



SUMITOMO MITSUI TRUST RESEARCH INSTITUTE

Winter 2014 Report
Now Available!

SMTRI Japan Real Estate Market Research Report

Sumitomo Mitsui Trust Research Institute (SMTRI) is a member of the SuMi Trust Financial Group, a banking group with a distinct expertise in real estate services. SMTRI engages in providing research and advisory services related to real estate market knowledge and real estate investment.

SMTRI is widely known for its real estate market research report, which can be obtained in a condensed English version through sales agent Transpacific Enterprises. The **SMTRI Japan Real Estate Market Research Report** comprehensively assesses market trends and projects future performance through a combination of qualitative and quantitative analyses including surveys, interviews, and raw data. This report is compiled by a team of 16 researchers with vast experience in analysis of all sectors of the real estate market - the office, residential, commercial, logistics and hotel sectors of the actual real estate market, as well as J-REITs and private placement funds on the investment side - over a period of 10 weeks.

For existing and potential investors into Japanese real estate, there's no more convenient, concentrated way to stay abreast of market developments and trends than the **SMTRI Japan Real Estate Market Research Report**. Contact **Transpacific Enterprises** for orders and further information!

For more details concerning the report...
http://www.smtri.jp/en/market_research_report/index.html



Transpacific Enterprises
Sales Agent

Ichigo Uchikanda Bldg. 8F, 3-2-8 Uchikanda, Chiyoda-ku, Tokyo 101-0047 Japan
E-mail: SMTRI@transpacific.jp Web: <http://www.transpacific.jp/SMTRI/index.html>



Linking Japan

Winter 2014

QUARTERLY INVESTMENT INSIGHTS



Snapshot of the Future

Goodman's Vision Affords Us Bird's Eye View of Modern Logistics in Japan

Abe at Davos: Mixed Messages

The Challenges of Balancing Domestic Economic Issues Against Regional Political Sensitivities

The Crafting of a New Logistics Architecture

The Emergence of E-commerce and Foreign Players is Reshaping Logistics in Japan

Tokyo Gubernatorial Election

Will Less Risky Centrist Choice Deliver a Positive Outcome

Dashboard on Japanese Economy Winter 2014

Publisher's Note

What a winter! A blizzard on February 7 brought snowfall not seen in Tokyo in 45 years, but was eclipsed just a week later by another savage winter storm... The result in the Kanto area was hundreds of vehicles stuck on expressways, residential districts cut off from society, trains and buses not running and the entire metropolis of Tokyo coming to a relative stop. Though public order was maintained and there were no reports of derelicts raiding stores—one of the blessings of living in Japan—the shelves in supermarkets brought back memories of post-earthquake Tokyo in March 2011. Despite the critical need for and monumental business opportunity of disaster planning, it remains one of this nation's glaring weaknesses.

It has been a busy start to the year with Prime Minister Shinzo Abe finally beginning to unleash his third arrow of deregulation—at least in further rhetoric—and the electing of Yoichi Masuzoe as the new governor of Tokyo. General hopes are down for Abe. This is historically the time when Japanese political leadership abandons deregulation and vested interests regain control. The outside pressure for Abe to deliver on his deregulation is greater than ever, though the more this pressure seems to come from outside Japan the worse the results will probably be. The rule for the Tokyo governor is 'don't expect anything and you won't be disappointed.' Strangely, I find myself wishing for Shintaro Ishihara again.

In this issue we look at logistics, a segment of Japan that has been completely transformed. Twenty years ago there were no mega logistics facilities; in fact, logistics centers tended to be run-down warehouses with large parking lots. Now Goodman and others have built up mega facilities to meet the demands of modern society, e-commerce and same/next-day delivery. And they are not merely cement towers; some have better services and technologies than the office towers where many of us work. The successful transformation of logistics in Japan provides valuable insights into how to successfully usher in the new, while paying due respect to the old.

And, any of you that want to enjoy snow country, the talk on the streets is that the hills of Shibuya offer good snowboarding.

J. Michael Owen
Chairman
Transpacific Enterprises

Linking Japan

Winter 2014 Volume 9

Publisher: J. Michael Owen
Chief Editor: Rey DeBoer
Production Assistant: Megumi Ishizuka
Writer: Michael Deininger
Translation: Transpacific Enterprises
Creative Director: Junichi Hashimoto
Art Director: Miwa Nishikata
Designer: Tomohiro Mizuno
Advertising: Yasuo Ito and Shinichiro Miura
Published: February 2014

Published by Transpacific Enterprises
Ichigo Uchikanda Building 8F, 3-2-8 Uchikanda
Chiyoda-ku, Tokyo 101-0047 JAPAN
Chairman: J. Michael Owen

Inquiries
e-mail: lj@transpacific.jp
Fax: +81-3-5297-6133

Copyright: This information has been prepared by Transpacific Enterprises for general informational purposes only. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means without the express written permission of Transpacific Enterprises.

Disclaimer: The information provided herein does not constitute legal, tax, investment or other advice, and is presented without any representation or warranty whatsoever as to the accuracy or completeness of the information or whether it reflects the most current developments. Parties seeking advice should consult with counsel familiar with their particular circumstances.



Contents

Winter 2014

Abe at Davos: Mixed Messages

The Challenges of Balancing Domestic Economic Issues Against Regional Political Sensitivities

COVER STORY

Snapshot of the Future

Goodman's Vision Affords Us Bird's Eye View of Modern Logistics in Japan

FEATURE

The Crafting of a New Logistics Architecture

The Emergence of E-commerce and Foreign Players is Reshaping Logistics in Japan

Tokyo Gubernatorial Election

Will Less Risky Centrist Choice Deliver a Positive Outcome

Dashboard on Japanese Economy Winter 2014



On the Cover
Goodman Sakai, Osaka Prefecture
Scheduled for completion March 2014



Abe at Davos: Mixed Messages

The Challenges of Balancing Domestic Economic Issues Against Regional Political Sensitivities

Richard Smart - Writer, Japan

It was supposed to be about Abenomics.

Japan's Prime Minister Shinzo Abe headed, in January, to the World Economic Forum (WEF) in Davos, Switzerland, to deliver a speech on his policy mix for resuscitating the economy. The aim was to explain how upcoming reforms would help Japan escape deflation and begin growing again.

Outside the walls of the Swiss mountain resort, few read about the prime minister's speech. Media around the world focused on something else: conflict between Japan and China. "Someone Just Said Something About The Japan-China Conflict That Scared The Crap Out Of Everyone," screamed one Business Insider headline. Other media were only slightly less alarmist.

Distractions threaten Abe's economic project. The sharp focus of the government when it came to power a year ago has disappeared. A series of incidents involving politicians and other senior Japanese figures has changed the way Japan is viewed overseas. For Abenomics to work, foreign direct investment—currently at around 4% of GDP—is essential. The more that security and diplomacy steal the limelight, the less Japan's future will be considered bright.

The Speech

Still, Davos was not a disaster. WEF Executive Chairman Klaus Schwab said Davos events would be taking place earlier in the year from now on. The reason: The Japanese Diet opens in late January, and earlier conferences would allow for deeper involvement from the East Asian nation's political class.

Abe was the first Japanese leader to be chosen to speak at the WEF. He used his keynote address to again discuss Japan's coming reforms and progress made since he took office in late December 2012. "It is not twilight but a new dawn that is breaking over Japan," the prime minister said.

The key points:

- Japan will devote itself to beating deflation to push up wages, consumption and the overall economy.
- More women will be brought into the workplace.
- Corporate taxes will be lowered and new incentives will be introduced to encourage growth sectors.
- International trade agreements will help integrate Japan deeper into international society.

- Pro-business reforms in areas long controlled by vested interests, such as electricity and agriculture, will make the country more competitive.
 - Efforts will be made to foster an internationally competitive health-care industry.
 - Corporate governance will be improved by changing laws and giving institutional investors more say.
 - Tensions in Asia threaten Japanese and regional growth.
- "I have maintained I am willing to act like a drill bit, strong enough to bore through the rock of vested interests," the prime minister said. "On my watch, we will cut through red tape in designated areas. Over the next two years, no vested interests will remain immune from my drill."

Sticking Points

Special economic zones (SEZ) that are scheduled to be up and running this year or shortly after will lead Abe's reform charge, in theory. They are supposed to be deregulated areas that are ultrafriendly to foreign businesses, have lower taxes and facilitate overall growth. Their example will provide the political ammunition to push through society-wide pro-business change.

"I have broken through the notion that certain reforms could never be carried out," Abe said.

Not quite. Reports in December suggested that the reforms would be watered down. In particular, lower taxes planned for the new areas are likely to be scrapped. After the most recent meeting of the Cabinet Secretariat on the formation of the zones, the message will be familiar to Japan watchers. "We will watch for the results of tax reforms and then implement more as we go along," said Yoshitaka Shindo, who is in charge of facilitating the zones.

A basic plan for the zones was laid out by January 28. The areas to house the zones is set to be decided by March. How they will eventually be regulated is likely to emerge slowly as the government embarks on a play-it-by-ear strategy of putting in place reforms as and when it can. Shindo's comment should be taken with a pinch of salt. The government will not be watching for the most effective reforms, it will be wrestling with the very vested interests inside the Liberal Democratic Party that Abe has promised to overcome.

