

Real Estate Market Report Q3 2020

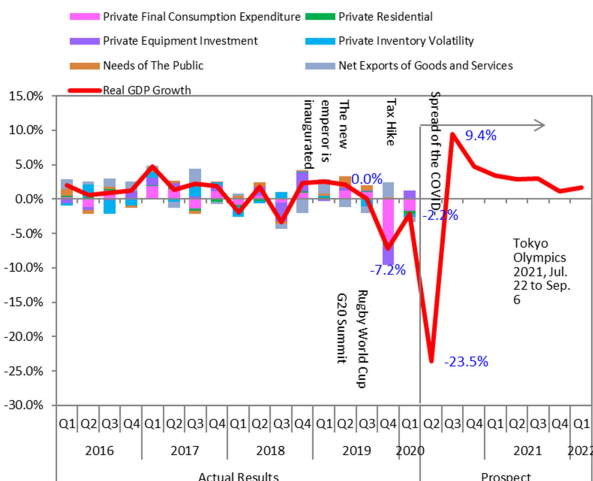
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- The spread of the new coronavirus is having a huge impact on the Japanese economy and real estate market in 2020. In March, the decision was made to postpone the 2020 Tokyo Olympics to 2021, and the state of emergency was declared on April 7. The restrictions on travel to and from overseas and the self-restraint and social distancing exercised by citizens hit many industries, including hotels, department stores and restaurants. Meanwhile, the growth in online shopping from home has led to a significant growth in e-commerce sales, and health care related sales have also been strong.
- The spread of the pandemic has not stopped around the world, and in Japan, it is spreading again, especially in Tokyo. How to control this second wave of infections remains an ongoing issue for economic recovery, and the development of a vaccine at an early stage remains to be desired.

1. Economic Trends

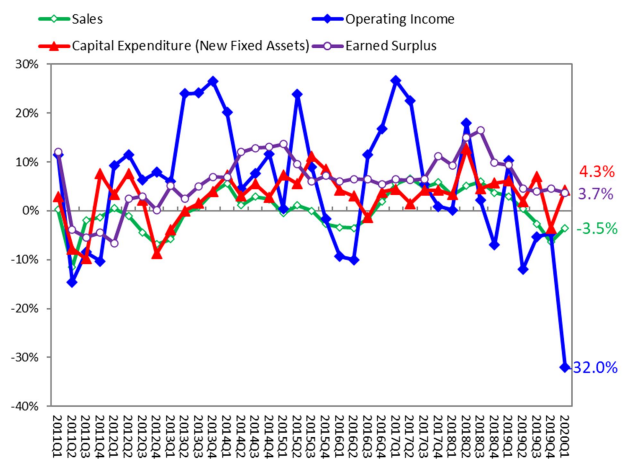
- With the global economy being hit hard by the spread of the new coronavirus, the IMF predicts that global real GDP growth will fall significantly to -4.9% in 2020 from +2.9% in 2019.
- In Japan, the spread of the infection was especially damaging as the impact of the consumption tax hike in October 2019 remains to be seen. Domestic corporate recurring profit (January-March) fell for the fourth consecutive quarter, falling by 32.0% YoY. Corporate profits are expected to deteriorate further in the April-June period due to a halt in economic activity following the state of emergency and a decline in exports due to the spread of infection overseas.
- After bottoming out in the April-June period, the Japanese economy is expected to recover to +9.4% of real GDP growth in the July-September period compared to the previous quarter.

Chart 1: Real GDP Growth Rate (Actual/Forecast)



Source: Cabinet Office, ESP Forecast (Outlook Portion)

