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Karaksa Real Estate Mirai Academy

Top Ten Issues Affecting Real Estate in 2025

Selected by Academy Students

December 27, 2024

Karaksa Real Estate Mirai Academy (*1) has identified "Top ten Issues Affecting Real Estate in 2025''. These issues are determined through voting by Karaksa Real Estate Mirai Academy students from the 1st to 8th term.

Karaksa Real Estate Mirai Academy opened in April 2016 as a place to think about the future of society and real estate, and through active discussions between instructors and students to foster human resources who can contribute to the future development of not only the real estate industry but also society. Participants are real estate professionals from diverse backgrounds, gathering to share knowledge and experiences throughout the year, with the goal of cultivating leadership for the next generation of the real estate industry. Now the program is in its 8th year, with a total of 143 students to date. They come from a wide array of fields, including real estate companies, real estate investment advisory firms, general contractors, banks, trust banks, securities firms, life insurance companies, trading houses, leasing companies, department stores, railway companies, government agencies, appraisal firms, consulting firms, and legal professions; and the majority of participants are early to mid-career professionals.

As the real estate landscape continues to evolve, the "Top Ten Issues Affecting Real Estate in 2025" as identified by these professionals working at the forefront of the industry serve as valuable insights for anyone involved in real estate industry.

*1 : Academy is operated by Xymax Research Institute
https://karakusajuku.xymax.co.jp/

Top 10 Issues

Rank	Issue
1	Toward a World with Interest Rates
2	Continued Price Rise
3	Growing Labor Shortage
4	Growing Interest of Foreign Capital in Japanese Real Estate
5	Increasing Inbound Tourists
6	International Affairs and Rising Geopolitical Risks
7	Frequent Natural Disasters
8	Changes in Lease Accounting Due to IFRS Adoption
9	Osaka-Kansai Expo and the IR
10	DX in the Real Estate and Construction Industries

Issue #1：Toward a World with Interest Rates

For the second year in a row, the issue of "interest rate" has taken the top spot.

In the real estate industry, “interest rate" is a crucial factor that significantly influences market trends. In March 2024, the Bank of Japan (BOJ) lifted the negative interest rate policy, raising interest rates for the first time in 17 years. Subsequently, the policy rate was raised by approximately 0.25% in July. With this move, the long era of inter-dimensional monetary easing has come to an end, and monetary policy is taking steps toward normalization. One student commented, " The most impactful event would be the reevaluation of the low-interest policy, which has been one of the factors supporting the rise in real estate prices since Abenomics."

There are both positive and negative aspects to rising interest rates. On the positive side, higher interest rates will increase interest on deposits and increase household savings. It is also expected to improve the overall health of the economy by discouraging reckless borrowing and encouraging more prudent fund management and investment. On the other hand, higher interest rates will lead to higher borrowing burdens. For companies, this could lead to a decline in profit margins and lower capital investment, while for households, it could reduce housing purchases and consumer spending.

The impact on the real estate market is also significant. Since many home purchases are dependent on loans, an increase in the burden of mortgage repayments due to rising interest rates may reduce people's desire to purchase a home. In the office and commercial sectors, higher borrowing rates could affect financial management of tenant companies, leading to rent reductions, tenant departures or shrinking leased spaces.

For real estate investments, higher interest rates could put pressure on the levered free cash flow of income-generating properties, causing yield-focused investors to shift their funds to other assets other than real estate. The recent slump in REIT prices is also thought to be related to the expectation of higher domestic interest rates. In the U.S., a combination of high vacancy rates and rising interest rates has seriously impacted the commercial real estate market, leading to price declines. The increase in delinquencies on some commercial real estate loans and difficulty in refinancing has triggered an uptick in sales of office buildings and commercial properties, putting further downward pressure on prices. This trend is having a global impact, and whether Japan can continue to be seen as an exception with a booming market remains to be seen, depending on future market conditions. One student commented, "The impact on cap rates is significant, and there is a possibility that the real estate investment market will cool down. "

Currently in Japan, despite rising interest rates, financial institutions have not adopted a particularly strict lending stance. There has been no significant change in the outstanding loan balances or new lending to the real estate sector. Additionally, since interest rates remain low compared to other countries, the market continues to attract attention as one where yield spreads and leverage effects can be obtained. Therefore, at present, the impact of rising interest rates on the real estate market is considered limited.

