

13th November 2024



Japan Real Estate Market Quarterly Review

Third Quarter 2024

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Summary

Macro Economy

- In Q3 2024, Japan's real GDP is expected to increase by 0.2% q-o-q (annualized 0.8% increase), the second consecutive growth
- Japan's real GDP is expected to expand by 0.7% in FY2024, and 1.1% in FY2025

Real Estate Market

- Tokyo's office market remains resilient, supported by stable office demand
- Multifamily rents in Tokyo's 23-ku are steadily increasing driven by population influx
- Retail sales continue to grow, fueled by strong inbound consumption
- Vacancy rates in Greater Tokyo's logistics sector remain elevated due to new supply
- The hotel market continues to perform strongly, fueled by robust inbound demand

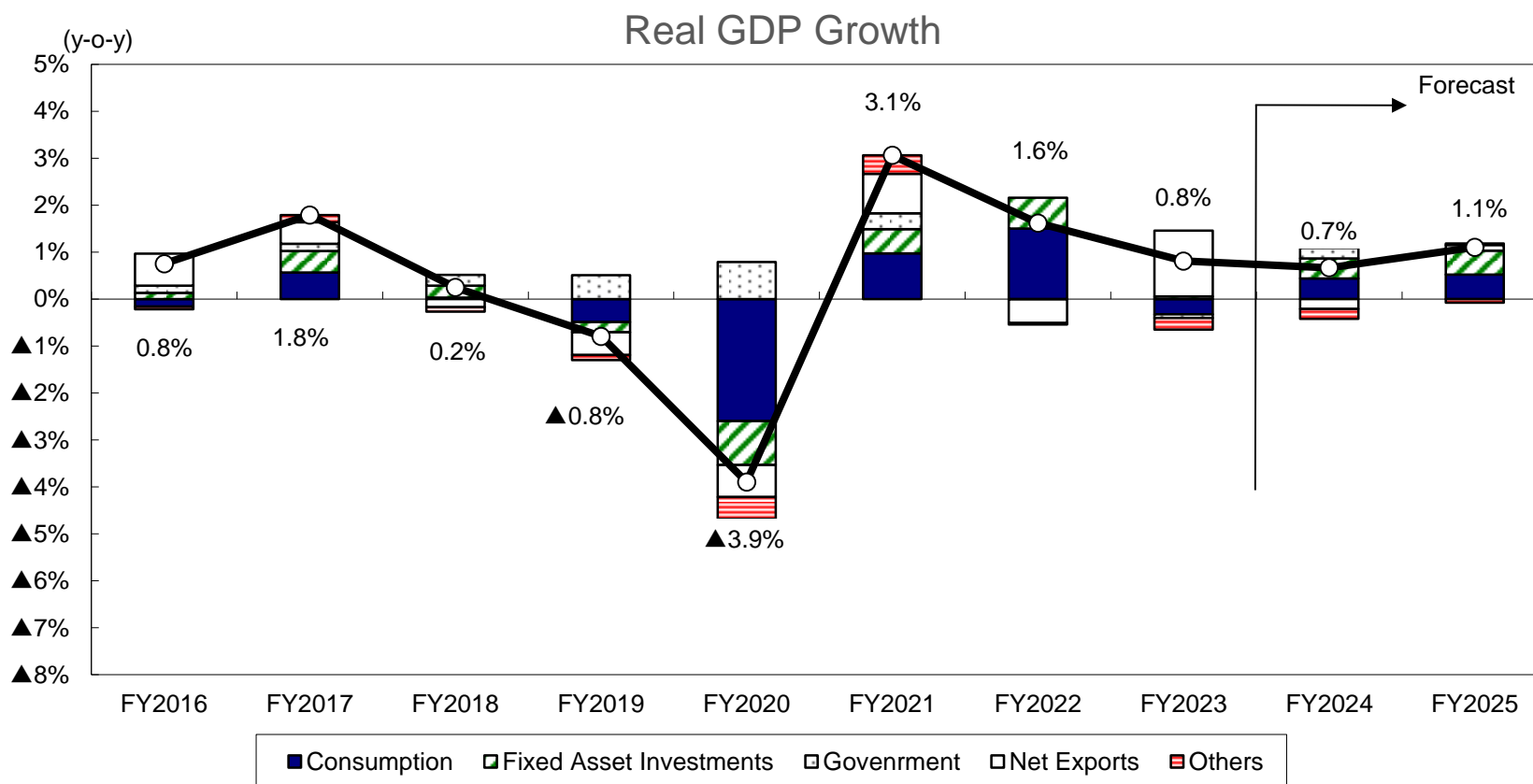
Capital Market

- J-REITs remain stable at lower levels, pressured by ongoing concerns over rising interest rates
- J-REITs acquired property assets totaling JPY366 billion in Q3 2024 (22.6% increase y-o-y)

Japan's growth is expected to continue at around 1% annually, just above its potential rate



- In Q3 2024, Japan's real GDP is expected to increase by 0.2% q-o-q (annualized 0.8% increase), the second consecutive growth.
- 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, September, 2024.