"This decision-making process shows that, despite Abe's popularity and uncontested control of the ruling LDP," said Tobias Harris of Teneo Intelligence, "he still has to deal with opposition to his agenda from within the bureaucracy. It was, after all, opposition from the Ministry of Health, Labor, and Welfare (MHLW) that kept sweeping labor reforms off the SEZ menu in 2013. The fact that the Abe government has to go to great lengths to implement even modest reforms does not bode well for this year's growth strategy, expected in June."

Other areas of the strategy will also face the same problems. And they are not limited to Japan's borders. Abe's ambition of creating a giant trade bloc based on mutual values may be blocked by politicians in Washington, D.C. On the Trans-Pacific Partnership (TPP), Obama has a formidable opponent: Senate Majority Leader and Democrat Harry Reid. "Everyone knows how I feel about this," Reid said January 28. "The White House knows. Everyone would be well-advised to not push this right now."

Reid's publicly voiced concerns are over U.S. jobs and the environment. He worries that enough is not being done in TPP negotiations to protect U.S. interests. Privately, there is another motivation for hobbling the TPP. A Democrat contesting the next U.S. presidential election will have to rely to a degree on the votes of auto workers. The TPP is a threat to their jobs. Tariffs on Japanese trucks exported to the U.S. are a key sticking point in trade negotiations. Under such circumstances, any Democrat that supports the trade pact would be brave at best.

The Fed's slowing of quantitative easing, Chinese risks associated with shadow banking, stock market volatility, the impact of the tax hike on Japanese consumption, issues

surrounding energy and the trade deficit and problems in the electronics and many other industries further complicate matters for the prime minister.

China Questions

With about a sixth of the world’s population, more than 7% economic growth and an increasingly sophisticated manufacturing base, China, for all its problems, represents a big opportunity for Abenomics. Bilateral trade between Japan and China stood at US\$312.55 billion in 2013.

Abe is aware of the opportunities China offers, and its importance to the region. “Asia has become a growth center for the world,” he said at Davos. “Japan is surrounded by neighbors with unlimited possibilities such as China, South Korea, the ASEAN nations, India and Russia. Across the Pacific, there are the TPP partner countries. This area will be the engine driving the global economy forward.”

He qualified his comments with a not-so-subtle swipe at China. “We must restrain military expansion in Asia, which could otherwise go unchecked. Military budgets should be made completely transparent, and there should be public disclosure in a form that can be verified. We should create a mechanism for crisis management as well as a communication channel between our forces.”

Davos came a month after Abe’s visit to Yasukuni Shrine, established in 1869 to honor those who died fighting for Emperor Meiji, and home to the souls of Japan’s Class A war criminals since 1978. Schwab, in questions with the prime minister after his speech, made it clear that many view this as an offensive act. “I have no intention whatsoever to hurt the feelings of those in China and South Korea,” the prime minister said. His appointment of Katsuto Momii at national broadcaster NHK suggests otherwise. The prime minister does not have the right to choose high-level appointees at NHK, which is supposed to be independent. The Diet, however, has to approve any NHK executive appointment, and Momii was at the top of a list of recommended people to work at the broadcaster that Abe sent to parliament. Days into his job, Momii used a news conference to play down Japan’s wartime behavior and lay out ambitions to make the broadcaster more in line with government views. He argued that other nations had also committed atrocities that had been left in the past, and that Japan had paid compensation and apologized for its past behavior. The comments predictably received worldwide criticism.

Abe’s problem is that his personal aims—normalizing Japan’s military and changing opinion on history—do not sit well with Abenomics, which requires international support. “Abe is telling his audience, ‘Trust me, I know what I’m

doing,” says Daniel Fath, vice president of PR company Total Communications System in Tokyo. “But his audience is thinking, ‘Actions speak louder than words.’”

This plays into Chinese hands, Fath says, and helps explain why economic news was pushed down the Northeast Asia agenda at Davos, with security grabbing media attention. “Too often, ‘Cool Japan’ conjures up images reminiscent of ‘Cruel Japan.’

“Abe needs to dial down his nationalist fervor, keeping the focus on flesh and blood Japanese rather than some philosophical abstraction. He gains nothing from provocation, and in fact risks creating the impression that he’s using politics to take our attention off economic failure.”

Doing so would certainly work in the government’s favor. The stock market in late January lost around 2,000 points compared to December, and was back in the 14,000s in early February. A tax hike looms. And it is yet to be seen whether wages can cushion the coming fall in consumption. But international market players can be a forgiving bunch. Gideon Rachman of the Financial Times, while concerned about the prime minister’s comparison of Northeast Asia to those in Europe before World War I, said Abe “came intending to convince the Davos crowd that Japan is changing under new and dynamic leadership—and he largely succeeded in that goal.”

The Urban Land Institute put it succinctly in its introduction to the Japan Winter Conference: “Sentiment has taken off under Abenomics despite nothing really happening politically.” To keep that momentum going, history must be put aside and words on real political reform that help the economy must turn into action.



COVER STORY

Snapshot of the Future

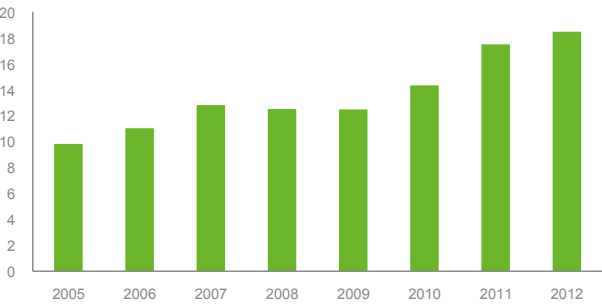
Goodman's Vision Affords Us Bird's Eye View of Modern Logistics in Japan

The Rise of Modern Logistics in Japan

As recently as ten years ago, logistics and warehousing in Japan was characterized by small, owner-occupied warehouse facilities. Typically these owner-occupied facilities were attached or adjacent to manufacturing plants, and were old and inefficient. The rise of global competition, particularly the increasing percentage of goods imported into Japan from low-labor-cost manufacturing regions in China and Southeast Asia prompted the beginning of a paradigm shift in the logistics sector in Japan.

Manufacturers closed local factories and increasingly moved manufacturing offshore, with the percentage of goods that were imported back into Japan for domestic consumption increasing substantially. This structural change in manufacturing and consumption coupled with advances in technology and supply chain management have ushered in a transition in the location, form, function, ownership, management, and occupancy of logistics properties in Japan. In response, a growing number of manufacturers and retailers commenced or increased the outsourcing of their logistics function to third-party logistics providers (3PLs) with these 3PL’s driving robust demand for large-scale, modern logistics facilities.

Japanese 3PL Market Growth (US\$ billions)

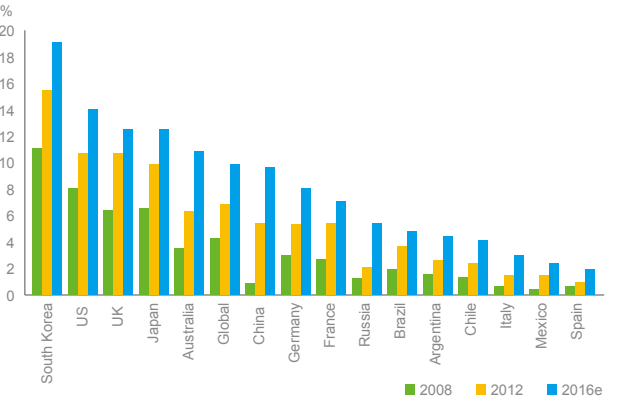


Source: Logi-Biz , September 2013

Additionally, from a demand perspective, the rapid increase in e-commerce sales has reshaped distribution and transformed the channels by which goods reach the consumer from the manufacturer. According to a report issued by Jones Lang LaSalle, the percentage of global retail sales accounted for by internet retail grew from 2.2% in 2007 to 4.0% in 2012. Total online sales are expected to surpass US\$1.2 trillion dollars worldwide in 2013, and to continue to grow at a frenetic pace. According to eMarketer, Japan is the second largest B2C

e-commerce market in the world after the United States. According to Internet World Stats, there are over 100 million internet users in Japan, and this figure is forecast to continue rising despite the declining population. The chart below from Morgan Stanley shows that e-commerce still has a long way for growth even in developed markets like Japan.

e-commerce Sales Growth Worldwide, 2008-2016



Source: Morgan Stanley, January 2013

Evolving Logistics Needs

The past few years have seen a constant, rapid evolution in the way businesses in Japan view their logistics needs. The Great East Japan Earthquake in March 2011 compelled businesses to review and undertake structural adjustments of their supply chain framework – short-term operational savings needing to be balanced with potential losses due to business interruption. Traditionally, large-scale, modern logistics facilities have been developed in bay areas in close proximity to Japan’s largest sea ports which are the entry point for a majority of goods into Japan. While bay areas remain in demand due to their excellent accessibility, the devastating tsunami following the Great East Japan Earthquake has seen a number of occupiers completely or partially shifting their operations to inland locations as well.

Even more recently, the rapid rise in land prices and construction costs in Japan as a result of “Abenomics” and the successful Tokyo Olympics bid have priced a number of occupiers out of these traditional logistics locations, and pressured them to move further inland in search of lower rents and a higher availability of warehouse workers. A recent interview with a number of leading 3PLs in Japan highlighted rent levels and access to and availability of warehouse workers as two key considerations in the selection of locations from which to operate.



