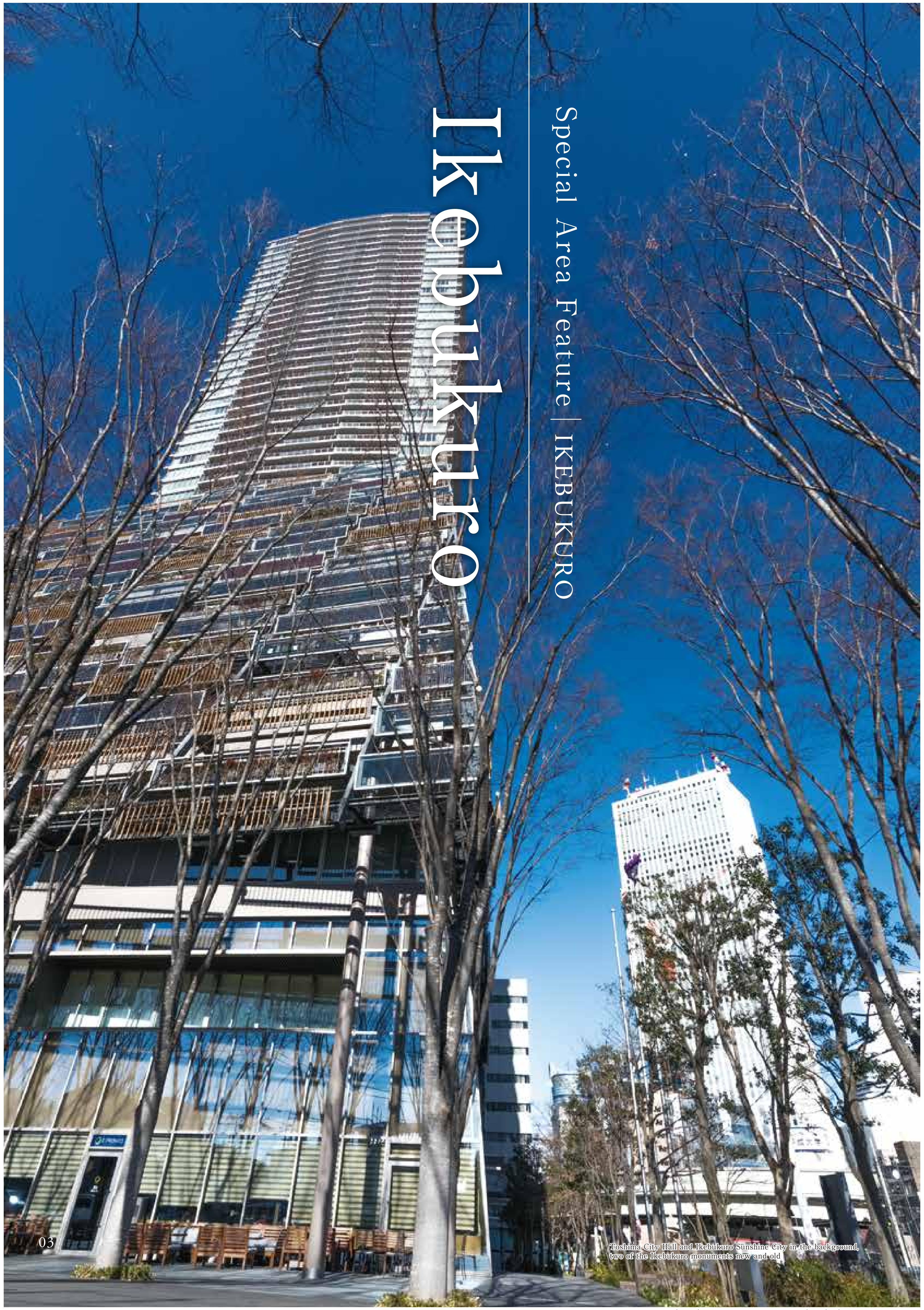
Ikebukuro

Special Area Feature | IKEBUKURO



Toshima City Hall and Ikebukuro Sunshine City in the background, two of the Ikebukuro monuments new and old

Redeveloped and reopened Minami-Ikebukuro Park

Ikebukuro attracts attention as the source of subculture and as an area where redevelopment projects with the focus on its unique characteristics are under way.

Ikebukuro, with a mega terminal where eight railroad lines merge, including JR, private railways, and subway lines, is a city an enormous number of people come and go each day: The number of passengers getting on and off in Ikebukuro Station ranks third in the world. Having the foundation of cultivating art and culture historically, Ikebukuro is a leading cultural powerhouse of Japan where a number of redevelopment projects are currently underway as part of the efforts toward Toshima City's vision of "an international city of arts and culture."

The development of railways and the entry of schools into the area have accelerated the urbanization of Ikebukuro.

Ikebukuro, where a large number of people come and go day and night, used to be a deserted suburban area where a small number of farmhouses dotted a field during the Edo period. It was in the Meiji period that Ikebukuro took the first step toward development. In 1885, Nippon Railway (currently Japan Railways or JR) opened the Shinagawa line that connected Shinagawa Station of the Tokaido Main Line with Akabane Station of the Tohoku Main Line via Shibuya, Shinjuku, and Itabashi. At that time, only a signal station was located in Ikebukuro. It was about two decades later in 1903 that Ikebukuro Station was first built upon the opening of the Toshima Line which linked Ikebukuro up with Tabata. Ikebukuro Station at that time stood all alone in a field, and only a handful of passengers a day used it. Later, Nippon Railway was nationalized and in 1909, the Shinagawa and Toshima Lines were integrated to become the Yamanote line. Tojo Railway (currently Tobu Tojo Line) and Musashino Railway (currently Seibu Ikebukuro Line) were opened to traffic one after another in 1914 and 1915, the area around Ikebukuro Station, however, still remained underdeveloped. The existence of the vast amount of undeveloped land around the station was the very reason why schools such as Tokyo Toshima Normal School, Rikkyo Gakuin (currently Rikkyo University), and Seikei Jitsumu School (currently Seikei University) moved into this area then. Students and their parents helped push up the passenger traffic of the station, and the area became a student town. It was the Great Kanto Earthquake of 1923 that triggered the rapid commercialization of the area around the station and the development of residential areas immediately surrounding it. After the earthquake, many people moved from the eastern part of Tokyo to the area around Ikebukuro. Moreover, the accessibility of the area was enhanced by the completion of today's Yamanote loop line in 1925, leading to further population inflow into the area.

It is said that the name Ikebukuro derives from the area's geographical characteristics: In the Edo period, there were many ponds (ike) in the bag-shaped (fukuro) basin. Along with the modernization of the area, ponds disappeared one by one and the last pond called Maruike dried up after World War II. Now the site of Maruike is turned to Moto- Ikebukuro Historical Park as a vestige of it.

Toward a town that attracts attention while nurturing its own unique culture

In the early Showa period, a movement that suggested the future of Ikebukuro occurred. The region around Ikebukuro was dubbed 'Ikebukuro Montparnasse' by Hideo Oguma, a poet, after the capital of art, Montparnasse, Paris, as young artists flocked in the region of which the atmosphere resembled that of Montparnasse. The movement started from free and inspiring atelier villages that were scattered around the region. While most of them were burnt down during World War II, the spirit of being a base to send out arts and culture still prevails in today's Ikebukuro.
After the war, a big black market emerged in the fire-devastated site around Ikebukuro Station. There were a number of reasons why the black market thrived there. Convenience for transportation made it easy to bring in agricultural produce from farms in the suburbs. Black-market goods could be conveniently sourced from the US forces stationed in Asaka.; And there were many residential communities unscathed from air raids in a hinterland. In the meantime, land readjustment projects were promoted based on the Post-war Reconstruction City Plan, leading to the closure and demolition of the black market in the East Exit district and the construction of a station plaza in 1952. On the other hand, certain parts of the black market in the West Exit district persisted until 1962 when the eviction issue was finally settled. Redevelopment of the West Exit district lagged behind that of the East Exit district while leaving an unsavory impression behind.
During the same period, severe competition erupted among department stores: In 1949, Musashino Department Store that had existed since the prewar period in the East Exit district, was renamed Seibu Department Store. In 1950, Toyoko Department Store (currently Tobu Department Store) opened in the West Exit district. In 1957, Tokyo Marubutsu Department Store (currently Ikebukuro PARCO) and Ikebukuro Mitsukoshi Department Store opened. Thus Ikebukuro area grew rapidly with expansion of its commercial floors. In 1958, amid Japan's economic boom, Ikebukuro was designated as a subcenter of Tokyo by the first National Capital Region Development Plan. As a part of the development of the subcenter, Sunshine City opened in the former site of so-called Sugamo Prison (Tokyo Detention Center impounded by GHQ) in 1978, which attracted much attention.

