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Project to invest in the Kyusyu Area Portfolio

1.Introduction

Tokyo Tatemono will acquire a portfolio of 20 real estate properties in Kyushu area with approx. ¥11,900 million in the next February. The portfolio varies from a development land to liquidating properties. By applying our specialized, integrated know-how in every aspect of the real estate business, such as our development capabilities or asset management skills, we are seeking to make both capital gains and income from concerning operations.

When we determined to invest in this portfolio, there were two important factors that consist of our investment strategy.

- 1.The portfolio includes promising land to develop commercial building located in the best district in Kyushu.
- 2.We can maximize the investment return by categorizing the characteristics of each property and giving them the role according to each category.

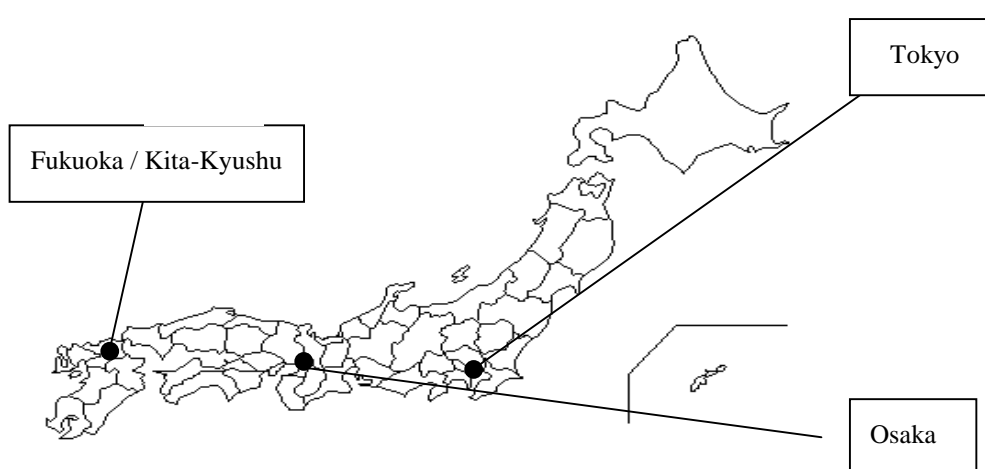
2. Key Factor - The portfolio includes promising land to develop commercial building in the best district in Kyushu.

(1) Current status of Fukuoka

Most properties of this portfolio including the hopeful land in Tenjin are located in Fukuoka city.

First, we explain the current status of Fukuoka.

As shown by the map below, the city of Fukuoka is located in the north of Kyushu. Even in Japan the city is currently attracting a great deal of attention due to its potential as a gateway to the rest of Asia.



One Hong Kong magazine recently rated Fukuoka as "the most livable city in Asia." This pleasant urban environment is undoubtedly the reason that Fukuoka is one of the few regional cities whose population is actually increasing (Table 1). Making use of its convenient airport and harbor, Fukuoka is also actively conducting business with Asian and other foreign countries, and it could be called one of the most vibrant cities in Japan. Fukuoka also ranks third in the nation in terms of the number of international conferences held, and it is expected to experience further growth as an international city.

Table 1

	Area (km ²)	Population (as of fiscal 2000)	Rate of population increase (1995 - 2000)
Fukuoka	336.8	1,284,836	4.4
Tokyo	621.0	7,967,614	2.1
Osaka	220.5	2,602,421	-0.1
Kita-Kyushu	482.9	1,019,598	-0.8

Annual sales of wholesalers in Fukuoka are ¥17 trillion, which ranks fourth after Tokyo, Osaka and Nagoya. In a ranking of 13 major cities, Fukuoka ranked number one in terms of the increase in retail business in recent years (Table 2). Accordingly, together with the neighboring city of Kita-Kyushu, Fukuoka represents a very attractive market.

