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# The Japanese Real Estate Investment Market 2017

October 2017

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## **Population movements in Japan**

## **Macro fundamentals of Japan**

## **Overview of real estate investment market in Japan**

## **Office market**

## **Residential market**

## **Retail property market**

## **Logistics property market**

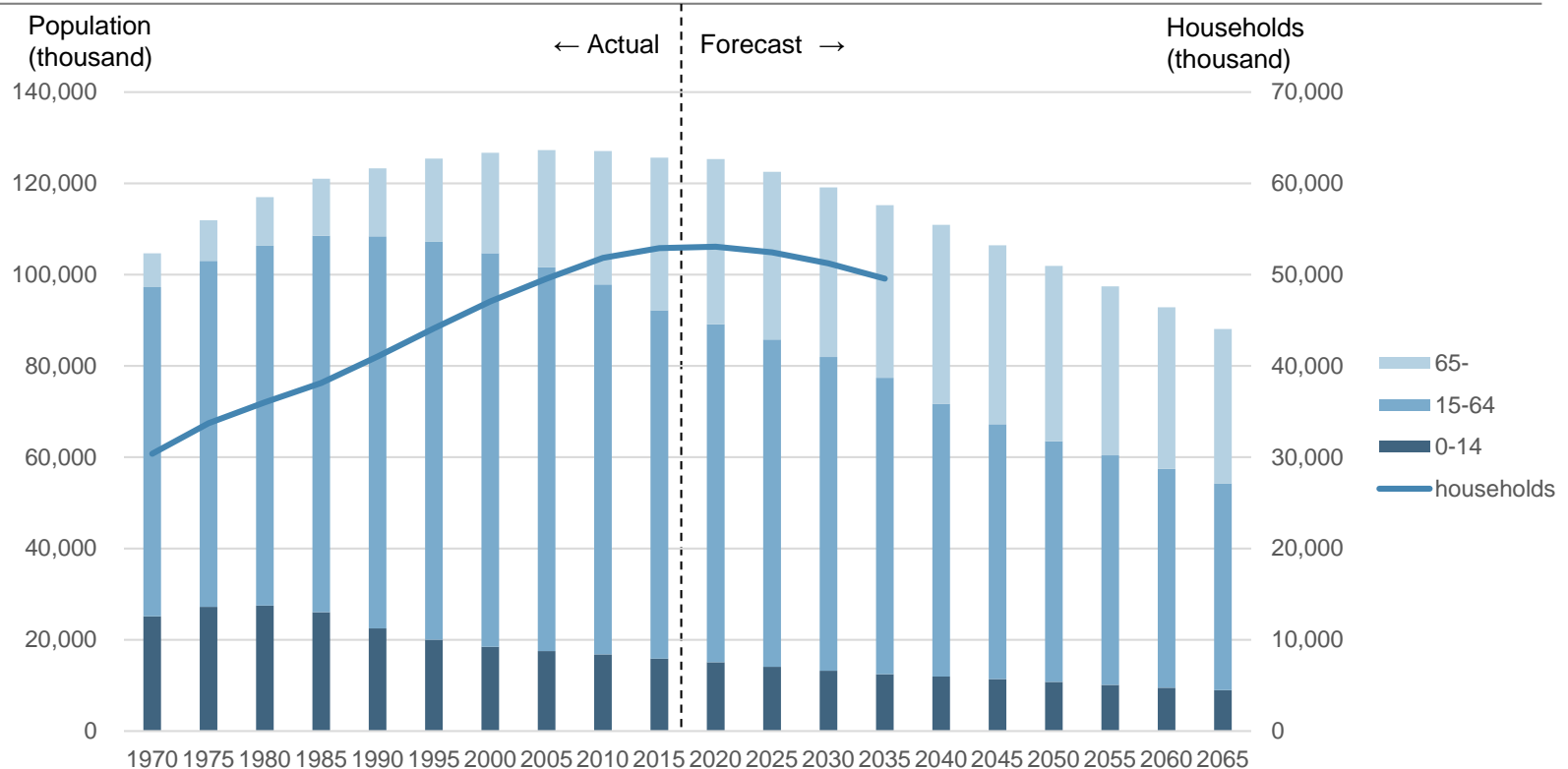
## **Hotel market**

## **Real estate investment products**

# In 2015, depopulation was observed for the first time in Japan, based on the national census.

- The decline in number of households was not confirmed by the national census in 2015.
- The population of people 65 years or older is expected to level off in 2025 and head downwards from 2040.

Population and households in Japan



Source: National Institution of Population and Social Security Research and MIC "Population Census"

Note 1: Population forecast is based on the data of population census in 2015.

Note 2: The solid line shows the actual households based on the population census and dotted line shows the predicted households based on the population census in 2010.

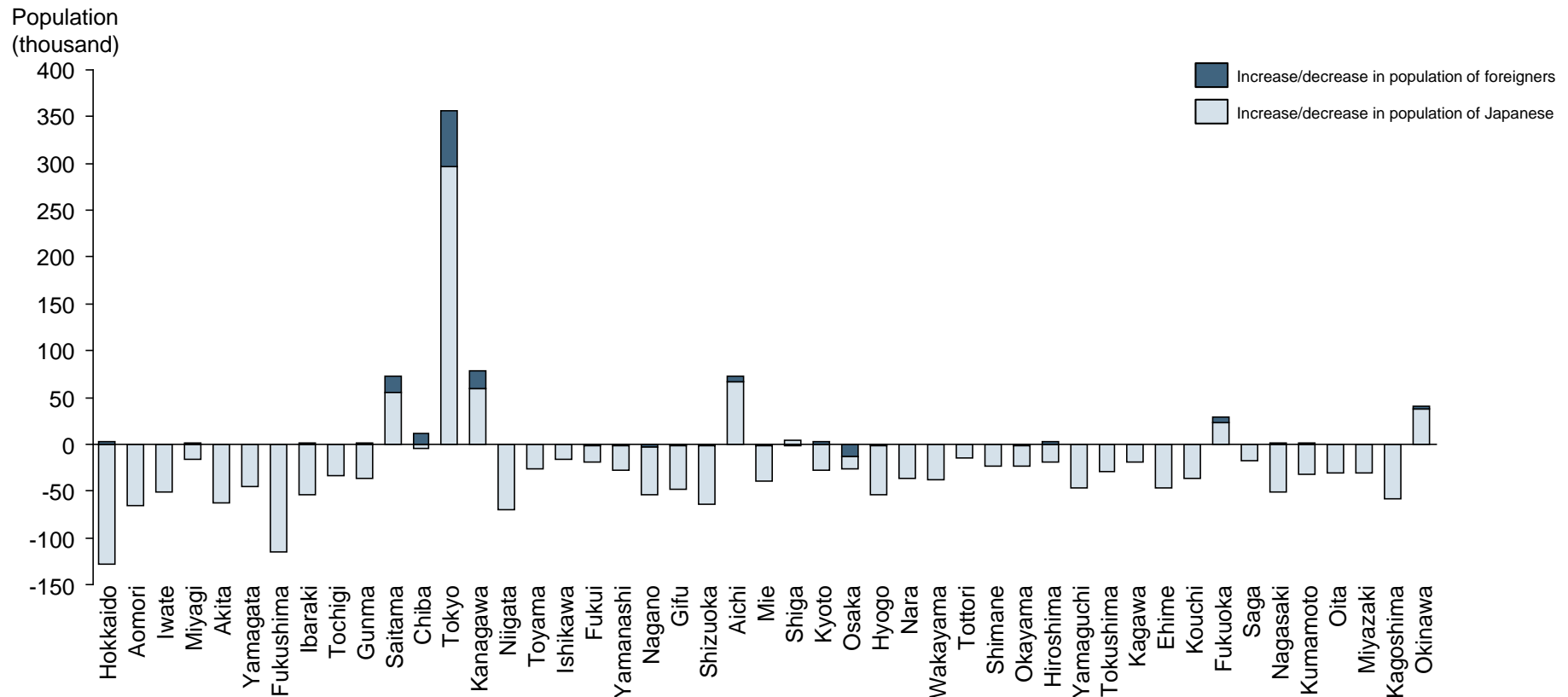
Note 3: Median-fertility (median-mortality) projection is used in population and household forecast.

## Population movements in Japan

**The population is increasing only in Greater Tokyo, Aichi prefecture, Fukuoka prefecture and Okinawa prefecture. The same tendency can be seen in the increase/decrease of foreigners population.**

- The population of foreigners is drastically increasing in Greater Tokyo and slightly increasing in the Aichi prefectures and prefectures with regional core cities.

Increase/decrease in population of each prefecture from FY 2010 to 2015.



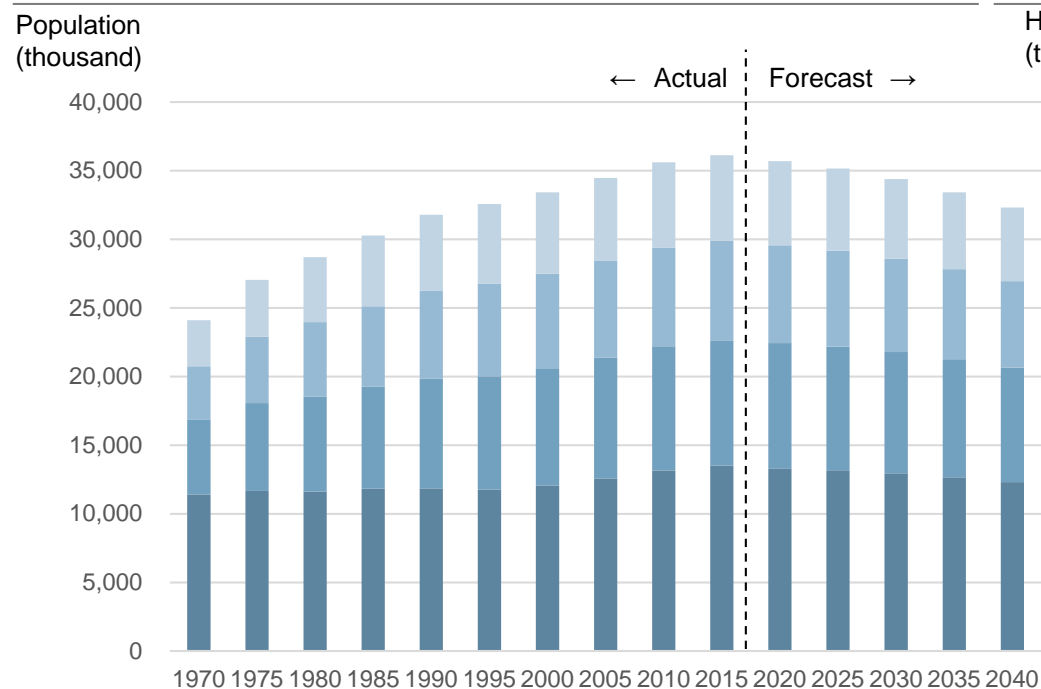
Source: National Institution of Population and Social Security Research and MIC "Population Census"

## Population movements in Greater Tokyo

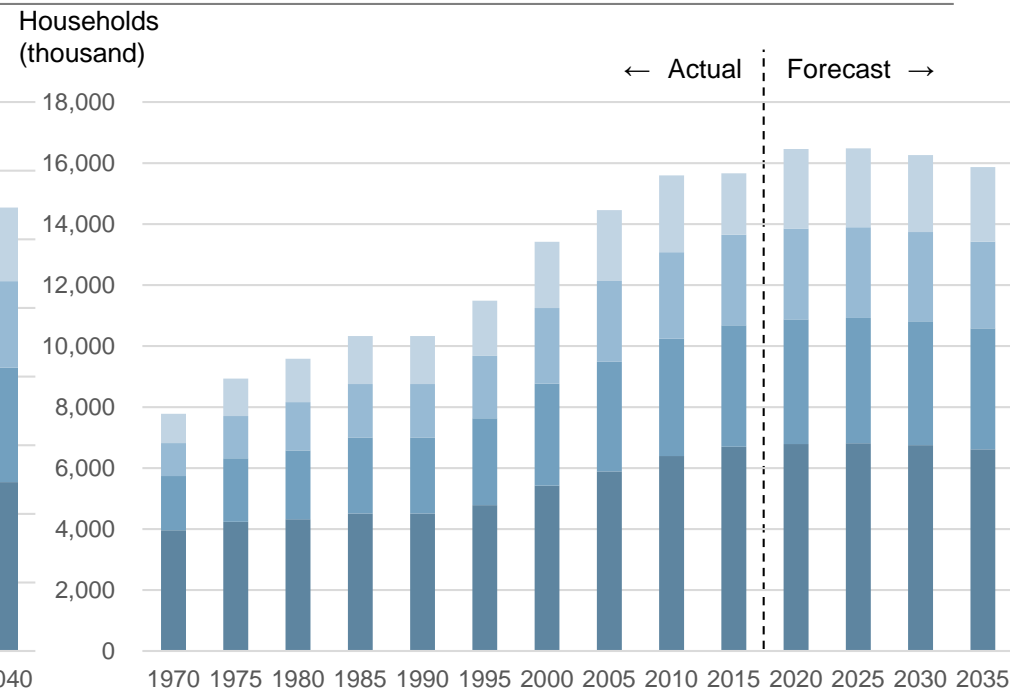
# In Greater Tokyo, the population has peaked out; however, the number of households is expected to increase for 10 years.

- It is anticipated that the population in the Greater Tokyo has reached to its peak level in 2015.
- On the other hand, the number of households is projected to increase until 2025.

### Population of Greater Tokyo



### Number of households in Greater Tokyo



■ Tokyo ■ Kanagawa ■ Saitama ■ Chiba

■ Tokyo ■ Kanagawa ■ Saitama ■ Chiba

Source: National Institution of Population and Social Security Research and MIC "Population Census"

Note 1: Median-fertility (median-mortality) projection is used for population forecast.

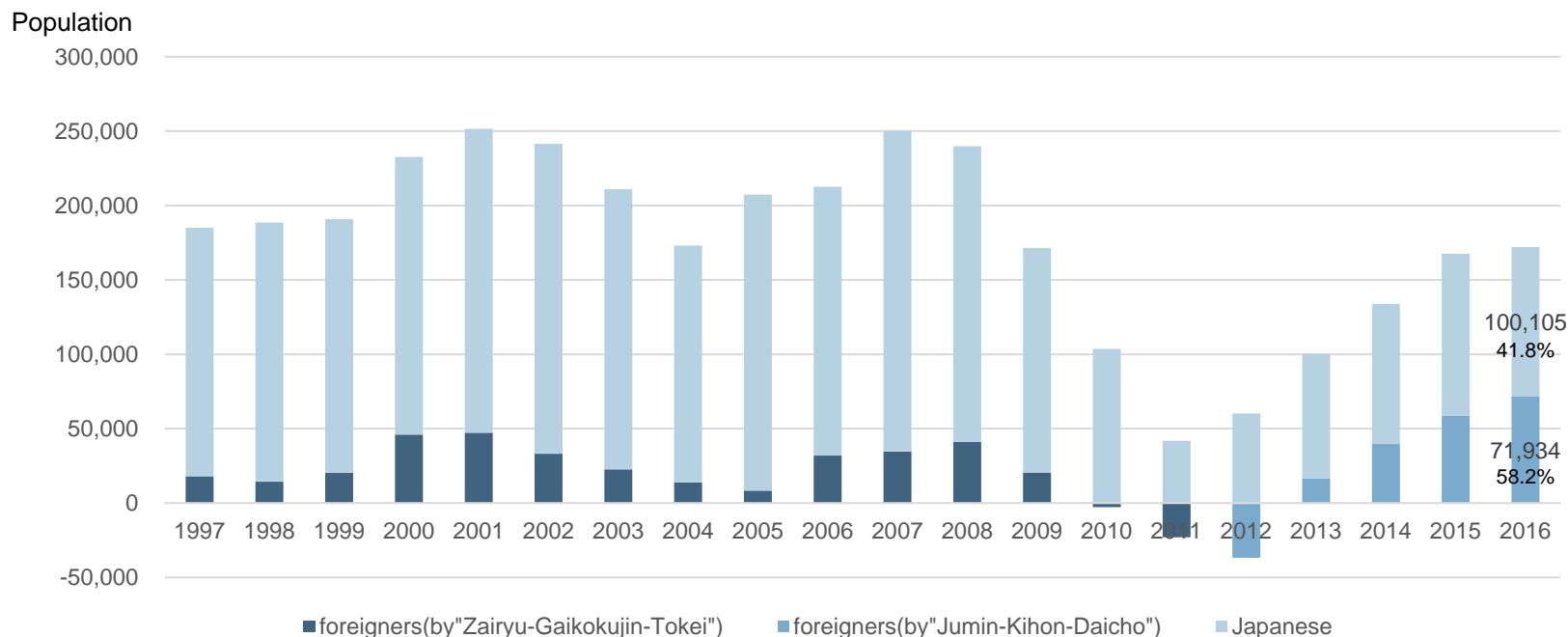
Note 2: Forecast of population and the number of households are based on the "Population Census" in 2010. However, the data of 2015 is based on the population census in 2015.

## Population movements in Greater Tokyo

**The population of Greater Tokyo area is rising, but 40% or more of increased population is accounted to foreigners. In the future, it seems that the population growth of Greater Tokyo will be supported by the foreigners.**

- The foreign population dipped temporarily due to the global financial crisis and aftermath of the 2011 earthquake, but has been rising in line with economic recovery.
- Foreigners accounted for 38.6% of the population growth in this area.

### Incremental population growth of foreign and Japanese residents in Greater Tokyo



Sources: "Statistics on Foreign national residents" compiled by Ministry of Justice and "Basic resident registers" compiled by Ministry of Internal Affairs and Communications

Note 1: The population of foreign national is based on the Statistics on Foreign national residents till 2011. In 2012 and later, population is based on the Basic resident registration.

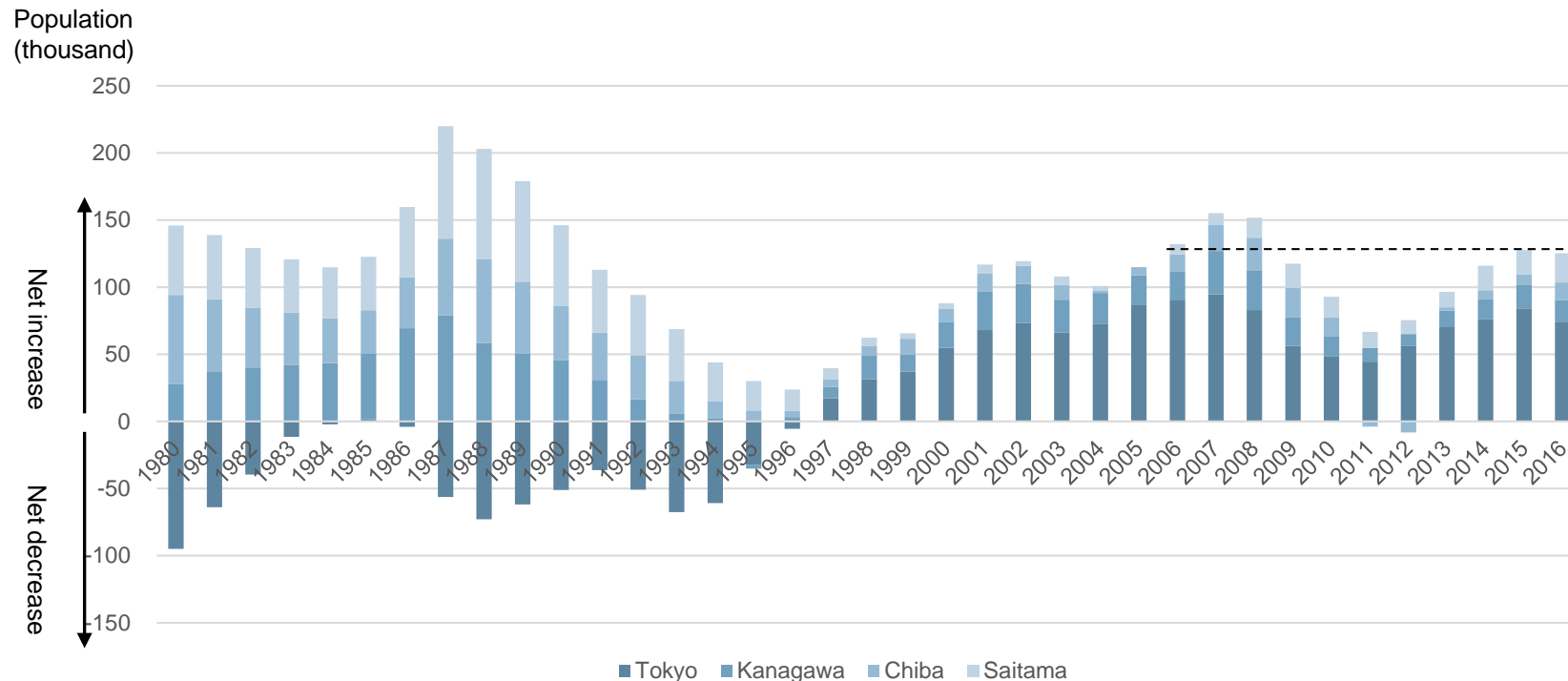
Note 2: The statistics of Foreign nationals used the data as of the end of December. Till 2012, the Basic resident registration used the data as of March 31 of the year. Since 2013, it uses the data of population as on January 1 of the following year.

## Population movements in Greater Tokyo

The population influx into the Greater Tokyo is continuing. However, about 60% of population is the influx to Greater Tokyo. After an earthquake in 2016, the population influx to Greater Tokyo area fell below than previous year for the first time.

- The number of net inflows in 2016 recovered to the level of 2005 or 2006.
- The inflow is projected to continue.

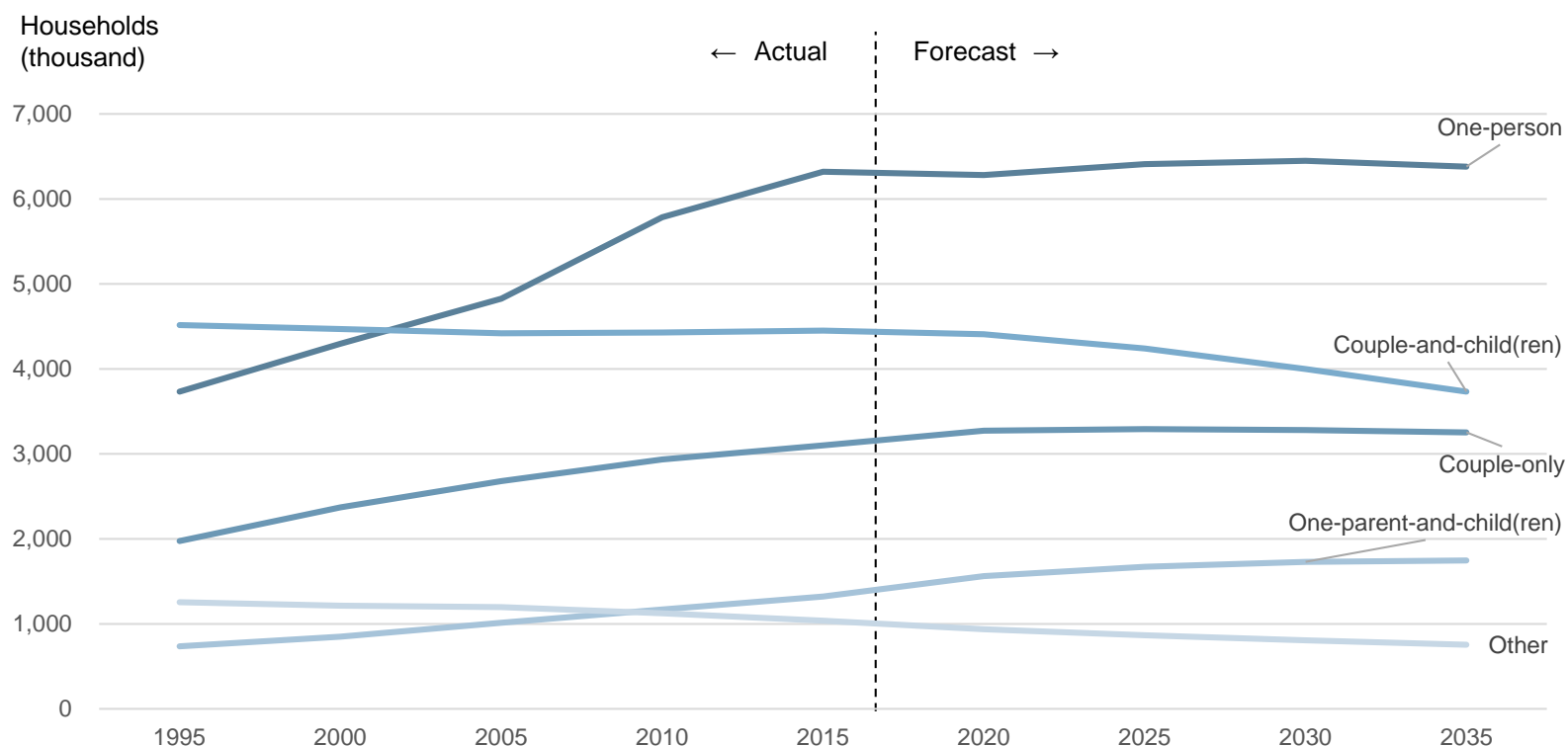
### Net inflows of people to Greater Tokyo



## Amongst the number of households in Greater Tokyo, the tendency of single-person household to occupy higher ratio is expected to continue in the future.

- However, the number of single-person households is expected to peak out in 2030.
- Households of couple with children will reduce from 2020, while the households of only couple or children with single parent will slightly increase.

Number of households by family composition in Greater Tokyo



Source: National Institution of Population and Social Security Research and MIC "Population Census"

Note 1: The solid line shows the actual value based on the population census. The dotted line shows the predicted value based on the data of population census in 2010.

Note 2: Median-fertility (median-mortality) projection is used for household forecast.



## The population in Tokyo's 23 wards is projected to increase over the longer term only in the three wards along Tokyo Bay.

- Population is expected to increase in the Chuo, Koto, and Minato wards.
- The national census in 2015 confirmed the drastic increase in the population in the Chuo ward, Minato ward, Chiyoda ward and Taito ward.

Population growth trends in the 23 wards of Tokyo (assuming the population of each ward is 100 in 2010)

Ward	2010	←Actual		Forecast→			
		2015	2020	2025	2030	2035	2040
Chuo	100.0	114.9	115.3	116.6	116.8	116.1	114.4
Koto	100.0	108.1	104.4	106.8	108.2	108.8	108.5
Minato	100.0	118.7	107.0	107.9	107.8	107.0	105.2
Shinjuku	100.0	102.2	104.4	104.8	104.4	103.4	101.6
Nerima	100.0	100.8	105.1	105.3	104.5	102.9	100.6
Sumida	100.0	103.6	101.7	102.6	102.7	102.0	100.6
Arakawa	100.0	104.0	103.0	102.8	102.2	101.2	99.7
Chiyoda	100.0	123.8	106.9	106.1	104.6	102.2	99.3
Setagaya	100.0	102.7	102.7	102.4	101.5	100.0	97.9
Shinagawa	100.0	105.9	102.9	102.7	101.7	100.0	97.8
Edogawa	100.0	100.2	101.7	101.1	99.8	98.2	96.2
Bunkyo	100.0	106.4	101.9	101.3	100.1	98.2	95.7
Toshima	100.0	102.2	106.1	104.5	102.2	99.2	95.3
Ota	100.0	103.5	101.6	100.8	99.4	97.5	95.1
Itabashi	100.0	104.9	100.5	99.1	97.2	94.7	91.8
Meguro	100.0	103.6	100.2	98.8	96.8	94.1	91.1
Taito	100.0	112.8	99.5	97.7	95.4	92.6	89.4
Shibuya	100.0	109.9	98.8	96.6	93.9	90.9	87.4
Nakano	100.0	104.4	97.7	95.5	92.9	89.8	86.2
Kita	100.0	101.6	97.6	95.1	92.2	89.0	85.5
Suginami	100.0	102.8	97.6	95.1	92.0	88.5	84.5
Katsushika	100.0	100.2	95.7	92.4	88.7	84.8	80.8
Adachi	100.0	98.2	95.2	91.6	87.5	83.1	78.7

Source: National Institution of Population and Social Security Research and MIC "Population Census"

Note 1: Forecast of population is based on the data of "Population Census" in 2010. Median-fertility (median-mortality) projection is used for population forecast.

## Population aging in central Tokyo

**In 2015, one in four people is over 65 years old in just 4 wards; however, the same situation will occur in 7 wards in 2025 and 21 wards in 2035.**

### Population aging by ward

Ward	←Actual						Forecast→					
	1990	1995	2000	2005	2010	2015	2020	2025	2030	2035	2040	
Sumida	13.1%	15.5%	18.1%	20.2%	21.4%	21.9%	21.1%	21.6%	22.7%	24.8%	28.1%	
Arakawa	13.7%	16.5%	18.9%	20.8%	21.9%	23.4%	23.8%	23.5%	24.1%	25.6%	28.4%	
Koto	9.4%	12.2%	15.2%	17.3%	19.1%	20.5%	20.0%	20.5%	21.7%	24.5%	28.5%	
Shinjuku	12.6%	15.3%	17.1%	18.7%	19.1%	21.0%	21.6%	22.0%	23.4%	25.7%	29.3%	
Edogawa	8.1%	9.9%	12.8%	15.4%	18.1%	20.6%	21.4%	21.7%	23.3%	26.1%	29.5%	
Shinagawa	11.6%	14.5%	17.4%	18.0%	19.4%	21.5%	22.4%	22.8%	24.1%	26.7%	30.8%	
Bunkyo	13.9%	16.4%	17.9%	18.3%	18.9%	20.9%	21.7%	22.6%	24.6%	27.3%	31.0%	
Ota	11.6%	14.1%	16.3%	18.4%	20.4%	23.0%	24.1%	24.6%	26.0%	28.4%	31.7%	
Setagaya	11.1%	13.4%	16.1%	17.3%	18.3%	20.3%	21.2%	22.3%	24.6%	27.9%	31.8%	
Taito	15.9%	18.8%	21.1%	23.1%	23.6%	25.1%	25.4%	25.2%	26.0%	28.3%	32.2%	
Kita	12.7%	16.0%	19.3%	21.6%	24.0%	26.7%	27.7%	27.6%	28.2%	29.8%	32.8%	
Chiyoda	16.6%	20.2%	20.9%	20.2%	19.2%	19.7%	20.5%	21.7%	24.3%	27.9%	32.8%	
Itabashi	10.0%	12.7%	16.3%	19.3%	21.3%	24.3%	25.8%	26.4%	27.8%	29.8%	33.1%	
Chuo	15.4%	17.6%	18.3%	16.3%	15.9%	16.9%	17.9%	19.0%	22.0%	26.8%	33.4%	
Meguro	12.5%	14.8%	17.4%	18.6%	19.6%	22.2%	23.3%	24.4%	26.6%	29.5%	33.5%	
Nakano	12.1%	14.6%	16.3%	18.2%	19.9%	22.5%	23.8%	24.8%	26.8%	29.7%	33.8%	
Toshima	12.8%	15.7%	18.4%	21.1%	19.3%	19.8%	21.6%	23.1%	25.5%	29.0%	34.3%	
Minato	13.7%	16.3%	17.9%	17.8%	17.2%	18.3%	19.5%	21.0%	24.0%	28.4%	34.3%	
Katsushika	10.6%	13.2%	16.6%	19.9%	22.0%	24.8%	26.1%	26.8%	28.4%	31.1%	34.5%	
Shibuya	12.6%	15.2%	16.9%	18.5%	19.6%	21.9%	23.3%	24.6%	27.3%	31.0%	35.6%	
Adachi	9.3%	11.9%	15.9%	19.9%	22.2%	25.4%	26.8%	27.3%	28.9%	31.8%	35.7%	
Nerima	9.5%	12.2%	15.4%	20.3%	19.3%	23.1%	25.5%	27.7%	30.8%	34.6%	39.0%	
Suginami	11.8%	14.4%	16.8%	18.8%	23.1%	26.3%	28.2%	29.8%	32.4%	35.6%	39.6%	

Source: National Institution of Population and Social Security Research and MIC "Population Census"

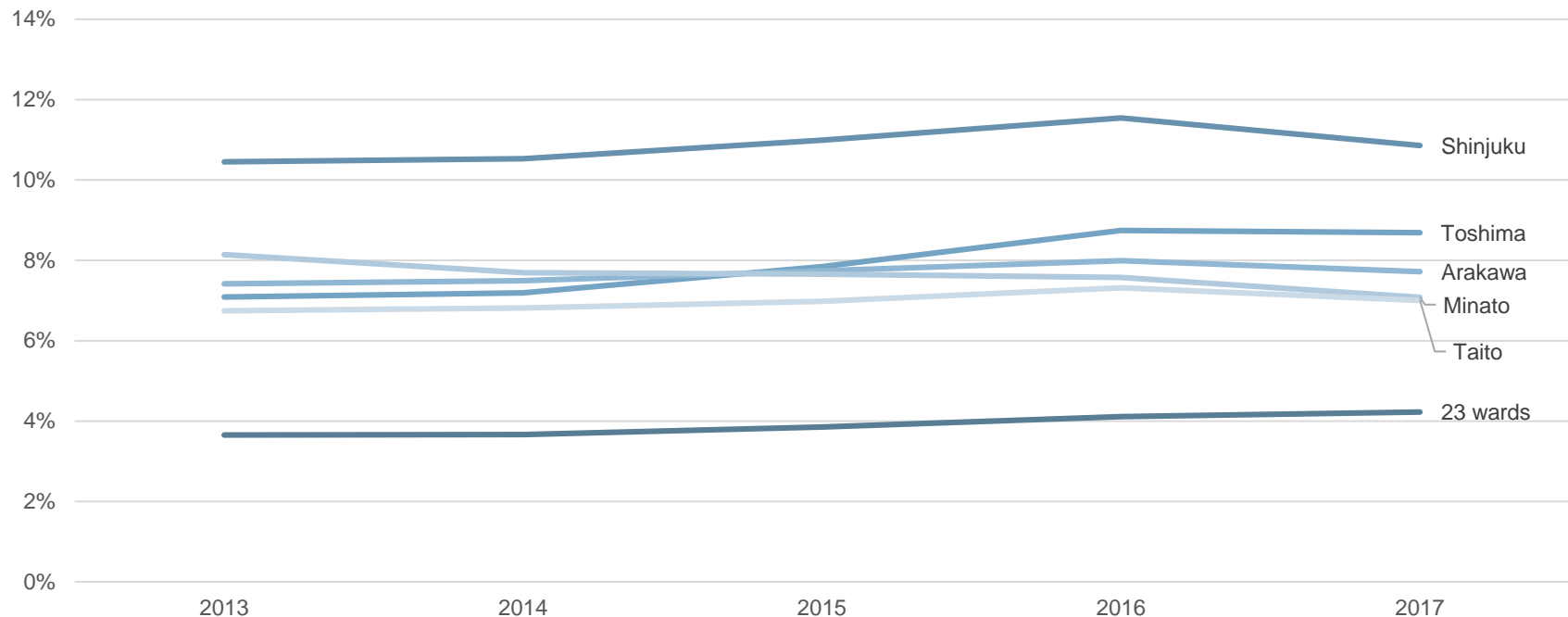
Note 1: Forecast of population is based on the data of "Population Census" in 2010. [Median-fertility \(median-mortality\) projection is used for population forecast.](#)

## Percentage of foreigners in central Tokyo

**The percentage of foreigners in Tokyo are increasing, and there is a ward where the ratio is over 10%.**

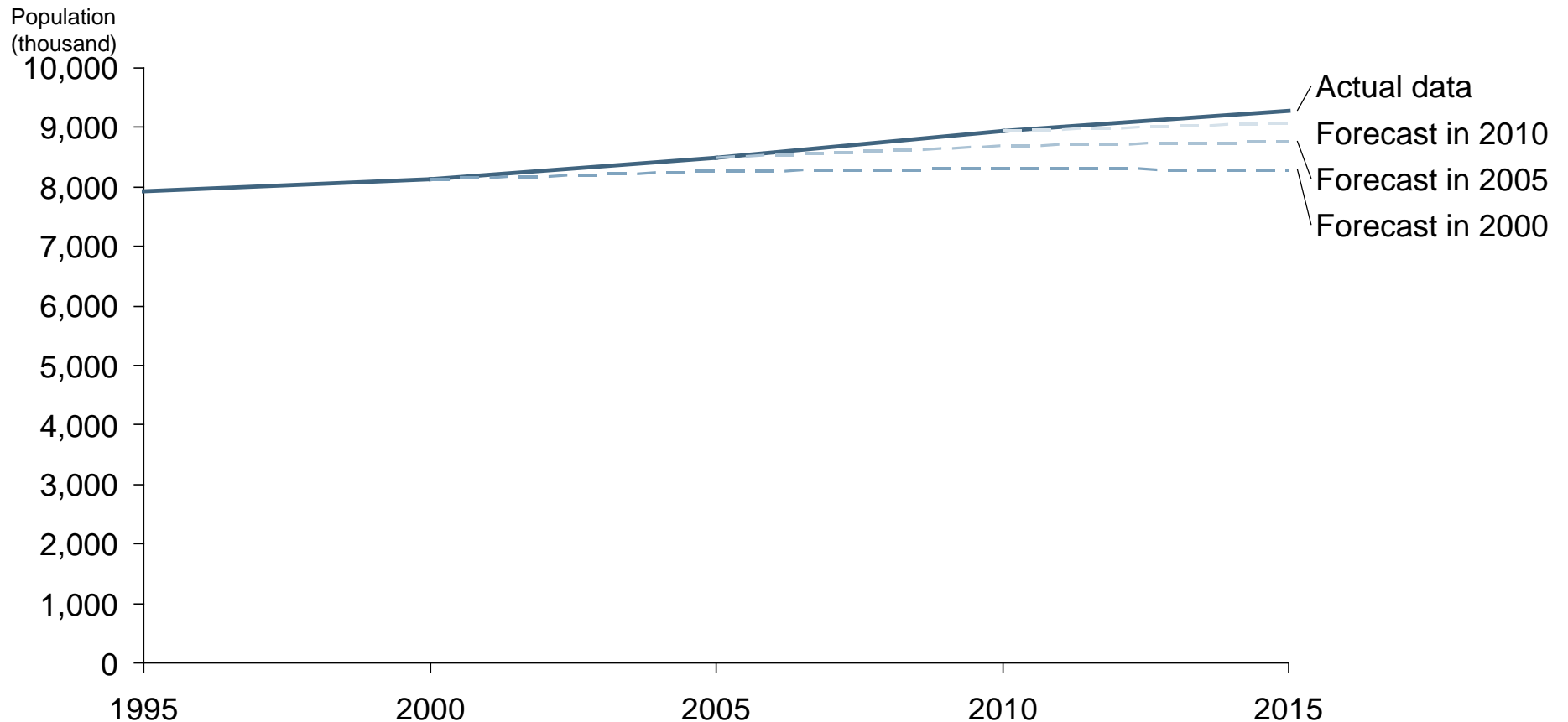
- The percentage in Shinjuku (over 10%) is the highest in Tokyo, and the percentages of Toshima and Arakawa are over 8%.
- In the other hand, the 23 wards as a whole have foreigners as 4.2% of their total population, indicating that the situation of each ward is quite different.

