

Shinjuku

Special Area Feature



High-rise buildings line up in the Nishi-shinjuku District

As the administrative center of Tokyo and one of the nation's busiest commercial areas, Shinjuku is full of allure that varies from one section to another.

Shinjuku used to prosper as one of the post stations of the five major routes in old days and is currently home to a mega terminal that serves the world's largest number of passengers. With the function as a sub-center, which was enhanced when the Tokyo metropolitan government buildings were built, Shinjuku now plays a critical role as the seat of the Tokyo metropolitan government. With a variety of unique districts, such as the diverse spread of shopping spots, Kabukicho, and Shinjuku Golden Gai, Shinjuku continues evolving while attracting constant attention of people around the world.

From a post station to a terminal, Shinjuku has always witnessed the flow of people.

On the Koshu Highway that originated from Nihonbashi in Edo and led to Kofu and Shimosuwa, Takaido-shuku was the first post station after Nihonbashi. Since the distance from Nihonbashi to Takaido-shuku was about 16 km, twice as long as the distance to the first post stations on other routes, thus travelers and horses had a hard time, the Tokugawa Shogunate established a new post station called Naito Shinjuku in-between confiscating a part of the estate of Naito family, the feudal lord of the Shinshutakato Domain, about a century later. Shinjuku's namesake derives from the inception of this post station, which used to extend from Yotsuya Okido (currently the intersection at 4-chome, Yotsuya) to Oiwake (currently the spot in front of Isetan Department Store / Shinjuku), where the Oume Highway diverged from the Koshu Highway. Naito Shinjuku prospered not only as a key distribution center but also as one of the four post stations of Edo, along with Shinagawa, Itabashi, and Senju, where many inns, teahouses, and a red-light district were located.

After the Meiji Restoration, old samurai were abandoned. In 1871, choice of employment and what to grow on agricultural land

were liberalized, and areas surrounding Naito Shinjuku started to produce commercial crops for distribution. In 1885, the Japan Railway Shinagawa Line (currently Yamanote Line) came into service, and the first Naito Shinjuku station was built at the site where Lumine Est stands now. Two years later, the station was renamed as Shinjuku, and in 1889, the Kōbu Railway (currently Chuo Line) that connected Shinjuku and Hachioji began services. In 1903, Tokyo Streetcar started operation between Shinjuku and Hanzomon. In 1915, the current Keio Line was extended to Shinjuku, transforming it to a terminal station connecting central Tokyo with the suburbs. In the meantime, despite the fact that the station building was relocated a number of times, Shinjuku became a major commercial zone with a variety of large and small shops being built around the station shifting the center of its gravity away from Naito Shinjuku.

Shinjuku is a city that sits on the solid ground of Musashino Plateau. Therefore, Shinjuku did not suffer heavy damage from the Great Kanto Earthquake of 1923, except for a fire that burned a part south of the Koshu Highway. Later, the area surrounding Shinjuku and the western part of Tokyo began to be built over in housing lots, gaining population rapidly. With the Odakyu Line starting to serve Shinjuku in 1927, the development of Shinjuku as a transportation hub and a commercial district was further accelerated.

A forest of skyscrapers in Shinjuku Subcenter Plan Zone suggest of a futuristic future city

Shinjuku was once reduced to ashes during the World War II. When the war was over and Shinjuku was filled with black market stalls and street vendors, it was the area currently called Kabukicho that launched a private sector-driven urban development project as part of a WWII recovery plan. The namesake, Kabukicho, comes from the plan then to invite Kabuki Theater as a focal point of the vision to make the town an entertainment district. The shopkeepers in the district, which emerged in 1948, held the Tokyo Industry and Culture Expo in 1950. While the expo ended up as a failure, it led to the formation of a prototype of a theatrical district and made Kabukicho famous across the country.

It was in 1958 when a new wave hit Shinjuku, which had been developing as one of the busiest downtown areas in Japan. As part of the first National Capital Region Development Plan, Shinjuku was designated a sub-center, and in 1960, the Shinjuku Subcenter Plan was passed. After the functions of the Yodobashi Purification Plant were relocated to the Higashimurayama Purification Plant in 1965, the development of infrastructure began in an area of about 56 ha centering on the former plant site: Following Keio Plaza Hotel, the first high-rise building in Shinjuku built in 1971, high-rise buildings over 200 meters, including the Shinjuku Sumitomo Building, KDDI Building, Shinjuku Mitsui Building, Sampo Japan Building, Shinjuku Nomura Building, Shinjuku Center Building, and the Hyatt Regency Tokyo, were built in succession, to transform Nishishinjuku into a district of skyscrapers.

In the meantime, it was decided to relocate the Tokyo metropolitan government buildings from Marunouchi to Nishishinjuku, and the construction of the new buildings designed by Kenzo Tange was completed in 1991. The development of Nishishinjuku accompanied by the relocation of the Tokyo metropolitan government buildings had a great impact on the development of infrastructure in the district: Nishishinjuku Station on the Marunouchi Subway Line opened in 1996 and Tochomae Station and Nishishinjuku-gochome Station on the Oedo Subway Line opened in 1997. While enhancing convenience, redevelopment of the Nishishinjuku District continues, as demonstrated by the emergence of office compound buildings and high-rise condominiums.

With the wave of redevelopment spreading across the area, Shinjuku is ready to make the next leap forward.

In the south exit area of Shinjuku Station, Takashimaya Times Square opened in 1996 at the former Shinjuku Freight Station site



Shinjuku Expressway Bus Terminal will enhance the potential of Shinjuku as a transportation hub.

followed by the completion of the JR East Japan head-office building in 1997 and Odakyu Southern Tower, a part of the Shinjuku Southern Project, in 1998. There is a stretch of Odakyu properties from Odakyu HALC to Shinjuku Southern Terrace, which The Odakyu Group regarded as a town block and named Shinjuku Terrace City in 2006. In 2016, the JR Shinjuku Miraina Tower and the Shinjuku Expressway Bus Terminal, which are directly connected to JR Shinjuku Station, were completed. The establishment of the Shinjuku Expressway Bus Terminal integrated 19 expressway bus stops that used to be scattered around the west exit of Shinjuku Station to enhance convenience not only for Japanese people but also for foreign tourists and relieve traffic congestion particularly for taxis.

In 2005, the Kabukicho Renaissance Promotion Council, which addressed public and private revival efforts in the area around the east exit, particularly Kabukicho, was established. The Council has been implementing a variety of events and campaigns and promoting the development of squares and roads. In 2015, the Shinjuku Toho Building with a symbol of a Godzilla head opened at the former Koma Theater site. A high-rise tower complex will break ground at the former Shinjuku Milano Theater site next year. Both buildings will have a cinema complex, a hotel, and shops. These facilities with a lot of entertainment components will add new appeal to Kabukicho.

Moreover, the Shinjuku Grand Terminal initiative is currently underway at Shinjuku Station, which aims to reconfigure the station, station plaza, and station buildings in an integrated manner and realize a grand terminal friendly to people. It's objective is to simplify paths and build the easy-to-walk symbolic Shinjuku Station, including the conversion of the station building into a skyscraper, the construction of a deck above the rail tracks that connect the eastern and western parts of the city, and the development of a station plaza where pedestrians have the preferential right of way. Even though construction will not start until 2020, anticipation for a revitalized Shinjuku Station is already heightened.

TIPS

Tokyo March is reminiscent of the early, modern Showa period

"♪ Shall we see a movie or have some tea? Shall we run away on the Odakyu train? The moon of Musashino appears above the roof of a department store in ever changing Shinjuku." This was the theme song of the Nikkatsu movie, Tokyo March, which was produced in 1928 based on a novel by Kan Kikuchi and directed by a young Kenji Mizoguchi. The lyric was written by Yaso Saijo, and the music was composed by Shinpei Nakayama. Shinjuku appears in the fourth verse after Ginza, Marunouchi, and Asakusa, showing that Shinjuku attracted attention as a downtown area representing Tokyo even back then.



Shinjuku Mitsukoshi and townscape in 1935
Source: The Mainichi Newspapers Co., Ltd.

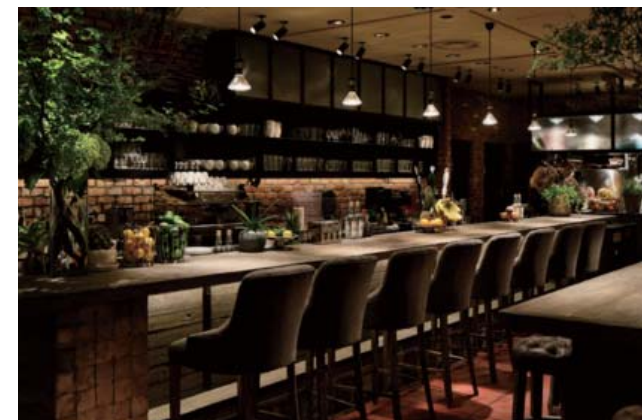


RELAX

Brooklyn Parlor Shinjuku

Spending a private, relaxing time in a Brooklyn-style store

This is a café and dining bar produced by Blue Note Japan, Inc., under the concept of "Everything useless and graceful in a life." Inside the serene store, visitors have access to good-quality books and music, alcoholic and non-alcoholic beverages, and delicious meals. Every Tuesday night, an admission-free event, "Good Music Parlor," is held where some of the best DJ's in the world amuse you.



