Real Estate Research

May 2023

Japan Real Estate Market Outlook Report

Healthy interest rate spreads and Bank of Japan's (BoJ) continued loose monetary policy creates an investment window, while growth prospects have softened amid a weakening external environment.

IN A NUTSHELL

— The capital market saw increased volatility in the global market especially after the turmoil in the banking sector in March 2023, while the impacts have been less evident so far in Japan.
— The investment market shows recovery signs, as listed REITs restarted investment activities in the last six months, while concerns remain over the elevated valuations, especially in the office sector.
— Average office vacancy rates in Tokyo's five wards, and other top regional cities in Japan, remained flat at the 5-6 % range in the last six months as demand recovery was offset by hybrid working styles at large corporations.
— The logistics sector continued to provide solid performance with healthy rental growth in key markets, while Greater Tokyo is expected to see a moderate increase in the vacancy rate due to a record supply for two years in a row.
— Market momentum presents a window of opportunity for global investors to sell non-strategic assets and optimize their portfolio.

1 / Macro Economy

Japan's economy continued to see recovery driven by economic reopening efforts and a rebound of inbound tourism since the second half of 2022. It expanded by 1.1 % for the year of 2022 (preliminary), followed by a 1% growth in the first quarter of 2023 over the same period of 2022. Growth prospects are softening amid the increasing concerns over global economics, especially the deteriorating technology sector and a moderating external demand due to the recent financial market turmoil.

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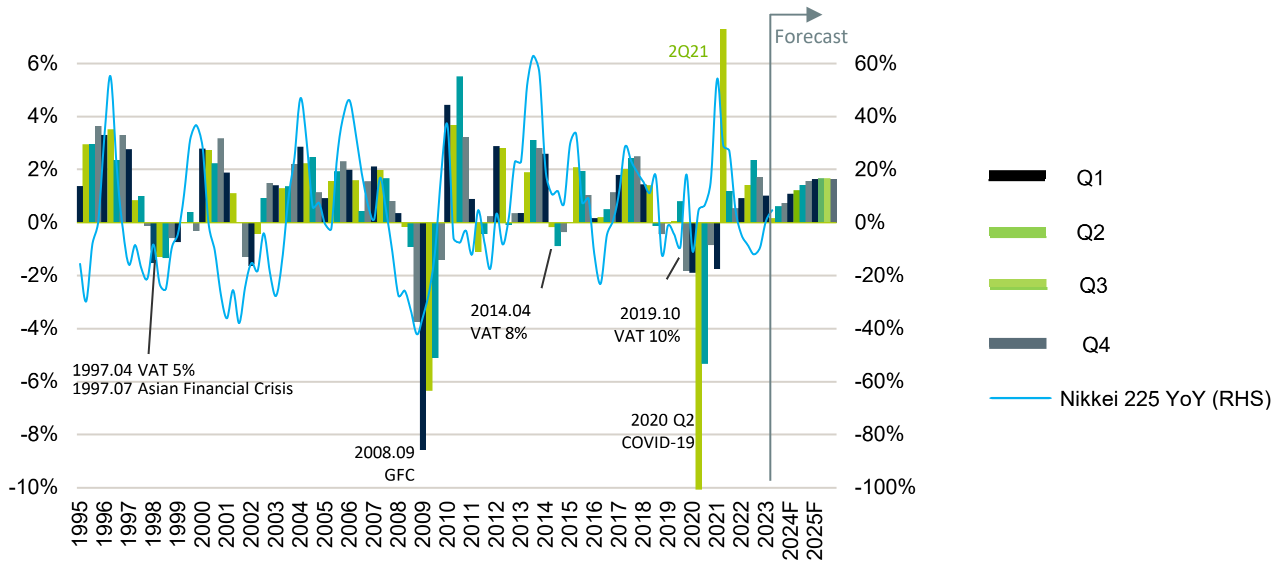
Exhibit 1: Japan's GDP growth outlook and Nikkei



Sources: Bank of Japan, Japan's Cabinet Office, DWS. As of May 2023.
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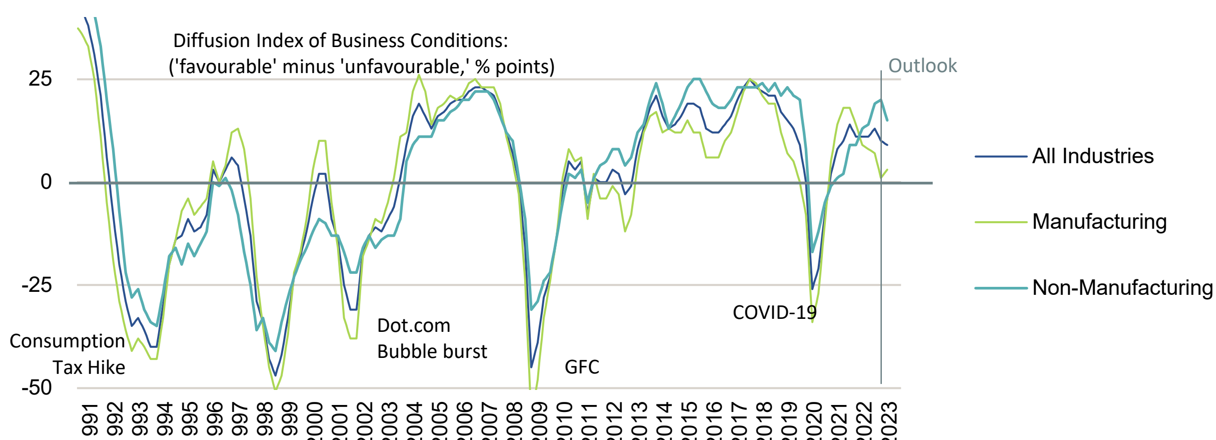
The Diffusion Index (DI) of the Tankan Survey conducted by the BoJ provided a stable trend at a reading of 10 in the first quarter of 2023, compared to a reading of 11 in the third quarter of 2022, with a cautious outlook for the coming months. The sentiment has deteriorated in select import-driven industries such as oil and coal, timber, and pulp due to unfavorable currency exchange rates, together with the export-driven electronics sector due to the softening external demand. On the other hand, non-manufacturing industries recorded positive growth led by a recovery in retail services, real estate, and information technology.

Exhibit 2: Diffusion Index of business conditions



Sources: The Bank of Japan, Japan's Cabinet Office, DWS. As of May 2023..
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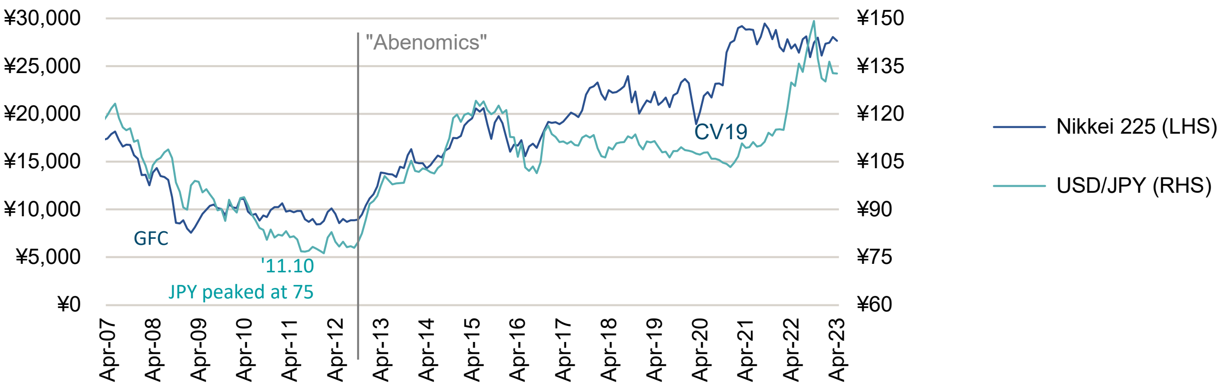
The capital market saw increased volatility in the first quarter of 2023, due to the failure of Silicon Valley Bank and the acquisition of Credit Suisse by UBS in March 2023. The volatility has been less evident in Japan as the interest rate continued to remain low, and the Nikkei 225 posted a rise of 10.7% in the first four months of 2023. The currency exchange rate was almost flat in the same period of 2023 after the Japanese yen dropped sharply and recorded 150 yen per US dollar in October 2022, the weakest level in 32 years.

