

**Trends Concerning Land in FY2011
Basic Measures in Relation to Land in
FY2012**

Abstract

June 2012

Ministry of Land, Infrastructure, Transport and Tourism

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“Trends Concerning Land in FY2011” and “Basic Measures in Relation to Land in FY2012” are created based on the provisions of Article 10, paragraphs (1) and (2), of the Basic Act for Land (Act No. 84 of December 22, 1989).

“Trends Concerning Land in FY2011”

Part 1 Trends Concerning Land

Chapter 1 Trend in Land Prices and Land Transactions in FY2011

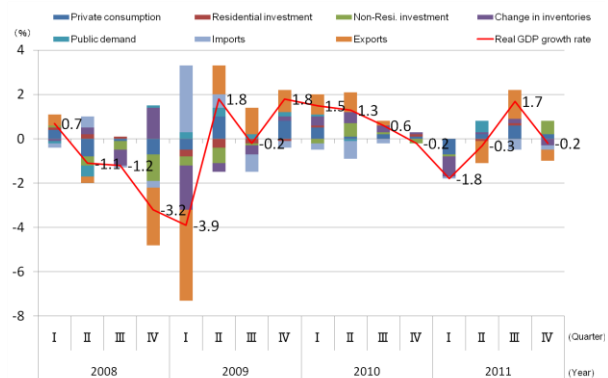
In fiscal 2011, economic activities in Japan were severely damaged by the Great East Japan Earthquake that occurred in March 2011, thereby forcing the Japanese economy to start a tough year. Although the economic situation improved thereafter thanks to a prompt rebuilding of supply chains, the world economy decelerated by the yen’s soaring appreciation and Europe’s emerging debt crisis restrained the recovery.

Section 1 The Economic Situation Surrounding the Real Estate Market in Japan

(Changes in GDP)

From April-June quarter of 2009, the Japanese economy had been in recovery from the recession triggered by Lehman’s fall, and then in October-December quarter of 2010, the real GDP growth rate had contracted from the previous quarter by 0.2% in five consecutive quarters. The Great East Japan Earthquake caused a significant drop in real GDP growth rate (by 1.8%) from the previous quarter (January-March quarter of 2011). Conversely, in July-September quarter of 2011, the real GDP growth rate became positive and grew 1.7% from the previous quarter, thanks to increasing domestic consumption and exports. However, it again became negative (by 0.2%) in October-December quarter of 2011.

Chart: Changes in real GDP growth rates and contribution ratio



Source: “Quarterly Estimate of GDP” [October-December quarter of 2011 (secondary QE)], Cabinet Office

(Trends in corporations)

Excessiveness in capital stock perceived by manufacturers, which had been gradually declining since 2009, and also continued the declining trend in 2010 and 2011. However improvement of the situation has gradually slowed down, and in 2012 the perception of excessiveness is slightly higher.

(Trends in households)

Concerning employment, excessiveness in employment perceived by employers has been improved since the July-September quarter of 2009 except for a temporary aggravation observed in the April-June quarter of 2009. The consumption by households dropped to a large extent in January-March quarter of 2011, due to the impact of the earthquake, but is now remaining steady thanks to the improved households’ mind.

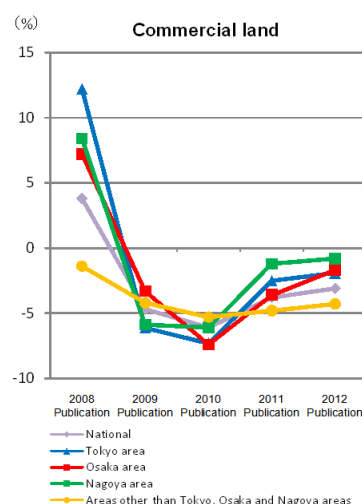
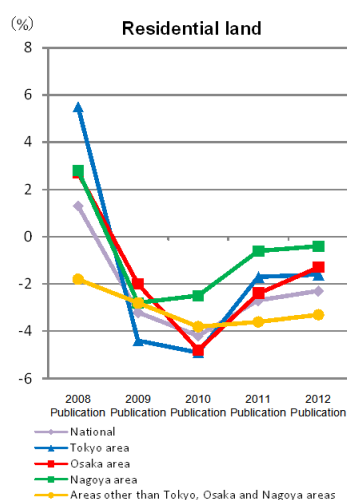
Section 2 Trends in Land Prices

Publication of value of standard sites in 2012 marked four consecutive years of decline since being published in 2009 soon after Lehman's fall, but the rate of decline has showed signs of slowing. The semiannual trends in land values shows that land values dropped sharply during the first half of 2011 (January to June) when the Great East Japan Earthquake struck. The decline was mitigated during the second half of 2011 (July to December). The real estate market became temporarily sluggish due to the impact of the earthquake, but has since showed signs of a relatively early recovery, except in the disaster-stricken areas. The downturn in the real estate market is also attributed to uncertainty about the economic landscape relative to the yen's appreciation and Europe's debt crisis, etc.

Looking at the changes by the use of land, the drop rate in residential land values was contracted partly because of the governmental measures to support housing demand, such as low interest rates and tax deductions on housing loans. Areas with increasing population showed less declines in land values. Areas with a better residential environment and better traffic convenience showed a markedly recovery from the drop in land values. Although the drop rate in land values improved, there is still weak demand for commercial land, as office buildings face high vacancy rates and declining rents, and retail premises suffer from poor business performance.

Chart: Fluctuations in land values (year-on-year)

	Residential land					Commercial land				
	2008 Publication	2009 Publication	2010 Publication	2011 Publication	2012 Publication	2008 Publication	2009 Publication	2010 Publication	2011 Publication	2012 Publication
National	1.3	▲ 3.2	▲ 4.2	▲ 2.7	▲ 2.3	3.8	▲ 4.7	▲ 6.1	▲ 3.8	▲ 3.1
Three major metropolitan areas	4.3	▲ 3.5	▲ 4.5	▲ 1.8	▲ 1.3	10.4	▲ 5.4	▲ 7.1	▲ 2.5	▲ 1.6
Tokyo area	5.5	▲ 4.4	▲ 4.9	▲ 1.7	▲ 1.6	12.2	▲ 6.1	▲ 7.3	▲ 2.5	▲ 1.9
Osaka area	2.7	▲ 2.0	▲ 4.8	▲ 2.4	▲ 1.3	7.2	▲ 3.3	▲ 7.4	▲ 3.6	▲ 1.7
Nagoya area	2.8	▲ 2.8	▲ 2.5	▲ 0.6	▲ 0.4	8.4	▲ 5.9	▲ 6.1	▲ 1.2	▲ 0.8
Areas other than Tokyo, Osaka and Nagoya areas	▲ 1.8	▲ 2.8	▲ 3.8	▲ 3.6	▲ 3.3	▲ 1.4	▲ 4.2	▲ 5.3	▲ 4.8	▲ 4.3



Source: "Publication of value of standard sites" Ministry of Land, Infrastructure, Transport and Tourism

Note 1: Regional classifications are as follows:

Three major metropolitan areas: Tokyo metropolitan area, Osaka area, and Nagoya area.

Tokyo metropolitan area: A group of municipalities that include existing urban areas and suburban development areas provided by the national Capital Region Development Act.

Osaka area: A group of municipalities that include existing urban areas and suburban development areas provided by the Kinki Region Development Act.

Nagoya area: A group of municipalities that include urban areas provided by the Chubu Region Development Act.

Areas other than Tokyo, Osaka and Nagoya areas: Those other than the three major metropolitan areas.

Note 2: 2008 Publication: from January 1, 2007, to January 1, 2008

2009 Publication: from January 1, 2008, to January 1, 2009

2010 Publication: from January 1, 2009, to January 1, 2010

2011 Publication: from January 1, 2010, to January 1, 2011

2012 Publication: from January 1, 2011, to January 1, 2012

Note 3: The drop ratio decreased or the increase ratio increased from the previous year.

 The drop ratio increased or the increase ratio decreased from the previous year.

Section 3 Trends in Land Transactions

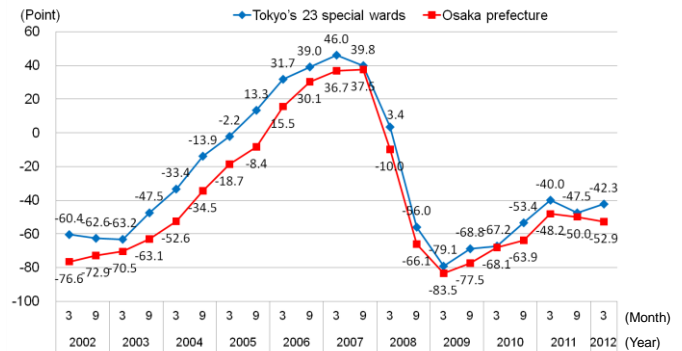
(Changes in the number of land transactions, etc.)

The trends in land transactions is followed by the number of transfers of ownership registered through buying and selling. The registration of transfer of ownership has been decreasing over the past few years nationwide, both in metropolitan areas and regions outside the metropolitan areas. The number of land transactions totaled 1,136,000 in 2011 (marking a 1.6% decrease from the previous year).

(Perception of land transactions by enterprises)

The diffusion index (DI: the ratio of corporations responding that transactions are “active” minus the ratio of corporations responding with “sluggish”) regarding the perception of land transactions at the present locations of the head offices of the enterprises in Tokyo’s 23 special wards and in Osaka prefecture continued to improve until March 2011, and has remained unchanged since September 2011, with the DI for Tokyo standing at -42.3 and that for Osaka at -52.9, as of the end of March 2012.

Chart: Land transaction conditions DI



Source: “Land transaction trend survey,” Ministry of Land, Infrastructure, Transport and Tourism

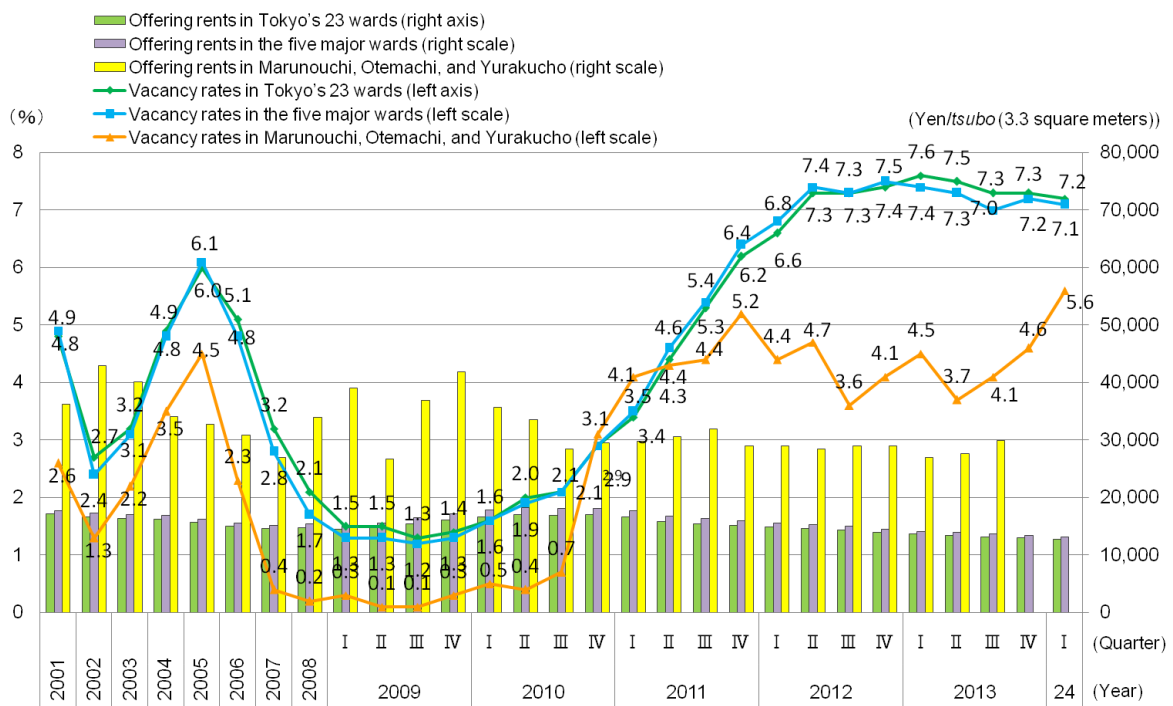
Note 1: DI = “Active ratio” – “Sluggish ratio”

Note 2: The figure for “Active” represents the ratio of companies responding with “Active” as measured against all effective responses from companies; the figure for “Sluggish” represents the ratio of companies responding with “Sluggish” as measured against all valid responses from companies.

