



MARKETBEAT

641.7 bln JPY
Transaction Volume Q3 2017

3.82 tn JPY
Transaction Volume 2017 YTD

KEY TAKEAWAYS

- Election to be test for Abenomics
- Overall volumes in investment market trending down
- Residential exceeds the total transaction volume of the previous year
- Dividend Yield of 4% means a higher hurdle rate for REITs
- Though overall asset values still lower than GFC levels, yields are at an all time low

Macro Economics

Election to be test for Abenomics

The Japanese economy grew 2.5% on an annualized basis in Q2, extending the streak to 6 straight quarters. This is the first time in 11 years that a streak of this level of sustained momentum has occurred. Given this growth, the IMF has readjusted their forecast for Japan up 0.2 points to 1.5%.

Though the consumer price index is still not reflecting much change, the unemployment rate is at 2.8% and the persisting tight labor market conditions are putting upwards pressure on wages, leading to hopes that prices may rise in the near future. The Nikkei 225, which had formerly been sluggish around the 19,000 level due to the geopolitical risk, has now recovered to above the 20,000 level, reaching a 20 year high of 20,881 on October 11th, leading to positive feelings about economic recovery.

The upcoming House of Representatives election will most certainly impact Japan's economic future. As the main opposition of the ruling party, the Party of Hope, led by Koike looks to build strength, Abe's Liberal Democratic Party is aiming to claim a majority of seats. Koike is accepting members from the Democratic Party of Japan on a conditional basis that liberal members are not joining her party. Those who could not are now founding the Constitutional Democratic Party of Japan.

Though it may be rallied as an election with no clear vision, it will certainly have a profound impact on whether Kuroda remains at the helm of the BOJ past next April and on economic policies until the 2020 Olympics. This election is being viewed as a formal test for Abenomics.

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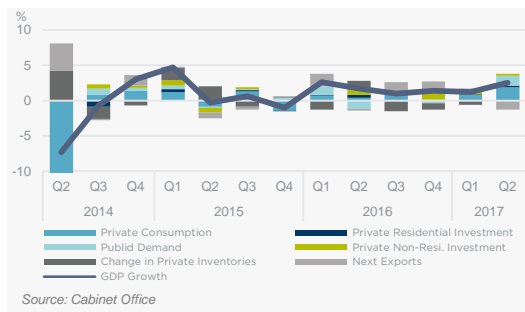
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Macro Economy

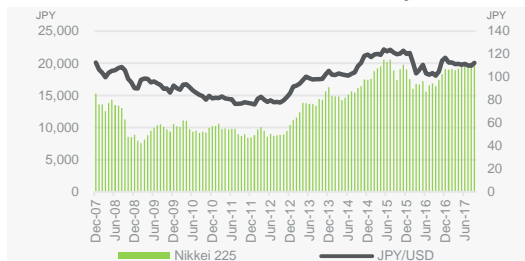
	Q1 17	Q2 17	Forecast 12 months
Real GDP Growth	1.2%	2.5%	▲
Core CPI Growth	0.3%	0.3%	▲
Unemployment Rate	2.8%	2.8%	▼
10-Yr Gov. Bond Yield	0.88%	0.60%	▲