Exhibit 3: Stock (Nikkei) and Forex



Sources: The Bank of Japan, Japan's Cabinet Office, DWS. As of May 2023.
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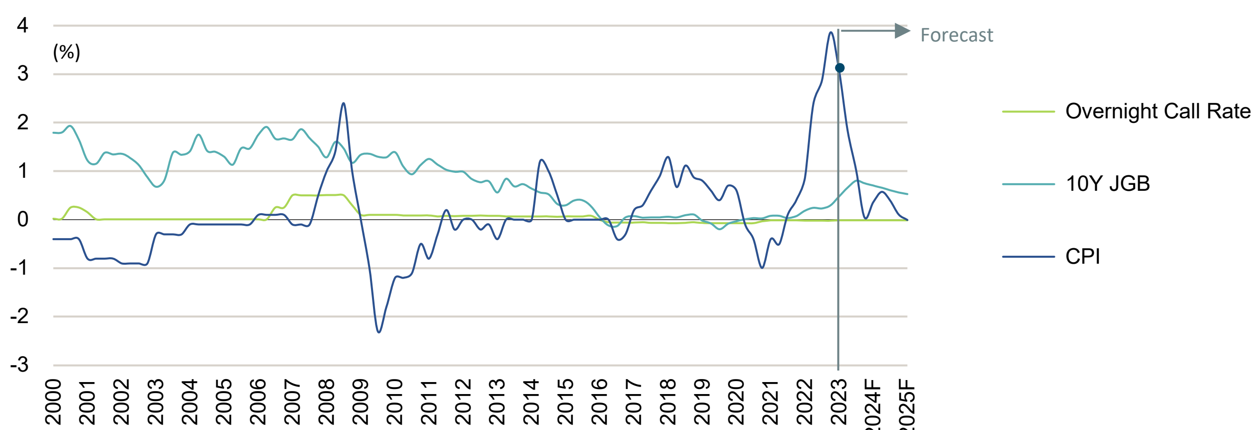
For the first time in dacades, Japan faces inflationary pressure as a weakened yen contributes to surging imported energy prices. Core CPI rose from negative territory in 2021 to 4.2% in January 2023, moderating to 3.1% in March 2023. In December 2022 the BoJ changed its long-term bond yield policy, dubbed Yield Curve Control or YCC, and decided to allow the ten-year bond yield to rise to 50 basis points above the zero percent target, a wider allowance as compared to the previous 25 basis points. The yield of ten-year Japanese government bonds remains at a range of 0.45%-0.50% in April 2023, within the widened YCC band set by the BoJ.

Exhibit 4: Forecast of interest rate and CPI



Sources: Oxford Economics (forecasts for 10Y JGB, Overnight Call Rate), The Bank of Japan, Japan's Cabinet. DWS (CPI forecast). As of May 2023.
Notes: F = forecast, there is no guarantee rates forecasted will materialise. JGB = Japanese Government Bond. CPI = Consumer Price Index. Please refer to Important Notes (see end of report).
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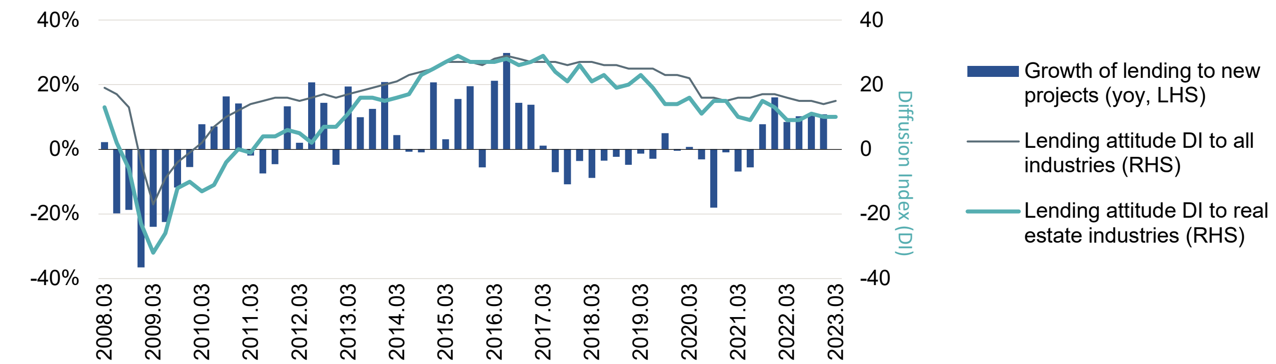
2 / Capital and Investment Market

2.1 Lending

The BoJ's Diffusion Index for lending attitudes of banks to the real estate industry (green line in Exhibit 5) continued to hold up steadily at a reading of 10 in the year to March 2023. This trend contrasts to major global markets where borrowing costs surged by 200-300 basis points since mid-2022 causing refinance challenges. The index in Japan still indicates relatively favorable conditions for borrowers for stabilized assets, with the impact of the recent turmoil in the global financial sector yet to be observed.[1]

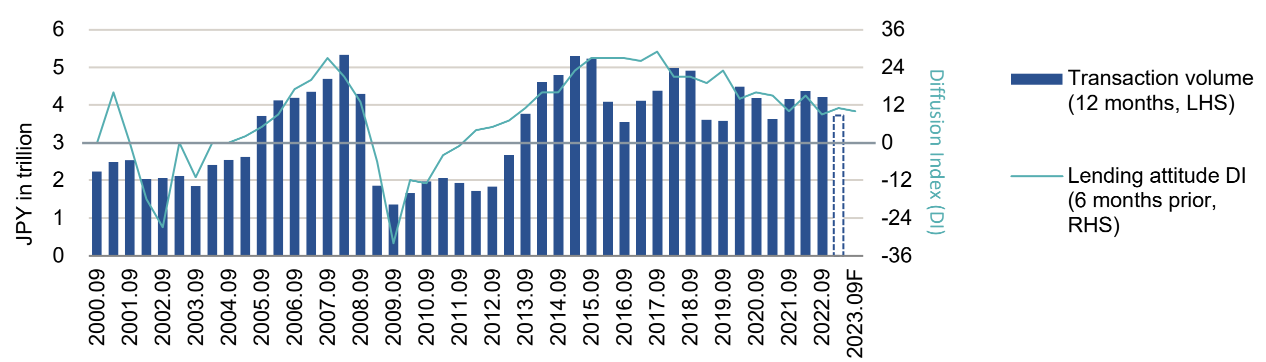
Exhibit 5: Commercial Real Estate Lending by Japanese Banks



Sources: The Bank of Japan, Japan's Cabinet Office, DWS. As of May 2023.
Past performance is not a reliable indicator of future performance.

The preliminary volume of commercial real estate transactions in Japan in the rolling 12 months to March 2023 was around JPY 3.7 trillion, a 15% decline from the same period in the previous year ended March 2022. Some foreign investors put new investments on hold due to the "denominator effect" caused by the recent devaluation of stocks and bonds in the global financial market.

Exhibit 6: Real Estate Transaction Volume and Lending Attitude DI



Sources: Urban Research Institute, Bank of Japan, Real Capital Analytics, DWS. As of May 2023.
Notes: E = preliminary estimate, F=forecast. Please refer to Important Notes (see end of report).
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[1] As an exceptional case, a debt laden real estate firm Unizo Holdings filed for bankruptcy protection in April 2023. The debts totaled JPY 126 billion, and it is the largest bankruptcy in the country this year so far.

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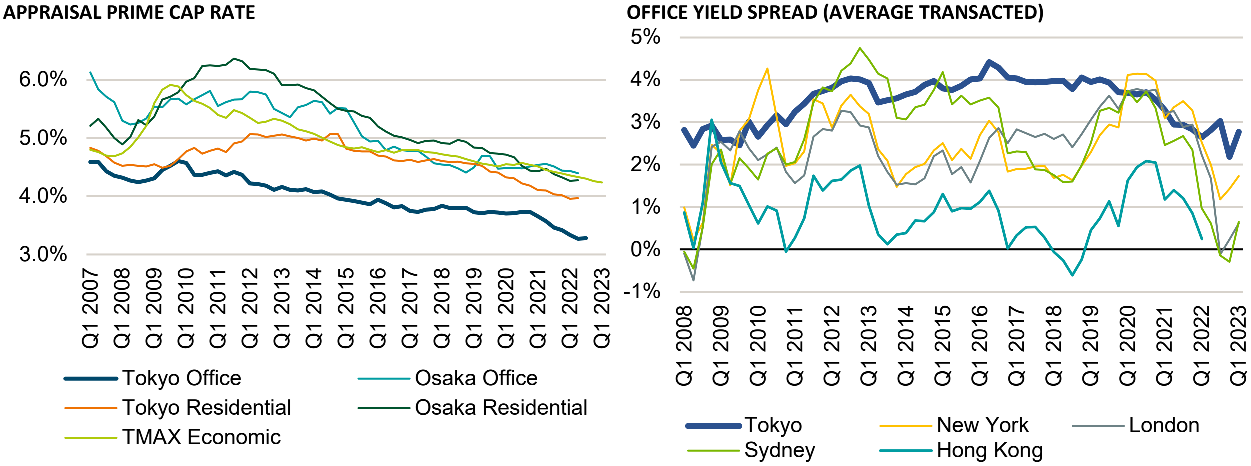
2.2 Pricing

Office appraisal cap rates in Tokyo were a preliminary 3.3% in the third quarter of 2022 (the latest period available), down from 3.4% in the first quarter of 2022, while the TMAX Economic cap rates also indicated further marginal compression in the most recent quarters. Gradual compression continued in the residential sector as well reflecting investors' strong interest, which brought the average appraisal residential cap rates down to 3.95% in the third quarter of 2022, recording an all-time low. The office yield spread in Tokyo — the difference between the average cap rates and 10-year bond yields — increased by 60 basis points from 2.2% in the third quarter of 2022 to 2.8% in the first quarter of 2023 (preliminary), while the spreads remained below 2% in major markets including London, New York, and Sydney, respectively.

