April 2016

# Linking Japan

Mitsubishi Corp UBS Realty

Investment Insights

## Sustainable Growth

### Asset Management Capability Evolving with Broader Coverage of Asset Types and In-depth Expertise

# Publisher's Note

Spring is marked by cherry blossoms in Japan. The short life of the blossoms has created an annual experience where people do their utmost to enjoy the fleeting moments of the falling of the cherry blossoms by imbibing themselves with a weeks-worth of alcohol in a single night. They avidly chase the blossoms up and down the archipelago and actually repeat the drunken tribute each time.

There is currently a strong vibe in the market. Despite the sense of Prime Minister Shinzo Abe's arrows falling short of targets, the companies featured in this issue have overcome tough obstacles. Mitsubishi Corp. – UBS Realty proactively acted and expanded its REIT offering from the sole Japan Retail Fund Investment Corporation to first the Infrastructure and Industrial Fund Investment Corporation – investing in the foundation of society at its most difficult time – and then to MCUBS MidCity Investment Corporation. Meanwhile, ES-CON Japan repeatedly negotiated with debt instrument holders during the global financial crisis to gain their understanding and forge a route through the negativity of that period. The newly inked business plan convinced many of its future, and the Tokyo Stock Exchange welcomed it back. The company has since completely righted the ship, and climbed up the tiers of the stock exchange. It is also preparing to list a REIT, one of the final steps in creating a solid corporation that can survive admirably in both good and bad times.

J. Michael Owen
Chairman
Transpacific Enterprises

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April 2016




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April 2016 Volume 14

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| Published: | April 2016 |

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# Abenomics 2013-2015?

### A rough start to 2016 has economists urging Japan's government to do more

**by Richard Smart**

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More than three years after Prime Minister Shinzo Abe assumed power in Japan, and more than a year after the nation's initial target date for achieving 2% inflation to help along a "virtuous cycle" of consumer-led growth that could resuscitate the economy, one would be forgiven for pronouncing Abenomics an absolute failure.

Growth remains stagnant, stuck between menial increases and decreases in the size of the economy; inflation remains stubbornly low, with low oil prices exerting downward pressure and wage rises appearing set to again this year stay laughably low for those that see any increase in the money reaching their wallets; and Abe's metaphorical three arrows have lost their focus as politicians have looked to move the goalposts on economic targets to a chorus of yawns from observers.

So, where does Japan stand? The doomsayers are perhaps exaggerating to call the death of Abenomics, but finding people in the optimists' camp is increasingly difficult. But, fortunately for Abe, Japan's opposition remains ineffective and a general election appears to be around the corner. The nation may, again, be about to embark on a new drive to improve its economy.

## Muddled

Realists have from the start felt that the third arrow of Abenomics, structural reform to accelerate growth, would be the most difficult to implement and perhaps impossible. It proved in practice to be the Achilles' heel of Abenomics.

The so-called "third arrow" of economic reforms emerged as a grab-bag of projects with little direction, suggested to the government by various commissions launched by Prime Minister Shinzo Abe. The reforms, dubbed by The Economist "less a single arrow than a 1,000-strong bundle of acupuncture needles" was viewed by skeptics as more of a directionless hodgepodge of diluted buzzword policies.

Then came a second version a year later, in 2014. "It was just an unfocused cornocopia … It had more than 214 items listed, it was a grab bag," said Michael Cucek, a professor of social sciences at Waseda University

Tobias Harris, vice president and Japan analyst at Teneo Intelligence, believes that from the start, the Japanese political process, in which policies have to go from proposal to implementation through a wide array of departments and committees, meant the third arrow was going to disappoint. “Whatever proposals are in the growth strategy get watered down.” he says. “And just repeat for every policy.” In other words, despite the rhetoric, the politicians knew all along that any changes would be incremental rather than revolutionary. “The whole purpose of structural reform is to find a way to increase the number of workers or to make those you have more productive. On both of those fronts, progress does not seem to have been that great.”

The first two arrows — monetary policy and fiscal stimulus — were more successful. The stock market rally that followed Abe’s election victory in 2015 sent the market back over 10,000 points, and then 20,000. But nothing else really happened. “In theory, the policy package aimed to implement painful structural reforms while expansionary fiscal and monetary policies played the role of painkillers,” wrote Takuji Okubo of Japan Macro Advisors. “In reality, no significant structural reforms were executed.”

Then, as 2016 rolled in, worries about China, the state of the global economy and what the economist Nouriel Roubini calls “the new abnormal” sent stocks down globally. The Nikkei average in Tokyo hovers at around 17,000 points. The yen, hovering around 120 against the dollar at the beginning of the year, is now in the 107-108 range, meaning less profits for exporters.

So far, actions to shore up Japan this year have gone awry.

## The NIRP issue

The Bank of Japan in January surprised the markets by introducing negative interest rates at 0.1% on current accounts held by financial institutions at the central bank. Between 10 trillion yen and 30 trillion yen was targeted by the bank. The aim of the rates was to encourage banks to loan their money to consumers and businesses, who would spend. Predictably, BOJ Gov. Haruhiko Kuroda looked to surprise the market with the announcement. This time, it backfired.

“The way the first announcement of the negative policy rates occurred in Japan had ripple effects,” Roubini said during a recent trip to Tokyo. “Suddenly, negative policy rates that were introduced initially in Switzerland, in Denmark and Sweden, then in the eurozone, started to have a bad name. That was the moment, when the Bank of Japan went negative and surprised the market, when people said ‘you are killing the banks, you are killing the net interest margins, that’s going to lead to a reduction of credit growth, that’s going to lead to lending rates going higher, and therefore this policy tool not only is ineffective but it could be counterproductive.’”

Kuroda has gained notoriety for changing policy at times least expected by the market. Until this year, that had proved a successful strategy. But in a time of increasing unpredictability, his strategy may be wearing thin.

“I am not actually of the view that we should rule out the use of negative policy rates,” Roubini said. “You can work on quantitative easing and the price of money, and if real rates are too high and you need to reduce them to boost the economy, unless you can increase inflation, which is increasingly hard, you might have to go negative for the policy rate. There is an economic argument for negative with policy rates at the same time as quantitative easing, but you have to do it in a way that is communicated right to have the right financial and economic consequences. I’m not against it, but the negative policy rates has got a bad name because of the way the announcement was botched. So Japan became indirectly a part of the problem, rather than part of the solution.”

## Moving forward

After the NIRP hiccup, Prime Minister Abe faces a conundrum. His apparent reliance on the central bank to prop up the market and maintain at least a little vibrancy in the Japanese economy appears to be reaching its end. Policy changes at the BOJ are appearing to have an incrementally lessening effect on the market.

And all signs indicate a technical recession being announced, after two consecutive quarters of contraction. All this is happening as the clock counts down to April 2017, when the consumption tax is supposed to rise by two percentage points to 10%.

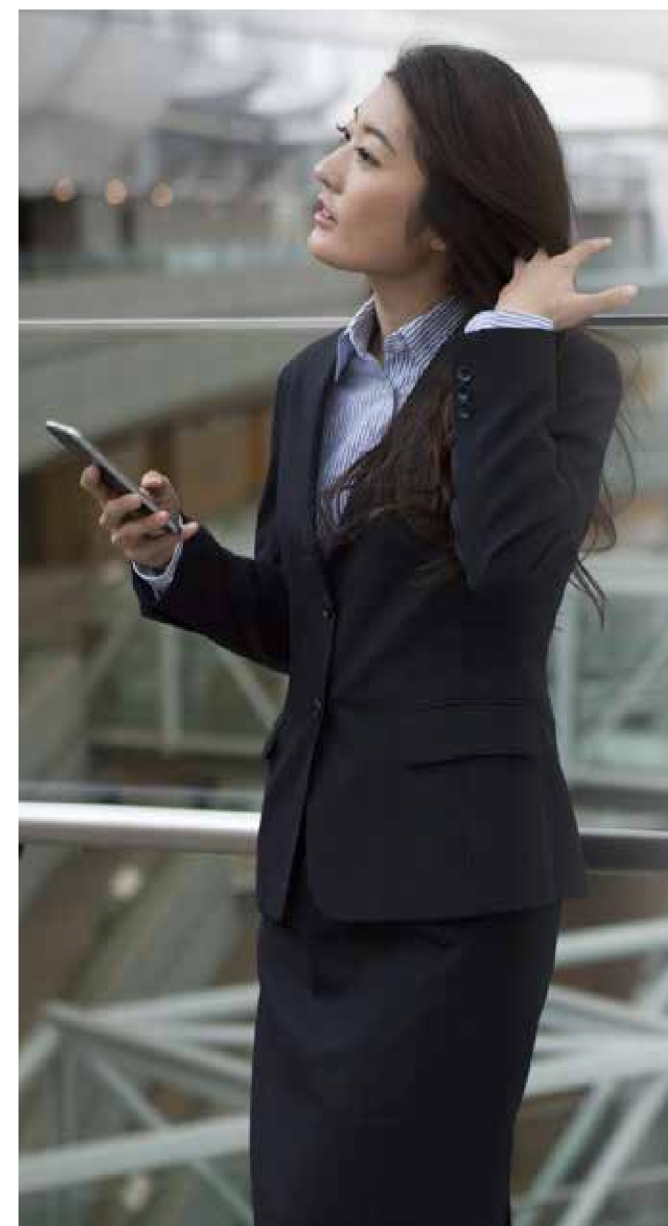
That hike, however, looks increasingly likely to be shelved. On a recent visit to Japan, the economist Paul Krugman followed his colleague Joseph Stiglitz in urging the government to shelve the tax hike for now. “Japan still has not achieved escape velocity to break out of its deflationary cycle,“he said.” I would call for a delay in the consumption tax hike. Japan needs fiscal policy to reinforce monetary policy and not fight it."

