

Real Estate Analysis Report

Outlook Remains Cautious; Focus is on Eco Properties and Foreign Factors

The Seventh *Property Market Survey*

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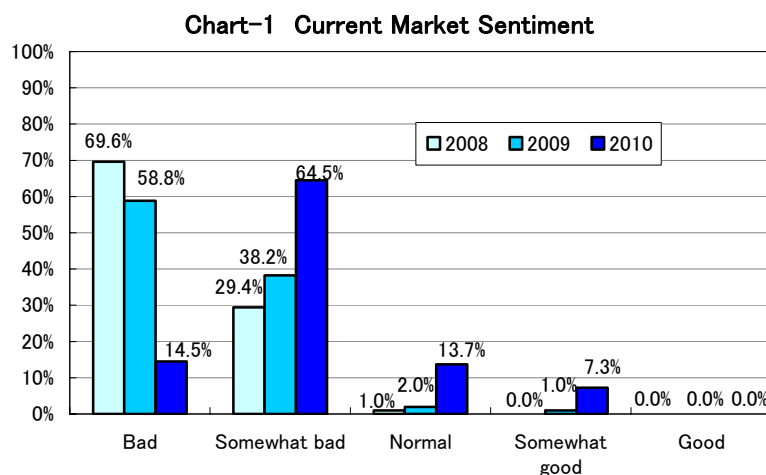
Introduction

NLI Research Institute conducted the seventh annual *Property Market Survey* of market sentiment among Japan-based property professionals engaged in development, construction, banking, insurance, brokerage, property management, fund management, rating agency, investment advising, and consulting. This year, we sent out 214 questionnaires by email on October 4, 2010, and received 124 valid responses by October 15 (57.9% collection rate).

Results

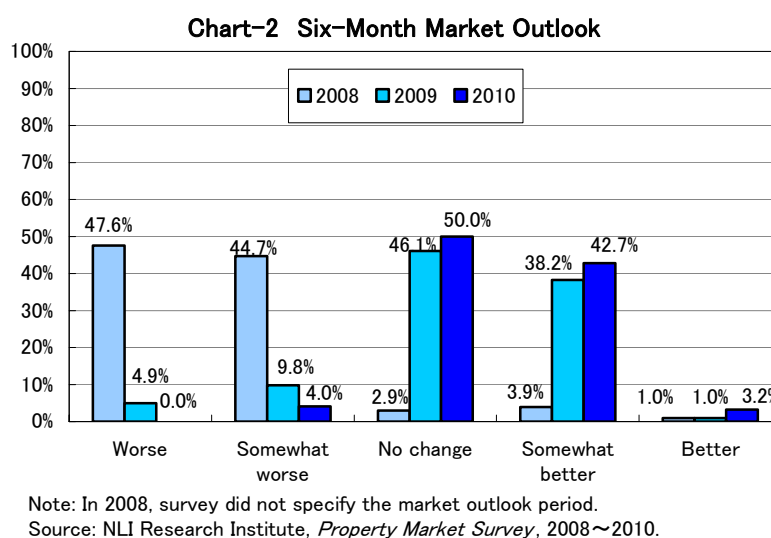
① Current Sentiment and Outlook

Regarding the current sentiment in the property investment market, the predominant response is “somewhat bad,” cited by 64.5% of respondents. Combined with “bad” responses, negative sentiment reaches nearly 80% of the total, confirming that market conditions remain bleak. But compared with 2008 and 2009, when “bad” sentiment accounted for more than half and almost no one cited “good” or “somewhat good”, the results this year clearly indicate that the worst has passed (Chart-1).



Source: NLI Research Institute, *Property Market Survey*, 2008~2010.