The BOJ remains committed to raising interest rates if economic and price trends proceed as expected. 2025 will be the year when both risks and opportunities for the real estate market will intersect in a "world with interest rates." One student commented, " There will be a wide range of effects on various aspects of the economy and various industries in Japan. And the real estate industry will also be greatly impacted, both positively and negatively." In this era of change, real estate businesses will need to assess market movements carefully and make cautious, flexible, and strategic decisions.

Issue #2: Continued Price Rise

The issue of rising prices which ranked 3rd last year, has moved up to 2nd this year, reflecting ongoing high interest in the matter.

According to the Ministry of Internal Affairs and Communications, Consumer Price Index (CPI, 2020 = 100), excluding volatile fresh foods, for November 2024 was 109.2, an increase of 2.7% compared to the same month last year. This marked the 39th consecutive month of price increase, and with rising energy prices, a weak yen, and wage increases, not only consumer prices but also various services have continued to rise.

Nominal wages have been positive for three consecutive years since 2021. However, real wages, following 2022 and 2023, continue to be negative in many months compared to the same month of the previous year in 2024. If real wages do not grow and consumption is restrained, the profitability of commercial facilities may deteriorate in the medium to long term. Rising prices could also lead to higher interest rates, increasing mortgage repayment burdens and raising the barriers to home purchases. In addition, if businesses are unable to pass on higher costs of raw materials and labor to product and service prices, profits will be squeezed, and deteriorating business performance may lead to a decline in demand for real estate such as offices and logistics facilities. (See Issue #1 "Toward a World with Interest Rates.")

The surge in construction costs is also affecting the real estate market. In addition to rising raw material and energy costs, the labor shortage at construction sites due to the simultaneous progress of large-scale projects has become a serious issue. Against this backdrop, construction costs have soared, making development projects less profitable, and new developments have been postponed or plans cancelled. One student commented, " Due to the rise in prices, some housing projects that I am involved in have had to be halted", while another stated "The rapid and continuous rise in construction costs has led to delays and a need for reassessment in various real estate and urban development projects, and I believe this trend is not expected to abate and the impact will continue to grow”. In response to this situation, developers and investors are becoming more cautious about new developments, while showing increasing interest in renovating existing buildings. “This could have a significant impact on investment decisions such as whether it is more rational to renovate rather than develop. It will be interesting to see whether development remains viable, especially in rural areas where rents are low”, as one student said.

In the new condominium market, rising construction material costs, labor expenses, and land acquisition prices have driven up construction costs, leading to rise in sales prices. In Tokyo, strong demand has kept sales steady despite price increases. However, some suburban and regional areas are struggling. For office buildings, some landlords are passing on increased operating costs to tenants through higher rents. However, buildings with weaker competitiveness continue to face challenges in raising rental prices.

The Bank of Japan predicts that the inflation rate in fiscal 2025 will remain at around 2%. This outlook is premised on the improvement in the macroeconomic supply-demand balance and a strengthening wage-price spiral. However, uncertainties remain, regarding whether wage increases will be fully reflected in the pricing of goods and services. And there is no indication that the rise in construction costs will subside anytime soon. The focus in 2025 will be whether businesses will be able to pass on the cost increases to sales prices and rents, and how far demand will catch up with the price increases.

Issue #3: Growing Labor Shortage

The issue of labor shortages ranked 5th last year but has risen to 3rd this year.

According to “Survey of Trends in Labor Shortage Bankruptcies (first half of FY2024)'' published by Teikoku Databank in October 2024, the number of bankruptcies due to labor shortages in the first half (April to September) reached 163 cases, marking a record high for the second consecutive year. The report also suggests that on an annual basis, the figure may exceed last year's total of 313 cases. By industry, construction (55 cases) and logistics (19 cases) accounted for 45.4% of the total, highlighting the growing impact of the "2024 problem" in these sectors.

The labor shortage is particularly pronounced among non-desk workers. In October 2024, the active job openings-to-applicants ratio (including part-time jobs) was 1.16 overall. When broken down into desk workers (primarily working in offices) and non-desk workers (working in field operations), the ratio was 0.66 for the former and 1.92 for the latter—a nearly threefold difference, indicating a significantly higher labor shortage among non-desk workers.

How will these conditions affect Japan's real estate market in 2025? There is the possibility of a decrease or delay in the supply of new real estate across all asset types, as well as an increase in operation and management costs.

