Real Estate Research

November 2022

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.

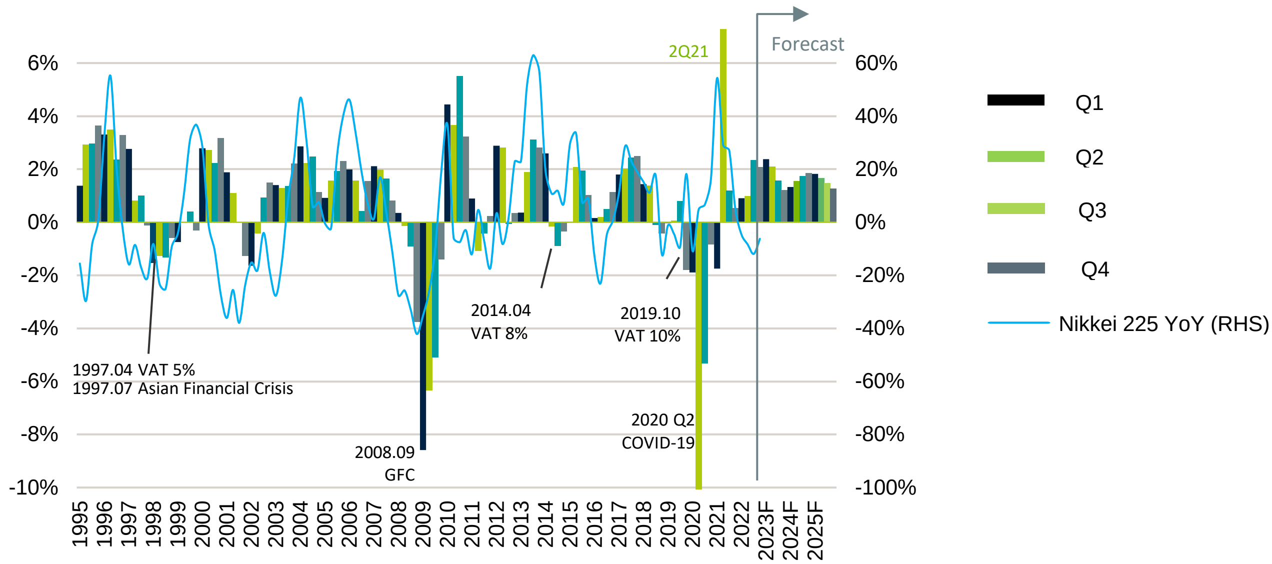
IN A NUTSHELL

- The capital market saw increased volatility especially in the bond and currency markets, while the Japanese yen weakened to its lowest level in three decades.
- The investment market shows weakening signs with capital values softening in grade A office in Tokyo, as listed REITs show weakness in their stock price as well as capital raising activities.
- Average office vacancy rates in Tokyo's five wards, and generally across regional cities of Japan, remained broadly flat in the last six months as demand recovery was offset by hybrid working styles at large corporations.
- The ongoing proliferation of online retail continued to favour industrial as rents remained at the highest levels of the last ten years across Japan while vacancy rates increased in some markets and precincts.
- With ultra-low interest rates, healthy yield spreads and the ongoing yen's devaluation, real estate in Japan is expected to remain attractive comparative to other countries and to other asset classes.

1 / Macro Economy

Japan's economy saw demand recovery driven by economic reopening efforts in the second half of 2022. It is estimated to have expanded by 2.4% in the third quarter of 2022 (year-on-year), following an expansion of 1.0% in the second quarter, as infection rates declined dramatically and as the majority of restrictions were removed by October 2022, including border controls. However, growth prospects have softened amid the weakening currency exchange rate, a softening external environment driven by financial market turmoil and growing geopolitical tensions.

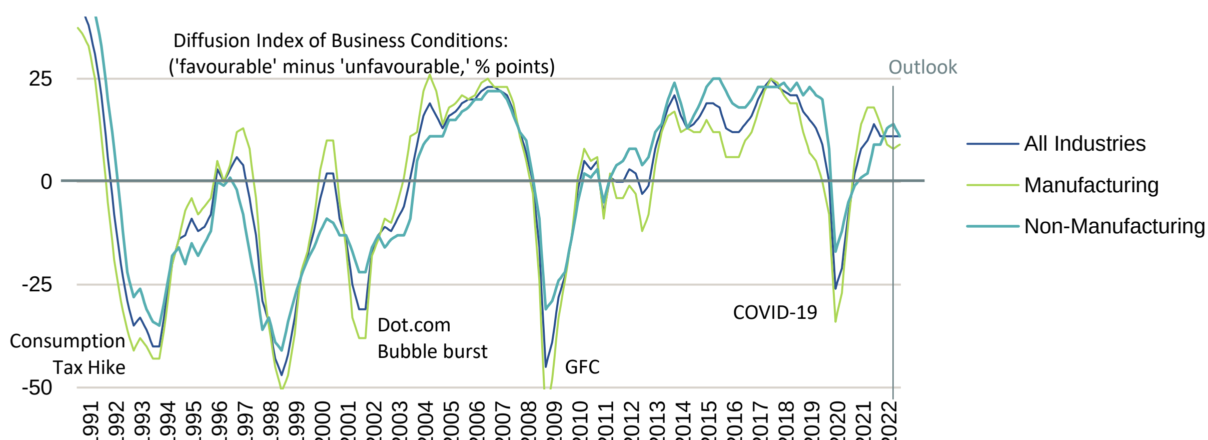
Exhibit 1: Japan's GDP growth outlook and Nikkei



Sources: Bank of Japan, Japan's Cabinet Office, DWS. As of October 2022..
Past performance is not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. There is no guarantee the estimates shown will materialize.

The Diffusion Index (DI) of the Tankan Survey conducted by the BoJ provided a stable trend at a reading of 11 in the consecutive three quarters to September 2022, with a resilient outlook for the reminder of the year. The sentiment is worsening in energy and select import driven industries such as oil and coal, wood, pulp and food manufacturers together with the electricity sector due to the recent Japanese yen's devaluation against the US dollar and rising energy prices on the global basis. This will be partially offset by the expected recovery of domestic consumption fueled by the lifting of movement restrictions.

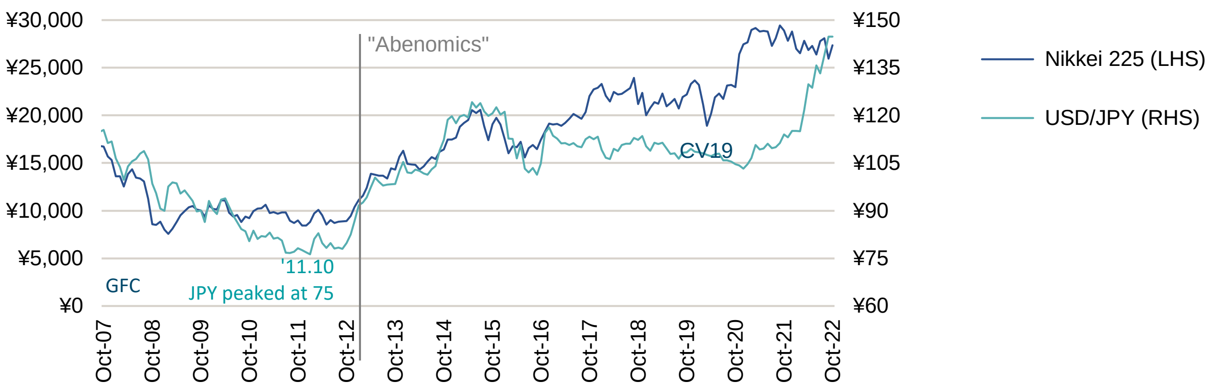
Exhibit 2: Diffusion Index of business conditions



Sources: The Bank of Japan, Japan's Cabinet Office, DWS. As of October 2022..
Past performance is not a reliable indicator of future performance.

The capital market saw increased volatility in the bond and currency markets in the third quarter of 2022. The Nikkei 225 posted a decline of 9.9% in the first nine months of 2022, while the Japanese yen weakened by 26% in the same period due to the rapidly widening gap of interest rates between the United States and Japan. The exchange rate remains volatile recording 148 yen per US dollar as of 18th October 2022, the weakest level in 32 years. The weaker yen has contributed to increasing the relative attractiveness of investments in Japan, while the recent declines of bond and stock markets have caused a denominator effect among western institutions, putting a cap on further investments in real estate.