Chart 2: Domestic Corporate Performance

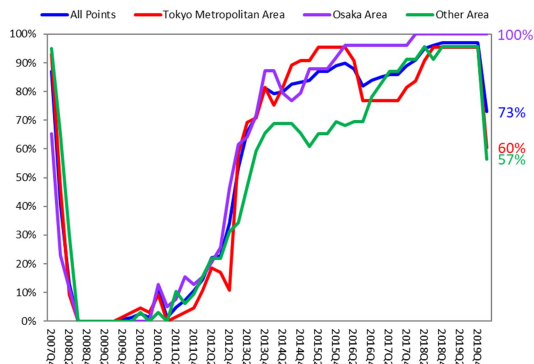


Source: Corporate Business Statistics

2. Land Price Trends and Real Estate Investment Market Related

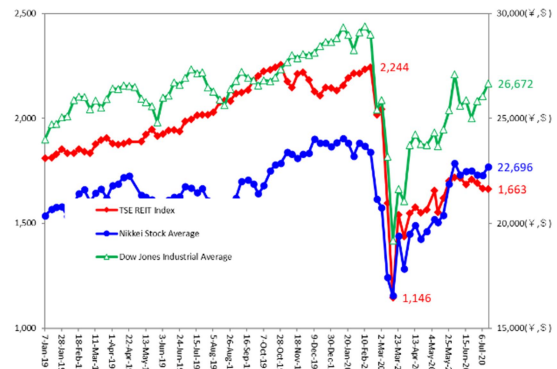
- According to Land Value LOOK Report by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), the percentage of areas where land prices rose from 95% to 60% in the Tokyo area and from 96% to 57% in the regional areas although the increase rate continued in all locations of the Osaka and Nagoya metropolitan areas in Q1 2020.
- The COVID-19 infection caused the TSE REIT Index to fall to half of its value in late February and early March, while stock prices have continued to move back and forth since the end of May due to the hopes of a vaccine development and a surge in the Bank of Japan's purchases of JREITs.
- Domestic banks' lending to real estate increased by 3.1% YoY, and as a percentage of total lending remained high at around 16% in March. Furthermore, from April onwards, domestic banks have seen a significant rise in the amount of lending by domestic banks because of companies' efforts to secure funds and the start of interest-free and unsecured loans by financial institutions.
- The number of real estate appraisal inquiries, which we consider to be a leading indicator for real estate investment, has recovered significantly since May 25, when the state of emergency was lifted. From June 7 to 20, the number of inquiries reached about the same level (98%) as before the spread of the new coronavirus, and we believe that the recovery in real estate transactions will continue into the future.

Chart 3: Percentage of Points of Land Price Increase



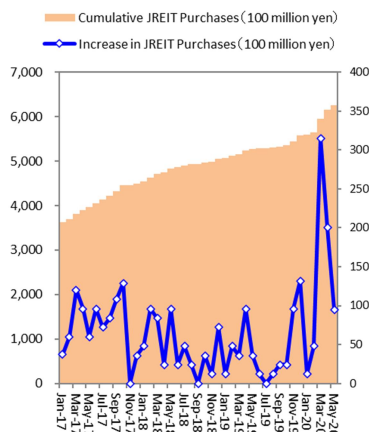
Source: Prepared by Daiwa Real Estate Appraisal based on the Land Value LOOK Report

Chart 4: Trends in the Tokyo Stock Exchange REIT Index



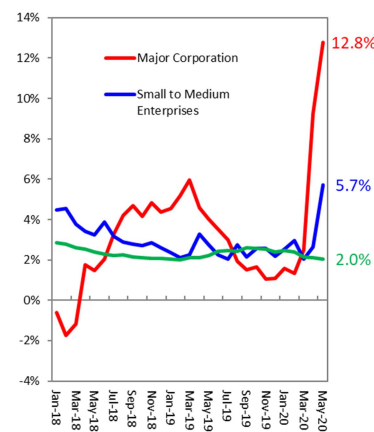
Source: Quick/Weekly Closing Price

Chart 5: JREIT Purchases by the Bank of Japan



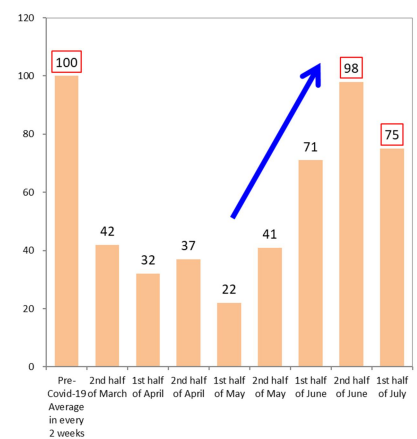
Source: Bank of Japan

Chart 6: Change in Loan Balance YoY



Source: Bank of Japan

Chart 7: Number of New Inquiries (Every 2 Weeks)

