10th May 2024

Japan Real Estate Market Quarterly Review

First Quarter 2024

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Summary

Macro Economy

- In Q1 2024, Japan’s real GDP is expected to decrease by 0.4% q-o-q (annualized 1.6% decrease), the first negative growth in two quarters
- Japan’s real GDP is expected to expand by 1.3% in FY2023, 1.0% in FY2024, and 1.1% in FY2025

Real Estate Market

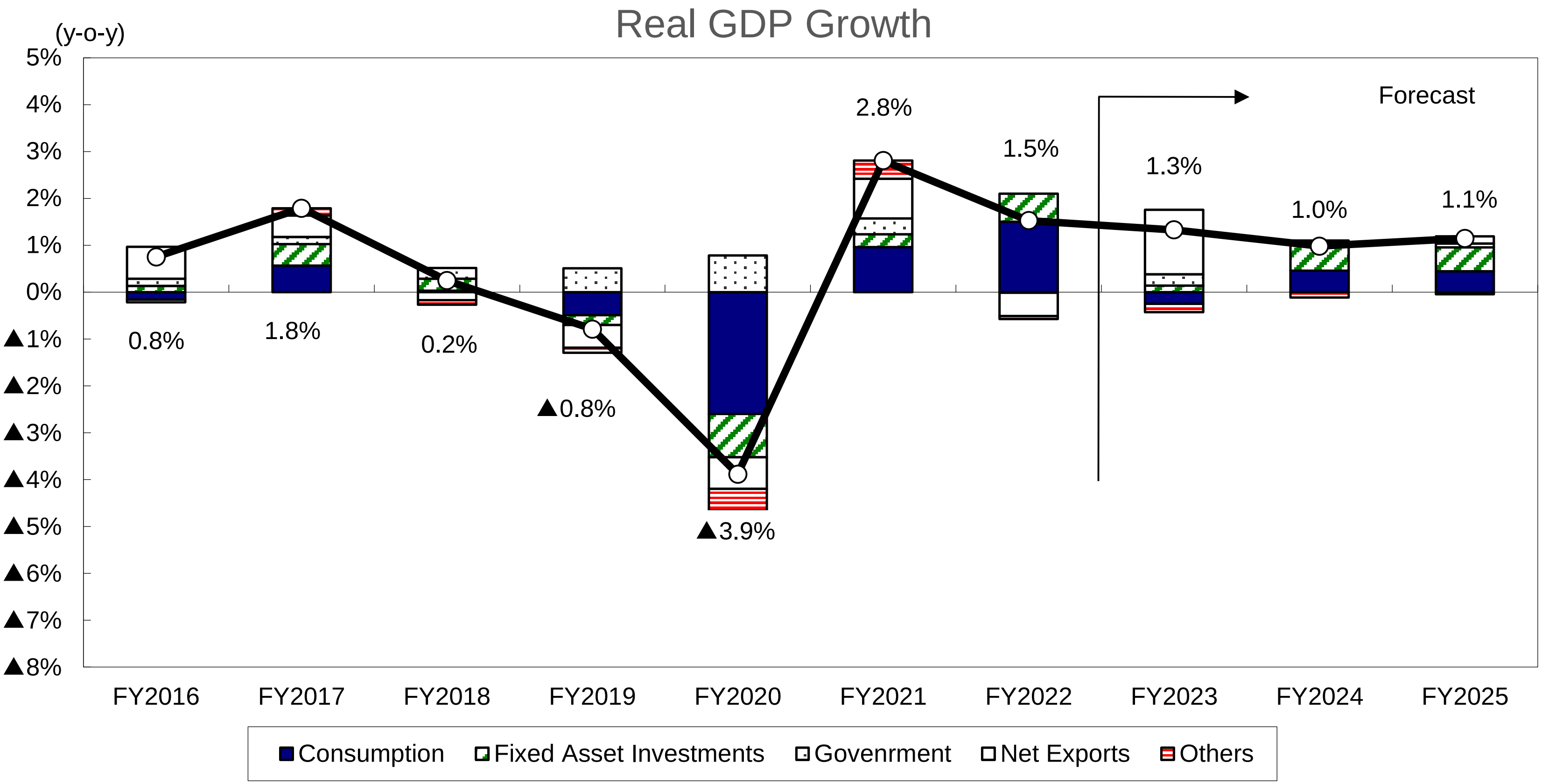
- Tokyo office market emerges from adjustment phase, showing signs of recovery
- In Tokyo 23-ku, multifamily rents continue to rise steadily
- Retail sales continue to increase, driven by robust inbound consumption, particularly in department stores
- The number of guests has consistently remained above pre-pandemic levels, resulting in significant improvements in hotel revenues
- Vacancy rates in Greater Tokyo logistics markets reached the highest level in 12 years since 2012

Capital Market

- J-REIT Index decreased by 0.7% q-o-q in Q1 2024, trading at a price to NAV ratio of 0.89x, dividend yield at 4.4%, and dividend and JGB spread at 3.7% in March 2024
- J-REITs acquired property assets totaling JPY509 billion in Q1 2024 (39% increase y-o-y)

Japan economy is expected to experience moderate growth, though downside risks persist

