



The Fast-changing Real Estate Market
Features of the Real Estate Market for 2002

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The changes in the real estate market from 2001 to 2002 the most dramatic seen in recent years. As real estate topics for the start of 2002, in an attempt to foresee the state of the real estate market in 2002, we will examine the characteristics and keywords of change from 2001.

Firstly, with regard to the office leasing market, since the Nikkei Industrial Average peaked in spring 2000, according to the rule of thumb, after the slump in the index of industrial output and the index of machinery ordered, the softening of the office market has started to appear with a time lag of approximately one year. In addition to the fact that it was an ordinary cycle, the factor which pulled along the office market from 2000 to 2001 was that IT (Information Technology) and IB (Investment Banking) - two large customers capable of paying high rents, are recently in a shambles. Therefore the feature of the office market for 2002 is that the "Mt. Fuji"-shaped peak of monthly rents of ¥45,000/tsubo will collapse, with the top rent dropping to around ¥35,000 in main sub-markets, in approaching a Japan's "Yatsugatake mountain range"-shaped situation.

Secondly, with regard to the real estate capital market, with the special investigations by the Financial Services Agency from autumn 2001 and the crash in the Nikkei Industrial Average, the resultant accounting losses and writing-off of large bad debts by major financial institutions have meant that supply of capital to the real estate market which was relaxed from 2000 to 2001 has suddenly been tightened, making for a shortage of capital supply. The entry of large numbers of non-recourse loan lenders from 2000, and the entry not only by foreign funds but also by Japanese real estate companies and investors has resulted in over-liquidity, and a situation which has been described by some as a "fund bubble" is starting to be changed in 2002. That is to say, in the same way as the "IT tenant boom" in the office market, a notable feature is that the "J-REIT boom" in the real estate capital market has come to an end, the so-called "J-REIT price" is collapsing, and we are seeing a return from prices based on the assumption of a J-REIT premium to market prices for real estate.

Thirdly, I would like to take a look at the market for buying and selling real estate. The situation in the financial sector and the state of business enterprises which have not had great

corporate performance are starting to show evidence of having returned to 1998 situations. The feature for 2002 is that as demonstrated by the stock prices of "loser" companies, the winners and losers are much more clear cut, in contrast to 1998. After the buyers' market, which extended from 1998 to 2000, and the sellers' market of 2001, from 2002 we expect to see an accelerating flow in the Japanese real estate ownership structure from companies to investors, including sales with a view to active financial restructuring and writing-off losses. In 2002, if the fund bubble situation is resolved, and prices return to 1999 levels, 2002 to 2003 may form the bottom zone of the real estate market when viewed from a broad perspective.

That brings us to the end of the features of change in 2002, but the key to being a constantly winning fund is not to be carried away with the macro situation alone, but to perform a thorough analysis of real estate fundamentals, and execute the investment strategy effectively.