

**** Section I : Financial Market Outlook ******** Section II : Leasing Market Outlook ******Financial Market Outlook**

The Federal Reserve Bank to raise interest after 9.5 years
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<Summary>

- ✓ Oct. 5: The TPP ministerial conference reached a broad agreement on TPP.
- ✓ Nov.4: Japan Post, Japan Post Bank and Japan Post Insurance were listed at Tokyo Stock Exchange.
- ✓ Dec.14: The oil price dropped to below JPY30,000- after 6 years and 9 month.

<Topics>

I : Domestic and International Economic Topics

- Japan's Prime Minister Abe held a press conference in regard to the broad agreement on TPP at ministerial conference in Atlanta on October 5. The administration was supposed to maintain the tariff on the sacred agricultural staff which are rice, wheat, beef and pork, dairy, and sugar, and also the Prime Minister told that he confirmed those "sacred" would be protected referring the conversation with President Obama when Abe administration decided to join TPP negotiation in 2013, however as a result, he compromised some in tariff reduction and the expansion of the import ceiling.
- The Japan Post, the Japan Post Bank and the Japan Post Insurance were listed at Tokyo Stock Exchange on November 4. The market cap is JPY15,000bl. for total of those 3 and is the 2nd largest listing following the NTT's 28 years ago, (over JPY18,000bl.) so this gave the big impact on the market since the percentage of its market cap over the First Section of the Tokyo Stock Exchange is quite large.
- On Nov. 13, terrorists attack targeting the concert halls and the football stadium occurred in the central Paris in France and the 130 died and many had injured. Then ISIS, the militant organization claimed the responsibility for the attack that it was the revenge for the bombing against Syria by France. On November 17, France and Russia announced that they bombed the ISIS base in Syria and they were ready for more attack to ISIS and strengthen the partnership between them.
- The Middle Eastern Dubai origin crude oil future continued to substantial fall on December 14, and took over the trend of Euro-American future price of crude oil which dropped sharply at the previous weekend. The price temporary fell to 23,380 yen after 6 years and 9 month since March 2009.

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- On December 16, FRB(Federal Reserve Board) voted unanimously at FOMC(Federal Open Market Committee) to raise the policy interest as the market assumed after releasing the unique zero interest policy which continued for 7years since after Lehman crisis. The induction level of Federal Fund interest, the policy interest was raised from 0 - 0.25% to 0.25 - 0.5% on the same day along with this measure. The reasons for raising the policy interest were assumed that the conditions of labor market and price forecast meet the initiation of the raise the interest and assumed that the monetary policy would take time, however this explanation seemed little lack of persuasion.

II :Stock Market Trend

- The Nikkei Stock Average increased from 16,930-yen at September's month end to 19,747- yen to the end of November referring the prospect of reaching the broad agreement at TPP(Trans-Pacific Strategic Economic Partnership Agreement) negotiation in October and also the expectation for the financial inflow reacted the hint of the additional monetary easing in December by Mr. Draghi, the President of European Central Bank lifted up the market price. In December, though the price recovered temporary at the level of JPY20,000- dominated by buying referring the increase of capital expenditure at the corporation statistics by the Ministry of Finance, on the 18th of December, reacting to the supplement measures for the quantitative and qualitative monetary easing by the Bank of Japan, the stock prices went into the downward and the final session of the year closed at JPY19,033-.

