Deutsche
Asset Management

Marketing Material

Research Report

Japan Real Estate Second Quarter 2017

April 2017

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1 Executive Summary

— Macro Economy: Japan's real GDP is estimated to have grown around 1.3% plus in the first quarter of 2017, with a healthy corporate sector and exports to Asian nations contributing to growth. The fluctuation of the currency exchange rate could be a concern once again in the reminder of 2017 while increasing government spending could support underlying base line growth. Core CPI turned into positive territory in 2017 while overall CPI (including fresh foods) was 0.5% in the same period, despite subdued consumer demand and cyclical exogenous factors.

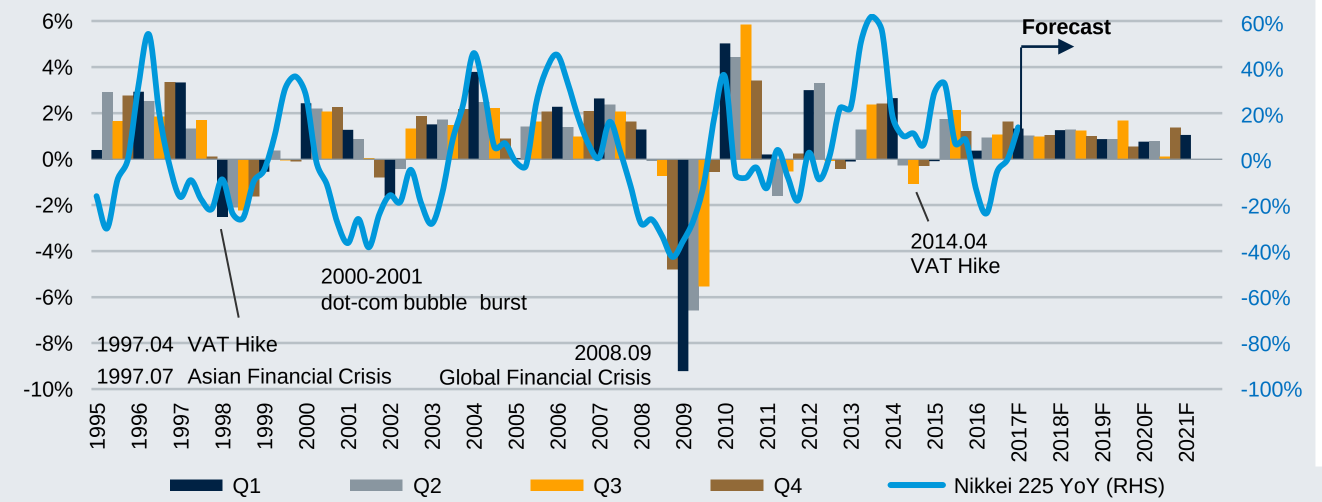
— Capital and Investment Market: On the back of favorable borrowing costs and negative interest rates, policy cap rates remained extremely tight for assets in the core space. This caused a decline in the volume of real estate transactions in central locations, with capital starting to flow into bay areas in Yokohama and other cities. Due to softening capital growth, total returns posted three consecutive quarters of moderation. Capital raising activities by listed REITs remained at a healthy level, and acquisitions by J-REITs continued to account for 60% of all reported transactions in the country.

— Real Estate Market Fundamentals: Leasing markets and real estate fundamentals remained broadly healthy, with patchy weakening signs observed. Office vacancy rates remained tight in Central Tokyo, and the average rent continued to post moderate growth. A similar trend was observed in major regional cities including Osaka, Nagoya, Fukuoka and Sapporo where vacancy rates further tightened. Rental markets remained broadly healthy in the high street retail and residential sectors in Central Tokyo, while sales softened in shopping malls. Supply concern overhangs in the logistics sector at some sub markets such as Ken-O-do area in Greater Tokyo and the Osaka Bay area.

2 Macro Economy

Japan's real GDP is estimated to have grown around 1.3% plus in the first quarter of 2017. Growth in exports to neighbouring Asian nations made positive contributions, while growth in consumption and private expenditure remained broadly flat. The fluctuation of the currency exchange rate could be a concern once again in the second quarter of 2017 while increasing government spending could support underlying base line growth.

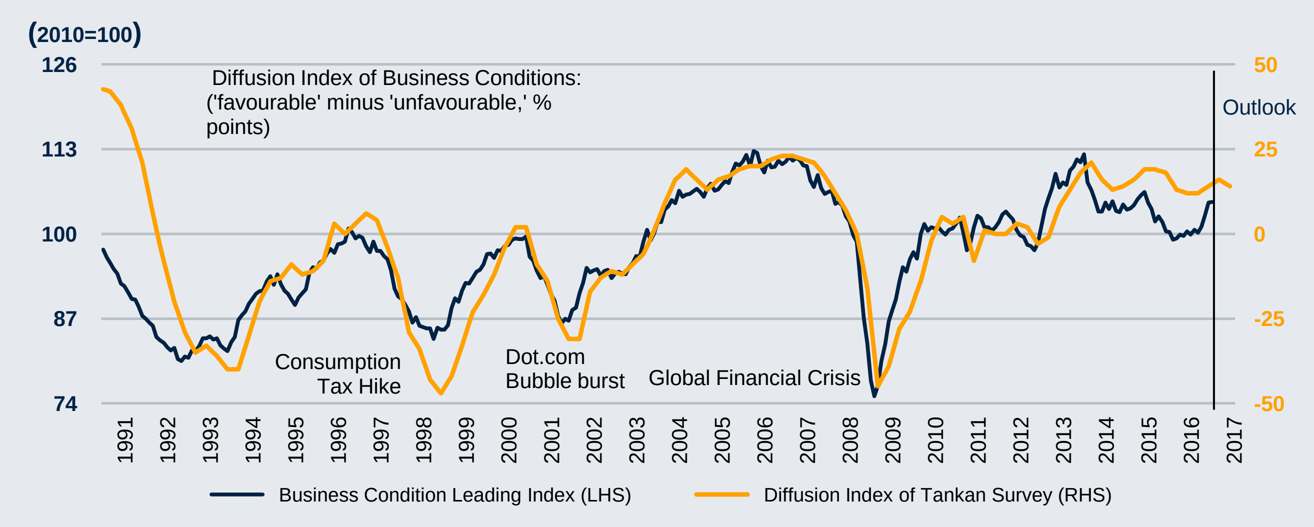
Exhibit 1: Japan's GDP Growth Outlook and Nikkei



Notes: E = preliminary estimate, F = forecast, there is no guarantee forecast growth will materialise. Please refer to Important Notes (see end of report). Past growth is not a reliable indicator of future growth
Sources: Deutsche Bank "Japan Economics Weekly." As of Apr 2017
Past performance is not a reliable indicator of future performance

Japan's corporate sector is in a moderate recovery. The latest results of the Diffusion Index (DI) of the Tankan Survey conducted by the Bank of Japan (BoJ) inched up with a reading of 16 points in March 2017 from 14 points recorded in December 2016. It was the second consecutive rise in a row with recovery evident both in the manufacturing and service sectors, while the near term outlook remained uncertain. Thanks to the favourable currency exchange rate to the period, the Business Condition Leading Index made a recovery in the last couple of months from around a reading of 100 till September 2016 to a reading of around 105 in recent months in 2017.

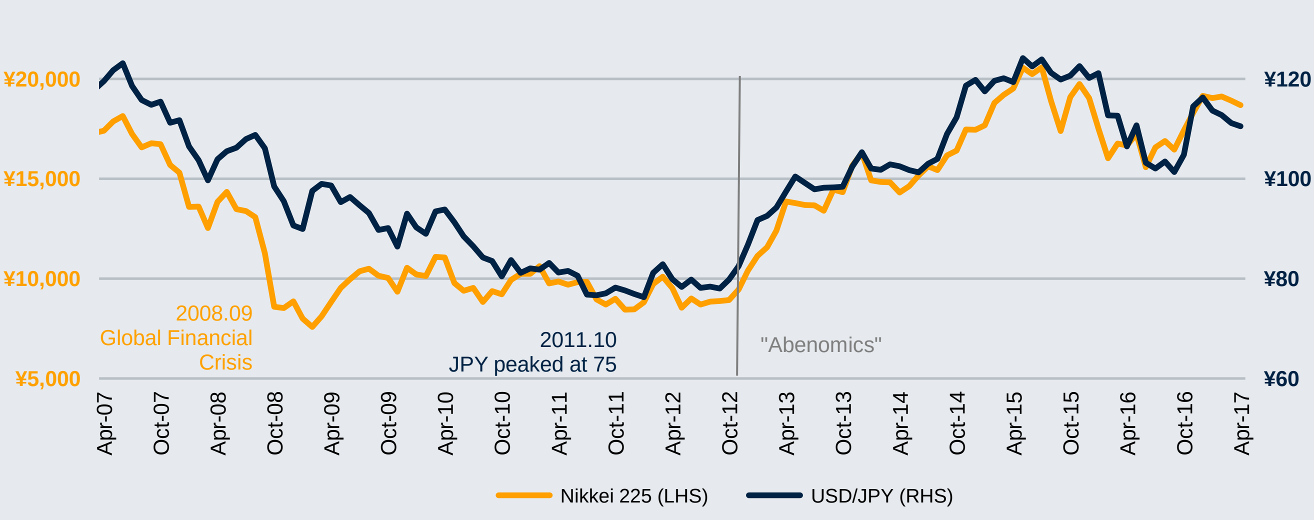
Exhibit 2: Diffusion Index of Business Conditions



Past performance is not a reliable indicator of future performance
Sources: Bank of Japan, Japan's Cabinet Office, Deutsche Asset Management. As of Apr 2017

The Nikkei 225 index marginally softened by 1.2% in the first three months of 2017. It is in line with the appreciation of the Japanese yen in the currency exchange rate, which was traded at JPY111 for a US dollar in March 2017, or around a 4% appreciation since December 2016.

