Real Estate Market Trends

—Spring 2023—

Corporate Services Division

Nomura Real Estate Solutions Co., Ltd.

INDEX

- This document is solely for the purpose of providing information on the real estate market.
- The information contained in this document contains internal information of the Company and its related parties, so we request that you refrain from disclosing it to any third party without the Company's permission.
- Unless otherwise specified, this document contains information as of **February 13, 2023.**
- All information in this document, including the terms and conditions, is subject to change without notice. Although the information is based on information relied upon by the Company and its related parties or other parties listed in this document, none of the parties makes any representation, statement or warranty regarding the accuracy, completeness, rationality and validity of the forward-looking statements, and shall be liable for any inaccuracy or incompleteness of the information contained herein.

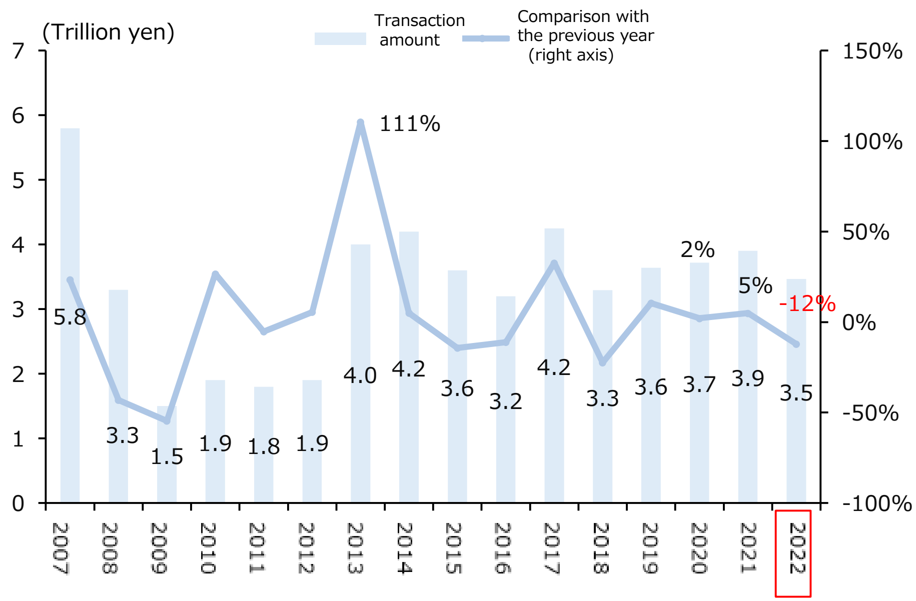
1. Commercial Real Estate Transactions

1 Commercial Real Estate Transactions (offices, hotels, stores, etc.)

The transaction volume in 2022 declined 12% year-on-year. This was caused mainly by a decrease in acquisitions by J-REITs, but also due in part to a declining appetite for acquisitions among some foreign investors.

- The commercial real estate transaction volume in 2022 (full-year/ascertained) was 3,465.2 billion yen, down 12% y-o-y.
- The overall volume was dragged down by a decline in the amount of acquisitions by J-REITs.
- Throughout the year, foreign-affiliated companies have been prominent buyers of large properties, but there are signs of a decline in investment appetite in some areas due to rising overseas interest rates.

■ Change in commercial real estate transactions (ascertained)



Source: All of the above were prepared by NREAM based on data from Nikkei Real Estate Market Report (partially extracted)
Note: Ascertained transactions only.

■ Large transaction cases ascertained in 2022

Property (Asset type)	Timing	Details	Estimated amount
Otemachi PLACE (Mainly office)	**Sep.**	Hulic and others made a successful bid at a highest-ever amount in Japan. The NOI yield is 2.5%.	**About 400.0 billion yen**
The Prince Park Tower Tokyo and other 30 properties (Hotel, etc.)	**May**	Singapore's GIC Private Limited acquired the hotels from the Seibu Group.	**About 150.0 billion yen**
Minatomirai Center Building (Office)	**Mar.**	M&G Investments acquired the building from Hong Kong-based Gaw Capital. The NOI yield is 3.4%.	**Over 100.0 billion yen**
Chiba New Town Logistics Center and others (Logistics)	**Nov.**	Gaw Capital acquired seven logistics facilities in the metropolitan area.	**Over 80.0 billion yen**
Gramercy Kyobashi and other 32 properties (Residence)	**May**	Gaw Capital (investor: the Qatar Investment Authority) made a bulk acquisition of residences in Tokyo and Osaka.	**About 60.0 billion yen**

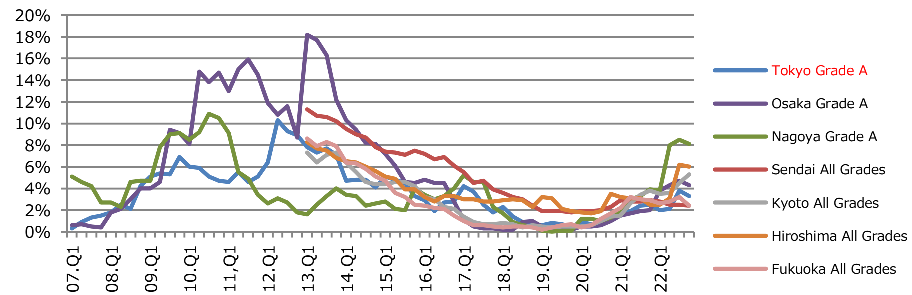
Source: Prepared by NREAM based on data from Nikkei Real Estate Market Report and press releases (partially extracted)
Note: "Timing" includes the timing of announcement, contract concluded or delivery. The NOI yield is an estimation.

2. Offices

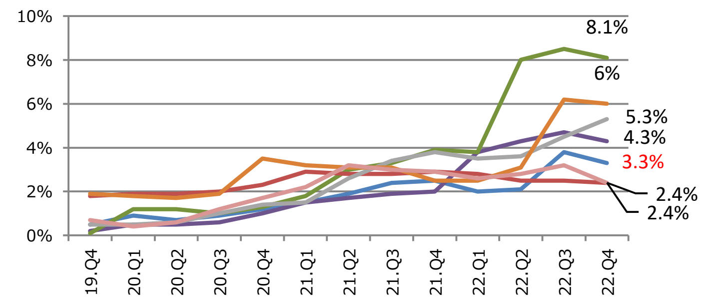
2-1 Office Trends in Major Cities

- **[Tokyo]** <u>The Grade A vacancy rate fell by 0.5 points q-o-q to 3.3%, and rents fell by 0.1% q-o-q to 34,700 yen per *tsubo*.</u> Although rents continue to be adjusted to capture demand, **the range of decline has continued to narrow** since Q1 2022. **The range of decline in rent is expected to increase again** as the vacancy rate rises in the future, and rents are expected to fall by 3.2% over the next year. The vacancy rate of all grades fell by 0.2 points q-o-q to 4.7%, and rents fell by 0.3% q-o-q to 21,420 yen per *tsubo*. Vacancies were filled due to relocations for upgrades and location improvements, as well as expansion relocations, which exceeded the number of new vacancies.
- **[Osaka]** <u>The Grade A vacancy rate fell by 0.4 points q-o-q to 4.3%, and rents fell by 0.8% q-o-q to 24,250 yen per *tsubo*.</u> The vacancy rate fell for the first time in three years since Q4 2019, as more vacancies have been filled than in the previous quarter. The vacancy rate of all grades remained flat at 3.5%, and rents fell by 0.2% q-o-q to 14,150 yen per *tsubo*. Buildings with relatively high rents compared to market prices are taking time to find successor tenants, and with the largest-ever new supply of approximately 90,000 *tsubo* in all grades scheduled for 2024, the rising trend in the vacancy rate for the market as a whole is expected to continue going forward.
- **[Nagoya]** <u>The Grade A vacancy rate fell by 0.4 points q-o-q to 8.1%, and rents fell by 1.1% q-o-q to 26,500 yen per *tsubo*.</u> In the current quarter, the downward trend in rents continued, especially for buildings in the higher price range with vacancies. Rents for the next one year are expected to fall by 4.0%. The vacancy rate of all grades fell by 0.1 points q-o-q to 5.7%, and rents fell by 0.1% q-o-q to 13,770 yen per *tsubo*. The vacancy rate fell for the first time in three years since Q4 2019.

■ Vacancy rate (Long-term changes: from Q1 2007)

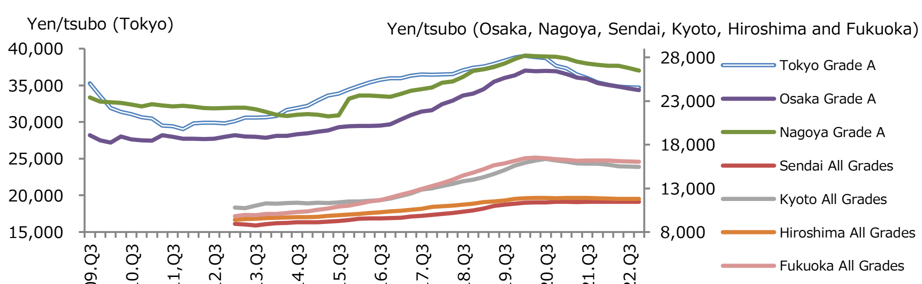


■ Vacancy rate (Short-term changes: from Q4 2019)



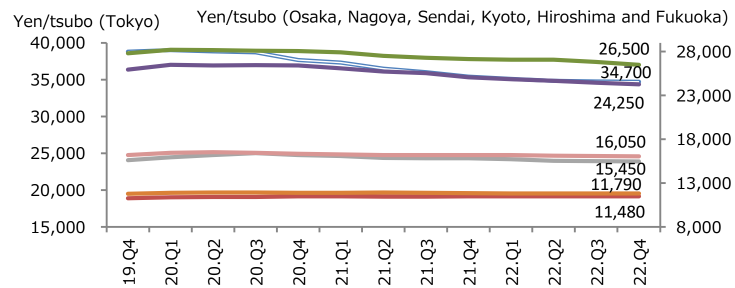
Area		2022 Q1	2022 Q2	2022 Q3	2022 Q4
Tokyo Grade A	Vacancy rate (%)	2.0	2.1	3.8	3.3
	Assumed achievable rent (yen)	35,100	34,850	34,750	34,700
Osaka Grade A	Vacancy rate (%)	3.8	4.3	4.7	4.3
	Assumed achievable rent (yen)	24,850	24,650	24,450	24,250
Nagoya Grade A	Vacancy rate (%)	3.8	8.0	8.5	8.1
	Assumed achievable rent (yen)	27,050	27,050	26,800	26,500
Sendai All Grades	Vacancy rate (%)	2.8	2.5	2.5	2.4
	Assumed achievable rent (yen)	11,460	11,470	11,470	11,480
Kyoto All Grades	Vacancy rate (%)	3.5	3.6	4.5	5.3
	Assumed achievable rent (yen)	15,730	15,540	15,480	15,450
Hiroshima All Grades	Vacancy rate (%)	2.5	3.1	6.2	6.0
	Assumed achievable rent (yen)	11,820	11,790	11,800	11,790
Fukuoka All Grades	Vacancy rate (%)	2.6	2.8	3.2	2.4
	Assumed achievable rent (yen)	16,180	16,110	16,080	16,050

■ Rent revenue (Long-term changes: from Q3 2009)



**For Sendai, Kyoto, Hiroshima and Fukuoka, data for Q1 2013 onward is used*

■ Rent revenue (Short-term changes: from Q4 2019)



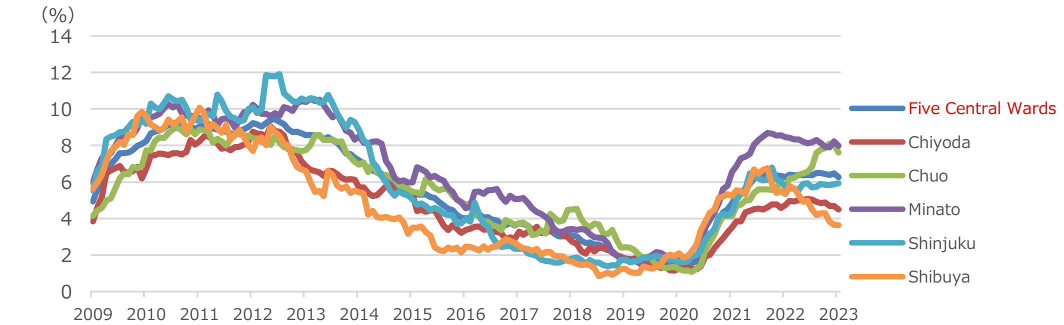
Source: Prepared by Nomura Real Estate Solutions based on "Japan Office Market View" by CBRE

2-2 Office Trends in Tokyo's Five Central Wards

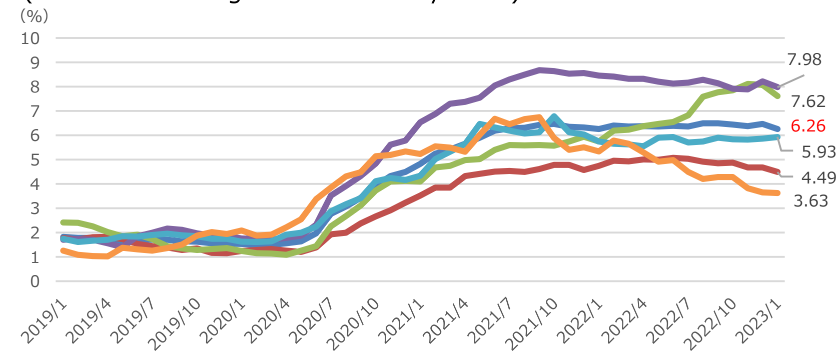
The vacancy rate remained flat but high. A decline in rents continued.。

- The office vacancy rate in the five central wards of Tokyo was 6.26% as of January (down 0.21 points from December). There were contracts for new buildings completed less than one year ago and large contracts for existing buildings.
- A downward trend continued in Shibuya Ward, which made the recent vacancy rate improve to 3.63%.
- Asking rents fell for the thirtieth consecutive month. Since the vacancy rate is still high, rents are expected to remain weak for the time being. There is also a tendency to extend a free rent period for large new properties (brokerage companies).

