



# REAL ESTATE in Japan

2007

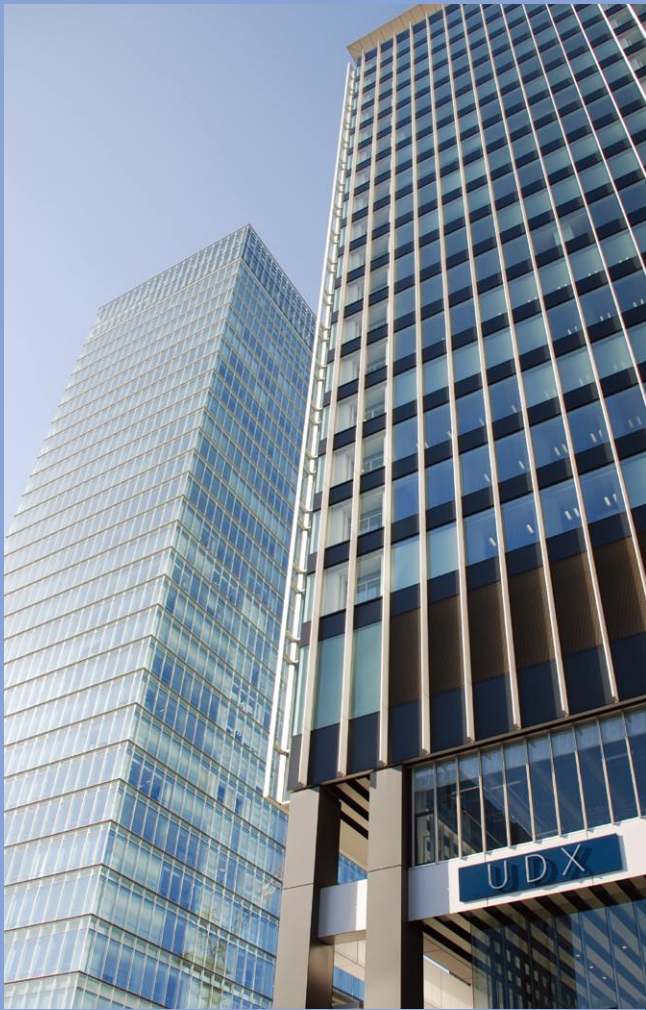


# REAL ESTATE IN JAPAN

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REAL ESTATE IN



## INTRODUCTION

The gross domestic product (GDP) is widely recognized to be an acceptable index for the economic prowess of a country. Today the real estate industry in Japan comprises more than 10% of the total GDP. In 2004, the GDP on a nominal basis was 496 trillion yen and the production of the real estate industry was 60 trillion yen. Although this value is smaller than manufacturing and services industries, it is greater than the values for the steel, automobile and electric machinery industries.

When a comparative analysis of the real estate industry is conducted with other industries, the added value per employee is very high at 14,490,000 yen (industry average is 6,760,000 yen) and the shareholder equity ratio of 17.5% is much less than the 30.1% average for all industries. The industry also has many small companies and the rate of companies entering and leaving the industry is high. On the other hand, the various indices representing the business condition of the real estate industry varies more broadly than other industries. For example, there is a conspicuous difference in values during boom and bust periods as typically represented by the number of bankruptcies and liabilities.

The asset value of real estate has in fact increased due to the preparation of social capital, conversion of mountains, forests and virgin land into housing subdivisions, land fill of water areas, redevelopment of cities, building of housing and buildings, etc. It is also a fact that land prices have risen more than the development impact.

The increasing land prices, in other words the increase in real estate valuations, has supported the high growth of not only the real estate industry but also the Japanese industry. The increase in real estate valuations that surpasses the book values becomes the latent profit of the companies. In place of realizing this latent profit through sale, it has been utilized by increasing the borrowings based on this collateral, using those profits for capital investment and using it to develop the business.

The real estate industry has expanded its business activities based on this type of "asset impact" and the expansion of demand for housing, residential land and offices. As a result, the share of GDP comprised by the real estate industry has risen.

However, the development and expansion of a business in expectation of increased real estate valuations became a thing of the past with the collapse of the bubble economy and the focus in business switched from owning real estate to using real estate. Furthermore, there has been an influx of global capital and rapid growth in the REIT and fund sectors due to the installation of a system that allows for real estate to be handled as a certain form of real estate product.

Within the international competition with major Asian cities, it is essential to promote city and regional redevelopment, install the social infrastructure and to create a safe, secure, comfortable and attractive town.

The real estate industry is being asked to make a greater contribution to the economic development of Japan by optimally utilizing limited real estate resources and providing an excellent housing and urban environment that serves as a global benchmark while considering the issues of lower birthrate, aging society, safety and disaster prevention measures, environmental issues, changing lifestyles and advancing of information technology.

JAPAN 2007



# THE REAL ESTATE INDUSTRY TODAY

## 開発

### DEVELOPMENT

#### What is development?

Real estate development is the creation and adding of real estate value by preparing the development infrastructure on obtained land or constructing housing or business facilities on land. Earnings are realized by selling, subdividing or leasing developed real estate.

#### ●●● Development Work

The flow of the development process begins with studying and understanding the size and form of the candidate development site, confirming of related city planning, the status of infrastructure preparation and the concentration of various facilities.

A business plan containing the development concept, construction plan and business income and expenditures is then proposed based on these findings. After the land is acquired, more specific construction design is carried out and following the obtaining of development and construction permits the actual construction will begin and continue until completion.

#### ●●● Promoting Urban Regeneration

Development of real estate is closely related to the Urban Planning Law, Urban Redevelopment Law, Land Rezoning Law, Building Standard Law and other laws related to the development, construction and design of cities. Furthermore, among the movements promoting urban regeneration in recent years, special exceptions for urban planning and new frameworks concerning financial support and other areas have emerged. One example of this is the Special Measures Act for Urban Renaissance that came into effect in 2002. This law establishes bold measures including specifying time and location limits as a means to promote urban regeneration that is driven by the private sector.

#### ●●● Diversification of Fund Procurement in Development

In recent years securitization tended to focus on already operating real estate, but cases are emerging where securitization is being used in development (development-type securitization) to meet the need to diversify capital sources and such as a means to spread risk in fund procurement.

The use of development-type securitization enables the developer to procure funds based on a valuation primarily of the development project's risk, limit the development risk load by utilizing non-recourse finance and move properties off the balance sheet by satisfying certain accounting terms without being impacted by the financial condition of the developer and limitations on the amount of capital that can be raised.

# 分譲

## FOR-SALE PROPERTY

### What is for-sale property?

For-sale property requires work involving the development and sale of land, stand-alone housing, condominiums and other housing.

### ●●● The Building Lots and Buildings Transaction Business Law System

The housing subdivision (for-sale business) consists of many steps including procurement of the lot, marketing to customer needs and market conditions, product planning, construction designing, advertising and sales. In recent years, diverse unique products have been planned and sold to meet the diversification of needs concerning lifestyles and housing among purchasers.

### ●●● Condominium Supply Trends

Since 1981, the number of for-sale condominiums supplied to the market has exceeded the number of stand-alone houses with a proactive supply continuing in recent years centering on large metropolitan areas. As for number of units supplied by private companies to the Tokyo metropolitan area in 2006. The total fell below 80,000 units for the first time in eight years to 74,534 units. The average for-sale price is now 41.99 million yen, the third consecutive year with an increase. The purchase contracting rate of 78.3% remains strong.

### ●●● The Building Lots and Buildings Transaction Business Law System

A broker's license under the Building Lots and Buildings Transaction Business Law is essential to be able to conduct a for-sale housing business. In order to protect the purchaser and secure fair transactions, the Building Lots and Buildings Transaction Business Law establishes regulations regarding the for-sale business that include restrictions on the timing for starting advertisements and concluding contracts, the requirement to explain material matters, the handling of deposits, etc. A law for promoting the securing of housing quality was also passed in 2000. This law created a system for indicating housing performance and enhanced the defect liability system concerning new houses.

# 流通

## TRANSACTIONS

### What are transactions?

Real estate transactions are primarily the selling and purchasing, exchanging of land and buildings, intermediation on leases and sales brokering of for-sale homes.

### ●●● Transaction Work

Real estate transactions involve providing customers desiring to sell real estate with appraisals that indicate the proper sales price for the concerned property and sales activities and providing customers desiring to buy a property with property information that meets their requirements. Real estate transaction brokers work to ensure that the sale and purchase, etc. of real estate – such as that the contract is concluded and the property is delivered – proceeds smoothly and appropriately.

### ●●● The Internet and Personal Information Protection Law

The Internet and other forms of information technology have affected the real estate transaction industry. The respective companies involved have launched property sites and are proactively broadcasting information. This is not limited just to individual corporations. In October 2003, the Real Estate Transaction Modernization Center Foundation began providing information through the integrated real estate website Real Estate Japan, a site that integrates the property information of four organizations involved in real estate transactions. We are now in an era where it is only natural to gain information via the Internet.

On the other hand, the spread of information technology has also created many problems involving the leaking of customer information and the buying/selling of personal information and this has placed the privacy of Japanese citizens at risk. In response, the Japanese government newly enforced the Personal Information Protection Law in April 2005. Consequently, real estate transaction market players must be aware of and strictly comply with guidelines on handling personal information.

### ●●● Protection of Customers

The brokering of real estate sales, purchasing, exchange or leasing requires a license designated by the Building Lots and Buildings Transaction Business Law. This Law stipulates various matters concerning brokering to secure consumer protection and fair trade and these include the system for licensed real estate brokers, items to include in a brokering contract, compensation restrictions, and matters regarding advertisements and explanation of material matters.

# 賃貸

## LEASING

### What is leasing?

Real estate leasing is the business of obtaining rents by leasing real estate one owns. Leasing applies to diverse properties ranging from housing to office buildings, retail properties, hotels and sports facilities.

### ●●● Leasing Work

As for the real estate leasing business, the management and operation is at times conducted by the owner or in other cases partially or entirely entrusted to a third party.

The advancement and spread of real estate securitization has furthered the separation of ownership and management. In addition, the complexity of leasing management has increased due to diversified tenant needs, sophisticated building functions and such. Consequently, the need is growing among owners who do not have their own dedicated management and operation organization to outsource these services to a third party.

### ●●● Legal Leasing System

The relationship between the party leasing the property and the renter is basically governed by the lease contract which stipulates individual items and is positioned under the Land and House Lease Law and the Civil Code. The former version of the Land and House Lease Law prohibited the leasing party from rejecting the renewal of lease contracts unless they had a valid reason. However, in 2000 the fixed tenancy leasehold system was formed based on the "Special Measures Law for Promoting the Supply of Good Quality Rental Housing" and it is now possible to enter into a contract that concludes without renewal at the time of expiration that is designated in the contract.

# OVERVIEW OF MAJOR REAL ESTATE SECTORS

## CONDOMINIUMS

The country also has many tenement houses that are remnants of the Kamakura era. This "row house" culture continued into the Edo era, where row houses for samurai and townspeople commonly dotted the downtown landscape even into the Meiji era. Presently condominiums, or mansions in Japanese, have become entrenched as a common living choice among apartments.

Initially condominiums were perceived as a way of living for people living in the city center, but the need for condominiums eventually spread to local areas. Presently the real estate securitization spread has contributed to the provision of a variety of condominium products including not just for families but also those for singles, DINKs and elderly people.



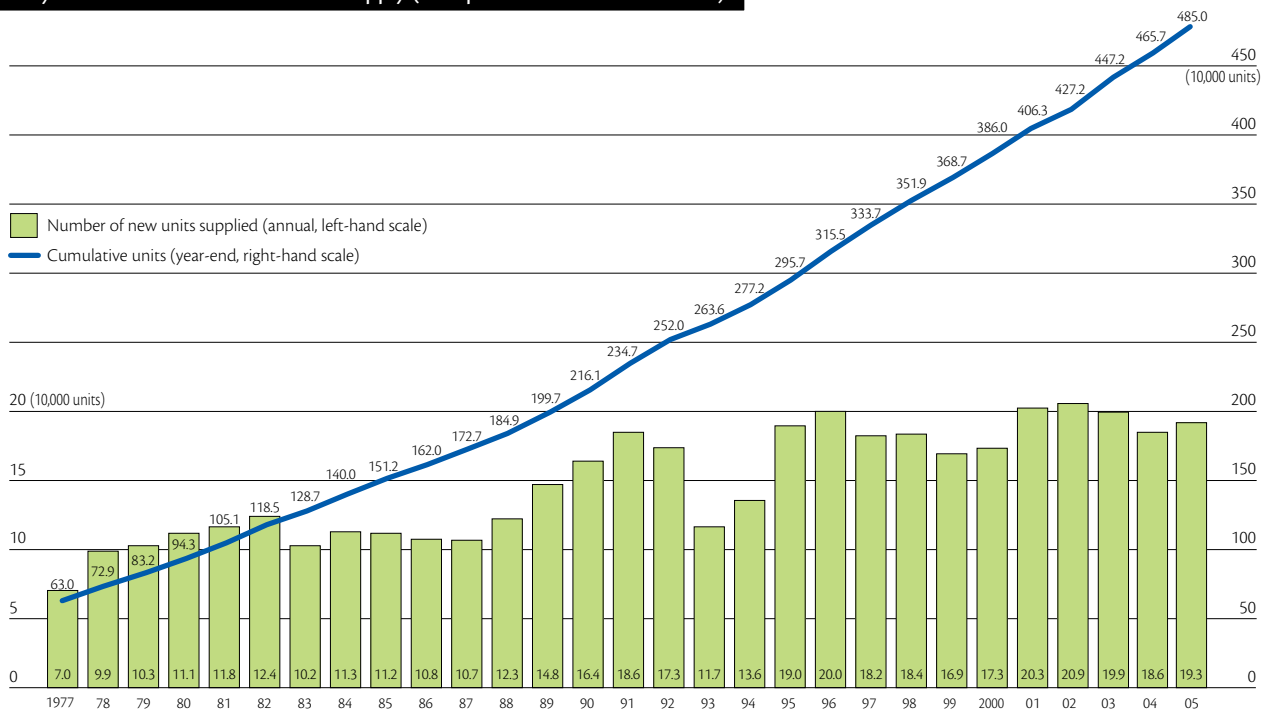
### The Dojunkai Apartments: The Beginning of Apartment Living

The now mainstream steel reinforced concrete apartments that were built prior to World War II are called the Dojunkai apartments. The Dojunkai was a foundation established following the Great Kanto Earthquake to help victims in need of shelter. It was an external body of the Interior Ministry and was funded by contributions from within Japan and overseas. The Dojunkai supplied 12,000 housing units, including 2,500 apartments, between 1926 and 1941. All of the apartments were reinforced concrete structures that placed a premium on earthquake resistance and most of the properties were three stories in height. In addition to having proper electricity, plumbing and gas, each of the units was equipped with flush toilets. At the time they were built, these housing units were well known and admired for their leading-edge conveniences and technologies such as elevators, steam heaters, telephones and baths. Not surprisingly, the aforementioned comforts proved to be very popular among the Japanese during that time, leaving no doubt that the apartment style of housing would be the wave of the future.

### Massive Supply through Apartment Complexes

Following the war, there was a severe lack of housing due to the mass burning of cities. (As a result,

History of Cumulative Condominium Supply (Completed Construction Based)



Source: Estimated based on Construction Starts Statistics of the Ministry of Land, Infrastructure and Transport

Note: The cumulative units are estimated based on the cumulative figures for new units supplied, etc.

2. Condominiums as described here are buildings at least three stories in height, sold after subdivision, jointly built, steel reinforced concrete, steel-framed reinforced concrete and steel structured housing.

the supply of housing was deficient by 4.2 million units at the end of the war.) Upon entering the mid-1950s, an explosive growth in the concentration of the population in major metropolises began to occur and the ensuing remarkable growth in land demand sent land prices soaring due to the lack of supply. In turn, however, this served as a barrier to overcoming the housing problems. The Japan Housing Corporation (presently, the Urban Renaissance Agency) was launched as the trump card for eliminating this housing problem and it began to supply housing units en masse beginning from the mid-1950s centering on apartment complexes known as "danchi."

The appearance of the public danchi helped a new form of apartment housing - "medium to tall buildings made of reinforced steel concrete" - to take root among the Japanese. The dining/kitchen format was newly developed for the apartments and the kitchen was enlarged; meanwhile, the functions of sleeping and eating could now be done in separate rooms. This new form of housing where meals were eaten at tables sitting on chairs took root after gaining the overwhelming support of the Japanese people.

Western toilets were also introduced. These danchi also contributed to creating many other standards for condominiums today including being furnished with baths and using cylinder keys for security. The term Danchizoku

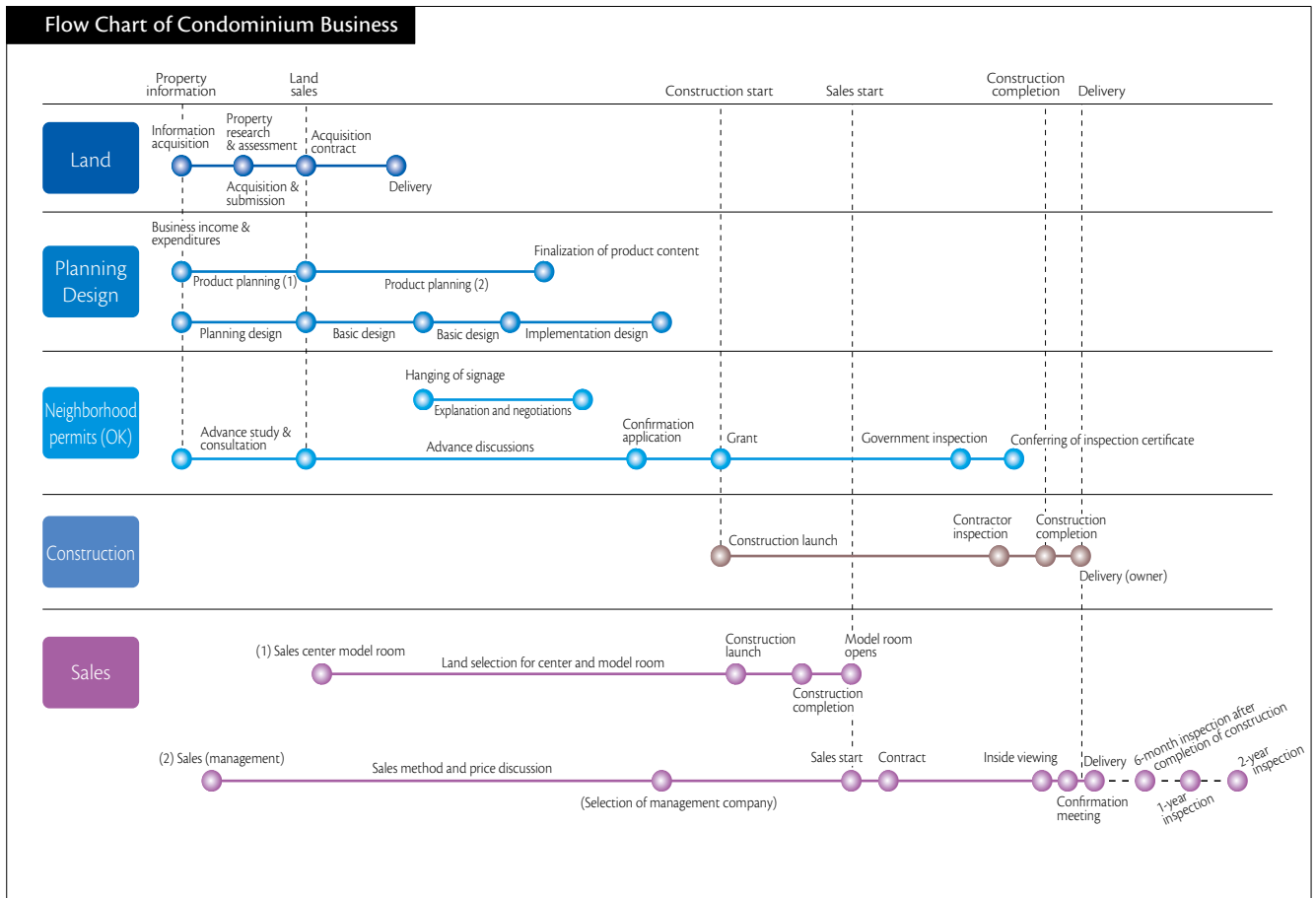
(danchi residents) was born and the modern, high-class life style represented by them was also looked on with some extent of jealousy.

### From Danchi to Condominiums

Around the same time, the private sector created a product that was distinctly different from the danchi. These luxury condominiums clearly targeted a limited group of people, as most of them were located in city centers and had elevators, parking, management offices, lobbies and restaurants on the first floor. As a means to convey this image of luxury, condominium names around the early 1960s began to use fancy Western words like residence, villa and heights.

Beginning in the mid-1960s, major real estate companies, trading companies and others entered the field and expanded the condominium market from a luxury product to a product targeting the general public. This was the beginning of efforts to develop a broad demand segment for condominiums.

With the wide acceptance of condominiums, the Government Housing Loan Corporation began financing condominiums (1970) and provided financing for up to twice the levels of stand-alone housing.



## Establishment of a Sectional Ownership Law and Sunlight Regulations

As the supply of for-sale condominiums increased, the problem of how to manage and operate the common areas of condominiums emerged. In 1962, the Sectional Ownership Law was established. Since new rights and management-related problems emerged that were not foreseen at the time, the Law was revised in 1983.

On the other hand, with the sudden massive increase in condominiums, disputes over the right to sunlight surfaced among community residents. While some local governments began to look at sunlight ordinances and demands began to be made for the preparation of related laws, the Building Standard Law was revised in 1976 with new regulations added to the Law.

## Emergence of 100 Million Yen Condominiums

In Japan, 100 million yen condominiums are called "okushon," a shortening of the Japanese words for 100 million (oku) and condominium (manshon). These okushon

began being supplied from the late 1970s. There was also a dramatic improvement in the basic performance of housing from the early 1980s. Among ordinary family-targeted units, condominiums with all electric appliances emerged. Some condominiums used skip floors for their entries to give a stand-alone house type feel and units with security systems and system kitchens also emerged.

The period just before and into the 1990s was the peak of the so-called bubble era and this period saw a boom in resort condominiums, as they became an object of investment due to financial deregulation.

## Increasing Release of Skyscraper Condominiums

The history of condominiums also correlates to the history of building higher. In 1971 the Mita Tsunamachi Park Mansion reached 19 floors (Minato Ward, Tokyo; Mitsui Fudosan), in 1977 the Yono House reached 21 floors (Saitama City, Saitama Prefecture; Sumitomo Realty & Development), in 1979 the Higashi Kanagawa Tokai Plaza reached 25 floors (Yokohama City, Kanagawa: Tokai Plaza), in 1981 Astem Ashiyahama reached 29 floors

(Ashiya City, Hyogo Prefecture; Astem Group), in 1987 Bell Park City reached 36 floors (Miyakojima-ka, Osaka City; Mitsui Fudosan and Kanebo Real Estate) and in 1992 Sakuranomiya River City reached 41 floors (Toshima Ward, Osaka City; Matsushita Investment and Development, Kintetsu Real Estate and Obayashi Corporation). Condominiums exceeding 50 stories also emerged in 1998 with the Lions Square Elza The Tower 55 reaching 55 floors (Kawaguchi City, Saitama; Daikyo) and the Century Park Tower reaching 54 floors (Chuo Ward, Tokyo; Mitsui Fudosan) in March 1999. Even in Kansai the trend is to build ultra skyscraper condominiums including City Tower Osaka, a 50-floor condominium that opened in December 2003 in Chuo Ward, Osaka City and was developed by Sumitomo Realty & Development.

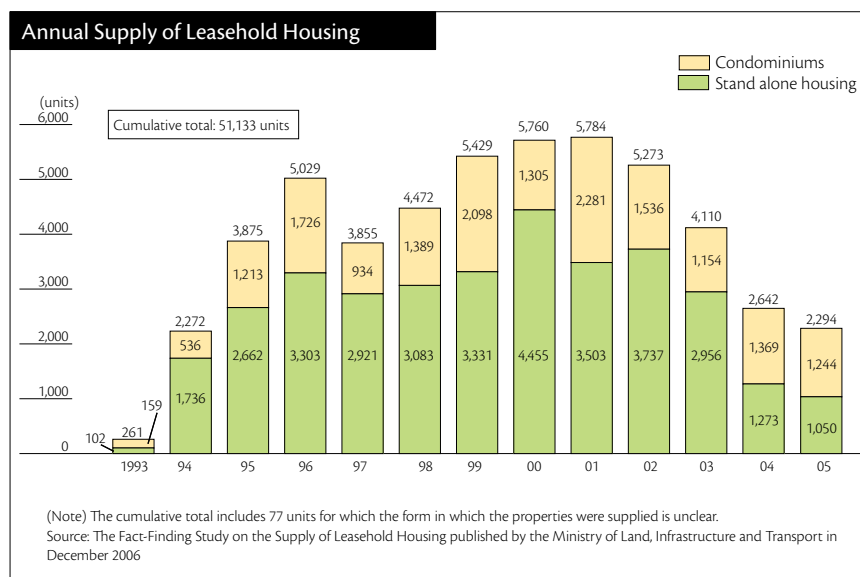
Lately there has been a conspicuous trend of moving back to the center of Tokyo reflected in the recent boom of ultra skyscraper condominiums that has emerged from companies selling off factories as a means to restructure their businesses, the sale of land by the JNR Settlement Corporation, redevelopment of areas in front of stations and the selling off of corporate housing.

Repeated new condominiums were released to the market in the bayside area in recent years. Examples of these developments are the World City Towers developed by Sumitomo Realty & Development (2,090 units, 42 floors) and Shibaura Island Grove Tower developed by Mitsui Fudosan and five other companies (833 units, 49 floors).

### Cumulative Supply of Condominiums About 4.85 Million Units

In recent years, it has become difficult to implement large housing developments in the Tokyo metropolitan area. Despite this fact, roughly 70% of housing built for sale is comprised of condominiums.

An analysis of the supply of new condominiums in recent years (based on sales) reveals that nationally there has been a rapid increase since 1988, with at least 110,000 units or more added to the market each year. While the supply volume showed a temporary decline due to the impact of the recession in 1993 and 1994, an increase was once again witnessed (propelled forward by the decrease in housing taxes) in 2002 at 209,000 units. From then until 2004, the supply has fluctuated around 180,000 units a year. The stock is already 4.85 million units (2005, completed construction base) and 560,000 units are more than 30 years old as of 2005, with this number expecting to climb over 1 million units within ten years due to rapid growth hereafter. One major theme facing the real estate industry is how to maintain and manage this stock appropriately so that its quality can be sustained and improved as good housing stock. The national government has also prepared for the coming demand for rebuilding by passing the Smooth Condominium Rebuilding Law and revising the Sectional Ownership Law that only requires 80% of sectional owners' approval for rebuilding.



