

# Japan Real Estate Market Update

Spring 2021

# JAPAN at a glance

**Japan real estate market remains stable**  
**Low interest rate environment benefits to real estate market**

## GDP

World's third largest economy

**5**

\$ trillion

Nominal, 2021 forecast, IMF



## GDP Growth

Fiscal & accommodative measures help recovery

**3.3**

%

Real, 2021 forecast, IMF



## CPI

**0.8**

%

Core, YoY, FY 2022 forecast, BOJ



## Cap rate

Remains stable

**4**

%

J-Reit, Office, all Japan, March 2020, T-Max



## Safety

Tokyo has the World highest overall score

**No.1**

Safe Cities Index 2019, The Economist Intelligence Unit



## Supportive Government policies

### BOJ monetary policy

Continuous QE & yield curve control support real estate market



#### Annual purchase limit

ETF

**12**

¥ Trillion

J-REIT

**180**

¥ billion

JGB

**Unlimited**

¥

Other than above, purchase of CP & Corp bond is ¥20 T until Sep 2021

#### Interest rate target

Policy rate

**-0.1**

%

10 yrs JGB

near **0**

%

### GPIF real estate AUM

Government pension invests in Japan's real estate



**4**

\$ billion

March 2020, GPIF

### International financial center initiatives

To help to accelerate also real estate market growth

#### One stop support with English

- Office set up support
- Life support

#### Support for funds

- License/ Registration
- Tax reforms
- Simplified market entry
- Relaxation of Residency status

# Major Cities



**Fukuoka**

**Area:** Approx. 343 km<sup>2</sup>

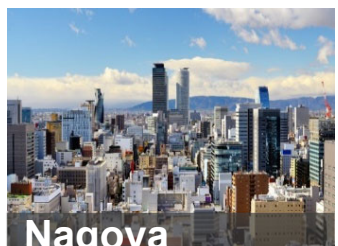
**Population:** Approx. 1.5m

**Features:**

- ✓ Asian business hub
- ✓ Close to the markets in China's coastal regions and Korea.

**Topics:**

- ✓ Designation of National Strategic Special Zone for Global Startups and Job Creation by the national government.



**Nagoya**

**Area:** Approx. 326 km<sup>2</sup>

**Population:** Approx. 2m

**Features:**

- ✓ The hub of manufacturing industries.

**Topics:**

- ✓ High-speed maglev train line Tokyo - Nagoya is to open in 2027
- ✓ HQ of Toyota Motor is located



**Osaka**

**Area:** Approx. 225 km<sup>2</sup>

**Population:** Approx. 2 m

**Features:**

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

**Topics:**

- ✓ To host the World Expo 2025



**Sapporo**

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

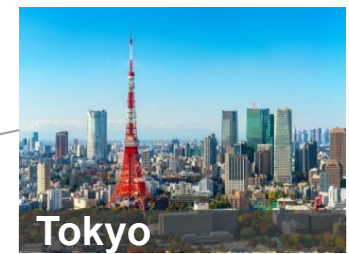
**Population:** Approx. 1.9 m

**Features:**

- ✓ Hokkaido's capital city

**Topics:**

- ✓ Official bid for the 2030 Winter Olympics



**Tokyo**

**Area:** Approx. 627 km<sup>2</sup>

**Population:** Approx. 14 m

**Features:**

- ✓ The political, economic, and cultural hub of Japan
- ✓ Government offices, corporate HQs, and commercial areas are concentrated in the center of Tokyo.

