

Japanese Real Estate Investment Market 2011

January, 2011

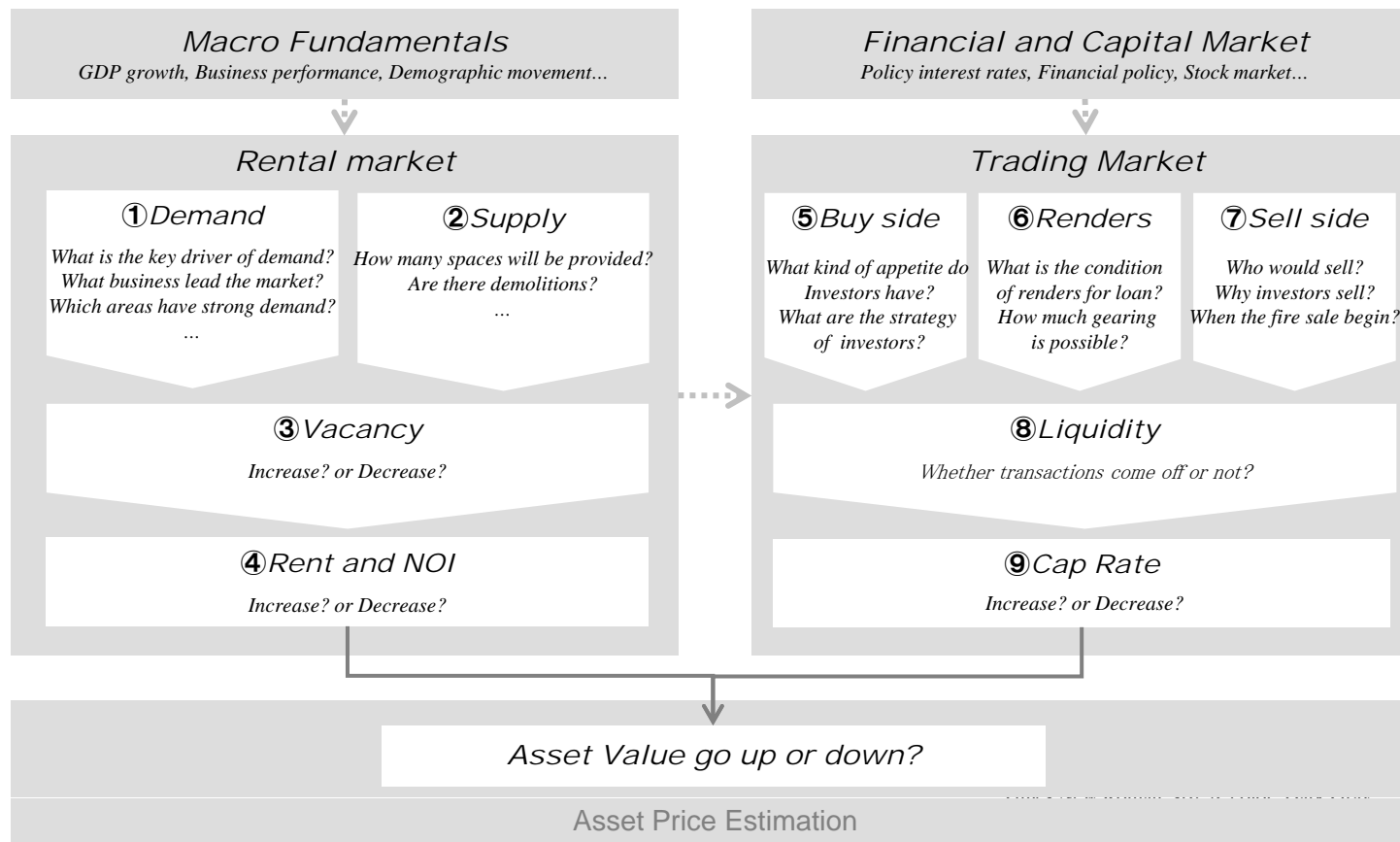
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To create a transparent real estate investment market in Japan

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Nomura Research Institute (NRI) Viewpoints for Real Estate Investment Market



1 Macro fundamentals of Japan

2 Overview of Japanese real estate market

3 Office market

4 Residential market

5 Retail property market

6 Logistics property market

7 Hotel market

8 J-REIT market

1 Macro fundamentals of Japan

2 Overview of Japanese real estate market

3 Office market

4 Residential market

5 Retail property market

6 Logistics property market

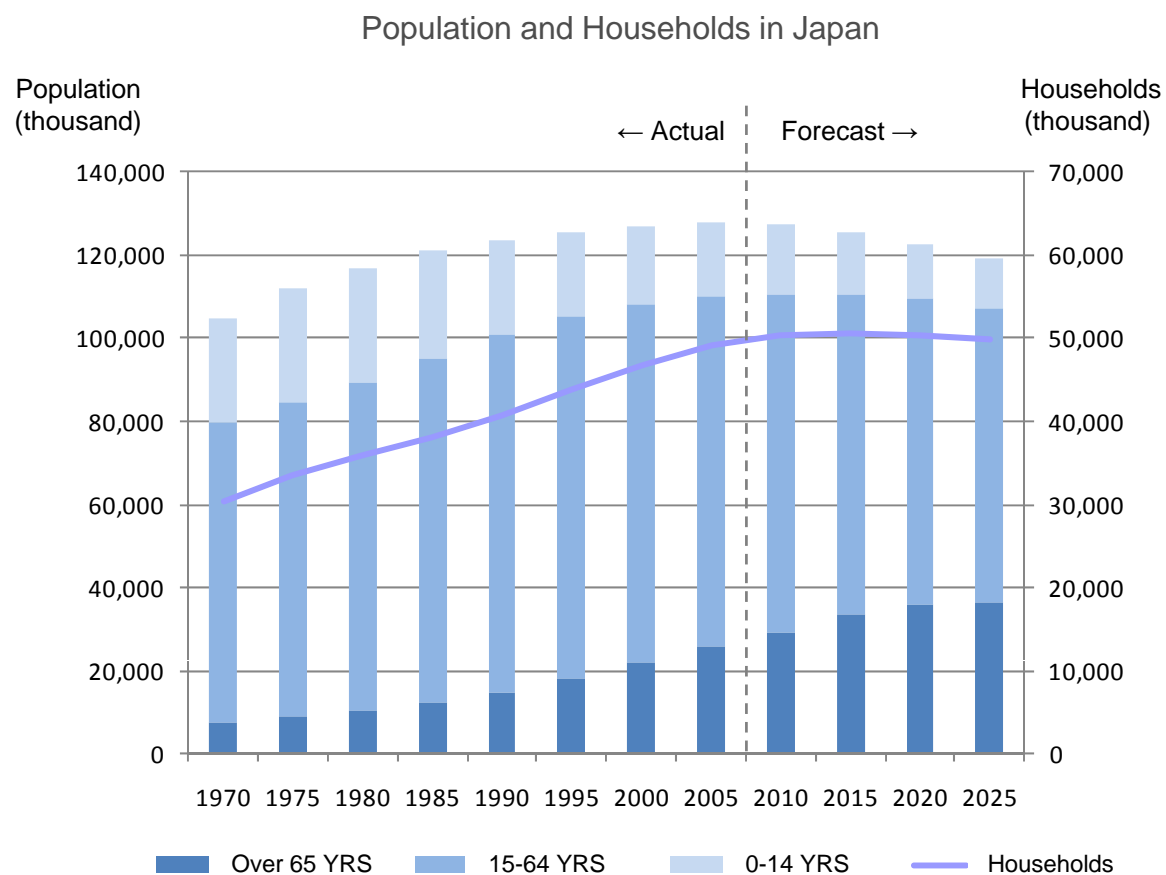
7 Hotel market

8 J-REIT market

1 Macro fundamentals of Japan

Japan's population is aging and shrinking due to fewer children.

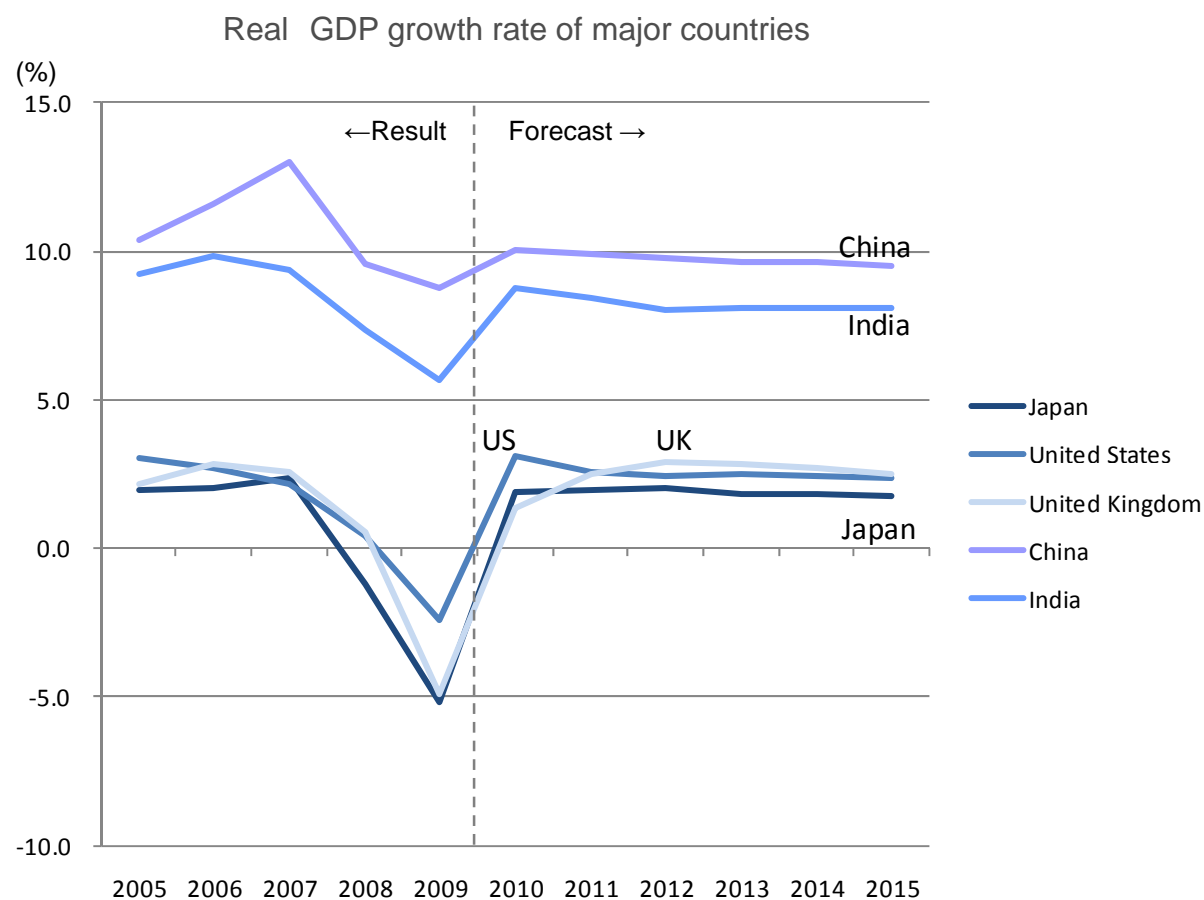
- Total population peaked out in 2005. Number of households is increasing for now, but it is projected to decrease after 2015.



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

1 Macro fundamentals of Japan

Economic growth is weak and is expected to remain so for the foreseeable future.

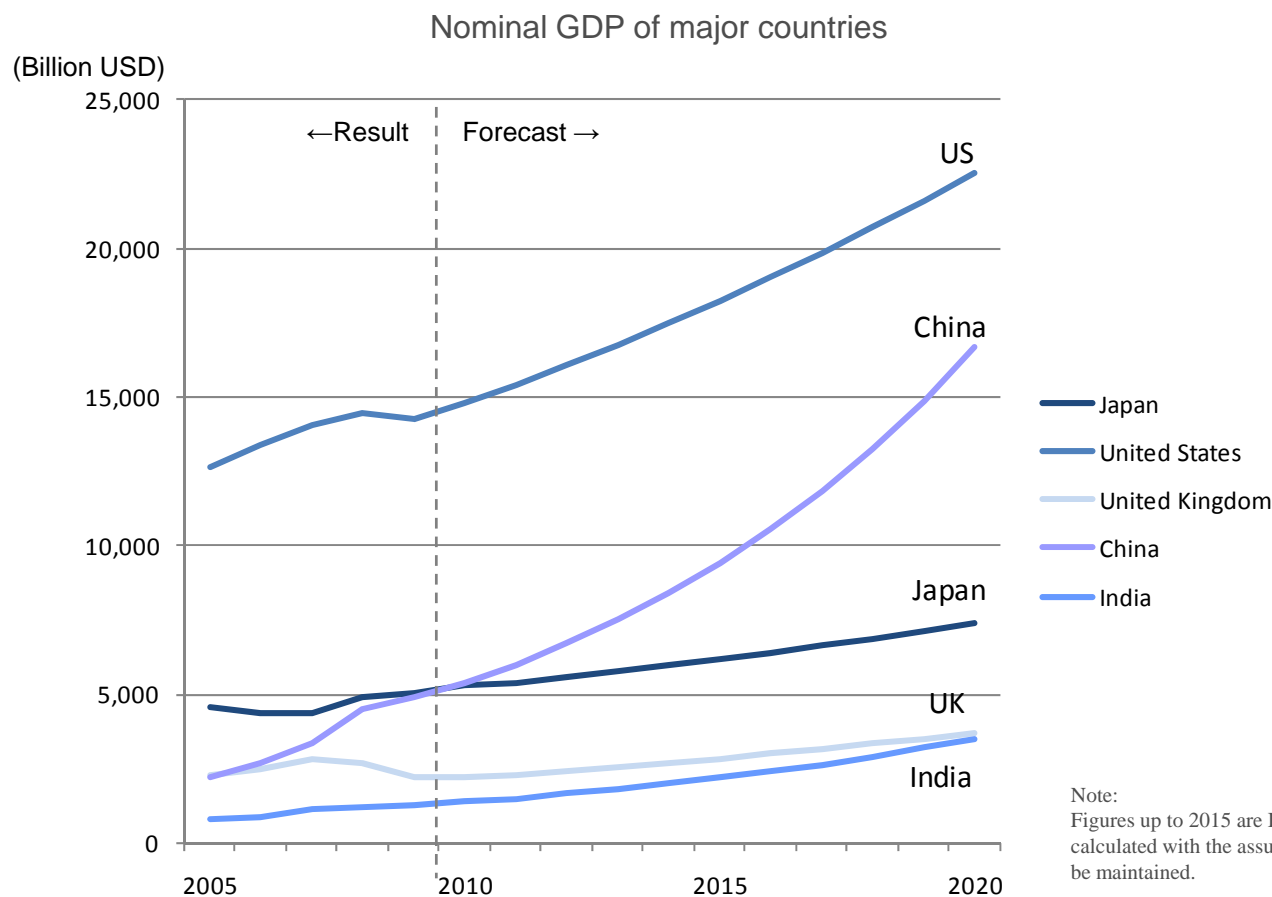


Source: NRI based on IMF

1 Macro fundamentals of Japan

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

- While Japan has fallen to third place after the US and China, it is expected to remain ahead of high-growth countries including India, Brazil and Russia up to at least 2020.

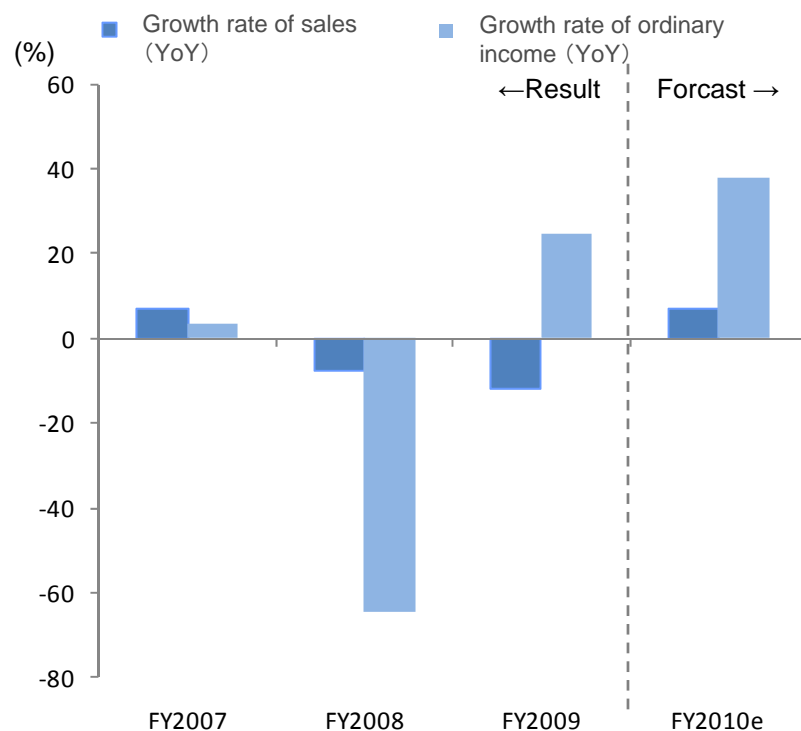


1 Macro fundamentals of Japan

Japanese companies have noticeably improved their business performance.

- Listed companies' ordinary profits returned to positive growth in fiscal 2009. Their sales are also expected to return to positive growth in fiscal 2010.
- Ordinary profits in the first quarter of fiscal 2010 rebounded to about 90 percent of the pre-Lehman shock level (first quarter of fiscal 2008).
- Corporate performance may weaken again if the yen remains persistently high.

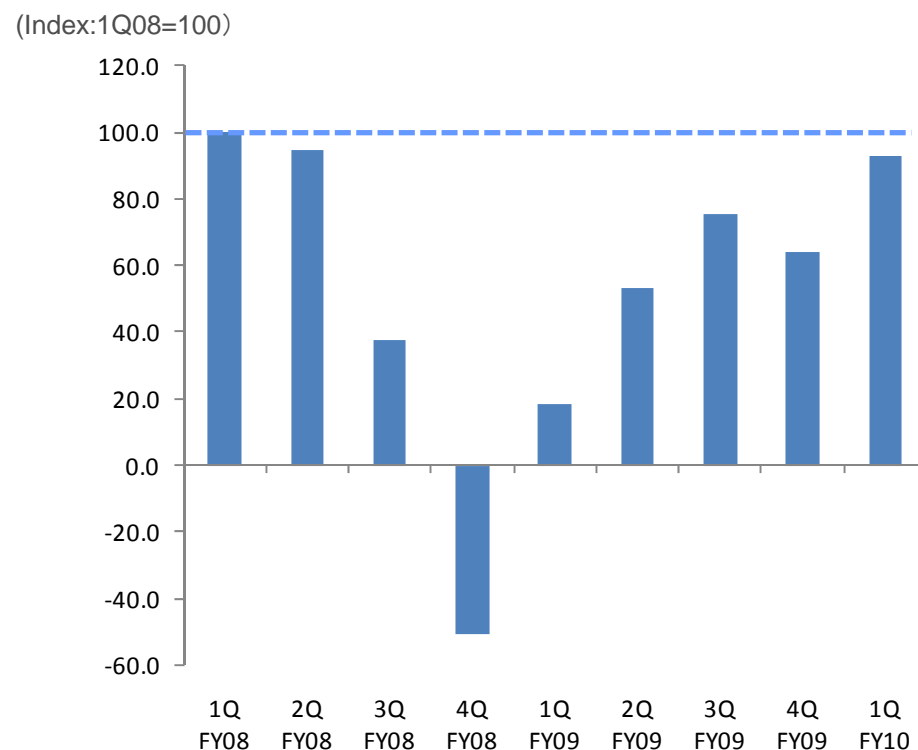
Sales and ordinary income growth
of listed companies



Note: 767 companies chosen from listed companies by Nikkei

Source: NRI based on Nikkei

Ordinary income of listed companies



Note: 559 companies chosen from listed companies by Nikkei

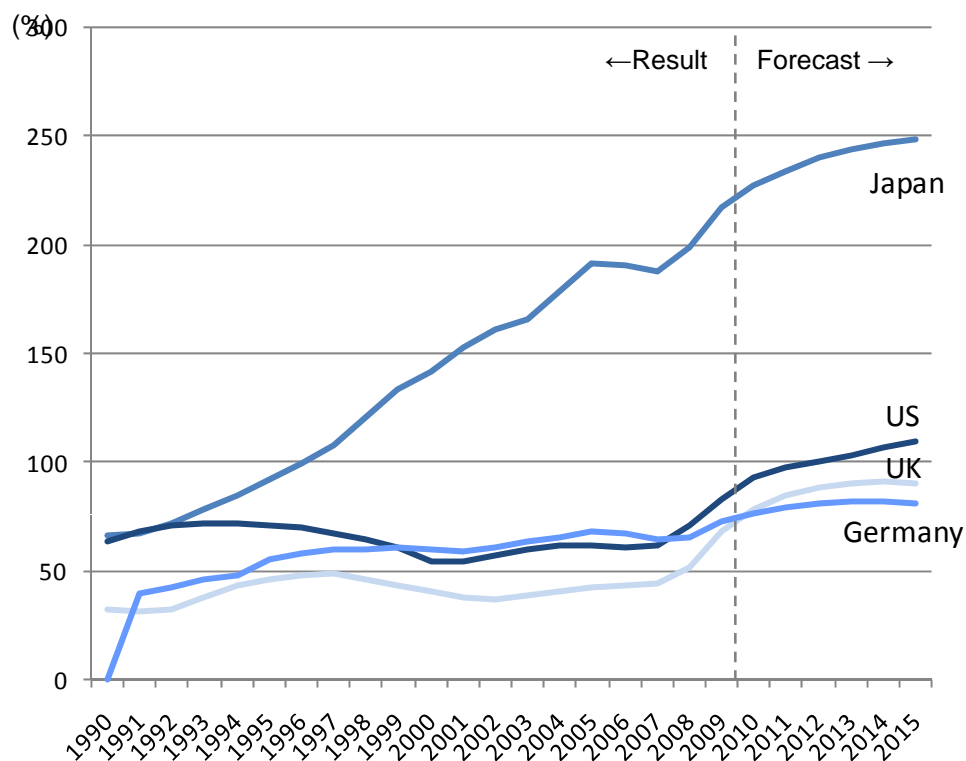
Source: NRI based on Nikkei

1 Macro fundamentals of Japan

There are concerns about Japan's huge fiscal deficit, which may drive up interest rates in the future.

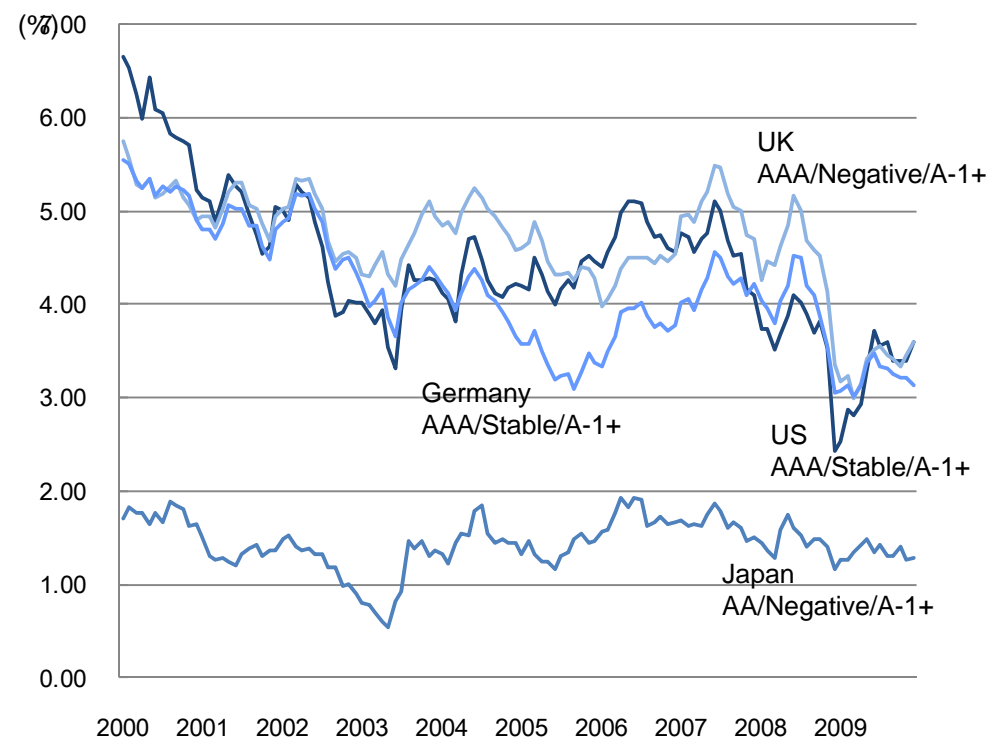
- Currently Japan keeps its interest rates at a lower level than that of countries rated higher than Japan. If the irrational gap between the interest rate level and sovereign ratings is closed, Japan's interest rates may jump to the level of AAA rated countries or the higher level of other developed countries.

Ratio of government debt to GDP



Source: NRI based on IMF

Long term interest rates and sovereign ratings



Note: Ratings are as of Sep. 2010.
Source: NRI based on IMF and S&P

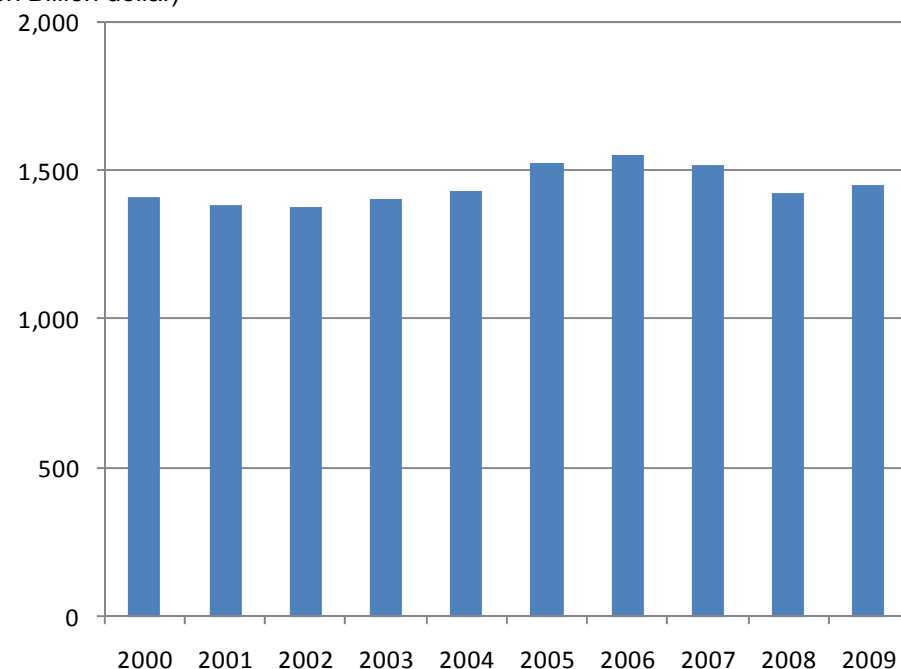
1 Macro fundamentals of Japan

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

- Personal financial assets, which had been decreasing since 2006, posted an increase in 2009 for the first time in three years.
- Japan has enjoyed a current account surplus for many years, and its foreign currency reserves have expanded enormously since the early 2000s owing to currency market interventions.
- While the entire amount of this capital is not invested in government bonds, financial collapse will not result from any withdrawal of capital by foreign investors.

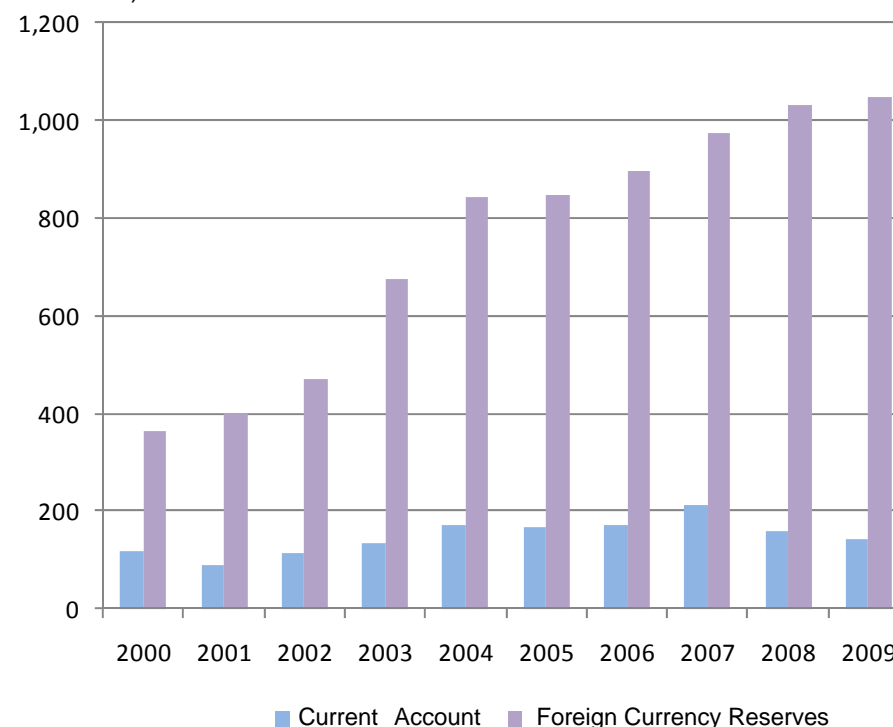
Personal financial assets in Japan

(Ten Billion dollar)



Japan's current account and foreign currency reserves

(Billion dollar)



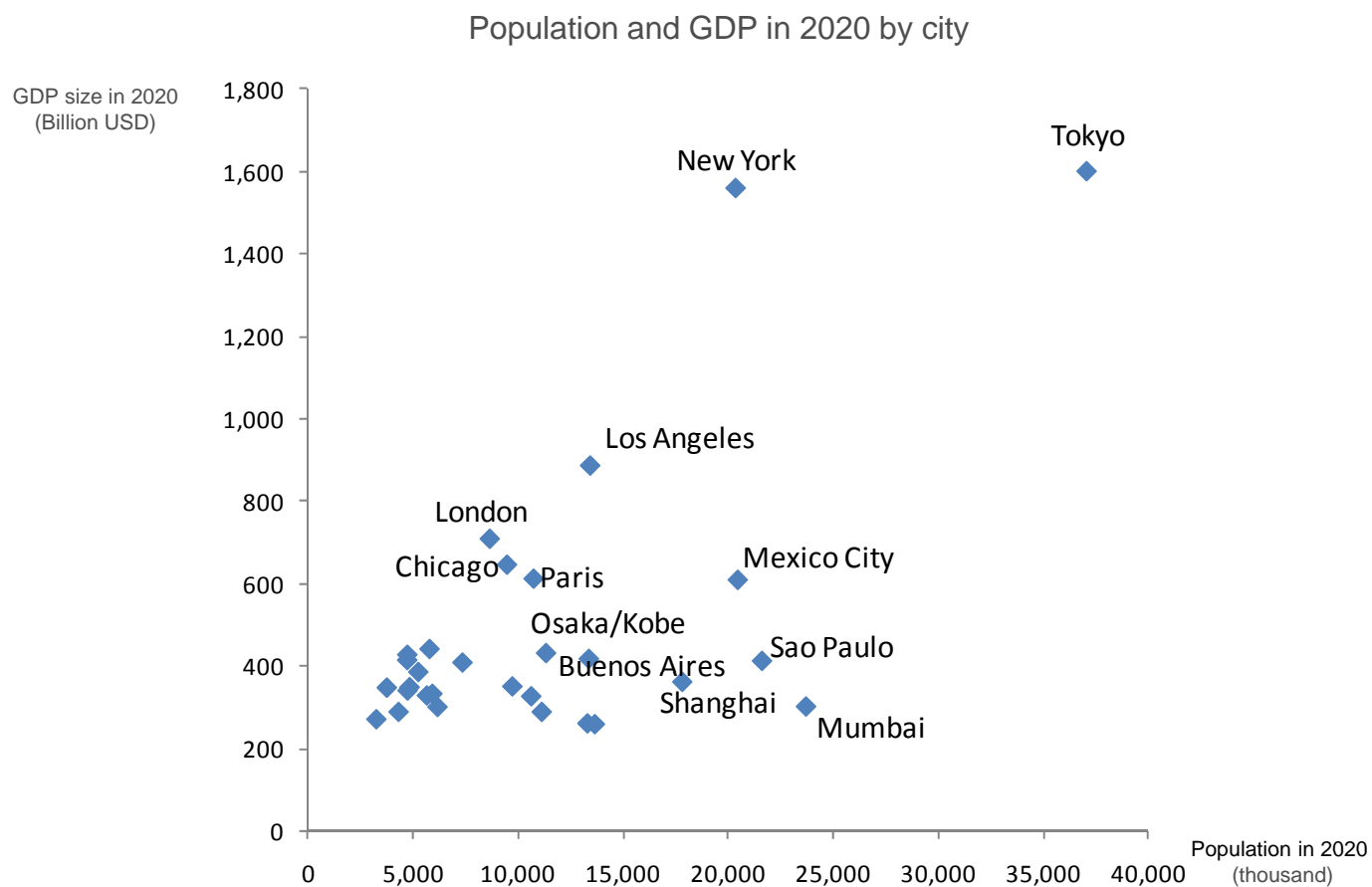
■ Current Account ■ Foreign Currency Reserves

Source: NRI based BOJ

Source: NRI based MOF and IMF

1 Macro fundamentals of Japan

Tokyo will remain the world's top metropolis in terms of population and GDP.

