
The Japanese Real Estate Investment Market 2016

October 2016

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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

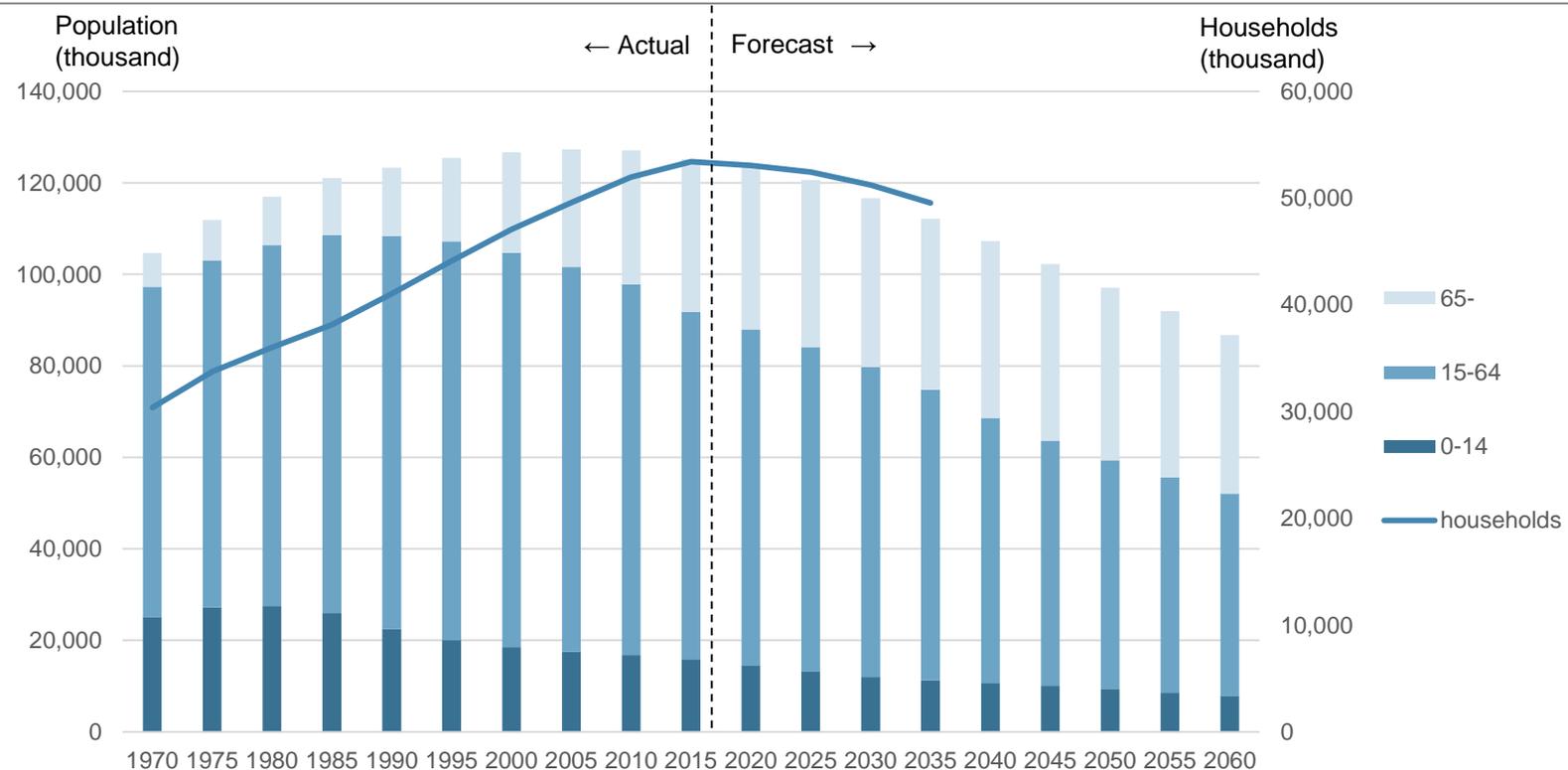
Real estate investment products

Population movements in Japan

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

- The number of households is increasing for now, but is projected to decrease after 2019.
- 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: Median-fertility (median-mortality) projection

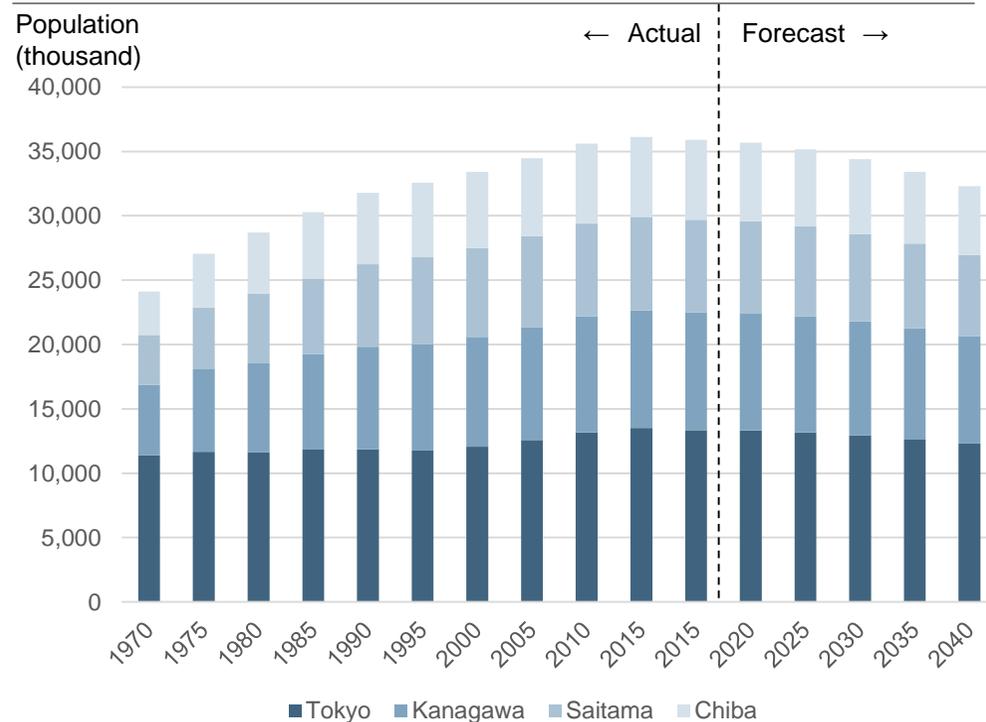
Note 2: Forecast of population and the number of households are based on the "Population Census" in 2010, while the preliminary data in the "Population Census" in 2015 is basis for 2015.

Population movements in Greater Tokyo

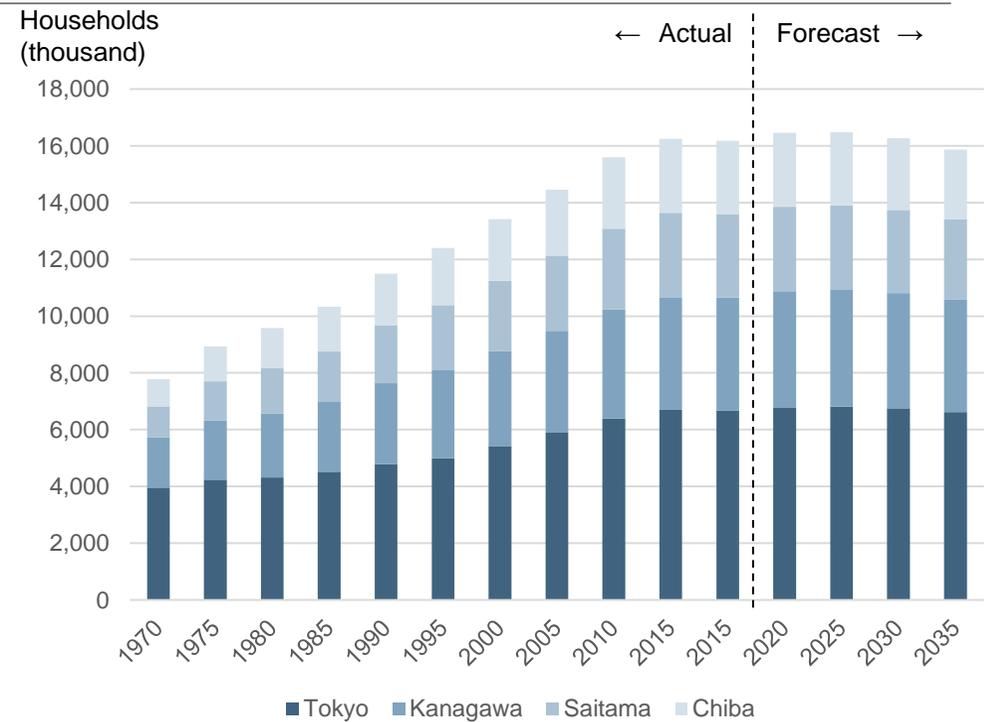
In Greater Tokyo, the population has peaked out; however, the number of households is expected to increase for 10 years.

- Population of Greater Tokyo has peaked out 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



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

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

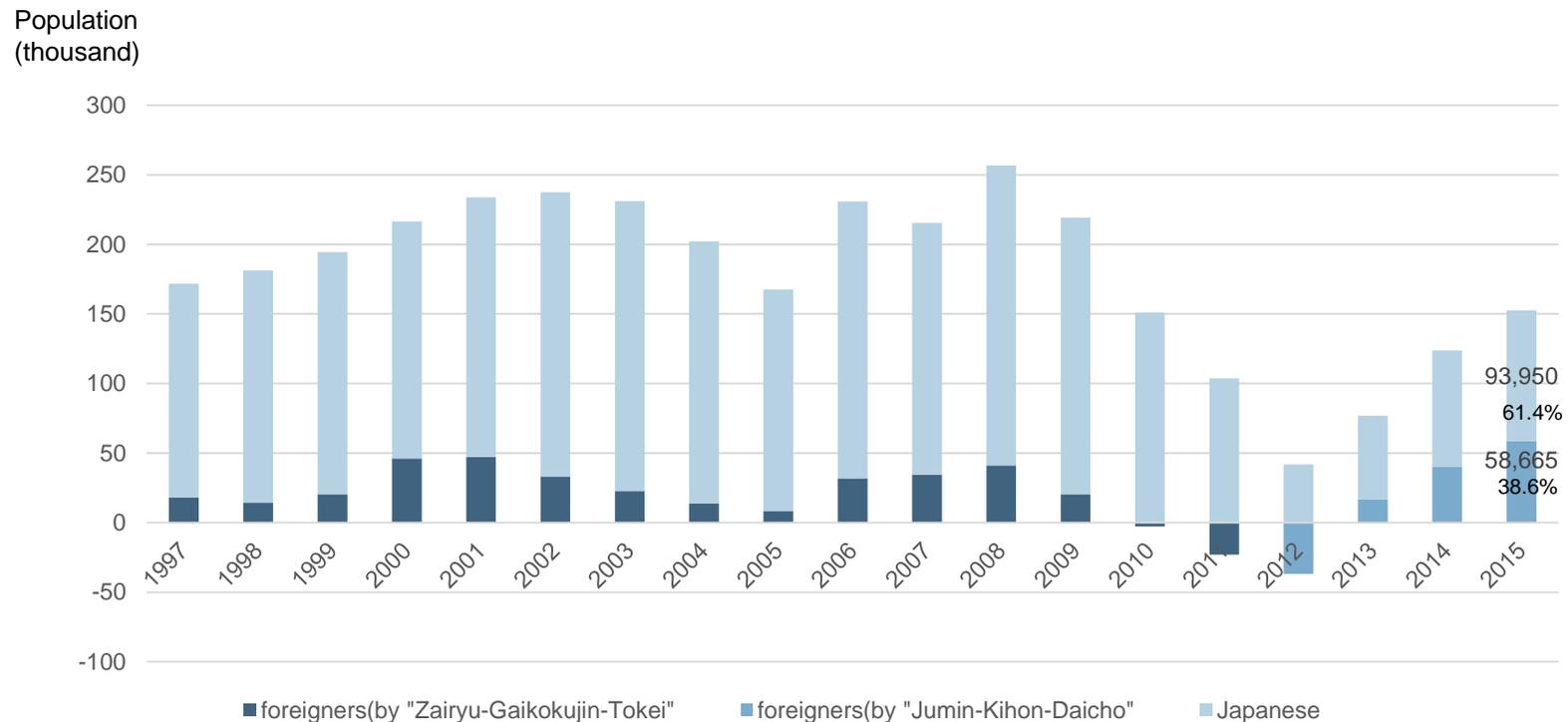
Note 2: Forecast of population and the number of households are based on the "Population Census" in 2010, while the preliminary data in the "Population Census" in 2015 is basis for 2015.

Population movements in Greater Tokyo

Recently, the population of Greater Tokyo has continued to rise.

- 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: MOJ "Zairyu Gaikokujin Toukei" "Aliens Statistics" and MIC "Basic Resident Registration"

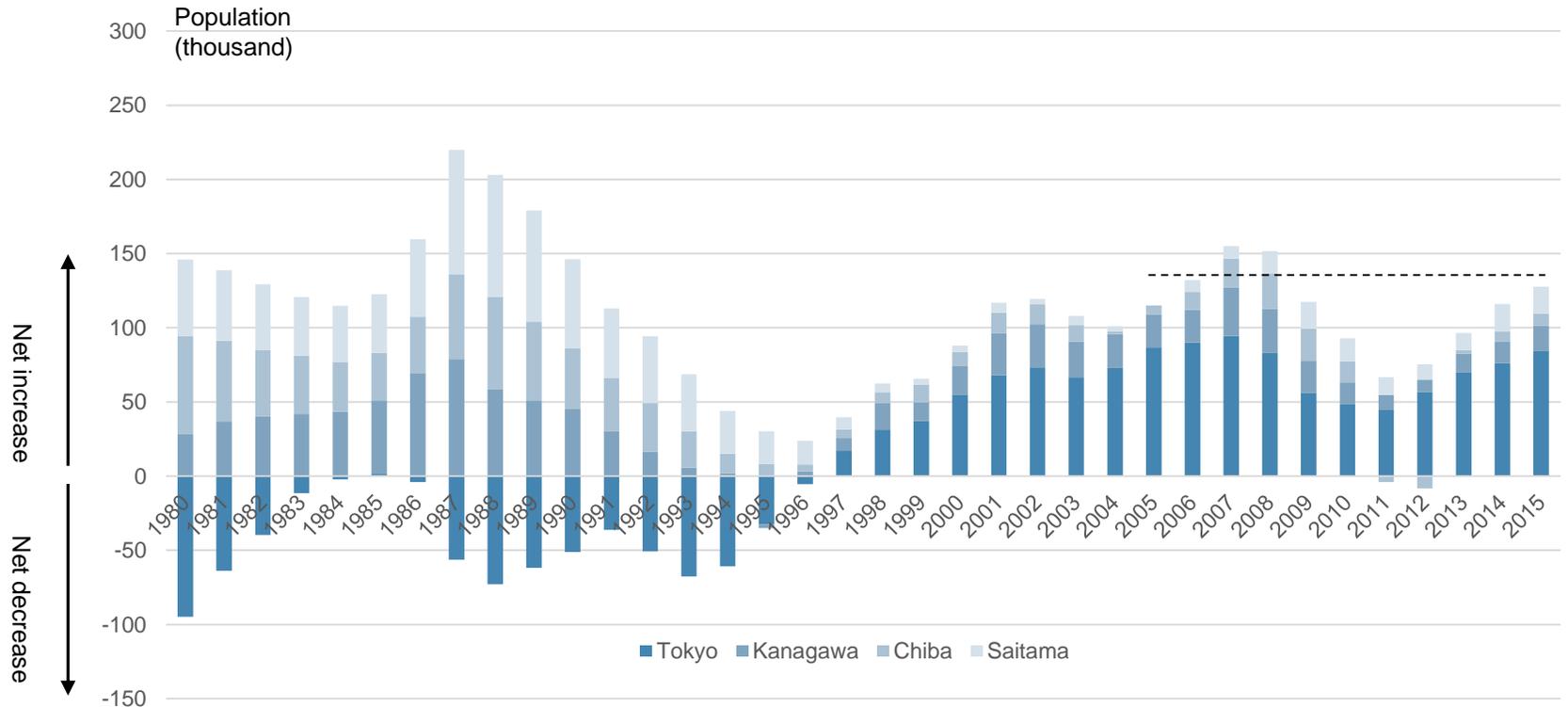
Note: Foreigner population based on "Zairyu Gaikokujin Toukei" "Aliens Statistics" by 2011 and after that based on "Basic Resident Registration".

Population movements in Greater Tokyo

Population has been inflowing to Greater Tokyo

- The number of net inflows in 2015 recovered to the level of 2005 or 2006.
- The inflow is projected to continue.

Net inflows of people to Greater Tokyo

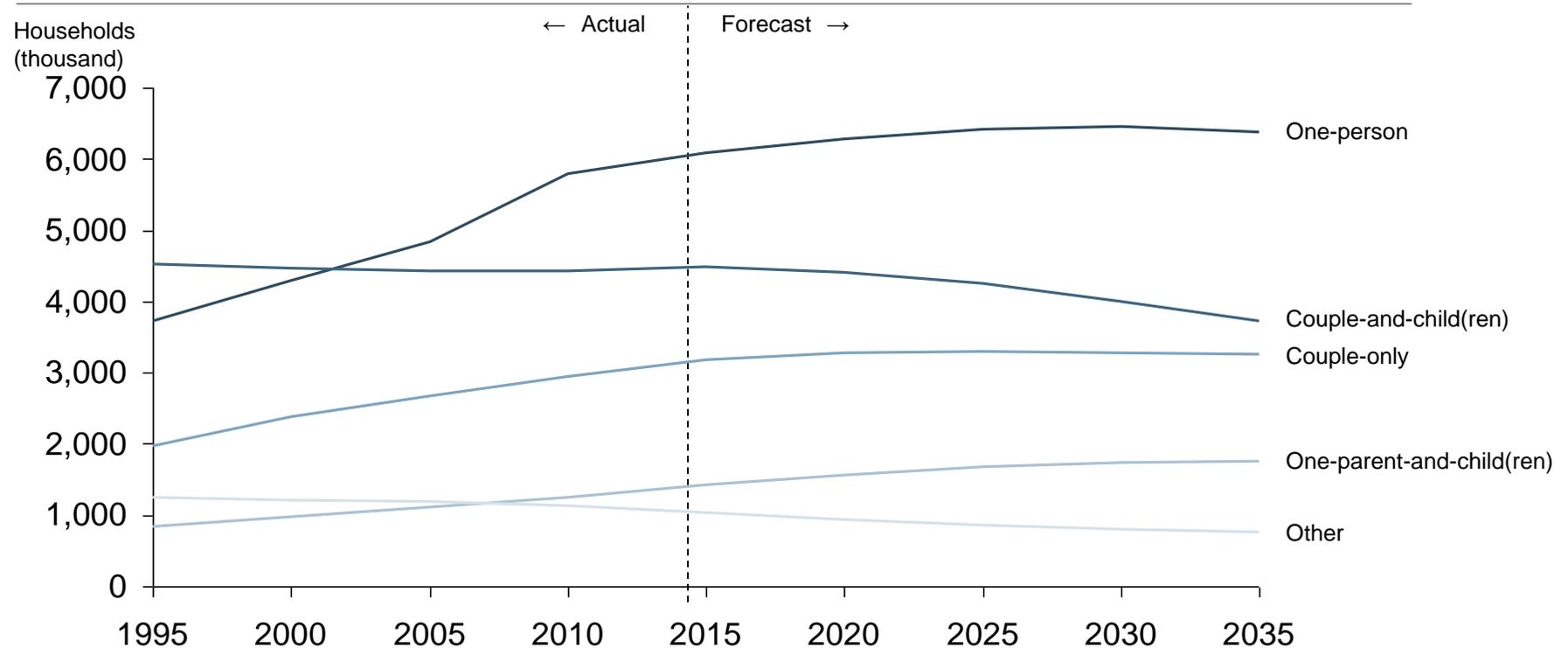


Population movements in Greater Tokyo

Single-person households are expected to drive growth in the number of households in Greater Tokyo over the near term.

■ However, the number of single-person households is expected to peak out in 2030.

Number of households by family composition in Greater Tokyo



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

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

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Population movements in central Tokyo

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.
- In seven wards, the population is projected to decrease by over 10% from 2010 to 2040.

Population trends in the 23 wards of Tokyo (2010=100)

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: Median-fertility (median-mortality) projection

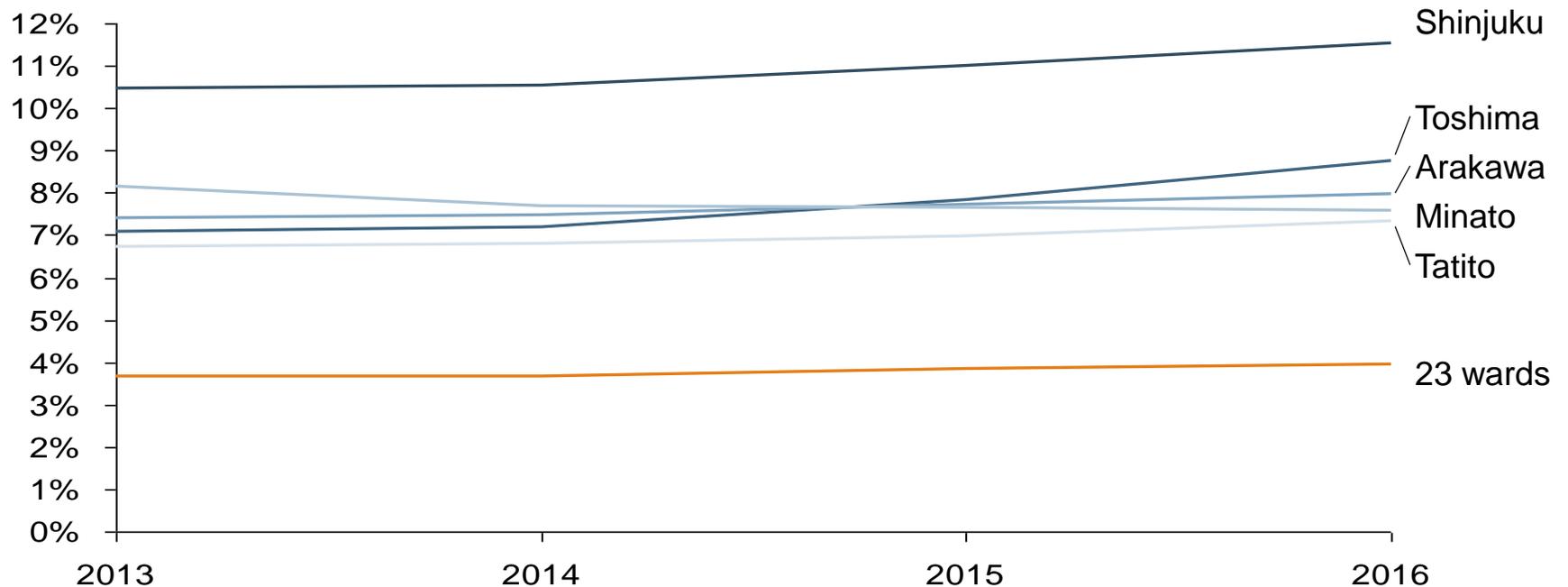
Note 2: Forecast of population and the number of households are based on the "Population Census" in 2010, while the preliminary data in the "Population Census" in 2015 is basis for 2015.

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)



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: Median-fertility (median-mortality) projection

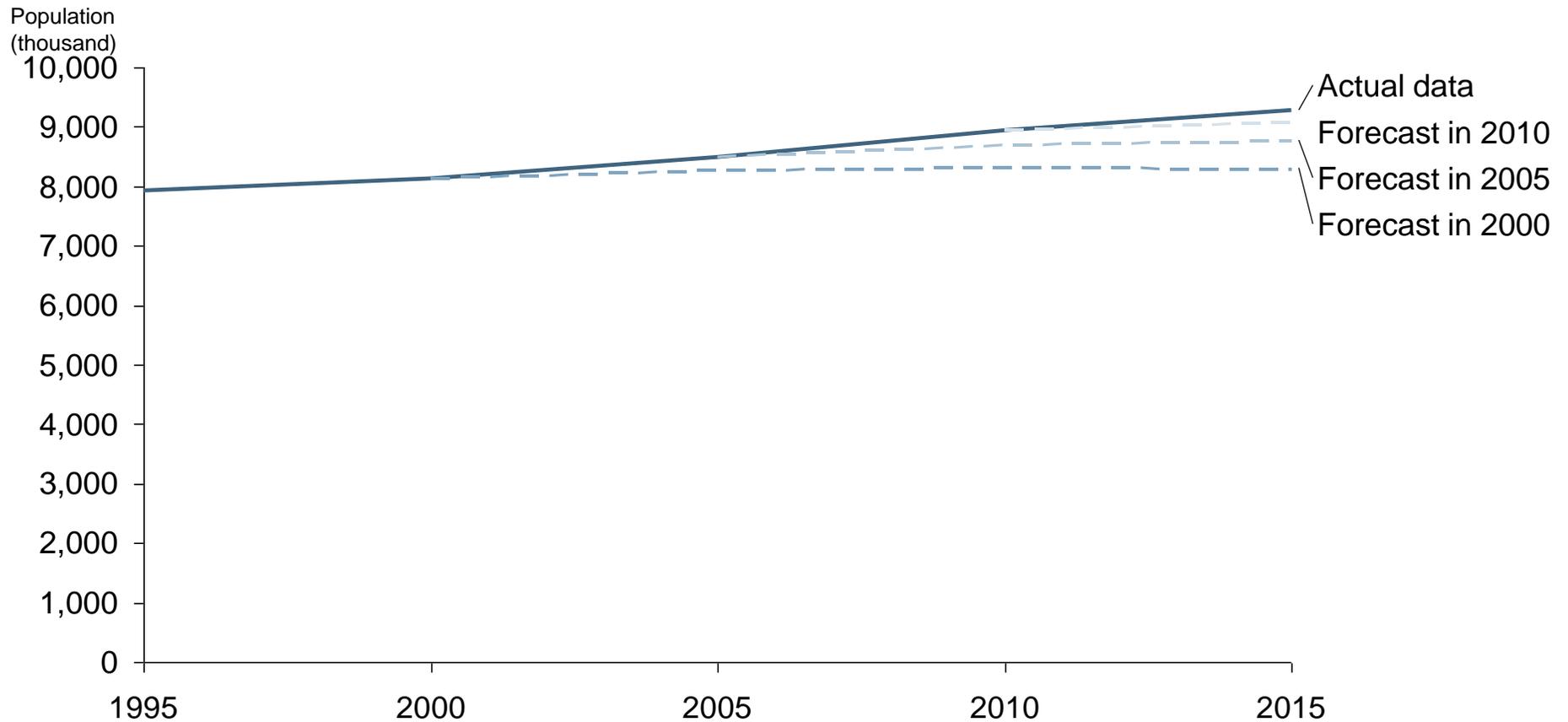
Note 2: Forecast of population and the number of households are based on the "Population Census" in 2010, while the preliminary data in the "Population Census" in 2015 is basis for

2015

Population movement in central Tokyo

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

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Population movements in Japan

Macro fundamentals of Japan

Overview of real estate investment market in Japan

Office market

Residential market

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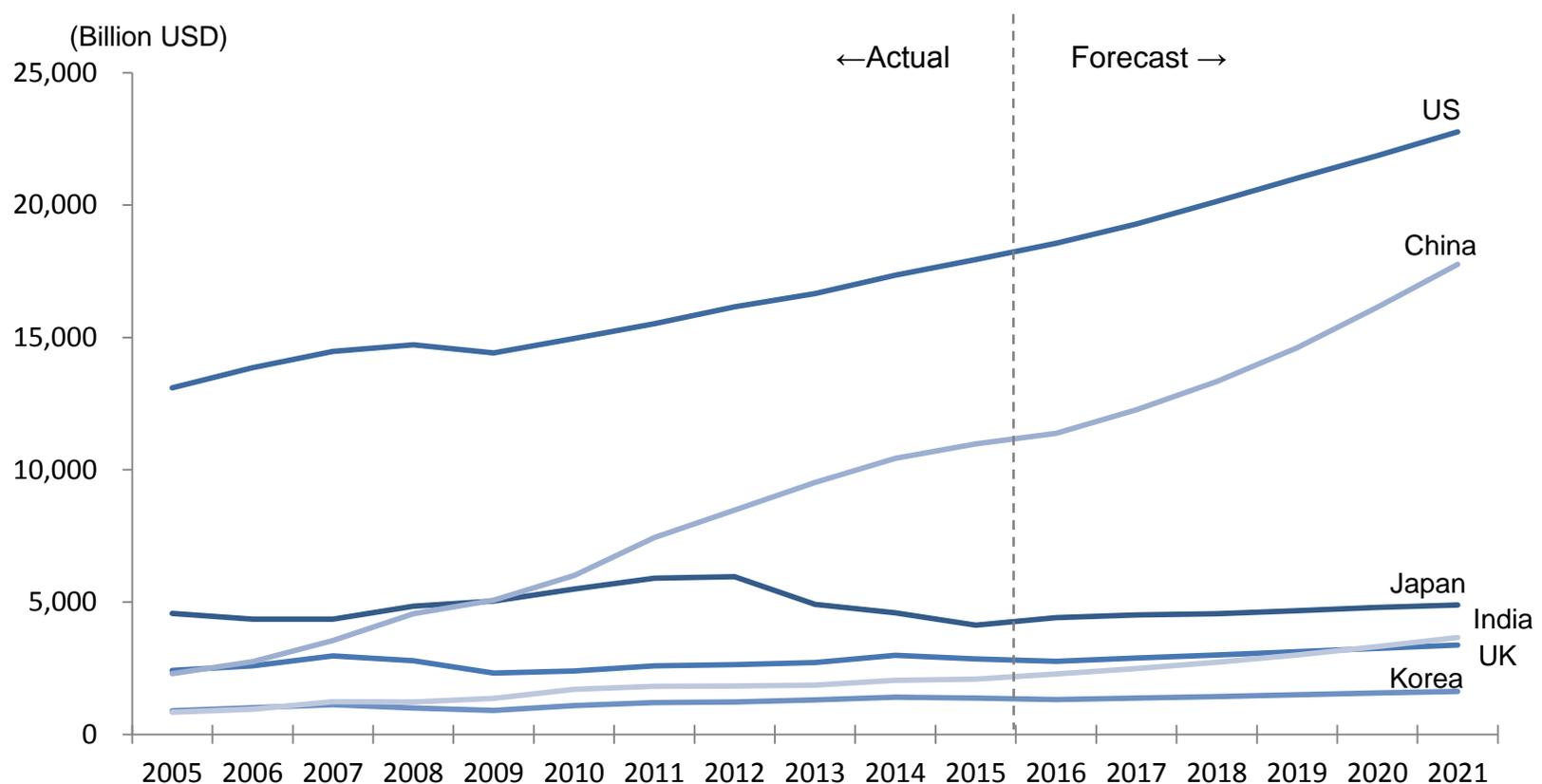
Real estate investment products

Macro fundamentals of Japan

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

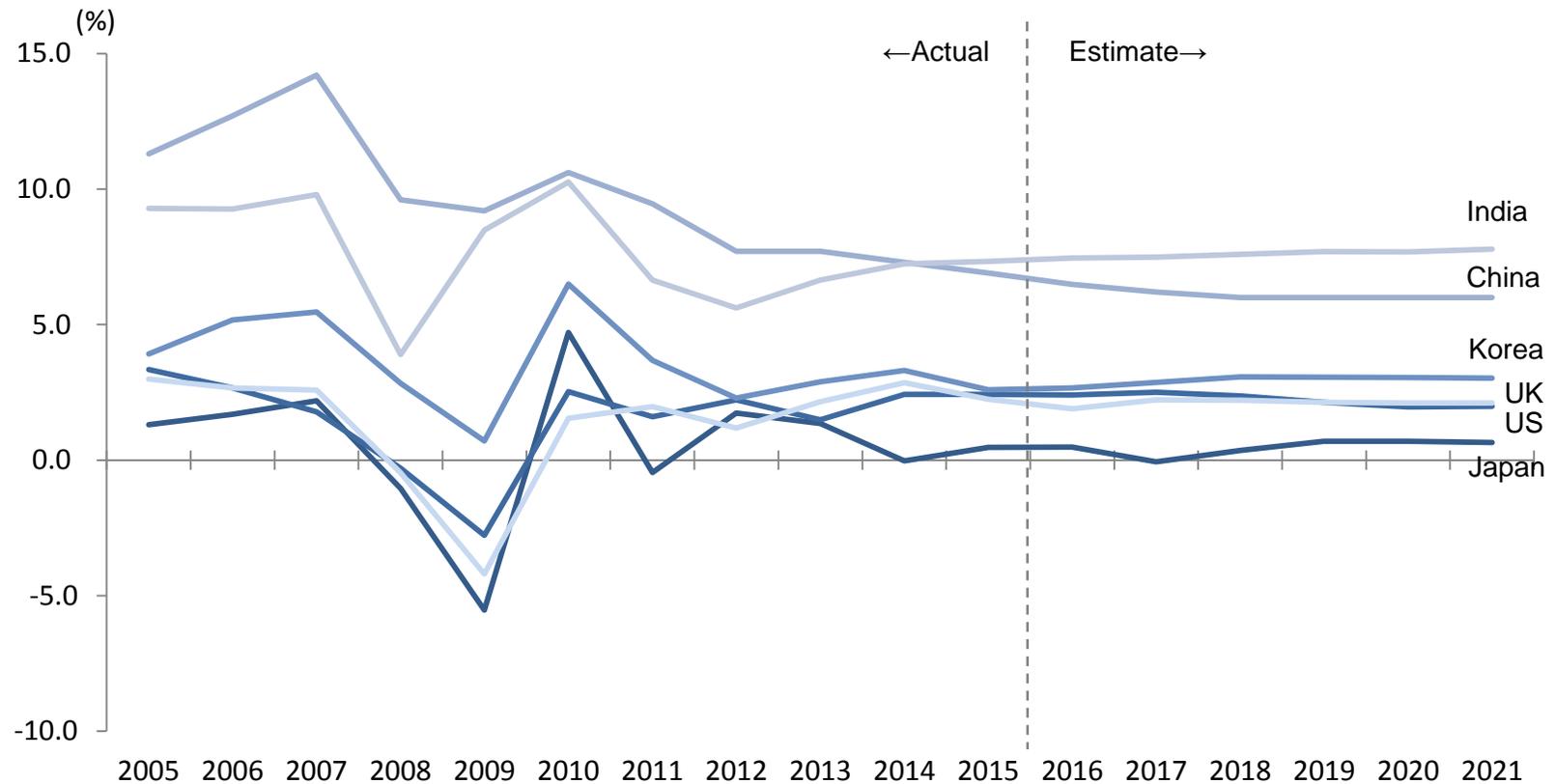


Macro fundamentals of Japan

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

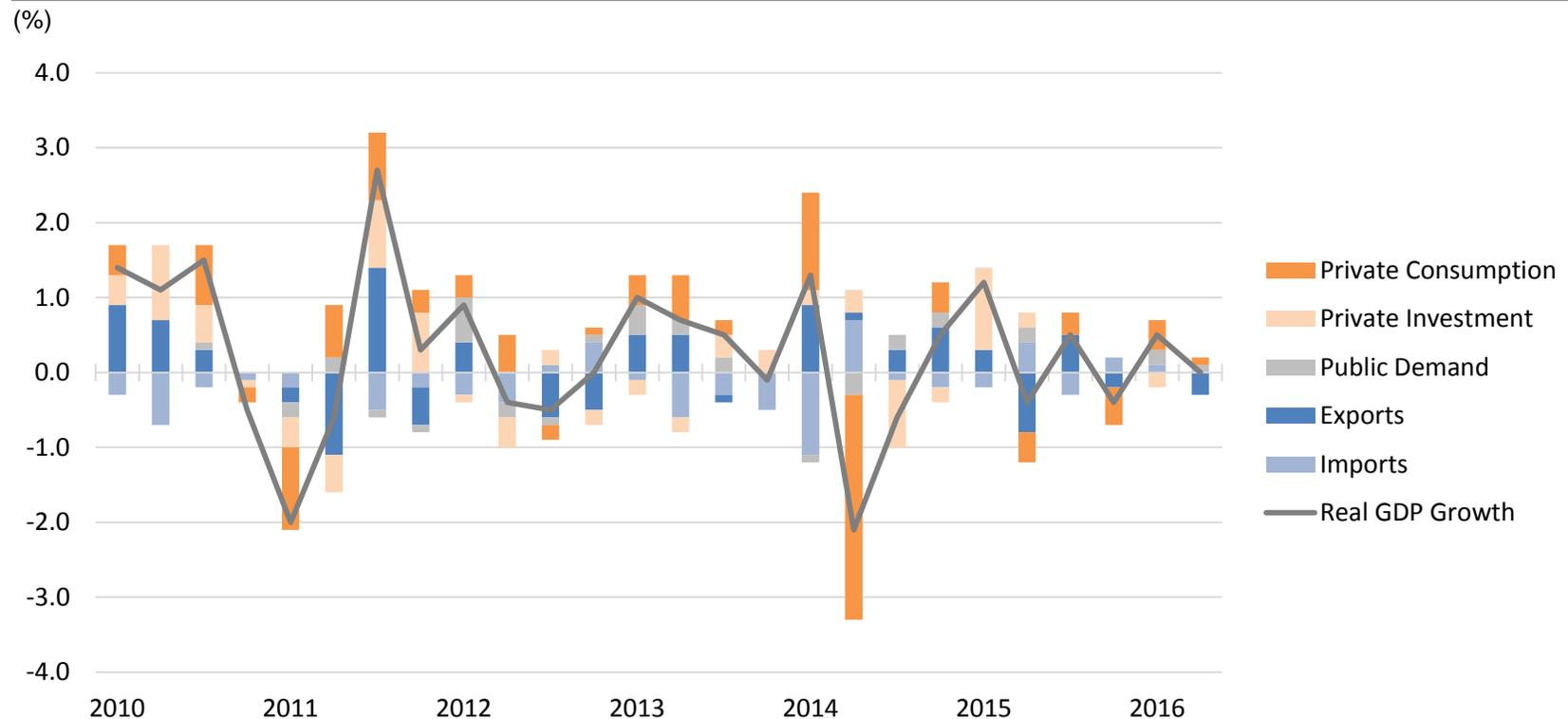


Macro fundamentals of Japan

Both domestic demand and overseas demand are treading water and there is no driver of economic growth.

