

INVESTING IN JAPAN AFTER THE 3/11 EARTHQUAKE

A Survey jointly conducted by the Nikkei
Real Estate Market Report and ULI Japan

Survey Outline

- Period: June 21 - 28, 2011 (6 working days)
- Respondents solicited at Nikkei RE website and via ULI Japan mailing list. Questionnaire in English language.
- 53 valid responses (Foreign capital companies: 35)
- Covers top RE companies and major funds on the globe
- HQ locations: US 17; JP 16; EU 7; UK 5; SG 4; HK 2
- Investor, asset manager, developer accounts for 55%. Others include broker, lender and appraisal firms, etc.
- 71% of respondents are involved in investment, operation or lending with regard to properties in Japan.

Key Findings

- 📌 **51%** of foreign capital companies **evacuated** from Tokyo, or took temporary furlough after 3/11.
- 📌 **24%** of investors have suffered **direct damages** to their properties. But damages were relatively minor.

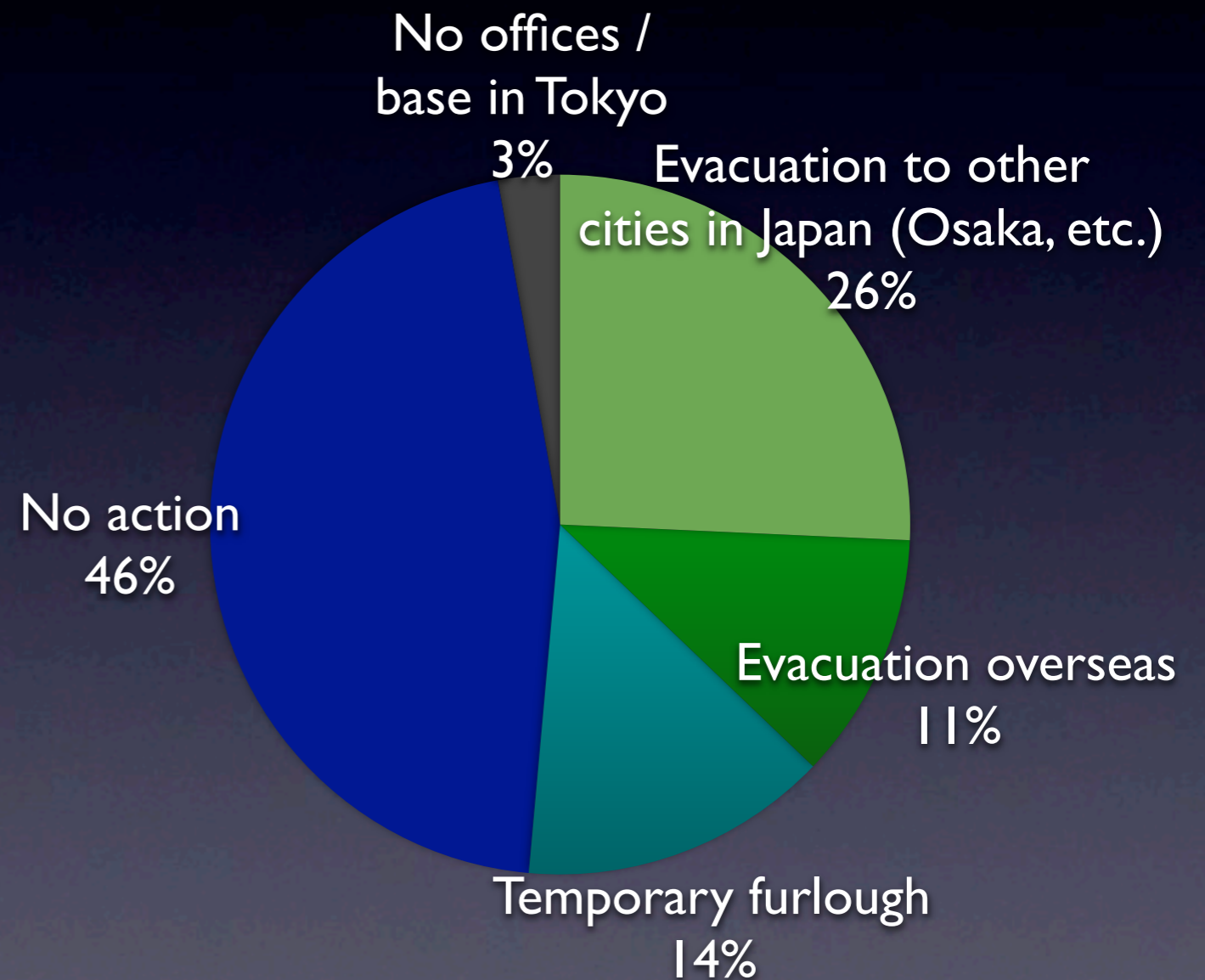
Key Findings (cont'd)

- 📌 Many investors see **no additional risk premiums** over property cap rates.
- 📌 **26%** of foreign capital companies are planning to **expand** their businesses in Japan, while **6%** considering to **withdraw** from it.

