

Real Estate Strategic Outlook: Japan

Tariff headwinds likely to delay rate hike cycle

Economic growth should slow despite the positive wage growth

Japan's real GDP growth is expected to hit 1.0% in 2025 before slowing to 0.7% in 2026. Despite the easing of the tariff war, global trade uncertainties continue to weigh heavily on the country's macroeconomic outlook, amid weakening exports and deteriorating business sentiments. On the positive side, average wage increases of 5.3% among major companies was settled during the 2025 spring negotiations, the highest level in three decades. This structural wage growth offers a potential upside to domestic consumption from the second half of the year, though it may not be sufficient to turn around the gloomy outlook alone.

Given the softening economic signals, the Bank of Japan is increasingly cautious about further rate hikes. The central bank is expected to hold the rate steady or make one more rate hike in the next 12-24 months, contingent on a clearer resolution to global trade policy uncertainties.

Divergence of real estate pricing correction by sector

Income growth will be the key driver in the foreseeable future.

Amid rising interest rates, real estate valuations in Japan have shown diverging trends across sectors based on market fundamentals and investment appetites over the past 12 months, reflecting differing market fundamentals and investment appetite. For example, the logistics sector saw a price correction of 5-10% year-on-year in March 2025 with sharper declines observed in vacant assets located in outer ring areas of the Greater Tokyo market. In contrast, institutional-grade office and residential properties in prime locations demonstrated strong resilience with only marginal value adjustments in the office sector and virtually no evidence in the residential sector despite rising financing costs.

Looking ahead, expectations for further valuation corrections have moderated, suggesting that the price adjustment phase may be nearing completion, if not already concluded. Meanwhile strong rental growth, underpinned by elevated construction costs and limited new supply, is expected to drive returns across all sectors.

Logistics: Soaring development cost

With the surge in construction costs in the last three years, the breakeven rent for new logistics development has increased to 30-35% higher than current market rents. This provides potential for strong rental growth beyond 2027, if the logistics vacancy rate in Greater Tokyo stabilizes from the current elevated level of 10% in March 2025 driven by recent record new supply levels.

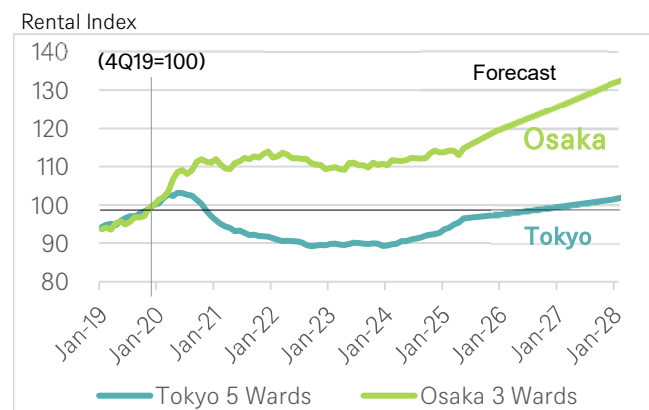
Residential: Strong demand for quality rental houses

The average sales price of for-sale condominiums in Tokyo 23 wards rose to all time high of JPY 110 million (per unit) in the rolling 12-month period to March 2025. This has driven the strong leasing demand for quality rental units, mainly among working couples and professionals who prefer larger spaces for their work-from-home arrangements. As for-sale condo prices remain elevated in Tokyo, demand for rental houses is expected to be resilient.

Office: Osaka leading the market recovery ahead of Tokyo

Osaka's office market demonstrated a strong recovery with the vacancy rate falling below 4% for the first time in five years, despite record new supply in 2024. With limited new developments in the foreseeable future, office rents in Osaka are expected to benefit from healthy growth, in turn driving investment returns.

Grade A Office Rents in Tokyo and Osaka



Source: DWS, Sanko. As of June 2025.

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Real Estate Research Team

Office Locations

Frankfurt

Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: +49 69 71909 0

London

45 Cannon Street
London, EC4m 5SB
United Kingdom
Tel: +44 20 754 58000

New York

875 Third Avenue
26th Floor
New York
NY 10022-6225
United States
Tel: +1 212 454 3414

San Francisco

101 California Street
24th Floor
San Francisco
CA 94111
United States
Tel: +1 415 781 3300

Singapore

One Raffles Quay
South Tower
15th Floor
Singapore 048583
Tel: +65 6538 7011

Tokyo

Azabudai Hills Mori JP Tower
1-3-1 Azabudai
Minato-ku
16th Floor
Tokyo
Japan
Tel: +81 3 6730 1300

Sydney

Level 16, Deutsche Bank Place
Corner of Hunter and Phillip Streets
Sydney NSW 2000
Australia
Tel: +61 2 8258 1234

Teams

Global

Kevin White, CFA

Global Co-Head of Real Estate Research

Simon Wallace

Global Co-Head of Real Estate Research

Americas

Brooks Wells

Head of Research, Americas

Liliana Diaconu, CFA

Office & Retail Research

Ross Adams

Industrial Research

Sharim Sohail

Self-Storage Research

Europe

Ruben Bos, CFA

Head of Real Estate Investment Strategy, Europe

Tom Francis

Property Market Research

Siena Golan

Property Market Research

Rosie Hunt

Property Market Research

Carsten Lieser

Property Market Research

Martin Lippmann

Head of Real Estate Research, Europe

Asia Pacific

Koichiro Obu

Head of Real Estate Research, Asia Pacific

Seng-Hong Teng

Property Market Research

Hyunwoo Kim

Property Market Research

Matthew Persson

Property Market Research

Authors



Koichiro Obu

Head of Real Estate Research, Asia Pacific
koichiro-a.obu@dws.com



Hyunwoo Kim

Property Market Research
hyunwoo.kim@dws.com

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