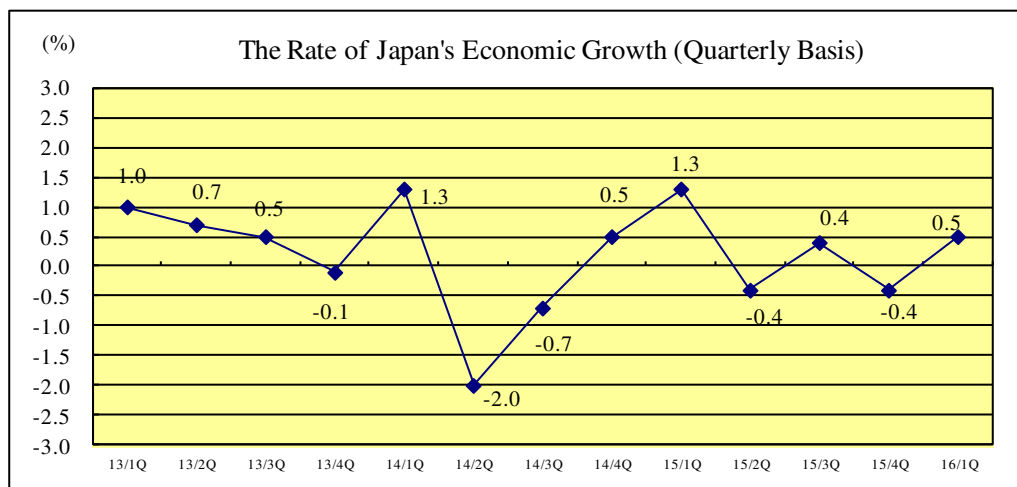


JAPAN PROPERTY MARKET OVERVIEW <H1 2016>

(1) Outlook of Japanese Economy

The Monthly Economic Report that Cabinet Office announced on May 23, 2016 says that “The Japanese economy is on a moderate recovery, while weakness can be seen recently. Private consumption is almost flat, while consumer confidence appears to be pausing. Business investment is picking up. Exports are almost flat. Industrial production is flat. Corporate profits show a trend toward improvement, although the pace has become moderate. Firms' judgment on current business conditions shows cautiousness. The employment situation is improving. Consumer prices are rising moderately.” According to GDP Flash Report by “Jan. -Mar. Quarter (QE-2)”, the Cabinet Office announced on June 8, 2016, growth rate of GDP declined by 0.5% on quarterly basis, and declined by 1.9% on annual basis.



Source: Cabinet Office (graph by the author)

The prospect of monthly economic report describes short-term projection as follows: “the economy is expected toward recovery, supported by the effects of the policies, while employment and income situation is improving. However, there are downside risks of the Japanese economy including slowing down of emerging Asian economies including the Chinese economy and countries with natural resources amid the weakness of overseas economies. In addition, attention should be given to the increased uncertainty in overseas economies and the effects of fluctuations in the financial and capital markets under such circumstances. Also, full attention should be given to the economic impact of the 2016 Kumamoto Earthquake.”

Economic prospects of several private think tanks are summarized as follows:

