
The Japanese Real Estate Investment Market 2015

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Nomura Research Institute

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To create a transparent real estate investment market in Japan

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Research Framework and Perspectives for this Report

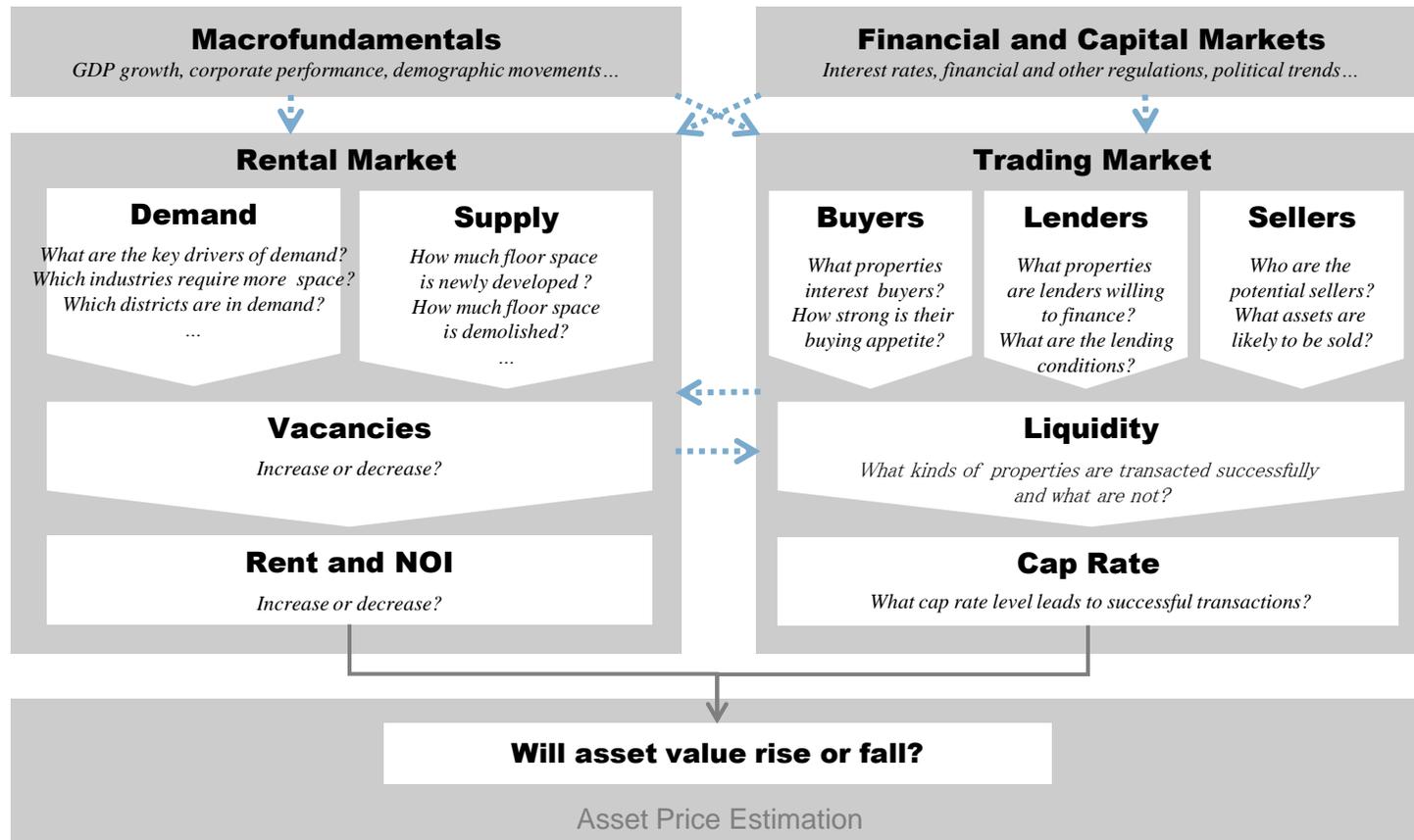


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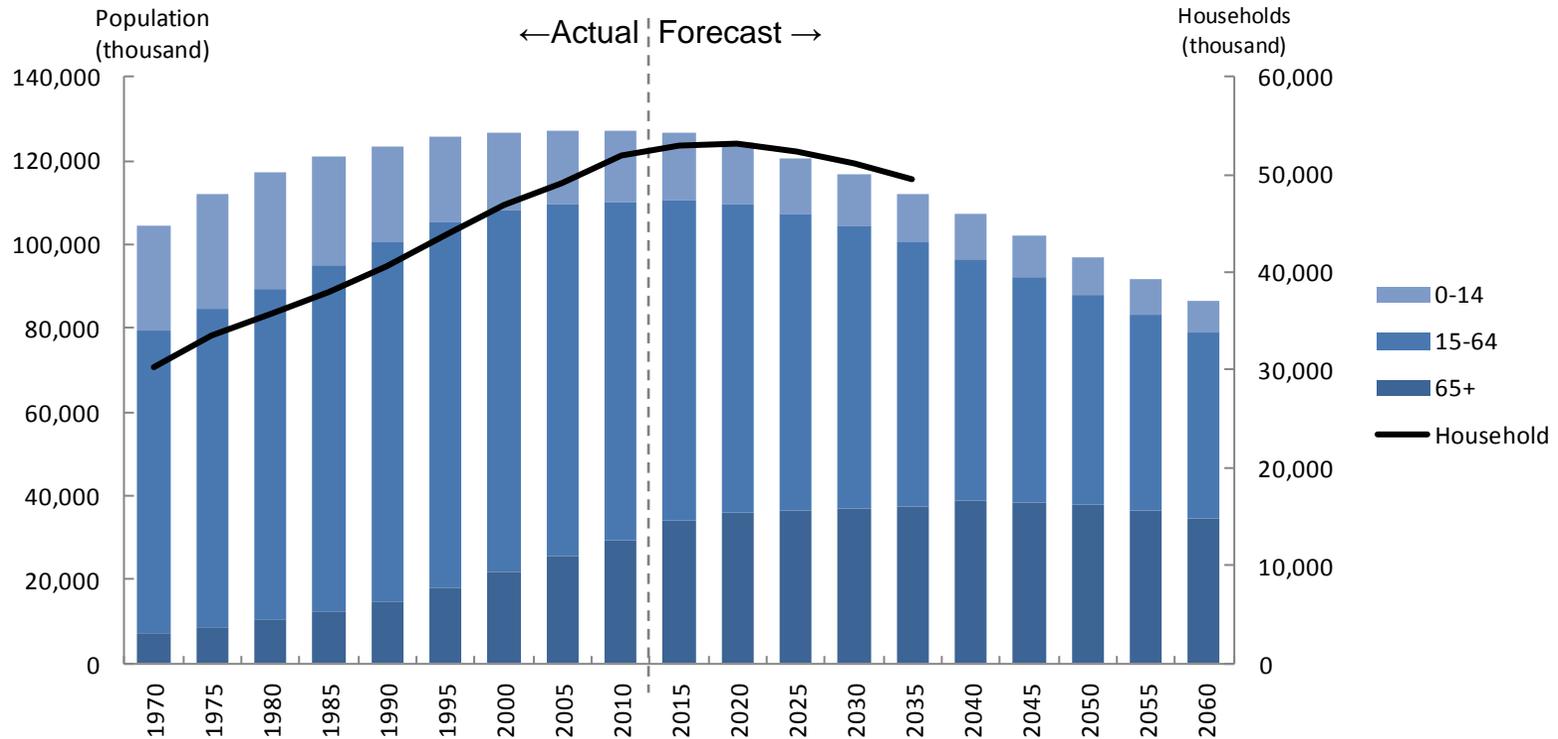
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Japan's population is aging and shrinking due to a low birth rate. The number of households will also be decreasing soon.

- Total population peaked out in 2005. The number of households is increasing for now, but it is projected to decrease after 2019.
- The population of 65 years or older is expected to level off in 2025 and head downwards in 2040.

Population and Households in Japan



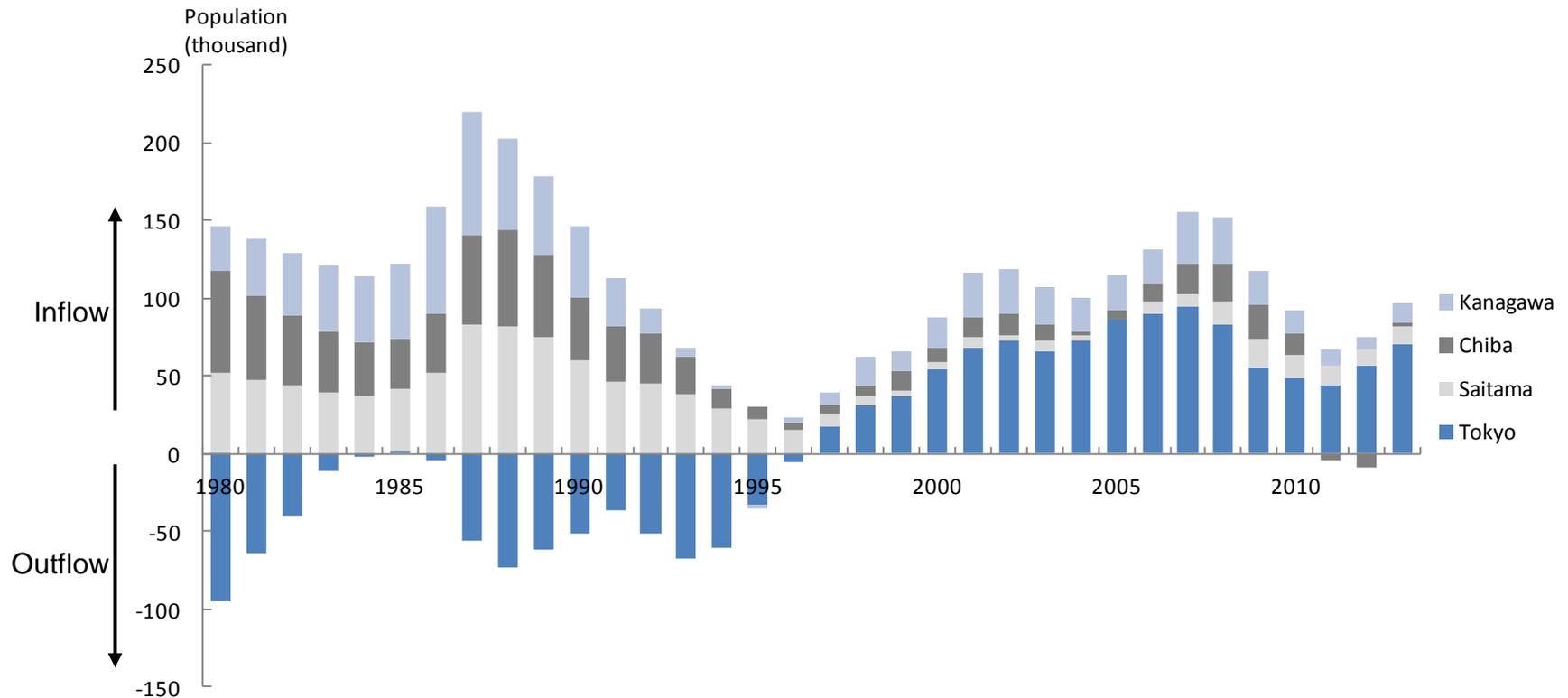
Source: NRI based on National Institution of Population and Social Security Research

Note: Medium-fertility (medium-mortality) projection

Population continues to increase in Greater Tokyo.

- Population inflow into Tokyo is expected to continue.

Net Population Inflow into Greater Tokyo



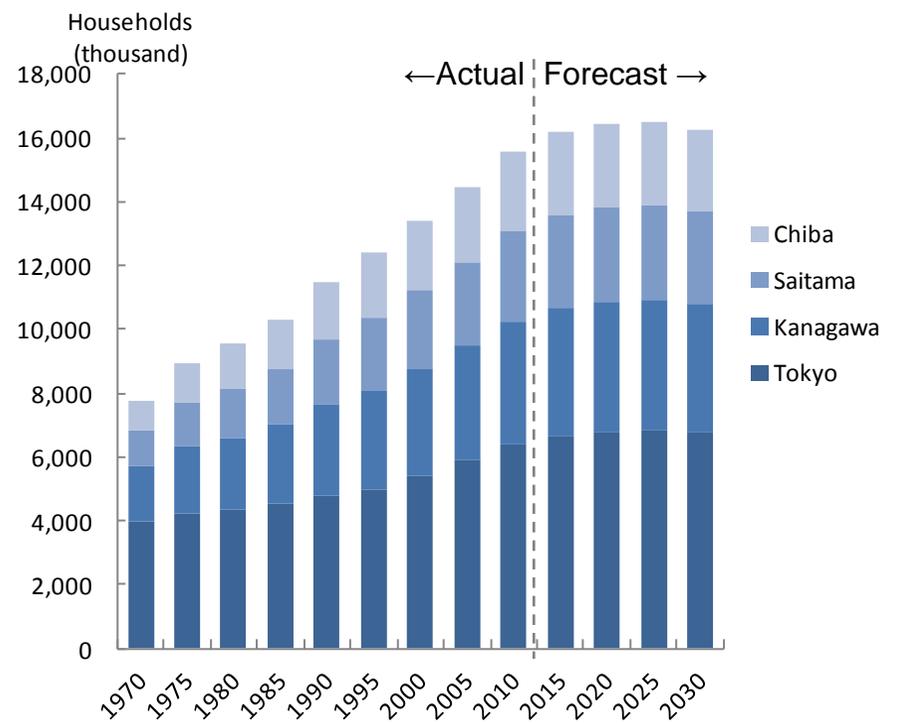
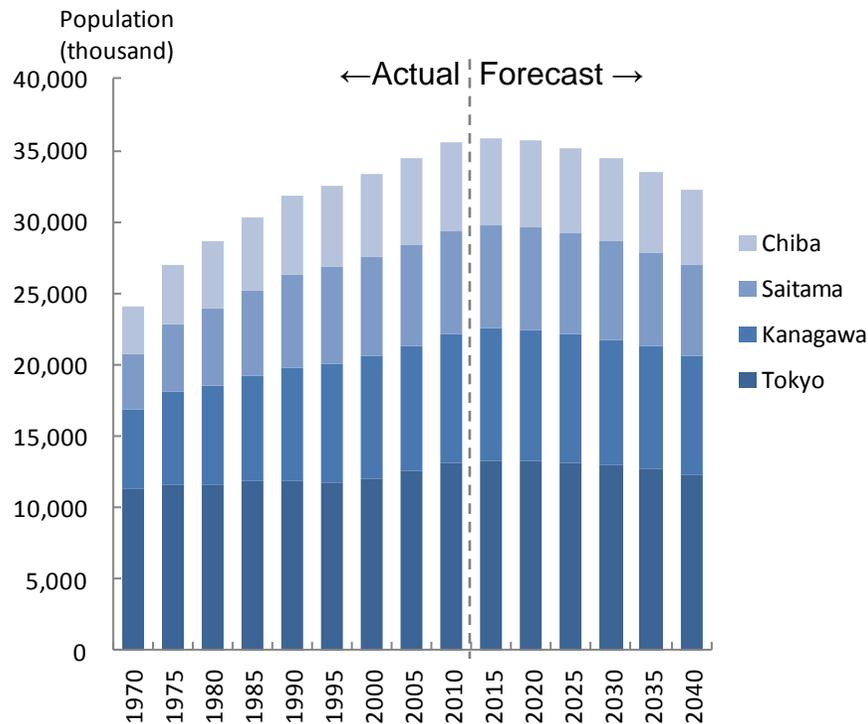
Source: NRI based on Basic Resident Register Population Migration Report

Population and households are projected to decrease in Tokyo in 5 to 10 years time.

■ In the Tokyo metropolitan area, total population and number of households are projected to peak out in 2015 and 2025, respectively.

Population in Greater Tokyo

Households in Greater Tokyo



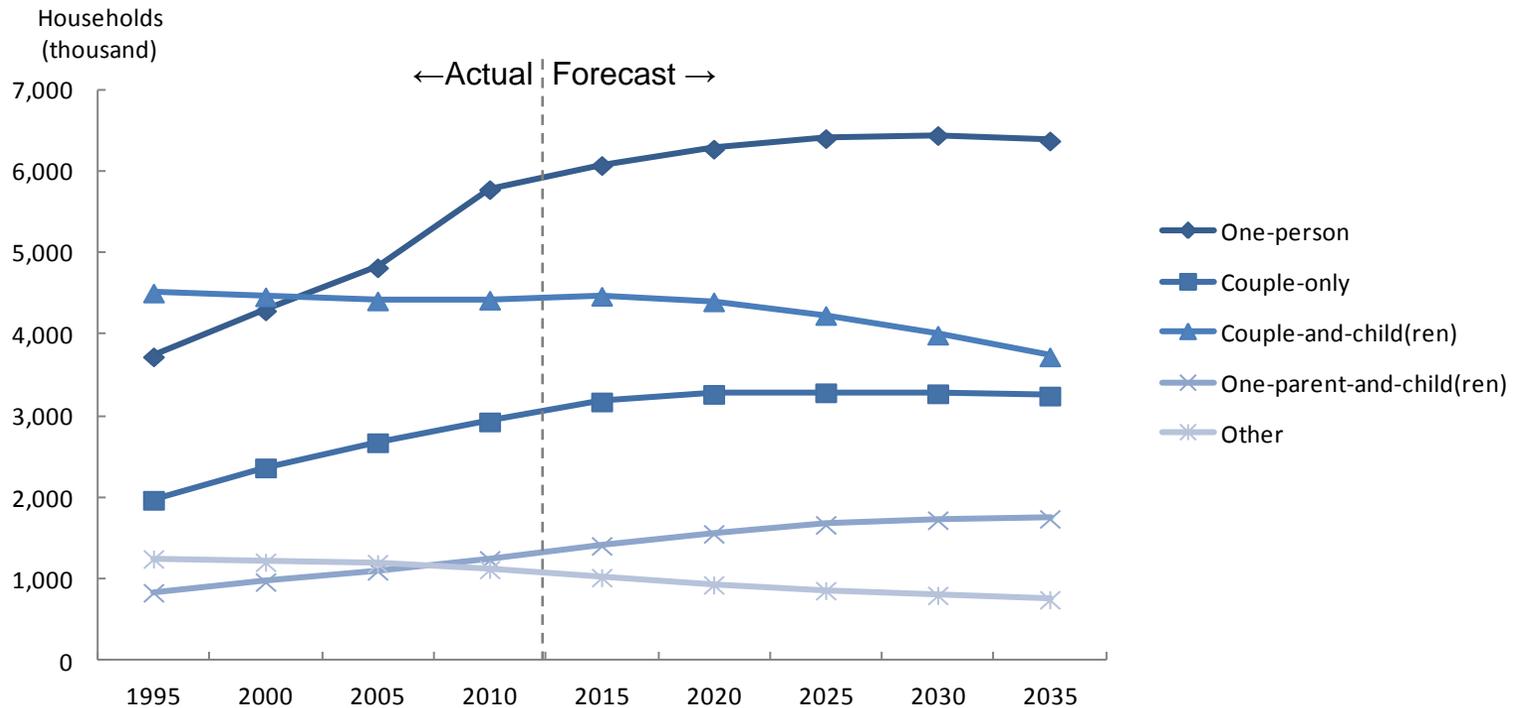
Source: NRI based on National Institution of Population and Social Security Research

Note: Medium-fertility (medium-mortality) projection

Households in Tokyo are expected to increase over the medium term owing to the strength of one-person households.

■ The number of single-person households is expected to peak out in 2030.

Number of Households by Family Composition



Source: NRI based on National Institution of Population and Social Security Research

Note: Medium-fertility (medium-mortality) projection

Population in Tokyo is predicted to increase over the long term only in the three wards along Tokyo Bay.

- Population is expected to increase in the Chuo, Koto and Minato wards.
- In seven wards, the population is projected to decrease by over 10% between 2010 and 2040.

Population Trends in Tokyo (2010=100)

| Ward | 2010 | 2015 | 2020 | 2025 | 2030 | 2035 | 2040 |
|------------|-------|-------|-------|-------|-------|-------|-------|
| Chuo | 100.0 | 112.9 | 115.3 | 116.6 | 116.8 | 116.1 | 114.4 |
| Koto | 100.0 | 102.7 | 104.4 | 106.8 | 108.2 | 108.8 | 108.5 |
| Minato | 100.0 | 105.0 | 107.0 | 107.9 | 107.8 | 107.0 | 105.2 |
| Shinjuku | 100.0 | 103.3 | 104.4 | 104.8 | 104.4 | 103.4 | 101.6 |
| Nerima | 100.0 | 103.8 | 105.1 | 105.3 | 104.5 | 102.9 | 100.6 |
| Sumida | 100.0 | 100.8 | 101.7 | 102.6 | 102.7 | 102.0 | 100.6 |
| Arakawa | 100.0 | 102.4 | 103.0 | 102.8 | 102.2 | 101.2 | 99.7 |
| Chiyoda | 100.0 | 106.9 | 106.9 | 106.1 | 104.6 | 102.2 | 99.3 |
| Setagaya | 100.0 | 102.1 | 102.7 | 102.4 | 101.5 | 100.0 | 97.9 |
| Shinagawa | 100.0 | 102.4 | 102.9 | 102.7 | 101.7 | 100.0 | 97.8 |
| Edogawa | 100.0 | 101.5 | 101.7 | 101.1 | 99.8 | 98.2 | 96.2 |
| Bunkyo | 100.0 | 101.8 | 101.9 | 101.3 | 100.1 | 98.2 | 95.7 |
| Toshima | 100.0 | 107.3 | 106.1 | 104.5 | 102.2 | 99.2 | 95.3 |
| Ota | 100.0 | 101.6 | 101.6 | 100.8 | 99.4 | 97.5 | 95.1 |
| Itabashi | 100.0 | 100.9 | 100.5 | 99.1 | 97.2 | 94.7 | 91.8 |
| Meguro | 100.0 | 100.8 | 100.2 | 98.8 | 96.8 | 94.1 | 91.1 |
| Taito | 100.0 | 100.6 | 99.5 | 97.7 | 95.4 | 92.6 | 89.4 |
| Shibuya | 100.0 | 100.3 | 98.8 | 96.6 | 93.9 | 90.9 | 87.4 |
| Nakano | 100.0 | 99.4 | 97.7 | 95.5 | 92.9 | 89.8 | 86.2 |
| Kita | 100.0 | 99.4 | 97.6 | 95.1 | 92.2 | 89.0 | 85.5 |
| Suginami | 100.0 | 99.4 | 97.6 | 95.1 | 92.0 | 88.5 | 84.5 |
| Katsushika | 100.0 | 98.2 | 95.7 | 92.4 | 88.7 | 84.8 | 80.8 |
| Adachi | 100.0 | 98.0 | 95.2 | 91.6 | 87.5 | 83.1 | 78.7 |

Source: NRI based on National Institution of Population and Social Security Research

Note: Medium-fertility (medium-mortality) projection

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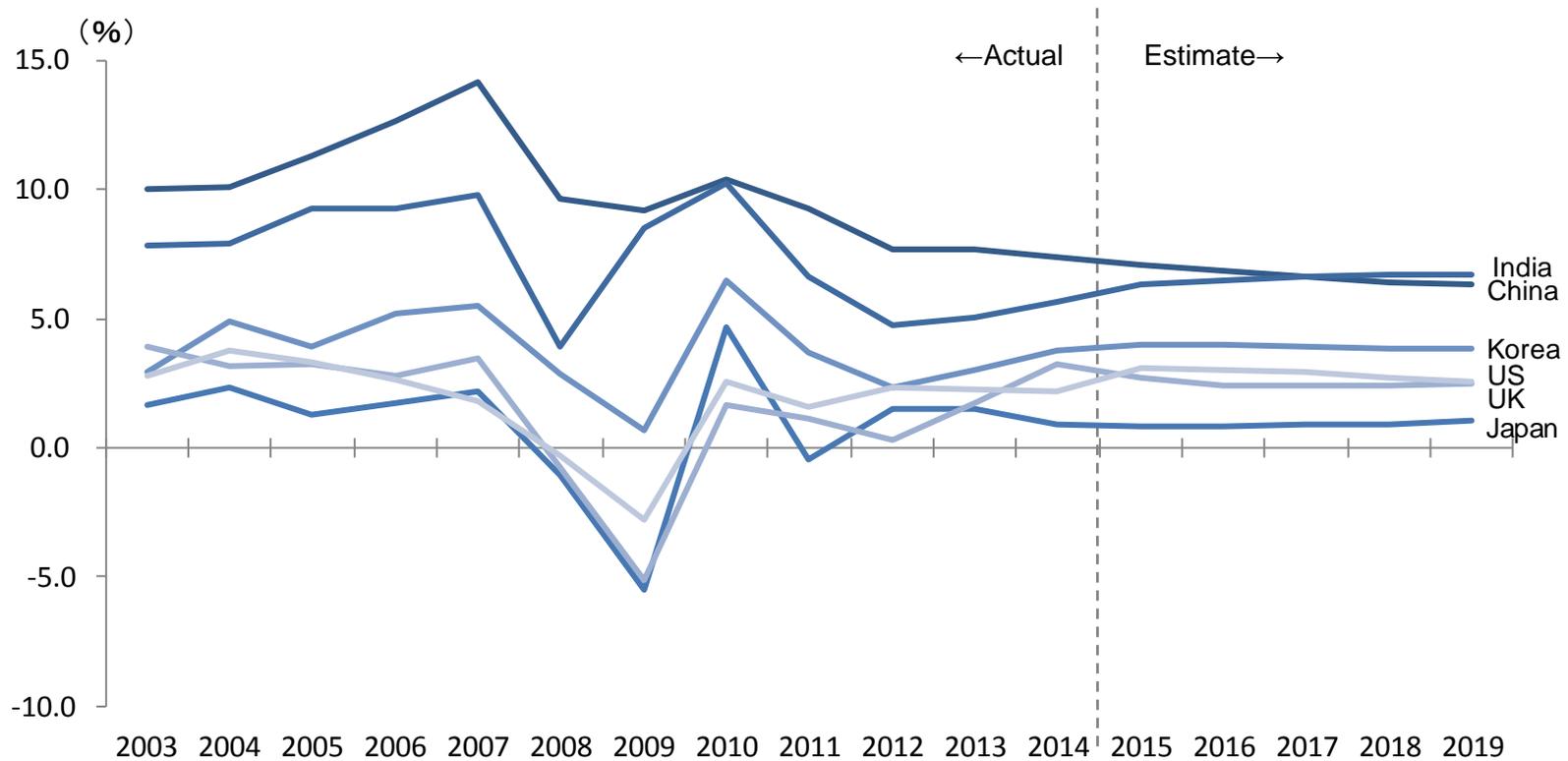
Logistics Property Market

Real Estate Investment Products

Japan's economic growth is the lowest compared to other major economies with low forecasts for future growth.

■ IMF forecasts estimate Japan's GDP growth rate at 1% for the next 5 years.

Real GDP growth rate of major economies

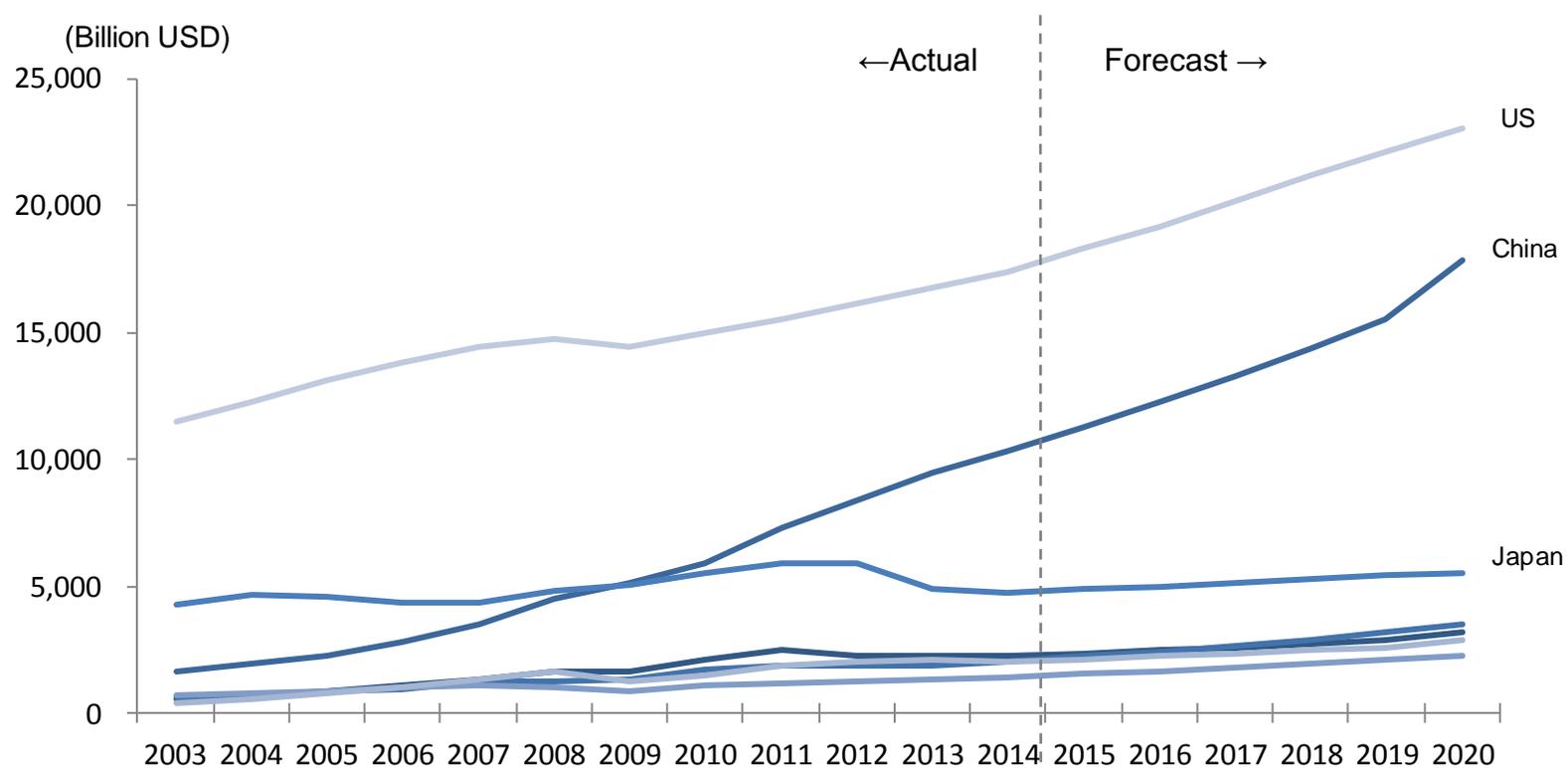


Source: NRI based on IMF data (2014 Oct. and 2015 Update)

Despite the weak growth, Japan remains one of the largest economies in the world.

- Although Japan was overtaken by China and fell to the third place in world nominal GDP, India, Brazil and Russia will still remain behind Japan by 2020, assuming current growth rates continue.

Nominal GDP of Major Countries



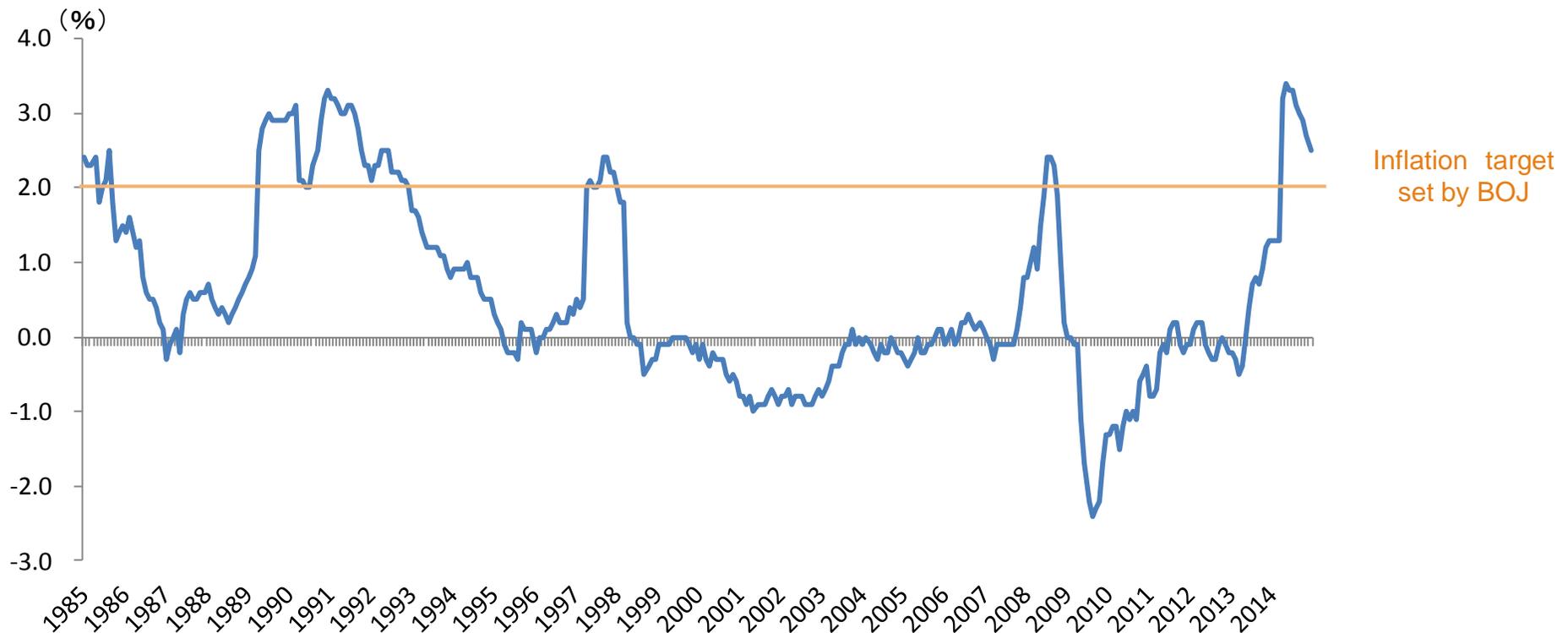
Source: NRI based on IMF (2014 Oct.)

