



RESEARCH

Japan Real Estate Market Quarterly Review

Fourth Quarter 2023

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Summary

Macro Economy

- Japan's real GDP is expected to increase by 0.2% q-o-q (annualized 0.9% decrease) in Q4 2023, the first positive growth in two quarters.
- Japan's real GDP is expected to expand by 1.5% in FY2023, 1.3% in FY2024, and 1.1% in FY2025.

Real Estate Market

- Tokyo office market shows signs of bottoming out, but too early to tell if rents will rebound
- In Tokyo 23-ku, multifamily rents continue to increase in all types
- Retail sales continue to increase driven by inbound consumption and high-end spending
- Population inflow trends to Tokyo recovered to the pace slightly below 2019 levels
- The number of guests exceeded the level pre-COVID, driven by strong inbound demand
- Vacancy rates are rising in both Greater Tokyo and Greater Osaka

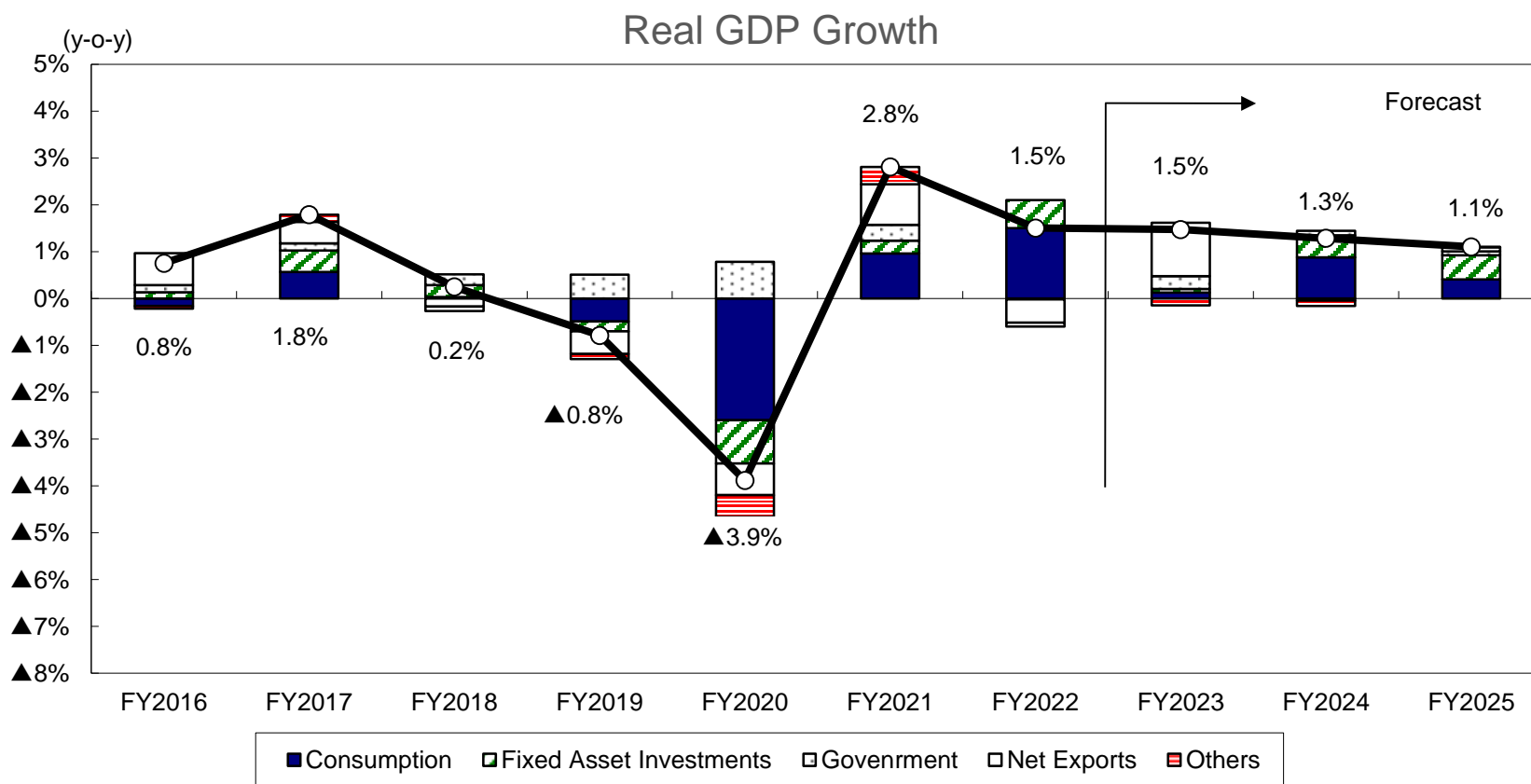
Capital Market

- J-REIT Index decreased by 2.8% q-o-q in Q4 2023, trading at a price to NAV ratio of 0.89x, dividend yield at 4.3%, and dividend and JGB spread at 3.7% in December 2023
- In 2023, J-REIT's acquisitions increased by 25% y-o-y, exceeding the ¥1 trillion mark for the first time in two years