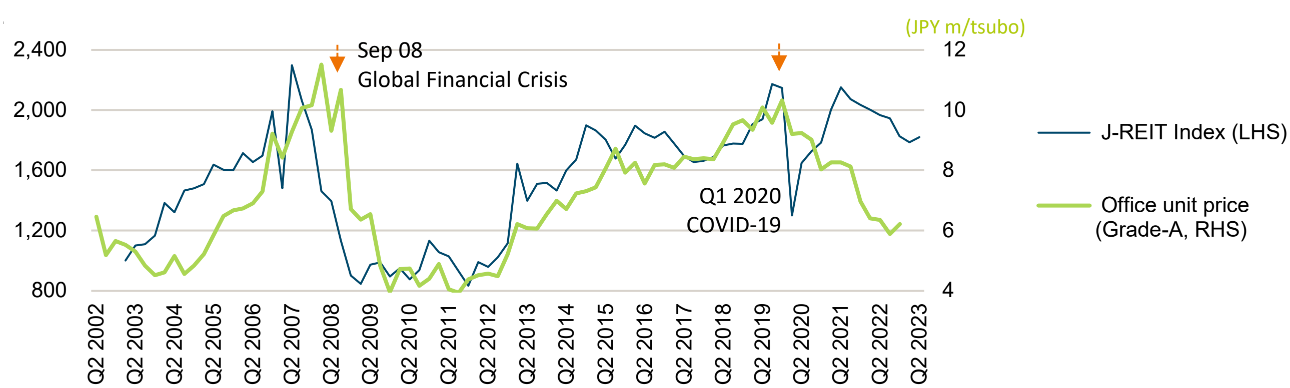
Exhibit 7: Cap Rate and Yield Spread



Sources: Association for Real Estate Securitization, TMAX, Real Capital Analytics, DWS. As of May 2023.
Past performance is not a reliable indicator of future performance.

The listed J-REIT index experienced a correction amid capital market volatility, dropping by more than 12% in fifteen months to March 2023, while it posted a mild recovery in April 2023. The theoretical capital value for grade-A office in Central Tokyo also made a steep decline to JPY 6.2 million per tsubo in the fourth quarter of 2022, posting an 11% drop from the same period in the previous year. This reflects muted space demand with the rental adjustment observed in the occupier market in the office sector (see Chapter 3.1).

Exhibit 8: Real Estate Capital Value in Japan



Sources: Daiwa Real Estate Appraisal, DWS. As of May 2023.
Past performance is not a reliable indicator of future returns.
*Tsubo is a Japanese unit of area. It is equivalent to 3.3 square meters (35.6 square feet). Past performance is not a reliable indicator of future growth.

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2.3 Transactions

Exhibit 9 shows major real estate transactions announced in the past six months since October 2022. The largest deal in the period was the acquisition of Otematchi Place East Tower by Hulic and Tosei Asset Advisors at JPY 436 billion, the largest single asset transaction recorded in Japan. The second largest deal was Tokyu Plaza Ginza (85%) at JPY 130 billion (estimate) by SMTB and Panasonic. Some of the listed REITs, who have been quiet in the previous six months in the office sector, restarted their investment activities in the sector during this period. Multiple sizable transactions were observed in the industrial, residential and hotel sectors by cross border capital, while the office sector was predominantly dominated by local Japanese capital.

Exhibit 9: Major Real Estate Transactions in Japan Announced Since October 2022

Type	Asset	Price (JPY bn)	Unit price (JPYm /GFA sqm)	Cap rate	Location	Month	Acquired by	Investor Origin
Office	Otemachi Place East Tower	436	1.24	-	Chiyoda	Oct-22	Hulic etc.	Japan
	95% of Odakyu Dai-ichi Life Bldg.	est. 71	1.01	-	Shinjuku	Mar-23	Dai-Ichi Life	Japan
	Harumi Front	39	0.86	3.9%	Kchuo	Nov-22	JRE REIT	J-REIT
	Kasumigaseki Tokyu Bldg	31	1.63	3.5%	Chiyoda	Mar-23	Activia Properties	J-REIT
	10% of Otemachi First Square	27	1.91	2.6%	Chiyoda	Oct-22	Dai Bldg.	Japan
	12% of Iidabashi Gran Bloom	25	1.73	3.5%	Chiyoda	Jan-23	NBF REIT	J-REIT
	Minebea Mitsumi HQ Bldg.	25	1.56	-	Minato	Oct-22	Domestic Investor	Japan
	50% of Shin Kawasaki Mitsui Bldg	24	0.35	6.3%	Kanagawa	Oct-22	SMFL Mirai	Japan
	50% of the ARGYLE Aoyama	24	2.17	2.9%	Minato	Feb-23	JRE REIT	J-REIT
	5% of Kamiyacho Trust Tower	24	2.42	2.8%	Minato	Nov-22	Mori Trust REIT	J-REIT
	12% of Toyosu Bay Cross Tower	22	0.98	3.5%	Koto	Jan-23	NBF REIT	J-REIT
Retail	85% of Tokyu Plaza Ginza	est. 130	1.18	-	Chuo	Mar-23	SMTB, Panasonic	Japan
	Hi Manten Shibuy Bldg etc. (3 props)	est. 40	6.30	-	Shibuya	Oct-22	FPG	Japan
Indus-trial	Chiba New Town LC etc. (7 props)	80	0.31	-	Chiba etc.	Dec-22	Gaw Capital	Hong Kong
	Gotenyama SH Building	70	3.50	2.9%	Shinagawa	Mar-23	TIS	Japan
	33% of ESR Ichikawa DC	34	0.45	-	Chiba	Jan-23	M&G Investments	UK
	50% of ProLogis Park Inagawa 1	28	0.27	4.4%	Hyogo	Dec-22	ProLogis REIT	J-REIT
	iMissions Park Ichikawa Shiohama	22	0.38	4.0%	Chiba	Oct-22	Advance Logistics REIT	J-REIT
Resi-dential	AXA Resi Portfolio (44 props)	80	-	-	Tokyo	Dec-22	AXA IM Alts	France
	Tradis Kameido etc. (23 props)	est. 33	33/unit	-	Koto etc.	Feb-23	Mitusi Digital AM	Japan
Hotel	Hayatt Regency Tokyo	est. 57	78/rm	-	Shinjuku	Mar-23	KKR	U.S
	Rihga Royal Hotel Osaka	est. 52	50/rm	-	Osaka	Jan-23	BentallGreenOak	Canada

Source: Real Capital Analytics, Nikkei Real Estate Market, DWS. As of May 2023.
Notes: Acquisitions by foreign managers are highlighted in grey and by J-REITs in green. This table is prepared solely for information purposes and not intended to recommend or endorse any specific company's shares or other products. Although the information in this document has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness, or fairness, and it should not be relied upon as such.

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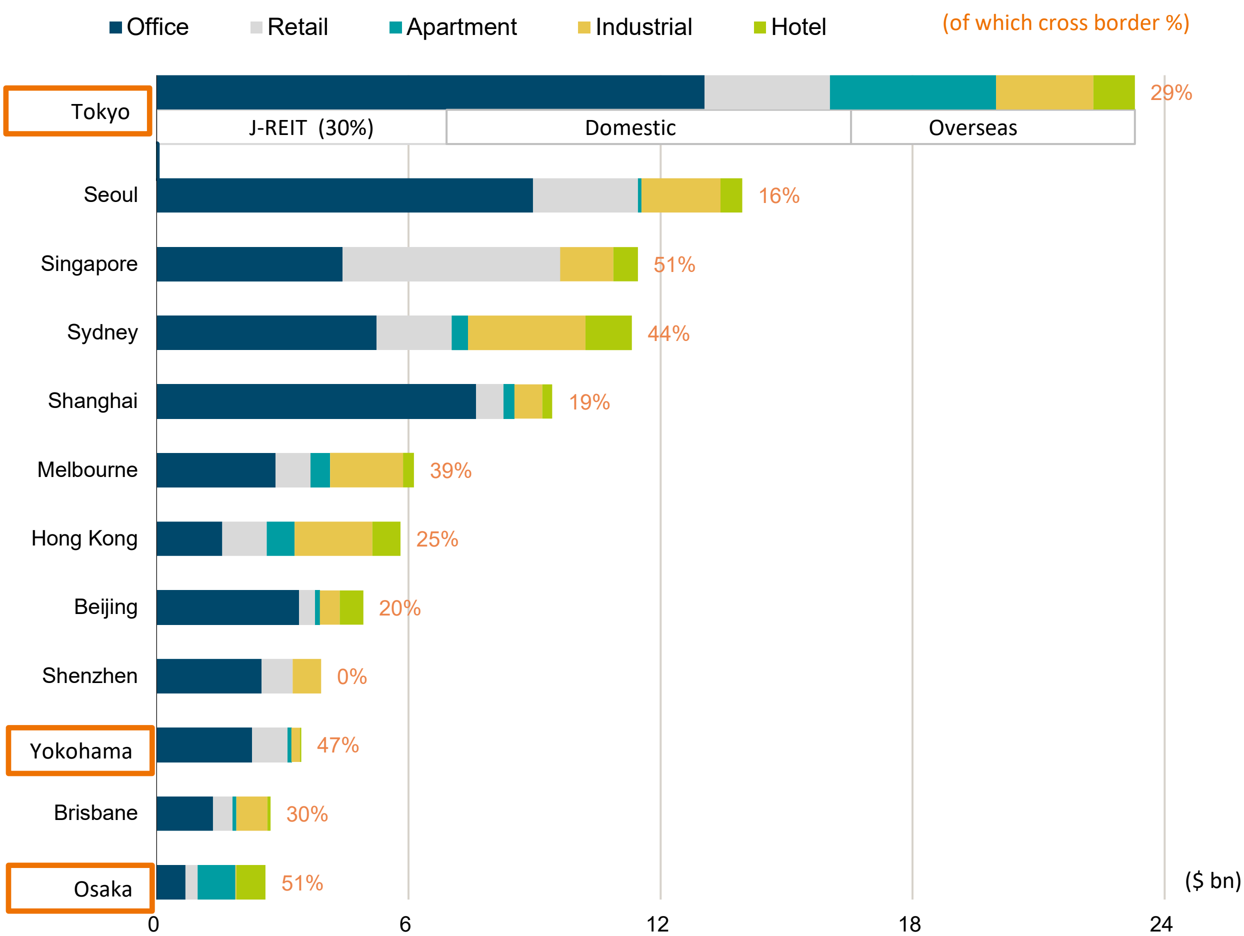
During the period, the most expensive unit price recorded among reported transactions was the acquisition of Hi Manten Shibuya at JPY 6.3 million per square meter, while several transactions reported tight cap rates of below 3% in the office and industrial sectors.

