Real Estate Market Trends

—Winter 2021—

Corporate Services Division

Nomura Real Estate Solutions Co., Ltd.

NEW VALUE, REAL VALUE —— N.R.E. Group
NOMURA REAL ESTATE SOLUTIONS

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1. Overview of the Domestic Macroeconomy Commercial Real Estate Transactions

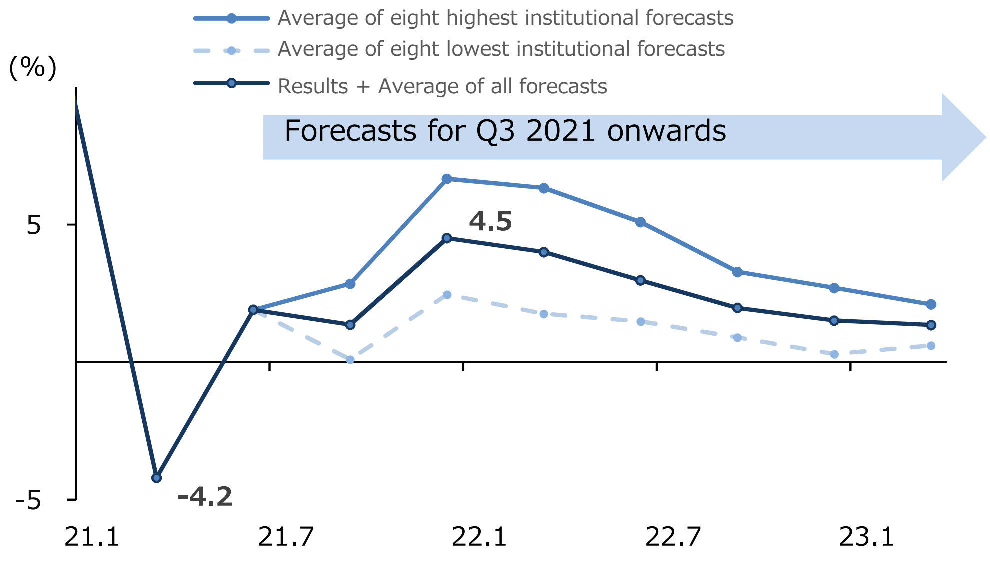
1-1 Overview of the Domestic Macroeconomy (Japanese Economy)

Real GDP was revised downward due to the repeated declaration of a state of emergency and slowdown of recovery in the manufacturing industry, but the forecast that the economy will recover from the second half of 2021 remains unchanged.

- Real GDP forecast in 2021 was revised downward to 2.7% (down 0.8% points from the June forecast) on an annualized basis as a result of stagnation of consumption due to the repeated declaration of a state of emergency and reduced automobile manufacturing.
  *Forecast by Japan Center for Economic Research
- The manufacturing industry had been favorable, but the recovery of the business conditions slowed because a global shortage of semiconductors and the supply chain turmoil have prevented production activities from catching up with robust demand. Suppliers need a reasonable amount of time to solve the issues, and it is highly likely that the industry will remain weak.
- Meanwhile, the COVID-19 situation has clearly improved, and the forecast that “private-sector demand will rebound strongly and the economy will recover from the second half of 2021 through 2022” remains unchanged. “Forced savings” may become a supporting factor in the recovery of personal consumption.

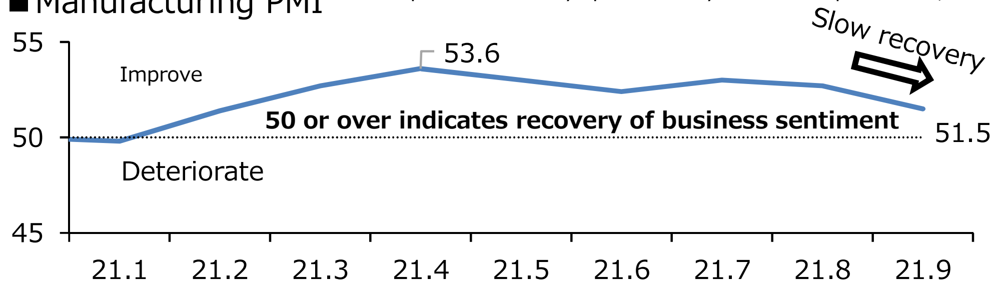
- Forecast by the Japan Center for Economic Research (JCER); Source for 2021 forecast: “187th Revised Quarterly Forecast of the Japanese Economy” published by JCER on September 9, 2021

■ Real GDP growth rate results (quarterly) and analyst forecasts



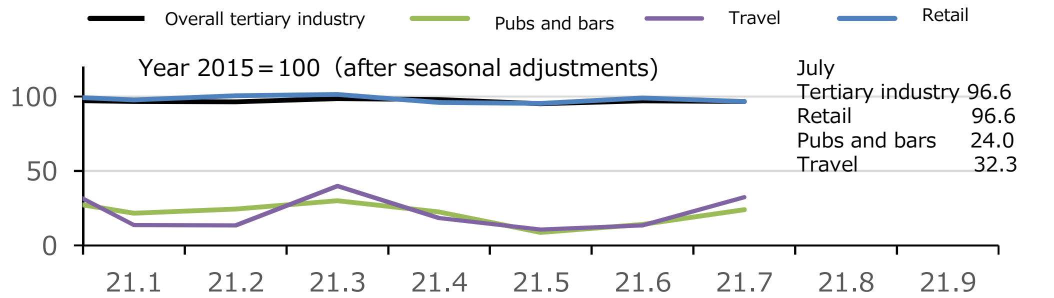
Source: Prepared by NREAM based on data from the Cabinet Office and ”JCER ESP Forecast Survey” (September 14, 2021)
Note: Growth rates are annualized.

■ Manufacturing PMI



Source: Prepared by NREAM based on data from au Jibun Bank and Japan Manufacturing PMI

■ Indices of Tertiary Industry Activity



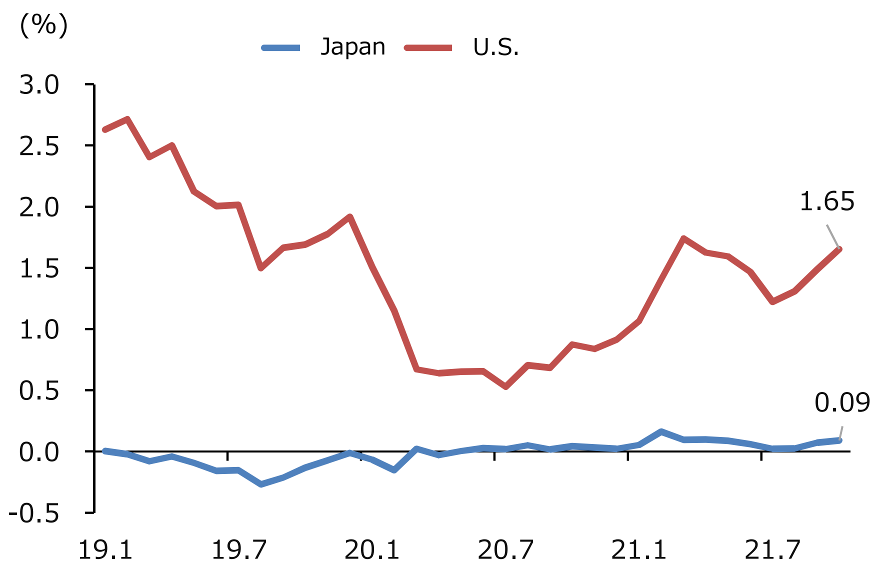
Source: Prepared by NREAM based on data from the Ministry of Economy, Trade and Industry

1-2 Overview of the Domestic Macroeconomy (Domestic Financial Markets)

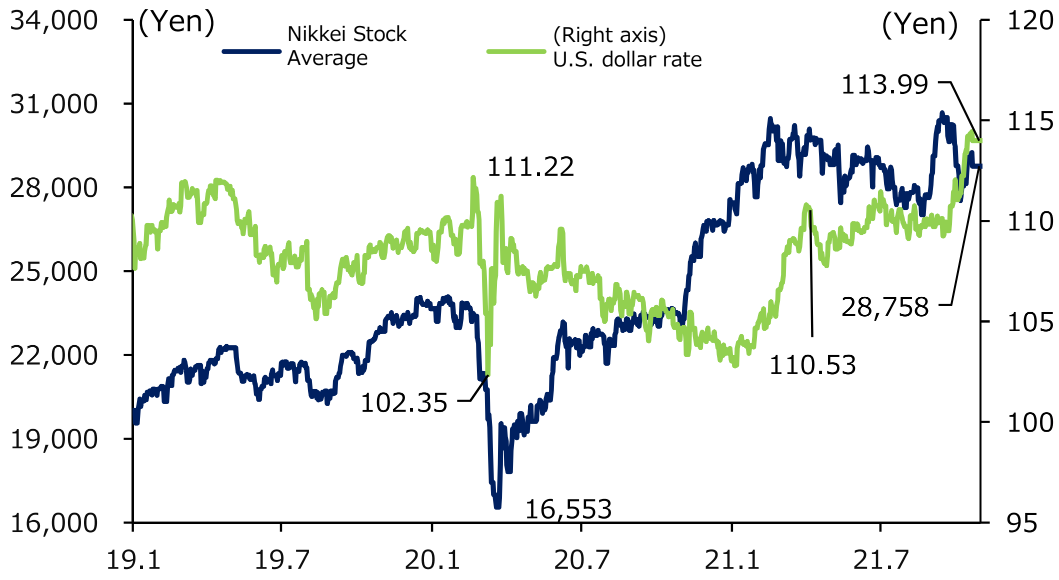
The continued monetary easing measures led to the long-term interest rate in Japan being stable at around 0%. The yen depreciated further against the dollar.

- The U.S. long-term interest rate is on a rising trend due to inflation concerns. The Bank of Japan decided that it will maintain the large-scale monetary easing measures, which has led to the long-term interest rate being stable in Japan.
- The Nikkei Stock Average, which recovered temporarily to the level of over 30,000 yen, has violently fluctuated due to the rising U.S. long-term interest rate and Evergrande Group's huge debt problem in China.
- The yen was sold due to high resource prices and the difference in interest rates between the U.S. and Japan. Recently, the yen depreciated to around 114 yen to the dollar.

■ Yields of 10-year Japanese and U.S. treasury bonds



■ Change in Nikkei Stock Average and dollar-yen exchange rate



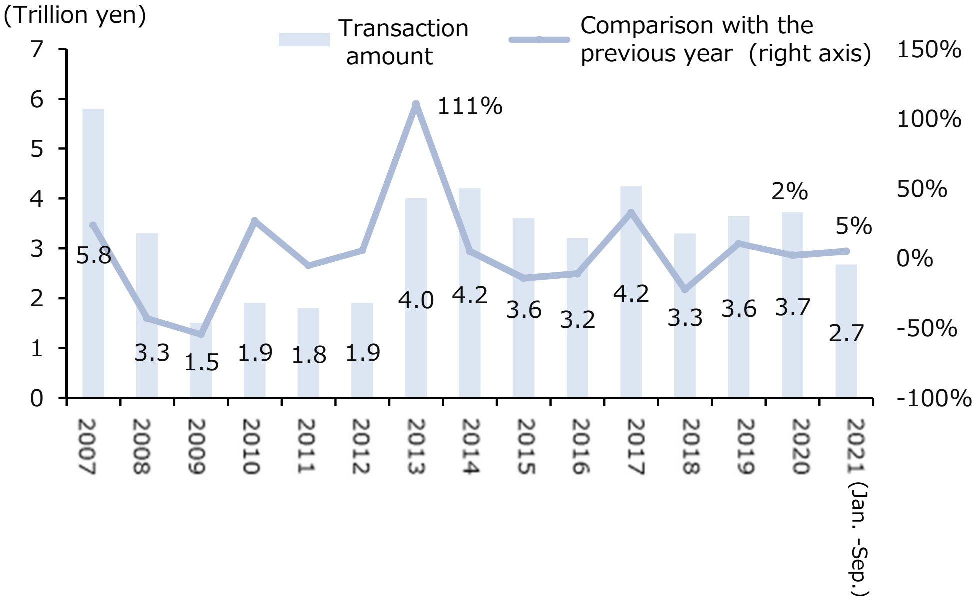
Source: All of the above was prepared by NREAM based on data from Bloomberg

1-3 Commercial Real Estate Transactions

The transaction volume in Jan.-Sep. 2021 recovered to the pre-COVID-19 level. Asset acquisitions by J-REITs led the market in Q3 2021.

- The commercial real estate transaction volume from January to September 2021 (ascertained) increased to 2.7 trillion yen (up 5% y-o-y). The volume is 1% up even in comparison with the same period in 2019, meaning that it almost recovered to the pre-COVID-19 level.
- Acquisition cases by J-REITs stand out. There were asset replacement cases by J-REITs such as Nippon Building Fund Management Ltd. (NBF) acquiring Iidabashi Grand Bloom (77.6 billion yen) and selling Nakano Sakagami Sun Bright Twin (40 billion yen) and NBF Ochanomizu Building (16.1 billion yen).

