

# Japan Real Estate Market Overview

CY2018

# ■ Japan country profile

※Location:

An island nation in East Asia. Located in the Pacific Ocean, it borders China, North Korea, South Korea, Russia, Taiwan, the Sea of Japan, the Sea of Okhotsk, and the East China Sea.

※Area: Approximately 378,000 km<sup>2</sup>

※Population: Approximately 122.6 million

※Language: Japanese

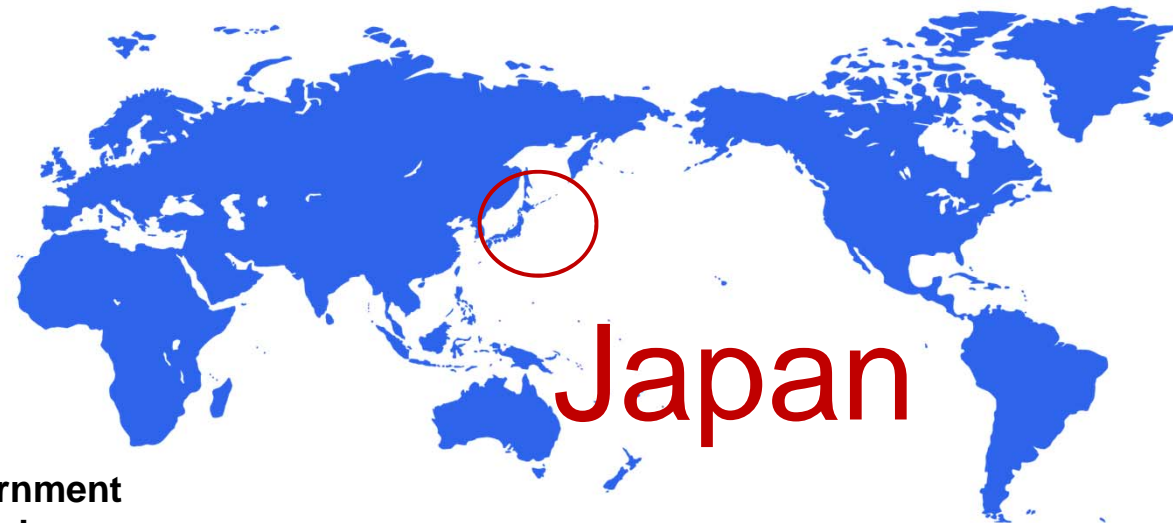
※Capital City: Tokyo

※Government system:

The government system is a parliamentary government with a constitutional monarchy; the chief of state is the emperor, and the head of government is the prime minister.

※Exchange rate: 1 JPY (JPY) : 0.008818 USDs (USD)  
1 USD (USD) : 113.39 JPYs (JPY)

※Major industries: Banking, Insurance, Real estate, Retailing, Transportation, Telecommunications and Construction



# Major Cities

## Osaka



**Location:** Located in Kansai region, positioned in approximately the west of Japan.

**Area:** Approximately 225km<sup>2</sup>

**Population:** approximately 2 million

**Features:**

- ① Second largest city following Tokyo.
- ② Kansai International Airport, Japan's only 24-hour operating airport hub, is located.

**Topics:**

Osaka (Yumeshima) will host the World Expo 2025.

## Tokyo



**Location:** Located in the southern Kanto region, positioned in approximately the center of the Japanese archipelago.

**Area:** Approximately 627km<sup>2</sup>

The "central" area is divided into 23 special wards.

**Population:** Approximately 9 million

**Features:**

- ① The political, economic, and cultural hub of Japan.
- ② Government offices, corporations(headquarters), and commercial facilities are concentrated in the heart of Tokyo.

**Topics:**

Tokyo Olympic 2020 will be held.

# Fukuoka



**Location:** : Located in the South of Japan.

**Area:** Approximately 343km<sup>2</sup>

**Population:** Approximately 1.5million

**Features:**

Known as an Asian business hub.

