

# Real Estate Analysis Report

## Most Optimistic Outlook since 2008, Focus on Market Polarization and China Risk Aversion ~The Ninth Japanese Property Market Survey~

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### Summary

- The ninth annual property market survey resulted in a well balanced current sentiment in the property investment market largely accounted for by “Normal” responses and in some parts by “Good” and “Bad” responses.
- Regarding the six-month property investment market outlook, “Somewhat better” responses predicting higher prices or more transactions dominated accounting for nearly two-thirds of the total. Clearly, the result is the most optimistic outlook since the global financial crisis in 2008.
- When asked which property sector is the most preferable for investment in terms of price appreciation and market growth, more than half of the respondents chose “Logistics”. In addition, a notably increasing number of respondents chose “Infrastructure”. On the other hand, “China and Asia,” which was chosen by the largest number of respondents last year but declined significantly this year, clearly represents China risk aversion.
- We next asked what developments are most likely to be seen in the property market in the mid- to long-term. About 80% of the respondents cited “Market polarization”. “Disaster-prevention and energy-saving technology enhancement,” which was cited heavily last year, did not garner much attention this year.
- Finally, we asked how much of a premium (cap rate reduction) would be acceptable for high performance disaster-prevention and energy-saving properties compared to equivalent properties. More than half of the respondents chose “-0.3%~-0.1%,”

## Introduction

NLI Research Institute conducted the ninth annual *Property Market Survey* of market sentiment among Japan-based property professionals.<sup>1</sup> This year we sent out 177 questionnaires by email on October 1, 2012, and received 98 valid responses by October 12 (55% collection rate).

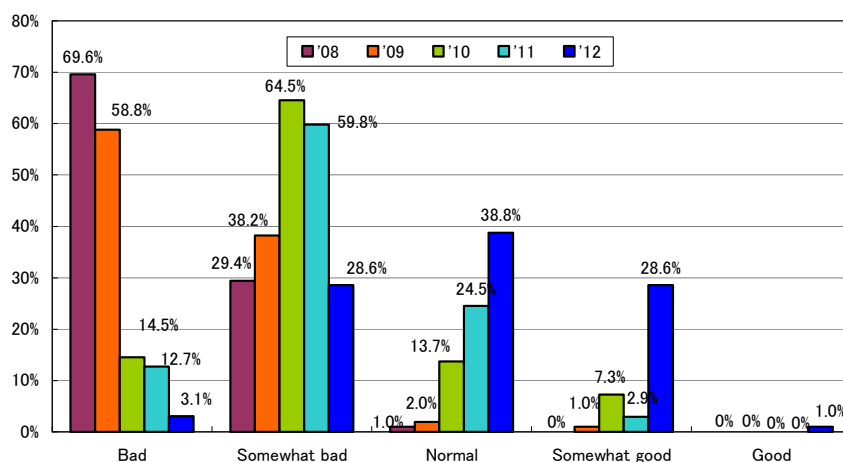
## Results

### 1. Current Sentiment

Regarding the current sentiment in the property investment market, “Somewhat good” responses cited by 28.6% of respondents tied with “Somewhat bad” responses for the first time in several years. Although “Bad” and “Somewhat bad” responses always dominated previously, this time the survey resulted in a well-balanced sentiment largely accounted for by “Normal” responses and in some parts by “Good” and “Bad” responses (Chart-1).

Though current leasing markets are still stagnant as seen in high vacancy rates in the Tokyo office market, investors’ sentiment has gradually improved with the first J-REIT IPO in four and a half years and an increasing number of investment funds set up for foreign investors.

Chart-1 Current Market Sentiment (SA)



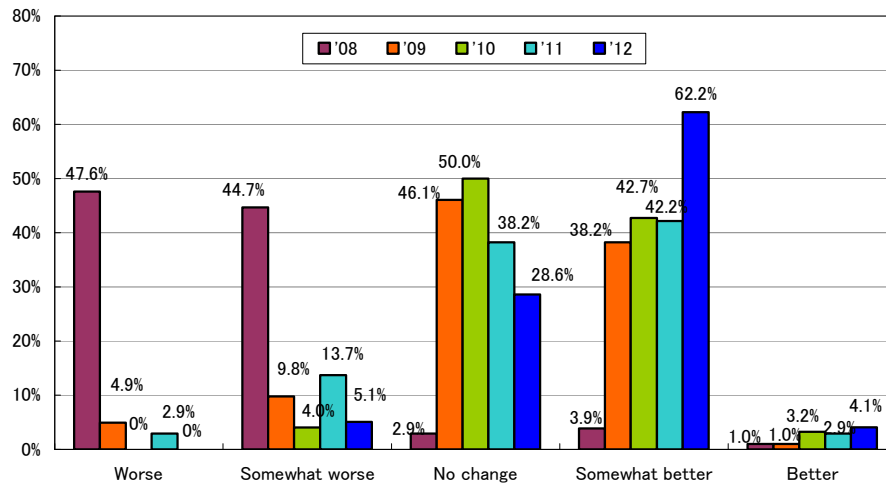
Source: NLI Research Institute, *Property Market Survey*, 2008~12

