13th May 2025

Japan Real Estate Market Quarterly Review

First Quarter 2025

Summary

Macro Economy

- In Q1 2025, Japan’s real GDP is expected to decrease by 0.2% q-o-q (annualized 0.9% decrease), as a surge in imports dragged down net exports.
- Japan’s real GDP is expected to expand by 1.1% in FY2025, and 1.2% in FY2026.

Real Estate Market

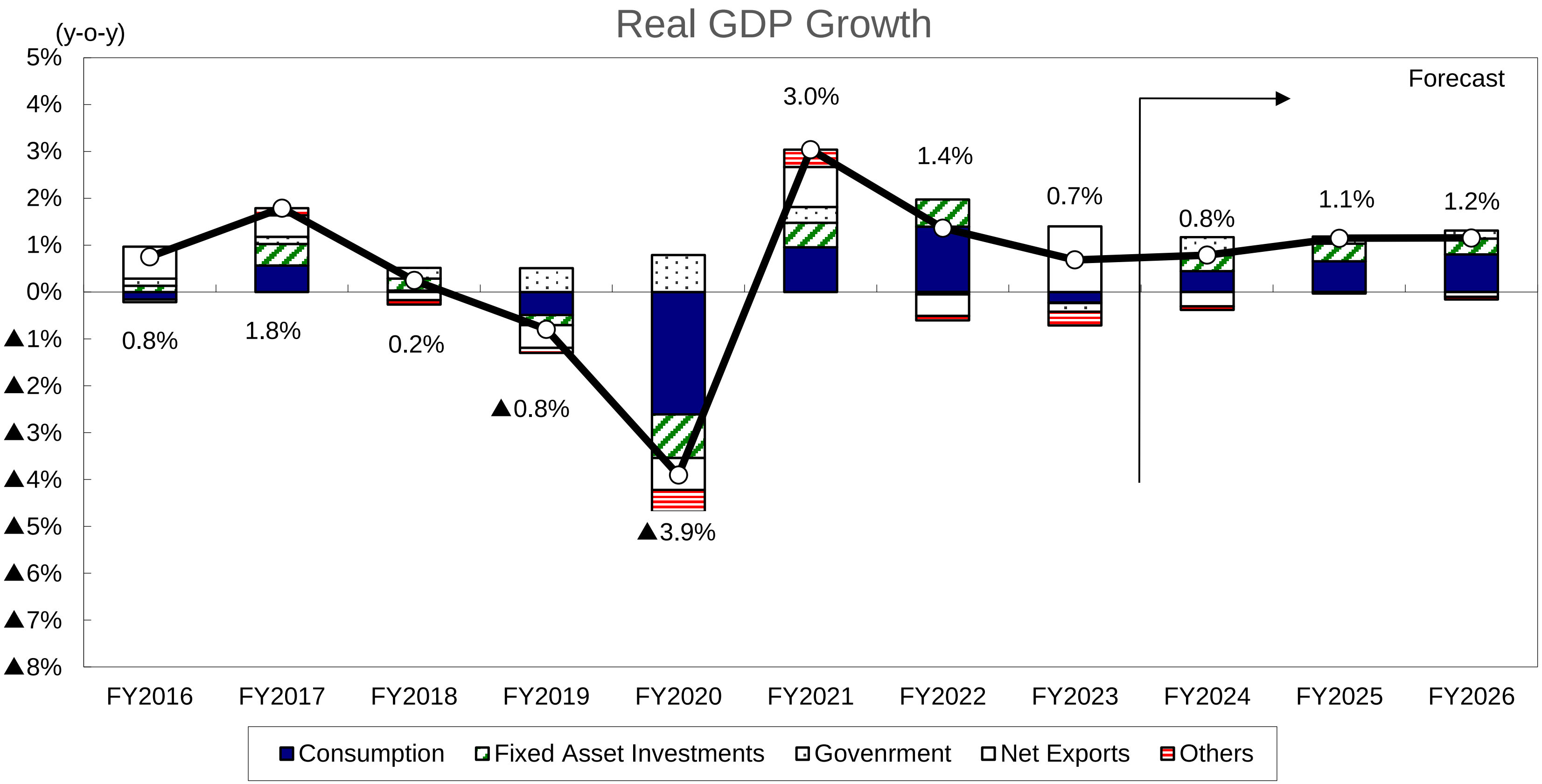
- Tokyo office rents are rising faster, signaling recovery; other major cities also remain on a recovery path.
- In Tokyo 23-ku, multifamily rents gaining upward momentum, supported by rising sale prices and wage growth.
- In the retail sector, domestic demand remains subdued and inbound spending is slowing due to a stronger yen and global concerns.
- Vacancy trends in logistics markets are diverging between Tokyo and Osaka.
- Hotel stays up on inbound demand, but high rates limit domestic travel.

Capital Market

- J-REITs gained on buying interest driven by perceived undervaluation.
- J-REITs acquired property assets totaling JPY380 billion in Q1 2025 (-25% y-o-y).

While the economy remains on a moderate recovery trend overall, the outlook has grown increasingly uncertain

- In Q1 2025, Japan's real GDP is expected to decrease by 0.2% q-o-q (annualized 0.9% decrease). A sharp increase in imports of goods and services likely weighed on growth by contributing negatively to net exports.
- Japan's real GDP is expected to expand by 1.1% in FY2025, and 1.2% in FY2026.