■ Change in commercial real estate transactions (ascertained)



Source: Prepared by NREAM based on data from Nikkei Real Estate Market Report (partially revised)
Note: Ascertained transactions only. The figures for the most recent year are on a year-on-year basis

■ Main large transactions ascertained in Q3 2021

Property	Timing	Details	Estimated Amount
Iidabashi Grand Bloom	Sep.	Nippon Building Fund Management Ltd. (NBF) acquired 41% of Mitsui Real Estate's holdings.	77.6 billion yen
Nippon Steel factory (over 90,000㎡ in Funado, Itabashi ward)	Jun.	Acquired by Nippon Steel Kowa Real Estate from Nippon Steel as a development site for a logistics facility.	75.0 billion yen (profit on sale)
Nakano Sakagami Sun Bright Twin	Sep.	Sold by NBF to a special purpose company (not disclosed) in Japan.	40.0 billion yen
DPL Nagareyama Ⅲ	Aug.	Acquired by Daiwa House REIT Investment Corp. from the Daiwa House Group.	32.0 billion yen
Grand Front Osaka	Sep.	Japan Real Estate Investment Corp. acquired 4.9% of Mitsubishi Estate Company's holdings.	21.0 billion yen
NBF Ochanomizu Building	Sep.	Sold by NBF to Hulic. Loss on sale of 3.2 billion yen recorded.	16.1 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.

2. Offices

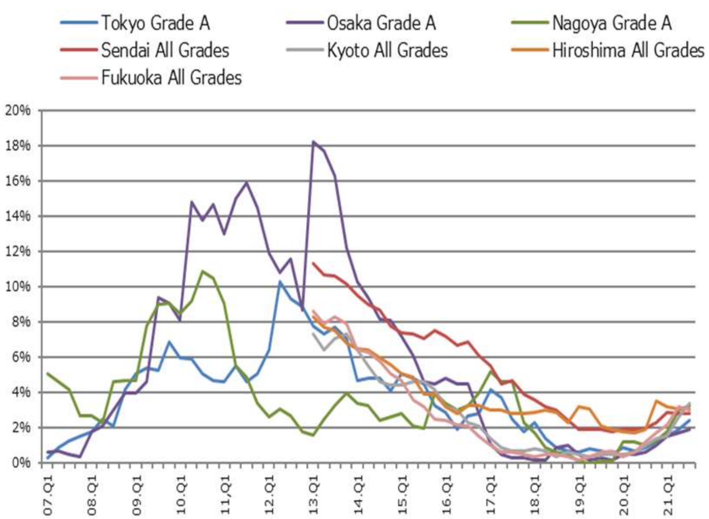
2-1 Office Trends in Major Cities

Status by Area

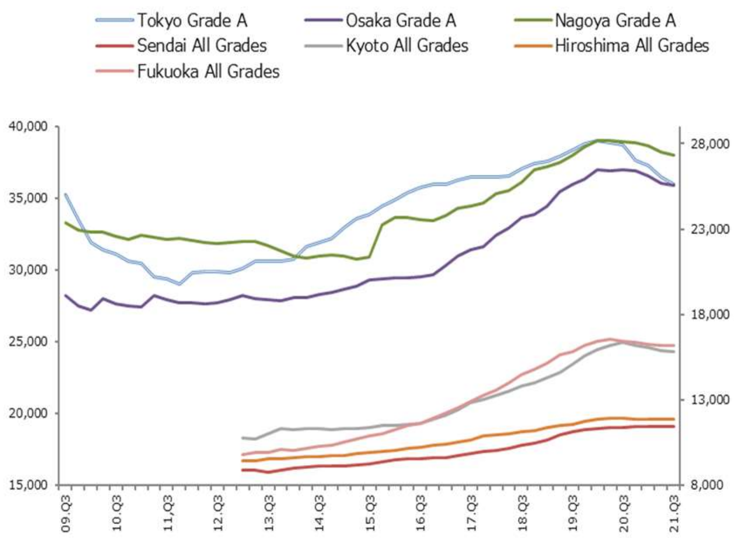
- The Tokyo Grade A vacancy rate rose 0.5 points q-o-q to 2.4%. Assumed achievable rents fell by 1.4% q-o-q to 36,000 yen per *tsubo*. In terms of offices of all grades, tenants were finalized for several large office areas in the quarter, resulting from office integration, rebuilding and sales of company-owned buildings. Moves such as relocation arising from office expansion and new openings also slightly increased from the previous quarter, but most of them were small- and medium-sized offices of less than 500 tsubo. On the other hand, in addition to secondary vacancies arising from relocation to new buildings, there were still many partial lease cancellations and relocation cases to reduce office space for cost reduction. As a result, the vacancy rate rose. However, the pace of increase in the vacancy rate may slow down in the short term because relocation of large tenants will be further realized and stagnant large-sized vacancies will be progressively filled. More rent adjustments are being made for higher grades, and the decrease in Grade A rents is the largest among the three grades. The supply and demand trend is likely to ease for a while, and rents are expected to continue the downward trend going forward. Grade A rents are expected to fall by 6.3% over the next year.
- The Osaka Grade A vacancy rate rose 0.2% points q-o-q to 1.9%. Assumed achievable rents fell by 0.6% q-o-q to 25,500 yen per *tsubo*. In terms of offices of all grades, two new buildings were completed with a significant number of vacancies, and many cancelled areas due to office integration and cost reduction remained vacant. In the present circumstances, Grade B tends to be preferred because many tenants continue to be cost conscious and the downsizing trend of required office space has continued. Unlike existing Grade B vacancies that have been steadily filled, filling of large-sized vacancies including Grade A has been somewhat slow. As for rents, more rent adjustments will possibly be made for Grade A than Grade B in order to secure tenants because the decrease in Grade A rents is slightly larger than for Grade B, for which a relatively large number of inquiries are made, and also because large-scale supply is expected in 2022 and 2024. Grade A rents are expected to fall by 2.3% over the next year.
- The Nagoya Grade A vacancy rate rose 0.3 points q-o-q to 3.3%. Assumed achievable rents fell by -0.7% q-o-q to 27,300 yen per *tsubo.* In terms of offices of all grades, there were several cases of increased floor space in buildings and relocation due to office expansion. However, the vacancy rate rose because a new building was completed with some vacancies. Grade A rents are expected to fall by 2.0% over the next year.

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

■Vacancy rate



■Rent revenue



Area		2020.Q4	2021.Q1	2021.Q2	2021.Q3
Tokyo Grade A	Vacancy rate (%)	1.2	1.5	1.9	2.4
	Assumed achievable rent (yen)	37,650	37,300	36,500	36,000
Osaka Grade A	Vacancy rate (%)	1.0	1.5	1.7	1.9
	Assumed achievable rent (yen)	26,400	26,100	25,700	25,550
Nagoya Grade A	Vacancy rate (%)	1.3	1.8	3.0	3.3
	Assumed achievable rent (yen)	28,050	27,900	27,500	27,300
Sendai All Grades	Vacancy rate (%)	2.3	2.9	2.8	2.8
	Assumed achievable rent (yen)	11,460	11,480	11,430	11,450
Kyoto All Grades	Vacancy rate (%)	1.4	1.5	2.6	3.4
	Assumed achievable rent (yen)	16,180	16,060	15,870	15,830
Hiroshima All Grades	Vacancy rate (%)	3.5	3.2	3.1	3.1
	Assumed achievable rent (yen)	11,880	11,890	11,900	11,890
Fukuoka All Grades	Vacancy rate (%)	1.7	2.2	3.2	3.0
	Assumed achievable rent (yen)	16,350	16,260	16,170	16,200

Source: Prepared by Nomura Real Estate Solutions based on "Japan Office Market View" by CBRE *For Sendai, Kyoto, Hiroshima and Fukuoka, data for Q1 2013 onward is used

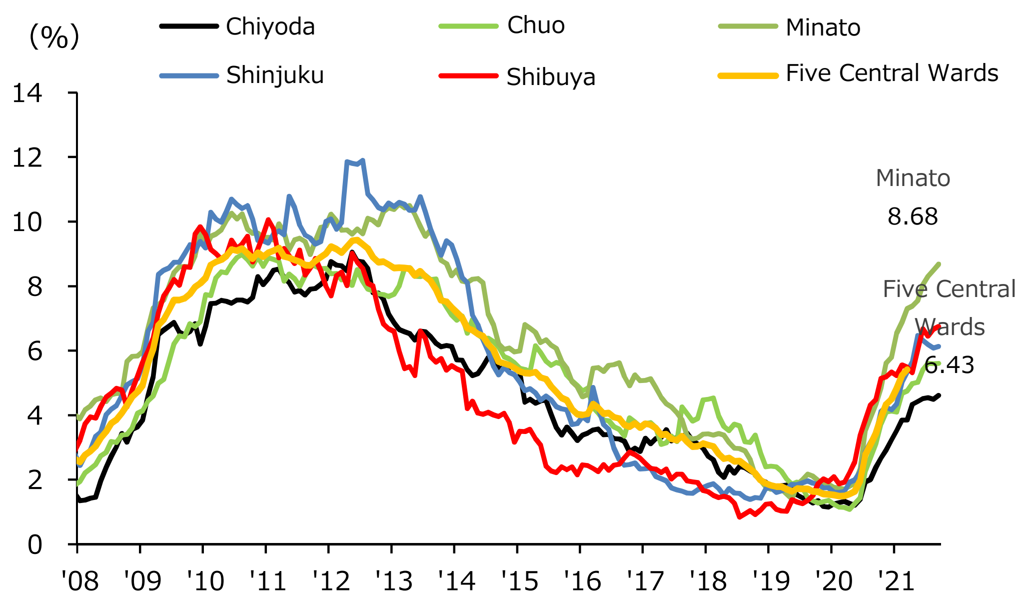
2-2 Office Trends in Tokyo's Five Central Wards

In the five central wards of Tokyo, the office vacancy rate rose for the nineteenth consecutive month, and asking rents fell for the fourteenth consecutive month.

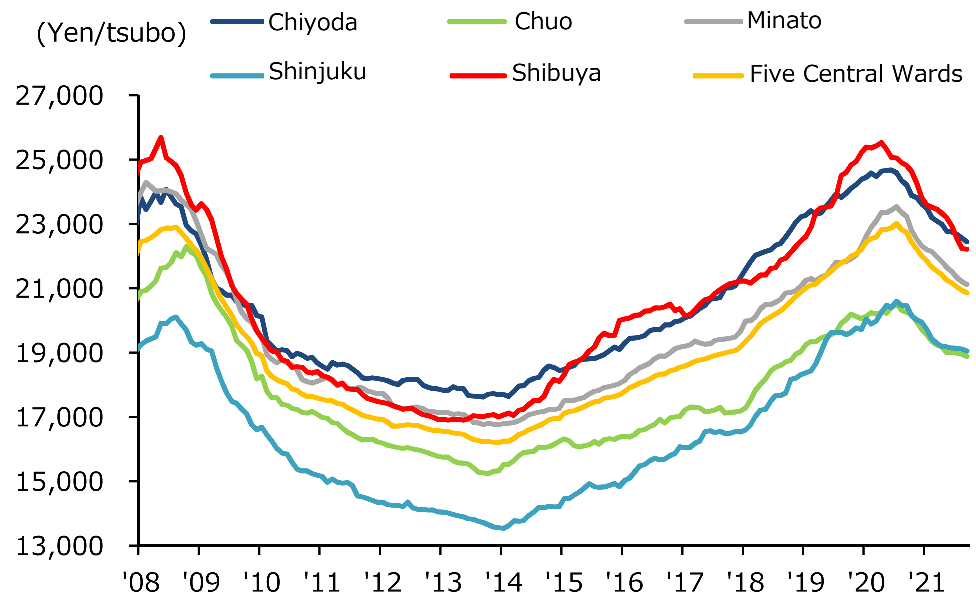
- The office vacancy rate in the five central wards of Tokyo rose for the nineteenth consecutive month to 6.43% as of September. Lease cancellations continued to occur due to changes in workstyles and office integration. Asking rents fell for the fourteenth consecutive month.

- Buildings supply largely decreased in 2021. A broker has pointed out that it feels cancellations are currently slowing down. However, recovery of demand remains slow, and both the occupancy level and rents are expected to remain weak for the time being.