Note: Figures up to 2019 are IMF forecasts and those up to 2020 are calculated with the assumption that the CAGR from 2014 to 2018 will be maintained.

Consumer price index became less active, despite the rise in price due to the consumption tax increase.

- With consumer sentiment depressed due to the consumption tax increase, the growth of consumer price index began to slow down.

Year-on-Year Change in Japan's Consumer Price Index (excluding fresh foods)



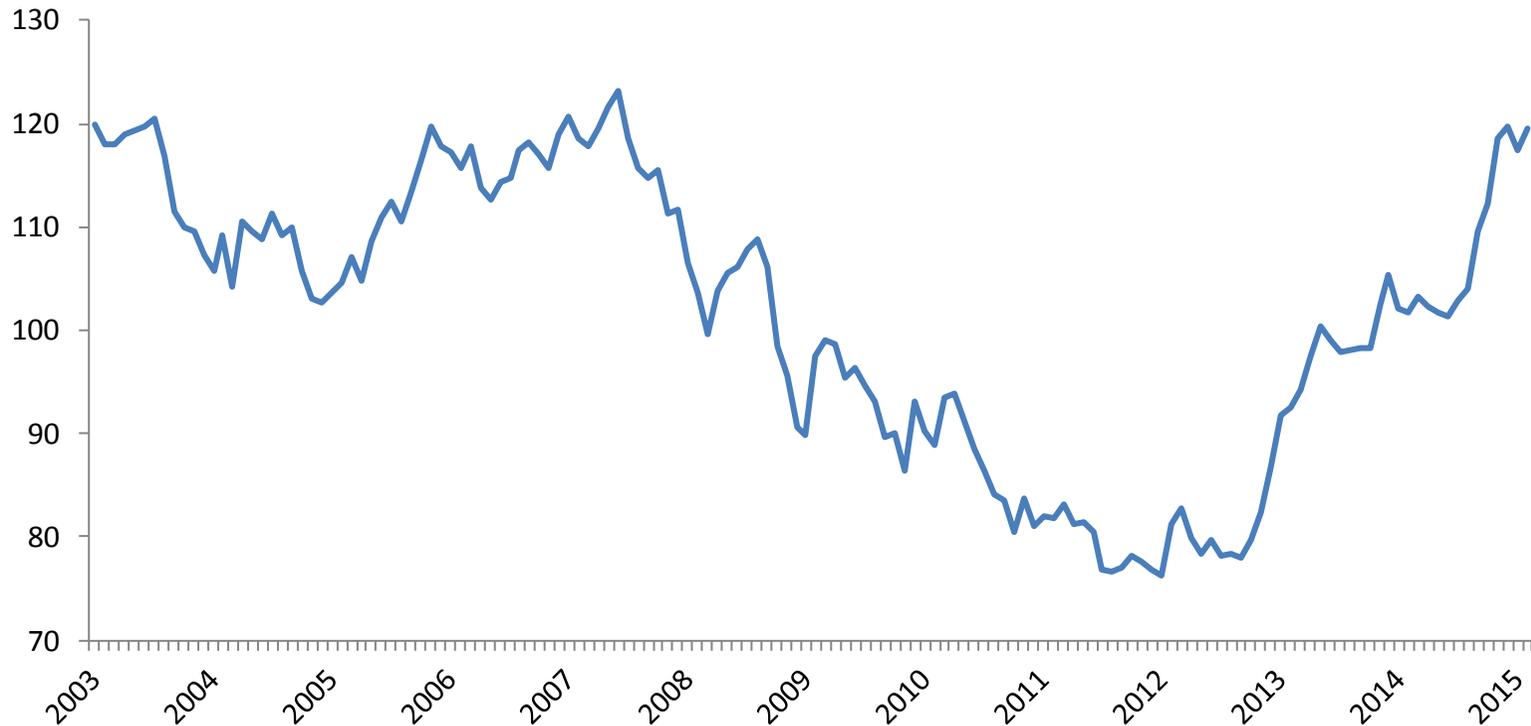
Source: NRI based on Japan Ministry of Internal Affairs data

Yen still continues to decline.

- Large-scale monetary easing, the “first arrow” of Abenomics, has rapidly lowered the yen from the end of 2012.

USD-JPY exchange rate

(USDJPY=X)



Source: NRI based on Bloomberg data

Trade deficit is expanding, while the current account surplus is shrinking.

- Japan's trade balance recorded deficit for four consecutive years from 2011, while the current account surplus fell to a record low in 2014.

Japan's Current Account



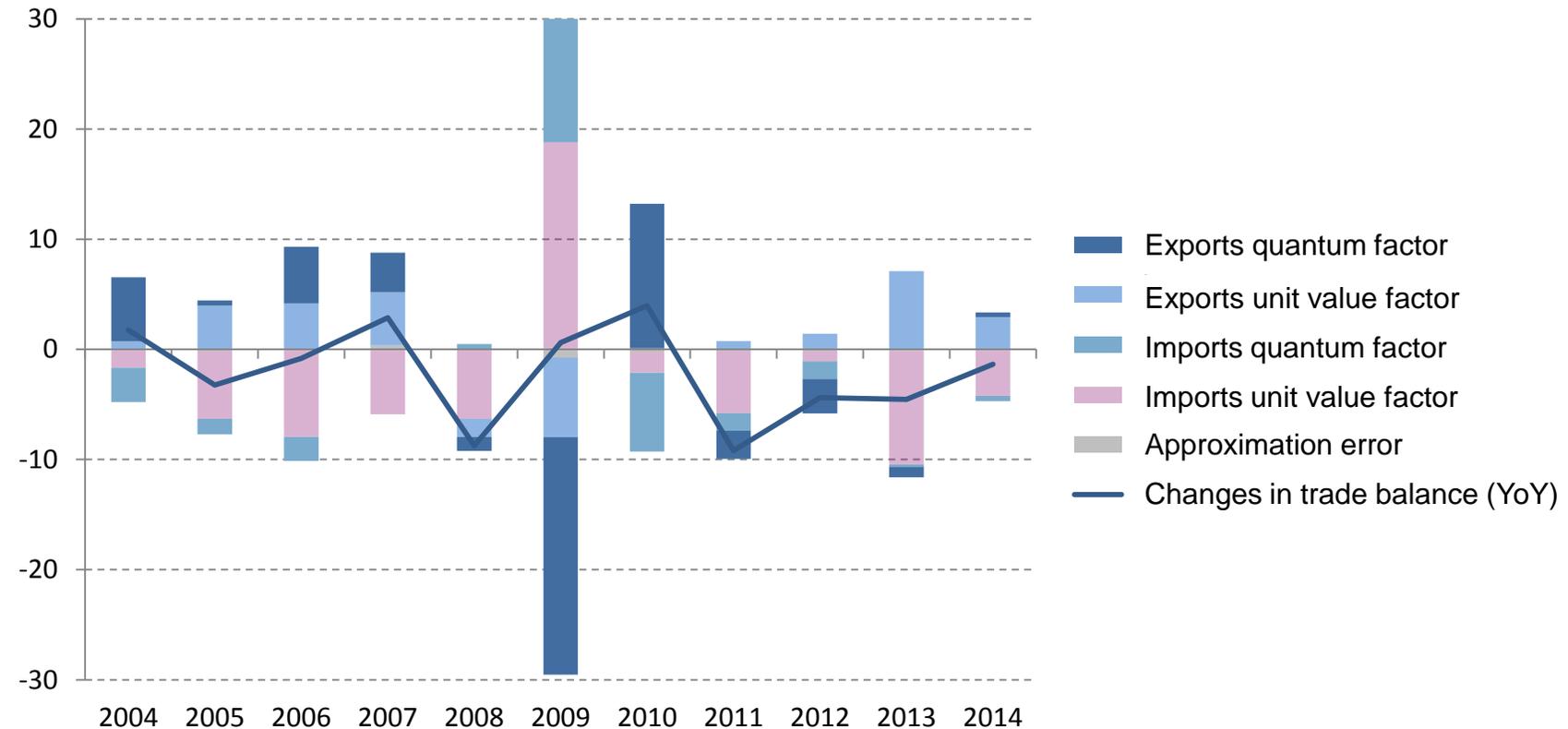
Source: NRI based on Japan Ministry of Finance data

The principle factor behind the rise of trade deficit was imports unit value.

■ In 2014, Increase in export volumes has not been yet reflected to trade balance.

Japan's Trade Balance (YoY Change)

(Trillion yen)

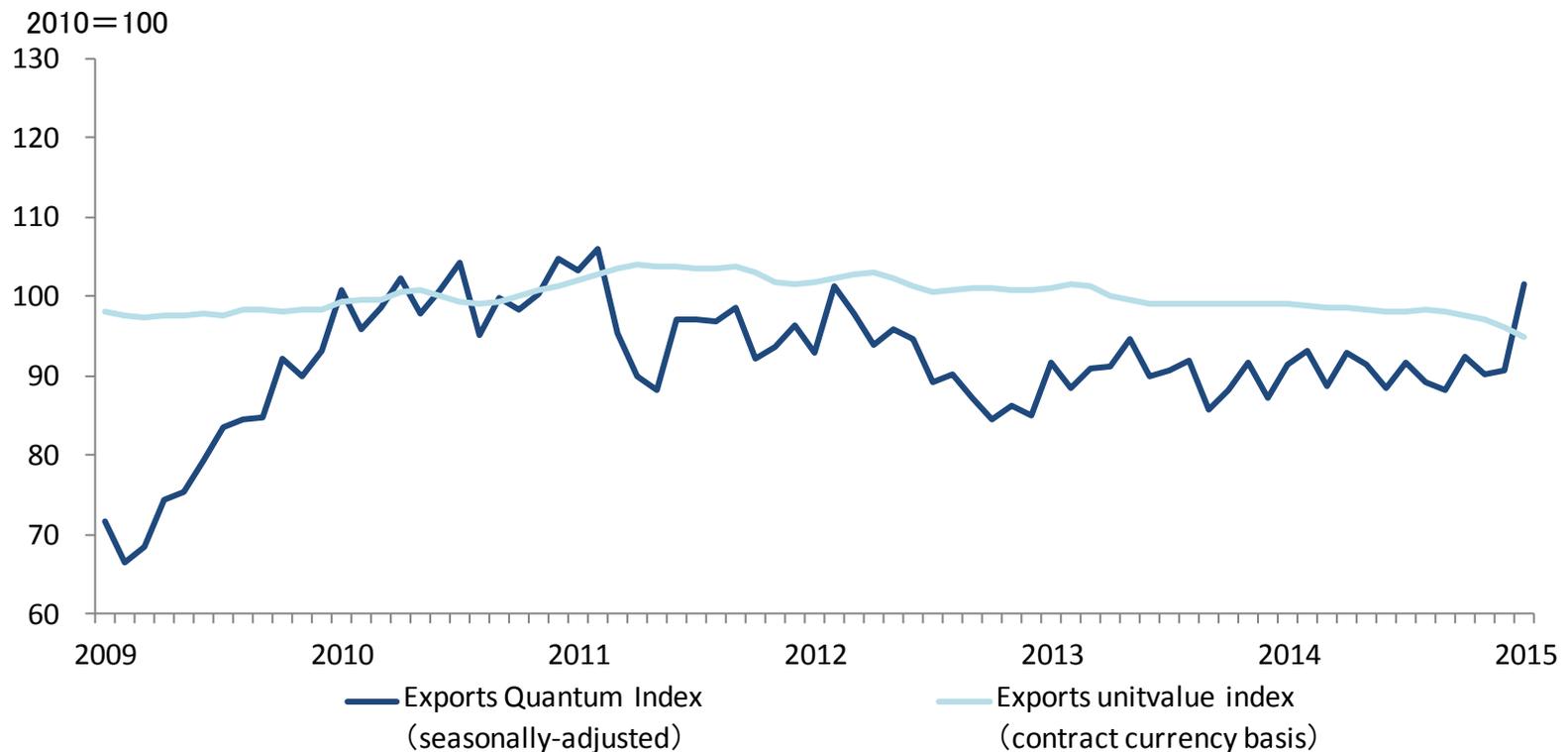


Source: NRI based on Japan Ministry of Finance data

Export volumes have been increasing, because of yen's depreciation.

- Export volume has expanded due to yen's depreciation and lower oil price, especially in industries such as automobile. However, Japanese companies are experiencing stagnant growth in exports as a result of growing offshore transfers of production as well as of severe competition with cheap foreign products.

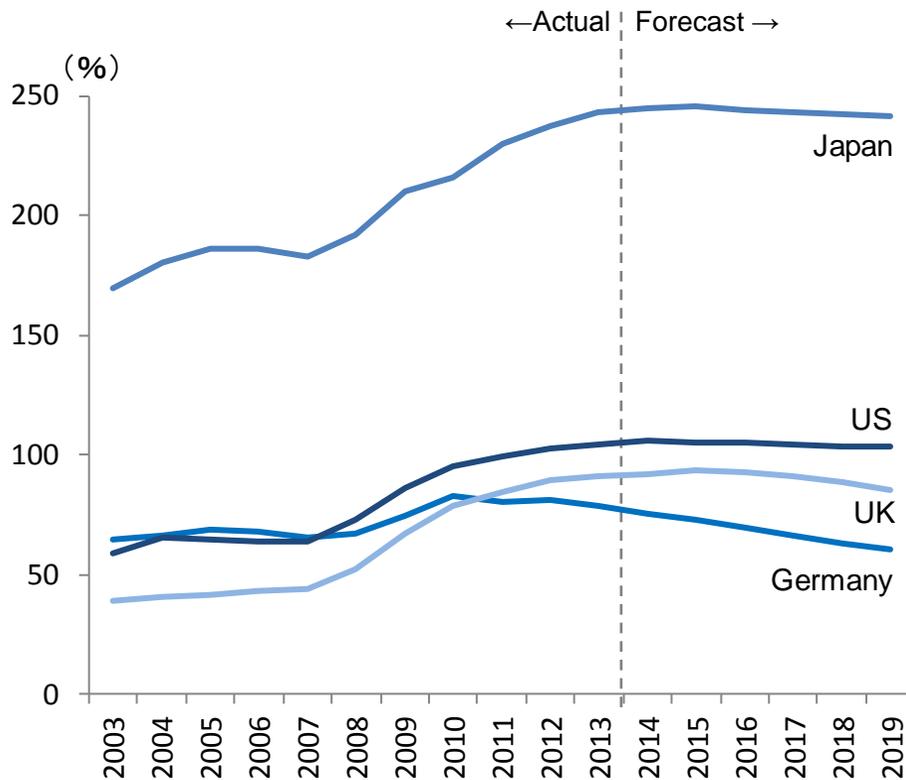
Japan's Export Indexes



Government debt has mounted, raising concerns about a potential financial collapse.

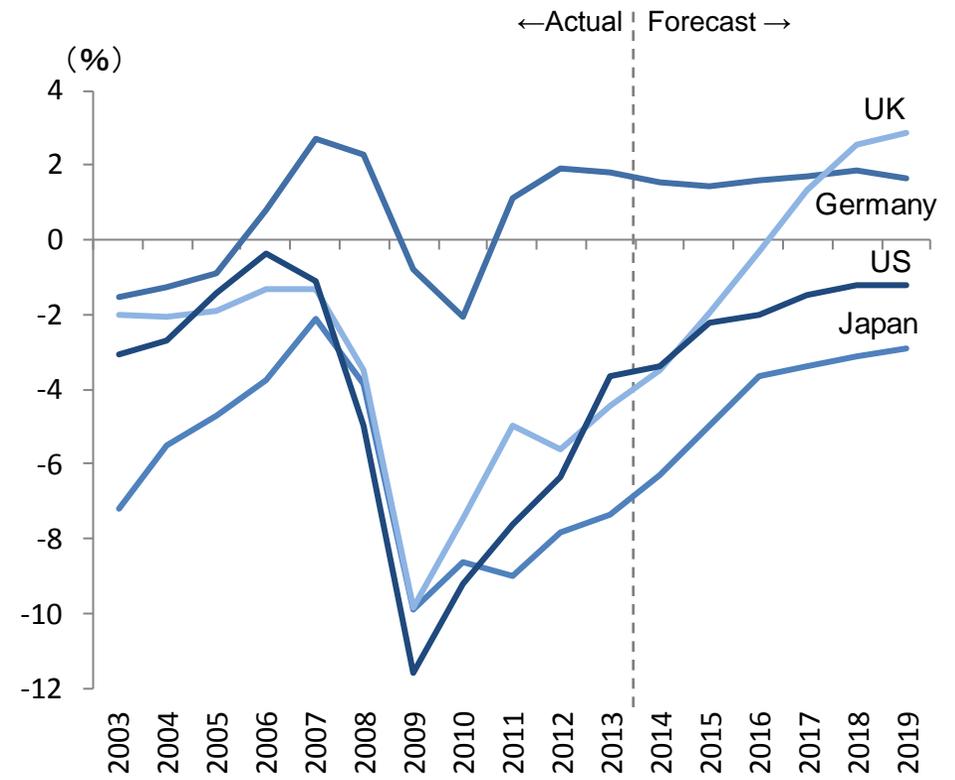
- The IMF forecasts that Japan's ratio of government debt to GDP will peak out but still remain high.
- A surplus in the primary balance, which is one of the conditions for preventing financial collapse, is expected to be difficult to achieve at least for the next several years.

Ratio of Government Debt to GDP



Source: NRI based on IMF data (2014 Oct.)

Ratio of Government Primary Net Lending/Borrowing to GDP

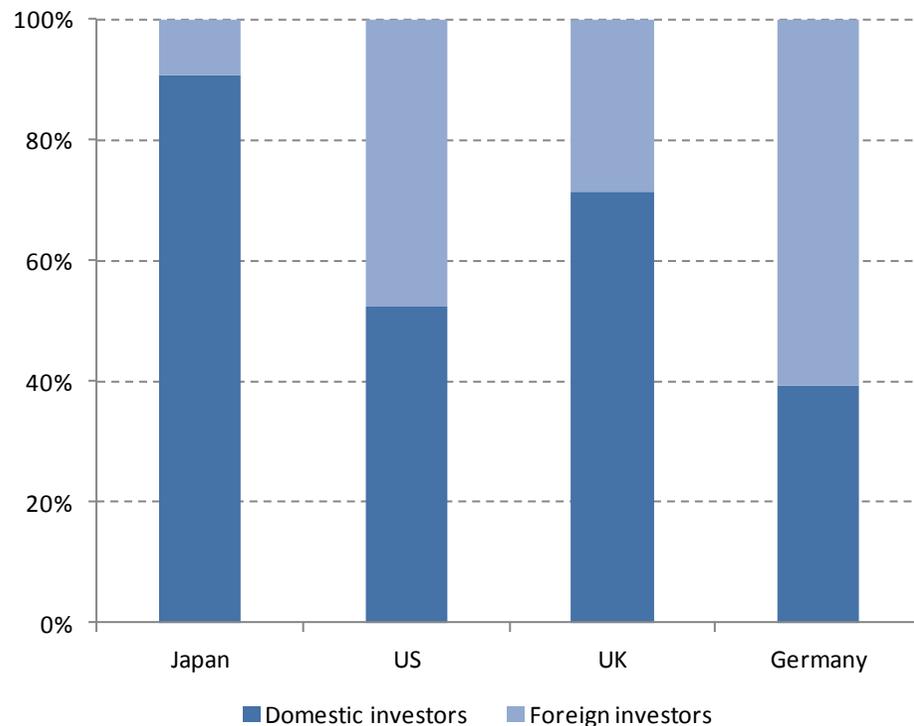


Source: NRI based on IMF data (2014 Oct.)

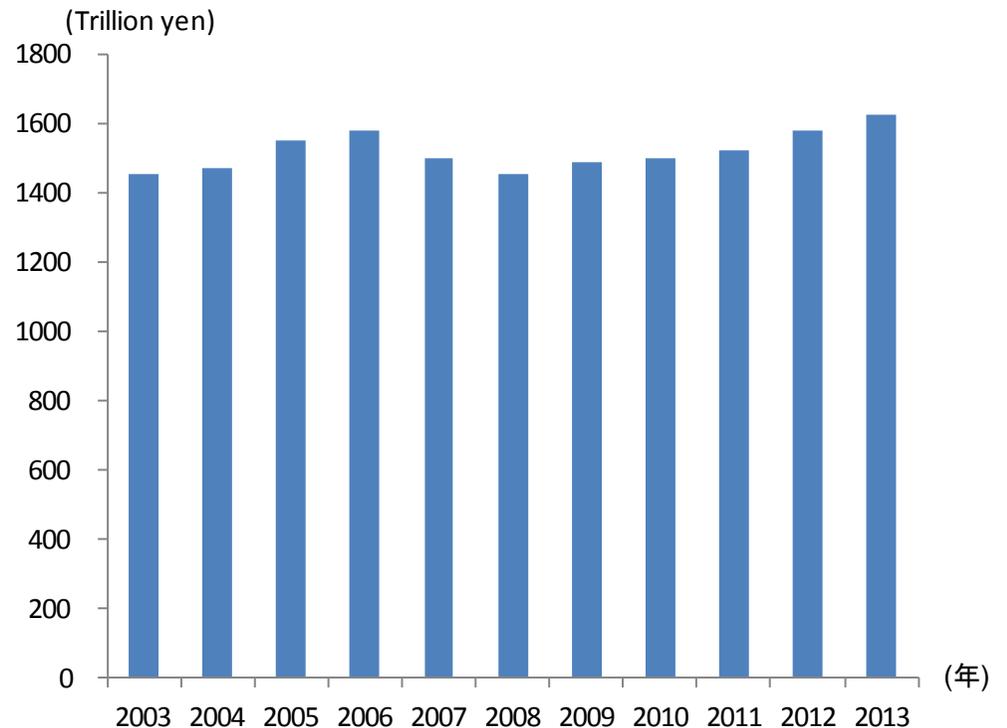
A financial collapse is unlikely as long as domestic capital remains in Japan and continues to circulate.

- The possibility of Japanese government bonds collapsing is seen to be small since more than 90% of the bonds are held by domestic investors.
- Household financial assets, which are a resource for government bond purchases, have increased due to rising stock prices in recent years.

Government Bond Investors



Household's Financial Assets in Japan



Note: Figures for Japan and US are from Dec 2014; for UK and Germany, from 2014 Q3.

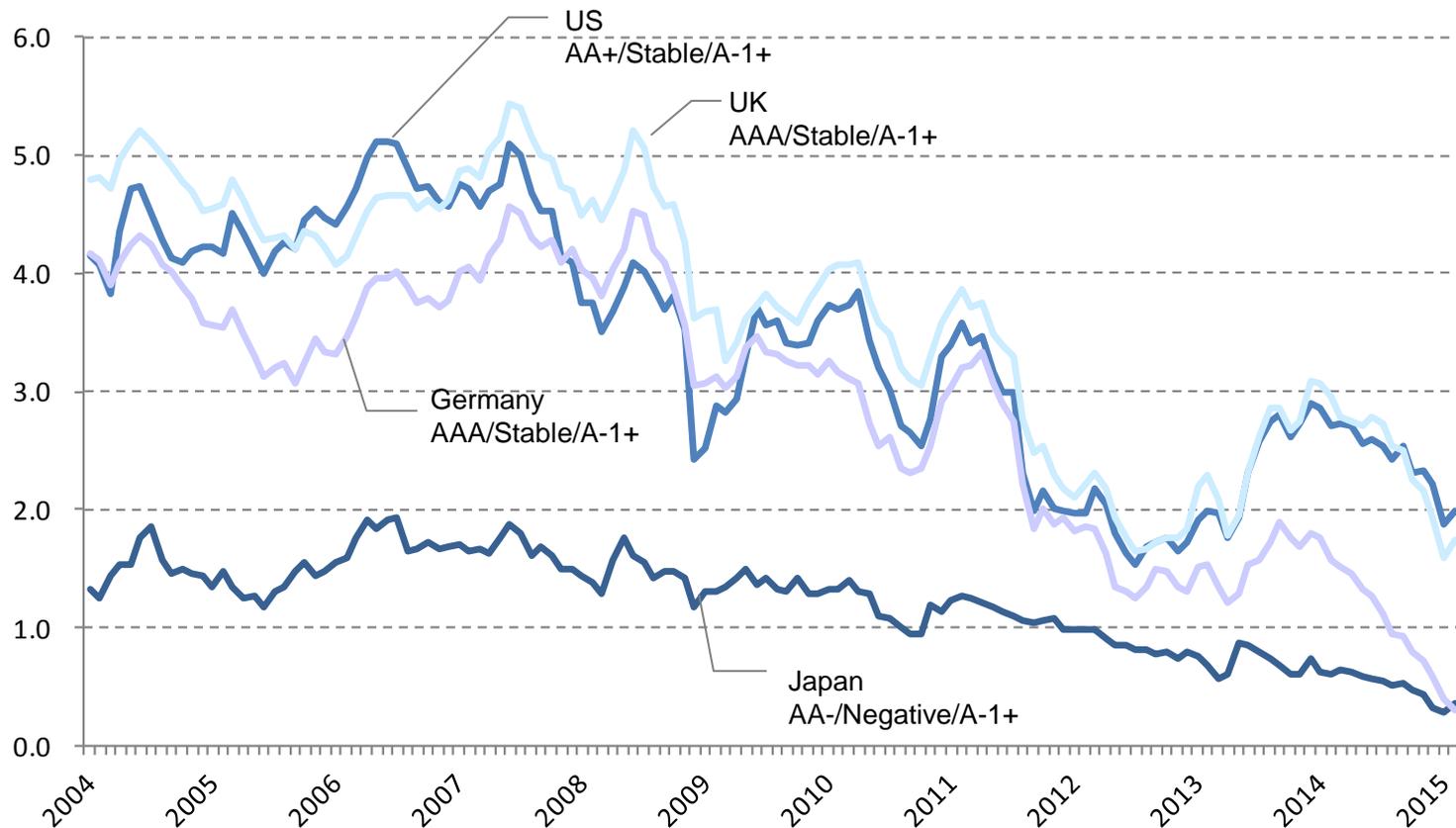
Source: NRI based on Bank of Japan data

Source: BoJ, FRB, ONS, Bundesbank

Long-term interest rates remain stable at a low level.

- Currently Japan's interest rates remain at a lower level than that of UK and US. If the irrational gap between the interest rate level and sovereign ratings is closed, Japan's interest rates may rise.

Long-term Interest Rates (Monthly) and Sovereign Ratings

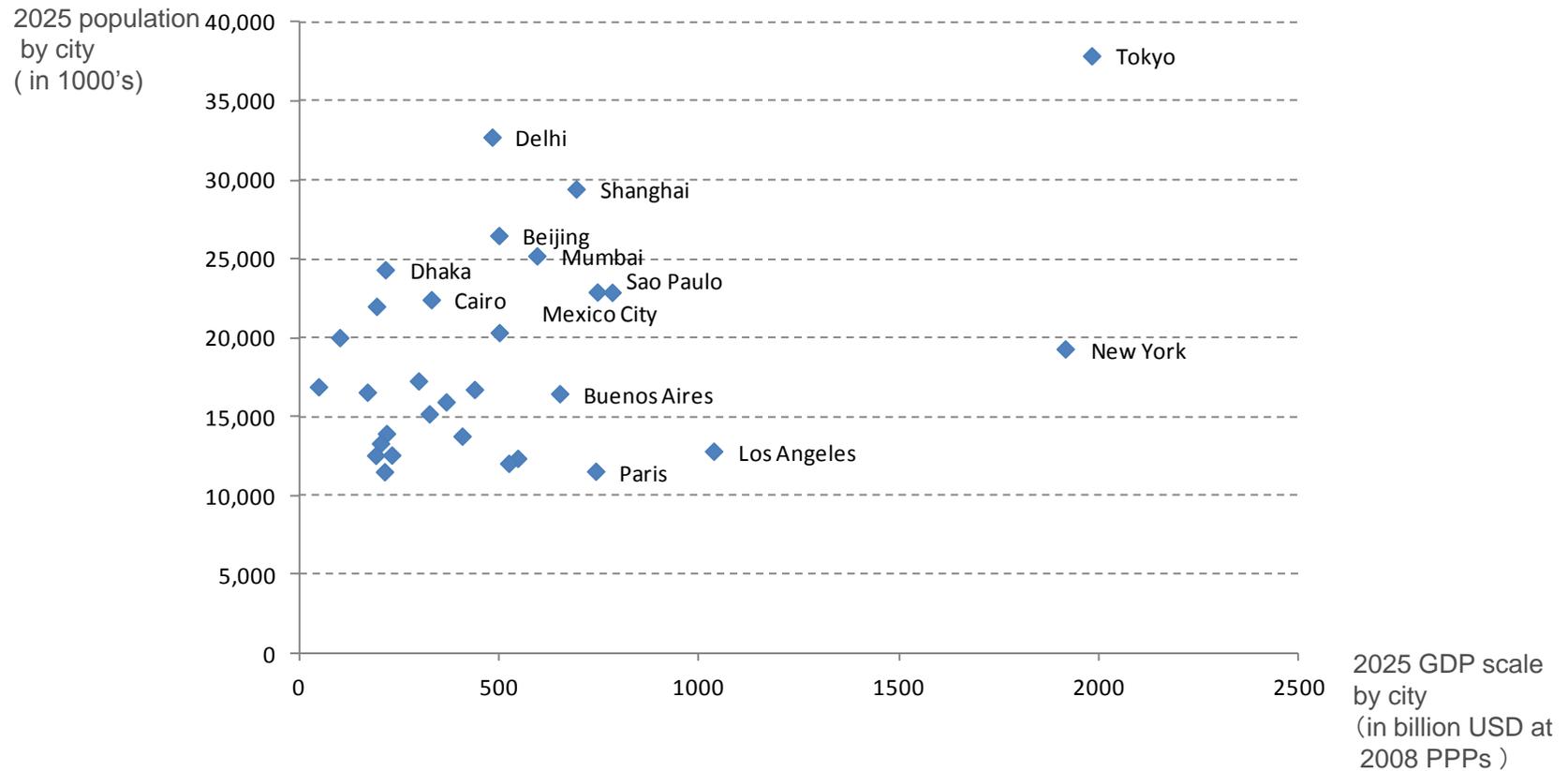


Note: Classifications are as of Feb. 2014 (Long-term/expected/short-term, in local currency)

Source: NRI based on Ministry of Finance Japan, FRB, ECB, Bank of England, and S&P 20

Tokyo continues to be the world's largest city in terms of population and GDP.

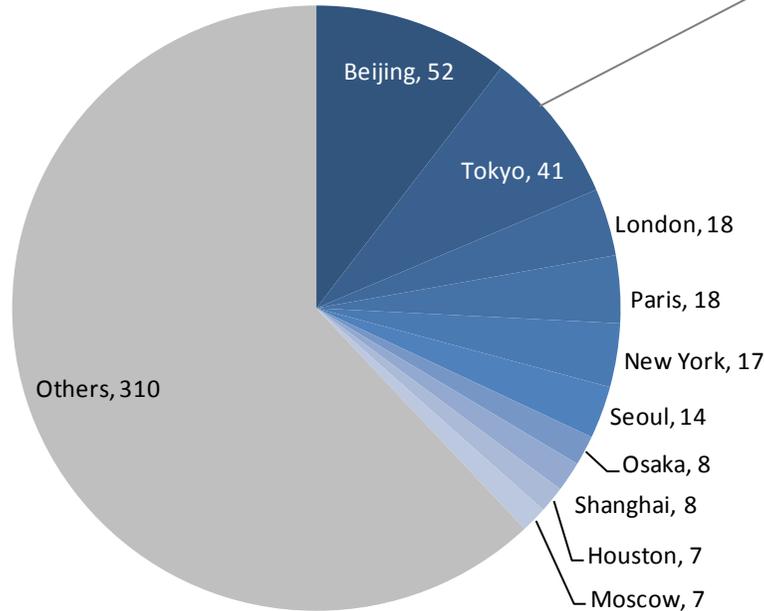
GDP/population estimation in 2025 (Top 30 cities of population)



Source: NRI based on PricewaterhouseCoopers and UN data

Tokyo has the second largest concentration of world-class enterprises.