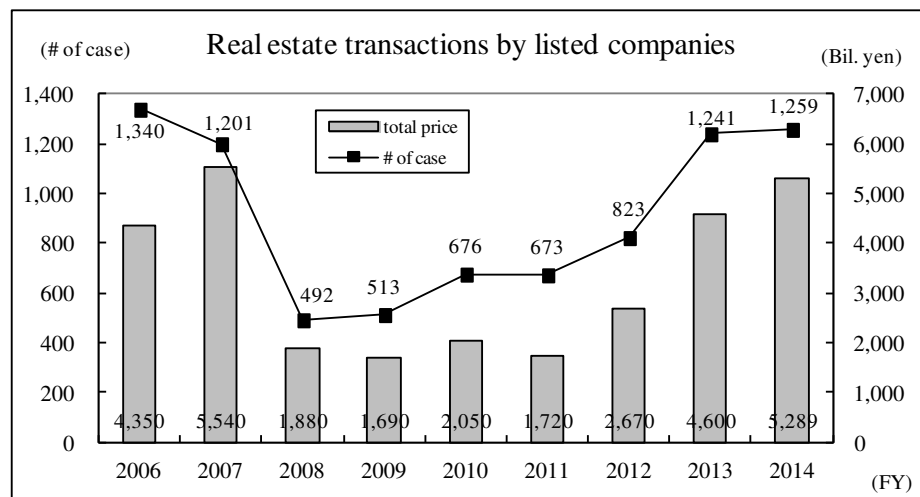
The economy decelerated in early 2016 due to negative factors including the yen's rise and stock price drops, might negatively effects domestic consumption and corporate profits, and the Japanese economy has recently been showing signs of weakening. In addition, negative economic impact of the Kumamoto Earthquake for factory operations, consumptions and tourist demand, have the risk of holding down the economy. However, the economy is expected to pick up reflecting completion of business investment and improvement in employment and income environment.

(2) Land Price Trend

According to Chika-koji national public land survey as of January 1, 2016, national average land price rose by 0.1% on annual basis. This was the first average rise in the past eight years since the worldwide financial crisis. Split into land uses, commercial land average annually rose up from the previous year first time in the past eight years (annual rise by 0.9%). Boom in inbound and domestic tourism resulted in larger demand on stores and hotels. Lowering of office vacancy rate also led larger investment motivations on real properties. These positively influenced the land price to rise. As for residential lands, the nationwide average land price dropped by 0.2% from the previous year, but the rate of fall is getting far milder than ever. Employment is picking up and residential demand is supported by low mortgage yield policy. As a result, residential land prices are bottoming off. Regarding the three metropolitan areas (Greater Tokyo, Osaka and Nagoya), average land price is rising for three consecutive years both at commercial and residential lands. Where a rise is observed has been more than 70% of all the survey points in the commercial lands, and that more than 50% in the residential lands. In the core cities out of the three metropolitan areas, land price is rising rather faster than the average of the three metropolitan areas at all use categories. Recovering trend in land price is apparent nationwide.

(3) Real Estate Transaction Trend

According to "Real Estate Topics" by Mizuho Trust & Banking announced in May 2015, the number of real estate transactions by listed companies in FY2014 accounted for 1,259 cases that is equivalent to the sales amount of approximately 5.3 trillion yen. Those figures in the previous FY2013 were 1,241 cases and approximately 4.6 trillion yen respectively. On year-on-year basis, although the number of transaction cases remained almost the same (rose up by 1% per annum), the sales amount increased by some 15% and it reached 5 trillion yen that was the first time in these seven years since 2007. The trend of the figures is summarized as follows:



As same as in FY2013, the real estate investment market kept in a good mood in FY2014 with good financial environment with low interest rate and expectation of rent rise. Mainly with grade-A properties, the sale prices have been heated up in FY2014. Since FY2010, property acquisitions by

J-REIT corporations kept increasing, but in FY2014, the total transacted price accounted for approximately 1.8 trillion yen and it turned to a slight decline from the previous year. This figure accounted for 34% of the total transacted price of all real properties in Japan, and the share became slightly smaller from the previous year. The reasons of this would be; large scale IPOs in J-REIT market have decreased in number in FY2014; and investors regard the higher acquisition price as lowering of expected rate of return in J-REIT market. On the other hand, weak-yen trend attracted overseas investors toward real properties in Japan. The sale amount transacted by overseas corporations reached some 1.2 trillion yen consisting of 23% of all the transaction. The amount was 2.8 times larger than that in the previous year. Also, the disposing amount reached 0.9 trillion yen that was an increase by 30% from the previous year.

As above, activities by the overseas investors and corporations were topical in the FY2014. The deals where both seller and the buyer come from domestic origin were two thirds of total deals in the year in terms of the transaction amount (approximately 3.37 trillion yen by domestic origin), and the rest one third was from those overseas corporations (whether or both seller and / or buyer come from overseas origin). For the time being, competitive condition in acquisition of investment properties would remain in the market. At the same time, future risk of rise in interest rate resulted in possible downturn in overseas economy should be paid enough attention.