III :Currency/Bond/ Interest rate

- The exchange rate of yen in October showed the transit to 120.90- yen at the month end even strengthen by the pressure of selling yen for the risk appetite of market with the background of an additional monetary easing in China and also by the back down of the interest rate hike before the end of the year and USD lowered against the yen for a while referring the US Current Employment Statistics and the retail sales fell to below the market prospect. Also the yen market in November closed at 112.82- yen at the month end after the transition to the USD appreciation reacting to the publication of US Current Employment Statistics and by the announcement of FRB officials to raise the interest rate hike at the market.
 - In December, the market closed at 120.61- yen at the end with the condition of USD appreciation for the decision at Monetary Policy Meeting by Bank of Japan to postpone the additional monetary easing and the low price of crude oil proceeded. December was dominated by the risk avoidance with the background of the fall of the crude oil price and the stock price, both USD/JPY and Cross Yen fluctuated with low peaks and the Japanese machine sales
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exceeded the market forecast, however the reaction was low and limited even for the result of price-related index of China. In foreign market, affecting by the shortage of crude oil in the statistics of energy stock, the crude oil price fell again after the rise, and also Dow Jones Average fell drastically temporary in \$350- or more, both USD/JPY and Cross Yen showed weak transition.

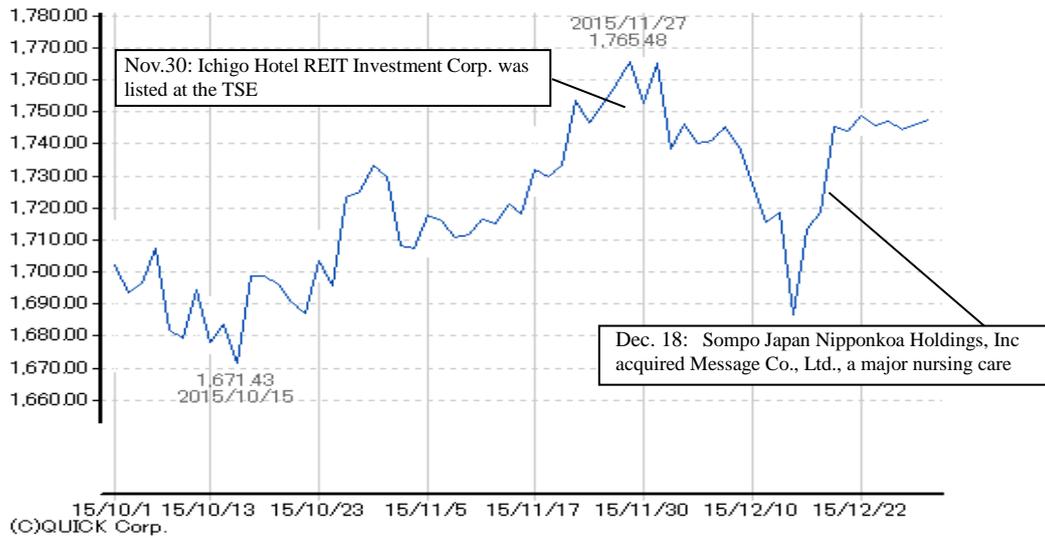
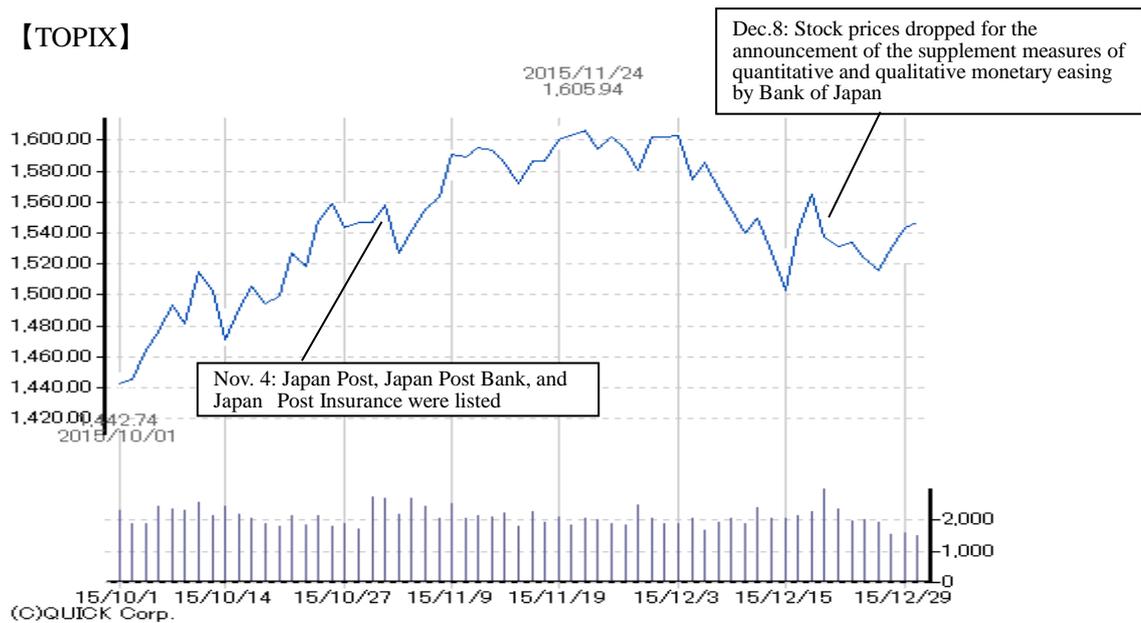
IV:J-REIT/ Real Estate Sector