Number of Fortune Global 500 companies by city (2014)



Fortune Global 500 companies in Greater Tokyo (within top 200)

| Rank | Company | Revenue(Mil\$) |
|------|--------------------------------|----------------|
| 23 | Japan Post Holdings | 152,125 |
| 45 | Honda Motor | 118,210 |
| 51 | JX Holdings | 111,014 |
| 53 | Nippon Telegraph & Telephone | 109,054 |
| 61 | Nissan Motor | 104,635 |
| 78 | Hitachi | 95,988 |
| 105 | Sony | 77,532 |
| 108 | Mitsubishi | 75,755 |
| 124 | Marubeni | 70,429 |
| 135 | Softbank | 66,546 |
| 139 | Tokyo Electric Power | 66,194 |
| 145 | Toshiba | 64,907 |
| 148 | AEON | 64,240 |
| 164 | Dai-ichi Life Insurance | 60,340 |
| 173 | Mitsui | 57,302 |
| 176 | Seven & I Holdings | 56,572 |
| 184 | Nippon Steel & Sumitomo Metal | 55,062 |
| 199 | Mitsubishi UFJ Financial Group | 51,667 |

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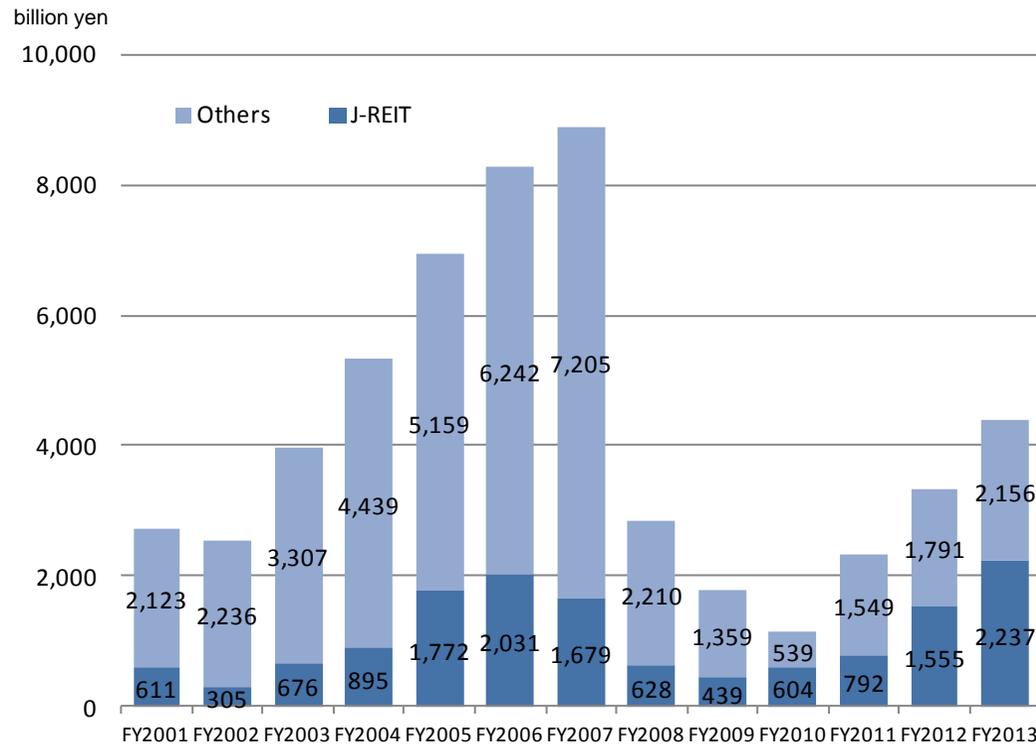
Logistics Property Market

Real Estate Investment Products

Investors' activities has been recovering to the 2005-2006 level.

- In 2013, J-REIT, the most powerful real estate buyer in Japan, acquired assets of more than 20 billion USD. In 2014, however, J-REIT lost its dominance to other investors such as private-REITs, high-net-worth individuals and corporations with more aggressive attitude towards acquiring assets. Other professional investors are also being ousted from the Tokyo market.

Acquisitions of Securitized Real Estate

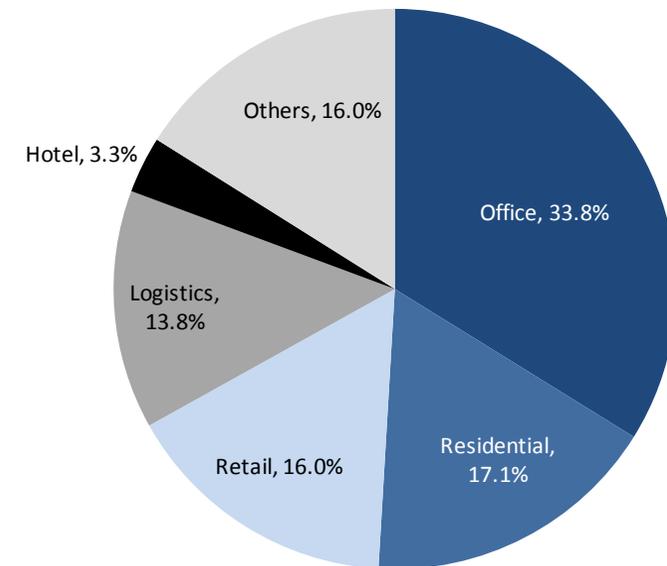
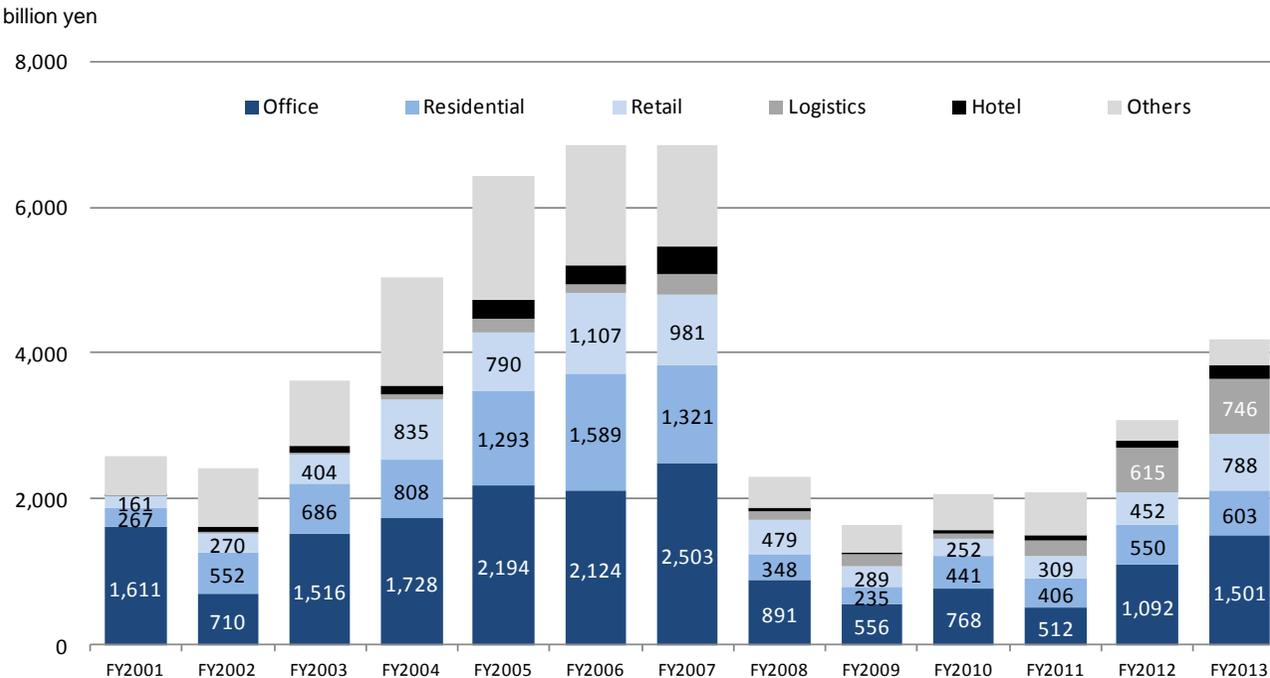


Hotel deals has been increasing amongst other key segments, i.e. office, residential, retail and logistics properties.

- Factors such as the 2020 Olympic game in Tokyo, weak JPY currency, and strong macro economy in Japan have helped to push the demand in hotels, attracting more investors to hotel investment.

Acquisitions of Securitized Real Estate by Asset Class

Allocation of Securitized Real Estate by Asset Class in 5 years (2009-2013)



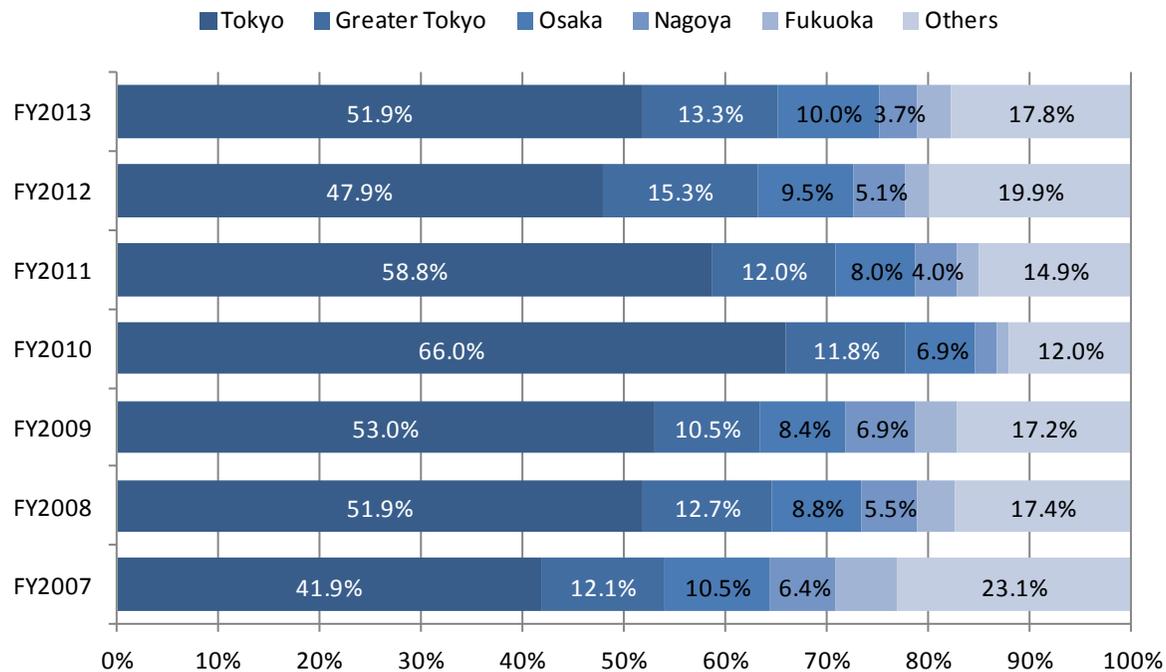
Note: Because the utility of securitizations that require actual TMK is unclear, they have not been included after 2001. Because of this, the yearly totals and amounts will not match up with the documents cited for this entry.

Source: NRI based on Ministry of Land, Infrastructure, Transport and Tourism's "Survey of the Current State of Real Estate Securitization"

Lack of assets in Tokyo is likely to cause investment money to head to other regions.

- For last few years, it has been extremely difficult for investors to find investment opportunities in Tokyo. In 2014 and 2015, transactions in the ex-Tokyo area are expected to increase significantly in a trend similar to the one seen in pre-global financial crisis era.

Number of Properties Securitized by Region



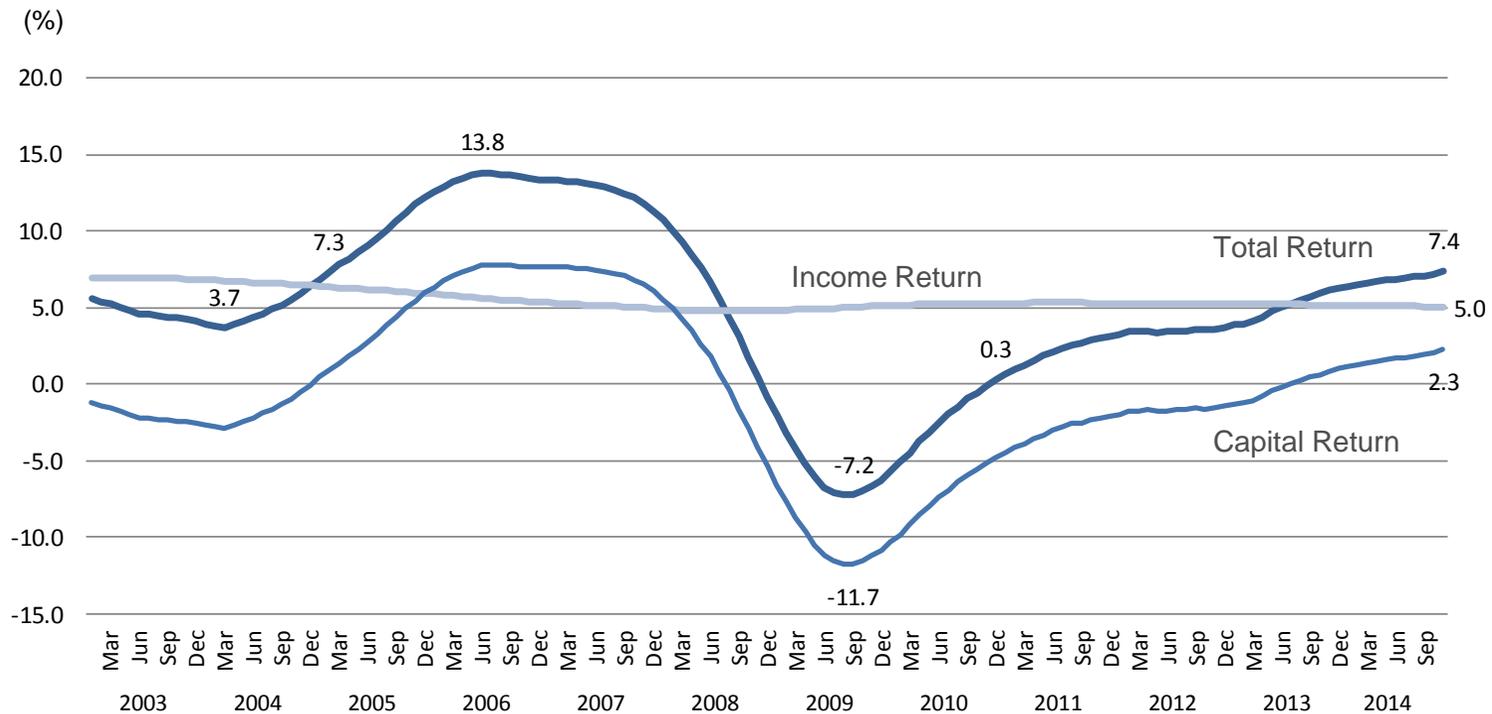
Note: not including securitization of real estate of SPC

Source: NRI based on MLIT

Total return recovered to 7%, the 2005 Q1 level.

- Prior to the global financial crisis, the total return reached to 7% in 2005 Q1, and hiked till 2006 Q2.
- Total return maintained the rate over 10% until 2007 Q1.

Performance Trend in Japan

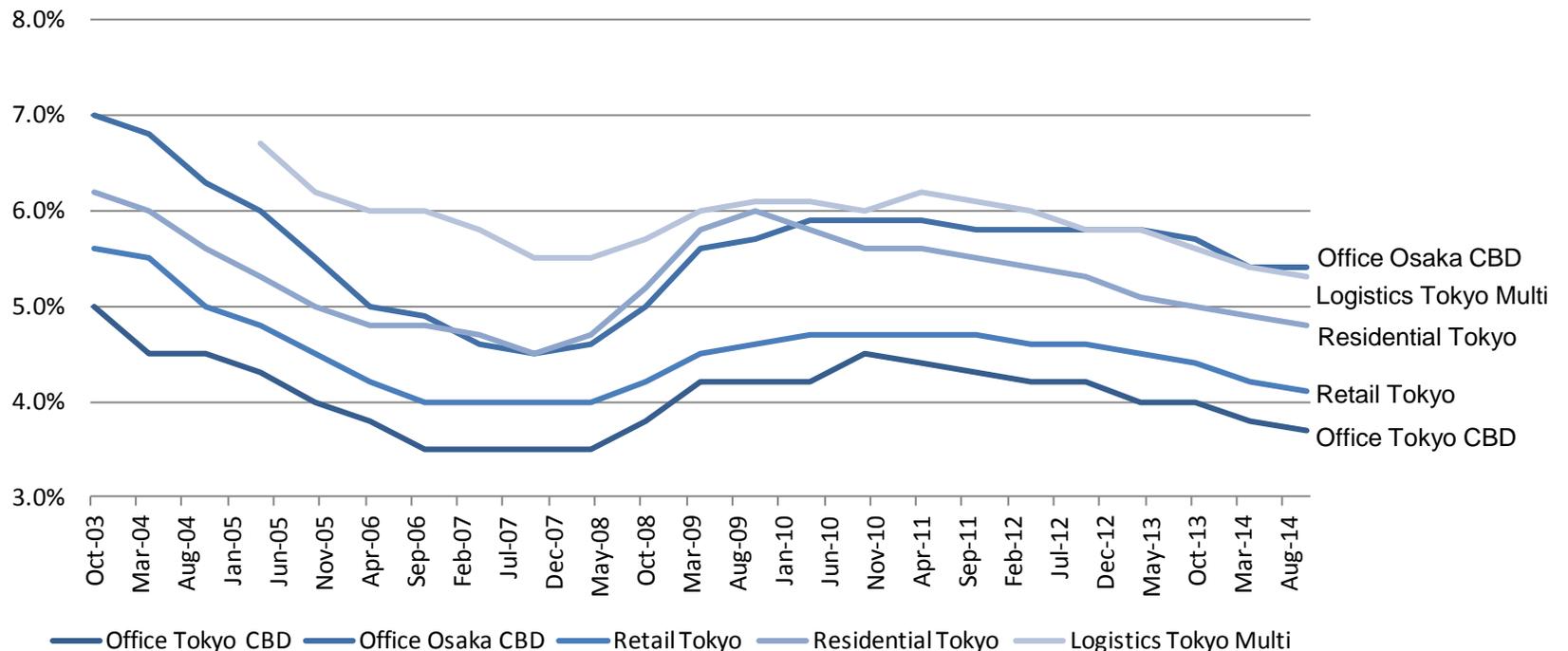


Source: MSCI Real Estate IPD

Cap rates fell sharply and by 2014 most likely reached the 2007 level.

- In the Tokyo market, an increasing number of real estate deals have cap rates of 3-4%. Some investors believe that arguing cap rates is futile as one can expect higher rents. Such market players consider timing and level of rent increase more important rather than cap rate compression.

Cap Rate Trend in Japan



Mega deals of over one billion USD have increased.

| Transaction Month/Year | Dec, 2013 | Mar, 2014 | Aug, 2014 | Oct, 2014 | Nov, 2014 |
|---------------------------|---------------------------------------|--|-------------------|---|---|
| Asset | Land next to the Hamamatsucho Station | Otemachi Tower (Ratio of Acquisition: 17%) | Meguro Gajoen | Pacific Century Place Tokyo (Office floors) | GE's Residence Portfolio (200 properties) |
| Property Type | Land | Office | Office・Hotel | Office | Residence |
| Area | Minato, Hamamatsucho | Chiyoda, Otemachi | Meguro, Meguro | Chiyoda, Marunouchi | All parts of the country |
| Seller | Kokusai Kogyo | Tokyo Tatemono's SPC | Lone Star | Secured Capital Japan (PAG) | GE Real Estate Japan |
| Buyer | Nippon Life Insurance Obayashi | Mizuho Bank | Mori Trust | GIC | Blackstone |
| Transaction Amount | 800 million USD | 1,782 million USD | 1,300 million USD | 1,700 million USD | 2,000 million USD |
| Gross Floor Area | 7,205㎡ | 34,200㎡ (Floor Area of Acquisition) | 155,820㎡ | 38,840㎡ (Floor Area of Acquisition) | NA |

Source: NRI based on Nikkei Real Estate Market Report and others

Money from investors with different perspectives have caused real estate prices to rise and capital to diversify in various market segments.

- Properties that domestic investors do not favor due to risk concerns have been purchased by foreign and non-professional (e.g. high-net-worth) investors with different goals, causing real estate prices to rise in the ex-Tokyo area. The trend is undoubtedly due primarily to the fact that such investors cannot find any good investment opportunities in Tokyo.

| Transaction Month/Year | Jun, 2014 | Sep, 2014 | Oct, 2014 | Nov, 2014 | Nov, 2014 |
|---------------------------|----------------------|------------------------------------|---------------------|----------------------|---------------------|
| Asset | Shinbashi Park Place | Nihonbashi Tomihisa Daini Building | Parel Royale Shoto | Ginza Granvia Bldg 2 | Seiko BldgH |
| Property Type | Office | Office | Residence | Retail | Office·Retail |
| Area | Minato, Shinbashi | Chuo, Nihonbashi-Honcho | Shibuya, Shoto | Chuo, Ginza | Osaka, Kita Shinchu |
| Seller | NA | Ascott | NA | Hulic | NA |
| Buyer | high-net-worth | high-net-worth (Taiwanese) | high-net-worth | high-net-worth | high-net-worth |
| Transaction Amount | NA | NA | NA | NA | NA |
| Gross Floor Area | 2,646m ² | 1,310m ² | 2,873m ² | 1,340m ² | 3,342m ² |

Source: NRI based on Nikkei Real Estate Market Report and others

Because of the lack of investment opportunities at Tokyo metropolitan area, equity heads to the Tokyo neighboring part and ex-Tokyo area.

- Many investors are seeking investment opportunities in Osaka, Nagoya and other regions other than Tokyo, repeating a similar trend seen between 2004 and 2007. How to build good relations with regional banks is one of the key issues for real estate investors at present.

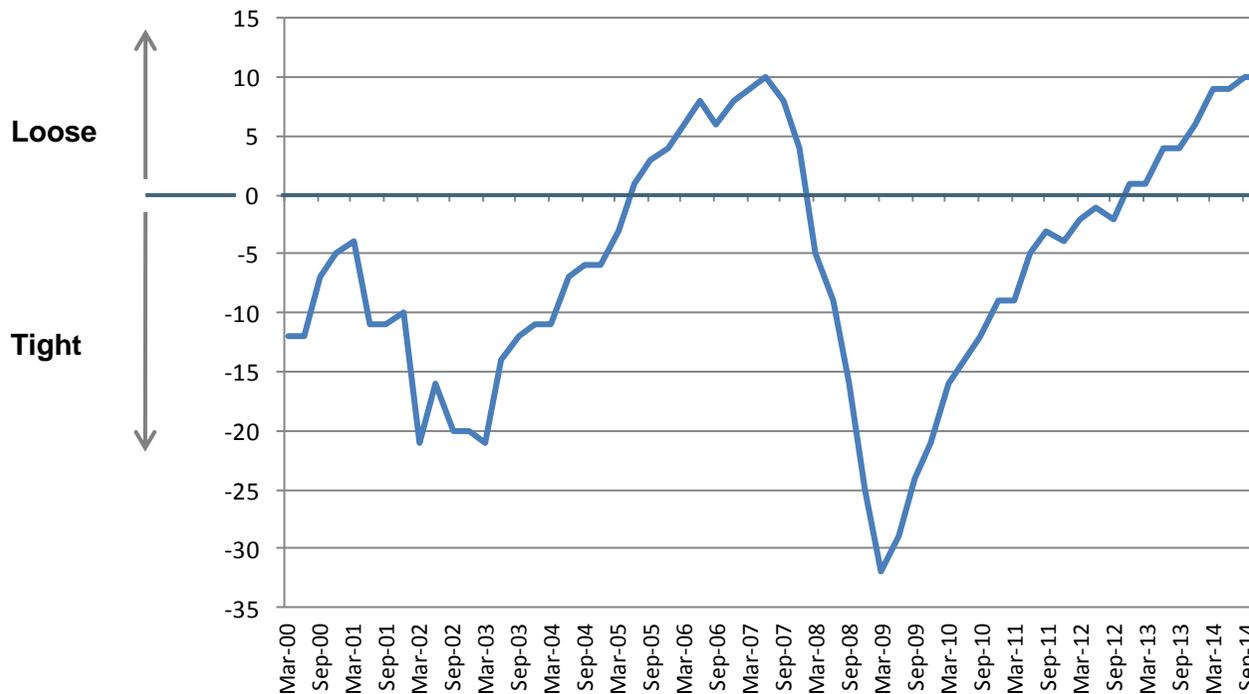
| Transaction Month/Year | Jul, 2014 | Oct, 2014 | Oct, 2014 | Oct, 2014 | Jan, 2015 |
|---------------------------|----------------------------|---|---------------------------|---------------------------|---|
| Asset | Renaissance Resort Okinawa | Shinagawa Seaside (3 properties) | Sumitomo Life Sendai Bldg | Beppu Kamenoi Hotel | Maebashi Daiichi Life Bldg Oyama Daiichi Life Bldg |
| Property Type | Resort Hotel | Office | Office | Hotel | Office |
| Area | Okinawa | Shinagawa | Miyagi, Sendai | Oita | Mebashi, Oyama |
| Seller | Ishin Hotel Group | Japan Tobacco | Sumitomo Life | AZ Hotel Chain | Daiichi life |
| Buyer | Green Oak Real Estate | Idera Capital Management Lone Star Elliott Management | Goldman Sachs | Fortress Investment Group | KAISER ASSET |
| Transaction Amount | 130 million USD | 600 million USD (for 3 properties) | NA | 40 million USD | 8.5 million USD |
| Gross Floor Area | 40,195m ² | 140,000m ² | 20,411m ² | 19,422m ² | 12,000m ² |

Source: NRI based on Nikkei Real Estate Market Report and others

Fierce competition among commercial banks help boost prices.

- Banks' lending attitude toward the real estate industry is nearly the most lenient since 2000 and almost as lenient as in 2006. Many people in Japan believe that there are too many banks, and competition among lenders is quite fierce. Along with major banks, regional mid-size banks are trying to reduce spreads and loosen covenants. One big difference from the last peak we saw in 2006, however, is the non-participation of foreign lenders. One reason why foreign lenders are staying away from the Japanese debt market is the fact that the CMBS market has been frozen since 2009.

Financial Institutions' Lending Attitude DI toward Real Estate Industry



Source: NRI based on BOJ

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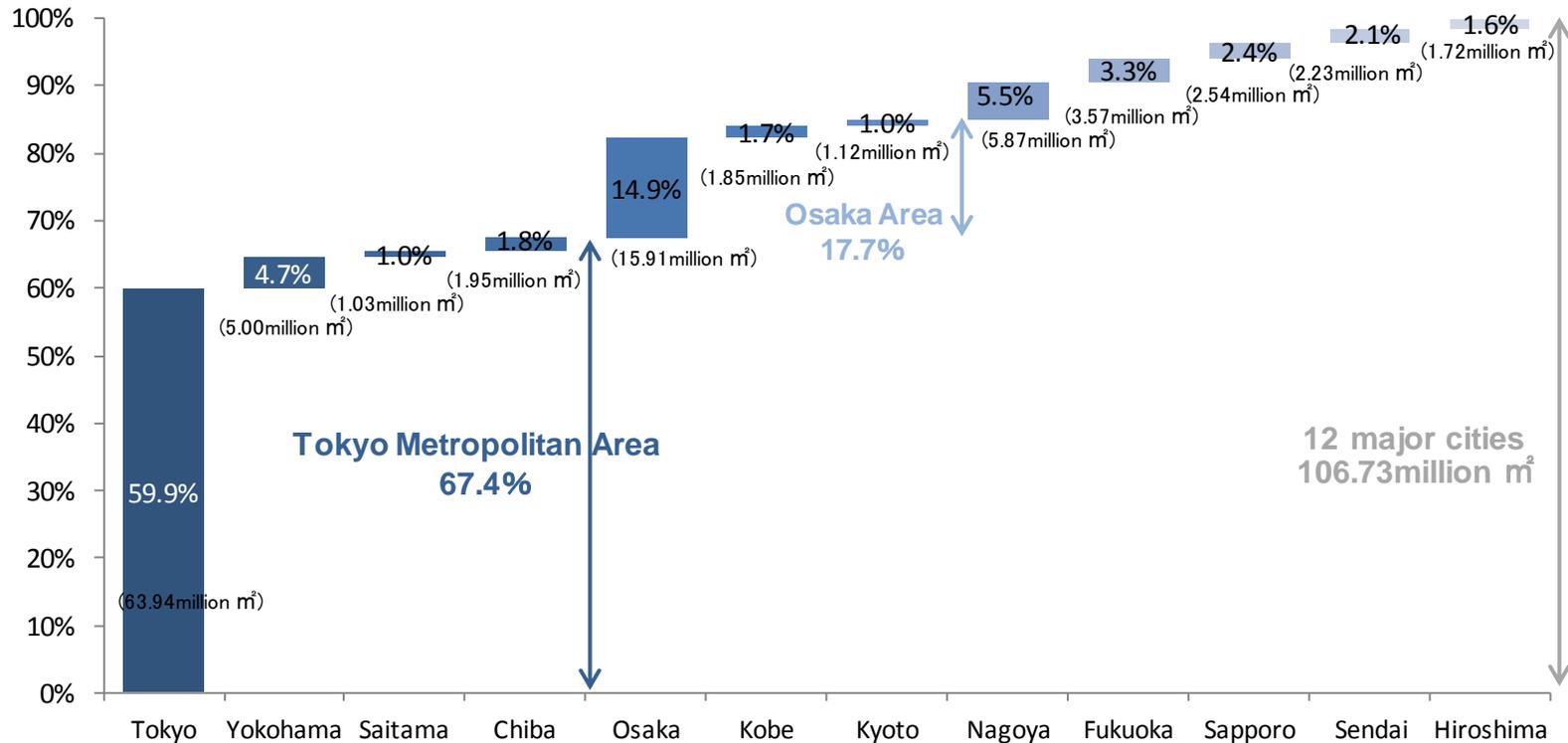
Logistics Property Market

Real Estate Investment Products

Tokyo Area holds 60% of Japan's office rental market.

- Japan has a stock of around 106 million m² of available office rental space. The Tokyo area holds an overwhelming share of the market at 64 million m², comprising 60% of the total.

Office Floor Space Shares by Major City



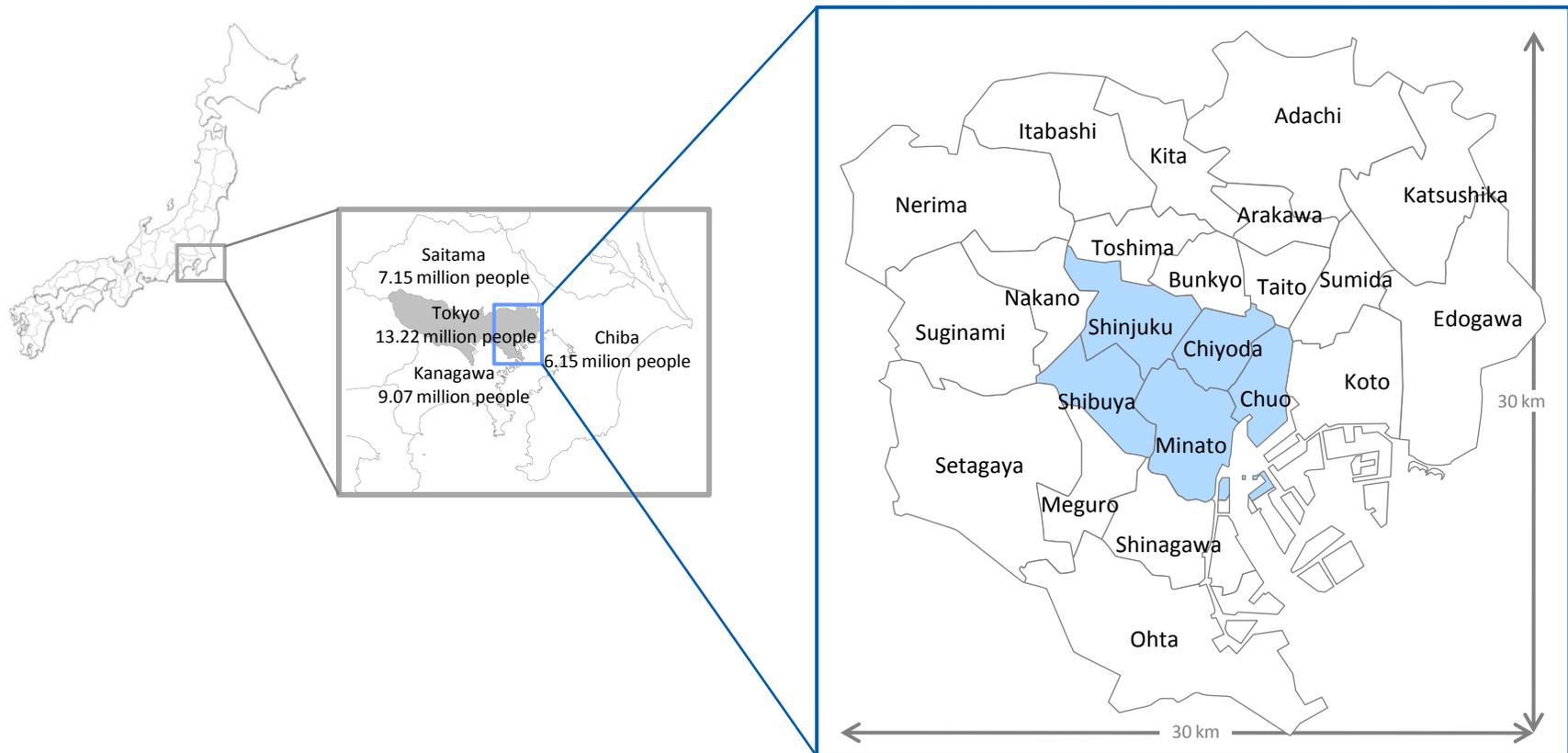
Source: NRI based on JREI As of Jan.2014

The investigation focus on central area of each city.

The investigation object which are smaller than 3,000 square meter are excluded

There are five sub sectors in Tokyo's Central Business District.

- Tokyo's Central Business District(CBD) has an accumulation of office buildings and is concentrated in an area of 5km wide.

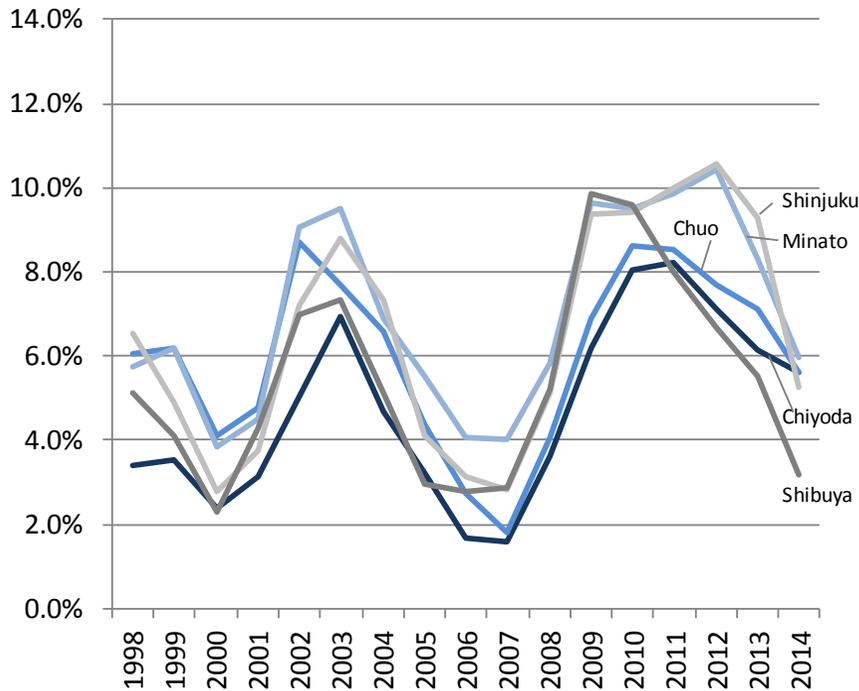


Vacancy rates in the Tokyo office market have been improving for two consecutive years.