The Goodman Ideology



Gregory Goodman
Chief Executive Officer, Goodman Group

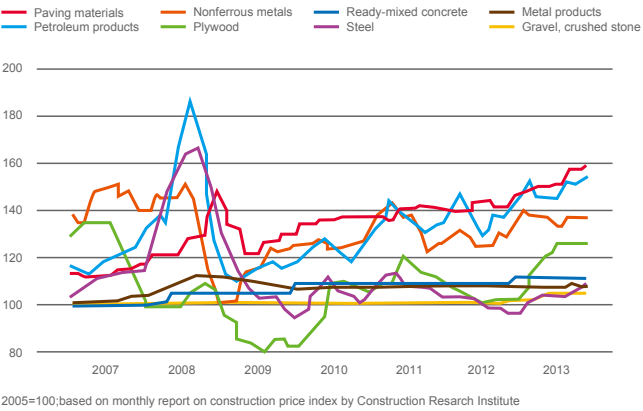
“We are uniquely positioned to capitalize on the high level of customer and investor demand for prime logistics space in our key operating markets, and the structural changes occurring across the industrial sector, to pursue opportunities and realize initiatives to drive the sustainable long-term growth of our business.”
-- Gregory Goodman, Chief Executive Officer, Goodman Group

“Our strategy in Japan is to focus on selectively pursuing high quality opportunities in prime locations where we identify excess customer demand with limited competition. We only invest in locations and opportunities where we see immediate value and long-term growth. Most of all, we listen to our customers to form the foundation of our investment decisions where we take a market leading position rather than following the crowd.”
-- Paul McGarry, Chief Executive Officer, Goodman Japan



Paul McGarry
Chief Executive Officer, Goodman Japan

Tokyo Construction Material Price Indexes



Source: Nikkei Asian Review, February 2014

Nations such as Japan where transport, energy and telecommunications infrastructure are particularly advanced and sophisticated are already seeing the most significant change manifested in the development and completion of large-scale logistics facilities and distribution centers. In a report released by CBRE in July 2013, Brokerage Services Division

Managing Director Junichi Taguchi commented, “In addition to an optimistic demand-side, a substantial amount of new supply has been added to Tokyo’s market... some of which was highly sought large, modern, contiguous blocks of space. These specifications are unique as most of the new supply in Asia Pacific has been small-to-medium in size and larger-scale projects aren’t expected until 2014 across the region as a whole.”

Goodman Group

One firm that’s been capitalizing on the opportunities in the Japanese logistics market since 2007 is Goodman Japan, a member of the Goodman Group (ASX:GMG), an integrated property group with operations throughout Australia, New Zealand, Asia, Europe, the United Kingdom, North American and Brazil. Goodman Group, founded in 1989, is the largest industrial property group listed on the Australian Securities Exchange. With a global portfolio of over 400 commercial properties under management valued over US\$24 billion, Goodman is one of the world’s largest specialist fund managers of high-quality commercial, industrial and logistics space. Goodman collaborates with over 1,000 staff in 36 offices and 18 countries. Goodman is also particularly active developing new facilities with current developments in progress valued at more than US\$2.4 billion and totalling more than 60 projects globally.

As an owner, developer and manager, Goodman prides itself on its integrated approach to customer service, as well as on its willingness and dedication to running its operations in foreign countries to function as part of their respective communities and host countries. One of its core values has always been an emphasis on the importance of building local long-term relationships.

Goodman Japan CEO Paul McGarry relocated to Japan in 2007 having previously worked for Macquarie Group in Sydney and now manages Goodman Japan's team of 60 professionals. “Japan is a key market for Goodman. It remains the world’s third largest economy and is home to a number of our large customers that also occupy space in the properties which we manage outside of Japan. Importantly, we operate in Japan as a local company with an Australian flavor. Culturally Japan and Australia are very similar in a number of ways and also very different. Success in Japan is a matter of embracing and respecting those differences and keeping an open mind to find the best way to do things.”

Logistics has become one of Japan’s most sought-after property choices among yield-seeking investors in the last two years. The trend is also being fueled as yields in the office and residential

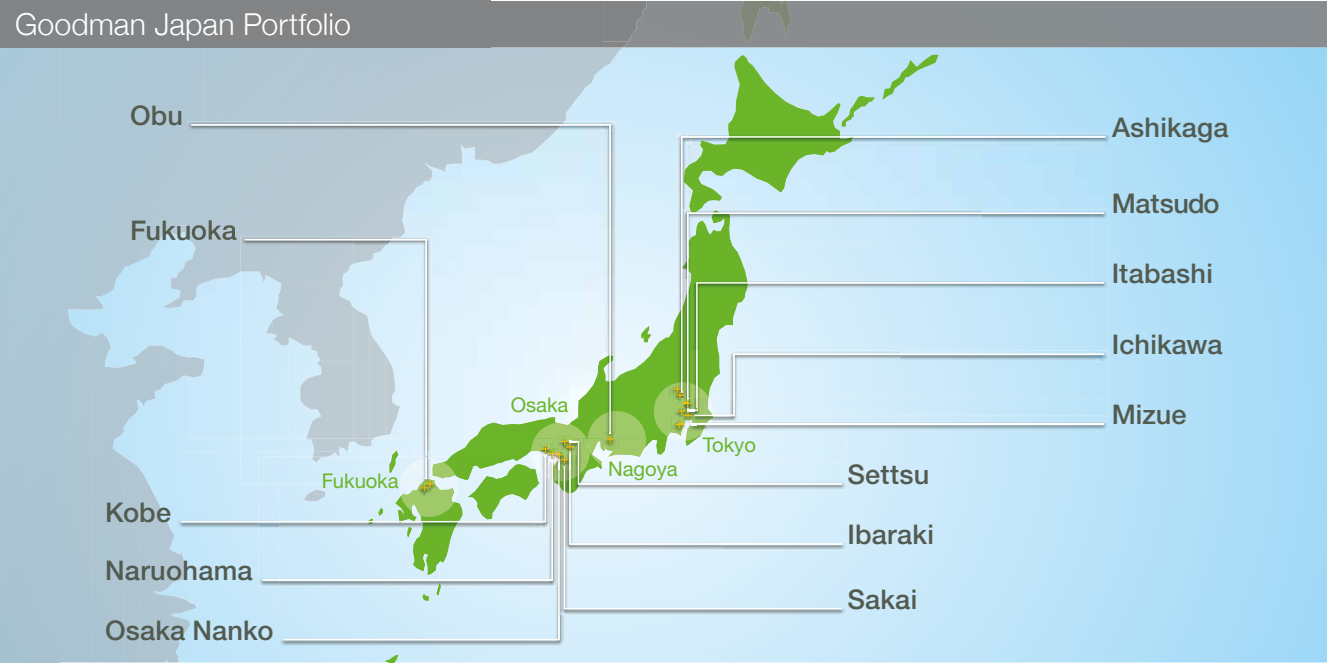
sectors have tightened for prime assets. As a leading manager and developer of Japanese logistics real estate, Goodman Japan established the Goodman Japan Development Partnership and the Goodman Japan Core Fund, and is well positioned to provide institutional investors with the opportunity to capitalize on this future growth.

Goodman Japan Development Partnership (GJDP)

In September 2012, Goodman and the Abu Dhabi Investment Council (“ADIC”) formed a 50/50 partnership and established the Goodman Japan Development Partnership (GJDP) to invest in the development of warehouses in Japan.

A combined US\$500 million of equity was initially allocated to GJDP, with the leverage capability of the GJDP allowing for an initial investment target in excess of US\$1 billion. In response to positive market fundamentals and a pipeline of opportunities, Goodman and ADIC recently increased their equity commitment to GJDP to US\$800 million, with the view to complete US\$2 billion of projects in the medium-term.

The quality of the Goodman Japan development team is highlighted



by strategic off-market land acquisitions, successful pre-leasing activity and timely completion of projects. Currently GJDP has four projects under construction in Osaka Bay, Tokyo Bay and Nagoya with a completion value in excess of US\$750 million. The first of these projects, Goodman Sakai in Osaka Bay was 100% pre-leased five months prior to forecast construction completion.

To further continue its medium-term growth, GJDP has also recently secured several prime, inland development sites in Chiba Prefecture (Greater Tokyo) in a population-dense growth corridor where it can offer its customers the lowest rents available in Greater Tokyo for well-located, modern, high-specification logistics space.

Goodman Japan Core Fund (GJCF)

The GJCF provides Japanese and Global institutional investors with access to a well-located, modern, high-specification logistics portfolio. The portfolio delivers stable, income-driven returns with potential for income growth and capital appreciation.

The portfolio includes 10 prime stabilized properties which will increase to 11 properties in March 2014. The properties are all well located close to major transport infrastructure with a 90% weighting to Tokyo and Osaka, Japan's two largest logistics markets. The portfolio has over 460,000m² of leasable area, a weighted average building age of 4.6 years, and WALE (Weighted Average Lease to Expiry) of 3.7 years. The portfolio enjoys 100% occupancy with a high-quality tenant profile across a range of industries with rental growth emerging from the portfolio.

Recently, the fund completed a capital raising for US\$100 million to partially fund the acquisition of Goodman Sakai—which closed

oversubscribed—growing GJCF to over US\$900 million. The fund will soon be launching a further capital raising for US\$200 million to fund the acquisition of future opportunities currently under development by Goodman.



