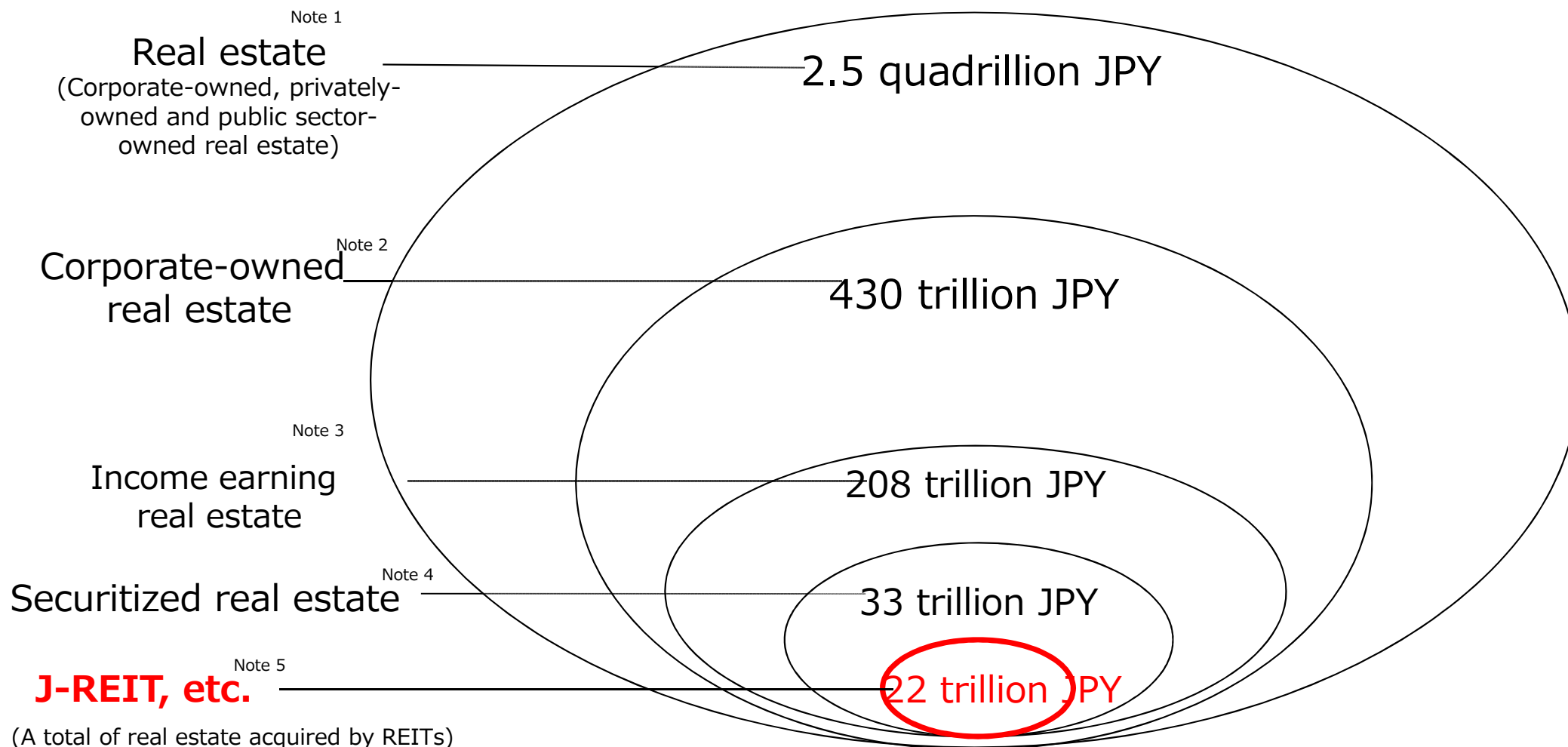


Growth strategy and regional revitalization from real estate market

Sachio MUTO

Director, Real Estate Market Division

Land Economy and Construction Industries Bureau,
Ministry of Land, Infrastructure, Transport and Tourism



Note 1: A total of residential buildings, non-residential buildings, other structures and the stock of land. [Source: National Accounts for 2015]

Note 2: Corporate-owned real estate including offices, retail stores, factories and welfare facilities. The amount is based on actual values according to the preliminary land survey. (As of January 1, 2013)

Note 3: Prudential Real Estate Investors "A Bird's Eye View of Global Estate Markets: 2012 Update"

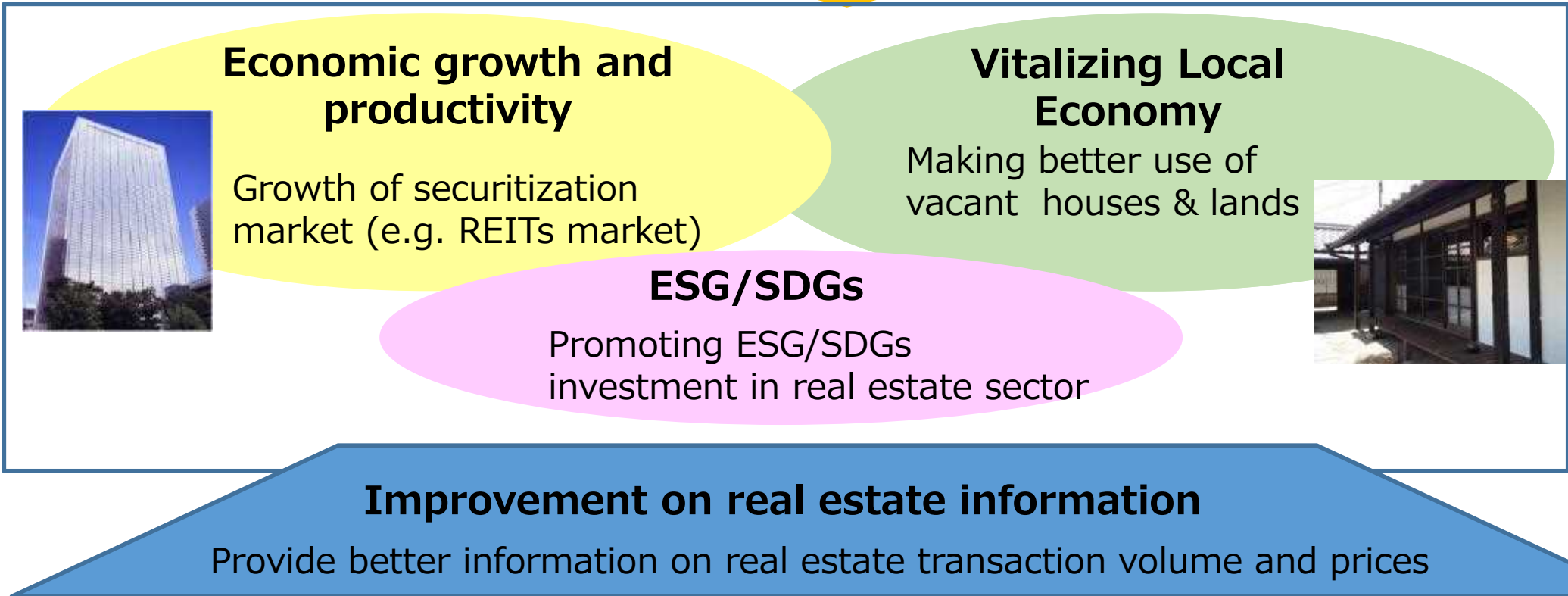
Note 4: The factual investigation of real estate securitization for FY 2017, MLIT

Note 5: Total operating assets as of the end of March, 2018 [Source: ARES J-REIT Report]

In order to boost economic growth and vitalize local economy by creating new demand, we promote effective use of real estate such as securitization.

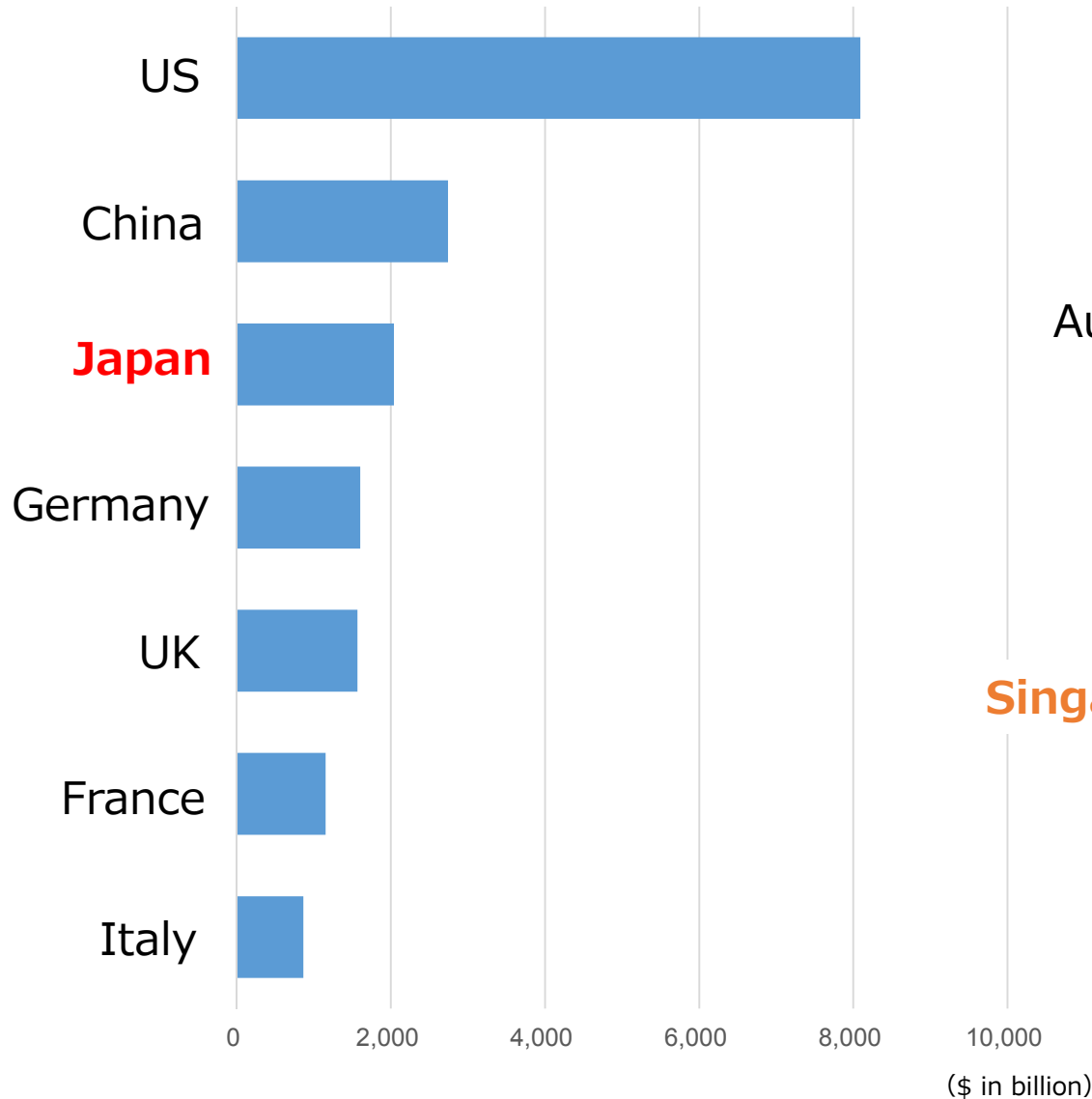
Background

- Number of foreign tourists visiting Japan: 8.36 million (2012) 40 million (2020)
 - Houses for the elderly : 690,000 (2014)→1,460,000 (2025)
 - Vacancy rate of houses : 13.5%(2013) →21.0%(2023)※
 - Expansion of the crowdfunding market:8.7 X from 2013 to 2017※
- ※:Estimated by private research firms