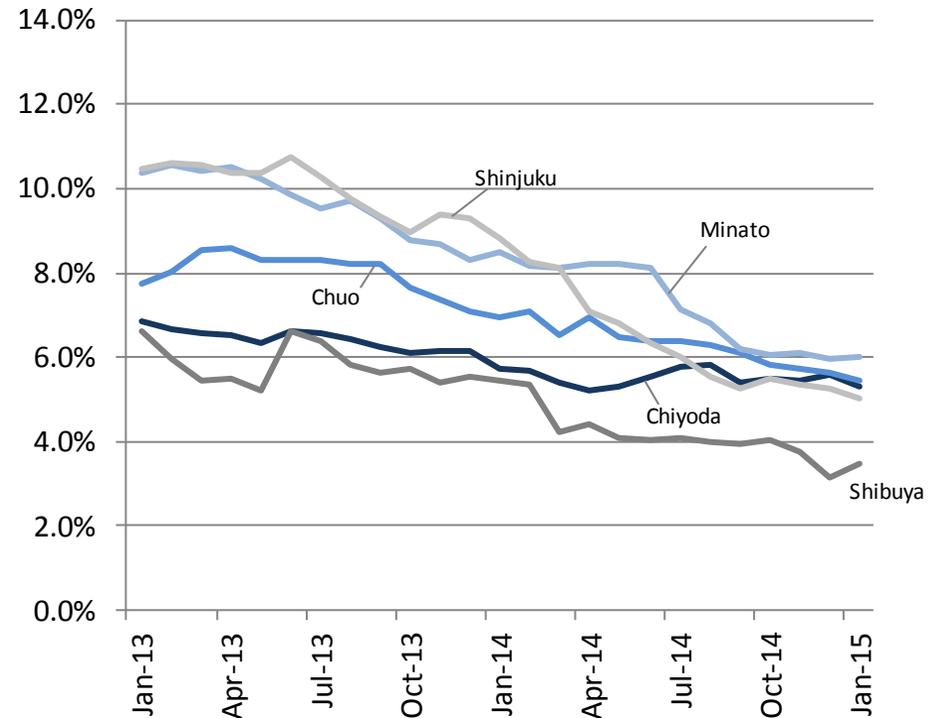
■ Retrospectively, vacancy rates have been experiencing regular ups and downs.

Vacancy rate movement in Tokyo CBD

Yearly(1998 - 2014)



Monthly(Jan 2013 – Jan 2015)



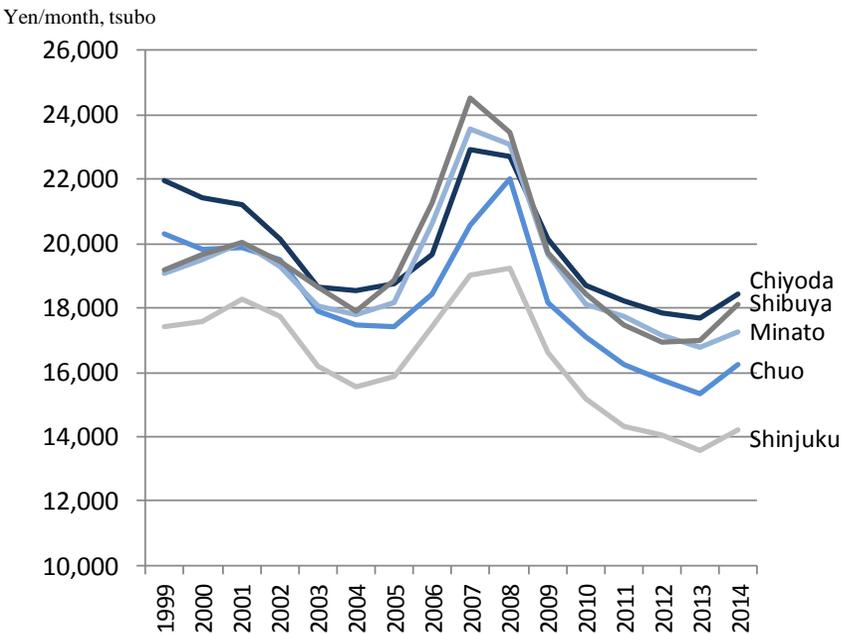
Source: NRI based on Miki Shoji Co., Ltd. data

Although rent increase is slow, there has been a clear reversal in the rent trend.

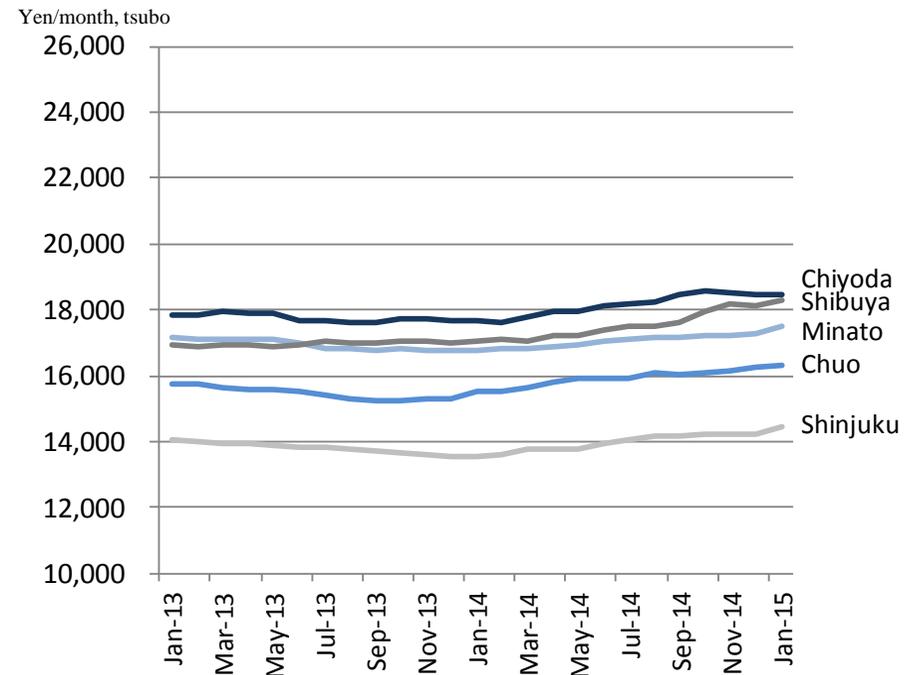
- Retrospectively, the high rent period have been short, making office owners' negotiation power weaker than that of tenants.

Rent trends in Tokyo CBD (yen/tsubo per month)

Yearly(1999 - 2014)



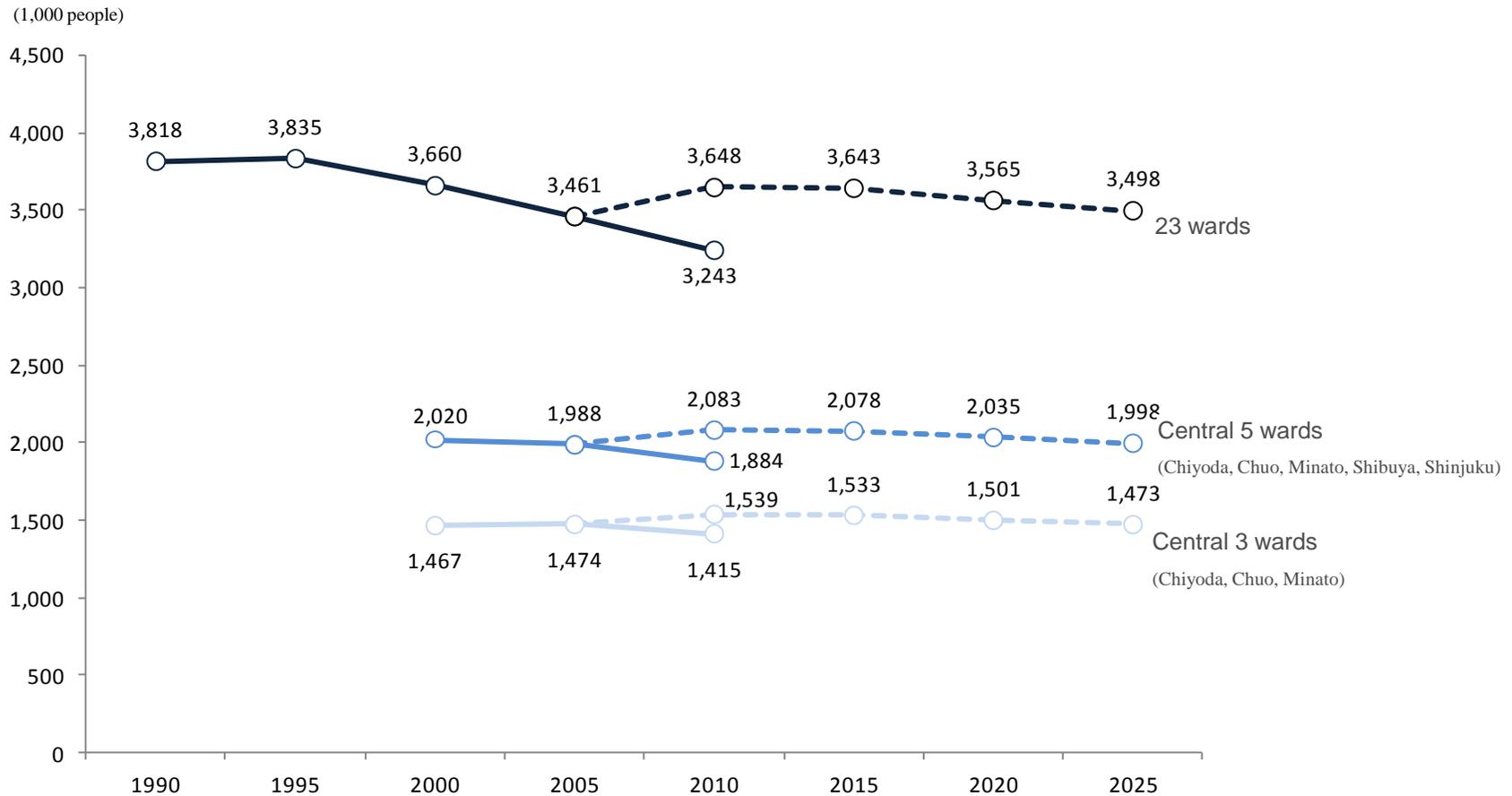
Monthly(Jan. 2013 – Jan. 2015)



Note: One tsubo is 3.3 square meters
Source: NRI based on Miki Shoji Co., Ltd. data

The number of Tokyo's office workers is declining at a fast rate than the published forecast.

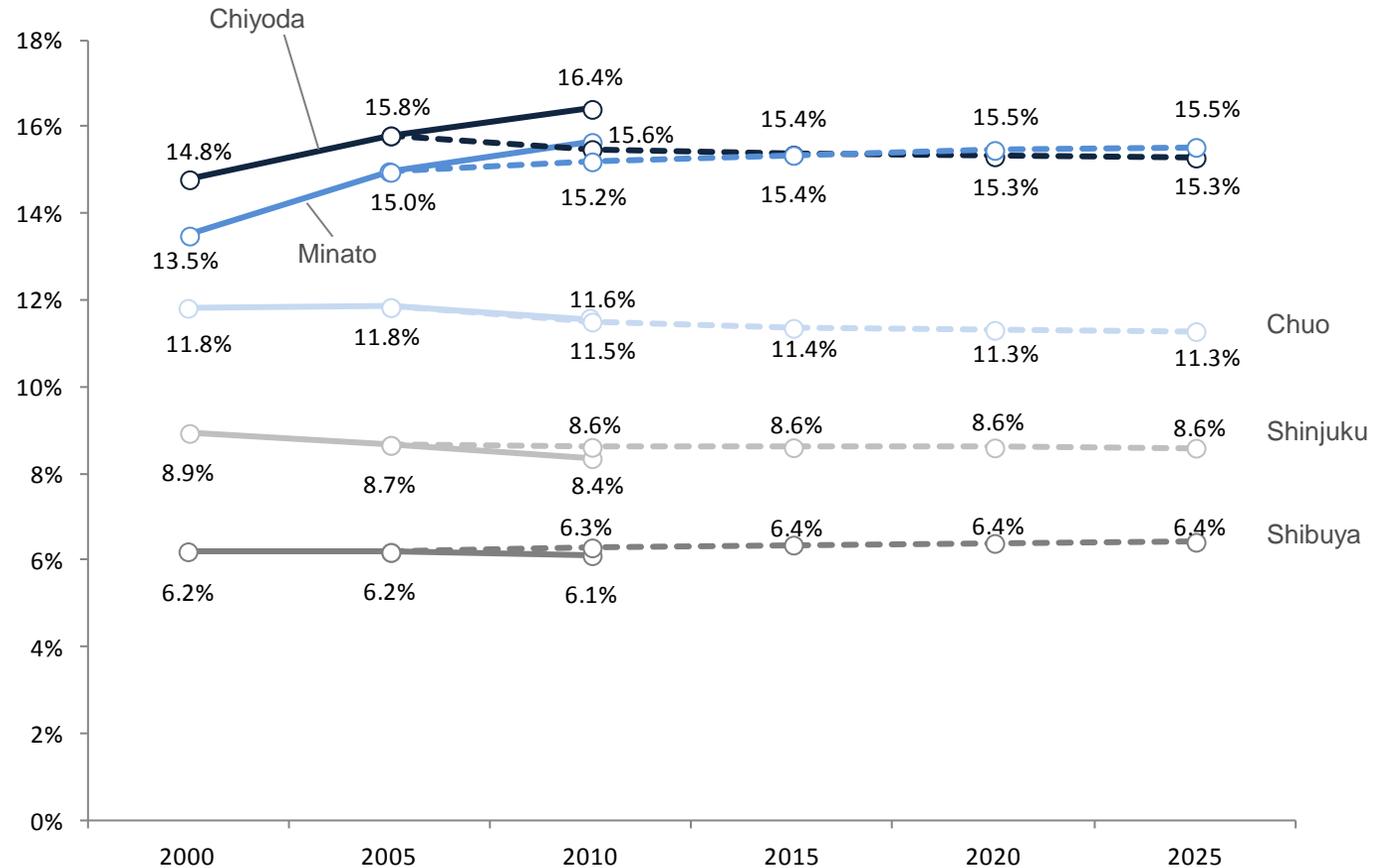
Trend and Forecast of Office workers in Tokyo



Source: NRI based on Population Census of Japan, Tokyo Metropolitan Government

Chiyoda and Minato has been increasing its share of office workers, whilst Shinjuku has been losing its share midst fierce competitions among submarkets.

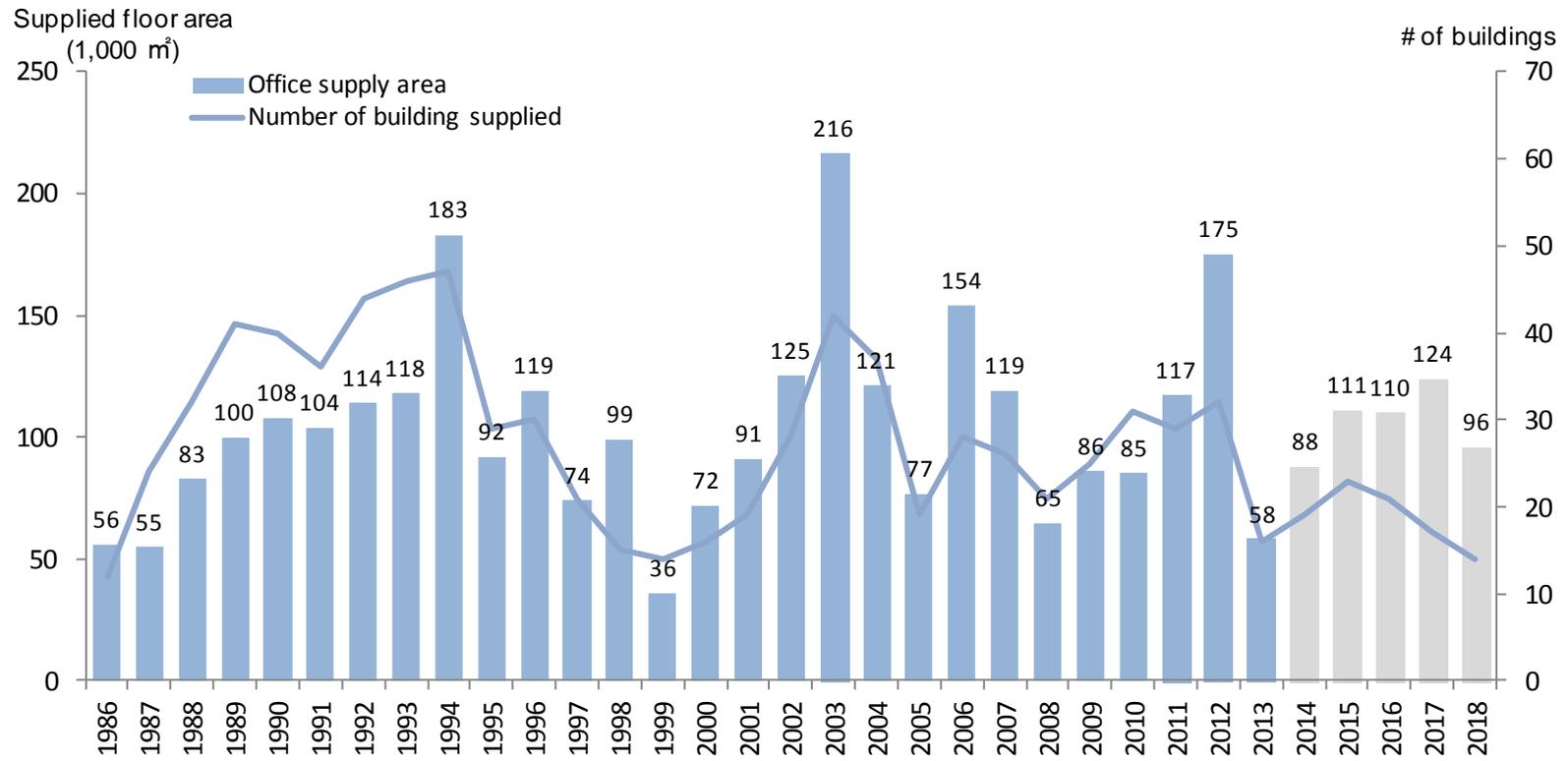
Trend of Office Worker Share (23 Ward = 100%)



Source: NRI based on Population Census of Japan, Tokyo Metropolitan Government

Despite the dwindle in the number of office workers, new office supply will continue to grow.

Office Space Supply in Tokyo's 23 districts

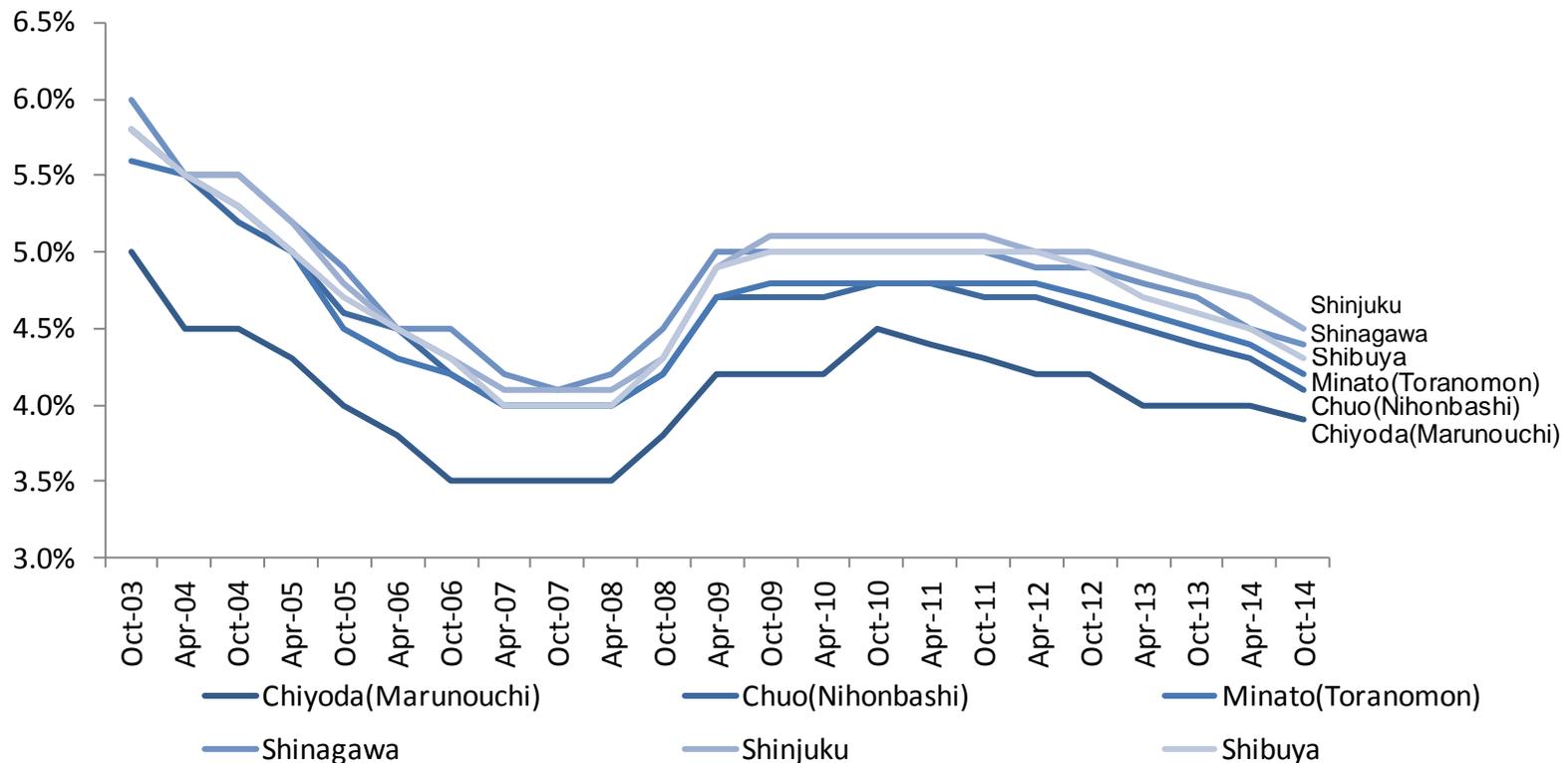


Source: NRI based from Mori Building Company's "Mega Office Building Market Trends Survey (Preliminary figure)" dated October 22, 2014

Cap rate has been dropping for three consecutive years since 2012.

- As of March 2015, office deals with cap rates of 3-4% are commonly carried out, resting on investors' expectations for higher rent and NOI, henceforth.

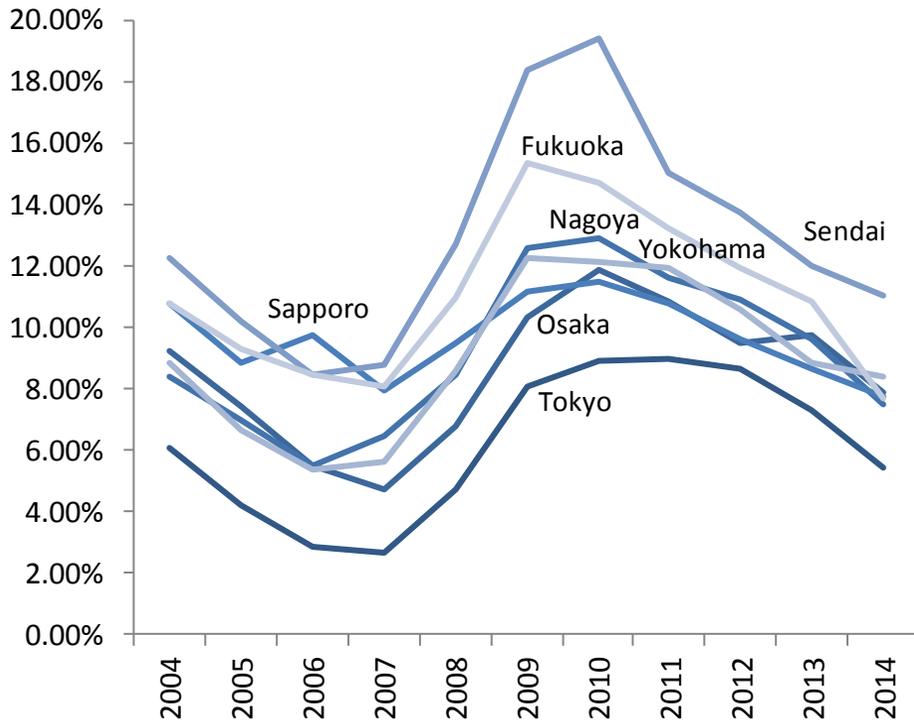
Tokyo office market cap rate trend



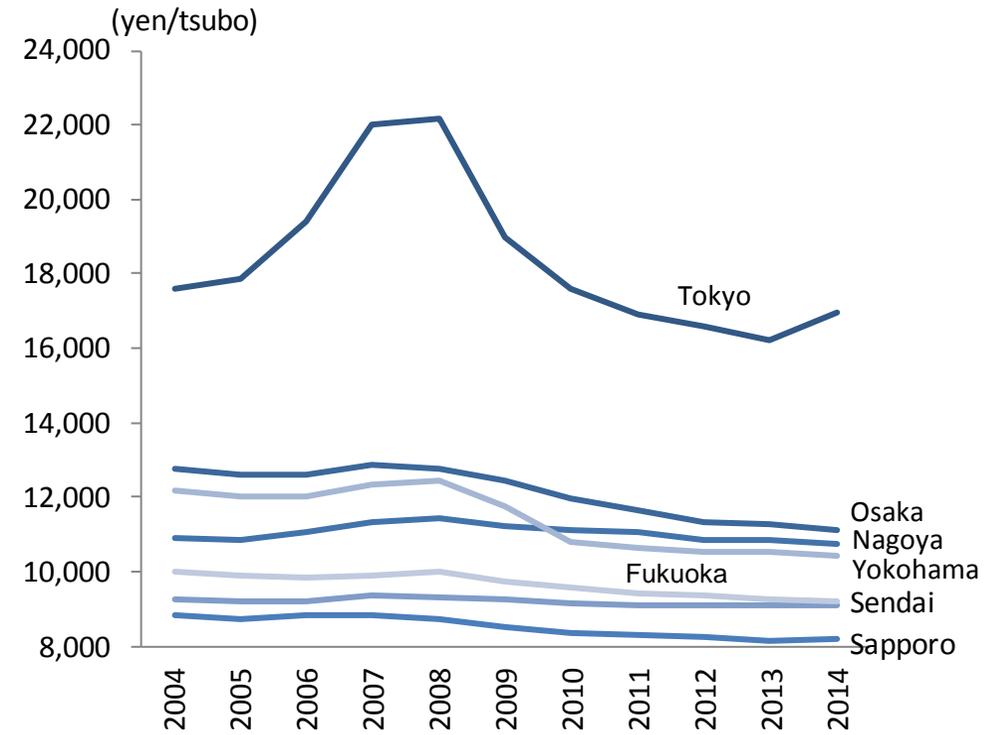
Source: NRI based on Japan Real Estate Institute's "Real Estate Investor's Survey"

The improvement of the vacancy rate is not leading to the recovery of rents in the ex-Tokyo office market.

Office Vacancy Trend in ex-Tokyo Market



Office Rent Trend in ex-Tokyo Market

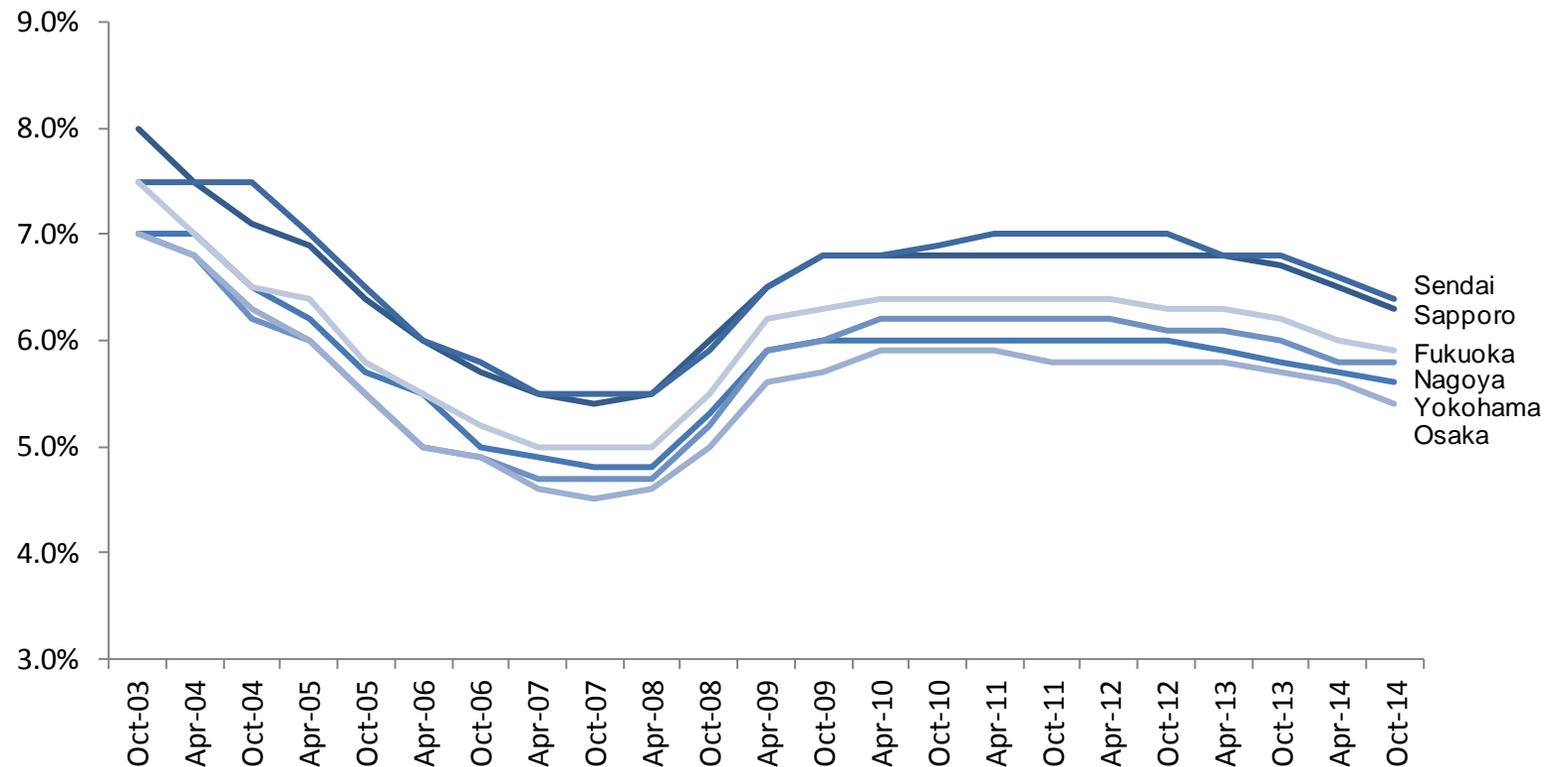


Source: NRI based on Miki Shoji Co., Ltd. data

Liquidity is growing as real estate prices rise in ex-Tokyo office market.

- Office cap rates in most major cities have decreased due to investors' strengthening interest in opportunities outside of Tokyo.

