

MARKET FUNDAMENTALS

	YOY Chg.	12-Month Forecast
3.0% Prime Office Cap Rate*	▲	▲
0.81 x J-REIT P/NAV Ratio**	▼	▼
JPY 8.7 T Institutional Real Estate Investment Transaction Total***	▼	▲

* Transaction Yield, Cushman & Wakefield
 ** ARES as of November 2024
 *** MSCI, ARES, Rolling 12 Months from November 2024

ECONOMIC INDICATORS

	YOY Chg.	12-Month Forecast
1.1% 10-Year JGB Yields	▲	▲
-0.2% Real GDP Growth Rate ¹	▼	▲
16.9% Real Estate Loans to GDP (%) ²	▲	▲

Source: Ministry of Finance, Bank of Japan (BOJ), Ministry of Internal Affairs and Communications
 1 Median of forecasted figures from institutions including Japan Center for Economic Research.
 2 Outstanding loan balance of all real estate companies dividend by 2024 Q3 nominal seasonally-adjusted GDP as of September 2024
 3 Figures based on book value disclosed by each companies by November 2024

RISING INTEREST RATES FROM EXTERNAL PRESSURES

Japan's annual real GDP is projected to contract by 0.2% in 2024, following a 1.5% expansion in 2023, primarily due to temporary economic disruptions from the Noto Peninsula earthquake. Meanwhile, 10-year Treasury yields have risen to 4.5%, increasing by 70bps after the recent presidential election. With the ongoing interest rate differential between Japan and the U.S., inflation risks are intensifying, driven largely by the rising cost of imports.

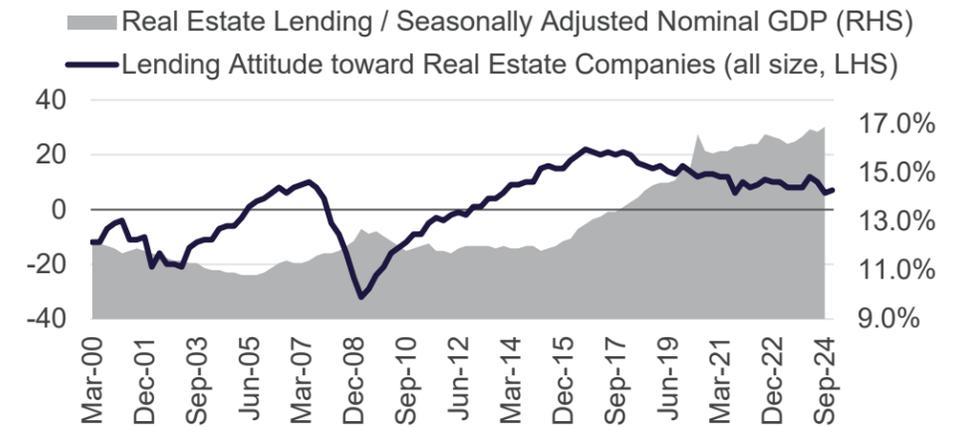
Despite these pressures, the rising cost of debt has had a limited impact on lending conditions to date. Following the BOJ's decision to raise the policy rate by 25bps in July, the newly-elected Ishiba cabinet postponed the planned December rate hike. With 10-year government bond yields now exceeding 1%, the yen yield curve has also shifted upward by 50bps across all maturities. Although the Bank Lending DI has turned to a more cautious stance since July 2024, real estate lending growth continues to outpace nominal GDP growth. In public markets, the inability of property owners to fully pass on cost increases to tenants has resulted in NOI yields declining by 241bps since year-end, with the P/NAV ratio falling to 0.81 times.

ANNUAL TRANSACTION VOLUME DROPS 3.4% Y-O-Y

Over the last 12 months (LTM), transaction volumes totaled JPY8 trillion, reflecting a 3.4% year-on-year (y-o-y) decline. Acquisitions by private companies dropped 13% y-o-y, reversing the trend of large sale and leaseback deals observed in the previous year. Similarly, acquisitions by foreign investors fell 5% y-o-y, reducing their market share to 14% from a peak of 27%, as global funds opted to reallocate proceeds from Japan to other markets in anticipation of rate cuts.

