

**RESEARCH**

Japan Real Estate Market Quarterly Review

Third Quarter 2023

This report includes data from various sources and NLI Research Institute does not guarantee the accuracy and reliability. In addition, this report is intended only for providing information, and the opinions and forecasts are not intended to make or break any contracts.

Copyright © 2023 NLI Research Institute All rights reserved.

Summary

Macro Economy

- Japan's real GDP is expected to decrease by 0.2% q-o-q (annualized 0.9% decrease) in Q3 2023, weighed down by the negative impact of foreign demand.
- Japan's real GDP is expected to expand by 1.5% in FY2023, and 1.4% in FY2024.

Real Estate Market

- Tokyo grade-A office market continues to soften due to the impact of new supply.
- Following the family type, single and compact type rents also hit record highs in Tokyo 23-ku
- Retail sales rebounds driven by the consumption of inbound tourists.
- Population inflow trends to Tokyo is recovering, but still slightly below 2019 levels.
- Inbound tourism is experiencing a rapid rebound despite the stagnant recovery of Chinese tourists, particularly those traveling in groups.
- Vacancy rates are rising in both Greater Tokyo and Greater Osaka due to new supply.

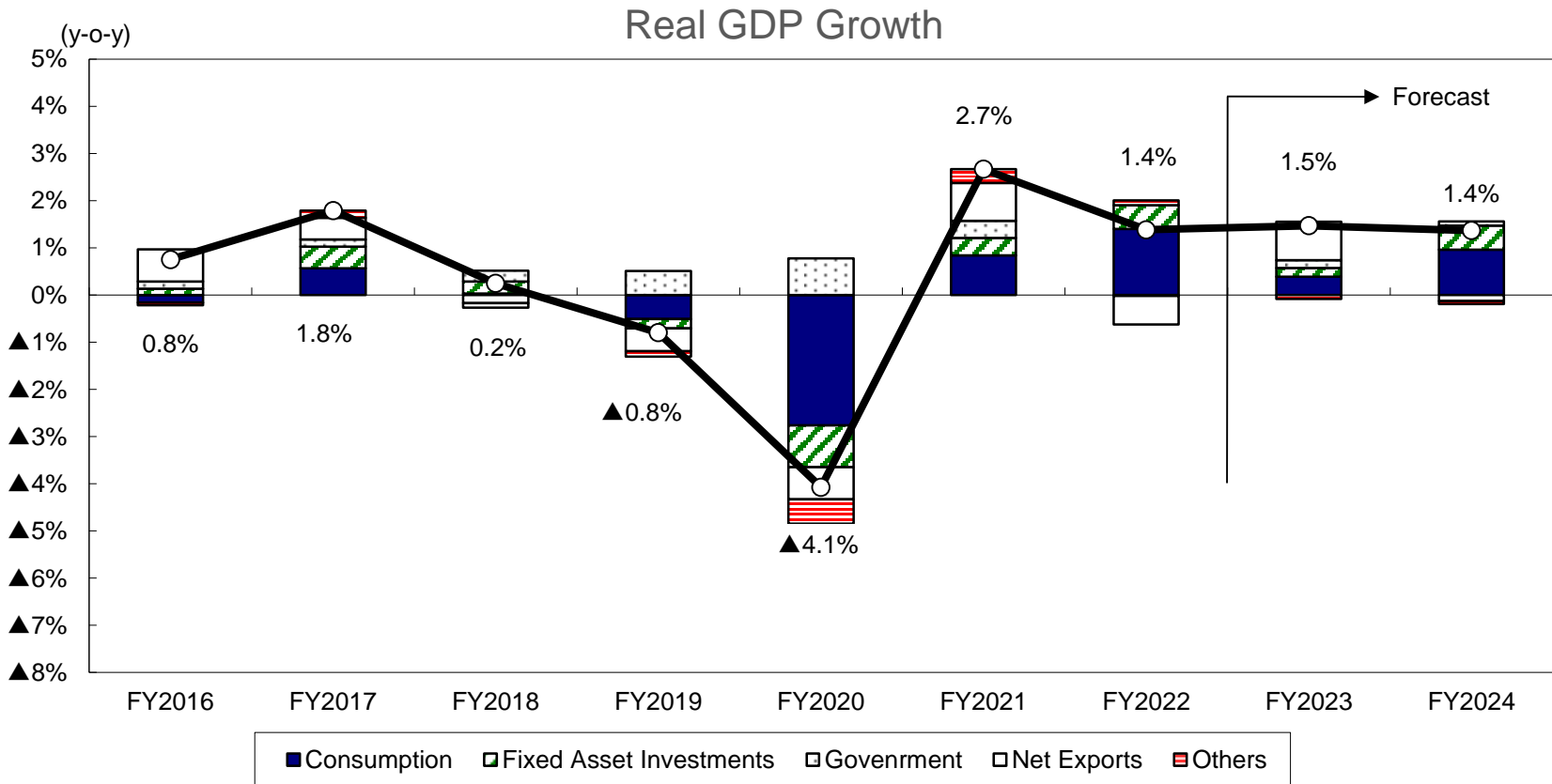
Capital Market

- J-REIT Index decreased by 0.1% q-o-q in Q3 2023, trading at a price to NAV ratio of 0.93x, dividend yield at 4.2%, and dividend and JGB spread at 3.4% in September 2023.
- J-REITs acquired property assets totaling JPY299 billion in Q3 2023 (186% increase y-o-y).
- From 2020 to 2023, dividends contributed +1%, risk premium +4%, and 10-year interest rates -18% to the price of J-REITs.

Japanese economy is likely to continue to grow driven mainly by domestic demand



- Japan's real GDP is expected to decrease by 0.2% q-o-q (annualized 0.9% decrease) in Q3 2023, weighed down by the negative impact of foreign demand.
- Japan's real GDP is expected to expand by 1.5% in FY2023, and 1.4% in FY2024.



