



KENZO CAPITAL CORPORATION



Japanese Market Outlook

December 2011

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Editorial

We are happy to present our clients and readers with a new format of our outlook on the Japanese economy and real estate market from December 1st onwards. We will be able to enhance the professional content of our publication through a starting economic statement on the Japanese economy, on the development on the capital markets, the interest and foreign exchange markets and political initiatives. Mr Edgar Walk, Chief Economist of Metzler Asset Management of Bankhaus Metzler, Frankfurt/Main will contribute this part to our "Japan Market Outlook".

With Bankhaus Metzler we have won an independent and experienced partner for our Japan publications. We highly appreciate this support. In Bankhaus Metzler we count on a partner with a long and successful capital market presence in Japan. Based on established business and personal contacts in Japan as well as in Germany the view and research will provide a well balanced analysis of the economic conditions. The author, Mr. Edgar Walk, who is living in Frankfurt today, has enjoyed many years of professional and personal experience in and with Japan, will contribute to our effort to balance between the inside and the outside view when looking on Japan.

The Japan Market Outlook will be published on a quarterly basis reflecting the economic and real estate results and data of the previous quarter end.

Latest Outlook Japanese Economy

by Edgar Walk

The Japanese economy has recovered surprisingly quickly from the devastating damages of the Tohoku earthquake. GDP surged by 1.5% in the three months between July and September which is a substantial turnaround after three quarters with negative growth rates in a row. The Japanese economy will nevertheless show a contraction of 0.6% for calendar year 2011 according to our estimates.

For 2012 we forecast a strong rebound to 3% growth. We base our optimistic outlook mainly on the spending by the Japanese government on reconstruction and on the economy. The Japanese Prime minister Noda ordered just recently the compilation of a fourth extra budget of at least 2 trillion Yen (\$26 billion) in a step which is unprecedented since postwar reconstruction. Japan has already allocated 18 trillion Yen (\$234 billion) in three packages since March this year. The fourth package is intended to help shore up the economic recovery which is under threat from the recent surge in the Yen exchange rate, the European sovereign debt crisis and the Thai floods that have disrupted production. Moreover, we expect further asset purchases by the Bank of Japan as well as interventions on the foreign exchange market. The combination of a powerful fiscal stimulus with an ultra easy monetary policy stance will in our view create an environment of strong growth. There is even a good chance that deflation will be defeated and inflation will return at the end of 2012.

Japanese Market Outlook

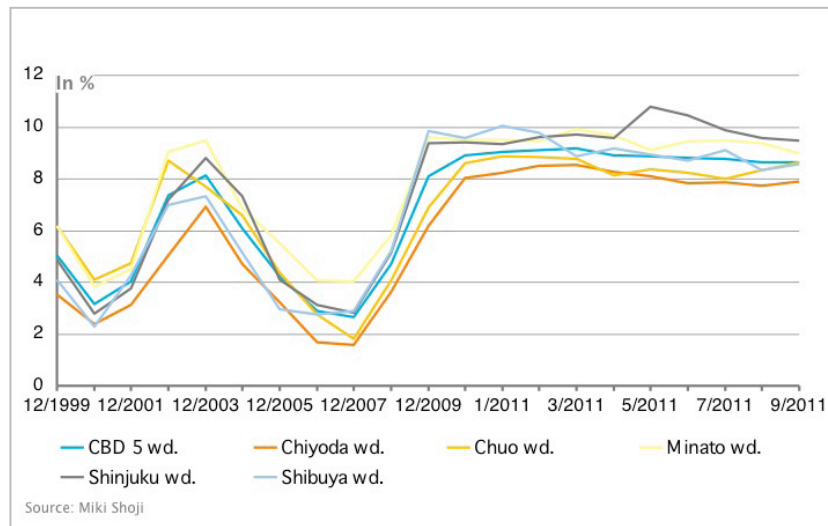
December 2011

Real Estate Market

1. Office Market Tokyo

Vacancy Trend

- Regardless of the March earthquake disaster the vacancy rates of the Tokyo CBD 5 Wards have shown a stabilizing trend in the first half of this year.
- The present rent level is stimulating office demand. Moves for expansion and to good-quality buildings have actually become popular. The market is getting back to normal from the financial crisis.
- Some voice concern about the office supply projected in Tokyo next year. However, regarding grade A offices in Tokyo CBD, the supply will be moderate with just around 60% of the large 2003/04 supply. We expect that the market will digest this supply without any delay.

