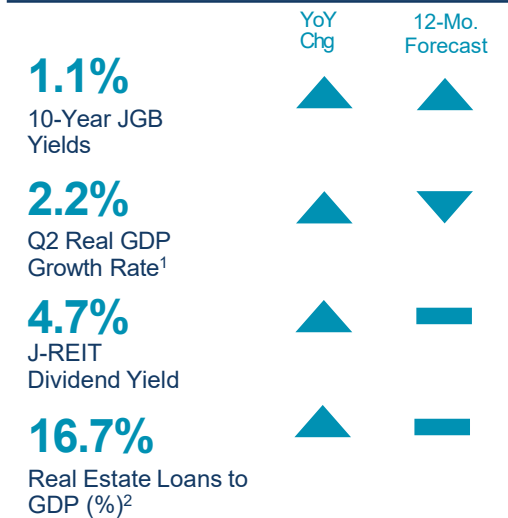


MAJOR MARKET INDICATORS H1 2024



Source: Ministry of Finance, Japan Center for Economic Research, IBRC, Bank of Japan

¹ Real GDP seasonally adjusted consensus estimate, quarterly
² Outstanding loan balance of all real estate companies dividend by 2024 Q1 nominal seasonally-adjusted GDP as of March 2024
³ Mizuho Research and Technologies
⁴ Press releases of each company

Expect an Upward Interest Rate Trajectory on Currency Weakness and Growing Inflationary Pressures

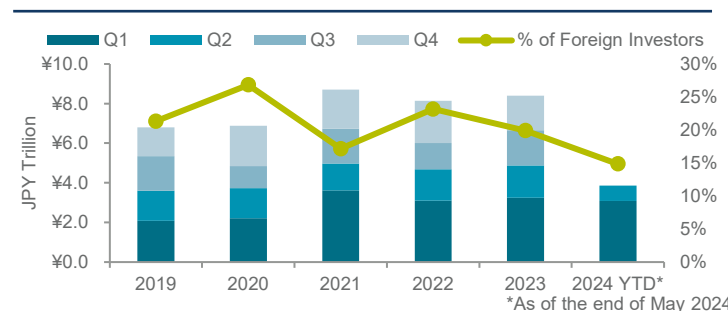
Japan's quarterly real GDP is expected to grow at 2.2% in Q2 2024, with the annual growth to be at minus 0.3% due to the temporary impact of the Noto Peninsula earthquake. With lower interest rates in Europe and weakening demand from elevated interest rates in the United States, the aggregate real GDP growth of Japan, the U.S., and Europe is projected to remain around 1.4%. The yen recorded a historic low of 160 against the US\$ as the wide interest rate differential is expected to remain for a longer period. A prolonged period of weakness has lifted the cost of imported materials, leading to an elevated inflation level outlook with a measured increase in interest rates.

Despite higher interest rates, the outstanding real estate loan continued to increase to 16.7% of nominal GDP (see the bottom right chart overpage). The latest banks' DI of real estate loans has also now exceeded the pre-COVID-19 level, reflecting the improved profitability of the hotel and entertainment industries. The cost of debt remains low for J-REITs, with the average cost around 0.7% and the average duration of four years. Despite unrealized gains remaining at around 30% of their book value, the discount to their net asset value has widened to 0.85 times (see the graph at bottom left). In response to weakening market sentiment, the J-REIT share repurchase announced until 1H 2024 expanded to ¥20 billion, closer to the cyclical peak of ¥23 billion in the full year 2022.