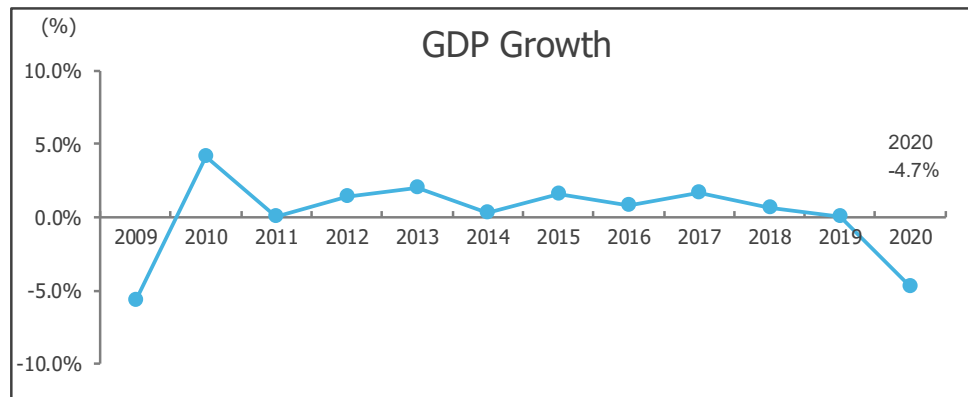
**Topics:**

- ✓ Tokiwabashi redevelopment project (3.1 ha) facing Tokyo station
- ✓ Japan's tallest building "Torch Tower" is to open in 2027
- ✓ The Haneda airport access line is to open in 2029
- ✓ Haneda area redevelopment project is under way
- ✓ Tokyo Narita Airport 3rd runway is to open in 2029

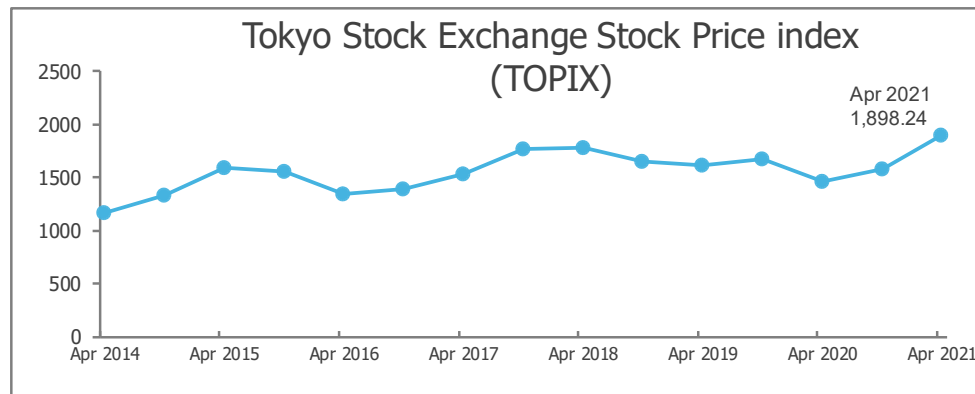


# Japan Economic Conditions

**Economic activity remains weak in the near-term, it is expected to recover and continue to grow overtime**



Source: Cabinet Office



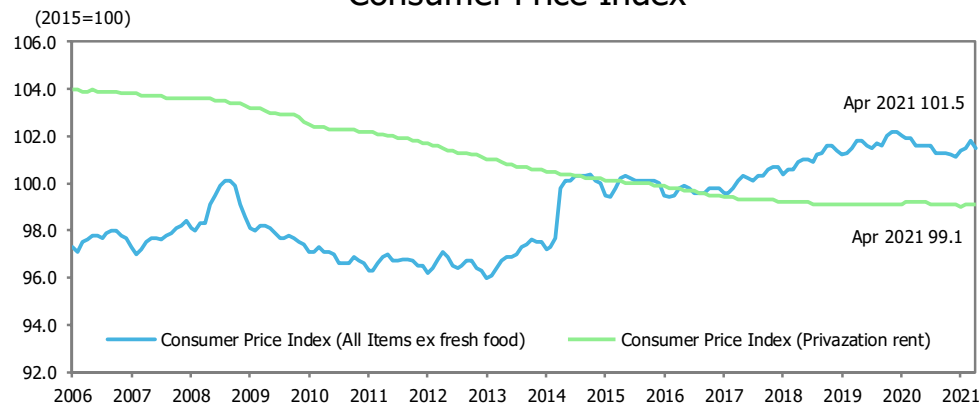
Source: Tokyo Stock Exchange

- According to BOJ, Japan's economic activity is expected to remain weak for some time mainly in the face-to-face services sector.
- However, the economy is likely to recover as the impact of COVID-19 starts to wane against the backdrop of increase in external demand, accommodative financial conditions, and the government's economic measures.
- Over time, as the impact of pandemic subsides, economic cycle is expected to turn upward against the backdrop of increase in income & spending, and Japan's economy is expected to continue to grow.