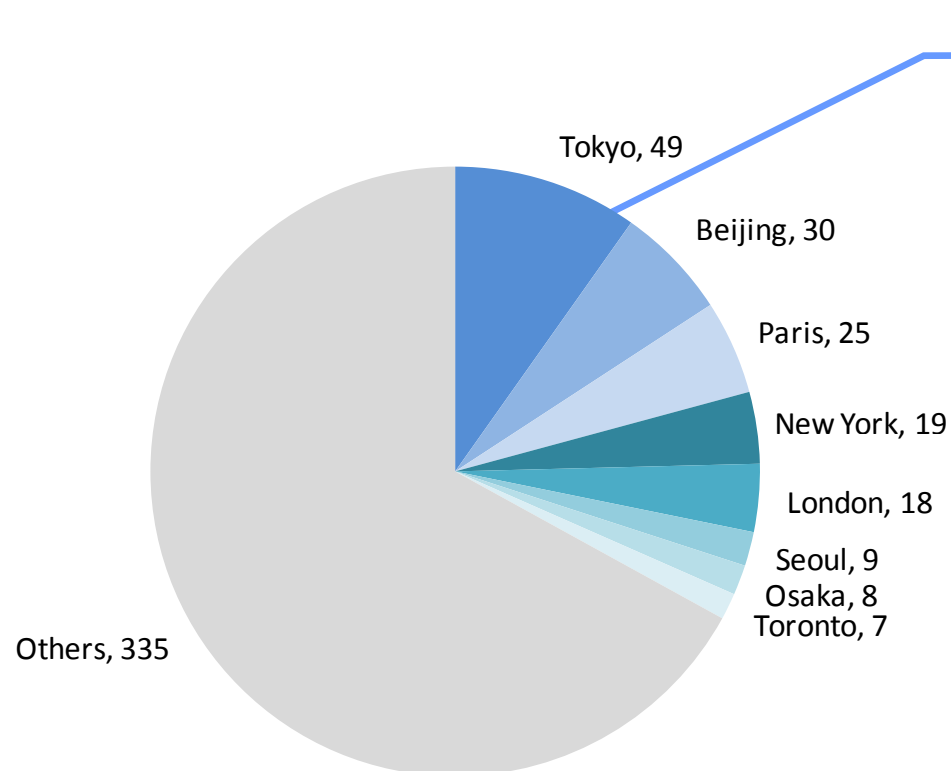


Source: NRI based on PricewaterhouseCoopers and UN

1 Macro fundamentals of Japan

Tokyo is the most popular headquarters location for Fortune Global 500 companies.

Number of Fortune Global 500 companies by city (2010)



Fortune Global 500 Companies in Tokyo ranking among the top 200

Japan Post Group	6
NTT Group	31
Hitachi	47
Honda	51
Sony	69
Toshiba	89
Dai-ichi Life	119
SEVEN & I Holdings	124
Mitsubishi UFJ Financial Group	126
Tokyo Electric Power Company	128
JX Holdings	136
Fujitsu	138
Mitsubishi Corporation	146
Meiji Yasuda Life	158
MITSUI & CO	164
NEC	185
Tokyo Marine Holdings	186
Nippon Steel Corporation	191
KDDI	193

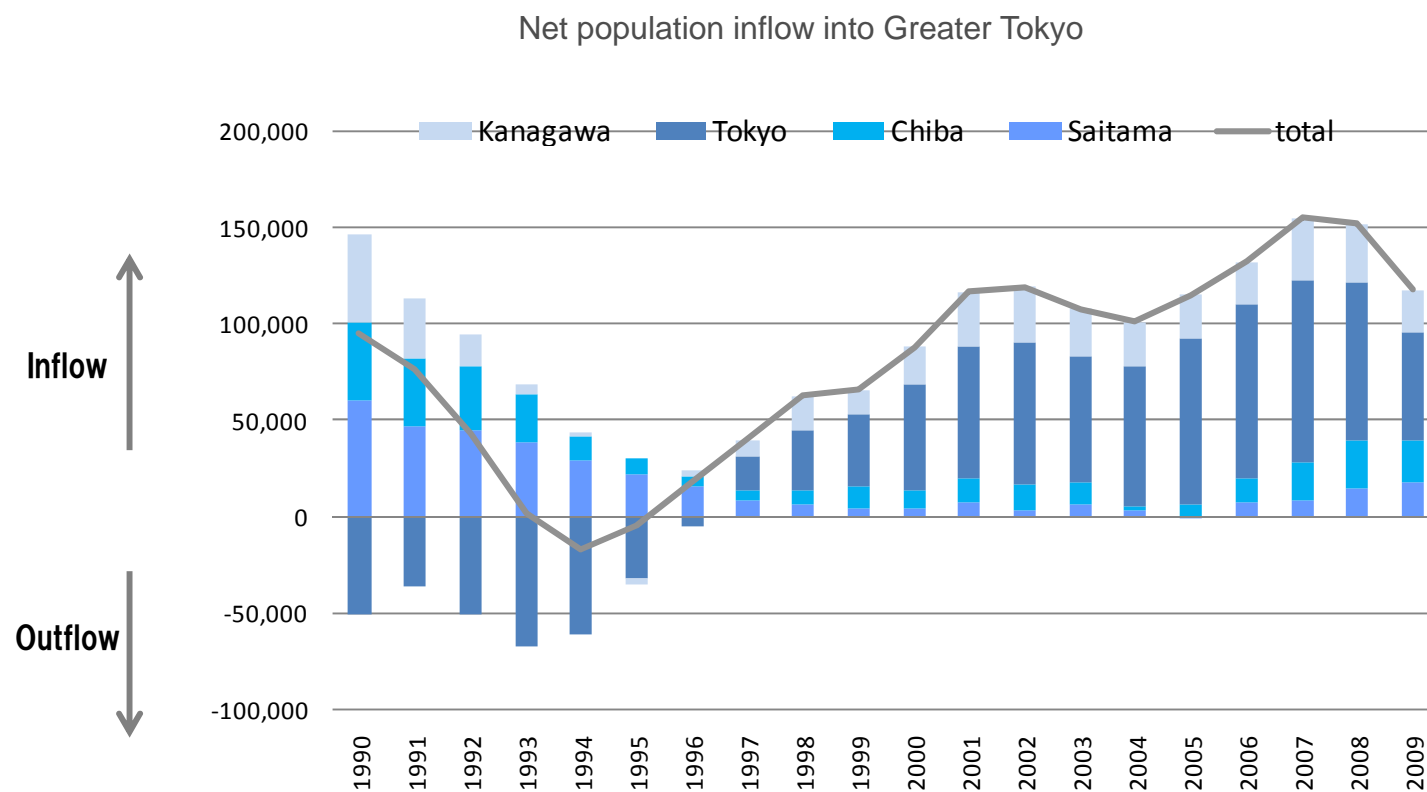
Note: Numbers indicate Global 500 ranks.

Source: NRI based on Fortune Global 500 2010

1 Macro fundamentals of Japan

Population continues to increase in Greater Tokyo while declining in Japan overall.

- The growth of Tokyo's population and households is expected to continue over the long term on the strength of both natural and social increases.



Source: NRI based on Basic Resident Register Population Migration Report

1 Macro fundamentals of Japan

2 Overview of Japanese real estate market

3 Office market

4 Residential market

5 Retail property market

6 Logistics property market

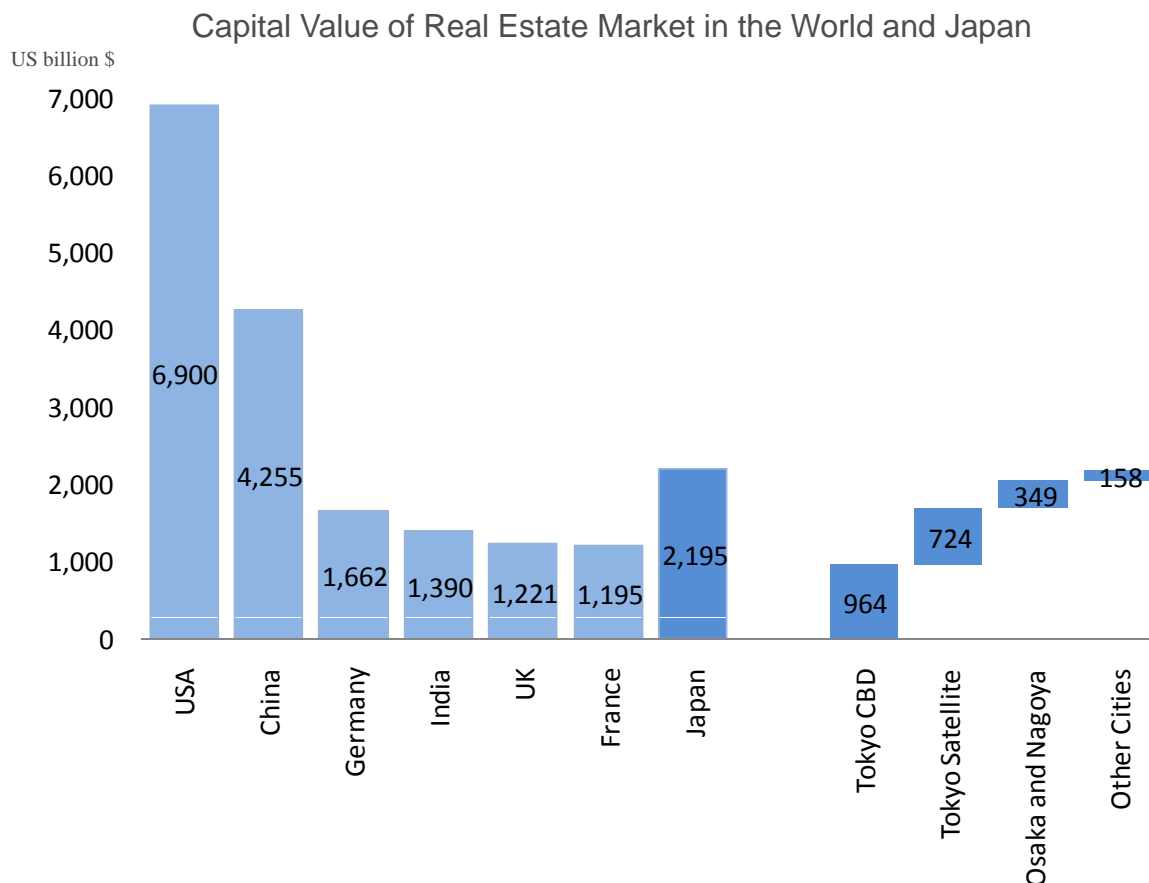
7 Hotel market

8 J-REIT market

2 Overview of Japanese real estate market

The Japanese market, of which Tokyo represents 70%, is the third largest in the world.

- The value of the Japanese real estate investment market is the third largest in the world after the US and China. Compared to the US and China, however, Japan, which has investable properties worth more than USD 2 trillion, has a much smaller land area. Therefore, most of the properties are concentrated in a few cities. In fact, the Tokyo region alone accounts for 70% of the total value of investable properties in Japan.

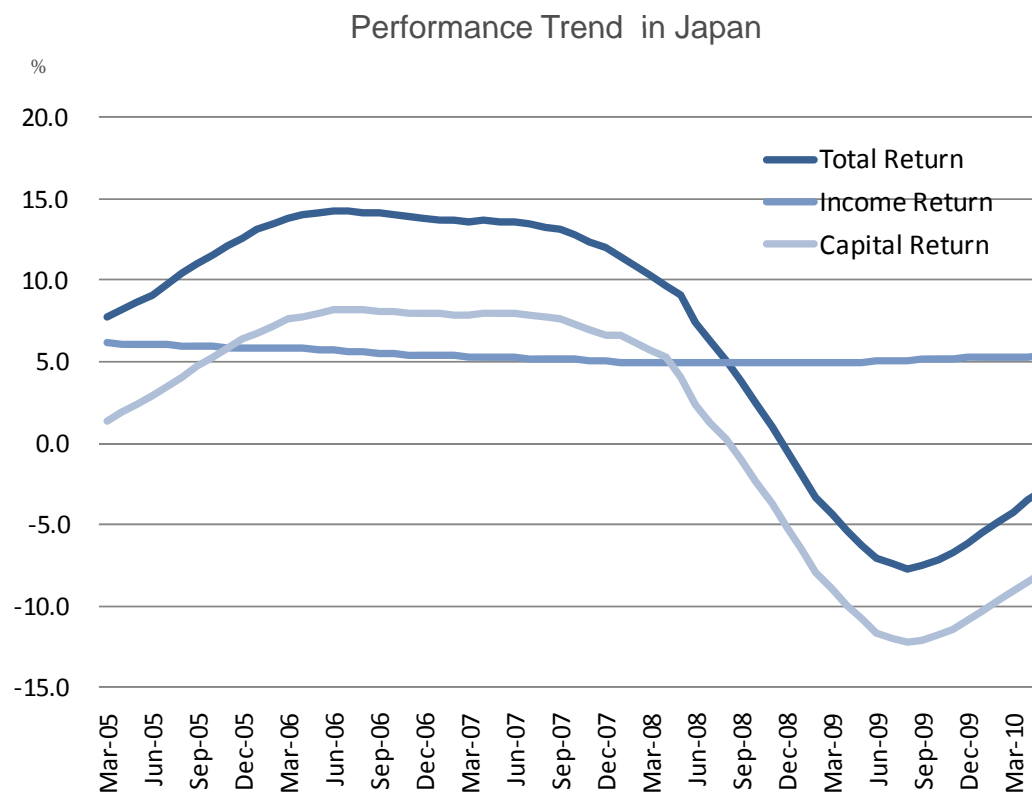


Source: NRI based on DTZ, EPRA, JPMorgan Asset Management

2 Overview of Japanese real estate market

Total return has recovered since 2009.

- Capital return in Japan headed sharply downwards in early 2008 . However, it reversed trends upwards in the second quarter of 2009 and has followed a recovery path since then. On the other hand, the income return in Japan keeps the stable level.

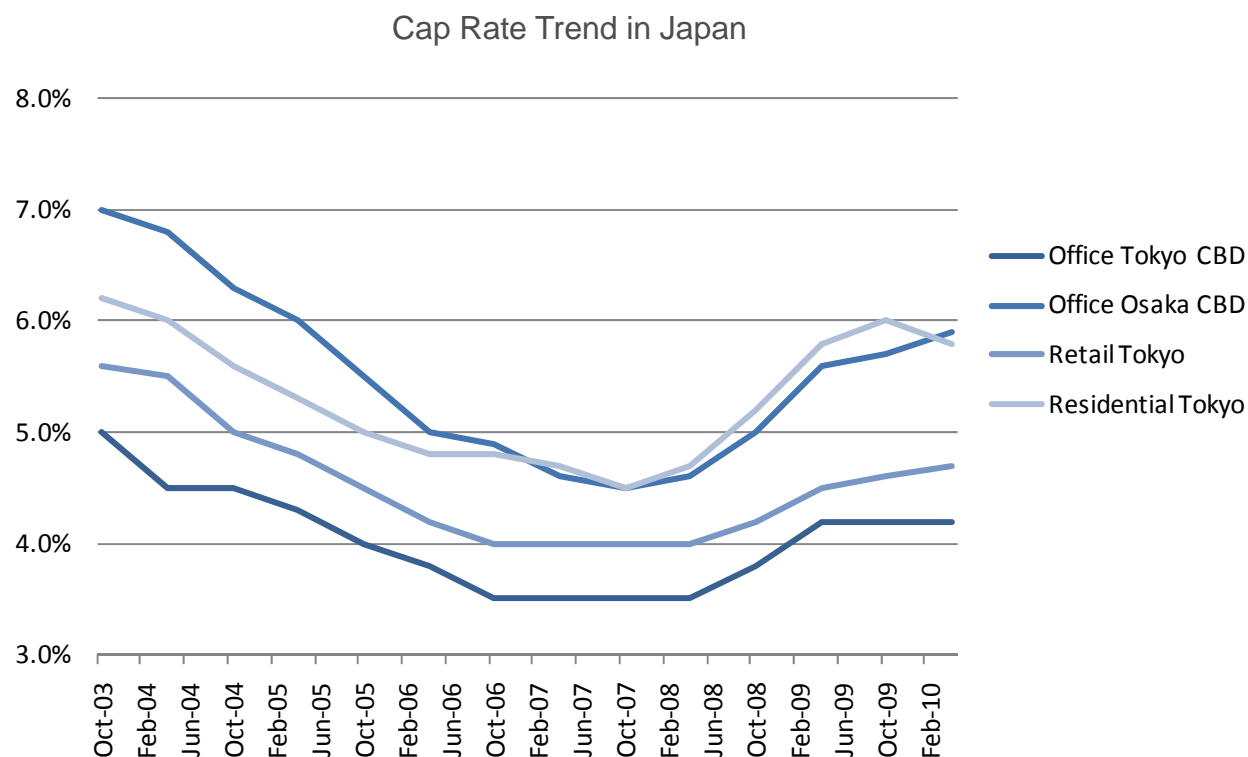


Source: NRI based on IPD

2 Overview of Japanese real estate market

Cap rates have returned to the 2005 level.

- By the end of the second quarter of 2008, the cap rate had decreased sharply. However, after the 2008 financial crisis, it increased approximately 100~150 basis points. At present, it maintains a stable movement, and this trend is expected to continue for a while. The biggest factor that can affect the stable trend is the fire sales by major Japanese banks seeking to dispose of their non-performing assets.
- The spread among regions and asset classes are also stable in Japan. While the cap rate of residential properties in Tokyo decreased recently, this was due to investing by numerous small investors who had been waiting for an increase in the cap rate.



Source: NRI based JREI

2 Overview of Japanese real estate market

The presence of US and European players has declined.

- Until 2008, most of the major property acquisitions in Japan were made by US or European investors. Since then, however, only La Salle Investment and a few German open-ended funds have shown strong appetite for investing in Japanese properties. Big spenders in 2003-2008 such as Morgan Stanley and Goldman Sachs are likely to switch to sell-side activity in the near future.

Major Acquisitions by US or European Investors

2007	2008	2009	2010
13 ANA Hotel buildings 2.8 billion USD All Nippon Airways → Morgan Stanley	Tennozu Citi Group Center 480 million USD Citi Group → Morgan Stanley	Pacific Century Place Building 1.4 billion USD Da Vinci→Secured Capital Japan	Nasu Garden Outlet Mole NA Domestic owner→LaSalle Investment
Hotel Nikko Naha & others NA Japan Airlines → Lone Star	Shinsei Bank HQ building 1.18 billion USD Shinsei Bank → Morgan Stanley	Logi-Port Nagareyama NA Domestic owner→LaSalle Investment	Grass City Shibuya NA Da Vinci→LaSalle Investment
Tiffany Ginza HQ building 380 million USD Tiffany → Goldman Sachs	Da Vinci Kamiyacho 170 million USD DA Office Investment → CommerzReal		Yanagi-Bashi First Building NA Domestic owner→CLSA
Simplex Investment Advisors 5 billion USD Nikko Cordial → Goldman Sachs, AETOS	Shibuya Duplex Tower 160 million USD Domestic owner → Union Investment		
Mansion QizHiroo 100 million USD Morimoto →GE Real Estate			

2 Overview of Japanese real estate market

On the other hand, Asian investors are rushing into Japan.

- Before the 2008 financial crisis, GIC of Singapore was the only institutional investor purchasing Japan properties. Since the crisis, many institutional investors from other Asian countries such as Korea, Taiwan, Malaysia and Kuwait, have entered the Japanese market.
- So far, the investment amount of Asian investors is smaller than that of US or European investors who had invested heavily a few years ago. Therefore, it is not sure at present whether Asian investors' will push down Japan's cap rate hereafter.

Major Acquisitions by Asian Investors

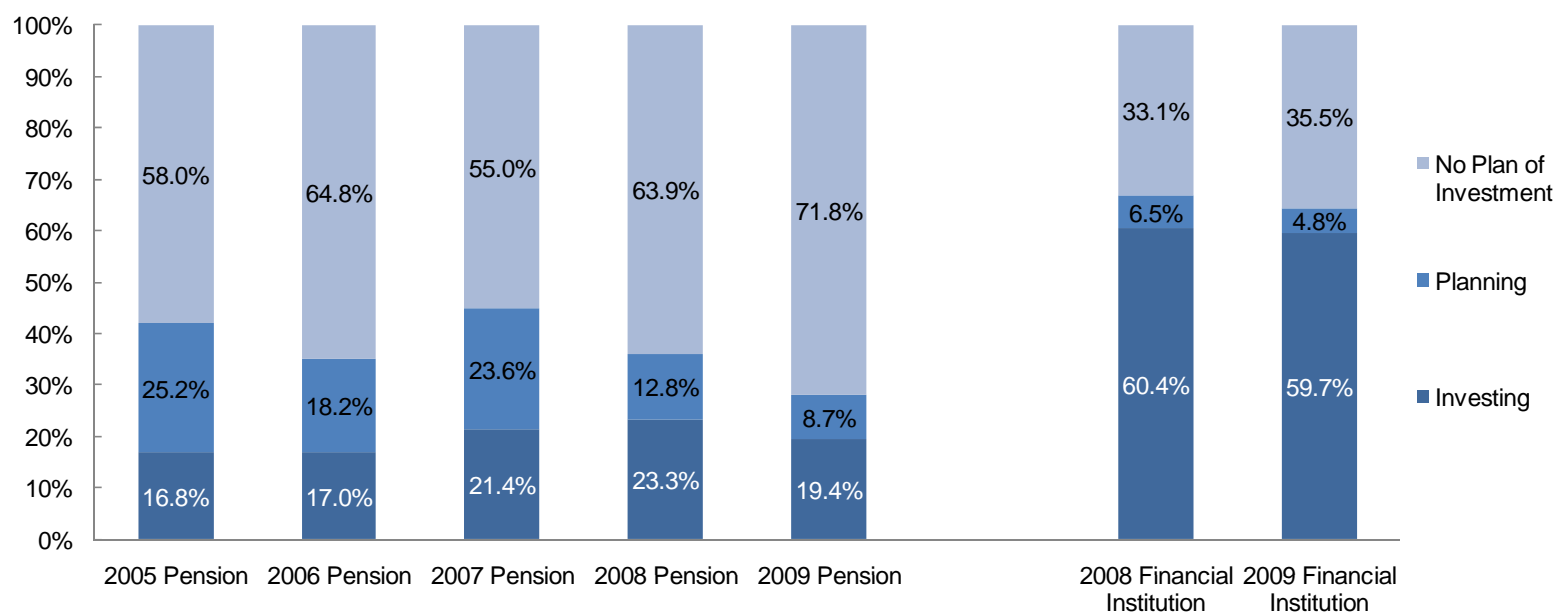
2007	2008	2009	2010
Hawks Town 1 billion USD Colony Capital → GIC Real Estate	Westin Hotel Tokyo 770 million USD Morgan Stanley → GIC Real Estate	KDX Toyosu Grand Square 350 million yen Kennedix → NPS(Korea Pension)	Head Quarter Building of Ezai 100 million USD NA→NPS and other Korean Pensions
		LIETOCOURT ARX TOWER 130 million USD Da Vinci →Martins(Kuwait)	Logi Partners Kashiwa Center 43 million USD NA→Mapletree(Singapore)
			Logistics Centers in Chiba and Saitama 130 million USD NA→Mapletree(Singapore)
			Care house for seniors 30 million USD Kenedix→Parkway Life REIT(Singapore)
			Niseco Village (Hotel) 60 million USD NA→YTL Corporation(Malaysia)

2 Overview of Japanese real estate market

Japanese institutional investors remain cautious.

- Traditionally, Japanese pension funds have been passive about investing in real estate. Generally, their allocation to real estate is less than 1 percent of their overall investment portfolio. One of the biggest issues to invest in real estate for Japanese pension funds is the size of funds. Most of pension funds in Japan manage hundreds of millions of USD.
- Japanese pension funds changed their attitude at one time in 2007 due to a bullish market, but they have become reluctant again since the 2008 financial crisis.
- Financial institutions such as major banks, regional banks and small banks have preferred investment in J-REIT. At present, they are not active in real estate investment market.

Appetite of Japanese Institutional Investors for Real Estate Investment

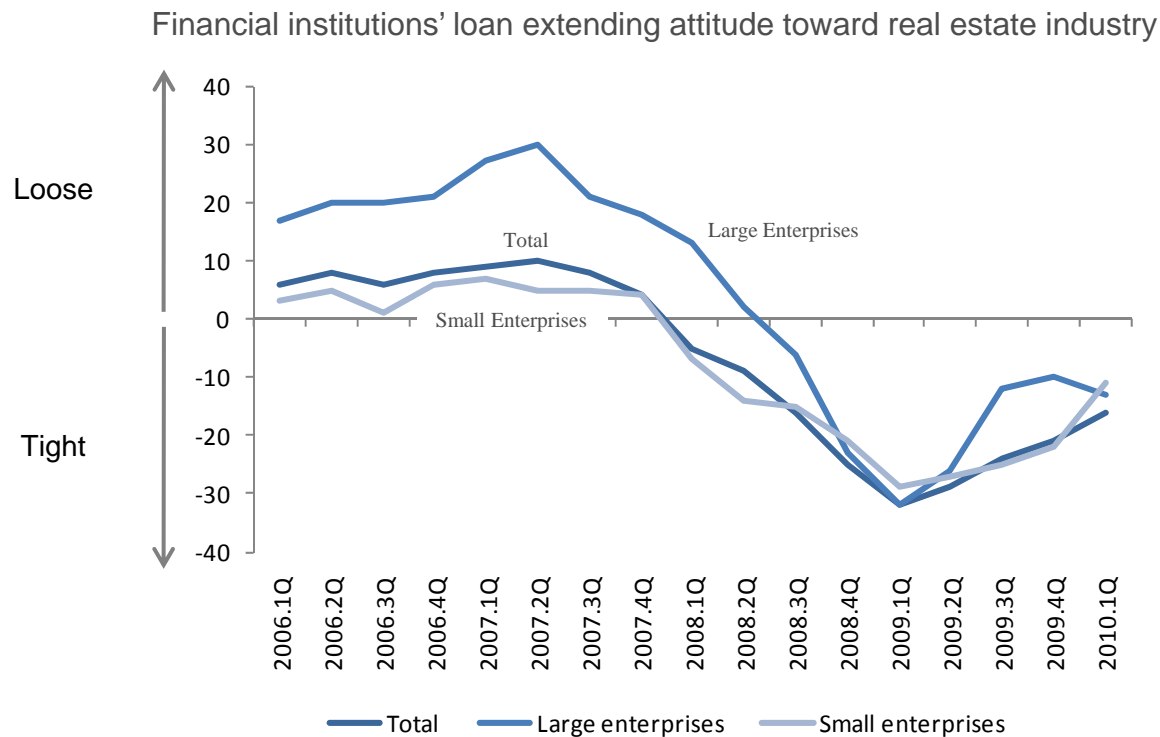


Source: NRI based on Daiwa Fund Consulting

2 Overview of Japanese real estate market

Lenders' attitude has improved but remains weak.

- Real estate players are feeling that financial institutions are changing attitude for real estate loan. In fact, there are many condominium developers which procure new loans and acquired new land for development.
- However, foreign based financial institutions, which provided mezzanine financing prior to the 2008 financial crisis, and enabled real estates' players high gearing such as 90 percent, have withdrawn the financial crisis withdrew from Japan. There is no easy money any more to finance opportunistic investment.