For Roubini, the delay is essential to get people spending again. “Last time around, the consumer took a beating,” he said. “This time around, consumers know that it is coming.” The virtual chorus from economists has so far fallen on deaf ears, in part reflecting the power of Japan’s finance ministry. However, consumers are voting with their feet: Consumer spending fell for a fifth consecutive month in January, despite the healthy job market.

Action will be taken, and the trial balloons are being released. An unsourced report in the Sankei Shimbun in late March said the government was considering helicopter payments. “I think as they’ve discovered when looking at the last couple of stimulus packages [helicopter payments] end up a lot cheaper than doing public works,” said Harris. “I don’t think there’s any question that you are going to see something, whether it is gift certificates or payments to, say, the elderly.

The real question is whether you are going to get a lot of pressure from the LDP to ratchet up public works even though the finance ministry has no interest in doing that. Any public works project is going to run into the labor issue in the construction sector.”

Other than stimulus, the government appears to have few options. Structural reform is a victim of a governmental process that itself is in need of structural reform. The BOJ, meanwhile, has done all it can for now. But stimulus alone will not improve the lot for Japan. Harris, however, thinks the prospects of a domestically driven virtuous cycle are bleak. “When it comes to Abe following through, there is none of that,” he says. “We have investment in IT, labor saving devices, encouraging people to start their own businesses, but there is nothing resembling real incentives.”



## The future Watanabe

A thought exercise: Mrs. Watanabe, the Japanese everywoman, is ageing. Her daughter, Miss Watanabe, has just graduated from university. Now aged 21, Miss Watanabe was 11 when YouTube and Facebook were founded. The iPhone was there throughout her teenage years. She cannot comprehend a world without a social Internet. At 16, she learned about the ephemeral nature of the world when a tsunami swept through the east of her country destroying everything in its path.

Miss Watanabe is now joining a company, as a permanent employee. She effectively has, under current Japanese law, a job for life. Assuming a retirement age of 65, Miss Watanabe will not leave her company until 2060, when the Japanese population is projected to stand at around 87 million.

Abenomics is trying to pave the way for Miss Watanabe to live the life set out above, raise a family, and enjoy a social safety net and economic stability. Even the most optimistic Japanese person realizes the odds are against Miss Watanabe’s course going in the way the government would like.

Something has to give.

Still, Harris does not see any alternative to patience and hope. “The obituaries for Abenomics are premature,” he says. “That has less to do with the policies and more to do with the fact that until someone is willing to offer an alternative it is the only game on the block.”

COVER STORY

Mitsubishi Corp UBS Realty

# Sustainable Growth

*Asset Management Capability Evolving with Broader Coverage of Asset Types and In-depth Expertise*

**Keita Araki**
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**Toshiaki Fukai**
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Mitsubishi Corp. – UBS Realty, inc.

**Katsura Matsuo**
President & CEO & Representative Director
MCUBS MidCity Inc.

**Toru Tsuji**
President & CEO & Representative Director
Mitsubishi Corp. – UBS Realty Inc.

**Takanobu Yoshimoto**
Deputy President & Representative Director
Mitsubishi Corp. – UBS Realty Inc.



## 1. Our Structure and Track Record

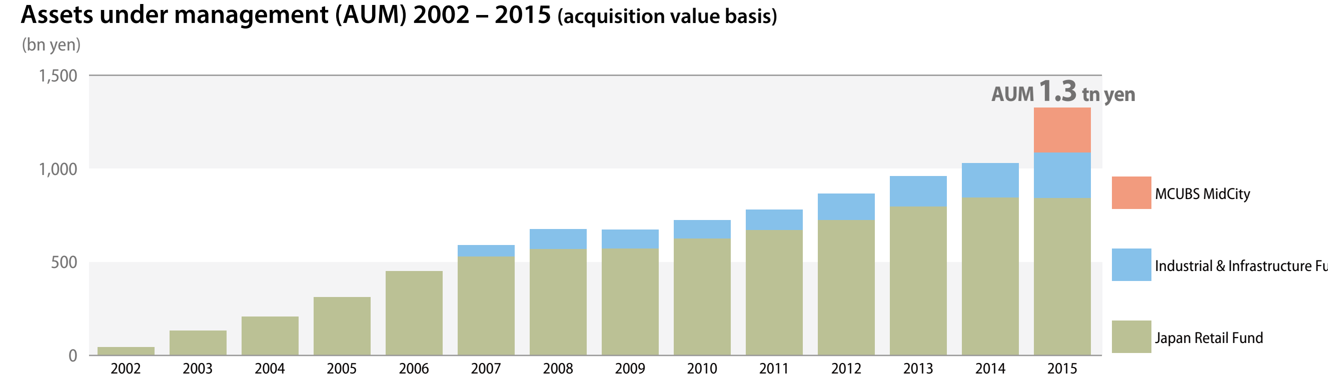
It has been 15 years since Mitsubishi Corp. – UBS Realty (MCUBSR), an industry leader in J-REIT management, was established in 2000 with 51% ownership by Mitsubishi Corporation, Japan's largest trading company and a core company of the Mitsubishi conglomerate, and 49% by UBS, one of the largest global financial institutions.

MCUBSR started its business with Japan Retail Fund (JRF), which focuses on retail assets and was listed on the Tokyo Stock Exchange in 2002, the third oldest J-REIT. In 2007, just before the global financial crisis, MCUBSR also listed Industrial and Infrastructure Fund (IIF), the only J-REIT which focuses on industrial assets. In April 2015, MCUBSR entered into the office sector by taking a 65% stake of the management company of MID REIT Inc. Upon announcement of the takeover, the unit price of MID REIT Inc., which had struggled due to concern over the portfolio and no clear growth story, surged more than 20% in one day and hit the upper limit of a daily trading range. MID REIT Inc. was renamed MCUBS MidCity Investment Corporation, and has since consistently posted strong performance on the J-REIT Index proving that J-REIT investors appreciate MCUBSR's management capability. MCUBSR Group's assets under management (AUM) in total have reached JPY 1.3 trillion, with total market cap of JPY 963 billion as of March 2016, the largest among J-REIT managers. Mr. Toru Tsuji, President and CEO of MCUBSR, took over the role in June 2013 and during his tenure has presided over the MidCity deal and overall growth in investors' value for the three J-REITs.

There are 115 employees at MCUBSR and 17 at MCUBS MidCity Inc., the management company for MCUBS MidCity Investment Corporation, including experts such as certified real estate appraisers, licensed architects, and CPAs. "In the investment management business, the capability of the firm is dependent upon the quality of its people," says Tsuji.

Having three J-REITs under management gives MCUBSR Group operational efficiency and provides various benefits to investors. Tsuji, who has in-depth experience in deal sourcing and real estate development, emphasizes the benefits of having a single team covering deals for all asset types, i.e. office, retail and industrial. He consolidated all deal sourcing functions across the firm into one team with more than 20 members in early 2015, two months before the MidCity deal. As MCUBSR expands the

**Assets under management (AUM) 2002 – 2015** (acquisition value basis)




*Total AUM of three REITs as of March 31, 2016 (acquisition value basis).

**Regional diversification by fund as of 2015**

| | Japan Retail Fund | | Industrial & Infrastructure Fund | | MCUBS MidCity | |
|---|---|---|---|---|---|---|
| | Acquisition value* | % of Portfolio | Acquisition value* | % of Portfolio | Acquisition value* | % of Portfolio |
| Tokyo | 415,741 | 48.2 | 152,108 | 73.2 | 80,615 | 37.1 |
| Osaka | 264,882 | 30.7 | 44,213 | 21.3 | 129,290 | 59.6 |
| Nagoya | 78,762 | 9.1 | 2,950 | 1.4 | 4,919 | 2.3 |
| Other | 103,178 | 12.0 | 8,430 | 4.1 | 2,280 | 1.1 |
| **Total** | **862,565** | 100.0 | **207,701** | 100.0 | **217,104** | 100.0 |

Unit: mn yen (As of April 1, 2016)

"Tokyo" also includes Kanagawa, Saitama and Chiba prefectures. "Osaka" also includes Shiga, Kyoto, Hyogo, Nara and Wakayama prefectures. "Nagoya" also includes Aichi, Mie and Gifu prefectures.

