

Real Estate Analysis Report

Polarization Progresses in Disaster-prevention and Energy-saving, and Remarkable Change Seen in Sector Preference

~The Eighth Japanese Property Market Survey~

Real Estate Investment Team
Financial Research Group
Mamoru Masumiya
masumiya@nli-research.co.jp

Introduction

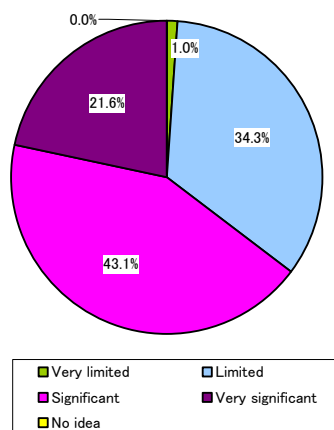
NLI Research Institute conducted the eighth annual *Property Market Survey* of market sentiment among Japan-based property professionals,¹ following *the April Special Property Market Survey after “3.11 Earth Quake”*.² This year, we sent out 198 questionnaires by e-mail on October 3, 2011, and received 102 valid responses by October 14 (52% collection rate).

Results

1. Impact of Earthquake on Property Market

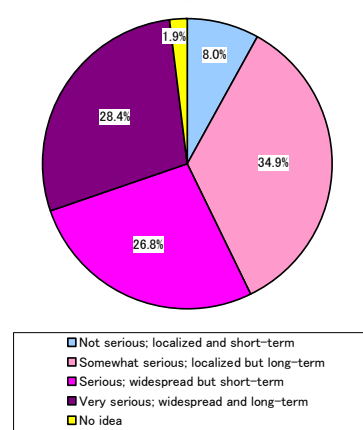
Regarding the influence of the earthquake on the property market in Japan, the sum of the responses “Very limited” and “Limited” added up to 35.3% of the total (Chart-1). Considering the sum of “Somewhat serious”, “Serious” and “Very serious” accounted for more than 90% in April just after the earthquake, it looks like the uncertainty surrounding the market has greatly eased. But the response “Very significant” accounting for 21.6% suggests that more than a few market participants are still concerned about the long-term influence of the earthquake on the property market.

Chart-1 Influence of Earthquake on Property Market (SA)



Source: NLI Research Institute, October 2011

(April 2011) Influence of Earthquake on Property Market (SA)



Source: NLI Research Institute, April 2011

¹ 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.

² Mamoru Masumiya, “[Impact of the Great Eastern Japan Disaster on the Property Market ~Special Property Market Survey After “3.11”~](#)” *Real Estate Analysis Report*, NLI Research Institute, April 22, 2011.

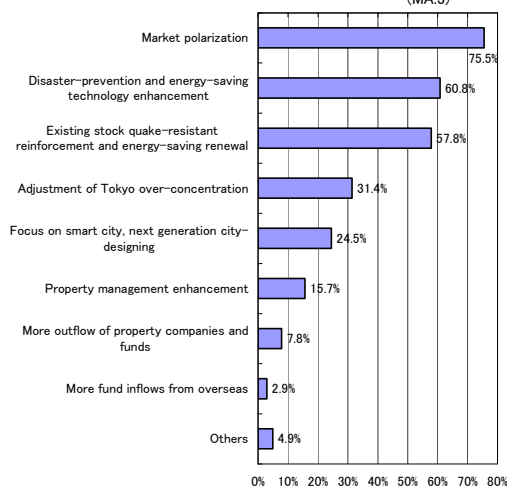
2. Likely Mid- to Long-term Development in the Property Market

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” and about 60% cited “Disaster-prevention and energy-saving technology enhancement” (Chart-2). After the earthquake, people have become more selective in choosing locations based on points such as distance from work-place to home, infrastructure conditions and ground stability. And as new large buildings are emphasizing their emergency-use-battery and quake-resistant capabilities, the gap between such new large buildings and the existing stock is more noticeable. As “Existing stock quake-resistant reinforcement and energy-saving renewal” was cited by more than half of the respondents, it is possible that the competitiveness gap can become wider even among existing stock.

On the other hand, the responses “Adjustment of Tokyo-over concentration” accounted for only 7.8%. Though Tokyo-over-concentration-risk was of utmost concern in April just after the earthquake, the dominance of Tokyo as the best location for corporate headquarters seems unchanged, with very limited actual relocations out of Tokyo.