- The TSE REIT Index in October recovered to the level of 1,733.27 which was +3.10% compared to the previous month after its intermitted rise referring background of the expectation for the additional easing by Bank of Japan and the low level of the long term interest rates. After that it recovered to 1,747.54 pts. at the end of December.
- Hoshino Resorts REIT, Inc. released the financial statement of October expecting 7% or more increase in each term to the dividend by the increase of property acquisition, variable rent, and by the premium capital increase.
- Hulic Co., Ltd. acquired the all stocks of SIA(Simplex Investment Advisors Inc.), SRM(Simplex Real Estate Management Inc.), and SRP(Simplex REIT Partners.) on the date of November 30. Since Hulic owns office buildings and hotels focusing on the central Tokyo, this acquisition of the stocks of Simplex brought them a significant effect to enhance the real estate properties they own.

V:Financial Market Outlook

- FRB(Federal Reserve Board) raised the policy interest and released the zero interest policy which continued for 7 years since after Lehman crisis. Though this was quite a big event, it would not resolve the problems in world economy. The most concern would be US economy. The US economic trend was not perfectly going well if looking at USD appreciation and the plunged oil price. As the interest rates of the housing loan and car loan rise, the firm consumption activity would slow down and significantly impact the US economy. Moreover the possibility is high that the interest differential between Europe and Japan grows larger and it will bring be the USD appreciation trend if the interest rates are raised by FRB. This will be the serious damage for US exporters and the fall of the crude oil price is to be a big impact on the exporters in the world's largest Shale oil producing countries. Also seems the end is coming if viewing the economic easing policy of Japan and ECB(European Central Bank) As a matter fact, the effect of the additional monetary easing by ECP President Draghi on the 3rd of December and the supplement policy by Mr. Kuroda, the President of Bank of Japan on December 18 are quite limited and the financial market is expressing a disappointment on those policies. Also
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pointed out is that the raise of interest rates by FRB is to make the room for the policy when at the downward and this seems the purpose of this measure after the peak of US economy. In any case, the world economic situation might be possible to maintain the substantiality as long as the US economic recovery continues, however it would be driven into the fairly difficult condition including Japan if losing the lifeline as in the year of 2008.

【TSE REIT INDEX】

【TOPIX】

<Financial Markets>

Index	Sept. end 2015	Dec. end 2015
TOPIX	1,411.16pts	1,547.30pts
USD/JPY	119.84yen	120.61yen
Euro/yen	133.93yen	131.77yen
Yield on new 10-yr. govt. Bonds	0.300%	0.270%
TIBOR 3 mths (Euro)	0.169%	0.169%
TSE J-REIT INDEX	1,752.65 pts.	1747.54pts.

Leasing Market Outlook

The vacancy areas in Tokyo and Osaka broadly decreased in short term

<Summary>

- ✓ The average vacancy rate at the Central Business District in Tokyo (Chiyoda-ku, Chuo-ku, Minato-ku, Shinjuku-ku, and Shibuya-ku) continue declining for 7 months.
- ✓ The average vacancy rate at Osaka Business District shows the same level as in the February 2009.
- ✓ The vacancy rate at Nagoya Business District still continues rising for 3 months.