Tokyo's volume of commercial real estate transactions for the rolling 12-month period ended December 2022 was US $23.3 billion, with cross-border capital accounting for 29% of the activities. Tokyo continued to rank top in the Asia Pacific region for the aggregate amount, while Yokohama ranked tenth and Osaka ranked twelfth in the same period, respectively. According to our own estimates, about 30% of transactions in Tokyo were purchased by listed J-REITs in this period.

Exhibit 10: Real Estate Transaction Volume by City in Asia Pacific (12 Months Rolling till December 2022)



Notes: Commercial real estate transactions exclude non-income producing assets, such as development site transactions. Past performance is not indicative of future results.
Sources: Real Capital Analytics, DWS. As of May 2023.

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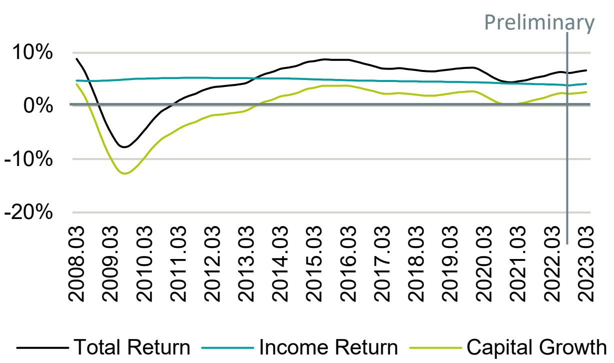
Performances

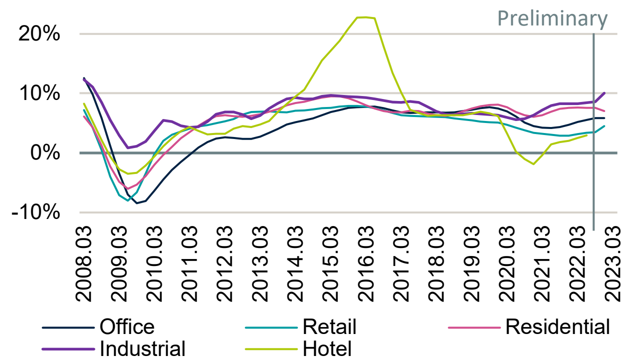
The average annual total return for unlevered direct real estate investments in Japan has recovered moderately, from 4.4% in December 2020 to 6.4% in December 2022 on a preliminary basis (the latest period available). Unlevered returns hovered at 8.6% in the industrial sectors in the year to September 2023, followed by the residential sector, while more modest returns of 5.8% were recorded in the office sector. We expect the performance of the hotel and retail sectors to recover over 2023 following further reopenings while the ongoing rental adjustments in office will continue.

Exhibit 11: Real Estate Total Return in Japan (Unlevered)

TOTAL RETURN BY COMPONENT



TOTAL RETURN BY SECTOR



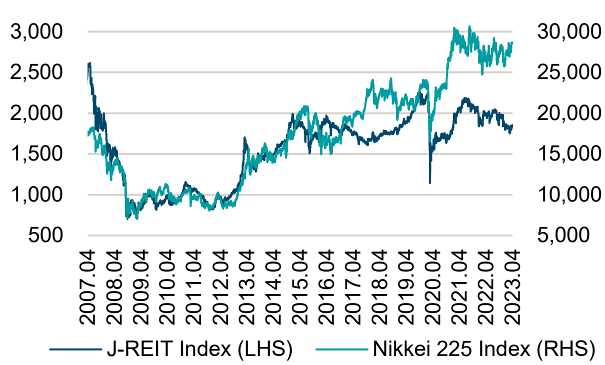
Sources: MSCI Real Estate - IPD, DWS. As of May 2023.
Notes: There is a time lag because of raw data being collected through semi-annual reports. Past performance is not indicative of future results.

2.4 J-REITs

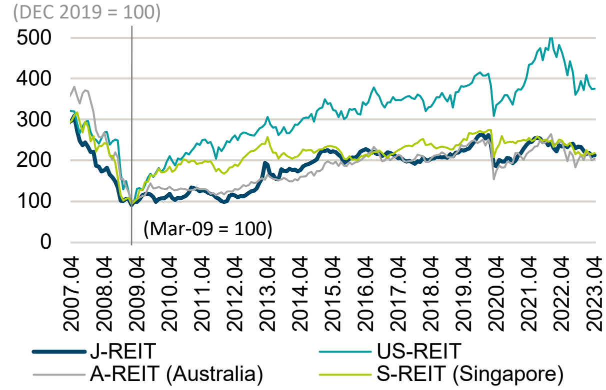
The J-REIT index value peaked in July 2021 and started to trend down in accordance with the interest rate increases in the global capital market. The J-REIT Index declined from 2,003 points at the end of March 2022 to 1,786 points in March 2023, posting a 10.8% decline over the year. The performance of listed REIT indices in the United States and Asia Pacific posted deeper declines in the same period, due to sharper increases in interest rates in their respective markets.

Exhibit 12: J-REIT Index and Long-Term Global Comparison

J-REIT Index and Nikkei 225 (daily)
(DEC 2019 = 100)



Global REIT Comparison (monthly)
(DEC 2019 = 100)



Sources: DWS. As of May 2023.
Notes: Past performance is not indicative of future results. Tokyo Stock Exchange REIT Index (J-REIT), FTSE NAREIT All Equity REITS Index (US-REIT), S&P/ASX 200 A-REIT Index (A-REIT), FTSE ST REIT Index (S-REIT). Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

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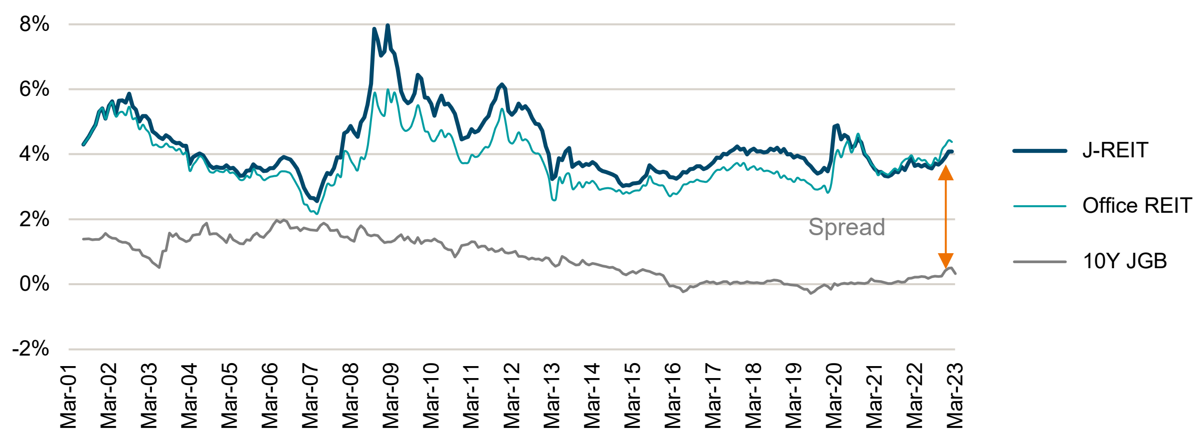
On average, the J-REIT dividend yields were 4.1% in February 2023, a 0.5 percentage point higher than 3.6% in August 2022. The spread over ten-year government bond yields also widened by 0.2 percentage points to 3.6% in the same period in Japan, and it was well above the 0% spread for US REITs in the same period.

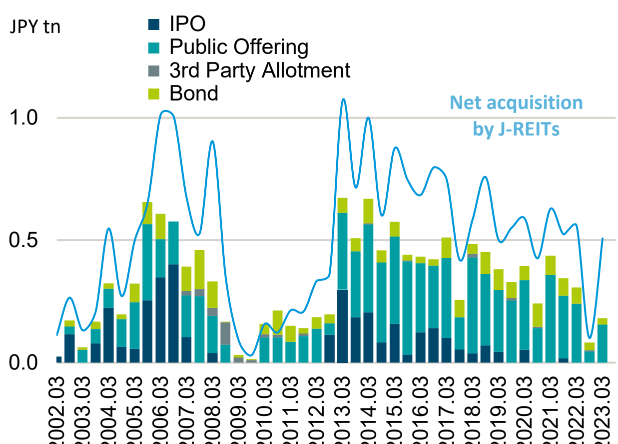
Exhibit 13: J-REIT Expected Dividend Yield



Sources: DWS. As of May 2023.
Notes: Past performance is no guarantee of future results. JGB = Japanese Government Bond.

Capital raising activities by listed REITs have rebounded in recent months, although it is still lower than a year before. The aggregate amount of capital raised by J-REITs through public offerings was JPY 155 billion in the trailing six months ended March 2023, more than triple from the previous six months ended September 2022. The amount is still 35% lower than the same period in the previous year reflecting the challenge of public offering activities amid the stock price slump. The net acquisition volume by J-REITs was JPY 508 billion, five times larger than the amount in the previous six-month period that ended in September 2022.