The pace of economic recovery is expected to remain moderate



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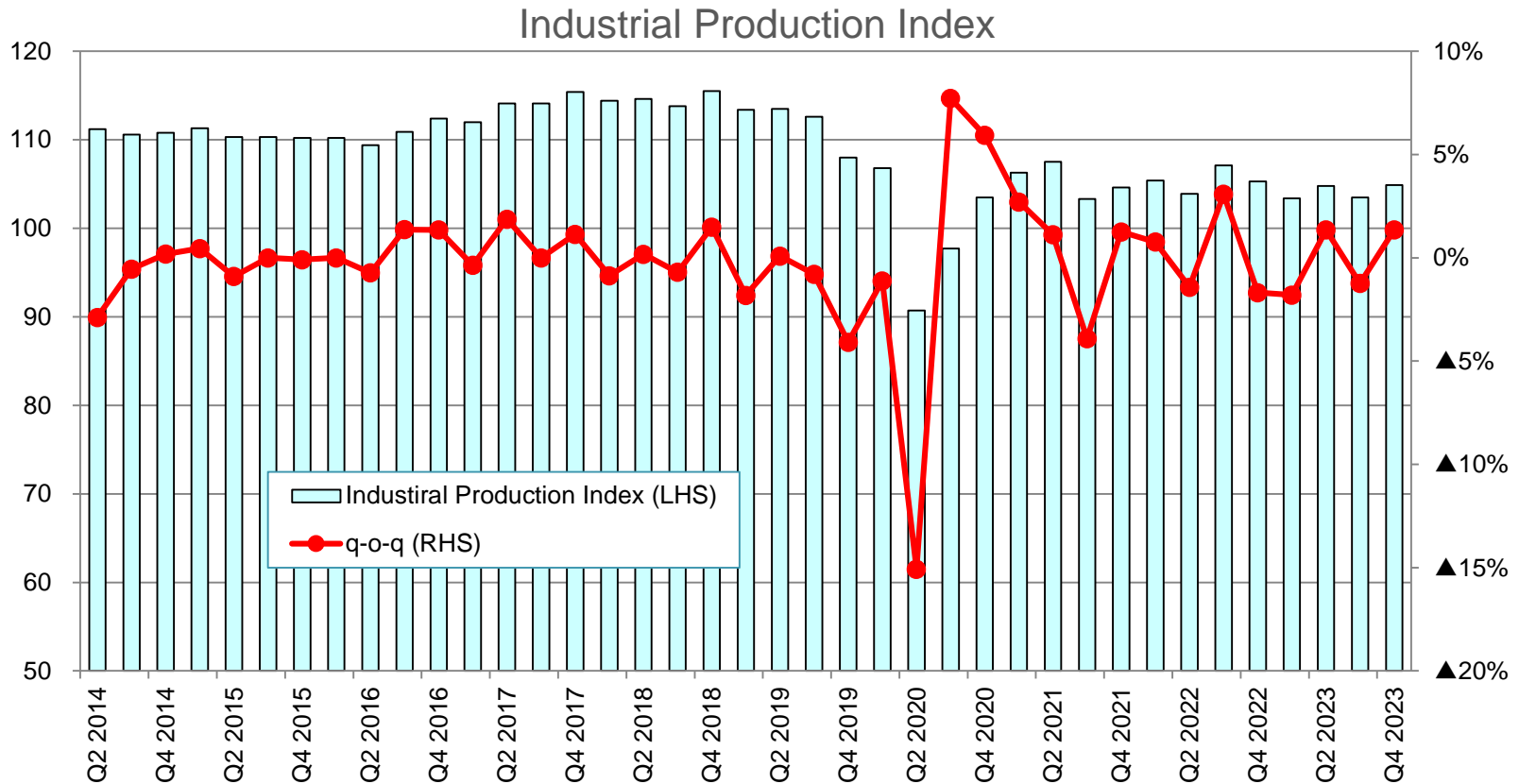


Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2023) "Weekly Economist Letter" NLI Research Institute, December, 2023.



Industrial production continues fluctuate within a range

- Industrial production increased by 1.4% q-o-q in Q4 2023, the first increase in two quarters.
- By Industry, “Automobile” increased by +3.3%, buoyed by easing supply constraints, and “Electronic parts and devices” increased by +6.7% due to progress in inventory adjustment.



Source: The Ministry of Economy, Trade and Industry

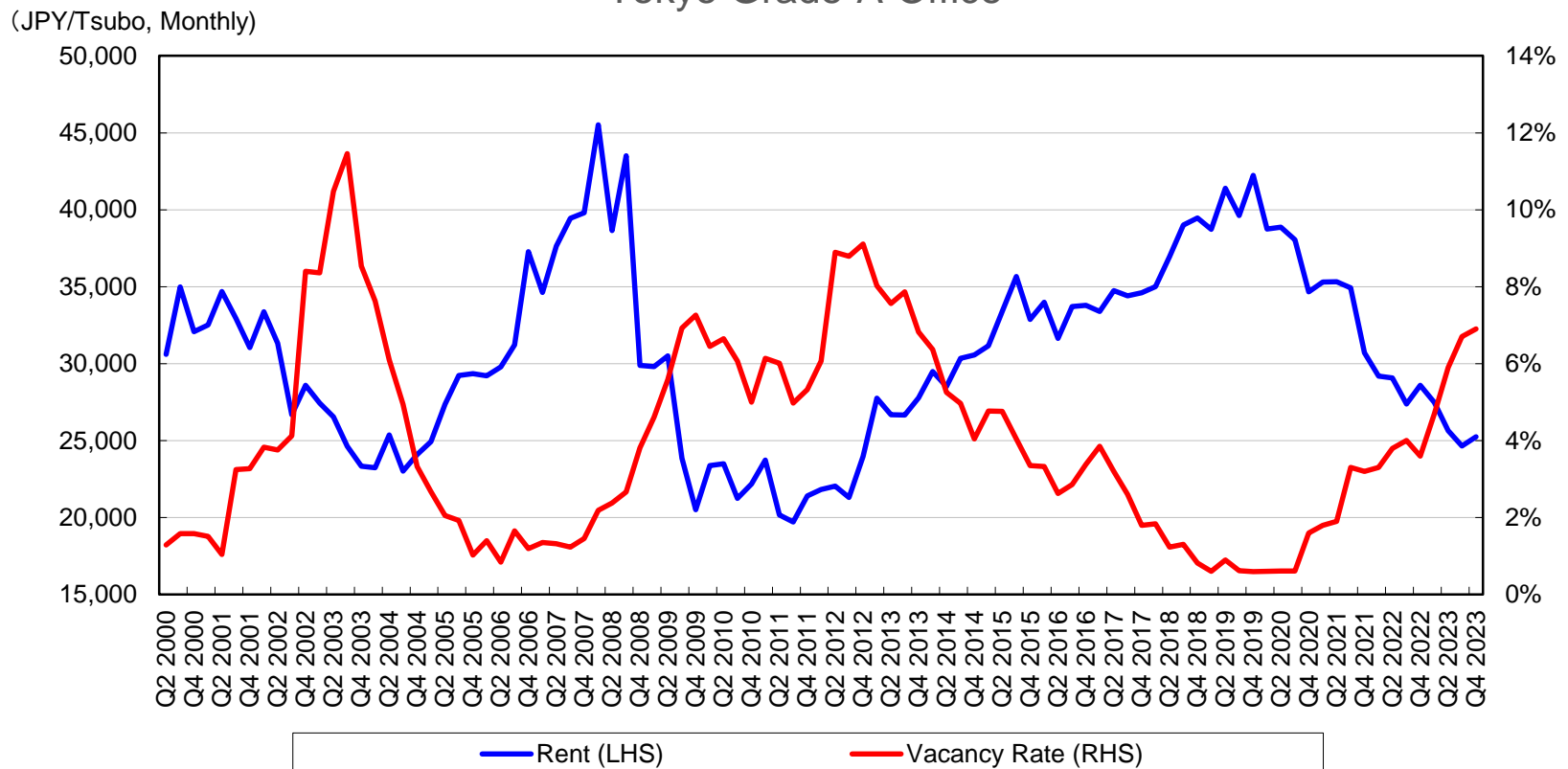
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Tokyo office market shows signs of bottoming out, but it is too early to tell if rents will rebound in 2024



- Tokyo grade-A office rents were JPY25,240/tsubo in Q4 2023, the first increase in four quarters (2.4% q-o-q).
- Vacancy rates increased to 6.9% in Q4 2023 from 6.7% 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)

