

Trends Concerning Land in FY2010
Basic Measures in Relation to Land in FY2011

Abstract

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Ministry of Land, Infrastructure, Transport and Tourism

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“Trends Concerning Land in FY2010” and “Basic Measures in Relation to Land in FY2011” are created based on the provisions of Article 10, paragraphs 1 and 2 of the Basic Act for Land (Act No.84 of 1989).
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“Trends Concerning Land in FY2010”

Part 1 Trends Concerning Land

Chapter 1 Trends in Land Prices and Transactions in FY2010

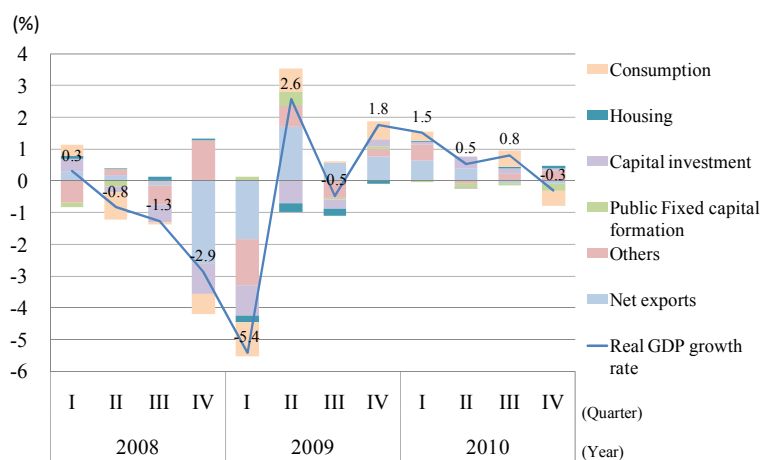
Looking back at Japan’s economic performance in fiscal 2010, in the first half we saw continued recovery from the major recession following the Lehman shock of September 2008 and the positive effects of the extremely hot summer in 2010. However, the economic recovery paused since fall due to the sharp appreciation of the yen, the reaction to the hot-summer effects and so forth. In early 2011 there were some visible signs of recovery but in addition to the damages caused by the Great East Japan Earthquake and the accompanying tsunami, the electricity supply restriction, etc. that has followed may have an impact on the Japanese economy.

Section 1 The Japanese Economic Situation Surrounding the Real Estate Market

(Changes in GDP)

The Japanese economy deteriorated sharply following the Lehman shock, but started to recover in the April–June quarter of 2009, and real GDP maintained positive growth from the previous quarter also in 2010 until the July–September quarter. In the July–September quarter, however, though consumption contributed to positive growth, net exports became negative. Then consumption also turned negative in the October–December quarter, leading to a real GDP growth rate of –0.3%, a negative figure for the first time in five quarters.

Chart: Changes in Real GDP Growth Rates



Source: “Preliminary Reports on Quarterly GDP,” Cabinet Office

(Corporate and household trends)

Excessiveness in capital stock perceived by manufacturers, which had been gradually declining since 2009, continued the declining trend also in 2010. Household consumption showed signs of recovery due to the extremely hot summer in addition to such policy effects as the eco-car subsidy and eco points, but was weak in some areas, causing the Composite Index of Consumption Expenditures in the October–December quarter to be negative compared to the same period of the previous year.

(Trends in prices)

As the consumer price index has been continuously falling since 2009, the Japanese economy is still in a mild deflation.

Section 2 Trends in Land Prices

In the public notice of land prices in 2011, while land prices continued to fall since the Lehman shock in September 2008, the decline slowed for the first time in all regions (Tokyo, Osaka, Nagoya, and Nonmetropolitan regions), showing signs of a change in the falling trend, though with remaining uncertainty over the economic situation. This move was more apparent in the metropolitan regions and residential land than in nonmetropolitan regions and commercial land, but the decline became slower in commercial land, with the rate of decline approaching that of residential land.

The reasons behind this may include policy effects, such as tax breaks for home buyers, low interest rates, and the expansion of the gift tax exemption, as well as rising demand due to affordable house prices, leading to the change in the falling trend for residential land. As regards commercial land, there were investments from home and abroad against the background of rent adjustment in the rental office market, especially in urban areas, recovery in corporate profits, upturn in the financing environment and recovery of REIT stocks, for example.

Chart: Year-on-Year Percentage Changes

		All purposes			Residential land			Commercial land		
		Up	Unchanged	Down	Up	Unchanged	Down	Up	Unchanged	Down
National	2011 Public Notice	193	1,082	24,232	152	761	15,530	35	213	5,399
	2010 Public Notice	7	101	27,302	6	65	17,759	1	21	5,900
	2008 Public Notice	13,416	2,539	12,837	9,065	1,617	8,037	3,110	427	2,701
Three largest metropolitan regions	2011 Public Notice	171	907	11,047	140	642	7,405	25	175	2,265
	2010 Public Notice	5	8	13,040	4	4	8,885	1	1	2,584
	2008 Public Notice	11,493	996	1,350	7,926	670	836	2,501	114	135
Tokyo region	2011 Public Notice	81	188	6,593	70	130	4,511	8	38	1,422
	2010 Public Notice	0	6	7,365	0	3	5,112	0	0	1,526
	2008 Public Notice	6,933	449	460	4,856	308	279	1,559	32	35
Osaka region	2011 Public Notice	8	152	3,210	2	114	2,215	6	35	533
	2010 Public Notice	0	0	3,628	0	0	2,528	0	0	602
	2008 Public Notice	3,117	340	383	2,185	255	242	577	33	23
Nagoya region	2011 Public Notice	82	567	1,244	68	398	679	11	102	310
	2010 Public Notice	5	2	2,047	4	1	1,245	1	1	456
	2008 Public Notice	1,443	207	507	885	107	315	365	49	77
Non metropolitan regions	2011 Public Notice	22	175	13,185	12	119	8,125	10	38	3,134
	2010 Public Notice	2	93	14,262	2	61	8,874	0	20	3,316
	2008 Public Notice	1,923	1,543	11,487	1,139	947	7,201	609	313	2,566

Source: "Public notice of land prices," Ministry of Land, Infrastructure, Transport and Tourism

Section 3 Trends in Land Transactions

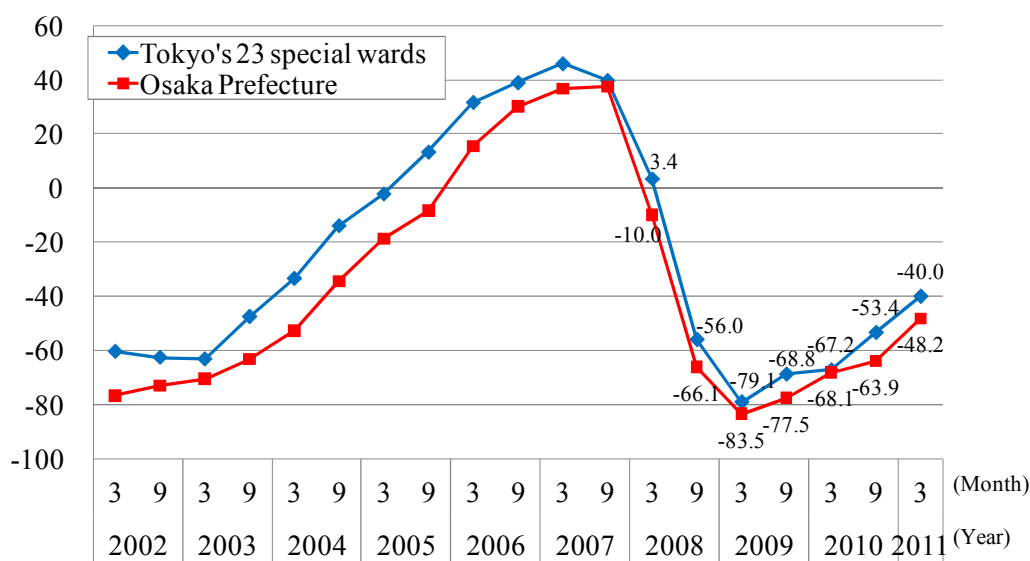
(Changes in the number of land transactions)

Land transactions in terms of registration of ownership transfer due to sale have been decreasing in the last several years nationwide, including in the largest metropolitan regions and non-metropolitan regions, with the number of land transactions in 2010 reaching 1,154,000 (down 2.2% from the preceding year). On a quarterly basis, the decline has become smaller on a year-to-year comparison since early 2010, especially in nonmetropolitan regions.

(Enterprises' perceptions of land transactions)

The diffusion index of enterprises' perceptions of land transactions of their head office location (the ratio of corporations responding that transactions were "active" minus the ratio of corporations responding "sluggish") in Tokyo and Osaka continued to improve in the beginning of 2010, with the DI for Tokyo standing at -40.0 and that for Osaka at -48.2 as of the end of March 2011.

Chart: Land Transaction Conditions DI



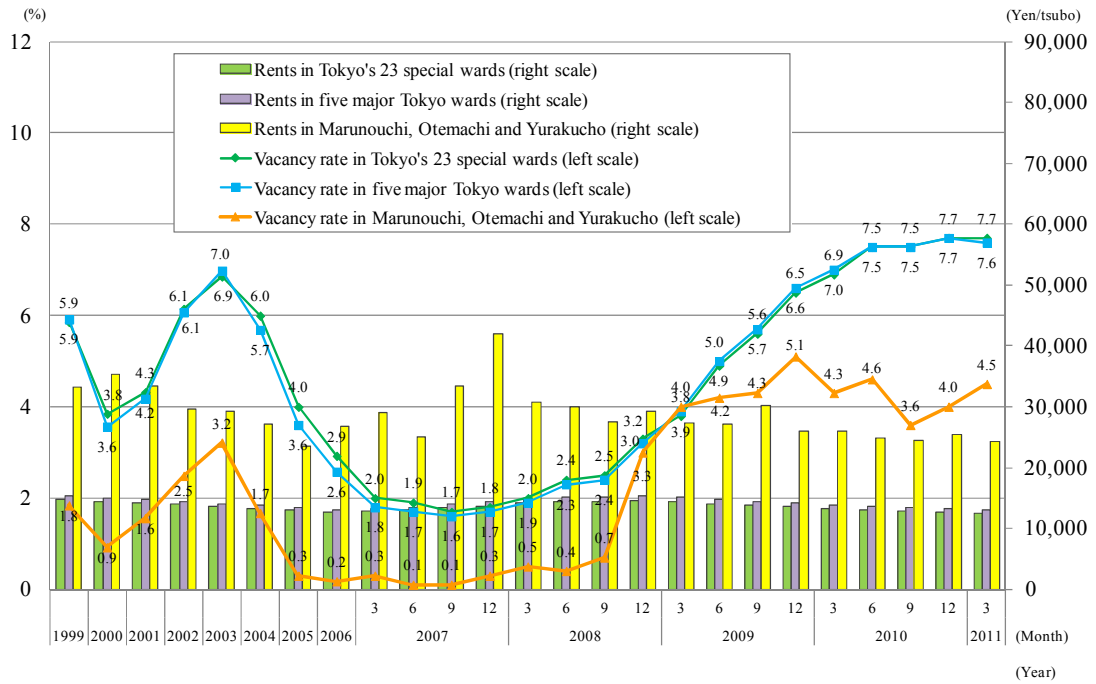
Source: "Land Investment Trend Survey," Ministry of Land, Infrastructure and Transport

Note: DI = (Active ratio) - (Sluggish ratio). The unit is points.

