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summary

1. Macroeconomic Conditions
In the period July-September 2014 real GDP fell by 1.9% QoQ at annualized rate, an unexpected decrease. The main reasons for this decrease include a failure of personal consumption to recover to the degree expected, continued negative growth in private-sector residential investment, a decrease in capital investment, and a massive decrease in private-sector inventories. In response, each research institution revised its projected 2014 full-year real GDP growth rate downward considerably, but many still expect the Japanese economy to be in a gently recovering trend in October-December 2014 and later periods, since the effects of the increase in consumption tax have been lessening recently and the government currently is considering an economic stimulus on the scale of JPY3 trillion.

2. Real-estate Investment Market Likely to Remain Lively in 2015 As Well
The cumulative value of investment in commercial real estate through 3Q 2014 remains largely unchanged YoY at JPY2.5 trillion (DTZ), so that the market remains at largely the same level as in 2013. At the same time, the cumulative value of properties acquired by J-REITs at the end of November is down 36.7% YoY to JPY1.3 trillion. The market in 2014 can be said to have been driven by growth in private REITs and large-scale transactions by players including real estate firms and core investors, in addition to J-REITs, which have continued to acquire properties actively although the value of their transactions has decreased somewhat. The real-estate investment market is likely to remain lively in 2015 as well. However, since there is little room for a considerable decrease in the cap rate on prime locations in Tokyo, investment is likely to expand to non-office properties, including new asset types, and to regional markets.

3. A Need to Observe the Degree of Improvement in NOI Closely
The hotel market is seeing marked growth in room rates due to the effects of an increase in travelers from overseas and other factors. The office market appears to be experiencing an upward trend in rents centered on prime office buildings, although this has not expanded to small and medium-sized buildings or peripheral markets. The rental apartment market also is seeing rent increases, so that 2014 can be described as a year in which rents clearly began to increase for many asset types, although there were some differences in degree. As macroeconomic uncertainty increases in 2015, attention is likely to focus on the degree to which improvements in NOI can be realized.
Review of 2014 and Outlook for 2015

【Macroeconomic Conditions】

Large-scale Downward Revisions in GDP Growth Rate Forecasts

- The real GDP growth rate for July-September 2014 (first preliminary figure) released in November 2014 showed an unexpected negative rate of growth of 1.6% QoQ at annualized rate (the most recent consensus forecast had been +2.47% according to the Japan Center for Economic Research’s ESP Forecast). This was the second consecutive quarter of negative GDP growth. The second preliminary figure announced in December also undercut the market consensus, at -1.9% growth, a further downward revision from the first preliminary figure. The main reasons for this performance far below market forecasts include the failure of personal consumption to recover to the degree previously forecast, continued negative growth in private-sector residential investment, a decrease in capital investment, which had been projected to increase, and a massive decrease in private-sector inventories. In response to the July-September results, each research institution has revised its projected 2014 full-year real GDP growth rate downward considerably, with the Bloomberg Consensus now standing at +0.3% (as of November 28, 2014).

An Extension of Time for the Abe Adm. and Postponement of the Planned Increase in Consumption Tax

- In response to the sluggish economy, Prime Minister Abe announced a postponement of the next increase in consumption tax as well as the dissolution of the House of Representatives and a new general election. The increase in consumption tax has been postponed to April 2017, and the ruling parties secured more than two-thirds of the seats in the House of Representatives in an election that set a new record for the lowest rate of voter turnout at 52.66% (in single-member constituencies). The general election can be said to have demonstrated confidence in the Prime Minister’s Abenomics reforms. The likelihood of the Abe administration remaining in office for a lengthy period of time can be said to have increased.

Downward Revisions in Price Forecasts

- The consumer price index rose by 2.9% YoY (October 2014 nationwide core CPI), reflecting a downward trend since peaking at +3.4% in May. Excluding the effects of the increase in consumption tax, the rate of increase would be less than +1.0%. The Bank of Japan decided on additional monetary easing in its Monetary Policy Meeting held on October 31. It intends to increase the monetary base, which had been growing at a pace of JPY 60-70 trillion/year, to JPY 80 trillion and to increase its holdings of exchange-traded funds (ETFs) and real-estate investment trusts (REITs) to roughly triple their level through now. As reasons for launching this policy of additional easing, BOJ Governor Kuroda cites the weakness of demand following the increase in consumption tax and downward pressure on prices due to factors such as falling crude-oil prices. Crude-oil prices have been falling rapidly recently. While it is difficult to generalize because rapid changes in crude-oil prices have a major impact on the global economy, many appear to consider falling crude-oil prices to have positive effects on the Japanese economy. However, they will have a negative effect on achievement of the BOJ’s target core CPI of 2%.
**Real Estate Investment Market**

Transactions among players other than J-REITs are increasing, and the total value of transactions in 2014 is projected to be at largely the same level as in 2013.

- The value of commercial real estate transactions in 2014 remains largely at the same level as in 2013, an active year. According to DTZ, cumulative transactions from the start of 2014 through Q3 totaled JPY2.5 trillion, roughly unchanged YoY. At the same time, the cumulative total value of acquisitions by J-REITs through the end of November was down 36.7% YoY to JPY1.3 trillion. While J-REITs’ appetites have not weakened in light of the continued strong fund-raising environment, their actual performance has decreased somewhat. This appears to be due to the fact that competition to acquire properties had intensified last year along with a series of large-scale IPOs.

- Fig.3 shows the major transactions in 2014. A look at the top deals shows that many were transactions conducted by real-estate firms and business operators for purposes of business strategy. There also was lively trading by core funds as exemplified by sovereign wealth funds such as GIC, which acquired Pacific Century Place Marunouchi. The largest transaction by a J-REIT was the acquisition of the Gotenyama SH Building (purchased for JPY51.5 billion) by Sekisui House REIT, which listed in December, while most transactions appear to have been around the JPY20 billion level. In addition, while the names of some private funds are apparent here and there among the sellers, it appears that many of these are cases of owners finally being able to sell properties acquired prior to the financial crisis or properties acquired after the financial crisis reaching the exit stage. In sum, 2014 can be described as a year in which the market was driven by major transactions by players such as real estate companies and core investors in addition to J-REITs, which continued active acquisitions of properties although the value of their transactions had fallen somewhat.

