



谷澤総合鑑定所
The Tanizawa Sōgō Appraisal Co.,Ltd.

Japan Real Estate Market Overview

CY2020 Spring

■ 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 km²

※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: 1JPY(JPY) : Approximately 0.009000 USDs(USD)
1USD(USD) : Approximately 110 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 225 km²

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 627 km²

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 343 km²

Population : Approximately 1.5 million

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 1,121 km²

Population : Approximately 1.9 million

Features:

Japan's largest call center hub.

Topics :

Sapporo is developing toward its bid for the 2030 Winter Olympics.

Nagoya



Location : Located almost at the center of Japan.

Area : Approximately 326 km²

Population : Approximately 2million

Features:

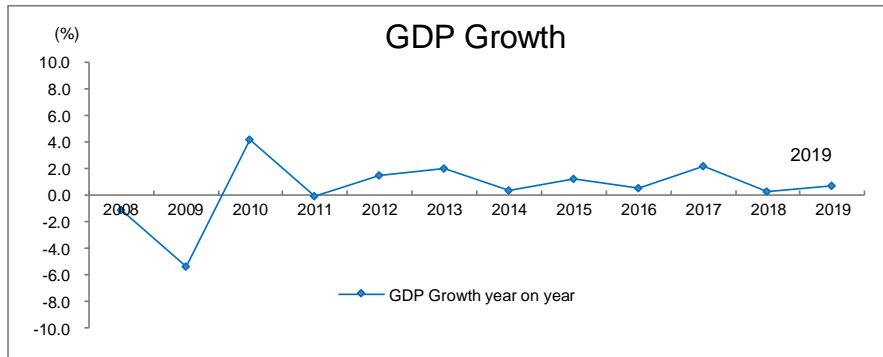
The hub of Japanese manufacturing industries.

Topics :

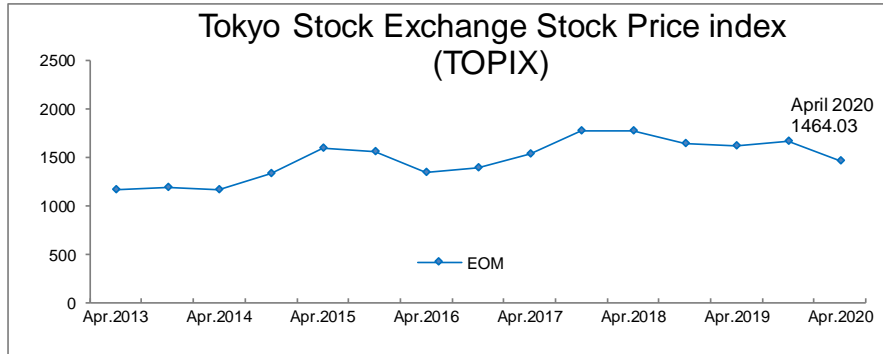
The headquarter of Toyota Motor Corporation is located.

Japanese Economic Condition

Whilst Japan sees significant impact of COVID-19 in the near-term, it will maintain moderate secular growth.