(Trends in the office market)

Demand for rental offices continued to decline in 2010 as in the previous year, further disrupting the office supply/demand balance. The vacancy rate of rental offices in Marunouchi, Otemachi and Yurakucho, three urban centers of Tokyo, showed signs of improvement in the beginning of 2010, but later rose again.

Chart: Changes in Office Building Rents and Vacancy Rates (Tokyo)

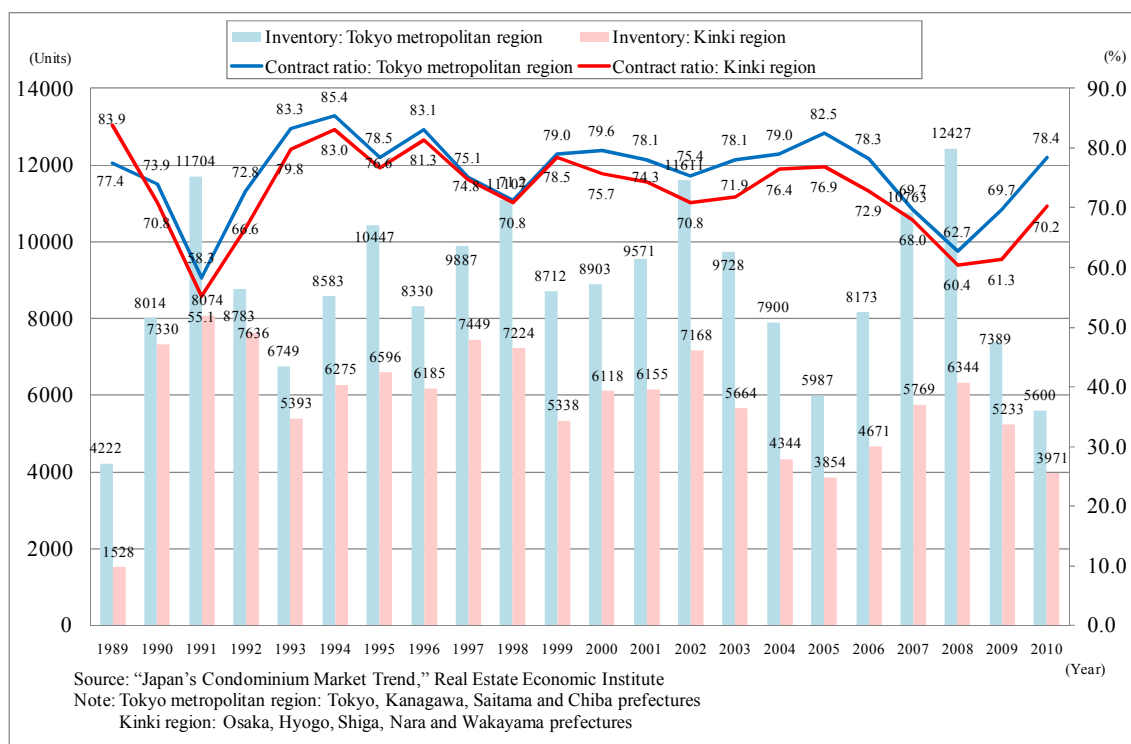


Source: CB Richard Ellis

(Trends in the residential market)

In 2010, sales of new condominiums came to 44,535 units in the Tokyo metropolitan region (up 22.4% from the preceding year) and to 21,716 units in the Kinki region (up 9.8%). The contract ratio of the new supply of condominiums in 2010 was above 70%, which is the level marking a strong market, with the contract ratio in the Tokyo metropolitan region rising to 78.4% and that in the Kinki region rising to 70.2%.

Chart: Inventory of Condominiums and Contract Ratio in the Tokyo Metropolitan Region and Kinki Region

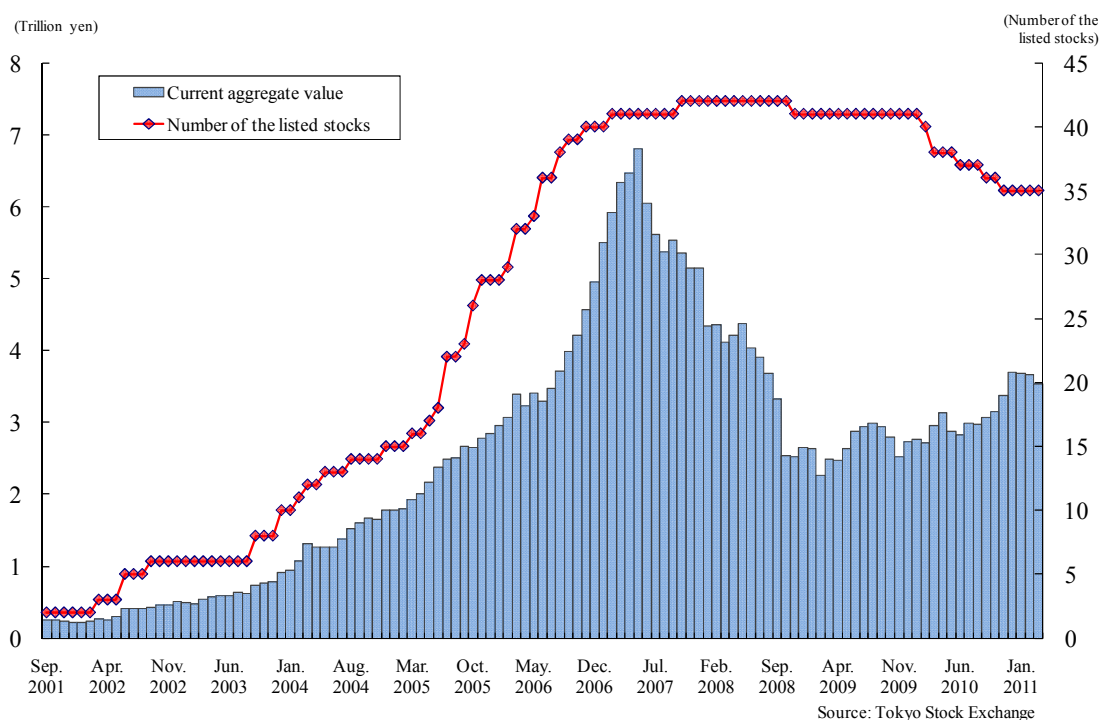


Section 4 Trends in the Real Estate Investment Market

(Trends in the J-REIT market)

There were four cases of merger in fiscal 2010, leading to there being 35 different stocks as of the end of March 2011. The size of the J-REIT market in terms of the current aggregate value of the investment securities in circulation was 3,700 billion yen as of the end of March 2011. Following the announcement by the Bank of Japan to set up a fund to purchase assets including J-REITs under "the comprehensive easy-money policy" on October 5, 2010, the trading value of J-REITs reached 28.679 billion yen (up 192% from the previous day) on the next day, October 6, and the Tokyo Stock Exchange REIT Index rose above 1,000 in November 2010 for the first time in the 14 months since September 2009.

Chart: Number and the Current Aggregate Value of the Listed J-REIT Stocks



Section 5 Trends in Land Use

As of the end of 2009, the total area of Japan was approximately 37.79 million ha (93.38 million acres). About 80% of this total area was comprised of forestry (25.07 million ha, 61.95 million acres) and agricultural land (4.69 million ha, 11.59 million acres) (down 0.4% from the preceding year). The remaining land was divided into developed land (residential, industrial and other land of 1.89 million ha (4.67 million acres) (up 0.5% from the preceding year), roads of 1.35 million ha (3.34 million acres), surface water, rivers, canals of 1.33 million ha (3.29 million acres), and fields of 0.28 million ha (0.69 million acre).

Section 6 Perceptions of Land among Enterprises and Households

Households' perception of land: of the responses regarding the tendency of the land price 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 53.3% were positive in the 2010 survey, the highest percentage ever since the start of the survey.

Enterprises' perception of land: Ratio of enterprises that consider the "tenancy will be more advantageous in the future." It had been increasing every year up to fiscal 2002, and thereafter it basically remained between 40% and 45%. It was 40.1% in the 2010 survey.

Chapter 2 Impact of the Great East Japan Earthquake and Challenges for Reconstruction

Around 14:46 March 11, 2011, an earthquake centered off the coast of Sanriku occurred with a magnitude of 9.0, the greatest Japanese recorded history. The earthquake and the tsunami caused by the earthquake inflicted tremendous damages, especially in the Tohoku Region, and developed into an unprecedented disaster with the number of missing and dead exceeding 25 thousand.¹

In addition to the huge number of human casualties, buildings and such life-line structures as roads collapsed or were tremendously damaged by the earthquake and tsunami. The transportation chaos and power supply problems that followed also had a significant impact on Japan's economic life. Furthermore, the problem at the Fukushima No.1 nuclear power plant is not only the major cause of the power supply crunch, especially in the Kanto Region, but is also having wider repercussions, including the evacuation of residents and the banning of shipping crops from the surrounding areas.

Section 1 Situation after the Great East Japan Earthquake

(Damages caused by the Great East Japan Earthquake)

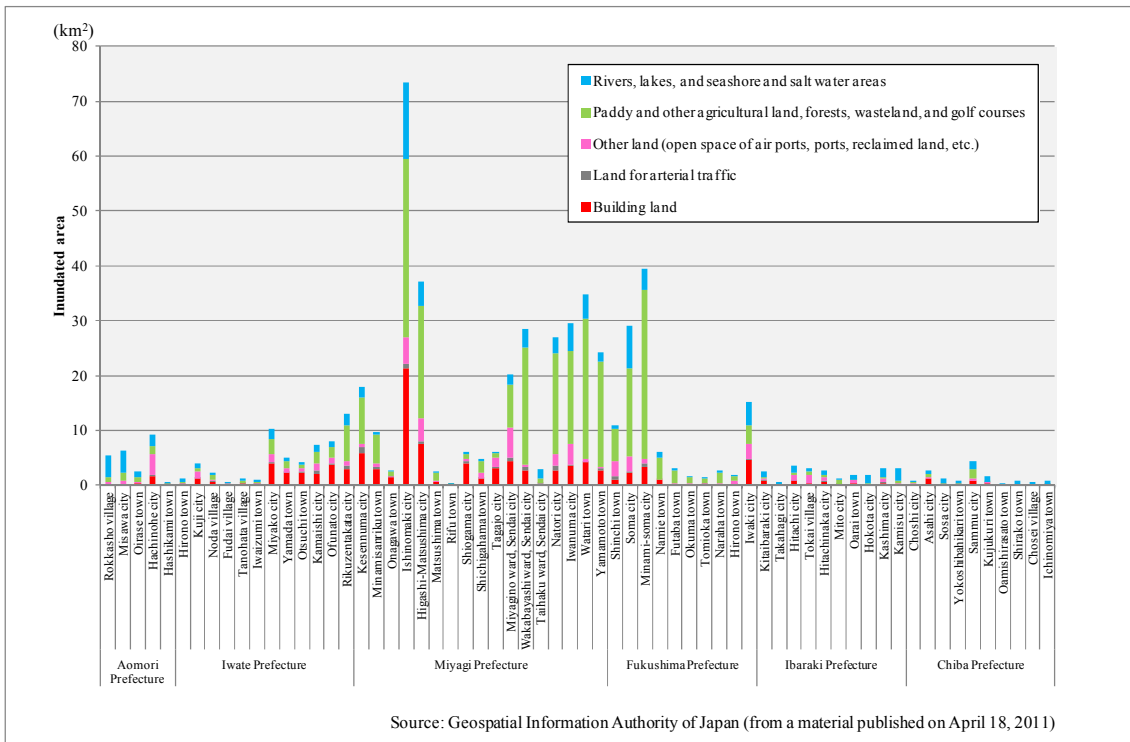
Human damages due to the earthquake include 14,508 deaths, 11,452 missing persons, and 5,314 injured persons as of April 27, 2011. The death tolls in Iwate, Miyagi and Fukushima prefectures, which suffered the most, are 4,234, 8,754 and 1,466 respectively.

