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**\*\* Section I : Financial Market Outlook \*\***

**\*\* Section II : Leasing Market Outlook \*\***

**Financial Market Outlook**

Stock prices fallen in 6 months concerning the economic slowdown in China

<Summary>

- ✓ Jul. 29: The Economic Situation Report judged the economy in Japan has been “recovered” in approx. 18 years.
- ✓ Aug. 10: The Preliminary Report of Balance of Payments International shows the surplus for JPY8,000,000,000,000- for the 1<sup>st</sup> half of 2015.
- ✓ Sept. 10: The Japan Post Group (Japan Post, Japan Post Bank Co., Ltd., and Japan Post Insurance) was listed at Tokyo Stock Exchange.

<Topics>

*I :Japan and the world economics*

- Ministry of Finance revised upward the Ministry’s economic situation report on 11 regions after 1.5 year from last January in the All Japan Local Finance Bureau chiefs committee held on July 29. All the Finance Bureaus in Japan judged the economy is in “recovery” after 18 years by regionally viewing. Those views especially in Hokkaido-island, Chugoku area, Shikoku-island, and Fukuoka city in Kyushu were revised from “a rally” to “recovery” and those from Kanto and Hokuriku area stressed the further upward tendency. Seeing by the category of economic key items, the sales in luxury watches and jewelry are growing in the areas of Japan. The growing sales seen in the category of luxury watches and jewelry at the all regions. The foreign tourists visiting Japan for the purchase of expensive commodity increased especially at 6 areas including Hokkaido, Kanto, and Fukuoka in Kyushu.
- On Aug 10, The Ministry of finance announced through the Preliminary Report of Balance of Payments International that the surplus of current account, Balance of Payments which shows the international transaction on commodities and the services and the investment income reached JPY8,183,50,000,000-. The Preliminary of Trade Statistics (original numerical value) of August 19 by the Ministry of Finance announced that the Statistics of July showed the deficit continuously for 4 months. While seeing continuous decline in the quantity of import oil due to its domestic crude price, the trade deficit dramatically decreased from JPY966,500,000,000-, the same month amount at the previous year due to the increase of oil export for weak yen.

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- On the 10th of September, the Tokyo Stock Exchange announced that the Japan Post Group (Japan Post, Japan Post Bank Co., Ltd., and Japan Post Insurance) is to be listed on the Tokyo Stock Exchange on the 4<sup>th</sup> of November. The total sales sum based on the assumption price is approximately JPY1,387,500,000,000- for total of those 3 and becomes the 3<sup>rd</sup> largest listing following the NTT in 1987 and NTT Docomo in 1998. The market cap at the time of listing assumed over (more than) JPY1,200,000,000,000-, so this is the 2<sup>nd</sup> largest following NTT.
  - On September 11, Nippon Life Insurance Company announced they acquired Mitsui life Insurance and reached the basic agreement on the same day. Mr. Tsutsui, the president of Nippon Life emphasized that they were ready for showing themselves as domestic No.1. Nippon Life is to acquire the approx. 85% of Mitsui Life by next March and Mitsui Group is to hold the rest approx. 15%.
  - On September 25, the Consumer Price Index (excl. fresh foods) showed decline in 0.1% compared to the previous year same month and it is the first deficit since the Bank of Japan launched the quantitative and qualitative monetary easing in April 2013.
  - Though the price inclined ever since the large scale monetary easing started by the Bank of Japan, the substantial fall of the crude oil price since last summer triggered the price fluctuation and finally the monetary easing deteriorated in its effect and the quantitative and qualitative monetary easing by Bank of Japan targeting the 2% of price rise went back to the very beginning where its' started. However on the 24<sup>th</sup> of September, FRB chair Janet L. Yellen presented a view that FRB would start raising the interest rates before the end of the year if the inflation stayed stable and U.S. economy was still in active for more employment.
  - On September 30, when many companies at the TSE (Tokyo Stock Exchange) came to the interim end, many issues selected were bought back responding to the substantial drop of stock prices on the previous day.
  - The Nikkei Stock Average rebounded sharply and upped JPY457.31- from the day before at JPY17,388-. However reflecting the concern of the economic slowdown in China, Yen depreciated 9.55 (JPY1,818-) comparing to the end of March 2016.