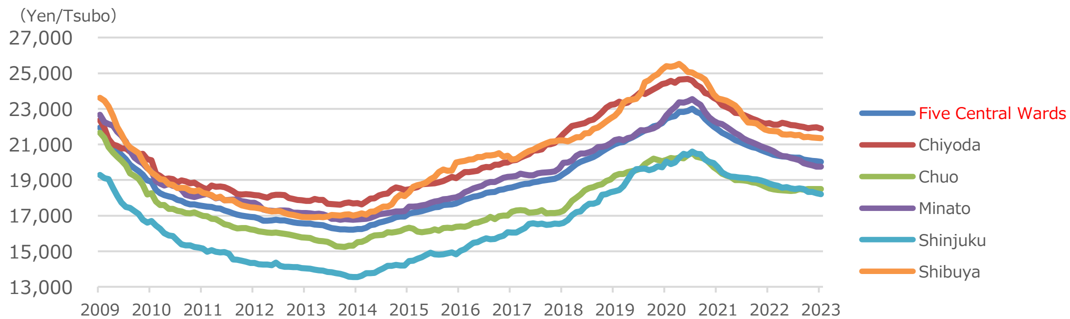
■ Average office vacancy rates (Long-term changes: from January 2009)



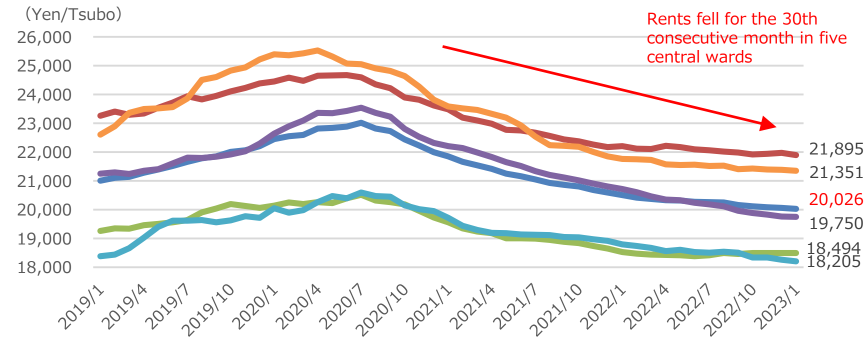
■ Average office vacancy rates
(Short-term changes: from January 2019)



■ Average office asking rents by central wards
(Long-term changes: from January 2009)



■ Average office asking rents by central wards
(Short-term changes: from January 2019)

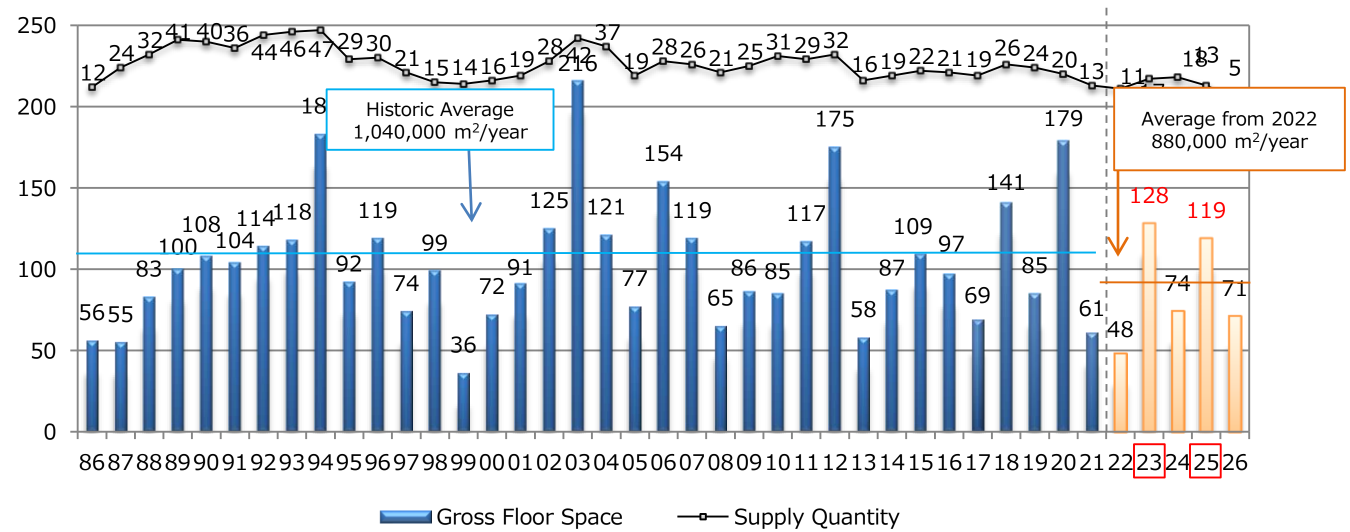


Source: Prepared by NREAM based on data from Miki Shoji
Note: Central five wards of Tokyo = Chiyoda Ward, Chuo Ward, Minato Ward, Shibuya Ward and Shinjuku Ward

2-3 Trends of Large-scale Offices in Tokyo's 23 Wards

- While the supply of large office buildings in **Tokyo's 23 wards** is expected to be at a certain level **in 2023 (1.28 million m²) and 2025 (1.19 million m²),** the average supply over the next five years from 2022 through 2026 (0.88 million m²/year) is expected fall below the historical average (1.04 million m²) because the supply in 2022 (0.48 million m²), 2024 (0.74 million m²) and 2026 (0.71 million m²) will fall below the historical average.
- The supply of large office buildings in **Tokyo three central wards** in 2023 and 2025 will exceed the past 10-year average of 0.75 million m² per year. However, the average supply in the next five years from 2022 through 2026 is expected to be 0.66 million m² per year, below the historical average. Note that of the supply in Tokyo's 23 wards, the supply in the three central wards will account for 75% for the next five years, exceeding the past 10-year average (71%).
- New demand for large office buildings in **Tokyo's 23 wards** declined by 20,000 m² in 2021 and fell below the supply of 610,000 m². **The vacancy rate was 5.6%**, up 1.6 points from the end of 2020.
- The vacancy rate in major business districts was 5.2% as of the end of 2021, and properties with a gross office floor area of 100,000 m² or more in those districts was 4.5%. As seen, vacancy rates differed depending on the district and property grade.

■ Large office building supply trends in **Tokyo's 23 wards**



1986-2021
(1) Properties supplied: 964
(2) Gross floor space: 37,300,000 m²

2022-2026
(1) Properties supplied: 64
(2) Gross floor space: 4,410,000 m²

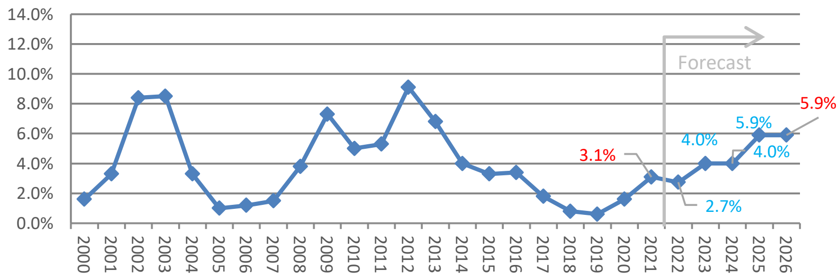
* The survey covered office buildings with a gross floor area of 10,000 m² or more (constructed after 1986) in Tokyo's 23 wards
Source: Prepared by Nomura Real Estate Solutions based on data from Mori Building "Market Trends for Large-scale Office Buildings in Tokyo's 23 Wards in 2022"

2-4 Forecasts for the Office Market in the Three Major Metropolitan Areas

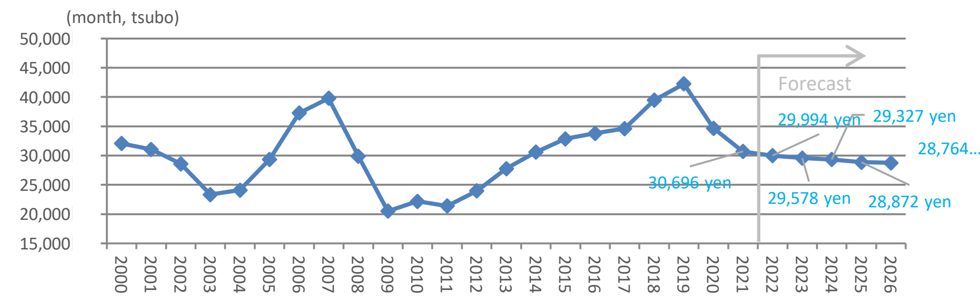
- The vacancy rate of A-Class buildings in the Tokyo metropolitan area is expected to continue the rising trend. It is forecast that the vacancy rate will rise particularly in 2023 and 2025, impacted by large supply, and **reach about 6% in 2026**.
- The achievable rent of A-Class buildings in the Tokyo metropolitan area (“100” in 2021) will be “98” in 2022, “96” in 2023, and “94” in 2026, meaning that **it is expected to decline gradually**.
- The achievable rent of offices in Osaka is forecast to see a falling trend in line with supply and demand easing. Assuming that the rent in 2021 is “100,” it is forecast to fall to “99” in 2022 and “90” in 2026. Note that, despite the decline of 10% compared to the peak posted in 2021, it will still exceed the rent level of 85 in 2018 and **is not expected to fall significantly as seen after the Global Financial Crisis**.
- Assuming that the rent in 2021 is “100,” the achievable rent of offices in Nagoya is forecast to fall to “98” in 2022 and “89” in 2026. Note that it will still exceed the rent level of 87 in 2017, and **is not expected to fall significantly as seen after the Global Financial Crisis**.
- Regarding these forecasts, Nomura Real Estate Solutions set the economic outlook, referring to the ESP Forecast Survey.

Source: NLI Research Institute estimated the actual values based on the “Office Rent Index” released by Sanko Estate and NLI Research Institute and the future outlook based on the “Office Rent Index” and others

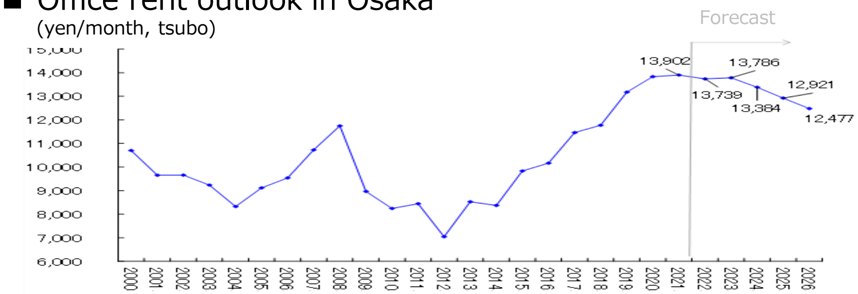
■ Vacancy rate outlook for A-Class buildings in the Tokyo metropolitan area



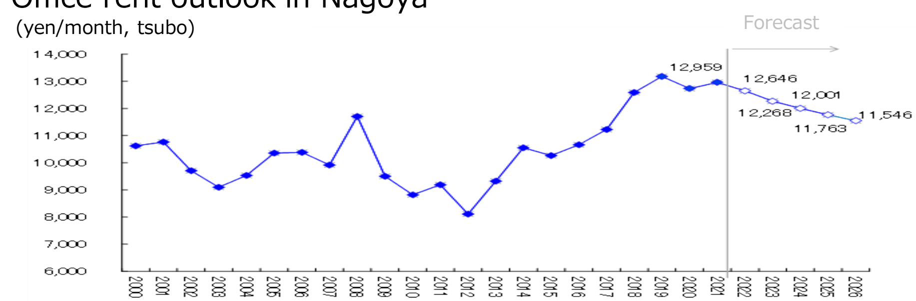
■ Achievable rent outlook for A-Class buildings in the Tokyo metropolitan area



■ Office rent outlook in Osaka



■ Office rent outlook in Nagoya

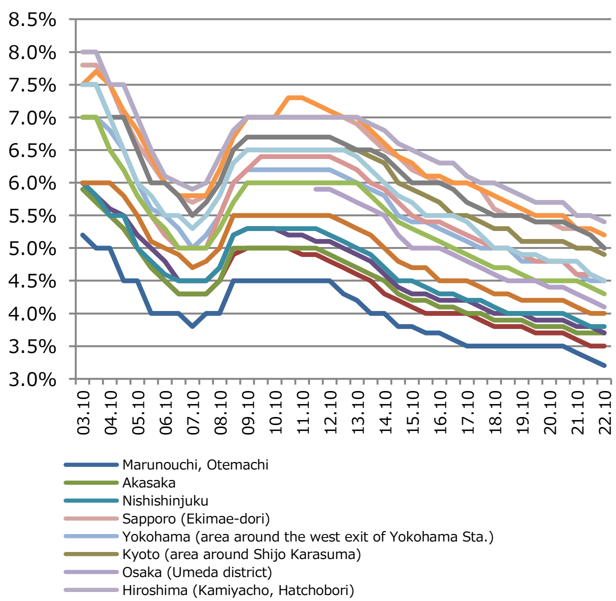


Source: NLI Research Institute estimated the actual values based on the “Office Rent Index” released by Sanko Estate and NLI Research Institute and the future outlook based on the “Office Rent Index” and others
Note: The annual estimated values for Tokyo are published in the 4th quarter of each year. For Osaka and Nagoya, the values are published in the 2nd half of each year.

