Research Report

Japan Real Estate
Second Quarter 2017

April 2017

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1 Executive Summary

— **Macro Economy**: Japan’s real GDP is estimated to have grown around 1.3% plus in the first quarter of 2017, with a healthy corporate sector and exports to Asian nations contributing to growth. The fluctuation of the currency exchange rate could be a concern once again in the reminder of 2017 while increasing government spending could support underlying base line growth. Core CPI turned into positive territory in 2017 while overall CPI (including fresh foods) was 0.5% in the same period, despite subdued consumer demand and cyclical exogenous factors.

— **Capital and Investment Market**: On the back of favorable borrowing costs and negative interest rates, policy cap rates remained extremely tight for assets in the core space. This caused a decline in the volume of real estate transactions in central locations, with capital starting to flow into bay areas in Yokohama and other cities. Due to softening capital growth, total returns posted three consecutive quarters of moderation. Capital raising activities by listed REITs remained at a healthy level, and acquisitions by J-REITs continued to account for 60% of all reported transactions in the country.

— **Real Estate Market Fundamentals**: Leasing markets and real estate fundamentals remained broadly healthy, with patchy weakening signs observed. Office vacancy rates remained tight in Central Tokyo, and the average rent continued to post moderate growth. A similar trend was observed in major regional cities including Osaka, Nagoya, Fukuoka and Sapporo where vacancy rates further tightened. Rental markets remained broadly healthy in the high street retail and residential sectors in Central Tokyo, while sales softened in shopping malls. Supply concern overhangs in the logistics sector at some sub markets such as Ken-O-do area in Greater Tokyo and the Osaka Bay area.
2 Macro Economy

Japan’s real GDP is estimated to have grown around 1.3% plus in the first quarter of 2017. Growth in exports to neighbouring Asian nations made positive contributions, while growth in consumption and private expenditure remained broadly flat. The fluctuation of the currency exchange rate could be a concern once again in the second quarter of 2017 while increasing government spending could support underlying base line growth.

Notes: E = preliminary estimate, F = forecast, there is no guarantee forecast growth will materialise. Please refer to Important Notes (see end of report). Past growth is not a reliable indicator of future growth.

Sources: Deutsche Bank “Japan Economics Weekly.” As of Apr 2017

Past performance is not a reliable indicator of future performance.

Japan’s corporate sector is in a moderate recovery. The latest results of the Diffusion Index (DI) of the Tankan Survey conducted by the Bank of Japan (BoJ) inched up with a reading of 16 points in March 2017 from 14 points recorded in December 2016. It was the second consecutive rise in a row with recovery evident both in the manufacturing and service sectors, while the near term outlook remained uncertain. Thanks to the favourable currency exchange rate to the period, the Business Condition Leading Index made a recovery in the last couple of months from around a reading of 100 till September 2016 to a reading of around 105 in recent months in 2017.

Past performance is not a reliable indicator of future performance.

Sources: Bank of Japan, Japan’s Cabinet Office, Deutsche Asset Management. As of Apr 2017

Past performance is not a reliable indicator of future performance.
The Nikkei 225 index marginally softened by 1.2% in the first three months of 2017. It is in line with the appreciation of the Japanese yen in the currency exchange rate, which was traded at JPY111 for a US dollar in March 2017, or around a 4% appreciation since December 2016.

The BoJ has maintained its “yield-curve control” policy implemented in September last year as an experimental strategy attempting to turn its policy emphasis away from quantity of money towards long term interest rates. Government bonds have been trading at around 0%. Core CPI turned into positive territory in January 2017 from negative territory edging up to 0.2% in February, while overall CPI (including fresh foods) was 0.5% in the same period.

