

# Economic Impact of COVID-19 on Japan' Real Estate Market Vol.3

## -Capital Markets-

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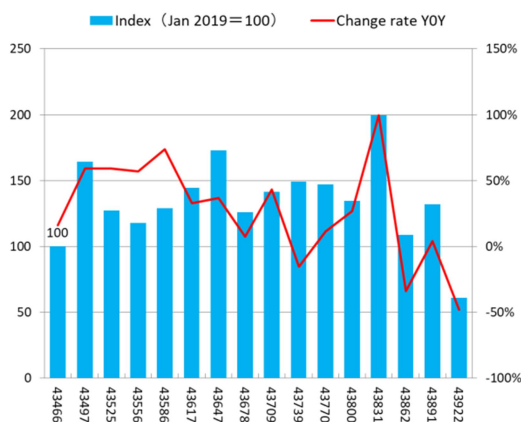
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Japan's economic slowdown has also impacted on the real estate capital markets on the back of the COVID-19 epidemic and the self-restraint request in response to the State of Emergency Declaration by Japanese government. In April, a steep downturn was examined with the decrease number in new inquiries about our appraisal services which considered as a leading indicator of investment volumes. Here, we share the analysis about the number of our new inquiries and the latest view addressing the impact of COVID-19 pandemic on transactions.

### 1. Changes in the number of new inquiries regarding real estate appraisal.

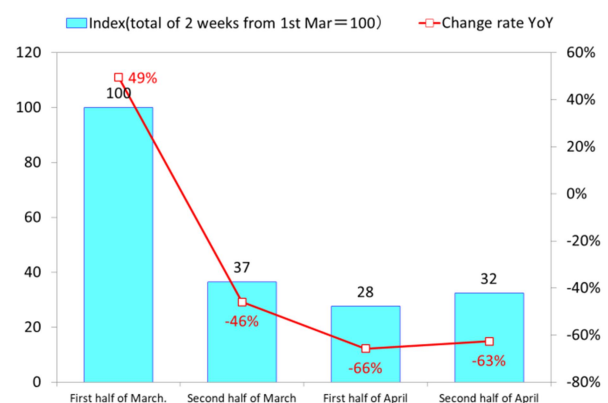
- The increasing/ decreasing trend of our inquiries is considered as one of the leading indicator, since the healthy market pushed up the number of our inquiries.
- The number of inquiries in 2019 increased thanks to the prosperity of the real estate market, despite the tax hike in October 2019. Following a massive surge in the numbers in January compared to the previous year, we saw a drop in February and in April with 34% and 48% respectively whilst slight uptick 4% in March.
- After the rise by over 50% Y-o-Y in the first half of March, the emergency law of COVID-19 on 14th March imposed a drop by 46% Y-o-Y in the second half of March, by 66% Y-o-Y in the first of April and by 63% Y-o-Y in the second half of April respectively.

The number of new inquiries (monthly)



(Source) Daiwa Real Estate Appraisal

The number of new inquiries (every 2 weeks)

