

Economic Impact of COVID-19 on Japan's Real Estate Market

-Signs of bottoming out-

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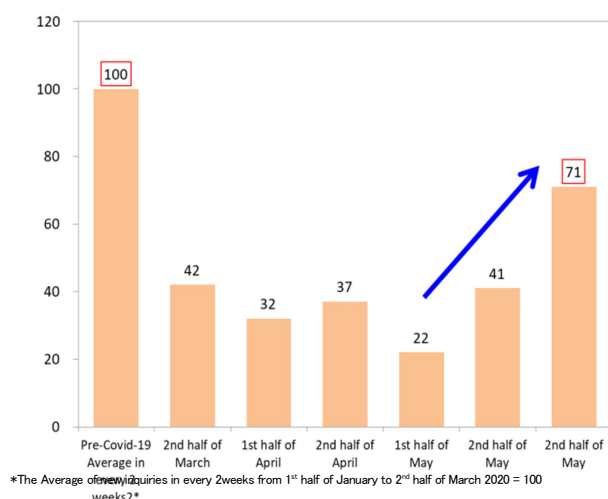
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Japan's sluggish economy due to the pandemic of COVID-19 has begun to move slowly after the state of emergency was lifted on 24th May 2020. We consider the significant increase in the number of new inquiries about our appraisal services as a leading indicator of investment volumes, demonstrating improvement of the property market in Japan. Here, we share the analysis of the property market pre- and post-COVID-19 and the latest view on the impact of on transactions.

1. Increase in the Number of New Inquiries

- The increase/decrease of inquiries is considered as a leading market indicator; as a healthy market pushes the number of inquiries up.
- Despite the number of inquiries decreasing by around 60% compared to pre-COVID-19 after the middle of March, it recovered sharply by 30% after the week of 24th May when the state of emergency was lifted. We expect continued expansion of the real estate business going forward.
- The lift of inter-prefectural travel restrictions on 19th June is further expected to potentially aid in the recovery of the property market and to stimulate the appetite of investors.

Number of New Inquiries (Every 2 Weeks)



Source: Daiwa Real Estate Appraisal

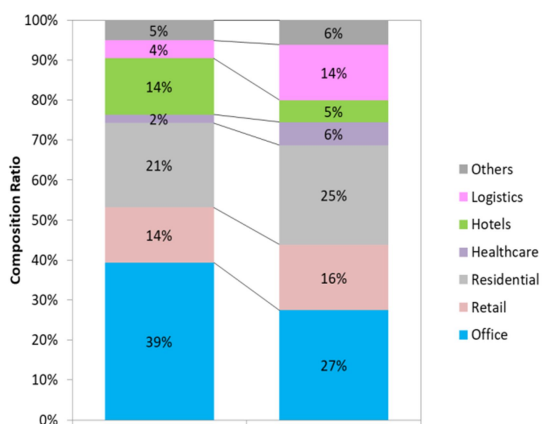
Government Policy on Lifting COVID-19 Restrictions

Terms	Going Out		Events	
	Travel inter-prefecture	Sightseeing	Concert/Exhibition	Sports
From 25th May	△ Avoid going outdoors	△ Within the prefecture	○ Max.100 people	×
From 1st June	○ Visiting Greater Tokyo with care			
From 19th June	○	△ Inter-prefectural travel with care	○ Max.1,000 people	○ No audience
From 10th July	○		○ Max. 5,000 people	○ Max. 5,000 people
From 1st August	○		○ Max. 50% venue capacity	○ Max. 50% venue capacity

Note: The Statement of Emergency was lifted on 25th May, 2020
Source: Cabinet Secretariat. The above table was created based on the Mainichi Shimbun.