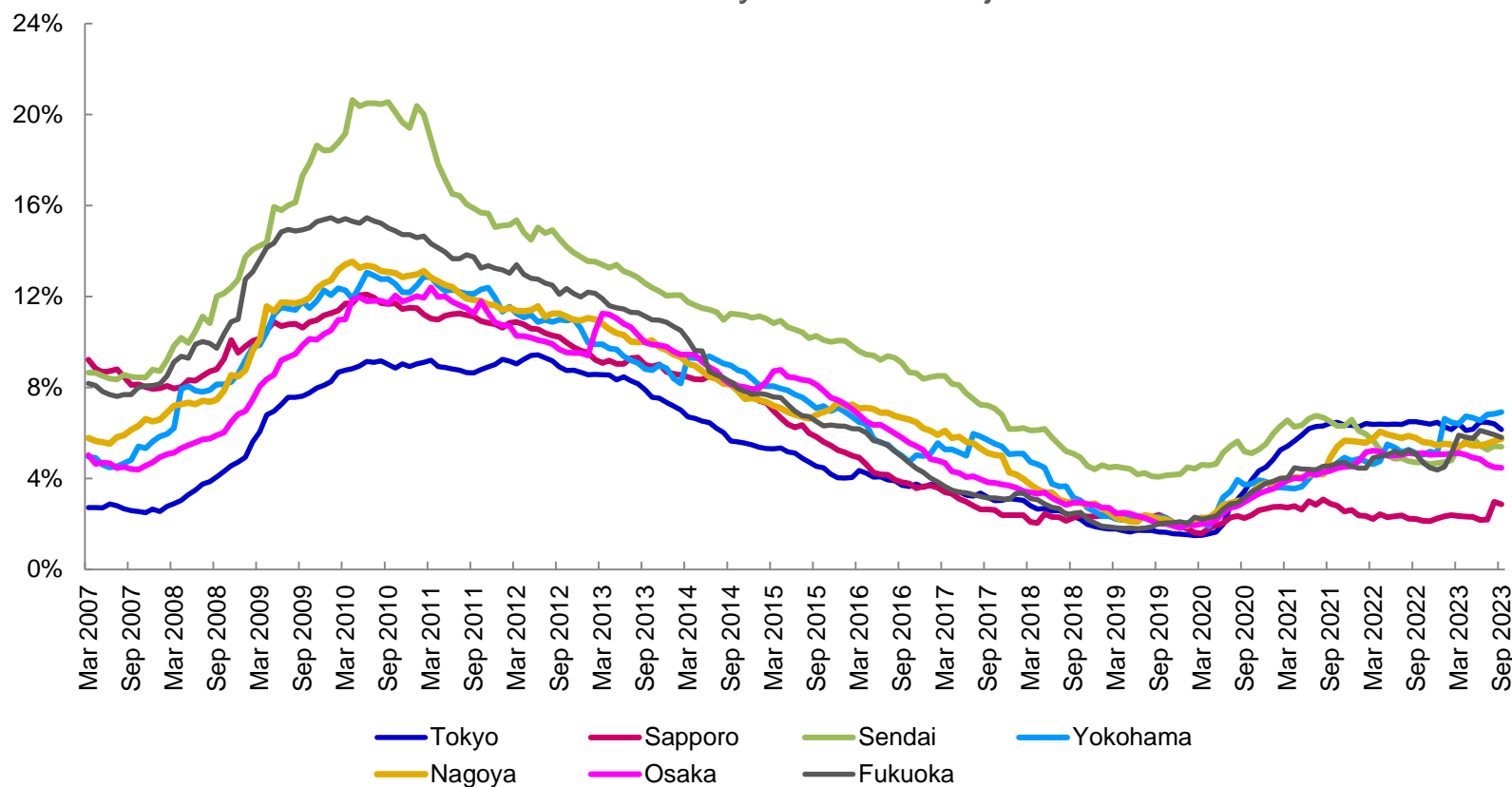
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Regional office markets started to show a more mixed pattern, mainly due to the difference in new supply



- In Q4 2023, vacancy rates increased in Sendai by +0.9% (vacancy rate: 6.3%) and Sapporo by +0.3% (3.2%), but decreased in Fukuoka by -0.6% (5.2%), Osaka by -0.4% (4.1%), Nagoya by -0.2% (5.5%), Yokohama by -0.1% (6.8%), and Tokyo by -0.1% (6.0%).

