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

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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*