Notes: F = forecast, there is no guarantee rates forecasted will materialise. JGB = Japanese Government Bond. CPI = Consumer Price Index. Please refer to Important Notes (see end of report)
Sources: The Bank of Japan, Japan’s Cabinet Office, Deutsche Bank. As of Apr 2017
Past performance is not a reliable indicator of future performance
3 Capital and Investment Market

3.1 Lending

The BoJ’s Diffusion Index for lending attitudes of banks to the real estate industry (orange line in Exhibit 5) was an index value of 29 as of March 2017, a further increase from the previous quarter at 27 and at the highest level in history. The credit conditions remain accommodative for income producing assets, where medium sized local banks still provide extremely attractive financing to borrowers while major banks, dubbed as mega banks in the local market, have become gradually more selective. Lending volumes for new projects increased 10% in the latest survey as at the end of December 2016, demonstrating the importance of the real estate lending business for medium sized local banks amid the negative interest rate policy.

Sources: The Bank of Japan, Japan’s Cabinet Office, Deutsche Asset Management. As of Apr 2017
Past performance is not a reliable indicator of future performance

The volume of commercial real estate transactions in Japan in the rolling 12 months to March 2017 was JPY2.8 trillion on a preliminary basis, around a 21% drop from the previous period ended December 2016, or more than a 40% drop from the previous peak ended in March 2015. Transaction volumes declined especially in Central Tokyo due to a lack of assets on the market and fully priced valuations, while capital flow into surrounding areas and regional cities has started to increase in recent months especially in Tokyo and Yokohama Bay areas.

Sources: Urban Research Institute, Bank of Japan, Real Capital Analytics, Deutsche Asset Management. As of Apr 2017
Past performance is not a reliable indicator of future performance
There is no guarantee the estimates shown will materialize
3.2 Pricing

Office appraisal cap rates in Tokyo seemed to have jumped to a preliminary 4.0% in the fourth quarter of 2016, a 25 basis points increase from the previous quarter. Cap rates for core assets are still under extreme pressure but this increase could be revised, while investors have started to tap into assets in the bay areas of Tokyo and Yokohama. The average transacted office yield spread — the difference between the cap rates and 10 year bond yields — declined to 440 basis points in Tokyo in the fourth quarter of 2016 affected by the long term interest rate fluctuations in the period.

The capital value for grade-A office in Central Tokyo stood at JPY8.2 million per tsubo1 in December 2016, flat from the previous reading at September 2016. The unit price still stands at 29% below the peak value of JPY11.5 million per tsubo recorded in 2008 as the value growth has been capped due to the subdued rental growth for grade-A office in the last two years.

Sources: Daiwa Real Estate Appraisal, Bloomberg, Deutsche Asset Management. As of Apr 2017

1 Tsubo is a Japanese unit of area. It is equivalent to 3.3 square metres (35.6 square feet)

Sources: Association for Real Estate Securitization, TMAX, Real Capital Analytics, Bloomberg, Deutsche Asset Management. As of Apr 2017
Past performance is not a reliable indicator of future performance
3.3 Transactions

Exhibit 9 shows major real estate transactions completed or announced since January 2017 (the previous edition of this publication). The largest transaction was the acquisition of Minatomirai Center Building in Yokohama, acquired by Gaw Capital at an estimated JPY80 billion, followed by TOC Minatomirai, a complex of office, retail and hotel, by the Hulic led consortium at JPY67 billion. There were two other large buildings transacted in Yokohama Minatomirai (reclaimed land area) including MHI Yokohama Building and Yokohama Blue Avenue. It’s worth noting that all of the top six office transactions in the period sit in the Tokyo bay area including Tennozu and Shinagawa Seaside, along with the Yokohama Minatomirai area, demonstrating the increased investment appetite in these bay side locations.

Other big transactions include four portfolio assets of Aeon Malls purchased by Aeon REIT at JPY52 billion. The tightest cap rates recorded in the period were 3.1% at Tokyo Square Garden and also Kenedix Nihonbashi Kabutocho Building while the most expensive unit price was JPY2.8 million per tsubo for Shibuya Sakuragaoka Square purchased by MCUBS MidCity REIT.

