

Trends Concerning Land in FY2012

Basic Measures in Relation to Land in FY2013

Abstract

June 2013

Ministry of Land, Infrastructure, Transport and Tourism

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“Trends Concerning Land in FY2012” and “Basic Measures in Relation to Land in FY2013” are created based on the provisions of Article 10, paragraphs (1) and (2) of the Basic Act for Land (Act No. 84 of December 22, 1989).

“Trends Concerning Land in FY2012”

Part 1 Trends Concerning Land

Chapter 1 Trend in Land Prices and Land Transactions in FY2012

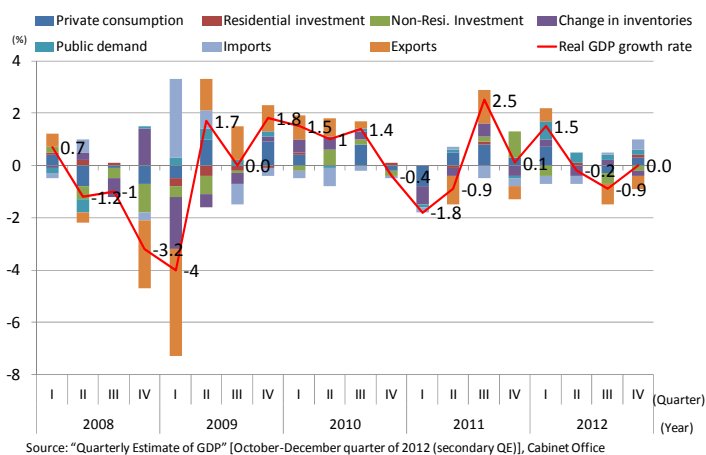
In fiscal 2012, the Japanese economy moved towards recovery until summer thanks to reconstruction demand and policy effects. Since mid-year, activities slowed including reduced export and production against the background of the downturn in the global economy, but later showed a move towards recovery.

Section 1 Economic Situation Surrounding the Real Estate Market in Japan

(Changes in GDP)

The Japanese economy had been in recovery from the recession triggered by Lehman’s fall. The Great East Japan Earthquake caused a significant drop in the real GDP growth rate (by 1.8%) from the previous quarter (January-March quarter of 2011). Thereafter, in the July-September quarter of 2011, the real GDP growth rate became positive and grew 2.5% from the previous quarter, thanks to increasing domestic consumption and exports. However, it became 0.0% in the October-December quarter of 2012.

Chart: Changes in real GDP growth rates and contribution ratio



Source: “Quarterly Estimate of GDP” [October-December quarter of 2012 (secondary QE)], Cabinet Office

(Trends in corporations)

The sense of equipment overcapacity among companies had been gradually decreasing since 2009 both in manufacturing and non-manufacturing industries, but it has been rising in the manufacturing industry since 2012.

(Trends in households)

Concerning employment, excessiveness in employment perceived by employers has been improved since the July-September quarter of 2009 except for a temporary aggravation observed in the April-June quarter of 2011.

Consumption by households dropped to a large extent in the January-March quarter of 2011, due to the impact of the earthquake, but it has remained steady in 2012 thanks to the improved household mindset.

Section 2 Trends in Land Prices

Publication of the values of standard sites in 2013 showed a continued decline nationwide, but the rate of decline slowed and there is a recovery trend in some regions where the number of sites whose price rose or remained at the same level significantly increased.

Looking at the changes by the use of land, the rate of decrease in residential land values contracted partly because of the governmental measures to support housing demand, such as low interest rates and tax deductions on housing loans. In city centers, land prices rose in areas with a better residential environment and better traffic convenience. In suburban residential areas, too, land prices rose in areas with good access to urban centers.

The rate of decline shrunk for commercial land in all prefectures. Though office buildings continued to face high vacancy rates, the rates were on a decrease due to the slowing down of new supplies and the rate of price decline of land for offices was shrinking. In major city centers, there were moves to concentrate business functions into new large offices with superior earthquake protection in addition to expansion and relocation to better locations. Consequently, the fall of land prices was coming to end in areas where good offices were concentrated whereas demand was still weak in areas with a large number of small and medium old buildings constructed according to the old earthquake-resistance standards.

Chart: Fluctuations in land values (year-on-year)

	Residential land					Commercial land				
	2009 Publication	2010 Publication	2011 Publication	2012 Publication	2013 Publication	2009 Publication	2010 Publication	2011 Publication	2012 Publication	2013 Publication
National	-3.2	-4.2	-2.7	-2.3	-1.6	-4.7	-6.1	-3.8	-3.1	-2.1
Three major metropolitan areas	-3.5	-4.5	-1.8	-1.3	-0.6	-5.4	-7.1	-2.5	-1.6	-0.5
Tokyo areas	-4.4	-4.9	-1.7	-1.6	-0.7	-6.1	-7.3	-2.5	-1.9	-0.5
Osaka areas	-2.0	-4.8	-2.4	-1.3	-0.9	-3.3	-7.4	-3.6	-1.7	-0.5
Nagoya areas	-2.8	-2.5	-0.6	-0.4	0.0	-5.9	-6.1	-1.2	-0.8	-0.3
Areas other than Tokyo, Osaka and Nagoya areas	-2.8	-3.8	-3.6	-3.3	-2.5	-4.2	-5.3	-4.8	-4.3	-3.3

Source: "Publication of value of standard sites" Ministry of Land, Infrastructure, Transport and Tourism

Note 1: Regional classifications are as follows:

Three major metropolitan areas: Tokyo metropolitan area, Osaka area, and Nagoya area.

Tokyo metropolitan area: A group of municipalities that include existing urban areas and suburban development areas provided by the national Capital Region Development Act.

Osaka area: A group of municipalities that include existing urban areas and suburban development areas provided by the Kinki Region Development Act.

Nagoya area: A group of municipalities that include urban areas provided by the Chubu Region Development Act.

Areas other than Tokyo, Osaka and Nagoya areas: Those other than the three major metropolitan areas.

Note 2: 2009 Publication: from January 1, 2008, to January 1, 2009


2010 Publication: from January 1, 2009, to January 1, 2010


2011 Publication: from January 1, 2010, to January 1, 2011

2012 Publication: from January 1, 2011, to January 1, 2012

2013 Publication: from January 1, 2012, to January 1, 2013

Note 3: Year-on-year fluctuation was obtained by dividing the total of the year-on-year fluctuation of the value of continued standard sites by the number of the sites.

Note 4:  The drop ratio decreased from the previous year.

 The drop ratio increased from the previous year.

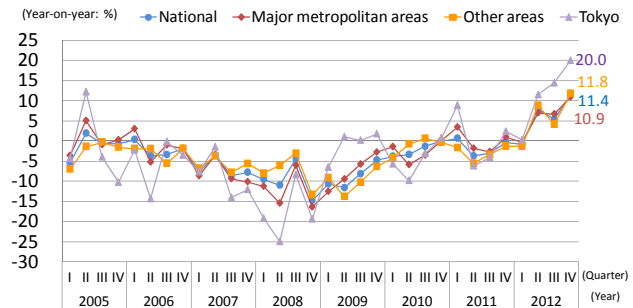
Section 3 Trends in Land Transactions

(Changes in the number of land transactions, etc.)

The trends in land transactions are followed by the number of transfers of ownership registered through buying and selling. The number of land transactions increased to roughly 1,204,000 in 2012 (marking a 6.0% increase from the previous year) for the first time in 9 years.

In terms of year-on-year quarterly changes, the number has increased greatly since the second quarter of 2012 in every region.

Chart: Changes in the variation (year-over year) of land transaction through buying and selling



Source: Created based on "Statistics on Registration" Ministry of Justice
 Note 1: The numbers of land transactions are those of transfers of ownership concerning land through buying and selling.
 Note 2: Regional classifications are as follows:
 Major metropolitan areas: Saitama, Chiba, Tokyo, Kanagawa, Aichi, Mie, Kyoto, Osaka and Hyogo Prefectures
 Other areas: areas other than above.

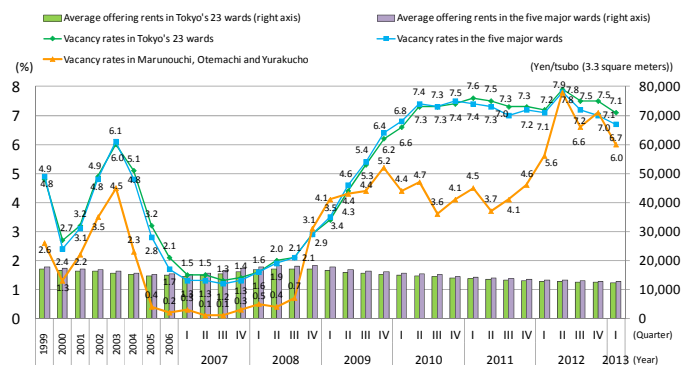
(Perception of land transactions by enterprises)

The diffusion index (DI: the ratio of corporations responding that transactions are "active" minus the ratio of corporations responding with "sluggish") regarding the perception of land transactions in the present locations of the head offices of the enterprises in Tokyo's 23 special wards and in Osaka prefecture are on a trend toward improvement; the DI for Tokyo's 23 wards was -24.3 and that for Osaka was -25.9 in the survey conducted in February 2013.

(Trends in the office market)

Concerning the rental office market, the demand for offices in 2012 improved in several areas. Though the vacancy rate rose during the April-June quarter of 2012 against the background of large supply in the major five wards, it is improving in Tokyo's 23 wards.