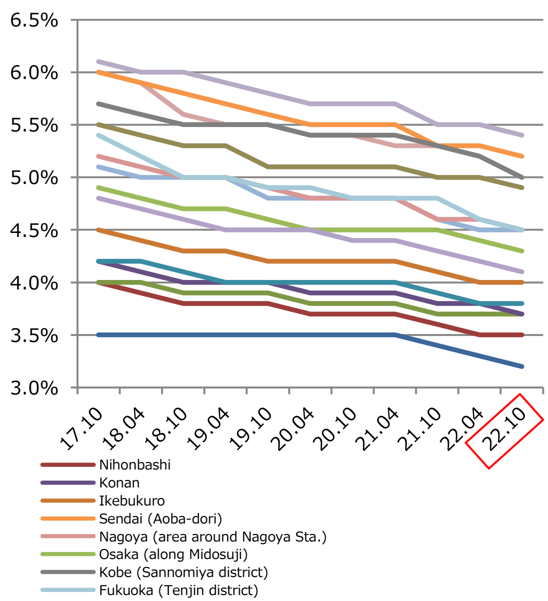
2-5 Expected Yields on Office Buildings (A-Class Buildings)

- Real estate investors' expected yields on A-Class buildings **decreased 0.1 points in "Marunouchi and Otemachi in Tokyo" compared to the previous survey data**, which updated the lowest yield since the survey started in 1999.
- Also in other office areas of Tokyo and provincial cities, expected yields declined in many survey areas.
- Among major government-designated cities, expected yields fell 0.2 points from the previous survey data in "Sapporo (Ekimae-dori)" (5.0%). Yields fell 0.1 points in "Sendai (Aoba-dori)" (5.2%), "Nagoya (area around Nagoya Station)" (4.5%), "Kyoto (area around Shijo Karasuma)" (4.9%),"Osaka (along Midosuji)" (4.3%), "Osaka (Umeda district)" (4.1%), "Hiroshima (Kamiyacho, Hatchobori)" (5.4%), "Fukuoka (Tenjin district)" (4.5%), and remained flat in "Yokohama (area around the west exit of Yokohama Station)" (4.5%).
- Regarding real estate investors' stance going forward, the respondents who answered that they would "actively make new investments" accounted for 95%, up one point from the previous survey. **Against the backdrop of loose monetary environments in Japan, investors maintained an active stance overall**.

■ Expected yields on standard A-Class buildings (Long-term changes: from October 2003)



■ Expected yields on standard A-Class buildings (Short-term changes: from October 2017)



Yield in Oct. 2022		Change from the previous survey
Hiroshima (Kamiyacho, Hatchobori)	5.4%	- 0.1
Sendai (Aoba-dori)	5.2%	- 0.1
Sapporo (Ekimae-dori)	5.0%	- 0.2
Kobe (Sannomiya district)	5.0%	- 0.2
Kyoto (area around Shijo Karasuma)	4.9%	- 0.1
Yokohama (area around the west exit of Yokohama Sta.)	4.5%	0.0
Nagoya (area around Nagoya Sta.)	4.5%	- 0.1
Fukuoka (Tenjin district)	4.5%	- 0.1
Osaka (along Midosuji)	4.3%	- 0.1
Osaka (Umeda district)	4.1%	- 0.1
Ikebukuro	4.0%	0.0
Nishishinjuku	3.8%	0.0
Akasaka	3.7%	0.0
Konan	3.7%	- 0.1
Nihonbashi	3.5%	0.0
Marunouchi, Otemachi	3.2%	- 0.1

* **Class-A buildings** in Marunouchi and Otemachi district

Access	Within 5 minutes' walk from the nearest station
Age of property	Less than 5 years old
Building scale	Gross floor area of 50,000 m^2 or more
Leasable floor area on a standard floor	**1,500 m^2 or more**
Ceiling height	2,800 mm or more
Equipment level	Free access floor, zone air conditioning
Building management	Security system
Leasing status	Multi-tenant (more than 10 companies)
Rent level	In line with the market levels
Lease agreement	General lease agreement
Ownership form	Full ownership

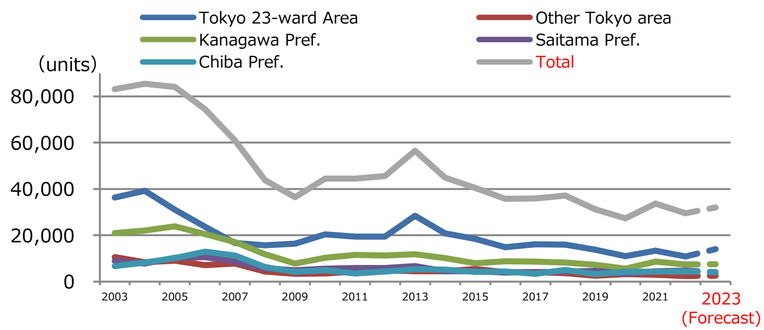
Source: Prepared by Nomura Real Estate Solutions based on data from Japan Real Estate Institute "Real Estate Investor's Survey"

3. Condominiums for Sale

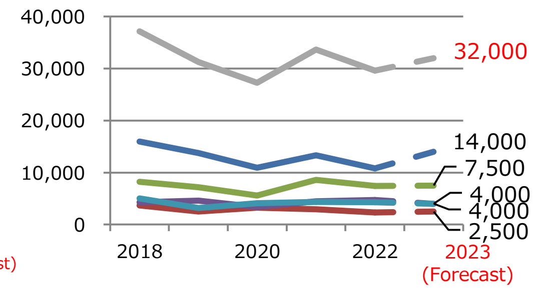
3 Supply and Price Trends of Condominiums for Sale in the Tokyo Metropolitan and Kinki Areas

- **[Tokyo Metropolitan Area]** The supply of condominiums in the Tokyo Metropolitan area in 2023 is forecast to increase by 3.9% over the previous year reaching 32,000 units. It increased significantly in the Tokyo 23-ward area, suburban Tokyo, and Chiba Prefecture. Large-scale projects and high-rise properties in the Tokyo 23-ward area have led the market. Inventory has remained low at around 5,000 units since June. Construction starts have been recovering since the summer. Attention is once again shifting from the suburbs to the city center. In Tokyo's 23 wards, a number of notable large-scale projects will be launched. There are concerns over price hikes due to higher construction costs and higher mortgage rates.
- **[Kinki Area]** The supply of condominiums in the Kinki area in 2023 is forecast to be 18,000 units, a 7.1% increase compared to 2022. It increased in Osaka Prefecture and Hyogo Prefecture, while it decreased in Osaka City and Kobe City. Inventories are low while completed inventories are high. Construction starts from January to October 2022 increased 16.0% y-o-y. Unit prices have continued to rise. Supply has become active in areas for families in the suburbs.

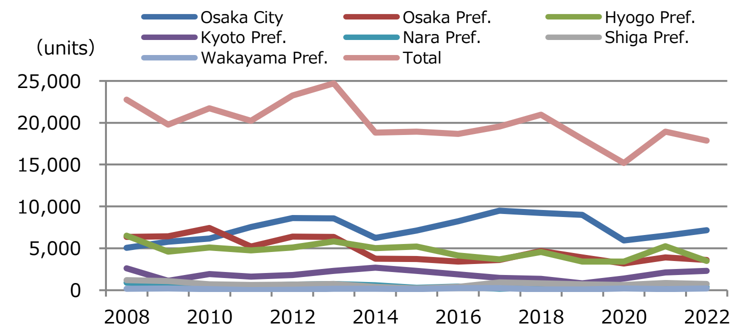
■ Supply trend: Tokyo Metropolitan Area



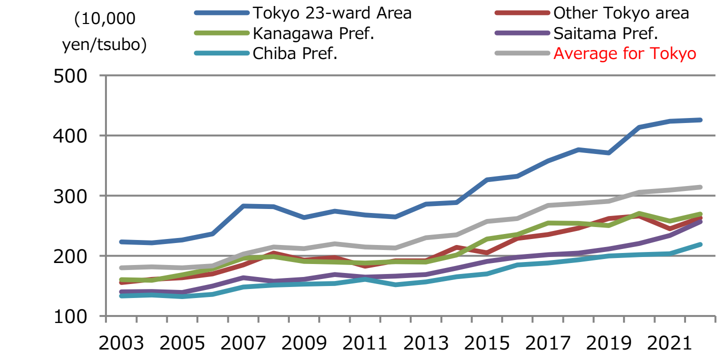
■ Supply trend: Tokyo Metropolitan Area (Short-term changes: from 2018)



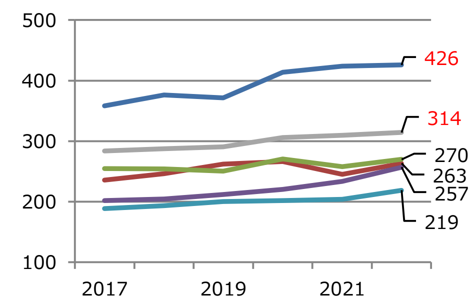
■ Supply trend: Kinki Area



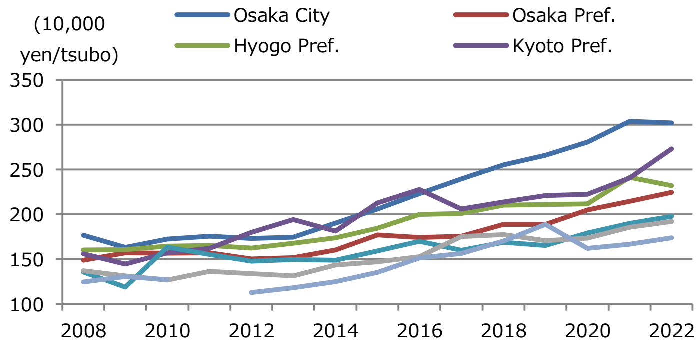
■ Price trend: Tokyo Metropolitan Area



■ Price trend: Tokyo Metropolitan Area (Short-term changes: from 2018)



■ Price trend: Kinki Area



Source: Compiled by Nomura Real Estate Solutions from the "Forecast of the Condominium Market in the Tokyo Metropolitan and the Kinki Area," "Market Trends for Condominiums in the Tokyo Metropolitan" and "Market Trends for Condominiums in the Kinki Area" published by Real Estate Economic Institute
*No supply in Wakayama Pref. in 2011

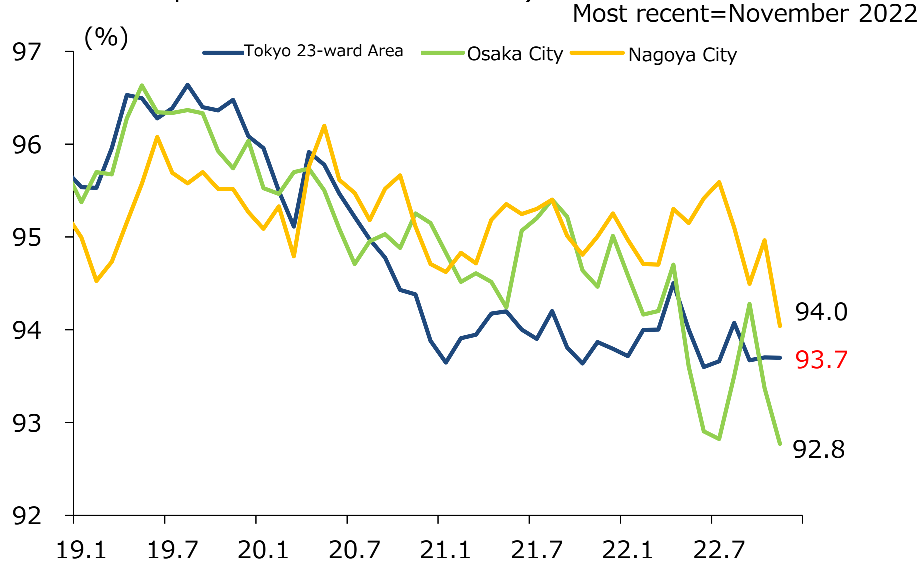
4. Rental Condominiums

4-1 Trend of Rental Condominiums

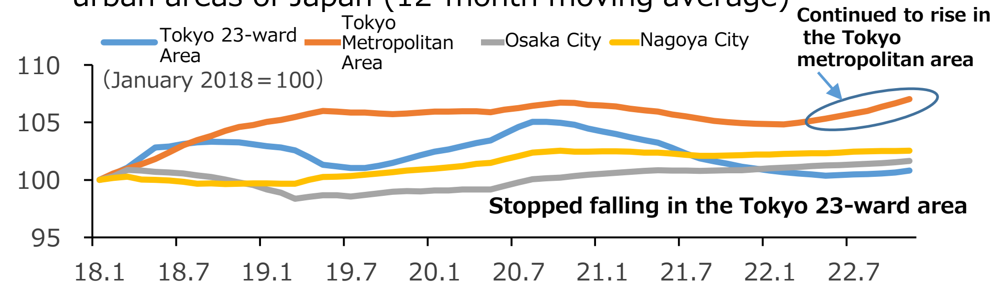
The occupancy level in November was about the same as in November last year in the Tokyo 23-ward area while it was down in Osaka City and Nagoya City. Monthly rents continued to rise in central Tokyo and stopped falling in Tokyo's 23 wards. Key money, which had continued to decline, also stopped falling.