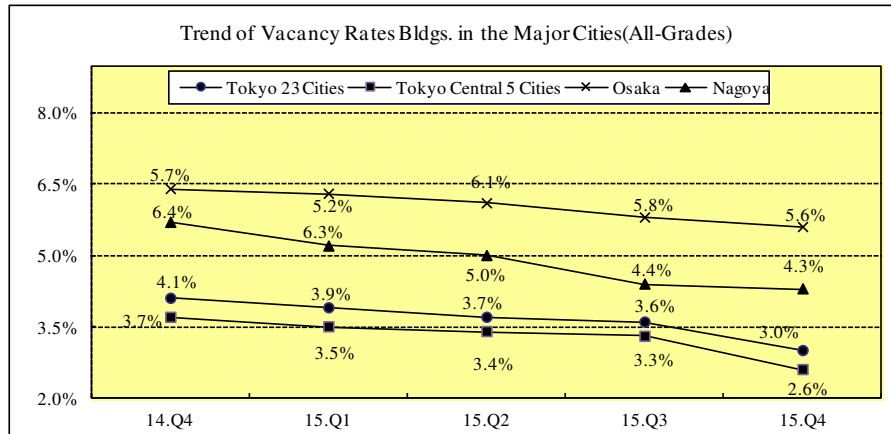
(4) Office Market

The office vacancy rate fluctuation as of Oct-Dec Quarter 2015 is summarized as follows.

In all area categories, demand is becoming larger than the supply capacity, and thereby rent increase is expected to continue to the following two years. In regard to the all-grade average in Tokyo (23 Cities Avg.), new supply of office floor areas reached 33,800 tsubo, whereas new demand became more than doubled, and accounted for 75,100 tsubo. A big reason of this demand extension is the seasonal appreciation prior to the next quarter when many companies close their fiscal year at the end of March. Vacant spaces in brand-new buildings come to be limited and it results in accelerating the decision making process by the companies trying to relocate. As a result, the average vacancy rate in the area dropped to 3.0% which is lower than the previous quarter by 0.6pts. The average rate is now being lowered for 12 consecutive quarters.

In Osaka City, relocation demand aiming at “better location, better building” has been largely seen throughout the year of 2015. Prospective tenants tend to widen the candidate new location, and thereby the average vacancy rate will be possibly lower going forward.

In Nagoya City, large scale brand-new office buildings have been completed, and they are highly demanded by the companies whose business recovery is becoming apparent. In this quarter, new demand reached the highest in the history, and two iconic brand-new buildings accomplished high occupancy rate from the beginning.



Source: CBRE, Inc. "Japan Office Market View Q4 2015 Vacancy Rates and Assumed Rents"

(6) Retail Industry (Nationwide Trend)