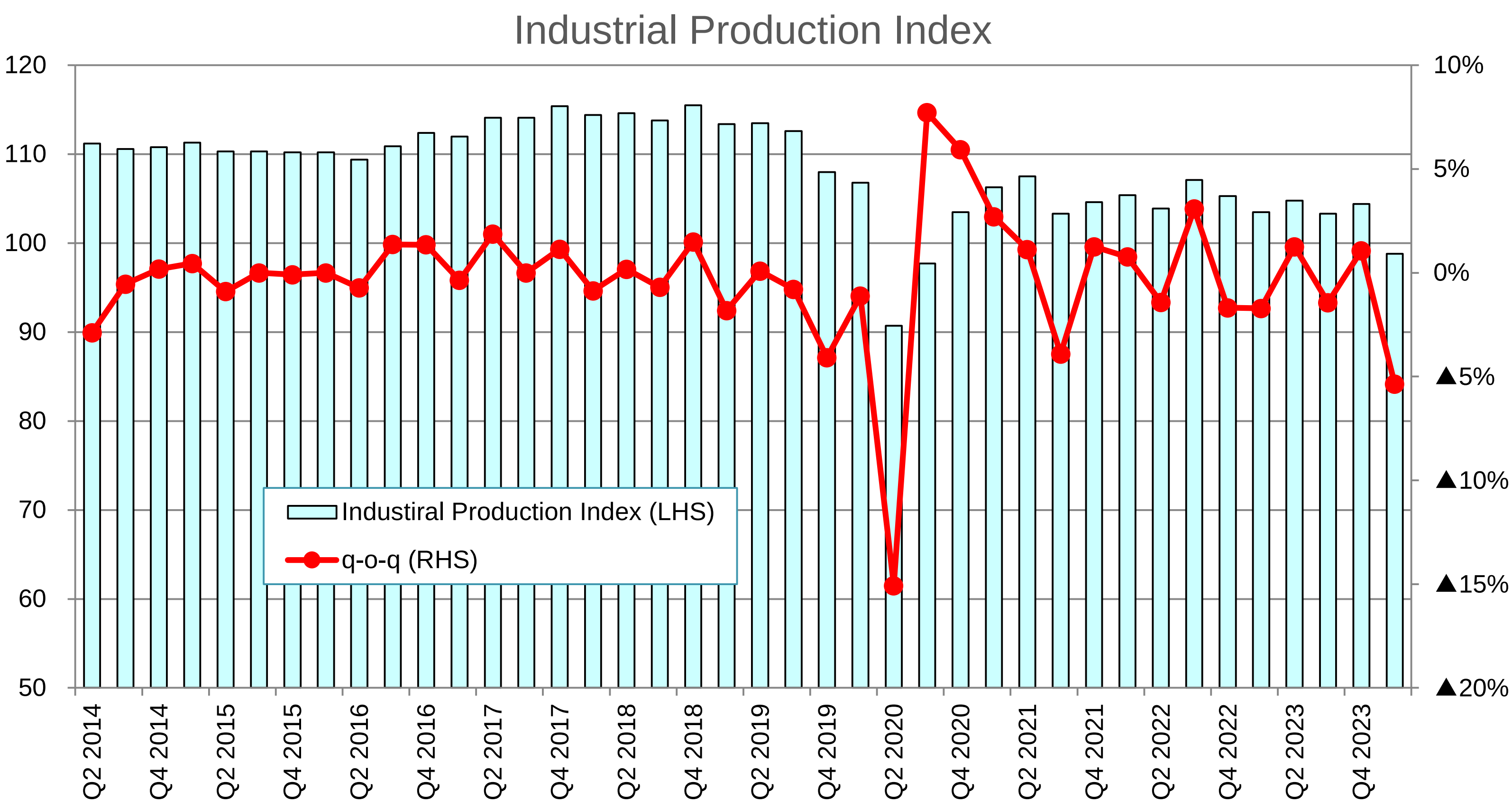
- In Q1 2024, Japan's real GDP is expected to decrease by 0.4% q-o-q (annualized 1.6% decrease), the first negative growth in two quarters.
- Japan's real GDP is expected to expand by 1.3% in FY2023, 1.0% in FY2024, and 1.1% in FY2025.



Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2024) "Weekly Economist Letter" NLI Research Institute, April, 2024.

The fraud scandal in the auto sector negatively impacted the wide range of the economy

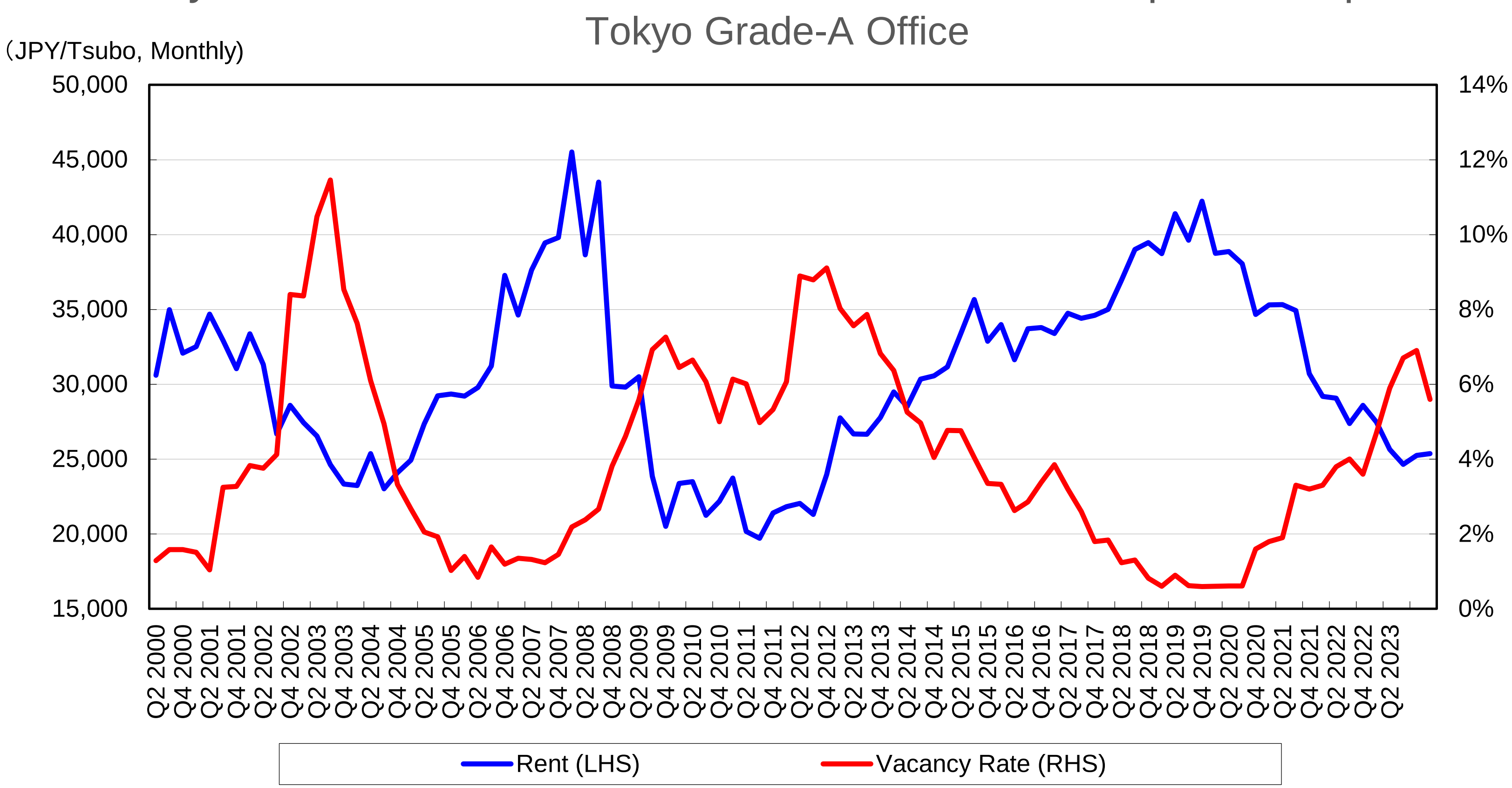
- Industrial production decreased by 5.4% q-o-q in Q1 2024, marking the first decline in two quarters.
- Most industries experienced negative growth, with the "Automobile" sector recording a sharp decline of 17.3% due to the fraud issue.



Source: The Ministry of Economy, Trade and Industry

Tokyo office market emerges from adjustment phase, showing signs of recovery

- In Q1 2024, Tokyo grade-A office rents were JPY 25,360 per tsubo, a 0.5% increase q-o-q and marking the second consecutive rise.
- Vacancy rates declined to 5.6%, down from 6.9% in the previous quarter.