- Fluctuations in each demand component became less pronounced from mid-2015 and continue to remain flat overall.

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



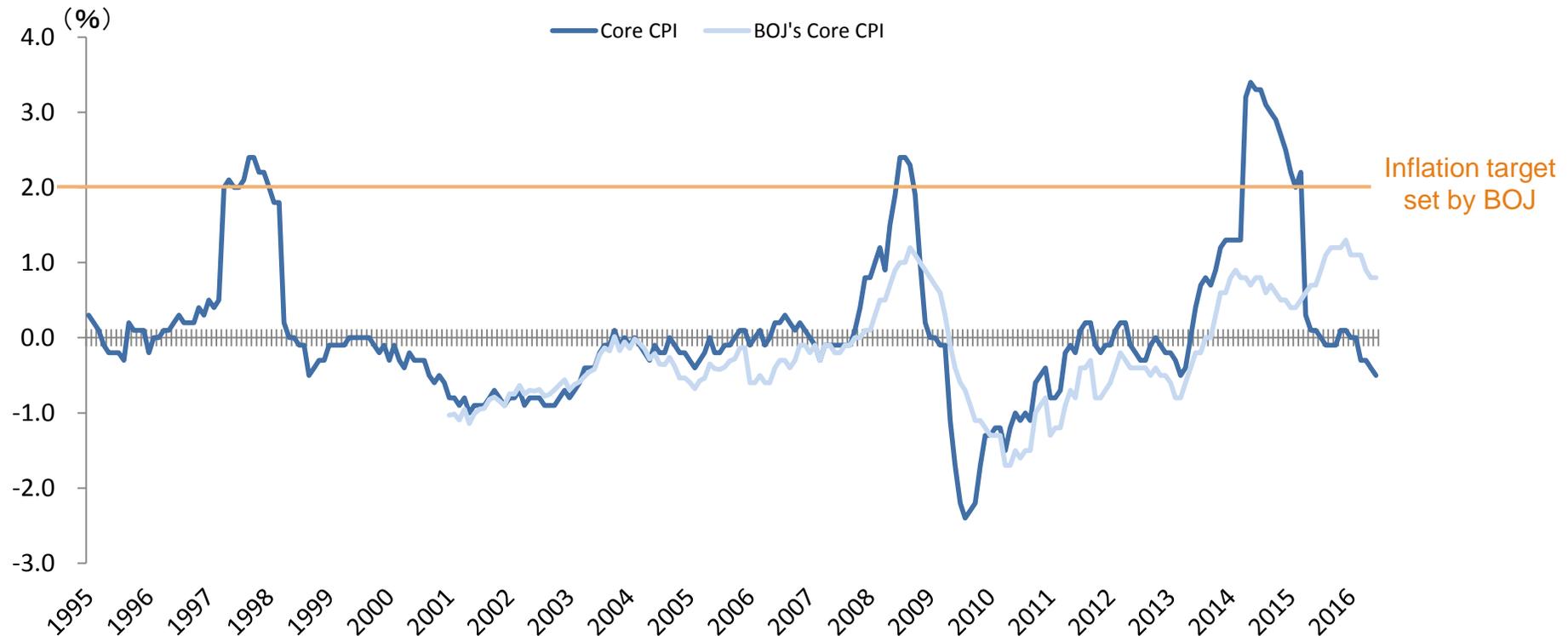
Source: Compiled by NRI from Cabinet Office data.

Macro fundamentals of Japan

Inflation was temporarily seen, but not enough to overcome deflation completely.

- Although an increase in the price index was reflected by the consumption tax hike in April 2014, it dulled after that and the core CPI turned to negative YoY growth in 2016.
- The increase rate of the BOJ's core CPI (excludes fresh food and the energy) is also falling consistently in 2016.

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



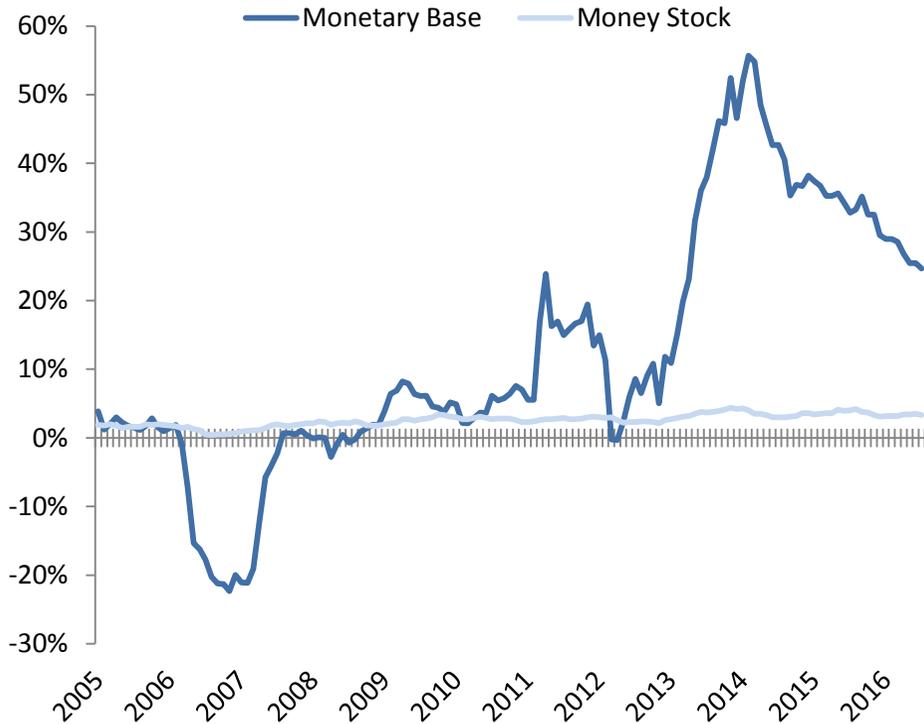
Sources: Compiled by NRI from MIC and Bank of Japan data.

Macro fundamentals of Japan

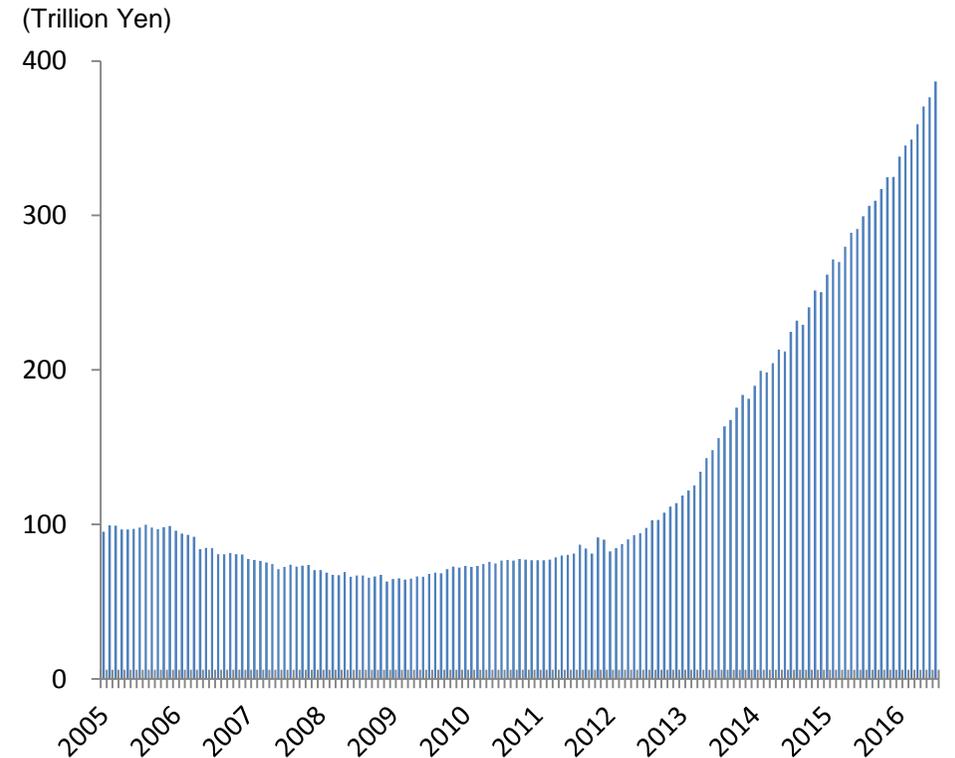
Aggressive easing by BOJ has continued since 2013.

■ 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

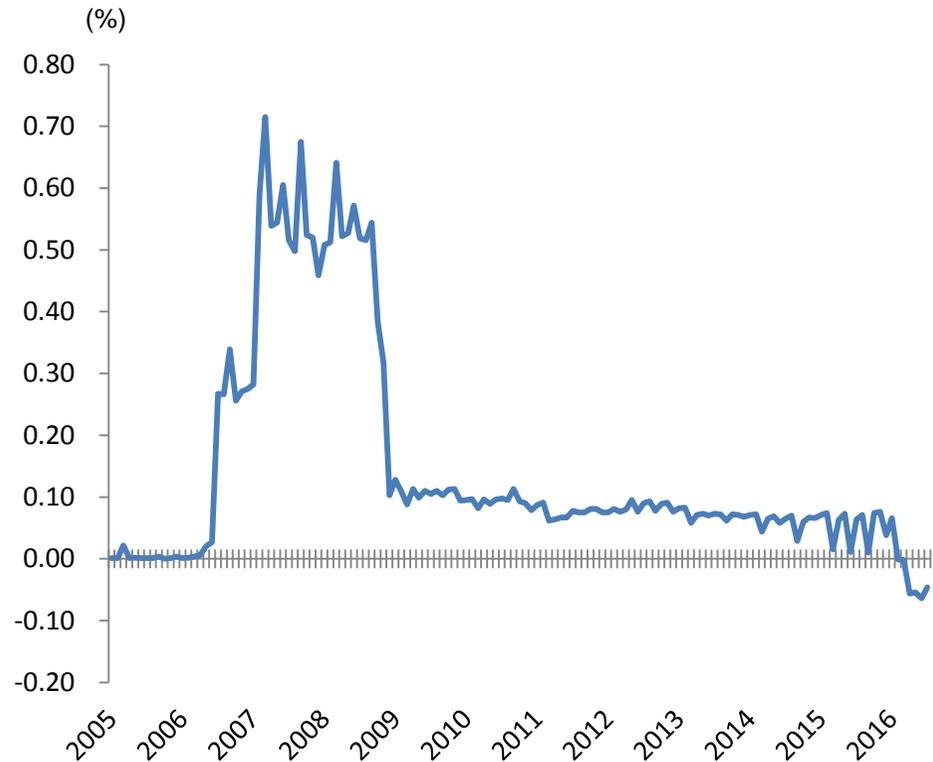


Macro fundamentals of Japan

Negative interest rates were also introduced additionally, and the short- and long-term interest rates dropped into negative territory.

- The BOJ introduced NIRP which set the policy rate applied to the part of the current account balance at minus 0.1% in January 2016.

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 data

Source: Compiled by NRI from Bloomberg data

Macro fundamentals of Japan

A reversal from yen weakness up to now, the yen has been stronger since the start of 2016.

- 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)



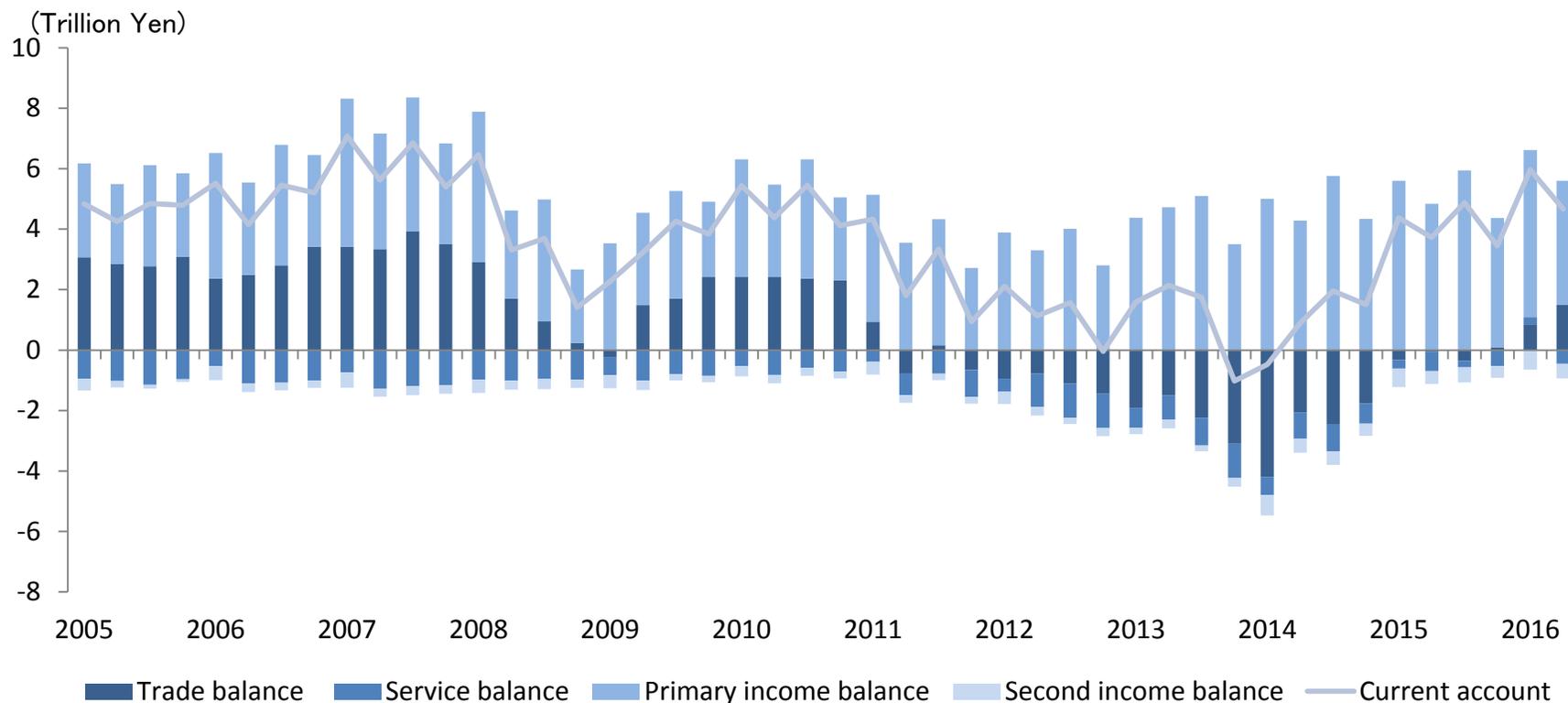
Source: Compiled by NRI from Bloomberg data

Macro fundamentals of Japan

The current account surplus returned to a high level due to the trade surplus, while the structure of the current account balance is changing.

- Although the trade deficit and the reduction of the current surplus continued, the trade balance changed to the black in 2016 and also reached a high level after several years.
- The structure of the current surplus driven by exports is changing: Import value decreased due to a strong yen and declining resource prices, and the deficit of the service balance also decreased due to an increase in foreign visitors to Japan. The primary balance which shows subsidiary dividends and interest income on bonds is on an uptrend. On the other hand, export value has been falling recently.

Current account balance

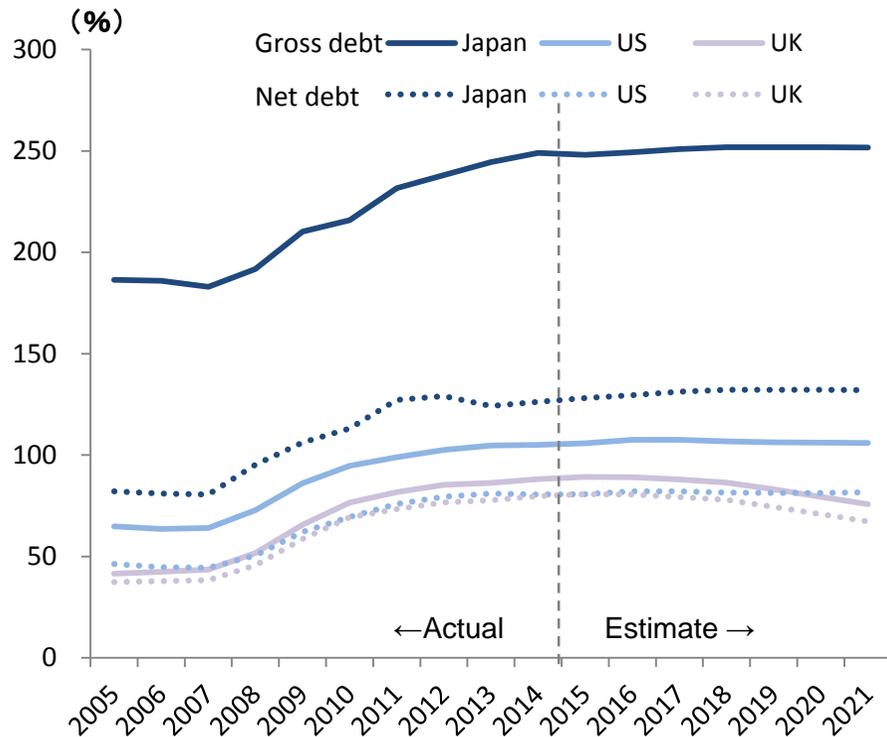


Macro fundamentals of Japan

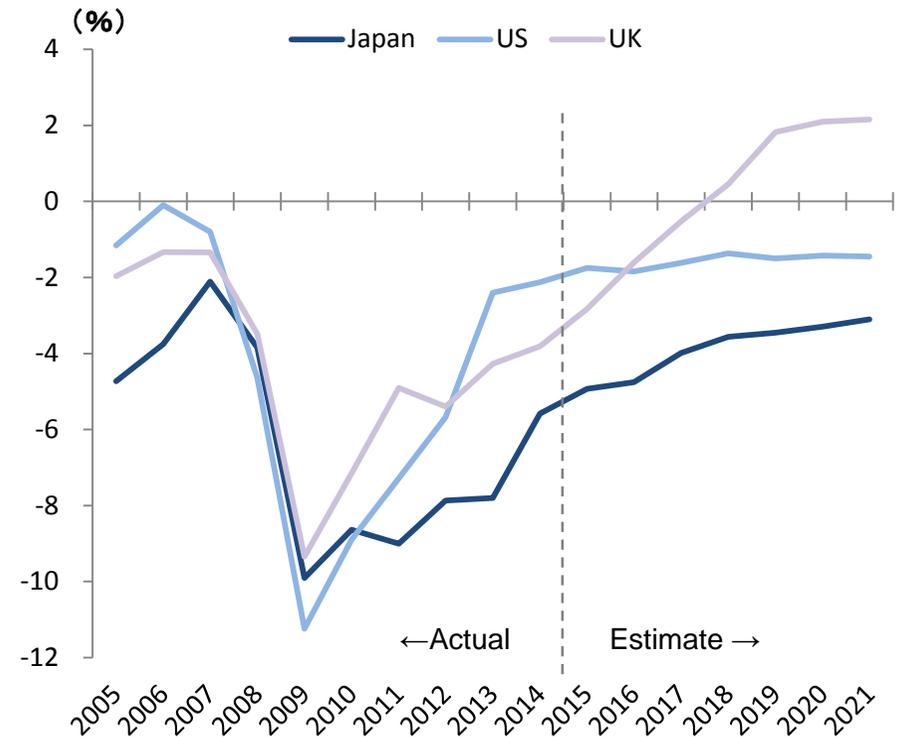
Government debt has plateaued at high level, while a primary fiscal balance surplus is not in sight.

- 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



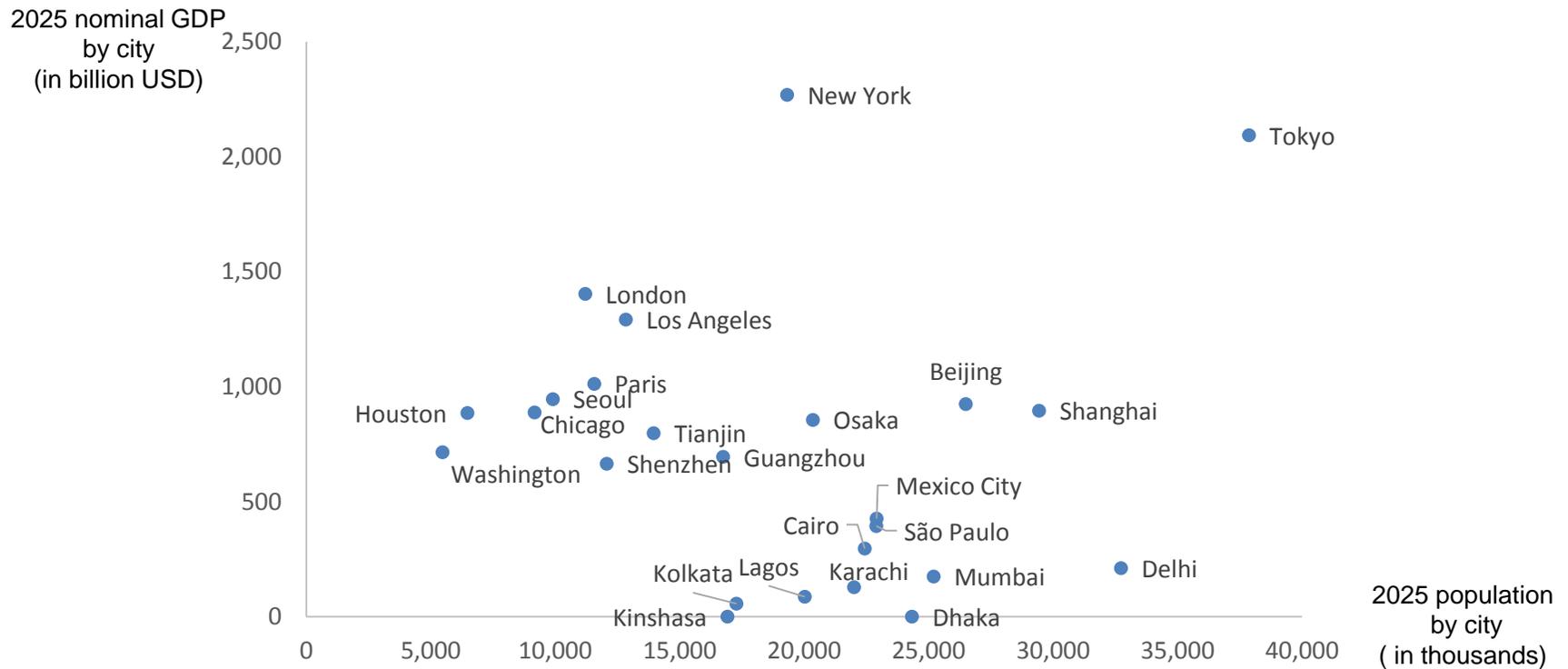
Source: Compiled by NRI from IMF (2016 Apr) data

Source: Compiled by NRI from IMF (2016 Apr) data

Macro fundamentals of Japan

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)



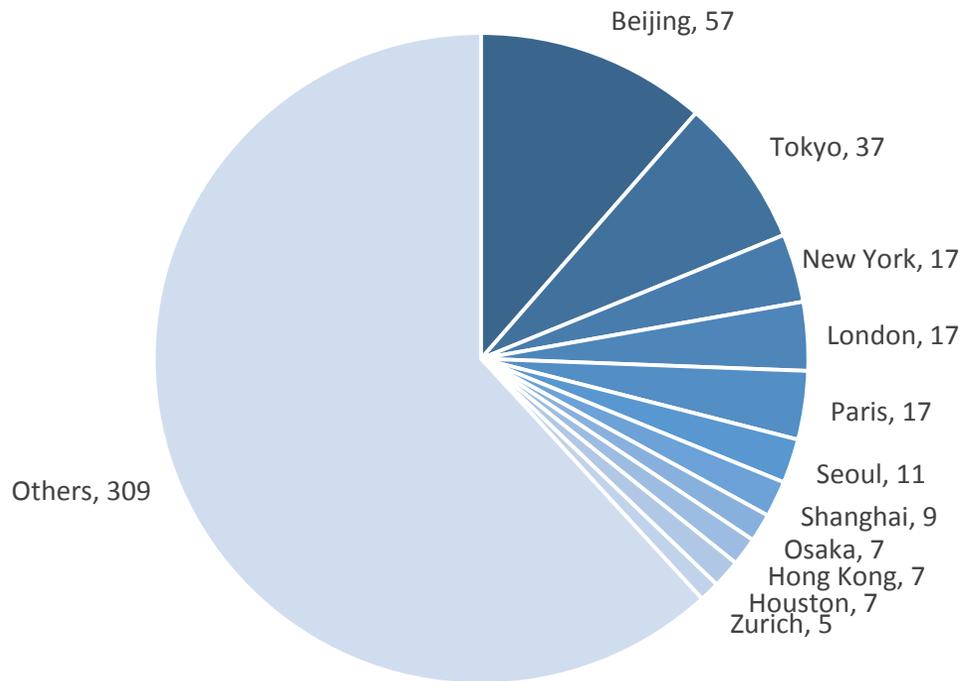
*No data for GDP of Dhaka and Kinshasa

Source: Compiled by NRI based on UN and Euromonitor data.

Macro fundamentals of Japan

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

Number of HQ of Fortune Global 500 companies by city (2016)



Fortune Global 500 companies in Tokyo (within top 200)

Rank	Company	Revenue (Mil. USD)
36	Honda Motor	121,624
37	Japan Post Holdings	118,762
60	Nippon Telegraph & Telephone	96,134
79	Hitachi	83,584
92	SoftBank Group	76,469
113	Sony	67,519
131	JX Holdings	62,511
135	Dai-ichi Life Insurance	61,090
138	Marubeni	60,810
151	Mitsubishi	57,689
169	Toshiba	52,032
177	Tokyo Electric Power	50,561
179	Seven & I Holdings	50,099
191	Mitsubishi UFJ Financial Group	47,600

Source: Compiled by NRI from Fortune Global 500 (2016) data.

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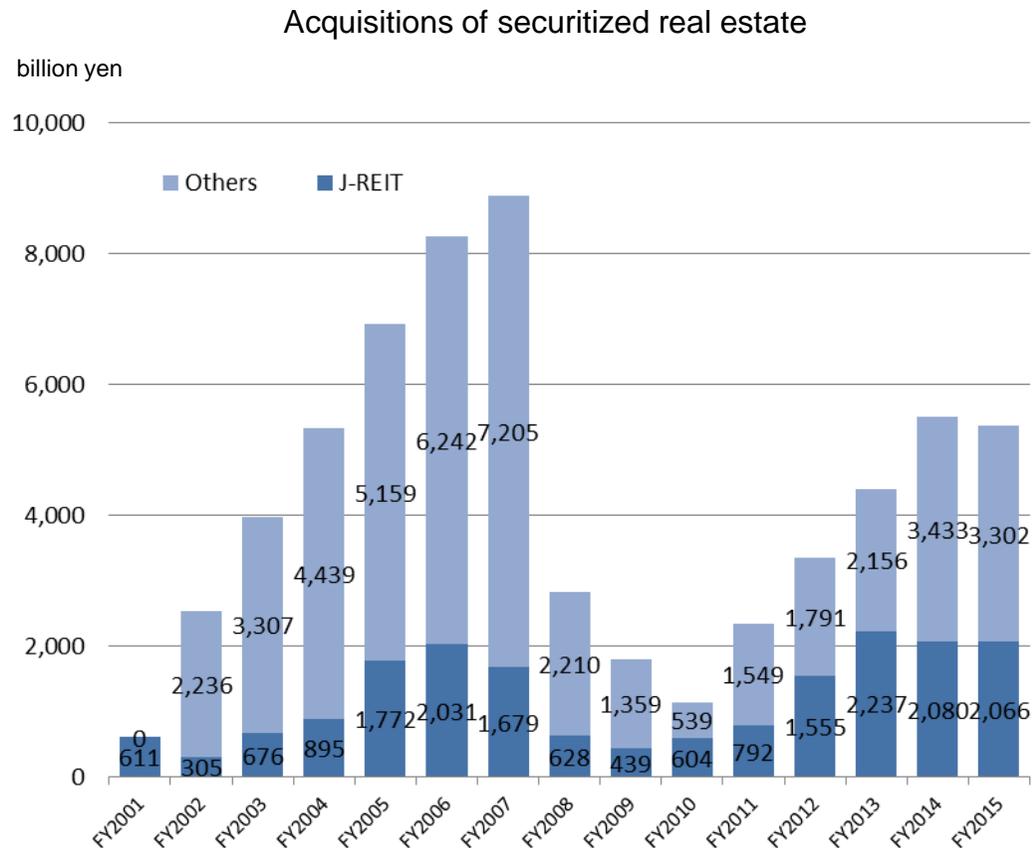
Hotel market

Real estate investment products

Overview of real estate investment market in Japan

The activity level of professional investors has steadily recovered, and market conditions are approaching that of 2005 to 2006.

- In FY2013, J-REITs acquired over 2 trillion yen in property and showed overwhelming strength as buyers. After FY2014, J-REITs were replaced by private equity as the leading real estate buyers.