*Asset value basis

coverage of asset types, the Acquisition Team becomes able to acquire deal information more effectively and efficiently, as brokers and other counterparts are aware that the team is able to handle a broader range of deals/asset types. Last year, the total volume of transactions that MCUBSR Group completed for the three J-REITs was JPY 135 billion, nearly 10% of all transactions in the J-REIT market. Another aspect that distinguishes MCUBSR is its engineering capability. The Engineering Team consists of first-class architects with expertise in renovation/refurbishment of properties. Without relying on sponsors like many other J-REIT managers, MCUBSR can independently redevelop and refurbish properties for its J-REITs.

Tsuji considers communication with investors very important. For each of the J-REITs, he and senior management visit more than 100 international and domestic institutional investors twice a year. Because MCUBSR Group manages three J-REITs, Tsuji and Takanobu Yoshimoto, Deputy President of MCUBSR, have frequent opportunities to meet investors and discuss with them macroeconomic issues, real estate markets, and strategies. They consider the investor meetings very helpful for them in managing the J-REITs in line with investors' expectations.

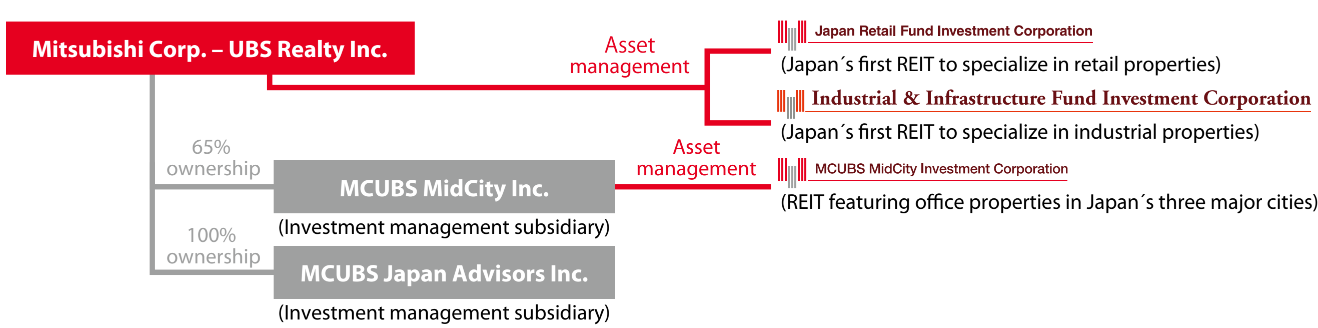
The evolution of MCUBSR continues. They opened a branch office in Osaka last year to manage assets in Western Japan, are implementing compliance policies applied to all group firms, and are also looking to introduce enterprise IT solutions for operational accuracy and efficiency.

MCUBSR is also entering into the private fund business and established a 100% subsidiary, MCUBS Japan Advisors Inc., for this new initiative earlier this year. The new business will focus on providing investment solutions to international investors, mostly introduced by UBS. The impetus behind this is Tsuji believed that a private fund can manage strategies not always suitable for J-REITs, such as value-add and development, and therefore the business range of MCUBSR Group would expand not only in terms of asset types, but also over the lifecycle of properties.

Unlike many competitors, real estate is not the core business of the parent companies of MCUBSR. Making profits by transferring assets to J-REITs or earning fees for property/building management of assets owned by J-REITs is not their central business model. Tsuji stresses that MCUBSR is better positioned to focus on investors' interest without a conflict of interest with its parents. He is proud of MCUBSR's track record of successfully raising capital for new assets, increasing distributions per unit (DPU) of the J-REITs, and increasing net asset value (NAV) per share for investors.

With its corporate mission, "Always create new values for people, the community and the world," Tsuji and his team are committed to improving their capabilities and delivering value to investors.

**Our Structure**




**Financial Highlights and Forecasts**

| | | Period | Operating Revenue | Operating Income | Ordinary Income | Net Income | DPU |
|---|---|---|---|---|---|---|---|
| Japan Retail Fund | Forecast | Feb. 28, 2017 | 32,297 | 13,637 | 11,275 | 11,275 | 4,250 |
| | Forecast | Aug. 31, 2016 | 31,574 | 13,142 | 10,683 | 10,682 | 4,250 |
| | Actual | Feb. 29, 2016 | 32,017 | 13,684 | 11,154 | 10,912 | 4,200 |
| Industrial & Infrastructure Fund | Forecast | Jun. 30, 2016 | 7,958 | 4,322 | 3,368 | 3,367 | 9,550 |
| | Actual | Dec. 31, 2015 | 7,788 | 4,277 | 3,288 | 3,287 | 9,324 |
| MCUBS MidCity | Forecast | Jun. 30, 2016 | 6,855 | 2,430 | 1,837 | 1,835 | 6,900 |
| | Actual | Dec. 31, 2015 | 6,579 | 2,507 | 1,937 | 1,936 | 7,281 |

Unit: mn yen (DPU: yen)



## 2. Our Mission and Vision

**Mission**

"Always create new values, for people, the community and the world." Through real estate investment management, we create new demands in our society and new values that exceed people's expectations.

**Vision**

We strive to be a leading group of professionals that adheres to the highest standards of compliance and discipline.

## 3. ESG Activities and Awards by MCUBSR

### Sustainability Activities

Mitsubishi Corp.-UBS Realty Inc. has established the "Environmental Charter" and "Responsible Property Investment Policy," integrating environment, social and governance (ESG) factors into the asset management of our investment corporations.

#### Asset Manager Activities

As a J-REIT asset manager, MCUBSR has conducted the following activities:

- The first J-REIT asset manager to sign the "Principles for Responsible Investment" (PRI) (2013)
- Signing the "Principles for Financial Action for the 21st Century" (2013)
- The first J-REIT asset manager to sign the "Montreal Carbon Pledge" (2015)

#### GRESB Rating

GRESB (Global Real Estate Sustainability Benchmark) is a benchmark developed by a group of leading European pension funds, such as APG and PGGM. It evaluates the sustainability performance of real estate companies and funds, and is becoming the de facto standard among major European, American and Asian institutional investors utilized in their investment decision-making processes.

Japan Retail Fund Investment Corporation (JRF) and Industrial & Infrastructure Fund Investment Corporation (IIF) were awarded the highest possible ranking - Green Star – in the 2015 GRESB survey.

### Awards

#### JIRA 2015 IR Awards

MCUBSR was among the winners of the "Best IR Award for Small and Mid-cap Companies" at the 2015 Japan Investor Relations Association (JIRA) IR Awards.

#### ICSC Asia Pacific Shopping Center Awards

Japan Retail Fund Investment Corporation's (JRF) GYRE received the "Gold" Asia Pacific Shopping Center Award from the ICSC (International Council of Shopping Centers), while its Oyama Yuen Harvest Walk earned the "Silver" award.

**GYRE**

**Oyama Yuen Harvest Walk**

#### Porter Prize

The Porter Prize is focused on superior competitive strategies, and recognizes companies for innovative products, processes and management techniques, the implementation of proprietary strategies, and sustained high profitability resulting from these activities.

In 2013, Industrial & Infrastructure Fund Investment Corporation (IIF) received The Porter Prize after being highly evaluated for its unique "CRE proposal-based property-sourcing activities and growth strategy that aims for 'continuous equity growth,'" and became the first J-REIT to garner this award.

## 4. Certifications Obtained by our Funds

### CASBEE

CASBEE (Comprehensive Assessment System for Building Environmental Efficiency) is an evaluation system that ranks buildings and structures in terms of their environmental performance.

**Japan Retail Fund (JRF)** obtained the first ever CASBEE certification for a retail property, and now has four CASBEE-certified properties in its portfolio.

**AEON Mall Musashi Murayama**

**Industrial & Infrastructure Fund (IIF)** has two CASBEE-certified properties in its portfolio, including the IIF Kawasaki Science Center.

**IIF Kawasaki Science Center**

**MCUBS MidCity Investment Corporation (MidCity)** has two CASBEE-certified properties in its portfolio, including the G-Square Shibuya Dogenzaka.

**G-Square Shibuya Dogenzaka**

### DBJ Green Building

The Development Bank of Japan (DBJ) certifies real estate properties with high environmental and social awareness, based on five evaluation ranks (one star to five stars).

DBJ Green Building

**JRF** became the first REIT focused on retail properties to gain certification for four properties, and there are now nine properties in its portfolio that have earned DBJ Green Building Certification.

**Nara Family**

**IIF** became the first REIT focused on industrial properties to obtain certification for two properties, and now has five properties certified under the DBJ Green Building Certification.

**IIF Tosu Logistics Center**

### BELS

BELS certification is a public evaluation system, that evaluates the energy conservation performance of non-residential buildings.

**IIF** achieved BELS certification in November 2014 for its IIF Hiroshima Logistics Center, the first logistics facility to obtain the certification.

**IIF Hiroshima Logistics Center**



## Japan Retail Fund Investment Corporation

**Keita Araki**

Head of Retail Division
Mitsubishi Corp. – UBS Realty Inc.

