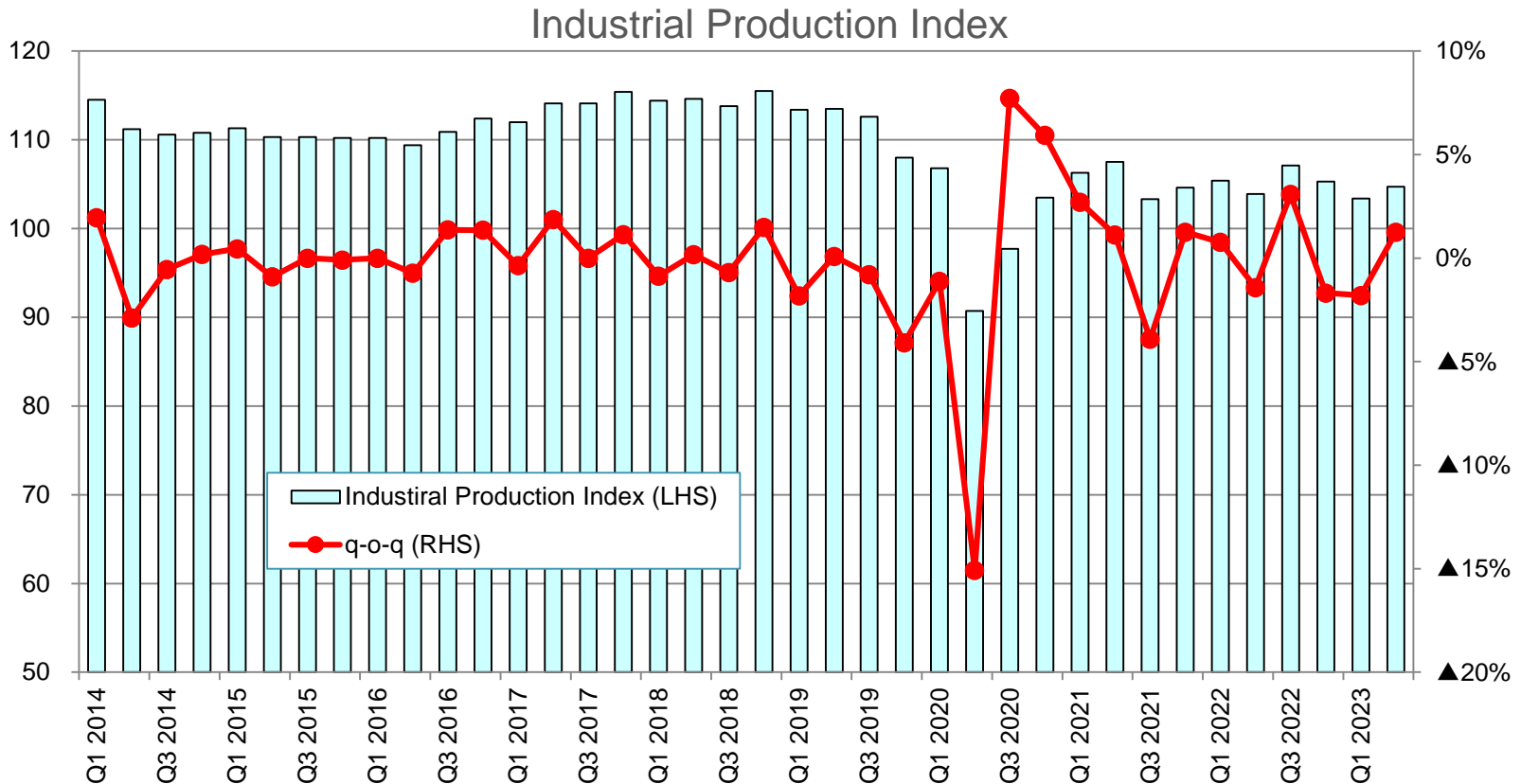


Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2023) "Weekly Economist Letter" NLI Research Institute, June, 2023.

# Industrial production is expected to recover at a modest pace buoyed by domestic demand despite tepid exports



- Industrial production increased by 1.3% q-o-q in Q2 2023, but not enough to compensate for the decline in the previous quarter.
- Automobile increased by 5.9% due to ease in supply chain constraints. Electronic parts and devices increased by 2.8%, for the first time in five quarters.