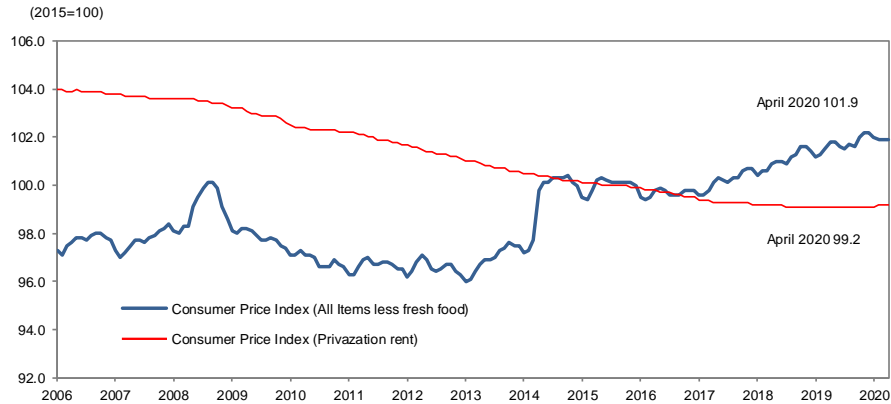
Source: Cabinet Office



Source: Tokyo Stock Exchange

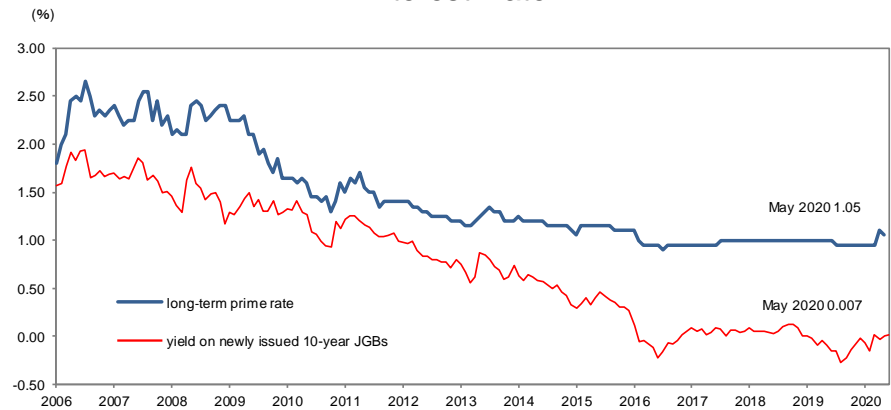
- ◆ According to Bank of Japan, Japan's economy remains in a severe situation for the time being due to the impact of COVID-19.
- ◆ CPI is expected to be somewhat weak for the time being, mainly affected by COVID-19 and the decline in crude oil prices.
- ◆ Thereafter, as the impact of COVID-19 wanes, Japan's economy is likely to improve, supported by accommodative financial conditions, government's economic measures, pent-up demand, and a projected recovery in production.

Consumer Price Index



Source: MIC

Interest Rate



Source: BOJ

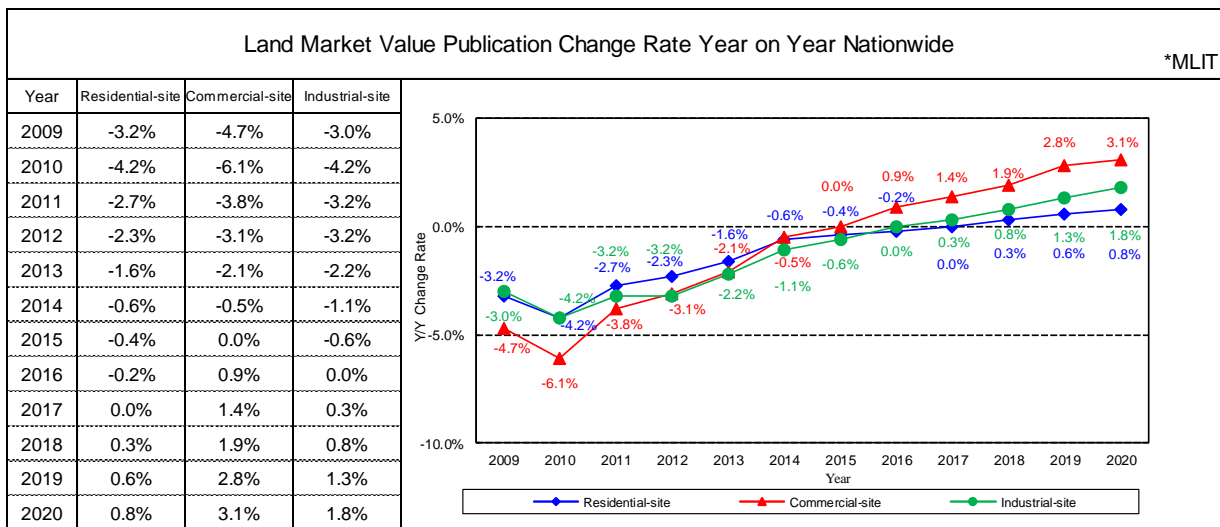
◆ CPI is likely to increase gradually. The impact of COVID-19 is assumed to wane on a global basis through the second half of 2020.