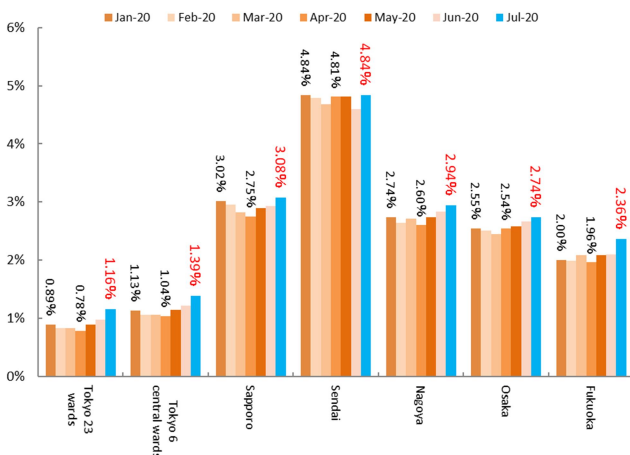


Source: Daiwa Real Estate Appraisal

3. Office Market

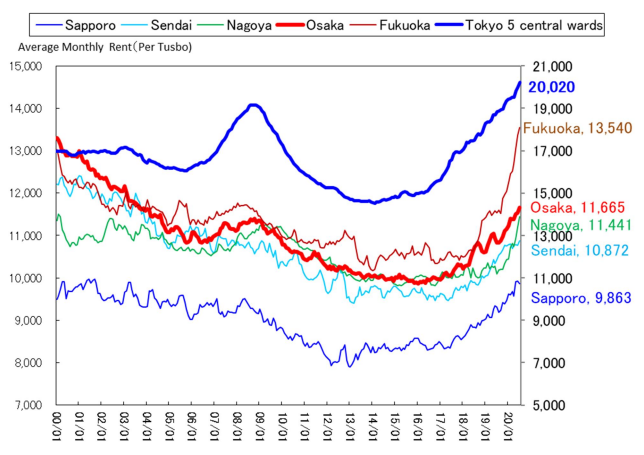
- The vacancy rate in the five central wards of Tokyo remained low at 1.16% on July 1, according to Sanko Estate. Asking rents in major cities are on an upward trend, with many cities recording the highest rents in July, with no impact on rents.
- According to Miki Shoji, the leasable area in the five wards of central Tokyo is on an upward trend (although June saw the first decline in a year).
- There are concerns that office demand will start to decline due to the spread of remote and home-based work under the COVID-19 pandemic. The spread of the infection has led to a growing trend of office downsizing, especially among IT start-ups, as more people work from home. In addition, Fujitsu has announced that it will halve the number of offices in Japan over the next three years.
- For the time being, the pace of office demand growth is expected to slow down as corporate profits deteriorate and remote working progresses, but the fact that the supply in 2021 and 2022 is both less than 30% less than in 2020 will help to mitigate the deterioration in supply and demand. As the economy recovers and the efficiency of remote working continues to be recognized, we expect to see a reevaluation of central city offices due to the key to recruiting talent.