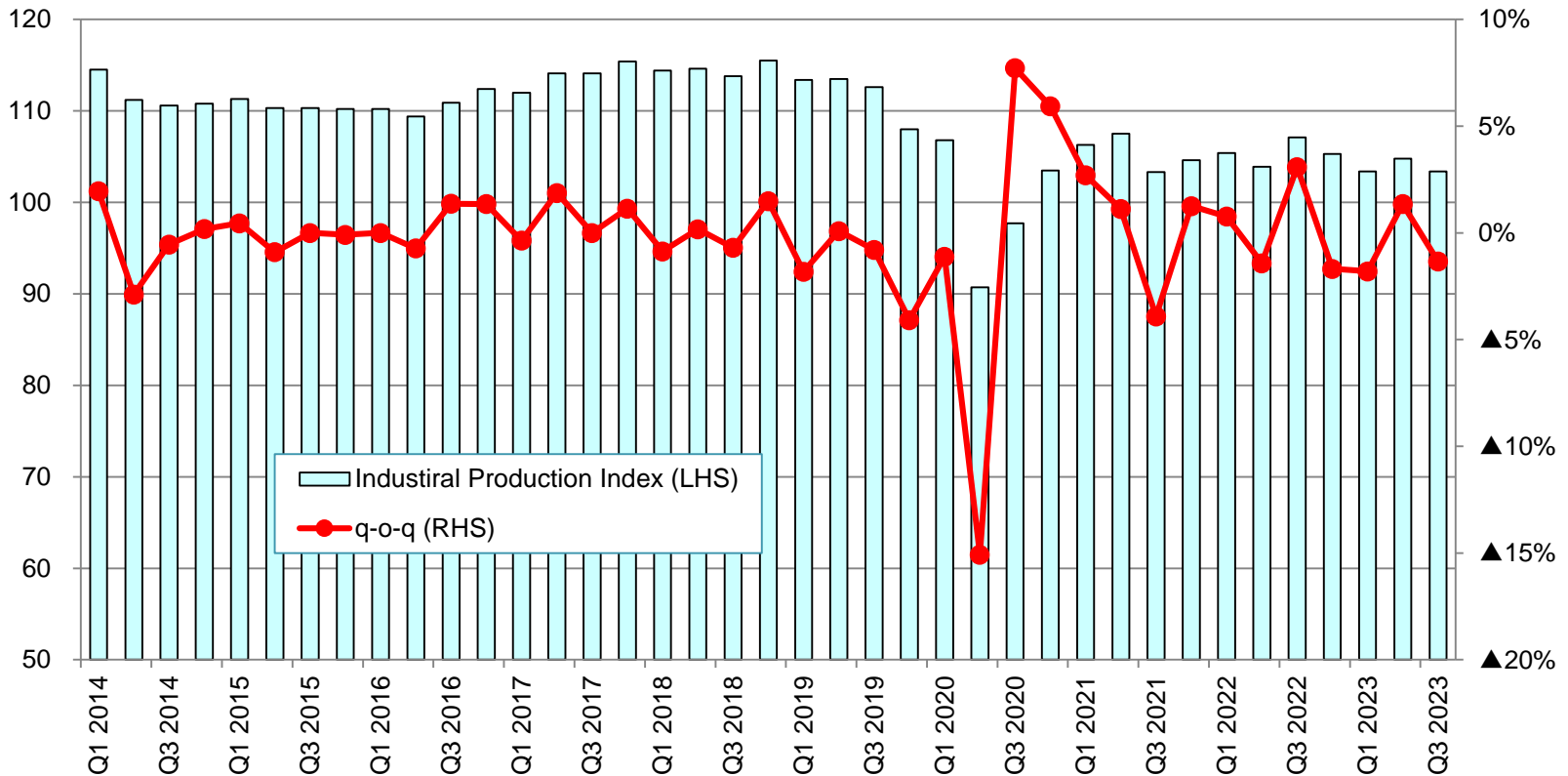
Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2023) "Weekly Economist Letter" NLI Research Institute, September, 2023.

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



- Industrial production decreased by 1.3% q-o-q in Q3 2023, the first decline in two quarters.
- Automobile increased(+0.7% q-o-q) for the fifth consecutive quarters, but “Electronic parts and devices” and “Chemicals” saw declines of 2.0% and 1.1%, respectively.

Industrial Production Index



Source: The Ministry of Economy, Trade and Industry

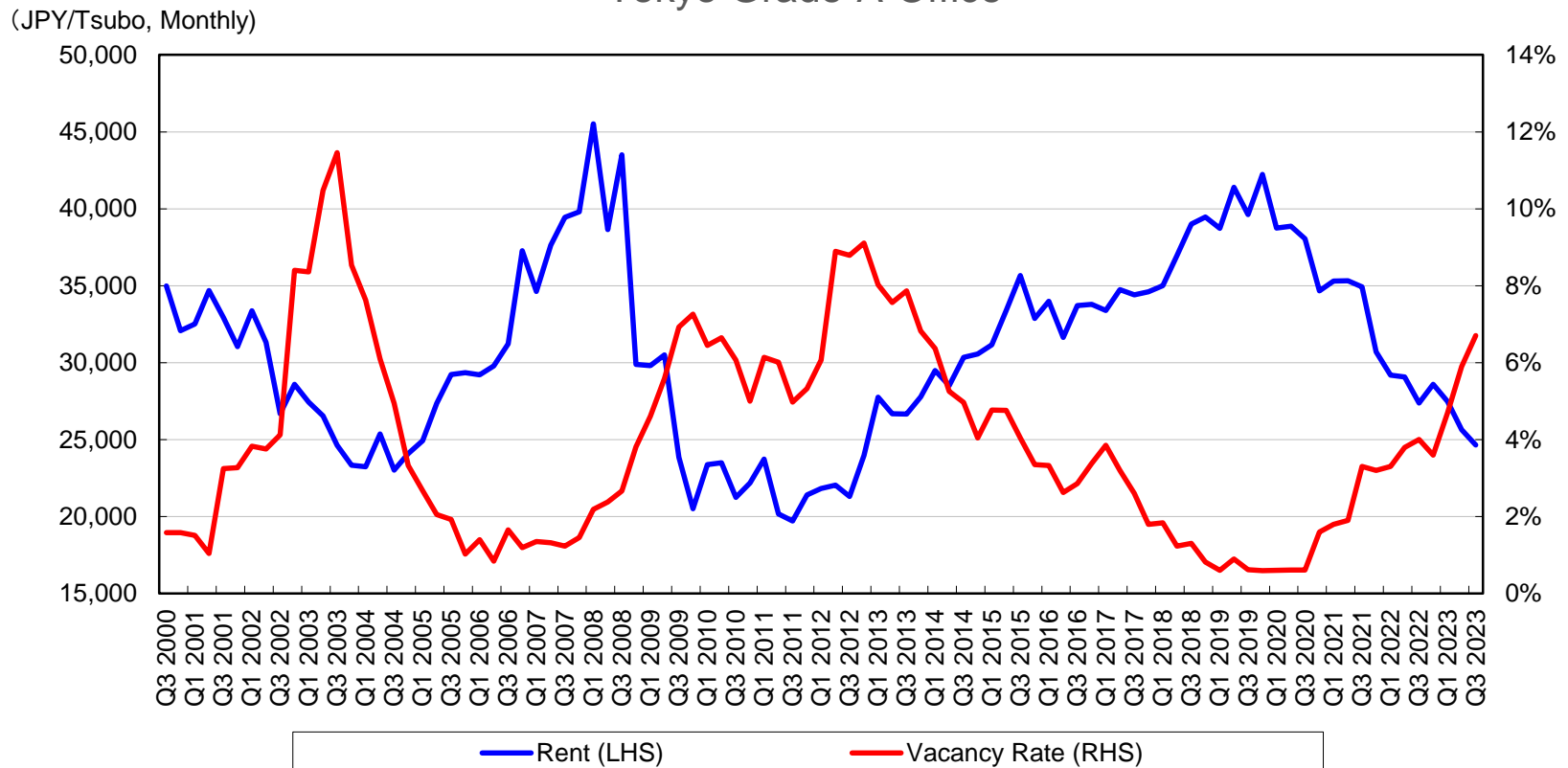
Copyright © 2023 NLI Research Institute All rights reserved.

