PGIM

REAL ESTATE INVESTMENT RESEARCH

NAVIGATING JAPAN'S DISTINCT REAL ESTATE INVESTMENT LANDSCAPE

Where Structural Shift Meets Cyclical Uptrend

Executive Summary

Japan's current investment landscape is characterized by a rare dynamic for the country – an unusual convergence of rising interest rates driven by policy normalization, yet continued resilience in real estate returns supported by strong capital inflows and robust underlying fundamentals. Amid the interplay of structural shifts and cyclical momentum, income and income growth are expected to be the primary drivers of returns in the current cycle.

What Are the Real Drivers Behind Forward Returns?

Structural Shift (Everyday Life)

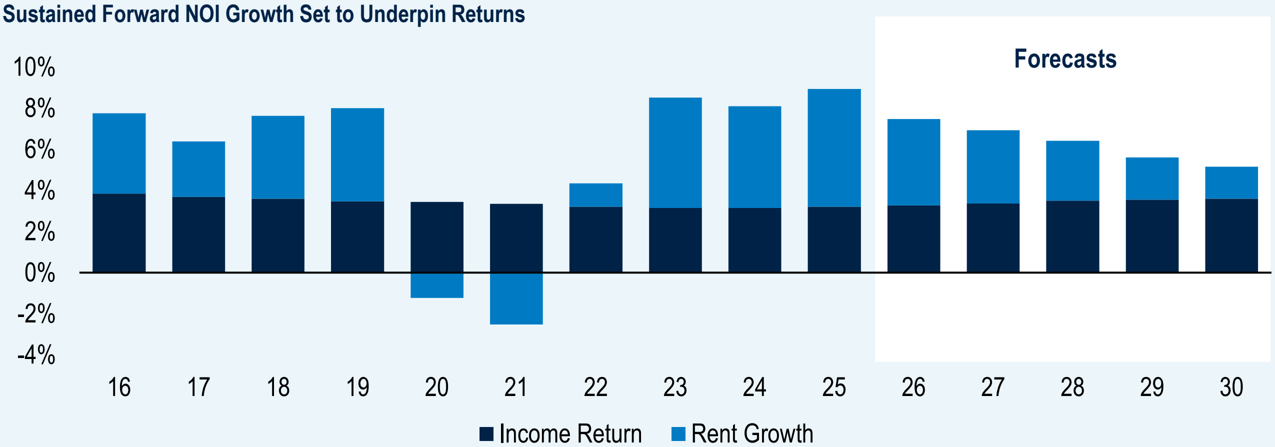
Underpinned by Japan's transition into a reflationary environment, with sustained price and wage growth enabling policy normalization and resulting in **improved visibility and predictability of rental income growth and cash flows**.

Cyclical Upturn (Market Momentum)

Reflected in Japan's varied city-sector trends, where resilient **supply-demand conditions and a strengthening consumption base supports medium-term NOI uplifts** (**Exhibit 1**), though some further yield softening is still expected.

Exhibit 1: Japan All Property Buy-Hold Returns, 2016-30F* (%)

Sustained Forward NOI Growth Set to Underpin Returns



*An average of Office, Retail, Logistics, and Multifamily sectors across Tokyo and Osaka. Excludes yield shift impact.
Sources: JLL, Oxford Economics, PMA, PGIM. As of April 2026.
Forecasts are not guaranteed and may not be a reliable indicator of future results.

April 2026

THE CASE OF STRUCTURAL SHIFT:
ENHANCED VISIBILITY AND PREDICTABILITY OF INCOME GROWTH

Japan's current macroeconomic environment reflects a structural shift from deflation toward sustainable price and wage growth, enabling gradual policy normalization (**Exhibit 2**).

Reflecting this transition, policy rates are rising from a low base and remain accommodative in absolute terms, presenting still favorable financing conditions while supporting income growth and valuation stability, and overall real estate fundamentals.

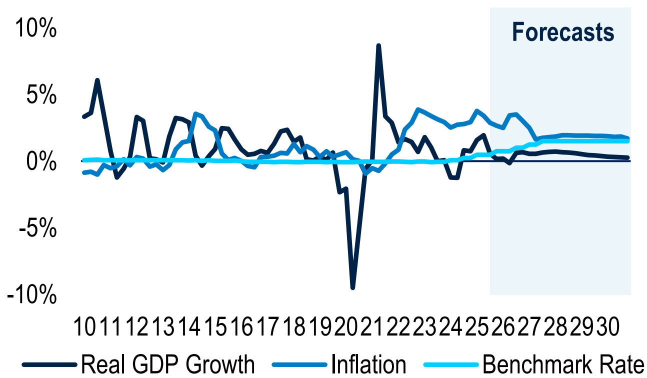
This, in turn, preserves attractive cash-on-cash yields (**Exhibit 3**) despite rising borrowing costs and considerably tighter cap rates relative to historical levels.

