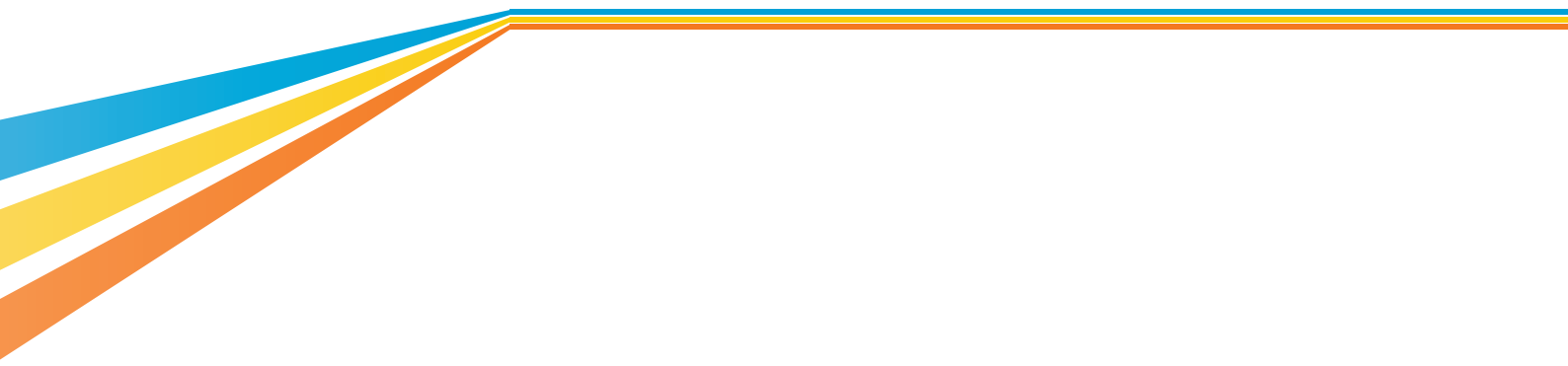




KENZO JAPAN REAL ESTATE



Market Outlook Japan

December 2013

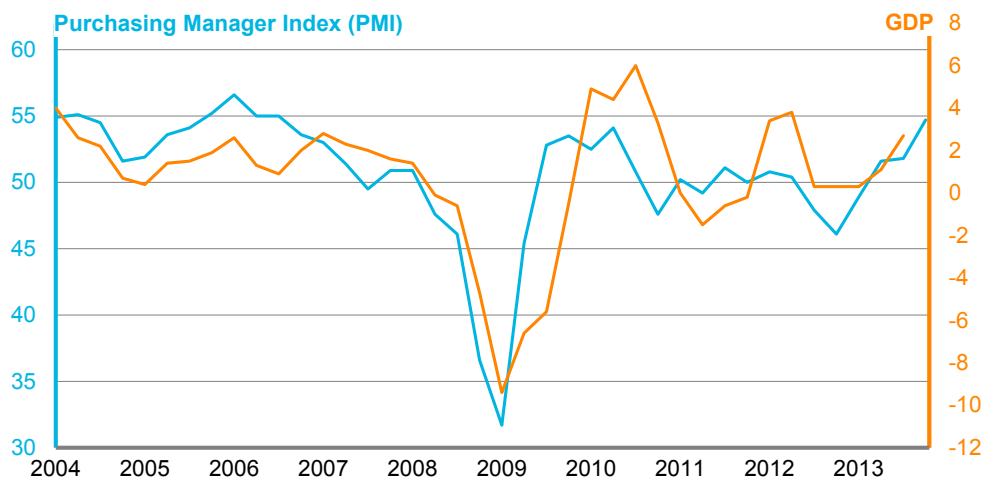


Japanese Economy

Economic data in Japan improved in 2013 steadily and signaled already at an early stage a strong economic recovery of the Japanese economy. Both, the Purchasing Manager Index (PMI) and the Small Business Confidence Index rose for example in November to the highest level since 2006. The current level of the PMI is consistent with a growth rate of GDP of around 3% in the fourth quarter.