Source: The Ministry of Economy, Trade and Industry

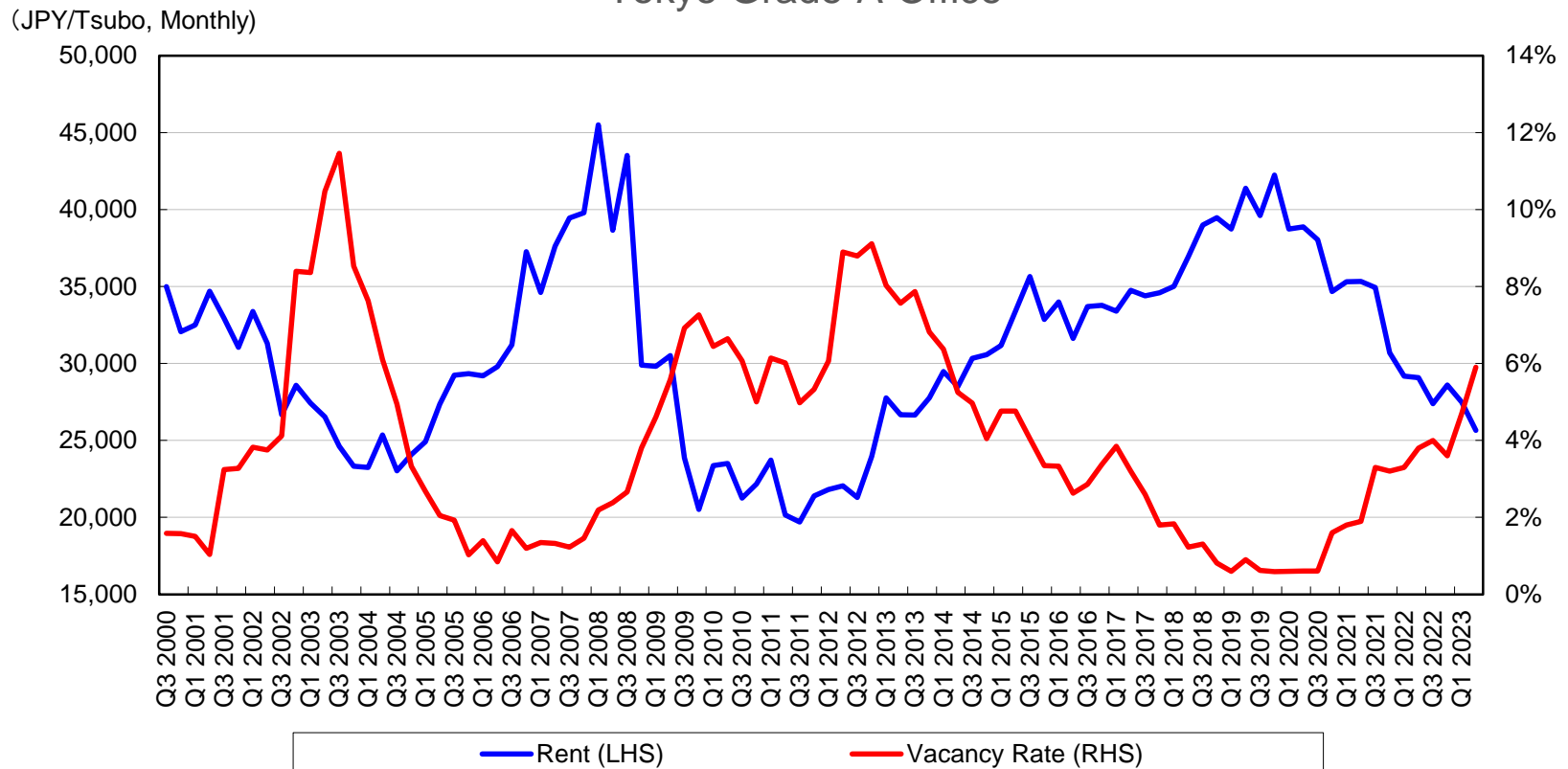
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## The bottom of the office market is still elusive



- Tokyo grade-A office rents were JPY25,655/tsubo in Q2 2023, declining 6.6% q-o-q.
- Vacancy rates increased to 5.9% in Q2 2023 from 4.7% 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)

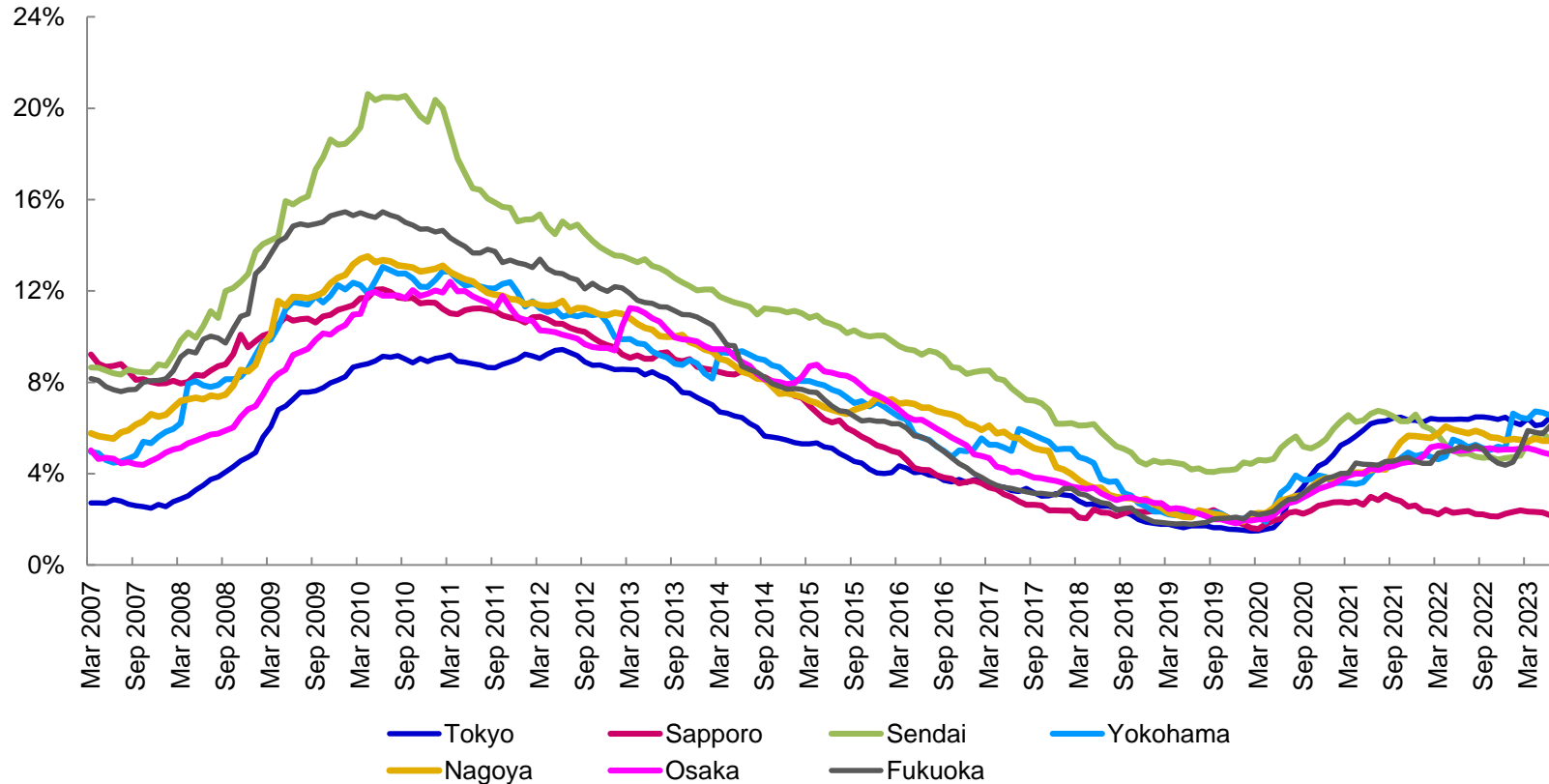
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## Regional office markets are starting to waver in the face of increasing supply