Evacuation

Q. Did your company direct employees to evacuate the Tokyo area after the Great East Japan Earthquake and following the nuclear plant accident?

Among foreign capital companies. (n=35)



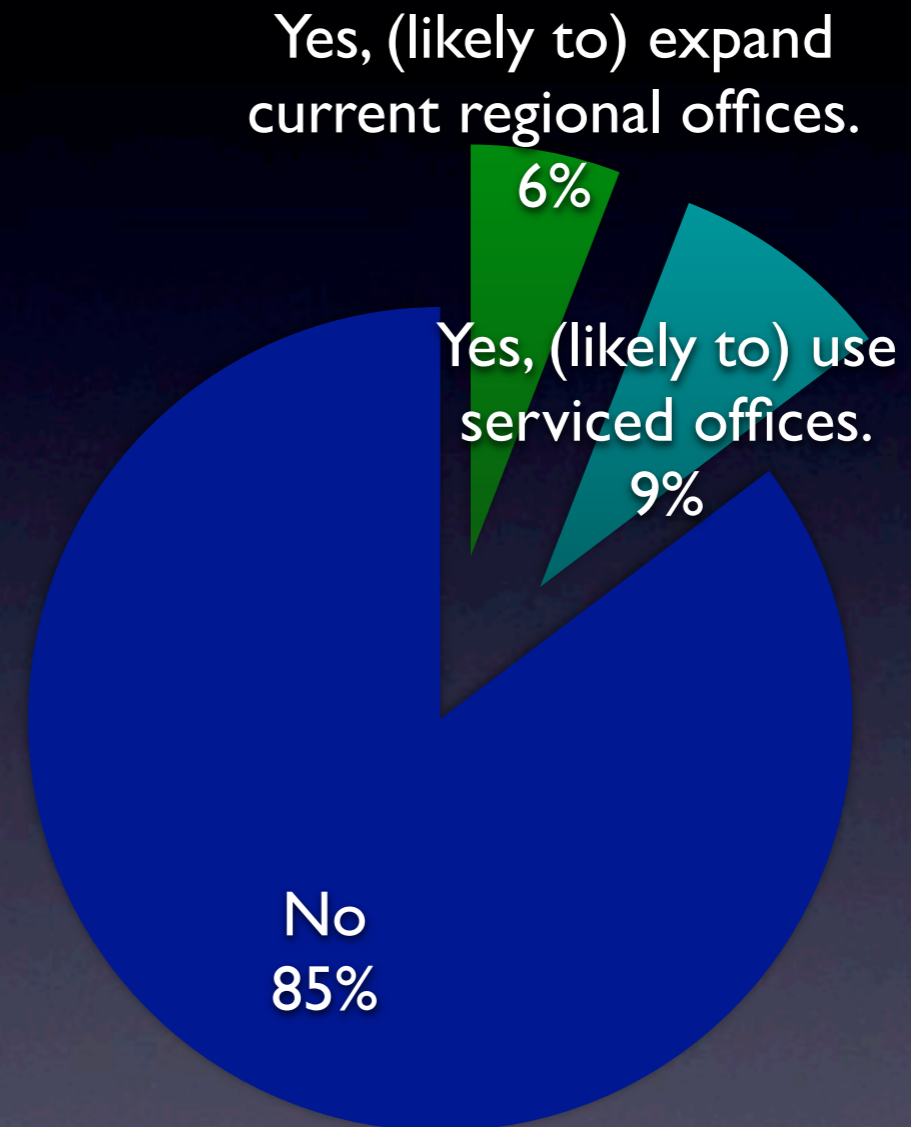
Note:

80% of domestic corporations took “no action”, while 20% ordered to take temporary furlough or evacuate to other cities in Japan

Office Diversification

Q. Have you considered relocating your offices to regional cities such as Osaka?

Among foreign capital companies. (n=34)