Exhibit 14: Capital Raising and Transactions by REITs in Japan (6 Months Rolling)



Public Offerings	Month	JPY bn
GLP REIT	Oct-22	33
MEL REIT	Oct-22	23
Nippon Prologis REIT	Dec-22	23
JRE REIT	Mar-23	20
Aeon REIT	Jan-23	11
CRE Logistics REIT	Mar-23	11
Advance Logistics REIT	Oct-22	11
Other POs	Oct-Mar	23
	Total	155
Initial Public Offerings	**Month**	**JPY bn**
N/A	N/A	0
	Total	**0**

Sources: DWS. As of May 2023.
Notes: Past performance is no guarantee of future results. JGB = Japanese Government Bond.

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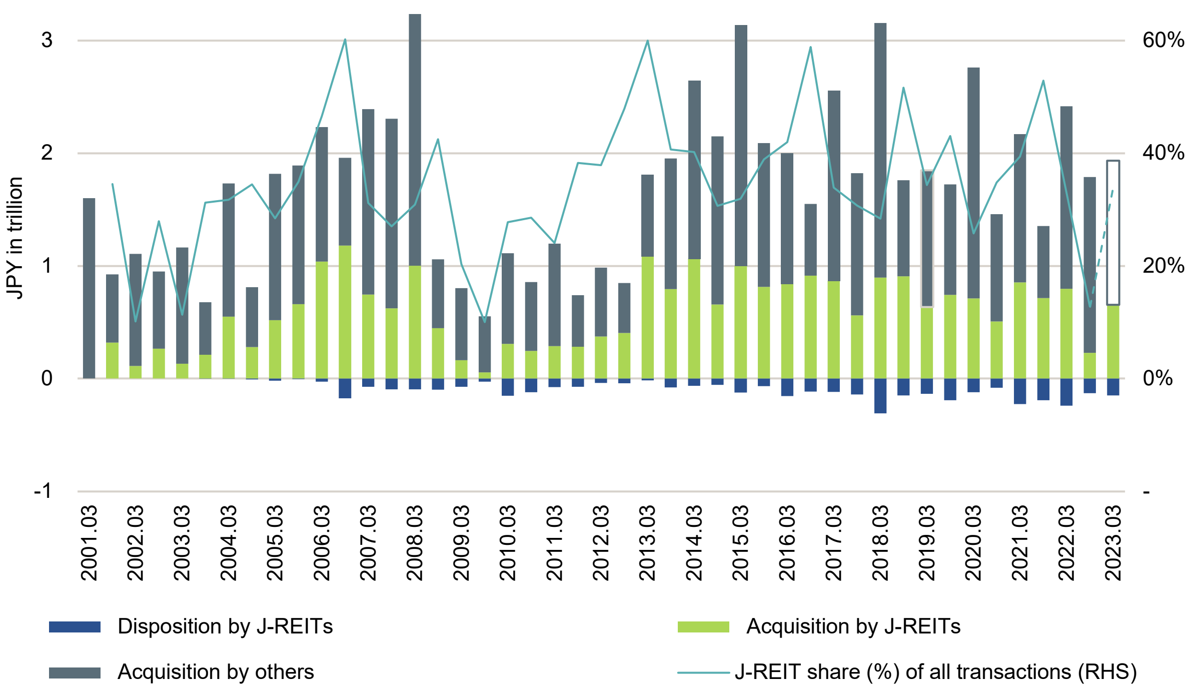
The preliminary volume of commercial real estate transactions in Japan in the six months to March 2023 was around JPY 1.9 trillion, an increase from JPY 1.8 trillion in the previous six-month period ended in September 2022. This reflects a healthy recovery of investment activities by listed REITs in the period.

Exhibit 15: Real Estate Transactions in Japan and J-REIT Share (6 months rolling)



Sources: ARES, Urban Research Institute, Real Capital Analytics, DWS. As of May 2023.
Notes: E = preliminary estimate. Commercial real estate transactions exclude non-income producing assets, such as development site transactions.
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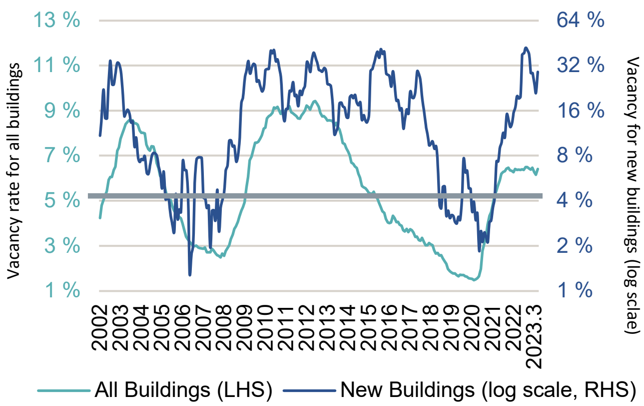
3 / Market Fundamentals

3.1 Office

The average office vacancy rates in Tokyo's central five wards have continued to hover above 6% since June 2021, recording 6.4% in March 2023. The average vacancy of new buildings (completed within twelve months) increased from 9.9% to 29.1% in the same period, reflecting the recent supply wave and muted relocation activities among corporate Japan. With a number of large-sized companies implementing a hybrid working model, this offset the gradually recovering space demand especially in the growing service industries. The vacancy rate in Tokyo is expected to remain at elevated levels in the foreseeable future as the market expects extra large buildings to be supplied in the coming months.

Exhibit 16: Office Vacancy Rates in Central Tokyo (5 Wards*)



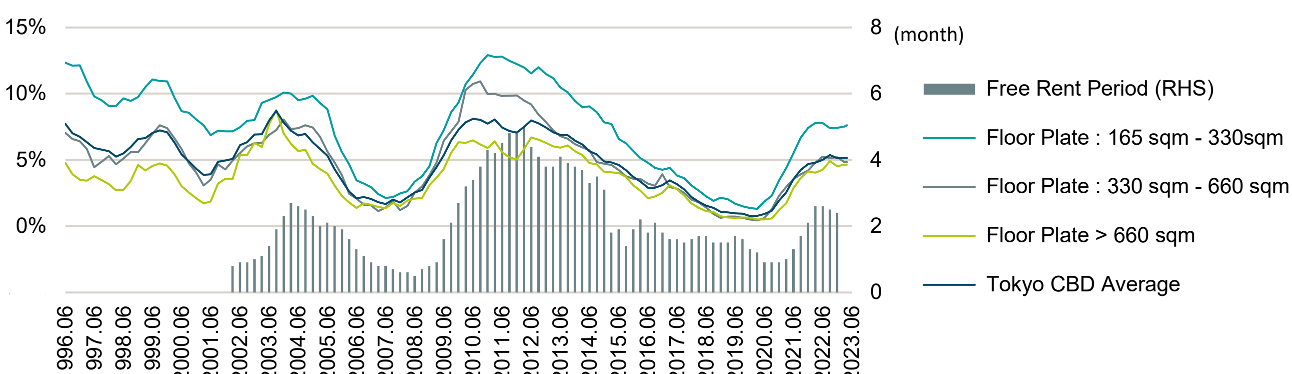
Major Planned Supply in Tokyo

Building	Date	Floors	GFA (sqm)
Sumitomo RE Shinjuku First Tower	Mar-23	33	89,995
Dogenzaka Dori	Mar-23	28	41,950
Tamachi Tower	Jun-23	29	112,179
Azabudai Hills	Jul-23	64	461,877
Toronomon Hills Station Twr	Aug-23	49	238,442
HANEDA INNOVATION CITY 1-2	Aug-23	10	72,680
Toranomon 2-Chome Redev,	Nov-23	29	112,179
Shibuya Sakuragaoka Redev,-A	Nov-23	49	238,442
Gotanda PJ	Dec-23	20	69,230

Sources: Mori Building, Miki Shoji, Sanko Estate, Nikkei Fudosan Market, DWS. As of May 2023.
Notes: GFA = gross floor area. sqm = square meters. *5 Wards includes Chiyoda, Chuo, Minato, Shibuya and Shinjuku. There is no guarantee the supply pipeline will materialize. Past performance is not a reliable indicator of future growth. This information is intended for informational purposes only and does not constitute investment advice, a recommendation, an offer or solicitation.

With the relatively high vacancy rate, the average rent-free period moderated only marginally, from 2.6 months in June 2022 to 2.4 months in December 2022. Due to an upcoming supply wave, the rent-free level is expected to remain elevated in the coming quarters.

Exhibit 17: Office Vacancy Rates and Rent-Free Period in Tokyo



Sources: Sanko Estate, Xymax Real Estate Institute, DWS. As of May 2023.Notes: sqm = square meters. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Past performance is not a reliable indicator of future growth.