■ Change in average office vacancy rates



■ Change in average office asking rents by central wards

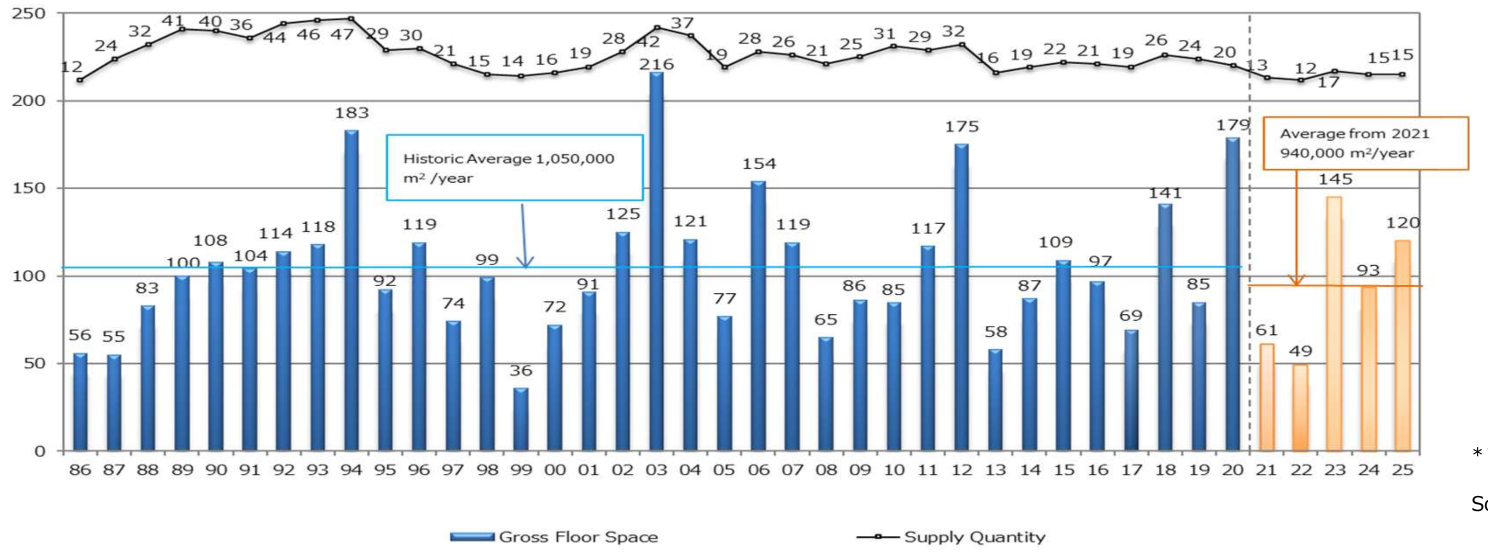


Source: Prepared by NREAM based on data from Miki Shoji
Note: Central five wards of Tokyo = Chiyoda Ward, Chuo Ward, Minato Ward, Shibuya Ward and Shinjuku Ward

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 (1.45 million m^2) from 2023 and onwards, the average supply over the next five years from 2021 through 2025 (940,000 m^2 per year) is expected to fall below the historical average (1.5 million m^2 per year) because of the low supply in 2021 (610,000 m^2) and 2022 (490,000 m^2).
- The supply of large office buildings in Tokyo’s three central wards will continue to exceed the past-10-year average of 740,000 m^2 per year from 2023 and onwards, but the average supply over the next five years from 2021 through 2025 is expected to be 750,000 m^2 per year, the same level as the historical average. However, the supply ratio in the three central wards is expected to be more than 70% annually for the next five years, exceeding the average of 66% for the past 10 years.
- The new demand for large office buildings in Tokyo’s 23 wards was 960,000 m^2, which was below the supply of 1.79 million m^2. This resulted in a 4.0% increase in vacancy rate, up 2.2 points from the end of 2019.
- The vacancy rate in major business districts rose to 3.3% as of the end of 2020, up 1.5 points, and properties with a gross office floor area of 100,000 m^2 or over in those districts increased to 2.2%, up 0.8 points. Changes in vacancy rates differed depending on the district and property grade.

■ Large office building supply trends in Tokyo’s 23 wards



1986-2020
(1) Properties supplied: 951
(2) Gross floor space: 36,690,000 m^2

2021-2025
(1) Properties supplied: 72
(2) Gross floor space: 4,680,000 m^2

* The survey covered office buildings with a gross floor area of 10,000 m^2 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 2021”

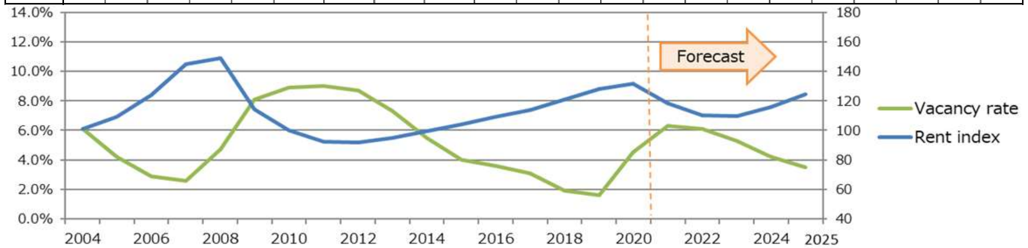
2-4 Forecasts for the Office Market in the Three Major Metropolitan Areas

Short-term forecasts for business districts (2021-2022)

- 【Tokyo】In 2021, the vacancy rate rose to 6.3% due to a shortage of demand caused by the COVID-19 pandemic. The rent index fell significantly to 118.2, down 10.2% year-on-year. The growth in demand will be slow again in 2022, which will cause the vacancy rate to remain high at 6.1%. The rent index will continue to fall to 110.3, down 6.7% y-o-y.
- 【Osaka】Following 2020, demand did not grow, due to COVID-19 in 2021, which raised the vacancy rate to 4.8%. The rent index, which was on a rising trend up to last year, remained flat at 134.3. In 2022, with large-scale supply planned such as Osaka Umeda Twin Towers South, the vacancy rate will rise to 5.6% because the increase in demand will be insufficient to absorb the increase in supply. Affected by the rising vacancy rate, the rent index began to drop, falling to 130.5, down 2.9%.
- 【Nagoya】In 2021, demand increased but was insufficient to absorb all the newly supplied office areas, which raised the vacancy rate to 5.0%. The increase in the rent index shrank from last year but was 127.2, maintaining the rising trend. In 2022, the vacancy rate will slowly improve to 4.7%, backed by firm demand. The rent index was 129.3, up 1.6% y-o-y, continuing the rising trend.

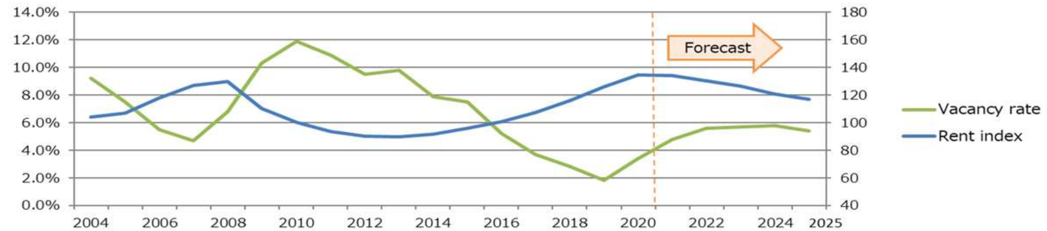
■Tokyo

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Rent index	101	109	124	145	149	114	100	92	92	95	99	104	109	114	121	128	132	118	110	110	116	125
Vacancy rate	6.1%	4.2%	2.9%	2.6%	4.7%	8.1%	8.9%	9.0%	8.7%	7.3%	5.5%	4.0%	3.6%	3.1%	1.9%	1.6%	4.5%	6.3%	6.1%	5.3%	4.2%	3.5%



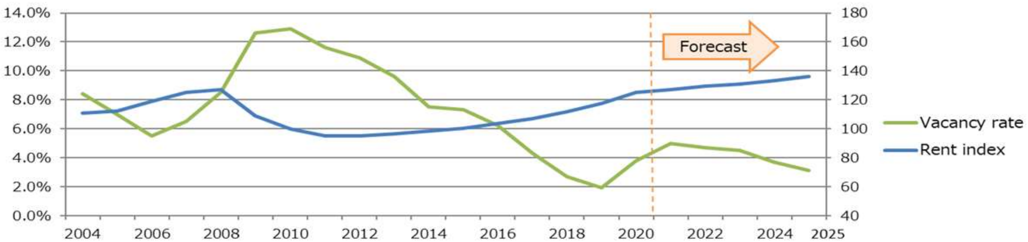
■Osaka

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Rent index	104	107	118	127	130	110	100	94	90	90	92	96	101	107	116	126	135	134	131	127	121	117
Vacancy rate	9.2%	7.5%	5.5%	4.7%	6.8%	10.3%	11.9%	10.9%	9.5%	9.8%	7.9%	7.5%	5.2%	3.7%	2.8%	1.8%	3.4%	4.8%	5.6%	5.7%	5.8%	5.4%



■Nagoya

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Rent index	111	112	119	125	127	109	100	95	95	96	99	101	104	107	112	118	125	127	129	131	133	136
Vacancy rate	8.4%	7.0%	5.5%	6.5%	8.5%	12.6%	12.9%	11.6%	10.9%	9.6%	7.5%	7.3%	6.2%	4.3%	2.7%	1.9%	3.8%	5.0%	4.7%	4.5%	3.7%	3.1%



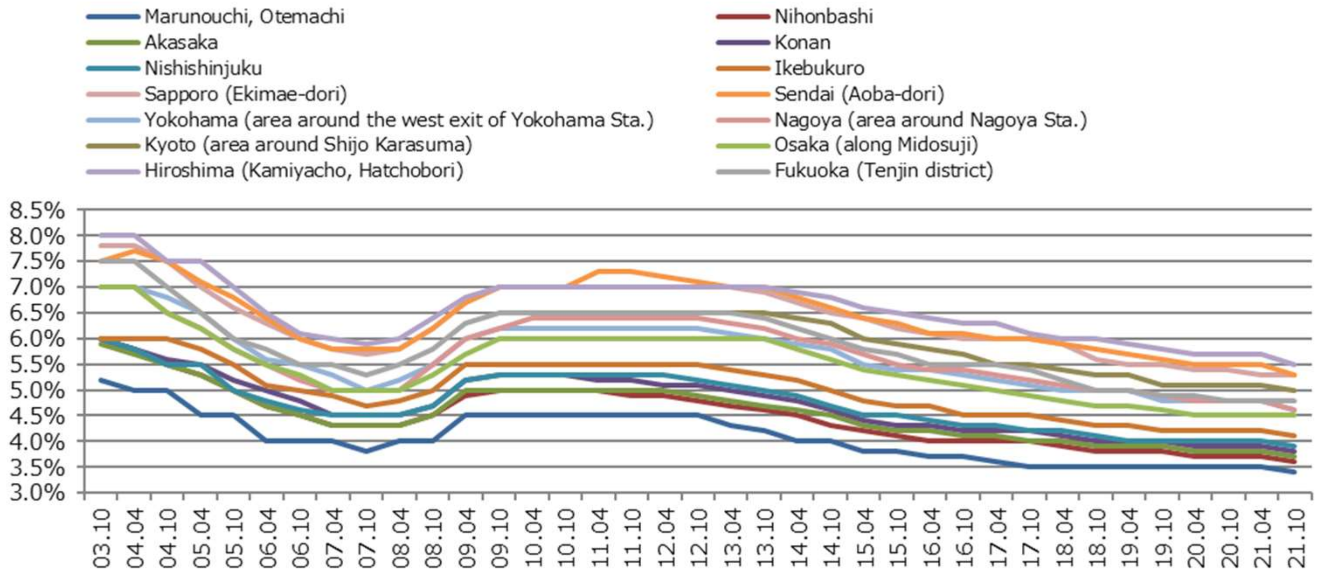
Rent index in 2010＝100, values in 2021 onward are forecasts

Source: Prepared by Nomura Real Estate Solutions based on materials presented by the Study Group on Office Market Trends (a joint study group by Japan Real Estate Institute and Miki Shoji) on November 5, 2021.

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

- Real estate investors' expected yields on A-Class buildings decreased 0.1 points to 3.4% in “Marunouchi and Otemachi in Tokyo” compared to the previous survey data. A change in the district was observed for the first time in four years since the survey conducted in October 2017.
- As for other districts, yields also fell 0.1 to 0.2 points in “Shibuya” in Tokyo, “Yokohama,” “Nagoya” and “Osaka (Umeda)” compared to the previous survey data.
- Among major government-designated cities, expected yields fell 0.2 points from the previous survey data in “Sendai (Aoba-dori)” (5.3%), “Yokohama (area around the west exit of Yokohama Station)” (4.6%), “Nagoya (area around Nagoya Station)” (4.6%) and “Hiroshima (Kamiyacho, Hacchobori)” (5.5%). Yields fell 0.1 points in “Kyoto (area around Shijo Karasuma)” (5.0%) and “Osaka (Umeda district)” (4.3%), while remaining flat in “Sapporo (Ekimae-dori)” (5.3%), “Osaka (along Midosuji)” (4.5%) and “Fukuoka (Tenjin district)” (4.8 %).
- Among real estate investors, 95% of respondents answered that they would "actively make new investments,” up 1 point from the previous survey data. Under monetary easing, abundant investment money dominates the market, and investors maintained an active stance as seen in this survey as well.

