

Reading 2001

(Forecast of Real Estate Economics)

Monthly Economics Overview

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Even though the economic forecasts of the economist are said to be unreliable, I would like to dare by reading the economy of 2001 from the real estate stand point.

Currently, the real estate market is very active. Tokyo office buildings are being bid off at extremely high price, since the end of last year. Three years ago, people depended on the pricing quoted by the rating agency for CMBS, however, now that pricing is replaced by the somewhat amazing scarcity pricing. This trend is led by the real estate companies establishing J-REIT and the foreign funds with “Japanese macro economy recovery scenario”. You can expect to see a new acquisition team leader in the funds which changed their pricing all of the sudden (it is hard for the same team to change it’s pricing overnight).

Nomura Real Estate Development sees the economy have recovered and we intend to invest with close observation of fundamental real estate. I believe that Japan has enormous growth potential, especially in the manufacturing industry, and with the successful structural reforms from the financial, construction, and retail fields, healthy and steady growth is expected in the mid-long term. However, I see the possibility of some cooling down in the real estate market in the short run, somewhere from end 2001 to 2002.

According to the performance analysis per asset, you can see that the Nikkei-Dow Jones average and the Tokyo office market are in very strong correlation coefficient relationship with exactly one year time difference. It is possible to consider the current real estate boom as an effect of Nikkei-Dow Jones average reaching 20,000 yen last year. Also, the pressure from the supply side is to increase, as you can see from the introduction of depletion accounting in March 2002. Bankruptcy of large corporations (such as Sogo and Daiichi Hotel) and collapse of major construction and life insurance companies are increasing the pressure to sell. Also, with the decline in condominium demand since fall 2000, the present condominium construction boom will bound to cause an oversupply. This trend is already apparent from the declining price of second hand condos.

I see the listing of J-REIT on the Tokyo Stock Exchange as the key factor when reading the trend of 2001. If this average stock price of 13,000 yen continues and the listing of J-REIT is to be postponed or J-REIT share is not performing well in the market, the investment strategy only with J-REIT exit strategy must be revised immediately. And psychological effect to the people's investment decision would be a negative one.

In any case, our voyage is "clear but with high waves". The Japanese economy has passed its worst storm, but high wave and strong wind still exist, and cautious steering is the key to a successful voyage. And not all the voyage will have a happy ending. I believe that the investment strategy based on the close observation of fundamental of each real estate is crucial to end the voyage with a smile.