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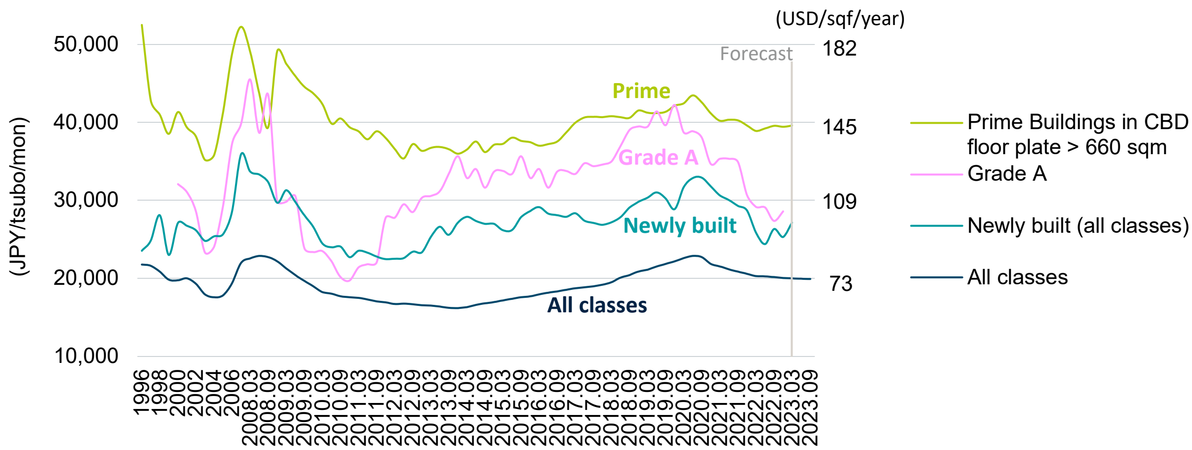
The average asking office rent (all classes) in Central Tokyo declined moderately by 1.5% in the year to March 2023, as the aggregate amount of decline became 12.6% since the outbreak of Covid-19 in 2020. Since work-from-home arrangements, typically implemented by large corporations as opposed to small and medium-sized local firms, higher grade buildings have felt a stronger impact than lower grade assets. The average grade A office building rents posted a sharper cumulative decline of 32.3% to date, with the average rents for newly built office also declining by 17.5% in total since the previous peak recorded just before the Covid-19 outbreak. Although minor rental recoveries have been observed in recent months, fundamentals of the occupier market are expected to remain soft in the coming year.

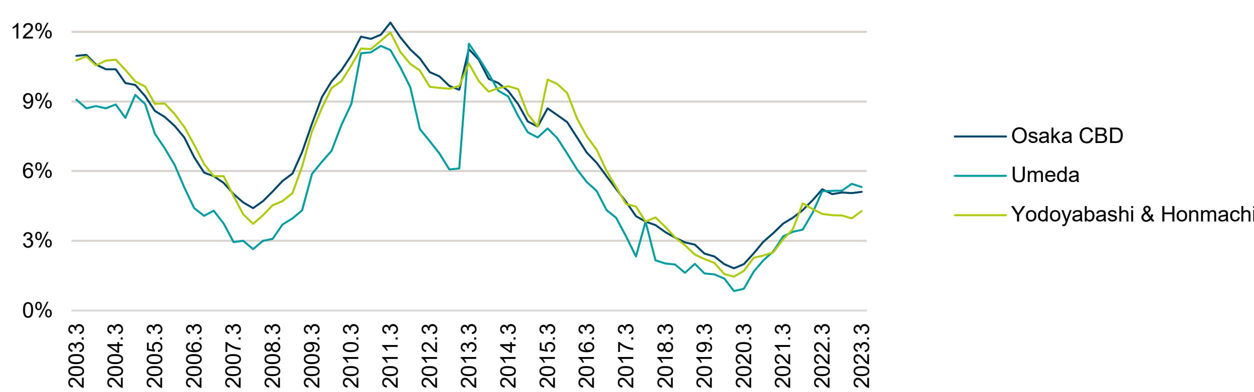
Exhibit 18: Office Asking Rent in Central Tokyo by Building Plate



Sources: Miki Shoji, Sanko Estate, DWS. As of May 2023.
Notes: F = forecast, there is no guarantee forecast rents will materialise. Please refer to Important Notes (see end of report).

The average office vacancy rates in Osaka CBD continued to remain almost flat at 5.1% in March 2023, compared to 5.2% in the same month the previous year. The vacancy rate in Umeda and other submarkets also posted broadly stable vacancy rates over the same period.

Exhibit 19: Office Vacancy Rates in Osaka



Notes: Past performance is not indicative of future results.
Sources: Avison Young, DWS. As of As of May 2023.

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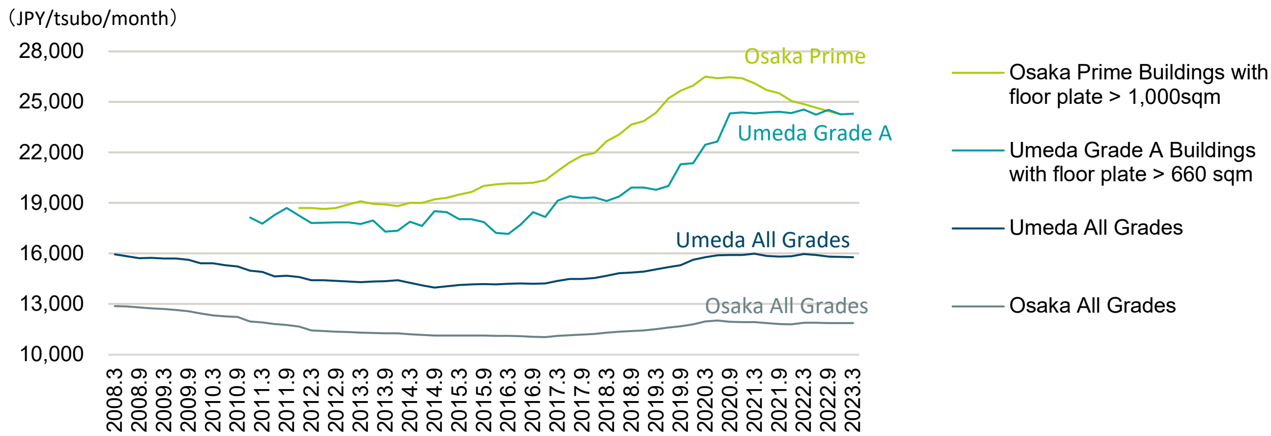
Compared to Tokyo, office rents continued to show more resilience in Osaka, especially for average grade assets. The average asking office rent (all classes) in Central Osaka continued to hold up steadily in the year to March 2023, while prime rents in Osaka posted a cumulative decline of 8.5% (peak to trough) to date. Rents also remained flat in the Umeda area both for Grade A and average buildings in recent periods. Space demand remains relatively healthy for affordable grade buildings in Osaka given a limited supply of grade B and more limited pressure from work-from-home arrangements among the local traditional firms, the main tenant pools of grade B assets.

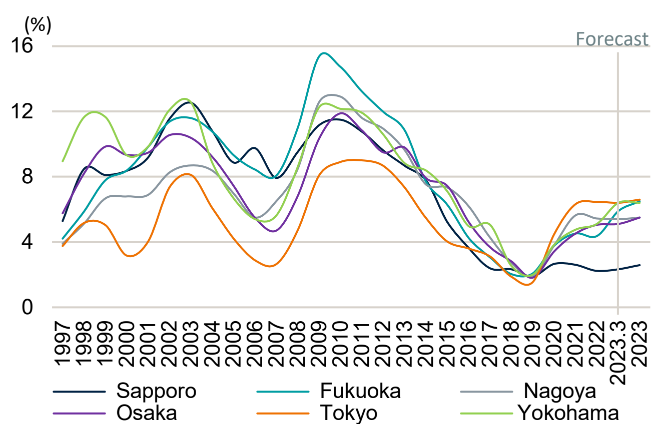
Exhibit 20: Office Asking Rents in Osaka



Sources: Miki Shoji, Sanko Estate, DWS. As of May 2023.

Office vacancy rates remained broadly flat in the top three cities in Japan, i.e. Tokyo, Osaka and Nagoya in the year to March 2003, at a range of 5-6%, respectively, while they rose by more than one percentage point in Fukuoka and Nagoya. Sapporo was the only exception where vacancy remained extremely tight at around 2%. The level of flexible working arrangements is more limited in major provincial cities, while some markets remain vulnerable to new supply.

Exhibit 21: Office Vacancy Rates in Major Cities in Japan (All Grades)



Major Planned Supply in Major Cities

Building	Date	Floors	GFA (sqm)
Namba Parks South Sqr (Osaka)	Jan-23	14	19,652
Honmachi Garden Terrace (Osaka)	Apr-23	19	19,071
Kashima Nakasu Bldg (Fukuoka)	Jun-23	14	16,091
Enishio Mei-eki (Nagoya)	Jun-23	16	19,896
Chunichi Bldg (Nagoya)	Jul-23	33	117,094
Urbannet Midosuji Bldg (Osaka)	Jan-24	21	42,389
Umeda 3 Chome PJ (Osaka)	Mar-24	39	226,604

Sources: Miki Shoji, Sanko Estate, DWS. As of May 2023. Notes: GFA = gross floor area. sqm = square meters
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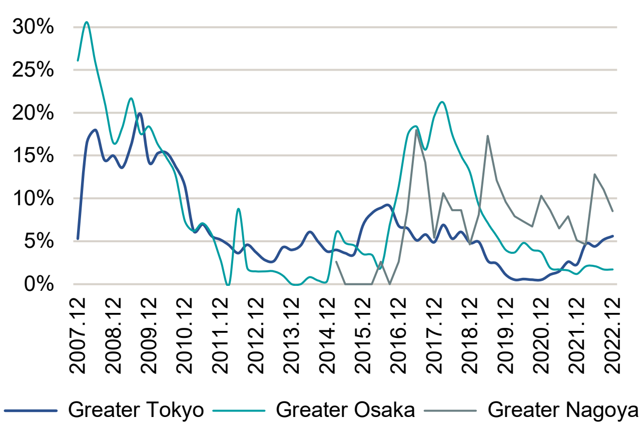
3.2 Industrial