Pricing: Annual Transaction Volume Drops 2.8% y-o-y on Mixed Trend by Sector

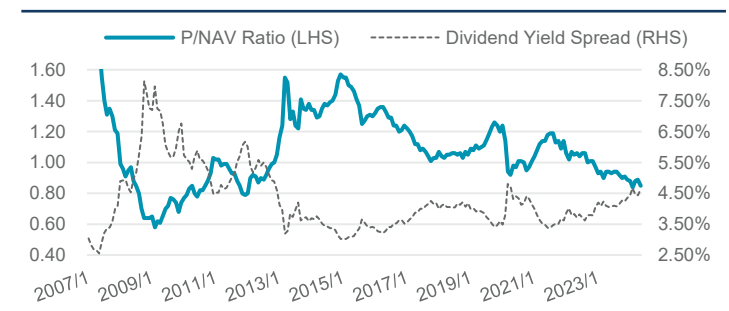
Fewer transactions are being executed as the number of properties for sale continues to fall. The LTM transaction volume totaled JPY 8 trillion, down 2.7% y-o-y. Looking ahead, non-domestic markets are expected to benefit from a faster recovery than Japan, as the prolonged period of high interest rates is likely to be reversed in the coming quarters. Acquisitions by foreign investors were down 7% y-o-y. Conversely, domestic investors expanded their acquisitions by 17%, and domestic corporations by 14%, as their planned acquisitions in the previous year had been delayed due to more aggressive bidding by foreign investors. However, corporate buyers have also expanded sale and leaseback deals, resulting in a net sales position during 1H24. By sector, only Multifamily reported a rise in transaction volume, up 22% y-o-y, attracting retail investor demand through modest rent increases. Conversely, transaction volume fell y-o-y in the Retail (down 17%), Logistics (down 13%), and Office (down 13%) sectors. Looking ahead, Retail and Office are expected to benefit from improving rental performance, along with Hotels, the latter with performance metrics now recovering above the pre-COVID baseline. However, the Logistics sector is expected to suffer from weak rental growth prospects for existing properties, along with concerns over excess supply in the fringes of the Greater Tokyo Area.

Historical Real Estate Transaction Volume (Annualized)



Source: MSCI, ARES, Cushman & Wakefield

Historical Trend: J-REIT Monthly P/NAV Ratio since 2007



Source: ARES, Ministry of Finance

Pricing: Income Returns Falling to a Historical Low via Rising Costs and Weak Rent Growth

Capital inflows continued, expanding the universe of income-producing properties at 5Y CAGR of 10% with the securitized market totaling JPY60 trillion at the end of fiscal year 2023, according to the latest survey conducted by the Ministry of Land, Infrastructure and Transportation. By asset class, all sectors except Hotels have recorded the lowest income returns since July 2007, as landlords have failed to pass cost increases to their tenants since mid-2022. Hotels in Tokyo reported lower growth than in other major cities, with the Tokyo average daily price¹ growth since the end of 2018 (up 5.3%) significantly lagging the corresponding growth in Singapore (up 27.2%) and London (up 25.2%). Capital returns remain stable with the observed transaction cap rate falling to the 2% range for office and multifamily assets in central Tokyo. However, the asset-specific risk premium has been rising with the reduced risk appetite, further widening the cap rate range by individual asset, as illustrated in the top left table overpage.

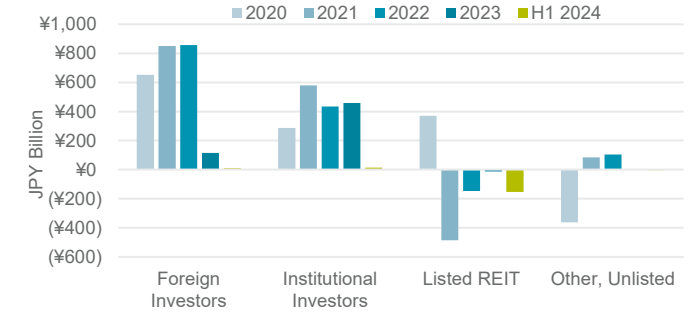
Hotel portfolio transactions expanded in response to the price recovery seen during the 1H 2024 period. Large corporate transactions were also reported to have improved capital efficiencies through sale and leaseback transactions. Under KKR's ownership, Logisteed transferred their logistics assets to their REIT through a sale and leaseback transaction (JPY108.3 billion yen). In a similar format, KKR acquired leasehold land (JPY7.8 billion) from Central Tank Terminal in December 2023.