Chart 8: Office Vacancy Rates in Major Cities



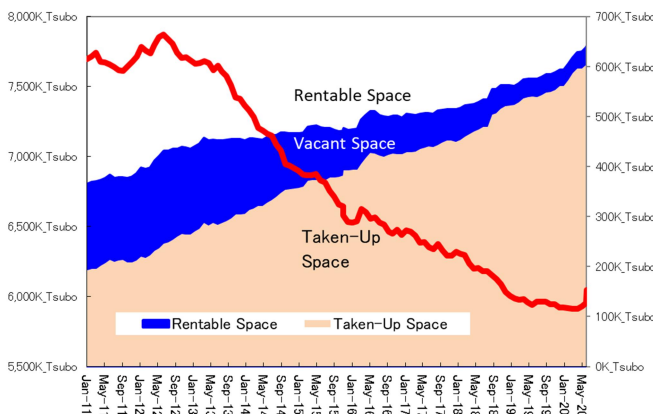
Source: Sanko Estate

Chart 9: Asking Rents in Major Cities



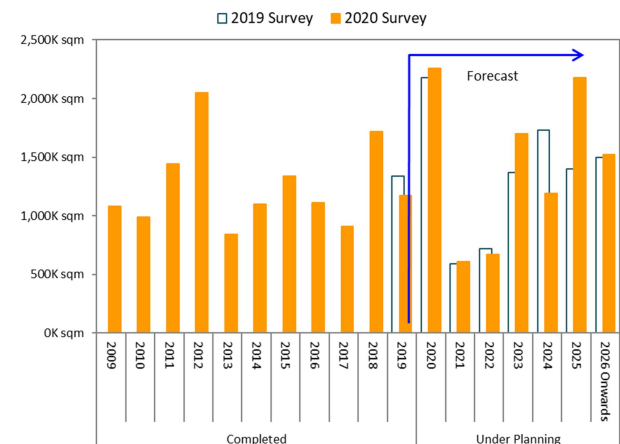
Source: Sanko Estate

Chart 10: Office Supply and Demand in the 5 Central Wards of Tokyo



Source: Prepared by Daiwa Real Estate Appraisal based on Miki Shoji's data

Chart 11: New Building Supply Forecast in the Metropolitan Area

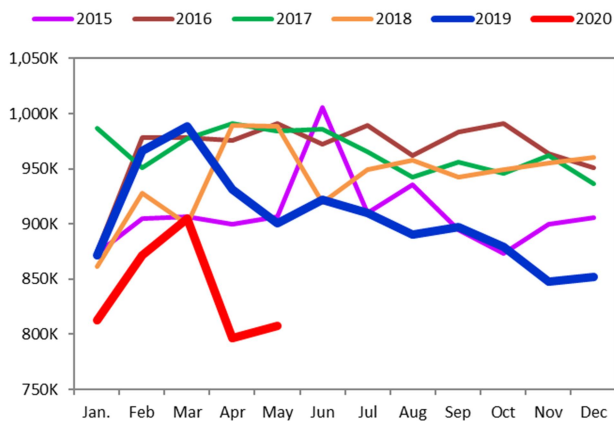


Source: Nikkei Real Estate Market Report

4. Residential Market

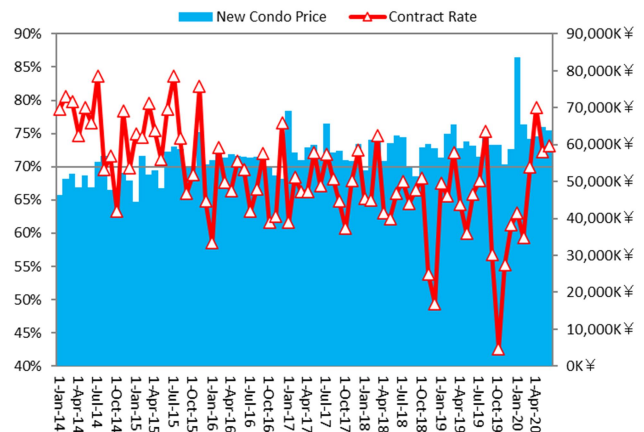
- The state of emergency declaration led to a widespread suspension of construction. Housing starts have been declining substantially already before the October 2019 consumption tax rate hike, with the YoY change rate in housing starts since last October hovering around -10%. April-May saw a significant decline of 19% YoY in owner-occupied homes and 12% in rental housings, while condominiums for sale were up +1%.
- Due to self-restraint and model room closures, the number of condominiums for sale in the Tokyo metropolitan area fell sharply in May, down 80 percent from a year earlier, but recovered to a 30 percent decline in June. The contract rate and prices were strong despite the difficulty of sales activity in the Tokyo area: the first month contract rate in June was 73%, above the target of 70% for the fourth month in a row, and prices were 7% higher than a year earlier. Looking at the contract rate by price range (in units of 10 million yen) in the Tokyo metropolitan area in June, the contract rate was more than 69% for all price ranges of 30 million yen or less to 100 million yen, and 75% for 100-200 million yen, indicating that contracts were steady.
- Condominium rents remained strong even during the period of COVID-19 outbreaks, with rents rising 3.4% in Tokyo, 3.8% in Osaka, and 3.2% in Nagoya from January to June, according to Tokyo Kantei.

Chart 12: Housing Starts (Annualized)



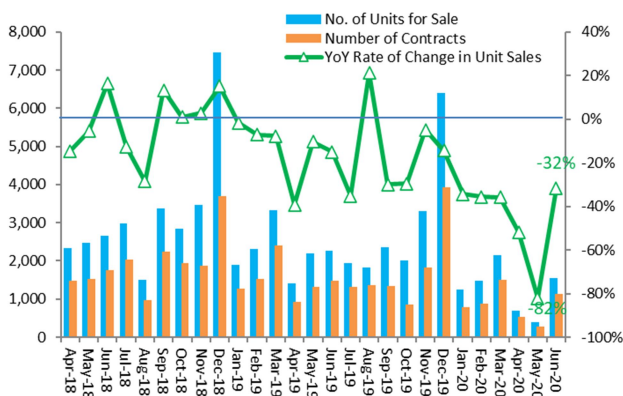
Source: Housing Starts Statistics, Seasonally Adjusted Annualized Units

Chart 13: New Condo Prices in the Metropolitan Area



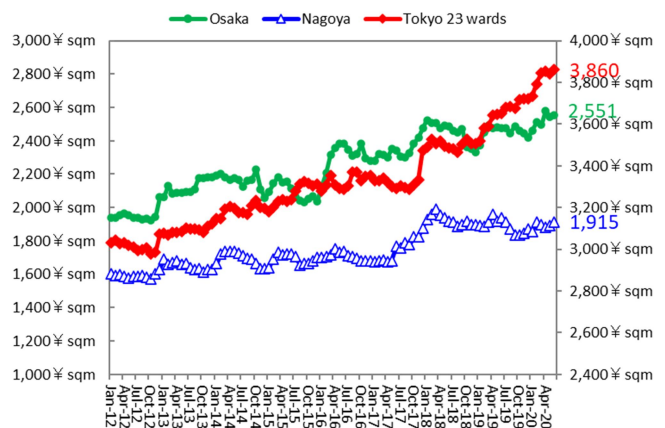
Source: Real Estate Economic Institute

Chart 14: Number of New Condo Sales in Metropolitan Area



Source: Real Estate Economic Institute

Chart 15: Rent for Condominiums (Family Type)