### Fig.3 Major Deal in 2014

<table>
<thead>
<tr>
<th>Property Name</th>
<th>Asset Type</th>
<th>Buyer</th>
<th>Price (¥bn)</th>
<th>Address</th>
<th>Date</th>
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<tbody>
<tr>
<td>The Otemachi Tower</td>
<td>Office</td>
<td>Mizuho Bank</td>
<td>178.2</td>
<td>Tokyo</td>
<td>Mar-14</td>
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<tr>
<td>Pacific Century Place</td>
<td>Office</td>
<td>Government of Singapore Investment Corporation (GIC)</td>
<td>170.0</td>
<td>Tokyo</td>
<td>Oct-14</td>
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<tr>
<td>Former Mizuho Bank Head Office Building</td>
<td>Office</td>
<td>Mizuho Financial Group</td>
<td>159.0</td>
<td>Tokyo</td>
<td>Nov-14</td>
</tr>
<tr>
<td>Megro Gajoen</td>
<td>Office</td>
<td>Mori Trust</td>
<td>130.0</td>
<td>Tokyo</td>
<td>Aug-14</td>
</tr>
<tr>
<td>Kokusai Akasaka Building</td>
<td>Office</td>
<td>Sekisui House</td>
<td>74.0</td>
<td>Tokyo</td>
<td>Apr-14</td>
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<tr>
<td>Higashiogishima warehouse A-C</td>
<td>Logistics</td>
<td>LaSalle Investment Management</td>
<td>-</td>
<td>Kanagawa</td>
<td>Jul-14</td>
</tr>
<tr>
<td>Sony's headquarters' land</td>
<td>Land</td>
<td>Sony Life Insurance</td>
<td>52.8</td>
<td>Tokyo</td>
<td>Sep-14</td>
</tr>
<tr>
<td>Gotenyama SH Building</td>
<td>Office</td>
<td>Sekisui House Reit</td>
<td>51.5</td>
<td>Tokyo</td>
<td>Dec-14</td>
</tr>
<tr>
<td>Shinjuku-I-Land</td>
<td>Office</td>
<td>Tokyu Land</td>
<td>-</td>
<td>Tokyo</td>
<td>Oct-14</td>
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<tr>
<td>Queen's Square Yokohama Tower B,C Hotel</td>
<td>Office</td>
<td>Sumitomo Mitsui Finance and Leasing</td>
<td>45.0</td>
<td>Kanagawa</td>
<td>Mar-14</td>
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<td>Garden City Shinagawa Gotenyama</td>
<td>Office</td>
<td>Sekisui House Reit</td>
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<td>Dec-14</td>
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<tr>
<td>Nakano Central Park East</td>
<td>Office</td>
<td>Spc of AXA Life Insurance</td>
<td>-</td>
<td>Tokyo</td>
<td>Mar-14</td>
</tr>
<tr>
<td>GLP Tokyo II</td>
<td>Logistics</td>
<td>GLP-J-REIT</td>
<td>36.1</td>
<td>Tokyo</td>
<td>Sep-14</td>
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<tr>
<td>Espoir Omotesando</td>
<td>Retail</td>
<td>Mitsubishi Corporation</td>
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<td>Tokyo</td>
<td>Mar-14</td>
</tr>
<tr>
<td>Kiiocho Building</td>
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<td>Mori Trust Sogo Reit</td>
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<tr>
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<td>Hulic</td>
<td>-</td>
<td>Chiba</td>
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<tr>
<td>Kojimachi Millennium Garden</td>
<td>Office</td>
<td>Nomura Real Estate Office Fund</td>
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<tr>
<td>Ebisu Prime Square</td>
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<td>Invesco Office J-REIT</td>
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<td>Tokyo</td>
<td>Jun-14</td>
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<tr>
<td>Shinjuku Eastside Square</td>
<td>Office</td>
<td>Japan Real Estate</td>
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<td>Hommachi Minami Garden City</td>
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<td>Sekisui House Reit</td>
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<td>Osaka</td>
<td>Dec-14</td>
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<tr>
<td>Ochanomizu Sola City</td>
<td>Office</td>
<td>Hulic REIT</td>
<td>22.9</td>
<td>Tokyo</td>
<td>Nov-14</td>
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<tr>
<td>West Park Tower Ikebukuro</td>
<td>Residential</td>
<td>Orix REIT</td>
<td>20.5</td>
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<td>Hulic REIT</td>
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<td>Tokyo</td>
<td>Feb-14</td>
</tr>
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</table>

Source: Kenedix prepared based on Companies publication document, News reports
The Market for Private REITs Continues to Grow

The year 2014 also was one in which the market for private REITs grew markedly in size. Four private REITs newly began investing in properties during the year, and AUM of private REITs as of the end of October 2014 appears to be more than JPY860 billion (source: Sumitomo Mitsui Trust Research Institute). Investors in private REITs consist mainly of core investors such as domestic pension funds, preferring stable returns to high yields, and they can be inferred to have a favorable position during acquisition of properties as well. Multiple companies including Sumitomo Corporation and NTT Urban Development have expressed intentions to establish private REITs, and market growth is projected to continue in 2015 as well. According to Sumitomo Mitsui Trust Research Institute, the external growth targets of the 10 private REITs that already have begun investing can be estimated to be those of reaching assets of JPY1 trillion in H1 2015 and JPY2 trillion in 2018. However, these projections do not include private REITs that will begin investment in the future, so there is a possibility that market growth could accelerate beyond projections.

Little room for decreases in the cap rate

The commercial real estate investment market has been lively for at least two years, and as a result the cap rate has remained in a decreasing trend. Fig. 5 shows trends in investors’ expected yields on real estate as announced semiannually by the Japan Real Estate Institute. In April 2014 investors’ expected yields on class-A office buildings in Tokyo’s Marunouchi and Otemachi districts had fallen to 4.0%, and they remained at that level in October. This is the same level as in the period from April 2006 through October 2008 (recorded at 3.8% only in October 2007), prior to the financial crisis. This data on investors’ expected yields on real estate is collected by surveying real-estate investors, employing the median expected yield from survey responses. However, the mean expected yield is published as well. While the median remained unchanged at 4.0% between April and October 2014, the mean fell from 4.1% to 3.9%. This would appear to show that responses giving high expected yields decreased in number while those giving low expected yields increased. Alternatively, there may be some investors who responded with much lower expected yields. Whatever the case, since the real estate investment market is driven by investors offering the lowest expected yields (i.e., the highest prices), the real market cannot be spoken of in terms of median and mean. In actual transactions the cap rates appear to have been lower than 3.0% for Pacific Century Place Marunouchi and Otemachi Tower, and as such it probably could be said that there is little room for a decrease in the cap rate.
The necessity of taking part in an overheating market while maintaining cool judgment

According to a survey by the Japan Real Estate Institute, 86% of investors surveyed said that within the real estate investment market cycle real estate prices in Tokyo were in a period of expansion (including both starting and ending phases of a period of expansion). Those who said they expected prices to peak within the coming six months accounted for 26% of respondents, as an increasing number of investors appear to see the expansionary period as nearing its end. The cap rate is decreasing, and the investment market seems to be overheating. However, current conditions give a somewhat different impression than the brisk period prior to the financial crisis. Bank lending has not increased massively like it did in 2006 (see Fig. 6), and expected yields in rural markets have not fallen as much as they did then. At the same time, Pacific Century Place Marunouchi sold for JPY170 billion, and transactions at the 3% level are increasing among J-REITs as well. Probably this market can be described as seeming overheated. Still, investors also appear cooler than during the last overheated period.