Office Vacancy Rates in Major Cities



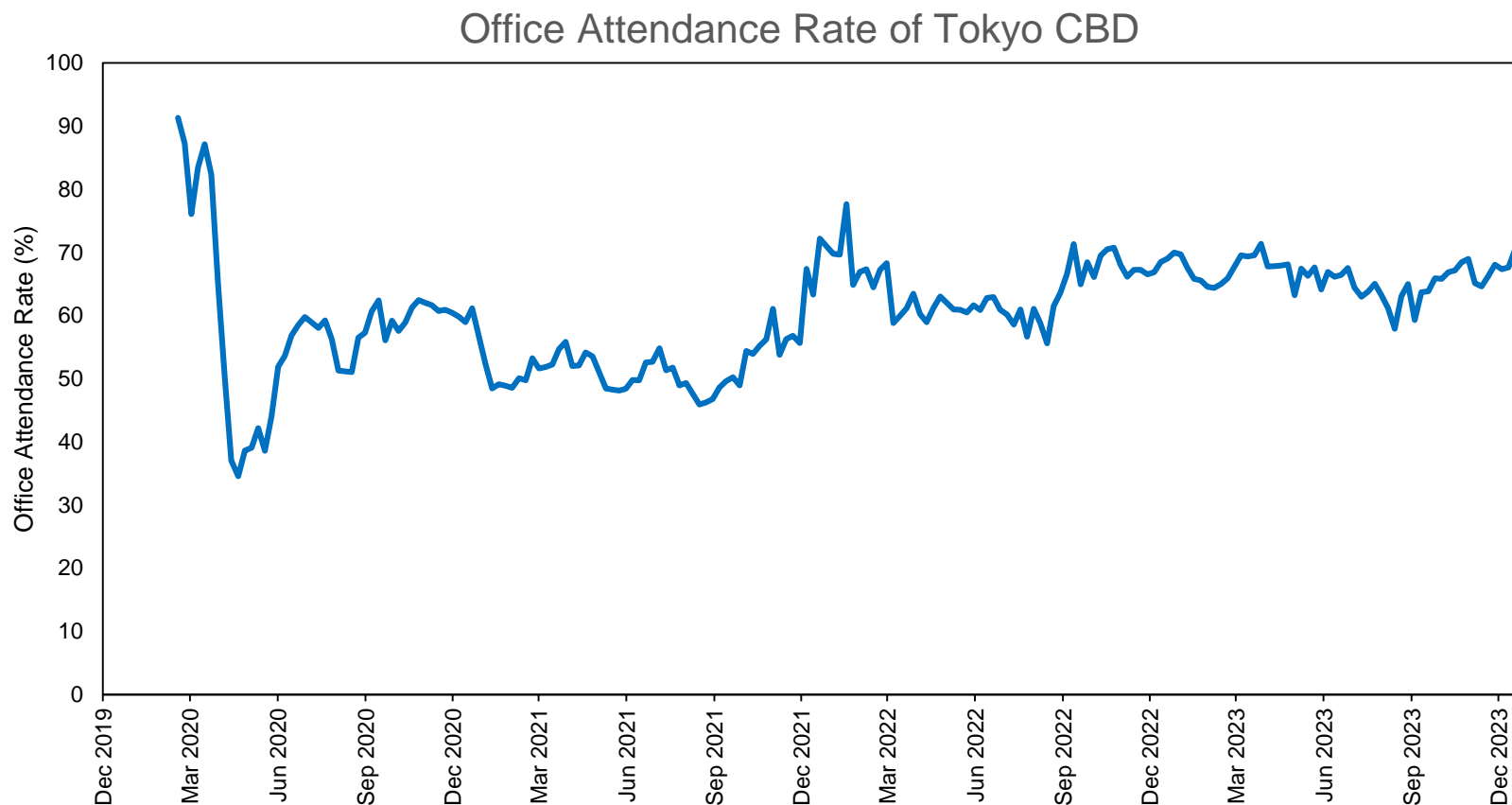
Source: Miki Shoji

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Although Japan stepped into the post-COVID phase in 2023, the pace of return-to-office remained modest in Tokyo



- In Tokyo CBD, the office attendance rate was 69% in December 2023, the same level as last year

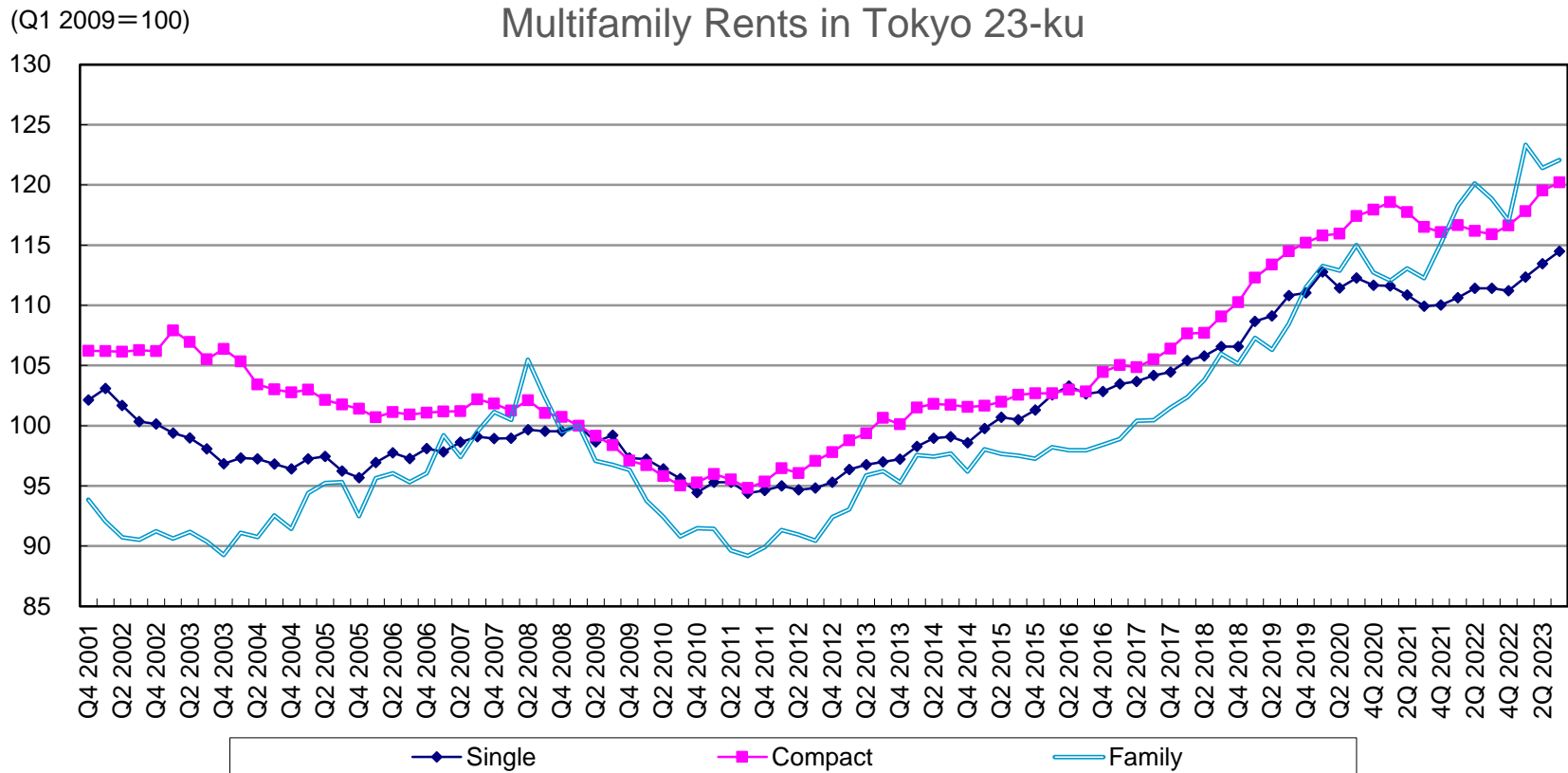


Source: X-locations and NLI Research Institute

In Tokyo 23-ku, multifamily rents continue to increase in all types



- In Q3 2023, multifamily rents of single-, compact- and family-type in Tokyo 23-ku changed by +3.1%, +4.3%, and +3.2% y-o-y, respectively.

