

INVESTMENT MARKETBEAT

TOKYO

A Cushman & Wakefield Research Publication



Q4 2014



EXECUTIVE SUMMARY

The previous quarter saw an unexpected negative GDP growth of 0.5% (quarter-on-quarter, seasonally adjusted), largely driven by private residential investment falling by 6.8% which dragged the GDP growth level down. However, leading economists forecast the Japanese economy will undergo an uplift, driven by the gradual recovery of domestic investment activity, exports and private consumption. As large-sized corporations continued to register a strong performance, their domestic investment increased by 5.5% (year-on-year) in the previous quarter. Growth was seen especially in the manufacturing sector where it increased by 10.8%, led by the improvement of facilities for manufacturing metal products for the automotive, and the electrical machinery for telecommunication industry. As such, stock prices and J-REITs indexes hiked by 6.1% and 13.6% respectively, sustained by stable business confidence.

The first-tier office market saw a hike in transaction volume and heated up as witnessed by the current yield level which was close to the level seen in the last boom in 2007 and 2008. The market was notably driven by aggressive overseas investors, which gradually increased their presence as buyers took advantage of a rapidly weakening Japanese Yen. However, in some cases in the first-tier market, sellers' offers were so aggressive that buyers could not match the offered prices which were beyond their investment budget. As for domestic buyers including 'core-plus' and 'value-added' in the second-tier market, they abandoned their "wait-and-see" approach, relaxed their investment criteria and risk tolerance, and matched the offered prices raised by sellers for assets in their target markets. Going forward, property prices in first-tier markets still leave some room for them to rise.

MARKET SNAPSHOT

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ECONOMIC OVERVIEW

The previous quarter saw an unexpected negative GDP growth of 0.5% (quarter-on-quarter, seasonally adjusted), largely driven by private residential investment falling by 6.8% (quarter-on-quarter) which dragged the GDP growth level down. However, leading economists forecast that the Japanese economy will undergo an uplift, driven largely by the gradual recovery of domestic investment activity, exports and private consumption. This is supported by the significant growth of machine tool sales (35.3% in October and 35.6% in November, year-on-year), a leading indicator of business sentiment.

INVESTMENT ENVIRONMENT & STOCK MARKET

As large-sized corporations continued to register a strong performance, their domestic investment increased by 5.5% (year-on-year) in the previous quarter. Growth was seen especially in the manufacturing sector where it increased by 10.8%, led by the improvement of facilities for manufacturing metal products for the automotive, and the electrical machinery for telecommunication industry, according to the Ministry of Finance's Policy Research Institute. As such, stock prices and J-REITs indexes hiked by 6.1% and 13.6% respectively over the fourth quarter, sustained by stable business confidence. The latest quarterly Tankan Survey reported robust figures for both of the manufacturing (+12) and the non-manufacturing (+16) sectors.

CAPITAL TRANSACTION MARKET & OUTLOOK

Amid brisk J-REITs performance, there was a series of IPOs comprising of the Nippon Healthcare Investment Corporation, the Tosei REIT Investment Corporation in November and Sekisui House REIT in December. Following these, another IPO of a retail fund is scheduled by Kenedix in February. This quarter started with a number of significant prime deals. Pacific Century Place Building in the prime office submarket of Marunouchi was sold to GIC at JPY 170.0 billion. Also, a significant lot of prime land in a high-end residential area, which was owned by the founder of SEIKO INSTRUMENTS, was sold to renowned Singapore based developer City Development Limited (CDL) at JPY 30.5 billion. CDL was reported to be planning to develop the land into luxury residential blocks. As such, the first-tier office market saw a hike in transaction volume and was heated as witnessed by the current yield level which was close to the level seen in the last boom in 2007 and 2008. The market was notably driven by aggressive overseas investors which gradually increased their presence as buyers took advantage of a rapidly weakening Japanese Yen. As for domestic buyers including 'core-plus' and 'value-added' in the second-tier market, they abandoned their "wait-and-see" approach, relaxed their investment criteria and risk tolerance, and matched the offered prices raised by sellers for assets in their target markets. They were looking to properties outside of Tokyo 5 Wards such as Sapporo, Sendai and Fukuoka city amid the scarcity of properties for sale in central Tokyo.