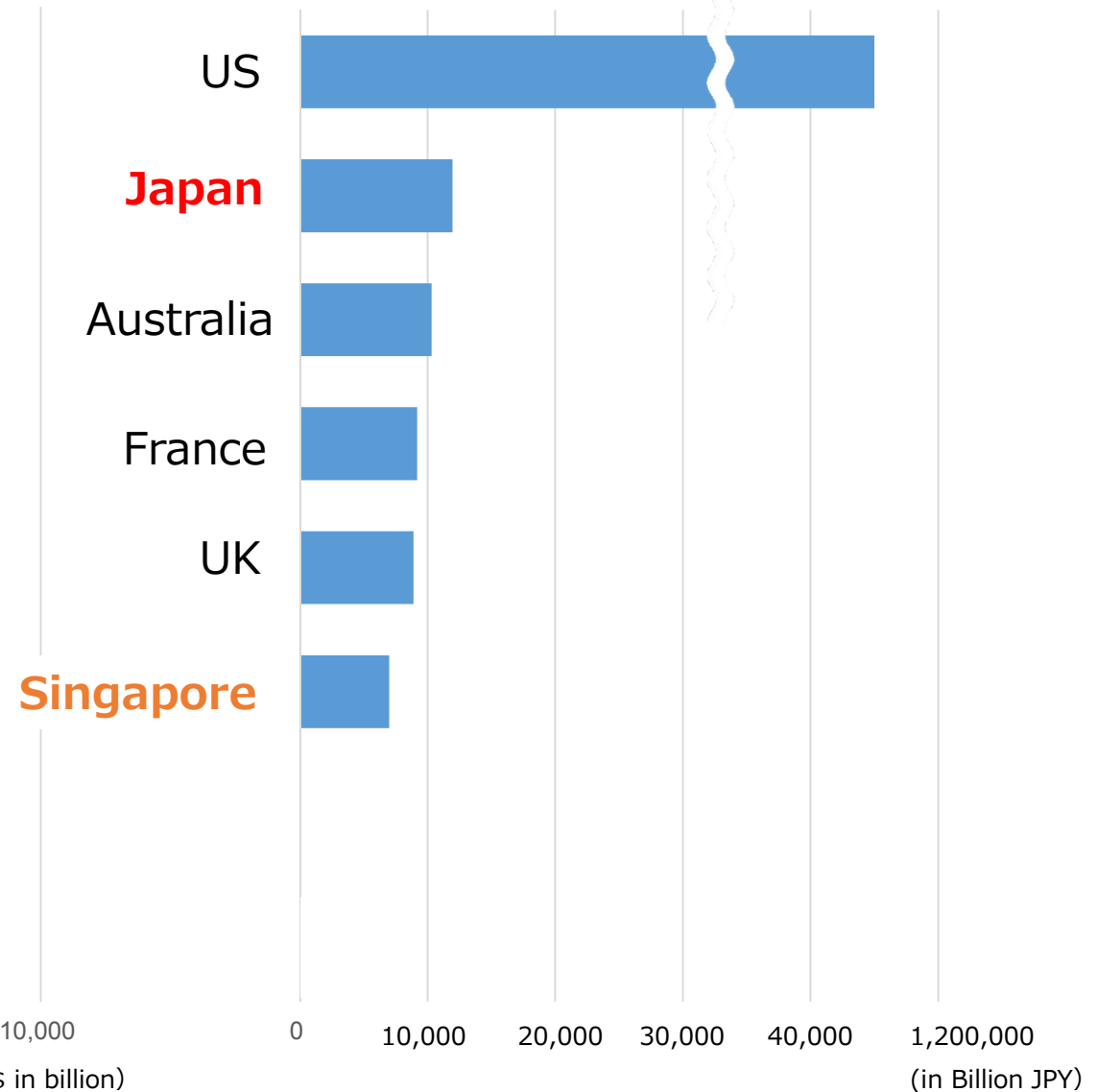


1. Economic Growth and Productivity

Real Estate Market Volume Ranking



REIT Market Volume Ranking



「Growth Strategy 2017 (Initiatives and Programs) 」 (Cabinet Decision, 9th June, 2017)

Chapter 2 Concrete measures

I Strategic fields aiming for the achievement of Society 5.0

4. Improvement of infrastructure productivity and urban competitiveness

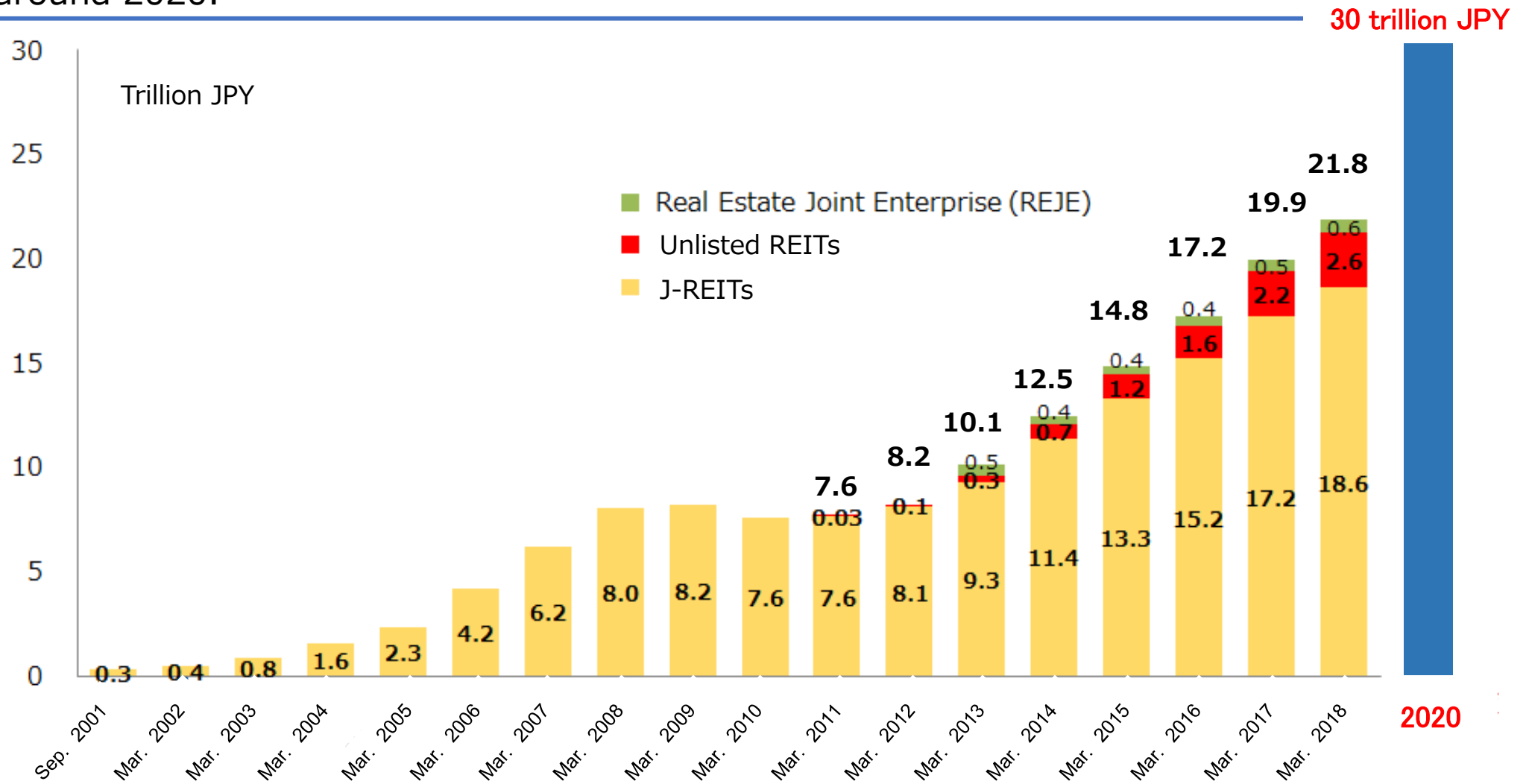
(2) Specific measures to be newly taken

iii) Improvement of urban competitiveness by evocation of private investment, etc.

Aiming at doubling **the total assets of REIT or the like to about 30 trillion yen by about 2020**, from the viewpoint of promoting investment for conversion to and supply of real estate of high growth potential, the government will develop and disclose information on real estate that is superior in perspicuity and practicality, that are necessary for improving the convenience and reliability of investors so that they could **make appropriate assessment of real estate of excellent quality in term of environmental and comfort, establish a new certification system**, and review the real estate appraisal system by the end of this fiscal year

National goal of Asset Volume in REITs etc.

- In the end of FY2017, J-REITs etc. have become almost three fold in terms of its asset volume to **22 trillion JPY** compared to that in 2011.
- The Japanese government is aiming to further expand its volume to about **30 trillion JPY** around 2020.



Data.