Goodman Japan team members

GJCF Growth Strategy

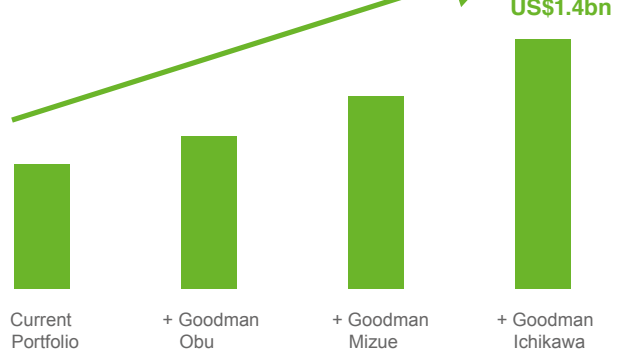
In a market where it is increasingly difficult for investors to acquire high-quality modern logistics facilities, GJCF is uniquely placed benefitting from a pipeline of high-quality acquisition opportunities under construction by Goodman.

Goodman currently has four development projects in Osaka, Tokyo and Nagoya under construction. The facilities are strategically located close to major transport infrastructure in prime logistics markets where ample skilled workers are available for operators. The first of these properties, Goodman Sakai is to be acquired by GJCF on completion of construction in March 2014.

Over the next 12 months Goodman Obu, Goodman Mizue and Goodman Ichikawa are expected to be completed, and also incorporated into GJCF subject to the approval of the fund's independent Investment Committee, further growing GJCF's AUM to over US\$1.4 billion. These

planned short-term acquisitions will further improve the fund's returns while diversifying geographic, tenant and asset concentration risks.

GJCF AUM Growth



Source: Goodman Japan, February 2014

Goodman Sakai



A four-story, modern, multi-tenant logistics facility with a gross leasable area of 130,000m² on a prime 60,000m² parcel of land in Sakai City, Osaka Prefecture. Goodman Sakai is the first facility in western Japan to obtain LEED Gold pre-certification, with construction on track for completion in March 2014. The property allows smooth access to major highways, sea ports and airports, and is well located to service the Greater Osaka area. The facility has been 100% pre-leased to a number of leading Japanese 3PLs.



Goodman Mizue

A four-story, modern, multi-tenant logistics facility with a gross leasable area of 58,000m² under construction for completion at the end of 2014 in Kawasaki City, Kanagawa Prefecture. Located in a super prime logistics area near Kawasaki Port, Yokohama Port and Haneda Airport. The supply and demand dynamic in the bay area of Kanagawa Prefecture is highly attractive, with little development in recent years resulting in occupancy rates close to 100%.



Goodman Ichikawa

A four-story, modern multi-tenant logistics facility with a gross leasable area of 64,000m² under construction for completion early 2015 in Ichikawa City, Chiba Prefecture. The site is located in a super prime logistics area near sea ports including Chiba Port and Tokyo Port, highways, and major airports. The property is within walking distance of the nearest train station, providing high accessibility for customer employees.



Goodman Obu

A four-story, modern, multi-tenant logistics facility with a gross leasable area of 51,000m² under construction for completion at the end of 2014 in Obu City, Aichi Prefecture. Over half the available space is pre-committed to a high-quality Japanese third-party logistics and transport company. The property is located on a major transport and logistics route between Tokyo and Osaka.



FEATURE

The Crafting of a New Logistics Architecture



“My logisticians are a humorless lot ... they know if my campaign fails, they are the first ones I will slay.”
— Alexander the Great

The word “logistics” is said to have originated in the late 1800s from the French “logistique,” which described the thinking, strategizing and planning required for moving and housing troops and keeping them supplied. The concept, however, is much older, as it has always applied to and been crucial in the effective movement and transport of people and goods, and not viewing it in a sufficiently serious light or preparing adequately has at times brought severe consequences. As it relates to business, the structure of and thinking with regard to logistics has been impacted by elements such as competition, the maturing of underdeveloped countries, information technology, deregulation and increased international cooperation in business. Over the past several years, we have seen its latest gradual

evolution, sparked by a renewed awareness of the need for efficiency that does not begin with cutting costs and by the meteoric growth of e-commerce.

E-commerce and the Logistics Environment

Despite initial mistrust of any website asking for credit card and other payment details and personal information, online shopping has gained traction and is growing faster than initially imaginable. The more customers began to trust it, the more regularly they began to use it, and the higher the average purchase value became. Moreover, the trends in spending seem to indicate that the convenience, reliability, fast delivery and

Average Order Value by Device

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Traditional Mobile Phone	\$108.21	\$108.16	\$103.38	\$105.46	\$99.10
Tablet	\$119.04	\$111.98	\$101.42	\$103.29	\$98.59
Smartphone	\$92.58	\$83.23	\$96.93	\$112.93	\$106.98
iPad	\$120.26	\$113.63	\$102.47	\$103.56	\$99.05
Android Tablet	\$101.93	\$86.50	\$93.63	\$103.20	\$95.48
Kindle Fire	\$85.69	\$78.64	\$80.13	\$90.89	\$83.58
iPhone	\$93.72	\$86.27	\$98.24	\$112.65	\$107.03
Android Phone	\$91.12	\$77.94	\$95.06	\$113.41	\$107.14
Windows Phone	\$80.79	\$73.59	\$94.04	\$113.47	\$99.09

Source: Ecommerce Quarterly (Q1 2013 report released by Monetate)
*Includes data on orders placed from U.S. only

sense of control offered by online shopping have been the drivers of rising spending rather than the growth being a function of economic recovery. On a global scale, the e-commerce market is expected to grow between 5 and 11% annually through 2017.

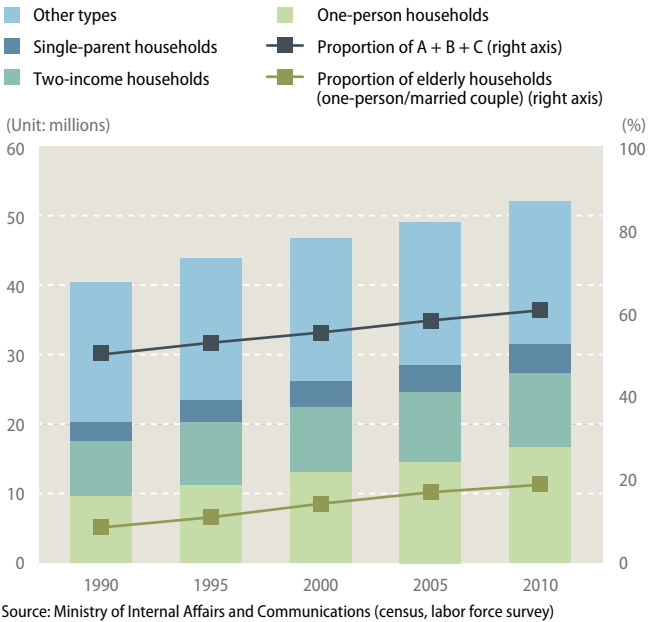
Households comprised of only one person, households where both adults are employed and single-parent households are on the rise. In these types of households, there is generally less time to visit retail outlets to do shopping, and this is seen to be a huge potential source of demand for e-commerce going forward. The percentage of households comprised of only one person using e-commerce, and the value of purchases made, are both increasing, and this demographic is expected to be the key driver in e-commerce expansion.

As the central premise of e-commerce is the ability to deliver a variety of products directly to customers rapidly, logistics facilities must have features that support this, such as rampways, and a working environment suitable to secure large staff to conduct sorting and delivery—a departure from the traditional product storage warehouse. Japanese and foreign developers alike have answered the call, and development at present is extremely robust.

Foreign Players

Demand for large-scale logistics facilities over 10,000m² in parts of the Tokyo Metropolitan Area where transport access is favorable is on the rise, and construction is active. Foreign real estate players are gathering funds from investors and developing logistics facilities using private funds as vehicles.

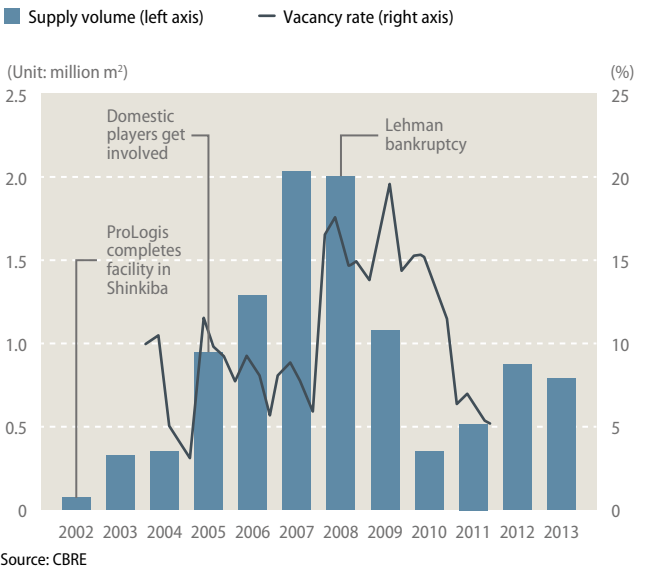
No. of Households by Type



The facilities that are being developed are generally sold on to J-REITs and private funds within a few years of completion. One reason logistics real estate began attracting so much attention was that investment yields were attractive and stable. Prior to the global financial crisis, rents at logistics facilities only dropped about 10%, contrasted against a drop of about 30% for office rents in Central Tokyo. As shown in the graph below, immediately after the Lehman bankruptcy, the supply of large-scale logistics facilities continued to increase unabated. However, fund procurement became more challenging and as a result large-scale logistics facility development basically came to a halt in 2010 and 2011. According to CBRE, demand for large-scale logistics facilities in Japan exceeded new supply each year from 2010 through 2012, and vacancies at such facilities dropped from 11.8% in 2008 to 2.4% in 2012.