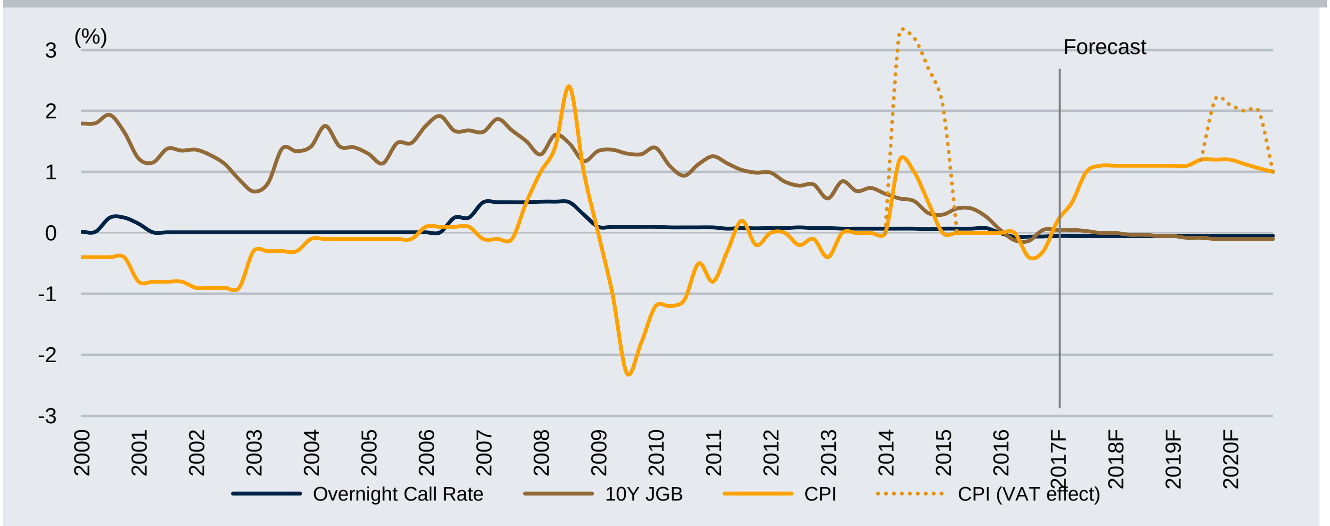
Exhibit 3: Stock (Nikkei) and Forex



Sources: The Bank of Japan, Japan's Cabinet Office, Deutsche Bank. As of Apr 2017
Past performance is not a reliable indicator of future performance.

The BoJ has maintained its "yield-curve control" policy implemented in September last year as an experimental strategy attempting to turn its policy emphasis away from quantity of money towards long term interest rates. Government bonds have been trading at around 0%. Core CPI turned into positive territory in January 2017 from negative territory edging up to 0.2% in February, while overall CPI (including fresh foods) was 0.5% in the same period.

Exhibit 4: Forecast of Interest Rate and CPI



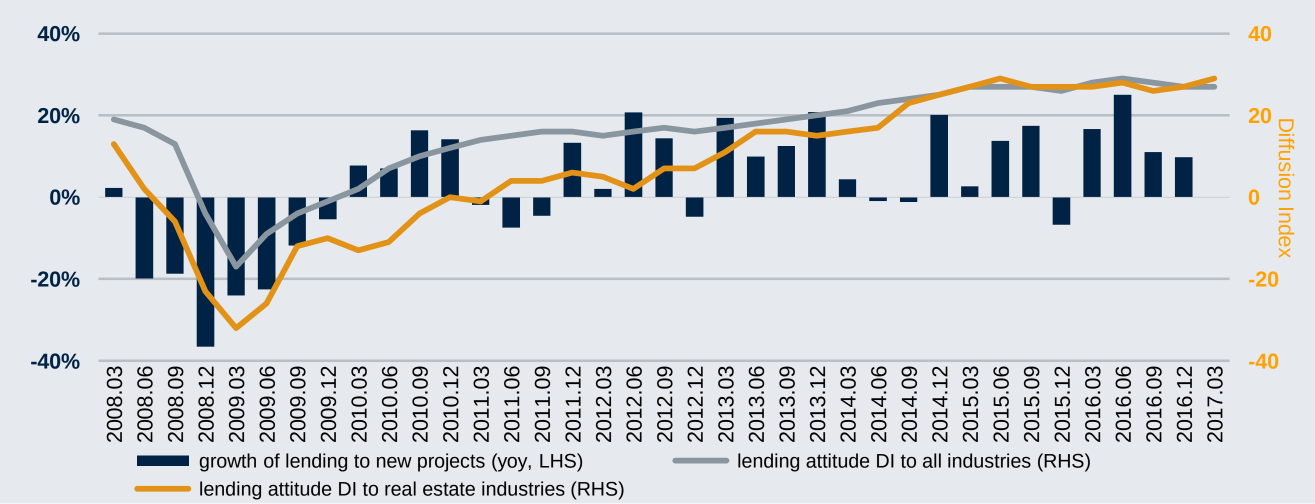
Notes: F = forecast, there is no guarantee rates forecasted will materialise. JGB = Japanese Government Bond. CPI = Consumer Price Index. Please refer to Important Notes (see end of report)
Sources: The Bank of Japan, Japan's Cabinet Office, Deutsche Bank. As of Apr 2017
Past performance is not a reliable indicator of future performance

3 Capital and Investment Market

3.1 Lending

The BoJ's Diffusion Index for lending attitudes of banks to the real estate industry (orange line in Exhibit 5) was an index value of 29 as of March 2017, a further increase from the previous quarter at 27 and at the highest level in history. The credit conditions remain accommodative for income producing assets, where medium sized local banks still provide extremely attractive financing to borrowers while major banks, dubbed as mega banks in the local market, have become gradually more selective. Lending volumes for new projects increased 10% in the latest survey as at the end of December 2016, demonstrating the importance of the real estate lending business for medium sized local banks amid the negative interest rate policy.

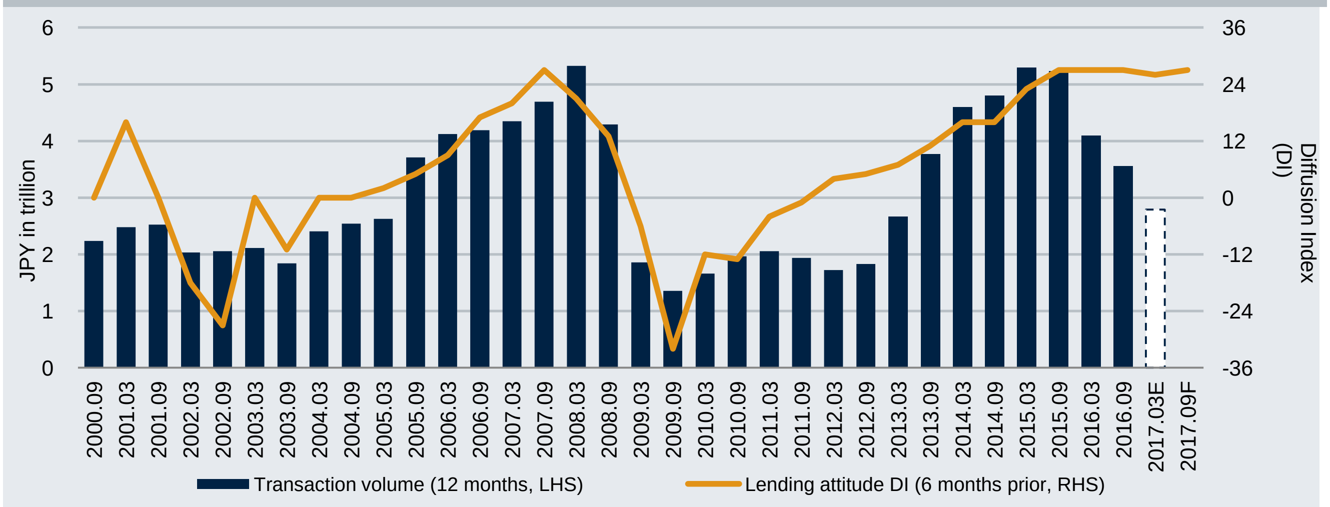
Exhibit 5: Real Estate Lending by Japanese Banks



Sources: The Bank of Japan, Japan's Cabinet Office, Deutsche Asset Management. As of Apr 2017
Past performance is not a reliable indicator of future performance

The volume of commercial real estate transactions in Japan in the rolling 12 months to March 2017 was JPY2.8 trillion on a preliminary basis, around a 21% drop from the previous period ended December 2016, or more than a 40% drop from the previous peak ended in March 2015. Transaction volumes declined especially in Central Tokyo due to a lack of assets on the market and fully priced valuations, while capital flow into surrounding areas and regional cities has started to increase in recent months especially in Tokyo and Yokohama Bay areas.

Exhibit 6: Real Estate Transaction Volume and Lending Attitude DI

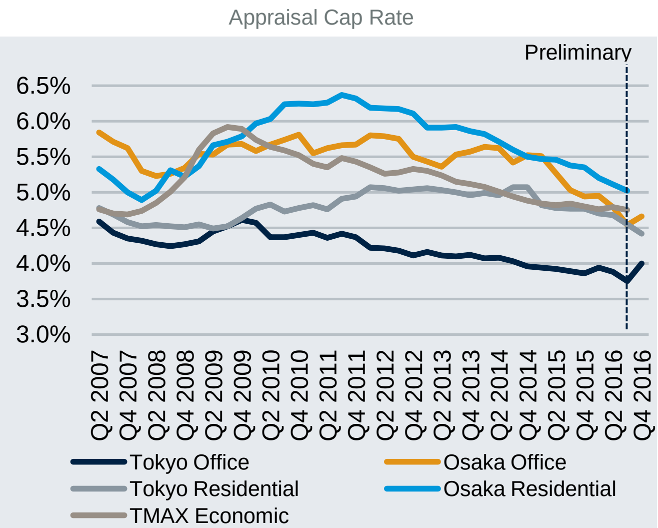


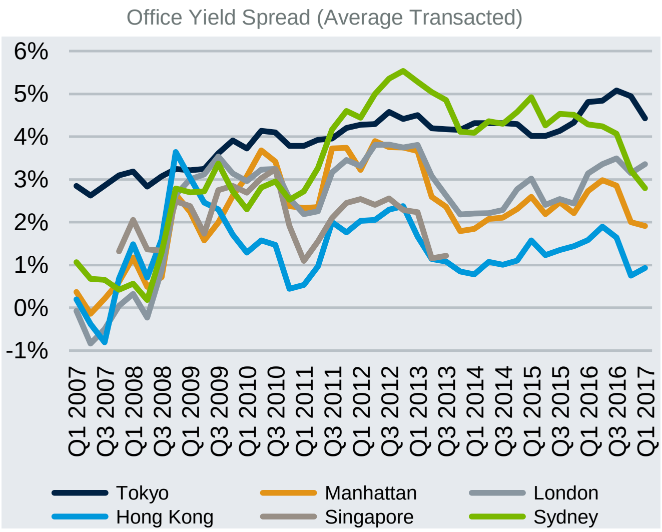
Notes: E = preliminary estimate. Please refer to Important Notes (see end of report).
Sources: Urban Research Institute, Bank of Japan, Real Capital Analytics, Deutsche Asset Management. As of Apr 2017
Past performance is not a reliable indicator of future performance
There is no guarantee the estimates shown will materialize

3.2 Pricing

Office appraisal cap rates in Tokyo seemed to have jumped to a preliminary 4.0% in the fourth quarter of 2016, a 25 basis points increase from the previous quarter. Cap rates for core assets are still under extreme pressure but this increase could be revised, while investors have started to tap into assets in the bay areas of Tokyo and Yokohama. The average transacted office yield spread — the difference between the cap rates and 10 year bond yields — declined to 440 basis points in Tokyo in the fourth quarter of 2016 affected by the long term interest rate fluctuations in the period.

