Real Estate Analysis Report

Utmost Optimistic Sentiment Still Rising, but Property Prices to Peak Out by 2017

～The Eleventh Japanese Property Market Survey～

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Summary

- The eleventh annual *property market survey* indicated that the sentiment improved further with "Good" responses accounting for more than half of responses for the first time since 2008.
- Regarding the six-month outlook, "Somewhat better" and "Better" responses predicting higher prices or more transactions still accounted for more than 50% of responses.
- When asked which property sector is the most preferable in terms of price appreciation and market growth, the "Hotel" sector overwhelmed other sectors such as "Office" and "Healthcare property."
- When asked which risk factors were most anticipated, more respondents chose the "Global economy" than the "Domestic economy," and not a few respondents chose "Foreign exchange."
- Regarding the J-REIT market forecast, 68% of respondents chose "0~+15%" performance and not a few respondents chose "+15~+30%" for TSE REIT index in 2015.
- Finally, when asked the peak period of property prices in the medium term, more than half of respondents chose "2016~2017" and nearly one fourth of respondents chose "Now."

Introduction

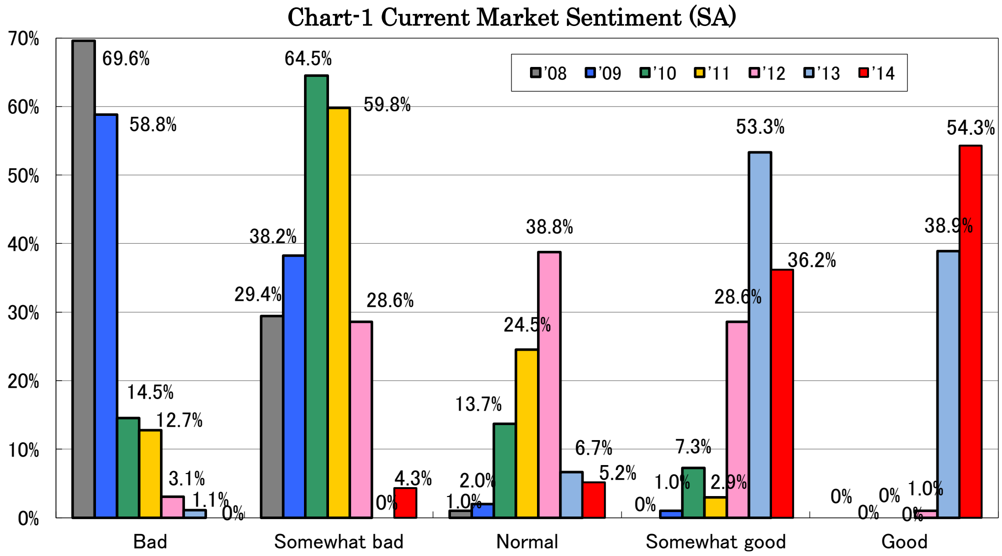
NLI Research Institute conducted the eleventh annual *Property Market Survey* of investment market sentiment among Japan-based property professionals[1] for fiscal year 2014. This time 195 questionnaires were sent out by email on January 16, 2015, and 116 valid responses were received by January 28 (59.5% collection rate).

Results

1. Current Sentiment

Regarding the current sentiment in the property investment market, “Good” responses accounted for more than half of responses for the first time since the inception of this question in 2008 (Chart-1). The total of “Good” and “Somewhat good” responses accounted for more than 90% of responses for the second consecutive year, however, “Good” responses overwhelmed “Somewhat good” responses this fiscal year, indicating a clearer optimism. The sentiment looks to be totally opposite to the sentiment during the global financial crisis in 2008 and 2009 when “Bad” responses accounted for more than half of responses.

Chart-1 Current Market Sentiment (SA)



Source: NLI Research Institute, *Propety Market Survey,* Fiscal Year 2008～2014

2. Six-Month Outlook

Regarding the six-month property investment market outlook, “No change” responses ranked first chosen by 41.4% of respondents (Chart-2).

However, “Somewhat better” and “Better” responses predicting higher prices or more transactions still accounted for more than half of responses, suggesting that many market participants expect the market to improve further from the current market of utmost optimism.