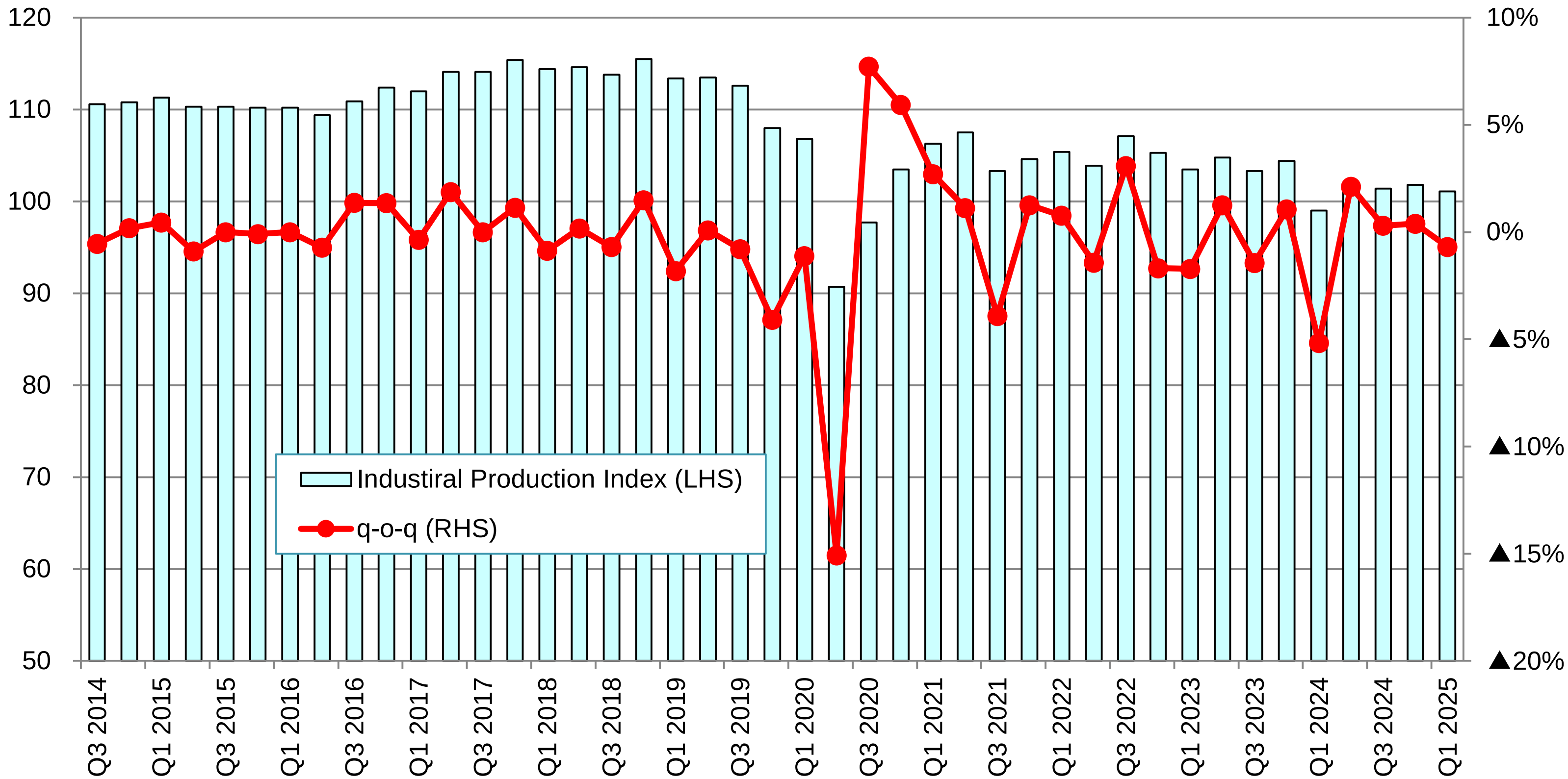
Source: The Economic and Social Research Institute, Cabinet Office, Government of Japan, Taro Saito (2025) "Weekly Economist Letter" NLI Research Institute, April, 2025.

The downturn in industrial production is expected to persist beyond April, driven by the impact of the Trump tariffs

RESEARCH

- Industrial production decreased by 0.7% q-o-q in Q1 2025, marking the first contraction in four quarters.
- By sector, production machinery (-4.7%) and information and communication equipment (-11.5%) saw sharp declines, weighing on overall output.