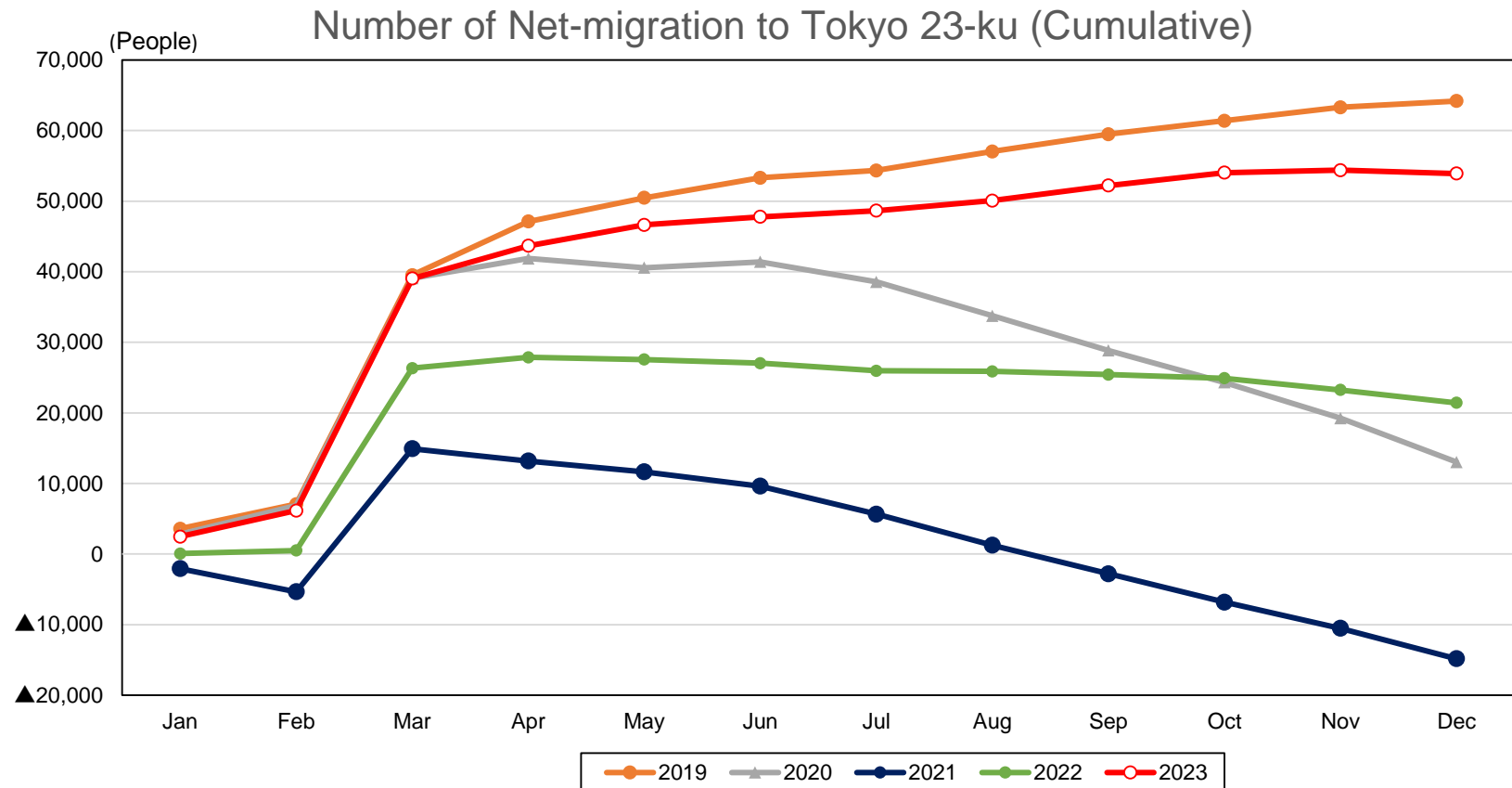


Multifamily

In 2023, population inflow trends to Tokyo recovered to a pace slightly below 2019 levels



- Population inflow to Tokyo was 53,889 in 2023, 16% below from the 2019 level.



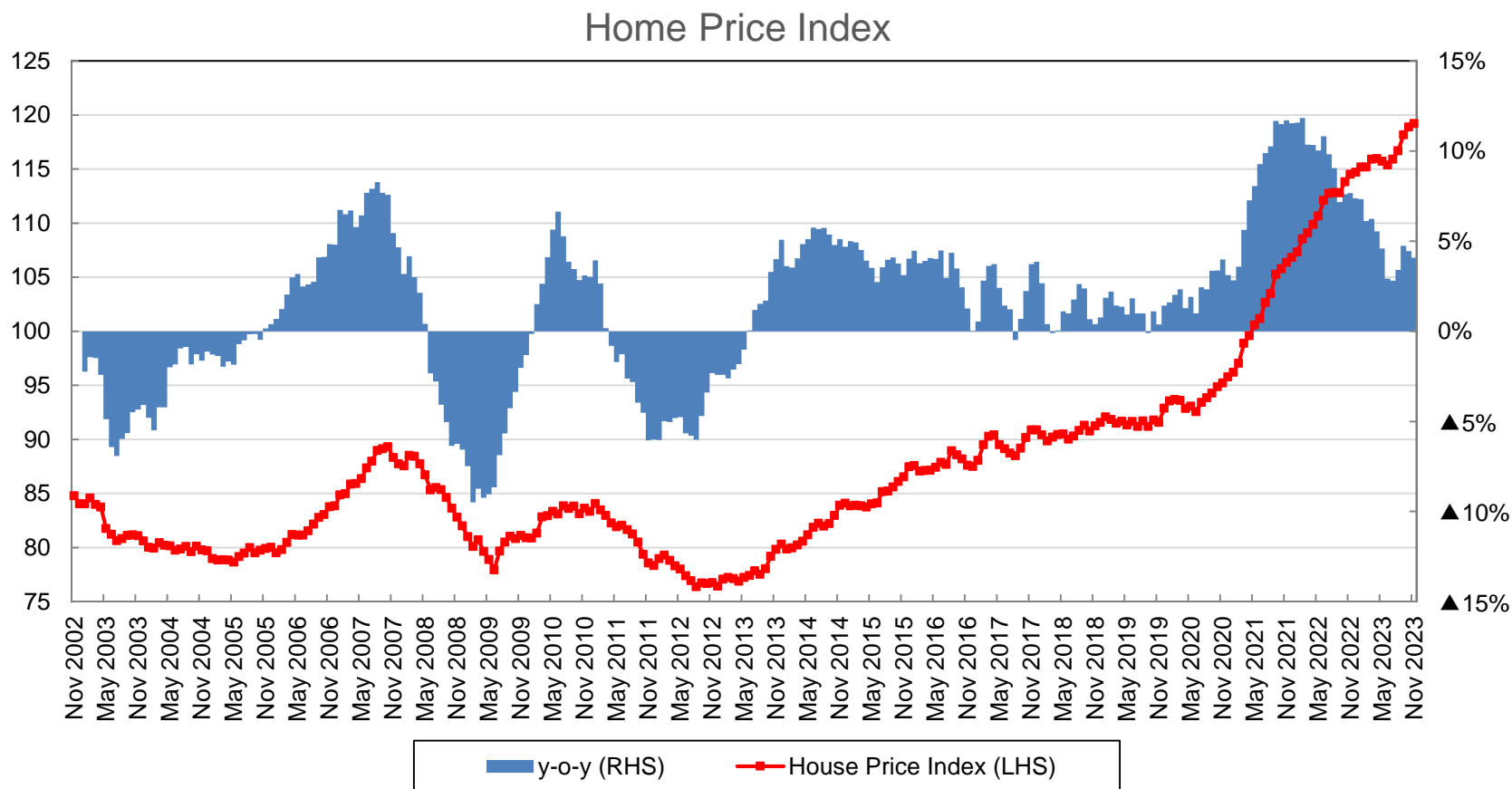
Source: The Statistics Bureau of Japan

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Housing prices continued to elevate



- Japan's home price rose by 4.1% y-o-y in November 2023.
- In 2023, the average new condominium price in Tokyo 23-ku exceeded ¥100 mil for the first time (¥114.8 mil).