Ex-Tokyo Office Market Cap Rate Trend



Source: NRI based on Japan Real Estate Institute's "Real Estate Investor's Survey"

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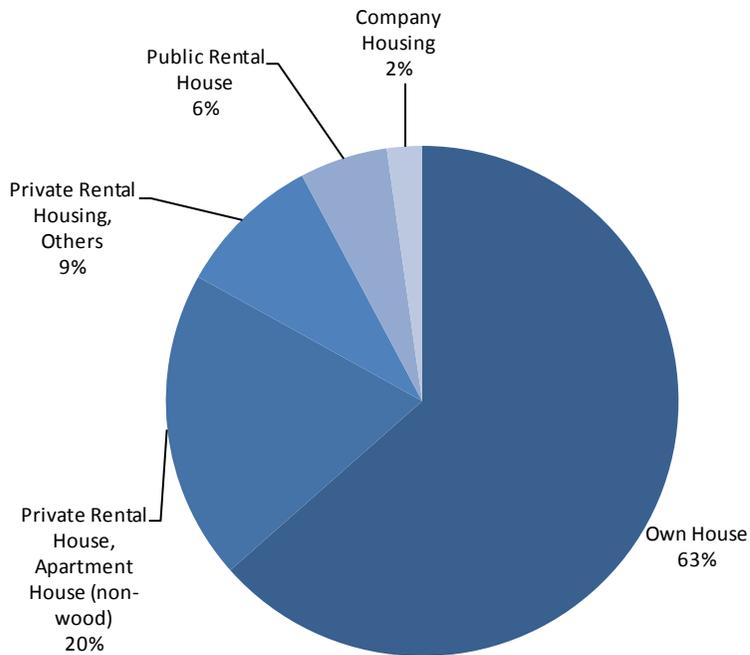
Logistics Property Market

Real Estate Investment Products

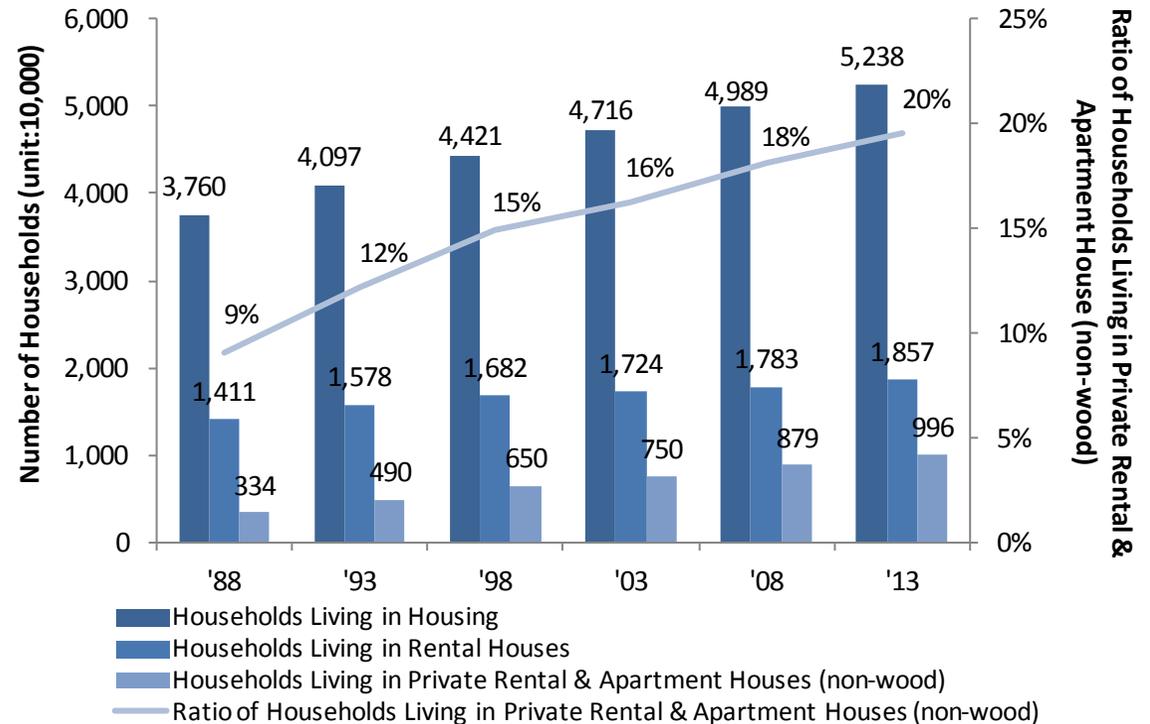
About 20% of all households in Japan are living in non-public rental apartments, and the percentage is trending upwards.

- Households living in non-public rental apartments (excluding wooden apartments; hereafter the same in this section), which numbered 3.34 million in 1988, increased by about 2.6 times to 9.96 million (about 20% of all households) in 2013.

Breakdown of All Households by Housing Type (2013)



Number of Households by Housing Type 1988 - 2013

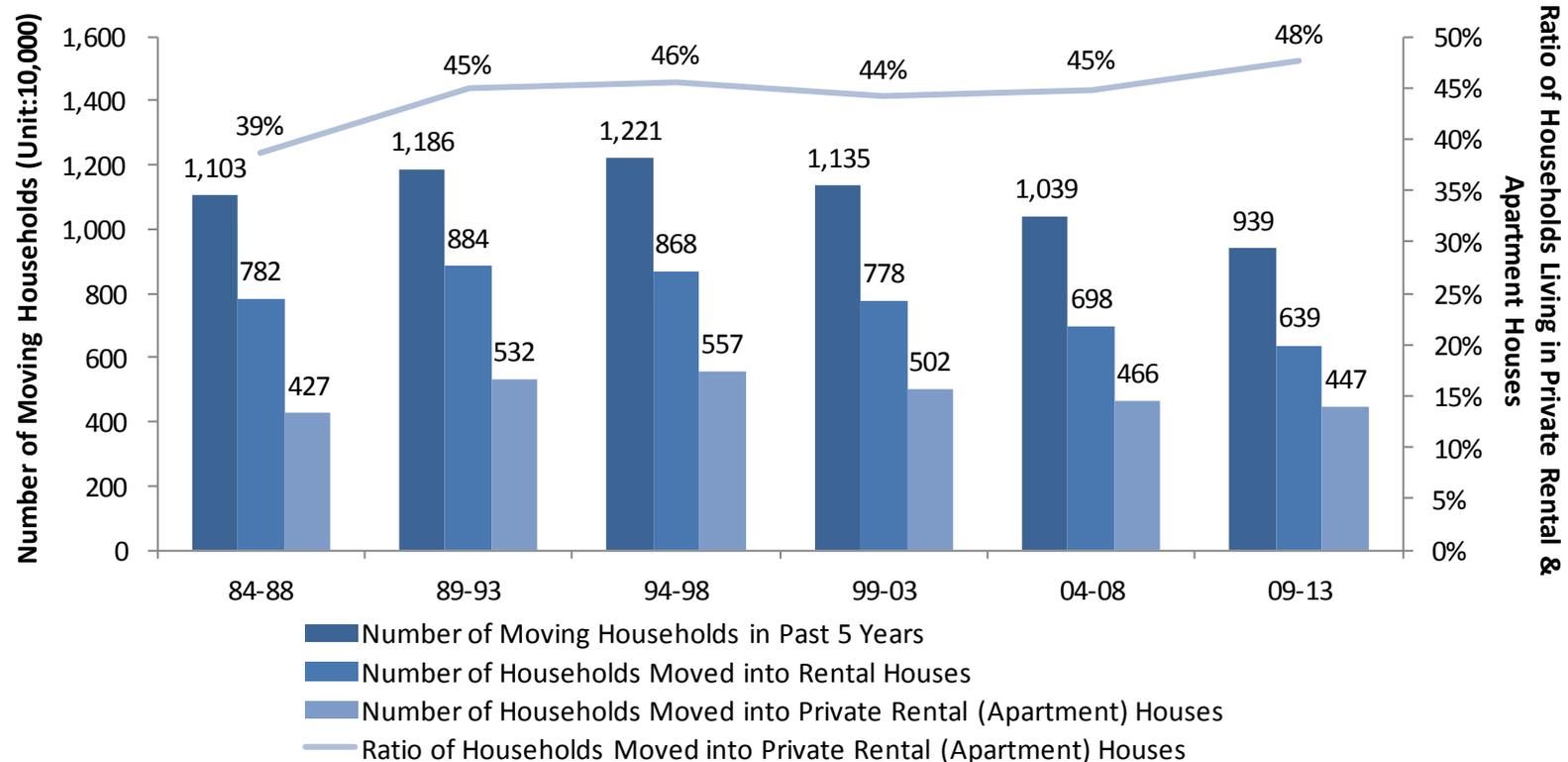


Source: NRI based on data from "Housing and Land Survey", Ministry of Internal Affairs and Communications of Japan.

The total number of moving households has decreased, but the ratio of households moving to non-public rental apartments is trending upwards.

- The number of moving households peaked out in 1994-98 and decreased to about 77% of the peak-time level in 2009-13 .
- The number of households moving to non-public rental apartments is also on a decreasing trend, although its ratio to the total number of moving households is trending upwards.

Housing Choices of Moving Households 1984 - 2013

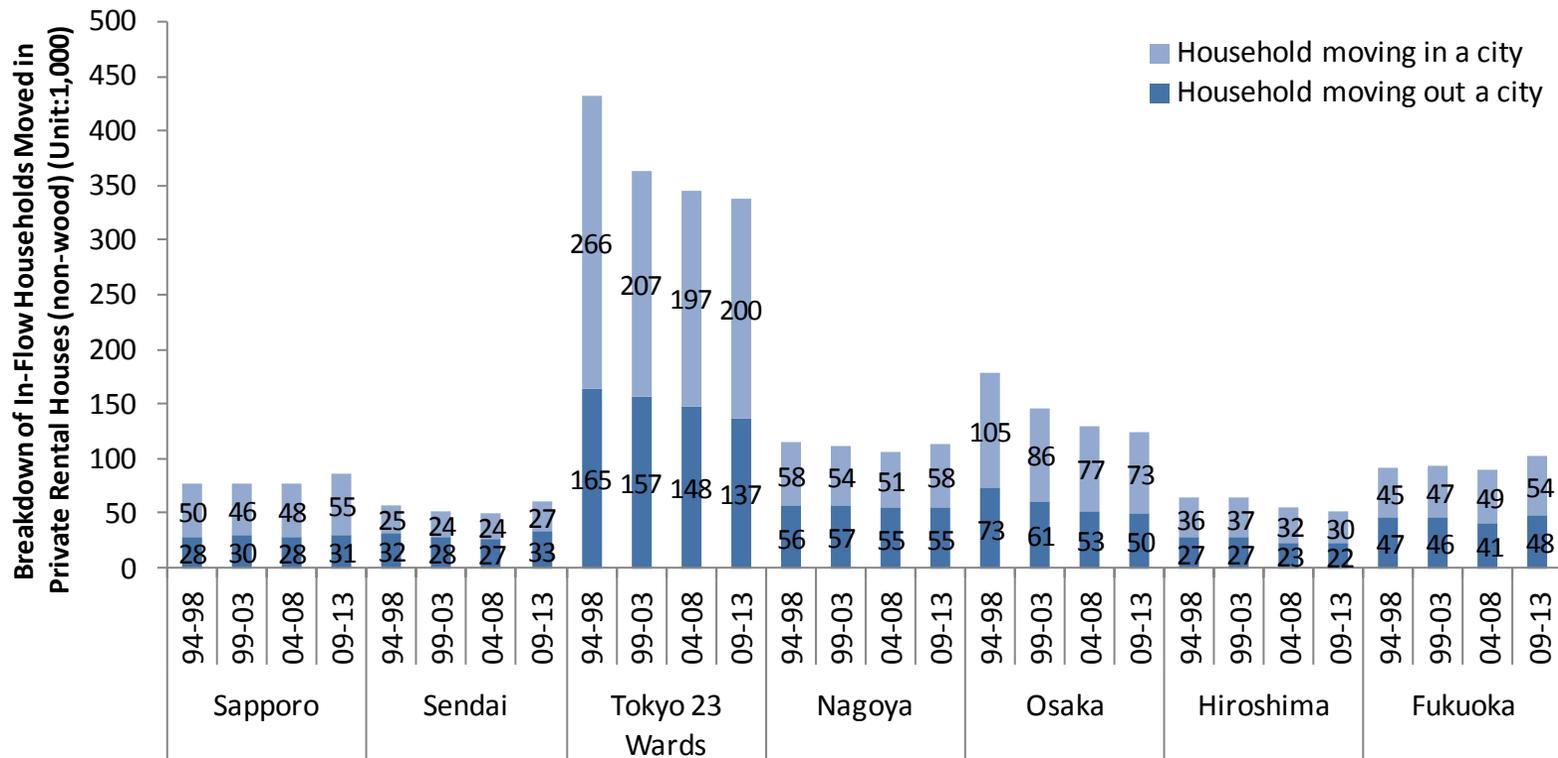


Source: NRI based on data from "Housing and Land Survey", Ministry of Internal Affairs and Communications of Japan.

The majority of households moving to non-public rental apartments moved within the same city.

- Looking at the former locations of households moving into non-public rental apartments in seven major cities, those that moved within the same city were greater in number than those that moved in from outside the city.
- Tokyo's 23 wards and Osaka saw a decline in households moving into non-public rental apartments from outside the city, while major regional cities saw no change.

Location Choices of Moving Households

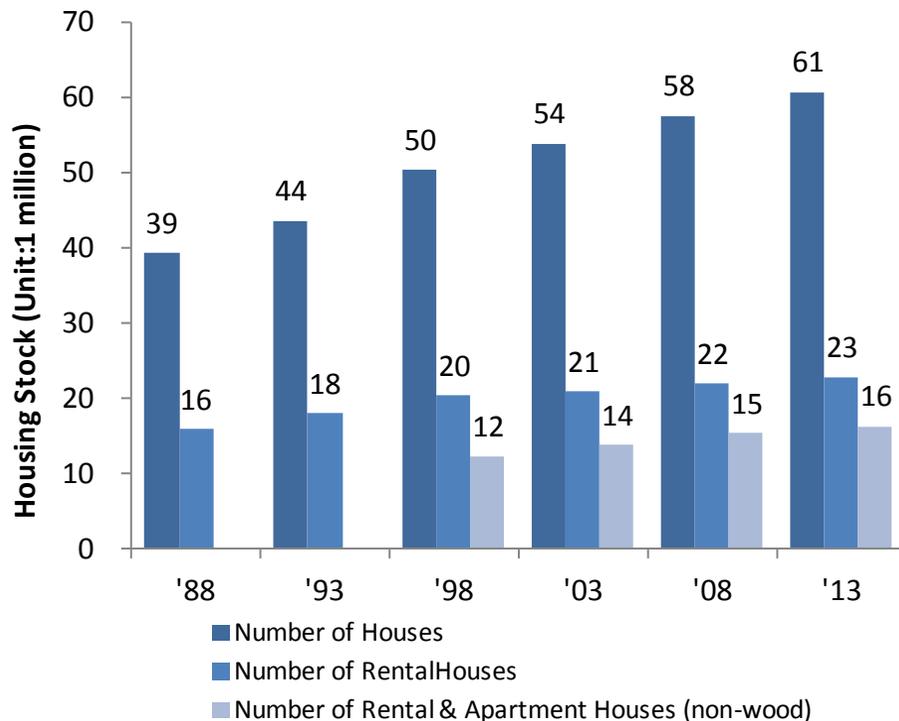


Source: NRI based on data from "Housing and Land Survey", Ministry of Internal Affairs and Communications of Japan.

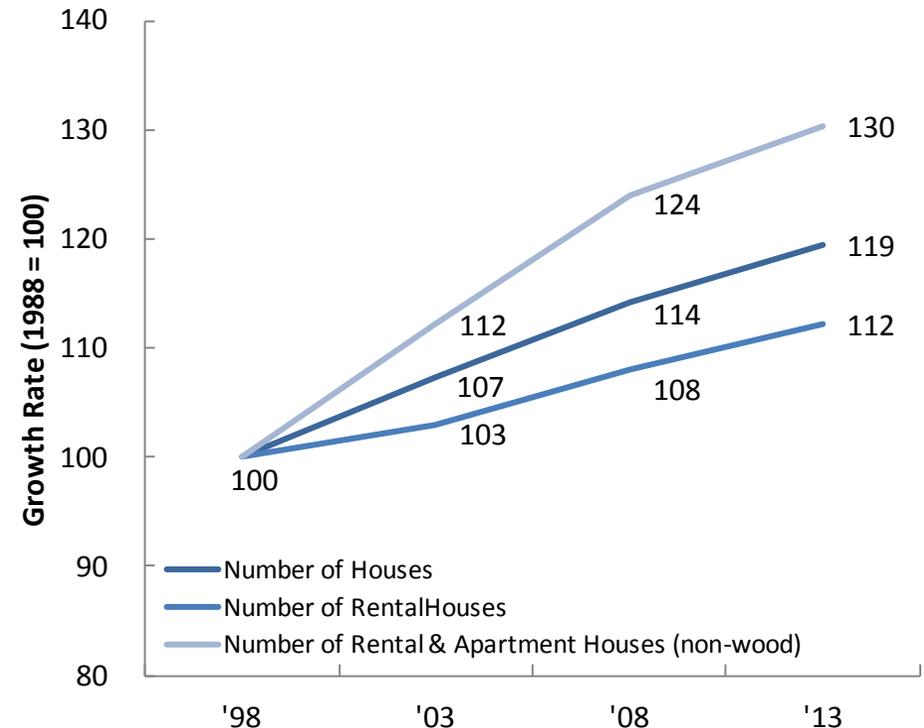
The supply of non-public rental apartment units has increased more sharply than total housing stock.

- The growth of rental apartments (public and non-public combined) outpaced the growth of overall housing as well as the more modest rise of rental housing in general.
- As a result, the ratio of rental apartments to total rental houses increased from 60 to 70%.

Housing Stock by Type 1988-2013



Housing Growth Rates by Type

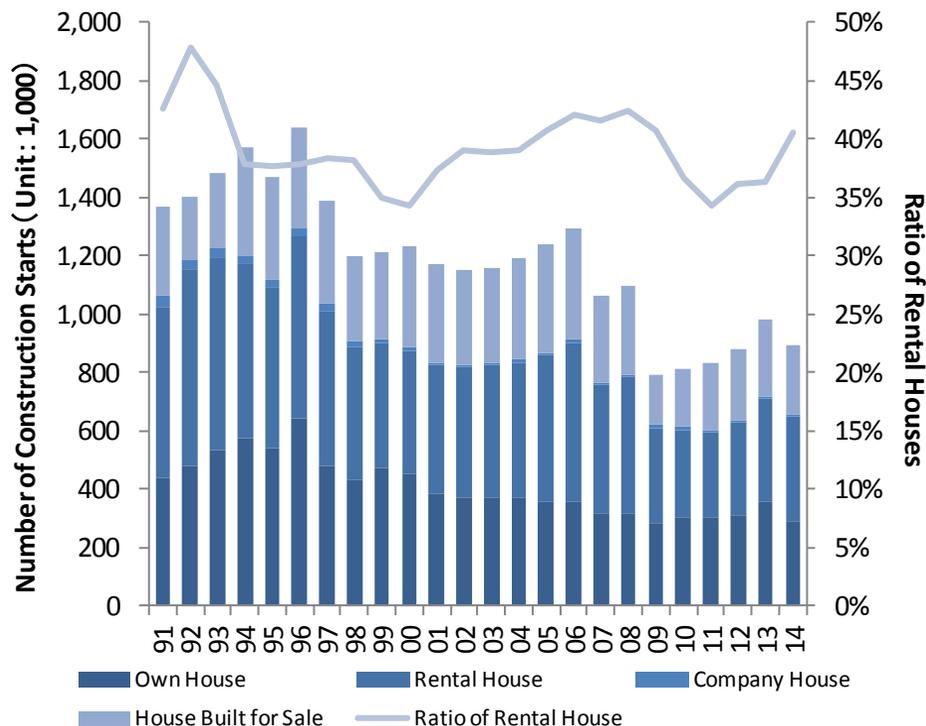


Source: NRI based on data from "Housing and Land Survey", Ministry of Internal Affairs and Communications of Japan.

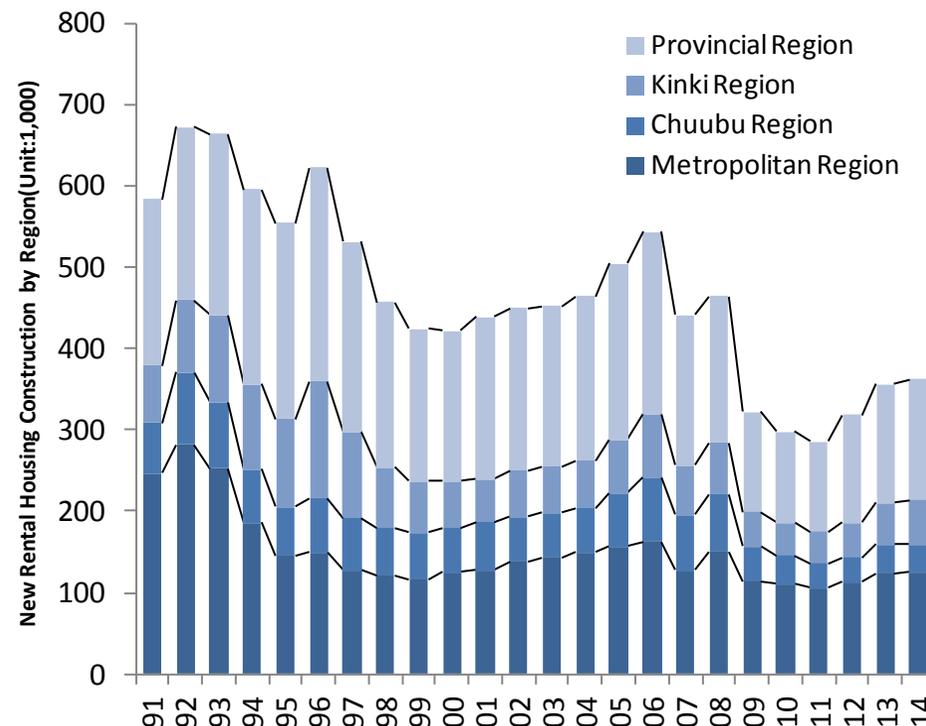
Construction of new rental housing declined in 2009 but is now on a recovery path.

- The number of new constructions decreased in 2014 as a reaction to last minute surge in demand prior to the tax increase.
- The ratio of rental house has increased as the number of new rental housing has leveled off while the total number of new construction has declined.

New Housing Supply Trend: 1991-2014



Breakdown of New Rental Housing Construction by Region

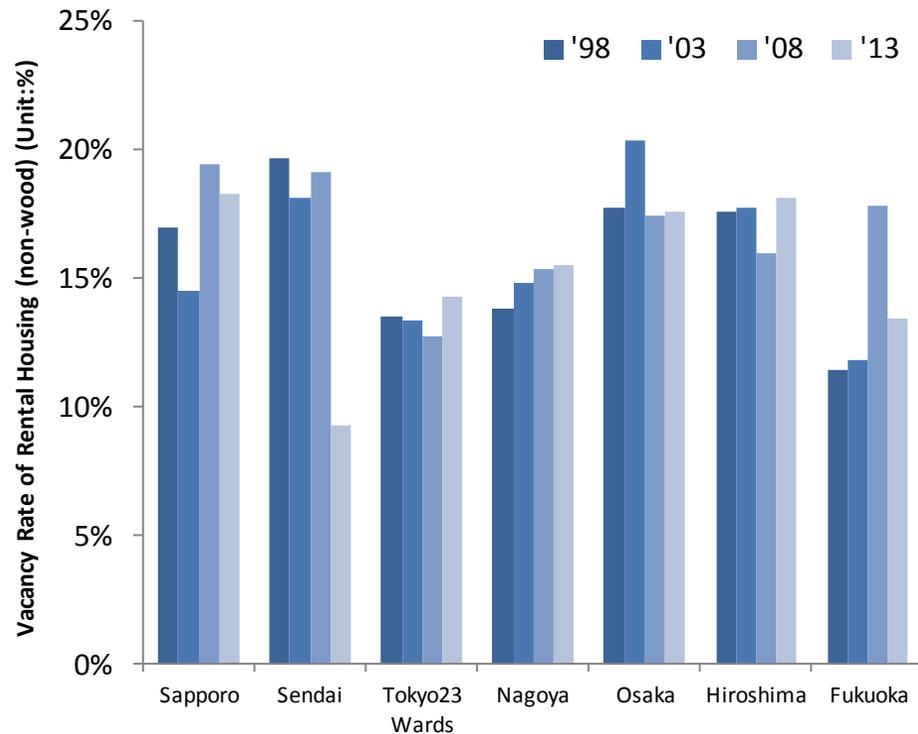


Source: NRI based on data from "Survey of Construction Work Started", Ministry of Land, Infrastructure, Transport and Tourism of Japan.

Vacancy rates are rising in all of Tokyo's 23 wards.

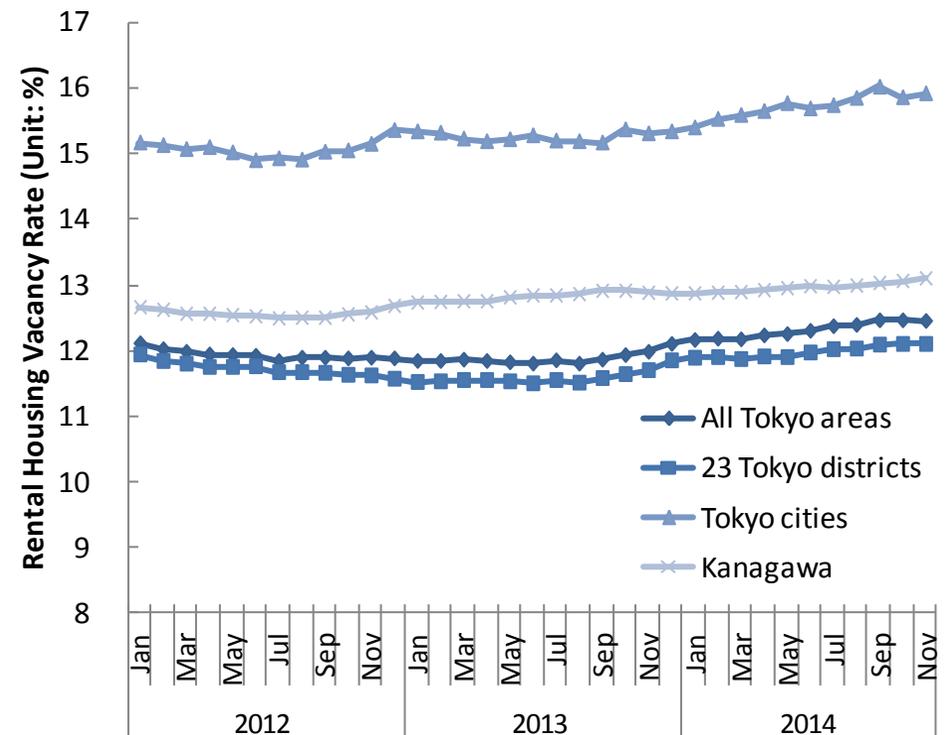
- Vacancy rate in the metropolitan Tokyo has continued to decline for the past decade.
- In the recent years, however, Tokyo has seen an upward trend of vacancy rates, especially in the 23 wards.
- Affected by the Great East Japan earthquake in 2011, vacancy rates in Sendai has seen a significant shrinkage.

Vacancy Rates of Rental Housing (non-wood) in Major Cities



Source: NRI based on data from Data from "Housing and Land Survey", Ministry of Internal Affairs and Communications of Japan.

Vacancy Rates of Rental Housing in Tokyo Metropolitan Area

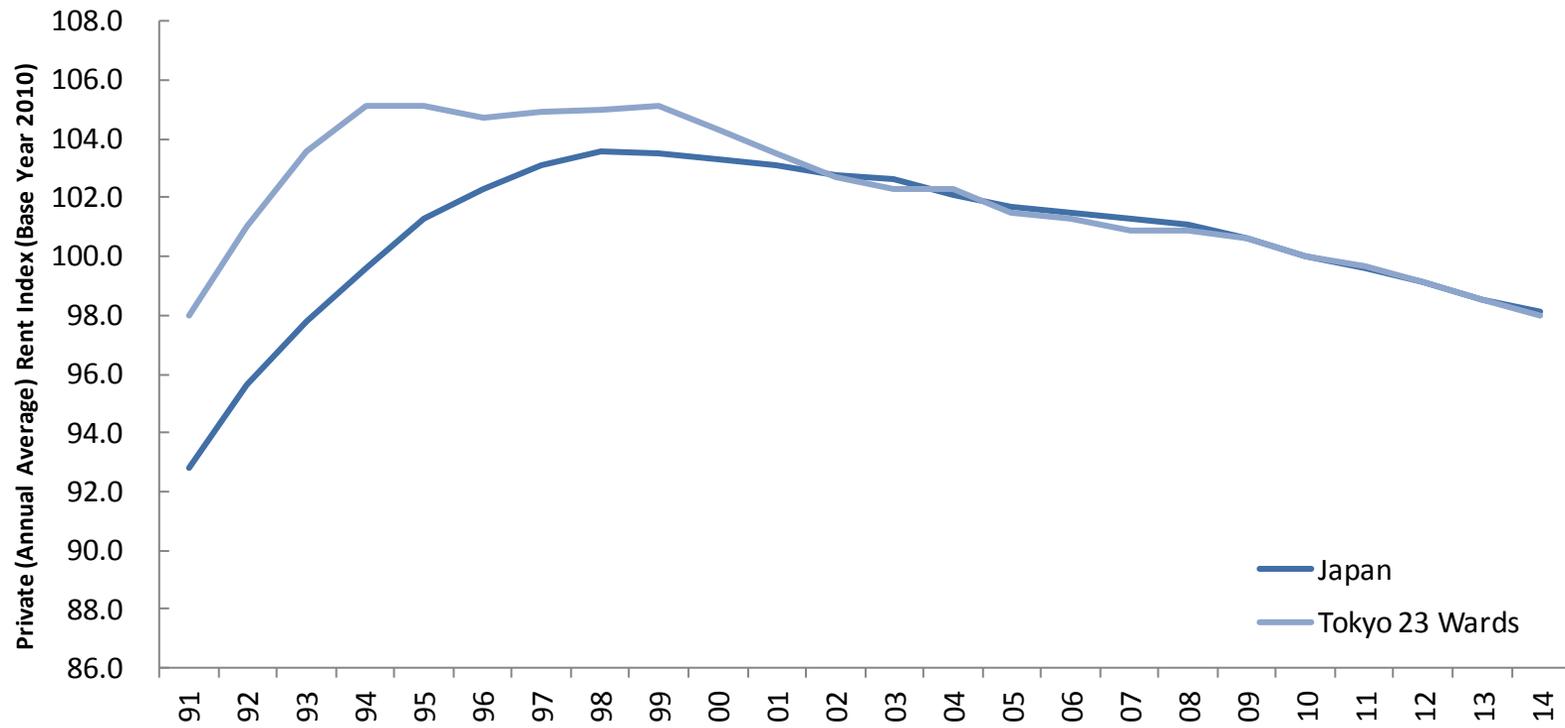


Source: NRI based on data from "Report on Rental Housing Market", TAS Corp. (Analyzed by TAS Corp. Data Supplied by At Home Co., Ltd.).

The rent level of non-public rental housing continues to fall.

- The rent level of non-public rental housing rose steadily from 1990 to 2000, after which it gradually declined. The rent level downward trend continued in 2013.

Rent in the Private Sector (Annual Average) – Nationwide and Central Tokyo

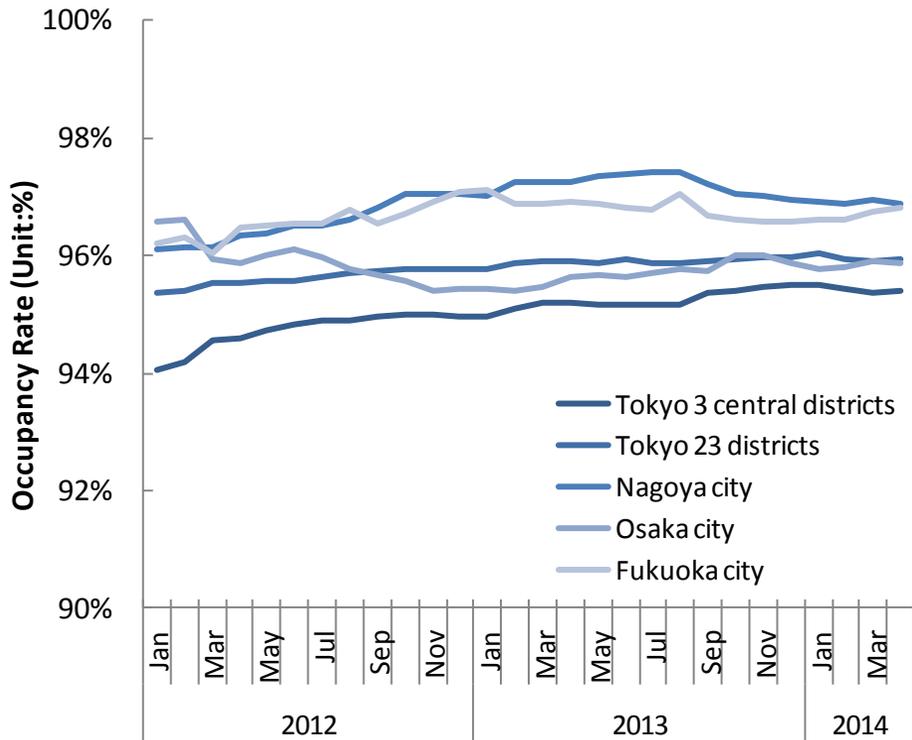


Source: NRI based on data from "Consumer Price Index", Ministry of Internal Affairs and Communications of Japan.

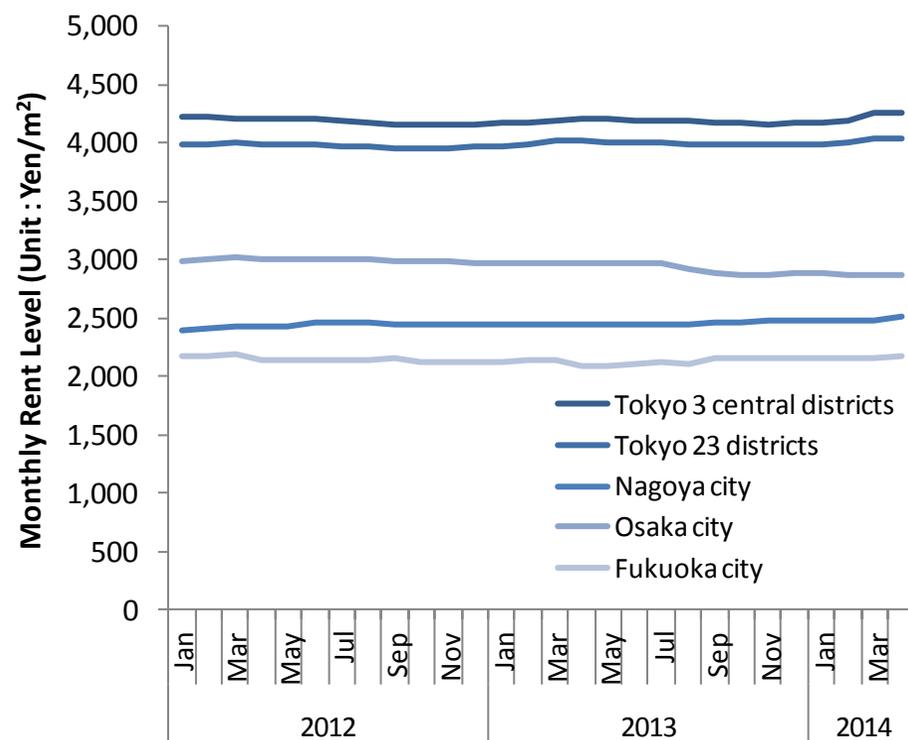
Occupancy rates of REIT-owned and private fund-owned properties are rising, while their rent levels remain stable.