As of October 2013, the vacancy rate in Tokyo, Chiba, Saitama and Kanagawa was 4.3%, a smaller rise than forecast due to rapid securing of tenants at newly established facilities. This has led to a slight uptick in rents, but if rising construction material and labor costs force developers to delay projects, owners may be forced to offer more favorable terms than they’d originally intended. In an interview for Nikkei Asian Review on January 22, Prologis Japan President Miki Yamada addressed this very issue. “We are pursuing innovations while holding down costs by developing technology, designing facilities and controlling the construction process all internally. We have a wealth of ideas in such areas as simplifying construction methods and minimizing labor costs. The test will be to develop facilities that deliver a high-level of functionality

Trends in Supply Volume and Vacancy Rates for Investment Logistics Properties



without requiring excessive capital investment. We cannot easily transfer rising construction costs to rent anymore.”

Vacancies at multitenant rental logistics facilities continue to decline, and demand continues to outpace supply. Large-scale logistics facilities only account for about 2% of all logistics facilities nationwide, and about 6% of the facilities in the Tokyo Metropolitan Area, where development is robust. There is significant room for growth.

Many of the large-scale logistics facilities are being developed on what were previously factory sites—over the past five years, the average annual supply of such land has been about 1.6 million m², and about 300,000m² in the Tokyo Metropolitan Area.

There have been three significant additions to the J-REIT market in the past 18 months. Daiwa House Industry launched the D Project in 2003, under which it participates from the planning stages in the development of logistics facilities. Daiwa House Industry acquires the land but does not build the structure—it instead enters into a land leasing agreement with the leasing company that constructs the facility, then purchases the facilities back and becomes owner of the land and the facility on it. Nineteen logistics properties developed under the D Project, along with six retail facilities, comprise the portfolio (as of January 1, 2014) of Daiwa House REIT Investment Corporation, which listed on the Tokyo Stock Exchange on November 28, 2012.

Global Logistic Properties (GLP) succeeded in raising US\$1.28 billion in an IPO in late 2012 and GLP J-REIT listed on the TSE in December of that year with a portfolio of 33 properties valued at about 180 billion yen. “There is no need to be concerned about oversupply,” said Masato Miki, CEO of the REIT’s asset manager, GLP Japan Advisors in an interview in February 2013. “Having the biggest developer as sponsor, and as the largest industrial REIT, we can strengthen our position by exchanging information and managing relationships with our clients.”

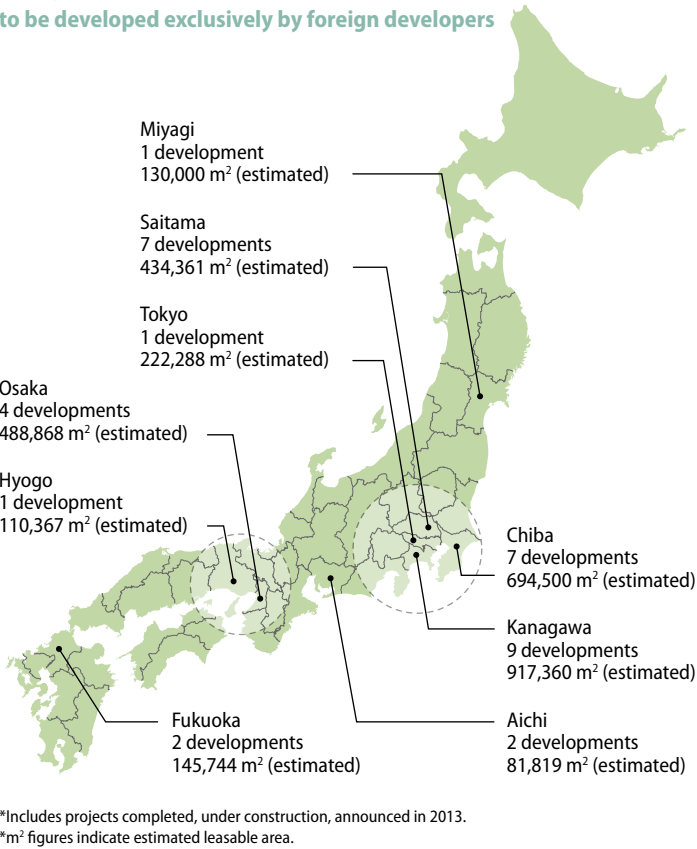
In February of last year, Prologis followed suit, raising about US\$1 billion in an IPO and listing on the TSE with a 12-property portfolio of Class-A logistics facilities developed by Prologis worth about 173 billion yen.

Collaborative Efforts

In July 2013, construction began on the Hakata Island City Logistics Center (tentative name) in Fukuoka, with a two-story multitenant facility featuring floor area of 48,978m² to be erected on a 43,804m² site in the Island City “Minato Tsukuri Area,” which in 2011 accounted for approximately half the international marine container volume handled at Hakata Port (an estimated 850,000 TEU). The facility is a joint venture

Logistics Development Projects Japan, 2013

Nearly 40% of estimated leasable area to be developed exclusively by foreign developers



between LaSalle Investment Management and Inui Warehouse, a Japanese firm involved in warehousing and storage, as well as the design and development of logistics facilities. The center is scheduled to open in April 2014.

LaSalle Investment Management, this time partnering with mega-developer Mitsubishi Estate, completed Logi Port Sagamihara, a massive five-story facility with a floor area of 210,826m² located about four kilometers from Sagamihara Aikawa IC of the Ken-O Expressway in Kanagawa Prefecture, in August of last year. Upon its opening it became Japan’s single largest distribution center.

In March 2012, Global Logistic Properties and Mitsui Fudosan announced a 50/50 venture under which they would construct the GLP MFLP Ichikawa Shiohama logistics facility, a five-story multitenant facility situated near a major interchange in Chiba Prefecture, giving it attractive access to both major airports in the Tokyo Metropolitan Area. Major Japanese retailer Rakuten wasted little time in leasing about 42,000m², or about 40% of the facility’s total leasable floor area of 102,000m².

Japan’s Express Industry

Domestically, in addition to increased activity among major developers, Japan’s top express delivery companies have taken the bull by the horns and are shoring up their logistics capabilities. Yamato Transport, an express delivery company founded in 1919 by Yasuomi Ogura—father of Masao Ogura, who later pioneered express delivery in Japan as the company’s CEO—and one of the major domestic players, last September completed construction of Haneda Chronogate, a large-scale modern logistics facility adjacent to Haneda Airport. The logistics structure on the site comprises six stories and has a gross floor area of about 170,000m². In conjunction with the company’s logistics hub in Okinawa, it will enable Yamato to offer next-day delivery to destinations in Southeast Asia, and the company’s International TA-Q-BIN service will eventually serve other regions as well.

SG Holdings, the parent company of Sagawa Express—one of Japan’s leading express delivery firms—among others, in May 2013 split subsidiary Sagawa Global Logistics into two companies—Sagawa Global Logistics, which focuses on the Japan logistics market, and SGH Global Japan, which and it handles air and sea logistics and customs brokerage duties. The separation enables Sagawa Global Logistics to further expand its range of 3PL services and comprehensive logistics solutions. In April 2013, another SG Holdings subsidiary, SG Realty, entered into a joint venture with real estate service provider Xymax Corporation to establish SG Asset Max Corporation for the purpose of managing a private REIT, which when launched will feature a portfolio of logistics properties.

Japan’s Changing Corporate Logistics Landscape

September 2010	Mitsubishi Logistics	Acquired Fuji Logistics
February 2012	Mitsui-Soko	Acquired Sanyo Electric Logistics
March 2012	Hitachi Transport	Acquired Vantec Corporation
April 2012	Yusen Air & Sea Service	Merged with NYK Logistics to form Yusen Logistics
March 2013	DHL Supply Chain	Forged Lead Logistics Provider agreement with Konica Minolta Holdings—plans to eventually take over all the latter’s logistics sites in Japan
July 2013	Nippon Express	Acquired two-thirds interest in Panasonic Logistics
December 2013	Nippon Express	Acquired 49% share in NEC Logistics; share to increase to 51% in December 2014

Why Japan Logistics Real Estate?

Logistics real estate in Japan has begun to attract both domestic and international investors’ attention. The large size of the Japanese market, combined with an attractive yield gap, stable income and long leases, provide compelling reasons to consider the sector as part of a balanced portfolio.

Successive Japanese governments have realized the importance of the supply chain to the Japanese economy and therefore have made policies that support logistics, creating arguably the safest and most efficient delivery system in the world. Abenomics and the Tokyo Olympic bid have expedited the pace of infrastructure rollout, much of which directly benefits the logistics real estate sector.