Chart: Changes in office building rents and vacancy rates (Tokyo)



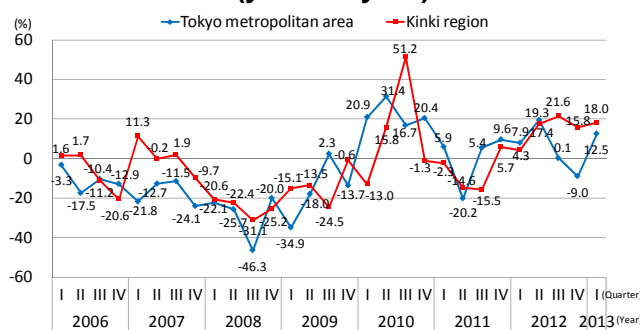
Source: CBRE
 Note: Figures for "Marunouchi, Otemachi and Yurakucho" are not included because there has been no sample of publicly-available offering rent in the target zones since October-December 2011.

(Trends in the residential market)

The total number of new housing starts increased for three consecutive years, at 882,797 units in 2012 (up 5.8% from the previous year).

Comparing the number of new sales over the previous year as an indication of the condominium market, the number for the Tokyo metropolitan area was temporarily negative in the October-December quarter of 2012 but has been mostly positive. In the Kinki region, the number has been positive since the October-December quarter of 2011 and has moved further upward since the April-June quarter of 2012.

Chart: Changes in number of new condominium sales in Tokyo metropolitan and Kinki region (year-on-year)



Source: Created based on "National Condominium Market Report" Real Estate Economic Institute Co., Ltd.
 Note: Regional classifications are as follows:
 Tokyo metropolitan area: Saitama prefecture, Chiba prefecture, Tokyo, and Kanagawa prefecture.
 Kinki region: Shiga prefecture, Kyoto prefecture, Osaka prefecture, Hyogo prefecture, Nara prefecture, and Wakayama prefecture.

Section 4 Trends in the Real Estate Investment Market

(Trends in the real estate securitization market)

The total assets in the form of real estate or related trust beneficiary rights obtained in the process of real estate securitization (by securitization vehicles, etc.) reached approximately 3.3 trillion yen in fiscal 2012. The total value of real estate or related trust beneficiary rights transferred by securitization vehicles, etc. was about 4.0 trillion yen.

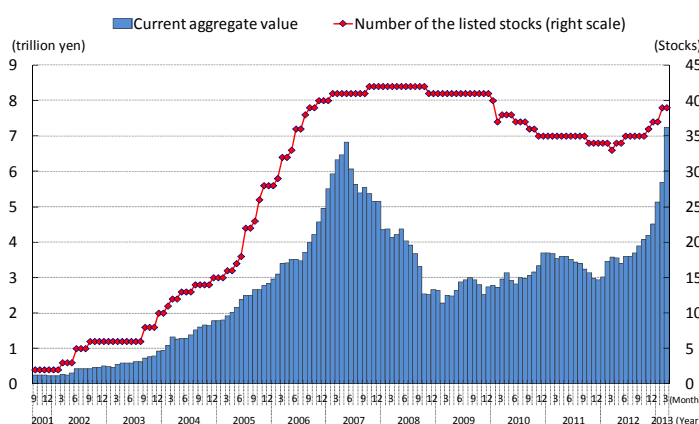
(Trends in the J-REIT market)

Regarding J-REIT, fiscal 2012 saw new listings for the first time in four and a half years. The six new listings changed the number of different stocks to 39 as of the end of March 2013.

The size of the J-REIT market in terms of the current aggregate value of investment securities in circulation was about 7.2 trillion yen as of the end of March 2013. On a monthly basis, the value exceeded the record of approx. 68 billion yen at the end of May 2007, hitting a new high since the establishment of the market in September 2001.

TSE REIT Index that indicates price movements of the overall listed J-REIT market was 989.64 at the end of March 2012, but significantly improved to 1642.79 at the end of March 2013.

Chart: Changes in number and current aggregate value of the listed J-REIT stocks



Source: The Association for Real Estate Securitization

Section 5 Trends in Land Use

As of 2011, the total area of Japan was approximately 37.79 million hectares (93.38 million acres). Forestland accounts for the largest portion (25.06 million hectares, 61.92 million acres), followed by agricultural land (4.56 million hectares, 11.27 million acres), thus marking a decrease from the preceding year. When combined, forestland and agricultural land account for about 80% of the national land area. In addition, developed land, such as residential and industrial land, amounts to 1.9 million hectares (4.70 million acres), roads occupy 1.36 million hectares (3.36 million acres), surface water, rivers, and canals cover 1.34 million hectares (3.31 million acres), and fields total 0.34 million hectares (0.84 million acres).

Section 6 Perceptions of Land among Enterprises and Households

Perception of land by households: Among the responses regarding the tendency of land prices depending on evaluation of its own profitability and convenience, in fiscal 2005, 43.8% were positive, including “very favorable” and “favorable,” whereas 55.3% were positive in the fiscal 2012 survey.

Section 7 Situation Concerning Real Estate after the Great East Japan Earthquake (Trends in land values in the disaster areas)

While land values showed different tendencies among the afflicted prefectures during the previous year, in publication of value of standard sites in 2013, the rate of decrease rate contracted both in residential and commercial land values in Iwate prefecture; residential land values rose while commercial land values stopped falling and leveled off in Miyagi prefecture; and the drop rate contracted both in residential and commercial land values in Fukushima prefecture.

Trends in land values in Iwate, Miyagi and Fukushima prefectures

	Residential land			Commercial land		
	2011 Publication	2012 Publication	2013 Publication	2011 Publication	2012 Publication	2013 Publication
Iwate prefecture	-4.9	-4.8	-2.7	-7.6	-7.0	-4.8
Miyagi prefecture	-2.9	-0.7	1.4	-6.5	-3.9	0.0
Fukushima prefecture	-3.4	-6.2	-1.6	-4.3	-7.2	-3.2
National	-2.7	-2.3	-1.6	-3.8	-3.1	-2.1

Source: “Publication of value of standard sites” Ministry of Land, Infrastructure, Transport and Tourism


Note 1: There is no survey site in the areas seriously affected by the Great East Japan Earthquake due to changes in selection of survey sites.


Note 2: Survey was suspended for standard sites within evacuation zones, etc. designated under the Act on Special Measures Concerning Nuclear Emergency Preparedness (17 sites within evacuation zones, planned evacuation zones and zones in *preparation* for having the evacuation order lifted) in Fukushima prefecture as of January 1, 2013.

Note 3: 2011 Publication: from January 1, 2010, to January 1, 2011

2012 Publication: from January 1, 2011, to January 1, 2012

2013 Publication: from January 1, 2012, to January 1, 2013

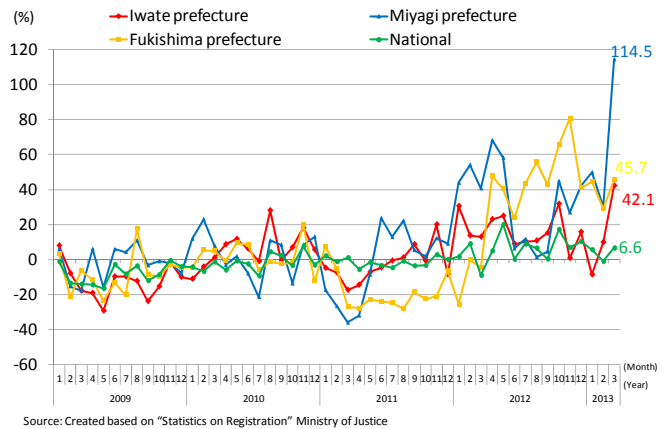
Note 4:  The drop ratio decreased from the previous year.

 The drop ratio increased from the previous year.

(Trends in land transactions in the disaster areas)

Concerning the year-to-year change in the number of land transactions in the disaster areas, though the drop ratio expanded in Iwate prefecture just after the earthquake, the figure has been positive since August 2011. In Miyagi prefecture, too, the drop ratio expanded immediately after the earthquake, but the figure has been positive since June 2011. In Fukushima prefecture, the figure had been negative after the earthquake but turned positive in April 2012 and has been positive since then.

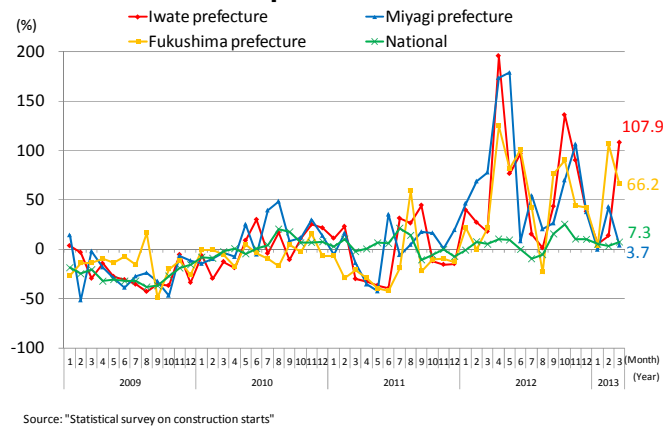
Chart: Year-to-year change in the number of land transactions through purchases in Iwate, Miyagi and Fukushima prefectures



(Trends in the housing market and office market, etc. in the disaster areas)

Looking at the trend in the housing market in the disaster areas, the year-to-year number of housing starts marked a major decline immediately after the earthquake in the prefectures of Iwate, Miyagi and Fukushima, and then improved in mid-2011. Later, the figure turned negative in Iwate and Fukushima prefectures but has been mostly positive in the three prefectures since 2012.