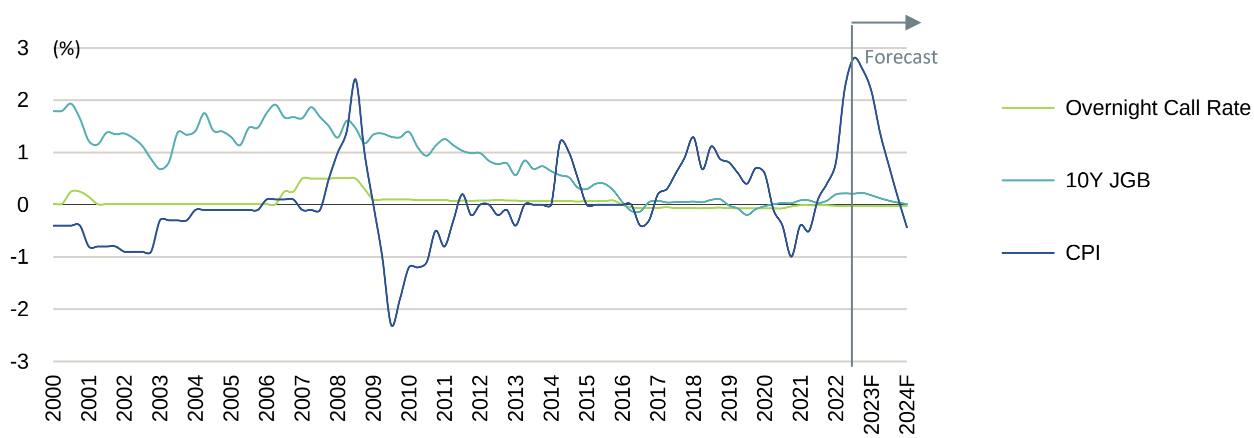
Exhibit 3: Stock (Nikkei) and Forex



Sources: The Bank of Japan, Japan's Cabinet Office, DWS. As of October 2022..
Past performance is not a reliable indicator of future performance.

Japan faces lower inflationary pressure than other key economies, while pressures are gradually building up as a weakened yen contributes to surging energy import prices. Core CPI rose from 0.1% in September 2021 to 2.8% in August 2022 reflecting increased energy prices and global supply chain disruptions. The yield of ten-year Japanese government bonds remains in the range of 0.20% and 0.25%, just in line with the yield curve control policy 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 October 2022..
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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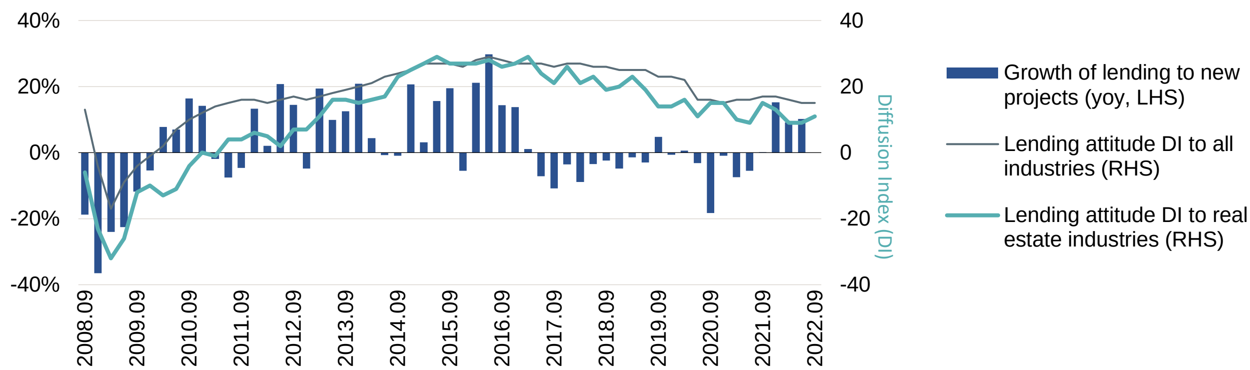
2 / Capital and Investment Market

2.1 Lending

The BoJ's Diffusion Index for lending attitudes of banks to the real estate industry (green line in Exhibit 5) held up steadily, which increased marginally from an index value of 9 in March 2022 to 11 in September 2022. This is a contrasting trend to most western and Asian markets where borrowing costs surged by 230-350 basis points only in the last six months. The index in Japan still indicates relatively favorable conditions for borrowers amid economic reopening, while uncertainties over space demand remains in some asset types including the office sector.

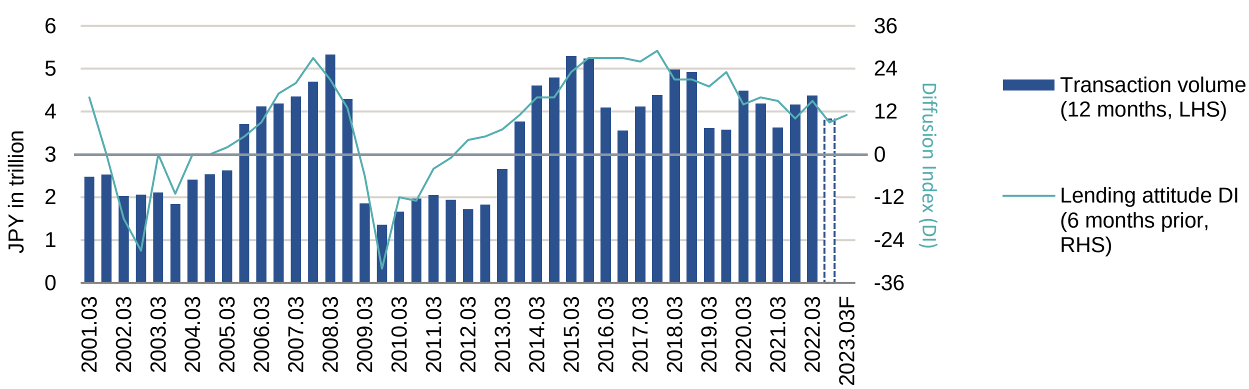
Exhibit 5: Commercial Real Estate Lending by Japanese Banks



Sources: The Bank of Japan, Japan's Cabinet Office, DWS. As of October 2022..
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 September 2022 was around JPY 3.8 trillion, a 12.7% decline from the previous period ended March 2022. Some foreign investors have shown caution around real estate investment amid the financial market turmoil especially since September 2022, although the impact of this is not fully reflected in the statistics as yet.

Exhibit 6: Real Estate Transaction Volume and Lending Attitude DI



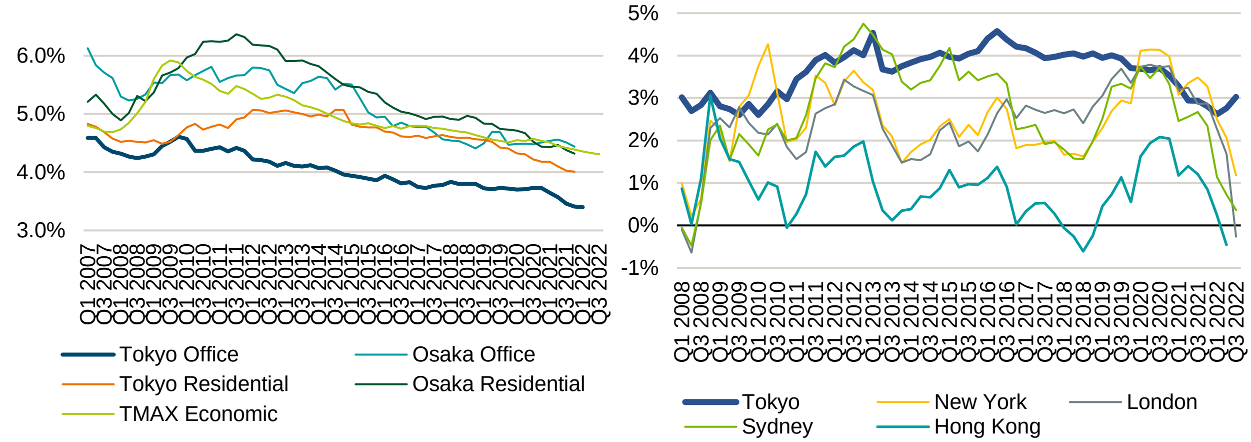
Sources: Urban Research Institute, Bank of Japan, Real Capital Analytics, DWS. As of October 2022..
Notes: E = preliminary estimate, F=forecast. Please refer to Important Notes (see end of report).
Past performance is not a reliable indicator of future performance. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. There is no guarantee the estimates shown will materialize.

2.2 Pricing

Office appraisal cap rates in Tokyo were a preliminary 3.4% in the first quarter of 2022 (the latest period available), down from 3.6% in the third quarter of 2021, 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 4.0% in the first 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 40 basis points from 2.6% in the first quarter of 2022 to 3.0% in the third quarter of 2022 (preliminary), while the spreads compressed by more than 230 basis points due to the surge in bond yields in the last three quarters in some of the key markets including London, New York and Sydney, respectively.

