

Real Estate Analysis Report

Dominant Optimistic Sentiment with Further Improving Outlook

~The Tenth Japanese Property Market Survey~

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Summary

- The tenth annual *property market survey* resulted in a very optimistic current investment sentiment with “Good” and “Somewhat good” responses accounting for more than 90% of the respondents.
- Regarding the six-month outlook, “Somewhat better” and “Better” responses predicting higher prices or more transactions accounted for nearly 70% of the respondents.
- When asked which property sector is the most preferable for investment in terms of price appreciation and market growth, “Healthcare property” tied with “Logistics” at the leading position. Moreover, a notably increasing number of respondents chose domestic consumption sectors such as “Hotel” and “Urban retail.”
- Regarding the impact of the consumption tax hike scheduled next April on the property market, two-thirds of the respondents chose “Not at all” or “Not much concern” responses.
- When asked what is expected in preparation for the 2020 Tokyo Olympic Games, international responses such as “Better access to Narita and Haneda airport,” “More Tokyo competitiveness in Asia” and “More foreign tourists to Tokyo” garnered outstanding attention.

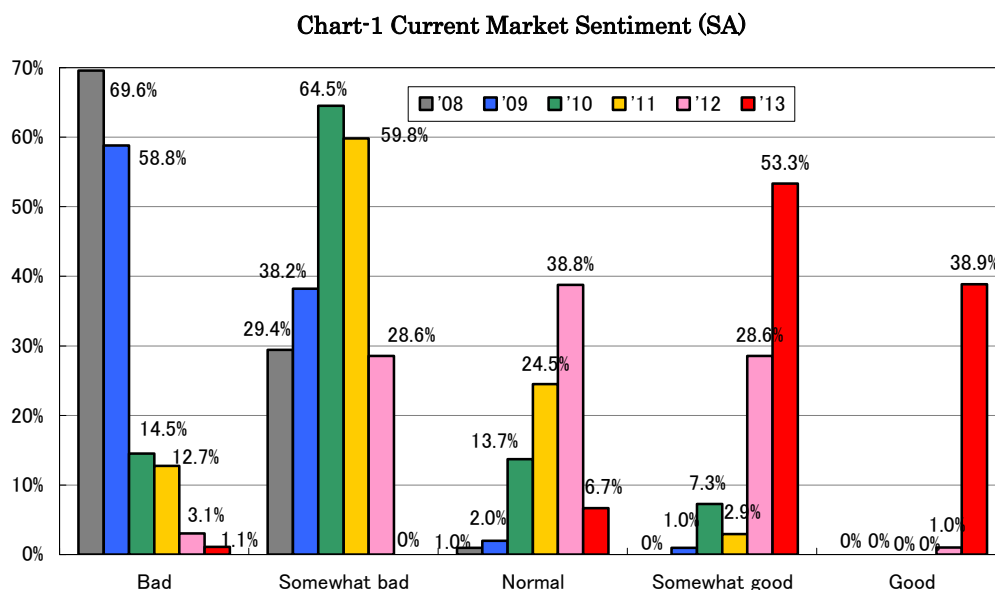
Introduction

NLI Research Institute conducted the tenth annual *Property Market Survey* of investment market sentiment among Japan-based property professionals.¹ This year we sent out 179 questionnaires by email on October 7, 2013, and received 90 valid responses by October 17 (50.3% collection rate).

Results

1. Current Sentiment

Regarding the current sentiment in the property investment market, “Somewhat good” responses accounted for more than half of respondents. Even “Good” responses which had almost never appeared since 2008 represented 38.9% of the respondents (Chart-1). “Good” and “Somewhat good” responses dominated accounting for more than 90% of the respondents, which is totally opposite to that during the global financial crisis in 2009 when “Bad” and “Somewhat bad” responses accounted for more than 90% of the respondents. Even though leasing markets do not always look strong with historically high office vacancy rates, the sentiment of the property investment market has already become very optimistic.