◆ Nevertheless, future developments are extremely unclear, as they could change depending on the timing of COVID-19 subsiding and on the impact on domestic and overseas economies.

◆ This outlook is based mainly on the assumption that, while the impact of COVID-19 remains, firms' and households' medium- to long-term growth expectations will not decline substantially and the smooth functioning of financial intermediation will be ensured with financial system stability being maintained, although this assumption entails high uncertainties.

◆ With regard to the risk balance, risks to both economic activity and prices are skewed to the downside, mainly due to the impact of COVID-19.

Japanese Real Estate



【1-year land market value since January 2019】
















On the national average, the average for all uses rose for five consecutive years, and the growth rate has also rose for four consecutive years.

Residential-site rose for three consecutive years, commercial-site rose for five consecutive years, and industrial-site rose for four consecutive years, all show a strong upward trend.

※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 2020. The Land Market Value Publication has provided basic information about the land market in Japan since 1970.

Real Estate Weather Forecast

	Current	1st Half of 2020	2nd Half of 2020
	End of Dec 2019	Jan - June 2020	July - Dec 2020
All Use	 Sunny partly cloudy	 Cloudy	 Cloudy
Office	 Sunny partly cloudy	 Cloudy	 Cloudy
Residence	 Sunny partly cloudy	 Sunny partly cloudy	 Sunny partly cloudy
Retail	 Cloudy	 Rain	 Cloudy
Logistics	 Sunny partly cloudy	 Sunny partly cloudy	 Sunny partly cloudy

The Real Estate Weather Forecast for the 1st half of 2020 for all use is “Cloudy”. Residence & logistics are “Sunny partly cloudy”, office is “Cloudy”, and retail is “Rain”.

The weather for all use at the end of Dec 2019 is “Sunny partly cloudy”. The weather forecasts for 1st & 2nd half of 2020 are “Cloudy”.

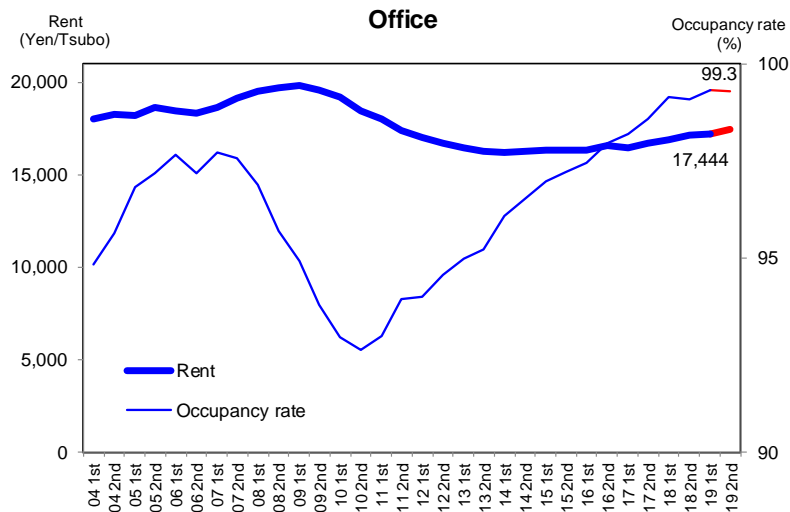
The weather at the end of Dec 2019 for retail is “cloudy” and for all other uses are “Sunny partly cloudy”. The weather forecasts for 1st half of 2020 for residence & logistics are “Sunny partly cloudy”, office is “cloudy”, and for retail is “rain”. Weather Forecasts for 2nd half of 2020 for residence & logistics are expected “Sunny partly cloudy” and office & retail will be “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 December 2019 and the weather forecasts for the first half of 2020 (January to June 2020) and the second half of 2020 (July to December 2020)