Exhibit 7: Cap Rate and Yield Spread

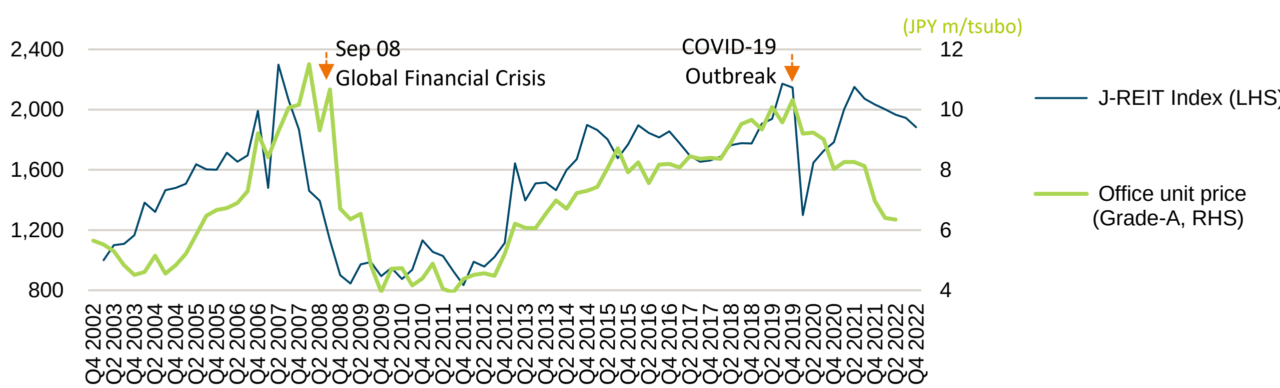
APPRAISAL PRIME CAP RATE **OFFICE YIELD SPREAD (AVERAGE TRANSACTED)**



Sources: Association for Real Estate Securitization, TMAX, Real Capital Analytics, DWS. As of October 2022..
Past performance is not a reliable indicator of future performance.

The listed J-REIT index experienced a correction amid capital market volatility, dropping by 7.3% to 1,884 points in the year to date (as of October 18, 2022). The capital value for grade-A office in Central Tokyo further declined to JPY 6.4 million per tsubo in the second quarter of 2022, posting a 23% drop from the same period the previous year. This reflects muted space demand with the rental adjustment observed in the occupier market (see Chapter 3.1).

Exhibit 8: Real Estate Capital Value in Japan



Sources: Daiwa Real Estate Appraisal, DWS. As of October 2022..
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.

2.3 Transactions

Exhibit 9 shows major real estate transactions announced since April 2022. The largest deal in the period was the acquisition of Otematchi Place East Tower by Hulic and Tosei Asset Advisors at JPY 400 billion (estimate) in October 2022. This was the largest single asset transaction recorded in history in Japan. The second largest deal was Minato Mirai Center Building in Yokohama at JPY 100 billion (estimate) by M&G Real Estate, followed by GLP's six logistics portfolio by GLP REIT for JPY 63 billion followed by a natonwide residential portfolio of 32 assets acquired by Gaw Capital and QIA for JPY 60 billion.

The most expensive unit price recorded among publicly announced transactions was the acquisition of Daiwa Land Residence's office tower in Toranomon by Korean NHN at JPY 3.2 million per square metre, while the most expensive hotel transaction was JPY 350 million per room recorded for the acquisition of 49% of the Ritz Carlton Kyoto by Sekisui House. The tightest cap rate observed in the market was also the Ritz Carlton Kyoto at 1.6%.

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

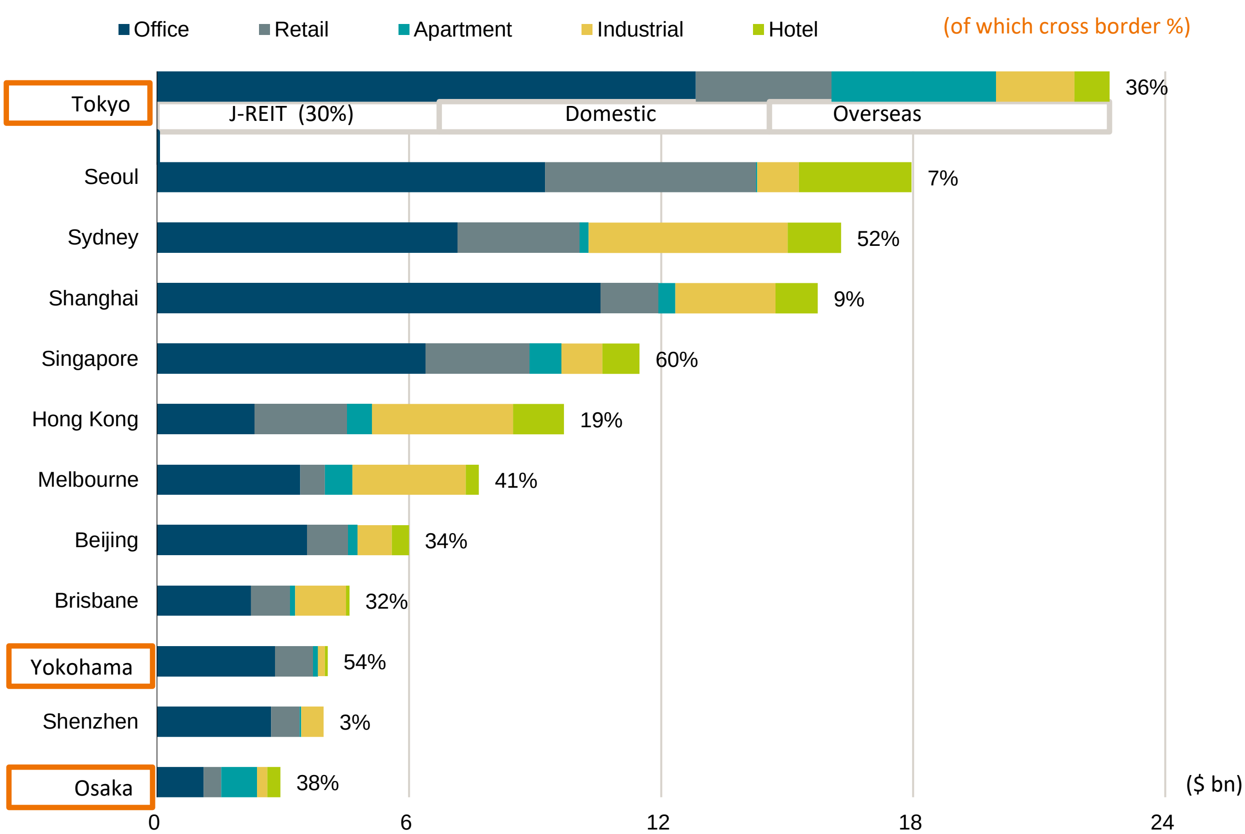
Type	Asset	Price (JPY bn)	Unit price (JPYm /GFA sqm)	Cap rate	Location	Month	Acquired by	Investor Origin
Office	Otemachi Place East Tower	e. 400	e. 2.63	-	Chiyoda	Oct-22	Hulic, Tosei Asset Advisors	Japan
	Minato Mirai Center Bldg	e.100	e.1.57	-	Yokohama	Sep-22	M&G Real Estate	UK
	Ariake Central Tower	e. 40	0.57	-	Koto	Jan-22	Unknown	Overseas
	Harumi Center Bldg	24	1.17	3.7%	Chuo	May-22	LaSalle	US
	Daiwa Land Resi Toranomon Bldg	18	3.23	-	Minato	Aug-22	NHN Corp	Korea
	14% of Akasaka Garden City	17	2.58	3.0%	Minato	Aug-22	SekisuiHouse REIT	J-REIT
	Shin-Yokohama Toshiba Bldg	17	0.58	-	Yokohama	Sep-22	Lasertec	Japan
	91% of Sendai MT Bldg	16	0.41	5.1%	Miyagi	Jul-22	Mori Trust	Japan
	ToyosuBaysideCrossTower(5%)	15		3.5%	Koto	Oct-22	NBF REIT	J-REIT
Retail	Leaf Minato Mirai	54	1.18	-	Yokohama	Jun-22	PGGM, Lendlease	US/AU
	Shimbashi Sta. MTR bldg.	22	2.79	3.8%	Minato	Jul-22	Mori Trust REIT	J-REIT
	70% of Iias Kasugai etc. (2 props)	16	0.28	4.6%	Aichi etc.	Oct-22	KenedixRetail REIT	J-REIT
Indus-trial	GLP Joso etc. (6 props)	63	0.30	3.8%	Ibaraki etc	Oct-22	GLP J-REIT	J-REIT
	45% of LOGiSTA･Logicross Ibaraki Saito A etc. (8 props)	45	0.30	4.1%	Osaka etc.	Jul-22	MEL REIT	J-REIT
	Japan Oi Logistics	16	0.47	-	Shinagawa	Apr-22	Daiichi Life,Prolgis	Japan
Apart-ment	Glamorsy Kyobasi etc. (32 props)	e.60	-	-	Chuo etc.	Jun-22	Gaw Capital, QIA	Hong Kong
	Gran Casa Hikifune etc. (7 props)	16	26/unit	3.9-4.4%	Sumida etc.	Sep-22	Daiwa Securities Liv-ing REIT	J-REIT
	S-Residence Kyoto Takeda Dorm. etc. (19 props)	15	13/unit	4.1-5.3%	Kyoto etc.	Jul-22	Samty Residential REIT	J-REIT
	Proceed Yamashita-Koen The Tower etc. (6 props)	15	44/unit	3.9-5.3%	Yokohama etc.	Oct-22	Starts Proceed In-vestment Corp.	J-REIT

Hotel	Renaissance Resort Okinawa (2props)	e.28	e.74/rm	-	Okinawa	May-22	Gaw Capital	Hong Kong
	49% of The Ritz Calton Kyoto	23	350/rm	1.6%	Kyoto	Jun-22	Sekisui House	Japan
	77% of Hoshinoya Okinawa	12	122/rm	5.8%	Okinawa	Jun-22	Hoshino Resort REIT	J-REIT
Mixed	9% of Futagotamgawa Rise	20	0.86	4.1%	Setagaya	Sep-22	Tokyu REIT	J-REIT
Dev.Site	Dev. Site of Nishitetu Hotel Hakata Gion etc. (25 props)	27	-	-	Fukuoka etc.	Oct-22	Jinushi REIT (Private)	Japan

Source: Real Capital Analytics, Nikkei Real Estate Market, DWS. As of As of October 2022..
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 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.