- Looking at the changes in the REIT-owned and private fund-owned occupancy rate and monthly rent, the monthly rent level has remain stable although the occupancy rate in Tokyo's 3 central districts and its 23 districts has been on an uptrend since 2012.

Occupancy Rates of REIT-owned and private fund-owned Properties



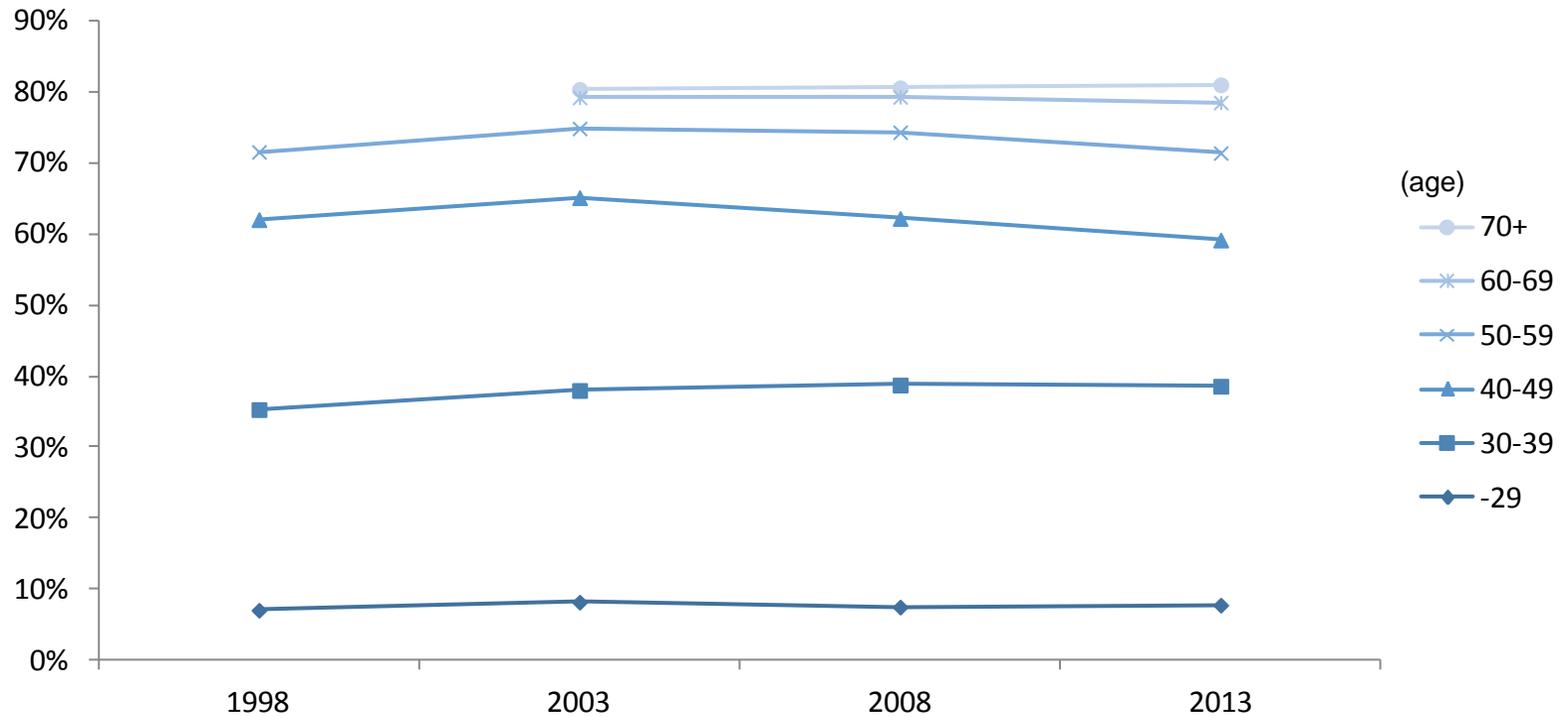
Monthly Rents of REIT-owned and private fund-owned Properties



Source: NRI based on data from "ARES J-REIT Property Database", Association for Real Estate Securitization of Japan.

The rate of housing ownership, which has a negative impact on rental housing demand, has shown a downward trend with the 40-49 age group.

Housing Ownership Rate in Japan



Source: NRI based on data from "Housing and Land Survey", Ministry of Internal Affairs and Communications of Japan

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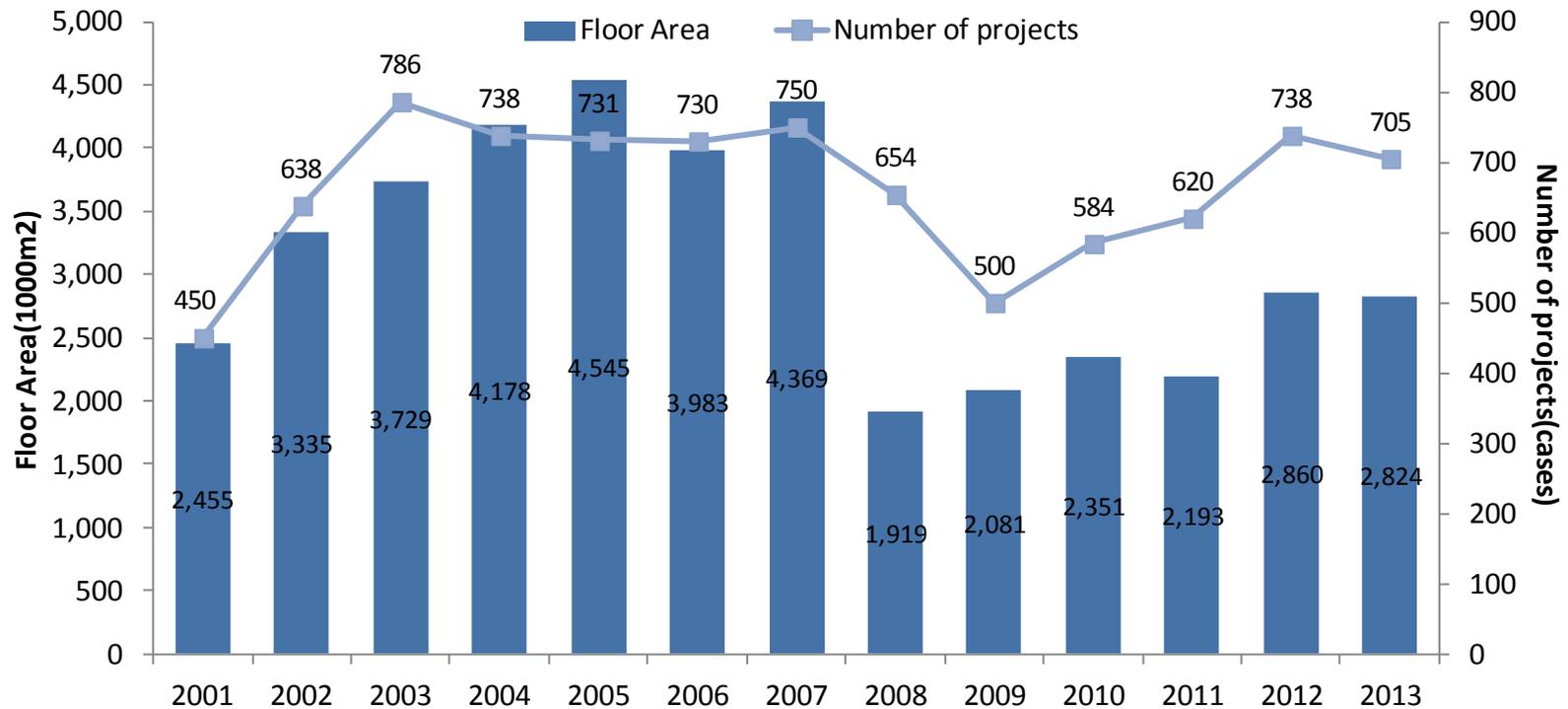
Retail Property Market

Logistics Property Market

Real Estate Investment Products

Development of large-scale retail stores has started to recover since 2009.

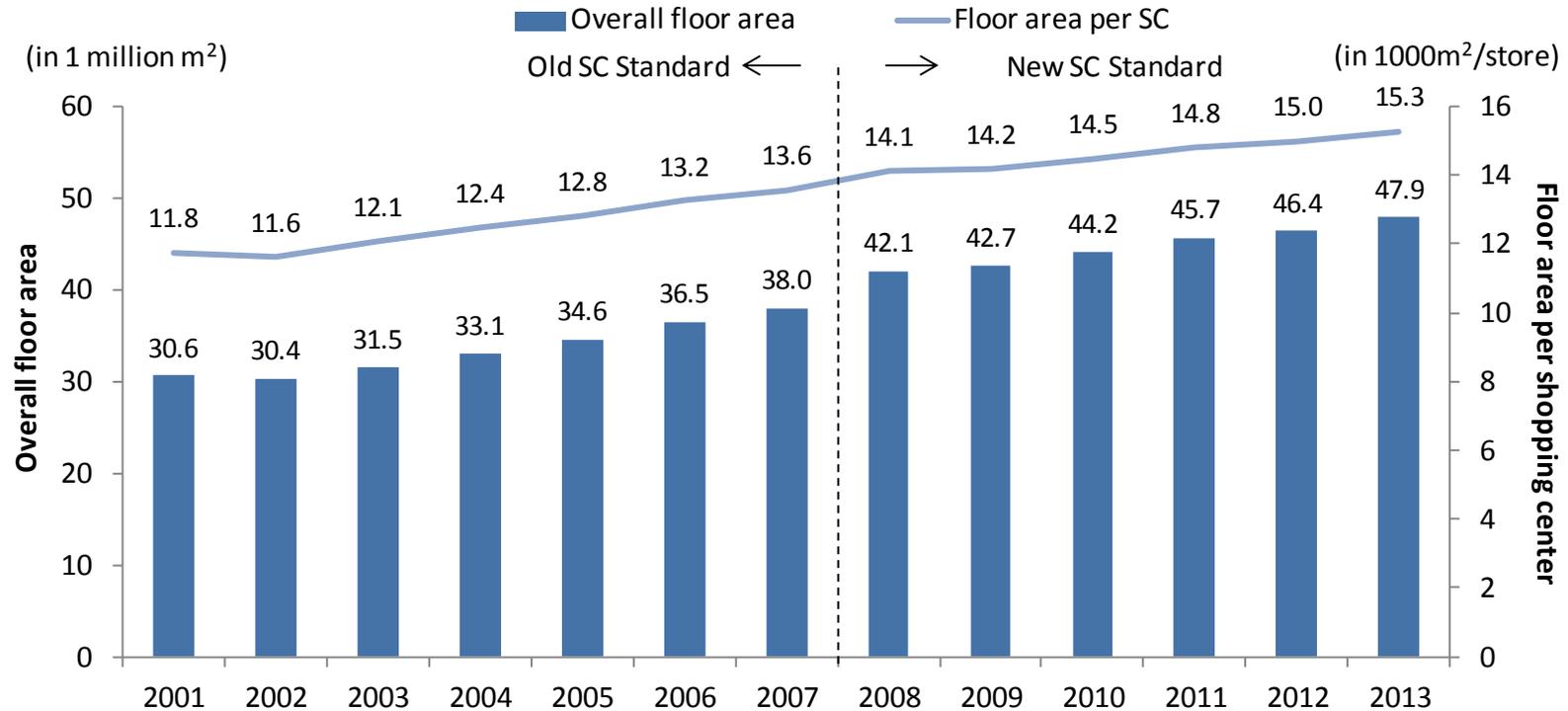
New Retail Space Supply vs. Number of Development Projects



Note: The reported numbers for the fiscal years 2002 and 2008 include stores without floor space indication.
 Source: NRI based on data from the Ministry of Economy, Trade and Industry's "Large-scale Retail Chain Site Expansion Report"

For shopping centers, the total floor area for all stores and the floor area per store are both on the rise.

Overall floor area and per-store floor area for shopping centers



NB: In the old SC standard, only shopping malls with more than 10 retail tenants were considered.

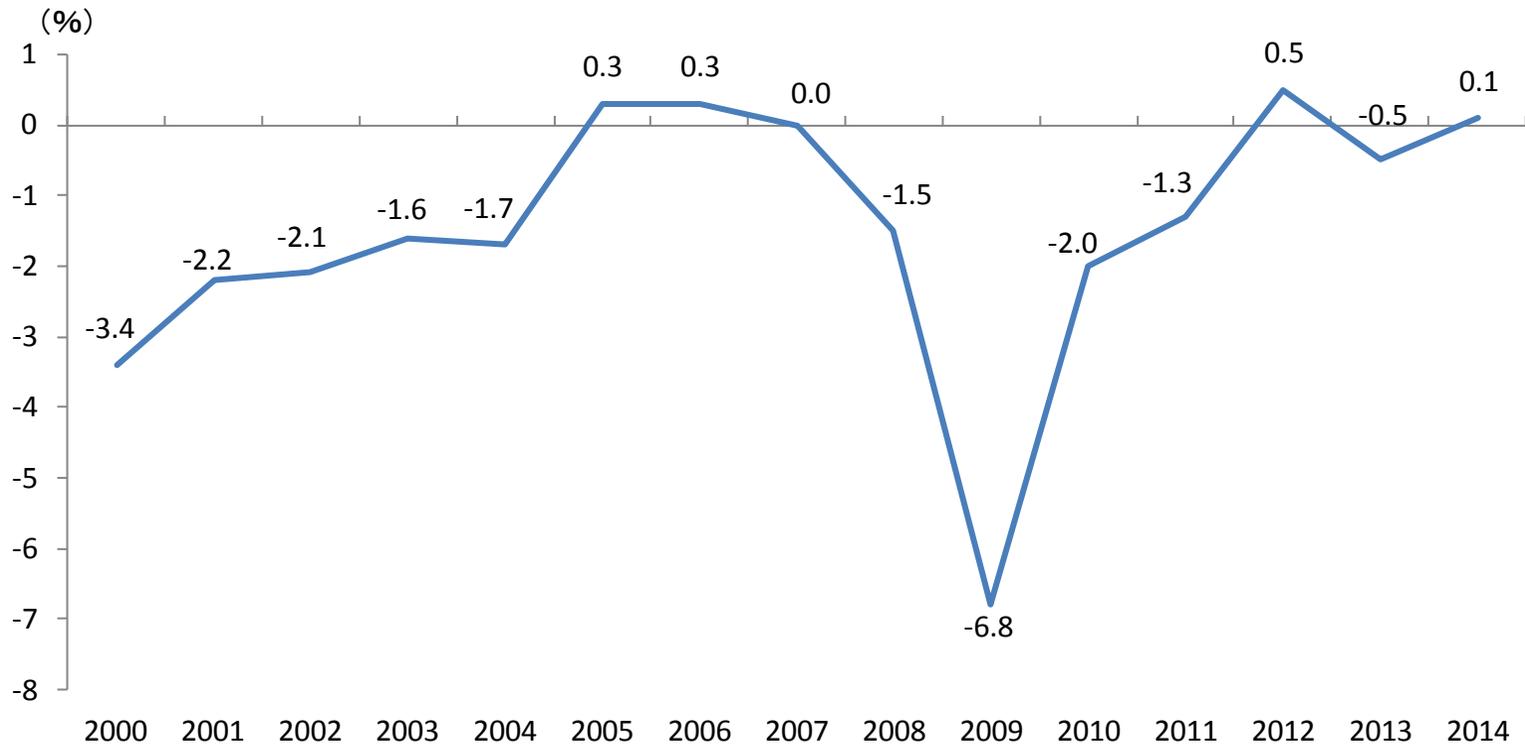
In the new SC standard, the shopping center must have more than 10 tenants including food stalls, service centers and retail outlets.

On the same note, the shopping center must have more than 1,500 m² retail space.

Source: NRI based on data from the Council of Shopping Centers' "SC White Book"

Declining tendency of shopping center's sales is mitigating.

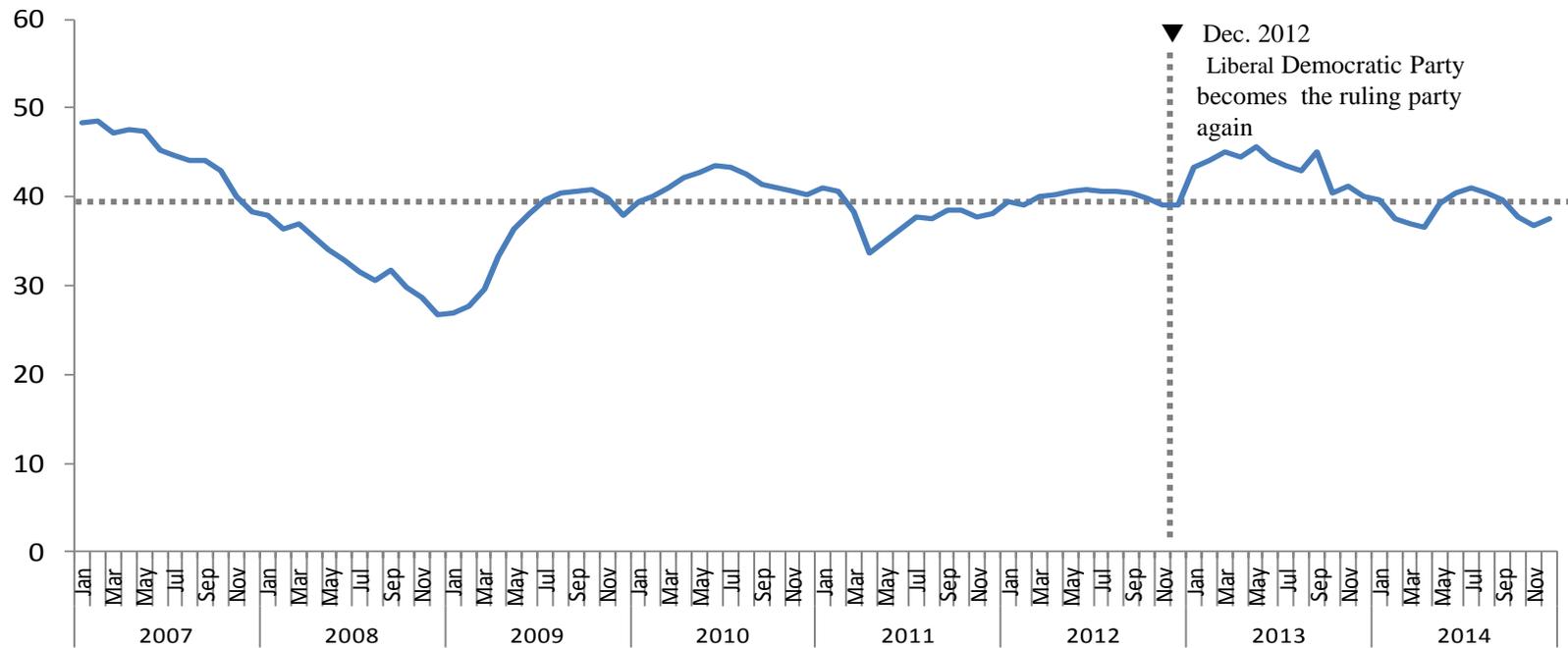
Yearly comparison of existing shopping centers' sales



Source: NRI based on the Japan Council of Shopping Centers' "Overall Sales Statistics Report

Abenomics has not changed consumer outlook dramatically.

Consumer outlook index chart



NB: Consumer outlook index calculation methodology:

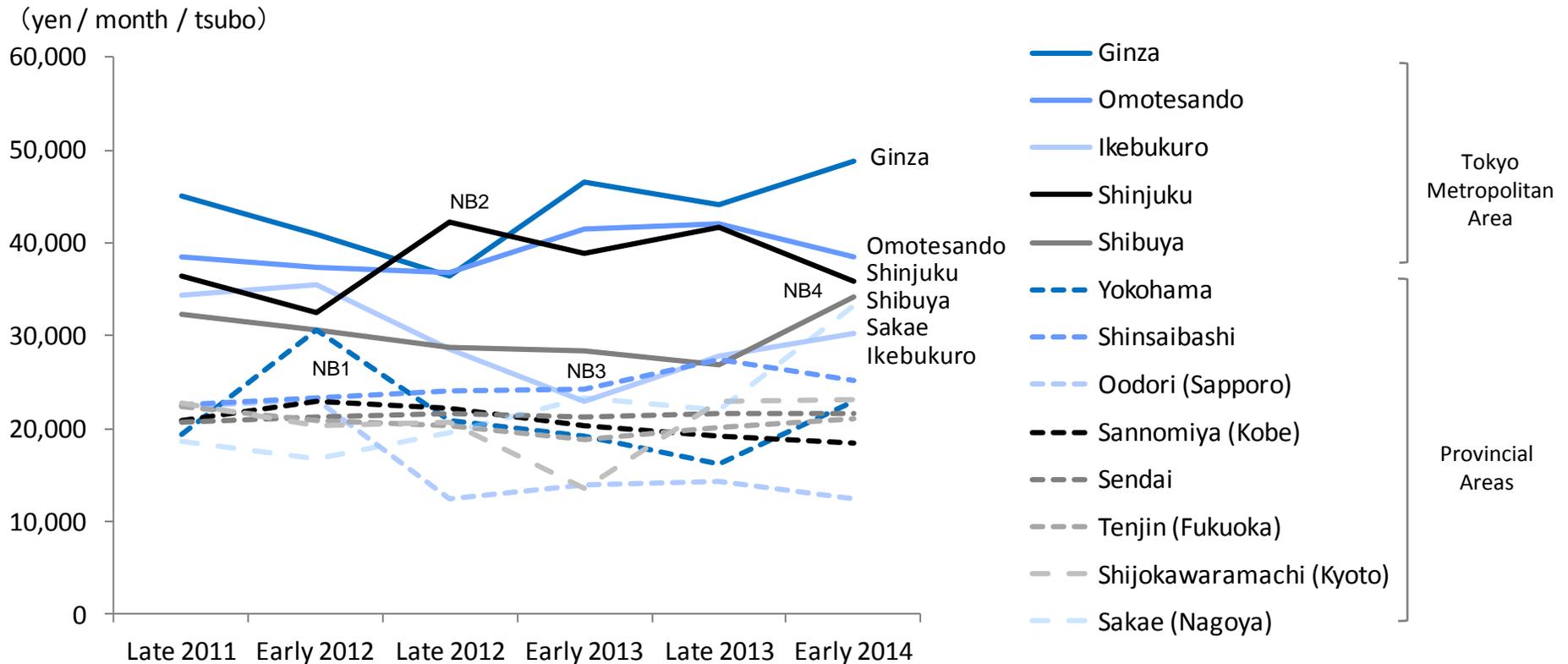
Consumers are asked to rate their outlook for the next 6 months for the following 4 categories: "Lifestyle", "Income", "Job environment" and "Determining when to purchase consumer durables" using a 5-scale index.

Each of the 5 scales is assigned a value: +1 for "Will get better," +0.75 for "Will get somewhat better," +0.5 for "Won't change," +0.25 for "Will get somewhat worse," and +0 for "Will get worse". This numerical index is used to provide a component ratio for each of the answers, from which the results are calculated.

To illustrate, a value of 50 will be produced if all participants answer "Won't change" for all available items.

Compared to other areas, rent level of Ginza, Omotesando and Shinjuku are still high.

1st floor rent ranking in 13 principal business areas (yen/month/tsubo)



NB1: Rent in Yokohama is shown to have spiked in the early half of 2012, but this can be attributed to the extremely small sample size

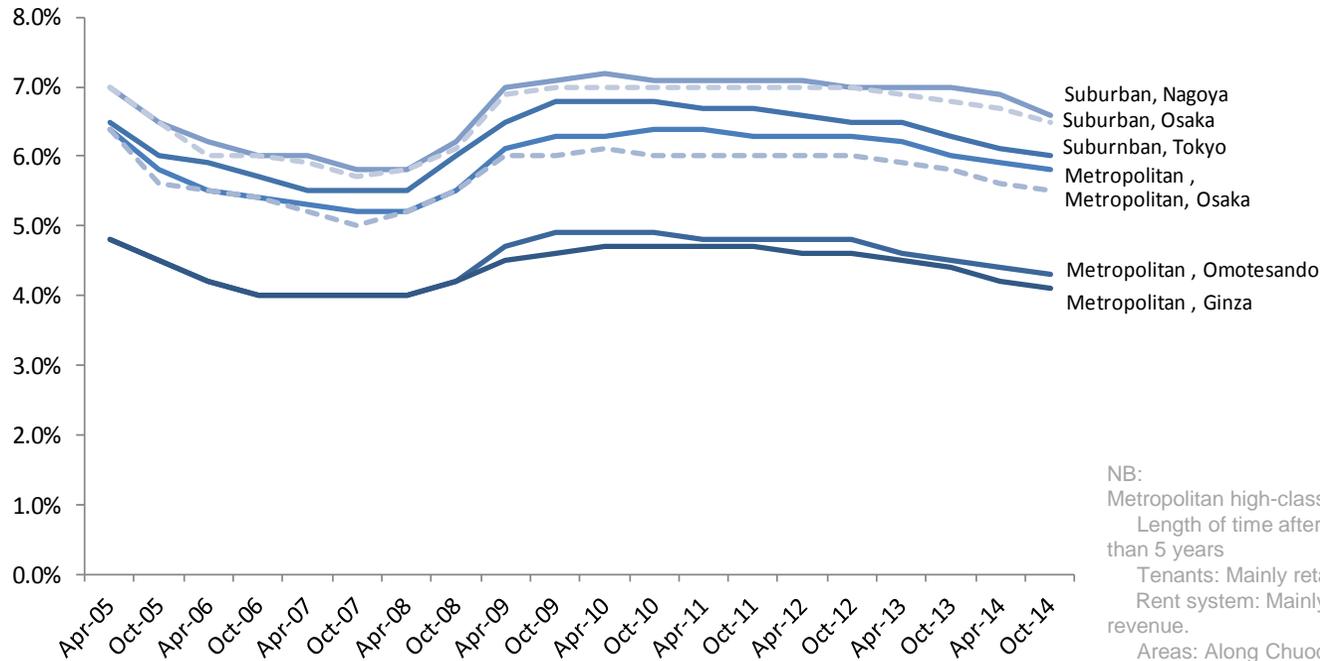
NB2: Rent in Shinjuku is shown to have spiked in the late half of 2012, but this can be attributed to a sample bias toward small, high-rent properties

NB3: Rent in Ikebukuro is shown to have dived in the early half of 2013, but this can be attributed to a sample bias toward low-rent properties in unfavorable locations

NB4: Rent in Shibuya, Sakae and Ikebukuro are shown to have spiked in the early half of 2014, which can be attributed to a sample bias towards a small number of properties with high rent

Cap rates have been falling since 2011. In the Tokyo Metropolitan Area, cap rates are approaching the all-time low.

Commercial establishment cap rates (expected yield)



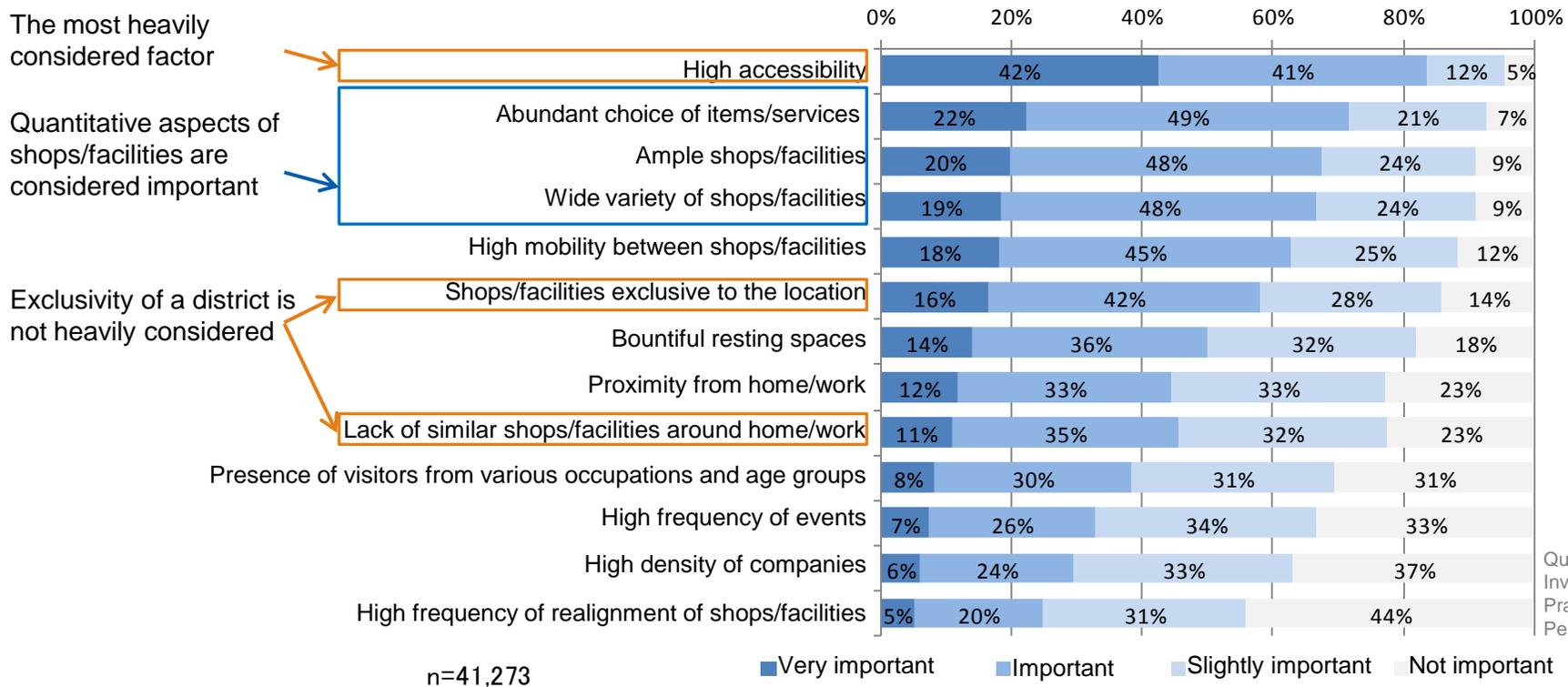
NB:
 Metropolitan high-class specialty stores:
 Length of time after construction -or- large-scale repair/improvement: less than 5 years
 Tenants: Mainly retailers of high-class brands.
 Rent system: Mainly fixed-term, variable rental schemes based on the revenue.
 Areas: Along Chuodoori in Ginza's Chuo district.
 Along Omotesando in Omotesando's Shibuya district.

Suburban shopping centers:
 Sales floor area: around 20,000m²
 Key tenants: Prominent general merchandise stores (GMS)
 Rent system: Mainly fixed-term, fixed-charge rental schemes
 Areas: 1-hour *Shinkansen* ride along key stations to Tokyo's Metropolitan District
 Stores for areas outside Tokyo follow similar locational conditions as above.

Accessibility and density level of commercial facilities are the important factors in selecting locations.

- In evaluating a commercial district, the most heavily considered factor is its accessibility (i.e. inter-district factors), followed by quantitative aspects such as choice of items/services and number of shops/facilities within a district.
- Intra-district factors are also regarded important (i.e. mobility between shops/facilities). On the other hand, exclusivity of a district is not heavily considered (i.e. presence of shops/facilities exclusive to the location, lack of similar shops/facilities around home/work).

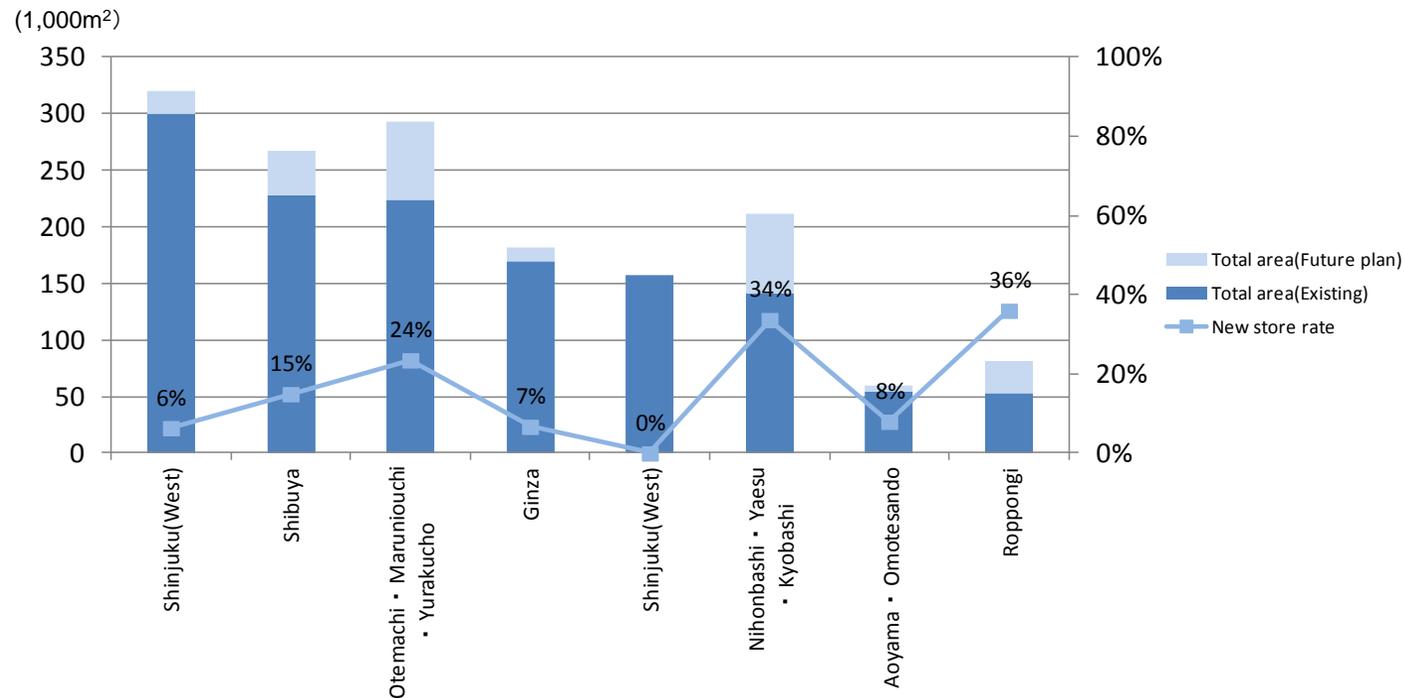
Important Factors in Selecting Commercial Districts by General Consumers (in Metropolitan Area)



Questionnaire name:
Investigation about integrated area
Practitioner: NRI
Period of time: July 2014~
August 2014

Large scale development of commercial buildings will proceed mainly around Tokyo station.