Going forward, yields for the first-tier market are anticipated to modestly trend downwards, and rents are expected to rise gradually. Accordingly, property prices in first-tier markets still leave some room for them to rise.

Pacific Century Place Building in the prime submarket was finally sold to GIC

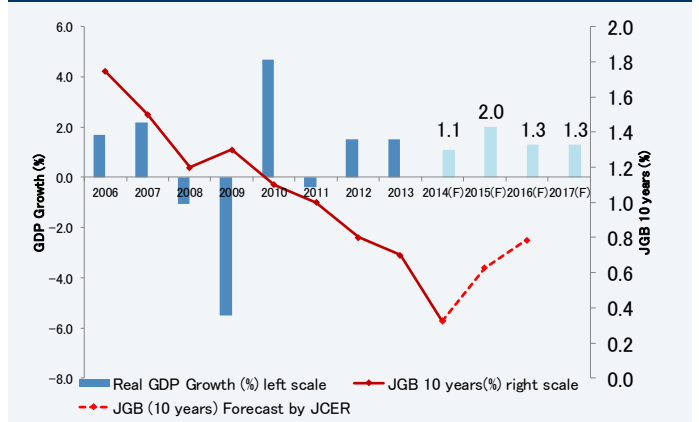
STATS ON THE GO

	LOCAL CURRENCY (JPY)	US\$ EQUIVALENT	Y-O-Y CHANGE IN LOCAL CURRENCY
OFFICE			
Investment Volume	759.2 billion	6.310 billion	+165.0%
Price	3,503,120 per Tsubo	818.236 per SF	+25.4%
RETAIL			
Investment Volume	65.5 billion	0.544 billion	-49.5%
Price	2,182,215 per Tsubo	509.708 per SF	+10.6%
INDUSTRIAL			
Investment Volume	27.8 billion	0.231 billion	-71.3%
Price	673,827 per Tsubo	157.388 per SF	-16.3%
YIELD			
	Q4 2014	Q-Q CHANGE	Y-O-Y CHANGE
Office	4.72%	-0.15pp	-0.28pp
Retail	5.38%	+0.10pp	+0.21pp
Industrial	6.61%	-0.14pp	+0.86pp

