

## Real Estate Strategic Outlook: Japan

### Pricing hits an inflection point

#### Interest rate normalisation at a more cautious pace

The Bank of Japan (BOJ) held the cash rate steady at 0.75% over the first three meetings till May 2026, adopting a more cautious approach in light of the Middle East conflict. While core inflation appears to have slowed to 1.4% (April 2026), there is reason to believe government subsidies are masking the true momentum of underlying inflation in the economy. Economic growth is expected to moderate over the year ahead but remain in positive territory. The stabilisation of the Yen continues to be of greater importance, with the US Federal Reserve holding rates steady so far. While timing is uncertain, it is becoming more likely that we will potentially see one to two rate hikes over 2026.

#### Risk free rate in uncharted territory

The Japan 10-year government bond yield has experienced a significant increase over the past 6 months rising to 2.7% (May 2026). This marks a significant inflection point in the Japan market where for the first time in history the risk premium to commercial property yields has closed. While the market has historically accepted a risk premium of 170-200bps for Tokyo A-Grade Office, we believe risk premiums can remain tighter than historical levels, supported by 1) weight of capital entering the Japan market, 2) strong leasing fundamentals, 3) higher longer-term inflation expectations, supporting above average rental growth. We are forecasting cap rates to expand between 20-50bps over the next three years, more pronounced in the Office sector. We believe strong rental growth could offset most of the impact to capital values, however non-core office markets and Tokyo Logistics look more exposed.

#### Logistics: Preference for Osaka Logistics

The Osaka Logistics market continues to display strong leasing momentum, with approximately 70% of the supply pipeline pre-committed over 2026. Leasing demand is underpinned by Ecommerce occupiers, where we continue to favour urban logistics locations within the Central and Inland sub-markets. Rental growth has begun to accelerate, outpacing Greater Tokyo, with vacancy at 3.7% (Dec 2025). The

outlook for supply is limited across both markets as higher construction costs and growth in land values seem to have led to a 30% gap between economic and market rents. We believe the Osaka market is better positioned to capture this rental growth upside in the near term.

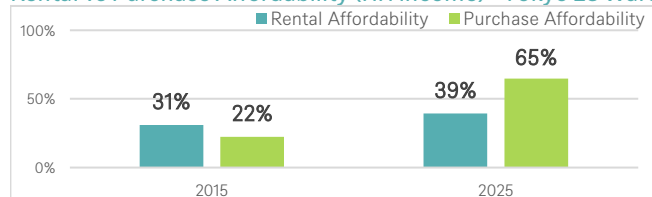
#### Residential: Renting now more affordable than owning

For sale condominium prices continue to climb in Tokyo (23 wards) and Osaka City up c30% over the past 12 months (March 2026). Both cities have recorded high single to double digit rental growth year on year, underpinned by vacancy between 2.5-3.0% (tighter in Osaka). Rising prime lending rates and a doubling of condominium prices since 2015 has seen the economics of renting 'flip' with renting now 40% cheaper than the cost of servicing a mortgage for a household. We believe demand for multifamily/co-living assets could increase, particularly in Tokyo and Osaka driven by urbanisation and affordability pressures.

#### Office: Tokyo Office market set to tighten further

Tokyo's market fundamentals continue to strengthen, with total market vacancy across the five central wards now close to 2% and A-Grade significantly tighter at 0.7% (March 2026). The outlook for supply is limited supported by high levels of pre-commitment and construction costs pressures weighing on project timing. The rental growth story in Tokyo continues to accelerate, with much of the double-digit growth achieved reflecting a catch-up in rents back to 2020 levels. We believe there is scope for vacancy to tighten further over the next 2-3 years supporting continued momentum in rental growth.

#### Rental vs Purchase Affordability (HH Income) - Tokyo 23 Wards



Source: DWS, At Home (March 2026), Kantei (March 2026)

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