Source: Japan Real Estate Institute

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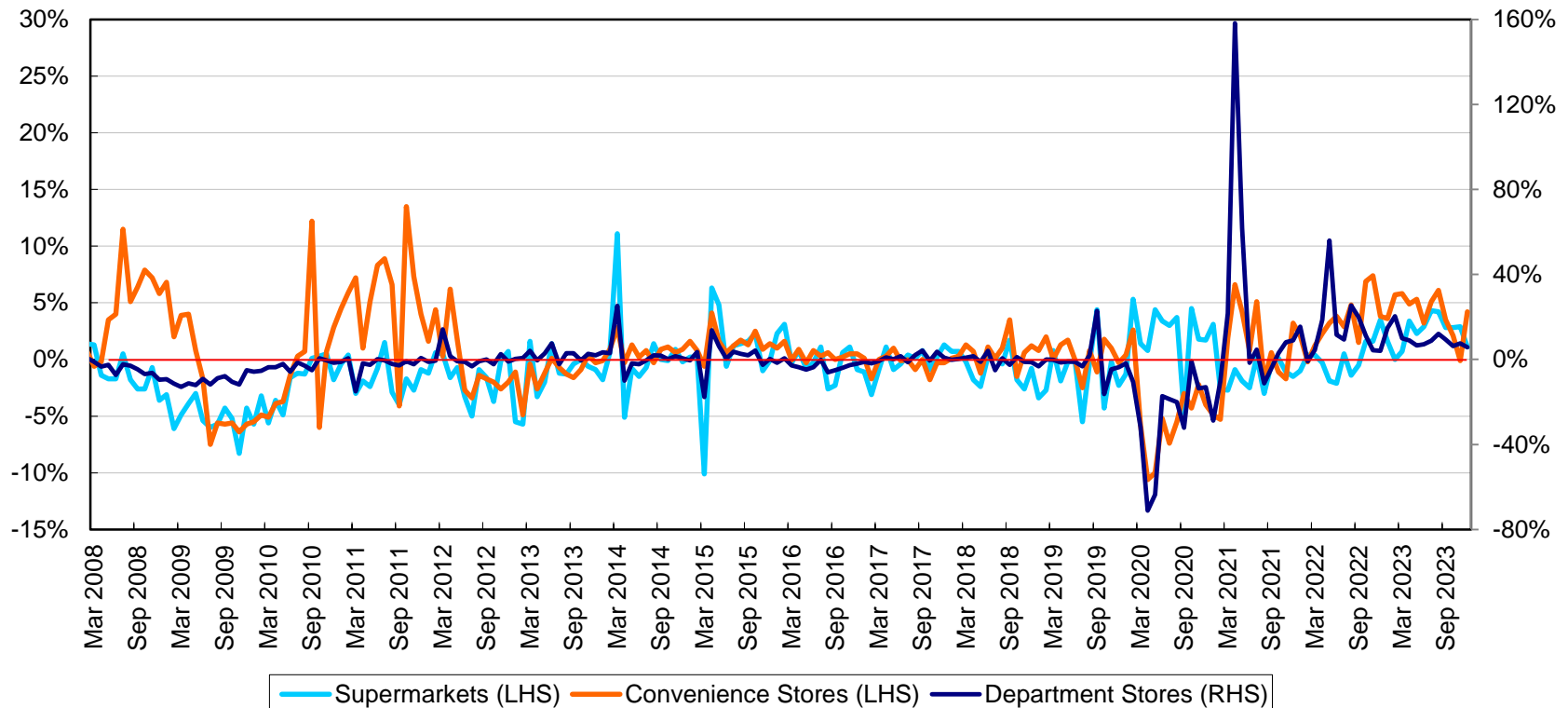
Retail sales are increasing, especially in department stores, where inbound consumption and high-end spending are strong



- In Q4 2023, sales of department stores, convenience stores, and supermarkets increased by 6.5%, 2.1%, and 2.2%, respectively, driven by the consumption of inbound tourists.

Retail Sales Growth

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



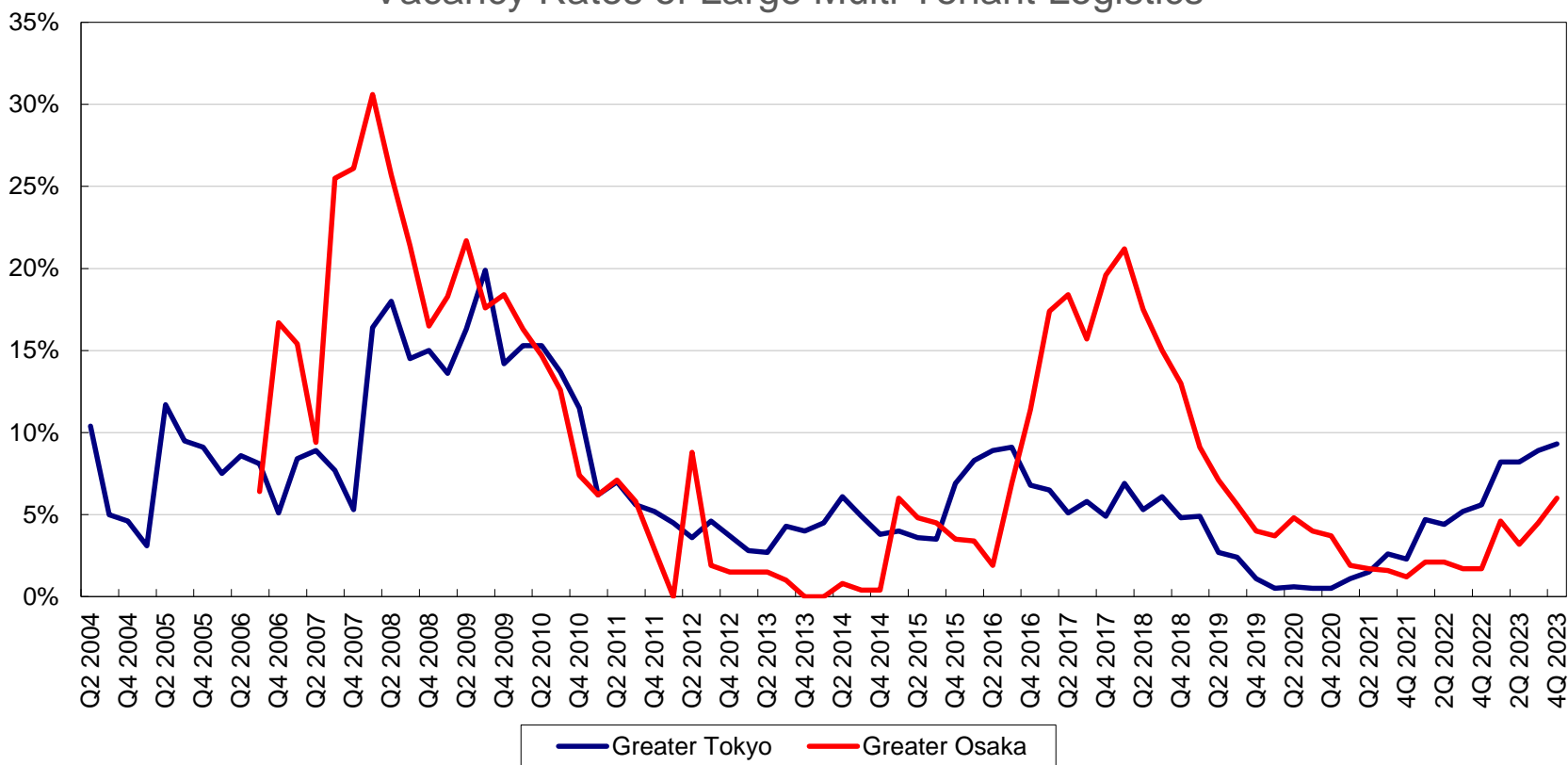
Source: The Ministry of Economy, Trade and Industry