### Exhibit 9: Major Transactions in the First Quarter 2017

<table>
<thead>
<tr>
<th>Type</th>
<th>Asset</th>
<th>Price (JPY bn)</th>
<th>Unit price (JPYm /GFA sqm)</th>
<th>Cap rate</th>
<th>Location</th>
<th>Month</th>
<th>Acquired by</th>
<th>Investor Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>Minatomirai Center Building</td>
<td>est. 80</td>
<td>-</td>
<td>-</td>
<td>Yokohama</td>
<td>Mar-17</td>
<td>Gaw Capital</td>
<td>Hong Kong</td>
</tr>
<tr>
<td></td>
<td>TOC Minatomirai</td>
<td>67</td>
<td>0.65</td>
<td>-</td>
<td>Yokohama</td>
<td>Mar-17</td>
<td>Hulic (consortium)</td>
<td>Japan</td>
</tr>
<tr>
<td></td>
<td>MHI Yokohama Bldg.</td>
<td>60</td>
<td>0.54</td>
<td>-</td>
<td>Yokohama</td>
<td>Mar-17</td>
<td>Hulic</td>
<td>Japan</td>
</tr>
<tr>
<td></td>
<td>Yokohama Blue Avenue</td>
<td>33</td>
<td>0.94</td>
<td>4.1%</td>
<td>Yokohama</td>
<td>Feb-17</td>
<td>Capital Land</td>
<td>Singapore</td>
</tr>
<tr>
<td></td>
<td>Tennen Yusen Bldg.</td>
<td>30</td>
<td>0.49</td>
<td>4.0%</td>
<td>Tokyo</td>
<td>Dec-16</td>
<td>Kenedix / CDH</td>
<td>Japan</td>
</tr>
<tr>
<td></td>
<td>Shinagawa Seaside West Tower</td>
<td>24</td>
<td>0.98</td>
<td>4.0%</td>
<td>Tokyo</td>
<td>Mar-17</td>
<td>Meiji Yasuda Life Insurance / Global One REIT</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>DBC Shinagawa Tokyo Bldg.</td>
<td>19</td>
<td>0.89</td>
<td>4.3%</td>
<td>Tokyo</td>
<td>Mar-17</td>
<td>Activia Properties</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>8.8% of Tokyo Square Garden</td>
<td>18</td>
<td>1.99</td>
<td>3.1%</td>
<td>Tokyo</td>
<td>Jan-17</td>
<td>Japan Prime Realty</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>SS30 Office</td>
<td>18</td>
<td>0.34</td>
<td>6.0%</td>
<td>Miyagi</td>
<td>Mar-17</td>
<td>United Urban</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>Shibuya Sakuragaoka Square</td>
<td>17</td>
<td>2.69</td>
<td>3.8%</td>
<td>Tokyo</td>
<td>Feb-17</td>
<td>MCUBS MidCity</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>Kinenicho Prime Tower</td>
<td>15</td>
<td>0.92</td>
<td>4.7%</td>
<td>Tokyo</td>
<td>Jan-17</td>
<td>Invesco Office J-REIT</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>39% of Tennen Park Side Bldg.</td>
<td>13</td>
<td>0.72</td>
<td>4.6%</td>
<td>Tokyo</td>
<td>Apr-17</td>
<td>Unknown</td>
<td>Japan</td>
</tr>
<tr>
<td></td>
<td>Kenedix Nihonbashi Kabutocho Bldg.</td>
<td>12</td>
<td>1.64</td>
<td>3.1%</td>
<td>Tokyo</td>
<td>Feb-17</td>
<td>Heiwa Real Estate</td>
<td>Japan</td>
</tr>
<tr>
<td>Retail</td>
<td>Sasazuka NA Bldg.</td>
<td>12</td>
<td>0.44</td>
<td>-</td>
<td>Tokyo</td>
<td>Jan-17</td>
<td>Savills Investment Mgmt</td>
<td>U.K.</td>
</tr>
<tr>
<td></td>
<td>KM Nishiumeda Bldg.</td>
<td>11</td>
<td>0.46</td>
<td>-</td>
<td>Osaka</td>
<td>Nov-17</td>
<td>Credit Suisse</td>
<td>Switzerland</td>
</tr>
<tr>
<td></td>
<td>Dai Hakata Bldg.</td>
<td>11</td>
<td>0.35</td>
<td>4.2%</td>
<td>Fukuoka</td>
<td>Mar-17</td>
<td>simplex</td>
<td>Japan</td>
</tr>
<tr>
<td></td>
<td>Shiodome Bldg.</td>
<td>10</td>
<td>1.80</td>
<td>3.6%</td>
<td>Tokyo</td>
<td>Mar-17</td>