Close to markets in China's coastal regions and Korea.

**Topics:**

Fukuoka is the designation of National Strategic Special Zone for Global Startups and Job Creation by the national government.

# Sapporo



**Location:** Located in the North of Japan.

**Area:** Approximately 1,121km<sup>2</sup>

**Population:** Approximately 1.9 million

**Features:**

Japan's largest call center hub.

**Topics:**

Sapporo is developing toward its bid for the Olympic Games in 2026.

# Nagoya



**Location:** Located almost at the center of Japan.

**Area:** Approximately 326km<sup>2</sup>

**Population:** Approximately 2million

**Features:**

The hub of Japanese manufacturing industries.

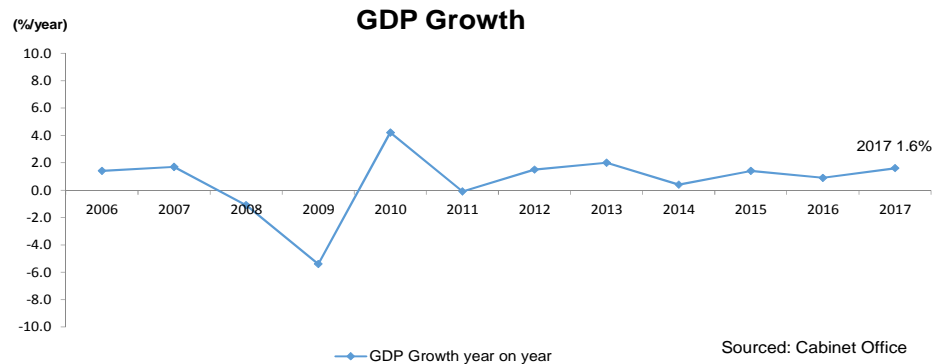
**Topics:**

The headquarter of Toyota Motor Corporation is located.

# Japanese Economic Condition

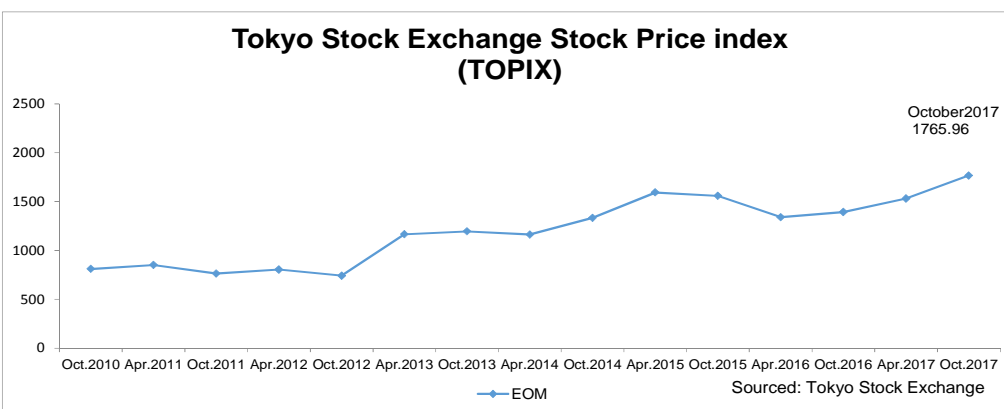
**Japan has the world's third-largest economy.**

