

Sekisui House trying housing-to-hotel shift Serviced apartments arrive in Otemachi too

Accommodation facilities gradually appearing in Otemachi

Sekisui House [1928] has decided to develop long-term-stay serviced apartments targeting chiefly wealthy people from overseas in Akasaka 5-chome, with completion scheduled for 2020. The property is to have 223 guest rooms and will apparently involve a total investment of about ¥25bn including the cost of the land. Sekisui House is to handle the development and own the property, which is to be managed by Frasers Hospitality Pte Ltd, a member of the Singapore-headquartered Frasers Centerpoint Limited Group. In our view, the property could in the future be sold to an affiliated REIT. Sekisui House in June 2010 completed the Honmachi Garden City property in Osaka, which houses the St. Regis Osaka Hotel on its high-rise floors, and recently completed the redevelopment of the Hotel Fujita Kyoto acquired in 2006 from Fujita Kanko [9722], which opened a few years as the Ritz-Carlton Kyoto. We see an increasing possibility of the company expanding operations in the hotel field—something to watch for the future.

Mitsubishi Estate [8802] is in the midst of developing building B of its Otemachi 1-1 project, which is due to be completed in January 2017 as a multipurpose building including offices and serviced apartments. Management of the serviced apartments (with 129 rooms) is to be handled by The Ascott Limited, a company headquartered in Singapore that is the world's largest in terms of serviced apartment ownership and management. According to materials published by Mitsubishi Estate in April 2014, the company operates serviced apartments in 83 cities in 23 countries under three brands, Ascott The Residence, Citadines Apart'hotel, and Somerset Serviced Residence. In Otemachi, the Hoshinoya Tokyo, an 84-room luxury *ryokan*-style hotel with hot spring facilities opened in July 2016. Meanwhile, a multipurpose building being developed by a Mitsui Fudosan [8801] and Mitsui & Co [8031] joint venture due to be completed in the Otemachi 1-chome zone-two redevelopment project in FY19 is to house the 190-room Four Seasons Hotel. Other developments with hotels include the Otemachi Tower, completed by Tokyo Tatemono [8804] and others in April 2014, and housing the 84-room Aman Tokyo hotel on its upper floors. Valuations of accommodation facilities have been rising, and we expect them also to play a role in enhancing the appeal of their city locations.

Major projects this week (see page 2 for details)

Penta-Ocean Construction [1893] JV wins ¥48.9bn order for Hong Kong International Airport ground improvement work

Toda [1860] chosen to handle redevelopment of Pilot headquarters building

Kajima [1812] JV wins ¥10.2bn order for construction of new Katsurasawa dam

Tobishima [1805] wins ¥7.1bn order for pumping station construction work in Tokyo

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Project details

Penta-Ocean Construction JV wins ¥48.9bn order for Hong Kong International Airport ground improvement work

Penta-Ocean Construction on 22 August announced that its joint venture with China State Construction Engineering (Hong Kong) and Dong-Ah Geological Engineering has won an order with a total value of ¥48.9bn for ground improvement work for Hong Kong International Airport's Three-runway Systems Project. Of the total order, Penta-Ocean Construction's share is around ¥24.4bn. Hong Kong International Airport is the world's busiest in terms of air cargo transport and third busiest in terms of international passengers. The "deep cement mixing work" is the initial construction work to be performed under the Three-runway System Project, involving 355ha of soil improvement divided into four sections, with the JV undertaking the largest section of 98ha.

Toda chosen to handle redevelopment of Pilot headquarters building

Toda has been selected to handle design and construction for the redevelopment of Pilot's [7846] headquarters building in the Kyobashi 2-6 project. Plans call for the integrated redevelopment of the Pilot headquarters building with adjacent buildings including one owned by Hanshin Electric Railway. Toda is also due to handle dismantling the existing building, with that work due to begin in September 2016 and be completed at end-May 2017. Work will then begin on the new construction, which is targeted for completion in February 2019. The planned site is in Kyobashi in Tokyo's Chuo Ward, and currently includes a total of eight buildings, among which are the Pilot headquarters building, with 10 stories above ground and total floor area of around 8,300m², and the Hanshin Green Building, with nine stories above ground and total floor area of around 1,500m². Details about the size of the new building have not been decided, as it is still under planning, but it is expected to be similar in scale to the current headquarters building.