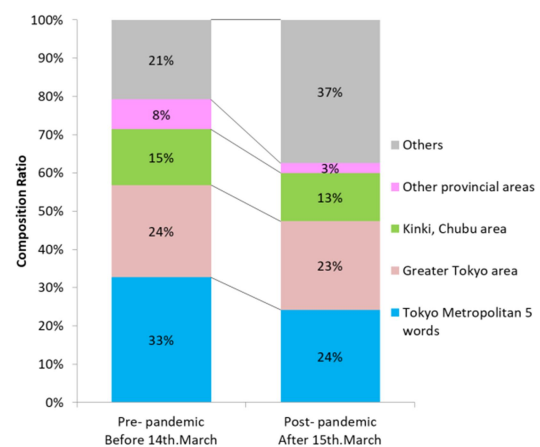
- A composition of inquiries by segments during the pre-pandemic from 5th January to 14th March saw a rise in the ratio of logistics and residential/dormitories despite a steep drop in the ratio of office and hotel, compared to the post-pandemic from 15th March.
- The breakdown by regions shows that there was a sharp decline of inquiries in the ratio of office and hotel in the Tokyo central 5 wards despite a growth ratio of logistics, office and retail properties in the other areas.
- According to the results of a Daiwa questionnaire for investors on investment attitudes, “Continue Investing” was the approach for 35% of investors, outweighing 15% with a “Wait & See” approach. especially 67% of investors specializing in logistics properties show a strong appetite.

Composition of Inquiries by Segment



Source: Daiwa Real Estate Appraisal

Composition of Inquiries by Region



Source: Daiwa Real Estate Appraisal

Composition Ratio of Inquiries By Segment

Post-Pandemic (15th May to 6th June) (Inquiries composition ratio)

Areas	Office	Retail	Residential	Healthcare	Hotels	Logistics	Others	Total
Tokyo Metropolitan 5 wards	15%	3%	5%	0%	1%	0%	1%	24%
Greater Tokyo area	6%	4%	7%	2%	1%	1%	1%	23%
Kinki, Chubu area	3%	1%	5%	0%	1%	1%	1%	13%
Other provincial areas	1%	0%	1%	0%	0%	0%	0%	3%
Others	3%	8%	5%	4%	3%	12%	3%	37%
Total	27%	16%	25%	6%	5%	14%	6%	100%

Source: Daiwa Real Estate Appraisal

Change Of Ratio By Region

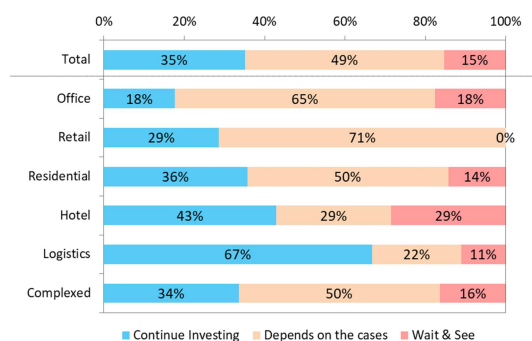
Change of Ratio Pre to Post COVID-19 (Point)

Areas	Office	Retail	Residential	Healthcare	Hotels	Logistics	Others	Total
Tokyo Metropolitan 5 wards	▲ 9	+ 0	+ 3	▲ 0	▲ 3	± 0	+ 0	▲ 9
Greater Tokyo area	▲ 3	+ 1	+ 0	+ 1	▲ 0	+ 0	+ 0	▲ 1
Kinki, Chubu area	▲ 1	▲ 1	+ 1	▲ 0	▲ 3	+ 1	+ 1	▲ 2
Other provincial areas	▲ 1	▲ 0	▲ 1	▲ 0	▲ 2	▲ 0	▲ 0	▲ 5
Others	+ 2	+ 3	+ 1	+ 3	▲ 1	+ 9	+ 0	+ 17
Total	▲ 12	+ 3	+ 4	+ 4	▲ 9	+ 9	+ 1	-

Source: Daiwa Real Estate Appraisal

Result of Daiwa questionnaire

—Investors' Attitude toward Investment—



Source: Daiwa Real Estate Appraisal

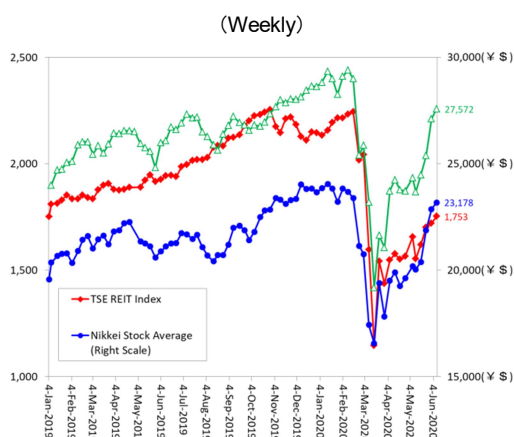
*Interviewed between 13th and 26th May 2020

*The questionnaire target are investors specializing in each asset group.