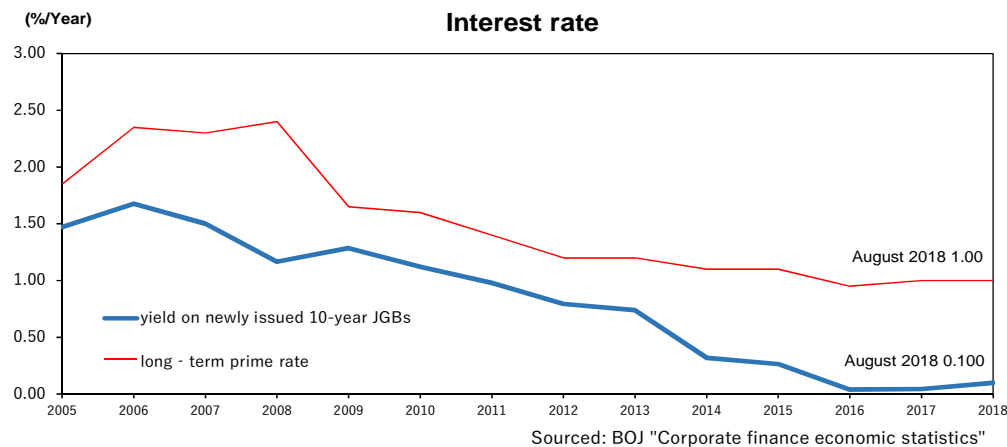
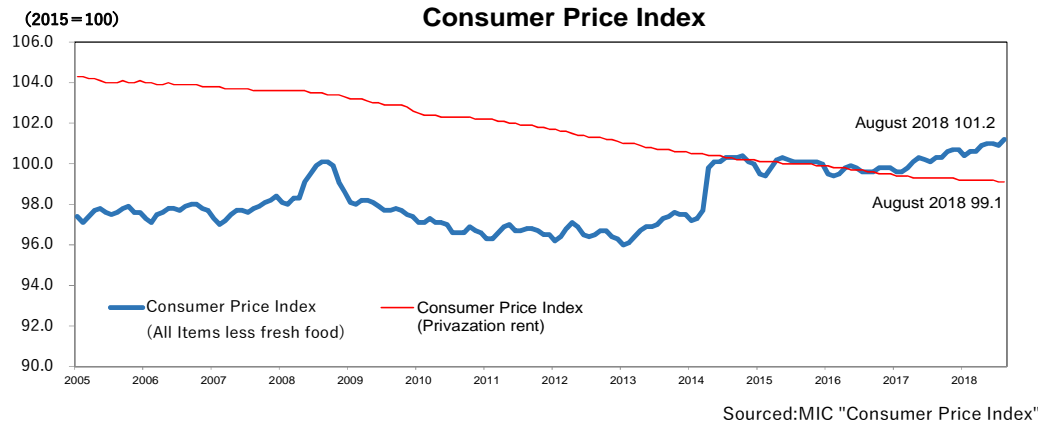
**Japan's economy is likely to continue its moderate expansion.**



According to Bank of Japan, Japan's economy is likely to continue growing at a pace above its potential in fiscal 2018, on the back of highly accommodative financial conditions and underpinned by government spending, as overseas economies continue to grow steadily.

From fiscal 2019 to fiscal 2020, the pace of growth is expected to decelerate against the background of the slowdown in capital investment and the effects of the consumption tax hike, but the economy is expected to continue its expansion supported by external demand.





The year-on-year rate of change in the CPI (all items less fresh food) has been positive, but has remained relatively weak compared with the expansion of the economy and tightening of labor market conditions. As a result, the rise in medium-to long-term inflation expectations has been delayed.

Behind the fact that the rise in the inflation rate takes more time than the improvement in the economic and employment situation is the persistence of ideas and practices based on the negative thoughts due to the long-term experience of low economic growth and deflation. However, firms' stance gradually will shift toward further raising wages and prices. Households' tolerance of price rises will increase. In this situation, further price rises are likely to be observed widely and then medium- to long-term inflation expectations are projected to rise gradually. As a consequence, the year-on-year rate of change in the CPI is likely to increase gradually toward 2percent ,although it will take longer than expected.

# ■ What's New in Japan?

## 1. Casino Law

Japanese lawmakers on July 20, 2018 enacted controversial legislation legalizing gambling resorts.

### ※Where will the resorts be?

**Osaka**, which will host the 2025 World Expo and is seen as the leading candidate for one of the first three casino licenses, has proposed building a casino and entertainment complex on the artificial island of Yumeshima.

