Savills World Research
Japan

Spotlight
2016 review and 2017 prospects

January 2017

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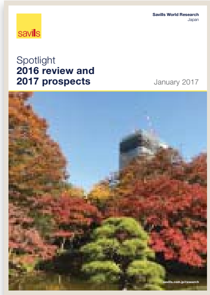


2016 review

2016 saw an extension of some growth trends that have largely continued since the 2011 earthquake, though a pullback in investment volumes and moderation in rental growth may signal a change ahead.

Cap rates continued to tighten across all sectors, fuelled by attractive available funding. Underlying fundamentals such as rents and vacancy continued to improve, albeit more slowly. Japan's GDP will likely print close to a 1% increase for the year, aided by a delay in the consumption tax hike. Abe's administration notched a sweeping victory in the much-anticipated summer elections, and now looks to be among the most stable cabinets in the world. Urbanisation continues, fuelling population growth in most of Japan's major cities. Commercial land prices, which were already rising in major cities, are now rising more widely.

Investment volumes

The one major metric that has cooled in 2016 is investment volumes. According to Real Capital Analytics (RCA), YTD investment in Japanese real estate totalled 2.9 trillion yen through September, just 66% of 2015's total. This is a sharp decline after several years of double-digit growth. As low borrowing costs drive asset prices higher, buyers are unwilling to meet sellers' demands, and sellers themselves have little incentive to negotiate when refinancing is so affordable and profitable (Please refer to our special report "Japan Negative Interest Rates", published in November). The Bank of Japan's (BOJ) surprise move to a negative interest rate policy in January has kept funding cheap, but as a result, transaction prices have climbed and volumes have dropped. At its September meeting the BOJ adjusted its language to open the door for eventual tapering, but it is likely that rates will stay somewhat low for the time being even considering rapid changes in the global interest rate environment after the US election.

Due to tight cap rates in core Tokyo transactions, we began to see increases in market share for traditionally non-core assets as investors searched for yield farther afield. Investment has been increasing in other regional cities relative to Tokyo, as is investment in relatively young sectors. Two new logistics REITs listed in 2016 – LaSalle Logiport REIT and Mitsui Fudosan Logistics Park – in addition to several private REITs, illustrating the sector's rapid maturation. Other new public REITs include the Oedo Onsen REIT, specialising in hot springs resorts, and the Ichigo Green Infrastructure Fund, specialising in solar power plants, which together demonstrate the growing variety of markets available for public investment.

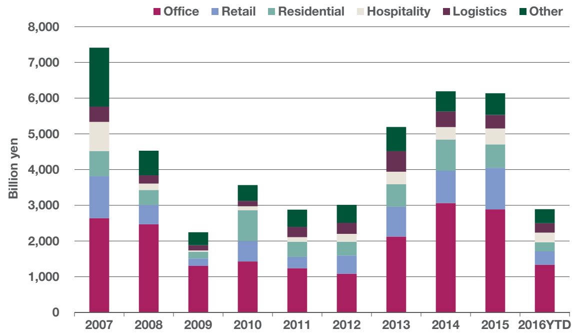
By sector, Japan's hotel market is in boom. Despite the large year-on-year (YoY) drop in total real estate investment volumes, investment in hotels has generally kept pace with 2015, amounting to 269 billion yen YTD through Q3. This is just 8.3% down from Q3/2015's YTD value of 293 billion. Hotel investment has risen to 9.3% of total Japanese real estate investment in YTD 2016, up from 7.2% in 2015 and 5.6% in 2014. The boom is primarily driven by Japan's phenomenal growth in inbound tourism. The country has seen double-digit YoY increases in international arrivals every year since 2011, and the government is working to increase visitors still further through the Olympics in 2020. This, combined with a historical supply shortage, has spurred market players to invest heavily in hotels throughout 2016. There is some concern, however, about possible recent supply and sluggish operating indicators.

Cap rates

Cap rates on Japanese real estate continued their long, gradual compression in 2016. Cap rates for prime Tokyo office property now hover close to 3.2%, 0.3 percentage points (ppts) tighter than a year ago. In a semi-annual survey conducted by the Japan Real Estate Institute (JREI), a few sectors – notably logistics and certain Tokyo office submarkets – slowed their tightening, however, which has led some to believe that markets may be resting after several years of steady

GRAPH 1

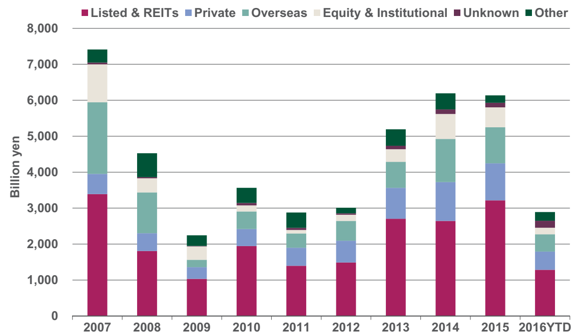
Investment volumes by sector, 2007—Q3/2016



Source: RCA, Savills Research & Consultancy

GRAPH 2

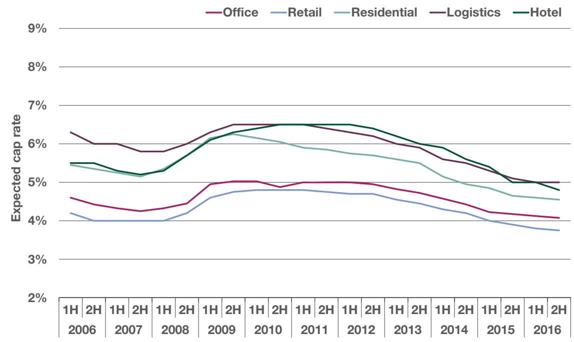
Investment volumes by buyer, 2007—Q3/2016



Source: RCA, Savills Research & Consultancy

GRAPH 3

JREI expected cap rates in Tokyo by sector, 1H/2006—2H/2016



Source: JREI, Savills Research & Consultancy price increases. This may also be supported by office rents, which grew once again in early 2016 but showed signs of stalling in some buildings in the third quarter.