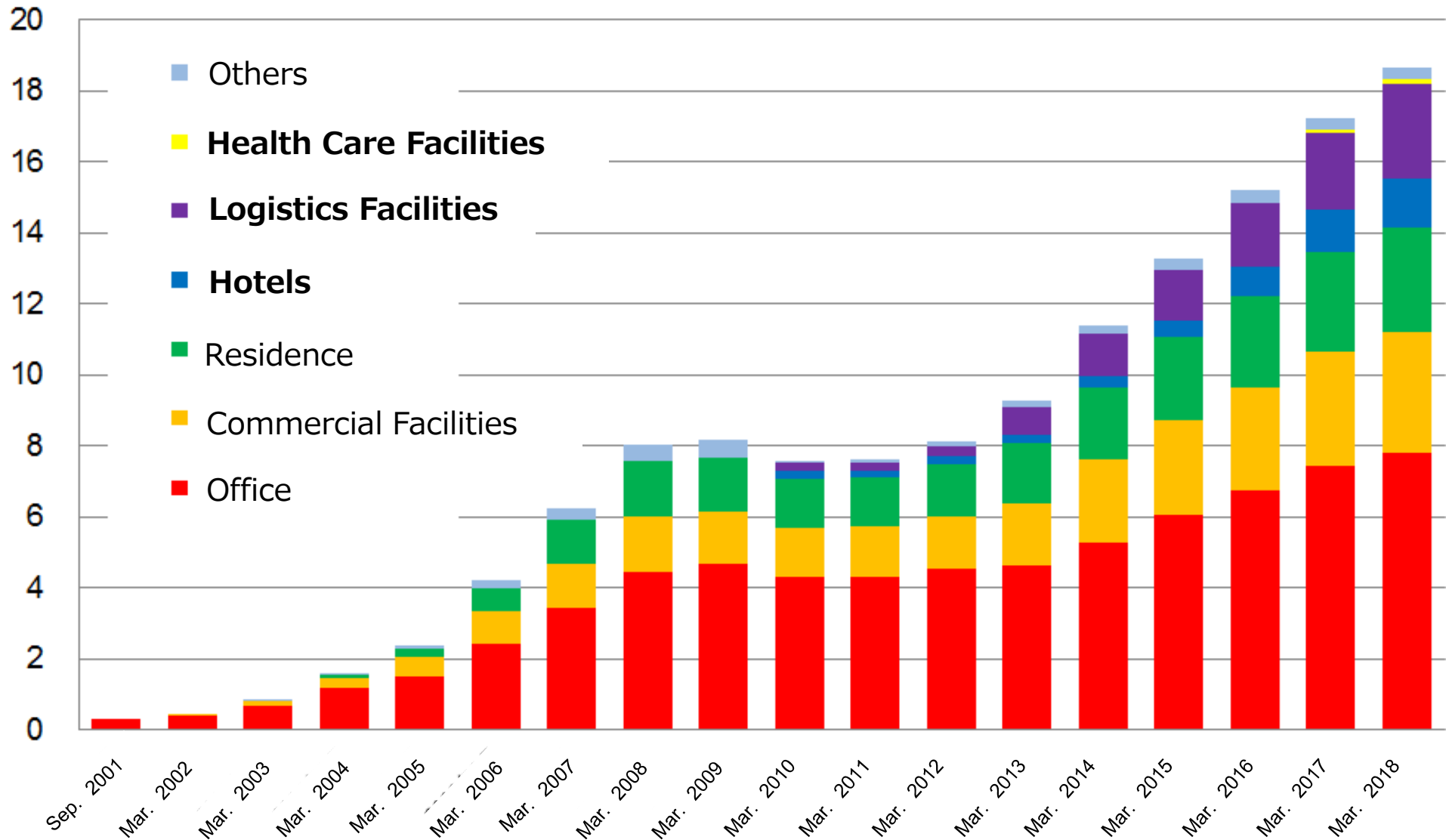
<J-REITs>The Investment Trusts Association

< Unlisted REITs>ARES

<Real Estate Joint Enterprise >MLIT

Diversifications of the asset types in J-REITs

(Trillion JPY)

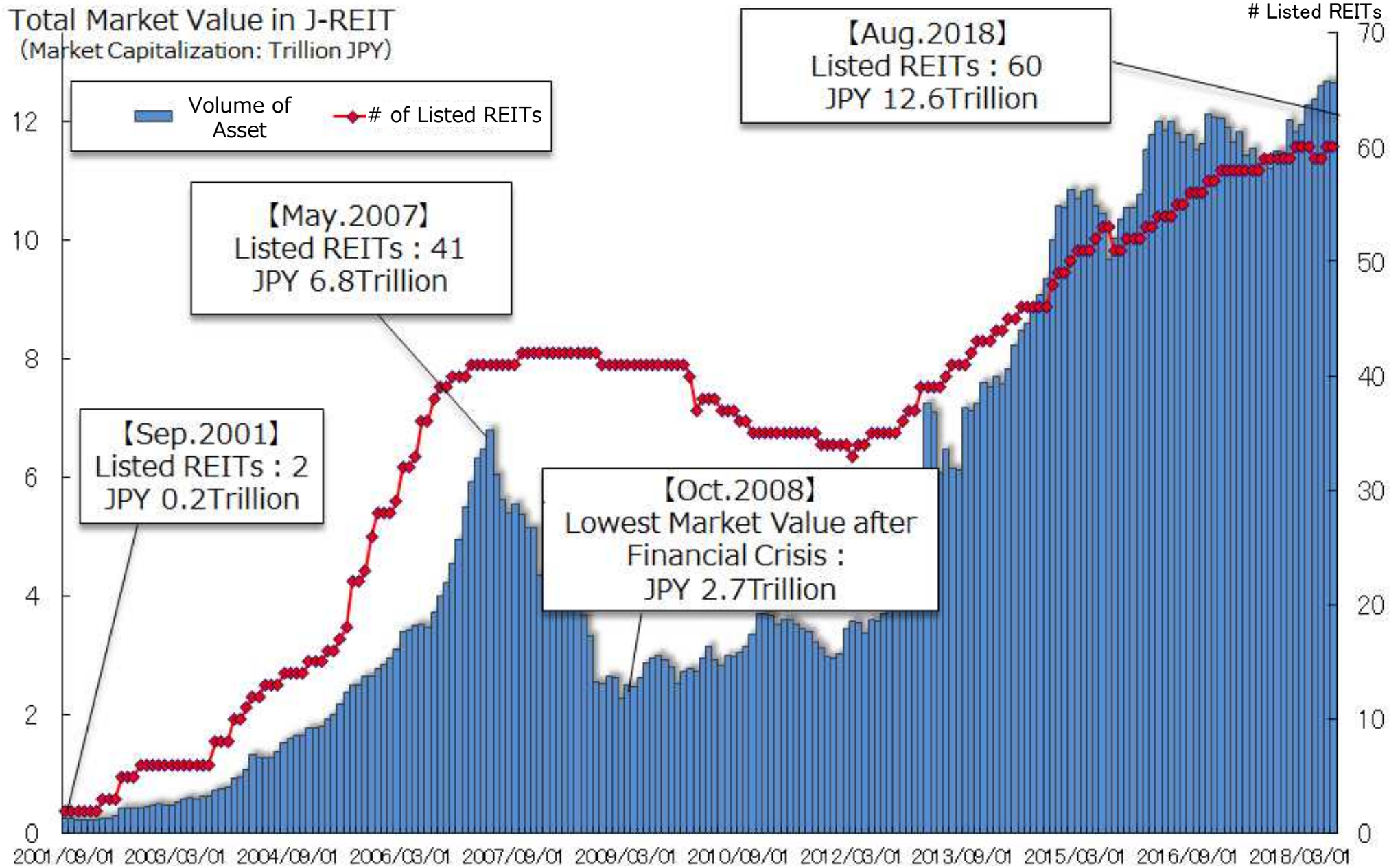


March 2003 to March 2018 Data released by the Investment Trusts Association, Japan
 September 2001 and March 2002 ARES estimates

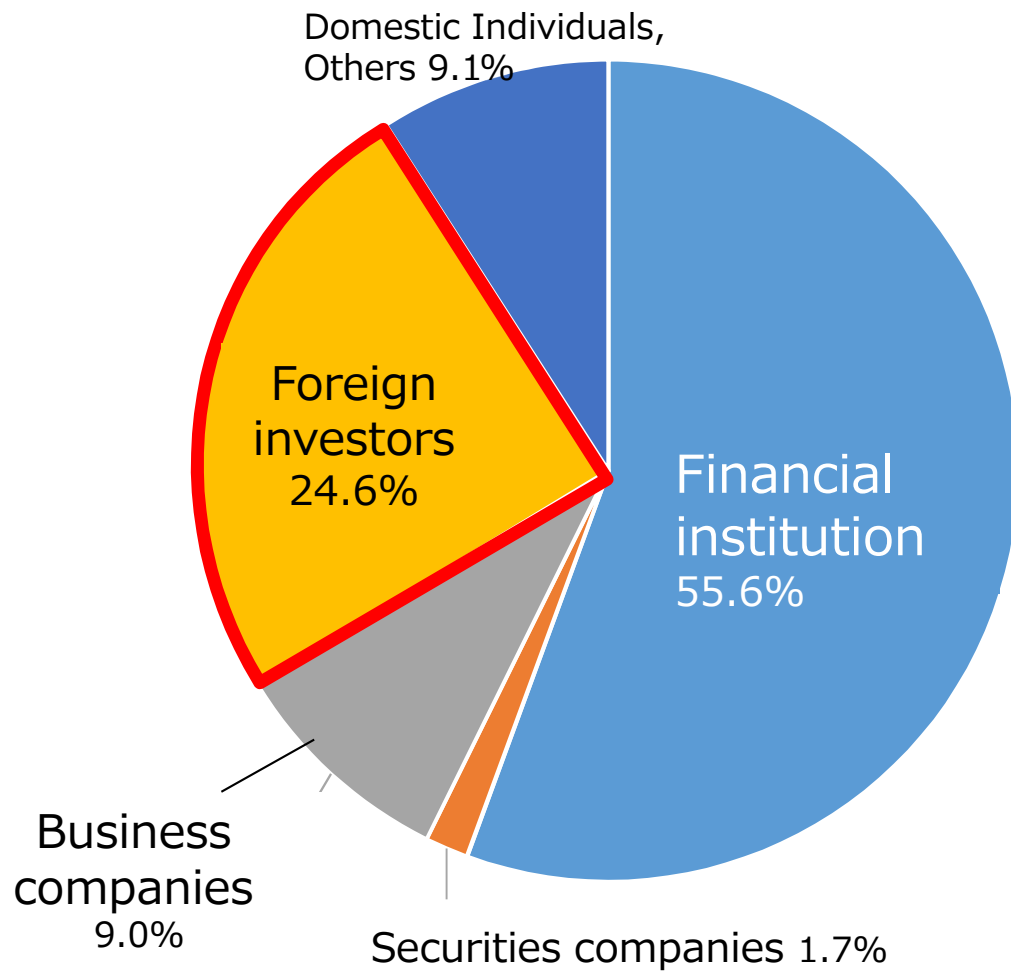
(Note 1) "Others" indicates facilities used for other than "Offices," "Commercial Facilities," "Residences," "Hotels," and "Logistics Facilities."

(Note 2) "Hotels," "Logistics Facilities," and "Health Care Facilities" before March 2009 are included in "Others." "Health Care Facilities" from March 2010 through to March 2016 are included in "Others."

Number of listed REITs and its Market Value

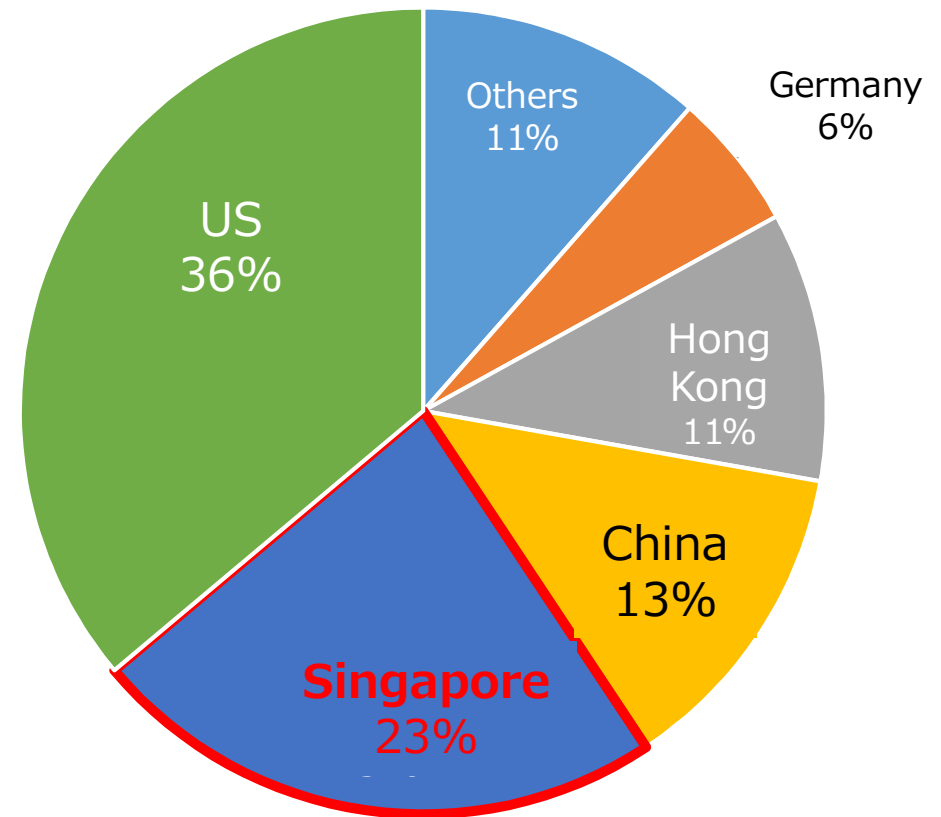


The amount held in REIT (Feb.2018)