Total store area of commercial buildings in metropolitan Tokyo



NB)

Total area(Existing) includes department stores and specialty stores. Data as of May 2014

Total area(Future plan) is calculated via following formula: Total area(Future plan) = Site area × Floor area rate × Commercial building rate × Shop floor rate

Note that the above-calculation is based on a presupposition that floor area rate, commercial building rate and shop floor rate to be 700%, 20% and 60%, respectively.

Source: NRI based on the Sangyo-Times "Commercial Facilities Schedule Guide", Toyo Keizai Shinposha "National Supermarket Guide 2015"

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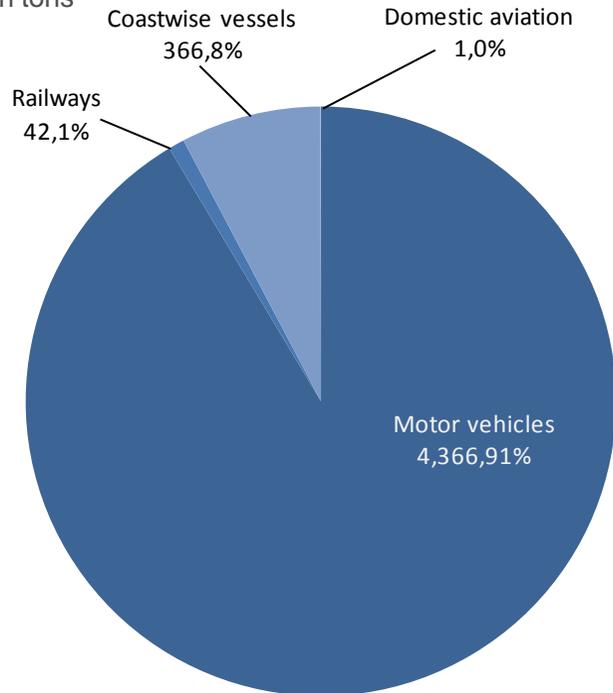
Real Estate Investment Products

The truck-based transport volume (in tons), which forms the bedrock of Japan's cargo industry, has continued to decline in recent years.

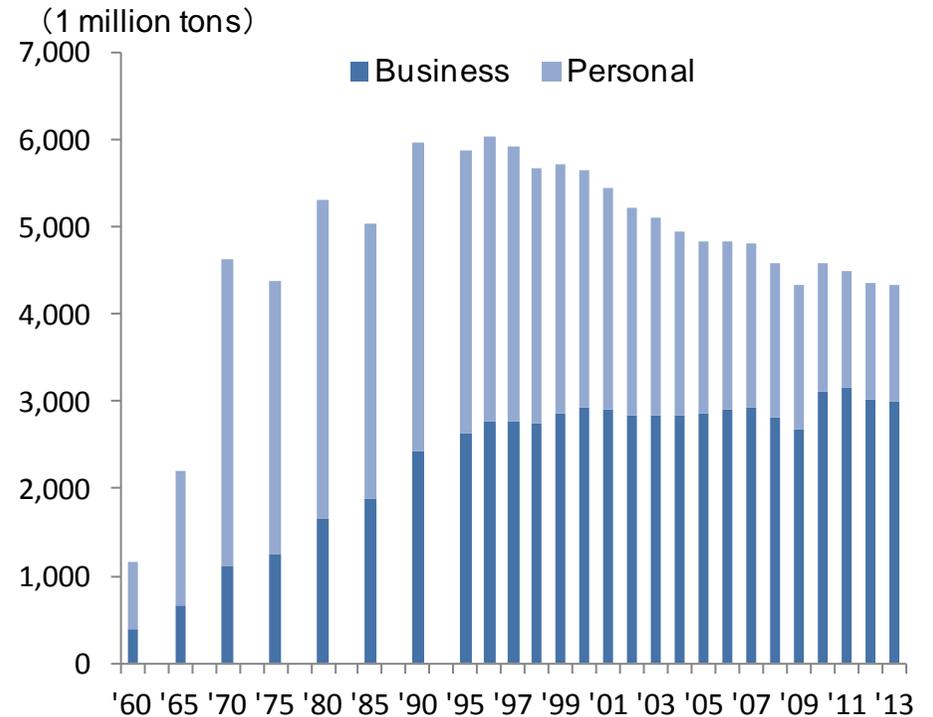
- Truck-based (automobile) transport is the primary transport method that constitutes a large share of Japan's freight traffic.
- In recent years, the volume of cargo transported via automobile has declined due to the downturn in the quantity of trucks sold for private use.

Cargo quantity by transport method (FY2012)

Unit: 1 million tons



Automobile cargo quantity movement

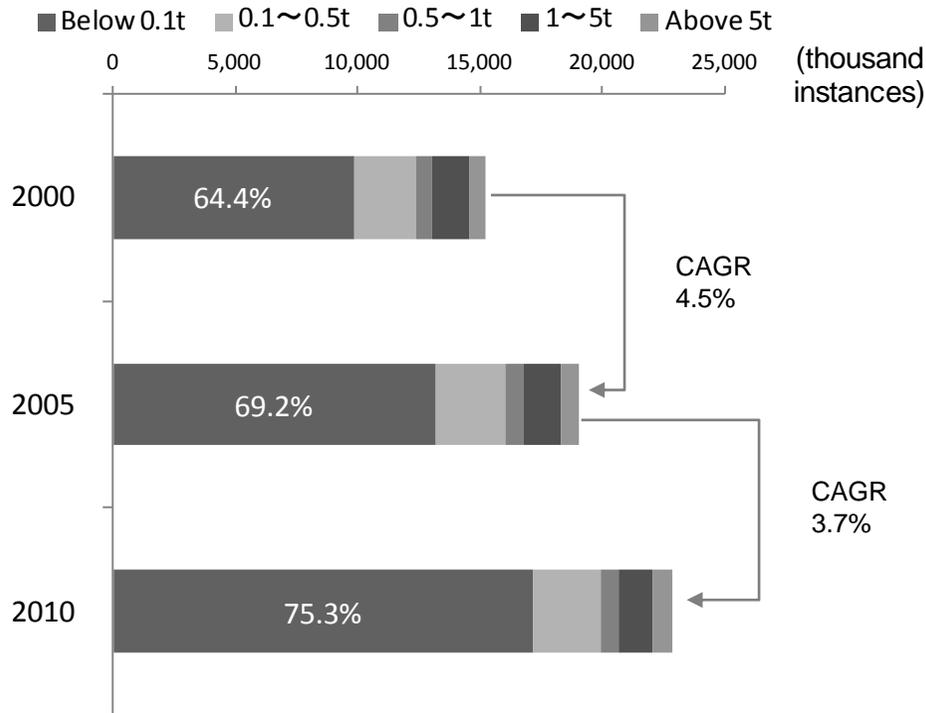


NB: The chronological continuity of data from prior to 2009 could not be guaranteed due to the changes made to the tallying methodology in the middle of 2010.

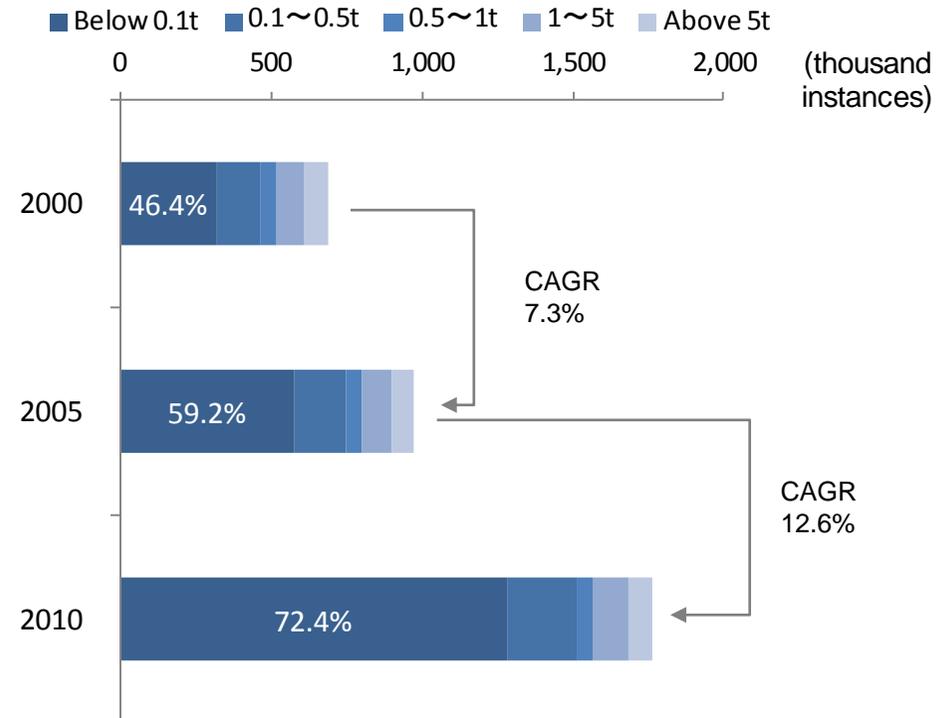
As the movement to smaller logistics lots progresses, the quantity distributed in such lots appears to be in upward trend based on the number of instances.

- As the movement to smaller logistics lots progresses across the whole industry, the quantity distributed has increased to a yearly rate of 4.0% based on the number of reported instances.
- The increased quantity of distribution in warehouses is remarkably high. This increase is propelled by the increase in distribution quantity using small lots that are less than 0.1 tons.

Industry-wide (except warehousing) distribution quantity by lot size (unit: number of instances)



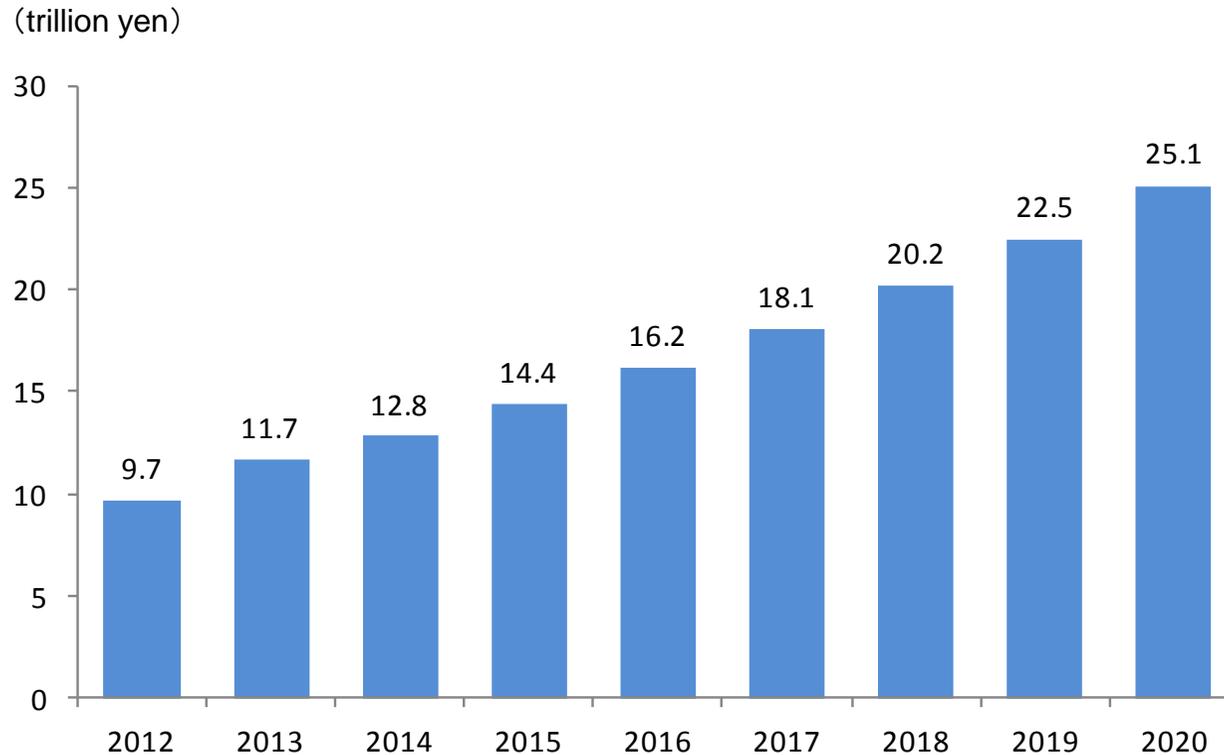
Warehousing distribution quantity per lot size (number of instances)



Small-lot consignments increase, due partly to the expansion of e-commerce, which is expected to continue growing hereafter.

- Market size of Business-to-Consumer e-Commerce is expected to surpass 20 trillion yen in 2018.

Market Size of Business-to-Consumer e-Commerce

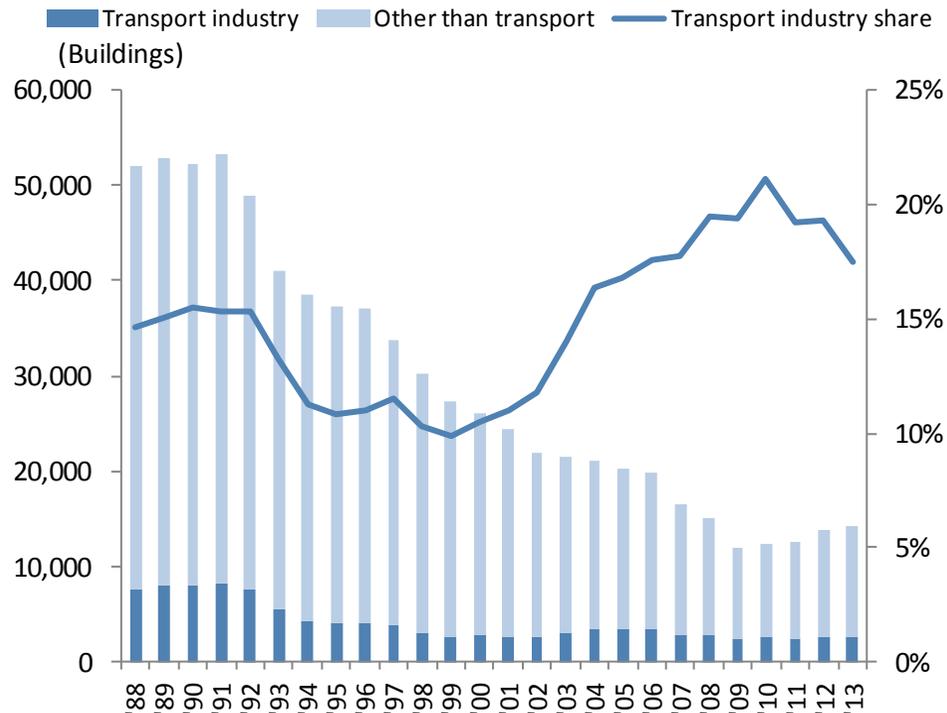


NB: Business –to-consumer e-commerce: sale of products and services to consumers in general via the Internet
Source: NRI

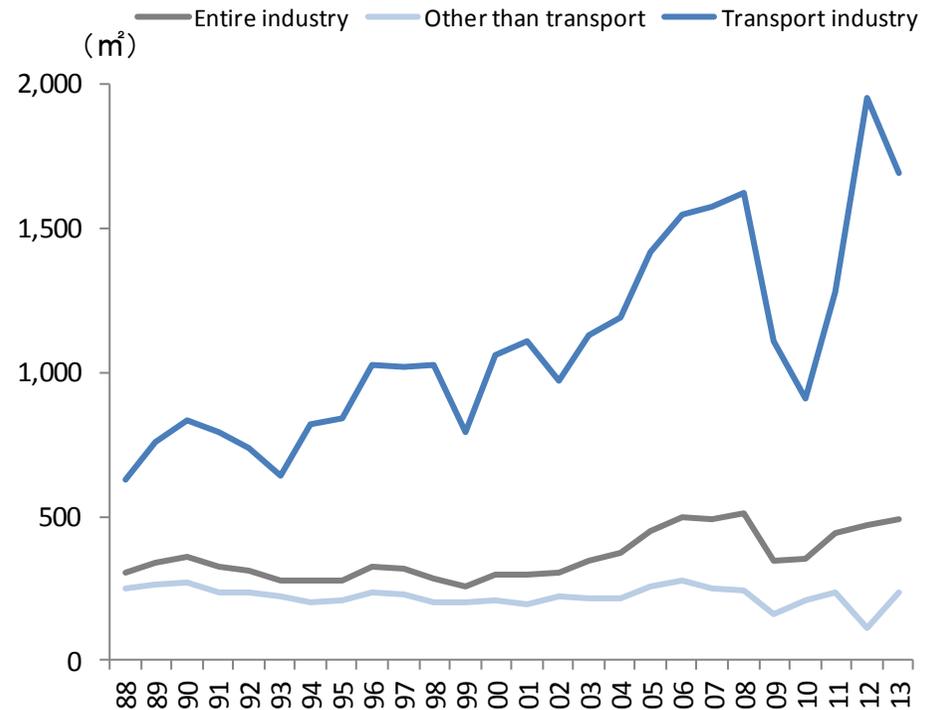
While new supply has stopped dwindling, facilities are growing larger due to businesses consolidating their logistics capabilities.

- The number of supplied warehouse buildings fell to roughly 23% of the peak level in 1991 (12,000 buildings/year) which has stabilized in recent years.
- The number of supplied warehouse buildings for the transport industry is dwindling at a more relaxed pace compared to the rest of the industry (see figure below left), but the floor space per building is on an upward trend (below right).
- This explains the increased need for SCM support for generic enterprises and new/large-scale logistics facilities for logistics consolidation.

Nationwide number of supplied warehouses including warehouses for transport and transport industry share

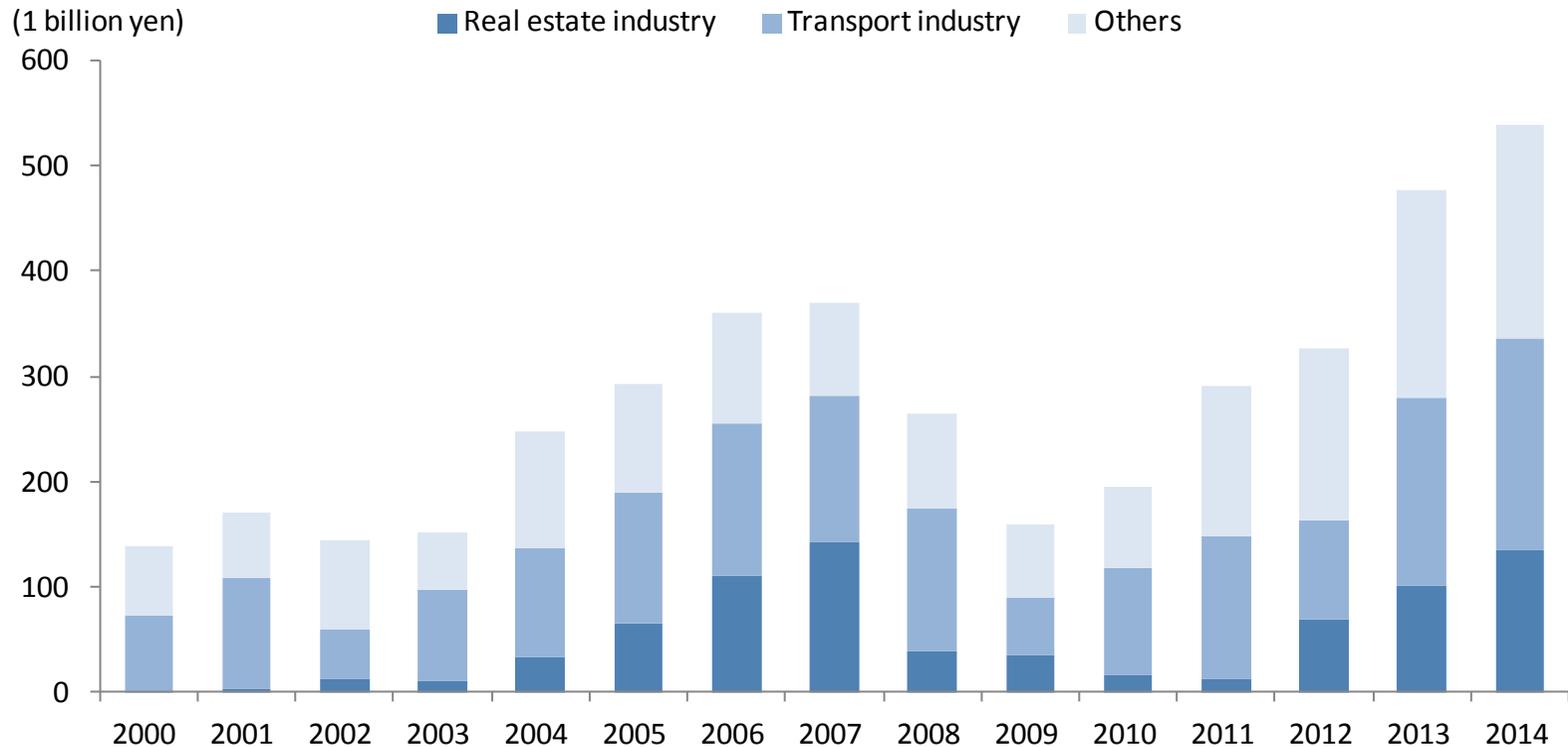


Floor space per warehouse building



Development of logistics real estate, which had been shrinking since the Lehman shock, is now back in full swing.

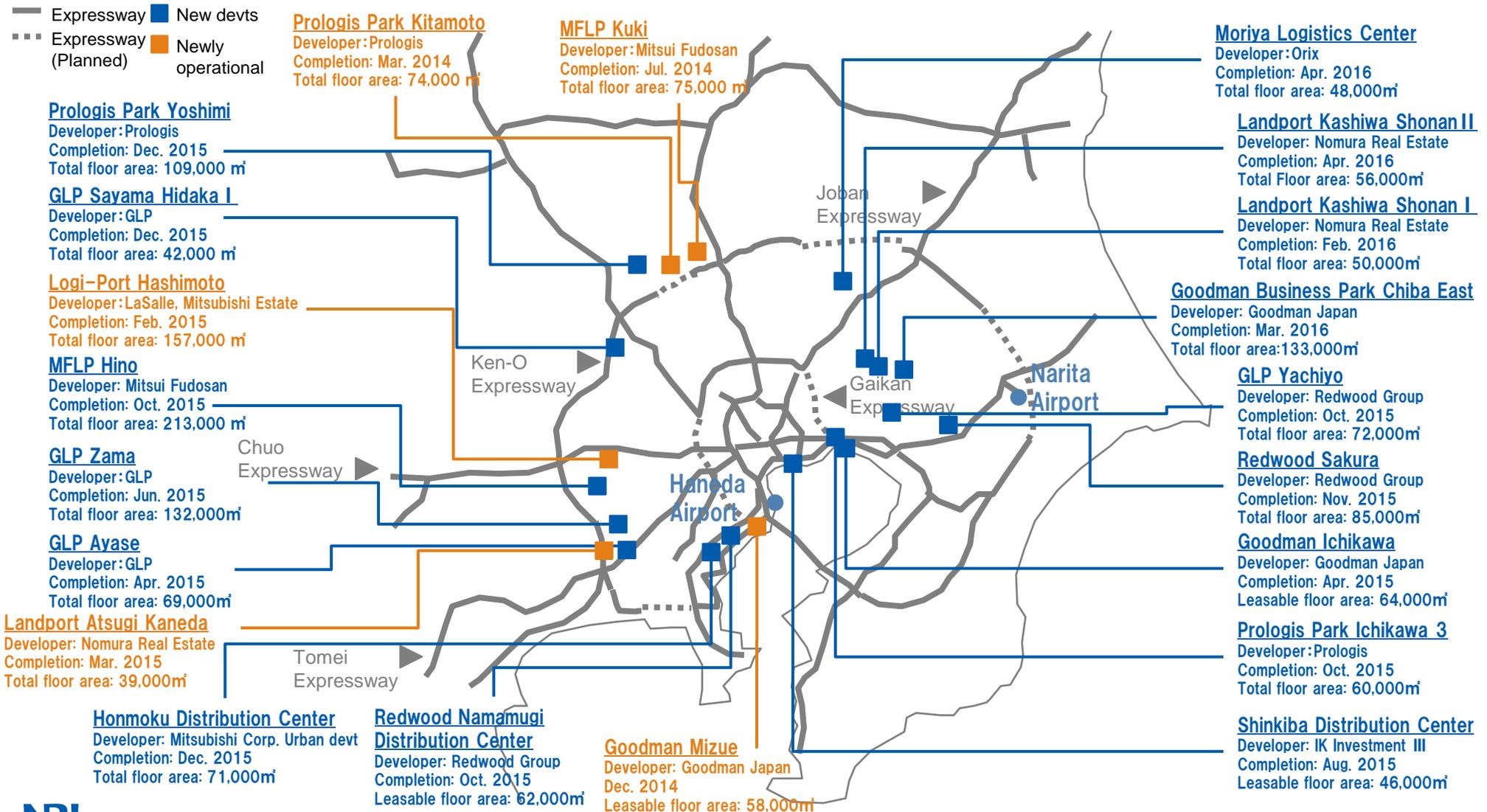
Order volume for construction of warehouses/logistics facilities by ordering industry



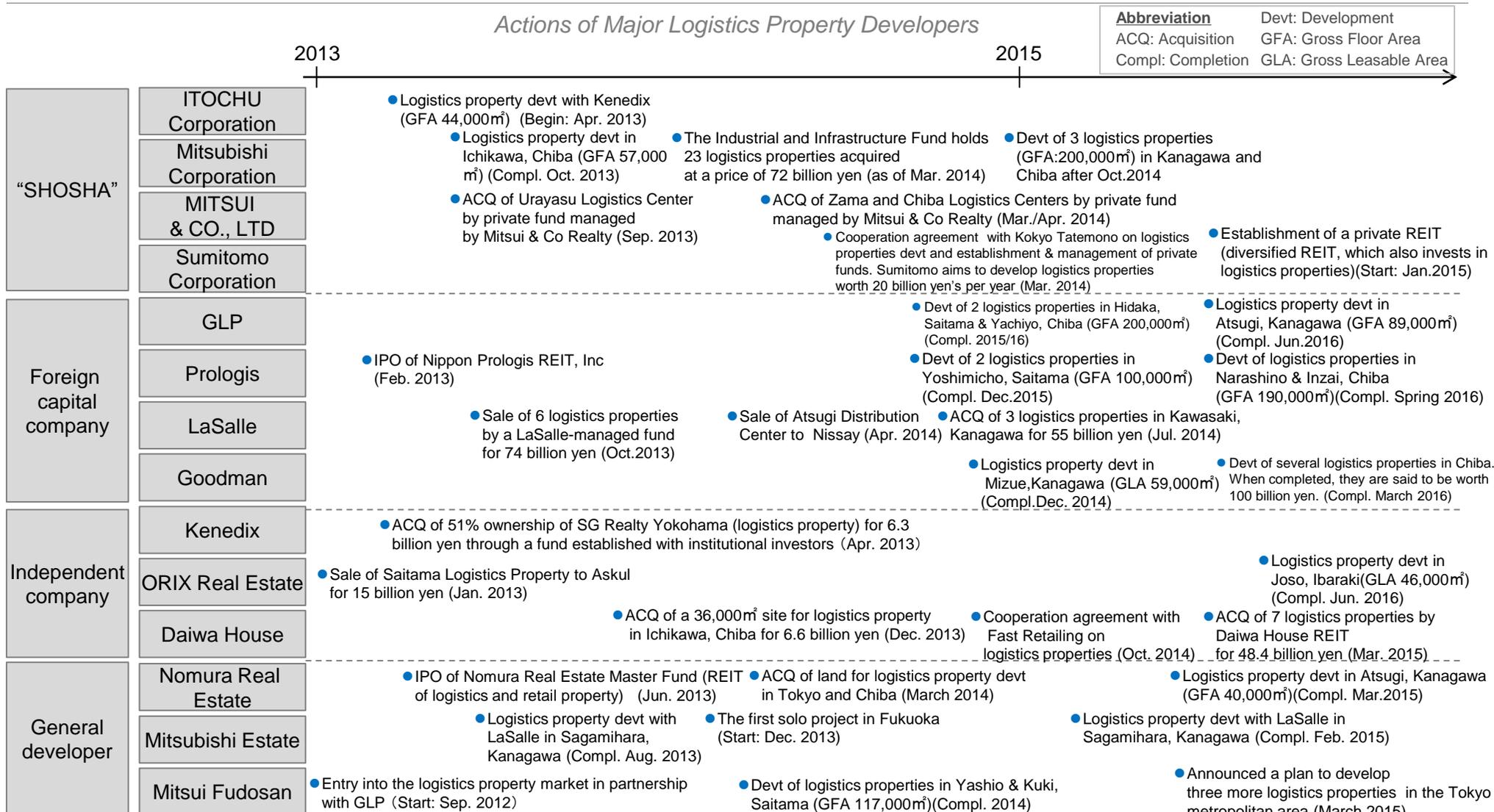
Note: Only contracts worth 5 billion yen above are included

Source: NRI based on Ministry of Land, Infrastructure, Transport and Tourism's "Construction Order Trends, Statistics and Survey"

Major foreign-based logistics property players and Japanese real estate developers are gearing up for roadside development ahead of new expressway construction.



Sourcing turns increasingly competitive due to market entries by Mitsubishi Estate, Mitsui Fudosan and Sumitomo Corporation and to IPOs of J-REITs.

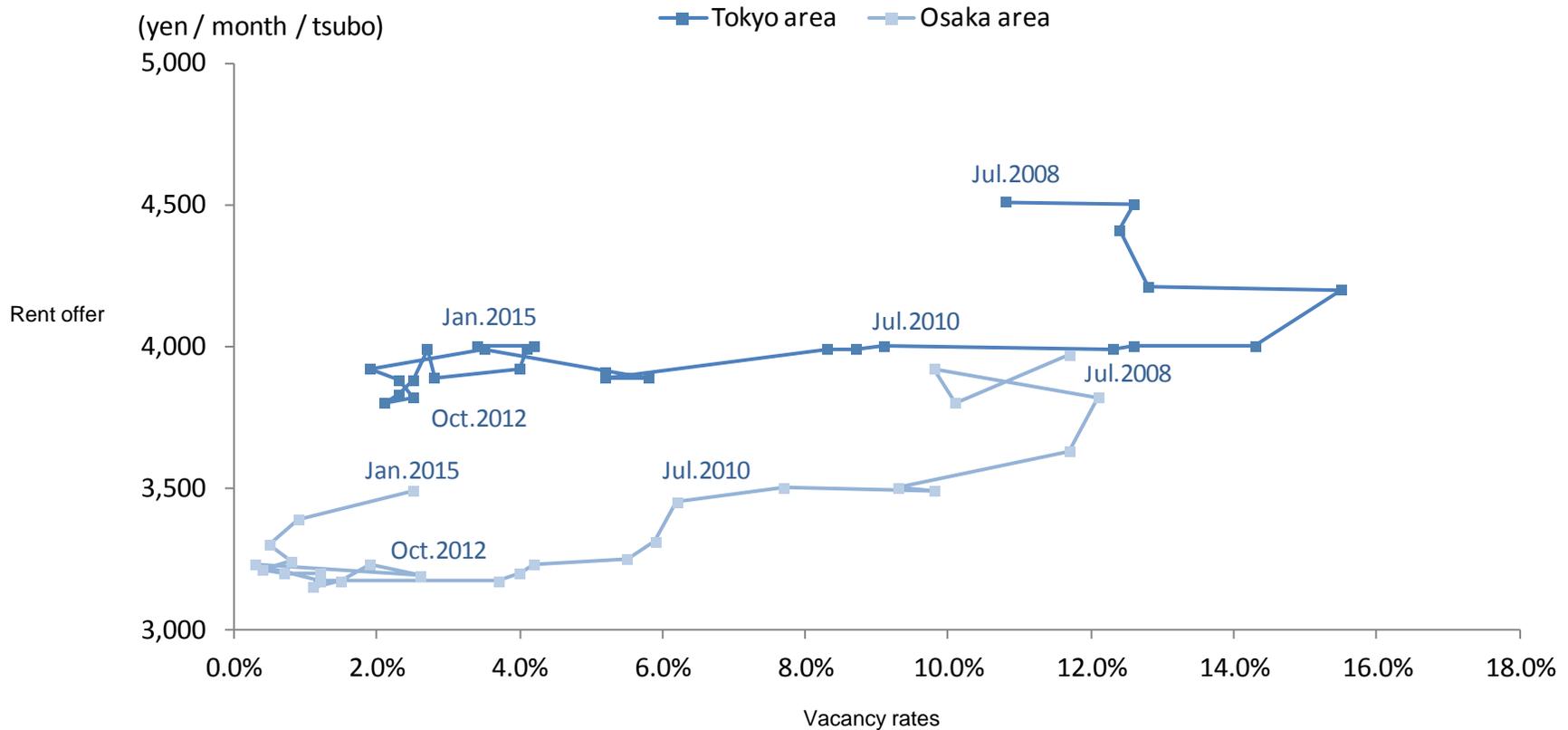


Abbreviation
 ACQ: Acquisition
 Compl: Completion

Devt: Development
 GFA: Gross Floor Area
 GLA: Gross Leasable Area

Vacancy rate in Tokyo area, which was on a rise, has diverted downwards.