Address: B1F, Shinjuku Marui Annex, 3-1-26, Shinjuku, Shinjuku-ku, Tokyo
☎:03-6457-7763
Open Hours: 11:30a.m. to 11:30p.m.
11:30a.m. to 11:00p.m. on Sundays and holidays
No scheduled holidays
URL <http://www.brooklynparlor.co.jp/shinjuku/>

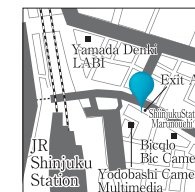
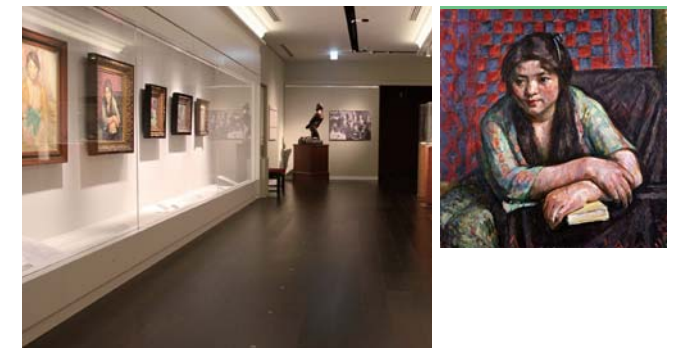


CULTURE

Nakamura Salon Museum of Art

A tiny art museum in the city where you can find modern Japanese paintings and sculptures

The museum is located on the third floor of the Shinjuku Nakamura Building, which was rebuilt in 2014. It is said that the founder of Nakamura Co., Ltd., had a deep knowledge of art and culture and that many artists and cultural figures used to gather here during the periods from the late Meiji era to the Taisho and early Showa eras. The museum introduces art centering on the works of artists who had a connection to Nakamura, such as sculptor Morie Ogiwara, painter Tsune Nakamura, and calligrapher Yaichi Aizu. The museum attracts attention as a hidden spot, where visitors of Shinjuku can casually drop by.



Address: 3F, Shinjuku Nakamura Bldg., 3-26-13, Shinjuku, Shinjuku-ku Tokyo
☎:03-5362-7508
Open Hours: 10:30 a.m. to 7:00p.m. (last admission at 6:40p.m.)
Closed on Tuesdays and the year-end and New Year holidays
(Open when a Tuesday falls on a holiday and closed on the following day)

PROPERTY MARKET TRENDS

During 1Q and 2Q of the fiscal year 2018, markets for office buildings, hotels, logistics assets and for rent condominiums remained firm helped by inbound demand and a pickup in the domestic economy.

Overall people's focus seems to be shifting to using properties rather than owning them.

This shift in paradigm renders the conventional market perception focusing on asset value ineffective.

TEXT: Toru Kawana, Industrial Marketing Consultants Co., Ltd.
Yoko Fujinami, IBRC Inc.



TSE REIT index remains robust despite instable global situations

REITs add to AUM by flexibly taking in a variety of assets

The Tokyo Stock Exchange (TSE) REIT index, an index of investment unit prices (share prices) of REITs, **increased to 1,764.64 points at the end of June 2018, up 6.1% from the end of December 2017, and the market capitalization of all REITs was up 9.8% to reach 12,595.3 billion yen.** The index showed violent fluctuations in January and February following tapering off of monetary policy in the US and Europe, but subsequently, it turned up. Particularly after May, compared with stock markets where prices fell on the back of the trade conflict between the US and China, **REITs enjoyed an inflow of money mainly from foreign investors looking for stable assets. Consequently, TSE REIT index rose.**

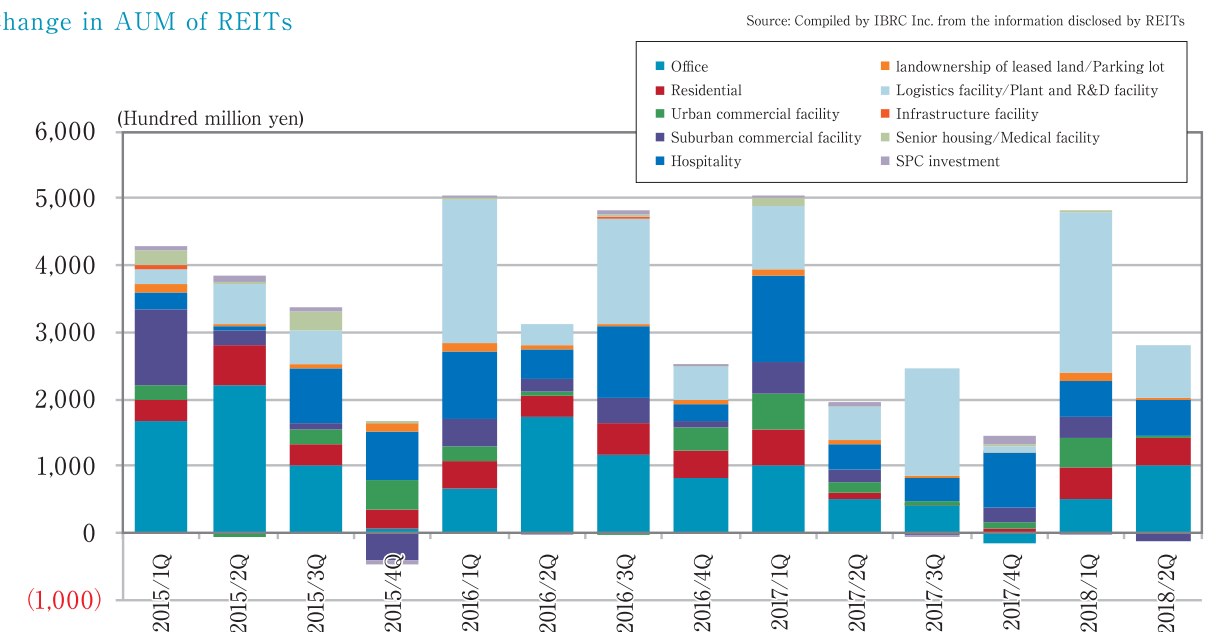
CRE Logistics REIT, Inc., specialized in logistics, and XYMAX REIT Investment Corporation, an integrated type Reit, were listed in February 2018. Kenedix Residential NEXT Investment Corporation merged with Japan Senior

Living Investment Corporation, and Sekisui House Reit, Inc. merged with Sekisui House Residential Investment Corporation in March and May, respectively. Also existing 18 issues conducted public stock offerings. **As of the end of June, there were 59 listed issues, and the balance of AUM increased 4.5% to 17,288.5 billion yen.**

Even under an environment where it is difficult to acquire real estate, **REITs positively increases assets through a variety of acquisition methods**, such as supply of existing and development properties from sponsors, merger and acquisitions, and expansion of investment targets to logistic and hospitality facilities for which markets are expected to grow further.

On the other hand, we see cases where **properties with low profitability or unrealized losses were sold or actions to lock in gains from sales** because of an increase in real estate prices that are considered a good opportunity to liquidate them.

Change in AUM of REITs





The office market remains firm in central Tokyo and major cities.

A shortage of office floors will continue for the moment despite a large new supply anticipated after the fall.

In Tokyo business district (central five wards), vacancy rate for large-scale office bldg.'s in the latest three months was 2.68% for May, 2.57% for June, and 2.58% for July (up 0.01 point from the previous month) respectively. In July, one large new office building came on line fully committed. On the other hand, there were sizable floor spaces either vacant or becoming vacant. Overall, the average vacancy rate slightly fell for the second consecutive month. **The vacant office inventory stood at 191,114 tsubo, cutting below a 200,000 tsubo level for four consecutive months since April 2018**, and falling down by about 44,000 tsubo from 234,899 tsubo the same month previous year.

For each ward, **the vacancy rate for July** was 2.41% in Chiyoda-ku (3.31% the same month previous year), 3.67% in Chuo-ku (3.18%), 2.96% in Minato-ku (4.08%), 1.58% in Shinjuku-ku (1.68%), and 0.84% in Shibuya-ku (2.17%). The rate has remained at the **1% level in Shinjuku-ku for 15 consecutive months** since May 2017, and in Shibuya-ku cut below the 1% level for July 2018 **for the first time after it hit the 1% level in September, 2017**.

The vacant office inventory fell in four wards, excluding Chuo-ku, with 51,791 tsubo in Chiyoda-ku (70,197 tsubo for the same month previous year), 51,087 tsubo in Chuo-ku (43,994 tsubo), 67,903 tsubo in Minato-ku (91,654 tsubo), 15,181 tsubo in Shinjuku-ku (16,073 tsubo), and 5,152 tsubo in Shibuya-ku (12,981 tsubo). Particularly, **Shibuya-ku marked the largest percentage decline**.

In all major cities other than Tokyo, vacancy rates decreased from May to July, i.e. from 2.44% to 2.29% in Sapporo, from 6.17% to 5.49% in Sendai, from 4.46% to 3.64% in Yokohama, from 3.38% to 2.97% in Nagoya, from 3.38% to 2.98% in Osaka, and from 2.87% to 2.68% in Fukuoka. It is worth notice particularly the rates were all at **the 2% level in Sapporo, Nagoya, Osaka, and Fukuoka**, and they showed a downward trend in Yokohama and Sendai. Also, in local cities, markets have remained robust.

For the latest three months, **the average rent in Tokyo business district** was 20,019 yen/tsubo for May, 20,108 yen/tsubo for June, and 20,202 yen/tsubo for July (up 1,286 yen/tsubo YoY).

It has increased for 55 consecutive months. For each ward, the average rent for July was 22,338 yen/tsubo in Chiyoda-ku (up 1,661 yen/tsubo), 18,547 yen/tsubo in Chuo-ku (up 1,323 yen/tsubo), 20,651 yen/tsubo in Minato-ku (up 1,272 yen/tsubo), 17,663 yen/tsubo in Shinjuku-ku (up 1,153 yen/tsubo), and 21,635 yen/tsubo in Shibuya-ku (up 790 yen/tsubo).

In all major cities other than Tokyo, the average rent increased on YoY basis, i.e. 8,660 yen/tsubo in Sapporo (up 266 yen/tsubo), 9,064 yen/tsubo in Sendai (up 68 yen/tsubo), 11,155 yen/tsubo in Yokohama (up 270 yen/tsubo), 11,055 yen/tsubo in Nagoya (up 187 yen/tsubo), 11,368 yen/tsubo in Osaka (up 205 yen/tsubo), and 9,802 yen/tsubo in Fukuoka (up 435 yen/tsubo).

