

YoY Chg 12-Mo. Forecast

3.0%

Prime Office Cap Rate*



0.91X

J-REIT P/NAV Ratio**



JPY 8.0 T

Total Investment Transaction Volume ***



* Cushman & Wakefield

** The Association For Real Estate Securitization (ARES)

***MSCI, ARES, Rolling 12 Month from November 2023

MAJOR MARKET INDICATORS H2 2023

YoY Chg 12-Mo. Forecast

0.6%

10-Year JGB Yields



1.6%

Annual Real GDP Growth Rate¹



4.3%

J-REIT Dividend Yield



16.5%

Real Estate Loans to GDP (%)²



Source: Ministry of Finance, Ministry of Internal Affairs and Communications, IBRC, Bank of Japan.

¹Real GDP seasonally adjusted consensus estimate, annualized

²Outstanding loan balance of all real estate companies dividend by nominal seasonally-adjusted GDP as of September 2023

³Mizuho Research & Technologies

⁴Including income producing assets valued at JPY0.5 billion or greater

Expect a continued favorable domestic lending environment despite modest uptick of interest rates

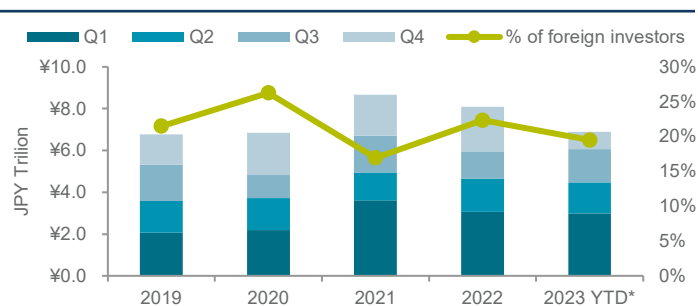
Japan's annual real GDP growth is expected to decelerate to 1.0%¹ in 2024 from 1.6%¹ in 2023 as economies continue to normalize from the pandemic. With prolonged pressure on aggregate demand from high-interest rate policy in the United States and Europe, the aggregate real GDP growth of Japan, the United States, and Europe as a whole is expected to decelerate to 0.9%³ in 2024. Capital market pricing already signals the BoJ's exit from negative interest rate policy without causing a delay from the Fed's interest rate cuts in the next several months. An unsynchronized monetary policy across major markets also means continued yen weakness, testing a cyclical low of JPY 150 per USD, as well as inflationary pressures from imported materials. We expect currency market volatility remains elevated; temporary speculation about the BoJ's announcement alone has pushed the ten-year interest rate to 0.95%, tracking above a current neutral interest rate of 0.8%, followed by a measured uptick to 1% by the end of 2024. Despite projected increase of interest rates, real estate lending environment remains stable with the outstanding real estate loan reaching at 16.5%² of nominal GDP. The banks' DI of real estate loans is projected to remain strong with weak loan demand from other industries.

Expanded domestic investor base has lifted annual transaction volume, up 2.8% y-o-y

An expanded investor base from domestic corporations and smaller funds has lifted the LTM transaction volume⁴ to JPY8 trillion, up 2.8% y-o-y. Longer investment decision process, typically required for these players, means the aggregate demand remains strong, providing ample exit options to non-domestic funds. Even assuming the benchmark rate increasing to 1%, Japan's cash-on-cash return is expected to remain positive, unlike other major markets. By investor type, institutional investors maintains the net purchases with increased number of active players. Foreign investors almost eliminated their net purchase to JPY2.9 billion with a series of large sales toward the yearend as their cost of capital nearly doubled during the year. Conversely, J-REITs remains the net seller with sluggish performance in relation to NAV despite their low cost of debt averaging around 0.6% for the maturity averaging around four years.

Allocation to cyclical sector is mixed, with allocation to office plunging from 42% in 2020 to 32% in 2023. Investors' interests are increasingly restrained to a limited number of well-located high-quality assets, resulting expansion of the pricing range of completed transactions. Allocation to hotels has doubled from previous year, albeit widening bid-ask spreads already indicate limited upside forward in relation to undervalued neighborhood retail properties relative to fundamentals. Among non-cycle assets, allocation to logistics saw little change at 20%. Increasing buyer's risk aversion to large-scale transactions against sellers' unwillingness to price discount led to lower allocation to Multi Family, falling to 16% of the total transaction volume.