Even so, the unmatched stability of the Japanese market and juicy yield spreads over funding costs continue to make real estate a popular choice for both domestic and overseas investors.

2017 forecast

Many 2016 trends are likely to continue into 2017, though probably at a slower pace. Global economic uncertainty may change the trend suddenly in certain areas.

Investment volumes

Investors are still very positive on Japan but have also become more cautious. Investors cite the relative stability of Japanese real estate as an important feature, especially given the uncertainty currently riling other markets. Core investment opportunities will likely remain scarce, however, as long as prices remain high and refinancing remains ultra attractive, and investment volumes could remain flat as a result.

On the other hand, borrowing costs may soon begin to rise. 10-year JGB yields have climbed back to positive territory since the US election. The BOJ has tacitly indicated that it may consider tapering its asset purchases soon – if it continues buying at its current pace, financial institutions could run out of government bonds to sell within a few years. An abrupt move is unlikely, but even a gradual change in lending attitude could incentivise sellers to liquidate and, at a macro level, help transaction volumes increase. Lenders' current historically high exposure to the real estate market and the FSA's concerns over property loans may make banks more selective in lending. Currently, however, we expect banks to continue to provide loans, especially to institutional investors with good credit, even if they become more selective in lending to reduce their loan exposure.

Cap rates

Cap rates will likely compress marginally in 2017. Cap rates are currently tight but still offer a very wide yield spread compared to most other Asian markets. Even if borrowing costs increase somewhat there is still room for further yield compression.

Cap rates are also dependent on rental levels. We have seen slow growth or a pause in rental growth for some prime office properties in Tokyo, indicating that the market may be taking a breather after four years of steady growth. 2017 may see slower rental growth or softness in some submarkets, and a large influx of office supply scheduled for 2018 and 2019 may suppress growth over the medium term. Occupancy remains solidly above 97%, however, indicating that an immediate weakness in rent is unlikely.

Political and macroeconomic factors

PM Abe's government is now one of the most stable administrations in the world, and also in post-war Japan. At four years in office he is soon to be the third longest serving PM in post-war Japan, and his approval ratings are hovering solidly around 50% — rare for such a long-serving leader. A victory in the 2016 summer elections has granted the government some room to push forward with labour and wage reform and also incentivise corporations to invest more.

The Economist and World Bank respectively forecast GDP growth of 0.7% and 0.5% in Japan in 2017. In December, the Japanese government belatedly applied new UN accounting standards for GDP measurement, which resulted in an impressive 6.3% boost. The UN standards treat R&D spending as investment, which highlights one of the heretofore unmeasured strengths of the R&D-heavy Japanese economy. Similar changes in the US raised GDP by only 3.2%. Though this is an accounting change and not real economic growth, it could make the Japanese market more enticing to international investors and aid measurements such as Japan's debt-to-GDP ratio.

The BOJ may also have more success in meeting its inflation targets in 2017. Core inflation fell below 0.0% YoY in late 2015 and continued to sink as energy prices saw double-digit YoY declines. Energy is weighted approximately 8% of Japan's total CPI, so a 10% fall in energy prices alone equals an approximate 0.8ppt fall in CPI. YoY energy price drops have largely stopped in 2016, however, which should reduce deflationary pressure on Japan's CPI in 2017. Core-core inflation, which excludes energy price volatility, has remained mostly positive in 2016.

Downside policy risks mainly stem from overseas sources in 2017. Populist movements have injected a heavy dose of uncertainty into international markets, and although the Japanese government is very stable, a sudden shift in the status quo – such as a withdrawal of US military presence from Asia – could distract Abe's cabinet and the Diet from focusing on the domestic economy. Extreme movements are unlikely, however. We anticipate a muted response to Trump's presidency, though there remains the potential for surprise.