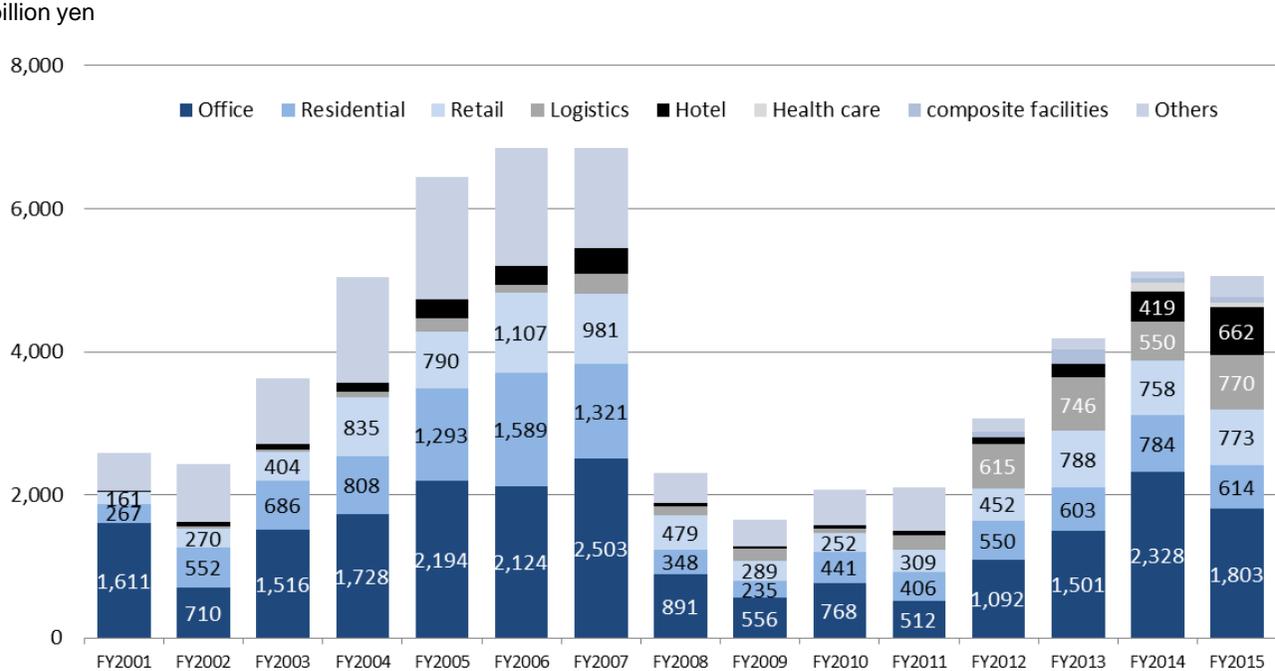
Source: Compiled by NRI from MLIT "Real Estate Securitization" data

Overview of real estate investment market in Japan

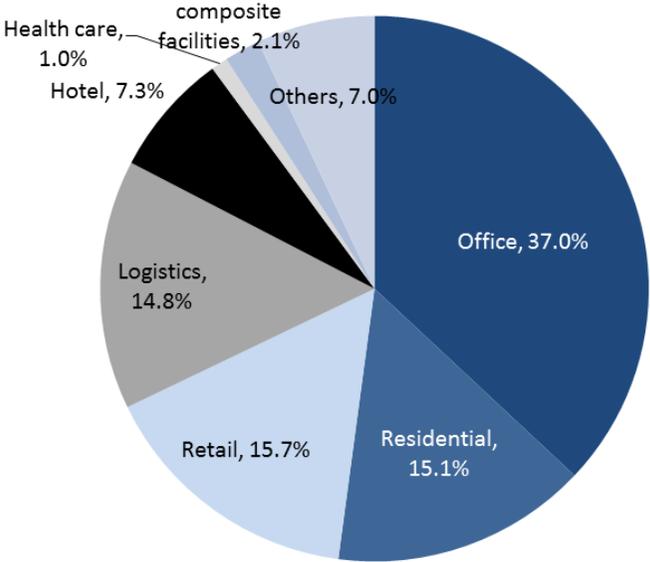
Office, residential, commercial and logistics properties account for 80% of transaction value but trading in hotels is growing more active.

■ A sharp rise in inbound demand from a jump in the number of foreign visitors is stimulating hotel investment.

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

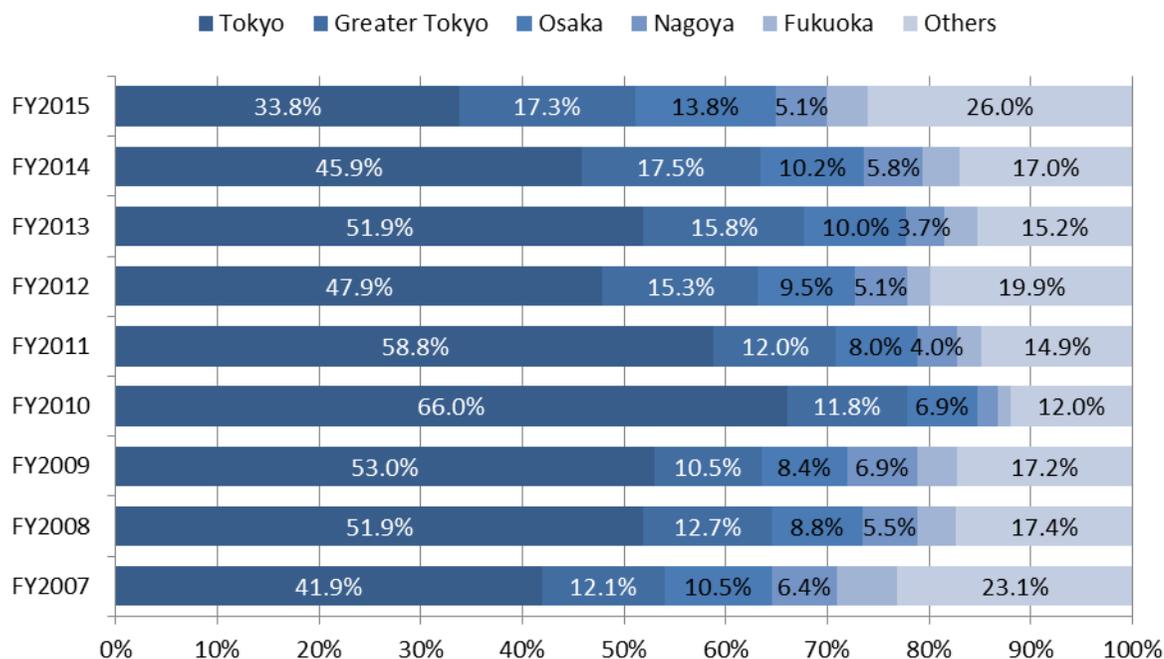
Note: Because the usage of securitizations that require actual TMK is unclear, they have not been included after 2001. Because of this, the yearly totals and amounts will not match up with the documents cited for this entry.

Overview of real estate investment market in Japan

Reflecting a lack of investable assets in Tokyo, investment money has begun to flow to other regions.

- After FY2012, transaction volume in Tokyo has accounted for about 50% of the nationwide total due to a shortage of investment opportunities in the urban area.
- In FY2015 regional investment gained additional momentum, so from this viewpoint, it can be said that a market is retracing the previous real estate cycle.

Number of properties securitized by region

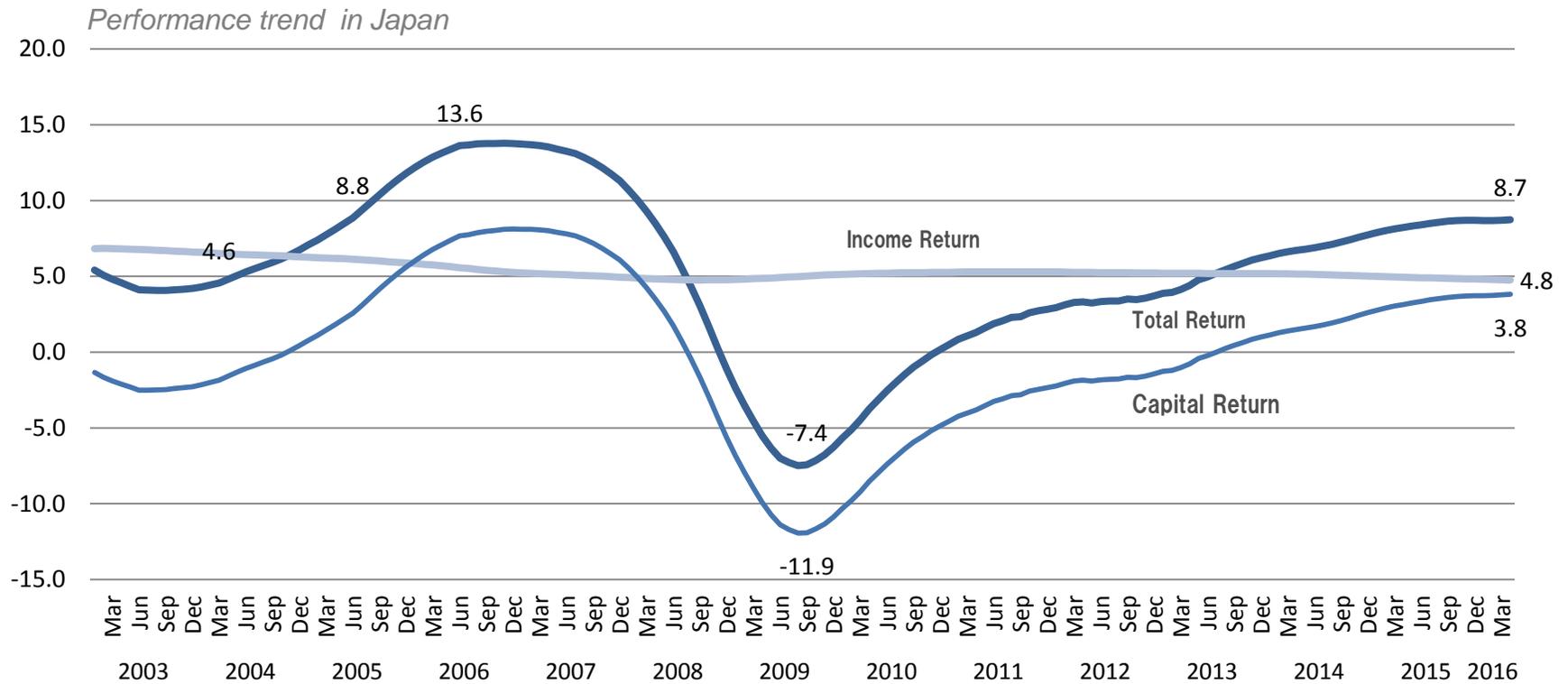


Source: Compiled by NRI from MLIT "Survey of the Current State of Real Estate Securitization" data
Note: Securitization of TMK properties is not included because their use is unknown.

Overview of real estate investment market in Japan

Total return recovered to 8.7%, reaching the 2005 Q2 level.

- Prior to the global financial crisis, total return reached 8.5% in 2005 Q2, and rose through 2006 Q2. Total return remained above c10% until 2007 Q1.



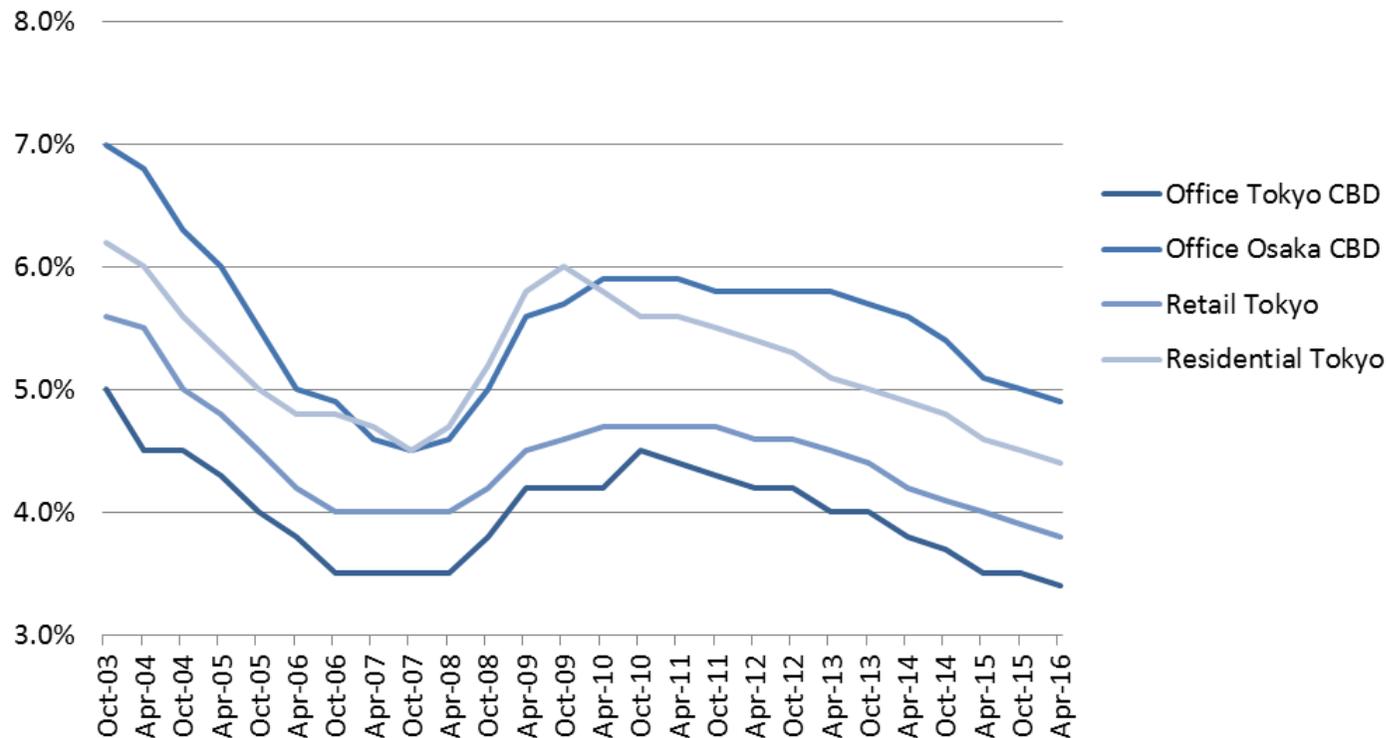
Source: MCI Real Estate - IPD

Overview of real estate investment market in Japan

Cap rates compressed rapidly and are lower than 2007 for some assets.

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

Cap rates in Japan for major investment areas



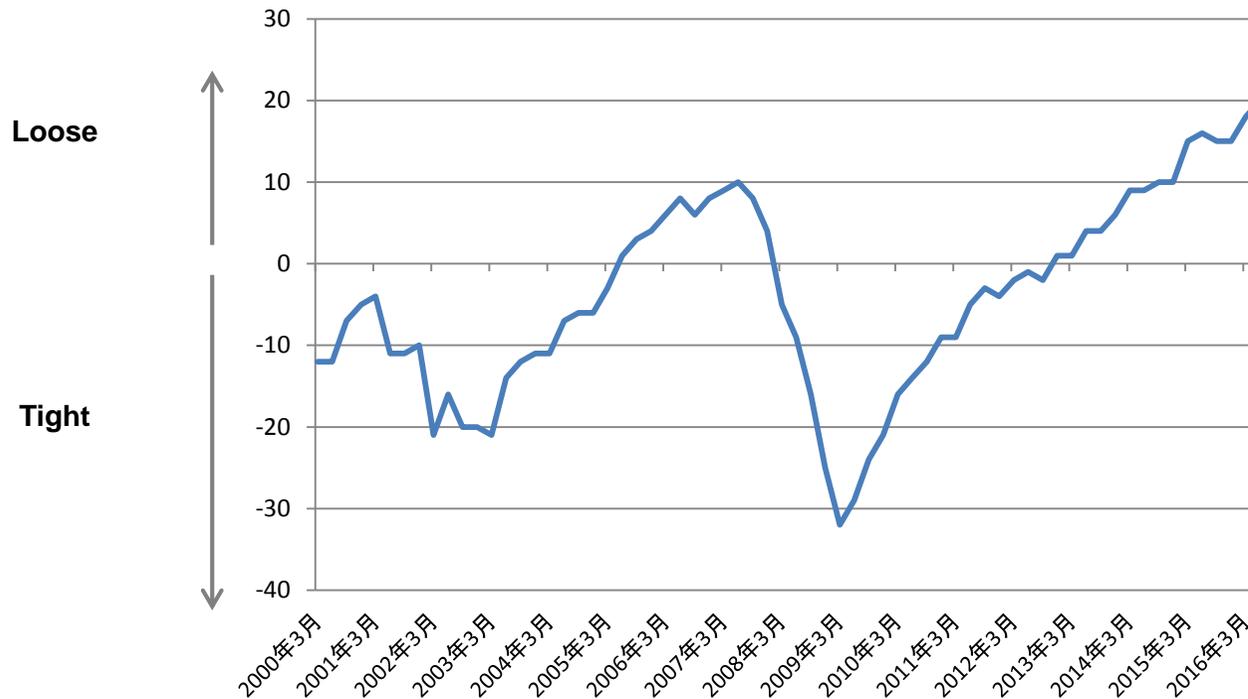
Source: Compiled by NRI from Japan Real Estate Institute "Japanese Real Estate Investor Survey" data.

Overview of real estate investment market in Japan

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 data.

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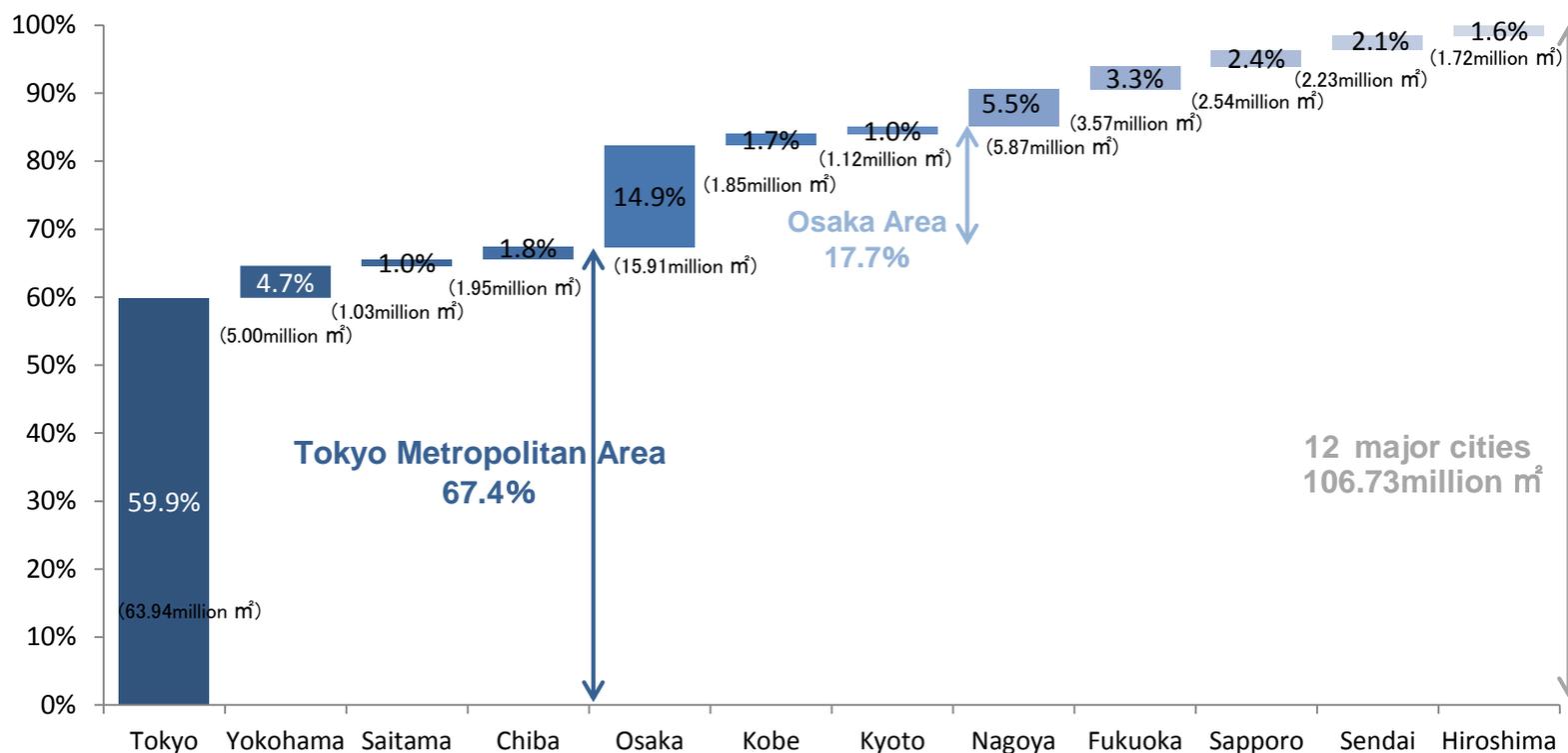
Real estate investment products

Office market

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 region



Source: JREI "The Annual Japanese Office Buildings Survey"

Note: Data is as of January 2014.

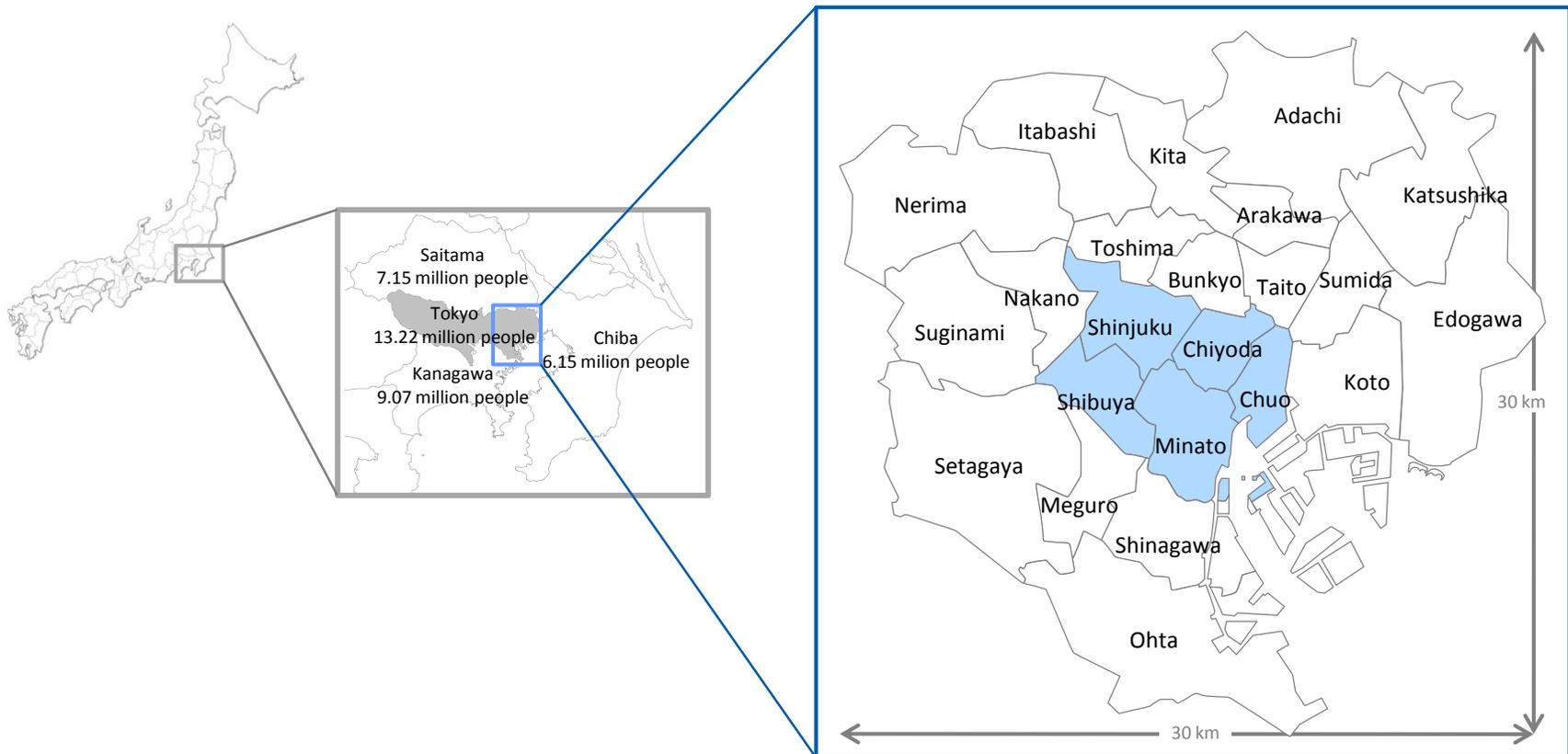
Note: The survey focuses on the central area of each city.

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

Office market

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.



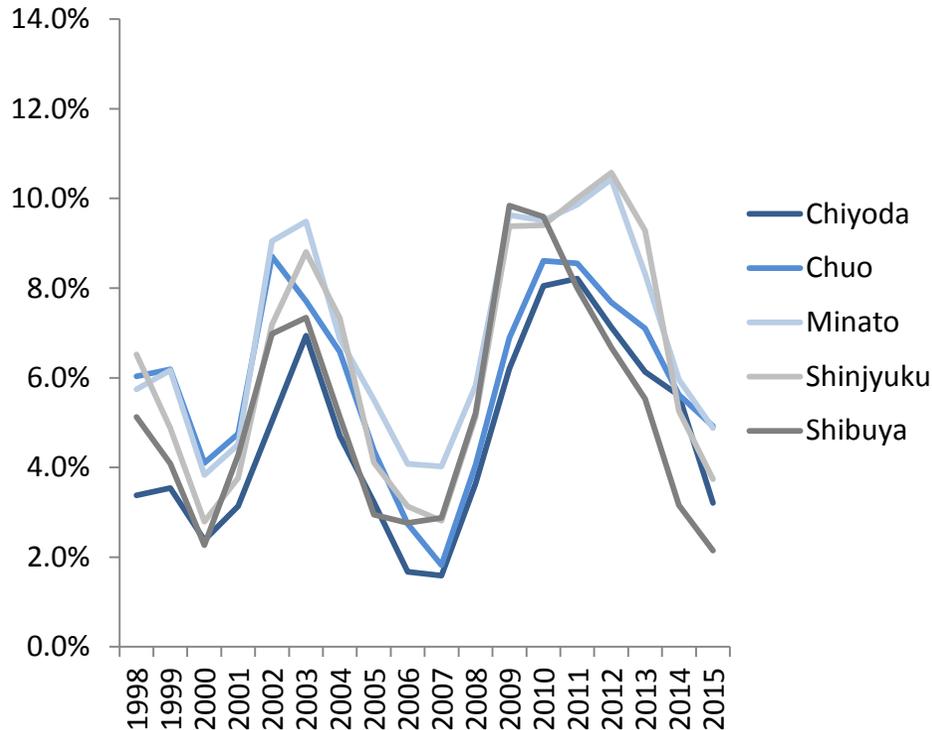
Office market

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

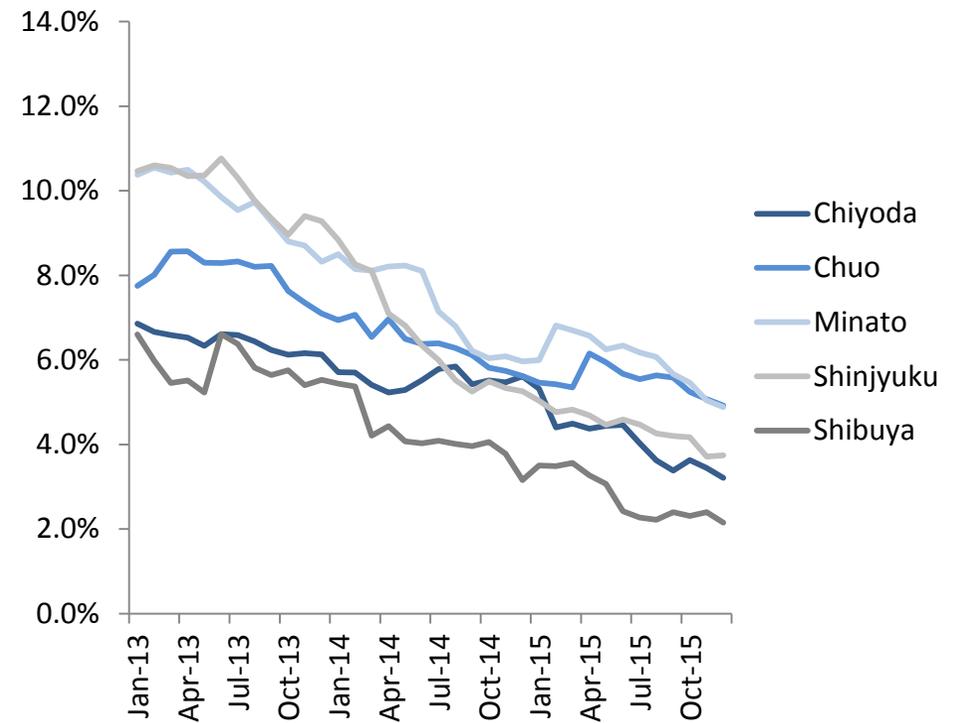
- Over the past 15 years, vacancy rates have been experiencing regular ups and downs, tending not to be stable for more than two years.

Vacancy rate movement in Tokyo CBD

Yearly (1998 - 2015)



Monthly (Jan 2013 –Dec 2015)

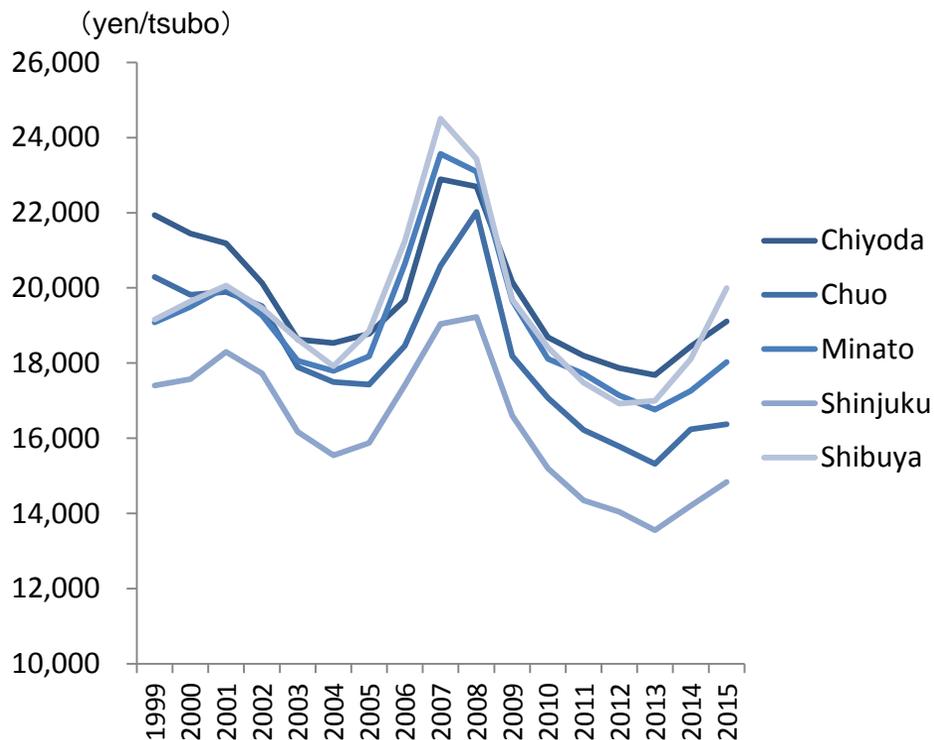


Office market

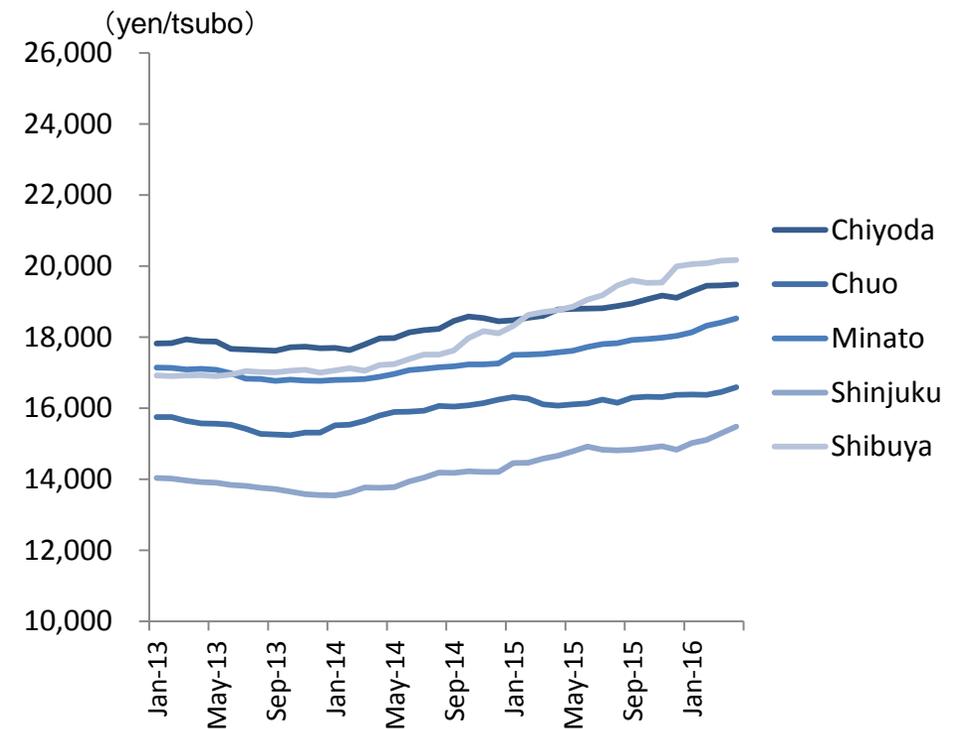
Rents entered an upward phase from around 2013 in all 5 Tokyo wards.

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

Yearly (1999 - 2015)



Monthly (Jan 2013 – Apr 2016)



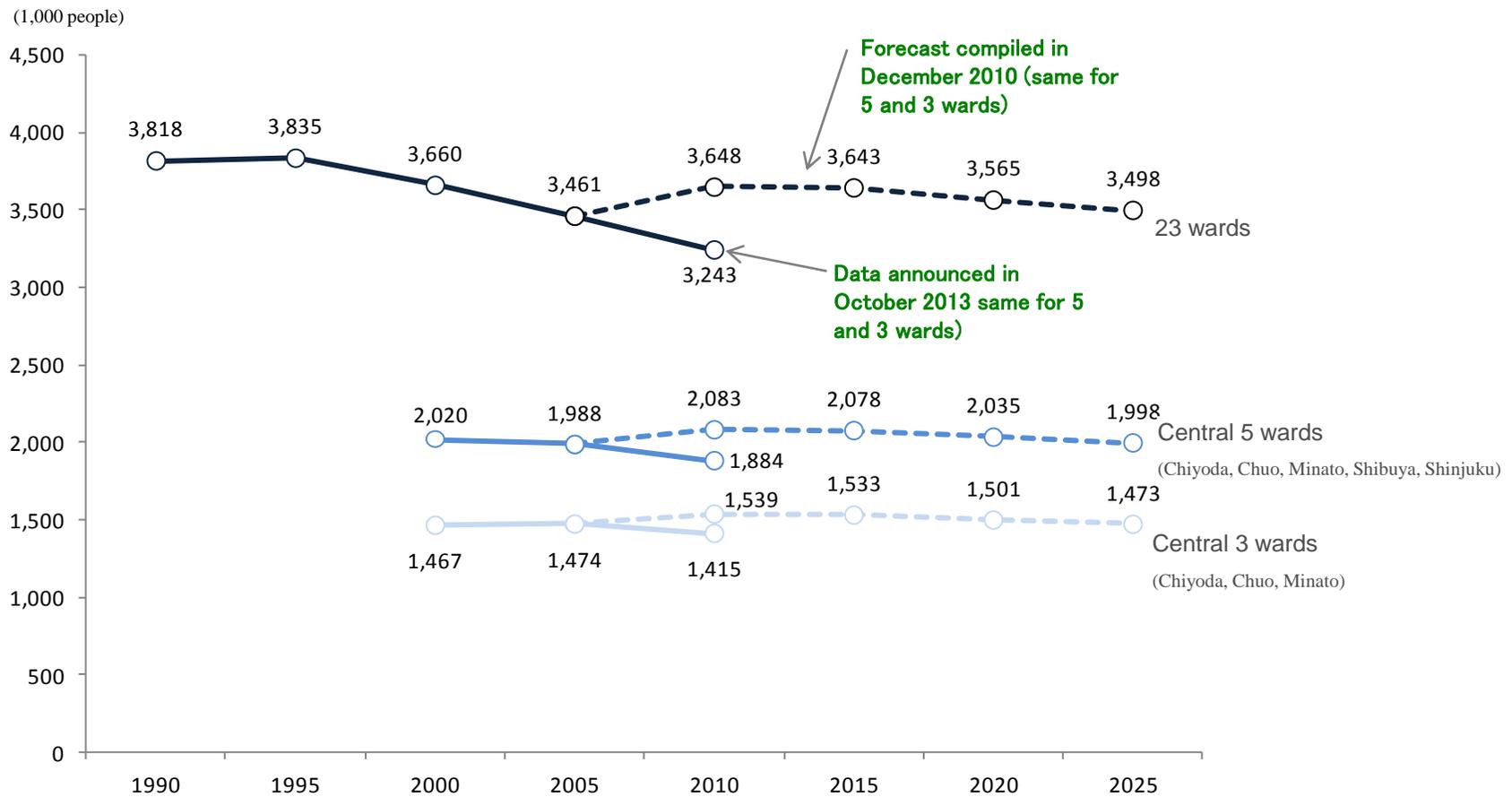
Source: Miki Shoji Co., Ltd.