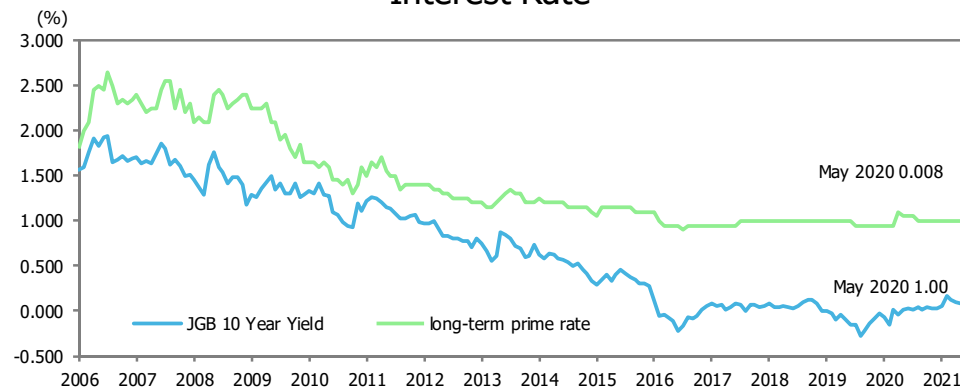
# Japan Economic Conditions

## CPI is likely to remain slightly negative for some time, expected to turn positive and gradually rise though with downturn risk

Consumer Price Index



Interest Rate



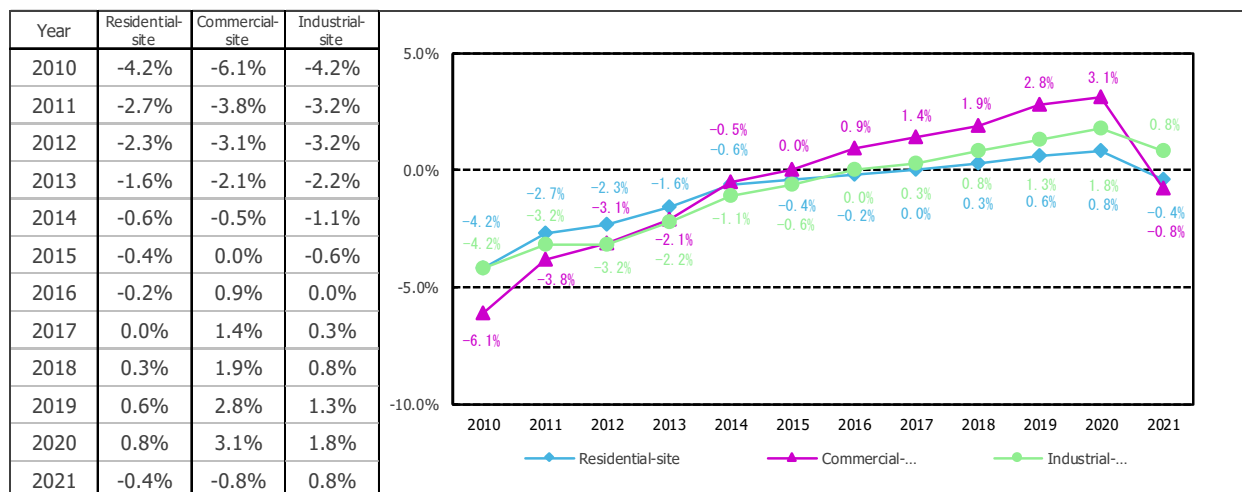
- CPI yoy (ex fresh food) is likely to remain slightly negative for some time, mainly against the backdrop of COVID-19 and lowering mobile phone price plans.
- Over time, it is expected to turn positive and gradually rise against the backdrop of continuing economic improvement and dissolves of negative impact on mobile cost reductions.
- Compared with previous outlook, GDP growth revised upward driven by stronger demand at home & abroad. CPI revised downward with mobile cost reductions.
- The outlook for economic activity and prices are highly unclear, since it could change depending on the consequences of pandemic and their impact on economic conditions at home & abroad.
- Due to the impact of pandemic, economy in the near-term remain subject to downside risk but overtime it will be equilibrium. On the other hand, prices could remain further downside risk.

