

INVESTMENT MARKETBEAT

TOKYO, JAPAN

A Cushman & Wakefield Research Publication



Q1 2014



EXECUTIVE SUMMARY

Although the previous quarter unexpectedly saw a slowed GDP growth rate of 0.2% (quarter-on-quarter, seasonally adjusted), this quarter is forecast to see a pickup of 1.1%, according to the Japan Center for Economic Research. The Japanese government assigned six National Strategic Special Zones—Tokyo, Osaka, Okinawa, Niigata, Yabu and Fukuoka—which aim to reform industries including life sciences, tourism and agriculture with bold deregulations. As for the impact of deregulations on the property industry, an easing of the policy to increase floor area ratio to site is highly likely and is expected to boost property prices and investment activities in these Zones, helped by a low borrowing cost of 0.64% for Japanese government bond (10 years) at the end of March.

The market is heated, witnessed by yield compressions and increased sales volume as a result of narrowed gaps in pricings between buyers and sellers.

In addition to J-REITs, value-added and opportunistic fund buyers became more aggressive in the first quarter as long as they were confident of the bidding price during their exit, including estimated reselling prices. Looking at the fundamentals, office rents across all grades are expected to finally stop declining and start rising gradually in the market. This turning point of the market is highly likely to encourage buyers.

Going forward, yields are anticipated to be compressed further and transaction volume is expected to accelerate as price gaps between buyers, particularly foreign investors, and sellers increasingly narrow in more cases across sectors and cities.

MARKET SNAPSHOT

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ECONOMIC OVERVIEW

Although the previous quarter unexpectedly saw a slowed GDP growth rate of 0.2% (quarter-on-quarter, seasonally adjusted), this quarter is forecast to see a pickup of 1.1%, according to the Japan Center for Economic Research. This is driven by the anticipated domestic demand, including household consumption and corporate sector investments, which are frontloaded due to the upcoming hike in consumption tax in April.

INVESTMENT ENVIRONMENT & STOCK MARKET

The Japanese government assigned six National Strategic Special Zones—Tokyo, Osaka, Okinawa, Niigata, Yabu and Fukuoka—which aim to reform industries including life sciences, tourism and agriculture with bold deregulations. As for the impact of the deregulations on the property industry, an easing of the policy to increase floor area ratio to site is highly likely and expected to boost property prices and investment activities in these Zones, helped by a low borrowing cost of 0.64% for Japanese government bond (10 years) at the end of March. The rates are anticipated to remain as low as below 1.0% for the next couple of years, if monetary-easing policies should continue. Although stock prices and J-REIT indexes have not seen any rise over the first quarter, business performances in both manufacturing and non-manufacturing sectors have improved and are sustained by a stabilized Japanese Yen, despite at a relatively weak level of over 100 Japanese Yen against the US Dollar, witnessed by the latest quarterly Tankan Survey which is regarded as the prevailing business confidence indicator.

CAPITAL TRANSACTION MARKET & OUTLOOK

IPOs continued in J-REITs in the first quarter; for instance, Hulic REIT which is comprised of a variety of assets under management including office, retail and next-generation assets such as nursing homes and infrastructures. Although the number of properties for sale remained limited in the first quarter, the market is heated, witnessed by yield compressions and increased sales volume as a result of narrowed price gaps between buyers and sellers.

In addition to J-REITs, value-added and opportunistic fund buyers became more aggressive in the first quarter as long as they were confident of the bidding price in their exit including estimated reselling prices. On the contrary, transactions by non-funds were seen, including news of a 30% strata acquisition of a newly constructed grade A office tower completed in a prime location (Otemachi Tower by Mizuho Bank) for their own use.

Looking at the fundamentals, office rents across all grades, which are lagging behind that of grade A, are expected to finally stop declining and start rising gradually in the market. This turning point of the market is highly likely to encourage buyers, especially foreign investors, to bid bullishly as the “no rental growth” prospect deterred them from aggressively competing with domestic buyers.

Going forward, yields are anticipated to be compressed further and transaction volume is expected to accelerate as price gaps between buyers, particularly foreign investors, and sellers increasingly narrow in more cases across sectors and cities. Buyers are anticipated to aggressively seek properties outside Tokyo’s CBD.