Chart: Year-to-year change in the number of housing starts in Iwate, Miyagi and Fukushima prefectures



Regarding the office market in the disaster areas, the vacancy rate in Sendai was as high as 19.7% in the October-December quarter of 2010 just before the earthquake due to the large supply of new office buildings during the period from 2008 to 2010. After the earthquake, the rate dropped against the background of need for relocating from damaged buildings or those having low earthquake resistance, as well as demand for offices among reconstruction-related companies.

Chapter 2 Fluctuation of Asset Prices in the Real Estate Market and Globalization

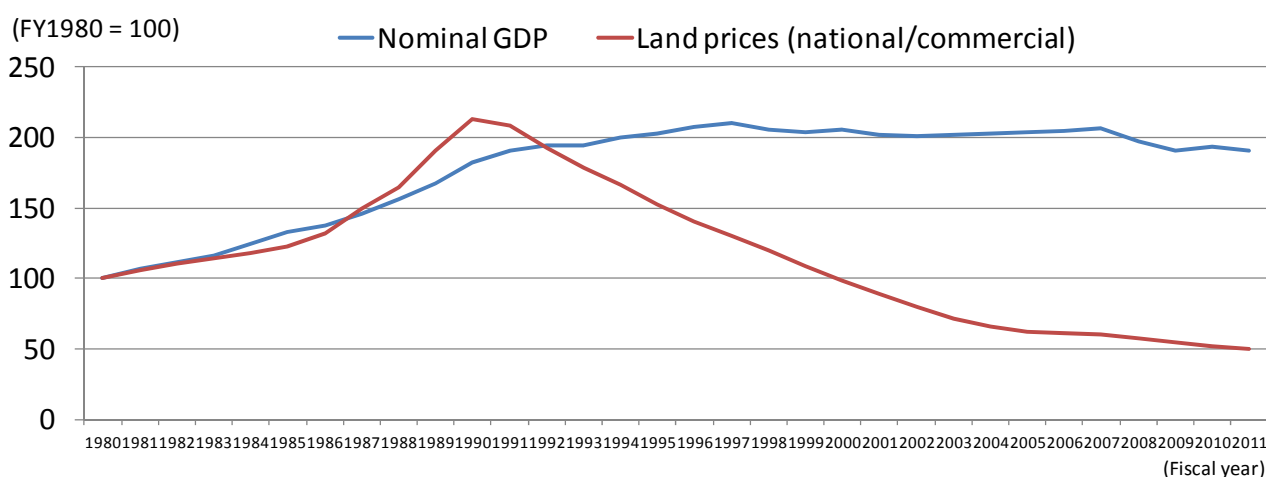
Chapter 1 provided an overview of the trend of the real estate market in fiscal 2012. It is believed that the prolonged fall of land prices in Japan had a major effect not only on the real estate market but also on the overall Japanese economy. The rapid progress of real estate securitization in the 2000s globalized the market and stimulated real estate investments in Tokyo and its surrounding areas, but it also brought about the impact of the global financial crisis on the Japanese real estate market. Development of the real estate market is conducive to the formation of good stock in Japan and therefore it is necessary to stimulate the market in the future. This requires efforts to ensure a recovery trend in land prices identified in some areas and to overcome asset deflation, while at the same time responding to the globalization of the market. As described in Chapter 1, there are signs of recovery in the recent real estate market. With this in mind, this chapter will provide analysis focused on the fluctuation of land prices and its impact on economy and examine issues for stimulation of the real estate market by incorporating overseas economic growth amid the ongoing globalization of the market.

Section 1 Land Price Fluctuation and Its Factors

(Continuing decline in land prices since the bubble's implosion)

In terms of the changes in nominal GDP and land prices in Japan since fiscal year 1980, land prices climbed exceeding the pace of GDP growth during the period from 1986 to 1991, the so-called bubble economy period when asset prices including stock and land prices rose sharply. After the implosion of the bubble, land prices have continued to drop with the sluggish Japanese economy.

Chart: Changes in nominal GDP and land prices



Source: Created based on "National Accounts of Japan" Cabinet Office and "Urban Land Price Index" Japan Real Estate Institute

Note 1: Land prices are as of the end of the respective fiscal year.

Note 2: Nominal GDP does not allow simple comparison because a different estimation standard was used before fiscal 1994.

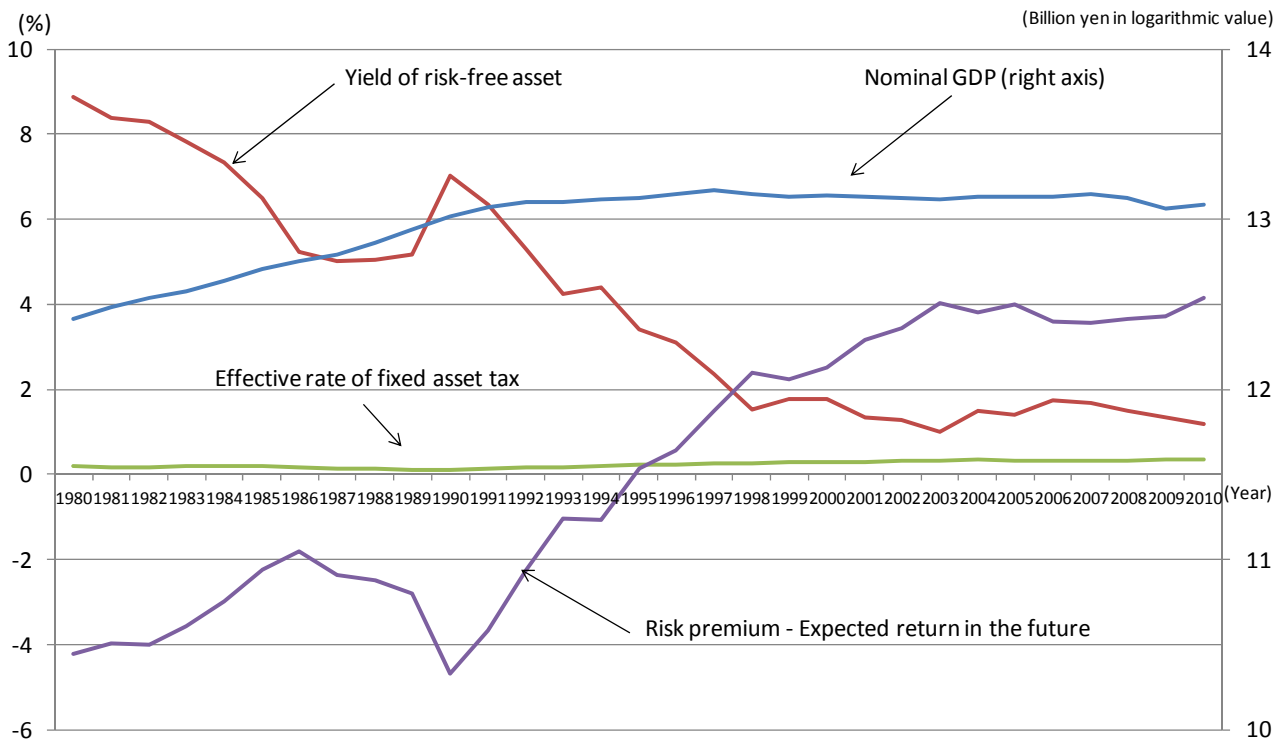
(Factors of land price fluctuation)

Based on the Income Approach, land price (P) is determined by factors such as (1) current return from the land (c), (2) expected return in the future (g), (3) yield of risk-free asset¹ (R_f), (4) effective rate of fixed asset tax (T) and (5) risk premium (R_p). This is expressed by the following formula:

$$P = \frac{C}{R_f + R_p - g + T}$$

Changes in these factors indicate that the yield of risk-free assets was relatively high during the bubble period and worked against the climbing of land prices. On the other hand, the difference between the risk premium and expected return in the future was very low, which attests to the general perception that land is an investment destination that is risk-free and that will invariably appreciate. The difference increased after the implosion of the bubble.

Chart: Changes of factors influencing land prices



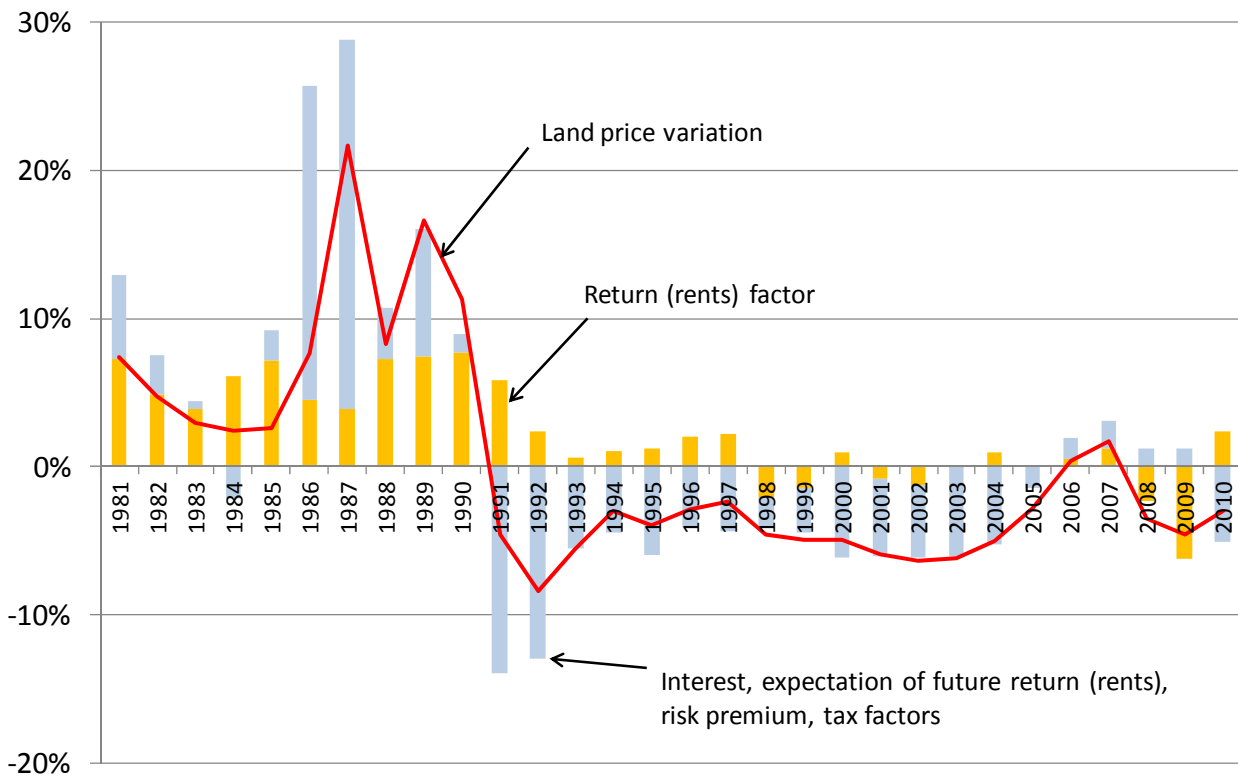
Source: Created based on "National Accounts of Japan" Cabinet Office, "Financial and Economic Statistics Monthly" the Bank of Japan, and "Record of Fixed Asset Prices, etc." Ministry of Internal Affairs and Communications