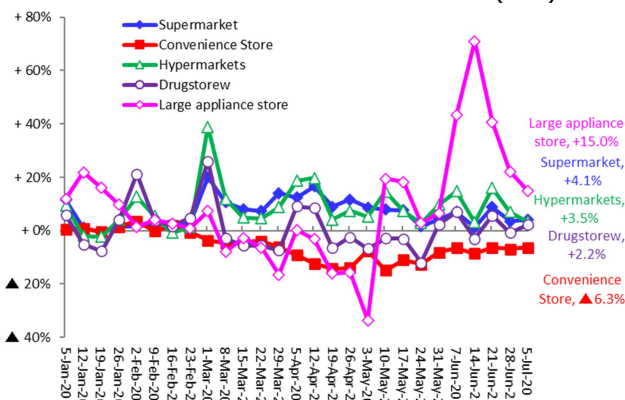


Source: Tokyo Kantei

5. Retail Market

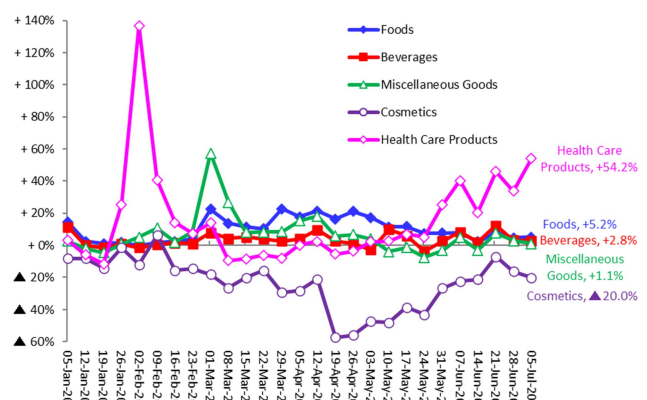
- The request for self-restraint and the following the state of emergency caused by the spread of the COVID-19 had a significant impact on sales in the retail industry. While department stores in the central part of the city were forced to close their doors, shopping centers located in residential areas and e-commerce stores saw a significant increase in sales.
- According to the METI POS Retail Sales Index, drugstore sales increased significantly in the early stages of the outbreak, followed by high growth at supermarkets and home centers. Sales at convenience stores have continued to decline, but consumer electronics stores have experienced significant increases before the request for a curfew due to demand for telework-related products.
- Sales of food and sundries have increased since the beginning of March, and sales of health care products have also increased significantly, but sales of cosmetics have continued to decline due to a decline in outings.
- Department store sales fell sharply due to a decline in the number of visitors to Japan and the subsequent closure of some stores, but sales have recovered with the reopening of stores. Sales at major department stores declined by about 80% YoY in April, but by June they had recovered to about 20% YoY.
- According to a survey by Mitsui Card, its share of e-commerce sales grew from 22% in February to 36% in April-May, showing an increase in the use of e-commerce.

Chart 16: Rate of Retail Sales Index (YOY)



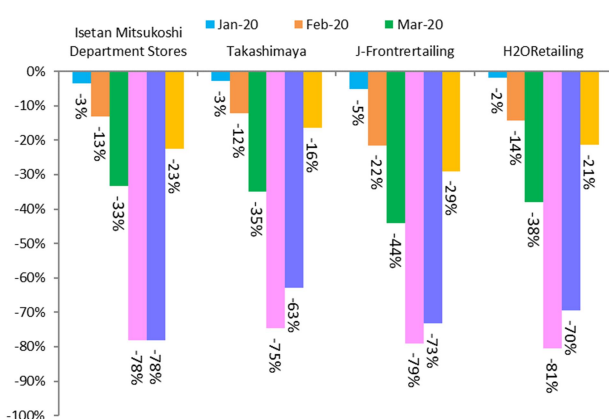
Source: METIPOS Retail Sales Index

Chart 17: Rate of Retail Sales By Item (YOY)



Source: METIPOS Retail Sales Index

Chart 18: Rate of Major Department Stores Sales (YOY)