(Trends in the office market)

Concerning the rental office market, the demand for offices in 2011 improved in several areas. The vacancy rate in Tokyo’s 23 wards, however, remained about the same as in 2010.

Chart: Changes in office building rents and vacancy rates (Tokyo)



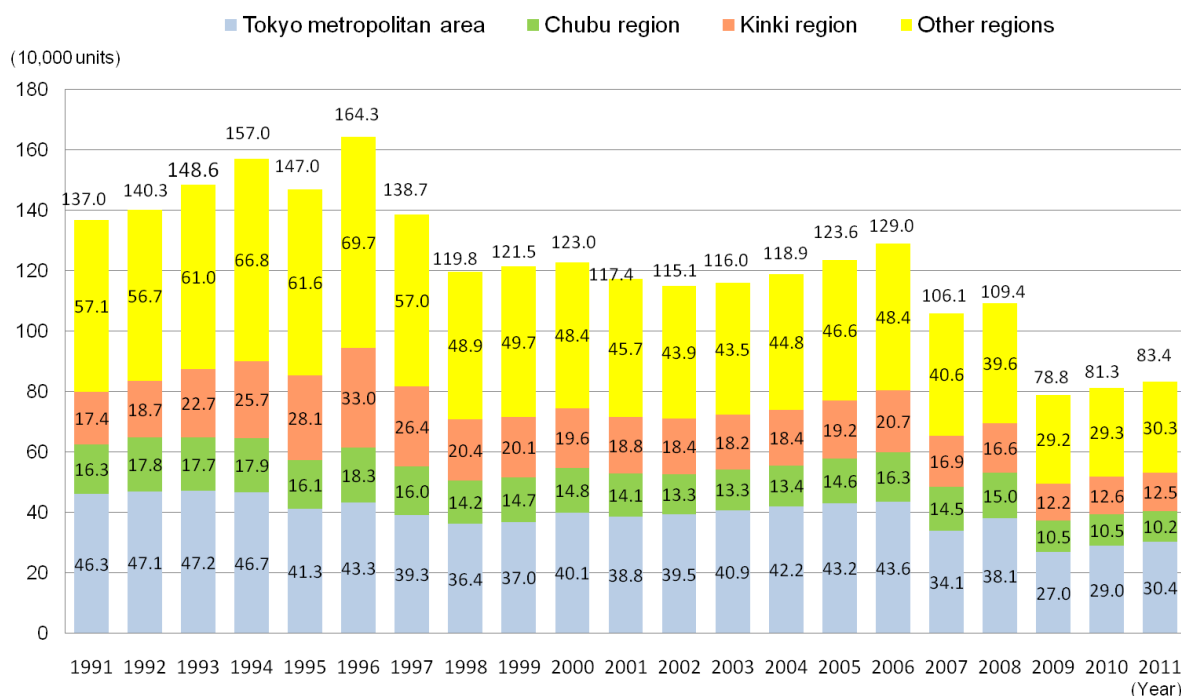
Source: CBRE

Note: There were no samples that publicized the offering rents in Marunouchi, Otemachi, and Yurakucho in the October-December quarter of 2011 and the January-March quarter of 2012.

(Trends in the residential market)

The total number of new housing starts was 834,117 units in 2011 (up 2.6% from the previous year). Despite the slight year-to-year increase, the figure has continuously remained at a low level.

Chart: Change in the numbers of new housing starts by region



Source: "Statistical survey on construction starts," Ministry of Land, Infrastructure, Transport and Tourism

Note: Regional classifications are as follows:

Tokyo metropolitan area: Saitama prefecture, Chiba prefecture, Tokyo, and Kanagawa prefecture.

Chubu region: Gifu prefecture, Shizuoka prefecture, Aichi prefecture, and Mie prefecture.

Kinki region: Shiga prefecture, Kyoto prefecture, Osaka prefecture, Hyogo prefecture, Nara prefecture, and Wakayama prefecture.

Other regions: Those other than the above.

Section 4 Trends in the Real Estate Investment Market

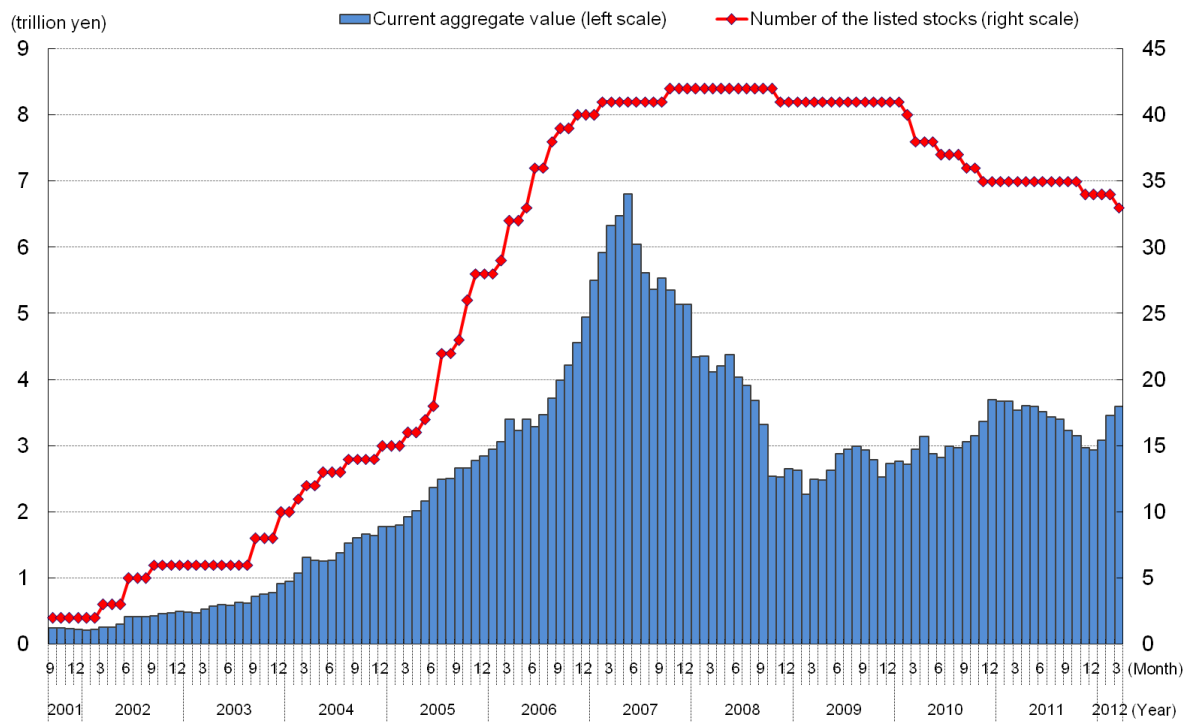
(Trends in the real estate securitization market)

The total assets in the form of real estate or related trust beneficiary rights obtained in the process of real estate securitization (by securitization vehicles, etc.) reached approximately 2.3 trillion yen in fiscal 2011. The total value of real estate or related trust beneficiary rights transferred by securitization vehicles, etc. was about 3.0 trillion yen.

(Trends in the J-REIT market)

Regarding J-REIT, there was one merger in FY2011, leading to 33 different stocks as of the end of March 2012. The size of the J-REIT market in terms of the current aggregate value of investment securities in circulation was about 3.6 trillion yen, as of the end of March 2012.

Chart: Changes in number and current aggregate value of the listed J-REIT stocks



Source: Tokyo Stock Exchange

Section 5 Trends in Land Use

As of the end of 2010, the total area of Japan was approximately 37.79 million hectares (93.38 million acres). Forestland accounts for the largest portion (25.07 million hectares, 61.95 million acres), followed by agricultural land (4.67 million hectares, 11.54 million acres), thus marking a decrease from the preceding year. When combined, forestland and agricultural land account for about 80% of the national land area. In addition, developed land (residential, industrial, and other land) has increased to 1.9 million hectares (4.70 million acres) from the preceding year, roads occupy 1.36 million hectares (3.36 million acres), surface water, rivers, and canals cover 1.33 million hectares (3.29 million acres), and fields total 0.28 million hectares (0.69 million acres).

Section 6 Perceptions of Land among Enterprises and Households

Perception of land by households: Among the responses regarding the tendency of land prices depending on a household's evaluation of its own profitability and convenience, in fiscal 2005, 43.8% were positive, including "very favorable" and "favorable," whereas 49.7% were positive in the fiscal 2011 survey.

Perception of land by enterprises: Ratio of enterprises that consider "tenancy will be more advantageous in the future." This ratio had been increasing every year up to fiscal 2002, and then basically remained at between 40% and 45%. It was 40.7% in the fiscal 2011 survey.

Chapter 2 Rising Real Estate Values and Market Improvements

The situation regarding land in Japan has changed dramatically in the 20 years since the bubble economy burst. The so-called “Land myth” that land values will never stop rising has long been forgotten. The market determines prices according to the use value of land, such as its profitability and convenience. What is needed now is to utilize individual pieces of real estate to improve the quality of citizens’ lives.

In the Japanese real estate market, however, land values dropped sharply after the bubble economy burst. Given the negative impact of the economic situation thereafter, dilapidated real estate stocks that no longer meet social needs have not been efficiently renewed. Many real estate properties are not being utilized. Under such circumstances, it is necessary to promote investments to improve both residences and buildings by upgrading real estate stocks with quake-resistant and energy-saving functions that satisfy current social needs. These efforts are necessary to realize economic growth led by domestic demand, and develop affluent urban spaces and residential environments. To achieve these goals, it is important to promote reform, renovation, and other efforts to improve real estate value by improving and revitalizing both the real estate investment market and the real estate distribution market.

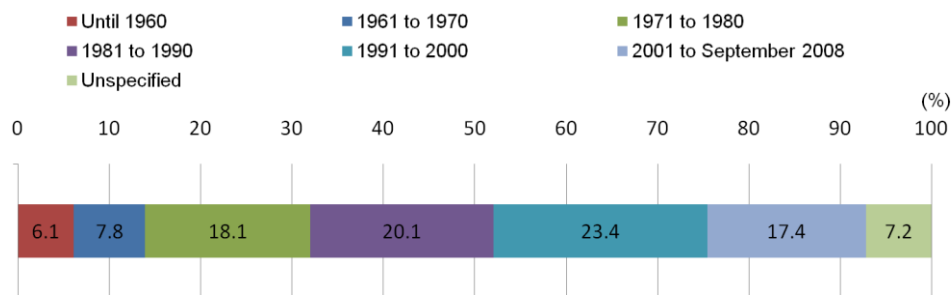
Section 1 Need to Improve Real Estate Value

1. Perceptions of dilapidated real estate property

Looking at the amount of real estate stocks by the age according to the “Residence/land statistical survey” compiled by the Ministry of Internal Affairs and Communications, houses¹ built before 1981 when the new quake-resistance standards were introduced account for about 32%.

According to the “Corporation Survey on Buildings” conducted by the Ministry of Land, Infrastructure, Transport and Tourism, corporate-owned buildings built before 1981 account for more than 30% for most purposes.