Source : TMAX Valuation

Office



◆ The occupancy rate marked 99.3% in the 2nd half of 2019, remains the same level as the previous half-year and nearly full operations.

◆ The rent remains on a slight upward trend.

◆ Overview

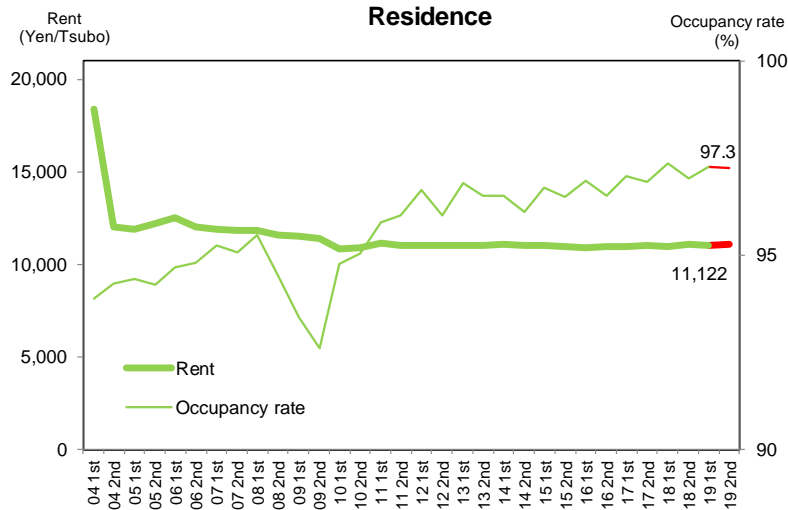
The vacancy rate in the five central wards of Tokyo dropped to 1.55% in December 2019 from 1.72% in June 2019 (Miki Shoji Office Data). Falling vacancy rate is expected to lead continuing rent increase, and NOI is expected to grow a bit.

Corporate earnings are favorable at the time of this analysis and office demand in the Tokyo metropolitan area and major urban area is robust. In December 2019, active job openings-to-applicants ratio remains high at 1.57.

In 2020 the new offices supply was approximately 310,000 tsubo (on a rentable area basis) in Tokyo's 23 wards. Demand from tenants is strong as some buildings are pre-leased.

In major regional cities (Sapporo, Sendai, Nagoya, Osaka, and Fukuoka), the new supply of offices remains very tight. The vacancy rate in all five cities are low levels, therefore it is expected that the rent will continue to rise due to the tight supply and demand. **Nevertheless, in all areas, it is necessary to be concerned about the economic downturn due to COVID-19 crisis.**

Residence



◆ The occupancy rate marks 97.3% in the second half of 2019, remains the same as the previous half-year, continues to keep nearly full operations.

◆ The rent stays flat since the 2nd half of 2010, little changed for a decade.

◆ Overview

According to MLIT's housing starts data, the number of rental housing starts in the six-month of July-December 2019 dropped by 15.8% YoY to about 175,000, indicating that **the number of starts is capped**. Whereas declining birth rate, aging population and declining population in rural areas are factors of concern in the rental housing market, **residential demand in urban areas is steady** as the population shifts to special wards in Tokyo and rural urban areas.

■ Retail

◆ Overview

Due to sales slump owing to the competitiveness among commercial facilities and the advancement of competition between EC and brick-and-mortar retail stores, the closure of regional department stores have increased. Retailers have set out a selection and concentration strategy for resources, the withdrawal of unprofitable stores has been carried out even on anchor stores without tolerance, and this has attributed to the decline in NOI.