Rise in rent will encourage buyers to bid bullishly

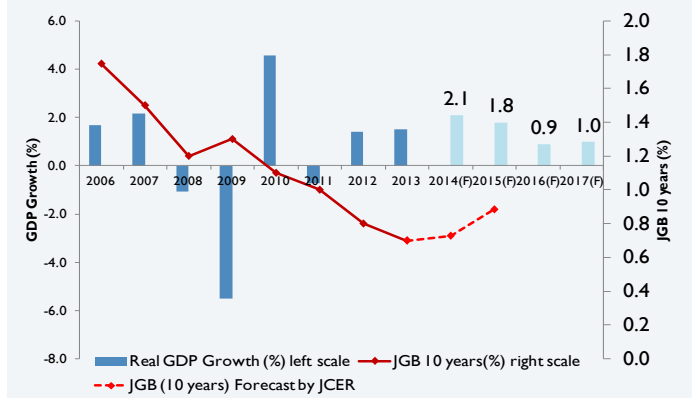
STATS ON THE GO

| | LOCAL CURRENCY (JPY) | US\$ EQUIVALENT | Y-O-Y CHANGE IN LOCAL CURRENCY |
|-------------------|----------------------|-----------------|--------------------------------|
| OFFICE | | | |
| Investment Volume | 603.5 billion | 5.897 billion | 20% |
| Price | 2,790,008 per Tsubo | 766.15 per SF | -8.4% |
| RETAIL | | | |
| Investment Volume | 83.8 billion | 0.819 billion | -43.0% |
| Price | 2,038,593 per Tsubo | 559.81 per SF | -23.1% |
| INDUSTRIAL | | | |
| Investment Volume | 45.2 billion | 0.442 billion | 33% |
| Price | 790,165 per Tsubo | 216.98 per SF | 0.2% |
| YIELD | | | |
| | Q4 2013 | Q-Q CHANGE | Y-O-Y CHANGE |
| Office | 4.94% | -0.05pp | -0.24pp |
| Retail | 4.98% | -0.24pp | -0.67pp |
| Industrial | 6.05% | 0.30pp | -0.14pp |

Exchange Rate: 1 USD = 102.34 Yen as of 23 March 2014

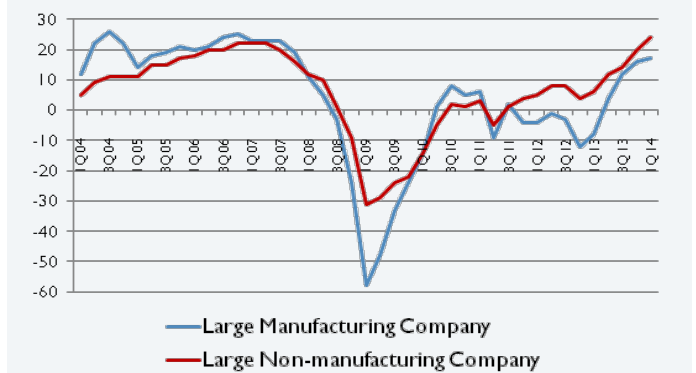
Source: Real Capital Analytics, Cushman & Wakefield Research

GDP GROWTH & JAPANESE GOVT. BOND



Source: Roubini Global Economics, Ministry of Finance Japan, Japan Center for Economic Research, Cushman & Wakefield Research