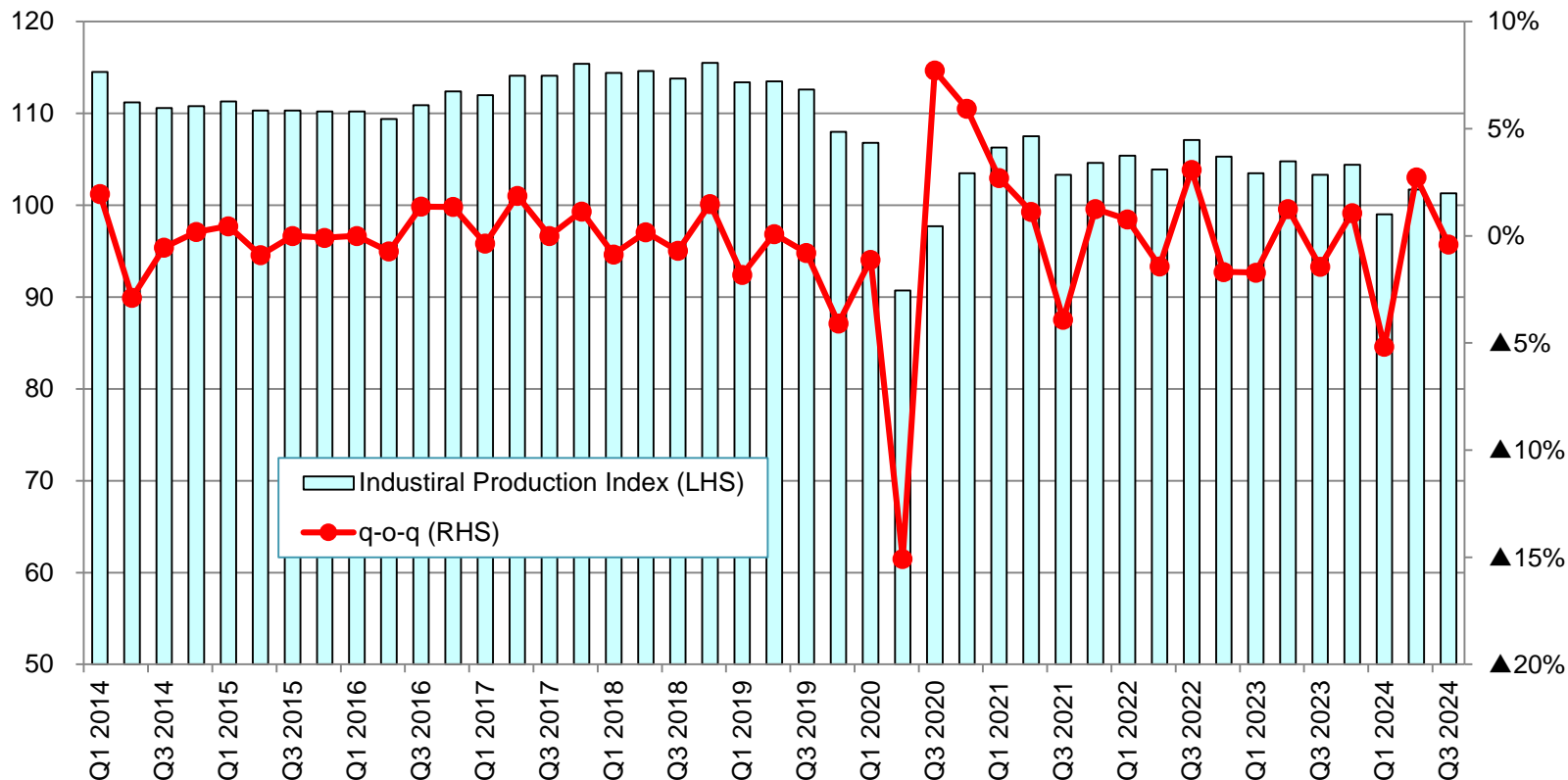
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Industrial production has declined, impacted by shutdowns at automobile factories



- Industrial production decreased by 0.4% q-o-q in Q3 2024, marking the first decrease in two quarters.
- Automobile sector fell by 4.1% due to factory shutdowns, while production machinery and general-purpose machinery dropped by 5.6% and 2.7%, respectively.

Industrial Production Index



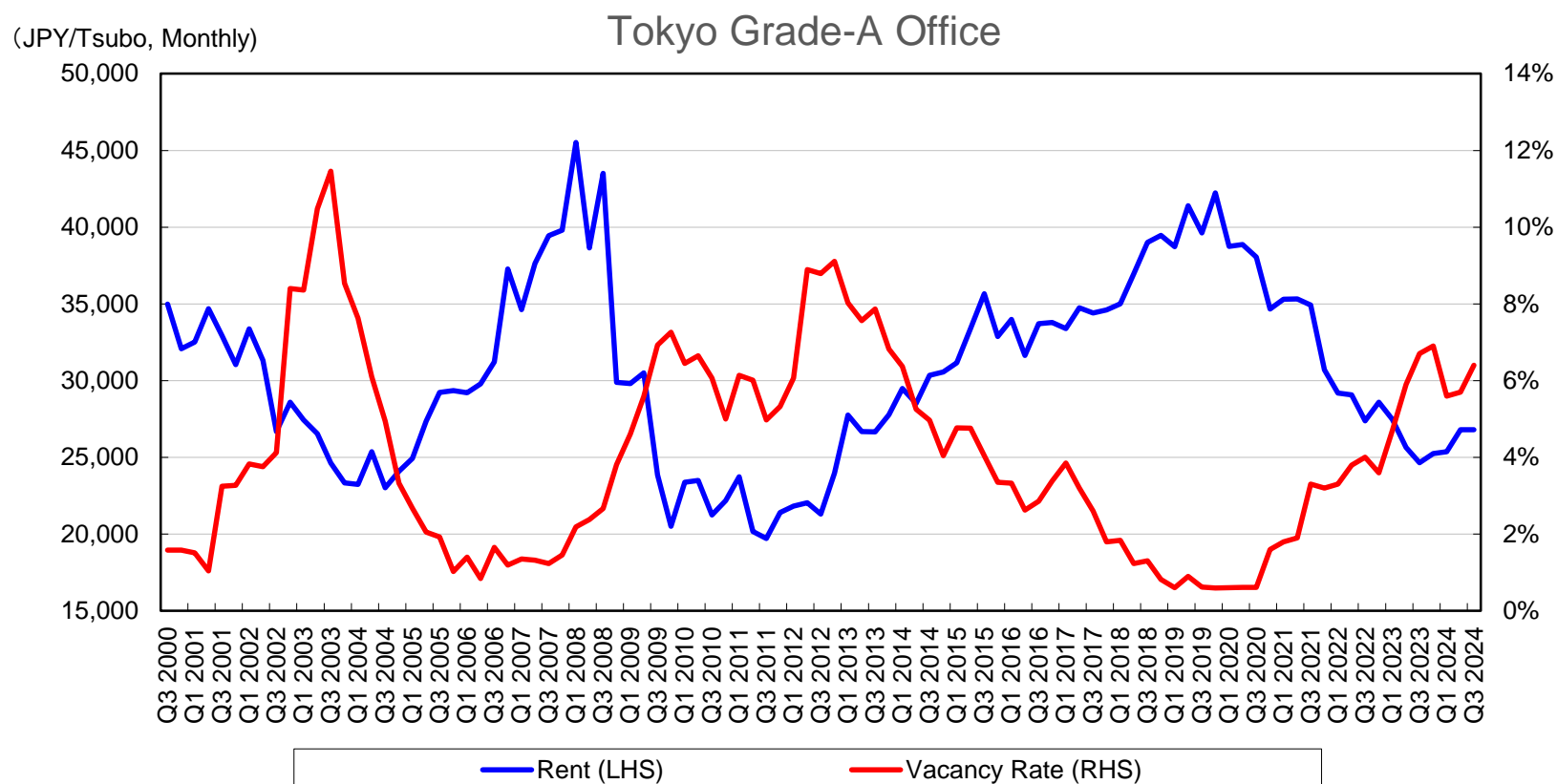
Source: The Ministry of Economy, Trade and Industry