## Diversifying Household Supply

The segment of the population buying condominiums has expanded from the traditional family segment to include DINKs, singles and retired individuals seeking to change their residences from stand-alone houses in the suburbs to locations downtown. These trends and changes in lifestyles and tastes are diversifying the needs regarding condominiums. The market has adapted to these developments by developing multi-use properties with retail facilities also on the large residential development sites. There are also large condominium projects with enhanced common use facilities like party rooms and guest rooms, tower condominiums with phenomenal views, condominiums that emphasize environmental synergy and energy conservation by being earth friendly, and condominiums developed in collaboration with famous designers and specialists in other fields. Thus condominiums are now being supplied that are based on property plans that effectively show the property's uniqueness and meet various needs.



## RENTAL CONDOMINIUMS

The rental housing market is presently seeing a polarization and trends unique to residential types much like what is occurring with land prices. Luxury rental condominiums are particularly doing well. Originally these condominiums

tended to be perceived as residences of directors in foreign firms, but their demand is growing among Japanese with the recent recovery in the need to live close to work rather than focusing on the lifestyle sphere of the suburbs. This need is completely different of that for for-sale housing and is a unique trend. Rental condominiums are the focus of new attention as people return to living in the city center and the market is rapidly expanding.



# CASE STUDY

## La Tour MITA

Sumitomo Realty & Development Co., Ltd. has completed construction of the luxury rental condominium La Tour MITA (109 units) within the Sumitomo Fudosan Mita Twin Building West. Sumitomo has utilized the brand name of La Tour to develop luxury condominiums that provide a spacious living environment combined with hotel like front desk services and an advanced security system. La Tour MITA is the ninth La Tour property.

This project is 43 stories tall with two basement floors and the floors 1 to 31 are offices and 32 to 43 are residences. The property has an excellent location boasting a walking distance from three stations and four lines including JR Tamachi Station, Mita Station on the Asakusa and Mita Lines and Sengakuji Station on the Asakusa and Keihin Kyuko Lines. The property has a roughly 1ha garden and a very quiet, calming scenery one would not expect of a property alongside the Daiichi Keihin central thoroughfare.

The La Tour MITA property supports a comfortable, high quality life through a variety of services and amenities. The front desk on the dedicated first floor entrance provides 24-hour services including temporarily receiving parcels for the residents and the dedicated entrance to the residential floors is completely separate of that for the offices. The tenth floor also has a mid-air garden, party room and fitness room. Each unit is equipped with dishwashers and microwave ovens along with refrigerators and washer/dryers. The disaster prevention center is manned 24 hours a day and the advanced security system includes personal identification of visitors at the front desk and monitoring inside the building via monitor cameras.

The property has also given special consideration to the community environment including building a passageway on Hijirizaka, which is located on the northwest side of the property, for the local residents and installing an elevator that community residents can

use to meet barrier free needs within this community which has many different ground levels and slopes. Sumitomo is planning on adding new properties to the luxury rental condominium La Tour series in popular central Tokyo areas like Shinjuku and Shibuya.

### Property Description

#### Construction

**Address:** 3-5-27 Mita, Minato Ward

**Completion:** September 2006

**Site area:** 15,206.20m<sup>2</sup>

**Dedicated housing area:** 12,184.36m<sup>2</sup>

**Floor space:** 98,503.15m<sup>2</sup>

**Rental units:** 109

**Floors:** 43 floors above ground and 2 basement floors (residential units on floors 32-43)

**Building management:** Sumitomo Realty & Development Co., Ltd.

#### Facilities and Amenities

**Air conditioning:** Air-conditioning individually installed in each unit (installed in living/dining rooms and bedrooms)

**Security and disaster prevention:** Each unit has an intercom with camera, sprinklers and fire alarms

**Kitchen:** System kitchen, refrigerator, dishwasher, microwave oven, water purifier and disposer

**Laundry:** Completely automatic washer/dryer  
**Telephone:** Each unit has outlets in their living/dining rooms and bedrooms (equipped for up to 2 lines)

**TV:** Outlets installed in each unit's living/dining rooms and bedrooms

**Other:** Heated floors (each unit's living/dining rooms and kitchen) and bathroom dryer

# OVERVIEW OF MAJOR REAL ESTATE SECTORS

## HOUSING

Traditionally, in Japan the development of housing and housing land involved converting rice fields and forests into housing land, building stand-alone housing or condominiums along with public facilities such as roads, parks, public sewage and schools, and then selling the lots, houses or condominiums. Representative examples were the construction of so-called "new towns" and the development of new city areas. The Urban Renaissance Agency (and its predecessor) was involved in these large developments because of their size and their ability to form towns consisting of new environments. There are also private companies that have developed major projects of more than 100-hectares in size.

Recently, there has been an increase in land that is appropriate for development due to the transfer of factories, advancing redevelopment of land in front of stations and the disposal of corporate housing. These developments together with the continued drop in land prices have contributed to an increase in supply of tower and large condominiums, particularly in city centers. On the other hand, there have also been many small developments reflecting the continuing popularity of stand-alone housing among the Japanese; most of the housing supply is covered by these condominiums and small developments.

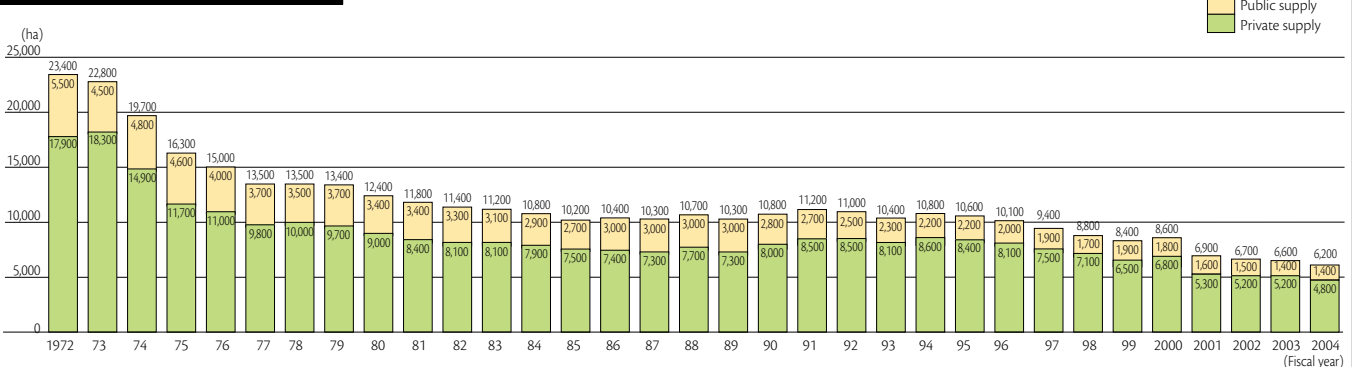


### Oil Shocks Stun Business Climate

The pioneering new town development projects in Japan occurred prior to World War II and include Takarazuka (Hyogo Prefecture) and Denen Chofu (Tokyo), but these types of developments did not begin in earnest until after the war.

Beginning in the mid-1950s, there was a rapid expansion in demand for housing and housing lots and private development took off. This is in part due to the significant growth of the economy and the concentration of industries and people in major cities. The development of land along railway lines by railway firms commenced before World War II and continued thereafter. These developments played a major role in overall development. A representative example of the scale is the Tama Denen city development conducted by Tokyu Corporation in which the construction of railways and development of housing were conducted together.

History in Supply of Housing Land



Source: Compiled from statistics of the Ministry of Land, Infrastructure and Transport

Note 1. Public supply: Housing supplied through projects of local public housing agencies, local public housing corporations, government corporations (Urban Development Corporation and Japan Regional Development Corporation), etc.

2. Private supply: Housing supply through development permits granted to private housing developers and land rezoning projects of individuals, associations, etc.

Large New Town Projects of Japan

<Private Development>

Name	Address	Development Area	Project Period	Developer (At time of development)	Business Method
Ryokuendai New Town	Ishikaricho, Hokkaido	172ha	1990-	Sumitomo Realty and Development, Mitsubishi Estate	Development act
Izumi Park Town	Sendai City, Miyagi Prefecture	1,070ha	1972-	Mitsubishi Estate	Development act
Izumi Village	Sendai City	154ha	1972-	Tokyu Land	Development act
Sumiyoshidai New Town	Sendai	144ha	1981-	Nihon Jisho	Agreement with city
Itopia Natori	Natori	109ha	1993-	Itochu Corporation	Development act
Yamada Industrial Park	Iwaki City, Fukushima Prefecture	143ha	1973-1995	Nihon Shintoshai Kaihatsu	Development act
Hatoyama New Town	Hatoyama-cho, Saitama Prefecture	140ha	1971-1997	Nihon Shintoshai Kaihatsu	Development act
Asumigaoka	Chiba City, Chiba Prefecture	313ha	1969-	Tokyu Land, Partnership	Land readjustment (association)
Lakeside Hill	Togane City	154ha	1976-	L Kakuei Corporation	Development act
Onaridai Kenkyu Gakuen Toshi	Chiba City and Yotsukaido City	121ha	1986-	Fujita, Tomen	Development act
Someino Mizukigaoka	Sakura City	110ha	1987-	Obayashi Corporation, Tokyu Land	Development act
Yurigaoka New Town	Sakura City	150ha	1971-	Yamaman	Development act
Kiminomori	Oami Shirasato Town, Togane City	108ha	1982-	L Kakuei Corporation, Tokyu Land	Development act
Tama Denen Toshi	Machida City (Tokyo), Yokohama City, Kawasaki City and Yamato City (Kanagawa)	4,300ha	1953-	Tokyu, Tokyu Land, Partnership	Land readjustment (association)
Shonan Kokusaimura	Yokosuka City and Hayama Town, Kanagawa	207ha	1990-	Mitsui Fudosan	Development act
Momogaoka New Town	Nabari City, Mie Prefecture	158ha	1972-1991	Tak Realty	Development act
Green Hill Otsu	Otsu City and Kusatsu City, Shiga Prefecture	132ha	1981-	Tobishima Toshi Kaihatsu	Land readjustment (individual)
Katsurazaka	Kyoto City, Kyoto Prefecture	148ha	1983-	Seiyo Kankyo Kaihasu, Yasuda Trust and Banking, The Japan Workers Housing Association, Rojuu Seikyo	Development act
Keihanna Seikadai	Seika Town	158ha	1997-	Keihan Electric Railway, Nomura Real Estate, Mitsui Fudosan	Land readjustment (individual)
Inonagawa Park Town	Inagawa Town, Hyogo Prefecture	214ha	1980-	Sohgo Housing, Takenaka, Mitsubishi Estate	Development act
Takaoyama Keyakizaka	Kawanishi City	181ha	1975-	Obayashi Corporation	Land readjustment (individual)
Gakuenmae	Nara City, Nara Prefecture	358ha	1950-1996	Kintetsu Corporation, Kintetsu Real Estate	Development act

<Public Development>

Name	Address	Development Area	Business Period	Developer (At time of development)	Project Method
Kenkyu Gakuen Toshi	Tsukuba City, Kukizaki Machi (Ibaraki Prefecture)	2,696ha	1968-1998	(Former) Housing and Urban Development Corporation	New housing business and rezoning
Ryugasaki New Town	Ryugasaki City	672ha	1977-	(Former) Housing and Urban Development Corporation	Rezoning
Chiba New Town	Funabashi City, Inzai Machi, Shirai Machi, etc. (Chiba)	1,933ha	1969-	Chiba Prefecture, (former) Housing and Urban Development Corporation	New housing business
Tama New Town	Hachioji City, Tama City, Machida City, Inagi City (Tokyo)	2,984ha	1964-	Tokyo, (former) Housing and Urban Development Corporation	New housing business and rezoning
Kohoku New Town	Yokohama City, Kanagawa Prefecture	1,317ha	1974-	(Former) Housing and Urban Development Corporation	Rezoning
Senri New Town	Suita City, Toyonaka City, Osaka Prefecture	1,160ha	1964-1969	Osaka Prefecture	New housing business
Senboku New Town	Sakai City	1,557ha	1965-1982	Osaka Prefecture	New housing business
Kobe-Sanda International Park City	Kobe City and Sanda City, Hyogo Prefecture	1,864ha	1971-	(Former) Housing and Urban Development Corporation	New housing business and rezoning

On the other hand, this period also saw many non-railway real estate companies enter the field of "new town" development. These firms were not limited to keiretsu affiliated real estate companies but also included manufacturers, trading companies, life insurers and other financial institutions. The business became very lively and the supply of housing continued to increase until immediately before the oil shock of 1973.

However, the launch of the so-called demarcation system<sup>1</sup> in 1969 led many areas suitable for development to be incorporated into city coordination zones and the policy of suppressing development also became more conspicuous among local governments. In the early 1970s, many administrative regulations such as guidelines on housing lot development were issued and generated a rise in the cost of housing land resulting from the increase in requirements for bearing expenses for public developments and the prolonging of projects. The simultaneous boom to

"remodel" the islands also caused land prices to soar and a condition developed in which land for developing housing was consistently priced high.

As a result of these developments, it became very difficult for developers to secure profitability. After peaking in 1972, the supply area continued to slide and eventually the supply from private developers has dropped to only around 30% of the previous high in recent years.

The development of housing and housing land requires more time compared to other industries because of the time spent on planning, procuring raw materials, manufacturing, building and sales. It is also dramatically impacted by factors outside of the control of the developers such as administrative guidance by local government bodies.

In particular, large housing development projects, which are conducted under the development acts<sup>2</sup> and land zoning projects of the City Planning Law, are difficult for private companies to conduct. This is because the continuing drop

in prices for finished housing lots makes it difficult to acquire sites at what would allow for a profitable business when the very diverse permits and procedures needed (negotiations, environmental assessments, etc.) and the lengthy period of the development project itself are considered.

### **1. Demarcation system (city zone and city coordination areas)**

The New City Planning Law that was enforced from 1969 created this system. The system designates districts that need to be comprehensively prepared, developed and preserved as city planning districts and then demarcates these into city zones and city coordination zones. City zones are districts that already form city areas and districts that will be developed into city areas with priority and based on a plan within ten years of the designation. Development that satisfies legal requirements in this district must be granted permits.

On the other hand, city coordination zones are districts where "city" development should be suppressed and development is allowed on a limited basis, but in principle has been prohibited except for that falling within district planning as a result of revisions to the City Planning Law made in 2006. Prefectural governors conduct the demarcation and designation of city planning zones as a rule. In local

areas, only the designation of city planning zones is conducted and there are still many areas where demarcation has not been conducted.

### **2. Development acts**

Development acts are primarily the change in land zoning to build structures, etc. It involves obtaining the permission of the prefectural governor based on satisfying certain requirements of the City Planning Law so that the planned preparation of cities can be secured.

### **3. Land readjustment projects**

These are projects conducted within city planning zones that seek to prepare public facilities and promote greater use of housing land. All of the landowners, etc. in the district participate in the project. Some of the land is used for public facilities and some sold to be used for project expenses. The remaining developed housing land is acquired in a "land conversion." Although the area of owned land

decreases compared to before the project began, the efficiency as housing land increases. Therefore, it is reported that the price obtained for the owned land after the project does not drop. The developer first acquires the site and becomes a rights holder or conducts the project as an agent for the operations of the land readjustment association or others. To date nationally about 11,900 districts comprising about 400,000 hectares have been redistributed within a land planning organization project and this amounts to about 1/3 of all municipalities nationwide (as of March 31, 2006). Further, a circular issued in April 1997 promoted flexibility in the technical standards of land readjustment projects and led to the proactive implementation of site alignment type land readjustment projects (so-called mini land readjustment projects) focused on accumulating sites through the exchange and readjustment process.

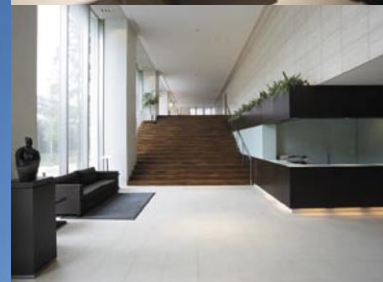




**RESIDENTIAL DEVELOPMENTS**

The attitude of the Japanese people towards housing is changing in correlation with changes to the land market.

A movement has emerged that places more importance on convenience than the value as an asset and there has been a shift of new condominiums in the Tokyo area moving from suburbs back to the city center. The respective developers and home builders are providing housing that has excellent anti-seismic properties along with dramatically improved comfort. In order to realize a comfortable living space, a reorganization of existing town areas towards rebuilding of the cities is underway in major metropolitan areas and steps are underway to promote the appropriate use of land including the utilization of low and non-used land, turning around central urban districts in regional areas and adjusting land usage to meet unique local needs.



# CASE STUDY

## PROUD TOWER Futako Tamagawa

Futako Tamagawa is an area with a wealth of nature surrounded by the Tama River and the rising hills of Kokubunji – despite being a commercial district in front of the station. The developer applied a comprehensive design that proactively incorporated air, water and greenery by installing open spaces around the periphery of the site in the aim to build a comfortable environment where humankind and nature coexist. More than adequate green space was installed around the building and, along with preventing a feeling of encroachment caused by the tall buildings, this approach prevented wind tunnels developing between the buildings. The developer also preserved the pine trees selected as one of the 100 top scenic views of the Tamagawa area. The neighboring land for a city planned road and open space was developed in an integrated manner as a green walkway for pedestrians and the café run by the management association was developed so that it fronts

the green walkway. The fashion street in front of the station was extended to the Tama River and a better urban and residential space that smoothly connects a sophisticated streetscape with the rich nature of the Tama River has been formed.

A certain degree of narrowness was allowed for the dedicated areas of each unit and this narrowness was compensated for with separate added value that unfolded as a new concept for the common areas and a "Wide span layout" previously rare for skyscraper condominium projects. Thirty-eight compact 40-50m<sup>2</sup> units were prepared on the lower floors (1F-9F) and the units placed on the 24th and higher floors are premium units. The top floor's unit is particularly open in feel with all of the exterior walls comprised of glass. The unit was given added value with a glass walled living room and a huge roof terrace. A frame plan known as the "Core wall + tube structure" was employed and helped realize

both excellent anti-seismic and wind-resistant properties and a living space with few pillars and beams evident in the units.

One of the key design contributions was the simple façade design where elements were kept to a minimum. A streetscape smoothly connected to the Tamagawa Takashimaya was formed along Tamagawa Road in front of the station and helped the project emphasize linkage with the streetscape by "Incorporating external elements" and "Opening to the outside." An overall high quality model was realized by heightening the street value by the project providing the community with an environment that heightens its unique personality.

PROJECT DESCRIPTION
Name: PROUD TOWER Futako Tamagawa
Developer: Nomura Real Estate Development Co., Ltd.
Site area: 2,214.29m <sup>2</sup>
Building area: 1,060.91m <sup>2</sup>
Floors (above ground): 27 (area: 22,120.46m <sup>2</sup> )
Floors (below ground): 1 (area: 2,194.11m <sup>2</sup> )
Total floor area: 24,311.59m <sup>2</sup>
Compliant laws: Building Standards Law and Comprehensive Urban Design System
Zoning: Commercial, fire prevention, river protection, and advanced standard levee planning

# OVERVIEW OF MAJOR REAL ESTATE SECTORS

## URBAN REDEVELOPMENT

The objective of urban redevelopment projects is to renew urban functions, promote advanced use of land, improve disaster prevention properties and the urban environment, create public space and activate the local economy. It is the integrated and comprehensive arrangement of buildings, retail properties and other urban facilities along with streets, plazas and other urban infrastructure by rationally using land and rebuilding aged buildings.

In recent years, “Urban Regeneration” measures have been implemented by the government to heighten the appeal of cities and international competitiveness and the urban development projects of the private sector are receiving proactive support.



### Private Companies Take Active Role in Redevelopment

The history of redevelopment in Japan is primarily the history of local governments aiming to renew low quality city streets formed with little or no order, and to recover from the destruction of earthquakes, wars and fires. Although private companies played a role in building and supplying buildings and stores in the mid-1950s, they were rarely proactively involved in broader redevelopment projects.

Between the early 1960s and mid-1960s, various systems were established for securing a good city environment and attracting superior architecture and developments. These included creating special city areas, transferring regulations with absolute fixed height limits to regulations based on FARs, and the establishment of the New City Planning Law and City Redevelopment Law. Private companies took advantage of the opportunities presented by these developments to embark on large redevelopment projects requiring the coordination of multiple landholders' rights and the preparation of a public infrastructure.

### From Post War Recovery to Building Boom

After the war, major cities readjusted their zonings to promote recovery from the disasters of the war. This led to a certain degree of order to downtown city streets. However, the construction of buildings by private companies in the late 1940s and early

#### Primary Systems for Promoting Urban Redevelopment

##### ◎ Grant and Subsidy System

- City lot redevelopment project
- Superior building improvement project
- Residential district improvement project
- Public facility improvement promotion project related to city redevelopment
- City regeneration lot adjustment project
- General town creation support project
- City energization regeneration base improvement project
- Town creation grant system

##### ◎ Public Financing

- Urban district redevelopment project, etc. financing system
- Urban district redevelopment, etc. financing (Development Bank of Japan)
- Loaning of public funds (Organization for Promoting Urban Development)

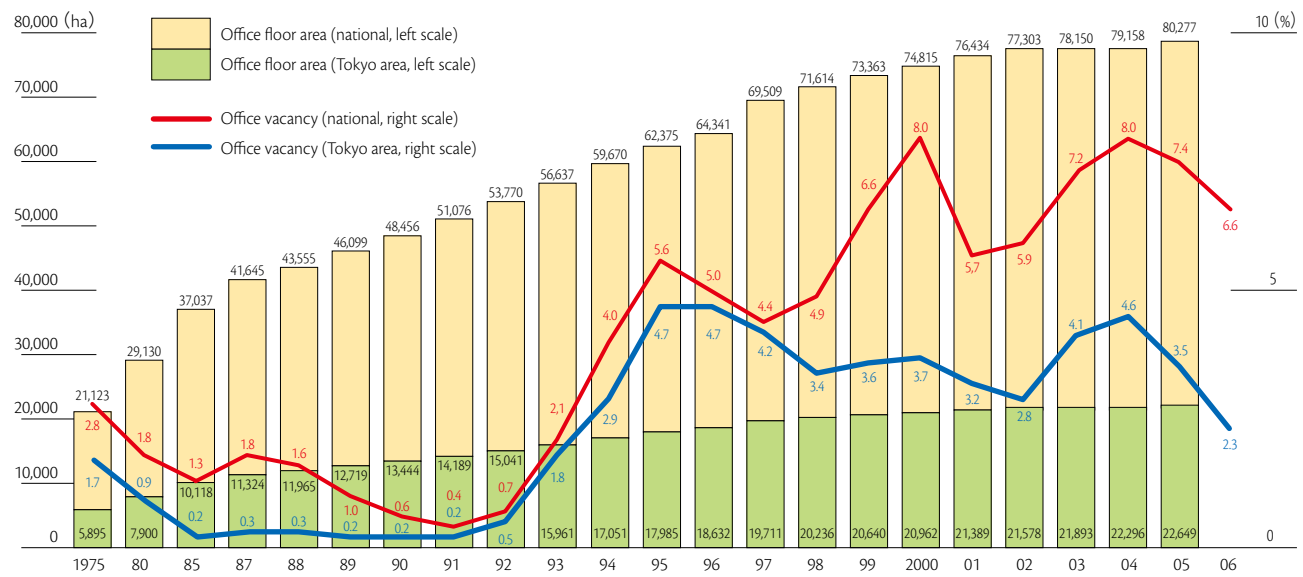
##### ◎ Special Tax Measures

- Urban district redevelopment project
- Specific private redevelopment project
- Special model refinancing
- Approved city regeneration projects

##### ◎ Urban Planning and Building Regulation Promotion Measures

- Specified blocks
- Sophisticated use districts
- Redevelopment, etc. promotion districts
- FAR appropriate distribution district plans
- FAR district plans by usage
- Promoted FAR district plans
- Town environment promotion district plans
- Planned development design system
- Consecutive building design system
- Planned development design of apartment areas

History of Building Vacancy and Floor Area (Stock)



Source: Prepared using Building Fact-Finding Study Results issued by the Building Owners and Managers Association of Tokyo, Building Fact-Finding Study Results issued by the Building Owners and Managers Association, Ministry of Land, Infrastructure and Transport's 2006 Land White Paper  
 Note 1: Vacancy rates are studies on April 1 of each year. The 1998-2000 data of the Building Owners and Managers Association of Tokyo differs from the study of the Building Owners and Managers Association, Japan; therefore, the Building Owners and Managers Association of Tokyo's data are not included in the national average. They became the same study from 2001 again.  
 Note 2: (1) Stock is the total floor area of wooden house offices and banks and non-wooden house offices, stores, department stores and banks. However, stores are also included in wooden houses from 1997. (2) The stock is as of January 1 of each year. (3) Tokyo area as pertains to stock: Tokyo, Kanagawa Prefecture, Chiba Prefecture and Saitama Prefecture

1950s was still infantile due to a conspicuous lack of funds and materials.

Upon entering the late 1950s, the first building boom occurred with the Jinmu Economy that followed the end of the Korean War. Although banks still assessed the real estate industry poorly and made the procurement of funds difficult, the system of Construction Cooperation Funds spread. This system provided funds to facilitate construction of buildings that companies expected to enter as tenants and the building business took off.

In the early 1950s some of the buildings whose construction had begun during the War but had been suspended or that had been started after the war were completed. Throughout the late 1950s and early 1960s, Mitsubishi Estate completed a number of buildings and company buildings of financial institutions and newspapers on national land they had been granted (land grant) were completed one after the other. As a result, the central Tokyo business district from Yurakucho to Otemachi was basically completed.

In the late 1960s and early 1970s, there was a dramatic relaxing of regulations limiting building heights as a result of the System of Special Urban Block Area of 1961<sup>1</sup> and the FAR Regulations of 1963<sup>2</sup>. In 1964, the Tokiwabashi Redevelopment (Nippon Building, etc.) and Kasumigaseki Building of Tokyo were simultaneously designated as the first specific city districts. Both of these were completed

right after the other in 1968. At the time, both of these properties enjoyed prestige as the largest buildings and the first skyscrapers in the East. Also in 1968 the preparation of an infrastructure on the former site of the Yodobashi Water Purification Plant of Tokyo was completed and the land was sold to the private sector. This was the start of building the new Shinjuku Shintoshin (new downtown) area of skyscrapers.