The resilience of these cash-on-cash yields is underpinned by a strengthening income profile characterized by improving NOI contribution from the now higher structural rental growth rates with enhanced visibility, alongside the current upcycle.

Importantly, the continued positive carry between asset yields and cost of debt supports the case that leverage can remain accretive to equity returns in selected sectors, while also offering a buffer against potential capital value volatility.

Exhibit 2: Japan Key Macroeconomic Indicators

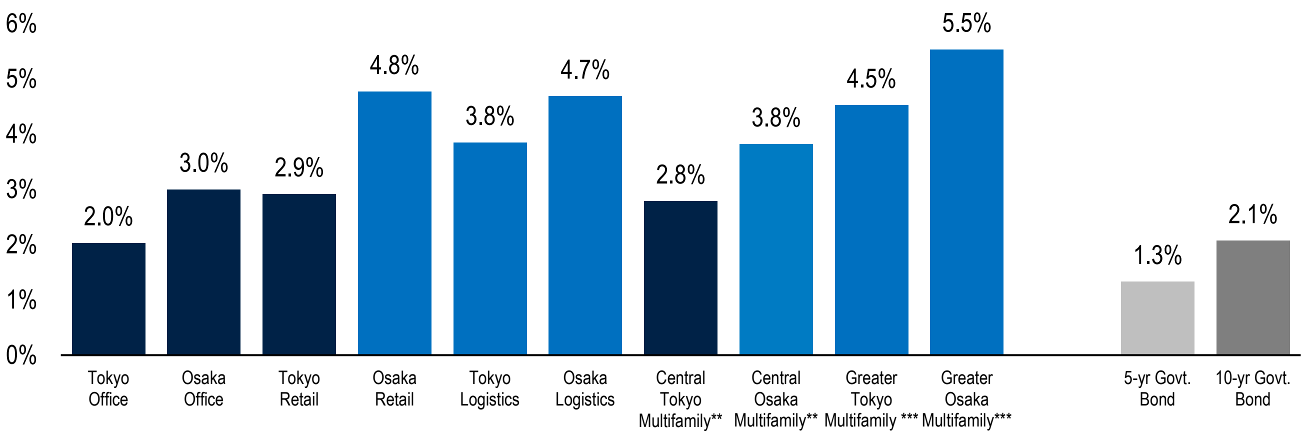
Rate Normalization Set to Continue Given Elevated Inflation



Sources: Oxford Economics, PGIM. As of April 2026.

Exhibit 3: 5-Year Hold Cash-on-Cash Yield (2026-30F) vs. Japan Government Bond Yields (4Q 2025)* (%)

Japan Multifamily in Select Markets/Sub-markets, Japan Logistics and Osaka Retail City Sectors Are Viable Income Strategies



*Refers to CoC yields based on an investment hold period of 5 years from 1Q 2026 to 4Q 2030. The 5-year hold period CoC yields are computed based on the projected cash flows with a 2.5% cost of debt and leverage of 55%. These figures are pre-tax pre-fees. **Market data for Tokyo 5-Kus and Osaka Central 6-Kus is based on PGIM's Japan team's market intelligence. ***Refers to average multifamily assets across Tokyo 23 Wards and Greater Osaka Area.
Sources: JLL, Oxford Economics, PMA, PGIM. As of April 2026.

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THE CASE FOR CYCLICAL MOMENTUM: MULTI-SPEED SECTORAL TRENDS SUPPORTING INCOME GROWTH IN THE COMING YEARS

Broad-based favorable supply-demand dynamics across most city-sectors are expected to underpin incremental demand and pricing power, pointing to stronger cyclical income growth momentum and a sustainably higher long-term growth outlook relative to Japan's prior deflationary regime.

Medium-term income growth is expected to outpace structural growth, supported by robust supply-demand dynamics across most sectors (**Exhibit 4**), improving business sentiment and firmer domestic consumption.