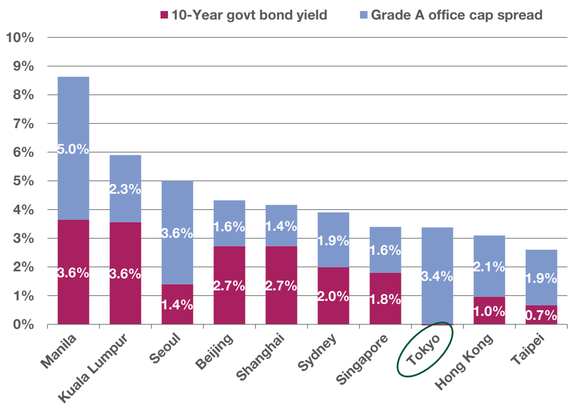
GRAPH 4

10Y JGB Interest rate, Jan 2012—Nov 2016

Source: Ministry of Finance, Savills Research & Consultancy

GRAPH 5

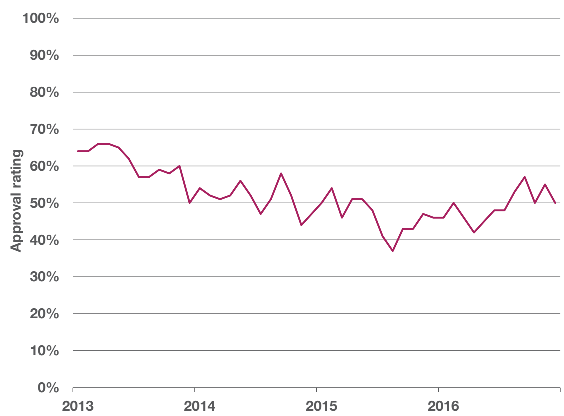
Regional cap rate spread, Q3/2016



Source: Savills Research & Consultancy

GRAPH 6

Abe's cabinet approval, 2013—2016



Source: NHK, Savills Research & Consultancy

Office

Tokyo's office market continues to attract the bulk of real estate investor attention, not least due to its massive size and heavy institutional presence. Tokyo is the largest office market in the world by NRA.

Cap rates and investment volumes

Cap rates for prime office property in Tokyo have compressed 30bps to 3.2%, based on an in-house survey. This is a new cyclical low. This compression will likely continue into 2017.

As prices rise, however, more investors are searching for yield in regional cities. A survey by JREI puts expected cap rate premiums in Osaka, Nagoya, and Fukuoka at approximately 100bps, 130bps, and 140bps over those in Tokyo. Actual transaction yield gaps appear to be tighter, reflecting current demand for regional offices.

YTD investment in the Japan office market totalled JPY1.3 trillion yen as of Q3/2016. Of this, 48% was from listed REITs, typically the largest group by volume. This total marks a 38% decrease from YTD Q3/2015. As discussed, relatively tight cap rates and extremely low borrowing costs are incentivising owners to refinance rather than sell, weighing on volumes.

If banks become more selective in lending and try to reduce their loan exposure, incentivising some owners to sell rather than refinance, transaction volumes could pick up in 2017. We are closely monitoring the political situation in the US, which has significantly changed the global interest rate landscape since November.

Supply and demand

As of year-end 2016 the all-grade Tokyo office market consisted of approximately 11.5 million tsubo[1] NRA, according to data from tenant broker Sanko Estate. Over half of this amount is concentrated in the city's central five wards (C5W) of Chiyoda, Minato, Chuo, Shinjuku, and Shibuya.

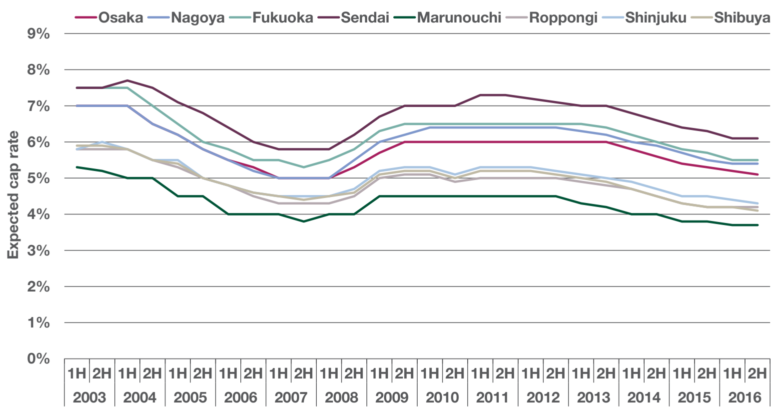
After a brief spike following the 2011 earthquake, vacancy in the C5W has trended tighter and tighter. Vacancy in grade A buildings currently sits at just 1.5% on average. Such tight conditions have helped rents grow 5-9% a year over the same period, despite a pause in 2016.

Such tight conditions are likely to continue through 2017. In 2018 and 2019, however, a large supply glut is scheduled to come on the market. Sanko Estate forecasts that large-scale office stock is expanding 7.9% from 2016 to 2018, a very large figure for what is already the world's largest market. This supply may suppress rental growth in the short run, but should also pull vacancy back up toward a more sustainable level of 4-5%.

1 One tsubo = 3.3058 sq m

GRAPH 7

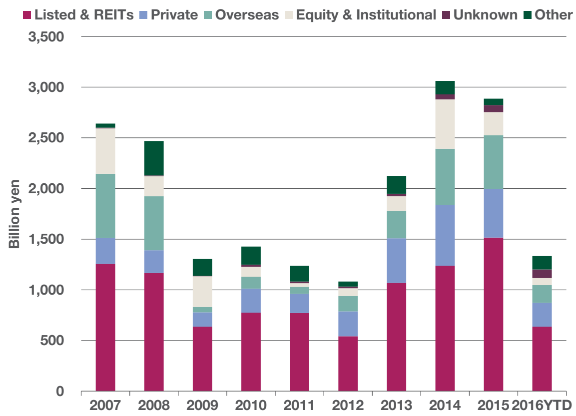
JREI expected prime office cap rates, 2003—2016



Source: JREI, Savills Research & Consultancy

GRAPH 8

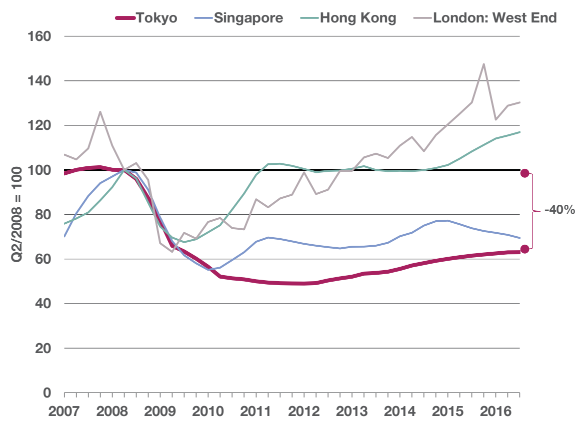
Office investment volumes, 2007—Q3/2016



Source: RCA, Savills Research & Consultancy

GRAPH 9

Office rental index, 2007—Q3/2016



Source: Savills Research & Consultancy

Rents

As of Q3/2016, average prime office rents stood at JPY31,631 per tsubo per month, up 0.1% quarter-on-quarter (QoQ) and 2.5% YoY. This extends the general trend of gradual increases that has continued since 2012.