**Era of Planar Redevelopment**

Upon entering the mid-1970s, the oil shocks had ended and led to a slowdown in the concentration of industries and people in major cities along with the declaration of the building boom. On the other hand, high quality developments worthy of being called "town creation" projects began to be conducted utilizing a new business system. One representative project of this is the Ark Hills project in Minato Ward, Tokyo that was completed in 1986. This was the first city redevelopment project primarily conducted by a private developer based on the City Redevelopment Law established in 1969. The developer diligently obtained the understanding of multiple land rights owners and completed the new town after a period of 17 years. In addition, Hibiya City was completed in 1981 on two blocks that were the former site of NHK. This project

comprised of four buildings is well known as a project in which air rights<sup>5</sup> were sold within the district blocks.

### From Development Boom to Sudden Building Slump

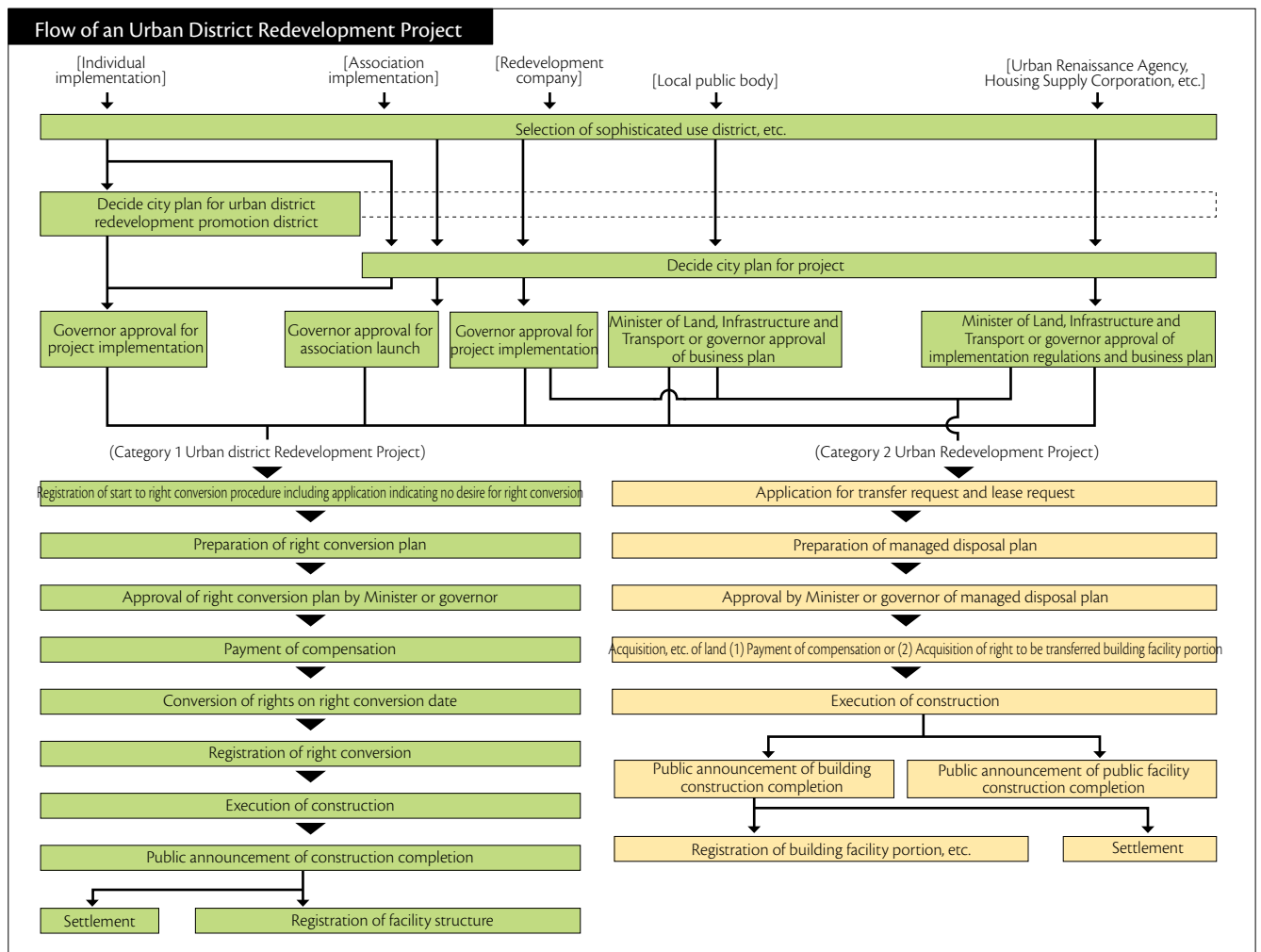
Between the late 1980s and the early 1990s there was an unprecedented development boom backed by the spread of information technology and the emergence of Tokyo as an international finance center. The announcements of very strong demand forecasts made into the mid-1980s by the National Land Agency (today's Ministry of Land, Infrastructure and Transport) and by multiple think tanks led to a building construction rush that was so great that ten years worth of estimated floor space demand was built in only three years. Many companies not traditionally involved in development entered the building business and triggered the soaring land prices that became known as the bubble. On the other hand, during this ten-year period many mega projects that had been conducted over a prolonged period such as the development of waterfront areas in major cities began to appear. Examples of these include

Makuhari in Chiba Prefecture, Minato Mirai 21 in Yokohama, Osaka Business Park, Yokohama Business Park and Yebisu Garden Place. All of these projects drew attention as unprecedented multi-use developments in Japan. However, with the headlong rush into the Heisei recession (starting in the late 1980s) emerged unprecedented high vacancy rates, remarkable decreases in rents and other 180-degree transformations in the building market. This forced some projects like the secondary city center projects on the Tokyo bayside to undergo significant revisions.

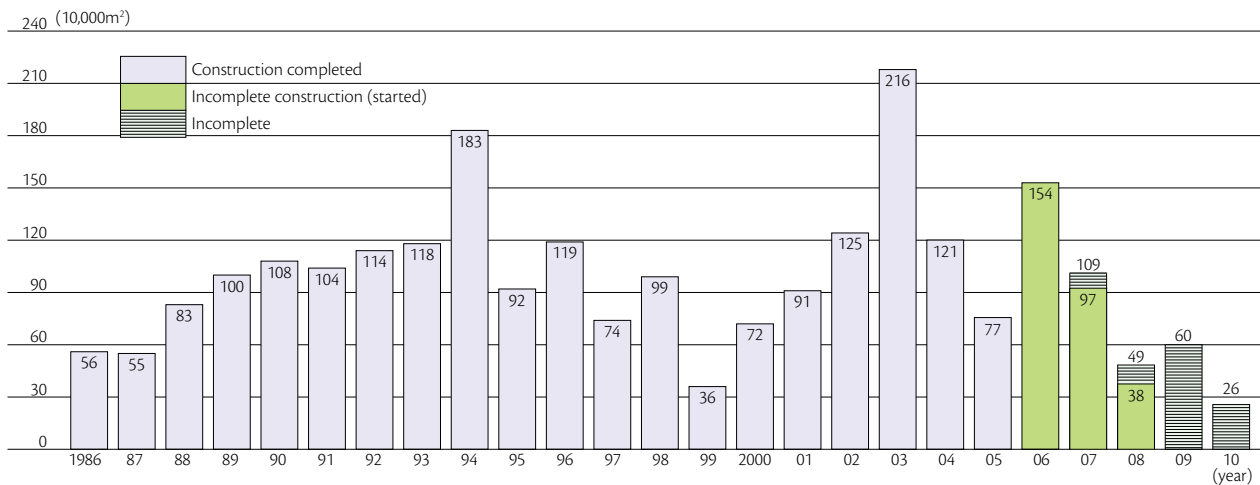
### Legal Redevelopment and Voluntary Redevelopment

There are two types of city redevelopment projects: legal redevelopment and voluntary redevelopment.

Legal redevelopment projects are urban redevelopment projects based on the City Redevelopment Law<sup>4</sup> and these projects are executed as city planning projects. Urban redevelopment projects are implemented with the enforcement of laws and seek to improve the disaster



History of Supply Volume of Major Office Buildings in 23 Wards of Tokyo



Source: Prepared using the Major Office Building Market Trends Study for Tokyo (December 2005 Study) issued by Mori Building.  
 Note 1: Study covers new major office buildings with total office floor areas of at least 10,000m<sup>2</sup> in the 23 wards of Tokyo.  
 Note 2: Supply indicates the net supply of office floor area in major office buildings excluding that for non-office uses such as stores, residences and hotels.

preventative buildings of cities, renew city functions and achieve sophisticated land use. Due to the enforcement of laws, there are strict requirements for this type of redevelopment including the maintaining of a certain ratio of old or wooden buildings within the set district. Since this type of project has a strong public (government) characteristic, various tax incentives and support systems are in place for these projects.

Voluntary redevelopment is generally the unification of divided lots, conversion of land use (former factory sites, etc.) to redevelop areas including the construction of public facilities. At its broadest meaning, these projects include the simple rebuilding of buildings. It is the general term used for projects that use methods other than urban redevelopment projects. These projects comprehensively apply city planning systems such as specified blocks and special building regulations including the comprehensive development design system<sup>5</sup>, tax measures and subsidy measures.

Since there is no legal force behind the execution of the project, it requires the approval of all the land right owners, but at the same time there are no strict requirements such as the need for there to be at least a certain percentage of old buildings within the district.

Furthermore, the need for redevelopment from the perspective of disaster prevention grew as a result of the Great Hanshin Awaji Earthquake. The resulting measures included enforcement of the law concerning the promotion of disaster prevention district infrastructures within heavily concentrated city areas in 1997. These measures sought to effectively promote redevelopment in city areas that were recognized as risky with regards to disaster prevention.

### Promoting Residences in City Centers

One of the housing policies of recent years involves promoting residences in city centers. The concentration of work functions in city centers caused a conspicuous outflow of the residential population from city centers. The construction rush of office buildings during the period in which land prices soared remarkably accelerated this phenomenon. For example, the nighttime population of the three central wards of Tokyo fell from 550,000 people in 1960 to 240,000 people in 1995, a halving of the population in just 35 years.

This led to the problem of communities deteriorating in city centers, the integration and closure of public elementary and junior-high schools due to the decrease in students and children, and to slumping performance among local stores in these areas. On the other hand, many of the those working in these city centers reside over a broad range of suburbs in surrounding prefectures and are forced to endure long commutes. Thus, it is difficult for these people to live a leisurely, satisfying lifestyle.

The promotion of residence in city centers not only leads to a regeneration of the community in the city but also relieves those working in city centers from prolonged commutes and gives them the ability to enjoy sufficient leisure time. In part because the collapse of land prices in city centers made it possible to supply housing downtown, the Ministry of Land, Infrastructure and Transport and other government agencies have established various measures to promote the supply of good apartments and condominiums in downtown areas through the efficient and sophisticated use of land.

## Major Private City Redevelopment Projects

Name	Address	Development Area (ha)	Construction Completed	Main Developer, Participating Companies, etc.
Kasumigaseki Building	Chiyoda Ward	1.6	April 1968	Mitsui Fudosan
Sunshine City	Toshima Ward	6.1	May 1978	New City Development Center
Hibiya City	Chiyoda and Minato Wards	3.1	November 1981	Mitsubishi Estate, Bussan Real Estate, Fukoku Mutual Life Insurance, Press Center
Akasaka and Roppongi Ark Hills	Minato Ward	5.6	March 1986	Partnership, Mori Building
Omiya Sonic City	Omiya City	2.2	April 1988	Nippon Life Insurance, Omiya City
Osaka Business Park	Osaka City	26.0	March 1990*	Osaka City, (former) Housing and Urban Development, Matsushita Investment and Development, Tokio Marine & Fire Insurance, etc.
Shinjuku Fukutoshin	Shinjuku Ward	56.0	June 1990*	Shinjuku Fuku-toshin Construction Corporation, Sumitomo Realty & Development, Tokyo Tatemono, Nomura Real Estate Development, Mitsui Fudosan, Keio Teito Electric Railway, etc.
Gotenyama Hills	Shinagawa Ward	3.1	July 1990	Mori Trust
Yokohama Business Park	Yokohama City	13.2	March 1991	Nomura Real Estate Development
Tennozu Isle	Shinagawa Ward	20.0	June 1992*	Voluntary Council of Landowners, Mitsubishi Corporation, Ube Industries, etc.
Shin Umeda City	Osaka City	4.2	March 1993	Sekisui House, AOKI Construction, Toshiba, etc.
Okawabata River City 21	Chuo Ward	17.0	May 1993*	Tokyo, (former) Housing and Urban Development, Mitsui Fudosan
Setagaya Business Square	Setagaya Ward	2.1	November 1993	Tokyu Land and Tokyu Corporation
St. Luke's International Hospital Redevelopment	Chuo Ward	3.9	May 1994*	St. Luke's International Hospital, Seiwa Real Estate, Tokyu Land, Towa Real Estate Development, Nippon Life Insurance, Matsushita Investment and Development, Mitsui Fudosan
Yebisu Garden Place	Shibuya and Meguro Wards	8.3	October 1994	Sapporo Breweries
Canal City Hakata	Fukuoka City	4.2	April 1996	Fukuoka Jisho, Organization for Promoting Urban Development
Carrot Tower	Setagaya Ward	1.5	November 1996	Tokyu Corporation
Yokohama Minato Mirai 21	Yokohama City	186.0	July 1997*	Yokohama City, (former) Housing and Urban Development, Mitsubishi Estate
Osaka Amenity Park	Osaka City	1.5	February 1998	Mitsubishi Estate, Mitsubishi Materials, Mitsubishi Materials Real Estate, Mishiwa Real Estate Development, Obayashi
Shinagawa Inter city	Minato Ward	4.0	December 1998	Kowa Real Estate, Sumitomo Life Insurance, Obayashi
Gate City Osaki	Shinagawa Ward	5.9	February 1999	Partnership, Osaki Insurance, TEPCO, Mitsui Fudosan, Fuji Life, etc.
Tokyo Opera City	Shinjuku Ward	4.4	March 1999	Nippon Life Insurance, NTT Urban Development, Odakyu Department Store, Keio Corporation, etc.
Shibuya Mark City	Shibuya Ward	1.4	April 2000	Teito Rapid Transit Authority, Tokyu Corporation, Keio Corporation
Harumi Island Triton Square	Chuo Ward	14.2	September 2001	(Former) Urban Development Corporation, Sumitomo Corporation
Marunouchi Building	Chiyoda Ward	1.0	September 2002	Mitsubishi Estate
Shiodome Redevelopment Project, A-I District	Minato Ward	30.7	2002-2004	Dentsu, Nippon Television Network Corporation, Matsushita Electric Works, etc.
Shinagawa Grand Commons	Minato and Shinagawa Wards	5.3	March 2003	Mitsubishi Corporation, Mitsubishi Heavy Industries, Mitsubishi Motors, Daito Trust Construction, Taiyo Life Insurance, Cannon Sales, Tokyo Tatemono, Kintetsu Real Estate, Nippon Tochi-Tatemono Hanbai, Total Housing
Roppongi Hills	Minato Ward	11.0	April 2003	Partnership, Mori Building
Marunouchi oazo	Chiyoda Ward	2.4	September 2004	Mitsubishi Estate, Nippon Life Insurance, Marunouchi Hotel, Chuo Fudosan
Nihonbashi Mitsui Tower	Chuo Ward	1.4	December 2005	Mitsui Fudosan and Sembikiya Sohonten
Omotesando Hills	Shibuya Ward	1.2	January 2006	Partnership, Mori Building
Olinas	Sumida Ward	2.7	March 2006	Tokyo Tatemono, Mitsui & Co., Shoeni

Note: As a rule, the Construction Completion is completion of the entire project or the grand opening month. However, when there is an \* it is the month construction of the main building was completed.

The primary measures introduced include the creation of a district program for heightening the appeal of town areas in 1995<sup>6</sup>, creation of areas permitted to have tower residences<sup>7</sup>, a system for comprehensive development design by lot size<sup>8</sup> and rationalization of FAR limits on condominiums and other apartments<sup>9</sup>. Furthermore, the Metropolitan Government of Tokyo established a headquarters for promoting residences in downtown Tokyo as a means to reliably implement these measures. In addition, a drastic revision of the Building Standards Law was passed in 1998 and created the "Consecutive Building Design System"<sup>10</sup>. This system was established

from the perspective of promoting efficient land use while securing desirable city environments and arranged for the unified application of regulations on FARs and setbacks by recognizing a group of land (even including existing structures) as a single lot.

These various deregulation measures and the fall in land and construction prices of recent years has increased the nighttime populations of the three central wards to 330,000 people in 2006.

Primary Facilities	Previous Use	Remarks
Office, retail	Auditorium	Specified district
Office, hotel, exhibit hall	Jail	Specified district
Office, retail	Broadcast center	Specified district
Office, hotel, TV studio, housing	Housing, retail, church, etc.	Category 1 urban redevelopment project
Office, hotel, civic hall, prefectural government offices	Elementary school, etc.	Setting of leasehold rights, equivalent conversion, project competition
Office, hotel, retail, multi-purpose hall	Warehouse (former army depot)	Land zoning readjustment project
Office, retail, hotel	Water purification center	Specified district
Office, hotel, housing	Forest	Specified district
Office, R&D facility, retail	Glass factory	Emergency city base development promotion project
Office, hotel, retail, housing	Warehouse, housing	District plan
Office, hotel, retail, aerial park	Automobile plant, warehouse	Planned development design system
Housing, retail	Shipyards	Specified housing land improvement project
Office, retail	Train depot	District plan
Hospital, housing, office	Hospital	Specified district
Office, retail, hotel, housing, hall, museum	Brewery	Specified housing land improvement project
Retail, hotel, cultural facility, amusement facility	Plant	Category 1 urban redevelopment project
Office, retail, cultural lifestyle information center	Retail, etc.	Category 1 urban redevelopment project
Office, hotel, retail, housing, international convention center, museum	Shipyards, railyard	Public water reclamation project, land zoning readjustment project
Office, hotel, housing	Plant	District plan
Office, retail, multi-purpose hall	Railyard	Redevelopment district plan
Office, retail, housing, cleaning center, plant	Plant, apartment, etc.	Category 1 urban district redevelopment project
Theater, office, retail	Industry test yard	Specified district
Office, retail, hotel	Rolling stock base, railway facility, etc.	Category 1 urban redevelopment project
Office, retail, housing, hall	Housing, warehouse, logistics center	District plan, Category 1 urban redevelopment project
Office, retail	Office, retail	Specified district
Office, housing, hotel, retail, broadcasting center, etc.	Station, cargo station	Land zoning adjustment project
Office, hotel, retail, housing	Office, retail, plant	Land zoning adjustment project, redevelopment district plan
Office, hotel, retail, theater, museum, broadcasting center, housing	Office, retail, housing, broadcast center	Category 1 urban district redevelopment project
Office, hotel, retail	Office, hotel, retail	Comprehensive development design
Offices, hotel	Offices, retail	Designated city district
Retail, housing	Housing	Class 1 City Redevelopment Project
Office, retail, housing	Plant	Specified district

## Implementation of Urban Regeneration Measures

Redevelopment projects have a very high ripple effect on the economy and greatly contribute to economic recovery through an expansion of domestic demand. The proactive promotion of urban redevelopment projects by private companies as measures to invigorate the country's economy, which was mired in a continuing slump, had large expectations placed on it.

Due to these expectations, the government came up with a number of measures between 1997 and 1998 to promote redevelopment projects within its economic

measures and improve the business environment. These included application of the Urban Development Corporation (presently the Urban Renaissance Agency) and Organization for Promoting Urban Development to prepare a support infrastructure along with the creation of a system of approved redevelopment projects and specific project participants system and establishment of measures to speed up and support redevelopment projects.

In 2001, the Urban Renaissance Headquarters was established in the cabinet with Prime Minister Koizumi as its head. The objective of this measure was to tackle the regeneration of cities nationally so that major metropolises

could heighten their international competitiveness and regain their economic vitality. This was particularly the case for major metropolises that suffered a drop in land value internationally since the collapse of the bubble.

The new organization review of systems without sanctuary so that the funds and vitality of the private sector could be drawn out. It also had to tackle tasks including measures for preparing the necessary urban improvements for regenerating cities so that monetization of land could be promoted and structural reformation of the economy pursued as a means to regenerate Japan. As a result of efforts in this area, the Urban Renaissance Special Measures Law was established in 2002 and as of 2006, a total of 64 areas with a total of about 6,567 hectares (designated as 1st to 5th levels) have been designated as top priority urban revitalization areas<sup>11</sup>. Within the critical demand for the public and private sectors to work together to regenerate cities, there are huge expectations for the real estate industry with its ability to provide total coordination of town creation.

#### [Endnotes]

##### 1. Specified block

Districts designated in city plans for preserving and forming superior city spaces. Within these designated blocks, regulations concerning FARs, building coverage ratio, height restrictions and sunlight regulations under the Building Standard Law are not applied and unique FARs, height restrictions and wall plane locations are designated for said blocks (Article 8 of the City Planning Law and Article 60 of the Building Standard Law).

##### 2. FAR

Refers to the ratio of the total building floor area to lot area that is designated according to the use zone. Prior to introduction of FAR, there were absolute height restrictions of 20 meters in residential areas and 31 meters in other areas. Creation of this system enabled the construction of tall buildings (Article 52 of the Building Standard Law).

##### 3. Air Rights

(1) Right to use space above the land (air right) and (2) Right to receive transferred FARs from neighboring lots (transferable development right). The former is the same as sectional surface rights designated in the Civil Code. Both can be transferred through a sale and an example of the latter is Hibiya City. The excess FAR for the Nippon Press Center Building was transferred to the Hibiya Kokusai Building and other spaces.

##### 4. Category 1 Urban Redevelopment Project and Category 2 Urban Redevelopment Project

In Category 1, landowners in the district (individual implementers) and an association of all landowners (an association can be formed when there are at least five landowners or leaseholders) along with the local public body become the implementing party. The basic structure involves transferring the rights of landowners before the project is implemented to the new building's floor area and common interest in the site after construction (rights conversion), then disposing of remaining floor and site rights (reserved floor) and applying those funds to project costs. The developer participates in the project as an individual implementer or member of the association, or as the

agent of an individual implementer or the scheduled purchaser of the reserved floor.

Category 2 involves paying compensation to the rights holders in the district and purchasing the entire rights for the land and building. The implementing party is a local public body or Urban Renaissance Agency and they can also expropriate the land.

##### 5. Comprehensive Development Design System

A system in which approval by the specific administrative agency for a lot area which has secured a certain ratio or more of empty land for a building of a certain size recognizes a special exception on the absolute height in a dedicated Category 1 or Category 2 exclusively low-rise residential district or for FAR or setback restrictions (Article 59-2 of the Building Standard Law).

##### 6. Town Environment Promotion District Plan

When in an existing city area the building height, arrangement and form are designated as a unified district plan in accordance with the district characteristics and necessary regulations are implemented, then the application of FAR restrictions and setback restrictions based on the width of the road to the front are excluded. This was created to promote the city environment through individual building activity, rational, healthy and efficient use of land and formation of a good environment (Article 12-5 of the City Planning Law).

##### 7. Skyscraper Residence Promotion District

Community districts designated as districts for promoting the building of residential skyscrapers. This is set for Category 1 residential districts, Category 2 residential districts, quasi-residential districts, neighboring commercial districts and quasi-industrial districts.

##### 8. Comprehensive Development Design System by Lot Size

A comprehensive development design system in which the increase in FAR becomes greater the larger the lot size. This provides the developer with an incentive for combining lots by increasing the FAR in accordance with the size and was created with the objective of promoting the construction of good structures that contribute to improving city environments.

## Progression of City Redevelopment Projects

The implementation of these types of city regeneration measures promoted development and such of land sold by the JNR Settlement Corporation and as a consequence, an enormous supply of large office buildings has been released into the market since 2002 in Shiodome, Shinagawa, Roppongi (all Tokyo) and other areas. Each area has built multi-use developments that are not just office buildings but also include functions such as hotels, theaters and movie houses. Additionally, some projects have been widely reported on their completion by the mass media like the Marunouchi Building and Roppongi Hills and gathered the attention of many people.

The Marunouchi Oazo project, the Mitsui Tower project in Nihonbashi and Olinas in Kinshicho respectively completed in 2004, 2005 and 2006 that have not only office functions but also retail facilities, hotels and cultural facilities.

##### 9. Rationalization of FAR Limits for Condominiums and Other Apartments

This heightened the usable FAR by removing hallways and stair common areas of condominiums and other apartments from the calculations for FAR limits. As a result, it became possible to use FAR about 1.2 times that if hallways, etc. are included in the floor area (Article 52-5 of the Building Standard Law).

##### 10. Consecutive Building Design System

This system admits exceptions to the rule of one building for one lot. When buildings are constructed according to a rational design based on the premise of the existing building remaining on an integrated land site comprised of several lots, special measure exceptions are applied that recognize several buildings as existing on the same site when the specified government agency recognizes that the location and structures of each building presents no safety, disaster prevention or sanitation problem. Specifically, FAR and building coverage ratios are applied with the multiple buildings recognized as a single unit, and sunlight restrictions and neighboring lot setback restrictions related to each building in that district are judged individually. This system is expected to promote sophisticated use by enabling unused FARs of neighboring lots to be used and overcoming of FAR restrictions using road widths when the neighboring lot borders a wide road.

##### 11. Urgent City Regeneration District

This is a district where improvement to the urban area through the city redevelopment project, etc. is critical and important, because of its role as a base of city regeneration and because it is an area that is designated by central government ordinance based on the Special Measures Law for Urban Renaissance. Improvement policies are set for each local area by the central government. Designation as such an area makes it possible for private developers to propose city plans and to use a system concerning special city regeneration districts that excludes application of existing city planning regulations.



**MULTI-USE DEVELOPMENTS**

Japanese industry is rapidly shifting from the old massive and heavy industry model to a high-tech industry model and

idle factory land is emerging nationwide as a result of the hollowing out of industry generated by globalization and the advancing of restructuring as a result of changes in the industrial structure. As for the use of former large factory sites, many players are focusing on multi-use development as the location needs for retail properties are very important.

# CASE STUDY

## Olinas

One of the largest multi-use developments in Eastern Tokyo, "Olinas," was born on the former site of a clock factory of the former Seikosha in Kinshicho, a subcenter in Eastern Tokyo. Tokyo Tatemono, the developer of this property, sought to maximize the added value of the urban renaissance project by successfully creating an attractive destination that would serve as the nucleus of energy and activity in the community. Great expectations and interest are gathering on the project hoping that it will trigger the invigoration of the community.

This project is comprised of the "Olinas Tower," an office tower; "Brillia Tower Tokyo," the for-sale condominium tower; and large retail facilities, "Olinas Mall" and "Olinas Core." The project has succeeded at a well balanced production of the respective usages of work, commercial and residential ensuring that each of these has a "principal role" in the project. Tokyo Tatemono has designed the facilities as comprehensible displays for users and made them lucid so that maximum value is placed

on their convenience under the basic concept of treating the guests as the "main cast." The "Olinas" project is contributing to invigorating the region by creating a comfortable urban environment with energy and amusement while giving proper attention to the environment.