Conditions in the real estate investment market are likely to remain brisk in 2015 as well. The Bank of Japan has adopted an attitude of monetary easing, and there are plenty of funds available. The devaluation of the yen has led to a continued inflow of funds from overseas into the Japanese market, where the yield gap is relatively high, and as long as the stock market remains strong new J-REIT IPOs and capital increases by existing REITs would appear likely to continue. Establishment of new private REITs and capital increases by existing ones are likely to continue as well. While conditions under which it is not easy to acquire properties will continue, a supply of properties can be expected as a result of factors such as redemption of funds established in the past and exit of opportunistic funds. However, it would appear difficult to lower the cap rate further in prime Tokyo locations, so that investment is likely to expand further to include non-office properties, including new asset types, as well as rural markets.

[Rental Office Market]

In 2014, vacant floor space in the Tokyo office market fell massively, as the vacancy rate continued to decrease. According to Miki Shoji, in Tokyo’s business district (the five central wards) vacant floor space fell from 520 thousand tsubo at the end of 2013 to 397 thousand tsubo at the end of November, and the vacancy rate dropped from 7.21% to 5.55%. The new demand of 178 thousand tsubo over the 11-month period from the start of the year through the end of November already had surpassed the full-year new demand figure of 146 thousand tsubo for 2013 (as estimated by Kenedix based on Miki Shoji data), as new demand has been strong.

On the other hand, while rents are in an increasing trend some are saying they have not increased as much as expected. While the Office Rent Index published by Sanko Estate and NLI Research Institute shows contracted rent for the three central wards of Tokyo as a whole rising after bottoming out at 70 points in Q4 2012 to reach 79 points in Q3 2013, since then the index has fallen again, to 76 points in Q3 2014. Also, contracted rent on class-A office buildings has continued to rise after bottoming out at JPY19,706 (per tsubo per month) in Q3 2011, showing remarkable growth in 2013, but since the start of 2014 the rate of increase has slowed. Office rents probably could be described as having rebounded in 2013 after falling excessively following the financial crisis, then finding it difficult to rise further in 2014 once they had recovered to a certain level. Since tenant needs are polarizing, it would appear that there is no full-fledged rise in rents in small-scale office buildings and those with inferior specs or locations.

According to Mori Building, the supply of floor space in office buildings in the 23 wards of Tokyo in 2015 will be up approximately 26% YoY to 1.11 million sqm. While this reflects an increased over 2014, the level is
only slightly higher than the past average (1.04 million sqm/year). While the three central wards account for
the bulk of supply at 81%, recently large groupings of vacant floor area in class-A office buildings in central
Tokyo have become less common, and it appears that there are strong inquiries being made regarding new
office buildings planned for completion in 2015. For this reason, barring an extreme worsening of economic
sentiment, office demand is likely to remain strong and vacant floor area to decrease in 2015 as well. Also
there are few vacancies available in high-spec buildings, so that prospective tenants do not have many choices
available. As a result there probably is a possibility of accelerating rent increases in class-A buildings.
However, the influence of economic sentiment cannot be discounted, as new supply of more than 1 million
sqm is on the horizon in 2016 and later years.

Fig.7 New Demand Area in Central 5 Wards

Note: Until November for 2014
Source: Kenedix prepared based on Miki Shoji Co., Ltd.

Fig.8 Supply Area of Large-scale Office Building in Tokyo 23 wards

Source: Mori building

Rental Apartment Market

J-REITs aim to increase rents

The rental apartment market probably could be described as having entered a phase of rising rents in 2014.
Recognizing this development, J-REITs have begun to shift course from a focus on occupancy rates to one on
rents. Nippon Accommodations Fund has announced the rate of change in rents on its properties in the three
central wards of Tokyo has become positive for the first time since the financial crisis (according to financial
results announced August 2014). Also, Nomura Real Estate Residential Fund has announced that the
percentage of new leases when changing tenants that reflect increases in rent is 43.7% while the percent
reflecting rent decreases is 38.6%. It comments that the increase in the percentage reflecting rent increases is a
clear sign of a trend toward an increase in new asking rents after bottoming out (according to a briefing on
financial results held in May 2014). While rents on rental residences held by J-REITs in the 23 wards of Tokyo
were in a decreasing trend from 2009 to roughly 2012, some showed increases in 2013 (Fig.9). Then, 2014 can
be described as the year full-scale rent increases began.

Rental residential construction starts in 2014 (reinforced concrete) cumulative through October
were up 25% YoY to 20,778 units. While new supply of rental apartments in 2015 appears to be
up somewhat from 2014, it does not appear to have reached that high a level. At the same time,
the inflow of population into the 23 wards of Tokyo continues, and tight demand-supply
conditions are expected to continue. While there is a possibility of localized easing of demand-supply
conditions in areas with increasing new supply, overall tight conditions appear likely to continue,
and residential rents are expected to remain in an increasing trend.

Fig.9 YoY % Change in Rent for Rental Apartment

Source: Kenedix prepared based on "Japan Property Index" from Association for Real Estate Securitization
Retail Facility Market

Apparent polarization in the performance of retail businesses

- The effects of the consumption tax increase in April 2014 decreased personal consumption demand more than initially expected. While the economy had been in a recovering trend since 2013, the devaluation of the yen and rising crude-oil prices appear to have led to inflation and decreasing real income. While the Consumer Confidence Index improved temporarily in May-July, since August it has continually worsened for four months. At the same time, there is a polarization underway in the performance of retail businesses. While supermarket sales fell by 0.6% YoY in April due to the effects of the tax increase, they have maintained positive growth since May, with net sales in October up 3.4% YoY (according to the Japan Supermarkets Association). While drugstores had experienced negative YoY growth since April, they recovered in the summer, as for example Matsumoto Kiyoshi Holdings’ sales for all stores in July showed positive YoY growth. On the other hand, there are no signs of improvement in sales of general merchandisers. For example, Ito Yokado’s sales for all stores continue to be down YoY. Nationwide (existing store) sales of department stores have improved gradually since showing a massive decrease of 12.2% in April, with the decrease being limited to -0.7% in September (Japan Department Stores Associations). While they worsened again in October, at -2.2%, this appears to be due to poor sales of fall and winter apparel. However, inbound demand is showing a high rate of growth, as for example Isetan Mitsukoshi Holdings recorded growth of +10% in sales of its Ginza stores.