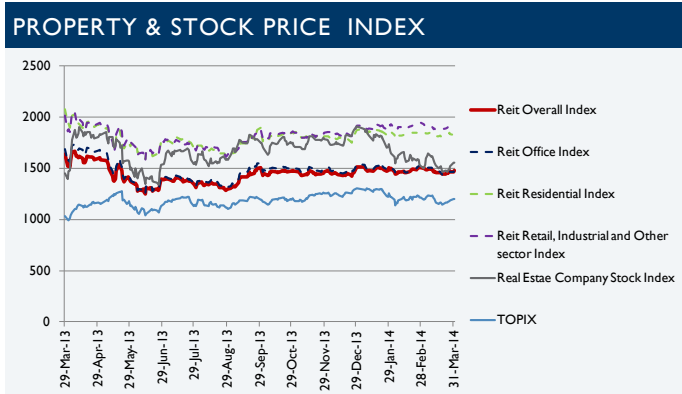
THE QUARTERLY TANKAN SURVEY



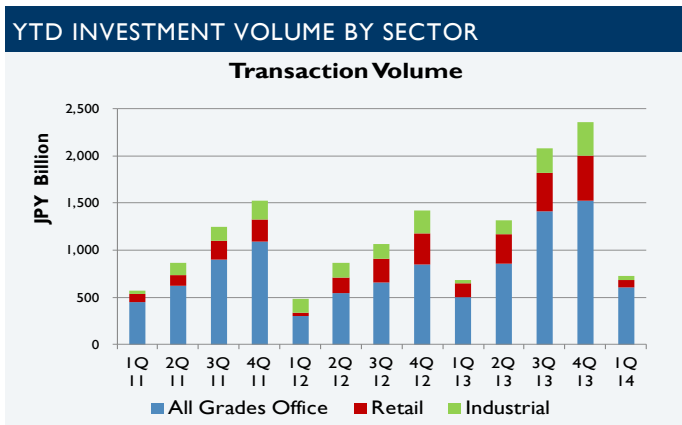
Source: Bank of Japan, Cushman & Wakefield Research

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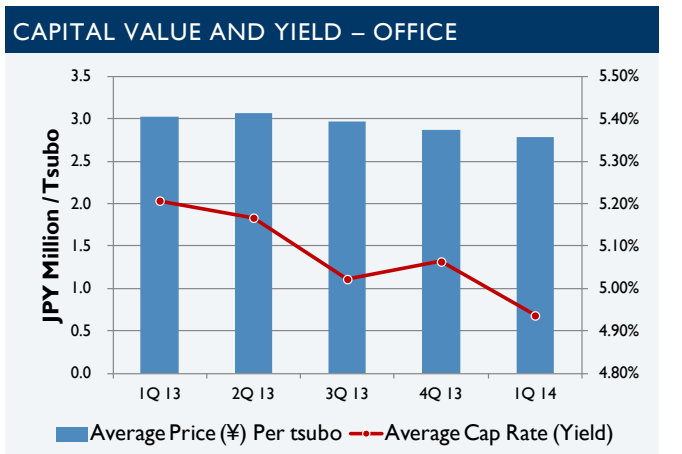
Source: Tokyo Stock Exchange, Cushman & Wakefield Research



Source: Real Capital Analytics, Cushman & Wakefield Research

OFFICE TRANSACTIONS OVERVIEW & OUTLOOK

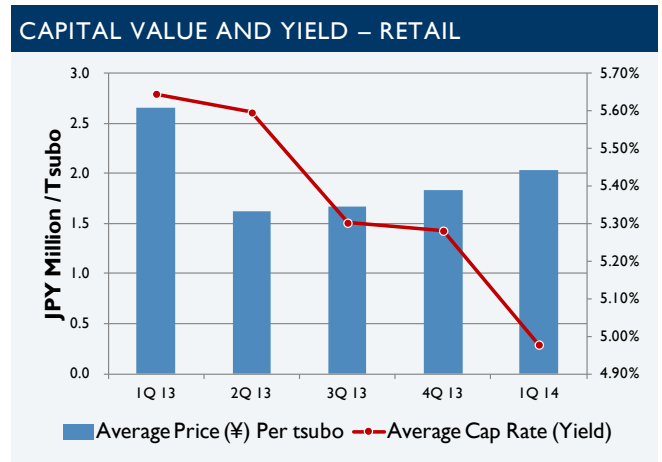
Accompanied by resumed yield compression, office investment volume in the first quarter jumped considerably from 258.5 billion Japanese Yen in fourth quarter 2013, to 603.5 in first quarter 2014 as a result of narrowed price gaps between buyers and sellers. This upmarket was driven largely by J-REITs, value-add and opportunistic fund buyers. However, transactions by non-funds were seen, including Kokusai Akasaka Building by Sekisui House for the purpose of leasing. Going forward, yields are anticipated to be compressed further and transaction volume is expected to accelerate as price gaps between buyers, particularly foreign investors, and sellers increasingly narrow in more cases.