¹ A "risk-free asset" is an asset the return from which is predictable with certainty. Generally, national bonds are risk-free assets in terms of nominal return because the amounts and dates of interest payment and redemption are defined.

Factors of land price fluctuation based on the Income Approach are divided into numerator (“current return”) and denominator (“yield of risk-free assets” plus “risk premium” minus “expected return in the future” plus “effective rate of fixed asset tax”). In this decomposition, while “current return” (numerator) was a factor pushing up land prices before the bubble’s implosion, the denominator factors had more impact in pushing up land prices during the bubble in the latter half of the 1980s. A low risk premium and expectations for high future returns may be major factors. After the bubble’s implosion, however, the denominator factors are driving the drop of land prices. Though lower interest rates worked against the downward direction of land prices, the impact of a higher risk premium and lower future return expectations exceeded the effect.

In addition to low interest rates, declining risk premiums and rising expectations for future returns may have been factors for the rise in land prices before Lehman’s fall, while the falling current return due to a cooled economy is believed to be the main cause of the drop in land prices after Lehman’s fall.

Chart: Decomposition of land price fluctuation factors



Source: Created based on “Publication of value of Standard Sites” Ministry of Land, Infrastructure, Transport and Tourism

Section 2 Impact of Land Price Fluctuations on Macro Economy

(Impact on macro economy)

Fluctuations in land prices influence corporate capital expenditure and household housing investment through changes in the amount of land assets owned by companies and households. Let us examine how land price fluctuations through investment behavior influence the overall macro economy using a macro economy model.

In simulation of the impact of land value fluctuation caused by changes in risk premiums, a drop in risk premium by 0.3 points pushes up land prices, private capital investments and private housing investments by approx. 5.12%, 0.18% and 0.11%, respectively, in the first year. GDP rises by about 0.03% as a result of these effects. The effects increase in the second and third years, raising private capital investments and private housing investments by approx. 1.23% and 0.58%, respectively, in the third year. In the process of these changes, personal disposable income also increases, which slightly raising consumer spending.

Chart: Simulation result using macro economy model

	Land prices	Real GDP	Real private capital investments	Real private housing investments	Real private consumer spending
1st year	5.12	0.03	0.18	0.11	0.01
2nd year	5.68	0.11	0.67	0.39	0.03
3rd year	6.22	0.20	1.23	0.58	0.08

(%)

Source "Report of macroeconomy model construction with the real estate market in mind" MLIT

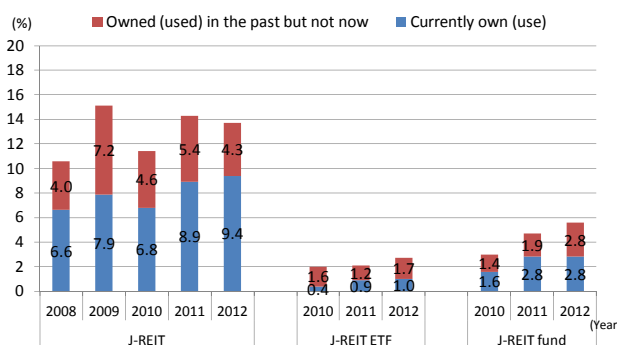
Note: Simulation results show the change rate of each item when the risk premium is lower by 0.3 points for three years from the 1st quarter of 2008 to the 4th quarter of 2010.

(Impact of land price fluctuation on consumption)

With the progress of real estate securitization there is an increase of financial products based on real estate including J-REIT. Fluctuation in land prices may influence households' consumption behavior through these financial products.

According to "J-REIT awareness survey for private investors" carried out by THE ASSOCIATION FOR REAL ESTATE SECURITIZATION, the ratio of respondents owning J-REIT and those that owned J-REIT in the past is only 13.7% in 2012, but the corresponding figures for J-REIT funds and ETF² of J-REIT are rising every year though at a slow pace.

Chart: Private investors who have owned J-REIT, etc.



Source: "J-REIT awareness survey for private investors" THE ASSOCIATION FOR REAL ESTATE SECURITIZATION

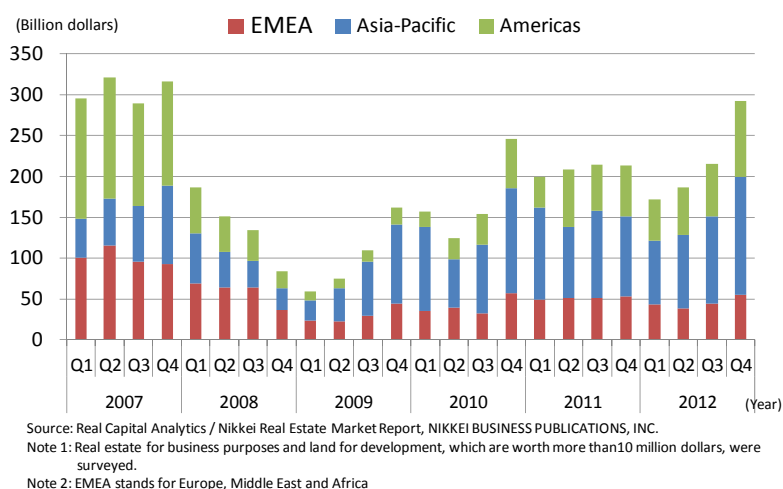
² Abbreviation of Exchange-Traded Fund that is an investment trust traded on a securities exchanges.

Section 3 Globalized Real Estate Market

<Trends of real-estate investment in the world>

Regarding the global trend of real estate investment in recent years, the amount of real estate transactions sharply dropped around Lehman's fall but continued to recover later and reached the 2007 level in the 4th quarter of 2012. In terms of the amount of transactions by region, recovery is more apparent in the Americas and Asia-Pacific region.

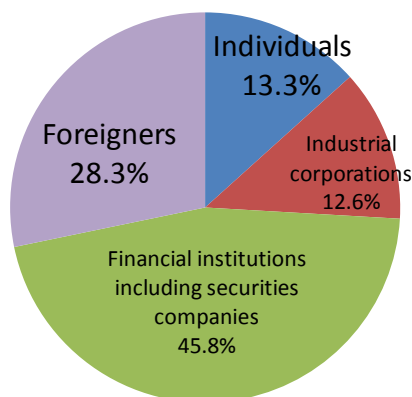
Chart: Changes in the amount of real estate transactions in the world



(Trends of cross-border investments in Japan)

Accounting for approx. 30% of the number of investment units in the J-REIT market, foreign investors now have a big impact on the market trend.

Chart: Ratio of J-REIT owners by type of investor

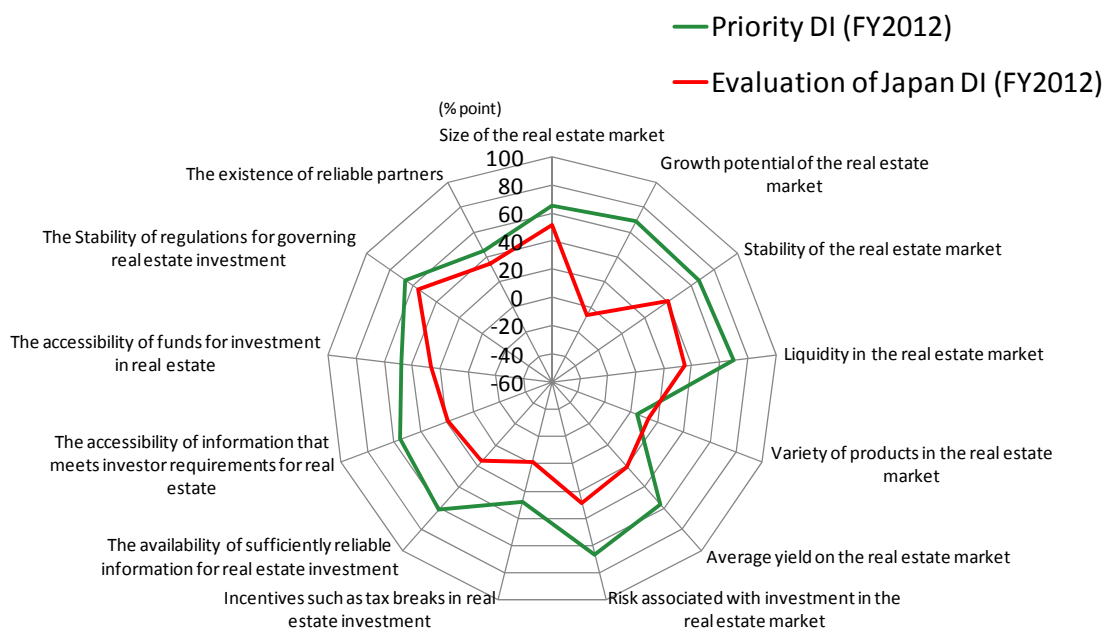


Source: Created by Mizuho Securities Co., Ltd. based on results briefing handouts of each J-REIT
 Note: Figures are as of March 28, 2013.

