

# Real Estate Analysis Report

## Impact of the Great Eastern Japan Disaster on the Property Market

~Special Property Market Survey After “3.11”~

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### Introduction

NLI Research Institute conducted a *Special Property Market Survey* immediately following the Great Eastern Japan Earthquake and Tsunami disaster of March 11, 2011. We sent out 1,051 questionnaires to Japan-based property professionals by email on April 11, and received 261 valid responses by April 18 (24.8% collection rate).

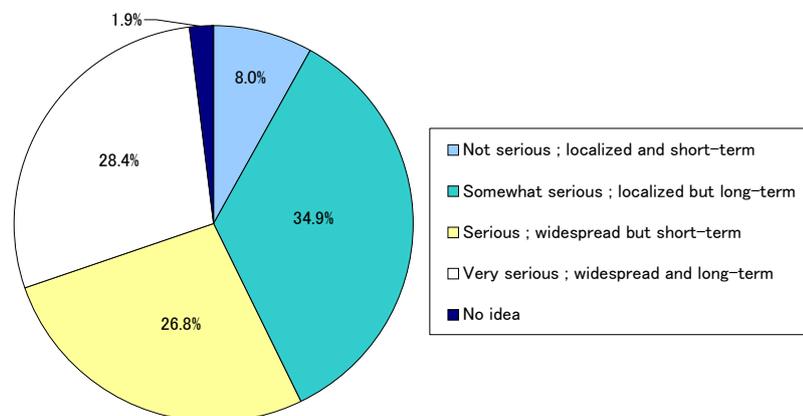
### Results

#### 1. Impact of the Disaster on the Property Market

Regarding the disaster’s impact on the property market in Japan, the sum of responses for “somewhat serious; localized but long-term”, “serious; widespread but short-term” and “very serious; widespread and long-term” reaches more than 90% of the total. On the other hand, the response of “not serious; localized and short-term” accounts for only 8.0% (Chart-1).

According to J-REITs and brokers, although office buildings and other investment-grade properties in Eastern Japan were largely undamaged by the disaster, the overall property market including Tokyo is nonetheless concerned about the long-term impact of the power supply shortage and radioactive contamination. Even among the “not serious” responses, many participants say the situation could become serious if the Fukushima nuclear plant crisis is not managed successfully.

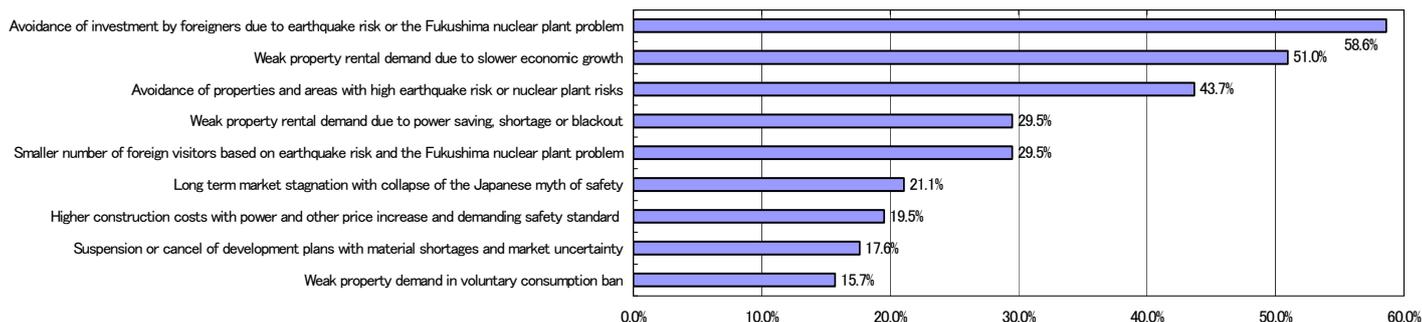
Chart-1 Impact of the Disaster on the Property Market (SA)



## 2. Anticipated Negative Effect from the Disaster

When asked what negative effects are anticipated in the Japanese property market, the leading response is “avoidance of investment by foreigners due to earthquake risk and the Fukushima nuclear plant problem,” followed by “weak property rental demand due to slower economic growth,” both of which are cited by more than half of respondents. These are followed by “avoidance of properties and areas with high earthquake risk or nuclear plant risk” and “weak property rental demand due to power saving, shortage or blackout” (Chart-2).