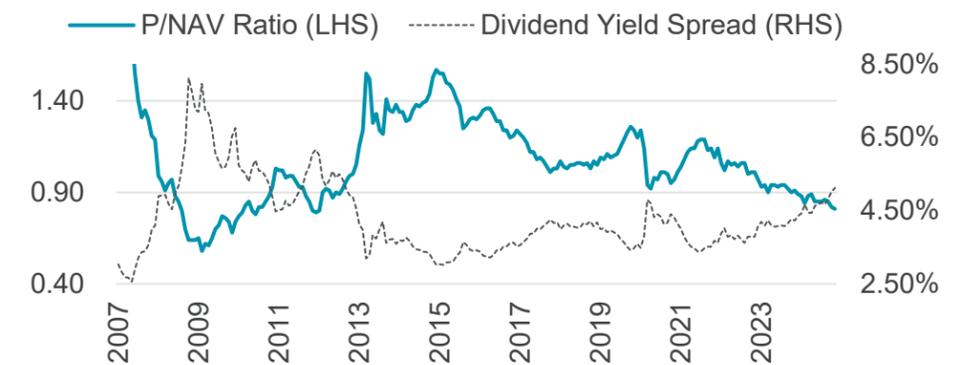
In contrast, acquisitions by REITs increased by 3% y-o-y, driven by major corporate transactions such as the merger between Advance Logistics Investment Corporation and Mitsui Fudosan Logistics Park Investment Corporation, valued at JPY176.9 billion. Elsewhere, retail investors are increasing demand for multifamily, retail, and hotel properties, as more funds move toward tokenizing these assets for retail distribution.

Real Estate Lending and the BoJ Tankan D.I.



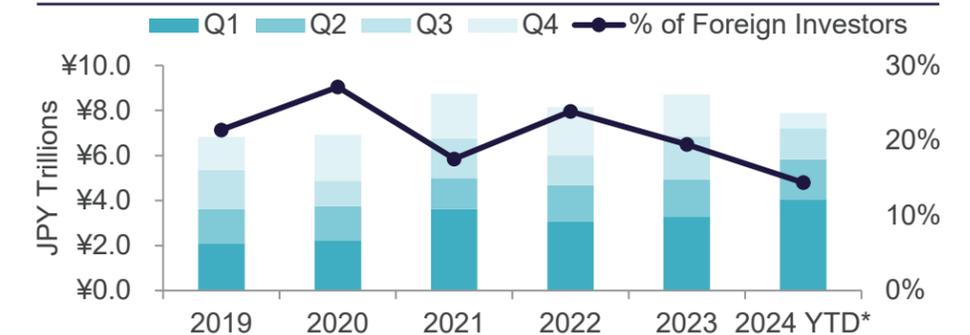
Source: Bank of Japan, Ministry of International Affairs and Communications