Exchange Rate: 1 USD = 120.329 JPY as of 23 December 2014

Source: Real Capital Analytics, Cushman & Wakefield Research

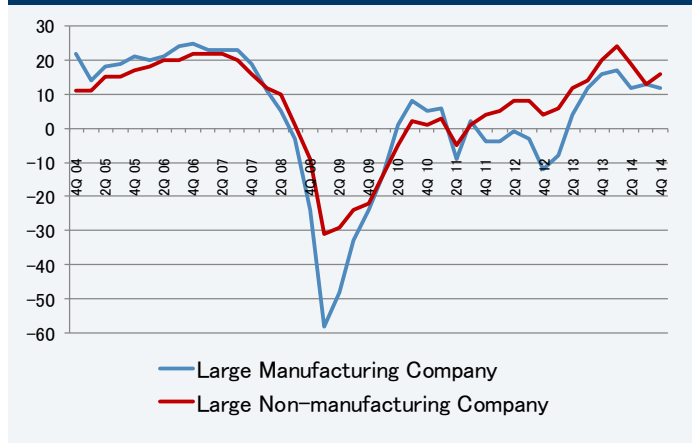
GDP GROWTH & JAPANESE GOVT. BOND



Source: Roubini Global Economics, Ministry of Finance Japan,

Japan Center for Economic Research, Cushman & Wakefield Research

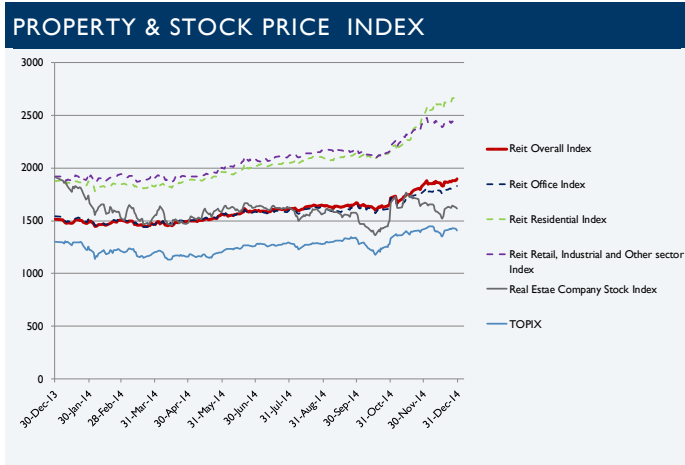
THE QUARTERLY TANKAN SURVEY



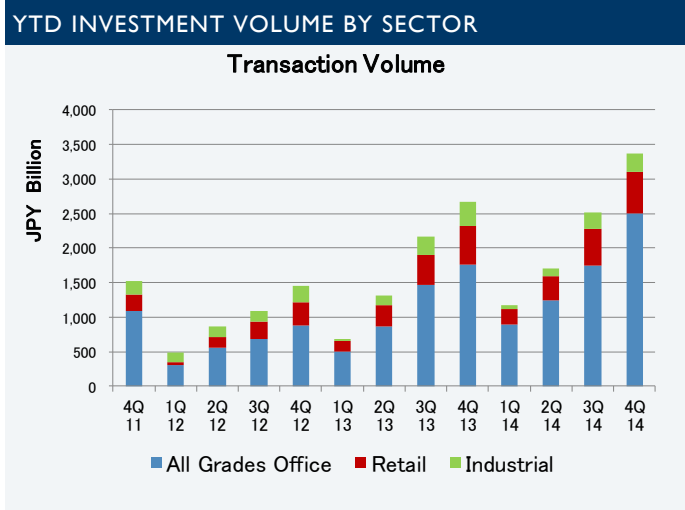
Source: Bank of Japan, Cushman & Wakefield Research

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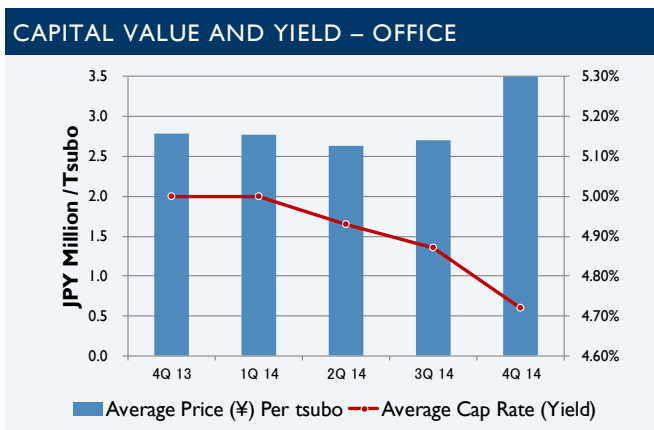
Source: Tokyo Stock Exchange, Cushman & Wakefield Research



Source: Real Capital Analytics, Cushman & Wakefield Research

OFFICE TRANSACTIONS OVERVIEW & OUTLOOK

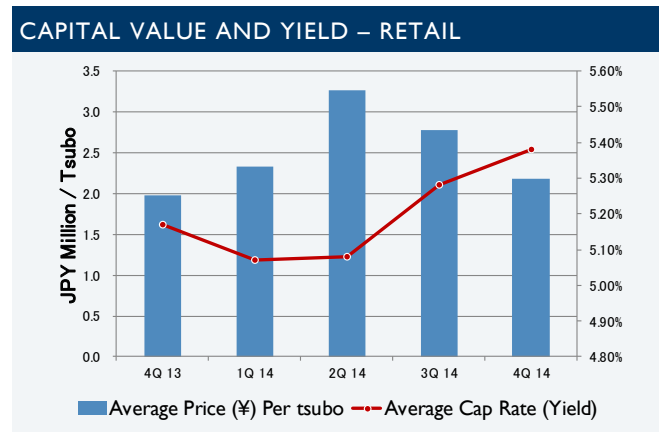
The transaction volume of office investments during this quarter hiked by nearly 50.0%, driven by a couple of significant prime deals including Pacific Century Place Building of approximately JPY 170.0 billion and former Mizuho Bank HQ of JPY 159.0 billion. They were associated with an compression of average yield. Going forward, transaction volume is anticipated to increase, led by buyers in the second-tier market with their continually relaxed investment criteria and risk tolerance. The market is forecast to trend upwards.