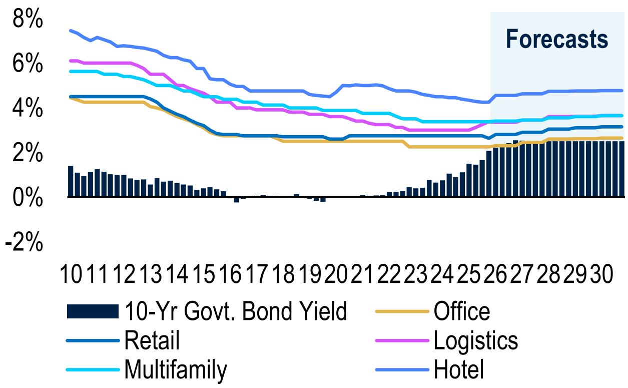
Logistics' dynamics present differently – while near-term rental growth remains constrained by margin pressure and residual supply, cash yields continue to screen attractively, reflecting higher going-in yields and income stability rather than outsized rental upside.

Improving visibility on earnings, inflation, and financing conditions is helping maintain investor confidence, supporting transaction activity and reinforcing the broader recovery in market sentiment.

With robust fundamentals largely intact – underpinned by sustained positive reversions and stable occupancy for prime assets across key sectors – we expect yield shifts to remain measured despite narrowing yield spreads (**Exhibit 5**).

Exhibit 5: Japan 10-Yr Government Bond Yield, Tokyo Real Estate Sector Prime Yields* (%)

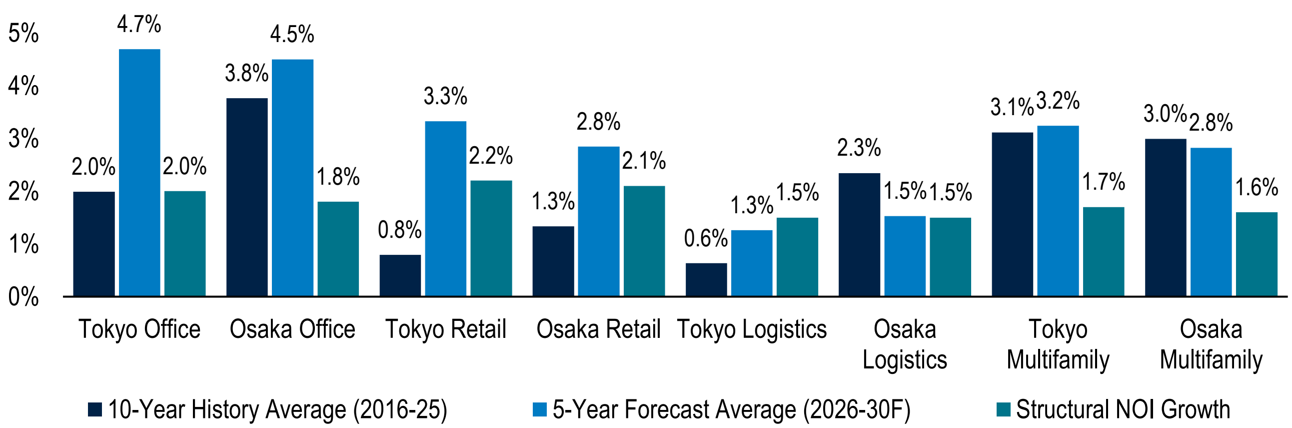
More Measured Yield Shifts Underpinned by Robust Fundamentals



*Represents prime assets except multifamily (average 23 wards).
Sources: CBRE, JLL, Oxford Economics, PMA, PGIM. As of April 2026.

Exhibit 4: Income Growth by Japan City-Sectors (Historical vs. Forecast vs. Structural Growth*) (%)

Broadly Higher Income Growth Over the Medium Term With Improving Supply-Demand Dynamics



*Structural growth rates are derived from PGIM APAC Investment Research's proprietary APAC pricing model.
Sources: Oxford Economics, PGIM. As of April 2026.
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JAPAN'S INVESTMENT APPROACH:
LEVERAGING GREATER MARKET STABILITY TO PURSUE SELECTIVE ALPHA

Structural tailwinds and cyclical amplifiers are the building blocks for Japan's opportunity set, but how is the interplay translating to investment expectations and approach?

1. Return Hurdles Have Risen But Not Sharply

Required returns have been revised upward by 50–80 bps to reflect the higher interest rate environment. However, a stronger long-term growth outlook, coupled with cyclical tailwinds supporting medium-term NOI growth, should partly offset the higher risk-free rates and dampen valuation pressure.

2. Narrowing Risk Premiums

Although sector required returns have increased in absolute terms, the yield spreads have narrowed modestly as stronger income growth assumptions offset part of the incremental compensation necessitated. This reflects improved conviction that a firmer rental growth trajectory and more resilient income profile can absorb part of the higher cost of capital over time.