Toward a theater city where anybody can play the leading role

There were issues to be resolved in the redevelopment of Ikebukuro: Separation between east and west sides across the station due to constant congestion of the passageway; A low level of migration of shoppers into the surrounding stores because they can complete shopping within the station complex comprised of department stores and an underground shopping street; Delay in the development of the West Exit district; Designation of Toshima City (Ward), where Ikebukuro is located, as the only "ward at risk of disappearing" among the 23 special wards of Tokyo.
In 2015, the area surrounding Ikebukuro Station was designated as a Specific Urban Regeneration Maintenance Area and a National Strategic Special Zone. The renewal plan included many city-led projects by Toshima Ward, the first of which was the construction of Toshima Eco-muse (ecology + museum) Town in the same year. This was a development of a new city hall combined with a private high-rise condominium, the first of its kind in Japan, breaking new ground in financing of rebuilding public facilities many municipalities need to accomplish. Now the site of the former city hall together with neighboring sites of the former Toshima Public Hall, civic center, and branch office are being redeveloped as Hareza Ikebukuro, a commercial complex with eight theaters which will be up and open to public one after another starting this year. It is expected to promote the Toshima City's initiative, 'International City of Arts and Culture,' and draw a good crowd.
Planned for completion until next year are installation of an electric bus LRT system that symbolizes environmentally friendly Ikebukuro, development of the largest disaster-damage-prevention park in the city, and renewal of Ikebukuro West Exit Park as a theater park. Moreover, there are such projects under way as plans to develop a deck connecting the west and east districts across Ikebukuro Station, to redevelop Seibu Railway's former Ikebukuro headquarters building as the largest for-rent office building in the area, and the West Exit District Redevelopment plan that involves an area of close to 5.3 ha. Ikebukuro is being transformed into a fun place to visit where every person can play the leading role.


Plaza in front of the Tokyo Metropolitan Theatre, where the West Exit Redevelopment project is being planned

TIPS

Tokiwa-so where many young manga artists lived and nurtured their dreams

Probably many people have heard of the name at least once. Young would-be manga artists gathered from across the country in this wooden apartment building built in 1952 to follow Osamu Tezuka. It was only for two years from 1953 that he actually lived there, but Tezuka frequented it after he moved out. The apartment building turned out many manga artists who represent Japan, such as Shotaro Ishinomori, Fujio Akatsuka, Fujiko Fujio and Hideko Mizuno.

Although Tokiwa-so was demolished and does not exist anymore, its location became a sacred ground for manga artists and many manga fans still make a pilgrimage there. In nearby Minaminagasaki Hanasaki Park, 'Holy Site of Manga Toshima Museum (tentatively named)' will be built next year, where Tokiwa-so will be reproduced in a manner faithful to the original.

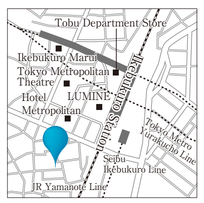

Plates of Manga Artists on the Monument Pedestal (in Minaminagasaki Hanasaki Park)

見 CULTURE

Myonichikan of Jiyu Gakuen

A national important cultural property designed by master architect, Frank Lloyd Wright, which is preserved while kept in use today

Myonichikan built in 1921 as a school building of Jiyu Gakuen truly represents the 'Prairie Style' of Wright, an American architect, during his first golden age. It was saved from imminent damage through World War II and designated as a national important cultural property in 1997. After about three years of preservation and repair works, the building is now open for public viewing (and a tour with tea is available). It is also a popular venue for weddings, concerts, and exhibitions.



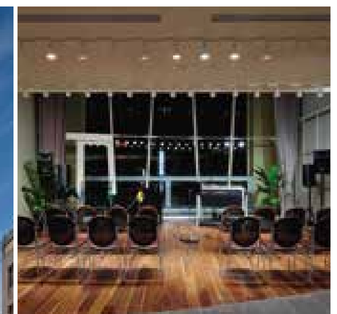
Address 2-31-3, Nishi-ikebukuro, Toshima-ku, Tokyo
Tel +81-3-3971-7535
Open 10:00 a.m. to 16:00 p.m. on Weekdays (last admission at 15:30 p.m.)
Night tour: 18:00 p.m. to 21:00 p.m. on the third Friday of each month (last admission at 20:30 p.m.)
For opening hours on Saturdays, Sundays, and holidays, please contact the office.
URL https://jiyu.jp/

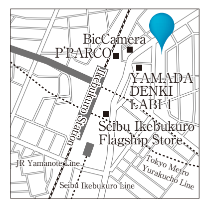
繋 CREATION

WACCA Ikebukuro

Commercial Facility where 26 tenants propose new lifestyles for clothing, food, and housing

In this facility named WACCA (meaning a circle in Japanese) under the concept of "everyday connection," new value and ideas that enrich everyday life can be discovered. A large atrium through the floors renders the building open and airy. In addition to cafés, lifestyle and hobby shops, a culture school, and a club dining space with a kitchen studio, there is a bridal space on the top floor and a pay parking lot for 100 cars in the basement.





Address 1-8-1, Higashi-ikebukuro, Toshima-ku, Tokyo
Tel +81-3-6907-2853 (Main)
Open Shopping floors 11:00 a.m. to 21:00 p.m.
Restaurant floors 11:00 a.m. to 23:00 p.m.
URL http://wacca.tokyo/

PROPERTY MARKET TRENDS

In 2018, while a contract rate of new condominiums floundered due to soaring prices, markets for office, logistics, hospitality, rental condominiums, etc. stayed solid.
Occupancy rates in office, logistics, and hospitality in particular, remain high due to short supply.

While the overall market has been solid owing to inbound customer demand and an increase in companies performing strongly, it is expected to be somewhat destabilized in 2019, due to the uncertainties such as Chinese economy. Overall people's focus is shifting to using properties rather than owing them.

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

PROPERTY MARKET TRENDS 1

J-REIT

J-REIT Market shows vigorous development despite volatile stock markets.

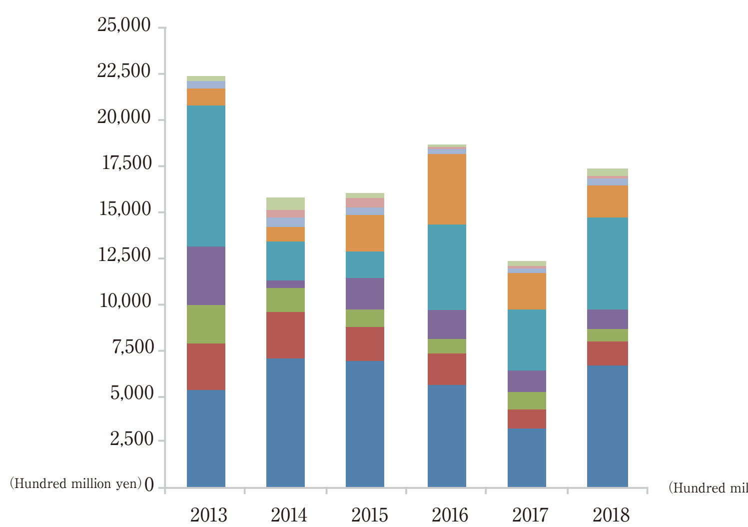
Remarkable trend of IPOs and capital increases by J-REITs in late 2018

The market capitalization of all J-REITs at the end of 2018 was up 3% from the end of June 2018 to reach 12,973.9 billion yen. While stock prices have plunged since October due to a concern about the trade friction between the U.S. and China, investment unit prices (share prices) rose mainly for J-REITs for large-scale office buildings and residential properties underpinned by a booming leasing market, thereby allowing the REIT market to make solid progress in contrast with the stock markets.

Amid this favorable investment environment for J-REITs, Takara Leben Real Estate Investment Corporation, an integrated type REIT, and ITOCHU Advance Logistics Investment Corporation, which specializes in logistics, were listed in July and September, respectively. Also as a result of 14 existing issues conducting stock offerings in the second half of 2018, the number of listed issues increased to 61 and the balance of AUM reached 17,980.0 billion yen. The annual property acquisition amount in 2018 was 1,739.2 billion yen, significantly higher than that of 2017 due to vigorous acquisition of office buildings and logistics facilities in particular. In addition, demand for office buildings has been strong on the back of strong corporate performance, and internal growth from increased occupancy rates and rents has contributed to the earnings.

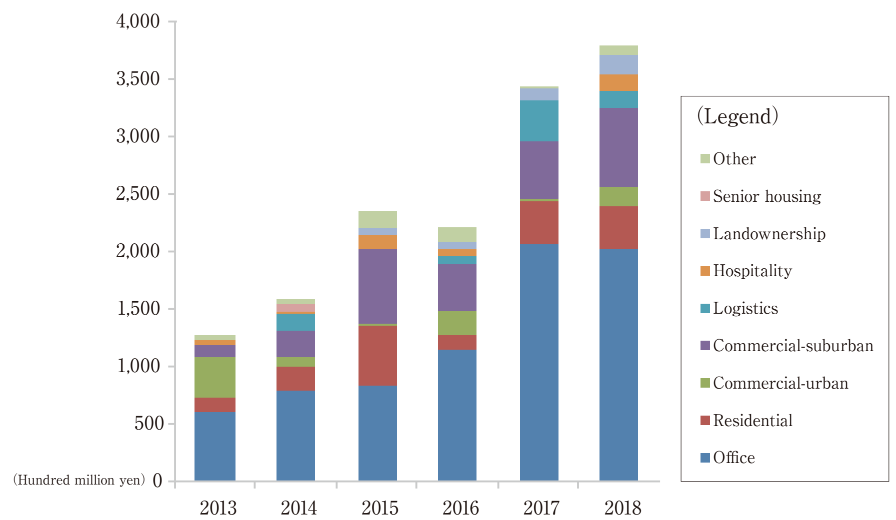
At the same time, J-REITs' move to sell owned properties is accelerating. The annual amount of properties sold for 2018 reached a record high of 378.6 billion yen. As the background for such dispositions, it is pointed out that the cap rate has come down so low due to soaring real estate prices, thus making further acquisition difficult. It can also be pointed out that after a round of increase in rent, the growth speed of J-REITs, which has grown rapidly with Abenomics, may somewhat slow down going forward. As such, there are increasing movements to sell to realize profit at times when they can easily sell at high prices, return capital gains to investors, or reserve them internally to guard against the risk of future declines in earnings. There are also moves to sell residential properties in Osaka and Nagoya areas ahead of anticipated changes in rental market due to population decline and supply increases in the local cities.