<Topics>

I :Market Condition in Tokyo

(Unit: 1 Tsubo = 3.3 m²)

- The vacancy rate in Tokyo Central Business District (Chiyoda-ku, Chuo-ku, Minato-ku, Shinjuku-ku, and Shibuya-ku) dropped to 4.19% at the end of November 2015 and continues decreasing for 7 months approaching to the 3% level.
- The vacancy rates especially in Chuo-ku and Minato-ku are approaching to the level of 4% and the rate in Minaot-ku is the same level as its 7 years and 2months ago.
- The average asking rent shows JPY17,637- at the end of November 2015 and modestly increasing since at 2014.
- While in the shortage of new buildings, the vacancy areas decreased approx. 38,000 Tsubo at the end of November 2015 caused by the lease contract termination decreased.
- The decline of vacancy areas is remarkable especially at the new buildings for the expansion of occupying areas and the relocation for expanding the business.
- Also the comparison of the vacancy areas with the ones at previous year was approx. 100,000 Tsubo less than the same month.
- The rent continued slight increasing and the whole vacancy rate at the buildings was also in the transition at the suitable level for lessors.
- Even the rent also upped for 687 yen compared to the same month at the previous year, but the trend to up the rent at the existing buildings seems not widely spread to the whole market yet.
- The rent increasing tendency will still continue among the competitive buildings at lower level.
- Some of the tenants who moved in before Lehman crisis still pay the higher rent as the time of the period before the crisis, so some of those have a tendency for moving out to relocate to enjoy the benefit of reduction of the rent per Tsubo unit.
- Quite often seen at the areas with good accessibility to the terminal station but not very attractive for offices, the medium to small sized old buildings were being rebuilt to the

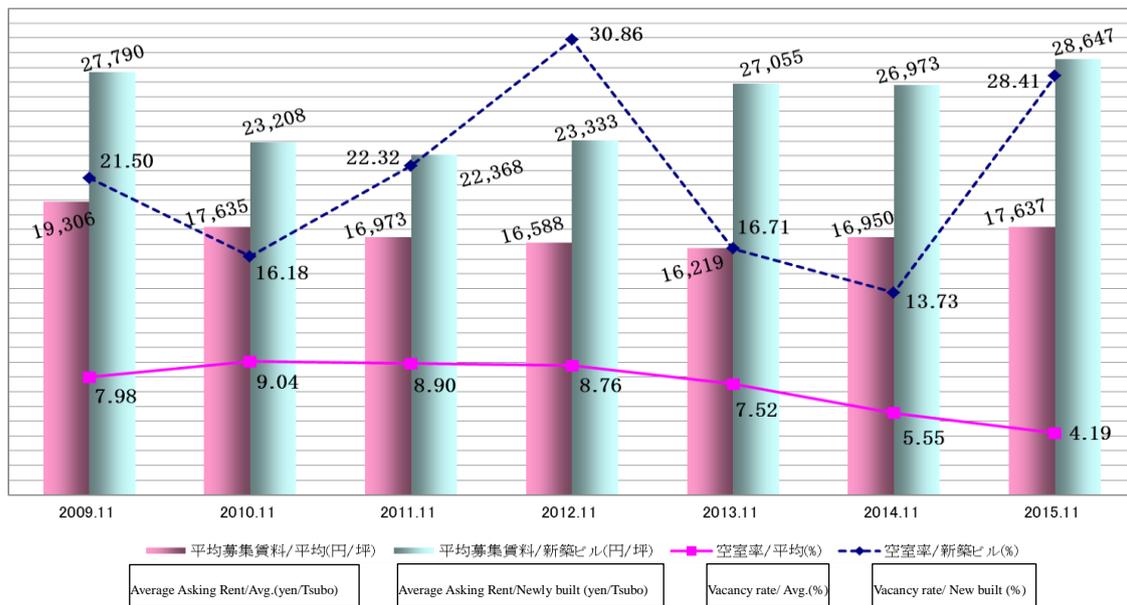
condominiums and the hotels and this trend gave a fresh look to the same areas according to the local real estate brokers.