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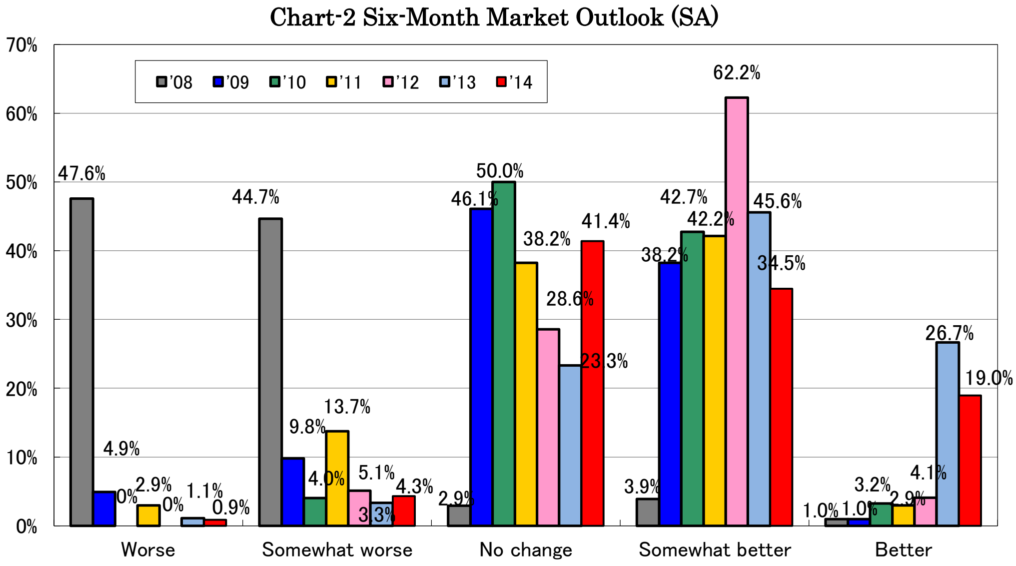
[1] Japan-based property professionals are those engaged in various real estate related work such as development, construction, banking, insurance, brokerage, property management, fund management, rating and investment advising and consulting.



Source: NLI Research Institute, *Propety Market Survey,* Fscal Year 2008～2014

3. Preferred Sectors

When asked which property sector is the most preferable for investment in terms of price appreciation and market growth, a dominating 69% of respondents chose the "Hotel" sector (Chart-3). Though the number of respondents who chose "Hotel" increased significantly last fiscal year following the announcement of Tokyo's winning bid to host the 2020 Olympic Games, the number has even doubled this fiscal year. "Hotel" has been regarded as a niche sector for specialists; however, many investors are closely following this sector now. As one of the main reasons, the foreign visitor arrival number grew by 30% y-o-y to 13.4 million in 2014. In addition to "Hotel," the number of respondents who chose "Resort facility" also increased.

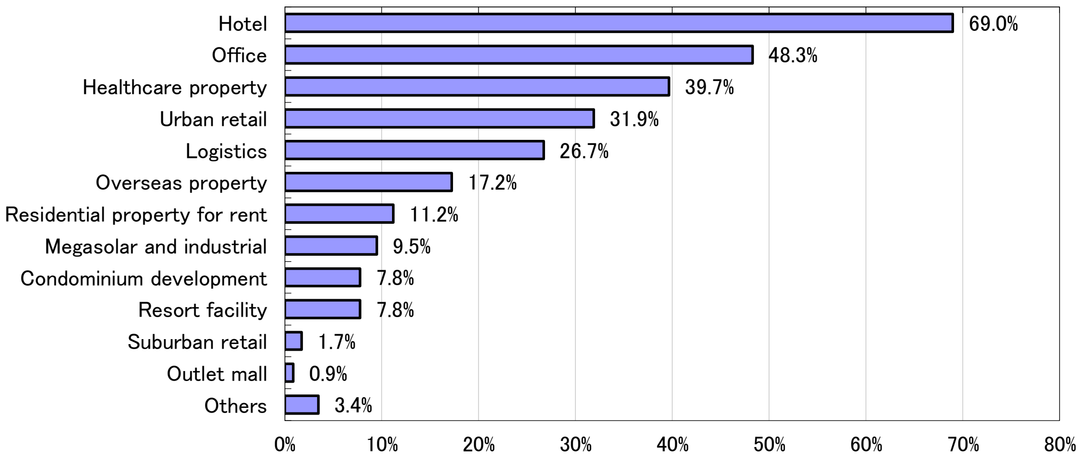
The number of respondents who chose "Office" also increased. While vacancy rates are improving and rents are recovering, many investors continuously regard the office sector as their main investment field.