(Overseas investors' evaluation of the Japanese real estate market)

When asked about their evaluation of the Japanese real estate market, they evaluated highly “the stability of regulations for governing real estate investment (55.1 points)” followed by “size of the real estate market (51.0 points),” “stability of the real estate market (40.2 points)” and “liquidity in the real estate market (35.2 points).” Items that are perceived inferior in spite of their importance include “growth potential of the real estate market,” on which Japan’s demographic structure may have a big psychological impact, “risk associated with investment in the real estate market,” “the availability of sufficiently reliable information for real estate investment” and “the accessibility of information that meets investor requirements for real estate.”

Chart: Overseas investors' evaluation of the Japanese real estate market (comparison with importance)



Source: "Survey of Overseas Investors"

Note: Priority DI = [percentage selecting "attach importance" (%)] + 0.5 * [percentage selecting "somewhat attach importance" (%)] - 0.5 * [percentage selecting "don't attach much importance" (%)] - [percentage selecting "don't attach importance" (%)]
 Evaluation DI = [percentage selecting "superior" (%)] + 0.5 * [percentage selecting "somewhat superior" (%)] - 0.5 * [percentage selecting "somewhat inferior" (%)] - [percentage selecting "inferior" (%)]

(Trend of overseas expansion from Japan)

The trend of the current account of Japan shows that an income balance surplus has been supporting the current account surplus, indicating that the economic structure of the country has changed to earn more income through interests and dividends from overseas investments than through exports. Consequently, the trend of overseas investments from Japan including those in real estate businesses will have a big impact on the future current account.

With the progress of globalization of the Japanese real estate market, Japan’s overseas investments are also intensifying and businesses have been deployed with focus on the development of housing, commercial facilities, etc. in Asia and other regions in the world.

Chart: Changes in current account of Japan

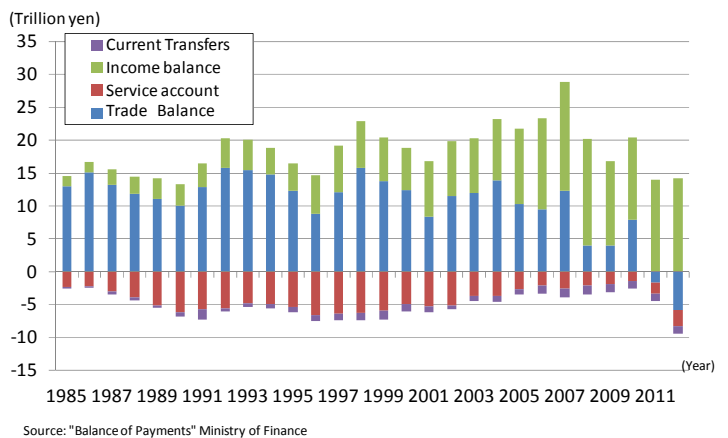
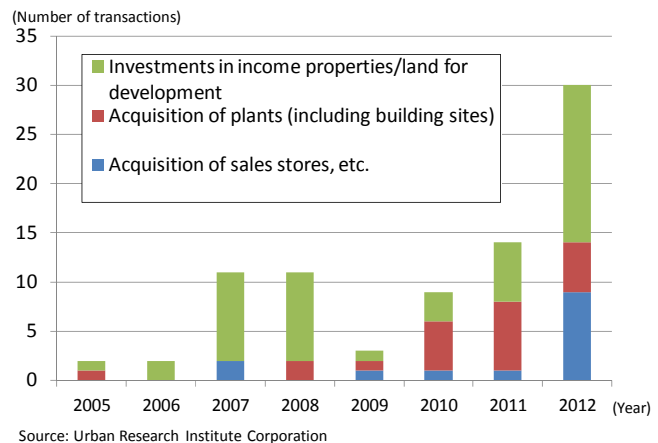


Chart: Changes in the number of acquisitions of overseas real estate by Japanese companies



(Efforts and tasks for improvement of the real estate market in response to globalization)

In order to stimulate the real estate market and incorporate the growth of the world in the tide of globalization, it is required to create an environment where investors at home and abroad can make investments at ease, while at the same time creating an environment to facilitate overseas investments. To this purpose, the following efforts have been made:

- (1) Developing property price indices in accordance with the handbook which is being written by international organizations
- (2) Ensuring conformity of real property appraisal standards, etc. to international valuation standards
- (3) Efforts for overseas deployment

Chapter 3 Changing Social Economic Structure and Land Use

With a full-scale shift to a depopulating and aging society with fewer children and the progress of tertiary industrialization of the industrial structure, land use in Japan is expected to go through a drastic change. Especially in highly urbanized regions where urban land use has expanded, it is expected that problems such as increase of underused/unused land including vacant lots and empty houses may come to surface due to population decrease, etc.

With these issues in mind, this chapter will analyze national trends of household and corporate demand for land based on factors such as population dynamics and industrial location, while at the same time examining the relationship between the changes in social economic structure and land use in case examples in individual regions. In addition, because the number of inheritance cases that could lead to change in land use is expected to increase with the aging of the population, the chapter will focus on transfer of assets to younger generations and analyze issues for effective utilization of land in the future.

Section 1 Changing Social Economic Structure

(Decrease and aging of population)

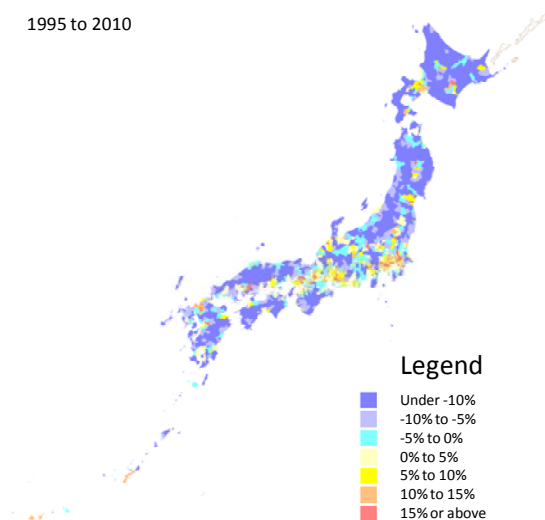
According to the 2010 Census, Japan's total population reached a new high at 128,057,352 as of October 1, 2010, but is expected to decline in the future. In terms of age bracket, the ratios of people aged 65 or over and those aged 75 or over are both increasing year by year, showing rapid aging of the population.

Looking at this population change by municipality, population decreased in most municipalities excluding the three major metropolitan areas and some local central cities during the period from 1995 to 2010.

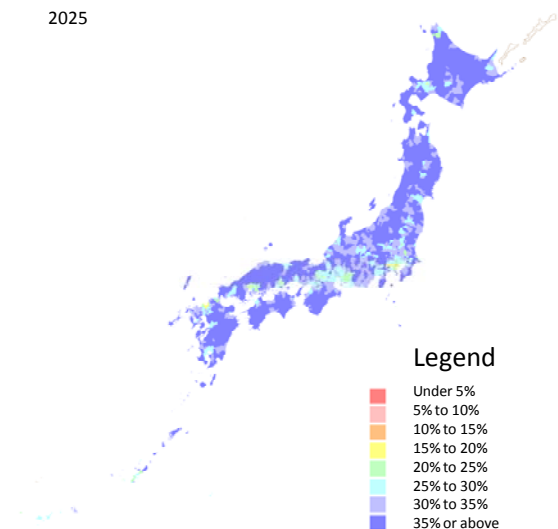
Looking at population aging rate by municipality using an estimation of the National Institute of Population and Social Security Research, it is expected that the population aging rate will exceed 35% in most municipalities excluding some large cities by 2025.

Chart: Population change rate by municipality

Chart: Population aging rate by municipality



Source: "Survey on actual land use in depopulating and aging society" MLIT
 Note 1: Created based on "Population Census," Ministry of Internal Affairs and Communications.
 Note 2: The map is not an exhaustive expression of Japan's territory.