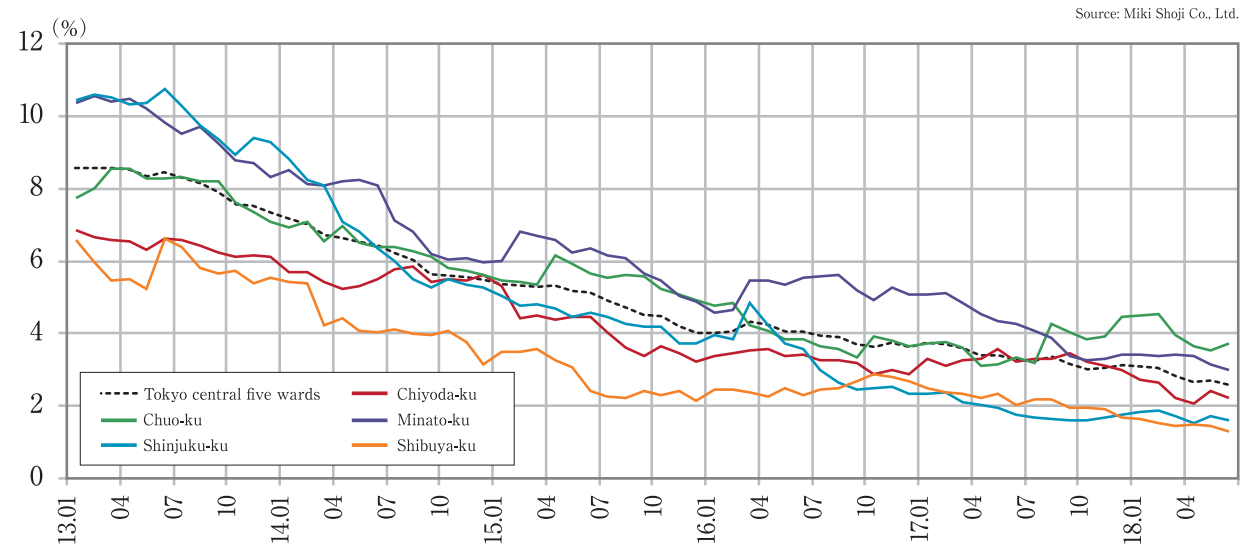
In Tokyo business district, the ratio of buildings with vacant spaces was 18.16% at the end of July 2018, down 6.44 points YoY and up 1.02 points MoM. For each ward, it was 21.28% in Chiyoda-ku (down 5.44 points YoY).

17.62% in Chuo-ku (down 6.51 points), 20.37% in Minato-ku (down 5.94 points), 15.34% in Shinjuku-ku (down 7.74 points), and 10.89% in Shibuya-ku (down 8.13 points). In three wards, excluding Chiyoda-ku and Minato-ku, the ratio of buildings fully occupied remained at 80% or more.

Also in major cities other than Tokyo, buildings fully occupied increased likewise. The ratio of buildings with vacant spaces was 35.53% in Sapporo (down 6.75 points), 66.00% in Sendai (down 4.37 points), 40.43% in Yokohama (down 8.51 points), 45.05% in Nagoya (down 11.68 points), 54.46% in Osaka (down 5.76 points), and 39.21% in Fukuoka (down 9.68 points).

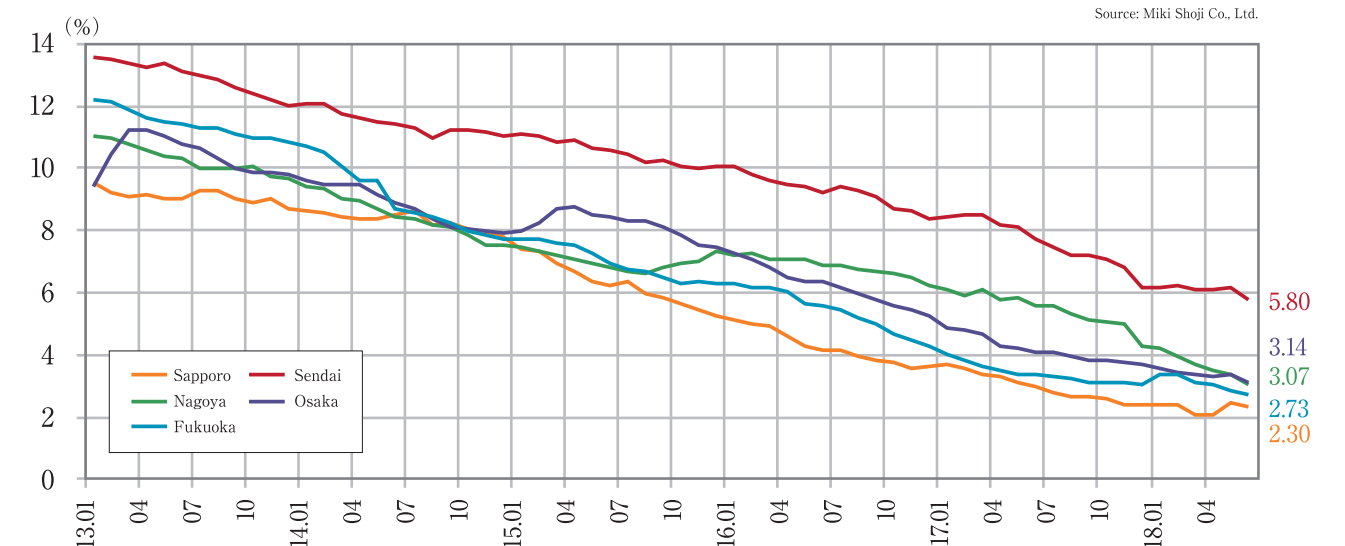
On the back of a low vacancy rate, rent level continues to rise as buildings fully occupied have increased. In the first half of FY 2018, office market remained robust not only in Tokyo but also in regional areas. Seemingly, **this trend continues for the moment**.

都心5区空室率



Source: Miki Shoji Co., Ltd.

Vacancy rate in regional cities



Source: Miki Shoji Co., Ltd.



Hospitality

In May 2018, the national average hotel occupancy rate was 80.6% with decreasing Japanese guests and increasing inbound tourists.

Hotel chains actively develop hotels toward 2020

According to Ohta Publications, the average hotel occupancy rate for May 2018 was 80.6% in major cities with 85.8% in Sapporo, 84.2% in Tokyo, 86.4% in Osaka, and 75.4% in Okinawa. The national average rate was 60.7% for March to May. By type of assets, it was 80.2% for city hotels, 74.1% for business hotels, and 57.0% for resort hotels in May.

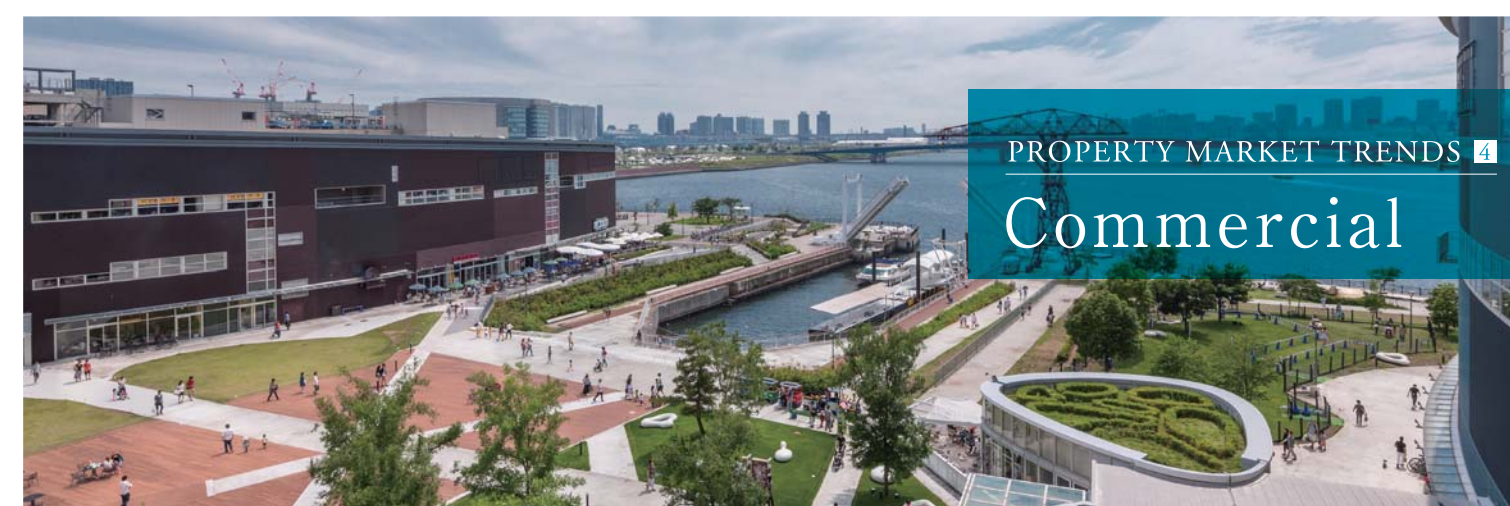
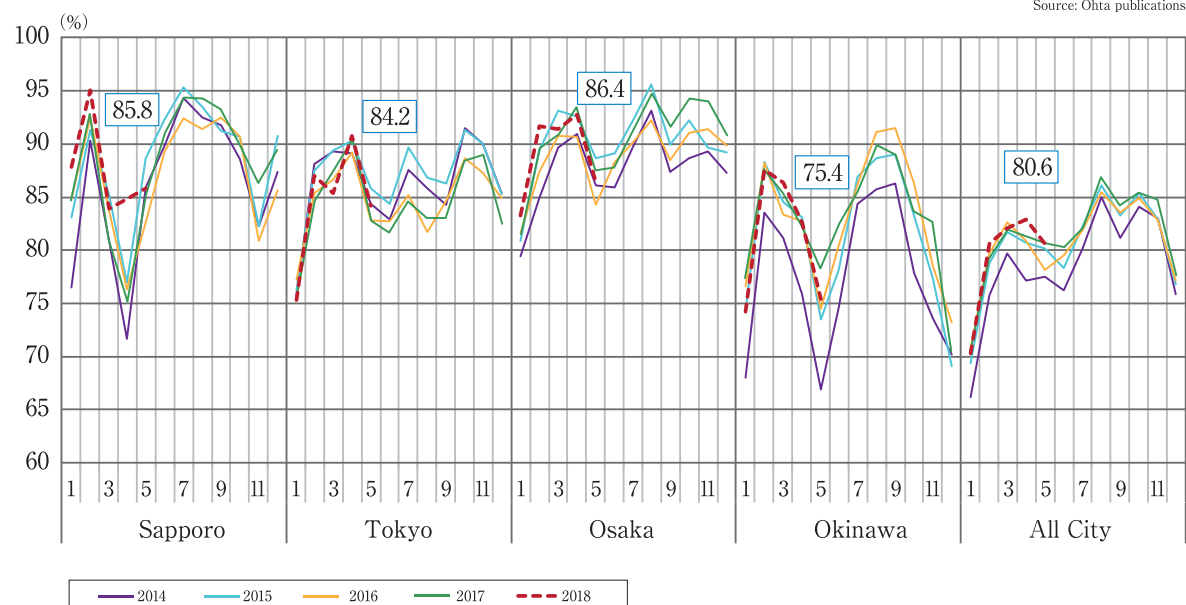
According to the Japan Tourism Agency, the cumulative total number of guests (in Japan) was down 2.7% YoY at 42,700,000 for March 2018, up 0.4% YoY at 40,100,000 for April, and down 1.5% YoY at 42,360,000 for May. It totaled 197,650,000 for January thru May, a slight decline on a YoY basis. The cumulative total number of Japanese guests was down 5.0% YoY at 35,910,000 for March, down 0.8% YoY at 31,800,000 for April, and down 4.4% YoY at 34,880,000 for May, while the cumulative total number of inbound tourists was

up 11.7% YoY at 6,780,000 for March, up 5.3% YoY at 8,290,000 for April, and up 14.9% YoY at 7,470,000 for May. In short, Japanese guests decreased while inbound tourists increased.