In addition to such human suffering, the direct impact on stocks of social capital, houses, private company facilities and so on is estimated by the Cabinet Office to be 16 to 25 trillion yen, greatly exceeding the 9.6 trillion yen of the Great Hanshin Awaji Earthquake (estimated by the National Land Agency).

Structural damages include 76,786 total collapses, 28,032 half collapses and 231,019 partial damages. Aftershocks that occurred later in many places around Japan also caused structural damages. Furthermore, the total area flooded by the tsunami caused by the quake reached 561km² in 62 municipalities of 6 prefectures (Aomori, Iwate, Miyagi, Fukushima, Ibaragi and Chiba prefectures.) A large number of municipalities, including Ishinomaki City, Higashi-matsushima City, and Minami-soma City, experienced inundation damage due to the tsunami.

¹ The description of the damages in this chapter are based on the Disaster Headquarters' material, "About 2011 Great Tohoku Pacific Earthquake (Great East Japan Earthquake)" (April 27, 2011) and other materials.

Chart: Surface Areas Inundated by the Tsunami, by Municipality and Land Use



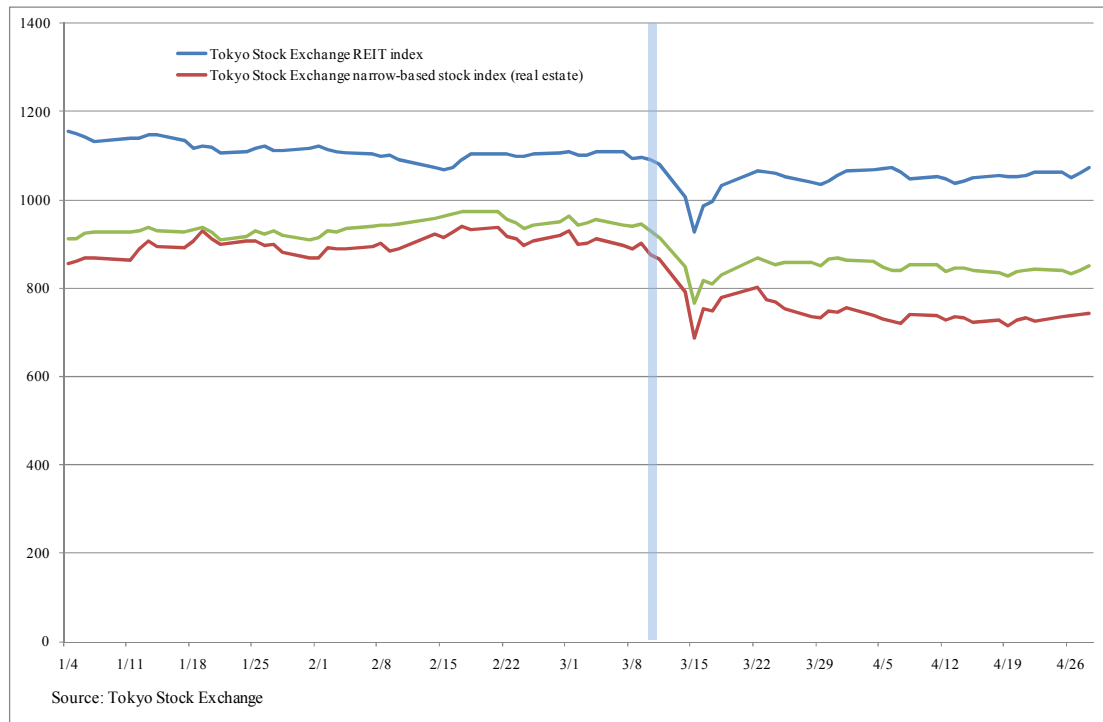
(Impact of the earthquake on the real estate market)

New construction of homes in March was down 2.4% from the same month the year before. The impact of the earthquake was significant in Iwate (down 30.1%), Miyagi (down 13.9%) and Fukushima prefectures (down 21.0%.)

Looking at the office market, damages to office buildings are relatively small in Sendai where many buildings were built according to the new quake-resistance standard or had a seismic retrofit, bringing about almost no move to relocate offices to outside the region. Some say that the demand is increasing for relatively new properties.

The impact of the earthquake is not limited to the afflicted areas. Some companies (mostly foreign companies) temporarily moved from the Tokyo metropolitan region to Osaka, for example. Tokyo Stock Exchange narrow-based stock index (real estate) fell from the closing price of 875.49 on the day before the earthquake (March 10) to 686.37 on March 15, four days after the quake, and recovered only to 746.36 on March 31. On the other hand, Tokyo Stock Exchange REIT index also fell from the closing price of 1092.29 on the day before the earthquake to 926.83 on March 15, but recovered relatively quickly to 1055.18 on March 31.

Chart: Changes in Investment Unit Price and Stock Price



(Impact of the earthquake on the real estate market)

The estimation by the Cabinet Office mentioned above also suggested the potential influence including the loss of production due to damaged private company facilities in the afflicted areas, its impact on other areas through supply chain and the loss of production due to restricted power supply, although positive effects are expected from the concentrated investment in reconstruction of the stock.

In the real estate market, beside the impacts on the demand side, such as the concern about safety against disasters and the influence of electricity shortage on various economic activities, impacts on the supply side are also expected, which include those on the procurement of materials necessary to build houses, offices, etc., and changes in financing in the realty business. In addition to the efforts for reconstruction after the quake, early recovery and stability of the real estate market are desirable. In this process, it is necessary to pay attention to the trends in land transactions in the afflicted areas as well as to facilitate reconstruction.

Section 2 Challenges Concerning Land as a Premise for Reconstruction

1. Establishing the boundary of land

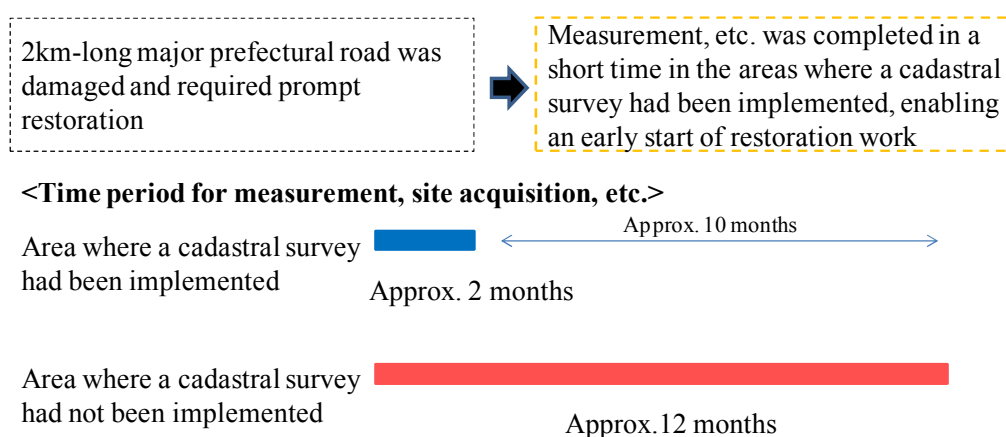
(Difference in rehabilitation/reconstruction efforts depending on the implementation of a cadastral survey)

While the areas affected by the earthquake, etc. require prompt efforts for

rehabilitation/reconstruction, whether or not a cadastral survey has been implemented in the area will make a significant difference in the time and cost required for reconstruction of houses and restoration of lifelines, for example.

In the case of the Mid-Niigata Prefecture Earthquake (2004), there is a report that, in the restoration work of a 2km-long major prefectural road, measurement was completed and construction works were ordered in about two months, whereas it took about one year in cases where a cadastral survey had not been implemented.

Chart: Effect of a cadastral survey in post-disaster construction
(a case after the Mid-Niigata Prefecture Earthquake (2004))



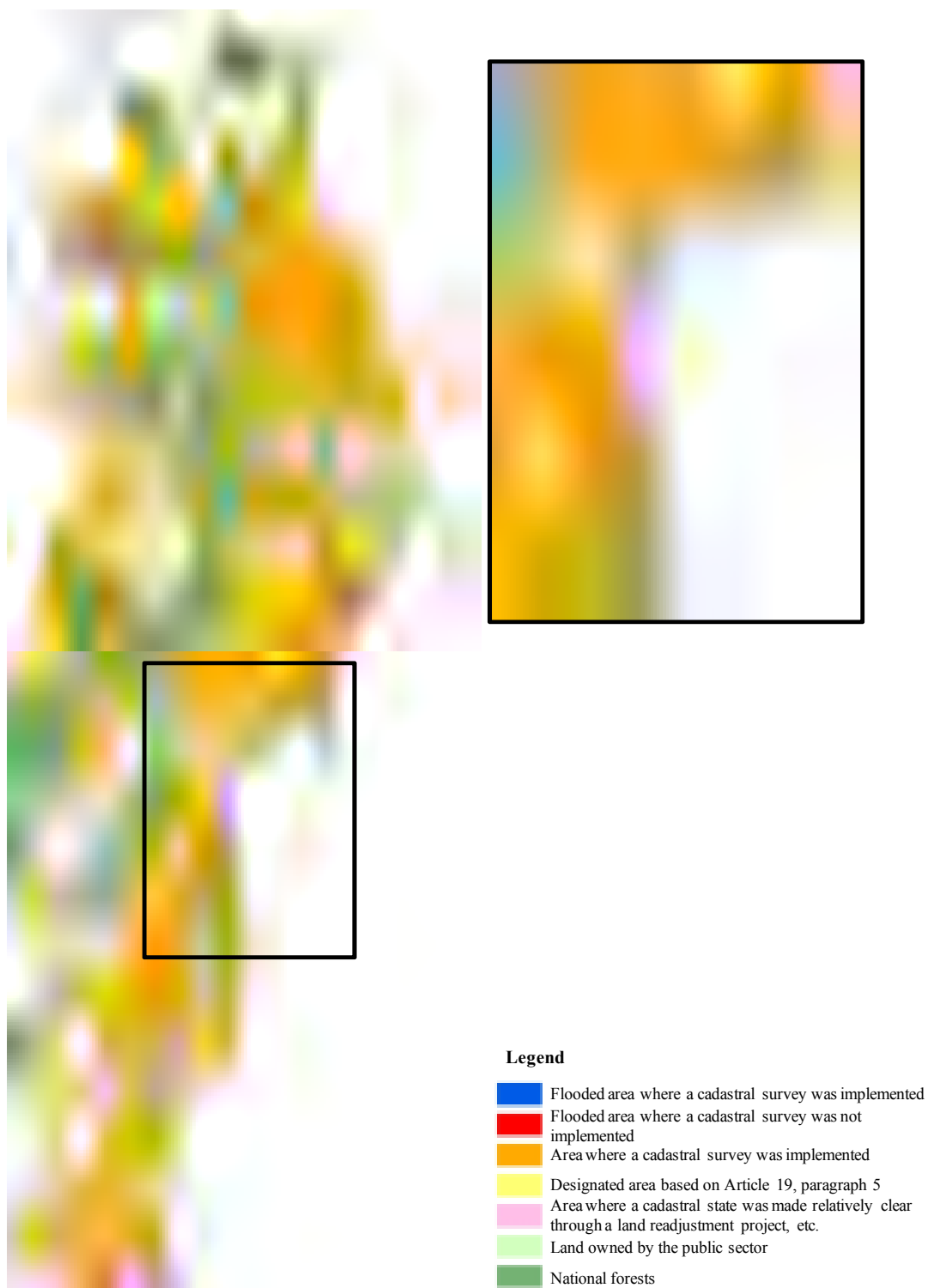
In another case, the cadastral survey rate in the municipalities of Hyogo Prefecture was about 10% (at the end of 1994) just before the Great Hanshin Awaji Earthquake of 1995. In one area of the prefecture, where a cadastral survey had not been implemented, the area's residents set up a committee to lead the restoration of boundaries for cadastral development. The preparation for setting up the committee and the measurement costs imposed a tremendous burden on the residents and concerned parties who were forced to live as evacuees. In light of this experience, Hyogo Prefecture has been promoting cadastral surveys by explaining their usefulness to the municipalities where none have yet been implemented. As a result, almost all municipalities of the prefecture implemented a cadastral survey in fiscal 2010 (the execution rate was 19% as of 2009, with 40 of the 41 municipalities having started a cadastral survey).