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With supply having peaked and office demand on an upward trend, the office market is expected to remain resilient



- In Q3 2024, Tokyo grade-A office rents were JPY 26,796 per tsubo, remaining nearly flat compared to the previous quarter.
- Vacancy rates increased to 6.4% from 5.7% 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)

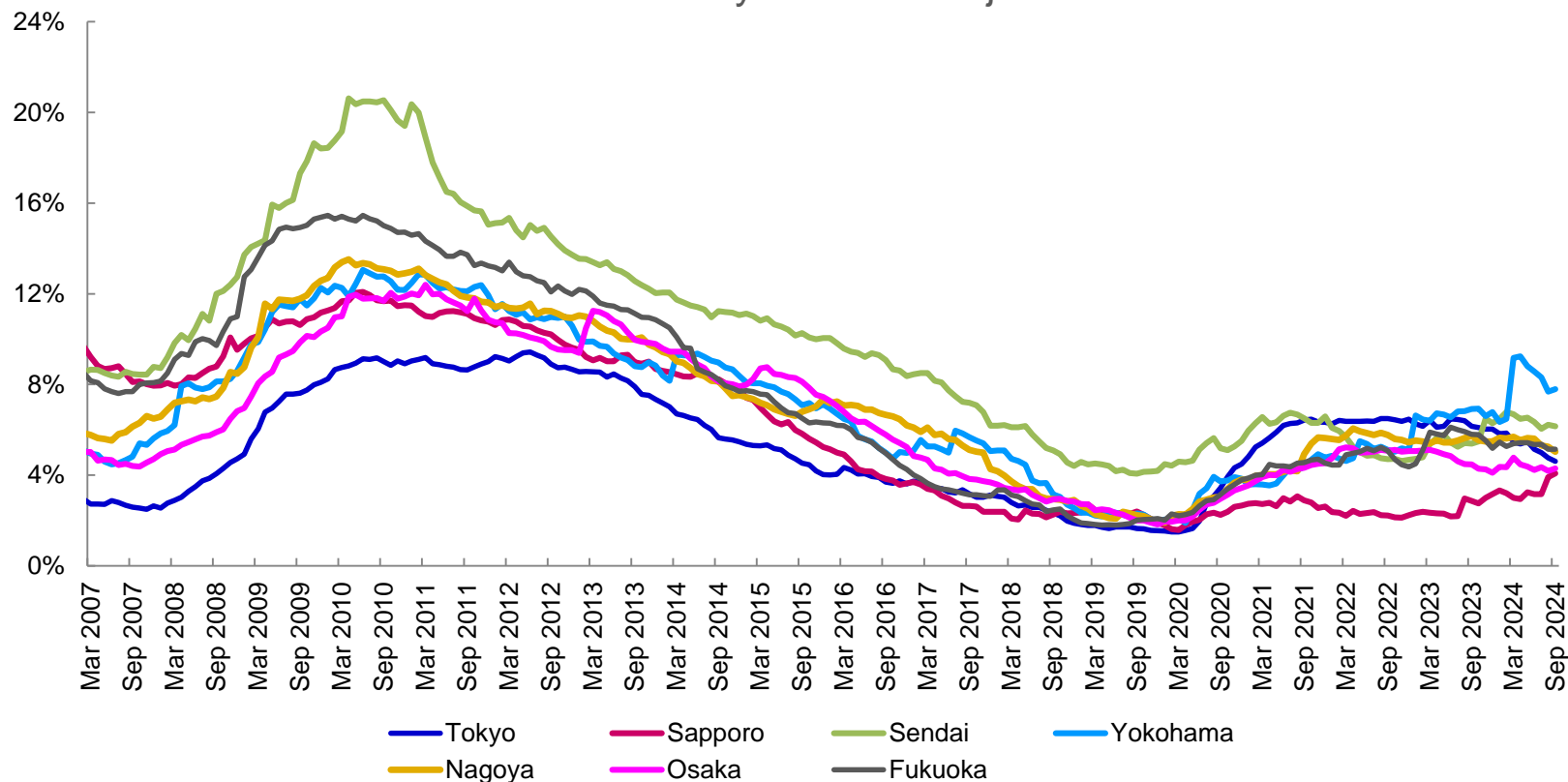
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Vacancy rates in major cities are trending down, but upcoming supply in Osaka and Fukuoka calls for close attention to these markets



- In Q3 2024, vacancy rates declined in Yokohama by -0.8%(vacancy rate: 7.8%), Nagoya by -0.6%(5.0%), Tokyo by -0.5%(4.6%), Fukuoka by -0.2% (5.1%) and Sendai by -0.2% (6.2%), while increased in Osaka by +0.1%(4.3%) and Sapporo by +0.9% (4.1%).