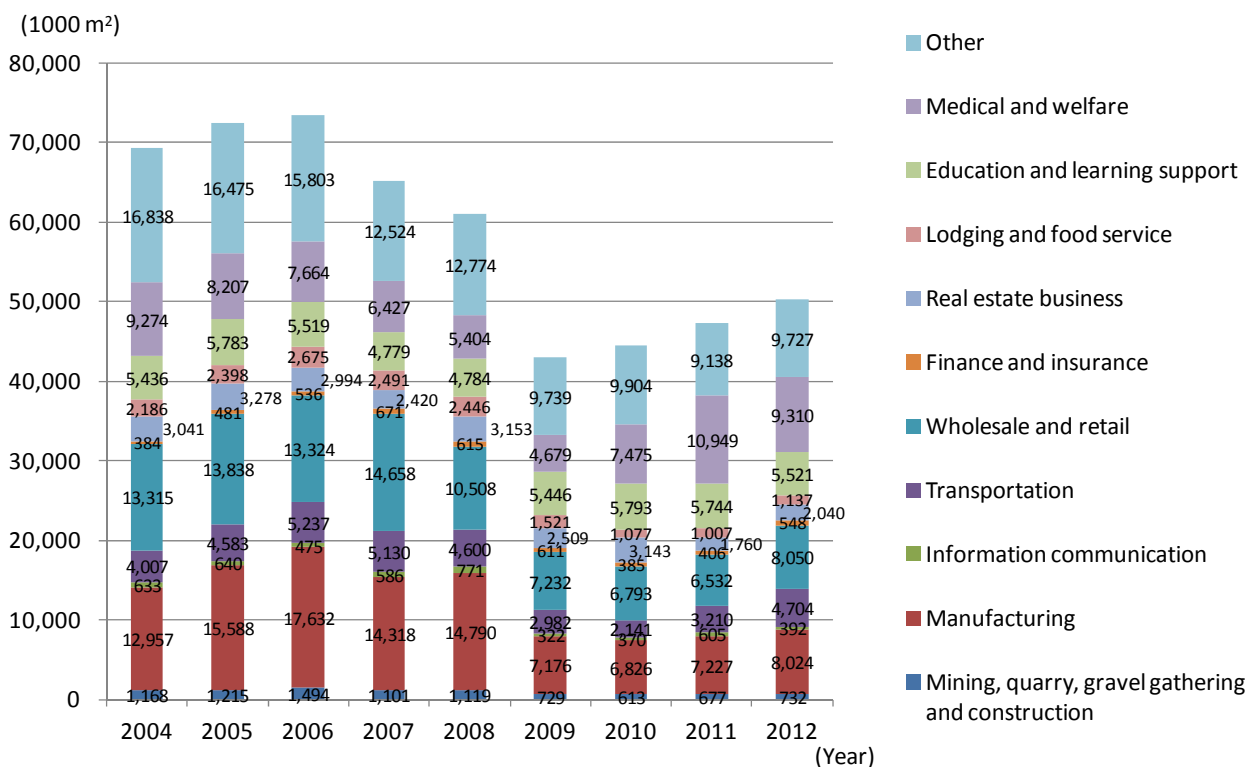
Source: "Survey on actual land use in depopulating and aging society" MLIT
 Note 1: Created based on "Population Projections by Municipality"
 Note 2: The map is not an exhaustive expression of Japan's territory.

(Change in the industrial structure)

After the rapid economic growth, Japan's industrial structure has shifted from the secondary industry driven by manufacturing to the tertiary industry driven by the service sector.

In order to see the impact of these changes in the industrial structure, let us look at the changes in square footage of construction starts by industry in recent years. There was a sharp drop in 2009 after Lehman's fall; the drop was especially large in the manufacturing, wholesale and retail industries. The overall square footage of construction starts has increased since 2010, to which construction for medical/welfare use made a significant contribution.

Chart: Changes in square footage of construction starts by industry



Source: Created based on "Building Starts" Ministry of Land, Infrastructure, Transport and Tourism

Note: "Other" includes use for "agriculture, forestry and fisheries," "electricity/gas/heat supply and water utilities," "other services" and "public services."

Section 2 Trends of Demand for Land in Industries

(Trends of factory location)

Because overseas expansion of manufacturing is mostly a response to expanding overseas demand and there are also tendencies to share functions in Japan and abroad, overseas expansion does not necessarily mean contraction of domestic businesses. Looking at the trend of manufacturing factory locations in Japan, the number and area of factory locations that plunged after Lehman's fall are on a slow recovery trend.

(Trends of store location)

In terms of the trend of construction starts of stores, stores had been getting bigger in the wholesale and retail industries over a long term but there has been a change in this trend since 2008.

(Trends of location in other industries)

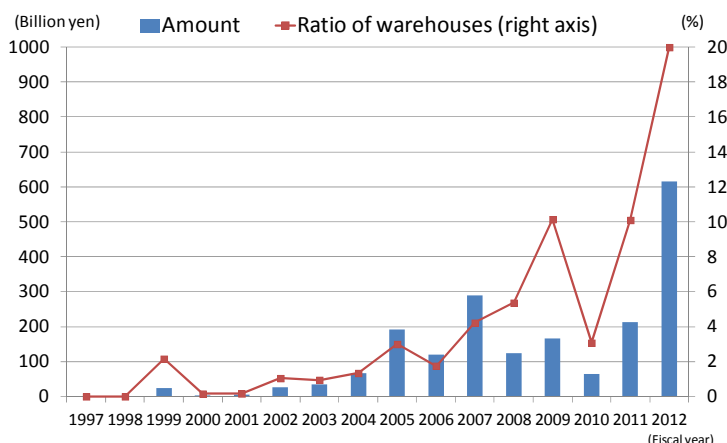
oMedical/welfare facilities

In the process of the full-scale shift to an aging society with fewer children, the medical/welfare sector is one of the sectors whose market is expected to expand. As described above, square footage of construction starts of facilities related to medical/welfare industries increased despite the decrease of the total footage of construction starts after Lehman's fall. The number of facilities aimed at elderly people, particularly pay nursing homes, increased significantly.

oLogistics facilities

It is pointed out that Japan's stock of logistics facilities, especially those with sophisticated functions taking advantage of IT, is relatively small compared with its economic scale. On the other hand, logistics services have become more diverse and needs for highly functional logistics facilities are growing, driven by changes in corporate logistics strategy and rapid growth of e-commerce. Combined with the expansion of investments, etc. using securitization, supply of logistics facilities is on a recovery trend from the plunge after Lehman's fall and the ratio of logistics facilities in securitized real estate is rising.

Chart: Changes in real estate securitization of warehouses



Source: "Field survey on real estate securitization" Ministry of Land, Infrastructure, Transport and Tourism

Generally, most of the tertiary industry is not land-intensive but the demand for land may increase in some industry sectors such as medical/welfare and logistics-related industries due to changes in social structure. In the future, demand may increase for facilities with the growth of these industries, while supply of facilities may be facilitated by financing through methods such as securitization. As a result, land use may increase in the entire industry.

Section 3 Changes in Land Use due to Falling and Aging Population with Fewer Children, etc.

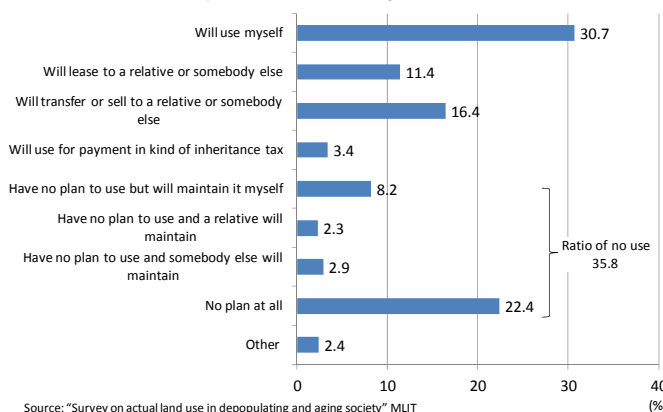
(Transfer of real properties through inheritance and their utilization)

In Japan, people over sixty own approx. 60% of all building land assets or 530 trillion yen, and a large part of land is owned by senior citizens. As the population ages and fewer babies are born, people with small children in their thirties or forties who have already acquired building land are more likely to acquire another property through inheritance or by gift from their parents, etc. In such cases, they may own properties without the intent to actively use them. This way, inheritance might increase properties that are not utilized effectively.

Asked about the utilization status of major land other than sites for residence, a little fewer than 40% of respondents answered that they were using the land, while approx. 30% of respondents answered that the land was not used.

Asked the same about land that they may inherit, over 30% of respondents answered they had no plan to use such land.

Chart: Intention to use the land that respondents may inherit

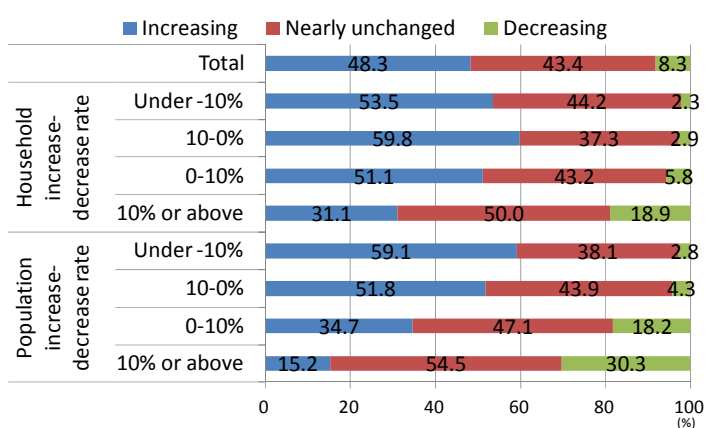


Source: "Survey on actual land use in depopulating and aging society" MLIT
Note: Asked about land excluding the site for residence where their parents are living.

(Increase of empty lots associated with decreasing population)

Population and household decrease is expected to diminish demand for land and increase vacant lots, etc. in the long term. As described in Section 1, population continued to decrease in many municipalities already for 30 years from 1980 to 2010. According to the "Questionnaire survey of municipalities across the country concerning the actual state of appearance/disappearance of vacant lots" conducted by the Policy Research Institute for Land Infrastructure, Transport and Tourism, the ratio of responses of "vacant lots are increasing" is higher for municipalities where population/households are decreasing.

