

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

April 29, 2013

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 apart-

ments 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*

APREA: A view on J-REITs, inflation, Japanese real estate

May 02, 2013

By Ruth Heer

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 second part of the edited interview transcript.

SNL Financial: In your view, what impact does the Japanese real estate market face as a result of economic problems on a global level?

Mikihisa Hirai: We are living in a very uncertain environment and there are many problems globally. Even Asian markets, which have attracted a lot of capital and attention are experiencing a cloudy spot here and there. The slowdown of Chinese growth as well as the very expensive pricing of real estate in Hong Kong and Singapore are only some issues to mention. It is all relative.

On a global level, I think that institutional investors want more allocation to real estate generally. In terms of where they put their money, investors are naturally first of all domestic buyers; that is how people are.

The U.S. fiscal budget problem and the tightening of government spending, the ongoing eurozone problems and the perception that the outlook for Asian property markets is more volatile also play a role.

On a comparative basis, Japan appears to be attracting more investor appetite now. In the future, however, there seems to be more confidence to put money into Japan, even though people are concerned about the long-term outlook for Japan, with regards to its aging population, decreasing demographics and so forth.

How competitive is the market in Japan right now?

In the past year, more than 50% of acquisitions were made by J-REITs. J-REITs look very attractive for both retail investors and institutional investors because it is very difficult for them to find investment products with a yield of some 4%. REIT prices have been rising substantially and are now trading at some 40% over net asset value.

But REITs are really not supported by fundamental analysis of real estate. I think even REIT managers are now reaching a point where they are mulling whether they will keep investing, as in theory, there is still market demand.

How concerned are you about a rise in interest rates and inflation as a result of the Bank of Japan's latest monetary decisions?

Analyzing the country's economy as a whole, there are concerns about the huge ratio of the Japanese government deficit compared to GDP. It is true that the debt ratio is high, given that it is beyond 200%, which even compared to troubled countries such as Greece is high. But it has to be taken into account that the Japanese government has a lot of liquid assets, and on a net basis the deficit is not that high. When the Bank of Japan decided to print money, it naturally prompted concern about potential hyperinflation. But the country has been suffering from chronic deflation, and it is a long way to go to get to hyperinflation. Many people even believe that it will not be easy to hit the target inflation rate of 2%. The Bank of Japan will not print money forever. Once we hit the 2% mark, one will look to exit this situation. It really is going to be a controlled inflation.

With regards to interest rates, it is not going to be a major concern that interest rates may substantially rise.

Was there a major takeaway from this conference for you?

Compared to most conferences I have attended in the last couple of years, it seems that the excitement over Chinese investment opportunities has been curtailed. If you have the right strategy, there of course still is a lot of potential there. But generally speaking, people seem to become more cautious.

Compared to two years ago maybe, there is also an increased sense of cautious optimism. As far as Japan is concerned, it is a good thing that the Bank of Japan has begun to print money. But for other countries, where central banks already did print money, there is increasing concern about what will happen in the near future. *i*