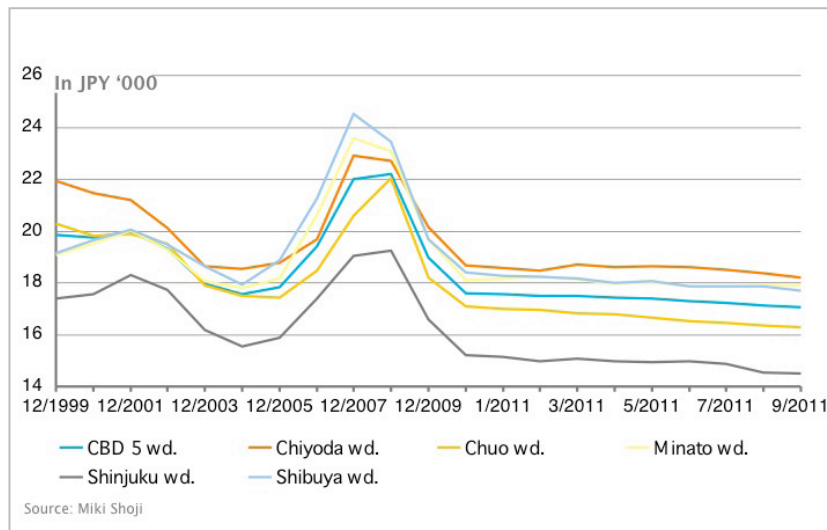


Office Rent Trend

- The rents in the Tokyo CBD 5 Wards have not bottomed out yet, recorded the lowest level for the last decade.
- According to CB Richard Ellis and Jones Lang LaSalle, the rent drop of grade A buildings in Tokyo CBD is slowing further. We expect that the rent level of those buildings will bottom out in around the middle of next year.

Japanese Market Outlook

December 2011



Recent Office Transactions

- ◆ This March, when most of Japanese companies faced the end of the fiscal year, many deals were closed as usual despite the disaster. There were some huge transactions in excess of JPY 30 billion. The purchases were mainly well-funded major Japanese real estate companies, such as Mitsui Fudosan and Mitsubishi Real Estate, and the J-REITs sponsored by them.
- ◆ We could also observe notable deals constantly after this April. J-REITs held a dominating buyers position, among other reasons supported by successful new offerings and by governmental funds.

Japanese Market Outlook

December 2011

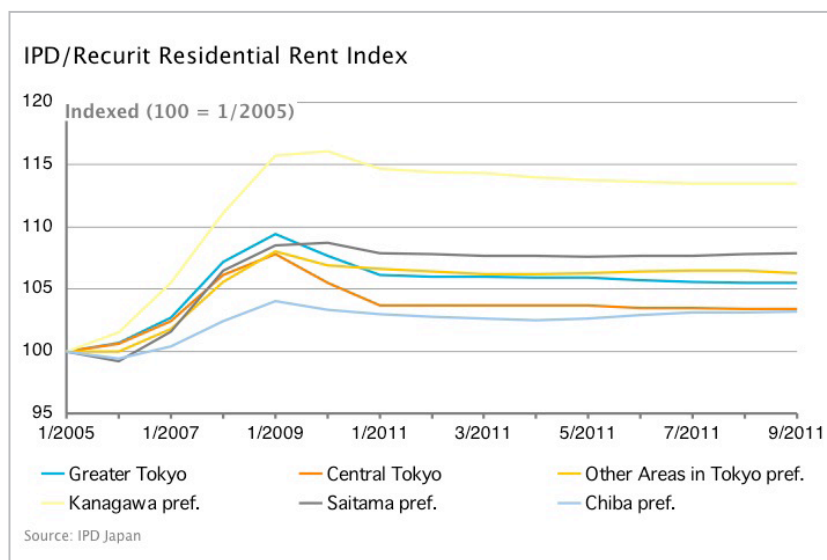
March to October 2012 Transactions in excess of JPY 5 Bio

Building Name	Date	Price (JPY Bio)	Cap Rate	Seller	Buyer	Age	Area
Hirakawacho Mori Tower	Mar-11	18.2	4.5%	Mori Building	Global One REIT	2	Chiyoda
Daiwa Kayabacho Building	Mar-11	5.6	5.1%	a subsidiary of Daiwa Securities	Daiwa Securities Office REIT	1	Chuo
Mitsubishi Heavy Industries Building	Mar-11	36.3	4.3%	Mitsubishi Heavy Industries	NBF REIT (sponsored mainly by Mitsui RE)	8	Minato
Gate City Osaka	Mar-11	11.7	4.5%	Sumitomo Life Insurance	NBF REIT (sponsored mainly by Mitsui RE)	12	Shinagawa
Toyosu Center Building	Mar-11	40.8	N/A	a SPC owned by IHI Corporation	IHI Corporation	19	Koto
Promise HQ Building	Mar-11	72.0	N/A	Promise	Mitsui RE/ Mitsui Trading Company	50	Chiyoda
Kokusai Shin-Akasaka Building	Mar-11	N/A	N/A	Lone Star Group	Mitsubishi Estate	31	Minato
Glass Cube Shinagawa	Mar-11	N/A	N/A	NTT Urban Development	a SPC owned by NTT Urban Development	1	Shinagawa
Fuji Electric Systems HQ	Mar-11	N/A	N/A	Fuji Electric Systems	Ichigo Investment Group	14	Chiyoda
Todentsu HQ Building	Mar-11	N/A	N/A	Todentsu	Tokyu Real Estate	7	Minato
Chofu South Gate Building	Apr-11	9.3	6.0%	Simiz General Constructor	NBF REIT (sponsored mainly by Mitsui RE)	4	Chofu
NOF Toyocho Building	May-11	8.7	N/A	Nomura Real Estate Office REIT	N/A	22	Koto
Akihabara Business Center	Jun-11	5.1	N/A	Orix Real Estate	Orix REIT	2	Taito
KDX Hirakawacho Building	Jun-11	5.8	N/A	Kennedix REIT	a real estate company	23	Chiyoda
E Space Tower	Jul-11	24.0	4.8%	a SPC owned by Daiwa Securities	Daiwa Securities Office REIT	9	Shibuya
Cannal Site Building	Jul-11	N/A	N/A	daVinci	GE Japan	18	Shinagawa
Roppongi Hills Mori Tower	Aug-11	18.7	N/A	Mori Building	Mori Hills REIT	8	Minato
Ark Mori Building	Aug-11	17.2	N/A	Mori Building	Mori Hills REIT	25	Minato
Roppongi Hills Gate Tower	Aug-11	35.9	N/A	Mori Hills REIT	Mori Building	10	Minato
Kowa No.35 Building	Oct-11	8.3	5.0%	Kowa Real Estate	Japan Excellent REIT (sponsored by Kowa RE)	31	Minato
New Edobashi Building	Oct-11	5.2	N/A	Invincible REIT (sponsored by Fortress)	N/A	25	Chuo