Chart: Changes in total area of vacant lots by population/household increase-decrease rates for the past 10 years



Source: "Result of questionnaire survey of municipalities across the country concerning actual state of appearance/disappearance of vacant lots" Policy Research Institute for Land Infrastructure, Transport and Tourism

(Population decrease and land use)

District A is a city center with the central station of a major local city. The area of the district is approx. 38.7ha. It is classified as a commercial district with respect to use in urban planning. The population and the number of the households of District A are on a downward trend.

Comparing the land use in 1993 with that in 2012, vacant lots and parking lots have increased considerably.

As land use of a region is greatly influenced by its surrounding environment and individual circumstances, the case above merely shows a snapshot of a change in land use caused by population decrease. In District A many owners of land are leaving the region. Failure to actively use their land may be leading to an increase of vacant lots.

Chart: Changes in vacant lots, etc. in District A (1993 to 2012)



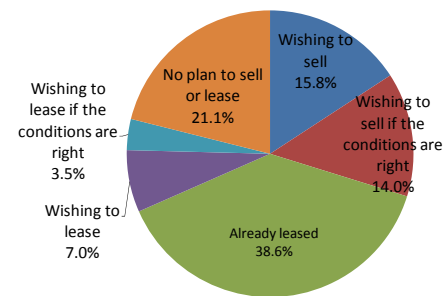
Source: “Survey for understanding of actual state of appearance/disappearance of vacant lots and new measures for their utilization” Policy Research Institute for Land Infrastructure, Transport and Tourism

(Issues and efforts for utilization of vacant lots, etc.)

Because vacant lots, etc. may increase with decreasing population in the future, it may be necessary to discover the value of vacant lots as vacant lots and their various functions and promote their use in this respect rather than viewing vacant lots as being in a transitional condition before being used as building sites.

It is also important to separate ownership and use of land in order to create a friendly environment for entities who wish to use vacant lots. Not a few land owners have the intention to sell or lease their land if the conditions are right. For future utilization of vacant lots, it will become important to increase opportunities for entities owning land to lease or sell their land to entities wishing to use the land. Such efforts could enhance the value of the area and eventually increase incentives for effective utilization of individual properties.

Chart: Intention of owners of vacant lots, etc. for future use of their land

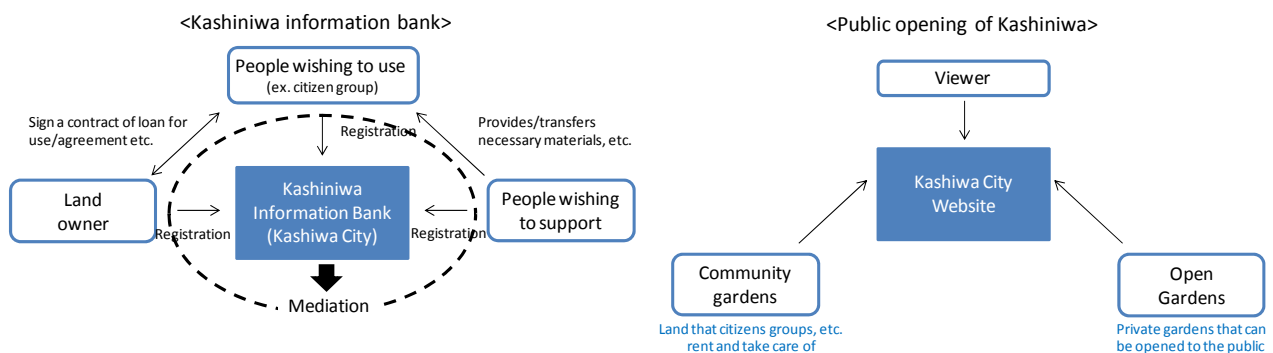


Source: "Survey for understanding of open spaces and their utilization" Policy Research Institute for Land Infrastructure, Transport and Tourism

■ Utilization as open space and matching (Kashiniwa³ system of Kashiwa City, Chiba)

Under the Kashiniwa system, the local government provides matching service for people wishing to lease land and those wishing to use land so that land can be leased (including loan for use) for purposes that not necessarily promise large profit but will serve for local community activities, for example. More than 20 deals have been completed under this system.

Chart: Structure of Kashiniwa System



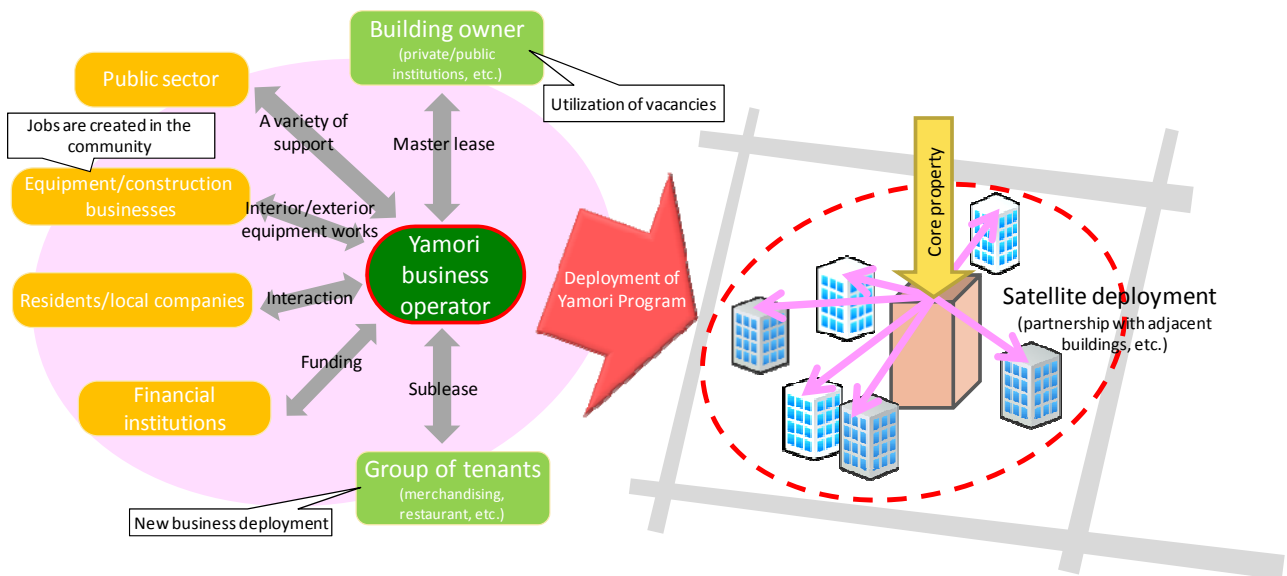
Source: Created based on Kashiwa City's documents

³ Kashiniwa means renting a garden in Kashiwa.

■ Initiative to enhance the value of the area (Chiyoda Platform Square “Yamori Project”)

Under the Yamori Project, building owners provide their office buildings with low operating rates for master lease to private business operators (Yamori business operators) who, after making simple repair/maintenance work, sublease the building to a group of new tenants for utilization of the asset. The main feature of this program is the Yamori business operators who fulfill the role to build partnerships with equipment/construction businesses, the public sector, residents, local companies and other partners. Furthermore, partnership with adjacent buildings is expected to contribute to activation of local industries and community regeneration.

Chart: Structure of Yamori Project



Source: Created based on “Activation of local industries and community regeneration through small and medium enterprise building partnership (2003)” proposal of Chiyoda Ward SOHO Community Renovation Promotion Study Panel

Because the demand for such coordination for utilization of land is expected to further increase in the future, it’s hoped that coordinating functions will expand beyond local governments to private companies and NPOs who are working to enhance the appeal of areas and regenerate communities.

Part 2 Basic Measures in Relation to Land in FY2012 (Omitted)

Basic Measures in Relation to Land in FY2013 (excerpt)

Chapter 1 Dissemination of Basic Philosophy on Land

During the “Land Month” of October (October 1 is “Land Day”), the government will actively work to disseminate the basic philosophies on land and introduce various measures and systems concerning land in collaboration with relevant organizations.

Chapter 2 Enhancement of Information on Land

Section 1 Systematic Maintenance of Land Information

In order to systematically maintain information on land ownership, utilization, transactions, prices and so forth, the government will conduct publication of value of standard sites and cadastral surveys, as well as provide real estate transaction prices. The government will also prepare and organize statistical documents, such as “Corporation Survey of Land and Buildings,” to clarify the actual status of land transactions.

Section 2 Promotion of National Land Survey

The government promotes cadastral surveys, land classification surveys—including a land use history survey based on the 6th 10-Year National Land Survey Plan (fiscal years 2010 to 2019)— and water surveys.

Section 3 Promotion of Enhancement of National Land Information

As for digital national land information, the government will revise publication of values of standard sites and publication of values of standard sites by prefectural government. Concerning geospatial information, the government will prepare and update map information and geospatial information (i.e., social foundation) based on the basic plan for advancing the use of geospatial information that was decided by the Cabinet in March 2012. The administration of land surveys will be also promoted.

Section 4 Enrichment of the Land Registration System

The government will focus on the intensive mapping of urban areas whose lot numbers are not registered in accordance with Article 14, paragraph 1 of the Real Property Registration Act.

Chapter 3 Accurate Understanding of Land Values Trends

Section 1 Promotion of the Publication of Values of Standard Sites

The government will make publication of values of standard sites at 23,380 standard sites in 2014. The government will also publish the results of analyses of trends in land value based on publication of values of standard sites by prefectural government in 2013.