Note: One tsubo is 3.3 square meters.

Office market

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

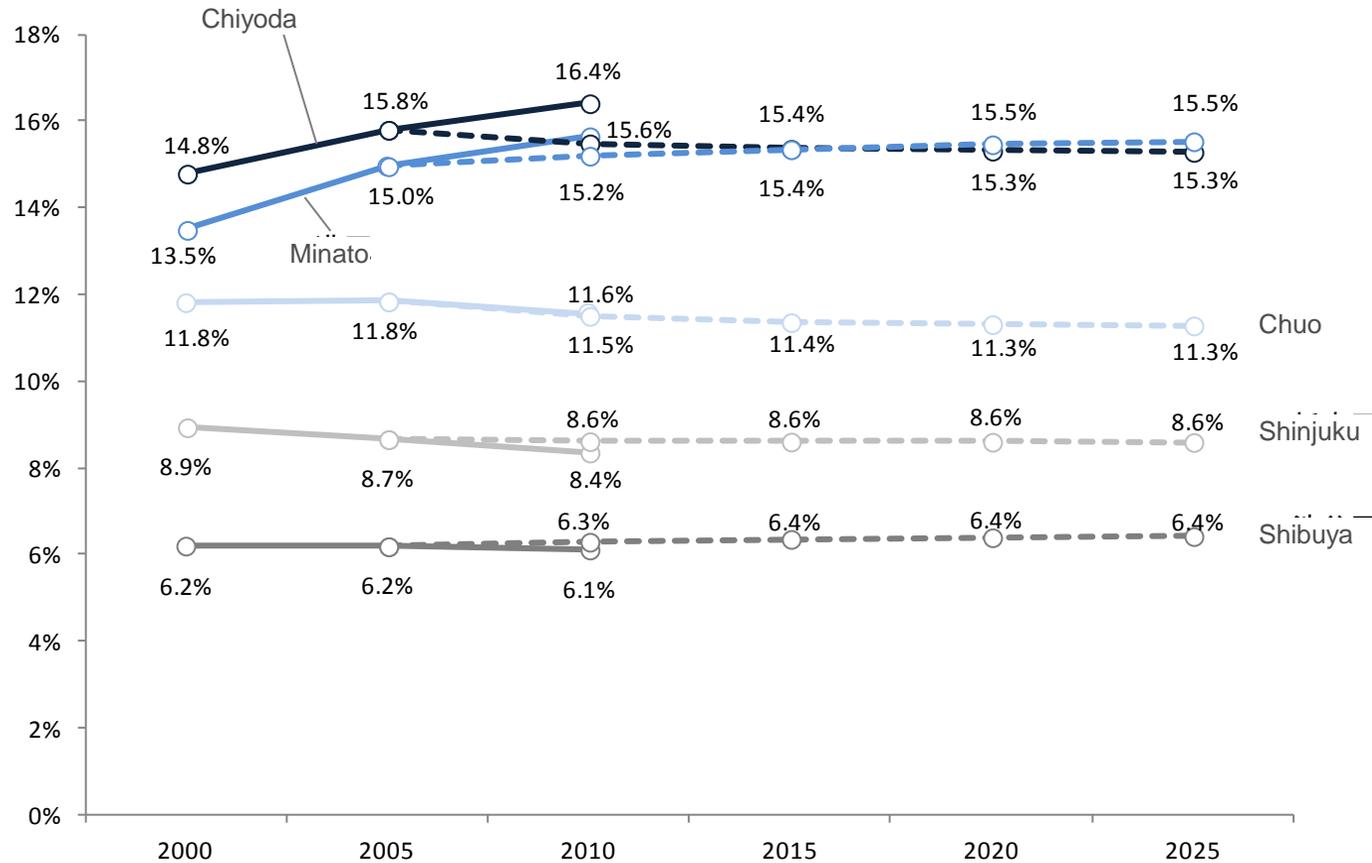


Source: MIC "Population Census" and Tokyo Metropolitan Government "Shugyosha no Yosoku"

Office Market

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%)

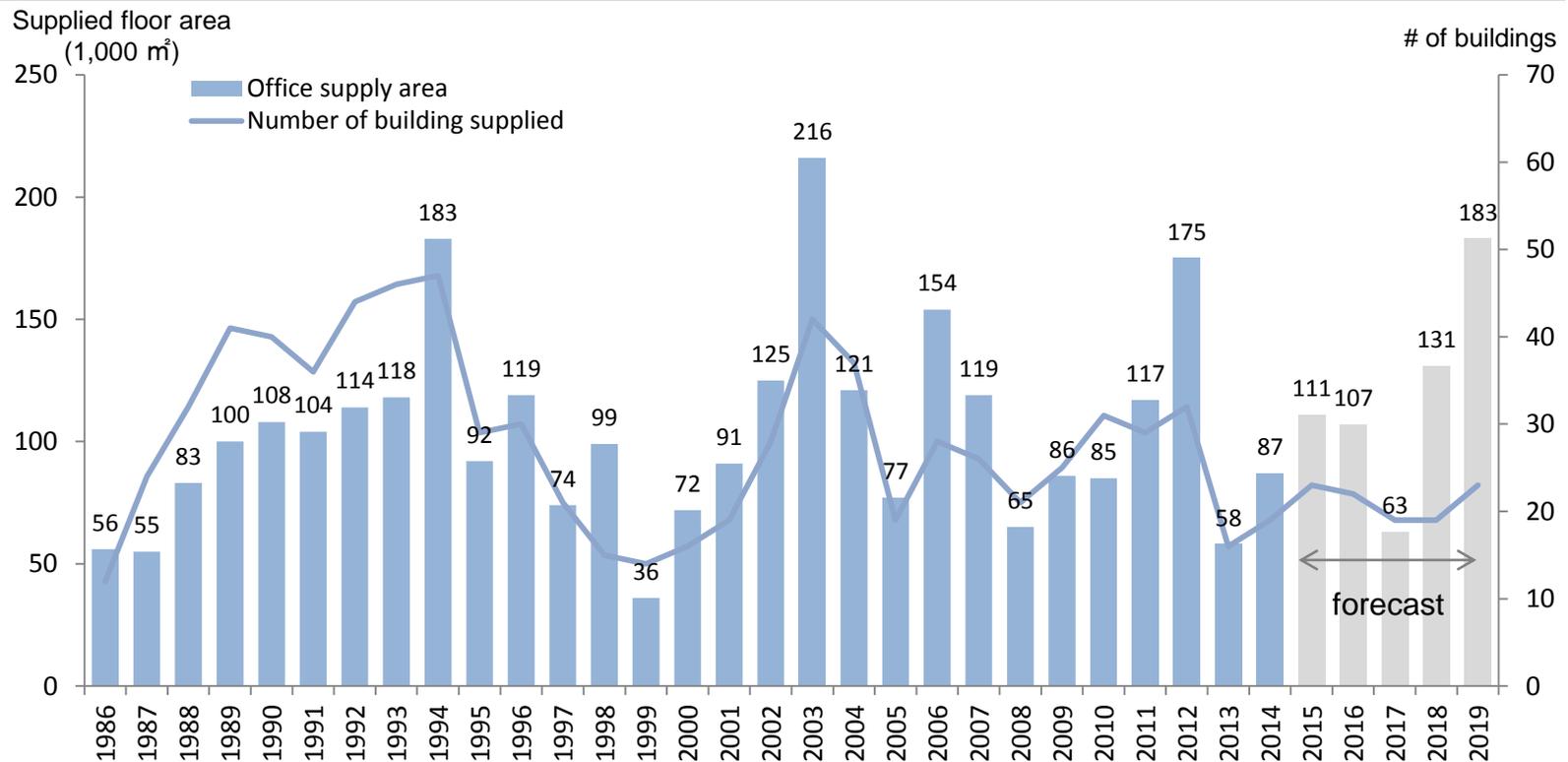


Source: MIC "Population Census" and Tokyo Metropolitan Government "Shugyosha no Yosoku"

Office market

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

Office space supply in Tokyo's 23 wards

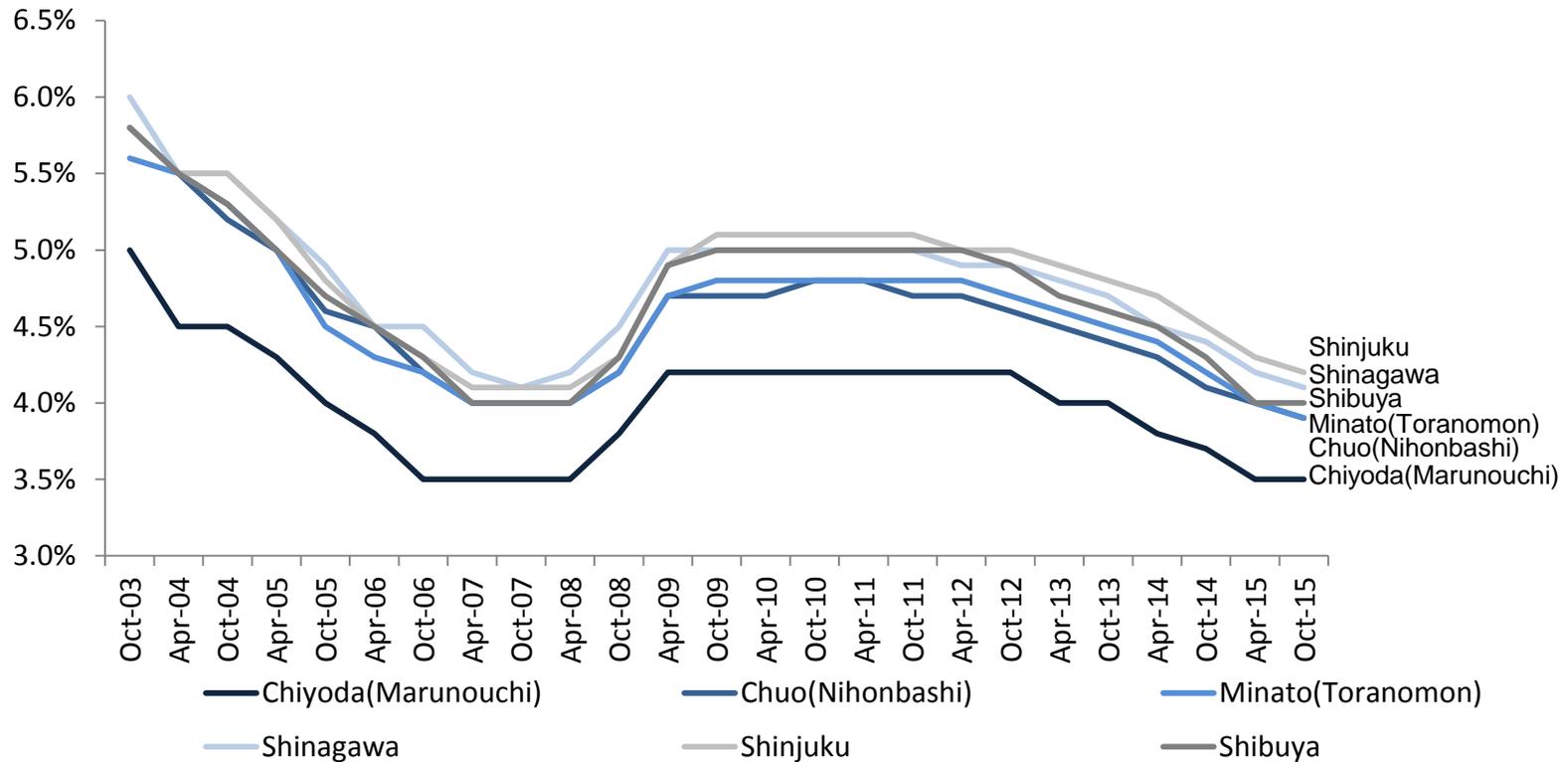


Source: Mori Building Company "Market Trend Survey of Large-Scale Office Buildings in Tokyo's 23 Wards"

Office market

Cap rates continues to decrease from 2012, reaching the level of 2007.

Tokyo office market cap rate trend

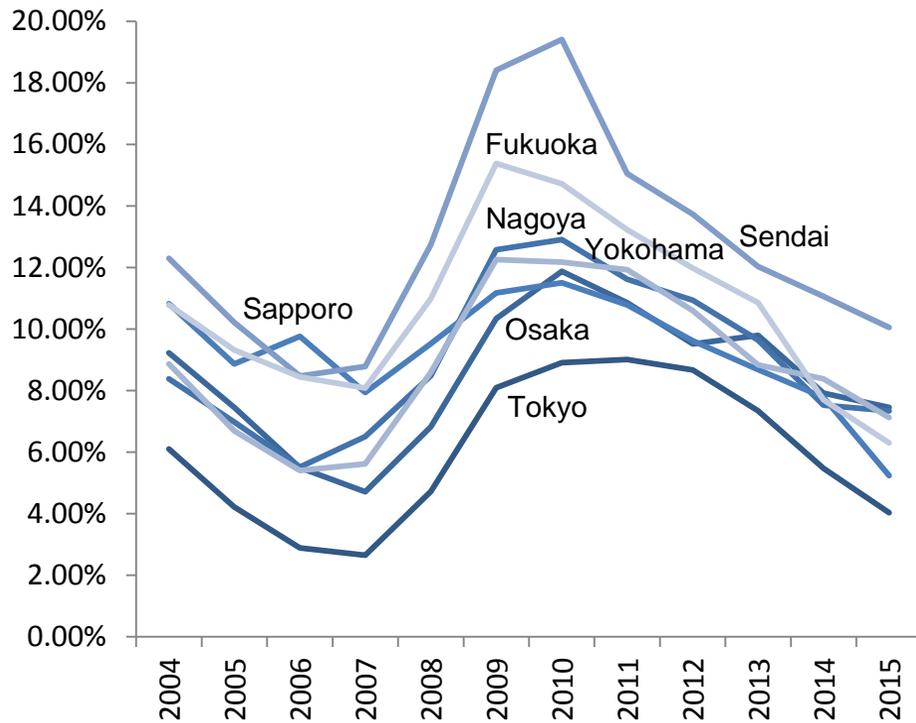


Source: Japan Real Estate Institute "Real Estate Investor's Survey"

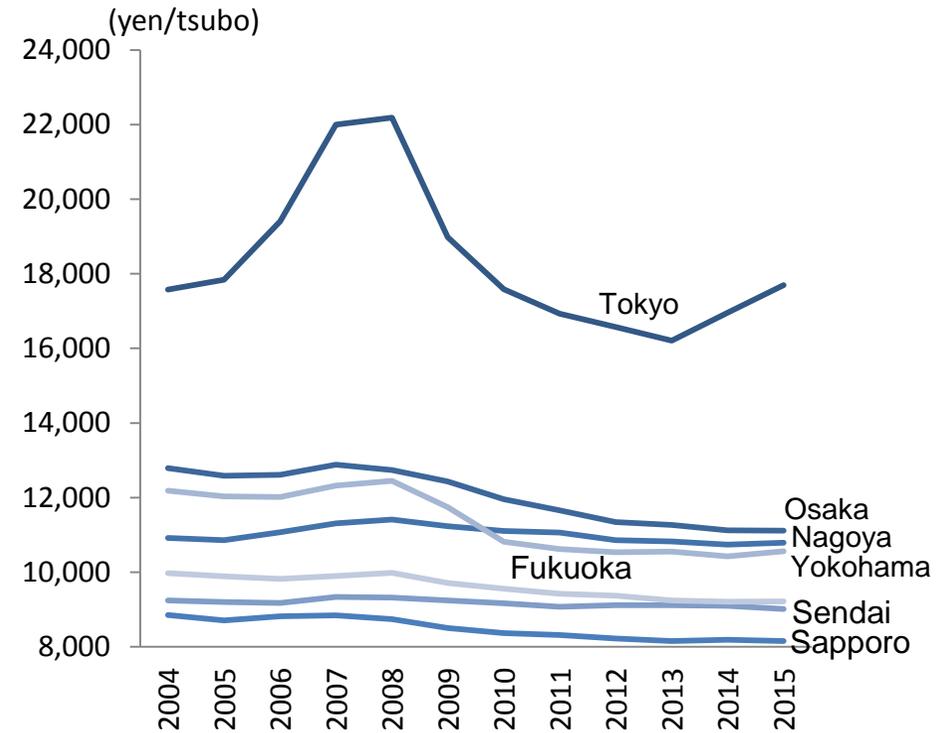
Office market

Vacancy rate improvement not leading to a recovery in rents in the ex-Tokyo office market.

Office vacancy trend in ex-Tokyo market



Office rent trend in ex-Tokyo market

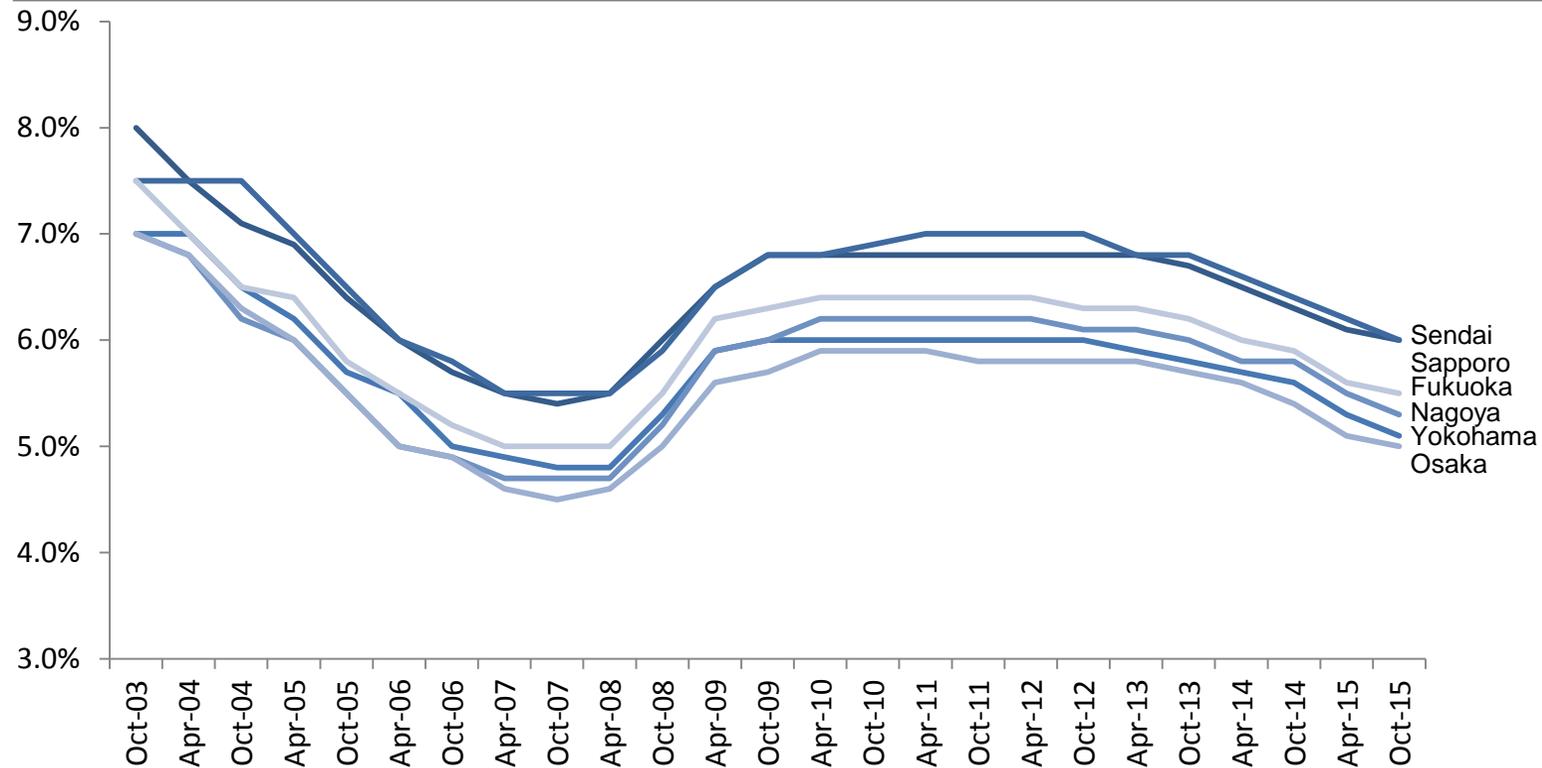


Office market

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



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

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Residential market

Retail property market

Logistics property market

Hotel market

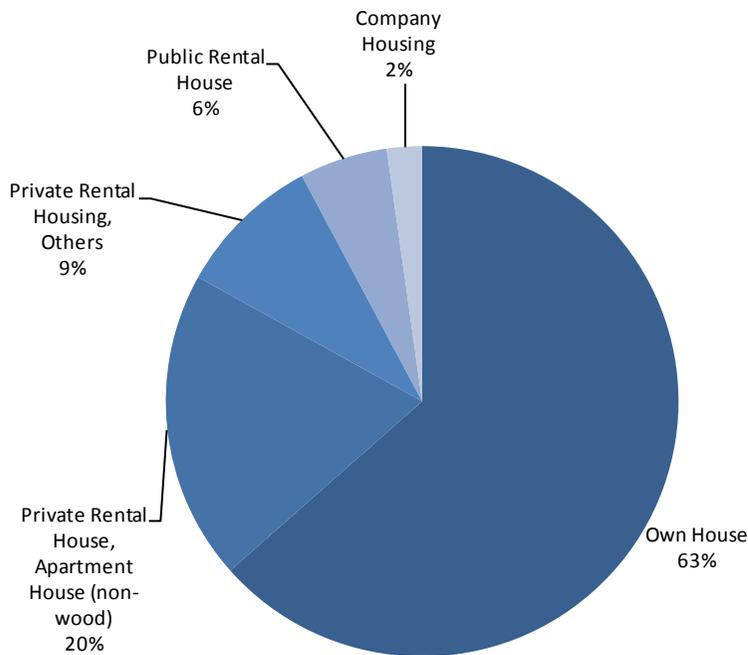
Real estate investment products

Residential market

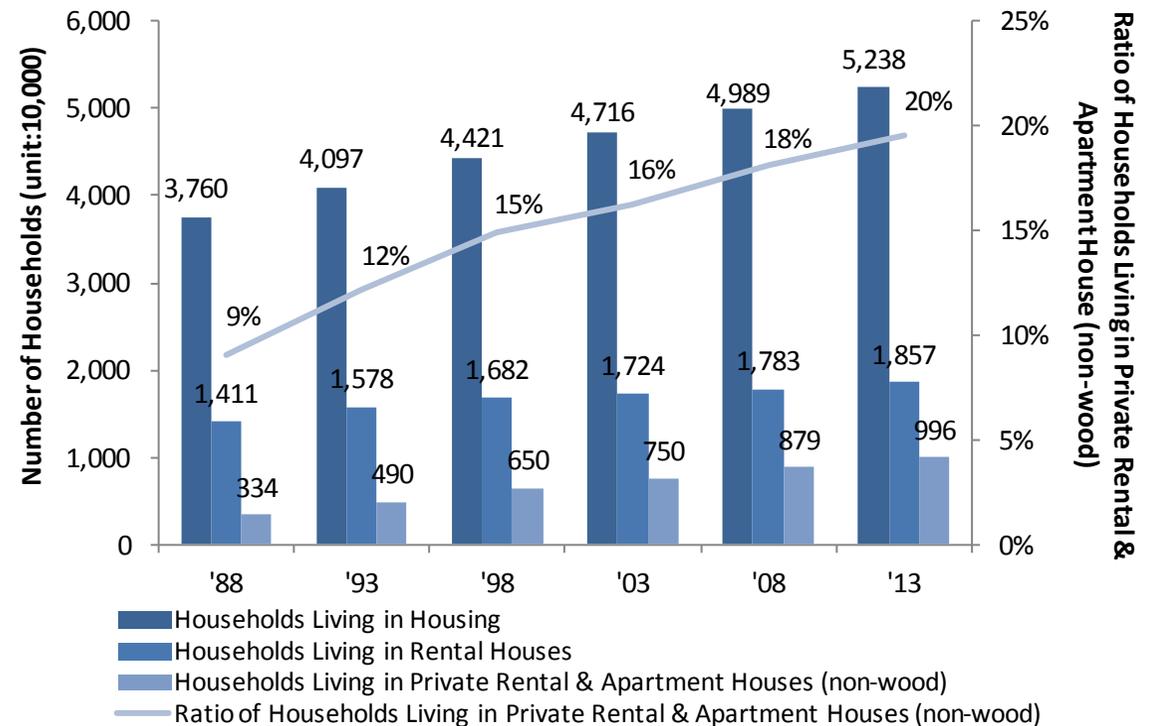
About 20% of all households in Japan are living in non-public rental apartments, and the percentage is trending upwards.

- 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 3.3 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

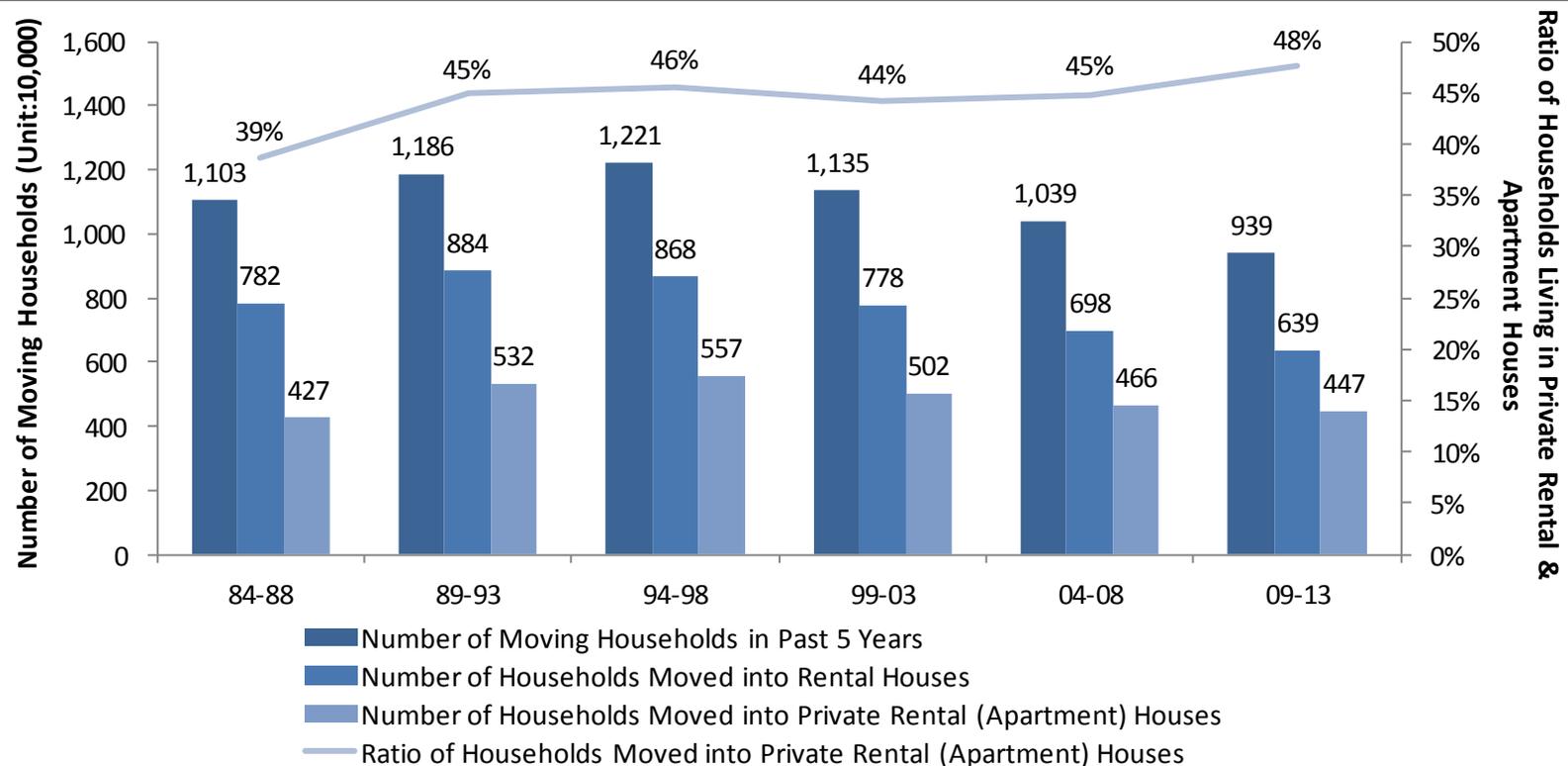


Residential market

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 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 upward.

Housing choices of moving households 1984 - 2013

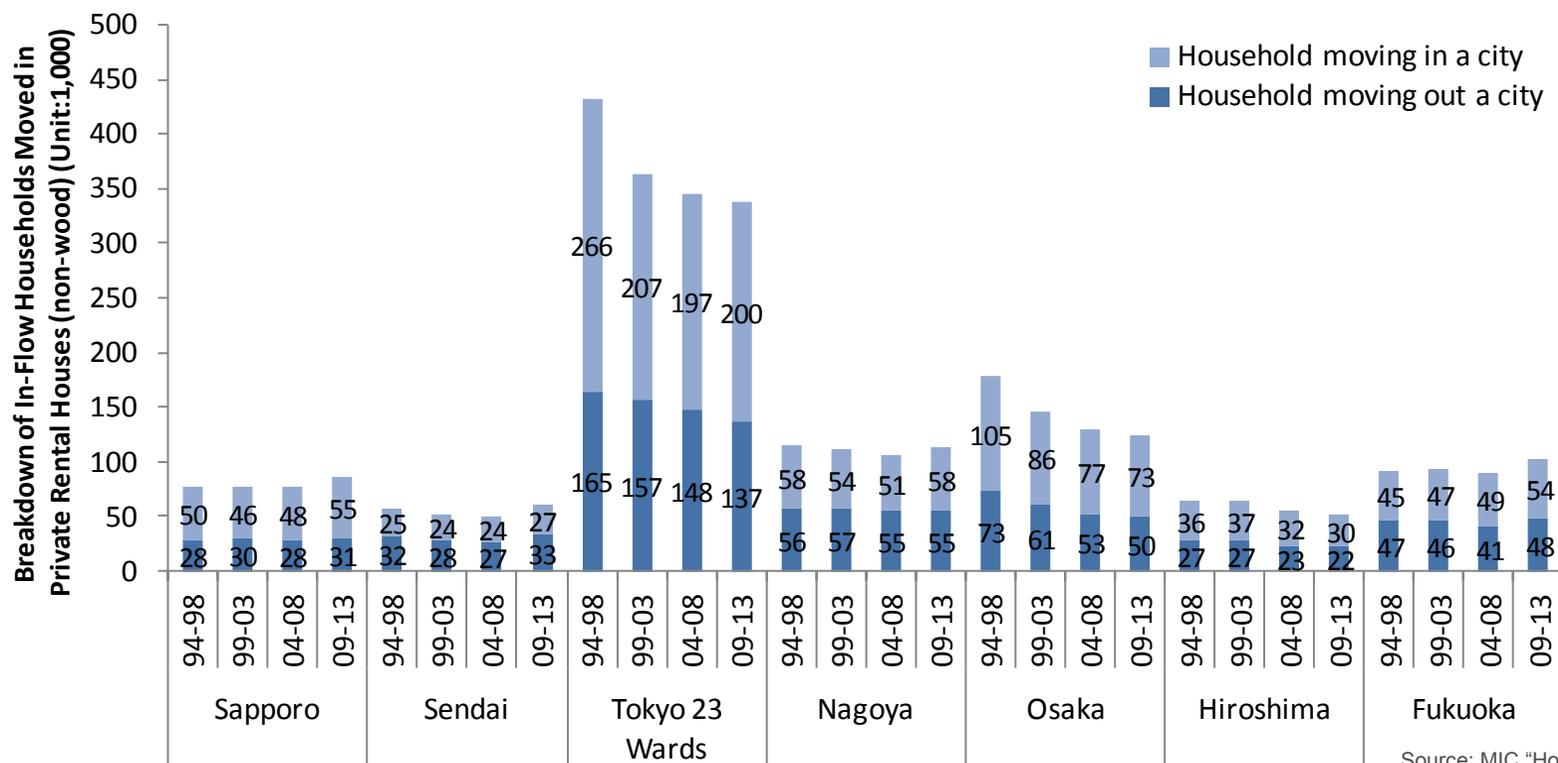


Residential market

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



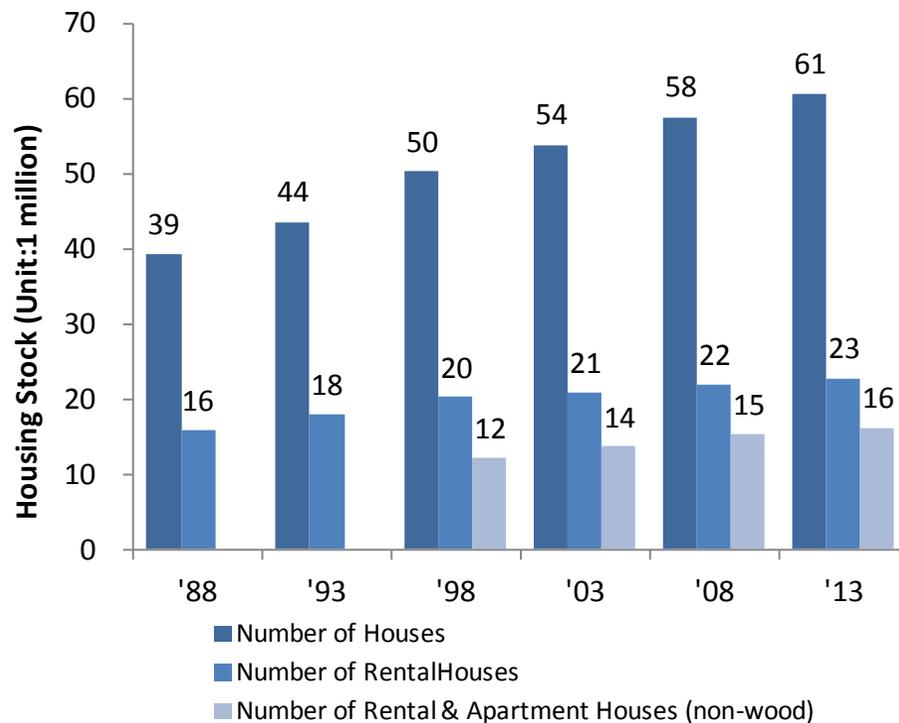
Source: MIC "Housing and Land Survey"

Residential market

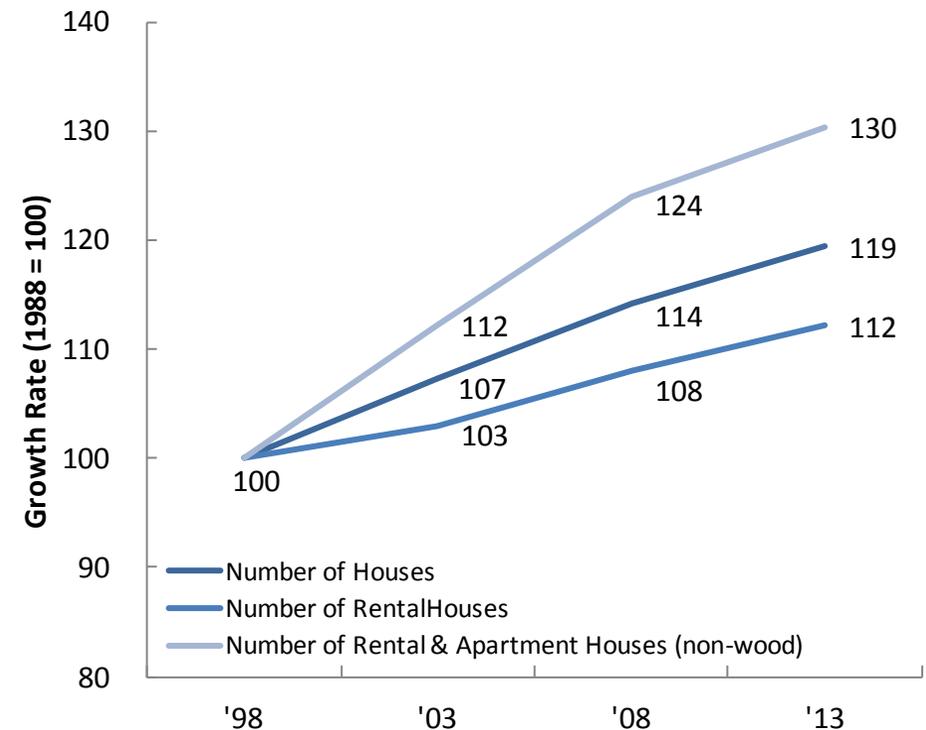
The supply of non-public rental apartment units has increased more sharply than total housing stock.