The "Olinas Tower" business tower is a skyscraper with refined taste that is also reflected in the interior space. The symbol of this refined elegance is the 3-layer vaulted entrance hall that expresses "affluence and openness" not felt in traditional buildings.

The "Brillia Tower Tokyo" is a 45-story tall skyscraper condominium that has as its catch copy, "extraordinary daily life." The luxurious residential specifications, including inner gardens and four types of lounges, and diverse plan variations have been highly valued.

The merchandising concept for the "Olinas Mall" and "Olinas Core," the nucleus retail properties of the project, is a "well-off life style." The core target is women in their late 20s to 30s who are part of a three generation demographic

that includes their mother and daughters. The main entrance to the "Olinas Mall" has a huge clock installed with the meaning of succeeding history and records. This is a worthy symbol for the former factory site of the former Seikosha that had long been loved as the number one clock factory in the orient.

The "Olinas" name is derived from "Brocaded strings weaving various patterns" and is also derived from an acronym of "Organization of Lifestyle, Interface, New business, Amenity and Shopping." The emergence of "Olinas" will extend the energy and activity that had been limited to in front of the station to become a plane rather than just a point, and it is expected to continue to grow as the base for energy and activity in Eastern Tokyo.

**Project Description**

Site area: 27,335.31m<sup>2</sup>  
 Building area: 18,248.87m<sup>2</sup>  
 Total floor area: 264,770.36m<sup>2</sup>  
 Developers: Tokyo Tatemono Co., Ltd., Mitsui & Co., Ltd.\* and Shoel Co., Ltd.\*  
 \*These companies only worked on the residential tower.  
 Architect: Kume Sekkei Co., Ltd. and MHS Planners, Architects & Engineers  
 Design partner: RTKL International Ltd.  
 Contractor: Taisei Corporation

# OVERVIEW OF MAJOR REAL ESTATE SECTORS



## RESORTS

The first resort project in Japan that was focused on rejuvenating within the mountains, ocean and nature was the Shonan (Kanagawa Prefecture) area which began to be developed full scale from around 1877. Shonan since then developed as a villa area and was followed by Karuizawa, Nasu, Unzen and other areas primarily developed by foreigners. Upon entering the Showa era in the mid 1920s, resort hotels were repeatedly developed in national parks including Nikko and Hakone. From the mid 1970s, with the spread of the 5-day workweek, the Japanese people had more days available for leisure and resort facilities boomed including the emergence of large multi-use resorts with marinas or ski resorts with lodging facilities, theme parks and Oceanside resorts.

However, the Heisei recession drastically lowered the volume of the formerly booming resort condominiums and some resort facilities filed for bankruptcy.

In response to this background, recent years have seen new efforts to rebuild the resort business including founding the Japan Resort Enterprise Association and expanding the system for financing to help support the acquisition of vacation homes.

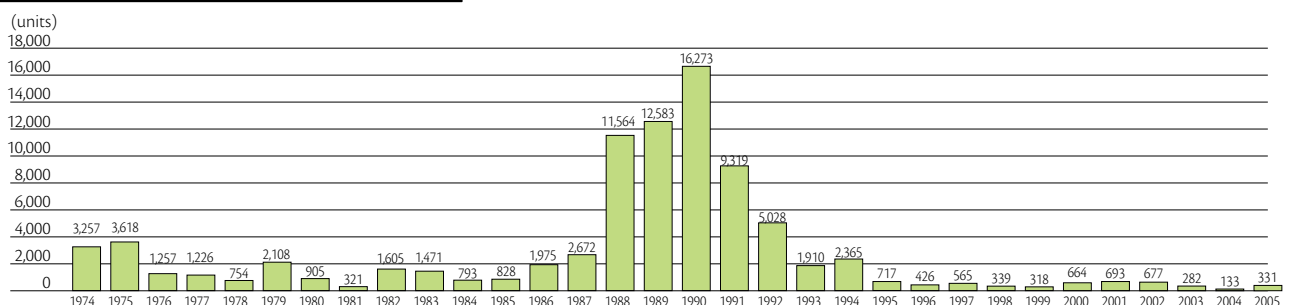
### Resort Development Takes Off

From early 1960s, the general public once again began being able to afford the luxury of leisure and steps were taken to develop tourist destinations throughout Japan. In particular, business groups centered on mass transit companies such as Tokyu and Seibu began development of comprehensive projects that included transport, vacation homes, hotels and sightseeing at famous resorts such as Izu, Hakone and Karuizawa. In addition, large and small real estate companies launched businesses selling vacation homes in the respective resort areas starting with the Nasu area.

### Responding to Increasing Time Off and Diversifying Needs

From the mid 1970s, the people began to have more time off with the spread of five-day workweeks. This combined with such factors as diversifying needs and the switch to a domestic demand driven economy, resulted in the re-emergence of a resort development boom. It was around this time that Japan witnessed

History of Resort Condominium Sales (National)



Source: "National Condominium Market Trends" issued by the Real Estate Economic Institute Co., Ltd.

Major Resort Projects of Japan

Project	Location	Total Area (ha)	Developer/Operator (at time of development)	Primary Facilities	Participating Companies (at time of development)
Club Med Sahoro	Shintoku Town, Hokkaido	2,200	Seiyo Kankyo Kaihatsu (Sahoro Resort, SCM Leisure Development and Karikachi Kogen Development)	Ski hill, golf course and hotel	Club Med, Saison Group, Obihiro Surveying
Alpha Resort Tomamu	Shimukappu Village, Hokkaido	4,780	Sekihyo Seibaku	Golf course, ski hill, artificial lake, water chapel and hotel	Hotel Alpha, Sekihyo Group
Appi Kogen Resort	Ashiro Town and Matsuo Village, Iwate Prefecture	2,500	Appi General Development (third sector)	Ski hill, hotel and pensions	Recruit
Resort Park Onikoube	Naruko Town, Miyagi Prefecture	1,000	Onikoube Kogen Kaihatsu (third sector)	Ski hill, golf course and hotel	Hotel Sendai Plaza, Mitsubishi Estate
Myoko Pine Valley	Myoko Village, Niigata Prefecture	600	Myoko Pine Valley	Hotel, golf course and ski hill	Matsushita Investment and Development
Gran-Deco Ski Resort	Kitashiobara Village, Fukushima Prefecture	338	Tokyu Group, Urabandai Deco Daira Kaihatsu (third sector)	Hotel, ski hill and tennis courts	Urabandai Kogen Tokyu Resort
Hatoriko Highland Regina Forest	Tenei Village, Fukushima Prefecture	197	Tokyo Tatemono	Tennis courts, vacation homes, pensions, artificial lake, automobile campsite, hot spring facilities and cottages	Hatoriko Highland Regina Forest
Towa Nasu Highland	Nasu Town, Tochigi Prefecture	1,000	Towa Real Estate Development	3,700 vacation lots, amusement parks, hotels and golf courses	Towa Nasu Resort
Yokohama Hakkeijima Sea Paradise	Yokohama City, Kanagawa Prefecture	24	Yokohama Hakkeijima Seaparadise	Marinas, amusement parks, aquariums and restaurants	Kokudo, Keihin Electric Express Railway, Shimizu Corporation, Mizuho Trust & Banking, Bank of Yokohama
Karuizawa Sengataki	Karuizawa Town, Nagano Prefecture	690	Kokudo	5,200 vacation lots, hotels, golf course, tennis courts, ski hill and skate center	Seibu Real Estate Sales
Tateshina Certo Forest	Chino City, Nagano Prefecture	436	Kajima Resort	Tennis court, jogging road, restaurant, craft center, rental vacation homes, pool and hotel	Kajima Corporation, Mitsui-no-mori
Tokyu Resort-Town Tateshina	Chino City, Nagano Prefecture	664	Tokyu Land	2,400 vacation lots, golf course, tennis courts, ski hill and hotel	Tokyu Resort, Tokyu Construction
Tateshina Mitsui-no-mori	Chino City, Nagano Prefecture	470	Mitsui Fudosan	Vacation lots, hotel and golf course	Mitsui-no-mori
Uminoguchi Natural Villa	Minamimaki Village, Nagano Prefecture	700	Seiyo Kankyo Kaihatsu	Vacation lots, lodging facilities, tennis courts, pottery studios, music studio and golf course	Seibu Department Stores
Shima Spain Village	Isobe Town, Mie Prefecture	104	Kintetsu Corporation (IV)	Spain village	Kinki Group
Nemu no Sato	Hamajima Town, Mie Prefecture	230	Yamaha Recreation	Golf course, marina and grass ski hill	Yamaha Group
Wakayama Marina City	Wakayama City, Wakayama Prefecture	65	Wakayama Prefecture, Ministry of Transport, Matsushita Investment and Development and Wakayama Marina City	Theme park, fishermen's wharf, marina and condominiums	Wakayama MID Kanko, MID Foods
Space World	Kitakyushu City, Fukuoka Prefecture	200	Space World (third sector)	Leisure facility with a space theme	Nippon Steel Group, Kyushu Railway Company
Huis Ten Bosch	Sasebo City, Nagasaki Prefecture	140	Huis Ten Bosch (third sector)	Marina, hotel, condominium and Dutch streetscape	Mitsubishi Corporation, NISSAY, Nagasaki Holland Village
Sheraton Resort Phoenix Seagaia	Miyazaki City, Miyazaki Prefecture	135	Phoenix Seagaia Resort	Hotel, international convention center, Ocean Dome, golf courses, condominiums and cottages, and tennis club	Starwood
Miyakojima Tokyu Resort	Shimoji Town, Okinawa Prefecture	230	Tokyu Corporation	Marina, golf course and hotel	Miyakojima Tokyu Resort

numerous developments of large multi-use resorts with ski hills, golf courses, marinas and various lodging facilities expanding over spaces ranging from several hundred to over a thousand hectares. Another characteristic of this trend was that participants in the resort business were not limited to transport and real estate companies but also expanded to include steel, ship and chemical manufacturers; trading companies and various other industries. In correlation with the transformation of the industrial structure, theme parks and seaside resorts began to be built on sites where large factories had once been. Investment in overseas resorts also took off, centering on Hawaii, Australia and other regions in the Asia-Pacific.

### Establishment of the Resort Law

These developments were further spurred by the establishment of the Law for Development of Comprehensive Resort Areas, the so-called "Resort Law" in 1987. This Law sought to comprehensively develop sites of tens of thousands of hectares through private-public collaborations all over the country with the aim of realizing a leisurely lifestyle for the Japanese people and promoting local areas. By the end of March 1994, 41 prefectures had established and approved basic concepts and resort development had become the centerpiece in promoting local areas. The Government Housing Loan Corporation also began providing loans for second homes<sup>2</sup> in 1987. Japan had finally entered an era where the national government was actively supporting the enhancement of the leisure time of its citizens and helping them to realize multiple residences.

## The Boom Ends

However, this resort boom also began to peter off with the start of the Heisei recession in Japan at the beginning of 1991. In 1990 there were 16,000 resort condominium units sold, but this drastically dropped to 1,900 units by 1993, a precipitous 88% drop. Presently, the number of units sold per year does not even reach 1,000 units.

The first project approved under the Resort Law was the massive resort destination Seagaia (Miyazaki Prefecture) but it filed for corporate reorganization followed by Huis Ten Bosch (Nagasaki Prefecture) in 2003. With the failure of these and other development projects and concepts throughout the country, the Ministry of Land, Infrastructure and Transport changed the basic policy of the Resort Law in February 2004. Resort development has begun to show completely different signs with the Ministry calling on related local bodies to dramatically review their projects and operations and to abolish them in certain cases.

## Rebuilding the Resort Business

Within this environment, the real estate industry has taken steps to form an organization to nurture a healthy resort business and launched the Japan Resort Enterprise Association in May 1995. Presently, the Association has taken the initiative in actively conducting fact-finding studies on resort development and operations, as well as researching and proposing resort policies.

### 1. Law for Development of Comprehensive Resort Areas

This Law involves the public sector taking the initiative in planning and preparing related infrastructure and establishing special tax measures so that large long-stay resorts can be prepared nationally by harnessing the power of the private sector. The Law aimed to promote local areas and to drive growth in domestic demand by guiding private investments to resort developments backed by the strong economy at the time.

### 2., 3. Second Home Financing by the Government Housing Loan Corporation

With the economic stimulus measures in November 1997, the traditional "country home financing" became "special residence expansion financing (borrower's residence)" and the regional requirement that had restricted applicants in relation to their place of residence and the location of the subject housing were abolished. This restrictive stipulation specifically stated, "When residents of the three major metropolitan areas and their families build

Support for the acquisition of second homes has taken the form of an expanded financing system<sup>3</sup> and also tax reduction measures such as reduction of the real estate acquisition tax and real property tax that went into effect in April 1998. In addition, the Law promoting the Building of Superior Suburban Housing was passed to promote the construction of superior stand-alone housing in good natural environments such as agricultural and mountain villages and areas near cities.

On the other hand, in addition to the standard format of vacation home and resort condominium ownership, resort services have begun to be provided in a variety of formats based on memberships. There are also growing signs of efforts to effectively and efficiently operate and utilize facilities that were built during the fierce competition of the resort era, through a variety of services. These steps include organizations and corporations not owning facilities themselves but concluding tie-ups with other facilities, soliciting for members and providing services at inexpensive prices, along with companies contracting to manage the idle resort facilities.

There is a great need among the people of Japan to spend their leisure time within the abundant nature of Japan. This requires not only an augmentation of the vacation system but also rebuilding the resort business (facility operations, operating skills, etc.) and enhancing support for the business.

or purchase housing to be used on weekends, etc. outside of the three major metropolitan areas."

Later beginning on December 1, 2005 it became possible to use Flat 35 (securitized residential loans) to acquire vacation homes.

## RESORTS

The needs of the Japanese people concerning leisure activities will only increase hereafter as the economic society of Japan welcomes a big turning point due to the increase in free time, diversification of lifestyles, aging of society and greater globalization. Users are carefully and skillfully selecting their resort facilities according to their needs. The key to a recovery in the popularity of resort membership plans is the aging society and the provision of diverse services. The tangible and intangible brand greatly impacts the product value in the resort (leisure) industry that aims to enhance the affluence of lifestyles, while there has been a diversification of activities including opportunities for interaction with nature, maintaining and promoting good health, creative activities and exchanges that go beyond the community, generation and national citizenship.



# CASE STUDY

## Tokyu Harvest Club VIALA Hakone Hisui

Tokyu Land has developed a large quantity of resorts based on the corporate policy of "symbiosis and harmony of nature and man." Now Tokyu Land has responded to the strong demands for renowned resort areas from users in the Tokyo and Kinki metropolitan areas to develop the Tokyu Harvest Club VIALA Hakone Hisui. Tokyu Land is demonstrating the "satisfaction of having a villa with the comfort of a hotel" by providing even higher quality facilities and services by conducting minor changes and seeking fusion with existing Harvest Club properties under the theme of "high quality relaxation for adults."

As one of its characteristics, VIALA Hakone Hisui provides spacious guest rooms growing in size from an average of 45m<sup>2</sup> at other facilities to 65m<sup>2</sup> and also 100m<sup>2</sup> suites. A new room rate system enables even small groups to select guest rooms and an exclusive lounge for members, concierge desk, etc. could give members more comfort.

Tokyu Land is convinced that the membership resort hotel business will expand with the increase in free time generated by the retirement of baby boomers and other factors. The senior generation has been found to rate resort hotels, membership resort hotels and resort condominiums as "lodging facilities they want to use." The fact that they want to use these facilities despite not yet doing so represents the growing potential of membership resort hotels.

### Project Description

Tokyu Harvest Club VIALA Hakone Hisui  
Address: Ashigarashimo District, Kanagawa Prefecture  
Opening: April 2008  
Guest rooms: 62  
Memberships: 744  
Type: Joint ownership system  
Structure: Development: Resort Development Division, Tokyu Land Corporation  
Operations: Tokyu Resort Service Co., Ltd.  
Sales agent (membership sales): Tokyu Resort Corporation

# OVERVIEW OF MAJOR REAL ESTATE SECTORS

## REAL ESTATE TRANSACTIONS

The real estate transaction (brokering) business involves the brokering of land and buildings through their buying, selling and leasing. The capital requirement is small and there are strong local characteristics and elements needed. As a result, this field used to be dominated by small local players until major real estate firms entered in the mid-1960s. There are roughly 130,000 plus companies with licenses based on the Building Lots and Buildings Transaction Business Law<sup>1</sup>, but most of these remain small and medium-sized companies specialized in brokering. Most of their work involves acting as an intermediary for the buying and selling of second-hand homes and renting of apartments and other housing. However, large brokers are also involved in brokering the sale of large buildings and acting as the sales agent for new stand-alone housing and condominium projects built by developers.



### Modernization of Real Estate Transactions

The real estate transaction business is the modern day equivalent to what a broker in the old days used to do. Brokering is a key original element of the real estate industry along with "management agents," who are involved in the management of leased land and housing. The license system for these brokers was established in 1952 with establishment of the Building Lots and Building Transaction Business Law and the number of companies rose dramatically through the early 1970s, with the concentration of industry and the population on major cities and growth in housing demand. There are a number of factors behind this and they include: (1) Increase in housing stock including owner-occupied homes used for a long period, (2) The steep increase in the supply of condominiums from the early 1970s, and (3) reinforcement of the attitude that seeks to change a residence in line with one's life stages. This was right around when major companies began entering the industry. Along with modernizing the real estate transaction business, this served to bring the business under the eye of society including the coordination of roles and responsibilities among major and small/medium players.

### The Real Estate Transaction Modernization Center Foundation Established

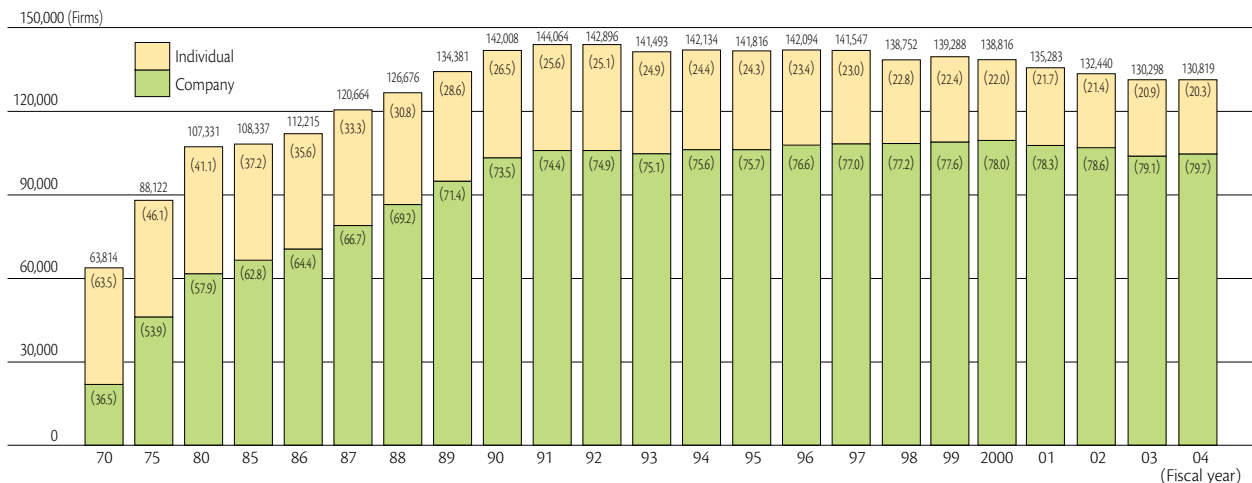
In 1978, a study group formed by the Ministry of Construction (presently, Ministry of Land, Infrastructure and Transport) and private companies issued a report titled, "Report on Promoting Modernization of Real Estate Transactions." The report proposed several measures including introducing a joint processing system for property information, securing accuracy, establishing an broker contract system<sup>2</sup>, establishing

Average Number of Employees per Office (Private)

	Average Number of Employees per Office	Number of Offices	Breakdown		Number of Employees	Breakdown	
			Breakdown	Breakdown of Share of Real Estate Business		Breakdown	Breakdown of Share of Real Estate Business
All Industries	9.1	5,728,492	100.0%		52,067,396	100.0%	
Real estate	3.1	316,471	5.5	100.0%	965,827	1.9	100%
Building sale/acquisition business and land sale/acquisition business	7.1	16,608		5.2	118,731		12.3
Real estate brokering business	4.1	45,443		14.4	184,685		19.1
Real estate leasing	4.0	45,112		13.3	170,134		17.6
House leasing and room leasing	1.7	150,316		47.5	252,482		26.1
Parking lot business	2.1	36,263		11.5	75,080		7.8
Real estate management	6.4	25,729		8.1	164,715		17.1
Manufacturing	17.2	576,412	10.1		9,940,449	19.1	
Construction	7.8	564,352	9.9		4,382,413	8.4	
Wholesale and retail business	7.5	1,626,443	28.4		12,218,819	23.5	

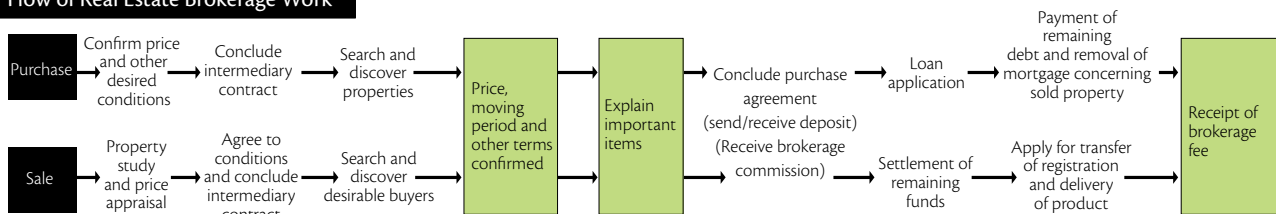
Source: 2004 Business and Corporation Statistics and Study Report issued by the Ministry of Internal Affairs and Communications

Change in Number of Building Lot and Building Transaction Firms



Source: White Paper on Land, Infrastructure and Transport in Japan (2006) issued by the Ministry of Land, Infrastructure and Transport.  
Note: 1. Figures represent those as of the end of each fiscal year. 2. The figures in the parentheses indicate the breakdown (unit: %).

Flow of Real Estate Brokerage Work



appropriate price appraisals and improving the quality of companies and employees. The Ministry of Construction revised the Building Lots and Buildings Transaction Business Law in 1980 in accordance with this and not only established a general and exclusive broker contract system,

it also formed the Real Estate Transaction Modernization Center Foundation to provide instruction in modernizing the industry.

## Legal System for Broker Contracting System

Real estate transaction intermediation, or brokering, involves a party taking a position between the two parties to the sale or lease transaction and acting to bring the contract to a conclusion. The broker contract sought to clarify a situation apt to trouble due to the contractual relationship being traditionally unclear. The 1980 revision to the Law sought to overcome this situation by requiring documentation for certain items concerning the content of the broker contract and to clarify the contract relationship. In addition, with regards to the exclusive broker contract in which the contracting party cannot ask multiple companies to act as its broker or agent, the law called for parties to register as much information as possible on the purchases in an information network organization and to disclose information so that conclusion of a contract could be promoted. Eight industry bodies, including the Real Estate Companies Association of Japan, support this information network organization. As a result, there are now over 100 certified information network organizations nationwide working to move the real estate transaction system one step closer to the sharing of information and networking of companies. However, the initial objectives have not been adequately attained because of the negativity shown in

exchanging information between the organizations and also many cases where this is impossible due to differences in the systems.

## Development of REINS and Reorganization of the Organizations

In 1986, the Ministry of Construction established the Real Estate Information Network System (REINS) with the Real Estate Transaction Modernization Center Foundation in order to foster cooperation between information network organizations. On the other hand, with the implementation of dedicated exclusive brokers contracts from 1990, transactions based on these contracts required the broker to register with a information network organization designated by the Minister of Construction<sup>3</sup>. In correlation with this, it became necessary to prepare an information system and to organize and integrate the information network organizations. Using REINS, information network organizations integrated by supply/demand region were newly designated by the Ministry of Construction and assumed the responsibilities of the "certified information network organizations."

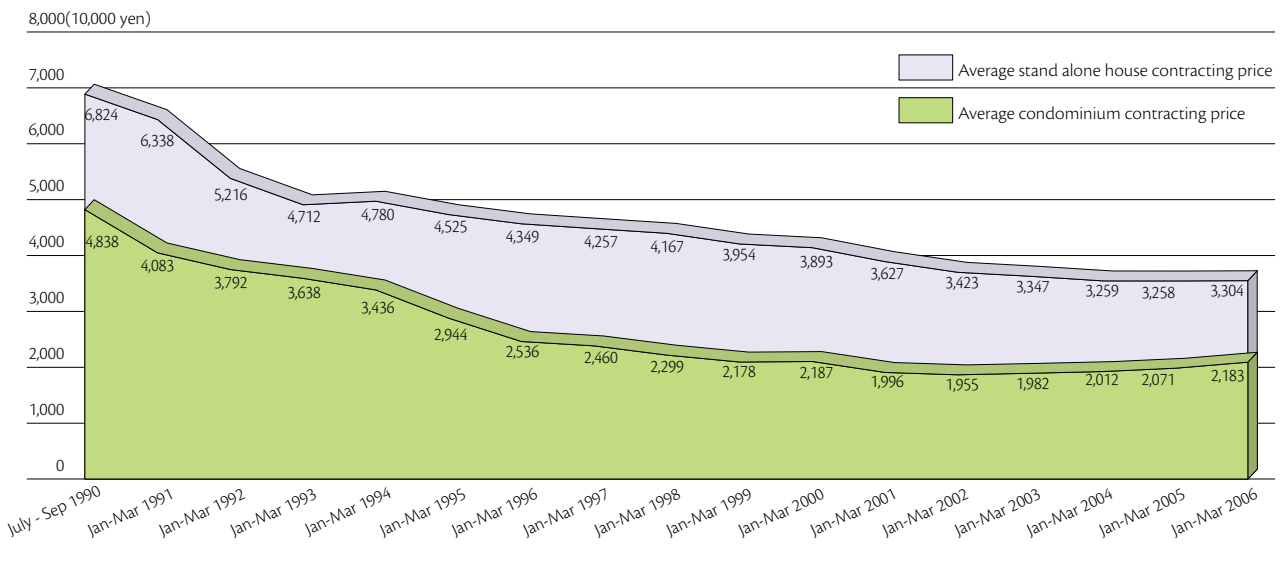
Furthermore, the Building Lots and Buildings Transaction

Business Law was revised in April 1997 so that it became necessary for exclusive broker contracts to be registered with certified information network organizations in addition to the existing dedicated exclusive broker contracts. As a result, there were 760,000 new registrations in fiscal 2004 of which over 100,000 were successfully concluded. It is clearly regulated that a certified information network organization must be a public interest corporation and the new information network organizations eventually were reduced and reorganized from 37 certified information network organizations nationwide to four organizations in four districts.

