
Tokyo Real Estate Market Report Vol. 14

August 2002

FUMIO INADA
DEPUTY GENERAL MANAGER
INVESTMENT MANAGEMENT DIVISION

THE REVOLUTION IN REAL ESTATE INVESTMENTS IN JAPAN

~Towards J-REIT and Further J-REIT Progress~

Since the mid-1990's, the Real Estate Investment Market (REIT), which is also known as Real Estate Securitisation, has been progressing dramatically. As a general movement, the progress was known as the "Market Improvement Toward J-REIT." From the current step, in which we already have listed five J-REITs and there are some announcements for upcoming IPOs, we are shifting to the next stage - further progress with J-REIT as the core of the market.

For the last several years, TOKYO TATEMONO has been active in the creation and improvement of new markets. In this Market Report, I would like to look at this progressing market based on our experiences. I will start by looking at "Improvements of Investment Structures" and "Changing Trends of Target Assets".

1. *Improvements of Investment Structures*

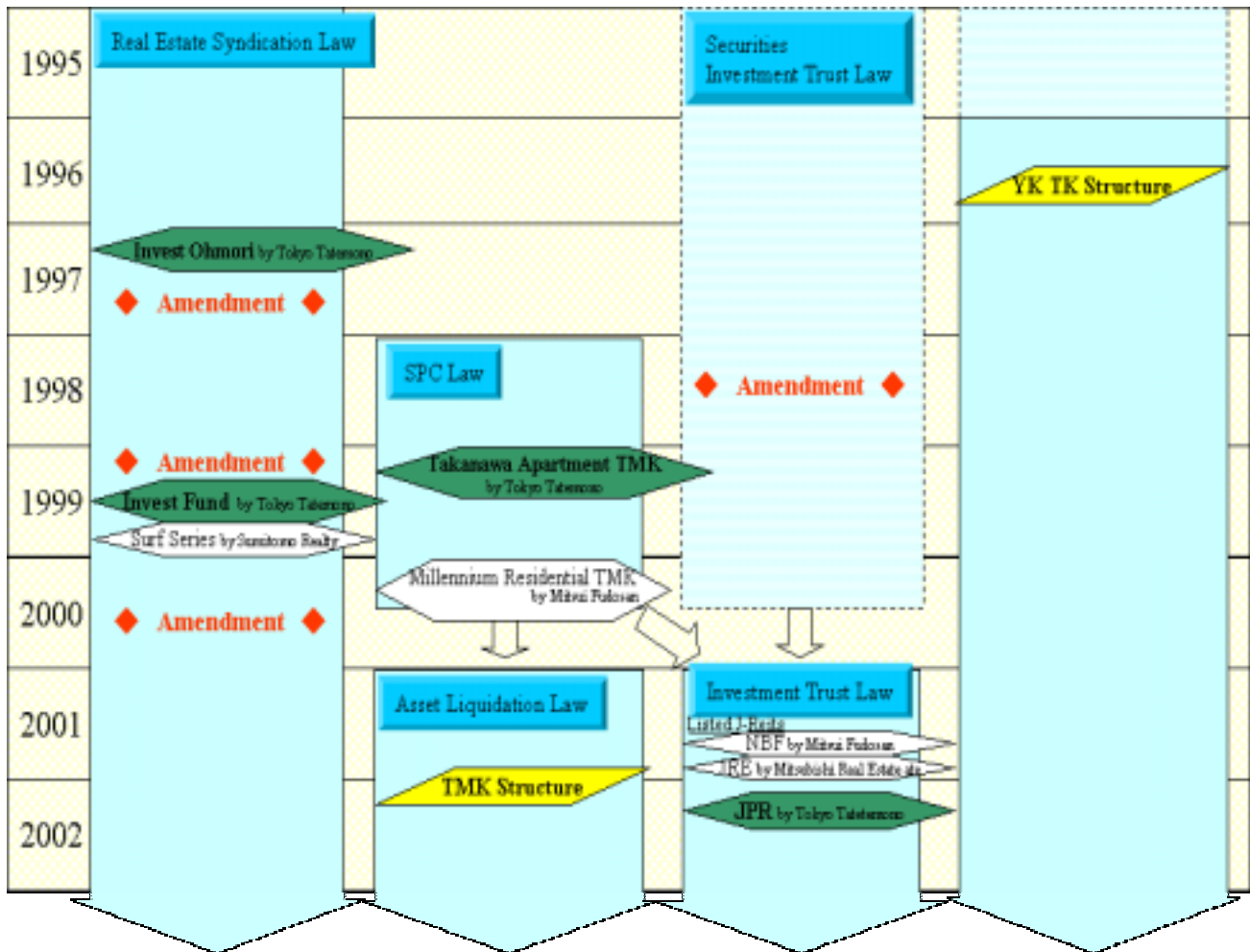
1-1 Real Estate Syndication Law

The first step towards Real Estate Securitisation was the enforcement of the Real Estate Syndication Law in 1995. Through the process of system improvements and product planning under this scheme, the concept of Real Estate Investment Products under the "Separation between Ownership and Management" seems to be penetrating the Market.

1-2 SPC Law (Asset Liquidation Law)

The next and most remarkable progress was seen with the SPC (Special Purpose Company) Law in 1998. After an amendment in 2000, the law is presently recognized as the Asset Liquidation Law. Following the first project, "Takanawa Apartment TMK" by Tokyo Tatemono, this system has become being widely used. Vehicles established under this law are commonly called as TMK (*Tokutei Mokuteki Kaisha*) in order to distinguish them from other structures.

Transition of Investment Structure



Source: Tokyo Tatemono

1-3 TK Investment

We have another plan called TK (*Tokumei Kumiai*) Investment, which is a silent partnership under Commercial Law. Since this system is relatively flexible compared to TMK, many projects have been established through this structure and are passed through calculations of TK Investment, although this system has some issues in respect to the Real Estate Syndication Law.

1-4 J-REIT

Through the process of using these plans, the real estate market began to demand fund type investment structures. After a few years consideration, the Investment Trust Law, amended with the SPC Law, offered us a new J-REIT system.