- 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 c60% to 70%.

Housing stock by type 1988-2013



Housing growth rates by type



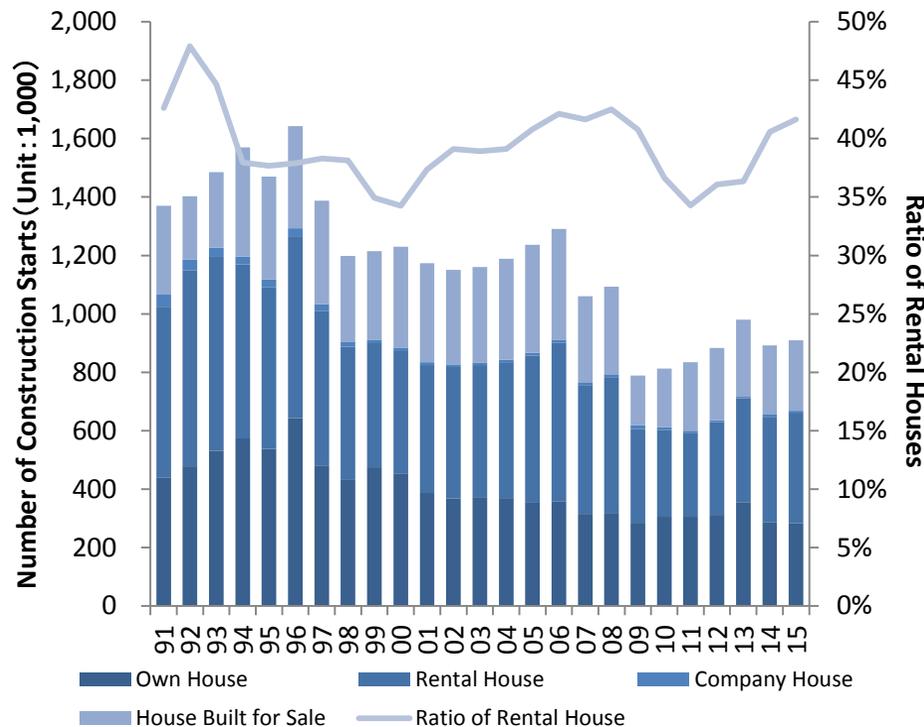
Source: MIC "Housing and Land Survey"

Residential market

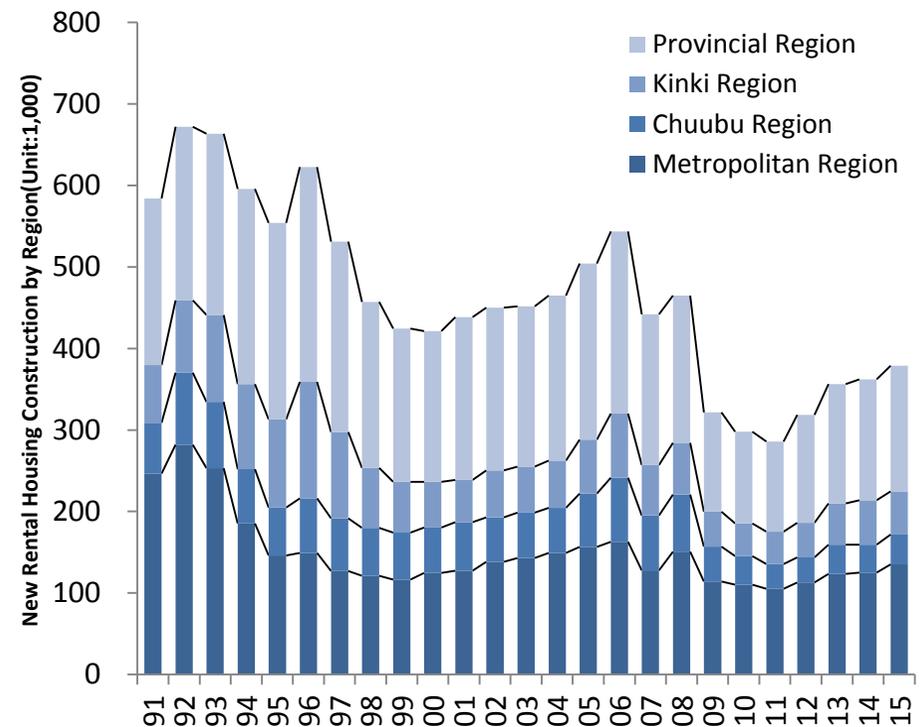
Number of new housing starts decreases substantially in 2009, and is now on the path to recovery.

- The number of new housing starts in 2015 increased slightly on 2014, and the 900,000 unit mark was reached again
- Because the number of new owner-built housing start kept decreasing, and the number of construction of new rental houses increased, the weighting of rental houses in construction housing rose.

New housing supply trend: 1991-2015



Breakdown of new rental housing construction by region



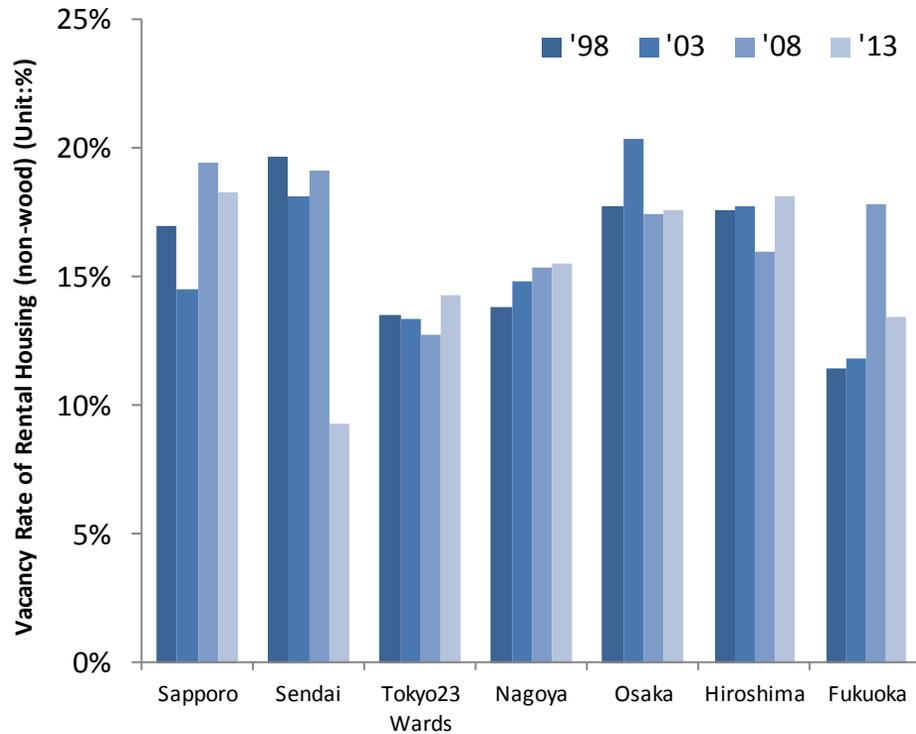
Source: MLIT "Survey of Construction Work Started"

Residential market

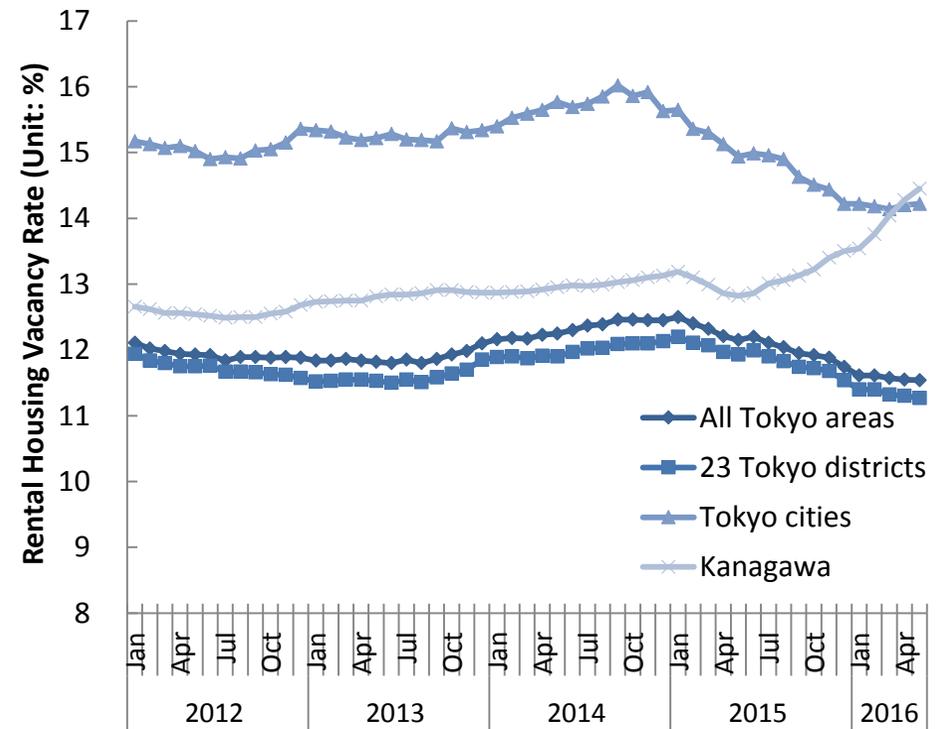
Rate of vacancy in Tokyo's 23 wards and Tokyo city tend to improve. On the other hand, rate of vacancy in Kanagawa with the high apartment ratio is rising suddenly.

- It increased in rental apartment construction by the tax avoidance purpose with a basic deduction's of an inheritance tax being reduced from January 2015.
- Because of number increasing in apartment supply irrespective of demand action, rate of vacancy is rising 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"

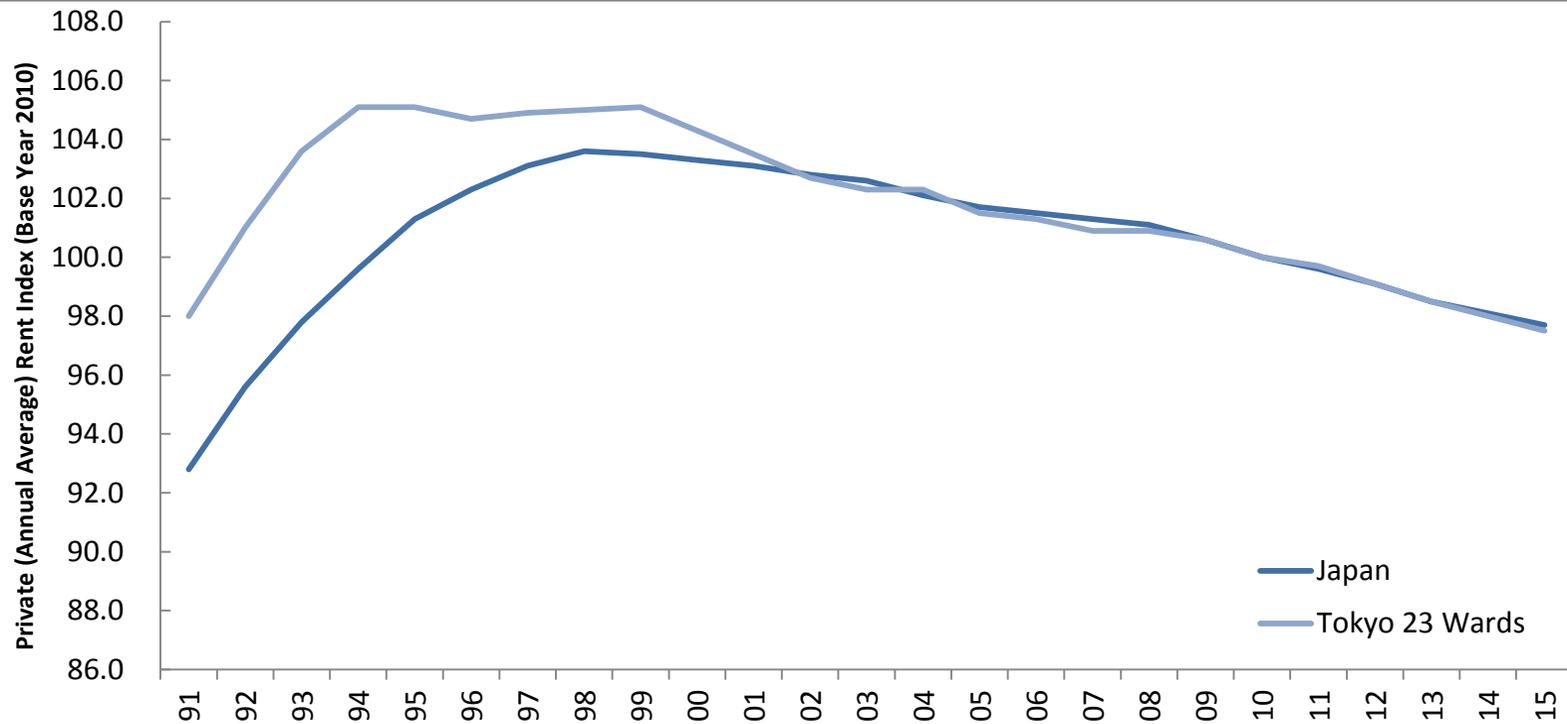
Source: TAS Corp. and At Home Co., Ltd. "Report on Rental Housing Market"

Residential market

Improved vacancy rates are not enough to raise rent levels.

- The rent level of non-public rental housing rose steadily from 1990 to 2000, after which it gradually declined. The rent level downtrend continued in 2015.

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



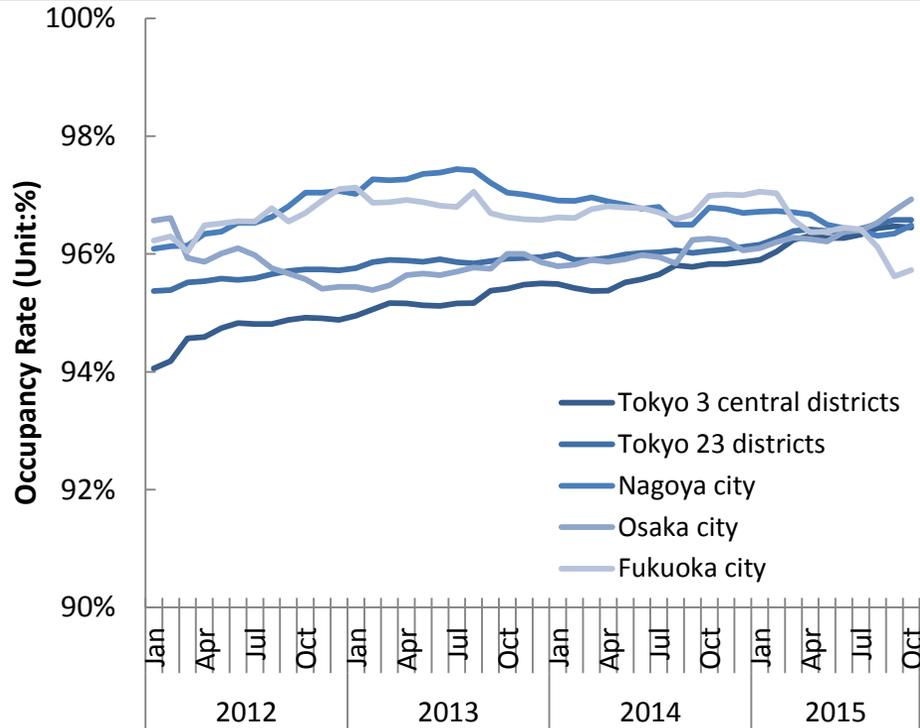
Source: MIC "Consumer Price Index"

Residential market

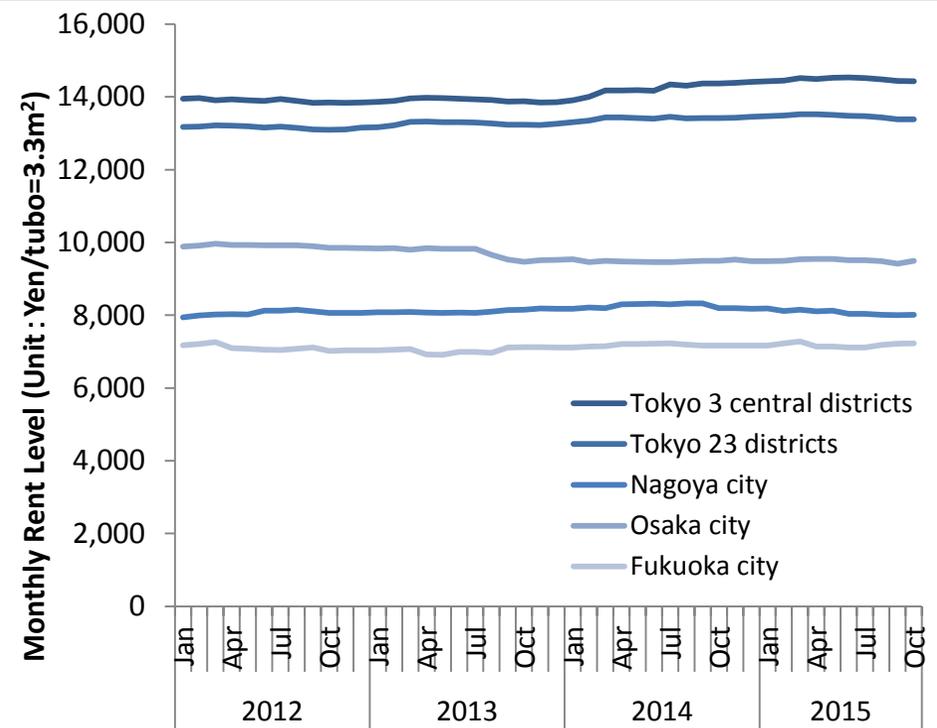
The operating ratio of REIT case housing and the private fund reached the high standard, and downtown 3 wards and Tokyo 23-ku's rent standard is rising.

■ Occupancy rates in Nagoya and Fukuoka have peaked. Rent levels remain flat or are on a slight downtrend.

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

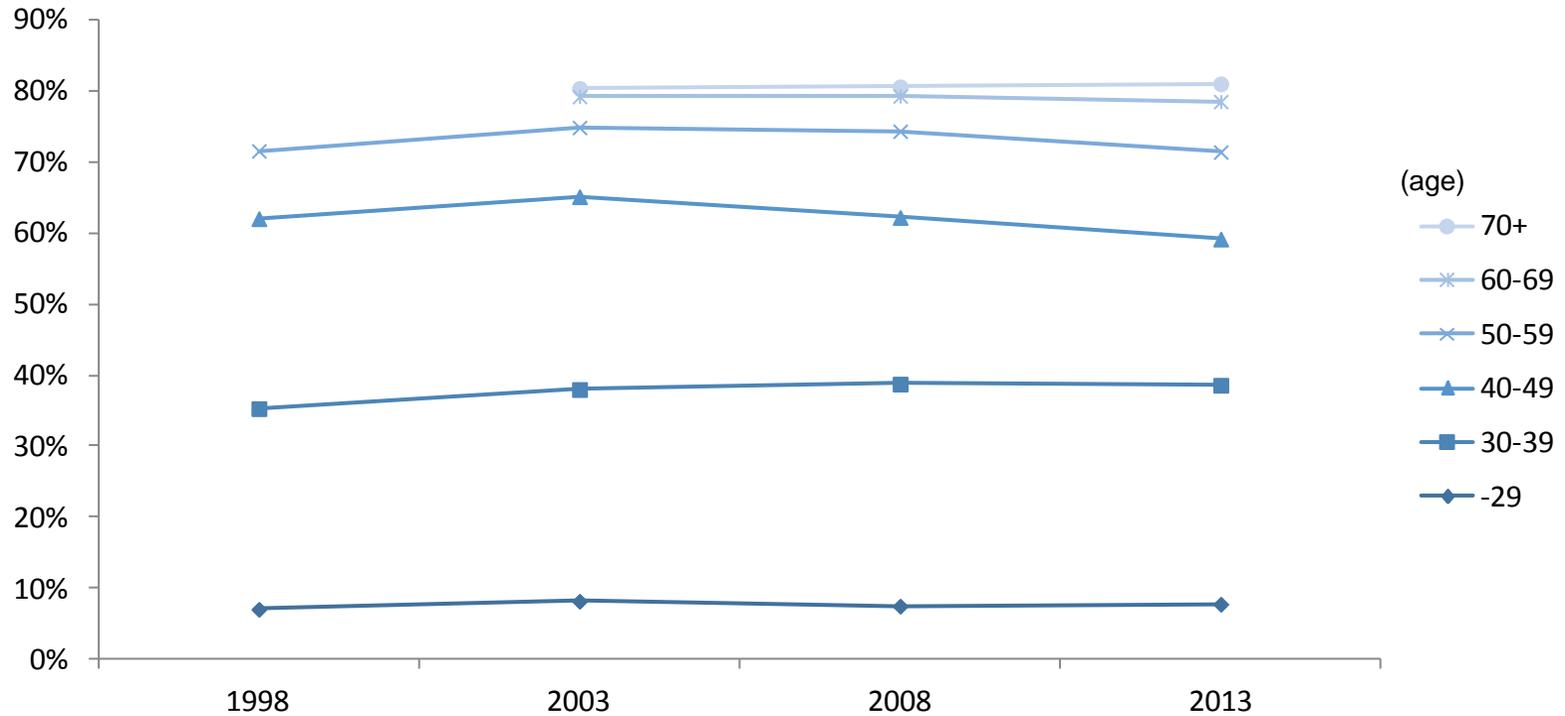


Monthly rents of REIT-owned and private fund-owned properties



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

Housing ownership rate in Japan by age group



Population movements in Japan

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Overview of real estate investment market in Japan

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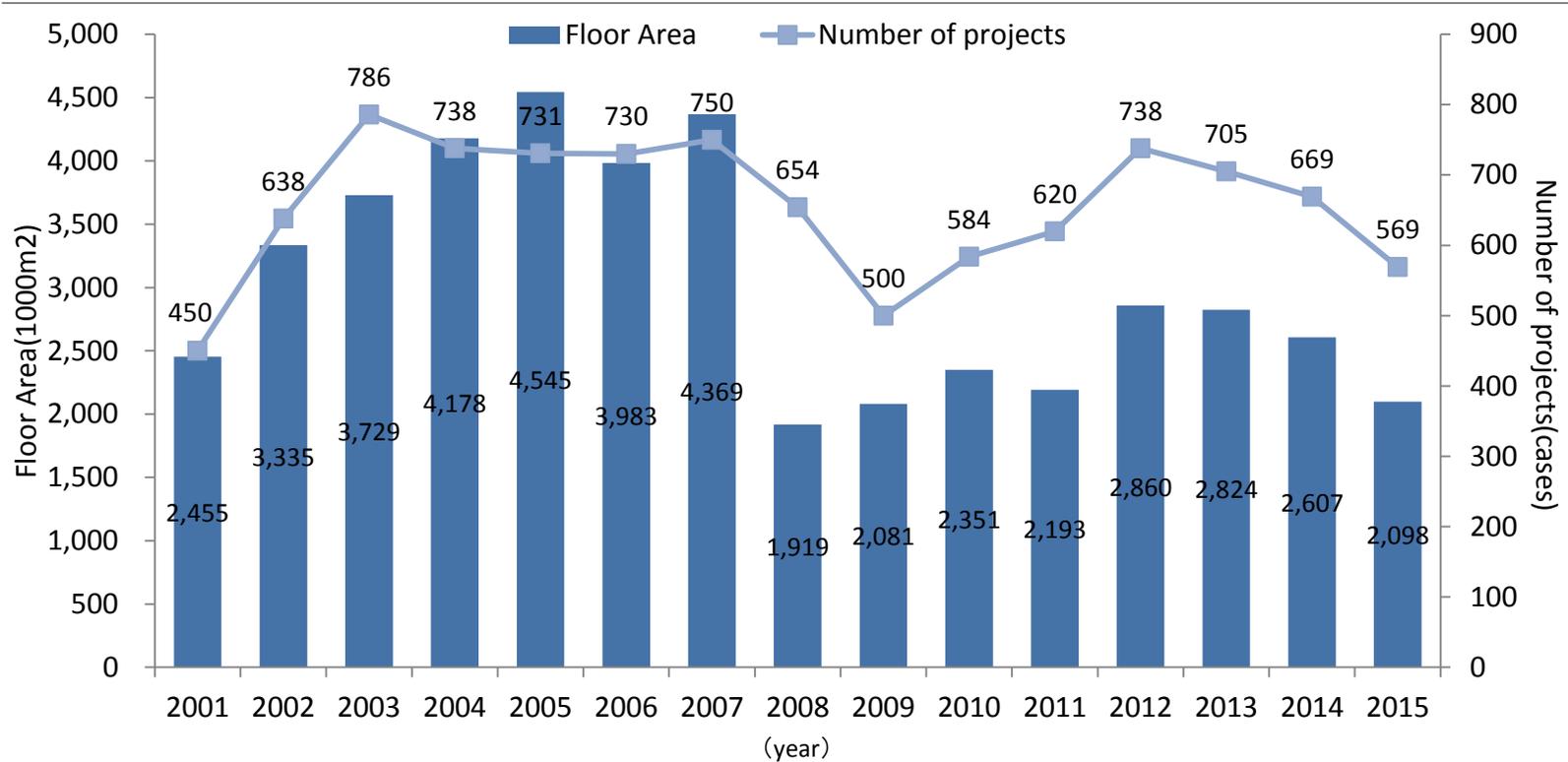
Hotel market

Real estate investment products

Retail property market

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

New retail space supply vs. number of development projects



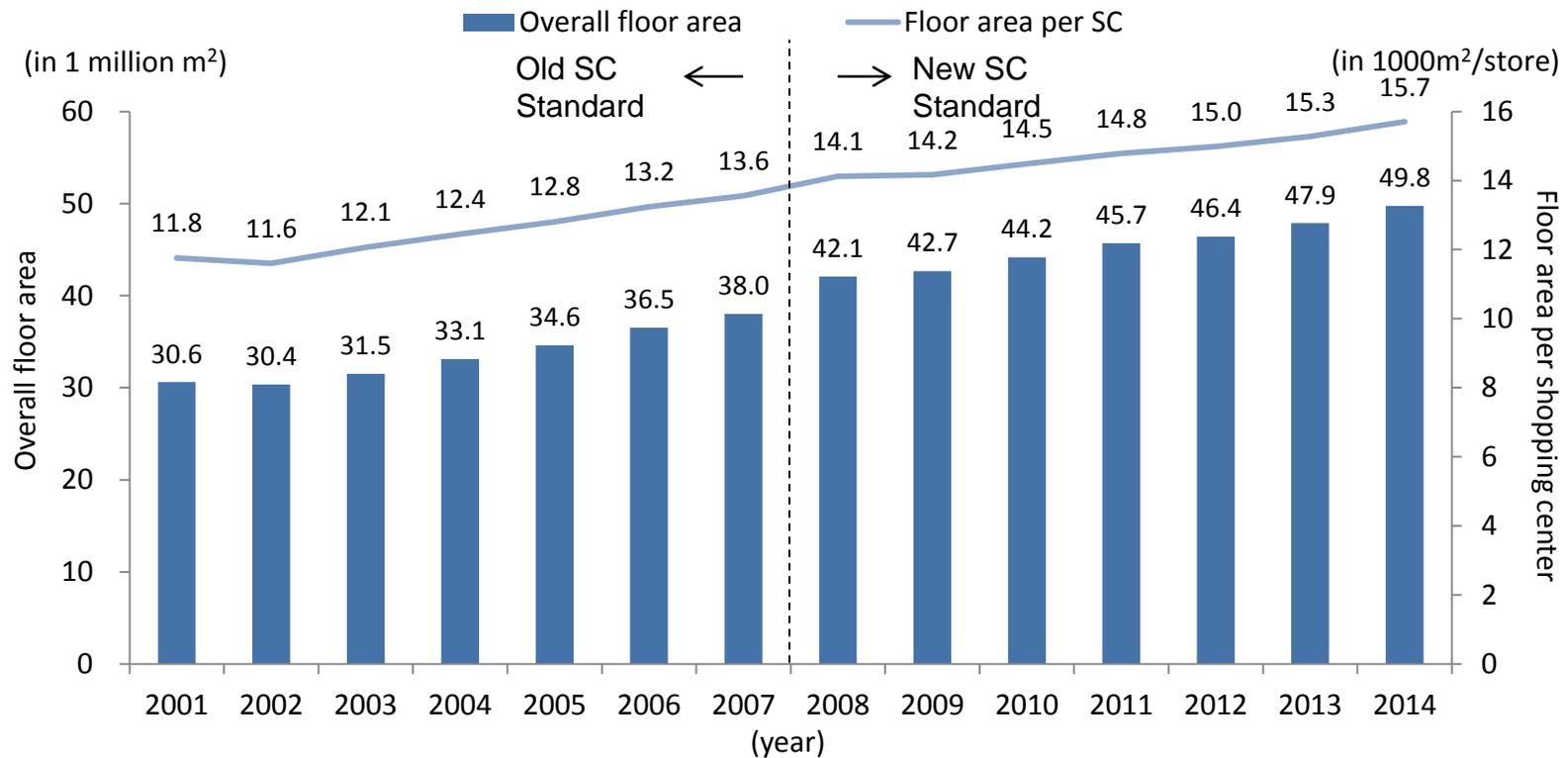
Source: METI "Large-scale Retail Chain Site Expansion Report"

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

Retail property market

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.

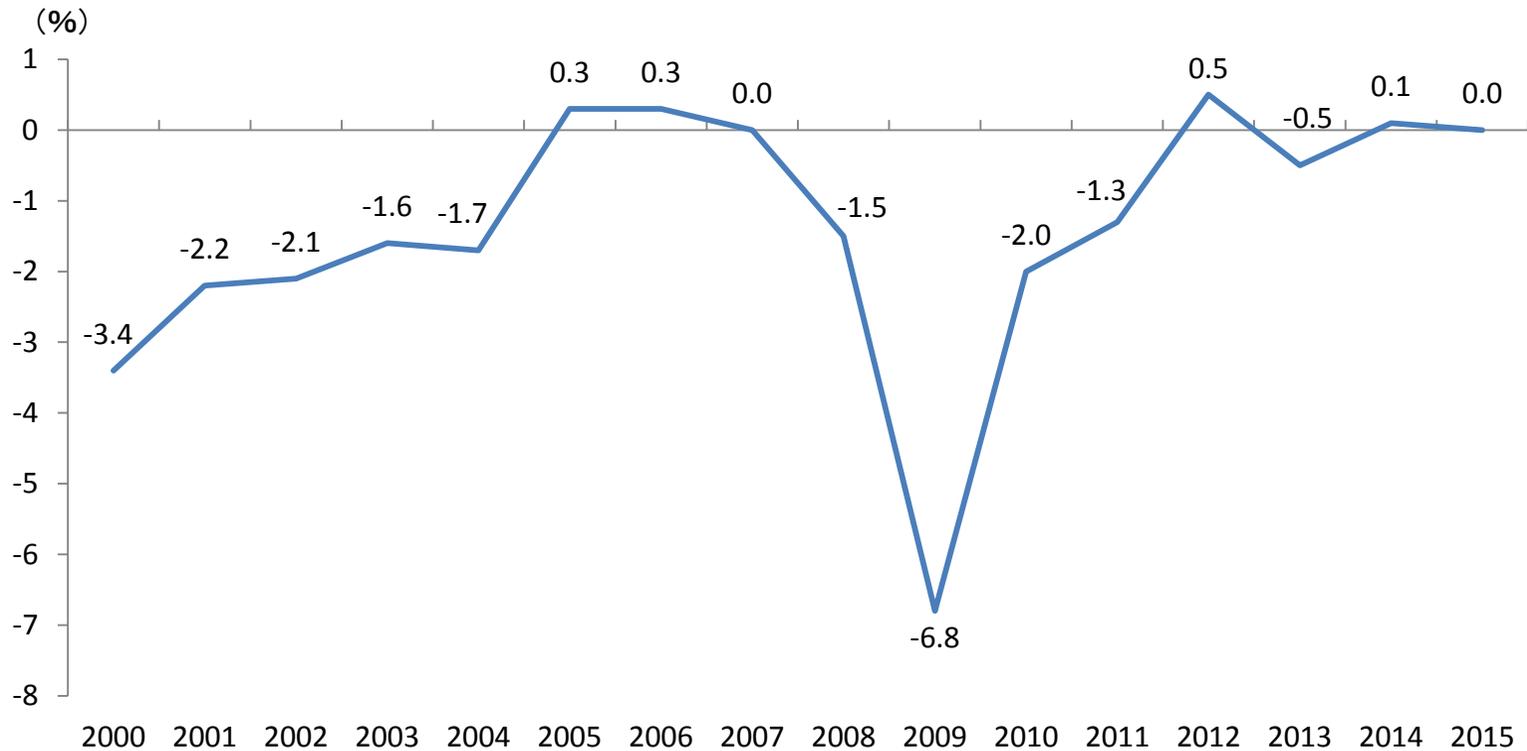
In the new SC standard, the shopping center must have more than 10 tenants including food stalls, service centers and retail outlets.

