



JAPAN PROPERTY MARKET REPORT 2022

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SHIMBASHI, JANUARY 2022

“Japan has remained somewhat insulated from the global turmoil of 2022”

What's ahead

Shifts in the global economy and changes in interest rates and exchange rates will be factors to keep an eye on in 2023. Japan has remained somewhat insulated from this global turmoil.

New launches

Azabudai Hills, a multi-billion-dollar project on an 8.1 hectare site near Tokyo Tower will reach completion in 2023. The main tower will be 325 meters tall with the luxurious Aman Residences crowning the top floors. The entire project is expected to accommodate 20,000 office workers and 3,500 residents.

Sales in Mita Garden Hills, a 1,002-unit luxury condo project near Azabujuban Station, are tentatively scheduled to start in February 2023. Pricing has yet to be announced, but some insiders are suggesting pricing that could be between 3 ~ 5 million Yen per square meter.

The Bulgari Hotel Tokyo will soon open on the top floors of the recently-completed Tokyo Midtown Yaesu high-rise near Tokyo Station.



OVERVIEW

In a year of global instability and monetary tightening, Japan did the opposite and continued a course of stability and monetary easing. While the real estate market in Japan does not rely heavily on inbound investment, the country's relatively low-risk and low-priced real estate continued to be a draw for foreign funds.

We saw a noticeable increase in interest from potential buyers in the second half of 2022, with the number of inquiries up 50% from our long-term average.

Some of this increased interest may be attributed to the cheaper Yen, which briefly hit a 32-year low against the US dollar in October. The re-opening of the country to inbound tourism may also have been a factor, with offshore buyers waiting patiently for 2.5 years to be able to enter the country to complete a purchase.

Domestically, the property market performed in similar fashion to 2021 as the country emerged from the coronavirus pandemic. Of particular note is that the Standard Land Price of residential land nationwide increased for the first time in 31 years, according to the Ministry of Land, Infrastructure, Transport and Tourism (MLIT). Commercial land prices increased by 0.5%, after seeing a 0.5% drop in 2021.

RESIDENTIAL

Apartment prices in central Tokyo continued to rise, with some high-rises in prime locations seeing double-digit growth over the span of several months. In the second half of the year, a number of apartments in prime buildings in central Tokyo would be listed, sold, and then re-listed for 20 ~ 30% higher, often within the span of a month or two.

In November, the average reported sale price per square meter of a second-hand apartment in Tokyo's central three wards of Chiyoda, Chuo, and Minato, reached a record high, with an 18.2% increase from November 2021, as reported by REINS. Across greater Tokyo (Tokyo, Kanagawa, Saitama and Chiba prefectures), the average sale price per square meter was up 14.4% from November 2021, with the average price seeing a year-on-year increase for the past 31 consecutive months.

Inventory of apartments to purchase in central Tokyo's 3 wards remains low, with 15 months available as of November 2022. In 2018 and 2019 the average months of inventory (MOI) was around 19 months. It has been a similar story for detached homes. Since the outbreak of the pandemic, the already-small inventory of detached homes has shrunk to a dire level. Inventory in the Tokyo metropolitan area as of May 2022 was 44% lower than it was in February 2020, pre-pandemic shock. Over that same period, the average sale price has increased by 16.7%.

With rising construction costs and limited availability of land, it is likely that homeowners will stay put for longer, further constricting housing supply on the resale market.

Interest rates remained at extremely low levels. Variable-rate home loans could be found for under 0.5%, while 10-year fixed-rate home loans may be around 1.1%. Over 70% of borrowers elect for variable rate home loans.

Apartment rents in Tokyo's 23 wards remained mostly flat throughout the year, seeing a mild 0.3% year-on-year drop in October 2022. Rents tend to be static in Japan due to rental laws strongly favoring tenants, making it close to impossible for landlords to adjust rents during the tenancy. In the absence of wage growth, it is likely that rents will remain flat.

Tokyo's luxury real estate market outperforms

Tokyo saw the highest increase in luxury residential prices in Asia, according to Knight Frank's Prime Global Cities Index for the third quarter of 2022, with property prices increasing by 17% from 2021. It also ranked 3rd worldwide, after Dubai and Miami.

Record-breaking price increases

Motoazabu Hills

The average sale price in this building in 2022 was around 3,070,000 Yen/sqm, up 44.8% from 2021.