Section 2 Provision of Real Estate Transaction Prices

The government will continue to conduct surveys on real estate transaction prices nationwide and publish the information on transaction prices obtained in the surveys on the Internet on a quarterly basis.

Section 3 Development of Property Price Indices

The government will work on improving the accuracy of residential property price indices while considering the development of commercial property price indices based on the handbook being written by international organizations.

Section 4 Enhancement of Real Property Appraisal

With regard to the appraisal of property for securitization and appraisal for preparing financial statements, the government will engage in monitoring, such as by conducting on-site inspection concerning the real property appraisal firm. The government will also conduct a study toward a revision of the real property appraisal standards, etc. in order to address internationalization of the real estate market and diverse appraisal needs in the private sector.

Section 5 Balanced and Proper Land Appraisal by the Public Sector

In order to promote proper land-price formation and taxation, the government will continue to strive for balance and reasonableness in public land appraisals relative to the prices that are used in assessing fixed property tax and inheritance tax.

Chapter 4 Improvement of Real Estate Market

Section 1 Improvement of Real Estate Transaction Market

In addition to promoting the proper application of the Building Lots and Buildings Transaction Business Act and improvement of the real estate trading market utilizing the Real Estate Information Network System, the government will ensure proper application of land transaction systems, spread and promote supply of green buildings and provide contaminated-land information useful for land transactions.

Section 2 Improvement of Real Estate Investment Market

In order to introduce private funds for the improvement of urban functions, a bill to revise part of the Real Estate Specified Joint Enterprises Act was decided by the Cabinet in March 2013, and has just been submitted to the Diet. Efforts will be made for smooth implementation of the revised Act with other necessary measures being taken after enactment of the bill. The government will develop necessary systems based on the final report on a review of the investment trust and investment corporation legal system.

Section 3 Land Tax Measures

In view of the energization of land transactions and the promotion of land use, the government will continue to implement tax measures for the acquisition, possession and transfer of land at each step.

Chapter 5 Improvement and Enhancement of the Land Use Plan

Section 1 Promotion of the Land Use Plan

Based on the 4th National Land Use Plan, the government will take measures necessary for promoting overall management of national land use and will also promote proper and reasonable land use by property implementing the general plan of land use.

Section 2 Ensuring Proper Use of Land in City Planning

The government will promote the appropriate implementation of the “Policy for Improvement, Development and Preservation of City Planning Areas” (master plan), which is laid out in each city planning area, and formulation of the “Basic Policy Concerning Municipal City Planning” (municipal master plan). The government will also promote appropriate utilization of city planning systems to meet various policy challenges.

Section 3 Coordination with National Land Policy

The government will make a general review of the National Spatial Strategies (National Plan)—a policy guideline for the comprehensive formation of national land—and examine how the progress of the projects included in the Regional Plan is inspected and how their problems are addressed. The government will also promote the formation of regional centers and industrial location policies.

Chapter 6 Promotion of Housing Measures

Section 1 Promotion of Housing Measures

In order to improve the overall quality of housing stock, the government will implement a program supporting energy-saving renovations as well as barrier-free and earthquake retrofitting at the same time with energy-saving retrofitting.

The government will also promote securitization support businesses (buyout type and guarantee type) through the Japan Housing Finance Agency in order to support the provision of long-term and fixed-rate housing loans provided by private financial institutions. The government will also lower interest rates on loans under the FLAT 35S, utilizing the framework of the securitization support businesses.

In addition, when revising the tax system in 2013, the government will take special measures for house acquisitions in order to level the impact of the increase of the temporary tax burden associated with the higher consumption tax rate and mitigate the burden.

Section 2 Creation of Favorable Living Environment by Promoting the Provision and Management of Good Residential Land

The government will support efforts to revitalize new towns where residents are aging and buildings and facilities have become decrepit as safe and comfortable residential areas, by redeveloping houses and dwelling environments, including through the introduction of barrier-free design, and by attracting welfare facilities.

Chapter 7 Promotion of Effective Land Use

Section 1 Promotion of Local Community Invigoration and Urban Renewal

Under the Regional Invigoration Headquarters, the government as a whole will promote efforts to achieve integrated and effective local revitalization, including comprehensive special zones, future cities, urban renewal, designated structural reform districts, local regeneration, and city center vitalization.

It will also promote city regeneration in areas designated for Emergency City Regeneration as well as city regeneration nationwide, while at the same time promoting development of super blocks based on the Super Block Guidelines.

Section 2 Promotion of Urban Infrastructural Development and Disaster-resistant Urban Planning

In order to promote urban infrastructure development, the government will promote the utilization of civilian capabilities as well as utilization of space in the air and underground, and the development of disaster countermeasures in towns by enhancing the disaster prevention in urban housing areas, preventive measures for roads and sewage systems, preventive measures against tsunamis, cadastral surveys and development of a system to promote smooth reconstruction.

Section 3 Promotion of Use of Underused/Unused Land

The government will promote the redevelopment of underutilized/unused land, such as former factory sites and reclaimed land, through various projects. In order to vitalize city centers, the government will also provide intensive support to the areas designated as eligible for the basic plan for city center vitalization. In addition, it will work for reconstruction of urban living areas and development of compact cities through the creation of new support measures to promote relocation of city functions to focal points and support for utilization of public real properties to create focal points, for example.

Section 4 Development of Comfortable Residential Environment by Utilizing Farmland

The government will promote the provision of residential land with a good living environment by utilizing farmland through the farming and residence association system.

Section 5 Utilization of Land Owned by the Public Sector

The government will promote the effective and intensive utilization of land owned by the public sector by promoting the long-term use of existing government buildings and relocation and combined use with other government buildings, and the effective use of unused national land.

Section 6 Facilitation of Public Land Acquisition

In order to generate the effects of public work projects at an early stage, the government will promote land acquisition in line with the “Land Acquisition Management,” under which bottlenecks in land acquisition are examined and analyzed with careful preparations being made regarding all stages from the planning of projects to their future use, along with ensured schedule control.

Chapter 8 Promotion of Environmental Conservation

Section 1 Promotion of Measures Concerning Environment Conservation

The government will promote land-related measures for environmental conservation and give consideration to environmental conservation in various land-related policies and when selecting and implementing projects, based on the fourth Basic Environment Plan decided by the Cabinet in April 2012. The government will also promote initiatives such as concentration of city functions, utilization of public transportation and low carbonization of building based on the Act on the Promotion of the Low-Carbonization of Cities enforced in December 2012.

Section 2 Appropriate Conservation of Farmland

The government will promote improvement of land conditions through infrastructure development projects for enhancing agricultural competitiveness, etc., while providing supports to young new farmers, farming successors and farmland accumulation based on the “local master plans” developed to resolve the problems, such as the aging population, a dwindling population of young farmers, and abandoned agricultural land.

Section 3 Ensuring Appropriate Conservation and Utilization of Forests

In order to maximize the multi-functionality of forests, the government will provide guidance and advice to local governments and forest owners on the systematic development of forests based on the forest planning system provided by the Forest Act. The government will implement measures necessary for promoting the use of lumber in public buildings, etc.

Section 4 Proper Conservation of River Basins

In special river basins for comprehensive flood control measures, the government will establish river basin conferences consisting of the river divisions of the national, prefectural and municipal governments, and other divisions related to city, housing and land, as well as create river basin improvement plans to encourage proper land use in river basins and the control of rainwater runoff. The government will also promote comprehensive and flood control measures for cities.

Section 5 Promotion of Proper Protection of Cultural Property and Creation of Favorable Landscapes Taking Advantage of Local History, Culture, etc.

As for historic villages and streetscapes, the government will provide guidance and advice to municipalities regarding the preservation and utilization of conservation zones for clusters of traditional structures as well as select important conservation zones for clusters of traditional structures and promote the preservation and utilization thereof. The government will also promote the creation of favorable landscapes.

Chapter 9 Measures for Recovery/Reconstruction from the Great East Japan Earthquake

Section 1 Measure in Relation to Land Use

As measures concerning residential land, the government will promote measures against tsunami disasters, such as projects for promoting mass relocation for disaster prevention, projects to develop post-tsunami restoration centers and projects to enhance disaster prevention functions in fishery settlements and also support measures to prevent sediment disasters and liquefaction.

As measures concerning agricultural land, the government will implement projects to recover farmland and agricultural facilities from the disaster, and remove salt elements, etc.

Moreover, for land use reconstructing, the government will promote utilizing various special provisions of land use based on land plan system prescribed by the law for special zones for reconstruction and support the smooth and prompt implementation of projects to develop urban areas and agricultural production bases.

Section 2 Measures in Relation to Housing

The government will support provision of public housing for disaster victims, and also support disaster victims in rebuilding their residences by expanding the application of housing loans for disaster reconstruction and the special provision for victims taking loans from the Japan Housing Finance Agency, as well as preferential measures on loaning for promotion of workers' property accumulation.

Section 3 Efforts for acceleration of residence rebuilding and urban renovation

In order to address the need for prompt and appropriate response to issues such as handling of land whose owners are missing, buried cultural property research, material shortage, unsuccessful bidding, etc., the government will hammer out a package of measures to accelerate residence rebuilding and urban renovation to ensure smooth reconstruction.

Section 4 Measures in Relation to Land Information

The government will promote development and provision of land information through compilation of basic maps for the disaster restoration plan, promotion of clarification of demarcation on lands by conducting national demarcation surveys on public/private land, handling of land whose owners are missing, and providing land transaction information so as to ensure appropriate transactions.

Section 5 Tax Measures

The government will continue the tax-related preferential measures that were taken in fiscal 2011 and 2012 to promote the reduction of burdens on victims of the Great East Japan Earthquake as well as efforts toward recovery and reconstruction.