It is likely that the large upcoming supply in 2018 and 2019 will temporarily soften further rental growth. Some individual buildings have already seen pauses or even softness as of 2H/2016. Office rents are still 35% to 40% below their 2007 peaks, however, indicating that downside risk is still limited and any possible decline is likely to be shallow.

Residential

Residential assets are a popular choice in both Tokyo and in outlying regions. Apartment buildings can frequently trade for lower prices and higher yields than office assets, making them attractive to diverse groups of investors. Cap rates for mid-market residential property are approximately 4.0% as of Q4/2016. Luxury residential developments are also in demand and could trade at yields even tighter.

Cap rates and investment volumes

Cap rates for residential property have tightened to 4.0% in central Tokyo, dropping by 0.4ppts against a year ago. However, the spread vs 10-year JGBs is also still approximately 4.0%, a yield difficult to achieve in most other markets. Cap rates appear to have rapidly compressed toward the end of the year, and further compression is less likely in the residential space than in other sectors.

Investment in Japanese residential assets totalled JPY256 billion YTD as of Q3/2016. This is 27% lower than YTD Q3/2015. As with office assets, owners are preferring to refinance at low rates rather than liquidate, reducing overall volumes.

Tightening cap rates have encouraged investors to seek out opportunities in Japan's regional cities. Osaka especially has been seeing increased volumes relative to Tokyo from listed companies and J-REITs. Ongoing urbanisation means that large regional cities, not just Tokyo, are also seeing population increases. Fukuoka has the highest population growth rate of all of Japan's 23 ordinance-designated cities. It surpassed Kobe to become Japan's fifth largest designated city in early 2016, and the Fukuoka Municipal Government projects continued growth over the next 20 years. Both Osaka and Fukuoka could offer lucrative investment opportunities if underlying fundamentals remain sound.

Supply and demand

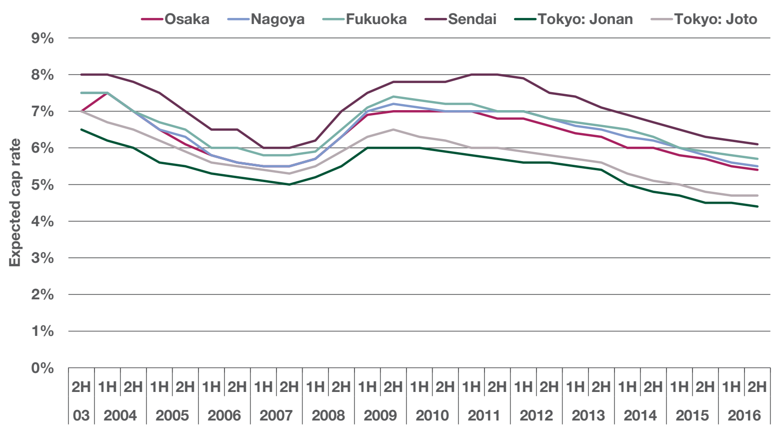
New housing starts in Tokyo have settled at approximately 140,000 units annually since the crisis, and have remained at that level for the past four years. Slightly under 50% of this annual supply is rental housing, while the majority of the remainder is for sale.

In 2016, the contract rate for new condominiums in Tokyo's 23 wards has slowed down. This is due at least in part to steadily increasing condo prices over the last five years, which reached a new cyclical high of over one million yen per sq m in the 23-ward area. According to Tokyo Kantei, an appraiser, the ratio of newly built condo prices to average annual income stands at 11.3x in 2016, up from 10.6x the previous year. Osaka's ratio is 6.7x, up from 6.3x in 2015.

Rental occupancy in Tokyo's 23 wards was 96.2% as of November 2016, a decline of 10bps YoY but still comfortably above 95%, based on a survey of properties held by selected J-REITs.

GRAPH 10

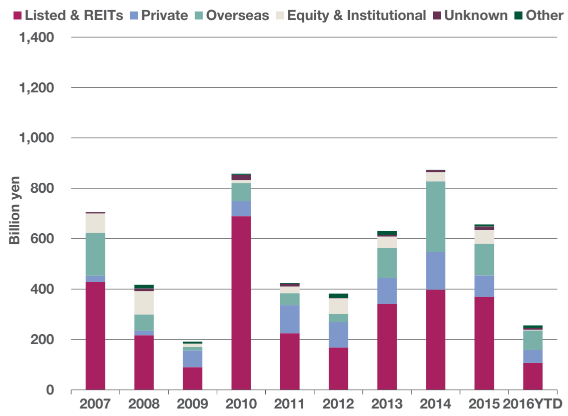
JREI expected prime residential cap rates, 2003—2016



