
Tokyo Real Estate Market Report Vol. 22

JANUARY 2006

RYUTARO NISHIMURA

DEPUTY MANAGER

INVESTMENT MANAGEMENT DIVISION

Tokyo Tatemono Offers Popular Real Estate Investment Products for Individuals

In the past, Tokyo Tatemono has provided domestic and foreign institutional investors with opportunities to invest in Japanese real estate. We have launched several funds and built up a successful track record in joint investment, and these efforts have been fruitful. In the future, we will continue to create new opportunities and supply useful information while maintaining good communication with investors.

The involvement of Tokyo Tatemono in small-lot real estate investment products for individual investors is less well known. There is even a product which is sold directly to individuals by Tokyo Tatemono, as a real estate company, instead of being sold through a financial institution such as the retail division of a securities company. The name of this product is "INVESTMENT." We have recorded about ¥15 billion in sales of this product since it was first offered in 1997.

The latest product in this series, "INVESTMENT Plus," was launched in September 2005. The real estate behind this product is Shinonome Canal Court Apartments, developed by Tokyo Tatemono. This is a large, high-quality rental housing complex of about 400 units, primarily for family households, located in the Tokyo Bay area. Its total assets are assessed at ¥10 billion, and preferred securities of ¥7 billion, or 70% of total assets, were sold to general individual investors in units of ¥5 million (with a total of 1,400 units). The following are the main features of this product.

- Prospective dividends are 2.6% (pretax rate, subject to 20% tax withholding).
- Dividends are paid twice per year.
- The investment period is five years.
- Investors can withdraw at any time, either by selling their stake to a third party or by selling it back to Tokyo Tatemono. The purchase price offered by Tokyo Tatemono is published once every six months.
- Tokyo Tatemono purchased 30% of total assets as a subordinated portion. This contributes to principal preservation in the portion which was sold to investors.



Shinonome Canal Court Apartments

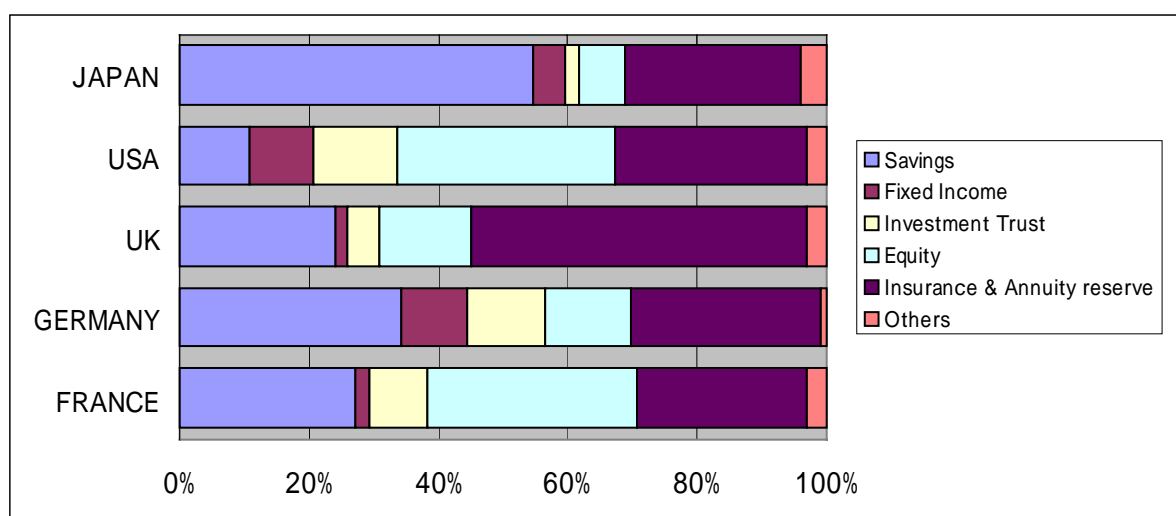
This is a debt-based product which applies to 70% of total assets as the preferred portion. Dividends are paid at the annual rate of 2.6% with a high level of reliability, and the existence of a subordinated portion covering 30% of total assets results in an extremely low risk of the preferred portion falling below par. This investment product won widespread acceptance because it offers such stability, and it was quickly sold out in less than two months following its release.

