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FOCUS: Chinese investors eye Japan as new global property portfolio

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Japan's property market is luring more attention from Asian investors keen to reap capital gains or achieve high yields not available at home with a long-term view of holding their assets.

Money is flowing mostly from Taiwan, Hong Kong, mainland China and Singapore, with the city state also acting as an outbound capital gateway for Southeast Asian countries such as Thailand.

"The size of investment from Hong Kong ranges from 2 billion yen (\$19 million) to 10 billion yen per deal," Toru Fujita, an executive officer of Nomura Real Estate Development Co., told Kyodo News in a recent interview.

Its brokerage arm, Nomura Real Estate Urban Net Co., opened its first overseas office in Hong Kong in October 2014, aiming to capitalize on a growing demand to invest in Japan.

One Hong Kong businessman, who owns food businesses in China and Japan, has purchased property in Tokyo almost every six months for the past two and a half years. His portfolio includes some commercial buildings in prime locations in central Tokyo.

The brokerage's rivals at home such as Daikyo group and Tokyu Livable Inc. have also established business bases in Hong Kong and Taiwan, while their counterparts in the region from which the investment is flowing have likewise opened offices in Japan for the past few years.

Prime Minister Shinzo Abe's introduction in late 2012 of his "Abenomics" policies pushed the yen lower, making its real estate cheaper for foreign buyers.

The yen fell about 20 percent to the 100 level against the dollar after the launch of Abenomics and a further 20 percent to the 120 level following additional monetary easing by the Bank of Japan in October 2014, which has also pushed interest rates down.

The cheapening of the yen came as Tokyo property prices rose, offering capital gains. Average condominium unit prices in Tokyo's 23 wards rose 28 percent between fiscal 2011 and 2015, according to Real Estate Economic Institute, a Tokyo-based think tank.

Meanwhile, in September 2013, Tokyo won the right to host the 2020 Olympics and Paralympics games. "(The Olympics) is a minor factor to directly influence the prices but may have somewhat boosted the mood in the market," Tadashi Matsuda, its senior analyst, said.

Official land prices, released by the land ministry every year, also rebounded in 2014, with residential areas ending a longtime trend of decline since the collapse of Japan's bubble economy in the early 1990s.

Taiwanese investors, mainly owners of small to medium enterprises, lawyers and doctors, are also avid buyers of new residential properties in Tokyo.

A client of Sinyi Realty Inc., Taiwan's listed and largest property agent, has so far bought 18 condominium units in the Japanese capital since its Tokyo arm opened in fall 2010.

The number of transactions jumped from 173 in 2012 to 450 in 2013. The total value topped NT\$10 billion (\$319 million) for the first time, Sinyi Realty said.

Performance this year is likely to outpace last year at 504 transactions with nearly 90 percent of purchases concentrating on prime areas in Tokyo -- Chuo, Minato, Chiyoda, Shibuya, Shinjuku and Bunkyo wards -- on the back of prospective rental demand.

Although the yen has gradually bounced back to around the 100 level to the dollar since early this year, "Still, 99 percent of the deals (are) buy, not sell," said Kenny Ho, managing director of the Tokyo arm.

With Daikyo Inc. having supplied a cumulative total of 530,000 new residential units as of March, the most in Japan, Daikyo Anabuki Real Estate Inc., the brokerage arm partnering with Sinyi Realty, can connect Taiwanese and Hong Kong investors with a wide range of sellers of used apartment buildings for generating monthly rental incomes.

"Clients expect high and stable yields even long after the Olympics," an official for the brokerage said, adding, 5 percent of them have already set up an entity in Japan for managing properties, dealing with taxes payable, and eventually bequeathing assets to their families.

Investors view the Olympics as a milestone to review their investment strategies but are looking at Japan's future, too, industry officials said.

Many of them point out Japan's property prices are lower than other advanced economies, meaning there is more room for price increases and higher yields.

Besides, since 2009, measures by governments in the region from which the investment is flowing have curbed speculative property investments, according to Tokyo-based Mizuho Research Institute, resulting in stagnating yields and heavier taxes in major cities.

According to the latest data from Global Property Guide, gross rental yield in Japan, or what a landlord can expect as a return on investment before taxes, maintenance fees and other costs, is 3.43 percent compared to 1 to 2 percent in Hong Kong, Singapore and Taiwan. Rental yields in Beijing and Shanghai are also lower.

"(Investors) were skeptical about Japan's economy before," Fujita of Nomura Real Estate Development said. However, "they are now reconsidering Japan's potentials -- transparency in deals, market size and political stability."

A lower yen, relaxation of visa requirements and increased flights by low-cost carriers has attracted Asian tourists, encouraging some of them to fix their gaze on Japan's properties.

Japanese property renovator and developer B-lot Co. revamped an office building into a budget hotel called First Cabin Tsukiji.

The venture company, listed on the Tokyo Stock Exchange Mothers in 2014, acquired the building for less than 1 billion yen in 2014 and sold it for nearly 2 billion yen a year later to a Hong Kong investor.

"Due to tightened regulations on property and a subsequent market slump in Singapore, investors (including those in Hong Kong) were then considering where to reallocate money," said Yuji Sakawa, deputy head of the property consulting department of B-lot.

Now, B-lot is earning a stable investment return from Imano Tokyo in Shinjuku, a hostel converted from an old structure, while establishing a strong track record to appeal to overseas investors for future sale.

The hostel, with dormitory rooms costing 3,500 yen per night, has maintained an average occupancy rate of 85 percent since its opening last November. More than 80 percent of its guests are foreigners.

According to research firms' data compiled by the Land, Infrastructure, Transport and Tourism Ministry, Japan is the world's second largest property market after the United States, but its global share in investment property transaction value was just 5 percent in 2015.

Last fall, the Norwegian government's pension fund committed to long-term investment up to 960 billion yen in Japanese real estate, according to media reports. "Smaller Asian investors are following suit," an industry official said.

Japan's property market had been primarily domestic, but "We negotiate face-to-face with many Asian investors now," Sakawa of B-lot said. "I could have never imagined it several years ago."

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