2. Sharp Recovery of Stock Market

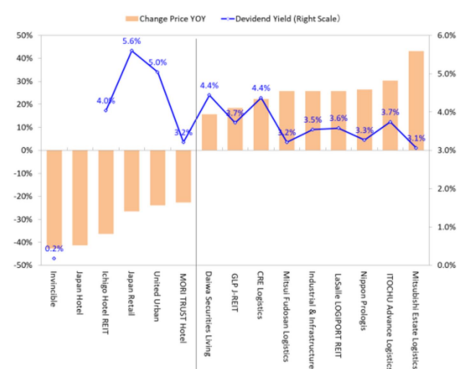
- The global economy has seen a sharp recovery in stock prices since the second half of March, and the Japanese economy saw a rise to 96% of the year's highest price in Nikkei Average to date, to 94% in Dow-Jones Average, and to 78% in Tokyo REIT Index, respectively.
- The J-REIT specializing in logistics properties saw a quick uptick in the investment unit price of J-REITs compared to the hotel sector. The expected dividend yield of the J-REIT is 4.1%, which is much higher than 1.8% of Nikkei Average. Therefore, this dividend yield is revalued amid the deterioration of corporate earnings.

Stock Market Indices in Japan and the US



Source: Quick

Change of The Investment Unit Price Y-O-Y & Dividend Yield

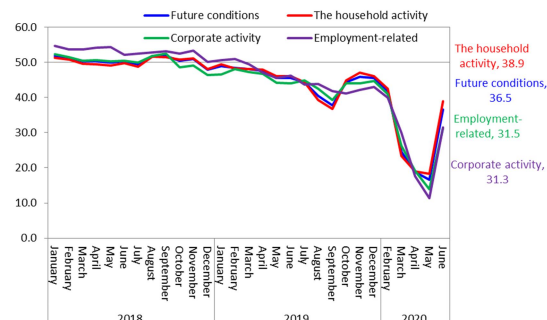
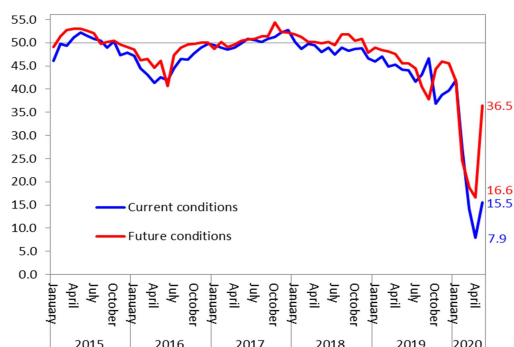


Source: Quick

3. Bottoming Out of Economic Confidence

- Economic confidence of workers has bottomed out in April and halted the deterioration.
- According to the Economy Watchers Survey, despite the DI for current economic conditions in May still remaining at its lowest level ever, the DI for future economic conditions in May (seasonally adjusted) went up by 19.9 points compared to the previous month, to 36.5.
- Interestingly, the household activity-related DI went up higher than the corporate activity-related DI and the employment-related DI increased. In addition, department stores have begun to observe an improvement of consumer sentiment.