(Cadastral status of the areas affected by the Great East Japan Earthquake)

The cadastral survey execution rate is high in Aomori, Iwate, Miyagi, Fukushima and Ibaragi Prefectures, which were heavily damaged by the Great East Japan Earthquake. A cadastral survey was implemented in about 90% of the areas flooded by the tsunami, which greatly exceeds 49% of the entire country. This earthquake caused massive land deformations up to about 5.4 m in the

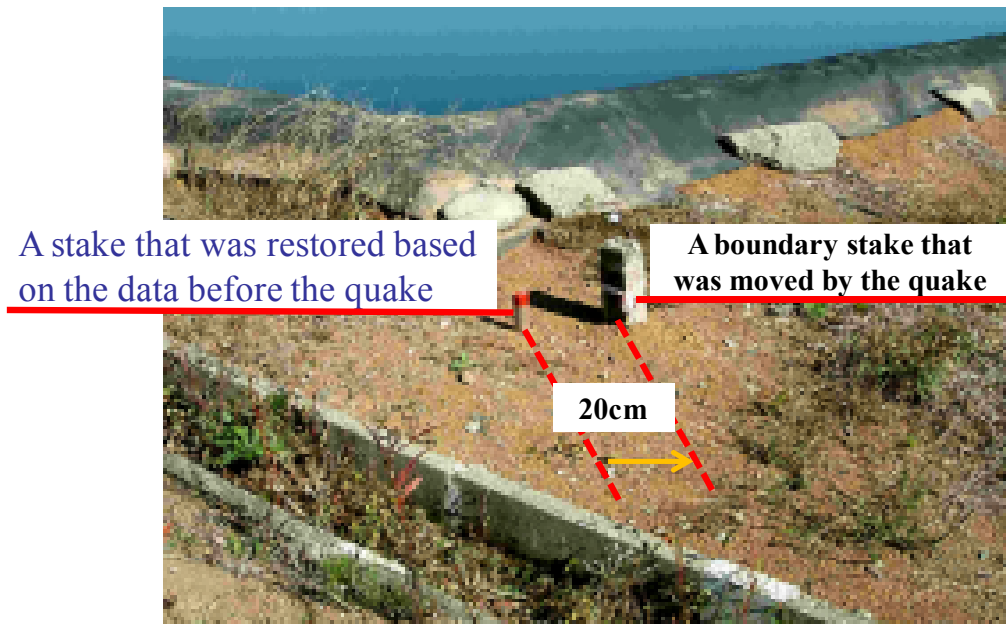
horizontal direction and about 1.2 m in the vertical direction, leading to a gap between the results of a cadastral survey and the actual status of the site. It is hoped to create an environment for prompt post-disaster rehabilitation/reconstruction taking advantage of cadastral survey results after an early correction of the gap.

Chart: Implementation Status of Cadastral Survey in the Affected Areas



Source: Geospatial Information Authority of Japan

Chart: Moved boundary stake (a case in Uonuma City following the 2004 Mid-Niigata Prefecture Earthquake)



Source: Ministry of Land, Infrastructure, Transport and Tourism

In the areas where a cadastral survey was not implemented, just a clear boundary between the major private land of the area and road, etc. (public-private boundary) will contribute to smoother post-disaster rehabilitation/reconstruction. Because this earthquake disaster caused over 25 thousand deaths and missing persons, great difficulty is expected for adjustment concerning land boundaries and rights due to missing land owners, for example. However, early determination of public-private boundaries in the affected areas where cadastral surveys have not been implemented would play a major role in the future reconstruction.

2. Valuation of land in the affected areas

Appropriate valuation of land in accordance with the character of the area/city is essential for the smooth reconstruction and recovery of economic activities, including private real estate transactions in the affected areas. In this light, the Ministry will provide full support to the development of basic guidelines, etc. for land valuation conducted by professional property evaluators (real estate appraisers) in the afflicted areas and, based on this work, make deliberations on the real estate appraisal standard and the valuation methods, etc. of the public notice of land prices and the prefectural land price research implementations that serve as guidelines for land valuation in the private sector.

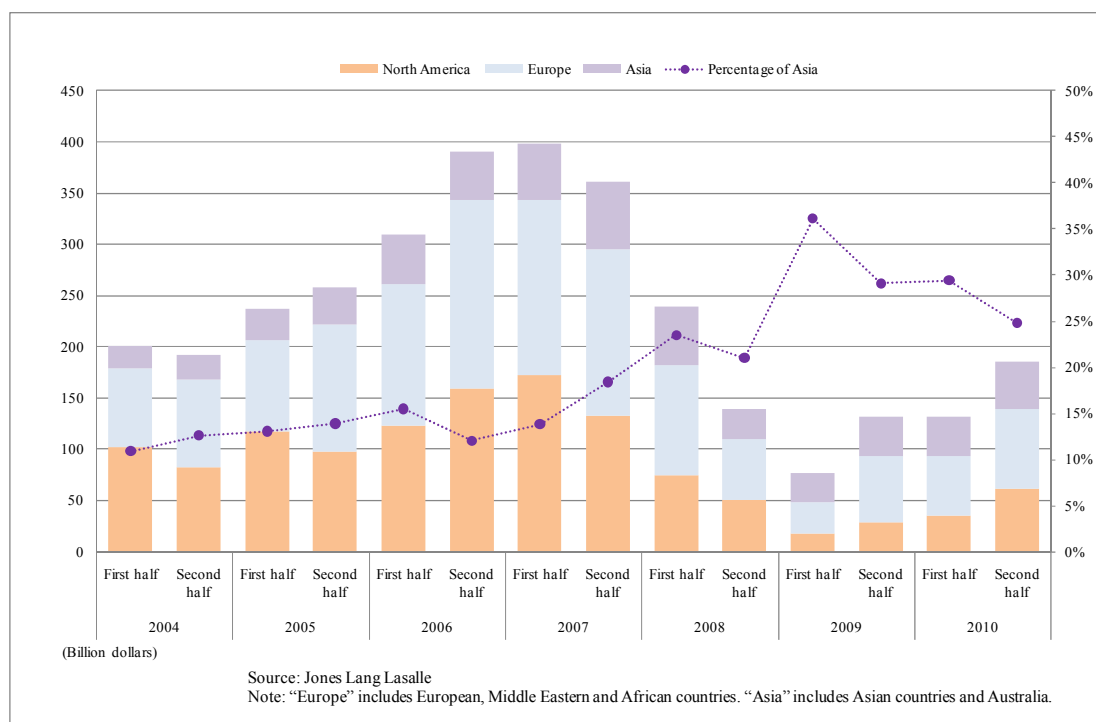
Chapter 3 Real Estate Investment around the World, and the Future Real Estate Investment Market in Japan

In this chapter the impact of the global financial crisis on the global real estate investment market and the subsequent market recovery will be analyzed with a focus on Asian countries, including Japan. In addition, the current situation of Japan's real estate investment market, the significance of the market expansion and so forth will be analyzed. Based on these analyses, challenges for the development of a real estate investment market with the potential for steady growth will be sorted out and the current efforts to address them will be introduced.

Section 1 Trends in the Global Real Estate Investment Market after the Financial Crisis

The global real estate investment market had been expanding in the context of the globalization of the economy, etc., but rapidly shrank due to the failures of large financial institutions and investment funds, and due to the credit contraction in the world financial market (global financial crisis) following the exposure of the subprime loan problem. Later, the coordinated large-scale fiscal and monetary policies taken by developed countries, including the United States, and emerging countries made the world economy bottom out in 2009. Along with this development the real estate investment market also started to recover.

Chart: Investment in Commercial Properties by Region and the Percentage of Asia



Dividing the real estate investment market of the world roughly into five regions (Asia, Oceania, Europe, the Middle East and North America) and looking at the flow of investment among the regions in 2007, 2009 and 2010, we see that the investment dropped from 2007 to 2009 on an equal basis[uniformly]. The reduction of the investment from North America was particularly large, with investment toward Europe falling by about 56 billion dollars and that toward Asia by about 20 billion dollars. The investment from North America toward Oceania and the Middle East also experienced a sharp drop of 100%. On the other hand, the investment from Europe and North America toward Asia as well as that from Asia toward North America and Europe increased from 2009 to 2010.