An example of reduced new supply is Aeon Mall's decision not to open any new domestic stores in fiscal 2024—the first time in 26 years—due to labor shortages in the construction industry and soaring construction costs. Other cases include the postponed reconstruction of the TOC Building in Gotanda and the reassessment of the redevelopment plan for the former Nakano Sunplaza site. Such trends are being reported nationwide and are expected to persist beyond 2025.

One student said, "In negotiations with general contractors, there are an increasing number of requests for higher construction costs and extended project timelines due to difficulties in securing subcontractors (caused by labor shortages)." On the other hand, there is also a movement toward increased investment in renovation of existing real estate and price increases. (See Issue #2: “Continued price rise”)

The labor shortage is also affecting operating and management costs. According to Xymax Research Institute’s survey (*2) in June 2024 on the labor shortage among building maintenance businesses (cleaning, security, and facilities management), approximately 70% of respondents are working to "increase employee wages" as a measure to address the labor shortage, and many are taking steps to "raise prices" of services to cover rising costs, including inflation-related increases in raw material prices. In a separate survey of office building owners (*3), more than half (54%) of building owners reported an increase in their management outsourcing costs.

*2 : ”Survey of the labor shortage in building maintenance sector”, released on August 22,2024
https://soken.xymax.co.jp/2024/08/22/2408-labor_shortage_4/
*3 : ”Building Owners Survey (Multiple & Large-scale Buildings)”, released on November 25,2024
https://soken.xymax.co.jp/2024/11/25/2411-building_owner_survey_2024/

The hotel sector, a key operational asset, is also experiencing severe labor shortages. While some hotels are implementing digital transformation (DX) initiatives, such as unmanned front desks, the demand for "Japanese-style high-quality service" remains strong, especially among foreign guests. and in the future, high value-added elements such as service, facilities, and hospitality (omotenashi) will be the key to differentiation. Therefore, the hotel industry is expected to face the challenge of addressing labor shortages in terms of "quality" in addition to "quantity. To solve this issue, it is necessary to promote multi-tasking, revising long-hour shift structures (such as split shifts), and to foster a corporate culture that supports long-term employment.

Addressing this challenge will require solutions beyond simply increasing the workforce. The industry will need to improve working conditions by promoting multi-tasking, revising long-hour shift structures (such as split shifts), and fostering a personnel system and corporate culture that supports long-term employment.

The retail industry also continues to struggle with chronic labor shortages. Strategies to address this issue include developing small store systems, making stores unmanned and labor-saving, introducing remote customer service, strengthening omnichannel strategies, actively scrapping and building, and expanding store networks through M&A. These trends in real estate and store strategies are expected to remain key trends going forward. A topic for 2025 is the closure of department stores on New Year's Day. According to the Japan Department Stores Association, no major department stores in Tokyo will open on New Year's Day in 2025. Some major department stores will close not only on New Year's Day but also on January 2nd for the first time in over 20 years, reflecting a growing focus on employee work-life balance.

The logistics industry, which is playing an increasingly significant role in the real estate market, is also responding to labor shortages by developing multifunctional logistics centers equipped with clinics, nursery schools, parks and green spaces, and emergency shelters for local residents. In addition to providing a safe, secure, convenient, and comfortable place for working people, fostering coexistence with local communities will be an effective strategy for addressing labor shortages.

For various types of assets, measures to enhance both customer satisfaction (CS) and employee satisfaction (ES) are becoming essential strategies for tackling labor shortages. Moving forward, ensuring employee satisfaction will be a key factor in maintaining long-term business sustainability.

Issue #4: Growing Interest of Foreign Capital in Japanese Real Estate

The ranking of foreign capital in the real estate market rose from 6th last year to 4th this year.

In recent years, the influx of foreign capital has significantly impacted the Japanese real estate market. Several factors drive foreign investors to invest in Japan, including the large market size, which makes it a viable target for portfolio diversification, a relatively high yield spread compared to other developed countries, and market stability.

According to a survey by JLL, the total real estate purchases by foreign investors in the first to third quarters of 2024 amounted to 465.8 billion yen. In terms of purchase value by sector, offices accounted for 37%, hotels 21%, logistics 18%, rental housing 14%, and retail 8%. Regionally, Tokyo accounted for 46%, Chiba, Saitama, and Kanagawa for 12%, the Osaka area for 22%, the Nagoya area for 6%, and the Fukuoka area for 8%. While the total purchase amount has decreased compared to the same period last year due to factors such as changes in the Bank of Japan’s monetary policy and higher financing costs from rising interest rates in the U.S., the continued diversification of asset types and regions should help keep the footing firm.