Office Vacancy Rates in Major Cities



Source: Miki Shoji

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Multifamily

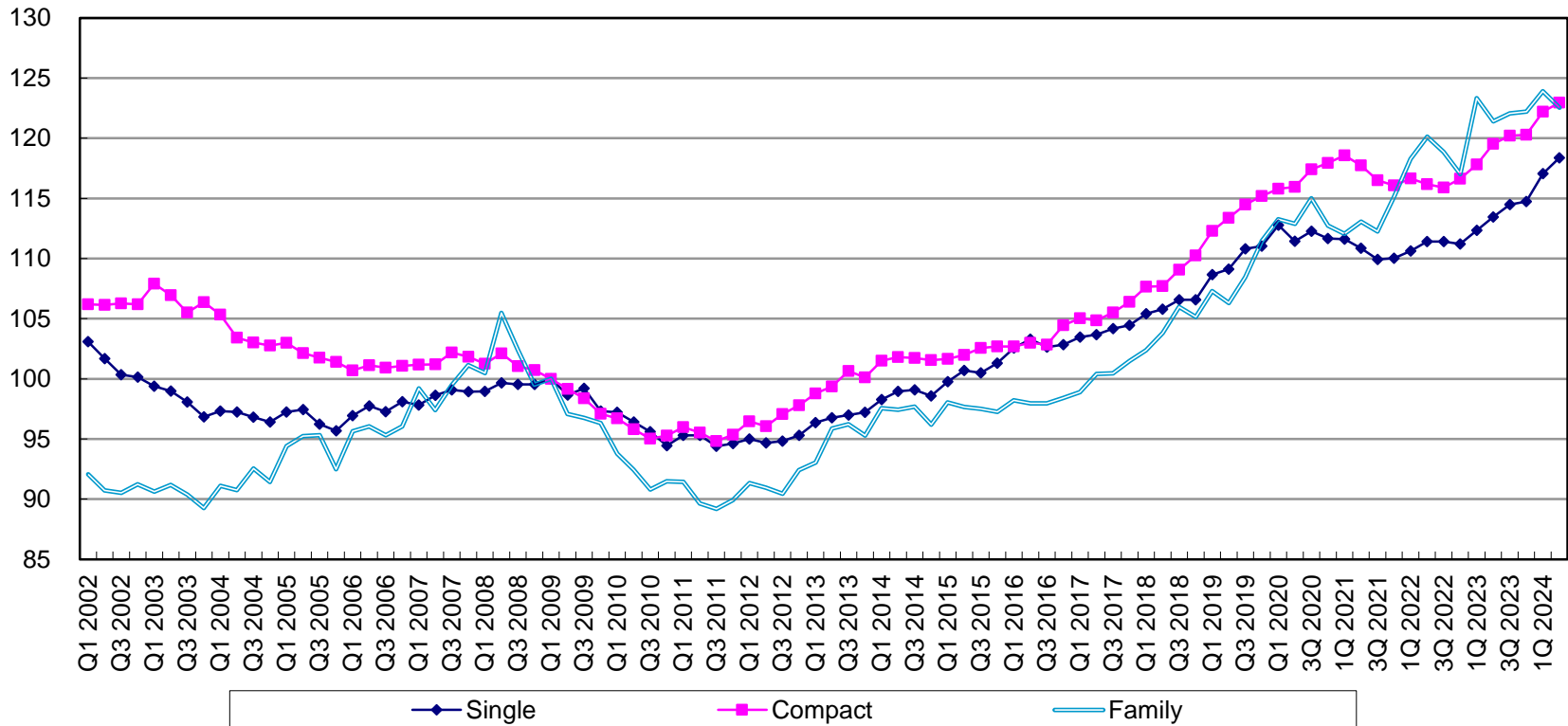
In Tokyo 23-ku, multifamily rents are steadily increasing fueled by a continued population influx into urban areas



- In Q2 2024, multifamily rents of single-, compact- and family-type in Tokyo 23-ku changed by +4.3%, +2.9%, and +0.9% y-o-y, respectively.

Multifamily Rents in Tokyo 23-ku

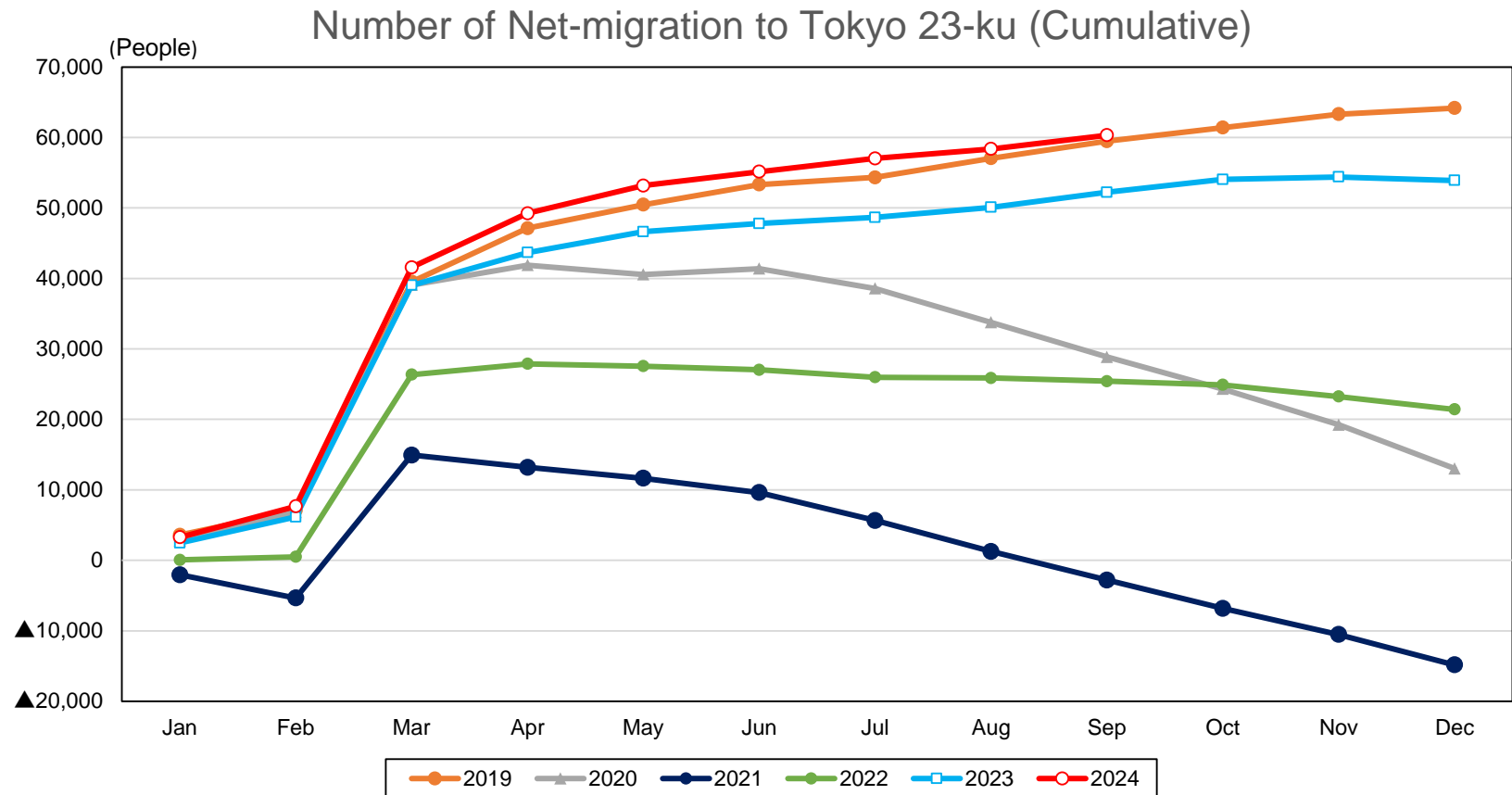
(Q1 2009=100)



Tokyo's population influx has now rebounded to pre-pandemic levels



- Population inflow to Tokyo 23-ku reached 60,311 in the cumulative period from January to September 2024, representing a 16% increase compared to the 2019 level.