Tokyo's volume of commercial real estate transactions for the rolling 12-month period ended September 2022 was US $22.6 billion, with cross border capital accounting for 36% of the activities. Tokyo continued to rank top in the Asia Pacific region for the aggregate amount, while Yokohama ranked tenth and Osaka ranked twelveth 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 September 2022)



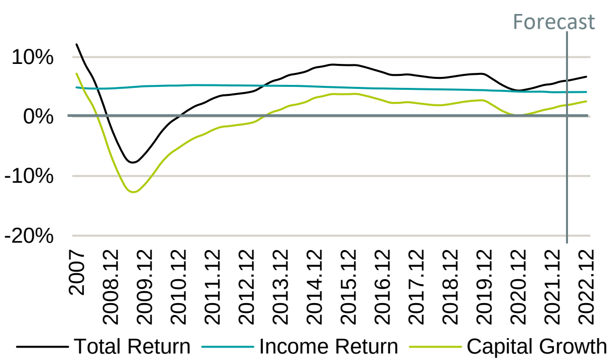
Notes: Commercial real estate transactions exclude non-income producing assets, such as development site transactions. Past performance is not indicative of future results.
Sources: Real Capital Analytics, DWS. As of September 2022..

2.4 Performances

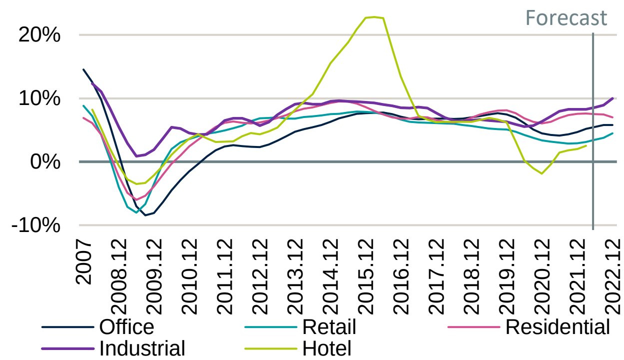
The average annual total return for unlevered direct real estate investments in Japan has recovered moderately, from 4.4% in December 2020 to 6.1% in June 2022 on a preliminary basis (the latest period available). Unlevered returns hovered at around 8% in the industrial and residential sectors, respectively, while more modest returns of 5% were recorded in the office sector in the year to March 2022. Returns were lower in the retail and hotel sectors, posting 3.1% and 2.5% respectively in the same period. We expect performance bifurcation by sector will continue due to the ongoing rental adjustments across the office and retail leasing markets.

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

TOTAL RETURN BY COMPONENT



TOTAL RETURN BY SECTOR



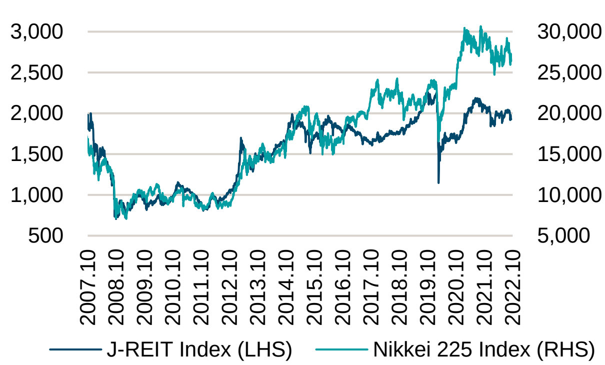
Sources: MSCI Real Estate - IPD, DWS. As of October 2022.
Notes: There is a time lag because of raw data being collected through semi-annual reports. Past performance is not indicative of future results.

2.5 J-REITs

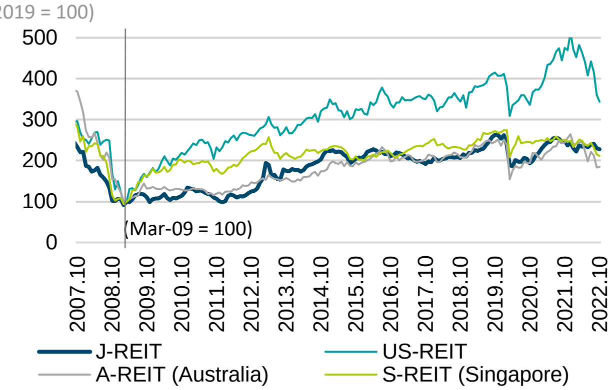
The J-REIT index value has been performing firm in the first half of 2022, while it started to trend down in mid-September amid the capital market turmoil. The J-REIT Index declined from 2,034 points at the end of August 2022 to 1,884 points as of October 18th 2022, a 7.3% decline over seven weeks. The 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)



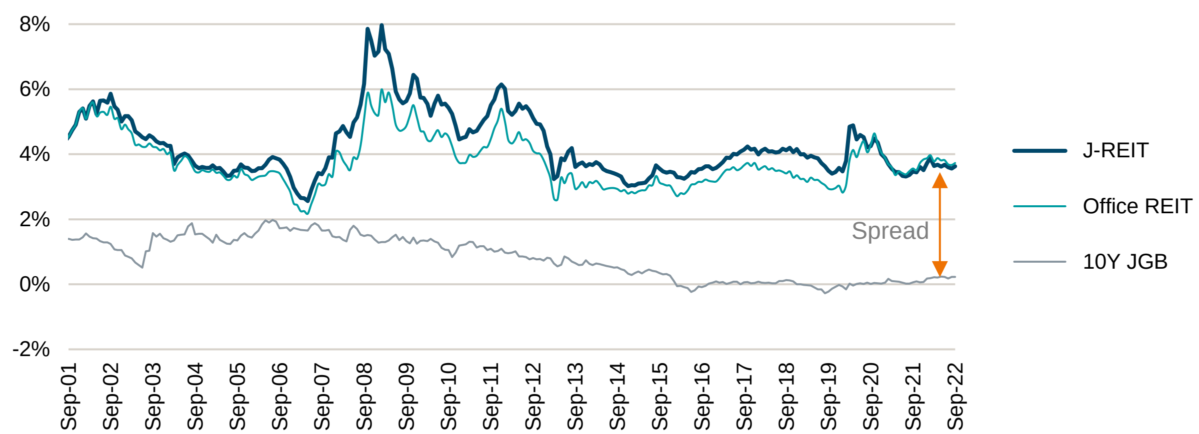
Global REIT Comparison (monthly)
(DEC 2019 = 100)



Sources: DWS. As of October 2022.
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.

On average, the J-REIT dividend yield was 3.6% in September 2022, almost the same level as March 2022. The spread over ten-year government bond yields remained almost flat at 340 basis points in Japan, and it was well above the 12 and 55 basis points spread for US and UK REITs, respectively, in the same period.

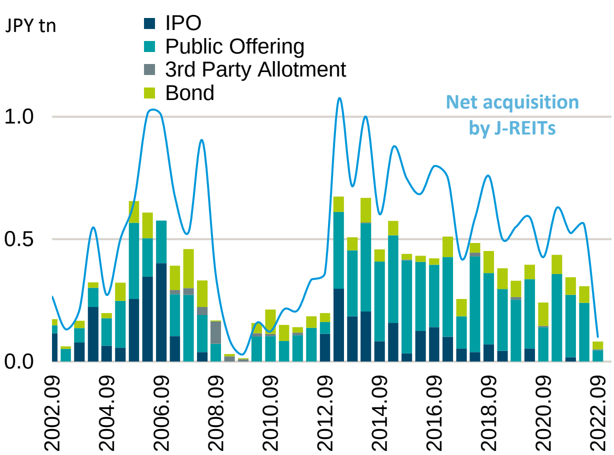
Exhibit 13: J-REIT Expected Dividend Yield



Sources: DWS. As of October 2022..
Notes: Past performance is no guarantee of future results. JGB = Japanese Government Bond.

Capital raising activities by listed REITs have cooled down in recent months. The aggregate amount of capital raised by J-REITs through public offerings was JPY 46 billion in the trailing six months ended September 2022, an 80% drop from the previous six months ended March 2022, reflecting the difficulty of yield accretive investments and the softened space demand in the occupier market. The net acquisition volume by J-REITs was JPY 101 billion, an 83% decrease from the previous six-month period ended March 2022.