But although the current sentiment shows significant improvement, the six-month outlook is dominated by “no change” and “somewhat better,” which is only slightly better from a year ago. Back then, when the market had bottomed out after the Lehman shock, the six-month outlook already reflected some recovery expectations. Afterwards, although the economy recovered to some degree, optimism has remained subdued due to lingering uncertainty from the economic instability in Europe, yen appreciation, and stagnant Tokyo stock market (Chart 2).



② Preferred Sectors

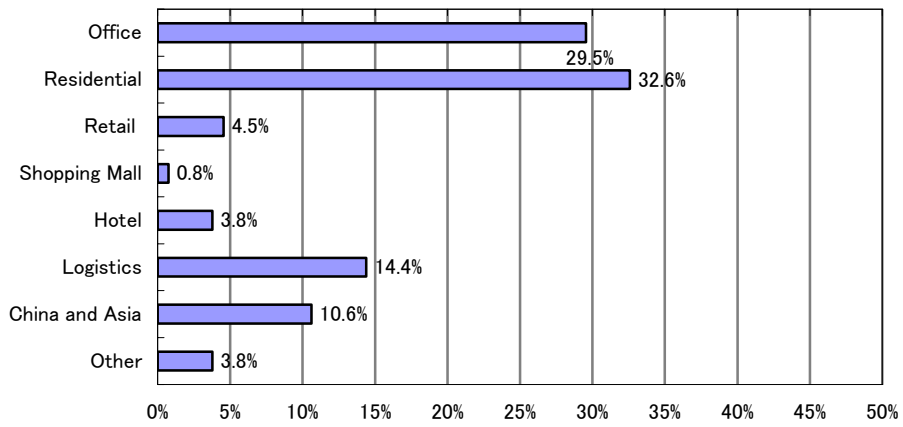
When asked which sector is the most preferable for investment at present, the leading response is “residential” sector, accounting for 32.6%. Compared with office buildings, apartment buildings offer more stable rent incomes and capital values in the economic downturn. In addition, the larger transaction volumes and smaller investment outlays make them more attractive in the present economic downturn.

“Office” buildings are second at 29.5%, followed at a distance by “logistics” facilities at 14.4%. Although the office market recovery is not strong compared with other sectors, apparently not a few players are considering investing in the sector (Chart-3).

Moreover, looking ahead five years from now, nearly half of respondents prefer “office” buildings. The office market has been the main sector of property investment in Japan, and many players apparently consider it as the most attractive sector when the market eventually recovers in the medium term.

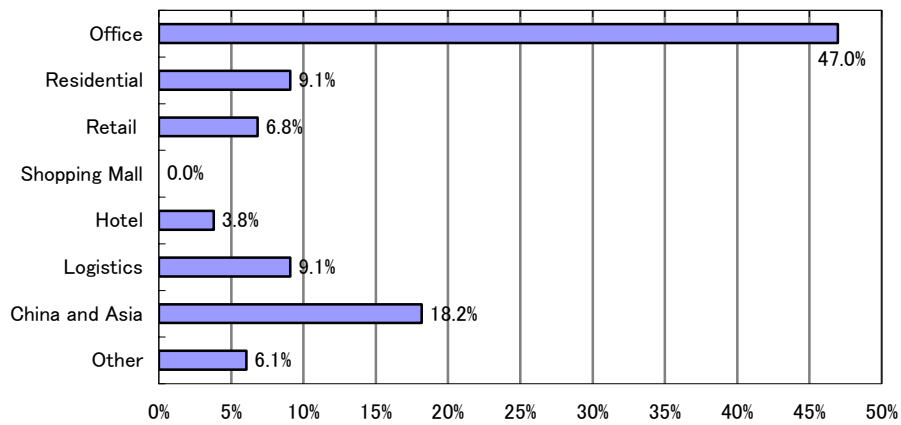
“China and other Asian” property markets are second at 18.2%, followed by “logistics” facilities at 9.1%. Apparently not a few market participants see strong growth opportunities in Asia. This is somewhat surprising because Japanese institutional investors have very limited track records, although more developers, trading companies and house makers are pursuing Asian residential and retail mall development (Chart-4).