Economy Watchers survey of the DI for current economic conditions and future economic conditions

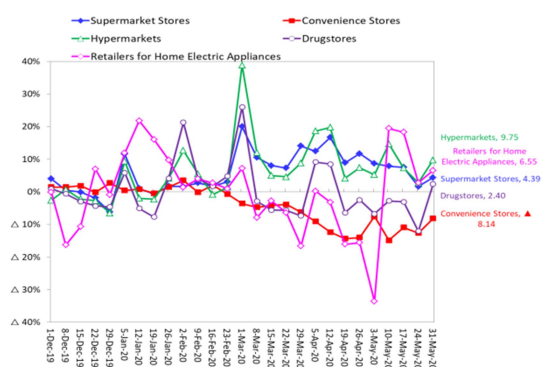


Source: Economy Watchers Survey in May (seasonally adjusted)

4. Signs of Recovery in Retail Sales

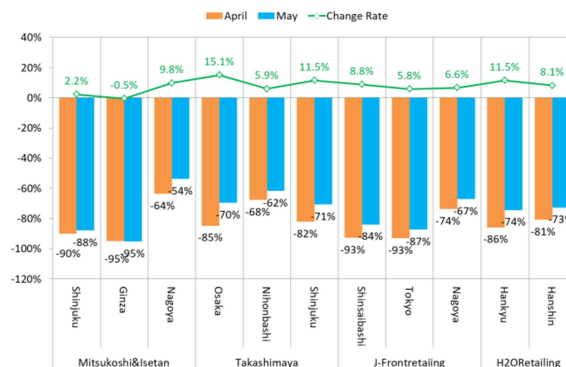
- Domestic retail sales slow down significantly due to the COVID-19 pandemic. A Current Survey of Commerce in April pointed out “a plummet of retail sales volumes” on the back of the decline by 13.7% YOY compared to 4.6% of the previous month.
- However, large differences in sales conditions were examined by analyzing each retail segment. Increased sales of neighborhood stores located in the residential area continued, while department stores and luxury brand shops struggled due to the stay-at-home request of the government.
- According to the monthly report on the *Current Survey of Commerce*, supermarkets and hypermarkets' sales continued to increase after March, and during the special holiday's week of 4th May, large-scale retailers for home electric appliances' sales turned upward. The last week of May marked the first increase in drugstore sales in 7 weeks, while convenience stores hit bottom.
- Despite major department stores sales falling significantly, Takashimaya's change rate of sales YOY in May increased by over 10pt compared to the previous month as it re-opened ahead of schedule on 18th May. Department store sales are expected to go upward steadily after June thanks to shifting back to normal operation from 13th June.

Change Rate of Retail Sales Index (YOY)



