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RESEARCH

# Japan Real Estate Market Quarterly Review

Second Quarter 2024

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# Summary

## Macro Economy

- In Q2 2024, Japan's real GDP is expected to increase by 0.8% q-o-q (annualized 3.0% increase), the first positive growth in two quarters
- Japan's real GDP is expected to expand by 0.7% in FY2024, and 1.1% in FY2025

## Real Estate Market

- In the Tokyo office market, there are clear signs that rents have bottomed out
- In Tokyo 23-ku, multifamily rents are steadily increasing
- Retail sales are continuously increasing due to the strong growth in inbound consumption
- The vacancy rate in the Greater Tokyo logistics market remains high due to the impact of new supply
- Although domestic tourists demand has stagnated, inbound demand is driving the number of guests to exceed pre-COVID levels

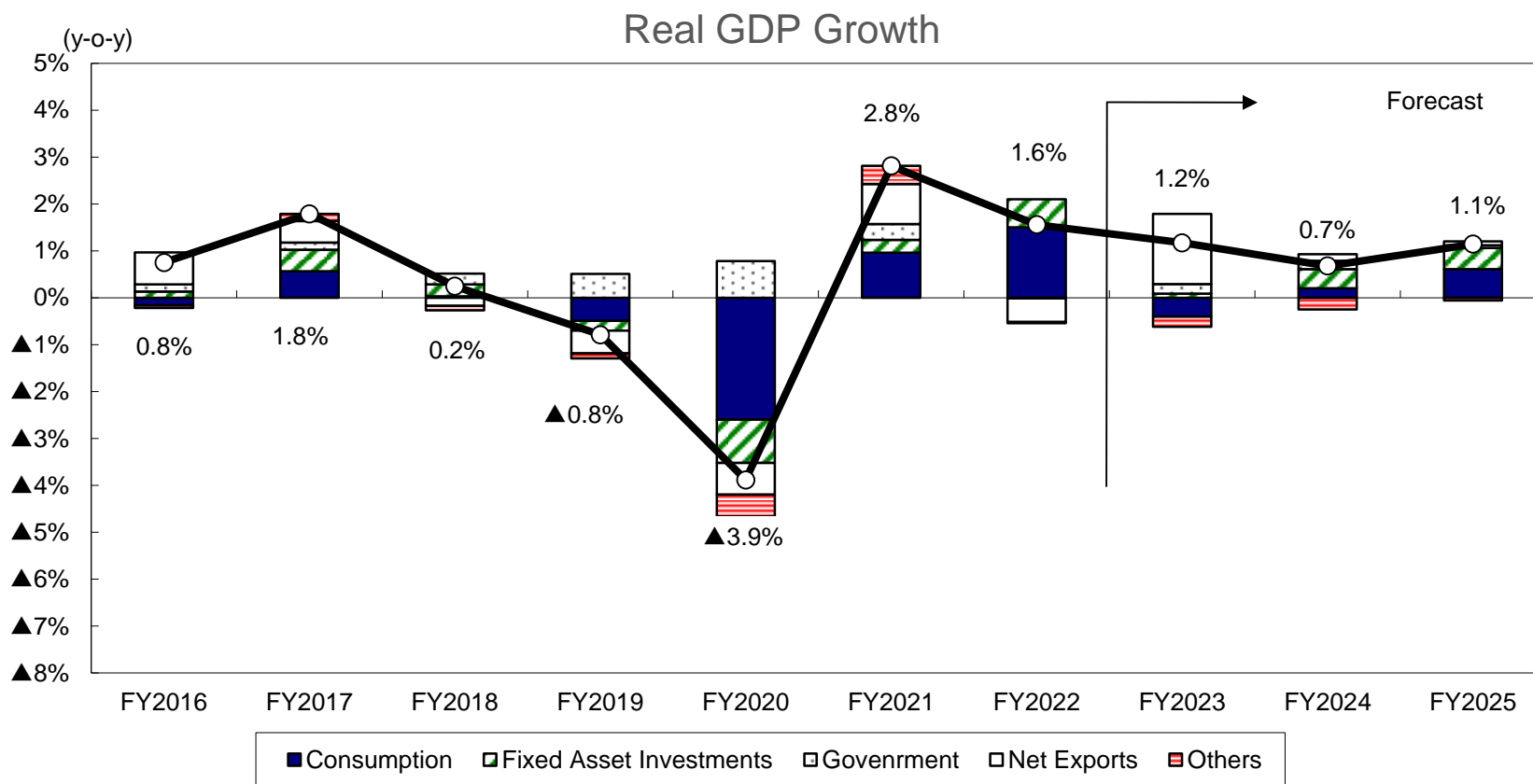
## Capital Market

- J-REITs remained weak towards the end of the period, amid heightened caution about rising interest rates
- J-REITs acquired property assets totaling JPY238 billion in Q2 2024 (-0.7% decrease y-o-y)

# Japan economy remains in a state of fluctuation



- In Q2 2024, Japan's real GDP is expected to increase by 0.8% q-o-q (annualized 3.0% increase), the first positive growth in two quarters.
- Japan's real GDP is expected to expand by 0.7% in FY2024, and 1.1% in FY2025.