"Healthcare property" including senior nursing homes and medical care facilities maintained its popularity. The sector has been regarded as high growth on the back of demographic aging, and its investment market is expected to grow rapidly following the first IPO of a healthcare REIT in November.

On the other hand, the number of respondents who chose "Residential property for rent" and "Condominium development" decreased. On top of Japanese demographic aging as a long-term negative structural condition, stagnating household incomes have made it tough to lift rents and home sales prices despite the rising construction costs.

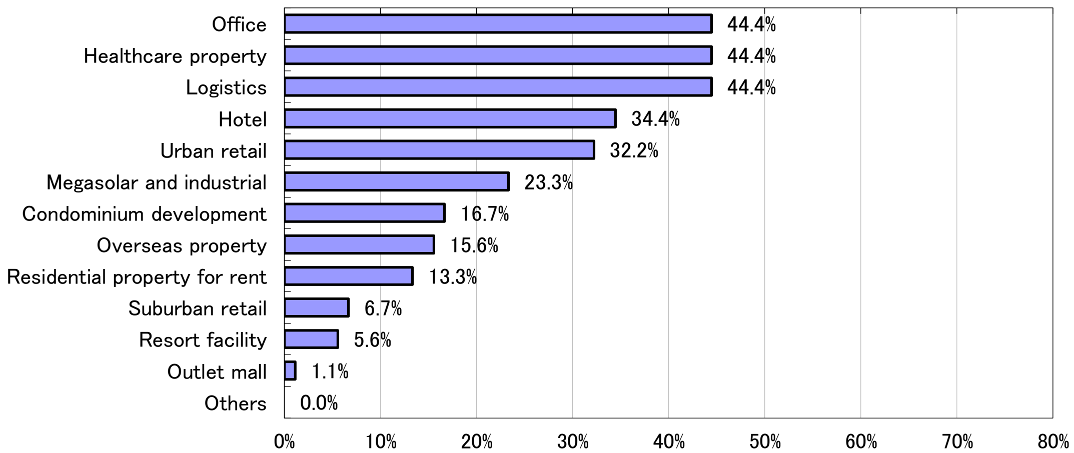
"Mega solar and industrial" was also chosen by less respondents, somewhat affected by the government's move to review its generous supporting policy for the solar power industry.

Chart-3 Preferred Sector Expected Price Appreciation and Market Expansion (MA3)



Source: NLI Research Institute, January 2015

Chart-4 Last Fiscal Year's Preferred Sector Expected Price Appreciation and Market Expansion (MA3)



Source: NLI Research Institute, October 2013

4. Risks Regarding Property Investment

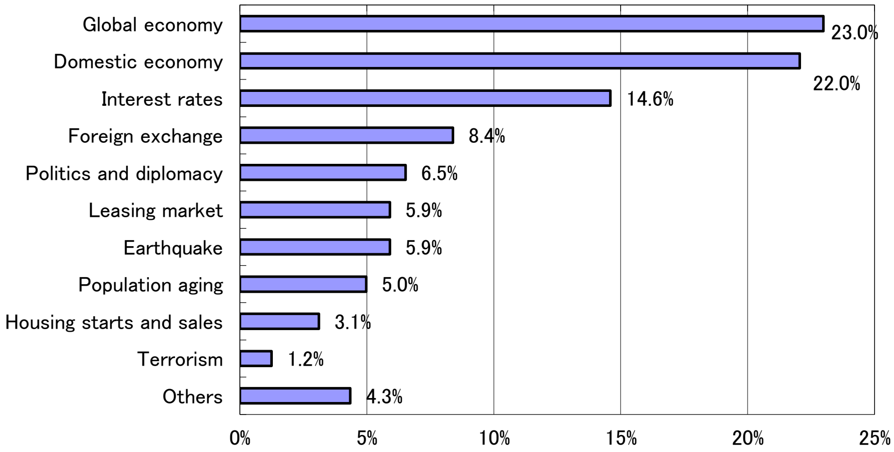
The next question was which risk factors were most anticipated even amidst this comfortable market sentiment.

Foreign factors basically have indirect effects on the domestic property market, this time, however, more respondents chose the "Global economy" than the "Domestic economy," and not a few respondents chose "Foreign exchange" as well (Chart-5).