Chart: Cross-border investment cycle among regions (2007)

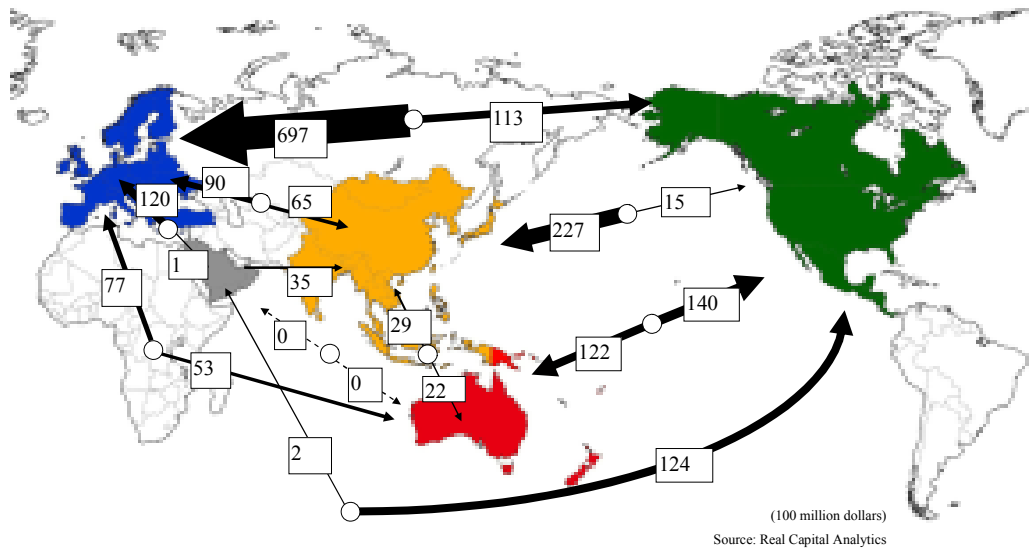


Chart: Cross-border investment cycle among regions (2009)

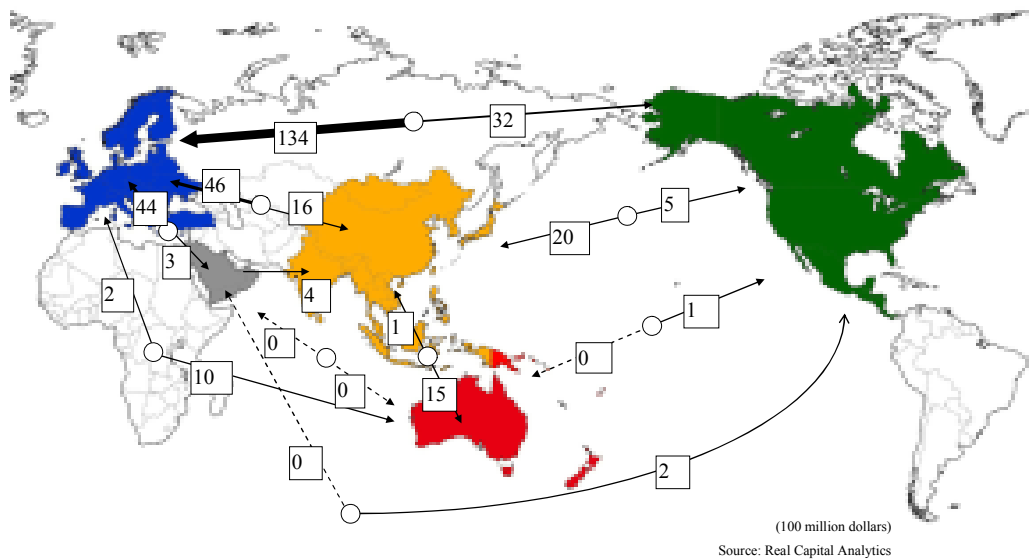
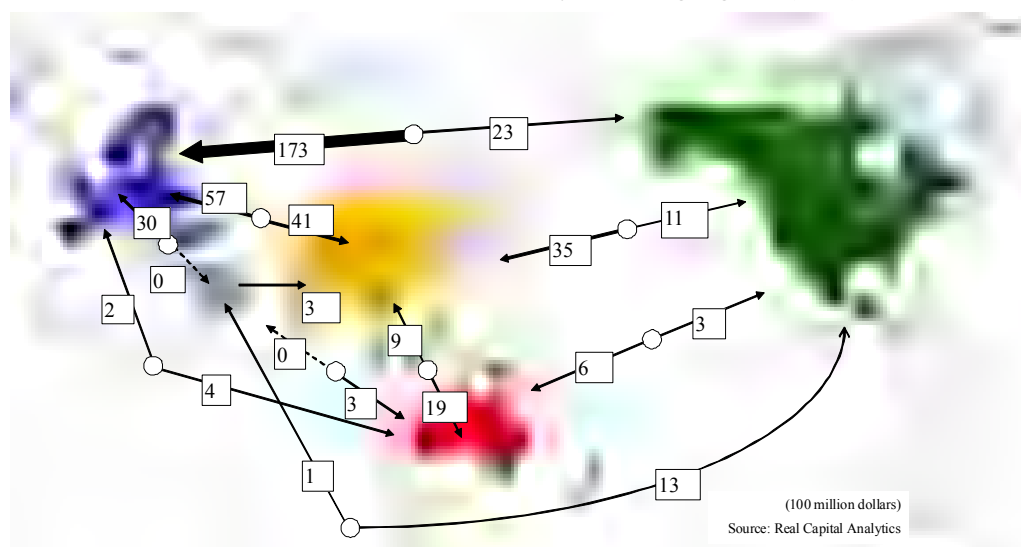


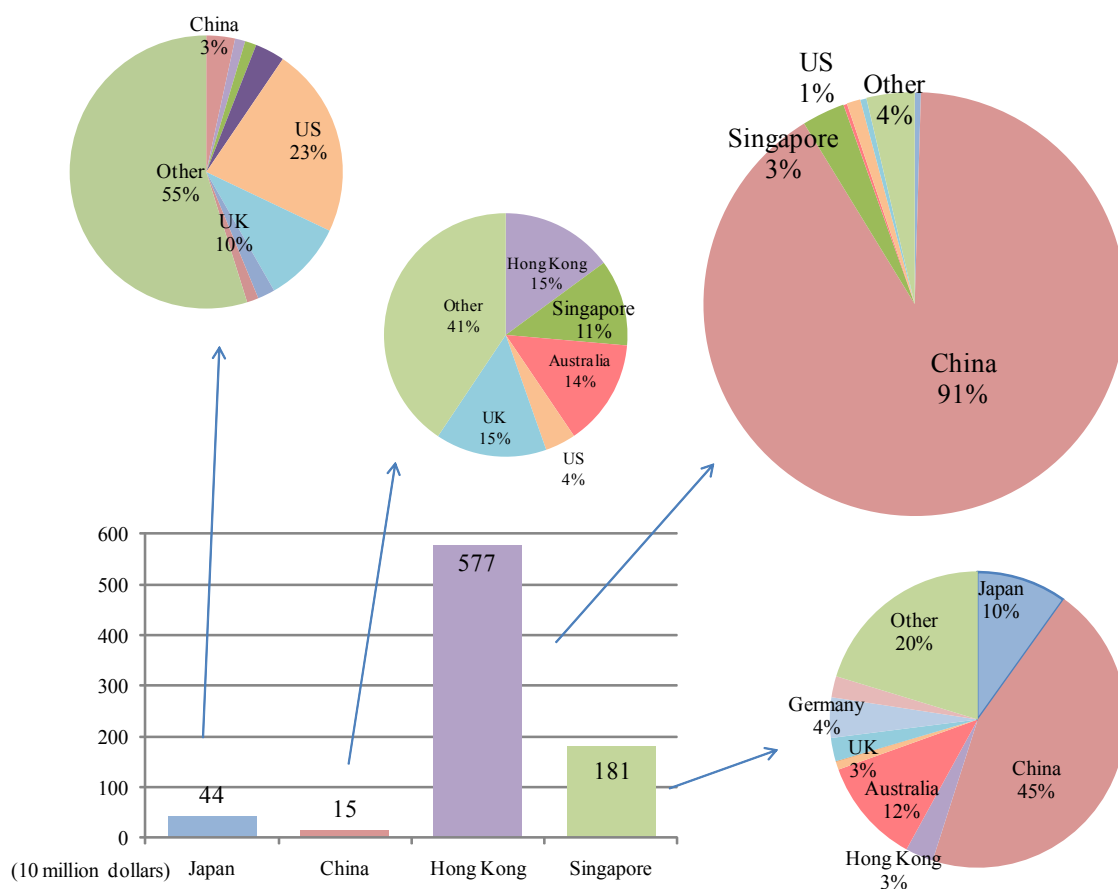
Chart: Cross-border investment cycle among regions (2010)



Now, let us look at four major Asian regions: rapidly growing China; Hong Kong and Singapore, which are growing as international financial capitals, and Japan. Looking at the investment in real estate of these four regions on a quarterly basis since 2007, we see that the investment in any of them declined after peaking in the latter half of 2007 (3rd quarter to 4th quarter). However, while the investment recovered significantly in the other three regions after bottoming out in the 1st quarter of 2009, recovery was slow in Japan. Investment especially recovered in China, where now it far exceeds the level seen before the global financial crisis under the influence of the hectic transaction of domestic land for development since the latter half of 2009.

Looking at the flow of the investment funds of the four regions the other way around—that is, looking at the regions as sources of investment—we see that Hong Kong and Singapore, which are small as investment destinations, are making huge investments. In terms of the breakdown of the investment destinations of each region, while a large part of the investments from Japan is made in the West, they include investment in Asia, such as in China and Hong Kong as well. The investments from China toward overseas regions are small and include those in Australia, Singapore and Hong Kong. Hong Kong is the largest investor in this group and most of its investments are made in China. The investments from Singapore include a certain amount of investments in Japan and Australia in addition to those in China.

Chart: Breakdown of each country/region's foreign investment and its destinations (2008–2010)

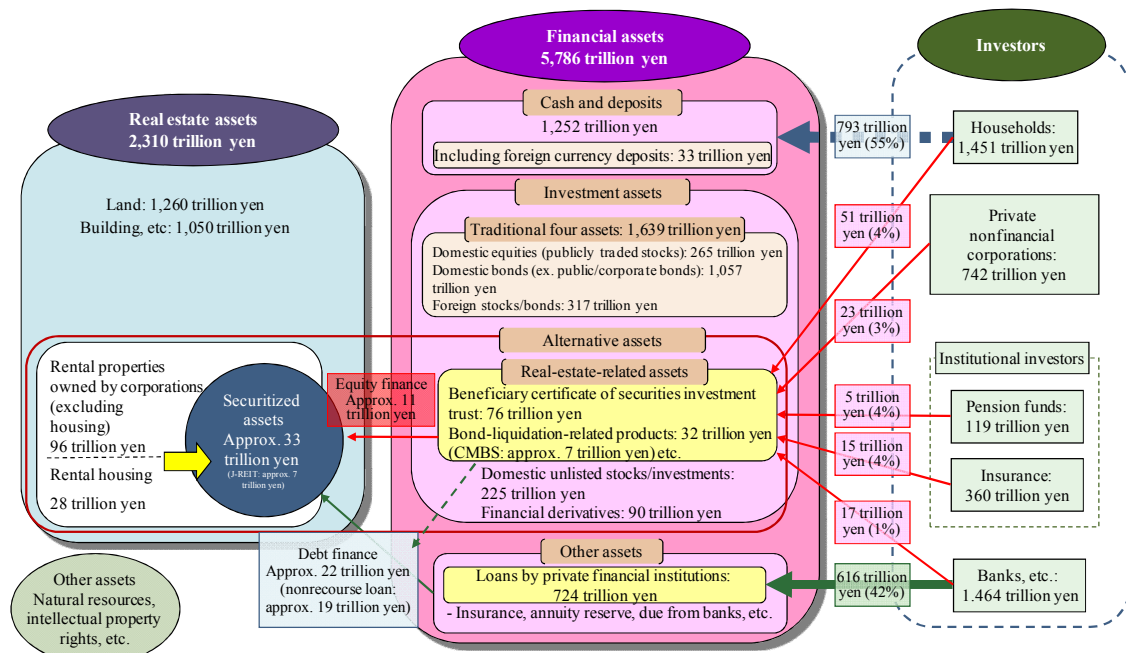


Source: Real Capital Analytics

Section 2 Current State of Japan's Real Estate Market

The progress of the securitization of real estate has built a tight connection between the real estate investment market and the financial market, with the trends in the two markets influencing each other. However, the securitized assets of 33 trillion yen are just approximately 0.6% of the total monetary assets (5,786 trillion yen) or approximately 1.4% of the total real estate assets (2,310 trillion yen). It is necessary to continue to nurture a real estate investment market that matches the size of the real estate and financial markets.