Japan Retail Fund Investment Corporation (JRF), the first REIT in Japan to specialize in retail properties, listed on March 12, 2002, and today is Japan's third largest REIT in terms of asset size.

Over the 14 years since our listing, we have steadily expanded our AUM. JRF's portfolio consists of 94 retail properties, primarily in the Greater Tokyo, Osaka, and Nagoya areas valued at approximately 850 billion yen (February 29, 2016).

JRF's portfolio covers a broad range of asset types – urban retail hosting luxury brands in Omotesando and Ginza, retail facilities adjacent to major train stations, key regional shopping centers, roadside retail facilities, electronics retailers, and amusement facilities.

With a portfolio offering benefits from economies of scale, geographic and asset-type diversity, and sound fiscal condition based on the long-term debt ratio, JRF distinguishes itself with its stable cash flow.

When we first listed, portfolio composition centered on suburban shopping centers, but given changes in population demographics including a dwindling birth rate and aging of the population, migration to urban areas, and changing inbound demand and consumption trends, JRF is shifting its focus to urban retail properties.

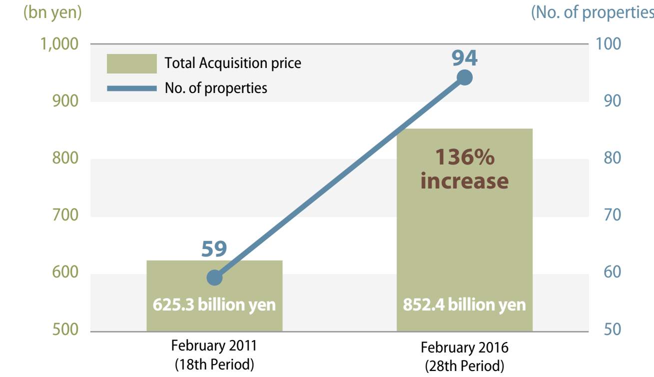
Over the past five years, JRF has grown its portfolio by about 50 billion yen annually. Within the next few years, we intend to surpass 1 trillion yen in AUM, while achieving a portfolio evenly split between urban and suburban retail properties.

Leveraging our accumulated operational experience, we are undertaking large-scale renewal of our existing properties, securing new, well-known tenants, and performing expansion and reconstruction work to increase rental revenue. Over 14 years of portfolio operation, we have cultivated excellent relationships with over 1,000 tenants, and have strong hands-on expertise in shopping center management.

In the fall of 2015, JRF launched a large-scale renewal project at mozo wonder city in Nagoya, which is our flagship suburban mall with total sales over 50 billion yen per year. Of the 200+ tenants, more than 70% are being replaced.

For the first time, JRF is rebuilding Bldg. B of G-Bldg. Jiyugaoka 01 on its own balance sheet. Construction to transform it into a commercial property featuring restaurants and lifestyle shops will be completed in November 2016.

**Growth in AUM – February 2011 to February 2016**




### Key Properties

**mozo wonder city**

**G-Bldg. Jiyugaoka 01**

Before reconstruction


After reconstruction

## Industrial & Infrastructure Fund Investment Corporation

**Toshiaki Fukai**
Head of Industrial Division
Mitsubishi Corp. – UBS Realty Inc.

Industrial & Infrastructure Fund Investment Corporation (IIF) was established in March 2007 and listed in October that same year as the only J-REIT focused on industrial real estate.

IIF invests in logistics, manufacturing, R&D and infrastructure facilities, that are the foundation for industrial activities, and for which long-term usage can be expected. We aim to secure stable returns and to steadily increase our AUM, thereby ensuring increasing value for investors.

Over the past five years, IIF has increased its AUM by 2.1 times to 209 billion yen with 47 properties (as of April 15, 2016), operating income by 2.7 times to 7.9 billion yen, and net income by 4.2 times to 3.3 billion yen. Distributions per unit (DPU) are up 89.1% to 9,550 yen, and the NAV per unit has increased by 65.5% to 353,799 yen. We've conducted public offerings for five consecutive years through 2015, and anticipate increased revenue, profits and DPU for the 11th straight term due to earnings from new properties and increased revenue from existing assets. In terms of our existing portfolio, we are currently undertaking expansion projects in collaboration with one of our tenants. When construction is completed in mid-May, IIF will acquire the facility and lease it to the same tenant – it is expected to increase the profitability of the portfolio.

Our target area for investment is broad, leaving considerable room for growth. We also believe there is potential to further increase DPU by expanding asset size. At present, given that competition is less fierce for R&D centers and infrastructure facilities than in the logistics sector, we are focusing on investments in those areas. Our ability to acquire such assets is founded in our "CRE (Corporate Real Estate) solutions." We directly approach corporations that own properties, and propose they move those properties off their balance sheets to strengthen their own financial condition. This approach enables us to acquire the properties at a high yield before the market finds out about them. Since its IPO, many of the properties in IIF's portfolio have been acquired in this manner. This business model sets us apart and has been praised by investors.

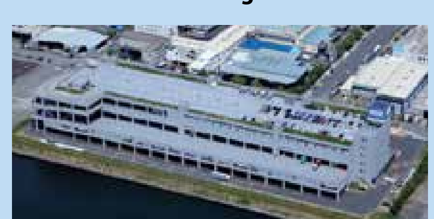
Recently, IIF acquired five properties including the IIF Kakegawa Manufacturing Center, which marks the first-ever acquisition of a manufacturing facility by a J-REIT, and the IIF Urayasu Machinery Maintenance Center, which was acquired from an affiliate of IIF sponsor Mitsubishi Corporation. We intend to continue to upgrade and expand our pipeline through CRE proposals.

### Key Properties

**IIF Haneda Airport Maintenance Center**

**IIF Totsuka Technology Center (Land with leasehold interest)**

**IIF Shinonome Logistics Center**



## MCUBS MidCity Investment Corporation

**Katsura Matsuo**
Executive Director
MCUBS MidCity Investment Corporation
President & CEO & Representative Director
MCUBS MidCity Inc.

Upon the change of main sponsor to MCUBSR in April 2015, we changed the investment corporation's name from MID REIT, Inc. to MCUBS MidCity Investment Corporation (MidCity). MidCity has expanded its investment target area to include Tokyo and Nagoya in addition to Osaka, and from an office focus (70% or more) to hotels and serviced apartments as well (30% or less). Through geographical diversification, we will achieve both portfolio expansion and stability.

MidCity conducted its first public offering in July 2015, and in eight months since its public offering acquired seven highly competitive office-district properties valued at 59.4 billion yen, mainly in Tokyo. The portfolio has grown by 38%, totaling 19 properties valued at 217.1 billion yen (as of December 2015). A total of 37.1% of the properties are now located in Tokyo (up 20.6%) and 59.6% in Osaka (down 22.4%), evidencing the geographical diversification of the portfolio.

We are also endeavoring to increase earnings at our existing Osaka-area properties. Office rents have bottomed out in Tokyo and Osaka, enabling us to implement rent revisions. Furthermore, we have also begun looking at revitalizing the retail zones at Twin21 and the Matsushita IMP Building capitalizing on the know-how of MCUBSR in 2015. .

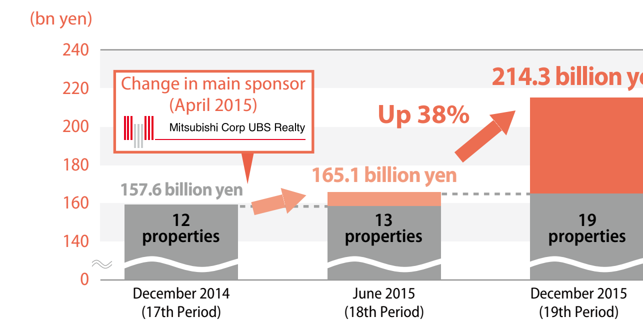
MidCity formulated an Environmental Charter and Basic Policy for Responsible Property Investment This year we signed the Ministry of the Environment's "Principles for Financial Action for the 21st Century". MidCity will continue to operate its portfolio with its responsibilities to the environment and to society in mind.

Distributions per unit (DPU) declined through December 2014. Since the change in main sponsor, DPU rose to 6,444 yen in June 2015, and to 7,281 yen at the end of December 2015. NAV per unit is also up 7.2% against the preceding period, to 344,853 yen.

We recognize that the proportion of asset value accounted for by our largest tenant (14.9%) and that accounted for by our two properties in Osaka Business Park (44.8%) are key issues that we must address. By taking advantage of information on properties acquired from our sponsor and achieving AUM of 300 billion yen, we will reduce the portion accounted for by our largest tenant to 10% and that accounted for by our two properties in Osaka Business Park to below 30%, thereby enhancing the stability of the portfolio.

Aside from the acquisition of new properties, we will improve NOI on existing properties and review financing costs, as means of further increasing DPU and providing greater value for our investors.