Strong economic momentum in Japan – PMI at the highest level since 2006

GDP in % y-o-y and purchasing manager index (net of balance)



Sources: Thomson Reuters Datastream, Bloomberg, Metzler; as of November 2013

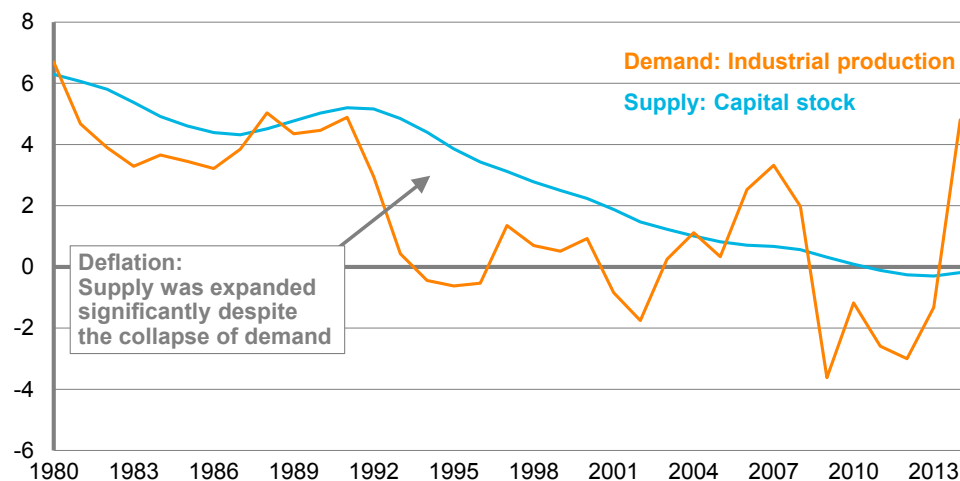
The outlook for 2014 remains positive, in our view, because the combination of easy monetary policy, a weak yen exchange rate and stronger exports can carry the upswing for some more time. Even the increase of the sales tax from 5% to 8% in April 2014 will probably cause only a temporary growth slowdown. The upswing has gained a lot of momentum of its own and is thus difficult to derail. Moreover, the Japanese government has decided on fiscal countermeasures to smooth the negative effects of the sales tax increase over time. A good example is Germany, where the increase of the sales tax in January 2007 caused only a minor and temporary growth slowdown – mainly due to the strong momentum of the German economy at that time.

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The return of inflation in Japan!

Capital stock and industrial production in Japan in % p. a. (smoothed)



Sources: Thomson Reuters Datastream, Bloomberg, Metzler; as of November 2013

Against this background, there is a high probability that Japan will already achieve in 2014 the inflation target of 2%. Long-term inflation expectations are one of the main determinants of inflation – in the sense that they are self-fulfilling prophecies. In this context it is important to note that long-term inflation expectations are on an upward trend in Japan already for some months. Furthermore, the capital stock in Japan has been declining for three years because the business sector has been extremely cautious with financing new investment projects. Investment spending was thus below capital consumption. The capital stock is an important indicator for the supply side. The demand side is contrary to the supply side expected to accelerate sharply in the coming months. The imbalance between strong demand and weak supply will surely cause upward pressure on prices in the coming months.

By Edgar Walk, Chief Economist of Metzler Asset Management of Bankhaus Metzler, Frankfurt/Main, Germany