- The occupancy level in November was about the same as in November last year in the Tokyo 23-ward area. According to PM, corporate demand is recovering and is expected to return to the level before the COVID-19 pandemic in the busy season in Q1 2023.
- On the other hand, the occupancy level trended downward in Osaka City and Nagoya City, and the increase in new supply is seen as a contributing factor.
- Monthly rents (12 month moving average) continued to rise in central Tokyo, stopped falling, and are on a gradual upward trend in the Tokyo 23-ward area.
- Key money has been falling since March 2020, but recently stopped falling and rose slightly.
- In Osaka City and Nagoya City, monthly rents continued to rise gradually.

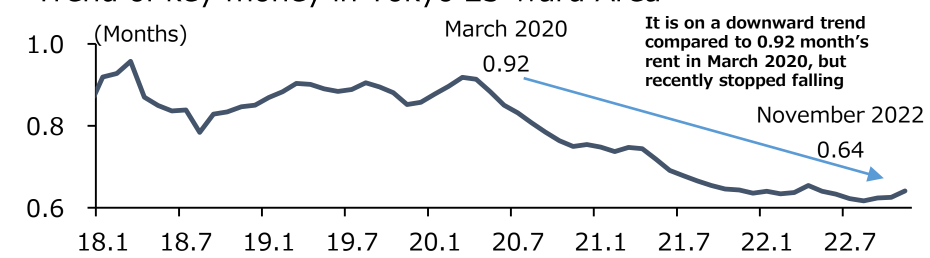
■ Condominium occupancy in the three major urban areas of Japan (2019 and onwards)



■ Trend of monthly condominium rents in the three major urban areas of Japan (12-month moving average)



■ Trend of key money in Tokyo 23-ward Area



Source: All of the above data is from Style Act Co., Ltd.
Referred to PM information in each area for comments.

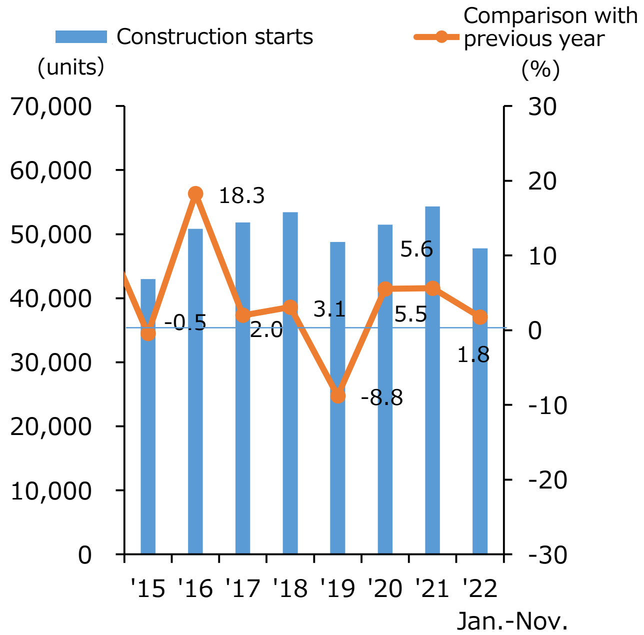
Note: These data concern units in SRC and RC buildings that are younger than 24 years of age and have rents higher than the average.
The rent is revised by Style Act to the achievable rent of a property that is new, located 5 minutes walk from a railway station, facing south, on the 2nd floor, a condominium and with key money of one month rent.

4-2 Trend of Rental Condominiums (Construction Starts)

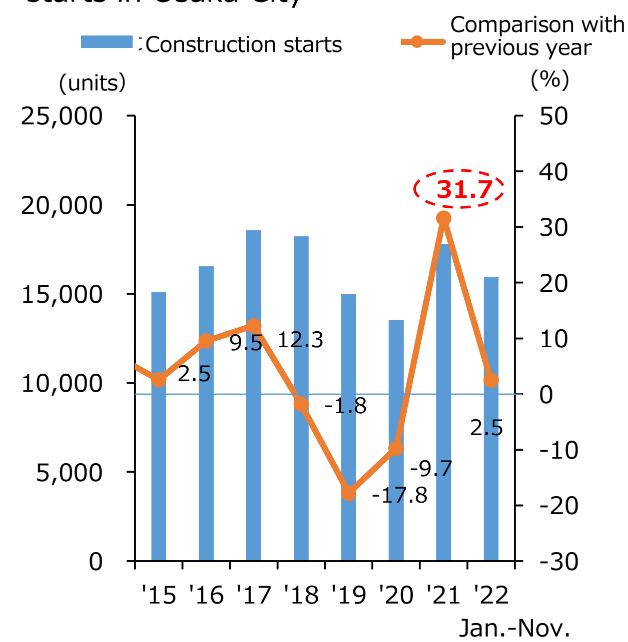
Construction starts in 2022 remained at the same level in all cities year-on-year. Osaka and Nagoya had more construction starts in 2021.

- Construction starts in Jan.-Nov. 2022 were up 1.8% in Tokyo, up 2.5% in Osaka, and up 3.9% in Nagoya year-on-year, remaining at the same level in all of these cities year-on-year.
- As the number of construction starts in Osaka City and Nagoya City increased significantly in 2021 compared to the previous year, new supply increased in 2022. Especially in some areas of Nagoya (Sakae and Tsurumai), PM noted an increase in new properties.

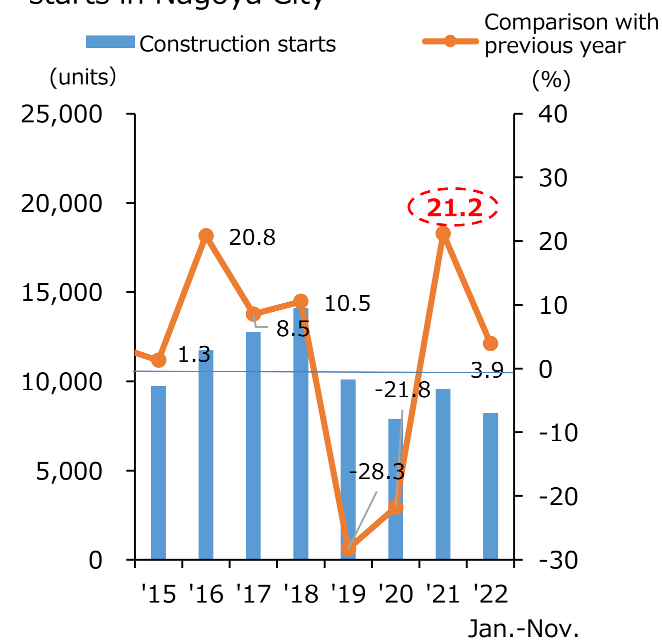
■ Rental condominium construction starts in the Tokyo 23-ward Area



■ Rental condominium construction starts in Osaka City



■ Rental condominium construction starts in Nagoya City

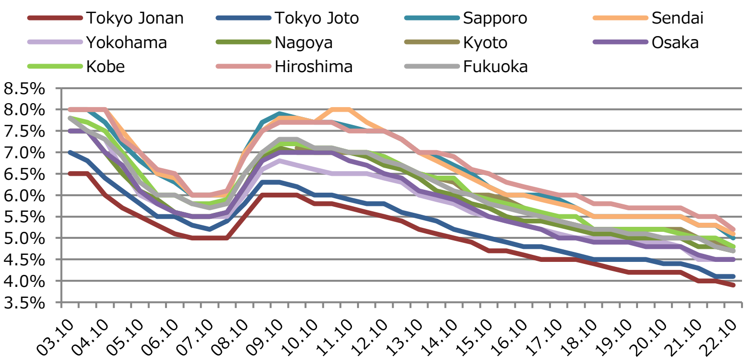


Source: All of the above data is from Style Act Co., Ltd.
Note: Style Act processed and compiled data on statistical surveys of new construction provided by MLIT.
Figures for 2022 are compared to the same period of the previous year.
The figures represent the total of rental condominiums (buildings with SRC or RC construction) and rental apartments (buildings made of wood or with S construction). The total figures have been used since April 2020 instead of separate data of "rental apartments" and "rental condominiums" due to a classification change in the statistics of construction starts.

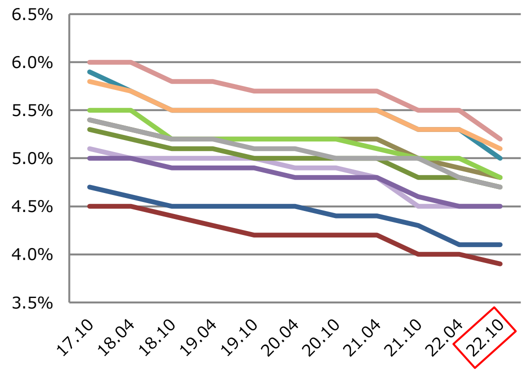
4-3 Expected Yields on Rental Condominiums

- The expected yields on **one-room** condominiums remained flat in the Tokyo Joto area (4.1%), Yokohama (4.5%) and Osaka (4.5%) compared to the previous survey data. The yields fell 0.1 to 0.3 points in Tokyo Jonan area (3.9%), Sapporo (5.0%), Sendai (5.1%), Nagoya (4.7%), Kyoto (5.2%), Kobe (4.8%), Hiroshima (5.2%) and Fukuoka (4.7%) compared to the previous survey data. **The yield in the Tokyo Joto area fell below the 4% level for the first time since the initiation of the survey.**
- The expected yields on **family-type** rental housing were **on a downward trend in many areas including the Tokyo Jonan area (4.0%).**

■ Expected yields from rental condominiums (**one room**)
(Long-term changes: from October 2013)

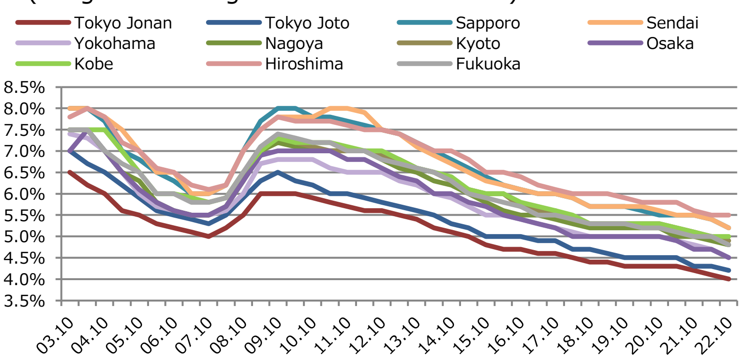


■ Expected yields from rental condominiums (**one room**)
(Short-term changes: from October 2017)

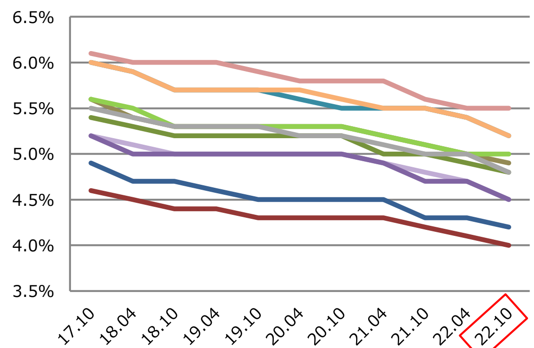


	Yield in Oct. 2022	Change from the previous survey
Hiroshima	5.2%	- 0.3
Sendai	5.1%	- 0.2
Sapporo	5.0%	- 0.3
Kyoto	4.8%	- 0.1
Kobe	4.8%	- 0.2
Nagoya	4.7%	- 0.1
Fukuoka	4.7%	- 0.1
Yokohama	4.5%	0.0
Osaka	4.5%	0.0
Tokyo Joto	4.1%	0.0
Tokyo Jonan	3.9%	- 0.1