Source: Announcements of companies

Chart 19: Share by Category by Cashless Payment

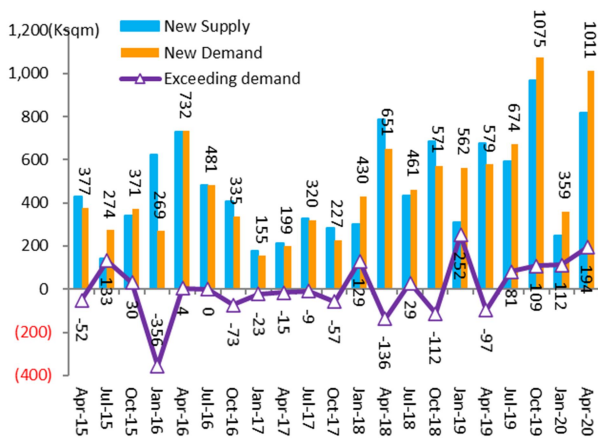


Source: Mitsui Card

6. Logistics Facilities Market

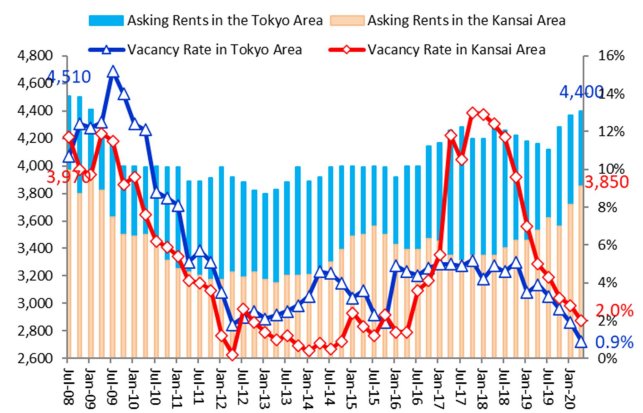
- The market for large logistics facilities has continued strong against the backdrop of high demand for e-commerce and home delivery services, even during the period of expansion of the new coronavirus.
- According to Ichigo Real Estate, new demand in the Tokyo area in the February-April 2020 period was 1.01 million square meters, the second largest since the survey started (July 2008). New supply was at a high level of 15 buildings, of which 13 were fully occupied, bringing the excess of new demand compared to new supply to 190,000 square meters.
- Under these circumstances, the vacancy rate in the Tokyo area was 0.9%, the lowest since survey inception. Asking rents were 4,400yen/tsubo (+0.7% YoY), recovering to 98% of the level in July 2008, just before the Lehman shock. Demand for these facilities continued to be strong in the Kansai area as well. However, this demand was predetermined before the COVID-19 outbreak.
- According to CBRE, a short-term need for more borrowing has been seen due to the upturn in the volume of daily commodities. Yamato Transport's parcel delivery volumes have increased, both May and June saw a significant increase of 19% YoY in demand for parcel deliveries.
- According to a survey by the Nittsu Research Institute, the cargo movement index is currently -38 (vs. -29 for the previous year) and the forecast is -35 (vs. -26 for the previous year), which indicates that the overall domestic shipment volume is not necessarily in an optimistic state.