**Tokyo and Yokohama** are also studying the possibility. **Tomakomai** in Hokkaido has also shown interest, along with central Japan's **Wakayama and Sasebo** in Nagasaki.

### ※What is the estimate of Market size ?

Japan welcomed nearly 16 million international visitors in the first half of 2018, up 16% from last year, the Japan National Tourism Organization reports. Goldman Sachs estimates the nation's casino market at **1.75 trillion yen (\$15.8 billion)** if three resorts open. **This would make Japan the world's second-biggest gambling market, after Macau.**

## 2. Immigration

**Japan to upgrade immigration bureau to welcome foreign workers.**

Faced with intractable labor shortages, **Japan is moving to accept more foreign workers**, including unskilled laborers the country has long resisted. Prime Minister announced plans to accept more foreign workers starting next April by creating a new visa status, a move aimed at providing staff to labor-strapped industries such as hotels and farming.

## 3. Consumption TAX(Sales TAX)

**Japan will raise its consumption tax rate to 10% from 8% as scheduled in October 2019.**

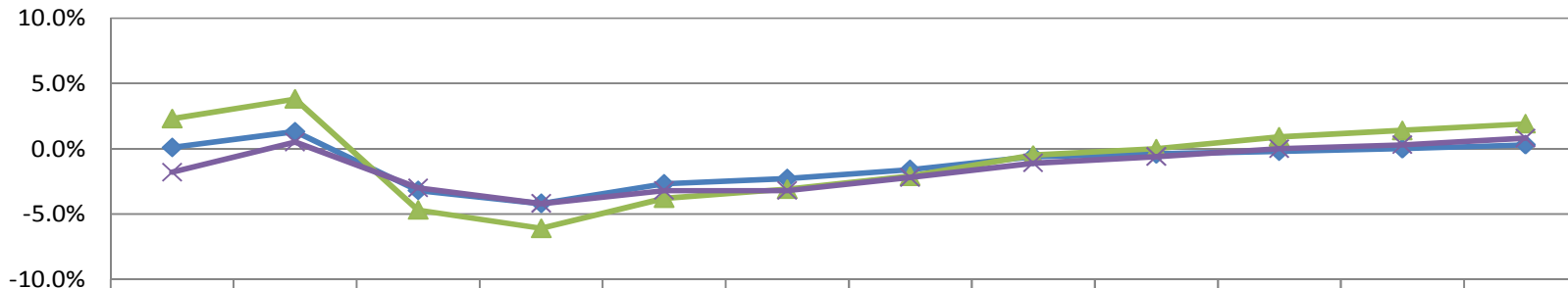
It is necessary to help pay for free preschool and other social security initiatives.

Based on Nikkei and Japan Times

# Japanese Real Estate

Land Market Value Publication Change Rate  
Year on Year Nationwide

※MLIT



## 【1-year land market value since January 2017】

On the national average, the average rate of change in residential land began to rise for the first time in 10 years, after leveling off last year.

Commercial districts rose for three consecutive years, and industrial districts rose for two consecutive years, with each showing a stronger upward trend.
















**The average for all uses increased for the third consecutive year.**

### ※Land Market Value Publication

The Land Appraisal Committee under the MLIT publishes those market values per square meter of standard sites as of January 1 every year, which have been assessed by the Committee on the basis of real property appraisal. 26,000 standard sites were selected across the country by the Committee in 2017. The Land Market Value Publication has provided basic information about the land market in Japan since 1970.