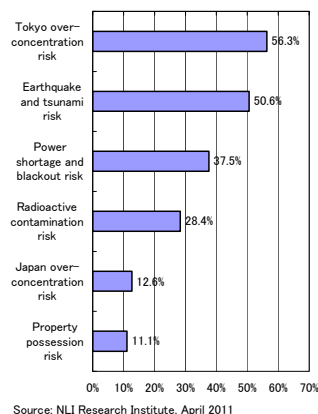
In addition, “More fund inflow from overseas” was basically disregarded at 2.9%, despite inviting global money into the property market being one of the main topics last year. With foreign visitors declining sharply and the global economy remaining uncertain, it seems difficult to expect global money to flow into the Japanese property market.

Chart-2 Most Likely Mid- to Long-Term Development (MA.3)



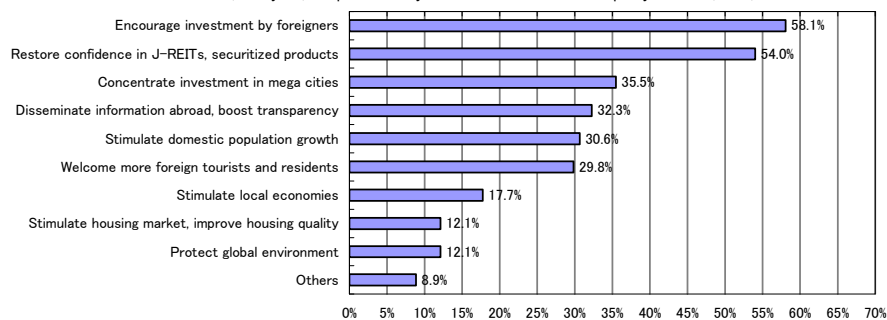
Source: NLI Research Institute, October 2011

(April 2010) Risk Factors to be Considered (MA.2)



Source: NLI Research Institute, April 2011

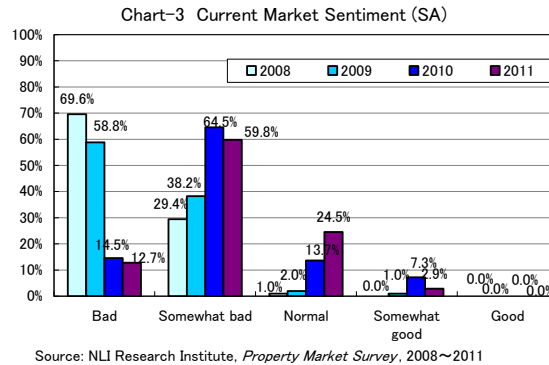
(Last year) Required Policy Measures to Enhance Property Market (MA.3)



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

3. Current Sentiment

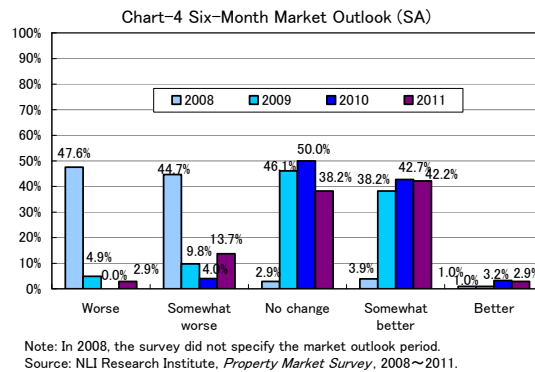
Regarding the current sentiment in the property investment market, the predominant response was “Somewhat bad” cited by 59.8% of respondents (Chart-3). Combined with “Bad” responses, negative sentiment reached 70% of the total, confirming that market conditions remain bleak. But considering that the response “Normal” has continuously increased, market conditions appear to be stabilizing in recent years.



4. Six-Month Outlook

Regarding the six month property investment market outlook, the responses “Somewhat better” accounted for more than 40% of respondents followed by “No change” (Chart-4).

But the responses “Worse” emerged again and “Somewhat worse” showed a clear increase, which suggest that some market participants anticipate the property market will be influenced by the global financial turmoil and JPY appreciation.