- Many cities, notably Yokohama and Fukuoka, are facing rising vacancy rates due to a surge in supply. Meanwhile, Sapporo continues to maintain a low vacancy rate.

### Office Vacancy Rates in Major Cities



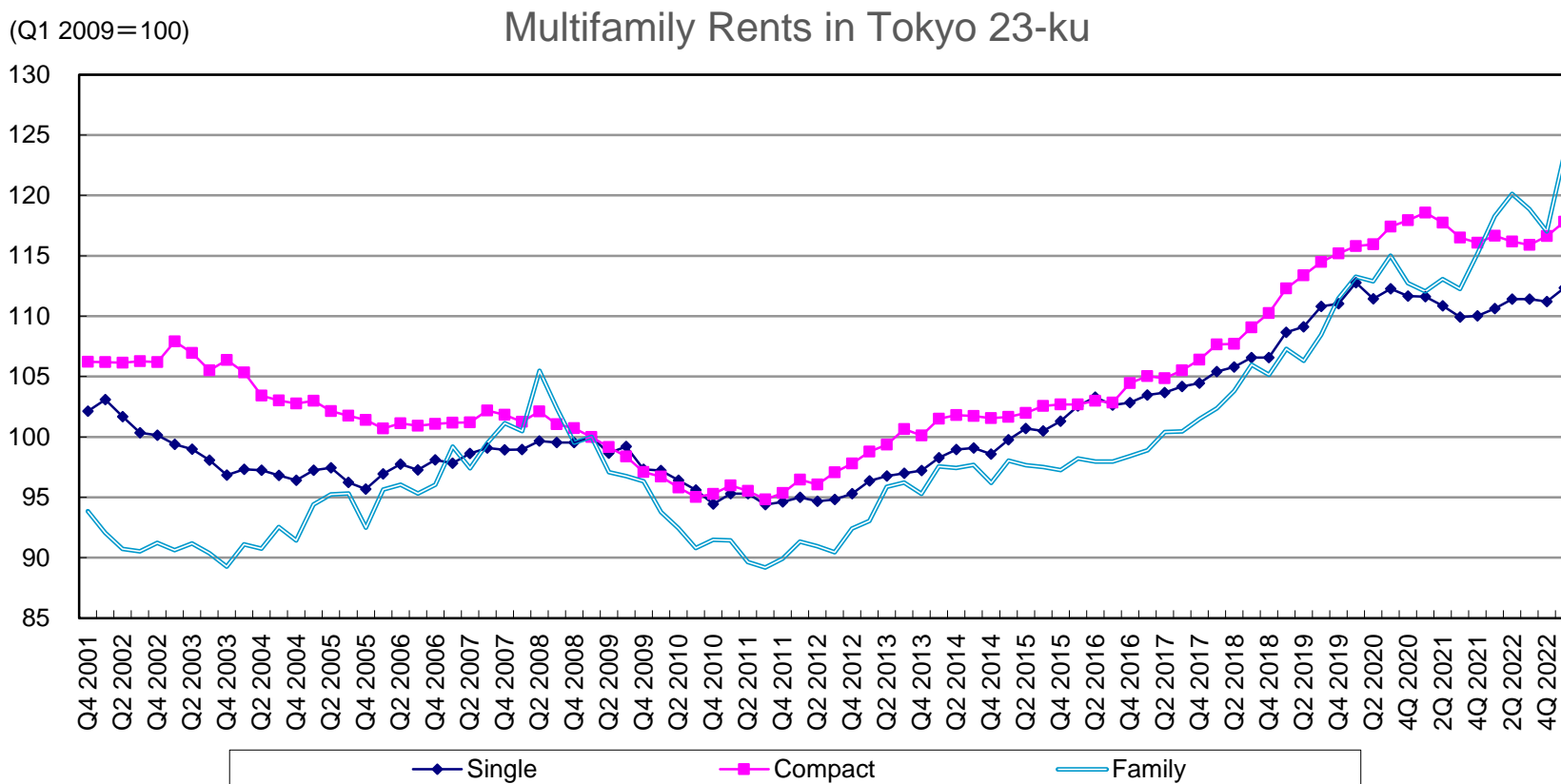
Source: Miki Shoji

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# Tokyo 23-ku family-type rents hitting record highs