Industrial Production Index

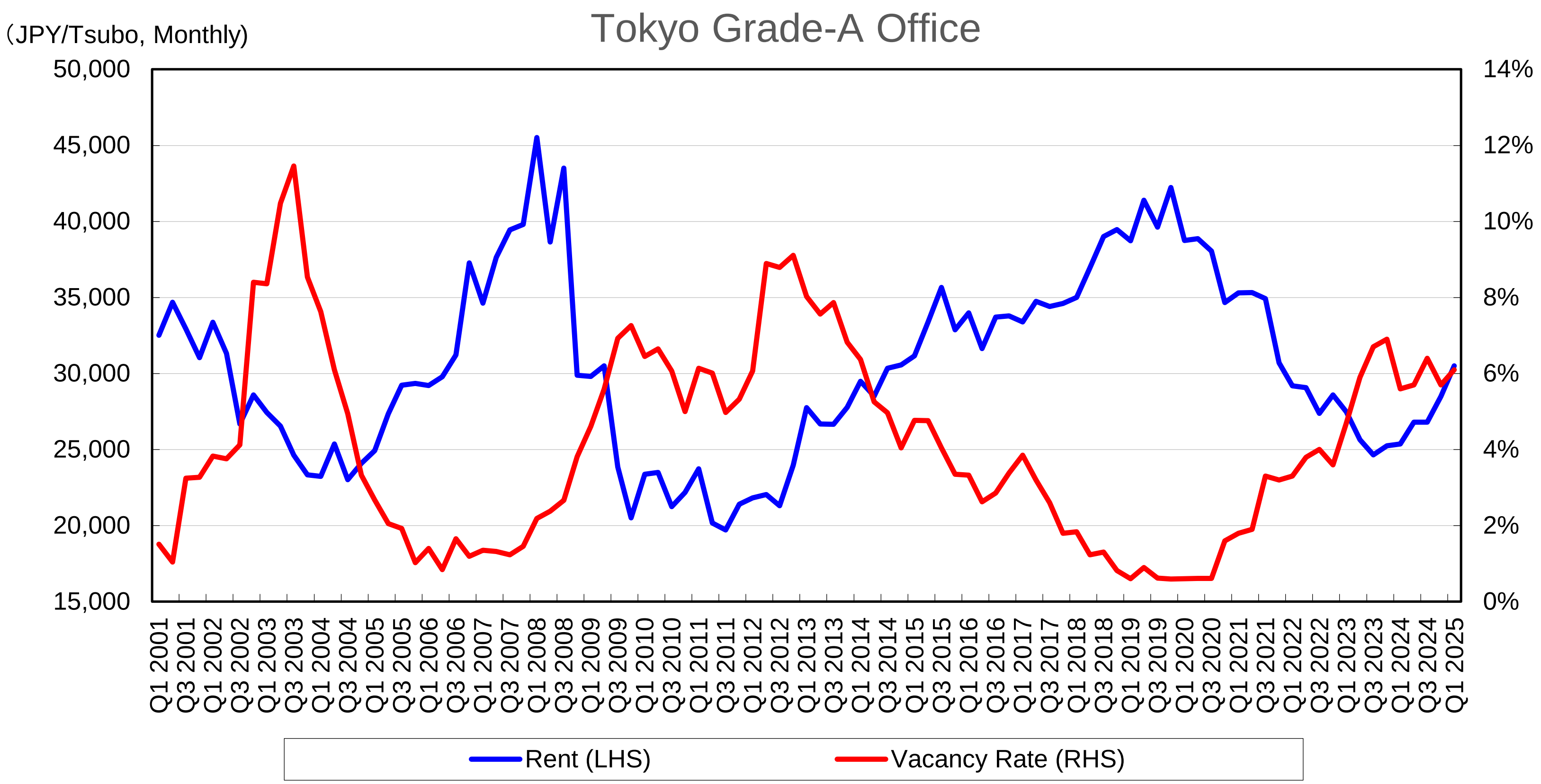


Source: The Ministry of Economy, Trade and Industry

In the Tokyo office market, the pace of rental growth has accelerated, signaling a strengthening recovery trend

RESEARCH

- In Q1 2025, Tokyo grade-A office rents were JPY 30,509 per tsubo, increasing 7.1% from the previous quarter.
- Vacancy rates increased modestly to 6.1% from 5.7% in the previous quarter.

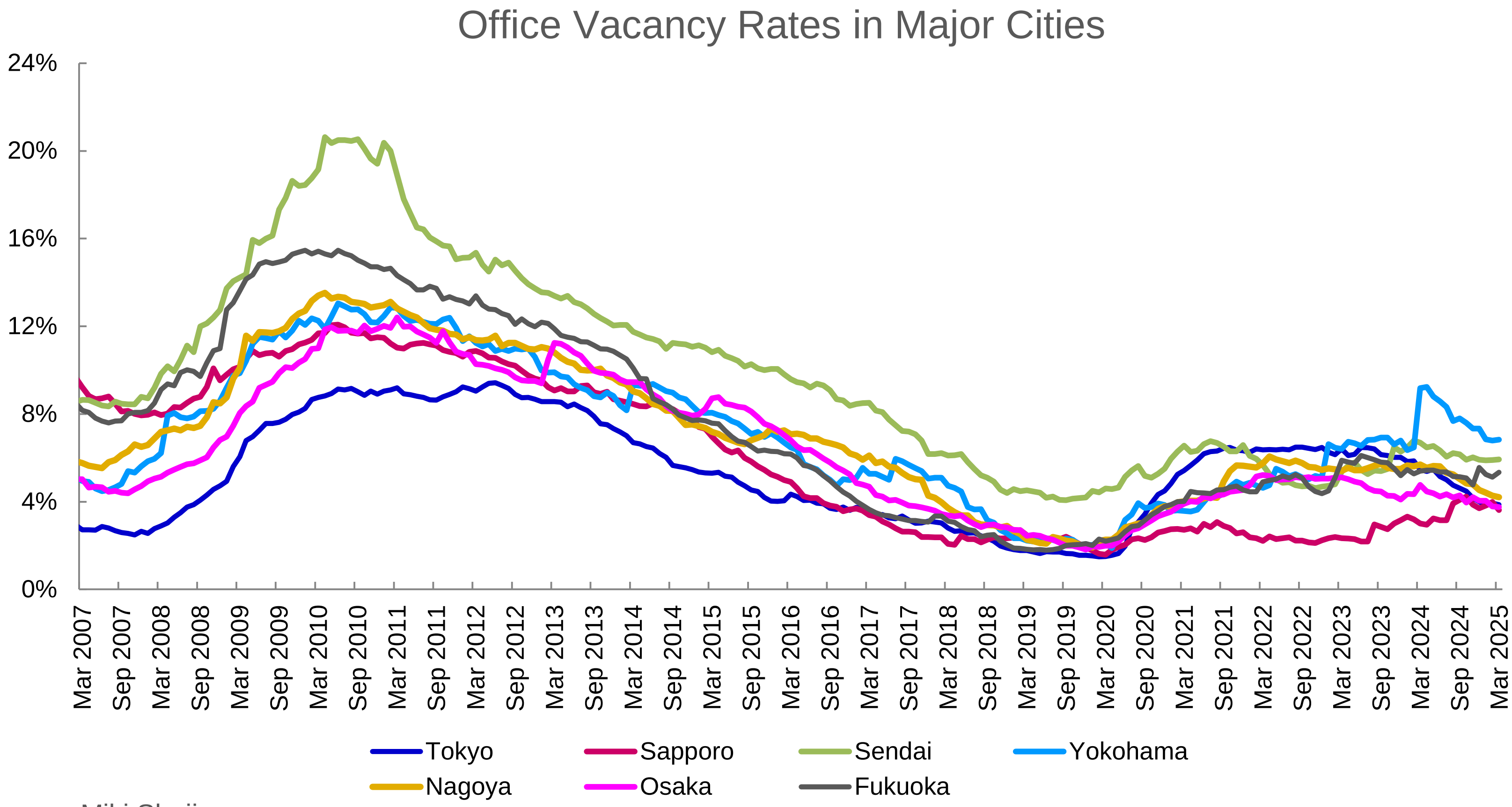


Tokyo Grade-A Office: Sanko Estate selects high grade buildings individually based on its guidelines such as GFA of more than 33,000 sqm, main floor sizes of more than 990 sqm, building age of 15 years or less and so on.
Source: Sanko Estate (Vacancy Rate), Sanko Estate and NLI Research Institute (Rent)

Office markets in major cities continue to recover, though the pace varies depending on new supply

- In Q1 2025, Vacancy rates in major cities ranked as follows:

  Sapporo (3.6%), Osaka (3.8%), Tokyo (3.9%), Nagoya (4.2%), Fukuoka (5.3%), Sendai (5.9%), and Yokohama 6.8%).