Kajima JV wins ¥10.2bn order for construction of new Katsurasawa dam

The Ministry of Land, Infrastructure, Transport and Tourism's Hokkaido Regional Development Bureau (Sapporo Development and Construction Department) has selected a JV between Kajima, Iwata Chizaki, and Itogumi to handle phase one construction of a new Katsurasawa dam in a contract worth ¥10.2bn. The main materials to be used in the new dam will be around 38,000t of cement, 7,500m³ of concrete, and 400t of rebar. The project is scheduled to run through to 16 March 2020.

Tobishima wins ¥7.1bn order for pumping station construction work in Tokyo

The Tokyo Metropolitan Government Bureau of Sewerage on 21 August announced that, under the low-bidding price investigation system, it has selected Tobishima to handle construction work for four projects involving the reconstruction of pumping stations in Tokyo's Sumida Ward with a contract worth about ¥7.1bn. Others that participated in the bidding included Daiho [1822] and a JV involving Fujita Corporation, Sato Kogyo, and Fukuda [1899]. The planned cost was ¥9.9bn. The work is scheduled to last 980 days.

Appendix A-1

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When inflation-indexed JGBs are purchased via public offerings, secondary distributions (uridashi deals), or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Inflation-indexed JGBs carry the risk of losses, as prices fluctuate in line with changes in market interest rates and fluctuations in the nationwide consumer price index. The notional principal of inflation-indexed JGBs changes in line with the rate of change in nationwide CPI inflation from the time of its issuance. The amount of the coupon payment is calculated by multiplying the coupon rate by the notional principal at the time of payment. The maturity value is the amount of the notional principal when the issue becomes due. For JI17 and subsequent issues, the maturity value shall not undercut the face amount. Purchases of investment trusts (and sales of some investment trusts) are subject to a purchase or sales fee of up to 5.4% of the transaction amount. Also, a direct cost that may be incurred when selling investment trusts is a fee of up to 2.0% of the unit price at the time of redemption. Indirect costs that may be incurred during the course of holding investment trusts include, for domestic investment trusts, an asset management fee (trust fee) of up to 5.4% (annualized basis) of the net assets in trust, as well as fees based on investment performance. Other indirect costs may also be incurred. For foreign investment trusts, indirect fees may be incurred during the course of holding such as investment company compensation.

Investment trusts invest mainly in securities such as Japanese and foreign equities and bonds, whose prices fluctuate. Investment trust unit prices fluctuate owing to price fluctuations in the underlying assets and to foreign exchange rate fluctuations. As such, investment trusts carry the risk of losses. Fees and risks vary by investment trust. Maximum applicable fees are subject to change; please thoroughly read the written materials provided, such as prospectuses or documents delivered before making a contract.

In interest rate swap transactions and USD/JPY basis swap transactions ("interest rate swap transactions, etc."), only the agreed transaction payments shall be made on the settlement dates. Some interest rate swap transactions, etc. may require pledging of margin collateral. In some of these cases, transaction payments may exceed the amount of collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the transaction. Interest rate swap transactions, etc. carry the risk of losses owing to fluctuations in market prices in the interest rate, currency and other markets, as well as reference indices. Losses incurred as such may exceed the value of margin collateral, in which case margin calls may be triggered. In the event that both parties agree to enter a replacement (or termination) transaction, the interest rates received (paid) under the new arrangement may differ from those in the original arrangement, even if terms other than the interest rates are identical to those in the original transaction. Risks vary by transaction. Please thoroughly read the written materials provided, such as documents delivered before making a contract and disclosure statements.

In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors.

No account fee will be charged for marketable securities or monies deposited. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥10,800 per issue transferred depending on volume.

Nomura Securities Co., Ltd.

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