Amount of acquisitions by J-REITs



Amount of dispositions by J-REITs

Source: Compiled by IBRC Inc. from the information disclosed by J-REITs



Office

Vacancy rates stay low in Tokyo business districts and major cities across the country.

Vacancy rates are at the 1% level in Tokyo and the 2% level in major cities.

In Tokyo business district (central five wards), the vacancy rate for large-scale office buildings from October to December transitioned down from 2.20%, to 1.98%, and to 1.85%. The rate fell below 2.0% in November, setting the record low for five consecutive months since monthly statistics started. It hit the 1% level for the first time since December 1991, when it was 1.79%. This is largely because vacancies decreased mainly in existing buildings in the central three wards such as Chiyoda ward, whose rate had been at the 2% level, and there were no new supply of buildings in November.

As of December, out of 7,508,000 tsubo of total leaseable space, 141,000 tsubo was vacant. In the same month the previous year, out of 7,336,000 tsubo of total leaseable space, 229,000 tsubo was vacant. There was an increase in leaseable space by 172,000 tsubo, while the vacant office inventory was down by 88,000 tsubo, netting an increase in contract floor of 260,000 tsubo.

Month-by-month vacancy rates from October thru December were 2.19% to 1.98% to 1.92% in Chiyoda-ku, 3.38% to 2.82% to 2.40% in Chuo-ku, 2.13% to 1.97% to 1.78% in Minato-ku, 1.45% to 1.43% to 1.72% in Shinjuku-ku, and 0.92% to 1.06% to 1.24% in Shibuya-ku.

The vacant office inventory as of December was 42,796 tsubo (vs. 63,069 tsubo for the same month previous year) in Chiyoda-ku, 33,479 tsubo (vs. 61,825 tsubo - ditto) in Chuo-ku, 41,260 tsubo (vs. 77,449 tsubo - ditto) in Minato-ku, 16,404 tsubo (vs. 16,757 tsubo - ditto) in Shinjuku-ku, and 7,589 tsubo (vs. 10,099 tsubo - ditto) in Shibuya-ku. The rent was 23,220 yen/tsubo (vs. 21,330 yen/tsubo for the same month previous year) in Chiyoda-ku, 19,032 yen/tsubo (vs. 17,185 yen/tsubo - ditto) in Chuo-ku, 21,058 yen/tsubo (vs. 19,653 yen/tsubo - ditto) in Minato-ku, 18,316 yen/tsubo (vs. 16,539 yen/tsubo - ditto) in Shinjuku-ku, and 22,468 yen/tsubo (vs. 21,219 yen/tsubo - ditto) in Shibuya-ku.

In the Tokyo business district, the ratio of buildings with vacant space was 15.80% down 6.47 points YoY. By ward, it was 20.33% in Chiyoda-ku (down 5.41 points YoY), 13.83% in Chuo-ku (down 7.15 points YoY), 17.04 in Minato-ku (down 6.72 points YoY), 16.00% in Shinjuku-ku (down 4.55 points YoY), and 7.57% in Shibuya-ku (down 8.82 points. YoY). Overall, the ratio of buildings fully occupied remains over 80%, and there is a very strong sense of short supply.

Although vacancy rates in Shinjuku-ku and Shibuya-ku crept up due to the increased rent levels and mismatch between space needs and inventory, the market conditions are still healthy.

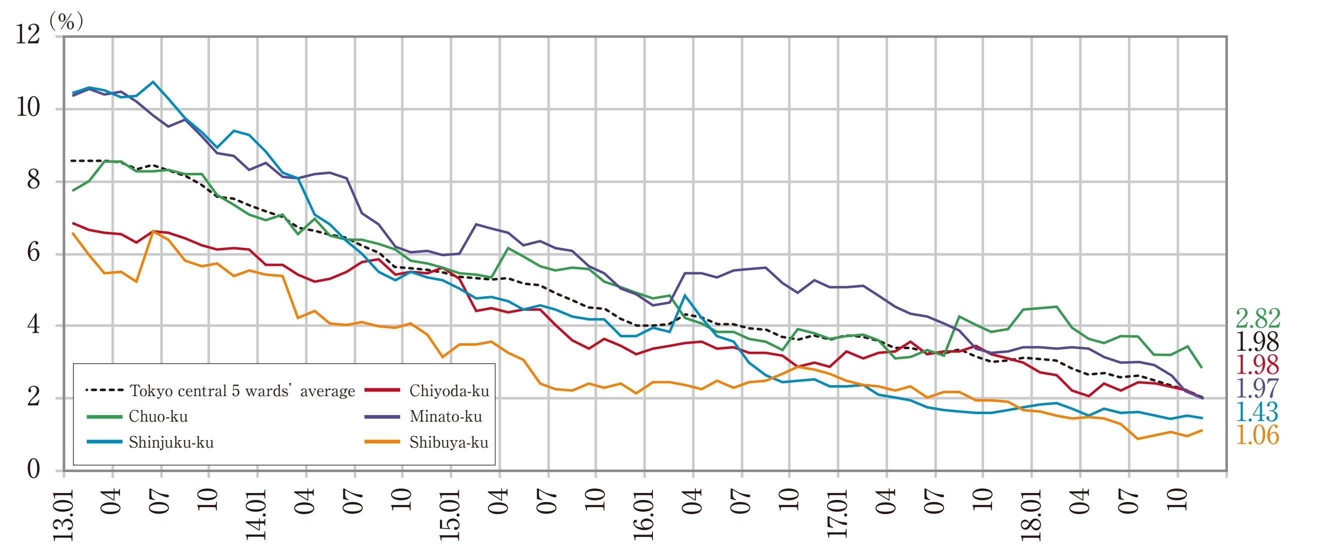
In all major cities but Sendai, vacancy rates as of December were at the 2% level: i.e. 2.33% (2.39% for the same month the previous year) in Sapporo, 4.40% (6.18% - ditto) in Sendai, 2.55% (5.06% - ditto) in Yokohama, 2.72% (4.27% - ditto) in Nagoya, 2.83% (3.68% - ditto) in Osaka, and 2.04% (3.07% - ditto) in Fukuoka. Rents for December were 8,757 yen/tsubo (8,448 yen/tsubo for the same month the previous year) in Sapporo, 9,109 yen/tsubo (8,979 yen/tsubo - ditto) in Sendai, 11,377 yen/tsubo (10,965 yen/tsubo - ditto) in Yokohama, 11,152 yen/tsubo (10,868 yen/tsubo - ditto) in Nagoya, 11,423 yen/tsubo (11,251 yen/tsubo - ditto) in Osaka, and 9,974 yen/tsubo (9,480 yen/tsubo - ditto) in Fukuoka. As shown by the data above, the rent levels are also rising.

The ratio of buildings with vacant spaces was 33.16% in Sapporo (down 6.75 points YoY), 63.79% in Sendai (down 3.16 points), 38.42% in Yokohama (down 6.16 points), 38.69% in Nagoya (down 14.34 points), 50.37% in Osaka (down 5.78 points), and 37.56% in Fukuoka (down 8.16 points). Conversely, the ratio of buildings fully occupied is more than 60% in Sapporo, Yokohama, Nagoya and Fukuoka, proving that regional markets have remained robust.

Supported by a low vacancy rate, rent level continues to rise, and the office market is expected to remain robust for a while.

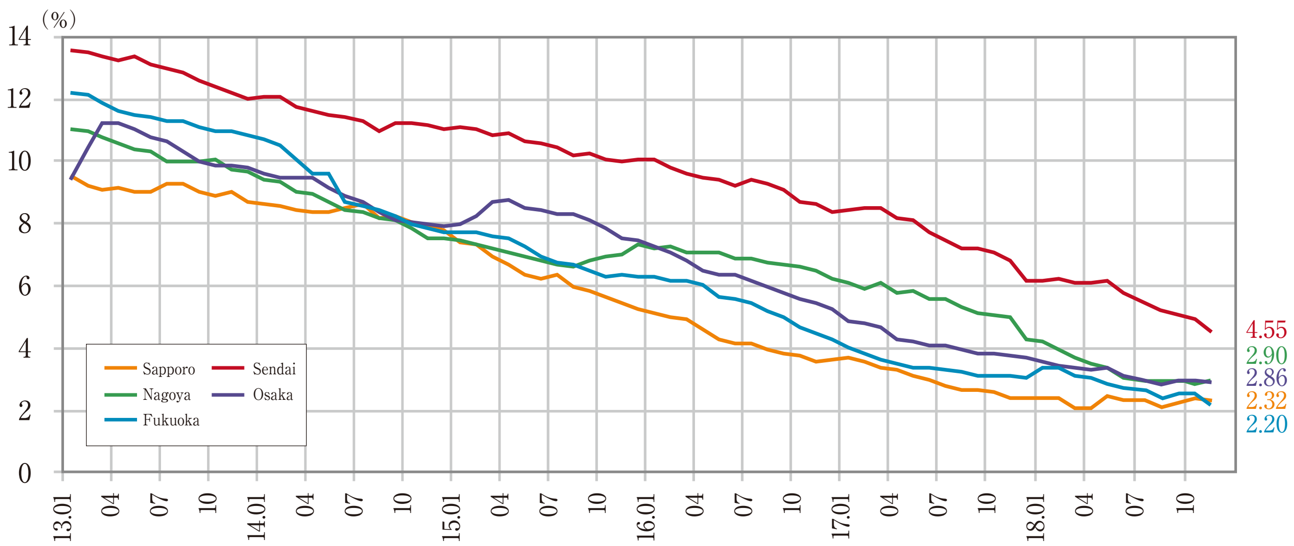
Vacancy rate in Tokyo central five wards

Source: Miki Shoji Co., Ltd.