J-REIT Monthly P/NAV Ratio since 2007



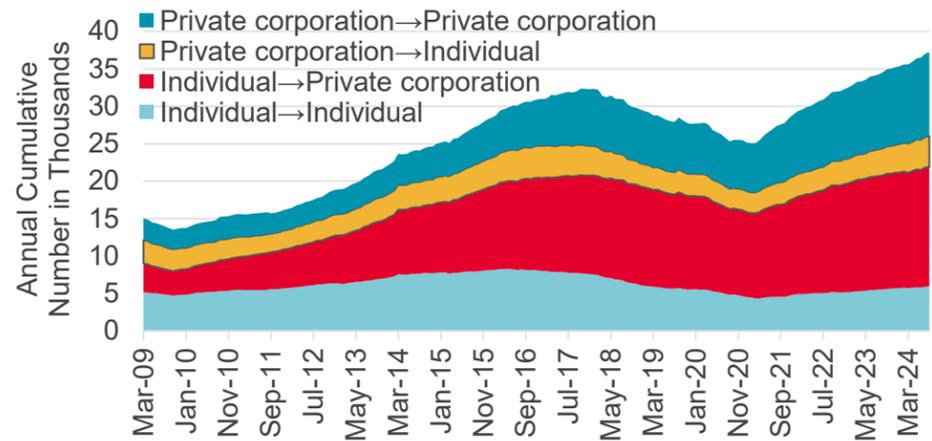
Source: ARES, Ministry of Finance

Real Estate Transaction Volume



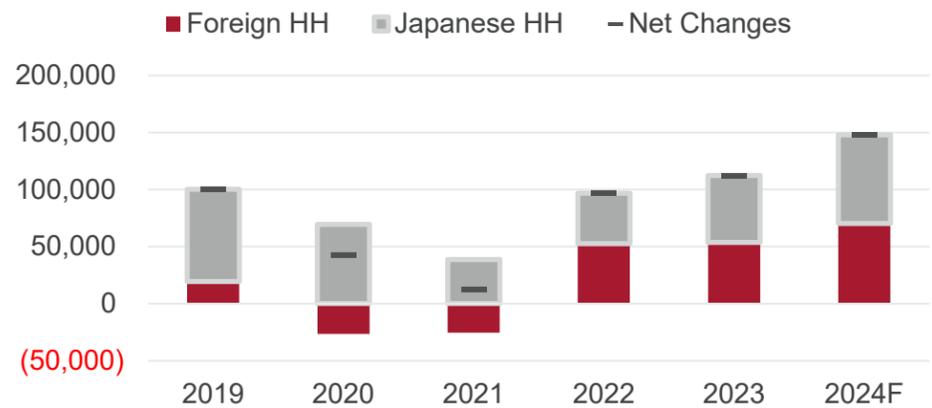
Source: MSCI, ARES *As of the end of November 2024

Transactions by Buyer/Seller Profile (Apartment Building)



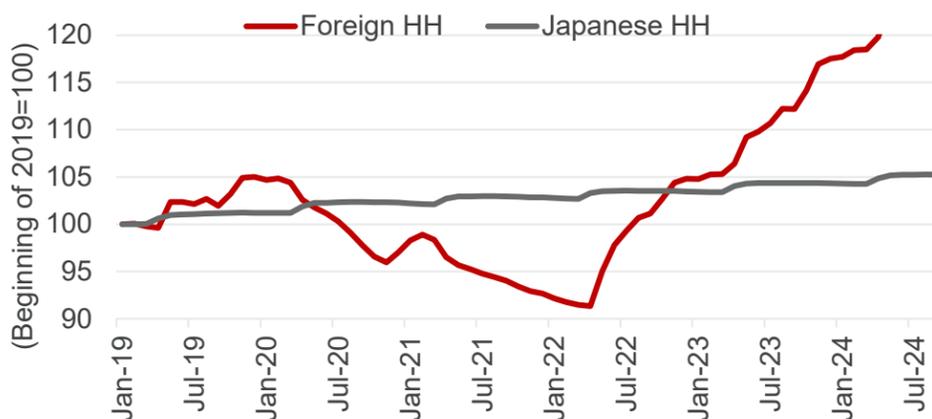
Source: Ministry of Land, Infrastructure, Transport and Tourism

Tokyo: Net Changes in the Number of Households



Source: Ministry of Internal Affairs and Communications, Tokyo Metropolitan Government

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Source: Ministry of Internal Affairs and Communications, Tokyo Metropolitan Government

By sector, transaction volumes rose significantly y-o-y in hotels (up 36%) and apartments (up 30%), reflecting growing demand in the living sector. Conversely, transaction volumes declined in logistics (down 21%) and retail (down 19%) due to concerns over excess supply in the Greater Tokyo area. Although prime urban properties continued to attract strong demand, the limited availability of properties for sale led to stagnant transaction volumes.