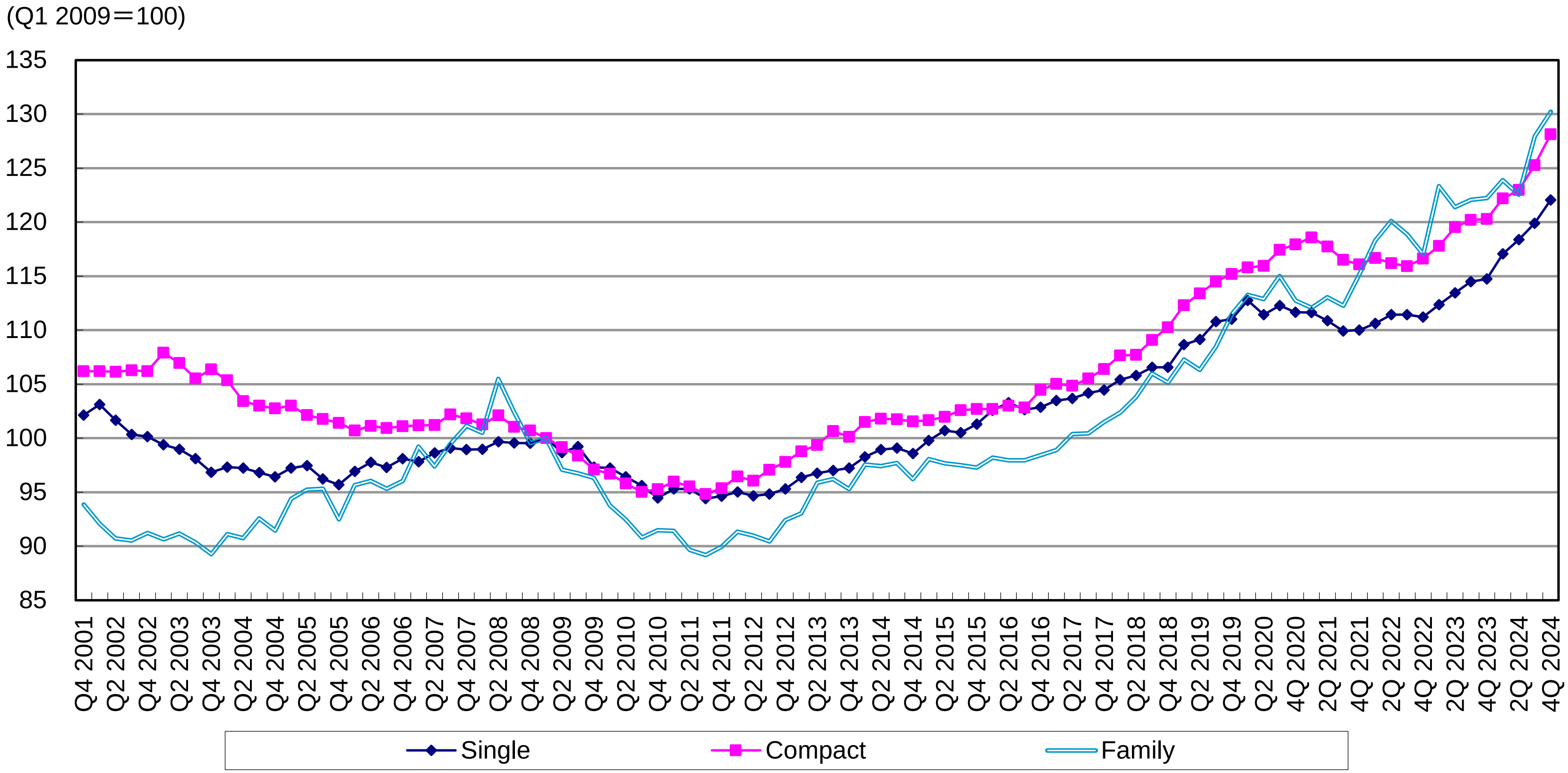
Source: Miki Shoji

In Tokyo 23-ku, multifamily rents gaining upward momentum, supported by rising sale prices and wage growth

RESEARCH

- In Q4 2024, multifamily rents of single-, compact- and family-type in Tokyo 23-ku changed by +7.3%, +7.8%, and +8.0% y-o-y, respectively.