Logistics property is perhaps the most resilient sector of the Japanese real estate market. It tends to avoid the large rises and falls that can hit the retail, office and residential sectors. The reason for this is that logistics properties are closely connected to our daily lives. We all need to eat and have goods despite the state of the economic cycle. We may change our preference for goods based on price sensitivity and volumes may fluctuate in line with broader economic trends, but they are somewhat predictable, allowing developers and investors to capture stable returns.

Tenants of logistics properties tend to have lease ‘stickiness’ and are not likely to move often due to the high cost and impact to their overall logistics network. In Japan it is not uncommon for tenants to seek long-term leases of up to 20 years. For the developers of logistics real estate, the supply of facilities can be brought to market in around 18 to 20 months, much faster than say an office building. In times of oversupply, developers may try to postpone or cancel projects and reactivate them when demand hopefully returns. The danger for investors is timing, because while the swings in Japanese logistics are not as dramatic as other property sectors and are generally smoothed across cycles they are still connected to swings in the economy.

While the market is currently very attractive, the Japanese economy remains in structural transition and in the longer term the overall consumer market will decline as the population ages. Without increased consumption, cargo volume may remain on its long-term decline. Trends like e-commerce are a redistribution of cargo that was previously sent to a wholesaler who broke the pallets down for sale. There are more local truck movements in Japan, not more cargo. If the economy can grow, people will consume more and the cargo volume will rebound. The merging of logistics delivery companies has resulted in them consolidating cargo and therefore they are able to lease up larger footprints than in the past.

Logistics property has been one of the best performers in the Japan real estate sector over the last 10 years. It has also matured into an investment market that now has sufficient scale with ample investment grade assets. Investors can be confident that with good tenants in place they will receive stable cash flow returns. The recent addition of a number of new logistics J-REITs has improved the clarity of data available for investors, but it has also tightened pricing in the sector and therefore properties and tenants should be carefully studied to allow for future profitable exit.

Matthew Zann, President, BearLogi

Tokyo Gubernatorial Election

Will Less Risky Centrist Choice Deliver a Positive Outcome

Richard Smart - Writer, Japan

Yoichi Masuzoe’s victory in the Tokyo gubernatorial election in early February should be cautiously welcomed. It represents stability, that is, if he can keep the gaffes and scandal to a minimum.

The win was far from resounding, despite the numbers suggesting a landslide. The third lowest turnout in Tokyo election history points to a population fed up with the antics of their leaders, even if winter weather played a part in keeping voters away from the polling booths.

A paltry, by local standards, 46% exercised their right to vote, compared to 62% in the 2012 Tokyo election. A 2011 poll, held weeks after a tsunami and earthquake devastated east Japan, saw a turnout of 57.8%. Previous Governor Naoki Inose was forced to resign because of a funding scandal, which led to the February poll. Masuzoe won with just over 2.1 million votes. His predecessor was sent to office with the support of close to 4.4 million.

Lackluster campaigns, feelings of disenfranchisement and voter fatigue all contributed to the low turnout. But all was not lost. The most centrist candidate won the election on a campaign platform that focuses on Olympic development and social security issues.

The Divide

Masuzoe campaigned against 15 other candidates. Three—Kenji Utsunomiya, Morihiro Hosokawa and Toshio Tamogami—managed to garner more than 10% of the vote. Utsunomiya and Hosokawa focused on dismantling Japan’s nuclear energy industry. Tamogami, an ultranationalist, former Self-Defense Force leader, proposed splashing out 2 trillion yen on the capital’s aging infrastructure—a policy set he dubbed Tamogamics.

Utsunomiya and Hosokawa won 982,594 and 956,063 votes

respectively. Tamogami, in a distant fourth, garnered 610,865 votes. The performances of the runners up in the race for Tokyo tell us just as much about the condition of the city as Masuzoe.

It should by now be clear to Japanese politicians that campaigning on energy policy alone will end in disappointment. Six in ten Japanese want to see the nation’s nuclear era brought to a close. Given the Fukushima disaster, this is unsurprising. But that is only part of the story. Polls taken before the election showed energy issues were a priority for less than 10% of the electorate. Social security and the economy were each the priority for 20-25% of respondents. That was bad news for Hosokawa and Utsunomiya.

Junichiro Koizumi, the popular and charismatic former prime minister, campaigned for Hosokawa. An easily recognizable figure, with his flowing mane of silver hair, Koizumi could have done more harm than good. He overshadowed Hosokawa from the start. And for many anti-nuclear voters, the divide was whether to vote for Utsunomiya or Hosokawa. The anti-nuclear crowd split itself in two and alienated voters who may have opted to head to the ballots if they felt a single candidate was capable of winning office. A Jiji poll found 31% of swing voters cast ballots for Masuzoe, compared with 26% for Utsunomiya and 25% for Hosokawa.

Winning Formula

Koizumi, Hosokawa and Utsunomiya effectively disabled the anti-nuclear bloc among themselves, giving Masuzoe a smooth ride into office. His campaign, travelling around Tokyo, attracted crowds of little old ladies and gentleman long retired. The message was simple: A vote for Masuzoe was a vote for sticking to the tried and tested formula of keeping things ticking along nicely.

The winning candidate’s first speech in office was typical of his campaign pledges. “In order to make Tokyo the best city in the world,” the new leader said, “above all, we have to make various preparations for the 2020 Olympics and Paralympics, on top of enhancing the infrastructure.” Disaster prevention, social welfare and public safety were among the priorities Masuzoe listed, without giving specifics.

Paradoxically, the Masuzoe win in many ways represents the rigid mindset that Shinzo Abe has repeatedly said must be overcome if Japan is to beat deflation. A vote for Masuzoe was a risk-free vote for maintaining the status quo. Voters that wished to cast ballots for a prominent candidate were given a choice: Stick with what you have now or cast a ballot on only energy policy.

In such circumstances, many foreign pundits chose to call the vote a referendum on the nation’s energy policy, and cast Masuzoe as pro-nuclear. This is incorrect. The new governor has said that he believes Japan should be slowly weaned off of nuclear energy and that a Tokyo under his leadership will increase the proportion of energy it derives from renewables. Still, he is coy on the path for a nuclear-free Tokyo. “Nuclear energy policy belongs to the national government,” he said after taking office. In a sign of the market’s indifference to Masuzoe’s election win, shares in Tokyo Electric Power Co. moved from 489 yen on February 7 to 479 yen February 10, the day after the vote.

Knives Out

The top four candidates shared one trait: they were all over 65 and male, with Hosokawa, 76, more than nine years older than the second-most senior candidate. As well as leading many liberals to roll their eyes at another old-man dominated election, this also meant that the local scandal rags had plenty to capitalize on. Hosokawa was singled out as long in the tooth. Utsunomiya, a lawyer by profession known for dealing with debt issues and setting up Hibiya Park Tent Village for poor left homeless by the Great Recession, was easily brushed off as unfriendly to business. Tamogami was dubbed a rightist—though he didn’t seem to mind. Masuzoe came in for the roughest ride.

It started with a blog post by the former leader of the Social Democratic Party, Mizuho Fukushima. Digging into his past, Fukushima focused on comments Masuzoe had made in books written more than three decades ago. “Women are not normal when they are having their period. ... You cannot possibly let them make critical decisions about the country,” Tokyo’s new leader had said.

Others joined in the Masuzoe-bashing. A story in Shukan Bunshun, a weekly that enjoys scandal, accused the governor

of using political donations to pay back private loans. Stories on his time in political office are also skeptical of the new governor’s ability to run Tokyo, pointing out opportunism in his career. Masuzoe left the Liberal Democratic Party months after its 2009 election loss to form a new party.

Believing the electorate is unaware of Masuzoe’s checkered past would be naive. And while a portion of the support can be explained by the inadequacy of Masuzoe’s opponents, another phenomena was at work: bloc voting. A Kyodo poll conducted during the election 71% of LDP voters and 90% of New Komeito supporters cast ballots for Masuzoe. In other words, hundreds of thousands of people voted for Masuzoe because their party told them to.

Strong Fourth

The election’s real surprise was the strong performance of Tamogami. The former air force head was fired in 2008 for claiming that Japan was an innocent party during World War II and the country’s atrocities were fabricated. In the Tokyo race, he appears to have understood he could never realistically win, but still campaigned to show the growing strength of the right.

“My views are close to the prime minister’s on history, I think he would secretly like to support me,” Tamogami said at a news conference during the campaign. Whether that is true or not, Tamogami symbolizes Japan’s new conservatism and a breakdown of votes shows that he is a hit with the kids. The younger a voter was, the more likely they were to support Tamogami. He won over 24% of those in their 20s, 17% of thirty-somethings and 14% of the vote among 40-49 years olds. Among those that were alive during World War II, 6% supported Tamogami.

Three factors were behind the surprise turnout for Tamogami: Fears about a growing China threat, an innovative social media campaign that sidestepped newspapers and television, and endorsements from prominent conservative politicians such as former Governor Shintaro Ishihara. All factors demonstrate the strong organization of the Japanese right, and suggest its momentum is unlikely to slow.

Tamogami offers an important lesson to Japan watchers. While left-leaning sentiment is strong, as seen by the combined performance of Utsunomiya and Hosokawa, organization is not. An excessive focus on a single issue, nuclear energy, paved the way for an easy win for Masuzoe. The new governor is not likely to find his time in office as easy as the campaign that got him there: scandal may taint his tenure. But should that matter to the LDP power machine? Probably not. A new figure that is presentable enough to win votes against a hapless opposition would likely win any future election if Masuzoe is forced to cede the governorship.