Chart-2 Anticipated Negative Effect from the Disaster(MA,3)



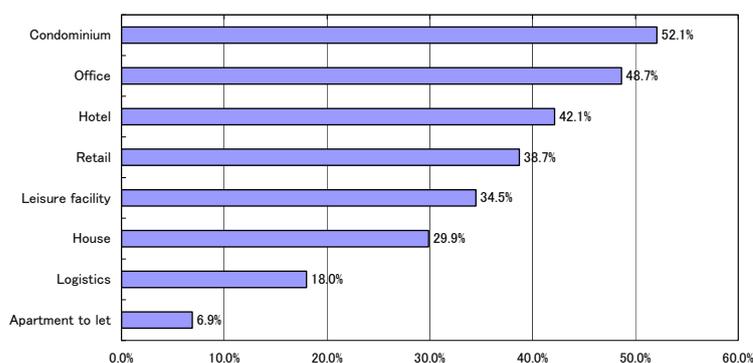
Source: NLI Research Institute, April, 2011

## 3. Most Affected Sectors

We next asked which sector might be most affected by weaker or more selective demand. The leading response is the condominium sector, cited by more than half of respondents. Although actual physical damage in this sector was small compared with freestanding houses, the strong response can be attributed to more subdued homebuyer motivation as consumer confidence wanes, and heightened awareness of risk factors such as elevators stopping in high-rise buildings and liquefaction of reclaimed land in the condominium popular Tokyo bay area.

The office building sector is ranked second based on the expected demand decrease from direct damages suffered by companies and from the economic impact of the disaster. Moreover, sectors with economically sensitive operational assets such as retail, hotel, and leisure facility sectors are also ranked high because they are directly exposed to deteriorating consumer confidence and decline of foreign visitors (Chart-3).

Chart-3 Most Affected Sector(MA,3)

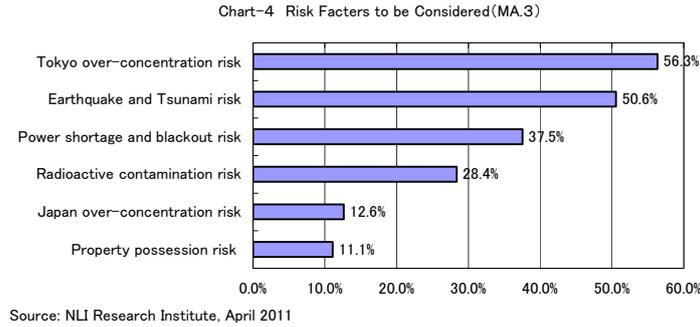


Source: NLI Research Institute, April, 2011

#### 4. Risk Factors to be Considered

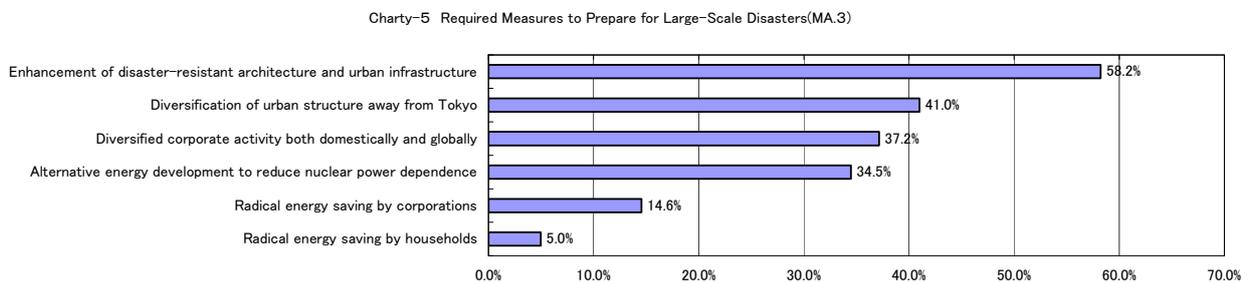
Regarding risk factors to be considered by the property market going forward, the leading response is “Tokyo over-concentration risk.” Soon after the disaster, many foreign corporations were seen evacuating their offices out of Tokyo to Osaka and other cities in Western Japan. It is thus possible that companies will increasingly consider diversifying corporate functions away from Tokyo as part of their Business Continuity Plan.

These are followed by “earthquake and tsunami risk” and “power shortage and blackout risk,” while “radioactive contamination risk” is cited by less than 30% of respondents.



#### 5. Required Measures to Prepare for Large -Scale Disasters

Finally, when asked what measures are most needed to prepare for large-scale disasters in the future, the leading response is “enhancement of disaster-resistant architecture and urban infrastructure,” cited by more than half of respondents. This is followed by “diversification of urban structure away from Tokyo” and “diversification of corporate activity both domestically and globally.” Meanwhile, “alternative energy development to reduce nuclear power dependence” is ranked fourth, even though the topic has received extensive media coverage recently. Moreover, considering the low response rates of the other two energy saving responses, market participants do not appear to be very keen about radical energy policy reforms which could significantly affect corporate and household activity (Chart-5).



In closing, we would like to extend our deepest condolences to the thousands of disaster victims and express our gratitude to all the people working under grim conditions at disaster sites.