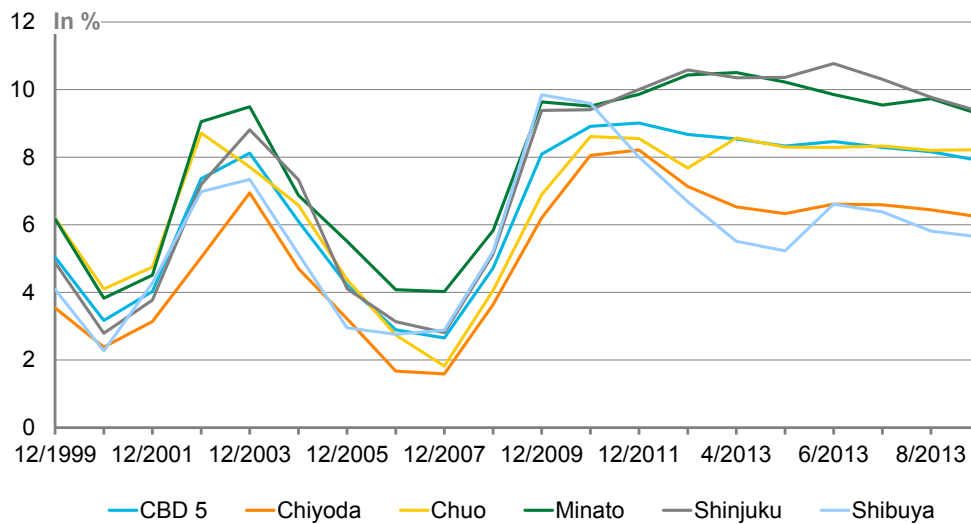
Real Estate Market

1. Office Market Tokyo

Vacancy Trend

- The vacancy rates in Tokyo CBD continued to improve in Q3 of 2013. We saw different trends among five Wards in Q2, but in Q3 the vacancy rate of every Ward clearly declined. Sanko Estate, a research company, observed that all the vacancy rates in Tokyo CBD regardless of building size and age were declining in Q3 of 2013.
- We believe that the vacancy rates continue to decrease in the coming months and will stay low thanks to strong recovery of Japanese economy and limited supply of new office buildings.

Vacancy Rate Tokyo CBD all and by CBD Ward



Source: Miki Shoji, as of September 2013

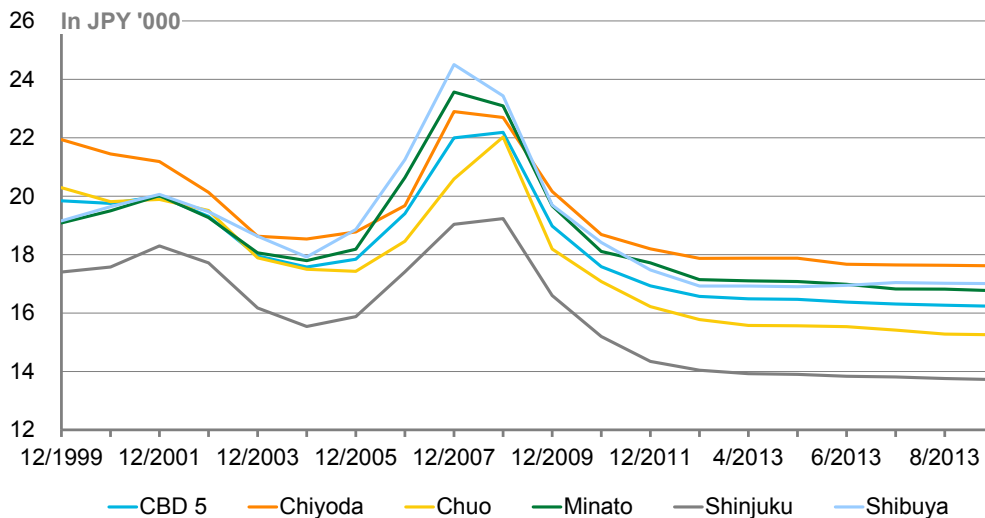
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Office Rent Trend

- The rents in Tokyo CBD were almost stable in Q3 of 2013. The rent in Shibuya Ward started increasing supported by the lowest vacancy rate amongst all Wards.
- CBRE observed that rents increased in 17 out of 37 subareas of Tokyo CBD in Q3 of 2013. The growing 17 subareas were scattered around Tokyo CBD regardless of Ward. Owners of competitive buildings start considering about raising rents as most market participants anticipated that market rent would go up.
- We expect that the rents in Tokyo CBD will start to clearly increase within the coming six months

Monthly Rent Tokyo CBD and by CBD Ward



Source: Miki Shoji, as of September 2013

Recent Major Office Transactions

- J-REITs, Private REITs and well-funded Japanese corporations were still key buyers. However, Hong Kong-based real estate asset management firm Asia Pacific Land and Secured Capital Investment Management sponsored by PAG, Hong Kong's investment manager, jointly closed a JPY 100 billion plus deal. Aviva made the third investment of their "Tokyo Recovery Fund".