Chart-3 Preferred Sector at Present



Source: NLI Research Institute, *Property Market Survey*, October 2010.

Chart-4 Preferred Sector in Five Years

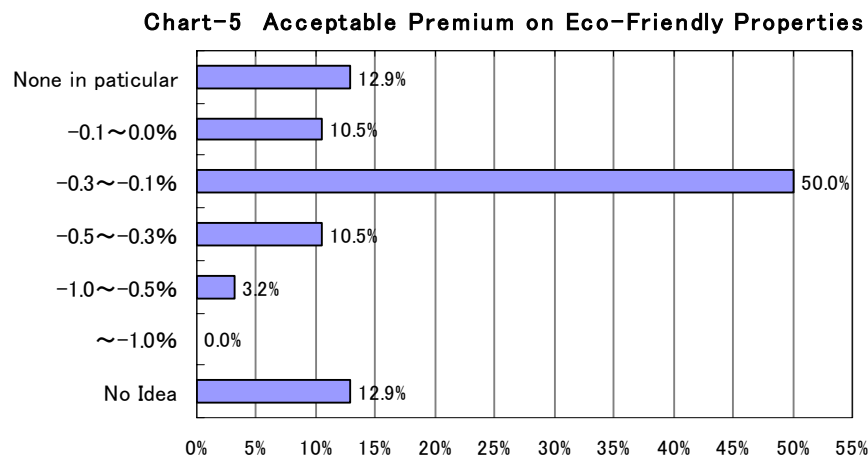


Source: NLI Research Institute, *Property Market Survey*, October 2010.

③ Preference for Eco-Friendly Properties

This year we added a new survey category for environmentally friendly properties by asking how much of a premium (cap rate deduction) would be acceptable compared with equivalent properties.

As many as 50% of respondents say that a premium, or cap rate deduction, of “-0.3 ~ -0.1%” is acceptable, followed at a distance by “none in particular” and “no idea” at only 12.9% respectively. In total, three-fourths of respondents say that eco-friendly properties deserve some kind of premium, indicating that the market has come to recognize their additional value (Chart-5).



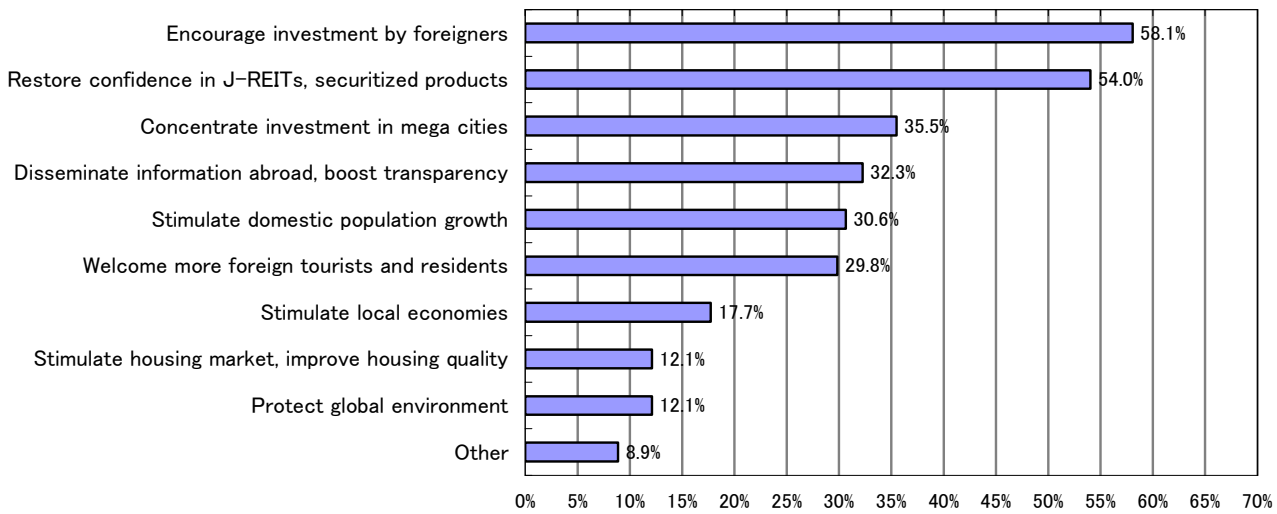
Source: NLI Research Institute, *Property Market Survey*, October 2010.