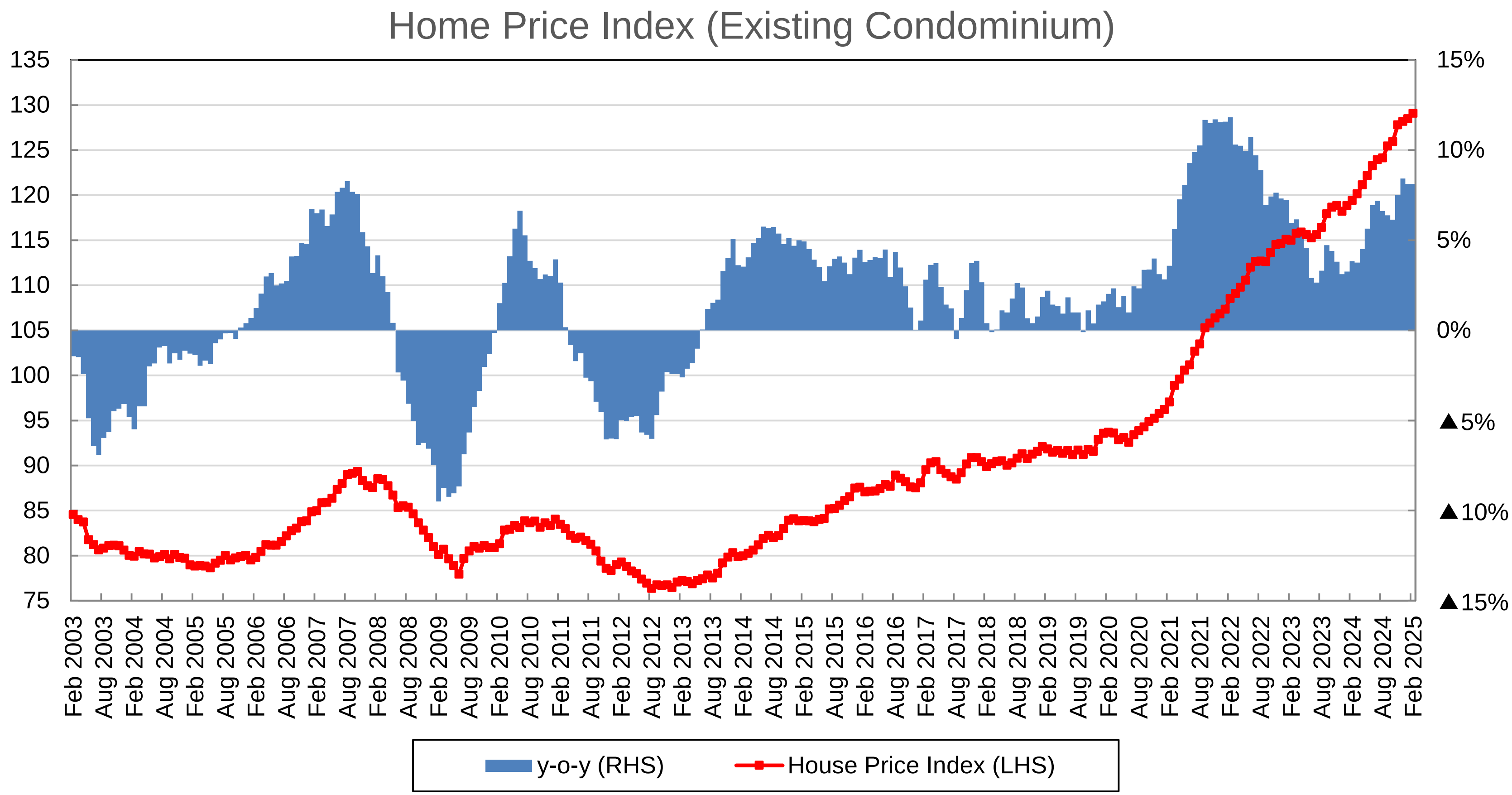
Multifamily Rents in Tokyo 23-ku



Source: Mitsui Sumitomo Trust Research Institute and At Home

Housing prices have continued to trend steadily, with little change from the previous period

- In Greater Tokyo, condo price rose by 8.1% y-o-y in February 2025.
- The number of existing condo contracts in Greater Tokyo increased by 25.5% y-o-y in Q1 2025, marking the second consecutive quarter of growth.

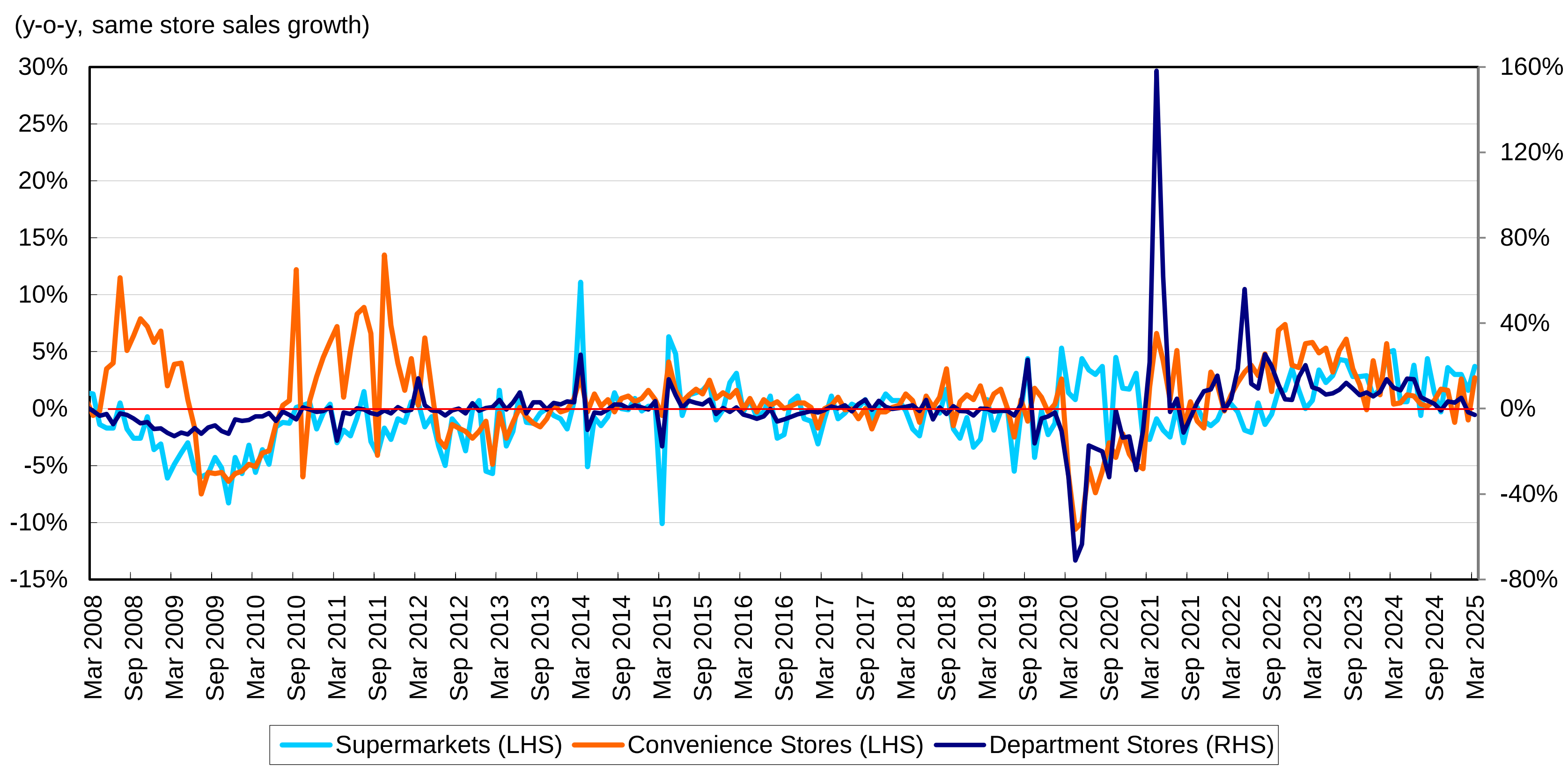


Source: Japan Real Estate Institute

While domestic consumption remains subdued, inbound spending is slowing amid a stronger yen and concerns over a global slowdown

- In Q1 2025, sales increased by 0.1% for department stores, 2.8% for supermarkets, and 1.5% for convenience stores.