Akasaka Tower Residence

The average sale price in 2022 was around 3,125,000 Yen/sqm, up 39% from 2021. In October, a two-bedroom apartment sold for 74% more than it previously sold in 2019 and 153% more than it sold for in 2012.

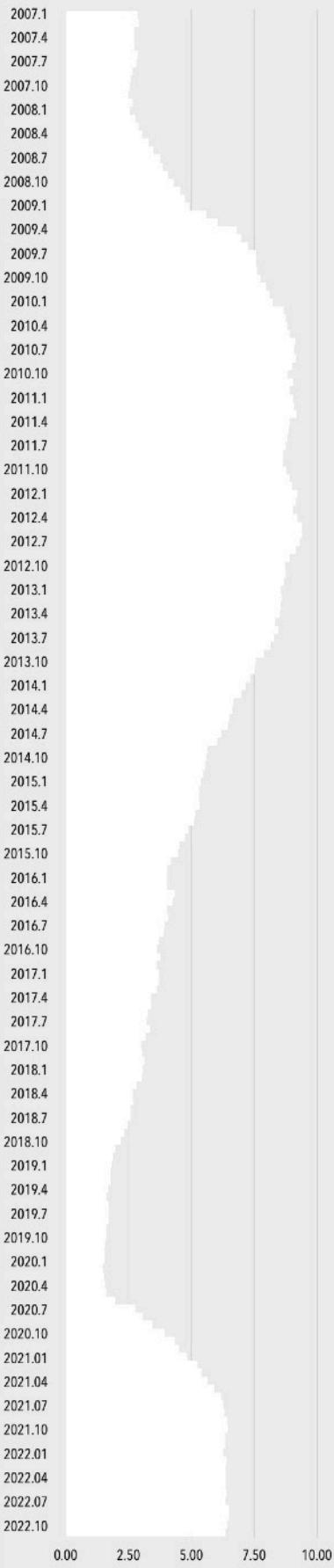
Roppongi Hills

The average sale price in 2022 was around 3,580,000 Yen/sqm, up 17.2% from 2021 and up 27.4% from 2020.

City Tower Azabujuban

The average sale price in 2022 was around 2,670,000 Yen/sqm, up 12.7% from 2021 and up 29.6% from 2020. In October, a two-bedroom apartment on a low floor sold for 74% more than it previously sold for in 2019 and 189% more than an identical unit one floor down sold for in 2012.

Tokyo's Office Vacancy Rate

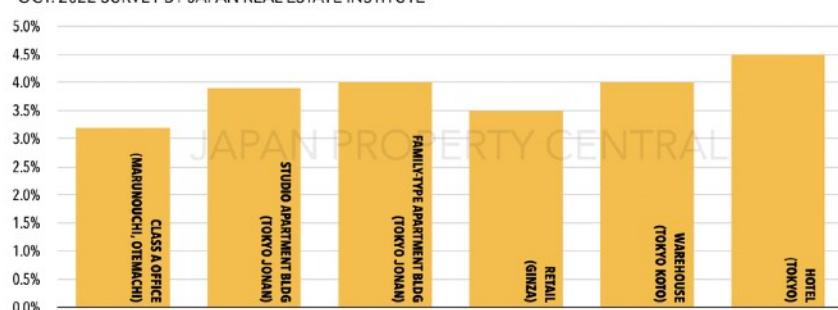


COMMERCIAL

Investors are expecting lower rental yields from office and residential assets in Tokyo. According to the Japan Real Estate Institute's investors survey published on November 2022, the expected rental yield on Class A office space in Tokyo's Marunouchi and Otemachi district was 3.2% as of October 2022, down from a 3.3% expected yield in April. This is the lowest expected yield since the Institute began collecting data in 1999. 95% of the respondents indicated that they plan to carry out new investments in real estate, a one point increase from the April 2022 survey.

EXPECTED YIELD OF REAL ESTATE ASSETS

OCT. 2022 SURVEY BY JAPAN REAL ESTATE INSTITUTE



The office vacancy rate in Tokyo's business districts was 6.38% as of November 2022, down from a recent high of 6.49% seen in the months of August and September, but up 0.03 points from November 2021. Chiyoda, Minato, Shinjuku, and Shibuya have all seen an improvement in office occupancy. In Shibuya, the vacancy rate in November was 3.82%, a 1.59 point improvement from the previous year. Rents, however, remain down across the board.