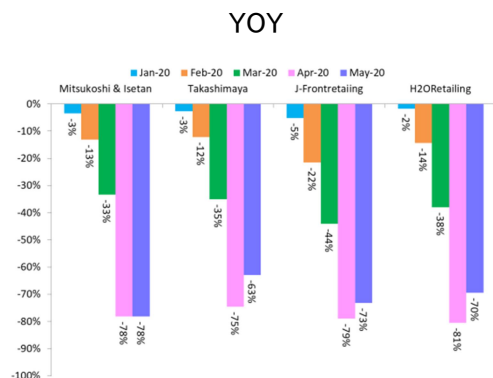
Source: METI POS Retail sales index

Change Rate of Major Department Stores Sales YOY



Source: Announcements of companies

Change Rate of Major Department Stores Revenue

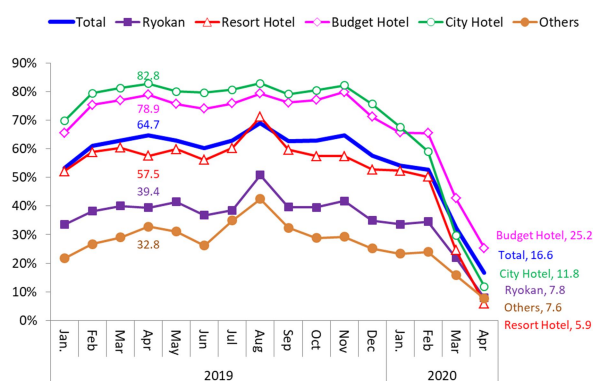


Source: Announcements of companies

5. Insights on the Hotel Market

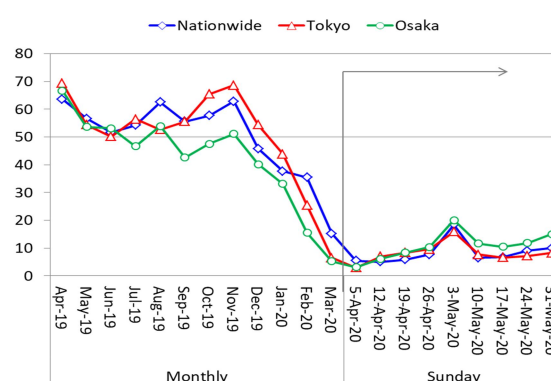
- Domestic hotels saw a plummet to 16.6% in occupancy rate (OCC) in April 2020 compared to 64.7% in the previous year. The fall by 48.1% M-O-M was due to immigration restrictions and stay-home-request. Especially city hotel segments experienced a sharp fall to 11.8% in OCC compared to 71.0% of the previous year as the majority of over-night-guests are international arrivals. Budget hotel OCC was 25.2%, dropped by 53.7% M-O-M, and resort hotel OCC 5.9%, a fall of 51.6%.
- However, the OCC index of DATASALAD pointed out a slight upward trend following the bottom in the first half of April.
- In tandem with lifted restrictions on inter-prefectural travel on 19th June, easing of immigration restrictions for work visa holders has started in June with four countries: Thailand, Vietnam, Australia, and New Zealand. Further consultations with over 40 countries are in progress, according to news reports. These developments are expected to push the hotel market up in the near future.

OCC of Domestic Hotels



Source: Announcements of companies

OCC Index by Location

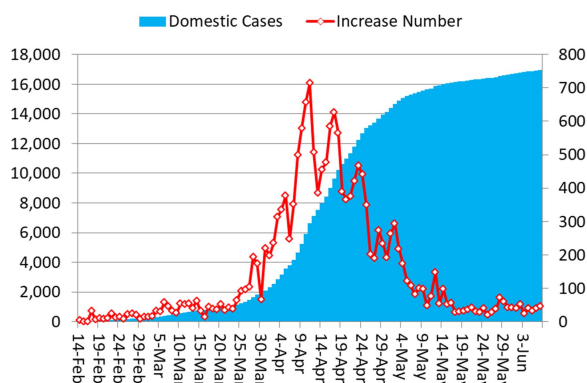


Source: Kyushu Economic Survey Association, DATASALAD

6. COVID-19 Cases in Japan

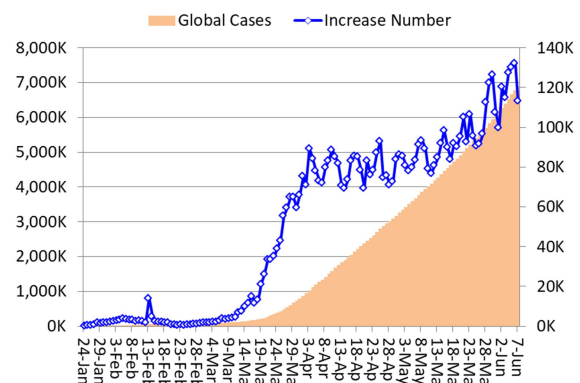
- Total Coronavirus cases in Japan were 17,012 at 12:00pm on 10th June. Deaths: 919, Recovered: 15120, Active Cases: 965.
- More than 500 cases per day in the middle of April contracted to less than 100 cases by 14th May when the emergency state for 39 prefectures was lifted. Numbers continued to decrease to less than 20 cases when nationwide restriction were eased on 25th May.
- Following this, as the uncertainties surrounding COVID-19 have muted, economic activity in Japan expanded and consumer confidence for future conditions steadily climbs.
- Meanwhile, global coronavirus cases have climbed to 7 million, with a death toll of over 400,000. Russia, India, Latin America, Middle East and Africa are still experiencing an increase in cases.
- The global spread has not been contained yet with a vaccine still under development and Japan is also experiencing a second wave of coronavirus. However, economic activity continues with repeated cycles of re-regulation and deregulation.

Domestic Cases



Source: Ministry of Health, Labor and Welfare

Global Cases



Source: Johns Hopkins University, The Nikkei