Retail Sales Growth

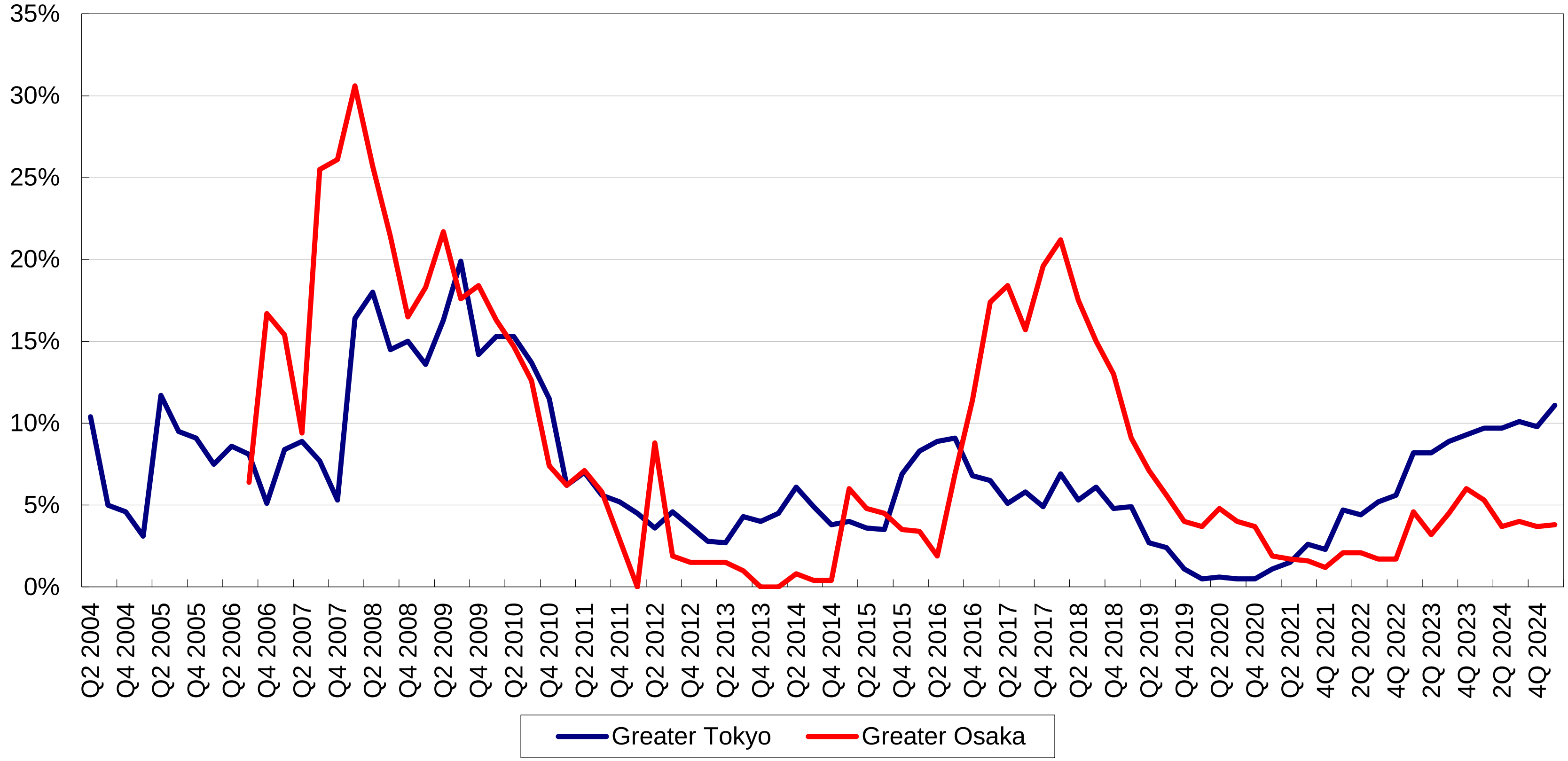


Source: The Ministry of Economy, Trade and Industry

Diverging vacancy trends in Tokyo and Osaka continue

- In Q1 2025, vacancy rates in Greater Tokyo increased to 11.1% (from 9.8%), topping 11% for the first time since 2010.
- In Greater Osaka, vacancy rates held steady at a low 3.8% (+0.1 pts), reflecting continued tight conditions.