Source: The Statistics Bureau of Japan

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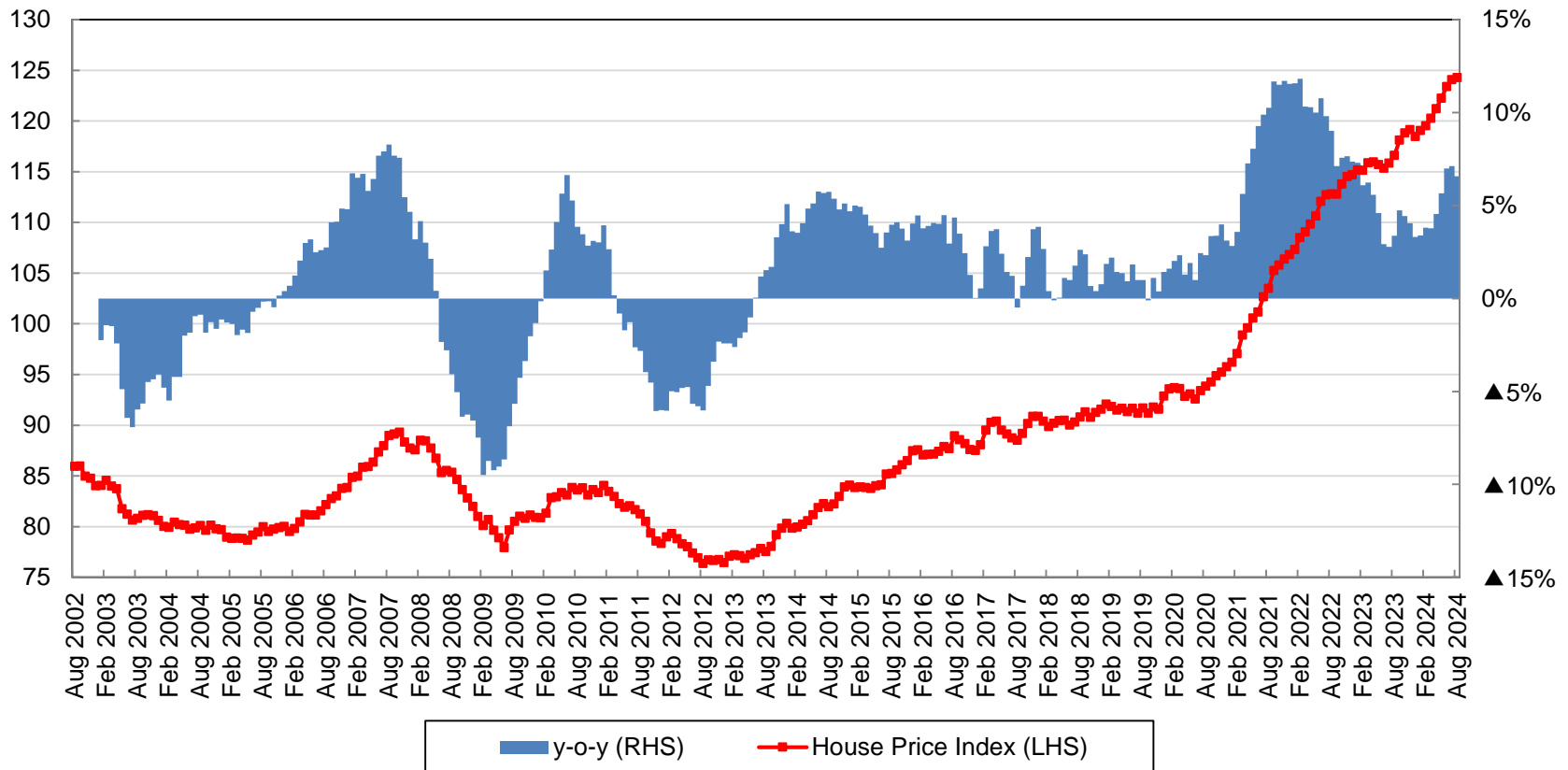
Multifamily

Housing prices have continued to rise, causing transaction volumes to soften recently



- In Greater Tokyo, condo price rose by 6.6% y-o-y in August 2024.
- The number of existing condo contracts in Greater Tokyo decreased by 2.9% y-o-y in Q3 2024, marking the first decline in five quarters.

Home Price Index (Existing Condominium)