Exhibit 7: Cap Rate and Yield Spread



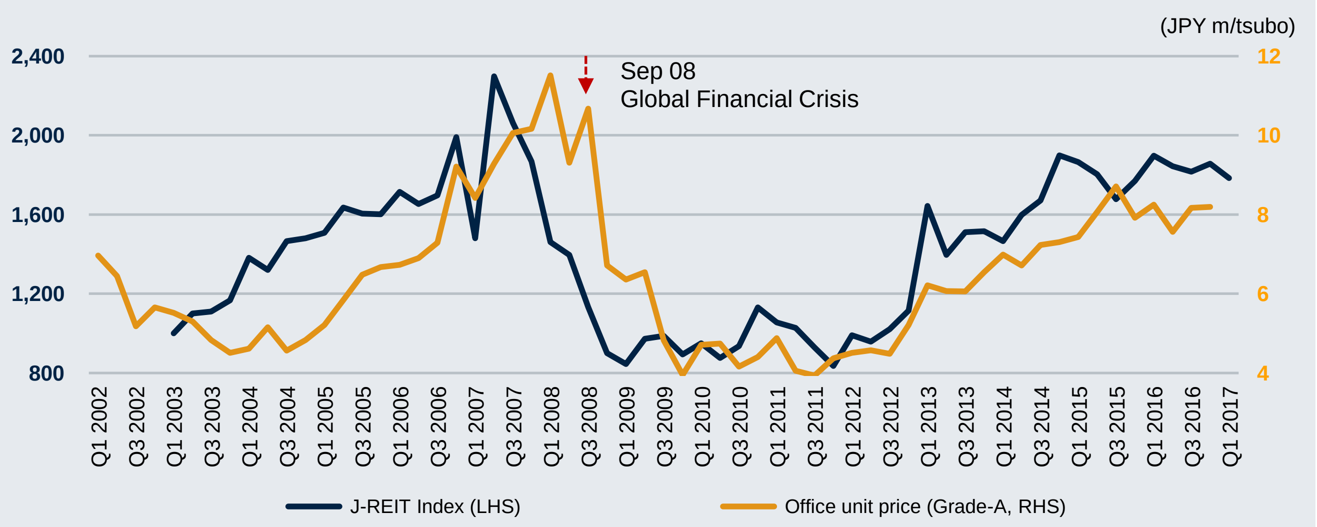


Sources: Association for Real Estate Securitization, TMAX, Real Capital Analytics, Bloomberg, Deutsche Asset Management. As of Apr 2017

Past performance is not a reliable indicator of future performance

The capital value for grade-A office in Central Tokyo stood at JPY8.2 million per tsubo[1] in December 2016, flat from the previous reading at September 2016. The unit price still stands at 29% below the peak value of JPY11.5 million per tsubo recorded in 2008 as the value growth has been capped due to the subdued rental growth for grade-A office in the last two years.

Exhibit 8: Real Estate Capital Value in Japan



Sources: Daiwa Real Estate Appraisal, Bloomberg, Deutsche Asset Management. As of Apr 2017

1 Tsubo is a Japanese unit of area. It is equivalent to 3.3 square metres (35.6 square feet)

3.3 Transactions

Exhibit 9 shows major real estate transactions completed or announced since January 2017 (the previous edition of this publication). The largest transaction was the acquisition of Minatomirai Center Building in Yokohama, acquired by Gaw Capital at an estimated JPY80 billion, followed by TOC Minatomirai, a complex of office, retail and hotel, by the Hulic led consortium at JPY67 billion. There were two other large buildings transacted in Yokohama Minatomirai (reclaimed land area) including MHI Yokohama Building and Yokohama Blue Avenue. It's worth noting that all of the top six office transactions in the period sit in the Tokyo bay area including Tennozu and Shinagawa Seaside, along with the Yokohama Minatomirai area, demonstrating the increased investment appetite in these bay side locations.

Other big transactions include four portfolio assets of Aeon Malls purchased by Aeon REIT at JPY52 billion. The tightest cap rates recorded in the period were 3.1% at Tokyo Square Garden and also Kenedix Nihonbashi Kabutocho Building while the most expensive unit price was JPY2.8 million per tsubo for Shibuya Sakuragaoka Square purchased by MCUBS MidCity REIT.

Exhibit 9: Major Transactions in the First Quarter 2017

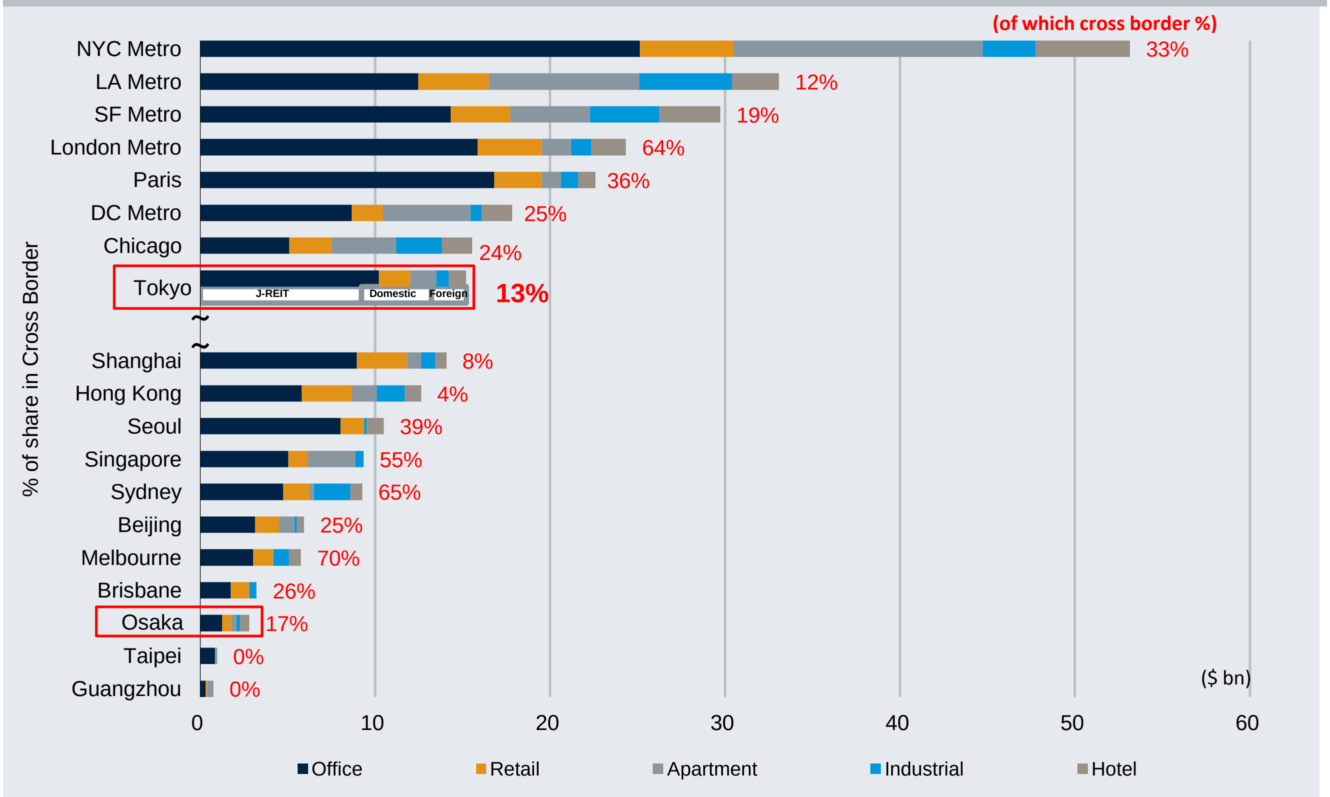
Type	Asset	Price (JPY bn)	Unit price (JPYm /GFA sqm)	Cap rate	Location	Month	Acquired by	Investor Origin
Office	Minatomirai Center Building	est. 80	-	-	Yokohama	Mar-17	Gaw Capital	Hong Kong
	TOC Minatomirai	67	0.65	-	Yokohama	Mar-17	Hulic (consortium)	Japan
	MHI Yokohama Bldg.	60	0.54	-	Yokohama	Mar-17	Hulic	Japan
	Yokohama Blue Avenue	33	0.94	4.1%	Yokohama	Feb-17	Capital Land	Singapore
	Tennozu Yusen Bldg.	30	0.49	4.0%	Tokyo	Dec-16	Kenedix / CDH	Japan
	Shinagawa Seaside West Tower	24	0.98	4.0%	Tokyo	Mar-17	Meiji Yasuda Life Insurance / Global One REIT	J-REIT
	DBC Shinagawa Tokyu Bldg.	19	0.89	4.3%	Tokyo	Mar-17	Activia Properties	J-REIT
	8.8% of Tokyo Square Garden	18	1.99	3.1%	Tokyo	Jan-17	Japan Prime Realty	J-REIT
	SS30 Office	18	0.34	6.0%	Miyagi	Mar-17	United Urban	J-REIT
	Shibuya Sakuragaoka Square	17	2.69	3.8%	Tokyo	Feb-17	MCUBS MidCity	J-REIT
	Kinshicho Prime Tower	15	0.92	4.7%	Tokyo	Jan-17	Invesco Office J-REIT	J-REIT
	39% of Tennozu Park Side Bldg.	13	0.72	4.6%	Tokyo	Apr-17	Unknown	Japan
	Kenedix Nihonbashi Kabutocho Bldg.	12	1.64	3.1%	Tokyo	Feb-17	Heiwa Real Estate	Japan
	Sasazuka NA Bldg.	12	0.44	-	Tokyo	Jan-17	Savills Investment Mgnt	U.K.
	KM Nishiumeda Bldg.	11	0.46	-	Osaka	Nov-17	Credit Suisse	Switzerland
	Dai Hakata Bldg.	11	0.35	4.2%	Fukuoka	Mar-17	Simplex	Japan
	Shiodome Bldg.	10	1.80	3.6%	Tokyo	Mar-17	Japan Real Estate	J-REIT
Retail	Aeon Mall Itamikoya etc. (4 props)	52	-	6.1~7.6%	Hyogo etc.	Feb-17	Aeon REIT	J-REIT
	Nakaza Cuidaore Bldg	12	1.40	3.7%	Osaka	Feb-17	Nomura Real Estate Master Fund	J-REIT
	Sun Street Hamakita	11	0.19	5.8%	Shizuoka	Apr-17	Kenedix Retail REIT	J-REIT
	Joyful Honda Chiba New Town	10	0.07	-	Chiba	Feb-17	Joyful Honda	Japan
Logistics	DPL Misato	17	0.34	4.5%	Saitama	Mar-17	Daiwa House REIT	J-REIT
	Logiport Hiratsuka etc. (2 props)	16	-	4.3%	Kanagawa etc.	Dec-16	IBJ Leasing	Japan
	Kawagoe Logistics Center	12	0.23	4.9%	Saitama	Feb-17	LaSalle Logiport	J-REIT
	Meitetsu Unyu Fukugawa Branch	10	1.42	-	Tokyo	Mar-17	Meitetsu Fudosan	Japan
	Aeon Minami Osaka RDC	10	0.20	5.2%	Osaka	Feb-17	Aeon REIT	J-REIT
Apartment	West Japan MHLW Workers Dorms (626 props)	37	-	-	Nagoya etc.	Feb-17	Fortress Investment	U.S.
	Royal Parks Towers Minamisenjyu	22	-	5.3%	Tokyo	Feb-17	Invincible	J-REIT
	Roppongi Jyutaku	15	-	-	Tokyo	Feb-17	Mori Building	Japan
	Comforia Kamata etc. (8 props)	18	-	4.5%	Tokyo etc.	Feb-17	Comforia Residential REIT	J-REIT
Hotel/ Healthcare	Sunroute Plaza Tokyo (Disney Resort)	27	38.51	5.9%	Chiba	Jan-17	ORIX JREIT	J-REIT
	Sheraton Okinawa Sunmarina Resort	21	85.36	-	Okinawa	Dec-16	Mori Trust	Japan