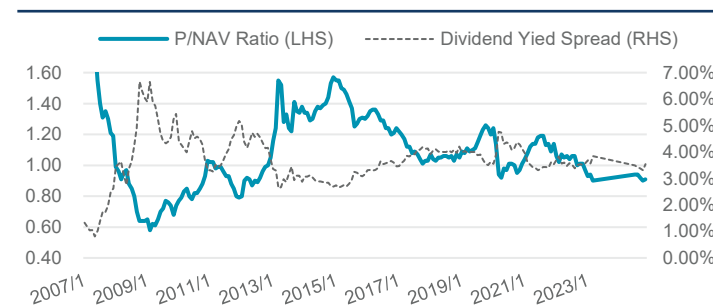
Historical Real Estate Transaction Volume (Annualized)



Source: MSCI, ARES, Cushman & Wakefield

*as of November 2023

Historical Trend : J-REIT Monthly P/NAV Ratio Since 2007



Source: ARES, Ministry of Finance

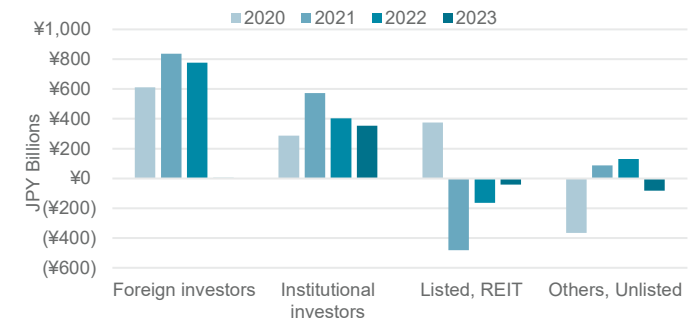
Net inflows of funds from a wide range of investors continue to anchor low expected yields

Japan's ample liquidity positions with a wide variety of exit options tends to constrain the most of cap rates movements unlike other markets. Despite rising interest rates, net capital inflows continues, driving the projected securitized real estate market expanding to JPY50 trillion at the yearend, equivalent to the 5Y CAGR of 5%. Furthermore, across asset class, income returns remains stable, especially for suburban retail with little changes in leasing fundamentals. Additional capital returns from non-cycle assets continue to anchor low expected yields for mostly domestic investors, with observed transaction cap rates of top office locations falling below the mid-2%. However, asset-specific risk premium has been rising, widening the pricing range by asset class as illustrated in the top left table on the next page. During 2H 2023, domestic corporations were active buyer of properties in top locations either for owner-occupied and/or redevelopment purpose. Yodobashi Camera and EDION purchased station-front retail assets. With higher penetration rate of online retail, electric appliance stores suffer from higher cost base of roadside stores relative to the corresponding online retail channels. This has led to a series of strategic shift in favor of owning flagship stores in top retail locations as major touch points for their customers. Elsewhere, Mapletree Investment, the seller of the retail assets to EDION, purchased data center assets in Osaka. Mitsui Fudosan also purchased land in West Tokyo, where the power supply required for data center development remains available.

Outlook

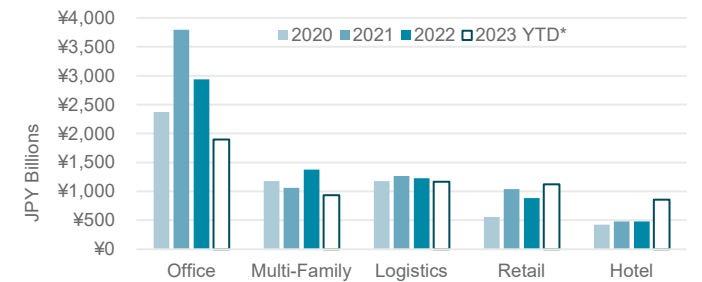
- Focus on macro factors with scenario analysis for potential monetary policy change over the next 12 months. Despite limited options for revising the BOJ's monetary policy, expect elevated volatility in exchange rate.
- More selective stance is required for investment in office assets, including submarket, and building grade.
- Recommend urban logistics and above-average rental housing for core funds with large liquidity positions.
- Recommend redevelopment in top location, hybrid housing, mid-to-long-term investment in regional data centers (e.g., Kyushu) for value-add funds with higher risk tolerance.

Net Transaction Volume by Investor, Since the end of 2019



Source: MSCI, Cushman & Wakefield

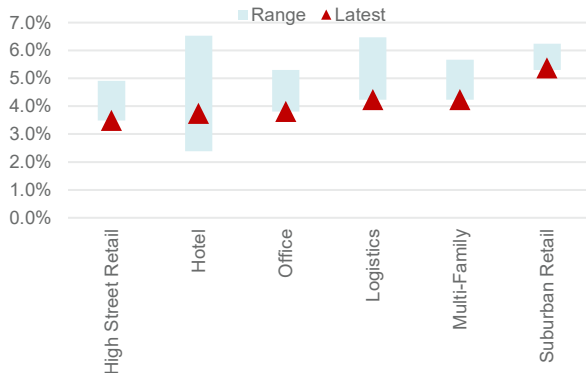
Investment Transactions* by Use, Since 2019