### 2. Six-Month Outlook

Regarding the six-month property investment market outlook, “Somewhat better” responses predicting higher prices or more transactions dominated accounting for nearly two-thirds of the total (Chart-2). Clearly, the result is the most optimistic outlook since the global financial crisis in 2008.

<sup>1</sup> The Japan-based property professionals are those engaged in various work such as development, construction, banking, insurance, brokerage, property management, fund management, rating, investment advising and consulting.

Chart-2 Six-Month Market Outlook (SA)



Source: NLI Research Institute, *Property Market Survey*, 2008~12

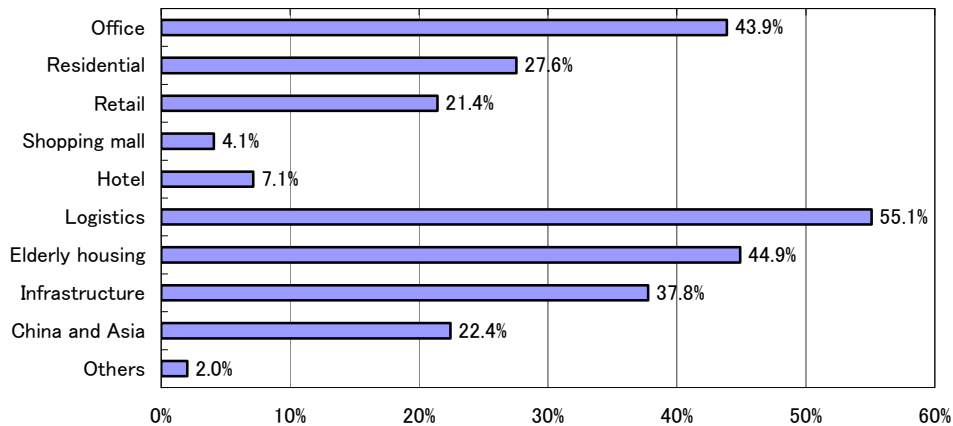
### 3. Preferred Sectors

When asked which property sector is the most preferable for investment in terms of price appreciation and market growth, more than half of the respondents chose “Logistics” (Chart-3). The growing internet home shopping sector requires more quality logistics facilities, and corporation restructuring of the logistics networks into 3PL services supports the sector.

In addition, a notably increasing number of respondents chose “Infrastructure” (Chart-3, 4). Though the Japanese infrastructure investment market has not yet matured, Mega-solar, a large solar power generation facility, and other renewable energy facilities are gaining attention as investment opportunities.

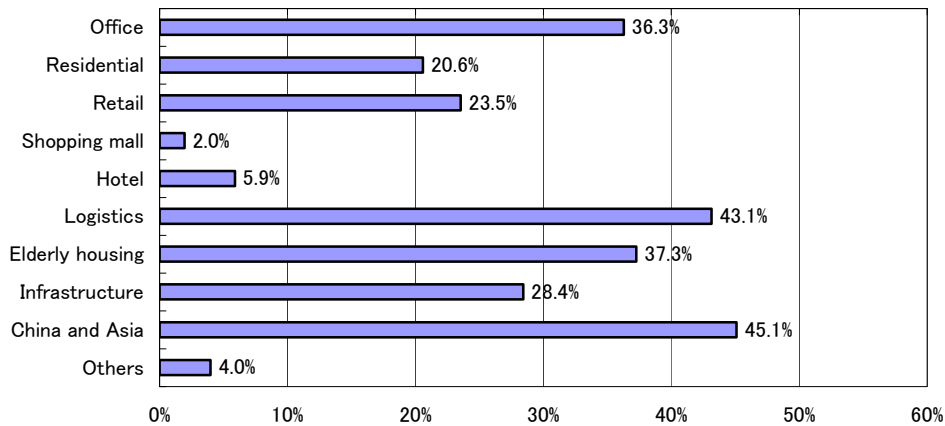
On the other hand, “China and Asia,” which was chosen by the largest number of respondents last year but declined significantly this year, clearly represents China risk aversion. Nevertheless, some players pay close attention to other Asian markets or other Western markets to take advantage of the current strength of the Japanese yen.