5. Preferred Sectors

When asked which property sector is the most preferable for investment in terms of price appreciation and market growth, the responses “China and Asia” accounted for nearly half of the responses (Chart-5). While the earthquake and JPY appreciation make domestic conditions tougher, more market attention is focused on the Asian markets.

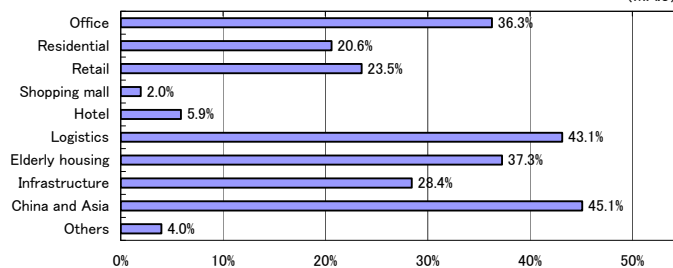
The next most common response was “Logistics” cited by more than 40%. The growing trend in internet home shopping requires more quality-logistics facilities, and the restructuring of the

logistics networks by corporations also supports the sector.

In addition, quite some attention was focused on “Elderly housing” which was an item included in this survey for the first time.

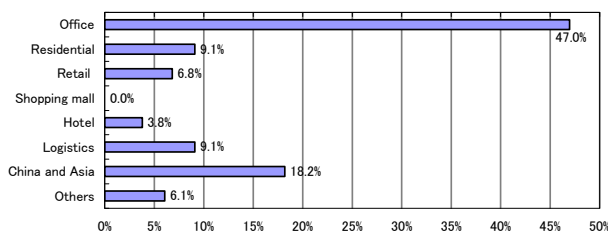
On the other hand, the main investment sector of “Office” declined significantly. It is fundamentally sensitive to the economy and most likely to be influenced by deindustrialization due to the JPY appreciation and tax increases. Despite this difficult condition, many big office development projects in Tokyo are underway that will make the supply-demand balance worse in the future.

Chart-5 Preferred Sectors Expected Price Appreciation and Market Expansion (MA.3)



Source: NLI Research Institute, October 2011

(Last year) Preferred Sector in Five Years (SA)



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

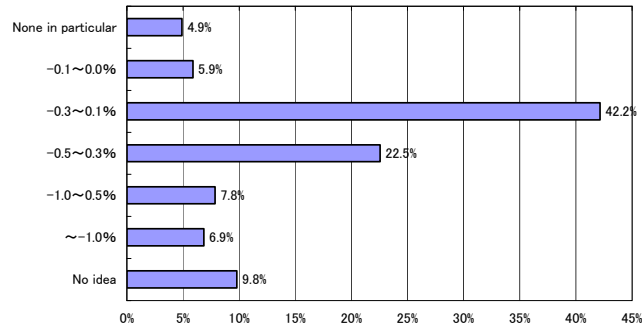
6. Preference for Disaster-prevention and Energy-saving Properties

Finally we asked how much of a premium (cap rate reduction) would be acceptable for high performance disaster-prevention and energy-saving properties compared with equivalent properties. The response “None in particular” definitely declined compared with responses to a similar question in last year’s survey, and 6.9% of respondents cited “~–1.0%, categorically noticeable premium”, which no one cited last year (Chart-6).

While the earthquake and the ensuing power shortage had a significant effect on the way of thinking throughout Japan, it seems the way of valuing properties was also affected.

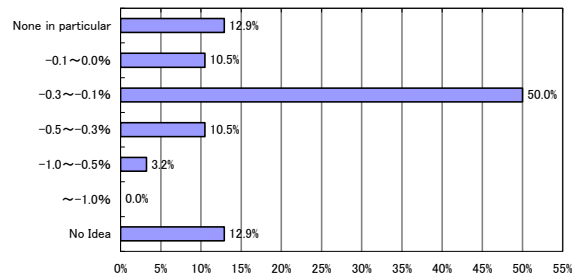
As disaster-prevention and energy-saving capabilities become recognized as additional value, more related investment can be expected not only for newly built buildings but also for existing stock. The trend will further advance the polarization between properties that are well equipped and those that are unequipped.

Chart-6 Acceptable Premium on Properties Well Equipped for Disaster-prevention and Energy-saving (SA)



Source: NLI Research Institute, October 2011

(Last year) Acceptable Premium on Eco-friendly Properties (SA)



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

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.