Percentage of foreigners in the 23 wards of Tokyo (top 5)



## The increase in Tokyo's population has consistently outpaced estimates

Actual and projected population movement in Tokyo



Source: National Institution of Population and Social Security Research and MIC "Population Census"

Note 1: Median-fertility (median-mortality) projection

Note 2: Forecast of population and the number of households are based on the "Population Census" in 2010, while the preliminary data in the "Population Census" in 2015 is basis for 2015.

**Population movements in Japan**

**Macro fundamentals of Japan**

**Overview of real estate investment market in Japan**

**Office market**

**Residential market**

**Retail property market**

**Logistics property market**

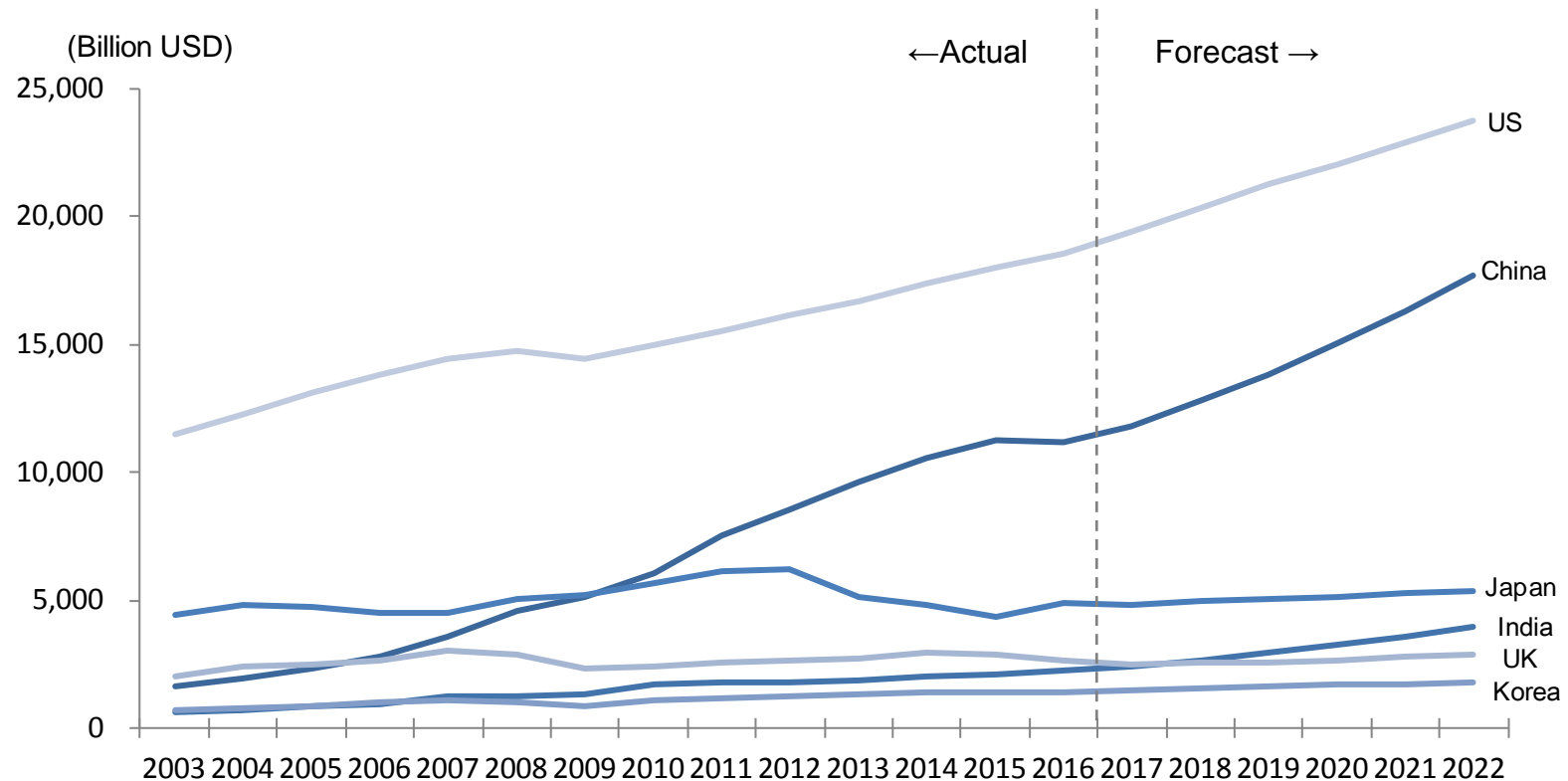
**Hotel market**

**Real estate investment products**

# Japan remains one of the largest economies in the world and should not be ignored as an investment target

- Entering the 2020s, Japan will remain at third place globally in nominal GDP, ahead of developing countries such as India.

Nominal GDP of major countries

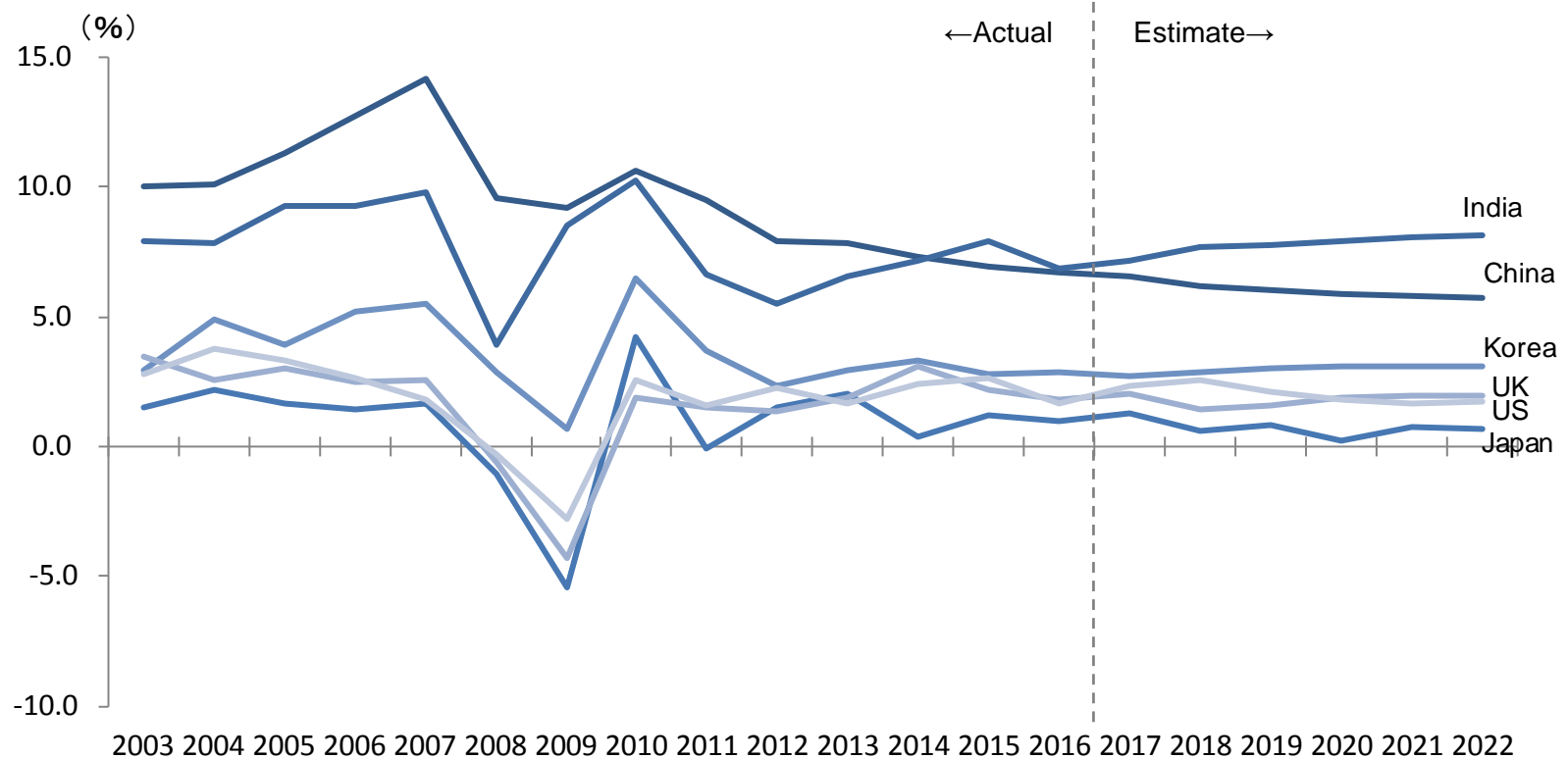


Source: Compiled by NRI from IMF "World Economic Outlook Database (2017 Apr.)" data

# Japan's economic growth is low compared to other major economies and high growth going forward looks unlikely

■ IMF forecasts estimate Japan's GDP growth rate at around 0.5% for the next 5 years.

Real GDP growth rate of major economies

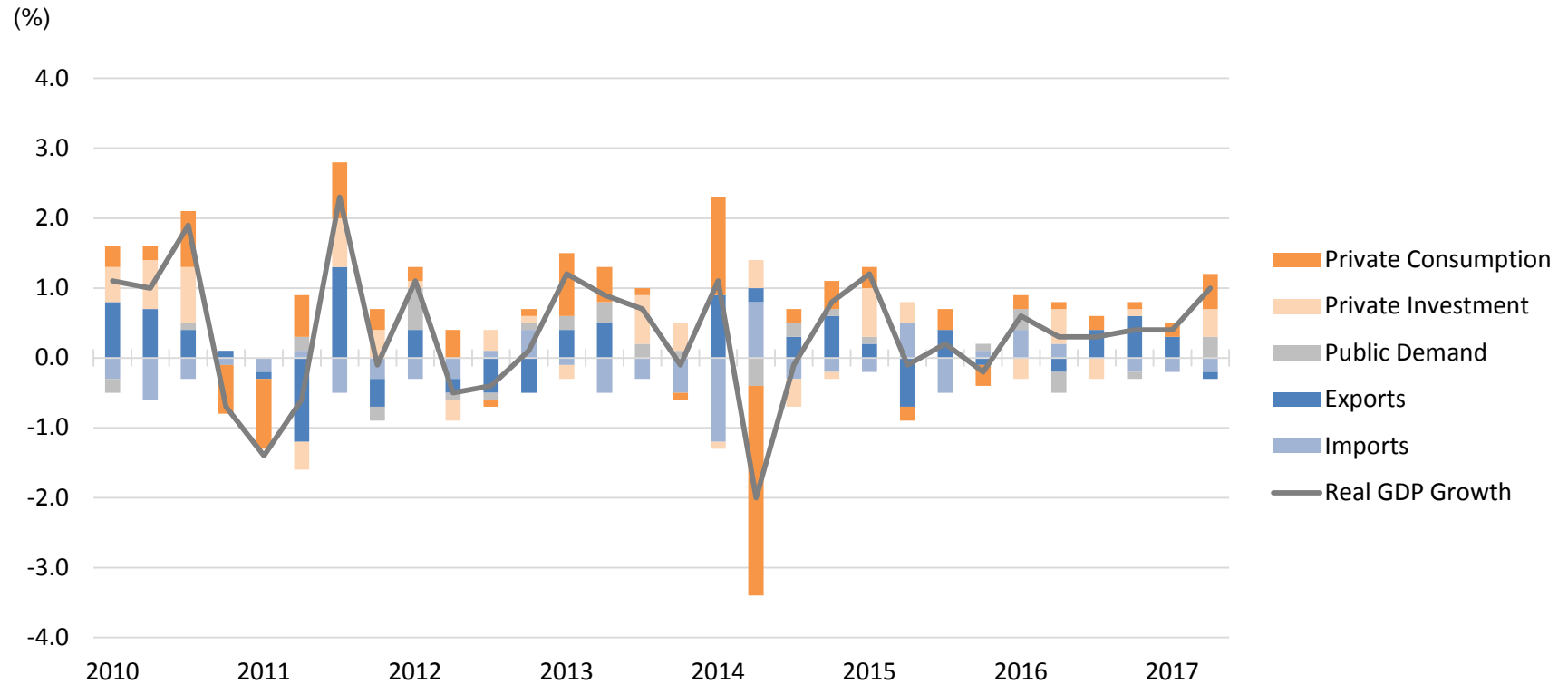


Source: Compiled by NRI from IMF "World Economic Outlook Database (2017 Apr.)" data

# Recently, positive growth continued over several periods and domestic demand is driving that positive growth.

- Steady trend of private consumption and capital investment is the factor of uplifting.

Quarterly real GDP growth and contributions to changes (seasonally adjusted series, YoY)



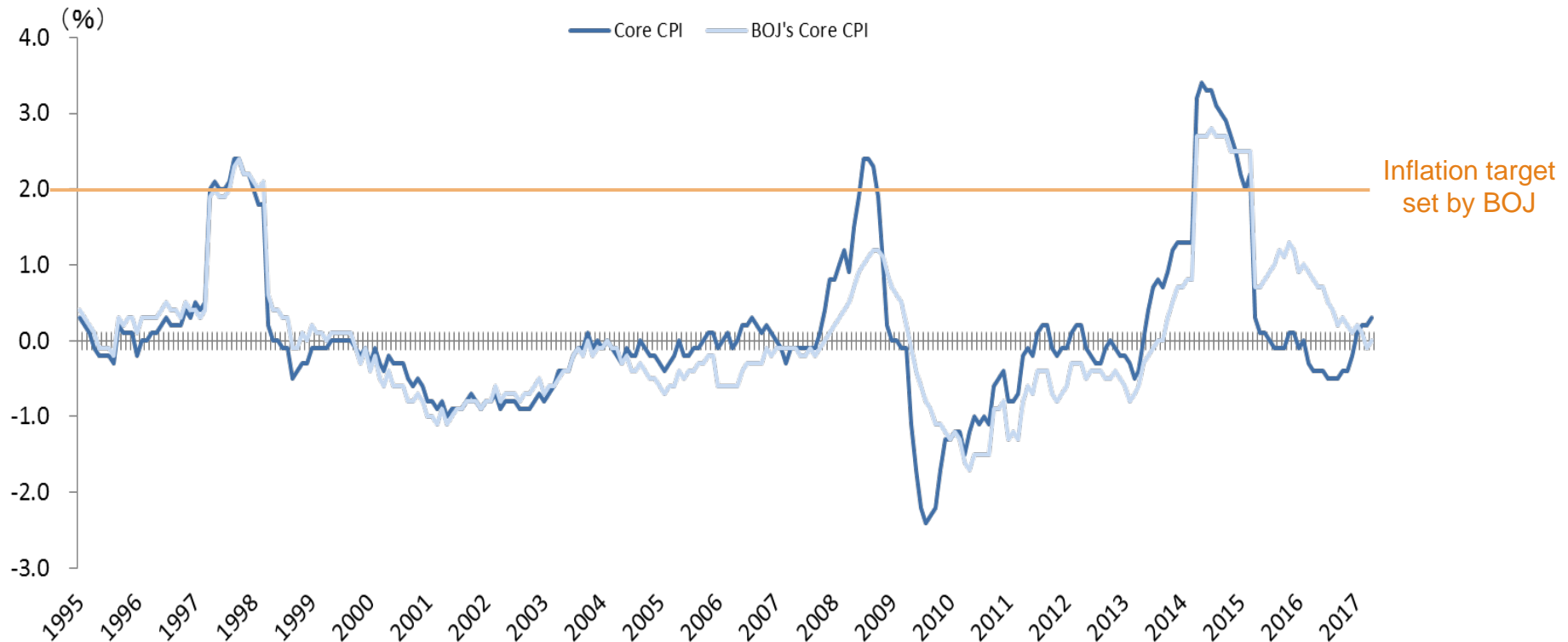
Source: Compiled by NRI from Cabinet Office "SNA (National Accounts of Japan)" data



## On the other hand, inflation rate has become stagnant and prices are rising slowly.

- Although the core CPI turned positive from a year earlier, Bank of Japan core CPI excluding the fresh foods and energy continues to decline. Most recently, it shifted to negative territory.

Year-on-year comparison for the same month of the consumer price index

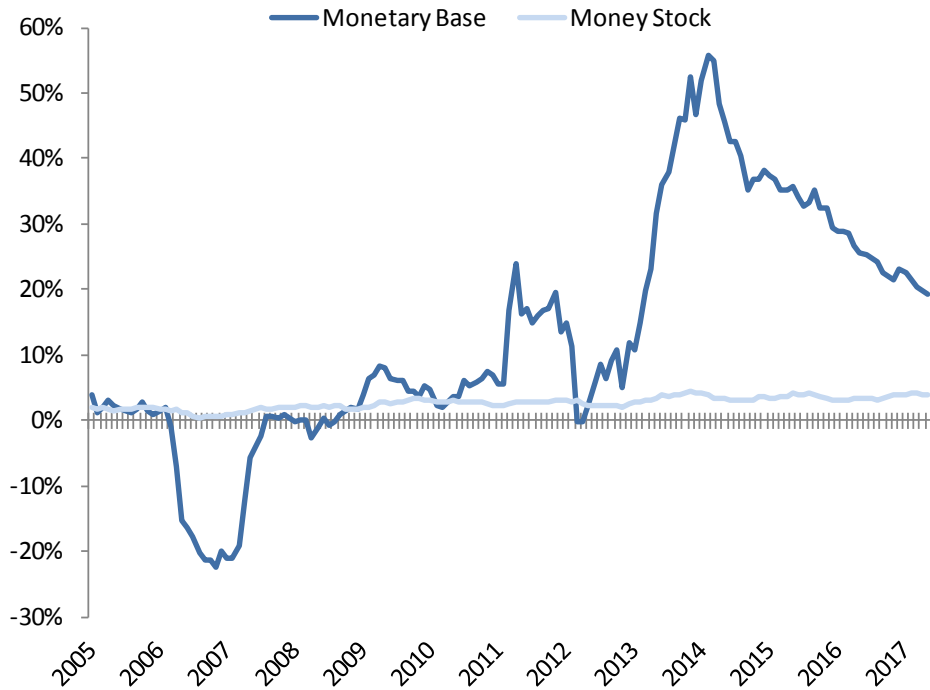


Sources: Compiled by NRI from Ministry of Internal Affairs and Communications "Consumer Price Index (CPI)"

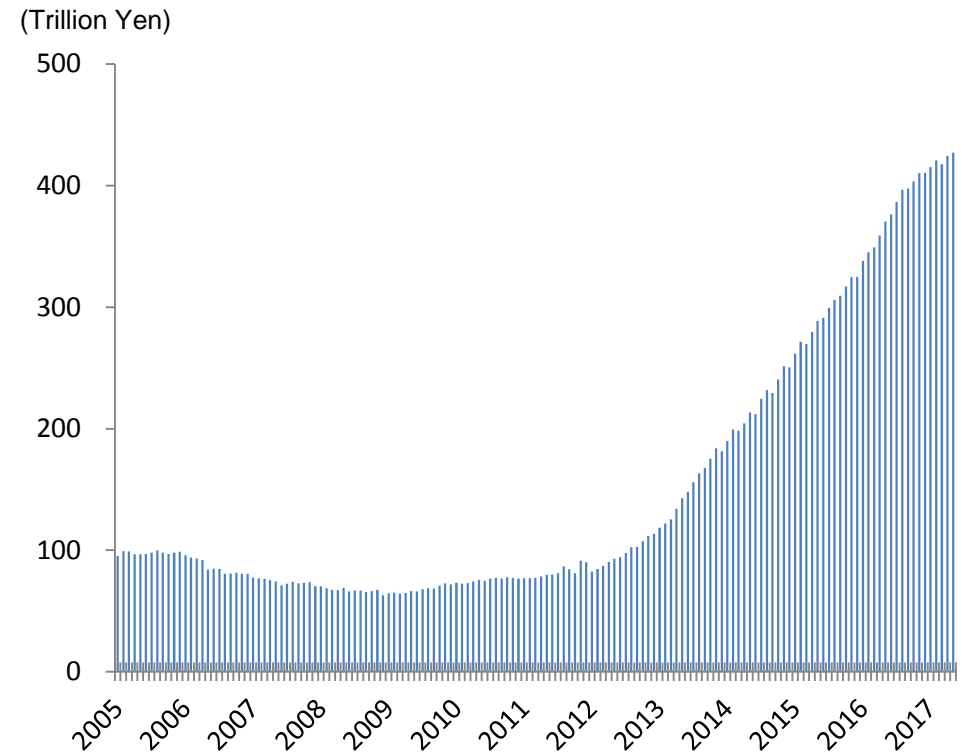
# The Bank of Japan continues a large-scale qualitative and quantitative accommodating policy

■ Since quantitative and qualitative easing in April 2013, the BOJ has been massively expanding the money supply and purchasing JGBs.

YoY change of money supply (Average balance)



BOJ's holdings of JGBs



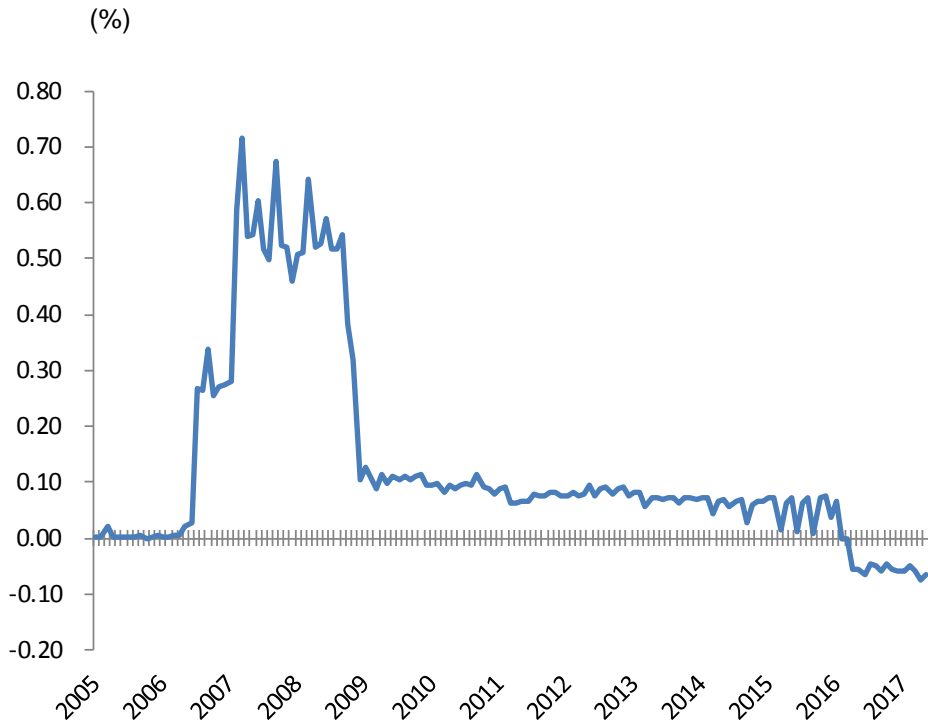
Source: Compiled by NRI from Bank of Japan "Monetary Base" data

Source: Compiled by NRI from Bank of Japan "BOJ Accounts" data

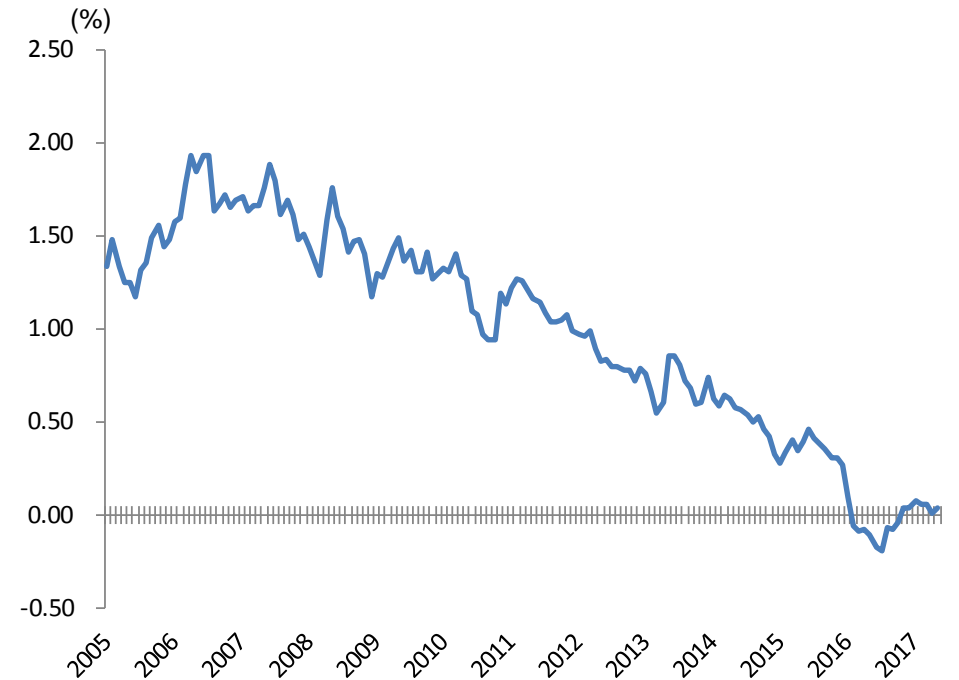
## Although the short-term interest rates are still negative, the long-term interest rates are shifting towards positive territory.

- In continuation of the negative interest rate policy of January 2016, the Bank of Japan introduced a long-term interest rate policy on September 2016 and announced a policy to buy long-term bond that shifts the long-term interest rate to 0%.

Short-term interest rate (unsecured call rate) (Each end of the month)



Long-term interest rate (10y-JGB) (Each end of the month)



Source: Compiled by NRI from Bank of Japan "Short-term Money Market Rates" data

Source: Compiled by NRI from MOF "JGBs Interest Rate" data

## In the middle of 2016, the exchange rate of yen is continuously moving without any sense of direction.

- Recent yen strength reflects mainly fading perceptions of a US rate hike, a risk-off mode by investors, and a Japanese current account surplus

Yen-dollar exchange rate (each end of the month)

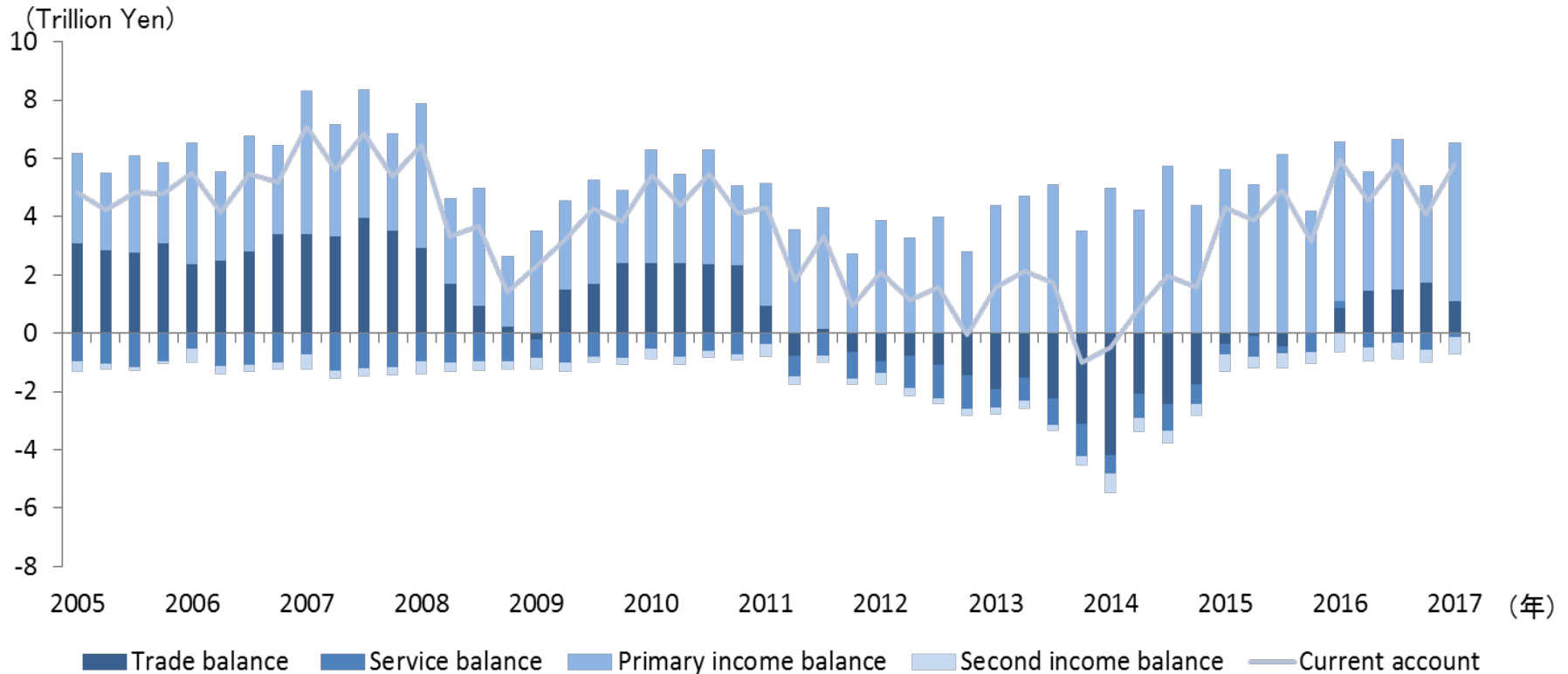


Source: Compiled by NRI from IMF "Exchange Rate Data" data

## Trade balance return to its basic profitable tendency and the current account surplus tends to expand.

■ In the first half of 2017, the current account surplus was at the highest for the first time in 10 years.

Current account balance

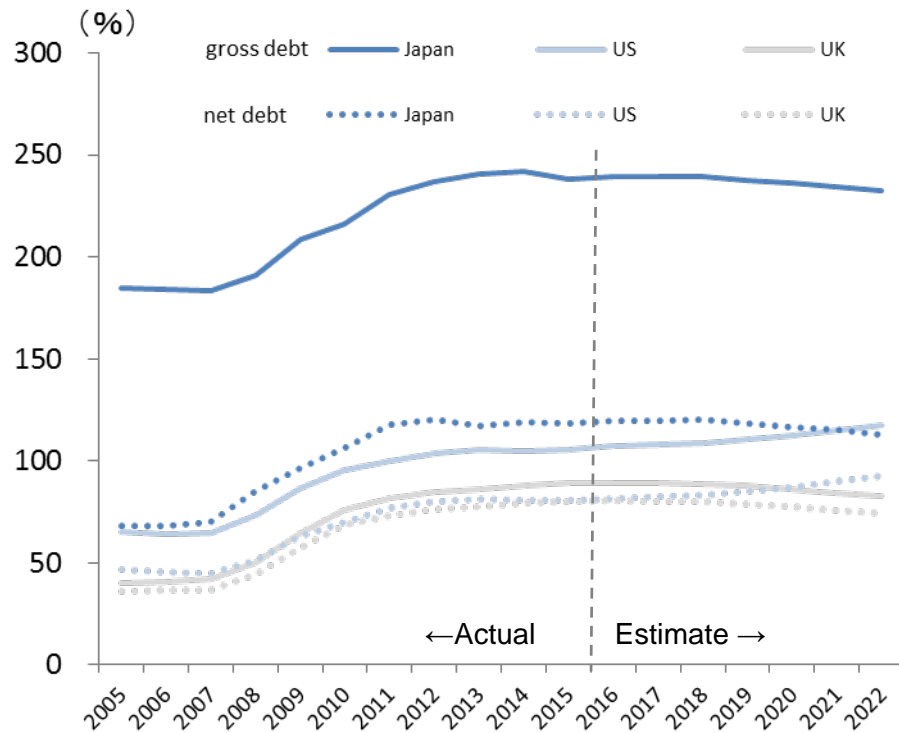


Source: Compiled by NRI from MOF "Balance of Payments" data

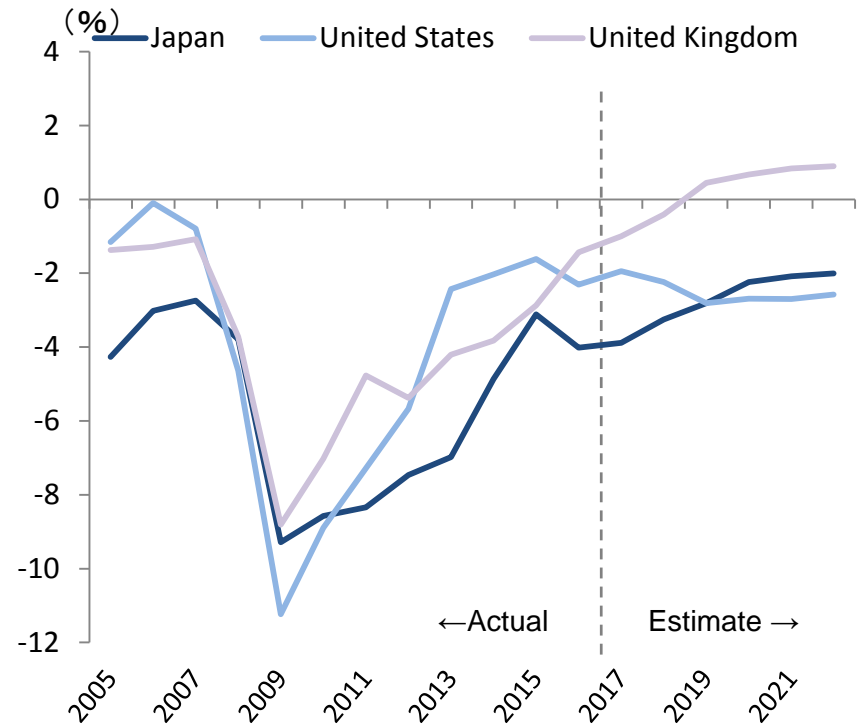
# Government debt has plateaued at high level, while a primary fiscal balance surplus is not in sight.

- The government debt to GDP ratio has becoming flat in recent years due to a reduction in the primary balance deficit and restraint of interest payments due to monetary easing as well as the increase in nominal GDP that is the denominator of the ratio.

Government debt to GDP ratio

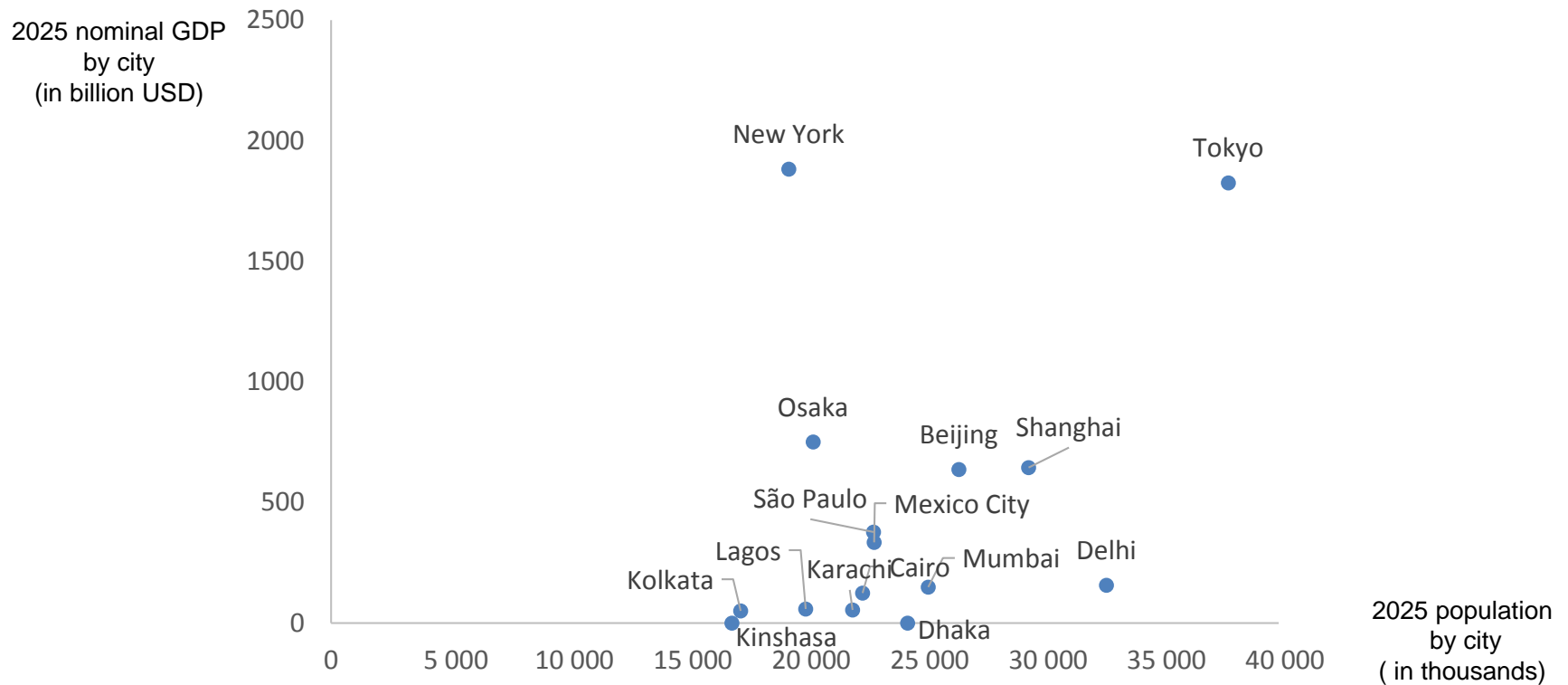


Primary balance to GDP ratio



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

Population/GDP forecast for 2025 (Top 15 cities in terms of population or GDP)

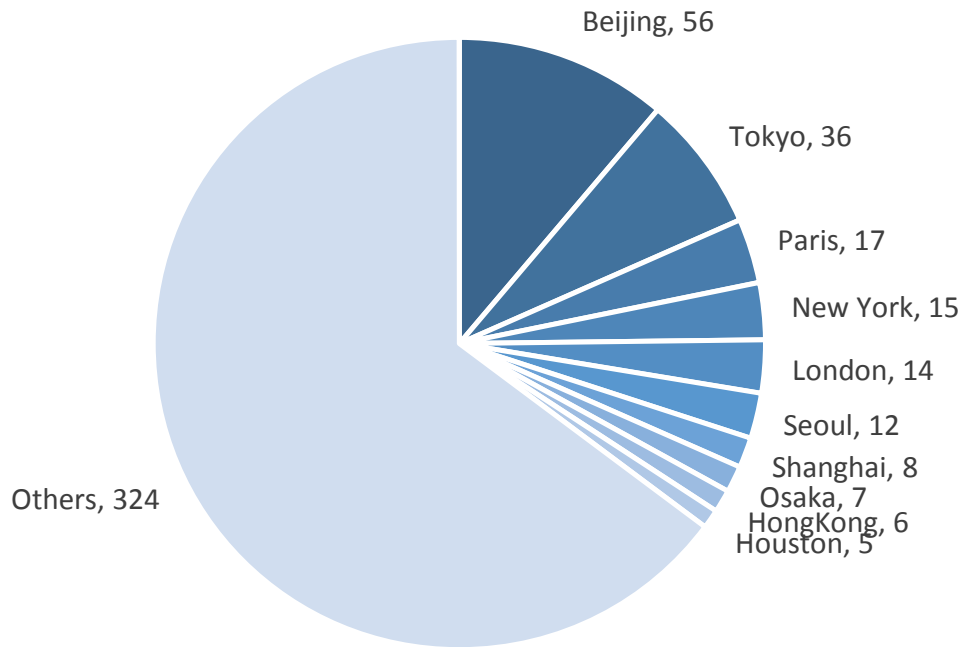


\*No data for GDP of Dhaka and Kinshasa

Source: Compiled by NRI based on UN "World Urbanization Prospects" and Euromonitor data.