Source: Cabinet Office, Statistics Bureau, Bank of Japan

Real GDP Growth



Stock Price & Currency



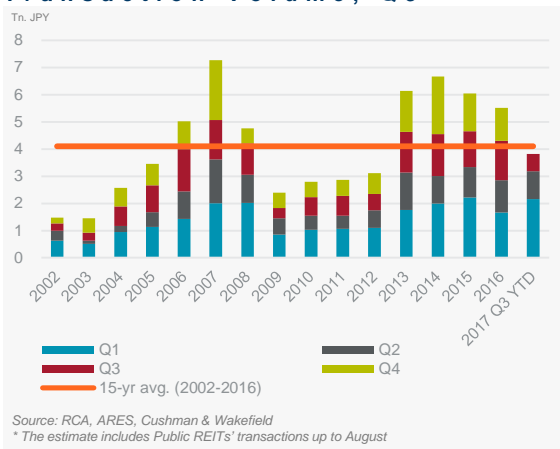
Real Estate Transaction Volume

Overall volumes in investment market trending down

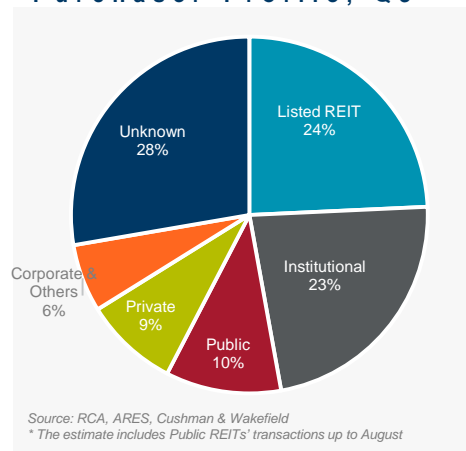
Third quarter transaction volume figures reached 641.7 billion yen, according to preliminary estimates. Based on this, total transaction volume for 2017 has reached 3.82 trillion yen. While it looks as if total volume for the year will exceed the 15 year average of 4.10 trillion, transaction momentum is falling short of 2016.

Volumes are slowing down across all investor types. J-REITS accounted for 24% of the overall transaction volumes, followed closely by institutional investors at 23%. Listed real estate companies (including large developers) accounted for 10%, non-listed developers accounted for 9% and corporations and other investors accounted for 6% of transaction volume. Buyers continue to actively search for properties but it still appears quite difficult to find properties that meet their investment criteria.

Transaction Volume, Q3



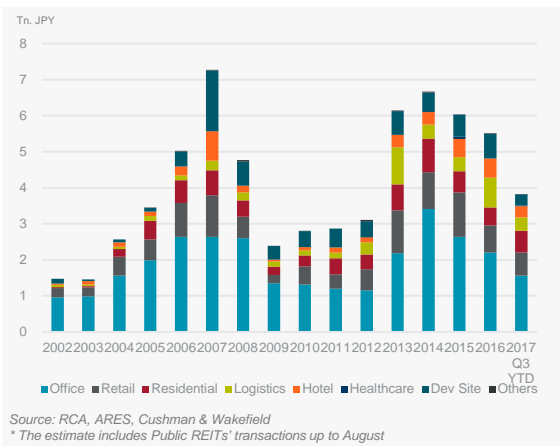
Purchaser Profile, Q3



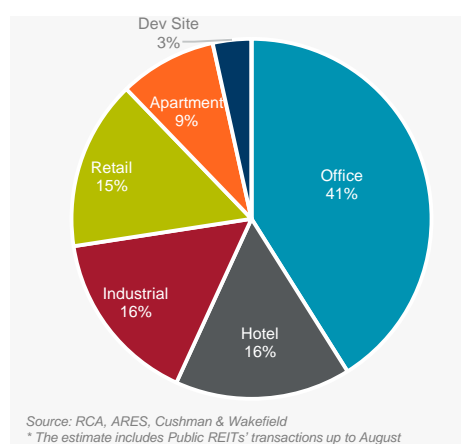
Residential exceeds the total transaction volume of the previous year

The office sector was once again the most transacted sector but from the first quarter, volume has been softly declining. Even still, office volumes are matching pace with last year. Transaction volumes for development sites have markedly decreased since the second quarter, indicating it has become even more difficult to acquire sites. By contrast, the residential sector has already surpassed the previous year's transaction volume.

Transaction Volume, Q3



Sector Profile, Q3



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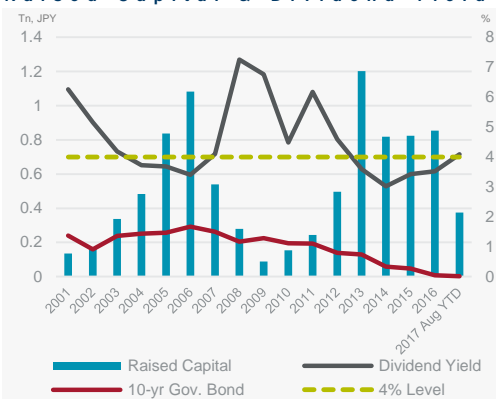
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J-REIT Investment Activities