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Building name	Date	Price (in JPY bn)	Cap rate (in %)	Seller	Buyer	Age	Area
Equinia Yokohama	Apr-13	N/A	N/A	Nomura Real Estate	Sagami Railway Group	47	Yokohama
Nakoji Main Building	Apr-13	N/A	N/A	Nakoji Real Estate	Yasuda Real Estate	28	Chiyoda
Yurakucho Denki Building	Apr-13	N/A	N/A	Mitsubishi Estate	"Nippon Open Ended private REIT (sponsored by Mitsubishi Estate)"	38	Chiyoda
Atago Green Hills	Apr-13	16.5	4.7	Mori Building	Mori Hills REIT	12	Minato
TK Shinbashi Building	Apr-13	5.7	5.1	Deka	"Activia REIT (sponsored by Tokyu Real Estate)"	14	Minato
Nihon Seimei Akasaka Daini Building	Apr-13	N/A	N/A	Nippon Life Insurance	Obayashi General Contractor	34	Minato
Akasaka Garden City	Apr-13	30.0	N/A	Morgan Stanley Group	Westbrook Partners	7	Minato
Kyobashi Square	May-13	6.0	N/A	Ichigo Real Estate Management	AXA Real Estate IM/ Sumitomo Mitsui Trust Real Estate IM	3	Chuo
Celestine Shiba Mitsui Building	May-13	22.5	4.6	Mitsui Fudosan	"Nippon Building Fund REIT (sponsored mainly by Mitsui Fudosan)"	11	Minato
Kamiyacho Central Place	May-13	50.0	N/A	Invesco	Hulic (a real estate company in Mizuho Group)	28	Minato
Ichigo Akihabara North Building	Jun-13	5.5	5.5	Ichigo Group Holdings	Ichigo REIT	16	Chiyoda
Ginza Theaters Building	Jun-13	17.9	N/A	Tokyo Theaters	Konami	26	Chuo
TKS Musashi Kosugi Building	Jul-13	9.0	N/A	N/A	Kenedix	0	Kawasaki
Kirin former HQ Building	Jul-13	20.0	N/A	Kirin Holdings	Tokyo Building	18	Chuo
Shinko 1st Building	Jul-13	N/A	N/A	N/A	Mitsui Fudosan Private REIT	16	Shibuya
Gakken Building	Jul-13	N/A	N/A	Sumitomo Mitsui Finance & Leasing	N/A	5	Shinagawa
Shin-Ochanomizu Urban Trinity Building	Jul-13	N/A	N/A	N/A	Shinryo Air-conditioning Contractor	11	Chiyoda
SIA Shin-Otemachi Building	Jul-13	N/A	N/A	Aviva Investors	Nakagawa Special Steel Trading	6	Chiyoda
Shionogi Honcho Kyodo Building	Jul-13	N/A	N/A	Shionogi Pharmaceutical Company	Mitsui Fudosan Private REIT	26	Chuo
Akasaka Business Place	Aug-13	9.2	4.8	Angelo Gordon	Daiwa Securities Office REIT	23	Minato
NBF Nihonbashi Muromachi Center Building	Aug-13	14.1	N/A	"Nippon Building Fund REIT (sponsored mainly by Mitsui Fudosan)"	Mitsui Fudosan	27	Chuo
Shibuya R Sankei Building	Aug-13	5.3	5.1	Sankei Building	Tokyu REIT	23	Shibuya
Tokyu Toranomom Building	Aug-13	15.0	4.0	Tokyu Railway	Tokyu REIT	3	Minato
daVinci Shiba Park Building	Aug-13	110.0	4.6	lenders	APL & Secured Capital IM	31	Minato
Nisseki Shibuya Building	Sep-13	7.0	4.6	N/A	Daiwa Securities Office REIT	25	Shibuya
Aoba Roppongi Building	Sep-13	N/A	N/A	Fukoku Mutual Life Insurance	Japan Private REIT (sponsored by Goldman Sachs)	20	Minato
Riverside Yomiuri Building	Sep-13	N/A	N/A	Yomiuri Newspaper	Aviva Investors & Secured Capital Investment Management	19	Chuo
Tamagawa Renaissance City	Sep-13	57.5	N/A	N/A	NEC	13	Kawasaki City