According to 'Travel and Tourism Consumption Trend Survey, January-March 2018', domestic travel consumption for overnight travel by Japanese was 3,513.2 billion yen. Out of the cumulative total number of travelers of 128,320,000, overnight travelers were 68,640,000. For overnight trips, average travel expense per person was 51,181 yen (up 7.9% YoY).

There are a total of 135 hotels (identified) to open in 2018-2019 (mainly consisting of business hotels) (72 in 2018 and 63 in 2019, respectively), including 34 in Tokyo, 17 in Osaka, 9 in Chiba, and 7 in Kanagawa. Dominant brands are, Livemax (35 hotels), Route-inn (29 hotels), and APA (28 hotels). Development of new hotels will remain active, including international major brands to open by 2020. Therefore, it deserves continued attention.

Hotel occupancy rate



Commercial

In Tokyo metropolitan area, the current trend is opening of the middle-size SCs matched with the market scale of the middle-sized cities.

Performance was weak in July as a reaction to the robust performance in June. Bad weather mainly in west Japan also contributed to the weak performance.

According to the Japan Council of Shopping Centers (JCSC), sales of SCs were up 1.0% YoY at 529.76 billion yen for April 2018, down 2.8% YoY at 521.85 billion yen for May, up 2.3% YoY at 508.91 billion yen for June, and down 1.9% YoY at 560.72 billion yen for July on the existing same store basis.

In June, sales jumped by 5.1 points from May. Tenants and key tenants recorded higher sales than in the previous year. The robust performance was due to acceleration of bargain sale starts (to the end of June) and sales of summer products boosted by hot weathers nationwide.

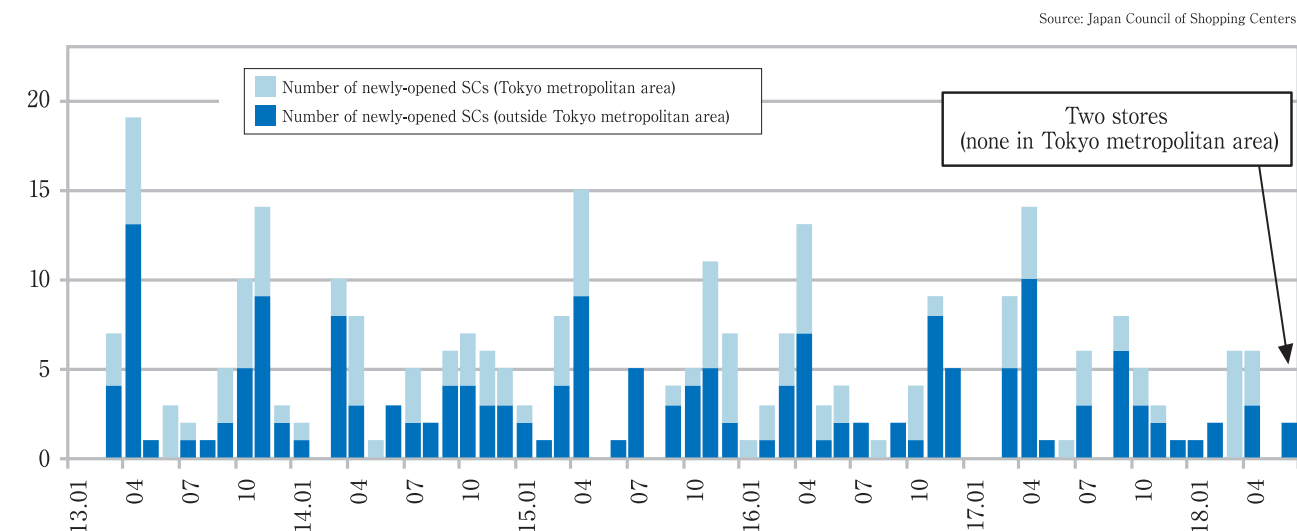
In July, sales suffered across the nation, declining by 4.2 points from June recording a negative YoY number for the first time in two months. This may be attributed mainly to lost customer traffic due to heavy rains and typhoons in west Japan and the record high temperatures. Within trade, food & beverage and service sectors fared well,

while women's apparel was weak in many SCs because of weather, as well as the reaction to the accelerated bargain sale.

Seventeen SCs were newly opened from January thru August 2018 (though, none in July or August), a big drop from 31 SCs opened in the same period of the previous year. Among them, those with a floor area of 10,000m² or more were ten; 1 in February, 4 in March, 3 in April (i.e., LC World Motosu [Gifu], Corowa Koshien [Hyogo], The Outlets Hiroshima [Hiroshima]), and 2 in June (i.e., Aeon Mall Iwakionahama [Fukushima] and Tatsunokomachi Ryugasaki Mall [Ibaraki]).

In Tokyo metropolitan area, five middle-sized SCs with the floor area of less than 10,000m² were opened in the first half of 2018. Most of them are located in towns with high population densities and near nonterminal stations. This phenomenon is supposed to represent a shift in trend to locally oriented SCs, and warrants closer attention to opening of new SCs in locations with similar attributes.

Number of stores/Newly opened SCs



For the data presented in this report, we take all possible precautions to ensure accuracy. However, the data may include errors. The company is not responsible for user judgments based on the report.



PROPERTY MARKET TRENDS 5
Logistics

Large multi-tenant logistic facilities (LMTs) fares well absorbing a large new supply.

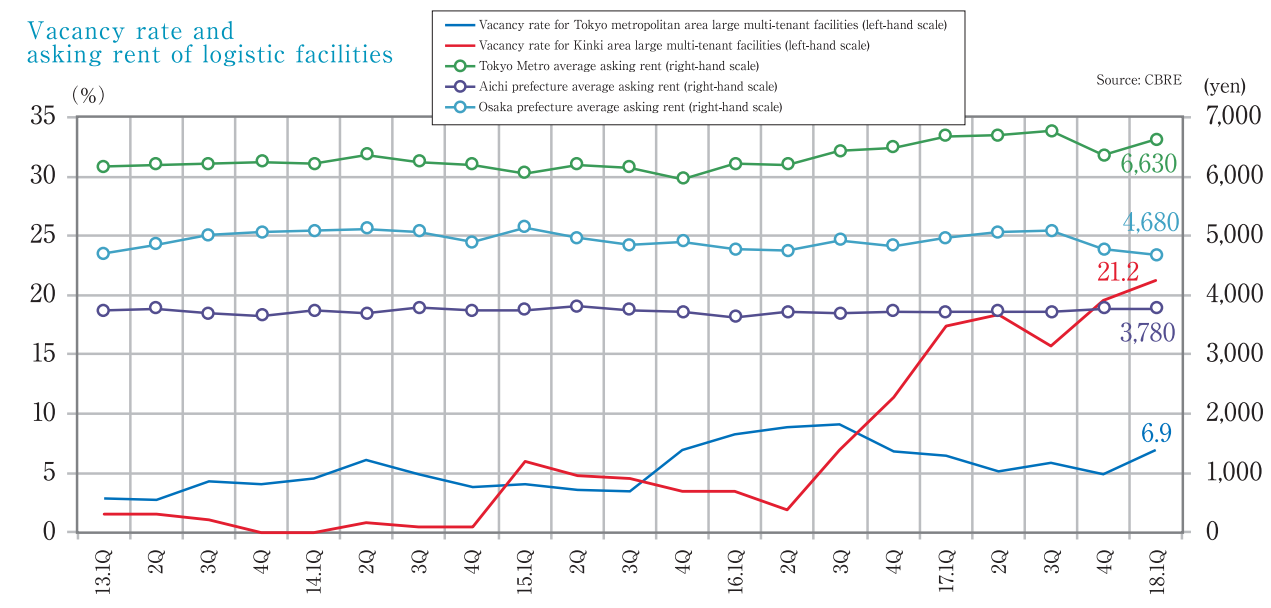
Improvement in LMT operation is necessary to deal with a further increase in freight volume

The vacancy rate of LMTs in Tokyo metropolitan area was 6.9% for 1Q 2018 (up 2.0 points YoY) and 5.3% for 2Q 2018 (down 1.6 points). During 1Q, the new supply was 202,000 tsubo, about 2.7 times as much as a quarterly average for the last three years, and this pushed the vacancy rate up. New demand, however, reached a historic high (137,000 tsubo), absorbing most of new spaces to lower the vacancy rate. For 2Q, vacant spaces in completed properties were steadily absorbed, and all four new properties came on line fully committed. This reduced the vacancy rate.

