

## The Market Value of Japanese Office Market Marks 330 Trillion Yen

Monthly J-REIT/Capital Market Overview

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The transactions of Japanese commercial real estate were very active this fiscal year. The wide variety of properties such as office buildings, headquarter buildings, commercial facilities, and residential properties were out in the market.

For example, for the office buildings: 40% of Shinjuku Sumitomo Building (approx. 65 billion yen); Ebisu Prime Square (approx. 40 billion yen).

For the headquarter buildings: NKK Headquarter Building (approx. 73 billion yen); Headquarter Building of Tokyo Mutual Life Insurance (approx. 12 billion yen); Fujita Headquarter Building (approx. 15 billion yen).

For the commercial facilities: Seibu Department Stores (approx. 78 billion yen); Mycal Stores (approx. 50 billion yen).

For residential properties: Ookawabata River City (approx. 27 billion yen).

(Note: Estimated value included.)

With the diversification of properties, the variety of institutional investors also widened, such as Japanese funds, international funds, life insurance companies, non-life insurance companies, and Japanese pension funds. I believe that the increase in real estate investment vehicles (e.g. SPC regulation, real estate securitization scheme through beneficiary interests, and J-REIT real estate funds) and operational difficulties of stocks and bonds have created the new demands for real estate investment. New individual investors are also expected to enter this market when IPO (Initial Public Offering) of J-REIT starts in spring.

The long slump of Japanese real estate market since the burst of bubble economy has finally changed, and I believe that we are witnessing the transition of the Japanese real estate market.

In this issue, I have estimated the market value of Japanese office buildings as the macro fundamentals to map out a real estate investment strategy for the coming years. Please note that this estimate is not a statistical public data.

According to my study, the market value of Japanese office buildings is approximately 330 trillion

yen, with Tokyo metropolitan area 136 trillion yen (41%), Osaka area 49 trillion yen (15%), Nagoya area 21 trillion yen (7%), and other areas 121 trillion yen (37%). Over 60% (approx. 206 trillion yen) of office buildings are located in three major cities (i.e. Tokyo, Osaka, and Nagoya).

There may be other opinions concerning this number I have estimated, however, please understand that this is mere reference to have a better understanding of the potential office building market size and real estate investment allocation per area.

Note: This market value was calculated by directly dividing the cash flows from the inventory, weighted average vacancy rate, and weighted average rent of office buildings per area.