④ Policy Measures to Sustain Long-term Market Growth

Finally, we asked what policy measures are most required for long-term sustainable growth of the property market. The leading response was “encouraging domestic property market investment by foreigners” at 58.1%, followed by “restoring market confidence in J-REITs and securitized products.” While both responses topped the list on a similar question last year, the emphasis on inward foreign investment this year is reflecting the recent growth of investment from Asia

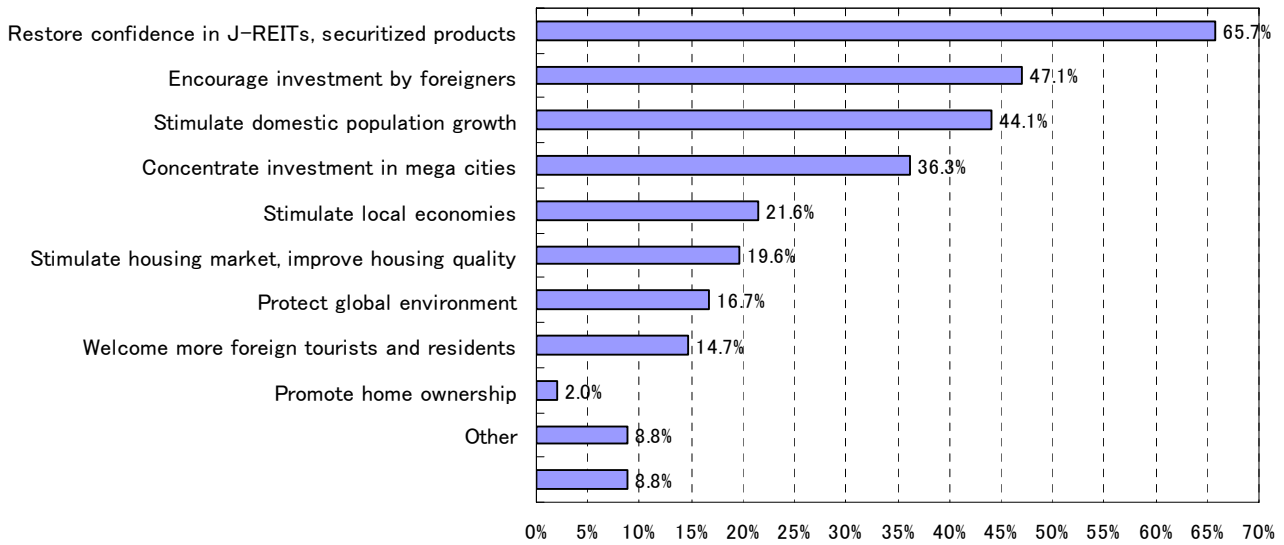
In addition, “more overseas dissemination of information and greater market transparency including establishment of new indexes” accounted for 32.3%, and “welcoming more foreigners into Japan as both tourists and residents” accounted for 29.8%, indicating a strong awareness of how foreign factors can help invigorate the domestic property market.

Chart—6 Required Policy Measures for Long Term Sustainable Growth of Property Market (2010, MA)



Source: NLI Research Institute, *Property Market Survey*, October 2010.

Chart—7 Required Policy Measures for Long Term Sustainable Growth of Property Market (2009, MA)



Source: NLI Research Institute, *Property Market Survey*, October 2010.