Notes: Acquisitions by foreign managers are highlighted in gray and by J-REITs in yellow. This table is prepared solely for information purposes and not intended to recommend or endorse any specific company's shares or other products. Although information in this document has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness, and it should not be relied upon as such.

Source: Real Capital Analytics, Nikkei Real Estate Market, Deutsche Asset Management, As of Apr 2017

Tokyo's volume of commercial real estate transactions for the rolling 12-month period ended March 2017 was US$15.2 billion, flat from the previous period ended December 2016. It ranked eighth among global cities and kept the first position in the Asia Pacific region. According to our own estimates 60% of transactions in Tokyo were purchases by listed J-REITs and 13% by foreign capital respectively. Osaka reported US$2.8 billion for the same period, ranking tenth in Asia Pacific following Melbourne and Brisbane.

Exhibit 10: Real Estate Transaction Volume by City (12 months rolling)



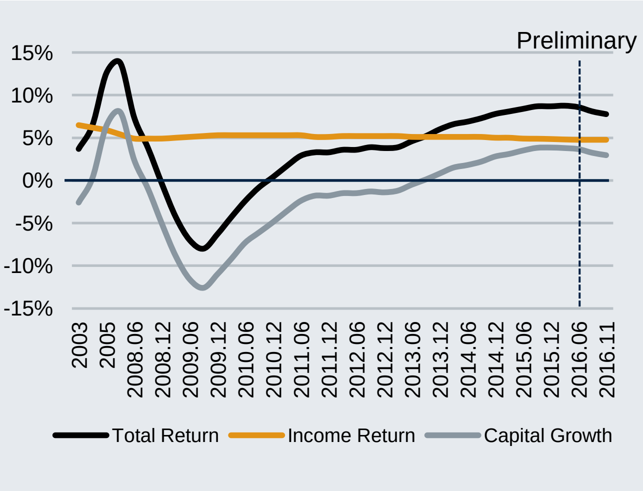
Notes: Commercial real estate transactions exclude non-income producing assets, such as development site transactions
Sources: Real Capital Analytics, Deutsche Asset Management. As of Apr 2017

3.4 Performance

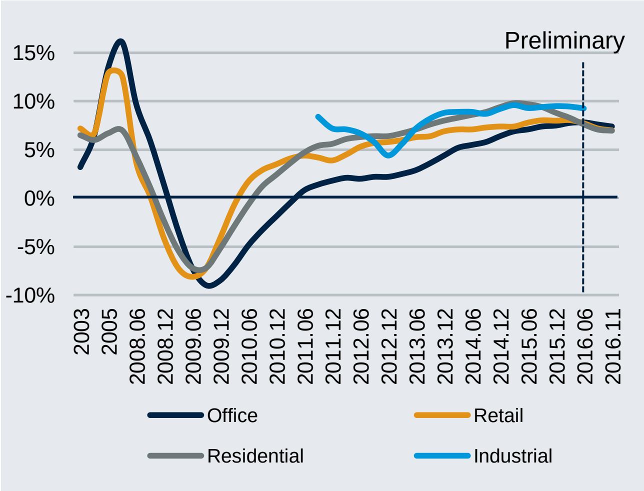
Signs of the change of tide in commercial real estate are becoming evident in total returns. The average annual total return for unlevered direct real estate investment in Japan moderated to a preliminary 7.8% in November 2016 (the latest period available), from 8.8% in March 2016, posting three consecutive quarters of moderation. This is due to the softening capital growth driven by already tightened cap rates in valuations. Among property sectors, the slowdown is most evident in the residential sector where the average return declined from 9.8% in March 2015 to preliminary 7.0% in November 2016 while other sectors also moderated.

Exhibit 11: Real Estate Total Returns in Japan (unlevered)

Total Return by Component



Total Return by Sector



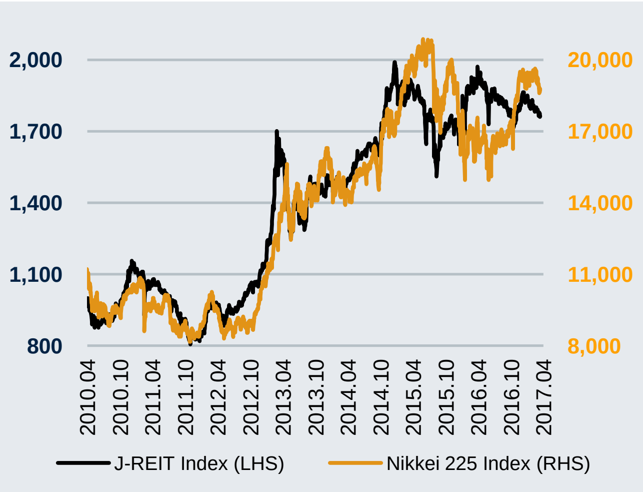
Notes: There is a time lag because of raw data being collected through semi-annual reports. Past performance is not indicative of future results. Sources: MSCI Real Estate - IPD, Deutsche Asset Management. As of Apr 2017

3.5 J-REITs

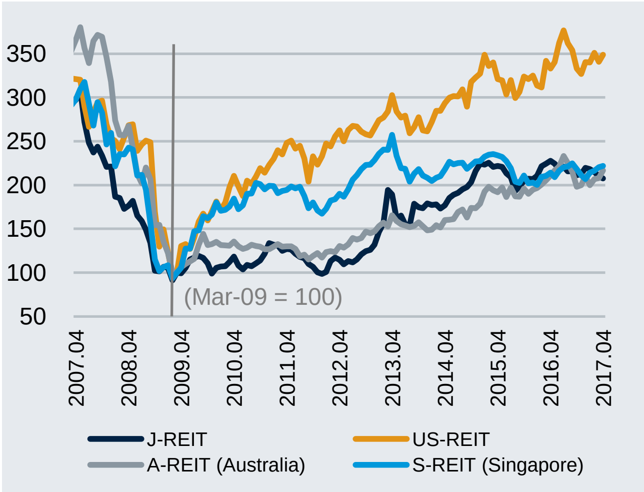
The J-REIT index softened by 4.3% in the first quarter of 2017 due to the increased concern over interest rate hikes in the global market, although the long term bond yields remained stable at around 0% in Japan. The listed REIT indices in the United States, Australia and Singapore, on the other hand, traded favorably in the same period, posting growth since the beginning of the year respectively.

Exhibit 12: J-REIT Index and Long-Term Global Comparison

J-REIT Index and Nikkei 225 (5-year)



Global REIT Comparison (10-year)

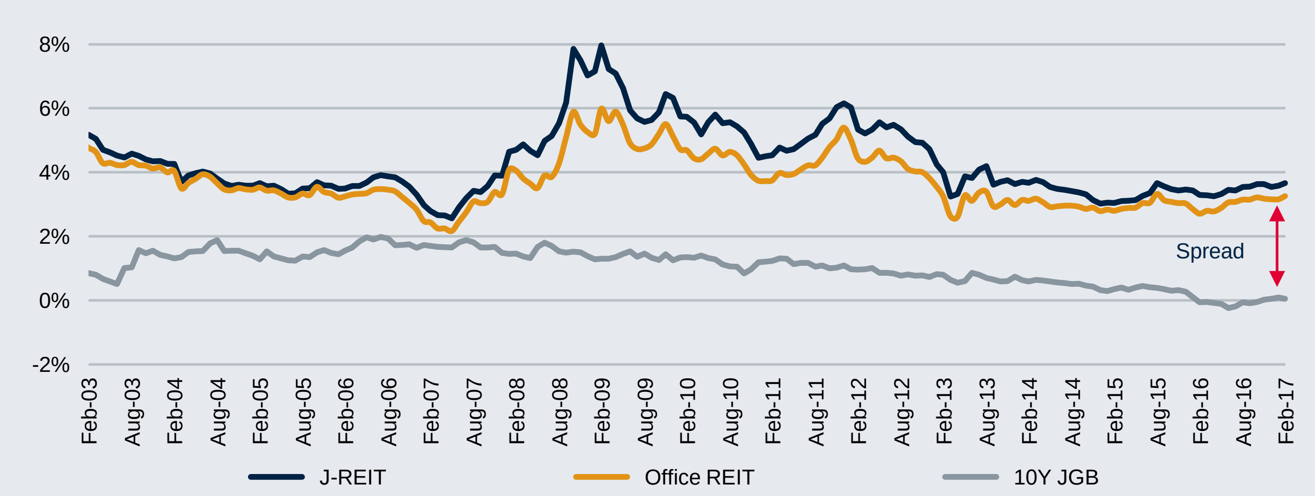


Notes: Past performance is not indicative of future results. Tokyo Stock Exchange REIT Index (J-REIT), FTSE NAREIT All Equity REITS Index (US-REIT), S&P/ASX 200 A-REIT Index (A-REIT), FTSE ST REIT Index (S-REIT)

Sources: Bloomberg, Deutsche Asset Management. As of Apr 2017

On average, the J-REIT dividend yield was 3.66% overall and 3.26% for office REITs in February 2017, marginally above the previous period ended November 2016 respectively. The spread over the 10 year government bond yield remained at an attractive level of 361 basis points in Japan in February 2017, compared to 150-230 basis points for the U.S. and U.K. REITs.