■ Expected yields from rental condominiums (**family**)
(Long-term changes: from October 2013)



■ Expected yields from rental condominiums (**family**)
(Short-term changes: from October 2017)



	Yield in Oct. 2022	Change from the previous survey
Hiroshima	5.5%	0.0
Sapporo	5.2%	- 0.2
Sendai	5.2%	- 0.2
Kobe	5.0%	0.0
Kyoto	4.9%	- 0.1
Nagoya	4.8%	- 0.1
Fukuoka	4.8%	- 0.2
Yokohama	4.5%	- 0.2
Osaka	4.5%	- 0.2
Tokyo Joto	4.2%	- 0.1
Tokyo Jonan	4.0%	- 0.1

* Type of assumed rental housing in Tokyo

Type of rental housing	Conditions of location/type
One-room condominium Access: within 10 minutes' walk from the nearest station Age of property: less than 5 years old Average exclusive area: 25 to 30 m² Number of units: approx. 50	Jonan area (Meguro Ward and Setagaya Ward) Located along railway, 15 minutes walk from Shibuya/Ebisu Station
	Joto area (Sumida Ward and Koto Ward) Located along railway, 15 minutes walk from Tokyo/Otemachi Station
For families Access: within 10 minutes' walk from the nearest station Age of property: less than 5 years old Average exclusive area: 50 to 80 m² Number of units: approx. 50	Jonan area (Meguro Ward and Setagaya Ward) Located along railway, 15 minutes walk from Shibuya/Ebisu Station
	Joto area (Sumida Ward and Koto Ward) Located along railway, 15 minutes walk from Tokyo/Otemachi Station

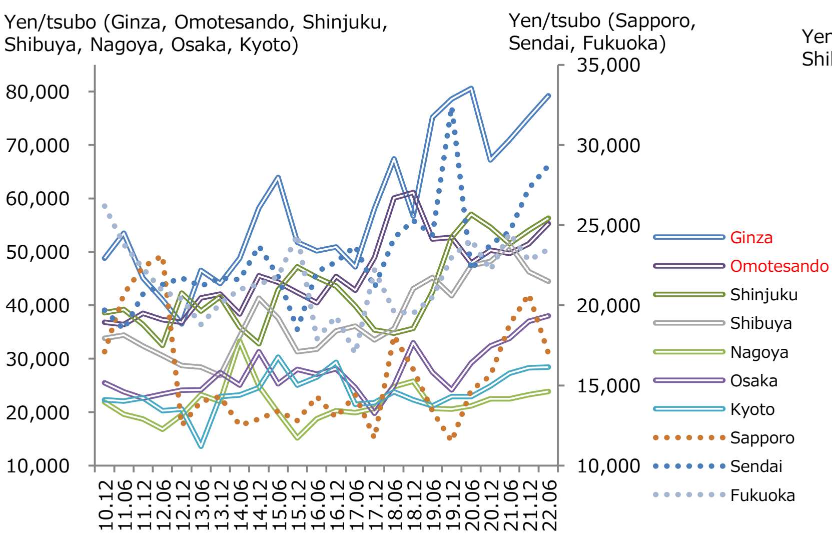
Source: Prepared by Nomura Real Estate Solutions based on data from Japan Real Estate Institute "Real Estate Investor's Survey"

5. Commercial Stores

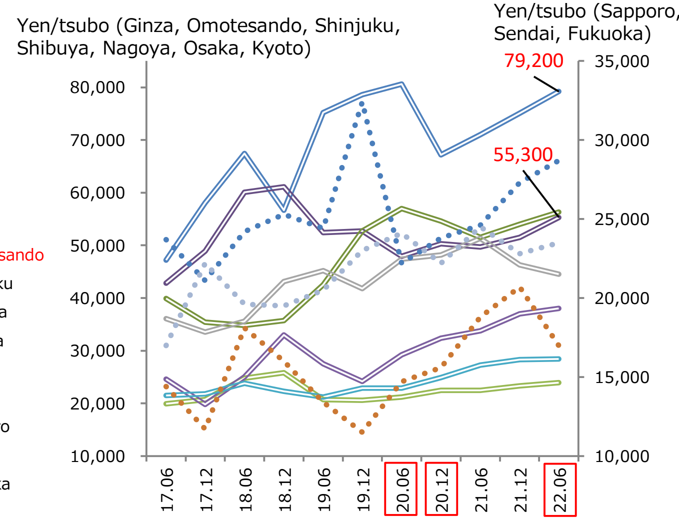
5-1 Trend of Commercial Stores

- While the impact of COVID-19 has remained for all areas, the flow of people is gradually recovering. However, areas that rely heavily on consumption by inbound tourists will need to wait for inbound tourists to return.
- Sales of luxury brand products have been strong, backed by firm demand from wealthy people. In department stores, sales at some facilities have exceeded the levels for the same period of FY2019. Among various store areas, active store openings have been noticeable on streets where luxury brands are targeted. However, there has not been much momentum in store openings on streets that are bustling with people but are not targeted for luxury brands.
- Regarding the rents of ground-floor retail stores in Tokyo primary areas, **Ginza saw a rise for three consecutive quarters, and Omotesando saw a rise for two consecutive quarters.** High consumption by Japanese customers and a full-fledged recovery in the number of inbound tourists are expected to continue to support the upward trend in rents, as demand for store openings remains firm.
- Going forward, **it should be noted that** even after the COVID-19 pandemic ends, **consumption activities may change in line with more teleworking and expanded use of e-commerce,** and at the same time, **structural changes may occur such as stores being changed to showrooms and increasing demand for stores in suburbs.**

■ Nationwide trend of offered rents of stores on the ground-floor (2nd half 2010 to 1st half of 2022)

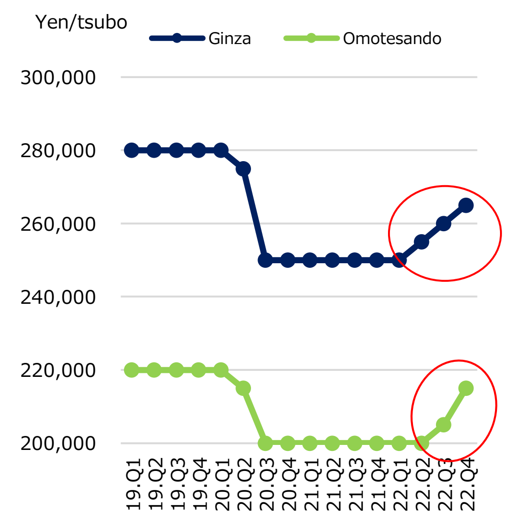


■ Nationwide trend of offered rents of stores on the ground-floor (1st half 2017 to 1st half of 2022)



Source: "Store Rent Trends" published by Japan Real Estate Institute, BAC Urban Project and Style Act Co., Ltd. (compiled by Nomura Real Estate Solutions)

■ Rent trend of ground-floor retail stores in Tokyo primary areas (2019.Q1 to 2022.Q4)

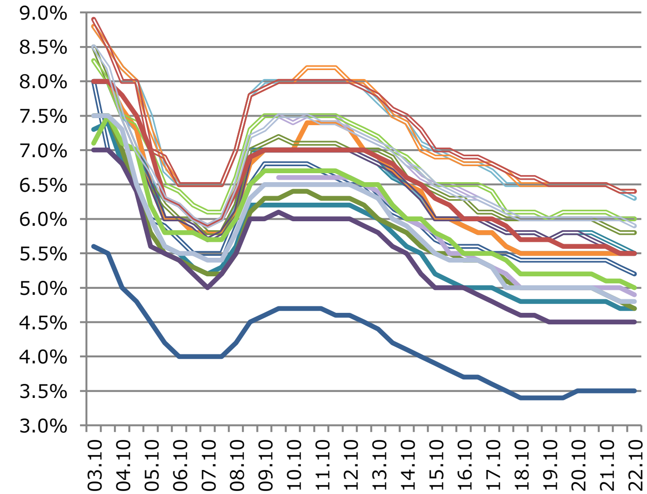


Source: "Tokyo Retail Market Summary" published by JLL (compiled by Nomura Real Estate Solutions)

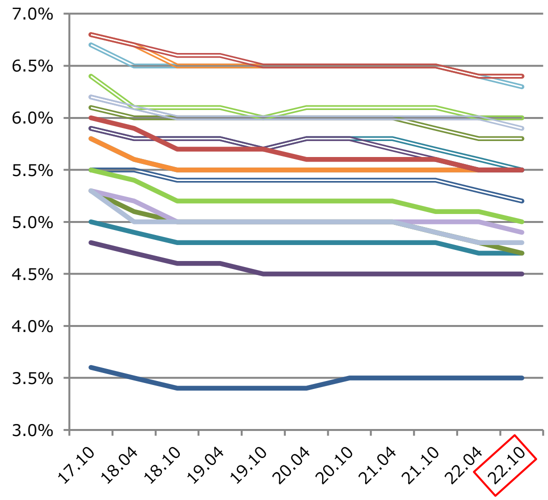
5-2 Expected Yields on Commercial Stores

- **City-center-style high-class specialized stores: The expected yields remained flat compared to the previous survey data** in Ginza, Tokyo (3.5%), Sapporo (5.5%), Sendai (5.5%), Osaka (4.5%), Hiroshima (5.5%), and Fukuoka (4.8%). **The yields fell 0.1 points** in Nagoya (4.7%), Kyoto (4.9%), and Kobe (5.0%).
- **Suburban-style shopping centers: The expected yields remained flat compared to the previous survey data** in Sendai (6.4%), Nagoya (5.8%), Kyoto (6.0%), Osaka (5.5%), Kobe (6.0%), and Hiroshima (6.4%). **The yields fell 0.1 points** in Tokyo (5.2%), Sapporo (6.3%), and Fukuoka (5.9%).

■ Expected yields on commercial stores
(Long-term changes: from October 2003)



■ Expected yields on commercial stores
(Short-term changes: from October 2017)



	Yield in Oct. 2022	Change from the previous survey
Sendai suburb-style stores	6.4%	0.0
Hiroshima suburb-style stores	6.4%	0.0
Sapporo suburb-style stores	6.3%	- 0.1
Kyoto suburb-style stores	6.0%	0.0
Kobe suburb-style stores	6.0%	0.0
Fukuoka suburb-style stores	5.9%	- 0.1
Nagoya suburb-style stores	5.8%	0.0
Sapporo city-center-style stores	5.5%	0.0
Sendai city-center-style stores	5.5%	0.0
Yokohama suburb-style stores	5.5%	- 0.1
Osaka suburb-style stores	5.5%	0.0
Hiroshima city-center-style stores	5.5%	0.0
Tokyo suburb-style stores	5.2%	- 0.1
Kobe city-center-style stores	5.0%	- 0.1
Kyoto city-center-style stores	4.9%	- 0.1
Fukuoka city-center-style stores	4.8%	0.0
Yokohama city-center-style stores	4.7%	0.0
Nagoya city-center-style stores	4.7%	- 0.1
Osaka city-center-style stores	4.5%	0.0
Tokyo city-center-style stores (Ginza)	3.5%	0.0

*Type of assumed commercial store in Tokyo

Type of commercial store	Conditions of location
[City-center-style high-class specialized stores] ・Age of property or years since large-scale repair: less than 5 years old ・Rent scheme: period rent; mainly coupled with tenant's sales ・Tenants: mainly retailers of high-class brand-name goods	Located on the Ginza Chuo-dori Avenue, Ginza area, Chuo Ward Located on the Omotesando Avenue, Omotesando area, Shibuya Ward
[Suburban-style shopping center] ・Store space: 20,000 m² ・Key tenants: dominant general merchandise stores (GMSs) ・Rent scheme: period rent; mainly fixed rent	Located on major arterial roads; 60 minutes from Tokyo city center

Source: "Survey of Real Estate Investors" published by Japan Real Estate Institute (compiled by Nomura Real Estate Solutions)

6. Logistics Facilities

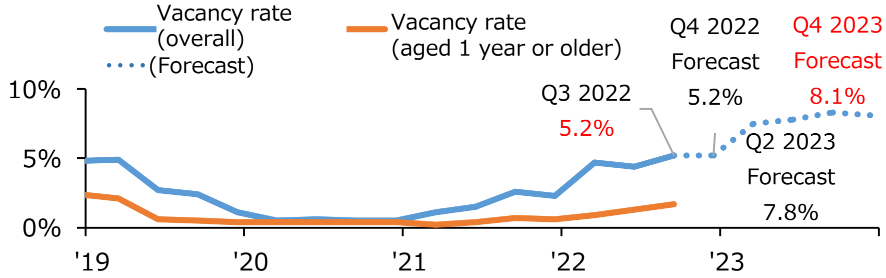
6-1 Trend of Logistics Facilities (Tokyo Metropolitan Area)

The vacancy rate remained high along with large supply and is expected to rise to 8% at the end of 2023. Achievable rents in some areas declined.