# Real Estate Weather Forecast

	Current	2nd Half of 2018	1st Half of 2019
	End of Jun.2018	Jul.-Dec.2018	Jan.-Jun.2019
All Use	 Sunny partly cloudy	 Sunny partly cloudy	 Sunny partly cloudy
Office	 Sunny partly cloudy	 Sunny partly cloudy	 Sunny partly cloudy
Residence	 Sunny partly cloudy	 Sunny partly cloudy	 Sunny partly cloudy
Retail	 Cloudy	 Sunny partly cloudy	 Sunny partly cloudy
Logistics	 Sunny partly cloudy	 Sunny partly cloudy	 Sunny partly cloudy

**The Real Estate Weather was “Sunny partly cloudy” for the all use at the end of June 2018. The forecasts for the 2<sup>nd</sup> half of 2018 and the 1<sup>st</sup> half of 2019 were “Sunny partly cloudy” as well. Although the current weather for retail is “cloudy”, it has recovered somewhat since the second half of 2018, and is expected to be “Sunny partly cloudy”.**

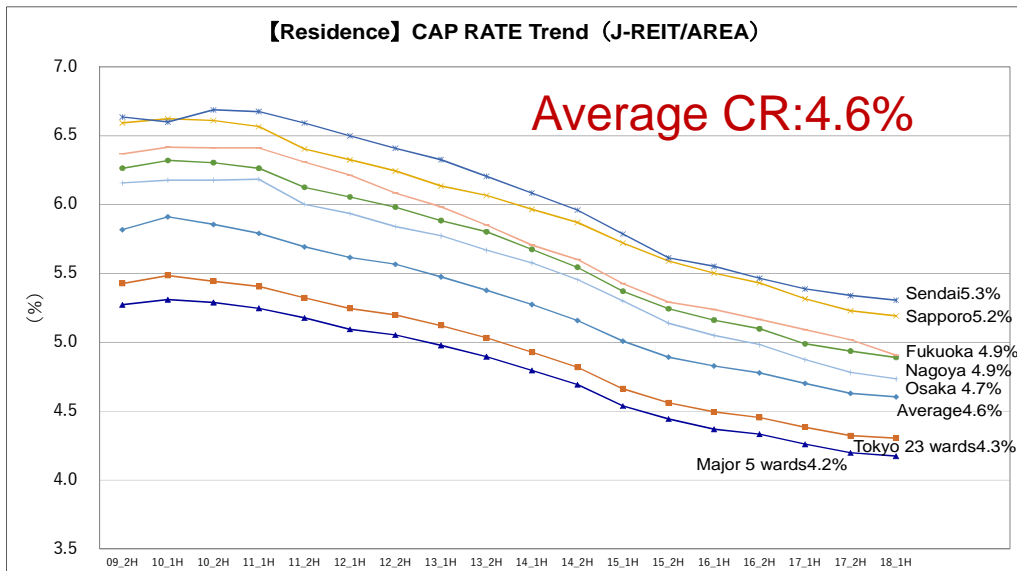
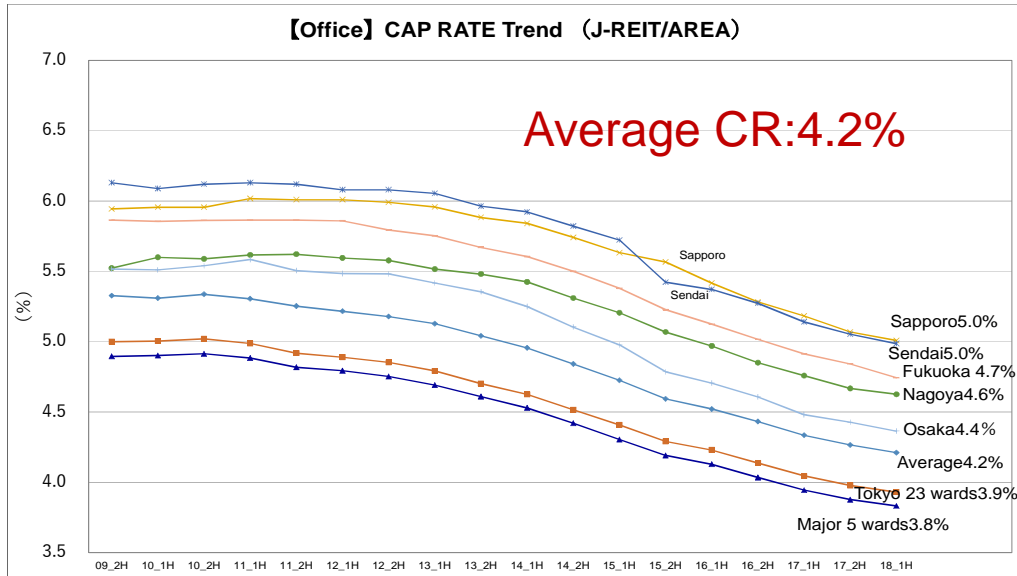
◆What’s “TMAX Real Estate Weather Forecast”?