Table 2

	Annual product sales by retailers (1997) (¥1 million)	Rate of increase (1991 - 1994)	Rate of increase (1994 - 1997)
Fukuoka	2,022,503	3.4	8.9
Tokyo	13,769,736	-8.2	1.2
Osaka	5,094,632	-11.3	2.5
Kita-Kyushu	1,301,729	3.7	5.1

Reference: <http://www.city.fukuoka.jp/industry/>
<http://www3.boj.or.jp/fukuoka/file/topic/topic1310.html>

(2) Current status of Tenjin district

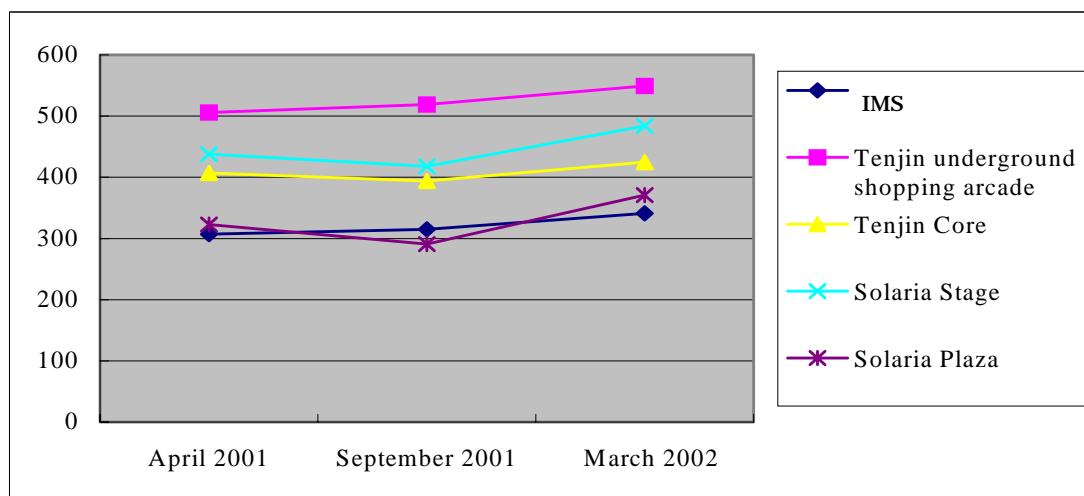
The promising land is located in the center of Tenjin district in Fukuoka city in Kyushu. Secondly we explain the current status of Tenjin district

Map of Tenjin district



The Tenjin district is located in the center of Fukuoka and is the largest commercial district in Kyushu. The Tenjin district contains many commercial establishments, with shopping centers that include IMS, Tenjin Core, Solaria Stage, Solaria Plaza, Amyu Plaza and Tenjin Underground Shopping Arcade, and department stores that include Iwataya, Daimaru, Mitsukoshi and Hakata Izutsuya. Annual sales for the Tenjin district in 1998 came to ¥310.7 billion. In addition, as shown in the next Graph, the sales of major commercial establishments per *tsubo* (3.3 m³) is increasing in the past year.

Graph :Sales of major commercial enterprises (¥1000 per month per *tsubo* [3.3 m²])



It is undeniable that the Tenjin district, the largest commercial district in the city, is experiencing extreme competition due to the entry one after another of department stores and other retail stores. However, the rush to enter this area has increased the ability of the district to attract customers, and it could be called a very attractive market.

A regional economic survey conducted by the Bank of Fukuoka, Ltd. (a public opinion survey targeting residents of Fukuoka Prefecture and Saga, Nagasaki, Kumamoto, Oita and Shimonoseki) found that approximately 80% of respondents answered that the Tenjin district is the commercial area in Fukuoka that they visited most frequently on non-work days. This shows that, due to the recent rush to open department stores, the Tenjin district has a great ability to attract people. Undoubtedly it is this ability that has increased annual retail sales, as evidenced by the figures in Table 1 above.

Now that you have read about the current situation of Fukuoka and Tenjin district, and the fact the land in Tenjin is located in the center of the Tenjin district, you will know why this land is so promising.