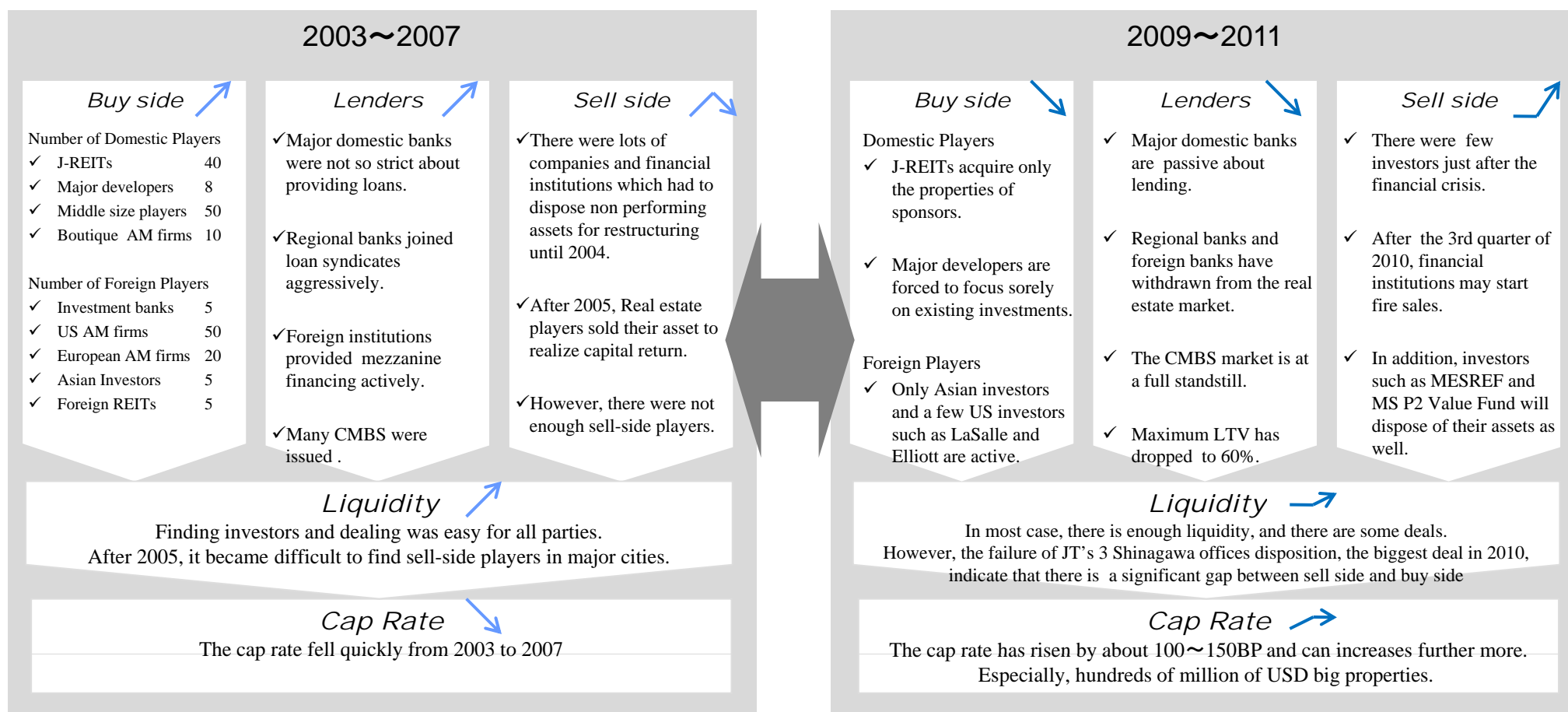


Source: NRI based on Bank of Japan

2 Overview of Japanese real estate market

Smaller equity and tightened lending prevent cap rates from dropping.

The Significant Gap Between Before and After Crisis Conditions in Japan



Source: NRI

1 Macro fundamentals of Japan

2 Overview of Japanese real estate market

3 Office market

4 Residential market

5 Retail property market

6 Logistics property market

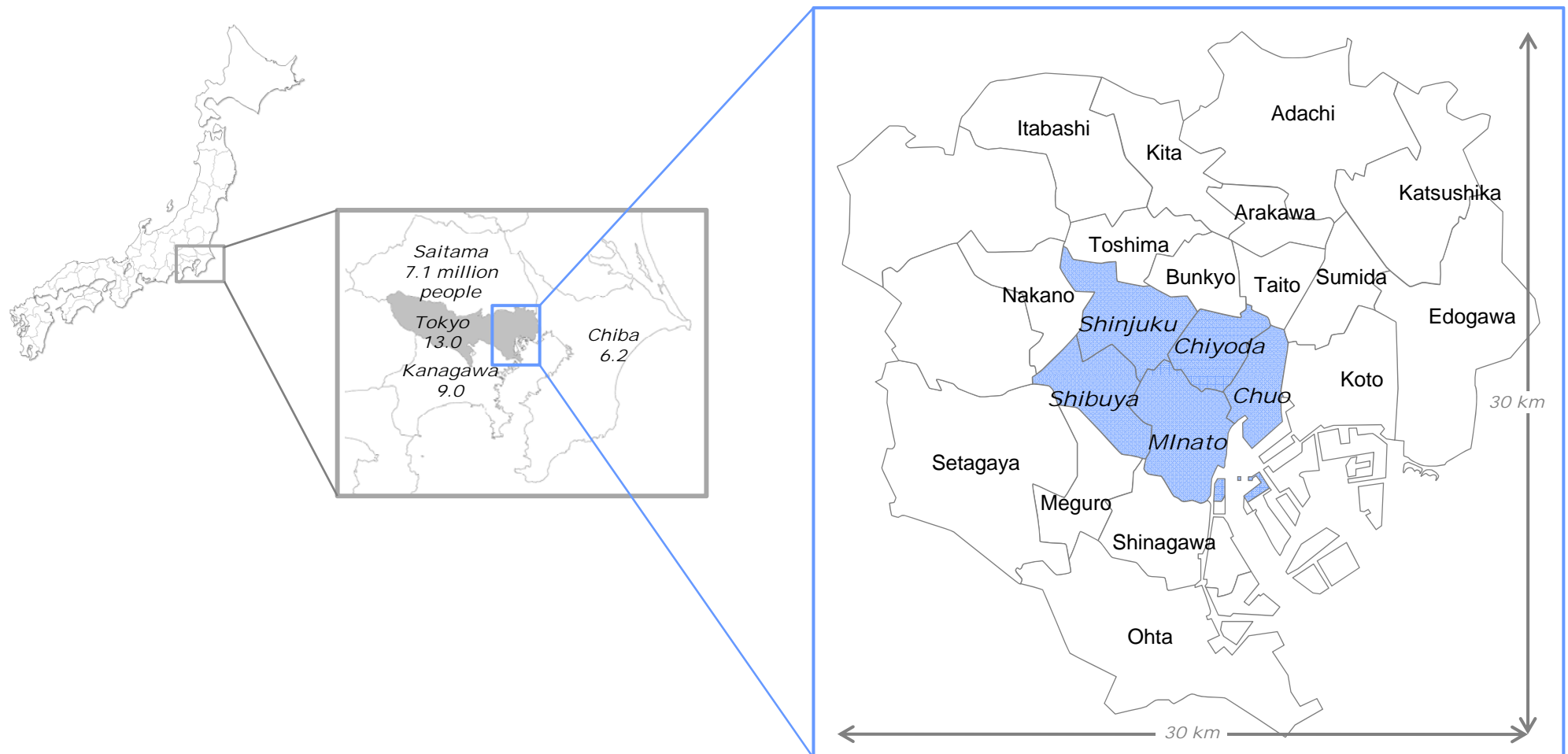
7 Hotel market

8 J-REIT market

3 Office market

There are five sub sectors in Tokyo's CBD area.

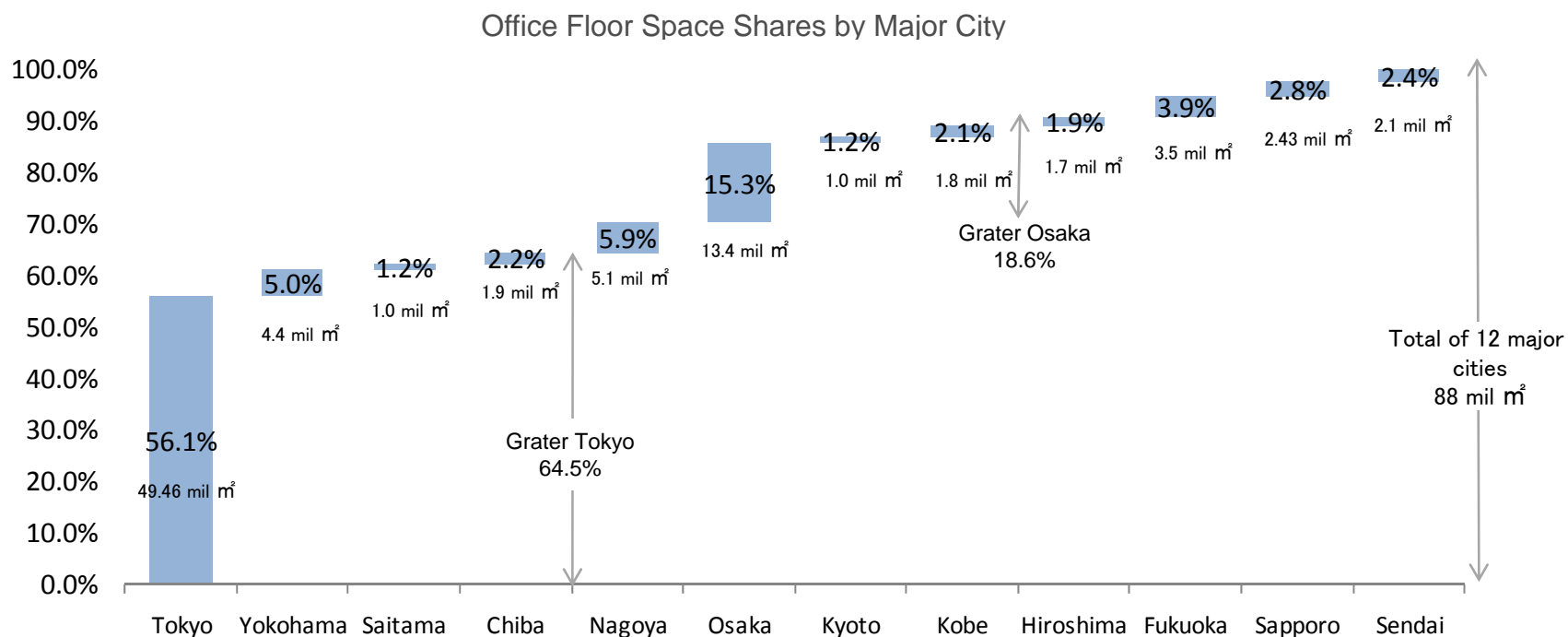
- Tokyo's office markets are mainly located in the five central wards: Chiyoda, Minato, Chuo, Shinjuku and Shibuya. This small area contains most of the S class and A class buildings, and the 33 million people who live in Tokyo and its satellite cities gather to this CBD area. Comfortable residential areas in the suburbs and highly developed transportation systems enable the Tokyo Metropolitan Area to function as a single mega city.



3 Office market

Tokyo accounts for 56% of Japan's office market.

- There are approximately 88 million square meters of rentable office floor space in Japan. In addition, there are countless small buildings that are not suitable for leasing.
- Tokyo has approximately 49 million square meters of office floor space, which represents 56 percent of the overall Japanese market. Rent in Tokyo is much higher than in other cities. Accordingly, Tokyo accounts for 64 percent of overall office rents in Japan



Source: NRI based on JREI

As of Dec. 2009

The investigation focus on central area of each city.

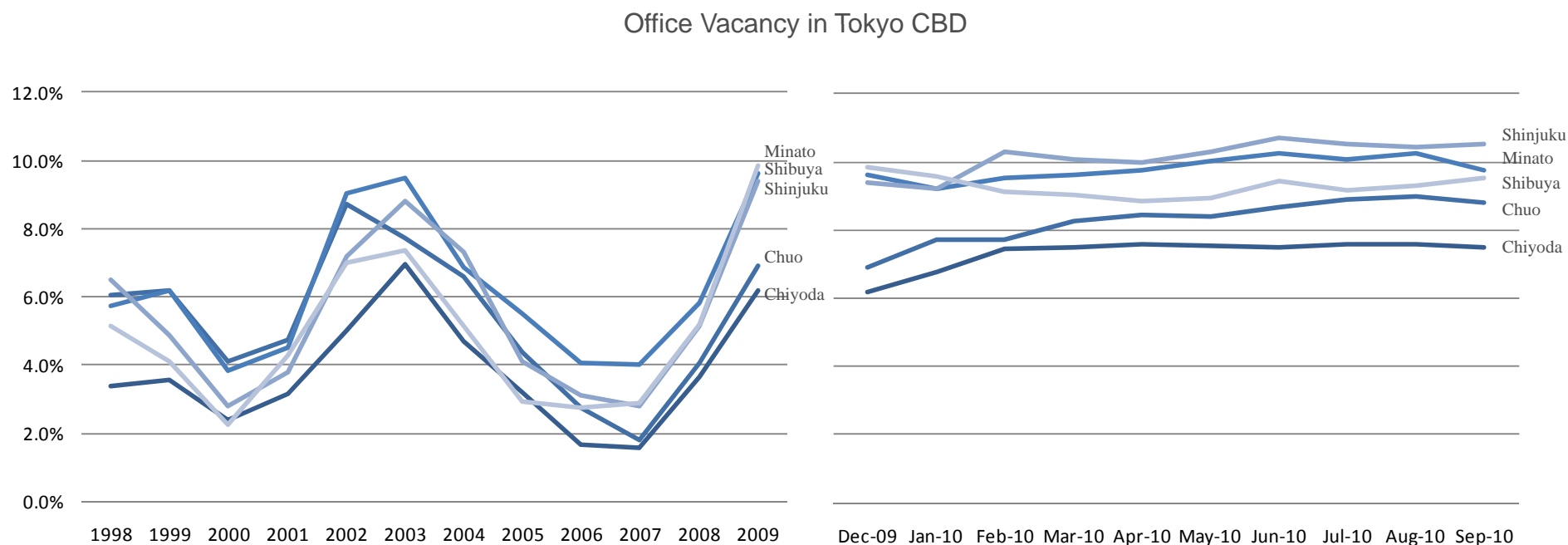
In Tokyo, Osaka and Nagoya buildings which are smaller than 5000 square meter are excluded

In other nine cities buildings which are smaller than 3000 square meter are excluded

3 Office market

Office vacancy rates in Tokyo are at a 20-year high.

- The so-called “Year 2003 Problem” of offices in Tokyo, i.e. that the market will be hit by excess supply in 2003, turned out to be a false scare, and office vacancy in Tokyo decreased significantly from 2005 to 2007. However, the financial crisis in 2008 changed the circumstance absolutely. At present, office vacancy rates in Tokyo are at the highest level in 20 years.

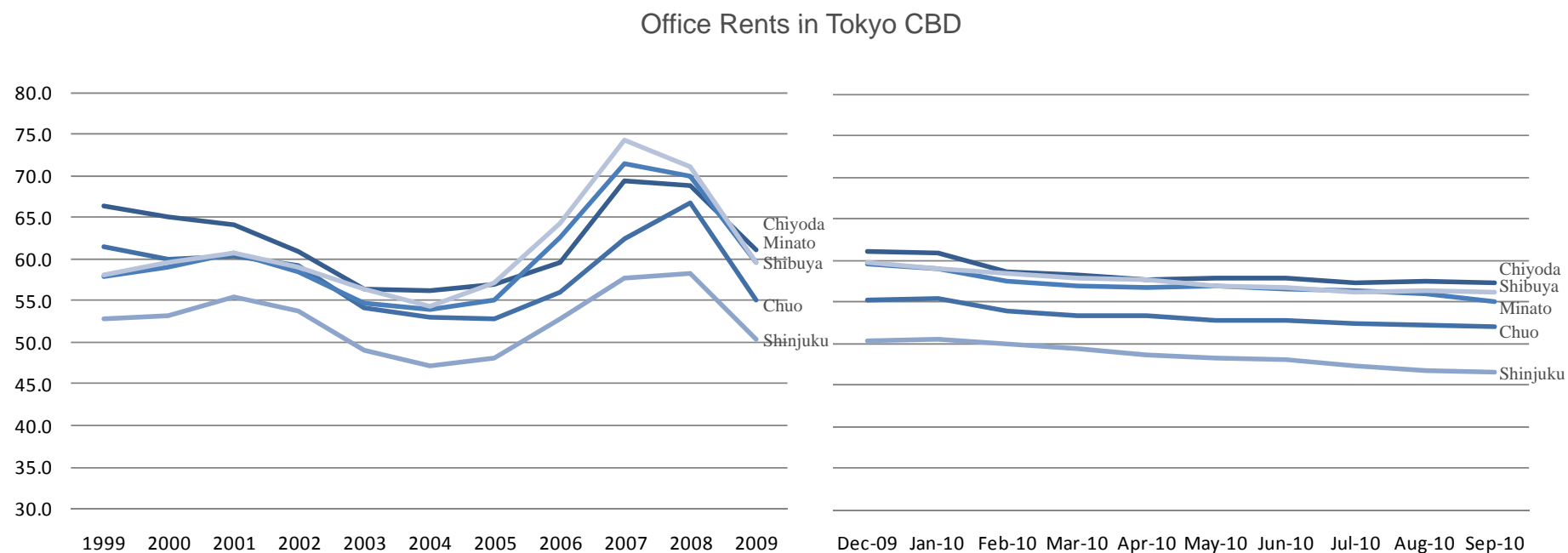


Source: NRI based on Miki Shoji

3 Office market

Rent has declined gradually due to the high vacancy rates.

- Office rents are at the lowest level in ten years, and there are no signs that the decrease will stop anytime soon.

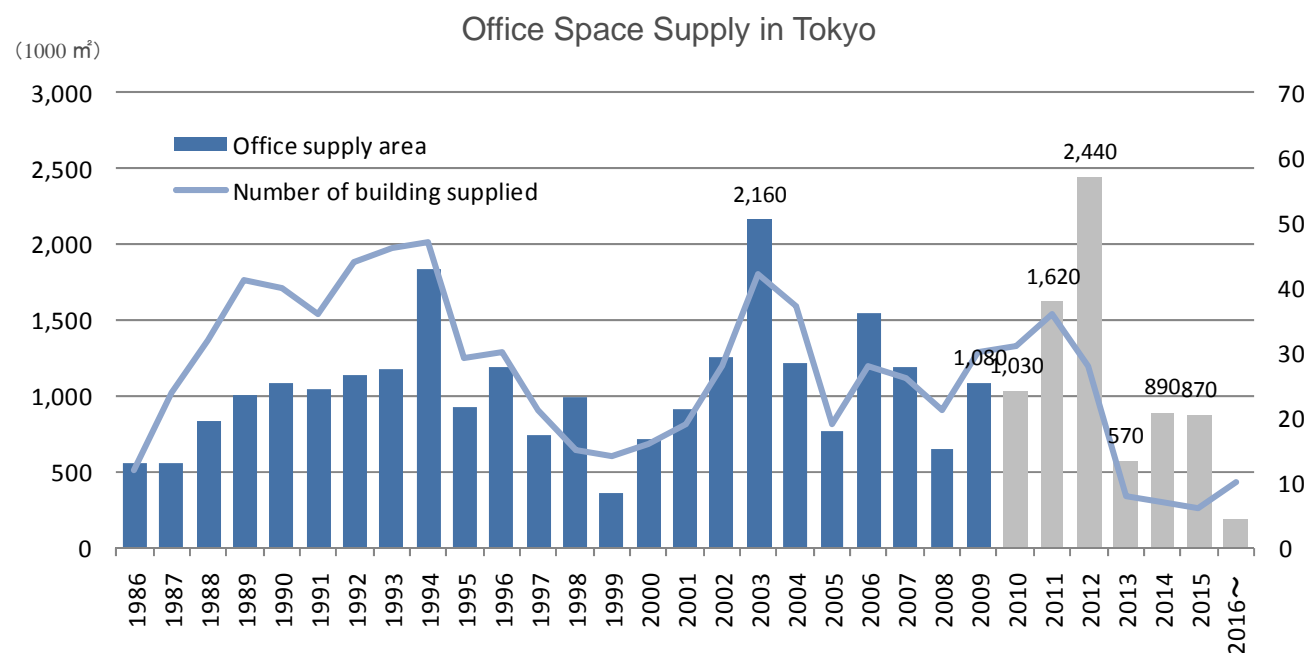


Source: NRI based on Miki Shoji

3 Office market

Huge supply in the CBD will worsen market conditions.

- There are 126 large-scale office buildings (total floor space of 10,000 square meters or larger) slated for completion between 2010 and 2015. The buildings will provide 7.6 million square meters of new office space combined. This means that new supply will be equivalent to more than 10 percent of Tokyo's current office stock.
- In 2012, when new supply will be at peak, there will be 28 completed buildings and 2.4 million square meters of new office space in Marunouchi, Otemachi, Nakano, Odaiba and so on.



Source: NRI based on Mori Building and Nikkei BP

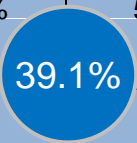
3 Office market

At present 40% of top-tier Japanese companies still use B-class or C-class offices.

- A factor that may absorb the huge supply of office space in the future is relocations by top-tier companies housed in B-class or C-class buildings at present. Many companies in Tokyo are concerned about the risk of earthquakes, poor security and inferior IT infrastructure. New office buildings that resolve these issues may attract such companies.
- The chart below shows that companies in blue zones are housed in B-class or C-class buildings.

Breakdown of Office buildings used by Listed Companies in Tokyo

	200～ person in one floor	100～200 person in one floor	50～100 person in one floor	～50 person in one floor
21～ floors building	14.8%	6.8%	2.8%	0.0%
11～20 floors building	4.9%	8.8%	6.8%	1.7%
6～10 floors building	5.3%	6.2%	11.3%	5.3%
～5 floors building	4.5%	4.7%	6.0%	10.2%

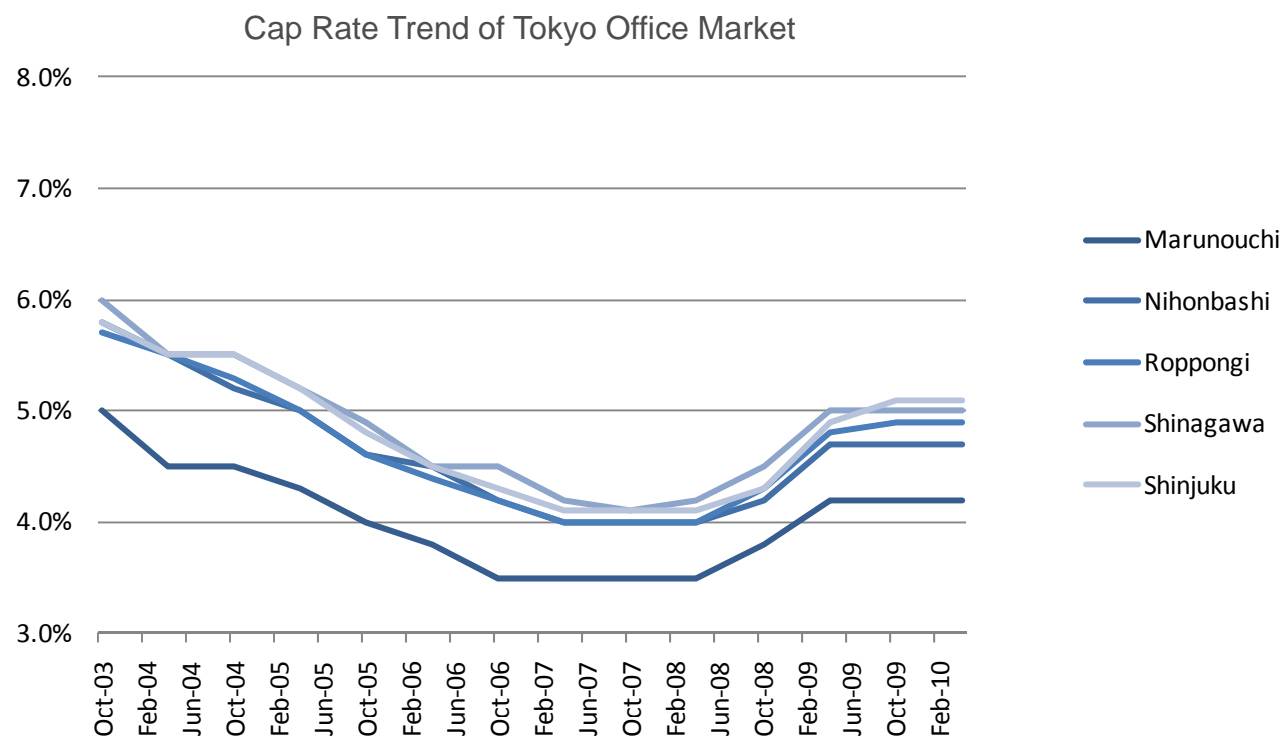


Source: NRI

3 Office market

Cap rates have risen but still remains below 5%

- Cap rates of office buildings in Tokyo fell steeply from 2000. The drop was driven by the participation of many foreign and domestic investors in the Tokyo market and the ease with which investors could procure cheap loans and high LTV. From 2006 to 2008, the cap rate in Marunouchi ran at less than 4 percent. This means that there were not enough investable buildings.
- Cap rates rose approximately 100 basis points after the financial crisis. However, they remain at less than 5 percent, which is not very attractive for investors.

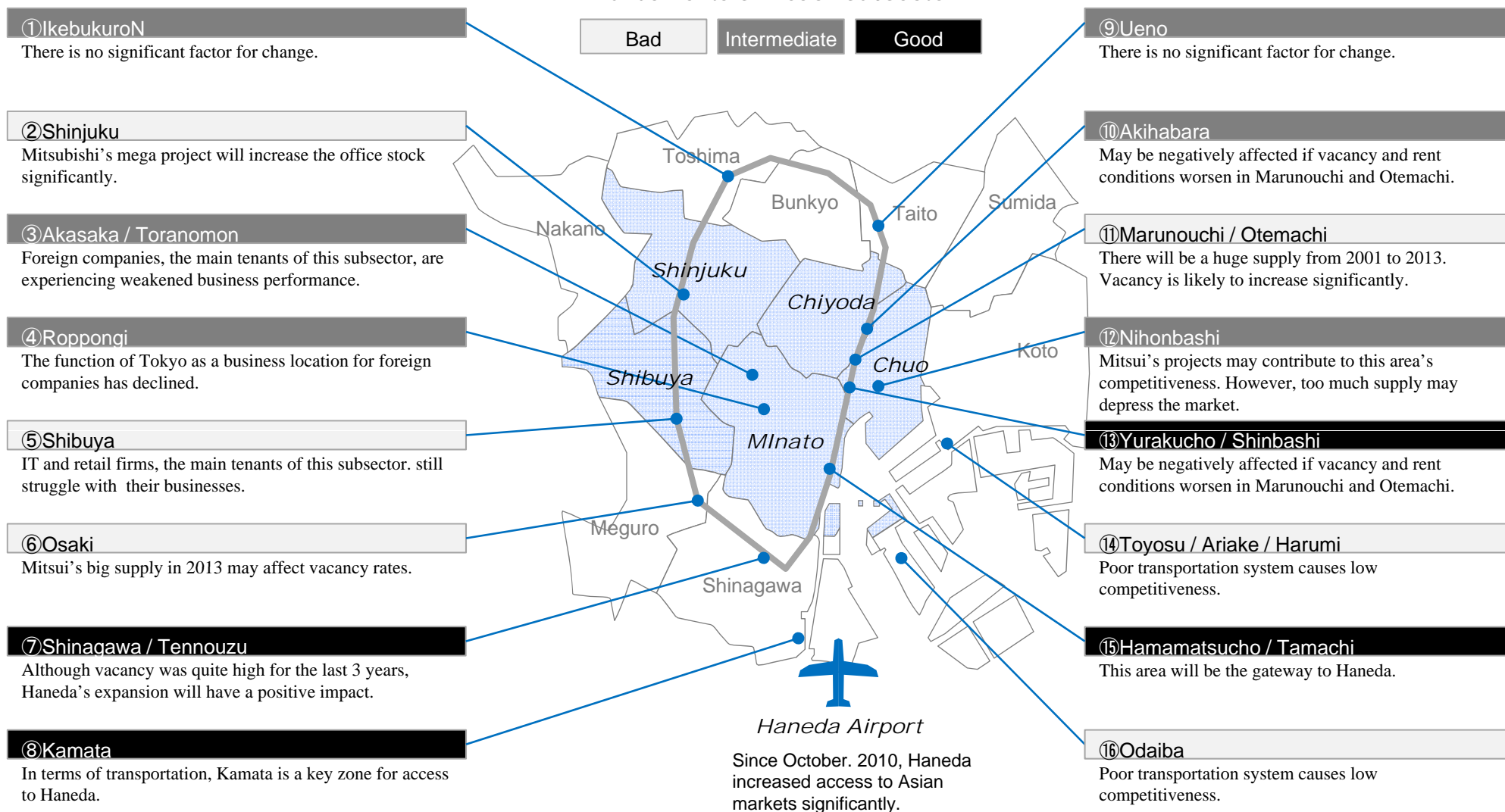


Source: NRI based on JREI

3 Office market

Haneda Airport's expansion will contribute to the competitiveness of southern Tokyo.

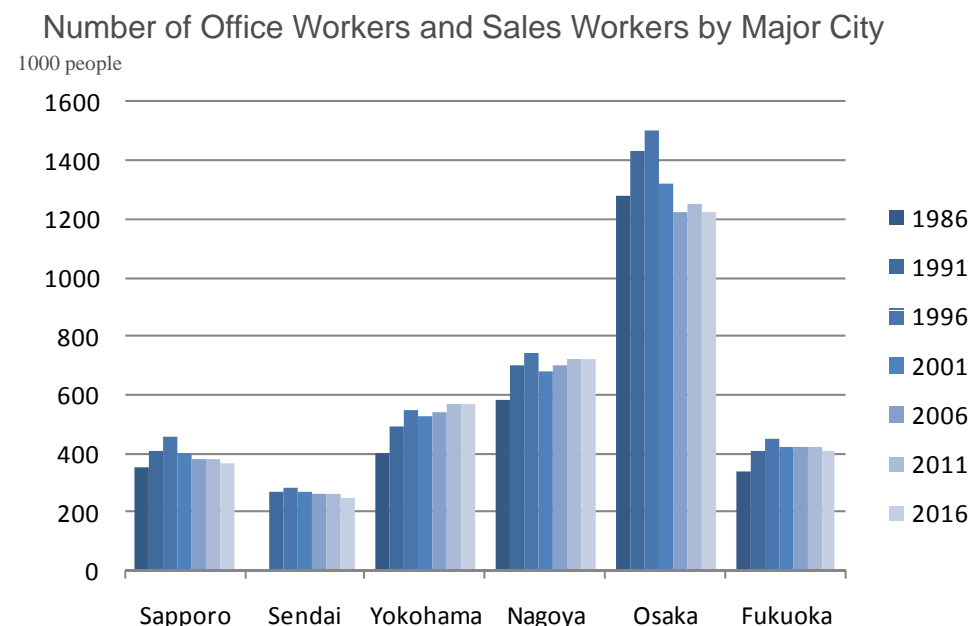
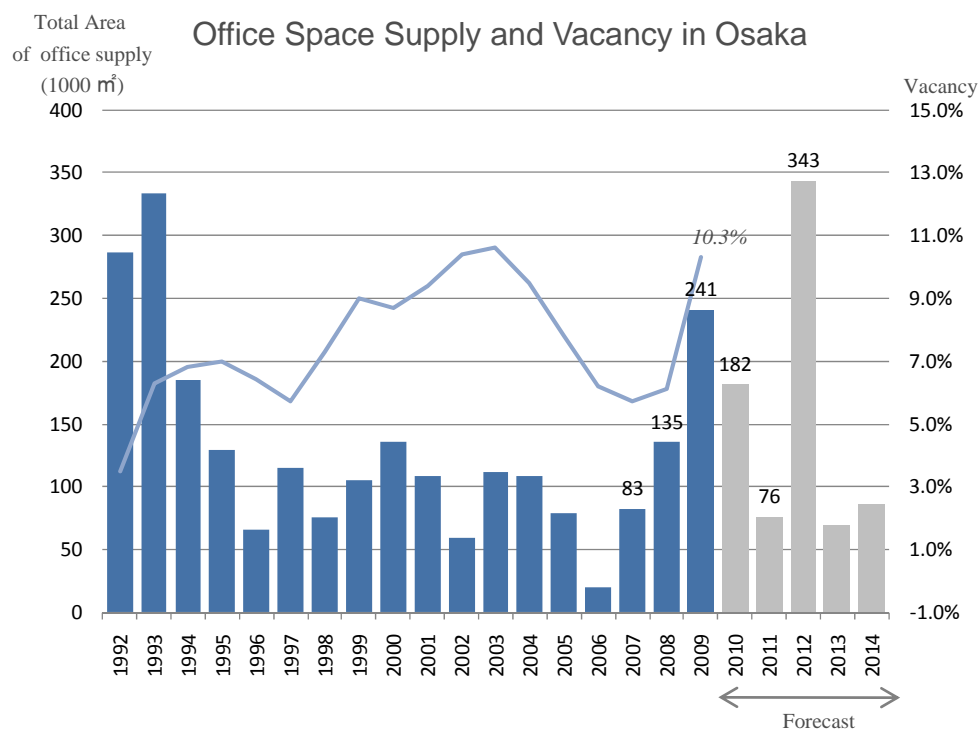
Fundamentals in each subsector



3 Office market

Osaka struggles with constitutional weakness.