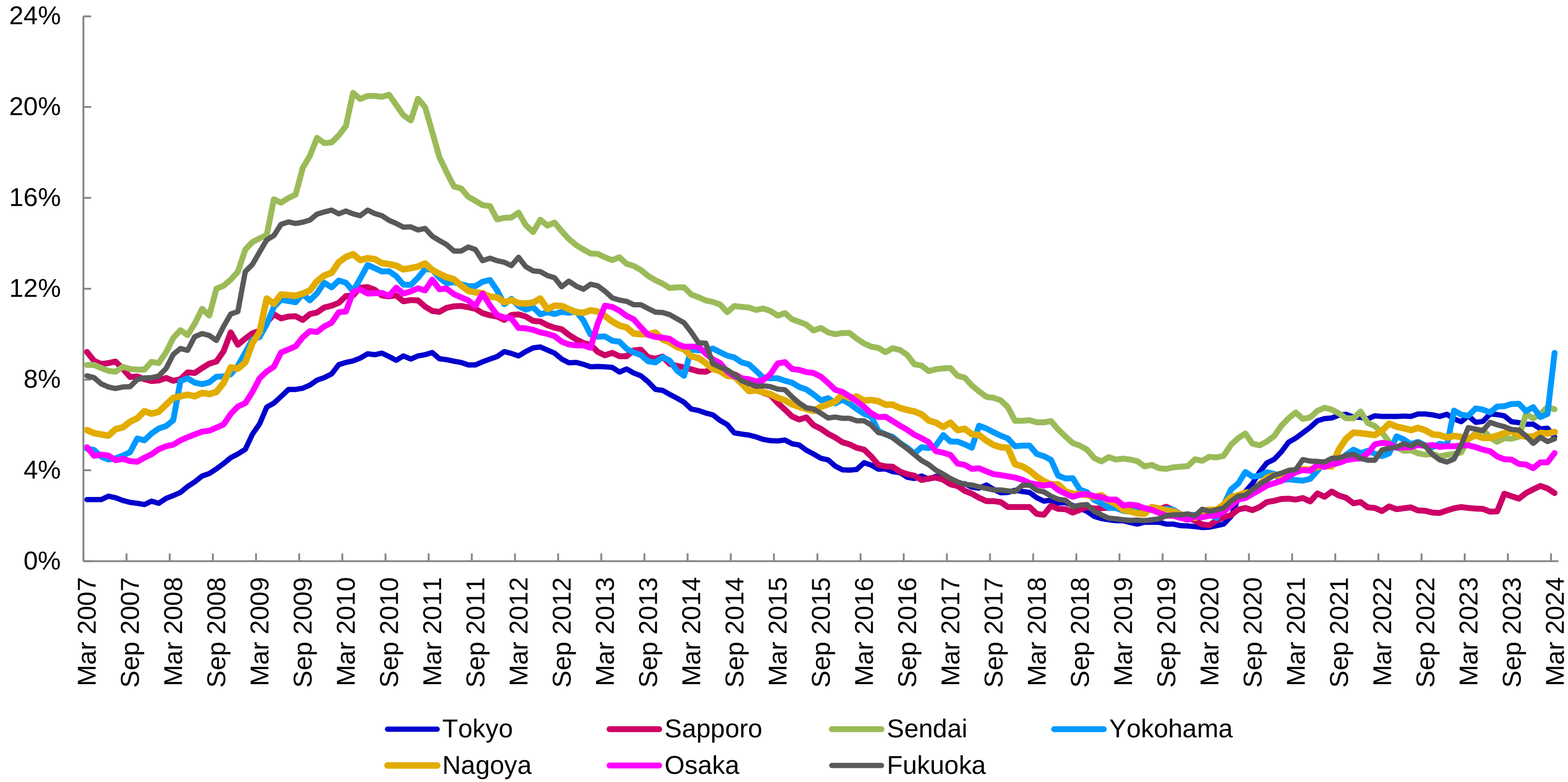


Tokyo Grade-A Office: Sanko Estate selects high grade buildings individually based on its guidelines such as GFA of more than 33,000 sqm, main floor sizes of more than 990 sqm, building age of 15 years or less and so on.
Source: Sanko Estate (Vacancy Rate), Sanko Estate and NLI Research Institute (Rent)

The timing and volume of new supply have created disparities in the office market across different cities

- In Q1 2024, vacancy rates declined in Tokyo by -0.6%(vacancy rate: 5.5%) and Sapporo by -0.2% (3.0%). However, increases were observed in other major cities: Nagoya by +0.2%(5.7%), Fukuoka by +0.2% (5.4%), Sendai by +0.4% (6.7%), Osaka by +0.7%(4.8%), and Yokohama by +2.4%(9.2%).

Office Vacancy Rates in Major Cities



Source: Miki Shoji

Office attendance rates in Tokyo have remained stable without a clear increase over the past year

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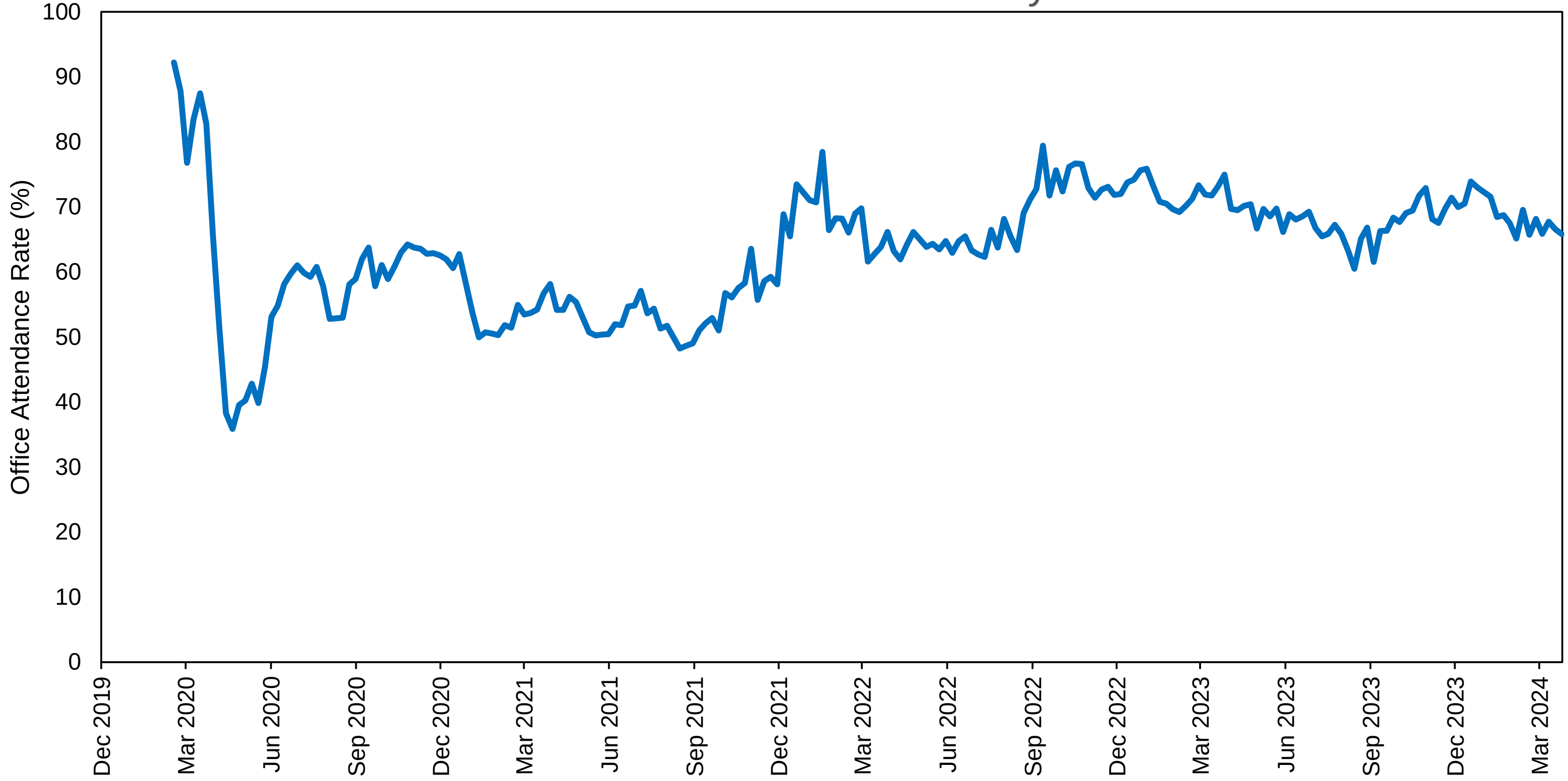
- In Tokyo CBD, the office attendance rate was 67% in March 2024, indicating that working 3 to 4 days a week in the office has become the new normal.

