

[Print](#) | [Close this window](#)

Japan property outlook rosy; deals more complex

Wed Jun 27, 2007 12:44pm BST

By Eriko Amaha

SINGAPORE (Reuters) - Mikihisa Hirai, president of Atlas Partners Japan Ltd., should be giddy with excitement as European and Middle Eastern clients are due to almost double the size of his property funds to just over \$800 million.

But Hirai knows he has his work cut out for him.

With Tokyo office rents expected to rise another 60 percent to a peak in 2010 because of shrinking vacancy rates, now at just 2.7 percent, Japan is a popular place for property investors.

But average prices for commercial buildings have already jumped 25 percent in the last couple of years, and competition for assets between real estate investment trusts, private equity funds and institutional investors is hotting up, eating away at returns.

"There are no simple and easy deals," Hirai said. "I feel there are more deals where bid prices are ridiculously high."

With rock-bottom interest rates despite an economic recovery, Japan drew 55 percent of the \$94 billion in property transactions in Asia last year, including an increasing amount of petrodollars from the Middle East.

But now, yield-hungry investors are having to scour the country for more complex deals.

For example, Australian listed property trusts (LPT) are starting to buy Japanese buildings, but employ heavy borrowing and currency hedging to artificially lift a property yield of 5 percent into a more attractive 7.7 percent yield for investors back home.

Four property trusts carrying Japanese assets have listed in Australia in the past two years, including Babcock & Brown Japan Property Trust (BJT.AX: [Quote](#), [Profile](#), [Research](#)) and Galileo Japan Trust (GJT.AX: [Quote](#), [Profile](#), [Research](#)).

Such "financial engineering" gives Australian investors an incentive to buy in Japan, says Peter Barge, chief executive officer Jones Lang LaSalle Asia.

Deals are also growing bigger, Barge said, as foreign investors try to outrun their local rivals.

"Japanese are becoming major competitors. So they go for deals worth at least a half a billion dollars to get away from Japanese competitors," he said. "You have to be a big investor to find opportunities."

On Wednesday, Mitsubishi Fuso Truck and Bus Corp., the Japanese truck

unit of DaimlerChrysler AG DCXGn.DE, said it had sold 180 real estate properties in Japan as part of its efforts to focus on its core businesses, in a deal valued at \$1.4 billion, according to a market source.

The properties, mainly of retail operations for its regional sales centers, would be leased back to the same operators.

RATES RISE WILL BITE

Investors are also moving away from the staple diet of offices.

Australian real estate manager MacarthurCook Ltd. (MCK.AX: [Quote](#), [Profile](#), [Research](#)), is looking to buy Japanese logistics buildings which offer a yield of about 5 percent, compared with yields for top-notch offices of as low as 2 percent.

"Not many logistics properties are included in Japanese REITs yet," said Craig Dunstan, managing director and chief investment officer for MacarthurCook. "It's positive from the availability point of view."

The MacarthurCook Industrial Real Estate Investment Trust (MCRT.SI: [Quote](#), [Profile](#), [Research](#)), which listed in Singapore in April, expects Japan to account for about 20 percent of its overall portfolio.

The Japanese government, worried about another asset bubble, will start monitoring private funds from September, a step likely to force some smaller players out of the market.

Others warn that rising interest rates in global markets may depress foreign investor appetite for assets in Japan.

Higher borrowing costs, already higher than property yields in Europe and the United States, could turn property investors more insular, said Daisuke Fukushima, senior analyst Nomura Securities Co. Ltd.

"Negative spreads in some overseas investments are widening and this means that investment properties are incurring latent losses," he said.

"It's likely that foreign investors will become less aggressive on their global investments when they are not sure how much losses they have at home," he said.

(See www.reutersrealestate.com for the new global service for real estate professionals from Reuters)

For summit blog: summitnotebook.reuters.com/

© Reuters 2007. All rights reserved. Republication or redistribution of Reuters content, including by caching, framing or similar means, is expressly prohibited without the prior written consent of Reuters. Reuters and the Reuters sphere logo are registered trademarks and trademarks of the Reuters group of companies around the world.

Reuters journalists are subject to the Reuters Editorial Handbook which requires fair presentation and disclosure of relevant interests.