Limited new supply of retail facilities

- Supply of new retail sales floor space appears to be limited. Estimates based on notices submitted under the Large-Scale Retail Stores Location Act project a new supply of 2.66 million sqm in retail sales floor space in 2014, down 9.6% YoY. While new supply of retail sales floor space in H1 2015 is projected to increase somewhat by 8.6% YoY to 1.28 million sqm, there are no signs of a rapid increase. Of the stores that opened in 2014, about 30% had more than 10,000 sqm in sales floor area, a low level as in the previous year. It would appear that most new stores opening are small and medium-sized of 10,000 sqm or less in floor area.

- As noted above, conditions of personal consumption cannot be described as strong, and there is a clear polarization underway in retail business performance. Retailers experiencing strong business performance include supermarkets and drugstores, closely related to consumers’ everyday lives, and stores capable of capturing inbound demand. There is strong demand to open new stores chiefly among companies with strong business performance, and since new supply is limited it is likely that a strong balance between supply and demand will continue among retail facilities. One risk factor is a possible lengthening of sluggish consumption.

[Fig.10] Supply Area of Retail Facility (based on Large-Scale Stores Location Law)

Source: Kenedix prepared based on The Ministry of Economy, Trade and Industry
Although supply levels remained high, new demand was high as well

- The vacancy rate in logistic facilities in the greater Tokyo area as of the end of September 2014 was 4.9% (CBRE, in large-scale multi-tenant facilities). While vacancies have increased somewhat from the vacancy rate of 4.0% at the end of 2013, the vacancy rate appears to be more controlled than expected in light of the continued high level of new supply. While new supply of logistic facilities has remained at a high level since 2013, a corresponding level of new demand is being generated as well.

- One likely factor behind this growth is the growth of the Internet e-commerce market. In 2013 the B2C e-commerce market (e-commerce targeting consumers) showed strong growth, increasing in size by 17.4% YoY to JPY11.2 trillion, while e-commerce’s share of sales grew to 3.67%. Growth in the size of the market is accelerating, and the market is expected to grow in the future as well. Together with the growth in the e-commerce market, volumes of packages handled by delivery services are in an increasing trend as well. Demand for logistic facilities from 3PL firms and companies selling over the Internet still appear solid.

The highest level of new supply on record is projected for 2015

- According to Ichigo Real Estate Service, the supply of logistic facilities in the greater Tokyo area in 2015 is projected to be 1.643 million sqm. If this supply is realized as projected, then 2015 would see the highest level of new supply on record. According to CBRE, three of the nine facilities to be completed through Q3 2015 already are to be leased to single tenants in their entirety, and about 50% of the total new floor area to be supplied has already secured tenants. However, since in Q4 2015 nine new facilities (approx. 200 thousand tsubo) will come on the market at once, there are concerns about a worsening of demand-supply conditions. Some isolated easing of the balance between supply and demand is expected to take place in areas with particularly rapid increases in new supply.

Hotel Market

It probably would be no exaggeration to say that hotels are the asset with the best fundamentals

- Guestroom occupancy in limited service hotels in Tokyo during the quarter April-June 2014 rose by 2.1% points YoY to 83.9%, the tenth consecutive quarterly increase since January-March 2012. Also, according to Nihon Keizai Shimbun guestroom occupancy at 31 leading hotels in Tokyo and Osaka in September showed rates of 82.3% in Tokyo, down 0.7% points YoY, and 91.3% in Osaka, up 4.5% points over the same period. The rate of more than 90% in Osaka is extremely high. In Osaka this appears to be the result of the opening of a new area with a theme based on the popular Harry Potter films at Universal Studios Japan (USJ) in July. In Tokyo the occupancy rate appears to have fallen a little as a result of hotels raising room rates.
While rents finally appear to be rising in each asset class, hotel profitability is showing remarkable increases. According to STR Global, Tokyo ADR in October 2014 was up 12.5% YoY to JPY17,707. While occupancy remains high in the hotel market, hotel firms appear to have started raising prices recently.

Possible reasons for the high occupancy rates at hotels include the effects of Japanese travelers refraining from overseas travel due to the low value of the yen on international currency markets and switching to domestic travel instead, in addition to an increase in tourists from overseas. The number of visitors to Japan from overseas in 2014 had reached 11 million by the end of October, up 27.1% YoY, and appears likely to reach 13 million for the full year. This is being propelled by the devaluation of the yen as well as easing of requirements for issuing visas to visitors from Southeast Asian states and increasing flights offered by low-cost carriers (LCCs).

Active trading in hotels and new construction

Conditions in the hotel market are projected to remain strong through 2020, when the Tokyo Olympic and Paralympic Games will be held. For this reason, investors’ risk acceptance appears to be increasing, and investment in hotels is brisk. According to Nikkei Real Estate Market Report’s transaction totals, about 70 hotels deals took place through September 2014. Since the number of deals over the same period in 2013 was about 40, it would appear that trading in hotels has increased massively (as estimated by Kenedix based on Nikkei Real Estate Market Report data). Hotel construction also appears to be increasing. However, conditions in the hotel market are likely to remain strong as this increase is far outpaced by the growth in domestic travelers, which is rising at a rapid pace of roughly 2 million/year.

Hot Topic

【Healthcare Market】

The first specialized healthcare REIT is listed

On November 5, 2014, Nippon Healthcare Investment Corporation was listed as Japan’s first specialized healthcare REIT. The Japanese government in its Japan Revitalization Strategy (June 14, 2013 Cabinet decision) calls for the nation “to develop and disseminate guidelines for acquisition and operation of housing, etc. for the elderly, and raise public awareness of the guidelines etc. in order to make use of private funds, aiming at utilizing Health Care REIT” and guidelines and other materials on investment and disclosure methods for healthcare REITs have been studied and released, with the Ministry of Land, Infrastructure, Transport and Tourism and the Association for Real Estate Securitization, among others, playing central roles. There are high expectations for the market for healthcare REITs, which are being established through public-private partnership. Investors also have high expectations, and the ratio of this REIT’s initial listed price to its offering price is exceptionally high for an REIT at 1.54 times. Its dividend yield too compares favorably with those of major office REITs at 2.76% as of December 19th.
Main features of Nippon Healthcare Investment Corporation

