



Residential

Tokyo, Japan



The Residential Market

Overview

Several commentators suggest Japan's GDP will return to positive territory from Q2/2009. However, in annual terms, Japan's GDP is forecast to return to positive territory from 2010 and not from 2009. Key indicators such as supply, rental levels, prices, and cap rates are all projected to move in a negative direction in 2009 and recovery will only take place after 2010. Investor interest in the Tokyo residential market has remained subdued in 2009 year-to-date. The acquisition of Lietocourt Arx Tower by St. Martins was the only transaction priced higher than 10 billion yen. Based on our survey results, however, investment appetite for Tokyo residential is expected to increase in the latter half of 2009.

Economic Trends

According to the Ministry of Finance, export volume, which recorded negative growth for four consecutive months from October 2008, has shown some signs of improvement in recent months, recording positive growth between February and April on a month-on-month basis. As export demand from countries such as China has started to pick up, it is expected that decreases in export volumes have bottomed out. Several commentators are expecting GDP to return to positive territory from Q2/2009 onwards. 2009 GDP growth rate projections from major financial institutions and think tanks range between -4 and -6 per cent, projections for 2010 are more optimistic, with forecasts of up to 4.2 per cent growth.

Supply Level

According to the Tokyo Metropolitan Government, supply levels of residential units recorded a decrease in both month-on-month and year-on-year terms in Q1/2009. This was the first time such a decrease was recorded since Q3/2007, when the effects of the Construction Standard Law amendment were felt across the market. Although we do not expect to see such a dramatic decrease as that recorded in Q3/2007 going forward, new supply of residential units in 2009 is expected to be one of the lowest of the past 10 years. However, spurred by an increasing population and an increasing number of single person households, supply levels are expected to increase again in the mid to long term.

Rental Level

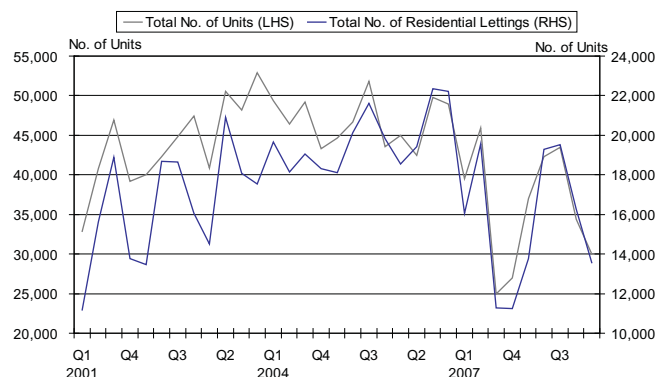
According to At Home, the average apartment rent in Tokyo's 23 wards remained consistently above 12,000 yen per tsubo per month between 1H/2007 and 2H/2008. Moreover, the average rental level has consistently increased between 1H/2006 and 2H/2008 on a year-on-year basis. However, we expect the average rental levels to fall by 5 to 10 per cent in 2009 before bottoming out in 2010. Any increases in the short to medium term will likely not lift the level above the 12,000 yen threshold however.

Demographics of Tokyo 23 Wards

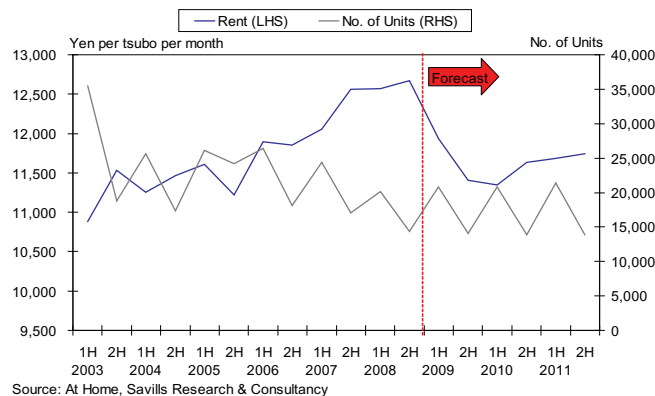
Area:	621.35 sq.km
Population	8,413,883 (Y-o-Y increase of 74,188 persons)
Day Time Population	11,284,699 (+159,564 persons from 2000)
No. of Households	4,343,368 (Y-o-Y increase of 73,954 households)
Population Density	13,541 persons/sq.km.

Source: At Home, Savills Research & Consultancy

Outline of Residential Supply of Tokyo Major 10 Wards, Q1/2001 - Q1/2009



Outline of Apartment Rental Levels of Tokyo 23 Wards, 1H/2003 - 2H/2011



According to Ken Real Estate Investment Advisory, the average rent of high grade apartments in Tokyo's central three and nine wards was consistently higher than 16,000 yen per tsubo per month in 2007 and 2008. Moreover, the average rent increased consistently between 2005 and 2008 on a year-on-year basis. However, we expect average rents to fall by circa 10 per cent in 2009. The rate of decline of high grade apartments will be slightly higher than those of standard apartments, as many properties in this category cater for executives and employees working in the finance, insurance, and real estate sector, which were worst hit by the current economic downturn. We expect average rental levels to bottom out in 2010 but increases in the short to medium term are not likely to lift levels above 16,000 yen for the time being.