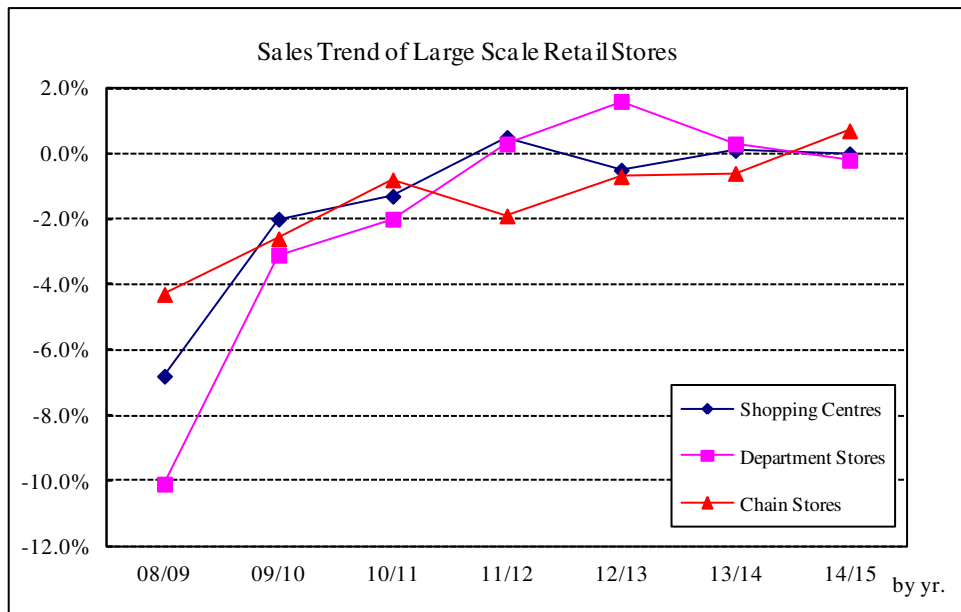
The sales volume trend of retail industry is summarized as follows. In 2015, total sales in SC remained at the same level as the previous year.

The total sales by chain stores turned to rise by 0.7% on annual basis (a drop by 0.6% in the previous year survey). That of department store turned to fall by 0.2% (a rise by 0.3% in the previous year survey), and it was first time to fall during these three years.

In the first quarter of 2015, the sales had dropped by 4.3% on quarterly basis in comparison to the previous year quarter which would have resulted from the introduction Consumption Tax hike in April of the previous year, in reaction to hurried purchases of products by the consumers ahead of the April 2014 introduction of consumption tax hike.

After April 2015, the sales have been improving, and annual sales remained same from the previous year. Split into regions, sale amount declined at regions of Tohoku, Chubu, Hokuriku, Kinki, Chugoku and Shikoku whereas it increased at Hokkaido, Kanto, Kyushu and Okinawa. In particular, it annually rose up by 2.3% in Hokkaido and by 1.5% in Kyusyu / Okinawa.

Recently, private consumption is still in a sluggish recovery although wages and employment are getting better. The situation is however expected to recover in the following years. Inbound tourism is also the key for the industry: Number of overseas tourists is increasing than ever, and hotels and department stores have much to do with it. Attention should be fully paid on the possible negative impact from the another hike of Consumption Tax to 10%, real estate bubble in China and deflating economy in Europe.