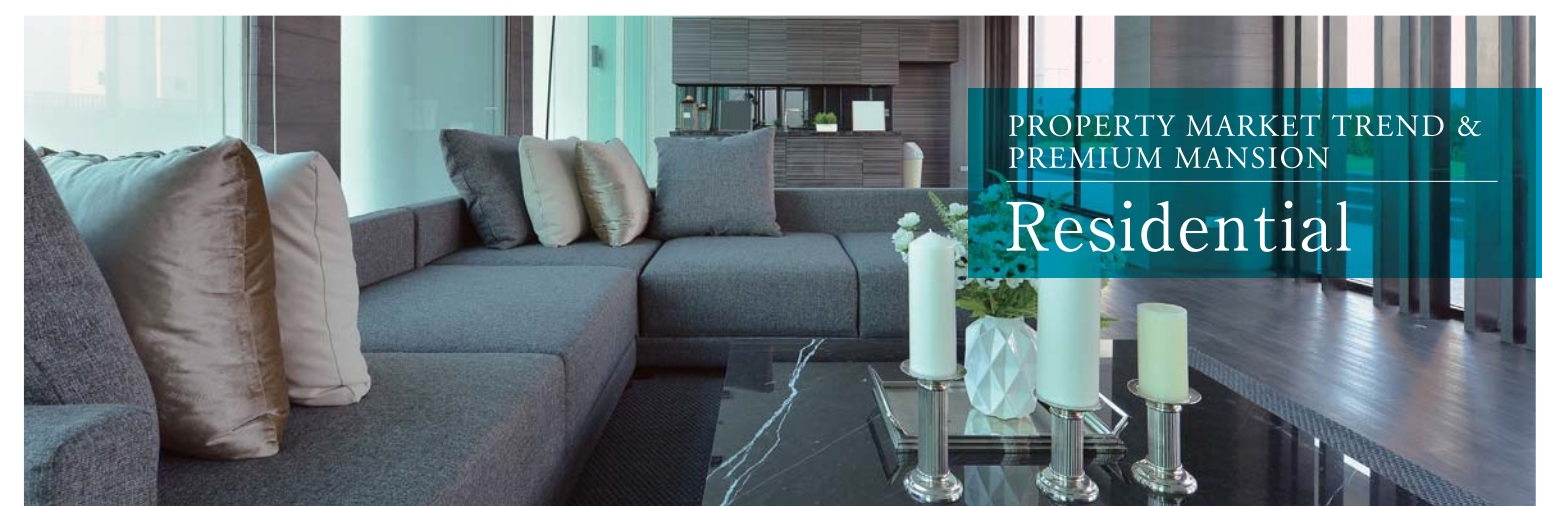
In entire Tokyo metropolitan area, effective rent for 1Q and 2Q was 4,080 yen/tsubo and 4,120 yen/tsubo (up 1.0% from the previous period), respectively. The new supply for the rest of the year will be about 200,000 tsubo, making a yearly total 469,000 tsubo. The market will remain solid due to the robust market environment.

In Kinki area, the vacancy rate of LMTs was 21.2% for 1Q and 17.5% for 2Q, respectively. The decline is due to no new supply and advancing absorption of existing properties. Effective rent was 3,480 yen/tsubo for 1Q and 3,480 yen/tsubo for 2Q. Further improvement in the supply-demand balance is expected.

In Chubu area, the vacancy rate for LMTs was 10.6% for 1Q and 8.6% for 2Q. There is no plan to supply LMTs during 2018, and there are only two existing properties with vacant spaces in the entire Chubu area. This led to an increase in effective rent. The rent, which had remained at 3,530 yen/tsubo for four consecutive quarters, increased to 3,540 yen/tsubo for 2Q. A number of home delivery parcels exceeded 4 billion last year, up 7.3% YoY, and is expected to grow further. Functional improvement including labor saving measures is a pressing matter.



*Average asking rent: Semiannual basis (1st Half and 2nd Half) until 2012 and quarterly basis from 2013 on.
 *Large multi-tenant facilities: Facilities with a total floor area of 10,000 tsubo or more that are basically planned and designed on the assumption that they are used by multiple tenants at the time of development.
 *Tokyo metropolitan area's four submarkets: The Tokyo bay submarket represents the bay area in Tokyo Metro, the Tokyo Gaikan Expressway submarket represents the outer area of the Tokyo bay area and the inner area of Tokyo Gaikan Expressway, Route 16 submarket represents the outer area of the Tokyo Gaikan Expressway area and inner area of Route 16 and the Metropolitan Inter-City Expressway submarket represents the outer area of Route 16 and inner area of the Metropolitan Inter-City Expressway.



PROPERTY MARKET TREND & PREMIUM MANSION
Residential

In Tokyo metropolitan area, sales of the newly built condominium remain slow due to the high level of prices.

Also in secondary market, number of closed contracts showed a slowdown due to the upward trend in prices. Both for newly built and existing condominiums, adjustment in price will be the key to recovery.

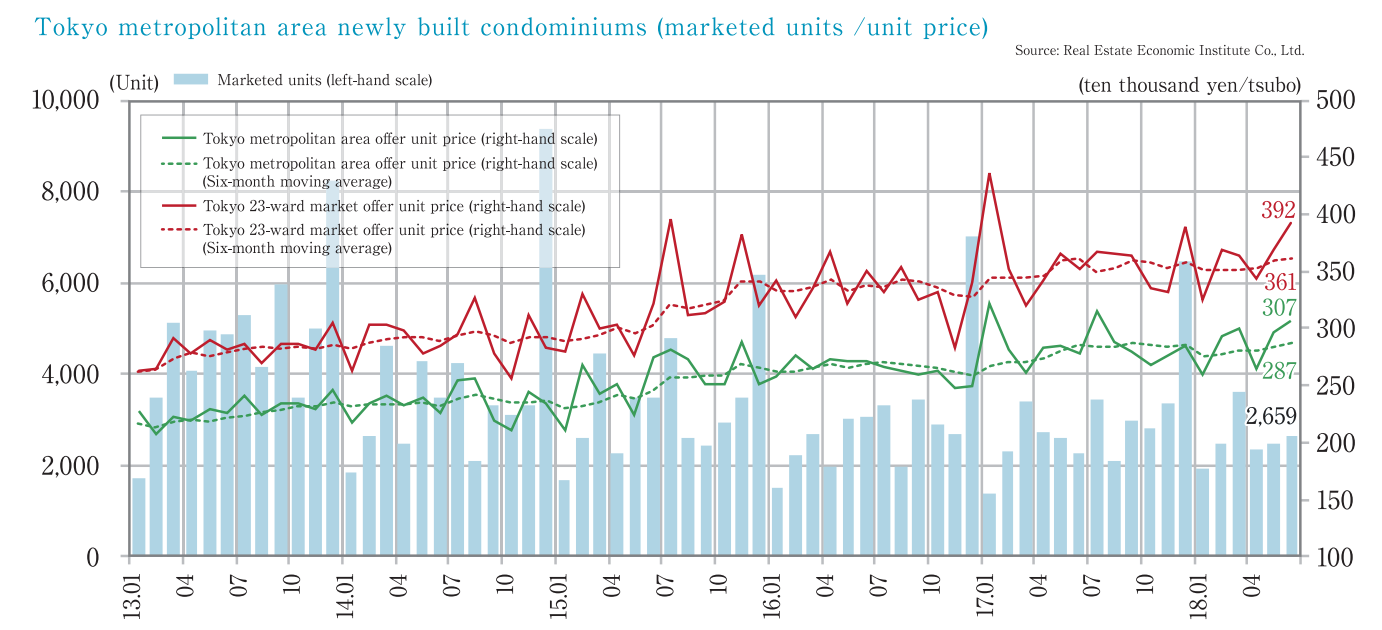
For the first half of 2018, the supply volume of condominiums was 15,504 units (up 5.3% YoY) in Tokyo metropolitan area, an increase for the second consecutive year. The average price was 59,620,000 yen (up 1.3% YoY), and the unit price per tsubo was 2,892,000 yen (up 2.9% YoY). Both increased for the sixth consecutive year and recorded the highest level since 1991 averages (64,500,000 yen and 3,368,000 yen). Contract ratio in the release month of new condominium projects was weak at 66.7% on average, or down 0.6 points YoY. By area, the average price and unit price per tsubo were 70,590,000 yen and 3,636,000 yen in Tokyo 23-ward market, 52,460,000 yen and 2,459,000 yen in suburban Tokyo market, 56,650,000 yen and 2,618,000 yen in Kanagawa, 42,860,000 yen and 2,023,000 yen in Saitama, and 44,970,000 yen and 2,010,000 yen in Chiba. The unit price per tsubo increased in all the markets on a YoY basis.

For July 2018, the supply volume was 2,986 units (down 12.8% YoY) in Tokyo metropolitan area, and contract ratio averaged at 67.8%. Average price was 61,910,000 yen (down 5.7% YoY),

and unit price per tsubo was 3,031,000 yen (down 3.7% YoY).

For the same month, number of closed contracts for existing condominiums was 3,139 (down 5.0% YoY) in Tokyo metropolitan area, lower than the same month of the previous year for the third consecutive month. As far as properties contracted are concerned, the unit price per 1m² was 521,300 yen (up 5.4% YoY) and the price was 33,620,000 yen (up 6.4% YoY). Both have been higher than the same month of the previous year for 67 consecutive months. The prices keep an upward trend (64.49m² for exclusive area and 20.86 years after completion). For July, newly listed properties were 17,242 (up 7.5% YoY), higher than the same month of the previous year for 11 consecutive months.

In Tokyo 23-ward market, the average asking rent for condominiums was 11,521 yen/tsubo, up 5.86% YoY. The rent shows a slowdown due to the declining rate of young properties (or a decline in number of newly built condominiums), but occupancy rate is kept high. There will be a slight excess in demand later.



INVESTMENT MARKET TRENDS



Trend of investment real estate market in the Tokyo central area

In this section, developments of the trend in and around the investment real estate market are discussed based upon daily accumulation of advanced, in-depth data. The market largely depends on the effect of external factors and economic conditions. An understanding of such effect requires an objective viewpoint, and the data are interpreted with plenty of know-hows and experiences.