Tokyo grade-A office market continues to soften due to the impact of new supply



- Tokyo grade-A office rents were JPY24,652/tsubo in Q3 2023, declining 3.9% q-o-q.
- Vacancy rates increased to 6.7% in Q3 2023 from 5.9 % 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)

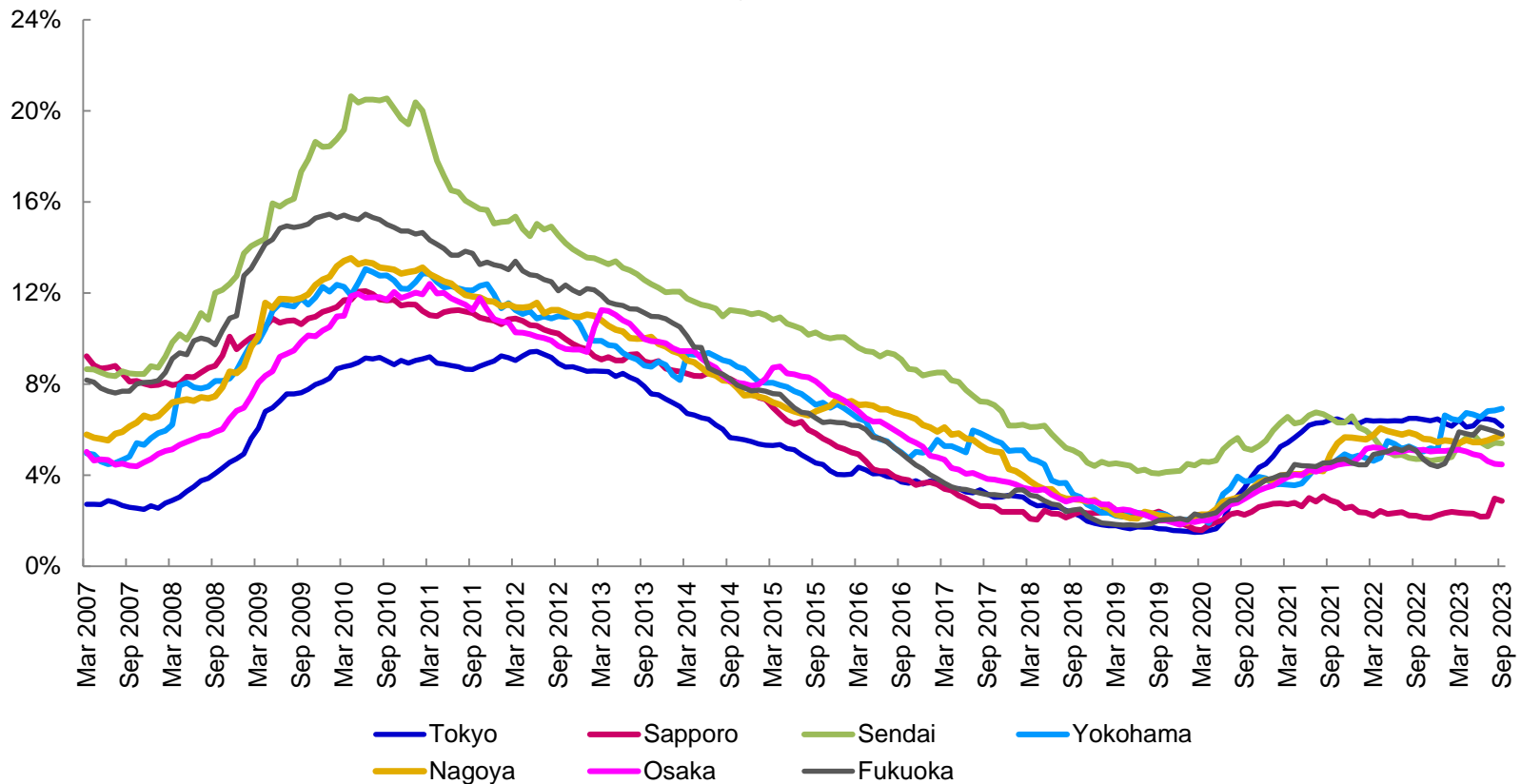
Copyright © 2023 NLI Research Institute All rights reserved.

As the impact of the COVID-19 pandemic fades, regional office markets started to show a more mixed pattern.



- In Q3 2023, vacancy rates increased in Sapporo (+0.7%), Yokohama (+0.4%) and Nagoya (+0.3), but decreased in Sendai (-0.1%), Fukuoka (-0.3%), Tokyo (-0.3%) and Osaka (-0.4%).

Office Vacancy Rates in Major Cities



Source: Miki Shoji

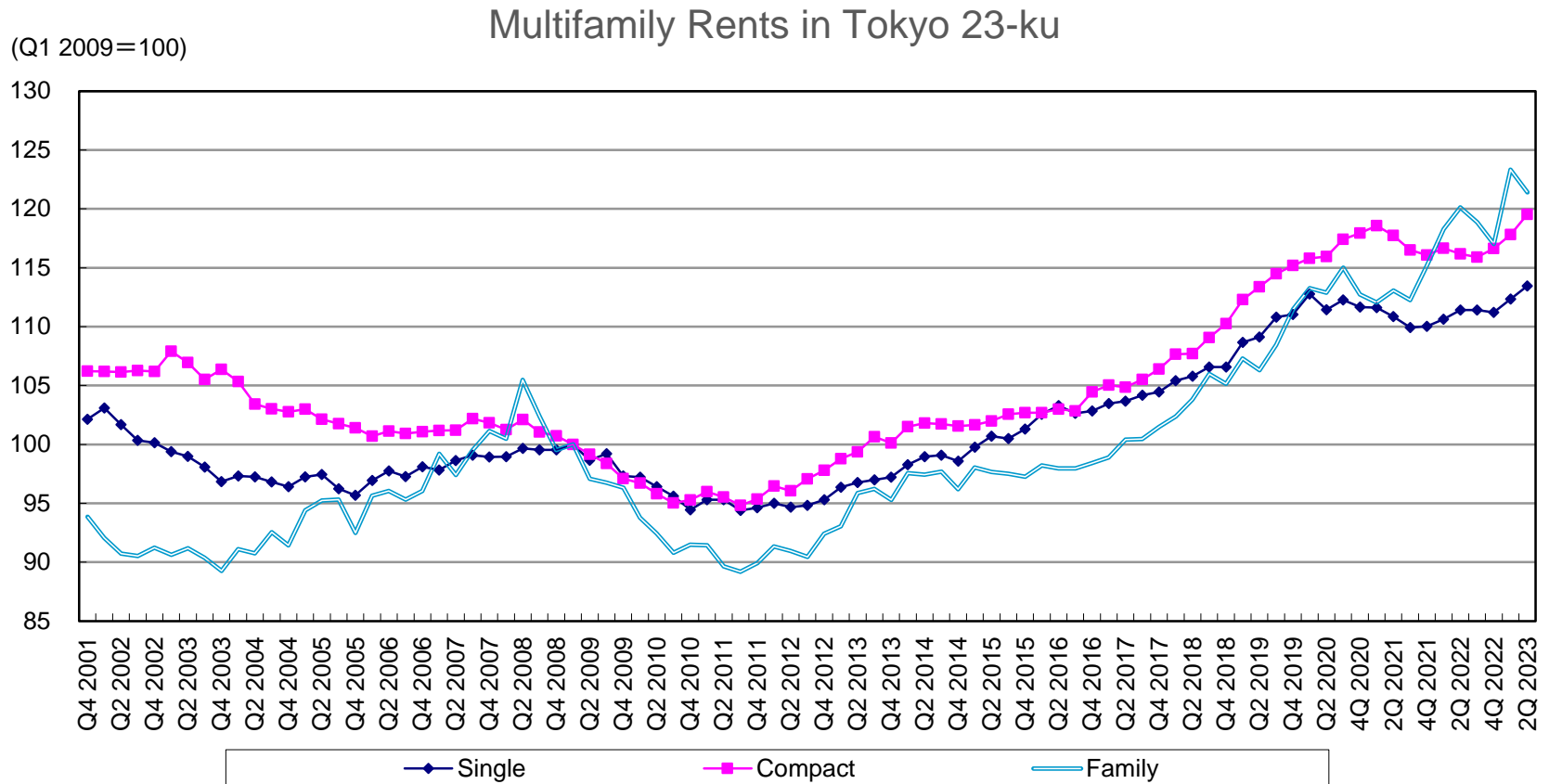
Copyright © 2023 NLI Research Institute All rights reserved.