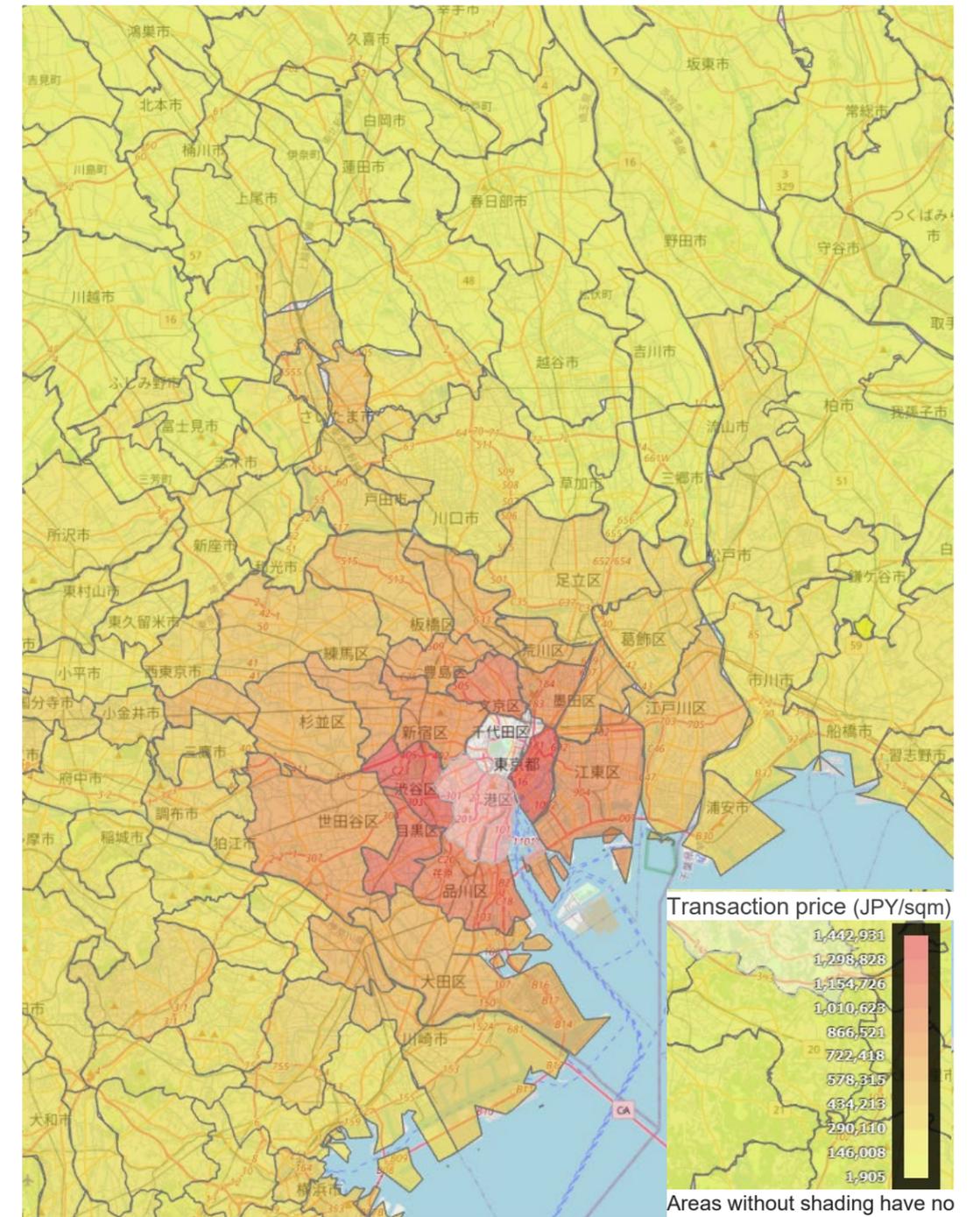
Value-Add Fund Inflows to the Living Sector

Since 2009, despite decreasing supply, apartment building sales from individuals to corporations have grown exponentially, driving the expansion of the institutionalized real estate market, as shown in the top left chart. An increasing number of market participants, including foreign investors and corporate buyers, have contributed to structural changes in the market and boosted the popularity of central locations.

For 2024, Tokyo is forecast to record an annual net immigration of 148,000 households, setting a new record. As illustrated in the chart at right, foreign households have been a key driver of market expansion, contributing to an annual net inflow of 70,000 in 2024, recovering greatly from a low of minus 26,000 seen in 2021.

With more flexible housing options, living assets present ample value-add opportunities, particularly through repurposing to unlock significant rental upside potential. In central Tokyo, heightened competition among investment funds and individuals has resulted in transaction prices far exceeding appraisal values, with cap rates occasionally dipping below 3%.

Greater Tokyo Area: Mapping Transacted Price (By Municipality, Residential Land)



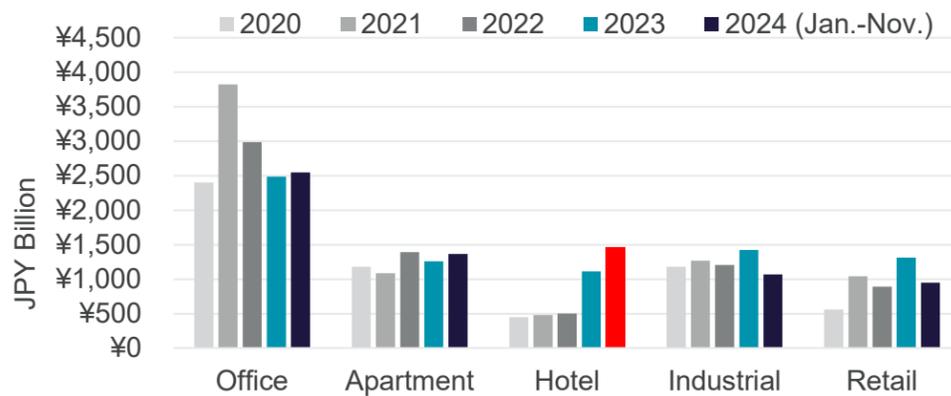
Source: Ministry of Land, Infrastructure, Transport and Tourism, Real Estate Information Network for East Japan (REINS as of 2023)