Outlook

- Focus on external factors with scenario analysis for potential monetary policy change over the next 12 months. Despite limited options for revising the BOJ's monetary policy, expect upswing in risk premiums.
- The real estate investor base has been expanding into retail investors with large household savings, lowering expected yields. Some multifamily assets are already falling below the acquisition cost.
- Recommend modern logistics in regional cities, and reconfiguring urban office for core funds with large liquidity positions, together with hybrid housing for value-add funds with higher risk tolerance.

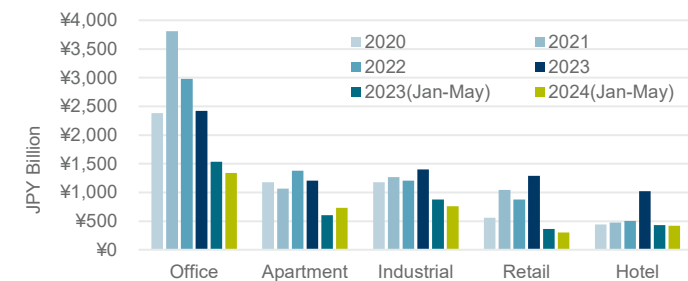
¹ CoStar estimate for the full year ended December 31, 2023

Net Transaction Volume by Investor, Since the End of 2020



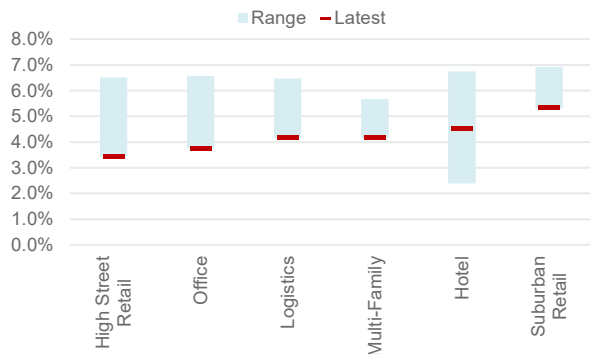
Source: MSCI, Cushman & Wakefield

Investment Transactions by Use



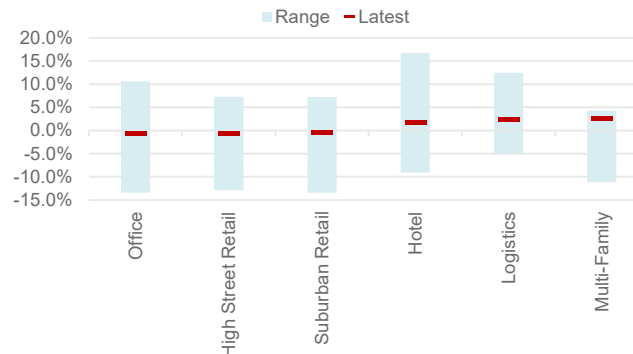
Source: MSCI, ARES, Cushman & Wakefield

Income Return by Sector, Since July 2007



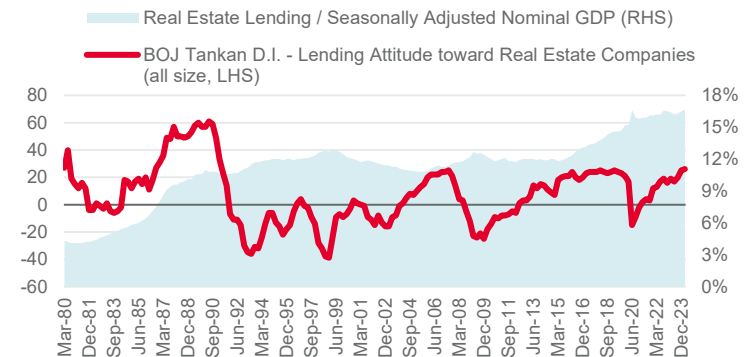
Source: ARES, Cushman & Wakefield, Final figures as of September 2023, as of June 2024