In the hotel sector, foreign funds with extensive hotel asset management capabilities and experience collaborating with international operators are acquiring properties sold by Japanese hotel chains that previously owned and operated them. More than 40 luxury hotels are expected to open by 2028, with approximately 80% of them being operated by foreign hotel brands. With inbound tourism expected to continue increasing, interest is expanding beyond urban areas to resort destinations such as Niseko, Hakuba, and Okinawa. (See Issue #5: “Increasing Inbound Tourists”)

In terms of urban condominiums, an increasing number of wealthy individuals from China and Taiwan, etc. are purchasing urban condominiums in Japan for personal use or investment purposes as a means of diversifying their overseas assets. Furthermore, investment in real estate companies themselves is also becoming more active. One student noted, “Acquisitions of companies (companies that own a large number of properties)—such as U.S. investment management firms acquiring Japanese logistics companies and Singaporean investment funds launching TOBs for mid-sized Japanese real estate firms—are becoming more popular than acquisitions of individual properties. This has had a significant impact on the real estate market.”

While short-term speculative capital inflows can increase market volatility and uncertainty, a diverse and healthy influx of foreign capital enhances liquidity and revitalizes the real estate investment market. However, foreign investors face challenges, such as limited purchase opportunities and a lack of statistical data on investments in the Japanese real estate market. Many high-quality assets targeted by institutional investors are owned by Japanese developers, and unless there are exceptional circumstances, these companies are unlikely to sell their holdings. Establishing a more transparent and investor-friendly real estate market will be crucial for facilitating real estate transactions, stabilizing property prices, and expanding the real estate investment market in the future.

Issue #5: Increasing Inbound Tourists

Inbound tourism ranked 4th last year, and 5th this year.

The inbound market continues to be booming. According to the Japan National Tourism Organization, the cumulative total (estimated) number of foreign visitors to Japan from January to November 2024 was 33.38 million, already surpassing the record-high 31.88 million in 2019. A notable characteristic of inbound tourists is the high percentage of repeat visitors, which reached nearly 70% in 2023.

Additionally, the Japan Tourism Agency’s “Inbound Consumption Trend Survey” reported that cumulative inbound consumption from January to September 2024 amounted to 5.8582 trillion yen, exceeding the previous year's annual total of 5.3065 trillion yen and setting a new record. Both the number of visitors and their spending have already reached the “targets to be achieved (early) by 2025'' in the “Tourism Nation Promotion Basic Plan” formulated by the government in 2023.

Several factors contribute to this trend, including the prolonged depreciation of the yen and Japan’s growing presence as a tourism-oriented nation. This is evidenced by the fact that Japan has been ranked No. 1 for the second consecutive year in both the U.S. and U.K. versions of “Most Attractive Countries in the World” Readers' Choice Awards announced in October 2024 by Condé Nast Traveler, a major American travel magazine whose readers are mainly wealthy people).

The government maintains its ambitious targets set in the 2016 “Tourism Vision to Support the Future of Japan,” aiming to achieve 60 million inbound visitors and 15 trillion yen in spending by 2030. To realize this goal, Japan must pursue not only “quantitative expansion” but also “qualitative enhancement” of inbound tourism. One of the corresponding movements in the real estate market is the continued expansion of foreign luxury hotel brands.

Several foreign hotel brands are making their debut in Japan: Janu, Six Senses, and Banyan

Tree in 2024; Fairmont, 1 Hotels, Capella, Patina, and Waldorf Astoria in 2025; ATONA in 2026; and Raffles and Dorchester Collection in 2028. This trend is expected to increase inbound visits by wealthy international travelers and contribute to higher tourist spending.

On the other hand, there are issues with “referring customers to rural areas”, which is essential to achieving the “quantitative expansion'” mentioned above. According to the " Survey on Tourist Travel to Japan from Asia, Europe, the United States, and Australia 2024" released by DBJ (Development Bank of Japan) and JTBF (Japan Transport Bureau, Inc.) in October 2024, while 97% of inbound travelers expressed interest in visiting rural areas, the actual visitation rate remained below 10%. The reality is that foreign tourists continue to concentrate in major cities like Tokyo and Osaka or well-known destinations such as Hokkaido and Okinawa. To bridge this gap, regional areas need to implement strategies that convert high interest into actual visits.