Foreign factors have been increasingly hard to ignore such as the economic stagnation in Europe, slowdown in Chinese growth and commodity price fluctuations. And foreign factors have actually become influential on the domestic property market, as foreign capitals have been recovering supported by the Asian economic growth following the depletion after the global financial crisis.

On the other hand, the "Domestic economy," the most influential factor on the property market, was chosen by only 22% of respondents, as the current economic conditions are pretty sound. In the same way, only a limited number of respondents chose “Interest rates,” as the loosening monetary policy is expected to continue for the time being.

Chart-5 Current Anticipated Risk Factors (MA3)



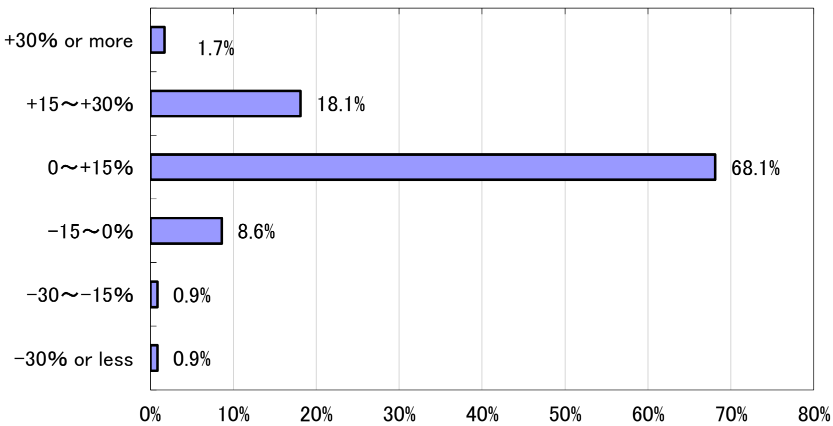
Source: NLI Research Institute, January 2015

5. J-REIT Performance Forecast in 2015

Regarding the J-REIT market forecast, 68% of respondents chose “0~+15%” performance for TSE REIT index in 2015 (Chart-6). Moreover, not a few respondents chose “+15~+30%,” suggesting a bullish J-REIT market for the time being.

Though the TSE REIT index has more than doubled since the end of 2011, before the start of Abenomics, it looks like few market participants regard the market as being over-heated, considering that respondents who forecasted a price decline by choosing “-30% or less,” “-30~-15%” or “-15~0%” accounted for only 10.4% of the total.

Chart-6 2015 J-REIT Performance Forecast (SA)



Source: NLI Research Institute, January 2015

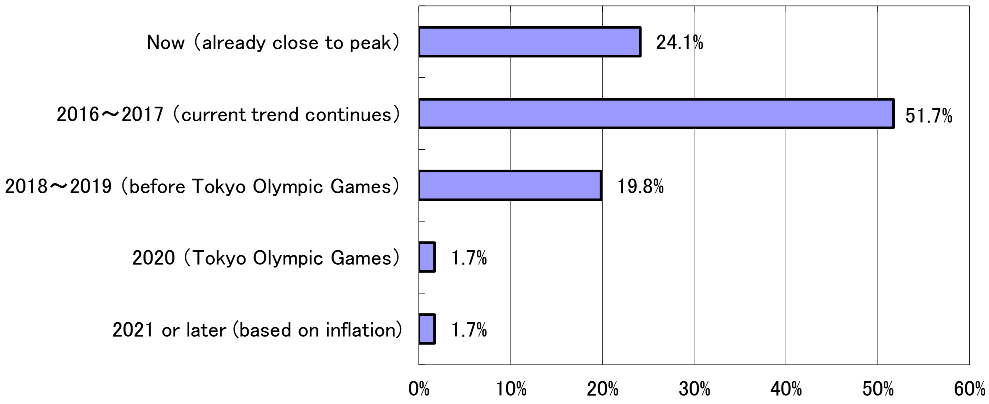
6. Property Price Peak Period

Finally, when asked the peak period of property prices in the medium term, more than half of respondents chose “2016~2017” and nearly one fourth of respondents chose “Now” (Chart-7).

The 2020 Tokyo Olympic Games is definitely positive for the property market, however, three fourths of respondents forecast that property prices will peak out years before this global event is actually held.

Though it is possible to expect property prices to appreciate with time based on the assumption of future inflation and inflation hedging characteristics, very few respondents chose “2021 or later.”

Chart-7 Property Prices Peak Year Forecast (SA)



Source: NLI Research Institute, January 2015

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