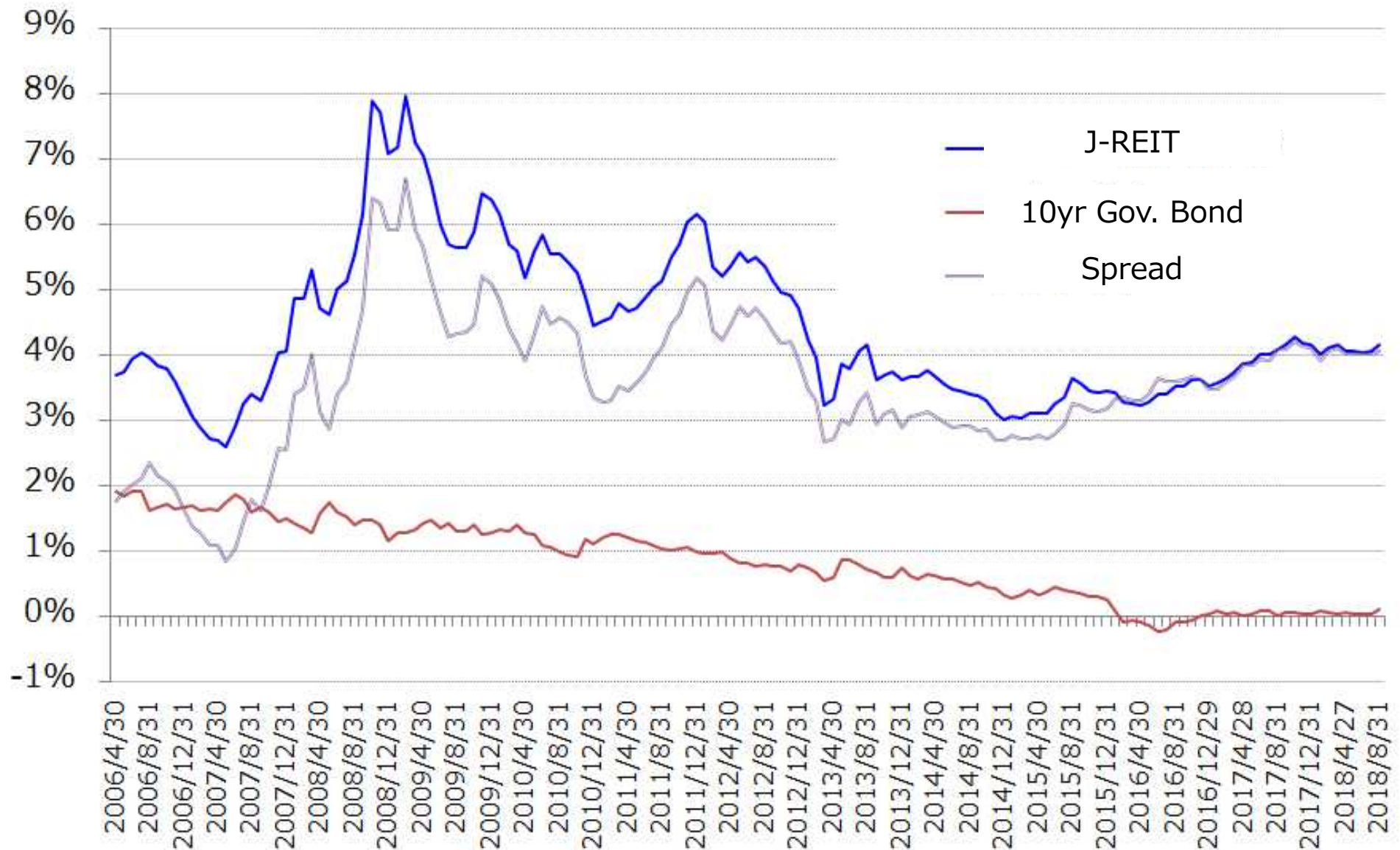


Data: TSE

Cumulative investment amount ratio by country (2010-17)



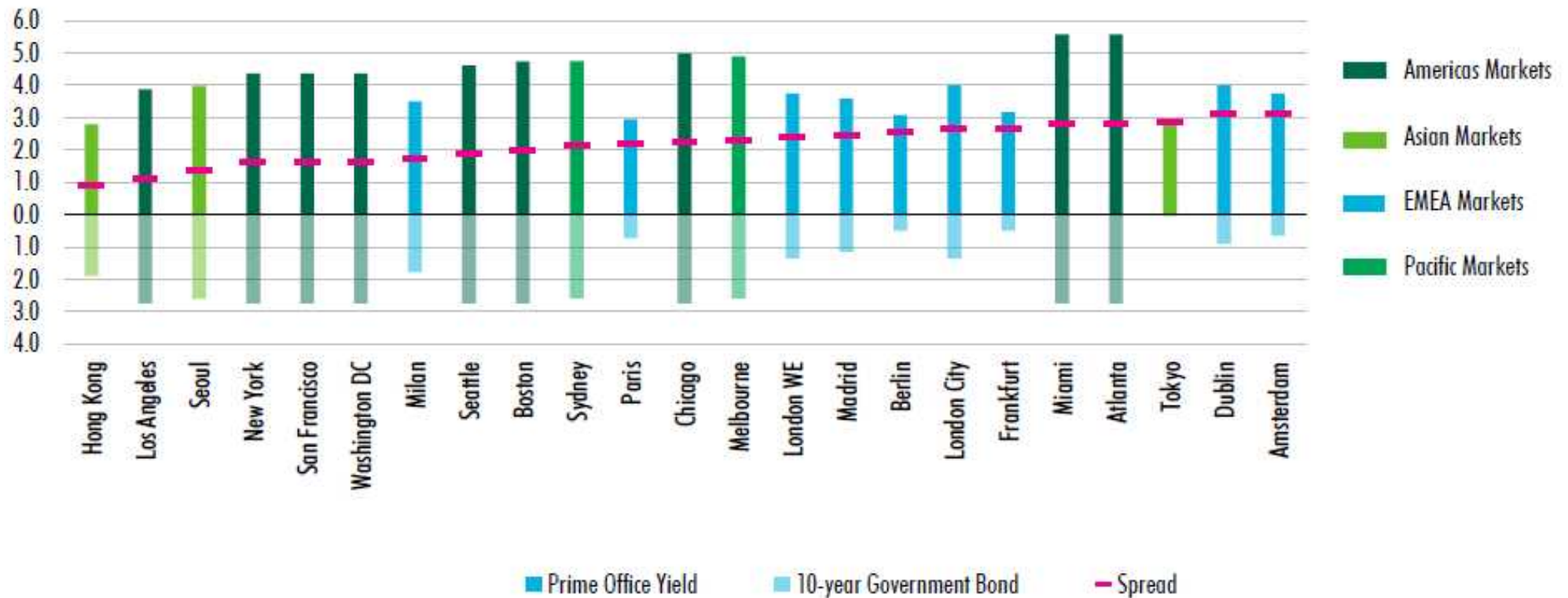
Data: Urban Research Institute Corporation



Source: MLIT (data provided by ARES)

REAL ESTATE YIELD SPREADS OVER GOVERNMENT BONDS

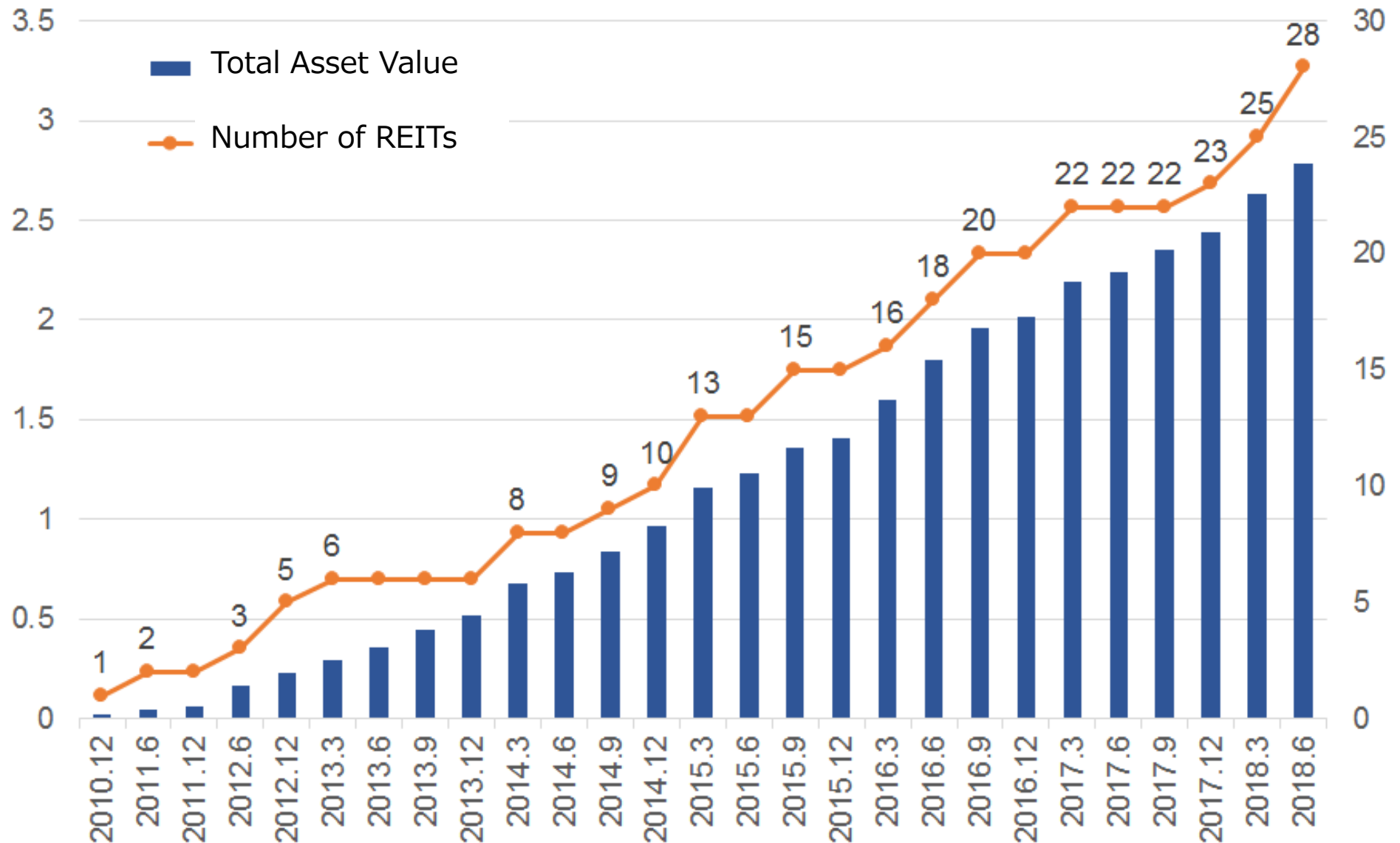
Prime office yield (net) relative to 10-year government bond, Q1 2018



Source: CBRE Research, Macrobond, Q1 2018. Americas yield data is of H2 2017.