A total of 46 TSE listed companies reported the sale of domestic real estate holdings in the first half of 2022 (April-September), according to Tokyo Shoko Research. Total reported capital gains were 54.6 billion Yen, with 38 companies reporting a profit from the sale. Real estate asset sales were more common for retailers and service providers that had been hit hard by the coronavirus pandemic.

The biggest transaction for the year and in Japan's history was the sale of a share in the Otemachi Place office tower near Tokyo Station for 436.4 billion Yen to a consortium led by Hulic. Other bidders included US and Asia-based funds attracted to Tokyo due to its higher yield gap than can be found in Singapore, Hong Kong, London, and New York. Rising interest rates in other countries have made Tokyo's yield gap expand in recent months.



HOTEL

After being closed to inbound tourism for 2.5 years, foreigners were finally allowed to enter Japan from mid-October. However, in late December, Japan re-introduced COVID testing requirements for passengers arriving from China, with mandatory 7-day quarantine for those who test positive, and has limited flights into certain airports. Hotels that were counting on an influx of guests from China during the upcoming Chinese New Year have had to quickly change course to appeal to the domestic market.

In June, Seibu Holdings confirmed the planned sale of 31 of its hotel and golf assets to an affiliate of Singaporean sovereign wealth fund GIC for 147.1 billion Yen. In November, developers Mitsubishi Estate and Tokyo Century Corporation announced that Dorchester Collection will be operating an ultra-luxury hotel in the 390-meter tall Torch Tower near Tokyo Station, due for completion in 2027. Dorchester will join other luxury hotel brands recently entering Japan, including the Bulgari Hotel Tokyo, scheduled to open in Tokyo Midtown Yaesu in April 2023, and The Waldorf Astoria Tokyo Nihonbashi, scheduled to open in 2026. Earlier in the year, Swire Properties' The House Collective was announced as the hotel occupant for the Shibuya Upper West Project due for completion in 2027.

In December, Daiwa House Industry announced the sale of its resort hotel business to G.K. Ebisu Resort. The sale price of the shares was 55.6 billion Yen (approx. US\$407 million at the time). Daiwa Resort operates 24 hotels across Japan. Hotel operating ratios had dropped to 66% due to the prolonged effect of the pandemic on tourism and aging hotel buildings. Revenues for the year ending March 2022 were down almost 60% from 2019 pre-pandemic levels. Daiwa House broke the news of the planned sale back in May as part of the company's efforts to improve its portfolio.



KARUIZAWA

RESORT

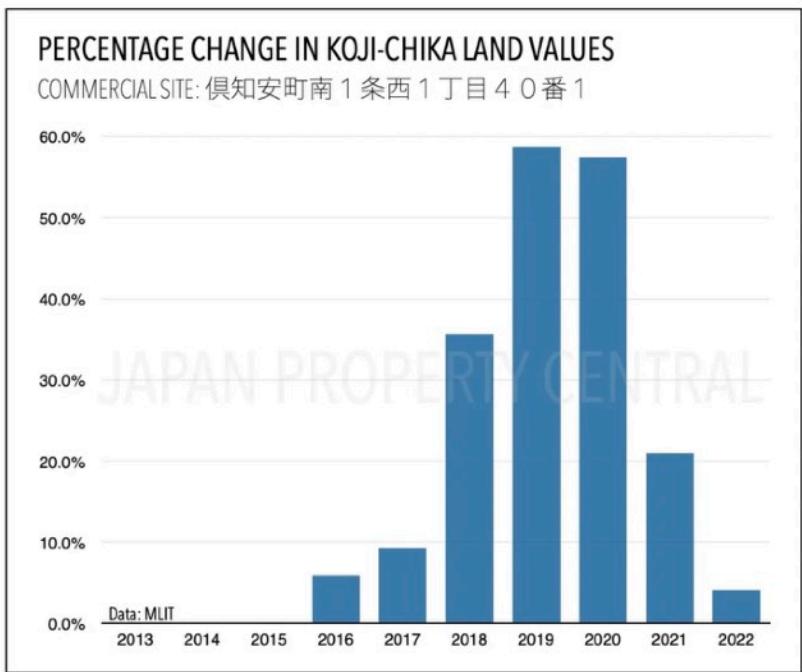
Land values in Japan's resort areas continue to bifurcate. Holiday home areas with proximity to major urban centers have performed better than areas that are either too remote in terms of access or are heavily dependent on foreign tourists.