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

Number of HQ of Fortune Global 500 companies by city (2017)



Fortune Global 500 companies in Tokyo (within top 200)

Rank	Company	Revenue (Mil. USD)
29	Honda Motor	129,198
33	Japan Post Holdings	122,990
50	Nippon Telegraph & Telephone	105,128
71	Hitachi	84,558
72	SoftBank Group	82,892
105	Sony	70,170
116	Marubeni	65,792
127	JXTG Holdings	63,629
142	Dai-ichi Life Holdings	59,590
145	Mitsubishi	59,303
164	Mitsubishi UFJ Financial Group	55,185
167	Seven & I Holdings	53,858
185	Tokyo Electric Power	49,446
188	MS&AD Insurance Group Holdings	49,239
193	Tokio Marine Holdings	48,292



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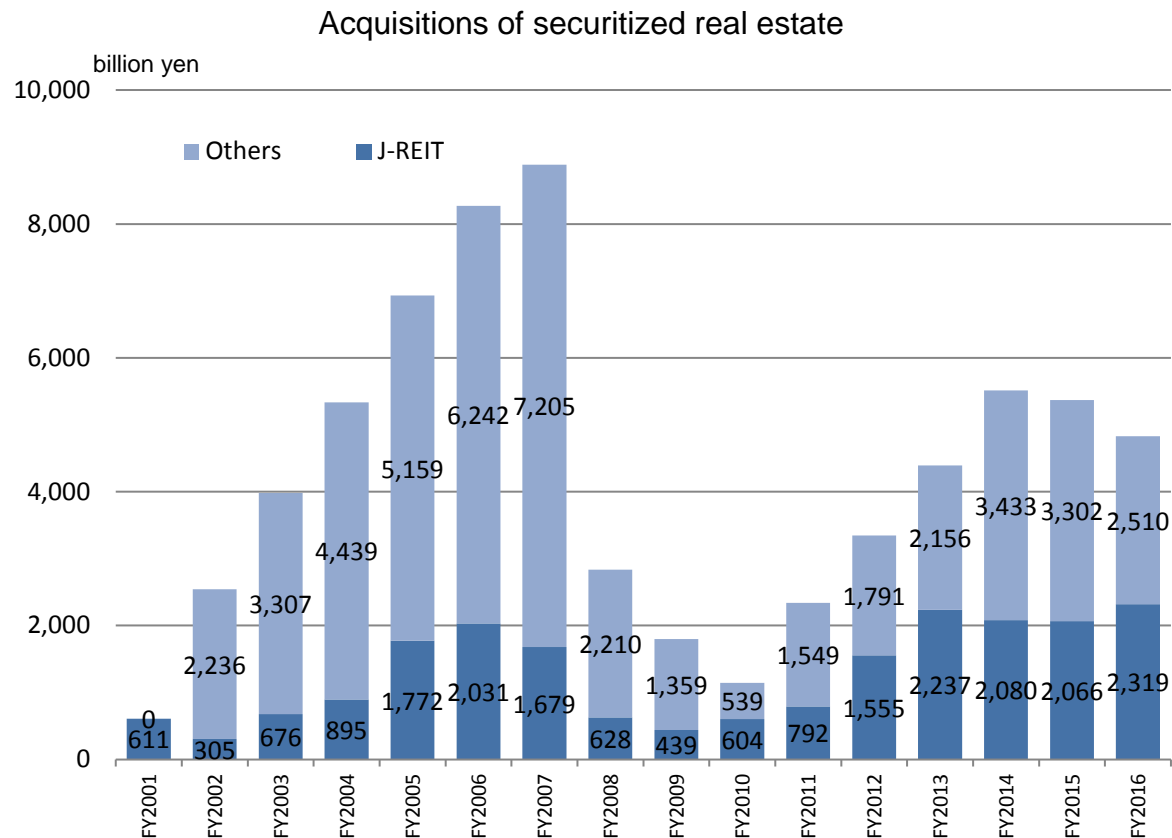
**Logistics property market**

**Hotel market**

**Real estate investment products**

## Acquisitions of securitized real estate decreased in two consecutive years.

- Although it was on a recovery trend after the bankruptcy of Lehman brothers, the complexity level of acquisition was going up along with the rise in prices of real estate, and it seems that it turned to a declining trend.



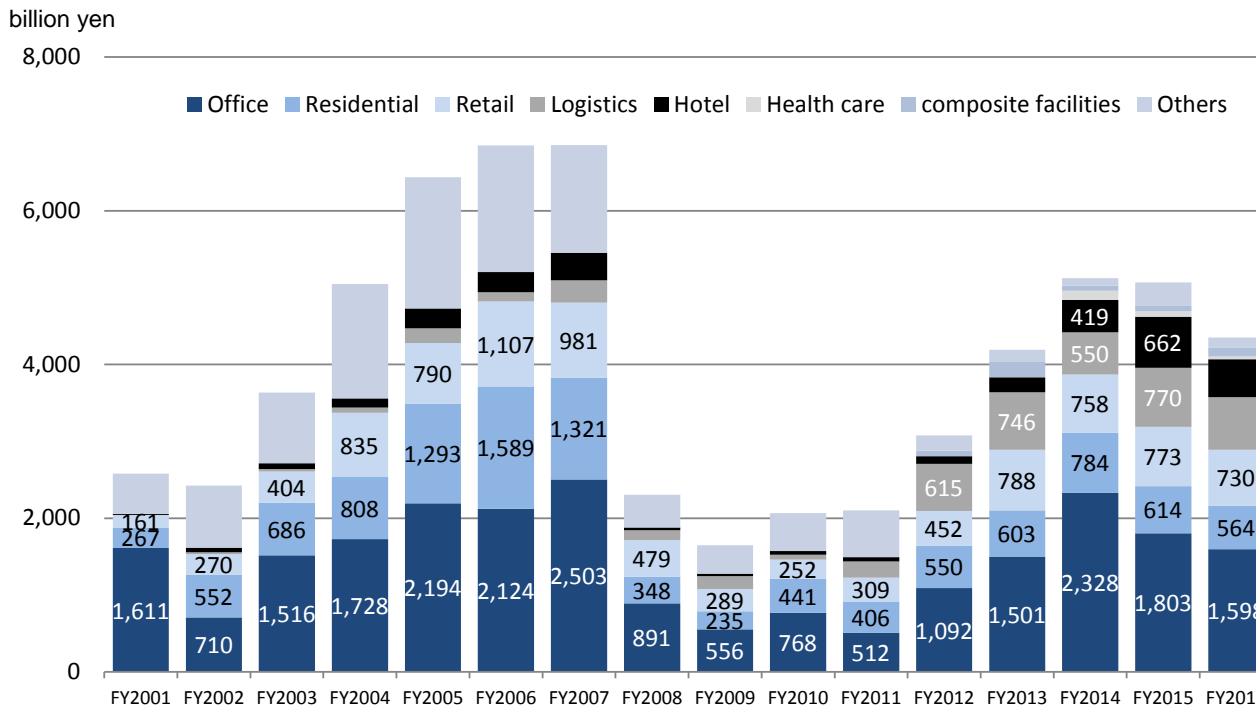
Source: Compiled by NRI from MLIT "Real Estate Securitization" data

## Overview of real estate investment market in Japan

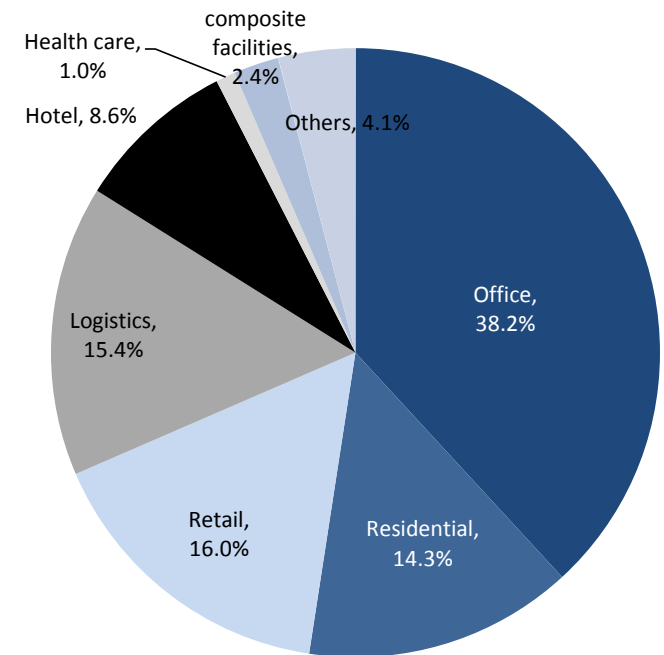
# Structure in which office, residential, commercial and logistics occupy the 80% of transaction value will continue.

- Because of the sudden increase in the inbound marketing, the hotel investment is also becoming popular as one of the main objectives.

Acquisitions of securitized real estate by asset class



Allocation of securitized real estate by asset class in the past 5 years



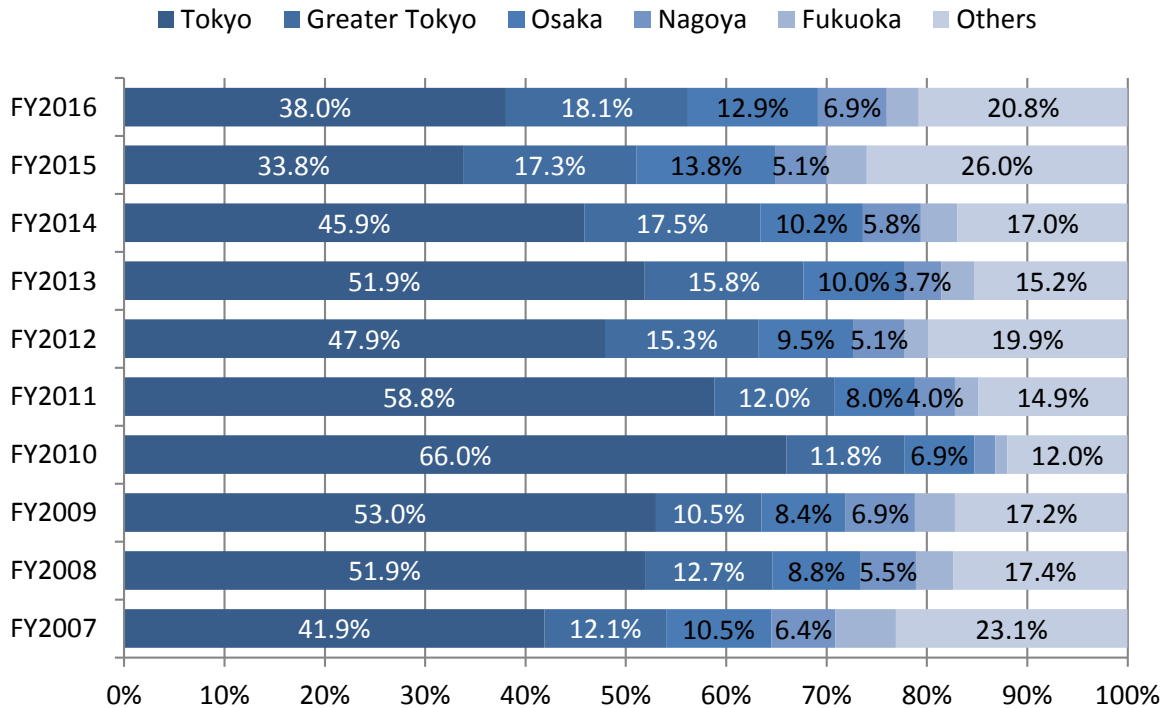
Source: Compiled by NRI from MLIT "Survey of the Current State of Real Estate Securitization" data

Note: Because the usage 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.

## The ratio of Greater Tokyo area was on a declining trend after FY2010. However, It has increased its number since FY2016.

- About the two-third of securitized properties focused on Greater Tokyo in FY 2010. However, it declined to about the one third of it in FY 2015.
- Composition ratio of Tokyo reversed in FY 2016 and has gone up by 4%.

Number of properties securitized by region

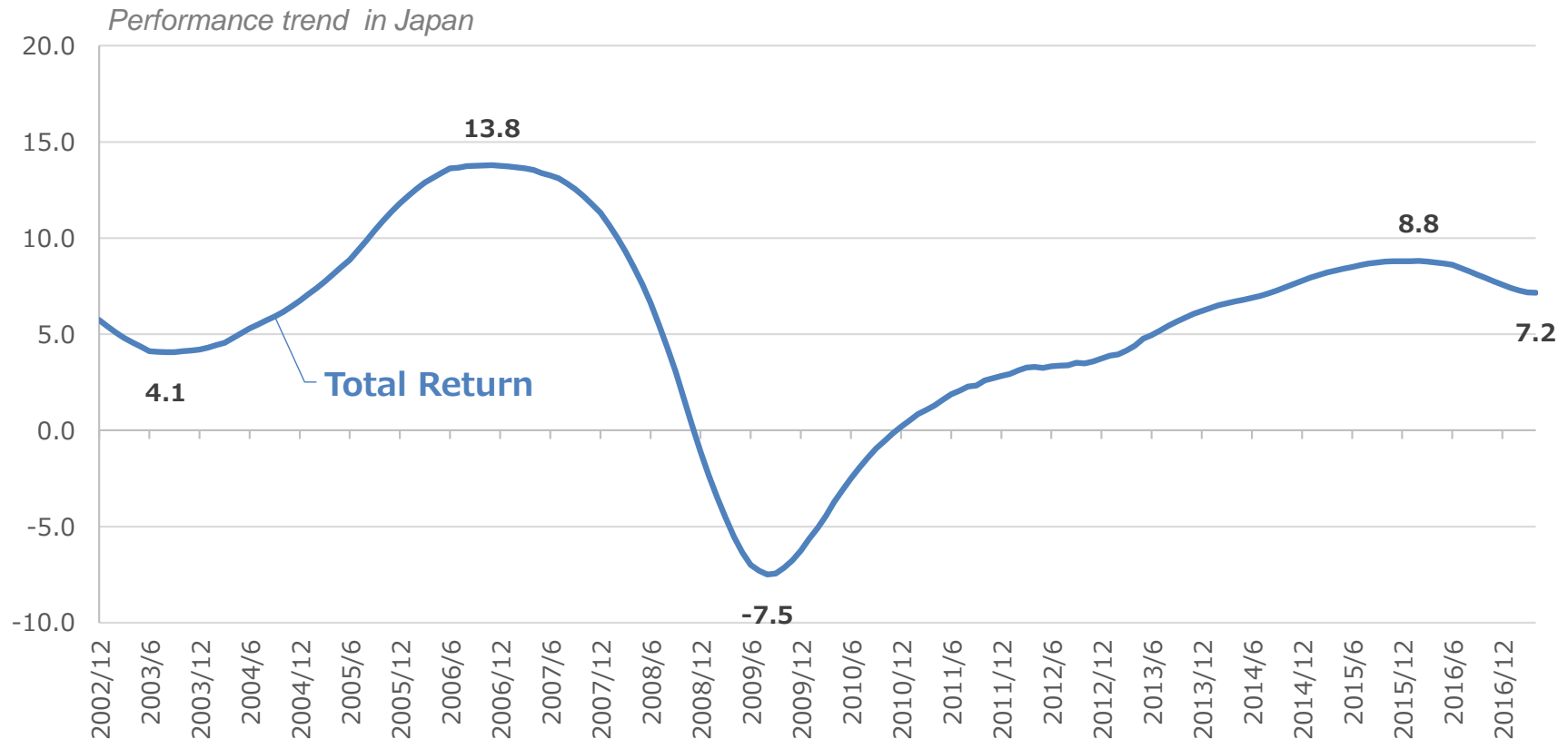


Source: Compiled by NRI from MLIT "Survey of the Current State of Real Estate Securitization" data  
 Note: Securitization of TMK properties is not included because their use is unknown.

## The total return peaked at 8.8% at the end of 2015 and then, it started declining.

- After the recovery from the bankruptcy of Lehman Brothers and the total return gone up through the Abenomics, the real estate investment market is moving to the next cycle.

### Transition of total return in Japan

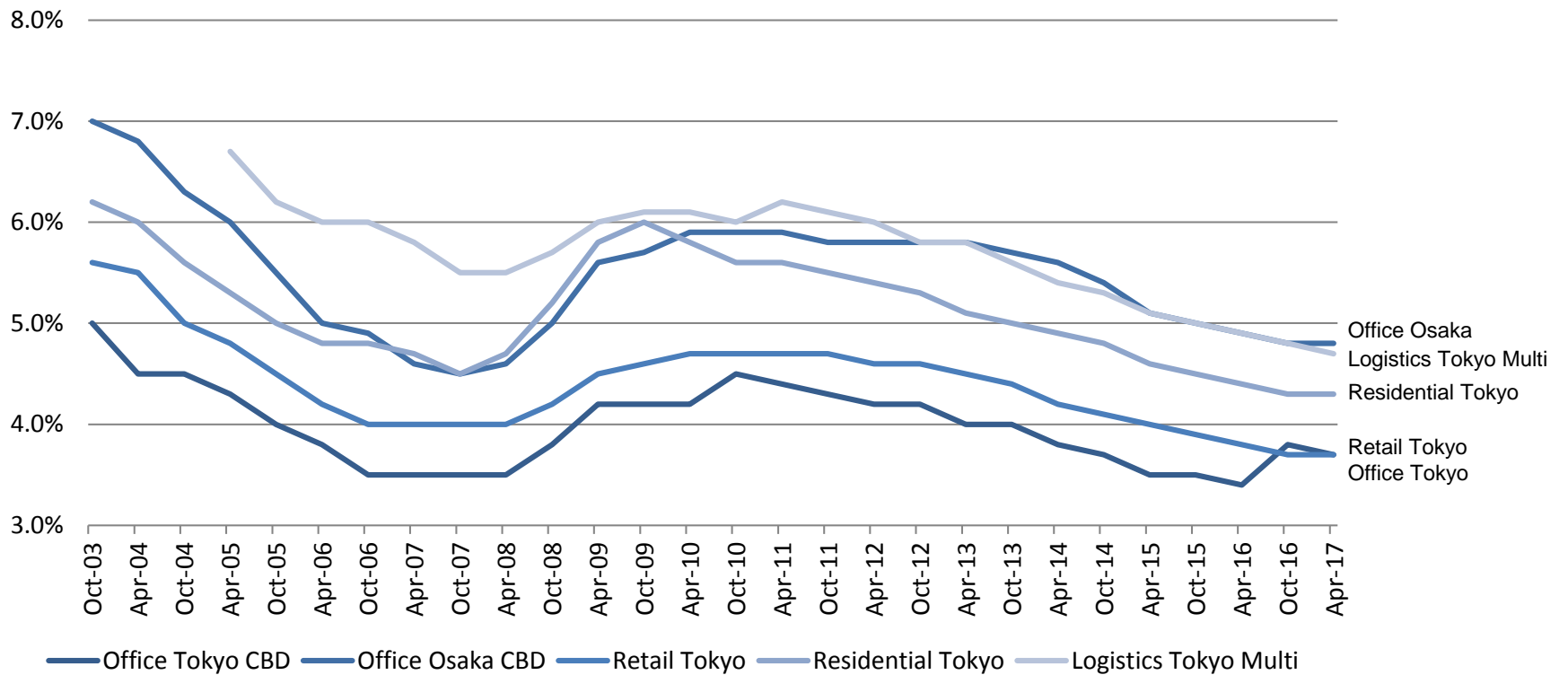


Source: MCI Real Estate - IPD

# Overview of real estate investment market in Japan

**On the other hand, the cap rate is declining.**

Cap rates in Japan for major investment areas

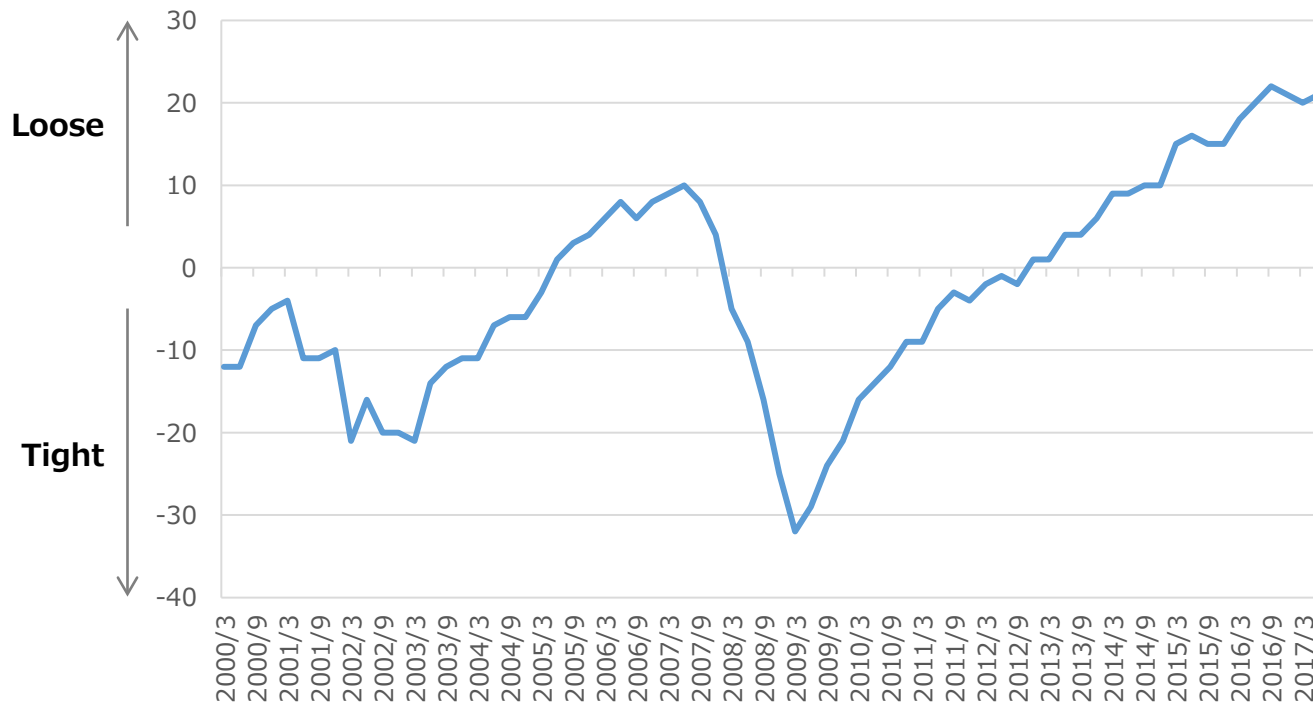


Source: Compiled by NRI from Japan Real Estate Institute "Japanese Real Estate Investor Survey" data.

## Fierce competition among commercial banks continues to help boost prices.

- Banks' lending attitude toward the real estate industry is the most lenient since 2000 and the standard of the time of the global financial crisis in 2007 is exceeded. Many people in Japan believe there are too many banks, and spreads continue to fall with covenants loosening.
- Along with mega-banks and other major banks, regional mid-tier banks are entering the market, so conditions look unlikely to change over the near term.

*Financial institutions' lending attitude DI toward the real estate industry*



Source:  
Compiled by NRI from BOJ  
"TANKAN (Figures by Industry)" data.

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**Overview of real estate investment market in Japan**

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**Residential market**

**Retail property market**

**Logistics property market**

**Hotel market**

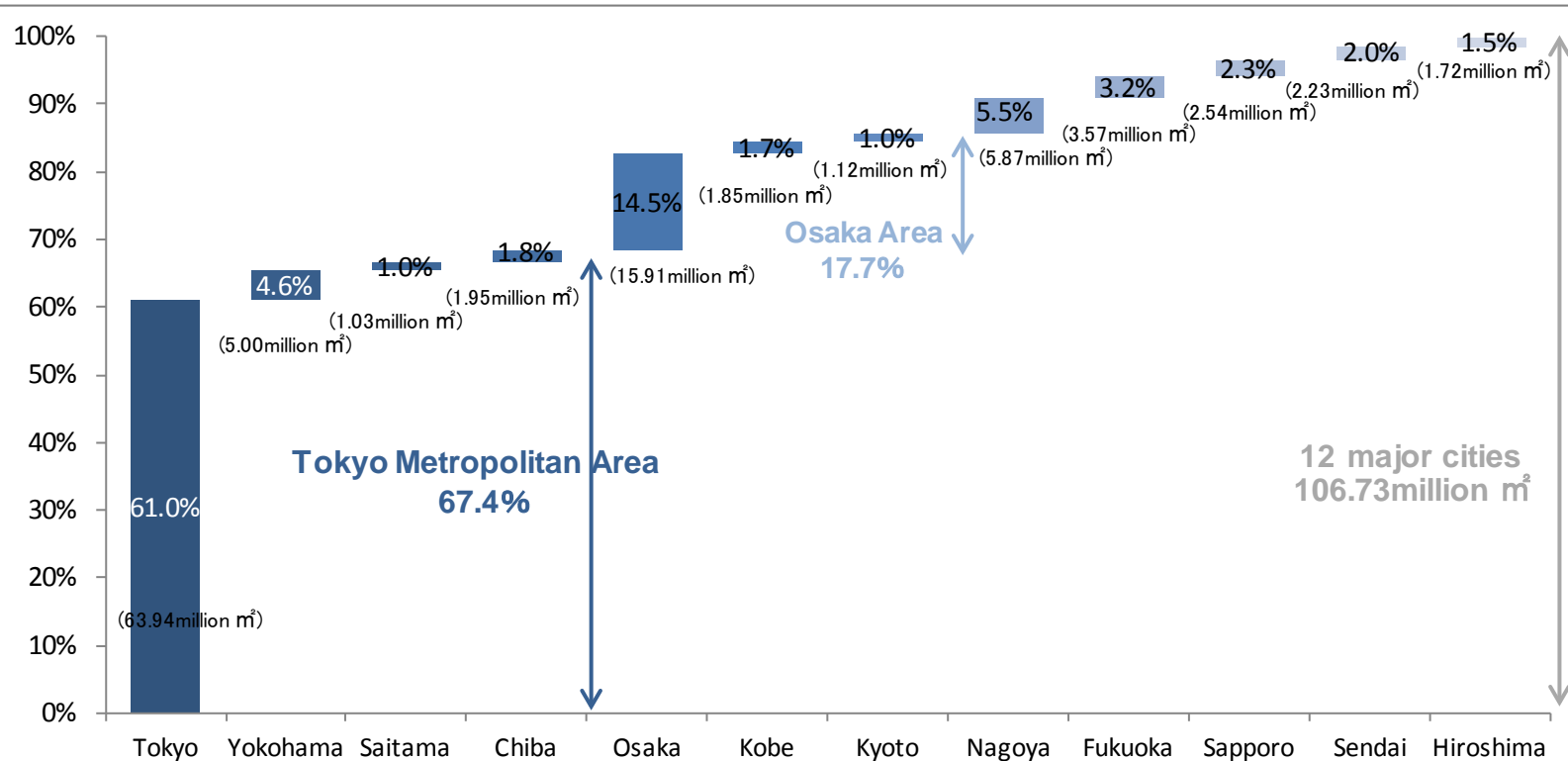
**Real estate investment products**



## Tokyo area holds 61% of Japan's office rental market.

- Japan has a stock of around 106 million m<sup>2</sup> of available office rental space. The Tokyo area holds an overwhelming share of the market at 64 million m<sup>2</sup>, comprising 61% of the total.

Office floor space shares by major region



Source: JREI "The Annual Japanese Office Buildings Survey"

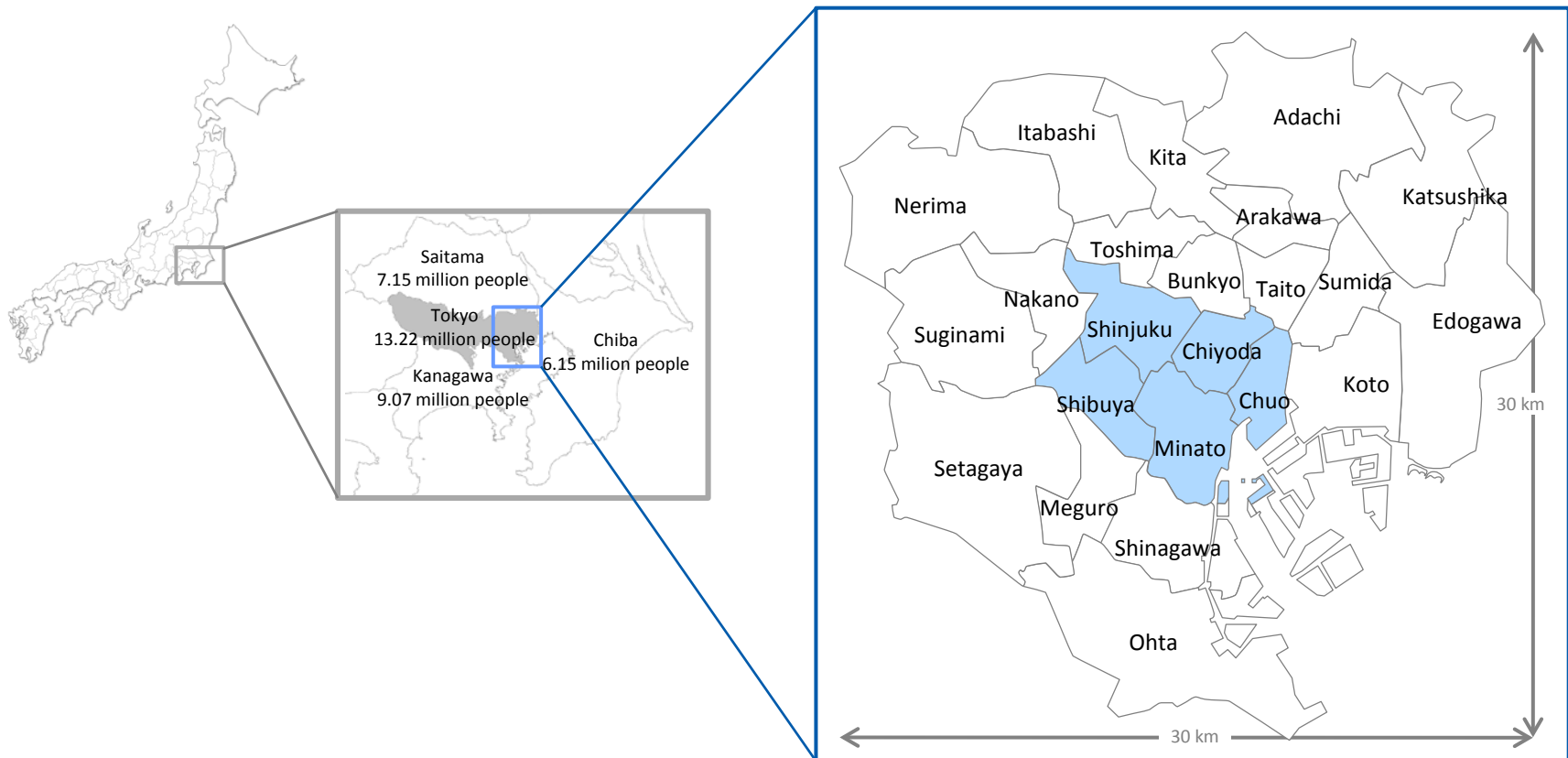
Note: Data is as of January 2016.

Note: The survey focuses on the central area of each city.

Note: Properties less than 3,000 square meters are excluded.

## Tokyo's Central Business District (CBD) is concentrated in five wards

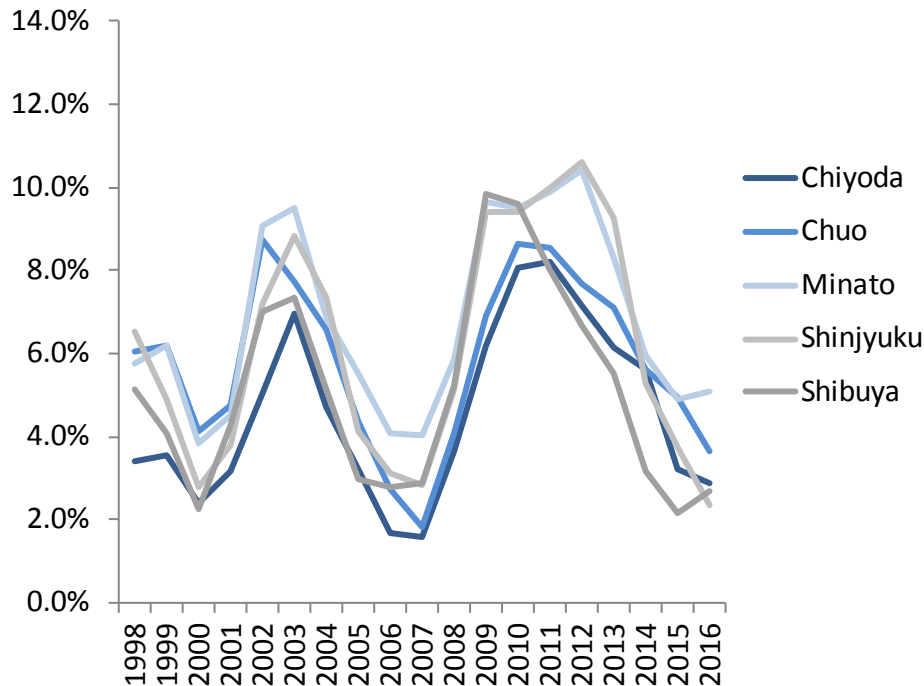
- Tokyo's CBD has an accumulation of office buildings and is concentrated in an area of 5km square, concentrated in Chiyoda, Chuo, Minato, Shibuya, and Shinjuku wards.



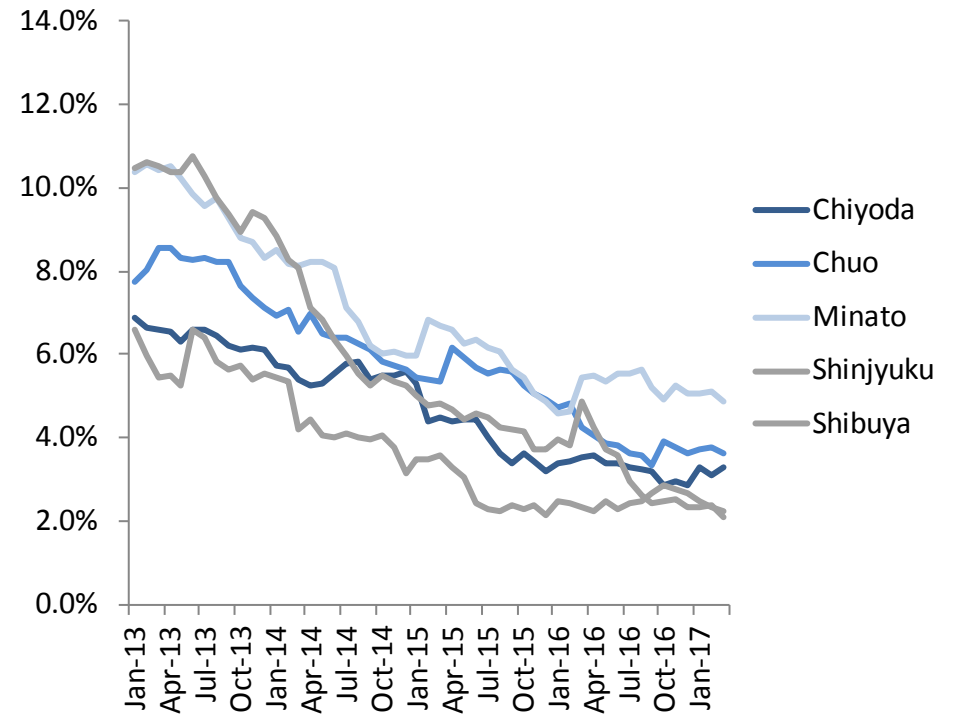
# Vacancy rates in the Tokyo office market have been improving for over four consecutive years.

Vacancy rate movement in Tokyo CBD

Yearly (1998 - 2016)



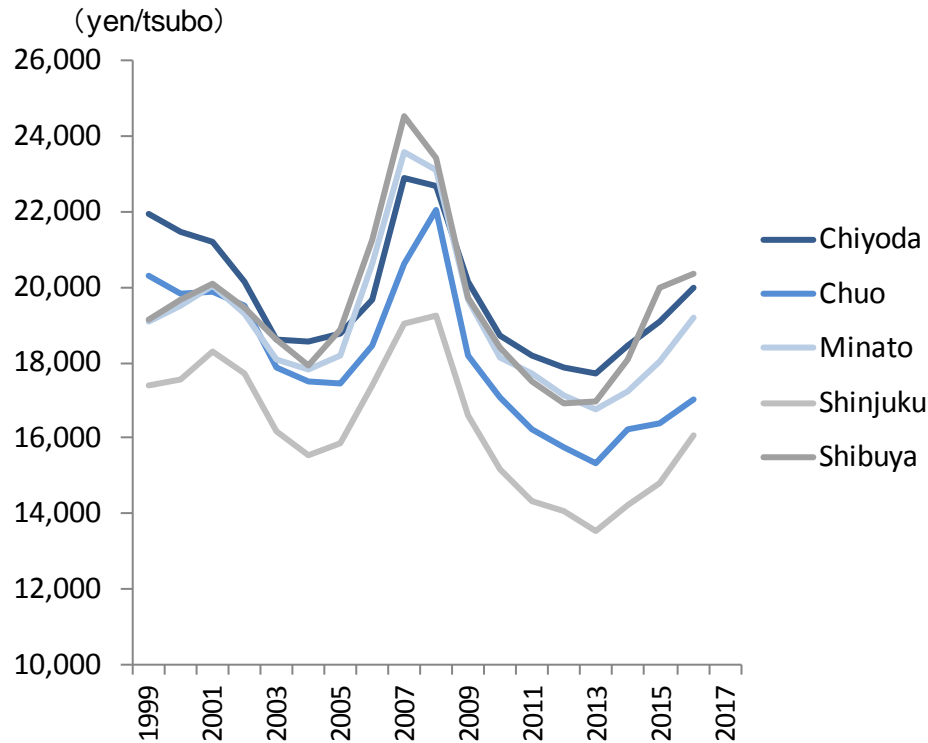
Monthly (Jan 2013 –Jan 2017)



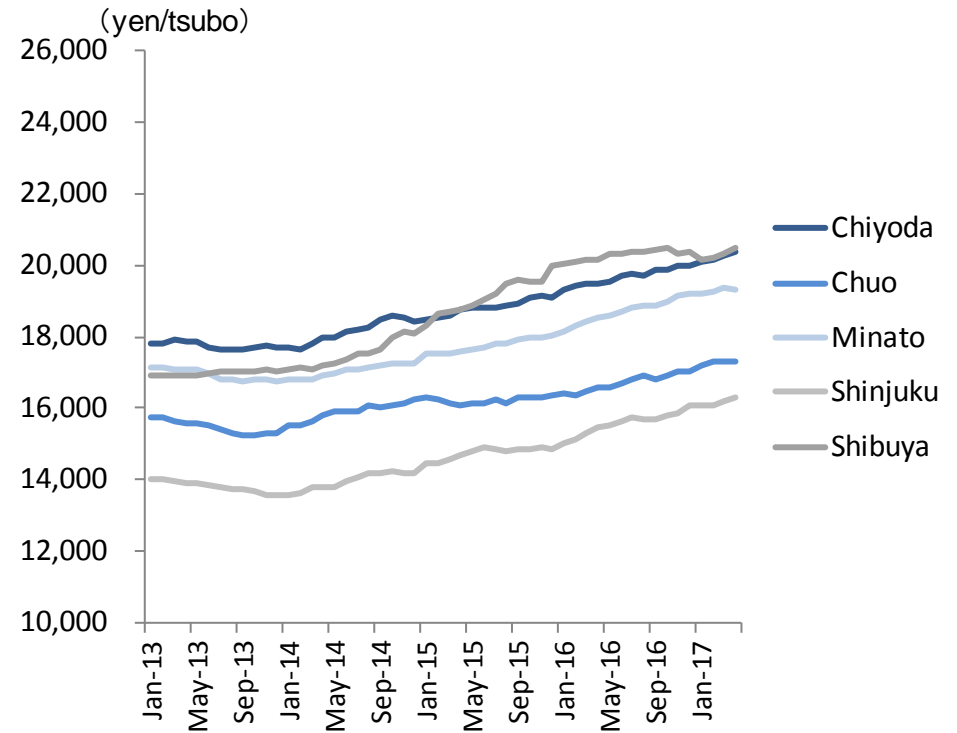
## Rents entered an upward phase from around 2013 in all 5 Tokyo wards.