The standard property (250 properties in this survey) is extracted from the property owned by J REIT, and the NOI (Net Operating Income) is forecast for each property from the present to the present to six months and from the seventh to the twelfth months, and the deviation from the standard NOI, which is expected to be stable in the medium to long term, is expressed qualitatively in terms of the outlook for the real estate market based on the weather chart. This report presents weather as of the end of June 2018 and weather forecasts for the second half of 2018 (July to December 2018) and the first half of 2019 (January to June 2019)

Sourced TMAX Valuation

# CAP RATE Trend

Cap rate have generally been on a lower trend.



## ◆Office :Overview

The vacancy rate in major 5 wards was 2.8% in March 2018, falling to 2.57% as of June 2018 (Miki Shoji Office Data). In addition, the actual occupancy rate of offices (all areas) for properties owned by J-REIT (as of the end of June 2018) is 99.1%, which is a high level of operation. The decline in the vacancy rate is still driving the increase in rent, and the NOI is expected to increase slightly.

Thanks to strong corporate performance, office demand is strong in the metropolitan area and major metropolitan areas. There was a large supply of approximately 293,000 tsubo (on a leased floor space basis) in the 23 wards of Tokyo. The new office supply in the 23 wards will be about 196,000 tsubo in 2019. **The office market is expected to remain stable for the time being.**

## ◆Residence: Overview

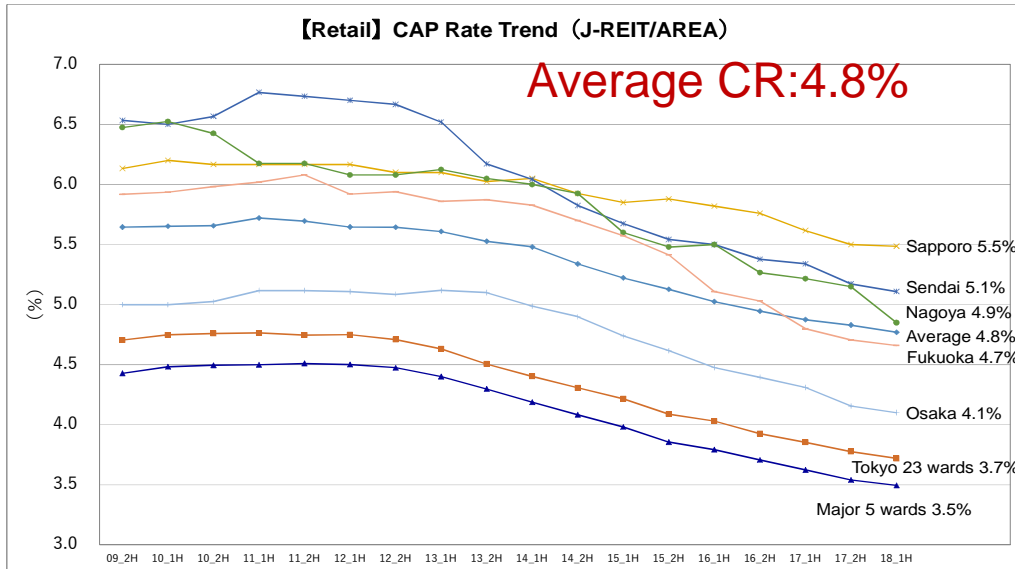
According to statistics on housing starts by the Ministry of Land, Infrastructure, Transport and Tourism, the number of housing starts in the six months from January to June 2018 was approximately 189,000, down 13.3% from the same period of the previous year.