Source: Japan Real Estate Institute

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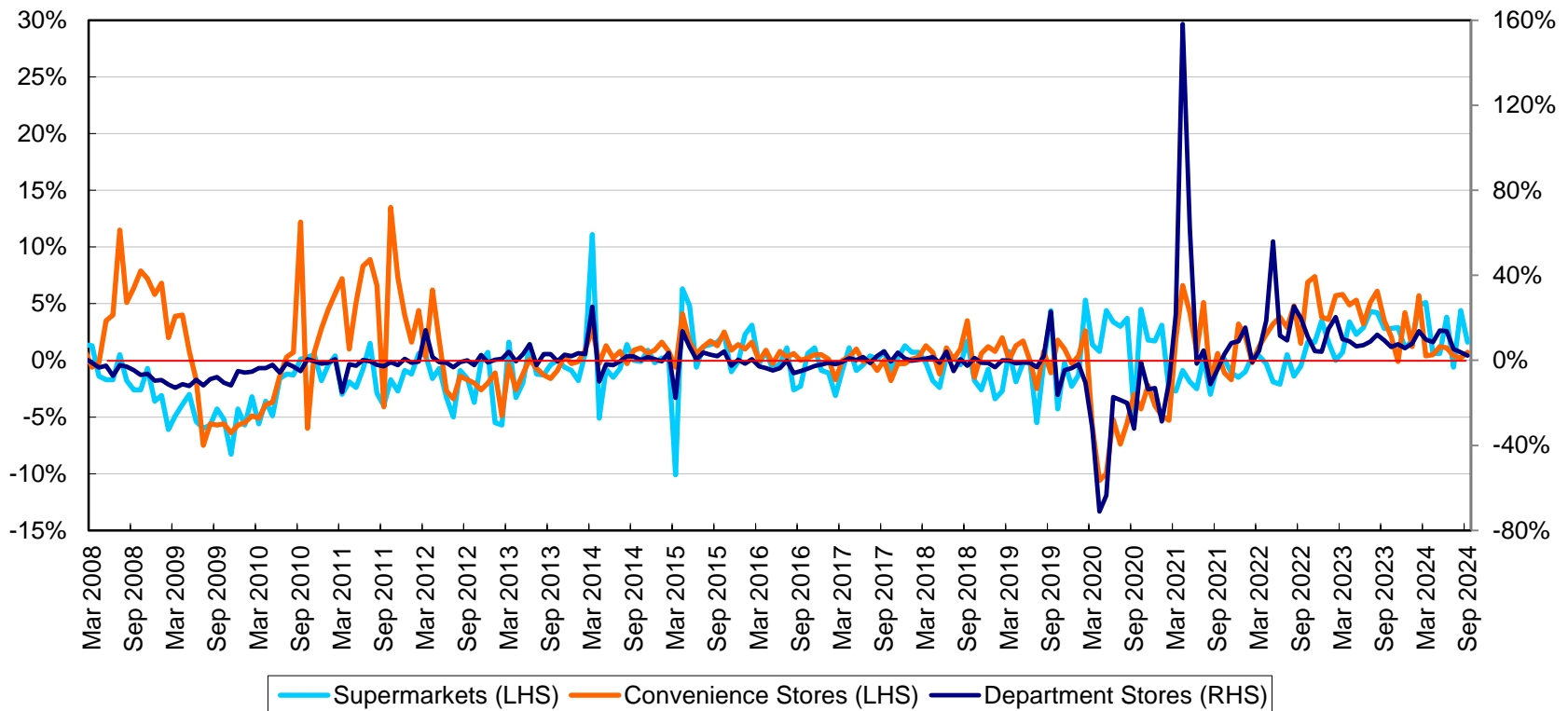
Retail sales are continuously increasing driven by expanding inbound consumption



- In Q3 2024, sales of department stores, supermarkets, and convenience stores increased by 3.8%, 1.8%, and 0.4%, respectively.

Retail Sales Growth

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



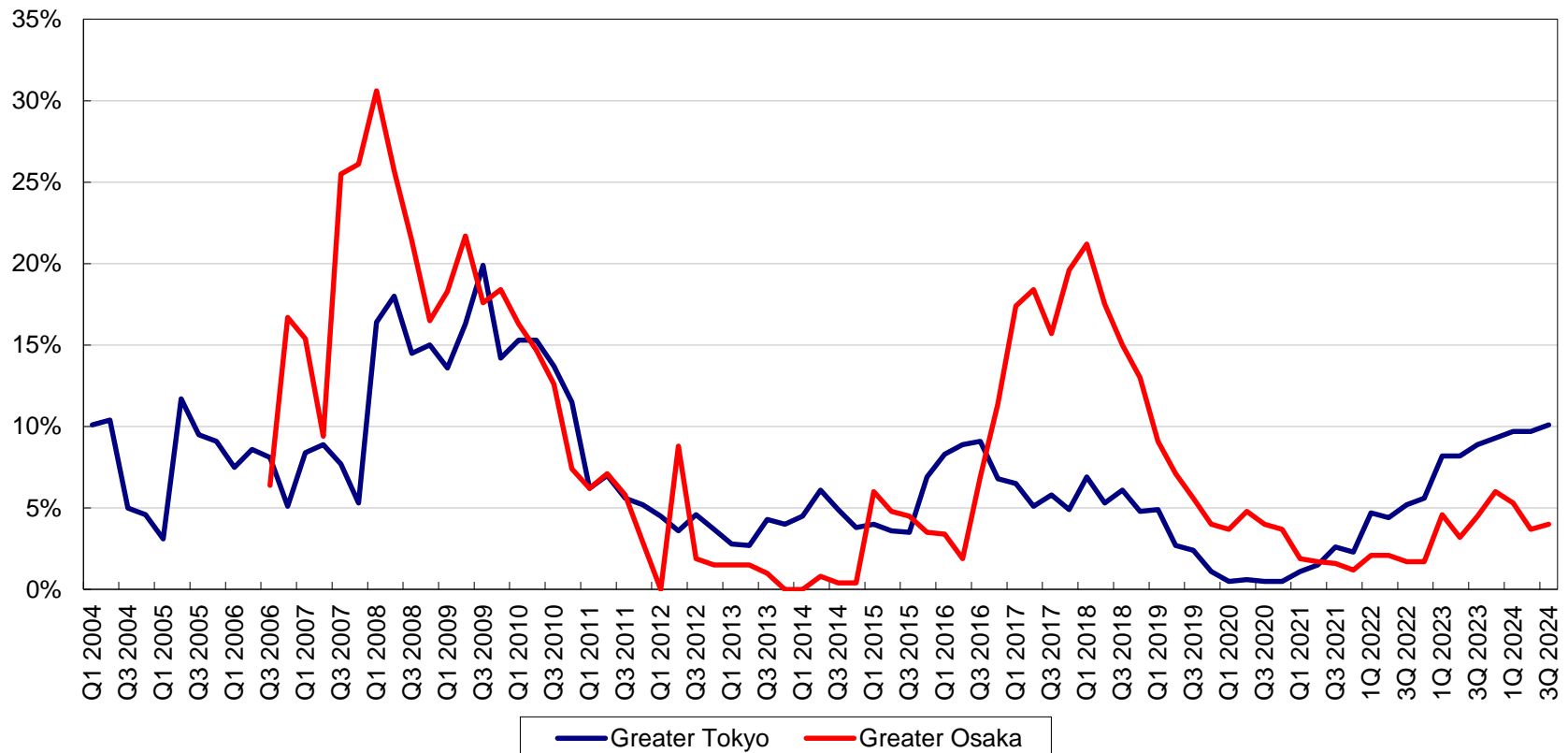
Source: The Ministry of Economy, Trade and Industry

The vacancy rates in the Tokyo metropolitan area remain elevated due to new supply



- In Q3 2024, vacancy rates in Greater Tokyo reached 10.1%, rising by 0.4% from the previous quarter and surpassing the 10% mark for the first time in nearly 14 years.
- In Greater Osaka, vacancy rates increased to 4.0% from 3.7% in the previous quarter.

