

## Amundi Real Estate

### Japanese Property Market Review – Q4 09

#### Economic context

##### > New government in Japan

The LDP (Liberal Democratic Party) bemoaned the end of 54 years of political domination when the DPJ (Democratic Party of Japan) took office in September 2009. Soon people will expect to see signs of recovery in the economy with the implementation of DPJ's new fiscal national budget this April. The Cabinet Office reported in December that Japan's 3Q09 real GDP was 1.3%. The 2Q09 figure was 2.7%. Although the Japanese economy is still unstable and uncertain, after two quarters of modest growth following the horrible 1Q result of -11.9%, there is hope that the worst postwar economic period has ended. The seasonally adjusted unemployment rates during the months of June to November were between 5.1% and 5.7%.

##### > Pace of bankruptcies decreasing

The pace of bankruptcy filings slowed sharply in the second half of 2009. Two listed companies filed for bankruptcy during the second half of the year as compared with the first half in which 18 were recorded. In total, 56 real estate developers filed for bankruptcy in 2009, including Nihon Sogo Jisho and Joint Corporation, a count even higher than the previous year's 53 and the worst in the last ten years. However, problems in the real estate industry seem to be slowing also as 13 developers (listed/non listed) filed bankruptcy during the second half of the year.

#### Office property markets

##### > Vacancy rates still increasing

According to a Miki-Shoji's survey of Tokyo CBD office buildings with over 100 tsubo per floor, the new supply was 47 buildings (approximately 290,000 tsubo) in 2009 (220,000 tsubo in 2008). The 2010 supply is expected to be 48 buildings (approximately 220,000 tsubo) and tenant leasing will continue to face a competitive environment in 2010. The vacancy rate in December 2009 was 8.1%, an increase of 3.4 points since the previous December. The vacancy rate for new construction completed in 2009 was 22.7% and the vacancy rate of buildings older than 1 year was 7.8% in December. This marked the first time in 5 years and 10 months that the vacancy rate exceeded 8%.

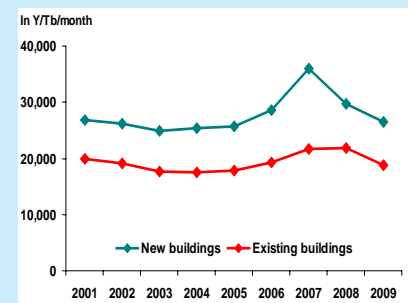
##### > Market rents still under pressure

The survey also states that the average asking rents for new office buildings decreased from 29,780 to 26,584 yen/tsubo since June 2009. The average asking rents for existing buildings decreased from 20,188 to 18,817 yen/tsubo during the same period.

##### > Cap rates stable

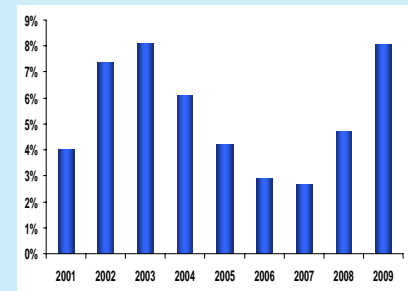
According to an October survey conducted by Japan Real Estate Institute (JREI) for institutional investors, the market cap rate for Class A office buildings in the Marunouchi and Otemachi areas was 4.2%, which was the same as the April survey. The market cap rate for residential buildings in the southern Tokyo area (Shibuya, Meguro and

#### Average CBD rents



Source: Miki Shoji

#### Average vacancy rate (Tokyo benchmark)



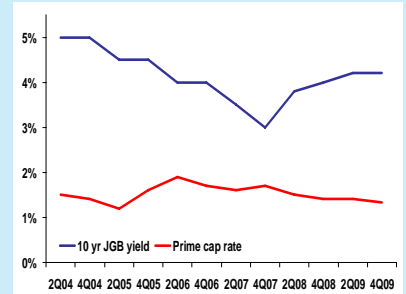
Source: Miki Shoji

Setagaya wards) was 6.0%, also the same as the previously recorded. Although market cap rates outside of Tokyo have been increasing, the cap rates within the Tokyo CBD seem to have stabilized.

The current real estate market has continued to be quiet as there are big gaps between sellers' expected sales prices and buyers' justifiable purchase prices. It is still a lenders' market with 50-60% LTV and 250-400 bps spread. Prudential, Arico and Société Générale are said to be getting ready to enter the real estate finance market in Japan.

The natural selection process among the emerging and foreign companies and real estate funds has been progressing. Selected companies and funds are looking for undervalued reasonable properties. One recent notable transaction was the purchase of the office portion of the Pacific Century Place next to Tokyo station. The building was developed by Hong Kong's Pacific Century Group in 2001 and sold to Davinci Advisers in 2006 for 200 billion yen. The loan was defaulted in September 2009 and the lender (Shinsei Bank) initiated the bid. Secured Capital won the bid for 140 billion yen and it is said that the cap rate was in the high 3% range.

## Real estate yield spread



Source: Miki Shoji

## Outlook

We do not expect that the market will recover in 2010. Vacancy rates are fast approaching their worst level in recent years and pressure on rents is still high with a majority of tenants asking for rent holidays or rent reductions. Rent decreases have slowed in some wards but the overall downward trend should continue. On the investment side, J-REITS and some private funds have resumed acquiring large properties in Tokyo CBD in the high 5% to mid 6% range. This might signal the start of a slight cap rate compression before year end.

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