TAKUYA ISHIKAWA

Japan's real estate sector fights back

In his keynote address at MIPIM Asia, Takuya Ishikawa told delegates of the measures the Japanese government is employing to help regeneration in the wake of the tsunami. By Christopher Dillon

JAPAN is laying the foundations for a revitalised commercial real estate market after the March 11 earthquake and tsunami. That was the message from Takuya Ishikawa, director of the real estate market division of Japan's Ministry of Land, Infrastructure, Transport and Tourism, in a keynote address at MIPIM Asia.

In addition to two supplementary government budgets totalling ¥6 trillion and a third budget that would make an additional ¥12 trillion in reconstruction money available, the Japanese government is introducing legislative reforms that will simultaneously promote the development of the J-REIT (Japanese Real Estate Investment Trust) market and increase the earthquake resistance of older buildings.

"Just over 35% of the office buildings in Tokyo were completed before tighter earthquake resistance standards were introduced in 1981," said Mr Ishikawa. A post-quake survey by Tokyo-based Mori Building Co showed that seismic resistance was now the top priority for corporate tenants, surpassing preferences for lower rents or better locations. This conclusion was reinforced by a Nikkei Real Estate Market Report survey of institutional investors and asset managers that indicated an increasing emphasis on earthquake resistance, coupled with a continued commitment to Japan. Eighty percent of respondents said they were maintaining or expanding their investment in Japanese real estate.

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"Higher rents are welcome if buildings are quake-resistant," said Mr Ishikawa, who observed that this posed a challenge for owners of older buildings, many of whom were reluctant to lose tenants during a renovation or add debt to their balance sheets. He added that older buildings are often located near train stations and business centres, making them excellent candidates for renovation.

To facilitate the rehabilitation process, the government is undertaking a series of legislative reforms. This includes proposed amendments to the Real Estate Partnership Investment Law that would eliminate the need for recognised developers to obtain a licence to establish a securitisation vehicle and allow those vehicles to acquire real estate, in addition to the trust beneficiary rights they can now own.

The amendments would let owners sell their older buildings to a securitisation vehicle, which would work with investors and licensed developers to renovate the property. The vehicle could then sell the renovated building to a J-REIT.

The industry has also benefited from a June 2011 change to Japan's tax laws that allowed J-REITs to increase the proportion of public offerings that is sold to overseas investors. Furthermore, consultations with the National Tax Agency are now under way that could permit capital gains from the disposal of property to be retained and used to finance new acquisitions. Additional reforms are anticipated, including a review of the Investment Trust Law that is scheduled for 2013.

By allowing J-REITS to own renovated property, the government hopes to encourage the growth of Japan's REIT market, which is currently the world's fourth largest after the US, Australia and France.

Isikawa is confident that the measures will work. "If I wasn't a bureaucrat, I'd buy lots of J-REITs to supplement my pension," he quipped.

Rebuilding – Takuya Ishikawa