Development of Unlisted REITs

(Trillion JPY)

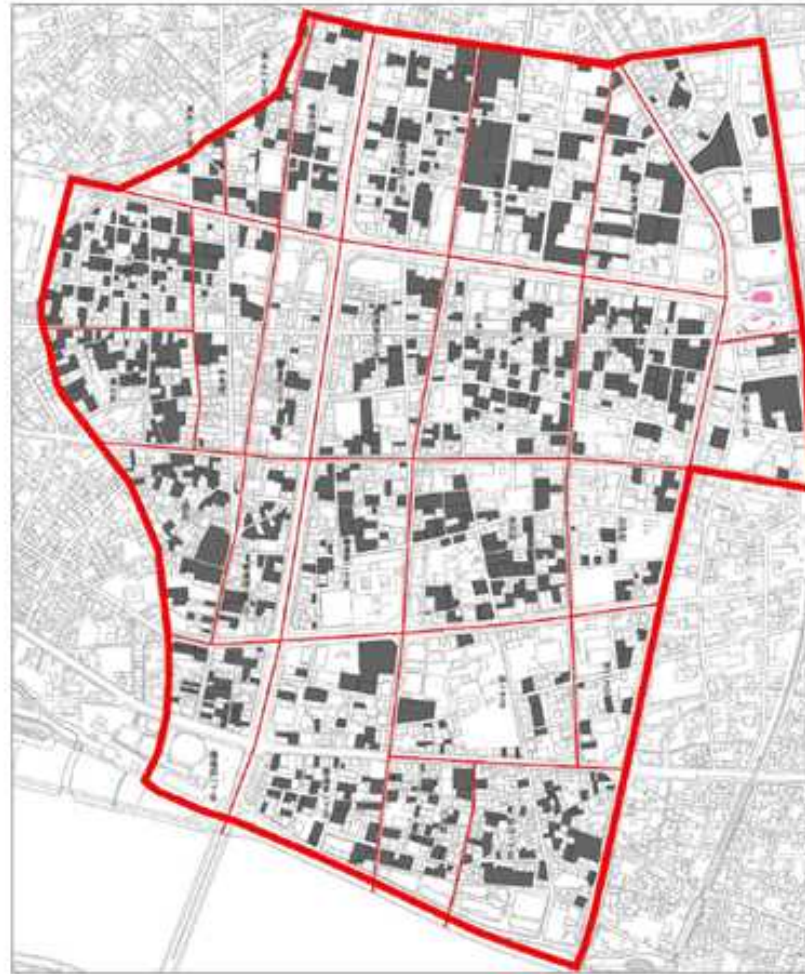


Source: ARES, "Unlisted REITs Quarterly"

2. Vitalizing Local Economy

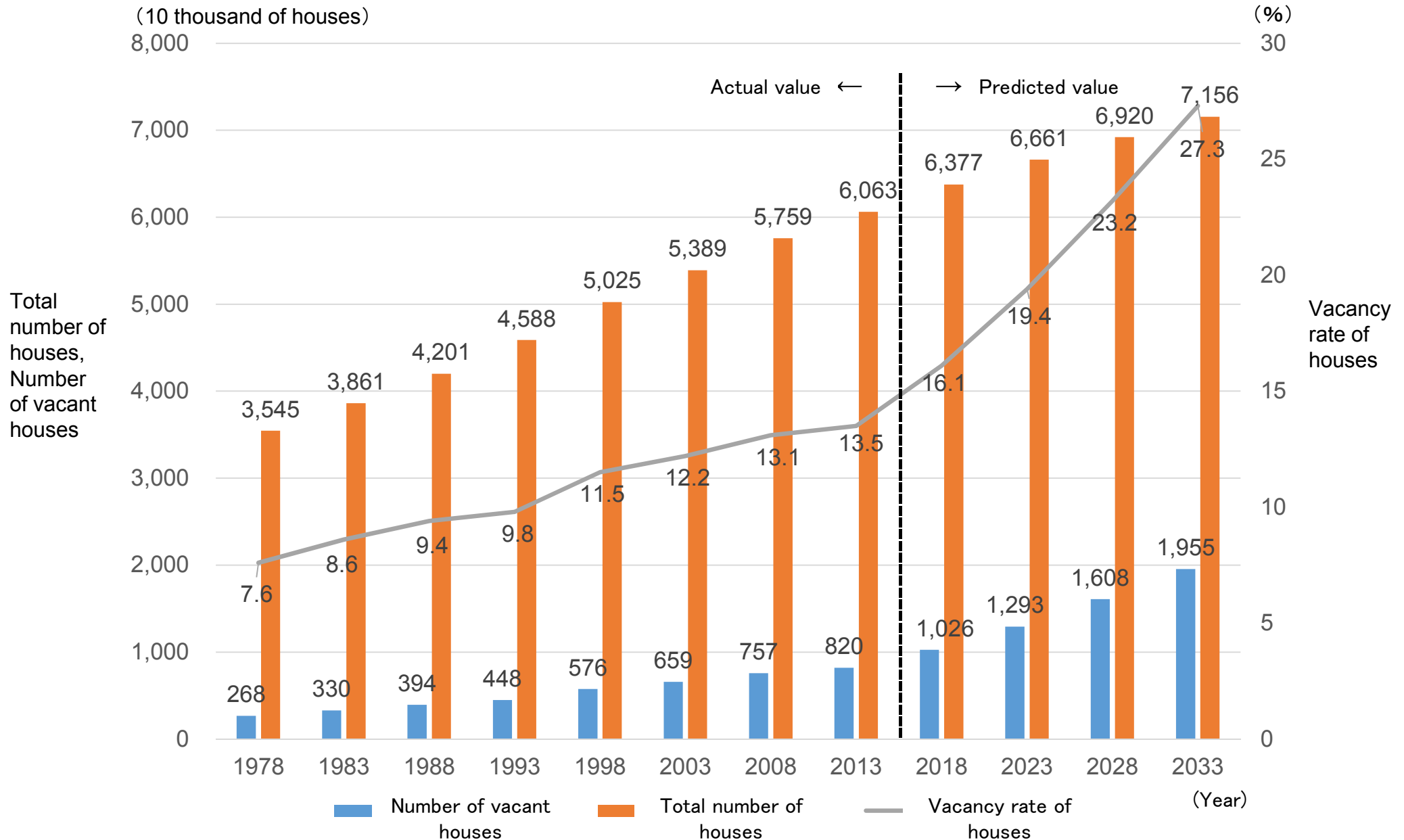
More than 18% properties in the Central City Area (Approx. 162ha) in Miyazaki City becomes vacant, including as the usage of unstructured parking lot.

➡ Sponge-city problem or “potential”