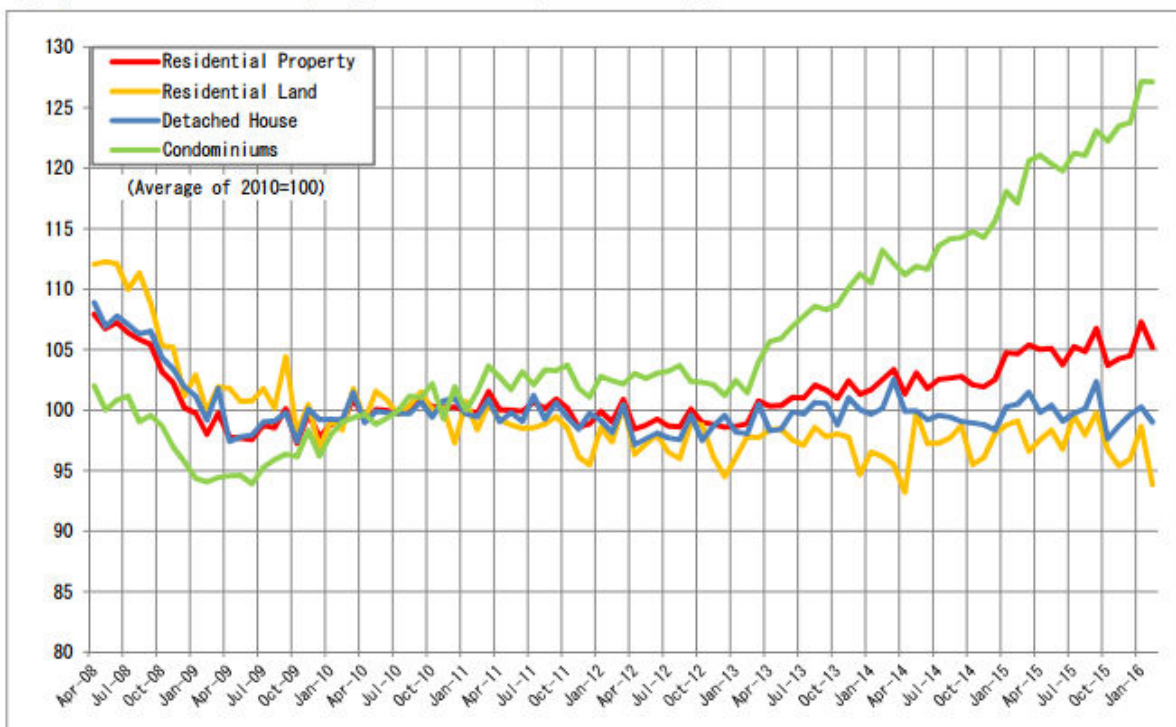


(7) Residential Market

According to Ministry of Land, Infrastructure, Transport and Tourism (MLIT) of JAPAN, changes in residential property prices are summarized as follows:

Japan Residential Property Price Index(JRPPI) is an index of prices of residential property by Regions, Metropolitan Areas and Prefectures based on the actual transaction data.
MLIT releases JRPPI of February 2016.

【 Japan Residential Property Price Index (Nationwide) 】



All Japan

Residential Property price index is 105.2 (annual change compared to year-earlier month: +0.5%).

Residential Land price index is 93.8 (annual change compared to year-earlier month: -5.3%).

Detached House price index is 99.0 (annual change compared to year-earlier month: -1.5%).

Condominiums price index is 127.1 (annual change compared to year-earlier month: +8.5%).

Tokyo including suburbs (Saitama, Chiba, Tokyo, Kanagawa Prefecture)

Residential Property price index is 106.8 (annual change compared to year-earlier month: +1.6%).

Residential Land price index is 94.5 (annual change compared to year-earlier month: -9.7%).

Detached House price index is 99.4 (annual change compared to year-earlier month: +1.6%).

Condominiums price index is 124.6 (annual change compared to year-earlier month: + 8.9%).

Tokyo

Residential Property price index is 113.5 (annual change compared to year-earlier month: +4.0 %).

Residential Land price index is 100.7 (annual change compared to year-earlier month: - 8.9 %).

Detached House price index is 104.9 (annual change compared to year-earlier month: + 6.3 %).

Condominiums price index is 128.5 (annual change compared to year-earlier month: + 9.0 %).

Nagoya including suburbs (Gifu, Aichi, Mie and Prefecture)

Residential Property price index is 98.4 (annual change compared to year-earlier month: -2.7%).

Residential Land price index is 92.9 (annual change compared to year-earlier month: -2.7 %).

Detached House price index is 94.4 (annual change compared to year-earlier month: -4.7 %).

Condominiums price index is 125.5 (annual change compared to year-earlier month: -+2.0%).

Osaka including suburbs (Kyoto, Osaka, and Kobe Prefecture)

Residential Property price index is 109.7 (annual change compared to year-earlier month: +3.5 %).

Residential Land price index is 100.9 (annual change compared to year-earlier month: -11.8 %).

Detached House price index is 101.0 (annual change compared to year-earlier month: +4.2 %).

Condominiums price index is 127.2 (annual change compared to year-earlier month: +9.2%).

- END -

APPENDIX

Map of Japan



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Map of Tokyo

<Metropolitan Tokyo>

<Tokyo Larger Central 23 Wards>



Tokyo Central 5 Wards:

- Chiyoda-ku
- Chuo-ku
- Minato-ku
- Shinjuku-ku
- Shibuya-ku

Sited from: <http://en.wikipedia.org/wiki/Tokyo>; edited by Japan Valuers Co., Ltd.