

**Real estate investment**

# Current Status and Outlook for the Real Estate Investment Market

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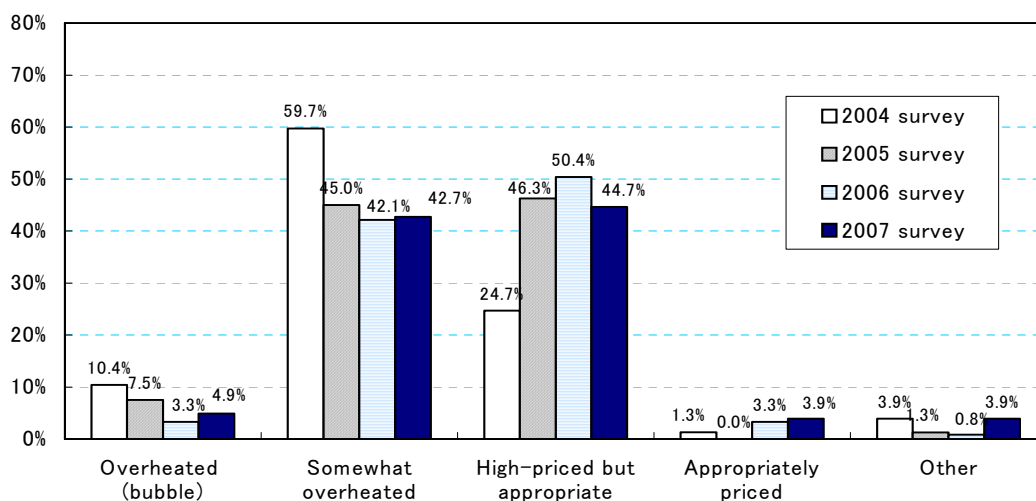
*In our latest annual survey of real estate investment professionals and experts (conducted in October 2007), respondents were evenly split between optimistic and cautious camps regarding current market conditions, while almost half of respondents predict that property prices are nearing a peak. The results suggest that the robust real estate investment market could be turning a corner.*

In recent years, Japan's real estate investment market has thrived on fund flows from domestic and foreign sources, combined with a strong real estate demand fueled by the economic recovery. However, land price surges began decelerating in some metropolitan areas in 2005, suggesting that prices may be nearing a peak. In addition, the Tokyo Stock Exchange J-REIT index peaked out in May 2007, and remains unsteady in the wake of the subprime loan problem.

To grasp the direction of market sentiment, NLI Research Institute conducted the fourth annual survey of real estate investment market conditions from October 1–12, 2007. Questionnaires were sent by email to 200 real estate investment professionals and specialists in real estate and construction, finance and insurance, intermediation, property management, real estate funds and J-REITs, rating agencies, investment advisories, and consulting services. We received 103 valid responses (effective response rate 51.5%).

Regarding current property transaction prices, the leading sentiment shared by 44.7% of respondents is that “prices are high but in an appropriate range.” This was followed by the view that the “market is somewhat overheated,” meaning that prices tend to exceed reasonable levels (Exhibit 1).

**Exhibit 1 Sentiment Regarding Current Property Price Levels – All Respondents**

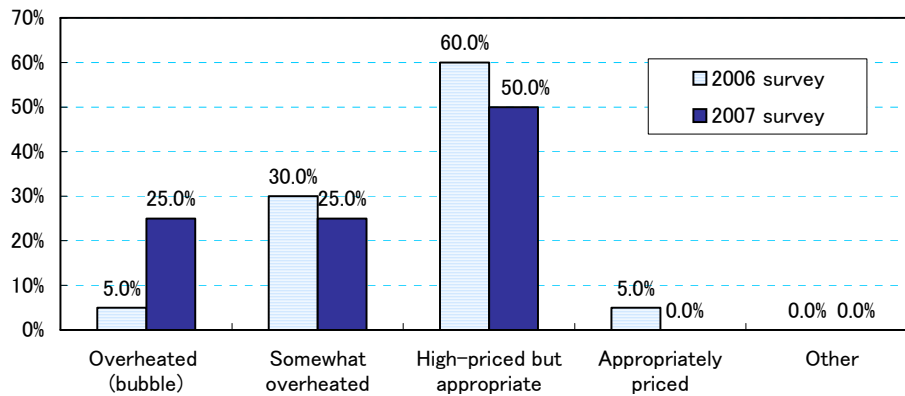


Note: Surveys were conducted in October of each year.  
Source: NLI Research Institute, *Survey of Real Estate Market Conditions*.

Compared to the previous survey in 2006, these two sentiments remain in the same order (in 2006, 50.4% felt prices were high but appropriate, and 42.1% that the market was somewhat overheated). However, the gap has significantly narrowed in 2007.

Moreover, among J-REIT managers, the perception of market overheating has surged from 5.0% in the 2006 survey to 25.0% in the 2007 survey (Exhibit 2).

### Exhibit 2 Sentiment Regarding Current Property Price Levels – J-REIT Managers



Source: NLI Research Institute, *Survey of Real Estate Market Conditions* (October 2006 and October 2007).

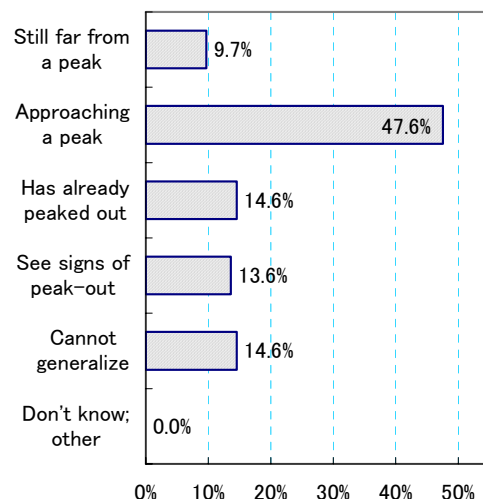
Regarding predictions of a market peak, 47.6% believe that the peak is near, while 14.6% say that the peak has already arrived, and another 14.6% say that generalizations cannot be made (because conditions vary by area and property). Only 9.7% of respondents are still looking forward to a higher peak (Exhibit 3).

Thus despite the real estate investment market’s robust growth so far, judging from our results—mixed sentiment regarding current price levels, and predictions of an imminent market peak by almost half of respondents—the tide may be shifting.

In addition, the revised Financial Instruments and Exchange Law, which took effect in September 2007, is expected to enhance transparency in the real estate investment market and boost investors’ confidence. This will help align property prices more closely to underlying real estate fundamentals.

Amid the globalization of investment flows and growth of securitization, international linkages have deepened in short-term and long-term interest rates, as well as in equity and other securities markets. As a result, the market risk of real estate investment has grown. To make appropriate investment decisions in this rapidly evolving situation, investors will need to closely monitor changes in the external environment.

### Exhibit 3 When Will the Real Estate Investment Market Peak Out?



Source: NLI Research Institute, *Survey of Real Estate Market Conditions* (October 2006 and October 2007).