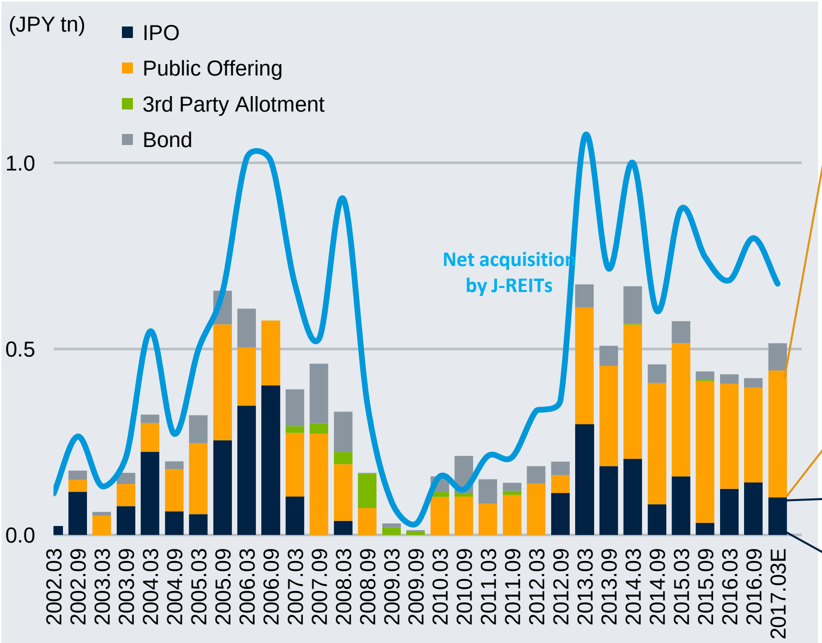
Exhibit 13: J-REIT Expected Dividend Yield



Notes: Past performance is no guarantee of future results. JGB = Japanese Government Bond.
Sources: Bloomberg, Deutsche Asset Management. As of Apr 2017

The amount of capital raised by J-REITs was JPY441 billion in the trailing six months ended March 2017, an 11.6% increase from the previous six-month period ended September 2016, while net transaction volumes purchased by J-REITs declined marginally in the same period. The only initial public offering (IPO) in the year to date was Mori Trust Hotel REIT in February 2017, while there were multiple public offerings including Daiwa House REIT and AEON REIT.

Exhibit 14: Capital Raising and Transactions by REITs in Japan (6 months rolling)



Name of REIT Public Offerings	Month	JPY bn
Daiwa House REIT	Mar-17	47
AEON REIT	Feb-17	38
ORIX JREIT	Feb-17	26
Japan Retail Fund	Feb-17	26
IIF	Feb-17	23
Japan Prime Realty	Jan-17	22
Comforia Residential	Feb-17	11
Global One	Mar-17	11
MCUBS MidCity	Feb-17	10
Other POs	Oct-Mar	127
	Total	**341**
Initial Public Offerings		
Mirai REIT	Dec-16	55
Mori Trust Hotel REIT	Feb-17	45
	Total	**101**

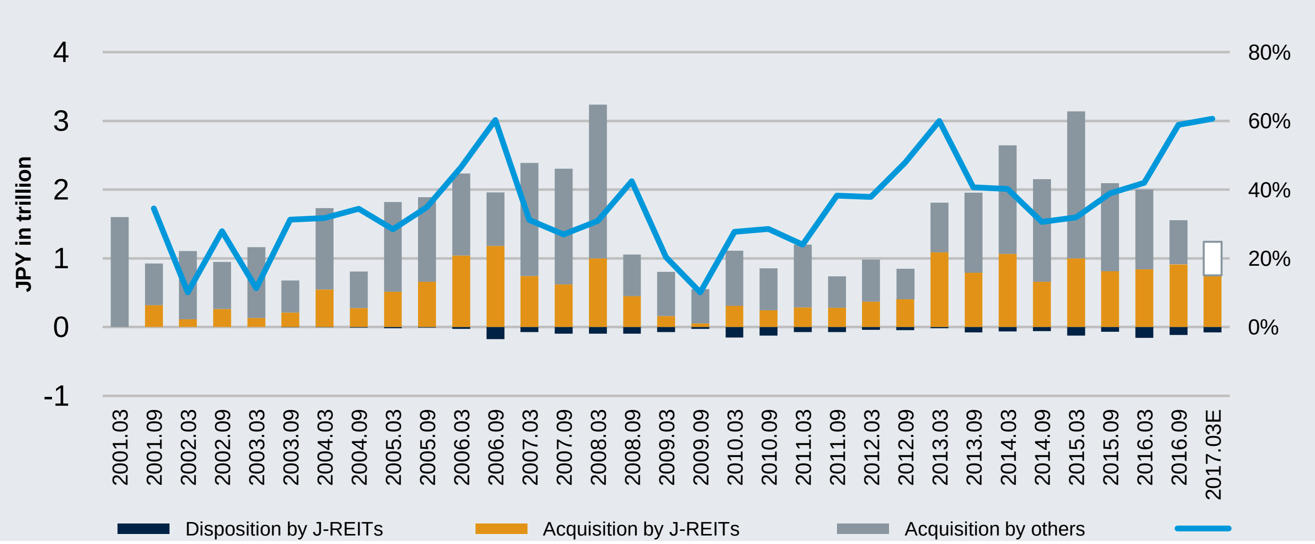
Planned: ITOCHU (logistics)

Notes: Commercial real estate transactions exclude non-income producing assets, such as development site transactions. This table is prepared solely for information purposes and not intended to recommend or endorse any specific company's shares or other products. Although information in this document has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness, and it should not be relied upon as such.

Sources: ARES, Nikkei, Deutsche Asset Management. As of Apr 2017

The preliminary volume of commercial real estate transactions in Japan in the rolling six months to March 2017 was JPY1.2 trillion, around a 20% decline (preliminary) from the previous period ended in December 2016. As shown on Exhibit 14 on the previous page, listed REITs recorded healthy capital raising activities with acquisitions by J-REITs continuing to account for around 60% of all transactions reported in the same six months.

Exhibit 15: Real Estate Transactions in Japan and J-REIT Share (rolling 6 months)



Notes: E = preliminary estimate. Commercial real estate transactions exclude non-income producing assets, such as development site transactions

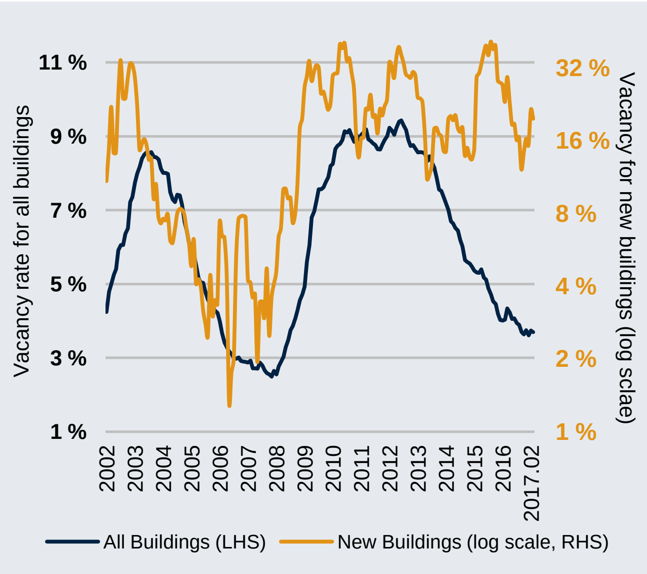
Sources: ARES, Urban Research Institute, Real Capital Analytics, Deutsche Asset Management. As of Apr 2017

4 Market Fundamentals

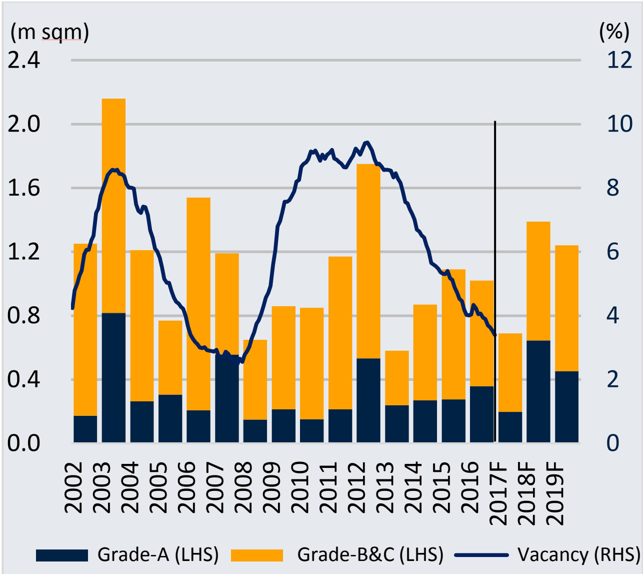
4.1 Office

The average office vacancy rates in Tokyo's central five wards remained tight at 3.7% in February 2017, almost stable in the last six months. Recently completed large sized new buildings that came into the market including Ginza Six and Otemachi Park Building, pushed up the vacancy rate at newly-developed buildings (orange line in Exhibit 16) to 19.7% in February, compared to 16.3% in November 2016. The current tight vacancy rate in Tokyo, however, could revert due to the supply surge expected in 2018 and onward.