- Huge supplies in 2008 and 2009 have boosted vacancy to over 10 percent. Supply may remain large in the coming years, causing vacancy to rise still further.
- Office workers and sales workers in Osaka have decreased since 1996. This movement is different from other cities in Japan. Market observers predict that the increase of vacancy and decrease of rent will continue over the medium to long term.

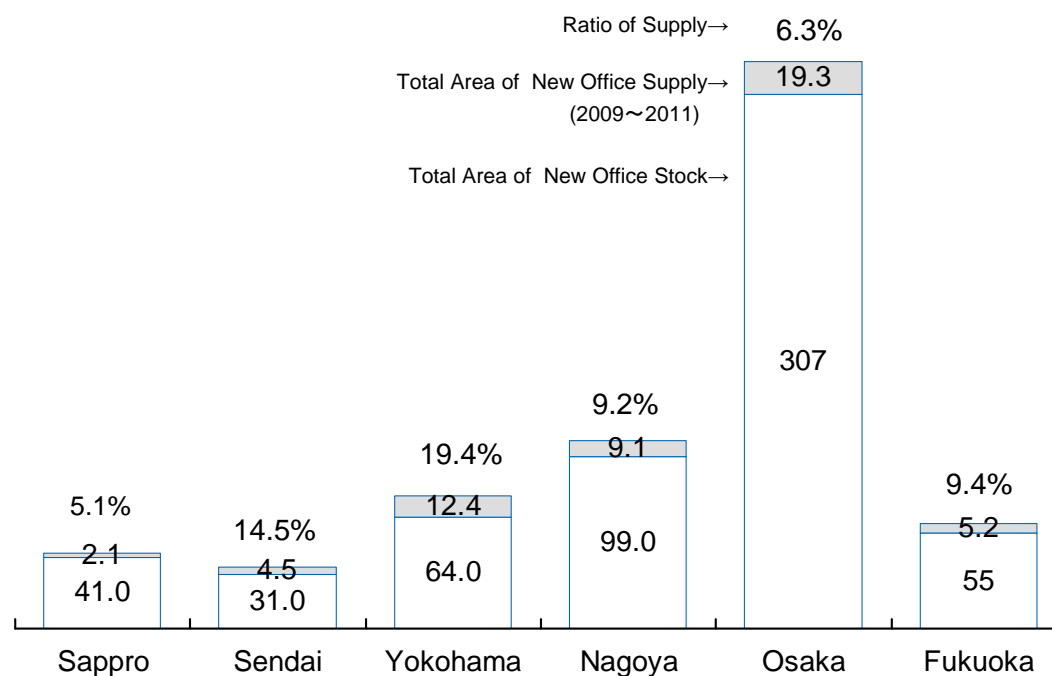


3 Office market

Outside of Tokyo, large supply pulls down the office market.

- The considerable inflow of money from 2004 to 2007 resulted in many buildings being planned in regional metropolises such as Sapporo, Sendai and Fukuoka.
- The large gap between demand and supply has pulled down office rents sharply.

Office Stock and Flow in Major Cities

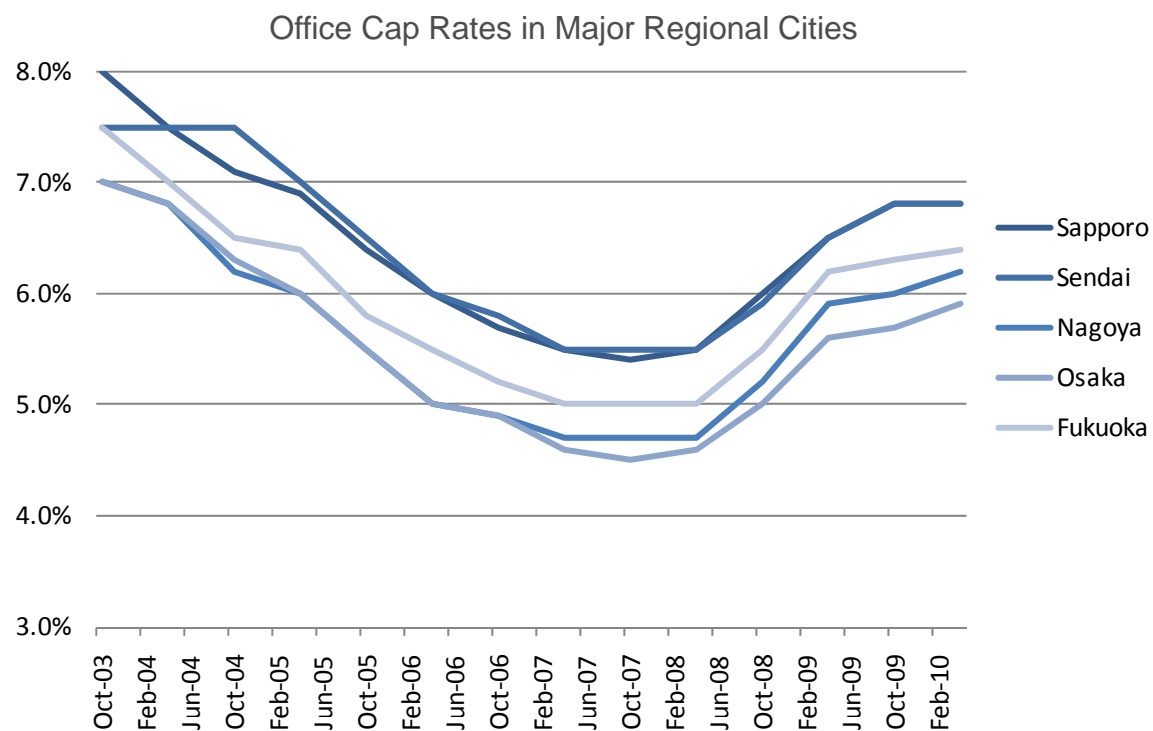


Source: NRI based on NLI Research

3 Office market

Cap rates in regional cities continue to rise.

- In Tokyo, cap rates have remained at the same level since 2009. By contrast, cap rates in regional cities such as Sapporo, Nagoya and Osaka have risen continuously. The regional economies' weak fundamentals are inhibiting investors' buying appetite.



Source: NRI based on JREI

1 Macro fundamentals of Japan

2 Overview of Japanese real estate market

3 Office market

4 Residential market

5 Retail property market

6 Logistics property market

7 Hotel market

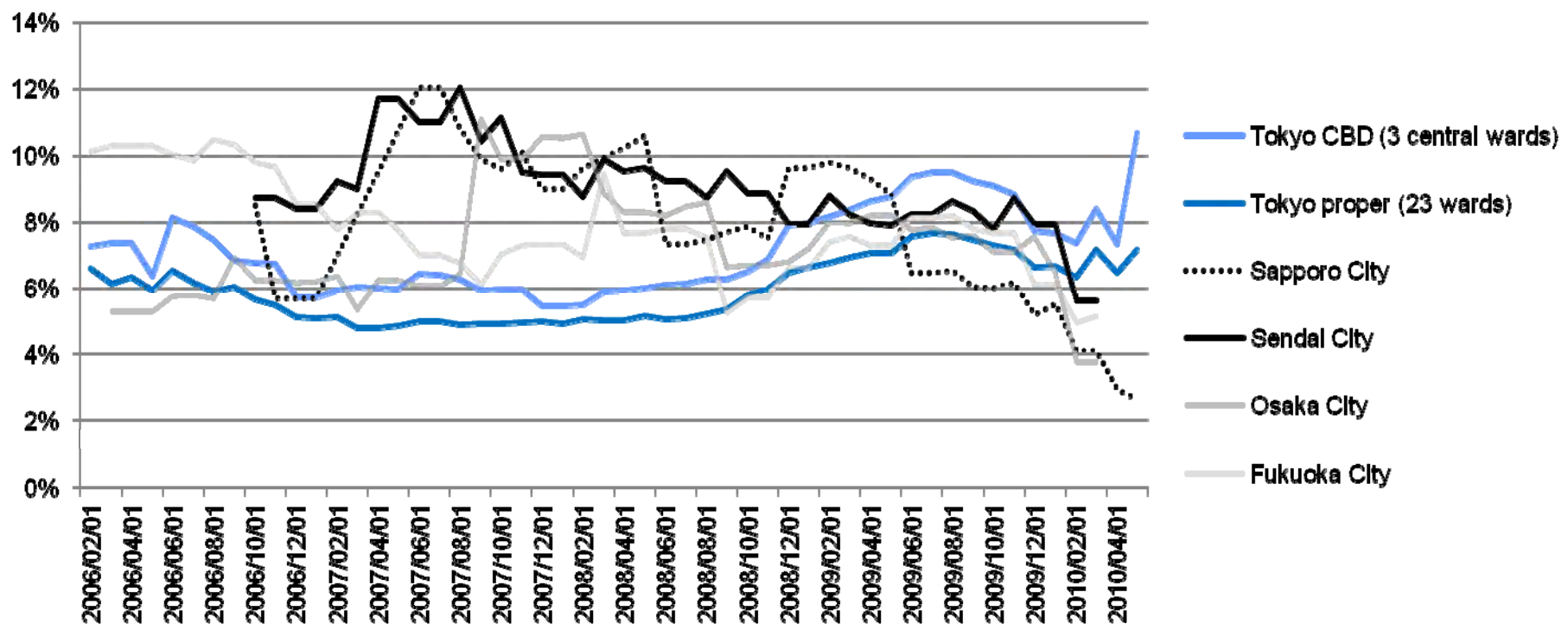
8 J-REIT market

Residential Market

Vacancy rates of rental housing are trending downwards in local cities but it's still rising in Tokyo.

- In Tokyo, the vacancy rate had been running at a moderate 6% or so up to the Lehman shock but has subsequently risen to 8-10%.
- Before the Lehman Shock, the vacancy rate in local cities was generally higher than in Tokyo. The situation has reversed since the start of 2010, with Tokyo having a higher vacancy rate than local cities.

Vacancy Rates of Residential REITs (By Region)



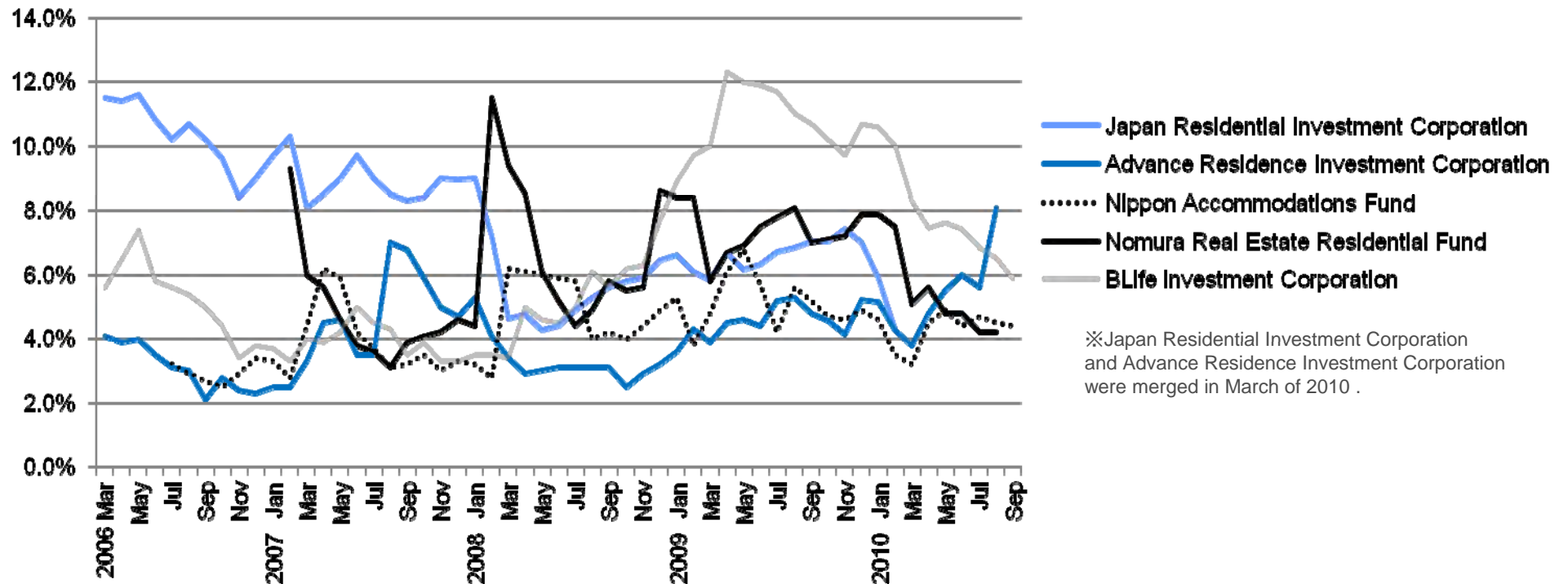
※Definite value: -Dec,2009 Quasi-definite value:Jan,2010, Quick Estimation:Feb-May,2010

Source: NRI based on ARES

Residential Market

Even among REITs with many quality assets, some are suffering from a higher vacancy rate.

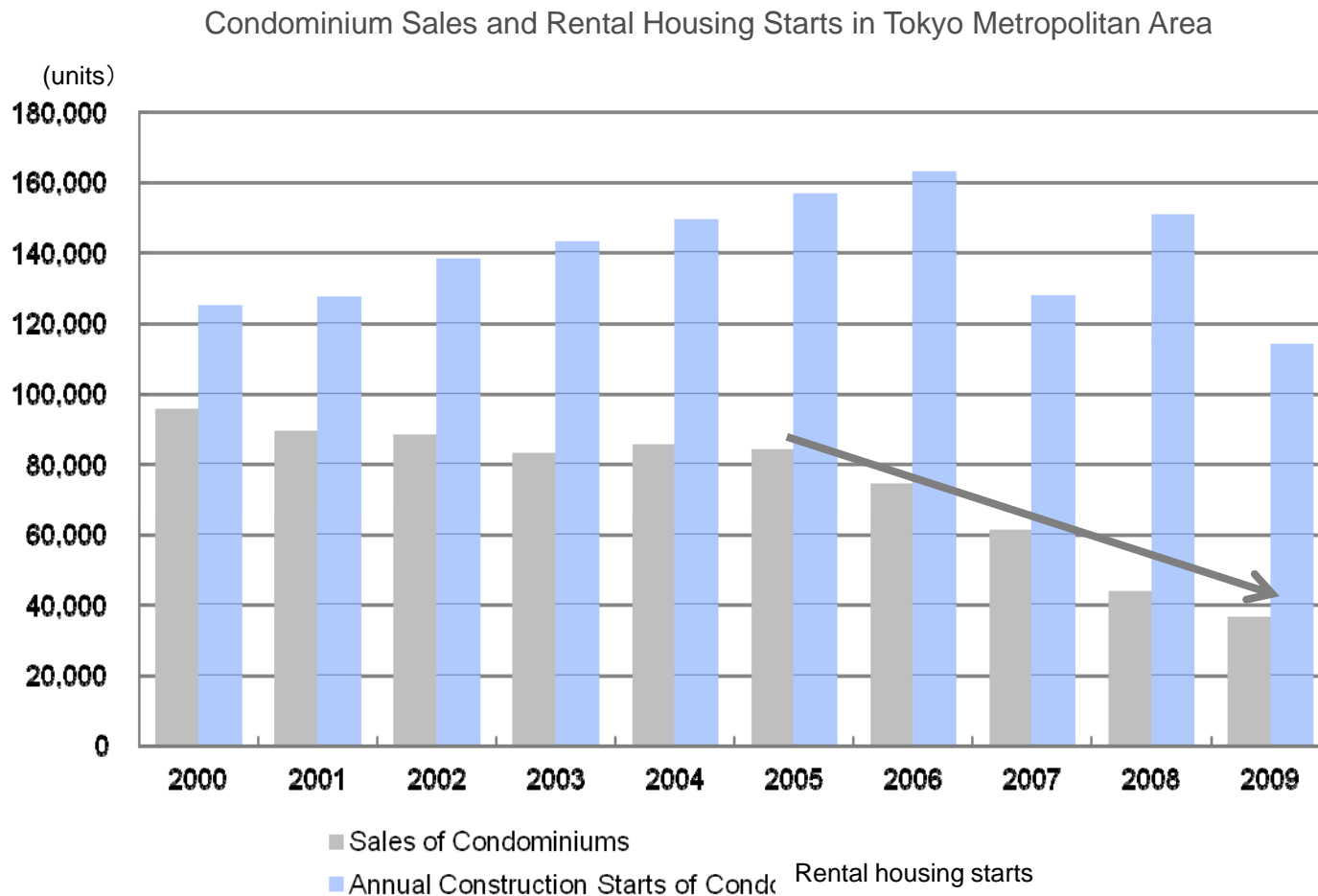
Vacancy Rates of Leading Residential REITs



Source: NRI based on each corporation's documents

Residential Market

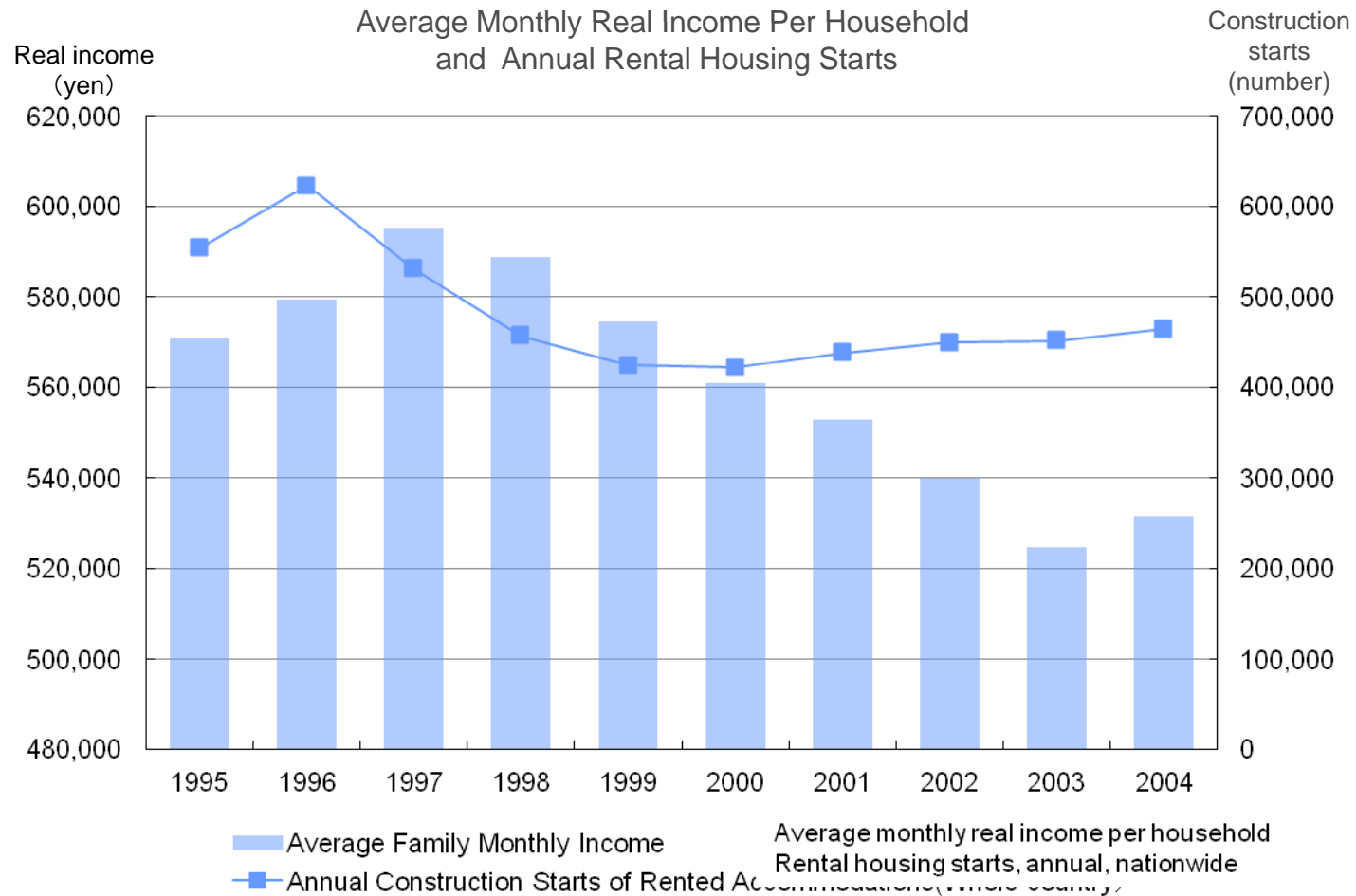
The rental housing market is doing fairly well compared to the highly sluggish market for condominiums.



Source: NRI based on Real Estate Economic Institute Co., Ltd.
and Ministry of Land, Infrastructure, Transport and Tourism

Residential Market

The recent decline in personal incomes has boosted demand for rental housing while suppressing consumers' home purchases.

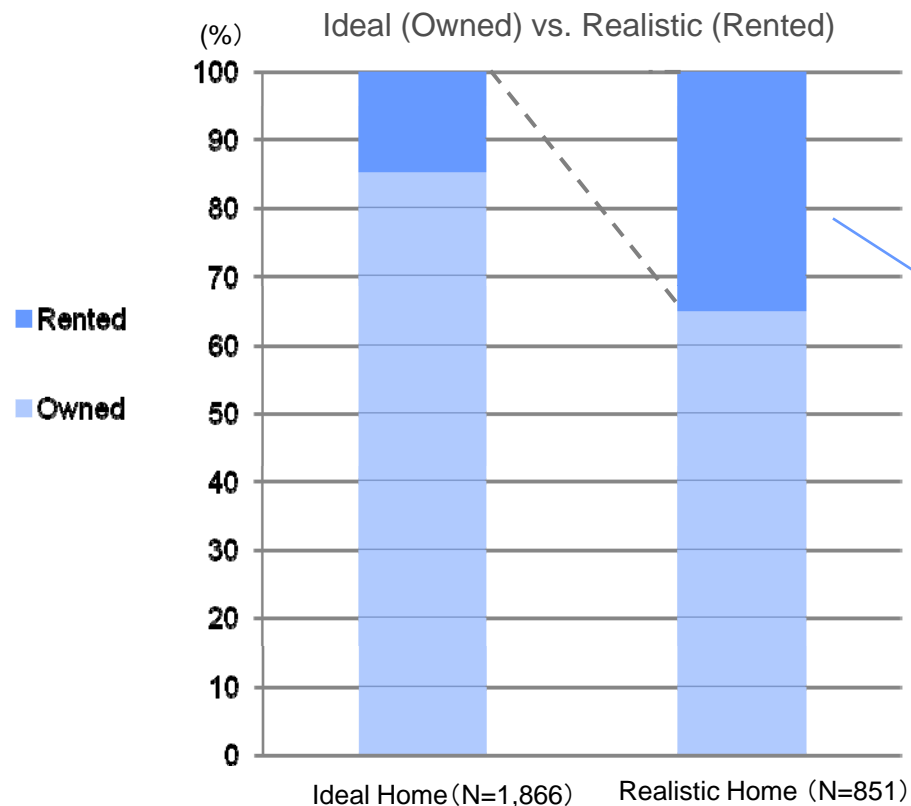


Source: NRI based on Statistics Bureau, Director-General for Policy Planning and Statistical Research and Training Institute and Ministry of Land, Infrastructure, Transport and Tourism

Residential Market

Many Japanese still strongly think it ideal to be a homeowner, but an increasing number are opting for rented accommodations.

- There is a gap between ideal and reality.



- A major reason why rented accommodations are viewed favorably is the lower cost burden (home ownership entails mortgage payments, initial costs, potential losses due to natural disasters, etc.)
- Another reason is that relocating is easier, allowing flexible responses to troubles with neighbors, changes in family composition, job changes, and the like.

Notes:

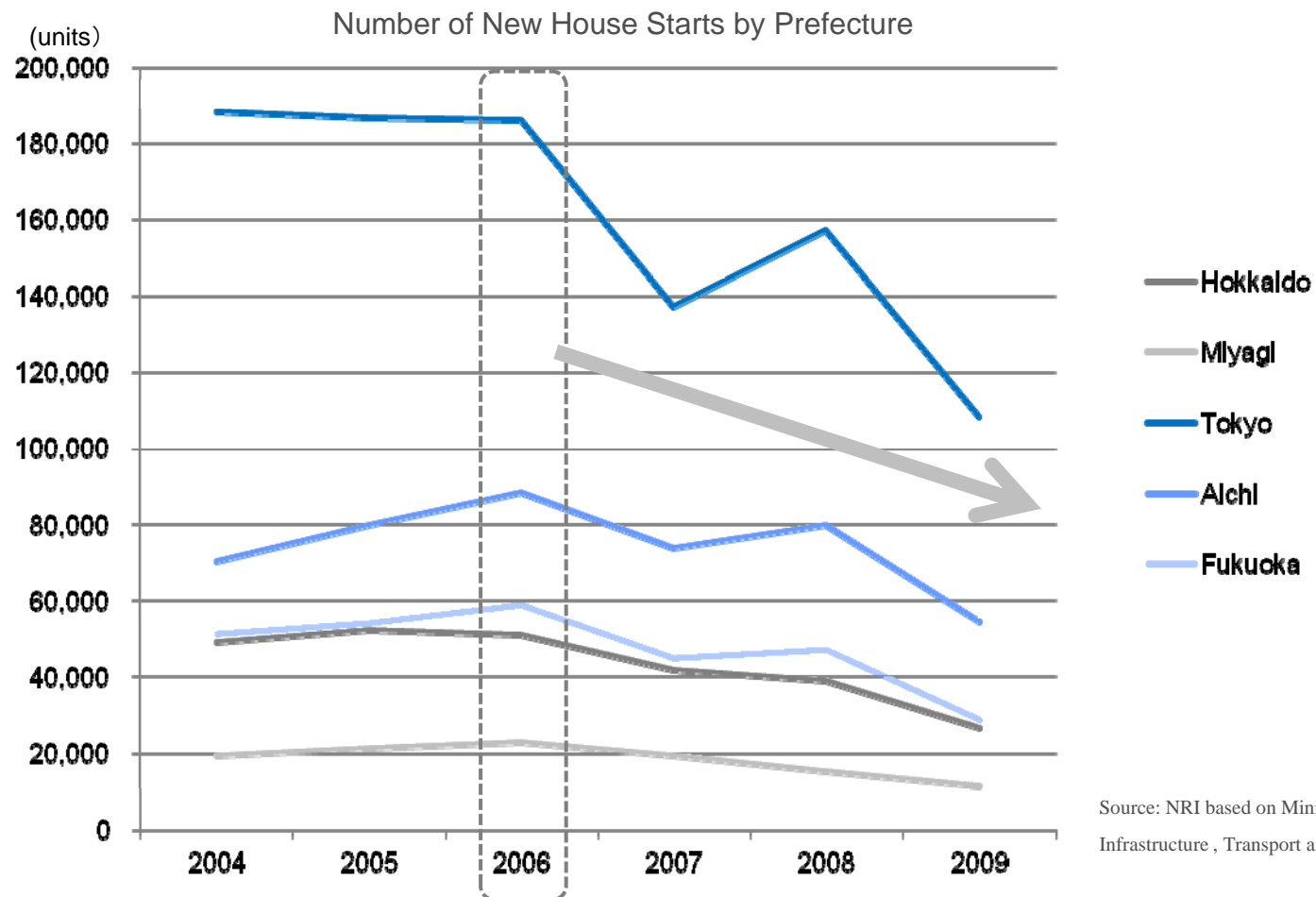
The data for "Ideal Home" was extracted from a questionnaire survey asking respondents to choose their ideal home from multiple choices (single answer). Those who responded "others" were disregarded.

The data for "Realistic Home" was extracted from a questionnaire survey targeting people planning to relocate. The respondents were asked to choose the home they thought they were likely to move to from multiple choices (single answer).. Those who responded "others" were disregarded.

Source: NRI "Questionnaire research about the choice of houses"(Jun,2009)

Housing starts in all local cities have trended downwards since 2006.

- While Tokyo, Japan's most densely populated city, surpasses all other cities by far in terms of the absolute number of housing starts, it has experienced the same trends as all other cities in terms of the rise and fall of housing starts.