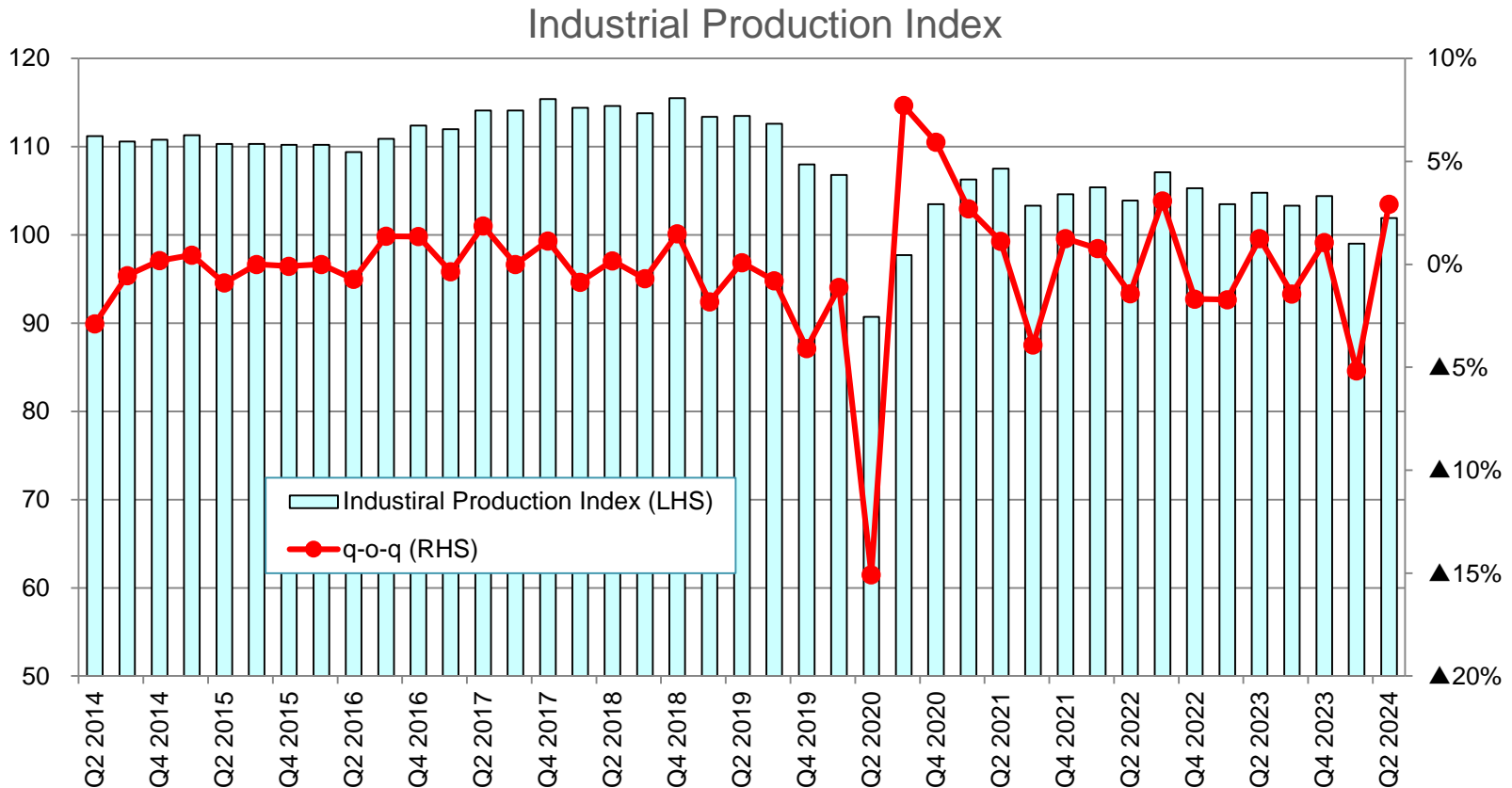


Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2024) "Weekly Economist Letter" NLI Research Institute, June, 2024.

# Industrial production increased, but it has not yet recovered from the decline in the previous period



- Industrial production increased by 2.9% q-o-q in Q2 2024, marking the first increase in two quarters.
- Automobile sector, which had been affected by fraud issues, saw a significant increase of 11.7%.



Source: The Ministry of Economy, Trade and Industry

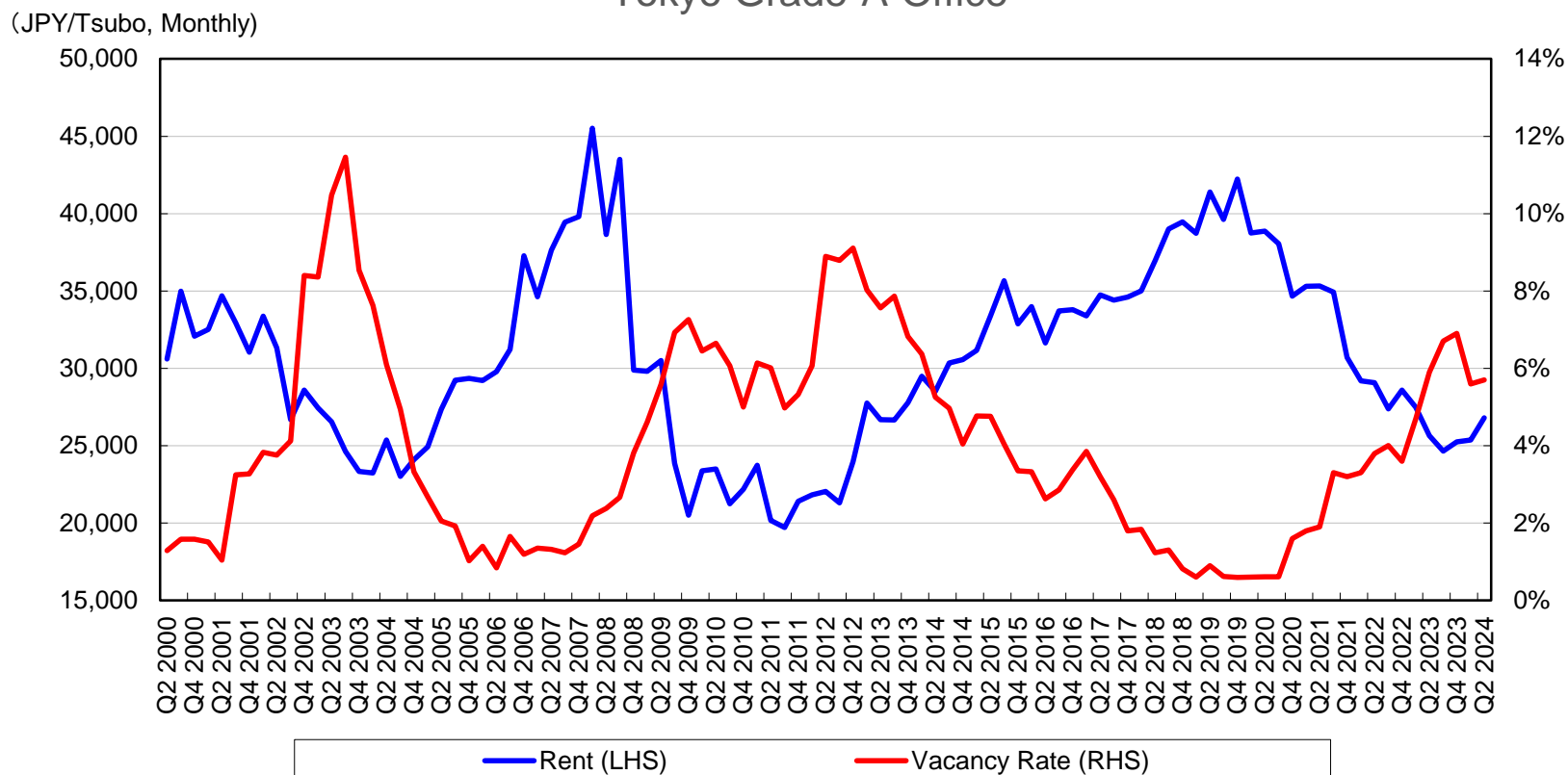
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## In the Tokyo office market, there are clear signs that rents have bottomed out