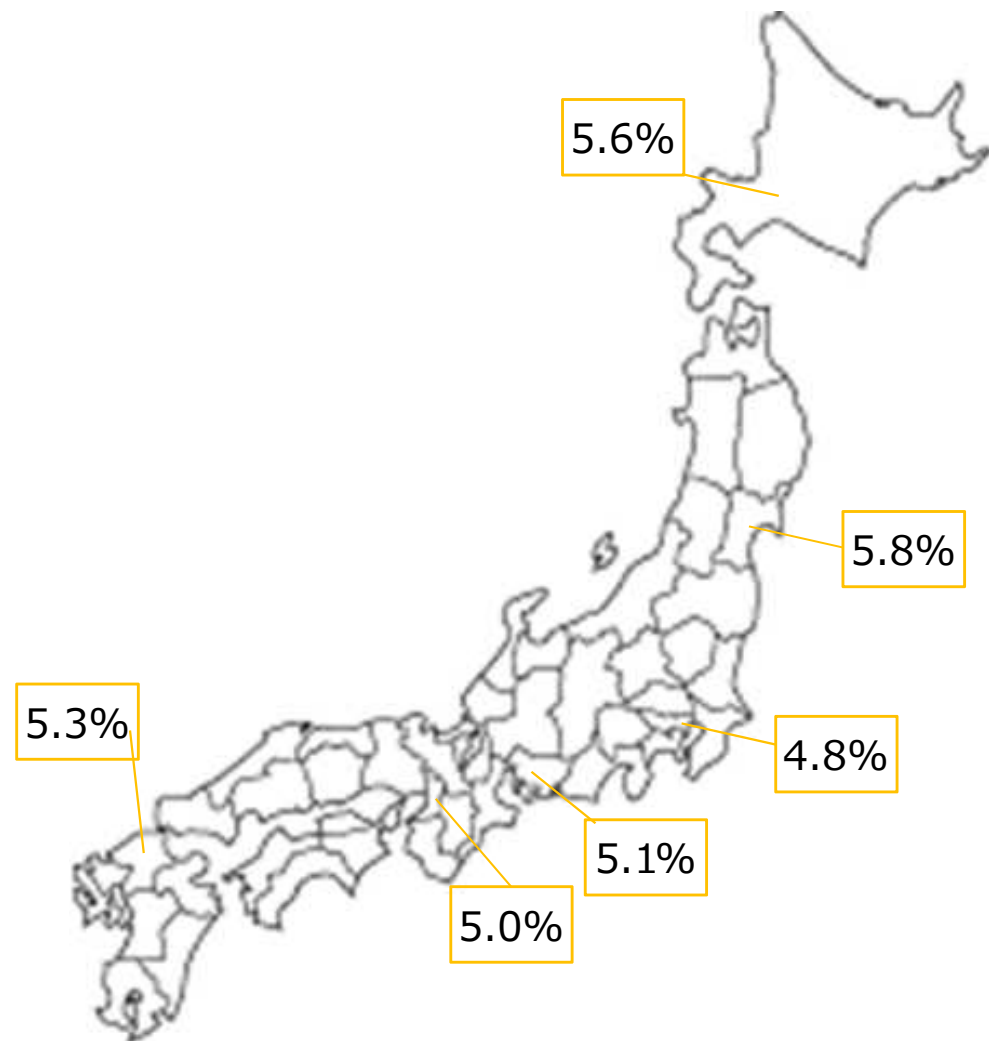
Vacant Properties

Actual and forecast of the number of empty houses, vacancy rate



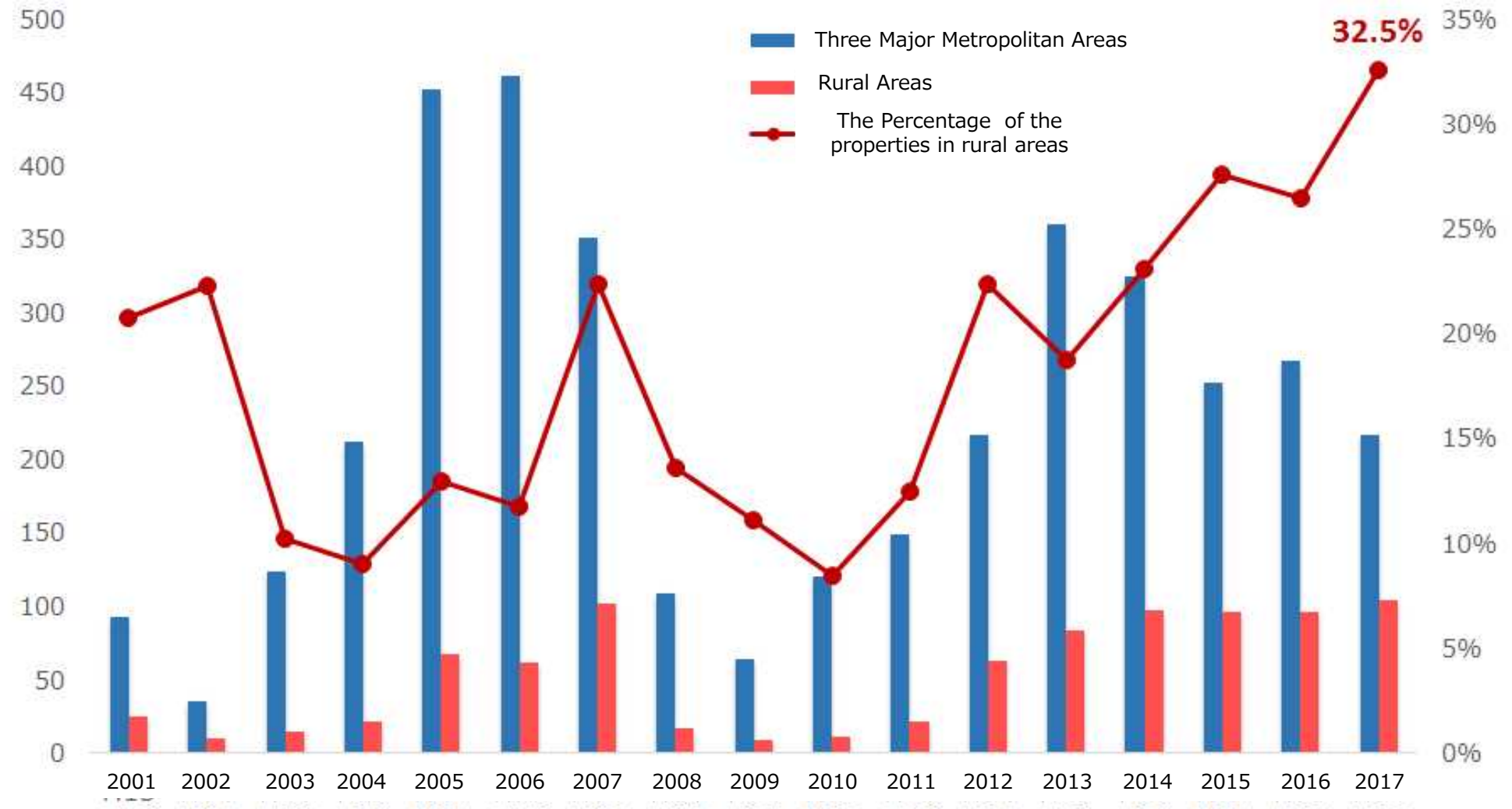
- Although the domestic population is decreasing, the three major metropolitan areas, as well as regional cities such as Sapporo, Sendai, Hiroshima and Fukuoka are seeing inflows of population.
- In these cities, there may be good investment opportunities despite the declining population in Japan as a whole.

	Population (2017)		NOI yield
	※thousand people	Compared to 2012	
Sapporo	1,950	↗	5.6%
Sendai	1,060	↗	5.8%
Tokyo 23 wards	9,300	↗	4.8%
Nagoya	2,280	↗	5.1%
Osaka	2,690	↗	5.0%
Hiroshima	1,190	↗	—
Fukuoka	1,510	↗	5.3%



Data:
 <Population>Ministry of Internal Affairs and Communications
 <NOI yield>Mizuho Trust & Banking

Number of properties acquired



※Three Major Metropolitan Areas:
 Tokyo Area(Prefectures of Tokyo, Saitama, Kanagawa, Chiba)
 Osaka Area(Prefectures of Osaka, City of Kyoto, Kobe)
 Nagoya Area(City of Nagoya)
 ※Rural Areas: All areas except above ones

Source: MLIT (data provided by ARES)

Fukuoka REIT

Start of operation: June,2005

Total Asset Value: 193.1 billion JPY

Asset type: Commercial Facility (60-80%), Office (20-40%), etc.

Number of Property Acquired: 29

Regionally Specialized Investment

60-90%: Investment toward Fukuoka City

10-30%: Investment toward Other Kyushu Area (Including Okinawa and Yamaguchi Pref.)

0-10%: Other area



Example of acquired property

Higashi hie Business Center II (Fukuoka City)

Property type: Office

Acquisition Price: 4.23 billion yen

Date of Acquisition: March,2018

Data:https://www.fukuoka-reit.jp/reit_apps/properties/detail_ja/35

Marimo Regional revitalization REIT

Start of operation: July,2016

Total Asset Value: 245 Billion JPY

Asset type: Residence, Commercial Facility

Number of Property Acquired: 25

Regional Portion of Acquiring Asset (acquisition price basis)

70%: Investment toward provisional area

- Cities with 0.2 million or more population (outside of Tokyo area)
- Other than regional center and Tokyo area

30%: Tokyo area (Tokyo, Kanagawa, Chiba, Saitama)



Example of acquired property

MRR Kumamoto (Kumamoto city)

Property type: Commercial Facility

Acquisition price: 2.12 billion yen

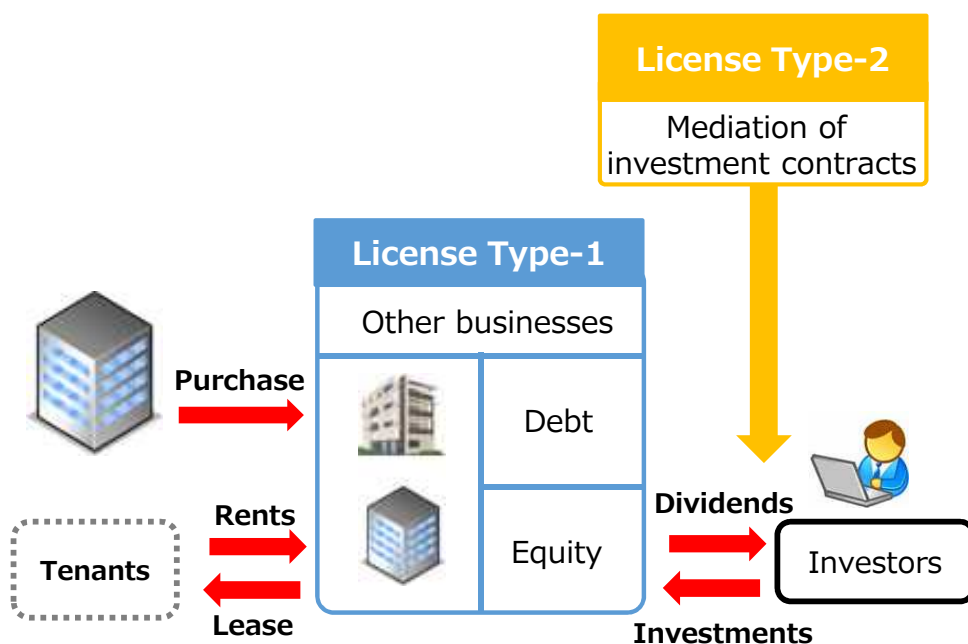
Date of acquisition: January,2018

Data: <https://www.marimo-reit.co.jp/ja/portfolio/detail.php?id=0021>

- The REJE Act requires government's approval of the investors who would establish a joint enterprise and distribute the fruits such as sales and rents earned by the real estate.
- The Act was enacted in 1994, but originally only allowed such business to be operated on an on-balance basis.
- In 2013, the Act was amended to allow REJE businesses on an off-balance basis.

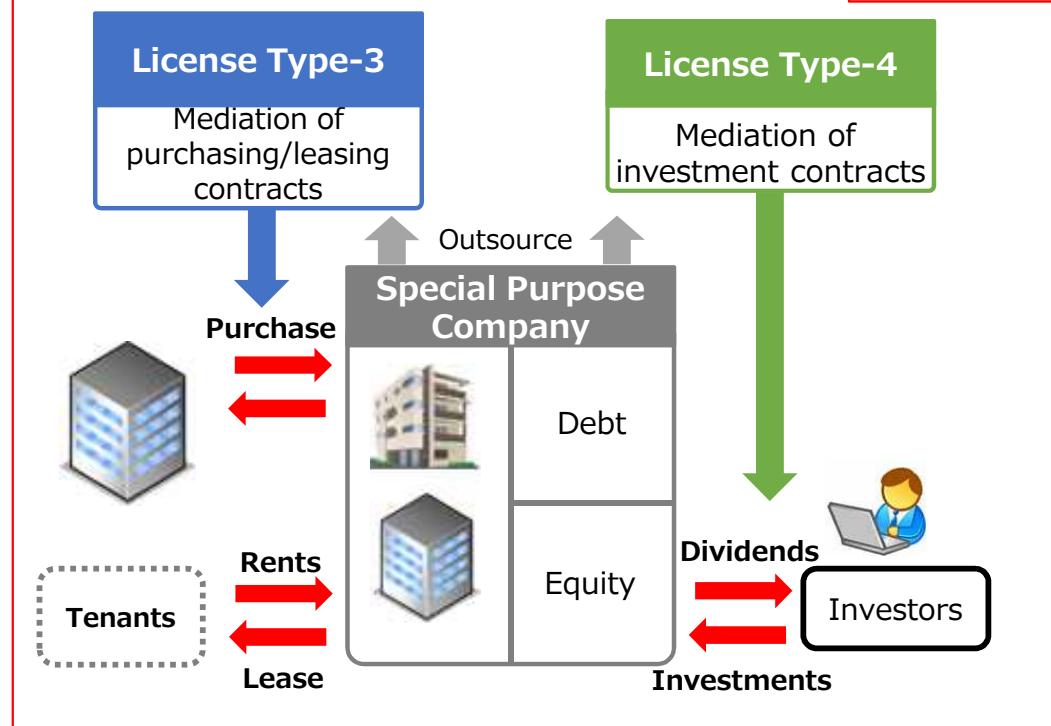
On-balance Structure

1994~



Off-balance Structure

2013~



Minimum Requirements

- ❑ Capital of the company (Type-1 : 100m JPY, Type-2 : 10m JPY, Type-3 : 50m JPY, Type-4 : 10m JPY)
- ❑ Real Estate Brokerage License
- ❑ Healthy balance sheet, income statement and organizational structure
- ❑ Contracts based on basic terms & conditions pre-approved by the government
- ❑ Operation Manager with certain certifications/licenses

Example of an REJE project using Public Real Estate (PRE)



- Utilizing idle PRE in front of Komatsu Station (Ishikawa Prefecture), a complex consisting of a hotel, university, child rearing support facility, etc. was constructed by an REJE in November 2017.