■ Expected yields on standard A-Class buildings



* 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”

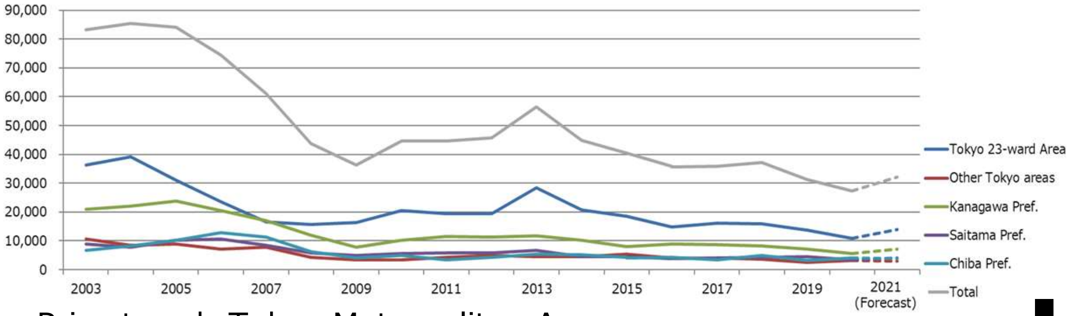
3. Condominiums for Sale

3-1 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 2021 is forecast to recover and increase by 31.1% over the previous year reaching 32,000 units. This is also an increase in comparison with 2019. Large-scale condominiums in the Tokyo 23-ward area have continuously led the market, and tower condominiums that attract attention have started operations in the suburbs. Inventory has been maintained at a level of over 6,000 units. Construction starts of condominiums in January to October in 2020 were 8.0% down year-on-year. In the post-COVID-19 era, recovery has been observed in the suburbs mainly with properties located near railway stations, and the popularity of high-rise condominiums in the city center has remained unchanged. The expanded application of mortgage tax reductions has made compact-type properties with area of around 40 to 50 ㎡ more popular.
- [Kinki Area] The supply of condominiums in the Kinki area in 2021 is forecast to be 18,000 units, a 29.5% increase compared to 2020. A 10% increase was observed in Osaka City, and significant increases were observed in Hyogo and Kyoto prefectures. There are concerns over the slightly accumulating inventory levels. Construction starts of condominiums increased by 1.9% y-o-y from January to October 2020. The rise in unit prices has continued. Supply has become active in areas for families in the suburbs.

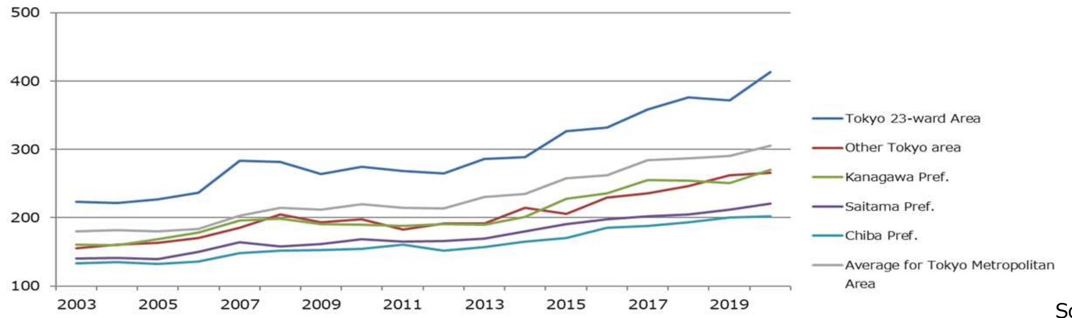
■ Supply trend: Tokyo Metropolitan Area

(Units)



■ Price trend: Tokyo Metropolitan Area

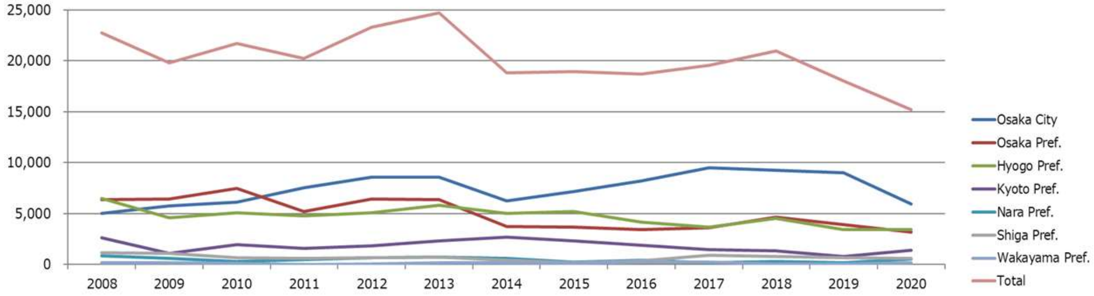
(10,000 yen/tsubo)



Source: Compiled by Nomura Real Estate Solutions from the "Forecast of the Condominium Market in the Tokyo Metropolitan Area" published by Real Estate Economic Institute

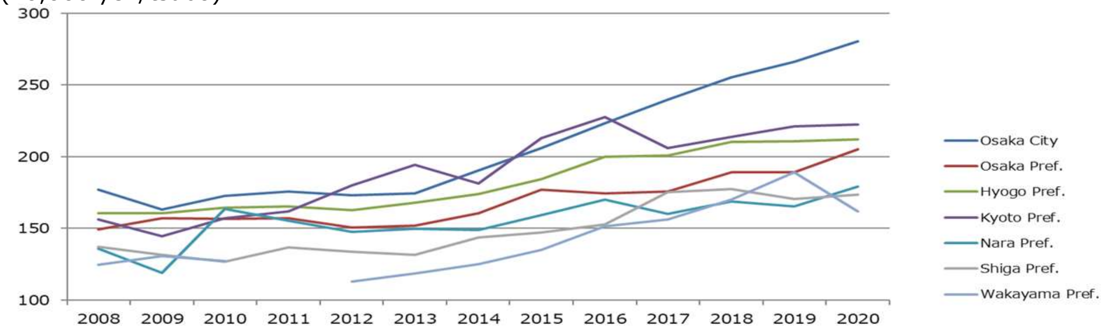
■ Supply trend: Kinki Area

(Units)



■ Price trend: Kinki Area

(10,000 yen/tsubo)



Source: Compiled by Nomura Real Estate Solutions from the "Forecast of the Condominium Market in the Kinki Area" published by Real Estate Economic Institute

*No supply in Wakayama Pref. in 2011

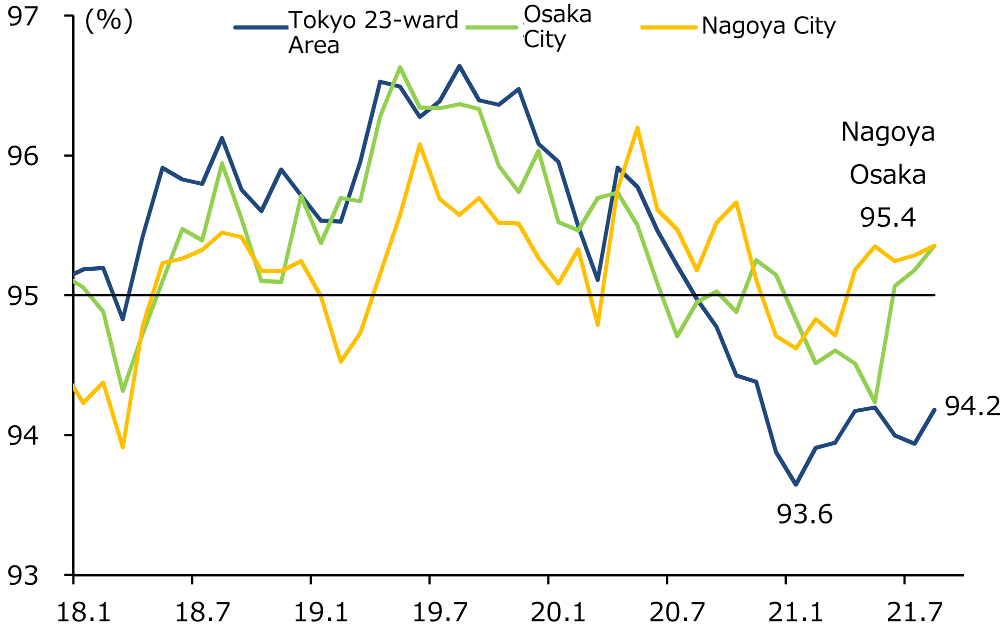
4. Rental Condominiums

4-1 Trend of Rental Condominiums

The occupancy level bottomed out but continued to be below 95%, the level regarded as favorable, in the Tokyo 23-ward area. Both Osaka and Nagoya cities exceeded the favorable level of 95%. Monthly rents stopped falling in the Tokyo 23-ward area. Key money continued to fall, reflecting intense leasing competition.

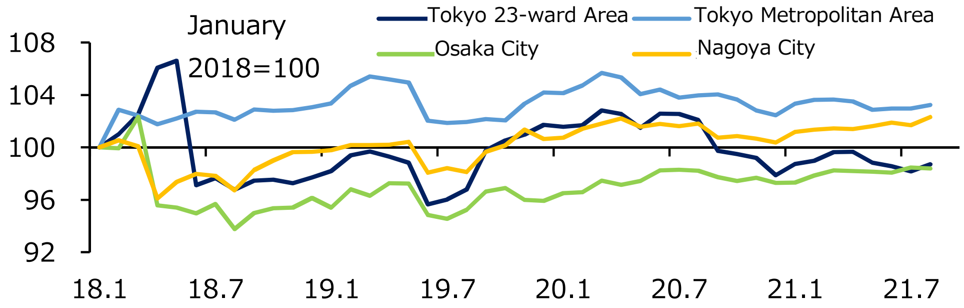
- The occupancy level in the Tokyo 23-ward area showed a slight recovery trend in August, but remained below 95%, the level regarded as favorable.
- In Osaka, the level recovered to 95.4% thanks to robust moves in all areas except some downtown areas.
- In Nagoya, the level recovered to 95.4% because individuals were relatively active, although corporates were somewhat inactive.
- The level bottomed out in the Tokyo 23-ward area and slightly rose in central Tokyo. It rose in Nagoya city.
- Key money in the Tokyo 23-ward area continued to decrease and was 0.66 month's rent in August 2021, reflecting intense leasing competition.

■ Condominium Occupancy in the Three Major Urban Areas of Japan（2018 and onwards)

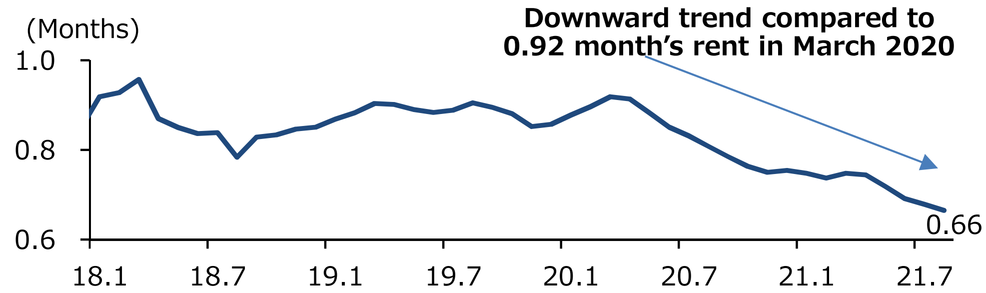


Source: Style Act Co., Ltd.
Note: These data concern units in SRC and RC buildings that are younger than 24 years of age and have rents higher than the average.

■ Trend of Monthly Condominium Rents in the Three Major Urban Areas of Japan



■ Trend of Key Money in Tokyo 23-ward Area



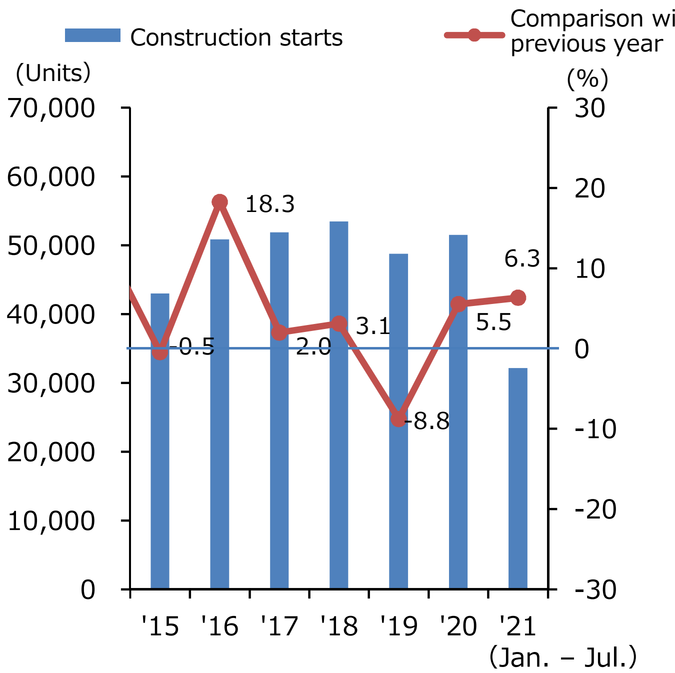
Source: All of the above data is from Style Act Co., Ltd.
Note: The rent is revised by Style Act to the achievable rent of a property that is new, located 5 minutes walk from a railway station, facing south, on the 2nd floor, a condominium and with key money of one month rent.

4-2 Trend of Rental Condominiums (Construction Starts)

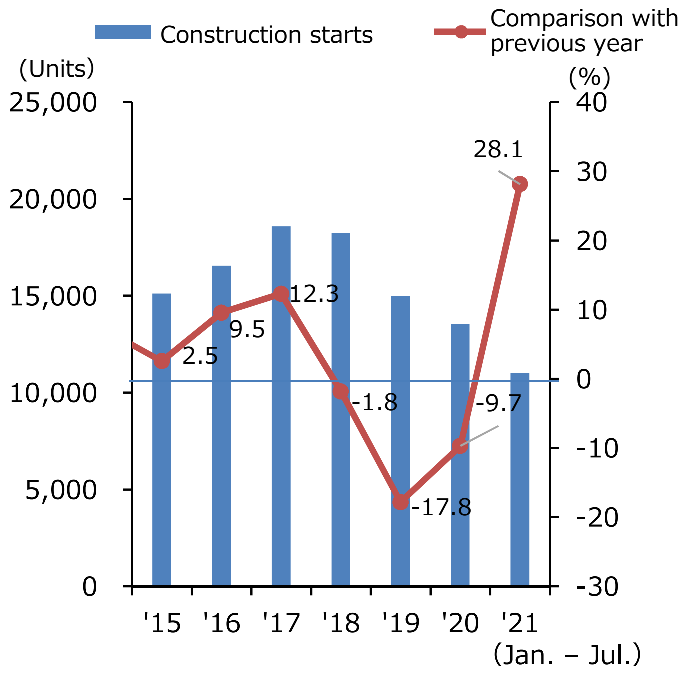
Construction starts increased in Tokyo, Osaka and Nagoya in the period from January to July 2021 year-on-year. There were significant increases in Osaka and Nagoya cities.