- In Q2 2024, Tokyo grade-A office rents were JPY 26,791 per tsubo, a 5.6% increase q-o-q and marking the third consecutive rise.
- Vacancy rates slightly increased to 5.7%, down from 5.6% 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)

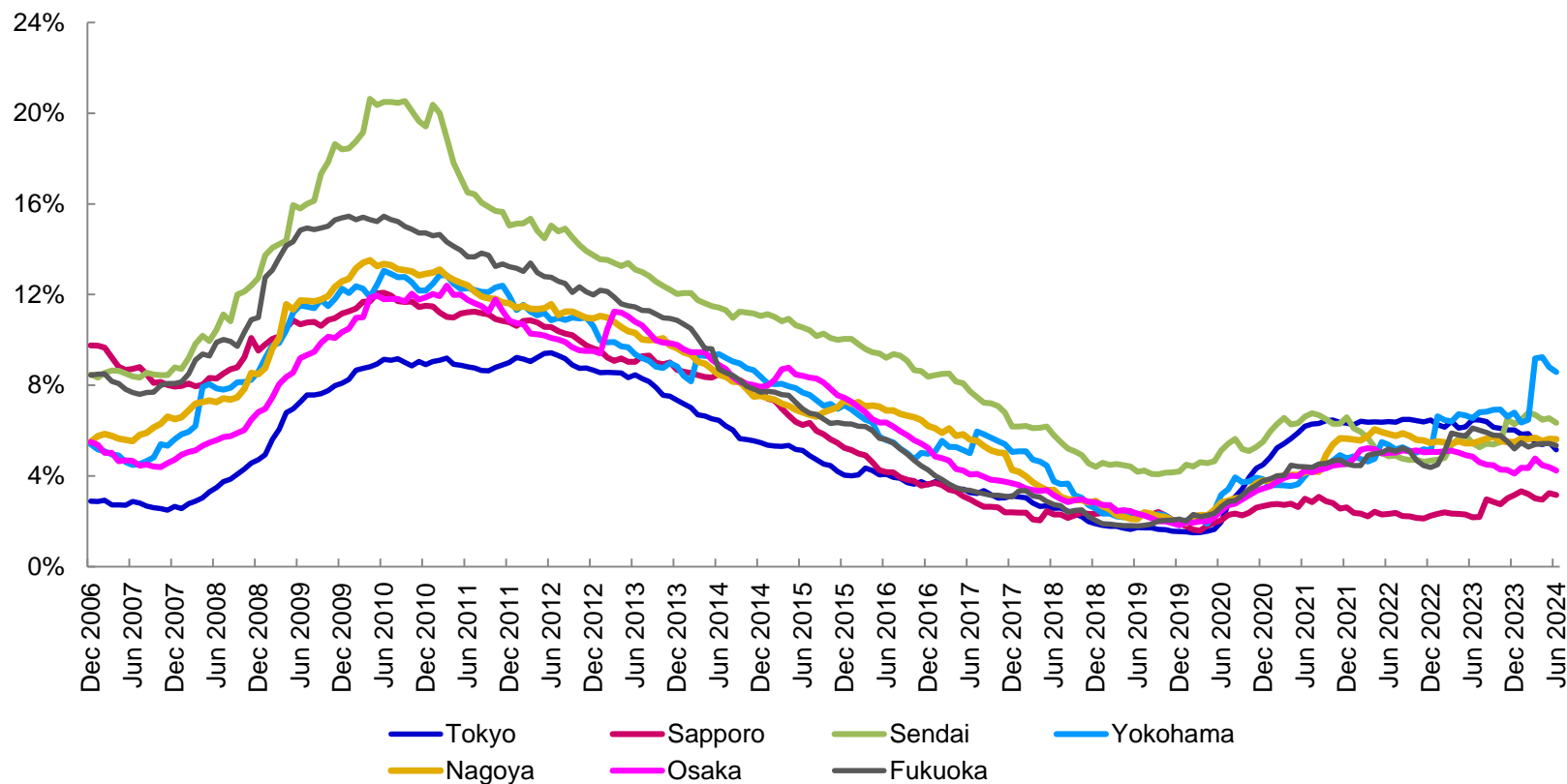
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## Declines in vacancy rates were observed in most major cities



- In Q2 2024, vacancy rates declined in Yokohama by -0.6%(vacancy rate: 8.6%), Osaka by -0.5%(4.2%), Sendai by -0.4% (6.3%), Tokyo by -0.3%(5.2%) and Nagoya by -0.1%(5.6%), while remained flat in Fukuoka (5.4%), and increased in Sapporo by +0.2% (3.2%).