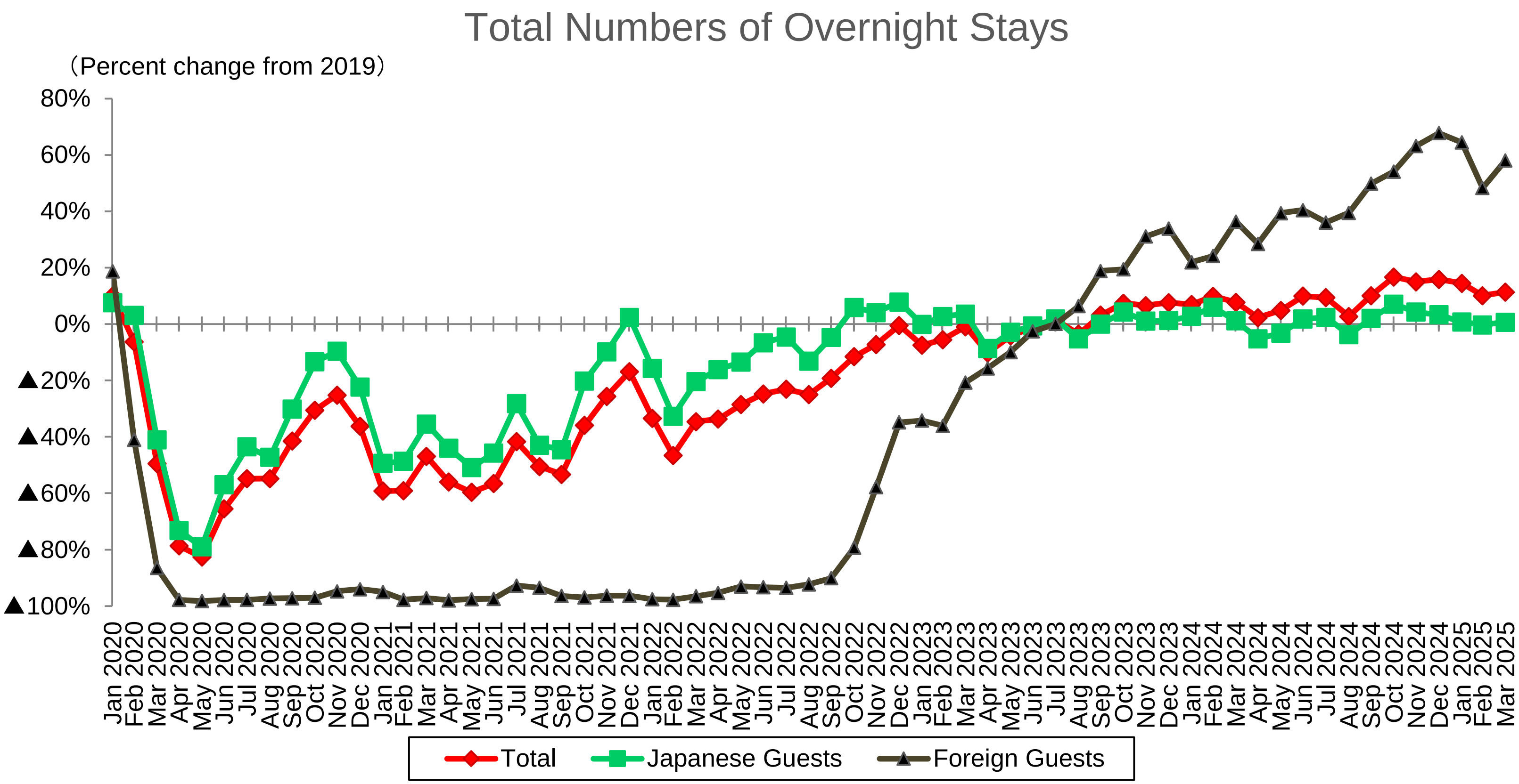
Vacancy Rates of Large Multi-Tenant Logistics



Source: CBRE

Hotel stays are rising on strong inbound demand, but high room rates are weighing on domestic tourists

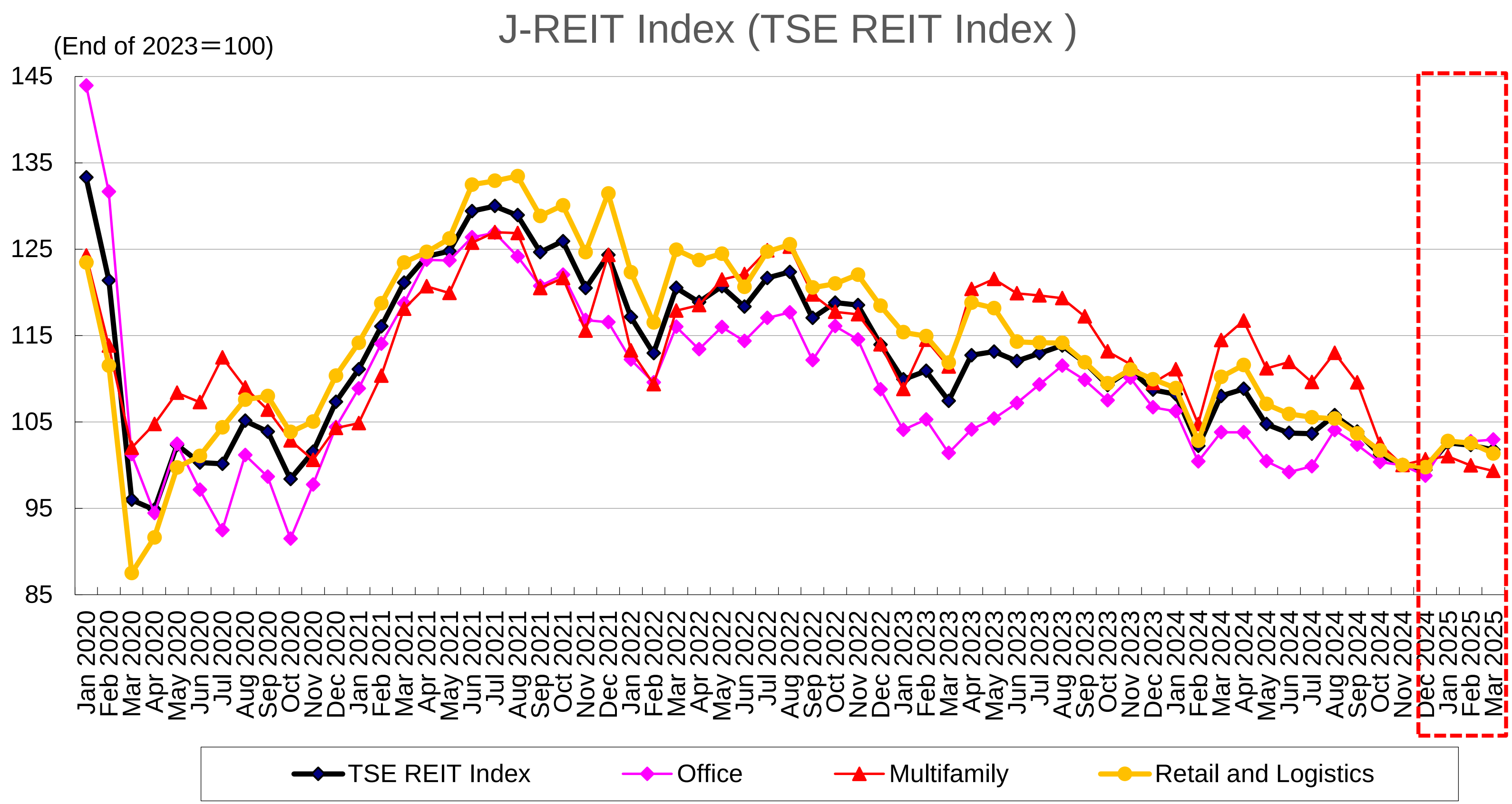
- In Q1 2025, the total number of overnight stays was +3.5% compared to the same period in 2019. Domestic stays declined by 2.7%, while stays by foreign visitors increased by 23.0%.