## ***II :The Market Trend***

- Adding to the Greek default fears, the stock prices after July 2015 dropped below JPY20,000- on July 8 in Tokyo Stock Exchange affected by the sharp decline of Chinese yuan at Chinese stock market. With the turning point of rounding down of Chinese yuan on August 11, the economic slowdown in China has been deepened while wearing the aspect of global stock plunges and showed 6 days decline to August 25 closed with JPY17,806-, the lowest after 6

months. However reflecting the announcement of lowering the policy interest rate and reserve deposit rate at the People's Bank of China, stock prices recovered to the level of JPY19,000-.

- Then continued lower again and dropped temporarily to JPY17,000- on September 8.

### ***III:Currency/Obligation/ Interest rate trend***

- The People's Bank of China announced the devaluation of Chinese yuan on August 11 and the US dollar appreciation went up at the level of JPY125- at one point in time. As the global stock plunges moving ahead while accelerating the economic slowdown in China, Japanese Yen temporarily jumped up to 116 yen level at New York foreign exchange on the 24<sup>th</sup> and brought up the strong yen level. After that reflecting the announcement of the People's Bank of China to lower the policy interest rate and reserve deposit rate, US dollar rallied on the date of 25<sup>th</sup>.
- The yield on 10-year US government bonds is edging up as the investigation of raising the interest rates tends upward. Though it dramatically declined to 1.905% at one point on the 24<sup>th</sup> of August while in the spontaneous worldwide decline in stock values, it recovered up to the 2% level. The statement from Federal Open Market Committee, held on the 16 and 17 of September later expressed the concern not only the change of the financial environment such as high dollar and low stock prices, but also the economic slowdown in China. While concerning the growing economic slowdown in US for US dollar appreciation, slowing down of overseas economy, and the disruption of financial market causing the decline of interest rates, US economy is heading independently for the recovery and FRB's rate rise is assumed as in December.

### ***IV:J-REIT/Real Estate Related Sector Tendency***

- The monthly up-down ratio at the TSE REIT index in August was minus 7.07% affecting by the declines in global stock prices due to the concern of China's economic slowdown and more concern by the unbalanced demand and supply due to the announcement of public stock offerings of multi selected issues for the purpose of acquisition of the properties. However after the middle of September, the relatively high dividend yield and the investment demand with the background of the improved real estate market situation brought the upward trend and finally the stock price stably closed at 1,677.60 points on the 30<sup>th</sup> of September.