Price Level

According to data compiled by the Real Estate Economic Institute, average price levels per tsubo of residential units in Tokyo's 23 wards have been consistently higher than 2.2 million yen since 2004. After recording a year-on-year increase between 2005 and 2007, price levels recorded a year-on-year decrease of 0.4 per cent in 2008. We expect price levels to slip further in 2009 in the order of 10 per cent.

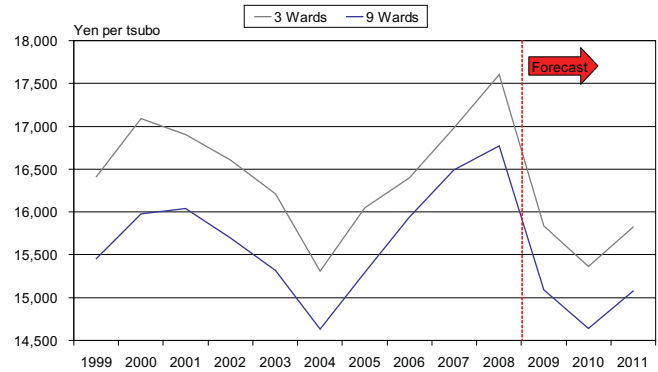
Cap Rate

According to the Japan Real Estate Institute, at the end of 1H/2009, beginning cap rate levels of Tokyo residential properties ranged between 5.8 and 6.0 per cent. Over the past 12 months, the residential cap rate level has appreciated by more than 100 bps: studio residential 110 bps; family residential 120 bps; luxury residential (low rise) 140 bps; and luxury residential (tower) 140 bps. Within Asia, similar levels of appreciation were recorded in cities such as Osaka and Shanghai during the same period. We expect beginning cap rate levels will continue to appreciate over the short term, albeit maximum increases will be below 50 bps.

Recent Sales and Investment Activity

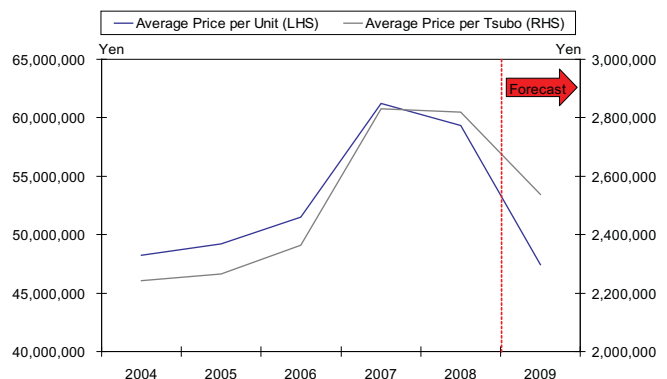
Interest from major investment funds in the Tokyo residential market has remained low in 2009 year-to-date. Only a handful of properties priced higher than one billion yen have been transacted and only one property priced above 10 billion yen. The only transaction higher than 10 billion yen was the purchase of Lietocourt Arx Tower by St. Martins, the Kuwaiti Sovereign Wealth Fund, from da Vinci Holdings, a domestic investment company. St. Martins' purchase price was 13 billion yen at an NOI cap rate of 5.40 per cent. The subject is a 27 story property located at 3-8-1, Minato, Chuo Ward, and is approximately five minutes walking distance from Shintomicho Station on the Tokyo Metro Yurakucho Line. It is comprised of one, two, and three bedroom units sized between 43.3 and 158.2 sq.m. It was St. Martins' first real estate transaction in Tokyo. We expect investors' appetite to increase in the latter half of 2009, as circa 40 per cent of Savills survey respondents consider residential as the best asset class for investment, after office which received support from 46 per cent of total respondents.

Rental Levels of High Grade Apartment of Tokyo Central 3 and 9 Wards, 1999 - 2011



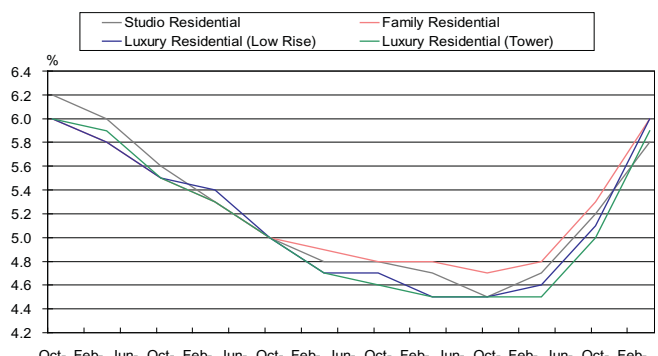
Source: Ken Real Estate Investment Advisory, Savills Research & Consultancy

Apartment Price Level of Tokyo 23 Wards, 2004 - 2009



Source: Real Estate Economic Institute, Savills Research & Consultancy

Beginning Cap Rate of Tokyo Residential, Oct 2003 - Apr 2009



Source: Japan Real Estate Institute, Savills Research & Consultancy



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