- Stable changes seen at the commercial areas in central Tokyo.
- While some were anxious that how long this inbound active situation is going on, the demand for luxurious stuff is increasing.
- Higher demand for opening the shops in Ginza even at the areas with no other same type shops especially at the category of jewelers and luxurious watch sellers.
- On the other hand, the demand for opening shops targeting the permanent customers was stable as before especially at the calm and sophisticated location as at Namiki-street.
- Reflecting those situations, shop type segregation by its customers is progressing and also some try to open more than one shop rather than expanding the original shop areas in Ginza.

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

	End of previous term(2015 Aug.)	2015 Sept.	2015 Oct.	2015 Nov.	From the previous term (2015 Aug.)
Vacancy Rate/Avg. (%)	4.72	4.53	4.46	4.19	-0.53
<i>Vacancy Rate/New built</i>	41.17	38.26	39.75	28.41	-12.76
<i>Vacancy Rate/Existing</i>	4.18	4.03	3.88	3.72	-0.46
Avg. Asking Rate/Avg.(yen/Tsubo)	17,490	17,594	17,612	17,637	147
<i>Avg. Asking Rate/New built</i>	27,722	27,833	28,062	28,647	925
<i>Avg. Asking Rate/Existing</i>	17,306	17,407	17,440	17,444	138
Vacancy Area/Total(Tsubo)	339,615	324,813	320,440	301,893	-37,722
<i>Vacancy Area/New built</i>	43,327	39,517	45,991	38,851	-4,476
<i>Vacancy Area/Existing</i>	296,288	285,296	274,449	263,042	-33,246

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



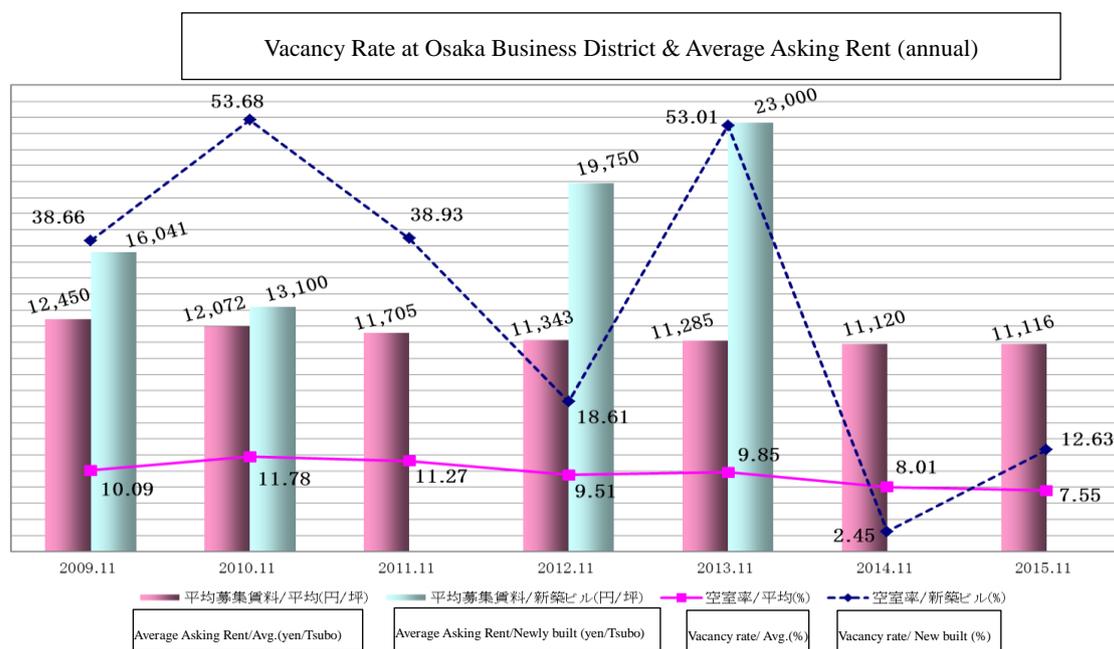
(by Miki Shoji)