Source: Real Capital Analytics, Cushman & Wakefield Research

RETAIL TRANSACTIONS OVERVIEW & OUTLOOK

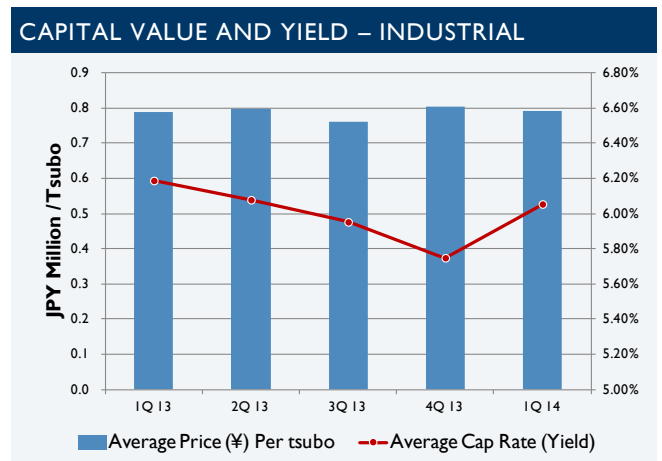
Retail investment volume in the first quarter is estimated to maintain the same level as in fourth quarter 2014 because of a couple of large-sized deals. Yield has declined by over 30 basis points to less than 5%, driven by deals between individuals, trading companies and funds in Tokyo's main markets, including the Ralph Lauren Building in Jingumae of Shibuya Ward and Holon L in Kita Aoyama of Minato Ward. Going forward, yields are forecast to be compressed further and transaction volume is expected to accelerate as gaps between buyers and sellers are already very small due to aggressive retail buyers.



Source: Real Capital Analytics, Cushman & Wakefield Research

INDUSTRIAL TRANSACTIONS OVERVIEW & OUTLOOK

In contrast, industrial investment volume in the first quarter declined considerably from 96.7 billion Japanese Yen in fourth quarter 2013, to 45.2 billion Japanese Yen in first quarter 2014 because of a lower number of large-sized deals than the previous quarter. Yield has jumped by 30 basis points to just over 6%, driven by transactions with higher yields by J-REITs although some funds contributed to compressing average yields. Going forward, yields are forecast to compress a little, justified by an anticipated rental hike, especially by competitive facilities. This hike is believed to be derived from the likely pass-through of a steep rise in construction costs, including labor and material costs.



Source: Real Capital Analytics, Cushman & Wakefield Research

MARKET SNAPSHOT

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CONCLUSION

The Japanese government assigned six National Strategic Special Zones—Tokyo, Osaka, Okinawa, Niigata, Yabu and Fukuoka—which aim to reform industries including life sciences, tourism and agriculture with bold deregulations. As for the impact of deregulations on the property industry, an easing of the policy to increase floor area ratio to site is highly likely and expected to boost property prices and investment activities in these Zones, helped by a low borrowing cost of 0.64% for Japanese government bond (10 years) at the end of March. Also, business performances for both manufacturing and non-manufacturing sectors have improved.

The market is heated, witnessed by yield compressions and increased sales volume as a result of narrowed price gaps between buyers and sellers. Looking at the fundamentals, office rents across all grades are expected to finally stop declining and start rising gradually in the market. This turning point of the market is highly likely to encourage buyers.

Going forward, yields are anticipated to be compressed further and transaction volume is expected to accelerate as price gaps between buyers, particularly foreign investors, and sellers increasingly narrow in more cases across sectors and cities.

MAJOR TRANSACTIONS

| PROPERTY NAME | PROPERTY TYPE | DISTRICT / SUBMARKET | PURCHASER | AREA / GFA SF | CONSIDERATION / PURCHASE PRICE | | UNIT PRICE US\$/SF |
|--------------------------|---------------|-------------------------|---------------------------------|------------------|--------------------------------|-------------|-----------------------|
| | | | | | US\$ MILLION | YEN MILLION | |
| Otemachi Tower | Office | Chiyoda Ward/ Otemachi | Mizuho Bank | 1,227,088 | 1,739.3 | 178,000 | 1,417 |
| Kokusai Akasaka Building | Office | Minato -Ward / Akasaka | Sekisui House | 674,765 | 723.1 | 74,000 | 1,072 |
| Nakano Central Park East | Office | Nakano -Ward / Nakano | AXA Real Estate | 420,060 | 371.3 | 38,000 | 884 |
| Ralph Lauren Bldg | Retail | Shibuya-Ward / Jingumae | Mitsubishi Corporation | 59,815 | 344.0 | 35,200 | 5,750 |
| KDX Toyosu Grandsquare.. | Office | Koto -Ward / Shinonome | Kenedix JV Kenedix Private REIT | 526,205 | 338.089 | 34,600 | 643 |

Exchange Rate: 1 USD = 102.34 Yen as of 23 March 2014

Source: Real Capital Analytics, Cushman & Wakefield Research

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Profile

Keisuke surveys the entire market ranging from developments to leasing and investment markets across all property sectors. Keisuke began his career at a construction company designing shopping malls and residential blocks. He further expanded this scope as a project manager for a variety of developments such as schools and nursing homes. After he got a Masters degree in the UK, Keisuke joined Mizuho Trust & Banking where he got hands on experience in the Japanese property securitization market. Following that he moved to CBRE and analysed the investment market and various property indexes.