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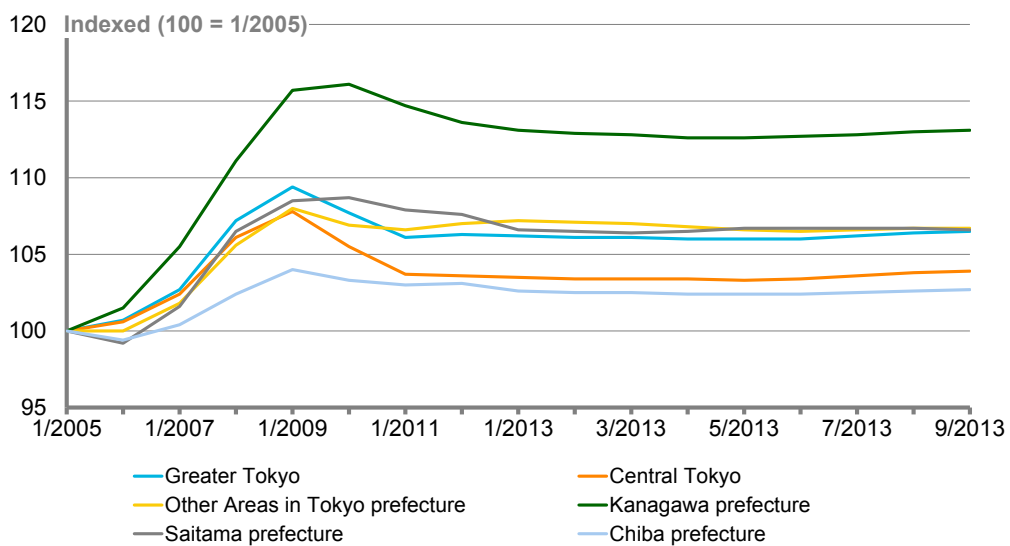
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2. Residential Market

Apartment Rent Trend

- Rents in the greater Tokyo generally bottomed out and started increasing in Q3 of 2013.
- We believe that the rents continue to grow healthily in the coming years thanks to strong recovery of Japanese economy and limited supply of new housing.