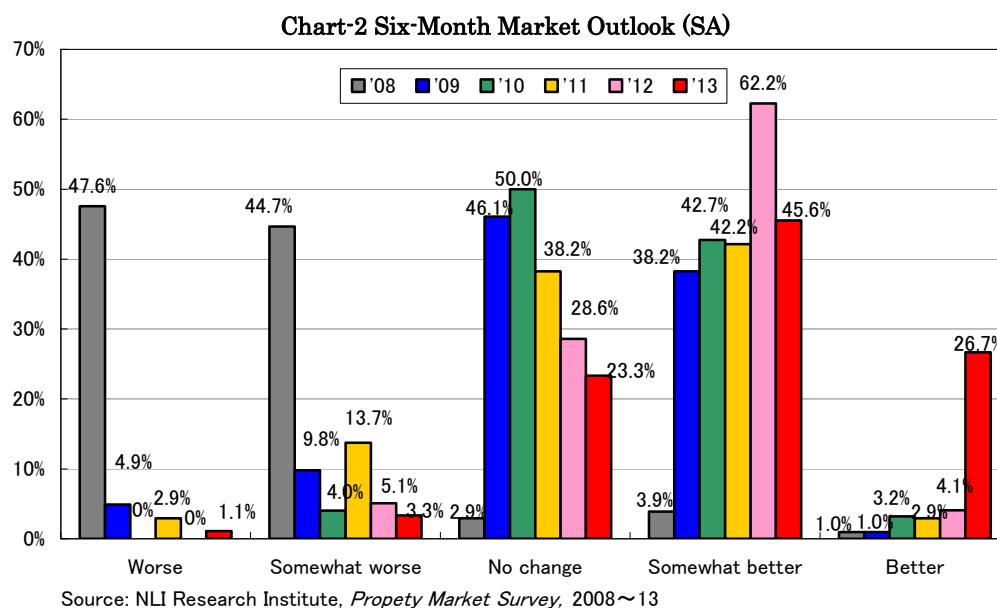


2. Six-Month Outlook

Regarding the six-month property investment market outlook, “Somewhat better” and “Better” responses predicting higher prices or more transactions accounted for more than 70% of the respondents (Chart-2).

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

Even though the current sentiment has already become very optimistic, many players expect the market to improve further.



3. Preferred Sectors

When asked which property sector is the most preferable for investment in terms of price appreciation and market growth, an outstanding number of respondents chose “Healthcare property” and “Logistics” as seen last year. This time, however, “Healthcare property” tied with “Logistics” at the leading position (Chart-3, 4).

“Healthcare property” including senior nursing houses and medical care facilities has been regarded as a high growth sector on the back of the Japanese demographic aging, and recently, more market attention has focused on the sector as investable assets, with healthcare REITs preparing for IPO.

Regarding the “Logistics” sector, growing internet home shopping requires more quality logistics facilities, and corporate restructuring of logistics networks into 3PL services supports the sector growth. However, after many quality logistics facilities having already being developed in recent years, further growth expectation seems to be fading.

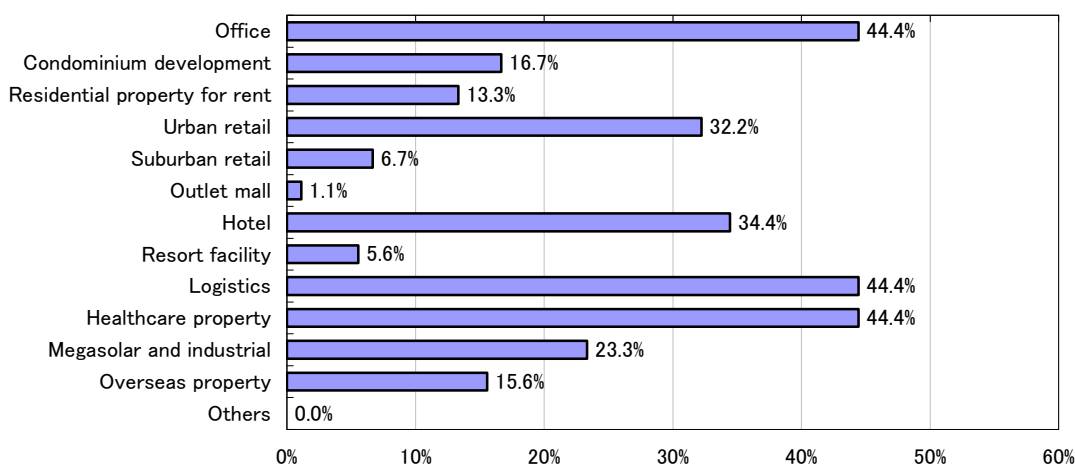
Moreover, a notably increasing number of respondents chose “Hotel” with not a small number of respondents choosing “Resort facilities.” Recently, the foreign visitor arrival number is growing strongly especially from Southeast Asia and the hotel occupancy rates remain very high. In addition, more foreign visitors are expected to visit Tokyo in connection with the 2020 Tokyo Olympic Games.