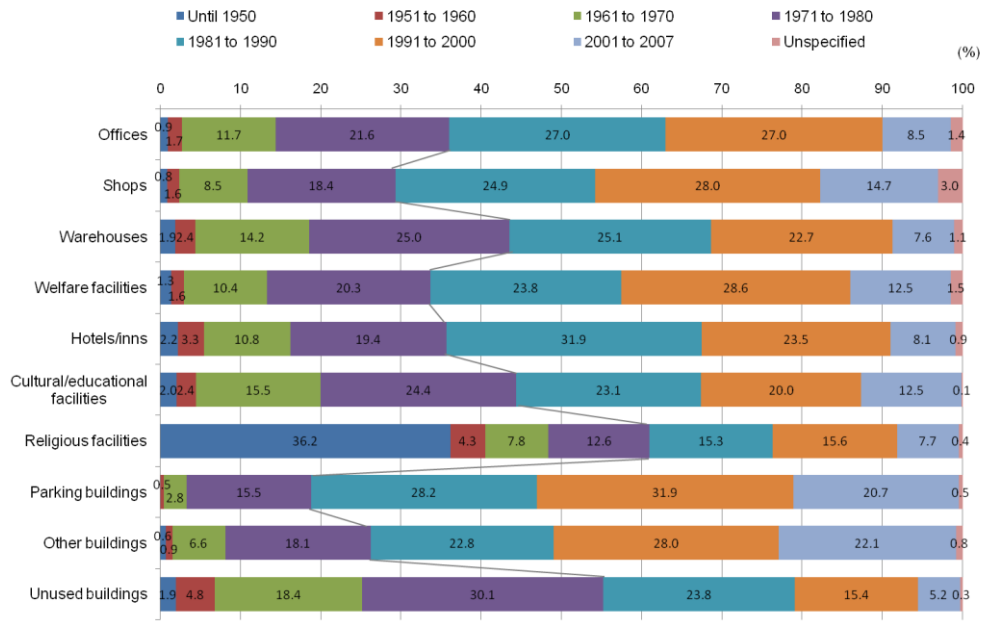
Chart: Number of houses by period of construction



Source: “Residence/land statistical survey,” 2008, Ministry of Internal Affairs and Communications

¹ The numbers may include houses and buildings that comply with the new quake-resistance standards.

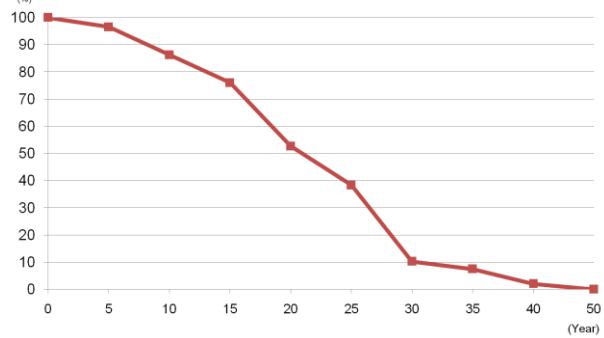
Chart: Number of corporate-owned buildings by use and period of construction



Source: "Corporation survey on building" 2008, Ministry of Land, Infrastructure, Transport and Tourism

A questionnaire survey of real estate investors concerning acceptable age of office buildings revealed that about 90% of the respondents regard up to 30 years as the limit. The period generally matches the timing when the new quake-resistance standards were introduced, and thus investors tend to avoid buildings built more than 30 years ago in view of inadequate quake resistance.

Chart: Acceptable age limit of buildings in real estate investment



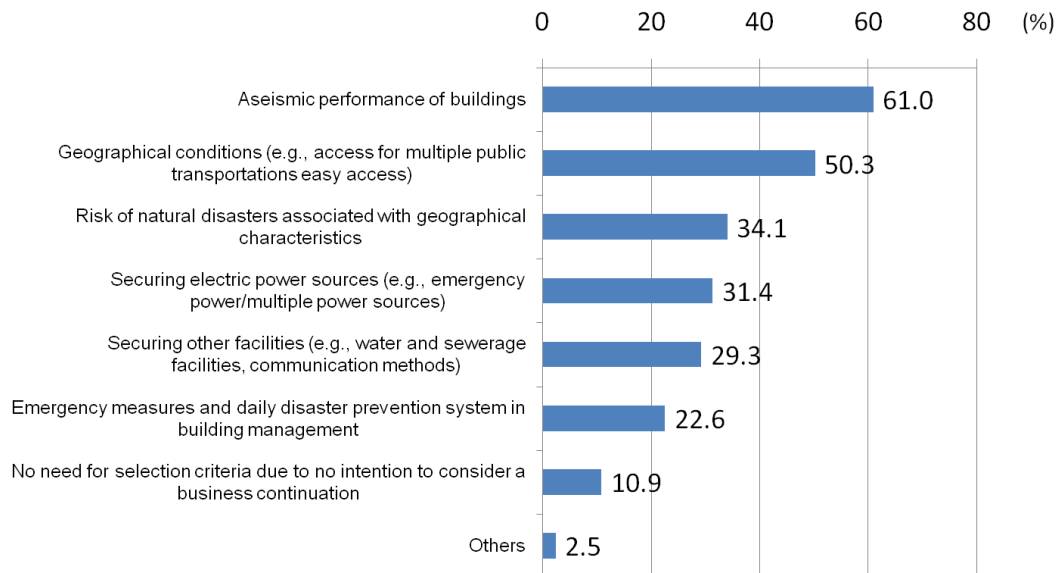
Source: Survey on actual status and summary of tasks toward energization of the real estate distribution market" (2011), Ministry of Land, Infrastructure, Transport and Tourism

2. Need to improve real estate value in terms of safety and security

There has been a growing need in the real estate for greater safety and security following the Great East Japan Earthquake.

Asked about the criteria for selecting real estate property for a continuation of business, more than 60% of companies answered “aseismic performance.” This suggests that many companies consider aseismic performance to be the most important factor regarding business continuation.

Chart: Criteria for selecting real estate property for business continuation



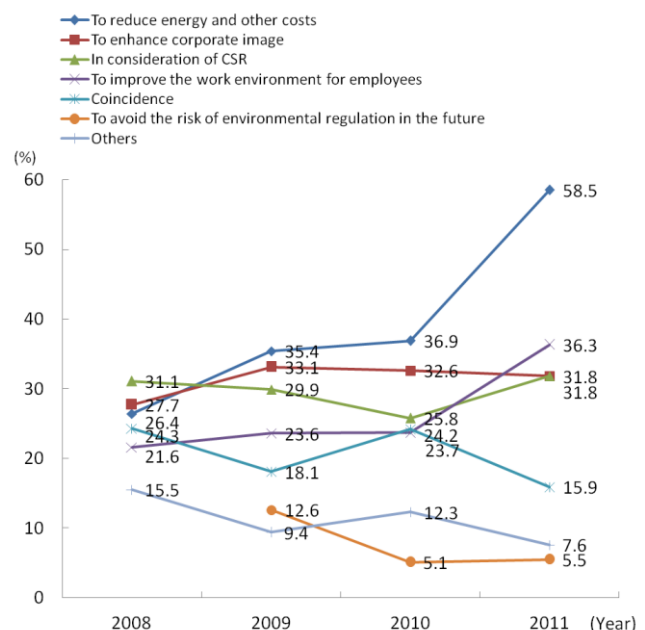
Source: “Corporate behavior survey concerning land ownership and use (2011),” Ministry of Land, Infrastructure, Transport and Tourism

3. Need to improve real estate value in terms of environment

In addition to the recent global trend toward the reduction of CO₂ emissions, and with rising crude oil prices and growing interest in saving energy following last year’s Great East Japan Earthquake as background factors, it is the urgent task to improve the energy performance of buildings in the real estate field. Efforts are needed to provide real estate property with high environmental value (i.e., environmental real estate) that has good environmental performance and is under responsible management in terms of cost reduction and corporate social responsibility (CSR).

Asked about the reason for having selected environmental real estate property, 58.5% of the responding companies answered, “to reduce energy and other costs.” This was followed by “in consideration of CSR” and “to enhance corporate image,” respectively, accounting for 31.8%.

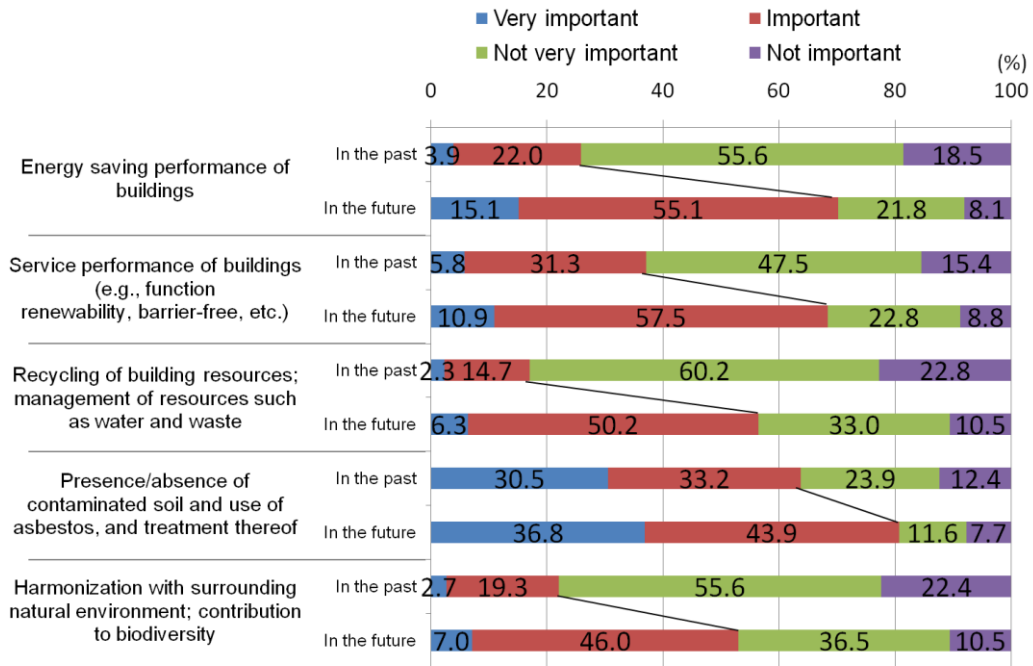
Chart: Reason for having selected environmental real estate property



Source: “Corporate behavior survey concerning land ownership and use,” Ministry of Land, Infrastructure, Transport and Tourism

Asked about the importance of factors concerning the environment and sustainability in decisions regarding real estate investments and loans, domestic investors generally tended to consider these factors more important “in the future” than “in the past.” For instance, the “service performance of buildings (e.g., function renewability, barrier-free)” was considered more important than the “energy saving performance of buildings” “in the past.” The priority of both responses was reversed “in the future.” This suggests a growing interest in energy saving performance.