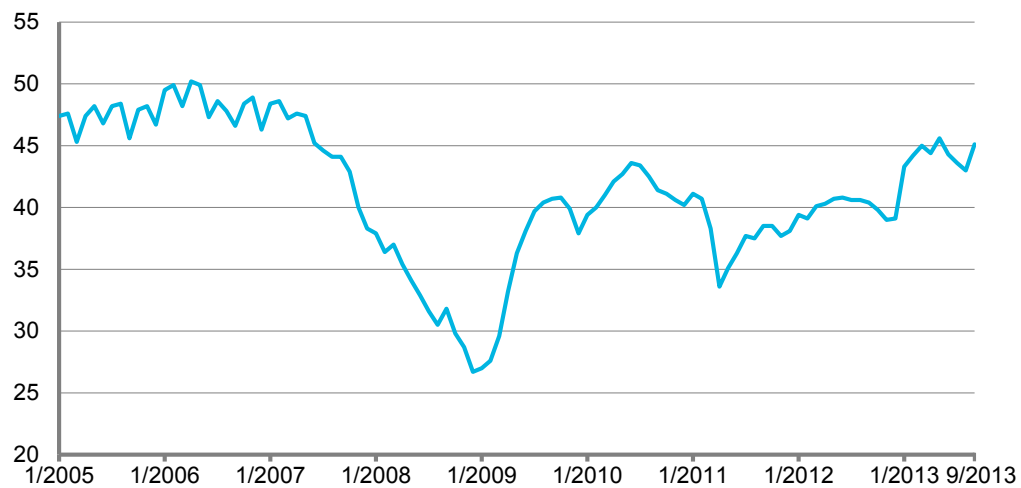
IPD/Recruit Residential Rent Index



Source: IPD Japan, as of September 2013

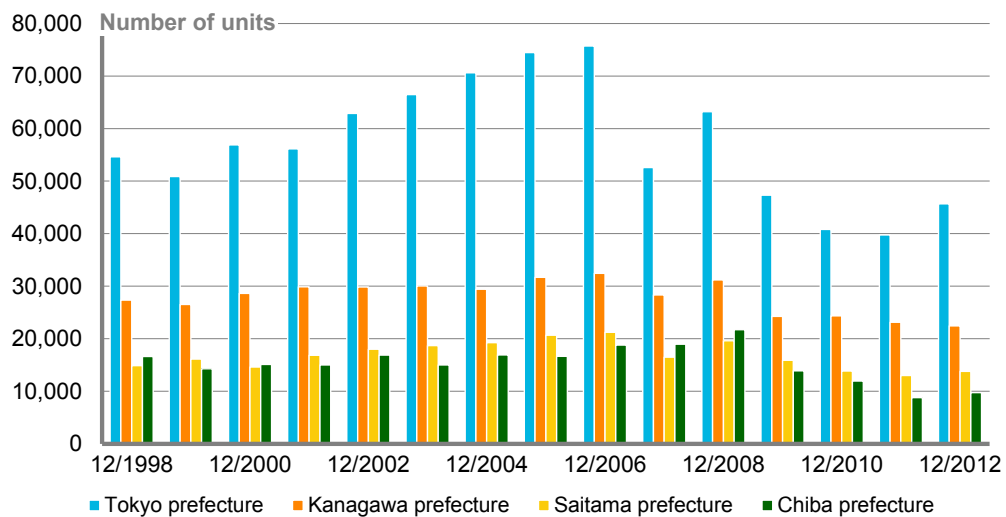
Consumer confidence index

Index of all households



Source: Consumer Confidence Survey by Cabinet Office, as of September 2013

Housing starts of rented apartments



Source: Housing Starts by Ministry of Land, Infrastructure, Transportation and Tourism

Market Outlook Japan

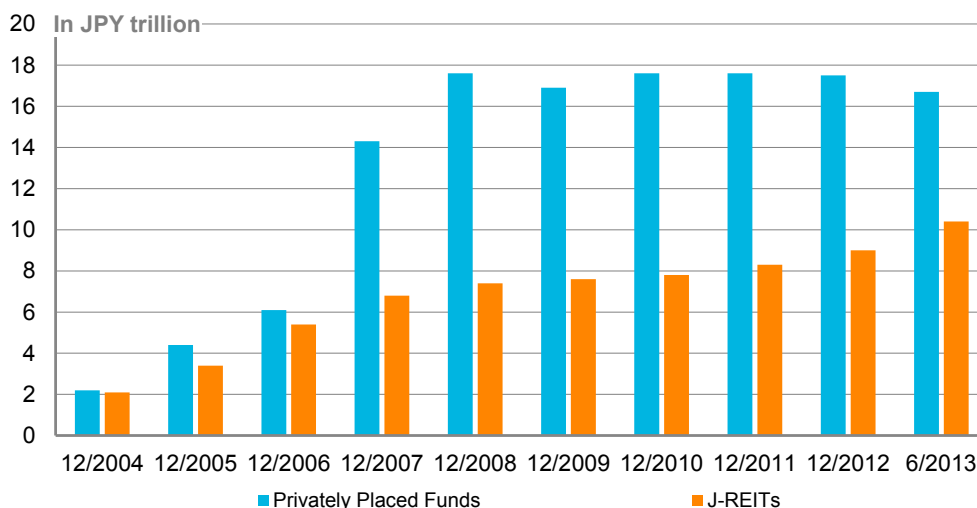
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3. Investment Market