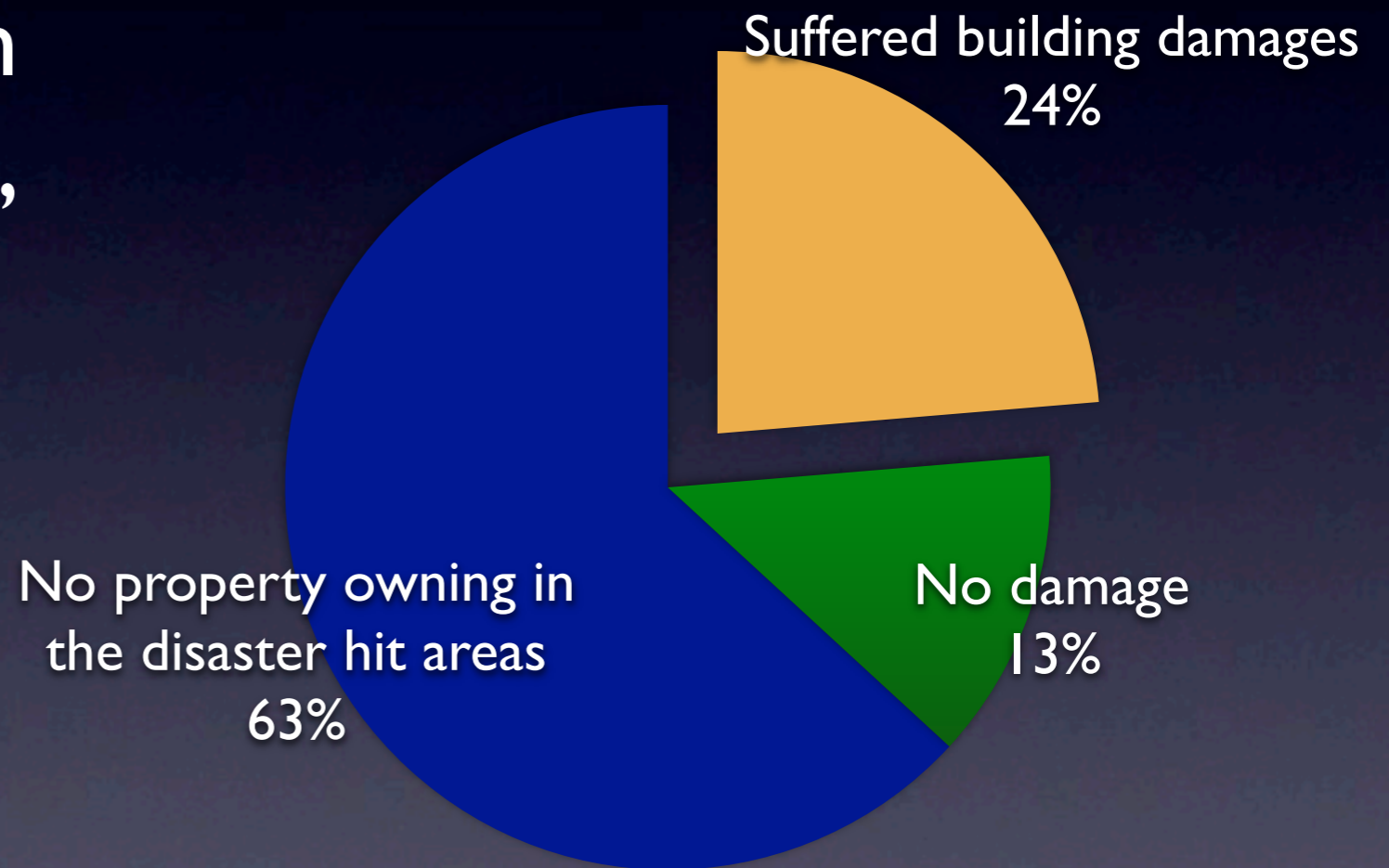
Note:

No answers to “Yes, (likely to) establish new regional offices.”

Building Damages

Q. Are you involved in investment, operation, development or lending of properties that suffered direct damage?

Among those investing or willing to invest Japan. (n=38)

