

Office Market Investment

Monthly J-REIT/Capital Market Overview

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With the coming of new J-REIT market in the Tokyo Stock Exchange in March, the movement to launch various J-REIT funds after April is becoming increasingly active. At the present moment, not many funds are planning to be listed, however, this number is expected to leap once the starter funds succeed.

In the current Japanese economy with low interest rate policy and flagging stock prices, eyes of investors are on J-REIT. Investors are currently experiencing great difficulty to invest their assets, thus their expectations on real estate investment are very high. The high yield of J-REIT being the main reason.

The Japanese real estate market, especially the Tokyo office market, has finally got out of the correction phase after the burst of bubble economy and started to show the sign of improvement. Expansion of new demand from IT related companies is especially a bright factor.

It is true that the Tokyo office market does not have many class A buildings compared to US market and tenants favor new buildings with high specs. However, it is also true that various tenants' needs exist in the Tokyo office market, so focusing only on the class A buildings will fail to see the big picture.

So, how can we measure the risk?

There is no reliable index in the Japanese real estate market, as transparency in real estate investment market was not high enough. The index of past decade is almost useless, due to the extreme bubble economy and incomplete track records. Therefore, the market risk cannot be measured simply by looking at the macro data.

I believe that the only solution here is the selection of experienced manager who is capable of operating accurate marketing.

Tokyo office market is not a simple one. It consists of numerous submarkets and is sustained by

various different demands. Therefore, ability to analyze and comprehend this complex market is essential to the real estate investment.

The Japanese real estate is fairly easy market to enter, and we hear many new comers with the J-REIT boom. However, I wonder if everybody is aware of the fact that the real estate is not an investment which can be generalized. Each real estate has different character.

With the collapse of “myth of ever-higher land prices”, I believe that the key to success is an ability to determine its character of each real estate. An enhancement of asset value is only possible through the manager who understands the actual property and operate active managements.