Multifamily

Following the family type, single and compact type rents also hit record highs in Tokyo 23-ku



- In Q2 2023, multifamily rents of single-, compact- and family-type in Tokyo 23-ku changed by +2.0%, +3.3%, and +1.3% y-o-y, respectively.



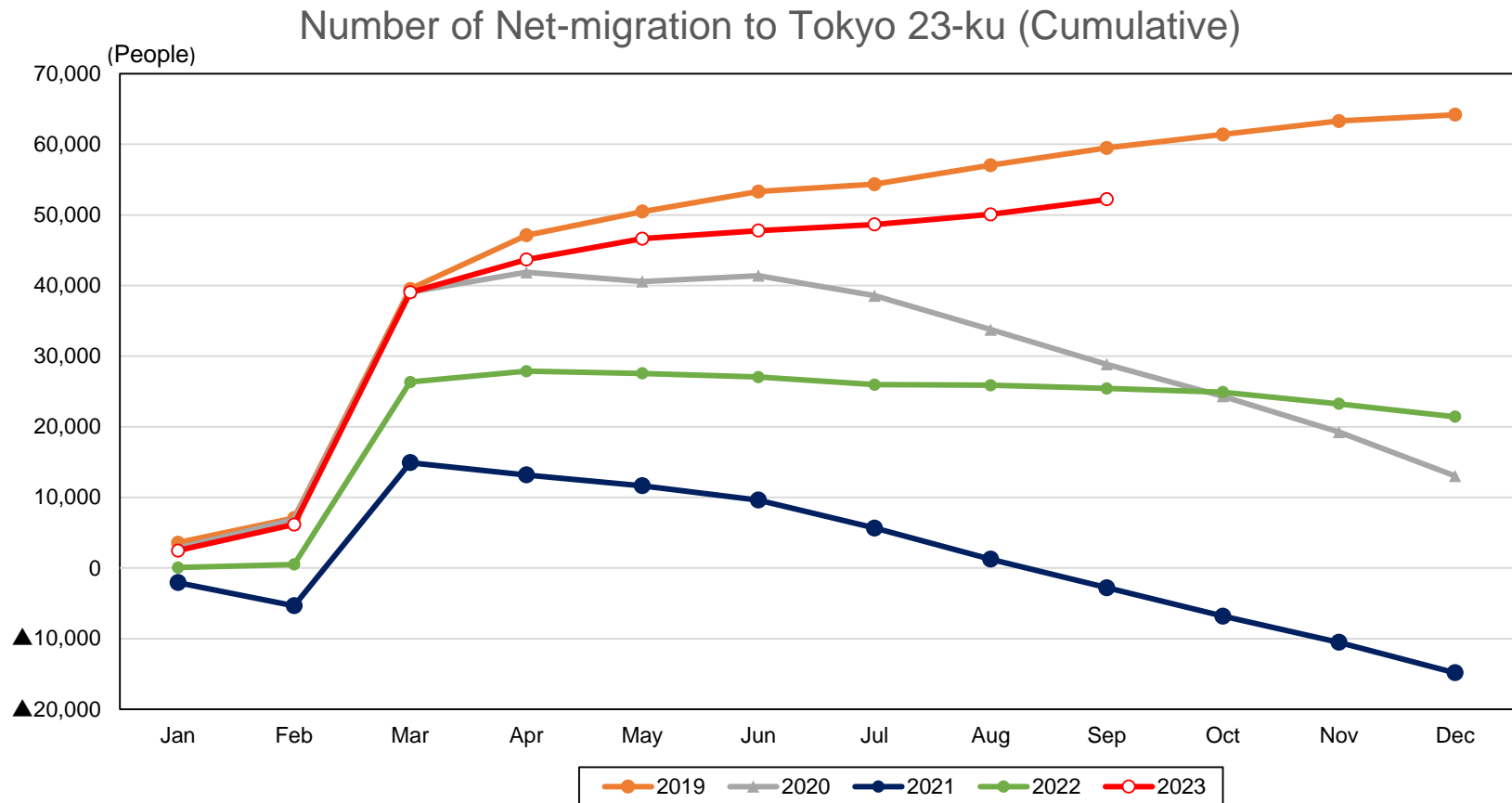
Source: Mitsui Sumitomo Trust Research Institute and At Home

Copyright © 2023 NLI Research Institute All rights reserved.

Population inflow trends to Tokyo is recovering, but still slightly below 2019 levels



- Population inflow to Tokyo was 52,208 in the first nine months of 2023, 12% below from the 2019 level.