Vacancy rate in regional cities

Source: Miki Shoji Co., Ltd.



PROPERTY MARKET TRENDS 3

Hospitality

A high level of development activities is sustained nationwide in anticipation of demand outstripping supply.

The number of foreign visitors to Japan in 2018 has reached a record high of 31,192,000 as the inbound demand has expanded.

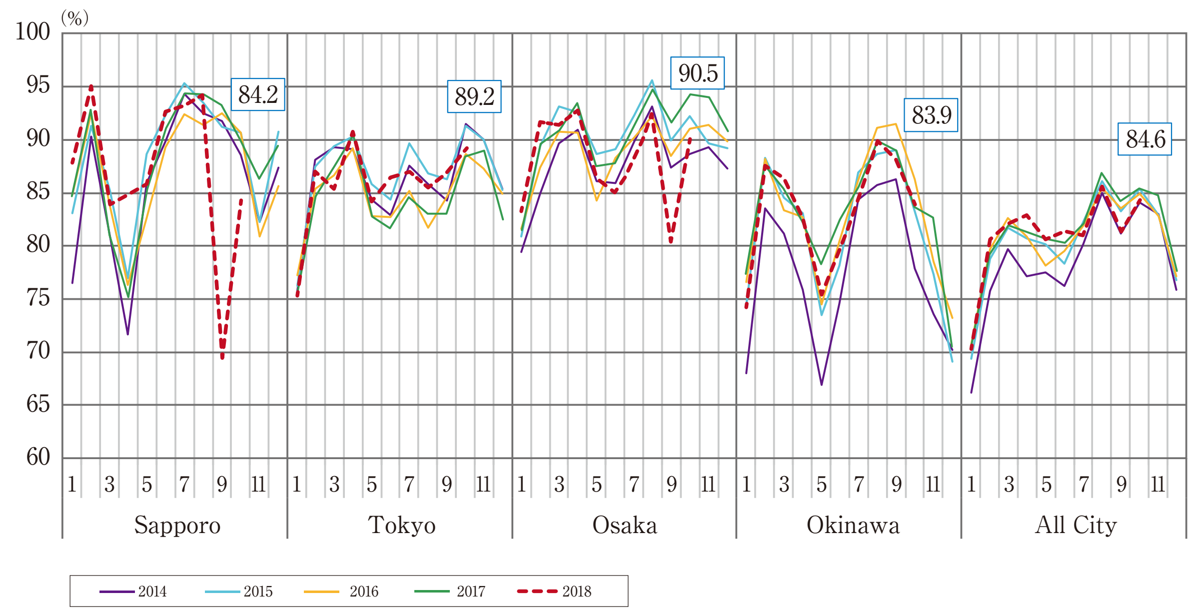
According to Ohta Publications, the hotel occupancy rate for October 2018 averaged at 84.6% (down 0.8 points YoY). It was maintained at a high level in major cities: for example 84.2% in Sapporo, 89.2% in Tokyo, 90.5% in Osaka, and 83.9% in Okinawa.

According to the Japan Tourism Agency, the cumulative total number of guests (in Japan) was 44,480,000 (up 1.5% YoY) for October 2018 and 42,770,000 (up 1.6% YoY) for November. The cumulative total number of Japanese guests was 36,540,000 (up 0.4% YoY) for October and 35,750,000 (0.0% +/- YoY) for November, while the cumulative total number of inbound tourists was 7,950,000 (up 6.9% YoY) for October, the record high since the survey started, and 7,020,000 (up 10.3% YoY) for November. Occupancy rate for business hotels averaged at 78.7% (down 0.1 points YoY) for October and 79.3% (down 0.1 points YoY) for November, while for city hotels it was 82.5% (down 0.3 points YoY) for October and 84.0% (up 1.0 point YoY) for November. As for city hotels, occupancy rate of 90.9% in Hiroshima Prefecture, and that of 87% level in Osaka, Kyoto, and Kanagawa Prefectures are noteworthy. As for business hotels, the rate was 87.4% in Tokyo, and at the 86% level in Okayama, Kyoto and Fukui Prefectures, while as for resort hotels, it was 95.4% in Osaka, and 83.8% in Chiba Prefecture.

There are a total of 75 (identified) hotels that opened in 2018 (mainly consisting of business hotels) including 2 in Hokkaido, 4 in Tohoku, 28 in Tokyo, 8 in Kanto, 2 in Koshinetsu, 7 in Chubu / Tokai, 13 in Kinki, 1 in Hokuriku, 4 in Chugoku, 1 in Shikoku, and 5 in Kyushu / Okinawa. Dominant brands are, APA (14 hotels) and Livemax (20 hotels). The number of hotels scheduled to open in 2019 is 96 including 3 in Hokkaido, 4 in Tohoku, 20 in Tokyo, 14 in Kanto, 3 in Koshinetsu, 6 in Chubu / Tokai, 28 in Kinki, 4 in Hokuriku, 10 in Chugoku, and 4 in Kyusyu / Okinawa. Dominant brands are, APA (13 hotels), Livemax (30 hotels) and Route-inn (23 hotels). Going forward, supply is expected to increase throughout the western part of Japan.

Hotel occupancy rate

Source: Ohta Publications



PROPERTY MARKET TRENDS 4

Commercial

Despite healthy sales by F&B and service tenants, anchors still suffer

Sales figures for October and November 2018 slowed due to sluggish sales of winter clothes

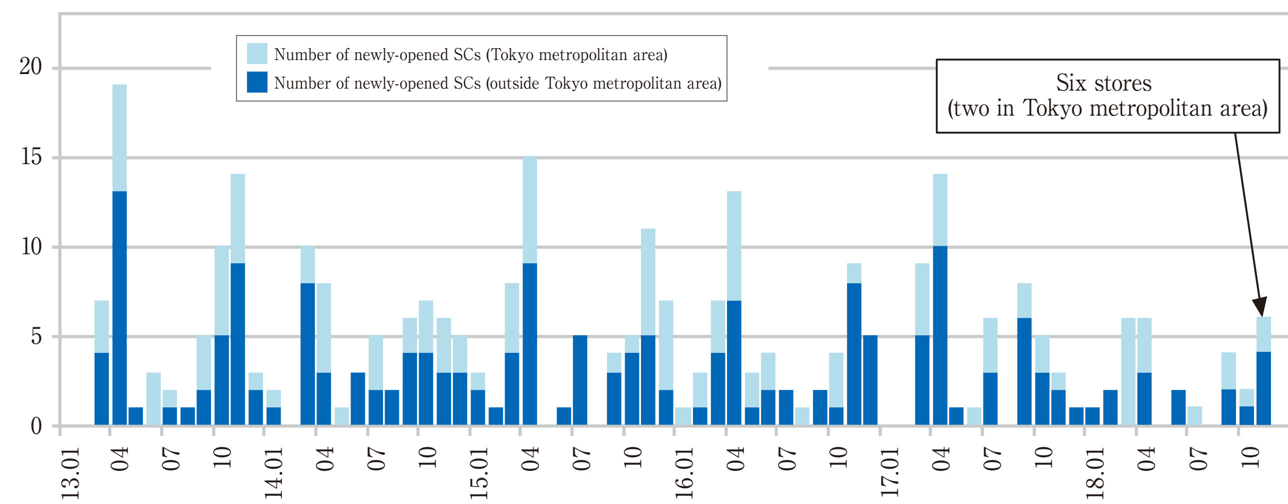
According to the Japan Council of Shopping Centers (JCSC), sales figures at SC's on the existing same store basis were depressed across the nation at approximately 512.7 billion yen for October (down 1.0% YoY for overall sales, down 0.8% for tenants' portion, down 2.0% for anchors' portion) and approximately 547.5 billion yen for November (down 0.5% YoY for overall sales, down 0.1% for tenants' portion, down 2.5% for anchors' portion), recording a downtrend YoY for two consecutive months. Women's apparel for the Fall / Winter season did not sell as much as expected due to relatively warm weather, while F&B and service sectors fared well.

In the following month of December, however, sales figures rose YoY for the first time in three months to approximately 642.8 billion yen, (up 1.4% YoY for overall sales, up 2.1% for tenants' portion, down 1.1% for anchors' portion). This is mainly attributed to the increased traffic due to the following factors. First, there was one more holiday than the previous year. Secondly, there was a 3-day weekend before Christmas. Lastly, SCs with cinema complexes were blessed with hit movies. A drop in temperature since the mid-month also led to an increase in sales of heavy winter clothing. As far as type of industry is concerned, F&B and service sectors continued to be strong.

A total number of newly opened SCs in 2018 was 37, with 18 in Tokyo metropolitan area, 4 in Tohoku, 4 in Chubu, 6 in Kinki, 2 in Chugoku, and 3 in Kyusyu and Okinawa, falling below 48 in 2017, 54 in 2016, and 60 in 2015. Out of them, SCs with the floor area of more than 30,000 m2 were nine: Aeon Mall Zama (50,000 m2) in March, THE OUTLETS HIROSHIMA (by Aeon Mall, 53,000 m2) and Corowa Koshien (by Mitsubishi Estate, 30,000 m2) in April, Aeon Mall Iwakionahama (50,000 m2) in June, LaLaport NAGOYA minato AQULS (by Mitsui Fudosan, 60,000 m2) in September, Nihonbashi Takashimaya S.C. (66,000 m2) and Tachikawa Takashimaya S.C. (approx. 33,000 m2) in October, Aeon Mall Tsuminami (60,000 m2) and MARK IS fukuoka-momochi (by Mitsubishi Estate, 48,000 m2) in November. On the whole, developments of community-based and medium-sized SCs were dominant.