Exhibit 16: Office Vacancy Rate and Supply in Central Tokyo (5 wards)



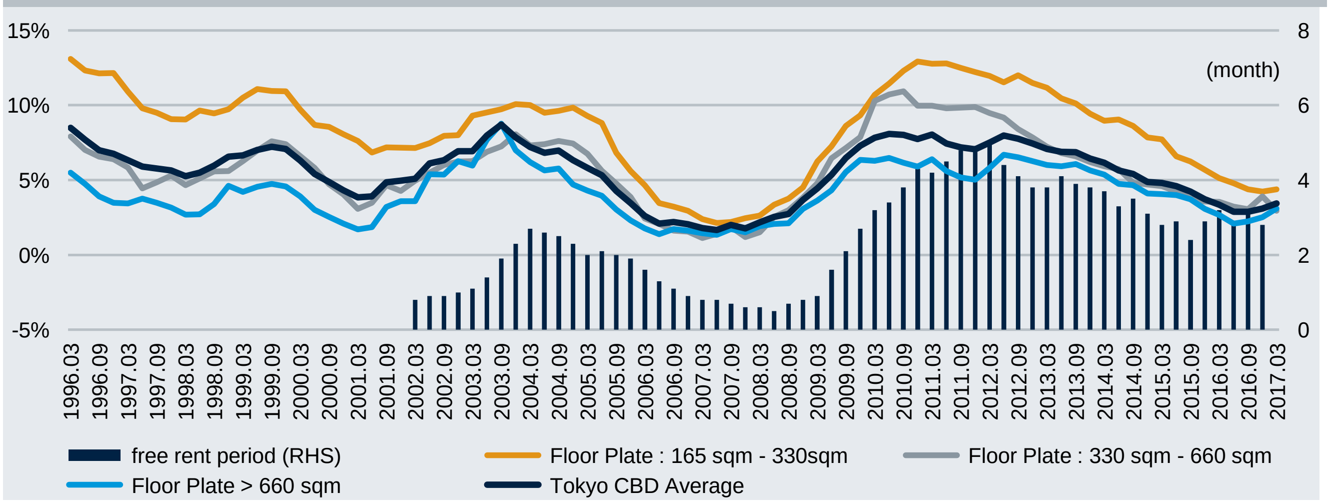
Sources: Miki Shoji, Deutsche Asset Management. As of Apr 2017



Sources: Miki Shoji, Deutsche Asset Management. As of Apr 2017
Notes: GFA = gross floor area. sqm = square metres.
There is no guarantee the supply pipeline will materialize

The average vacancy rate has been stable, and the average rent free period offered to tenants has not made meaningful recoveries in the last twelve months. It stood at 2.8 months in December 2016, almost the same level as a year ago. Landlords need to provide incentives to attract tenants especially at newly completed buildings.

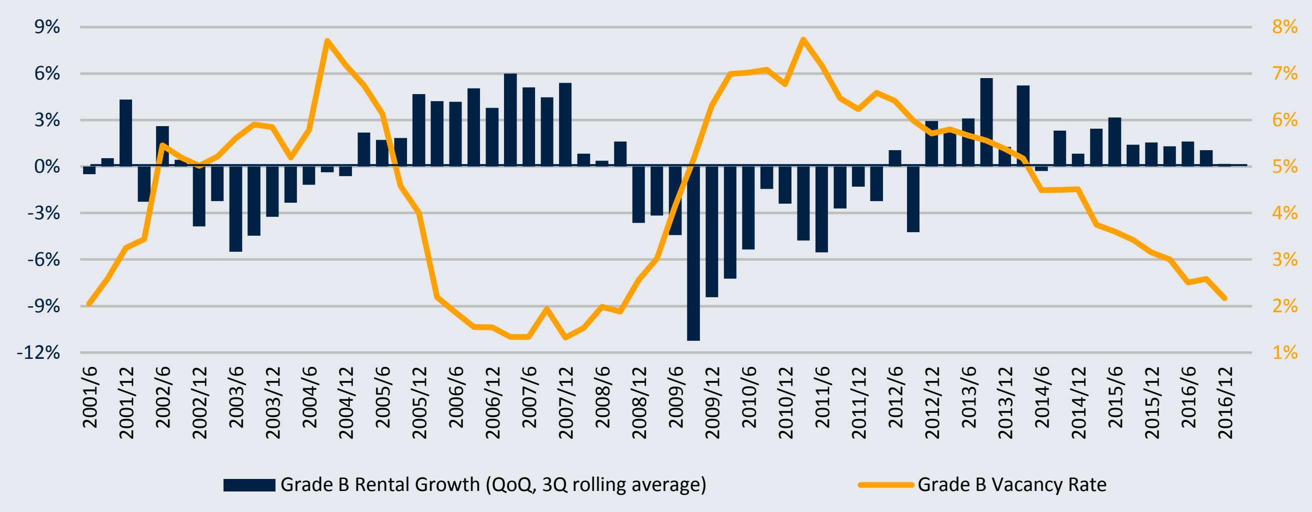
Exhibit 17: Office Vacancy Rate and Rent Free Period in Tokyo



Notes: sqm = square metres
Sources: Sanko Estate, Xymax Real Estate Institute, Deutsche Asset Management. As of Apr 2017

Historically, office rental growth rates have correlated inversely to the vacancy rate. The vacancy rate for grade B buildings was only 2.2% in Tokyo in December 2016, well below the pivotal 5% threshold associated with rental growth. Average office rents grew very marginally by a 0.2% in the period according to Sanko Estate.

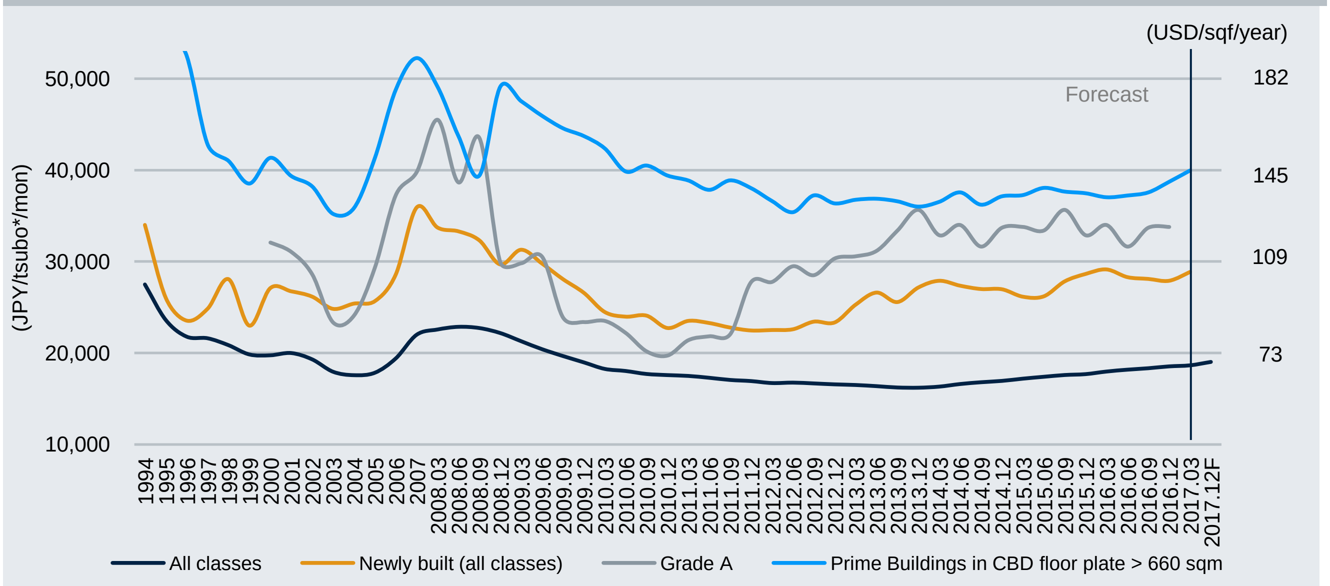
Exhibit 18: Vacancy Rate and Rent Growth at Grade B buildings in Tokyo



Sources: Sanko Estate, Deutsche Asset Management. As of Apr 2017

Helped by the tight market, the average asking rent made a moderate 0.6% growth in the two months to February 2017 in Central Tokyo, a continuous growth for more than three years running. On the other hand Grade A rents have experienced ups and downs continuously over the same period, failing to exhibit a clear recovery trend. Asking rents at prime buildings in the CBD are stronger, posting a 3.2% growth in the same period. On the back of currency exchange rate volatility and uncertainties around external demand, the sentiment in the corporate sector is divergent and the occupier market could continue to show patchy pictures in 2017.

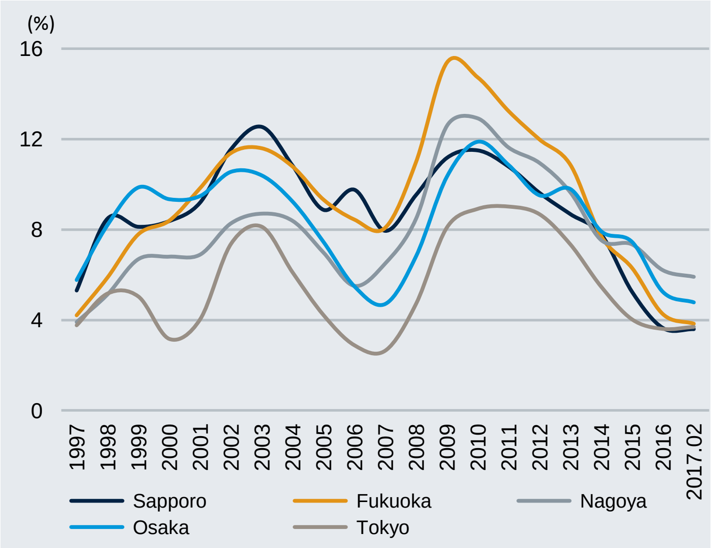
Exhibit 19: Office Asking Rent in Central Tokyo by Building Floor Plate



Notes: F = forecast, there is no guarantee forecast rents will materialise. Please refer to Important Notes (see end of report)
*Tsubo is a Japanese unit of area. It is equivalent to 3.3 square metres (35.6 square feet).
Sources: Miki Shoji, Sanko Estate, Deutsche Asset Management. As of Apr 2017

Vacancy rates have continued to tighten in all major regional cities in Japan in the period ended February 2017. It recovered to 3.6% in Sapporo, 3.8% in Fukuoka, 4.8% in Osaka and 5.9% in Nagoya, down from the previous quarter respectively. There were new large sized building completions in Yokohama, Nagoya and Osaka respectively in the first four months of 2017.

Exhibit 20: Office Vacancy Rates in Major Cities in Japan (all grades)



Sources: Miki Shoji, Sanko, Deutsche Asset Management. As of Apr 2017.