Similarly, a remarkable number of respondents chose “Urban retail.” With responses “Suburban retail” and “Outlet mall” added, those of the domestic retail facility sector nearly

doubled this time. Domestic consumption is expected to expand backed by economic recovery and the sector can also benefit from a growing number of foreign visitors following the Hotel sector.

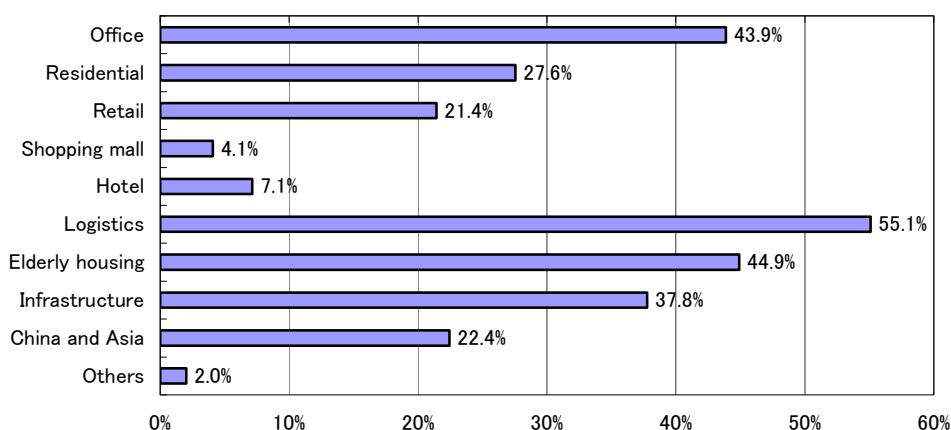
In contrast to these increasing positive responses for domestic consumption sectors, “Hotel” and “Urban retail,” and the “Office” sector remained as popular as last year as a typical cyclical sector, the number of respondents expecting growth opportunities for “Foreign property” shrank significantly.

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



Source: NLI Research Institute, October 2013

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



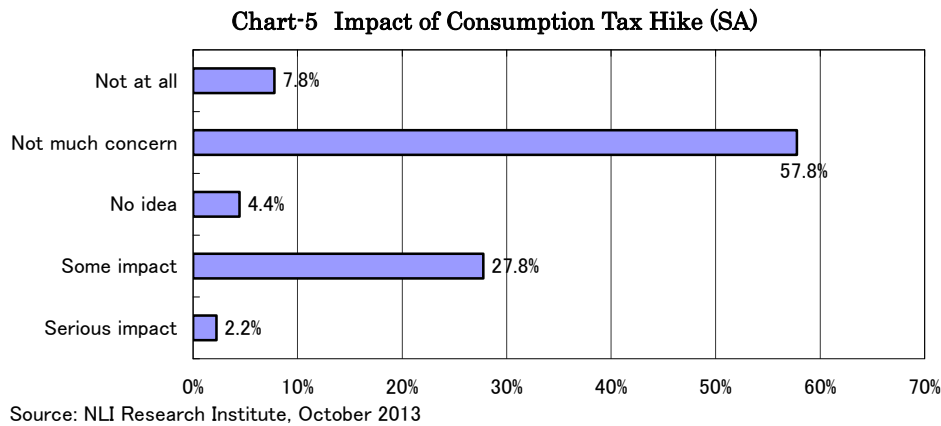
Source: NLI Research Institute, October 2012

4. Impact of Consumption Tax Hike

Regarding the impact of the consumption tax hike from the current 5% to 8% scheduled in April 2014 on the property market, 57.8% of the respondents chose “Not much concern”

responses and 7.8% “Not at all” (Chart-5).