### Office Vacancy Rates in Major Cities



Source: Miki Shoji

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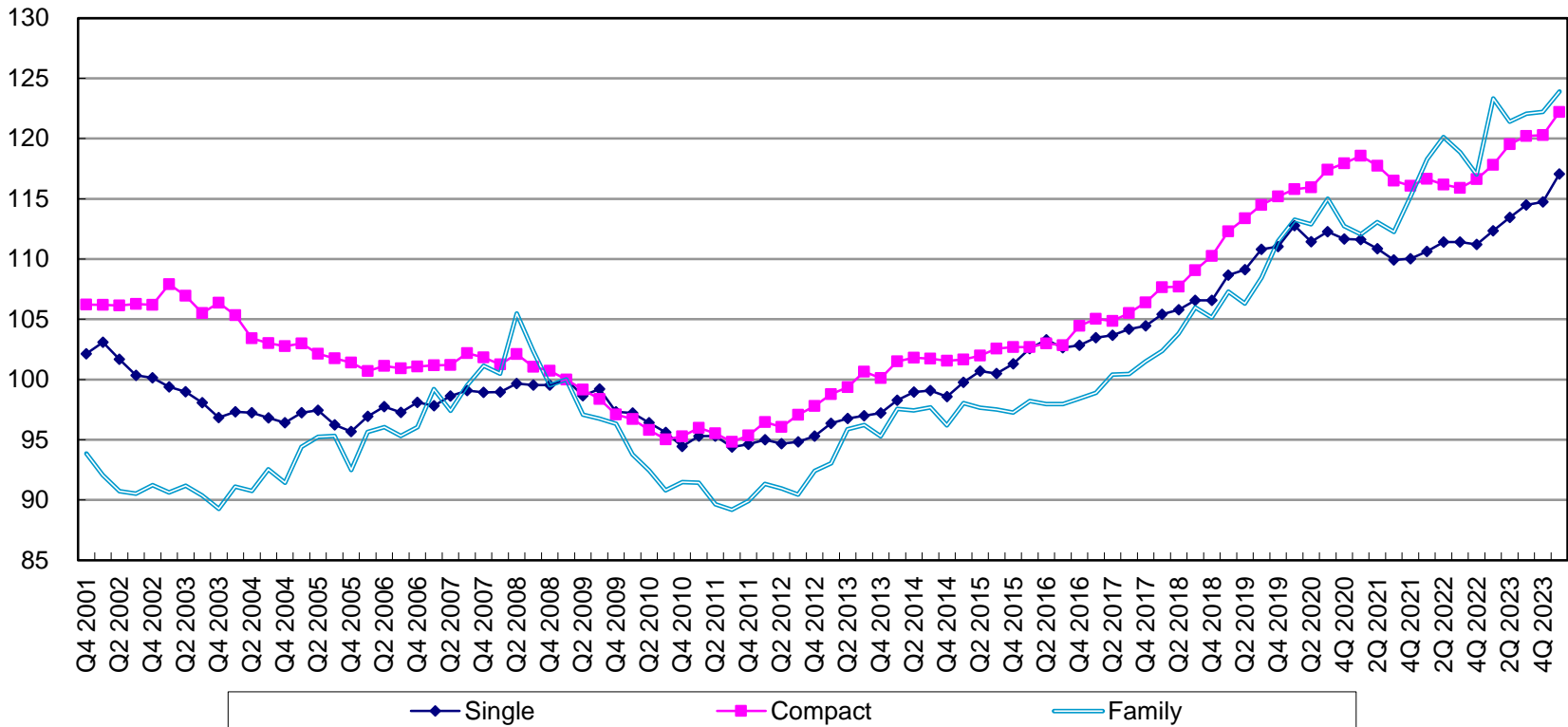
## In Tokyo 23-ku, multifamily rents are steadily increasing



- In Q2 2024, multifamily rents of single-, compact- and family-type in Tokyo 23-ku changed by +4.7%, +4.4%, and +0.6% y-o-y, respectively.

Multifamily Rents in Tokyo 23-ku

(Q1 2009=100)



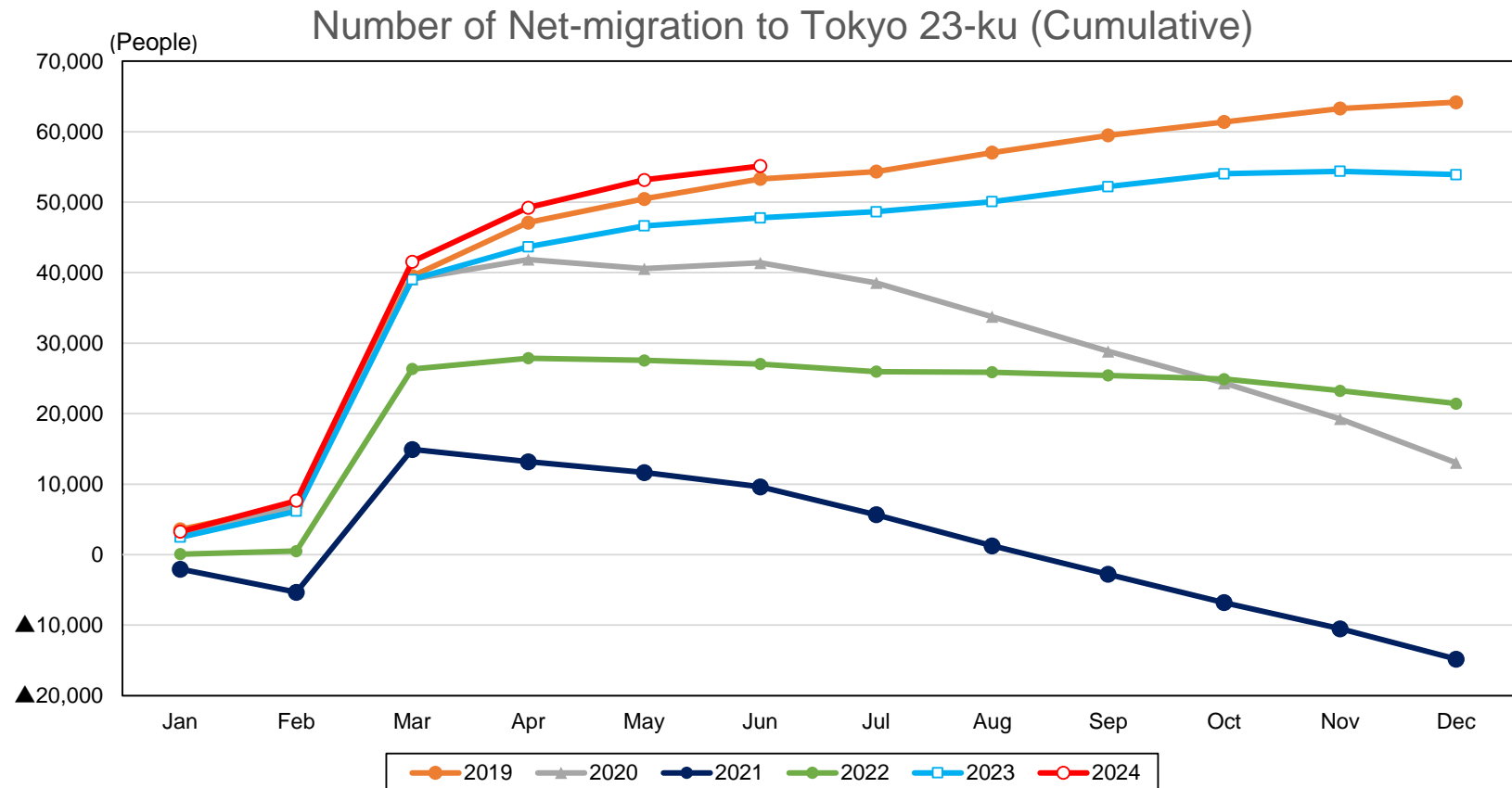
Source: Mitsui Sumitomo Trust Research Institute and At Home

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# The influx of population into Tokyo has returned to its pre-pandemic pace



- Population inflow to Tokyo 23-ku reached 55,136 in H1 2024, a 3% increase from the 2019 level.



