


J-REIT, who will lead the way?

Monthly J-REIT/Capital Market Overview

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An effective ban of the Japanese real estate investment trusts (J-REIT) was lifted on November 30, 2000. We, at the real estate industry (especially related to real estate securitization businesses), have long been waiting for this. Also, the Tokyo Stock Exchange announced to create a market for J-REIT on March 2001.

So, the questions are; who will create the first J-REIT fund and which fund will be listed first?

About 20 to 30 real estate companies and brokerage firms have announced to take a stake in this business, the Nomura Real Estate Development being one.

The “Forbes” (January 22, Japanese edition) issued an article on J-REIT, titled “Securitization to Maximize Asset”, where several real estate companies such as Mitsui Fudosan Co., Ltd. and Mori Trust Co., Ltd. were named as the leading players gearing up to launch J-REIT fund. Though media make it seem like there would be hundreds of funds established all at once in the early spring, the “Mitsui Fudosan Office Building Fund” (established by Mitsui Fudosan and Sumitomo Life Insurance in March 2000) and “Japan Real Estate Asset Management” (a real estate asset management company formed by Mitsubishi Estate, Tokyo Marine and Fire Insurance, and Dai-ichi Mutual Life Insurance Company in September 2000) fund are in lead.

Both Mitsui Fudosan and Mitsubishi Estate are in the fierce competition to be the leader in the J-REIT market, and there seem to be no difference in their current position. No doubt one of them will launch first J-REIT fund in Japan (I see the timing to be quite simultaneous).

However, in the case of listing, I believe the Mitsubishi Estate Group is in the lead position. Even though they are both establishing J-REIT fund with office buildings, there is a difference in their portfolio.

“Mitsui Fudosan Office Building Fund” started out by transferring its own portfolio to the fund, however, changed the strategy to buying properties in the market. Current size of the fund is said to be over 150 billion yen. Under both SPC regulation and TK (Tokumei Kumiai) contract, it

is hard to maximize all the investors profit (i.e. adjustment period may be required), and also acquisition of office buildings in this heated market may end up as an expensive operation. These inflexibilities may force Mitsui Fudosan to hold back the listing for a while.

On the other hand, Mitsubishi Estate is expected to create a fund of over 100 billion yen by transferring the properties owned by three joint venture companies. This method allows the fund to be more flexible when setting the yield as the property price could be adjusted easily to satisfy the investors (though companies could also adjust the price upward for their profit, which I do not believe will happen). This would enable the Mitsubishi Estate fund to approach wider variety of investors, which may give them a small advantage in this sluggish public market.