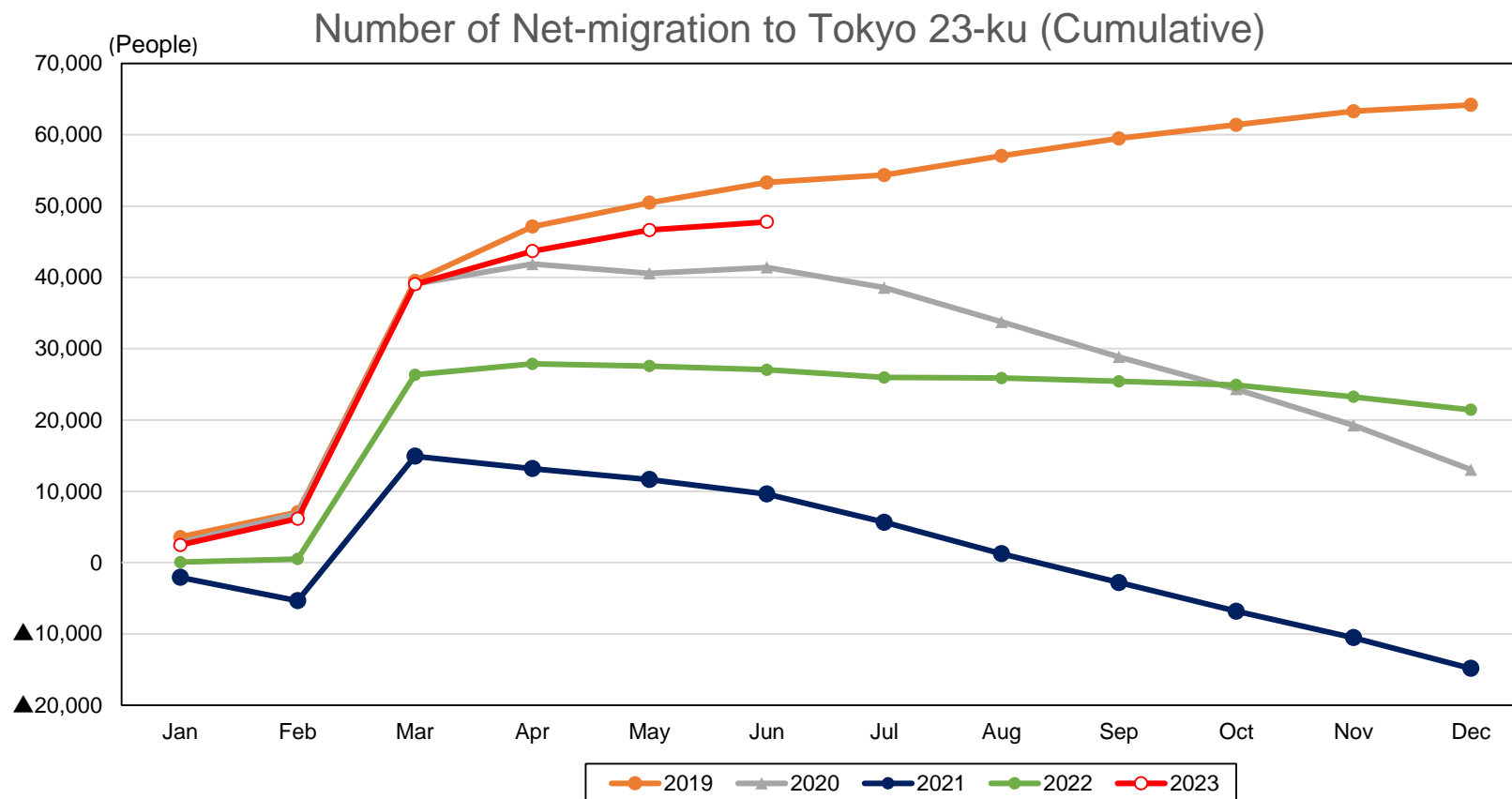
- In Q1 2023, multifamily rents of single-, compact- and family-type In Tokyo 23-ku changed by +1.7%, +1.1%, and +5.0% y-o-y, respectively.



# In 2023, population inflows to Tokyo nearing pre-COVID levels



- Population inflow to Tokyo was 47,783 in the first half of 2023, 10% below from the 2019 level.



Source: The Statistics Bureau of Japan

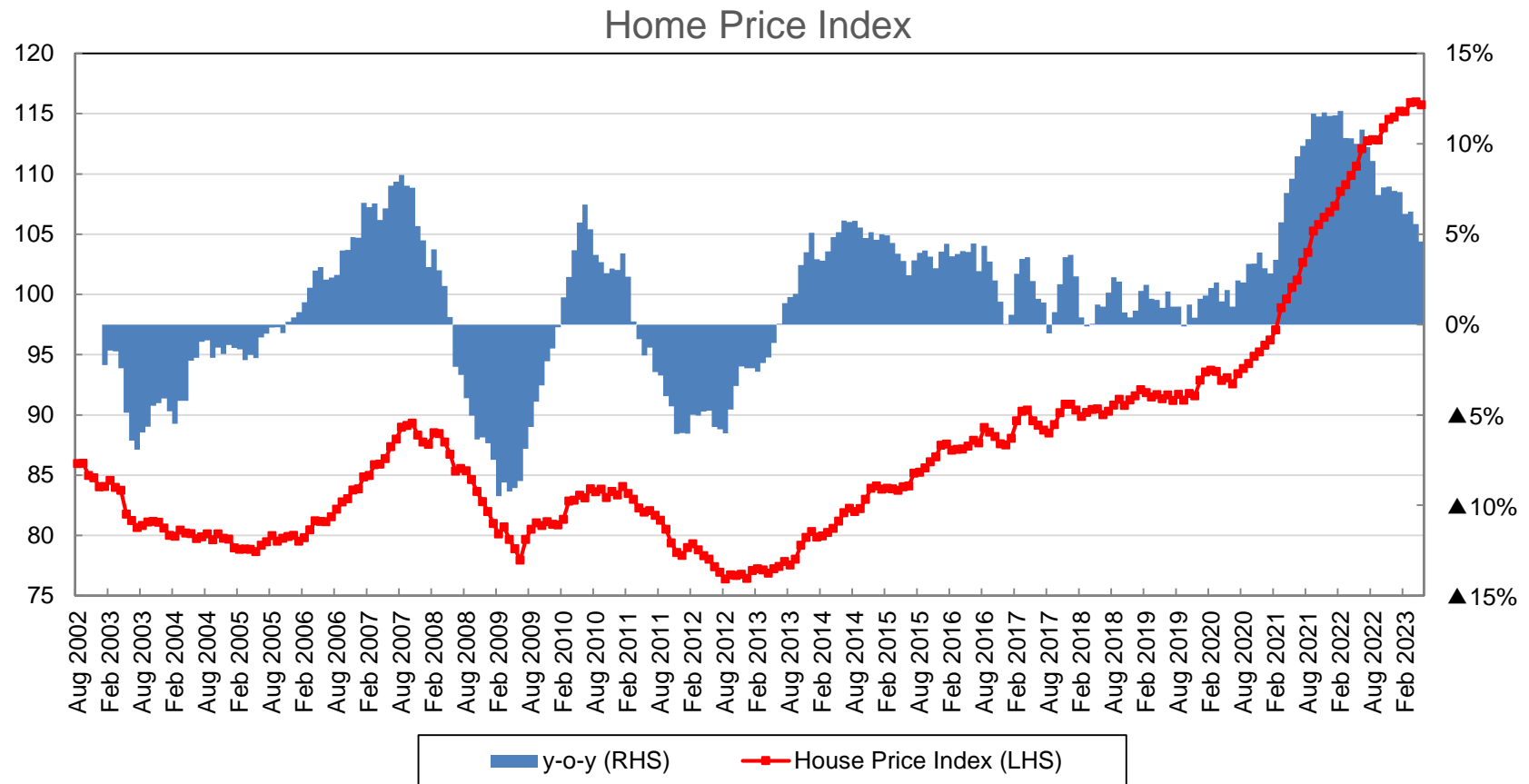
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## Housing market shows subdued price growth amid rising inventories