Number of stores/Newly opened SCs

Source: Japan Council of Shopping Centers



PROPERTY MARKET TRENDS 5

Logistics

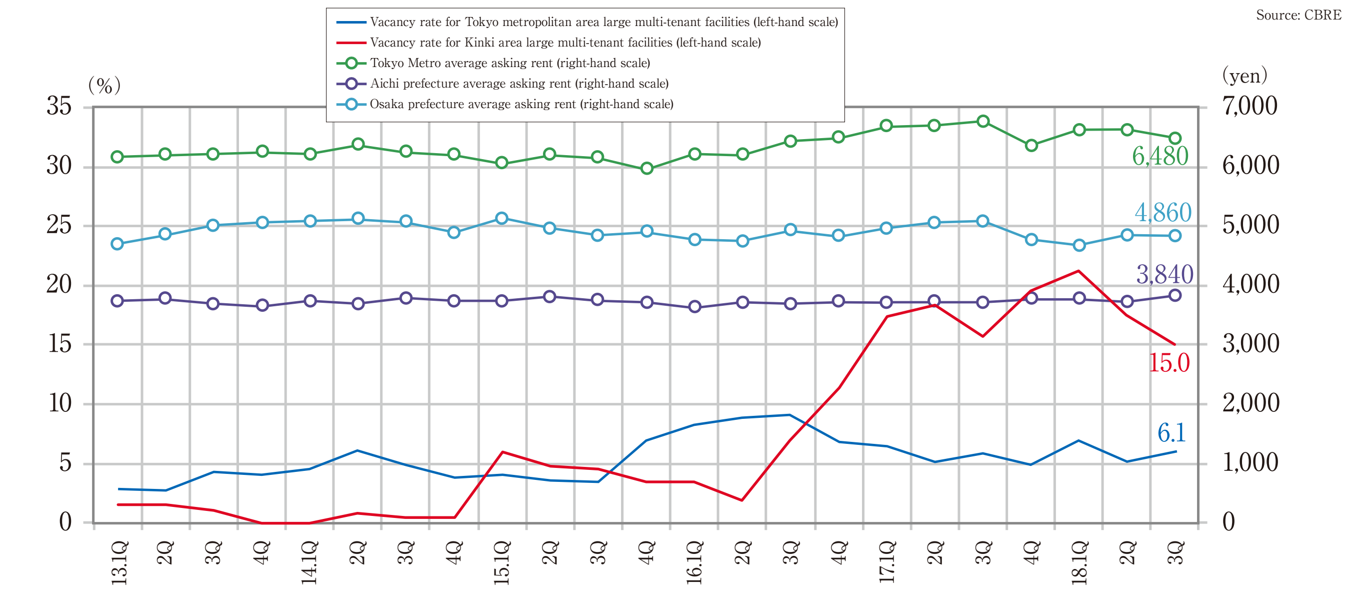
Demand for logistics facilities was robust amid a large new supply in Tokyo metropolitan area in 2018.

Stability is restored in Kinki region, while the state of growing excess demand will persist in Tokyo metropolitan area in 2019

Vacancy rate of large multi-tenant logistic facilities (LMTs) in Tokyo metropolitan area was 6.9% for 1Q 2018 (up 2.0 points from the previous quarter), 5.3% for 2Q 2018 (down 1.6 points from the previous quarter), and 6.1% for 3Q 2018 (up 0.8 points from the previous quarter). Although the vacancy rate for 3Q increased by 0.8 points, demand remains firm, as shown by the following facts. (1) Available space in existing properties has been steadily absorbed. (2) Two buildings completed in the current term came on line fully committed.
As for Tokyo Bay area, vacancy rate and effective rent are 2.9% (up 0.1 points from the previous quarter) and 6,740 yen/tsubo (up 2.0% from the previous quarter) respectively, and this submarket is expected to stay strong due to a high level of demand. In Tokyo Outer Ring Road area, vacancy rate and effective rent are 1.5% (down 0.8 points from the previous quarter) and 4,810 yen/tsubo (up 0.2% from the previous quarter) respectively, and a scarcity of LMTs especially will be felt for the time being because of a lack of available space. In Route 16 area, vacancy rate and effective rent are 2.1% (up 0.3 points from the previous quarter) and 4,090 yen/tsubo (up 0.2% from the previous quarter) respectively, and demand is very high because several new bldg.'s are fully committed already while there is a new supply of approximately 400,000 tsubo by the end of 2019. In the Metropolitan Inter-City Expressway area, vacancy and effective rent are 21.2% (up 3.1 points from the previous quarter) and 3,270 yen/tsubo. As leasing of a new supply of 54,000 tsubo coming on line next term has steadily progressed, vacancy rate in this submarket will presumably come down.
Several LMTs in Tokyo metropolitan area are fully occupied and the market condition in 2019 will continue to be solid, although there is a record new supply of approximately 206,000 tsubo in Q1.
In Kinki region, vacancy rate of LMTs during 2018 was 21.2% for 1Q, 17.5% for 2Q, and 15.0% for 3Q respectively. New demand was 69,000 tsubo, the third largest since the survey started in 2007. The effective rent averaged at 3,480 yen/tsubo, though there are two opposite movements. In areas where there is little vacancy, rents are rising, while market rents in areas and properties with prolonged vacancies tend to weaken.

Vacancy rate and asking rent of logistic facilities

Source: CBRE



*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: Tokyo Bay submarket represents the bay area in Tokyo Metro, 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 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

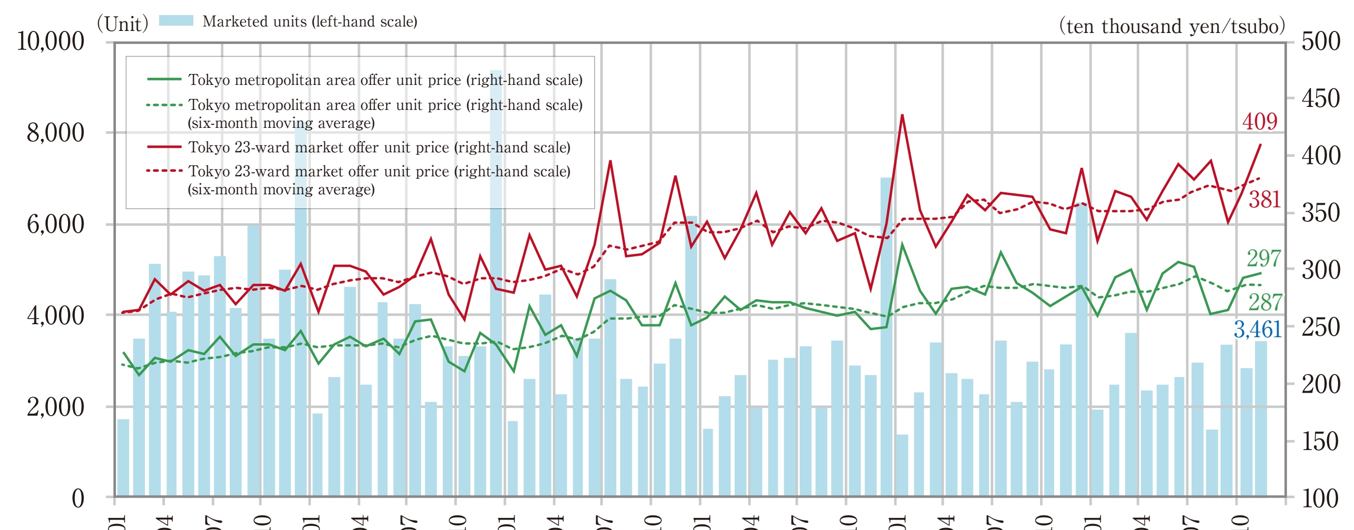
In Tokyo metropolitan area, the market for newly-built condominium units remained sluggish due to high level of pricing in 2018.

Drastic measures such as adjustment in price should be taken for the weak first-time buyer market to recover.

According to Real Estate Economic Institute Co., Ltd., the supply volume of condominiums for 2018 was 37,132 units (up 3.4% YoY) in Tokyo metropolitan area, an increase for the second consecutive year. The average contract ratio in the release month of new condominium projects was weak at 62.1%, down 6.0 points YoY, standing at the 60% level for the third consecutive year. Average price and unit price per tsubo were 58,710,000 yen (down 0.6% YoY) and 2,873,000 yen (up 1.2% YoY) respectively. Contract ratio in the release month of new condominium projects has been below 60% since November and there has been no sign of a last-minute rise in demand in anticipation of a consumption tax hike. As a result, the number of inventory at the end of December was 9,552 units, the largest in the past 10 years, and an increase of 2,446 units YoY.
Although the same level of annual supply is forecast at about 37,000 units for 2019 again, there could be a downward adjustment due to concerns about poor sales as unit prices both within and outside 23 Wards of Tokyo keep inching up. In order to maintain or expand the supply volume, a measure (price adjustment) should be implemented so that first-time buyers can purchase outside the 23 wards area.
According to Real Estate Information Network for East Japan, the number of closed contracts for existing condominiums in 2018 was 37,217 (down 0.3% from the previous year) in Tokyo metropolitan area, showing a good level above 37,000 units for three consecutive years despite a decline from the previous year for the first time in four years. Average unit price per tsubo and average price of units contracted were 1,706,000 yen (up 3.2% from the previous year) and 33,330,000 yen (up 4.3% from the previous year) respectively, both marking annual increases for 6 years in a row. Average unit area and age of them were 64.60 m2 (up 1.1% from the previous year) and 21.0 years respectively. The number of newly listed properties was 206,901 (up 6.7% from the previous year), exceeding a 200,000 level for the first time. Average listing price increased roughly 2% over the previous year to 32,130,000 yen (57 m2, 1,861,000 yen per tsubo), while average age rose to 24.6 years as a larger number of older condominiums were hitting the market.
According to Tokyo Kantei Co., Ltd., average rent for condominiums was 11,573 yen/tsubo, up 5.3% from the previous year, in Tokyo 23-ward market as the share of newly built properties exceeded 10% in the first half of 2018, and was 9,123 yen/tsubo, up 4.0% from the previous year in the entire metropolitan area.