### Growth in AUM




### Key Properties

**G-Square Shibuya Dogenzaka**

**Twin 21 and Matsushita IMP Building in Osaka Business Park**

# Giving Life to the Dream

## Takatoshi Ito's vision for ES-CON Japan is unfolding right before our eyes

**Takatoshi Ito**
President & Representative Director
ES-CON Japan
4-2-5 Kandasurugadai, Chiyoda-ku, Tokyo



## It's About the Climb

Founded in Osaka in 1995 under the name Desert Inn, the company changed its name to ES-CON Japan a year later. ES-CON initially focused on real estate planning and sales before launching its condominium development business in December 1997. It listed on the JASDAQ index in August 2001, survived a tremendously challenging set of circumstances for several years following the global financial crisis and the Great East Japan Earthquake of 2011, and emerged stronger than ever thanks to its own perseverance, valuable business partners and patient bondholders. Returning to profitability in 2011, ES-CON Japan has recorded year-on-year gains in revenue and profits each year since. It listed on the second tier of the Tokyo Stock Exchange in September 2015, and aims to move to the first tier within 2016. Today ES-CON Japan's business domain encompasses real estate development and sales, rental and leasing operations, and brokerage and consulting businesses.

ES-CON Japan does not take a boilerplate approach to condominium development. It instead carefully considers the makeup of the community in which it has chosen to locate a project – age and family demographics as well as lifestyle trends – then looks five to ten years down the road at the niche the development will have assumed in the community, and crafts its development plan to take maximum advantage of the elements.

The rental and leasing business applies the expertise in planning and development acquired through its condominium business. Also, ES-CON Japan, by leasing retail space and conducting its own property management, further enhances the value of its own assets, breathing new life into the community in the process.

ES-CON Japan effectively channels the know-how accrued through its years of experience in all aspects of real estate into serving as a valuable source for planning, brokerage and consulting. With experts from various segments of the real estate industry on staff, the company is able to provide innovative, comprehensive services and solutions.

Going forward the company intends to supply 500 to 600 new residential units to the market annually, and also plans to conduct sales independently. It will look to maintain a sound balance across its areas of business, and its aggressive agenda also includes the establishment of a REIT, which it will supply with mixed-use and residential properties it develops. Within five years the company hopes to achieve assets under management of 100 billion yen.

Competent in all areas of the real estate business, ES-CON Japan is an intelligent, vibrant company that appears to be making all the right moves.

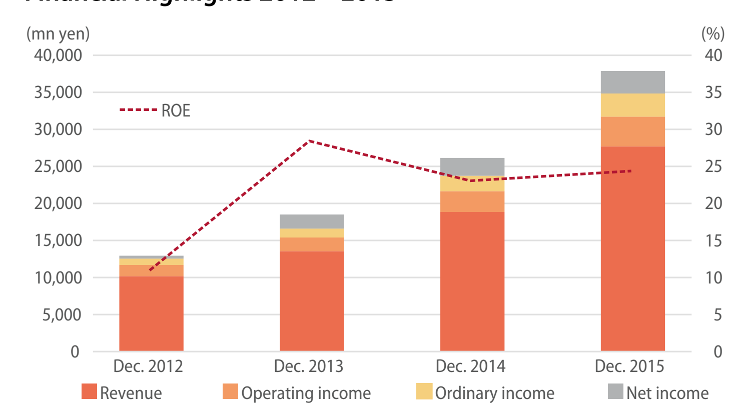
### ES-CON Japan Core Values

**BETTERMENT**
We´re never satisfied. We are constantly striving to improve the quality of our services. By thinking, determining and acting independently, we are able to continuously raise the bar. We hope to make a significant contribution to society through our business activities.

**HUMAN RESOURCE**
We value relationships – not just within the company, but with valued business partners and with the community – because these relationships make us stronger. We will continue to innovate our products to create the standard for the next generation through vibrant discussion involving many people with different backgrounds and values.

**SOLUTIONS**
We establish project teams combining personnel from our residential and retail real estate businesses. Our staff offer wide-ranging experience and we have established a track record for success in development. We offer comprehensive real estate solutions, from development to construction and operation.

### Financial Highlights 2012 – 2015




### Targets for 2016

| | | |
|---|---|---|
| Revenue | → | 32,700 mn yen (+ 18.0%) |
| Operating income | → | 4,200 mn yen (+ 4.7%) |
| Ordinary income | → | 3,300 mn yen (+ 5.6%) |
| Net income | → | 3,200 mn yen (+ 5.3%) |

# From the Top

*"My 'ideal' is a company that values the opportunity to make quality products."*

**LJ:** Please tell us a bit about your career.

**Ito:** I joined ES-CON Japan in 2001. Early in my career I focused on selling condominiums in Osaka. Initially I was enthusiastic, and since we were selling condominiums at tens of millions of yen, I wanted to offer customers the best product possible. I didn't think I was doing that, and thought I would have to start my own company to achieve my goal. I was 27 or 28 when I was appointed to a management position for the first time. I thought in order to sell effectively I needed to have more knowledge of the entire process, from development onward, and wanted to experience that early in my career. I asked to be allowed to do that and was refused. It was at that time I had the opportunity to join ES-CON Japan, which had just listed on the JASDAQ index. This company was more involved in development, and didn't sell its final product.

This company's mission is to create spaces that attract people, and this is really what I was interested in doing. I was still thinking about starting my own company according to my own ideals, but I found ES-CON's ideals very similar to my own and they gave me room to grow and develop. As time passed I liked it more and more.

After I'd been with the company for about five years, the president at the time asked me to become a member of the board of directors. By that time my thinking about starting my own company had changed to one where I believed I now had the chance to help ES-CON grow and develop in line with our shared ideals.

**LJ:** What is your "ideal" company?

**Ito:** Companies sometimes establish long associations with other companies that can transform into barriers between the company and the creation of quality products. The relationships can limit the potential for achievement. In addition to being developers, ES-CON Japan was not weighed down by those long-term relationships, and had more of a bottom-up structure, instead of everyone simply doing what the top brass told them to do. My "ideal" is a company that values the opportunity to create quality products. Of course with this freedom comes responsibility, a responsibility to think about just what it is the customers want and need.

**LJ:** I'm sure ES-CON had its share of difficulty around the time of the global financial crisis.

**Ito:** We struggled considerably from the fall of 2008 into 2009, when we defaulted on corporate bonds we'd issued. The tenacity of our staff, the cooperation of financial institutions and the unforgettable support we received from construction companies, design firms and other holders of our bonds enabled us to weather that storm. In 2011, these factors combined with revenues from our rental real estate and planning and consulting business resulted in us posting a profit for the first time since 2007. Our performance continued to improve from 2011. We had come back so strongly that our results are expected to exceed those set out in the medium-term management plan we announced in 2014.

**LJ:** How are you approaching the expansion of your business and the further evolution of the company?

**Ito:** Over the next several years we will be working to enhance our capabilities in a number of areas – we will launch a hotel development business, deepen our knowledge of retail development and fortify our sales function, while continuing along our original path of contributing to the creation of communities, creating environments and not just "boxes." In order to support this growth and evolution, it is essential that we begin cultivating the staff that will be leading the charge in ten years' time. The average age of our staff is about 38, and we've presently got about 110 employees on a consolidated basis – about 17% of whom are in their first or second year. We will be adding 10 more in April, which will give us 120 employees with one-quarter of them in their first or second year with the company. This youth movement, along with the activation of our female employees and their assignment to managerial and executive posts, will give the company the strength and energy – and creative spirit – to take on these new challenges and lead us to that next plateau.

| | |
|---|---|
| **Company Name** | ES-CON Japan Ltd. |
| **President and Representative Director** | Takatoshi Ito |
| **Tokyo Head Office** | 4-2-5 Kandasurugadai, Chiyoda-ku, Tokyo, 101-0062, Japan |
| **Osaka Head Office** | 4-1-1 Fushimimachi, Chuo-ku, Osaka 541-0044, Japan |
| **Operating Income** | 4,012 mn yen (period ended Dec. 31, 2015) |
| **Website:** | http://www.es-conjapan.co.jp/english/ |

As a comprehensive real estate developer, ES-CON Japan is involved not only in development across a range of property types and asset classes but also in property management. In addition to its residential development business, it is launching a hotel business and expanding its efforts into retail as well. Here are some of the projects ES-CON Japan has completed and some that are currently in progress.

**Le Jade Minamikasai**

Offering 33 units – mostly south-facing – with 16 different floor plans, this development's proximity to commercial facilities and its surrounding natural environment make it an oasis for families living in Tokyo.

**Garden Mall Seiwadai**

With 32 retail tenants, parking for up to 220 vehicles and its location 1 minute from the Hankyu Bus line, this shopping center combines variety with convenience for everyday shopping.

**Le Jade Setagayakinuta**

In addition to a variety of floor plans, the 1st floor café, stylish corridor designs and rooftop terrace offer tenants a comfortable urban living experience.

**Le Jade Yokohama Tsurumi**

This development offers 45 south-facing units and its proximity to Tsurumi Station on the JR Keihin Tohoku Line enables an appealing blend of comfort and convenience in commuting.