Chart: Overview of Japan's Real Estate/Financial Assets and the Real Estate Investment Market (2008)

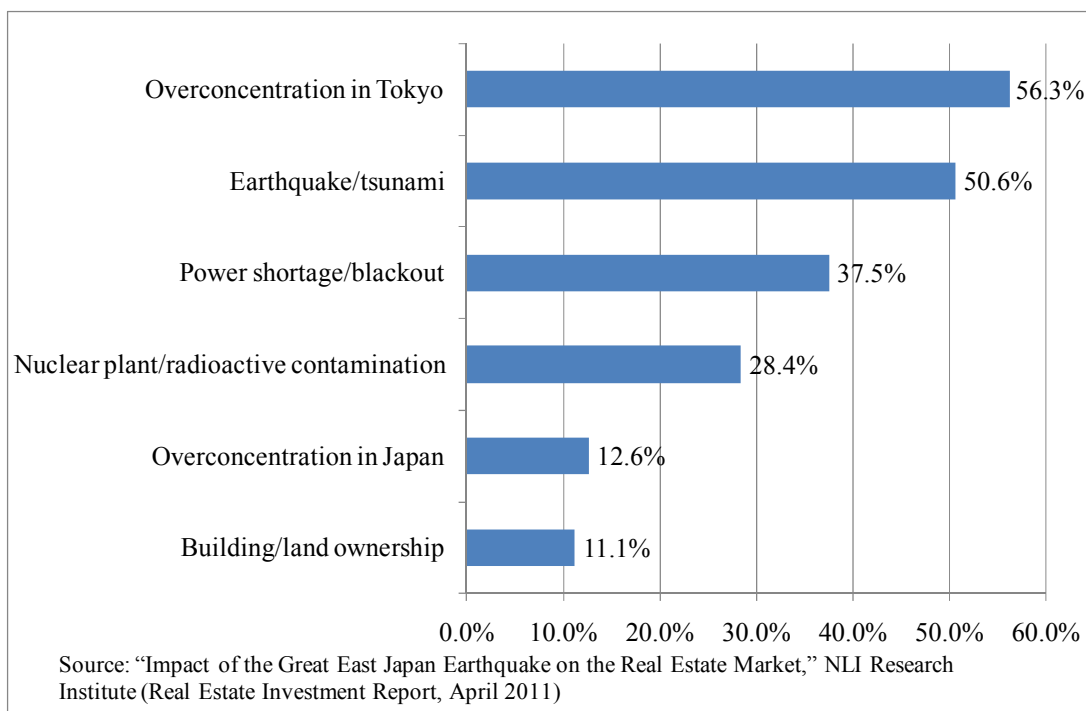


* Created based on various materials including "National Accounts of Japan" of the Cabinet Office, "Basic Survey on Land" and "Survey on Real Estate Securitization" of the Ministry of Land, Infrastructure and Transport, "Housing and Land Survey" of the Ministry of Internal Affairs and Communications, "Flow of Funds" of the Bank of Japan, and "Overall Condition of Trust" of the Trust Companies Association of Japan

In the future, J-REIT companies, real estate funds and other investors are expected to pay more attention to the safety aspect of the properties they will acquire, and the territorial distribution of property stock could become more important than ever as information for investment decisions.

Because how we overcome such a great disaster and develop a stable market in the future could change how investors at home and abroad evaluate the entire Japanese market, we need to consider these points when working on the future expansion of the real estate investment market.

Chart: Risks that will weigh heavily in the future real estate market



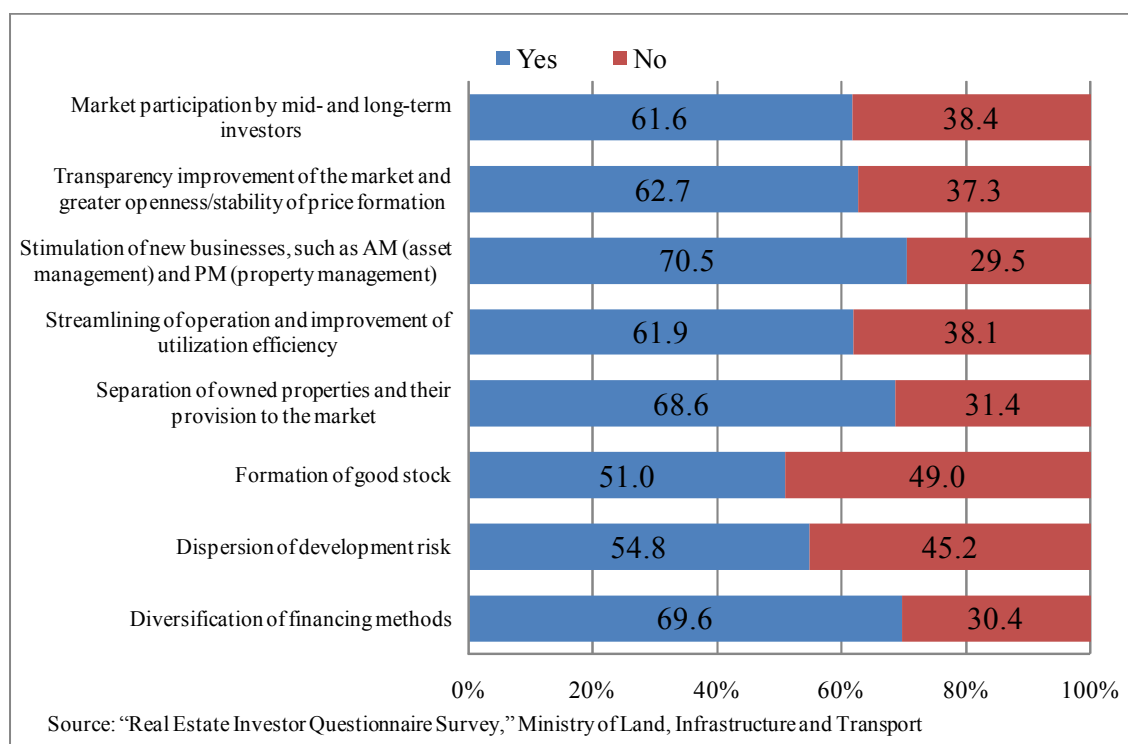
Section 3 The Role Played by the Securitization of Real Estate and Its Impact

1. The role of the securitization of real estate

The securitization of real estate has fulfilled such roles as: (1) creating new buyers in the market; (2) promoting urban development; (3) improving the quality of the properties to be securitized; (4) providing new investment products; (5) stimulating related businesses, and; (6) improving the transparency of the market.

In terms of improving the transparency of the market, J-REIT, in particular, contributed significantly to the improvement of the market by providing a variety of information concerning properties including purchase price, rate of capitalization at the time of purchase, and repair costs.

Chart: Significance and roles of the securitization of real estate

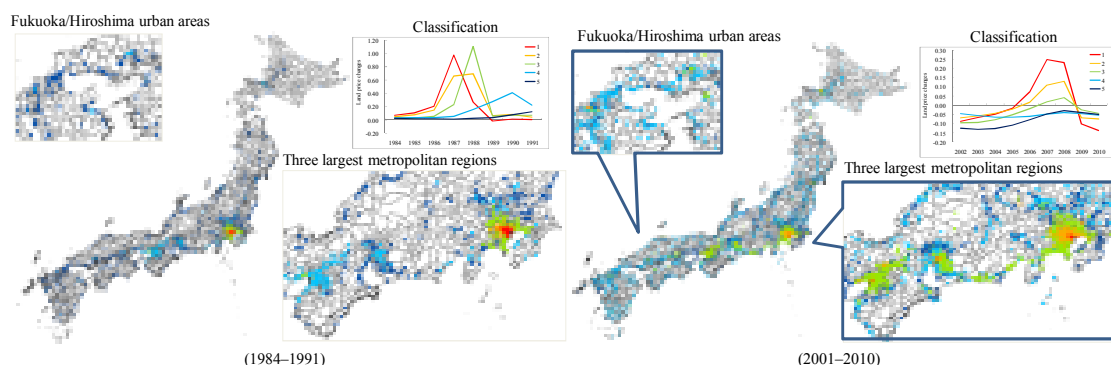


2. Real estate prices that are formed based on profitability

The Ministry grouped the representative commercial land for public notice across the nation into clusters of similar price change patterns for the period from 2002—when the securitization of real estate progressed—to 2010 in comparison with the prices during the 1980s (the period of rising land prices) up to the collapse of the bubble. Analysis and comparison of the attributes of these clusters show that, for the period from 2006 to 2008, land prices in the three largest metropolitan regions and the centers of Sapporo, Sendai, Hiroshima and Fukuoka rose during the same period in 2006 followed by the rise of the land prices in the surrounding towns in 2007 but the rise did not spread to other parts of the nonmetropolitan regions.

Looking at the details of each cluster's attributes for the period from 2002 to 2010, we found that clusters 1 and 2, which showed large price volatility, mostly consisted of the central cities of the three largest metropolitan regions and had attributes of high land prices and large J-REIT trading volumes and values, which indicates a strong link between the trends in securitization and the trends in land prices.

Chart: Geographical Distribution of the Clusters



3. New roles of real estate investment

We need to ensure the sustainability of buildings and infrastructures as the social foundation for the next generation. For this purpose, it is important that private investment funds are used effectively and converted to real properties that respond appropriately to environmental and social issues.

If investments in buildings/infrastructures that meet the needs of the next generation are compatible with the pursuit of economic benefits, such investments may be chosen and may help to enhance the sustainability of the social foundation. Contribution to a sustainable society through real estate investment may be a new role expected of the real estate investment market.

In an attitude survey targeting companies that use office buildings, more than 60% of the companies answered that they would consider the environmental performance of a building they would move into now or in the future, expecting economic benefits, such as cost reduction including utility costs, and improved amenity and productivity.

In order to build environmentally sustainable stocks with high environmental value (green property,) it is important that their value is recognized by various market players, such as tenants, developers and investors, and that a good fund flow for green properties is created in the market.