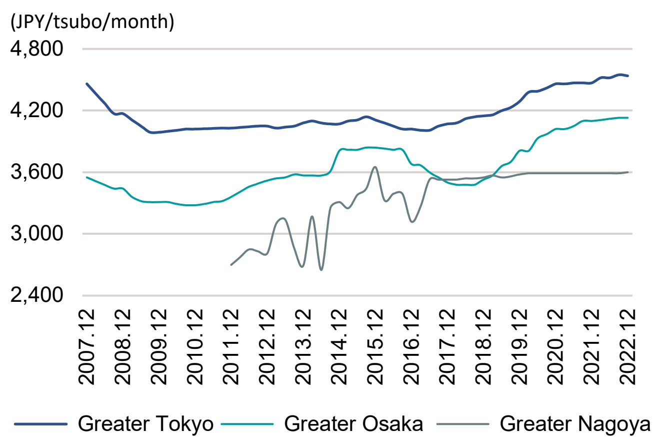
Space demand for quality logistics assets remained healthy underpinned by the rapidly increasing proliferation of online retail as the healthy trend in the occupier market continued even at the peak of new supply. Vacancy rates at multi-tenant logistics assets increased marginally from 4.6% in June 2022 to 5.6% in December 2022 in Greater Tokyo and tightened from 2.1% to 1.7% in Greater Osaka, and from 12.5% to 8.5% in Greater Nagoya, respectively, in the same period. The annual rental growths were 1.6% in Greater Tokyo, 0.7% in Greater Osaka and 0.3% in Greater Nagoya, respectively, in the year to December 2022.

Exhibit 22: Logistics Leasing in Japan by Metro

VACANCY RATES OF MULTI-TENANT LOGISTICS



LOGISTICS RENTS

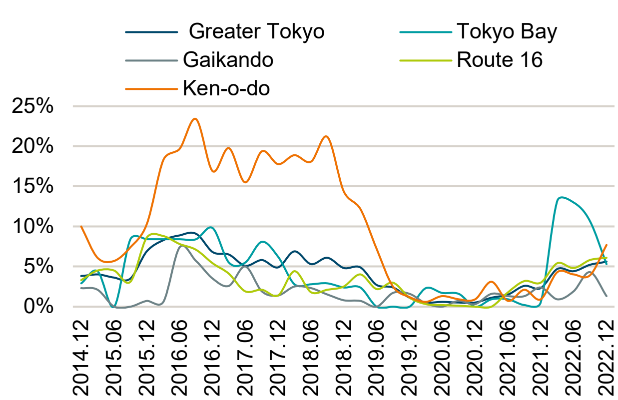


Sources: CBRE, DWS. As of May 2023.
Notes: Past performance is not indicative of future results.

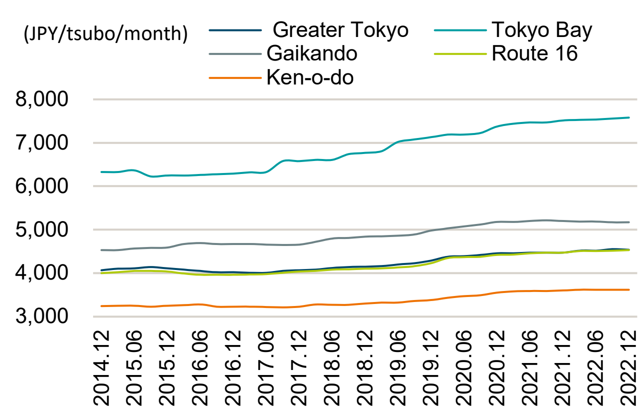
Logistics vacancy rates in most precincts in Greater Tokyo, i.e. Tokyo Bay, Gaikando and Route 16, stood at a healthy level at around 5% as of December 2022, while vacancy rose to 7.7% in Ken-o-do (the outer ring road) in the same period due to the completion of multiple assets. Rents either posted a marginal growth or remained flat in the year to December 2022 across those precincts.

Exhibit 23: Logistics Leasing by Sub Market in Greater Tokyo

VACANCY RATE BY SUB-MARKET



RENT BY SUB-MARKET



Sources: CBRE, DWS. As of May 2023. Notes: Past performance is not indicative of future results.

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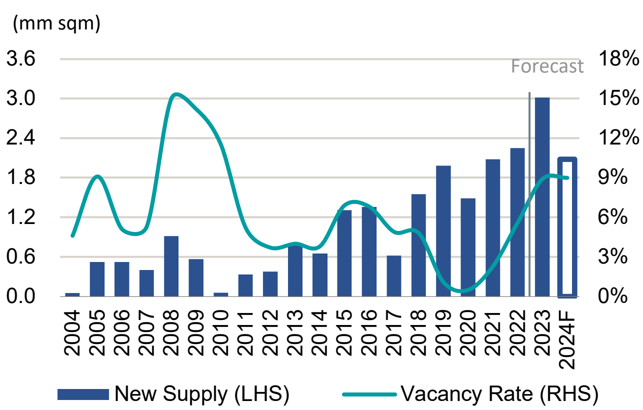
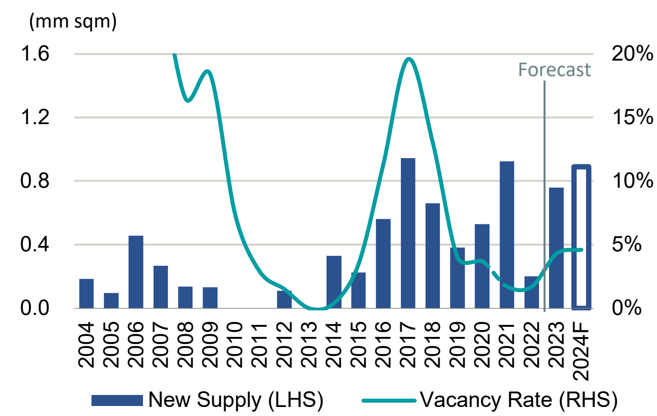
The amount of supply of modern multi-tenant logistics in Greater Tokyo was around 2.3 million square meters in 2022, the largest supply in history, while this is to be followed by an even bigger supply of 3 million square meters planned in 2023. The vacancy rates are expected to loosen to mid to high-single digits accordingly. Supply is more modest in Greater Osaka this year with vacancy rates forecast to remain tighter at around 5%. The impact of rising construction costs could be more acute in the logistics sector than office and retail, due to the smaller proportion of land value, so a further cost increase could potentially lead to delays in new supply.

Exhibit 24: Logistics Supply in Greater Tokyo and Greater Osaka

Greater Tokyo



Greater Osaka

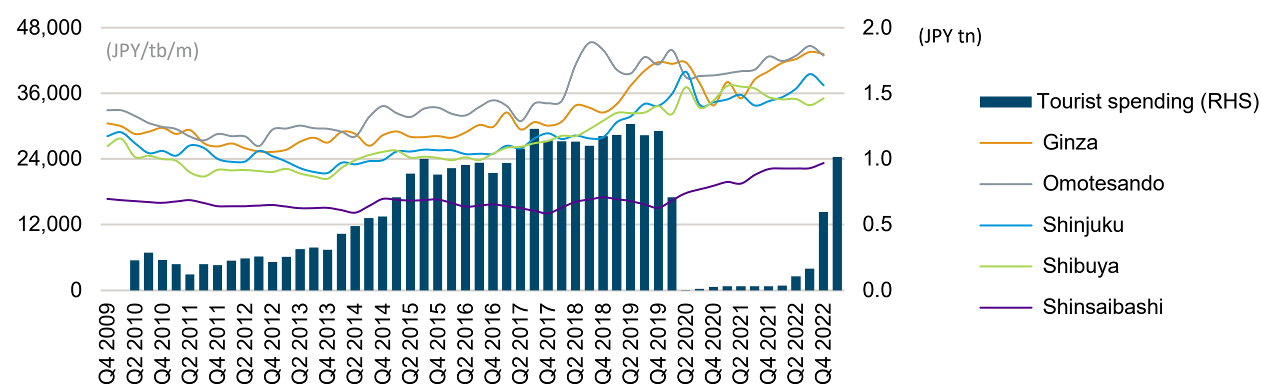


Sources: CBRE, DWS. As of May 2023.
Notes: Past performance is not indicative of future results.

3.3 Retail

The removal of tight border controls for inbound tourists was enacted in October 2022 and tourist spending rapidly recovered to 80% of the pre-Covid period in the first three months of 2023. High street retail stores saw a recovery in foot traffic both by domestic and international shoppers in major districts and rents witnessed a healthy recovery on an annual basis. Rental growth was posted in most key shopping districts including Ginza, Omotesando, Shinjuku and Shinsaibashi (Osaka) in the year to December 2022 while rents softened in Shibuya, by 6%, in the same period.

Exhibit 25: High Street Average Rents in Tokyo and Osaka



Sources: Style Act, Japan Tourism Agency, DWS. As of May 2023.
Note: Past growth is not a reliable indicator of future growth.