Source: BOJ

# Japan Land Market Value

## The average for all uses dropped for the first time in 6 years

Land Market Value Publication YoY % Change Nationwide



### 1-year land market value of 2020

- Residential-site dropped for the first time in 5 years, commercial-site dropped for the first time in 7 years.
- Industrial-site saw 5 consecutive years increase but percentage increase diminished.
- In terms of residential & commercial sites, land values fell except in 4 regional cities (Sapporo, Sendai, Hiroshima, Fukuoka) in 1H2020 against the back drop of sluggish economy due to the state of emergency. In 2H2020, as economy started to pick up and market activities recovered, land values remained the same or rose a bit except commercial site in Osaka.
- The market was weakened due to the impact of Covid-19 though, degree of change vary depending on use and area.
















※ 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.

Source: MLIT

# Real Estate Weather Forecast

**1H2021 for all use is "Cloudy", for Residence & logistics are "Sunny partly cloudy", for office is "Cloudy" and for Retail is " Cloudy partly rain"**

	Current	1H2020	2H2020
	End of Dec 2020	Jan - June 2021	July - Dec 2021
<b>All Use</b>	 Sunny partly cloudy	→  Cloudy	→  Sunny partly cloudy
<b>Office</b>	 Sunny partly cloudy	→  Cloudy	→  Cloudy
<b>Residence</b>	 Sunny partly cloudy	→  Sunny partly cloudy	→  Sunny partly cloudy
<b>Retail</b>	 Cloudy	→  Cloudy partly rain	→  Cloudy
<b>Logistics</b>	 Sunny partly cloudy	→  Sunny partly cloudy	→  Sunny partly cloudy

- After the cancellation of the state of emergency, a gradual recovery had been expected in the market though, as infection cases soared by the end of 2020, the state of emergency again issued in January 2021.
- Retail is the most hard-hit sector, it is expected that their business will be tough, weather forecast is "Cloudy partly rain" .

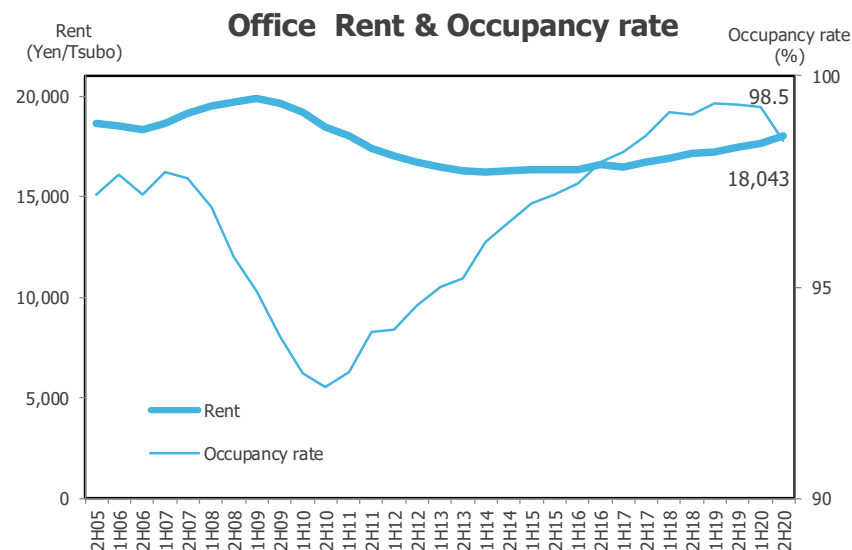
◆ What is "TMAX Real Estate Weather Forecast" ?

The constituent properties (250 properties in this survey) are selected from the holdings of J-REITs, and the NOIs are forecasted for each property for the 6 months period between present and six months ahead and the 6 months between 7 months ahead and 12 months ahead. Then the variance of the real estate market from the benchmark NOI which is expected to be stable in the medium to long term, is qualitatively exhibited by way of the weather chart.

Source TMAX Valuation

# Office

## Rents and cap rates remain flat



### 3 major wards in central Tokyo

- Rents and cap rates remain flat in almost all areas as at April 2021 in 3 major wards (Chiyoda, Chuo and Minato) in central Tokyo and the effective tsubo unit price is also the same as the previous survey in October 2020.
- Owners can not set up higher rents under the circumstances which pandemic end is uncertain, it is expected that rents will remain flat going forward.