2. Residential Market

Apartment Rent Trend

- ◆ The rent in the greater Tokyo area has stabilized, after its fall it has stopped from 2009 heights.
- ◆ Especially rents in Saitama and Chiba, two very popular living areas show clear signs to have bottomed out in June this year.



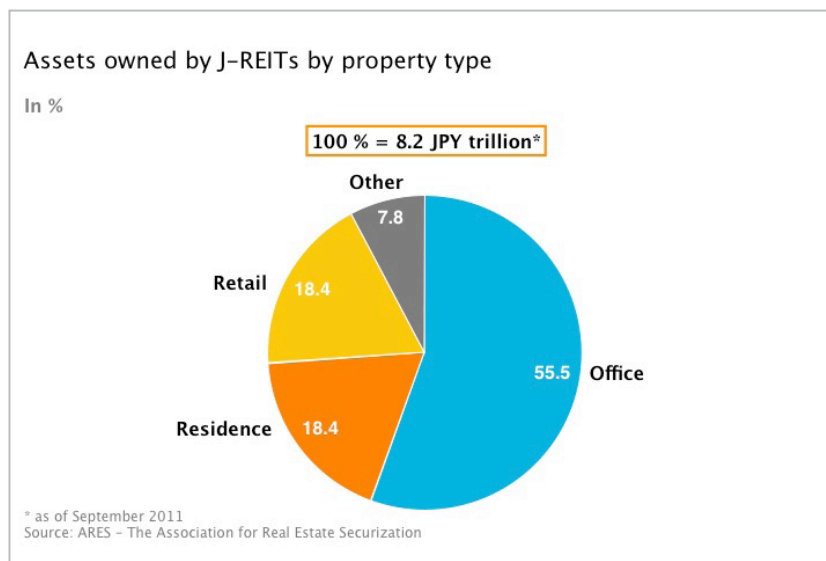
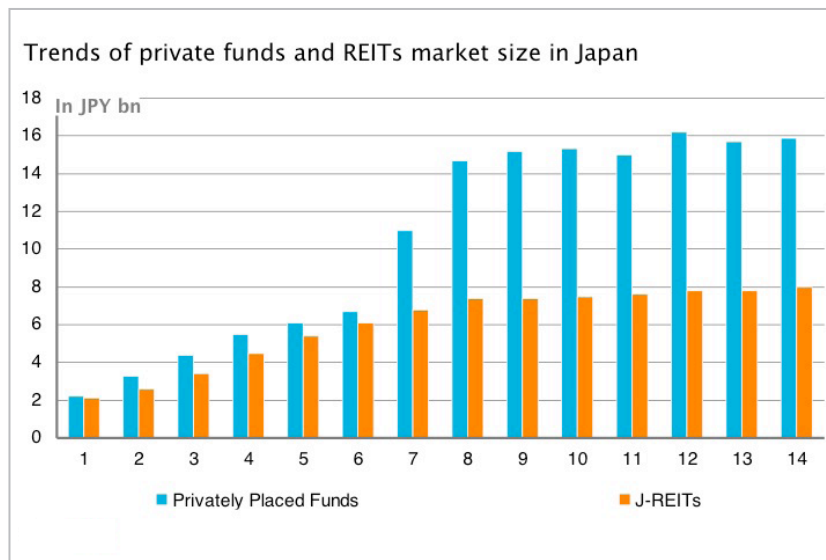
Japanese Market Outlook

December 2011

3. Investment Market

Institutional Investments

In June 2011 J-Reits and Private Funds jointly held JPY 23.9 trillion in Assets under Management (AuM). Despite the disaster of the Great Eastern Earthquake the institutional market grew by JPY 400 billion. J-Reits AuM grew again by JPY 200 billion between June and September 2011 supported by fresh money raised from the capital market through public offerings.





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