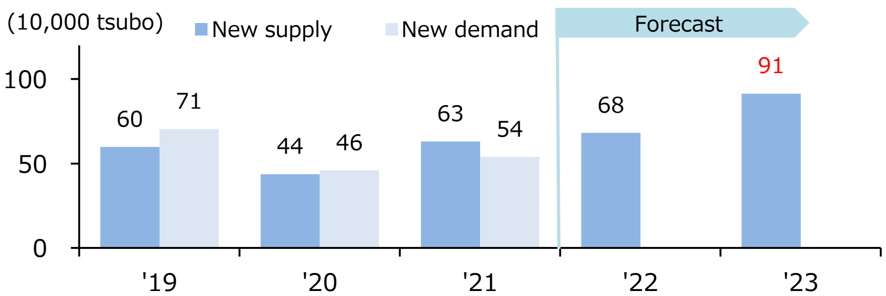
- The vacancy rate in Q3 2022 rose to 5.2% (up 0.8 points y-o-y) in the Tokyo Metropolitan area, which exceeded 5% for the first time since 2018. Although new demand was firm, <u>the vacancy rate remained high due to an increase in supply</u> compared to last year.
- Large supply will continue, which is expected to push up the <u>vacancy rate to around 8%</u> toward the end of 2023. Less competitive properties are beginning to struggle due to the increased supply.
- Leasing of new properties in the External Loop Road area has stagnated and <u>rents continued to decline.</u>

* Rentable floor area estimated by Nomura Real Estate Solutions as of the end of 2021 = approx. 4.4 million *tsubo*

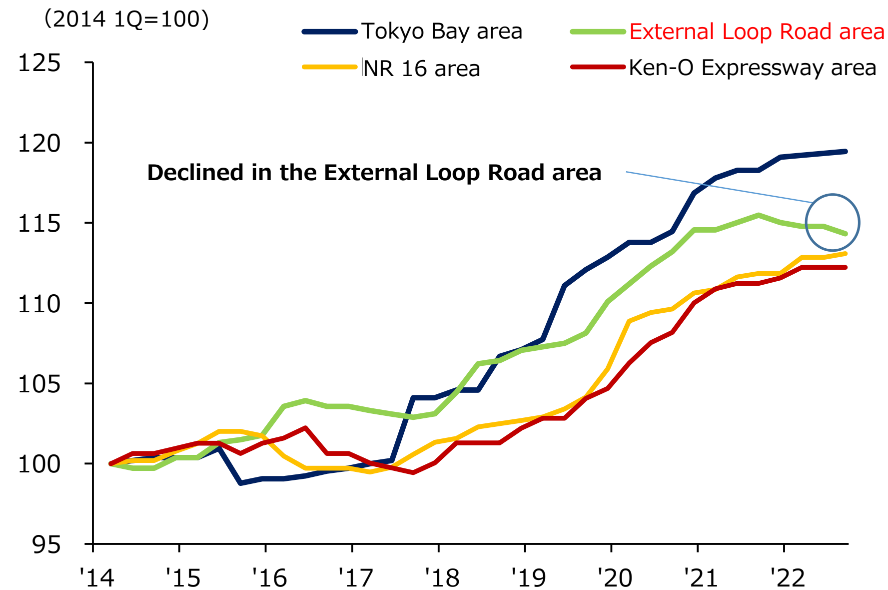
■ Vacancy rate



■ New supply and new demand



■ Achievable rents by area



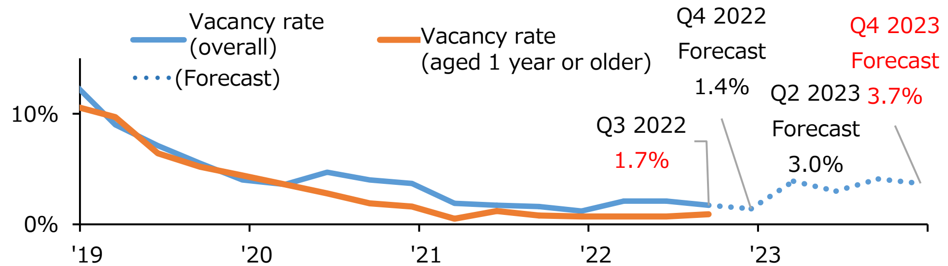
Source: Data provided by CBRE (compiled by NREAM)
Note: These are data on logistics facilities which have a gross floor area of at least 10,000 tsubo and suppose more than one tenant.

6-2 Trend of Logistics Facilities (Kinki Area)

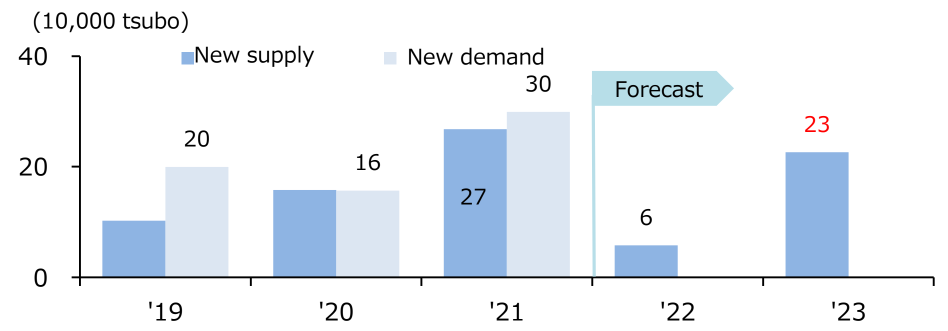
The vacancy rate declined to 1.7%. Supply is low and firm. Although the vacancy rate will rise in 2023 due to the increased supply, demand is strong and there is little concern.。

- The vacancy rate in Q3 2022 was 1.7% (down 0.4 points y-o-y) in the Kinki area. Demand remains firm.
- Although the vacancy rate is expected to rise temporarily in 2023, with supply expected to be slightly less than four times that of the previous year, demand will remail firm and there are no major concerns.
- However, some properties may experience longer vacancy periods, depending on the property's specifications: highway locations, ease of job security, and the availability of rampways.

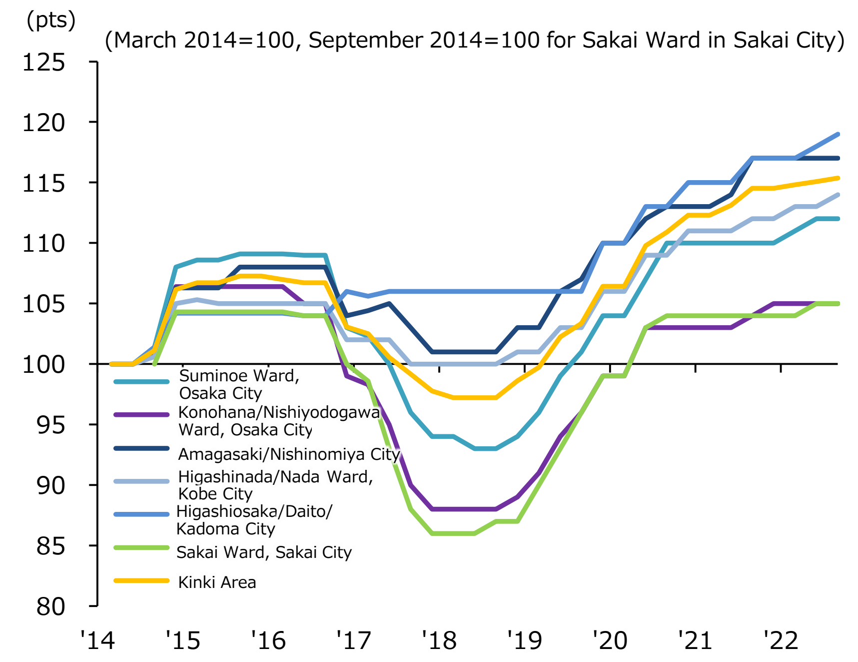
■ Vacancy rate



■ New supply and new demand



■ Achievable rents by area



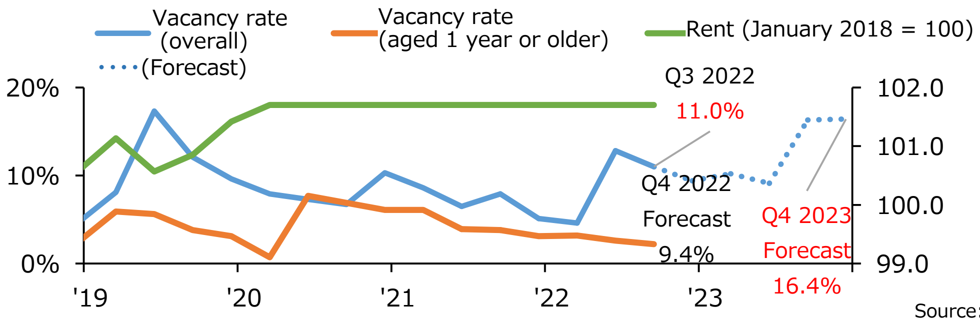
Source: Data provided by CBRE (compiled by NREAM)
Note: These are data on logistics facilities which have a gross floor area of at least 10,000 tsubo and suppose more than one tenant.
Rampway: a runway for climbing up floors

6-3 Trend of Logistics Facilities (Chubu Area)

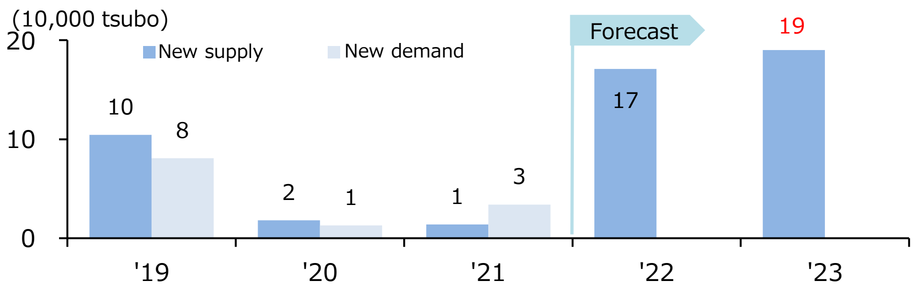
The vacancy rate has remained high due to large supply planned over 2022 to 2023, but is expected to improve in the medium term.

- In the Chubu area, the vacancy rate fell to 11.0% (down 1.8 points y-o-y) in Q3 2022. Vacancies in newer properties were filled.
- With the largest ever supply of 190,000 *tsubo* planned, the vacancy rate is forecast to rise in 2023 as well. However, "Considering the population size, the number of logistics facilities in the Chubu area is still small compared to the Tokyo Metropolitan area and the Kinki area, and improvement in the vacancy rate is not a problem in the medium- to long-term," according to CBRE.
- In fact, estimated net absorption (absorption demand) is increasing in line with the increase in supply, and it is expected that vacancies will be filled in the future.

■ Vacancy rate and rent

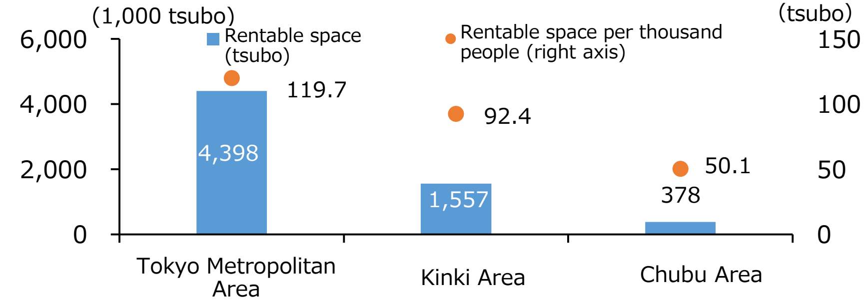


■ New supply and new demand



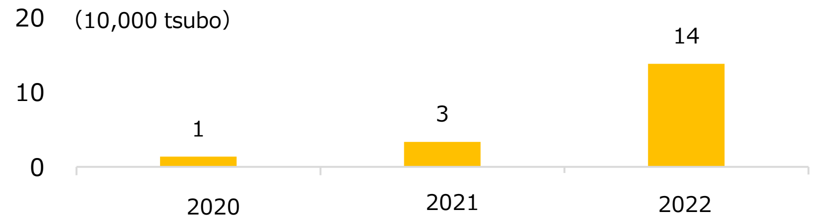
Source: All of the above was prepared by NREAM based on data from CBRE
Note: In Chubu area only, GFA of more than 5,000 tsubo, all of these are logistics facilities assuming several tenants.