Chart 20: New Supply-Demand Trends in the Tokyo Area



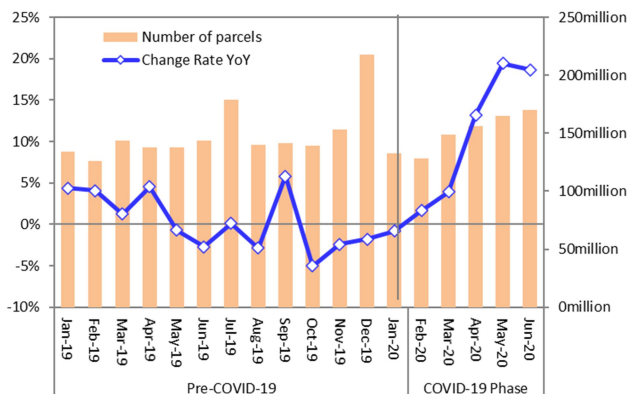
Source: Ichigo Real Estate

Chart 21: Market conditions in the Tokyo and Kansai areas



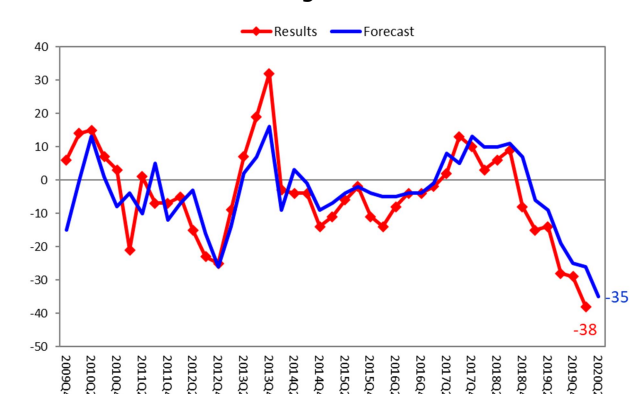
Source: Ichigo Real Estate

Chart 22: Number of Parcels Handled



Source: Yamato Transport

Chart 23: Cargo Movement Index

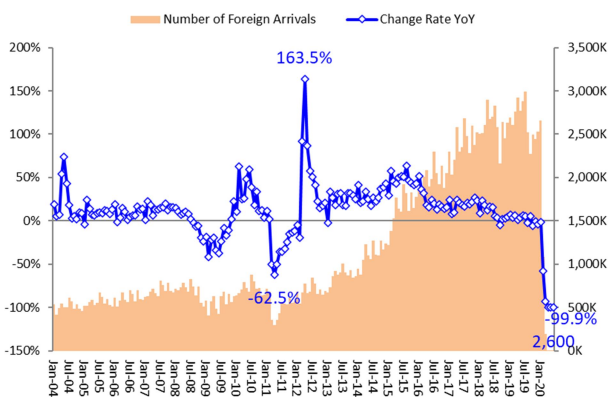


Source: Nittsu Research Institute

7. Hotel Market

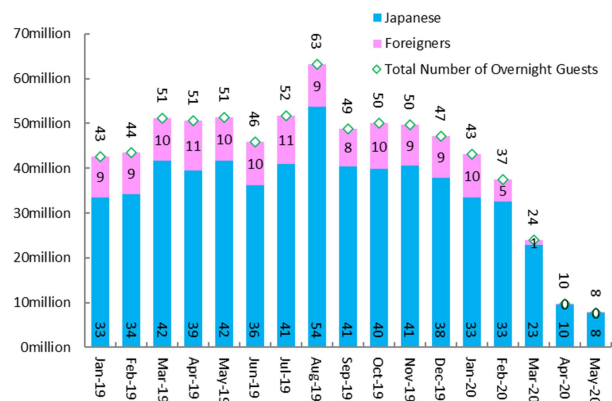
- The number of foreign visitors to Japan in June 2020 decreased by 99.9% YoY to 2,600, compared to 2.88 million in the same month last year, due to measures to restrict entry from abroad following the spread of the new coronavirus infection.
- The total number of overnight stays at domestic lodging facilities was 7.81 million in May, down 85% from a year earlier. Of this number, the number of Japanese decreased by 82% and the number of foreigners decreased by 99%. Due to the size of the decline in the number of foreign guests, the percentage of foreigners in the total number of guests fell from 18.9 percent in May 2019 to 1.7 percent in May 2020.
- The lodging industry has been badly damaged, with resort hotels having the lowest occupancy rate at 3.6%, followed by Ryokan (traditional lodging) at 5.3%, city hotels at 8.9% and budget hotels at 19.9%.
- According to the Teikoku Databank, there were 80 lodging industry bankruptcies in the first half of 2020, +2.2 times more than the previous year; the June 30 bankruptcy of the White Bear family and related WBF Holdings was the largest ever for a travel agent. However, on the same day, Hoshino Resorts announced that it was considering supporting the company.
- Occupancy rates at lodging facilities are recovering, albeit slightly, after the lifting of the state of emergency. Many municipalities are running tourism campaigns and the travel and lodging industry is expected to recover.

Chart 24: Number of Foreign Visitors to Japan (Monthly)



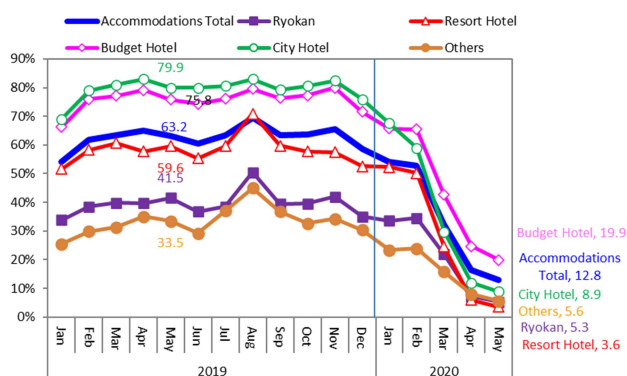
Source: Japan National Tourism Organization (JNTO)

Chart 25: Total domestic overnight guests (monthly)