3. Financing Still Accretive to Returns

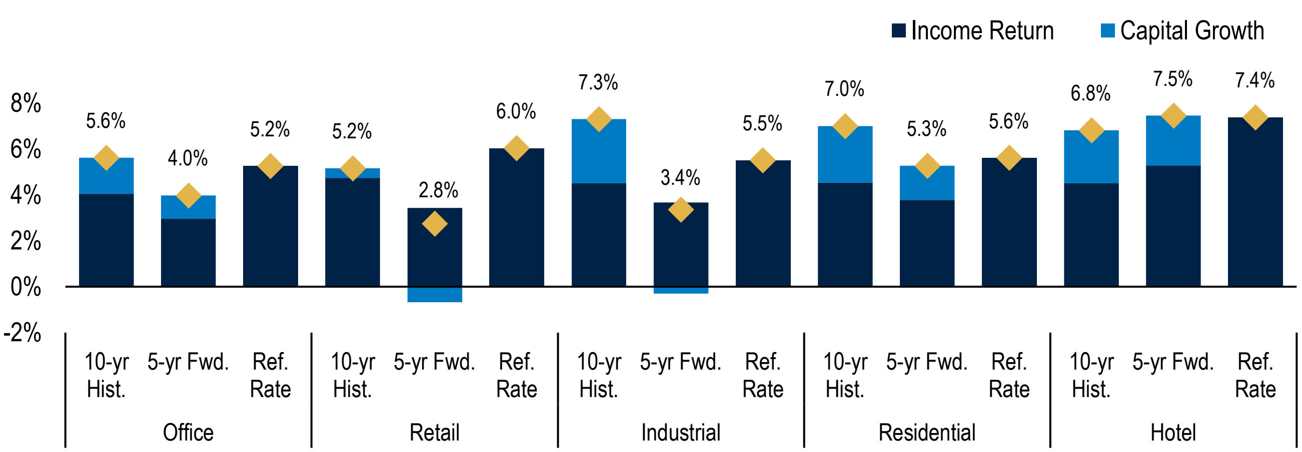
Financing remains broadly accretive to cash-on-cash yields and total returns in select sectors, underpinned by a strengthening income profile as more durable NOI growth emerges against a backdrop of higher structural rates, reinforced by the current upcycle.

4. Pursing Higher Return Strategies

Investors can leverage improving market stability to generate alpha and help bridge return shortfalls by moving up the risk curve, particularly for asset classes where forward returns are below reference hurdle rates (**Exhibit 6**). Given the investment profile of such strategies, disciplined asset selection and active investment management is essential to mitigating downside risks.

Exhibit 6: Japan Unlevered Total Return Decomposition and Reference Hurdle Rate* by Sector (in LCU, %)

Multifamily and Hotels Are the Outperformers; Market Stability Supports Higher-Return Strategies in Other Asset Classes to Drive Alpha



*Reference hurdle rate is derived from PGIM APAC Investment Research's proprietary APAC pricing model. Historical total returns are actual performance indicators from MSCI, while forward returns are computed from market level data. Capital growth refers to capital returns, which comprise rent growth and yield impact.
Sources: CBRE, MSCI, Oxford Economics, PMA, PGIM. As of April 2026.
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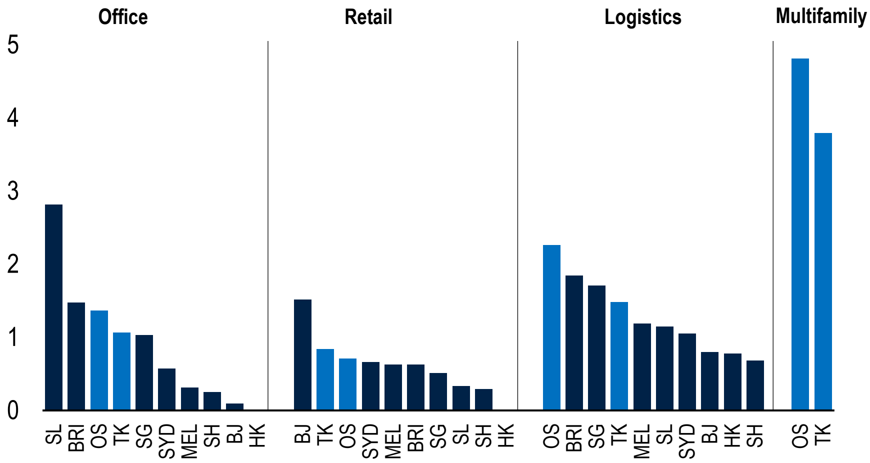
5. Enhancing Diversification Value

Furthermore, from a risk-reward perspective, Japan's city-sectors offer relatively high returns per unit volatility compared to regional peers, supporting balanced portfolio construction, particularly with the addition of Logistics and Multifamily assets (**Exhibit 7**).