(Visiting researcher of Waseda University, Member of the Japanese Association of Real Estate Financial Engineering, First Class Architect)

(和訳)

要旨

前期の GDP 成長率は 0.2% (対前四半期比、季節調整済み) と減速したが、今期は同 1.1% (日本経済研究センター) と加速が予測されている。日本政府は東京、大阪、沖縄、新潟、養父、福岡の 6 地域を国家戦略特区に指定した。これらの地域で大胆な規制緩和を敢行し、生命科学、観光、農業等の産業を改革することが狙いである。この規制緩和の不動産業への影響としては、建物容積率 (敷地面積に対する床面積の割合) 上限の緩和の可能性がかなり高い。6 地域において不動産価格が上昇し不動産投資活動が盛んになることが予想される。また新発国債 10 年利回り 0.64% (3 月末時点) の低い資金調達コストもこの予想を支える要素である。

売買市場は過熱した。買い手と売り手の価格目線が縮まった結果、イールドの圧縮と売買高の増加が見られた。買い手に関しては、J-REITs に加えて、ヴァリューアッド系やオポチュニスティック系のファンドが積極的であり見込み転売価格を含めた出口価格の範囲までは、自信を持って積極的にビッドしている。賃貸市場に目を向けてみると、オールグレードオフィス賃料がようやく下げ止まり徐々に上がり始めることが期待されている。この市場の転換点に買い手は勇気づけられてくる可能性がかなり高い。特に海外投資家等の買い手と売り手の価格目線のギャップが様々な不動産用途や都市におけるより多くの取引場面で急速に縮まってくることから、今後イールドはさらに圧縮され売買取引量も加速してることが予想される。

MARKET SNAPSHOT

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経済概観

前期の GDP 成長率は 0.2%（対前四半期比、季節調整済み）と減速したが、今期は同 1.1%（日本経済研究センター）と加速が予測されている。これは、4 月の消費税増税を目前にして個人消費や企業による設備投資等の国内需要の前倒しが顕在化してくるとの見込みによる。

投資環境全般、株式市場

日本政府は 6 地域を国家戦略特区に指定した。（省略）この規制緩和の不動産業への影響としては、建物容積率（敷地面積に対する床面積の割合）上限の緩和の可能性がかなり高い。6 地域において不動産価格が上昇し不動産投資活動が盛んになることが予想される。また新発国債 10 年利回り 0.64%（3 月末時点）の低い資金調達コストもこの予測を支える要素であり、金融緩和策の継続決定を受け今後 2 年先も 1% を下回ったままであるとの予測も出ている。今期の株価と J-REITs 指数は上昇していないが、直近の日銀短観業況判断指数に見られるように、対米ドル為替レート 100 円超で安定していることにも支えられ、企業業績は、製造業、非製造業ともに改善してきている。

売買市場と今後

J-REITs では新規銘柄の上場も続いている。例として、オフィス、リテール、次世代型不動産（老人ホーム、インフラ施設）等の変化に富んだ資産構成を有する Hulic REIT の上場が挙げられる。売買市場は今期も売り物件の数が限定的なままだったが、過熱した。買い手と売り手の価格目線が縮まった結果、イールドの圧縮と売買高の増加が見られた。買い手に関しては、J-REITs に加えて、ヴァリュアード系やオポチュニスティック系のファンドが積極的であり見込み転売価格を含めた出口価格の範囲までは、自信を持って積極的にビッドしている。また一方、非ファンド系の買い手も見られた。みずほ銀行が自社使用目的で一等地に建つ今期竣工のグレード A ビル大手町タワーの持ち分 30% を取得するというニュースがあった。賃貸市場に目を向けてみると、オールグレードオフィス賃料がグレード A 賃料の後を追う形でようやく下げ止まり徐々に上がり始めることが期待されている。この市場の転換点に特に海外投資家等の買い手は勇気づけられ、強気にビッドしてくる可能性がかなり高い。というのも、彼らは、賃料上昇が見込めないことを理由に国内の買い手と凌ぎを削る競争をしてこなかったからである。特に海外投資家等の買い手と売り手の価格目線のギャップが様々な不動産用途や都市におけるより多くの取引場面で急速に縮まってくることから、今後イールドはさらに圧縮され売買取引量も加速してくることが予想される。買い手は、東京 CBD 以外の場所の不動産を積極的に探し求めてくることが予想される。