Source: The Statistics Bureau of Japan

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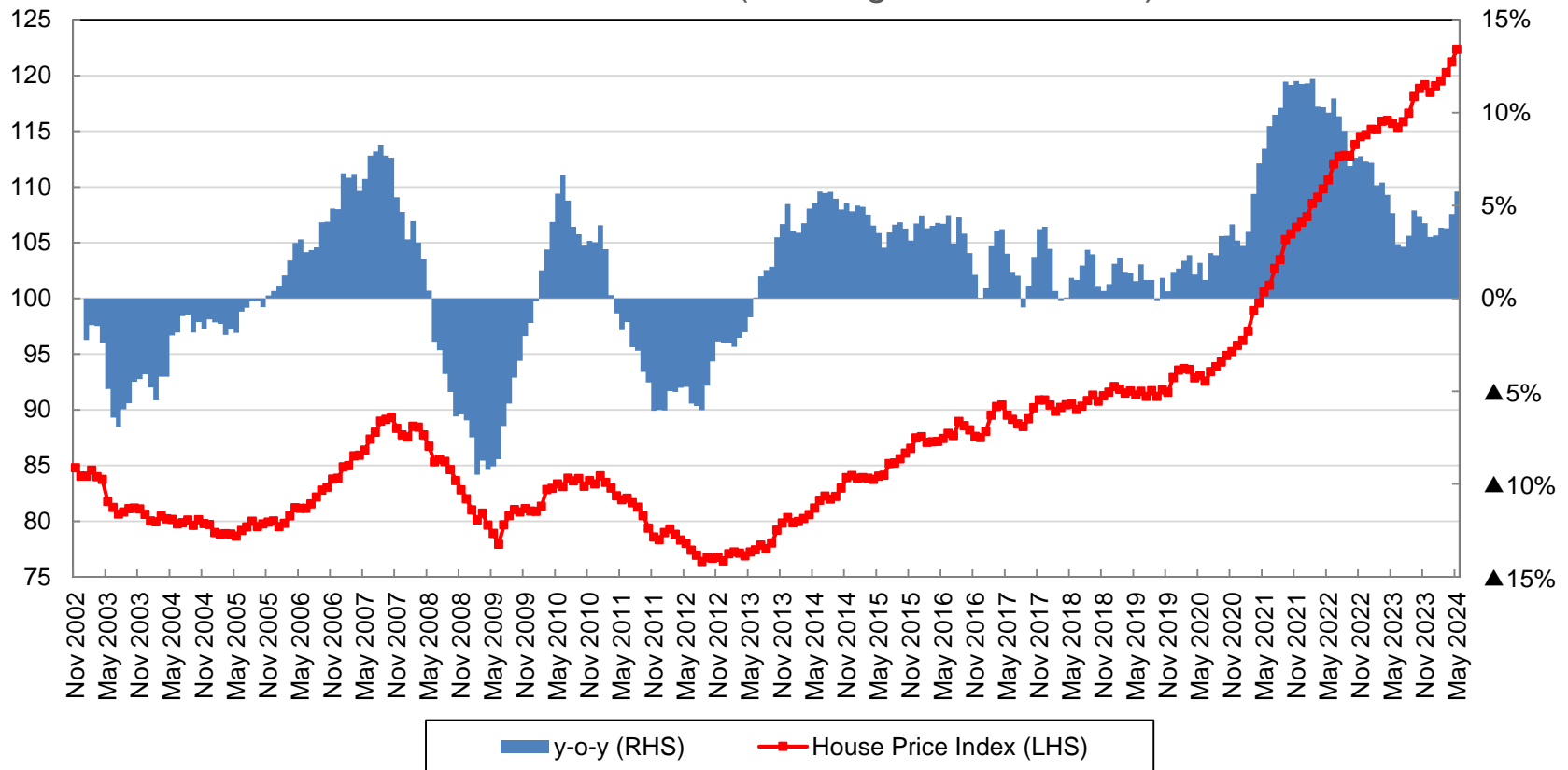


## Housing prices have re-accelerated, buoyed by strong demand



- In Greater Tokyo, condo price rose by 5.8% y-o-y in May 2024.
- The number of existing condo contracts in Greater Tokyo increased by 6.3% y-o-y in Q2 2024, marking the fourth consecutive increase.

Home Price Index (Existing Condominium)