Areas subject to collection of data

Tokyo central areas		Tokyo South area		Tokyo West and North areas		Tokyo East area		Yokohama and Kawasaki areas	
Minato-ku	Shibuya-ku	Shinagawa-ku	Setagaya-ku	Suginami-ku	Itabashi-ku	Koto-ku	Edogawa-ku	Yokohama-shi	Kawasaki-shi
Chiyoda-ku	Shinjuku-ku	Meguro-ku	Ota-ku	Nakano-ku	Kita-ku	Sumida-ku	Katsushika-ku		
Chuo-ku	Bunkyo-ku			Nerima-ku	Taito-ku	Arakawa-ku	Adachi-ku		
				Toshima-ku					

PICK UP AREA

For investment real estate, trends in the average gross yields based on contract price and asking price, together with a number of closed contracts in each of the four Tokyo submarkets are presented in the graph. The details of properties both for sale and sold in certain neighborhoods are also shown.

MARKET OVERVIEW

As an overview of all four submarkets plus Yokohama / Kawasaki region, the trend from the past to this 1Q is available. Trends in the average gross yields based on contract price and asking price together with a number of closed contracts by area are shown for comparison.

[Source of data]
 Data is withdrawn from the database on the information concerning marketed properties and concluded contracts of Mitsui Fudosan Realty Network (blocks of condominiums/buildings/apartments)
 Number of closed contracts and average gross yield based on contract price: Contracts closed in a quarter (three months) and their average gross yield (including estimated values)
 Average gross yield based on asking price: Quarterly average gross yield of closed contracts based on asking price
 *The trend of each graph represents indices based on figures for 1Q 2012 set at 100. (Average gross yield based on contract price is indexed to average gross yield based on asking price for 1Q 2012 set at 100)

[Note] The historical data may change subsequently due to continuous maintenance as updated data are newly acquired.

PICK UP AREA

Tokyo central submarket

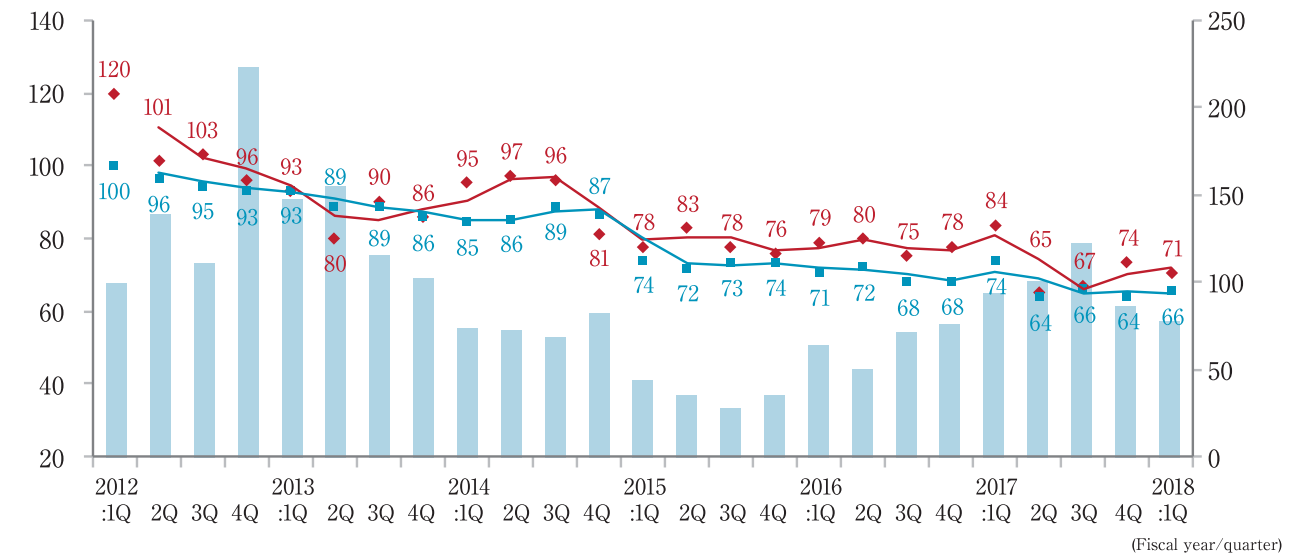
*Tokyo central submarket: Minato-ku, Chiyoda-ku, Chuo-ku, Shibuya-ku, Shinjuku-ku, and Bunkyo-ku

Trends in the quarterly average gross yields based on contract price and asking price together with a number of closed contracts

(Index: yield based on asking price 1Q 2012 set at 100.

◆ Average gross yield based on contract price ■ Average gross yield based on asking price

Aggregate value for 1Q 2018
 (Index: figures for 1Q 2012 set at 100
 ■ Number of closed contracts)



Compared with the previous period (4Q 2017)

Average gross yield based on contract price	This period	Previous period	Change
	71	74	-2.9pt

Average gross yield based on asking price	This period	Previous period	Change
	66	64	+1.2pt

Brokered transactions of investment real estate in certain neighborhoods

[For sale properties]

No	Location	Asking price	Gross yield	Type	Land area	Building area	Structure	Year of completion
1	1 Chome, Toyama, Shinjuku-ku	168 million yen	10.4%	En-bloc residential	99.50 sqm	276.63 sqm	Reinforced concrete	1966
2	4 Chome, Honkomagome, Bunkyo-ku	242 million yen	6.5%	En-bloc residential	152.35 sqm	510.60 sqm	Reinforced concrete	1973
3	1 Chome Takanawa, Minato-ku	268 million yen	4.5%	En-bloc residential	240.50 sqm	384.55 sqm	Reinforced concrete	1988
4	2 Chome, Honmachi, Shibuya-ku	325 million yen	4.8%	Apartment	288.80 sqm	471.19 sqm	Wood frame	2018
5	1 Chome, Nishihara, Shibuya-ku	730 million yen	5.3%	En-bloc residential	261.38 sqm	740.97 sqm	Reinforced concrete	1995
Average data		346.6 million yen	6.3%		208.51 sqm	476.79 sqm		

*Partially extracted

[Sold properties]

No	Location	Price range of closed contracts	Gross yield	Type	Land area	Building area	Structure	Year of completion	Date of contract
1	Iidabashi, Chiyoda-ku	246 million yen	4.8%	Office building	Approx. 80 sqm	Approx. 329 sqm	Reinforced concrete	1986	04/2018
2	Nihonbashi Kobuncho, Chuo-ku	440 million yen	4.6%	En-bloc residential	approx. 94 sqm	Approx. 522 sqm	Steel frame	2009	06/2018
3	Honmachi, Shibuya-ku	563 million yen	5.0%	En-bloc residential	Approx. 258 sqm	Approx. 609 sqm	Reinforced concrete	2018	06/2018
4	Honkomagome, Bunkyo-ku			En-bloc residential	Approx. 866 sqm	Approx. 1,236 sqm	Reinforced concrete	1990	06/2018
5	Shibaura, Minato-ku			Office building	Approx. 177 sqm	Approx. 738 sqm	Steel frame & reinforced concrete	1988	06/2018
Average data		416.33 million yen	4.8%		-	-			

*Partially extracted

In Tokyo central submarket, the number of closed contracts decreased due to fewer properties available for sale. Demand for properties in this submarket, however, remains strong while vacancy rates are creeping up and the population is declining in the suburbs. For the latest 12 months, average gross yield based on asking price has been leveling off, while average gross yield based on contract price has shown a slight upward trend (or a decline in contract prices) as well as other submarkets. As there is always demand from a wide range of buyers such as businesses, investors, and high net worth individuals looking for inheritance tax savings, this submarket will remain stable and the risk of future price adjustment is limited compared to other submarkets.

Tokyo South submarket

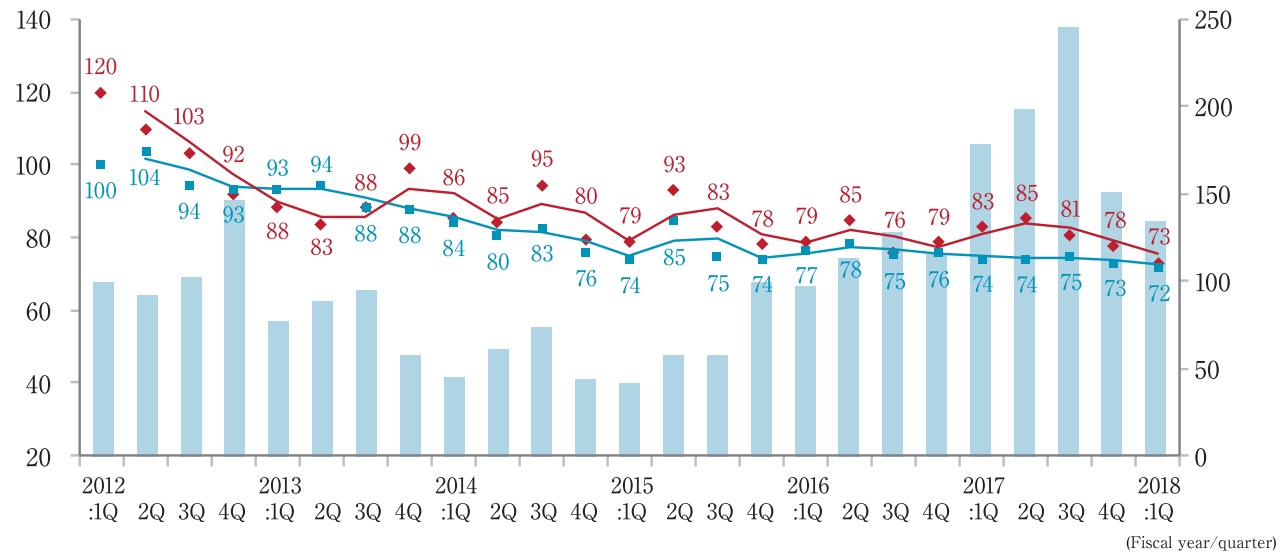
*Tokyo South submarket: Shinagawa-ku, Meguro-ku, Setagaya-ku, Ota-ku

Trends in the quarterly average gross yields based on contract price and asking price together with a number of closed contracts

(Index: yield based on asking price 1Q 2012 set at 100.)

◆ Average gross yield based on contract price ■ Average gross yield based on asking price

Aggregate value for 1Q 2018
(Index: figures for 1Q 2012 set at 100)
■ Number of closed contracts



Compared with the previous period (4Q 2017)

Average gross yield based on contract price	This period	Previous period	Change	Average gross yield based on asking price	This period	Previous period	Change
	73	78	-4.5pt		72	73	-1.4pt

Brokered transactions of investment real estate in certain neighborhoods

[For sale properties.]