- Japan's home price rose by 4.6% y-o-y in May 2023.
- Existing condominium sales decreased by 1.9% y-o-y in Q2 2023, marking the eighth consecutive quarter decline.



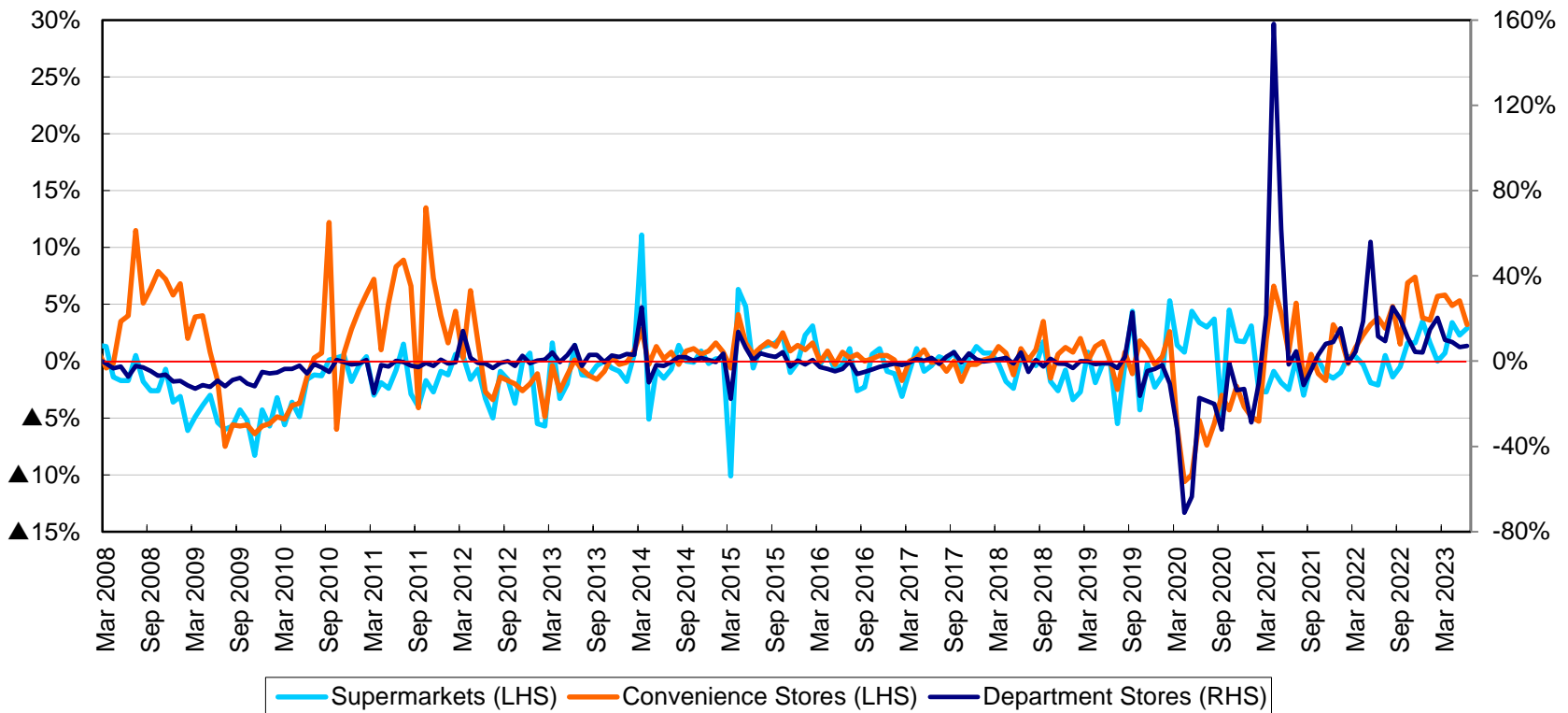
## Retail rebounds, especially in department stores, lifted by solid consumption of inbound tourists



- In Q2 2023, sales of department stores, convenience stores, and supermarkets increased by 7.5%, 4.5%, and 2.9%, respectively, driven by the consumption of inbound tourists.