In addition, the level of recognition and attractiveness of regional destinations varies significantly. Regions with higher awareness also tend to have higher visitation intentions. Therefore, efforts to boost awareness are crucial in increasing actual visitor numbers. A promising strategy is to develop unique “experiential tourism offerings” that can only be enjoyed in specific locations. By leveraging social media to promote these experiences and turning certain areas into "pilgrimage destinations" for travelers, regional areas could see both quantitative and qualitative growth in inbound tourism.

Strengthening regional branding would not only benefit the hospitality industry but also have a ripple effect across various sectors, including retail, dining, services, entertainment, and logistics, as well as the real estate market. Specifically, it is expected to increase the profitability of real estate through higher sales for tenant companies, stimulate real estate investment and development, and increase real estate prices. A student said, “A sustainable strategy is crucial”. For regional destinations to succeed in the long term, addressing labor shortages, implementing digital transformation (DX), and improving transportation infrastructure will be essential. The effectiveness of these measures will likely determine which areas thrive and which fall behind in Japan’s competitive tourism landscape.

Issue #6: International Affairs and Rising Geopolitical Risks

International affairs and geopolitical risks ranked 8th last year and 6th this year.

Taking a mid- to long-term perspective on current global affairs—such as the prolonged U.S.-China rivalry and conflicts like the war in Ukraine and the situation in Palestine—it can be said that the post-Cold War era, characterized by relatively low geopolitical risks among major nations and the promotion of a multilateral free trade system, is coming to an end. The world is shifting toward an era of "national interest first" policies. One of the key drivers of this shift is that having experienced the pandemic caused by the new coronavirus, each country is aiming for strategic independence in areas such as economic security.

Additionally, 2024 was an “election year” with large-scale elections held in over 70 countries, including eight of the world's ten most populous nations. Among them, key leaders such as Russian President Vladimir Putin (12th in GDP), Indian Prime Minister Narendra Modi (5th in GDP), and U.S. President-elect Donald Trump (1st in GDP) have advocated protectionist policies, which could further accelerate the global trend toward nationalism.

In particular, the second Trump administration (Trump 2.0), which will be inaugurated in 2025, is expected to push forward a strong protectionist agenda under the banner of "America First," marking a significant shift from the Biden administration's international cooperation-oriented approach. As a result, the traditional multilateral framework for international cooperation could become dysfunctional, increasing the likelihood of entering an era of greater geopolitical “uncertainty” and “instability”. Some students also voiced concerns, noting that "the results of the U.S. presidential election will undoubtedly impact the economy in 2025."

How will these movements affect the real estate market? The most significant impact is likely to come from disruptions in global supply chains, leading to a reassessment of production bases. Countries worldwide have already begun revising their supply chains after witnessing the risks of over-reliance on specific nations during the COVID-19 crisis. Furthermore, the tariff policies proposed by Trump 2.0 could have a particularly severe impact on export industries, accelerating fundamental strategic shifts such as relocating overseas production bases or returning to the home country.

The global trend of reducing economic dependence on China is also expected to gain momentum. The shift away from China is being driven by “friendshoring”, practice of building supply chains limited to countries with close ties, such as allies and friends. Within this context, China is likely to retaliate against the significant tariff hikes (60%) proposed by Trump 2.0, raising concerns over further intensification of U.S.-China tensions.

Japan is also moving away from China. capital investment by Japanese corporate subsidiaries in China declined by 16% year-on-year from April to June 2024, the seventh consecutive quarter of year-on-year decline, and lower than the amount invested in Europe. The movement of business resources to Southeast Asia, India, and other parts of the Global South, as well as back to Japan, is expected to continue accelerating.

Geopolitical risks in Japan’s neighboring countries such as Russia, China, Taiwan, and North Korea remain unresolved and continue to pose a significant threat. However, from a global perspective, Japan is regarded as a relatively “safe and peaceful country”. In the “Global Peace Index 2024” published by the Institute for Economics & Peace, Japan ranked 17th, although its ranking dropped from the previous year. Thanks in part to government’s proactive efforts, Japan's success in attracting foreign semiconductor factories to Kumamoto Prefecture and increasing inbound tourism is proof that Japan is highly regarded. As a result, the top 10 land price increases for both residential and commercial land in the 2024 Standard Land Price (Prefectural Land Price Survey) were dominated by areas near semiconductor factories and famous tourist destinations.