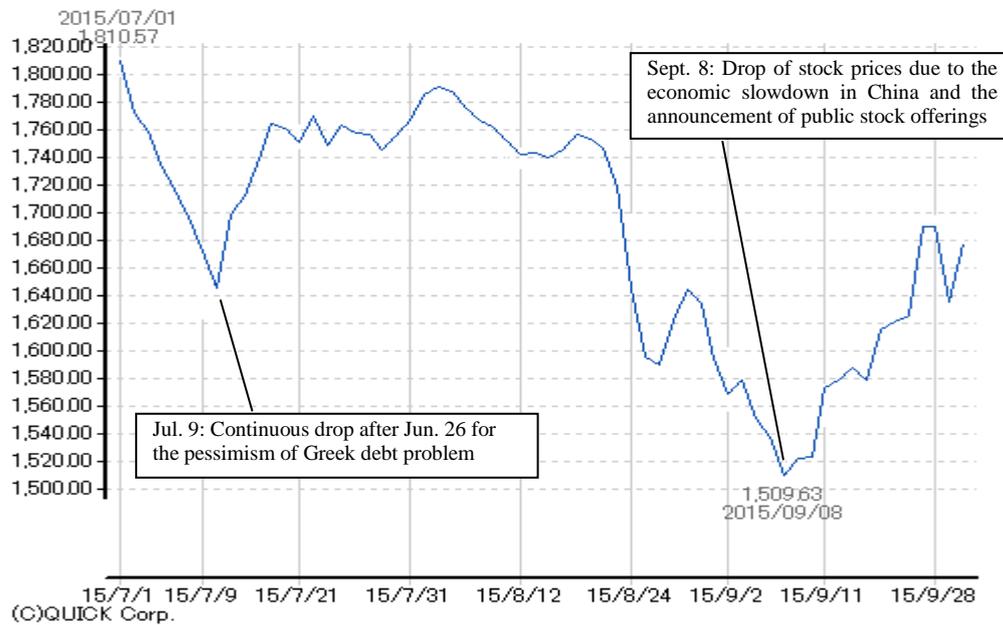
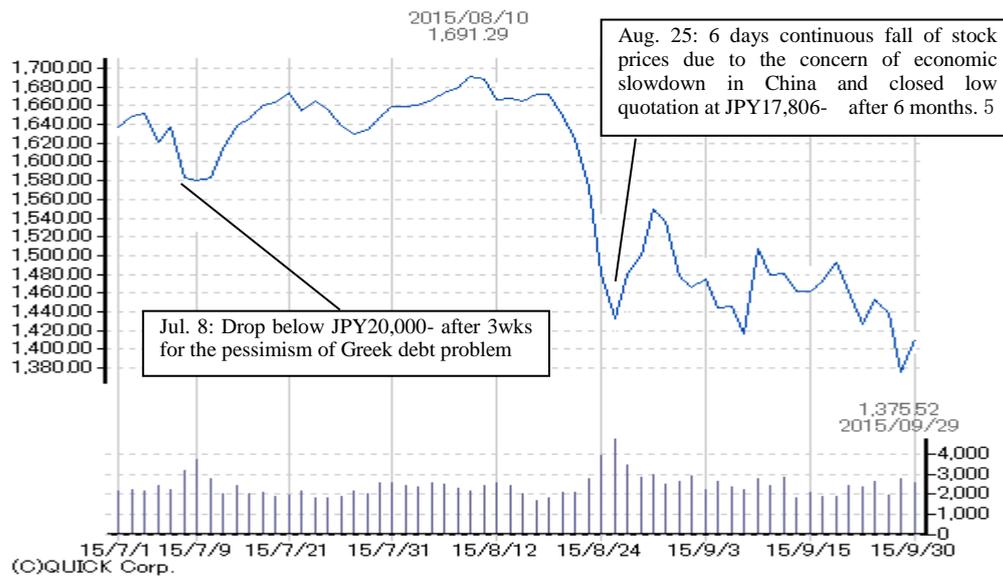
### ***V:Financial Market Outlook***

- The Bank of Japan's Short-Term Economic Sentiment Survey (The Tankan survey) in September reviewed that the major manufacturers' business confidence was worsened after 3Qs. Also the possibility of marking minus on GDP between July and September this year was increasing so the GDP will continue sinking down to minus as the previous quarter of April to

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June. Also at financial market seems to have a little breath after the trend of weak yen and high stock prices which most remarkable at Abenomics, and is unstable here again for the concern of economic slowdown in China. The Prime Minister Abe declared, “Abenomics transfers to the 2<sup>nd</sup> act” for the purpose of making a breakthrough of those situations, and commenced to speak about “the new 3 arrows”. Abenomics heavily funded by the policy of “quantitative and qualitative monetary easing” and propped up the economy and accelerated the Yen depreciation by accelerating the selling Japanese yen at exchange market at the same time. This brought good performances for the major companies developed in overseas such as car manufacturers and exporters. Then Japanese government encouraged the employers to raise the salary through the spring offensive and finally raised it for high percentage after 30 years since the late 80’s.