<td>Japan Real Estate</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>Aeon Mall Itamiokyo etc. (4 props)</td>
<td>52</td>
<td>6.1-7.6%</td>
<td>4.2%</td>
<td>Hyogo etc.</td>
<td>Feb-17</td>
<td>Aeon REIT</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>Nakaza Guidaoe Bldg</td>
<td>12</td>
<td>1.40</td>
<td>3.7%</td>
<td>Osaka</td>
<td>Feb-17</td>
<td>Nomura Real Estate Master Fund</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>Sun Street Hamakita</td>
<td>11</td>
<td>0.19</td>
<td>5.8%</td>
<td>Shizuoka</td>
<td>Apr-17</td>
<td>Kenedix Retail REIT</td>
<td>J-REIT</td>
</tr>
<tr>
<td>Logistics</td>
<td>Joyful Honda Chiba New Town</td>
<td>10</td>
<td>0.07</td>
<td>-</td>
<td>Chiba</td>
<td>Feb-17</td>
<td>Joyful Honda</td>
<td>Japan</td>
</tr>
<tr>
<td></td>
<td>DPL Misato</td>
<td>17</td>
<td>0.34</td>
<td>4.5%</td>
<td>Saitama</td>
<td>Mar-17</td>
<td>Daiwa House REIT</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>Logisport Hiratsuka etc. (2 props)</td>
<td>16</td>
<td>-</td>
<td>4.3%</td>
<td>Kanagawa etc.</td>
<td>Dec-16</td>
<td>IBJ Leasing</td>
<td>Japan</td>
</tr>
<tr>
<td></td>
<td>Kawagoe Logistics Center</td>
<td>12</td>
<td>0.23</td>
<td>4.9%</td>
<td>Saitama</td>
<td>Feb-17</td>
<td>LaSalle Logistics</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>Meitetsu Unyu Fukugawa Branch</td>
<td>10</td>
<td>1.42</td>
<td>-</td>
<td>Tokyo</td>
<td>Mar-17</td>
<td>Meitetsu Fudosan</td>
<td>Japan</td>
</tr>
<tr>
<td>Apartment</td>
<td>Aeon Minami Osaka RDC</td>
<td>10</td>
<td>0.20</td>
<td>5.2%</td>
<td>Osaka</td>
<td>Feb-17</td>
<td>Aeon REIT</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>West Japan MHLW Workers Dorms (626 props)</td>
<td>37</td>
<td>-</td>
<td>5.3%</td>
<td>Nagoya etc.</td>
<td>Feb-17</td>
<td>Fortress Investment</td>
<td>U.S.</td>
</tr>
<tr>
<td></td>
<td>Royal Parks Towers Minamisenju</td>
<td>22</td>
<td>-</td>
<td>5.3%</td>
<td>Tokyo</td>
<td>Feb-17</td>
<td>Invincible</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>Roppongi Jiyutaku</td>
<td>15</td>
<td>-</td>
<td>-</td>
<td>Tokyo</td>
<td>Feb-17</td>
<td>Mori Building</td>
<td>Japan</td>
</tr>
<tr>
<td>Hotel/ Healthcar</td>
<td>Comforia Kamata etc. (6 props)</td>
<td>18</td>
<td>-</td>
<td>4.5%</td>
<td>Tokyo etc.</td>
<td>Feb-17</td>
<td>Comforia Residential REIT</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>Sunroute Plaza Tokyo (Disney Resort)</td>
<td>27</td>
<td>38.51</td>
<td>5.9%</td>
<td>Chiba</td>
<td>Jan-17</td>
<td>ORIX JREIT</td>
<td>J-REIT</td>
</tr>
<tr>
<td></td>
<td>Sheraton Okinawa Summarina Resort</td>
<td>21</td>
<td>85.36</td>
<td>-</td>
<td>Okinawa</td>
<td>Dec-16</td>
<td>Mori Trust</td>
<td>Japan</td>
</tr>
</tbody>
</table>

Notes: Acquisitions by foreign managers are highlighted in gray and by J-REITs in yellow. This table is prepared solely for information purposes and not intended to recommend or endorse any specific company’s shares or other products. Although information in this document has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness, and it should not be relied upon as such.