**Hotel (Kayabacho)**

In April 2015 ESCON acquired an office building in Kayabacho – home to the Tokyo Stock Exchange and a number of securities firms – and is in the process of converting it into a business hotel.

**Le Jade Takatsuki**

This development, adjacent to the Takatsuki Kyoto Hotel, has 136 units, and is situated about 10km from central Osaka with superior access to the city.

**Le Jade Shukugawa Kurakuenguchi**

This new development has 71 units and three different floor plans. It is located within a 15-minute walk of public offices, shopping and dining, schools, parks and medical facilities, making it extremely convenient for young people, families and seniors as well.


**Fukuoka Kasuga Project**

Situated about 10km from Fukuoka and Hakata, this commuter town – extremely convenient for students – is developing much like the towns of Kasuga and Onojo have. This 43-hectare residential area, in addition to parks and areas for planting, features a shopping mall anchored by a supermarket, large retail outlets and a host of dining options, providing residents a pleasant, comfortable and convenient lifestyle.

# The Brave New World of Retail

## Technology, peer-to-peer communication and the push-and-pull of online and traditional retail oblige retailers and investors to push the creative envelope

Linking Japan spoke with *Theodore Knipfing, Head of Retail Asia Pacific, with Cushman & Wakefield regarding* the constantly evolving nature of the retail experience, how retailers are – or aren't – effectively adopting state-of-the-art technologies, investment trends, and the unique characteristics of retail and retail markets in Japan contrasted against those elsewhere in the Asia Pacific

**LJ:** Are you seeing any trends in terms of targeting investments into retail real estate?

**Knipfing:** I've had the good fortune to work with several investors recently, and a lot of them are increasingly focused on getting grade A prime retail assets as they see security, long-term stability and growth opportunity in prime retail. There are a number of reasons they come to me for help – perhaps using my relationships with an existing retailer tenant to cooperate with them, or trying to bring in a specific tenant or a collection of tenants that better suit what they envision for the site. Investors before were very much big picture and "cookie cutter" – now they're being forced to be more focused and creative, so they are actually now going through the trouble of chasing specific high quality assets, not just going after big portfolio plays.

**LJ:** What about trends in terms of consumer sentiment?

**Knipfing:** A lot of people assume that retail is going down the drain right now because they assume the Chinese slowdown must be affecting tourism. Department stores are still a very good barometer of what's going on, and it's actually quite interesting – total sales have not dropped at all. In fact, a lot of department stores are showing year-on-year increases. Tokyo area department store performance in January and February ranged from 96% to about 110% year-on-year, depending on the store. The catch is, while total sales volume is on the rise, per transaction sales are decreasing. Sales volume has been boosted by a still growing number of international visitors.

**LJ:** How do you think Japan is drawing the extra visitors from abroad?

**Knipfing:** I think there's a variety of factors. One is that Chinese people have the utmost respect for Japanese products and service; they trust them. There are a growing number of repeat visitors to Japan as well, and the more they come back, the more likely they are to begin exploring areas outside of Tokyo and Osaka, which is great news for regional cities and towns.

Another factor is that a lot of Mainland tourists are staying away from Hong Kong right now. There's the political discord, tension between locals and mainland tourists, as well as the currency factor – for the mainland tourist it's actually cheaper to buy most items in Japan right now. Furthermore, Japan has come a long way when you look at signage, accommodations, tour packages – they're finally starting to get their tourism game together.

If there's one thing that's changed since 2008 or 2009, there wasn't significant inbound tourism back then, at least not to the level where it impacted retail. Now, for certain luxury brands in Ginza, literally 80 to 90% of their sales are to tourists. For a very high-end brand, one or two stores in Tokyo can end up comprising 20 to 30% of their total figures for Japan. This was simply not the case five or even three years ago.

**LJ:** How would you characterize typical Japanese luxury-brand shoppers?

**Knipfing:** The typical Japanese shopper is not in a hurry and they know exactly what they want. Wealthy shoppers won't buy just to show off or to be seen, they'll buy when they see something they like. That's been true for years. I don't think you'll see huge changes in sales numbers for the premium brands, because the wealthy in Japan can comfortably weather the periodic dips in the economy. And they'll continue to buy.

**LJ:** I read recently that while many Western visitors are choosing Tokyo, visitors from other countries in Asia appear to be choosing other cities and areas. What do you think is behind that?

**Knipfing:** My understanding is that the tour groups that come to Japan, from China for instance, are often very price conscious. The landing fees at Kansai International Airport or other regional airports are cheaper than those at Narita or Haneda, and that can shave off 10 or 20% of the ticket price. Spring Airlines is a Shanghai-based budget airline that is doing really, really well. They land in regional airports such as Ibaraki, from which it's only a 90-minute bus ride into the city. Budget customers will definitely factor price over convenience.

Mitsukoshi opened a duty free shop on one of their upper floors recently. It's doing okay, but could do even better. One of the problems is that currently, purchases can only be picked up at Narita and Haneda airports. I think going forward they'll make adjustments and the logistics will improve.
The duty-free experience is still somewhat slow and cumbersome in Japan when compared with other top Asian tourist destinations like Singapore and Hong Kong. I know the government is currently working on making the process more automated and easy.

And while at present duty free is a miniscule portion of retail sales in Japan – I see this changing as well – it comprises a significant share in Korea. Cheaper, domestic, brands (mostly beauty related) are also gaining ground in Korea on foreign luxury items, which have historically dominated duty free sales. The whole industry is changing with the times.

**LJ:** You mentioned earlier that you believe retail here in Tokyo is going to continue to grow. Is there going to be supply/space to support that growth?

**Knipfing:** Before the global financial crisis the biggest KPI for brand heads and expansion directors opening in Asia was the number of new store openings. Brands were competing with each other everywhere to build bigger, grander stores. Rents were going through the roof in locations like Omotesando and Ginza. Then came the "Lehman Shock," as they call it in Japan. Store counts were slashed, shops were shuttered, expansion plans cancelled altogether.

When retailers started to cautiously look at expansion again, the new KPI was not the number of new stores, but that the RIGHT stores were opened: i.e. in areas with relevant and high traffic. Ginza first, for luxury brands, but also key hubs like Shinjuku, with its traffic of 4 million people per day, as well as Shibuya, Ikebukuro and Umeda in Osaka with around 2 million visitors daily.

The ironic thing is that due to this post-Lehman focus on opening in the "right" area, rents have shot through the roof to levels much higher than the "exuberant and unreasonable" levels of the pre-Lehman bubble.

In Ginza, we are seeing ground floor rents reaching as high as 400,000 yen per tsubo (about US$3,500 per 3.3m²) Even in an area like Omotesando, which hasn't reached Ginza status, rents are in the neighborhood of 300,000 to 350,000 yen per tsubo (about US$2,700-3,100 per 3.3m²). Eventually there will be a correction, but just as with residential there is a finite supply of space, and there's also an endless line of retailers looking for an opportunity to enter the market.

**LJ:** What are some innovations in retail in Japan that stand out?

**Knipfing:** Vertical retail above rail stations stands out. Retail concepts like "Lumine" are now responsible for more than 20% of JR East's annual revenue. Their unique recipe of building vertical malls catering to women in their 20's, and dropping them directly above major JR rail hubs in the greater Tokyo area, have really changed the retail paradigm in Japan in many respects. Retail areas are getting drawn closer to the main rail station in many cities in Tokyo and Japan due to Lumine or similar concepts. Lumine's staff is almost all female, and they are very regimented and focused in their merchandising and leasing. They never give retailers more than 100 to 150 square meters, ensuring great variety, and they have no qualms about booting underperforming brands. Lumine is now the poster child of how a state-owned rail operator can transform itself through retail. State-owned rail

"Retail concepts like Lumine account for more than 20% of JR East's annual revenue."

operators from quite a few countries regularly come to Japan to see the "Lumine Miracle" for themselves.

**LJ:** How broadly do you think the clicks-and-mortar model has spread?

**Knipfing:** There are examples across the region, such as Seven & i, where customers can purchase clothing online from Uniqlo and pick the package up at their local 7-Eleven. That said, I don't think online will ever destroy bricks-and-mortar retail. From high-end luxury to grocery stores, people still either want to touch and see items, or just go somewhere to experience shopping. For all the hype, online only accounts for a single-digit portion of overall retail sales. You know where Chinese people purchase luxury items? Europe. Online comprises a larger slice of China's retail revenue pie than it does in other countries in the Asia Pacific, but the desire for a sensory experience is still there, and will always be there. It is a basic human desire.

**LJ:** Has online retail peaked, or settled at a natural level?

**Knipfing:** I think online will continue to grow. Right now it's at the point where it's the trendy thing to do, and no company can tell its shareholders that it has scaled back on online activity. However, if you open the system up, you can see there are huge issues. For example, free returns for online purchases have become an unexpectedly huge cost for many retailers. Savvy online shoppers will literally order a pair of shoes in 10 colors, pick one upon arrival, then send back the remaining nine pairs of shoes – at the retailers' cost, of course. The system has to be readjusted for online retail to be sustainable. Eventually, I see bricks-and-mortar retail and online will find a more relaxed and amicable way to co-exist. I think through the natural course of things the two will achieve an acceptable compromise.