*Partially extracted

No	Location	Offer price	Gross yield	Type	Land area	Building area	Structure	Year of completion
1	4 chome, Minami-magome, Ota-ku	140 million yen	6.3%	Apartment	231.12 sqm	229.96 sqm	Wood frame	2018
2	2 Chome, Nakaikogami, Ota-ku	174 million yen	6.2%	Apartment	132.24 sqm	211.38 sqm	Wood frame	2016
3	3 Chome, Yakumo, Meguro-ku	290 million yen		En-bloc residential	161.95 sqm	333.75 sqm	Reinforced concrete	2014
4	2 Chome, Taishido, Setagaya-ku	450 million yen		En-bloc residential	121.94 sqm	517.80 sqm	Steel frame	2014
5	1 Chome, Ohara, Setagaya-ku	988.8 million yen	4.3%	En-bloc residential	529.33 sqm	1,141.84 sqm	Reinforced concrete	2003
Average data		408.56 million yen	5.6%		235.32 sqm	486.95 sqm		

[Sold properties]

*Partially extracted

No	Location	Price range of closed contracts	Gross yield	Type	Land area	Building area	Structure	Year of completion	Date of contract
1	Okusawa, Setagaya-ku	157 million yen	5.5%	Apartment	Approx. 189 s	sqm	Wood frame	2018	06/2018
2	Soshigaya, Setagaya-ku	190 million yen	6.5%	Apartment	Approx. 268 sqm	Approx. 272 sqm	Wood frame	2017	04/2018
3	Sangenjaya, Setagaya-ku	298 million yen	4.3%	En-bloc residential	Approx. 155 sqm	Approx. 273 sqm	Reinforced concrete	2016	06/2018
4	Sanno, Ota-ku	298 million yen	5.1%	En-bloc residential	Approx. 141 sqm	Approx. 351 sqm	Reinforced concrete	2016	05/2018
5	Futaba, Shinagawa-ku	669 million yen	5.0%	En-bloc residential	Approx. 220 sqm	Approx. 668 sqm	Reinforced concrete	2018	06/2018
Average data		322.4 million yen	5.3%		-	-			

The number of closed contracts has been declining since it reached the record high in 3Q 2017. At the same time, downward trend in average gross yield based on contract price (or an increase in contract prices) has been observed. For the current period, a gap between average gross yields based on asking price and contract price is minimal, proving tight supply-demand equilibrium in this submarket. On the other hand, lenders' stance toward investment properties in general becomes conservative recently, and those properties in the price range of around 200 million yen in particular will most likely be affected. It is necessary to carefully observe the course of events from now on.

Tokyo West and North submarket

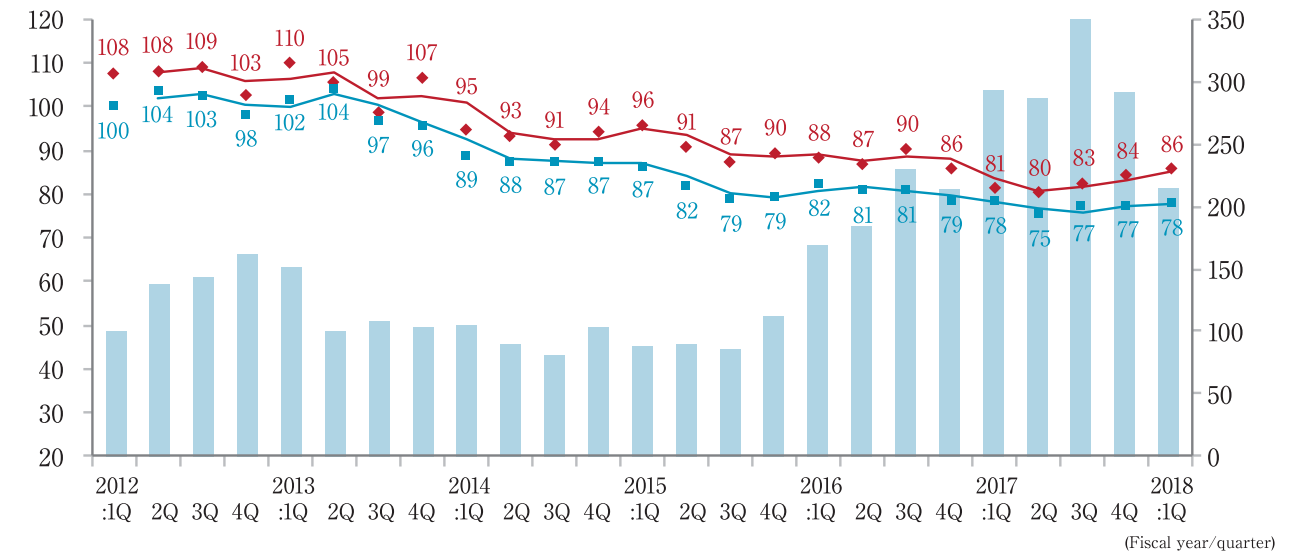
*Tokyo West and North submarket: Sugunami-ku, Nakano-ku, Nerima-ku, Toshima-ku, Itabashi-ku, Kita-ku, Taito-ku

Trends in the quarterly average gross yields based on contract price and asking price together with a number of closed contracts

(Index: yield based on asking price 1Q 2012 set at 100.)

◆ Average gross yield based on contract price ■ Average gross yield based on asking price

Aggregate value for 1Q 2018
(Index: figures for 1Q 2012 set at 100)
■ Number of closed contracts



Compared with the previous period (4Q 2017)

Average gross yield based on contract price	This period	Previous period	Change	Average gross yield based on asking price	This period	Previous period	Change
	86	84	+1.5pt		78	77	+0.4pt

Brokered transactions of investment real estate in certain neighborhoods

[For sale properties.]

*Partially extracted

No	Location	Offer price	Gross yield	Type	Land area	Building area	Structure	Year of completion
1	5 Chome, Shimoshakujii, Nerima-ku	112 million yen	5.7%	En-bloc residential	223.69 sqm	202.32 sqm	Steel frame	1992
2	4 Chome, Narita-higashi, Suginami-ku	131 million yen	6.9%	Apartment	151.13 sqm	146.88 sqm	Wood frame	1986
3	4 Chome, Akabane-nishi, Kita-ku	174 million yen	6.0%	Apartment	137.78 sqm	220.05 sqm	Wood frame	2017
4	1 Chome, Nishiogi-kita, Suginami-ku	219.8 million yen	6.2%	Apartment	251.68 sqm	271.67 sqm	Wood frame	2018
5	2 Chome, Nogata, Nakano-ku	346.8 million yen	5.3%	En-bloc residential	222.16 sqm	611.59 sqm	Steel frame	2018
Average data		196.72 million yen	6.0%		197.29 sqm	290.5 sqm		

[Sold properties]

*Partially extracted

No	Location	Price range of closed contracts	Gross yield	Type	Land area	Building area	Structure	Year of completion	Date of contract
1	Nagasaki, Toshima-ku	83 million yen	7.2%	Apartment	Approx. 119 sqm	Approx. 130 sqm	Wood frame	1991	06/2018
2	Shoan, Suginami-ku	115 million yen	7.8%	Apartment	Approx. 223 sqm	Approx. 199 sqm	Wood frame	1990	05/2018
3	Kamiya, Kita-ku	200 million yen	6.8%	En-bloc residential	Approx. 234 sqm	Approx. 500 sqm	Steel frame	1993	04/2018
4	Higashi-Oizumi, Nerima-ku	212 million yen	6.2%	En-bloc residential	Approx. 152 sqm	Approx. 330 sqm	Reinforced concrete	2005	05/2018
5	Asagaya-kita, Suginami-ku	285 million yen	6.6%	En-bloc residential	Approx. 481 sqm	Approx. 563 sqm	Steel frame	1989	04/2018
Average data		179 million yen	6.9%		-	-			

In this submarket, average gross yield based on asking price remains on the almost same level lately. Average gross yield based on contract price, however, shows an upward trend (or a decline in contract prices) since 2Q 2017. Lender's stance becomes more conservative than the previous fiscal year, and its effect cannot pass unnoticed. The number of closed contracts also shows a large drop from the previous period (4Q 2017). It is necessary to carefully observe the course of events in terms of both loan environment and changes in the market.

Tokyo East submarket

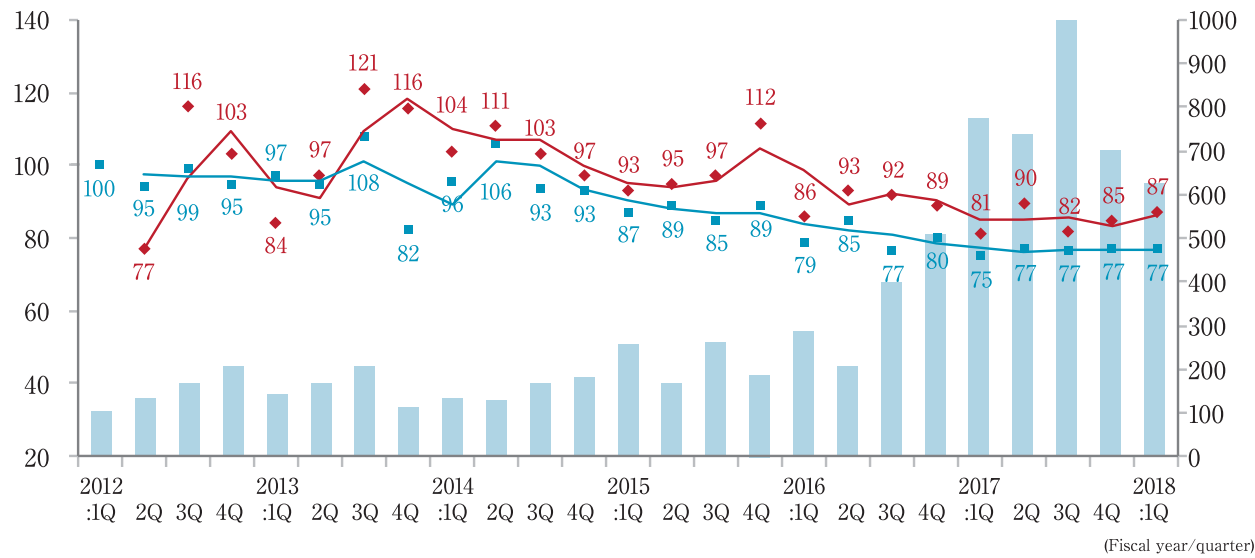
*Tokyo East submarket: Koto-ku, Sumida-ku, Arakawa-ku, Edogawa-ku, Katsushika-ku, Adachi-ku

Trends in the quarterly average gross yields based on contract price and asking price together with a number of closed contracts

(Index: yield based on asking price 1Q 2012 set at 100.