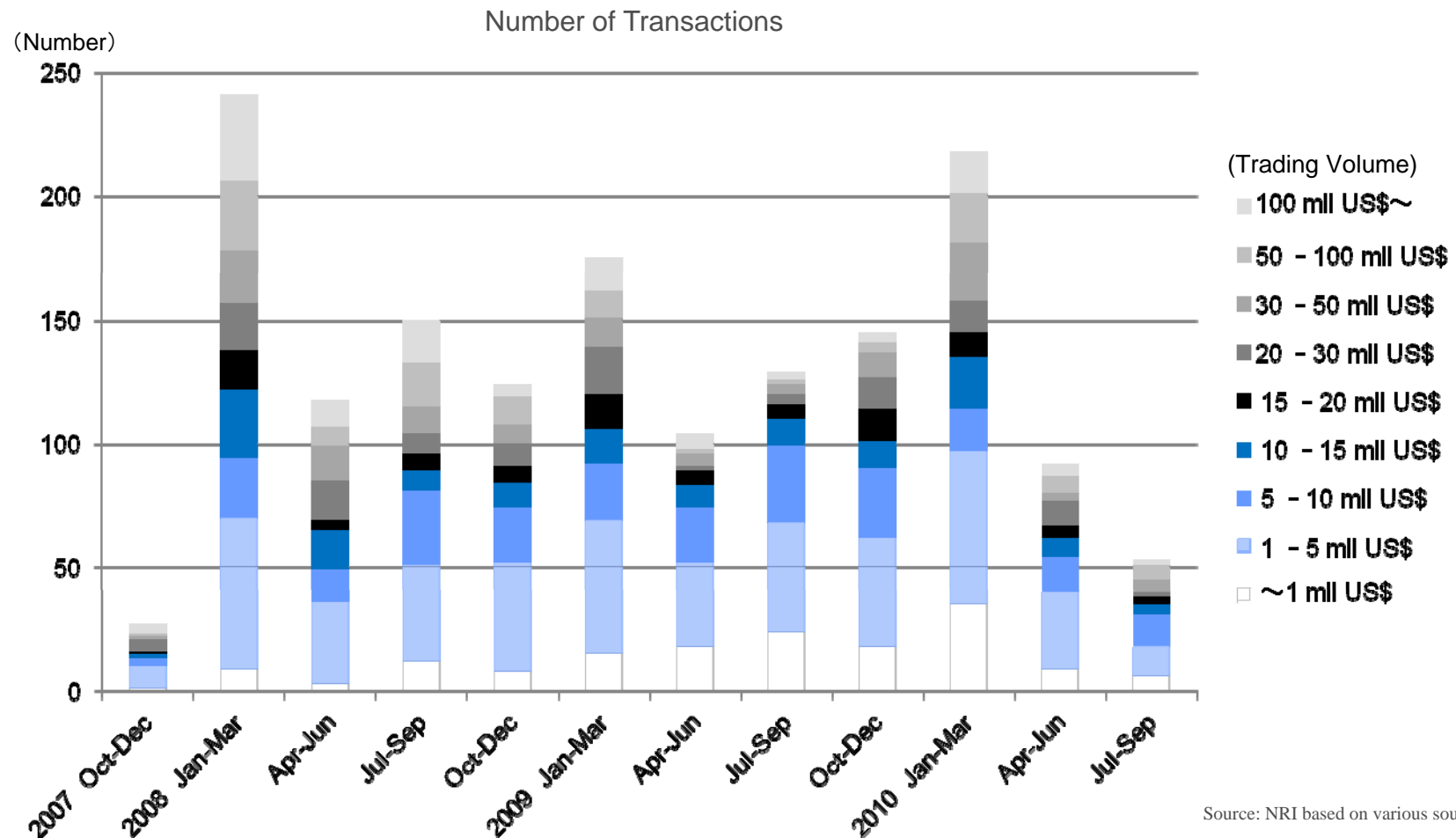


Source: NRI based on Ministry of Land, Infrastructure, Transport and Tourism

Residential Market

The transaction market is relatively active, and high liquidity is one of its characteristics.

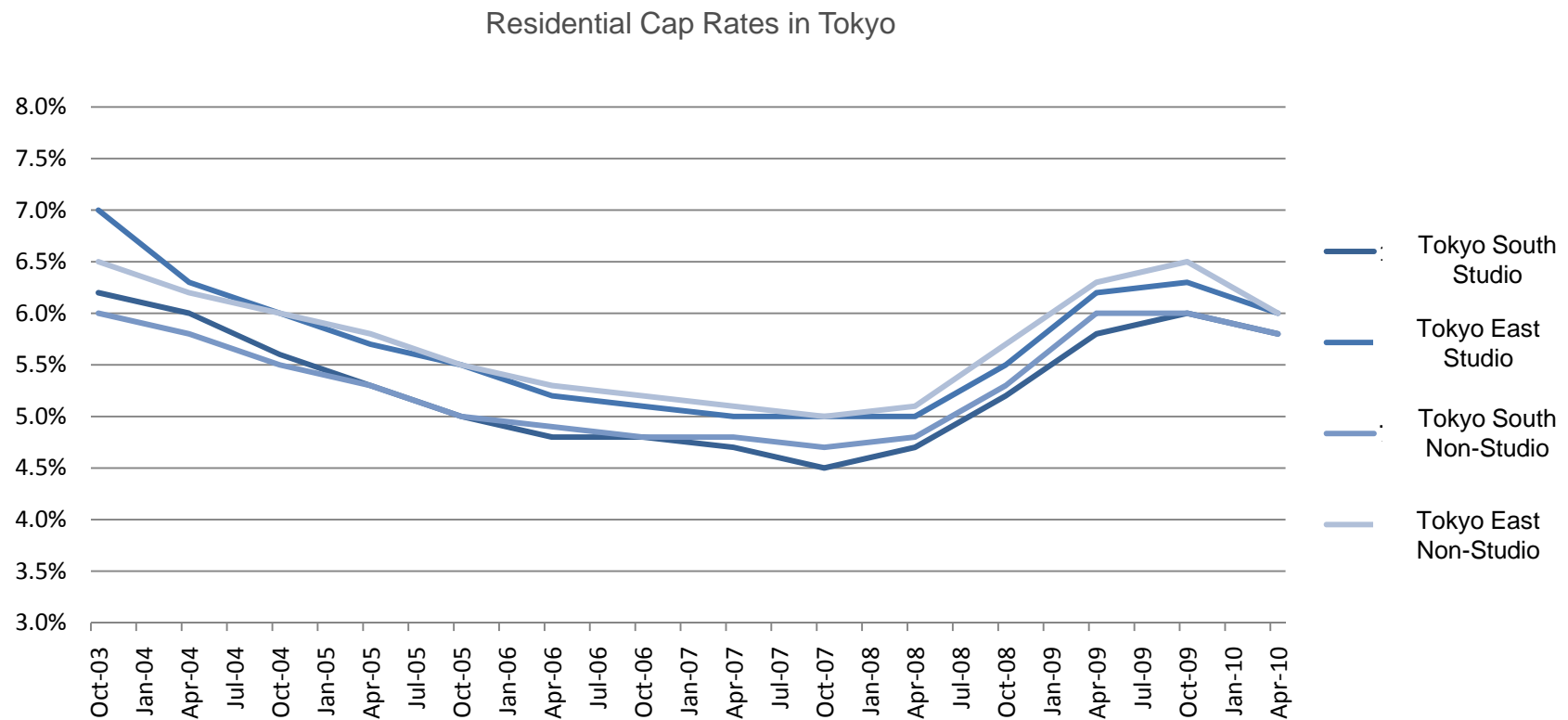
- Regardless of other conditions, investors will join the market if the cap rate rises and there is a broad investor base.



Source: NRI based on various sources

Residential Market

Cap rates have fluctuated moderately within the 4.5% - 7% range.



Source: NRI based on JREI

1 Macro fundamentals of Japan

2 Overview of Japanese real estate market

3 Office market

4 Residential market

5 Retail property market

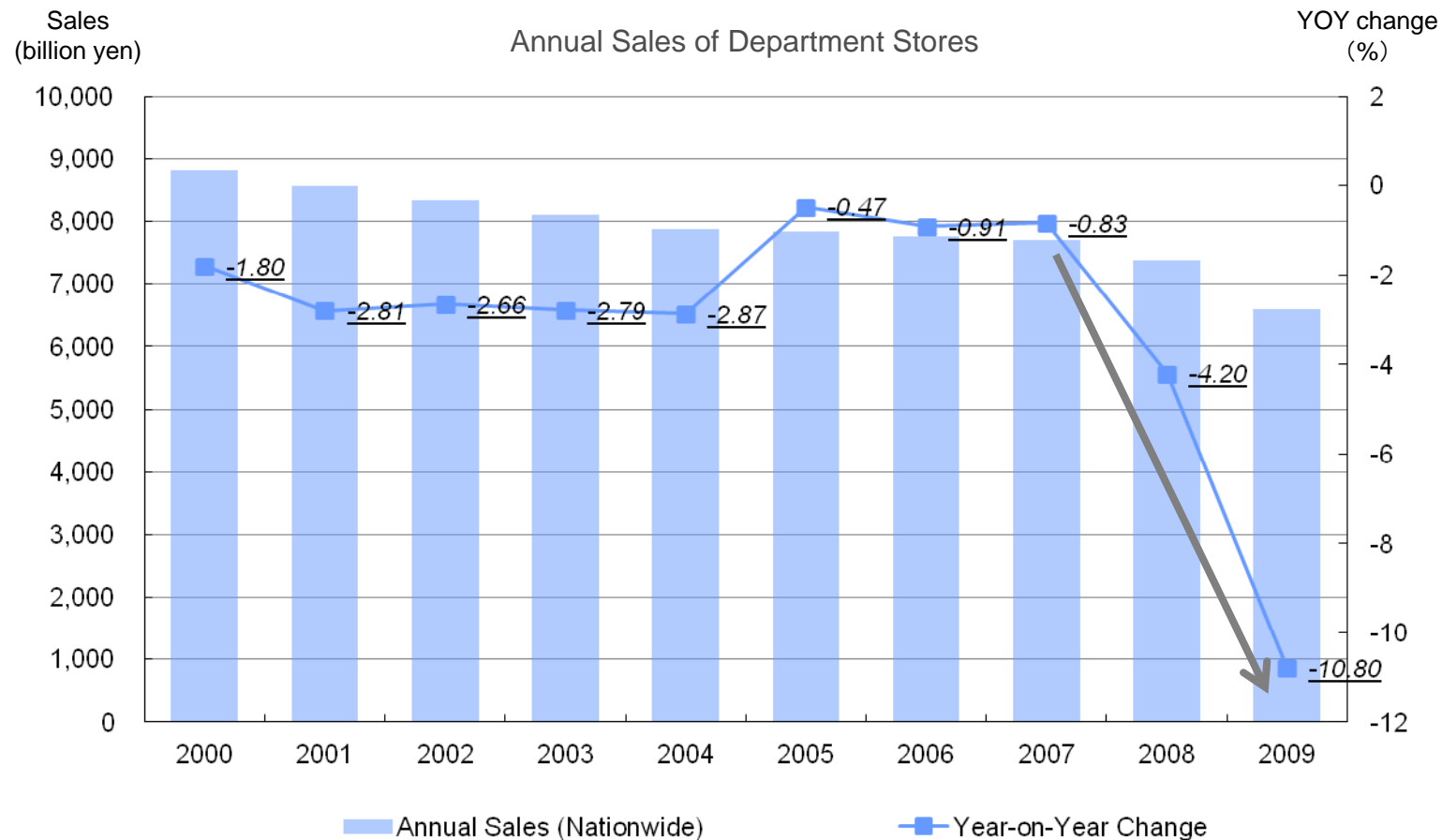
6 Logistics property market

7 Hotel market

8 J-REIT market

The retail market has been mired in the doldrums since the Lehman shock.

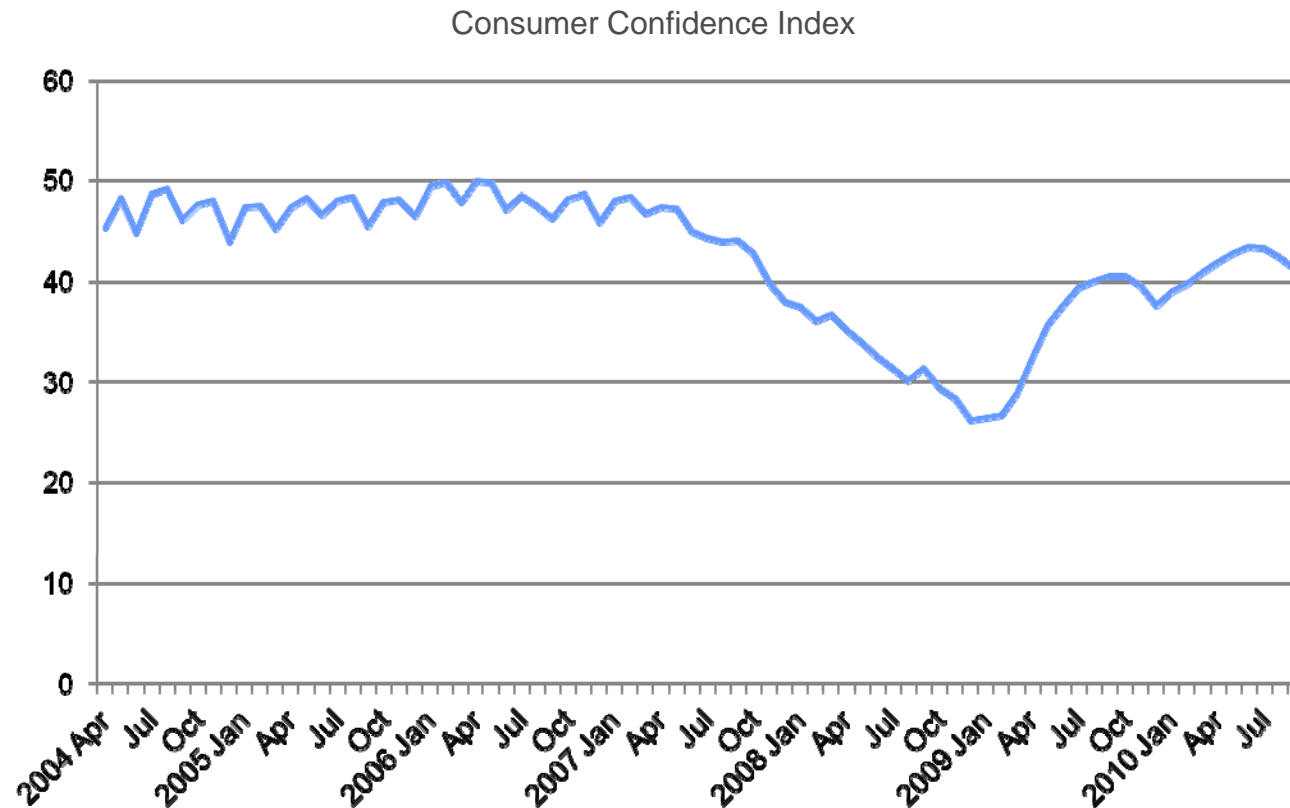
- Department store sales have declined steadily in recent years. The drop has been particularly severe after the Lehman shock.



Source: NRI based on Japan Department Stores Association

Consumer sentiment remains persistently low.

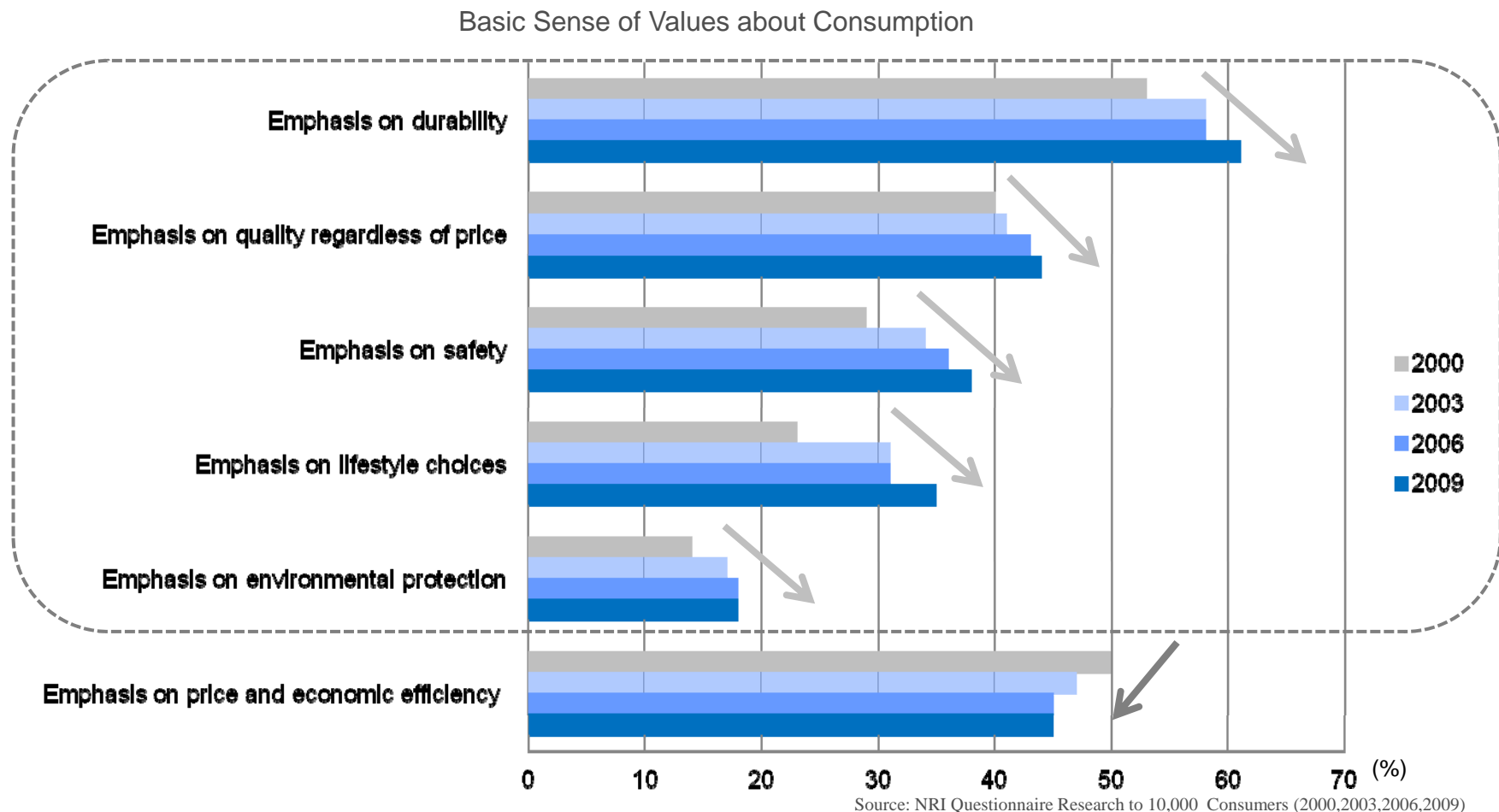
- The consumer confidence index, which indicates the degree of optimism consumers feel about the future including their livelihood, has worsened significantly since 2007.
- The index has been following a recovery path since the spring of 2010, but the rise since summer has been very sluggish, indicating that consumer confidence remains persistently weak.



Source: NRI based on Cabinet Office, Government of Japan

Consumers are concentrating their spending on a few selected areas rather than suppressing spending altogether.

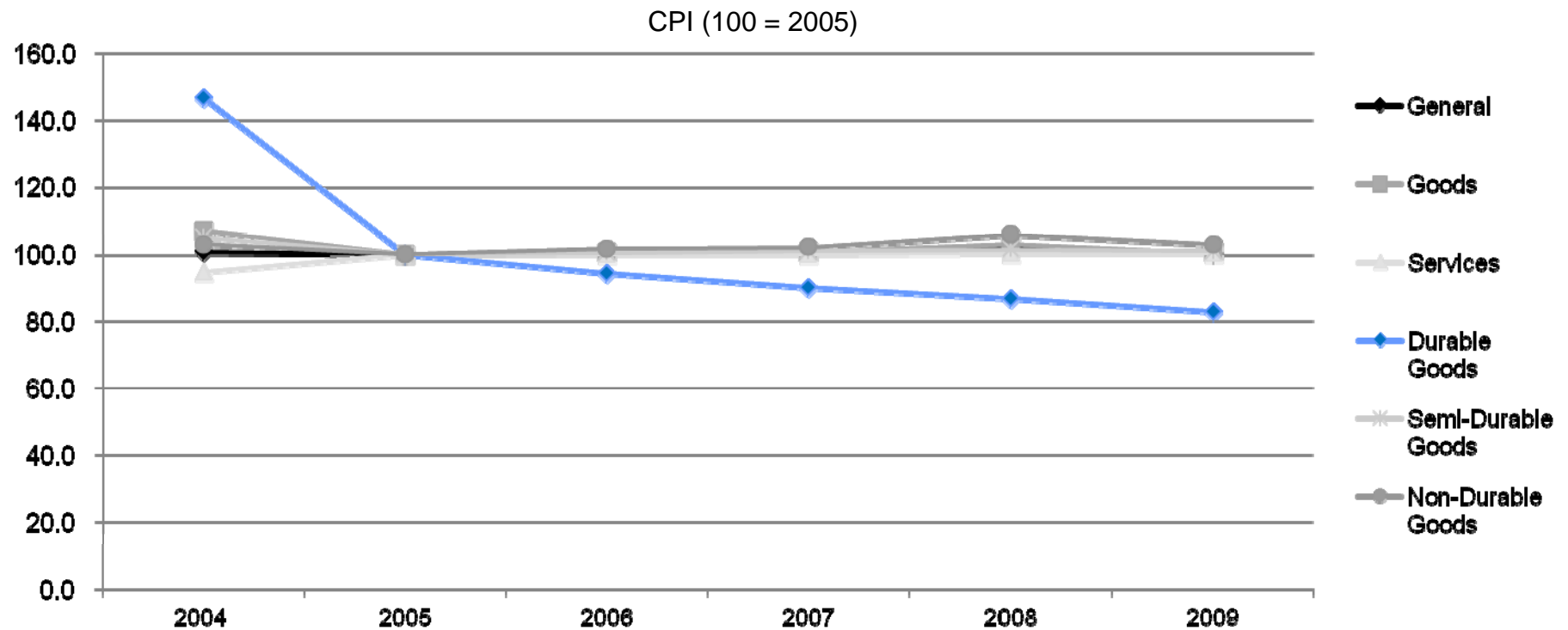
- While the overall trend of personal consumption is unfavorable, there appears to be an emerging tendency for consumers to spend money in those areas that are important to their lifestyles or offer superior functions/performance, rather than opting for cheap goods and services across the board.



Retail Property Market

Japan is considered to be in a structural deflation, caused primarily by the decline of durable goods

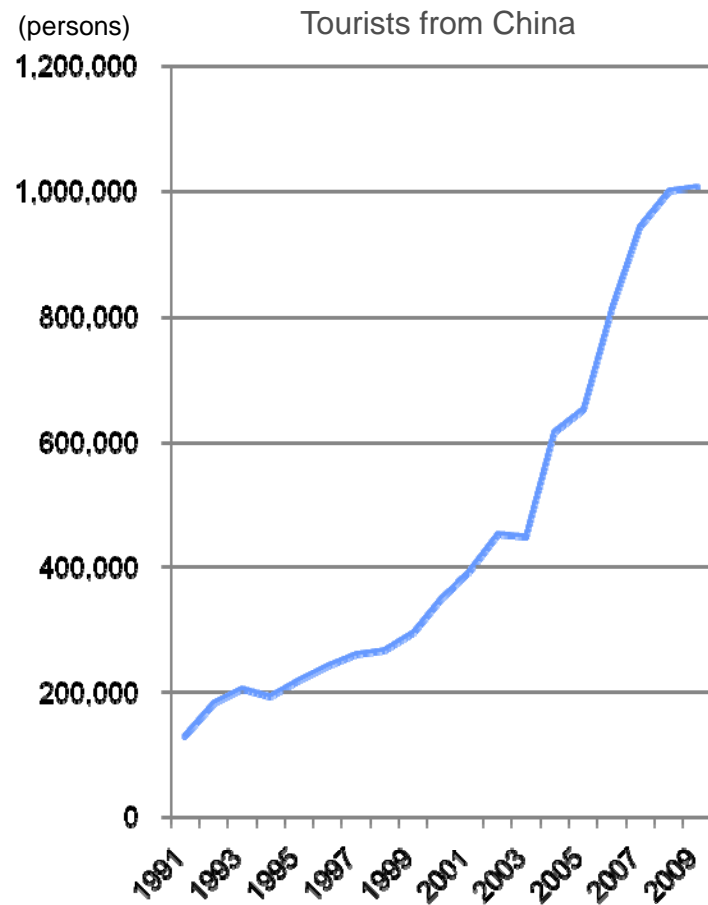
- No deflationary trends can be seen in goods for daily consumption and other non-durables.



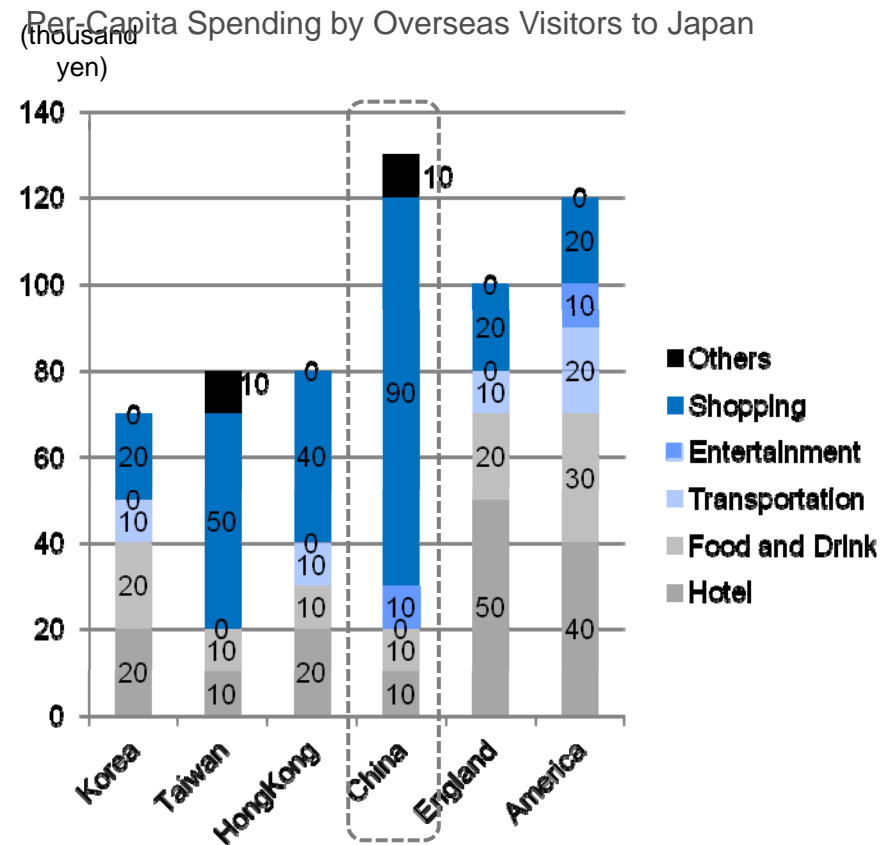
Source: NRI based on Statistics Bureau, Director-General for Policy Planning and Statistical Research and Training Institute and Ministry of Land, Infrastructure, Transport and Tourism

The sharp rise in tourists from China is anticipated to help reactivate Japan's retail market.

- Tourists from China have increased steeply in recent years. They general spend more money in Japan than visitors from other countries, and the amount they spend on shopping is enormous.



Source: NRI based on JNTO



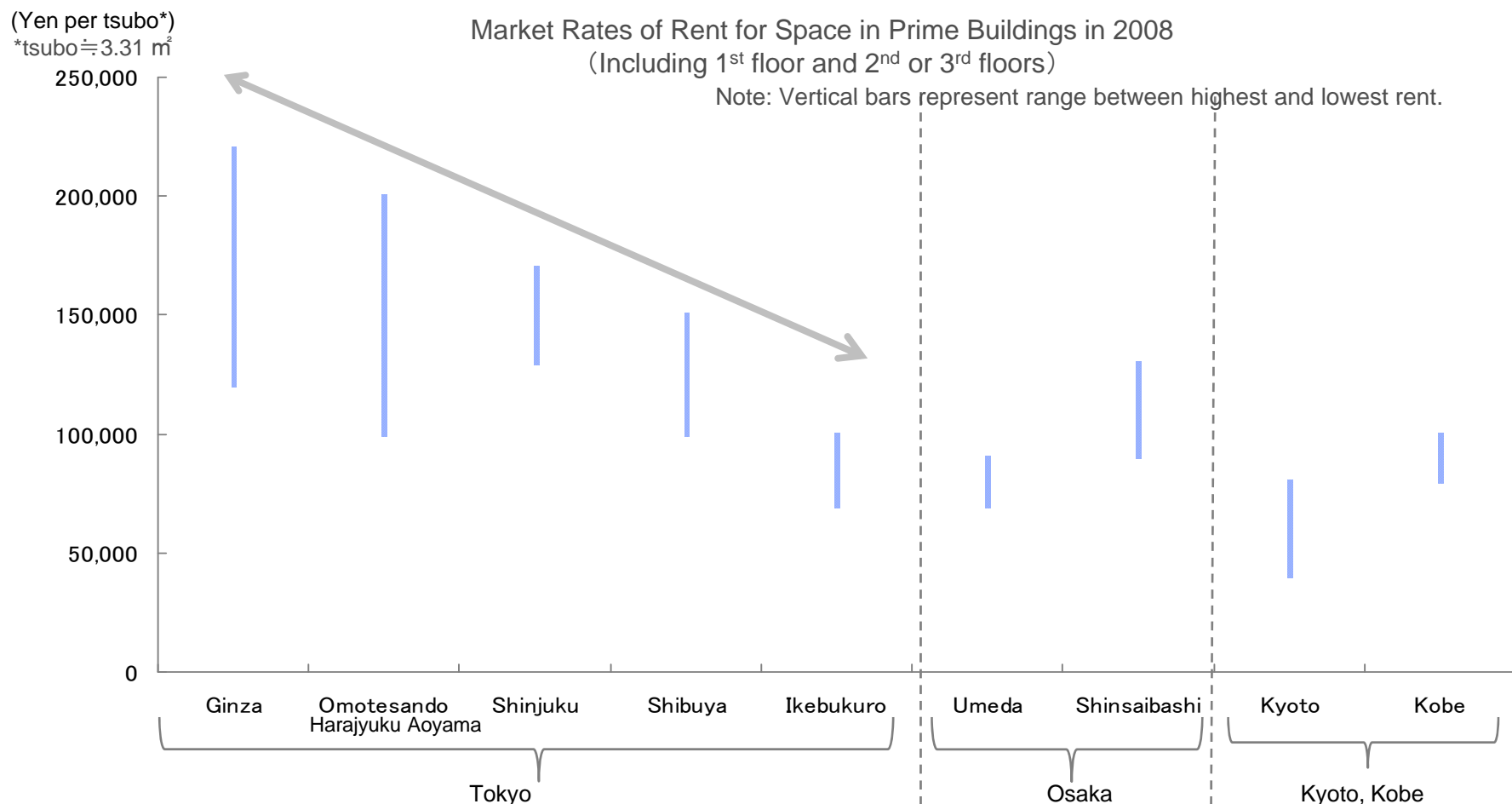
- Spending in component sectors was calculated by multiplying purchase rate by purchase price. The total obtained by adding the sector averages is marginally different from the overall average for overseas visitor spending due to differences in computation methods.

Source: NRI based on Japan Tourism Agency

Retail Property Market

Tokyo has the highest level of rent nationwide, with large differences from district to district inside the metropolis.

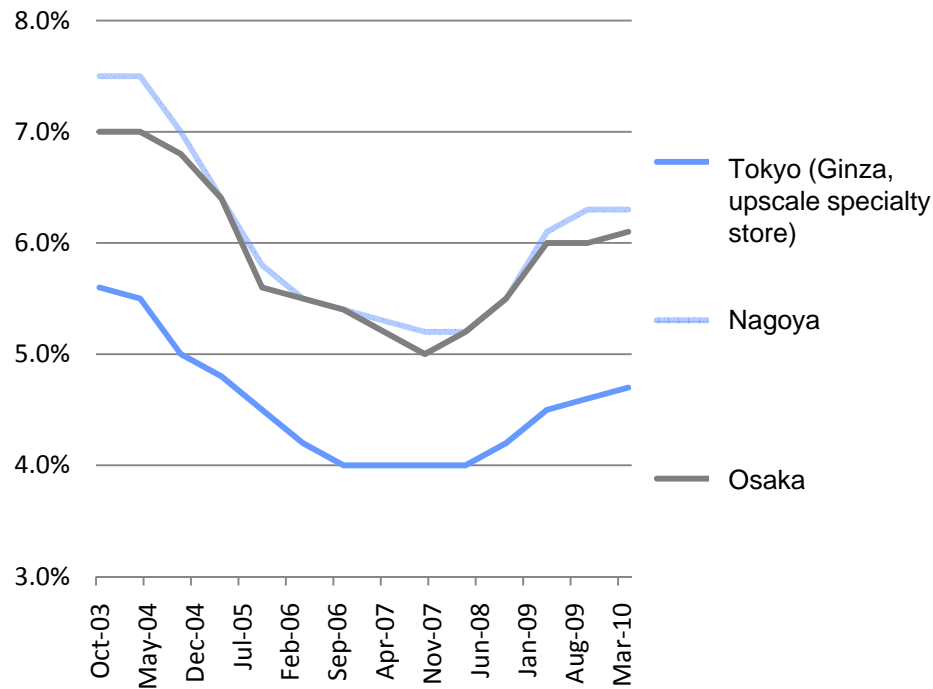
- Within Tokyo, rent is especially high in three districts: Ginza, Omotesando and Shinjuku. Outside of Tokyo, rent is conspicuously high in the Shinsaibashi district of Osaka, which is Japan's second largest commercial hub.