### Retail Sales Growth

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



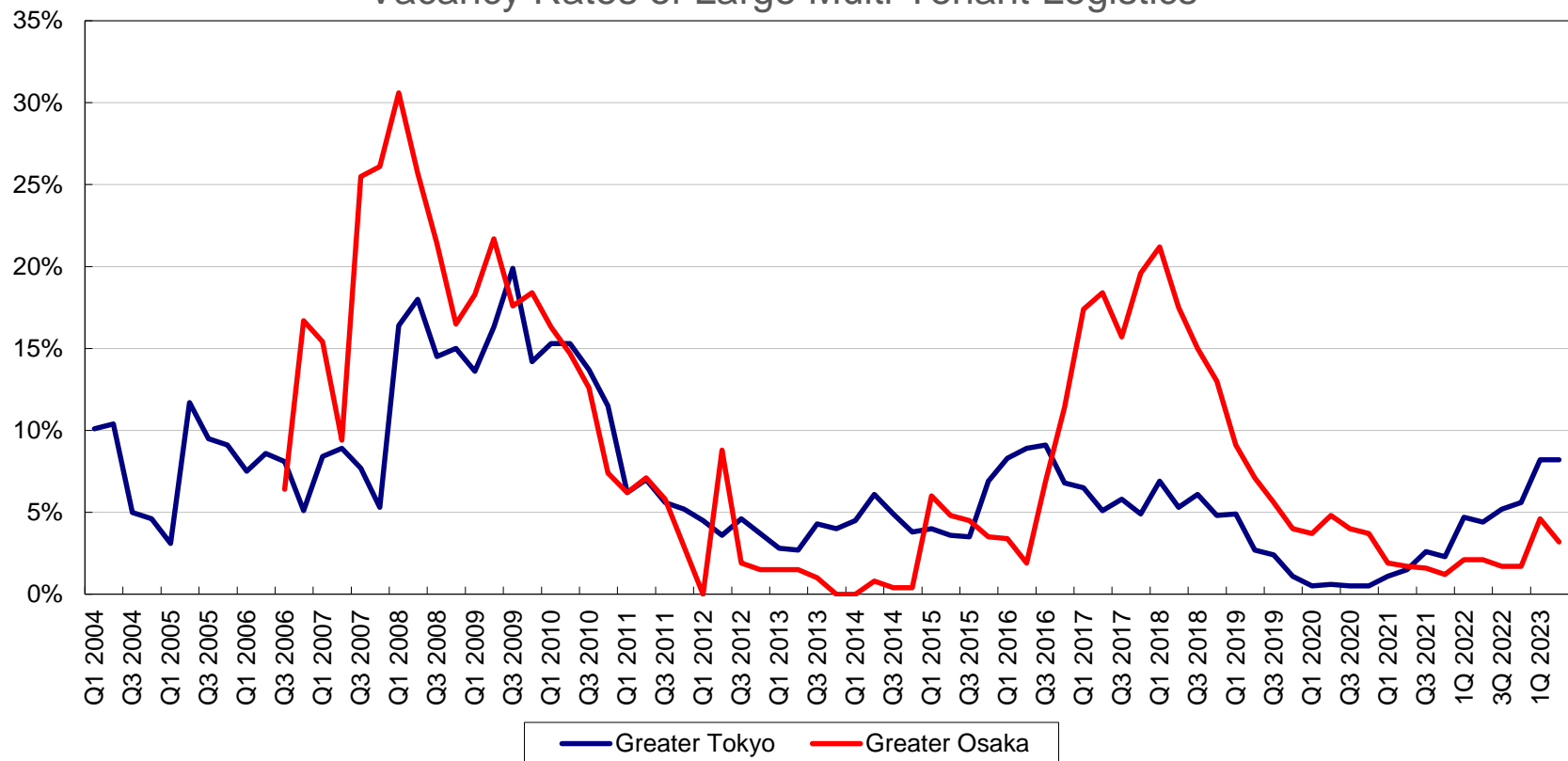
Source: The Ministry of Economy, Trade and Industry

## Persistent high vacancy rates in Greater Tokyo due to excess supply



- In Q2 2023, vacancy rates in Greater Tokyo remained flat at 8.2%. A new supply of 244,000 tsubo overshadowed a record net absorption of 225,000 tsubo.
- In contrast, Greater Osaka saw vacancy rates drop to 3.2% from 4.6% in the previous quarter, given the limited new supply.