Chart: Importance of factors concerning the environment and sustainability in decisions regarding real estate investments and loans



Source: “Questionnaire survey of domestic real estate investors” (2011), Ministry of Land, Infrastructure, Transport and Tourism

Section 2 Vitalization of the Real Estate Investment Market

1. Roles of the real estate investment market

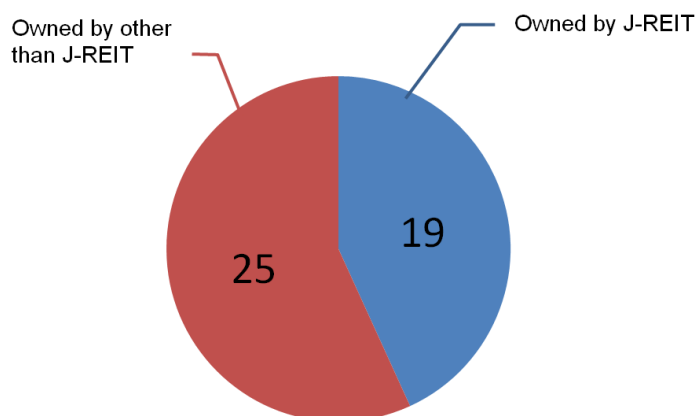
(Forming a cycle of real estate development, management, growth, and renewal through the market's autonomic capacity)

Real estate has long constituted cities and towns, and supports the lives of citizens as well as economic activities. It is thus important to realize a continuous cycle of real estate development, management, growth, and renewal in a healthy way. Real estate securitization enables the risks associated with investment to be divided into small scales. The use of such securitization is highly expected in initiating new and high-risk development projects, such as urban redevelopment project. Consequently, utilizing real estate securitization will enable the real estate circulation cycle to function automatically. Real estate securitization is expected to be useful in view of more capital being provided in the real estate market, and an effective method of urban planning based on existing stocks, such as for revitalization of city centers and urban renaissance.

(Quality improvement by efficient real estate management)

Real estate securitization requires that investors be given an explanation of the following matters in order for them to make an investment: fundamental management policy, cash flow and profit history of the real estate property concerned, numerical targets based on said data, and actual investment performance. The efficiency of business management is verified by constant exposure to the eyes of market dealers. As incentives for improving real estate property value will be promoted, investment will be facilitated to improve the profitability of real estate property to be securitized. Environmental concerns and advanced approaches will also be expected in securitization. In fact, among the 44 properties certified as DBJ Green Buildings,² 19 belong to J-REIT representing the real estate investment market (as of the end of April 2012). This ratio is high when considering the J-REIT market size in comparison to the entire Japanese income property market.

Chart: Number of J-REIT properties certified as DBJ Green Buildings



Source: "List of certification as DBJ Green Buildings," Development Bank of Japan
Note: As of the end of April 2012

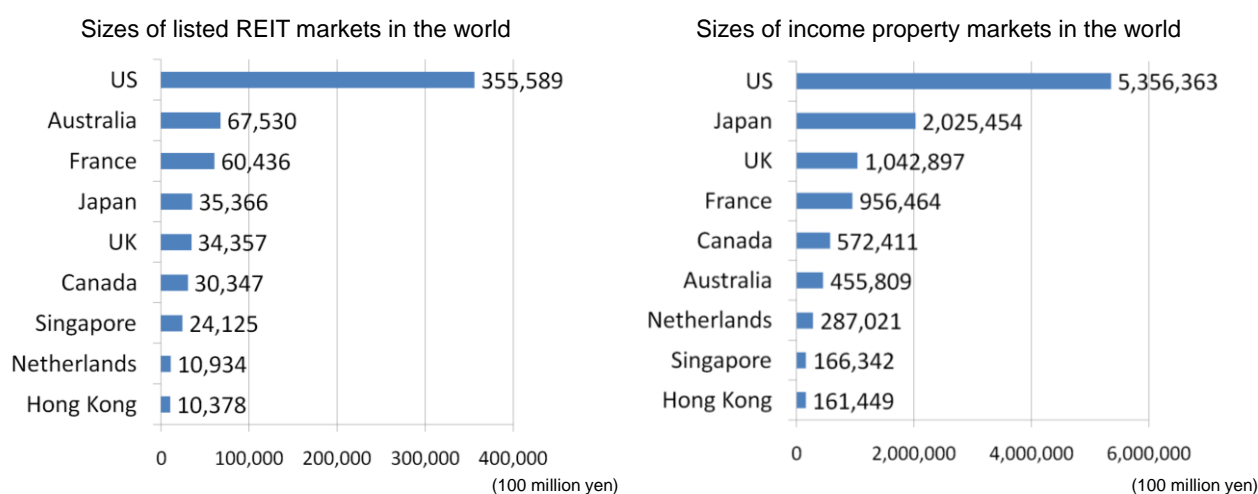
² Development Bank of Japan (DBJ) issues four levels of certification (e.g., platinum, gold) in view of environmental and social considerations for the office buildings owned by clients.

2. Challenges and Efforts for Vitalization of the Real Estate Investment Market in Japan

The real estate investment market plays a functioning role in the real estate circulation cycle to improve real estate value. The total amount of real estate property acquired for real estate securitization and related trust beneficiary rights declined from a peak of nearly 9 trillion yen in fiscal 2007, down to 1.8 trillion yen in fiscal 2009. Although it improved to 2.3 trillion yen in fiscal 2011, the market still needs to get larger through continuous revitalization of the real estate investment market.

Let's compare the REIT market in Japan with those in other countries, Japan's income property market is the world's second largest after that of the United States, with a market size of 203 trillion yen. Japan's listed REIT market is much smaller in size (at 3.5 trillion yen) than the Australian (6.8 trillion yen) and French markets (6.0 trillion yen), although the income property market in Japan is larger than those in Australia and France. As a whole, the REIT market relative to the size of the income property market in Japan is smaller than in other countries.

Chart: Comparison of REIT market sizes in the world



Source: "Real Estate Securitization Handbook, 2011-2012,"
the Association for Real Estate Securitization
Note: As of March 31, 2011

Source: Created by the Ministry of Land, Infrastructure, Transport
and Tourism based on "Prudential, Real Estate Investors
– A Bird's Eye View of Global Estate Markets: 2011
update"
Note: As of 2010

(Investor evaluation of the Japanese real estate investment market)

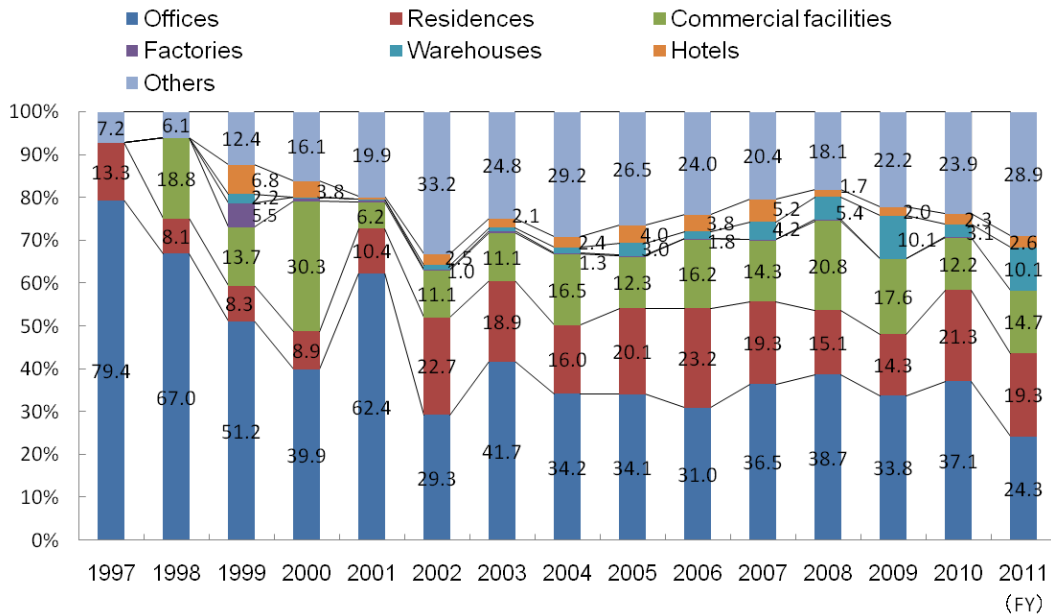
When asked domestic investors about their perception and evaluation of the Japanese real estate investment market, they responded that the following matters are relatively important and currently inadequate: continuous market growth, liquidity of real estate property/products subject to investment, and reliability/availability of investment index information, and a sufficient number of investors who maintain a stable investment attitude for a long period.

When asked foreign investors about the importance and their evaluation of the current status of each evaluation item, they evaluated the following items as being inferior in spite of their importance: real estate market growth, average yield in the real estate market, sufficient information concerning real estate investment, and availability of real estate investment information.

(Expansion of assets subject to investment)

Looking at the performance of real estate securitization in Japan by ratios of the breakdown of uses, offices accounted for about 80% in fiscal 1997. Residences and commercial facilities increased thereafter, and in fiscal 2011 offices accounted for 24.3%, residences 19.3%, commercial facilities 14.7%, warehouses 10.1%, and hotels 2.6%.

Chart: Changes in acquisition of real estate property subject to securitization by use



Source: "Field survey on real estate securitization," Ministry of Land, Infrastructure, Transport and Tourism

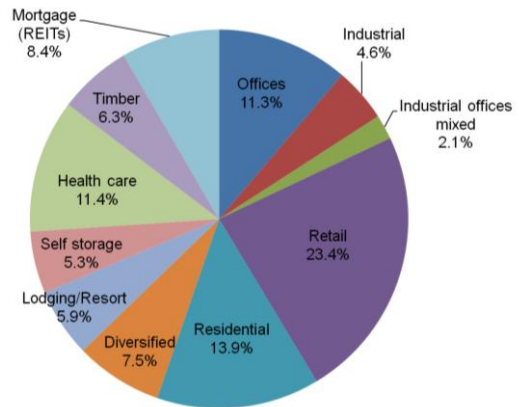
Note 1: "Others" include the following:

- Property for purposes of use other than as offices, residences, commercial facilities, factories, warehouses, and hotels (including parking lots and training centers, etc.)
- Property used for multiple purposes
- Multiple properties with different purposes of use

Note 2: The securitization of real estate property through TMK is not included due to the unknown breakdown in 2001 and thereafter.

Specific REITs account for a majority in the United States, where there is a well-developed REIT market. REITs were categorized by the purpose of using assets, and the breakdown of market capitalizations suggests progress in the diversification of assets subject to investigation (e.g., healthcare accounting for 11.4%).

Chart: Breakdown of purposes of using REIT market capitalizations in the United States

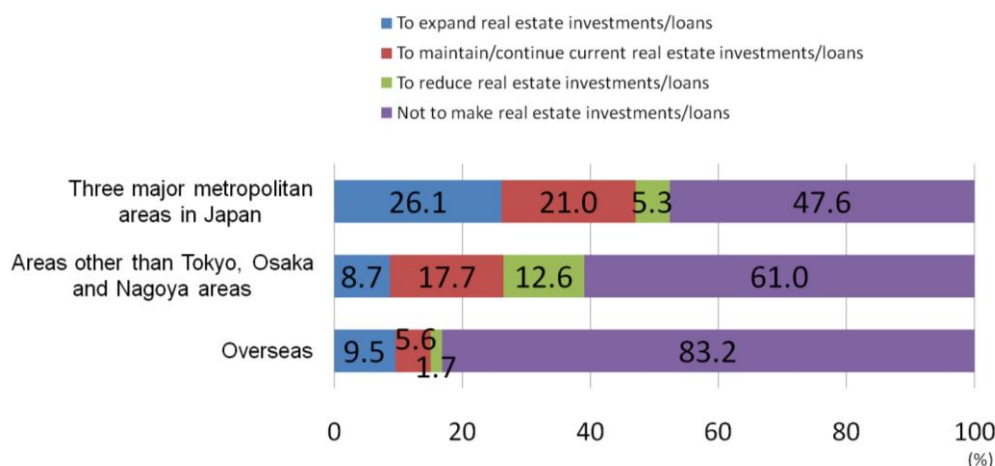


Source: Created by the Ministry of Land, Infrastructure, Transport and Tourism based on the "Real Estate Securitization Handbook, 2011-2012," the Association for Real Estate Securitization.

(Expansion in areas other than Tokyo)

A questionnaire survey of real estate investors conducted by asking about their real estate investment and loan decisions by area suggests that 26.1% of the respondents answered “to expand real estate investments/loans,” and 21.0% wanted “to maintain/continue current real estate investments/loans” in the three major metropolitan areas, thereby comprising nearly half of all responses. Conversely, 8.7% wanted “to expand real estate investments/loans,” and 17.7% wanted “to maintain/continue current real estate investments/loans” in areas other than Tokyo, Osaka and Nagoya areas.