Furthermore, in 2025, OpenAI, the company behind ChatGPT, plans to establish a data center and research hub in Japan; and major U.S. tech giants such as Google, Microsoft, and Amazon Web Services are expected to continue investing in Japan as a development hub for generative AI. This trend indicates that Japan is being recognized as an “chosen” investment destination. One student noted that "Japan’s real estate market benefits from the assumption of peace and stability. If that assumption is disrupted, the investment landscape could shift dramatically".

Amid rising geopolitical risks worldwide, “people, goods, and money” are likely to concentrate in safer countries and regions, bringing significant benefits to the real estate market. To ensure that Japan remains a "chosen nation" for investment, further refinements in economic security policies will be essential.

Issue #7: Frequent Natural Disasters

In 2024, the Noto Peninsula Earthquake occurred early in the year, and a special Nankai Trough Earthquake Warning (major earthquake warning) issued in August due to seismic activity in the Hyuga-nada Sea, making it a year in which people felt the risk of earthquakes. Additionally, in September, the Oku-Noto heavy rains directly hit the areas already affected by the Noto Peninsula earthquake, resulting in a compound disaster. The probability of a major earthquake occurring within the next 30 years is estimated to be around 70–80% for the Nankai Trough Earthquake and approximately 70% for the Tokyo metropolitan earthquake. Furthermore, Japan has seen a surge in emergency heavy rainfall warnings for once-in-decades rain events, underscoring the urgency of addressing natural disaster risks.

Responding to natural disasters and climate change is an important issue for corporate activities as well. The Fundamental Plan for National Resilience, a national risk management guideline, emphasizes strengthening public-private partnerships to build disaster-resistant urban areas. In response to climate change, the TCFD (Task Force on Climate-related Financial Disclosures) released recommendations in 2017, urging companies to disclose the financial impact of climate change risks. The Ministry of Land, Infrastructure, Transport, and Tourism has since developed guidelines to support TCFD-aligned disclosures in the real estate sector. Currently, ISSB (International Sustainability Standards Board) has taken over TCFD’s role, and in Japan, SSBJ (Sustainability Standards Board) is progressing with the development of domestic standards for sustainability disclosure.

Rising awareness of disaster risks is driving the diversification and sophistication of the roles required of real estate. The concept of “Smart Wellness Offices”, which promotes office environments that support employee health and productivity, incorporates resilience, which indicates disaster prevention performance, as a fundamental feature. In recent years, in addition to building-specific disaster prevention facilities such as seismic isolation structures and emergency power systems, there is an increasing trend of buildings incorporating disaster preparedness features, such as provisions for stranded commuters and emergency supplies, thereby enhancing the disaster resilience of entire areas. In addition, as inbound tourism grows, measures such as multilingual support and evacuation guidance during disasters to ensure a safe environment for foreign visitors are becoming increasingly necessary. In light of the risk of natural disasters, improving disaster resilience in real estate now requires enhancements not only in physical infrastructure but also in operational and procedural aspects. Some students noted, “There is a growing need to think about urban planning and real estate business models with disasters in mind”, and "Extreme heat and flooding have already caused real damage to properties, and we anticipate a full-scale shift towards developing products that take into account the accelerating occurrence of extreme weather in the future".

Frequent natural disasters also affect how real estate is selected and used. As disaster awareness rises, demand for properties in high-risk areas may decline. One student observed, “the frequent earthquakes and torrential rain disasters that have occurred in recent years will encourage companies and people to move to safer areas and invest in buildings with disaster-resistant infrastructure”.

In terms of usage, telework is becoming a standard practice during transportation disruptions caused by typhoons or heavy snowfall. Satellite office services are expected not only to enhance workplace flexibility but also support companies' business continuity planning (BCP). These shifts highlight how natural disaster risks are reshaping real estate utilization strategies.

The growing frequency of natural disasters is introducing new considerations for real estate development and usage. The role of real estate developers and businesses will become increasingly important in realizing safe and resilient communities.

Issue #8: Changes in Lease Accounting Due to IFRS Adoption

A new lease accounting standard (hereinafter referred to as “new standard”) will be effective from fiscal year 2027 for listed companies and large companies under the Companies Act. The new standard aligns with International Financial Reporting Standards (IFRS) and eliminates the distinction between different lease types. With some exceptions, all lease transactions, including operating leases, will be recorded on the balance sheet (BS). This change is expected to enhance the transparency of Japanese companies’ financial statements and facilitate international comparisons.