Source: Real Capital Analytics, Nikkei Real Estate Market, Deutsche Asset Management, As of Apr 2017
Tokyo’s volume of commercial real estate transactions for the rolling 12-month period ended March 2017 was US$15.2 billion, flat from the previous period ended December 2016. It ranked eighth among global cities and kept the first position in the Asia Pacific region. According to our own estimates 60% of transactions in Tokyo were purchases by listed J-REITs and 13% by foreign capital respectively. Osaka reported US$2.8 billion for the same period, ranking tenth in Asia Pacific following Melbourne and Brisbane.

Notes: Commercial real estate transactions exclude non-income producing assets, such as development site transactions

Sources: Real Capital Analytics, Deutsche Asset Management. As of Apr 2017
3.4 Performance

Signs of the change of tide in commercial real estate are becoming evident in total returns. The average annual total return for unlevered direct real estate investment in Japan moderated to a preliminary 7.8% in November 2016 (the latest period available), from 8.8% in March 2016, posting three consecutive quarters of moderation. This is due to the softening capital growth driven by already tightened cap rates in valuations. Among property sectors, the slowdown is most evident in the residential sector where the average return declined from 9.8% in March 2015 to preliminary 7.0% in November 2016 while other sectors also moderated.

3.5 J-REITs

The J-REIT index softened by 4.3% in the first quarter of 2017 due to the increased concern over interest rate hikes in the global market, although the long term bond yields remained stable at around 0% in Japan. The listed REIT indices in the United States, Australia and Singapore, on the other hand, traded favorably in the same period, posting growth since the beginning of the year respectively.
On average, the J-REIT dividend yield was 3.66% overall and 3.26% for office REITs in February 2017, marginally above the previous period ended November 2016 respectively. The spread over the 10 year government bond yield remained at an attractive level of 361 basis points in Japan in February 2017, compared to 150-230 basis points for the U.S. and U.K. REITs.

Notes: Past performance is no guarantee of future results. JGB = Japanese Government Bond. Sources: Bloomberg, Deutsche Asset Management. As of Apr 2017

The amount of capital raised by J-REITs was JPY441 billion in the trailing six months ended March 2017, an 11.6% increase from the previous six-month period ended September 2016, while net transaction volumes purchased by J-REITs declined marginally in the same period. The only initial public offering (IPO) in the year to date was Mori Trust Hotel REIT in February 2017, while there were multiple public offerings including Daiwa House REIT and AEON REIT.

Notes: Commercial real estate transactions exclude non-income producing assets, such as development site transactions. This table is prepared solely for information purposes and not intended to recommend or endorse any specific company's shares or other products. Although information in this document has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness, and it should not be relied upon as such.

Sources: ARES, Nikkei, Deutsche Asset Management. As of Apr 2017
The preliminary volume of commercial real estate transactions in Japan in the rolling six months to March 2017 was JPY1.2 trillion, around a 20% decline (preliminary) from the previous period ended in December 2016. As shown on Exhibit 14 on the previous page, listed REITs recorded healthy capital raising activities with acquisitions by J-REITs continuing to account for around 60% of all transactions reported in the same six months.