Chart: Investment decisions on real estate by area

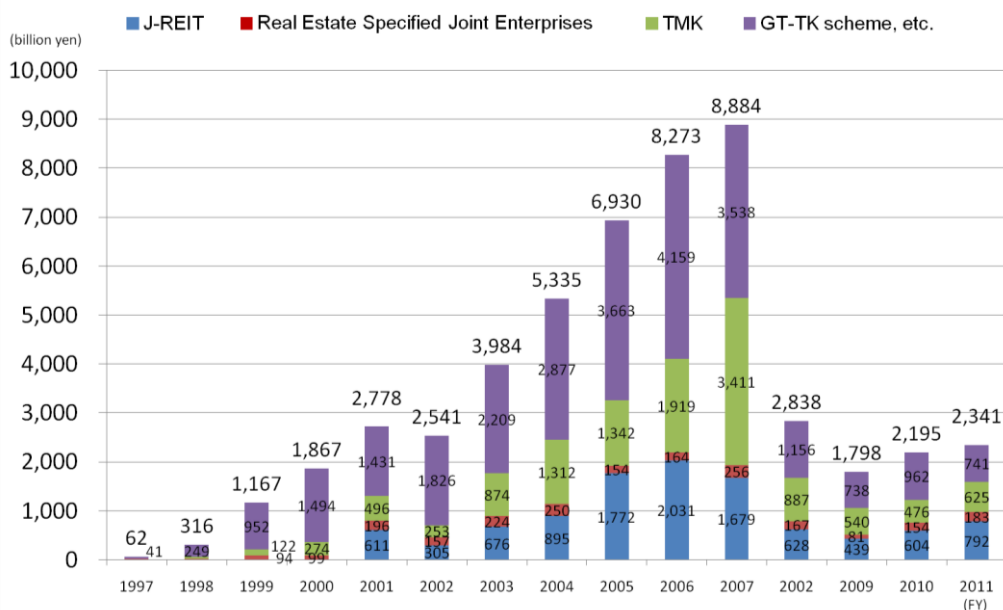


Source: “Questionnaire survey of domestic real estate investors” (2011), Ministry of Land, Infrastructure, Transport and Tourism

(Upgrading and expanding real estate securitization methods)

Looking at the changes in real estate securitization by scheme, expansion was noted in each scheme by fiscal 2006. In fiscal 2007, the TMK and GK-TK schemes each exceeded 3 trillion yen, and J-REIT achieved close to 2 trillion yen. The entire real estate investment market was deflated after Lehman's fall, resulting in J-REIT standing at 792 billion yen, the GK-TK scheme at 741 billion yen, TMK at 625 billion yen, and totaled 2.3 trillion yen in fiscal 2011.

Chart: Change in acquisition of real estate subject to securitization by scheme



Source: “Field survey on real estate securitization,” Ministry of Land, Infrastructure, Transport and Tourism

Note: The totals of individual schemes and the grand sum do not match due to some unknown data in fiscal 2011.

(Ensuring market transparency)

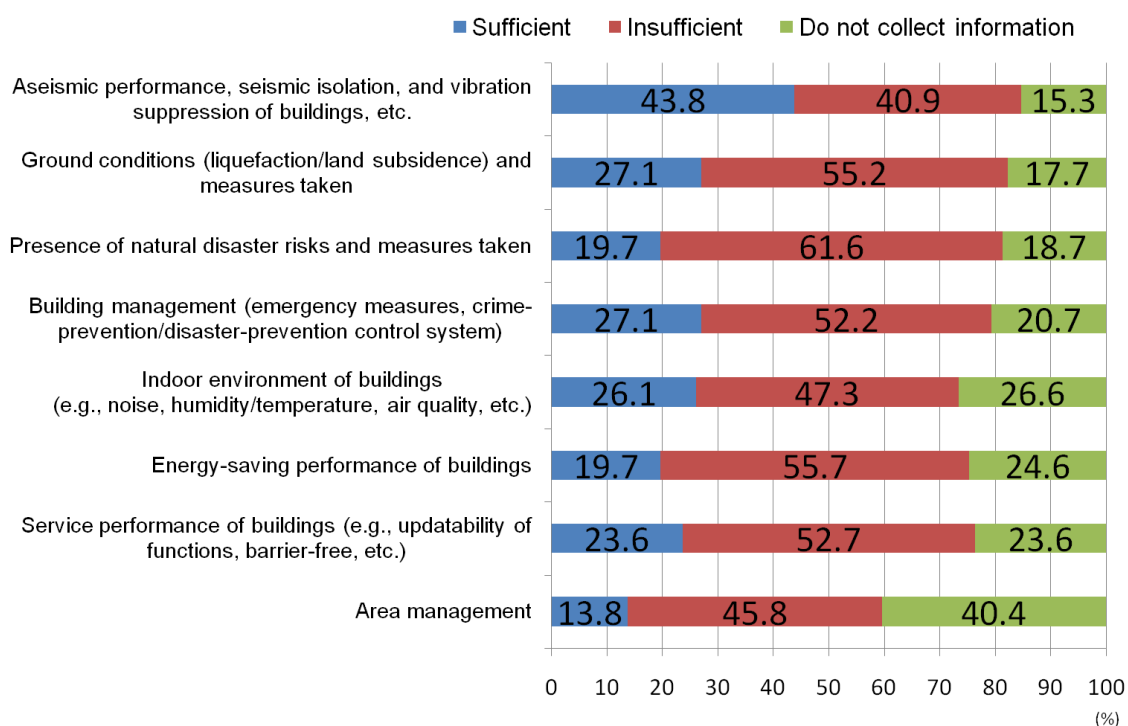
The real estate investment market in Japan has not been highly evaluated for its transparency from a global perspective. For example, according to the “Real Estate Transparency Index³” regularly published by Jones Lang LaSalle, Japan’s real estate transparency ranked 26th—a very low evaluation for a country having such a highly developed economy.

(Need for information concerning real estate sustainability)

In order to vitalize the real estate investment market, sufficient information must be provided to ensure market transparency. In particular, safety, security, and environmental concerns regarding real estate property should be given greater consideration in the wake of last year’s Great East Japan Earthquake. Moreover, there is high demand for the disclosure of information concerning real estate sustainability.

When asked about the sufficiency of information concerning real estate sustainability, more domestic investors answered “sufficient” than those responding with “insufficient” relative to information on aseismic performance, seismic isolation, and the vibration suppression of buildings. However, for other questions, more investors responded with “insufficient” than those answering “sufficient.” The results show that investors generally do not perceive that available information on safety, security and environmental performance is sufficient.

Chart: Sufficiency of information on real estate sustainability



Source: “Questionnaire survey of domestic real estate investors” (2011), Ministry of Land, Infrastructure, Transport and Tourism

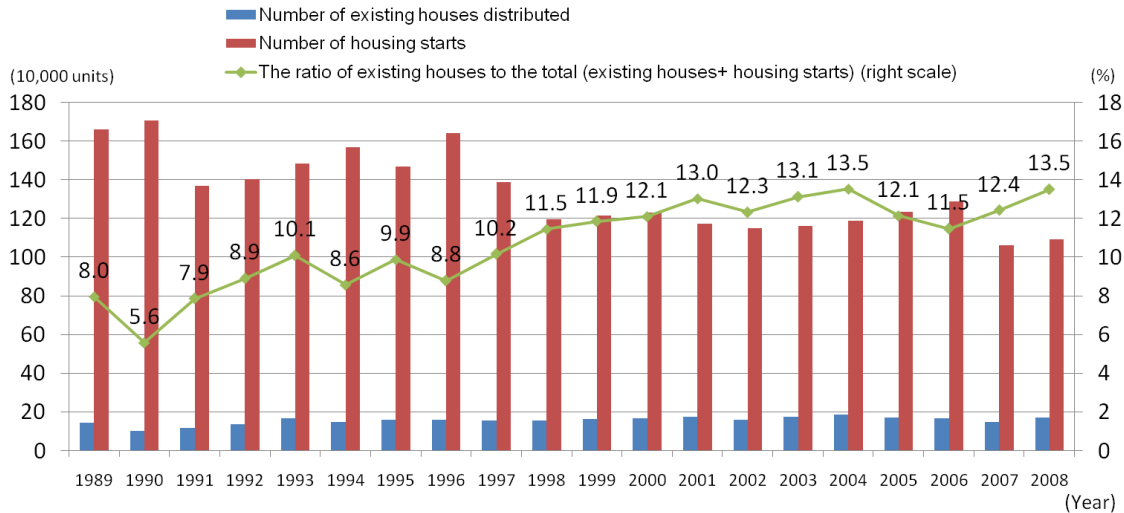
³ Evaluates the transparency of real estate markets in the world. The index comprises the following five major: [1] Performance measurement, [2] Market fundamentals, [3] Listed vehicles, [4] Regulatory and legal environment, and [5] Transaction processes.

Section 3 Vitalization of the Used House Distribution Market

1. Current status of the existing house distribution market

An overview of the Japanese housing market shows that the number of housing starts has declined in recent years, but the number of existing houses distributed remains stable. As a result, the ratio of existing houses to the total number of houses distributed (total number of housing starts and existing houses distributed) rose from 8.0% in 1989 to 13.5% in 2008.

Chart: Change in the ratio of existing houses to the total number of houses distributed



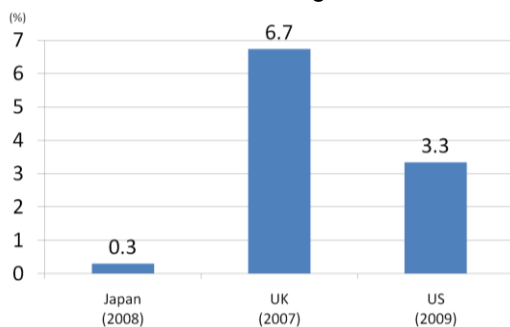
Source: "Housing Statistical Survey" (1993), and "Residence/Land Statistical Survey" (1998, 2003, 2008), Ministry of Internal Affairs and Communications; "Statistical Survey on Construction Starts," Ministry of Land, Infrastructure, Transport and Tourism

Note: The numbers of existing houses distributed in 1993, 2003, and 2008 were respectively estimated based on data on the January to September periods for those years.

When comparing the ratio of existing houses to the total number of houses distributed with the numbers in other countries, however, there is a huge gap between 13.5% in Japan and 90.3% in the United States, 85.8% in the United Kingdom, and 64.0% in France. The ratio of existing houses is thus very low in Japan, and remains one-sixth of other nations which have a larger number of distributed existing houses than the number of housing starts.

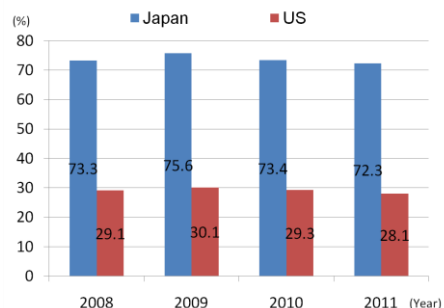
The ratio of existing houses to the number of housing stocks is 0.3% in Japan, which is also low in comparison with the United States (3.3%) and the United Kingdom (6.7%). These facts suggest that Japan's existing house distribution market is smaller in size and lower in liquidity relative to other nations. Order-made houses account for more than 70% of all detached houses in Japan. The ratio is far higher than the 30% in the United States. This suggests that Japanese buyers of detached houses simply order houses that suit their tastes, without expecting to change dwellings in the future.