Pairwise correlation analysis further highlights diversification benefits, with Asia Pacific (APAC) markets historically exhibiting low to negative correlations intra-regionally – and within Japan, Logistics and Multifamily sectors further enhance portfolio efficiency (**Exhibit 8**).

Exhibit 7: Total Returns per Unit of Volatility by APAC City-Sectors*

Japan's City Sectors Continue to Outperform Regional Peers



*Derived from taking the average of quarterly gross unlevered annual total returns divided by standard deviation for the period of 1Q 2016 to 4Q 2025.
Sources: CBRE, JLL, Oxford Economics, PMA, PGIM. As of April 2026.

Exhibit 8: Pairwise Correlation of City Sector Total Returns, 1Q 2016 – 4Q 2025

Allocating to Japan Enhances Portfolio Efficiency by Improving Diversification and Overall Returns

	TK OFF	OS OFF	SL OFF	BJ OFF	SH OFF	HK OFF	SG OFF	SYD OFF	MEL OFF	BRI OFF	TK RET	OS RET	SL RET	BJ RET	SH RET	HK RET	SG RET	SYD RET	MEL RET	BRI RET	TK LOG	OS LOG	SL LOG	BJ LOG	SH LOG	HK LOG	SG LOG	SYD LOG	MEL LOG	BRI LOG	TK MF	OS MF
TK OFF	1.00																															
OS OFF	0.74	1.00																														
SL OFF	-0.48	-0.75	1.00																													
BJ OFF	0.23	0.49	-0.54	1.00																												
SH OFF	0.23	0.23	-0.30	0.88	1.00																											
HK OFF	0.49	0.51	-0.61	0.65	0.69	1.00																										
SG OFF	0.09	0.43	-0.39	0.32	0.07	0.37	1.00																									
SYD OFF	0.53	0.61	-0.56	0.52	0.51	0.79	0.12	1.00																								
MEL OFF	0.39	0.70	-0.63	0.78	0.61	0.70	0.32	0.84	1.00																							
BRI OFF	0.53	0.58	-0.34	-0.14	-0.25	0.17	0.21	0.23	0.11	1.00																						
TK RET	0.54	0.13	-0.03	-0.26	-0.08	0.15	-0.29	0.17	-0.24	0.43	1.00																					
OS RET	0.59	0.22	-0.18	0.05	0.26	0.50	-0.26	0.43	0.05	0.42	0.81	1.00																				
SL RET	0.51	0.45	-0.36	0.30	0.37	0.69	0.01	0.71	0.43	0.41	0.64	0.78	1.00																			
BJ RET	0.20	0.20	-0.36	0.08	0.04	0.30	-0.01	0.22	-0.05	0.12	0.59	0.54	0.60	1.00																		
SH RET	-0.27	0.11	-0.30	0.57	0.54	0.44	0.23	0.28	0.41	-0.22	-0.30	-0.05	0.26	0.27	1.00																	
HK RET	0.33	0.12	-0.20	0.11	0.28	0.66	0.18	0.36	0.08	0.25	0.57	0.69	0.75	0.52	0.17	1.00																
SG RET	0.47	0.23	-0.17	-0.03	0.07	0.50	0.04	0.49	0.13	0.44	0.75	0.74	0.84	0.49	-0.18	0.82	1.00															
SYD RET	0.54	0.53	-0.54	0.35	0.32	0.75	0.22	0.80	0.58	0.23	0.28	0.50	0.68	0.45	0.34	0.40	0.45	1.00														
MEL RET	0.63	0.49	-0.47	0.30	0.35	0.83	0.23	0.77	0.49	0.33	0.47	0.71	0.83	0.49	0.17	0.70	0.74	0.88	1.00													