- The number of construction starts in the period from January to July 2021 increased y-o-y in each city.
- In particular, there were significant increases in Osaka and Nagoya cities y-o-y, and it is necessary to pay attention to the impact on the market situation going forward.

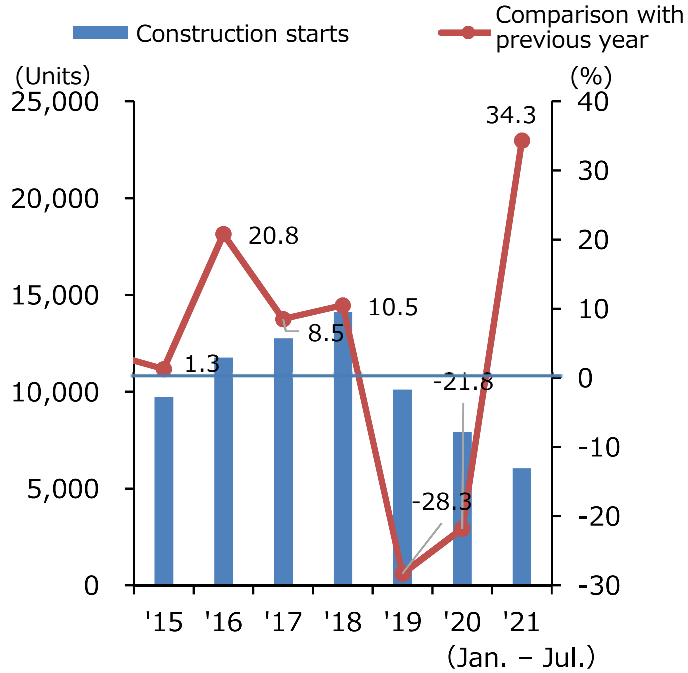
■ Rental Condominium Construction Starts in the Tokyo 23-ward Area



■ Rental Condominium Construction Starts in Osaka City



■ Rental Condominium Construction Starts in Nagoya City

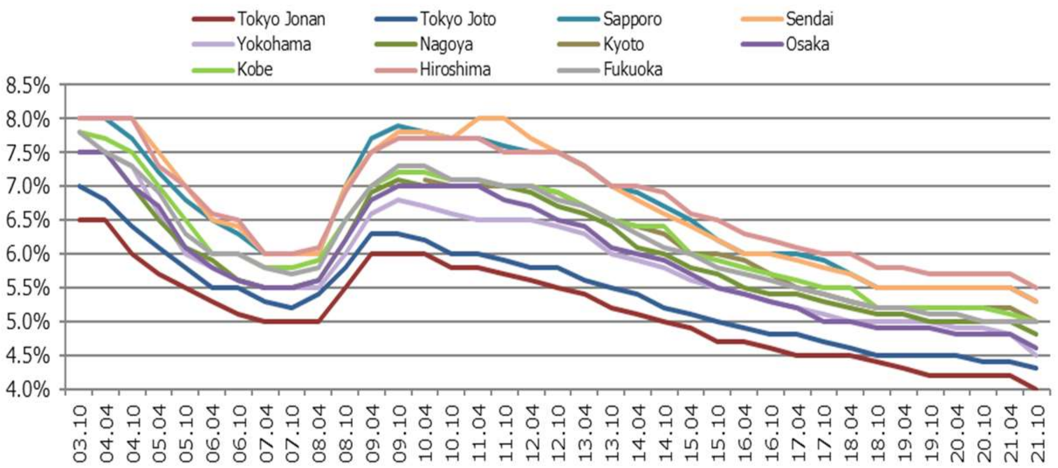


Source: Style Act Co., Ltd.
Note: Style Act processed and compiled data on statistical surveys of new construction provided by MLIT.
The figures represent the total of rental condominiums (buildings with SRC or RC construction) and rental apartments (buildings made of wood or with S construction). The 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.
Comparison in 2021 means a year-on-year basis.

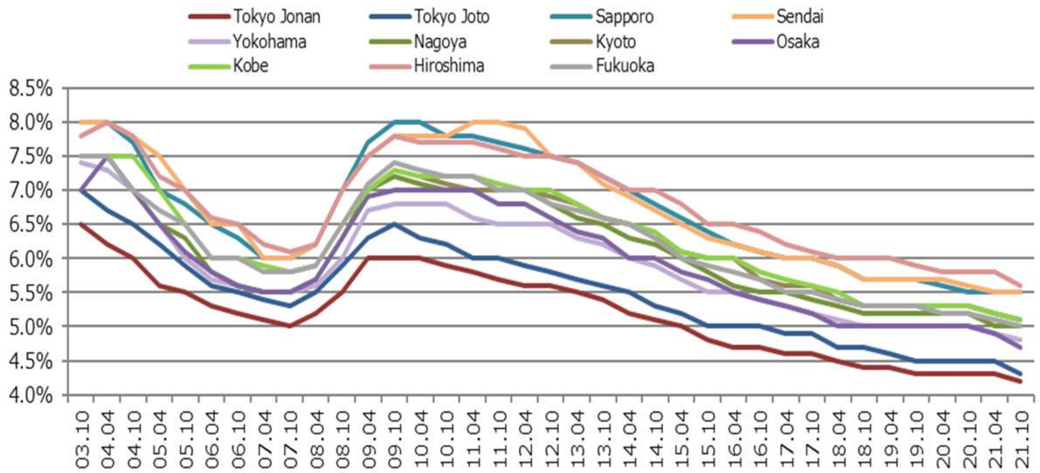
4-3 Expected Yield on Rental Condominiums

- The expected yields on one-room condominiums fell 0.2 points to 4.0% in the Tokyo Jonan area from the previous survey data. The yields fell 0.1 to 0.3 points in many other regions compared to the previous survey data: 4.3% in Tokyo Joto area, 5.3% in Sapporo, 5.3% in Sendai, 4.5% in Yokohama, 4.8% in Nagoya, 5.0% in Kyoto, 4.6% in Osaka, 5.0% in Kobe and 5.5% in Hiroshima.
- The expected yields on family-type rental housing fell 0.1 to 0.2 points in many regions including the Tokyo Jonan area (4.2%) and Tokyo Joto area (4.3%).

■ Expected Yield from Rental Condominiums (one-room)



■ Expected Yield from Rental Condominiums (family-type)



* Types of Assumed Rental Housing in Tokyo

Type of Rental Housing	Location Conditions/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 m^2 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 m^2 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

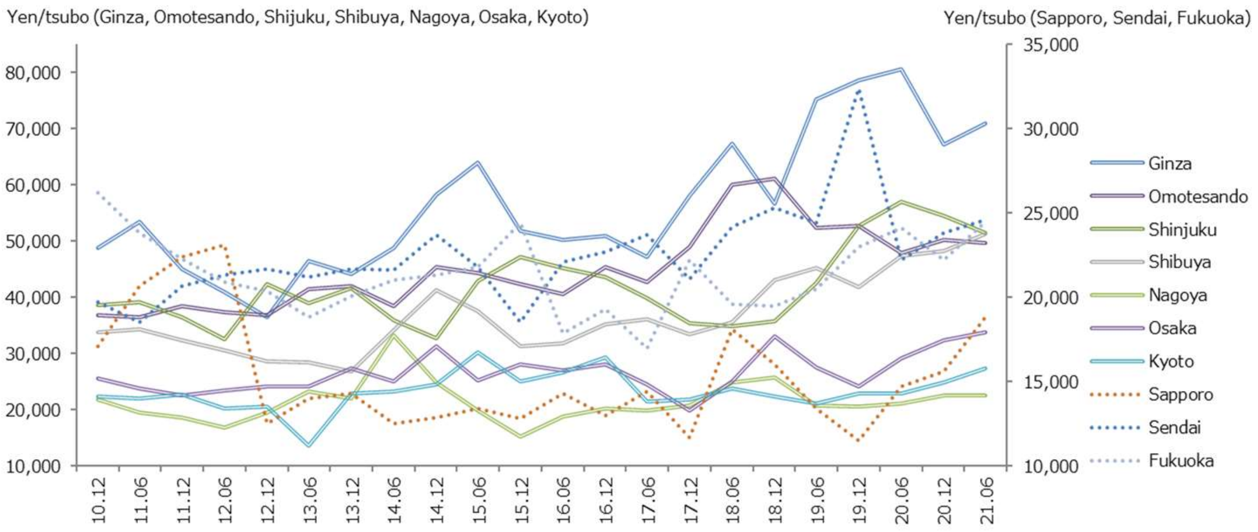
Source: "Survey of Real Estate Investors" published by Japan Real Estate Institute (compiled by Nomura Real Estate Solutions)

5. Commercial Stores

5-1 Trend of Commercial Stores

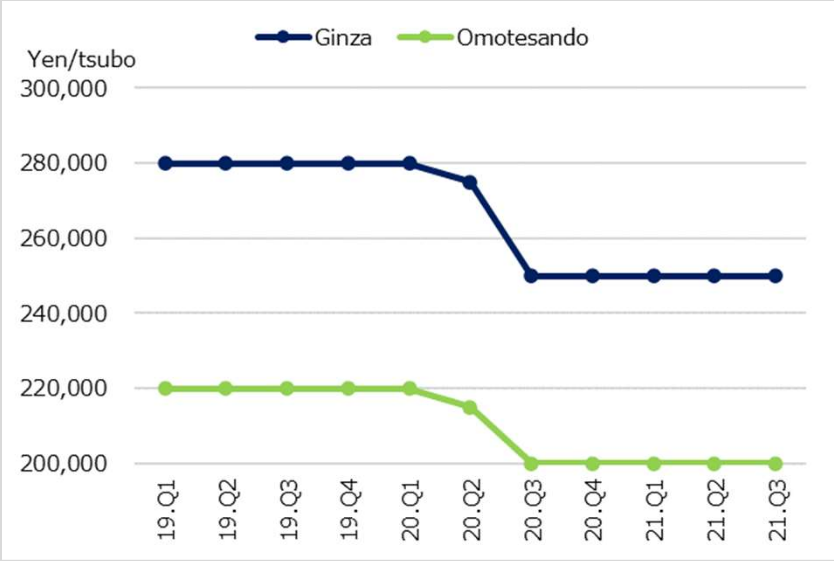
- Impacted by the COVID-19 pandemic, the severe situation still continues in areas that rely heavily on consumption by inbound tourists and have mainly restaurants and amusement facilities.
- Sales of luxury brand products are on a recovery trend because of asset effects arising from high stock prices and wealthy people shifting their spending from traveling to domestic consumption due to travel restrictions, which makes the situation in the primary areas of central Tokyo favorable. On the other hand, there are many facilities with prolonged vacancy periods in areas with restaurants and stores, and there continues to be a large number of properties looking for tenants. In particular, increases in the numbers of properties looking for tenants are prominent in the Shinjuku and Sapporo areas.
- Achievable rents in Ginza and Omotesando began to fall from Q2 2020 and have remained flat for the five consecutive quarters since Q3 2020 (right graph). Demand of new store openings has been solid for roadside properties, and rents seem to have bottomed out, although the adjustment phase will continue.
- 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 1st floor (2nd half 2010 to 1st half of 2021)



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

■ Rent trend of first-floor retail stores in Tokyo primary areas (2019～2021.Q3)