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

Retail property market

Downtrend in shopping center sales is mitigating.

YoY comparison of existing shopping centers' annual sales

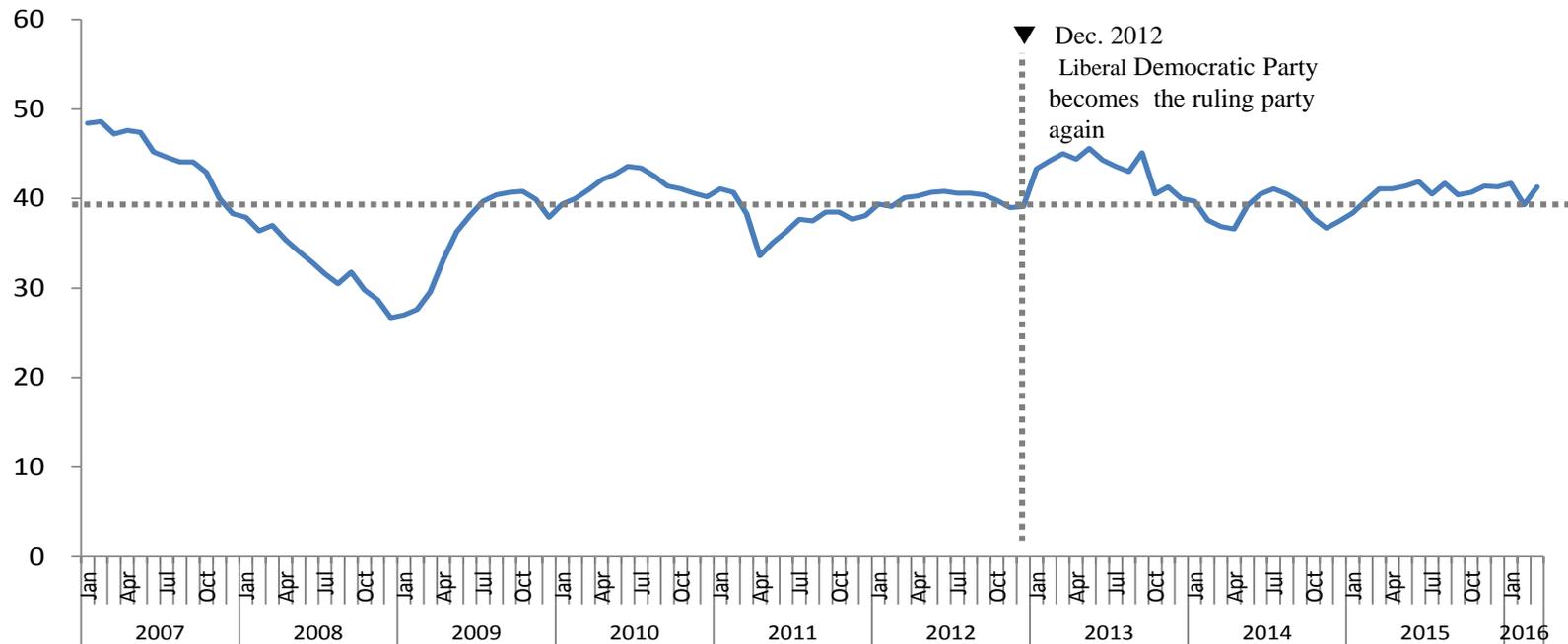


Source: Council of Shopping Centers "Overall Sales Statistics Report"

Retail property market

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.

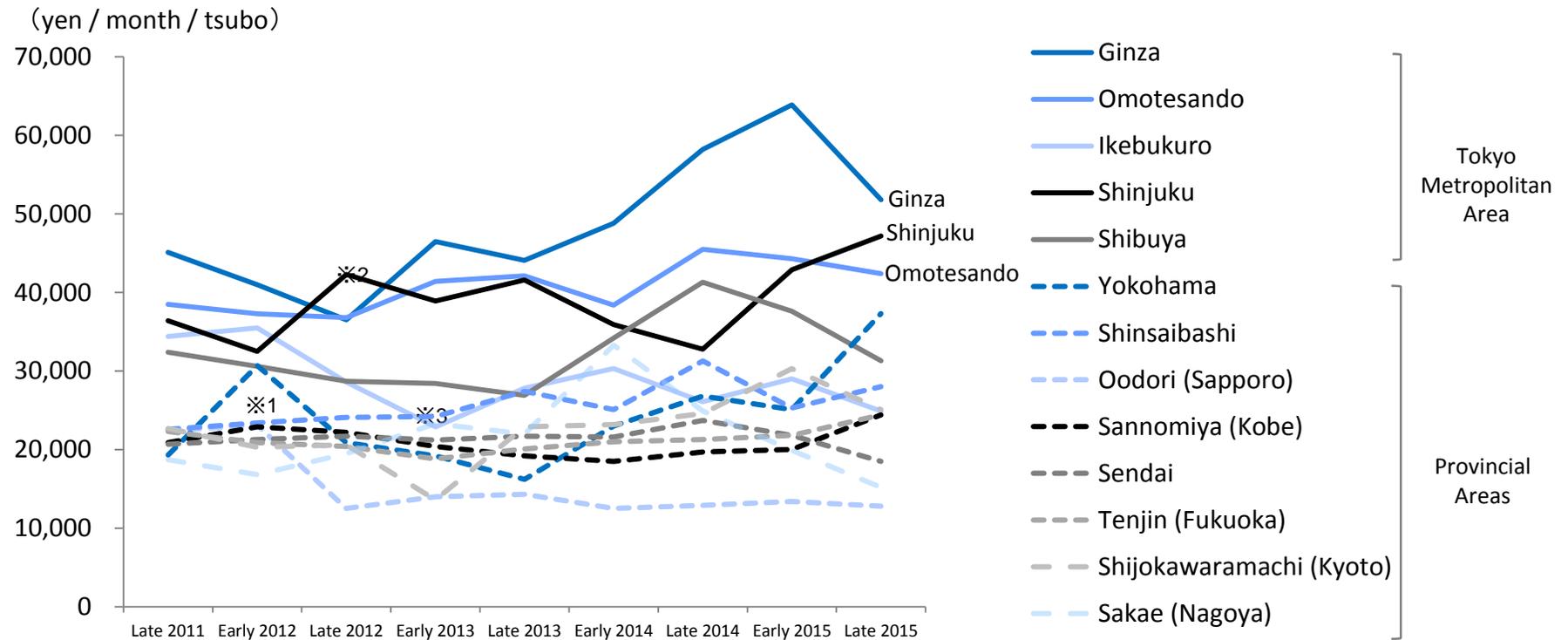
To illustrate, a value of 50 will be produced if all participants answer "Won't change" for all available items.

Source: Cabinet Office "Consumer Trends Survey"

Retail property market

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

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



Source: Japan Real Estate Institute, BAC Urban Projects, and Attractors Lab "Retail Chain Rental Trends"

Note 1: 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

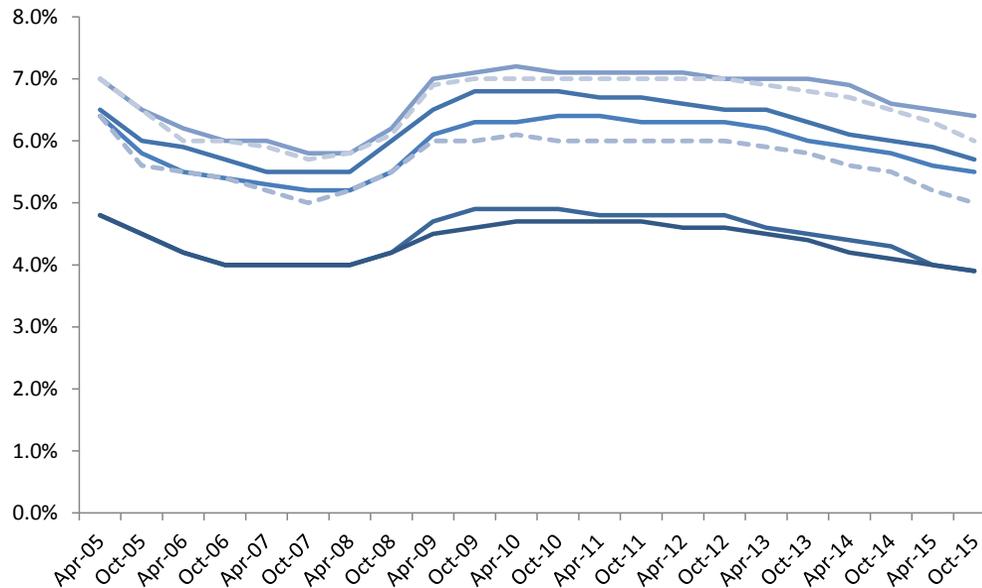
Note 2: Rent in Shinjuku is shown to have spiked in the late half of 2012, but this can be attributed to a sample bias toward small, high-rent properties

Note 3: Rent in Ikebukuro is shown to have dipped in the early half of 2013, but this can be attributed to a sample bias toward low-rent properties in unfavorable locations

Retail property market

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

Commercial establishment cap rates (expected yield)



Suburban, Nagoya
 Suburban, Osaka
 Suburban, Tokyo
 Metropolitan, Nagoya
 Metropolitan, Osaka
 Metropolitan, Omotesando
 Metropolitan, Ginza

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 Chuodoori in Ginza's Chuo district.

Along Omotesando in Shibuya's Omotesando 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: 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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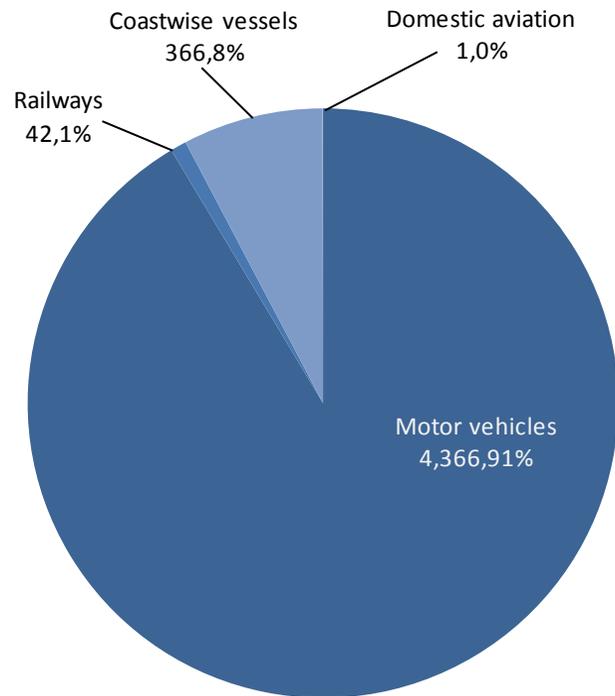
Real estate investment products

Logistics property market

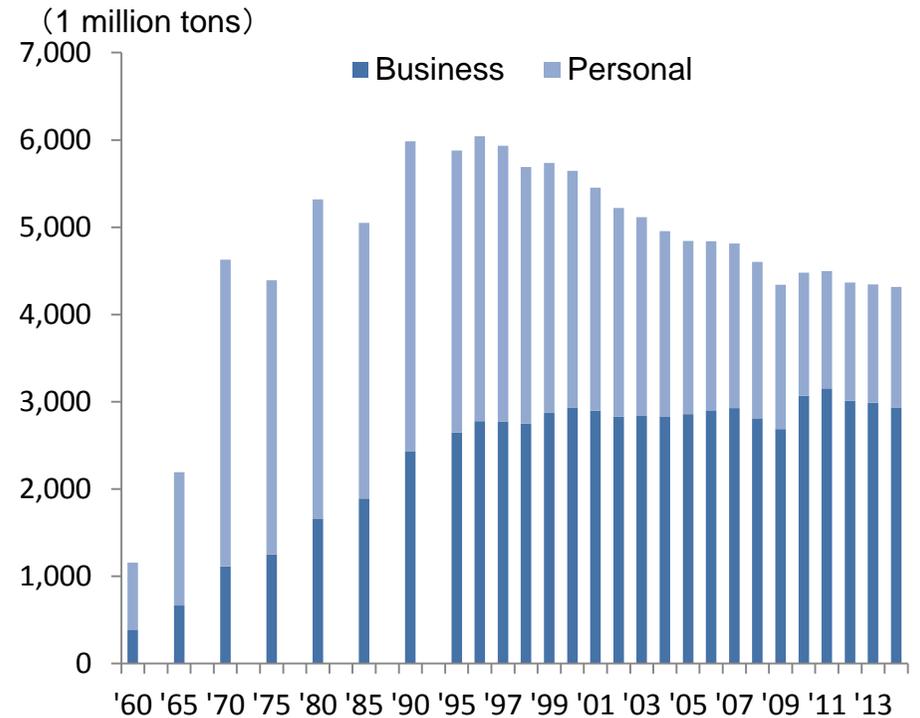
Truck-based transport volume (in tons), which forms the bedrock of Japan's cargo industry, has continued to decline in recent years.

- 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 volume handled by personal-use trucks.

Cargo quantity by transport method (FY2012)
(Unit: 1 million tons)



Automobile cargo quantity movement



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

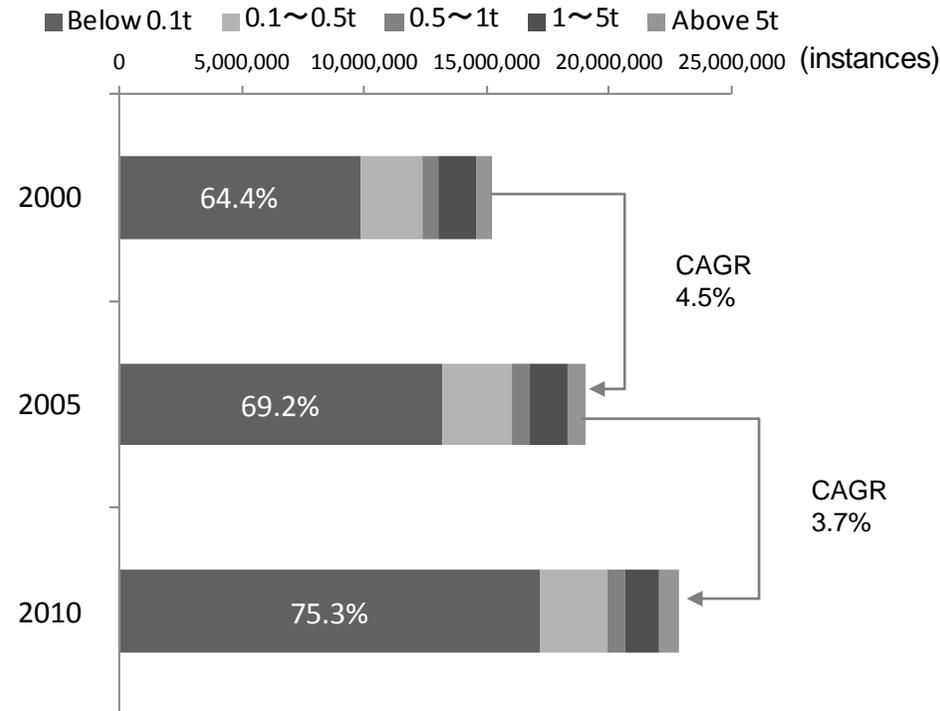
Note: The chronological continuity of data from prior to 2009 could not be guaranteed due to the changes made to the tallying methodology in the middle of 2010.

Logistics property market

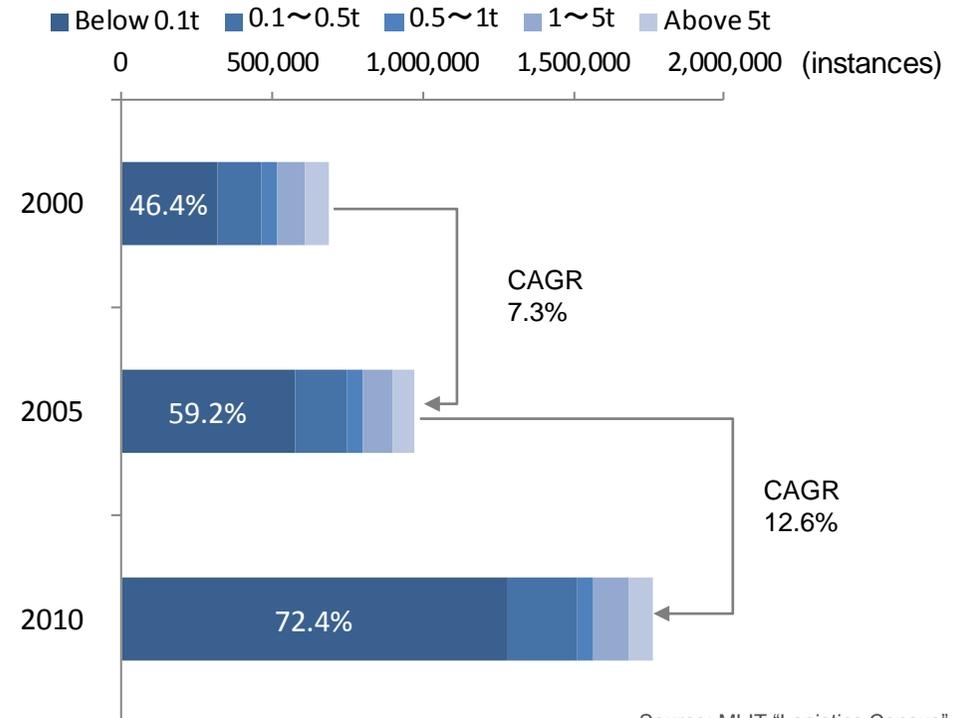
As the movement to smaller logistics lots progresses, the quantity distributed in such lots appears to be in upward trend based on the number of instances.

- 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"

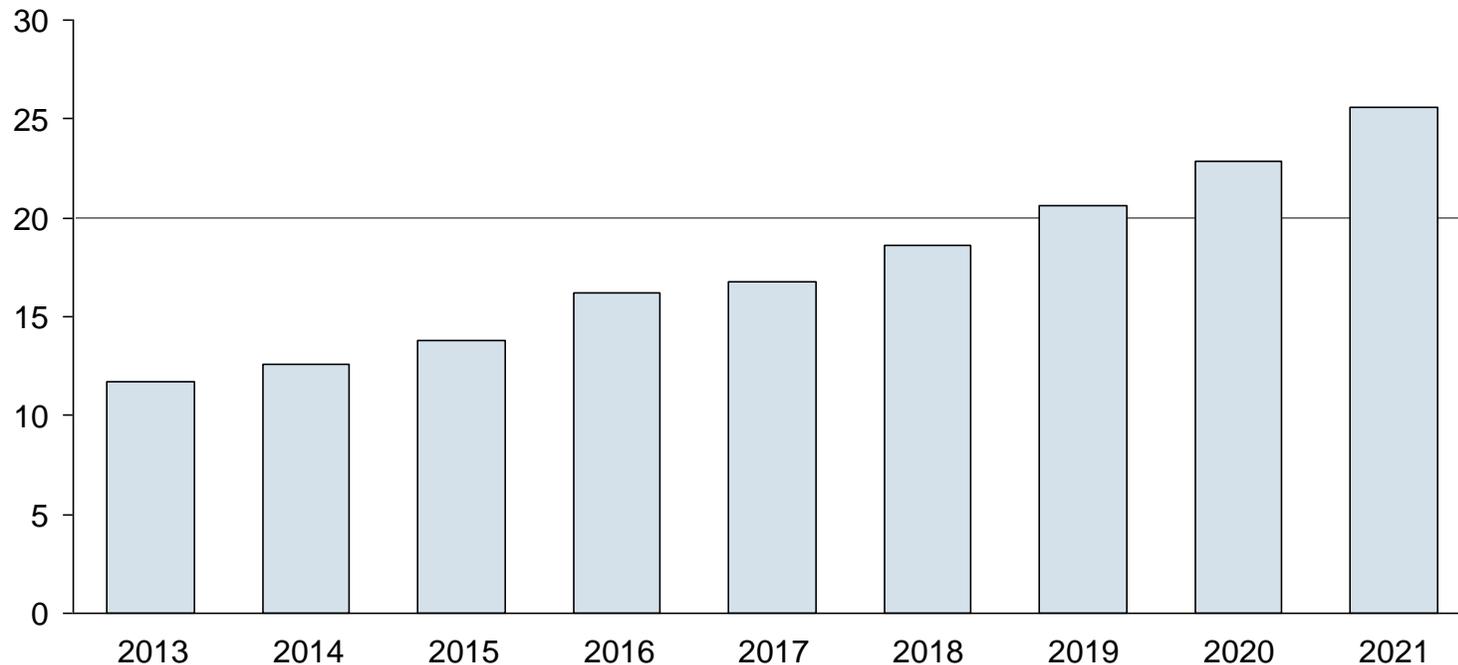
Logistics property market

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

(trillion JPY)



Source: NRI

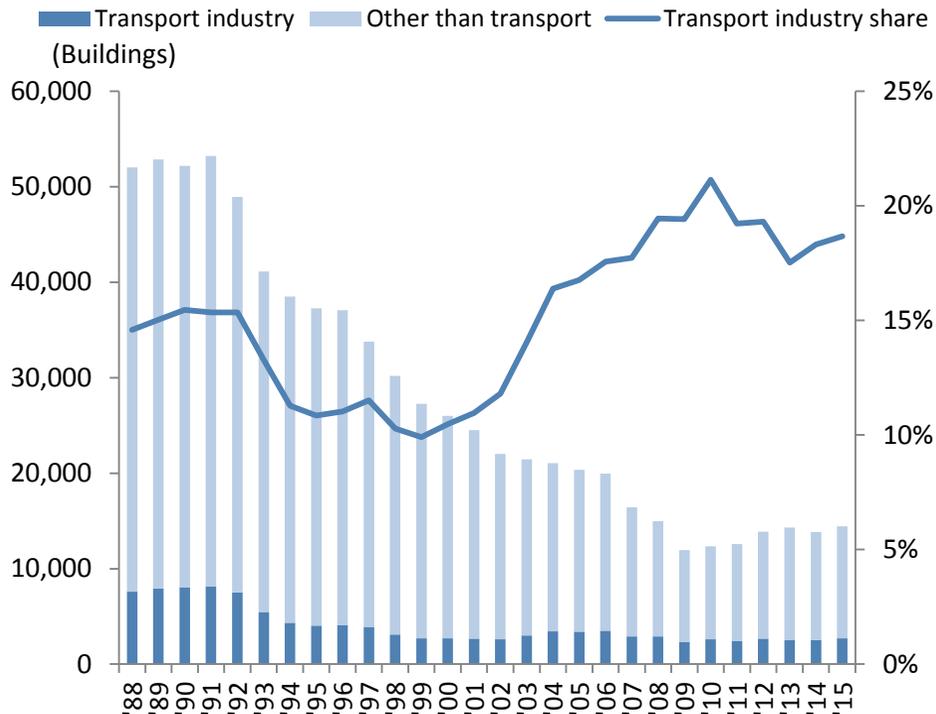
Note: Business -to-consumer e-commerce: sale of products and services to consumers in general via the Internet

Logistics property market

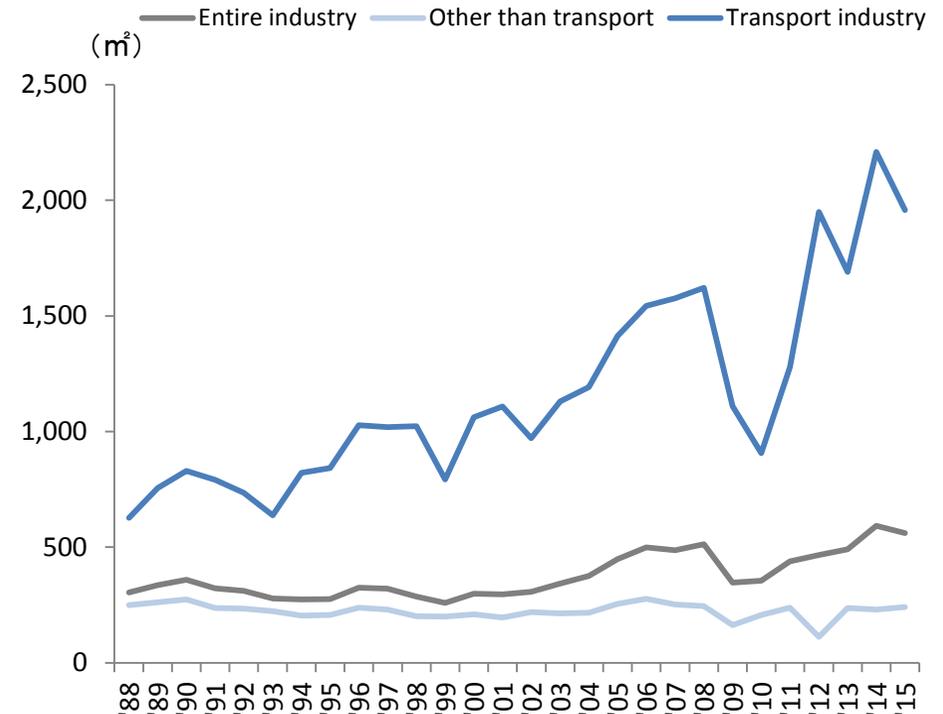
While new supply has stopped dwindling, facilities are growing larger due to businesses consolidating their logistics capabilities.

- 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



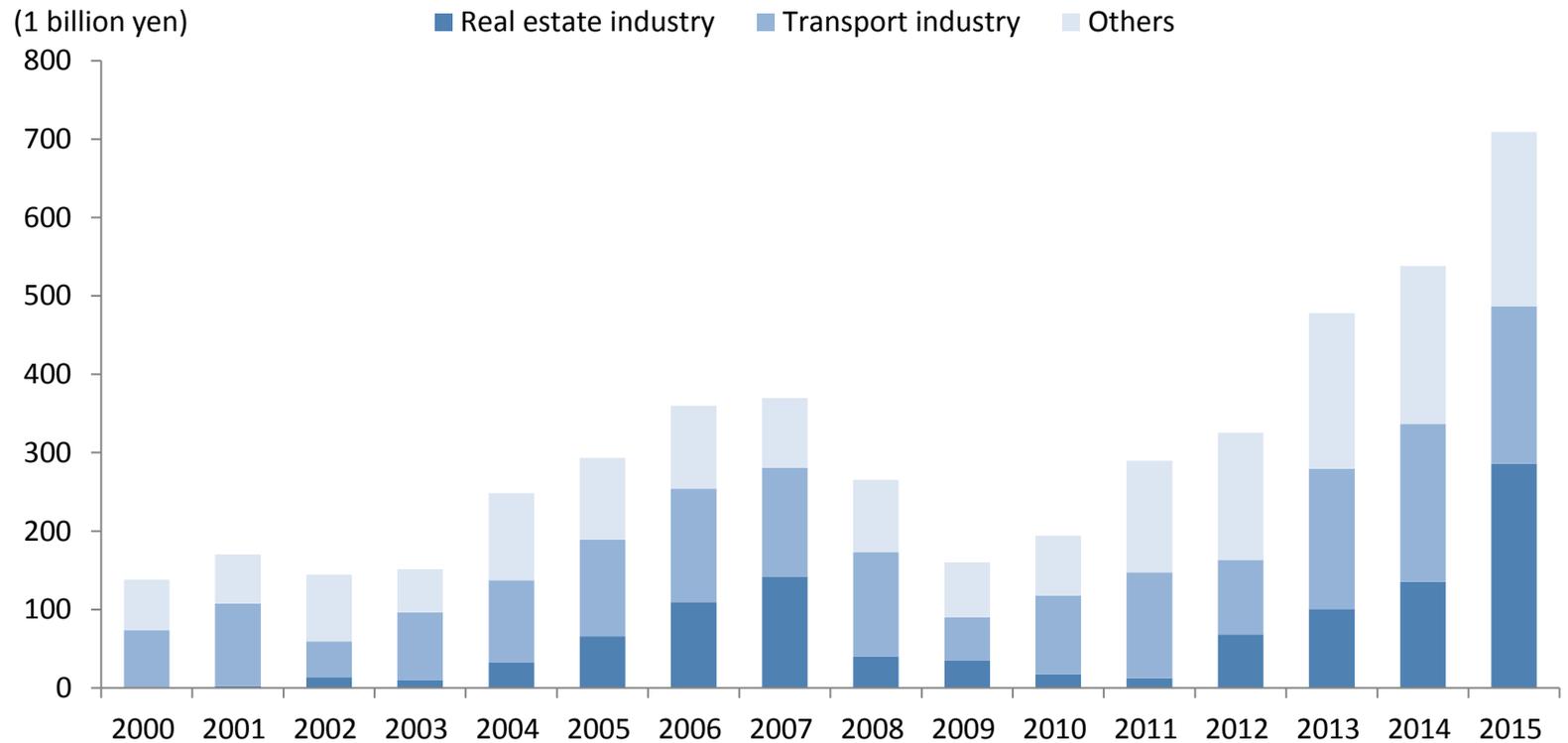
Floor space per warehouse building



Logistics property market

Development of logistics real estate, which had been shrinking since the global financial crisis, is now back in full swing.

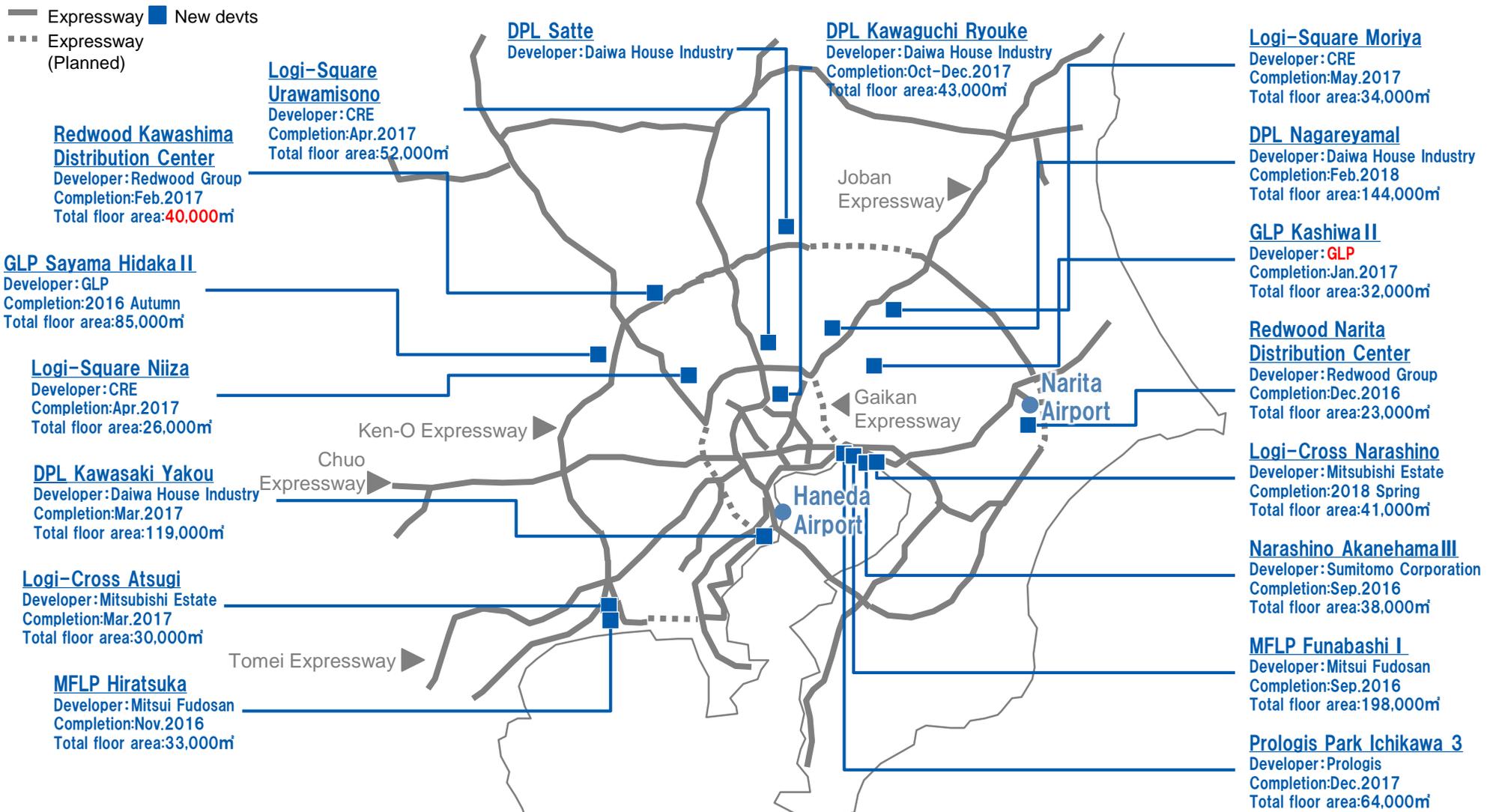
Order volume for construction of warehouses/logistics facilities by ordering industry



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

Logistics property market

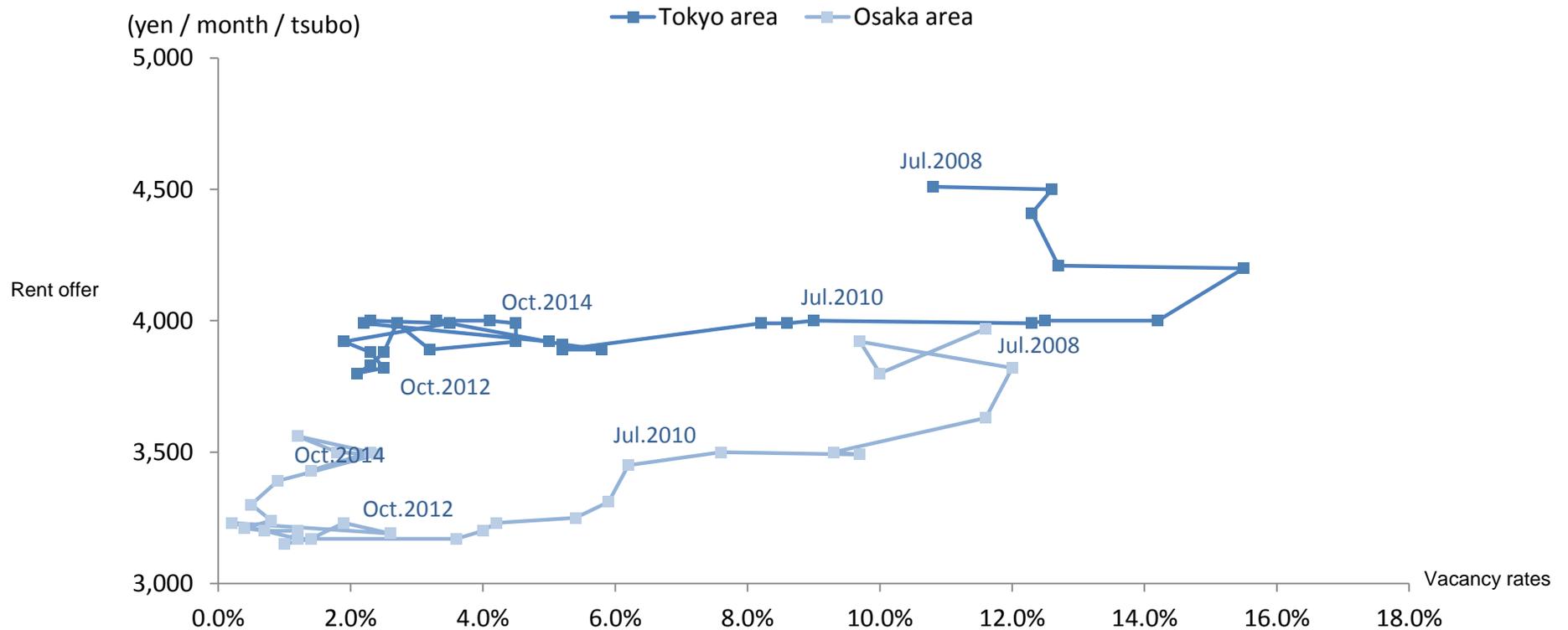
Major foreign-based logistics property players and Japanese real estate developers are gearing up for roadside development ahead of new expressway construction.