BRI RET	0.53	0.48	-0.38	0.36	0.37	0.76	0.38	0.77	0.60	0.04	0.17	0.36	0.59	0.26	0.19	0.46	0.49	0.83	0.85	1.00												
TK LOG	-0.23	0.02	-0.17	0.71	0.60	0.11	0.04	-0.03	0.30	-0.50	-0.43	-0.25	-0.15	0.05	0.45	-0.17	-0.38	-0.18	-0.24	-0.13	1.00											
OS LOG	-0.30	-0.09	0.22	0.42	0.33	-0.26	-0.15	-0.18	0.10	-0.37	-0.39	-0.36	-0.26	-0.15	0.32	-0.53	-0.52	-0.25	-0.44	-0.30	0.67	1.00										
SL LOG	-0.19	0.29	-0.04	0.13	-0.09	-0.10	0.45	-0.03	0.22	0.08	-0.46	-0.48	-0.14	-0.13	0.50	-0.33	-0.44	0.10	-0.15	0.06	0.08	0.32	1.00									
BJ LOG	0.07	0.36	-0.42	0.75	0.57	0.35	0.42	0.04	0.39	-0.08	-0.28	-0.12	0.06	0.10	0.35	0.16	-0.08	-0.11	-0.01	0.00	0.76	0.35	0.10	1.00								
SH LOG	-0.06	0.22	-0.45	0.86	0.73	0.41	0.22	0.16	0.47	-0.27	-0.34	-0.08	0.09	0.13	0.56	0.09	-0.16	0.00	0.01	-0.01	0.86	0.46	0.01	0.89	1.00							
HK LOG	0.15	0.24	-0.37	0.82	0.86	0.79	0.23	0.62	0.70	-0.24	-0.10	0.23	0.53	0.15	0.56	0.49	0.32	0.44	0.54	0.55	0.51	0.14	-0.08	0.56	0.70	1.00						
SG LOG	-0.45	-0.74	0.53	-0.37	-0.20	-0.41	-0.07	-0.71	-0.70	-0.30	0.05	-0.16	-0.38	-0.15	-0.28	0.14	0.00	-0.64	-0.44	-0.50	0.01	-0.08	-0.40	0.00	-0.04	-0.17	1.00					
SYD LOG	-0.29	-0.04	0.16	0.37	0.30	0.16	0.49	0.19	0.40	-0.41	-0.52	-0.48	-0.11	-0.34	0.32	-0.16	-0.17	0.10	0.01	0.36	0.26	0.36	0.44	0.16	0.17	0.43	-0.06	1.00				
MEL LOG	-0.44	-0.06	0.13	0.43	0.36	0.09	0.42	0.02	0.29	-0.39	-0.53	-0.49	-0.09	-0.14	0.64	-0.12	-0.31	-0.04	-0.15	0.12	0.47	0.49	0.65	0.36	0.38	0.42	-0.02	0.80	1.00			
BRI LOG	-0.33	-0.05	0.33	0.04	-0.03	-0.11	0.30	0.05	0.18	-0.13	-0.39	-0.47	-0.06	-0.28	0.34	-0.20	-0.18	0.03	-0.10	0.14	-0.01	0.34	0.74	-0.09	-0.13	0.10	-0.13	0.72	0.77	1.00		
TK MF	0.52	0.27	-0.02	-0.33	-0.36	0.01	-0.04	0.11	-0.07	0.54	0.49	0.36	0.22	-0.01	-0.64	0.23	0.49	0.09	0.21	0.06	-0.58	-0.47	-0.40	-0.25	-0.40	-0.28	0.01	-0.40	-0.66	-0.36	1.00	
OS MF	0.40	0.27	-0.03	-0.13	-0.05	-0.13	-0.39	0.09	-0.03	0.37	0.41	0.35	0.17	0.03	-0.14	-0.09	0.06	0.07	0.00	-0.10	-0.27	-0.01	-0.02	-0.30	-0.28	-0.30	-0.26	-0.46	-0.36	-0.17	0.28	1.00

City Code	
TK	Tokyo
OS	Osaka
SL	Seoul
BJ	Beijing
SH	Shanghai
SG	Singapore
SYD	Sydney
MEL	Melbourne
BRI	Brisbane

Sector Code	
OFF	Office
RET	Retail
LOG	Logistics
MF	Multifamily

Sources: JLL, PMA, PGIM. As of April 2026.
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Data Centers (DC): A Complementary Driver of Income Visibility and Income Growth

Beyond the broader reflationary shift underpinning stronger income visibility across Japan real estate, the ongoing digital revolution is creating an additional layer of structural demand support.