Source: JREI, Savills Research & Consultancy

GRAPH 11

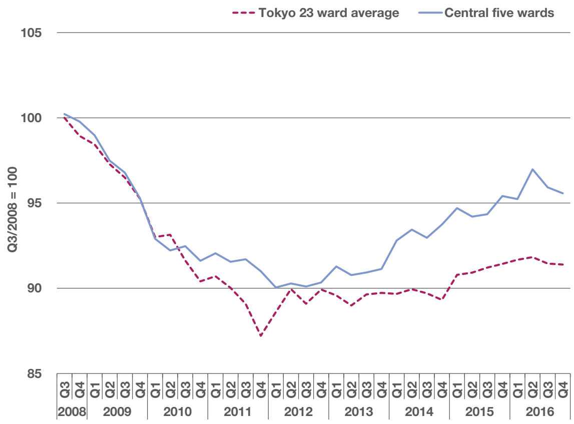
Residential investment volumes, 2007—Q3/2016



Source: RCA, Savills Research & Consultancy

GRAPH 12

Tokyo residential rental index, Q3/2008—Q4/2016



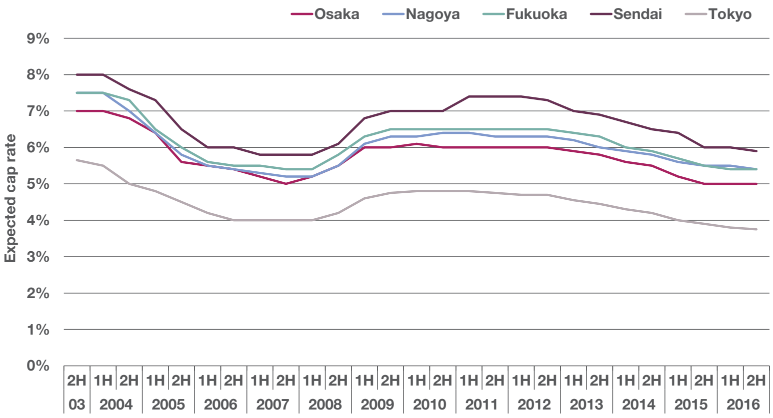
Source: Savills Research & Consultancy

Rents

Mid-market residential rents averaged JPY11,974 per tsubo in Tokyo's 23 wards in Q4/2016, and JPY13,892 in the C5W area. This represents YoY increases of 0.5% and 0.2% respectively. Rental growth appears to have slowed somewhat in 2016, but the trend is still positive. Possible wage increases and urbanisation should continue to put gradual upward pressure on rents, or at least keep them relatively stable, in 2017. Specific outer wards to watch could include Koto and Taito, both of which contain residential neighbourhoods and which have seen relatively stronger growth YoY.

GRAPH 13

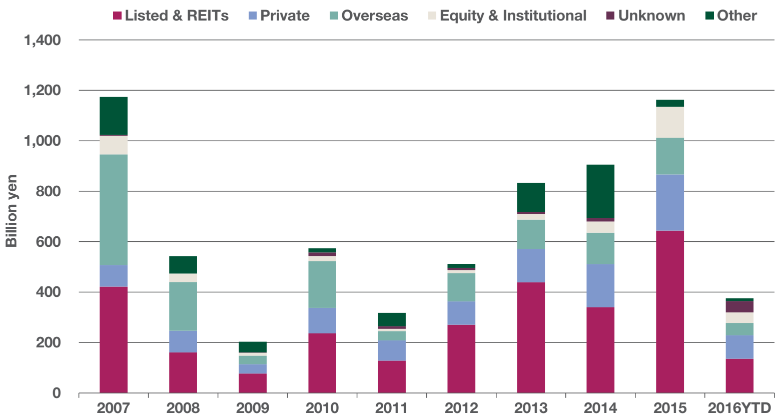
JREI expected prime retail cap rates, 2H/2003—2H/2016



Source: JREI, Savills Research & Consultancy

GRAPH 14

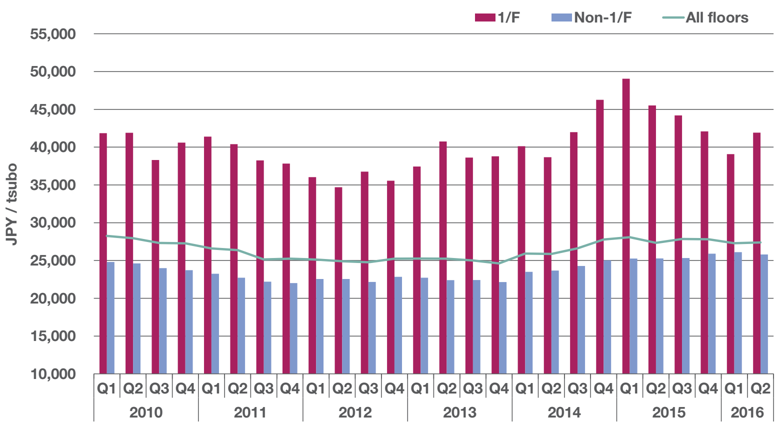
Retail investment volumes, 2007—Q3/2016



Source: RCA, Savills Research & Consultancy

GRAPH 15

Average retail rents in Tokyo, 2010—1H/2016



Source: Japan Real Estate Institute, Nikkei, Savills Research & Consultancy

Retail

Cap rates for prime retail property have compressed to 3.2%, and are competitive with office assets. Rates could compress marginally in 2017, though investment volumes are currently low due to a lack of investment opportunities. Rapid appreciation appears to be causing some trepidation in investors and volumes are lower as a result.