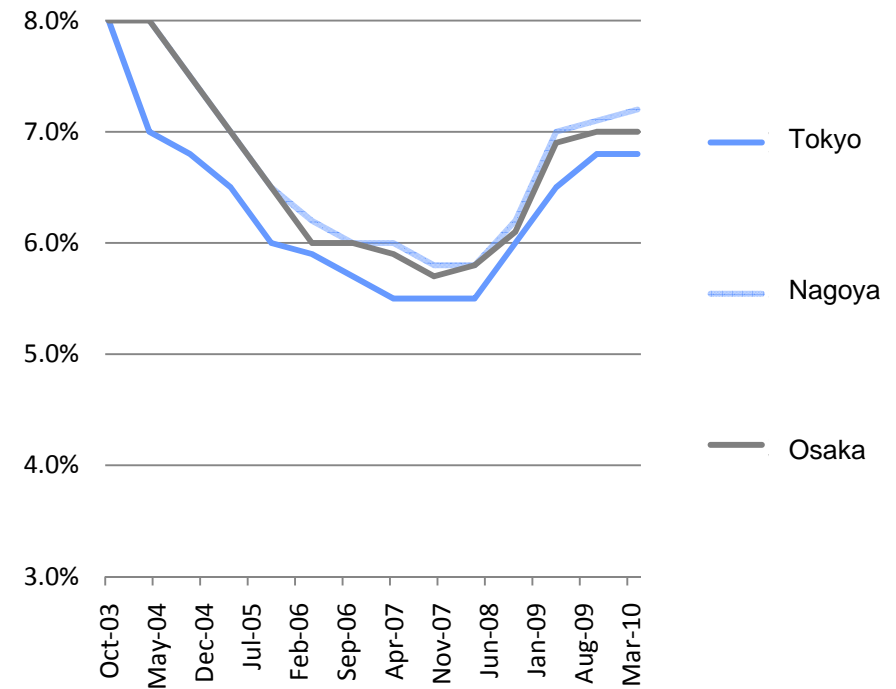
The cap rate continues to rise.

- The cap rate is higher for suburban shopping centers than for inner-city specialized stores. Of Japan's three largest cities, Nagoya has the highest cap rate and Tokyo the lowest.

Cap Rates for Inner-City Specialty Stores



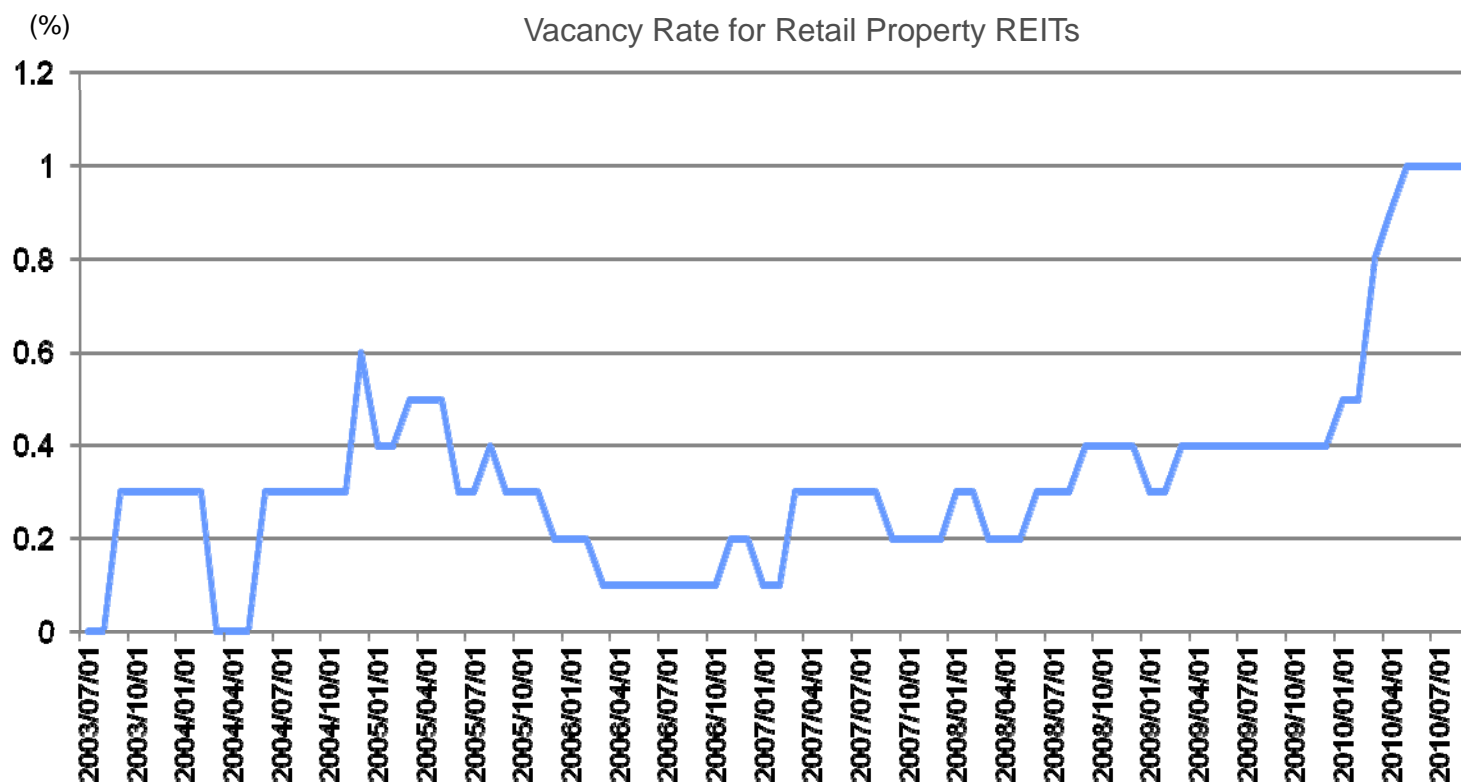
Cap Rates for Suburban Shopping Centers



Source: NRI based on JREI

Vacancy rates have risen since the beginning of 2010 but is still low at 1%.

- The overall vacancy rate for Retail Property REITs is low thanks to long-term contracts with such core tenants as AEON and Ito-Yokado. The rate requires closing watching, however, as market withdrawals by large supermarkets and lease terminations by small tenants have been increasing recently.



Source: NRI based on ARES

Retail Property Market

The transaction market still sees big deals from time to time although at a lower frequency than before, and liquidity remains intact.

Transactions Worth 10 Billion Yen or More

Transactions Worth 10 Billion Yen or More					<div>Property</div> <div>Transaction value</div> <div>Seller</div> <div>Buyer</div>
Transaction Value (Yen)		10 – 50 billion		50 – 100 billion	Over 100 billion
Year					
2007	Tiffany Ginza Building 38 billion Tiffany Goldman Sachs	BIC CAMERA Ikebukuro 29 billion SPC composed by BIC CAMERA BIC CAMERA	YEBISU GARDEN PLACE 50 billion YEBISU GARDEN PLACE Morgan Stanley Group	Ginza Toshiba Building 16.1 billion Toshiba Tokyu Land Corporation	
	Diamond City Leafa 29.9 billion Campania Flore Ltd. Japan Retail Fund Investment Corp.	Diamond City Terrace 20.3 billion eyecity Japan Retail Fund Investment Corp.		Hawks Town 100 billion Colony Capital (US) GIC Real Estate	
2008	Kids park 21.6 billion Osaka City Kansai Telecasting Corp.	Shibuya DUPLEX to 16 billion Sky Line Ltd. Union Investment	Mitsukoshi Ikebukuro 75 billion Mitsukoshi Simplex REIT Partners		
	Ario 19 billion Ito-Yokado Japan Retail Fund Investment Corp. .				
2009	Ito-Yokado Higashiyamato City 11.6 billion Mikanohara Beta Three Ltd. Frontier Real Estate Investment Corp.				
2010 (Jan-Sep)	LaForet Harajuku 21.8 billion Mori Building Mori Hills REIT Investment Corp.	LaLaport IWATA 15.2 billion Mitsui Fudosan Frontier Real Estate Investment Corp.			

Property
Transaction value
Seller
Buyer

1 Macro fundamentals of Japan

2 Overview of Japanese real estate market

3 Office market

4 Residential market

5 Retail property market

6 Logistics property market

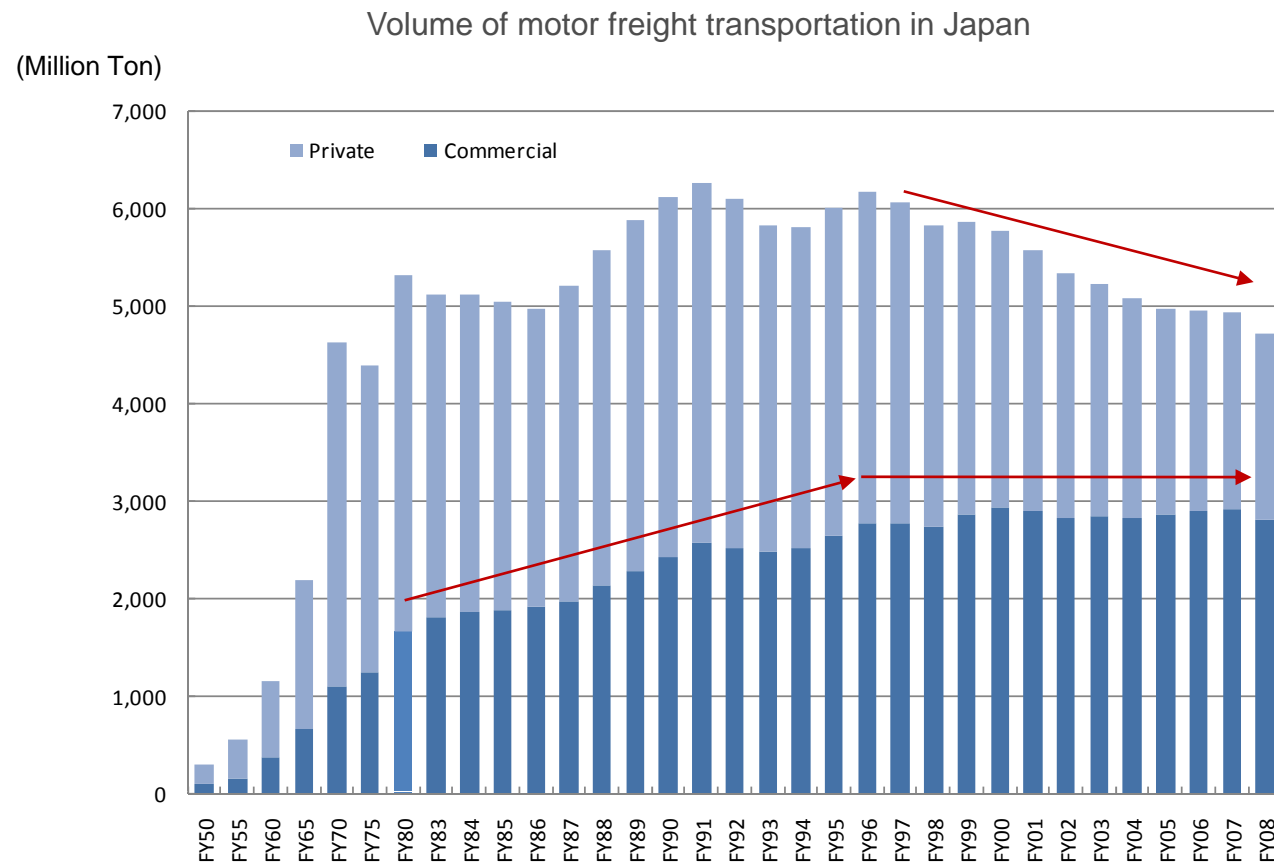
7 Hotel market

8 J-REIT market

6 Logistics property market

The volume of motor freight has peaked out, and the domestic transportation market is shrinking.

- The volume of motor freight transportation is on a declining trend, especially private motor freight in recent years.
- Commercial motor freight had increased steadily until it reached a peak in around 2000.



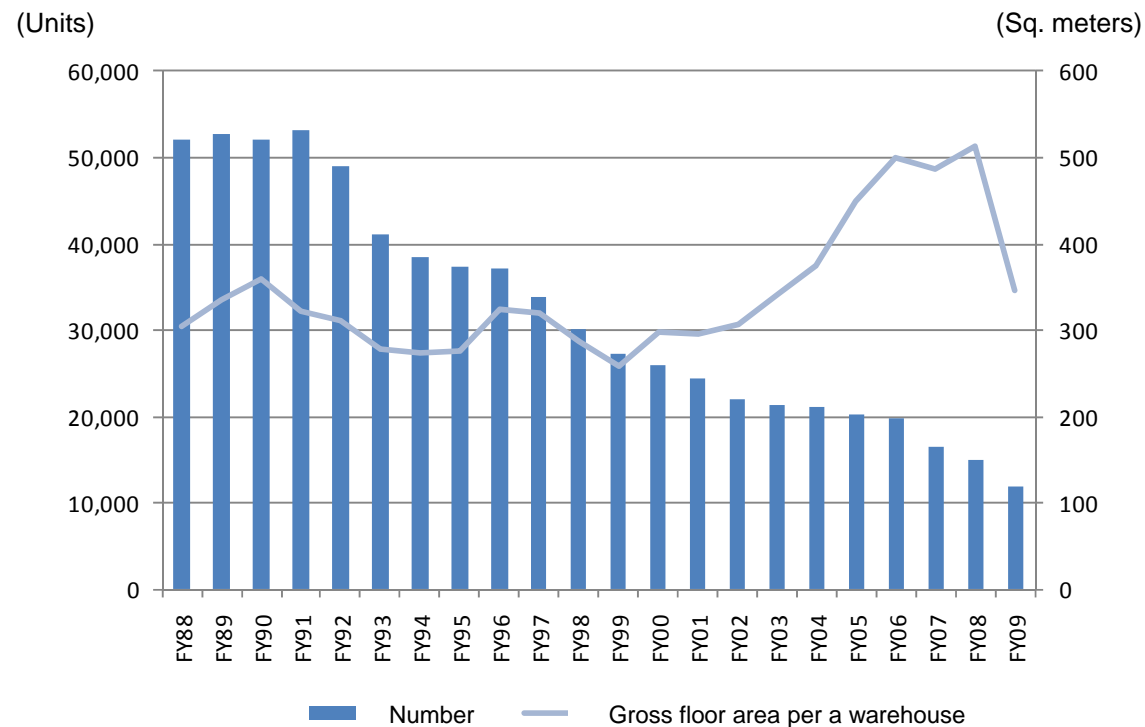
Source: NRI based Ministry of Land, Infrastructure, Transport and Tourism

6 Logistics property market

New supply is smaller, while the size of individual properties is larger due a rising tendency for companies to consolidate their logistics functions.

- While the number of newly developed warehouses has decreased in recent years, gross floor area per warehouse has expanded.
- The increasing size of warehouses is due to manufacturers' requirement for larger, more high-performance warehouses in conjunction with their adoption of supply chain management and consolidation measures to reduce costs.
- As very few new warehouses have been supplied since the Lehman shock, there is currently a sense of shortage in new and large warehouses.

Number of warehouses and gross floor area per warehouse



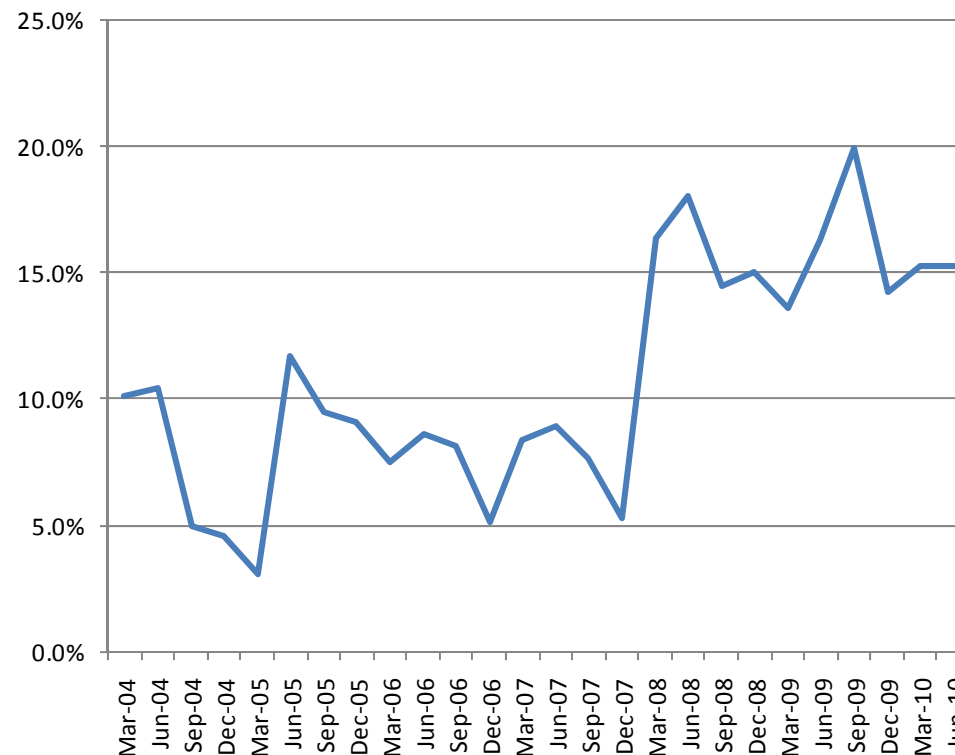
Source: NRI based Ministry of Land, Infrastructure, Transport and Tourism

6 Logistics property market

The overall vacancy rate remains stalled at a high level, but newly-developed large-scale warehouses are enjoying higher occupancy rates.

- Vacancy rates have been stalled at a high level since the first half of 2008, when a large number of new facilities became available in the Tokyo Bay area.
- On the other hand, newly-developed warehouses have achieved comparatively high occupancy due to manufacturers' demand for high-spec, large-scale facilities in conjunction with their adoption of consolidation and supply chain management measures.

Average vacancy rate of warehouses in Greater Tokyo



Notes:

Area: Greater Tokyo including Tokyo, Kanagawa, Saitama and Chiba.

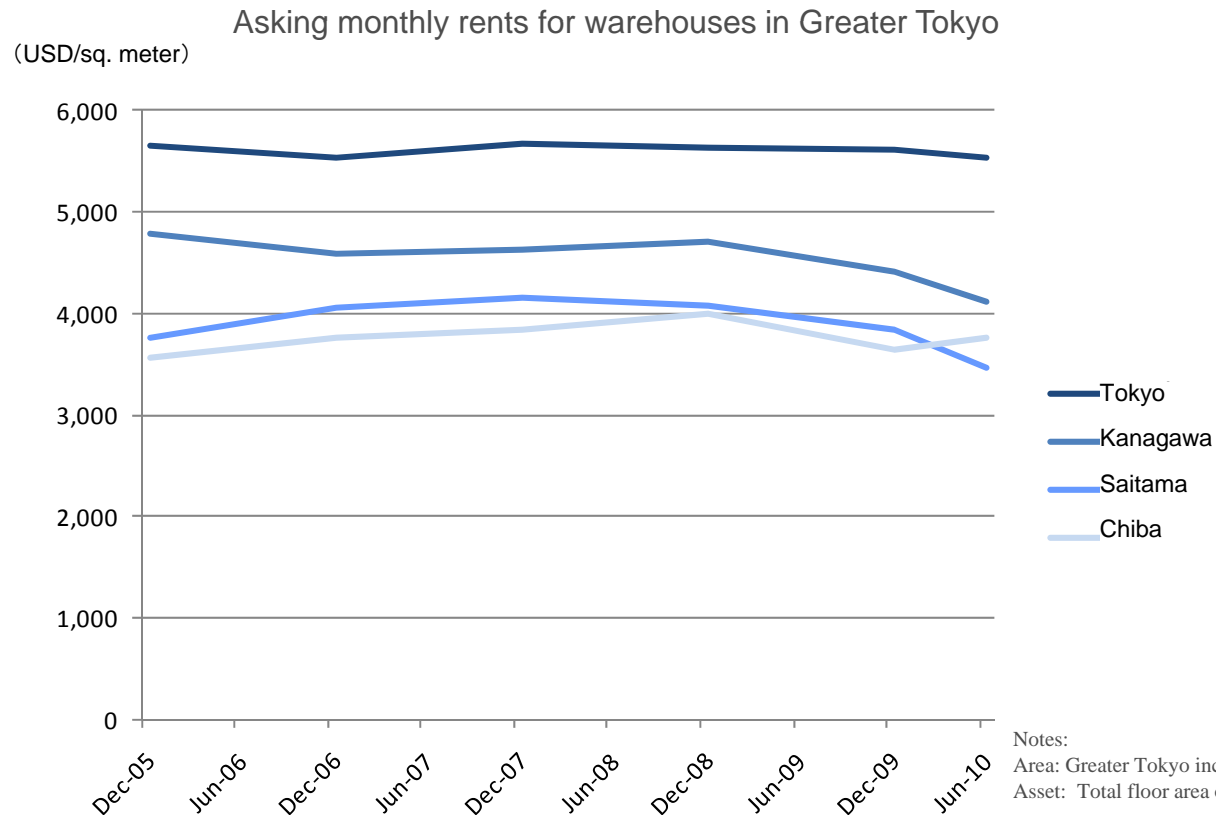
Asset: Large multi-tenant properties whose total floor area is over 33,000 sq. meters

Source: NRI based on CBRE

6 Logistics property market

Asking rent for warehouses other than large properties has been decreasing since 2008, when vacancy soared.

- Rents in Chiba reversed trends upwards recently. Asking rent in the overall market remains low, however, and a full-scale recovery in rent levels has yet to be realized.
- Rents for new and large warehouses have held steady thanks to strong demand.



Notes:

Area: Greater Tokyo including Tokyo, Kanagawa, Saitama and Chiba.

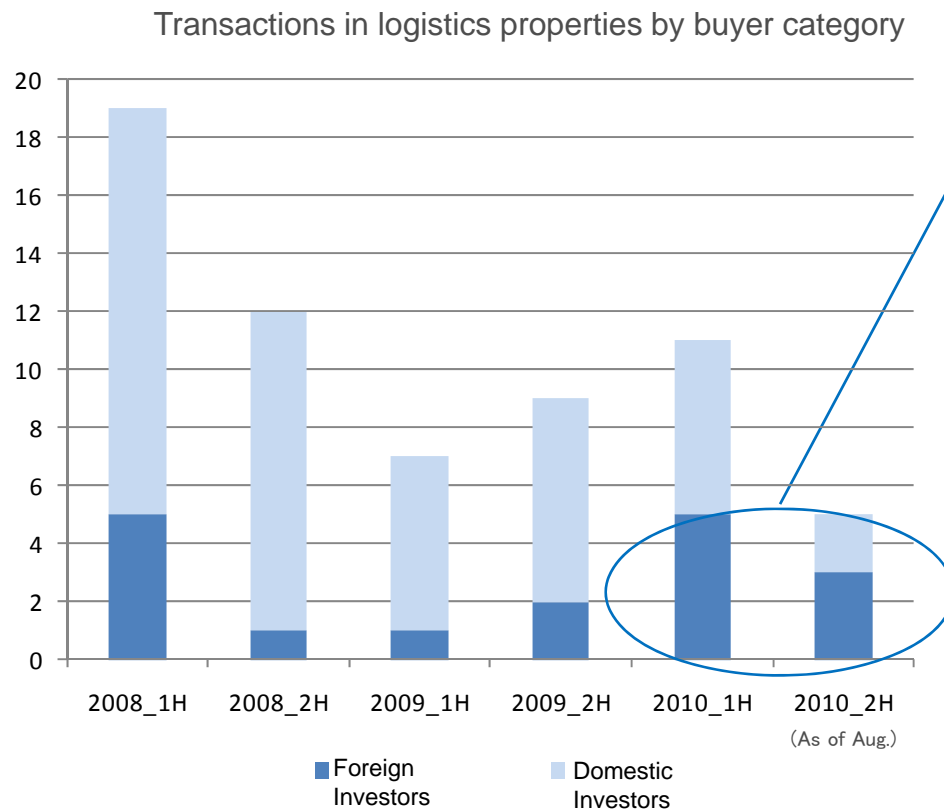
Asset: Total floor area of over 3,300 sq. meters

Source: NRI based on CBRE

6 Logistics property market

Transactions are recovering, especially acquisitions and development by foreign investors.

- Logistics property transactions fell after the Lehman shock but rebounded in the first half of 2009. Acquisitions by foreign investors have shown particularly steep increases since the start of 2010.
- Among investors from abroad, Asian investors such as Mapletree Investment have increased their presence, joining the ranks of the long-active European and US investors such as LaSalle.
- Prologis is concentrating on development rather than acquisitions in Japan. The investor has doubled the number of development projects in 2010 compared to 2009, and 50% of its global development budget is allocated to Japan.



Acquisitions by foreign investors in 2010

Mapletree Investment

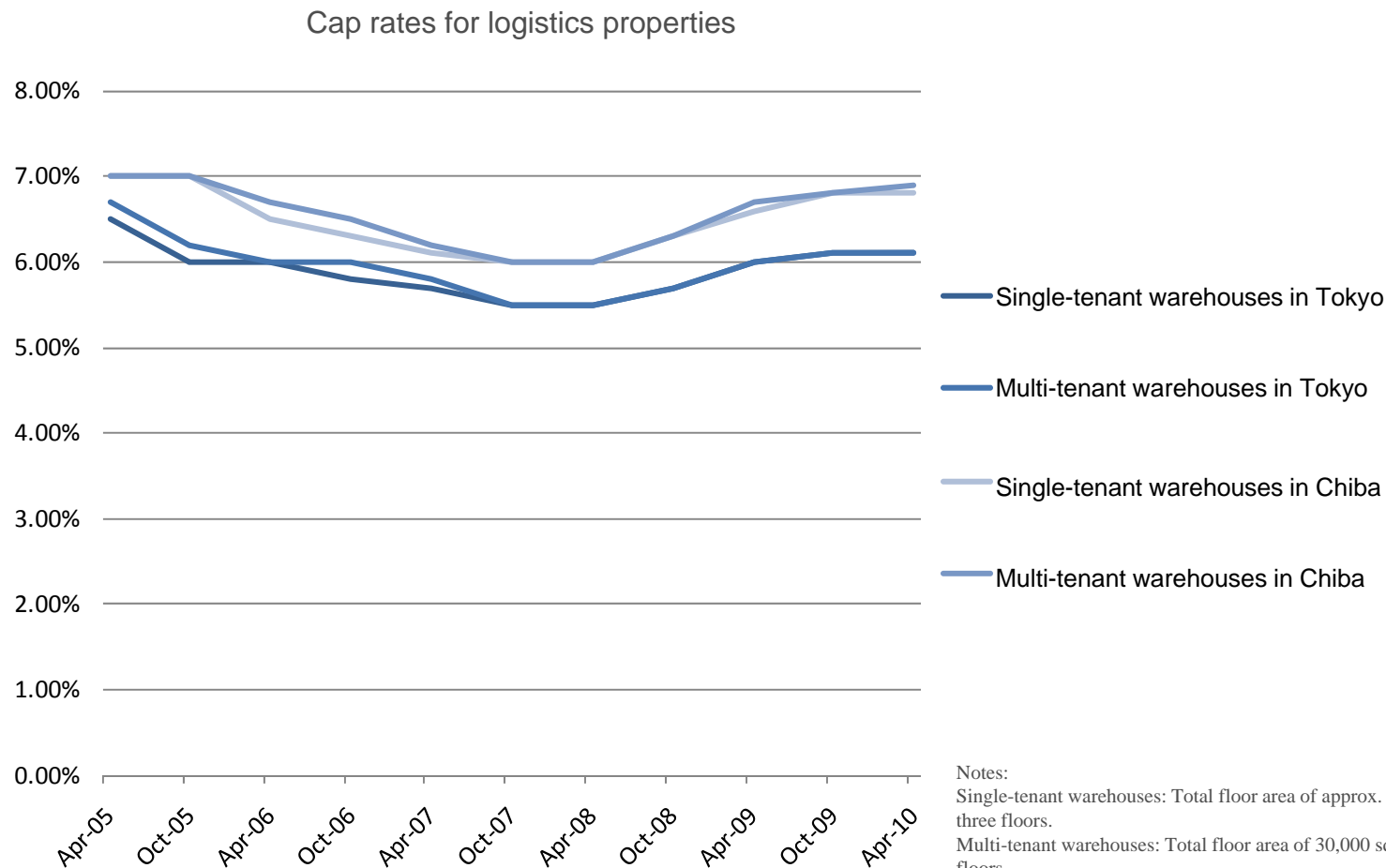
Kashiwa II logistics center	44.6 Million USD
Sendai logistics center	14.9 Million USD
Iwatsuki logistics center	48.0 Million USD
Iruma logistics center	34.0 Million USD
Noda logistics center	48.0 Million USD

LaSalle Investment Management

Three warehouses in Tokyo Bay area	N.A.
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6 Logistics property market

Cap rates, which had been rising steadily since mid-2008, has leveled off since the start of 2010.