Source: The Statistics Bureau of Japan

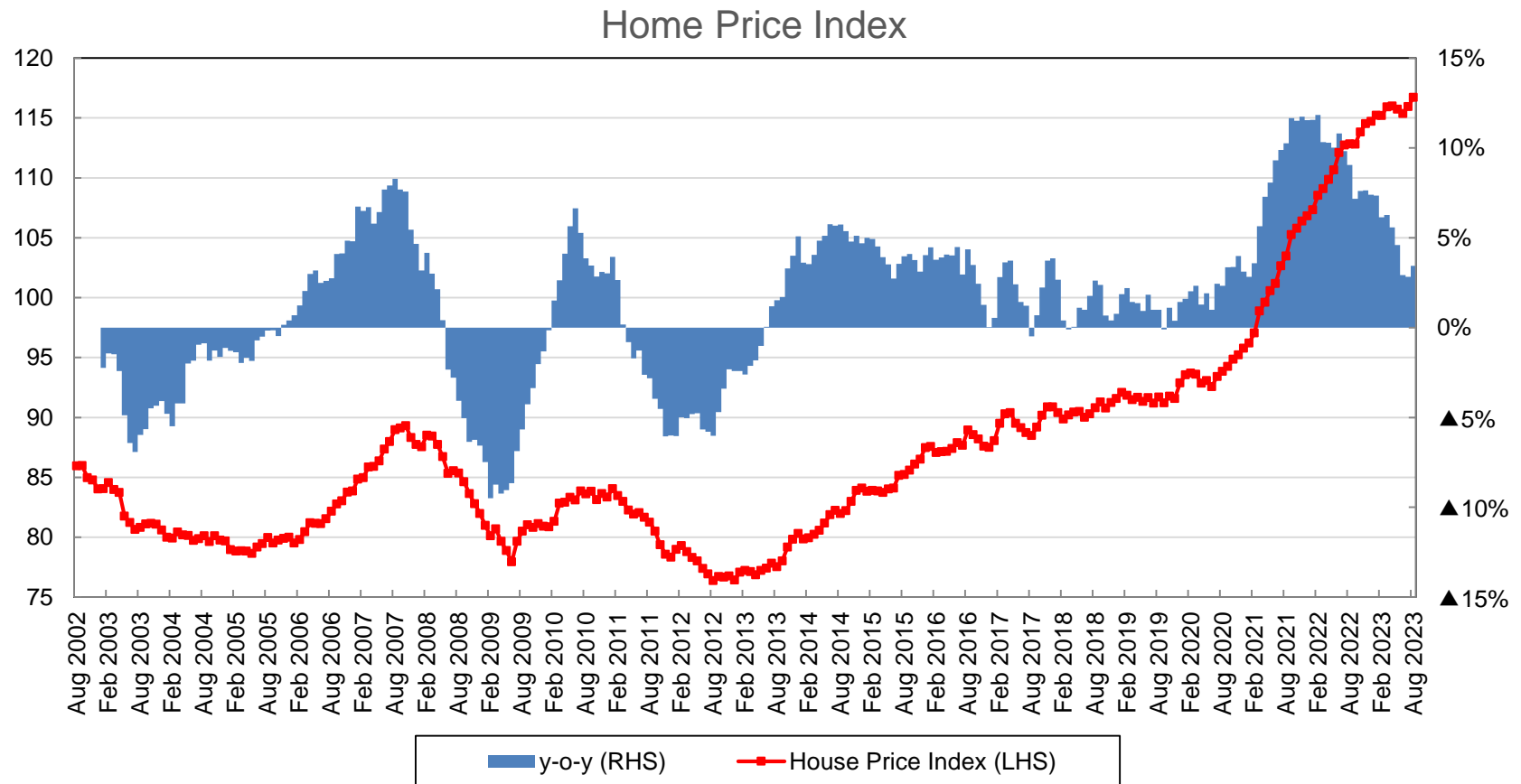
Copyright © 2023 NLI Research Institute All rights reserved.

Multifamily

Housing prices continued to increase supported by the recovery of sales



- Japan's home price rose by 3.4% y-o-y in August 2023.
- Existing condominium sales increased by 4.3% y-o-y in Q3 2023, the first increase in nine quarters.



Source: Japan Real Estate Institute

Copyright © 2023 NLI Research Institute All rights reserved.

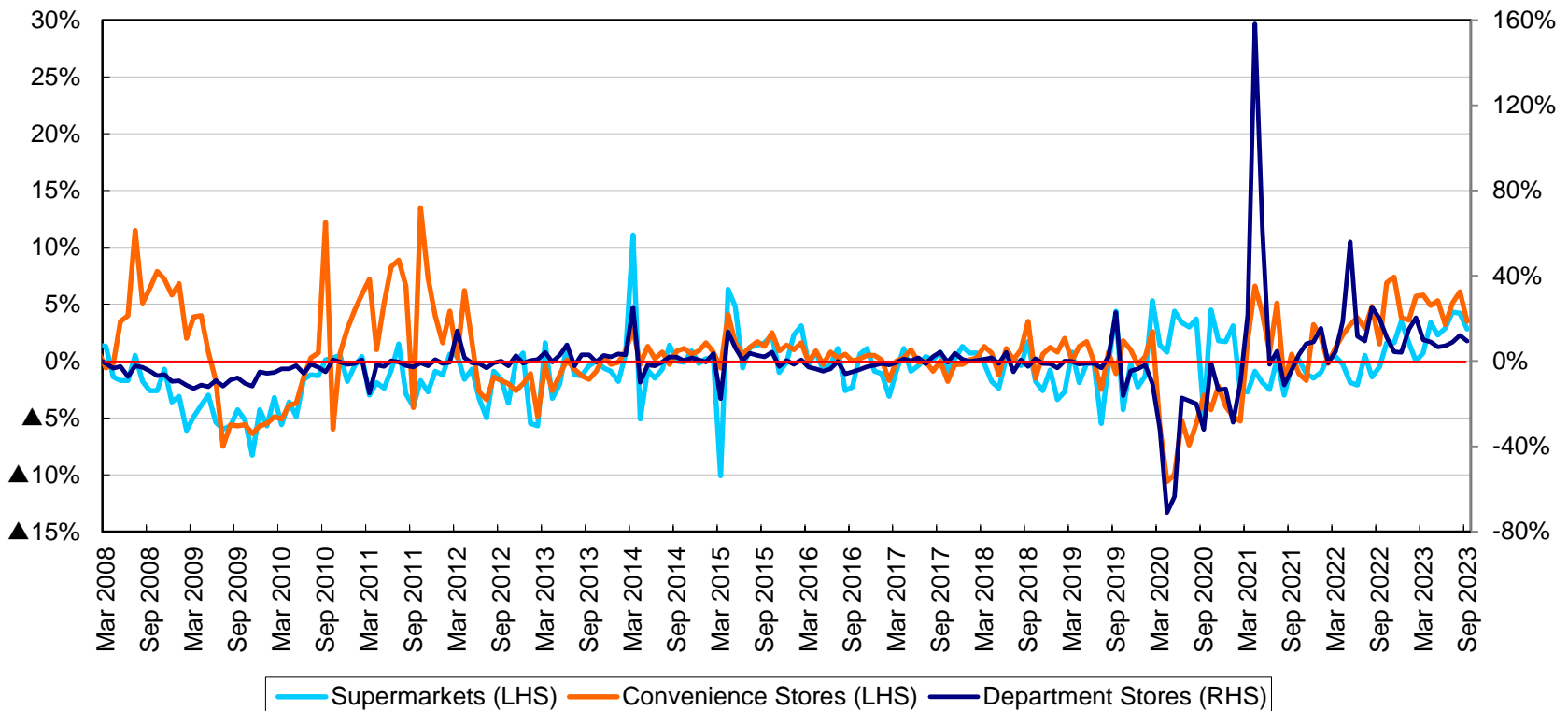
Retail is experiencing an increase in sales due to robust inbound consumption, with department stores particularly benefiting



- In Q3 2023, sales of department stores, convenience stores, and supermarkets increased by 10.0%, 4.9%, and 3.8%, respectively, driven by the consumption of inbound tourists.