Net Transaction Volume by Investor Profile



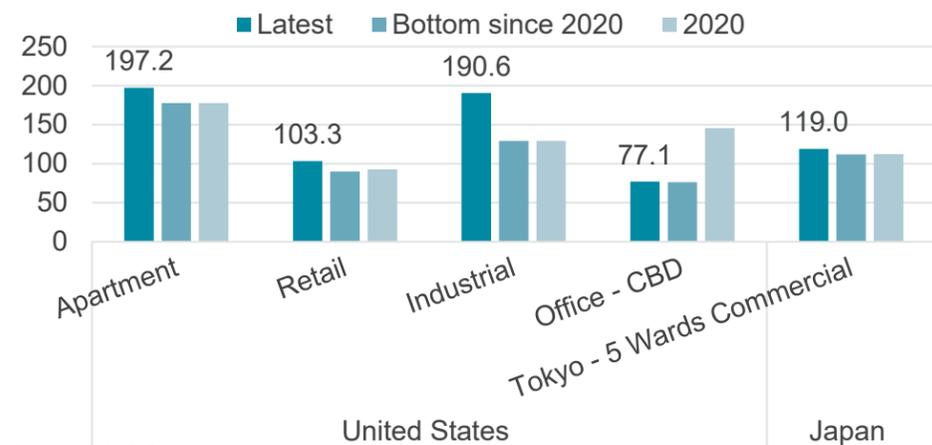
Source: MSCI
*As of the end of November 2024

Investment Transactions by Asset Type



Source: MSCI, ARES

Japan/ U.S. CPPI (Dec 2006= 100) since COVID-19



Source: MSCI

ASSESSING OBSOLESCENCE AND REFURBISHING NEEDS

As summarized in the upper half of the next page, cap rates showed mixed trends over the past year. Lower cap rates were observed in CBD office buildings intended for owner-occupied usage, as well as in apartments attracting larger retail funds. Conversely, higher cap rates were reported for older buildings with significant refurbishment needs.

Return metrics have continued to deteriorate over the past year. Despite near-flat income returns hovering around 4%, capital returns remain below the inflation rate, at less than 1.5%. In the office sector, capital returns have turned negative due to the large upfront capital expenditures required by value-add funds. Nonetheless, large unrealized gains, equivalent to 20% of book value, continue to provide a sufficient financial buffer against refinancing risks.

GROWING ECONOMY OF SCALE IN REDEVELOPMENT AND LAND ACQUISITION

In H2 2024, corporate buyers and financial institutions were active, such as targeting office assets in CBD fringe areas for repurposing and land acquisitions for residential development to address persistent supply shortages.

Major transactions included the sale of large stable operating assets and extensive hotel portfolios. Notably, KKR acquired 14 distressed hotels for JPY76.7 billion, while TPG Angelo Gordon, and Kenedix jointly acquired the Grand Nikko Tokyo Daiba for JPY100 billion. In the office sector, a consortium led by Chiba Bank, a local financial institution, acquired WBG in Kaihin Makuhari for JPY61.5 billion from PAG. Other notable transactions include Blackstone's acquisition of Tokyo Garden Terrace Kioicho from the Seibu Group for JPY400 billion. With several transactions pending and more global players seeking platform deals, we anticipate transaction volumes to rise modestly over the next twelve months, despite the expected uptick in interest rates.

Corporate buyers were also active in repurposing assets. SoftBank decided to a conditional acquisition of Sharp's Sakai factory for JPY100 billion to repurpose the building as an AI data center, while LVMH acquired the Abercrombie & Fitch Ginza store for JPY40 billion to expand its retail footprint.