Source: Japan Tourism Agency

J-REITs gained on buying interest driven by perceived undervaluation

- J-REIT Index rose 2.3% q-o-q in Q1 2025, trading at a price to NAV ratio of 0.81x, dividend yield at 5.1%, and dividend and JGB spread at 3.6% in March 2025.

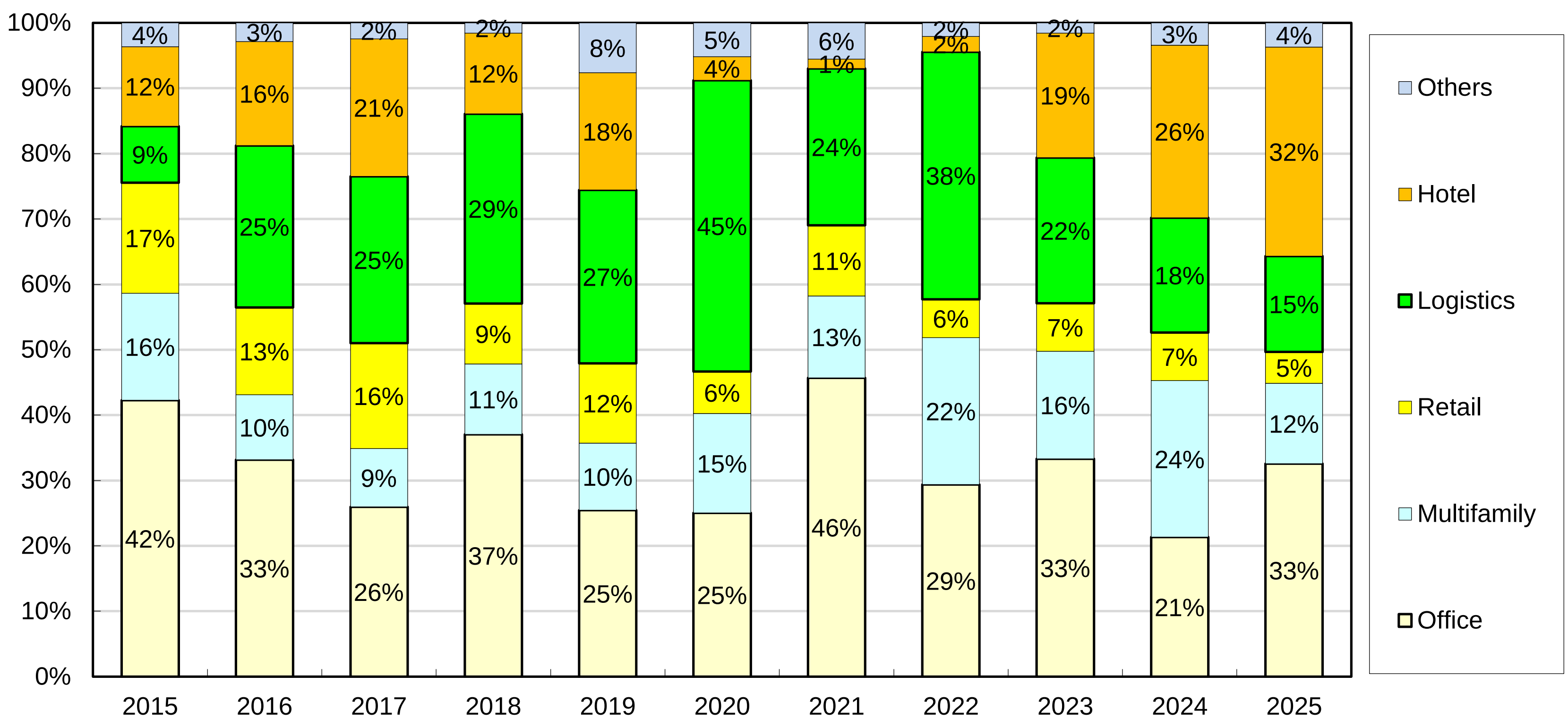


Source: Tokyo Stock Exchange

J-REIT property acquisitions have shown a rising share of hotels, whereas acquisitions of logistics facilities have been subdued

- J-REITs acquired property assets totaling JPY380 billion in Q1 2025 (25% decrease y-o-y).
- Office (33%) accounted for the largest share of J-REIT acquisitions, followed by hotels (32%), logistics (15%), multifamily (12%), retail (5%), and others (4%).

J-REIT Asset Acquisitions by Sector as a % of total J-REIT Acquisitions



Note: assets of new J-REITs are included at IPO.
Source: Disclosure Documents

Contacts

Financial Research Department

Real Estate Investment Research

Hiroto Iwasa
+813-3512-1858
hiwasa@nli-research.co.jp

Tasuku Yoshida
+813-3512-1861
tyoshida@nli-research.co.jp

Fumiko Watanabe
+813-3512-1853
fwatanabe@nli-research.co.jp

Makoto Sakuma
+813-3512-1778
msakuma@nli-research.co.jp

Editor and Contributor:

Hiroto Iwasa and Makoto Sakuma