Komatsu A x Z Square

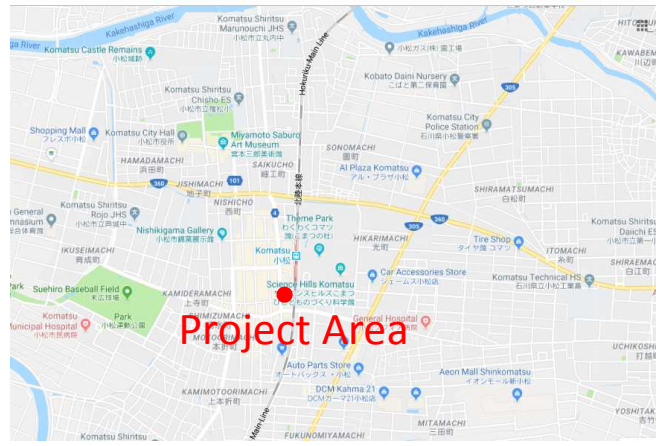
REJE SPC Scheme

Total project cost:
approximately 4.5 billion JPY

Special Purpose Company (Aoyama Life Promotion)	
Building	Procurement from financial institutions
	Subsidy
	Investment
	Employee's equity
Real estate	
Land	
Special Purpose Company leased from Komatsu city	

Source: MLIT (data provided by Aoyama Zaisan Networks)

Location map: Komatsu City, Ishikawa Prefecture (160 thousand people)



Peripheral map



Source: Komatsu city website

Appearance



Source: KAKIMOTO CO. website

Background

The REJE Act was amended in December 2017 to

- (i) allow small businesses to enter the REJE market by relaxing the requirements for the amount of the firm's capital;
- (ii) enable investors to invest via crowdfunding websites.

Allowing small businesses to enter the REJE market

○ By relaxing the requirements for the firm's capital from 100m JPY to 10m JPY, more small businesses are expected to enter the market, thereby contributing to the promotion of the effective use of vacant / old properties.

【Examples of renovation projects of vacant houses etc.】

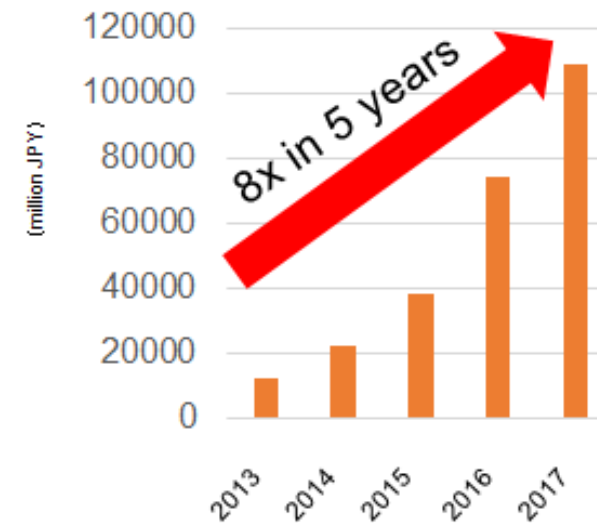


Renovation of an old lodgings as a *ryokan* accommodation Renovation of a shipyard to a cafe / inn

Enabling investors to invest via crowdfunding websites

○ By enabling fundraising through crowdfunding websites in REJE, investments by individual investors are expected to increase dramatically.

【Transition of the market size of crowdfunding in Japan】



Data: Yano Research Institute

1st small REJE project with crowdfunding

By raising funds through crowdfunding website, Enjoy Works Inc., a small renovation company, renovated an unused storage (constructed more than 100 years ago) into an accommodation "The Bath & Bed Hayama".

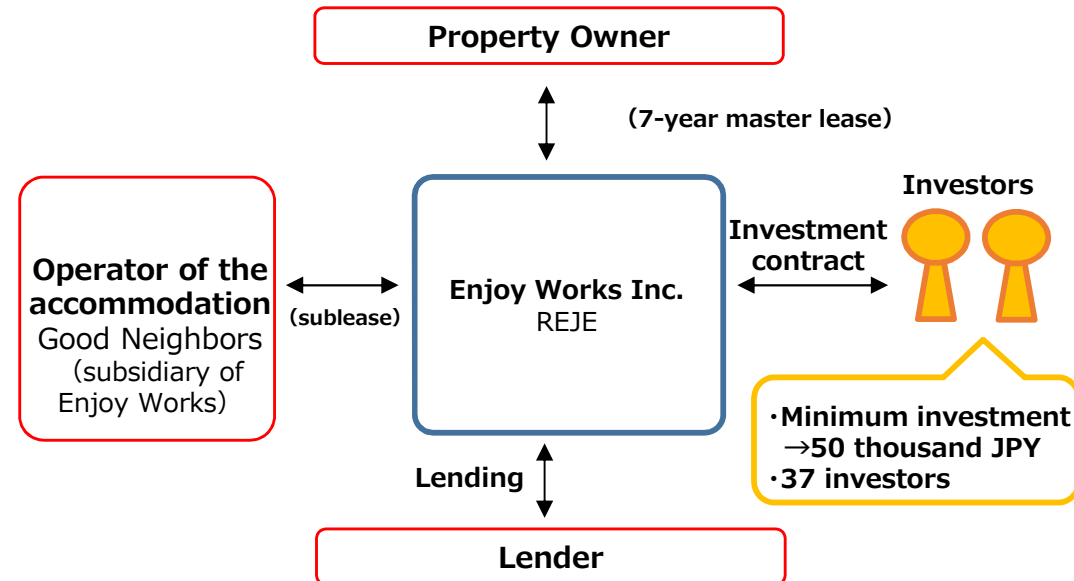
【Enjoy Works Inc. (Head Office: Kamakura City, Kanagawa Prefecture)】

- Capital: 13.75 million yen.
- Fundraising through crowdfunding website started from June 2018, and successfully raised the planned amount of 6m JPY.

Outline of the project

Place	Hayama, Kanagawa Prefecture
Usage	Accommodation
Area	Land (apprx.100㎡) 、 Warehouse (apprx.40㎡)
Structure	REJE by small business
Expenses	Renovation cost (apprx. 14m JPY) Other costs (apprx. 2m JPY)
Fund raised	Borrowing (apprx. 10m JPY) Crowdfunding (apprx. 6m JPY)

Structure of the project



(Source: Enjoy Works Inc.)

【Before】



【After】



3 . ESG/SDGs

- ESG (Environment, Society, Governance) investment has now become a global trend, and has been adopted by the GPIF in Japan.

PRI launch

- Principle of responsibility investment



2006

Paris Agreement

- Keep global temperature rise this century well below 2°C above pre-industrial levels
- Japan's goal of CO₂ reduction :
▲ 26% (by 2030)

2015

SDG s

- Sustainable development goals
- 17 fields
169 target



GPIF, Japan

- Signed PRI(2015)
- Started ESG Investment using MSCI-Index



2017

Definition

- A green lease is an arrangement that offers substantial benefits to both tenants and landlords by allowing more effective collaboration on energy and environmental issues. (source: Jones Lang Lasalle website)



Overview

- As a practical guide for spreading green leases in Japan, this contains guidance of the procedures, examples of cases, templates of contract provisions, Q & A etc.



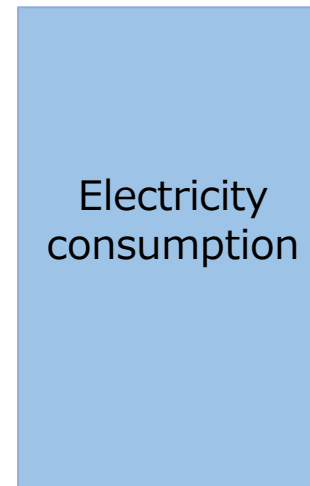
Incentives for Green Lease

- Implementation of subsidy program CO2 reduction project in business buildings. (collaboration between the MLIT and the Ministry of the Environment)

Example of a Green Lease (In case of LED modification)

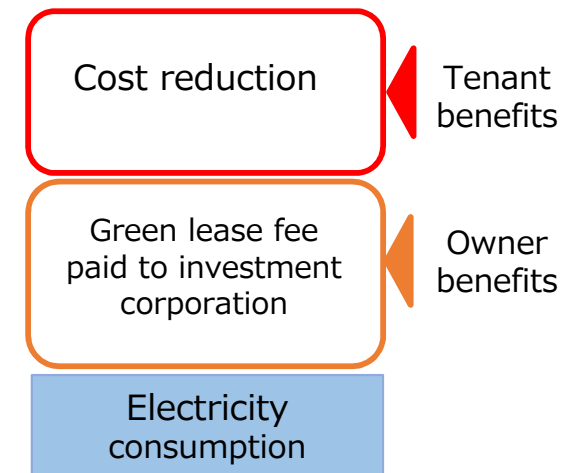
- Building owner repairs the building into an energy-efficient building.
- Tenants will pay a part of the benefits they gain from reduction in energy costs as a green lease fee to the building owner.
- Both the tenant and the owner benefit.

Maintenance Cost



Before contract

Cost reduction of tenants



After contract

Global Real Estate Sustainability Benchmark (GRESB) :