Office Attendance Rate of Tokyo CBD



Source: X-locations and NLI Research Institute

In Tokyo 23-ku, multifamily rents continue to rise steadily

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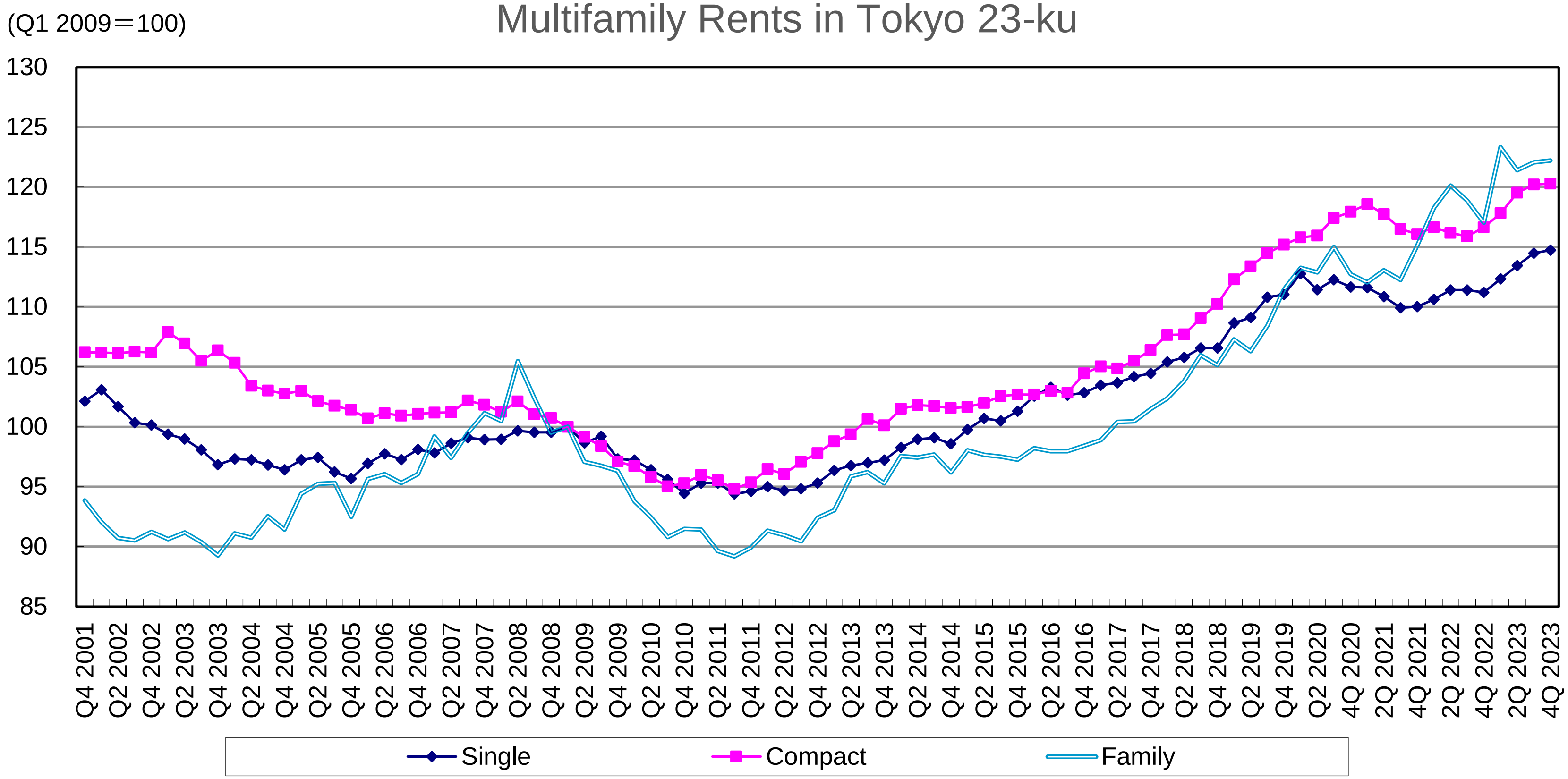
- In Q4 2023, multifamily rents of single-, compact- and family-type in Tokyo 23-ku changed by +3.5%, +3.7%, and +5.2% y-o-y, respectively.