Retail Sales Growth

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



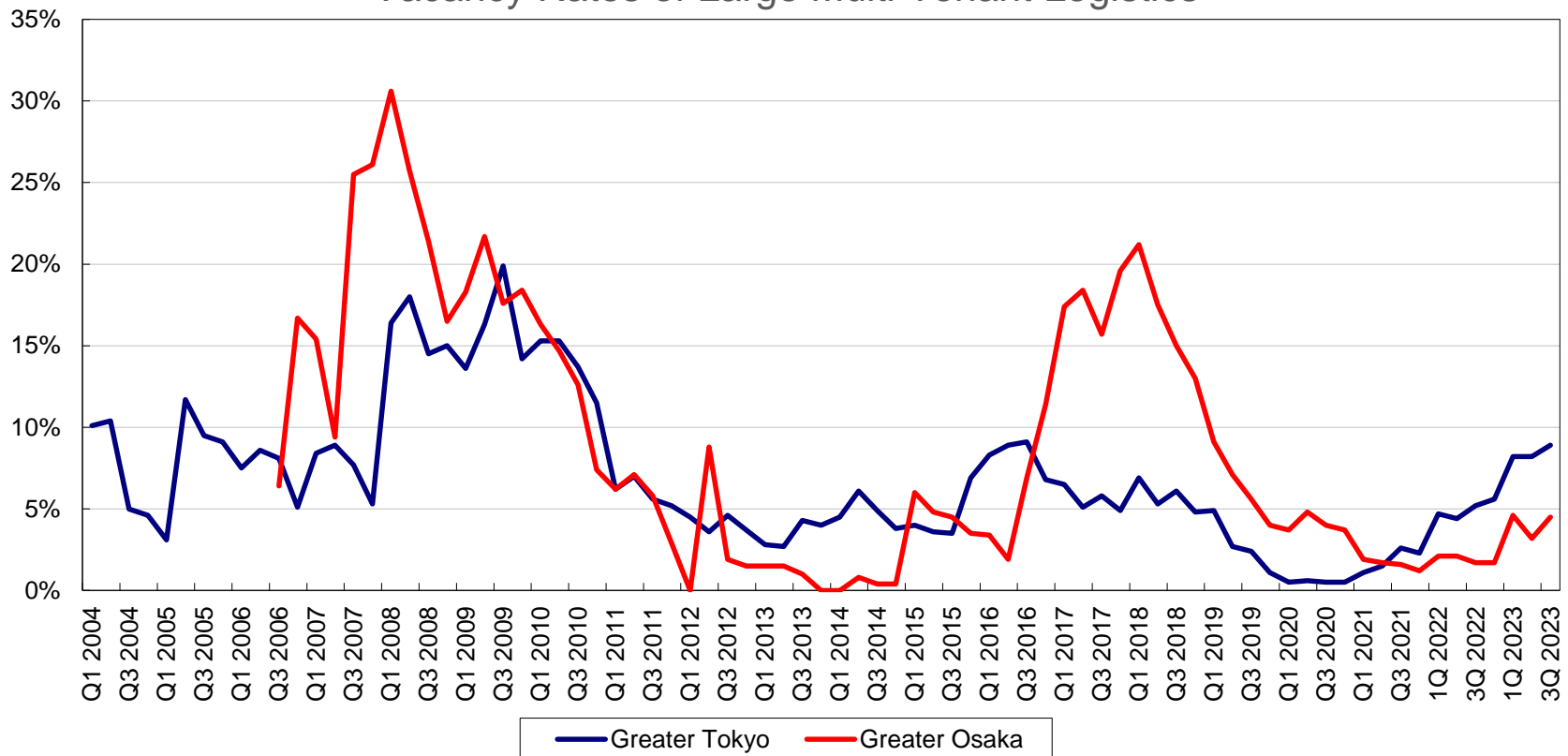
Source: The Ministry of Economy, Trade and Industry

Vacancy rates are rising in both Greater Tokyo and Greater Osaka due to new supply



- In Q3 2023, vacancy rates in Greater Tokyo increased to 8.9% from 8.2 in the previous quarter. New supply remained high at 234,000tsubo.
- In Greater Osaka saw vacancy rates rose to 4.5% from 3.2% in the previous quarter, due to new supply.