II :The Leasing Market 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 November 2015 was 7.55%(-0.74% compared to the previous term) and the average asking rent is JPY11,116(-10 yen compared to the previous).
- The vacancy area is approx. 7,300 Tsubo decreased compared to the previous month at the previous year.
- The vacancy rate in Osaka business district showed the improving tendency due to the expansion of the occupying areas at medium to small sized buildings, and the relocation for business expansion.
- On the other hand, the secondary vacancy was remarkable at larger buildings due to the moving out to the company's own buildings and the supply demand balance is still at improving.
- The average asking rent is slightly variable through the year but the fall of the rent almost came to an end with the background of short supply in young buildings and larger buildings.
- The vacancy rate in office property decreased in 0.46% compared to the same month at the previous year and worth watching how long the improve trend sustains.
- According to the survey by Miki Shoji, 2016 is the first year without the new supply of large office buildings at the market in Osaka business district since the survey started.
- Some positive comments heard on the increase of the rent for about 5 years along with the improve trend of vacancy rate.
- Also possible to say that the decrease of the new properties' supply in Osaka business district was the result of the actualization of investment decline in Osaka.
- Recently some say that the second city after Tokyo's real estate upward trend is Osaka, not Fukuoka.
- For more development of leasing market in Osaka, it is necessary to attract more overseas investors to finance the funds and stimulating the office demand, not just waiting for the uptrend.

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

	End of previous term (2015 Aug.)	2015 Sept.	2015 Oct.	2015 Nov.	From the previous term (2015 Aug.)
Vacancy Rate/Avg. (%)	8.29	8.12	7.85	7.55	-0.74
<i>Vacancy Rate/New built</i>	18.91	16.81	16.15	12.63	-6.28
<i>Vacancy Rate/Existing</i>	8.14	8.01	7.75	7.49	-0.65
Avg. Asking Rate/Avg.(yen/Tsubo)	11,141	11,135	11,122	11,116	-25
<i>Avg. Asking Rate/New built</i>	-	-	-	-	-
<i>Avg. Asking Rate/Existing</i>	11,138	11,132	11,119	11,114	-24
Vacancy Area/Total(Tsubo)	182,329	178,836	172,770	166,168	-16,161
<i>Vacancy Area/New built</i>	5,546	4,930	4,097	3,204	-2,342
<i>Vacancy Area/Existing</i>	176,783	173,906	168,673	162,964	-13,819



(by Miki Shoji)

