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APREA: Investors eye Japan, but what was the turning point?

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By Ruth Heer

At APREA in Singapore, the Japanese real estate market was named a top investment target by nearly all panelists. While investors were cautious just a couple of years ago, sentiment recently took a positive turn.

At APREA on April 24 SNL Financial discussed Japan's real estate market with Tokyo-based Mikihisa Hirai, chairman of IDERA Capital Management.

What follows is the first part of the edited interview transcript.

SNL Financial: The Japanese real estate market is seeing a lot of interest at the moment. What assets in particular are investors interested in?

Mikihisa Hirai: The interest of global investors in Japanese real estate has changed. It's not always been like this if you think about the past. In the past couple of years, due to concerns about the future of the Japanese economy, these investors have been focusing on very stable assets. Talking about stable assets, we are not talking about office buildings in Tokyo, for example. Most of them have short-term leases and there have been a lot of cases where tenants asked for a reduction in the rent, or are departing from older buildings to newer ones also due to a change in space needs.

Investors were looking for properties that promised long-term leases. Because of the deflationary environment they also avoided retail properties, even those with long-term leases, but focused on industrial and logistics properties. That was especially linked to the advancement in e-commerce where even now demand for logistic space is still seeing a huge increase. For state-of-the-art logistic properties, where users can ship very quickly, there is a shortage of supply. A lot of capital came into Japanese logistic properties, almost avoiding any other property sectors.

Is there appetite for residential?

Residential property is another sector which has been attracting foreign and domestic capital. The focus has been on rental apartments built for middle-income Japanese residents, avoiding high-end properties. That sector has been very important. But because rental apartments tend to be smaller in size, private investors were also active in this sector. As a result, prices were driven up, reducing the cap rate.

What led to a shift in sentiment?

There is a new administration with a new policy to revive the Japanese economy. With a new governor being appointed to the Bank of Japan, the policy of the bank has totally changed, resulting in new and enormous amount of capital supply that brings money to the market.

Further drivers are the fiscal stimulus by the government's budget spending as well as the growth strategies that the new governor has implemented.

Overall, these factors significantly changed the sentiment of the immediate future of the Japanese economy. In the view of many people, even the office markets are now bottoming out and interest in the office sector is now reviving.

What is the key investment focus for your company at the moment?

At this particular moment in time, we are trying to take advantage of the price difference between Tokyo residential and residential property in other major markets like Osaka and Nagoya. We are recommending this niche-approach strategy to a small number of foreign investors. Just at the beginning of March, we had a first close with a fund of funds from Denmark using this strategy.

In the long term, we believe that the Tokyo office sector provides a very attractive proposition for foreign investors to increase capital. As a main stable we are, therefore, recommending quality office building investments in Tokyo. But, as mentioned, we are pursuing a niche strategy as well.

The second part of the interview is to follow. *i*

One SNL Plaza, P.O. Box 2124, Charlottesville, VA 22902 Phone: 434.977.1600 News fax: 434.293.0407 www.snl.com