Under the new standard, covered companies and their subsidiaries will need to identify all lease transactions and calculate their right-of-use assets and amortization amounts. The transition to the new standard is also expected to impact financial metrics such as debt ratios, equity ratios, ROA, and ROIC, leading to a potential decline in these indicators. Companies will need to gather information and assess the necessary responses to these financial changes.

Regarding real estate businesses, the new standard treats real estate rental contracts as lease transactions, which may affect existing business models. In the real estate leasing industry, tenant companies will record rental expenses as right-of-use assets and lease liabilities on the BS. This will likely lead to a decline in tenant companies' financial indicators such as ROA and equity ratios, prompting a potential review of current rental contracts. Additionally, demand for CRE business solutions, such as unified asset management and optimization of real estate use may also increase. In the sublease business, unearned master lease fees will be recorded on the BS. Therefore, it will be necessary to determine whether the contracts for properties under master lease are lease transaction. Otherwise, sale-and-leaseback transactions, which have been utilized as a CRE strategy to compress BS, may see a reduction in demand because the new standard will reduce the compression effect. And for real estate developers, if land lease fees must be recorded on the BS, it could create additional barriers to development projects on leased land.

The transition to the new standard may also create new business opportunities in the real estate sector. Short-term leases of up to 12 months and low-value asset leases are exceptions that can still be expensed rather than capitalized. Given these provisions, alternative real estate utilization methods that do not qualify as lease transactions may gain attention. Some tenant companies may adopt a hybrid approach of leasing the space they need and using flexible office services. This could be a tailwind for flexible office services, which have been expanding in recent years.

The adoption of the new standard is expected to impact the real estate sales market as well. Many companies may take this as an opportunity to reassess their real estate strategies, and potentially shift from leasing to ownership, which may lead to more active real estate transactions. A student commented, “For certain companies, the impact on the balance sheet will be significant, prompting a reassessment of asset allocation, including the disposal or sale of fixed assets. And this could have notable effects on the real estate market.”

Changes in lease accounting standards are expected to have a ripple effect on various real estate businesses, particularly in the leasing sector, and the specific impact of these changes will likely become clearer in the future. As the 2027 implementation approaches, 2025 will be a critical year for companies to evaluate how they should manage their real estate assets and how the real estate industry will evolve in response to these changes.

Issue #9: Osaka-Kansai Expo and the IR

The opening of the Osaka-Kansai Expo will be one of the big news in 2025. Additionally, an integrated resort (IR) project promoted by Osaka Prefecture and the city of Osaka is underway, with the aim of opening in the fall of 2030. These two projects are expected to generate not only short-term economic benefits but also act as catalysts for medium-to-long-term urban development, revitalizing the economy and increasing demand for real estate.

The Osaka-Kansai Expo will be held in Yumeshima, Osaka, for 184 days starting April 13, 2025. Dubbed a “testing ground for future society”, the Expo will showcase cutting-edge technologies and services such as bio-ventures, carbon neutrality, digital technology, and next-generation mobility. It will also serve as a promotional platform for manufacturing and technological enterprises based in Osaka and the Kansai region. Furthermore, the Expo is expected to enhance Osaka and Kansai’s global recognition in business, history, and culture, leading to an increase in foreign visitors not only for tourism but also for business purposes. The estimated number of visitors during the Expo is approximately 28.2 million, with an anticipated economic impact of around 2 trillion yen.

Following the Expo, the IR project are underway in Yumeshima. IR, an abbreviation for Integrated Resort, is a complex that includes facilities such as international conference halls, exhibition centers, hotels, entertainment venues, and casinos. According to business plans, the IR is expected to attract around 20 million visitors annually and generate approximately 520 billion yen in annual revenue, with an estimated economic impact of 1.14 trillion yen per year in the Kinki region. On October 1, 2024, Osaka Prefecture and the City of Osaka transferred approximately 46 hectares of Yumeshima land—excluding the areas used for the Expo—to Osaka IR KK, the IR operator. Currently, preparatory construction work has begun, with building construction scheduled to start in the summer of 2025.