Vacancy rates are rising in both Greater Tokyo and Greater Osaka



- In Q4 2023, vacancy rates in Greater Tokyo increased to 9.3% from 8.9% in the previous quarter. New supply remained high at 234,000 tsubo.
- In Greater Osaka saw vacancy rates rose to 6.0% from 4.5% in the previous quarter, due to new supply.

Vacancy Rates of Large Multi-Tenant Logistics



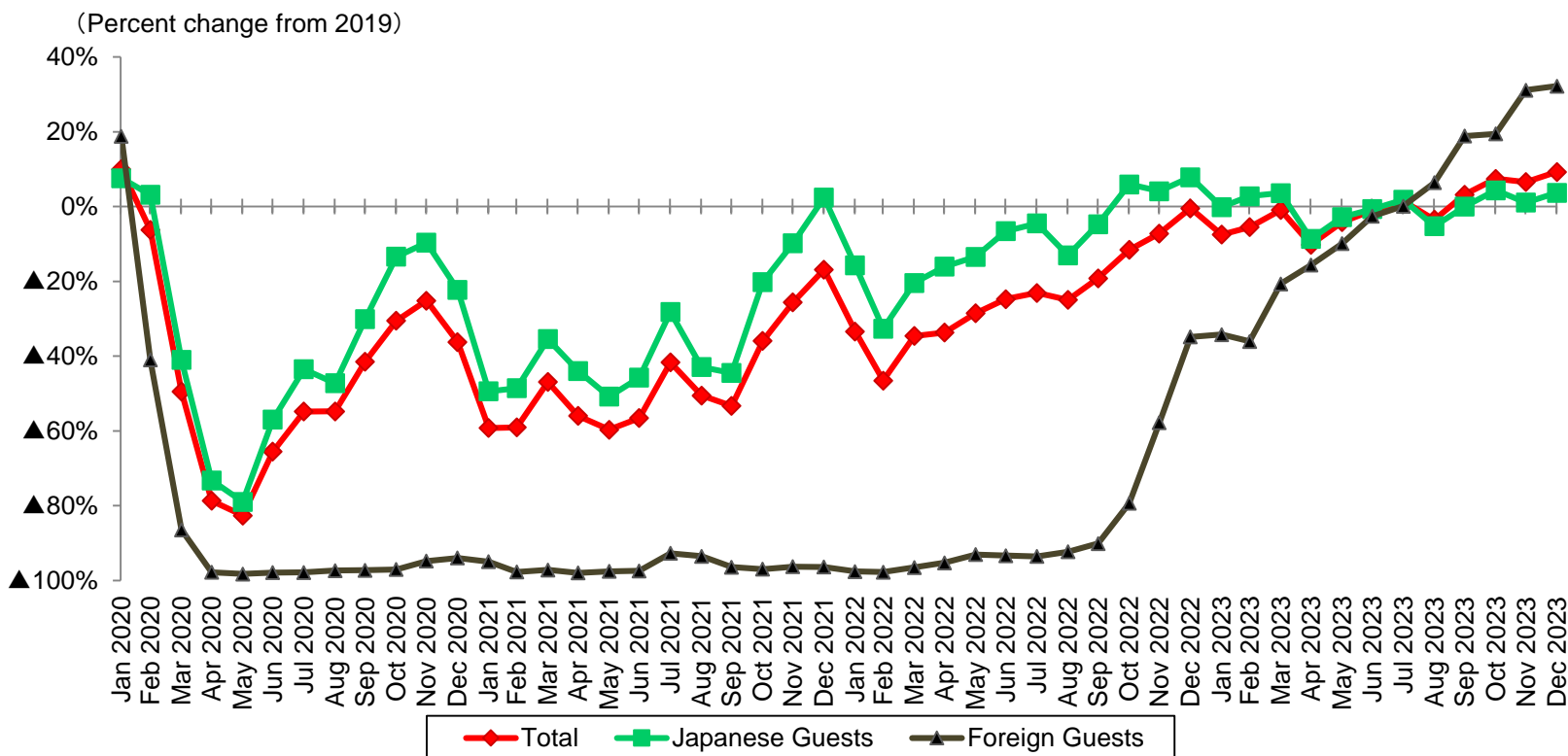
Source: CBRE

The number of guests exceeded the level before the COVID-19 pandemic, driven by strong inbound demand



- In Q4 2023, the total number of overnight stays was +7.7 compared to the same period in 2019, of which Japanese and foreigners were +3.0% and +27.3%, respectively.
- According to STR, hotel RevPAR was +37.1% in Tokyo and +48.3% in Osaka in December 2023 from the corresponding month in 2019.