Source: Japan Real Estate Institute

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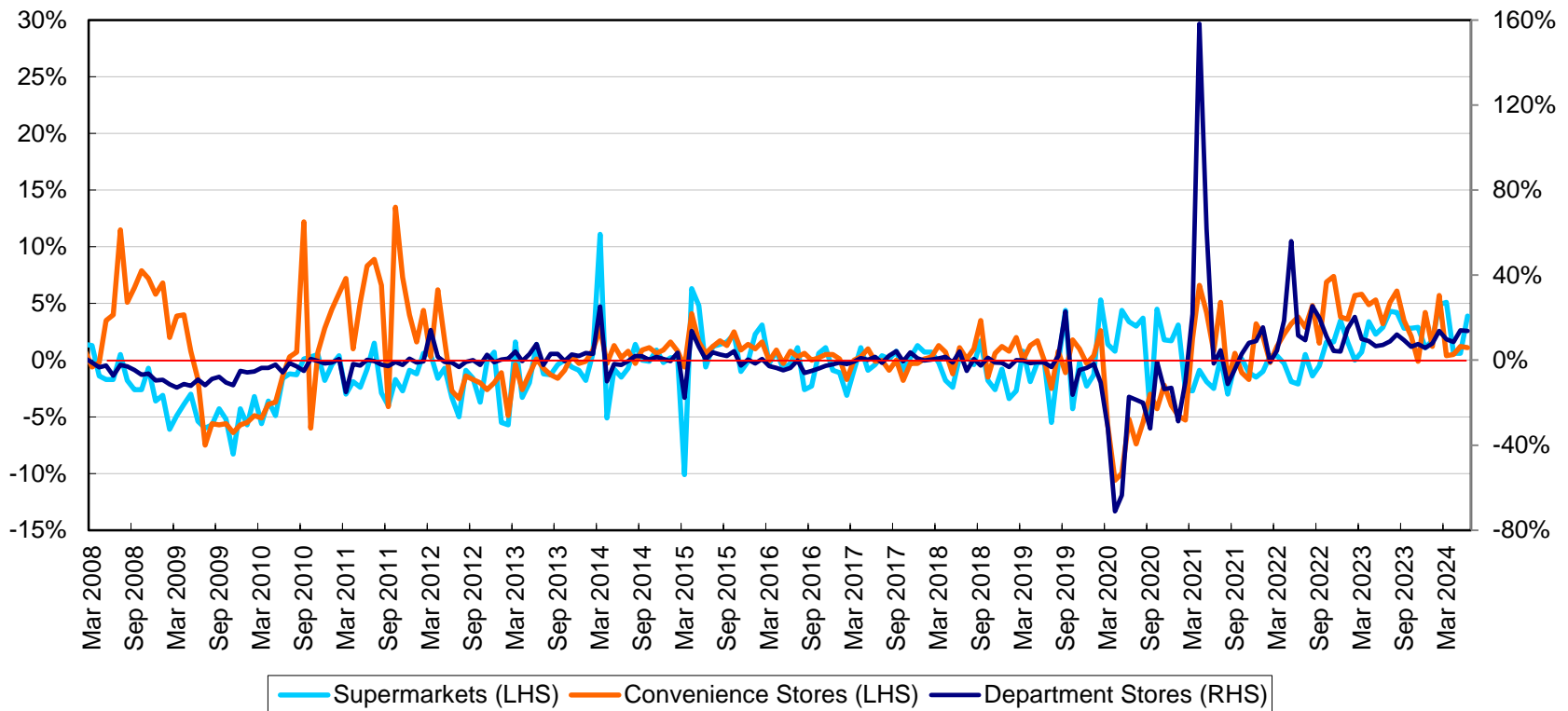
## Retail sales are continuously increasing due to the strong growth in inbound consumption



- In Q2 2024, sales of department stores, supermarkets, and convenience stores increased by 12.1%, 1.7%, and 1.1%, respectively, driven by the consumption of inbound tourists.

### Retail Sales Growth

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



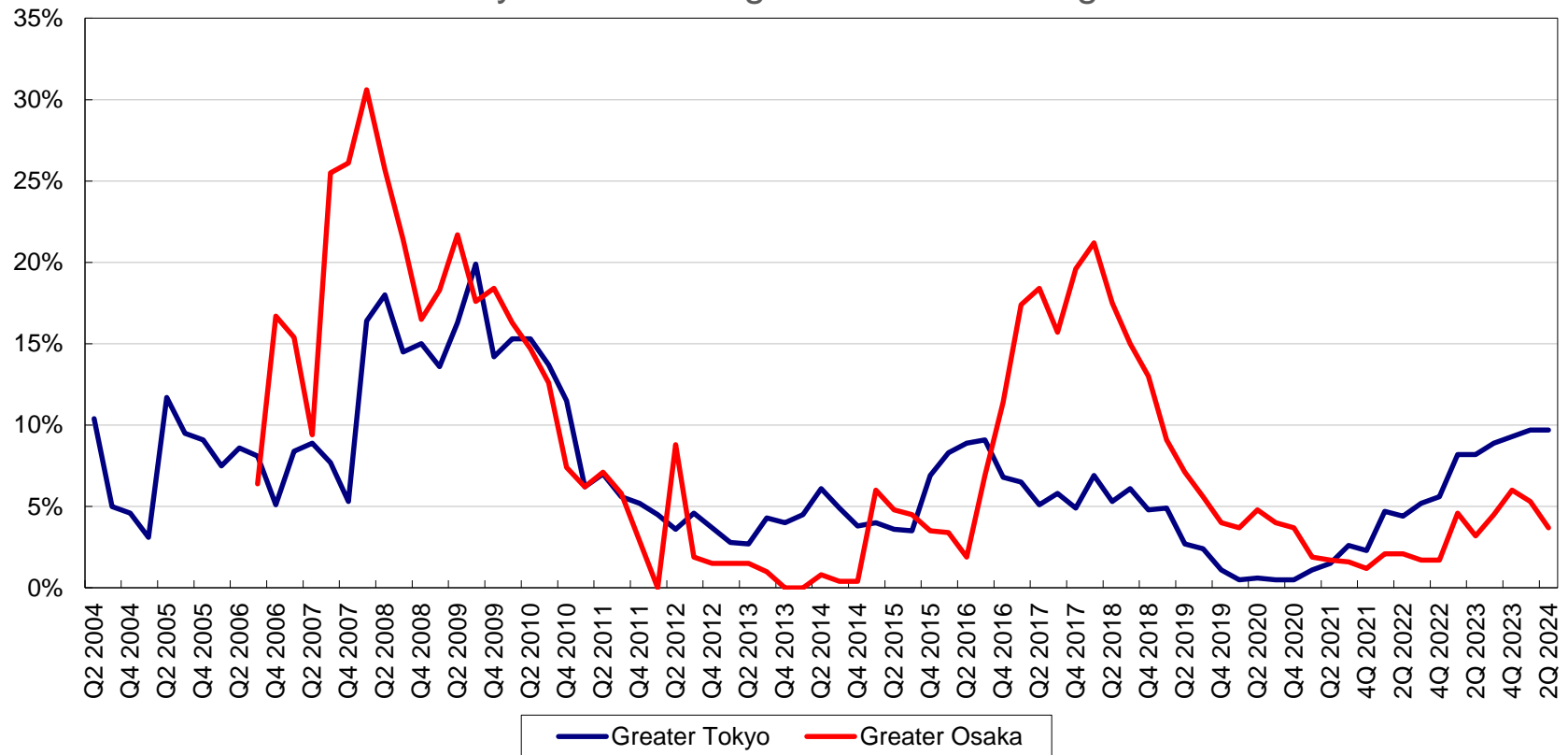
Source: The Ministry of Economy, Trade and Industry

## The vacancy rate in the Greater Tokyo remains high due to the impact of new supply



- In Q2 2024, vacancy rates in Greater Tokyo was 9.7%, remaining flat from the previous quarter.
- In Greater Osaka, vacancy rates declined to 3.7% from 5.3% in the previous quarter, due to the absorption of vacancies in existing properties.