Notes: E = preliminary estimate. Commercial real estate transactions exclude non-income producing assets, such as development site transactions
Sources: ARES, Urban Research Institute, Real Capital Analytics, Deutsche Asset Management. As of Apr 2017
4 Market Fundamentals

4.1 Office

The average office vacancy rates in Tokyo’s central five wards remained tight at 3.7% in February 2017, almost stable in the last six months. Recently completed large sized new buildings that came into the market including Ginza Six and Otemachi Park Building, pushed up the vacancy rate at newly-developed buildings (orange line in Exhibit 16) to 19.7% in February, compared to 16.3% in November 2016. The current tight vacancy rate in Tokyo, however, could revert due to the supply surge expected in 2018 and onward.

Exhibit 16: Office Vacancy Rate and Supply in Central Tokyo (5 wards)

The average vacancy rate has been stable, and the average rent free period offered to tenants has not made meaningful recoveries in the last twelve months. It stood at 2.8 months in December 2016, almost the same level as a year ago. Landlords need to provide incentives to attract tenants especially at newly completed buildings.

Exhibit 17: Office Vacancy Rate and Rent Free Period in Tokyo

Notes: sqm = square metres
Sources: Sanko Estate, Xymax Real Estate Institute, Deutsche Asset Management. As of Apr 2017
Historically, office rental growth rates have correlated inversely to the vacancy rate. The vacancy rate for grade B buildings was only 2.2% in Tokyo in December 2016, well below the pivotal 5% threshold associated with rental growth. Average office rents grew very marginally by a 0.2% in the period according to Sanko Estate.

Sources: Sanko Estate, Deutsche Asset Management. As of Apr 2017

Helped by the tight market, the average asking rent made a moderate 0.6% growth in the two months to February 2017 in Central Tokyo, a continuous growth for more than three years running. On the other hand Grade A rents have experienced ups and downs continuously over the same period, failing to exhibit a clear recovery trend. Asking rents at prime buildings in the CBD are stronger, posting a 3.2% growth in the same period. On the back of currency exchange rate volatility and uncertainties around external demand, the sentiment in the corporate sector is divergent and the occupier market could continue to show patchy pictures in 2017.

Notes: F = forecast, there is no guarantee forecast rents will materialise. Please refer to Important Notes (see end of report)
*Tsubo is a Japanese unit of area. It is equivalent to 3.3 square metres (35.6 square feet).
Sources: Miki Shoji, Sanko Estate, Deutsche Asset Management. As of Apr 2017
Vacancy rates have continued to tighten in all major regional cities in Japan in the period ended February 2017. It recovered to 3.6% in Sapporo, 3.8% in Fukuoka, 4.8% in Osaka and 5.9% in Nagoya, down from the previous quarter respectively. There were new large sized building completions in Yokohama, Nagoya and Osaka respectively in the first four months of 2017.

**Exhibit 20: Office Vacancy Rates in Major Cities in Japan (all grades)**

<table>
<thead>
<tr>
<th>Building</th>
<th>Date</th>
<th>Floors</th>
<th>GFA (sqm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dai Nagoya Bldg</td>
<td>Oct-15</td>
<td>34</td>
<td>65,000</td>
</tr>
<tr>
<td>JP Tower Nagoya</td>
<td>Nov-15</td>
<td>40</td>
<td>80,000</td>
</tr>
<tr>
<td>JRJP Hakata Bldg (Fukuoka)</td>
<td>Apr-16</td>
<td>12</td>
<td>44,000</td>
</tr>
<tr>
<td>Symphony Toyota Bldg (Nagoya)</td>
<td>Jun-16</td>
<td>25</td>
<td>15,444</td>
</tr>
<tr>
<td>Yokohama Nomura Bldg</td>
<td>Feb-17</td>
<td>17</td>
<td>81,556</td>
</tr>
<tr>
<td>JR Gate Tower (Nagoya)</td>
<td>Mar-17</td>
<td>41</td>
<td>67,750</td>
</tr>
<tr>
<td>Nakanoshima Fes Twr W (Osaka)</td>
<td>Apr-17</td>
<td>46</td>
<td>45,030</td>
</tr>
<tr>
<td>Global Gate West (Nagoya)</td>
<td>2017</td>
<td>36</td>
<td>40,692</td>
</tr>
<tr>
<td>Global Gate East (Nagoya)</td>
<td></td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Ocean Gate MM 1 (Yokohama)</td>
<td>2017</td>
<td>15</td>
<td>55,578</td>
</tr>
<tr>
<td>Ocean Gate MM 2 (Yokohama)</td>
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<td>Nishiki 2 chome Project (Nagoya)</td>
<td>2018</td>
<td>21</td>
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<tr>
<td>Shin Nankai Kaikan (Osaka)</td>
<td>2018</td>
<td>29</td>
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<tr>
<td>Sapporo Sosei Square (Sapporo)</td>
<td>2018</td>
<td>28</td>
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<tr>
<td>Umeda 3 chome (Osaka)</td>
<td>2019</td>
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<tr>
<td>Tenjin Business Center (Fukuoka)</td>
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<tr>
<td>Umeda 1 chome (Osaka)</td>
<td>2022</td>
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**Supply Pipeline in Regional Cities**