Source: Real Capital Analytics, Cushman & Wakefield Research

RETAIL TRANSACTIONS OVERVIEW & OUTLOOK

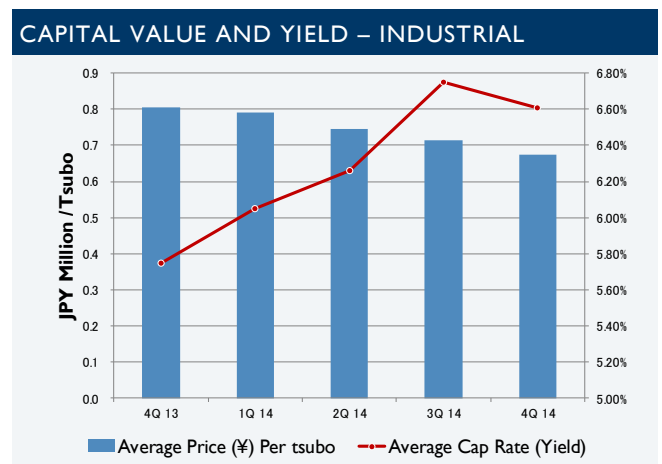
The transaction volume of retail investments in this quarter slowed by negative 62.0% quarter-on-quarter to just over JPY 65.0 billion due to few significant deals on the high streets in Tokyo Metropolitan. However, a couple of significant deals were seen in suburbs including Aeon Hadano Shopping Center of JPY 11.8 billion in Kanagawa Prefecture and One's Mall of JPY 11.0 billion in Chiba city. These deals lifted the average yield up. Going forward, yields are forecast to trend downwards as rebuilt buildings again come back onto the high streets motivated by the Tokyo 2020 Summer Olympic Games.



Source: Real Capital Analytics, Cushman & Wakefield Research

INDUSTRIAL TRANSACTIONS OVERVIEW & OUTLOOK

The transaction volume of industrial investments in this quarter fell considerably by negative 79.0% quarter-on-quarter to just below JPY 27.8 billion. However, the average yield stopped rising due to the acquisitions of investment-grade prime facilities in Tokyo bay area by J-REITs. Going forward, yields are forecast to stabilize in anticipation of a moderate level of new construction completions in the first half of 2015. Thereafter, the market should be carefully monitored as considerable volume of new supply is scheduled.



Source: Real Capital Analytics, Cushman & Wakefield Research

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CONCLUSION

The previous quarter saw an unexpected negative GDP growth of 0.5% (quarter-on-quarter, seasonally adjusted), largely driven by private residential investment falling by 6.8% which dragged the GDP growth level down. However, leading economists forecast the Japanese economy will undergo an uplift, driven by the gradual recovery of domestic investment activity, exports and private consumption. As large-sized corporations continued to register a strong performance, their domestic investment increased by 5.5% (year-on-year) in the previous quarter. As such, stock prices and J-REITs indexes hiked by 6.1% and 13.6% respectively, sustained by stable business confidence.

The first-tier office market saw a hike in transaction volume and heated up as witnessed by the current yield level which was close to the level seen in the last boom in 2007 and 2008. The market was notably driven by aggressive overseas investors which gradually increased their presence as buyers took advantage of a rapidly weakening JPY. As for domestic buyers including 'core-plus' and 'value-added' in the second-tier market, they abandoned their "wait-and-see" approach, relaxed their investment criteria and risk tolerance, and matched the offered prices raised by sellers. Going forward, property prices in first-tier markets still leave some room for them to rise.