Chart: Global comparison of the ratio of existing houses to housing stocks



Source: Japan: "Residence/Land statistical survey," Ministry of Internal Affairs and Communications
 UK: The Department for Communities and Local Government
 US: U.S. Department of Housing and Urban Development
 NATIONAL ASSOCIATION OF REALTORS

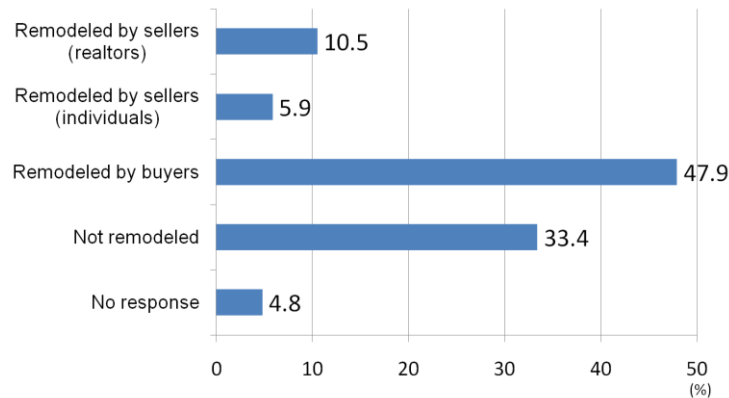
Chart: Comparison of the ratio of order-made houses to the number of detached houses between Japan and the United States



Source: "Statistical survey on construction starts," Ministry of Land, Infrastructure, Transport and Tourism; "New Residential Construction," U.S. Census Bureau

A questionnaire survey of the buyers of existing houses asking whether remodeling was conducted before or after the purchase revealed that 10.5% of buyers who bought houses from realtors and 5.9% of buyers who bought houses from individuals stated that their houses had already been remodeled. However, including the remodeling done by buyers, a total of 61.8%⁴ of existing houses was remodeled before or after being purchased. This suggests that distribution facilitates the improved quality of existing houses.

Chart: Remodeling before/after the purchase of existing houses (answered by buyers)



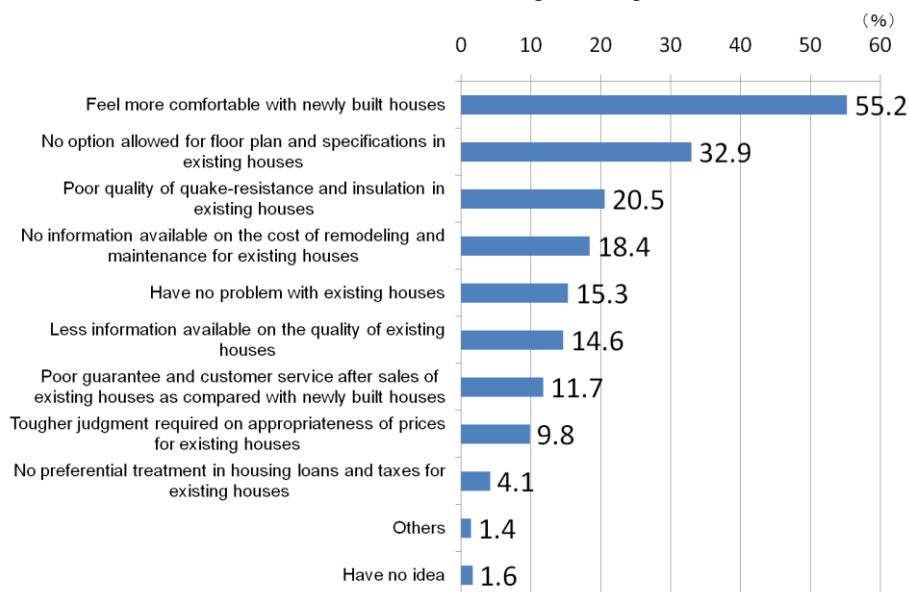
Source: "Consumer trend survey concerning the real estate distribution industry," (2011) the Association of Real Estate Agents of Japan

Note: The total number includes the cases where whether a house or an apartment is not known.

2. Accumulation and provision of information necessary for transactions (Necessity of information for house buyers)

Respondents answering "newly built houses," or "have no problem with existing houses" to the question about the preference of a newly built or existing house were asked why they did not choose existing houses. More than a few respondents mentioned a lack of information on existing houses by pointing out "not knowing the cost for remodeling and maintenance for existing houses"(18.4%) and "less information available concerning the quality of existing houses" (14.6%), in comparison with the other items. The information asymmetry where there is a large difference in the amount of available information between newly built houses and existing houses must be resolved.

Chart: Reason for not choosing existing houses



Source: "Survey on citizens' perception on land issues" (2011), Ministry of Land, Infrastructure, Transport and Tourism

⁴ A house remodeled by both sellers and buyers is counted as one case, in order to avoid redundancy.

(Provision of information on building quality)

Residence buyers may check the building conditions through the residence performance indication system based on the “Housing Quality Assurance Act” and building inspection.

(Provision of information on land)

In order to check risks specific to the land through surveys on natural land conditions, the status of previous modifications such as making embankments and landfills, and the history of disasters, a land history survey is conducted as part of the land classification survey prescribed under the National Land Survey Act. At present, geomorphological maps and land use classification maps of the Tokyo, Kanagawa, Chiba, Saitama, and Nagoya regions have been publicized.

Land transactions may take a great amount of time and cost in order to survey land borders in cases where no borders are specified. Consequently, local governments and other authorities conduct cadastral surveys to confirm the locations and borders by each *hitsu* (section).

(Provision of information on values)

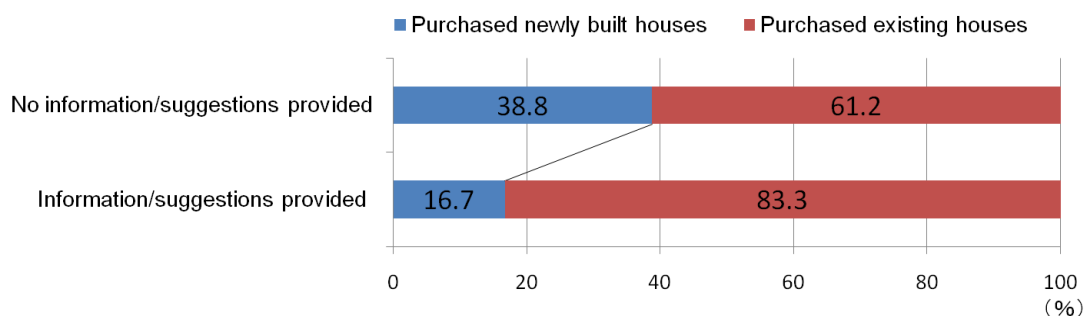
Information on real estate transaction values are provided on the Internet through a system that provides information on real estate transaction prices as based on surveys of real estate buyers, and through websites that provide information on real estate transactions using contracted price information owned by the Real Estate Information Network System (REINS). And with regard to real-property appraisal, the real-property appraisal group—the National Land Council Land Policy subcommittee—has initiated discussions on evaluating the assets in distributed existing houses distribution and building conversions.

3. Fostering professionals who work in the market

(Roles expected for real estate business operators)

A questionnaire survey was conducted of those who have considered buying an existing house, specifically asking whether information or any suggestions on remodeling was provided by the realtor. Approximately 60% of the respondents bought existing houses among those who did not receive information or any suggestions on remodeling. And more than 80% of the respondents bought existing houses among those who did receive information or suggestions on remodeling.

Chart: Presence/absence of information or suggestions on remodeling provided by realtors for those who have considered buying an existing house; actual selection of the buyers



Source: “Residence buyer survey,” (2007), Recruit Housing Research Institute

(Efforts to foster professionals)

In order to revitalize the existing house distribution market, it is necessary to strengthen the functions of real estate business operators who work in the market. Such measures as [1] forums to vitalize the real estate distribution market and [2] support for coalition between real estate business operators and relevant business operators are in progress.

Chapter 3 Situation Concerning Real Estate after the Great East Japan Earthquake

On March 11, 2011, the Great East Japan Earthquake struck and caused massive damage, largely in the Tohoku region. This unprecedented disaster resulted in a huge loss of life and many missing persons, and destroyed local infrastructure. The disaster also caused tremendous damage to the socioeconomic situation in and around the disaster-struck areas.

In the real estate field, the direct damage included the inundation of a vast land area due to tsunami waves, many severely damaged or destroyed buildings due to the tsunami and earthquake as well as such ground damage as liquefaction and land subsidence. The adverse have an impact on land values and the supply and demand of residences and offices in the disaster areas.

Section 1 Damage Caused by the Great East Japan Earthquake

(Outline of damage caused by the Great East Japan Earthquake)

The structural damage associated with last year's the Great East Japan Earthquake included about 130,000 total collapses and about 260,000 partial collapses of buildings. In addition to the washout and collapse caused by the tsunami, and the widespread earthquake-induced collapse, liquefaction occurred in a large area extending from Tohoku to the Kanto region inclusive of Tokyo bay area consortium, causing many residences to tilt or sink. Both social infrastructure and lifelines were also severely damaged.

(Damage of inundation due to tsunami)

Among the damage caused by the tsunami that characterized the Great East Japan Earthquake, the widespread inundation affected a total of 561 km² (as of April 18, 2011) in 62 municipalities in six prefectures (Aomori, Iwate, Miyagi, Fukushima, Ibaraki, and Chiba).

Looking at the use of land in the flooded areas, rice fields accounted for the highest portion at 37%, with building site at 20%, and other land (e.g., open space of airports, ports, reclaimed land, etc.) at 10%.

(Crustal movement and land subsidence)

The earthquake caused unprecedented crustal movement up to 5.3 meters horizontally and 1.2 meters vertically. Along the Pacific coast in the Tohoku region, conspicuous land subsidence has been confirmed at 76 cm in the city of Ofunato, and at different levels in other places.

(Liquefaction)

Widespread damage to building site due to liquefaction was confirmed as of September 27, 2011, in at least 80 municipalities in nine prefectures (Iwate, Miyagi, Fukushima, Ibaraki, Gunma, Saitama, Chiba, Tokyo, and Kanagawa). As many as 18,674 cases were reported in Chiba prefecture where damage was conspicuous, with 6,751 cases being reported in Ibaraki prefecture.

Section 2 Trends in the Real Estate Market in Disaster Areas

(Trends in land values in the disaster areas)

Looking at the average volatility in the prefectures of Iwate, Miyagi and Fukushima that suffered the worst damage, residential and commercial land values dropped in all three prefectures. However, the average volatility shows different tendencies among these prefectures. While the drop ratio became lower in Miyagi than in the previous year, the ratio remained unchanged in Iwate and dropped even further in Fukushima.