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

Yearly (1999 – 2017)



Monthly (Jan 2013 – Jan 2017)

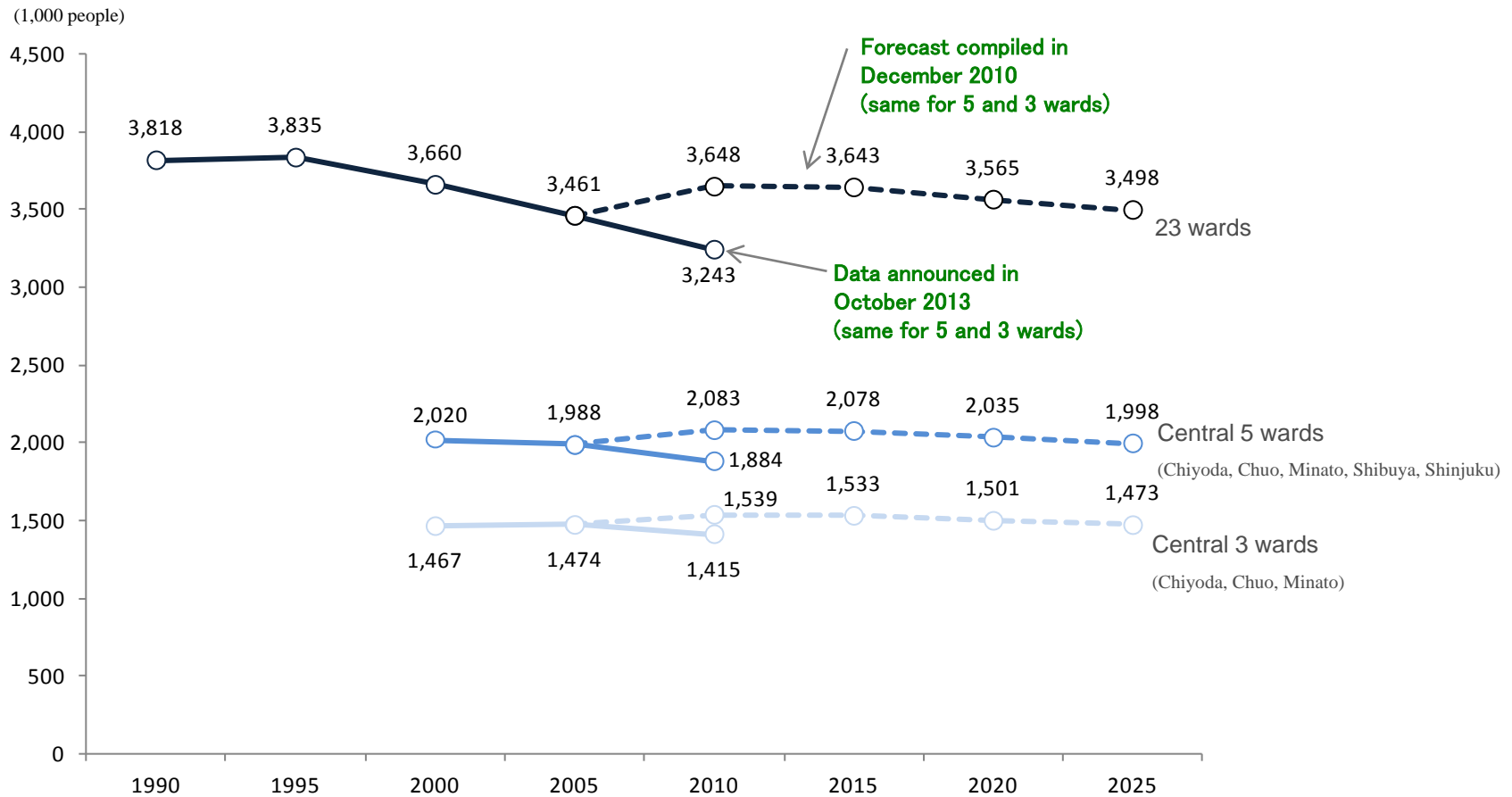


Source: Miki Shoji Co., Ltd.

Note: One tsubo is 3.3 square meters.

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

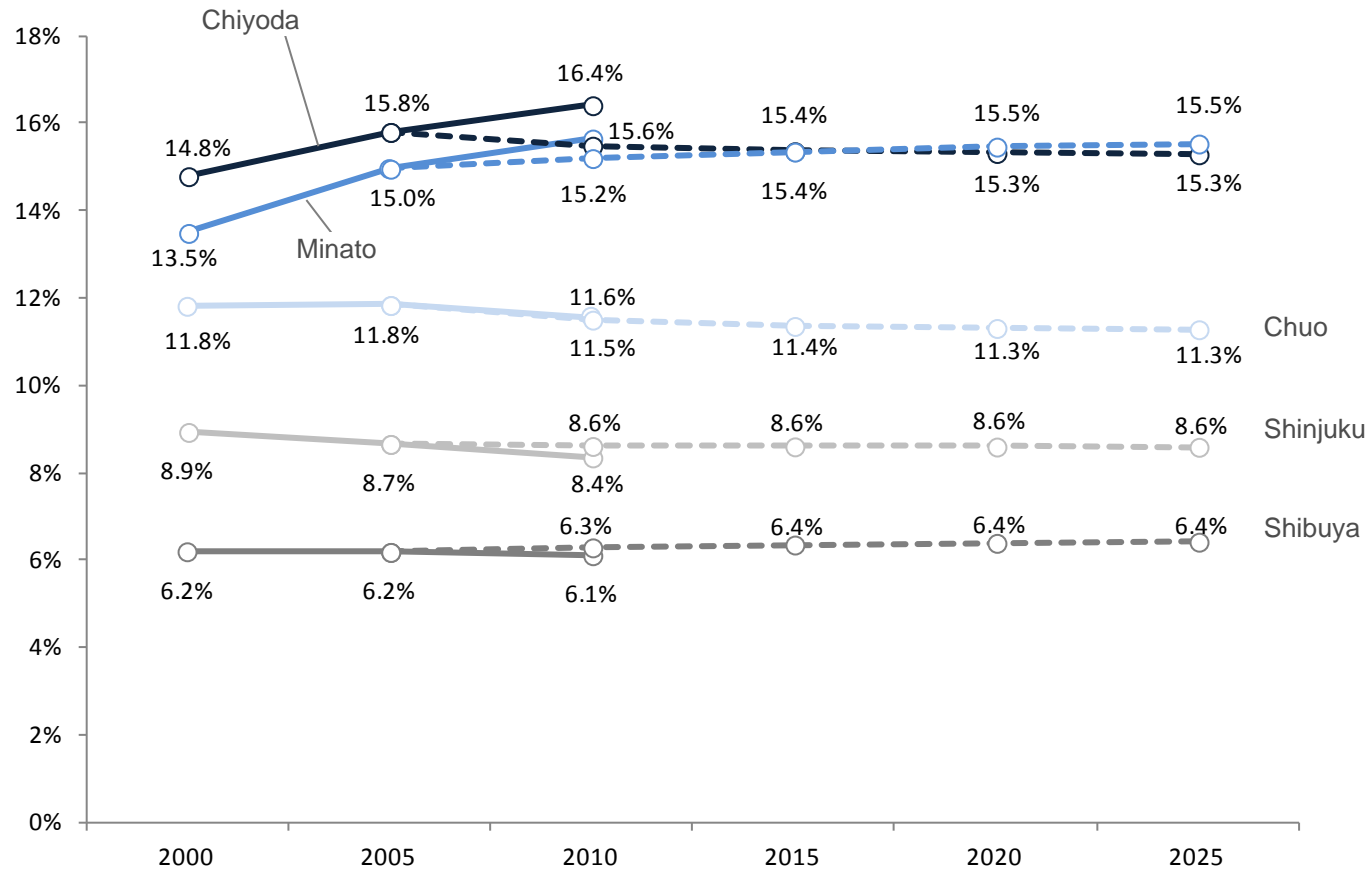
Trend and forecast of office worker numbers in Tokyo



Source: MIC "Population Census" and Tokyo Metropolitan Government "Shugyosha no Yosoku"

# Chiyoda and Minato have been increasing their share of office workers, while Chuo and Shibuya have been flat and Shinjuku has been losing share

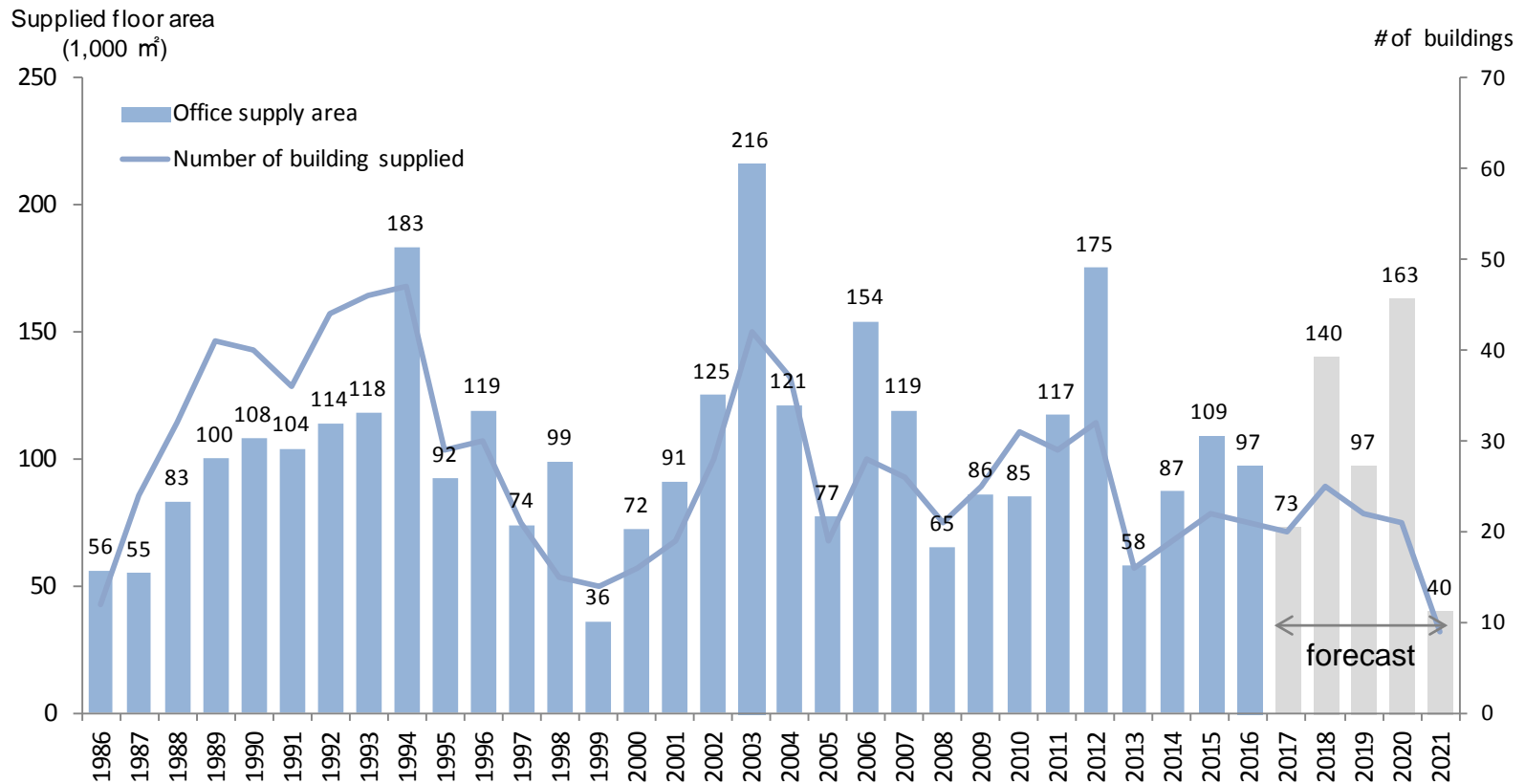
Trend of office worker share in Tokyo's CBD (23 wards = 100%)



Source: MIC "Population Census" and Tokyo Metropolitan Government "Shugyosha no Yosoku"

# Despite the dwindling number of office workers, new office supply will likely continue to grow.

Office space supply in Tokyo's 23 wards

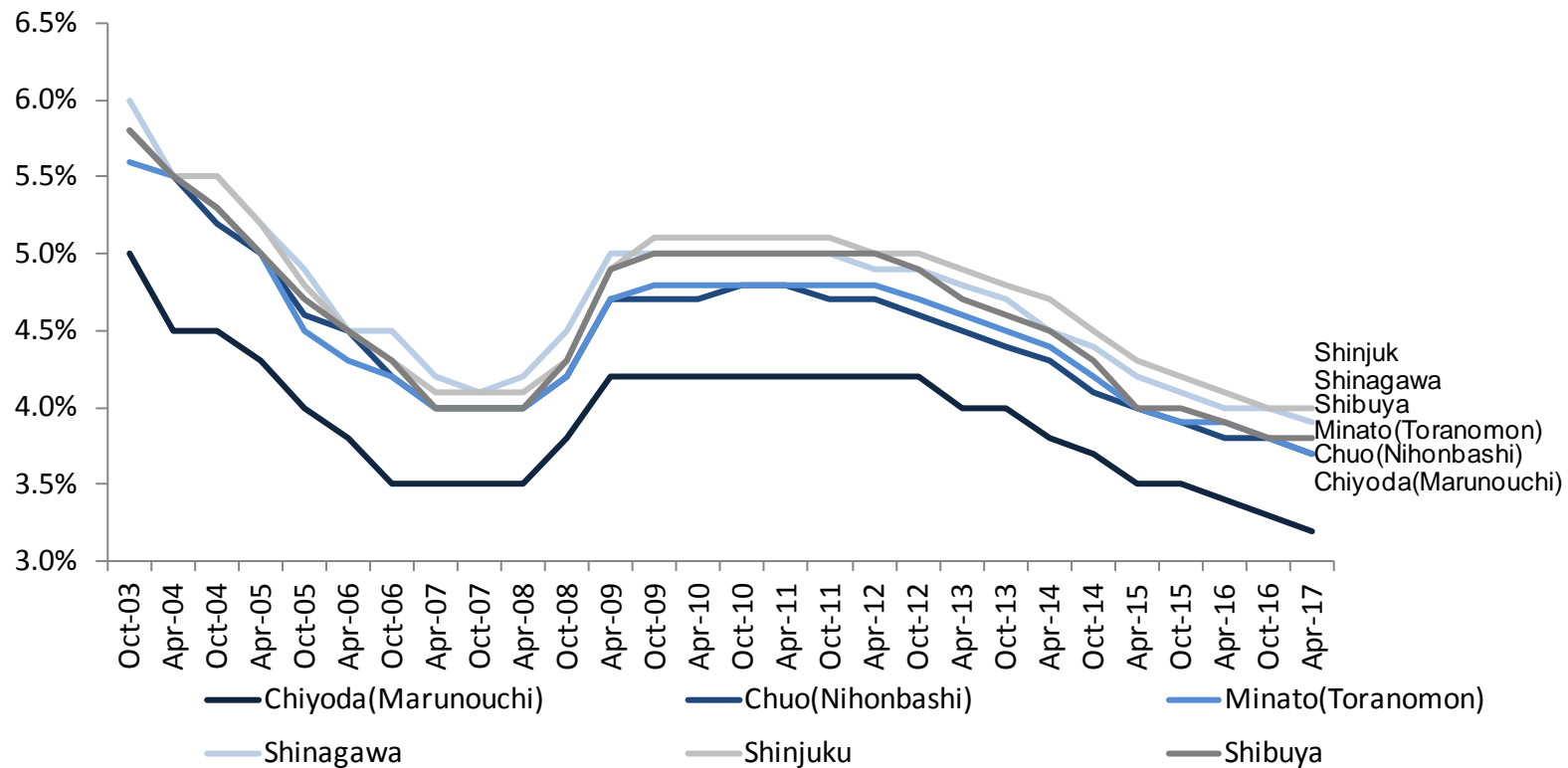


Source: Mori Building Company "Market Trend Survey of Large-Scale Office Buildings in Tokyo's 23 Wards"

## Office market

The cap rates have continuously been declining since 2012, and it has reached to the lower level of in 2007.

Tokyo office market cap rate trend



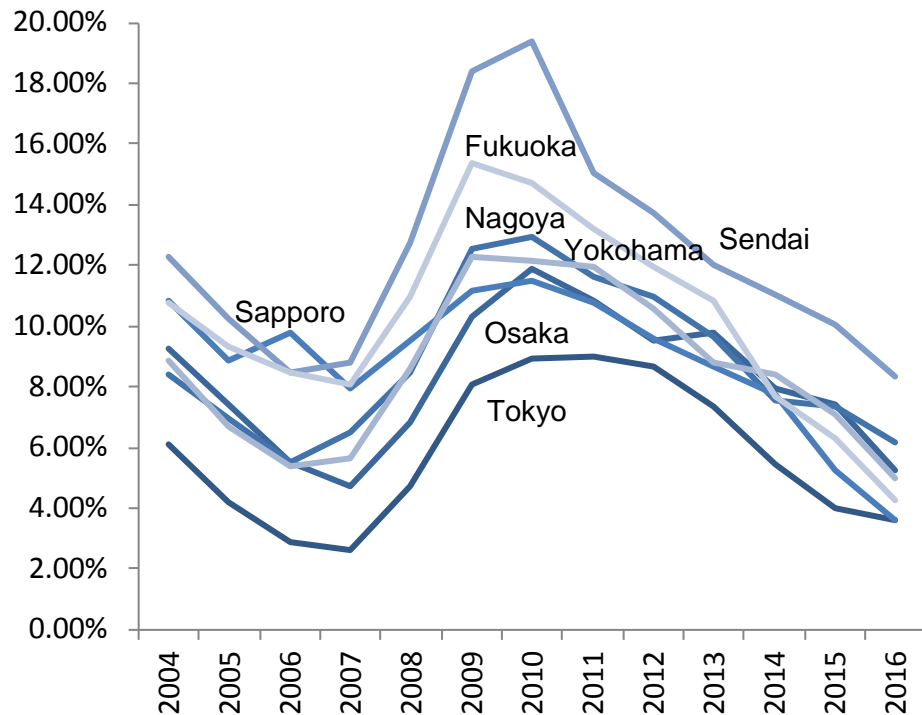
Source: Japan Real Estate Institute "Real Estate Investor's Survey"



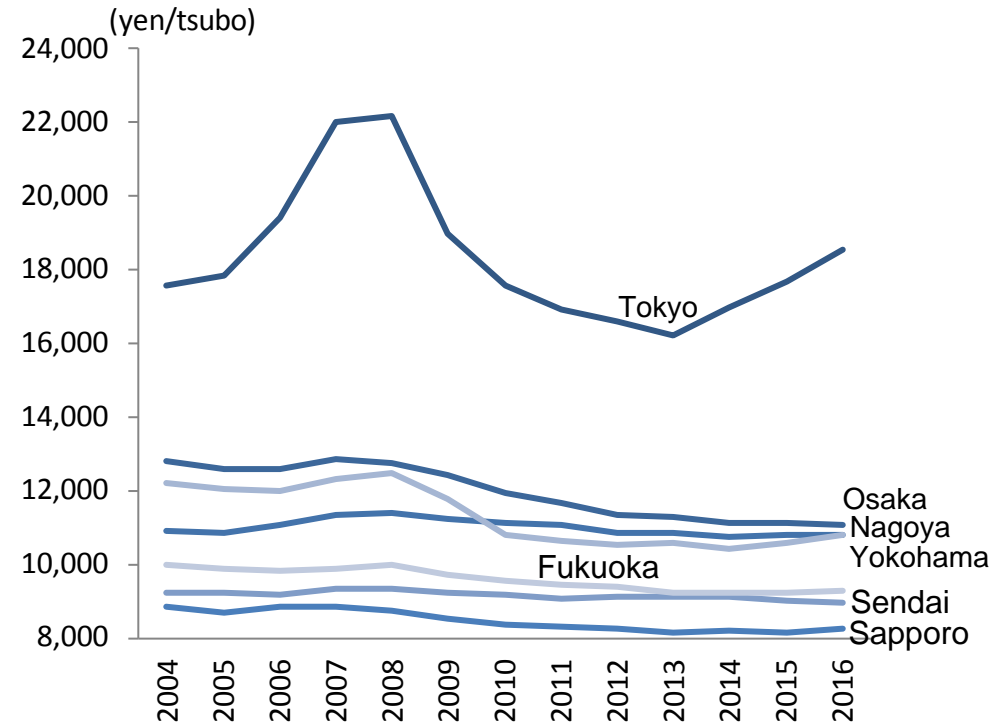
## Office market

The vacancy rates have also been recovering in the local office market. However, the number of rent has not increased so much.

### Office vacancy trend in ex-Tokyo market



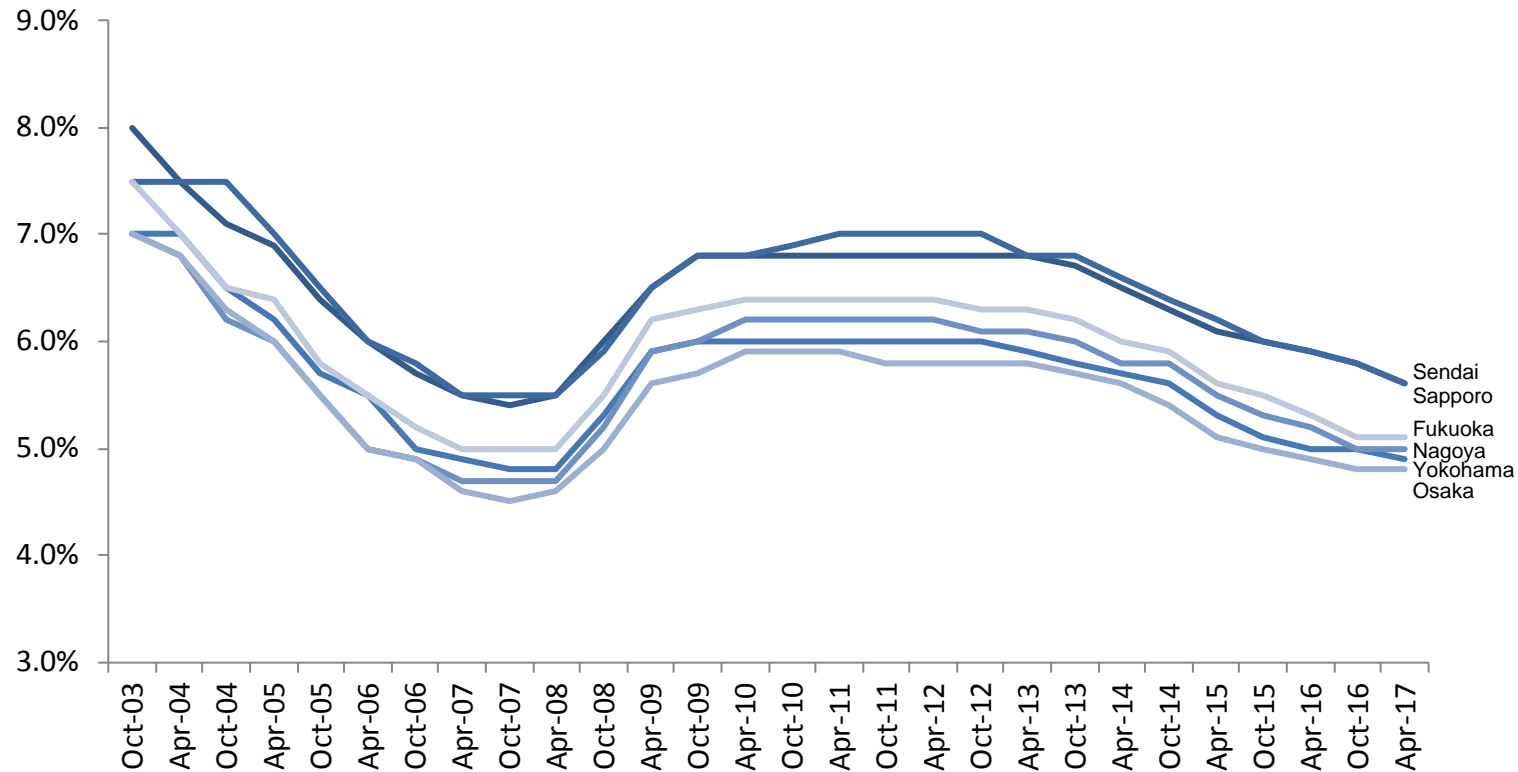
### Office rent trend in ex-Tokyo market



# Liquidity is growing in ex-Tokyo as well as the real estate investment market rises and becomes overheated.

■ As property acquisition becomes more difficult in Tokyo, investment money must look to regional markets.

Ex-Tokyo office market cap rate trend



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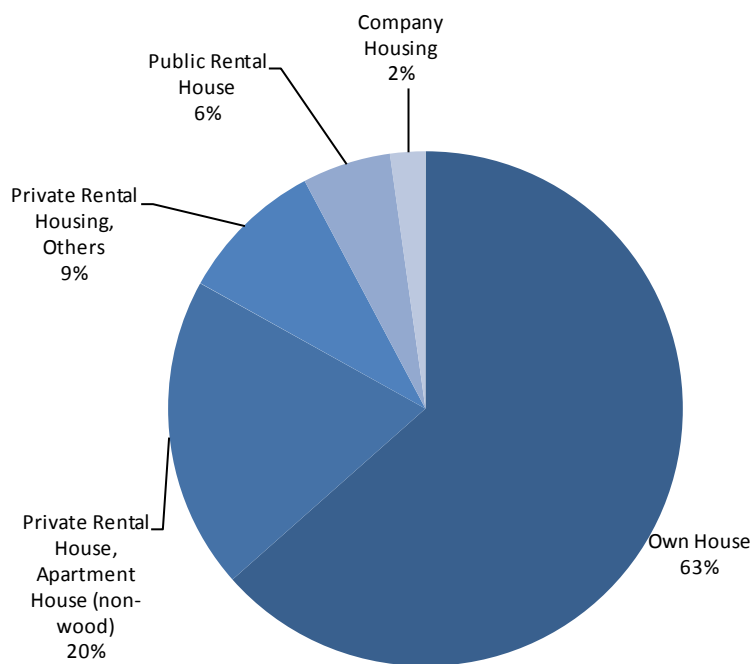
**Hotel market**

**Real estate investment products**

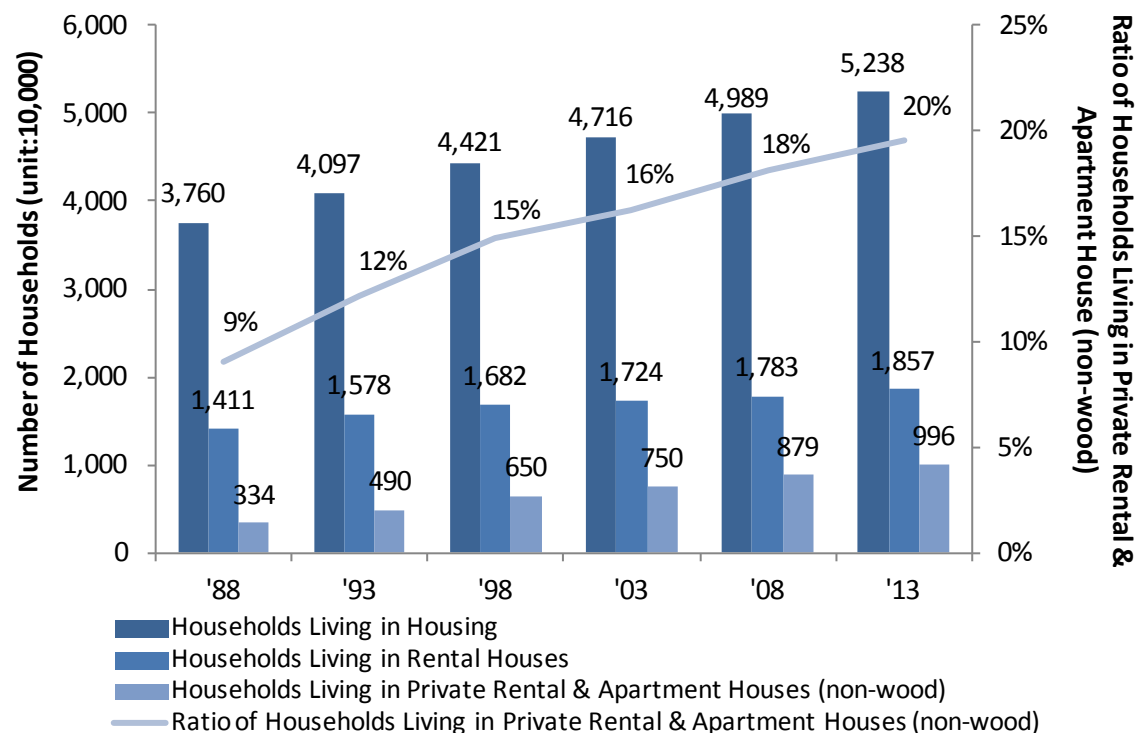
# About 20% of all households in Japan are living in non-public rental apartments, and the percentage is trending upwards.

■ 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)



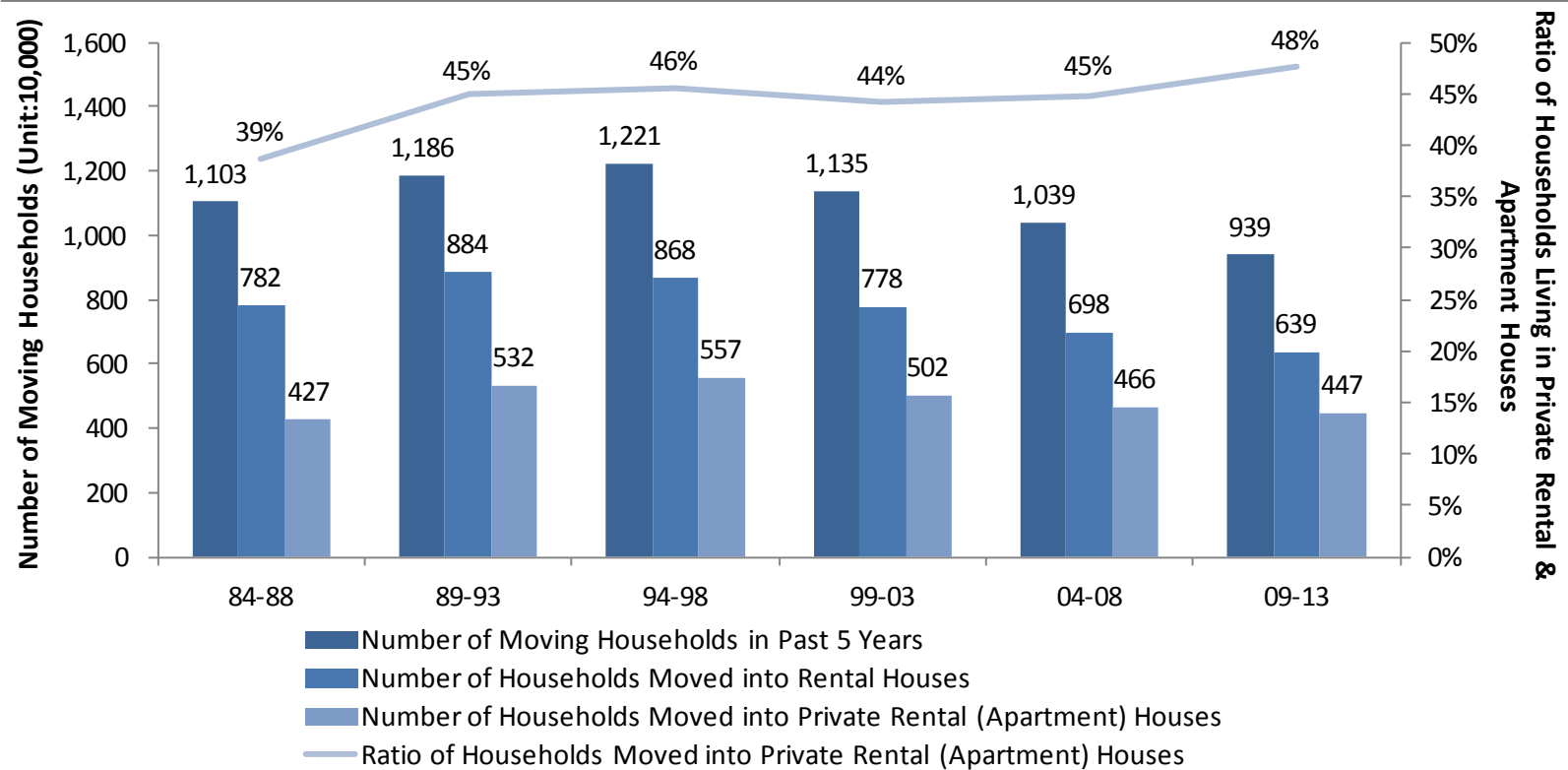
Number of households by housing type 1988 - 2013



# 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.

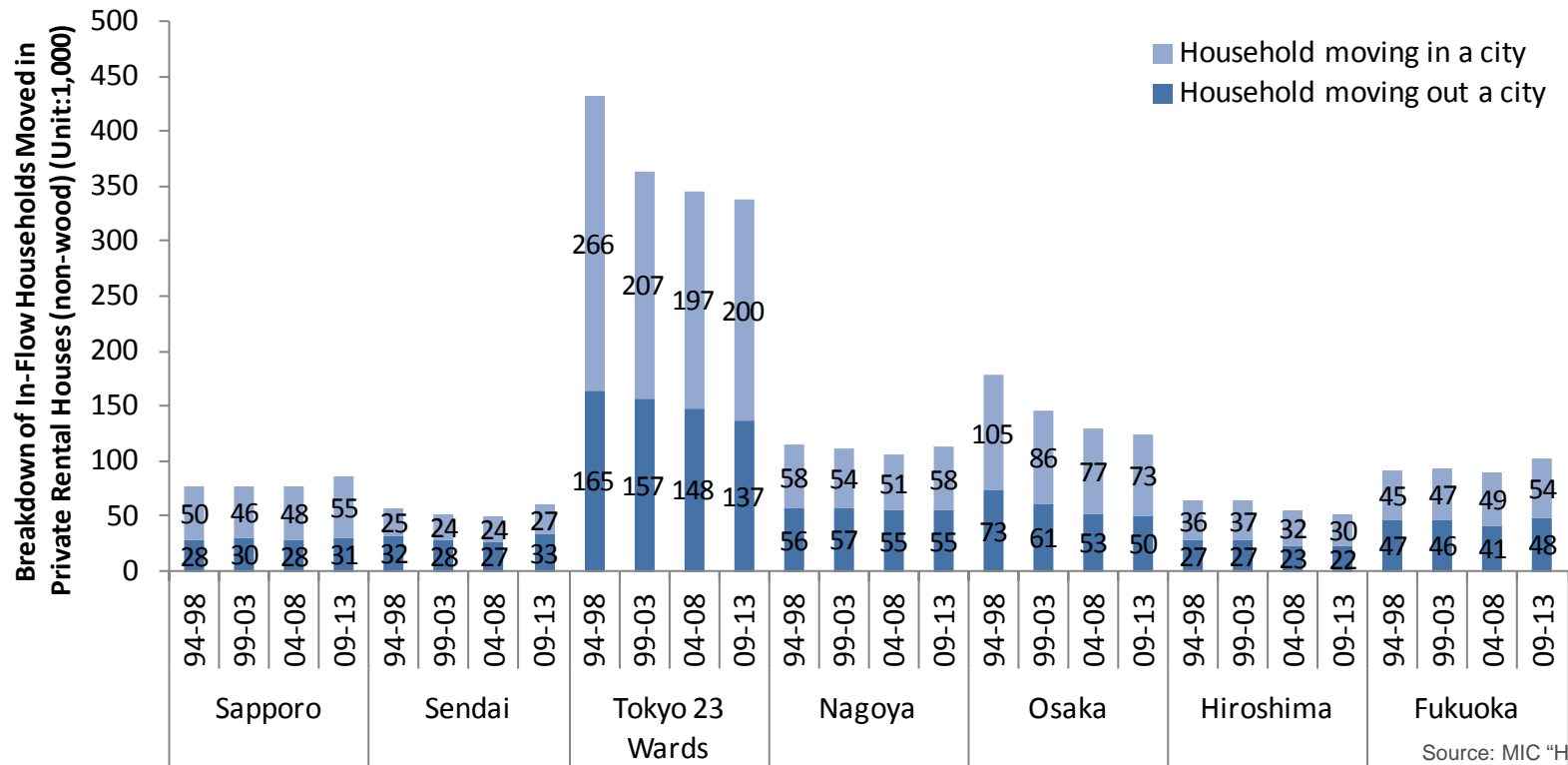
Housing choices of moving households 1984 - 2013



# 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

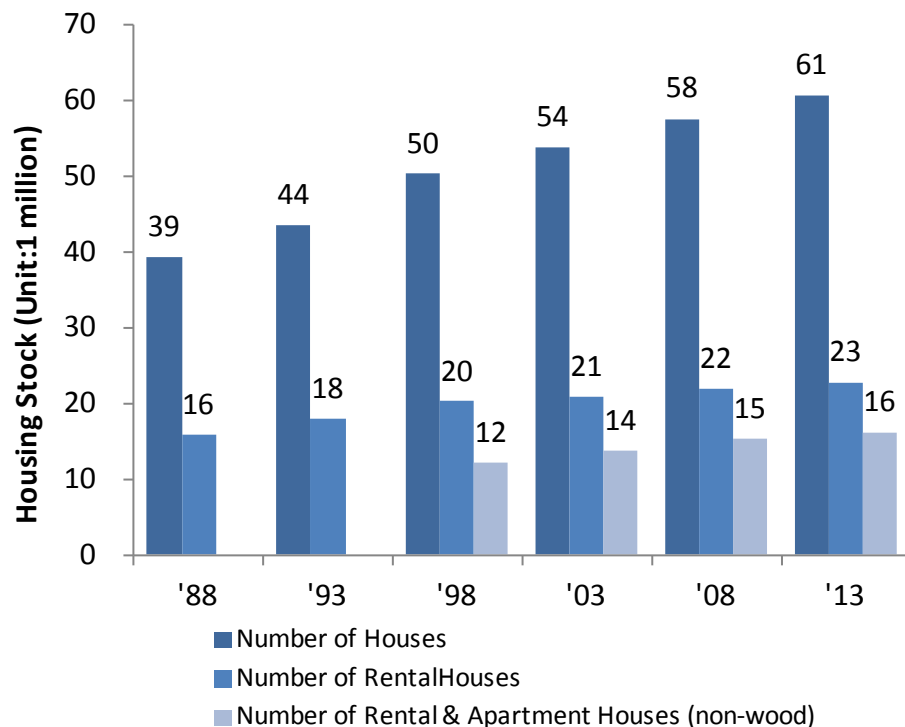


Source: MIC "Housing and Land Survey"

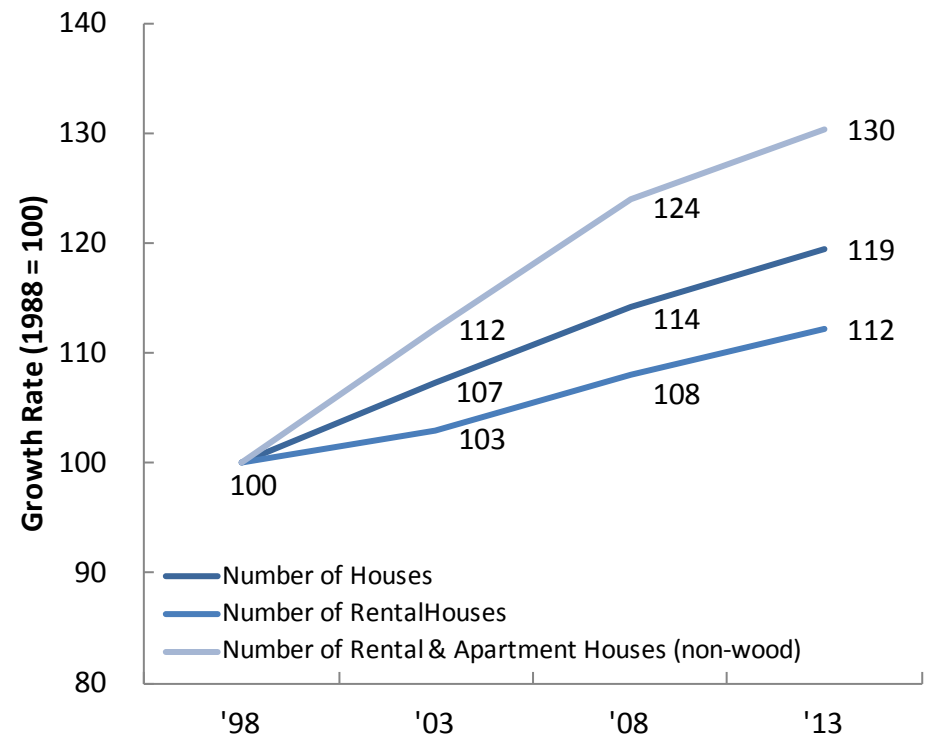
# The supply of non-public rental apartment units has increased more sharply than total housing stock.