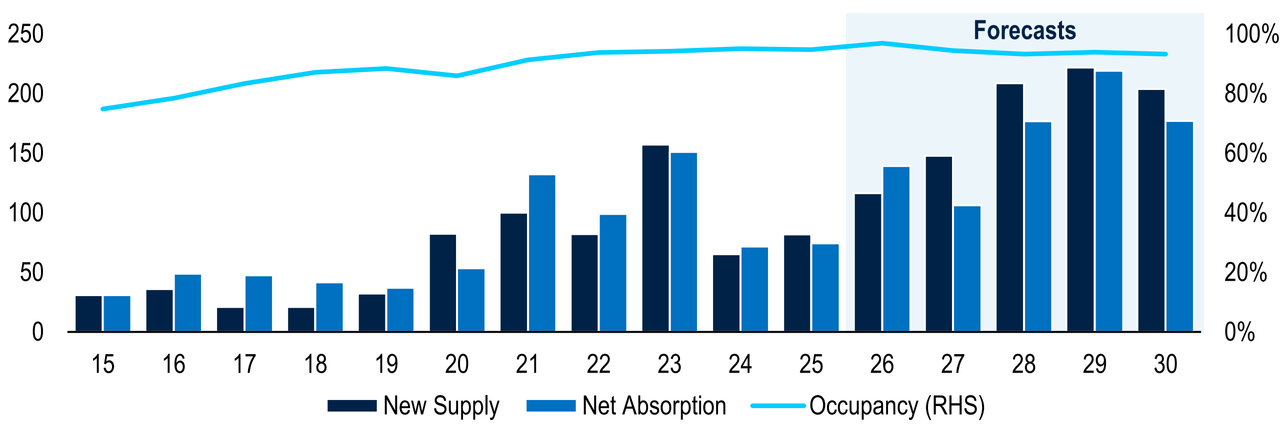
Rapid advances in AI and adjacent technologies are accelerating the need for data processing, storage, and connectivity infrastructure, reinforcing demand for hyperscale DC, energy storage solutions, and low-latency digital networks.

Against this backdrop, Japan's hyperscale DC market is expected to remain tightly supplied, with occupancy projected to hold at c. 90% (**Exhibit 9**) as expanding demand continues to keep pace with new supply amid limited serviced land availability and constrained power capacity.

Tight vacancy is expected to support pricing power for operators with secured land and available power (**Exhibit 10**), though the potential upside could be dampened by the dominance of major cloud service providers.

Exhibit 9: Greater Tokyo Data Center New Supply, Net Absorption (MW), and Occupancy (%)

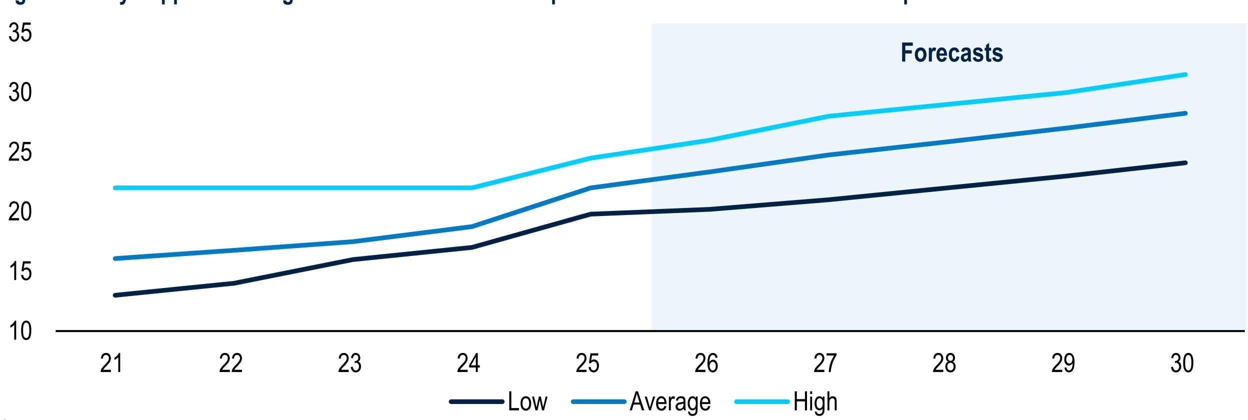
Technological Tailwinds to Further Accelerate Demand for Digital Storage



Sources: DC Byte, PGIM. As of April 2026.

Exhibit 10: Greater Tokyo Hyperscale Data Center Pricing* (JPY/kW/month)

Tight Vacancy Supports Pricing Power for Landlords and Operators With Secured Land and Adequate Power



*Does not include electricity.

Sources: Structure Research, PGIM. As of April 2026.

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INVESTMENT STRATEGIES

Japan presents a differentiated opportunity set driven by both structural shifts and cyclical momentum (**Exhibit 11**) and remains one of the key anchor markets in global portfolios, where the addition of Japan real estate can deliver enhanced risk-adjusted returns.

Despite challenges across select sectors, leveraging the improving market stability to pursue higher-return strategies is expected to generate excess returns while providing additional downside protection.