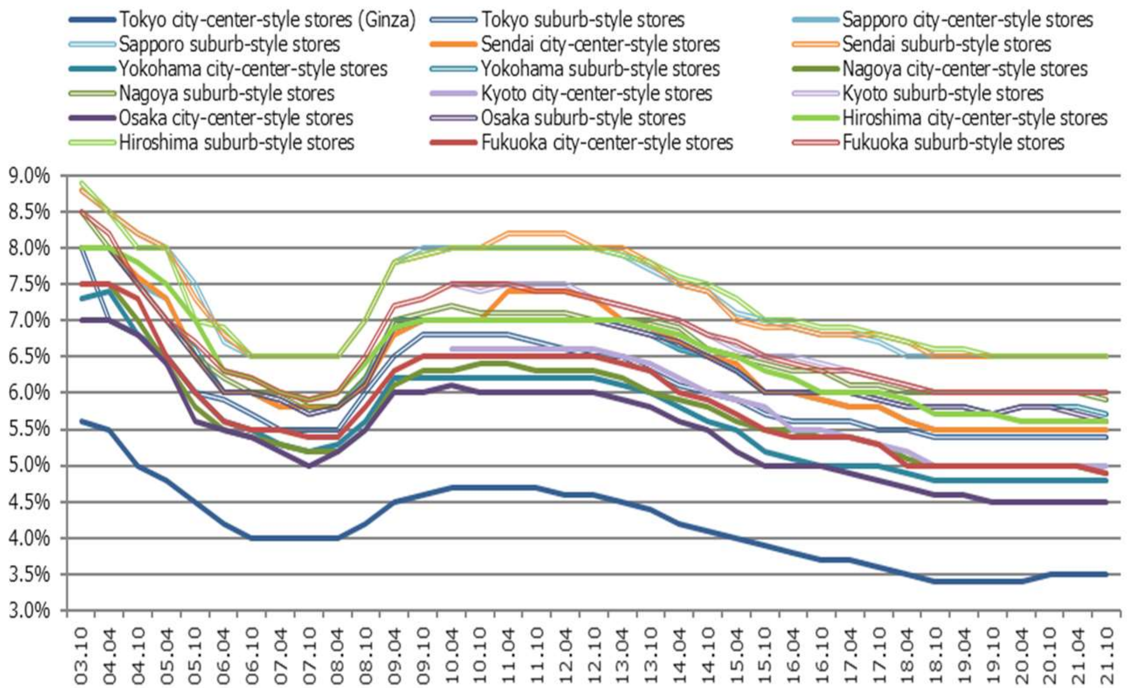


Source: "Tokyo Retail Market Summary" published by JLL (compiled by Nomura Real Estate Solutions)

5-2 Expected Yields on Commercial Stores

- The expected yields on city-center-style high-class specialized stores remained flat in many areas compared to the previous survey data: 3.5% in Ginza, Tokyo; 5.5% in Sapporo and Sendai; 5.0% in Kyoto; 4.5% in Osaka; and 5.6% in Hiroshima. The yields fell 0.1 points compared to the previous survey data in some areas such as Nagoya and Fukuoka (4.9%).
- The expected yields on suburb-style shopping centers remained flat in many areas compared to the previous survey data: 5.4% in Tokyo; 6.5% in Sapporo and Sendai; 6.0% in Kyoto and Fukuoka; and 6.5% in Hiroshima, but the yields fell 0.1 points to 5.9% and 5.6% in Nagoya and Osaka, respectively.

■ Expected yield on Commercial Stores



*Types of Assumed Commercial Stores in Tokyo

Types 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
Suburb-style shopping center Store space: 20,000 m^2 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)

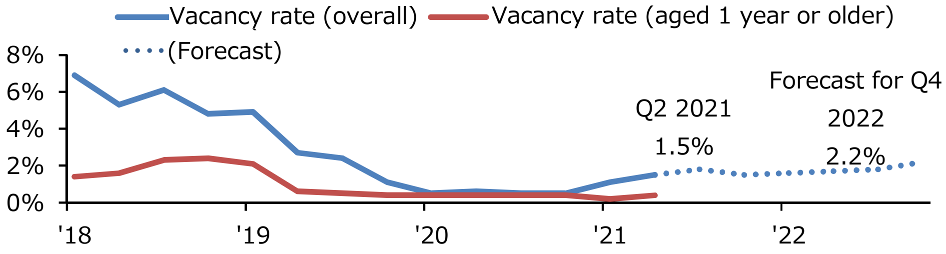
6. Logistics Facilities

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

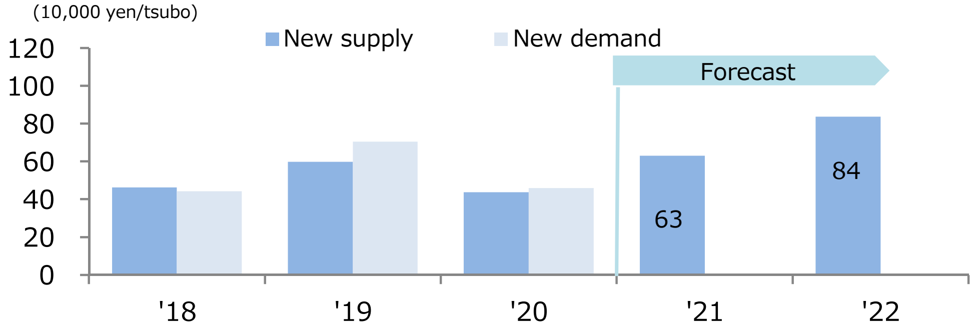
The vacancy rate rose for two consecutive quarters but remained low and stable. The upward trend in rents continued. The vacancy rate is forecast to rise slightly going forward due to large supply.

- The vacancy rate in Q2 2021 rose slightly to 1.5% (up 0.4% points q-o-q) but remained at a historical low in the Tokyo Metropolitan area.
- Robust demand was observed in each area, and the upward trend in achievable rents continued.
- Large supply will continue, which is forecast to push up the vacancy rate to around 2.2% toward the end of 2022. However, market deterioration is unlikely due to the strong demand.

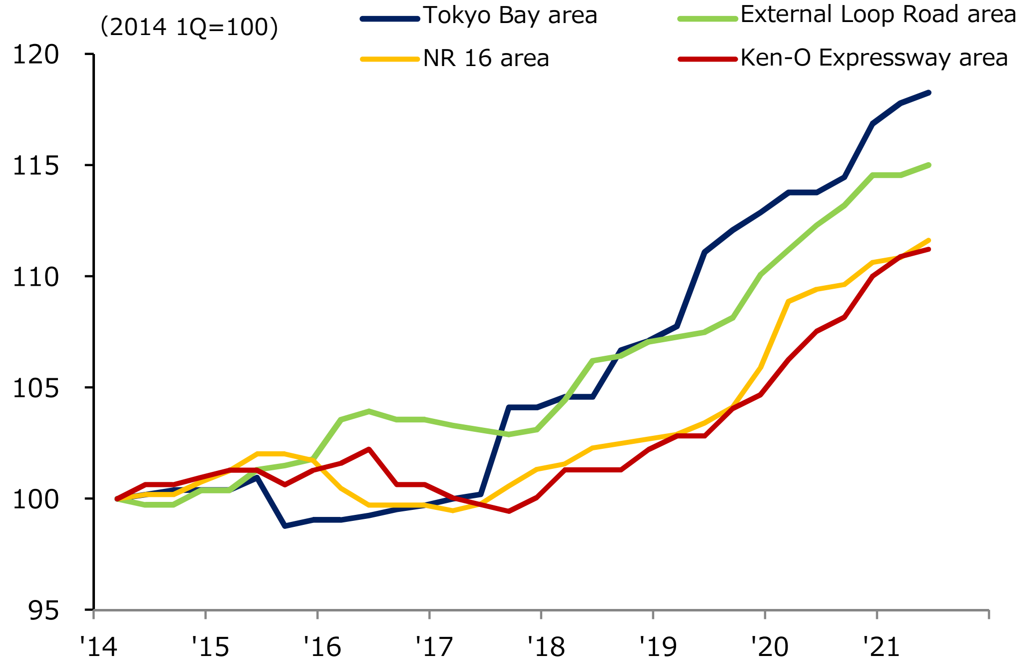
■ Vacancy Rate



■ New Supply and New Demand



■ Achievable Rents by Area



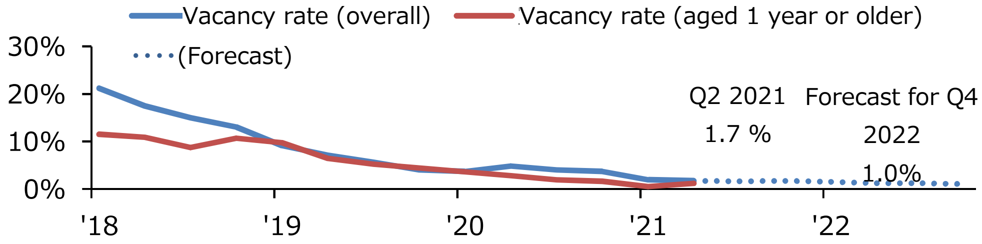
Source: Data provided by CBRE (compiled by NREAM)
Note: These are data on logistics facilities which have a gross floor area of at least 10,000 tsubo and suppose more than one tenant.

6-2 Trend of Logistics Facilities (Kinki Area)

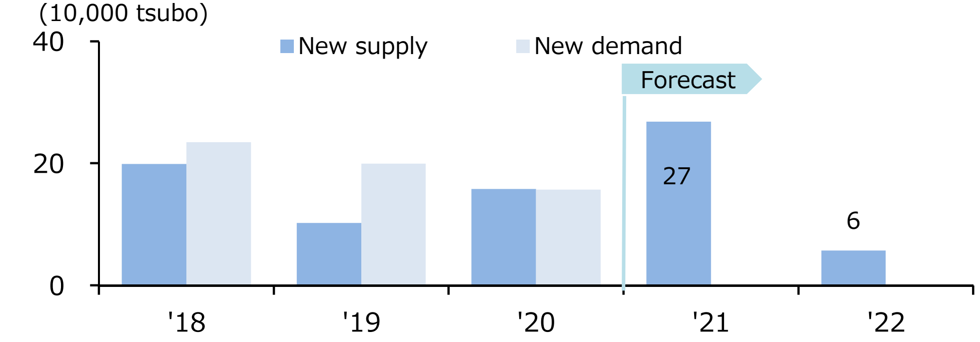
The vacancy rate was 1.7%, continuing the downward trend. Supply will be low again in 2022 and the low vacancy rate is expected to continue for the time being.

- The vacancy rate in the Kinki area was 1.7% in Q2 2021 (down 0.2 points q-o-q), which was the lowest level since Q1 2015.
- There have been some new properties completed with no vacancies, and demand is extremely strong as there are only three existing properties with vacancies of 2,000 tsubo or over.
- The vacancy rate is expected to remain low for the time being because new supply, which is 270,000 tsubo in 2021, will decrease sharply to 60,000 tsubo in 2022.

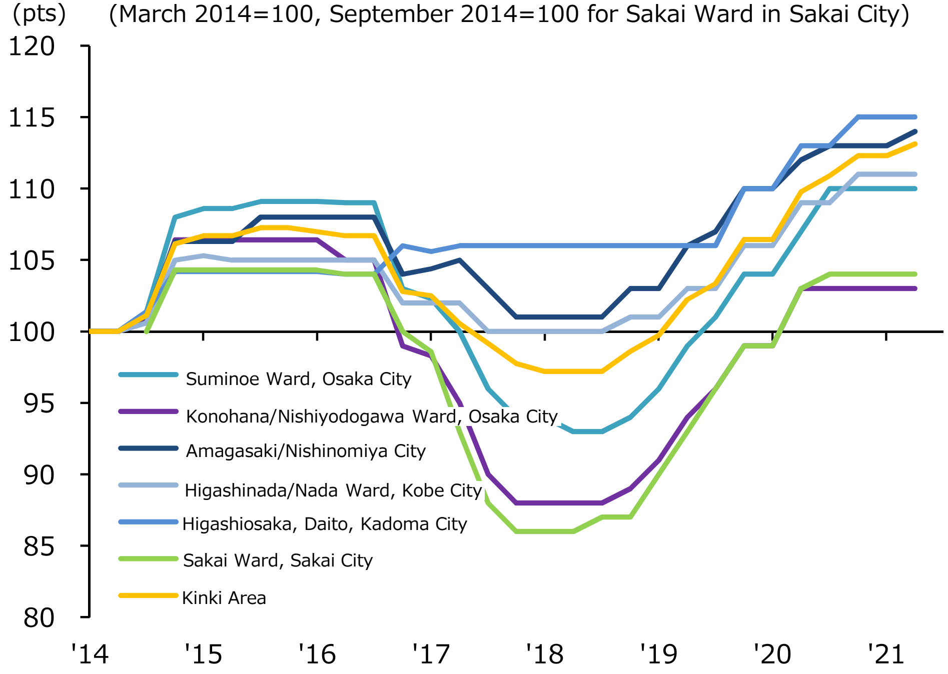
■ Vacancy Rate



■ New Supply and New Demand



■ Achieved Rents by Area



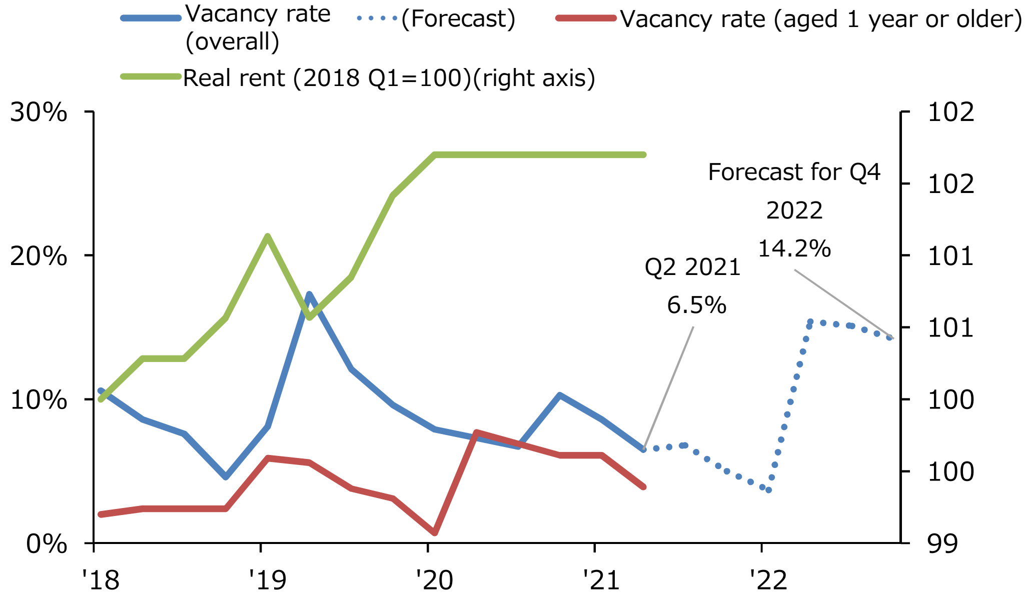
Source: Data provided by CBRE (compiled by NREAM)
Note: These are data on logistics facilities which have a gross floor area of at least 10,000 tsubo and suppose more than one tenant.