The average contract price for second-hand stand-alone housing and condominiums has done very poorly due in part to the prolonged slump in land prices and the massive supply of new condominiums at suppressed prices. The decrease in prices from when the certified information network organizations began in May 1990 to today is about 60%. However, this number has stabilized in the past few years and



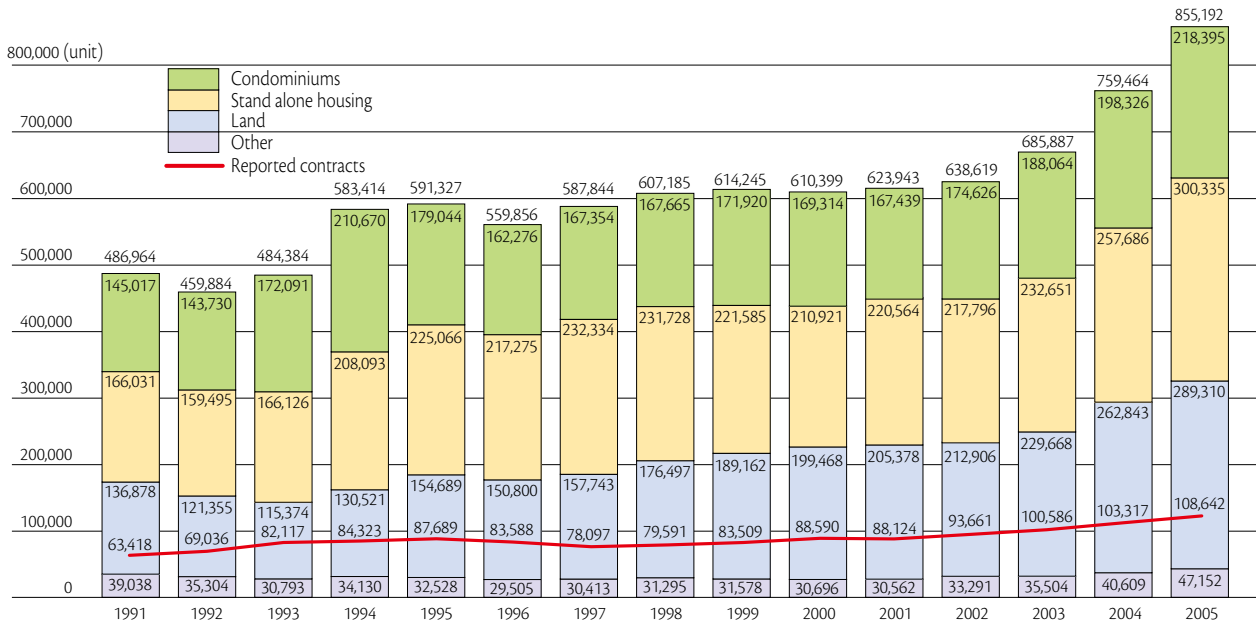
Average Contracted Price for Existing Housing in Tokyo Metropolitan Area



Source: Real estate Information Network for East Japan  
Note: The figures are the average quarterly price.

Market Trends for Existing Housing

(Properties for sale that are registered with Designated Transaction Organizations)



Source: Real estate Transaction Organization Fact-finding Study, by the Ministry of Land, Infrastructure and Transport and the Real estate Transaction Modernization Center Foundation.  
Note: 1. This is a compilation of registration and contract information of designated transaction organizations. 2. This includes duplicated registrations of general intermediaries.

condominium prices have begun to increase. The future trend in this area is of particular interest.

On the other hand, there are expectations for greater choice among consumers with the spread of greater quantities of high quality housing and meeting their needs. Thus there are expectations that this market will grow rather than decrease. The government also introduced a housing performance indication system for second-hand housing in 2002 to eliminate worries about transactions involving these houses. This was preceded by a similar system introduced for new housing in fiscal 2000.

Moreover, with the penetration and spread of the Internet throughout society, more and more companies have begun using the Internet concerning real estate transactions.

In addition to the information respectively provided by real estate companies using websites, there are various information sites on the Internet that demonstrate the respective strengths and characteristics of the bodies behind them including industry bodies like the Real Estate Japan website launched in October 2003 or those created by locally strong real estate firms that present more detailed information on those local areas. The Ministry of Land, Infrastructure and Transport also provides

information on transaction prices through a general land information system. This service is based on transaction price information voluntarily provided by parties to land transactions and has the objective of supporting general consumers grasping market prices for real estate transactions. There is also a plan that will process the contract information of REINs and provide it on the internet beginning in the spring of 2007. Presently the general consumer is able to easily and broadly collect information on real estate.

However, the truth is that contemplation for acquiring a specific property requires more detailed information than is available on the Internet and specialized knowledge about real estate transactions. In light of this, it is now even more important for real estate companies to properly face their customers and be truly skilled and knowledgeable concerning real estate transactions. In other words, a property introduction alone is inadequate.

Previously, there was a disparity among managers in how customer and personal information was handled in their operations. But the Personal Information Protection Law was passed in April 2005 and a framework for handling such information was established.

### 1. Building Lots and Buildings Transaction Business Law

This Law designates a licensing system for entities in the building lots and buildings transaction business and regulations concerning the business with the objective of securing fairness in lot and building transactions and seeking to achieve smooth transactions. This is all done from the perspective of protecting the profit of the customer. A license is necessary when your business involves the sale or exchange of lots and buildings or acting as an intermediary for sales, exchanges and leasing of lots and buildings. When you personally lease housing, buildings or the like there is no need for a license. In addition to administrative regulations that require the important items of a transaction to be explained by a building lot and building transaction supervisor with qualifications as designated by law (broker), there are regulations that establish limits on deposit amounts and regulations that revise content designated in the Civil Code.

### 2. Brokering Contracts

Intermediation consists of brokering or mediation and falls under a semi-consignment of legal responsibilities. Unlike agents, there is no right for the party entrusted with the request to conclude a contract. There are three types of broker contracts regulated in the Building Lots and Buildings Transaction Business Law.

■General broker contract is a contract in which the client can ask multiple companies to broker a deal.

■Exclusive broker contract is a contract in which the client can only ask one company to be a representative. The longest length for the contract is three months and there are obligations including reporting on the status of operations and registering with a certified information network organization within a set period.

■Dedicated exclusive broker contract is one type of contract that also prohibits the client from contracting with a party for a sale that it has found

itself without going through a contractor. This contract requires more frequent operations reporting than the exclusive broker contract and also requires registration with a certified information network organization within a set period.

### 3. Certified Information Network Organization

Certified information network organizations conducted registration and searching of properties through an online networking of member companies through 37 national areas from 1990. However, this was reduced in April 1997 to four certified information network organizations and the system was re-launched. The objective of this measure was to further modernize real estate transactions and to bring transparency to the market.

Name of Certified Information Network Organization	Jurisdiction
Real Estate Information Network for East Japan	Hokkaido, Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima, Ibaraki, Tochigi, Gunma, Saitama, Chiba, Tokyo, Kanagawa, Niigata, Yamanashi and Nagano Prefectures
Chubu Real Estate Information Network System	Toyama, Ishikawa, Fukui, Gifu, Shizuoka, Aichi and Mie Prefectures
Kinki Real Estate Information Network System	Shiga, Kyoto, Osaka, Hyogo, Nara and Wakayama Prefectures
Nishinihon Real Estate Information Network System	Tottori, Shimane, Okayama, Hiroshima, Yamaguchi, Tokushima, Kagawa, Ehime, Kochi, Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima and Okinawa

## RETAIL PROPERTIES

In the past, the image most often generated when describing a retail property was a property filled with small specialty shops, but presently the retail property is shifting to a center where specialty shops are gathered around a large anchor tenant. In correlation with the formation of larger properties, there has been the emergence of urban multi-anchor malls with a variety of added value elements like cinema complexes, amusement facilities, hotels and theaters where the user can “purchase, eat, play and relax.”

Real estate investment trusts and business support businesses targeting retail stores previously considered to be high risk investments have begun to draw attention because of the strong recovery in the Japanese market and expected growth in personal consumption. One of the recent characteristics of the retail store related business model is that it has become diverse with the methods ranging from real estate revitalization to corporate turnarounds and real estate securitization.

The ability to improve the attraction and appeal of a retail property depends on the extent to which leisure and enjoyment can be provided through the concentration of specialty shops.



# CASE STUDY

## Urban Dock LaLaport Toyosu

Urban Dock LaLaport Toyosu is a large urban retail property – rarely found in the city center – that boasts a splendid location only six minutes from Ginza along the ocean with 190 cultural facilities, shops and restaurants that bestow enrichment and comfort on your lifestyle. This retail property is a project of Mitsui Fudosan that has as its theme, “The next generation retail property proposing a wealthy and enriched urban lifestyle.” A wonderful, expansive space has been created that provides a diverse group of guests from children to adults with true enjoyment.

Ukiyo-e Tokyo, a ukiyo-e museum with the world renowned Hiraki Collection on permanent display, is just one of the high quality select facilities on site that also includes the 19th century pipe organ from Bishop and Son and a garden designed by Belgian flower artist Daniel Ost. A broad variety of other contents are also proving popular including Kidzania Tokyo, a town for children to experience work; restaurants and bars with

an exquisite night view of Rainbow Bridge and a view of the sunset; and the 12-screen 1,777-seat United Cinemas Toyosu.

The site of the shopping center was previously the shipbuilding dock of Ishikawajima-Harima Heavy Industries (IHI) and much time was needed to negotiate the development plans because of no existing cases of development of such a site to this extent. In 2001, the Tokyo Metropolitan Government established a town planning policy for 1-3 chome Toyosu that called for the “creation of an attractive town that utilizes the proximity to the water and city center.” The opportunity presented by this new policy was taken by a group of firms centering on IHI which sought to develop a new town. This site is a part of a land rezoning area and Mitsui Fudosan worked closely with the efforts to install an infrastructure that were being produced by the Urban Renaissance Agency and began studying what truly necessary functions were. Mitsui embarked on this from the

standpoint of not just simply creating a new retail property but taking the broad perspective of the town as a whole.

Urban Dock LaLaport Toyosu represents the newly changing town of Toyosu by creating a new life stage overflowing with water and surrounded by greenery that is enhanced by humans and generates new creativity. Urban Dock LaLaport Toyosu has as its symbol the industrial remnant of a former dock site and has become the new face of Tokyo as it fulfills the role of creating the energy and verve of a town.

### Description of Urban Dock LaLaport Toyosu

**Access:** 3-minute walk from Toyosu Station on the Tokyo Metro Yurakucho Line and Yurikamome Line  
**Site area:** about 67,499m<sup>2</sup>  
**Structure:** Steel (partial steel reinforced concrete), 5 floors above ground  
**Total floor area:** about 165,037m<sup>2</sup>  
**Store area:** about 62,000m<sup>2</sup>  
**Stores:** 190  
**Parking:** about 2,200 spaces  
**Land owner:** Ishikawajima-Harima Heavy Industries Co., Ltd.  
**Developer:** Mitsui Fudosan Co., Ltd. (land lessee and building owner)  
**Building design:** LaguardaLow + Tanamachi Architects Inc. (John Low)  
**Landscape design:** Earthscape Inc.  
**Basic design:** Nihon Sekkei, Inc.  
**Implementation design and implementation:** Taisei Corporation

# OVERVIEW OF MAJOR REAL ESTATE SECTORS

## REAL ESTATE SECURITIZATION

The history of real estate securitization is quite long and goes back to the mortgage security system founded in 1931. Later beginning around 1985 real estate small lot products began being sold primarily by real estate firms.

In recent years, real estate securitization activities have taken off with the opportunities presented by the 1995 establishment of the Real Estate Syndication Act and the 1998 establishment of the Law on Securitization of Specified Assets by Special Purpose Companies (former SPC Law)."

Moreover, the revision to the Investment Trust Law in 2000 made real estate a possible management asset of investment trusts and this led to the launch of Japan Real Estate Investment Trusts (J-REITs). The revision of the former SPC Law into the Law on the Securitization of Assets (SPC Law) also led to an increase in securitization cases because it simplified the procedures for asset monetization type real estate securitization.

The progress of real estate securitization expanded investment opportunities by diversifying investment methods for real estate investors and a new opportunity formed for real estate companies as their business expanded from management and operation of real estate to the fee business market where they could collect other forms of compensation.

### Real Estate Securitization

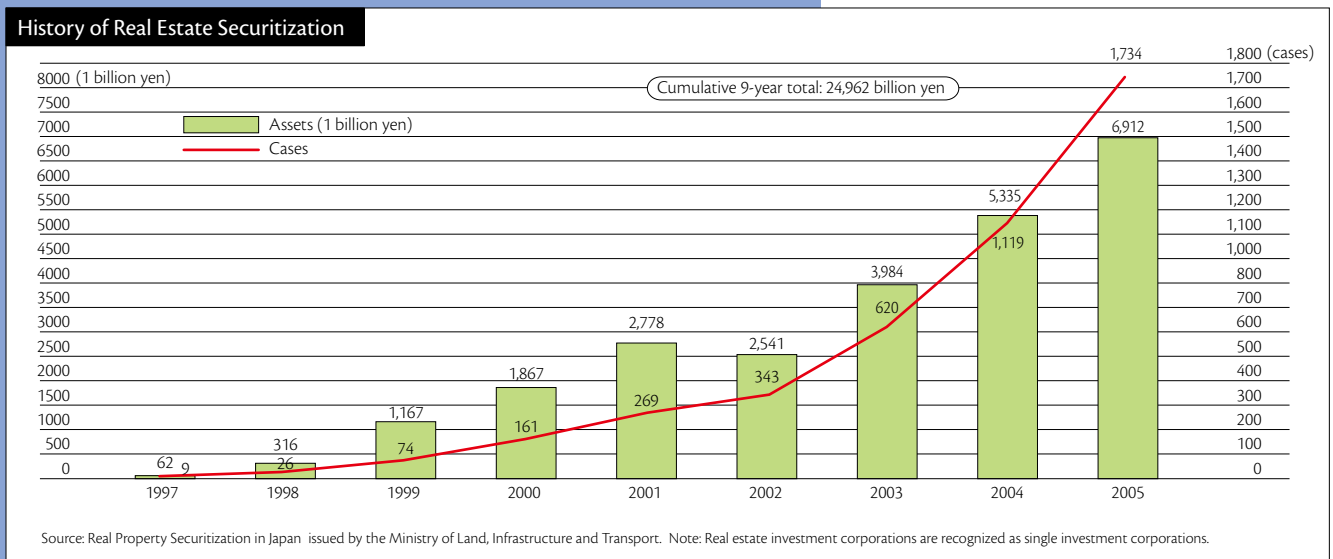
#### (1) Real Estate Investment Trusts

Investment trusts are a financial vehicle in which funds are gathered from many investors, managed by an investment professional and earnings are distributed to investors. Traditionally, the primary vehicle managed in this structure was limited to investment securities.

However, in 2000 there was a Partial Revision to the Law concerning Investment Trusts and Investment Corporations and real estate was recognized as a target of investment. As a result, the first real estate investment trust in Japan (J-REIT) was listed on the Tokyo Stock Exchange in September 2001. The total number of J-REITs listed as of October 2006 was 39 and the market has grown to exceed 5 trillion yen in asset size.

The real estate securitization market has now entered a full-fledged growth period. This is reflected in the entry of trading companies, insurers, lease firms and other non real-estate companies in the REIT business and also the launching of small and medium-sized investment trusts that have condominium units and small real estate as their assets.

There are two types of REIT structures: 1) the "company" type, a structure in which funds gather capital from investors and manage



J-REIT Structure

Name	Fund Characteristics	Month/Year of Listing	Number of Properties	Assets (100 billion yen)	Sponsors
Nippon Building Fund	Office building management (centering on central five wards of Tokyo)	Sept. 2001	47	449.6	Mitsui Fudosan, Sumitomo Life, etc.
Japan Real Estate	Office building management	Sept. 2001	50	356.0	Mitsubishi Estate, Tokio Marine, The Dai-ichi Mutual Life Insurance and Mitsui & Co.
Japan Retail Fund	Commercial facility management	Mar. 2002	32	312.3	Mitsubishi Corporation and UBS AG
ORIX JREIT	Dedicated to Tokyo metropolitan area (managed assets are comprehensive)	June 2002	47	197.0	ORIX
Japan Prime Realty	Spread nationally (managed assets are office buildings and commercial facilities)	June 2002	42	216.6	Tokyo Tatemono, Meiji Yasuda Life, etc.
Premier	Dedicated to Tokyo metropolitan area (managed assets are multi-use office buildings and residences)	Sept. 2002	31	98.2	Ken Corporation, Nikko Building, etc. Tokyu Corporation and Tokyu Land
Tokyu REIT	Dedicated to Tokyo metropolitan area (managed assets are office buildings and commercial facilities)	Sept. 2003	17	162.2	GMAC Commercial Mortgage Japan (now Capmark Japan), etc.
Global One Real Estate	Office building management (3 major metropolitan areas)	Sept. 2003	4	80.6	Nomura Real Estate Development
Nomura Real Estate Office Fund	Office building management (central Tokyo, Tokyo metropolitan area, etc.)	Dec. 2003	23	239.1	Trinity Investment Trust LLC, etc.
United Urban	Comprehensive (commercial, hotel, office building and residential)	Dec. 2003	23	151.5	Mori Trust, Parco, etc.
MORI TRUST Sogo Reit	Comprehensive (commercial, hotel, office building and residential)	Feb. 2004	10	139.8	Pacific Management, The Dai-ichi Mutual Life
Nippon Residential	Dedicated residential	Mar. 2004	71	136.4	Insurance, etc.
Tokyo Gross REIT	Dedicated to Tokyo metropolitan area (managed assets are multi-use office buildings and residences)	May 2004	28	23.7	Tokyo REIT, H.S. Securities, etc.
Frontier Real Estate	Retail property	Aug. 2004	6	81.8	JT
New City Residence	Dedicated to residential (centering on Tokyo)	Dec. 2004	77	104.7	CB Richard Ellis Investors, etc.
Crescendo Investment	Dedicated to Tokyo metropolitan area (managed assets are complex office buildings and residence)	Mar. 2005	23	40.2	Mitsuhiro Utata, Heiwa Real Estate, etc.
Japan Logistics Fund	Dedicated logistics facilities	May 2005	6	26.0	Mitsui & Co., The Chuo Mitsui Trust and Banking, etc.
Fukuoka Reit	Dedicated to Fukuoka/ Kyushu area (managed assets are office buildings and commercial facilities)	June 2005	5	87.5	Fukuoka Jisho, FJ Toshi Kaihatsu, etc.
Prospect Residential Investment	Dedicated Residence	July 2005	30	45.4	Prospect
Japan Single-residence REIT	Dedicated Single Residence	July 2005	17	26.5	Darwin, Creed, etc.
Kenedix Realty Investment Corporation	Comprehensive	July 2005	31	77.3	Kenedix
Joint Reit Investment	Commercial facilities and residences	July 2005	16	41.4	Joint Asset Management and Joint Corporation
eAsset	Comprehensive (office building, commercial and residential; centering on Tokyo metropolitan area)	Sept. 2005	15	51.5	eBANK Corporation, Asset Managers, etc.
FC Residential	Dedicated residential (includes hotels that make the bulk of their earnings from accommodation; centering on central Tokyo)	Oct. 2005	17	24.3	Fund Creation
DA Office	Office building management (centering on central Tokyo)	Oct. 2005	22	79.6	DaVinci Advisors
Hankyu REIT	Multi-use (centering on commercial; properties in the Kansai metropolitan area)	Oct. 2005	5	49.4	Hankyu Corporation
Advance Residence	Dedicated residential (centering on central Tokyo)	Nov. 2005	27	46.4	ITOCHU Corporation, ITOCHU Property Development and Nippon Tochi-Tatemono
Starts Proceed	Dedicated residential (centering on Tokyo metropolitan area)	Nov. 2005	25	7.7	Starts Amenity and Starts Corporation
LCP	Comprehensive (office, residential and commercial)	May 2006	34	48.6	The LPC Group, Kyokuto Securities
Japan Hotel and Resort	Dedicated hotels	Feb. 2006	6	72.9	MLQ Investors
Top REIT	Comprehensive (office, commercial and residential)	Mar. 2006	8	113.3	The Sumitomo Trust & Banking, Nippon Steel City Produce, Oji Real Estate
Creed Office	Dedicated office buildings	Mar. 2006	45	87.2	Creed
BLife	Dedicated residential (centering on central Tokyo)	Mar. 2006	14	32.0	Morimoto, Daiwa House Industry
Nippon Hotel Fund	Dedicated hotel (centering on 3 major cities)	June 2006	13	31.9	Creative Renovation Group Japan, Kyoritsu Maintenance, Kyokuto Securities, Shin Nippon Air Technologies
re-plus residential investment	Dedicated residential	June 2006	66	56.4	re-plus, ABLE
Japan Excellent	Office building management (centering on six central wards of Tokyo)	June 2006	14	98.3	Kowa Real Estate, Dai-ichi Mutual Life Insurance, Sekisui House
Nippon Accommodations Fund	Rental apartments, student dormitories, student apartments, serviced apartments, senior residents, corporate housings	Aug. 2006	27	101.4	Mitsui Fudosan
MID REIT	Focused office buildings (Osaka region)	Aug. 2006	10	146.5	MID Urban Development
Nippon Commercial	Urban commercial real estate (office buildings, retail facilities in central areas of metropolitan areas)	Sept. 2006	34	191.7	Pacific Management Corporation

those through a management company; and 2) the "trust" type, a structure in which a trust bank gathers capital from investors and manage those through the trust bank itself or a management company. There are also two types of the trust type: the settlor directed and non-settlor directed types.

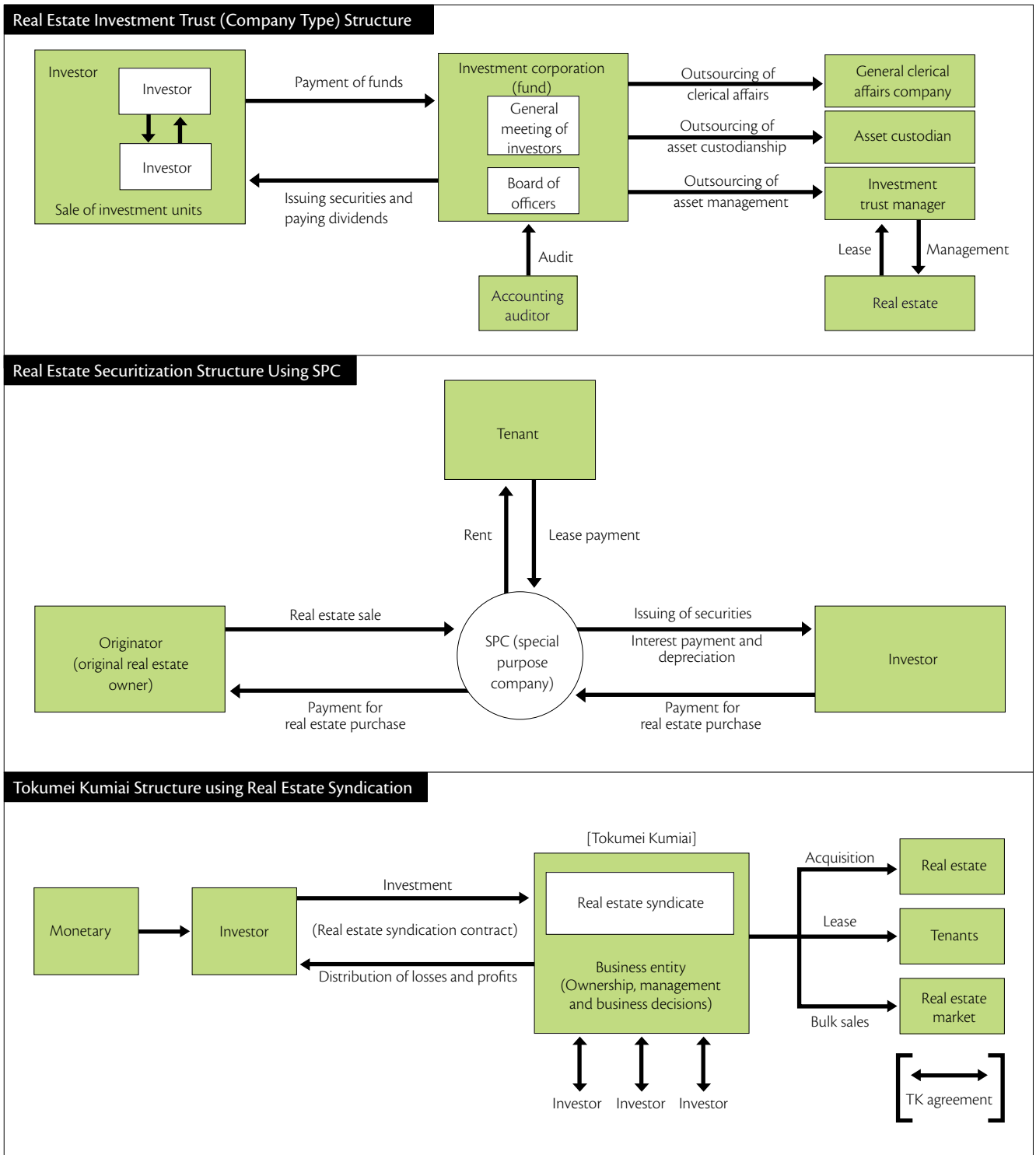
As a result of these REITs, it is expected that real estate securitization will continue to be promoted and that monetization of the real estate industry, which had been in a prolonged slump, will accelerate. Investors have shown an interest in REITs as a new investment vehicle for diversifying

their portfolio strategies and real estate companies have interpreted REITs to be a new business opportunity for selling, managing and operating real estate as a part of REIT management.

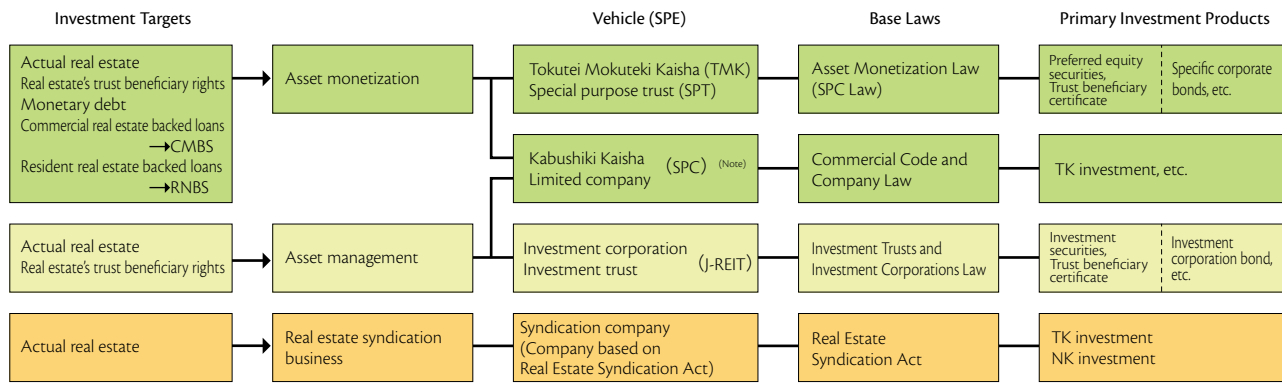
However, for the further development of the real estate fund market, the preparation of indices to assist investors in making their decisions, further tax incentives and other measures areas are needed and anticipated.