MAJOR TRANSACTIONS

PROPERTY NAME	PROPERTY TYPE	DISTRICT / SUBMARKET	PURCHASER	AREA / GFA SF	CONSIDERATION / PURCHASE PRICE		UNIT PRICE US\$/SF
					US\$ MILLION	JPY MILLION	
Pacific Century Place Bldg. Marunouchi (8F-31F)	Office	Chiyoda -Ward / Marunouchi	GIC	420,840	1,413	170,000	3,358
fmr Mizuho Bank HQ Bldg.	Office	Chiyoda -Ward / Marunouchi	Mizuho Financial Group	797,419	1,321	159,000	1,657
Aeon Hadano Shopping Center	Retail	Hadano-City / Irifuncho	GK Double OI	857,336	98.1	11,800	114.4

Exchange Rate: 1 USD = 120.329 JPY as of 23 December 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、予想外の -0.5% (対前四半期比、季節調整済み) とマイナス成長となった。民間住宅購入が -6.8% 落ち込み、GDP 成長率を押し下げた。しかし、今期は、国内設備投資、輸出、民間消費の緩やかな回復にけん引され、エコノミストの間では持ち直しが予想されている。業績が引き続き好調である大企業の前期の国内設備投資は 5.5% 増加した。特に製造業は 10.8% も増加したが、自動車産業向けの金属製品、及び情報通信産業向けの電気機械製品を製造するための設備が強化された。安定した景況感にも支えられ、今期の株価は 6.1% 上昇、J-REIT 指数は 13.6% 上昇となった。最高ランクのオフィス売買市場は取引高の伸長と過熱を見た。目下の取引イーロドの水準は、2007、2008 年のブーム時に見られた水準に近かった。当該市場は積極的な海外投資家によってけん引されたと特筆され、彼らは急速な円安に乗じて徐々に買主としての存在感を増してきた。しかしながら、最高ランクのオフィス売買市場では、売手が強気のため、買手は投資シナリオを超えた提示価格に十分には追い付いていけなかった場合もあり得た。一方、最高ランクに次ぐ市場における国内投資家 (コアプラス、バリュアード) も、今までの慎重姿勢を崩してきたかに見受けられる。投資基準を柔軟にし、リスクを許容していくことで、彼らの欲しい物件であれば、売主によって上げられた価格に追い付いていた。最高ランクのオフィス売買市場の価格は、まだ幾ばくかの上昇余地を残している。

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経済概観

前期の GDP 成長率は、予想外の -0.5% （対前四半期比、季節調整済み）とマイナス成長となった。民間住宅購入が -6.8% 落ち込み、GDP 成長率を押し下げた。しかし、今期は、国内設備投資、輸出、民間消費の緩やかな回復にけん引され、エコノミストの間では持ち直しが予想されている。これは、製造業の景況感に先行する指標として知られる工作機械販売額の伸長率がかなり高かった（10月 35.3% 、11月 35.6% 、前年同月比）ことにも裏付けられている。

投資環境全般、株式市場

業績が引き続き好調である大企業の前期の国内設備投資は 5.5% 増加した。特に製造業は 10.8% も増加したが、自動車産業向けの金属製品、及び情報通信産業向けの電気機械製品を製造するための設備が強化された。製造業の $+12$ 、非製造業の $+16$ と、ともに底堅かった直近の日銀短観業況判断指数にも現れているように安定した景況感に支えられ、今期の株価は 6.1% 上昇、J-REIT 指数は 13.6% 上昇となった。

売買市場と今後

J-REITs が活況を呈する只中、11月の日本ヘルスケア投資法人及びトーセイ・リート投資法人、並びに12月の積水ハウス・リート投資法人など一連の新規銘柄の上場があった。引き続き2015年2月には、ケネディクス商業リート投資法人の上場が予定されている。