- Nippon Healthcare Investment Corporation started with total AUM of 13.2 billion yen in 14 properties, including assets acquired at the time of listing. While all 14 properties are private nursing homes, the REIT plans to invest in properties such as serviced senior residences and other senior facilities and residences as well as healthcare facilities. Of the 14 properties, nine provide comprehensive long-term care services while five are residential-type nursing home, and the average number of residential units per property is 84 units (ranging from 33-155 units per property). Its thinking on areas of investment can be described as being suited to a healthcare REIT. It aims for a portfolio in which 50% or more of properties held are located in the three major urban areas of greater Tokyo, Osaka, and Nagoya, up to 50% in mid-sized urban areas, and up to 10% in other areas. It is rare to see a REIT that does not clearly indicate a percentage for investments in the Tokyo area (including greater Tokyo and Tokyo metropolitan areas). This can be described as a reflection of the fact that demand for healthcare facilities, particularly facilities and residences for the elderly, is increasing broadly across all of Japan. It appears to be restricting its investments to areas where the elderly population is expected to increase in the future over the medium to long term.

- Since operators are an extremely important factor, even more so than location and building, it plans to confirm business continuity and superiority through large-scale qualitative due diligence targeting operators. Also, its lease agreements are oriented toward the long term, as it targets investment in properties with effective lease terms of 10 years or longer. In preparation for cases such as cancellations or terminations of leases due to worsening business conditions for operators resulting from factors such as major fluctuations in economic conditions, it concludes arrangements on backup management with all existing operators (Backup Operator Membership).

- It describes the content of its portfolio using its own indicators, such as rent coverage ratio, nursing care remuneration-to revenue ratio, and ratio of amortized deposit to revenue. It calculates business revenues and expenditures independently based on data disclosed by each operator. At the time of its listing, its portfolio showed averages of 1.7 times for rent-bearing capacity, 50.6% for care-payment percentage, and 5.7% for the ratio of refunds to revenues on move-in costs.

### Fig.15 Property Summary hold by Nippon Healthcare Investment Corporation

<table>
<thead>
<tr>
<th>Property Name</th>
<th>Operator Type</th>
<th>Address</th>
<th>Acquisition Date</th>
<th>Price</th>
<th>Age of Building at IPO</th>
<th>Remaining Contract Term</th>
<th>TFA (sqm)</th>
<th>Number of Unit</th>
<th>Appraisal NOI</th>
<th>NOI Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sawayaka Kaikyoukan</td>
<td>with care</td>
<td>Fukuoka</td>
<td>Mar-14</td>
<td>6.3</td>
<td>11.0</td>
<td>19.4</td>
<td>2,694</td>
<td>65</td>
<td>50</td>
<td>7.9%</td>
</tr>
<tr>
<td>Sawayaka Meisuikan</td>
<td>with care</td>
<td>Fukuoka</td>
<td>Mar-14</td>
<td>5.9</td>
<td>9.0</td>
<td>19.4</td>
<td>4,554</td>
<td>87</td>
<td>47</td>
<td>8.0%</td>
</tr>
<tr>
<td>Sawayaka Heart Life Nishikyogoku</td>
<td>Residential</td>
<td>Kyoto</td>
<td>Mar-14</td>
<td>7.5</td>
<td>7.0</td>
<td>19.4</td>
<td>2,459</td>
<td>84</td>
<td>61</td>
<td>8.1%</td>
</tr>
<tr>
<td>Sawayaka Hinodekan</td>
<td>with care</td>
<td>Niigata</td>
<td>Nov-14</td>
<td>7.7</td>
<td>7.0</td>
<td>20.1</td>
<td>2,674</td>
<td>50</td>
<td>48</td>
<td>6.2%</td>
</tr>
<tr>
<td>Sawayaka River Side Kurinoki</td>
<td>Residential</td>
<td>Niigata</td>
<td>Nov-14</td>
<td>2.7</td>
<td>5.0</td>
<td>20.1</td>
<td>1,349</td>
<td>33</td>
<td>17</td>
<td>6.4%</td>
</tr>
<tr>
<td>Sawayaka Oobatake-sanbankan</td>
<td>Residential</td>
<td>Fukuoka</td>
<td>Nov-14</td>
<td>2.9</td>
<td>3.0</td>
<td>20.1</td>
<td>1,412</td>
<td>50</td>
<td>18</td>
<td>6.2%</td>
</tr>
<tr>
<td>La Nassica Arakogawa</td>
<td>with care</td>
<td>Aichi</td>
<td>Nov-14</td>
<td>12.8</td>
<td>6.0</td>
<td>13.4</td>
<td>3,590</td>
<td>100</td>
<td>74</td>
<td>5.8%</td>
</tr>
<tr>
<td>Supercourt JR Nara-ekimae</td>
<td>with care</td>
<td>Supercourt</td>
<td>Nov-14</td>
<td>15.7</td>
<td>5.0</td>
<td>24.7</td>
<td>4,988</td>
<td>155</td>
<td>91</td>
<td>5.8%</td>
</tr>
<tr>
<td>Charn Suite Ryokuchikoen</td>
<td>with care</td>
<td>Osaka</td>
<td>Mar-14</td>
<td>19.5</td>
<td>8.0</td>
<td>23.8</td>
<td>5,330</td>
<td>128</td>
<td>144</td>
<td>7.4%</td>
</tr>
<tr>
<td>Nichii Care Center Fukushima Omori</td>
<td>with care</td>
<td>Fukushima</td>
<td>Mar-14</td>
<td>2.7</td>
<td>7.0</td>
<td>19.4</td>
<td>1,965</td>
<td>52</td>
<td>22</td>
<td>8.3%</td>
</tr>
<tr>
<td>Verger Hirakata</td>
<td>with care</td>
<td>Osaka</td>
<td>Mar-14</td>
<td>9.5</td>
<td>7.0</td>
<td>19.4</td>
<td>2,925</td>
<td>104</td>
<td>85</td>
<td>8.9%</td>
</tr>
<tr>
<td>Rest Villa Hiroshima Hikarigaoka</td>
<td>Residential</td>
<td>Hiroshima</td>
<td>Mar-14</td>
<td>9.6</td>
<td>8.0</td>
<td>19.4</td>
<td>4,090</td>
<td>80</td>
<td>69</td>
<td>7.2%</td>
</tr>
<tr>
<td>Rest Villa Sagamihara-cho</td>
<td>with care</td>
<td>Kanagawa</td>
<td>Mar-14</td>
<td>11.7</td>
<td>6.0</td>
<td>19.4</td>
<td>3,733</td>
<td>80</td>
<td>89</td>
<td>7.6%</td>
</tr>
<tr>
<td>Rest Villa Kinugasayama Park</td>
<td>Residential</td>
<td>Kanagawa</td>
<td>Nov-14</td>
<td>18.4</td>
<td>3.0</td>
<td>19.9</td>
<td>4,248</td>
<td>104</td>
<td>99</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

Source : Nippon Healthcare Investment Corporation, Kenedix
Implementation of optimal payable distributions can be described as another characteristic of this REIT. A high percentage of healthcare facilities tends to be located in rural areas with relatively low land prices, so that building prices tend to account for a higher percentage of the value of the asset as a whole than in the case of office buildings and similar properties. For this reason, they can be expected to record higher depreciation costs. At the same time, at some facilities repairs for which the REIT covers the costs are restricted to the building structure itself and core structural components, so that costs required for facility renovation and other purposes would appear to tend to be relatively low in amount compared to depreciation. For this reason, Nippon Healthcare Investment Corporation has a policy of implementing optimal payable distributions up to 40% of depreciation costs.