### Vacancy Rates of Large Multi-Tenant Logistics



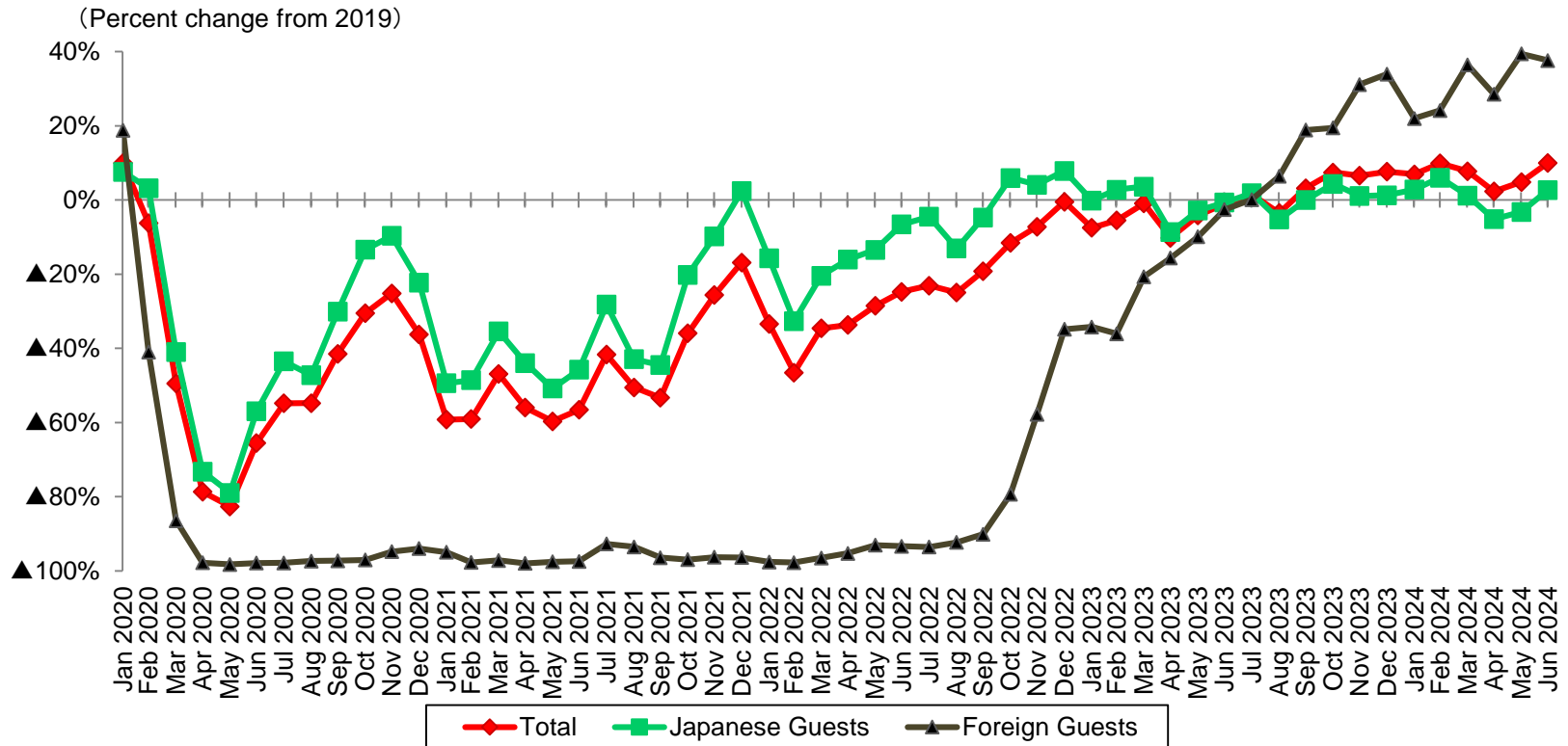
Source: CBRE

# Although domestic demand has stagnated, inbound demand is driving the number of guests to exceed pre-COVID levels



- In Q2 2024, the total number of overnight stays was +6% compared to the same period in 2019, of which Japanese and foreigners were -2% and +35%, respectively.
- According to STR, hotel RevPAR was +48% in Tokyo and +12% in Osaka in June 2024 from the corresponding month in 2019.