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

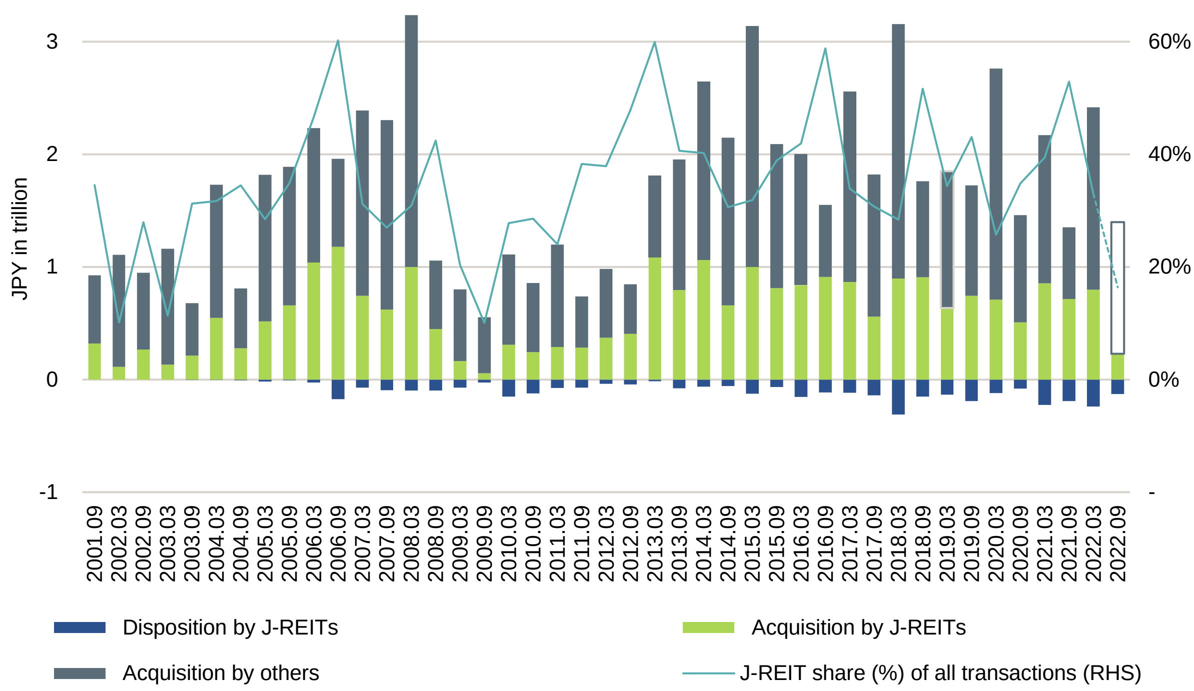


Public Offerings	Month	JPY bn
Samty Residential REIT	Jul-22	9
Heiwa REIT	May-22	8
Star Asia REIT	Aug-22	8
Hoshino Resort REIT	Jun-22	7
Takara Leven REIT	Aug-22	7
Daiwa Securities Living REIT	Sep-22	6
Other POs	Apr-Sep	2
	Total	**46**
Initial Public Offerings	**Month**	**JPY bn**
N/A	N/A	0
	Total	**0**

Sources: DWS. As of October 2022..
Notes: Past performance is no guarantee of future results. JGB = Japanese Government Bond.

The preliminary volume of commercial real estate transactions in Japan in the six months to September 2022 was around JPY 1.4 trillion, a marginal increase from JPY 1.35 trillion in the same six-month period in 2021, while recording a 42% decrease from the previous six months ended March 2022. This decline reflects the muted investment activities by listed REITs in the period but is also partly due to limited data coverage of deals closed in recent months.

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 October 2022.
Notes: E = preliminary estimate. Commercial real estate transactions exclude non-income producing assets, such as development site transactions.
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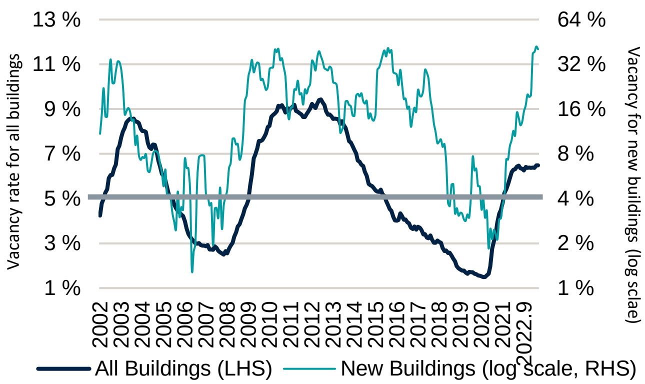
3 / Market Fundamentals

3.1 Office

The average office vacancy rates in Tokyo's central five wards have continued to hover above 6% since June 2021 also recording 6.5% in September 2022. The average vacancy of new buildings (completed within twelve months) increased from 9.9% to 40.5% in the same period, reflecting slow relocation activities among corporate Japan. As a number of large-sized companies implement flexible working arrangements as a long-term option, including a hybrid model, this offset the gradually recovering space demand by growing IT and communications industries. The vacancy rate in Tokyo is expected to remain at elevated levels in the foreseeable future as the expected additional backfill space is to be provided in the coming quarters.

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

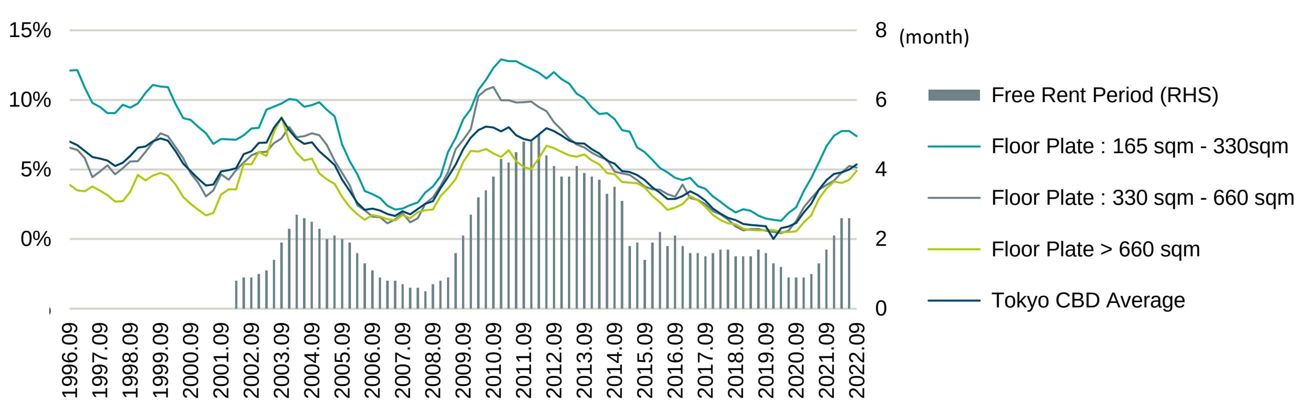


Major Planned Supply in Tokyo			
Building	Date	Floors	GFA (sqm)
Kudan-Kaikan Terrace	Jul-22	17	67,738
Tokyo Midtown Yaesu A-1	Aug-22	45	283,896
Mita Redev. PJ Office Twr.	Jan-23	42	200,540
Sumitomo RE Nishi-Shinjuku 5	Mar-23	33	89,995
Toranomon-Azabudai PJ Main Twr	Mar-23	64	461,877
Dogenzaka 2 Dev. PJ	Mar-23	28	41,950
TTM PJ	May-23	29	112,179
Toronomon Hills Station Twr	Aug-23	49	238,442

Sources: Mori Building, Miki Shoji, Sanko Estate, Nikkei Fudosan Market, DWS. As of October 2022..
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.

The average rent-free period offered to tenants increased from 2.1 months in December 2021 to 2.6 months in June 2022. Due to the relatively high vacancy rate and an upcoming supply wave, the rent-free level is expected to remain elevated in the coming quarters.

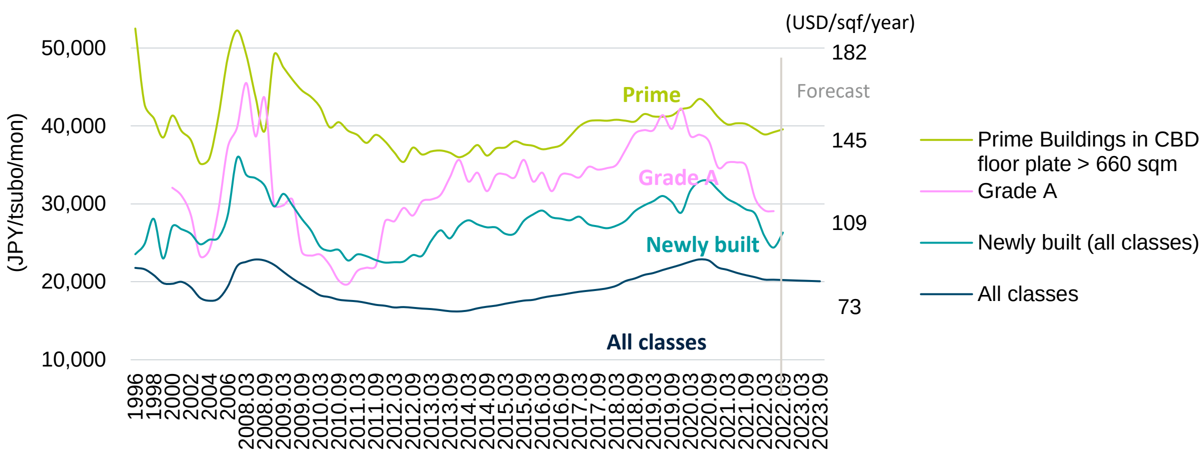
Exhibit 17: Office Vacancy Rates and Rent-Free Period in Tokyo



Sources: Sanko Estate, Xymax Real Estate Institute, DWS. As of October 2022..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.