Why did this product enjoy such a welcome among individual investors? Some of the reasons for its popularity are explained below.

First and foremost, investors were drawn by its high dividend yield. In Japan's current financial climate, interest rates remain at historic low levels. The current rate on new five-year treasury notes is 0.875% (as of December 21, 2005). By contrast, a debt-based product offering prospective dividends of 2.6% is quite attractive.

The second factor is safety of principal. Past products in the "INVESTMENT" series offered by Tokyo Tatemono followed the all-equity approach and were based on 100% of asset valuation. Although dividends remained stable, the purchase price offered by Tokyo Tatemono, which is published once every six months, fell below initial capital at a time when market conditions were adverse. Of course, this kind of outcome was quite predictable based on market conditions, since the investors had shouldered real estate risk. However, Japanese individual investors tend to be extremely passive, as illustrated by the fact that most of their assets are kept in savings accounts (see figure below). Our advance market research for them indicated a preference for products with higher safety of principal, and therefore, we developed our first debt-based product with high principal preservation. As hoped, this product has been received enthusiastically by a wide range of individual investors.

Allocation of personal financial assets in five major countries (2001)



Source: Bank of Japan web site

The third factor is the reliance on Tokyo Tatemono. Most of the investment opportunities which we offer to institutional investors are based on either a TMK structure¹ or a YK-TK structure.² However, products in our "INVESTMENT" series use a scheme based on a law called the Real Estate Syndication Act. The biggest difference between this and the TMK or YK-TK structure is the investment approach with regard to the originator's on-balance assets. In other words, funds are raised on the basis of the originator's creditworthiness, instead of being based on bankruptcy remoteness from the originator. Investors also value the fact that Tokyo Tatemono has a great deal of experience in rental housing management. With a history of more than 100 years, Tokyo Tatemono is the real estate company with the longest tradition in Japan. It has developed positive name recognition in areas of business such as housing subdivision and building rental, and it is financially stable. Individual investors recognize that they can have peace of mind when investing with us.

Readers may be wondering what advantages Tokyo Tatemono could reap by offering this kind of product to individual investors. Finally, I'd like to discuss the significance and aims of this product from the standpoint of Tokyo Tatemono.

Of course, this product serves as a source of financing, using securitization to recover a portion of the funds invested in development. However, as readers are certainly aware, there are other forms of financing that would be more advantageous for Tokyo Tatemono. In fact, we have a different goal in mind.

Through sales of this product, Tokyo Tatemono aims to capture individual investors. We anticipate that it will function as a tool to attract new customers to projects pursued by Tokyo Tatemono that are targeted at individuals, including housing

¹ A structure based on the SPC Law.

² This is not a structure based on a specific law; instead, it is a structure in which equity is added by investment in anonymous association with a limited company as the vehicle. In Japan, this is the most popular type of real estate investment scheme.

subdivisions, resorts, restaurants, and bath facilities. A major advantage for us is that we can have direct contact with customers who purchase our products under the Real Estate Syndication Act. J-REITs are aimed at smaller-scale investors on the mass market, and sales are handled through a securities company. Products under the Real Estate Syndication Act are the only kind of real estate investment product that a developer can sell on its own. By selling this product in large units of ¥5 million, we can build relationships with wealthy individual investors, making them more likely to turn to us for support services (including brokerage and consulting) for real estate properties that they own. From the standpoint of financing alone, 2.6% is a rather high rate for us to pay. However, we consider a portion of this expenditure to be a cost of attracting future business, and in this light, it makes a great deal of business sense.

The above information, provided as a service to our customers and to the other readers of this [material \(homepage\)](#), is only intended to be a general discussion of issues concerning real estate in Japan. The opinions and information expressed herein merely represent the point of view of the staff and writers of the Tokyo Tatemono Group and are not intended to be interpreted as specific, expert or legal advice for any of the readers of this [material \(homepage\)](#).

The Tokyo Tatemono Group accepts no liability with respect to the accuracy or veracity of any of the opinion or information presented herein. The reader is cautioned to seek appropriate legal or professional advice prior to any involvement in the Japanese real estate market.