## (2) Asset Monetization Securitization

The Law on Securitization of Qualified Assets by Special Purpose Companies (SPC Law) was implemented in September 1998. Since then, many companies have appeared that have tackled real estate securitization using SPCs centering on apartments for foreigners, major shopping centers, etc. There are great expectations for real estate securitization as a new form of business for the real estate

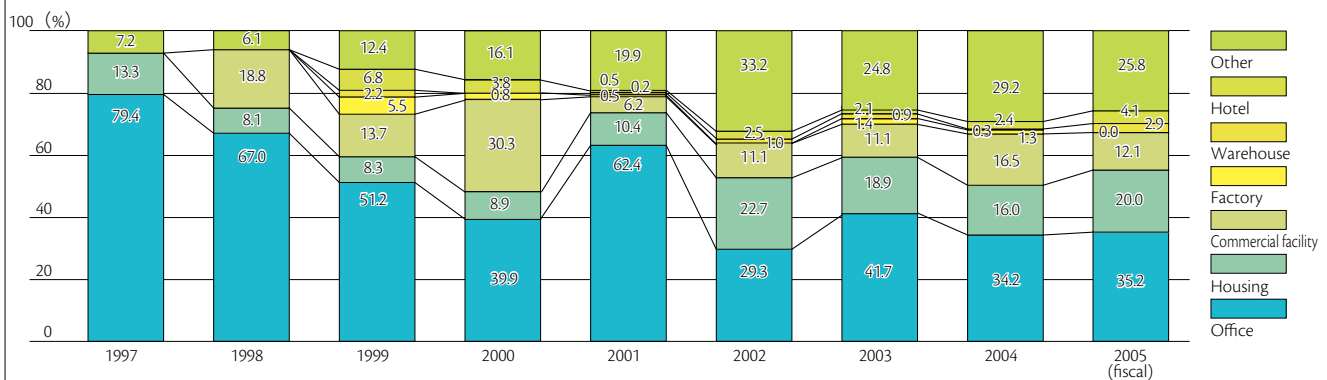


Classification of Real Estate Securitization Products



Note: Companies already established as limited liability companies at the time the Corporate Law was implemented will continue to exist as KK of the law.  
Prepared by ARES

Breakdown of Securitized Real Estate Assets by Usage



Source: Land White Papers (2006) issued by the Ministry of Land, Infrastructure and Transport  
 Note 1: The following describes what is included in "Others." \*Usage other than offices, housing, commercial facilities, plants, warehouses and hotels (parking lots, empty lots, etc.)  
 \*Subject real estate is used for multiple usages \*\*That for multiple properties with differing usages  
 Note 2: Since fiscal 2001, the content of securitization of the underlying property based on the SPC Law is unclear and so is not included.

industry during the structural transformation of the national economy.

In this case, real estate securitization is one of the methods for direct procurement of capital from the market by issuing investment securities backed by real estate or assets consisting of real estate or real estate backed debt (housing loans, etc.).

The following illustrates the actual flow of funds and the relationship with real estate.

- 1) SPC issues preferred equity securities and specific bonds to procure funds from the market for purchasing real estate.
- 2) A real estate company or other original real estate owner (originator) sells the real estate to an SPC at market price.
- 3) The SPC receives rent from the tenants as the new owner of the real estate.
- 4) The SPC pays agreed interest to the investors that bought the specific bonds and pays any remaining profit to the investors in preferred equity securities in the form of dividends.

Further, a portion of the SPC Law was revised in May 2000.

The old SPC Law had many restrictions on the structure including rigid limits such as prohibiting the purchase of qualified assets with borrowings. Thus there were aspects that were difficult to apply to the securitization of assets like real estate that were highly commercial. As a result of the revision, the assets subject to monetization by the SPC were expanded from designated monetary debts, real estate and their beneficiary interests in trust to general property rights and restrictions concerning the establishment and operation of SPCs were simplified and rationalized. Therefore, steps were taken to improve the convenience of the system.

The significance of the SPC Law system is that it improves the financial constitution of the originator itself, realizes a high investment efficiency compared to owning real estate and obtains new business chances by promoting real estate monetization. It is expected that the system will take root in step with reforms to the economic structure such as diversification of fund procurement methods, real estate management emphasizing cash flow, etc.

### **(3) Real Estate Syndication**

Real estate syndication is when multiple investors jointly invest in real estate to own and manage the real estate and obtain earnings from it.

The syndicated investment product appeared around 1987 as a "small lot product" in which developers divided ownership of a commercial property (tenant building, etc.) and sold the equity to investors. To date approximately 700 billion yen in syndicated investment products have been supplied. However, there were many cases in which investors suffered damages because of subdividing by financially unstable real estate companies or inadequate information disclosure to project participants of business risks, etc. As a result, the Real Estate Syndication Act was implemented in April 1995 primarily to protect investors.

In addition, from the perspective of promoting proactive utilization of real estate syndication, the law was revised in May 1997 to implement various deregulatory measures including removing restrictions concerning the period the business is executed and not applying regulations prohibiting monetary loans and intermediation of such when the participants are professional investors

The Real Estate Syndication Act covers five types of contracts consisting of *nin-i kumiai*, *tokumei kumiai*, lease, contractual products based on foreign laws and products based on other governmental legislation. Of the 240 cases of syndication between implementation on April 1995 to March 2006, 222 used the *tokumei kumiai* method and performance grew centering on the *tokumei kumiai* method.

## **Businesses Related to REITs**

### **(1) Investment Trust Managers**

Investment corporations must outsource not only the management of assets but also the custodianship of assets and general administrative duties to outside specialists and investment trust managers are involved in efficiently managing the assets by making decisions and conducting practical work concerning acquiring the assets, transferring the assets, leasing the real estate, managing the real estate, etc.

### **(2) Asset Custodians**

Asset custodians conduct the custodianship of investment corporation assets and do so in a manner separate from their own fixed assets. Regulations stipulate that trust companies, securities companies and other companies that can appropriately conduct the custodianship of assets such as real estate may be asset custodians.

### **(3) General Administrative Affairs Companies**

A general administrative affairs company conducts work other than the asset management and custodianship of the investment corporation. Examples of its tasks include placing investment units and investment corporation bonds, changing title of such, issuing such, administrative work related to paying distributions to investors, refunding investors and tax payments, etc.

## **Real Estate Securitization Businesses**

### **(1) Real Estate Investment Advisors**

Real estate investment advice consists of providing recommendations on real estate investment and making discretionary investment decisions and implementation related to real estate investments at the behest of investors, etc.

With the revisions to the Investment Trust Law, SPC Law and Building Lots and Buildings Transaction Business Law, the importance of real estate investment advisors as appropriate managers and advisors of real estate funds is growing. In addition to asset management, it is envisioned that they will also manage separate accounts of major pension and other investors. They can also be given discretionary powers or be asked to provide advice on syndicated investments by institutional investors, etc. and thus are expected to provide services over a broad range of areas.

### **(2) Real Estate Trust Beneficiary Interest and Trust Beneficiary Interest Agents**

In correlation with the increasing securitization of real estate, real estate transactions in the form of real estate trust beneficiary interest rather than the actual real estate itself are increasing year after year centering on large-scale profit-generating properties. Under such circumstances, the Trust Business Law underwent complete revision in December 2004 for the first time in slightly over eighty years. While real estate providers had to date been selling real estate beneficiary interest and conducting related agency and brokerage work without being subject to regulations.

It has now become necessary to register with the Financial Services Agency (FSA) as a "trust beneficiary interest agent" regarding the sale, brokering or intermediation for real estate beneficiary interests and such parties will be classified as "Type 2 Financial Product Agents" with the implementation of the Financial Instruments Transaction Law. One of the points where it differs from the present system for selling beneficiary interests in trust is the setting of a minimum paid-in capital regulation as a registration requirement.



## OFFICES & SECURITIZATION

The supply of office, retail and residential properties is on the rise due to the correlation between the easing of regulations supporting “urban redevelopment” and the economic upturn. Further, in addition to a recovery in corporate performance, the rapid growth in J-REITs represents gains in the real estate investment market. Demand is spreading and the state of the real estate investment market, for office buildings and others, has improved dramatically.

Reflecting the impact of a protracted economic lag during which corporations focused on cost-reductions, the demand for large-scale buildings to centralize operations and for buildings featuring ‘intelligent’ designs that enhance work efficiency, are expected to continue to increase for some time.

# CASE STUDY

## Kitanomaru Square

The Kudanshita area, despite boasting excellent transit convenience with access to three subway lines, has historically had almost no major office buildings. Consequently, the competition for space in the Kitanomaru Square office building, which incorporates state-of-the-art design specs, was fierce. In the end, Banyu Pharmaceutical and Fast Retailing have taken the office space about one year prior to completion, and office space in the building has been fully occupied since its opening.

This property was developed by a Special Purpose Company (SPC) using a securitization scheme. Equity investments in the SPC were provided by three companies: Mitsubishi Estate, Tokyu Land and the Deutsche Bank Group. The SPC acquired beneficiary interests in trust for the former headquarters of Aozora Bank from the Resolution and Collection Corporation (RCC) in July 2002 (trustee: Mitsubishi UFJ

Trust and Banking). Once the bank vacated the premises, the building was demolished and development of a new multi-use building began. SPC transferred the beneficiary interests for what is now Kitanomaru Square to the Japan Real Estate Investment Corporation.

Kitanomaru Square is a multi-use building comprised of office, retail and residential space. Floors 1-15 house retail establishments and offices and floors 16-26 consist of residences. First-floor tenants include a convenience store, restaurant and coffee shop. There is a fitness room and storage space in the residential area, and in common public areas such as the main entrance and the entry to the parking facility there are crime prevention cameras, security systems and keyed entry systems installed.

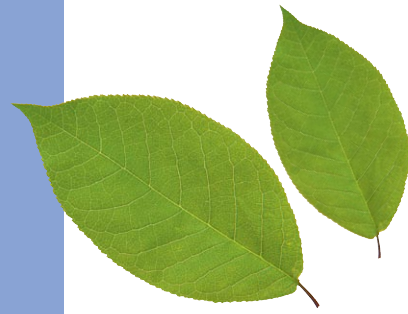
Supplementing the excellent access and close proximity to Otemachi, Ginza and Shibuya are the spectacular views – vistas not limited to the upper floors. Kitanomaru Park

is visible to the south, the Shinjuku streetscape and Mt. Fuji to the west and an exquisite nighttime urban view of Tokyo can be seen to the east and north. It is truly a rare property that offers wonderful panoramic views in all directions. Whether business or personal, all the benefits of an excellent location can be enjoyed with the sensation that can only be felt in the very heart of Tokyo.

### Description of Kitanomaru Square

**Address:** 1-12-2 Kudankita, Chiyoda Ward  
**Site area:** Approx. 5,821m<sup>2</sup> (1,761 tsubos)  
**Total floor area:** Approx. 58,910m<sup>2</sup> (17,820 tsubos)  
**Maximum height:** Approx. 110m  
**Structure:** Steel (some areas are steel reinforced concrete), 2 floors below ground and 26 floors above ground  
**Primary intended usage:** Office, retail and residential  
**Design:** Mitsubishi Jisho Sekkei Inc.  
**Construction:** Kajima Corporation

# OVERVIEW OF MAJOR REAL ESTATE SECTORS



## LEASING

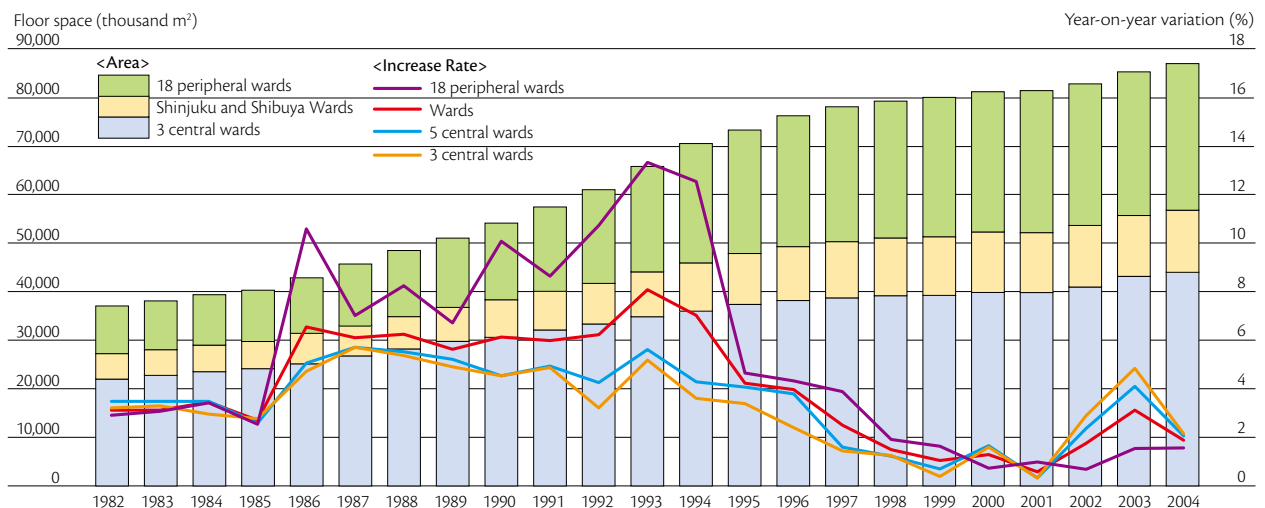
The leasing of land and houses has a long history in Japan and the operation and management of leased housing is the root of the real estate business in Japan. It has been reported that influential individuals, facilitator, or intermediaries called by a variety of names formed this trade in the Edo Era. From around the middle of the Meiji era the trade began to be recognized as a business not just for individuals but on a corporate scale. In 1921, by the establishment of the Land Lease Law and Building Lease Law, a system of Lease Contracts was established that in fact guaranteed equality between the owner and renter.

### History of Office Buildings

The history of office buildings in Japan began with the Mitsubishi Ichigokan completed in 1894. This was followed by the building of red brick Western style buildings at both ends of Babasakimon Road and thus the creation of the first Western style business avenue. In 1914, the Mitsubishi Nijyuichigokan full of modern facilities was completed and it marked the beginning of the dedicated building leasing business. The Marunouchi Building was completed in 1923 and the importance of the earthquake and fire resistant architect symbolized by the Marunouchi Building began to be recognized after the Great Kanto Earthquake.

Although many rental buildings burned and were lost during the awful events of World War II (1941-1945), the full-fledged construction of rental buildings took off with the recovery beginning in 1950 along with the buildings remaining from the war. This was supported by the building demand resulting from the high growth period beginning in 1955 and the rental buildings (market) continues to today.

History of Office Floor Space in the Wards of Tokyo



Source: Tokyo Land 2005 (Land Data)

## Recovering Rental Market Supported by Funds

Amidst the steady recovery in the corporate performance of major corporations, the rental market has also begun to show signs of life. There is fund investment centering on J-REITs and highly convenient offices and residential properties are proving popular among users as they are supplied to the market one after the other.

The vacancy rate of the office building market is steadily shrinking. The vacancy rate of buildings in central Tokyo peaked above 8% in the first half of 2003 when a huge supply of new buildings that far exceeded demand emerged and has since shrunken. The expansion in demand backed by the recovery in corporate performance has enabled the vacancy to fall to the three percent level in 2006 and the vacancy rate is steadily improving in other major metropolitan areas and regional cities. On the other hand, there has also been an increase in high quality stock centering on major metropolitan areas in the rental housing market. This housing has the strong support of users and the rent of these popular properties is increasing.

The support for the supply of these high quality properties is the voracious investment appetite among funds centering on J-REITs. Therefore, recently asset management and property management has entrenched itself centering on buildings and rental housing owned by funds. This is a new trend in the rental market.

The rental housing market is shifting from public rental housing provided by public housing corporations to good quality rental housing provided by the private sector. In particular, the luxury rental housing market has entrenched itself as a strong market in central Tokyo.

## Existing Issues: Year 2007 Problem and Polarization Phenomenon

In the long-term perspective, however, the rental market is facing a number of concerns. There are a number of factors that can lead to the market shrinking including

the Year 2007 Problem that refers to a decrease in office demand brought on by the huge numbers of retirement of the baby boomers, the drop in demand for rental housing due to even fewer children being born, etc.

While competitive properties with the latest facilities prove popular, older buildings with no competitiveness are suffering from greater vacancy periods and this polarization phenomenon – which is evident in other markets – has become conspicuous.

Players in the rental market must develop an ability to flexibly adapt to the market and discern the demand-supply balance by accurately watching the market so that to note the impact of fewer children, an older population, huge numbers of retirements of baby boomers and other changes in the business environment. The players must not only price their product according to the demand-supply balance but also create products that have adapted to the diversification of needs among companies and general consumers.

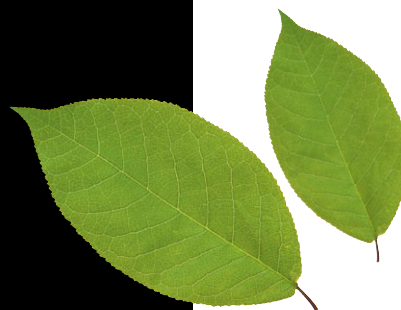
A consulting ability that proactively proposes to owners renovations that raise market competitiveness as a means to raise asset values and adaptive measures like conversions and renovations for form new markets will become more important.



## Fixed Leasehold System

There is presently an extreme lack of large rental housing for families. This is because of the strong protection of living rights that traditionally existed for renters shifting the supply of rental housing to students and newlyweds which have a greater turnover. In response to the change in attitude from a focus on ownership to one of use, the market expects the supply of good rental housing for the family sector. It was based on this expectation that the fixed leasehold system was formed based on the "Special Measures Law for Promoting the Supply of Good Rental Housing" established in 2000. This system terminates the rental (lease) contract simultaneous to the expiration of the period designated in the original contract. Presently a review of the system is underway.

# POLICIES



## Environmental Measures of the Real Estate Industry

The Japanese people are commonly aware that the global warming problem is a very critical problem that directly affects the entire globe.

The Kyoto Protocol went into effect in February 2005 making it an international obligation of Japan to reduce greenhouse gasses to on average 6% below 1990 levels between 2008 and 2012. The government has established a plan for achieving this target and is reinforcing its stance of placing specific measures for preventing the greenhouse effect on primary elements including the national government, local governments, companies and the people.

In addition to establishing the Voluntary Environmental Action Plan of the Real Estate Industry in 1997 (revised twice since), which includes numerical targets for reducing CO<sub>2</sub> emissions and environmental action targets for development and other real estate businesses as its primary content, the Real Estate Companies Association of Japan has run studies for arousing greater awareness of the environment among members and to suppress energy use including conducting a continual energy consumption and waste emissions fact-finding study.

Furthermore, we have just recently established our fourth voluntary environmental action plan from a medium to long-term perspective after considering past Association measures and the recent trend calling for even stricter measures.

### Primary Content

- The relationship between the real estate industry and environmental issues
- Environmental action targets (environmental impacts and countermeasures at the various action stages of the real estate industry)
- Measures for promoting environmental action (future items of emphasis)

Association members are also proactively conducting the following types of measures.

### Primary Examples

- Supply of housing that promotes co-existence with the environment (efficient use of solar light, rain water, etc., promoting greening, contributing to high levels of durability, etc.)
- Installation of BMS and cogeneration systems and promoting the ESCO project
- Acquiring ISO14001 certification
- Establishing an environmental policy; providing environmental information to employees and customers and conducting educational activities
- Creating a system for achieving zero emissions of waste and recycling

Among the other environmental issues related to real estate are soil pollution, the sick house syndrome and asbestos. With regard to these, the essential legal system is in place and the real estate companies are conducting their businesses in compliance with these.

## Movement to Revise Law in Reaction to Incidents Falsifying Earthquake Resistance Data

The incidents involving the falsification of earthquake resistance data became public with the announcement of the Ministry of Land, Infrastructure and Transport on November 17, 2005. The whole incident began with a first class architect falsifying the earthquake resistance strength in the structural calculation sheets required for the construction confirmation inspections and it eventually developed into a huge incident that shook the foundations of the reliability of the housing and real estate industries.

The Ministry is conducting the following to prevent reoccurrence – working to secure safety of structures through a drastic review of the overall construction confirmation system and also proceeding with revisions to related laws focused on preventing the recurrence of the falsification of earthquake resistance information and securing the safety of consumers.

Essentials of the Legal Revisions				
Revised Law	Law Name	Promulgation Date	Execution Date	Essentials
Law to Revise Portions of the Building Standard Law, etc. to Secure Safety of Buildings	Building Standard Law	June 21, 2006	Within 1 year from the promulgation date	<ul style="list-style-type: none"> <li>*Requiring structural design reviews (peer checks) for buildings with a certain height or greater</li> <li>*Requiring of an intermediate inspection for apartments three stories or taller</li> <li>*Extended the construction confirmation period from 21 days or less to 35 days or less and to up to 70 days or less for buildings with complex structural calculations</li> <li>*Total adherence to information disclosure by designated confirmation inspection agencies</li> <li>*Reinforced the designation requirements for designated confirmation inspection agencies including liability capability and human resources level, reinforced the instructional and supervision areas including giving specific governmental administrative bodies the right to conduct on-site inspections, and optimizing the designated confirmation work</li> <li>*Strengthening the penalties for violations of material factual regulations on earthquake resistance standards, etc.</li> </ul>
	Architects' Law	June 21, 2006	Within 1 year from the promulgation date	<ul style="list-style-type: none"> <li>*When an architect confirms the safety of a building through structural calculations, the architect is required to confer the certificate on the client. The architect is forbidden from lending his name to a non-architect.</li> <li>*When a certificate is issued without confirming the safety of the structure using structural calculations, the penalties have been strengthened for when an architect has another architect or non-architect use his name</li> </ul>
	Construction Business Act	June 21, 2006	December 20, 2006	<ul style="list-style-type: none"> <li>*The conclusion of a contracting agreement for construction must have its details entered in writing.</li> </ul>
	Building Lots and Buildings Transaction Law	June 21, 2006	December 20, 2006	<ul style="list-style-type: none"> <li>*In regards to the explanation of material matters, whether or not the seller has subscribed to insurance regarding the execution of defect collateral liability of the seller for housing prior to the conclusion of the contract has been made a legal obligation.</li> <li>*In the case of items that can impact purchasing decisions in real estate transactions, punishment has been strengthened for willful neglect to confer facts and non-execution of material items</li> </ul>
Law to Revise Portions of the Architects' Law	Architects' Law	December 20, 2006	Within 2 years from the promulgation date	<ul style="list-style-type: none"> <li>*New formation of the category of structural design – first class architect</li> <li>*Architects, etc. working at architectural offices will be required to take courses registered with the Minister of Land, Infrastructure and Transport and revision to the qualifications for taking certification tests in various areas such as people taking the architects' test being required to have graduated from college and to have taken and passed certain architectural courses while in college</li> </ul>
	Building Standard Law	December 20, 2006	Within 2 years from the promulgation date	<ul style="list-style-type: none"> <li>*Requiring legal compliance checks by structural design first class architects and equipment design first class architects in the case of certain structures</li> </ul>
	Construction Business Act	December 23, 2006	Within 2 years from the promulgation date	<ul style="list-style-type: none"> <li>*Total subcontracting of for-sale condominiums and other projects where the client and end users differ to be abolished</li> <li>*Construction requiring management engineers that are recipients of qualification certificates to be assigned to the site expanded to include material private construction on schools, hospitals, etc.</li> </ul>

## Transformation from the Government Housing Loan Corporation of Japan to the Japan Housing Finance Agency

The 162nd ordinary session of the Diet passed the Housing Finance Support Agency Law and issued it in July 2005. The Government Housing Loan Corporation will be abolished on April 1, 2007 based on this Law and its rights and obligations will be succeeded by the Housing Finance Support Agency that is to be established. The Agency's objectives shall be to 1) Support financing by ordinary financial institutions, 2) Provide information for promoting the construction of good housing, etc., and 3) Complementing the financing of ordinary financial institutions. Its primary operations shall be the provision of securitization support, insuring of financing and provision of housing information.

In regards to direct financing, the direct financing of housing funds is being abolished in principle and activities are being limited to disaster related (disaster recovery, earthquake resistance renovations, etc.), property accumulation housing loans, regeneration of residences in urban areas (rebuilding of homes in densely populated city areas, rebuilding of condominiums, renovations to common areas, and building of strong rental properties for couples raising children and the elderly) and financing in other areas that are commonly difficult for a general financial institution to provide.