Logistics property market

Low vacancy rates have not yet translated into higher rents in the Tokyo area.

Monthly rent offers and vacancy rates of logistics properties



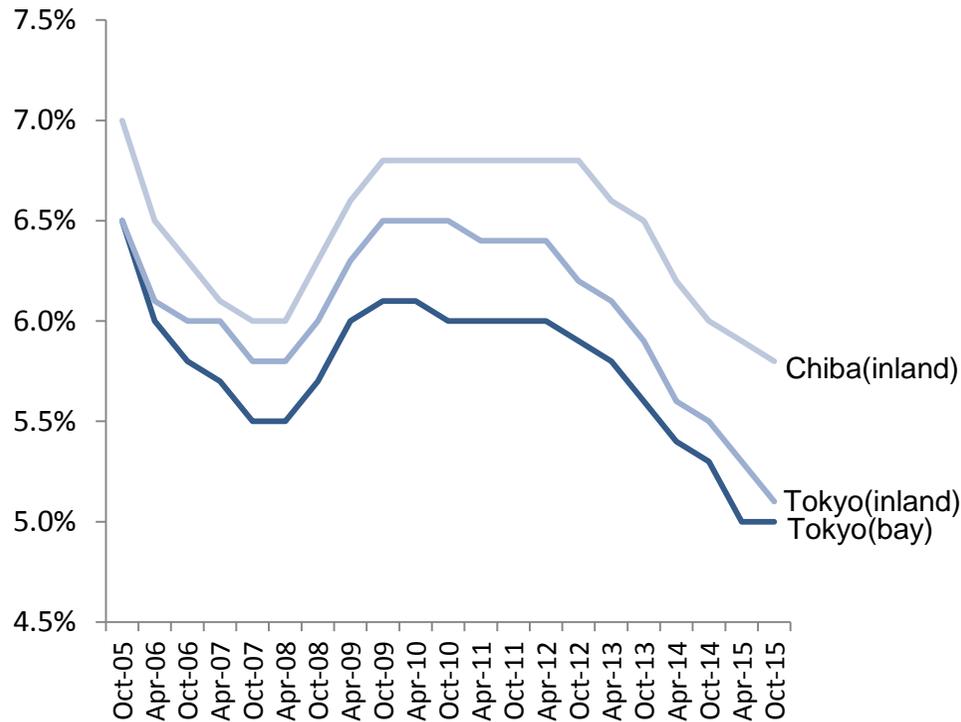
Source: Ichigo Real Estate Information Service "Survey on the Logistics Facilities Rental Market"
 Note: Logistics facilities which have a total lot area or total floor area of 10,000m²

Logistics property market

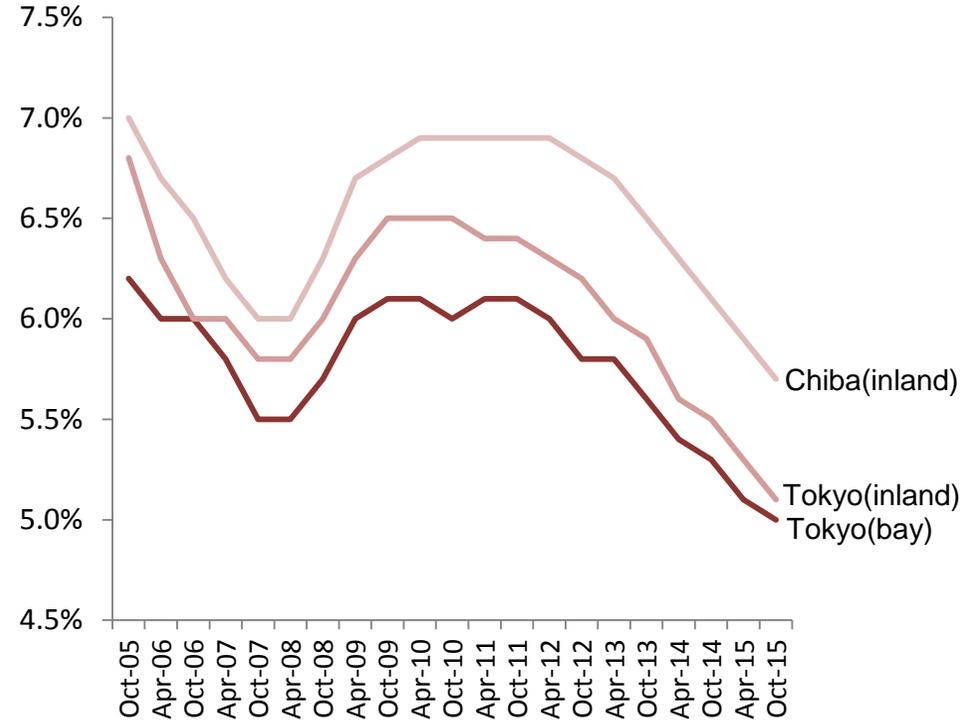
Cap rates have been falling since 2012, with Tokyo hitting an all-time low.

Logistics real estate cap rate (expected yield)

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 10,000m²
 Multi-tenant: 3-4 floors; total floor area of around 50,000m²

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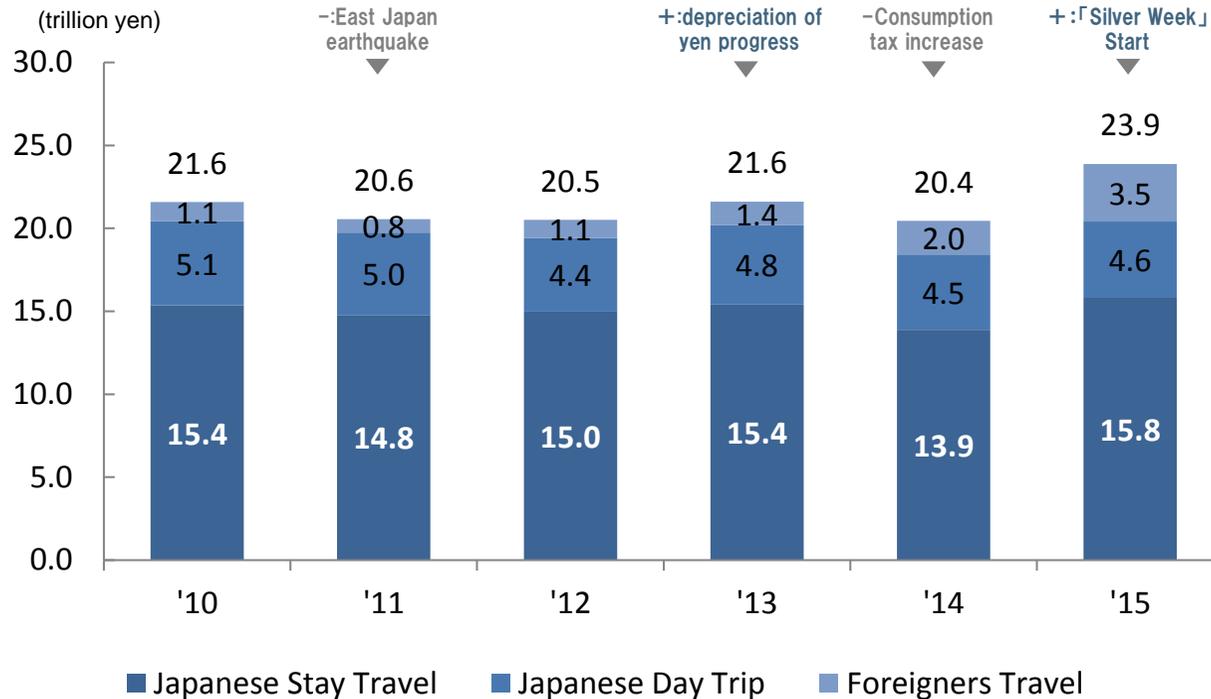
Real estate investment products

Hotel market

Domestic travel expenditure in 2015 was the largest in the last 6 years, driven by an increased number of foreigner travelers to Japan.

■ Foreign travelers in 2015 accounted for c15% of total domestic travel expenditure

Trends in domestic travel expenditure

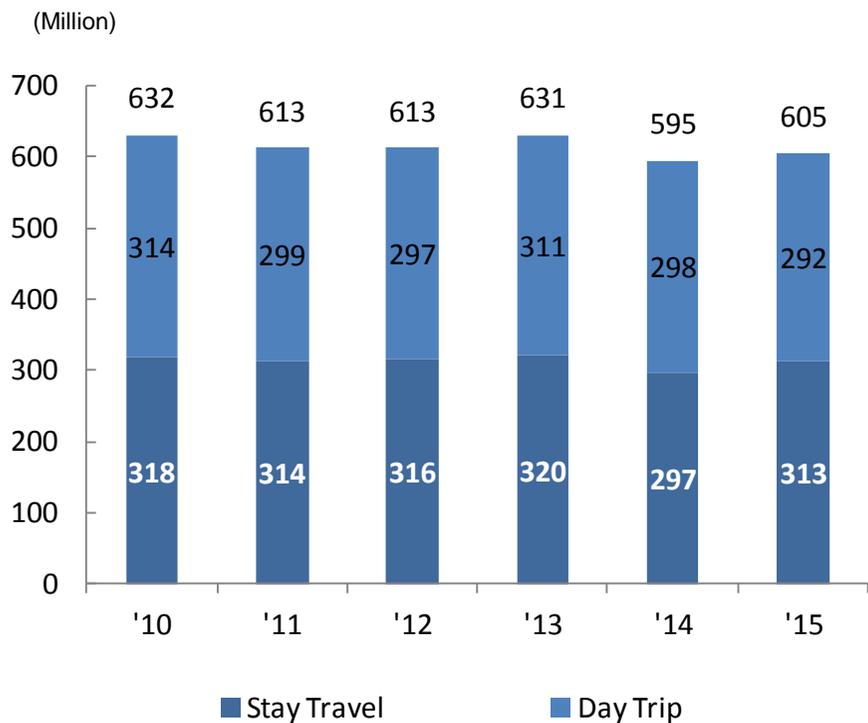


Sources: Compiled by NRI from Japan Tourism Agency "Ryokou・Kankou Sho-hi Doukou Chosa" and "Consumption Trend Survey for Foreigners Visiting Japan" data

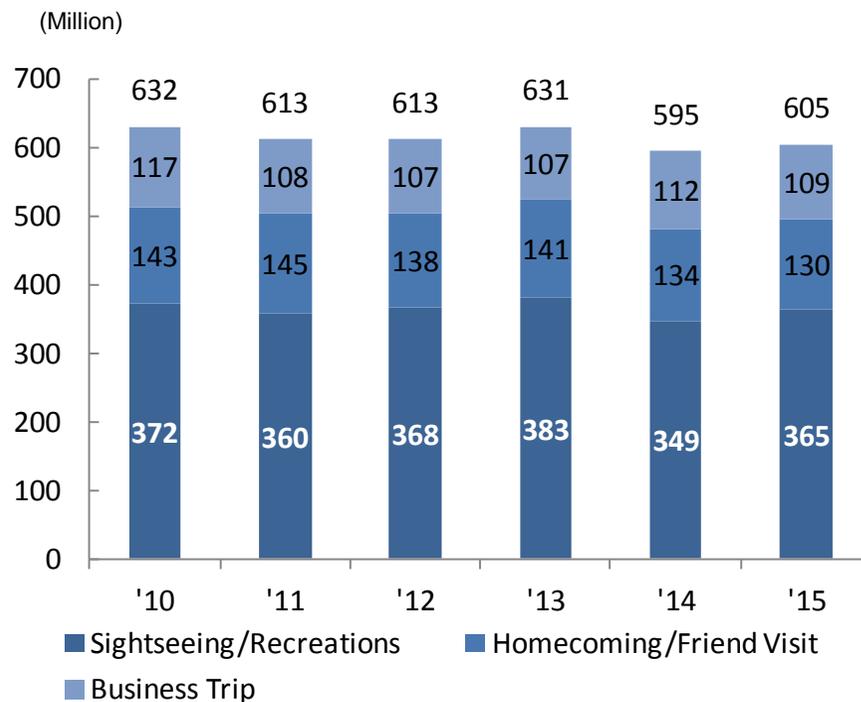
Hotel market

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.

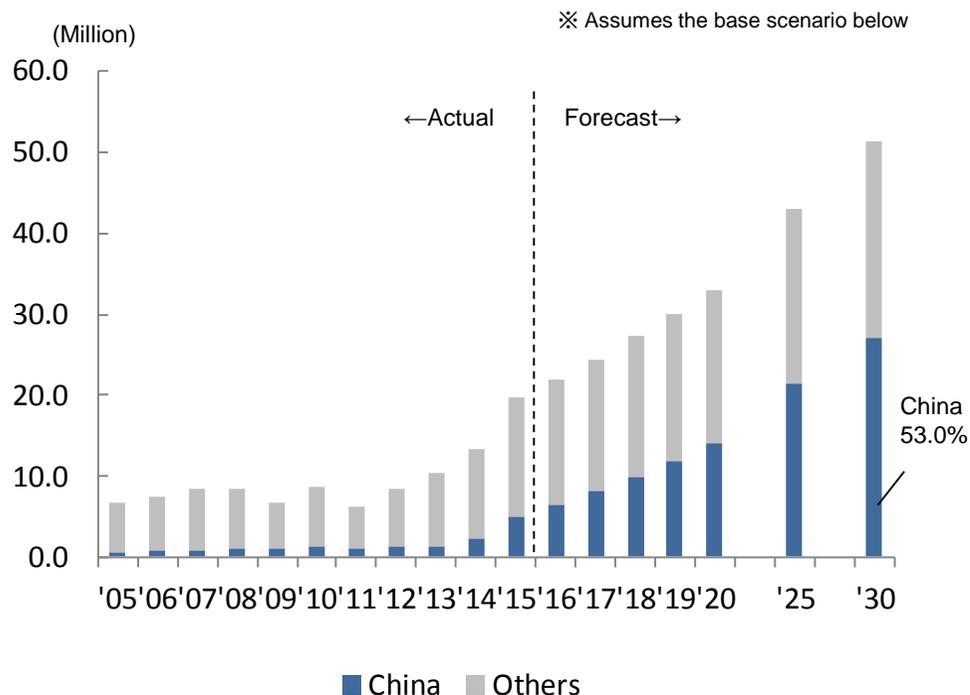
Hotel market

Conversely, the number of travelers to Japan increased rapidly and reached about 20 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.

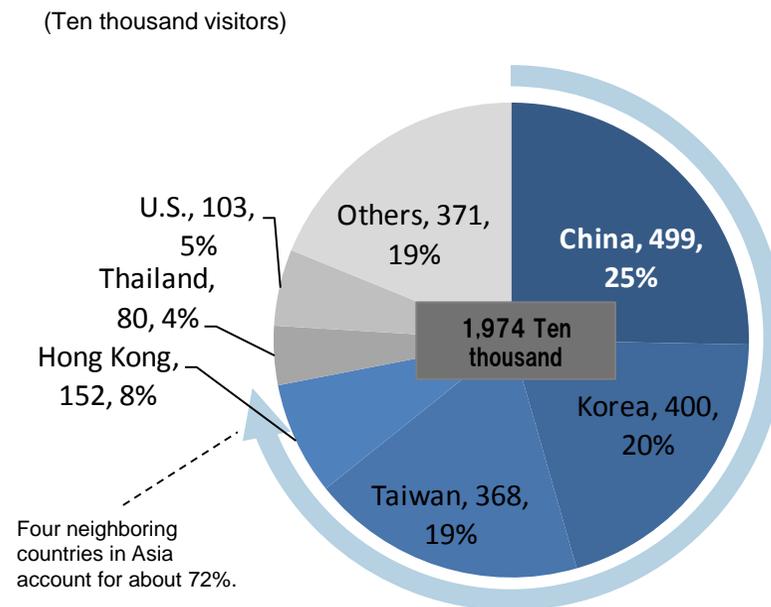
No. of foreigner travelers to Japan (by departure country)



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.

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



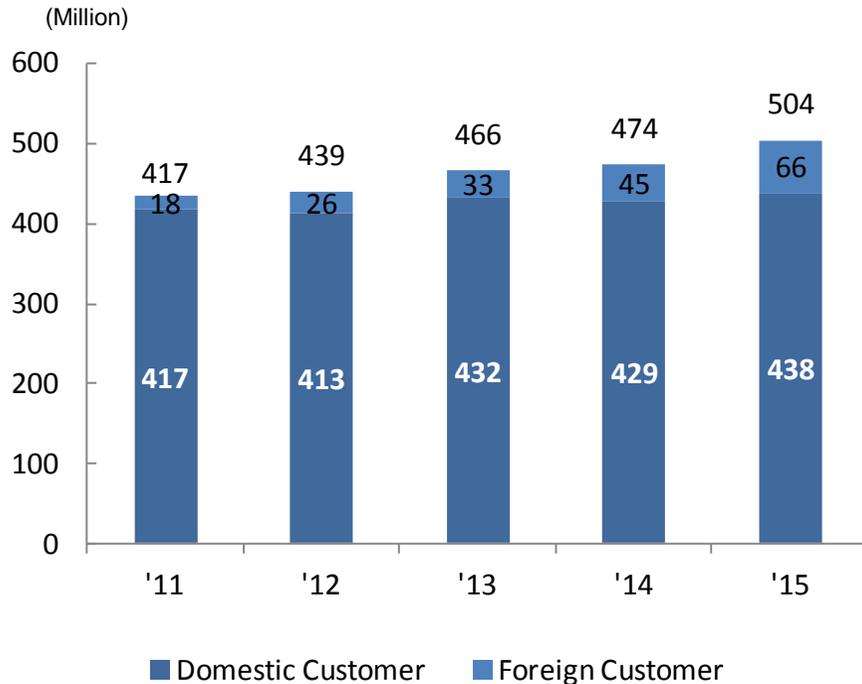
Source: Compiled by NRI from JNTO data

Hotel market

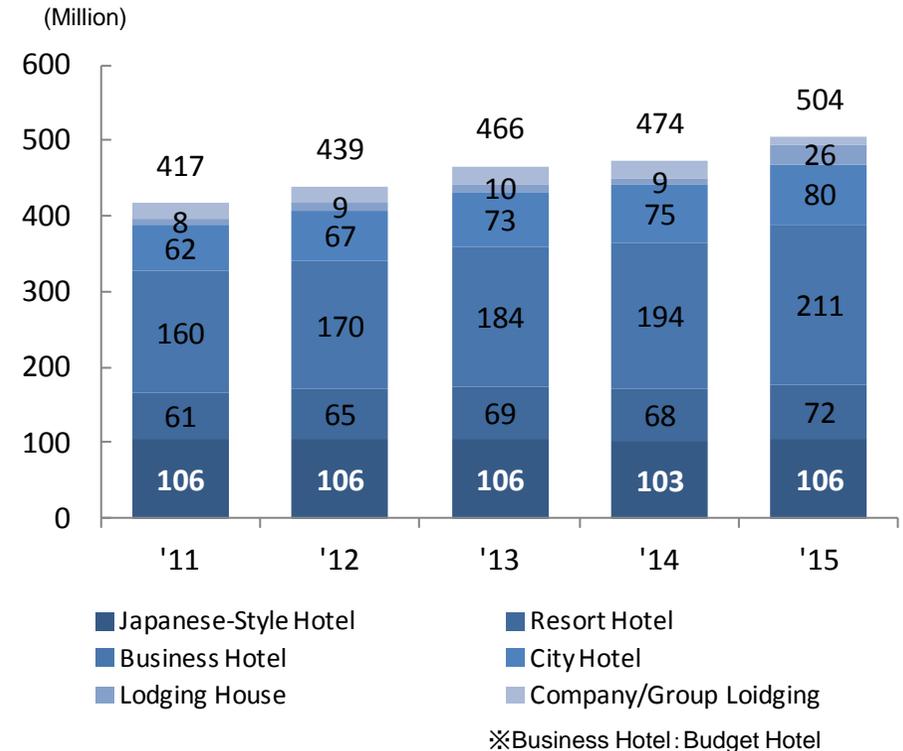
Foreigner visitors accounted for 13% of all stays in 2015.
This ratio continues to rise in tandem with the increase in overseas visitors

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

Domestic accommodation (Domestic/Foreign)



Domestic stays (by accommodation type)

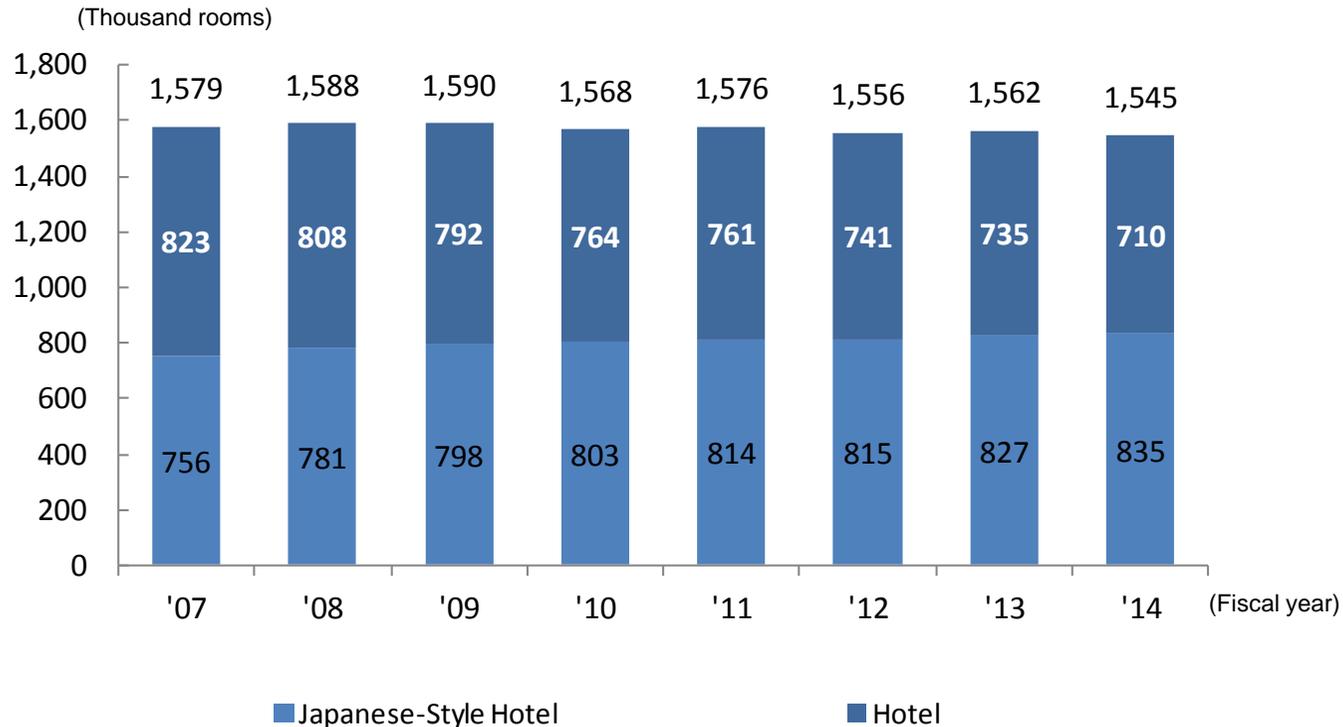


Source: Compiled by NRI from Japan Tourism Agency "Syukuhaku Ryokou Toukei" data

Hotel market

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

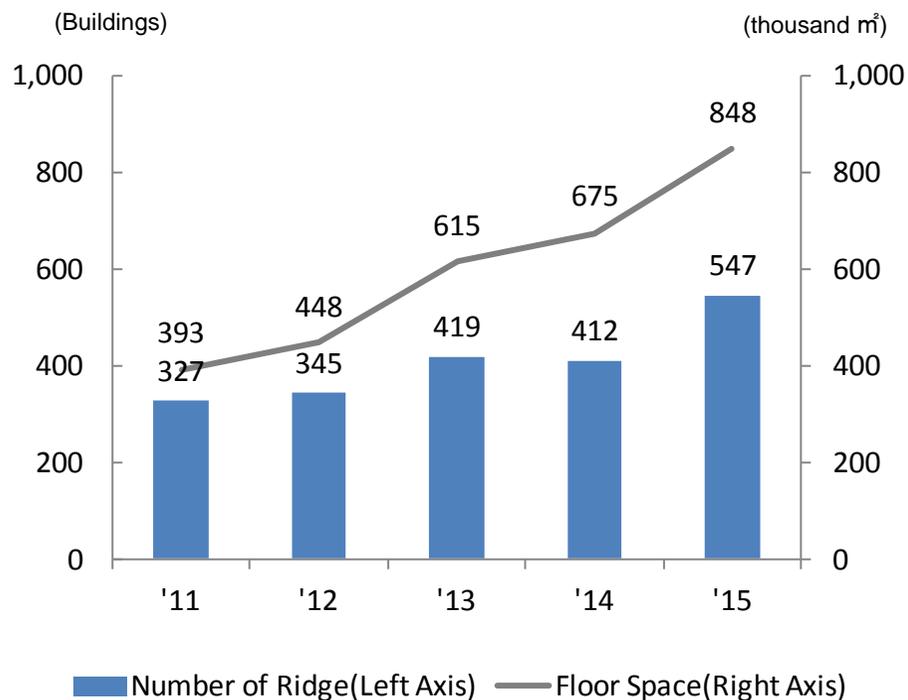
Hotel market

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

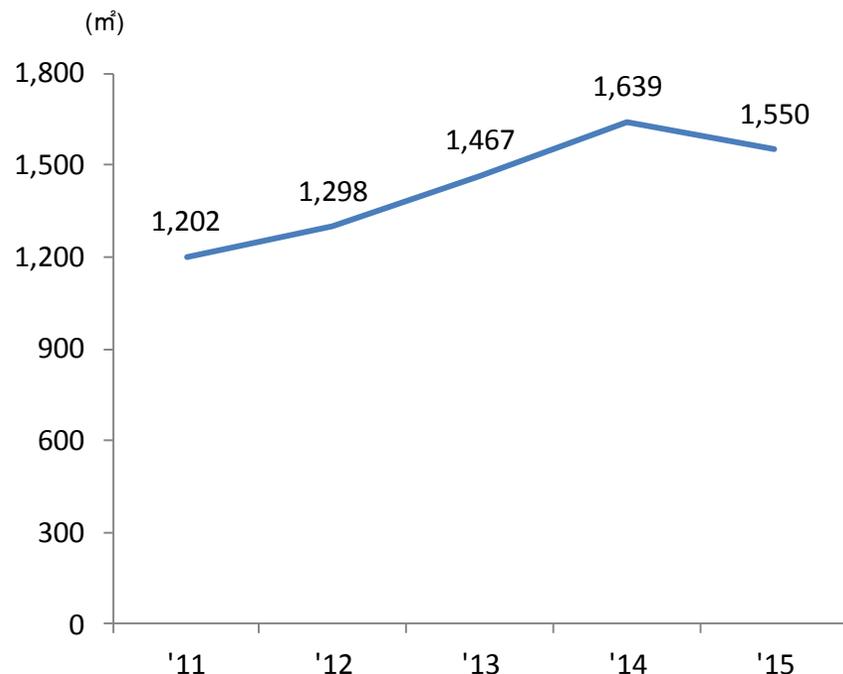
- Floor space per building is 1.25 times higher than 2011, as large buildings are being built

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

Hotel market

c10,000 rooms are expected to open in Tokyo over the next 3 years

Main new hotel development projects in Tokyo*

Operator	Area	Opening year	Number of rooms
APA Group	Shinjuku	2017	129
	Asakusa	2017	464
		2017	126
	Akasaka	2018	500
	Akihabara	2017	117
	Shintomicho	2017	140
	Higashi-Shinjuku	2020	819
	Nihonbashi Bakurocho	2018	153
	Iidabashi	2017	98
	Ryugoku	2019	1,015
	Roppongi	2019	875
	Nishi-Shinjuku	2017	710
Keio Dentetsu	Yaesu	2017	170
Keikyu EX Inn	Haneda	2017	313
Keio Presso Inn	Kyobashi	2017	170
	Hamamatsucho	2017	約330
Route-Inn Hotels	Kamata	2017	148
Mori Trust	Toranomon	2019	約200

Operator	Area	Opening year	Number of rooms
Mitsui Fudosan	Ginza	2017	107
Hulic	Ginza	2018	約160
Hankyu-Hanshin Hotels	Roppongi	2017	400
ES-CON JAPAN	Nihonbashi	2017	102
		2017	63
Texas	Ginza	2018	105
Sankei Building	Kyobashi	2017	205
Abest Corporation	Kyobashi	2017	45
Asahi Shimbun Company	Ginza	2018	164
JR Kyushu Railway Company	Shinbashi	2019	267
Sotetsu Fresa Inn	Ginza	2017	128
	Roppongi	2017	205
	Kinshicho	2017	292
Tokyu Hotels	Shibuya	2017	200
Hotel Keihan	Tsukiji	2018	300
Mitsui Fudosan	Toyosu	2019	200

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.

Hotel market

Over 4,000 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
Candeo Hotels	Shinsaibashi	2017	390
	Osaka	2017	496
West Japan Railway Company VIA Inn	Tennoji	2017	172
	Umeda	2017	217
Hotel Keihan	Kitahama	2017	210
Route-Inn Hotels	Izumi	2017	200
Keikyu EX Inn	Haneda	2017	313
Route-Inn Japan	Takaishi	2017	172
Bellco	Nanba	2019	150
Vessel Hotel Development	Osaka	2017	133
ES-CON JAPAN	Osaka	2017	96
Sotetsu Inn	Osaka	2018	244
APA Group	Osaka	2019	917
	Nanba	2017	380
Asahi Shimbun Company	Osaka	2017	164

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

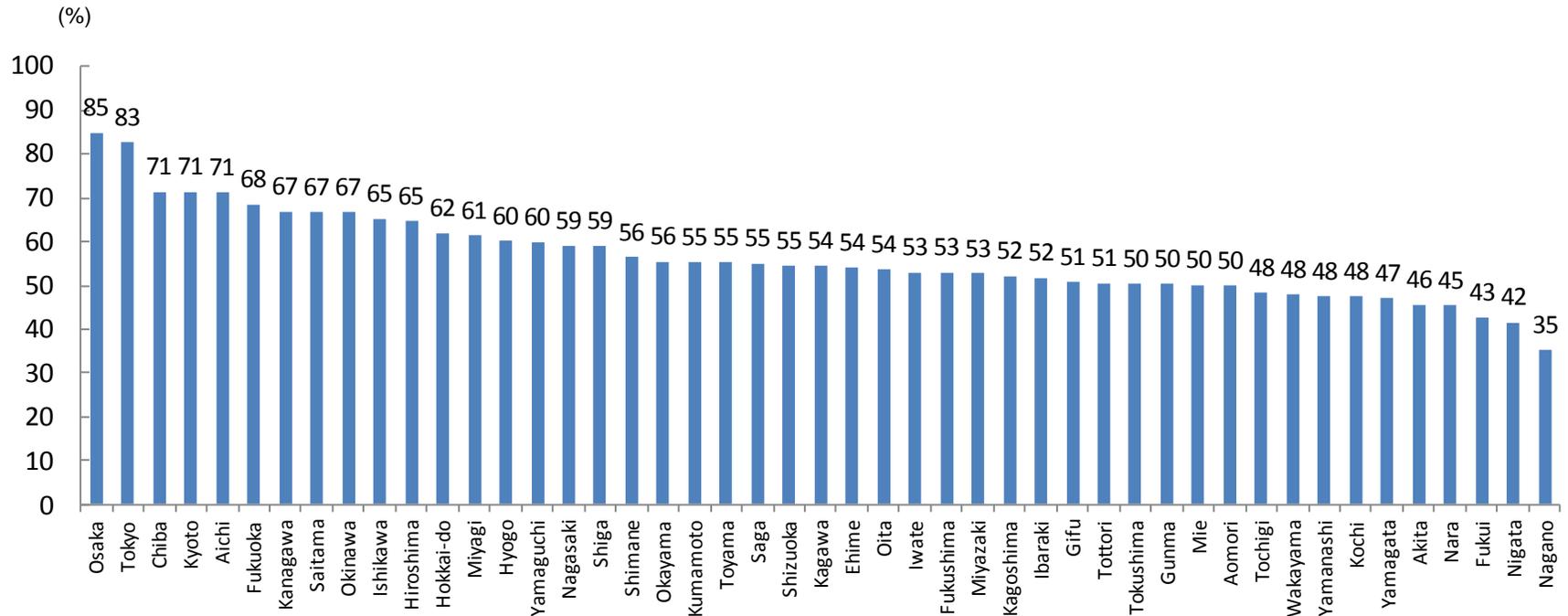
Note: A hotel development project is chosen as the area where weekly HOTERES investigated.

