


True Internationalization of Real Estate Investment

Staff Writer: Hirobumi Ohno

Translation: Yoshie

I had been in the Nomura US offices (Hawaii and NY) for 11 years and came back to Japan last October. I was in charge of asset management of Nomura's properties in the US and disposed them in the last two, three years. Now I am responsible for investor side of our co-investment programs. I would like to look into the Japanese real estate market from difference perspective.

When I first came back to Japan, I was surprised by the number of construction cranes in central Tokyo. It was hard to believe that I was in a country which has been suffering from large number of NPL for over a decade since the burst of bubble economy. Further more, the vacancy rate of class A office building is recoding less than 1%. It must be a hard market to understand for the foreign people.

Secondly, I was amazed how heated the Japanese real estate market is, especially in the central office building sector. In some bids, the CAP rate is going below 5%. Usually, there are primary and secondary bids, where fierce competitions between foreign capital companies and J-REIT funds take place. These competitions now seem to be spreading to residential and regional markets.

I have many opportunities to speak to western investors, and I feel the international money coming into (or about to come into) the Japanese real estate market.

Some US based funds are making a bid in a very high price which we find it hard to compete. I believe this is possible as they have other investments with high return such as NPL. Their investment amount to direct real estate investment may appear to be large, but this allocation must be relatively small in their total portfolio. Many western institutional investors have mentioned that their allocation to real estate is only few percent of their total asset under management. For us to compete in this fierce competition, we would either have to (1) utilize our total management strength as a local real estate professional, or (2) form big amount of funds large enough to diversify into many categories including international market.

Currently, western institutional investors do not have large exposure in the Japanese real estate market just yet, however, it is only natural for them to invest internationally when their local market is offering less investment opportunities. Therefore, I believe that more and more

international fund will be flowing into Japan.

I hope that Japan can also restart investing internationally in the future. Many Japanese companies have learnt a lesson through a hard way concerning an international investment in mid 80s to early 90s. However, these expensive lessons are now paying off in investing and reviving the Japanese real estate market.

When I compare the US and Japanese real estate market, I have to admit that Japanese market is much more attractive in terms of market cycle. But now that we hear more about opportunities in unfamiliar Japanese regional cities, I can not help comparing the feasibility of those with the properties we had in the US major cities.

According to the recent article in Nihon Keizai Shimbun heading “Rapid Decline in the US Office Demand”, the vacancy rate of the US office buildings is 9.5% in the first quarter of 2001, increased 1.2% from previous quarter. It is a kind of relief for us since we disposed most of our US properties by last fall. However, I believe that it is more important to consider this effect on international real estate investors. It is crucial to keep a close eye on the US real estate market which is bound to face more adjustment period.

It is also important to note that some western investors are actively investing in other Asian countries. I hope Japan can play a respective role in these markets as a leader of Asia.

We, the real estate professionals, should not forget to have an international perspective when we look at any market.