Chart: Investors' Attitude toward Responsible Property Investment

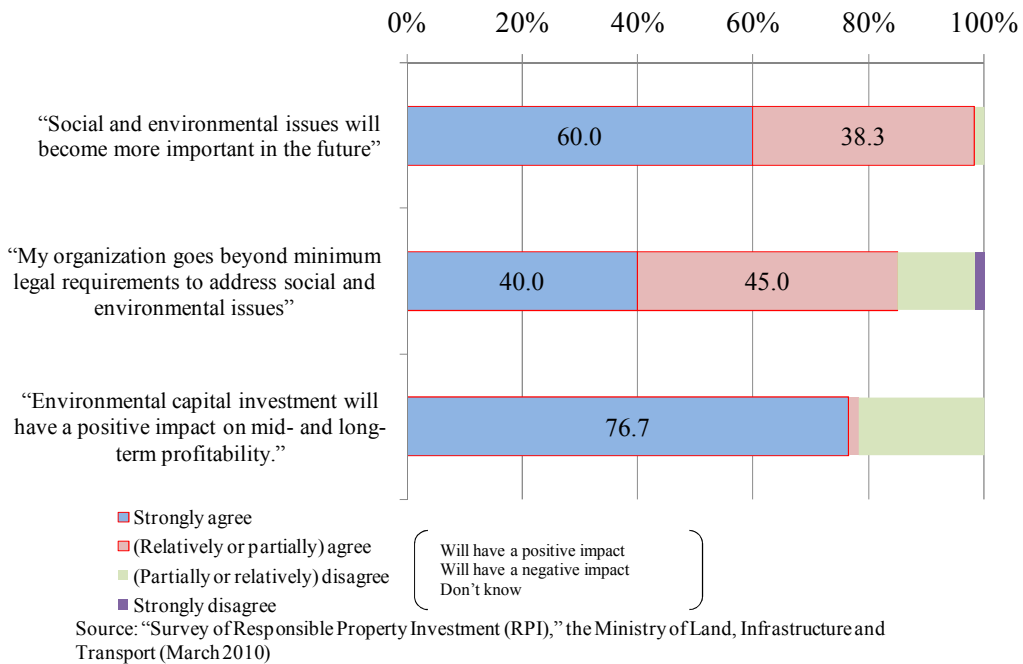
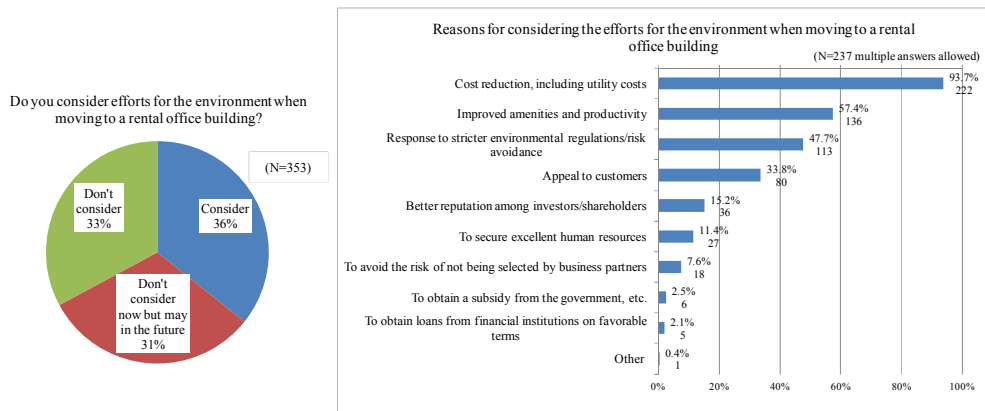


Chart: Attitude survey of companies on environmental office buildings



Source: "Attitude Survey of Companies on Environmental Office Buildings," Ministry of Land, Infrastructure, Transport and Tourism (FY2010).

Section 4 Challenges and Efforts for Stable Growth of the Real Estate Investment Market in Japan

1. Challenges for the Real Estate Investment Market

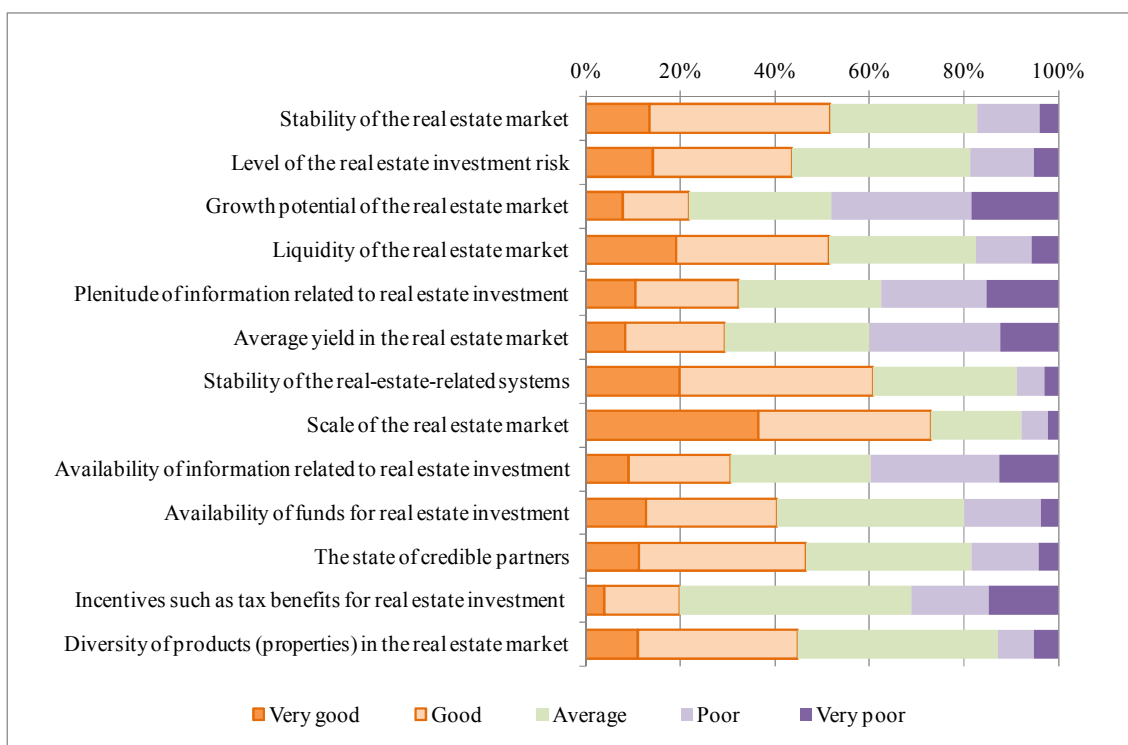
(Evaluation by foreign investors)

In a questionnaire survey of foreign investors² conducted in 2010 concerning the current

² Conducted targeting foreign investors (ex. pension funds, institutional investors) based in the US, EMEA (Europe, the Middle East and Africa) or Asia during the period from January 11 to February 28, 2011. There were 213 valid responses.

assessment of the Japanese market, nearly 70% of respondents answered “very good” or “good” for “the scale of the real estate market,” and more than 50% did so for “stability of the real estate market,” “liquidity of the real estate market” and “stability of the real-estate-related systems,” whereas “plenitude of information related to real estate investment,” “average yield in the real estate market” and “availability of information related to real estate investment” are not much appreciated, and “growth potential of the market” was rated especially low.

Chart: Current assessment of Japanese market

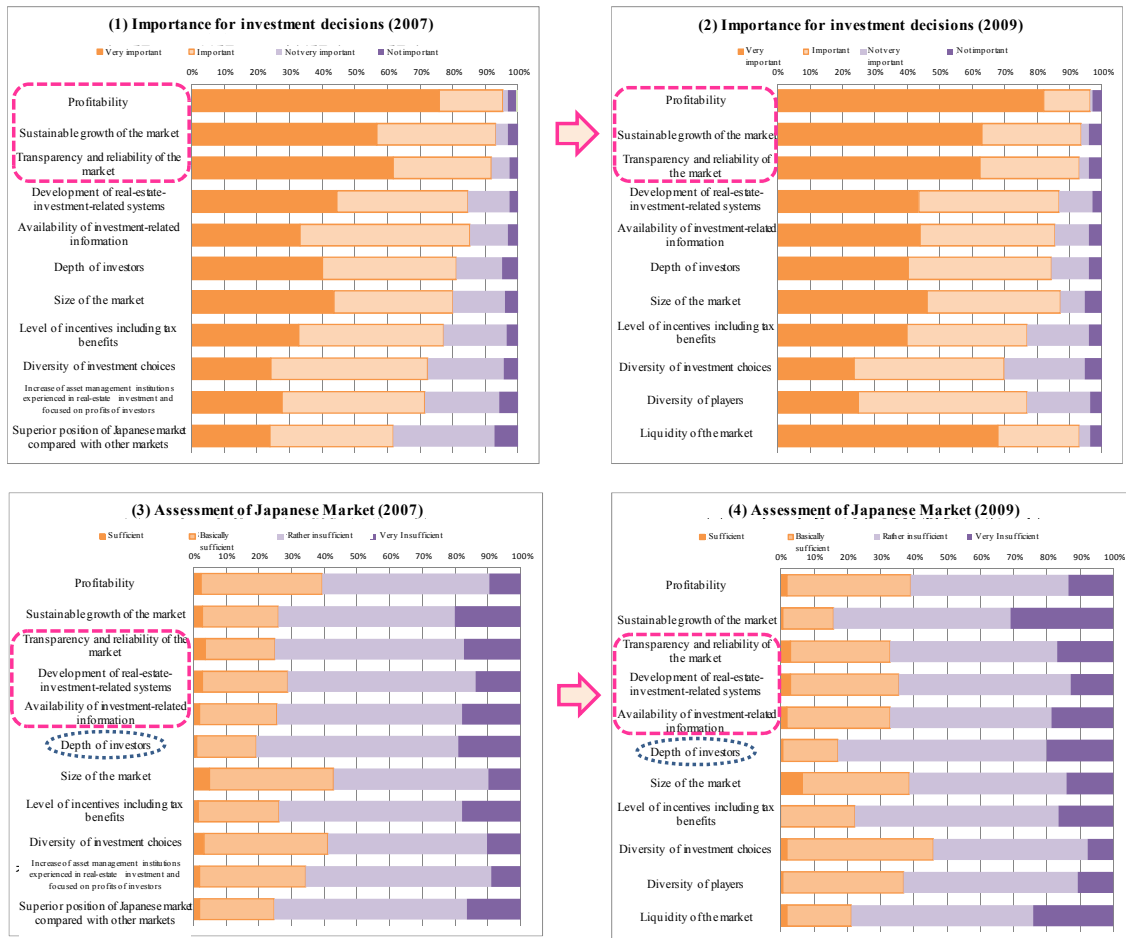


Source: “Questionnaire Survey of Overseas Investors,” Ministry of Land, Infrastructure, Transport and Tourism

(Evaluation by domestic investors)

In a questionnaire survey of domestic investors conducted by the Ministry of Land, Infrastructure, Transport and Tourism concerning the assessment of the Japanese market, the “depth of investors” and “level of incentives including tax benefits” were both rated very low in FY2007 and FY2009 surveys. There have been some improvements in “transparency and reliability of the market,” “development of real-estate-investment-related systems” and “availability of information related to real estate investment.” However, “very insufficient” and “rather insufficient” exceed “sufficient” and “basically sufficient” in all items, showing the need to continue efforts for further improvement of investors’ opinion.

Chart: Changes in the Reputation of Japan's Real Estate Market



Source: "Questionnaire Survey of Real Estate Investors," Ministry of Land, Infrastructure, Transport and Tourism

2. Efforts for the Development of a Real Estate Investment Market That Promises Steady Growth

For the stimulation and steady growth of Japan's real estate investment market, in addition to efforts for the sustained growth of the economy itself, it is important to continue efforts to improve information provision and develop a solid market—which are challenges for the real estate investment market—, while taking advantage of the scale of the market.