Dividend Yield of 4% means a higher hurdle rate for REITs

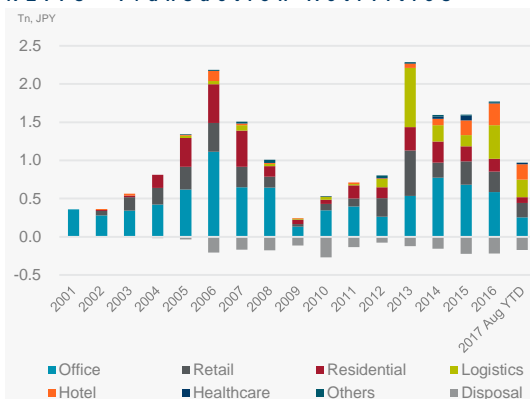
The average dividend yield of J-REITs has crossed the 4% threshold. As a yield product this does make REITs look attractive but beyond this threshold, property acquisition and public offerings slow down considerably, casting doubt on externally driven growth. There are a few reasons behind the price adjustments. The first reason is increased expectations of a strong US dollar due to increasing interest rates have shifted investments into stocks. Second, the FSA's warning of trusts that pay a monthly dividend had an impact as they are large investors in the REIT sector. Third, many investors are worried that rising interest rates will trigger a selloff. Finally, REITs are being sold by financial institutions other than the Bank of Japan. As long as the macro environment does not change dramatically, these conditions should persist.

Raised Capital & Dividend Yield



Source: ARES, Bank of Japan, Cushman & Wakefield

REITs' Transaction Activities



Source: ARES, Cushman & Wakefield

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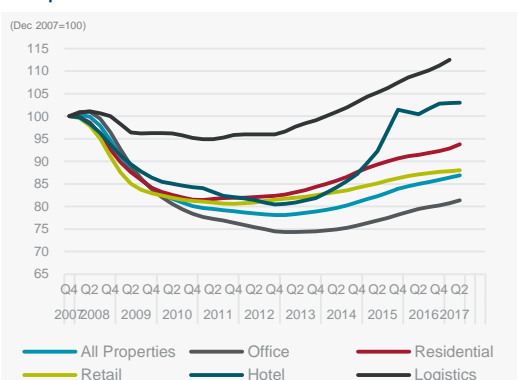
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Real Estate Pricing

Though overall asset values still lower than GFC levels, yields are at an all time low

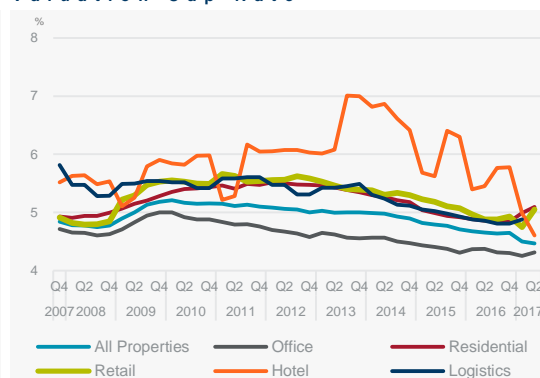
Pricing in the logistics and hotels sectors have exceeded pricing from before the GFC; however, other sectors have not recovered as well. Yields, on the other hand, have compressed further than pre-GFC levels and unless the fundamentals of the properties are improved, further price appreciation will be difficult. In anticipation of risks associated with rising interest rates, some sellers are trying to book profits now.

Capital Growth Index



Source: ARES, Cushman & Wakefield

Valuation Cap Rate



Source: ARES, Cushman & Wakefield

Major Transactions, Q3

PROPERTY	SUBMARKET	PRICE (INC. ESTIMATE)	CAP RATE	SIZE
Ex-Shibuya Shidax Village	Shibuya	c120 mln JPY	-	GFA 8,413.74sqm
Times Square (Site)	Shinjuku	c210 mln JPY	-	11,256sqm c58.4% share
Ariake Central Tower	Ariake	c150mln JPY	-	GFA3,477.54sqm c50% share

Source: Nikkei Real Estate Market Information

Property Return



Source: ARES, Cushman & Wakefield



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