However the policy conducted by Mr. Kuroda, the Governor of Bank of Japan is targeting the short term effect only, so there might be a risk of bringing the side effects in concern of occurrence of bubble economy in stock market and worsen the inflation if the monetary policy long continues, so it would be unrealistic to carry on the emergency zero interest policy and quantitative easing. Though the “quantitative and qualitative monetary easing” creates some good effects as the trigger of economic boost, it is doubtful if the policy is good for the long stable growth of Japanese economy. It would be necessary to start determining our country’s policy with the effort to improve the potential growth rate and proceed the positive easing of regulations and reformation of labor market at the second act of Abenomics. Needs watch carefully as before how the Prime Minister Abe steers the future economic measures at the determination of concrete policy.

**[TSE REIT INDEX]**

**[TOPIX]**

**<Financial Markets>**

INDEX	Jun. end 2015	Sept. end 2015
TOPIX	1,630.40pts.	1,411.16pts.
USD/JPY	JPY122.43	JPY119.84
EU/JPY	JPY136.67	133.93
Yield on New 10-yr. gvmt. Bonds	0.455%	0.350%
TIBOR 3mths (Euro)	0.169%	0.169%
TSE J-REIT Index	1,827.11 pts.	1,667.60 pts.

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## Leasing Market Outlook

The vacancy rates in 3 major cities still in downward tendency

### <Summary>

- ✓ The vacancy rate at the 5 central business districts shows the 4% level
- ✓ The vacancy rate at Osaka business district shows downward tendency, also increasing the rent
- ✓ Still strong demands from the tenants at Nagoya business district

### <Topics>

#### *I: The Leasing Market Condition in Tokyo*

- The vacancy rate at the end of August 2015 in Tokyo central business district (Chiyoda, Chuo, Minato, Shinjuku, and Shibuya) shows 4.72% and the decline still continues for 26 months. The vacancy rate at this area at the end of July 2015 dropped to 4% level since January 2009.
- The average asking rent (per Tsubo per month) at the end of August 2015 shows upward at JPY17,490- per Tsubo per month (JPY170- up from the previous) and 17 months continuously increase.
- The total vacancy area at the end of August 2015 declined to approx. 340,000 Tsubo and shows decline in 33,000 Tsubo compared to the previous (The vacant area at existing buildings declined in 21,000 Tsubo and its' new buildings also declined in 12,000 Tsubo.)
- Strong demand especially for new building and young building in Chiyoda-ku.
- Active in office market such as in full occupancy rate at North Tower at Otemachi Financial City and it is almost the same level as just before the Lehman crisis if focusing on the vacancy rate only.
- Strong demand in medium or larger office buildings at Shibuya-ku, so the market is continuing extremely shortage of supply.
- As a result, the rent is remarkably going up and still difficult to find the properties which meet the requirement.
- Commercial rent market in Ginza area is still active for the effect of inbounds and 2 years ago, the rent per Tsubo per month at the 1F shops at Chuo-dori and Harumi-dori was JPY250,000- and this was standard.
- However today the rent per Tsubo per month is JPY300,000- is standard due to the expansion of store opening needs at this area.
- Though the most demanded by luxurious foreign brand shops were the areas lying between Chuo-dori and Sotobori-dori, from Ginza 2-chome to 7-chome before, now the 1-chome and 8-chome are also the subjects due to the short supply for the effect of inbounds.
- However the other areas are not subjected for those shop openings, so the demand is strongly concentrated to those areas only and the vacancy information is hardly ever heard.