Due to rising construction costs and the fraudulent financing of investment properties by SURUGA Bank, the enthusiasm for investment in rental housing has stabilized.

While the declining birthrate, aging population, and population decline in rural areas are a cause for concern in the rental housing market,

**the demand for rental housing in urban areas is stable because the excess of population moved into Tokyo and regional cities, and the number of households continues to increase.**

Sourced TMAX Valuation

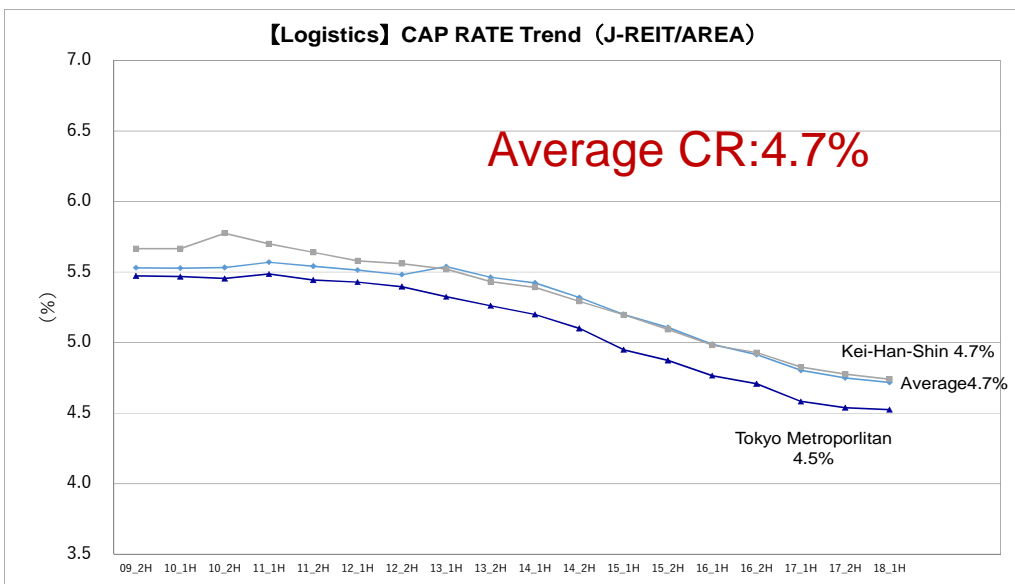


## ◆Retail: Overview

Due to increased competition among commercial facilities and increased competition between EC and actual stores. Major retailers have set the goal of selecting and concentrating management resources.

The withdrawal of unprofitable stores has been relentlessly carried out at their core stores. This has contributed to the decline in NOI.

According to the Ministry of Economy Trade and Industry's dynamic statistics of commerce, sales by type of department store in the six-month period from January to June 2018 were 3.1 trillion yen (down 0.4% from the same period of the previous year), 6.3 trillion yen (up 0.7% from the same period of the previous year) for supermarket, and 5.8 trillion yen (up 1.8% from the same period of the previous year) for convenience stores. The trend of inbound customers, which have a large impact on the retail industry continued to increase to 15.9 million visitors from January to June 2018 (up 15.6% from the same period of the previous year).



## ◆Logistics: Overview

According to JLL's Tokyo Logistics, the vacancy rate of logistics facilities in the Tokyo area rose from 4.1% at the end of December 2017 to 5.3% at the end of March 2018 due to the impact of new supplies.

However, it fell to 4.4% at the end of June 2018.

**Demand for logistics facilities is increasing due to the expansion of EC demand. Inquires are growing particularly in the Bay Area, which is close to the consumption area and around the outer ring road in Tokyo Area.**

Sourced TMAX Valuation

If you would like to know

further information,

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