Capital Return by Sector, Since July 2007



Source: ARES, Cushman & Wakefield, Final figures as of September 2023, as of June 2024

Bank Lending Attitude and the BoJ Tankan D.I., since 1980



Source: Bank of Japan, Ministry of International Affairs and Communications, Cushman & Wakefield

Capital Markets H1 2024

Investment Transactions by Property Type (Last 12 Months)

PROPERTY TYPE	NUMBER OF PROPERTIES	VOLUME (JPY Billion)	CAP RATE (LOWER – UPPER LIMIT)
Office	300	¥2,230	2.5% - 5.6%
Multi-Family	451	¥1,336	2.4% - 5.9%
Logistics	79	¥1,284	3.4% - 7.7%
Retail	161	¥1,225	3.1% - 6.7%

Source: MSCI, ARES as of the end of May 2024

Investment Assets Under Management

PROPERTY TYPE	ASSETS UNDER MANAGEMENT (JPY Billion)	Y-O-Y NET CHANGE	ANNUAL INCOME RETURN	ANNUAL CAPITAL RETURN
Office	¥12,342	2.8%	3.8%	-0.7%
Logistics	¥6,667	8.1%	4.2%	2.3%
Multi-Family	¥5,042	2.0%	4.2%	2.5%
Retail	¥3,879	-0.7%	4.5%	-0.5%

Source: ARES (AJIP), Final figures as of the end of September 2023, as of June 27, 2024

Ratio of Unrealized gains by Sector

PROPERTY TYPE	UNREALIZED GAIN (JPY Billion)	RATIO TO BOOK VALUE
Office	¥1,867	24.1%
Logistics	¥1,395	32.2%
Multi-Family	¥1,094	37.8%
Retail	¥551	20.3%

Source: Calculated based on the most recent quarterly financial results of all holding assets as reported by J-REIT

Major Transactions in the Order of Transaction Size (Last 6 Months)

PROPERTY NAME	TYPE	BUYER	SELLER	PRICE (JPY Billion)	GFA (Tsubo)	PRICE / JPY per Tsubo	CAP RATE	LOCATION
LOGISTEED logistic facilities and Leasehold land (28 properties)	Logistics	IIF	LOGISTEED	¥108.3	202,448 ¹	¥0.5	4.3%	Kanagawa, Fukuoka, etc
Aoyama Building	Office	Taisei Corporation	Gaw Capital	¥89.0	11,258 ²	¥7.9	-	Minato-ku, Tokyo
Unizo Hotel (14 properties)	Hotel	KKR	Unizo	¥76.7	20,908	¥3.7	-	Osaka, Kyoto, etc
The Park Front Hotel at Universal Studios Japan	Hotel	Tokyu	-	¥70.0	14,175	¥4.9	-	Osaka-shi, Osaka
HUB YATOMI	Logistics	PAG	Hines	¥65.5	65,907	¥1.0	-	Yatomi-shi, Aichi
Bridgestone Mikawadai No.1/2 Company Housing	Multi-Family	-	Bridgestone	¥65.0	1,723 ³	¥37.7	-	Minato-ku, Tokyo
Garden City Shinagawa Gotenyama	Office	-	Sekisui House REIT	¥61.0	19,050	¥5.2	3.5%	Shinagawa-ku, Tokyo
Hommachi Garden City	Office, Hotel	BGO	Sekisui House REIT	¥50.3 ⁴	14,872	¥5.7	3.3%	Osaka-shi, Osaka

¹Site area for leasehold land, ²Transaction subject area, ³Site area, ⁴Excluding 35% interest in the office building to be transferred in November 2024

Source: MSCI, Nikkei Real Estate Market Data, press releases on each company's website

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