Multifamily Rents in Tokyo 23-ku

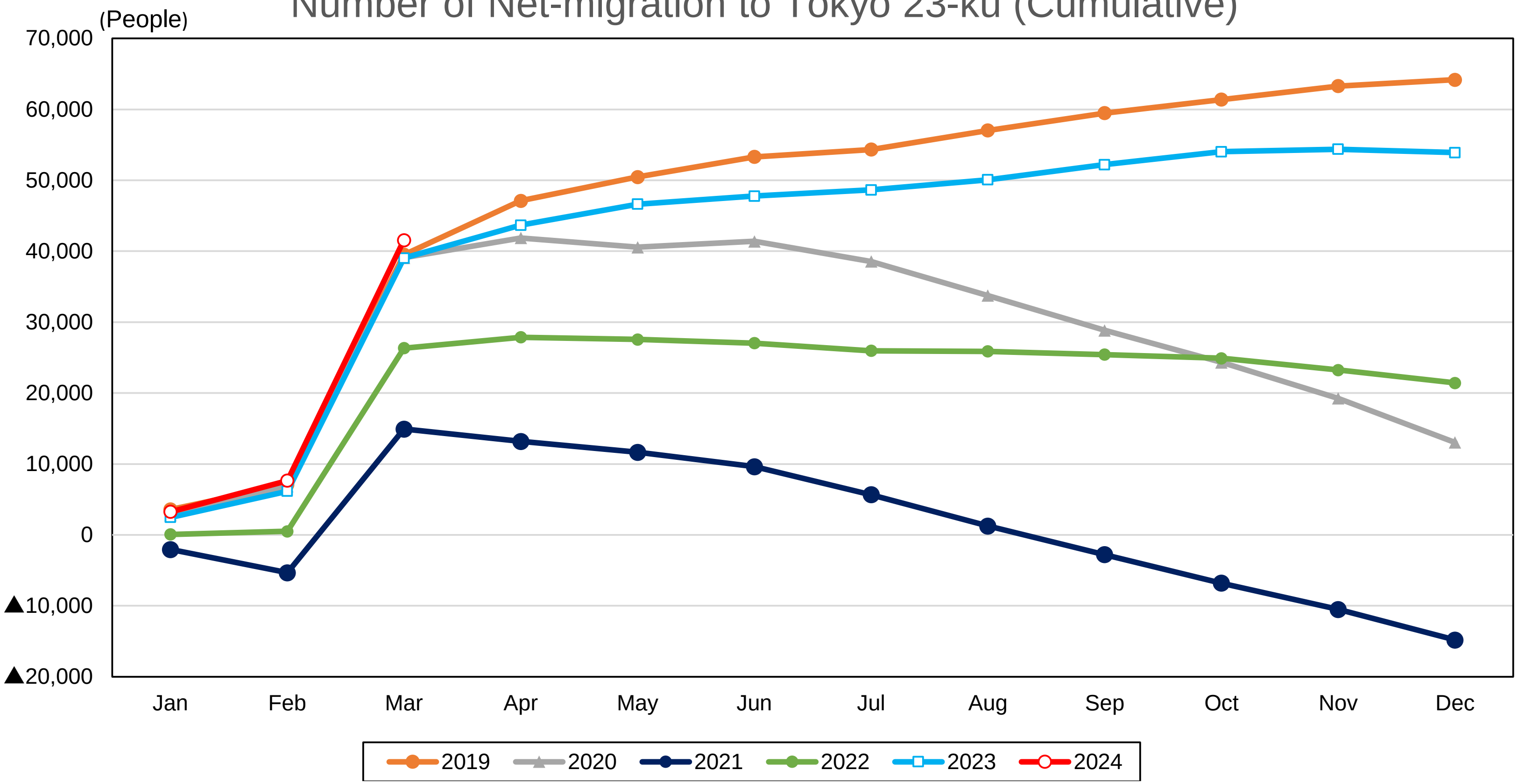


Source: Mitsui Sumitomo Trust Research Institute and At Home

Multifamily rents are rising due to increased housing demand, as population inflow to urban areas regains momentum

- Population inflow to Tokyo 23-ku reached 41,566 in Q1 2024, a 5% increase from the 2019 level.

Number of Net-migration to Tokyo 23-ku (Cumulative)



Source: The Statistics Bureau of Japan

In the existing condo market, prices and the number of contracts are both on the rise

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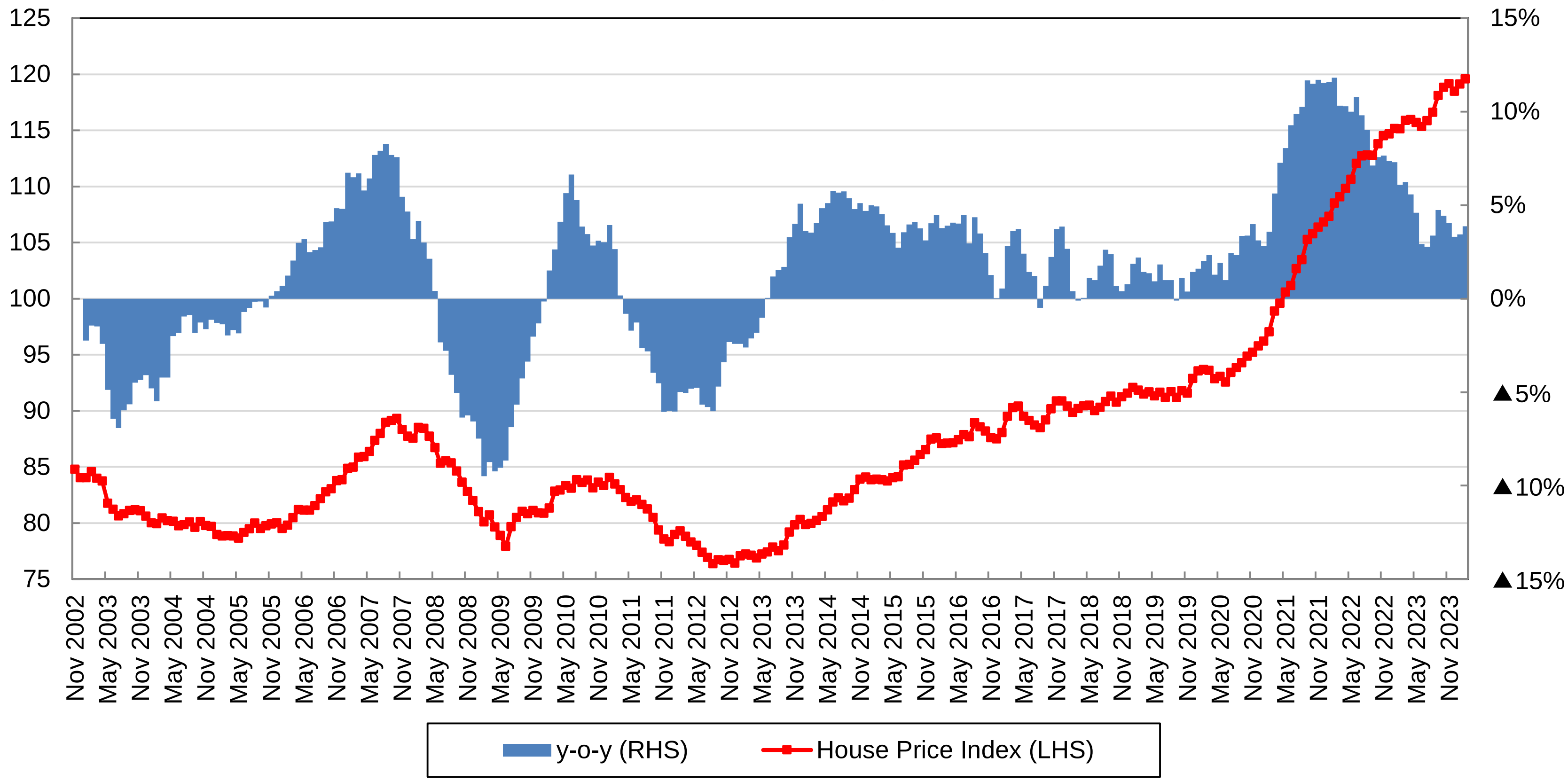
- In Greater Tokyo, condo price rose by 3.9% y-o-y in February 2024.
- The number of existing condo contracts in Greater Tokyo increased by 6.6% y-o-y in Q1 2024, marking the third consecutive increase.