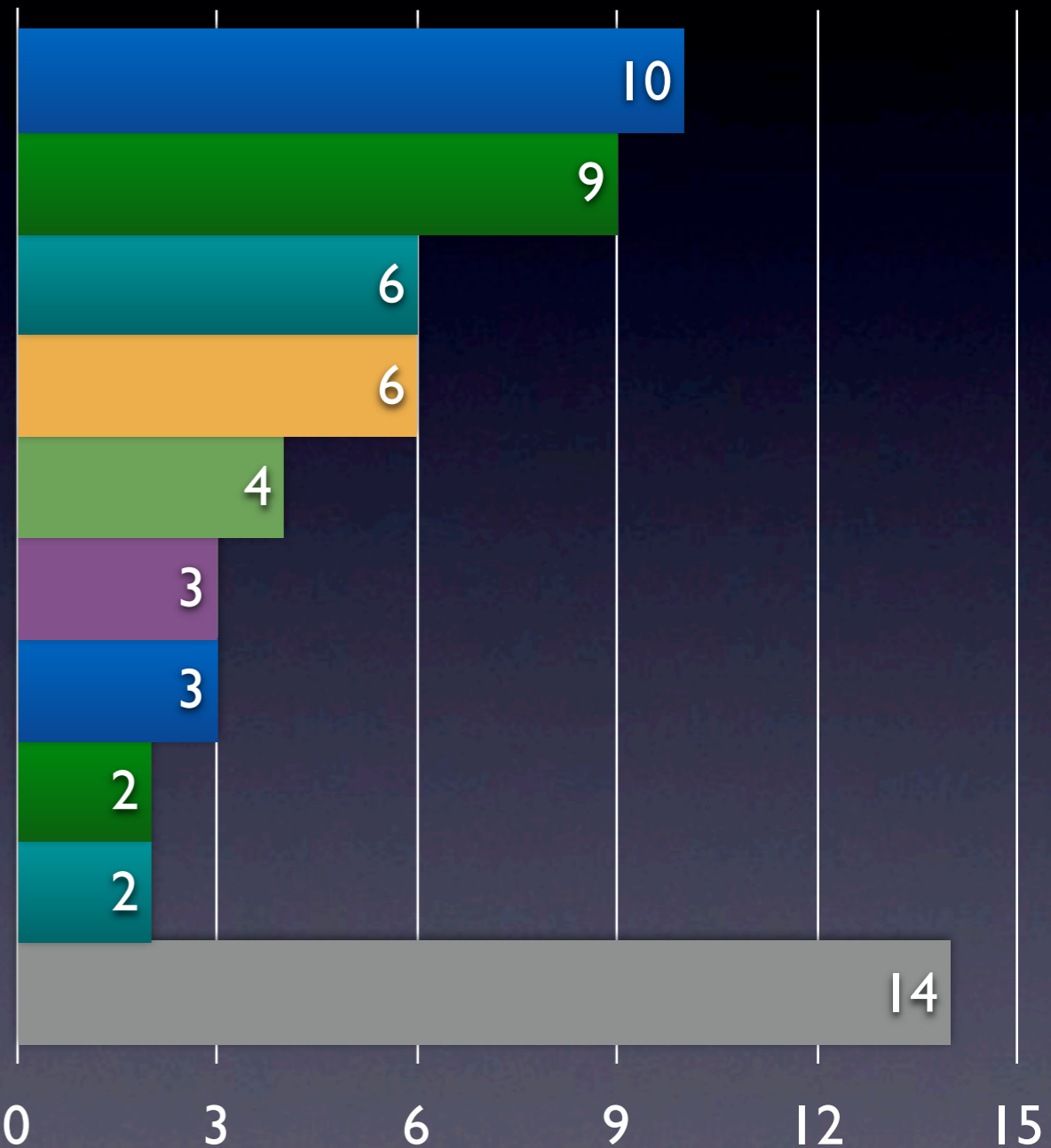


Building Damages (cont'd)

- 📌 SENDAI: Damages to non-structural components of one residential asset. The monetary value is approx. ¥50mn.
- 📌 SENDAI: Very minor damage to plumbing and electrical systems for buildings.
- 📌 KORIYAMA: Largest damage was around US\$1mn in the town. Damage on a portfolio of 10 properties was minimal.
- 📌 TOCHIGI and CHIBA: Some non-structural damage to logistics facilities and regional shopping facilities.

Indirect Effects

- Increased investigation reporting costs
- Postponement, termination of investment
- Temporary closure of facility
- Increased occupancy rate
- Concessions or compensation to tenants
- Postponement, termination of fund raising
- Reduced occupancy rate
- Construction delays
- Other
- No indirect damage