Two New REITs Aim to List in 2015

Currently two healthcare REITs are aiming to list soon: SMBC Healthcare Holder Limited (a joint venture of the three companies Sumitomo Mitsui Banking Corp., NEC Capital Solutions Ltd., and Ship Healthcare Holdings Co., Ltd.) and Japan Senior Living Partners Co., Ltd. (a joint venture of the six companies Kenedix, Inc., Haseko Corp., Mitsubishi UFJ Trust and Banking Corp., LIXIL Group Corp., Sompo Japan Insurance Inc., and Shinsei Bank, Ltd.). Despite the small number of players, since the number of healthcare facilities available to investment markets also is small competition to acquire properties can be assumed to intensify. The NOI yield range of 5.4-6.4% on properties acquired by Nippon Healthcare Investment Corporation when it listed shows a clear decrease from the NOI yield range of 5.8-8.9% on properties acquired before it listed, and this can be seen as a demonstration of a decrease in the cap rate in the market.

The remaining two companies have announced plans to list their REITs in 2015, and competition to acquire properties should continue even after their listings, as they aim to achieve external growth. The elderly population is projected to increase in the medium term, so that although there might be some isolated cases of worsening of the balance between supply and demand due to increased supply, there is little risk of a decline in demand overall. An inflow of funds from the investment markets can be expected to lead to quality improvements in facilities and residences for the elderly, while also meeting rapidly increasing demand.
Trading in Commercial Real Estate by Value Falls YoY for the Second Consecutive Quarter

The value of trading in commercial real estate in Q3 2014 fell by 28% YoY to JPY546.9 billion, the second consecutive quarter in which it recorded a YoY drop (DTZ). While Q3 is a quarter in which trading tends to be relatively low due to seasonal factors, the market does seem to have been sluggish during the quarter. While the value of properties acquired by J-REITs rose by 15.9% YoY to JPY308 billion, it fell by 7.9% QoQ, so that the trend was the same as that in trading in commercial real estate as a whole.

Full-Year Trading Appears Likely to Remain at the Same Level as Last Year

Trading in commercial real estate is projected to increase massively in Q4. There has been a succession of major deals since October, including ones involving Pacific Century Place Marunouchi (a transaction valued at JPY170 billion) and the former head office of Mizuho Bank (valued at JPY159 billion). For this reason, full-year trading in commercial real estate in 2014 can be expected to reach a level roughly the same as the 2013 figure of JPY3.5 trillion. The value of J-REIT transactions is expected generally to fall by about 30% from 2013. The year 2014 can be described as one in which major transactions by core investors other than J-REITs, developers, and business operating companies stood out. In 2015 as well, there is likely to be lively activities in new establishment of J-REITs and private REITs along with IPOs and capital increases by both. Foreign investors also continue to have their eyes on the Japanese market, so that capital inflows can be expected to continue.

### Significant Deals

<table>
<thead>
<tr>
<th>Name</th>
<th>Asset Type</th>
<th>Buyer</th>
<th>Prefecture</th>
<th>Price (¥bn)</th>
<th>GFS (sqm)</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pacific Century Place Marunouchi</td>
<td>Office</td>
<td>Government of Singapore Investment Corporation (GIC)</td>
<td>Tokyo</td>
<td>170</td>
<td>38,840</td>
<td>Oct-14</td>
</tr>
<tr>
<td>Former Mizuho Bank Head Office Building</td>
<td>Office</td>
<td>Mizuho Financial Group</td>
<td>Tokyo</td>
<td>159</td>
<td>74,088</td>
<td>Nov-14</td>
</tr>
<tr>
<td>Meguro Gajoen</td>
<td>Office</td>
<td>Mori Trust</td>
<td>Tokyo</td>
<td>130</td>
<td>155,820</td>
<td>Aug-14</td>
</tr>
<tr>
<td>Gotenyama SH Building</td>
<td>Office</td>
<td>Sekisui House Reit</td>
<td>Tokyo</td>
<td>52</td>
<td>19,813</td>
<td>Dec-14</td>
</tr>
<tr>
<td>Shinjuku-I-Land</td>
<td>Office</td>
<td>Tokyo Land</td>
<td>Tokyo</td>
<td>48</td>
<td>38,353</td>
<td>Oct-14</td>
</tr>
<tr>
<td>Garden City Shinagawa Gotenyama</td>
<td>Office</td>
<td>Sekisui House Reit</td>
<td>Tokyo</td>
<td>40</td>
<td>21,033</td>
<td>Dec-14</td>
</tr>
<tr>
<td>GLP Tokyo II Logistics</td>
<td>Logistics</td>
<td>GLP J-REIT</td>
<td>Tokyo</td>
<td>36</td>
<td>85,455</td>
<td>Sep-14</td>
</tr>
<tr>
<td>Kioicho Building</td>
<td>Office</td>
<td>Mori Trust Sogo Reit</td>
<td>Tokyo</td>
<td>34</td>
<td>24,599</td>
<td>Sep-14</td>
</tr>
<tr>
<td>Shinjuku Eastside Square</td>
<td>Office</td>
<td>Japan Real Estate</td>
<td>Tokyo</td>
<td>23</td>
<td>23,414</td>
<td>Sep-14</td>
</tr>
<tr>
<td>Ochanomizu Sola City</td>
<td>Office</td>
<td>Hulic REIT</td>
<td>Tokyo</td>
<td>23</td>
<td>12,597</td>
<td>Nov-14</td>
</tr>
<tr>
<td>DFS Galleria Okinawa Retail</td>
<td>Retail</td>
<td>Japan Retail Fund</td>
<td>Okinawa</td>
<td>16</td>
<td>42,088</td>
<td>Sep-14</td>
</tr>
<tr>
<td>Universal City Walk Osaka Retail</td>
<td>Retail</td>
<td>Nomura Real Estate Master Fund</td>
<td>Osaka</td>
<td>16</td>
<td>17,769</td>
<td>Sep-14</td>
</tr>
<tr>
<td>Prologis Park Kawanishi Logistics</td>
<td>Logistics</td>
<td>Nippon Prologis REIT</td>
<td>Hyogo</td>
<td>14</td>
<td>75,026</td>
<td>Aug-14</td>
</tr>
<tr>
<td>Mozo Wonder City Retail</td>
<td>Retail</td>
<td>Japan Retail Fund</td>
<td>Aichi</td>
<td>12</td>
<td>45,995</td>
<td>Sep-14</td>
</tr>
<tr>
<td>One’s Mall Retail</td>
<td>Retail</td>
<td>SPC of Croesus Retail Trust</td>
<td>Chiba</td>
<td>11</td>
<td>83,751</td>
<td>Sep-14</td>
</tr>
</tbody>
</table>