### Vacancy Rates of Large Multi-Tenant Logistics



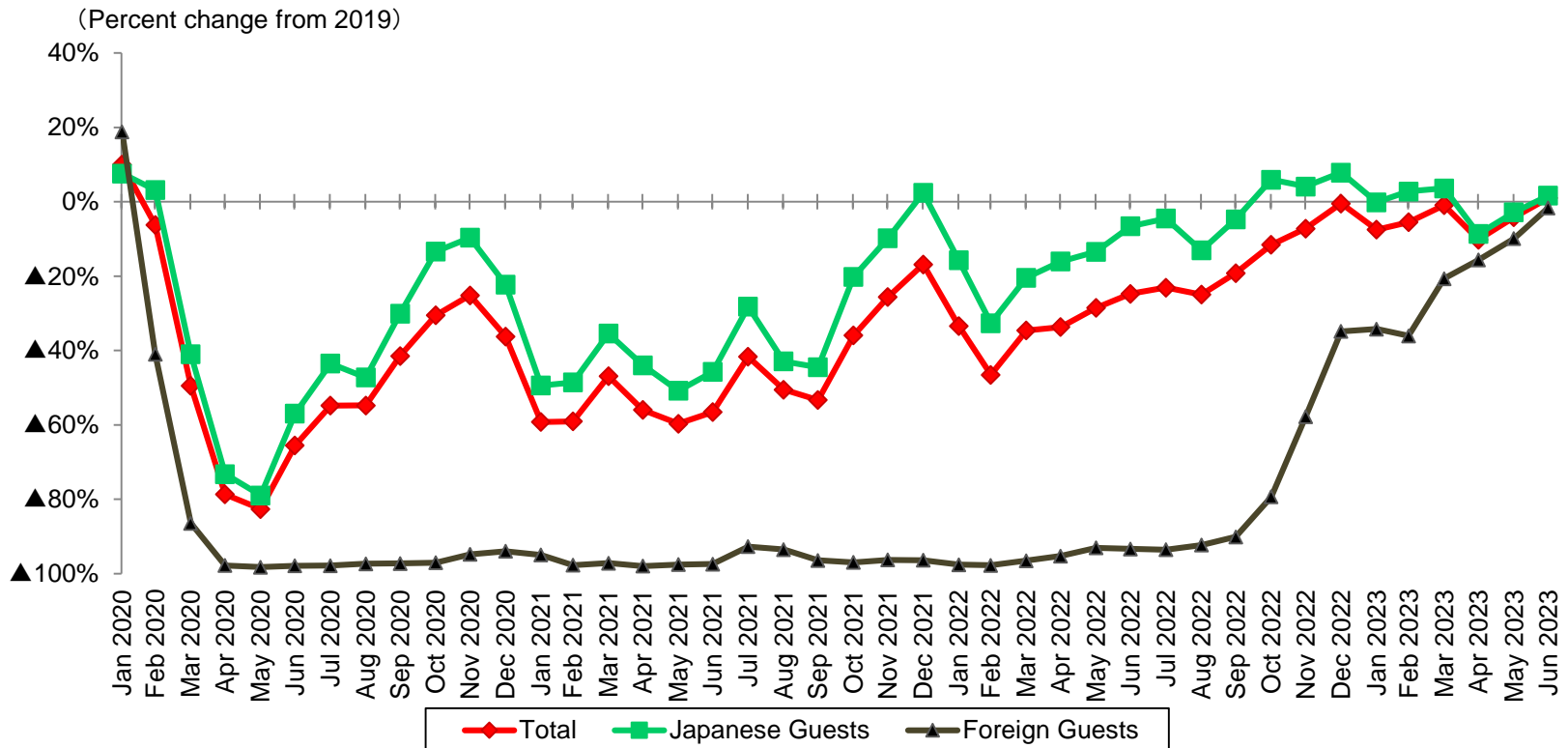
Source: CBRE

# Recovery in Chinese group travel is expected to be the key to a complete revival in the lodging industry



- The total number of overnight stays decreased by 4.6% in Q2 2023 from the corresponding period in 2019, of which Japanese and foreigners were -3.4% and -9.4%, respectively.
- According to STR, hotel RevPAR was +14.3 in Tokyo and -5.6% in Osaka in June 2023 from the corresponding month in 2019.