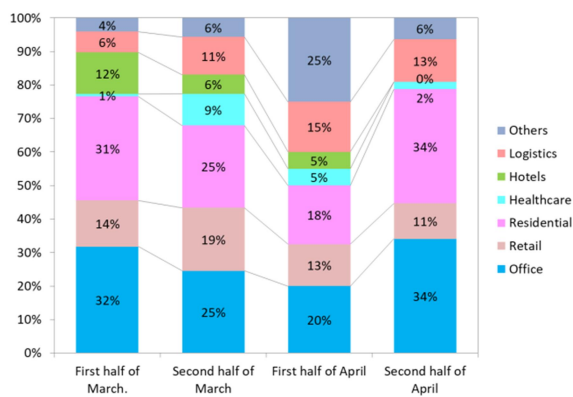


(Source) Daiwa Real Estate Appraisal

## 2. The breakdown of our inquiries

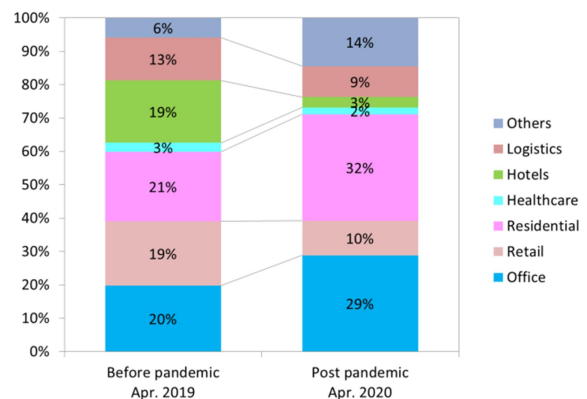
- Coupled with the decrease number of inquiries, the change in the composition ratio has been seen by the segments and by region.
- A composition of inquiries by segments over the two weeks period from 12<sup>th</sup> April, which after the state of emergency declaration on 8<sup>th</sup> April showed that there were slightly rise in the ratio of office and residential and double in the logistics to 13% compared to the same period from 1<sup>st</sup> March, while hotel saw a steep drop to zero from 12%,
- The decline in the number of inquiries on logistics industry was notable compared to the first half of the last year due to the active acquisitions by REIT and other firms over the same period.
- Likewise, the breakdown by regions shows that there was a growth of inquiries in Tokyo Metropolitan 5 words and Greater Tokyo area, meanwhile Kinki area, Chubu area and other provincial areas saw a decline over the same period.