Institutional Investments

- In June 2013, J-REITs and Private Funds collectively held JPY 27.1 trn in Assets under Management (AuM), increasing the AuM by JPY 600 billion since December 2012. While J-REITs grew rapidly, Private Funds decreased AuM by JPY 800 billion. According to the author of a report by Sumitomo Mitsui Trust Research Institute, some management companies set up new funds, but some sold a number of properties to their REITs. Other management companies sold their properties to domestic companies and individuals on favourable conditions in the booming real estate market.
- J-REITs' AuM continued to grow by JPY 231 billion in Q3 of 2013, reaching to JPY 10 trn. Total purchase price in Q3 of 2013 was JPY 251 billion, adding up to total purchases of JPY 1,596 billion year-to-date, the second largest purchase of J-REITs compared to the same period in 2006. The capital increase through public offerings in Q3 of 2013 aggregated JPY 130 billion, adding up to a total of JPY 760 billion year-to-date, again the second largest amount of new capital raised over nine months since 2006.

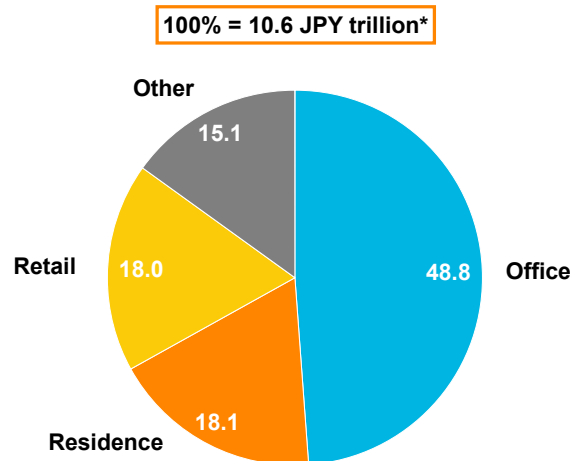
Trends of private funds and REITs market size in Japan



Source: STB Research Institute

Assets owned by J-REITs by property type

In %



* as of September 2013
Source: ARES – The Association for Real Estate Securitization

- Offices:** Multinational investors made large investments in Tokyo CBD, Greater Tokyo, Fukuoka and Osaka. Asia Pacific Land and Secured Capital Investment Management jointly closed a JPY 110 billion deal in Tokyo CBD, the largest office deal in Q3 of 2013. They bought an office building, aged 31 years at a NOI cap rate of around 4.6%. Abu Dhabi Investment Council and US-based C. V. Starr were said to be the investors. Aviva acquired a huge 19-year-old office building with Gross Floor Area of 54,943 sqm in Tokyo CBD. Morgan Stanley purchased a 38-year-old office building with GFA of 30,042 sqm in Fukuoka at around JPY 5 billion. MGPA, the real estate arm of BlackRock, bought a 3-year-old office building with GFA of 15,833 in Osaka from Shimizu, who constructed the building originally for Morgan Stanley but had to own it because Morgan Stanley gave up purchasing. US-based Fortress Investment Group invested in three middle-sized old office buildings in Greater Tokyo through Fortress Japan Opportunity Domestic Fund II.