Trends in land values in Iwate, Miyagi and Fukushima prefectures

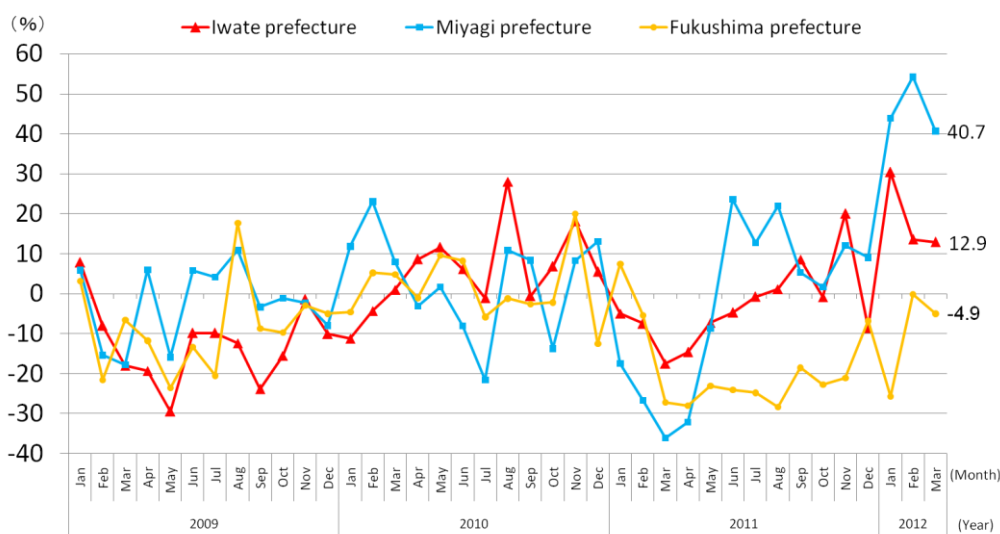
	Residential land		Commercial land	
	2011 Publication	2012 Publication	2011 Publication	2012 Publication
Iwate prefecture	▲ 4.9	▲ 4.8	▲ 7.6	▲ 7.0
Miyagi prefecture	▲ 2.9	▲ 0.7	▲ 6.5	▲ 3.9
Fukushima prefecture	▲ 3.4	▲ 6.2	▲ 4.3	▲ 7.2
National	▲ 2.7	▲ 2.3	▲ 3.8	▲ 3.1

Source: "Publication of value of standard sites" Ministry of Land, Infrastructure, Transport and Tourism
 Note 1: In the areas struck by the Great East Japan Earthquake, the selection of survey sites was changed for 48 sites, and the survey was suspended at 17 sites.
 Note 2: 2011 Publication: from January 1, 2010, to January 1, 2011
 2012 Publication: from January 1, 2011, to January 1, 2012
 Note 3: ▲ The drop ratio decreased from the previous year.
▲ The drop ratio increased from the previous year.

(Trends in land transactions in the disaster areas)

Concerning the year-to-year change in the number of land transactions in the disaster areas, the drop ratio expanded in Iwate prefecture after the earthquake, and then sporadically turned positive since last August. In Miyagi prefecture, the drop ratio expanded after the earthquake, but turned positive since last June. In Fukushima prefecture, the drop ratio was huge following the earthquake, and has a tendency of gradually declining since then.

Chart: Year-to-year change in the number of land transactions through purchases in Iwate, Miyagi and Fukushima prefectures

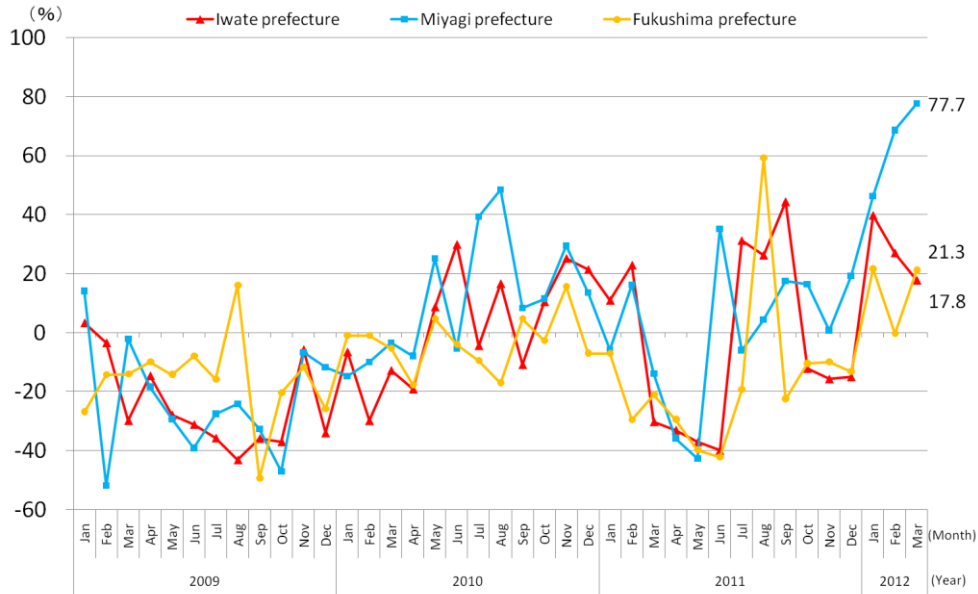


Source: "Monthly Legal Statistics Report," Ministry of Justice

(Trends in the housing market and office market etc. in the disaster areas)

Looking at the trend in the housing market in the disaster areas, the year-to-year number of housing starts marked a major decline in March, April and May of last year immediately after the earthquake in the prefectures of Iwate, Miyagi and Fukushima, and then improved in mid-2011. The year-to-year change has continued to be positive since last August in Miyagi prefecture, while in Iwate and Fukushima, the year-to-year change temporally became negative at the end of the year.

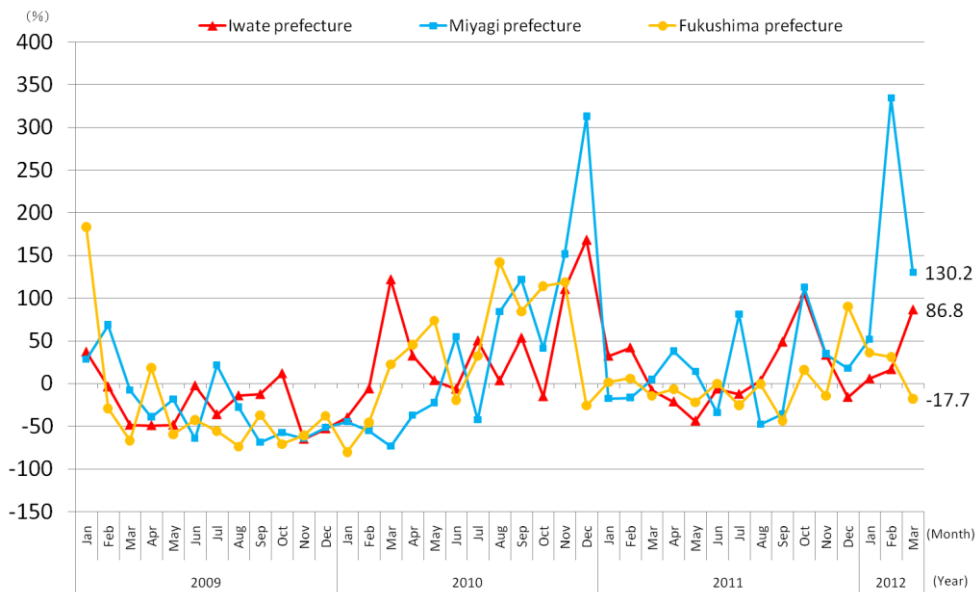
Chart: Year-to-year change in the number of housing starts in Iwate, Miyagi and Fukushima prefectures



Source: Statistical survey on construction starts, Ministry of Land, Infrastructure, Transport and Tourism

Secondly, looking at the trends in non-residence construction starts in disaster areas, the year-to-year change in square footage of non-residence construction became negative in Iwate prefecture immediately after the earthquake, but has generally remained positive since last August. The year-to-year change has generally remained positive in Miyagi prefecture soon after the earthquake. The year-to-year change remained negative until last September, and then sporadically became positive in Fukushima prefecture.

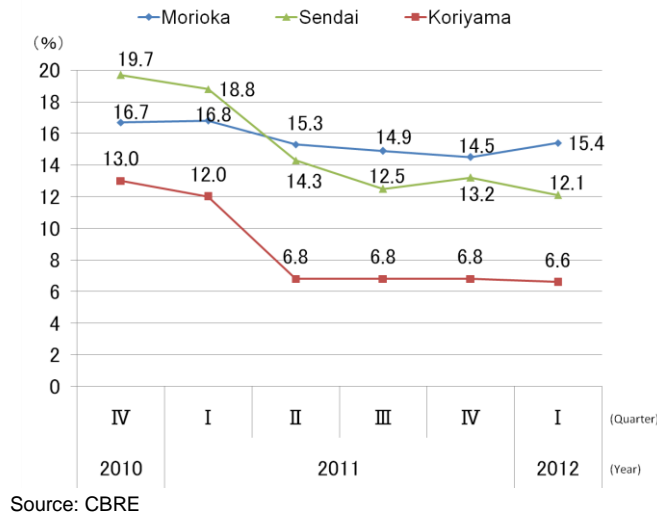
Chart: Year-to-year change in square footage of non-residence construction in Iwate, Miyagi and Fukushima prefectures



Source: "Statistical survey on construction starts," Ministry of Land, Infrastructure, Transport and Tourism

Concerning the trends in the office market in the disaster areas, the vacancy rate in Sendai after the earthquake remained as high 19.7% in the October-December quarter of 2010, as in other local cities. The demand for office buildings grew due to the need for relocating from damaged buildings and those having low quake resistance. Restoration-related companies also needed office buildings. Consequently, the vacancy rate dropped to 12.1% in the January-March quarter of 2012. Concerning the trend in the office market in other disaster areas, the vacancy rate in the city of Morioka slightly improved from 16.7% in the October-December quarter of 2010. In the city of Koriyama, the rate dramatically improved from 13.0% in the October-December quarter of 2010, and has remained around 6% since April-June quarter of 2011.

Chart: Vacancy rate of office buildings in Sendai, Morioka and Koriyama

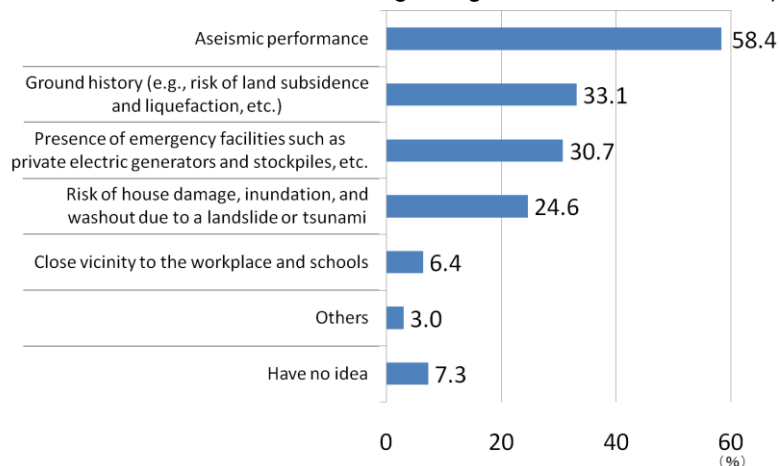


Section 3 Change in the perceptions of real estate after the Great East Japan Earthquake

(Change in real estate preference after the earthquake)

In a questionnaire survey regarding the issues more concerned about after the Great East Japan Earthquake, the highest number of respondents answered “aseismic performance” (58.4%), followed by “ground history (e.g., risk of land subsidence and liquefaction, etc.)” (33.1%), “presence of emergency facilities such as private electric generators and stockpiles, etc.” (30.7%), and “risk of house damage, inundation, and washout due to a landslide or tsunami” (24.6%).

Chart: Change in the perception of real estate after the earthquake (What is more concerned about regarding real estate than before?)



Source: “Survey on citizens’ perception on land issues” (2011), Ministry of Land, Infrastructure, Transport and Tourism

(Impact of the earthquake on the perception of owning real estate)

Among the respondents of the questionnaire survey who answered that the earthquake had an impact (11.0%) on the preference of ownership or tenancy, 80.7% strengthened their perception in wanting to own both land and a house, 7.2% strengthened their perception of possibly renting land as long as they own the house, and 12.2% strengthened their perception of not minding to rent a house (rented accommodation).

Among the respondents who answered that the earthquake had an impact on the ideal form of residence (13.4%), 67.6% strengthened their preference for detached houses, 21.2% strengthened their perception of not minding a detached house or a condominium, and 11.3% strengthened their preference for condominium.

(Reasons for changing dwellings)

When respondents who were planning to move to a new residence were asked about the reasons why, the highest percentage (41.5%) replied “because I do not own the current residence.” The ratio of the response, “beginning to think about changing dwellings due to the impact of the earthquake,” was the highest (80.0%) among those responding with “because natural disasters may cause damage” in all the responses.