Newly built condominiums in Tokyo metropolitan area (number of units marketed, unit price)

Source: Real Estate Economic Institute Co., Ltd.



Market trend of investment real estate in 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, Chiyoda-ku, Shinjuku-ku, Chuo-ku, Bunkyo-ku	Shinagawa-ku, Setagaya-ku, Meguro-ku, Ota-ku	Suginami-ku, Itabashi-ku, Nakano-ku, Kita-ku, Nerima-ku, Taito-ku, Toshima-ku	Koto-ku, Edogawa-ku, Sumida-ku, Katsushika-ku, Arakawa-ku, Adachi-ku	Yokohama-shi, Kawasaki-shi

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 2Q 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 (en-bloc residential / office buildings, and for-rent apartment bldg.'s)
・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 areas

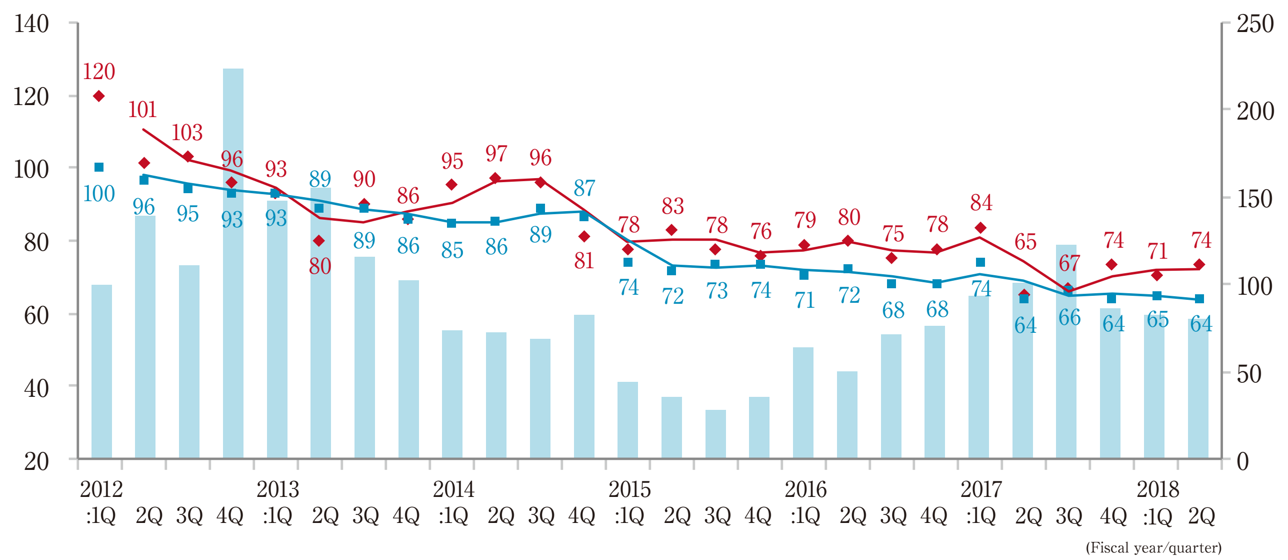
*Tokyo central submarket Minato-ku, Chiyoda-ku, Chuo-ku, Shibuya-ku, Shinjuku-ku, and Bunkyo-ku

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

Aggregate value for 2Q 2018

(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)

(Index: 2012: 1Q=100 ■ closed contracts)



Compared with the previous period (1Q 2018)

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

Average gross yield based on asking price	This period	Previous period	Change
	64	65	−1.1pt

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	Yamabuki-cho, Shinjuku-ku	186.80 million yen	5.0%	En-blocresidential	83.80 sqm	212.78 sqm	Steel frame	2008
2	Higashienoki-cho, Shinjuku-ku	417.00 million yen	5.8%	Office building	256.18 sqm	676.77 sqm	Reinforced concrete	1986
3	3 Chome, Ebisu, Shibuya-ku	458.00 million yen	4.1%	Office building	154.45 sqm	448.39 sqm	Reinforced concrete	2008
4	3 Chome, Shiroganedai, Minato-ku	598.00 million yen	4.6%	En-bloc residential	326.26 sqm	485.96 sqm	Reinforced concrete	1985
5	3 Chome, Yoyogi, Shibuya-ku	870.00 million yen	4.2%	En-bloc residential	302.94 sqm	731.26 sqm	Reinforced concrete	2019
Average data		505.96 million yen	4.7%		224.73 sqm	511.03 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	Nakai, Shinjuku-ku	143.00 million yen	5.5%	En-bloc residential	Approx. 167 sqm	Approx. 258 sqm	Lightweight steel frame	2005	2018/8
2	Kasuga, Bunkyo-ku	150.00 million yen	5.3%	En-bloc residential	Approx. 112 sqm	Approx. 249 sqm	Reinforced concrete	1986	2018/9
3	Kita-shinjuku, Shinjuku-ku	240.00 million yen	6.8%	Office building	Approx. 129 sqm	Approx. 520 sqm	Reinforced concrete	1987	2018/7
4	Higashi-nihonbashi, Chuo-ku	550.00 million yen	5.7%	Office building	Approx. 188 sqm	Approx. 989 sqm	Reinforced concrete	1988	2018/9
5	Nihonbashi Kobunacho, Chuo-ku	600.00 million yen	5.2%	Office building	Approx. 181 sqm	Approx. 865 sqm	Steel frame & reinforced	1990	2018/9
Average data		336.60 million yen	5.7%		−	−			

The number of transactions continues to decrease slightly after recovering once to a level seen a year and a half ago. It is one of the characteristics of this submarket, however, there is usually pent-up demand relatively high and that there are a large number of deals unrealized. A credit squeeze due to the scandal over investment schemes on communal apartment buildings may be starting to gradually affect the central areas, too.

Since there is a large purchase demand, gross yields based on asking prices tend to remain low (or prices remain high) in the central areas. But the spread between gross yields based on contract prices and ones based on asking prices is widening lately (as a result of downward trend in contract prices and an growing pricing gap between sellers and buyers), which may have possibly led to a declining number of closed contracts.

Since purchase demand is extremely high, sudden market changes are unlikely to occur in this submarket which has been levelling off after peaking in 3Q 2017. Careful attention is warranted as to the future market condition here.

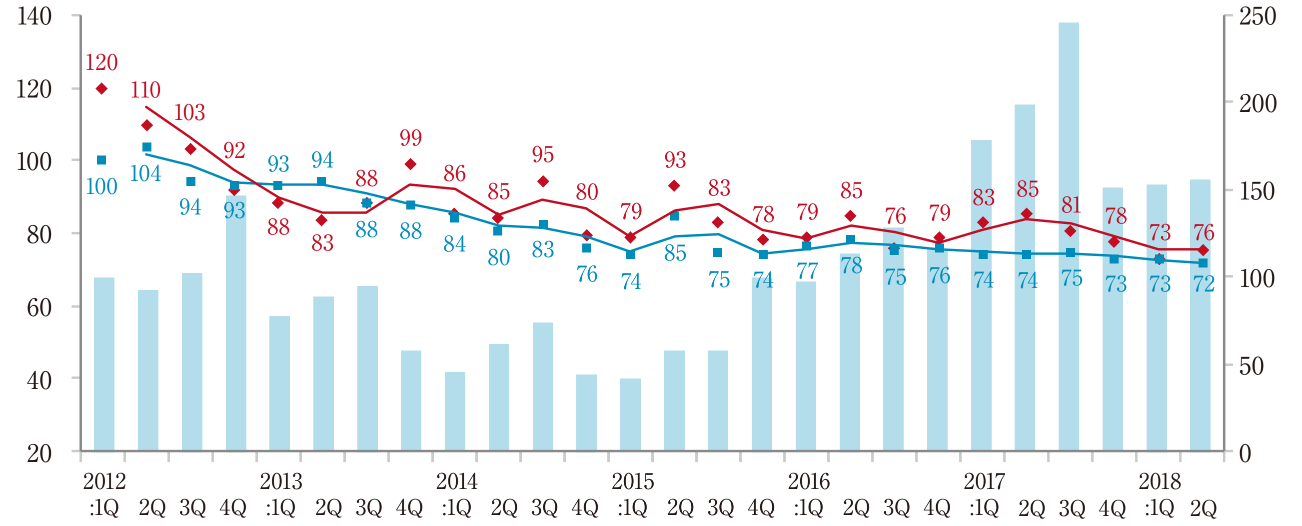
Tokyo South area

*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

Aggregate value for 2Q 2018

(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) (Index: 2012: 1Q=100 ■ closed contracts)



(Fiscal year/quarter)

Compared with the previous period (1Q 2018)

Average gross yield based on contract price	This period	Previous period	Change
	76	73	+2.3pt

Average gross yield based on asking price	This period	Previous period	Change
	72	73	−0.7pt