今期は大規模なプライム物件の取引で幕を開けた。丸の内にあるパシフィックセンチュリータワーが GIC に約 1,700 億円で売却された。また、セイコーインスツル創業者所有の高級住宅街の一等地が、CDL（シンガポールの大手デベロッパー）に 305 億円で売却された。CDL はその土地で高級マンションを開発すると報じられている。そのような市況の下、最高ランクのオフィス売買市場は取引高の伸長と過熱を見た。目下の取引イールドの水準は、2007、2008 年のブーム時に見られた水準に近かった。当該市場は積極的な海外投資家によってけん引されたと特筆され、彼らは急速な円安に乗じて徐々に買主としての存在感を増してきた。一方、最高ランクに次ぐ市場における国内投資家（コアプラス、バリュアード）も、今までの慎重姿勢を崩してきたかに見受けられる。投資基準を柔軟にし、リスクを許容していくことで、彼らの欲しい物件であれば、売主によって上げられた価格に追い付いていた。東京中心部では売り物件が品薄のため、買手は札幌、仙台、福岡など東京 5 区以外で物件を求めていた。

今後、最高ランクのオフィス売買市場のイールドは幾分低下基調、賃料は徐々に上昇と見込まれる。よって、当該市場のオフィス価格は、まだ幾ばくかの上昇余地を残している。

オフィス取引市場概観と今後

今期のオフィス売買取引量は、大規模なプライム物件であるパシフィックセンチュリータワーの約 1,700 億円や旧みずほ銀行本店の 1,590 億円の取引にけん引され、 50% も跳ね上がった（前期比）。これに伴い、今期の平均イールドも圧縮した。今後、最高ランクに次ぐ市場における国内投資家にもけん引されて取引高は増加すると予想する。それは、彼らは引き続き投資基準を柔軟にしてリスクを許容していくからである。市場は上昇基調と予想する。

リテール取引市場概観と今後

今期のリテール売買取引量は、首都圏の主要な目抜き通りでの大規模な取引がほとんどなく 62% も減少（前期比）し、650 億円をやや上回る水準に留まった。その一方で、大規模な郊外物件の取引がいくつか見られた。神奈川県のアオモリショッピングセンターの 118 億円、千葉市のワンズモールの 110 億円の取引などであり、平均イールドが引き上げられた。今後のイールドは、低下基調で推移すると予想する。それは 2020 年東京五輪に動機付けられ、新しく建て替えられた物件が再び首都圏の主要な目抜き通りの市場に戻ってくるからである。

インダストリアル取引市場概観と今後

今期のインダストリアル売買取引量は、 79% も減少（前期比）し、278 億円を下回る水準まで落ち込んだ。しかしながら、ある J-REIT が東京湾岸に立地する投資適格クラスのプライム物件を取得したため、平均イールドの上昇は止まった。今後、中程度の新規供給水準に鑑みて前半のイールドは安定すると予想する。しかし、その後はかなりの新規供給量が予定されているので、市場を注視すべきであろう。

結論

前期の GDP 成長率は、予想外の -0.5% （対前四半期比、季節調整済み）とマイナス成長となった。民間住宅購入が -6.8% 落ち込み、GDP 成長率を押し下げた。しかし、今期は、国内設備投資、輸出、民間消費の緩やかな回復にけん引され、エコノミストの間では持ち直しが予想されている。業績が引き続き好調である大企業の前期の国内設備投資は 5.5% 増加した。安定した景況感にも支えられ、今期の株価は 6.1% 上昇、J-REIT 指数は 13.6% 上昇となった。最高ランクのオフィス売買市場は取引高の伸長と過熱を見た。目下の取引イールドの水準は、2007、2008 年のブーム時に見られた水準に近かった。当該市場は積極的な海外投資家によってけん引されたと特筆され、彼らは急速な円安に乗じて徐々に買主としての存在感を増してきた。一方、最高ランクに次ぐ市場における国内投資家（コアプラス、バリュアード）も、今までの慎重姿勢を崩してきたかに見受けられる。投資基準を柔軟にし、リスクを許容していくことで、売主によって上げられた価格に追い付いていた。最高ランクのオフィス売買市場の価格は、まだ幾ばくかの上昇余地を残している。

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<プロフィール>

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。

<クッシュマン・アンド・ウェイクフィールドについて>

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