Monthly rent offers and vacancy rates of logistics real estate

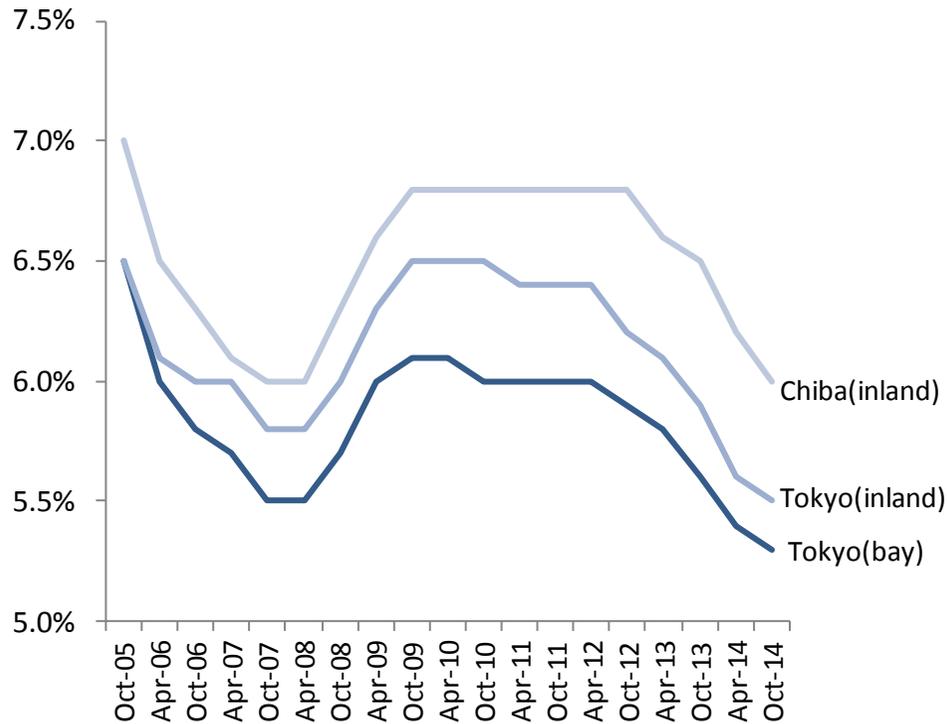


NB: Logistics facilities which have a total lot area or total floor area of 10,000m²
 Source: NRI based on data from Ichigo Real Estate Information Service's "Survey on the Logistics Facilities Rental Market"

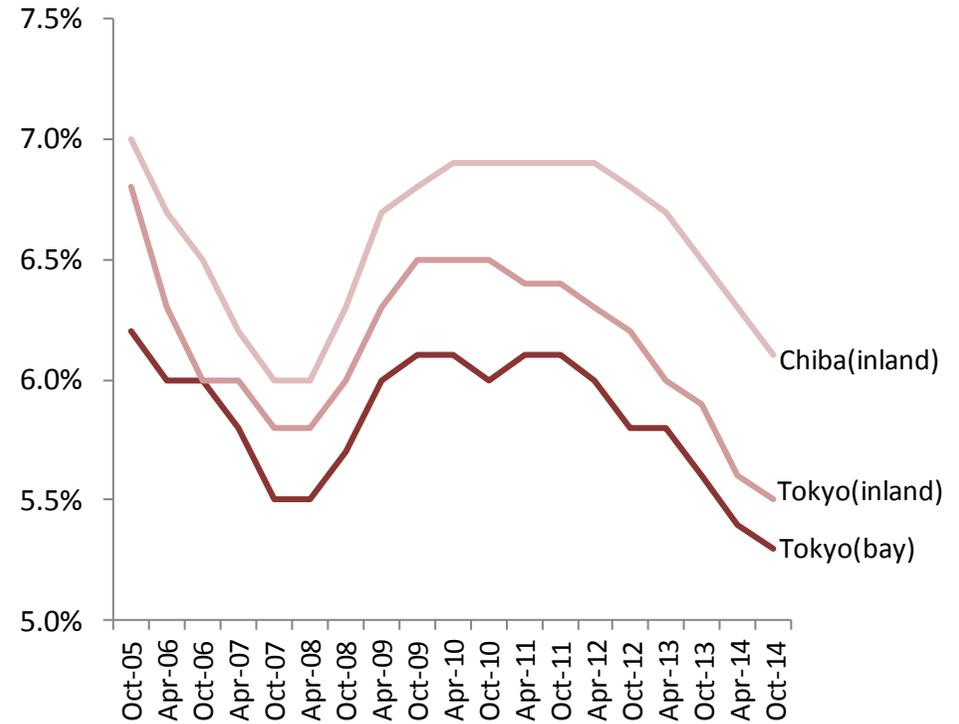
Cap rates have been falling since 2012, with Tokyo hitting all-time low.

Logistics real estate cap rate (expected yield)

Single tenant



Multi-tenant



NB: Single tenant: 2-3 floors; total floor area of around 10,000m²

NB: Multi-tenant: 3-4 floors; total floor area of around 50,000m²

Source: NRI based on Japan Real Estate Institute's "Real Estate Investor's Survey"

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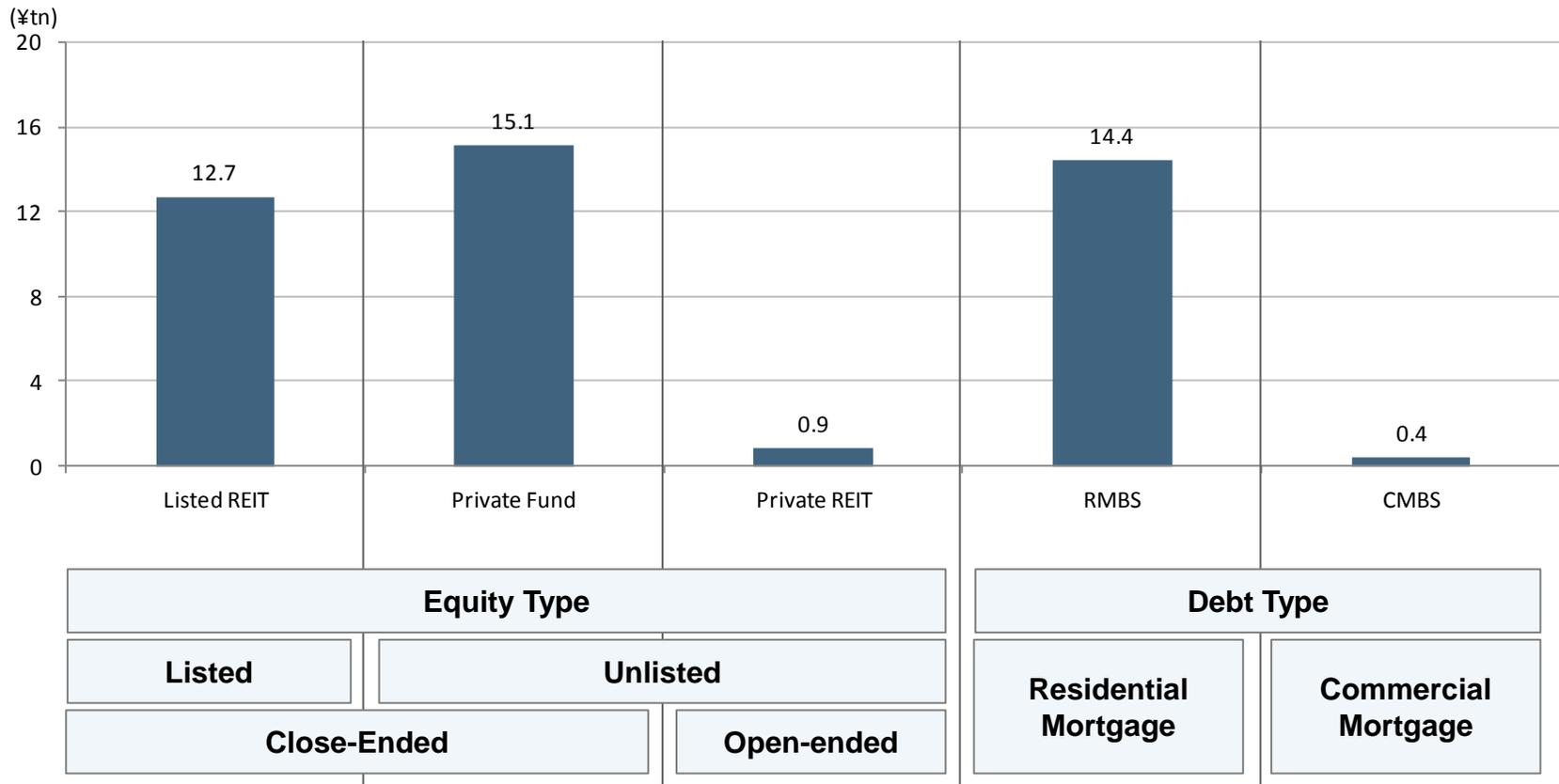
Logistics Property Market

Real Estate Investment Products

An overall perspective of the Japanese real estate market

- Unlisted open-ended private REITs was offered in November 2010, and the size of private REITs market is growing rapidly.

Overview of the Real Estate Investment Instruments in Japan



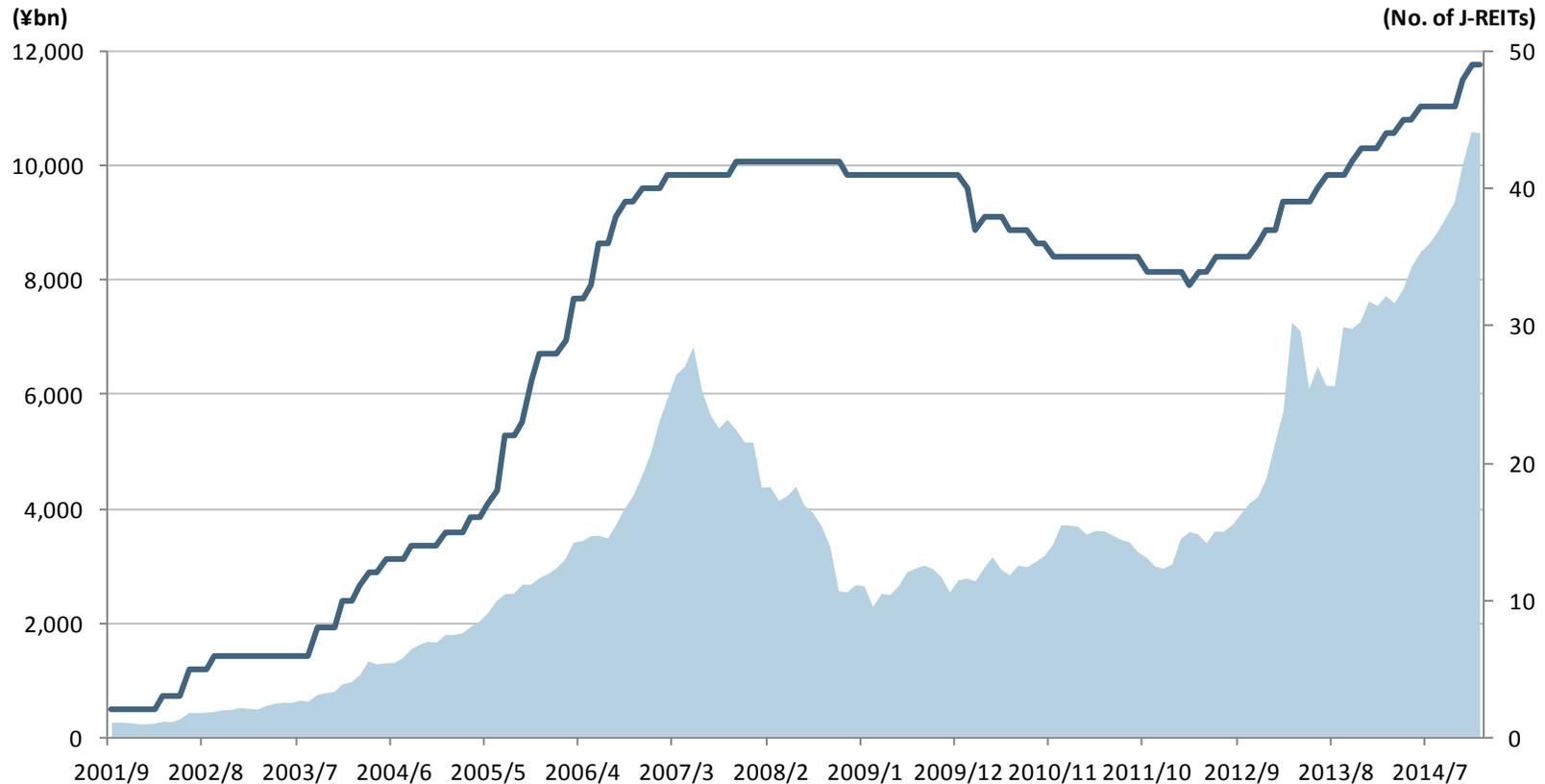
NB: Listed REIT figure is updated as of end of Jan 2015, private fund figure is updated as of end of Dec 2014, unlisted REIT is an estimated figure as of end of Oct 2014, RMBS/CMBS figure is updated as of end of Sept 2014.

Source: NRI based on the Association for Real Estate Securitization, Sumitomo Mitsui Trust Research Institute Co., Ltd., and the Japan Securities Dealers Association

The J-REIT market capitalization has reached approximately 10 trillion yen.

- The J-REIT market began trading on the stock market in Sept 2001 with 2 companies traded and a market capitalization of 2.5 trillion yen.
- As of the end of January 2015, there are 49 companies traded worth approximately 10 trillion yen.

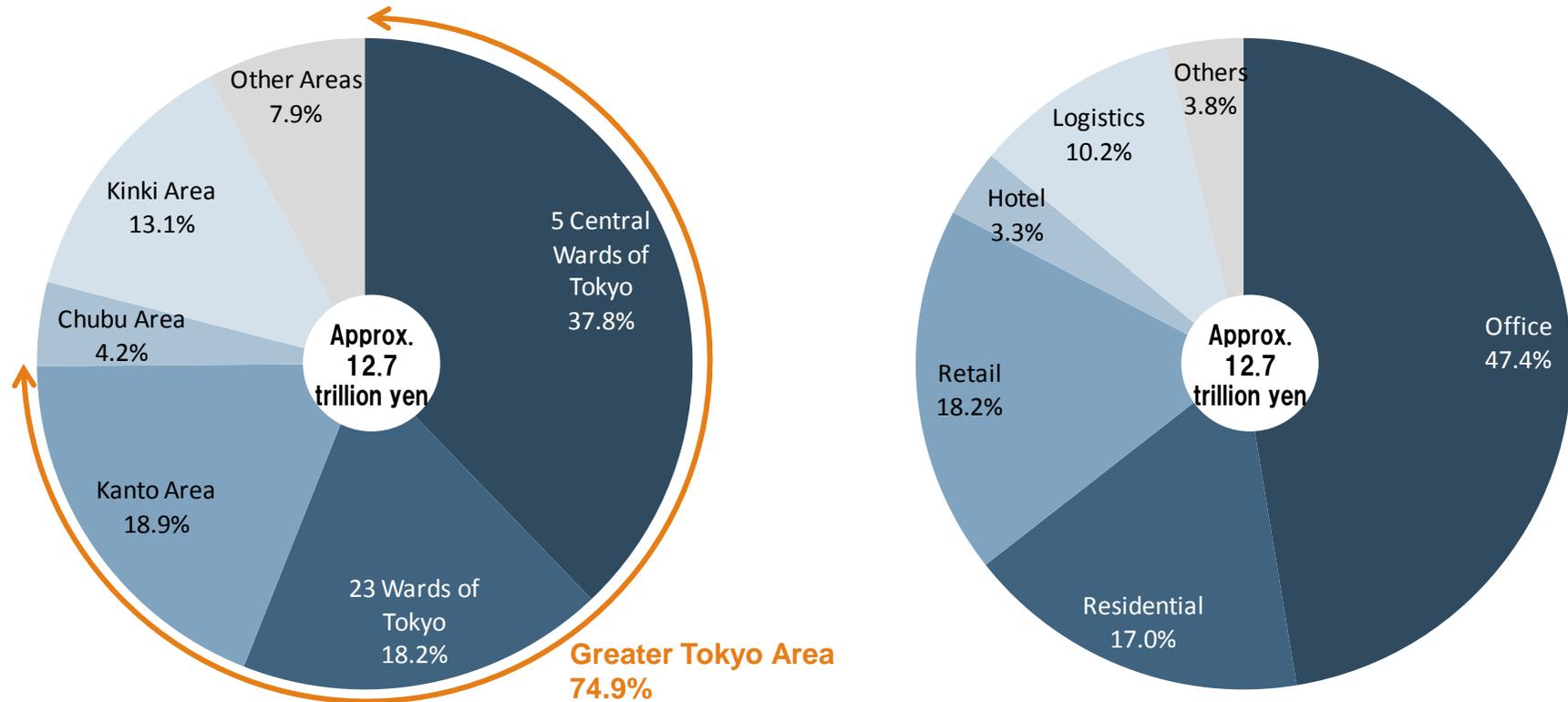
J-REIT Market Capitalization and Number of J-REITs



Approximately 75% of J-REITs assets are located in the Tokyo Metropolitan Area, and approximately 50% of J-REITs assets are office properties.

- Approximately 75% of real estate owned by J-REITs is in the Tokyo Metropolitan Area.
- In recent years, J-REITs have become more diversified in type of property, and Healthcare REIT has started in November 2014.

Asset Mix of J-REITs by Area and Asset Class



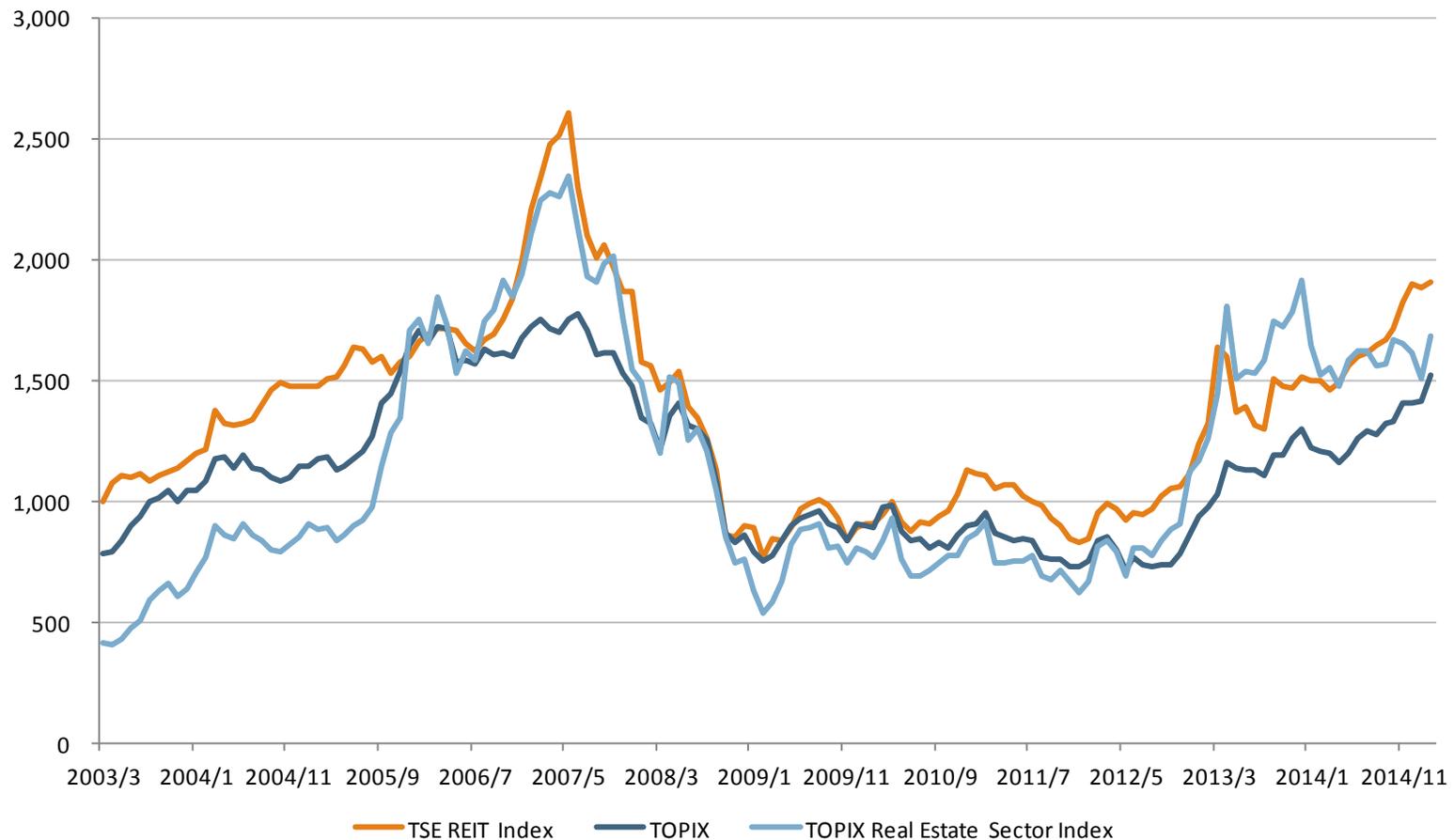
* As of the end of January 2015

Source: NRI based on ARES

The Tokyo Stock Exchange (TSE) REIT Indices have recovered from 2013.

- The TSE REIT Indices has dropped sharply from its peak in May 2007, and has recovered rapidly from 2013.

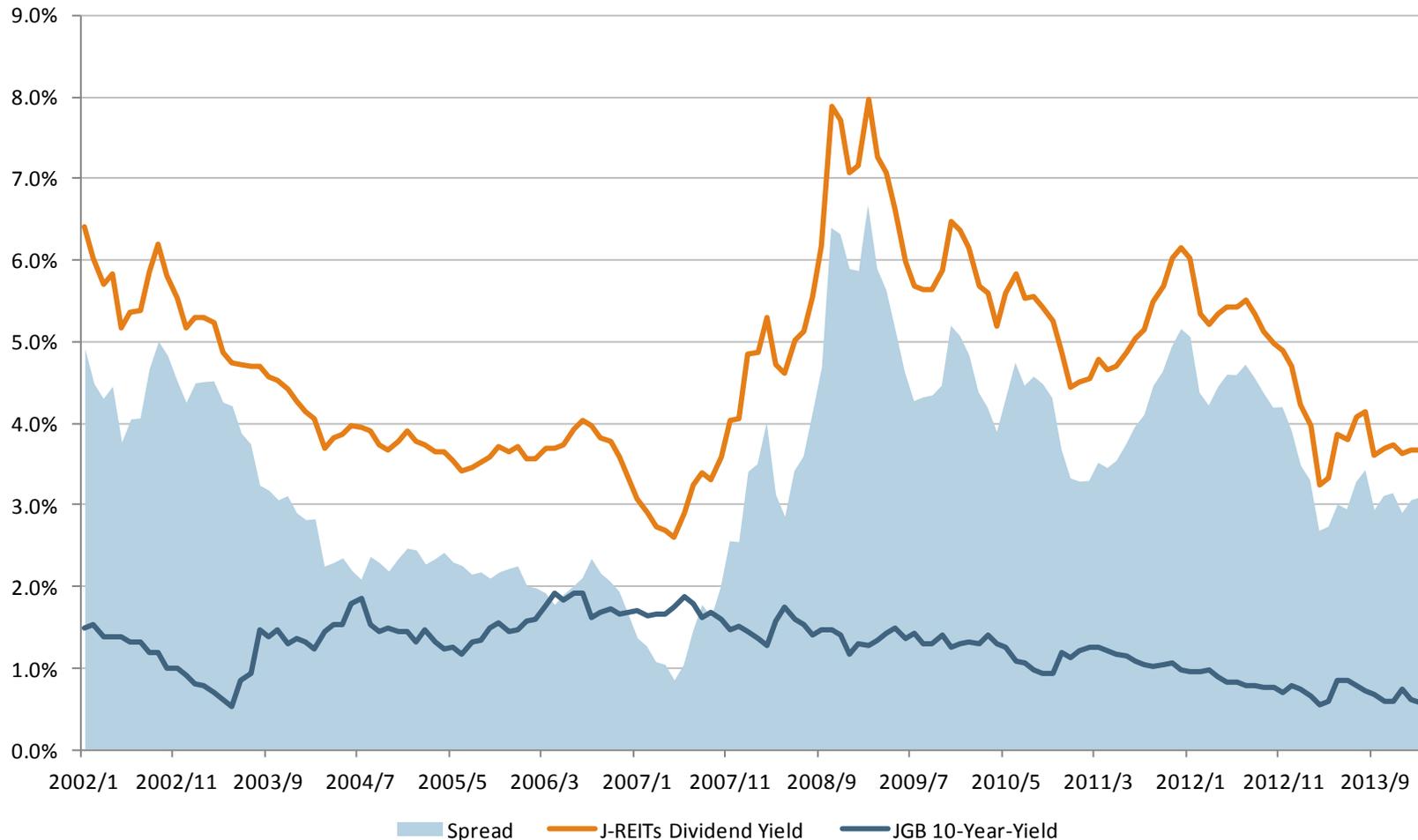
TSE REIT Index, TOPIX, and the Listed Real Estate Industry Index



J-REIT dividend yields are currently down to around 3%.

- J-REIT dividend yields rapidly increased to around 8%, but are currently down to around 3%.

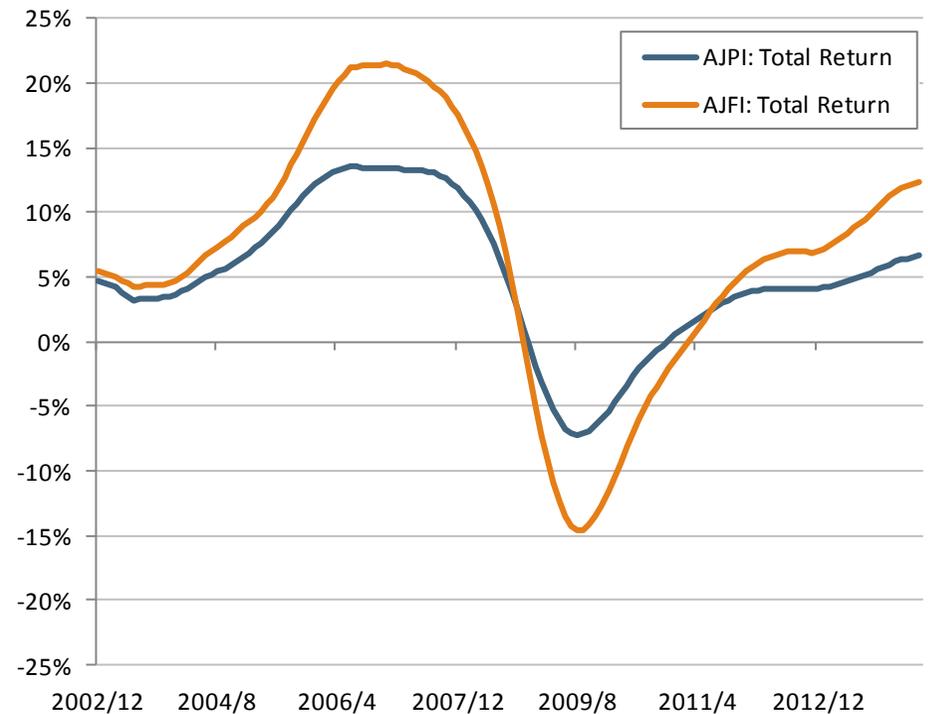
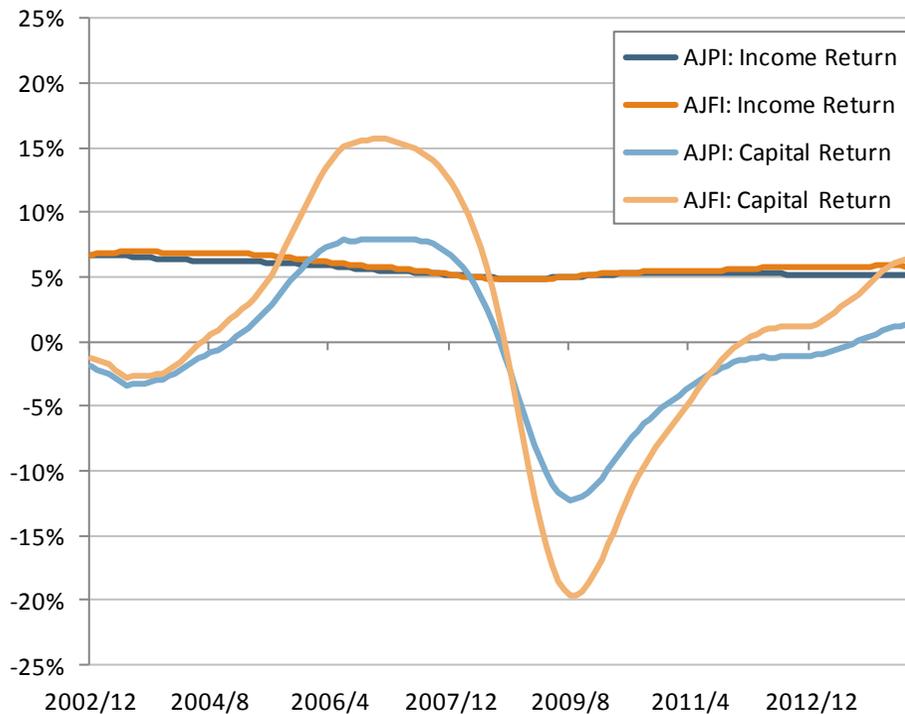
J-REIT dividend yield and Japanese Government Bond 10-year yield



The performance recovered to positive in the capital return.

- According to the index based on actual performance of core funds invested in domestic real estate, the performance of real estate investments in Japan recovered to positive in the capital return.

ARES Japan Property Index (AJPI) and ARES Japan Fund Index (AJFI)

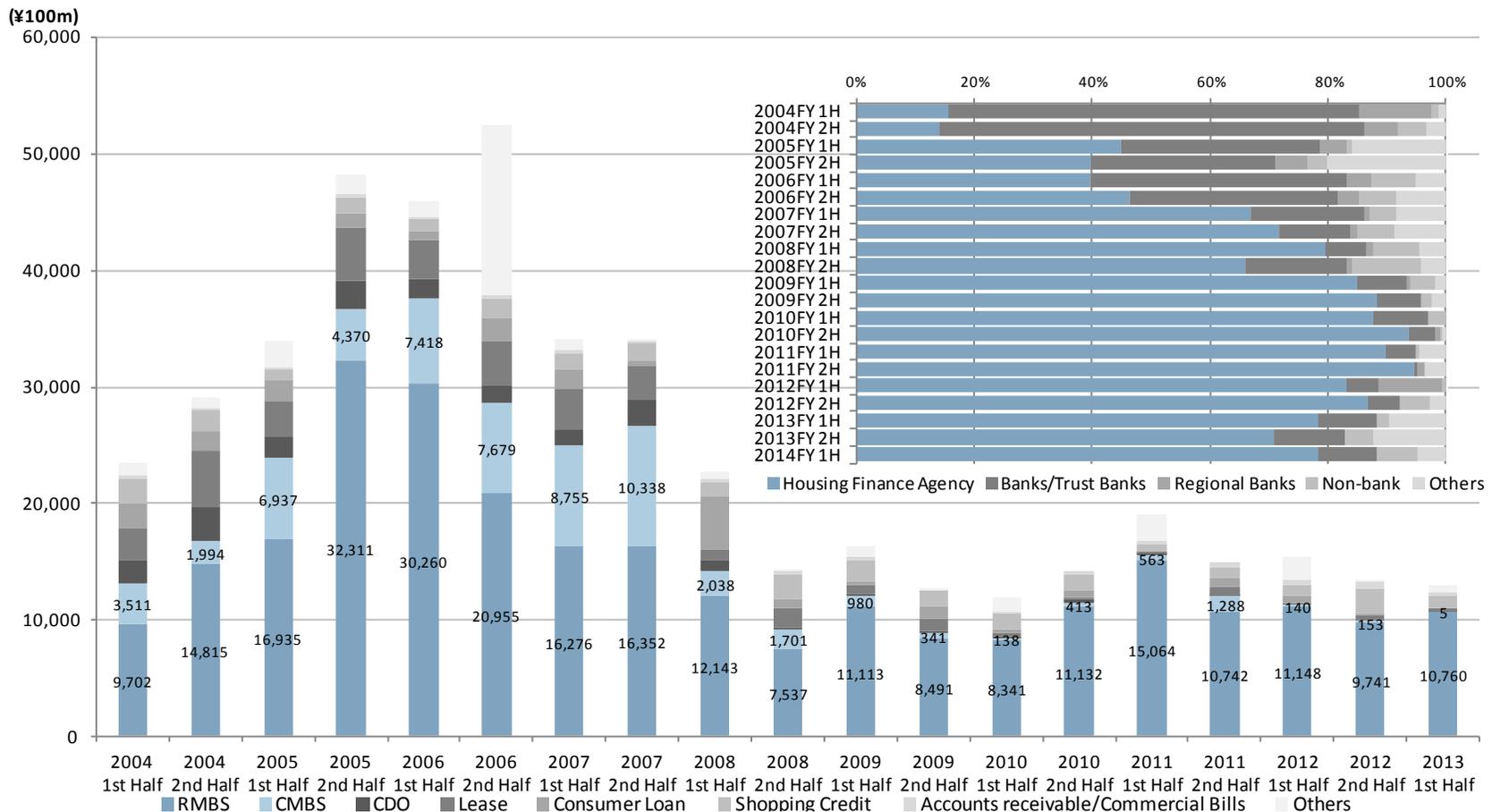


Source: NRI based on The Association for Real Estate Securitization (ARES) "ARES Japan Property Index" and "ARES Japan Fund Index"

CMBS issuance has decreased drastically since 2008, and at present only RMBS is issued at a constant pace.

- Most recently, about 80% of residential mortgage-backed securities were originated by the Japan Housing Finance Agency.

Asset Backed Securities Breakdown by Type of Backing and RMBS Breakdown by Originator



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