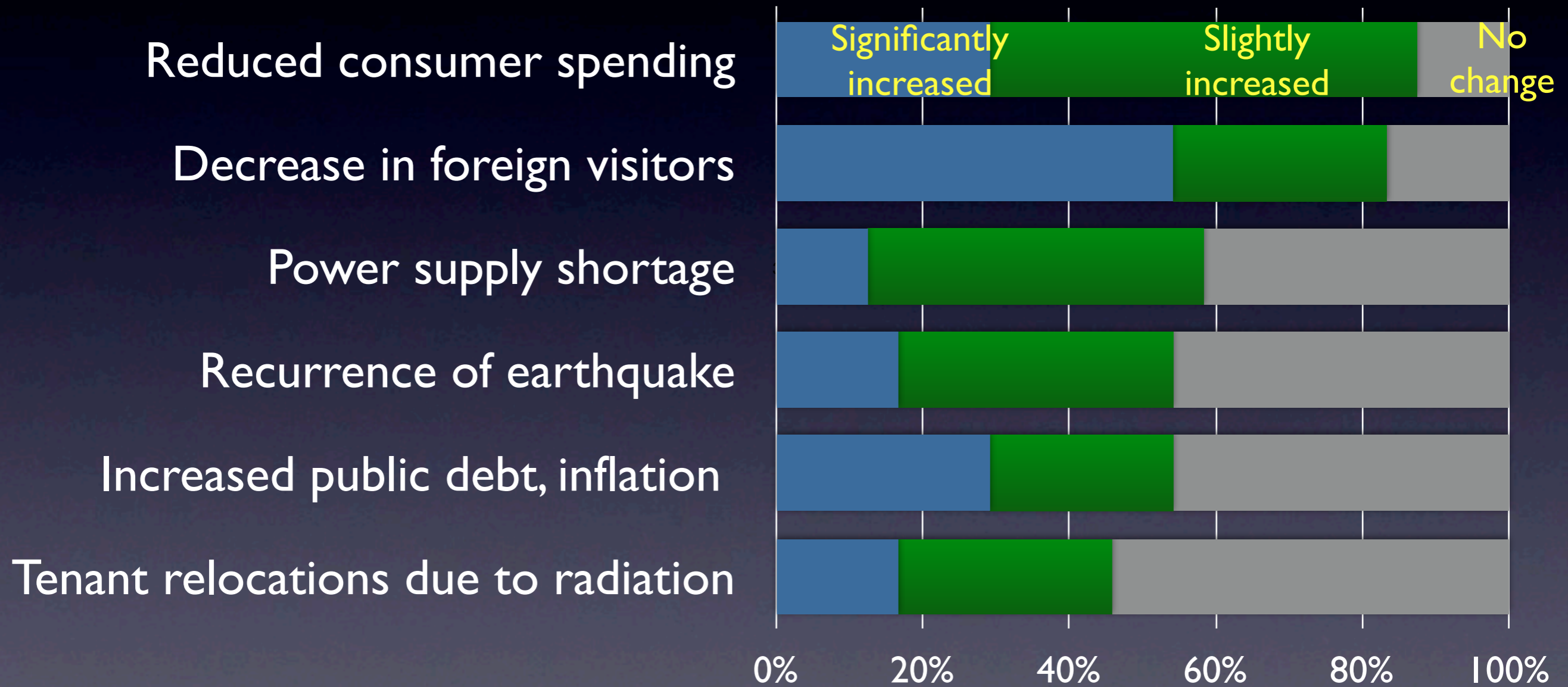
Note:

Increased occupancy rate is due to acquisition of new tenants relocating from affected areas or damaged properties.

Among those investing or willing to invest in Japan. (n=38)

Changes in Risks

before and after the earthquake



Among those investing or willing to invest in Japan. (n=24)

Note:

Increased public debt and inflation are due to recovery-related expenses.