Total Numbers of Overnight Stays

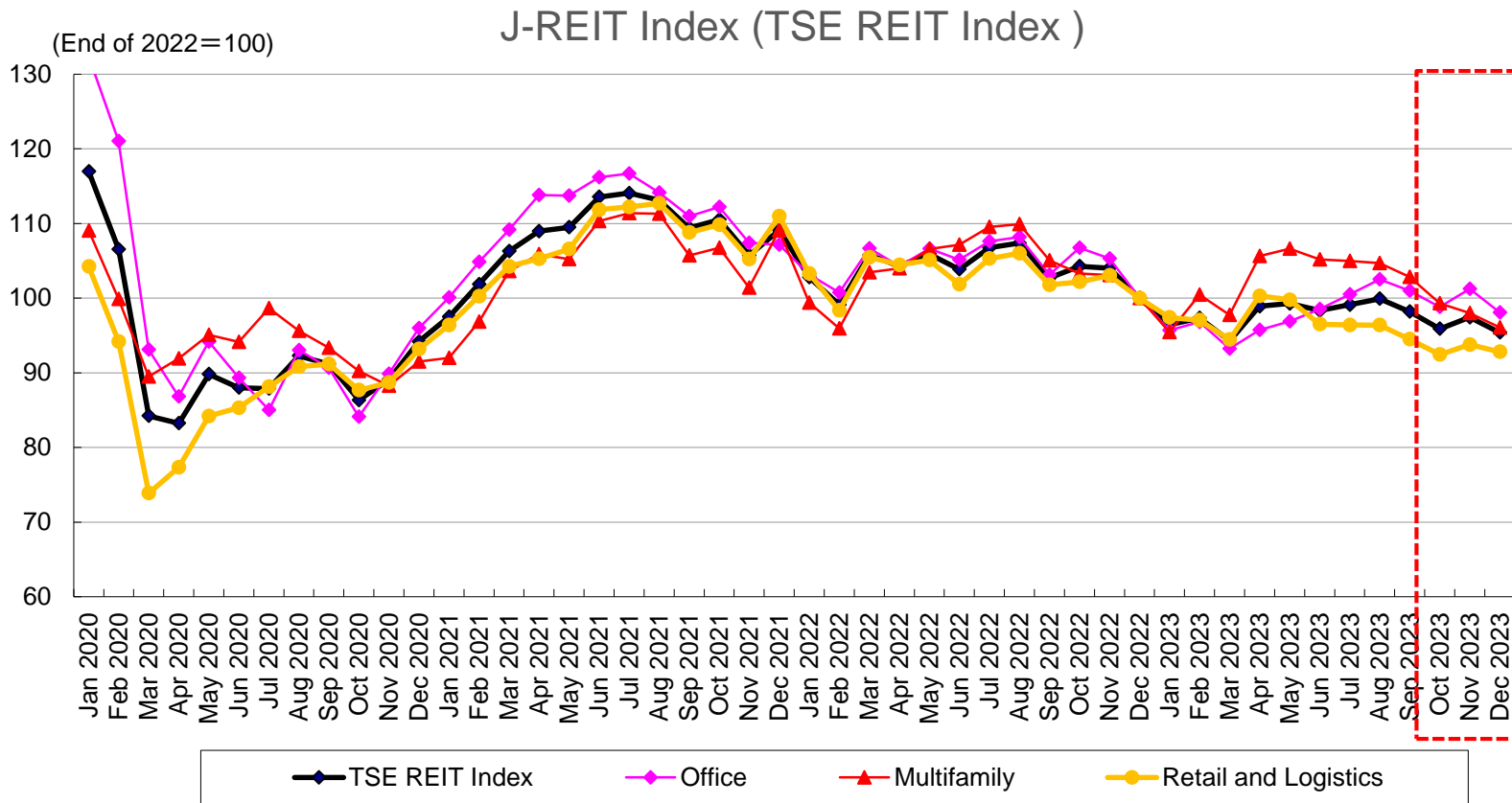


Source: Japan Tourism Agency

Growing concerns over the Bank of Japan's monetary policy revisions weighed J-REIT prices



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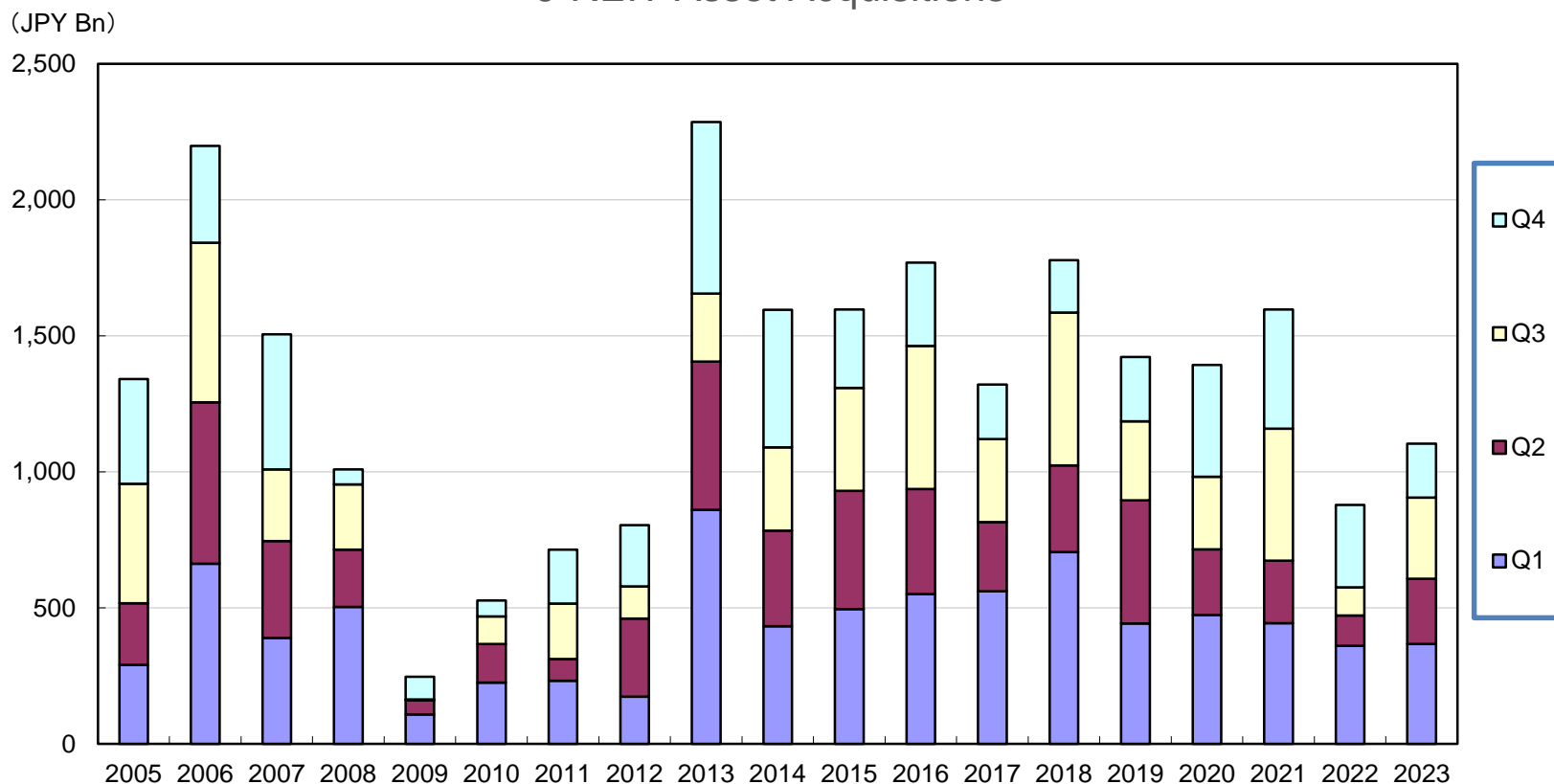
Source: Tokyo Stock Exchange

In 2023, J-REIT's acquisitions increased by 25% y-o-y, exceeding the ¥1 trillion mark for the first time in two years



- J-REITs acquired property assets totaling JPY199 billion in Q4 2023 (-34% decrease y-o-y).
- The office sector (33%) and logistics (22%) led the acquisitions by J-REITs, followed by hotels (19%), multifamily(16%), retail (7%), and others (2%).

J-REIT Asset Acquisitions



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

Source: Disclosure Documents



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