Vacancy Rates of Large Multi-Tenant Logistics



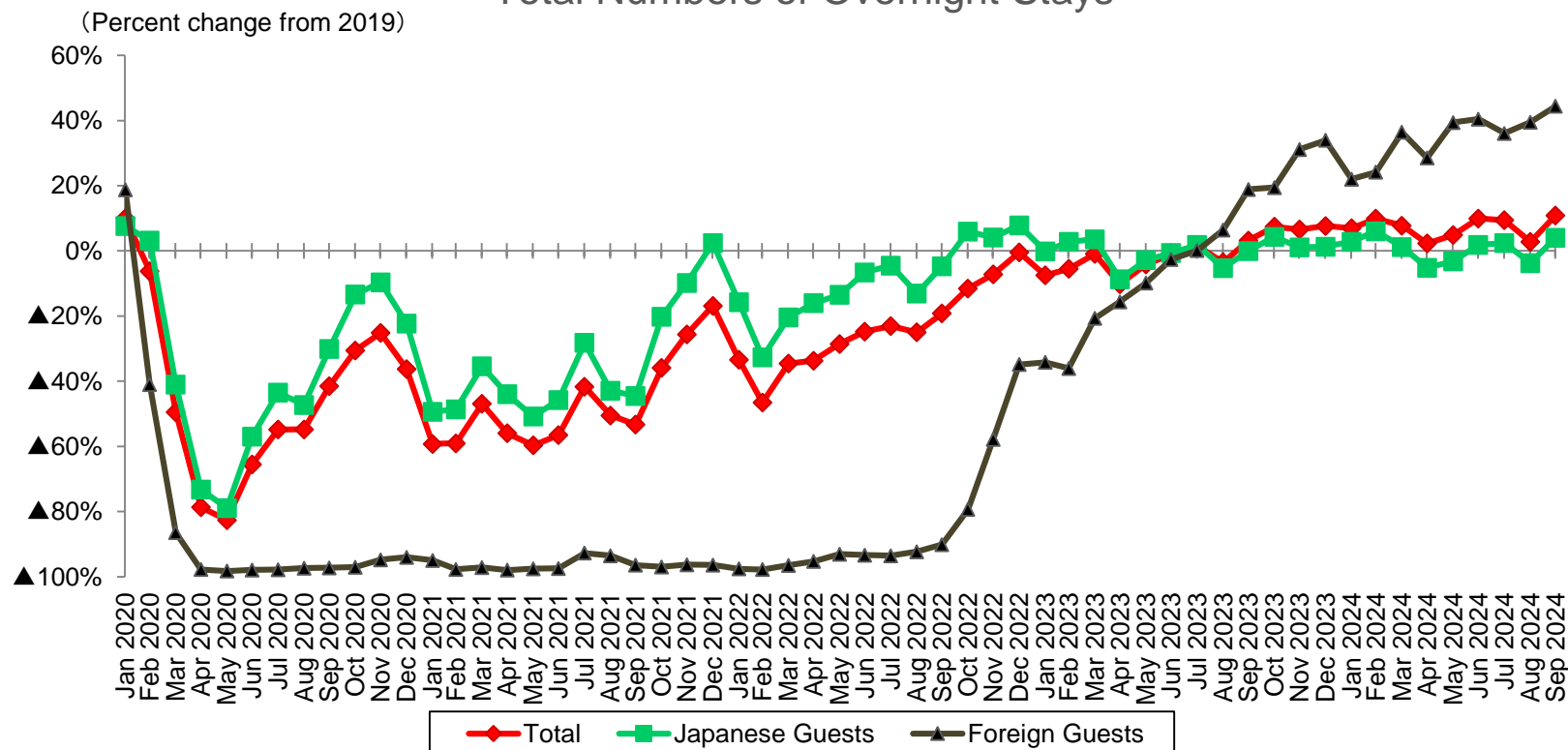
Source: CBRE

The hotel market's guest numbers are surpassing pre-COVID levels driven by strong inbound demand



- In Q3 2024, the total number of overnight stays was +7% compared to the same period in 2019, of which Japanese and foreigners increased by 1% and 40%, respectively.
- According to STR, hotel RevPAR was +33% in Tokyo and +35% in Osaka in June 2024 from the corresponding month in 2019.