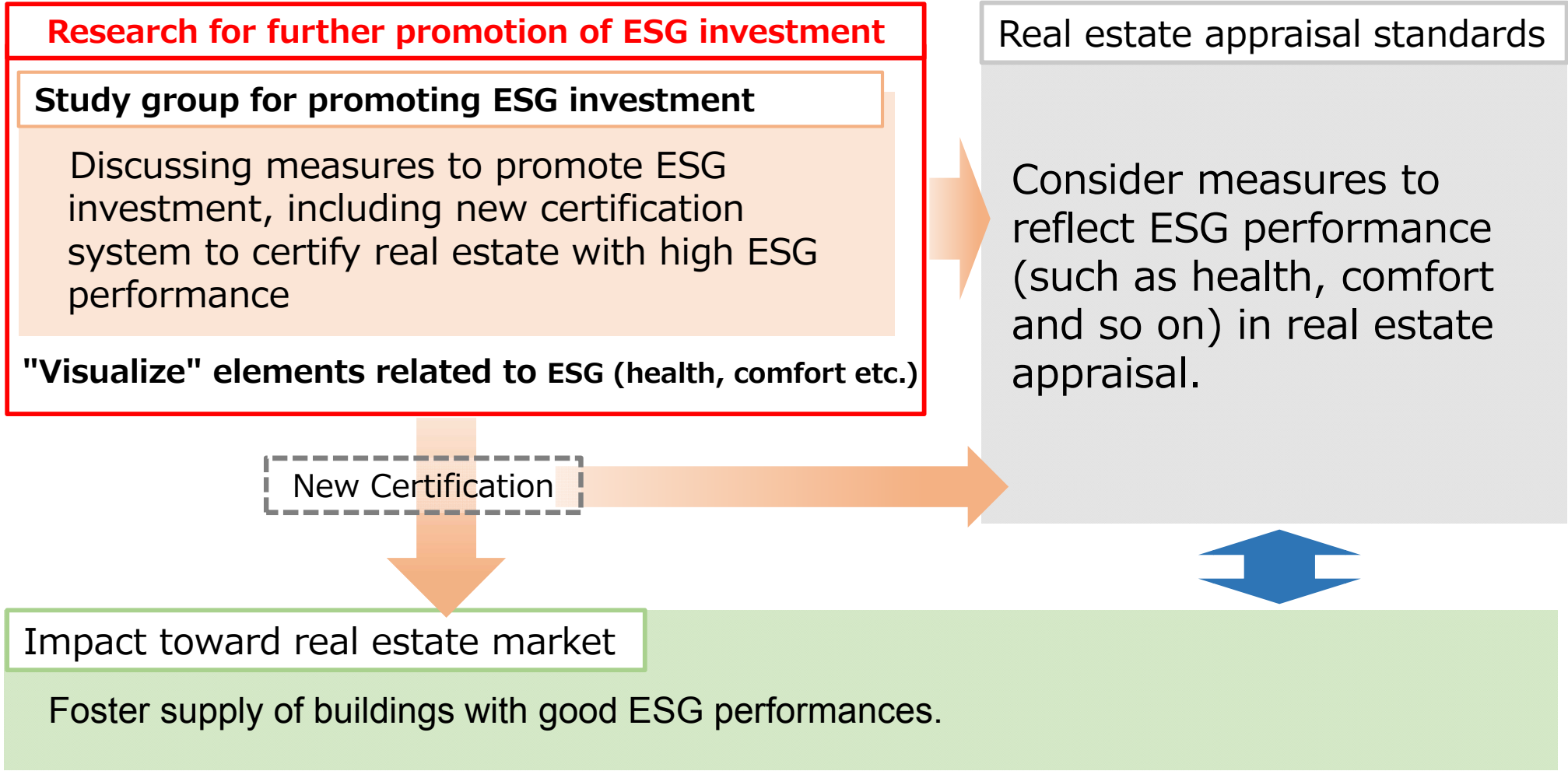


an annual benchmark evaluation that measures the **Environmental, Social, and Governance (ESG) consideration of companies and funds** that own and operate properties (real estate and infrastructure) and the organization that manages them.

-More than 75 investor members utilize GRESB data, whose assets under management add up to US \$ 18 trillion.

-# of Participants(2018): 903 globally,
61 from Japan
(38 from J-REIT market (Approx. 89% on a market capitalization basis (as of September 7, 2018))

- Japanese government is considering several measures to further promote ESG investment, including the reflection toward the real estate appraisal standards.



4. Improvement of the transparency of real estate information

- RETPI has been provided on the MLIT website from April 2006 for the purpose of improving real estate market transparency.
- The information is gathered by questionnaire survey based on the transaction registered at the land registry system and part of its information is anonymized.
- It is widely used by, for example, those who are considering real estate transactions, financial institutions and real estate agents.

Component of real estate transaction price information

【Area surveyed】

- Nationwide

【Type of target property】

- Lotion (residential land)
- Built site
- Secondhand condominium

【Items】

- Location
- Transaction Price
- Landscape
- Structure of the building
- Total area of the building
- Age of the building
- Roads
- Closest train station
- Future usage etc.

【Listings】 3.45million transactions

(As of Jul 2018)

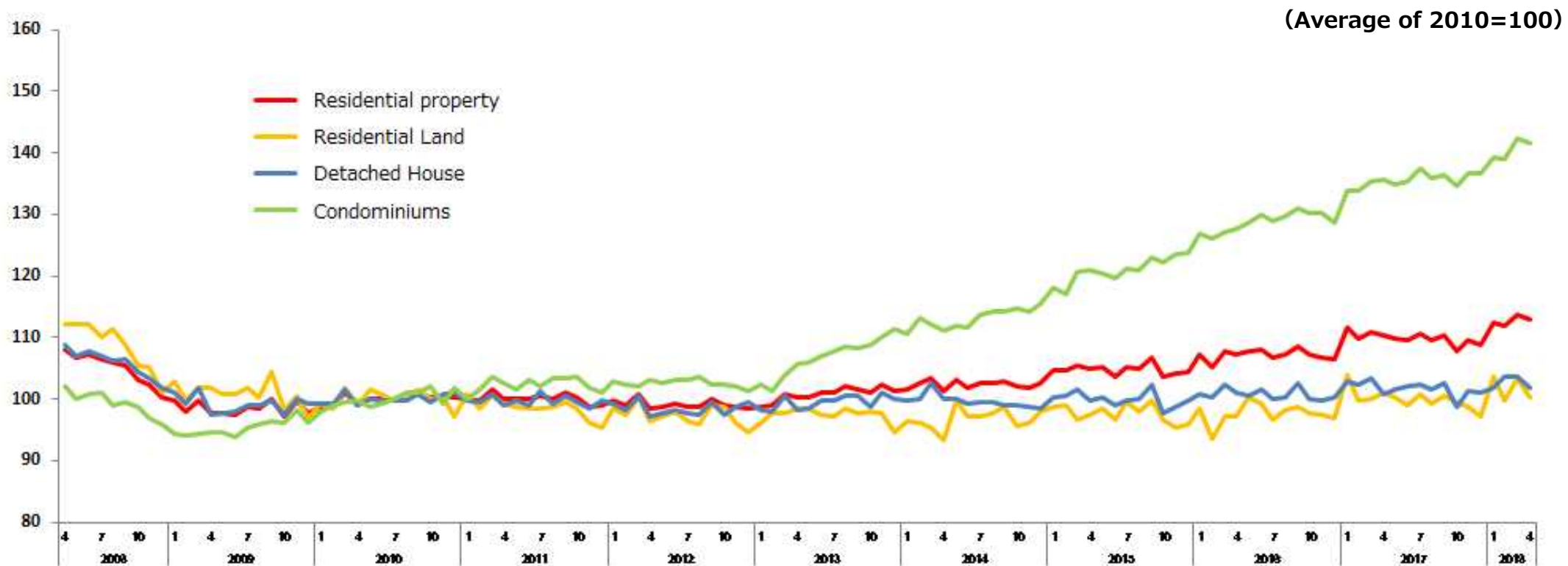
【Page Views】 87million PV (FY2017)

(7.25million PV/month)

【Real Estate Transaction Price Search Website】

- ❑ The International Monetary Fund and other international organizations suggested the G20 countries should compile its national residential property price indices.
- ❑ In August 2013, the Japanese government launched a pilot data provision on residential property index, based on the actual transaction data. In March 2015, the government launched an official dissemination of data.

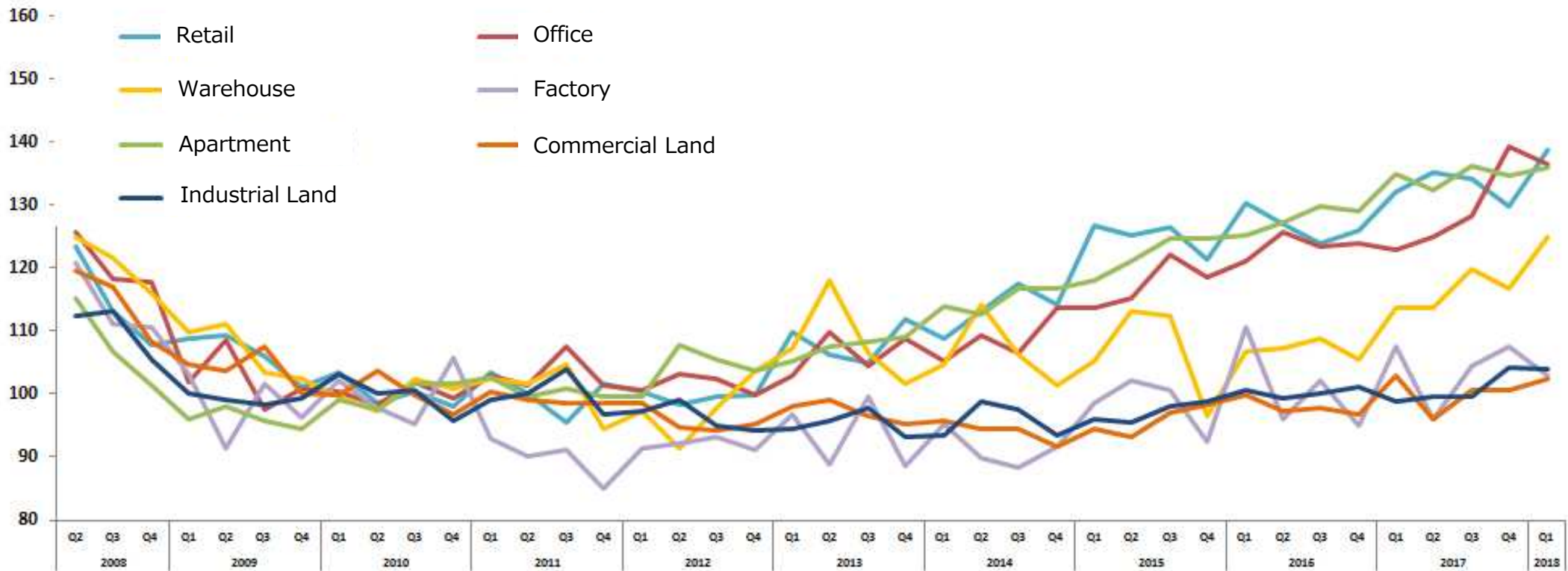
Residential Property price index



□ In March 2016, the Japanese government launched a pilot data provision on commercial property index, based on the actual transaction data.

Commercial Property Price Index

(Average of 2010=100)



Discussion

- In the previous "Future Vision for Real Estate Industry", which was published in 1992, real estate securitization was not clearly defined as a part of "Real Estate Industry".
- However, considering the importance and rapid growth of real estate securitization market including J-REITs and REJE, real estate securitization business is considered to be defined as a vital part of "real estate industry".

Development / Sales

(Example)
Sales for detached houses,
condominium, land
etc.

Distribution / Brokerage

(Example)
Brokerage of selling houses,
rental houses etc.

Management

(Example)
Management of condominiums,
rental housing, commercial and
office properties
etc.

Rental business

(Example)
Leasing condominiums, rental
housing, commercial and
office properties
etc.

Securitization

(Example)
J-REIT, REJE
etc.

Real estate

Quality real estate that fulfills social needs

- Real estate with high comfort and convenience
- Safe real estate with excellent environmental performance and seismic resistance
- Real estate based on the concept of universal design
- Real estate that contributes to the health of residents and the improvement of area value

Real estate that supports productivity improvement

- Satellite office etc. "Anywhere" office
- Creating an office environment to stimulate creativity
- Residence for 'living + a' (e.g. telework)
- Service space full of various contents
- Enhancement of logistics functions

Real estate for global society

- Real estate (e.g. hotels) incorporating foreign investors' viewpoint for foreign tourists
- Real estate & cities based on the concept of universal design

Real estate that supports sustainable growth of urban and rural areas

- Enhance international competitiveness
- Knowledge creation, cultural interaction base
- Maintenance and development of local communities; vitalizing local economy
- Attracting young people

Real estate business

Background

- Recently, there has been **many investment troubles related to real estate** (e.g. master-leasing contracts with guaranteed rents but no proper explanation of the vacancy risks etc.)

Issues to tackle

- Investment methods are becoming more and more complex due to the rise of Fintech.
- It is crucially **important to make sure that individual investors have sufficient knowledge and literacy** with regards to real estate investment, so that they can **make appropriate investment decisions**.

Budget request (FY 2019 Budget: under consideration)

- For FY2019, MLIT is requesting budget to enhance individual investors' knowledge and literacy regarding real estate investment.
(e.g. **study group** to discuss measures to enhance people's investment literacy; making a **guidebook for real estate investment**)