Supply Pipeline in Regional Cities

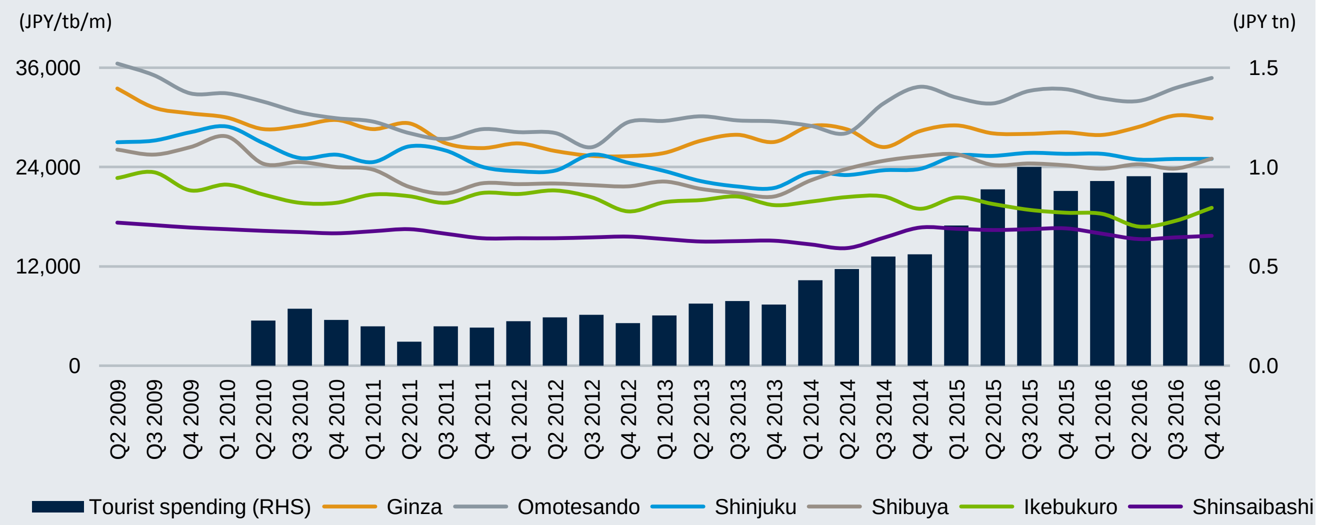
Building	Date	Floors	GFA (sqm)
Dai Nagoya Bldg	Oct-15	34	65,000
JP Tower Nagoya	Nov-15	40	80,000
JRJP Hakata Bldg (Fukuoka)	Apr-16	12	44,000
Symphony Toyota Bldg (Nagoya)	Jun-16	25	15,444
Yokohama Nomura Bldg	Feb-17	17	81,556
JR Gate Tower (Nagoya)	Mar-17	41	67,750
Nakanoshima Fes Twr W (Osaka)	Apr-17	46	45,030
Global Gate West (Nagoya)	2017	36	ttl 40,692
Global Gate East (Nagoya)		17	
Ocean Gate MM 1 (Yokohama)	2017	15	ttl 55,578
Ocean Gate MM 2 (Yokohama)		6	
Nishiki 2 chome Project (Nagoya)	2018	21	45,586
Shin Nankai Kaikan (Osaka)	2018	29	34,650
Sapporo Sosei Square (Sapporo)	2018	28	35,112
Umeda 3 chome (Osaka)	2019	40	135,500
Tenjin Business Center (Fukuoka)	2020	16	60,250
MM21-54 Project (Yokohama)	2020	18	101,056
Umeda 1 chome (Osaka)	2022	42	143,000

Source : Miki Shoji, Sanko Estate, Deutsche Asset Management. As of Apr 2017.
Notes : GFA = gross floor area. Sqm = square metres
There is no guarantee the supply pipeline will materialize

4.2 Retail

Tourist consumption in the fourth quarter of 2016 posted a marginal increase of 1% on a year-on-year basis, while it softened on the quarterly basis due to seasonality elements. High street retail rents made positive quarterly growth in major retail districts, including Omotesando (3.7%), Shibuya (5.0%), Ikebukuro (9.1%) and Shinsaibashi (Osaka) (3.1%) in the period, while rents were flat in Shinjuku.

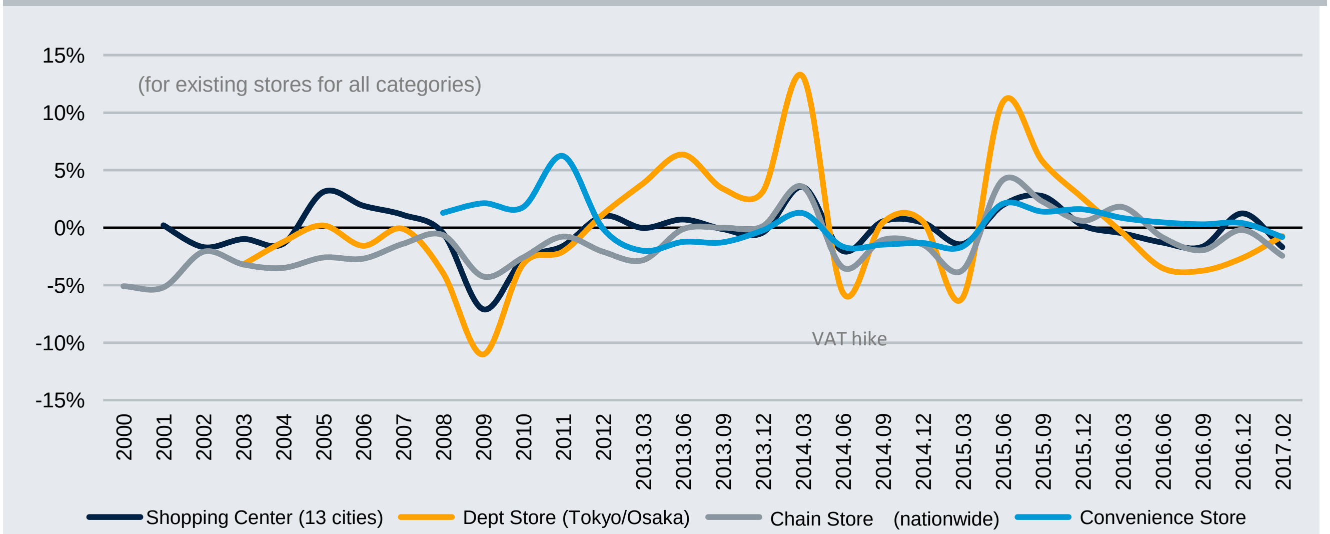
Exhibit 21: High Street Average Rents in Tokyo and Osaka



Sources: Style Act, Miki Shoji, Deutsche Asset Management. As of Apr 2017
Past growth is not a reliable indicator of future growth

Sales were subdued at shopping centers, department stores, chain stores and then convenience stores respectively in Japan in January and February in 2017. They declined by 2.3%, 1.5%, 2.5% and 0.8% compared to the same period in the previous year.

Exhibit 22: Retail Sales Growth by Store Category (year on year)

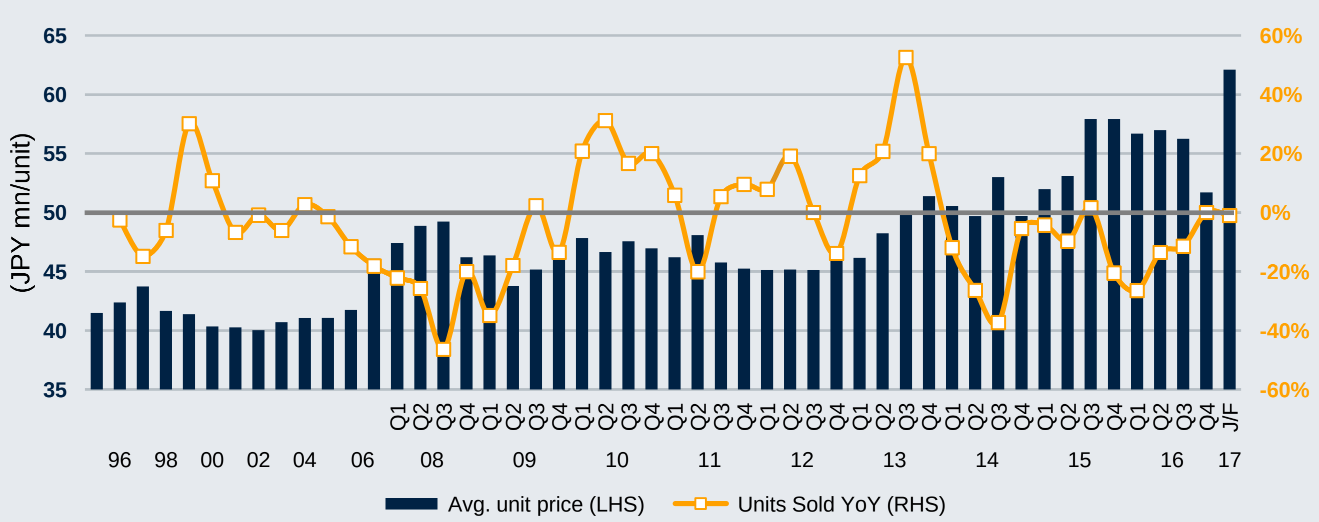


Source: Deutsche Asset Management, As of Apr 2017

4.3 Residential

The average price per unit of newly-built condominiums sold in Greater Tokyo was JPY62.2 million in January and February 2017, a 20% increase from the fourth quarter of 2016. This price number is a preliminary figure which could be revised after March statistics come out. The number of units sold in January and February was flat from the same period of the previous year. Major retail banks started to increase its previous ultra-low mortgage rates gradually in April 2017 and it could adversely affect the residential sales going forward.