**LJ:** You mentioned online shopping being very popular and trusted in China.

**Knipfing:** It is true that online is huge in China. Many Chinese skipped the PC, laptop, and tablet, and went straight to their cellphones. Buying stuff on their smartphones is second nature for most Chinese people under the age of 40. We should also note, however, that one reason why online works well in China is because the cost of labor is still very low. For example, you can basically order food online from any restaurant in Shanghai and have it delivered for only the equivalent of a couple of US dollars. That kind of service is more difficult to introduce in, say, Hong Kong or Tokyo because labor is more expensive.

**LJ:** How much more time do you think it will take before bricks-and-mortar and online retail settle into a more permanent kind of relationship?

**Knipfing:** It will be staggered as individual countries' economies develop. Myanmar, for example, will be playing catch up to China. This will also be impacted by a constant stream of new technology that we can't even foresee – remember, Google didn't exist twenty years ago.

Retail has to evolve in order to remain interesting. People crave an experience that actuates all of the senses. The wildly successful Japanese discount retailer, Don Quijote, has an interesting take on how they offer such an experience. Narrow, cramped, and twisting aisles, a random and disorganized product offering, loud voices shouting great "deals" from small speakers strategically situated throughout the store – the result is that people end up buying all this stuff they weren't planning to purchase, as there is an oddly addictive and satisfying feel in the act of "discovering" something in the jungle of imported health products, cheap hair care gadgets, and instant noodles.

Retailers also really need to stop prohibiting picture taking. In this age of Instagram, Facebook and Twitter, they're passing up the juiciest promotional opportunity they'll ever see. This is particularly true for Chinese consumers; they're not listening to the experts, they're listening to their peers. It's experiential, it's democratic, it's how people today are choosing where to go. Let people take photographs and share them. Provide Wi-Fi and cell phone charging stations. Understand what people want, how they communicate, then create an environment that supports the desired experience.



# Dashboard on Japanese Economy

## March 2016

Linking Japan provides regular updates of major Japanese economic indices. 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.
The fiscal year for most Japanese companies runs from April 1 through March 31.

Data accurate as of March 18, 2016.

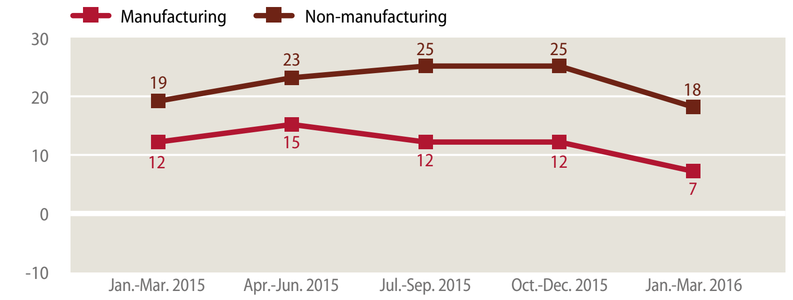
* Indicates provisional figures.
** Data not available at time of publication.

### 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 (%) |
|---|---|---|---|---|
| FY2011 | 474.2 | -1.3 | 514.7 | 0.4 |
| FY2012 | 474.4 | 0.0 | 519.5 | 0.9 |
| FY2013 | 482.4 | 1.7 | 529.8 | 2.0 |
| FY2014 | 489.6 | 1.5 | 524.7 | -1.0 |
| Jan. - Mar. 2015 | 498.0 | 8.4 | 529.0 | 4.4 |
| Apr. - Jun. 2015 | *498.7 | *0.6 | *528.3 | *-0.5 |
| Jul. - Sep. 2015 | *500.7 | *1.6 | *529.7 | *1.0 |
| Oct. - Dec. 2015 | *499.8 | *-0.9 | *528.0 | *-1.1 |

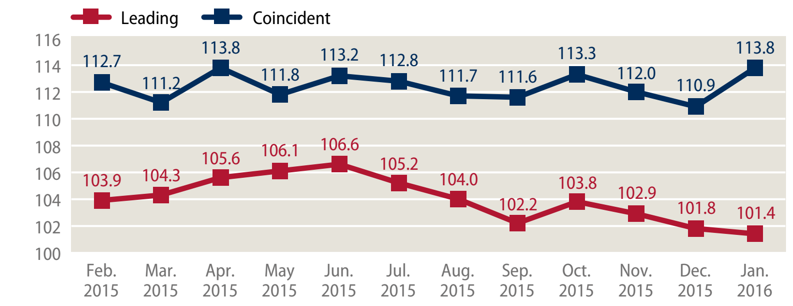
### Tankan (Business Conditions)

| | Business Conditions (Large Enterprises/ Manufacturing) Favorable (%) - Unfavorable (%) | Business Conditions (Large Enterprises/ Non-manufacturing) Favorable (%) - Unfavorable (%) |
|---|---|---|
| Oct. - Dec. 2014 | 12 | 16 |
| Jan. - Mar. 2015 | 12 | 19 |
| Apr. - Jun. 2015 | 15 | 23 |
| Jul. - Sep. 2015 | 12 | 25 |
| Oct. - Dec. 2015 | 12 | 25 |
| Jan. - Mar. 2016 | 7 | 18 |




### Indices of Business Conditions

| | Indices of Business Conditions | |
|---|---|---|
| | Leading (2010 = 100) | Coincident (2010 = 100) |
| Aug. 2015 | 104.0 | 111.7 |
| Sep. 2015 | 102.2 | 111.6 |
| Oct. 2015 | 103.8 | 113.3 |
| Nov. 2015 | 102.9 | 112.0 |
| Dec. 2015 | 101.8 | 110.9 |
| Jan. 2016 | *101.4 | *113.8 |




### Consumption

| | Consumption Expenditure Year-on-year (%) | Retail Sales Value Year-on-year (%) | Number of New Cars Sold (thousand) | Department Store Sales Year-on-year (%) |
|---|---|---|---|---|
| Jul. 2015 | -0.2 | 1.8 | 42.5 | 3.4 |
| Aug. 2015 | 2.9 | 0.8 | 32.7 | 2.7 |
| Sep. 2015 | -0.4 | -0.1 | 47.9 | 1.8 |
| Oct. 2015 | -2.4 | 1.8 | 38.0 | 4.2 |
| Nov. 2015 | -2.9 | -1.1 | 38.9 | -2.7 |
| Dec. 2015 | -4.4 | -1.1 | 36.9 | 0.1 |
| Jan. 2016 | -3.1 | -0.2 | 38.3 | -1.9 |

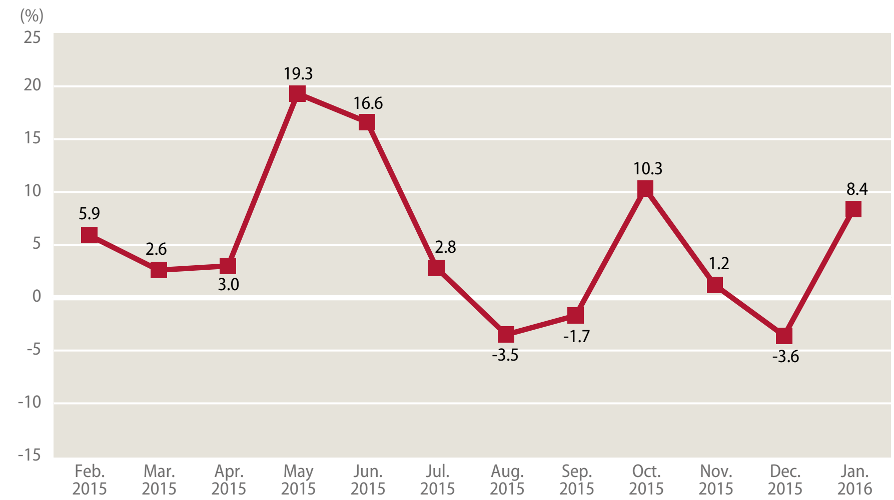
Consumption Expenditure: Household with two or more people, change from actual results of previous year.
Number of New Cars Sold: Total of passenger cars, trucks and busses. Includes light motor vehicles. Survey conducted by Japan Automobile Dealers Association and Japan Mini Vehicle Association.
Department 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 Condominiums Sold | | Orders Received for Construction Year-on-year (%) | Contracted Amount of Public Works Year-on-year (%) |
|---|---|---|---|---|---|
| | | Tokyo Metropolitan Area (units) | Kinki Region (units) | | |
| FY2011 | 841 | 45,173 | 20,415 | 7.1 | -0.5 |
| FY2012 | 893 | 46,754 | 24,114 | 2.4 | 10.3 |
| FY2013 | 987 | 55,245 | 23,338 | 20.1 | 17.7 |
| FY2014 | 880 | 44,529 | 19,840 | 8.2 | -0.3 |
| May 2015 | 911 | 3,495 | 1,920 | -7.4 | -14.0 |
| Jun. 2015 | 1,033 | 3,503 | 1,755 | 15.4 | -1.8 |
| Jul. 2015 | 914 | 4,785 | 1,258 | 4.0 | -10.1 |
| Aug. 2015 | 931 | 2,610 | 969 | -15.6 | -1.3 |
| Sep. 2015 | 900 | 2,430 | 1,798 | 6.7 | -10.9 |
| Oct. 2015 | 862 | 2,921 | 1,223 | -25.2 | -4.8 |
| Nov. 2015 | 886 | 3,496 | 1,696 | 5.7 | 3.3 |
| Dec. 2015 | 860 | 6,189 | 1,884 | 14.8 | -9.6 |
| Jan. 2016 | 873 | 1,494 | 899 | -13.8 | -2.6 |