Japan's holiday home areas, specifically those that are accessible within around an hour from Tokyo, have seen a surge in demand as people purchase weekend escapes and retreats. A small number of Tokyo residents have even made a permanent move to resort areas, although the vast majority still keep their primary residence in the city.

Karuizawa saw government-assessed residential land values increase by 11.2% in 2022, and in 2021 saw a 16-fold increase in the annual transactions of houses priced over 80 million Yen. Historically, Karuizawa has averaged just 1.3 reported annual sales of houses over this price point. Favored by John Lennon, and the weekend playground for Tokyo's rich, this forest paradise is an hour by train from Tokyo. It also has shopping, restaurants, cafes, and golf courses to keep residents entertained.

Local agents report that any of the well-built or quality second-hand homes in Karuizawa have essentially sold out and the wait list for new construction is over a year. Demand began to surge in the summer of 2020. In 2021 the town saw a net inflow of 507 new residents, putting it in 3rd spot nationwide. It's important to note, however, that many holiday homeowners keep their main residence in Tokyo and are not counted in the town's population tally. Some of the new residents are IT workers in their 30s and 40s with children. If they're not working from the comfort of their own home, they are enjoying the telework options now offered by the local cafes and hotels.

Atami City in Shizuoka saw residential land values rise 1.87% in a survey site in front of the station. This comes after a 1.26% rise in 2021 and a 0.95% rise in 2020. Land values have, however, remained fairly flat for the past 15 years and are still 25% below the level seen in 2002 and 72% lower than they were in 1992. The hilly beachside resort area is about a 50-minute train ride on the bullet train from central Tokyo and has plenty of cheap resort apartments that sell for a fraction of what an apartment around greater Tokyo would cost. The bullet train station also provides quick access to Tokyo for remote workers to attend any necessary business meetings.



Changes in the growth of commercial land value at a survey site near Kutchan Station.

foreign-tourist-dependent town has not been able to welcome any foreign visitors due to travel bans in place until October 2022. While there have been some purchases with an eye on benefitting once borders re-open, there have been some cases of luxury hotels and other large mixed-use projects being put on hold for the time being.

Hello Hakuba

Residential land price growth in the ski town of Hakuba outstripped Niseko with 16.8% growth in 2022 after a 12.5% increase in 2021. Hakuba has benefitted during the pandemic as it offers easier access from Tokyo compared to Niseko, and, unlike Niseko, is still in its early stages of developing into a world-class ski resort.

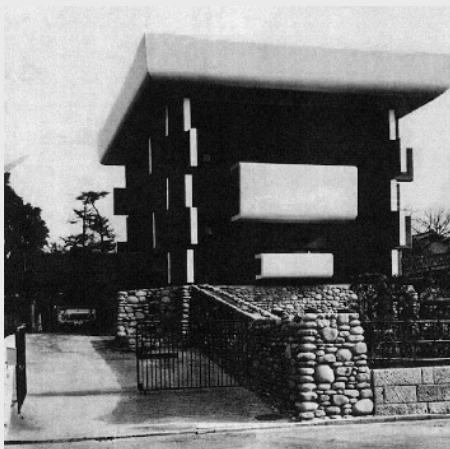


Niseko's slowing growth

With zero inbound foreign tourists for almost 2.5 years, momentum slowed in Niseko with none of its survey sites cracking the top 100 land value rankings in 2022. A commercial land site near Kutchan Station saw 4% growth in 2022 after 58% growth in 2019, 57% growth in 2020, and 21% growth in 2022.

A residential survey site in Niseko's Hirafu district saw 11% growth in 2022, after 50% growth in 2019, 44% growth in 2020, and 25% growth in 2021. This is still impressive considering the heavily

JUST A FEW OF OUR FAVORITE LISTINGS FROM 2022



BRUTALIST HOUSE IN KICHIJOJI

Designed by Yoji Watanabe and built in 1966. Listed at land value only and at high risk of demolition. Save a landmark piece of modernist architecture.

Listed for 588,000,000 JPY



KIYOSUMI-SHIRAKAWA WAREHOUSE

Tenanted by one of the more famous coffee shops in this hip third-wave coffee district in eastern Tokyo.

No longer on the market.



ROMANEE 80

Designed by Von Jour Caux, aka Japan's Gaudi. A tenanted pencil building in the heart of Shibuya and across the street from the redevelopment of the former Tokyu Honten Department Store (to be the home of The House Collective hotel in 2027).

Listed for 1,100,000,000 JPY

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