一般社団法人戦略的グローバルIR協会
Strategic Global IR Management Association

To mark the establishment of SGIM, we are proud to announce that we are holding an event in Tokyo on the afternoon of Thursday, April 17. We’ve had the great fortune of securing as keynote speaker Mr. Hideto Fujino, Director and Chief Investment Officer of Rheos Capital Works. Fujino is an expert in fund management and growth equity investments, and after having served with Goldman Sachs Asset Management, Jardine Fleming and Nomura Asset Management founded Rheos Capital Works in 2003. If you have colleagues here in Japan we urge you not to miss the inaugural SGIM gathering!

Strategic Global IR Management Association (SGIM) Inaugural Event (April 17, 2014) ～The Private Sector’s 5 th Arrow of the Abenomics Growth Strategy～	
Time & Date	April 17 (Thurs), 2014 14:00 – 16:30 (Doors open at 13:30)
Venue	Conference Square M Plus, Grand Room, 10 th Floor, Mitsubishi Building (http://www.marunouchi-hc.jp/emplus/)
Fee	Free (Future seminars and sessions will be exclusively for members.)
Registration	Please register from SGIM’s website (http://www.sgim.or.jp/index.html)
Program Schedule (tentative)	・ Greeting from the founders Presentation of the objectives of SGIM ・ Congratulatory message from Kiyohiro Sugashita (Sugashita Partners) ・ Keynote speech by Hideto Fujino, Director and CIO, Rheos Capital Works "How to Construct Exemplary Corporate IR Strategies Demanded by Global Investors" ・ Closing summation

“Strategic Global IR Management Association” Established

To promote strategic global IR activities by Japanese companies

1. Establishment of SGIM

The Strategic Global IR Management Association (SGIM) has been established with the objective of promoting and supporting global IR “best practices” in Japanese companies.

2. SGIM’s Raison D’être

There is increasing investment from abroad in Japan’s stock market, and foreign investors have become extremely influential players. This trend is expected to continue as the Japanese government has aggressively implemented strategies to revitalize the country’s economy and expectations for economic recovery are high domestically as well as globally. However, despite Japan’s leading companies having skillfully navigated extremely challenging circumstances, and the abundance of companies in Japan with outstanding management strategies and retained earnings, the dearth of IR activity – not only with regard to lesser-known firms, but also on the part of those companies in Japan that are recognized internationally – has resulted in these achievements not being shared with foreign investors, and has resulted in lost opportunities for both sides. SGIM aims to reduce this loss by raising the quality and quantity of “world class” IR executed by Japanese corporations.

3. Mission

SGIM was established with an aim to promote and support top corporate managers of Japanese companies to implement proactive and independent strategic IR for foreign investors. We believe that direct IR by top managers to foreign investors means not only nurturing a sense of trust among them, but also bringing in investment capital for medium- to long-term periods and consequently contributing to enhanced corporate value.

The establishment of SGIM was received with understanding and approval by Mr. Jeffrey D. Morgan, President and CEO of National Investor Relations Institute (NIRI).

Though SGIM's activities, we aim to contribute to the spread of world class IR in Japanese companies, the further evolution of their international corporate activities and the development of Japanese stock markets.

4. Introducing SGIM

1. SGIM's Mission

- (1) SGIM strongly advocates IR as an important obligation of corporate leadership.
- (2) SGIM studies and promotes ideal IR and disclosure practices and strategies particular for IR targeting foreign investors.
- (3) SGIM studies, promotes and develops strategic IR practices closely linked with management strategies, especially financial strategies.
- (4) SGIM will nurture leaders, officers and middle-management who can implement global IR strategy in collaboration with experts, auditors, lawyers and IR service providers in order to contribute to the evolution of international corporate activities.

2. SGIM's Activities

SGIM recognizes the Japan Investor Relations Association's IR Activities Charter as the basic rules for IR activities, and establishes the following as SGIM's main activities on global IR.

- (1) Collecting of global IR intelligence and know-how
- (2) Conducting surveys, research and development on global IR-based management
- (3) Educating corporate leaders of listed companies on global IR-based management
- (4) Holding workshops, seminars, etc. on global IR-based management
- (5) Publishing of books and magazines on global IR-based management
- (6) Educating members on global IR in a timely manner
- (7) Facilitating interaction among corporate global IR leaders
- (8) Collaborating with Japanese and overseas IR institutions
- (9) Proposing global IR management policies
- (10) Establishing standards for evaluating global IR activities and issuing "awards" for companies satisfying these standards
- (11) Other necessary activities to achieve SGIM objectives

3. Roadmap of Key Activities for 2014

SGIM sets forth the following roadmap of key activities for 2014 as follows.

- (1) Launch a website to raise awareness of SGIM and to prepare proper infrastructure
 - Post useful content including overseas IR research documents, etc.
 - Consider methods for timely information release, including blogs and social media
- (2) Hold seminars and study meetings to promote global IR best practices and improve SGIM's industry recognition.
(Example topics)
 - Keys to creating global IR strategies that appeal to foreign investors
 - Studying global IR tools and communication methods
 - Research on respective foreign investors' investment stances and methods to approach them
 - IR case studies on leading foreign companies and investors' evaluations

4. Overview of SGIM

- (1) Name: Strategic Global IR Management Association
- (2) Address: 2F, 1-8-1, Kayaba-cho, Nihonbashi, Chuo-ku, Tokyo
- (3) URL: <http://www.sгим.or.jp>
- (4) Officers:
 - Founder: Masaki Kai (CEO of Finantec Co., Ltd.)
 - Founder: J. Michael Owen (Chairman and CEO of Transpacific Enterprises)
 - Administrator: Kiyohiro Sugashita (CEO of Sugashita Partners, Ltd.)
 - Auditor: Hiroyuki Yanagisawa (Representative of Yanagisawa & Asano Certified Public Accountants)

5. Membership Fees

- (1) Admission fee: 10,000 yen for all members
- (2) Annual fee:
 - Special members (financial institutions, investors, attorneys, IR service firms): 300,000 yen
 - Regular members (listed companies, etc.): 180,000 yen
 - Individual members: 60,000 yen

(Contact Information)
Strategic Global IR Management Association
Assistant Directors: Yumi Yamazaki / Hiroki Kai
E-mail: info@sgim.or.jp TEL: 03-4500-6887

Dashboard on Japanese Economy January 2014

Linking Japan posts major economic indices of the Japanese economy on a quarterly basis. Our hope is that this information will adequately convey an overview of Japanese economic trends to our readers. In order to refine and better meet this objective, please provide us with feedback and requests regarding the information posted here.

* indicates provisional figures.
** January data not available at time of publication.

GDP (Gross Domestic Product) **

	Nominal Gross Domestic Product (trillion yen)	Nominal Growth Rate period-on-period (%)	Real Gross Domestic Product (trillion yen)	Real Growth Rate period-on-period (%)
Fiscal 2009	473.9	-3.2	495.5	-2.0
Fiscal 2010	480	1.3	512.3	3.4
Fiscal 2011	473.3	-1.4	513.7	0.3
Fiscal 2012	472.6	-0.2	517.5	0.7
Jan. - Mar. 2013	474.1	3.0	520.7	4.8
Apr. - June 2013	*478.8	*4.1	*525.7	*3.9
July - Sep. 2013	*479.6	*0.7	*528.5	*1.1
Oct. - Dec. 2013	*481.5	*1.6	*528.5	*1.0

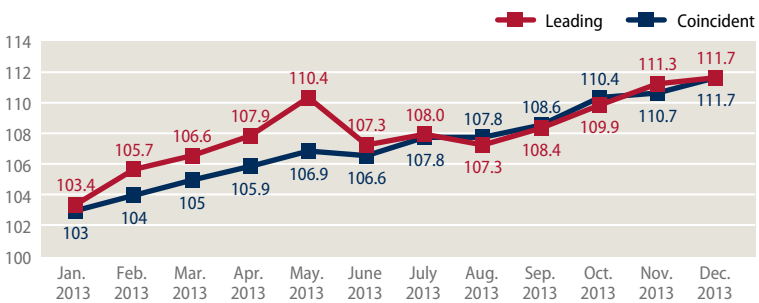
Tankan (Business Conditions)

	Business Conditions (Large Enterprises/ Manufacturing) Favorable (%) - Unfavorable (%)	Business Conditions (Large Enterprises/ Nonmanufacturing) Favorable (%) - Unfavorable (%)
Jan. - Mar. 2013	-8	6
Apr. - June 2013	4	12
July - Sep. 2013	12	14
Oct. - Dec. 2013	16	20
Jan. - Mar. 2014 (forecast)	14	17



Indexes of Business Conditions **

	Indexes of Business Conditions	
	Leading (2010=100)	Coincident (2010=100)
July 2013	108.0	107.8
Aug. 2013	107.3	107.8
Sep. 2013	108.4	108.6
Oct. 2013	109.9	110.4
Nov. 2013	111.3	110.7
Dec. 2013	111.7	111.7