Total Numbers of Overnight Stays

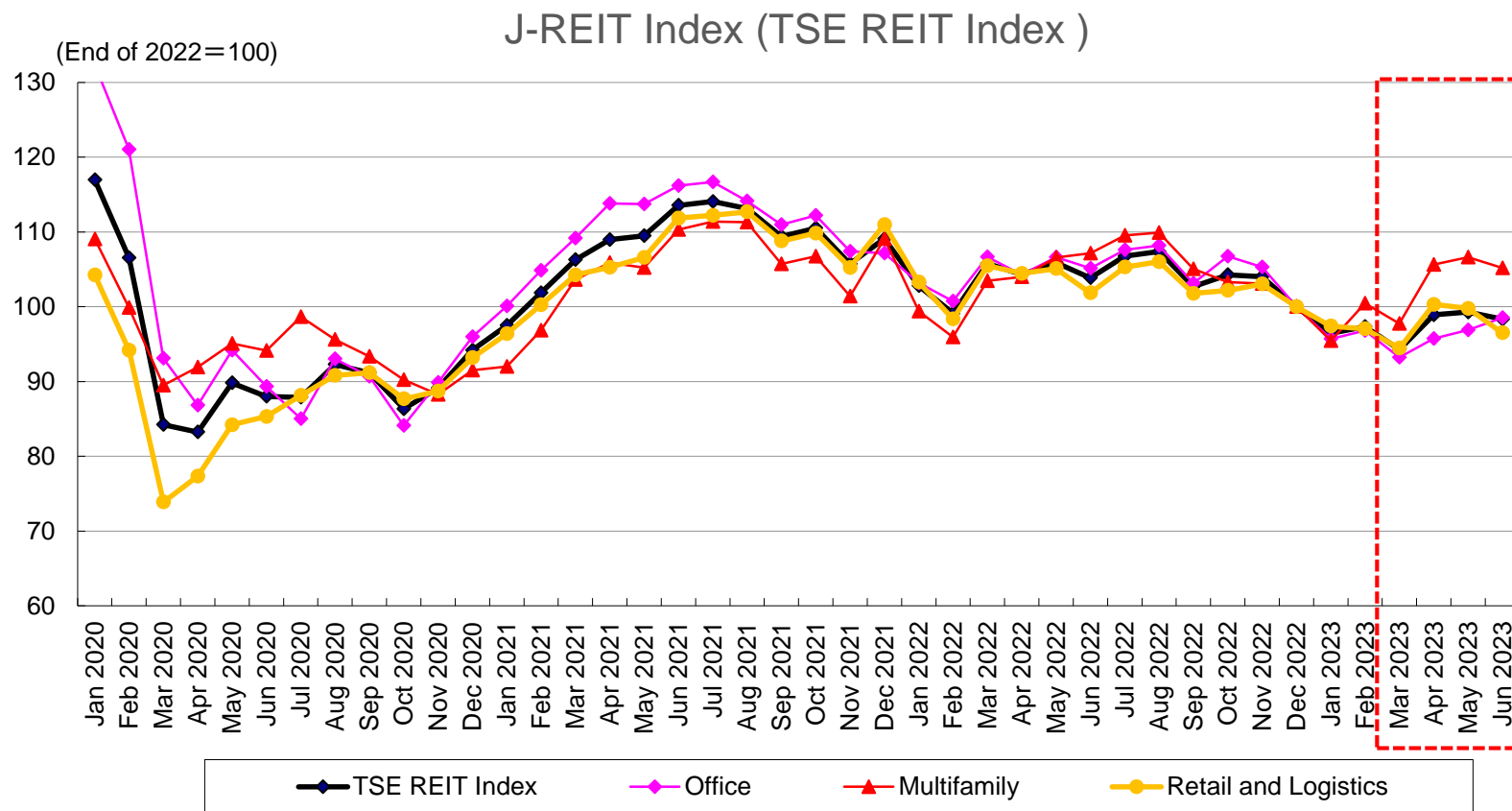


Source: Japan Tourism Agency

# J-REITs experience a rebound but underperform the broader stock market



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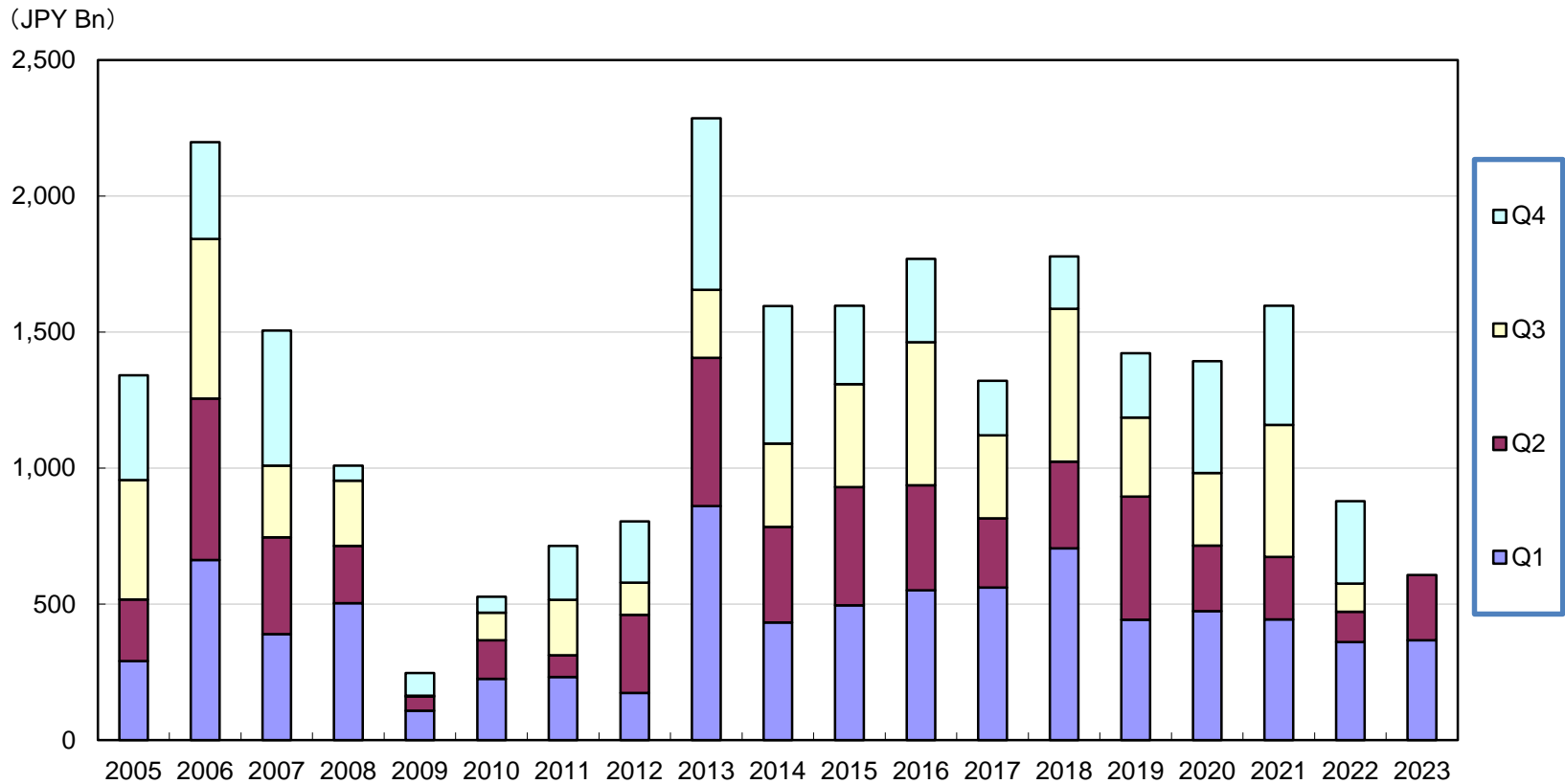
Source: Tokyo Stock Exchange

# J-REIT's acquisitions mark a notable surge from the prior year's downturn



- J-REITs acquired property assets totaling JPY240 billion in Q2 2023 (115% increase y-o-y).
- The office sector (35%) and logistics (32%) led the acquisitions by J-REITs, followed by multifamily(16%), retail (10%), hotels (6%), and others (1%).

J-REIT Asset Acquisitions



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

Source: Disclosure Documents



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