■ Reference: Rentable space by area and on a population basis



Source: Prepared by NREAM based on data from CBRE and the Statistics Bureau, Ministry of Internal Affairs and Communications
Note: The values of rentable space are estimated by NREAM as of the end of 2021 based on data from CBRE
Population values estimated by the Statistics Bureau, Ministry of Internal Affairs and Communications as of 2020 are used
Tokyo Metropolitan Area = Tokyo, Kanagawa, Chiba and Saitama prefectures, Kinki Area = Osaka, Kyoto and Hyogo prefectures, Chubu Area = Aichi prefecture

■ Estimated net absorption

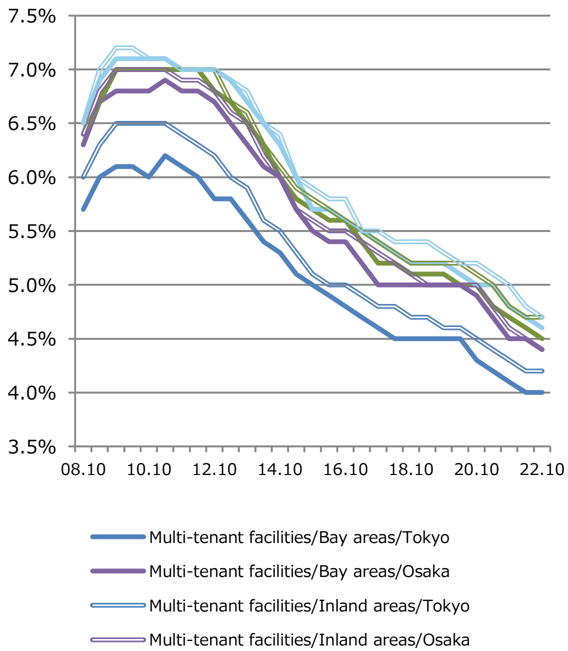


Source: Estimated by NREAM based on data from CBRE

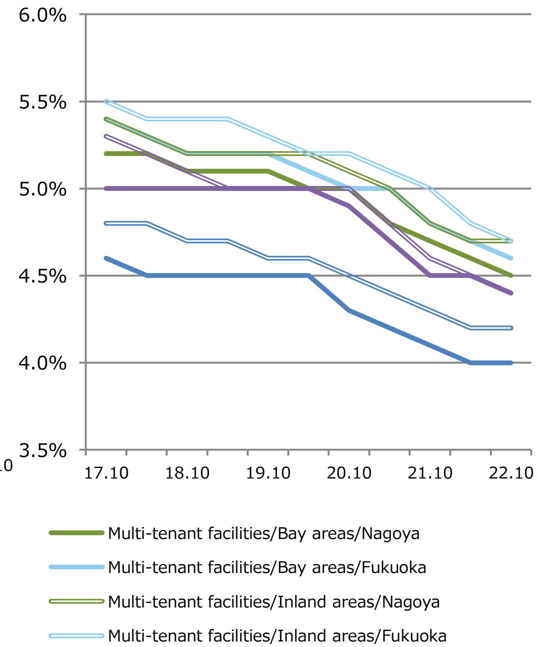
6-4 Expected Yields on Logistics Facilities/Warehouses

- The expected yields on multi-tenant logistics facilities and warehouses in bay areas **remained flat** in the Koto area, Tokyo (4.0%), and **fell by 0.1 points** in the Nagoya Port area, Nagoya (4.5%), the Osaka Port area, Osaka (4.4%), and the Hakata Port area, Fukuoka (4.6%), **compared to the previous survey data**.
- As for inland areas, the expected yields **remained flat** in the Tama area, Tokyo (4.2%) and the north of Nagoya City, Nagoya (4.7%), and **fell by 0.1 points** in the area around Higashiosaka, Osaka (4.4%) and the area around the Fukuoka IC, Fukuoka (4.7%), **compared to the previous survey data**.

■ Expected yields on logistics facilities/warehouses
(Long-term changes: from October 2008)



■ Expected yields on logistics facilities/warehouses
(Short-term changes: from October 2017)



Yield in Oct. 2022		Change from the previous survey
Multi-tenant facilities/Inland areas/Nagoya	4.7%	0.0
Multi-tenant facilities/Inland areas/Fukuoka	4.7%	- 0.1
Multi-tenant facilities/Bay areas/Fukuoka	4.6%	- 0.1
Multi-tenant facilities/Bay areas/Nagoya	4.5%	- 0.1
Multi-tenant facilities/Bay areas/Osaka	4.4%	- 0.1
Multi-tenant facilities/Inland areas/Osaka	4.4%	- 0.1
Multi-tenant facilities/Inland areas/Tokyo	4.2%	0.0
Multi-tenant facilities/Bay areas/Tokyo	4.0%	0.0

*Type of logistics facility/warehouse

Type of logistics facility/warehouse	Conditions of location	
[Multi-tenant facility] ・Stories: 3 or 4 ・Gross floor area: approx. 50,000 m² ・Facility that has truck berths on 1st and 3rd floors and has versatility ・Number of tenants: approx. 4 (stable operation assumed)	**[Bay area]** Area with good access to arterial roads and expressway ICs	Koto area, Tokyo
		Nagoya Port area, Nagoya
		Osaka Port area, Osaka
		Fukuoka Port area, Fukuoka
	[Inland area] Area with good access to arterial roads and expressway ICs	Tama area, Tokyo
		North of Nagoya City, Nagoya
		Area around Higashiosaka City, Osaka
		Area around Fukuoka IC, Fukuoka

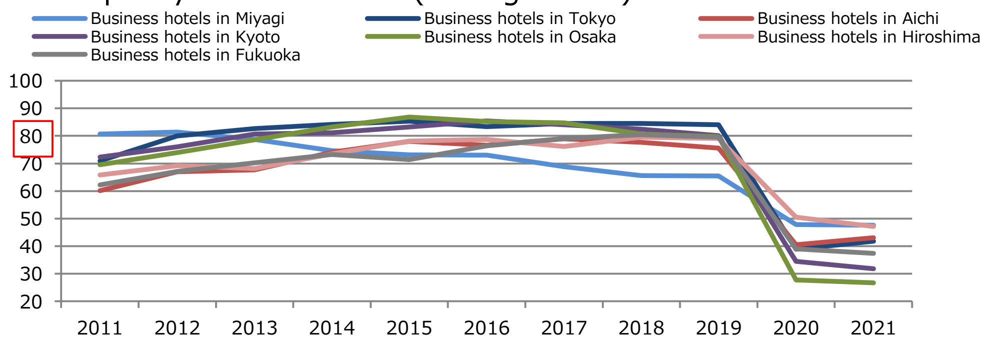
Source: "Survey of Real Estate Investors" published by Japan Real Estate Institute (compiled by Nomura Real Estate Solutions)

7. Hotels

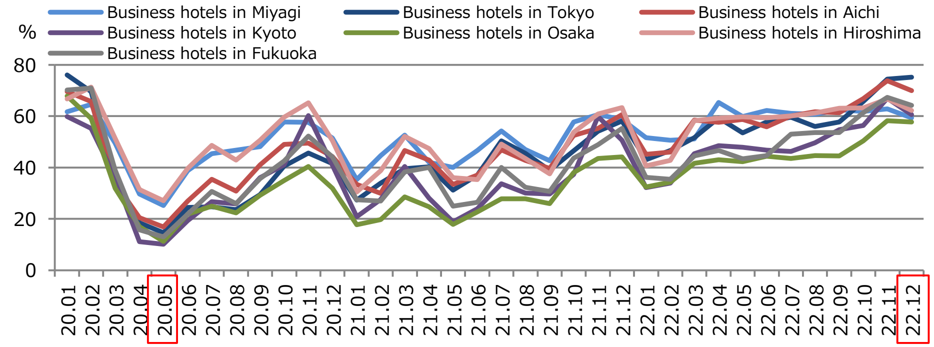
7-1 Hotel Trends

- The occupancy rates of hotels reached a low point in May 2020 in each of the cities surveyed and for each hotel type.
- The occupancy rates of business hotels in December 2022 were 59.4% (62.9% in November) in Miyagi, **75.2%** (74.5% in November) **in Tokyo**, 70.0% (73.8% in November) in Aichi, 60.6% (67.0% in November) in Kyoto, 57.7% (58.2% in November) in Osaka, 62.3% (66.7% in November) in Hiroshima, and 64.2% (67.3% in November) in Fukuoka.
- The occupancy rates of city hotels in December 2022 were 64.4% (68.2% in November) in Miyagi, **72.0%** (68.1% in November) **in Tokyo**, 38.9% (47.2% in November) in Aichi,65.8% (76.6% in November) in Kyoto, 73.8% (70.0% in November) in Osaka, 76.0% (76.9% in November) in Hiroshima, and 78.0% (77.6% in November) in Fukuoka.

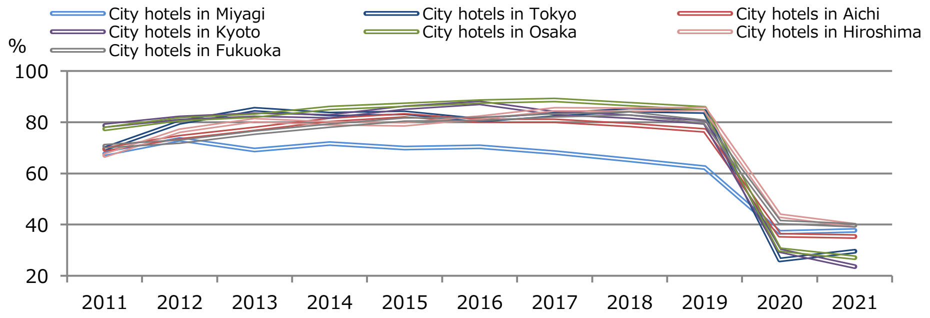
■ Occupancy rates of hotels (through 2021)



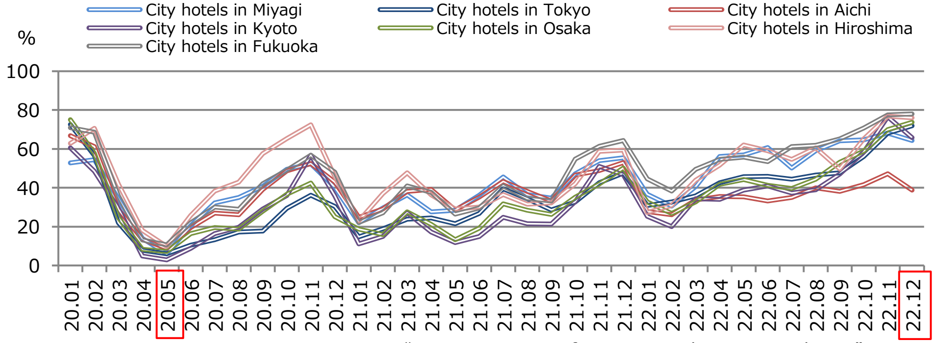
■ Occupancy rates of business hotels (2020 onward)



■ Occupancy rates of city hotels (through 2021)



■ Occupancy rates of city hotels (2020 onward)

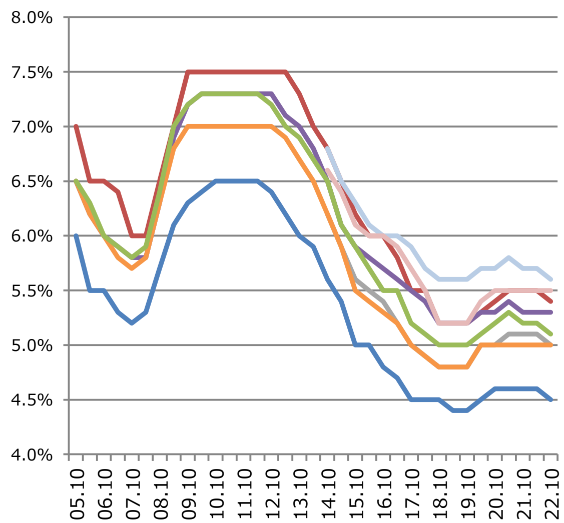


Source: MLIT Japan Tourism Agency "Statistic Survey of Tourism with Accommodation" (compiled by Nomura Real Estate Solutions)

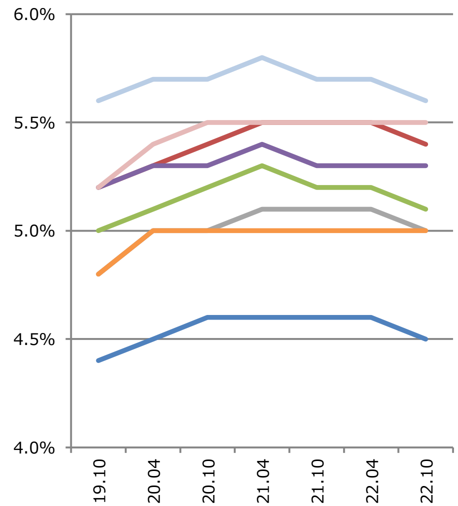
7-2 Expected Yields on Accommodation-specialized Hotels

- In the previous survey, the expected yields on accommodation-specialized hotels remained flat in all survey areas. In this survey, the yields **fell by 0.1 points** in Tokyo (4.5%), Sapporo (5.4%), Sendai (5.6%), Kyoto (5.0%), and Fukuoka (5.1%), and remained flat from the previous survey in Nagoya (5.3%), Osaka (5.0%), and Naha (5.5%).