**Chart-3 Preferable Sectors Expected Price Appreciation and Market Expansion (MA3)**



Source: NLI Research Institute, October 2012

**Chart-4 “Last Year” Preferable Sectors Expected Price Appreciation and Market Expansion (MA3)**



Source: NLI Research Institute, October 2011

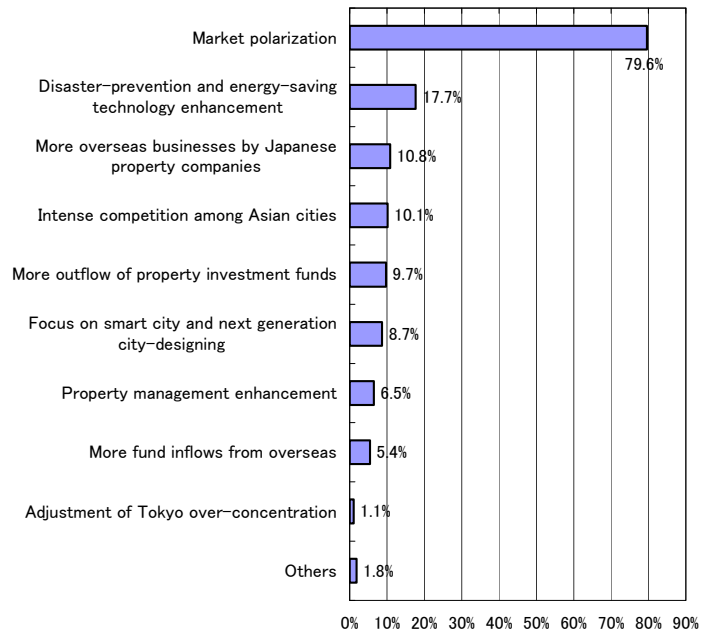
#### 4. Likely Mid- to Long-Term Development in the Property Market

We next asked what developments are most likely to be seen in the property market in the mid- to long-term. About 80% of the respondents cited “Market polarization” (Chart-5).

“Disaster-prevention and energy-saving technology enhancement,” which was cited heavily last year, did not garner much attention this year (Chart-5, 6). This might be a natural reversal from last year when the earthquake hit Japan creating an air of sensitivity to this theme. However, after the recent accelerated efforts, further significant improvement in disaster-prevention and energy-saving might be difficult to imagine.

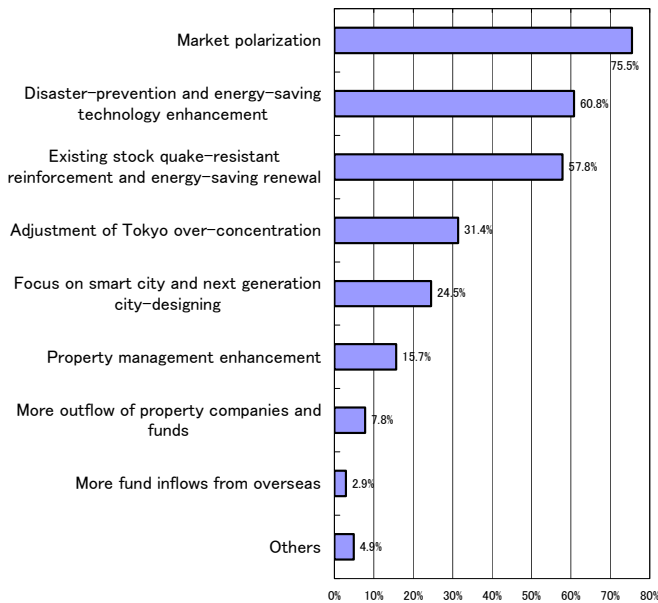
Moreover, the responses “Adjustment of Tokyo over-concentration” accounted for almost nothing. Though Tokyo over-concentration risk was the greatest concern in April 2011 just after the earthquake (Chart-7), the dominance of Tokyo as the best location for corporations seems unchanged, and the discussion concerning Tokyo over-concentration risk is fading away.