Hotel market

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

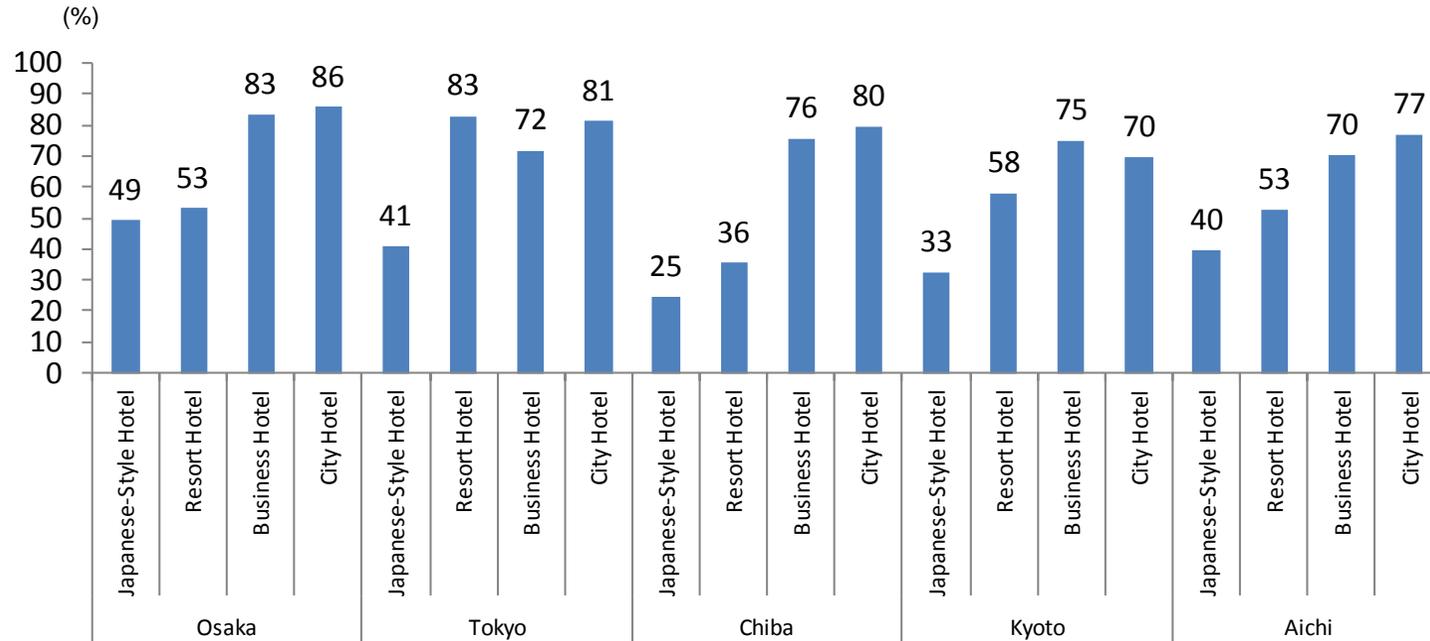


Source: Compiled by NRI from Japan Tourism Agency "Syukuhaku Ryokou Toukei" data

Hotel market

Looking at occupancy rates by type of accommodation in the top 5 prefectures, hotels are above 70%. However, Japanese-style inns were under 50% even in top 5 prefectures.

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

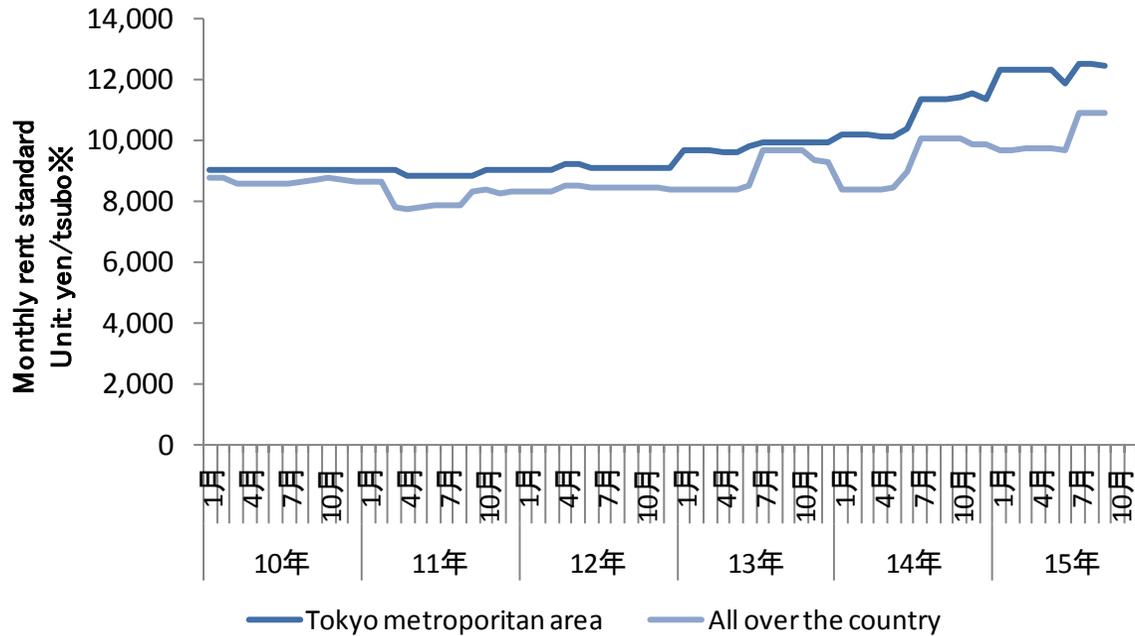


Source: Compiled by NRI from Japan Tourism Agency "Syukuhaku Ryokou Toukei" data

Hotel market

Hotel REIT earnings are expanding due to high occupancy rates

Rents at hotel REITs



23 wards of Tokyo
Nationwide

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

Note: 1tsubo=About 3.3m²

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

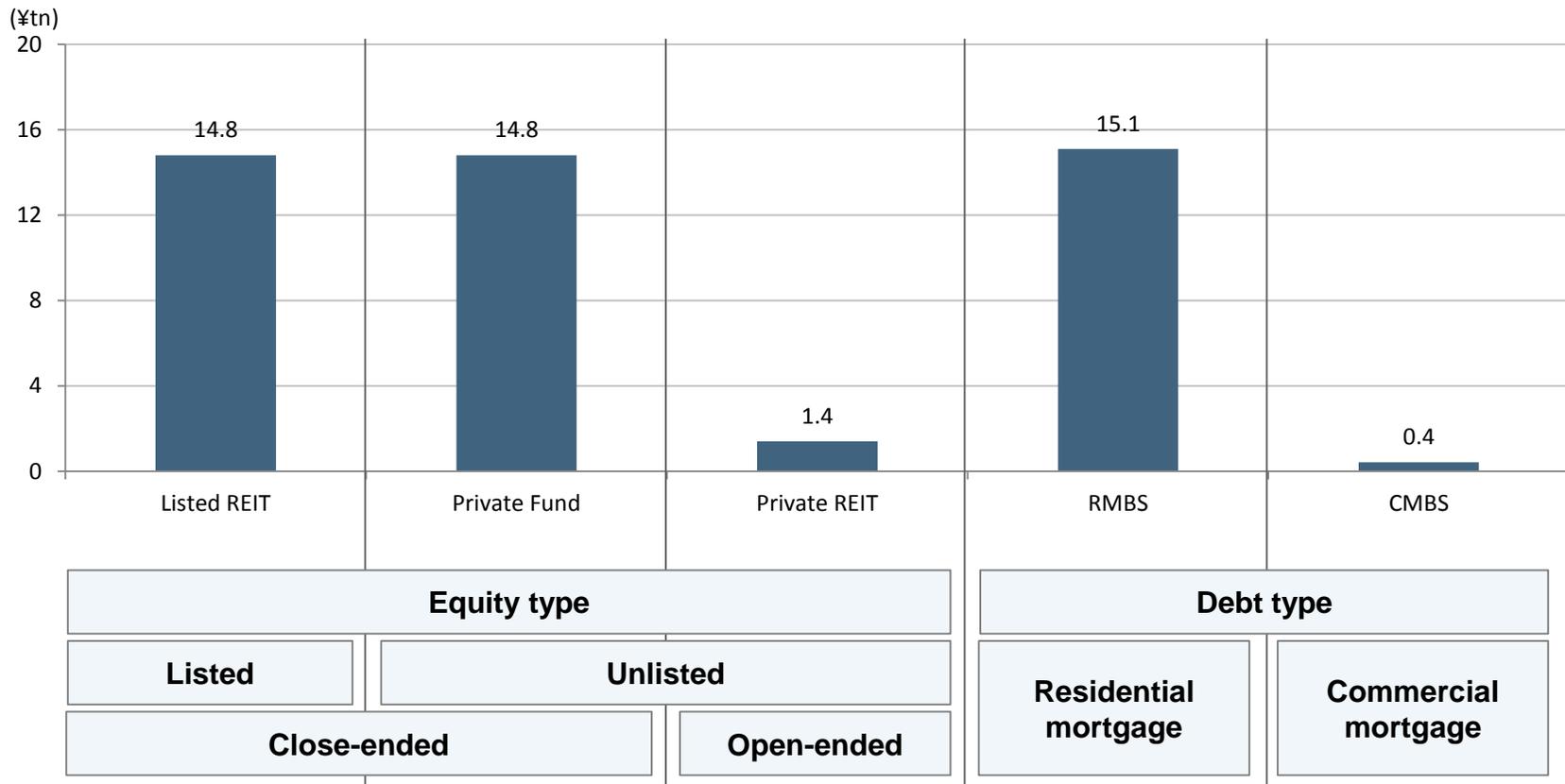
Real estate investment products

Real estate investment instruments

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

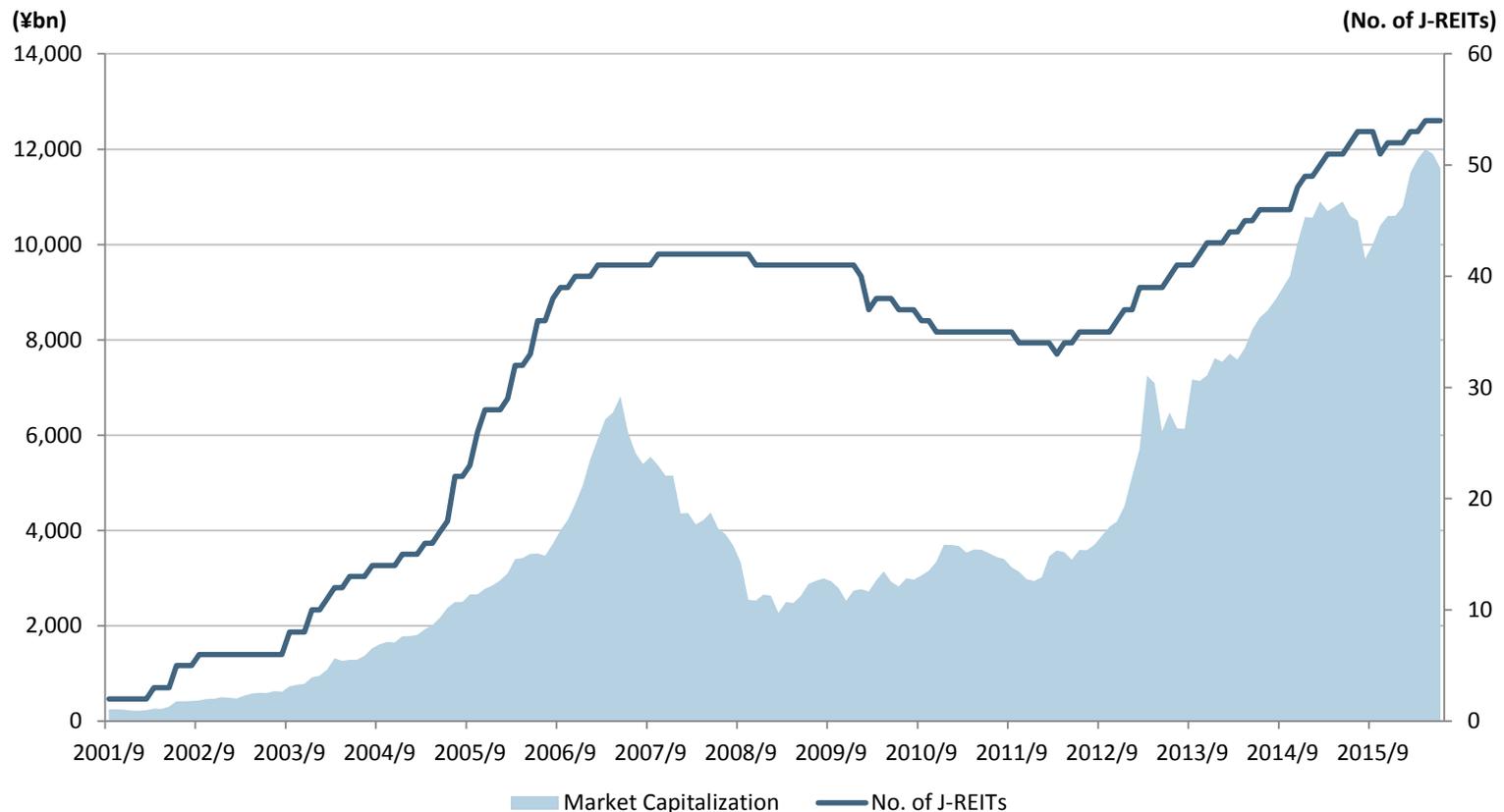
Note: Listed REIT figure is updated as of end of Jul 2016, private fund and private REIT figure is updated as of end of Dec 2015, RMBS/CMBS figure is updated as of end of Mar 2016.

Real estate investment products

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-July 2016, there were 55 J-REITs traded worth approximately 12 trillion yen.

J-REIT market cap and number of J-REITs



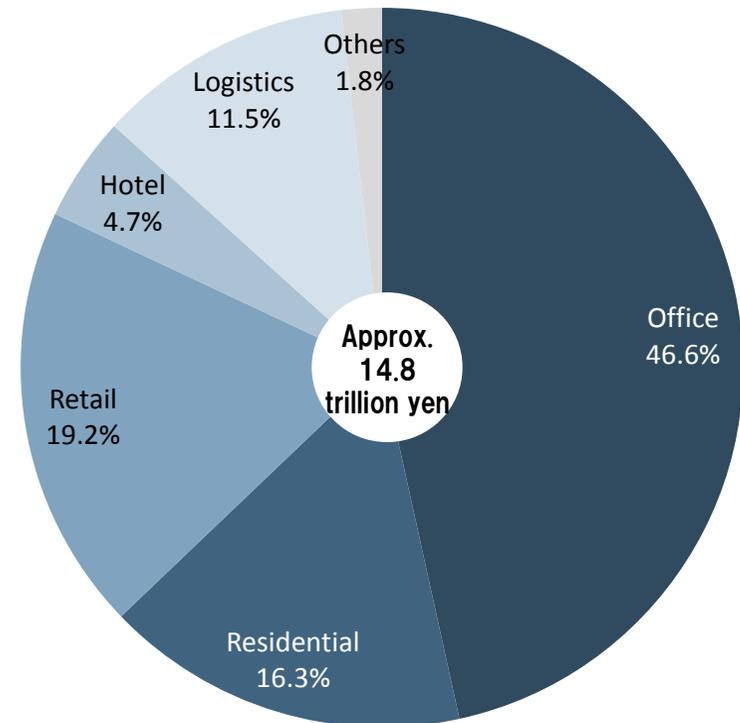
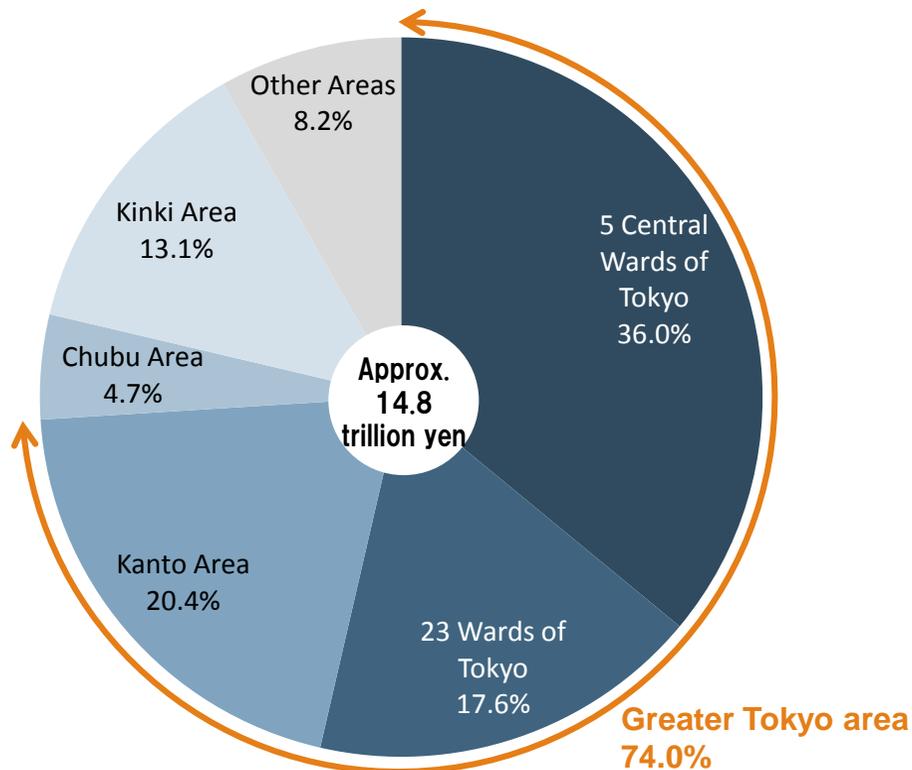
Source: Bloomberg

Real estate investment products

c75% of J-REIT assets are located in the Tokyo metropolitan area and c50% 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



Source: Compiled by NRI from ARES data

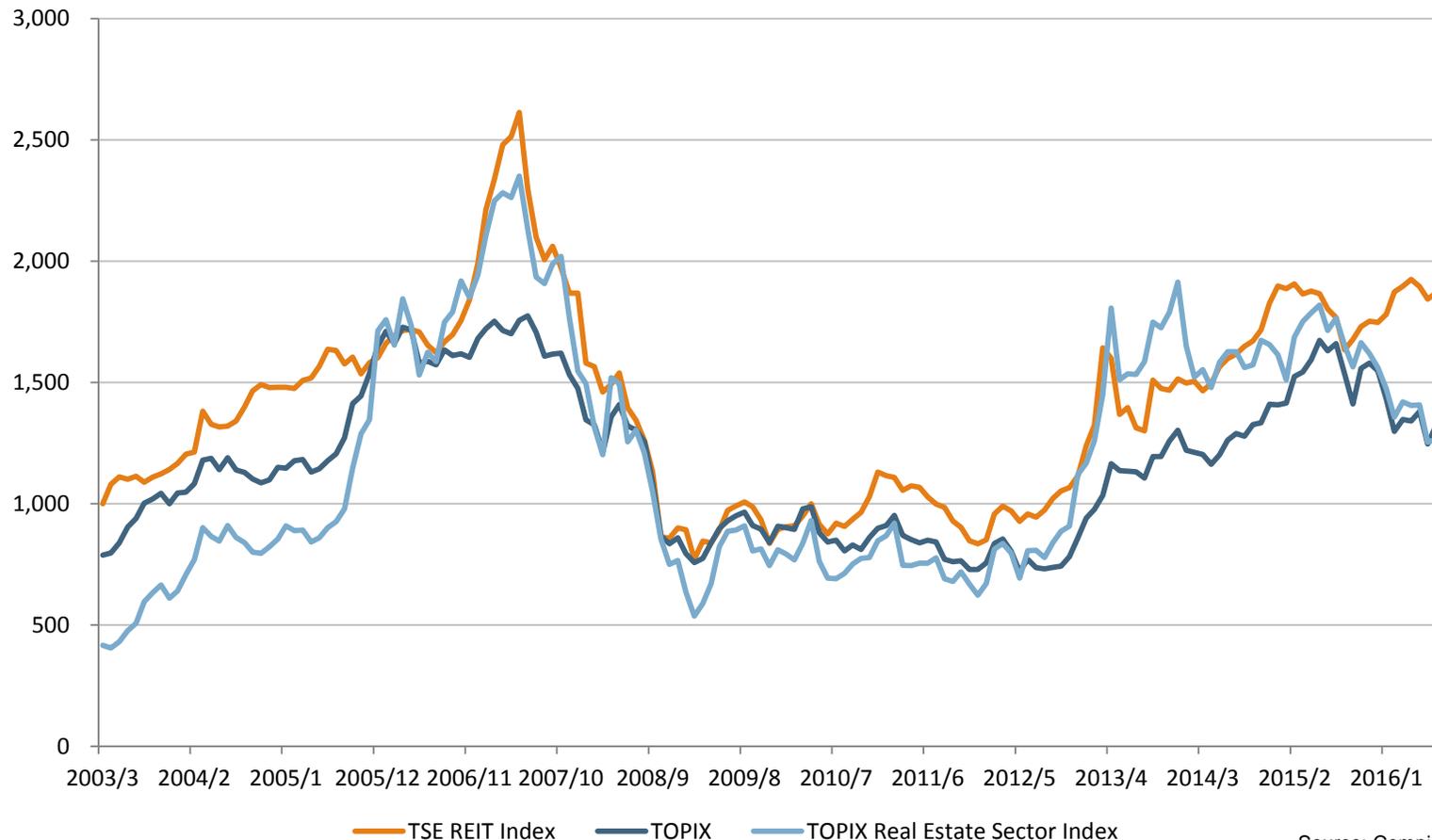
Note: As of the end of July 2016

Real estate investment products

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



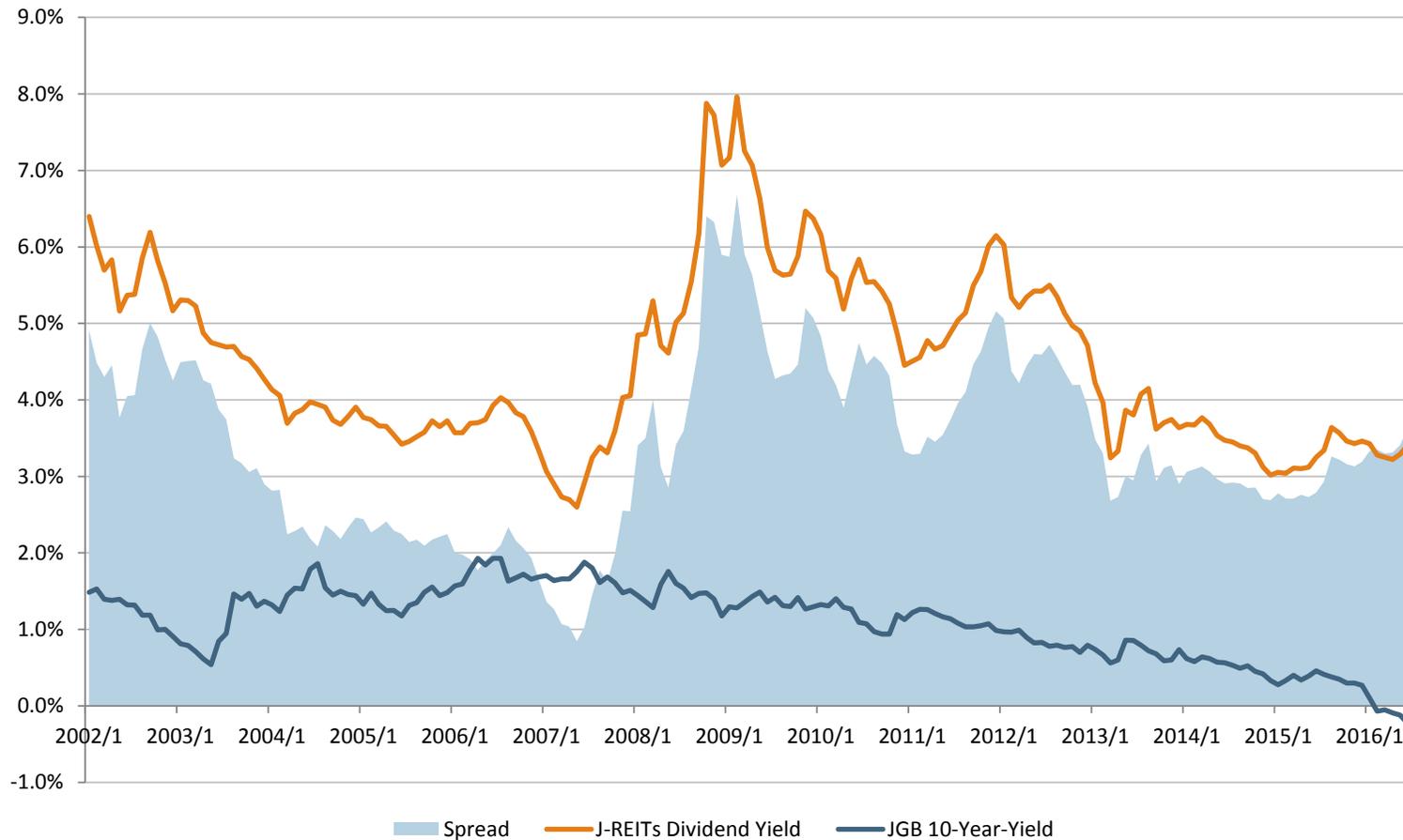
Source: Compiled by NRI from Bloomberg data

Real estate investment products

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

- Yield spreads are currently around just above 3%

J-REIT dividend yield and JGB 10-year yield

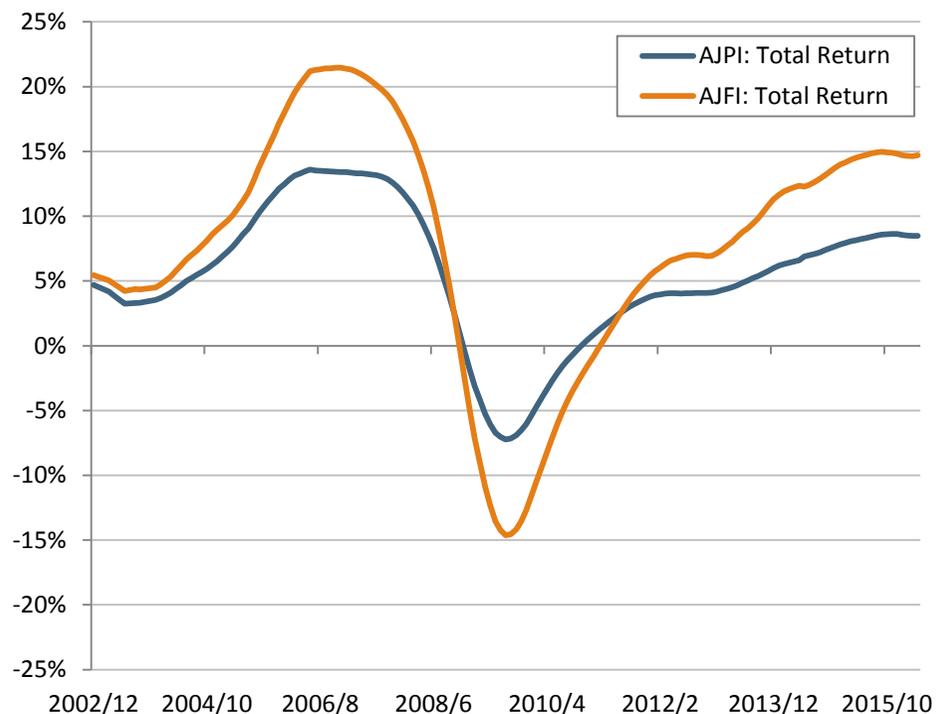
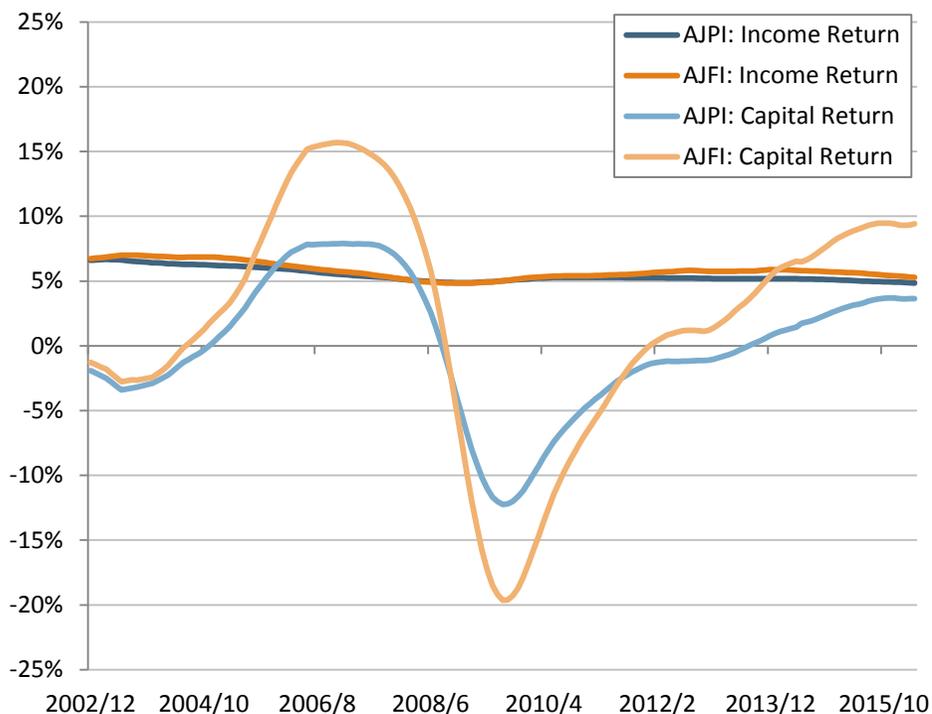


Real estate investment products

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)



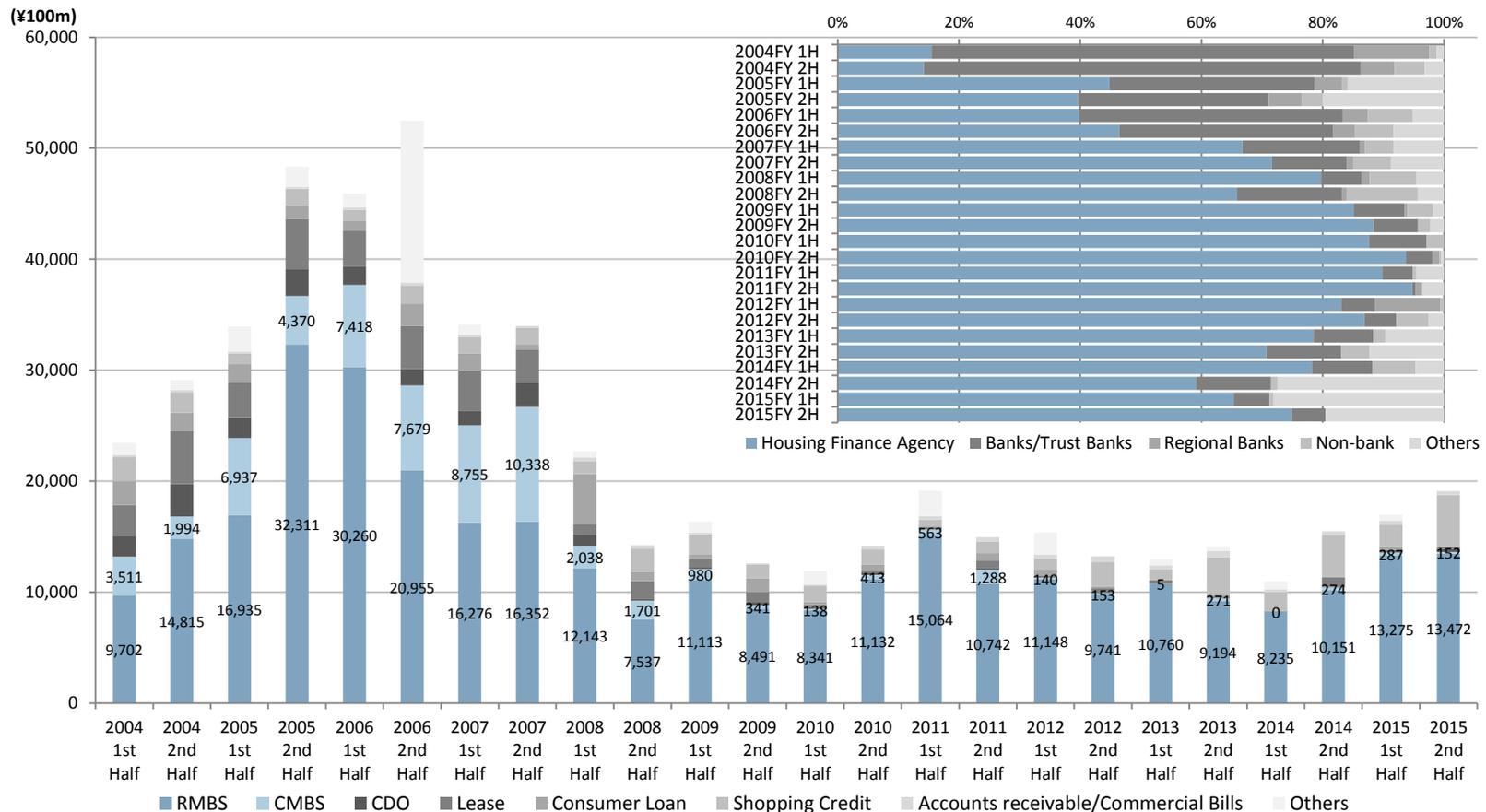
Sources: Compiled by NRI from ARES "ARES Japan Property Index" and "ARES Japan Fund Index" data.

Real estate investment products

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

- Most recently, about 70% 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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Dream up the future.