Home Price Index (Existing Condominium)

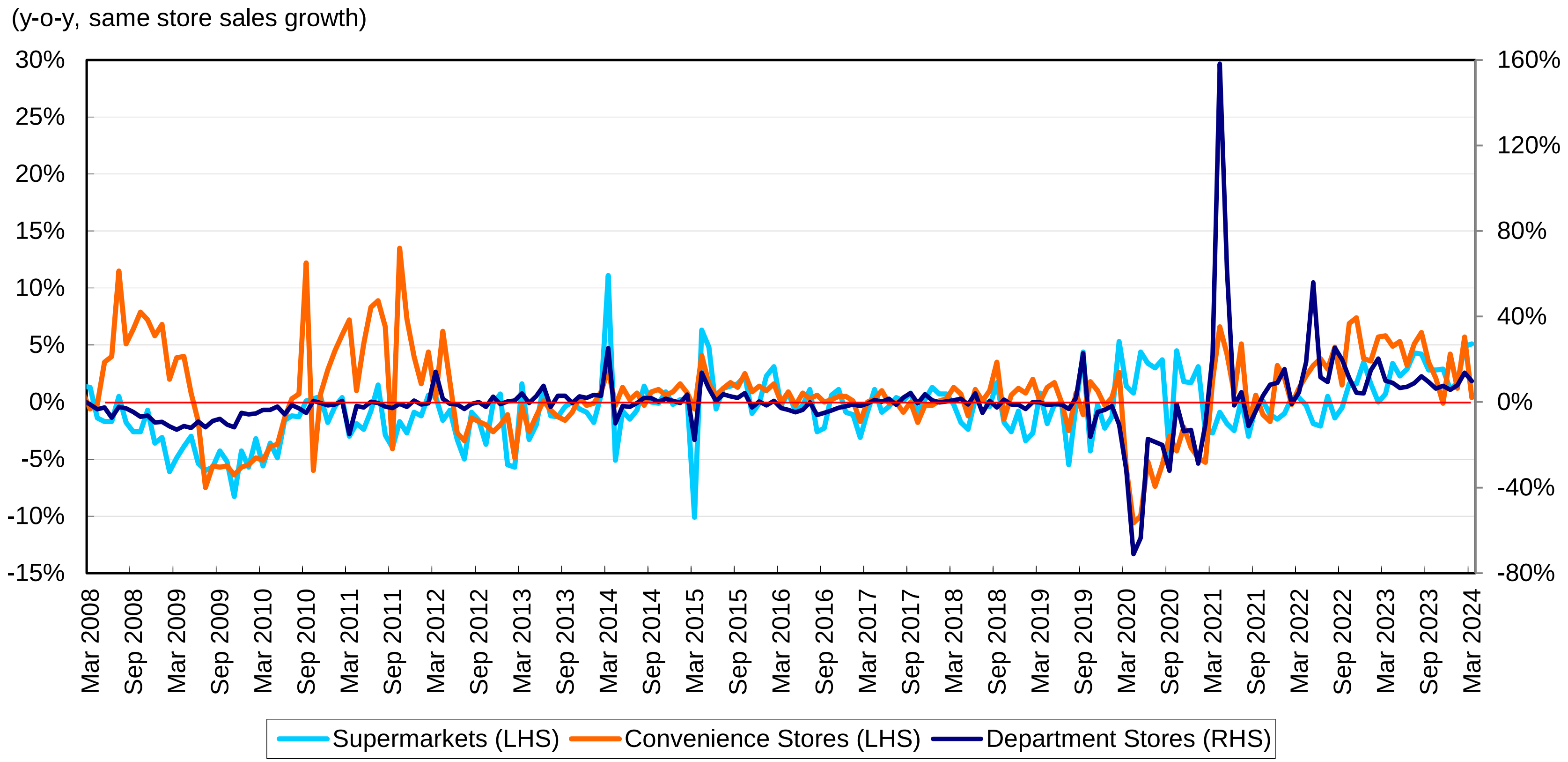


Source: Japan Real Estate Institute

Retail sales continue to increase, driven by robust inbound consumption, particularly in department stores

- In Q1 2024, sales of department stores, supermarkets, and convenience stores increased by 10.3%, 3.8%, and 2.3%, respectively, driven by the consumption of inbound tourists.

Retail Sales Growth

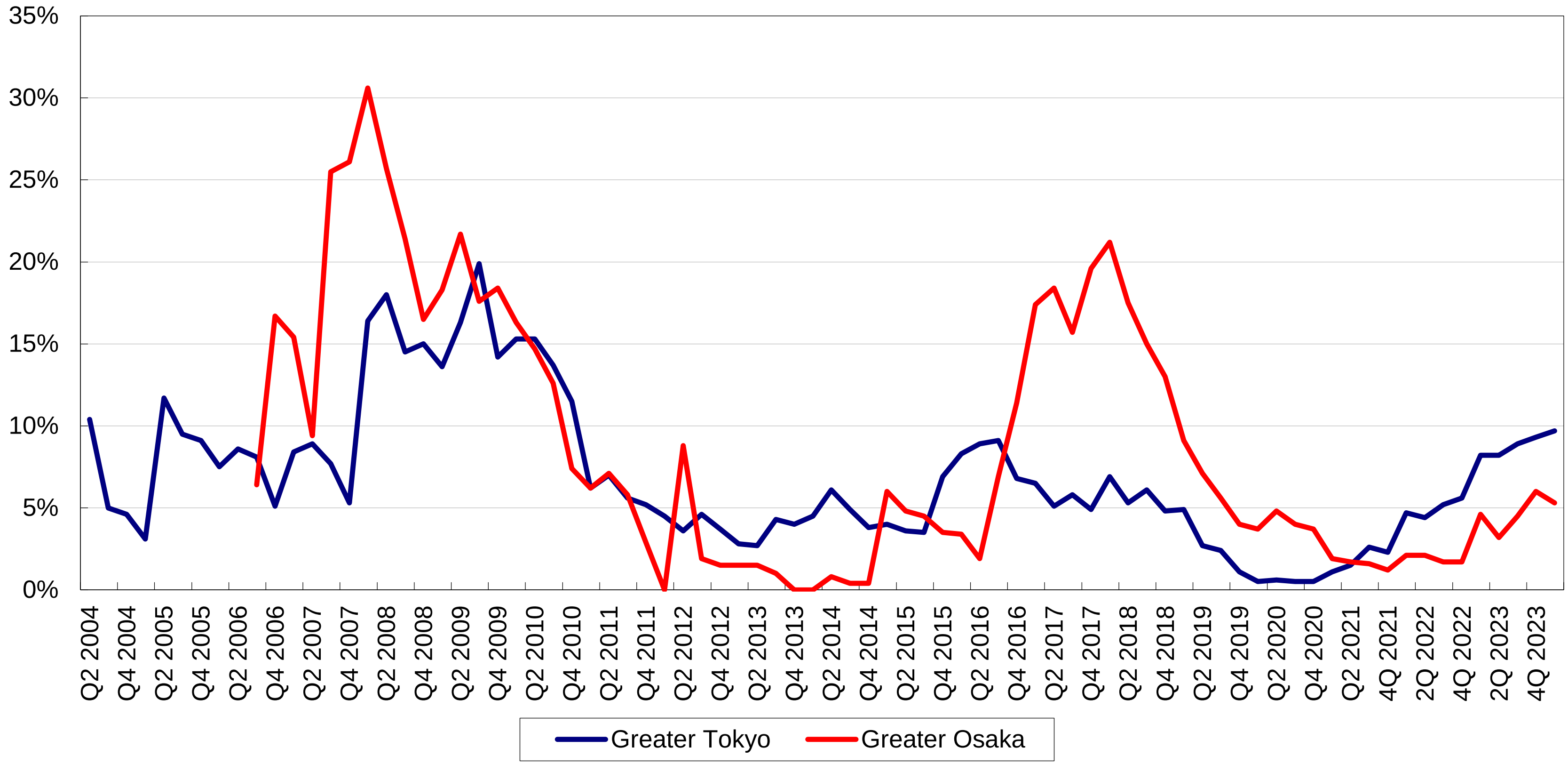


Source: The Ministry of Economy, Trade and Industry

In Greater Tokyo, the vacancy rate could exceed 10% next quarter, as pre-leasing of new supply remains stagnant