III: Leasing Market in Nagoya

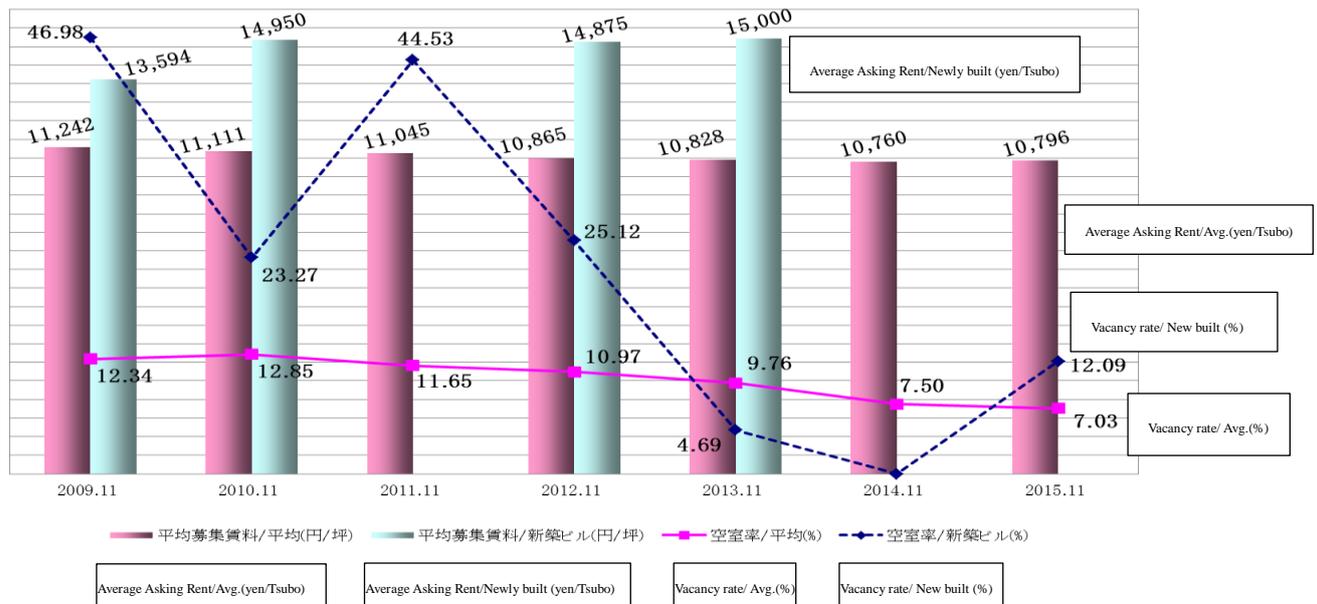
- In Nagoya business district (mainly 4 districts: Meieki, Fushimi, Marunouchi, and Sakae), the vacancy rate at the end of November 2015 was 7.03% (+0.41% compared to the previous), the average asking rent was JPY10,796- (-3 yen compared to the previous)

- The vacancy area was approx. 69,000 Tsubo (-7,000Tsubo compared to the same month at the previous year).
- The trend at the Nagoya business district had 2 types of aspect with the one for moving out for business shrinking or closure and the other is moving out for upper graded buildings, so the vacancy rate is in increase.
- While the new large buildings were full occupancy at the time of completion, many also moving into those buildings for relocation, so the secondary vacancy for the effect of large scaled development is quite notable as assumed at the beginning.
- However there also was a movement for relocating from rural business district to the central, so the vacancy period at high competitive buildings were not very long but short to affect worsening the vacancy rate.
- While the average asking rent in Nagoya business district is decreasing, the part of Meieki district shows an upward instead and the range of reduction gets narrower if on a year-on-year comparison.
- Since the availability at the new buildings to be completed in 2016 were not enough to cover the whole demands, assumed is that the demands for the buildings with the secondary vacancy will increase and possible to view the office building market in Nagoya business district will become on the upswing.
- Since Meieki district has a significant impact on the other districts in office market in Nagoya and also the success of this area could activate the whole market areas in Nagoya, so the continuous benchmarking this area is important.
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Nagoya Central Business District, Average Asking Rent, and Vacancy Area(monthly)

	End of previous term (2015 Aug.)	2015 Sept.	2015 Oct.	2015 Nov.	From the previous term (2015 Aug.)
Vacancy Rate/Avg. (%)	6.62	6.80	6.91	7.03	0.41
<i>Vacancy Rate/New built</i>	-	-	8.83	12.09	-
<i>Vacancy Rate/Existing</i>	6.62	6.80	6.87	6.78	0.16
Avg. Asking Rate/Avg.(yen/Tsubo)	10,799	10,798	10,798	10,796	-3
<i>Avg. Asking Rate/New built</i>	-	-	-	-	-
<i>Avg. Asking Rate/Existing</i>	10,796	10,795	10,796	10,796	0
Vacancy Area/Total(Tsubo)	61,888	63,518	65,966	68,771	6,883
<i>Vacancy Area/New built</i>	-	-	1,831	5,411	-
<i>Vacancy Area/Existing</i>	61,888	63,518	64,135	63,360	1,472

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



(by Miki Shoji)

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