Vacancy Rates of Large Multi-Tenant Logistics



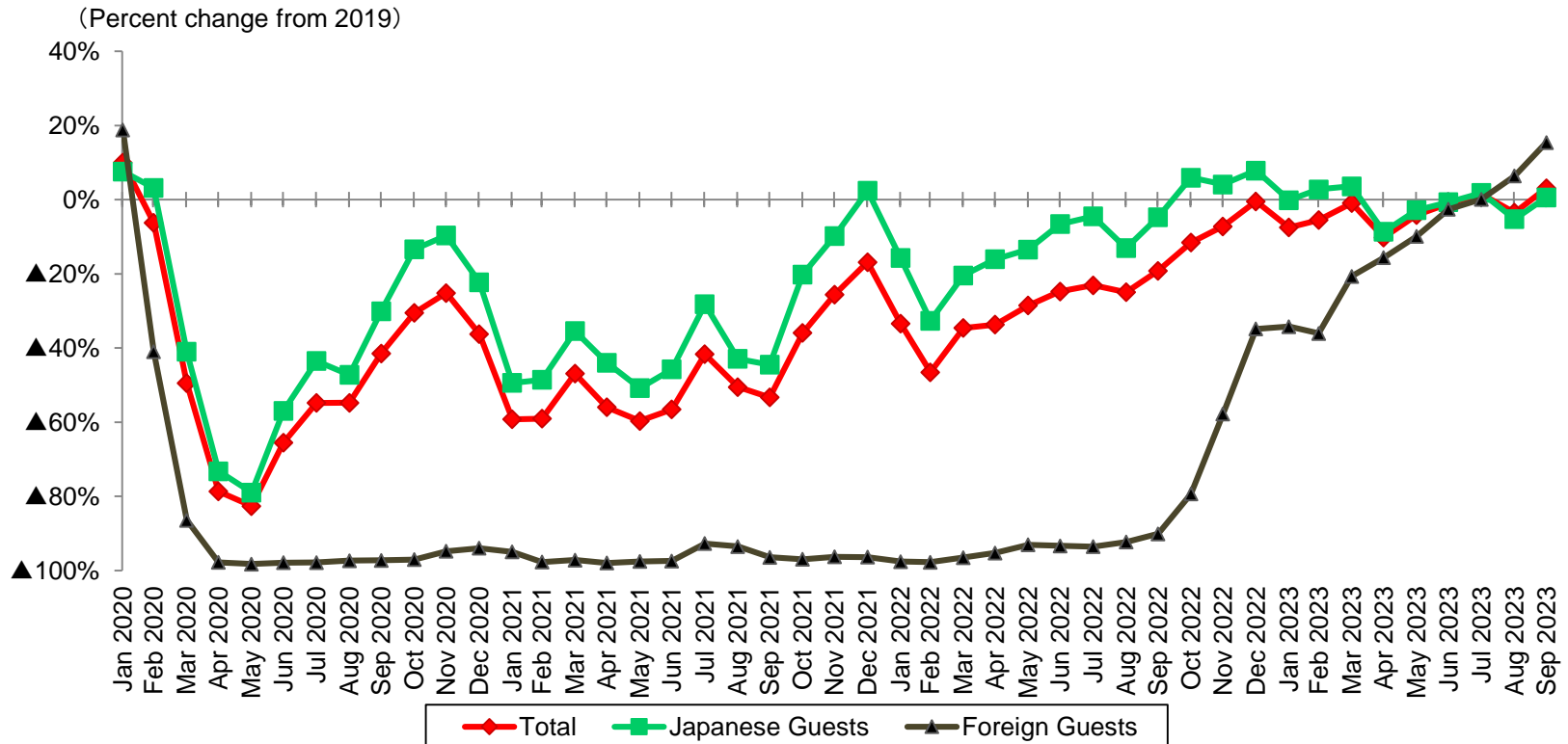
Source: CBRE

Inbound tourism is experiencing a rapid rebound despite the stagnant recovery of Chinese tourists, particularly those traveling in groups



- The total number of overnight stays recovered pre-COVID level in Q3 2023, of which Japanese and foreigners were -1.4% and -6.6%, respectively.
- According to STR, hotel RevPAR was +14.2% in Tokyo and +20.6% in Osaka in September 2023 from the corresponding month in 2019.

Total Numbers of Overnight Stays



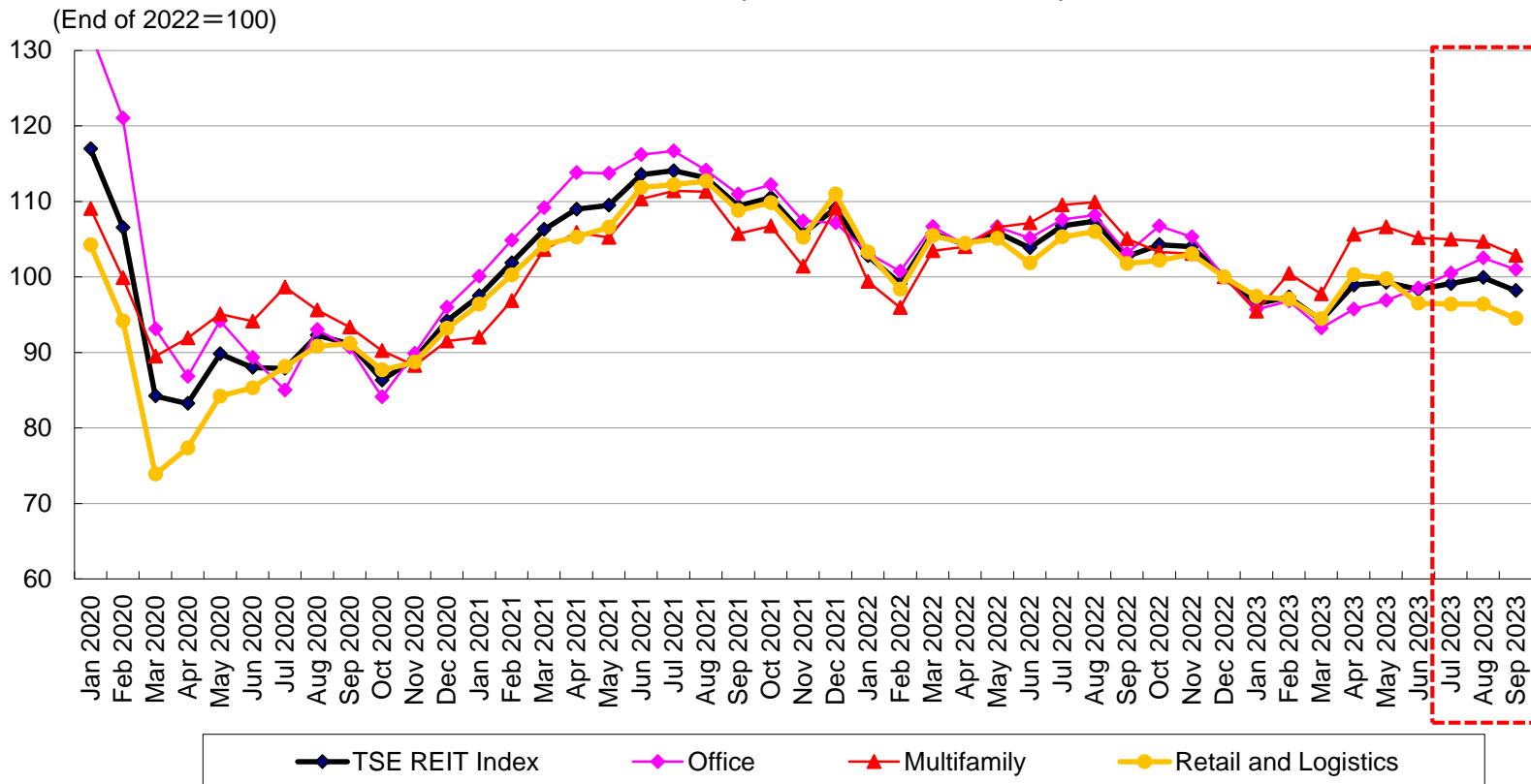
Source: Japan Tourism Agency

The stagnant J-REIT market has resulted in a widening performance gap with the stock market



- J-REIT Index decreased by 0.1% q-o-q in Q3 2023, trading at a price to NAV ratio of 0.93x, dividend yield at 4.2%, and dividend and JGB spread at 3.4% in September 2023.