(Relationship of the public interest and disaster prevention community renovation with limited right to land use)

“Do you think it is fine to impose limits on land use to pursue public interest in view of the public nature of land?” Among those answering this question, 24.1% replied “Yes” and 30.9% replied “No.”

Part 2 Basic Measures in Relation to Land in FY2011 (Omitted)

Basic Measures in Relation to Land in FY2012 (excerpt)

Chapter 1 Dissemination of Basic Philosophy on Land

During the “Land Month” of October (October 1 is “Land Day”), the government will actively work to disseminate the basic philosophies on land and introduce various measures and systems concerning land in collaboration with relevant organizations.

Chapter 2 Enhancement of Information on Land

Section 1 Systematic Maintenance of Land Information

In order to systematically maintain information on land ownership, utilization, sites transactions, prices and so forth, the government will conduct publication of value of standard sites and cadastral surveys, as well as provide real estate transaction prices. The government will also prepare and organize statistical documents to clarify the actual status of land transactions.

Section 2 Promotion of National Land Survey

The government promotes cadastral surveys, land classification surveys—including a land use history survey based on the 6th 10-Year National Land Survey Plan (fiscal years 2010 to 2019)— and water surveys.

Section 3 Promotion of Enhancement of National Land Information

As for digital national land information, the government will revise publication of value of standard sites and publication of value of standard sites by prefectural government. Concerning geospatial information, the government will prepare and update map information and geospatial information (i.e., social foundation) based on the basic plan for advancing the use of geospatial information that was decided by the Cabinet in March 2012. The administration of land surveys will be also promoted.

Section 4 Enrichment of the Land Registration System

The government will further promote the use of computers in registration procedures and continue to focus on the intensive mapping of urban areas whose lot numbers are not registered in accordance with Article 14, paragraph 1 of the Real Property Registration Act.

Chapter 3 Accurate Understanding of Land Values Trends

Section 1 Promotion of the Publication of Value of Standard Sites

The government will make publication of value of standard sites at 26,000 standard sites in 2013. The government will also continue to publish the results of analyses of trends in land value based on publication of value of standard sites by prefectural government in 2012.

Section 2 Provision of Real Estate Transaction Prices

The government will continue to conduct surveys on real estate transaction prices nationwide and publish the information on transaction prices obtained in the surveys on the Internet on a quarterly basis. The government will also work on the development of real estate price indices, based on the trends of international organizations and user needs at home, and geared toward trial operation in fiscal year 2012.

Section 3 Enhancement of Real Property Appraisal

With regard to the appraisal of property for securitization and appraisal for preparing financial statements, the government will engage in ongoing monitoring, such as by conducting on-site inspection concerning the real property appraisal firm. The government will also study how the appraisal methods used for buildings in light of the changes in circumstances surrounding the real property appraisal.

Section 4 Balanced and Proper Land Appraisal by the Public Sector

In order to promote proper land-price formation and taxation, the government will continue to strive for balance and reasonableness in public land appraisals relative to the prices that are used in assessing fixed property tax and inheritance tax.

Chapter 4 Improvement of Real Estate Market

Section 1 Improvement of Real Estate Transaction Market

In addition to promoting the proper application of the Building Lots and Buildings Transaction Business Act and improvement of the real estate trading market utilizing the Real Estate Information Network System, the government will operate a portal site on sustainable properties and a database of contaminated-land information in order to promote the formation of a real estate market focused on environmental values and facilitate transactions of soil-contaminated land.

Section 2 Improvement of Real Estate Investment Market

In order to introduce private funds for the improvement of urban functions, a bill to revise part of the Real Estate Specified Joint Enterprises Act was decided by the Cabinet in February 2012, and has just been submitted to the Diet. Efforts will be made for smooth implementation of the revised Act with other necessary measures being taken after enactment of the bill. The government will discuss a review of the investment trust and investment corporation legal system on an ongoing basis.

Section 3 Land Tax Measures

In view of the energization of land transactions and the promotion of land use, the government will continue to implement tax measures for the acquisition, possession and transfer of land at each step.

Chapter 5 Improvement and Enhancement of the Land Use Plan

Section 1 Promotion of the Land Use Plan

Based on the 4th National Land Use Plans, the government will take measures necessary for promoting overall management of national land use and will also promote proper and reasonable land use by property implementing the general plan of land use.

Section 2 Ensuring Proper Use of Land in City Planning

The government will promote the appropriate implementation of “Policy for Improvement, Development and Preservation of City Planning Areas” (master plan), which is laid out in each city planning area, and formulation of “Basic Policy Concerning Municipal City Planning” (municipal master plan). The government will also promote appropriate utilization of city planning systems to meet various policy challenges.

Section 3 Coordination with National Land Policy

The government will promote efforts for realizing a new form of national land, as called for in the National Spatial Strategies (National Plan)—a policy guideline for the comprehensive formation of national land. The government will review the Regional Plan for the Tohoku region to provide a new, sustainable, disaster-resistant regional vision. The government will also promote the formation of regional centers and industrial location policies.

Chapter 6 Promotion of Housing Measures

Section 1 Promotion of Housing Measures

The government will implement the Used House/Reform Total Plan formulated in response to the government's "New Growth Strategy" (decided by the Cabinet in 2010). The government will promote the diffusion of environment-friendly houses through the reconstruction support /housing-version eco-point system, under which points that can be exchanged for various goods/services will be issued for the construction of eco-houses and the eco-reform of houses.

The government will also promote securitization support businesses (buyout type and guarantee type) through the Japan Housing Finance Agency in order to support the provision of long-term and fixed-rate housing loans provided by private financial institutions. The government will also lower interest rates on loans under the good-house acquisition support system, utilizing the framework of the securitization support businesses.

In the FY2012 tax revision, the government will take special income tax deductions for cases of borrowing concerning low-carbon buildings in response to enactment of the Act concerning Promotion of Low-Carbon Urban Design.

Section 2 Creation of Favorable Living Environment by Promoting the Provision and Management of Good Residential Land

The government will support efforts to revitalize new towns where residents are aging and buildings and facilities have become decrepit as safe and comfortable residential areas, by redeveloping houses and dwelling environments, including through the introduction of barrier-free design, and by attracting welfare facilities.

Chapter 7 Promotion of Effective Land Use

Section 1 Promotion of Local Community Invigoration and Urban Renewal

Under the Regional Invigoration Headquarters, the government as a whole will promote efforts to achieve integrated and effective local revitalization, including comprehensive special zones, future cities, urban renewal, designated structural reform districts, local regeneration, and city center vitalization.

The government will also promote efforts to support private urban development in the areas designated for Emergency City Regeneration by the Act on Special Measures concerning Urban Renaissance and create super blocks based on "the Super Block Guidelines" developed in 2010, to strengthen the international competitiveness of large cities and renovate local cities.

Section 2 Promotion of Urban Infrastructural Development and Disaster-resistant Urban Planning

In order to promote urban infrastructure development, the government will promote the utilization of civilian capabilities as well as utilization of the space in midair and underground, and the development of disaster countermeasures in towns by enhancing the disaster prevention in urban housing areas, preventive measures in roads and sewage systems, preventive measures against tsunami and cadastral surveys.

Section 3 Promotion of Use of Underused/Unused Land

The government will promote the redevelopment of underutilized/unused land, such as former factory sites and reclaimed land, through various projects. In order to vitalize city centers, the government will also provide intensive support to the areas designated as eligible for the basic plan for city center vitalization.

Section 4 Development of Comfortable Residential Environment by Utilizing Farmland

The government will promote the provision of residential land with a good living environment by utilizing farmland through the farming and residence association system.

Section 5 Utilization of Land Owned by the Public Sector

The government will promote the effective and intensive utilization of land owned by the public sector by promoting the long-term use of existing government building and, relocation and combined use with other government buildings, and the effective use of unused national land.

Section 6 Facilitation of Public Land Acquisition

In order to generate the effects of public work projects at an early stage, the government will promote land acquisition in line with the “Land Acquisition Management,” under which bottlenecks in land acquisition are examined and analyzed with careful preparations being made regarding all stages from the planning of projects to their future use, along with ensured schedule control.

Chapter 8 Promotion of Environmental Conservation

Section 1 Promotion of Measures Concerning Environment Conservation

The government will promote land-related measures for environmental conservation and give consideration to environmental conservation in various land-related policies and when selecting and implementing projects, based on the fourth Basic Environment Plan decided by the Cabinet in April 2012. The government will also revise guidelines for business operators to properly and smoothly enforce the revised Soil Contamination Countermeasures Act.

Section 2 Appropriate Conservation of Farmland

The government will promote improvement of land conditions through infrastructure development projects for facilitating the implementation of compensation of individual-household income. The government will promote efforts to create local master plans in order to resolve the so-called “problems with humans and farmland,” such as an aging population, a dwindling population of young farmers, and abandoned agricultural land that exist in farm villages and agricultural areas.

Section 3 Ensuring Appropriate Conservation and Utilization of Forests

In order to maximize the multi-functionality of forests, the government will provide guidance and advice to local governments and forest owners on the systematic development of forests based on the forest planning system provided by the Forest Act. The government will implement measures necessary for promoting the use of lumber in public buildings, etc.

Section 4 Proper Conservation of River Basins

In special river basins for comprehensive flood control measures, the government will establish river basin conferences consisting of the river divisions of the national, prefectural and municipal governments, and other divisions related to city, housing and land, as well as create river basin improvement plans to encourage proper land use in river basins and the control of rainwater runoff. The government will also promote comprehensive sediment disaster prevention measures and flood control measures for cities.

Section 5 Proper Protection of Cultural Property and Creation of Favorable Landscapes

As for historic villages and streetscapes, the government will provide guidance and advice to municipalities regarding the preservation and utilization of conservation zones for clusters of traditional structures as well as select important conservation zones for clusters of traditional structures and promote the preservation and utilization thereof. The government will also promote the creation of favorable landscapes.

Chapter 9 Measures for Recovery/Reconstruction from the Great East Japan Earthquake

Section 1 Measures in Relation to Land Use

As measures concerning residential land, the government will promote measures against tsunami disasters, such as projects for promoting muss relocation for disaster prevention, projects to development post-tsunami restoration centers and projects to enhance disaster prevention functions in fishery settlement and also support measures to prevent sediment disasters and liquefaction.

As measures concerning agricultural land, the government will implement projects to recover farmland and agricultural facilities from the disaster, and remove salt element, etc.

Moreover land use reconstructing, the government will promote utilizing various special provisions of land use based on land plan system prescribed by the law for special zone for reconstruction and support the smooth and prompt implementation of projects to develop urban areas and agricultural production bases.

Section 2 Measures in Relation to Housing

Regarding provision of public housing for disaster victims, the government will reduce the burden on local government by increasing the subsidies for developing housing conditions and lowering rent, and support stable dwelling conditions for disaster victims by providing subsidiaries to lower rents and extending the special period to mitigate requirements for moving-in.

The government will also support disaster victims in rebuilding their residences by expanding the application of housing loans for disaster reconstruction and the special provision for victims taking loans from the Japan Housing Finance Agency, as well as preferential measures on loaning for promotion of workers' property accumulation.

Section 3 Measures in Relation to Land Information

The government will compile basic maps for the disaster restoration plan, promote clarification of demarcation on lands by conducting national demarcation surveys on public/private land and national cadastral surveys as prescribed by the law for special zone for reconstruction, properly execute preferential measures concerning land whose owners' are missing, and provide land transaction information to ensure appropriate transactions, in order to accumulate more land information for subsequent provision.

Section 4 Tax Measures

The government will promote the reduction of burdens on victims of the Great East Japan Earthquake, and efforts toward recovery and reconstruction through tax-related preferential measures stipulated in fiscal 2011.