The “bakugai” story of explosive per capita spending by Chinese tourists has moderated in 2016, but steadily increasing international arrivals continue to drive investor interest in retail property in prime urban areas. Continuing double-digit YoY increases in arrivals indicate that the government may achieve its new goal of 40 million annual visitors by 2020, given continued policy attention and a boost from the Olympics.

The retail market does not run on tourism alone, however, as some rental softness helped illustrate in 2016. Average 1F rents in prime Tokyo areas currently stand at JPY41,925 per tsubo, representing a 7.9% correction YoY after strong growth in 2014 and early 2015. This was primarily led by 1F rents in Ginza, which have moderated to JPY50,200. This represents a decline YoY but an 11.4% increase QoQ, indicating that rents may now be climbing again after bottoming out in early 2016. A relatively small population of prime 1F space typically results in volatile figures.

Non-1F rents, meanwhile, continue their slow but steady upward climb. Average non-1F rents in Tokyo stand at JPY25,800, up 2.0% from a year earlier.

Trends are changing fast and investors need to be more nimble. Half a year ago, drug stores prospered while department stores were losing their lustre. Now, it appears that the wind is changing direction for drug stores as well. Continuous urbanisation should keep station front retail properties competitive, especially in regional cities. A new approach of converting once-successful general merchandise stores to other asset classes may bear fruit for opportunistic investors by responding to changing socioeconomic conditions.

Hospitality

Hotel property was arguably the hottest real estate sector in Japan in 2016. Though investment volumes across all real estate assets are down 34% YoY in YTD Q3/2016, investment in hotels has only declined 8% to JPY269 billion. Phenomenal growth in inbound tourism and a chronic lack of existing room supply are together drawing developers and investors to hotel assets in droves. Japan's largest single real estate transaction of 2016 was Hulic's acquisition of Hotel Grand Pacific Le Daiba from Keikyu Corporation in April for approximately JPY67 billion.

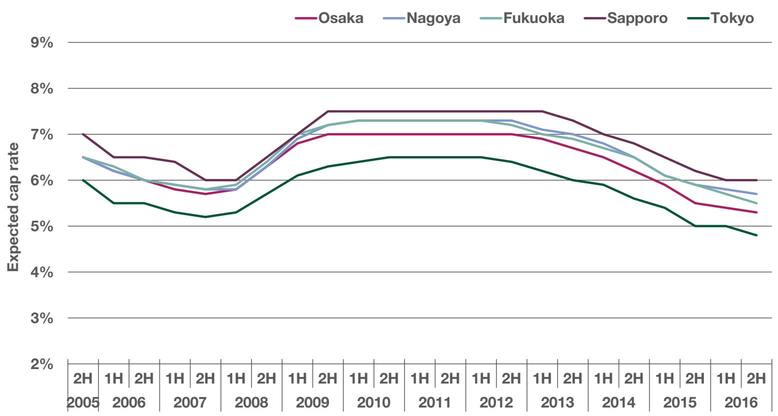
As of December 2016, planned upcoming hotel room supply stands at 70,562 nationwide. This is up an impressive 36% from the June figure, which was itself already at a ten-year high. Increased average daily rates (ADR) and revenues per available room (RevPAR) in Tokyo and Osaka have made hotel property look especially attractive even as yields in all sectors continue to compress. Currently, slower ADR and RevPAR growth could indicate that investors need to be more selective in 2017. These operating indicators are likely to slightly increase or stay flat in 2017, after the current correction and given the strong underlying growth of inbound tourists.

Cap rates on quality hotel assets have compressed below 4%, and stand to tighten further in 2017. On the other hand, nonstop development and investment may begin to make some market players nervous. Japan's hospitality infrastructure has been lacking for many years, however, and requires expansion if it is to keep pace with the current rate of tourism growth.

The sector has shown phenomenal performance for the last couple of years but we also observed rapidly changing trends in 2016. A supply pipeline hitting historical highs, loosening FAR, and recent sluggish operating metrics are giving the market some concern. Investors should be more selective in this rapidly evolving space. The pipeline is not evenly distributed geographically, and the supply of luxury hotels is relatively limited. For budget hotel investors, the minpaku trend (eg Airbnb) may be influential if it continues to grow.

GRAPH 16

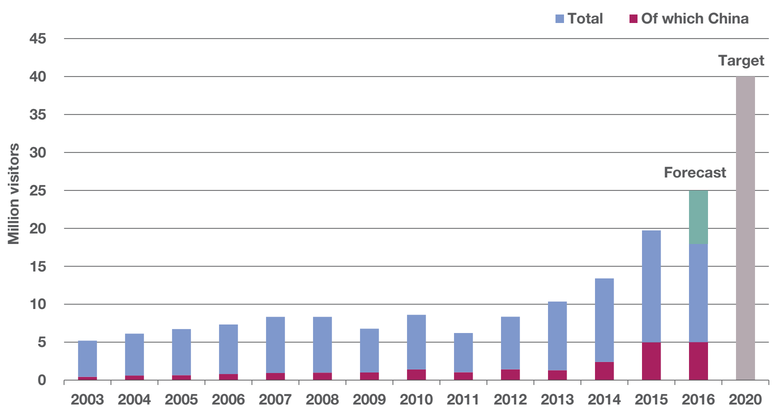
JREI expected hotel cap rates, 2H/2005—2H/2016