The average asking office rent (all classes) in Central Tokyo started to soften at the beginning of the pandemic and has declined by 11.6% in aggregate as of September 2022. Since work-from-home arrangements tend to be implemented by larger 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 31.2% to date, with the average rents for newly built office also declining by 20.1% in total since the previous peak recorded just before the COVID-19 pandemic. Although the declining speed moderated in recent months, office rental growth is expected to remain soft in the coming year while the vacancy rate remains elevated.

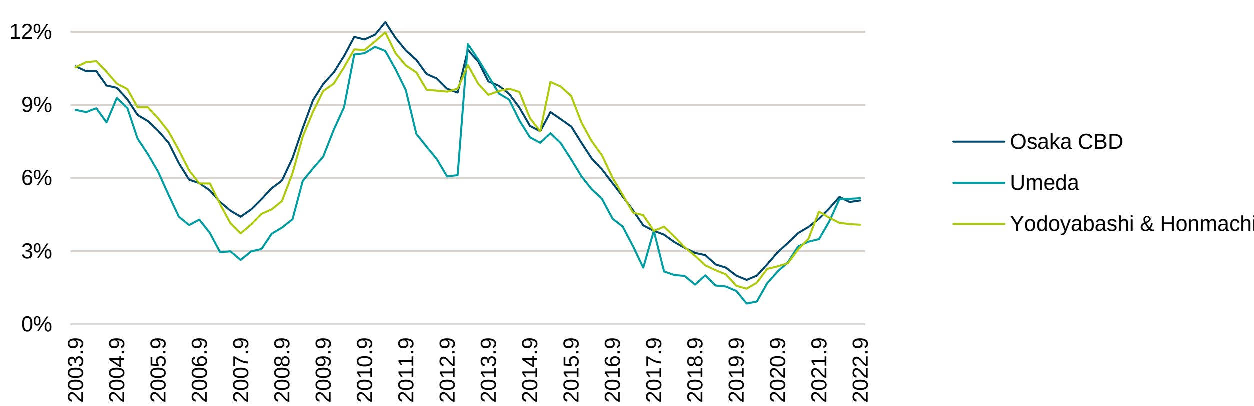
Exhibit 18: Office Asking Rent in Central Tokyo by Building Plate



Sources: Miki Shoji, Sanko Estate, DWS. As of October 2022..
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 increased from 4.3% in September 2021 up moderately to 5.1% in September 2022 but has remained flat over the last six months. The vacancy rate in the Umeda, central business district (CBD), also posted stable vacancy over the last six months.

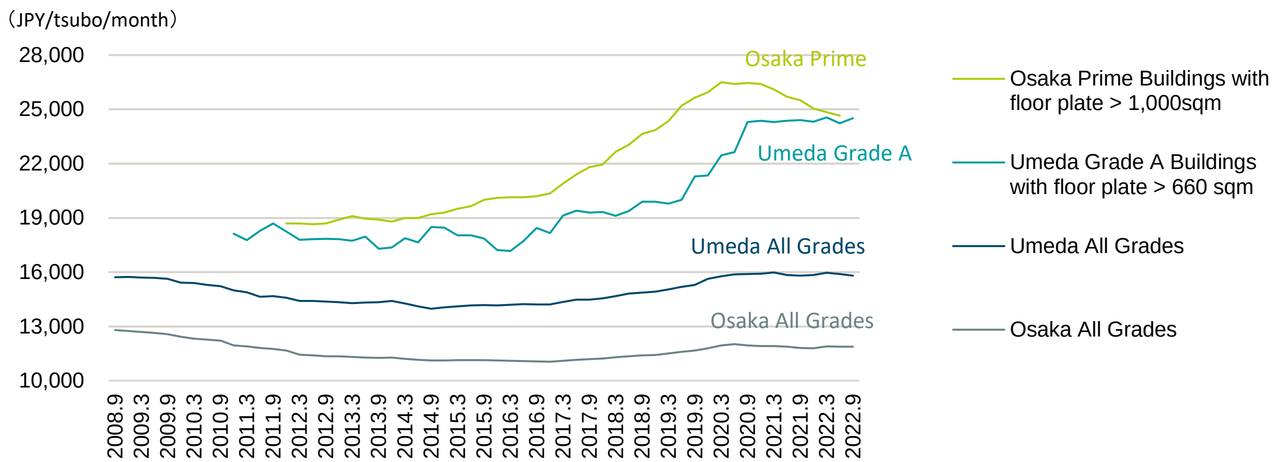
Exhibit 19: Office Vacancy Rates in Osaka



Notes: Past performance is not indicative of future results.
Sources: Avison Young, DWS. As of September 2022.

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, posting a marginal growth of 0.5% in the year to September 2022, while prime rents in Osaka posted a decline of 4.1% (year-on-year) in the most recent statistics in June 2022. Rents remained firm in the Umeda area both for Grade A and average buildings in recent periods. Space demand remains relatively healthy for affordable grade B buildings in Osaka with more limited pressure from work-from-home arrangements among the local traditional firms.

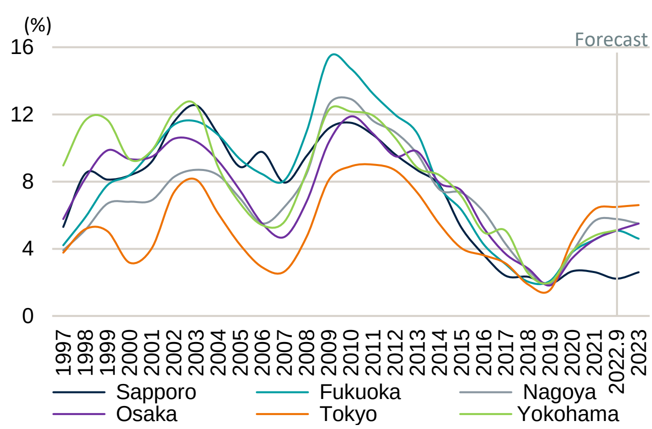
Exhibit 20: Office Asking Rents in Osaka



Sources: Miki Shoji, Sanko Estate, DWS. As of October 2022..

Office vacancy rates remained broadly flat in most major cities in Japan since the beginning of 2022 at a range of 5-6%, except for Sapporo where vacancy is extremely tight. In September 2022, the vacancy rate stood at 5.8% in Nagoya, 5.1% in Osaka, Yokohama and Fukuoka, respectively, while it stood at 2.2% in Sapporo. The level of flexible working arrangements is limited in the major provincial cities, especially in Sapporo where new space demand is dominated by call center operators.

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



Major Planned Supply in Major Cities

Building	Date	Floors	GFA (sqm)
Hakata East Terrace (Fukuoka)	Jun-22	10	29,116
Nippon Life Yodoyabashi Bldg (Osaka)	Oct-22	25	51,500
Daimyo Sqaure Garden (Fukuoka)	Dec-22	24	30,000
Namba 2 Dev. PJ (Osaka)	Jan-23	14	19,652
Honmachi Garden Terrace (Osaka)	Apr-23	19	19,071
Kashima Nakasu Bldg (Fukuoka)	Jun-23	14	16,091
Mei-eki 4 chome PJ (Nagoya)	Jun-23	16	19,896
Chunichi Bldg (Nagoya)	Jul-23	33	117,094

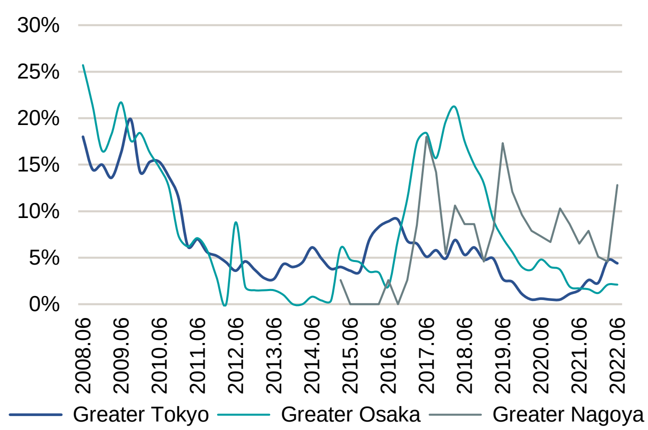
Sources: Miki Shoji, Sanko Estate, DWS. As of October 2022.. Notes: GFA = gross floor area. sqm = square meters
Past performance is not a reliable indicator of future growth. There is no guarantee the supply pipeline will materialize. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

3.2 Industrial

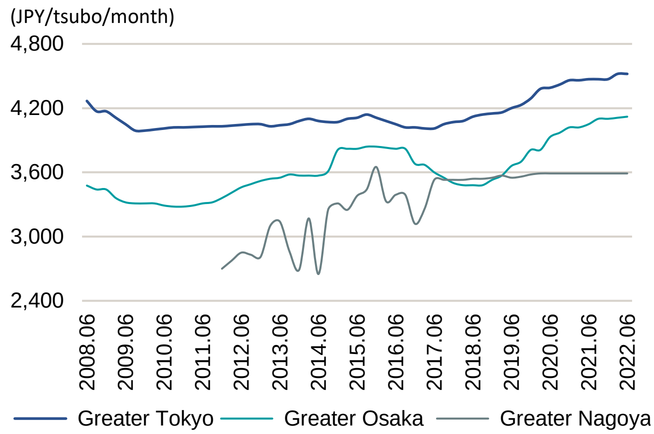
Space demand for quality logistics assets remained healthy underpinned by the rapidly increasing proliferation of online retail, while negative impacts observed from the supply waves in some precincts and markets remained. Vacancy rates at multi-tenant logistics assets went up marginally from 2.3% in December 2021 to 4.4% in June 2022 in Greater Tokyo and from 1.2% to 2.1% in Greater Osaka, respectively, whilst they increased from 5.1% to 12.8% in Nagoya in the same period. As of June 2022, rents posted 1-2% growth per annum in both Greater Tokyo and Greater Osaka, respectively, while they were flat in Nagoya in the same period.