オフィス取引市場概観と今後

イールドが再び圧縮してきたことと併せ買い手と売り手の価格目線が縮まった結果、オフィス不動産売買取引量は 2,585 億円（2013Q4 時点）から 6,035 億円（2014Q1 時点）と大幅に増加した。この市場の過熱は多くは J-REITs、ヴァリュアード系やオポチュニスティック系のファンド等の買い手に牽引されていた。また一方、非ファンド系の買い手も見られた。セキスイハウス工業が赤坂国際ビルを賃貸事業用として取得した。特に海外投資家等の買い手と売り手の価格目線のギャップがより多くの取引場面で急速に縮まってくることから、今後イールドはさらに圧縮され売買取引量も加速してくることが予想される。

リテール取引市場概観と今後

Q1 のリテール不動産売買取引量はいくつかの大型取引があったため 2013Q4 と同等の水準が維持されると見込まれる。イールドは 30bp 以上下げて 5% 以下まで圧縮された。都心主要市場で個人或いは商社とファンドとの間で渋谷区神宮前の 'Ralph Lauren Bldg.' や港区北青山の 'Holon L' のような物件が取引され、これらに牽引されたからである。買い手と売り手の価格目線のギャップは積極的なリテール不動産の買い手がいることから既に小さいため、今後イールドはさらに圧縮され売買取引量も加速してくることが予想される。

インダストリアル取引市場概観と今後

これとは反対に、前期に比べ大型の取引数が少なかったため、インダストリアル不動産売買取引量は 967 億円（2013Q4 時点）から 452 億円（2014Q1 時点）と大幅に下落した。平均イールドは、いくつかのファンドが平均イールドの圧縮に貢献したものの、J-REITs による比較的高いイールドの取引が影響して 30bp 上げ 6% をやや超えた。特に競争力のあるインダストリアル不動産で建設費高騰（労務費と建築材料費）が賃料価格に転嫁されそうなること由来して賃料上昇が期待されており、今後イールドは賃料上昇で正当化され多少圧縮されてくることが予想される。

結論

日本政府は 6 地域を国家戦略特区に指定した。（省略）この規制緩和の不動産業への影響としては、建物容積率（敷地面積に対する床面積の割合）上限の緩和の可能性がかなり高い。6 地域において不動産価格が上昇し不動産投資活動が盛んになることが予想される。また新発国債 10 年利回り 0.64%（3 月末時点）の低い資金調達コストもこの予想を支える要素である。また、企業業績は、製造業、非製造業ともに改善してきている。

売買市場は過熱した。買い手と売り手の価格目線が縮まった結果、イールドの圧縮と売買高の増加が見られた。賃貸市場に目を向けてみると、オールグレードオフィス賃料がようやく下げ止まり徐々に上がり始めることが期待されている。この市場の転換点に買い手は勇気づけられてくる可能性がかなり高い。特に海外投資家等の買い手と売り手の価格目線のギャップが様々な不動産用途や都市におけるより多くの取引場面で急速に縮まってくることから、今後イールドはさらに圧縮され売買取引量も加速してくることが予想される。

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東京理科大学卒業後、建設企業にて大規模商業施設の設計をはじめナーシングホーム等の開発プロジェクトを手掛ける。不動産開発評価手法を研究するために渡英、オックスフォードブルックス大学で国際不動産学修士号を取得。みずほ信託銀行で証券化不動産実務を経験後、シービーアールイーにて不動産投資インデックスを駆使し日本のオフィス市場、世界の不動産市場を調査・分析。現在、クッシュマン・アンド・ウェイクフィールドのヘッド・オブ・リサーチ、ジャパンを務める。早稲田大学国際不動産研究所招聘研究員、日本不動産金融工学学会会員、一級建築士。

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