- 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



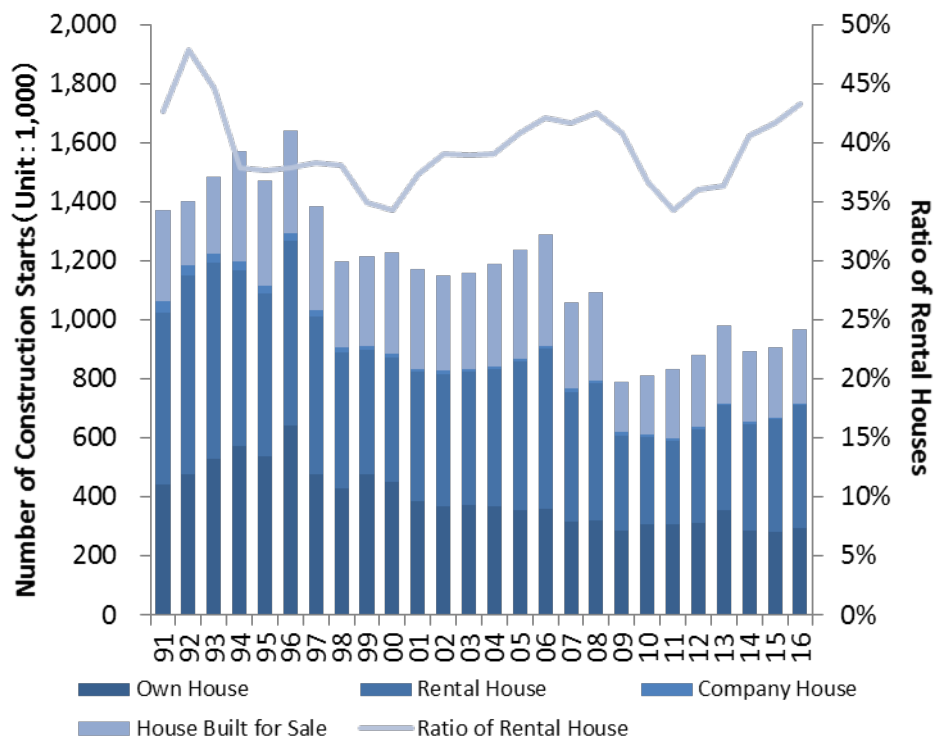
Housing growth rates by type



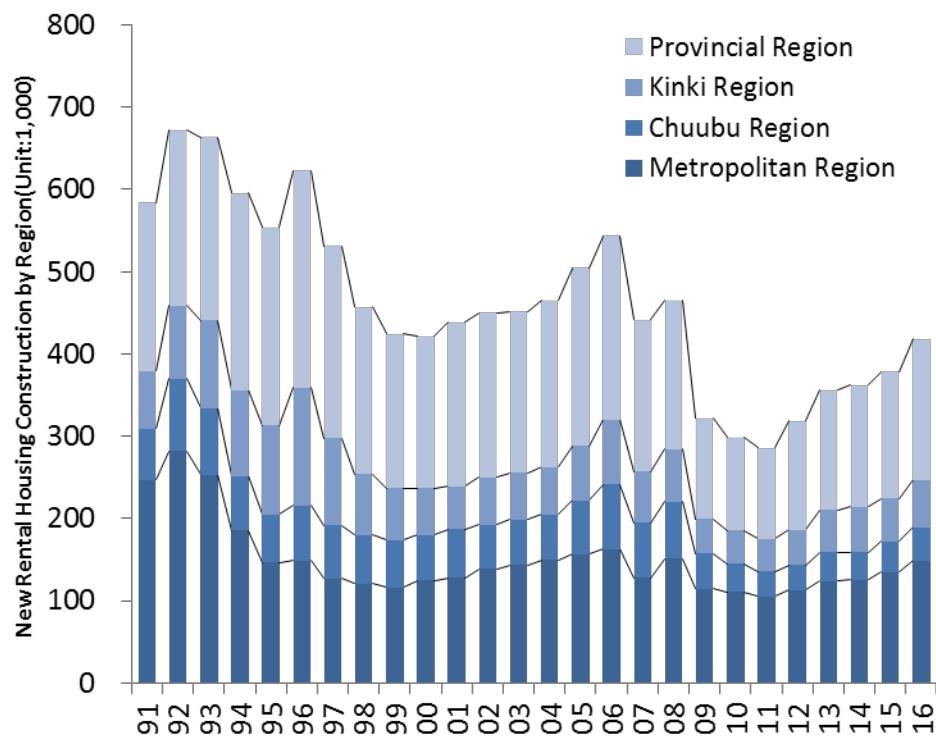
## The number of new constructions for rental houses keeps increasing.

- In 2016, the number of new construction housing increased by 58,000 houses since 2015 and reached to about 97000 houses.
- The number of new construction for rental houses increased by about 40,000 houses from 2015 to 2016.

New housing supply trend: 1991-2016



Breakdown of new rental housing construction by region



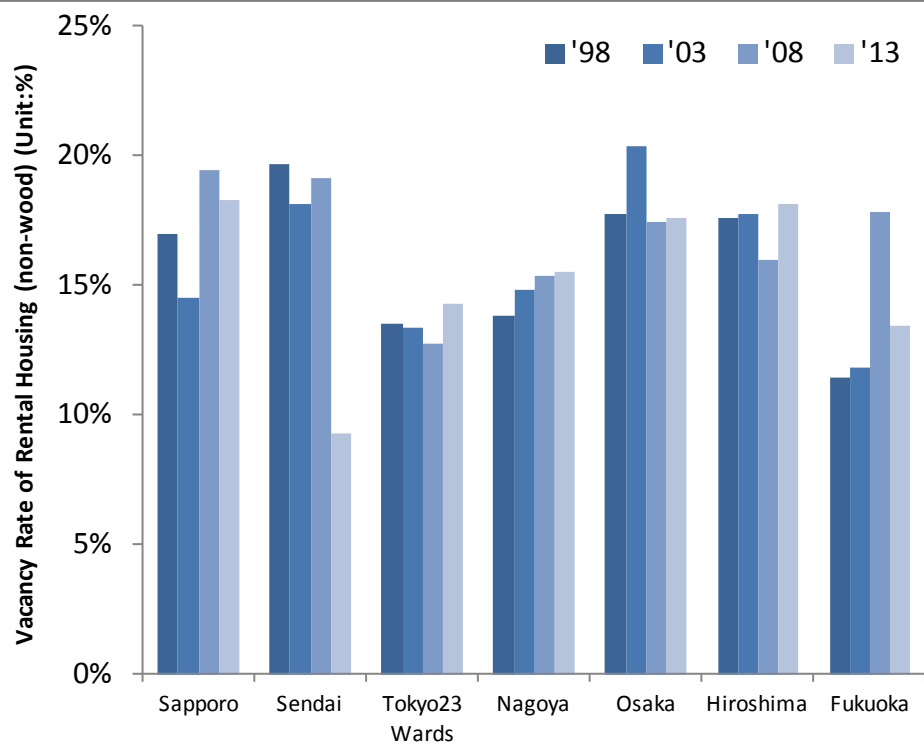
Source: MLIT "Survey of Construction Work Started"



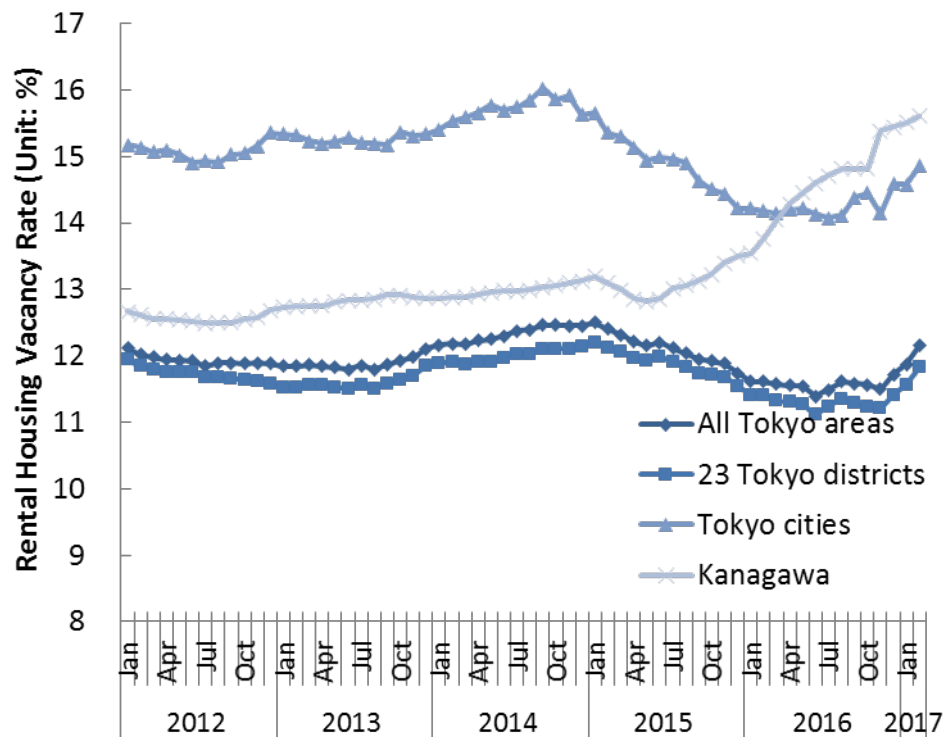
**Since 2015, the vacancy rates in Kanagawa prefecture have gone up suddenly. From the end of 2016, the vacancy rates are rising in Tokyo as well.**

- The construction of rental apartment increased for avoiding tax with the basic deduction's of an inheritance tax being reduced from January, 2015.
- Because of number increasing in apartment supply due to the factors besides the actual demand, vacancy rates increased suddenly centering on the suburb part with the high apartment ratio occupied in a rental apartment.

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



Vacancy Rates of Rental Housing in Tokyo Metropolitan Area



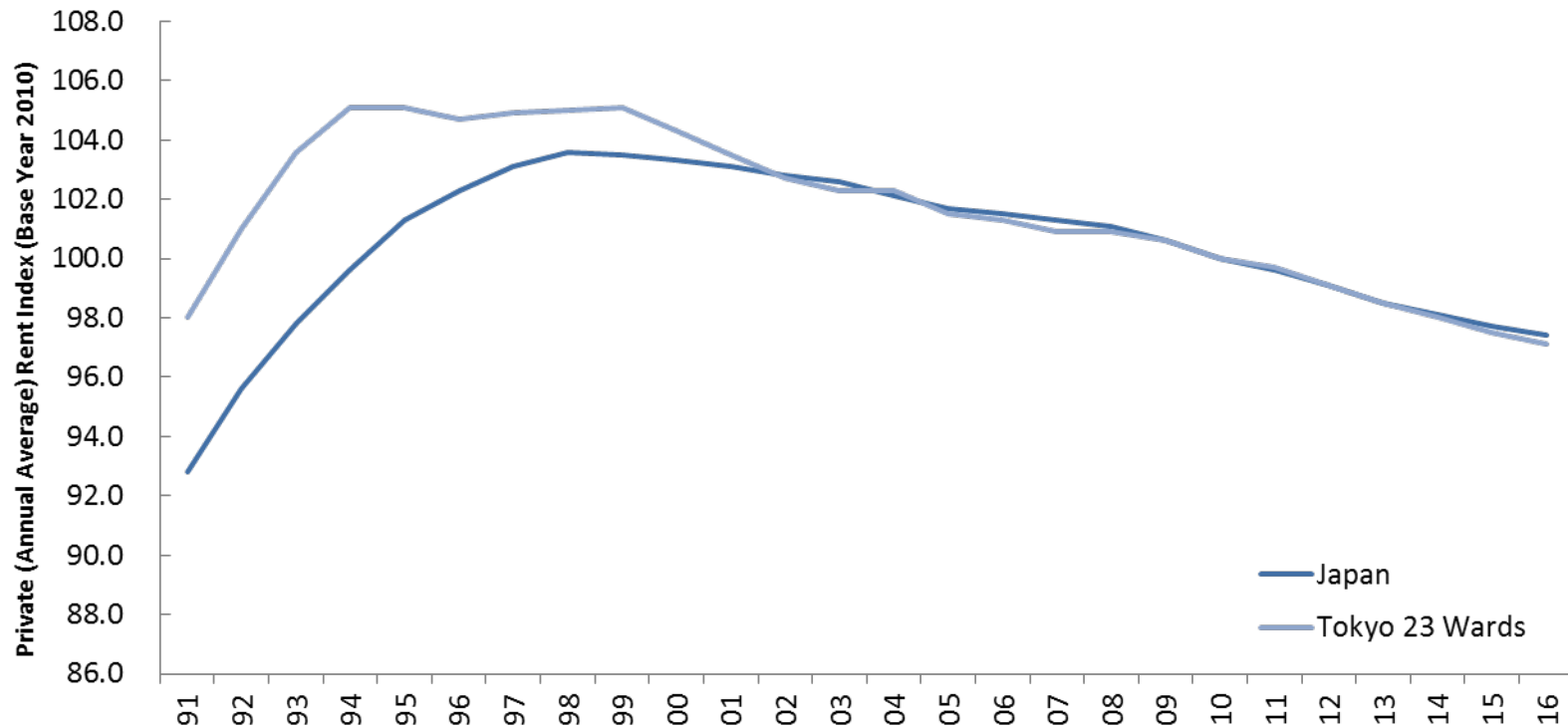
Source: MIC "Housing and Land Survey"

Source: TAS Corp. and At Home Co., Ltd. "Report on Rental Housing Market"

## Rent standard is still on a declining trend.

- The rent level of non-public rental housing rose steadily from 1990, after which it gradually declined since 2000. This trend has continued not even changed recently.

Rents in the private sector (annual average) – nationwide and central Tokyo



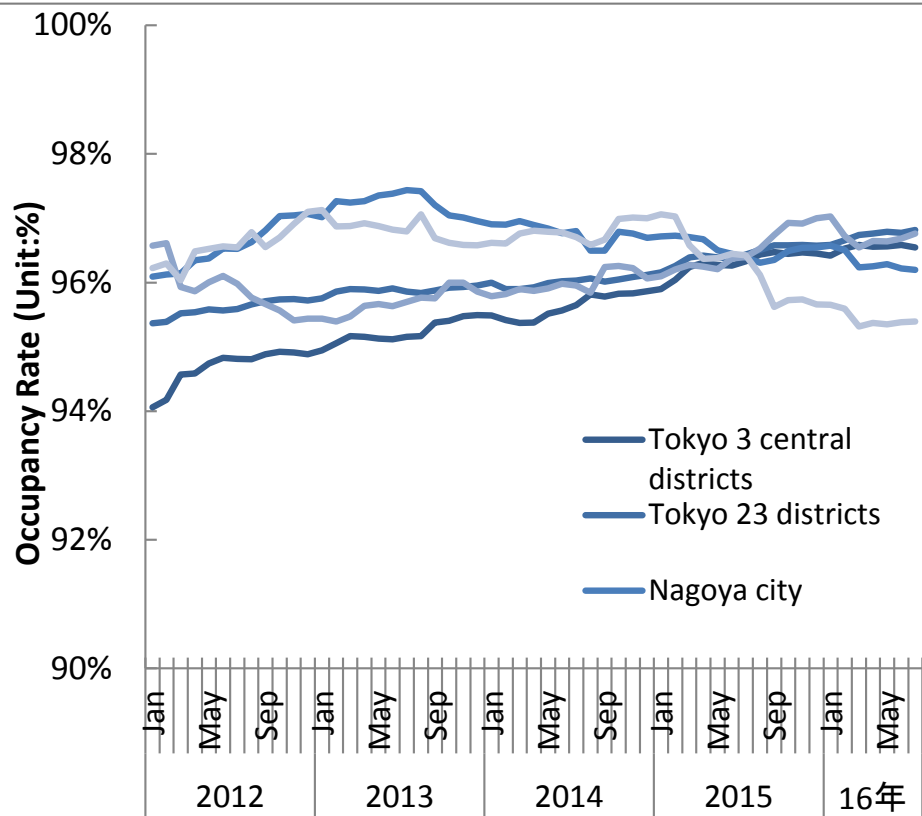
Source: MIC "Consumer Price Index"

## Residential market

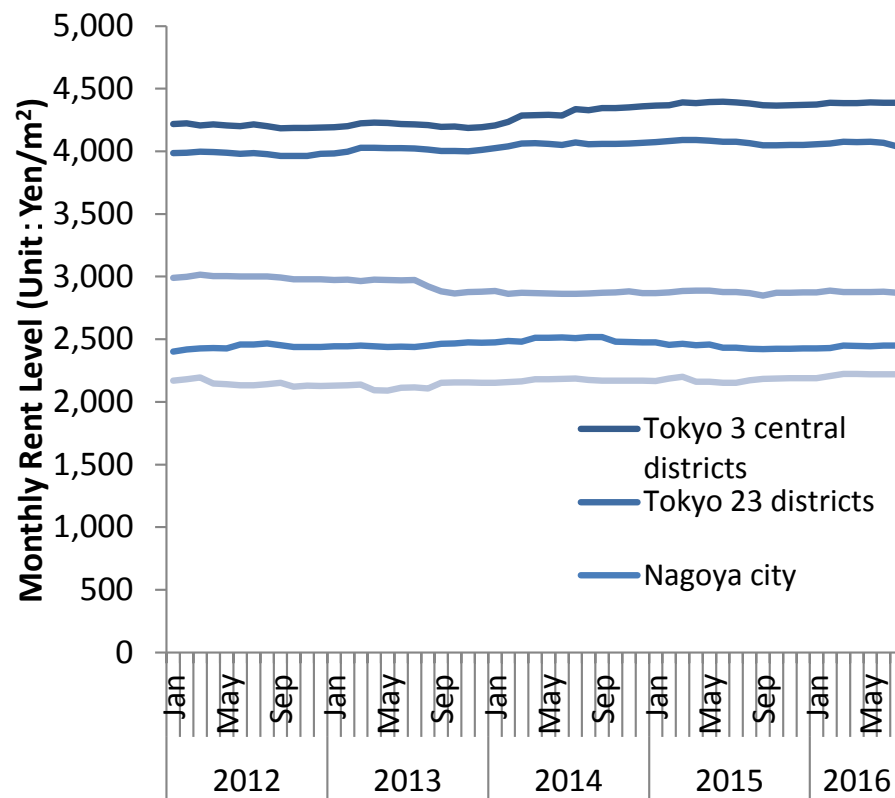
The operating ratio of REIT case housing and the private placement fund has been at the highest level, and the rent standard in downtown 3 ward and Tokyo 23-ku 's has continue to rise slowly.

- The operating ratio of Nagoya city and Fukuoka city hits the ceiling. The rent standard remains stable or decrease.

Occupancy rates of REIT-owned and private fund-owned properties



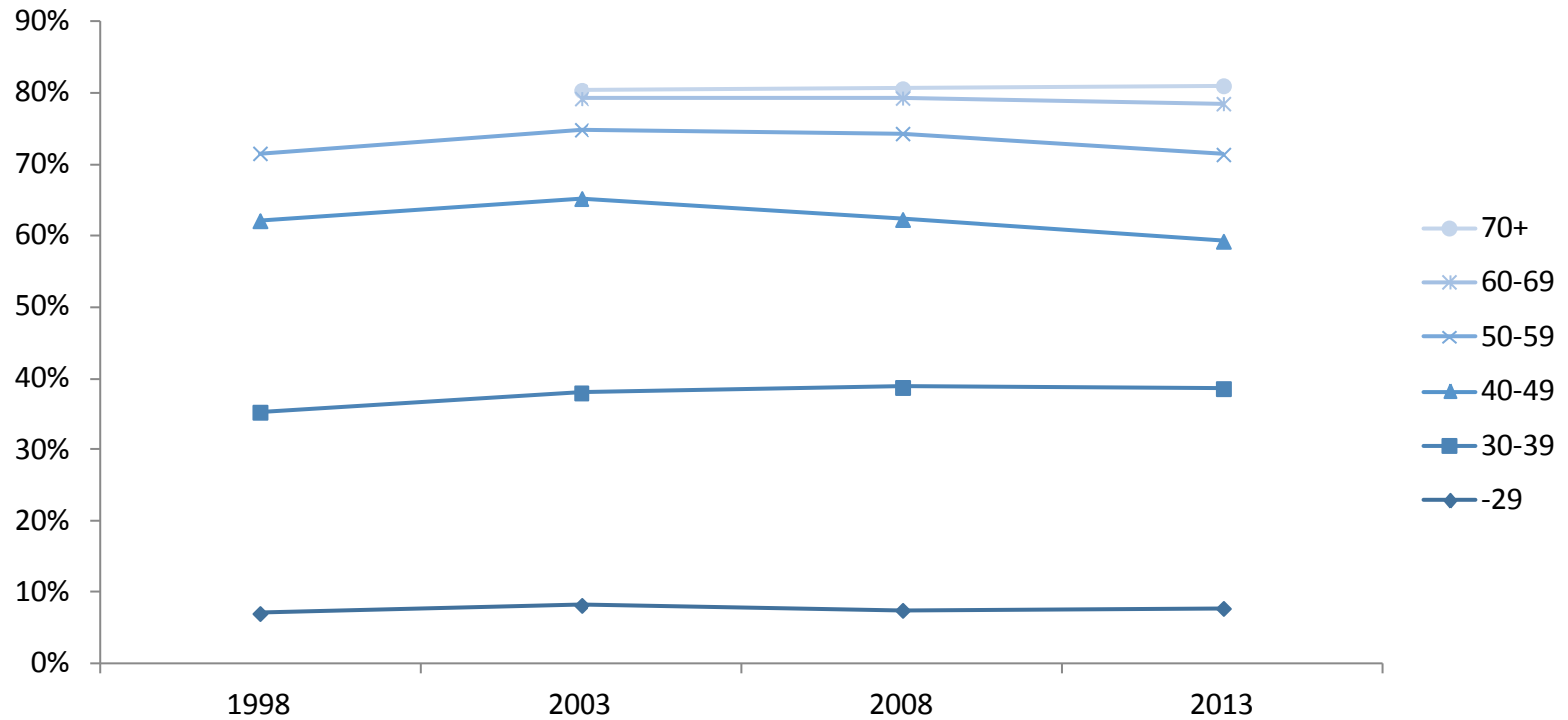
Monthly rents of REIT-owned and private fund-owned properties



Source: Association for Real Estate Securitization of Japan "ARES J-REIT Property Database"

**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 by age group*



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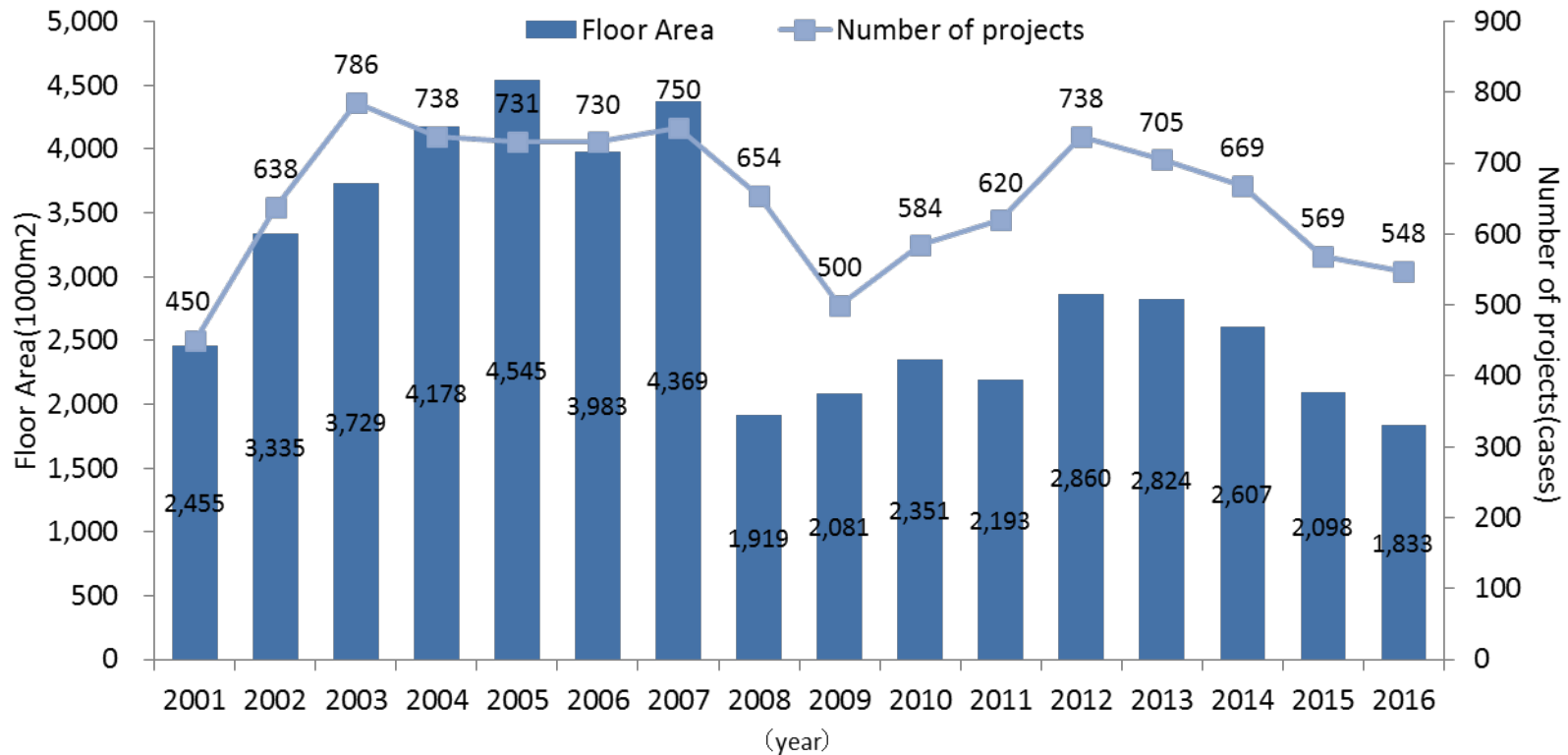
**Logistics property market**

**Hotel market**

**Real estate investment products**

# The number of locations for large stores has been on a downtrend in recent years.

New retail space supply vs. number of development projects

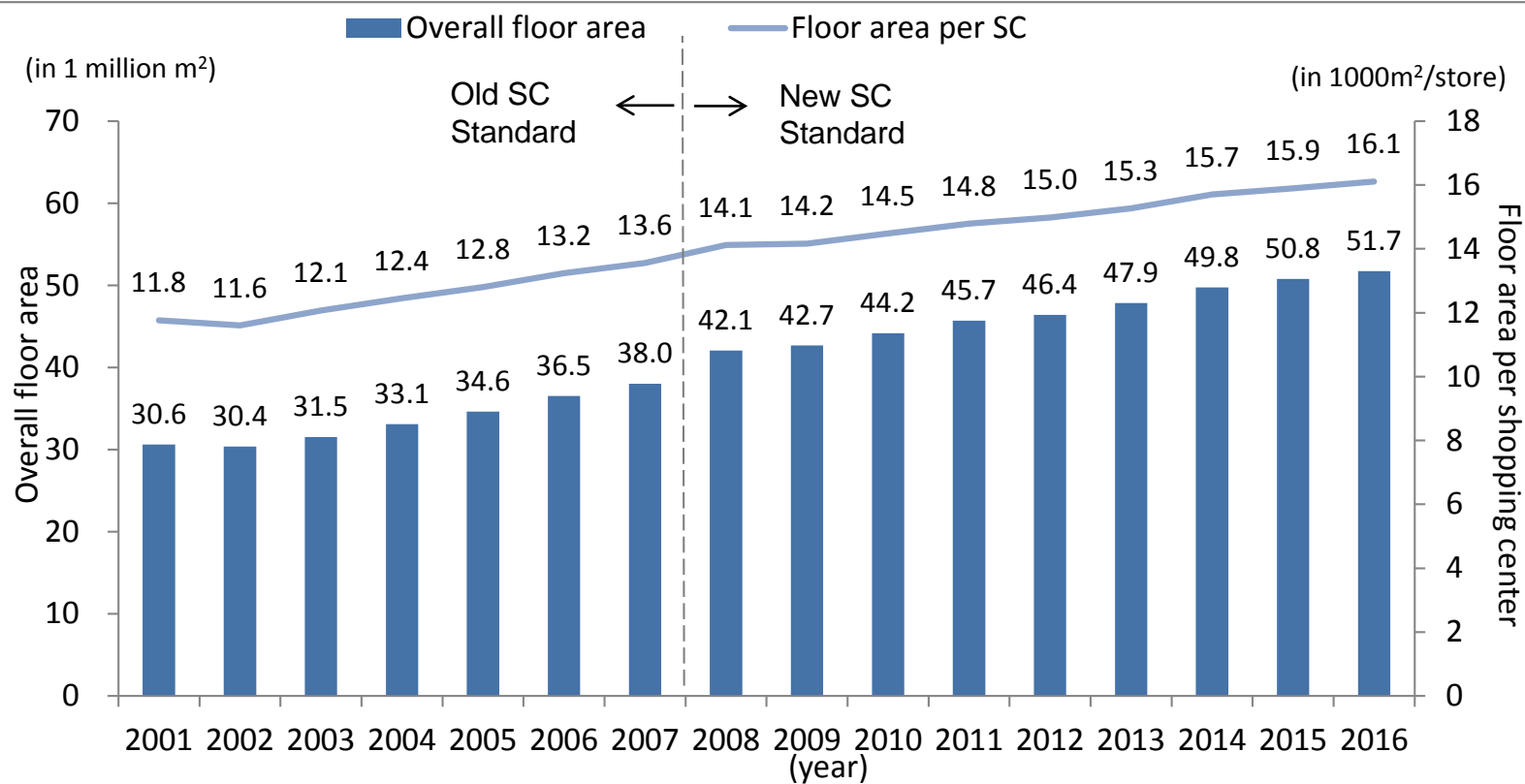


Source: METI "Large-scale Retail Chain Site Expansion Report"

Note: The reported numbers for the fiscal years 2002 and 2008 include stores without floor space indication.

# 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



Source: Council of Shopping Centers "SC White Book"

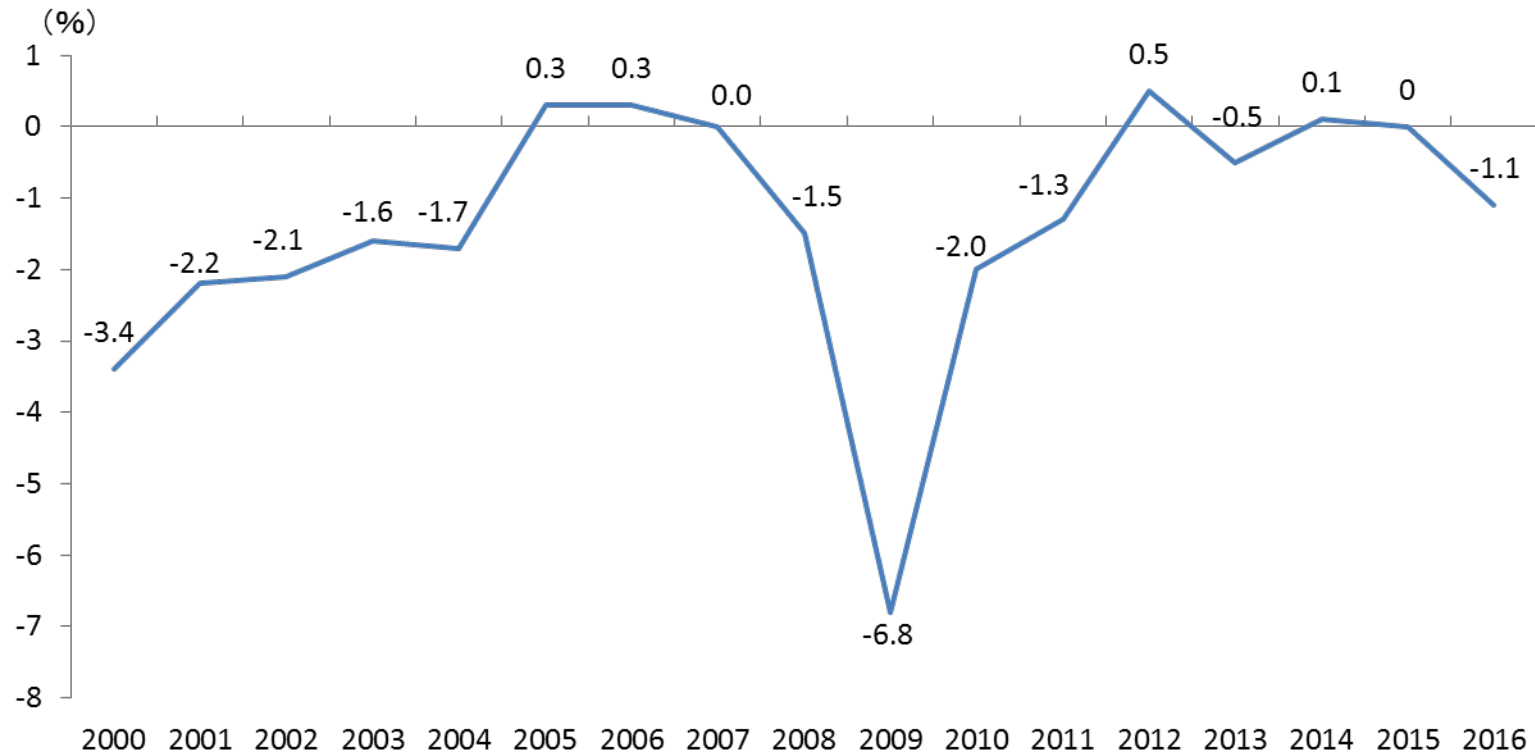
Note: In the old SC standard, only shopping malls with more than 10 retail tenants were considered.

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 m<sup>2</sup> retail space.

**In 2016, the annual sales of existing shopping centers declined -1.1% compared to the previous year.**

YoY comparison of existing shopping centers' annual sales

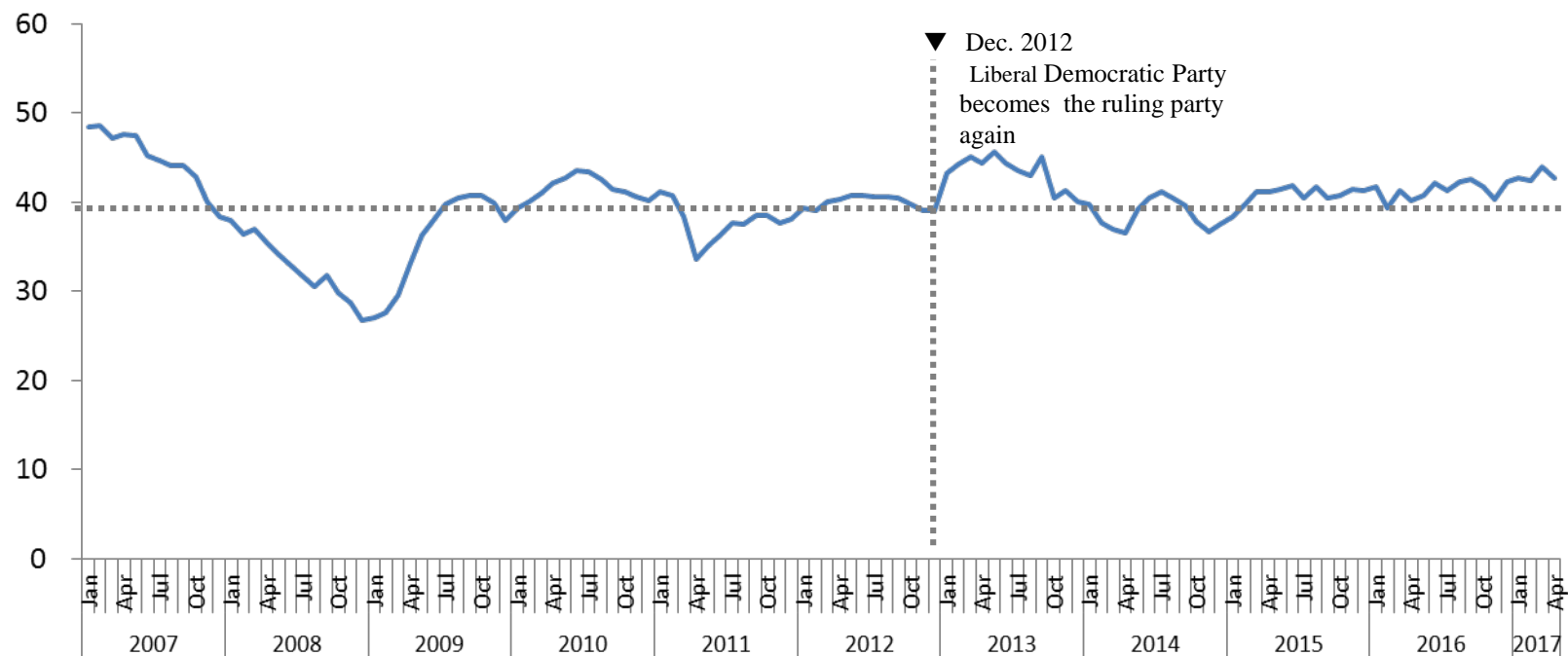


Source: Council of Shopping Centers "Overall Sales Statistics Report"



## Abenomics has not changed consumer outlook dramatically.

Consumer outlook index chart



Note: 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.