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, Taira-machi, Meguro-ku	167.00 million yen	5.5%	En-bloc residential	118.33 sqm	236.73 sqm	Reinforced concrete	1990
2	1 Chome, Shinkamata, Ota-ku	285.00 million yen	5.4%	En-bloc residential	277.45 sqm	576.98 sqm	Steel frame	1999
3	2 Chome, Ohashi, Meguro-ku	397.00 million yen	4.1%	En-bloc residential	196.99 sqm	344.49 sqm	Reinforced concrete	2018
4	5 Chome, Taishido, Setagaya-ku	514.00 million yen	4.5%	En-bloc residential	273.26 sqm	163.94 sqm	Reinforced concrete	2019
5	7 Chome, Ikegami, Ota-ku	698.00 million yen	5.6%	En-bloc residential	754.63 sqm	1,396.75 sqm	Reinforced concrete	1988
Average data		412.20 million yen	5.0%		324.13 sqm	543.78 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	Kitami, Setagaya-ku	135.00 million yen	6.0%	En-bloc residential	Approx. 115 sqm	Approx. 268 sqm	Reinforced concrete	2009	2018/7
2	Kitazawa, Setagaya-ku	165.00 million yen	5.2%	En-bloc residential	Approx. 203 sqm	Approx. 291 sqm	Reinforced concrete	1988	2018/7
3	Nakanobu, Shinagawa-ku	270.00 million yen	5.2%	En-bloc residential	Approx. 286 sqm	Approx. 418 sqm	Steel frame	2011	2018/8
4	Kyuden, Setagaya-ku	385.00 million yen		En-bloc residential	Approx. 635 sqm	Approx. 1,071 sqm	Reinforced concrete	1983	2018/7
5	Taira-machi, Meguro-ku	525.00 million yen	4.7%	En-bloc residential	Approx. 414 sqm	Approx. 436 sqm	Reinforced concrete	1990	2018/9
平均データ		29,600万円	5.3%		−	−			

In Tokyo South submarket, a gap between average gross yield based on asking price and average gross yield based on contract price has narrowed since its peak in 2Q 2017, as market price views by sellers and buyers are converging, and the number of closed contracts has been trending upward accordingly.

Lenders attitude toward investment properties is considered as one of the key factors affecting future market trend. Unfortunately, they are cautious these days, so there will be certain impact on property transaction prices going forward. Although demand for high-quality investment properties remains persistent, those properties in the price range from around 200 million yen to 400 million yen, for which buyers are highly likely to need loans, may be affected to some extent.

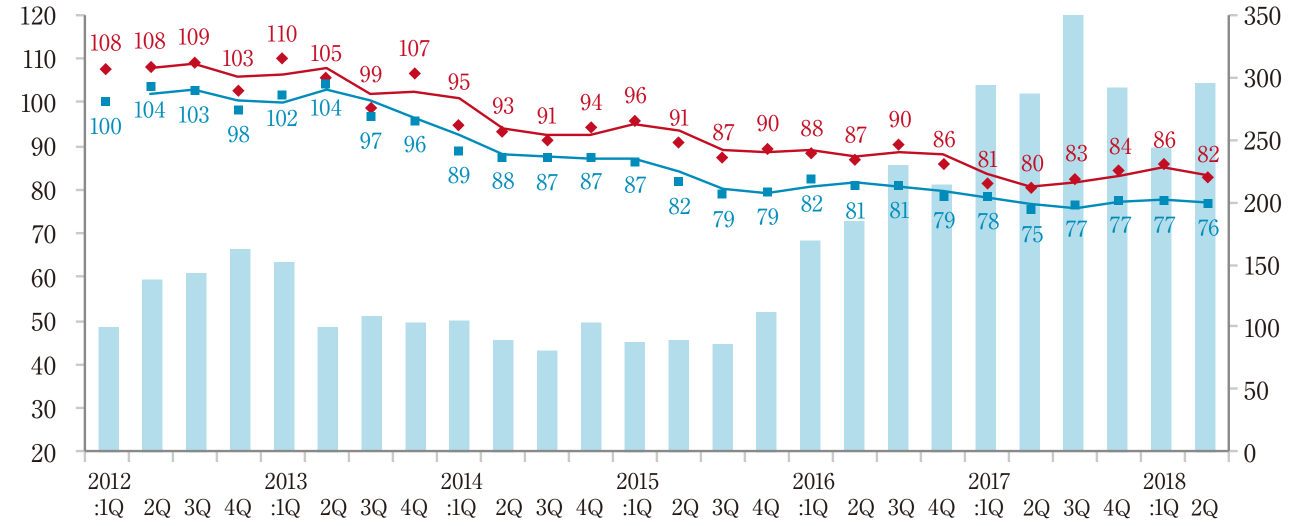
Tokyo West and North areas

*Tokyo West and North submarket: Suginami-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

Aggregate value for 2Q 2018

(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) (Index: 2012: 1Q=100 ■ closed contracts)



(Fiscal year/quarter)

Compared with the previous period (1Q 2018)

Average gross yield based on contract price	This period	Previous period	Change
	82	86	−3.3pt

Average gross yield based on asking price	This period	Previous period	Change
	76	77	−0.5pt

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	1 Chome, Kamishakujii, Nerima-ku	92.80 million yen	6.5%	Apartment building	173.00 sqm	207.30 sqm	Wood frame	2003
2	3 Chome, Saginomiya, Nakano-ku	117.00 million yen	5.5%	Apartment building	122.36 sqm	122.08 sqm	Wood frame	2017
3	1 Chome, Nagasaki, Toshima-ku	119.90 million yen	6.0%	Office building	93.70 sqm	222.62 sqm	Steel frame	1987
4	Futaba-cho, Itabashi-ku	238.00 million yen	6.1%	En-bloc residential	467.04 sqm	554.40 sqm	Steel frame	1987
5	5 Chome, Asagaya-kita, Suginami-ku	328.00 million yen	5.6%	En-bloc residential	429.28 sqm	688.79 sqm	Reinforced concrete	1988
Average data		179.14 million yen	5.9%		257.08 sqm	359.04 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	Oyaguchi, Itabashi-ku	52.00 million yen	7.2%	Apartment building	Approx. 80 sqm	Approx. 81 sqm	Wood frame	1989	2018/9
2	Nishigahara, Kita-ku	115.50 million yen	7.3%	Apartment building	Approx. 181 sqm	Approx. 184 sqm	Wood frame	2012	2018/7
3	Miyamae, Suginami-ku	141.00 million yen	7.6%	En-bloc residential	Approx. 198 sqm	Approx. 466 sqm	Reinforced concrete	1988	2018/8
4	Matsugaoka, Nakano-ku	260.00 million yen	5.2%	En-bloc residential	Approx. 131 sqm	Approx. 429 sqm	Reinforced concrete	2014	2018/8
5	Fujimidai, Nerima-ku	825.00 million yen	6.0%	En-bloc residential	Approx. 1,359 sqm	Approx. 2,314 sqm	Reinforced concrete	1991	2018/7
Average data		278.70 million yen	6.7%		−	−			

Since 2Q 2017, average gross yield based on contract price was showing an upward trend (or a downward trend for contract prices) until 2Q 2018, when it declined (or an increase in contract prices) with a quarter-on-quarter increase in number of closed contracts at the same time. This indicates probably that supply-demand equilibrium is relatively stable, and that steady demand remains solid for newer properties and / or properties in good locations.

However, lenders are getting more cautious about investment properties recently, which is affecting transactions for older properties and wood-frame apartment buildings in lesser locations. Thus, it is necessary to carefully watch future developments in this submarket as well.

Tokyo East area

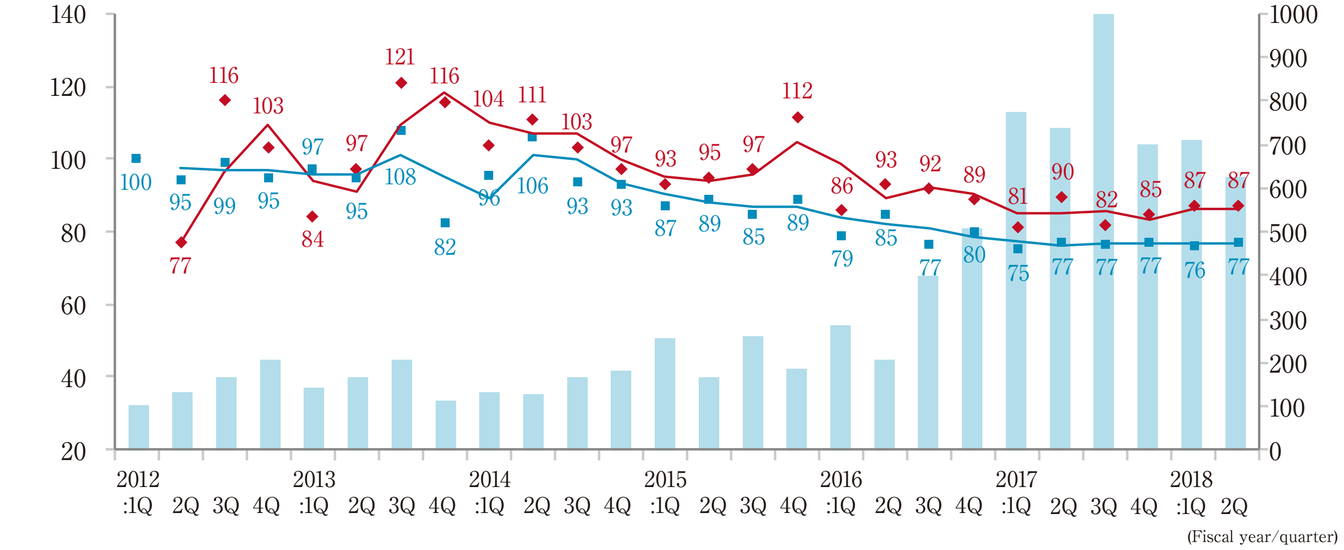
*Tokyo East submarket: Koto-ku, Sumida-ku, Arakawa-ku, Edogawa-Ku, Katsushika-ku, Adachi-ku