Source: JREI, Savills Research & Consultancy

GRAPH 17

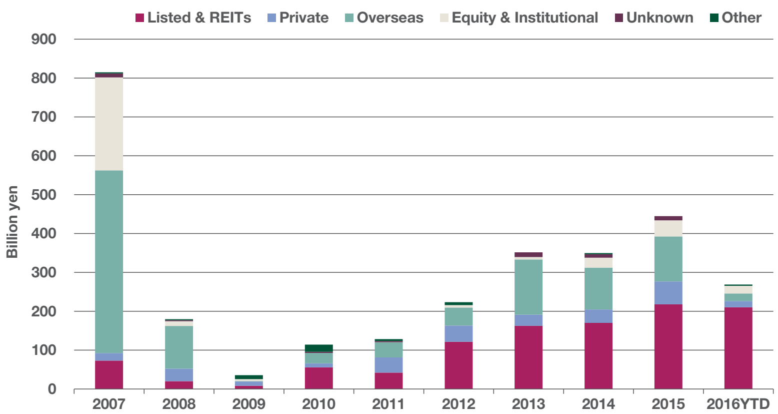
Inbound tourists, 2003—Q3/2016



Source: Japan National Tourism Organization, Savills Research & Consultancy

GRAPH 18

Hotel investment volumes, 2007—Q3/2016



Source: RCA, Savills Research & Consultancy

Industrial

Japan's logistics market is making up for lost time with an unprecedented influx of new supply slated for arrival in Tokyo and Osaka over the next few years. Continuing heavy demand on the part of occupiers should drive absorption, but it is possible that supply may outrun demand for the foreseeable future. In NRA terms, the Greater Tokyo and Greater Osaka markets have already expanded 34% and 30% respectively from January 2015 to October 2016. Impressively, absorption in both markets has thus far kept pace – vacancy stands at 5.0% in Tokyo and 4.5% in Osaka as of October, though both figures are slightly higher than they were a year ago.

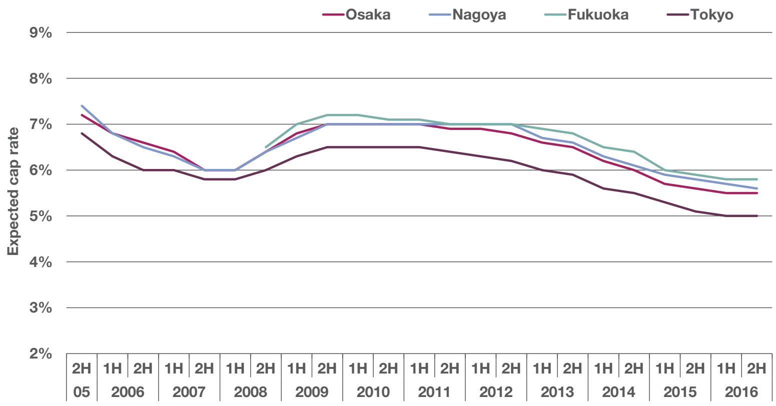
Such heavy supply increases are likely to suppress meaningful rental increases over the next few years, but investors are nevertheless bullish. Transaction cap rates have tightened to the low 4% level. In Greater Tokyo, limited available land means that most new investment is concentrated in inland areas, and the yield gap between inland areas and Tokyo's traditionally prime bayside areas appears to have flattened.

Data from RCA indicates that 2016 investment volumes in logistics property totalled JPY264 billion as of Q3, on track to finish the year around JPY350 billion if the YTD pace continues. 2016 has seen a pullback in investment from listed companies and REITs after significant expansion in 2013-2015, but greater interest from overseas investors.

The logistics market may see some softness because of large upcoming supply. On the other hand, gradual economic growth and changing lifestyles require modern logistics facilities, and underlying economic fundamentals support further industry expansion. In Japan, e-commerce sales as a percent of total retail sales still lags neighbouring markets but is rapidly expanding. E-commerce industry sales are projected to rise 8% pa through 2022. Extensive online shopping is a relatively new trend in Japan. E-commerce penetration is still just 4.8% in Japan vs 7.3% in the US and 12.6% in the UK.

GRAPH 19

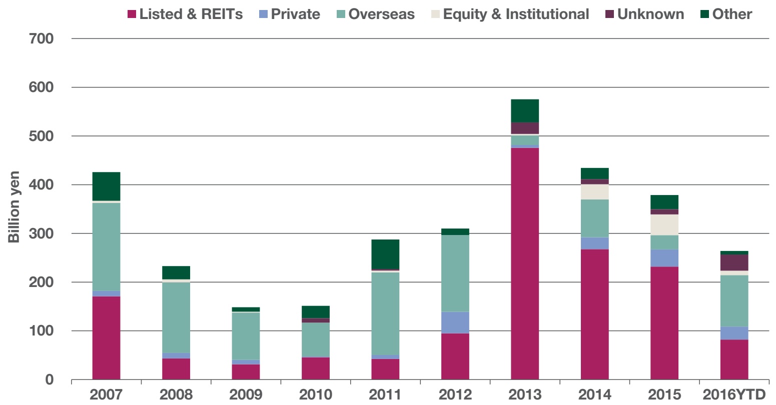
JREI expected logistics cap rates, 2H/2005—2H/2016