Change Of Ratio By Segment



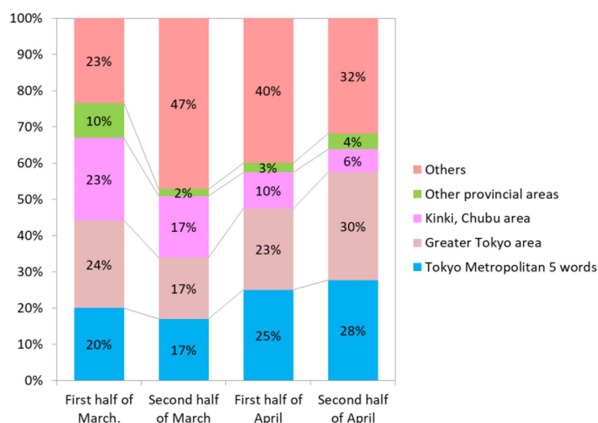
(Source) Daiwa Real Estate Appraisal

Composition of Inquiries By Segment YoY



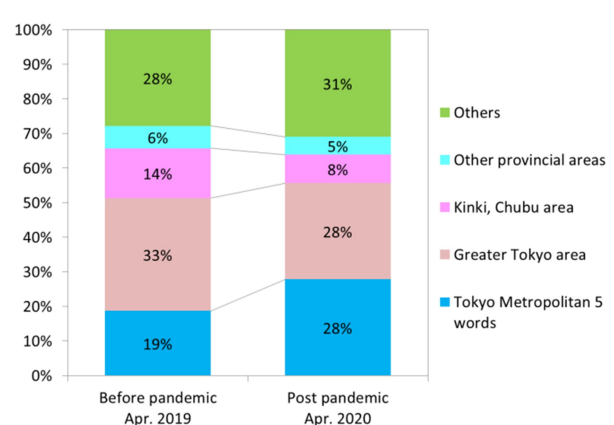
(Source) Daiwa Real Estate Appraisal

Change Of Ratio By Region



(Source) Daiwa Real Estate Appraisal

Component Ratio By Region YoY



(Source) Daiwa Real Estate Appraisal

### 3. The impact of COVID-19 on the real estate market

- Although COVID-19 outbreak which was first identified in the city of Wuhan, China, has spread since around January, the impact on Japan's economy was limited with Chinese tourists from 27<sup>th</sup> January cancelled. At the beginning, only popular commercial overseas tourist area was affected.
- In the second half of February, the impact of COVID-19 on the revenue of hotels and department stores intensified, whilst the sales of online shopping, drugstores, and home-centers increased compared to the previous year.
- Coupled with the spread of this infections in China, the alarm on pandemic increased across the world resulted in a historical down in the world stock market in the second of February. Tokyo REIT Index saw a steep decline to half of the highest price in the second of March. The sharp decline in the stock price, the public offering of new shares related to not only hotel and retail but also office and residential was postponed or cancelled, investment on properties as well was imposed to put off or cancel.
- While the sales of hotel and restaurants fell sharply on the back of the constrain of activities with the closing of school and the mood of self-restraint, the expansion of expenditure from staying at home pushed up the sales of online shopping.
- The state of emergency declaration over 7 prefectures on 8<sup>th</sup> April pleaded with residents to be self-restraint. The Tokyo Metropolitan Government asked a wide range of businesses, in Tokyo, universities, pet shops, rental shops, cinemas, athletics facilities, assembly hall, and pachinko parlors were requested to close.
- Hotel which supplied for 2020 Tokyo Olympic saw a sharp decline in the transactions due to the low occupancy rate with the decreasing number of guests including international arrivals. The cancellations of deal were examined as well on the back of the request for rent reduction in tandem with low revenue, a ban for foreign investor arrivals and suspension of new loans.
- The increase requests to reduce rents in retail, the postpone of opening in the occupier, the uncertain prospect of rent, the restriction to conduct site inspection for an engineer report resulted in halting the transaction of the properties.

#### 4. The breakdown of impact by J-REIT firms

- Annual reports from J-REIT's firms noted while the impact of COVID-19 on industrial market was not apparent, significantly impacts on the hotel and the retail were examined.
- ORIX JREIT Inc. saw the significant impacts on the sale of retail and hotel, and has prospect to take up slowdown in the office market. Nomura Real Estate Master Fund, Inc. reported that there are no significant impact identified on over 80% of their investment sectors due to the rent is based on a fixed-rent basically.
- One REIT, Inc. revealed that there are 8 cases of rent increased, 5 cases of move-in, and 3 cases of rent reduction and cancelation of take-up which affected by COVID-19.
- Invincible Investment Corporation revised its forecast of financial results and announced that Distribution per Unit for the fiscal period ending June 2020 saw a steep decline by 98.3% in net income and total distribution amount compared to previous forecast on 20<sup>th</sup> February due to amend the fixed-term building lease agreement and property management agreement with major tenants.
- Ichigo Inc. wrote down assets (primarily hotel and retail) that are being significantly impacted by current business conditions, thus expected to record an extraordinary Covid-19 loss of JPY 8.07 billion in February 2020
- Financial Results from Japan Retail Fund Investment Corporation noted that while some investors hold back a new investment, other proceeded to sell their properties for cash. Therefore, there are good opportunities to acquire new property as the number of information of new properties has been soared for this situation.
- APA Group, which is a Japanese hospitality group, promotes the expansion strategy of M&A with perceiving this tight period instead as opportunities.
- Hoshino Resorts., CO. Ltd, which is a Japan based international operator of ryokan (Japanese inns) assumes that domestic demands recover rapidly and significantly after the development of vaccine.

#### ORIX JREIT Inc.

Current assumptions that may impact DPU forecast in view of COVID-19

Type	Aug.2020	Feb.2021
Office	Increase in vacancy due to move-in deferment DPU ▲10yen	Additional increase in vacancy due to move-in deferment and increase in move-out DPU ▲38yen
Retail	i. 20% tenants vacating from urban-type retail facilities(Vacant periods:3months) ii. Other move-in deferment DPU ▲78yen	i. Continued vacancy on left column for an additional 6 months ii. Other move-in deferment DPU ▲131yen
Residential	—	—
Logistics	—	—
Hotel and Others	Approx. 15% rent decrease (equivalent to approx.30% sales decrease) from HUP* Hotel Universal Poet*(50% of total rent linked to sales) DPU▲72yen	No variable rent to be received from HUP etc. DPU▲122yen

#### Nomura Real Estate Master Fund, Inc.

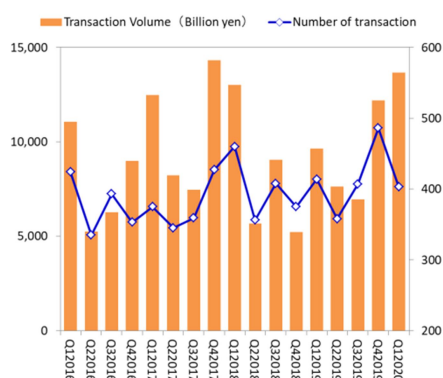
Impact of COVID-19 on Earning Forecasts

Type	Impact of COVID-19
Office	No significant impact
Residential	
Logistics	
Retail-near stations	Decrease in variable rent due to decline in sales at retail facilities and hotels
Retail- residential areas	
Hotels	