**Chart-5 Likely Mid- to Long-Term Development (MA3)**



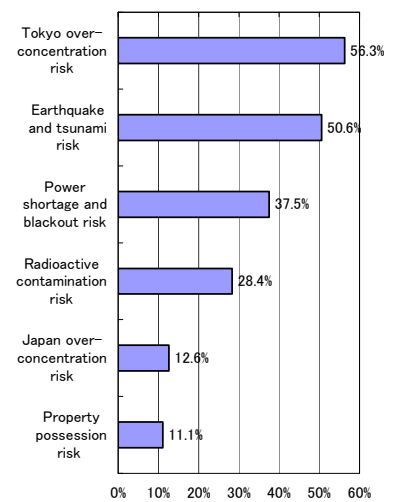
Source: NLI Research Institute, October 2012

**Chart-6 “Last Year” Likely Mid- to Long-Term Development (MA3)**



Source: NLI Research Institute, October 2011

**Chart-7 “April 2011” Risk Factors to be Considered (MA2)**



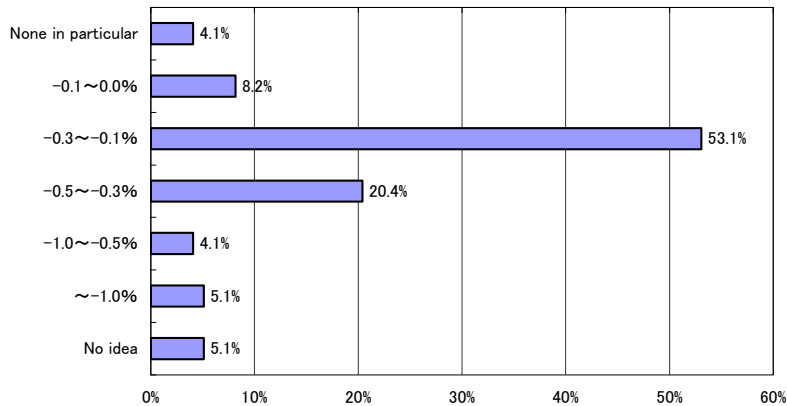
Source: NLI Research Institute, April 2011

## 5. Preference for Disaster-prevention and Energy-saving Properties

Finally, we asked how much of a premium (cap rate reduction) would be acceptable for high performance disaster-prevention and energy-saving properties compared to equivalent properties. More than half of the respondents chose “-0.3%~-0.1%,” while “None in particular,” “-0.1%~0.0%,” and “-1.0~-0.5%” and “~-1.0%” on the other side, which recognizes categorical premium, declined significantly.

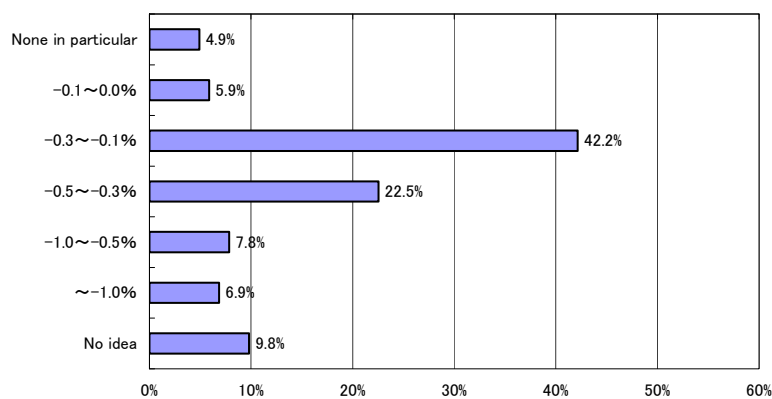
Actually, high performance disaster-prevention and energy-saving properties have seldom been transacted. Based on the results of this survey, however, the market perception has apparently been settling in not significant but also not ignorable ways. The “-0.3%~-0.1%” premium can have a positive effect of several percentage points on asset value, which can be observed on actual transactions hereafter.

**Chart-8 Acceptable Premium on Properties Well Equipped for Disaster-prevention and Energy-saving (SA)**



Source: NLI Research Institute, October 2012

**Chart-9 “Last Year” Acceptable Premium on Properties Well Equipped for Disaster-prevention and Energy-saving (SA)**



Source: NLI Research Institute, October 2011

\*This report includes data from various sources and NLI Research Institute does not guarantee the accuracy and reliability. In addition, this report is intended only for providing information, and the opinions and forecasts are not intended to make or break any contracts.