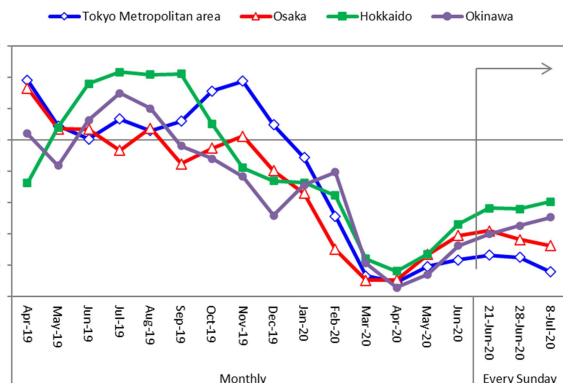
Source: Accommodation Travel Statistics

Chart 26: Occupancy rate by accommodation type



Source: Accommodation Travel Statistics

Chart 27: Occupancy Index

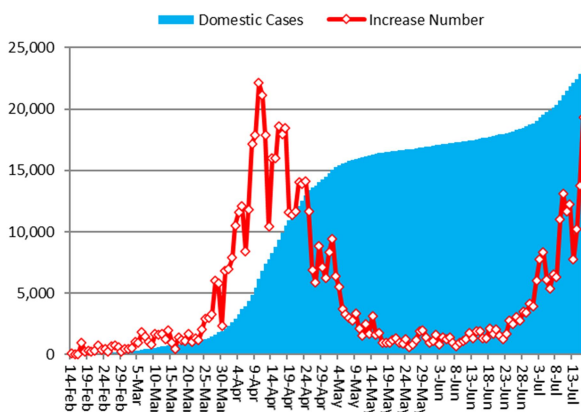


Source: DATASALADA

8. Effects of the new coronavirus

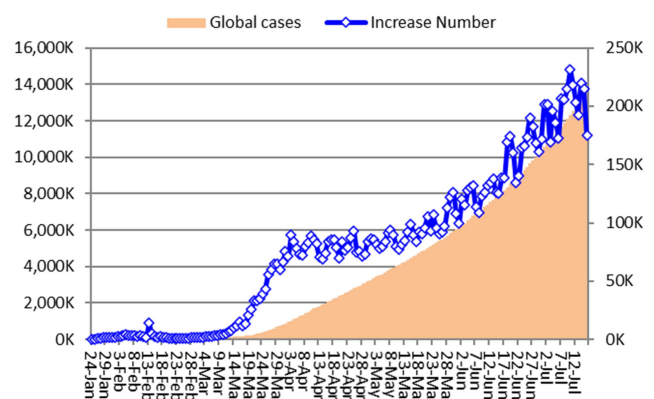
- The new coronavirus, which began in Wuhan, China, had a major impact on Japan's inbound demand when China banned group travel overseas starting January 27. The spread of the virus aboard the Diamond Princess was later reported in early February, and it became nationwide issue when Prime Minister Abe announced on Feb. 27 that all elementary and junior high schools across the country had to be closed.
- As a result of the spread of infection in the country, the decision to postpone the Tokyo Olympics and Paralympics was made on March 24 and a state of emergency was declared on April 8, when the number of new infections reached 293 in Tokyo.
- With the lifting of the state of emergency and the lifting of requests for voluntary closures of commercial facilities and restaurants, economic activity has recovered after bottoming out in May, and real estate investment is also resumed.
- In addition to the spread of the disease to Latin America, the Middle East, and Africa, the disease has re-emerged in the United States, Australia, and other countries, and for the economy to recover permanently, the challenge remains how to control the further spread of the disease.

Chart 28: Domestic Cases



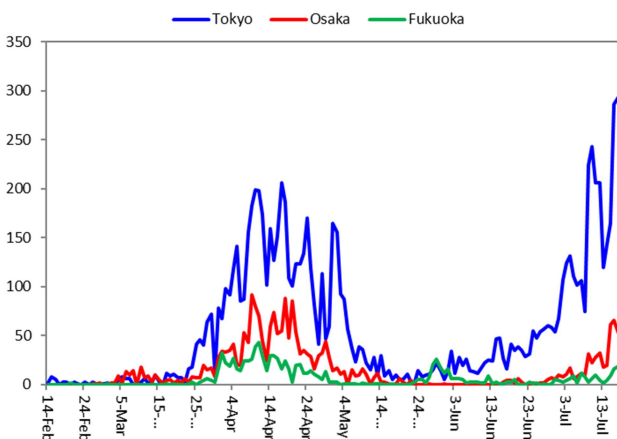
Source: Ministry of Health, Labor and Welfare

Chart 29: Global Cases



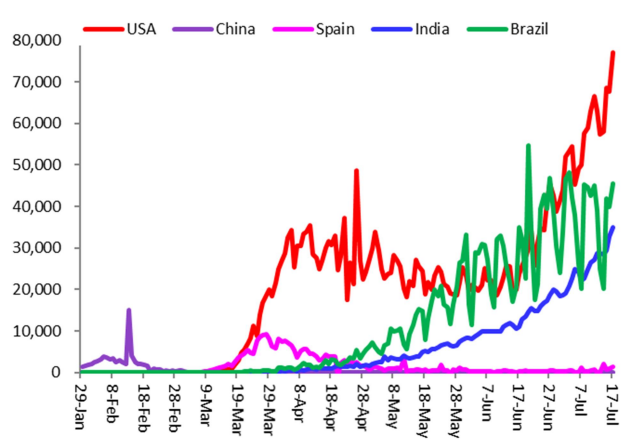
Source: Johns Hopkins University, The Nikkei

Chart 30: Number of cases in Tokyo, Osaka and Hokkaido



Source: Jag Japan Ltd.

Chart 31: Number of Cases in Major Countries



Source: European Centre for Disease Prevention and Control