According to the Ministry of Economy "Trade and Industry's commercial dynamics statistics", department store sales in the six-months of July-December 2019 totaled 3.2 trillion yen (-2.1% YoY), supermarket sales were 6.7 trillion yen (-0.8% YoY), and convenience store sales resulted 6.3 trillion yen (+1.1% YoY). Department store sales from existing stores remain basically unchanged, on the grounds of the decline in sales floor space due to the closure of stores. Supermarket sales of food and clothing fell 0.2% and 5.3% respectively (YoY).

With respect to the number of foreign tourists to Japan which impacts a lot on retail business saw a bit decline to 15.25 million (-0.3% YoY) in the six-months of July-December 2019. In Q3 2019, foreign tourists to Japan consumed 1,181.8 billion yen (YoY +7.4%), of which shopping accounts for 392.2 billion yen (YoY+8.7%) of the total. In Q4 2019, foreign tourists to Japan consumed 1,212.8 billion yen (+3.4% YoY), of which shopping accounts for 397.2 billion yen which the amount turned negative (-6.2% YoY). **Notably, The number of foreign tourists to Japan in Q1 2020 plunged to less than 4 million (YoY -51.1%) , they consumed 672.7 billion yen (-41.6% YoY) during the quarter, of which shopping accounts for 204.5 billion yen (-50.5% YoY). Due to the impact of COVID-19, both the number of foreign tourists and the amount of consumption significantly declined.**

■ Logistics

◆ Overview

According to JLL's Tokyo Logistics, the vacancy rate for logistics facilities in Tokyo area dropped by 1.3 point to 2.0% at the end of September 2019 vs the end of Jun 2019 . In December 2019, vacancy rate dropped by 1.1 points to 0.9% during the three months. **As demand for logistics facilities has been goes up due to the expansion of EC demand, despite the high level of supply in Tokyo area, the vacancy rate is expected to remain at the current low level, and rents are expected to continue rising.**

Sourced TMAX Valuation

■ Hotel

◆ Overview

According to the Japan Tourism Agency (JNTO), the number of foreign visitors to Japan has been on a strong upward trend since 2012, record the highest 31.88 million visitors (+2.2% YoY) in 2019 (Exp.) since the statistics started. (The current government goal are set to double its past goals, with 2020: 40 million, 2030: 60 million).

Recently, inbound travelers from South Korea have plunged since August 2019 vs. previous year, which is significant drop compare to the time of 2013-2018. Notably, various arrangements to improve environment e.g. the operation of new flight routes to Haneda Airport have been taken to prepare the Tokyo 2020 Olympic and Paralympic Games.

However, the government currently enacts entry restrictions on many countries in order to prevent COVID-19 infections, it appears to be difficult to achieve the goal of 40 million. It is uncertain what will look like going forward though, while there are differences between the Greater Tokyo area and other regions, inbound is the important factor affecting the demand growth for hotels, it is expected that covid-19 crisis will be over in the near future.

■ Healthcare

◆ Overview

Despite the securitized real estate market had been on a shrinking trend after the Lehman shock, the market has become active over the past few years, indicating that the universe of the property has been continuously expanding.

Especially healthcare assets e.g. fee-based elderly care homes, as a backdrop of Japan's falling birthrate and aging population that has reached the world's highest level. On the grounds of this environment, the Ministry of Land, Infrastructure, Transport and Tourism set out the "Guidelines for the Utilization of Healthcare Assets for the Elderly" in June 2014 and takes the measures to improve the healthcare REITs market. During FY2014-2015, three healthcare REITs have listed and it is seen that the market is continuously expanding.

In recent years, in addition to these healthcare REITs, some residential REITs and all sector (General) REITs have been investing into healthcare properties, which appears investor base continues to increase.

If you would like to know

further information,

please contact below.

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