J-REITs continued investing in various sizes of office buildings ranging from JPY 1.9 to 15 billion mainly in Tokyo. Some private REITs made large investments. Mitsui Fudosan Private REIT bought a 16-year-old office building with GFA of 11,596 sqm in Tokyo. Japan Private REIT sponsored by Goldman Sachs purchased a 20-year-old office building with GFA of 6,342 sqm in Roppongi, Tokyo CBD. Nippon Open Ended Private REIT sponsored by Mitsubishi Estate bought a 4-year-old office building with GFA of 18,839 sqm in Fukuoka at around JPY 10 billion. The seller was Tokyo Tatemono Real Estate and the cap rate was rumoured to be below the 5.0% level.

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- **Residential properties:** J-REITs continued investing in various sizes of residential properties ranging from JPY 0.4 to 3.7 billion in central Tokyo, Greater Tokyo, Osaka, Nagoya, Fukuoka, and other cities. Kenedix Residential REIT purchased 60 properties at JPY 69 billion in total, with its 46% in central Tokyo, 23% in Greater Tokyo and 31% in local cities such as Osaka, Nagoya and Fukuoka on a purchase price base. Cap rate in local cities started compressing, dipping below the 6.0% level. Nomura Residential REIT acquired a residential property in central Osaka at JPY 1.8 billion with NOI cap rate being 5.6%.

Some private REITs made investments also in residential properties. Mitsui Fudosan Private REIT acquired a property with 98 units in central Tokyo from CLSA Capital Partners, a former subsidiary of Crédit Agricole and now sponsored by China-based CITIC Group. Nippon Open Ended Private REIT bought four properties in Tokyo from its sponsor, Mitsubishi Estate, and CLSA. Nomura Real Estate Private REIT acquired a property with 45 units in central Tokyo from Nippon Steel Kowa Group. CLSA acquired nine properties in Tokyo and local cities from Taiwanese investor. GE bought a luxury apartment building with twelve units in central Tokyo from Tokyu Land Group. The German special fund iii-investments, currently sponsored by BNP Paribas, made its second investment in central Tokyo together with Tokyo Tatemono Real Estate.

- **Commercial properties:** A private investor was behind the largest commercial property deal. The founder of the famous Japanese IT firm Softbank acquired Tiffany Ginza Building in central Tokyo at JPY 32 billion. The cap rate was said to be 2.6%. Goldman Sachs purchased the building at JPY 38 billion 6 years ago. An asset management company of Mitsubishi Corporation Group bought Aeon Mall Kashiwa in suburban Tokyo at JPY 16 billion from Blackstone Group. Morgan Stanley purchased a commercial mall in suburban Tokyo at JPY 6 billion. J-REITs purchased commercial properties ranging from JPY 2.5 to 5.2 billion in central Tokyo.

- **Industrial properties:** Mitsui Fudosan Private REIT and Mitsui Fudosan jointly purchased a huge logistics property with GFA of 131,800 sqm in Yokohama, Greater Tokyo, from CBRE Global Investors. Nomura Real Estate Master Fund REIT and Japan Logistics Fund REIT sponsored by the Mitsui trading company respectively purchased logistic properties ranging from JPY 2.5 to 14 billion in Greater Tokyo.
- **Hotels and others:** US-based Fortress Investment Group acquired Sheraton Grande Tokyo Bay Hotel with 802 guest rooms at JPY 42 billion. Morgan Stanley acquired a resort hotel with 609 guest rooms in Okinawa at JPY 9 billion from Loan Star Group. Hoshino Resorts REIT went public with 6 properties all over Japan amounting to JPY 15 billion. The REIT focuses on resort hotels and Ryokan (traditional Japanese hotels) operated by Hoshino Resorts Group, the sponsor. Singaporean Parkway Life REIT bought five nursing homes all over Japan amounting to JPY 4.5 billion.



Kenzo Capital Corporation
Dr. Leonard Meyer zu Brickwedde
President and CEO

Sanno Park Tower 3F
2-11-1 Nagata-cho, Chiyoda-ku
Tokyo 100-6162

Tokyo

Office +81 3 62 05 33 84
Mobile +81 90 84 63 26 03

Munich

Office +49 89 59 08 24 06
Mobile +49 171 3 23 86 05

E-mail: leonard.meyerzubrickwedde@ken-zo.com

