

Real Estate Strategic Outlook: Japan

Japan's real estate market in growth mode

Rate hikes appear more likely, stimulus support expected

The Bank of Japan (BOJ) held the cash rate stable at 0.5% in October 2025, however there are growing calls for rate hikes. Core inflation rose to 3.0%, which is positive for interest rate normalisation, though there remain concerns around the growth in food prices. Economic growth is expected to moderate in the year ahead following a slowdown in US export demand, with further downside risks from rising geopolitical tension with China. A stabilisation of the Yen is becoming of greater importance, following back-to-back rate cuts from the US Fed. While uncertain, we may see 1-2 rate hikes over the coming year, with the recently approved stimulus package expected to provide underlying support to the economy.

Transaction momentum despite tighter risk premiums

Transaction volumes remain elevated, amid growing investor appetite. Momentum in the office sector continues to build underpinned by foreign investment into the central five wards of Tokyo. Investment demand for industrial remains strong, sitting around its highest level in 10 years, with institutional capital targeting Osaka. The retail and hotel sectors have seen a pull-back in deal activity after a strong run, with geopolitical with China likely to weigh on sentiment.

Transaction yields remained stable across most sectors over the year to September 2025, however a rapid expansion in the 10yr government bond yield to 1.8% (October 2025) has led to a significant tightening of risk premiums. While there is potential for moderate yield expansion in the near term, robust investment demand in key cities, sectors and sub-markets could limit this to some extent. We anticipate strong rental growth amid rising construction costs and limited new supply which may provide support to capital values and help drive investment returns.

Logistics: Resilience in Osaka Logistics

The Osaka logistics market saw a record level of supply enter the market over 2025, however vacancy remained relatively stable around 4%, implying demand is much stronger than anticipated.

With market strength underpinned by Ecommerce occupiers, we continue to favour last mile/urban logistics locations within

the Central and Waterfront sub-markets, with proximity to growing population catchments. The outlook for supply is limited as higher construction costs seem to have led to a 30% gap between economic and market rents. High levels of pre-commitment and momentum in leasing markets could see vacancy fall sharply over 2026, with rents inflecting higher.

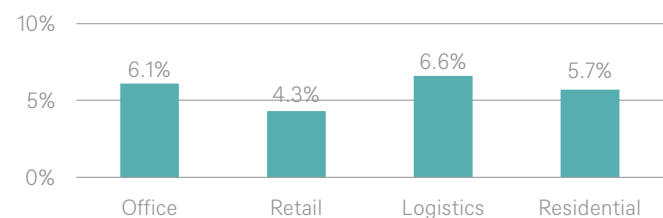
Residential: Apartment prices pinch, shift to rental market

For sale condominium prices across Tokyo's 23 wards continued to climb for the 18th consecutive month to JPY 111 million (October 2025), now 30% higher than last year. While wage growth is becoming more apparent, prices are sitting around 13x average annual income, leading to a preference to rent. Rental growth has begun to accelerate, recording 6% growth year-on-year. We believe demand for multi-family/co-living assets could increase, particularly in Tokyo and Osaka with underlying demand driven by domestic migration and tourism.

Office: Tokyo rents begin to accelerate

Tokyo's market fundamentals have significantly improved, with total market vacancy across the five central wards falling to 2.7% in September 2025. Effective rents in existing stock have begun to accelerate due to limited supply, with new buildings achieving double digit growth in effective rents. Higher quality 'B-Grade' assets could provide an attractive play at this stage of the property cycle potentially offering marginally higher NOI yields, with strong levels of pre-commitment potentially underpinning continued growth in rents.

Total Return Forecast in Japan, 2026-2030f, p.a.



Source: DWS. As of December 2025.

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