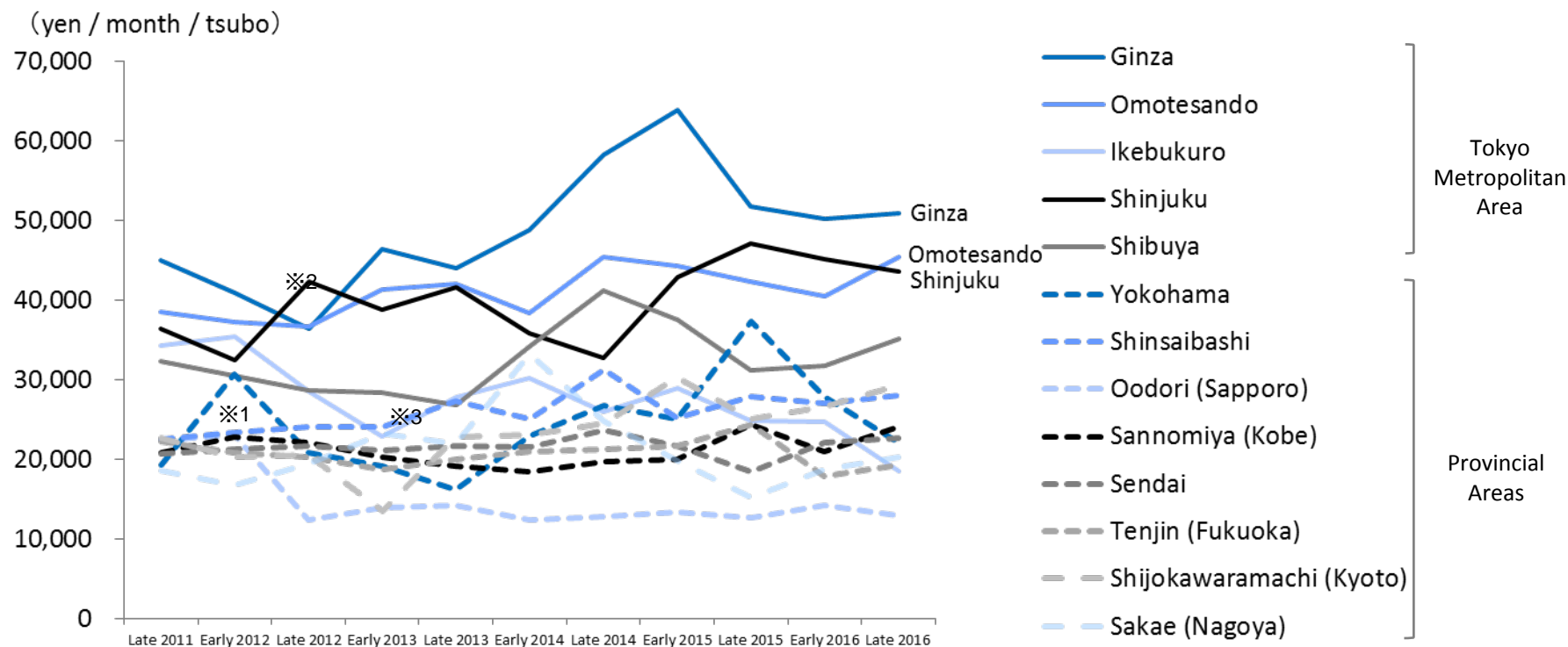
Each of the 5 scales is assigned a value: +1 for "Will get better," +0.75 for "Will get somewhat better," +0.5 for "Won't change," +0.25 for "Will get somewhat worse," and +0 for "Will get worse". This numerical index is used to provide a component ratio for each of the answers, from which the results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

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

Source: Cabinet Office "Consumer Trends Survey"

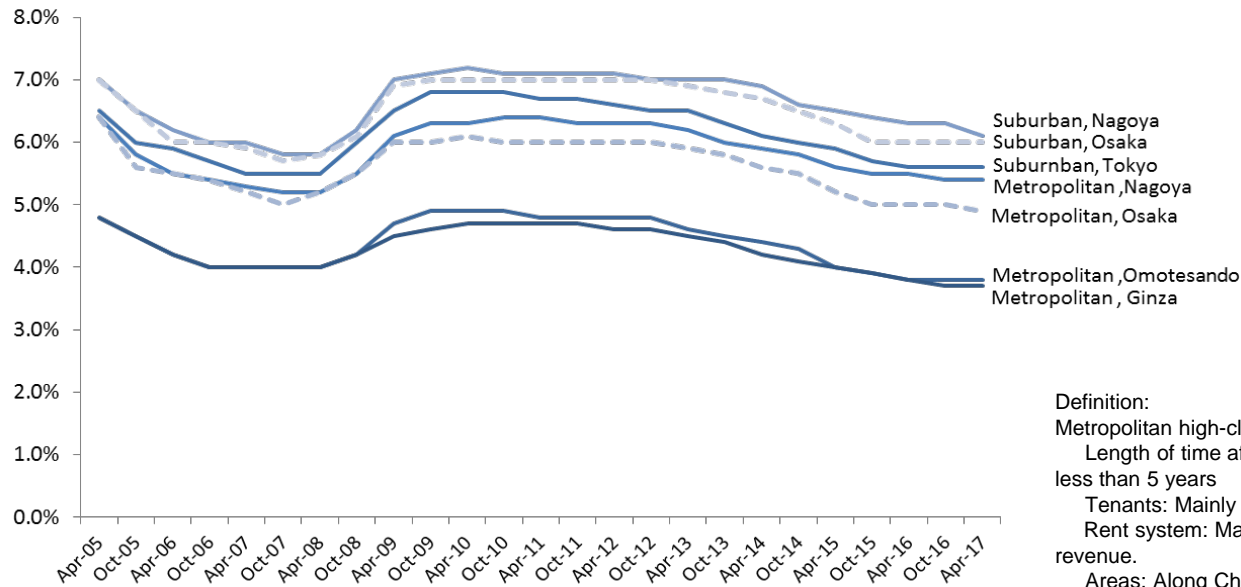
# Compared to other areas, rent levels in Ginza, Omotesando, and Shinjuku are still high.

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



# Cap rates have been falling from around 2011, and hit a record low in metropolitan Tokyo.

Commercial establishment cap rates (expected yield)



**Definition:**

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 Chuoodoori in Ginza's Chuo district.

Along Omotesando in Shibuya's Omotesando district.

Suburban shopping centers:

Sales floor area: around 20,000m<sup>2</sup>

Key tenants: Prominent general merchandise stores (GMS)

Rent system: Mainly fixed-term, fixed-charge rental schemes

Areas: Along main thoroughfares within about an hour from metropolitan Tokyo.

Stores for areas outside Tokyo follow similar locational conditions as above.

Source: Japan Real Estate Institute "Real Estate Investor's Survey"

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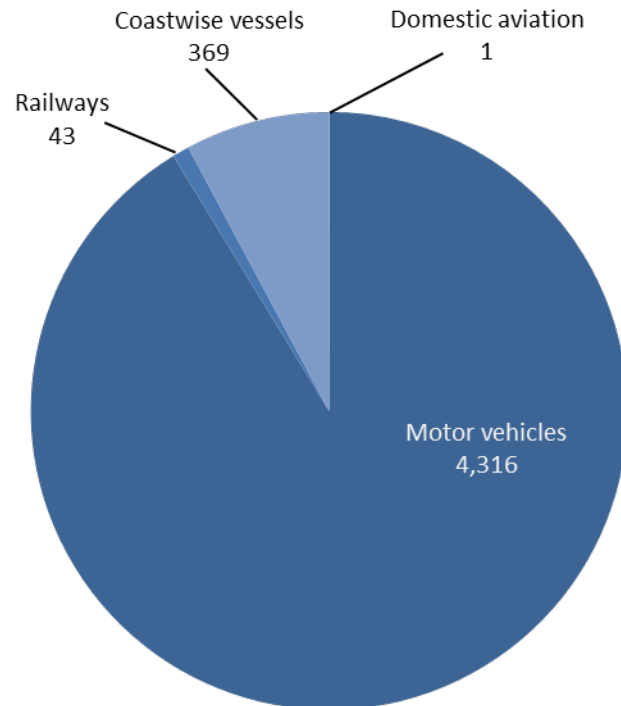
**Real estate investment products**

# 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.

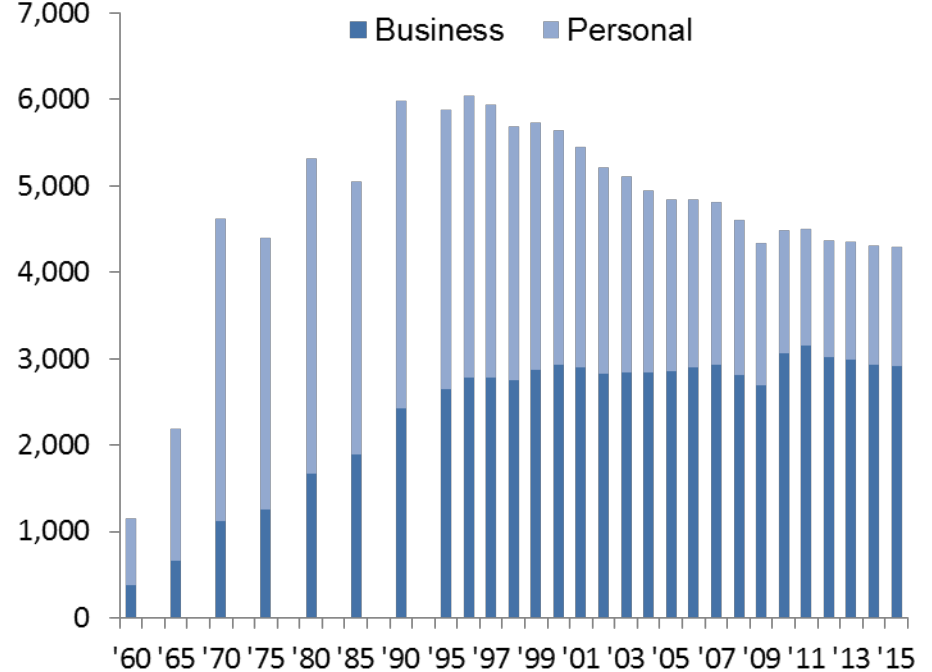
## Cargo quantity by transport method (FY2014)

(Unit: 1 million tons)



## Automobile cargo quantity movement

(1 million tons)



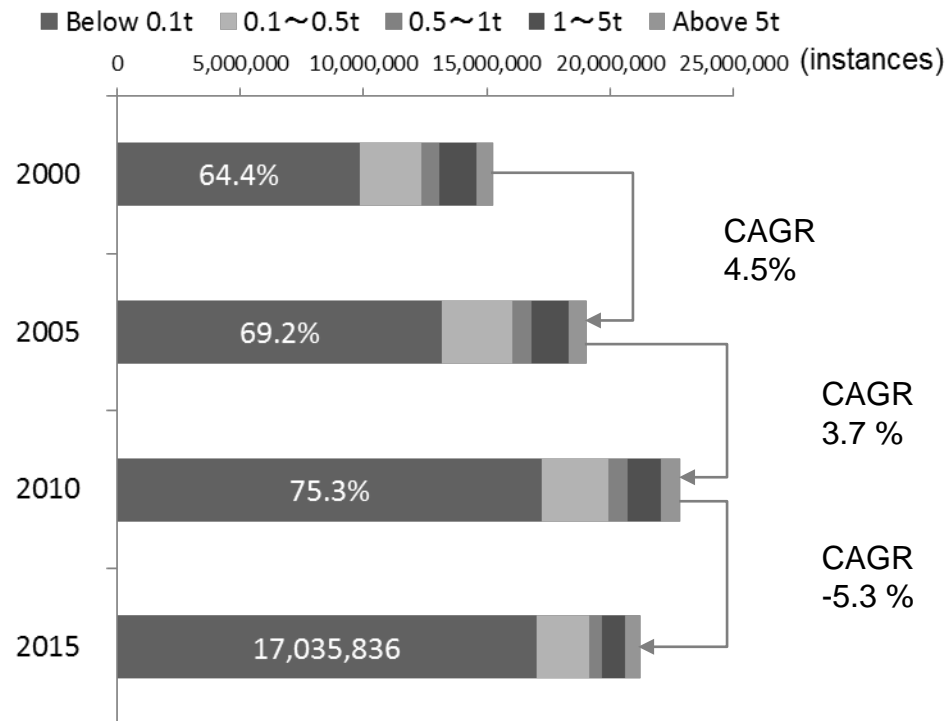
Source: MIC "Transport quantity by transport method" and MLIT "Automobile Transport Statistics Survey"

Note: 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.

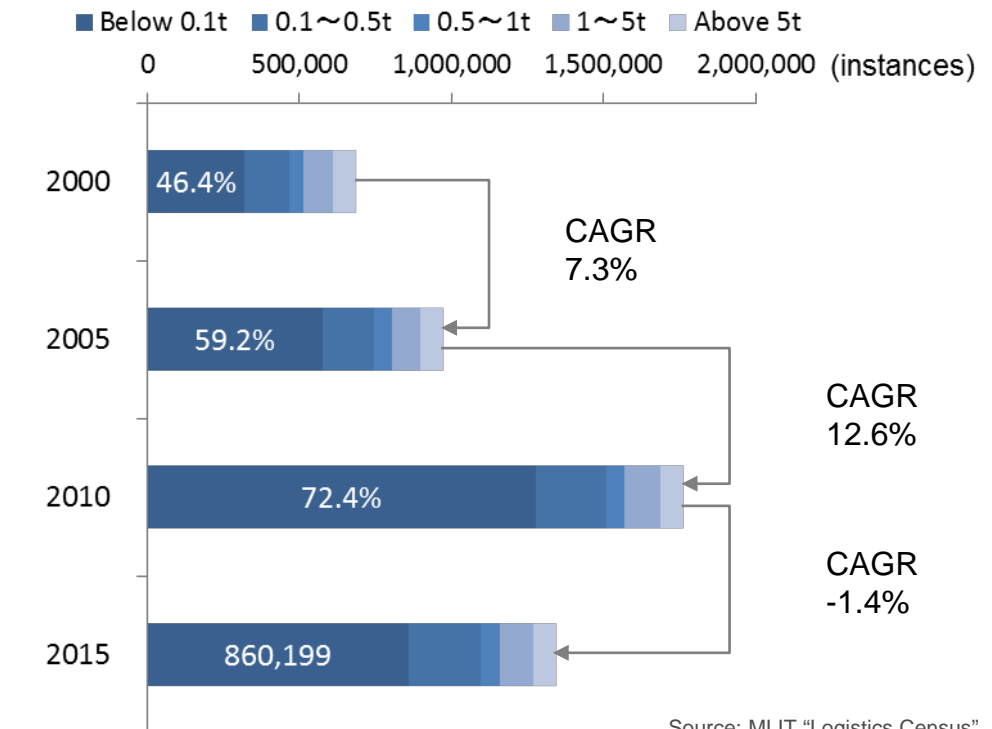
# As the movement to smaller logistics lots progresses, the quantity distributed in such lots appears to be in upward trend based on the number of instances.

- 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)

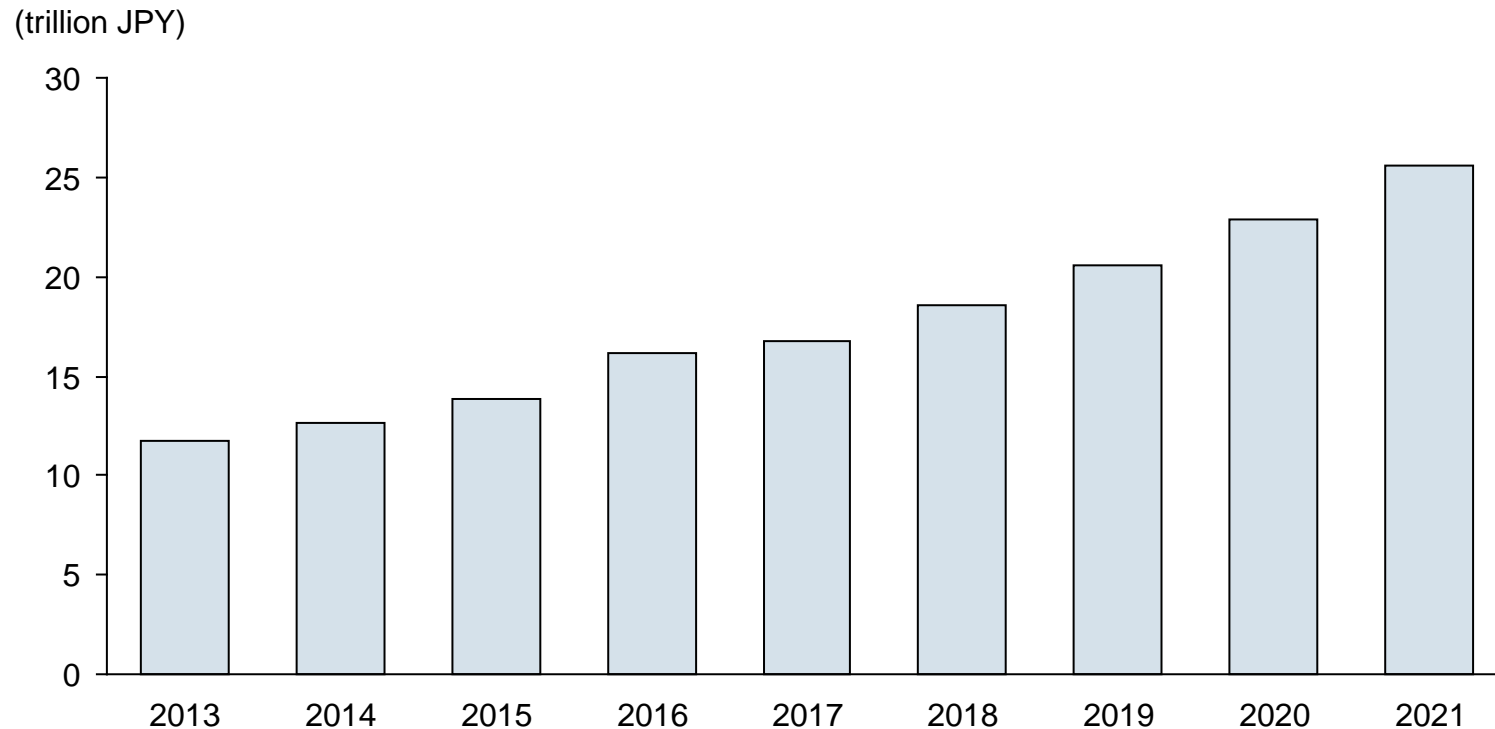


Source: MLIT "Logistics Census"

**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 2019.

Market size of B-to-C e-Commerce



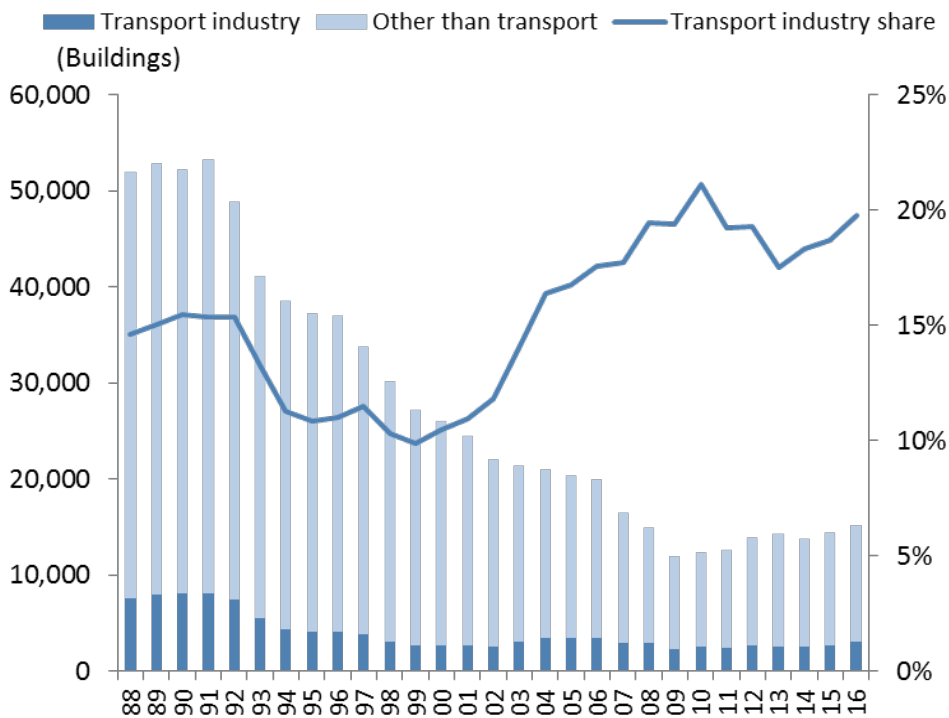
Source: NRI

Note: Business -to-consumer e-commerce: sale of products and services to consumers in general via the Internet

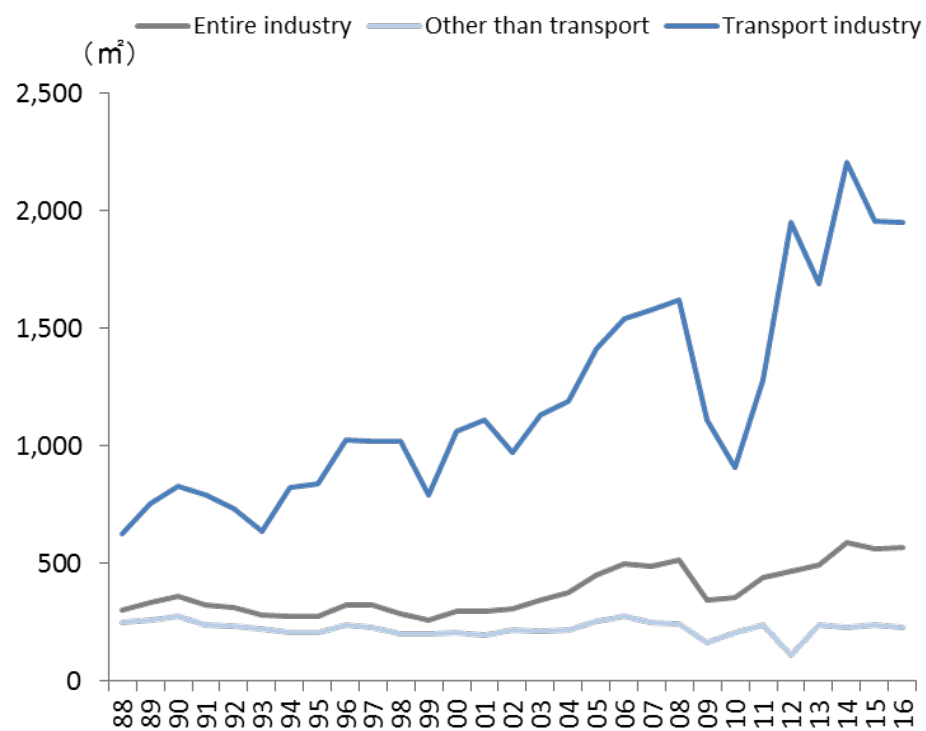
## While new supply has stopped dwindling, facilities are growing larger due to businesses consolidating their logistics capabilities.

- 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



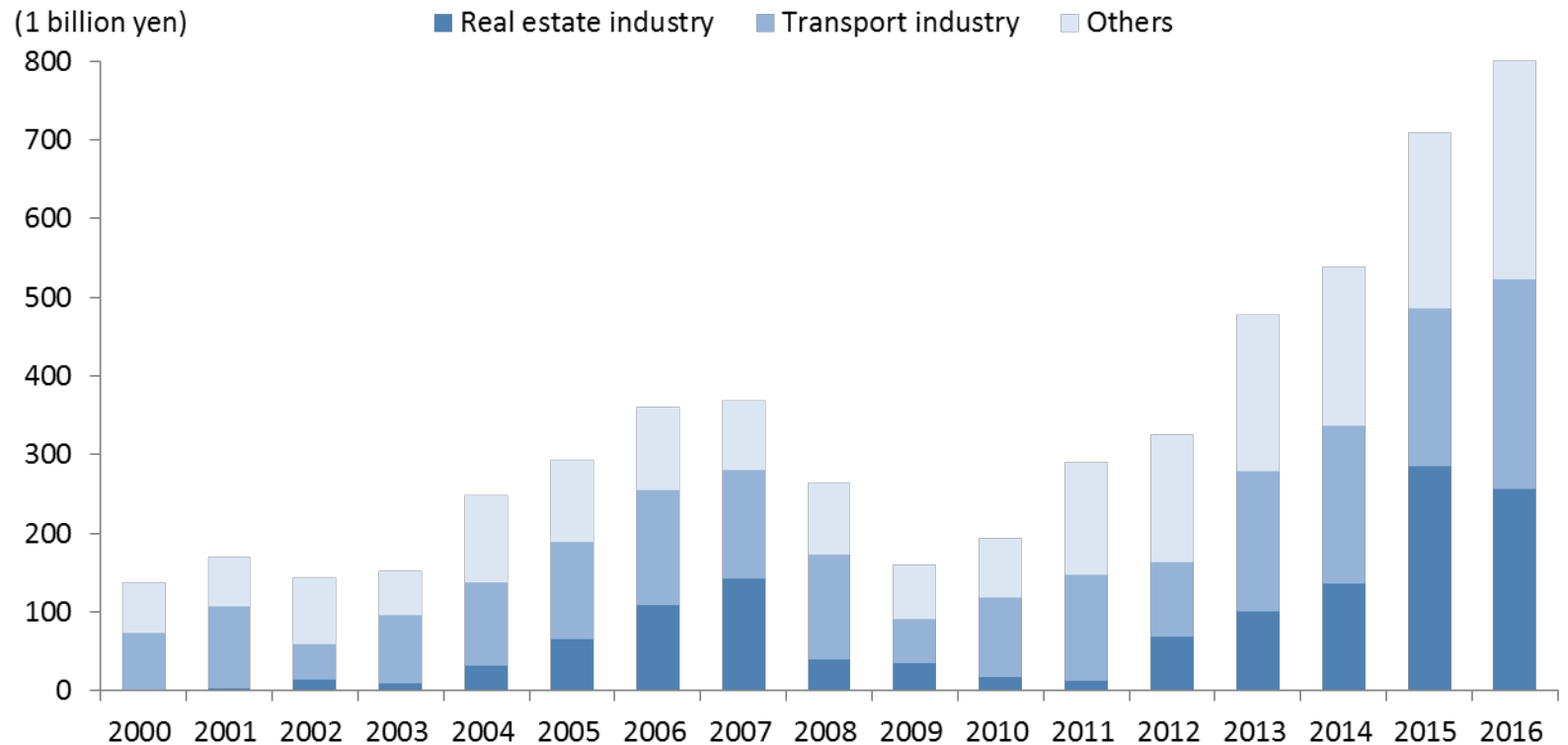
Floor space per warehouse building





**In response to the growing demand of logistics used by e-commerce, the volume of order to build warehouses/logistics facilities has been increasing.**

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

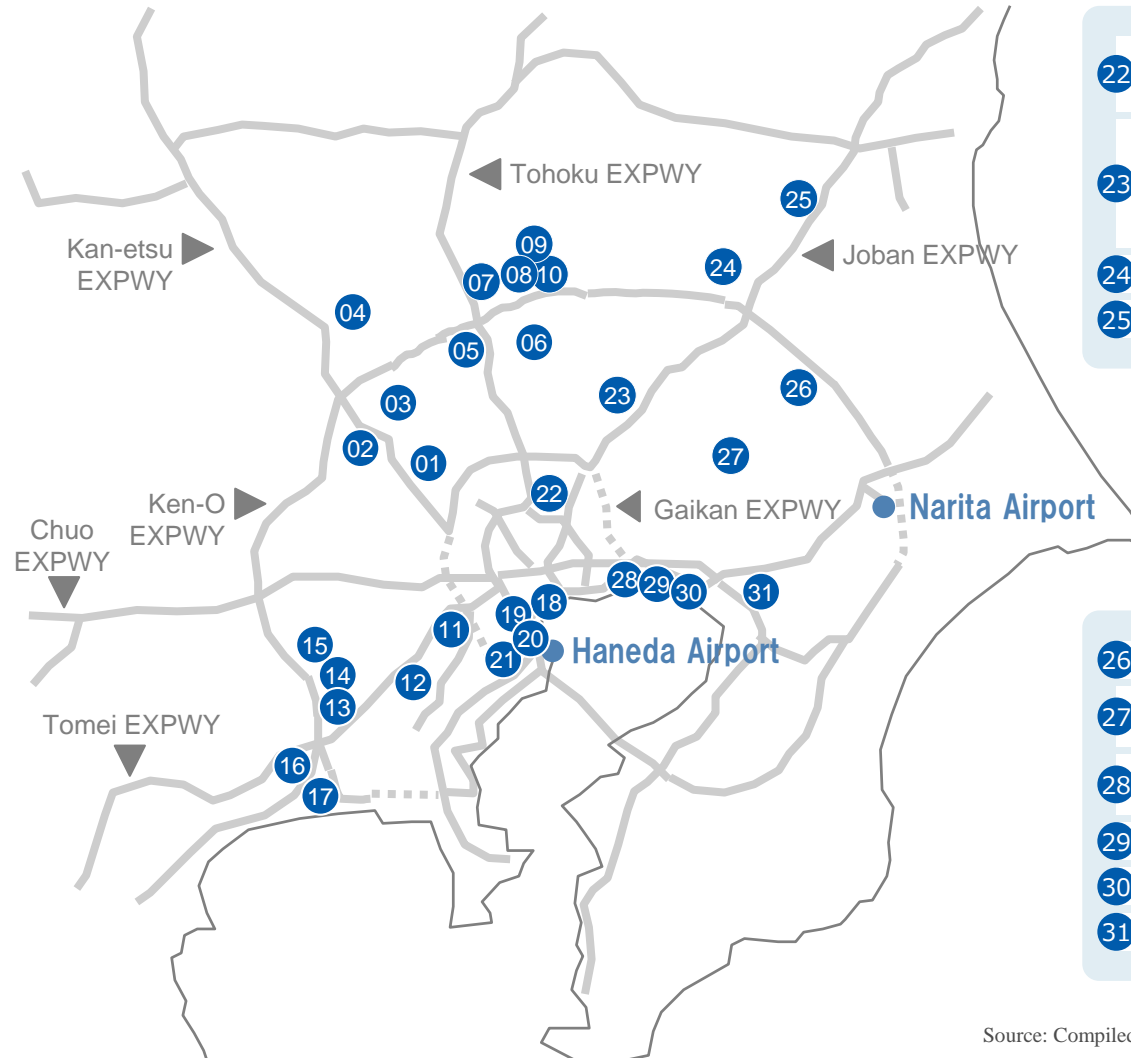


Source: MLIT "Construction Order Trends, Statistics and Survey"  
Note: Only contracts worth 500 million yen and above are included

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

**No. Project**

- 01 MFLP Prologis Park Kawagoe
- 02 MFLP Prologis Park Kawagoe
- 03 Logi-Square Kawagoe
- 04 Prologis Park Higashi-Matsuyama
- 05 Hasuda Logistics Center
- 06 Logi-Square Kasukabe
- 07 Kuki Distribution Center
- 08 DPL Satte
- 09 Prologis Park Furukawa 3
- 10 GLP Goka
- 11 MUCD Kawasaki 1 extension
- 12 SOSiLA Yokohama-Kohoku
- 13 Prologis Park Ebina 2
- 14 MUCD Zama
- 15 Logiport Sagamihara 2  
GLP Sagamihara Project
- 16 MFLP Atsugi 2
- 17 MFLP Atsugi 3  
Hiratsuka Higashi-Yawata L. Center
- 18 Tokyo Railgate East
- 19 Distribution B Bldg.  
DynaBASE
- 20 MFLP Haneda
- 21 MFLP Kawasaki 1



- 22 DLP Kawaguchi-Ryouke  
MFLP Kawaguchi 1
- DLP Nagareyama 1
- 23 GLP Nagareyama 1  
GLP Nagareyama 2  
GLP Nagareyama 3
- 24 Prologis Park Tsukuba 1
- 25 MFLP Tsukuba

- Expressway
- - - Expressway (planned)
- New devts

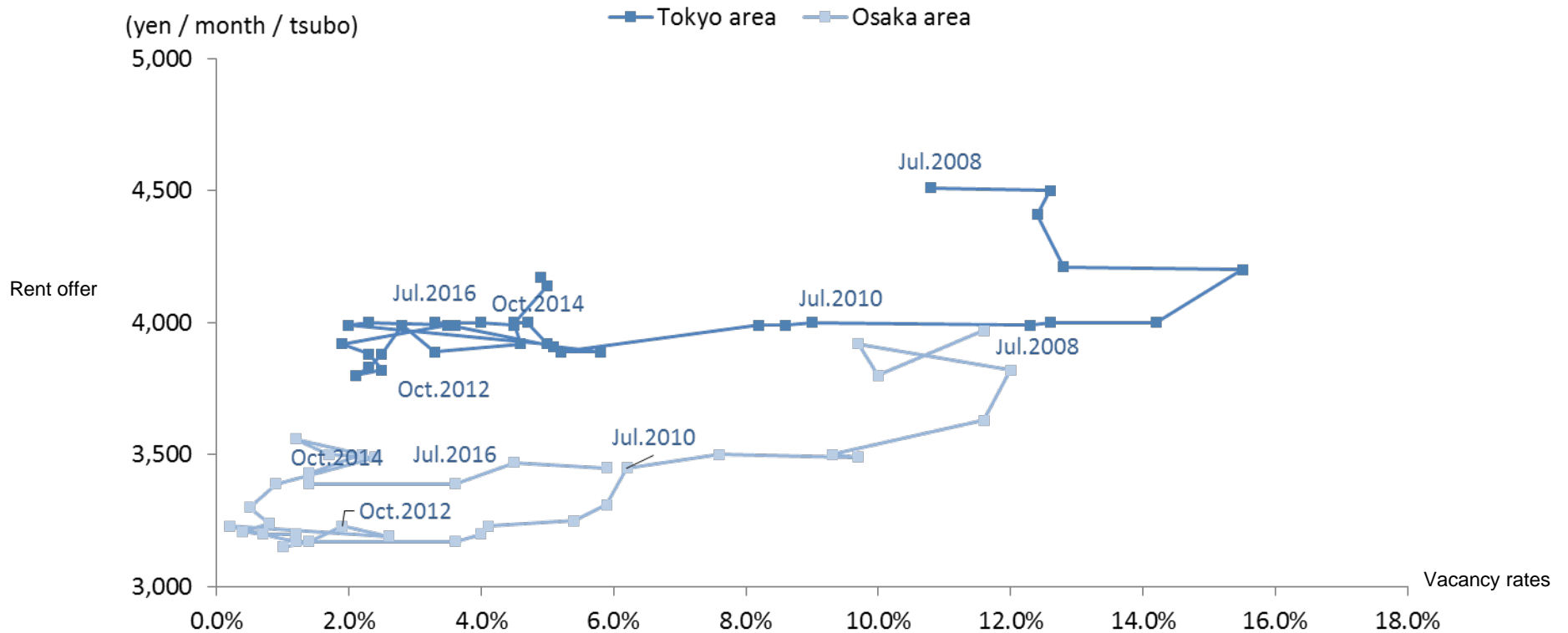
- 26 DLP Tsukuba-Ami
- 27 Goodman Business Park Stage 1  
Goodman Business Park Stage 2
- 28 Prologis Park Ichikawa 3  
Ichikawa Distribution Center
- 29 MFLP Funabashi 2
- 30 Logi-Cross Narashino
- 31 Chiba Wakamatsu-Cho L. Center

Source: Compiled by NRI from companies' respective websites

#	Name of Project	Name of Developer	Map No.	Completion	Scale (Total floor area)
1	DPL Tsukuba-Ami	Daiwa House Industry	26	2017.7	62,567 m <sup>2</sup> **
2	Distribution B bldg.	Tokyo Ryutsu Center	19	2017.7	about 171,30 m <sup>2</sup>
3	SOSiLA Yokohama-Kohoku	Sumitomo Corp.	12	2017.9	about 87,000 m <sup>2</sup>
4	Hiratsuka Higashi-Yawata Logistics Center	LaSalle Investment Management	17	2017.10	9,690 m <sup>2</sup>
5	Prologis Park Ichikawa 3	ProLogis	28	2017.12	64,406 m <sup>2</sup>
6	Logiport Sagamihara 2	LaSalle Investment Management	15	2017 Winter	45,500 m <sup>2</sup>
7	Prologis Park Ebina 2	ProLogis	13	2017	38,057 m <sup>2</sup>
8	MCUD Zama	Mitsubishi Corp. Urban Development	14	2018.1	18,200 m <sup>2</sup>
9	Goodman Business Park Stage 1 East	Goodman Japan	27	2018.1	116,000 m <sup>2</sup> *
10	Goodman Business Park Stage 2	Goodman Japan	27	2018.1	125,000 m <sup>2</sup> *
11	DPL Kawaguchi-Ryouke	Daiwa House Industry	22	2018.2	71,448 m <sup>2</sup>
12	Prologis Park Higashi-Matsuyama	ProLogis	04	2018.2	about 71,348 m <sup>2</sup>
13	Logi-Square Kawagoe	CRE	03	2018.2	7,453 m <sup>2</sup>
14	GLP Nagareyama 1	GLP	23	2018.2	131,236 m <sup>2</sup>
15	DPL Nagareyama 1	Daiwa House Industry	23	2018.2	144,005 m <sup>2</sup>
16	MFLP Atsugi 2	Mitsui Fudosan	16	2018.3	14,700 m <sup>2</sup>
17	MFLP Tsukuba	Mitsui Fudosan	25	2018.3	about 25,500 m <sup>2</sup>
18	Logi-Cross Narashino	Mitsubishi Estate	30	2018.3	about 39,100 m <sup>2</sup>
19	GLP Nagareyama 2	GLP	23	2018	95,841 m <sup>2</sup>
20	GLP Nagareyama 3	GLP	23	2018.5	93,223 m <sup>2</sup>
21	Hasuda Logistics Center	ORIX	05	2018 Spring	23,510 m <sup>2</sup> **
22	MFLP Atsugi 3	Mitsui Fudosan	17	2018.6	about 43,400 m <sup>2</sup>
23	MCUD Kawasaki 1 Extension	Mitsubishi Corp. Urban Development	11	2018.6	48,921 m <sup>2</sup>
24	Logi-Square Kasukabe	CRE	06	2018.6	22,187 m <sup>2</sup>
25	DynaBASE	Japan Motor Terminal	19	2018.7	97,000 m <sup>2</sup>
26	Prologis Park Furukawa 3	ProLogis	09	2018.8	31,256 m <sup>2</sup>
27	Prologis Park Tsukuba 1	ProLogis	24	2018.8	about 70,000 m <sup>2</sup>
28	Kuki Distribution Center	ESR (ex-Redwood Group)	07	2018.9	155,853 m <sup>2</sup>
29	MFLP Prologis Park Kawagoe	Mitsui Fudosan/ProLogis	02	2018.10	about 130,800 m <sup>2</sup>
30	GLP Goka	GLP	10	2018.10	140,000 m <sup>2</sup>
31	Ichikawa Distribution Center	ESR (ex-Redwood Group)	28	2019.1	229,715 m <sup>2</sup>
32	MFLP Kawaguchi 1	Mitsui Fudosan	22	2019.4	about 54,100 m <sup>2</sup>
33	GLP Niiza	GLP	01	2019 Spring	about 31,000 m <sup>2</sup>
34	MFLP Haneda	Mitsui Fudosan	20	2019.6	about 84,400 m <sup>2</sup>
35	MFLP Kawasaki 1	Mitsui Fudosan	21	2019.9	about 41,500 m <sup>2</sup>
36	MFLP Funabashi 2	Mitsui Fudosan	29	2019.10	about 225,000 m <sup>2</sup>
37	Tokyo Railgate EAST	Mitsui Fudosan	18	2021.10	about 161,000 m <sup>2</sup>
38	GLP Sagamihara Project	GLP	15	After 2022	655000 m <sup>2</sup>
39	DPL Satte	Daiwa House Industry	08	unknown	115,600 m <sup>2</sup> **
40	Chiba Wakamatsu-cho Logistics Center	ITOCHU Corp.	31	unknown	about 10,478 m <sup>2</sup>