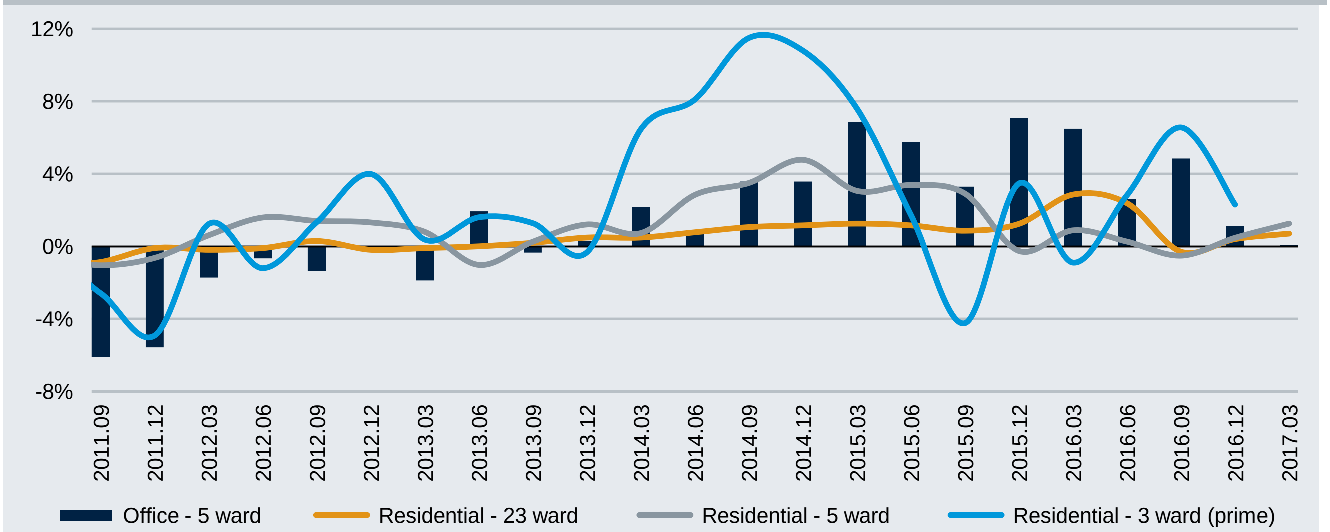
Exhibit 23: Average New Condo Price and the Number of Units Sold in Greater Tokyo



Sources: Real Estate Economic Institute, Deutsche Asset Management. As of Apr 2017.

The recent price elevation among for-sale condominiums in Tokyo provides healthy underlying demand for rental apartments in central, convenient locations near public transportation. Rents increased 2.3% for prime apartments in Central 3 ward in Tokyo (blue line) in the year to December 2016, while they increased 0.7% in the broader five wards in the period ended March 2017 (grey line).

Exhibit 24: Residential Rent in Tokyo (year-on-year)

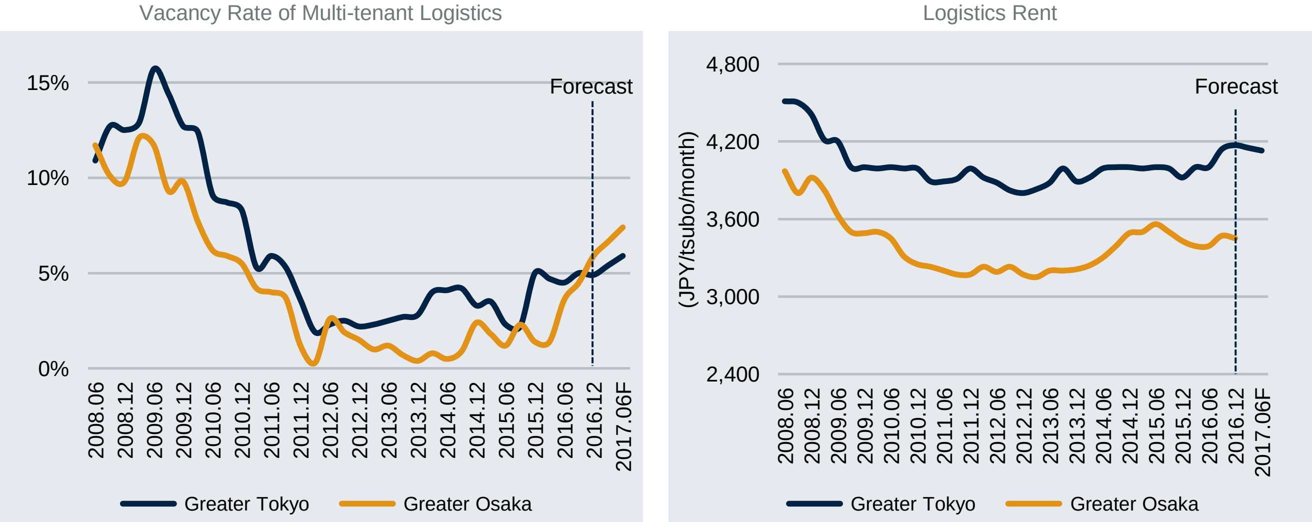


Sources: TAS Corporation with data from At Home Co. (23-ward vacancy), Leasing Management Consulting (5-ward asking rent), IPD-RECRUIT Residential Index (23-ward rent index), Miki Shoji. As of Apr 2017.

4.4 Industrial

Vacancy rates at multi-tenant logistics assets have been almost flat in the last four quarters to December 2016 at around 5% in Greater Tokyo, while they widened significantly from 1.4% to 5.9% in Greater Osaka in the same period. Demand for quality space is continuously strong in both markets while a record number of large scale logistics assets are pushing up vacancy rates in Osaka. Rents strengthened marginally in Greater Tokyo by 0.7% in the quarter ended in December 2016 while they softened in Osaka in the same period.

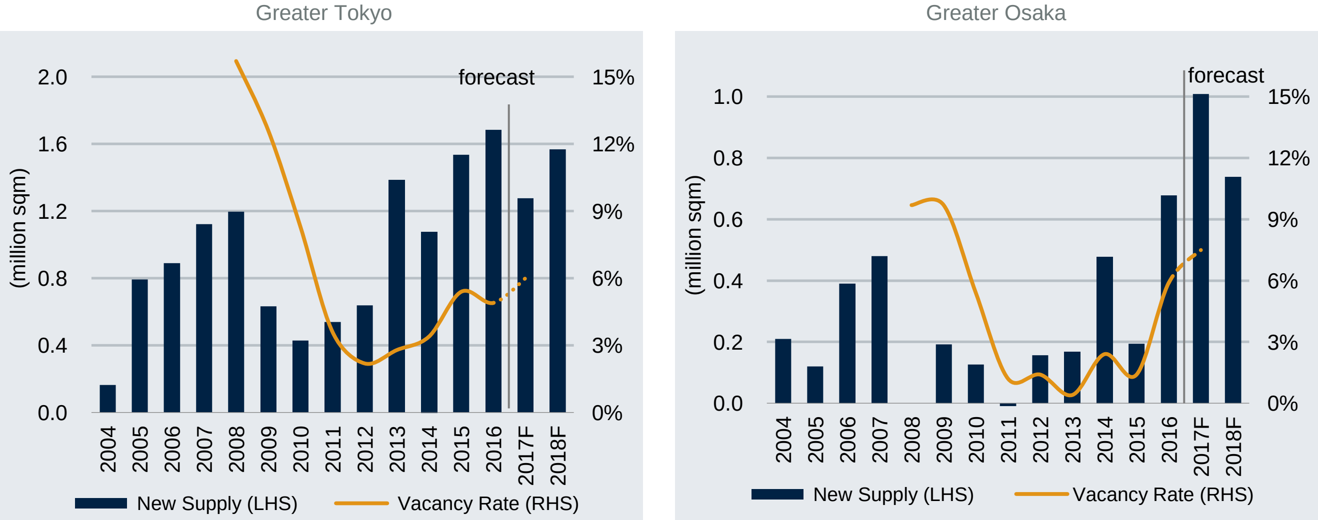
Exhibit 25: Logistics Leasing Market in Greater Tokyo and Greater Osaka



Notes: F = forecast, there is no guarantee forecast returns will materialise. Past performance is not indicative of future results.
Sources: Ichigo Real Estate Service, Deutsche Asset Management. As of Apr 2017

The annual supply of logistics assets is expected to have peaked at 1.6 million square meters in 2016 in Greater Tokyo and to peak at 1.0 million square meters in 2017 in Greater Osaka, an all-time high in each respective market. Vacancy rates are expected to rise in the Ken-O-do area in Greater Tokyo and in the Osaka Bay area in 2017 where supply is concentrated.

Exhibit 26: Logistics Supply in Greater Tokyo and Greater Osaka



Notes: F = forecast, there is no guarantee forecast returns will materialise. Past performance is not indicative of future results.
Sources: Ichigo Real Estate Service, Deutsche Asset Management. As of Apr 2017

Past Topics of This Report

Vol	Year	Publication		Research Topic
1	2008	Q2	Jun-08	Making sense of the rental market in Japan
2		Q3	Sep-08	Impact of the credit crunch
3		Q4	Dec-08	Revitalisation of ailing J-REITs
4	2009	Q1	Mar-09	Tokyo office market in its global context
5		Q2	Jul-09	Japan residential market
6		Q3	Oct-09	History repeats itself? A comparison of the 'Year 2003 Problem' with 2009
7		Q4	Jan-10	Introducing unit pricing analysis in Japan
8	2010	Q1	Apr-10	Portfolio optimisation analysis in Japan
9		Q2	Jul-10	Japan's capital market in a global context
10		Q3	Oct-10	Quarterly Report
11		Q4	Jan-11	Cross-border investment into and out of Japan
12	2011	Q1	Apr-11	The Great Tohoku Earthquake and its impact on the Japanese real estate market
13		Q2	Jul-11	Adapting Japan's land price index for real estate analysis
14		Q3	Oct-11	Quarterly Report
15	2012	Q1	Jan-12	The J-REITs next 10 years
16		Q2	Apr-12	Quarterly Report
17		Q3	Jul-12	Quarterly Report
18		Q4	Oct-12	The inward-looking focus of the real estate investors in Japan
19	2013	Q1	Jan-13	Can the housing tax credit boost demand?
20		Q2	Apr-13	Quarterly Report
21		Q3	Jul-13	Logistics : Rapid Modernisation Underway in the Asia Pacific Region
22		Q4	Oct-13	Quarterly Report
23	2014	Q1	Jan-14	Japan, Asia and Global Investing
24		Q2	Apr-14	Quarterly Report
25		Q3	Jul-14	Quarterly Report
26		Q4	Oct-14	Quarterly Report
27	2015	Q1	Jan-15	Quarterly Report
28		Q2	Apr-15	Emergence of Private REITs in Japan and Implications to the market
29		Q3	Jul-15	Quarterly Report
30		Q4	Oct-15	Quarterly Report
31	2016	Q1	Jan-16	Will the Third Arrow of Abenomics Fly?
32		Q2	Apr-16	Quarterly Report
33		Q3	Jul-16	Impact of Negative Interest Rate
34		Q4	Oct-16	Quarterly Report
35	2017	Q1	Jan-17	Quarterly Report
36		Q2	Apr-16	Quarterly Report

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