J-REIT Index (TSE REIT Index)



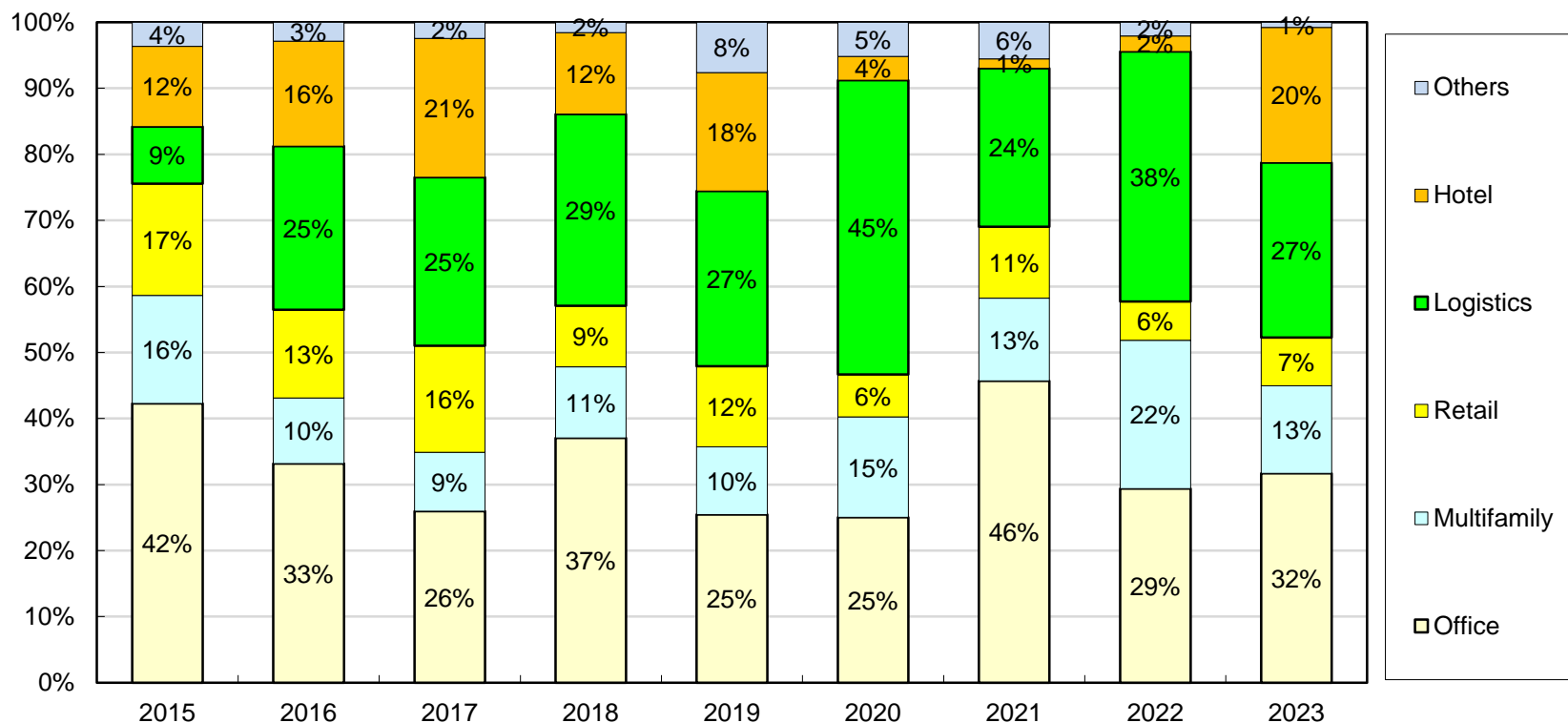
Source: Tokyo Stock Exchange

Hotel acquisitions grew significantly on the back of recovering inbound demand



- J-REITs acquired property assets totaling JPY299 billion in Q3 2023 (186% increase y-o-y).
- Office sector led the acquisitions by J-REITs, followed by logistics, hotels, multifamily, retail, and others.

J-REIT Asset Acquisitions by Sector as a % of total J-REIT Acquisitions



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

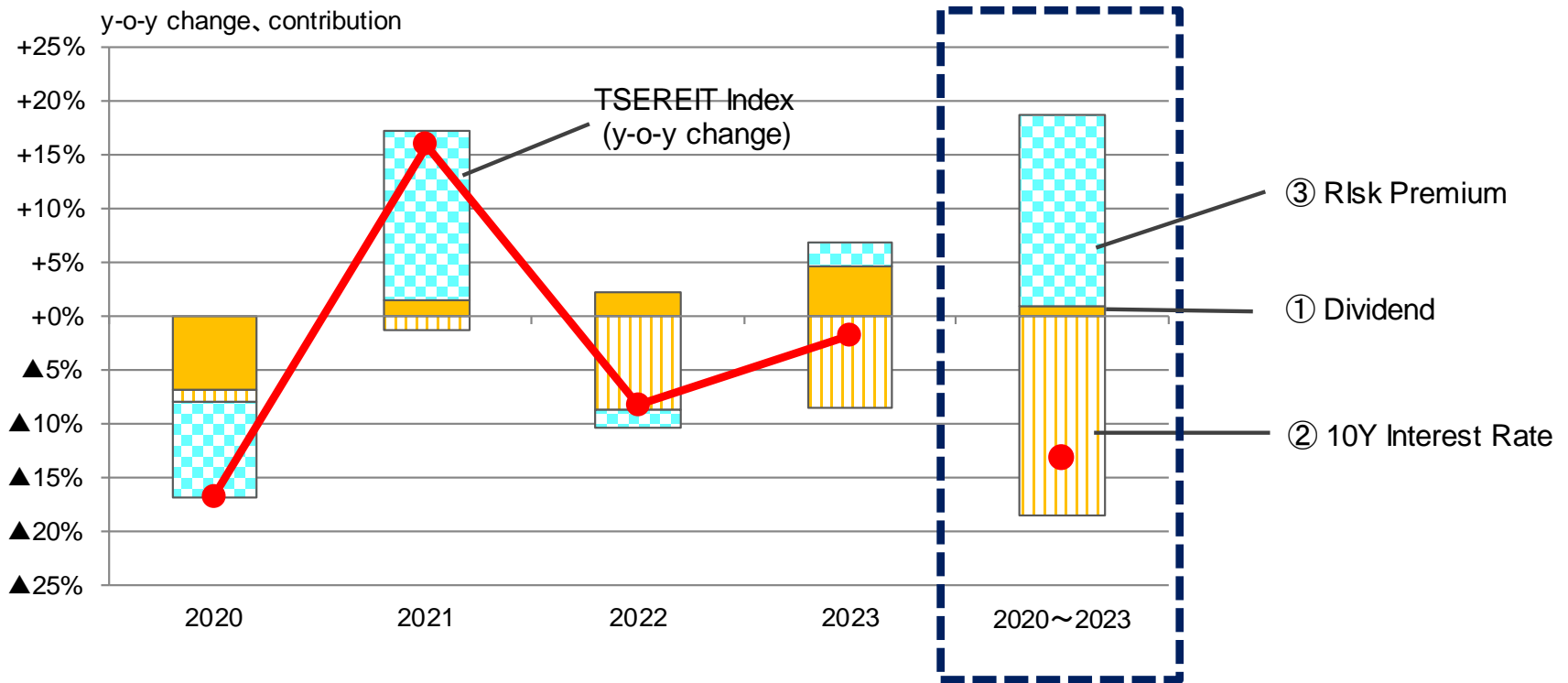
Source: Disclosure Documents



Rising interest rates weigh on J-REIT market

- From 2020 to 2023, dividends contributed +1%, risk premium +4%, and 10-year interest rates -18% to the price of J-REITs.

Contribution analysis of TSEREIT Index



Source: NLI Research Institute



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:

Tasuku Yoshida and Makoto Sakuma