Changes in Investment Criteria

Higher priority on earthquake resistance

Avoiding older buildings

Higher priority on soil / land quality

Diversifying target areas

Avoiding coastal areas

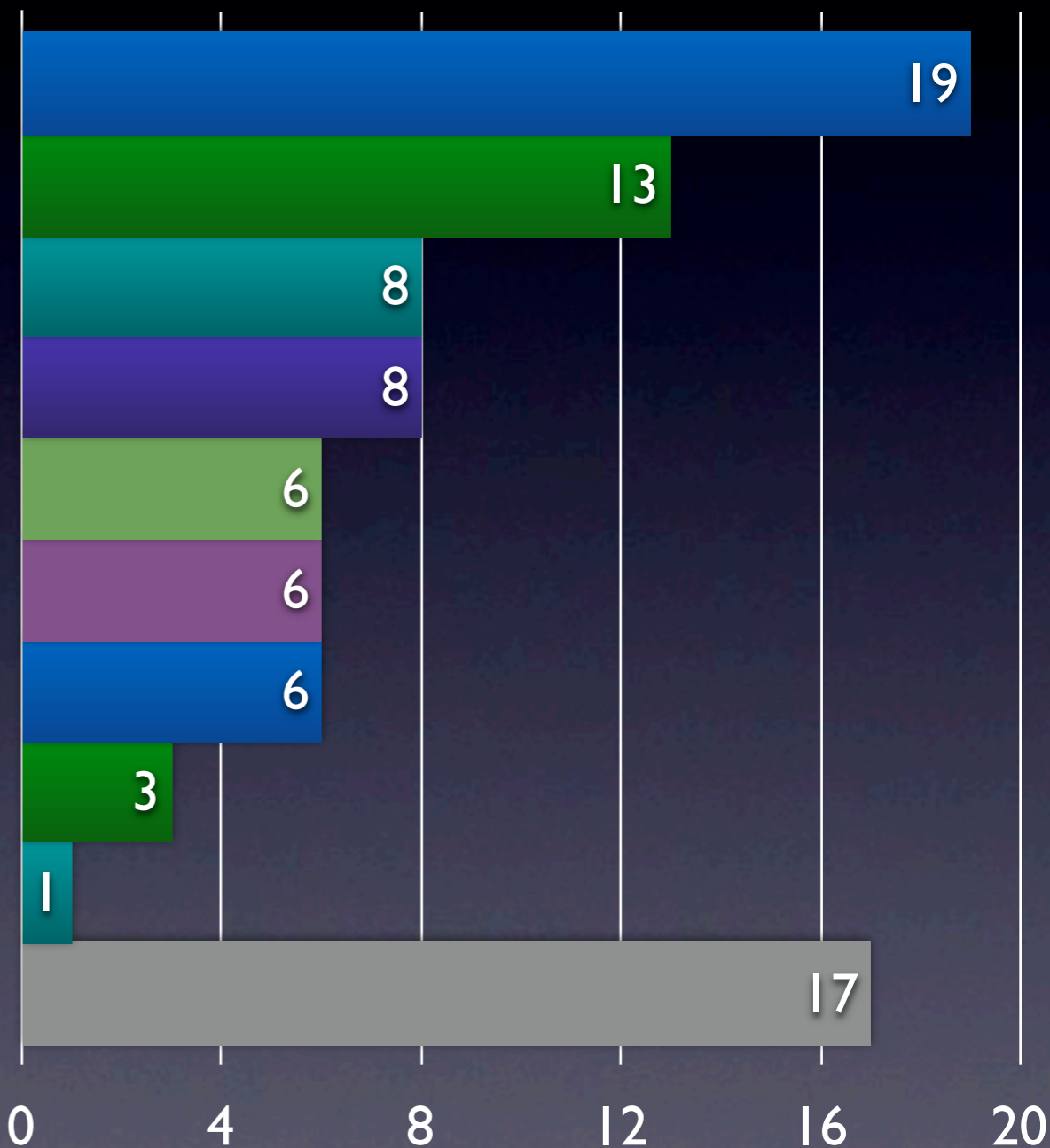
Higher priority on energy efficiency

Preference on power generation capability

Diversifying property types

Other

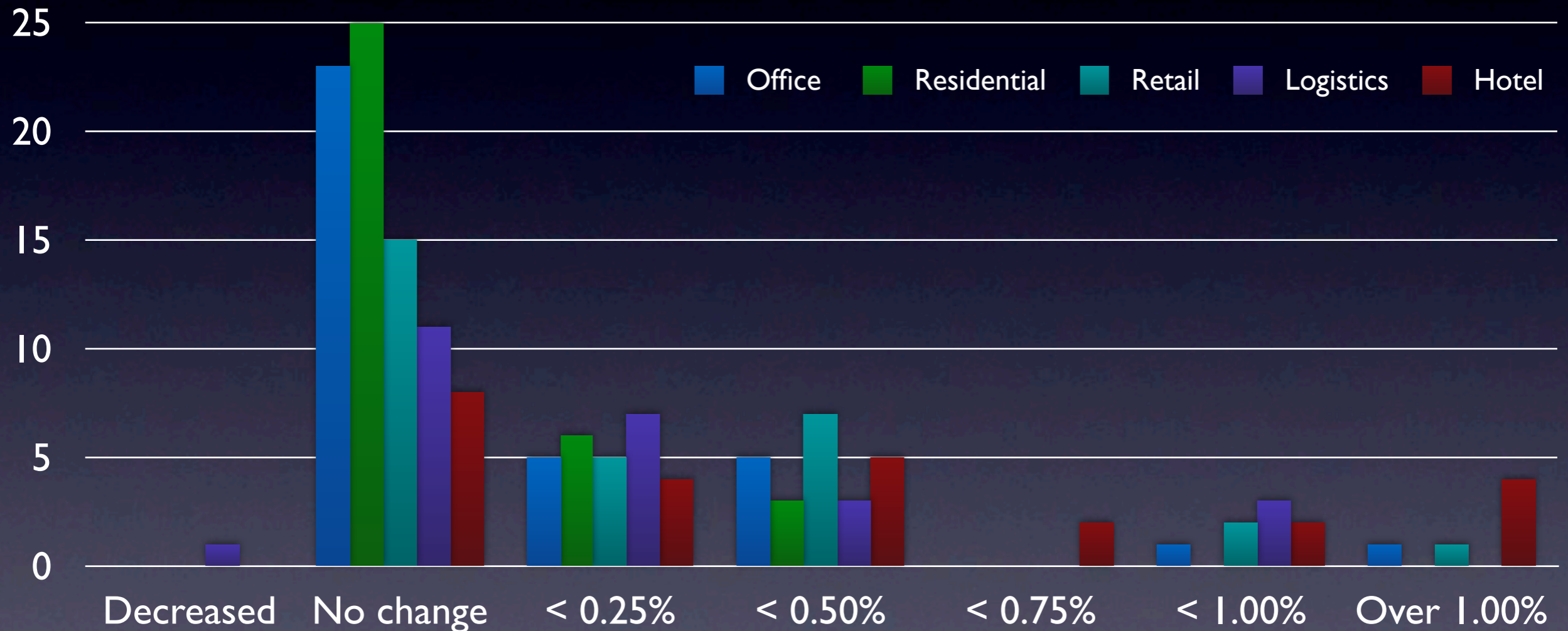