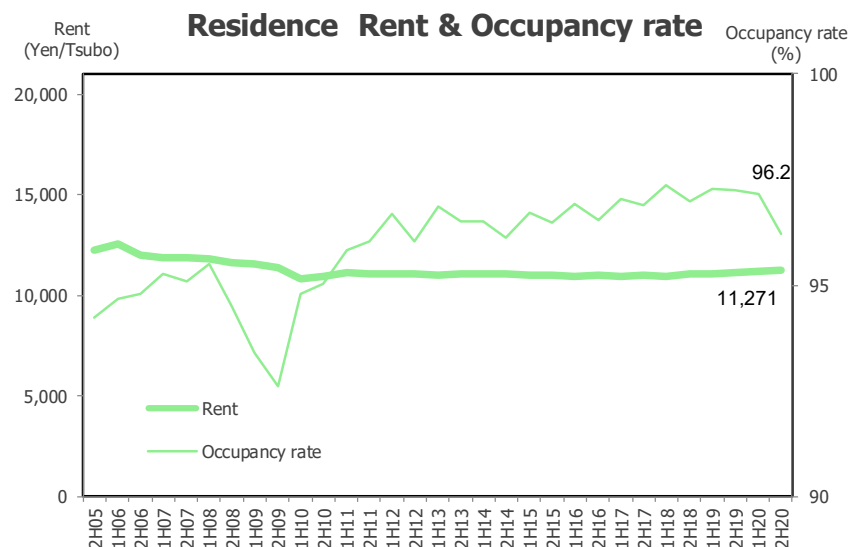
### Overall

- In 2H2020, the occupancy rate of office dropped by 0.8% to 98.5% from 99.3% 1H2020, while rent increased a little bit.
- The vacancy rate in the five central wards of Tokyo (3 wards plus Shibuya & Shinjuku) rose to 4.49 % in December 2020 from 1.97% in June 2020 . It also rose in 5 major regional cities, Sapporo, Sendai, Nagoya, Osaka and Fukuoka. (Miki Shoji Office Data).
- Active job openings-to-applicants ratio was 1.11 in June 2020, fell to 1.03 in September 2020 and recovered a little bit to 1.06 in December 2020 though, pandemic still negatively effect on office market.
- Cap rate in Sendai rose to 4.8 % in 2H2020 from 4.7 % in 1H2020, while Fukuoka fell to 4.4 % from 4.5 %.



# Residence

## Occupancy rates drop but rents remain the same



### By area

- The occupancy rates in the 5 wards of central Tokyo fell by 1.7% to 95.6% in 2H2020 from 97.3% 1H2020. In the 5 regional cities, fell by 0.7% to 95.3%.
- In all areas, it fell by 1.0% to 96.2% in 2H2020 from 97.2% in 1H2020.
- The rents both in the 5 wards of central Tokyo and the 5 regional cities up a little bit.

### By type

- The occupancy rate of one bed room type apartment (less than 40m<sup>2</sup>) down by 0.9% to 96.4% in 2H2020 from 97.3% in 1H2020.

- For high-end rentals (90m<sup>2</sup> or more & rent/m is 200k yen or more) , the occupancy rate in 2H2020 fell by 2.4% to 95.2% from 97.6% in 1H2020.
- The rents of both one bed room type and high-end type remain the same at 11,827 yen /tsubo and 12,955 yen / tsubo respectively.

### Overall

- The occupancy rate down by 1.0% to 96.2% in 2H2020 from 97.2% in 1H2020. The rent remain stable since 2H2010.
- According to MLIT's housing starts data, the number of rental housing starts in the six-month of July-December 2020 dropped by 10.0% YoY to about 175k, the number of starts continue to decline.
- People moving into the Tokyo area had been exceeded to those of moving out though, population in Tokyo area has been decreasing since around August 2020 against the backdrop that remote work and online classes has become ubiquitous.
- The cap rate peaked 1H2010 and is in downward trend. In 2H2020, remained flat except Sendai dropped to 5%.

To learn more about other sectors, Retail, Logistics, Hotel and Healthcare, please contact : Valuation research team: [cveva@tanikan.co.jp](mailto:cveva@tanikan.co.jp)

Source TMAX Valuation



For further information, please contact :

Valuation Research team

[cveva@tanikan.co.jp](mailto:cveva@tanikan.co.jp)

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