Source: Companies publication documents, News Reports, Kenedix
A Rising J-REIT Index Reflecting Strong Business Conditions

Since July 2014 performance of the TSE REIT Index was +16.7%, higher than TOPIX’s performance of +10.9% (as of December 12th). While J-REIT unit prices have been showing solid growth in general, their rise has accelerated since October 31 when the BOJ announced additional monetary easing. Primary causes would appear to include a further decrease in long-term interest rates due to the implementation of additional easing and an increase in the pace of purchase of J-REIT units from JPY30 billion to JPY90 billion per year. At the same time, the TSE Real Estate Index is soft at -2.3%.

The Yield Spread Falls Slightly

While J-REIT dividend yields fell during this period, so did yields on 10-year JGBs. J-REIT dividend yields (based on the TSE REIT Index) fell by 0.36% points from the end of June, while yields on 10-year JGBs fell by 0.17% points over the same period. As a result, the drop in the yield spread was only 0.19%.

Marked Increase in Residential REITs

A look at performance by asset type shows solid performance in unit prices of residential REITs, which have been rising since September after falling in July-August. In particular, the recorded a massive increase of 12% in November. All REITs saw rapid increases following the BOJ decision on additional monetary easing on October 31. While unit prices of office REITs returned to their previous levels after that, those on residential REITs continue to rise. As dividend yields on large office REITs, which have a strong impact on the indices, have fallen below 3%, the recovery of residential REITs were lagging comparatively. Residential REITs also are in the process of realizing rent increases. Favorable responses to these and other factors appear to be behind their rising unit prices.

Yield Gaps are Rising outside Japan

While the major REIT markets have seen generally solid performance since July 2014, it was the Japanese market that recorded the strongest performance (+16.7% as of December 12), followed by the Australian (+11.5%), U.S. (+8.4%), and U.K. (+8.0%) markets. The yield gap is rising in all major markets other than Japan. This is because while dividend yields are falling as unit prices rise, yields on long-term government bonds have fallen even more. The yield gap in Japan is 2.58%, while it is 1.43% in the U.S., 1.1% in the U.K., 1.37% in Australia, and 3.55% in Singapore.
Vacancies Fall below 400 thousand Tsubo
At the end of September 2014 the vacancy rate in the 5 central wards of Tokyo had fallen to the 5% level, and at the end of November it stood at 5.55% (Miki Shoji). In November vacancies fell below 400 thousand tsubo for the first time in 5 years, 9 months, at 397 thousand tsubo. Since vacancies stood at 461 thousand tsubo at the end of June and 56 thousand tsubo in July-September, they fell by 7 thousand tsubo in October-November.

Strong Demand for Newly Constructed Office Buildings
The vacancy rate on Grade-A office buildings as of the end of September 2014 remained unchanged QoQ at 4.8%, and at the end of November it had fallen to 4.1% (CBRE). CBRE’s view is that “demand for floor space expansion was offset by departures from existing buildings by tenants relocating to new buildings” during Q3. JP Tower in front of Tokyo Station (completed in May 2012, with total floor area of 212 thousand sqm) already is at full occupancy, and the vacancy rate in the Otemachi-Marunouchi area marked at 1.6%. Large-scale office buildings completed during this period—Nissay Marunouchi Gardentower, Nihonbashi Dia Building, and Ebisu First Square—are operating at full occupancy, as demand appears to be high for newly constructed large office buildings.

While Rents are Rising in Class-A Office Buildings, this Does Not Appear to Have Spread to the Office Market as a Whole
The rate of increase in average asking rents has accelerated since shifting to positive YoY growth in May, as average asking rents rose by 4.5% in November to JPY16,950/month per tsubo (Miki Shoji). Building owners appear to have shifted clearly toward a course of raising rents. There are signs of increases in contracted rent as well. According to Sanko Estate, contracted rents on Class-A office buildings in central Tokyo averaged JPY30,335/month per tsubo in Q3 2014, up 7.1% YoY. Estimated contracted rent on Grade-A office buildings announced by CBRE also was up, by 4.2% YoY to 32,100/month per tsubo, for the 10th consecutive quarter of growth. However, rents on large-scale buildings with standard floor area of 100-200 tsubo remain largely unchanged QoQ, while rents on medium-sized buildings with standard floor area of less than 100 tsubo were up by only 1.3%, so that there cannot be said to be a clear increase in rents among small and medium-sized office buildings as a whole.

Rents in Prime Office Buildings Likely to Continue to Rise in 2015
New supply in 2015 is projected to total 1.11 million sqm, up approximately 26% YoY (Mori Building). Large groupings of vacant space in Class-A office buildings in central Tokyo are becoming rare, especially in the Marunouchi-Otemachi area, and rents in prime office buildings are expected to continue to increase. Of interest is the extent to which the wave of rent increases will spread.
Residential Market

Population Inflow to Central Tokyo Accelerating

The inflow of population to central Tokyo is accelerating. As of September 2014 the population of the 5 central wards was up 2.63% YoY to 961 thousand. The population of all 23 wards also was up YoY, by 1.06%, as the inflow of population to Tokyo is pronounced. If the population of the 5 central wards were to continue to grow at the current pace, it would reach 1 million by the end of 2016. While other cities also are seeing continued population inflows, the rates of increase in population are slowing somewhat in Osaka and Nagoya. Fukuoka continues to see a high inflow of population.

Occupancy Rates Remain High as Tenants Focus on Rents

The occupancy rate at rental apartments in the greater Tokyo area held by major residential J-REITs was 95.9% at the end of October 2014. After falling YoY in June-July, the occupancy rate has risen again YoY since August, up 0.3% points YoY in October. The fact that occupancy rates have not fallen even while residential REITs are strengthening their posture of focusing on rents could be seen as evidence of the tightness of the balance between supply and demand.