OUTLOOK

- Macro Economics:**
Despite limited flexibility in revising the BOJ's current monetary policy, an upswing in risk premiums driven by external factors is expected. Demand from foreign investors is likely to slow as global funds continue reallocating assets toward higher-growth opportunities in other markets.
- By Investor:**
With declining income returns, retail funds are expected to expand market demand as their expected yields are significantly lower, reflecting a shift in investor preferences.
- By Asset Class:**
Recommend modern logistics in regional cities, and reconfiguring urban office for core funds with large liquidity positions. Additionally, hybrid housing and leasehold land in central locations are attractive for value-add funds with higher risk tolerance

INVESTMENT TRANSACTIONS BY PROPERTY TYPE (LAST 12 MONTHS)

PROPERTY TYPE	NUMBER OF PROPERTIES	VOLUME (JPY Billion)	CAP RATE* (LOWER – UPPER LIMIT)
Office	365	¥2,816	2.4% - 5.6%
Multi-Family	452	¥1,519	3.3% - 5.1%
Logistics	86	¥1,204	3.4% - 4.6%
Retail	173	¥1,032	3.4% - 5.4%

Source: MSCI, ARES (as of the end of November 2024)
*Investment-grade properties in Greater Tokyo, Osaka, Nagoya and Fukuoka Area excluding development projects

INVESTMENT ASSETS UNDER MANAGEMENT

PROPERTY TYPE	ASSETS UNDER MANAGEMENT (JPY Billion)	Y-O-Y NET CHANGE	ANNUAL INCOME RETURN	ANNUAL CAPITAL REUTN
Office	¥12,384	2.6%	3.8%	-0.8%
Logistics	¥6,823	9.2%	4.1%	1.5%
Multi-Family	¥5,183	2.3%	4.1%	1.2%
Retail	¥3,954	0.0%	4.5%	0.1%

Source: ARES (AJIP), Final figures as of the end of February 2024, as of November 28, 2024

RATIO OF UNREALIZED GAINS BY SECTOR

PROPERTY TYPE	UNREALIZED GAIN (JPY Billion)	RATIO TO BOOK VALUE
Office	¥1,962	24.1%
Logistics	¥1,329	33.4%
Multi-Family	¥1,127	34.3%
Retail	¥611	20.5%

Source: Calculated based on the most recent 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 Billion)	GFA (Tsubo)	PRICE / JPY per Tsubo	CAP RATE	LOCATION
Tokyo Garden Terrace Kioicho	Incl. Office, Hotel, Apartment, Retail	Blackstone	Seibu Realty Solutions	¥400.0	70,760*	¥5.65	-	Chiyoda-ku, Tokyo
Advance Logistics REIT 19 properties	Logistics	MFLP REIT	Advance Logistics REIT	¥176.9	176,955	¥1.00	3.9%	Incl. Chiba, Saitama
Raysum 27 properties	Incl. Office, Retail, Apartment	Hulic	Raysum, Oasis Management	¥171.9	34,856	¥4.93	-	Incl. Tokyo, Osaka
Grand Nikko Tokyo Daiba	Hotel	TPG Angelo Gordon, Kenedix	Hulic	¥100.0	37,133	¥0.27	-	Minato-ku, Tokyo
Hilton Fukuoka Sea Hawk	Hotel	Mizuho Leasing	GIC	¥70.0	41,191	¥1.70	-	Fukuoka, Fukuoka
World Business Garden	Office	Incl. Chiba Bank, Fuyo Lease Group	PAG	¥61.5	71,447	¥0.86	4.5%	Chiba, Chiba
DPL Yokohama-Totsuka	Logistics	GIC	Daiwa House	¥58.0	38,115	¥1.52	3.5%	Yokohama, Kanagawa
Leaf Minato Mirai	Office	Warburg Pincus, Lendlease	PGGM	¥55.3	4,366	¥10.53	-	Yokohama, Kanagawa
Global Gate	Retail, Office, Hotel	Mitsubishi HC Capital, Hulic	Goldman Sachs	¥55.0	20,666*	¥2.66	-	Nagoya, Aichi
Akasaka Garden City	Office, Retail	A domestic SPC	Sekisui House REIT	¥54.6	6,516*	¥8.38	3.0%	Minato-ku, Tokyo
ESR Yatomi Kisosaki DC	Logistics	ESR-LOGOS REIT	AXA Group	¥38.7	46,988	¥0.82	4.0%	Kisosaki-cho, Mie

Source: MSCI, Nikkei Real Estate Market Data, press releases on each company's website
*Transaction subject area

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