Source: JREI, Savills Research & Consultancy

GRAPH 20

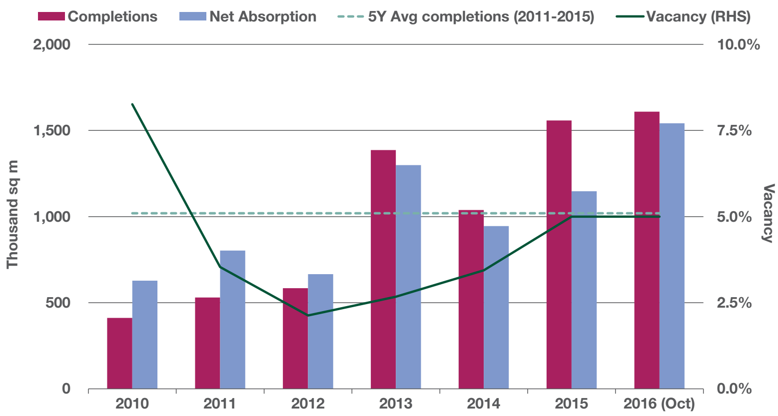
Logistics investment volumes, 2007—Q3/2016



Source: RCA, Savills Research & Consultancy

GRAPH 21

Supply and absorption in Greater Tokyo, 2010—Oct 2016



Source: Ichigo Real Estate Services, Savills Research & Consultancy

Opportunities and risks

Opportunities

The market remains strong, and although investors are showing more caution, they are proactively seeking new investments. Prices are generally on the high side, but there are always opportunities to be had. Below are some of our investment ideas for Japan in 2017.

Core and Core-plus

Core and Core-plus is without a doubt the most competitive segment of the market, as it has expanded to encompass multiple asset classes (residential, retail, office and logistics) and multiple geographies (Tokyo, Osaka, Nagoya and Fukuoka). Access to inexpensive financing has pushed down yields considerably in 2016, though this is most poignantly felt in the multi-family sector. Further cap rate compression in multi-family seems unlikely, though the same cannot be said for office, station-front retail, high street retail, and possibly even logistics.

Value add

The phenomenal growth of inbound tourism to Japan has resulted in a hotel sector boom, and cap rates have been rapidly compressing. That said, the underlying growth in the industry is still robust and some hotels have room for operational improvement. Also, hotels in outlying regions should be able to attract more tourists from megacities such as Tokyo, Kyoto, and Osaka.

Opportunistic

Regional office property could offer attractive returns at lower prices. While many investors are concerned about a large upcoming supply in Tokyo, leasing agents in regions such as Osaka, Nagoya, and Fukuoka are much more worried about no future supply with little available existing space. Considering improved leasing activities and almost fully leased markets, hope for rental increases is rising. On the other hand, cautious investors know that regional cities may suffer first when the economic cycle starts to flip. In that case, large corporations may start to shrink their regional operations and cover those cities from Tokyo.

Alternative

More and more investors are discussing alternative investments as core investment opportunities grow limited and cap rates continue to tighten, especially in Tokyo. Popular topics are self-storage facilities, data centres, student housing, and health care facilities. These relatively new asset classes have some issues, such as scalability and lack of underlying infrastructure, but enjoy first-mover advantages. When health care facilities became an investable asset class in Japan in 2013/2014, NOI yields ranged from 6% to mid 6% plus, but have already compressed to mid 4% to mid 5%. Self-storage and student housing should be able to enjoy yields juicier than those of office and residential property through skilful operation. Conversion of unpopular general merchandise store into other asset classes could be interesting as well. Also, investments related to newly enacted integrated resorts should be tremendous opportunities.

Risks

Upcoming office supply in Tokyo

Tokyo faces a glut of new office supply from 2018 onwards. This could bring about a stark reversal from current market trends, where most buildings are almost fully leased. The annual average supply from 2016 to 2020 will be as big as the averages from 2006 to 2010 and from 2011 to 2015. Overall accumulated stock, however, is now larger.

This supply will not be evenly distributed throughout the central five wards. A large portion will be provided in Minato and Chiyoda, while much less will go to Shinjuku. Developers in competitive areas are making a full effort to attract large anchor tenants and leasing rumours are plentiful. If these tenacious efforts bear fruit, the impact of upcoming supply should be rather moderate. Recently, tenants have tended towards deciding upon relocation after physically previewing properties, which has led to relatively slow pre-leasing activities. Hence, it is too early to predict the impact of the supply. Selective investments in terms of location will be even more important.

Savills Research & Consultancy is closely monitoring development activities and plans to feature a report on supply in the coming months.

Potential changes to bank lending

This would affect investor sentiment and especially the residential sales market. Interest rates have risen globally since the US election; however, the increase in Japan was relatively modest. Domestic interest rates are likely to remain stable considering the BOJ's aggressive easing policies and little demand for liquidity from the cash-rich Japanese private sector. That said, banks have been aggressively lending, especially smaller banks and regional banks (Please refer to our special report "Japan Negative Interest Rates", published in November). These banks lack the business diversification of larger banks and rely on lending, mainly for property finance, for profit.

The Financial Supervisory Agency recently announced concerns over such property-related loans and intends to review business practices at banks. This initiative should slow down aggressive property lending and keep market conditions more sustainable.

Megabanks and institutional investors appear to remain financially disciplined and we do not see major issues with their lending practices. Considering limited cash needs from Japan Inc. and the low natural interest rate environment in Japan, lending to institutional investors is likely to remain stable in the foreseeable future. Significant transformations in the global interest rate environment may trigger a change, however.

Economic contraction, leading to lower office demand

Japan's economy has been growing slowly but steadily for the last few years. With a strong PM in Shinzo Abe, the cabinet has the power to stimulate the economy. Abe's cabinet enjoys a high approval rating due to the introduction of business friendly measures and the achievement of nearly full employment. Risks look limited until the consumption tax hike planned in 2019. Nevertheless, global macro uncertainties abound, and these may adversely affect Japan through factors such as a stronger yen, decreases in overseas sales, and political disruption.

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