Criteria have not changed



Among those investing or willing to invest in Japan. (n=38)

Changes in Risk Premiums

(Number of answers)



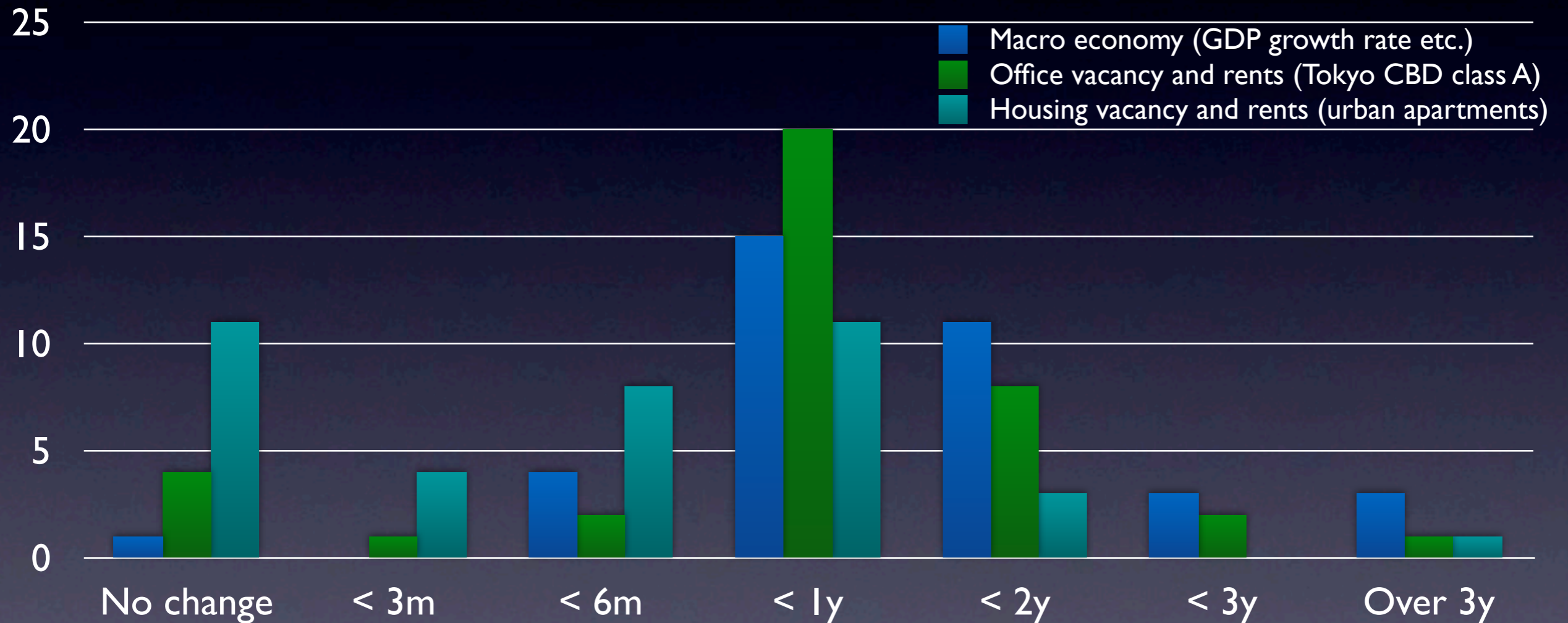
Among those investing or willing to invest in Japan. (n=38)

Note:

Changes in risk premiums are represented by expected changes in cap rates before and after the earthquake.