6-3 Trend of Logistics Facilities (Chubu Area)

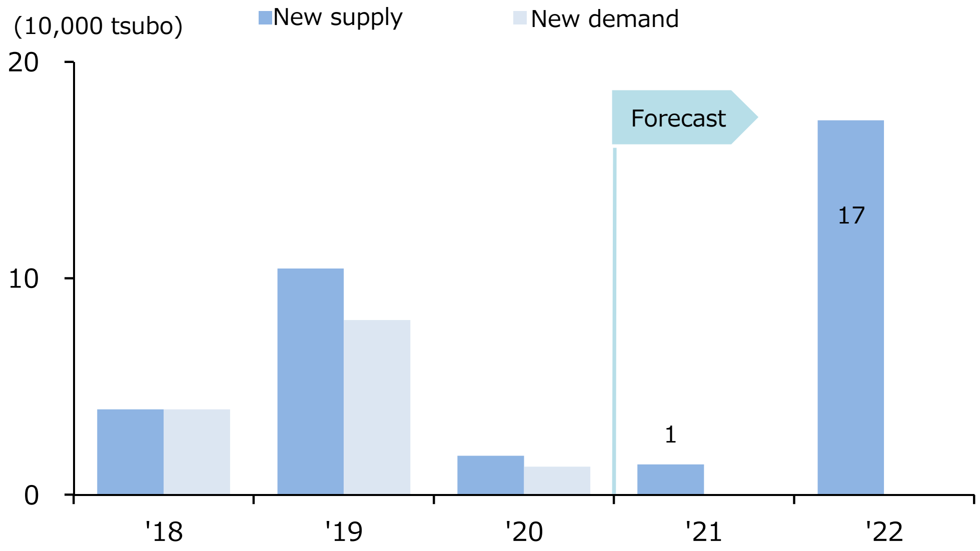
The vacancy rate is currently falling but is expected to rise going forward with large supply planned in 2022.

- In the Chubu area, the vacancy rate fell to 6.5% (down 2.1 points q-on-q) in Q2 2021. Vacancies in existing properties have been steadily filled.
- The rent level has been almost flat since 2020.
- New supply in 2022 will be 170,000 tsubo (DPL Meiko Yatomi I of 63,000 tsubo and others), the largest ever. While the vacancy rate is expected to rise to around 14%, CBRE commented that “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. The vacancy rate may rise temporarily due to the impact of new supply, but improvement in vacancy rates is not a problem in the medium- to long-term.”

■Vacancy Rate and Rent



■New Supply and New Demand

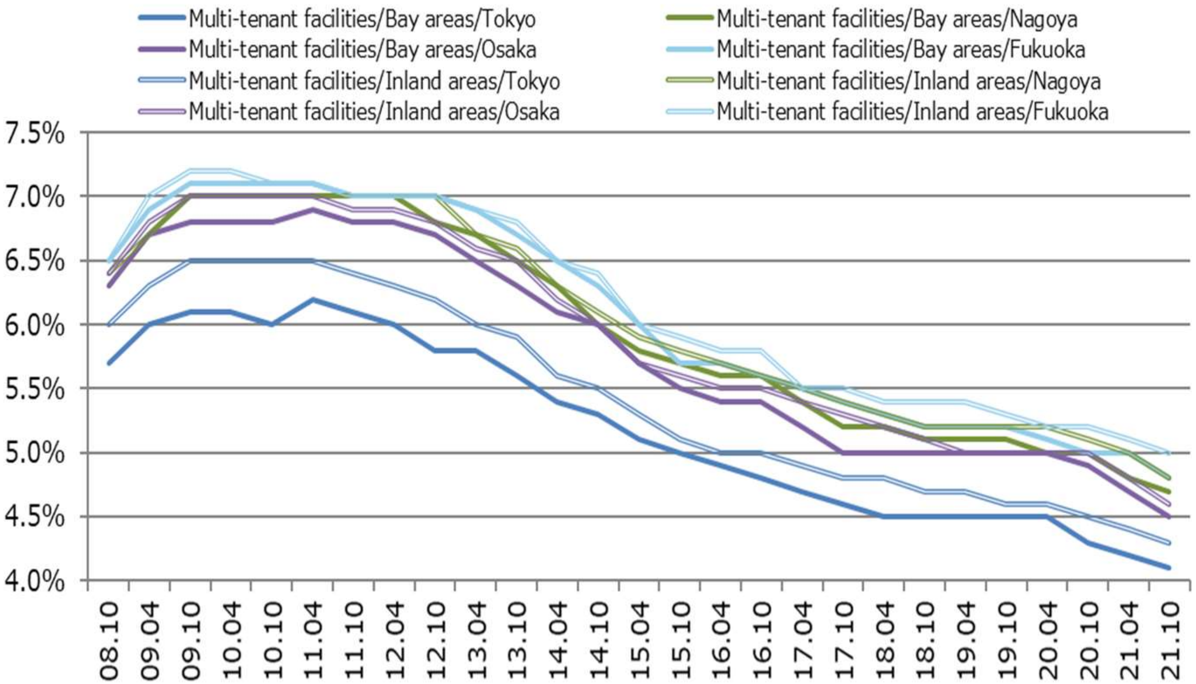


Source: All of the above was prepared by NREAM based on data from CBRE
Note: In Chubu area only, GFA of more than 5,000 tsubo, all of these are logistics facilities assuming several tenants.

6-4 Expected Yields on Logistics Facilities/Warehouses

- The expected yields on multi-tenant logistics facilities and warehouses in bay areas fell by 0.1 points in Koto, Tokyo (4.1%) and the Nagoya Port area, Nagoya (4.7%), and by 0.2 points in the Osaka Port area, Osaka (4.5%) and the Hakata Port area, Fukuoka (4.8%), compared to the previous survey data.
- As for inland areas, the expected yields fell by 0.1 points in the Tama area, Tokyo (4.3%) and the area around the Fukuoka IC, Fukuoka (5.0%), and by 0.2 points in the north of Nagoya City, Nagoya (4.8%) and the area around Higashiosaka, Osaka (4.6%), compared to the previous survey data.

■ Expected Yield on Logistics Facilities/Warehouses



*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 m^2 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

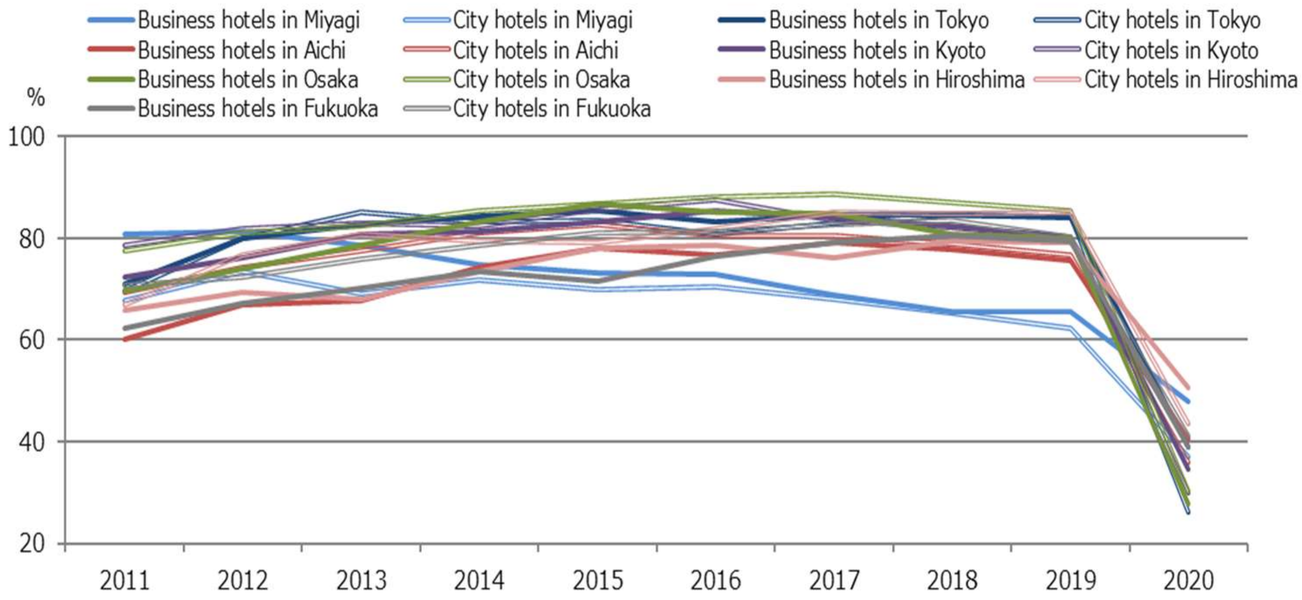
Source: "Survey of Real Estate Investors" published by Japan Real Estate Institute (compiled by Nomura Real Estate Solutions)

7. Hotels

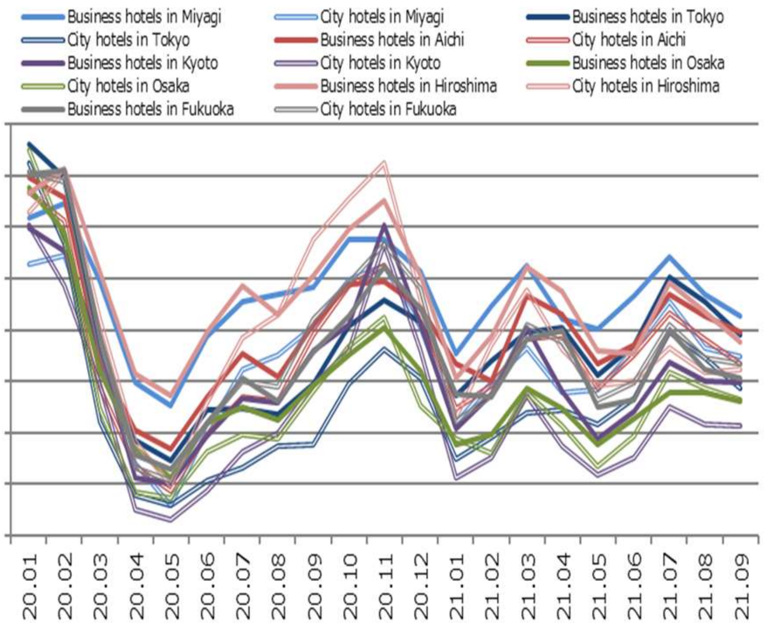
7-1 Hotel Trends

- 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 September 2021 were 38.9% (45.5% in August) in Tokyo, 29.7% (30.1% in August) in Kyoto, 26.0% (27.8% in August) in Osaka, 42.7% (47.1% in August) in Miyagi, 39.7% (42.8% in August) in Aichi, 37.5% (43.6% in August) in Hiroshima, and 30.7% (32.3% in August) in Fukuoka.
- The occupancy rates of city hotels in September 2021 were 28.6% (34.4% in August) in Tokyo, 21.4% (21.6% in August) in Kyoto, 26.47% (28.5% in August) in Osaka, 34.7% (36.6% in August) in Miyagi, 33.3% (38.1% in August) in Aichi, 32.2% (31.6% in August) in Hiroshima, and 33.3% (34.5% in August) in Fukuoka.