Exhibit 22: Logistics Leasing in Japan by Metro

VACANCY RATES OF MULTI-TENANT LOGISTICS



LOGISTICS RENTS

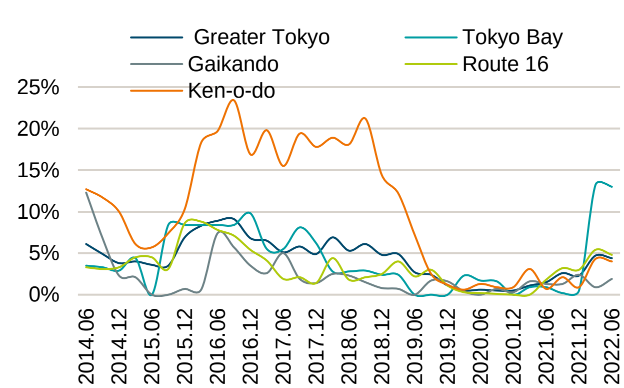


Sources: CBRE, DWS. As of October 2022..
Notes: Past performance is not indicative of future results.

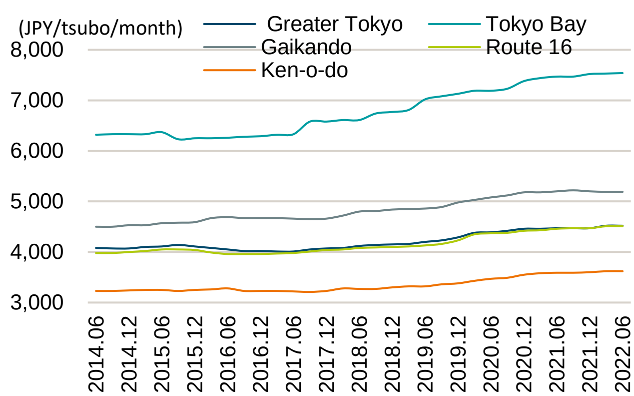
Logistics vacancy rates in most precincts in Greater Tokyo, i.e. Gaikando, Route 16 and then Ken-o-do (the outer ring road), remained tight at around 5% as of June 2022 even amid the supply wave, while vacancy rose to 13% in Tokyo Bay in the same period due to the completion of multiple assets in the area. Rents continued to post a marginal growth of around 1% in the year to June 2022 in most precincts while it remained flat in Gaikando area.

Exhibit 23: Logistics Leasing by Sub Market in Greater Tokyo

VACANCY RATE BY SUB-MARKET



RENT BY SUB-MARKET

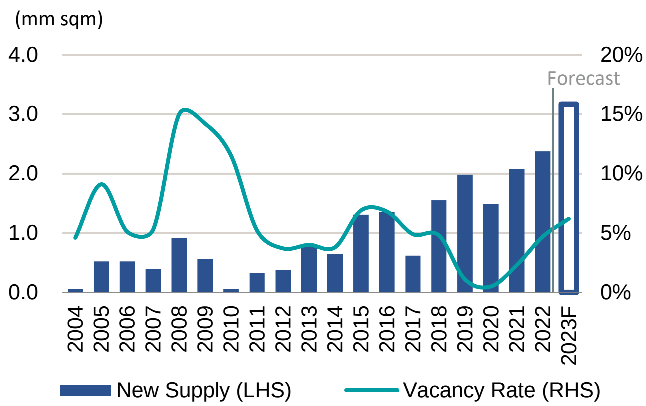


Sources: CBRE, DWS. As of October 2022. Notes: Past performance is not indicative of future results.

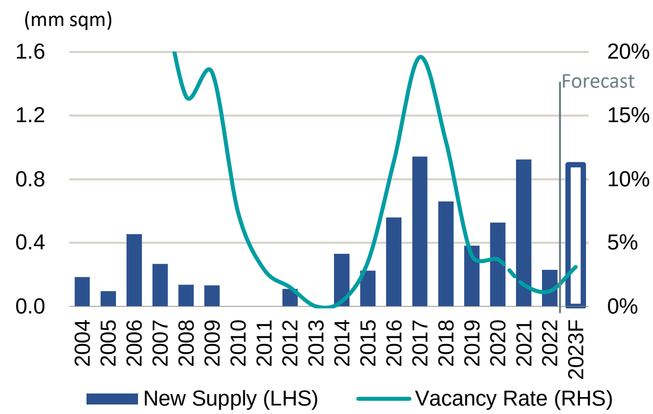
The amount of supply of modern multi-tenant logistics in Greater Tokyo is expected to be around 2.3 million square meters in 2022, the largest supply in history, to be followed by an even bigger supply of over 3 million square meters planned in 2023. The vacancy rates are expected to loosen to mid-single digits accordingly. Supply is more limited in Greater Osaka this year to be followed by a moderate supply in 2023, so the vacancy rates are forecast to remain tighter at around 3% in Osaka. 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

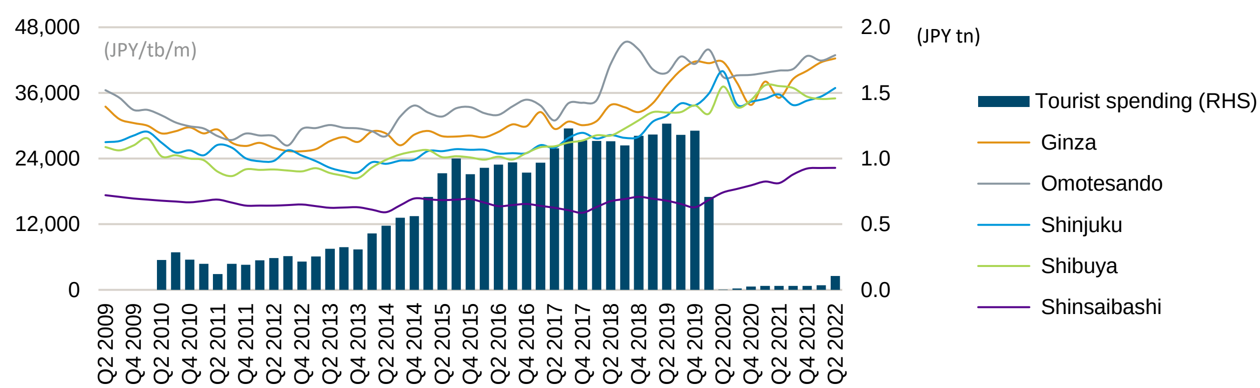


Sources: CBRE, DWS. As of October 2022.
Notes: Past performance is not indicative of future results.

3.3 Retail

The removal of tight border control for inbound tourists was enacted only in October 2022 and the impact is not reflected in the tourist spending statistics as yet. High street retail stores saw a recovery in foot traffic by domestic shoppers in major districts in major cities and rents showed a healthy recovery. Double digit growth was posted in Ginza and Shinsaibashi (Osaka) in the year to June 2022 while a more moderate increase was recorded in Shinjuku and Omotesando. Rents softened only in Shibuya, by 6%, in the same period.

Exhibit 25: High Street Average Rents in Tokyo and Osaka

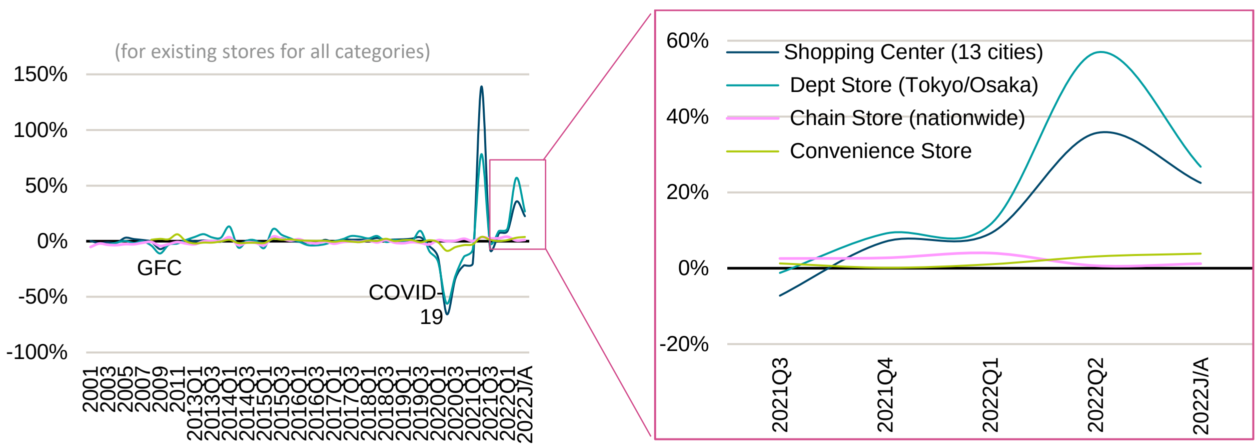


Sources: Style Act, Japan Tourism Agency, DWS. As of October 2022..
Note: Past growth is not a reliable indicator of future growth.