## Overview of Present Land and Housing Taxation

	Personal	Corporation
Acquisition (inheritance)	<ul style="list-style-type: none"> <li>○ Income tax (national tax) Housing loan deduction system: An amount calculated from the year-end balance of a home loan (ceiling of 25 million yen) is deducted for ten years from the income tax amount / (deduction amount: 1% for 1st-6th years and 0.5% for 7th-10th years); this applies to individuals who take up residence through December 2007 Capital losses from exchange of residential property are deducted from income for three years, covers transfers through the end of December 2006 (covers transfers through the end of December 2006)</li> <li>○ Real estate acquisition tax (municipal tax): 3% of real property assessment amount on real estate purchasers (limited measure through March 2009) and extension prolonging of special measure on land taxation standard (1/2; limited measure through December 2009) (*there are special reductions for the acquisition of certain houses and lots).</li> <li>○ Stamp tax (national tax): Taxation in accordance with contract amount on the improvement of sales contract.</li> <li>○ Registration and license tax (national tax): Taxation of 1% of the real property assessment amount when registering ownership (limited measure through the end of March 2008) (*special reduction measures exist for certain houses**).</li> <li>○ Inheritance tax (national tax): Taxation of 10-50% depending on the inheritance tax assessment amount. As for the tax exempt limit of 25 million yen related to the integrated inheritance and donation tax systems, this has been expanded to 35 million yen as a special measure related to house purchasing funds and the age requirement of the party making the donation was removed (65 or older; limited measure through 2007)</li> </ul>	
Ownership	<ul style="list-style-type: none"> <li>○ Fixed assets tax (local tax): Annual tax of 1.4% of the real property assessment amount levied on owners of land and buildings (there are certain measures for adjusting the burden).</li> <li>○ City planning tax (local tax): Annual tax of 0.3% of the valuation amount of fixed assets that is levied on land and building owners in city districts (same as above).</li> <li>○ Land value tax (national tax): Annual tax of 0.15% on valuation amount under inheritance tax law levied on landowners and leaseholders. [*Application has been suspended for the time being (from 1998)].</li> </ul>	
Transfer	<ul style="list-style-type: none"> <li>○ Income tax (national tax and capital gains)</li> <li>○ Personal residents tax (local tax and capital gains)</li> <li>① General transfer after long-term ownership: Uniform tax rate of 20% on capital gains of land owned for more than 5 years (income tax 15% + residents tax 5%).</li> <li>② Superior transfer after long-term ownership: The following applies to capital gains on specific land owned for more than five years. 14% on the portion 20 million yen or less (income tax 10% + residents tax 4%) 20% on the portion more than 20 million yen (income tax 15% + residents tax 5%) [*Special measure through December 2008]</li> <li>③ Transfer of residential property: After subtracting the special deduction of 30 million yen on capital gains from residential land and buildings owned for more than 10 years; 14% on the portion 60 million yen or less (income tax 10% + residents tax 4%); 20% on the portion more than 60 million yen (income tax 15% + residents tax 5%)</li> </ul>	<ul style="list-style-type: none"> <li>○ Corporation tax (national tax): Only corporation tax regardless of possession period [*Special measure through the end of December 2008]</li> <li>○ Corporate inhabitants tax (municipal tax)</li> <li>○ Corporate enterprise tax (municipal tax)</li> <li>④ Short-term transfer: 39% of capital gains on capital gains from land owned for 5 years or less (income tax 30% + residents tax 9%). However, 20% for transfers to the State, etc. (income tax + residents tax 5%)</li> </ul>

## The following revisions are anticipated regarding the land and housing tax system in the 2007 tax revisions.

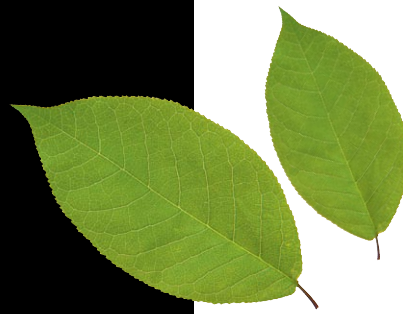
### I. Promotion of City and Community Regeneration

- A. Extension of the special exception for replacement of business property from long-term owned land to land and building
- B. Extension of the special tax measures related to city and community regeneration projects
- C. Extension of the special exception for the real estate acquisition tax for real estate acquired by J-REITs and SPCs
- D. Extension of the special measures in the various tax systems related to private urban development projects

### II. Supporting Smooth Changes in Residences and Acquisition of Strong Residences

- A. Securing the benefit of a reduction in housing loan taxes for people entering homes in 2007 and 2008 in line with the transfer in tax sources for personal residents' taxation (in regards to \*A, it is anticipated that there will be a special exception that consists of a choice between the new and old system (deduction period and deduction rate)
- B. Extension of the special exception for summing capital losses together with other profits and losses and carried forward deductions in line with capital losses from the replacement of residential property (in regards to \*B., this period is expected to be extended for three years).
- C. Extension of the special exception for summing capital losses together with other profits and losses and carried forward deductions when there are losses in the event of transferring certain residential property
- D. Extension of the special exception for carrying forward capital gains and the elimination of ceilings on the floor space, etc. in the event of replacement of residential property.
- E. Extension of the special tax reduction measures including reducing the tax rate on the housing registration and license taxes and reducing the stamp tax on real estate sale and purchase agreements, etc. (in regards to \*C., this period is expected to be extended for two years).
- F. Formation of a tax system for promoting renovations to make housing barrier free (related to income tax and fixed property tax)
- G. Extension of the special 15 million yen deduction system for development projects in special housing zones

# REAL ESTATE RELATED DATA



## Land Use

### History and Status of Land Use in Japan

(Unit: 10,000ha, %)

Land Category Year	National						Three Major Metropolitan Areas						Local Areas					
	1985	2000	2001	2002	2003	2004	1985	2000	2001	2002	2003	2004	1985	2000	2001	2002	2003	2004
1. Agricultural land	548 (14.5)	491 (13.0)	487 (12.9)	484 (12.8)	482 (12.8)	481 (12.7)	73 (13.6)	63 (11.7)	62 (11.5)	62 (11.5)	62 (11.5)	62 (11.5)	476 (14.7)	428 (13.2)	425 (13.1)	422 (13.0)	420 (13.0)	420 (13.0)
Farmland	538 (14.2)	483 (12.8)	480 (12.7)	477 (12.6)	474 (12.6)	473 (12.5)	72 (13.4)	62 (11.5)	62 (11.5)	61 (11.4)	62 (11.4)	61 (11.4)	466 (14.4)	421 (13.0)	418 (12.9)	415 (12.8)	413 (12.8)	412 (12.7)
Pasture and mowing	10 (0.3)	7 (0.2)	7 (0.2)	7 (0.2)	8 (0.2)	8 (0.2)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	10 (0.3)	7 (0.2)	7 (0.2)	7 (0.2)	7 (0.2)	7 (0.2)
2. Forest	2,530 (67.0)	2,511 (66.4)	2,511 (66.4)	2,510 (66.4)	2,509 (66.4)	2,509 (66.4)	323 (60.3)	317 (59.0)	317 (59.0)	316 (58.8)	316 (58.8)	316 (58.8)	2,207 (68.1)	2,194 (67.7)	2,194 (67.7)	2,194 (67.7)	2,193 (67.7)	2,193 (67.6)
3. Wild fields	31 (0.8)	27 (0.7)	27 (0.7)	26 (0.7)	26 (0.7)	27 (0.7)	1 (0.2)	1 (0.2)	1 (0.2)	1 (0.2)	1 (0.2)	1 (0.2)	30 (0.9)	26 (0.8)	26 (0.8)	26 (0.8)	25 (0.8)	26 (0.8)
4. Bodies of water	130 (3.4)	135 (3.6)	135 (3.6)	135 (3.6)	134 (3.6)	133 (3.5)	18 (3.4)	19 (3.5)	19 (3.5)	19 (3.5)	19 (3.5)	19 (3.5)	112 (3.5)	115 (3.5)	115 (3.5)	116 (3.6)	115 (3.6)	114 (3.5)
5. Roads	107 (2.8)	127 (3.4)	128 (3.4)	130 (3.4)	131 (3.4)	131 (3.5)	23 (4.3)	26 (4.8)	27 (5.0)	27 (5.0)	27 (5.0)	27 (5.0)	84 (2.6)	100 (3.1)	101 (3.1)	103 (3.2)	104 (3.2)	104 (3.2)
6. Residential land	151 (4.0)	179 (4.7)	180 (4.8)	181 (4.8)	182 (4.8)	183 (4.8)	52 (9.5)	59 (11.0)	60 (11.2)	60 (11.2)	60 (11.2)	31 (11.4)	99 (3.1)	119 (3.7)	120 (3.7)	121 (3.7)	121 (3.7)	122 (3.8)
Housing lots	92 (2.4)	107 (2.8)	108 (2.9)	109 (2.9)	110 (2.9)	110 (2.9)	31 (5.8)	36 (6.7)	36 (6.7)	37 (6.9)	37 (6.9)	37 (6.9)	61 (1.9)	71 (2.2)	72 (2.2)	72 (2.2)	73 (2.2)	73 (2.3)
Industrial sites	15 (0.4)	17 (0.4)	17 (0.4)	17 (0.4)	16 (0.4)	15 (0.4)	6 (1.1)	6 (1.1)	6 (1.1)	6 (1.1)	6 (1.1)	6 (1.1)	9 (0.3)	11 (0.3)	11 (0.3)	11 (0.3)	10 (0.3)	11 (0.3)
Other housing	44 (1.2)	55 (1.5)	55 (1.5)	56 (1.5)	57 (1.5)	56 (1.5)	15 (2.8)	17 (3.2)	17 (3.2)	18 (3.4)	18 (3.4)	18 (3.4)	29 (0.9)	37 (1.1)	36 (1.2)	38 (1.2)	39 (1.2)	39 (1.2)
7. Other	281 (7.5)	309 (8.2)	311 (8.2)	313 (8.3)	316 (8.3)	316 (8.4)	46 (8.8)	52 (9.7)	51 (9.5)	52 (9.7)	52 (9.7)	51 (9.5)	235 (7.5)	260 (8.0)	261 (8.1)	260 (8.0)	264 (8.0)	264 (8.1)
Total	3,778 (100.0)	3,779 (100.0)	3,779 (100.0)	3,779 (100.0)	3,779 (100.0)	3,779 (100.0)	536 (100.0)	537 (100.0)	537 (100.0)	537 (100.0)	537 (100.0)	537 (100.0)	3,242 (100.0)	3,242 (100.0)	3,242 (100.0)	3,242 (100.0)	3,242 (100.0)	3,242 (100.0)

Source: "Land Use Fact Finding Study" issued by the Ministry of Land, Infrastructure and Transport (MLIT)

Notes: 1. Roads include ordinary roads, agricultural roads and forest roads. 2. The numbers were calculated by MLIT based on various existing statistics. 3. Percentage of total area for each region is indicated in the parentheses. 4. The district categories are defined as follows: Three major metropolitan areas: Saitama, Chiba, Tokyo, Kanagawa, Gifu, Aichi, Mie, Kyoto, Osaka, Hyogo and Nara for a total of 11 prefectures; Local areas: Areas outside of the three major metropolitan areas

## Land Prices

### Standard Land Prices (Prefectural Land Price Study) vs. Year-on-Year Change

(Unit: %)

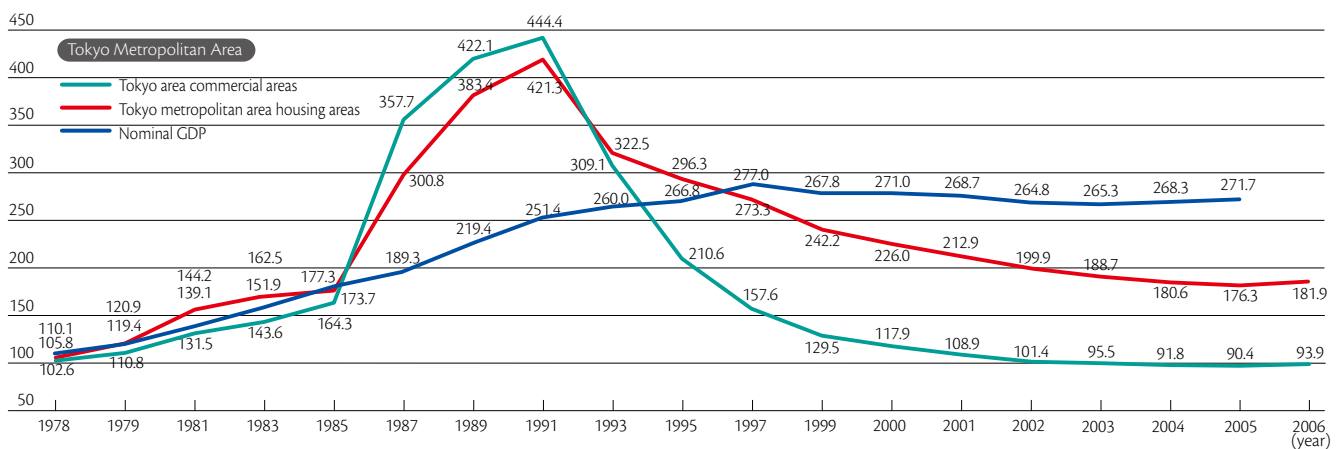
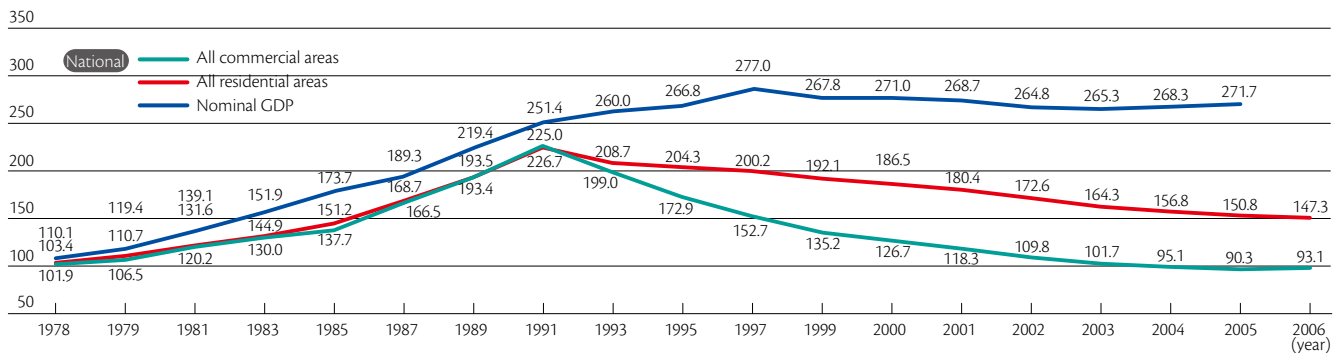
Study Year		Usage, etc																				
		1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Residential land area	Tokyo metropolitan area	8.0	57.1	24.1	37.3	11.0	-1.0	-12.7	-12.3	-5.0	-3.3	-5.0	-2.9	-4.4	-7.3	-6.7	-5.8	-6.1	-5.6	-4.3	-2.5	0.7
	Osaka metropolitan area	2.7	5.7	26.9	14.8	48.2	-15.3	-22.8	-12.1	-3.5	-3.0	-3.9	-1.5	-2.7	-6.2	-6.5	-7.5	-8.9	-8.9	-6.8	-3.7	0.0
	Nagoya metropolitan area	1.3	2.4	13.0	13.7	23.7	6.1	-7.8	-7.6	-4.6	-3.4	-2.9	-1.0	-1.1	-3.4	-1.6	-2.4	-5.3	-5.6	-3.9	-2.5	-0.1
	3 major metropolis average	5.4	33.6	23.3	4.6	22.3	-4.2	-14.9	-11.6	-4.5	-3.2	-4.4	-2.2	-3.4	-6.4	-6.0	-5.9	-6.8	-6.6	-5.0	-2.8	0.4
	Local average	1.2	1.0	2.0	6.8	10.1	5.2	0.3	-0.7	-0.1	-0.1	-0.4	-0.2	-0.8	-1.5	-1.8	-2.5	-3.4	-4.3	-4.4	-4.1	-3.1
	National average	2.2	9.2	7.4	1.9	13.2	2.7	-3.8	-3.6	-1.2	-0.9	-1.3	-0.7	-1.4	-2.7	-2.9	-3.3	-4.3	-4.8	-4.6	-3.8	-2.3
Commercial land area	Tokyo metropolitan area	23.6	76.1	15.8	36.1	5.6	-0.3	-12.5	-20.5	-18.0	-16.9	-16.3	-10.6	-8.4	-10.3	-9.0	-7.6	-6.9	-5.8	-3.9	-1.6	3.9
	Osaka metropolitan area	9.7	19.9	36.4	16.8	39.7	-8.9	-23.1	-21.4	-16.7	-16.4	-13.1	-7.8	-7.3	-10.6	-11.3	-11.0	-10.8	-10.3	-7.6	-3.3	3.6
	Nagoya metropolitan area	4.4	7.0	20.1	11.9	26.7	4.3	-12.0	-12.6	-12.2	-11.6	-10.6	-7.3	-6.9	-11.4	-6.5	-6.1	-8.8	-7.6	-5.2	-2.1	2.4
	3 major metropolis average	16.8	52.2	21.3	6.0	16.6	-1.7	-15.0	-19.5	-16.8	-16.0	-14.6	-9.4	-7.9	-10.6	-9.2	-8.2	-8.2	-7.3	-5.0	-2.1	3.6
	Local average	1.6	2.2	3.5	7.5	12.1	5.4	-1.0	-3.0	-2.8	-3.3	-3.9	-3.4	-4.2	-5.2	-5.2	-5.9	-6.8	-7.4	-7.1	-6.1	-4.3
	National average	5.2	15.0	8.0	3.5	13.4	3.4	-4.9	-7.7	-6.7	-6.9	-6.9	-5.1	-5.2	-6.6	-6.3	-6.6	-7.2	-7.4	-6.5	-5.0	-2.1
Average for all uses	Tokyo metropolitan area	10.4	57.5	22.6	35.6	10.5	-0.6	-12.1	-13.8	-7.9	-6.6	-7.6	-4.8	-5.3	-8.1	-7.4	-6.5	-6.6	-6.0	-4.5	-2.5	1.3
	Osaka metropolitan area	3.8	7.9	27.0	14.7	45.7	-13.3	-21.7	-13.3	-6.1	-5.6	-5.7	-2.7	-3.5	-6.9	-7.4	-8.1	-9.2	-9.3	-7.2	-3.9	0.4
	Nagoya metropolitan area	1.8	3.0	12.8	13.9	23.3	5.9	-8.1	-8.1	-5.9	-4.9	-4.4	-2.3	-2.4	-5.2	-2.8	-3.6	-6.1	-6.1	-4.4	-2.6	0.1
	3 major metropolis average	7.1	34.4	22.4	5.0	21.5	-3.2	-14.2	-12.7	-7.1	-6.0	-6.5	-3.8	-4.4	-7.3	-6.7	-6.6	-7.3	-7.0	-5.3	-2.9	0.9
	Local average	1.3	1.3	2.3	7.2	10.9	5.5	0.1	-1.1	-0.6	-0.8	-1.1	-0.9	-1.5	-2.3	-2.6	-3.3	-4.3	-5.1	-5.2	-4.7	-3.5
	National average	2.7	9.7	7.4	13.7	3.1	-3.8	-4.3	-2.3	-2.1	-2.5	-1.6	-2.2	-3.6	-3.6	-4.1	-5.0	-5.6	-5.2	-4.2	-2.4	-2.4

Source: Prefectural Land Price Survey issued by MLIT

Notes: 1. The fluctuation rate is the land price change of each year between July 1 of one year and July 1 of the next year. 2. Land areas are divided as follows:

Tokyo metropolitan area: All existing city areas and suburban improved areas according to the Metropolitan Area Improvement Law.  
Osaka metropolitan area: All existing city areas and suburban improved areas according to the Metropolitan Area Adjustment Law.  
Nagoya metropolitan area: All city improvement areas according to the Metropolitan Area Adjustment Law.

### History of Standard Land Price and Nominal GDP when 1978 is 100



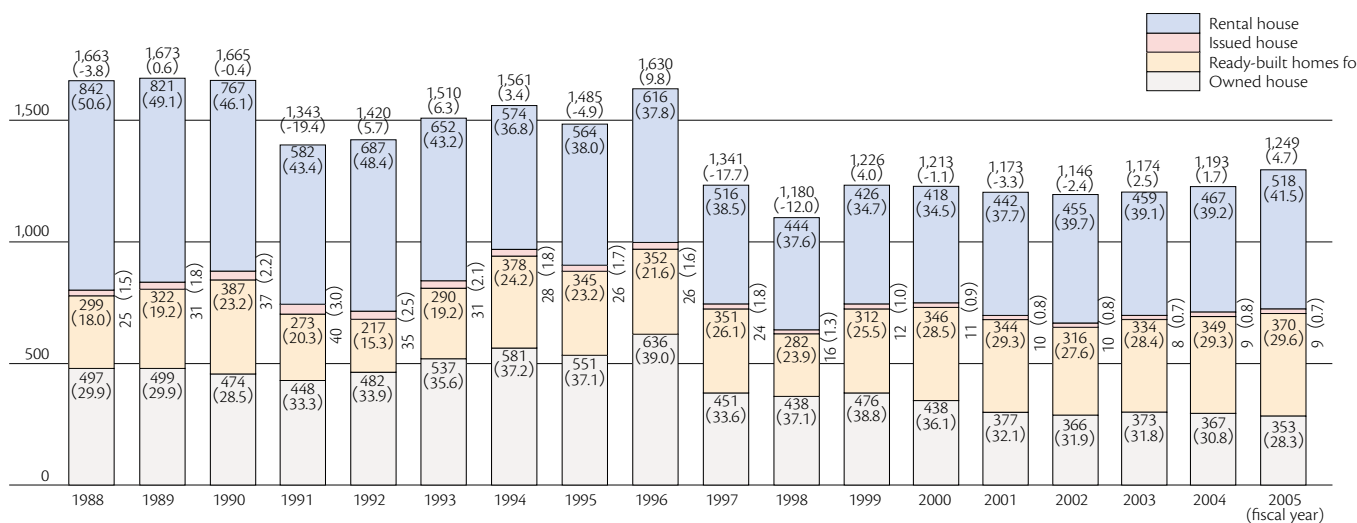
Source Prepared from the Recent Land Price Trends based on the 2004 Prefectural Land Price Survey

Notes: 1. The residential and commercial land values were calculated by setting the prefectural land price survey for the prefectures in 1977 as 100 and then indexing the respective years against that.  
2. The nominal GDP was set as 100 in 1977 and the respective years figures indexed against that.

## Housing and Housing Lots

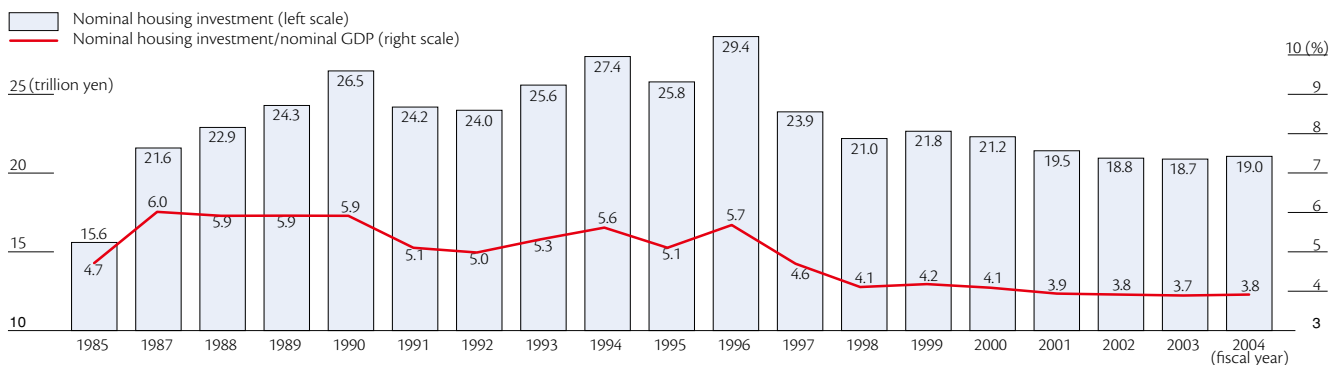
### History of Housing Starts

2,000 (thousand)



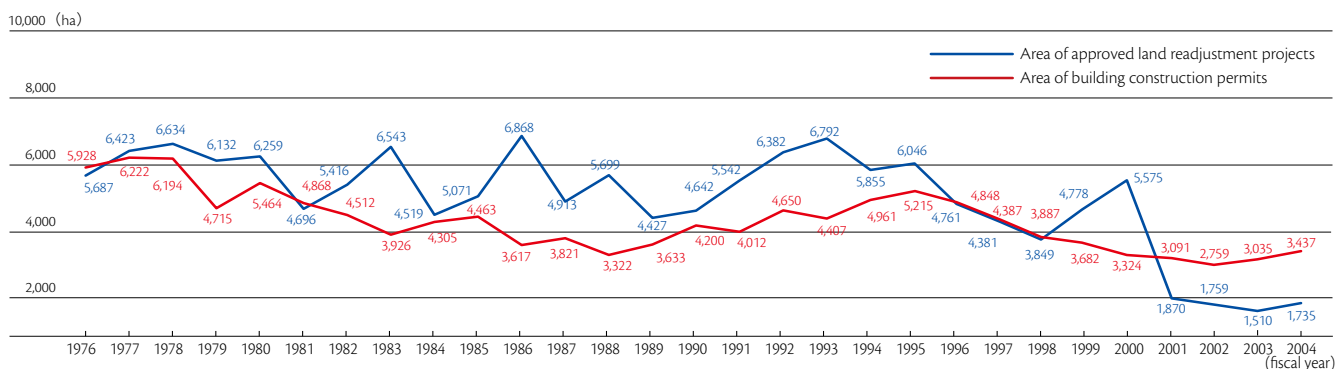
Source: Statistics on Construction-started Dwelling Houses issued by MLIT  
 Notes: 1. There are parts where the total doesn't match due to rounding up and off.  
 2. The figures in the parentheses represent the breakdown by usage (%). The figures on the graph in the parentheses are the year-on-year variation (%).

### History of Housing Investment



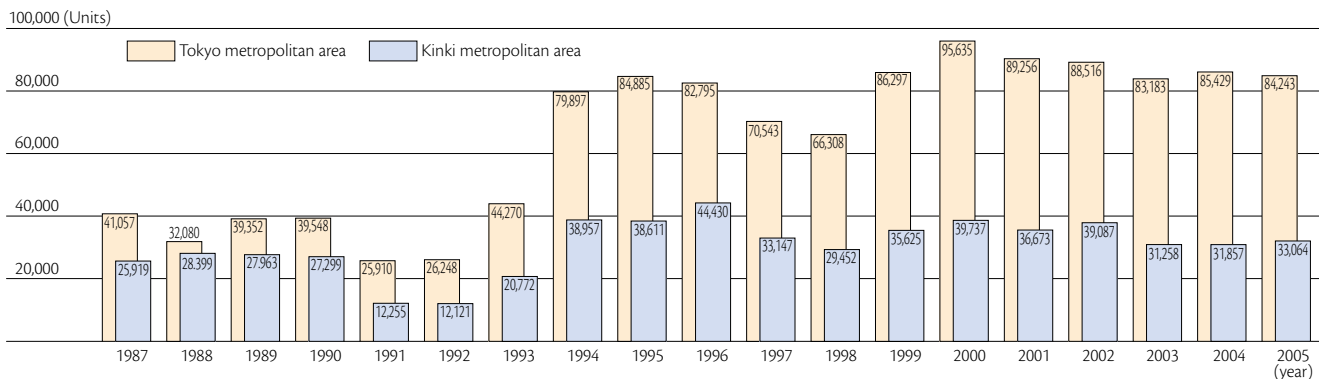
Source: Prepared from the National Land and Transport White Paper on Land, Infrastructure and Transport in Japan (2005) issued by MLIT and Annual Report on the Japanese Economy and Public Finance (2005) issued by the Cabinet Office.