**Tokyo Central Business District, Average Asking Rent, and Vacancy Area(monthly)**

	End of previous term(2015 May)	2015 Jun.	2015 Jul.	2015 Aug.	From the previous term(2015 May)
<b>Vacancy Rate/Avg. (%)</b>	5.17	5.12	4.89	4.72	<b>-0.45</b>
<i>Vacancy Rate/New built</i>	36.84	39.67	36.14	41.17	4.33
<i>Vacancy Rate/Existing</i>	4.50	4.50	4.34	4.18	<b>-0.32</b>
<b>Avg. Asking Rate/Avg.(yen/Tsubo)</b>	17,320	17,401	17,467	17,490	170
<i>Avg. Asking Rate/New built</i>	26,388	26,200	26,571	27,722	1,334
<i>Avg. Asking Rate/Existing</i>	17,075	17,178	17,275	17,306	231
<b>Vacancy Area/Total(Tsubo)</b>	372,645	368,434	352,172	339,615	<b>-33,030</b>
<i>Vacancy Area/New built</i>	54,961	50,177	44,775	43,327	<b>-11,634</b>
<i>Vacancy Area/Existing</i>	317,684	318,257	307,397	296,288	<b>-21,396</b>

Vacancy Rate at Tokyo Central Business District &amp; Average Asking Rent (annual)



(by Miki Shoji)

**II :Leasing Market Condition in Osaka**

- In Osaka business district (the main 6 districts: Umeda, Minami-morimachi, Yodoya-bashi, Honmachi, Semba, Shinsaibashi-Nanba, and Shin-Osaka), the vacancy rate at the end of August 2015 was 8.29%(-0.18% compared to the previous term) and the average asking rent is the JPY11,141-(+10 yen compared to the previous) and the vacancy area is approx. 182,000 Tsubo

(+4,000 Tsubo compared to the previous).

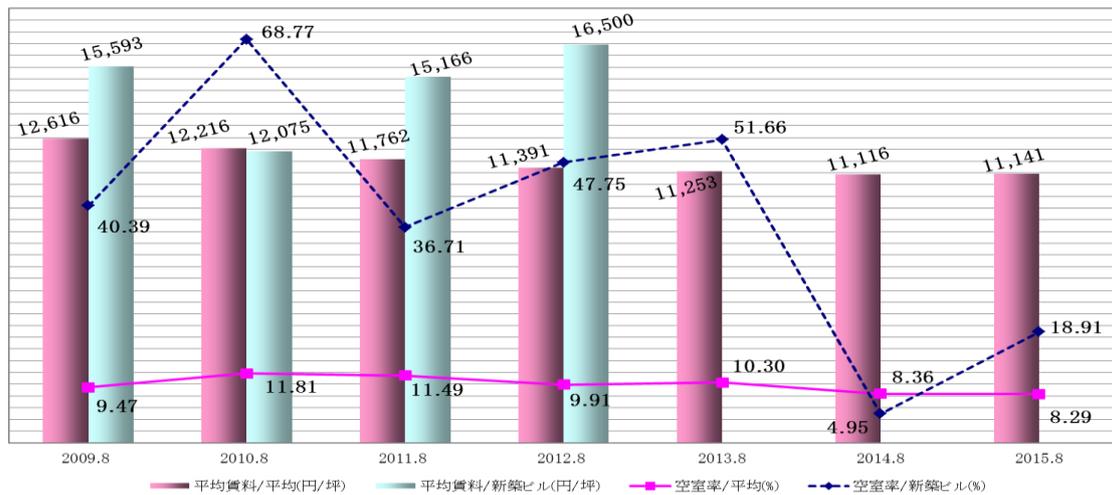
- The low vacancy rate is caused by the many contract conclusions at the high priced large properties.
- The vacancy rate especially at the areas of Yodoya-bashi and Honmachi districts are decreasing constantly and this tendency is to be expected to spread around this area.
- The vacancy rate in this market decreased for the large contracts conclusions at Umeda-Hankyu Office Tower and Shin-Fujita Building.
- Since the newly built large properties in Umeda district are under branding and the demands are increasing, so the rent shows upward tendency.
- While seeing many contract conclusions at the large properties, prospected more higher rent for serious shortage of supply because of no new building is coming for more than a year.
- Seeing by its areas, more demands for Umeda and the excellent properties are short of supply, so the choices are the only properties at less competitive locations, less attractive and old, and also requiring high rent in large buildings are left in the market.
- Also the areas at Dojima, Nakanoshima, Yodoyabashi, and Shin-osaka are being more demanded and the vacancy rate is at the level of 4%.