Duration of effects

(Number of answers)

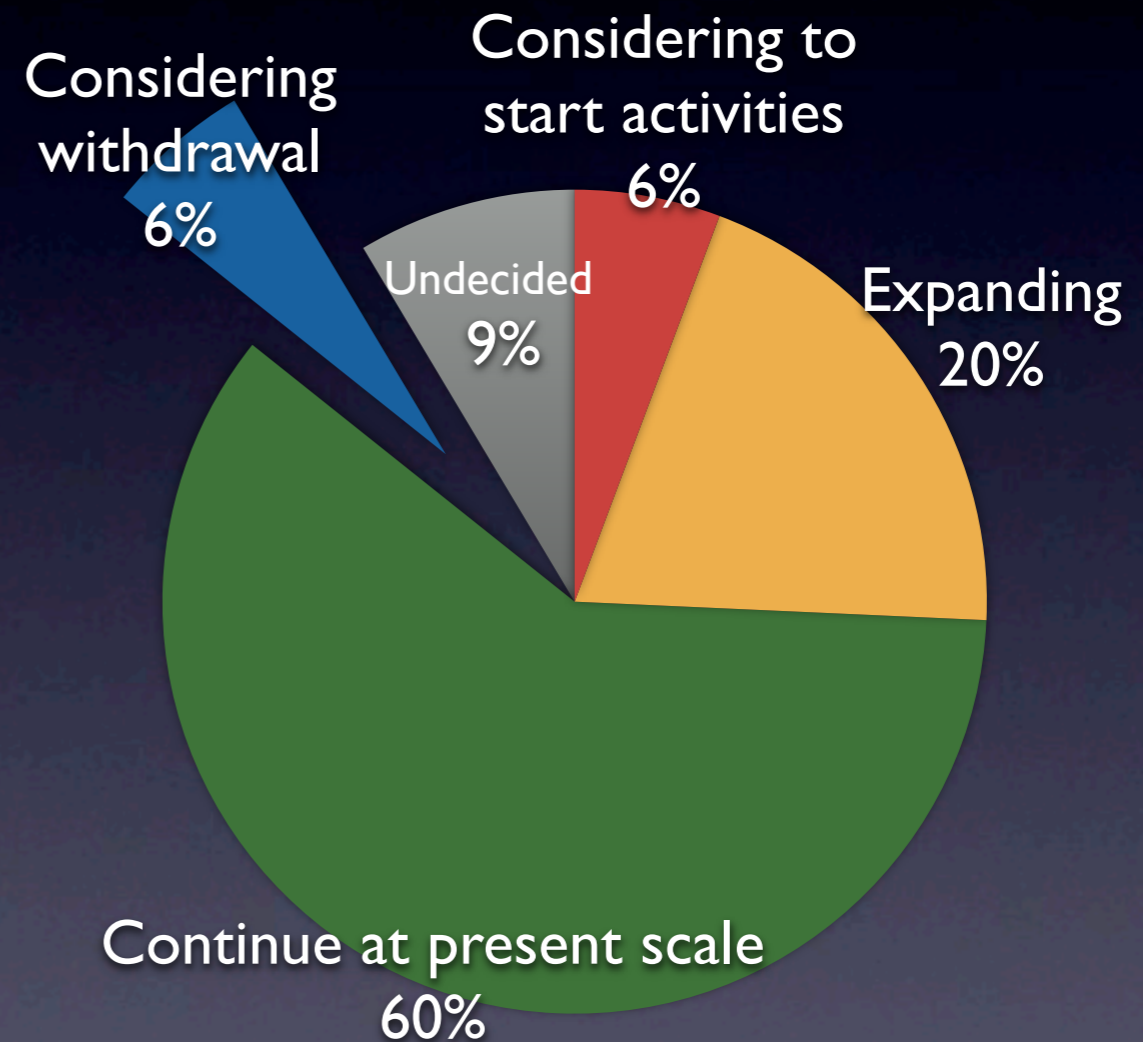


Among those investing or willing to invest in Japan. (n=38)

Business Plans

Q. Are you going to continue your business or investment activities in Japan?

Among foreign capital companies. (n=35)



Note:

“Considering withdrawal” = Considering options including withdrawal.
No answers to “Planning to continue activities on smaller scale” or “Planning to withdraw”

Voices

“ Risk factors that remain unresolved: (1) Nuclear power plants, (2) TEPCO bankruptcy, (3) **Political uncertainty.**”

“ There is a concern that **the yen** is trading at unsustainable levels, given the new additions to the budget deficit.”

“Cutback on electricity use during non-peak hours affecting the image of Japan. I was shocked to find **lights at the gateway to Japan, Narita Airport, turned off on a Sunday.**”

Voices (cont'd)

“ The impact is more emotional based than economically based. **No discounts** are being offered.”

“ The earthquake has focused need to split critical operations between Tokyo and regional locations. **Right-shoring** are being accelerated.”

“ As a foreign architect my expat market has been hit significantly, but I will definitely stay in Tokyo. Hopefully new demand for **sustainable design** will emerge.”