Total Numbers of Overnight Stays



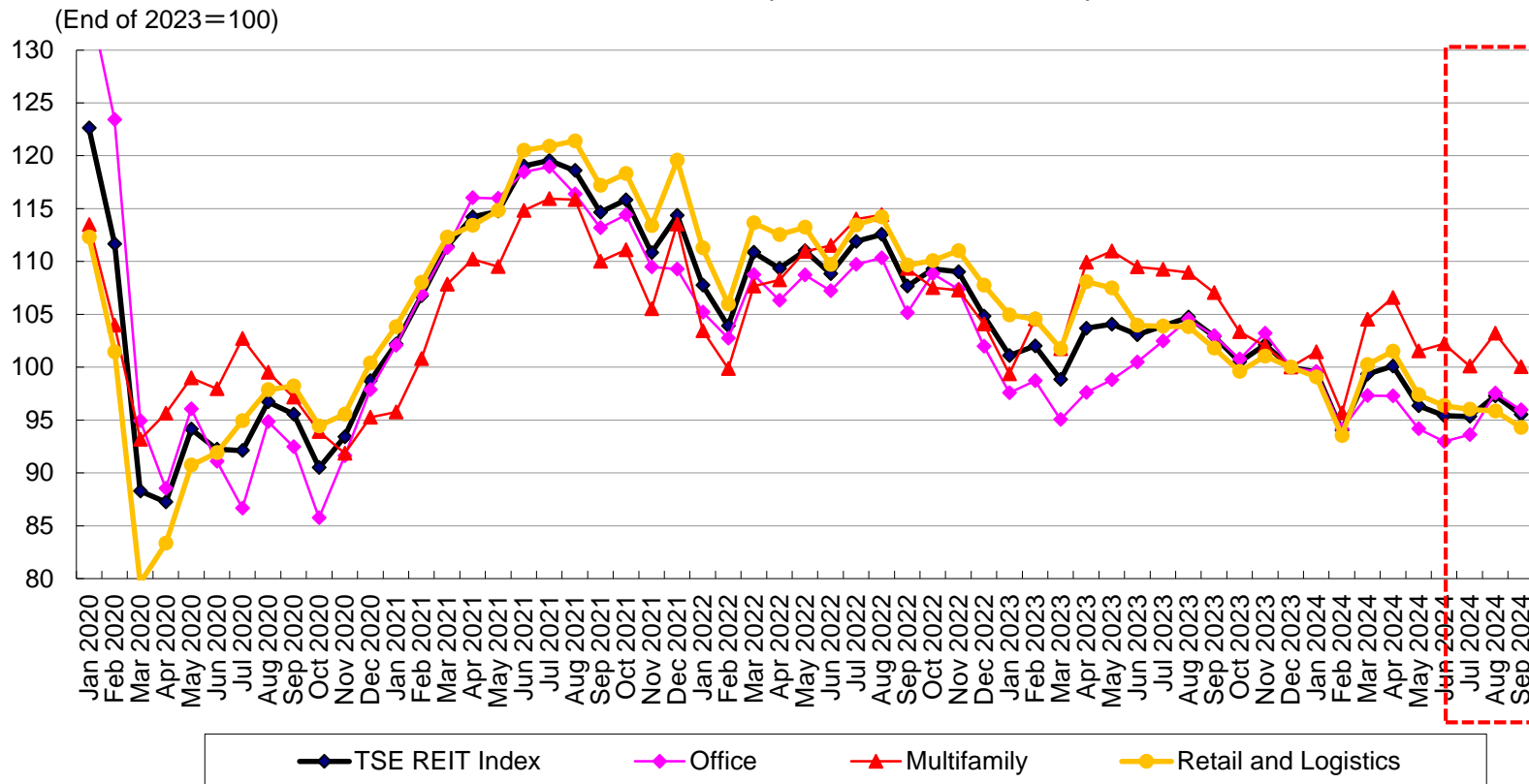
Source: Japan Tourism Agency

J-REITs remain steady at low levels, weighed down by ongoing concerns over rising interest rates



- J-REIT Index increased by 0.1% q-o-q in Q3 2024, trading at a price to NAV ratio of 0.84x, dividend yield at 4.8%, and dividend and JGB spread at 3.9% in September 2024.

J-REIT Index (TSE REIT Index)

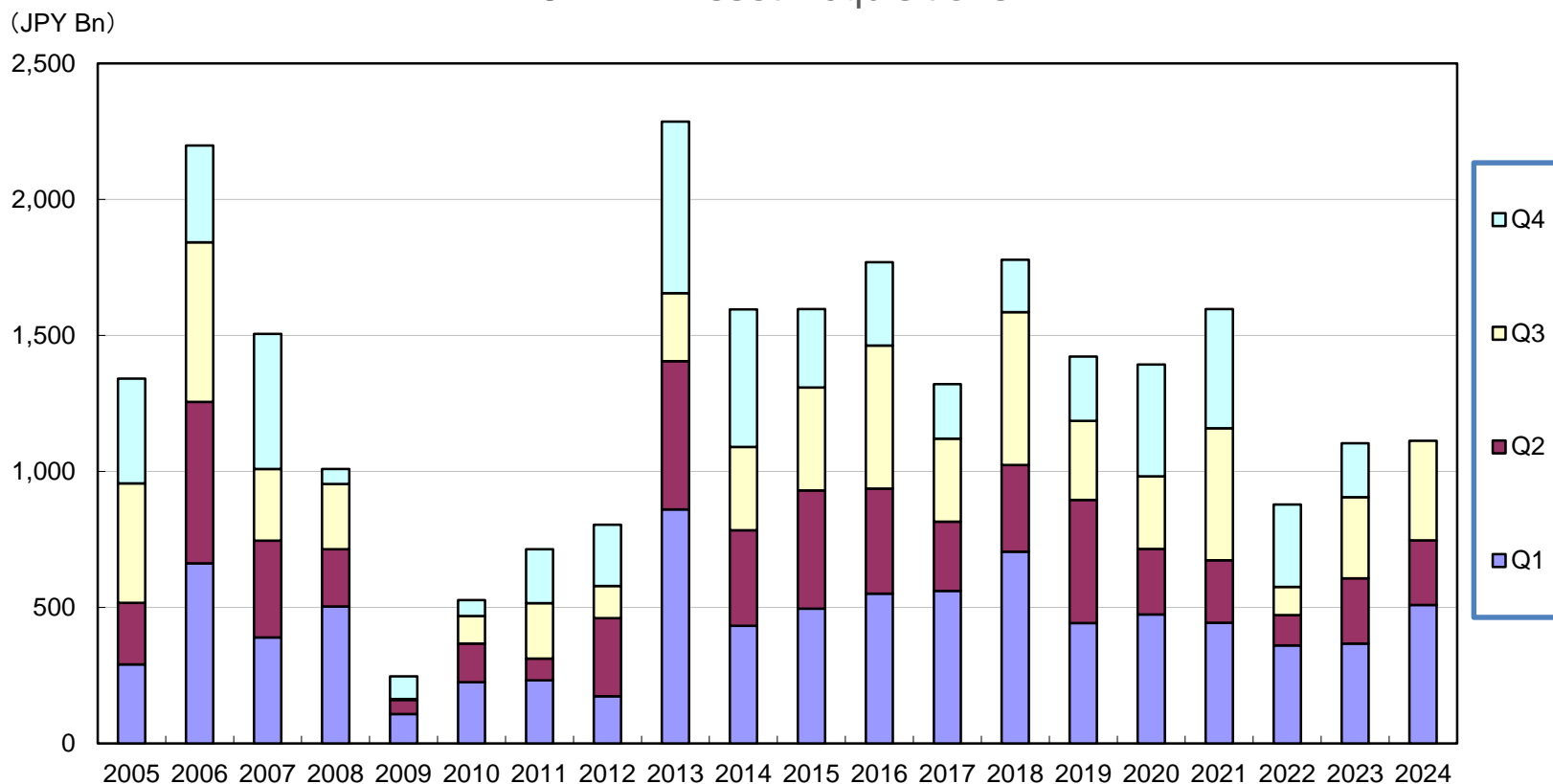


Source: Tokyo Stock Exchange

Hotels are attracting strong investment interest, fueled by robust inbound demand and expectations for continued revenue growth

- J-REITs acquired property assets totaling JPY366 billion in Q3 2024 (22.6% increase y-o-y).
- The hotels (28%) led the acquisitions by J-REITs, followed by, office (23%), multifamily (23%), logistics (17%), retail (5%), and others (4%).

J-REIT Asset Acquisitions



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

Source: Disclosure Documents



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