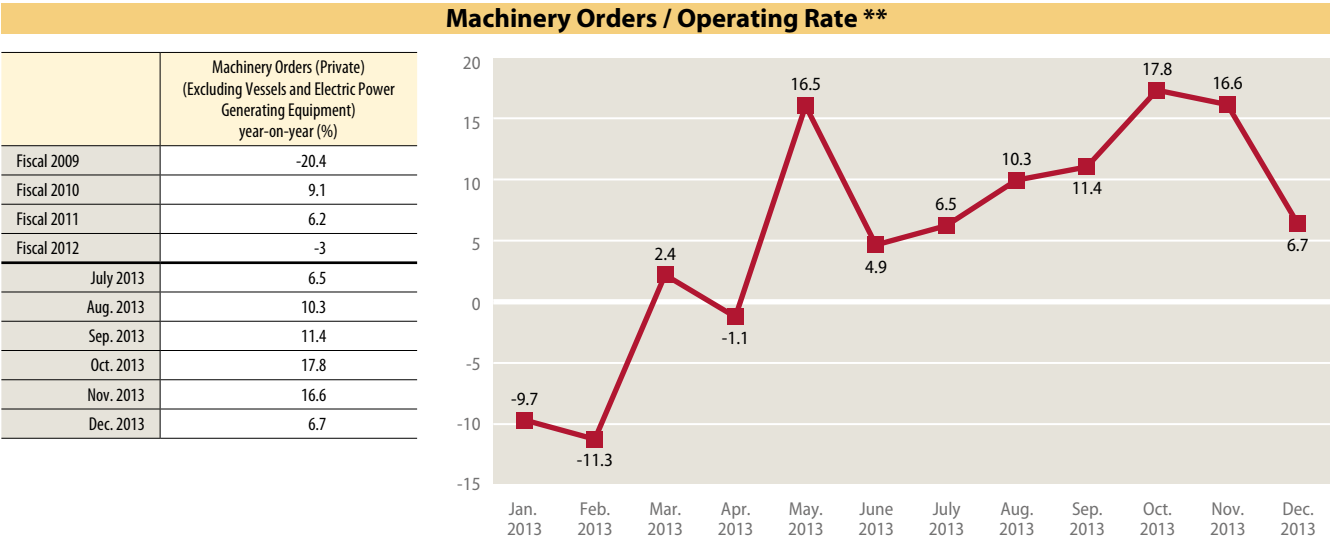


Consumption

	Consumption Expenditure year-on-year (%)	Retail Sales Value year-on-year (%)	Number of New Cars Sold (thousand)	Department Store Sales year-on-year (%)
July 2013	0.1	-0.3	472	-2.5
Aug. 2013	-1.6	1.1	367	2.7
Sep. 2013	3.7	3.0	523	2.8
Oct. 2013	0.9	2.4	422	-0.6
Nov. 2013	0.2	4.1	457	2.4
Dec. 2013	0.7	2.5	423	1.7
Jan. 2014	—	—	496	2.9

Consumption Expenditure: Household with two or more people, change from actual results of previous year.
Number of New Cars Sold: Total of passenger cars, trucks and buses. Includes light motor vehicles. Survey conducted by Japan Automobile Dealers Association and Japan Mini Vehicle Association.
Travel Services: Survey conducted by Ministry of Land, Infrastructure, Transport and Tourism targeting major 50 travel agencies.
Department Store Sales: Based on existing department stores. Survey conducted by Japan Department Stores Association.

Housing					
	Number of New Housing Construction Starts (thousand units)	Number of Condominium Sold		“Orders Received for Construction” year-on-year (%)	Contracted Amount of Public Works year-on-year (%)
		The Tokyo Metropolitan Area (%)	The Kinki Region (units)		
Fiscal 2009	775	37,765	19,094	-14.2	4.9
Fiscal 2010	819	45,012	21,609	-5.2	-8.8
Fiscal 2011	841	45,173	20,415	7.1	-0.5
Fiscal 2012	893	46,754	24,114	2.4	10.3
July 2013	979	5,306	2,111	13.7	29.4
Aug. 2013	960	4,145	1,994	21.4	7.9
Sep. 2013	1,028	5,968	3,671	89.8	29.4
Oct. 2013	1,030	3,506	1,404	61.1	3.5
Nov. 2013	1,037	5,006	1,781	2.2	4.9
Dec. 2013	1,055	8,246	2,405	4.9	7.5
Jan. 2014	—	1,826	711	—	28.8



Indices of Industrial Production **				
	Shipments		Inventories	
	Change month-on-month (%)	Change year-on-year (%)	Change month-on-month (%)	Change year-on-year (%)
Fiscal 2009	—	-9.2	—	-12.2
Fiscal 2010	—	8.4	—	-1.8
Fiscal 2011	—	-1.5	—	5.2
Fiscal 2012	—	-1.8	—	4.5
July 2013	2	1.4	1.6	-2.8
Aug. 2013	-0.1	-1.3	-0.2	-3.3
Sep. 2013	1.5	4.6	-0.2	-3.5
Oct. 2013	2.3	6.3	-0.3	-3.8
Nov. 2013	0.0	6.6	-1.8	-5.1
Dec. 2013	0.8	6.3	-0.5	-4.3

Industry **			
	Indices of Production Integrated circuits year-on-year (%)	Crude Steel Production (thousand tons)	Indices of Tertiary Industry Activity (2005=100)
Fiscal 2009	3	96,448	96.7
Fiscal 2010	8.3	110,793	97.8
Fiscal 2011	-14.0	106,462	98.5
Fiscal 2012	-4.1	107,304	99.2
July 2013	19.3	9,291	99.7
Aug. 2013	16.5	9,144	100.3
Sep. 2013	16.5	9,289	100.4
Oct. 2013	-1.3	9,527	99.4
Nov. 2013	-0.7	9,273	*100.2
Dec. 2013	10.9	933.9	*99.8

Amount of Advertisement: Total of Dentsu and Hakuhodo. Figures from April 2005 are impacted by Hakuhodo splitting its Sapporo and Hokuriku offices.
Monthly data for Indices of Tertiary Industry Activity is seasonally adjusted value.

Unemployment Rate and Active Job Openings-to-Applicants Ratio **		
	Unemployment Rate (%)	Active job openings-to-applicants ratio (times)
Fiscal 2009	5.2	0.45
Fiscal 2010	4.9	0.56
Fiscal 2011	4.5	0.68
Fiscal 2012	4.3	0.82
July 2013	3.8	0.94
Aug. 2013	4.1	0.95
Sep. 2013	4.0	0.98
Oct. 2013	4.0	0.98
Nov. 2013	4.0	1
Dec. 2013	3.7	1.03

Unemployment Rates from March to August 2011 are supplementary-estimated figures including those for three prefectures of Iwate, Miyagi and Fukushima.

Finance				
	Monetary Basis year-on-year (%)	Total Outstanding Loans of Banks year-on-year (%)	Domestically Licensed Bank Weighted Average Lending Rate annual rate (%)	Newly Issued Government Bonds Yields (10 years) annual rate (%)
Fiscal 2007	—	—	—	—
Fiscal 2008	—	—	—	—
Fiscal 2009	5.1	0.8	1.683	1.395
Fiscal 2010	6.4	-2.0	1.573	1.255
Fiscal 2011	14.9	-0.1	1.477	0.985
Fiscal 2012	8.7	1.1	1.383	0.56
July 2013	38	2.3	1.296	0.795
Aug. 2013	42	2.3	1.291	0.72
Sep. 2013	46.1	2.2	1.277	0.68
Oct. 2013	45.8	2.3	1.277	0.59
Nov. 2013	52.5	2.4	1.271	0.6
Dec. 2013	46.6	2.6	1.256	0.735
Jan. 2014	51.9	*2.5	—	0.62

Call Rate:
Total Outstanding Loans of Banks:

Unsecured, overnight. Average figure.
Average of outstanding loans.

Newly Issued Government Bonds Yields (10 years): Figures as of end of the period. Announced by Japan Bond Trading.

Consumer Price Index **			
	Consumer Price Index (General, excluding fresh food)		
	All Japan	month-on-month (%)	year-on-year (%)
Fiscal 2009	100.7	—	-1.6
Fiscal 2010	99.8	—	-0.8
Fiscal 2011	99.8	—	0
Fiscal 2012	99.6	—	-0.2
July 2013	100.1	0.1	0.7
Aug. 2013	100.4	0.3	0.8
Sep. 2013	100.5	0.1	0.7
Oct. 2013	100.7	0.2	0.9
Nov. 2013	100.7	0.0	1.2
Dec. 2013	100.6	0.0	1.3

Stock and Yen Exchange Rates			
	Nikkei Stock Average (yen)	Yen Exchange Rates against the U.S. dollar (yen)	Yen Exchange Rates against the Euro (yen)
Fiscal 2009	9,976.31	92.85	131.16
Fiscal 2010	9,951.17	85.71	113.14
Fiscal 2011	9,183.44	79.05	108.96
Fiscal 2012	9,612.07	82.89	106.73
July 2013	14,317.54	99.71	130.4
Aug. 2013	13,726.66	97.87	130.25
Sep. 2013	14,372.12	99.24	132.45
Oct. 2013	14,329.02	97.86	133.36
Nov. 2013	14,931.74	100.03	135.00
Dec. 2013	15,655.23	103.46	141.67
Jan. 2014	15,578.28	103.94	141.50

Nikkei Stock Average: Average for the period.
Yen Exchange Rates: Tokyo, interbank, spot trading, average for the period.