1 Macro fundamentals of Japan

2 Overview of Japanese real estate market

3 Office market

4 Residential market

5 Retail property market

6 Logistics property market

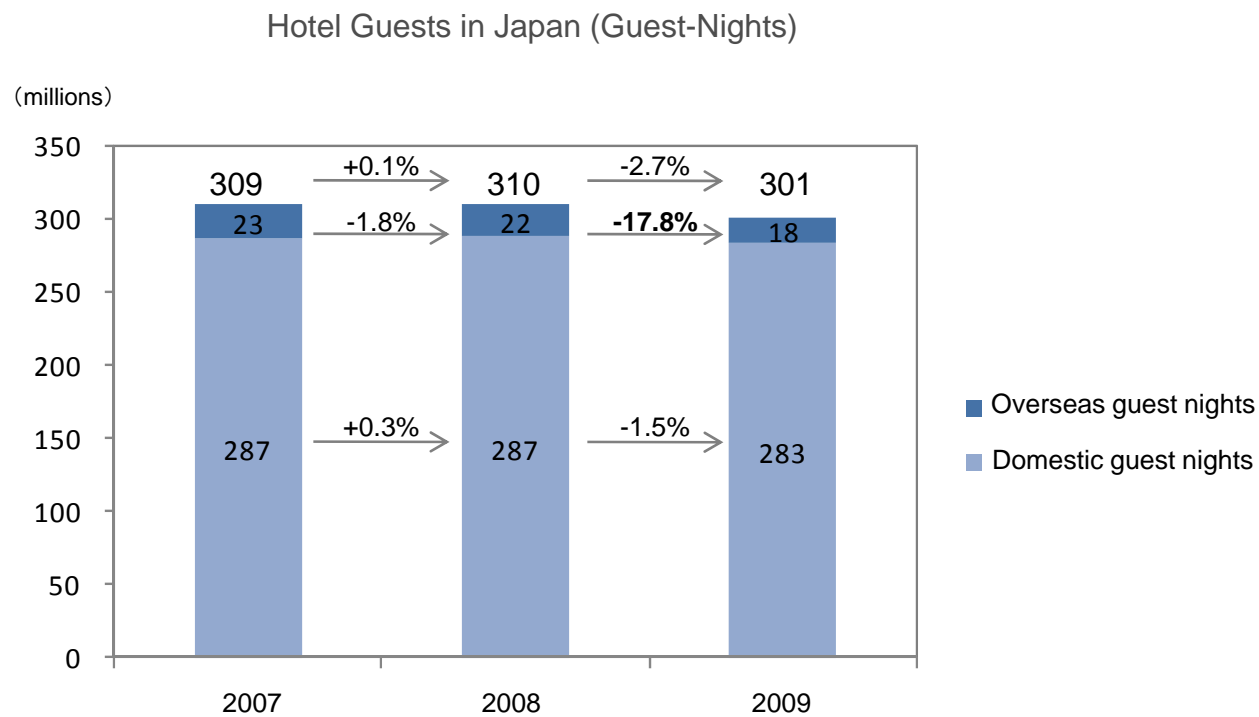
7 Hotel market

8 J-REIT market

7 Hotel market

Hotel demand shrinks only slightly despite financial crisis and new influenza virus.

- In 2009, guest nights in Japanese hotels decreased only 2.7 percent from 2008 despite a sharp decline in business activity (fewer business trips) following the 2008 financial crisis and the new influenza virus. Demand from overseas visitors decreased a steep 17.8 percent, while demand from domestic travelers decreased a small 1.5 percent.



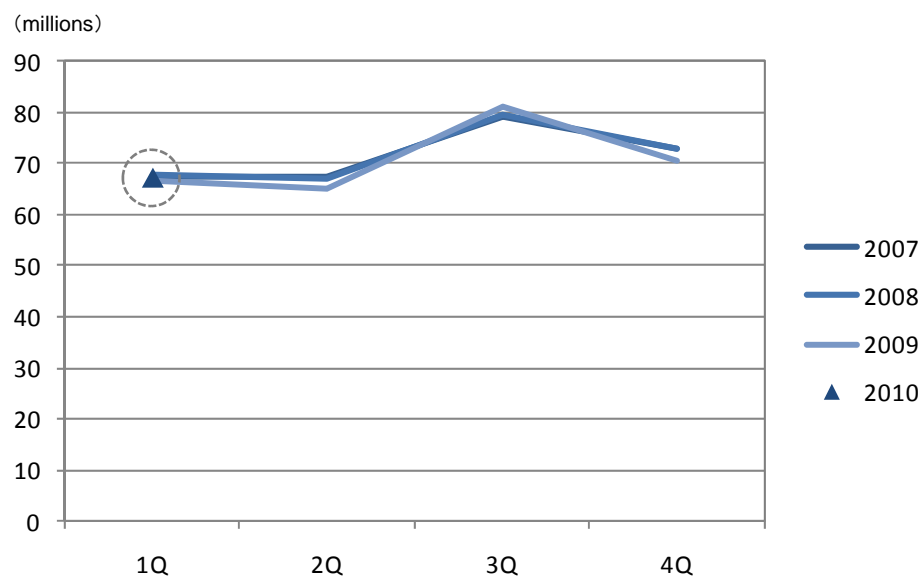
Source: NRI based on Japan Tourism Agency

7 Hotel market

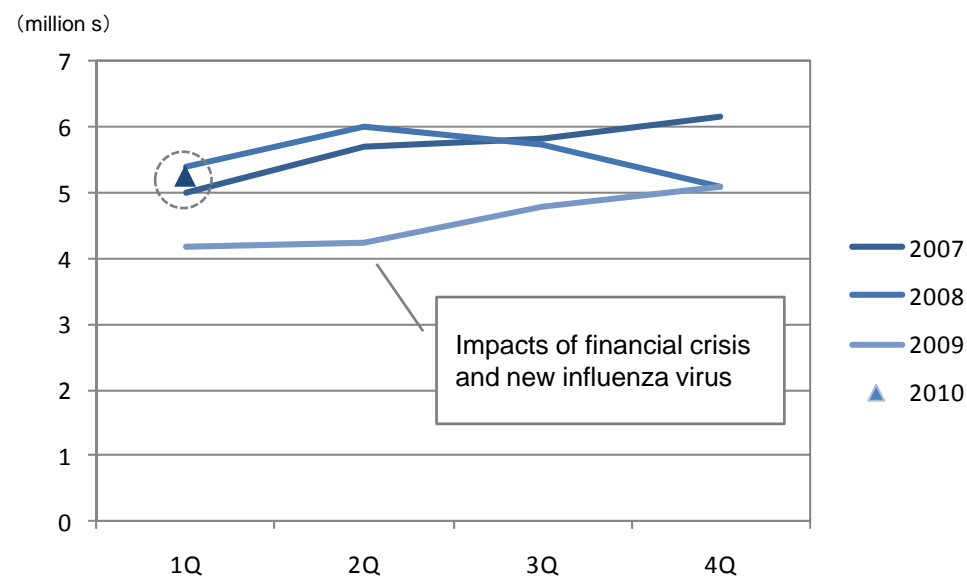
Hotel demand is currently set to recover to the 2007 level.

- Hotel demand from domestic guests has remained stable even after the financial crisis. Overseas guests, which decreased from the third quarter of 2008 to the fourth quarter of 2009, recovered to the pre-crisis level in the first quarter of 2010.

Domestic Guest Nights in Japanese Hotels



Overseas Guest Nights in Japanese Hotels

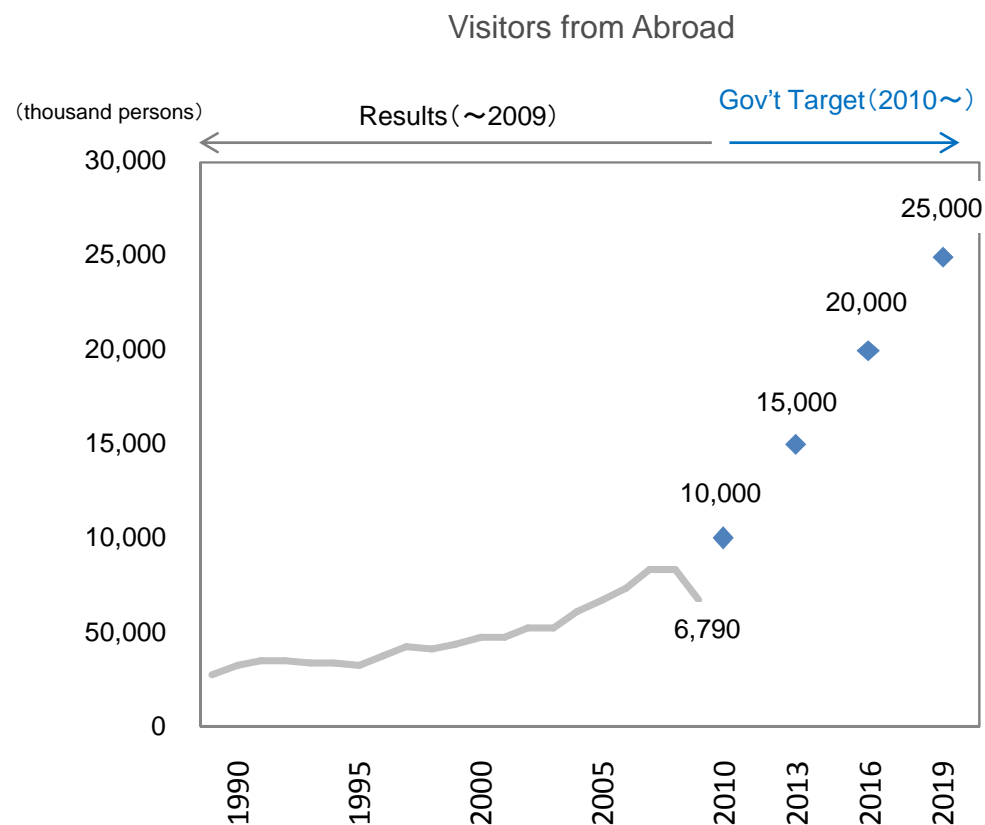


Source: NRI based on Japan Tourism Agency

7 Hotel market

The Japanese government is promoting travel to Japan, and visitors from abroad are anticipated to increase hereafter.

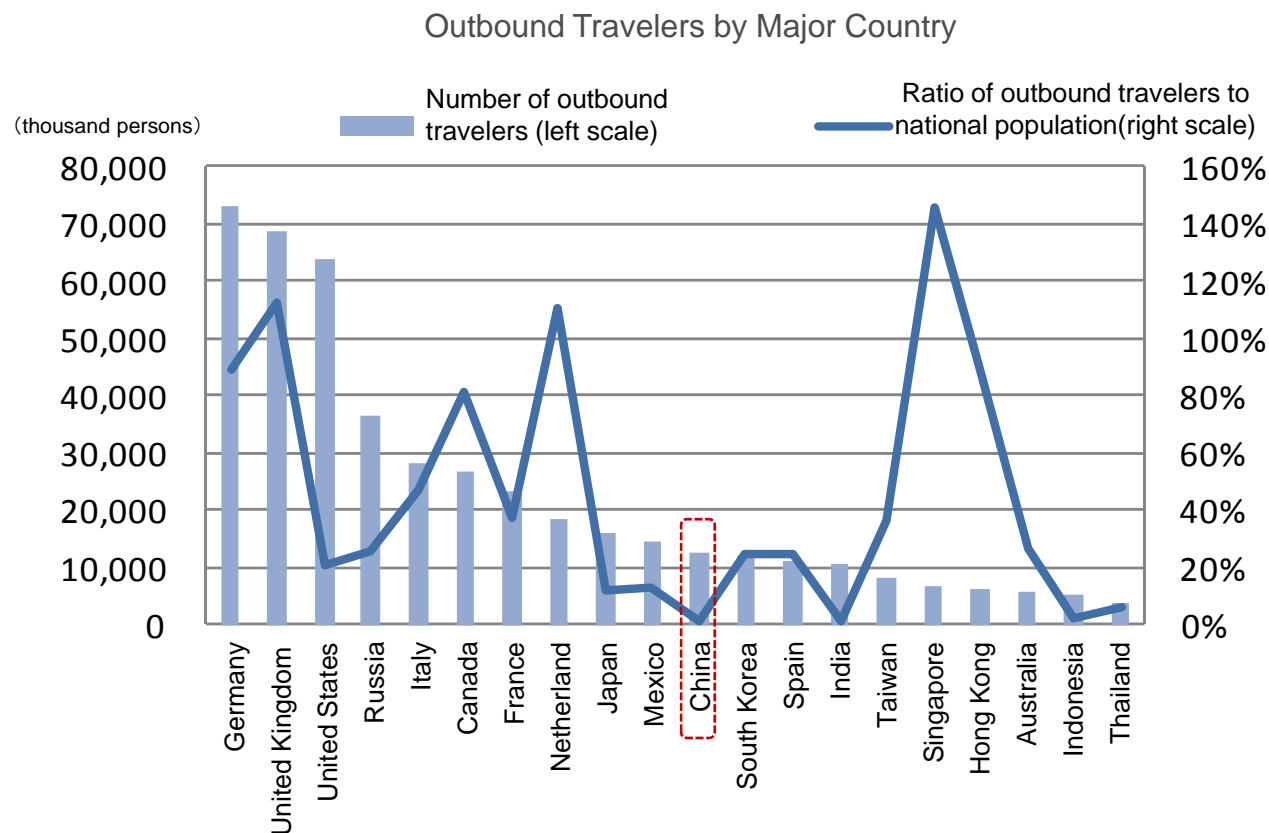
- The Japanese government sees the tourism industry as a strategic driver of economic growth and has initiated a program to promote Japan as a travel destination. The government target is 25 million visitors from abroad by 2020, up three times from 2010.



Source: NRI based on Japan Tourism Agency

There is enormous potential to increase visitors from China.

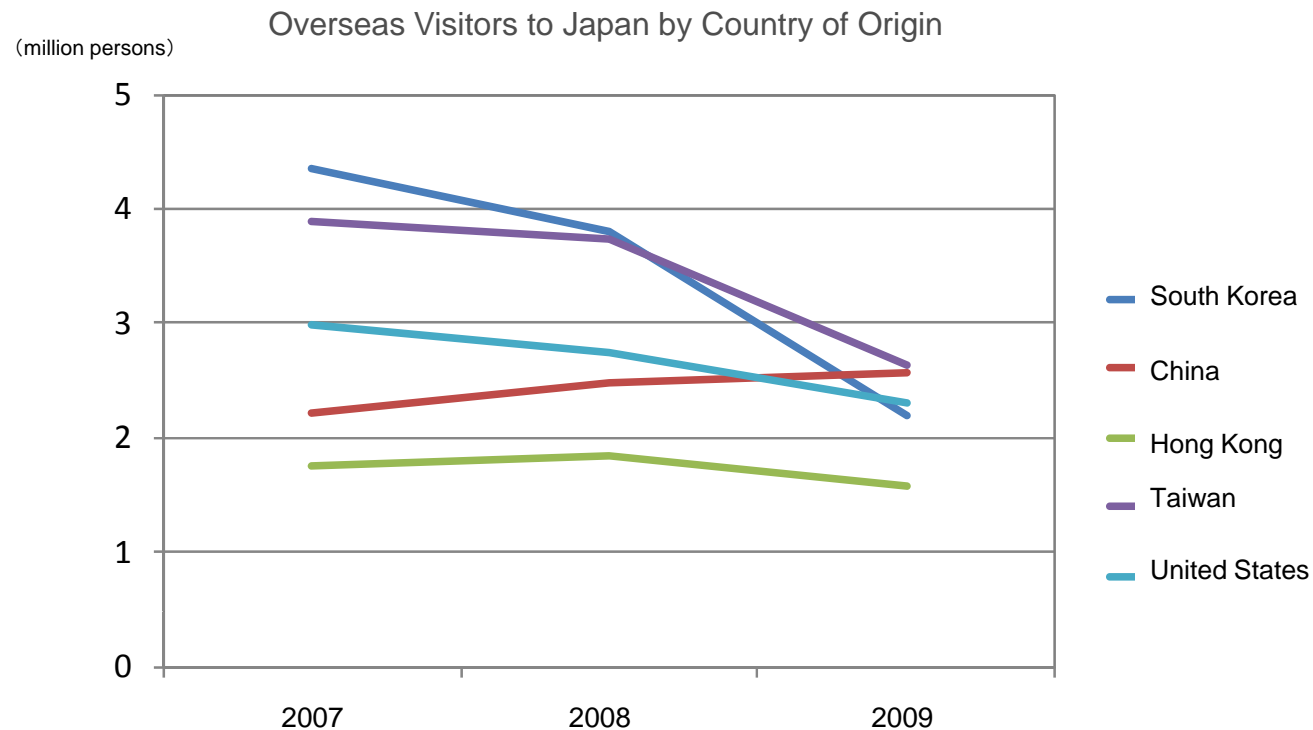
- More than 12.7 million Chinese travelers visited Japan in 2009, surpassing the number of visitors from South Korea (12.0 million) and Taiwan (8.5 million). There is still considerable room for growth, as the ratio of outbound travelers to total population in China is only about 1 percent, which is much lower than that of other countries.



Source: NRI based on JNTO

Visitors from China has risen consistently both before and after the financial crisis.

- Travelers from South Korea and the United States decreased significantly over the past three years, while visitors from China continued to increase in the same period.



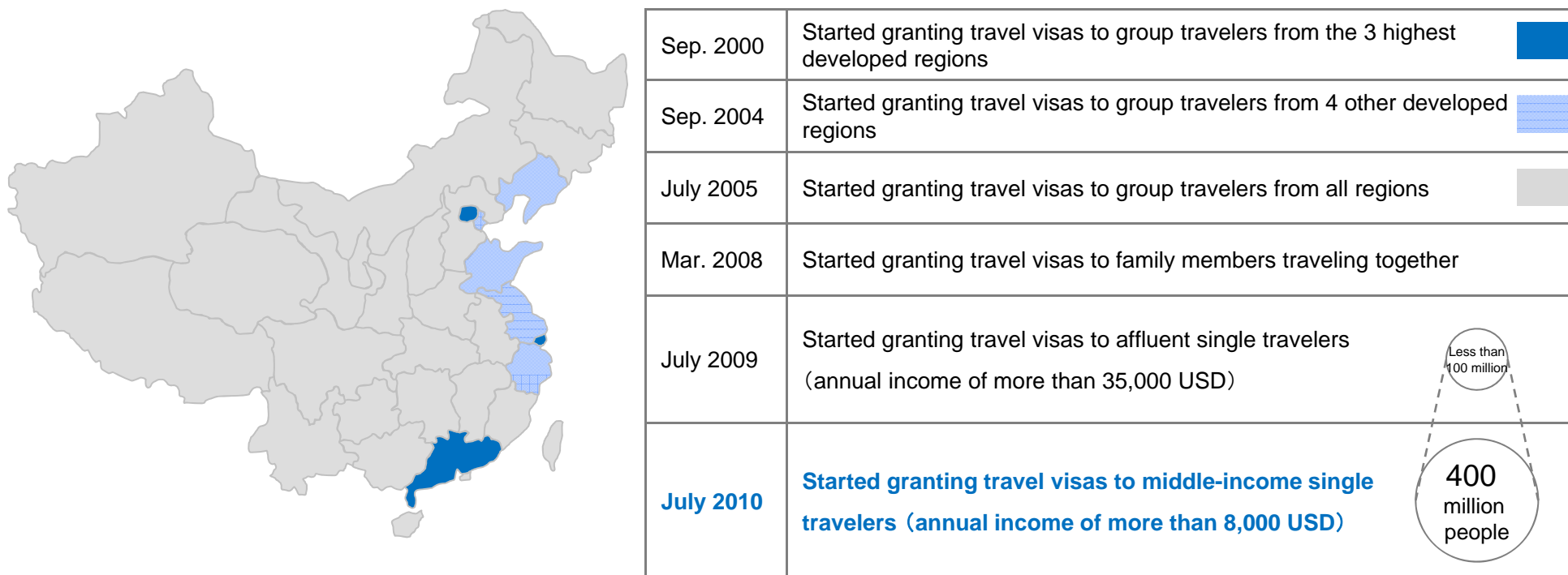
Source: NRI based on Japan Tourism Agency

7 Hotel market

A key factor boosting travel from China is the Japanese government's easing of visa restrictions.

- In July 2010 the Japanese government eased restrictions on travel from China, deciding to grant visas to middle-income single travelers in addition to group and family travelers and affluent single travelers. Soon after, visitors from China increased sharply. Chinese travelers arriving in Narita airport, the biggest international airport in and around Tokyo, increased 80 percent year-on-year in July-August 2010.

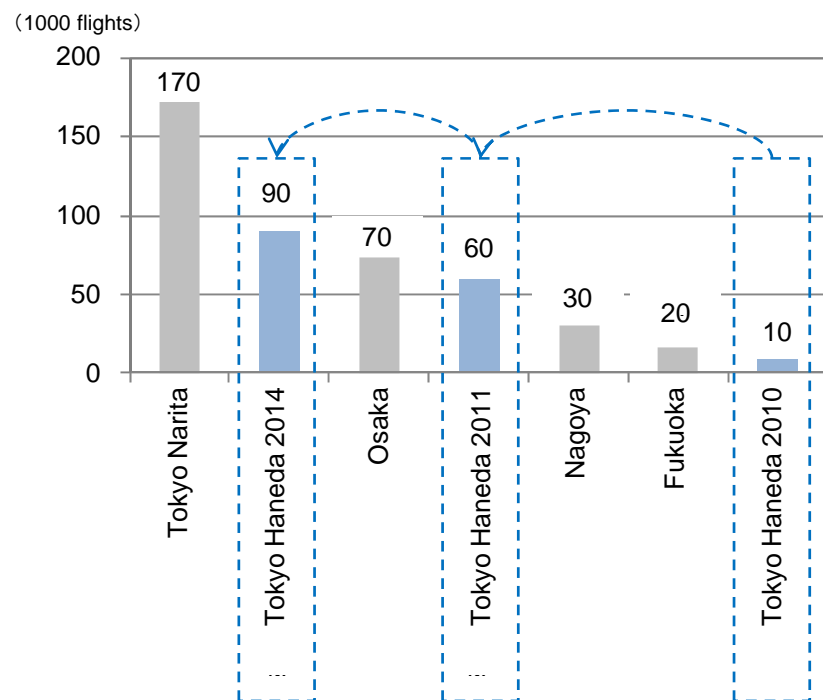
Japanese Governments Policy on Travelers from China



In addition, the Haneda Airport expanded its international access significantly.

- Haneda Airport, the closest airport to the Tokyo metropolitan area, was originally primarily a domestic airport with limited international service. There are currently plans to expand Haneda's international access by nine times compared to 2009. The airport opened a new international terminal and a runway in October 2010. Haneda will eventually rank second in Japan in terms of the number of international flights processed. In addition, access from Haneda to the Tokyo metropolitan area has improved greatly.

Number of Inbound and Outbound International Flights



Haneda's International Network



Source: NRI based on various sources

Tokyo is anticipated to benefit the most from increased international tourists.

- Tokyo is one of Japan's most popular travel destinations for international travelers. There are many places to visit such as ancient temples, huge shopping centers and diverse fancy restaurants. Kanagawa and Chiba are located next to Tokyo. Kanagawa is the location of Japan's second largest city: Yokohama. Chiba has the biggest international airport: Narita. Kyoto is the ancient capital of Japan and boasts numerous cultural properties and historical sites. Osaka is the biggest city in western Japan.

Travel Destinations of Visitors from Abroad by Country of Origin (2009)

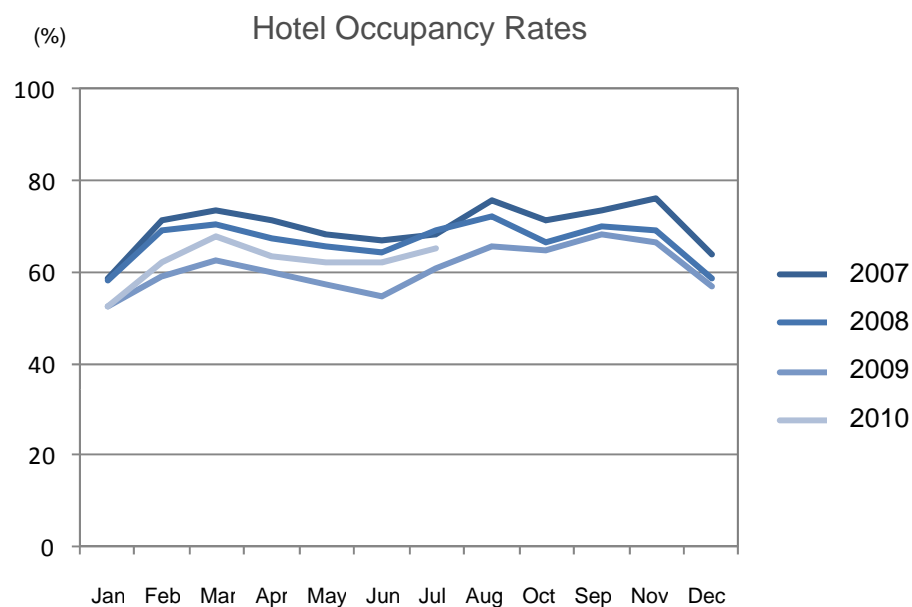
Region to go Country From	1 st	2 nd	3 rd	4 th	5 th
South Korea (N=3,716)	Tokyo (45.0%)	Osaka (21.6%)	Fukuoka (20.3%)	Kyoto (11.1%)	Kanagawa (9.7%)
Taiwan (N=2,286)	Tokyo (44.3%)	Osaka (23.7%)	Kyoto (15.8%)	Chiba (15.8%)	Kanagawa (15.0%)
China (N=2,068)	Tokyo (70.8%)	Osaka (41.6%)	Kanagawa (30.1%)	Kyoto (29.4%)	Chiba (23.1%)
Hong Kong (N=1,100)	Tokyo (53.7%)	Osaka (19.6%)	Hokkaido (17.3%)	Chiba (13.9%)	Kyoto (10.2%)
United States (N=1,516)	Tokyo (66.5%)	Kyoto (20.4%)	Kanagawa (20.3%)	Osaka (17.2%)	Chiba (11.2%)
Foreign Travelers Total (N=15,355)	Tokyo (58.8%)	Osaka (24.4%)	Kyoto (20.6%)	Kanagawa (16.7%)	Chiba (12.7%)

Source: NRI based on JNTO

7 Hotel market

Occupancy rates have recovered to the pre-crisis level.

- Hotel occupancy rates in 2010 have been running at a higher level than in 2009, although not as high as in 2007 and 2008. A look at hotel occupancy rates by region shows that Tokyo has the highest rate. The rate of improvement in occupancy rates is also the highest in Tokyo.



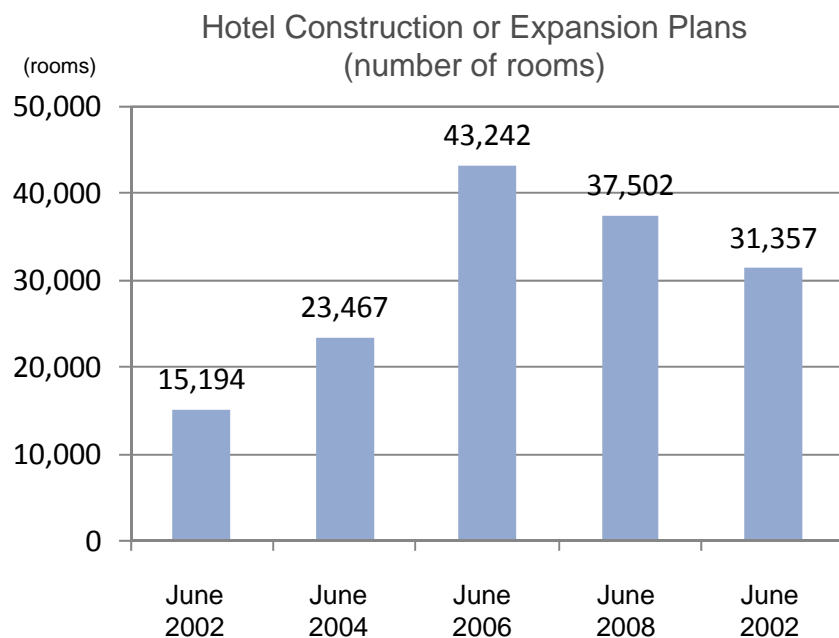
Area	July 2010	July 2009	Rise and Fall
Tokyo	80.7%	76.2%	4.5%pt
Osaka	56.1%	59.7%	-3.6%pt
Japan	65.0%	60.8%	4.2%pt

Source: NRI based on Zen Nihon City Hotel Renemei

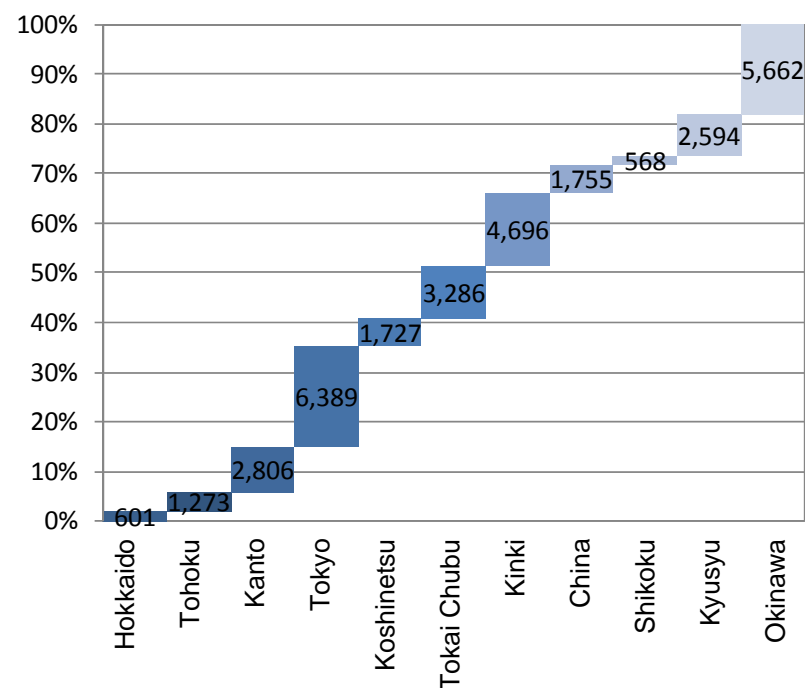
7 Hotel market

Hotel development has slackened since the financial crisis.

- Hotel construction or expansion plans decreased sharply from over 40,000 rooms in June 2006 to 30,000 rooms in June 2010.
- Hotel development activity is concentrated mostly in Tokyo, Kinki (including Osaka and Kobe), and Okinawa.