- In Q1 2024, vacancy rates in Greater Tokyo increased to 9.7% from 9.3% in the previous quarter, reaching the highest level in 12 years since 2012.
- In Greater Osaka, vacancy rates declined to 5.3% from 6.0% in the previous quarter, with vacancies remaining limited to some properties and areas.

Vacancy Rates of Large Multi-Tenant Logistics



Source: CBRE

The number of guests has consistently remained above pre-pandemic levels, resulting in significant improvements in hotel revenues

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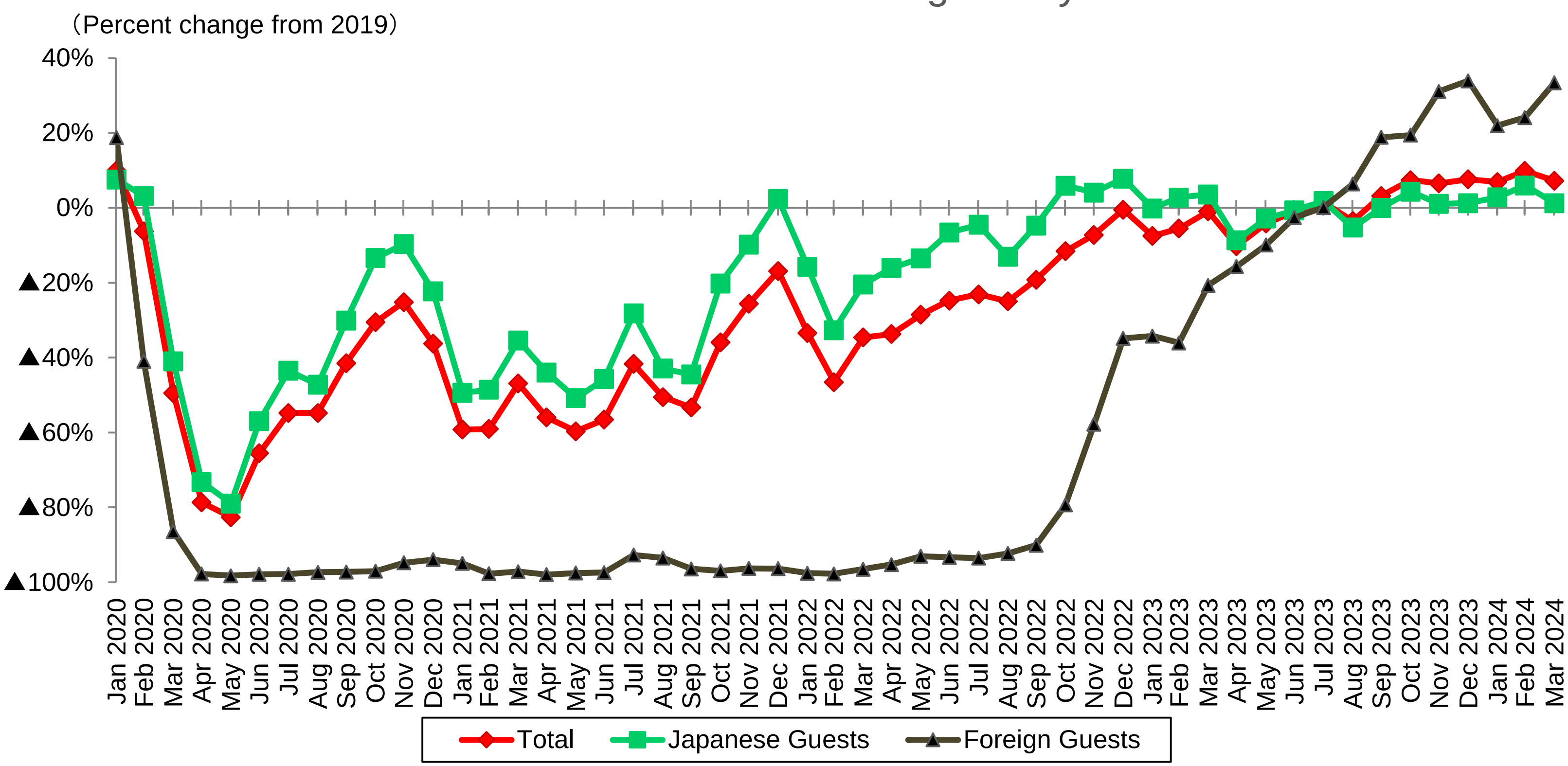
- In Q1 2024, the total number of overnight stays was +8% compared to the same period in 2019, of which Japanese and foreigners were +3% and +27%, respectively.
- According to STR, hotel RevPAR was +48% in Tokyo and +24% in Osaka in March 2024 from the corresponding month in 2019.