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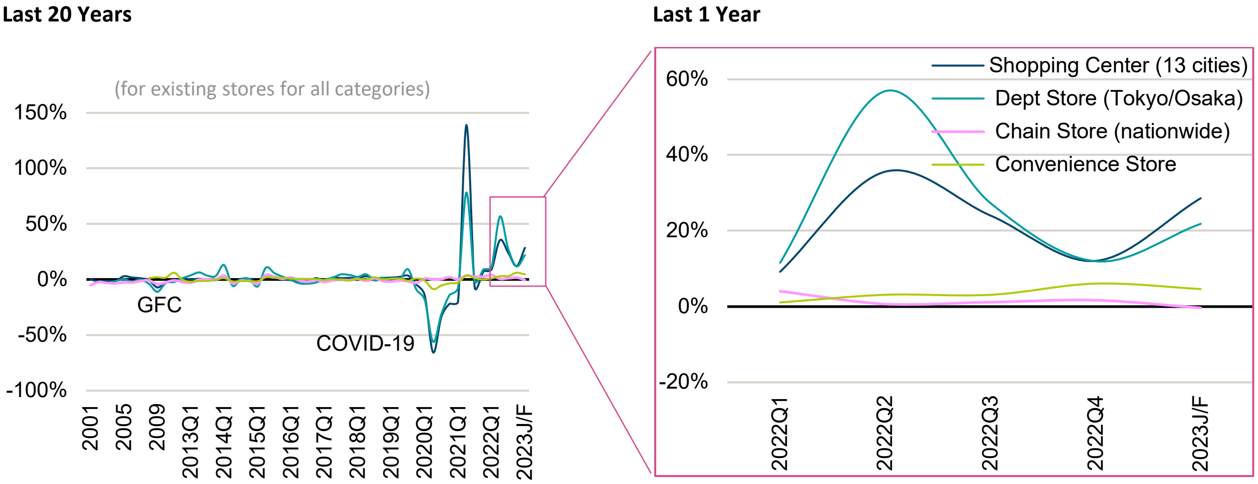
Due to swollen pent-up demand from the restricted periods, sales at department stores and shopping malls continued to make strong recoveries of around 20% throughout 2022, with the trend continuing in the first two months of 2023. Chain stores and convenience stores continued to show the most resilient trend as demand for fresh foods and daily necessities remained.

Exhibit 26: Retail Sales Growth by Store Category (Year on Year)

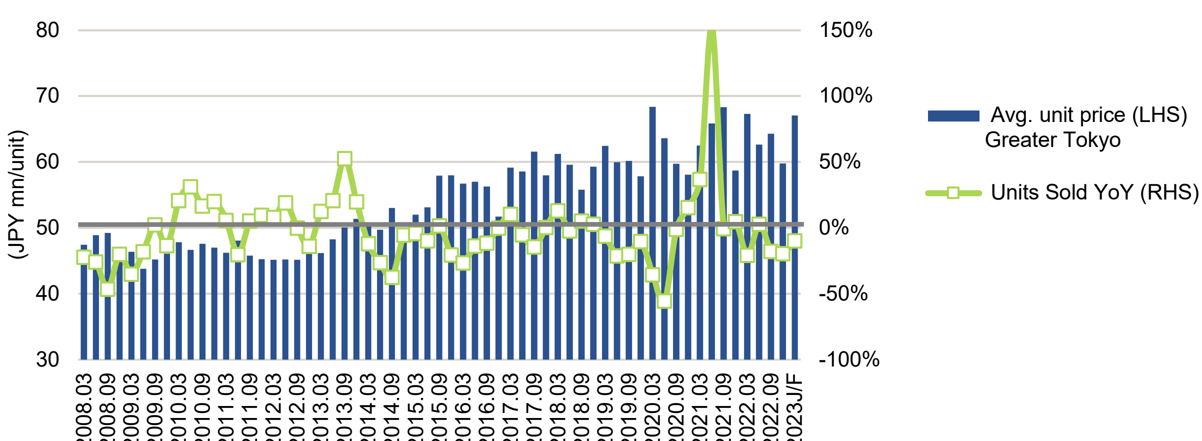


Source: Japan Council of Shopping Center, Japan Franchise Association, Japan Chain Store Association, Japan Department Store Association, DWS. As of May 2023.
Note: Past growth is not a reliable indicator of future growth. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

3.4 Residential

Posting continued historical records for two years in a row, the average sale price of newly built condominiums sold in Greater Tokyo remained at the elevated level of JPY 67 million (per unit) in January and February of 2023, one of the highest levels in history, with the average annual sale price in 2022 standing at JPY 62.9 million per unit. The price was underpinned by working professional couples living in inner city areas although the sector is showing signs of moderation. The number of units sold in Greater Tokyo declined by 12% in 2022, creating healthy demand in turn in the rental housing sector, as opposed to for sale condominiums.

Exhibit 27: Average New Condo Price and the Growth of Units Sold in Greater Tokyo



Sources: Real Estate Economic Institute, DWS. As of May 2023.
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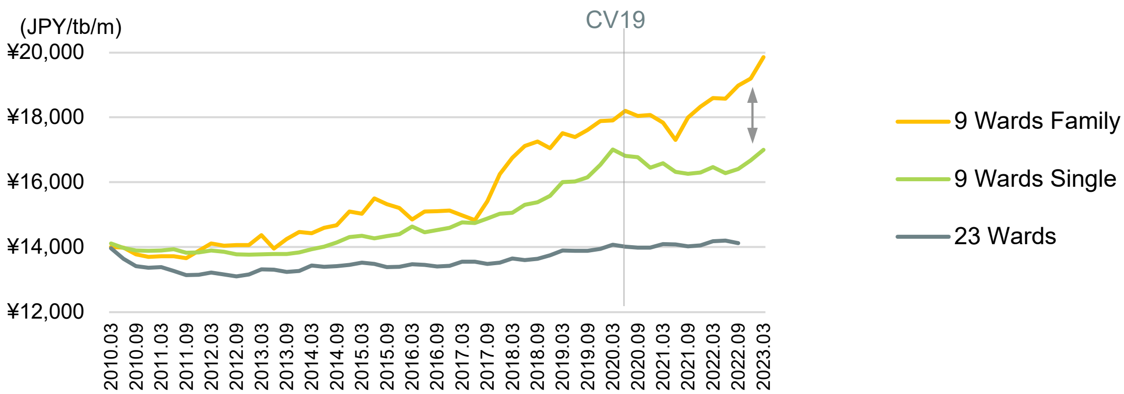
Residential rents for family types with multiple bedrooms in the central nine wards in Tokyo continued to post strong growth of 6.8% in the year to March 2023, or a 14.7% increase in two years. This is driven by tenants in inner-city apartments, mostly working couples and professionals who prefer greater space during their work-from-home arrangements. Smaller units for singles (incl. studios) in the central nine wards of Tokyo also posted a healthy growth of 3.2% in the same period. As for-sale condo prices remain elevated in Tokyo, demand for rental houses is expected to be resilient.

Exhibit 28: Residential Rent in Tokyo (Year-on-Year)



Sources: REINS (23-ward rent), Leasing Management Consulting (9-ward asking rent), DWS. As of May 2023.
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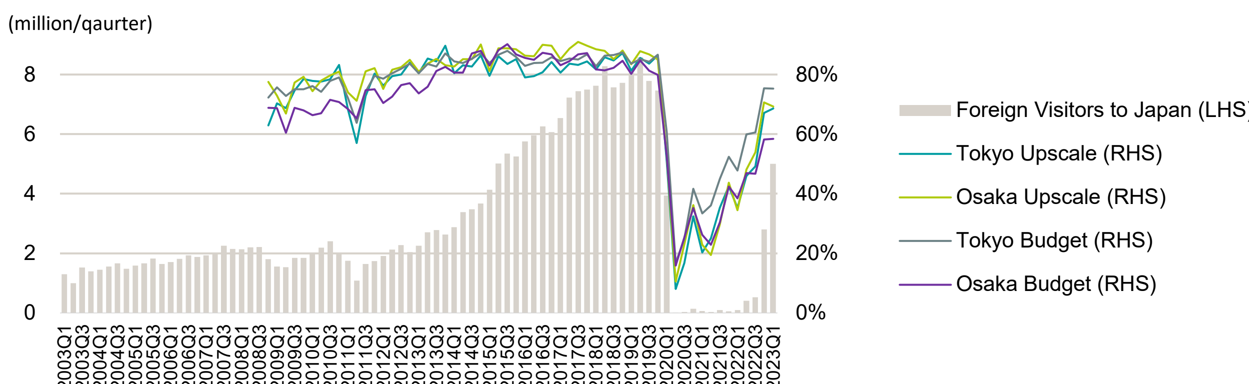
3.5 Hotel

Hotel occupancy rates in Tokyo and Osaka continued to make recoveries throughout 2022 and the first quarter of 2023. Hotel room occupancy rates recovered to 75% for Tokyo budget hotels in the first quarter of 2023, while they recovered to the 60%-70% range in other categories for the first time since the Covid-19 pandemic. An even stronger recovery is expected in the coming quarters as international tourists return, including Chinese tourists, who have been slow to recover so far.

Exhibit 29: Quarterly Hotel Occupancy Rates in Tokyo and Osaka



Sources: Japan Tourism Agency, DWS. As of May 2023.
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4 / Conclusion

Japan’s economy continued to see healthy demand recovery driven by economic reopening efforts since the second half of 2022 while growth prospects have softened amid the weakening external environment triggered by the recent financial market turmoil. The volume of commercial real estate transactions increased in the six months to March 2023, reflecting the healthy recovery of investment activities by listed J-REITs in the period, while cross border investors remain muted in the office investment sector.

Transaction yields in Tokyo have tightened to historical lows, driving yield-seeking investors toward regional markets serving millions of residents. The lower levels of modern logistics stock in key regional cities presents attractive investment opportunities via active asset management including developments. On the other hand, new investments in the tight Tokyo market should be carefully considered while this market momentum presents a window of opportunity for investors to optimize their portfolio and recycle the capital for opportunities in re-priced markets outside Japan.

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