### History of Housing Construction Permits and Area of Approved Land Readjustment Projects

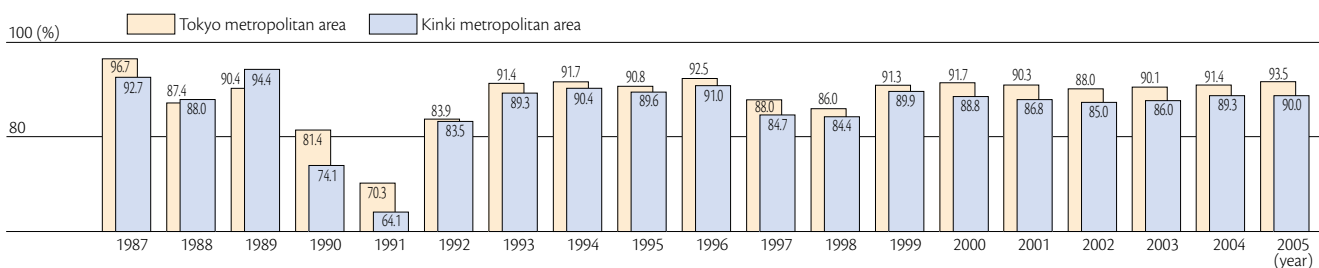


Source: Prepared from the White Paper on Land, Infrastructure and Transport in Japan (2005) issued by MLIT.  
 Notes: 1. The construction permit is the approval granted primarily for the objective of building a house based on the City Planning Law. 2. The area figures for 1974 include approved areas from the old Law on the Housing Lot Development Business. 3. The area of approved land readjustment projects represents the total for individuals, joint projects, associations, public bodies, government agencies, the Housing and Urban Development Corporation (present Urban Renaissance Agency) Japan Regional Development Corporation (present Organization for Small & Medium Enterprises and Regional Innovation, JAPAN and Urban Renaissance Agency) and the Local Housing Supply Corporation.

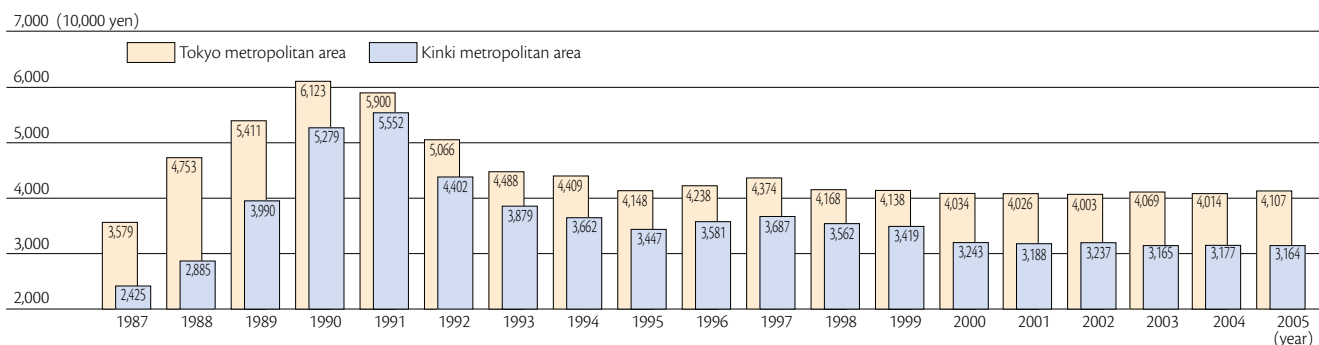
## History of New Condominium Sales



## History of New Condominium Annual Contracted Rates

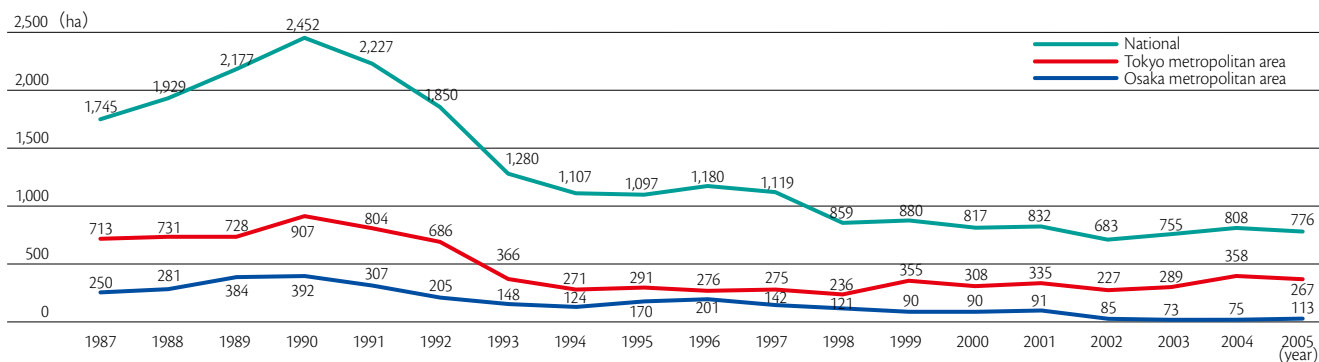


## History of Average Price for New Condominium Units



Source: Prepared using National Condominium Market Trends issued by the Japan Real Estate Economic Institute. Note: Tokyo metropolitan area: Tokyo, Kanagawa, Chiba and Saitama; Kinki metropolitan area: Osaka, Hyogo, Kyoto, Nara, Shiga and Wakayama

## History of Floor Space for Launched Office Construction



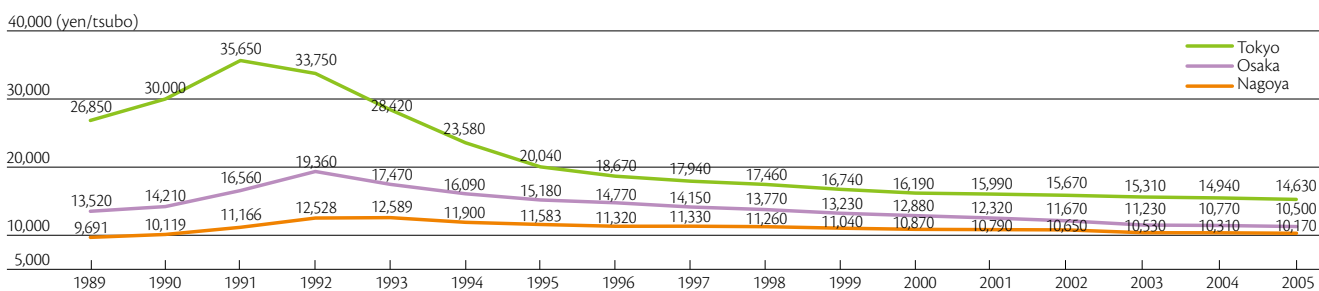
Source: Prepared using the Annual Construction Statistics Report issued by MLIT.  
 Notes: This is a compilation of offices by usage that have filed construction reports based on Article 15-1 of the Building Standards Law.  
 2. Lump presentation of the scheduled construction start month in the filed construction report.  
 3. Tokyo metropolitan area: Tokyo, Kanagawa, Chiba and Saitama; Osaka metropolitan area: Osaka, Kyoto and Hyogo

### History of Office Building Vacancy

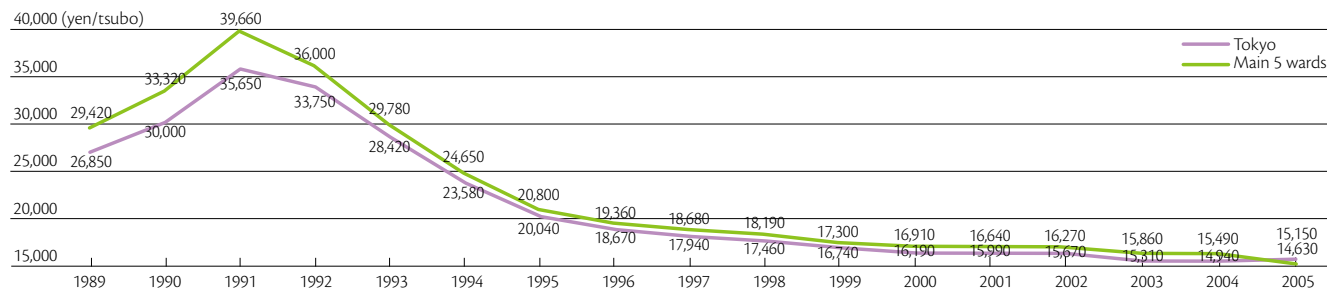


Source: Prepared using the Compilation of Building Fact-Finding Studies of the Building Owners and Managers Association, Japan and the Compilation of Building Fact-Finding Studies (Tokyo) issued by the Building Owners and Managers Association, Tokyo. They became the same study again in 2001.

### History of New Real Rents of Offices in Three Major Metropolitan Areas



### History of New Real Rents of Offices in Tokyo



Source: Prepared using the Real Estate White Papers 2005 of K.K. Ikoma Data Service System.  
 Note: 1. Main 5 wards are Chiyoda, Chuo, Minato, Shinjuku and Shibuya.  
 2. Real rents: This was calculated to make a uniform comparison of rental conditions for rents for one net tsubo including operating revenues from deposits (operating revenues were calculated as 6%)  
 Real rent = [Deposit x operating rate (6% annually) x 1/12 months + rent]/(100% - common expense rate) \*Common expense rate is the ratio of common expense area in the contracted area

## Valuation of Real Estate in Gross National Assets

(unit: trillion yen)

Category	Year														
		1985	1986	1987	1988	1989	1996	1997	1998	1999	2000	2001	2002	2003	2004
Gross national assets		3,936	4,536	5,341	5,994	6,858	8,279	8,376	8,352	8,538	8,405	8,208	8,018	8,021	8,128
Valuation of real estate		1,320	1,578	2,014	2,203	2,538	2,315	2,282	2,202	2,124	2,042	1,942	1,848	1,775	1,740
		(34)	(35)	(38)	(37)	(37)	(28)	(27)	(26)	(25)	(24)	(24)	(23)	(22)	(21)
Housing		159	161	173	182	201	262	265	260	258	257	251	247	247	249
Non-housing buildings		156	160	169	181	201	255	258	253	250	248	242	238	240	246
Housing		1,004	1,257	1,673	1,840	2,136	1,798	1,759	1,689	1,616	1,537	1,449	1,363	1,288	1,245
Financial assets		2,132	2,455	2,800	3,231	3,706	5,249	5,353	5,413	5,686	5,635	5,546	5,462	5,539	5,666

Source: The Cabinet Office's National Economic Statistics Report (2000) was used for 1985 – 1989 and the same for 1994 and on (2005 version).

Notes: 1. Revisions to the counts were done by tracing back the data from 1992 and on and so the premise of these figures differs from that of 1989 and earlier.  
2. The figures in the parentheses show the percent of gross national assets.

## Production by Industry and Gross Domestic Product

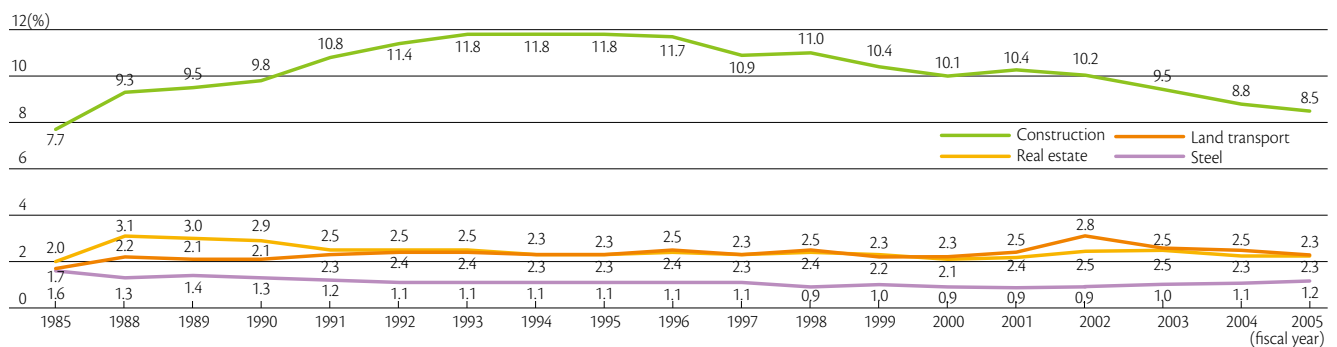
(unit: billion yen)

Year	1980	1985	1996	1997	1998	1999	2000	2001	2002	2003	2004
Real estate	22,654	32,358	54,368	55,895	56,434	56,568	57,864	58,826	59,312	59,640	60,101
Construction	22,506	25,381	40,750	40,865	39,088	37,625	36,848	35,216	33,492	33,038	31,912
Manufacturing	70,232	94,672	117,056	119,089	112,953	110,335	111,294	104,113	101,245	102,737	104,074
Service	28,063	46,390	92,836	95,561	99,101	99,517	102,607	103,678	103,868	104,425	105,863
Finance/Insurance	12,440	16,971	28,919	30,157	29,001	29,709	30,476	31,902	33,720	34,100	33,266
Total for all industries	249,050	333,678	522,712	534,971	528,531	523,630	522,471	516,518	512,411	512,100	514,833
(Reference) Gross domestic product	240,175	320,418	502,609	512,249	502,973	495,227	501,068	496,777	489,618	490,544	496,051

Source: The Cabinet Office's National Economic Statistics Report (2000) was used for 1980 and 1985 and the same (2005 version) for 1994 and on.

Notes: 1. The price indicated by producers is used for the production amounts of each industry. Therefore, they include indirect taxes, imputed interest, etc. and so the totals do not match the gross national product. 2. The total value also includes government service producers outside of each industry and non-profit private service producers for households. 3. The production amount for the real estate industry also includes imputed rents (imputed rents are the recording of amounts equivalent to rent as the production amount of an individual proprietorship to the gross production amount based on the judgment that the homeowner is involved in the home leasing business). 4. Revisions to the counts were done by tracing back the data from 1992 and on and so the premise of these figures differs from that of 1980 and earlier.

## History of Sales Share by Industry



(unit: 10 billion yen)

	1985	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
All industries	105,907	127,173	130,785	142,818	147,477	146,506	143,911	143,898	148,469	144,838	146,742	138,134	138,346	143,503	133,821	132,680	133,467	142,036	150,812
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Real estate	2,153	3,998	3,902	4,150	3,759	3,596	3,596	3,286	3,402	3,546	3,367	3,309	3,237	2,991	3,186	3,348	3,363	3,325	3,450
	(2.0)	(3.1)	(3.0)	(2.9)	(2.5)	(2.5)	(2.5)	(2.3)	(2.3)	(2.4)	(2.3)	(2.4)	(2.3)	(2.1)	(2.4)	(2.5)	(2.5)	(2.3)	(2.3)
Construction	8,205	11,887	12,452	14,022	15,898	16,768	17,007	16,958	17,003	16,988	16,019	15,192	14,437	14,455	13,935	13,545	12,746	12,480	12,886
	(7.7)	(9.3)	(9.5)	(9.8)	(10.8)	(11.4)	(11.8)	(11.8)	(11.8)	(11.7)	(10.9)	(11.0)	(10.4)	(10.1)	(10.4)	(10.2)	(9.5)	(8.8)	(8.5)
Steel	1,689	1,629	1,766	1,895	1,834	1,678	1,527	1,517	1,574	1,538	1,556	1,297	1,330	1,246	1,222	1,251	1,294	1,560	1,841
	(1.6)	(1.3)	(1.4)	(1.3)	(1.2)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(0.9)	(1.0)	(0.9)	(0.9)	(0.9)	(1.0)	(1.1)	(1.2)
Land transport	1,804	2,804	2,763	3,009	3,337	3,461	3,464	3,360	3,352	3,663	3,346	3,447	3,049	3,303	3,334	3,703	3,399	3,530	3,514
	(1.7)	(2.2)	(2.1)	(2.1)	(2.3)	(2.4)	(2.4)	(2.3)	(2.3)	(2.5)	(2.3)	(2.5)	(2.2)	(2.3)	(2.5)	(2.8)	(2.5)	(2.5)	(2.3)

Source: Prepared using the Monthly Finance Review: Annual Special on For-Profit Corporation Statistics issued by the Ministry of Finance.

Note: The figures in the parentheses represent the share (%) versus the sales of all industries.

## History of Administrative Indices by Industry Type

		1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Ratio of operating profit to total capital (%)	All industries	4.3	4.6	2.5	2.5	2.7	2.7	2.5	1.9	2.3	2.9	2.4	2.6	3.0	3.4	3.6
	Real estate	3.9	4.2	1.5	1.6	1.6	1.2	1.2	1.3	1.9	2.1	2.5	2.6	2.0	2.3	2.7
Operating profit	Construction	3.1	5.3	4.1	3.2	2.7	2.7	2.1	1.9	1.7	1.8	1.6	1.5	1.8	2.2	2.0
	Total capital	Steel	3.5	7.3	0.6	1.4	2.7	2.6	3.0	0.8	1.6	3.0	1.0	2.4	4.5	9.1
	Land transport	4.4	4.7	3.5	2.8	3.1	3.1	2.8	2.4	2.6	2.8	2.2	3.1	2.9	3.1	3.3
Ratio of ordinary profit to total capital (%)	All industries	3.1	3.5	1.6	1.7	2.0	2.1	2.1	1.6	2.1	2.8	2.3	2.5	2.9	3.5	3.9
Ordinary profit	Real estate	1.4	1.1	-0.5	-0.5	-0.1	-0.5	-0.1	0.2	0.8	1.3	1.6	2.0	1.4	1.8	2.0
	Construction	2.3	4.6	3.5	2.9	2.5	2.5	2.1	2.0	1.8	1.9	1.6	1.6	2.0	2.3	2.1
Total capital	Steel	1.1	5.6	-0.4	-0.5	1.1	1.4	1.7	-0.3	0.6	2.0	0.2	1.6	3.7	8.5	10.2
	Land transport	2.4	3.5	1.5	1.0	1.4	1.6	1.3	1.2	1.4	1.6	1.1	2.1	2.1	2.2	2.7
Ratio of operating profit to sales (%)	All industries	2.8	3.5	2.2	2.3	2.4	2.4	2.3	1.8	2.1	2.6	2.2	2.4	2.8	3.1	3.2
Operating profit	Real estate	9.4	11.5	6.9	7.8	7.5	5.1	6.2	7.0	7.9	8.6	9.7	9.6	7.5	8.1	9.1
	Construction	2.1	3.9	3.2	2.6	2.2	2.1	1.7	1.5	1.4	1.6	1.4	1.3	1.4	1.7	1.5
Sales	Steel	3.9	8.1	0.9	2.0	3.6	3.6	4.0	1.3	2.3	4.3	1.4	3.4	5.9	10.2	11.1
	Land transport	3.8	5.1	4.8	4.1	4.5	4.3	4.1	3.6	4.3	4.2	3.3	4.6	4.4	4.8	5.4
Ratio of ordinary profit to sales (%)	All industries	2.0	2.7	1.4	1.5	1.8	1.9	1.9	1.5	1.9	2.5	2.1	2.3	2.7	3.1	3.4
Ordinary profit	Real estate	3.3	3.1	-2.4	-2.1	-0.3	-2.2	-0.4	1.3	3.4	5.3	6.1	7.1	5.2	6.5	6.8
	Construction	1.6	3.4	2.8	2.3	2.1	2.0	1.7	1.6	1.5	1.6	1.4	1.3	1.6	1.8	1.7
Sales	Steel	1.3	6.1	-0.6	-0.7	1.5	1.9	2.3	-0.5	0.9	2.9	0.2	2.3	4.9	9.6	10.6
	Land transport	2.1	3.8	2.1	1.5	2.0	2.2	1.8	1.9	2.3	2.4	1.7	3.0	3.3	3.4	4.4
Turnover of total capital (times)	All industries	1.54	1.31	1.13	1.11	1.12	1.12	1.12	1.04	1.08	1.11	1.07	1.06	1.09	1.11	1.14
	Real estate	0.42	0.37	0.22	0.21	0.22	0.23	0.20	0.18	0.25	0.24	0.26	0.27	0.27	0.28	0.29
Sales	Construction	1.44	1.35	1.28	1.23	1.23	1.27	1.25	1.22	1.17	1.16	1.19	1.20	1.27	1.27	1.27
	Total capital	Steel	0.88	0.90	0.70	0.71	0.74	0.73	0.75	0.64	0.69	0.69	0.67	0.69	0.76	0.89
	Land transport	1.16	0.92	0.73	0.67	0.69	0.73	0.69	0.67	0.62	0.66	0.66	0.68	0.66	0.66	0.61
Ratio of net worth to total capital (%)	All industries	17.7	19.1	19.3	19.0	18.9	19.9	19.9	19.2	22.3	25.7	25.2	27.4	28.3	29.8	30.1
Net worth	Real estate	8.0	8.1	4.0	3.2	3.5	6.0	-1.8	-8.4	5.7	14.6	7.2	14.3	11.0	20.7	17.5
	Construction	15.4	15.6	18.4	18.2	18.4	18.4	20.3	21.4	22.6	21.2	22.0	24.8	27.1	28.9	26.4
Total capital	Steel	16.1	26.1	27.1	27.2	26.1	27.7	27.8	27.4	28.3	29.9	27.9	30.2	32.5	36.1	38.7
	Land transport	14.9	23.9	18.2	17.0	18.9	19.3	20.1	17.7	20.8	20.7	19.8	22.4	22.5	22.9	27.1

Source: Prepared using the Monthly Finance Review: Annual Special on For-Profit Corporation Statistics issued by the Ministry of Finance.

Notes: 1. Total capital is the total of liabilities indicated in the creditor side of the balance sheet (notes payable, accounts payable, accrued payments, corporate bonds, borrowings, allowances, reserves, etc.) and capital (paid-in capital, capital reserves and profit reserves). 2. Net worth is the total amount for the capital section on the creditor side of the balance sheet.

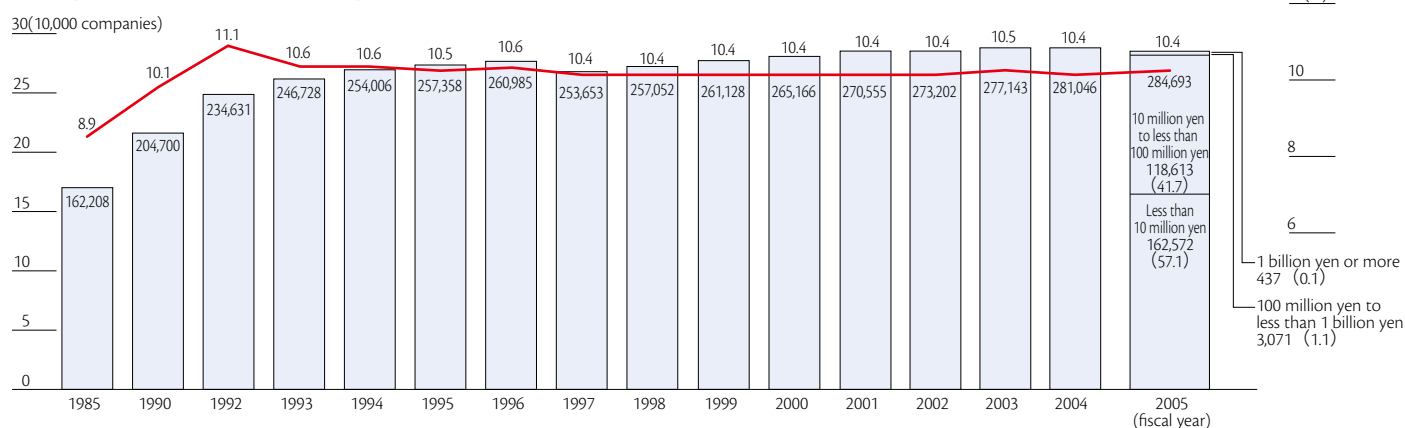
3. Operating profit is sales - (sales cost + sales expenses x general administrative expenses). 4. Ordinary profit is operating profit + (non-operating revenues - non-operating expenses).

\*Non-operating revenues are interest received, discounts, investment security interest, received dividends, capital gains from investment securities, etc.

\*Non-operating expenses are interest paid, discounts, corporate bond interest, amortization of bond issue discount, capital losses from investment securities, etc.

## History of Number of Real Estate Companies

Percentage of total companies for all industries (right scale)



Source: Monthly Finance Review: Annual Special on For-Profit Corporation Statistics issued by the Ministry of Finance.

Notes: 1. Corporations are unlimited partnerships (gomei kaisha), limited partnerships (goshi kaisha), joint stock corporations (kabushiki kaisha) and limited corporations (yugen kaisha) with head offices in Japan.

2. The figure for fiscal 2002 is the breakdown by paid-in capital amount. The figures in the parentheses show the percentage of the total (unit: %).

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### Real Estate in Japan 2007

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## Creating Value in the 21st Century

The era of mega competition has arrived in Japan and presently our country is attempting unprecedented structural reforms within a major shift in the business and social climate. These include the advent of information technology, aging of society and the decreasing population of children.

1

### Social Duty of the Real-Estate Industry

Homes rich in solace and relaxation, comfortable and creative workplaces, relaxing and healthy leisure and senior lifestyles are all basic requirements for people to clearly sense true wealth. It is the social duty of the real estate industry to provide the necessary facilities and services to realize this outcome and to promote business as a Value Creator that heightens the value of the human environment.

2

### Customer Focused Management

The provision of "Customer First" management in today's new era is best served by supporting the lifestyle pursuits of customers in meeting their ever diversifying and increasingly unique needs with an enhanced selection of choices, and in providing accurate information and appropriate advice.

3

### Principles of Business Conduct

In addition to maintaining high morals as professionals and refining our specialized knowledge, business shall be conducted based on the following principles.

- Provision of facilities and services at an appropriate price via an open, fair and transparent market
- Formation of good stock, and maintenance and enhancement of value to be passed on to the next generation
- Support for the formation of a community that is friendly to everyone through the creation of towns and cities that are part of the beauty and symbiotic with their surroundings

4

### Realization of a Creative Vision through Collaboration

Members shall act based on the recognition that the identity of the real estate industry is one of "collaboration" in the creation of towns and cities that respects the public nature of the value of space, accomplished through the cooperation of various individuals with differing roles. We will constantly conduct ourselves based on a vision of "creation," through the proactive implementation of consulting and management, and the research and development of new business and supply methods.

5

### International Perspective

In addition to opening the Japanese real estate market internationally, members will strive to make Japanese cities globally appealing by maintaining their historical culture while also enriching them with a strong "heartbeat" and vitality.

6

### Environmental Friendliness

Members will implement business in a manner that considers global and local environments through resource and energy conservation, reduction of waste and the promotion of recycling.

**REAL ESTATE in Japan**  
**2007**

—— *Creating Value in the 21st Century* ——

**The Real Estate Companies Association of Japan**