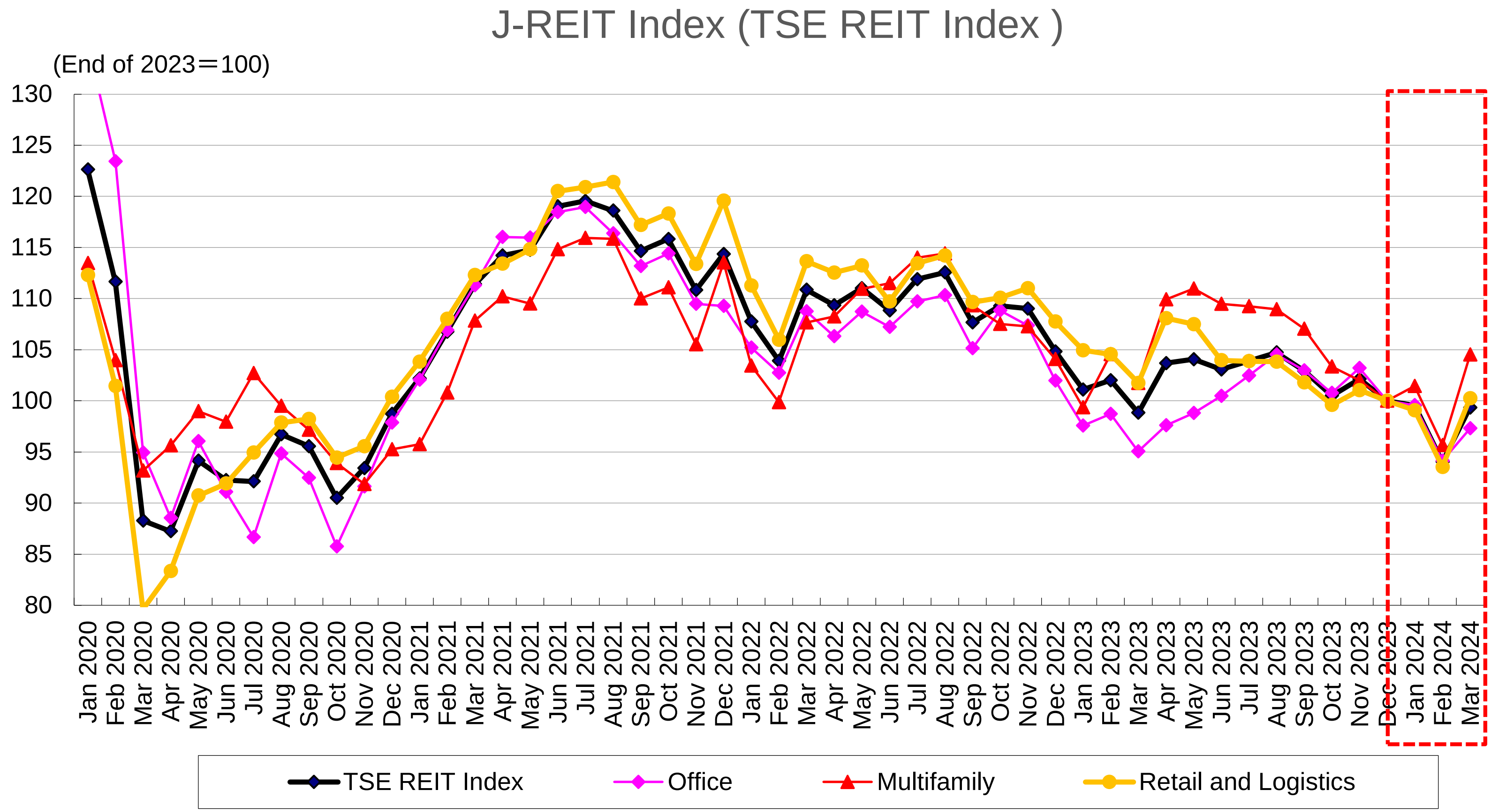
Total Numbers of Overnight Stays



Source: Japan Tourism Agency

Concerns over the normalization of BOJ policy, along with fund outflows from J-REIT investment trusts, contributed to the decline in J-REIT

- J-REIT Index decreased by 0.7% q-o-q in Q1 2024, trading at a price to NAV ratio of 0.89x, dividend yield at 4.4%, and dividend and JGB spread at 3.7% in March 2024.

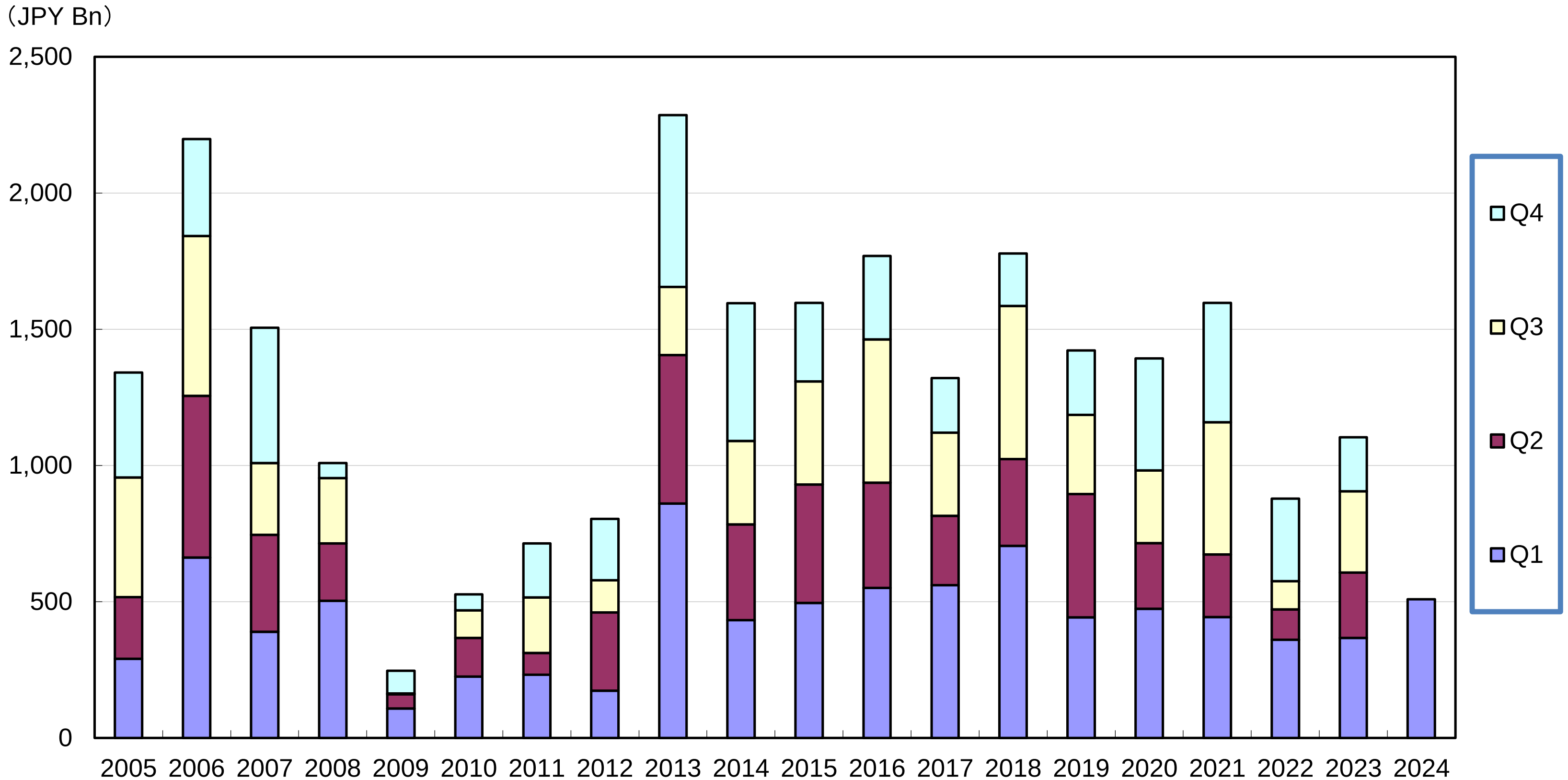


Source: Tokyo Stock Exchange

Office and the logistics sector account for more than 60% of acquisitions by J-REITs

- J-REITs acquired property assets totaling JPY509 billion in Q1 2024 (+39% increase y-o-y).
- The office sector (36%) and logistics (28%) led the acquisitions by J-REITs, followed by multifamily(17%), hotels (9%), retail (3%), and others (8%).

J-REIT Asset Acquisitions



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

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