**Osaka Central Business District, Average Asking Rent, and Vacancy Area(monthly)**

	End of previous term(2015 May)	2015 Jun.	2015 Jul.	2015 Aug.	From the previous term(2015 May)
<b>Vacancy Rate/Avg. (%)</b>	8.47	8.42	8.33	8.29	-0.18
<i>Vacancy Rate/New built</i>	25.53	24.30	21.62	18.91	-6.62
<i>Vacancy Rate/Existing</i>	8.27	8.23	8.15	8.14	-0.13
<b>Avg. Asking Rate/Avg.(yen/Tsubo)</b>	11,131	11,131	11,141	11,141	10
<i>Avg. Asking Rate/New built</i>	-	-	-	-	-
<i>Avg. Asking Rate/Existing</i>	11,128	11,128	11,138	11,138	10
<b>Vacancy Area/Total(Tsubo)</b>	186,056	185,003	183,216	182,329	-3,727
<i>Vacancy Area/New built</i>	6,635	6,316	6,341	5,546	-1,089
<i>Vacancy Area/Existing</i>	179,421	178,687	176,875	176,783	-2,638

Vacancy Rate at Osaka Business District & Average Asking Rent (annual)

大阪ビジネス地区空室率・平均賃料(年次)



Average Asking Rent/Avg.(yen/Tsubo)
Average Asking Rent/Newly built (yen/Tsubo)
Vacancy rate/ Avg.(%)
Vacancy rate/ New built (%)
(by Miki Shoji)

### III:Leasing Market in Nagoya

- In Nagoya business district (mainly 4 districts: Meieki, Fushimi, Marunouchi, and Sakae), the vacancy rate at the end of August 2015 was 6.62%(-0.29% compared to the previous), the average asking rent was JPY10,799-(+15 yen compared to the previous) and the vacancy area is approx. 62,000 Tsubo(-3,000 Tsubo compared to the previous).
- At the district of Meieki, the vacancy rate continues to the level of 4% and no large buildings are supplied, so the shortage of supply is still going on.
- Also the demand for the secondary vacancy is high associated with the redevelopment of the areas in front of the station.
- In the areas at Fushimi and Marunouchi, the fall of vacancy rate is achieved by the campaign of the old properties and down the rent to lead the contract conclusions.
- Though the new large buildings are supplied to the office market of Nagoya, the new contracts by new comers and expanding the business continue, also the demands for enlarging the occupying space is still stable.
- The cases of transferring the offices to the central for the purpose of advantageous recruiting, some secured relatively larger occupying space at the central buildings.
- The business types requiring the office floors are wide ranged and top ranked sales companies in each industry are more active for relocation.

**Nagoya Central Business District, Average Asking Rent, and Vacancy Area(monthly)**

	End of previous term(2015 May)	2015 Jun.	2015 Jul.	2015 Aug.	From the previous term(2015 May)
<b>Vacancy Rate/Avg. (%)</b>	6.91	6.80	6.70	6.62	-0.29
<i>Vacancy Rate/New built</i>	-	-	-	-	-
<i>Vacancy Rate/Existing</i>	6.91	6.80	6.70	6.62	-0.29
<b>Avg. Asking Rate/Avg.(yen/Tsubo)</b>	10,784	10,813	10,801	10,799	15
<i>Avg. Asking Rate/New built</i>	-	-	-	-	-
<i>Avg. Asking Rate/Existing</i>	10,782	10,810	10,799	10,796	14
<b>Vacancy Area/Total(Tsubo)</b>	65,077	63,890	62,649	61,888	-3,189
<i>Vacancy Area/New built</i>	0	-	0	0	-
<i>Vacancy Area/Existing</i>	65,077	63,890	62,649	61,888	-3,189

Vacancy Rate in Nagoya Business District & Average Asking Rent (Annual)



(by Miki Shoji)

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