Source: MSCI, ARES, Cushman & Wakefield

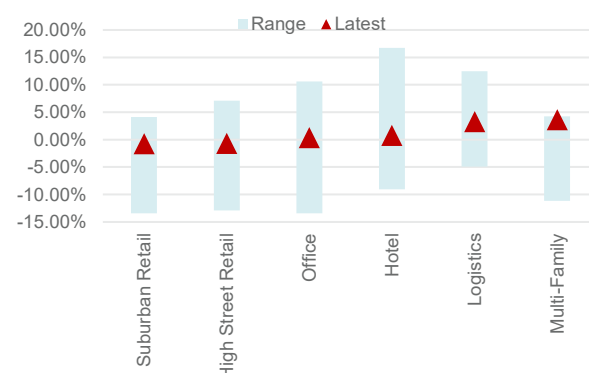
* As of November 2023

Income Return by Sector, Since July 2007



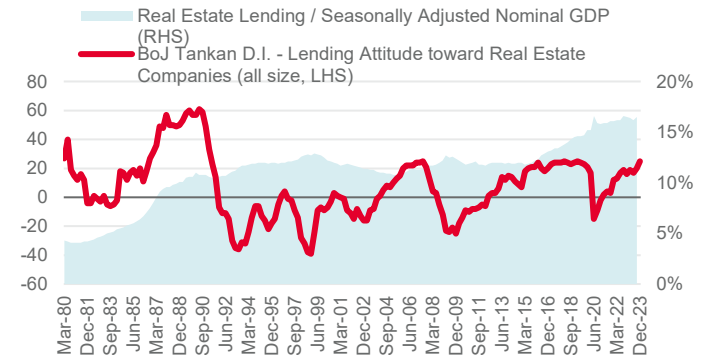
Source: ARES (AJPI), Cushman & Wakefield as of December 2023

Capital Return by Sector, Since July 2007



Source: ARES (AJPI), Cushman & Wakefield as of December 2023

Bank Lending Attitude (BoJ Tankan D.I.)



Source: Bank of Japan, Ministry of Internal Affairs and Communications

Investment Transactions by Property Type (Last 12 Months)

PROPERTY TYPE	NUMBER OF PROPERTIES	VOLUME (JPY B)	CAP RATE (LOWER - UPPER LIMIT)
Office	280	¥2,540	2.0% - 6.3%
Logistics	108	¥1,405	3.7% - 8.3%
Retail	149	¥1,166	2.8% - 6.7%
Multi-Family	403	¥1,003	2.4% - 5.9%

Source: MSCI, ARES as of the end of November 2023

Investment Assets Under Management

PROPERTY TYPE	ASSETS UNDER MANAGEMENT (JPY B)	Y-O-Y NET CHANGE	ANNUAL INCOME RETURN	ANNUAL CAPITAL RETURN
Office	¥12,176	3.4%	3.8%	0.4%
Logistics	¥6,384	10.5%	4.2%	3.3%
Multi-Family	¥5,101	10.2%	4.2%	3.6%
Retail	¥3,944	1.8%	4.5%	-0.8%

Source: ARES (AJPI); Final figures as of the end of March 2023 as of December 26, 2023

Ratio of Unrealized Gain by Sector

PROPERTY TYPE	UNREALIZED GAIN (JPY B)	RATIO TO BOOK VALUE
Office	¥1,832	23.5%
Logistics	¥1,355	31.7%
Multi-Family	¥1,168	36.0%
Retail	¥527	19.3%

Source: Calculated based on the most recent quarterly financial results of all holding assets as reported by J-REIT

Major Transactions in the Order of Transaction Size (Last 6 Months)

PROPERTY NAME	TYPE	BUYER	SELLER	PRICE (JPY B)	GFA (Tsubo)	PRICE / JPY per Tsubo	CAP RATE	Location
Sogo & Seibu Sites and Buildings (Partial)	Retail	Yodobashi Camera	Fortress Investment Management	¥300.0 ¹	—	-	-	Tokyo, Chiba
Hotel Portfolio (27 buildings)	Hotel	SC Capital Partners (Japan Hotel REIT)	Daiwa House Industry	¥120.0	—	-	-	Incl. Hokkaido, Nagano, Kyoto, Okinawa
EDION Namba Main Store	Retail	Edion	Mapletree Investments	¥54.0	6,950	¥7.7	-	Osaka-shi, Osaka
OS-318	Data center	Mapletree Investments	SKYY Development	¥52.0	3,801	¥13.7	4.0%	Osaka-shi, Osaka
Hino Motors Factory Site (Partial)	Site (Data center)	Mitsui Fudosan	Hino Motors	¥50.0	34,485 ²	¥1.4	-	Hino-shi, Tokyo
Sanko Kigyo Shirogane Dorm	Residential	Daikyo Incorporated	City Development	¥50.0	5,086 ²	¥9.8	-	Minato-ku, Tokyo
Multi-Family Portfolio (25 buildings)	Multi-Family	City Development	Bentall Green Oak	¥35.0	9,118	¥3.8	-	Incl. Minato-ku, Shinagawa-ku, Tokyo

¹ The price is for the properties and shares of Sogo & Seibu, ² Site area
Source: MSCI, Nikkei Real Estate Market Data, press releases on each company's website

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