Due to pent-up demand from the restricted periods in 2021, sales at department stores and shopping malls continued to make strong recoveries of over 20% per annum in the last two quarters to the third quarter of 2022. Chain stores and convenience stores continued to show lower but healthy, resilient growth as demand for fresh foods and daily necessities remained firm during the restricted times and therefore showed no pent-up demand.

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

Last 20 Years **Last 1 Year**

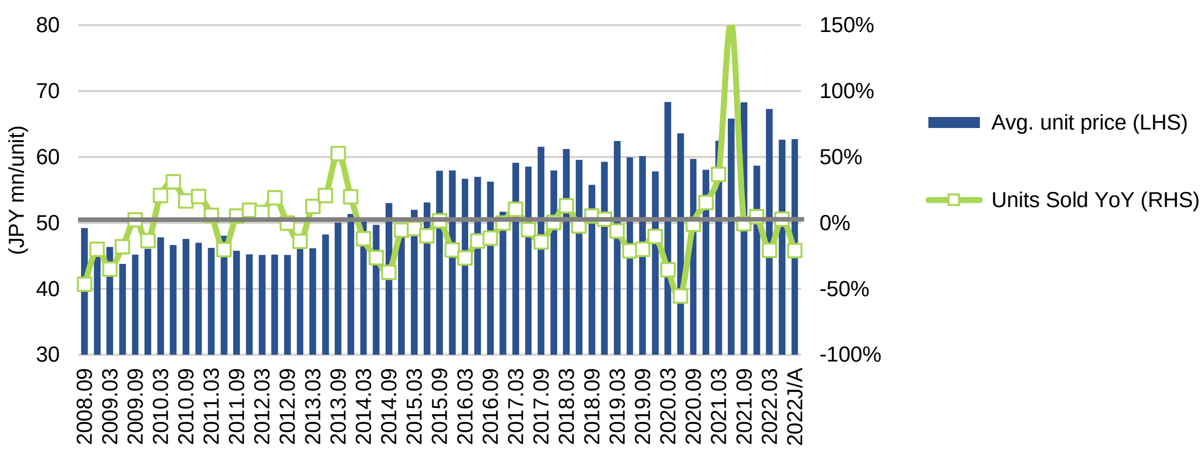


Source: Japan Council of Shopping Center, Japan Franchise Association, Japan Chain Store Association, Japan Department Store Association, DWS. As of October 2022..
Note: Past growth is not a reliable indicator of future growth. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

3.4 Residential

The average sale price of newly built condominiums sold in Greater Tokyo remained at the elevated level at JPY 63 million (per unit) in July and August of 2022, still higher than the pre COVID-19 level. The price was underpinned by successful power couples living in inner city areas but is showing signs of moderation. The number of units sold in Greater Tokyo declined by 21% in the period as an increasing number of average buyers felt gradually priced out at the elevated housing prices.

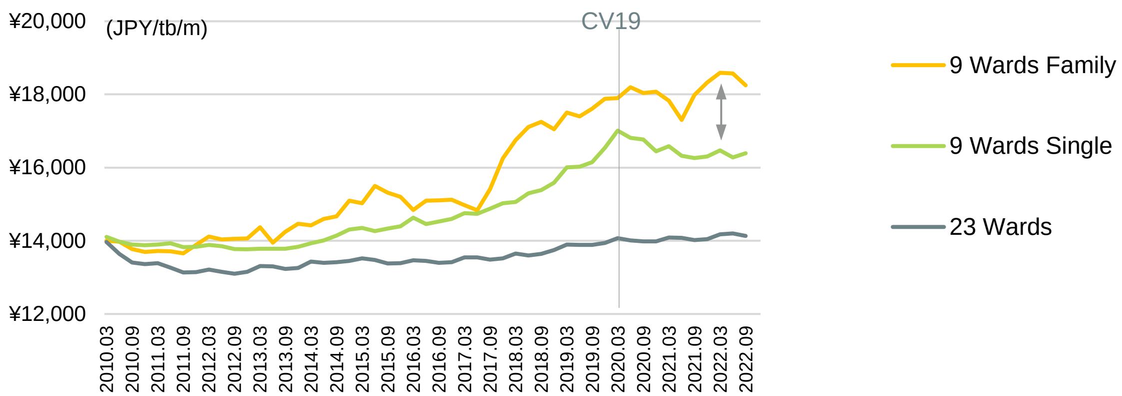
Exhibit 27: Average New Condo Price and the Growth of Units Sold in Greater Tokyo



Sources: Real Estate Economic Institute, DWS. As of October 2022..
Notes: Past performance is not a reliable indicator of future growth.

Residential rents for family types with multiple bedrooms in the central nine wards in Tokyo started to recover since the second half of 2021, making a healthy growth of 5% from June 2021 to August 2022 as tenants in inner city apartments, mostly working couples and professionals preferred greater space during their work-from-home arrangements, while the rents show softening signs in recent months. On the other hand, residential for single rooms and studios in the central nine wards of Tokyo recorded a slower growth of 0.4% 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)

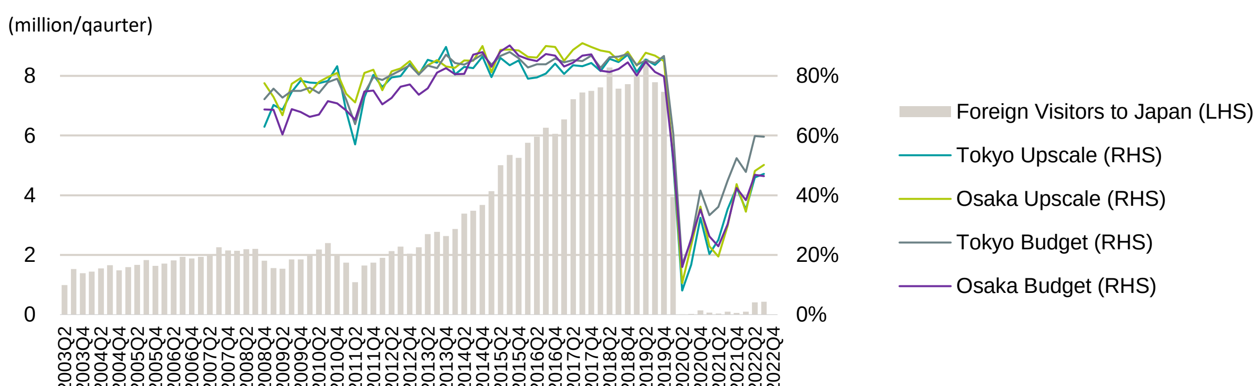


Sources: REINS (23-ward rent), Leasing Management Consulting (9-ward asking rent), DWS. As of October 2022.
Past performance is not a reliable indicator of future growth. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

3.5 Hotel

Hotel occupancy rates in Tokyo and Osaka continued to make recoveries throughout 2022, although were negatively impacted by the multiple infection waves. Hotel room occupancy rates recovered to the 50-60% range, for the first time since the COVID-19 pandemic, in Tokyo and Osaka in the third quarter of 2022 when infection cases declined significantly. An even stronger recovery is expected in the fourth quarter of 2022 onward as international tourists gradually return, except for Chinese tourists.

Exhibit 29: Quarterly Hotel Occupancy Rates in Tokyo and Osaka



Sources: Japan Tourism Agency, DWS. As of October 2022..
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.

4 / Conclusion

Japan's economy saw demand recovery driven by economic reopening efforts in the third quarter in 2022 while growth prospects have softened amid the weakening currency exchange rate, and a softening external environment driven by the financial market turmoil and growing geopolitical tensions. Yields remain very tight in most sectors while capital values show weakening signs in the office sector as rents continue to post softening amid muted space expansion activities in Tokyo. Listed REITs have shown weakness in their stock price as well as across capital raising activities.

That being said, with ultra-low interest rates, healthy yield spreads and the ongoing yen's devaluation, real estate in Japan is expected to remain attractive comparative to other countries and to other asset classes, with capital forecast to continue to flow into Japanese real estate markets. By property type, logistics and residential sectors are expected to continue to provide stable performances, while rental adjustments are expected in the coming quarters in the office sector especially in Tokyo. Due to the tightest ever cap rates, challenges for some institutional investors will be to identify active asset management strategies, emerging locations and regional markets together with venturing into alternative sub-sectors in order to meet required cash returns.

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