(Committee on Real Estate Investment Market Strategy)

In December 2010, the Committee on Real Estate Investment Market Strategy, a private consultative body to the Minister of Land, Infrastructure, Transport and Tourism, with the aim of indirectly supporting the efforts to change the domestic industrial structure and take advantage of Asian growth, divided the issues surrounding the real estate and financial markets as follows and recommended concrete measures for each issue: (1) the issue of debt market; (2) the issue of

J-REITs; (3) the issue of private placement funds; (4) the issues unique to the real estate market; (5) the issues related to tax/accounting; and (6) the issue of the circulation system for the real estate investment market and finance.

(Efforts for information provision for the market)

(1) Providing information on real estate transaction prices

The Ministry of Land, Infrastructure, Transport and Tourism started the survey of real estate transaction prices, etc. with a focus on the government ordinance-designated major cities in the three largest metropolitan regions in fiscal 2005 and expanded the survey to cover the entire country. Since the start of the announcement in April 2006 up to January 2011, the Ministry provided 1,045,986 pieces of information with the website traffic reaching approx. 150 million (67 million hits in 2010, about 5.5 million per month).

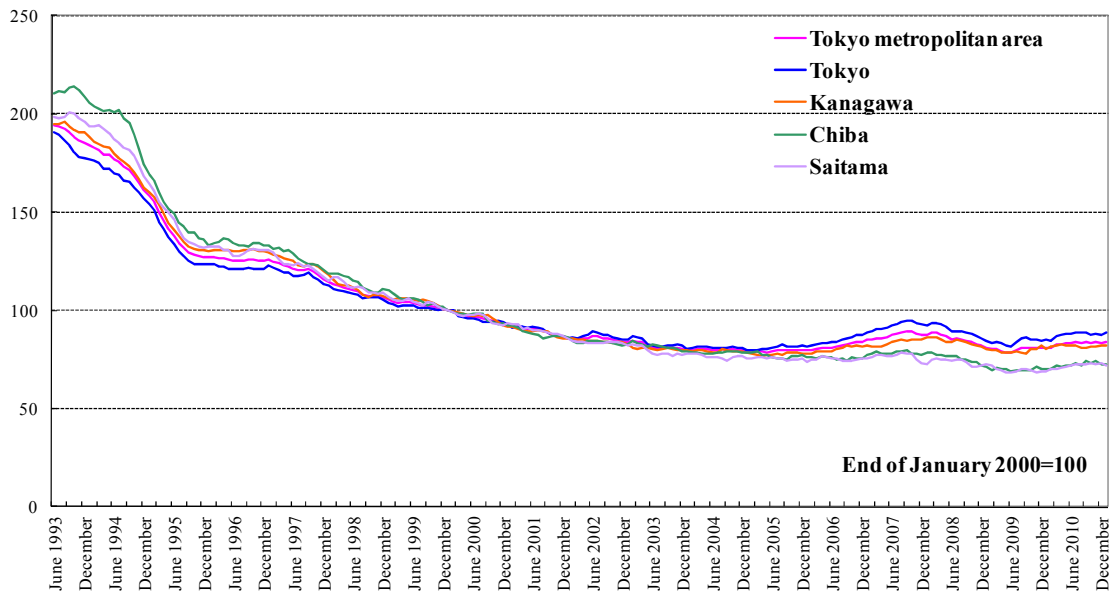
(2) Development of real estate price indices, etc.

In response to the move toward the development of guidelines for the development of real estate transaction price indices (Handbook on Residential Property Price Indices (RPPI)) by international organizations, the Ministry set up “a study group on the development of indices for property price trends” in June 2010 and has been working on the development of real estate property indices corresponding to the RPPI Handbook in collaboration with relevant ministries and agencies.

The Ministry will initiate the preparation of a system for the application of the indices in fiscal 2012 and start full-scale application promptly after the completion of trials.

Since April 26 of this year, the Tokyo Stock Exchange has been announcing on a trial basis “Tokyo Stock Exchange Residential Index,” which indicates the trends in the price levels of existing condominiums.

Chart: Tokyo Stock Exchange Residential Index



Source: Tokyo Stock Exchange

(3) Enhancing the provision of information in public notice of land prices

For the public notice of land prices, land appraisers jointly conduct various analyses and deliberations in 193 separate meetings, etc. across the nation before the final price judgment. In the 2011 public notice of land prices, as a part of the efforts to enhance the information provision to the public, the Ministry compiled and announced the price formation factors (factors that had a major impact on land prices) discussed in the separate meetings, etc. for 13 prefectures in the three largest metropolitan regions, etc., where characteristic land price trends were observed. Going forward, the Ministry will further improve its information provision.

Part 2 Basic Measures in Relation to Land in FY2010 (Omitted)

“Basic Measures in Relation to Land in FY2011” (excerpt)

Chapter 1 Dissemination of Basic Philosophy on Land

During the “Land Month” of October (October 1 is “Land Day”), the Ministry 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, transactions, prices and so forth, the Ministry will conduct public notice of land prices and land register surveys, as well as provide real estate transaction prices. The Ministry will also conduct preliminary surveys for the “Basic Survey on Land,” which is conducted every five years as part of organizing statistical data.

Section 2 Promotion of National Land Survey

The Ministry will promote land register surveys, land classification surveys—including a land use history survey based on the 6th 10-Year National Land Survey Plan (fiscal year 2010 to 2019)—and water surveys.

Section 3 Promotion of Enhancement of National Land Information

As for digital national land information, the Ministry will revise public notices of land prices and prefectural land price surveys, and will continue to organize advanced information on land utilization by means of more detailed land use classifications. The Ministry will also promote advanced utilization of geospatial information and land survey administration.

Section 4 Enrichment of Land Registration System

The Ministry will further promote the use of computers in registration procedures and will 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 Price Trends

Section 1 Promotion of Public Notice of Land Prices

The Ministry will make public notice of land prices at 26,000 sites in 2012. The Ministry will also continue to publish the results of analyses of land price trends based on land price surveys conducted by prefectural governments in 2011.

Section 2 Provision of Real Estate Transaction Prices

The Ministry will continue to conduct surveys on real estate transaction prices across the country and publish the information on transaction prices obtained in the surveys on the Internet on a quarterly basis. The Ministry will also work on the development and deliberation of real estate price indices based on the trends of international organizations and user needs at home toward trial and

full-scale application from the fiscal year ending March 2012.

Section 3 Enhancement of Real Estate Appraisal

As regards the appraisal of properties for securitization, the Ministry will add real estate appraisal for preparation of financial statements to the monitoring targets. The Ministry will also study how the appraisal should function in the future in light of the changes in circumstances surrounding the real estate appraisal.

Section 4 Balanced and Proper Land Appraisal by the Public Sector

In order to promote proper land-price formation and taxation, the Ministry will continue to strive for balance and reasonableness in public land appraisals for 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 Ministry will operate a portal site on sustainable properties utilizing the Internet 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 ensure transparency of the market, promote development of a market in which investors can participate without undue worries, and revitalize the Japanese real estate investment market, the Ministry will develop new real estate securitization methods, implement efforts toward development and announcement of a housing price index based on transaction prices, and conduct a survey on the actual situation of real estate securitization.

Section 3 Land Tax Measures

In the FY 2011 tax system revision, under the special measure for the tax base of the tax on acquisition of property acquired by a real estate investment corporation (J-REIT) or a Specific Purpose Corporation (SPC), the reduction shall be the amount equivalent to three fifths of the property's price, and other measures shall be taken, including the two-year extension of the application time limit.

Chapter 5 Improvement and Enhancement of Land Utilization Plan

Section 1 Promotion of Land Use Plan

Based on the 4th National Land Use Plans, the Ministry will take measures necessary for promotion of overall management of national land utilization and will also promote proper and reasonable land utilization by appropriately employing the general plan of land use.

Section 2 Ensuring Proper Utilization of Land in City Planning

The Ministry 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 Ministry will also promote appropriate utilization of city planning systems to meet various policy challenges.

Section 3 Coordination with National Land Policy

The Ministry will promote efforts for realizing a new form of national land, or more specifically, for “creating national land to enable diverse wide-area blocks to develop independently and forming beautiful and comfortable national land to live in.” Such efforts are called for in the National Spatial Strategies (National Plan), a policy guideline for the comprehensive formation of national land. The Ministry 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 Ministry will continue to promote the diffusion of environment-friendly houses through the 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 reform of houses (for insulation of windows, exterior walls, roofs and ceilings, for example).

The Ministry will also continue to 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 Ministry will also lower interest rates on loans under the good-house acquisition support system, utilizing the framework of the securitization support businesses.

In the FY2011 tax revision, the Ministry will take special measures concerning income tax, corporation tax, real estate acquisition tax and fixed asset tax on “serviced housings for elderly people” that have a barrier-free structure, etc. to support elderly people in cooperation with nursing care/medical care services.

Section 2 Creation of Favorable Living Environment through Provision and Management of Good Residential Land

The Ministry 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 Utilization of Land

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 urban renewal, designated structural reform districts, local regeneration, and city center vitalization, while working on the creation of a designated general district system.

The Ministry will also promote efforts such as the utilization of the Act on Special Measures concerning Urban Renaissance, which was decided by the Urban Renaissance Headquarters, to stimulate private investment in urban development, and the creation of 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 Development of Urban Infrastructure and Disaster Countermeasures in cities

In order to promote urban infrastructure development, the Ministry will promote the utilization of civilian capabilities as well as aerial and underground regions, and will also promote the development of disaster countermeasures in towns by enhancing the disaster prevention in urban housing areas, roads and sewage systems.

Section 3 Promotion of Utilization of Underutilized/Unused Land

The Ministry 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 Ministry 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 Ministry 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 Ministry will promote the effective/advanced utilization of land owned by the public sector by promoting the efficient use of the current government buildings and the development of joint government buildings.

Section 6 Facilitation of Public Land Acquisition

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

Chapter 8 Promotion of Environmental Conservation

Section 1 Promotion of Measures Concerning Environment Conservation

The Ministry will take measures necessary to promote the formation of local communities conducive to the prevention of global warming and revise guidelines for business operators in order to appropriately and smoothly enforce the revised Soil Contamination Countermeasures Act. The Ministry will also promote land-related measures for environment conservation and give consideration to environment conservation in various land-related policies and when selecting and implementing projects.

Section 2 Conservation of Farmland and Development of Attractive Farming and Mountain Villages

In order to prevent and resolve abandoned agricultural land, the Ministry will promote such measures as the improvement of land conditions through infrastructure development projects for facilitating the implementation of compensation of individual-household income as well as the support for community-wide farmland conservation activities.

Section 3 Ensuring Appropriate Conservation and Utilization of Forests

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

Section 4 Proper Conservation of River Basins

In special river basins for comprehensive flood control measures, the Ministry will establish river basin conferences made up 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 promote the encouragement of proper land use in river basins and the control of rainwater runoff. The Ministry will also promote comprehensive sediment disaster prevention measures and flood control measures for cities.

Section 5 Proper Protection of Cultural Property and Promotion of Favorable Landscape Creation

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

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

The Ministry will take various measures designed from the perspective of proper land use, etc. toward the earliest possible full recovery/reconstruction of the areas afflicted by the Great East Japan Earthquake, which occurred on March 11, 2011.