Residential Rents are Up 5.0% Since Bottoming Out

According to the Apartment Rent Index published by At Home Co., Ltd. and Sumitomo Mitsui Trust Research Institute Co., Ltd., rents in the 23 wards of Tokyo remain in an increasing trend. Rent (for single apartment) in Q3 2014 was up 0.1% QoQ, as it increased for the ninth consecutive quarter. Current rents are up roughly 5% since bottoming out in Q3 2011. Pressure from Supply of Rental Apartments Appears Limited

Rental housing starts nationwide in Q3 2014 were down 5.7% YoY to 87 thousand units, the first YoY drop in 11 quarters. It would appear that demand for rental residential construction as a tax-saving measure in anticipation of the effective increase in inheritance tax planned for January 2015 has run its course. Rental housing starts in Tokyo were down 0.5% YoY to 14 thousand units, while the cumulative total since the start of the year was up 12.0% YoY to 46 thousand units. If housing starts in Q4 were to remain largely unchanged, then rental housing starts in Tokyo during 2014 would reach a level of roughly 63 thousand units, up 8.6% from 2013. While the supply of rental apartments would appear likely to increase somewhat in 2015, the level of the increase can be considered unlikely to present any problems when the rising inflow of population to Tokyo is taken into account.

### Population in Major Cities

<table>
<thead>
<tr>
<th>City</th>
<th>Sep-13</th>
<th>Jun-14</th>
<th>Sep-14</th>
<th>QoQ</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tokyo</td>
<td>13,283,225</td>
<td>13,358,735</td>
<td>13,389,865</td>
<td>0.23%</td>
<td>0.80%</td>
</tr>
<tr>
<td>Tokyo 23 ward</td>
<td>9,057,136</td>
<td>9,123,994</td>
<td>9,153,154</td>
<td>0.32%</td>
<td>1.06%</td>
</tr>
<tr>
<td>Central 5 wards</td>
<td>936,772</td>
<td>953,750</td>
<td>961,437</td>
<td>0.81%</td>
<td>2.63%</td>
</tr>
<tr>
<td>Nagoya city</td>
<td>2,270,841</td>
<td>2,275,171</td>
<td>2,276,130</td>
<td>0.04%</td>
<td>0.23%</td>
</tr>
<tr>
<td>Osaka city</td>
<td>2,683,531</td>
<td>2,685,076</td>
<td>2,685,850</td>
<td>0.03%</td>
<td>0.09%</td>
</tr>
<tr>
<td>Fukuoka city</td>
<td>1,505,558</td>
<td>1,515,995</td>
<td>1,518,440</td>
<td>0.16%</td>
<td>0.86%</td>
</tr>
</tbody>
</table>

Source: Respective city

Note: Occupancy rate = occupancy area / rentable area, in the greater Tokyo area

Source: Kenedix prepared based on data of major residential REIT (As of October 2014)

### Occupancy Rate for Rental Apartment (Hold by J-REIT)

<table>
<thead>
<tr>
<th>98 (%)</th>
<th>6.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>96 (%)</td>
<td></td>
</tr>
<tr>
<td>94 (%)</td>
<td></td>
</tr>
<tr>
<td>92 (%)</td>
<td></td>
</tr>
<tr>
<td>90 (%)</td>
<td></td>
</tr>
<tr>
<td>88 (%)</td>
<td></td>
</tr>
</tbody>
</table>

### Condominium Rent Index (Tokyo 23 Wards)

- Single Type (18sqm and over, less than 30sqm)
- Compact type (30sqm and over, less than 60sqm)
- Family Type (60sqm and over, less than 100sqm)

Source: Sumitomo Mitsui Trust Research Institute Co., Ltd., At Home Co., Ltd.

### New Construction Starts of Rental Dwellings

Source: The Ministry of Land, Infrastructure, Transport and Tourism, Kenedix (Quarterly, As of September 2014)
Logistics / Retail

Logistic Facilities
Lulls in Both New Supply and Demand
The average vacancy rate in large-scale multitenant logistic facilities in the greater Tokyo area in Q3 2014 was 4.9%, down 1.2% points from Q2. There was 1 new such facility completed during this quarter, Mitsui Fudosan Logistics Park Kuki, and it appears to be operating at full occupancy. Occupancy of facilities completed in and before the previous quarter is advancing, new demand appears to have risen to just under 40 thousand tsubo (CBRE). Demand for advanced large-scale logistic facilities from 3PL firms and companies selling over the Internet still appears strong.

New Supply Expected to Reach a Record High in 2015
Leasing activities are progressing on the 3 facilities completed during 2014, and the vacancy rate would appear likely to decrease further during the year (CBRE). Supply coming on line in 2015 is expected to reach a record high at 1.643 million sqm, and the balance between supply and demand is projected to ease gradually (Ichigo Real Estate Service). There are concerns about a worsening of the balance between supply and demand in Q4 in particular, since 9 facilities (with total floor area of approximately 200 thousand tsubo) will enter the supply during that period. However, inquiries from prospective tenants are strong, so that demand appears likely to remain solid. It would appear unlikely that the market would suffer any massive collapse outside of areas experiencing rapid increases in supply.

Retail Facilities
Signs of a Rebound in Shopping Center Sales
Existing-store sales at shopping centers continued to decrease YoY over the four-month period April-July, due to the effects of the increase in the consumption tax rate in April 2014. While they rose YoY in August-September, in October they again fell YoY by 1.1%. In consideration of the fact that department store sales still have not recovered to positive growth, shopping center sales probably could be described as being relatively healthy. Viewed by product, retail sales of food and beverages and medicines have maintained positive growth since June, as demand for the necessities of living appears solid.

Conditions Differ Somewhat Between Prime Locations and Peripheral Areas
While asking rents on retail stores in central Tokyo appear stable overall, conditions appear to remain tough in other than prime locations. Asking rent in Q3 2014 was up 8.1% YoY to JPY49,695/month per tsubo on a first-floor space in the Ginza area, but down 6.1% YoY to JPY25,093/month per tsubo on spaces on other than the first floor. Available first-floor spaces are decreasing in number, while those on other floors are increasing. At the same time, in the Omotesando area available spaces are decreasing on all floors, and asking rent is up 12.7% YoY. While in the Shinjuku area too available spaces are decreasing and asking rent is up, albeit only slightly by 2.5%, in the Ikebukuro area available spaces are up 21% YoY and asking rent is up only 0.4%.
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