Because the consumption tax hike pulls up the cost and price of buildings, housing sales can shrink following the rush demand before implementation. However, it does not seem that many players are concerned the property market will be impacted seriously by the economic slowdown following the consumption tax hike.

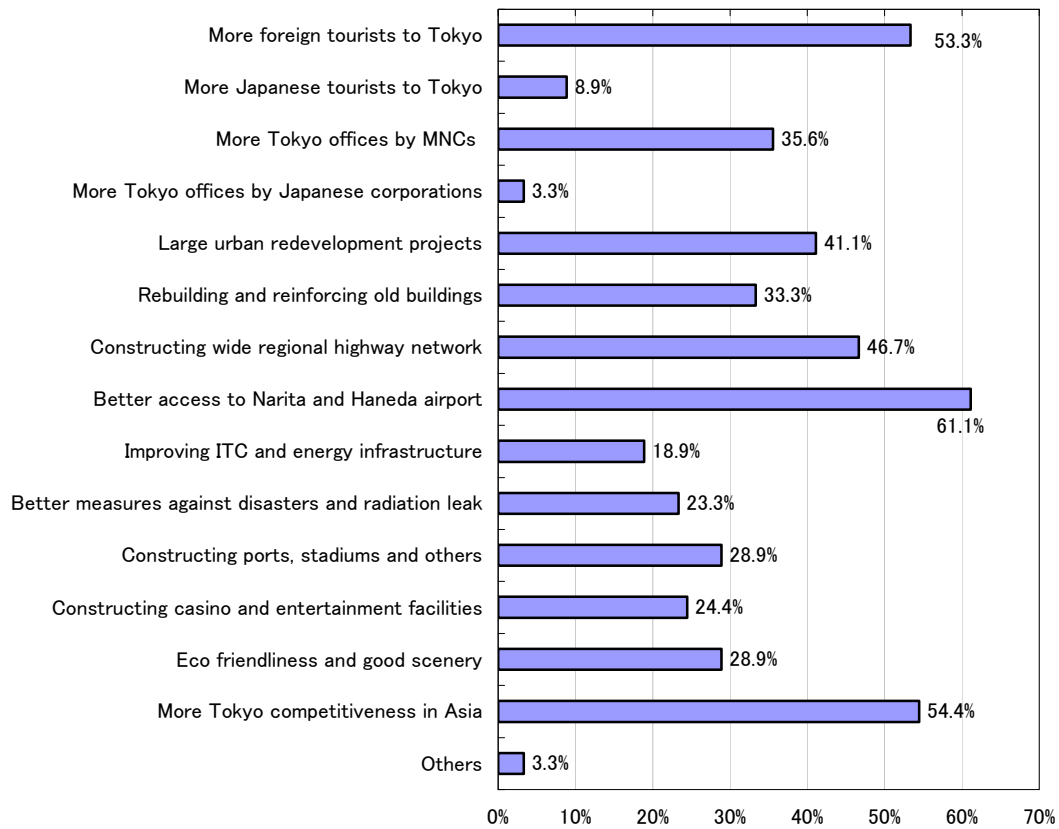


5. Expectation for the 2020 Tokyo Olympic Games

Finally, we asked what is expected in preparation for the 2020 Tokyo Olympic Games. International responses such as “Better access to Narita and Haneda airport,” “More Tokyo competitiveness in Asia” and “More foreign tourists to Tokyo” garnered outstanding attention (Chart-6). Many players seem to expect more foreigners to visit Tokyo and create additional demand, which leads to the growth prospect for domestic consumption sectors such as “Hotel” and “Urban retail.”

However, another international response “More Tokyo offices by MNCs” which can contribute more to the long term Tokyo property demand was not chosen by many respondents. It looks like more than a few players think that just hosting the Olympic Games is not enough to secure long term and structural property demand and the success of Abe’s growth strategies is more important.

Chart-6 Expectation for the 2020 Tokyo Olympic Games (MA5)



Source: NLI Research Institute, October 2013

*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.