

REAL-ESTATE INVESTMENT IN JAPAN

Accentuating the positive

JAPAN HAS NOT ESCAPED THE TSUNAMI THAT HAS SWEEPED THE WORLD'S FINANCIAL MARKETS. BUT, WRITES KOKO SHINODA, THE COUNTRY'S REAL-ESTATE INDUSTRY IS NOT ONLY STRONG ENOUGH TO SURVIVE THE CURRENT TURMOIL, BUT CONFIDENT IT CAN THRIVE IN THE PROCESS

TWO LEADING figures in the Japanese real-estate market — one of whom is a westerner — are heading a 60-strong delegation from Japan at MIPIM 2009.

Toshio Nagashima, director and executive vice-president of Mitsubishi Estate Co Ltd, and Leonard Meyer zu Brickwedde, president and CEO of Kenzo Capital Corporation, who is moderating today's conference, Tokyo: Where Investment And Development Still Rises, which will focus on the positive outlook for the country's real-estate investment market in the coming years.

Meyer zu Brickwedde, a real-estate investment specialist who has spent 18 years in Japan, emphasises the structural strength and relatively healthy state of the Japanese economy. "Compared to those in other countries, Japanese banks and its private corporate sector are comparatively healthy," he says. "The industry's debts are not large, it is competitive and it has huge financial reserves 'in the bank'. Although there seems to be a lot of negative press about the Japanese economy at the moment, that is mainly due to the decline of the export business. But that, too, should recover once inventories have been exhausted. So Japan's -3.3% GDP for the fourth quarter of 2008 cannot simply be extrapolated to derive an annual

GDP growth of -12% plus."

Nagashima, who has been involved in the real-estate business for more than 30 years, regards the present "once-in-100-years economic crisis" as part of the cycle of ups and downs that characterise the market.

"As we have in the past, with the right marketing, we can ride this wave," he says. "This is the common view of the major developers in Japan. The residential market had been hit hard due to three factors: a new construction law, designed to improve the structure of buildings, which has delayed all projects; construction costs which have risen; and the financial crisis, which has

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now arrived in Japan."

Nagashima adds, however, that the consumer market is becoming more active on the purchasing side. "A new law that reduces residential tax is helping," he adds. "With the construction cost again reduced, new property price levels should be established, which should help to create a more secure market."



Toshio Nagashima: "With the right marketing, we can ride this wave"

The office market has remained relatively stable, Nagashima continues. “The occupancy rate of central Tokyo’s Marunouchi area is still high, at 99%,” he says. He adds that some rents have been depressed, a fact which potential occupiers should be made aware of in the years ahead.

The most dramatic changes in Japan’s real-estate business have occurred in the REITs (real estate investment trust) and securitisation business. REITs were introduced in Japan in 2001. The REIT and fund business grew rapidly in a short time frame, becoming a hot business between 2004 and 2007. However, many are now drawing in their horns.

Nagashima believes that now is a turning point in the development of a longer term and more stable investment market. In the past, REITs and investment funds not only invigorated the Japanese real-estate market, but also helped to widen its appeal. Furthermore, they led the formerly opaque Japanese real-estate sector down the path of disclosure and greater transparency. And they also encouraged the Japanese government to start formulating a more global policy regarding real-estate assets. These are all factors which mean that the REIT experience has strengthened the Japanese real-estate market for the long term.

However, Meyer zu Brickwedde says: “There was too much liquidity after 2003.” He says that investors were too opportunistic. “Nowadays, Japan needs investors with less debt and with a core long-term view — not buy, sell and go, but buy and hold for at least seven to 10 years.”

Meyer zu Brickwedde adds that investors from Europe, notably Germany, Switzerland and Austria, are starting to show a strong interest in Japan. However, he observes that, in general, Europeans have little knowledge of the reality of real-estate investment in the country. First of all, he says, the Japanese investment market ranks among the top five in the world. While the total value of the

world real-estate investment market is said to be \$15-\$22 trillion, Asia’s slice of the pie is about \$3.5-\$5.5 trillion — of which Japan accounts for 66%. In other words, the Japanese market currently dwarfs the emerging markets of China and India.

Around 95% of Japan’s real-estate investment stock is owned by corporations and the government. Only 5%-6% is owned by institutional investors — which means that Japan has

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Leonard Meyer zu Brickwedde

a \$500bn stock of ‘sleeping’ real estate. But according to Nagashima, Japanese corporations are now ready to sell their real-estate assets in order to concentrate on their core businesses. “Also, the government plans to release a lot of public properties in two to three years’ time,” he adds. “Plus, land assessment is becoming reasonable and the government is amending the real-estate investment laws. All in all, there are positive aspects for investors.”

Meyer zu Brickwedde, however, is disappointed that, between 2002 and 2008, only 0.6% of Germany’s total overseas real-estate investment was directed at Japan. “For a global portfolio, this is unbalanced — especially because investors nowadays are keen to protect values as well as realise a return,” he says. “Japan is very safe and the returns here are much better than in many other territories. With its stable, large economy, Japan is a reliable long-term market and it is very well positioned within Asia. It is much more advisable to enter Asia via Japan, rather than from one of the region’s



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less stable emerging markets.”

The Japanese government, meanwhile, is also keen to attract foreign investment and is working towards implementing more investor-friendly regulations.

“What Japan lacks is public relations,” Meyer zu Brickwedde says. “Most Europeans know very little about the potential of Japan’s property investment market. In addition, access to the Japanese real-estate trade has also been limited.”

Nagashima agrees. “We have been coming to MIPIM for six consecutive years, not only to sell Mitsubishi properties, but also to promote the whole investment sector, including Tokyo and all the other Japanese cities,” he adds. “At today’s conference, we will also emphasise the sustainability aspects of Tokyo. We will not only look at sustainability from a technical perspective, but we will also consider how it is being incorporated into the fabric of the city’s urban planning.”