◆ Average gross yield based on contract price ■ Average gross yield based on asking price

Aggregate value for 1Q 2018
(Index: figures for 1Q 2012 set at 100)
■ Number of closed contracts



Compared with the previous period (4Q 2017)

Average gross yield based on contract price	This period	Previous period	Change	Average gross yield based on asking price	This period	Previous period	Change
	87	85	+2.4pt		77	77	-0.3pt

Brokered transactions of investment real estate in certain neighborhoods

[For sale properties]

*Partially extracted

No	Location	Asking price	Gross yield	Type	Land area	Building area	Structure	Year of completion
1	2 Chome, Yahiro, Sumida-ku	110 million yen	8.4%	En-bloc residential	152.14 sqm	451.05 sqm	Reinforced concrete	1974
2	1 Chome, Higashi-komagata, Sumida-ku	124.8 million yen	5.6%	En-bloc residential	66.07 sqm	176.76 sqm	Steel frame	2017
3	4 Chome, Higashi-komatsu, Edogawa-ku	145 million yen	6.7%	Apartment	418.58 sqm	280.42 sqm	Wood frame	2008
4	3 Chome, Miyoshi, Koto-ku	378 million yen	5.0%	En-bloc residential	142.21 sqm	478.68 sqm	Reinforced concrete	2018
5	1 Chome, Kita-koiwa, Edogawa-ku	390 million yen	5.6%	En-bloc residential	647.91 sqm	1,045.55 sqm	Reinforced concrete	1980
Average data		229.56 million yen	6.3%		285.38 sqm	486.49 sqm		

[Sold properties]

*Partially extracted

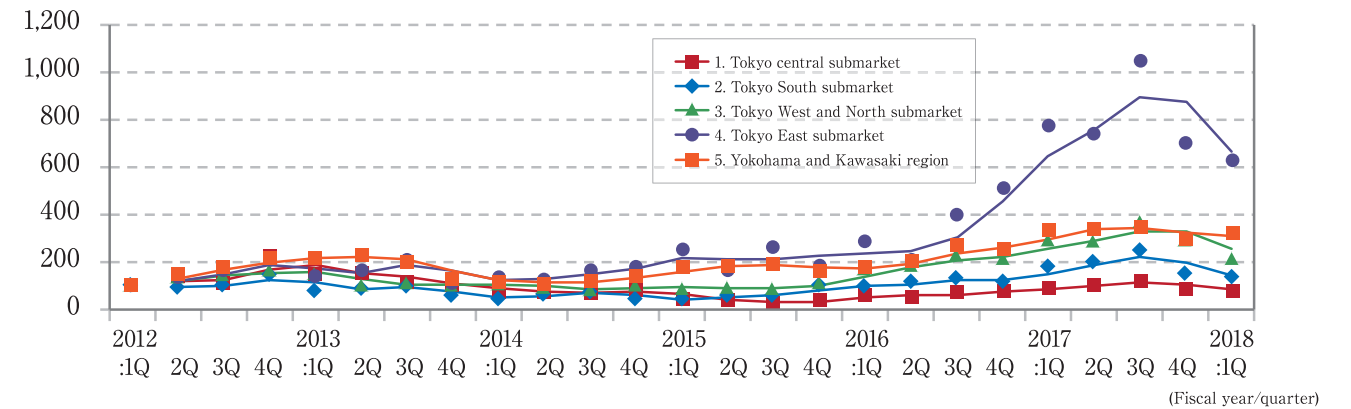
No	Location	Price range of closed contracts	Gross yield	Type	Land area	Building area	Structure	Year of completion	Date of contract
1	Narihira, Sumida-ku	115 million yen	8.4%	Office building	Approx. 80 sqm	Approx. 278 sqm	Steel frame	1991	06/2018
2	Fukagawa, Koto-ku	175 million yen	7.3%	En-bloc residential	Approx. 113 sqm	Approx. 393 sqm	Steel frame	1987	06/2018
3	Higashi-nippori, Arakawa-ku	280 million yen		Office building	Approx. 133 sqm	Approx. 518 sqm	Steel frame & reinforced concrete	1990	06/2018
4	Toyo, Koto-ku	321 million yen		En-bloc residential	Approx. 185 sqm	Approx. 736 sqm	Reinforced concrete	1987	04/2018
5	Shinozaki-cho, Edogawa-ku	341 million yen		En-bloc residential	Approx. 485 sqm	Approx. 959sqm	Reinforced concrete	2002	06/2018
Average data		246.4 million yen	7.9%		-	-			

Tokyo East submarket is the most active with the largest number of closed contracts among all, but it is no exception showing a downward trend in the number of transactions over the previous fiscal year. Additionally, average gross yield based on contract price has been moving upward (or a decline in contract prices) since the first quarter of the previous year, even though average gross yield based on asking price has been steady. This may suggest market price has peaked out already. The chief cause of such adjustment is supposedly a tighter loan environment despite ultra-low interest rate. It appears that the financial situation will remain unchanged for the time being. Therefore, it is expected that transactions and contract prices will be moderate for the moment.

General overview

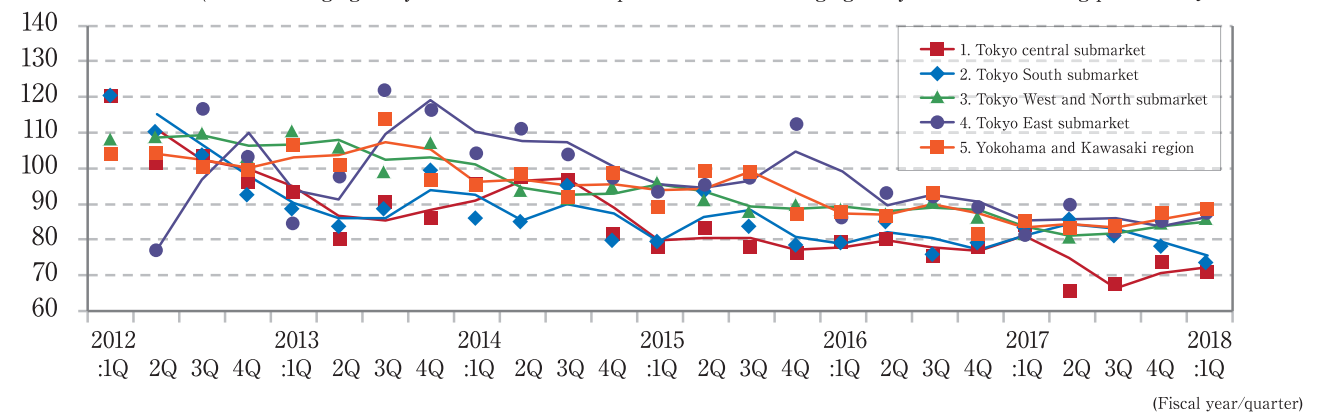
Trend in the number of closed contracts by submarkets

(Index: 2012 1Q closed contracts)



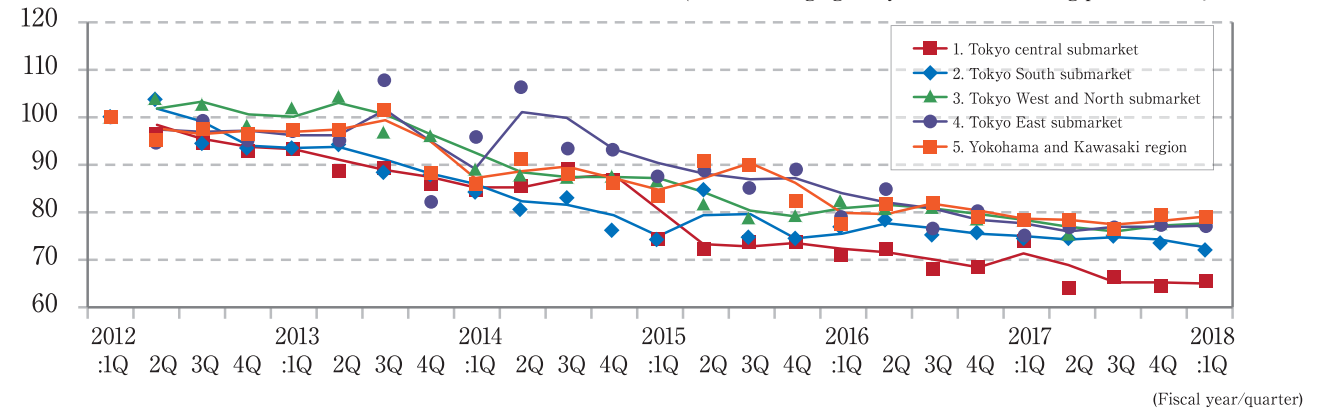
Trend in average gross yield based on contract price by submarkets

(Index: Average gross yield based on contract price indexed to average gross yield based on asking price for 1Q 2012 set at 100)



Trend in average gross yield based on asking price by submarkets

(Index: Average gross yield based on asking price as of 1Q 2012 set at 100)



Trends in the number of closed contracts, average gross yield based on contract price, and average gross yield based on asking price for each submarket are shown above.

The aggregate number of closed contracts declined for two consecutive quarters after its record high in 3Q 2017. Though it declined in all the submarkets, the drop in Tokyo East submarket is the sharpest. Average gross yield based on contract price has been trending upward (or a decline in contract prices) in all submarkets other than Tokyo central and Tokyo South submarkets, suggesting a slightly stagnant investment market in general together with the decline in the number of closed contracts. As stated in the comments for certain submarkets, financial institutions are getting cautious about property loans and its impact is being felt. Therefore, it is necessary to carefully observe the course of events.