■ Occupancy Rates of Hotels (through 2020)



■ Occupancy Rates of Hotels (2020 onward)

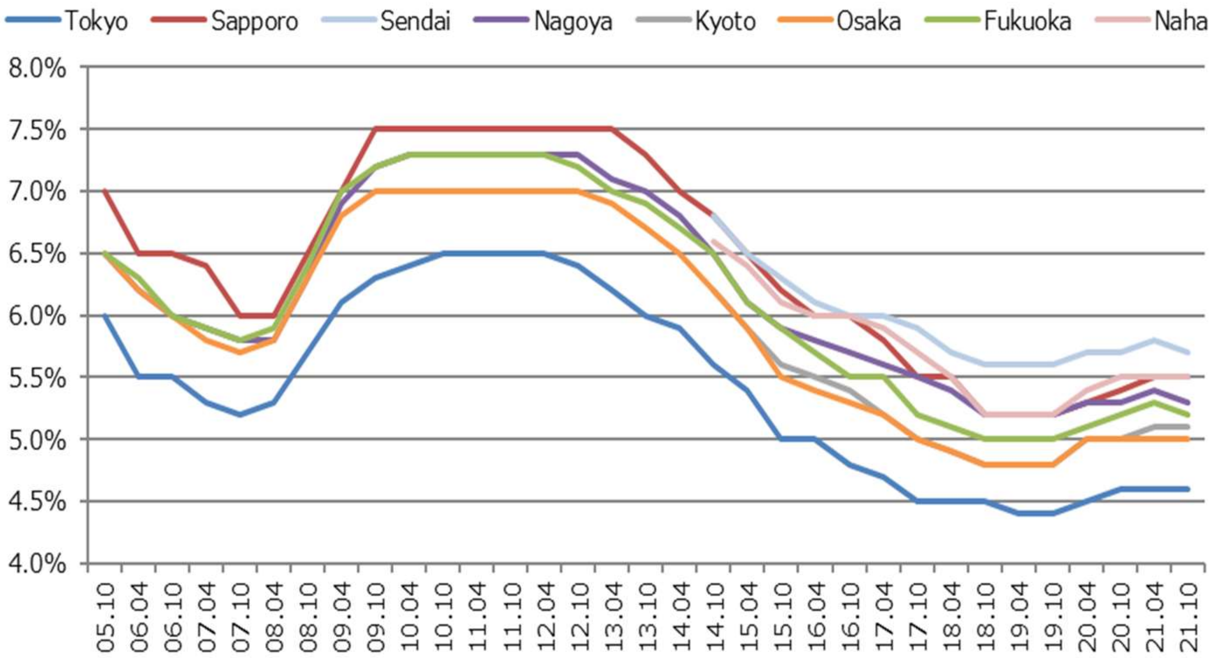


Source: MLIT Japan Tourism Agency “Statistic Survey of Tourism with Accommodation” (compiled by Nomura Real Estate Solutions)

7-2 Expected Yields on Accommodation-specialized Hotels

- Due to significant effects from the COVID-19 pandemic that restrained people's movement, the expected yields on accommodation-specialized hotels remained flat in Tokyo (4.6%), Sapporo (5.5%), Kyoto (5.1%), Osaka (5.0%) and Naha (5.5%), and fell 0.1 points in Sendai (5.7%), Nagoya (5.3%) and Fukuoka (5.2%) compared to the previous survey data. As such, some changes were observed in the market.

■ Expected Yields on Accommodation-specialized Hotels



*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

- With change categories remaining unchanged for 93 areas from the previous quarter, it was a quarter with little change. Besides the 93 areas that remained unchanged, 6 areas moved to the upward change category and 1 area moved to the downward change category. The number of areas with an upward change is 40 (35 in the previous survey), there was little change in 30 (36 in the previous survey) and downward change in 30 (29 in the previous survey). All of the 40 areas with an upward change saw a less than 3% increase, of which 5 areas moved from the 0% change category (the change categories of the remaining 35 areas were unchanged).
- A decrease of less than 3% was observed in 30 areas (28 in the previous survey), and a decrease of more than 3% and less than 6% in 0 areas (1 in the previous survey). The number of areas that experienced a decrease was 30 (29 in the previous survey), or increased compared to the previous survey results

City	Area	19.10.1 ～ 20.1.1	20.1.1 ～ 20.4.1	20.4.1 ～ 20.7.1	20.7.1 ～ 20.10.1	20.10.1 ～ 21.1.1	21.1.1 ～ 21.4.1	21.4.1 ～ 21.7.1	21.7.1 ～ 21.10.1
23 wards of Tokyo	Marunouchi	Increase (>0,<3%)	Increase (>0,<3%)	Unchanged (0%)	Decrease (≥0%,<3%)	Unchanged (0%)	Unchanged (0%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)
	Ginza, Chuo	Unchanged (0%)	Unchanged (0%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)	Unchanged (0%)	Unchanged (0%)
	Yaesu	Increase (>0,<3%)	Increase (>0,<3%)	Unchanged (0%)	Unchanged (0%)	Decrease (≥0%,<3%)	Unchanged (0%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)
	Toranomon	Increase (>0,<3%)	Increase (>0,<3%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)
	Shinjuku 3-chome	Increase (>0,<3%)	Increase (>0,<3%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)	Unchanged (0%)	Unchanged (0%)
	Shibuya	Increase (≥3%,<6%)	Increase (>0,<3%)	Unchanged (0%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)
Yokohama	W Exit Yokohama Sta.	Increase (>0,<3%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)	Increase (>0,<3%)	Increase (>0,<3%)	Increase (>0,<3%)	Increase (>0,<3%)
Saitama	W Exit Omiya Sta.	Increase (>0,<3%)	Increase (>0,<3%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)
Chiba	Chiba Sta. front	Increase (≥3%,<6%)	Increase (>0,<3%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)
Sapporo	Station front street	Increase (≥3%,<6%)	Unchanged (0%)	Unchanged (0%)	Increase (≥3%,<6%)	Unchanged (0%)	Increase (>0,<3%)	Increase (>0,<3%)	Increase (>0,<3%)
Sendai	Chuo 1-chome	Increase (≥3%,<6%)	Increase (>0,<3%)	Increase (>0,<3%)	Unchanged (0%)	Increase (>0,<3%)	Unchanged (0%)	Unchanged (0%)	Increase (>0,<3%)
Osaka	Shinsaibashi	Increase (≥3%,<6%)	Increase (>0,<3%)	Decrease (≥3%,<6%)	Decrease (≥3%,<6%)	Decrease (≥3%,<6%)	Decrease (≥3%,<6%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)
Nagoya	Nagoya Sta. front	Increase (>0,<3%)	Increase (>0,<3%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)	Unchanged (0%)	Increase (>0,<3%)	Increase (>0,<3%)	Increase (>0,<3%)
Kyoto	Kawara-machi	Increase (>0,<3%)	Increase (>0,<3%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)	Decrease (≥0%,<3%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)
Hiroshima	Kamiyacho	Increase (>0,<3%)	Increase (>0,<3%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)	Increase (>0,<3%)	Increase (>0,<3%)	Increase (>0,<3%)
Fukuoka	Around Hakata Sta.	Increase (≥3%,<6%)	Increase (>0,<3%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)	Unchanged (0%)

Legend : Increase (≥6%) : Increase (≥3%,<6%) : Increase (>0,<3%) : Unchanged (0%)

: Decrease (≥0%,<3%) : Decrease (≥3%,<6%) : Decrease (≥6%,<9%)

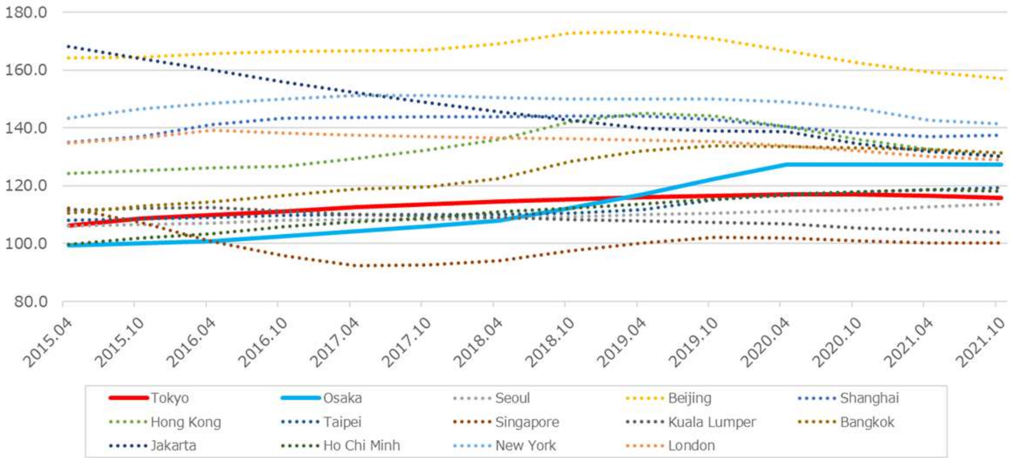
: Decrease (≥9%,<12%) : Decrease (≥12%)

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

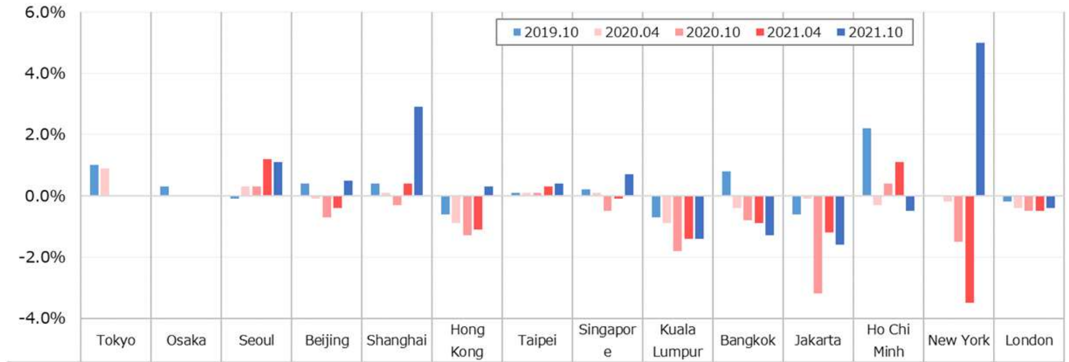
Reference: Rental Trends in Major International Cities

- Office rents continue to fall in Tokyo. In Osaka, the vacancy rate is on a rising trend but there has been no change seen in the rent levels. While overall rents have continued the declining trend, office rents kept rising, even after the outbreak of the COVID-19 pandemic in Seoul and Taipei where the epidemic of novel coronavirus infection was relatively mild.
- Condominium rents have remained flat and stable in both Tokyo and Osaka. In New York, the volatility of the rent index turned significantly positive because commuting to offices resumed.

■Changes in the office rent index

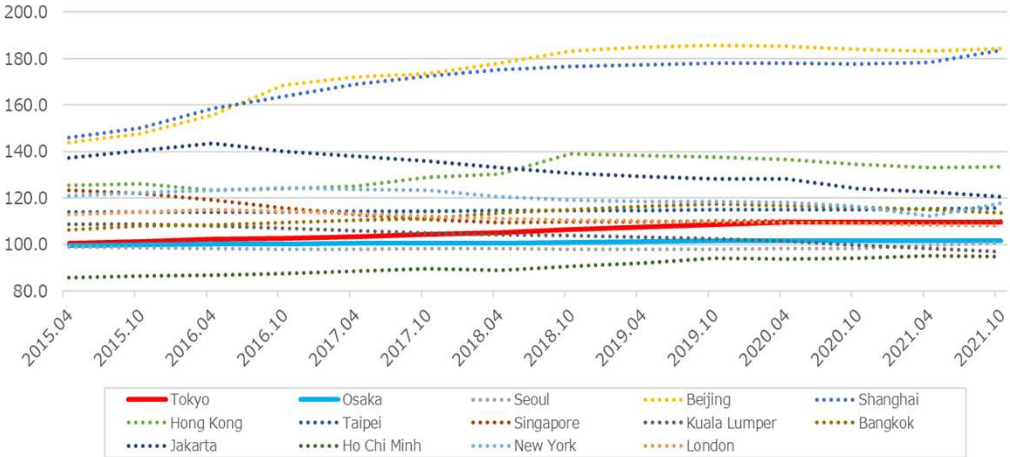


■Volatilities of the office rent index compared to the previous results

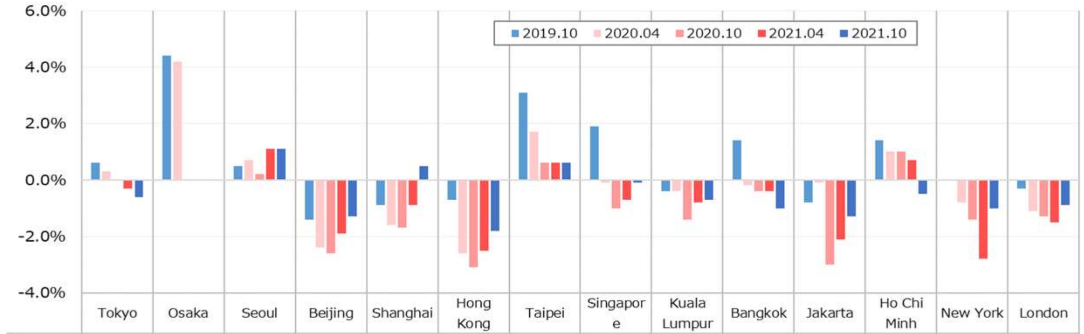


	Tokyo	Osaka	Seoul	Beijing	Shanghai	Hong Kong	Taipei	Singapore	Kuala Lumpur	Bangkok	Jakarta	Ho Chi Minh	New York	London
2019.10	1.0%	0.3%	-0.1%	0.4%	0.4%	-0.6%	0.1%	0.2%	-0.7%	0.8%	-0.6%	2.2%	0.0%	-0.2%
2020.04	0.9%	0.0%	0.3%	-0.1%	0.1%	-0.9%	0.1%	0.1%	-0.9%	-0.4%	-0.1%	-0.3%	-0.2%	-0.4%
2020.10	0.0%	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%

■Changes in the condominium rent index



■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
2019.10	0.6%	4.4%	0.5%	-1.4%	-0.9%	-0.7%	3.1%	1.9%	-0.4%	1.4%	-0.8%	1.4%	0.0%	-0.3%
2020.04	0.3%	4.2%	0.7%	-2.4%	-1.6%	-2.6%	1.7%	-0.1%	-0.4%	-0.2%	-0.1%	1.0%	-0.8%	-1.1%
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%

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