## Machinery Orders / Operating Rate

| | Machinery Orders (Private) (Excluding Vessels and Electric Power Generating Equipment) Year-on-year (%) |
|---|---|
| FY2011 | 6.2 |
| FY2012 | -3.0 |
| FY2013 | 11.5 |
| FY2014 | 0.8 |
| May 2015 | 19.3 |
| Jun. 2015 | 16.6 |
| Jul. 2015 | 2.8 |
| Aug. 2015 | -3.5 |
| Sep. 2015 | -1.7 |
| Oct. 2015 | 10.3 |
| Nov. 2015 | 1.2 |
| Dec. 2015 | -3.6 |
| Jan. 2016 | 8.4 |




## Indices of Industrial Production

| | Shipments | | Inventories | |
|---|---|---|---|---|
| | Change Month-on-month (%) | Change Year-on-year (%) | Change Month-on-month (%) | Change Year-on-year (%) |
| FY2011 | — | -1.5 | — | 5.2 |
| FY2012 | — | -1.8 | — | 4.5 |
| FY2013 | — | 2.9 | — | -3.4 |
| FY2014 | — | -1.1 | — | 4.1 |
| Jul. 2015 | -0.4 | -0.8 | -0.8 | 2.7 |
| Aug. 2015 | -0.7 | 0.6 | 0.3 | 2.1 |
| Sep. 2015 | 1.4 | -1.5 | -0.4 | 2.1 |
| Oct. 2015 | 2.1 | -0.8 | -1.9 | 0.2 |
| Nov. 2015 | -2.4 | 0.7 | 0.4 | -0.4 |
| Dec. 2015 | -1.8 | -2.5 | 0.4 | 0.0 |
| Jan. 2016 | 3.5 | -5.8 | -0.2 | 0.3 |

## Industry

| | Indices of Production Integrated Circuits Year-on-year (%) | Crude Steel Production (thousand tons) | Indices of Tertiary Industry Activity (2010 = 100) |
|---|---|---|---|
| FY2011 | -14.0 | 106,642 | 100.7 |
| FY2012 | -4.0 | 107,305 | 102.0 |
| FY2013 | 7.1 | 111,524 | 103.2 |
| FY2014 | 6.9 | 109,844 | 102.1 |
| May 2015 | 10.6 | 8,918 | 102.8 |
| Jun. 2015 | 16.6 | 8,535 | 103.2 |
| Jul. 2015 | 5.7 | 8,841 | 103.2 |
| Aug. 2015 | -4.5 | 8,796 | 103.5 |
| Sep. 2015 | 0.2 | 8,575 | 103.2 |
| Oct. 2015 | -5.4 | 9,007 | 104.1 |
| Nov. 2015 | -6.6 | 8,743 | 103.2 |
| Dec. 2015 | -20.3 | 8,589 | *102.6 |
| Jan. 2016 | -4.5 | 8,777 | *104.1 |

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) |
|---|---|---|
| FY2011 | 4.5 | 0.68 |
| FY2012 | 4.3 | 0.82 |
| FY2013 | 3.9 | 0.97 |
| FY2014 | 3.5 | 1.11 |
| May 2015 | 3.3 | 1.18 |
| Jun. 2015 | 3.4 | 1.19 |
| Jul. 2015 | 3.3 | 1.21 |
| Aug. 2015 | 3.4 | 1.22 |
| Sep. 2015 | 3.4 | 1.23 |
| Oct. 2015 | 3.2 | 1.24 |
| Nov. 2015 | 3.3 | 1.26 |
| Dec. 2015 | 3.3 | 1.27 |
| Jan. 2016 | 3.2 | 1.28 |

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

## Trade

| | Trade and Customs Clearance | | Import Price Indices Year-on-year (%) |
|---|---|---|---|
| | Export (billion yen) | Import (billion yen) | |
| FY2011 | 65,288.50 | 69,710.60 | 7.0 |
| FY2012 | 63,940.00 | 72,097.80 | 1.7 |
| FY2013 | 70,856.50 | 84,612.90 | 13.5 |
| FY2014 | 74,670.30 | 83,794.80 | 0.2 |
| Jun. 2015 | 6,504.70 | 6,565.60 | -5.9 |
| Jul. 2015 | 6,662.90 | 6,924.30 | -7.3 |
| Aug. 2015 | 5,880.20 | 6,447.70 | -9.7 |
| Sep. 2015 | 6,413.30 | 6,534.60 | -15.5 |
| Oct. 2015 | 6,541.30 | 6,436.50 | -15.6 |
| Nov. 2015 | 5,978.70 | 6,366.20 | -17.6 |
| Dec. 2015 | 6,337.80 | 6,189.90 | -18.5 |
| Jan. 2016 | 5,351.40 | *6,000.20 | -18.2 |
| Feb. 2016 | *5,703.40 | *5,460.60 | *-17.8 |

## 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 Bond Yields (10 years) Annual Rate (%) |
|---|---|---|---|---|
| FY2011 | 14.9 | 0.0 | 1.477 | 0.985 |
| FY2012 | 8.7 | 1.1 | 1.383 | 0.560 |
| FY2013 | 44.0 | 2.3 | 1.280 | 0.640 |
| FY2014 | 39.3 | 2.5 | 1.200 | 0.400 |
| May 2015 | 35.6 | 2.6 | 1.153 | 0.390 |
| Jun. 2015 | 34.2 | 2.5 | 1.141 | 0.455 |
| Jul. 2015 | 32.8 | 2.6 | 1.137 | 0.410 |
| Aug. 2015 | 33.3 | 2.8 | 1.135 | 0.380 |
| Sep. 2015 | 35.1 | 2.7 | 1.125 | 0.350 |
| Oct. 2015 | 32.5 | 2.5 | 1.125 | 0.300 |
| Nov. 2015 | 32.5 | 2.3 | 1.121 | 0.300 |
| Dec. 2015 | 29.5 | 2.2 | 1.110 | 0.270 |
| Jan. 2016 | 28.9 | 2.3 | 1.108 | 0.095 |
| Feb. 2016 | 29.0 | *2.2 | ** | -0.065 |

Total Outstanding Loans of Banks: 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 (2010 = 100) | Month-on-month (%) | Year-on-year (%) |
| FY2011 | 99.8 | — | 0.0 |
| FY2012 | 99.6 | — | -0.2 |
| FY2013 | 100.4 | — | 0.8 |
| FY2014 | 103.2 | — | 2.8 |
| May 2015 | 103.4 | 0.2 | 0.1 |
| Jun. 2015 | 103.4 | 0.0 | 0.1 |
| Jul. 2015 | 103.4 | 0.0 | 0.0 |
| Aug. 2015 | 103.4 | 0.0 | -0.1 |
| Sep. 2015 | 103.4 | 0.0 | -0.1 |
| Oct. 2015 | 103.5 | 0.1 | -0.1 |
| Nov. 2015 | 103.4 | 0.0 | 0.1 |
| Dec. 2015 | 103.3 | -0.2 | 0.1 |
| Jan. 2016 | 102.6 | -0.7 | 0.0 |

## 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) |
|---|---|---|---|
| FY2011 | 9,183.44 | 79.05 | 108.96 |
| FY2012 | 9,612.07 | 82.89 | 106.73 |
| FY2013 | 14,406.76 | 100.16 | 134.20 |
| FY2014 | 16,253.25 | 109.75 | 138.69 |
| May 2015 | 19,974.19 | 120.74 | 134.84 |
| Jun. 2015 | 20,403.84 | 123.75 | 138.76 |
| Jul. 2015 | 20,372.58 | 123.23 | 135.78 |
| Aug. 2015 | 19,919.09 | 123.23 | 137.19 |
| Sep. 2015 | 17,944.22 | 120.22 | 135.08 |
| Oct. 2015 | 18,374.11 | 120.06 | 134.73 |
| Nov. 2015 | 19,851.77 | 122.54 | 131.64 |
| Dec. 2015 | 19,202.58 | 121.84 | 132.52 |
| Jan. 2016 | 17,302.30 | 118.25 | 128.33 |
| Feb. 2016 | 16,346.96 | 115.02 | 127.51 |

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