**While the supply of logistics properties is increasing, vacancy rates are rising since 2016. On the other hand monthly rent offers are also rising in Greater Tokyo.**

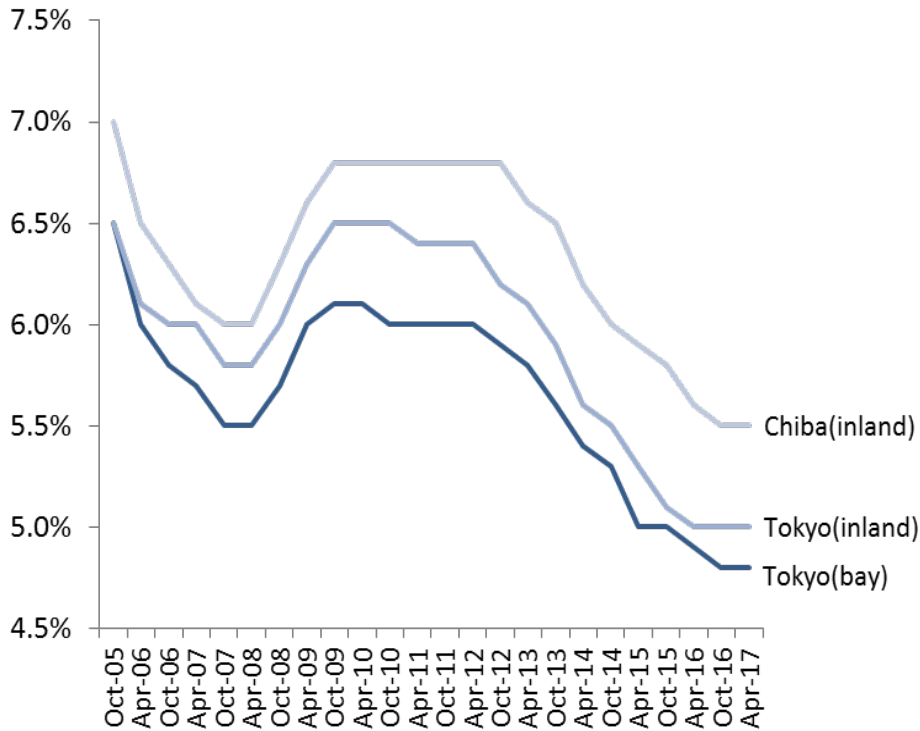
Monthly rent offers and vacancy rates of logistics properties



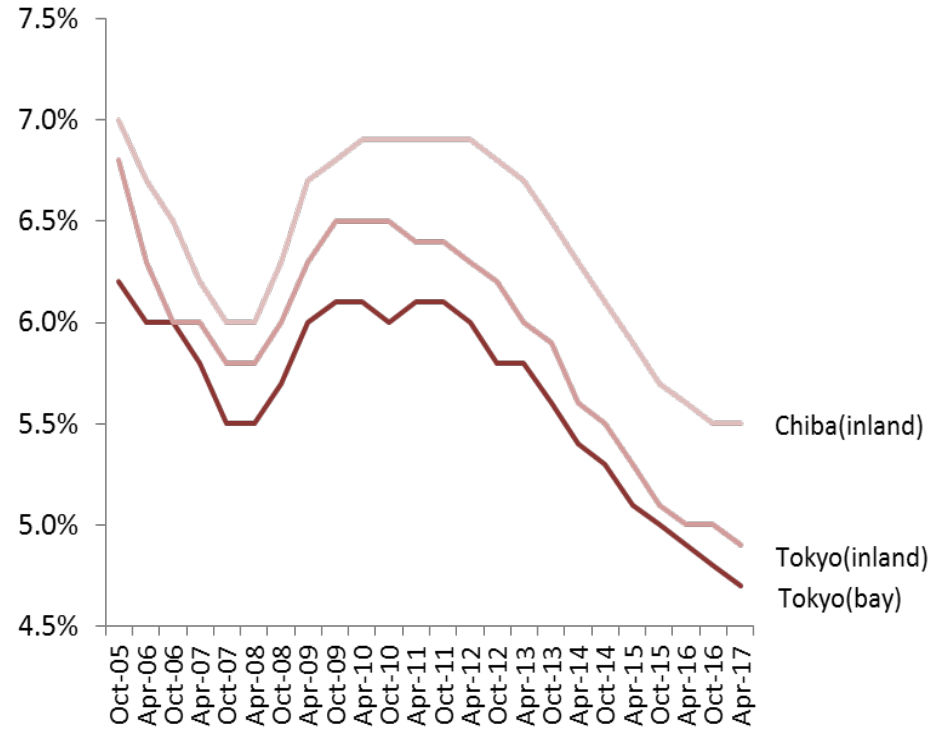
Source: Ichigo Real Estate Information Service "Survey on the Logistics Facilities Rental Market"  
 Note: Logistics facilities which have a total lot area or total floor area of 10,000m<sup>2</sup>

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

Single tenant



Multi-tenant



Source: Japan Real Estate Institute "Real Estate Investor's Survey"  
 Note: Single tenant: 2-3 floors; total floor area of around 10,000m<sup>2</sup>  
 Multi-tenant: 3-4 floors; total floor area of around 50,000m<sup>2</sup>

**Population movements in Japan**

**Macro fundamentals of Japan**

**Overview of real estate investment market in Japan**

**Office market**

**Residential market**

**Retail property market**

**Logistics property market**

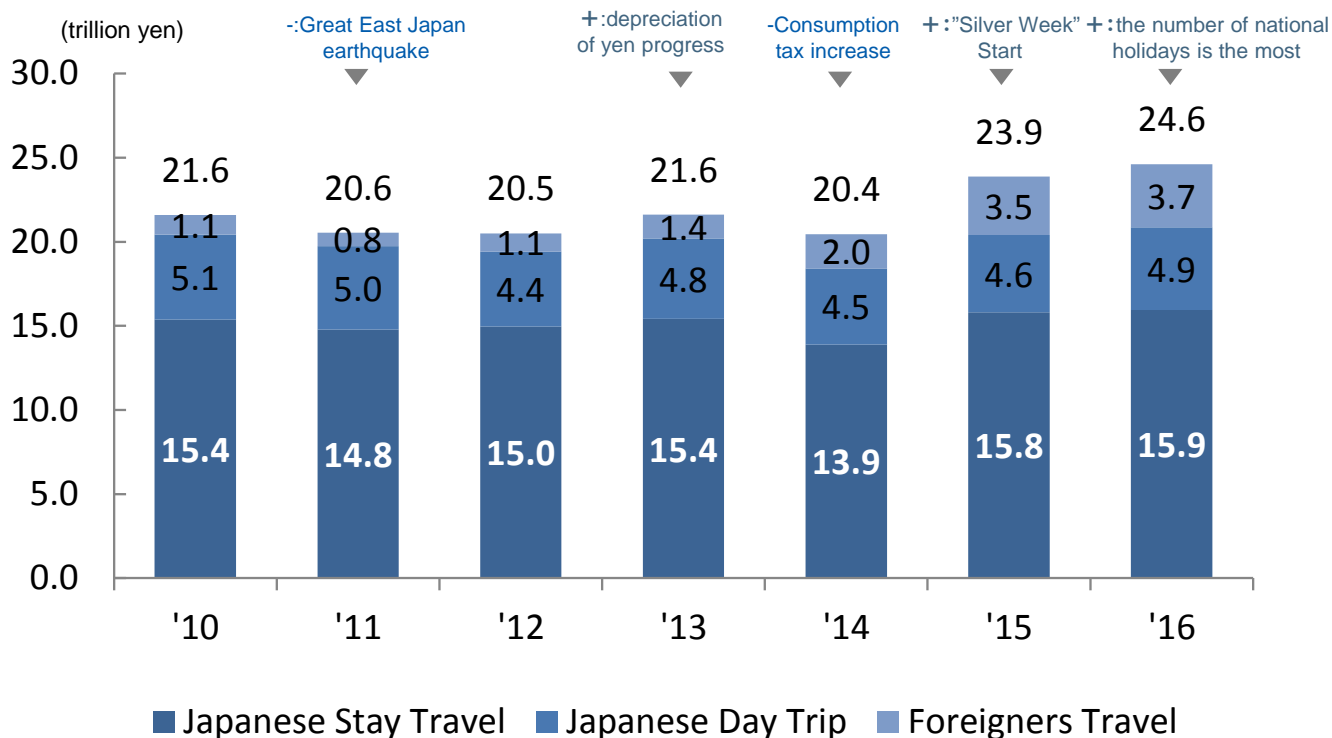
**Hotel market**

**Real estate investment products**

# Domestic travel expenditure in 2016 was the largest in the last 7 years, driven by an increased number of foreigner travelers to Japan.

■ Foreign travelers in 2016 accounted for c15% of total domestic travel expenditure

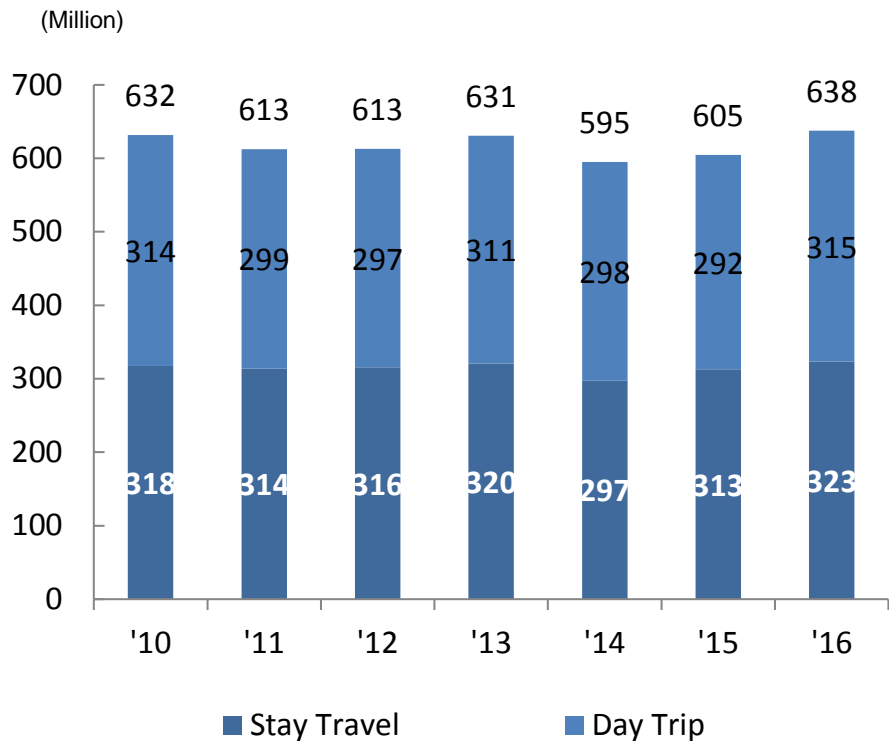
### Trends in domestic travel expenditure



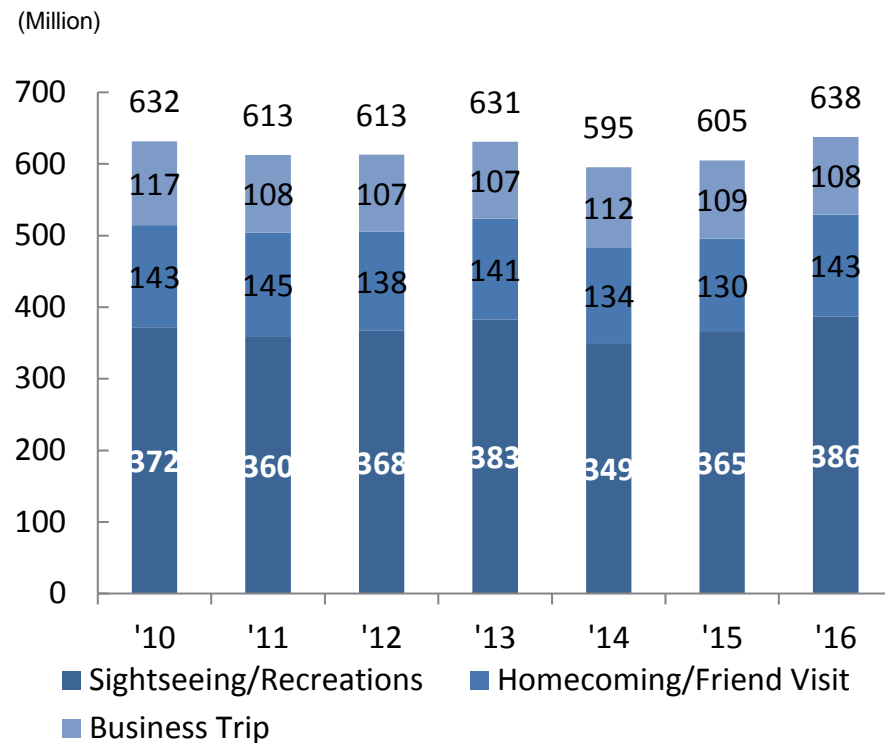
Sources: Compiled by NRI from Japan Tourism Agency "Ryokou·Kankou Sho-hi Doukou Chosa" and "Consumption Trend Survey for Foreigners Visiting Japan" data

# The number of travelers among Japanese residents has edged sideways.

Cumulative domestic traveler numbers  
(Overnight Travel/Day Trip)



Cumulative domestic traveler numbers  
(by trip objective)



Source: Compiled by NRI from Japan Tourism Agency "Ryokou · Kankou Sho-hi Doukou Chosa" data

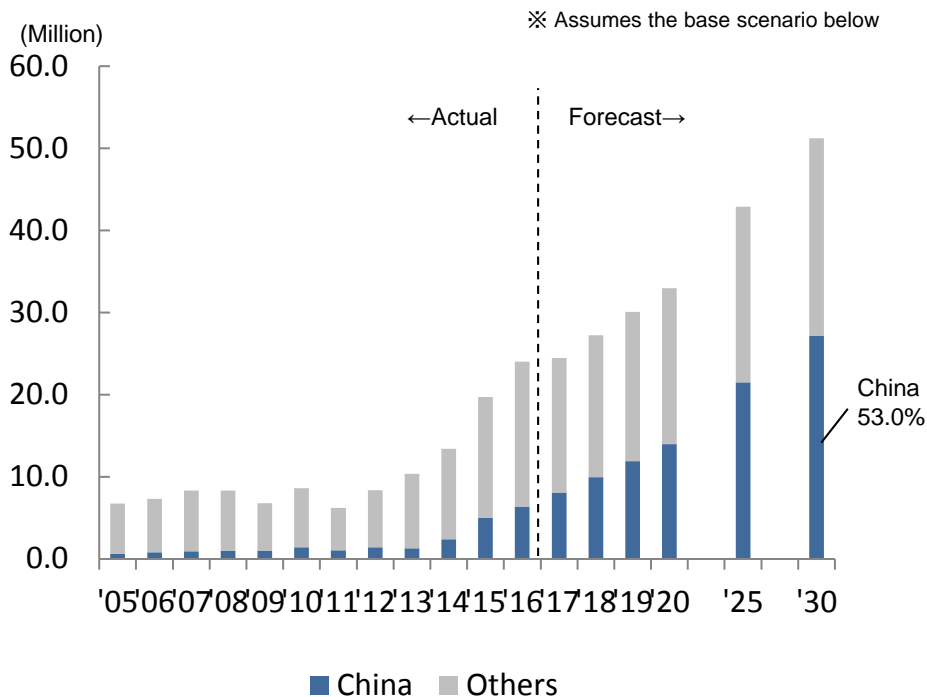
Note: Cumulative domestic traveler numbers do not include foreign travelers to Japan.



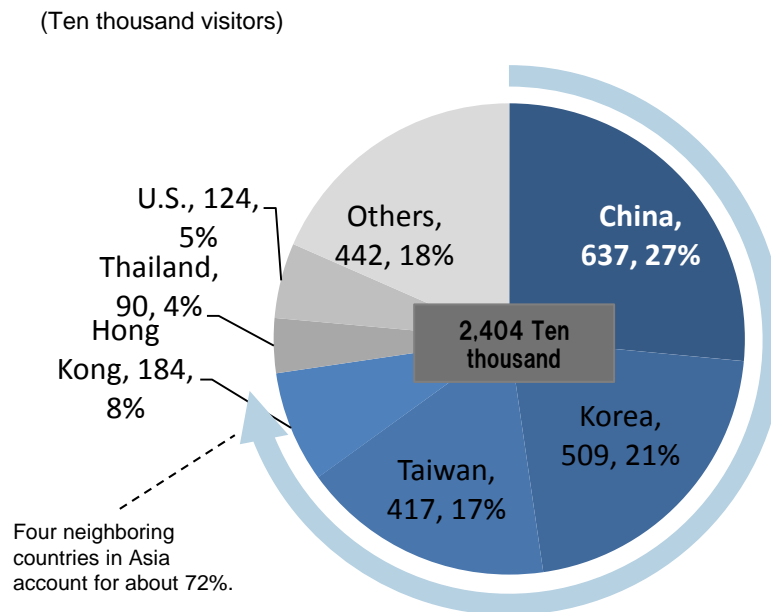
Conversely, the number of travelers to Japan increased rapidly and reached about 24 million, thanks to the weak yen and relaxed visa criteria. NRI projects the number of travelers to Japan rising about 50 million in 2030

- Measured by departure country, Chinese visitors will account for about 53% of the total in 2030.

### No. of foreigner travelers to Japan (by departure country)



### No. of foreigner travelers to Japan by departure country (2015)



Sources: Compiled by NRI from (Actual numbers) JNTO (Forecast numbers) UNWTO and UN data

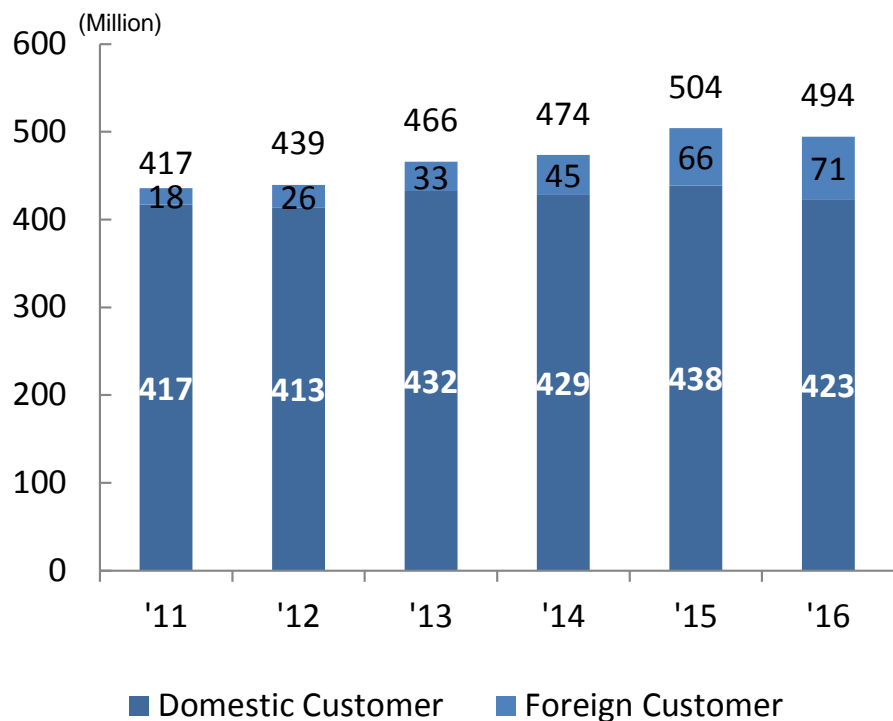
Note: Chinese economy doesn't fall into a panic and remains stable. As premise, Asian tourists choosing Japan as a travel destination rises slightly from the current level owing to relaxed visa standards and LCC expansion.

Source: Compiled by NRI from JNTO data

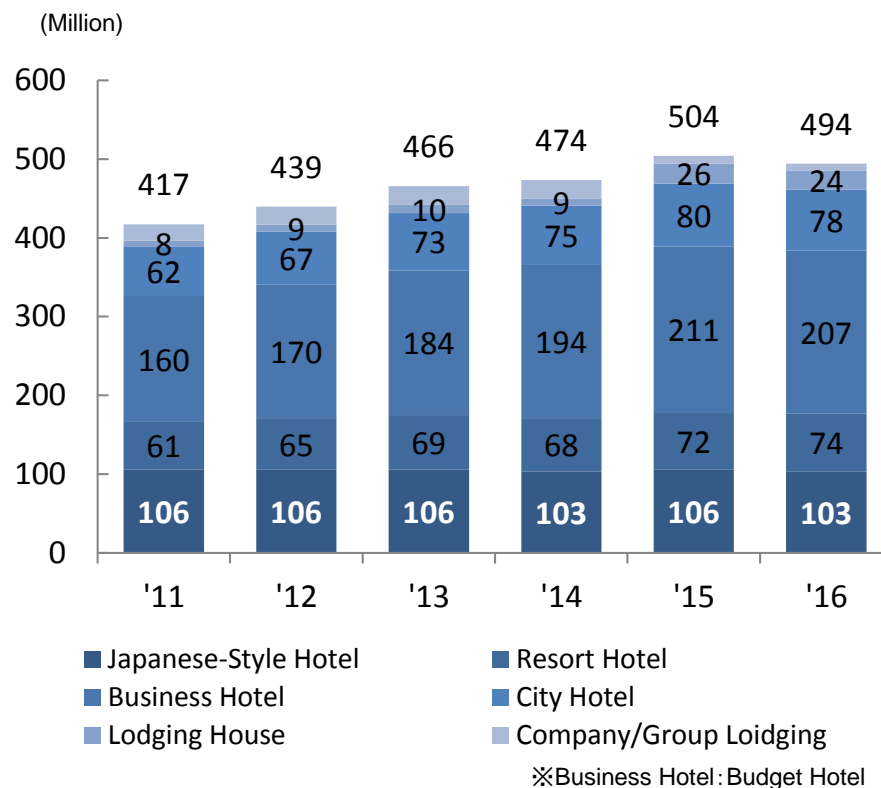
# Foreigner visitors accounted for 14.3% of all stays in 2016. This ratio continues to rise in tandem with the increase in overseas visitors

■ Viewed by facility type, the rise in foreign travelers is impacting growth in business hotels.

### Domestic accommodation (Domestic/Foreign)



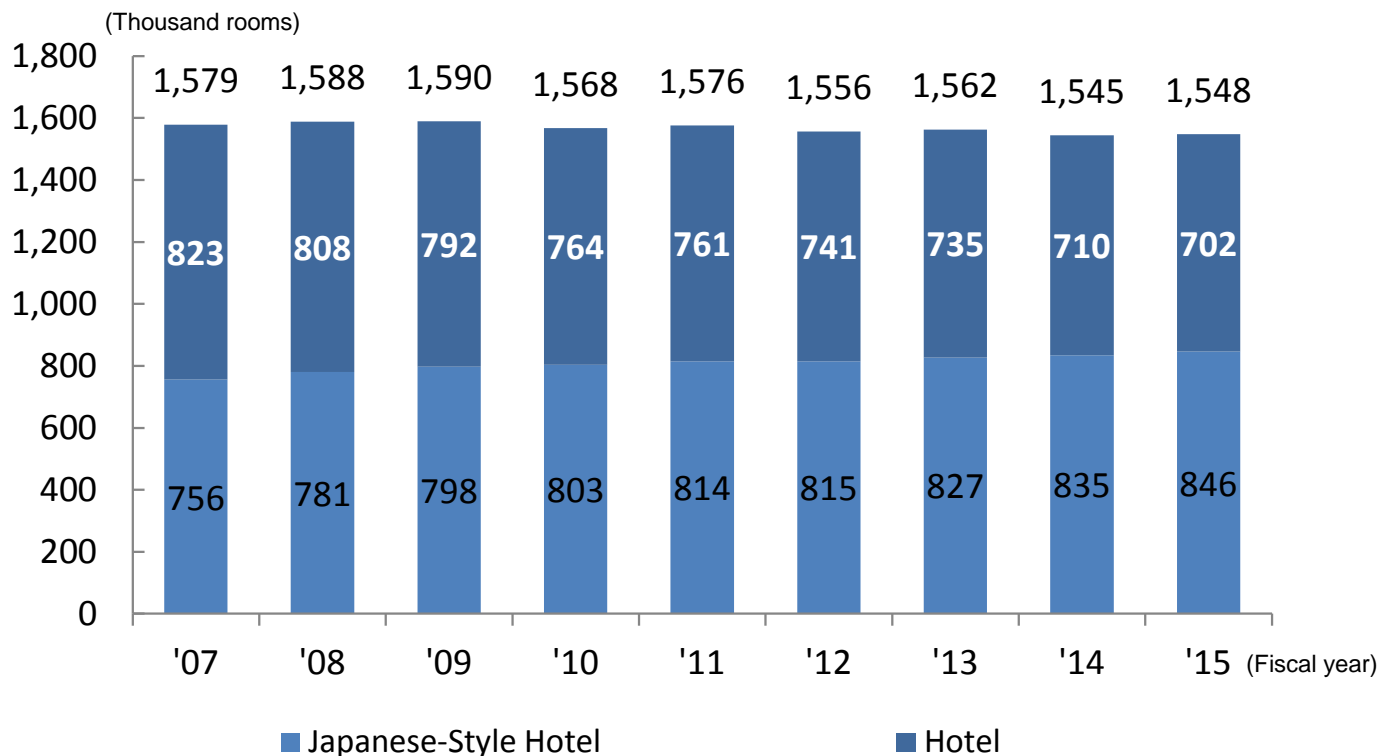
### Domestic stays (by accommodation type)



Source: Compiled by NRI from Japan Tourism Agency "Syukuhaku Ryokou Toukei" data

**The total number of the accommodation facilities remains stable.  
By type, however, the proportion of hotels continues to rise**

### Trend in number of guest rooms



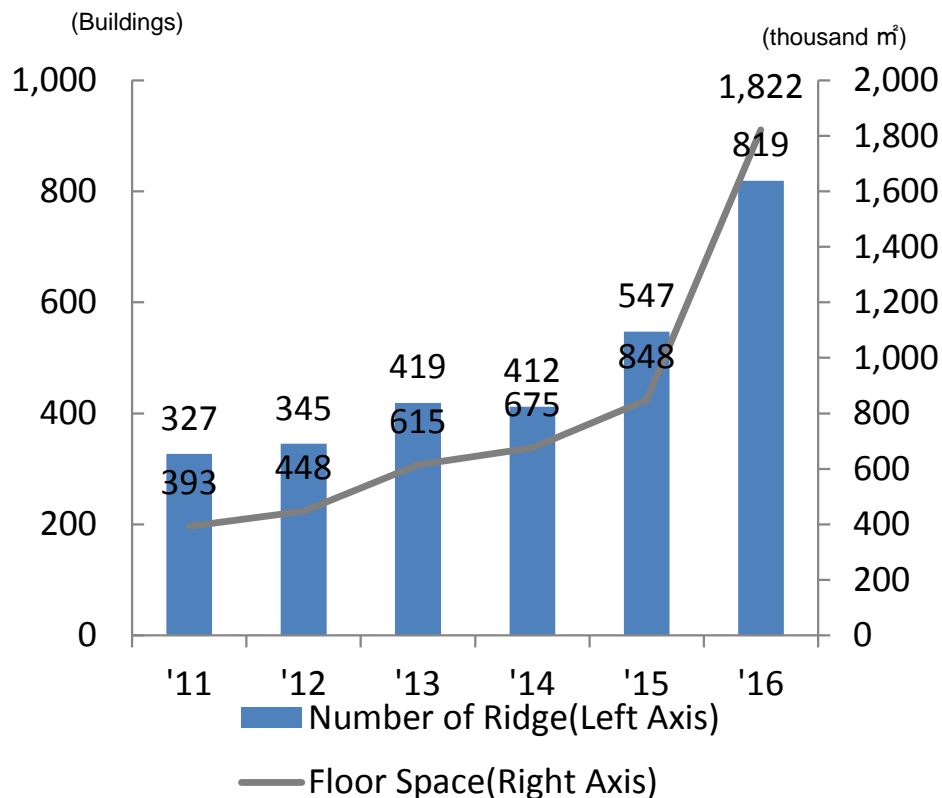
Source: Compiled by NRI from MHLW "Report of Health Administration and Services" data

The number of accommodation facilities and area of floor space both suddenly rose in 2016 owing to a stable economic environment and growing demand for accommodations.

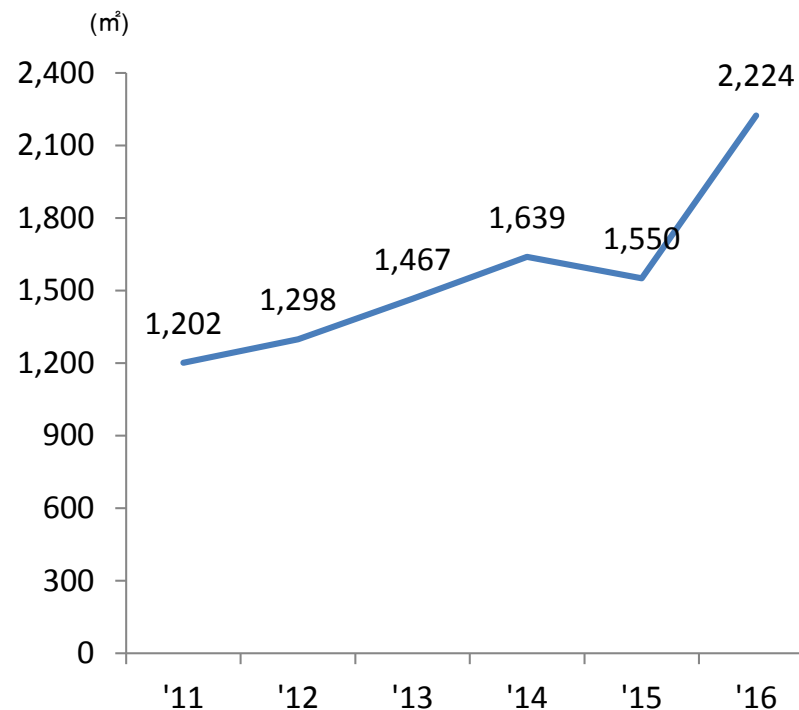
- Floor space per building is 1.25 times higher than 2011, as large buildings are being built

Accommodation facilities\*

No of buildings and floor space



Accommodation facilities \* Floor space per building



\*Accommodations assume a hotel.  
 Surveyed buildings are those built with steel framed reinforced concrete, ferroconcrete and steel frame

Source: Compiled by NRI from MLIT "Statistics on Construction Undertaken" data

## c16,000 rooms are expected to open in Tokyo over the next 3 years

### Main new hotel development projects in Tokyo\* 1/2

Operator	Area	Opening year	Number of rooms
APA Group	Akasaka	2018	500
	Asakusa	2018	306
	Ueno	2018	124
	Kanda	2018	142
	Komagome	2018	143
	Shinjuku	2018	176
	Nishi-Shinjuku	2018	710
	Shintomicho	2018	140
	Nagatacho	2018	500
	Nihonbashi-Bakurocho	2018	153
	Nihonbashi-Bakurocho	2018	193
	Nihonbashi-Bakurocho	2018	127
	Otuska	2019	613
	Shinjuku	2019	166
	Ryogoku	2019	1065
	Roppongi	2019	875
	Higashi-Shinjuku	2020	819
	Roppongi	undecided	670
Mitsui Fudosan Hotel Management	Kanda	2018	190
	Ginza	2019	330
	Otemachi	2020	190
	Toyosu	2020	200
	Yaesu	2021	undecided
Mitsui Fudosan	Gotanda	2018	372
	Nihonbashi-Muromachi	2018	260
Daiwa Royal	Ariake	2018	undecided
	Shinbashi	2018	undecided
	Kyobashi	2019	about 200

Operator	Area	Opening year	Number of rooms
Daiwa House Industry	Kanda	2018	113
	Toyosu	2019	330
Mori Trust	Ginza	2020	100
	Toranomon	2020	about 200
	Akasaka	2022	undecided
Toyoko Inn	Inagi	2018	259
	Shinjuku-Gyoen	2018	undecided
Daiichi Realter	Asakusabashi	2018	undecided
	Kanda	2018	130
	Shinonome	2018	undecided
nest Hotel Japan	Shinjuku	2018	106
	Hanzomon	2018	100
Sankei Building	Kyobashi	2018	205
	Ginza	undecided	undecided
Hulic	Ginza	2018	about 160
	Tsukiji	2018	undecided
ES-CON JAPAN	Hayabusacho	2018	102
	Ginza	2019	190
JR East Japan Railway Company	Akihabara	2019	196
	Takeshiba	undecided	200-300
JR Kyushu Railway Company	Shinbashi	2019	267
JR West Japan Railway Company Via Inn	Iidabashi	2018	295
Apple Real Estate Service	Akabane	2018	74
	Toyosu	2018	65

Source: Compiled by NRI from Ohta Publications Co., Ltd. "Weekly HOTERES" data  
 Note: A hotel development project is chosen as the area where weekly HOTERES investigated.

## c16,000 rooms are expected to open in Tokyo over the next 3 years

### Main new hotel development projects in Tokyo\* 2/2

Operator	Area	Opening year	Number of rooms
NREG Toshiba Building	Ueno	2018	undecided
Aihara Building	Nihonbashi	undecided	119
Asahi Shimbun Company	Ginza	2018	164
Inutsuka Manufacturing	Shinagawa	undecided	undecided
MG Leasing	Omori	2018	300
Kyoritsu Maintenance	Ginza	2019	undecided
Great Eagle Holdings (Hong-Kong)	Roppongi	undecided	270
Keihan Electric Railway	Ginza	2019	undecided
Cosmos Initia	Ueno	2018	undecided
Samty	Nihonbashi-Nakasu	2018	undecided
JST	Iriya	2018	undecided
JUJapan	Asakusabashi	2018	undecided
Mitsui Fudosan	Kasumigaokacho	2019	undecided
Sumitomo Realty & Development	Haneda	2020	154
SENKO Group Holdings	Shiomi	2019	230
Sotetsu Inn	Kanda	2018	115
Daiwa Land	Okachimachi	2018	63
Tsukada Global Holdings	Nishi-Shinjuku	2019	180
Tokyu Corp	Daikanyama	2018	undecided
Tokyu Land	Takehiba	undecided	undecided
Tokyo Tatemono	Ginza	2018	200
TOSEI	Ueno	2019	undecided
TOWA-SOGO System	Shinjuku	2019	undecided
Nakano Ward	Nakano	2025	Undecided
Nomura Real Estate Development	Nishi-azabu	2022-24	undecided

Operator	Area	Opening year	Number of rooms
Hankyu Hanshin Hotels	Kyobashi	2019	270
Higashinohon Toshikaihatsu	Narihira	undecided	43
VISTA Hotel Management	Akasaka	2018	140
Felice	Akasaka	2018	167
Hotel Keihan	Tsukiji	2018	298
Manyo Club	Toyosu	2019	undecided
Crowded House Area Arrangeing Realization Confarence	Kamata	undecided	undecided
Mitsubishi Estate	Nishi-Asakusa	2018	166
Mori Building	Daiba	undecided	undecided
Koen Shoji	Ikebukuro	undecided	160
Yasuda Real Estate	Nihonbashi-Hamacho	2018	108
Yamaguchi Fudosan	Otuska	2018	undecided
Yomiuri Shimbun Company	Ginza	2019	undecided
Ryumeikan	Shinbashi	2018	60
Route Inn Japan	Asakusabashi	2018	200
Royal Park Hotels & Resorts	Ginza	2019	125
Lotte	Kasai	undecided	undecided
Meitetsu Inn	Ginza	2018	223
Super Hotel	Ginza	2019	undecided
Tachihi Holdings, Nippon View Hotel	Tachikawa	undecided	undecided
Texas	Ginza	2018	105
Tokyu Hotels	Shibuya	2018	180
Keikyu EX Inn	Hamamatsucho	2019	135

Source: Compiled by NRI from Ohta Publications Co., Ltd. "Weekly HOTERES" data  
 Note: A hotel development project is chosen as the area where weekly HOTERES investigated.