2. *Changing Trends of Target Assets*

2-1 Early Stage

In the early stages, target assets of real estate-related investments were mainly debt type products. In the second half of the 90's, many Japanese banks disposed their NPL (non-performing loan) portfolios. Furthermore, in the transactions of Real Estate Securitizations, such as the NEC Head Office or Morinaga Plaza, investment targets by third parties were bonds issued by the vehicles.

Bulk sales of distress assets were the next step. Starting with Morgan Stanley's acquisition of the Daikyo Condominium Portfolio, more than a thousand unsold units and bids for bankrupt insurance companies such as Toho Life, Chiyoda Life or Tokyo Life, have attracted market attention.

2-2 Recent Trend

As we reported in the spring volume of our Market Report, Class A properties have finally been appearing on the market over the last several years. Some of the major buyers of these deals are J-REIT funds, including their preparation activities for IPOs. Previously, because of their financial capabilities for huge amounts of investments, only international financial groups played their rules of acquisition in the market. However, the more realistic J-REIT market creation is becoming, the more apparent their aggressive strategy for acquisitions grows.

In addition, recently the numbers of value added type investment opportunities are increasing. These include investment products targeting short to middle term development, improvement of property competitiveness through management restructuring or renovation works and so forth.

Improvement of investment structures or repletion of professional services provided by real estate companies, are undoubtedly key factors for the fundamentals of this market expansion. However, I strongly feel that the existence of J-REIT as a potential buyer is remarkably supportive for planning exit strategies of investment products.

3. *Further Progress*

Through the process of J-REIT creation, infrastructures of Real Estate Investments analysis have been remarkably improved, most certainly when compared to the situation when we established “Takanawa TMK” in 1998. Varied service sectors, such as “Appraisal,” “Due Diligence,” “Structured Finance,” “Trustee,” etc., are providing high quality services at reasonable cost.

The revolution of the Japanese Real Estate Market is progressing rapidly and steadily. As I stated at the beginning of this Report, until now, we have focused on the creation of J-REIT, and from now on, we will pursue this goal further with J-REIT as the core of this market.

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