### 5. Economic confidence of J-REIT

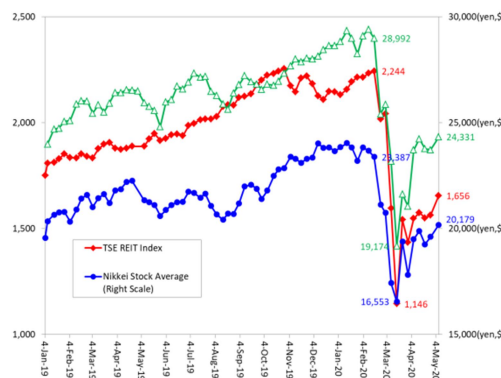
- Investment volumes in Q1 2020 soared 37% YoY to 1.36 trillion yen which is the same highest level as Q1 2015 after 2008 financial crisis according to Nikkei Real Estate Market Report.
- Listed REIT invested 454 billion yen on the properties in Q1 2020. However, this movement slowdown due to the standstill in public offering of new share with drop in JREIT index from the second half of February.
- The decline sharply in Tokyo REIT Index has been seen from February to March. Change rate from 21<sup>st</sup> February to 19<sup>th</sup> March fell 49.0% in the Tokyo REIT Index, 29.2% in the Nikkei Stock Average and 33.9% in the Dow-Jones average respectively. However, as the market improved from 19<sup>th</sup> March, the change rate from 19<sup>th</sup> March to 8<sup>th</sup> May increased +44.5%, +21.9% and +26.9% respectively.
- Tokyo REIT Index by segment showed that slight slip and sharp recovery in the residential index from the second half of February to the first half of March. In addition, hotels saw a sharply decline in the change rate of investment unit price from the end of May 2019 to 7<sup>th</sup> May 2020, meanwhile it muted in logistics.

Transaction Volume



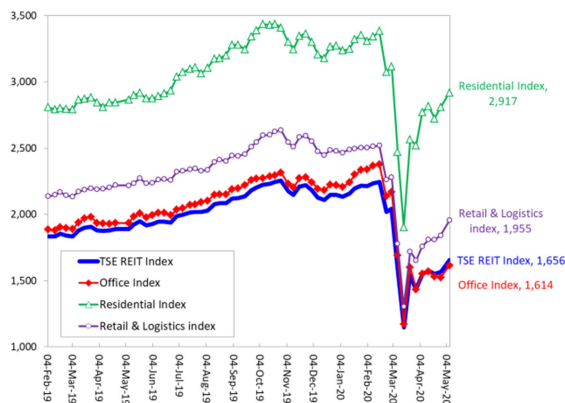
(Source) Nikkei Real Estate Market Report

Stock Market Indices in Japan and the US (Weekly)



(Source) Quick

TSE REIT Index by Segments (Weekly)



Change Rate of Investment Unit Price

Reit	Segment	Change Rate
Mitsubishi Estate Logistics REIT Investment Corporation	Logistics	29.5%
Mitsui Fudosan Logistics Park Inc.	Logistics	27.70%
ITOCHU Advance Logistics Investment Corporation	Logistics	25.70%
Nippon Prologis REIT, Inc.	Logistics	25.50%
LaSalle LOGIPORT REIT	Logistics	25.30%
CRE Logistics REIT, Inc.	Logistics	22.60%
Industrial & Infrastructure Fund Investment Corporation	Logistics	15.00%
GLP J-REIT	Logistics	13.70%
Nippon Accommodations Fund Inc.	Residential	11.30%
Comforia Residential REIT, Inc	Residential	10.10%
MORI TRUST Hotel Reit, Inc.	Hotel	-41.0%
Japan Retail Fund Investment Corporation	Retail	-44.6%
Ichigo Hotel REIT Investment Corporation	Hotel	-52.4%
Invincible Investment Corporation	Hotel	-53.4%
Japan Hotel REIT Investment Corporation	Hotel	-60.7%

(Source) Quick

(Note) Period from the end of May 2019 to 7th May 2020  
(Source) JAPAN-REIT.COM