Hotel Construction and Expansion Plans by Region
(number of rooms planned in June 2010; total 31,357 rooms)

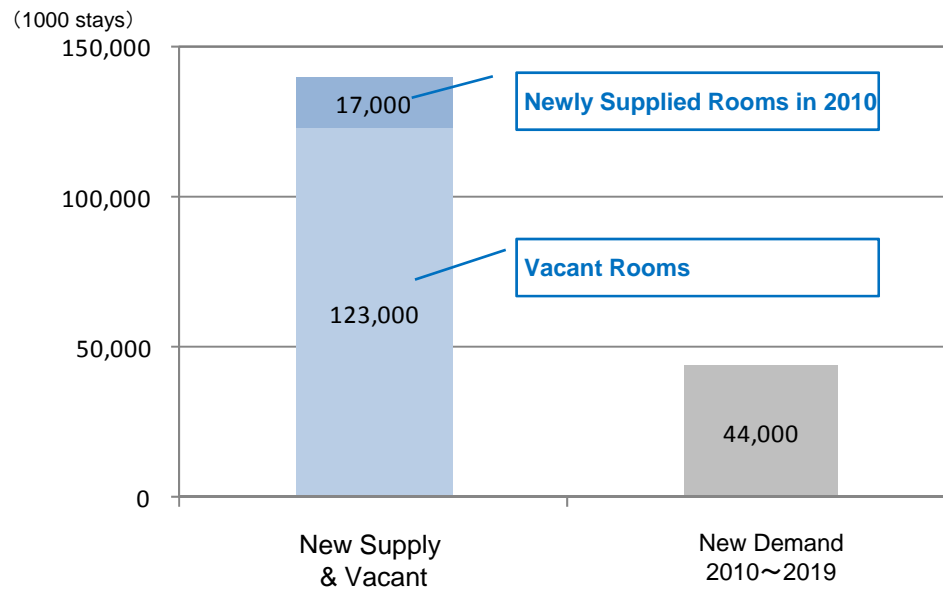


Source: NRI based on HOTERES

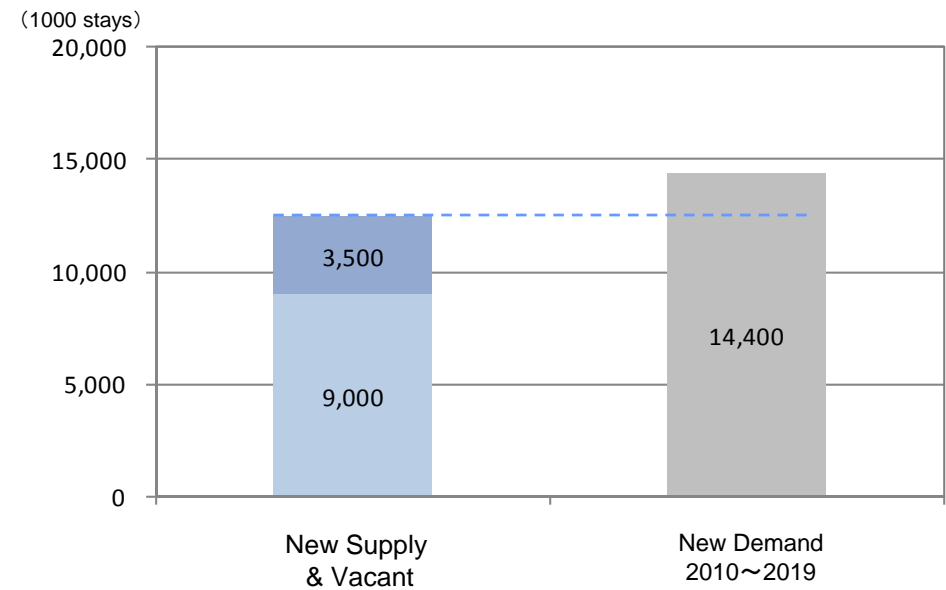
7 Hotel market

If the government goal is realized, Tokyo will require a considerable volume of new supply.

Comparison of Available Supply and New Demand
(All Japan)



Comparison of Available Supply and New Demand
(Tokyo)



Source: NRI based on Japan Tourism Agency, HOTERES

7 Hotel market

After the Financial Crisis, there have been no major hotel deals.

- The hotel sector is one of the asset classes that have increased liquidity over the last ten years. There were several big deals including Morgan Stanley's 2.8 billion acquisition of 13 ANA Hotels. However, not many people have been investing in hotels recently.

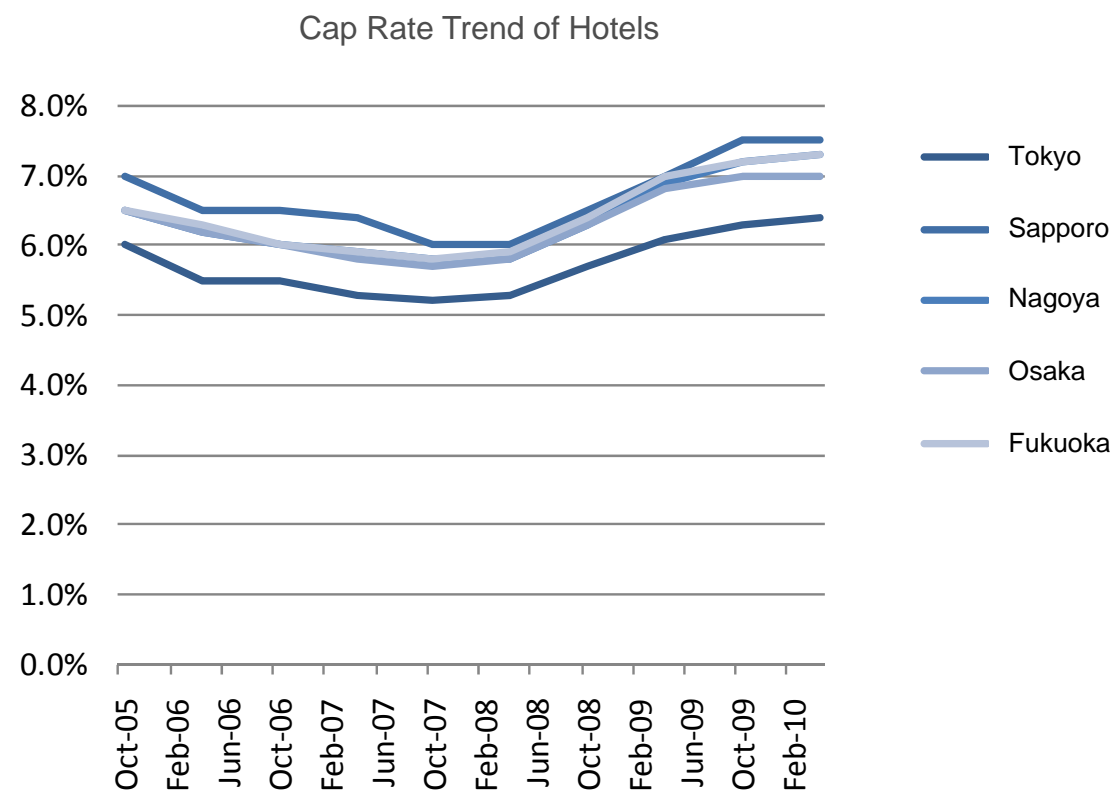
Major Hotel Transactions in Japan in Recent Years

Date	Hotel Properties	Asset Price	Sell Side	Buy Side
Apr. 2002	Hotel Okura Kobe	165 million USD	Hotel Okura	AIG
Feb. 2004	Shin-Kobe Oriental Hotel	125 million USD	Daiei	Morgan Stanley
Nov. 2004	Westin Hotel Tokyo	500 million USD	Sapporo Holdings	Morgan Stanley
Jan, 2006	Hotel Nikko Aribira	197 million USD	Frank Forton Investment	Japan Hotel and Resort Inc
Feb. 2006	Makuhari Prince Hotel	132 million USD	Seibu Railway	APA group
Apr; 2006	Royal Hotel	150 million USD	Royal Hotel	Mori Trust
Sep. 2006	Hotel Okura Kobe	190 million USD	Rumda Properties Japan Inc	Mori Trust REIT
Feb. 2007	Roppongi Prince Hotel	407 million USD	Seibu Railway	Sumitomo Fudosan
Mar. 2007	Hotel President Aoyama	164 million USD	Chuo Bussan	Da Vinci Advisers
Apr. 2007	ANA Hotels (13 hotels)	2,800 million USD	All Nippon Airway	Morgan Stanley
Feb. 2008	Westin Hotel Tokyo	770 million USD	Morgan Stanley	GIC Real Estate
Dec, 2008	Hotel Gracery Tamachi	41 million USD	NA	Hankyu REIT

7 Hotel market

Cap rates are increasing gradually.

- Hotel cap rates have increased approximately 100 BP since the Financial Crisis.



Source: NRI based on various sources

1 Macro fundamentals of Japan

2 Overview of Japanese real estate market

3 Office market

4 Residential market

5 Retail property market

6 Logistics property market

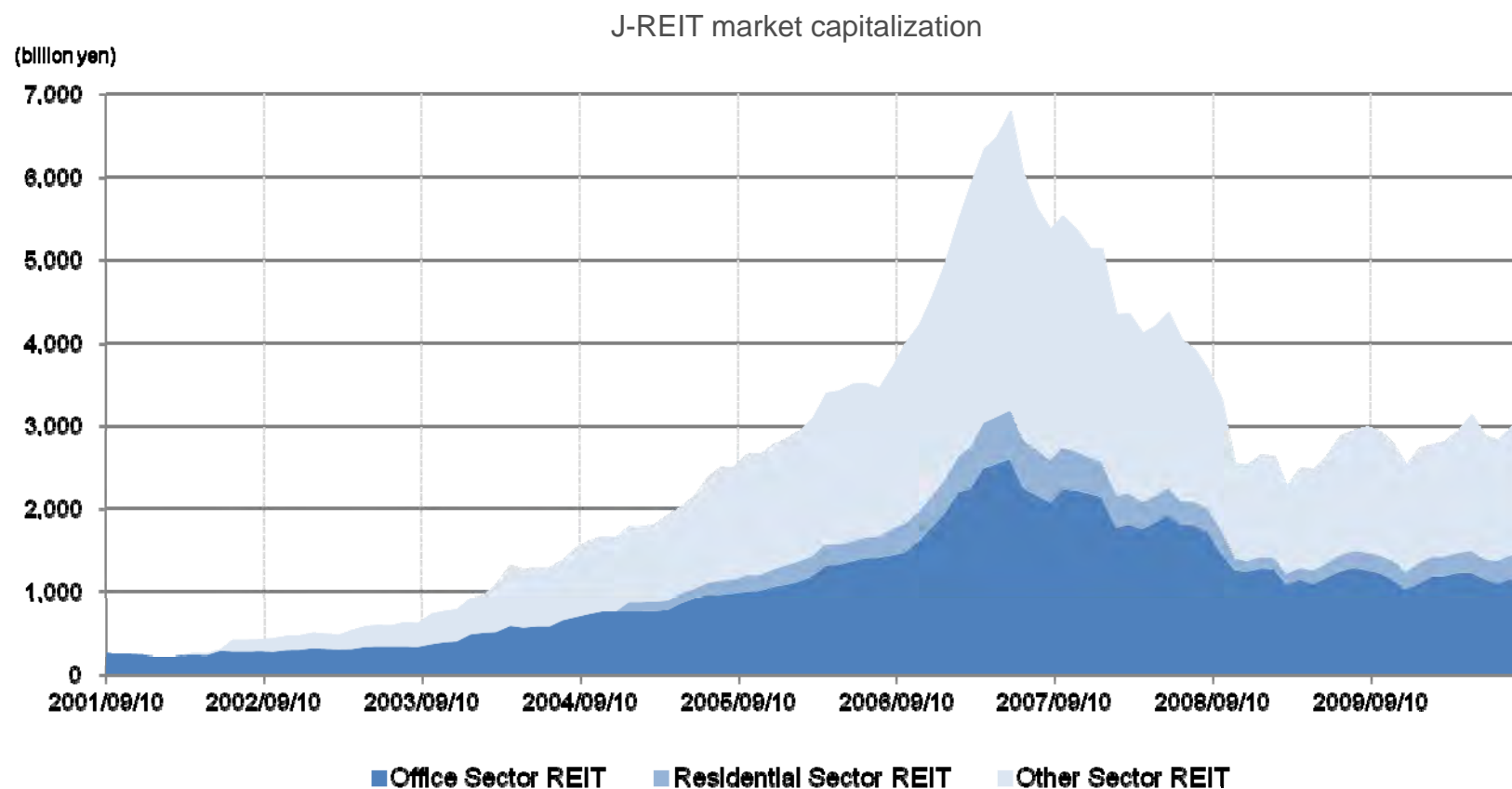
7 Hotel market

8 J-REIT market

8 J-REIT market

Introduced in the year 2000, the J-REIT market has shrunk by half from the peak, with capitalization at approximately 3.0 trillion yen as of October 2010.

- The J-REIT market started In September 2001 with 2 listings and a market capitalization of approximately 25 billion yen.
- Currently, there are 36 listed J-REITs with a total share value of approximately 3.0 trillion yen as of October 2010.

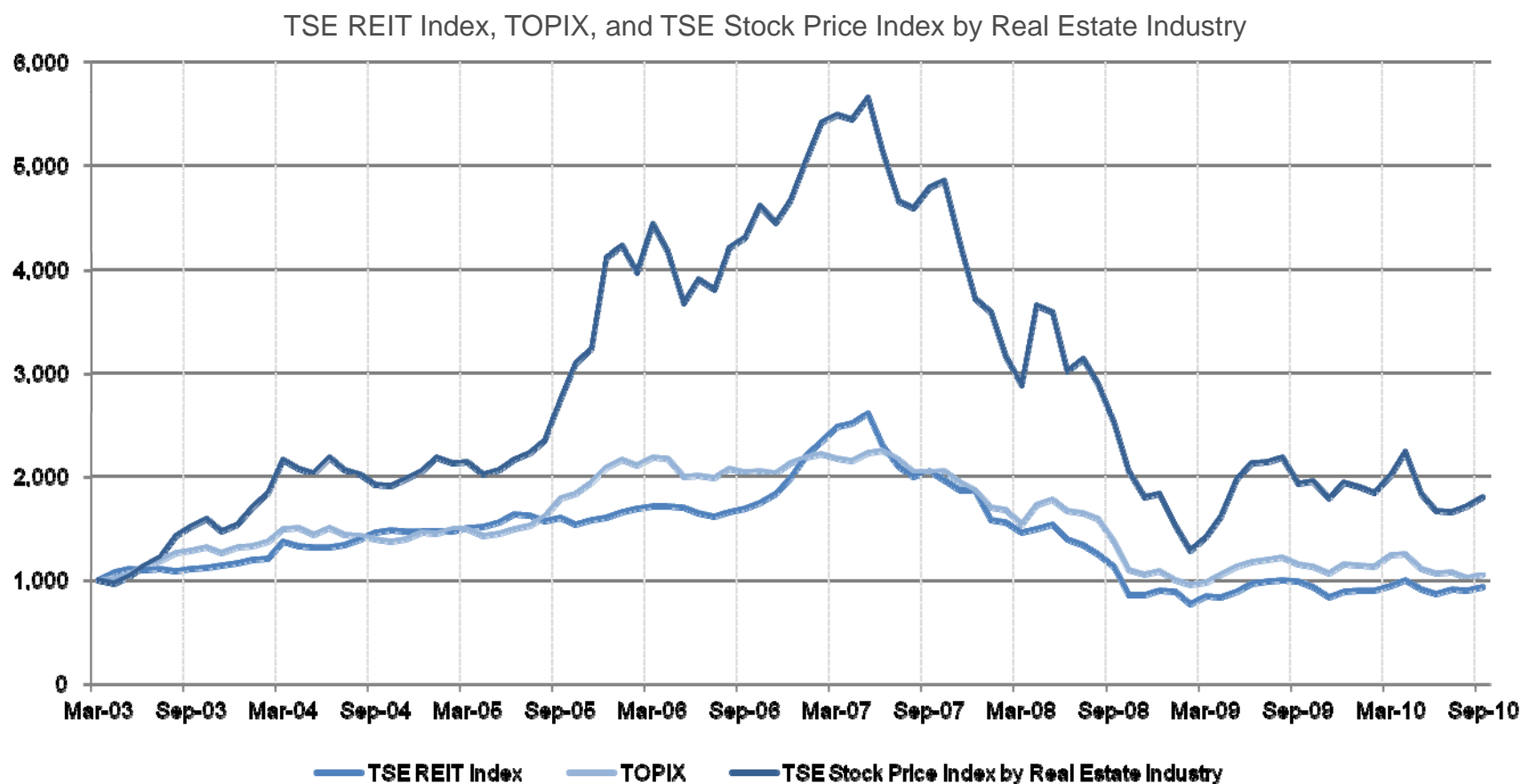


Source: NRI based on Bloomberg

8 J-REIT market

The Tokyo Stock Exchange (TSE) REIT Index has moved more or less in tandem with TOPIX and has been less volatile than the listed Real Estate Industry Index.

- The TSE REIT Index has been more stable than the TSE Stock Price Index by Real Estate Industry but has dropped sharply from its peak in May 2007.



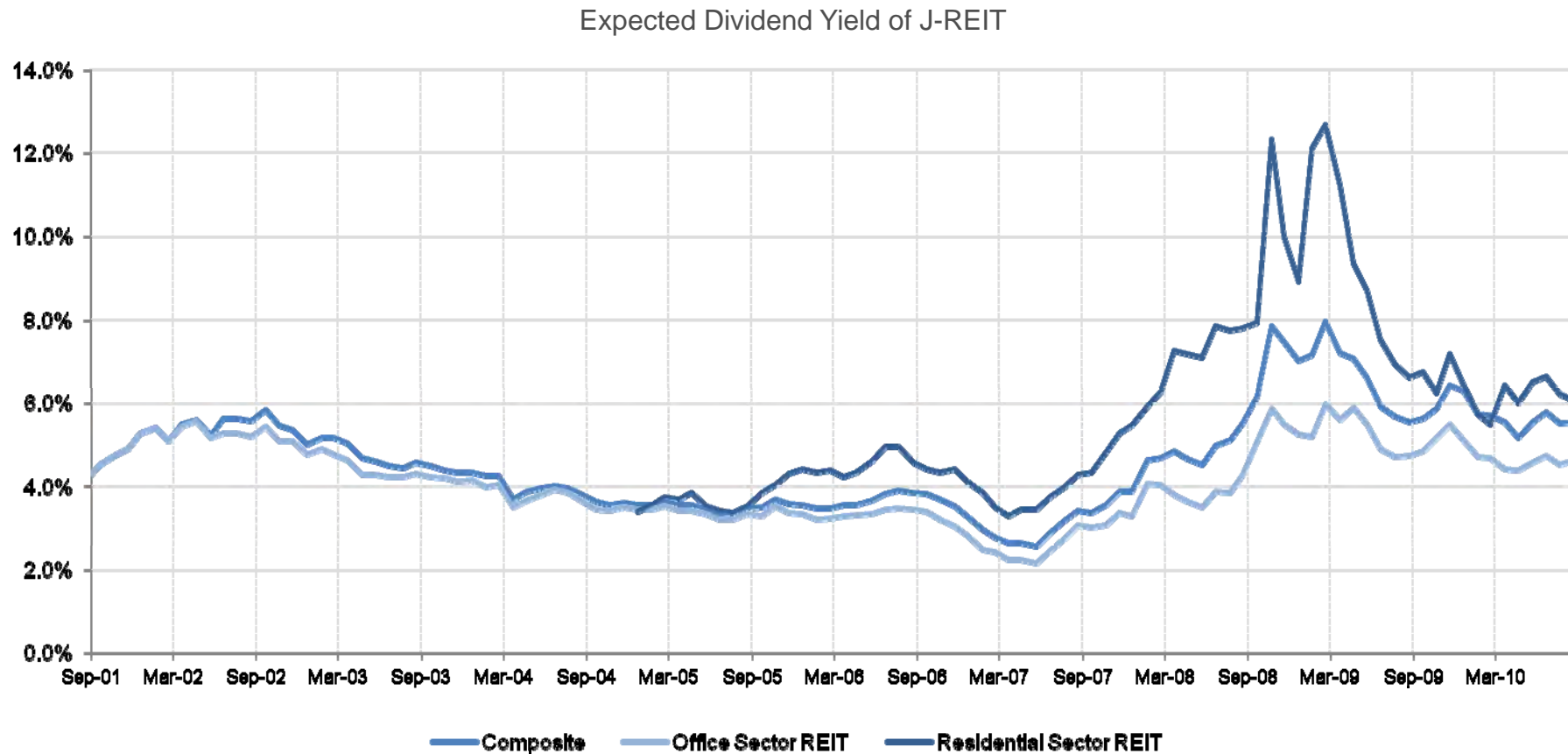
Note: March 2003 = 1,000.

Source: NRI based on Bloomberg

8 J-REIT market

The average dividend yield of J-REITs has remained in the 3.0% - 6.0% range except during the global financial crisis period.

- The dividend yield of J-REITs rose steeply in September 2008 but has fallen back to around 6% at present.

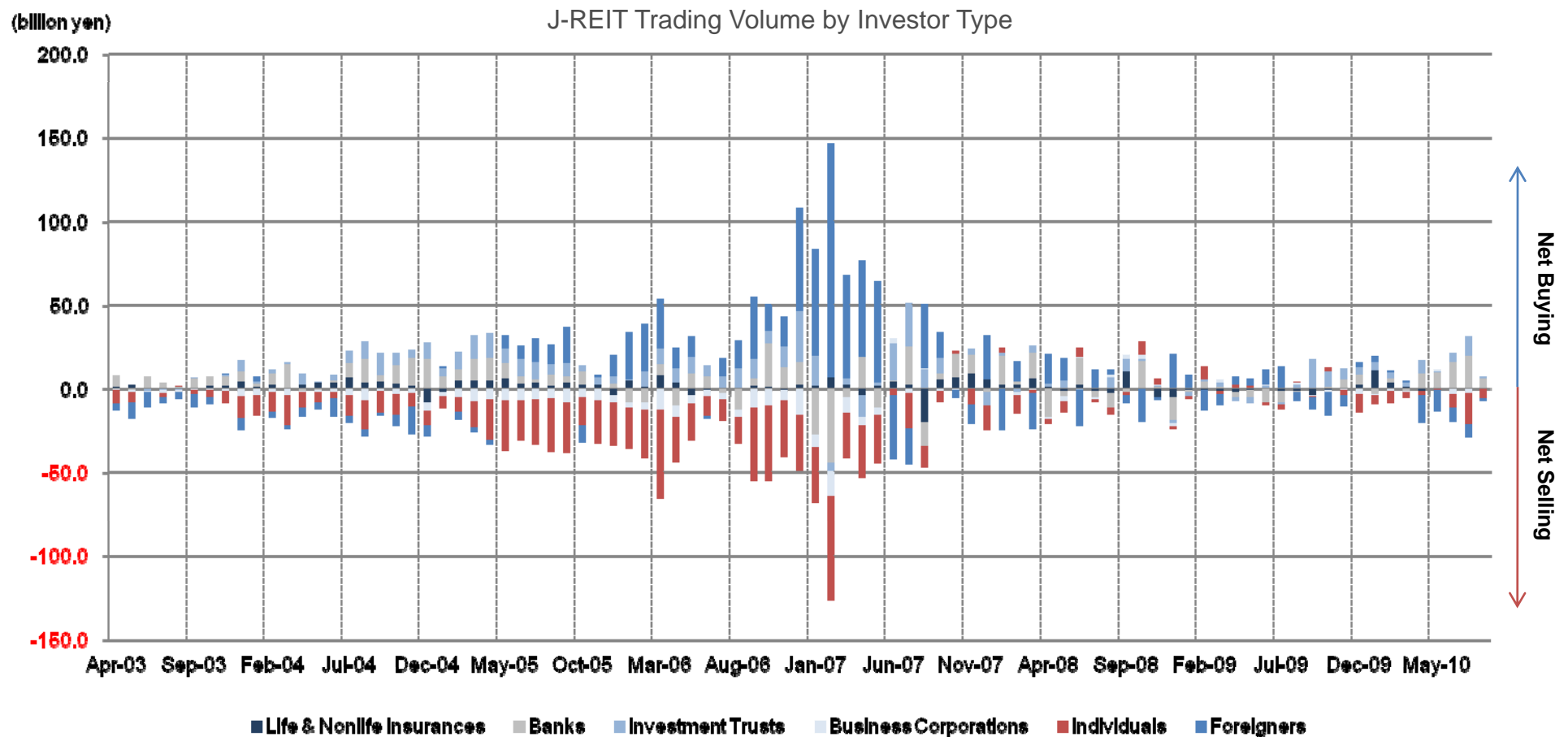


Source: NRI based on Bloomberg

8 J-REIT market

The investment attitudes toward J-REITs of both local individuals and foreign investors changed dramatically after the global financial crisis.

- Around the time of the global financial crisis, foreign investors changed their investment behavior toward J-REITs, switching from net buying to net selling.



Source: NRI based on Tokyo Stock Exchange

8 J-REIT market

M&A activity has increased in the J-REIT market since November 2008.

Listed J-REITs as of October 2008

NO.	Code	REIT	Sector
1	8951	Nippon Building Fund	Office
2	8952	Japan Real Estate	Office
3	8953	Japan Retail Fund	Retail
4	8954	ORIX JREIT	Diversified
5	8955	Japan Prime Realty	Diversified
6	8956	Premier	Diversified
7	8957	TOKYO REIT	Diversified
8	8958	Global One Real Estate	Office
9	8959	Nomura Real Estate Office Fund	Office
10	8960	United Urban	Diversified
11	8961	MORI TRUST Sogo REIT	Diversified
12	8962	Nippon Residential	Residential
13	8963	Invincible	Diversified
14	8964	Frontier Real Estate	Retail
15	8965	New City Residence	Residential
16	8966	CRESCEND	Diversified
17	8967	Japan Logistics Fund	Industrial
18	8968	Fukuoka REIT	Diversified
19	8969	Prospect REIT	Diversified
20	8970	Japan Single Residence	Diversified
21	8972	Kenedix Realty	Diversified
22	8973	Sekisui House SI	Diversified
23	8974	LaSalle Japan	Diversified
24	8975	FC Residential	Diversified
25	8976	Daiwa Office	Office
26	8977	Hankyu REIT	Diversified
27	8978	Advance Residence	Residential
28	8979	Starts Proceed	Diversified
29	8980	LCP	Diversified
30	8981	Japan Hotel and Resort	Hotel
31	8982	TOP REIT	Diversified
32	8983	JAPAN Office	Office
33	8984	B Life	Diversified
34	8985	Nippon Hotel Fund	Hotel
35	8986	Japan Rental Housing	Residential
36	8987	Japan Excellent	Diversified
37	3226	Nippon Accommodations Fund	Residential
38	3227	MID REIT	Diversified
39	3229	Nippon Commercial	Diversified
40	3234	MORI HILLS REIT	Diversified
41	3240	NOMURA REAL ESTATE RESIDENTIAL	Residential
42	3249	Industrial & Infrastructure Fund	Industrial

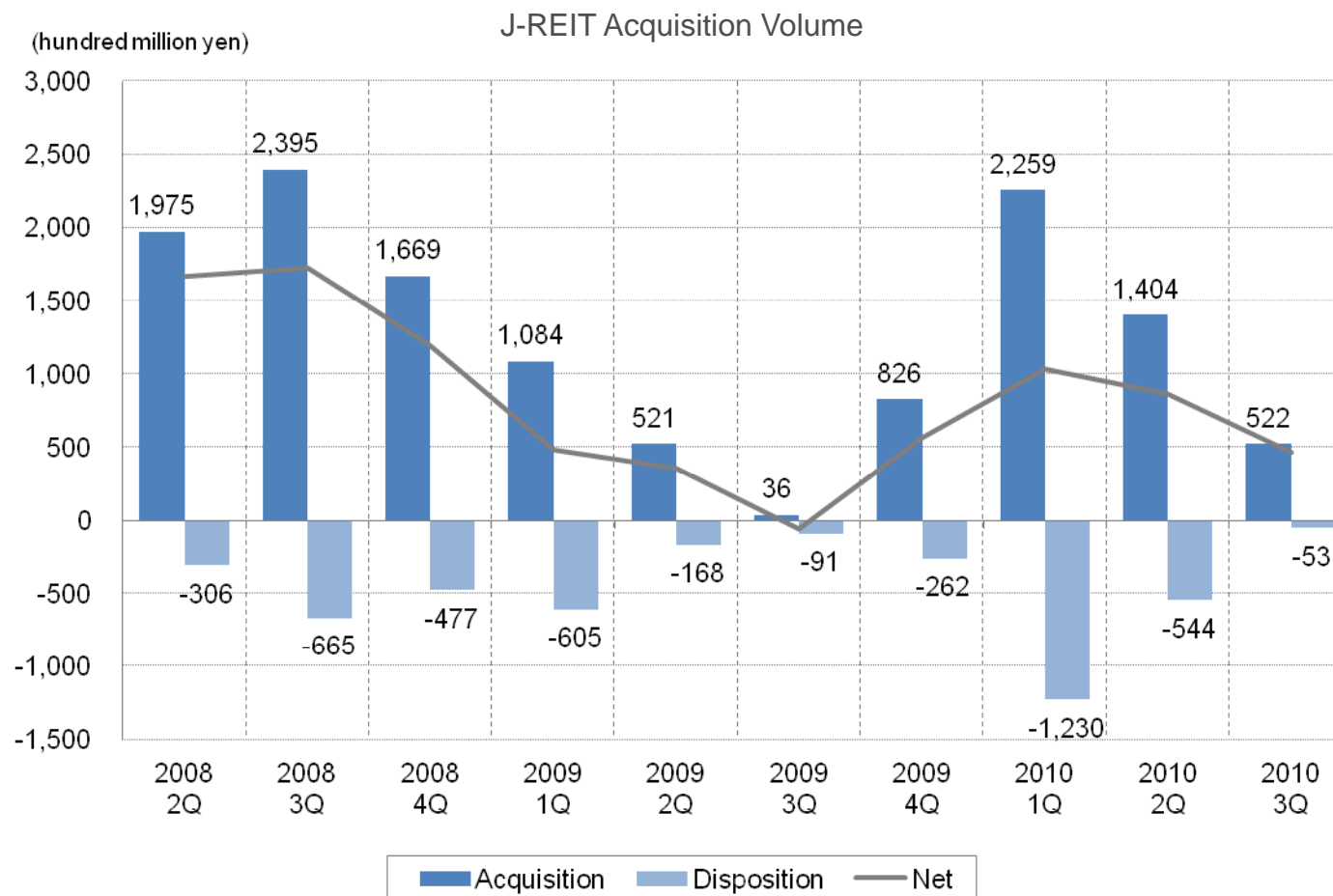
Listed J-REITs as of October 2010

NO.	Code	REIT	Sector
1	8951	Nippon Building Fund	Office
2	8952	Japan Real Estate	Office
3	8953	Japan Retail Fund	Retail
4	8954	ORIX JREIT	Diversified
5	8955	Japan Prime Realty	Diversified
6	8956	Premier	Diversified
7	8957	TOKYO REIT	Diversified
8	8958	Global One Real Estate	Office
9	8959	Nomura Real Estate Office Fund	Office
10	8960	United Urban	Diversified
11	8961	MORI TRUST Sogo REIT	Diversified
12	8963	Invincible	Diversified
13	8964	Frontier Real Estate	Retail
14	8966	CRESCEND	Diversified
15	8967	Japan Logistics Fund	Industrial
16	8968	Fukuoka REIT	Diversified
17	8972	Kenedix Realty	Diversified
18	8973	Sekisui House SI	Diversified
19	8975	FC Residential	Diversified
20	8976	Daiwa Office	Office
21	8977	Hankyu REIT	Diversified
22	8979	Starts Proceed	Diversified
23	8981	Japan Hotel and Resort	Hotel
24	8982	TOP REIT	Diversified
25	8983	JAPAN Office	Office
26	8984	B Life	Diversified
27	8985	Nippon Hotel Fund	Hotel
28	8986	Japan Rental Housing	Residential
29	8987	Japan Excellent	Diversified
30	3226	Nippon Accommodations Fund	Residential
31	3227	MID REIT	Diversified
32	3229	Nippon Commercial	Diversified
33	3234	MORI HILLS REIT	Diversified
34	3240	NOMURA REAL ESTATE RESIDENTIAL	Residential
35	3249	Industrial & Infrastructure Fund	Industrial
36	3269	Advance Residence	Residential

8 J-REIT market

J-REITs more than doubled their acquisitions in 2010 on a year-over-year basis.

- Acquisitions by J-REITs have picked up slightly since the start of 2010, following a downturn in the third quarter of 2009.



Note: 2010 3Q is up to August

Source: NRI based on ARES

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