## Over 10,000 rooms are expected to open in Osaka as well over the next 3 years

### Main new hotel development projects planned in Osaka prefecture\*

Operator	Area	Opening year	Number of rooms
Jowa Holdings	Osaka	2018	220
	Osaka	2018	225
	Osaka	2018	130
	Osaka	2019	291
	Osaka	2021	487
APA Group	Osaka	2018	240
	Osaka	2019	917
Daiwa House Industry	Osaka	2018	undecided
	Osaka	2019	undecided
Daiwa Resort	Osaka	2018	150
	Osaka	2018	223
Sotetsu Inn	Osaka	2018	244
	Osaka	2018	176
	Osaka	2019	276
AB Hotel	Osaka	2019	168
JR West Japan Railway Company Via Inn	Osaka	2018	88
JR West Japan Railway Hotel Development	Osaka	2018	400
WBF	Izumisano	2020	813
Osaka Prefecture	Osaka	2019	undecided
ORIX Group	Osaka	undecided	undecided
Kyoritsu Maintenance	Osaka	2018	undecided
Keihan Electric Railway	Osaka	undecided	undecided
Kuretakeso	Osaka	2018	110
Sanco Inn	Osaka	2018	115
Ship Healthcare Holdings	Suita	undecided	undecided
Sumitomo Warehouse	Osaka	undecided	about 300

Operator	Area	Opening year	Number of rooms
Tokyo Tatemono	Osaka	2018	300
Toyoko Inn	Osaka	2018	undecided
Nippon View Hotel	Osaka	2018	170
Japan Unist	Osaka	2018	undecided
nest Hotel Japan	Osaka	2019	250
Pacifica Capital	Osaka	2018	185
Hankyu Hanshin Hotels	Osaka	2019	250
Felice	Osaka	2018	216
Bellco	Namba	2019	150
Hoshino Resort Group	Osaka	2022	608
Hotel Monterey	Osaka	2018	undecided
Mitsubishi Estate	Osaka	2018	216
Yodobashi Camera	Osaka	2019	1000
Route Inn Japan	Kishiwada	2018	210
Royal Park Hotels & Resorts	Osaka	2020	352
Waqoo Project	Osaka	undecided	undecided
FJHotels	Osaka	2019	200
Tokyu Hotels	Osaka	2019	350

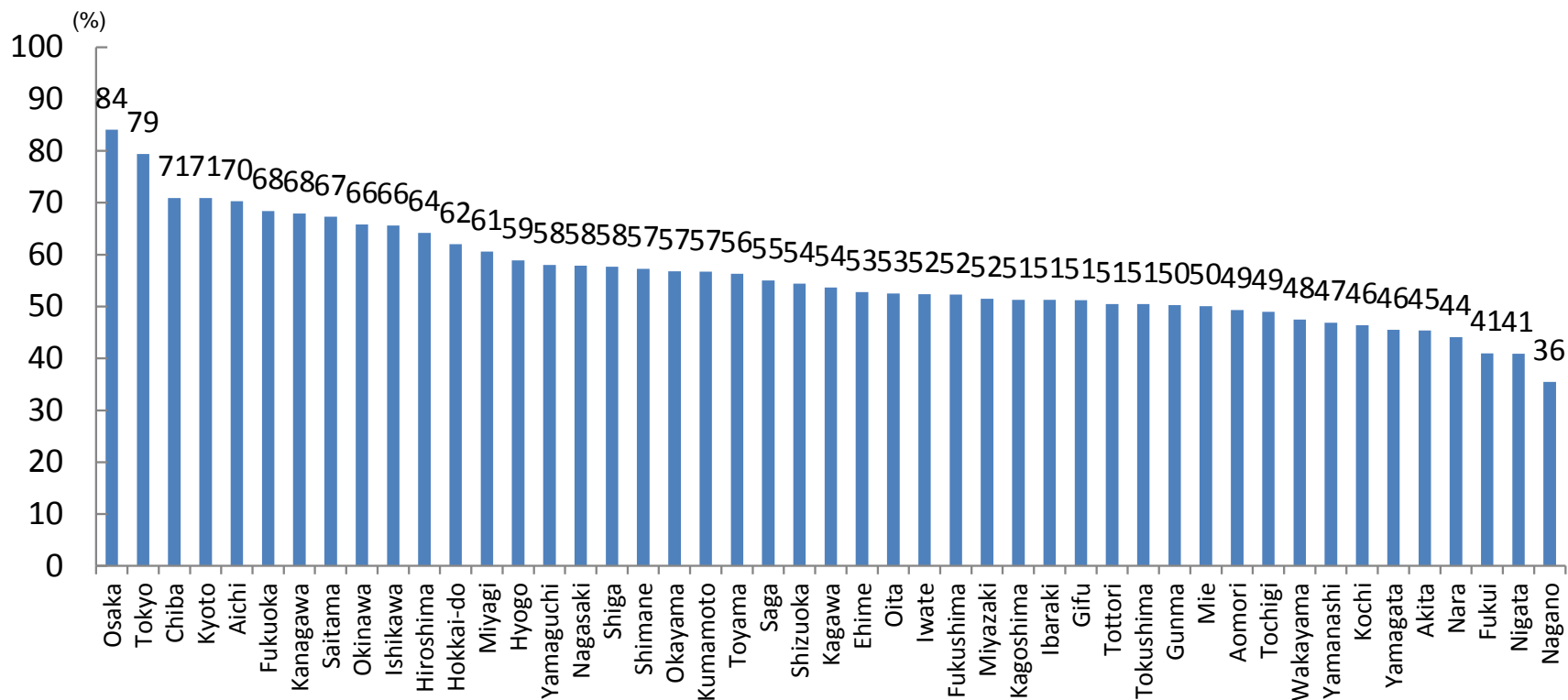
Source: Compiled by NRI from Ohta Publications Co., Ltd. "Weekly HOTERES" data

Note: A hotel development project is chosen as the area where weekly HOTERES investigated.

## Guest room occupancy rates vary widely by prefecture

■ Occupancy rates at hotels in Osaka and Tokyo have risen to c80% are approaching full capacity.

Average occupancy rate by prefecture

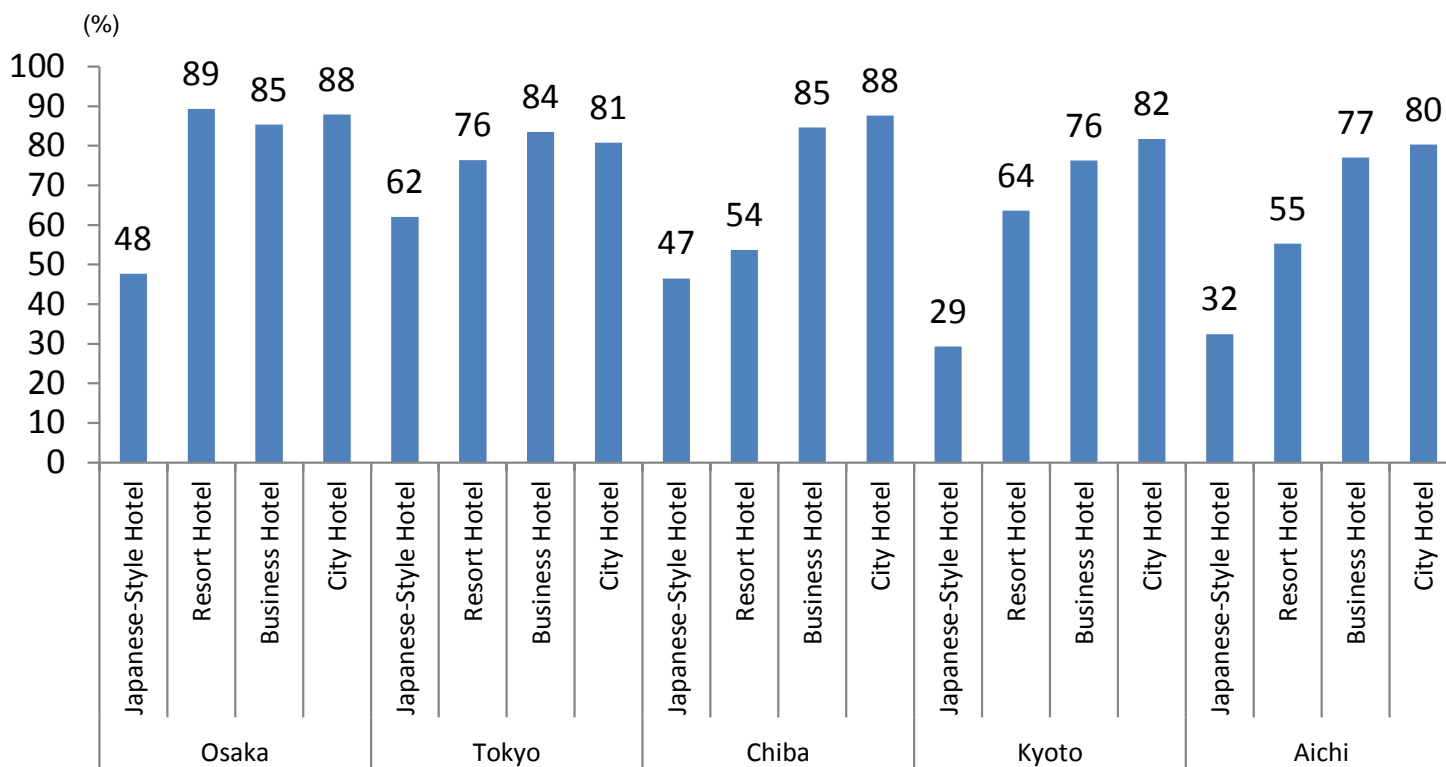


Source: Compiled by NRI from Japan Tourism Agency "Syukuhaku Ryokou Toukei" data



Looking at the type of accommodation in the top 5 prefectures, the occupancy rates in hotels often exceeds 70%. On the other hand, the occupancy rates of Japanese-style inns is less than 50% excluding the Tokyo area.

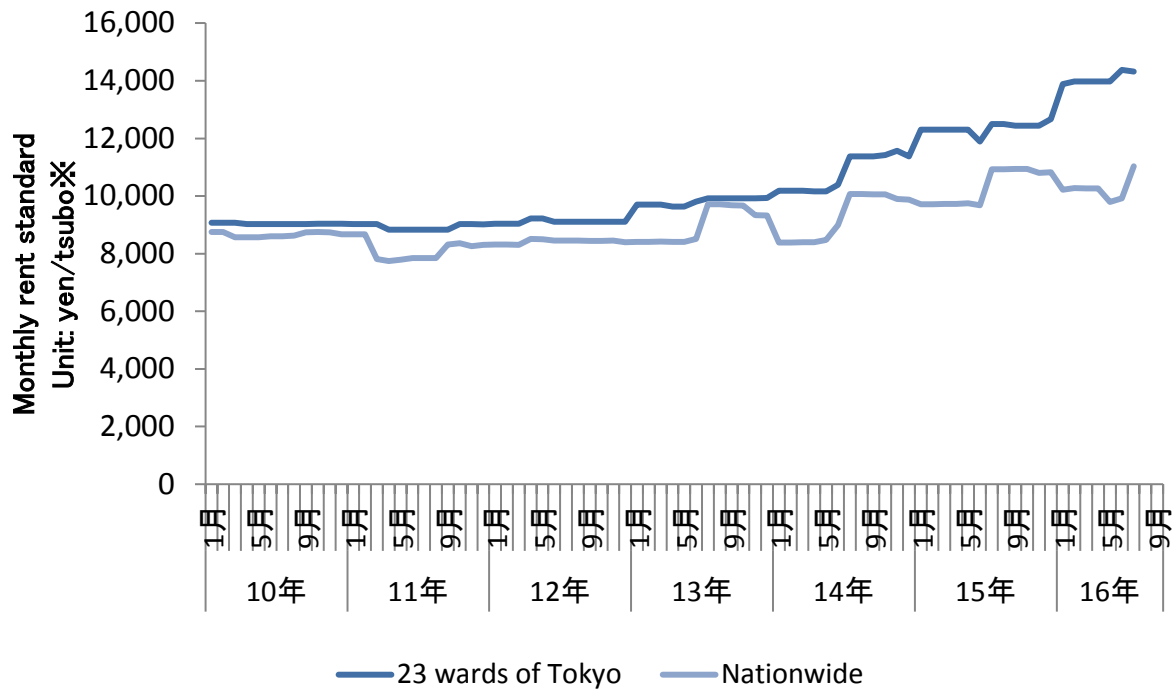
Average occupancy rate in top 5 prefectures (by type of accommodation)



Source: Compiled by NRI from Japan Tourism Agency "Syukuhaku Ryokou Toukei" data

# Hotel REIT earnings are expanding due to high occupancy rates

Rents at hotel REITs



Source: Compiled by NRI from ARES "J-REIT Property Database" data.

Note: 1tsubo=About 3.3m<sup>2</sup>

**Population movements in Japan**

**Macro fundamentals of Japan**

**Overview of real estate investment market in japan**

**Office market**

**Residential market**

**Retail property market**

**Logistics property market**

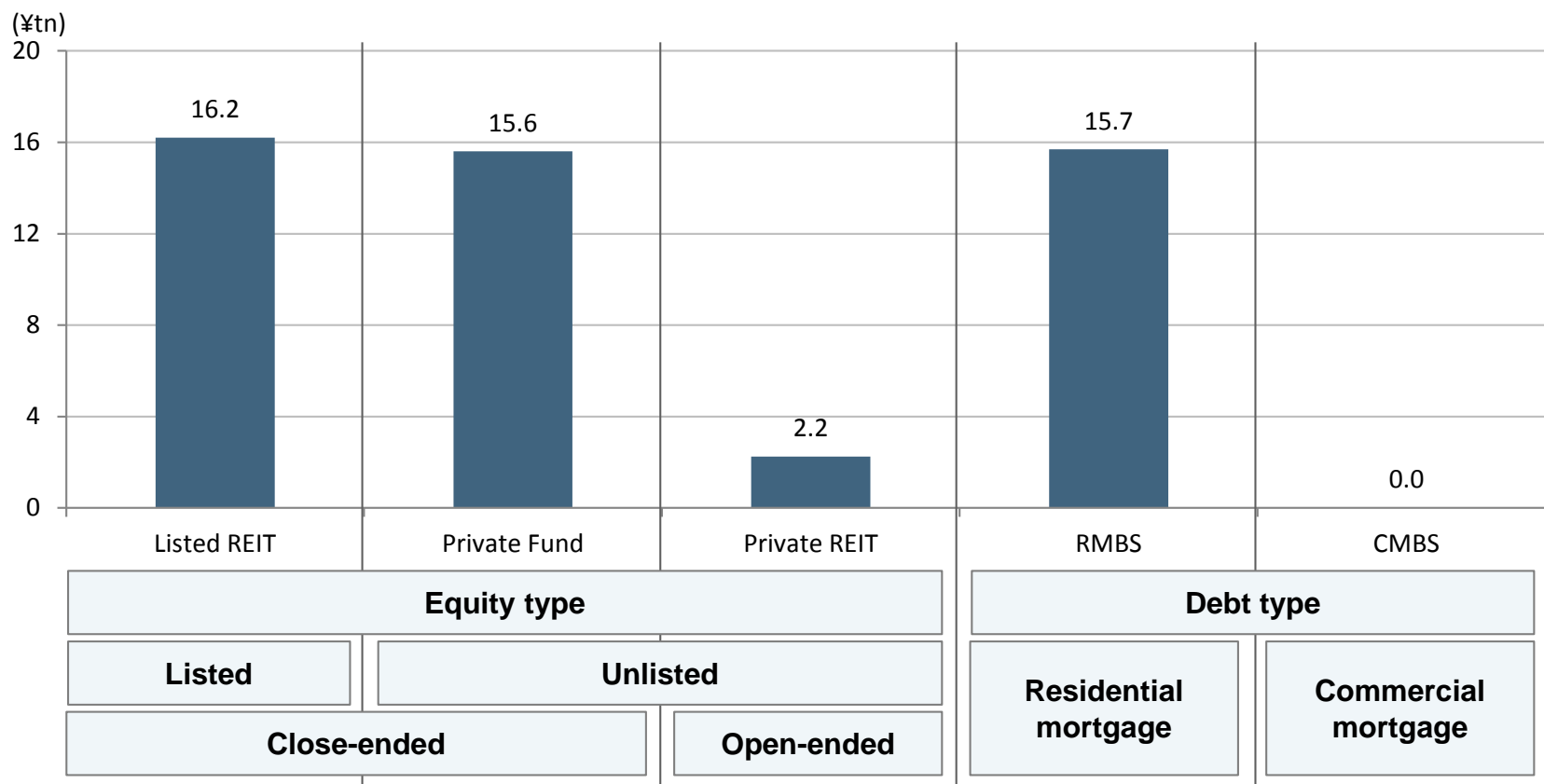
**Hotel market**

**Real estate investment products**

# An overall perspective of the Japanese real estate market

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

## Overview of real estate investment instruments in Japan and AUM



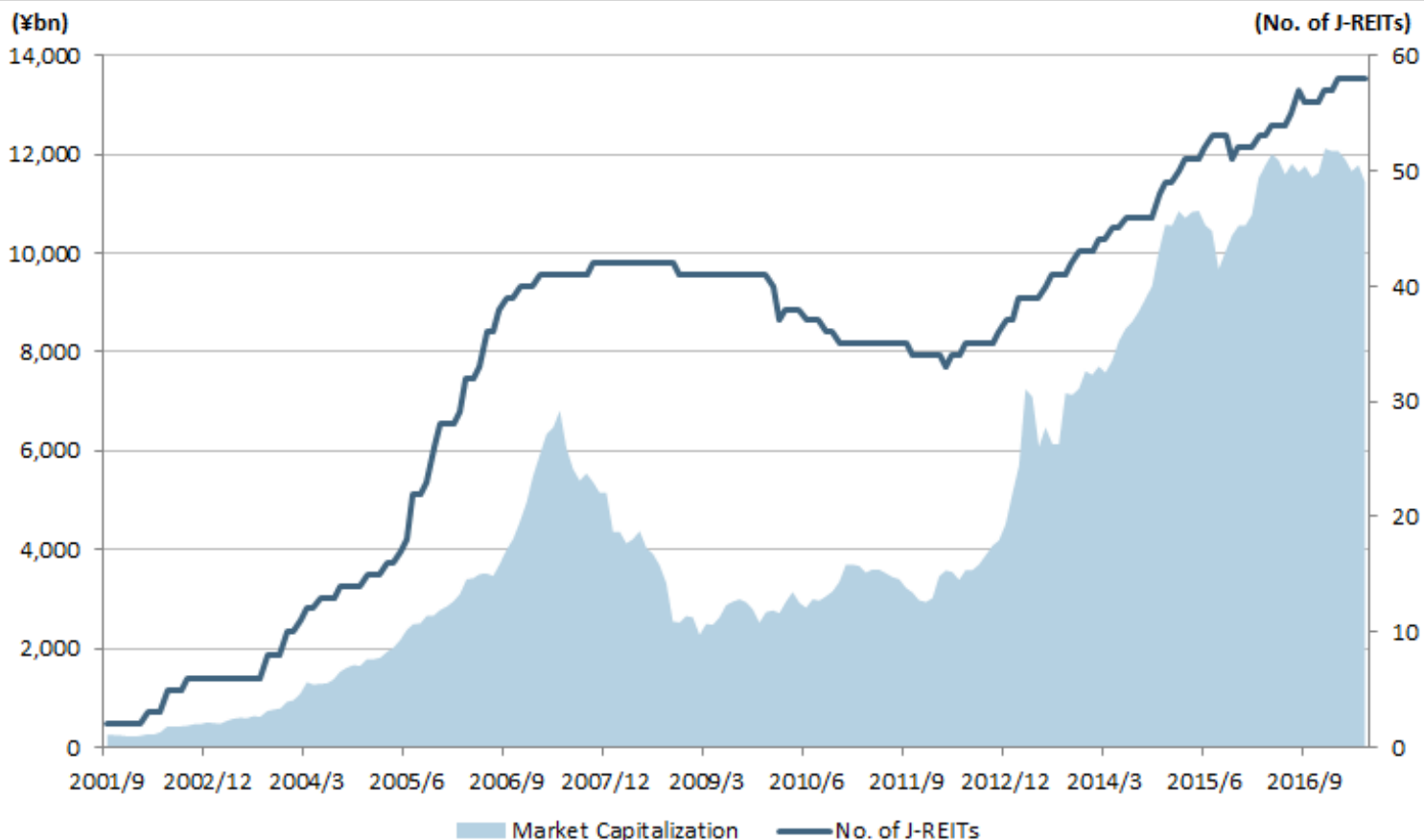
Sources: Compiled by NRI from Association for Real Estate Securitization, Sumitomo Mitsui Trust Research Institute Co., Ltd., and the Japan Securities Dealers Association data

Note: Listed REIT figure is updated as of end of Jun 2017, private fund figure is updated as on end of Dec 2016, private REIT figure is updated as of end of Jun 2017, RMBS/CMBS figure is updated as of end of Mar 2017.

**Launched in September 2001, J-REIT market capitalization has reached approximately 12 trillion yen.**

- J-REITs began trading on the stock market in September 2001 with two companies and a market capitalization of 250 billion yen.
- As of end of July 2017, there were 58 J-REITs traded worth approximately 11.6 trillion yen.

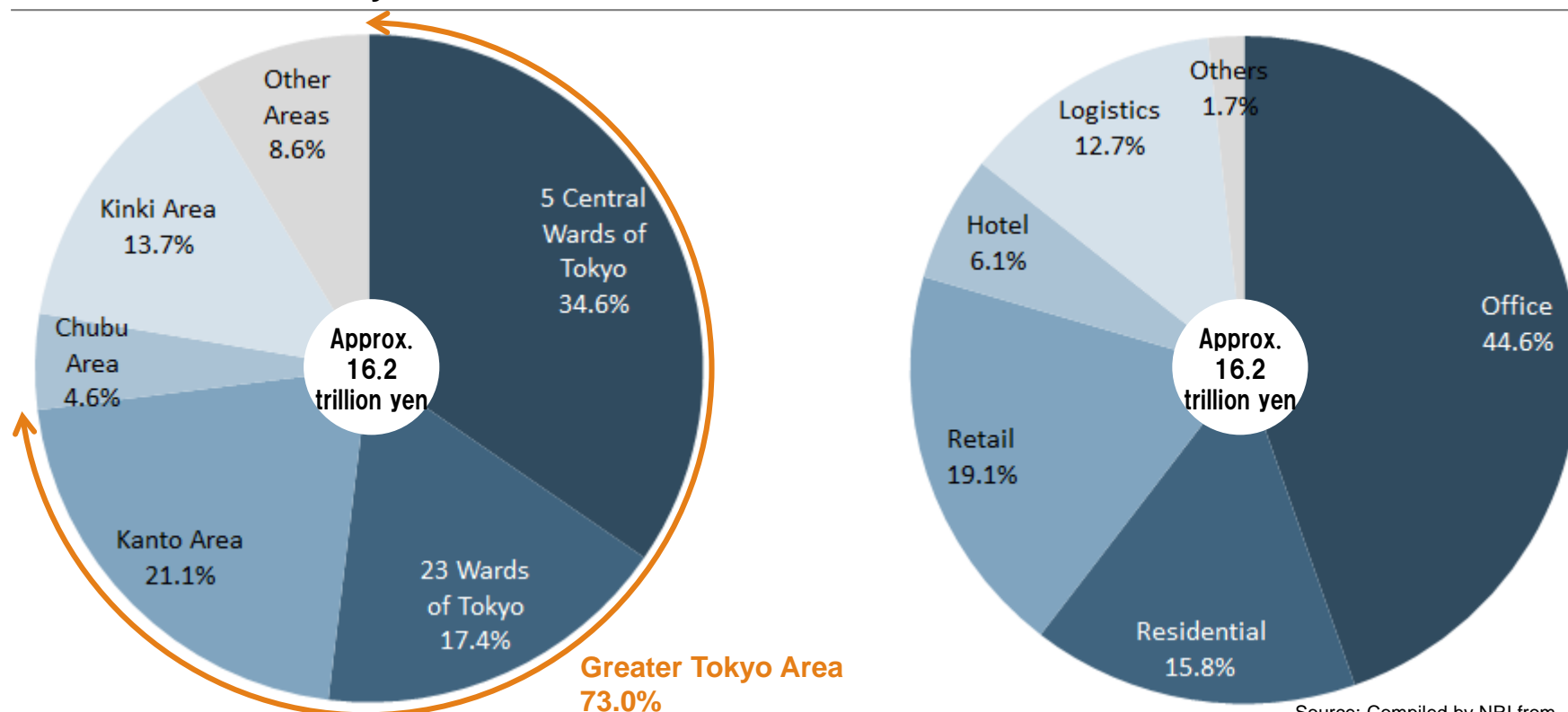
### J-REIT market cap and number of J-REITs



## c75% of J-REIT assets are located in the Tokyo metropolitan area and 45% are portfolios of office properties.

- c75% 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 owned, and a healthcare REIT was launched in November 2014.

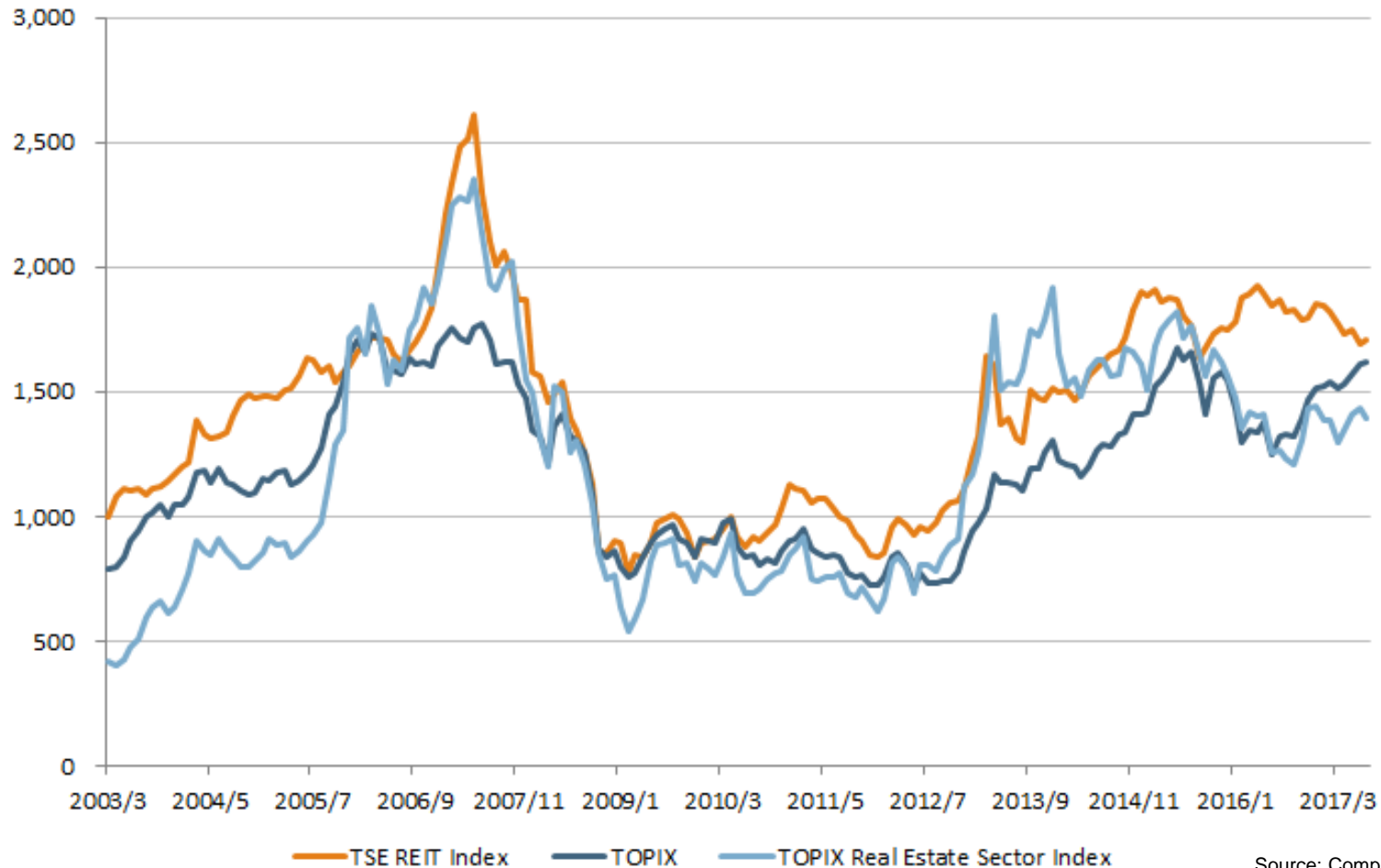
### Asset mix of J-REITs by area and asset class



## The TSE REIT index surged in late 2012 and remain firm.

- The TSE REIT index dropped sharply from its peak in May 2007, but has recovered rapidly from late 2012.

**TSE REIT Index, TOPIX, and the TOPIX Real Estate Sector Index**



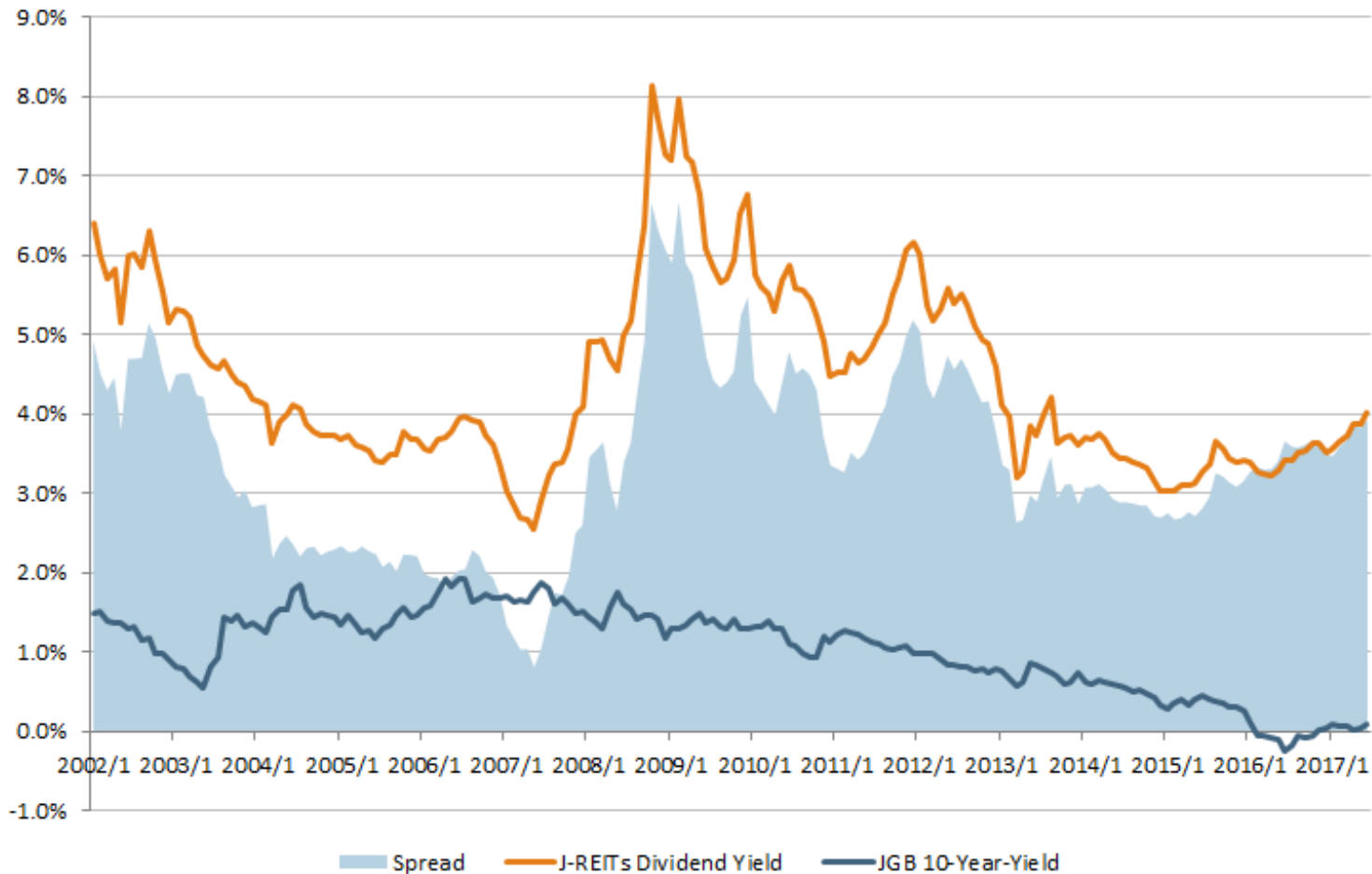
Source: Compiled by NRI from Thomson Reuters data

## Real estate investment products

**J-REIT dividend yields rapidly increased to around 8%, but are currently down to around 4%.**

- Yield spreads are currently around 4%

### J-REIT dividend yield and JGB 10-year yield

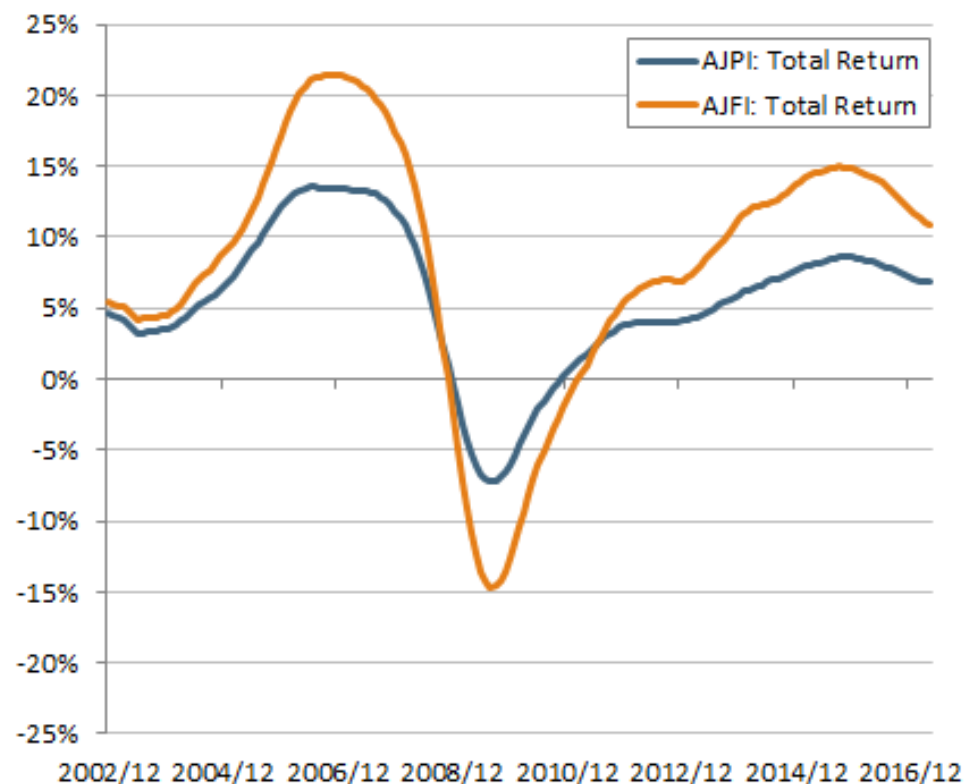
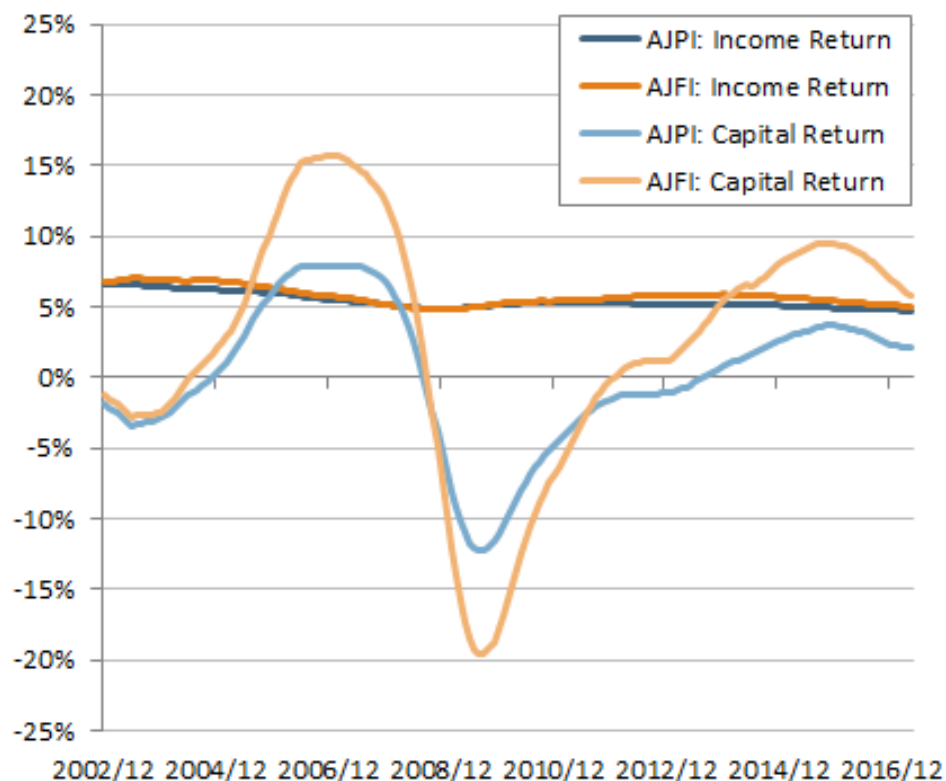




## Capital return is firm.

- 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 territory in terms of capital return and has been firm since.

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

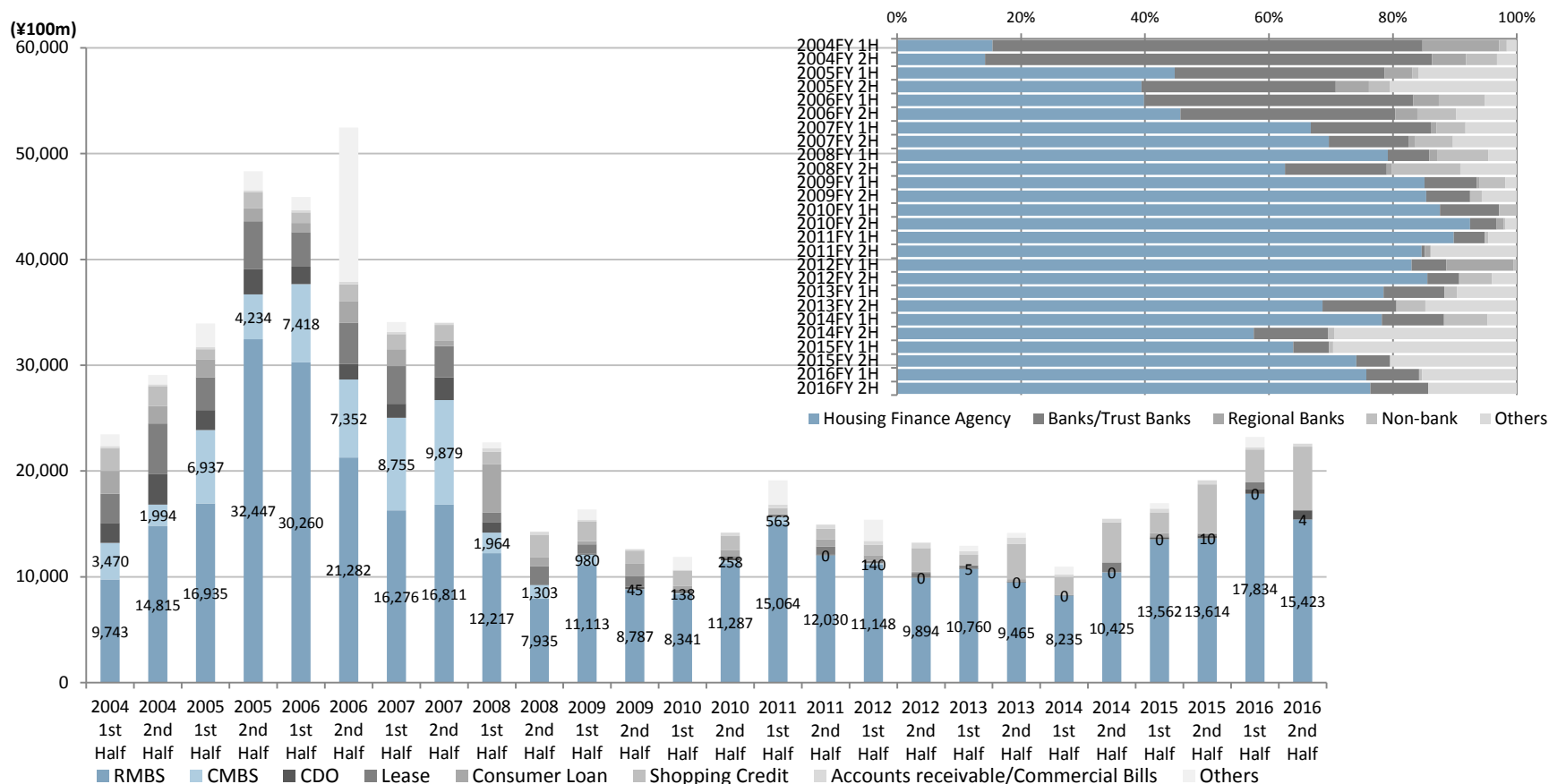


Sources: Compiled by NRI from ARES "ARES Japan Property Index" and "ARES Japan Fund Index" data.

# CMBS issuance has decreased drastically since 2008, and at present only RMBS are issued on a ongoing basis.

- Most recently, about 75% 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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