Total Numbers of Overnight Stays

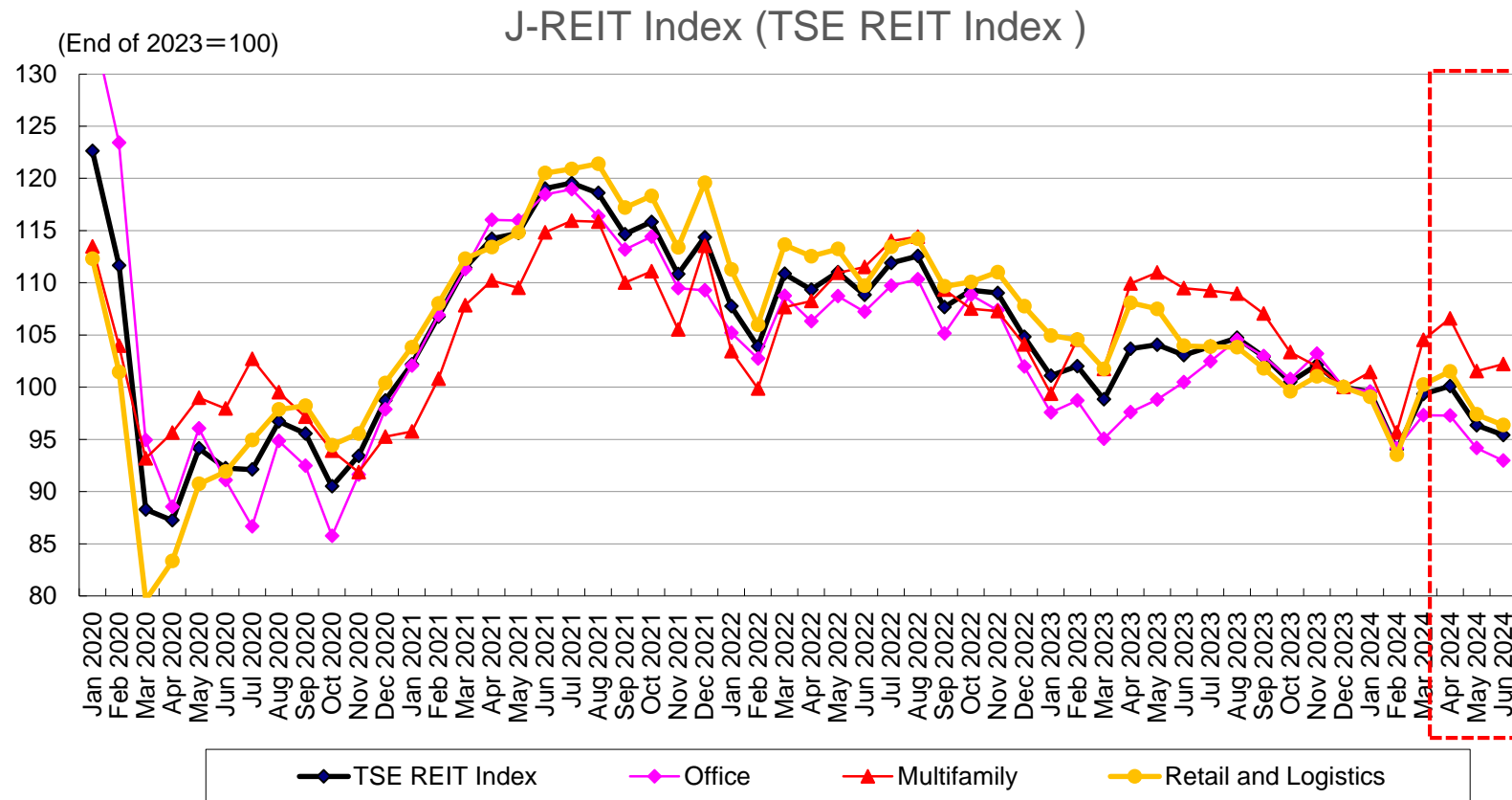


Source: Japan Tourism Agency

## J-REITs remained weak towards the end of the period, amid heightened caution about rising interest rates



- J-REIT Index decreased by 4.0% q-o-q in Q2 2024, trading at a price to NAV ratio of 0.84x, dividend yield at 4.7%, and dividend and JGB spread at 3.6% in June 2024.



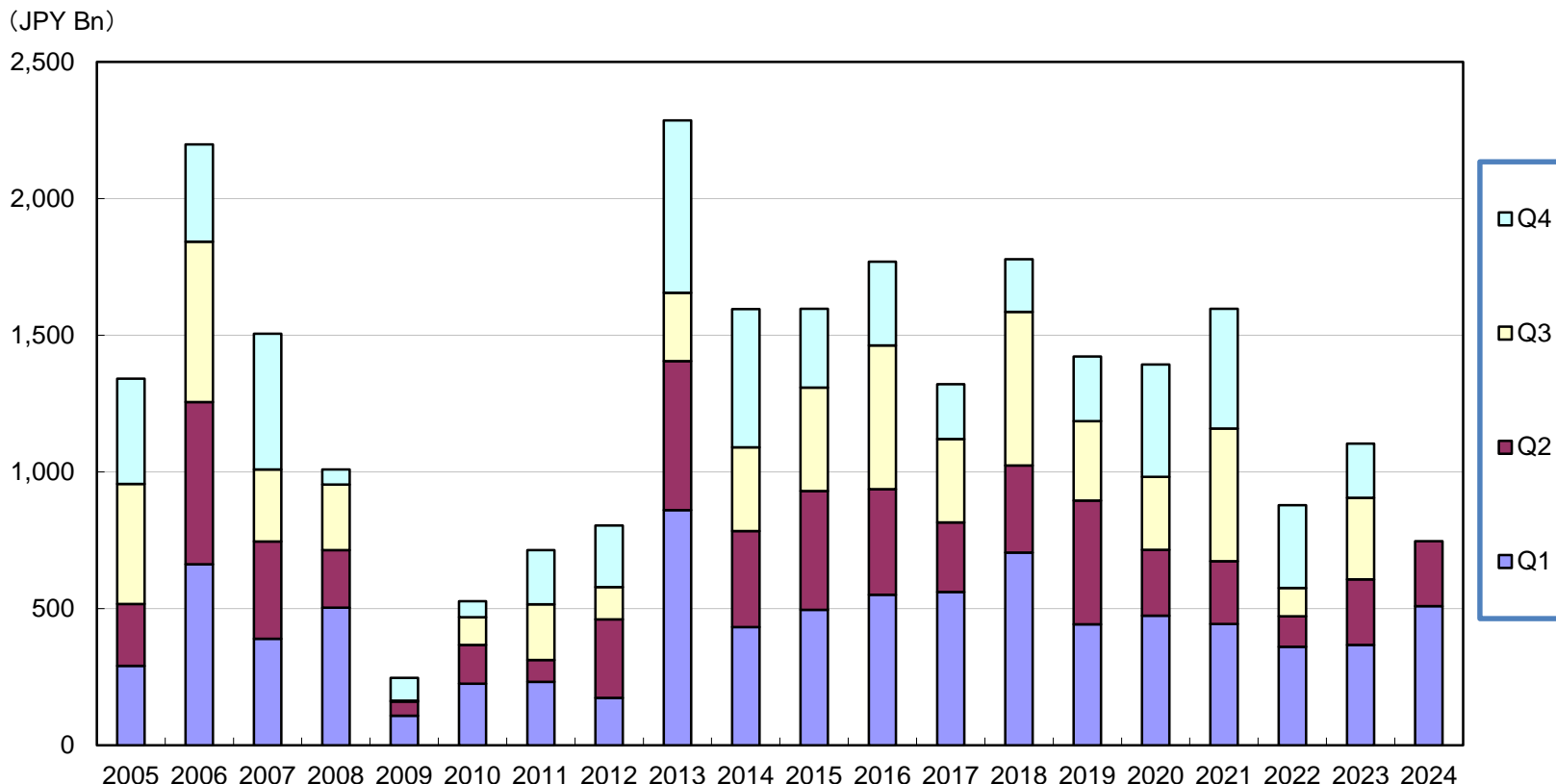
Source: Tokyo Stock Exchange

# Strong acquisition of multifamily, surpassing last year's total acquisitions, amid anticipated rental increases due to continued urbanization



- J-REITs acquired property assets totaling JPY238 billion in Q2 2024 (-0.7% decrease y-o-y).
- The office sector (30%) and multifamily(27%) led the acquisitions by J-REITs, followed by, logistics (21%), hotels (10%), retail (6%), and others (6%).

J-REIT Asset Acquisitions



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

Source: Disclosure Documents



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