3.Key Factor We can maximize the investment return by categorizing the characteristics of each property and giving them the role according to each category.

According to the characteristics of each property, we divide 20 properties into 3 categories.

First one is Development Property. Property that belong to this category are planned to be developed, and we expect them to make development profit. The land located in the center of Tenjin district belongs to this category.

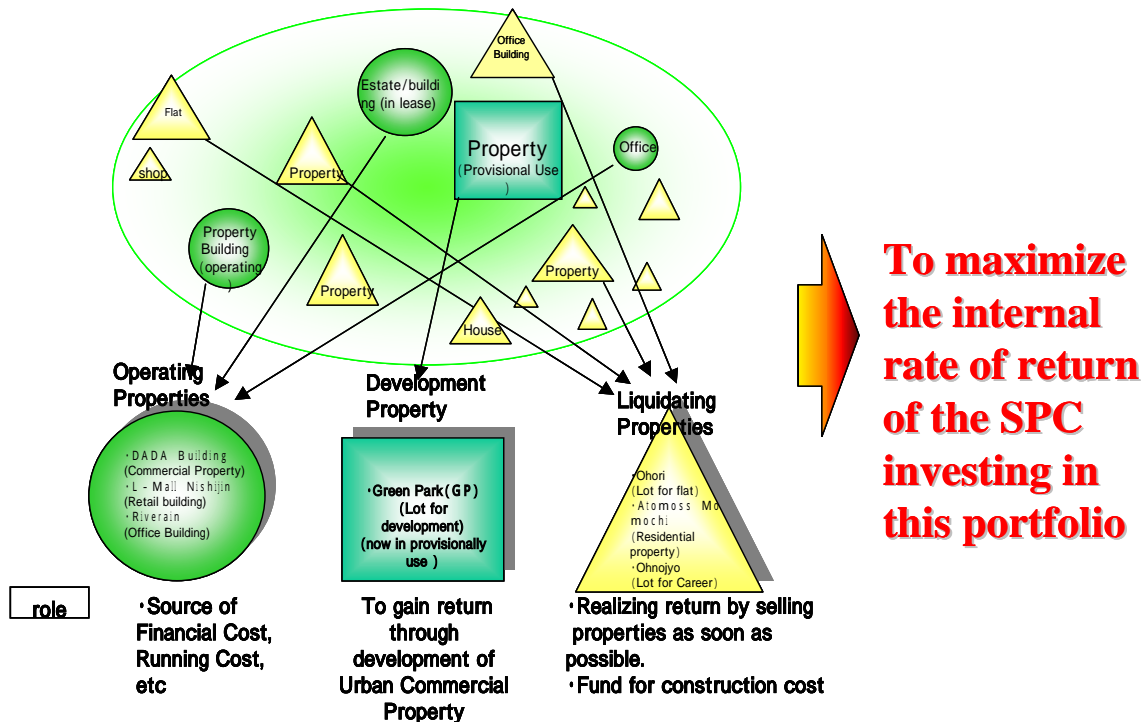
Second one is Operating properties. Properties that belong to this category are supposed to make income earnings by our leasing up activities, and we hope them to play the role of the source for paying costs of possessing portfolio such as interests or maintaining costs.

Some retail buildings belong to this category.

Last one is Liquidating Properties. Properties that belong to this group do not have enough possibilities for value adding, so they are supposed to be disposed as soon as possible, then we utilize their value for paying the construction cost of Development properties.

Some lands and residential properties belong to this category.

Thus, by taking notice of the unique characteristics of each property, each property can complement each other, so that we can maximize the value of the whole portfolio.



4. Summary

We execute this project through Special Purpose Company (SPC) structure. Some institutional investors joined this project as SPC's equity partners. By putting the strategy mentioned above into practice, and arranging an effective non-recourse loan to the project, we can create an advantageous investment opportunity for our partners and ourselves.

We will aggressively undertake similar integrated restructuring operations in the future, to contribute to the rebirth of metropolitan areas and the rejuvenation of local regions.

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