The effects of the Osaka-Kansai Expo and the IR are expected to be synergistic and long-term, influencing not only Osaka city but the entire Kinki region. For instance, increased tourism demand in nearby cities such as Kobe, Kyoto, and Nara is anticipated, leading to heightened demand for hotels and commercial facilities. One student has noted, “The Expo will increase global interest in Japan, and once it ends, the IR will become a more tangible reality, further boosting interest in the tourism industry”. Additionally, various infrastructure projects are planned around the Expo site, including the development of wide-area transportation networks such as the Shin-Meishin Expressway and the Naniwasuji Line. These improvements will enhance accessibility and attractiveness of the area, further driving real estate demand in Osaka and the Kansai area.

On the other hand, the construction costs for the Osaka-Kansai Expo, initially estimated at 125 billion yen, has been increased twice, reaching a maximum of 235 billion yen. These projects face a variety of challenges, including increased financial burdens, environmental impacts, and the need for harmony with local communities. Additionally, skepticism remains about whether the projected economic benefits will be fully realized. For now, attention will be focused on the developments of the Osaka-Kansai Expo, set to begin in April.

Issue #10: DX in the Real Estate and Construction Industries

DX and the openness of its underlying data are important initiatives for the sustainable development of the real estate industry and will become a factor that market players cannot ignore.

One of the reasons DX is essential is its potential to improve productivity and address the ongoing labor shortage in the real estate and construction industries. The real estate business involves numerous stakeholders, from construction to management and operation. However, labor shortages and rising personnel costs have recently become constraints in the industry. Utilizing technologies such as IoT and construction robots to enhance efficiency and productivity will become increasingly critical for sustaining business operations in the long term. (See Issue #3: "Growing Labor Shortage")

Furthermore, efforts to open data, share real estate information through building information databases, and digitalize key disclosure procedures are expected to improve market efficiency and productivity. Reducing the effort required for information retrieval and administrative procedures, as well as increasing market transparency, will make Japan a more attractive investment destination for overseas investors. (See issue #4: "Growing Interest of Foreign Capital in Japanese Real Estate")

Enhancing the added value of real estate through smart buildings is another major theme of DX. In recent years, buildings have incorporated BIM, IoT-based facility usage visualization, and optimized air conditioning systems. Smart buildings utilizing these technologies can provide greater comfort to tenant companies, increase value, and reduce operational costs. DX-driven initiatives to enhance building value contribute to strengthening the competitiveness of properties and boosting real estate value.

The emergence of new real estate business models through DX is also attracting attention. Flexible office services, which rapidly expanded during the COVID-19 pandemic, have been supported by digital technologies such as real-time reservation systems and IoT-enabled smart locks. In terms of financing, financial products leveraging digital technologies such as real estate security tokens have also been introduced. It is expected that innovation in business models utilizing digital technology will continue to be promoted in the future.

In recent years, as the foundation for DX, initiatives such as information sharing using real estate IDs, 3D city models (Project PLATEAU), and architectural BIM have been progressing under the initiative of the Ministry of Land, Infrastructure, Transport and Tourism. In 2025, plans are in place for the online submission of building certification applications and the development of improved public basic information databases. The government's infrastructure improvement efforts, including the opening of data, will also be a focus of attention.

The impact of DX on the real estate market is extensive. Although the real estate industry has long been regarded as slow to adopt DX, the evolution of the real estate industry through DX will likely accelerate in the future.

(Reference) The TOP 10 Issues of 2024 and 2025

Rank	2024	2025
1	Review of Low-Interest Rate Policy and Rising Interest Rates	Toward a World with Interest Rates
2	Impact of the 2024 Problem in the Logistics and Construction Industries	Continued Price Rise
3	Impact of Continued Inflation	Growing Labor Shortage
4	Revival of Inbound Tourism	Growing Interest of Foreign Capital in Japanese Real Estate
5	Labor Shortages Hindering Business Continuity and Expansion	Increasing Inbound Tourists
6	Expansion of Foreign Investment in Japanese Real Estate Due to Weak Yen	International Affairs and Rising Geopolitical Risks
7	Flexible Work Styles Driving Changes in Office Spaces	Frequent Natural Disasters
8	Drastic Shifts in International Affairs and Increasing Geopolitical Risks	Changes in Lease Accounting Due to IFRS Adoption
9	Development Boom Driven by Semiconductor Company Investments	Osaka-Kansai Expo and the IR
10	Growing Awareness of Environmental and Well-Being Issues	DX in the Real Estate and Construction Industries

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