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

Aggregate value for 1Q 2018

(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)

(Index: 2012: 1Q=100 ■ closed contracts)



Compared with the previous period (1Q 2018)

Average gross yield based on contract price	This period	Previous period	Change
	87	87	+0.2pt

Average gross yield based on asking price	This period	Previous period	Change
	77	76	+1.2pt

Brokered transactions of investment real estate in certain neighborhoods

[For sale properties]

※一部抜粋

No	Location	Asking price	Gross yield	Type	Land area	Building area	Structure	Year of completion
1	6 Chome, Ojima, Koto-ku	97.50 million yen	6.8%	Apartment building	101.93 sqm	180.39 sqm	Wood frame	2019
2	1 Chome, Nishi-kasai, Edogawa-ku	108.00 million yen	8.0%	En-bloc residential	76.74 sqm	178.73 sqm	Steel frame	1991
3	1 Chome, Higashi-komagata, Sumida-ku	124.80 million yen	5.6%	En-bloc residential	66.07 sqm	176.76 sqm	Steel frame	2017
4	4 Chome, Higashi-yotsugi, Katsushika-ku	160.00 million yen	6.7%	En-bloc residential	223.93 sqm	278.22 sqm	Steel frame	2017
5	2 Chome, Yahiro, Sumida-ku	328.00 million yen	6.3%	En-bloc residential	530.71 sqm	758.38 sqm	Reinforced concrete	1988
	Average data	163.66 million yen	6.7%		199.88 sqm	314.50 sqm		

[Sold properties]

※一部抜粋

No	Location	Price range of closed contracts	Gross yield	Type	Land area	Building area	Structure	Year of completion	Date of contract
1	Nishiogu, Arakawa-ku	83.00 million yen	8.2%	En-bloc residential	Approx. 185 sqm	Approx. 196 sqm	Steel frame	1978	2018/9
2	Yahiro, Sumida-ku	91.50 million yen	9.0%	En-bloc residential	Approx. 129 sqm	Approx. 309 sqm	Reinforced concrete	1977	2018/9
3	Oshiage, Sumida-ku	104.00 million yen	7.5%	En-bloc residential	Approx. 109 sqm	Approx. 284 sqm	Steel frame	1978	2018/7
4	Ohanajaya, Katsushika-ku	130.00 million yen	7.6%	En-bloc residential	Approx. 228 sqm	Approx. 406 sqm	Steel frame	1986	2018/7
5	Shiomi, Koto-ku	182.00 million yen	6.1%	Apartment building	Approx. 138 sqm	Approx. 220 sqm	Wood frame	2018	2018/9
	平均データ	118.10 million yen	7.7%		–	–			

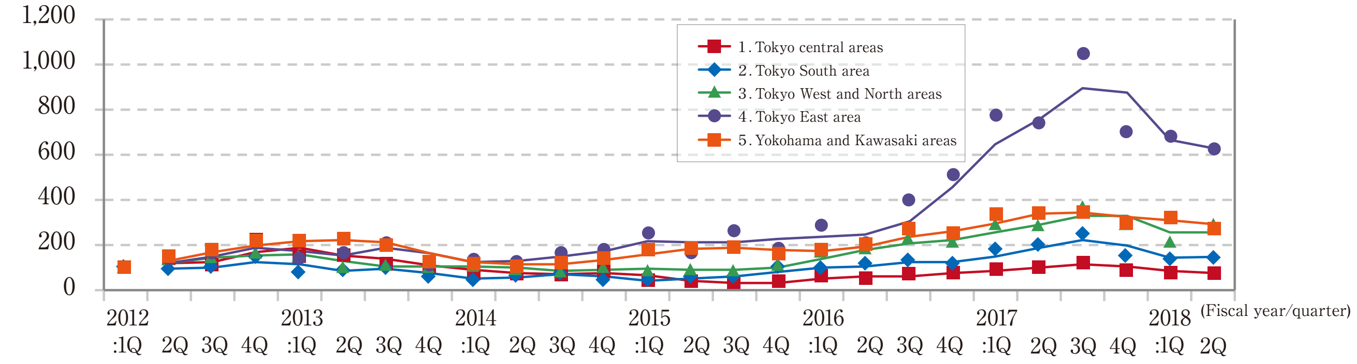
Even Tokyo East submarket, which boasts of the largest number of closed contracts among all submarkets, started to show reversal of its growth trend after 2018.
Transactions of properties in the price range of 50 million to around 150 million yen, a majority of which in this submarket are wood-frame apartment buildings, seems to be impacted most by the recent tightening up on credit by financial institutions.

Supply of newly built properties in such price range started to show a sign of slowing down as well.
On the other hand, properties in commercial areas or in the proximity of stations are still picked up in the high price zone by developers and investors. The disparity among classes of properties within the submarket is widening here.

General overview

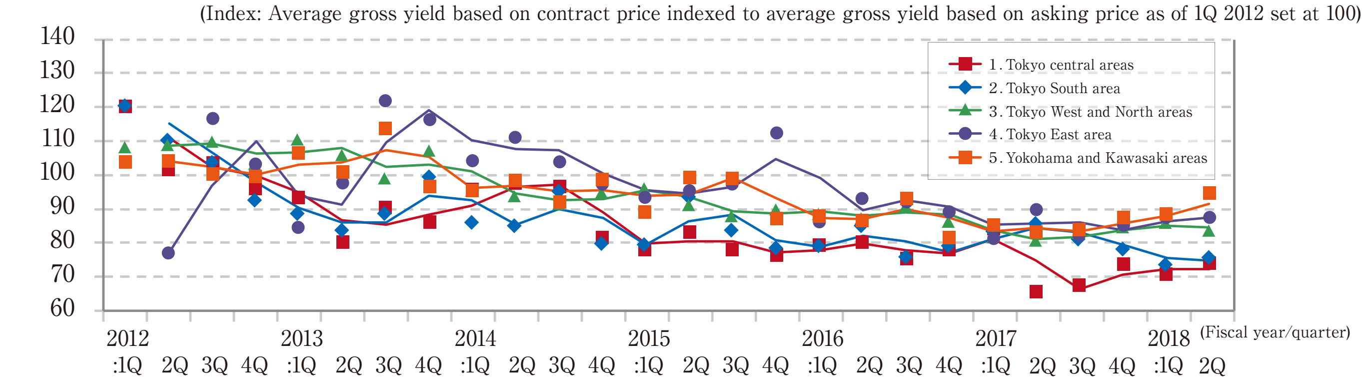
Trend in the number of closed contracts by submarkets

(Index: Number of closed contracts as of 2012 1Q set at100 closed)



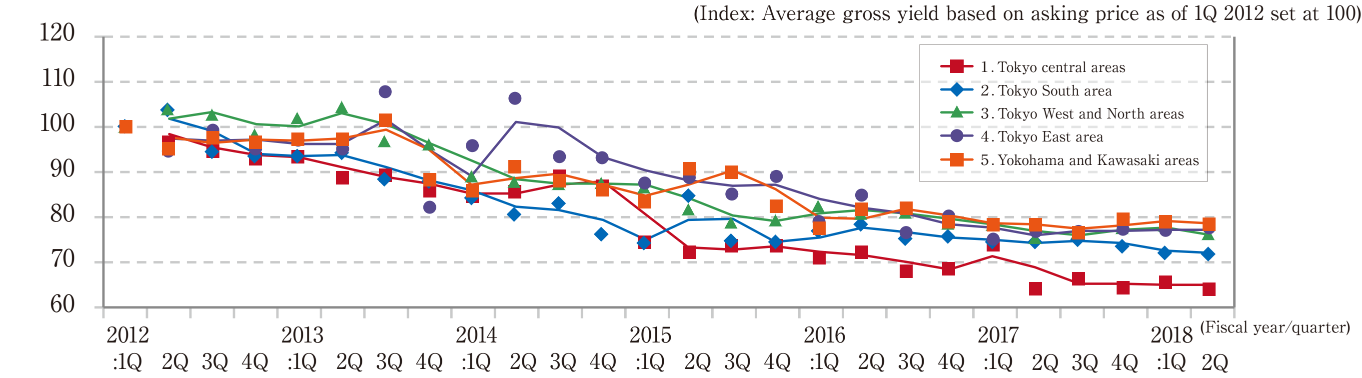
Trend in average gross yield based on contract price by submarkets

(Index: Average gross yield based on contract price indexed to average gross yield based on asking price as of 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)



In 2Q 2018, investment property market seems to be affected by problems such as credit squeeze due to the scandal over investment schemes on communal apartment buildings after most likely peaking out in 2Q thru 3Q of 2017.

Overall property lenders scrutinize property attributes more strictly now (such as rent levels, leasing status, legal compliance, etc.), and loan to value ratio is set lower than before accordingly. However, this adjustment may be a change in right direction from overaggressive lending before, and lenders are still positive about income property loans while just examining collaterals more closely.

According to a market survey with a few dozens of business clients conducted by our company, some respondents expect an upward trend in market further from an already heightened level now because of the consumption tax hike scheduled for October 2019 and the 2020 Tokyo Olympic Games, while others, on the contrary, have a different view that there will be an adjustment in market conditions. The market will shift from the one which has been 'favorable across the board' so far to the one which is bipolarized in pricing depending on such factors as geographical areas and property attributes, etc. It will be prudent to watch closely market and economic conditions from now on.

The latest data is regularly updated on our website. **https://pro.mf-realty.jp/marketReport/**