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<th>Building</th>
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<td>2022</td>
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<td>143,000</td>
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</tbody>
</table>

Notes : GFA = gross floor area. Sqm = square metres
There is no guarantee the supply pipeline will materialize.
4.2 Retail

Tourist consumption in the fourth quarter of 2016 posted a marginal increase of 1% on a year-on-year basis, while it softened on the quarterly basis due to seasonality elements. High street retail rents made positive quarterly growth in major retail districts, including Omotesando (3.7%), Shibuya (5.0%), Ikebukuro (9.1%) and Shinsaibashi (Osaka) (3.1%) in the period, while rents were flat in Shinjuku.

Sales were subdued at shopping centers, department stores, chain stores and then convenience stores respectively in Japan in January and February in 2017. They declined by 2.3%, 1.5%, 2.5% and 0.8% compared to the same period in the previous year.
### 4.3 Residential

The average price per unit of newly-built condominiums sold in Greater Tokyo was JPY 62.2 million in January and February 2017, a 20% increase from the fourth quarter of 2016. This price number is a preliminary figure which could be revised after March statistics come out. The number of units sold in January and February was flat from the same period of the previous year. Major retail banks started to increase its previous ultra-low mortgage rates gradually in April 2017 and it could adversely affect the residential sales going forward.

![Exhibit 23: Average New Condo Price and the Number of Units Sold in Greater Tokyo](chart)

*Sources: Real Estate Economic Institute, Deutsche Asset Management. As of Apr 2017.*

The recent price elevation among for-sale condominiums in Tokyo provides healthy underlying demand for rental apartments in central, convenient locations near public transportation. Rents increased 2.3% for prime apartments in Central 3 ward in Tokyo (blue line) in the year to December 2016, while they increased 0.7% in the broader five wards in the period ended March 2017 (grey line).

![Exhibit 24: Residential Rent in Tokyo (year-on-year)](chart)

*Sources: TAS Corporation with data from At Home Co. (23-ward vacancy), Leasing Management Consulting (5-ward asking rent), IPD-RECRUIT Residential Index (23-ward rent index), Miki Shoji. As of Apr 2017.*
4.4 Industrial

Vacancy rates at multi-tenant logistics assets have been almost flat in the last four quarters to December 2016 at around 5% in Greater Tokyo, while they widened significantly from 1.4% to 5.9% in Greater Osaka in the same period. Demand for quality space is continuously strong in both markets while a record number of large scale logistics assets are pushing up vacancy rates in Osaka. Rents strengthened marginally in Greater Tokyo by 0.7% in the quarter ended in December 2016 while they softened in Osaka in the same period.

The annual supply of logistics assets is expected to have peaked at 1.6 million square meters in 2016 in Greater Tokyo and to peak at 1.0 million square meters in 2017 in Greater Osaka, an all-time high in each respective market. Vacancy rates are expected to rise in the Ken-O-do area in Greater Tokyo and in the Osaka Bay area in 2017 where supply is concentrated.

Notes: F = forecast, there is no guarantee forecast returns will materialise. Past performance is not indicative of future results.
Sources: Ichigo Real Estate Service, Deutsche Asset Management. As of Apr 2017
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<tr>
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