Exhibit 11: Summary of Japan Investment Opportunities

Allocating to Japan Enhances Portfolio Efficiency by Improving Diversification and Overall Returns

		NATURE OF OPPORTUNITY	REAL ESTATE APPROACH
STRUCTURAL SHIFT / EVERYDAY LIFE	MULTIFAMILY	• Ownership constraints • Strong population dynamics (net migration)	• Refurbishment / reconfiguration and lease up • Develop to core • Focus on multifamily platforms
	MODERN LOGISTICS	• E-commerce growth • Labor shortages leading to streamlining of supply chains • "Last mile" delivery model	• Reconfiguration / upgrade of antiquated assets to modern facilities • Develop to core • Focus on modern logistics in regional / sub-regional hubs
	DATA CENTERS	• Digital evolution reinforcing need for data processing and storage • Lack of available serviced land and enlarged power	• Develop to core • Focus on Tier I markets established with dominant cloud service providers presence • Focus on hyperscale colocation DCs partnering with experienced third-party operators
CYCLICAL UPTURN / MARKET MOMENTUM	HOTEL	• Strong fundamentals supported by tourism recovery • Rise of foreign hotel operators	• Partner third-party operators via management contracts for rebranding / refurbishment • Conversion / adaptive reuse • Focus on limited-service hotels and destination hotels
	OFFICE	• Flight to quality • Lack of available quality stock	• Refurbishment • Reconfiguration • Focus on older Grade B assets for rental uplift
	RETAIL	• Recovering inbound tourism • Resilient domestic sentiment	• Prime high street retail / pencil buildings • Refurbishment and lease up • Focus on quality assets located in prime localities offering resilient income / income growth

Source: PGIM. As of April 2026.

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KEY CONSIDERATIONS

Notwithstanding the supportive outlook, investors should remain cognizant of the following:

- **Over-normalization of monetary policy:** faster and/or more pronounced-than-expected policy tightening by the Bank of Japan (BoJ) could result in more restrictive financial conditions and weigh on investment activities
- **Foreign capital inflow/repatriation:** foreign exchange volatility, alongside anticipated medium-term JPY appreciation, is expected to influence foreign capital inflows alongside partial carry trade unwind
- **Heightened geopolitical tensions and trade uncertainty**: these events continue weighing on near-term growth in the APAC region including Japan, though the magnitude and severity of these effects depend on the eventual course of the conflict (**Exhibit 12**); the region's longer-term outlook remains broadly intact and positive, underpinned by productivity gains and consumption

Exhibit 12: Potential Implications Of Middle East Conflict On Japan Real Estate*

Driving Operational Alpha Allows Investors To Mitigate Potential Downside Risks

Accelerated Reflation	Higher and faster imported inflation is expected to further entrench wage and rent normalization, supporting stronger rental pass-through for landlords, alleviating the historically 'sticky rent' dynamics
New Supply Delays	Higher construction and logistics costs are anticipated to delay new supply, which supports operational metrics of existing assets, but also impacts development margins and feasibility
Valuation Pressure	If the shock becomes prolonged, weaker growth and higher required returns could outweigh rental upside and place upward pressure on yields especially in sectors with weaker income growth visibility

Notes: (*) Assumes a base case scenario where the conflict persists for two to three months from 28 February 2026, any protracted timeline is expected to further amplify the downside.
Sources: PGIM. As of April 2026.

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Investments in commercial real estate and real estate-related entities are subject to various risks, including adverse changes in domestic or international economic conditions, local market conditions and the financial conditions of tenants; changes in the number of buyers and sellers of properties; increases in the availability of supply of property relative to demand; changes in availability of debt financing; increases in interest rates, exchange rate fluctuations, the incidence of taxation on real estate, energy prices and other operating expenses; changes in environmental laws and regulations, planning laws and other governmental rules and fiscal policies; changes in the relative popularity of properties risks due to the dependence on cash flow; risks and operating problems arising out of the presence of certain construction materials; and acts of God, uninsurable losses and other factors. As compared with other asset classes, real estate is a relatively illiquid investment. Therefore, investors' withdrawal requests may not be satisfied for significant periods of time. In addition, as recent experience has demonstrated, real estate is subject to long-term cyclical trends that give rise to significant volatility in real estate values. An investor could lose some or all of its investment. Real estate investment trusts (REITs) may invest in equity securities of issuers that are principally engaged in the real estate industry. Therefore, an investment in REITs is subject to certain risks associated with the real estate industry and, more generally, the public markets.