■ Expected yields on accommodation-specialized hotels
(Long-term changes: from October 2005)



■ Expected yields on accommodation-specialized hotels
(Short-term changes: from October 2019)



Tokyo Sapporo Sendai Nagoya Kyoto Osaka Fukuoka Naha

Yield in Oct. 2022		Change from the previous survey
Sendai	5.6%	- 0.1
Naha	5.5%	0.0
Sapporo	5.4%	- 0.1
Nagoya	5.3%	0.0
Fukuoka	5.1%	- 0.1
Kyoto	5.0%	- 0.1
Osaka	5.0%	0.0
Tokyo	4.5%	- 0.1

*Type of hotel

Type of hotel	Conditions of location
[Accommodation-specialized hotel] ・Access: within 5 minutes' walk from the nearest station ・Age of property: Less than 5 years old ・Number of rooms: approx. 100 ・Average daily rate (ADR): 6,000 to 8,000 yen ・Occupancy rate: > 80% ・Management scheme: leasing (scheme in which a single hotel management company rents the entire building and administers it as a hotel)	Located around key JR railway/subway stations, Tokyo Located around JR Sapporo Station, Sapporo Located around west exit of JR Sendai Station, Sendai Located in the Sakae area, Nagoya Located around the Karasuma exit of JR Kyoto Station, Kyoto Located around JR Shin-Osaka Station, Osaka Located around JR Hakata Station, Fukuoka Located around the Kokusai-dori Avenue, Naha

Source: "Survey of Real Estate Investors" published by Japan Real Estate Institute (compiled by Nomura Real Estate Solutions)

Reference:
Trend of Land Prices in High-level Use Districts of Major Cities
Rental Trends in Major International Cities

Reference: Trend of Land Prices in High-level Use Districts of Major Cities

- **There were upward changes in 71 areas (65 in the previous survey), little change in 9 areas (14 in the previous survey) and downward changes in 0 areas (1 in the previous survey).** For the first time in three years since Q4 2019, there were upward changes or little change in all areas, and there was no area with downward changes. Of the 71 areas with upward changes, 69 areas (64 in the previous survey) saw a less than 3% increase, and 2 areas (1 in the previous survey) saw an increase of more than 3% and less than 6% (around Nakano Station in Nakano Ward, Tokyo and Ohori in Fukuoka City). As seen, there were more areas with a less than 3% increase and areas with more than 3% and less than 6 % increase compared to the previous survey.
- The change category remained unchanged in 72 areas and moved to the upward

Note: Since the number of the survey areas was reduced to 80 areas from 100 areas from Q1 2022, comparisons with the previous survey were made only for the 80 survey areas of this survey.

City	Area	21.1.1 ～ 21.4.1	21.4.1 ～ 21.7.1	21.7.1 ～ 21.10.1	21.10.1 ～ 22.1.1	22.1.1 ～ 22.4.1	22.4.1 ～ 22.7.1	22.7.1 ～ 22.10.1	22.10.1 ～ 23.1.1
23 wards of Tokyo	Marunouchi	→	↘	↘	↘	→	→	→	→
	Ginza, Chuo	↘	→	→	→	↗	↗	↗	↗
	Yaesu	→	↘	↘	↘	→	↗	↗	↗
	Toranomon	→	→	→	→	→	↗	↗	↗
	Shinjuku 3-chome	↘	→	→	→	→	↗	↗	↗
	Shibuya	↘	↘	↘	→	→	↗	↗	↗
Yokohama	W Exit Yokohama Sta.	↗	↗	↗	↗	↗	↗	↗	↗
Saitama	W Exit Omiya Sta.	→	→	→	↗	↗	↗	↗	↗
Chiba	Chiba Sta. front	→	→	→	→	→	→	→	→
Sapporo	Ekimae-dori	↗	↗	↗	↗	↗	↗	↗	↗
Sendai	Chuo 1-chome	→	→	↗	↗	↗	↗	↗	↗
Osaka	Shinsaibashi	⇘	↘	↘	↘	↘	→	↗	↗
Nagoya	Nagoya Sta. front	↗	↗	↗	↗	↗	↗	↗	↗
Kyoto	Kawara-machi	→	→	→	↗	↗	↗	↗	↗
Hiroshima	Kamiyacho	↗	↗	↗	↗	↗	↗	↗	↗
Fukuoka	Around Hakata Sta	→	→	→	→	→	→	→	↗

Legend ↑: Increase (≥6%) ⇗: Increase (≥3%,<6%) ↗: Increase (>0,<3%) →: Unchanged (0%)
↘: Decrease (≥0%,<3%) ⇘: Decrease (≥3%,<6%) ⬊: Decrease (≥6%,<9%)
↓: Decrease (≥9%,<12%) ⇓: Decrease (≥12%)

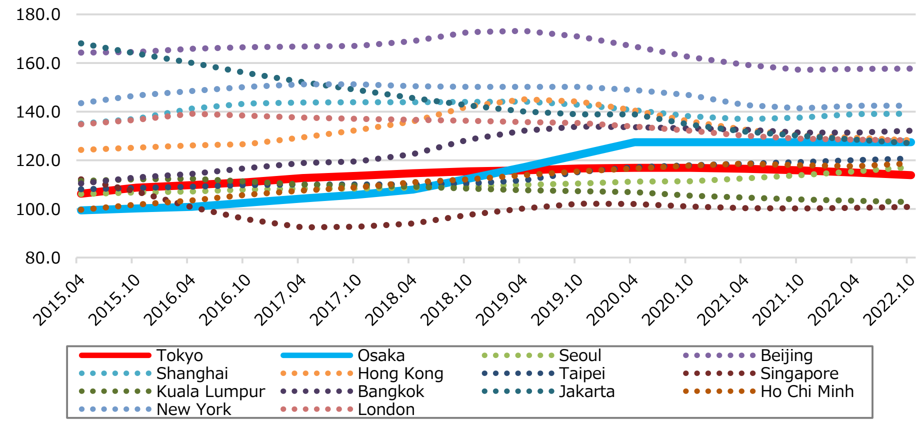
Source: "Land value LOOK report" by the Ministry of Land, Infrastructure, Transport and Tourism
(compiled by Nomura Real Estate Solutions)

Reference: Trend of Land Prices in High-level Use Districts of Major Cities

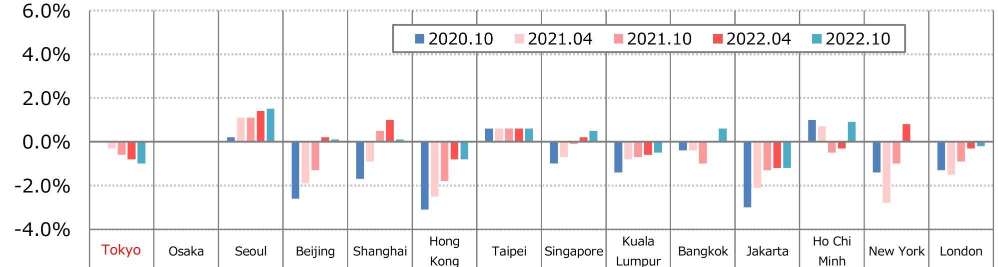
- **Office rents continue to fall in Tokyo.** Office rents remained flat in Osaka for five consecutive half-year periods. In Ho Chi Minh City, demand for offices from foreign-affiliated companies recovered, leading to the first rent increase in three half-year periods. In New York, office rents remained flat as rental demand weakened against the backdrop of deteriorated earnings of major IT companies and other factors.
- Regarding condominium rents, rental demand from foreign expatriates recovered in Singapore, Hong Kong, Bangkok, Jakarta, and Ho Chi Minh City, contributing to rent increase. In London, rental demand recovered, backed partly by the return of young professionals to the city center in conjunction with a rise in the office attendance rate.

■ Changes in the office rent index

(October 2010＝100.0)



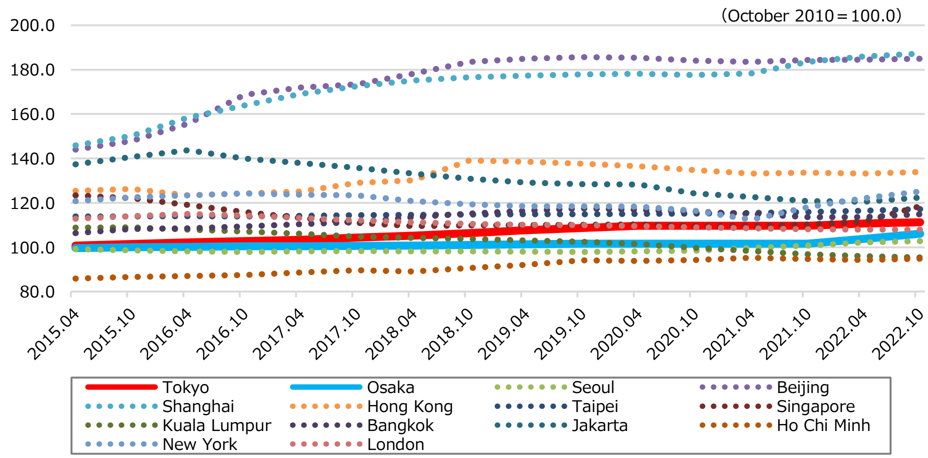
■ Volatilities of the office rent index compared to the previous results



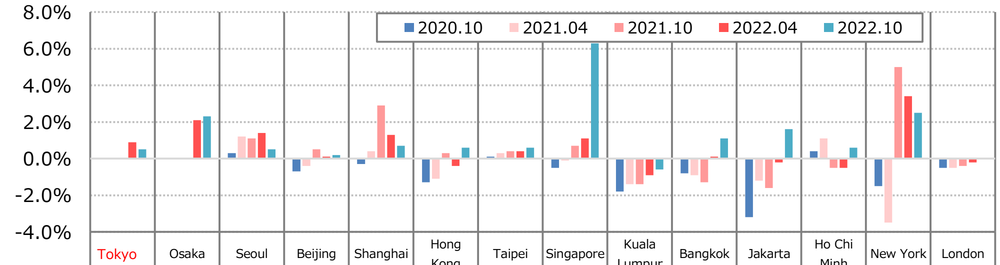
	Tokyo	Osaka	Seoul	Beijing	Shanghai	Hong Kong	Taipei	Singapore	Kuala Lumpur	Bangkok	Jakarta	Ho Chi Minh	New York	London
2020.10	0.0%	0.0%	0.2%	-2.6%	-1.7%	-3.1%	0.6%	-1.0%	-1.4%	-0.4%	-3.0%	1.0%	-1.4%	-1.3%
2021.04	-0.3%	0.0%	1.1%	-1.9%	-0.9%	-2.5%	0.6%	-0.7%	-0.8%	-0.4%	-2.1%	0.7%	-2.8%	-1.5%
2021.10	-0.6%	0.0%	1.1%	-1.3%	0.5%	-1.8%	0.6%	-0.1%	-0.7%	-1.0%	-1.3%	-0.5%	-1.0%	-0.9%
2022.04	-0.8%	0.0%	1.4%	0.2%	1.0%	-0.8%	0.6%	0.2%	-0.6%	0.0%	-1.2%	-0.3%	0.8%	-0.3%
2022.10	-1.0%	0.0%	1.5%	0.1%	0.1%	-0.8%	0.6%	0.5%	-0.5%	0.6%	-1.2%	0.9%	0.0%	-0.2%

■ Changes in the condominium rent index

(October 2010＝100.0)



■ Volatilities of the condominium rent index compared to the previous results



	Tokyo	Osaka	Seoul	Beijing	Shanghai	Hong Kong	Taipei	Singapore	Kuala Lumpur	Bangkok	Jakarta	Ho Chi Minh	New York	London
2020.10	0.0%	0.0%	0.3%	-0.7%	-0.3%	-1.3%	0.1%	-0.5%	-1.8%	-0.8%	-3.2%	0.4%	-1.5%	-0.5%
2021.04	0.0%	0.0%	1.2%	-0.4%	0.4%	-1.1%	0.3%	-0.1%	-1.4%	-0.9%	-1.2%	1.1%	-3.5%	-0.5%
2021.10	0.0%	0.0%	1.1%	0.5%	2.9%	0.3%	0.4%	0.7%	-1.4%	-1.3%	-1.6%	-0.5%	5.0%	-0.4%
2022.04	0.9%	2.1%	1.4%	0.1%	1.3%	-0.4%	0.4%	1.1%	-0.9%	0.1%	-0.2%	-0.5%	3.4%	-0.2%
2022.10	0.5%	2.3%	0.5%	0.2%	0.7%	0.6%	0.6%	6.3%	-0.6%	1.1%	1.6%	0.6%	2.5%	0.0%

Source: Prepared by Nomura Real Estate Solutions based on "The Indices of International Real Estate Prices and Rents" by Japan Real Estate Institute