Japan’s real estate continues to attract investors

Stable, predictable and profitable, the Japanese real estate proved to be resilient during the pandemic thanks to strong market fundamentals that have also supported a robust post-pandemic recovery. While Japan’s real estate market has traditionally been dominated by domestic players, the ratio of foreign entities making direct investments nearly doubled in two years, from 19% in 2019 to 38% in 2021, as institutional investors – searching for a safe haven to park their money during the pandemic – poured billions into Japan during the pandemic.

Among the main factors luring foreign investors to Japan are a weak yen and low interest rates, as well the country’s stable governance, low initial cost of purchase, attractive investment yields, and diversified real estate offerings.

When it comes to Japanese real estate, the key word is “predictable”, says Eiji Sakaguchi, President of CBRE K.K., the Japanese arm of the world’s largest commercial real estate services firm, “particularly in terms of the predictability of Japanese politics and the economy.”

“Asian real estate is still ‘underweighted’, with market participants always looking to increase exposure. If you look at investors in APAC countries, most of them cannot invest in China, and even good markets like Korea, Singapore and Australia are just too small relative to Japan. In Japan, real estate is quite easy to access, especially in terms of titles. These are key reasons why I believe Japan is emerging as a prime target from an investment manager’s perspective.”

Tetsuya Masuda, President of Mitsubishi Jisho Investment Advisors, Inc., which operates two J-REITS, also highlights factors behind Japan’s draw for foreign investors. “The real estate market in Japan is very attractive for investors because of its large scale. It can be considered number three in the world following the U.S. and China, in terms of size. Apart from that, Japan is relatively stable and has a high level of quality when it comes to its infrastructure. It also has a safe and secure environment, while the workforce has very high standards, and maintains a high level of income security. So, for all of these reasons, and especially when considering the Tokyo area, you can see why investors have continued to enjoy stable conditions overall.”

Eiji Sakaguchi,
President, CBRE K.K.

Retail and offices, the sectors most impacted by the pandemic, have rebounded well, and local insiders are optimistic about the office segment in a post-pandemic world, while the housing market in major urban centers continues to perform strongly due to the influx of young workers.

“In Tokyo, we may continue to see a residual increase in vacancy rates in both office and residential markets, but I believe that the vacancy rates will slowly begin to decrease in 2023. We believe that attendance back in the office has slowly resumed for the majority of companies based in Tokyo. While remote work is suitable for tech driven companies, many Japanese companies will continue to rent office space because they rely on face-to-face collaboration,” says Masayoshi Sakai, president of Residence Building Management, Inc. “The residential market will go hand in hand with the office market, so I predict vacancy rates will steadily decline as employers ask employees to return to the office.

“Metropolitan cities in Japan continue to have steady job growth and more opportunities compared to smaller cities,” adds Mr. Masayoshi. “Tokyo and Osaka are desirable to live in because of easy access to high quality education, medical care, beauty amenities, and entertainment facilities. When an area becomes more convenient, more people come to live and work there, and there will be more demand for real estate in both the office and residential markets.”

Following the pandemic, logistics has become a particularly attractive investment option, with institutional investors heavily invested in this segment. “With the pandemic, the logistics market has grown significantly due to the expansion of e-commerce and rising demand for logistics, and it is quite natural that the stability of logistics facilities, which are a profitable form of real estate, is evaluated highly by foreign investors,” says Takatoshi Ito, President of ES-CON Japan Ltd.

Masayoshi Sakai,
President, Residence Building Management, Inc.

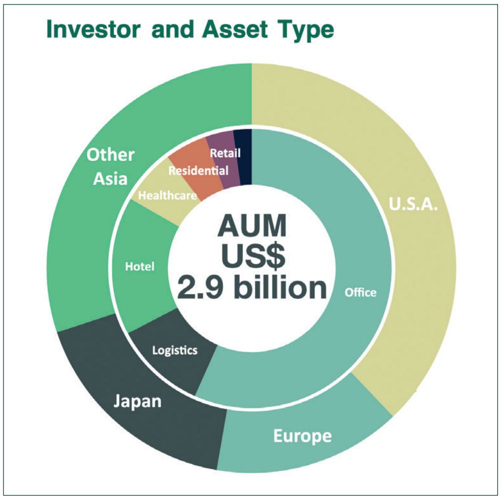
“Under such circumstances, we believe that major developers will take on this market with the development of data centers and large distribution warehouses, and we would like to focus on projects with a scale of 10 to 20 billion yen.”

While J-REITs are a popular instrument for foreign investors in Japan, real estate services company AD Works offers an alternative investment mechanism called ARISTO. “ARISTO is one of a diverse range of financial instruments, but it is unique in that it allows individuals to own rare, well-located properties,” explains Hideo Tanaka, President and CEO of the AD Works Group.

“In a J-REIT, investors do not own the real properties. Let’s say that the value of a property increases by 50%. A J-REIT investor cannot enjoy the increase because benefits are not directly allocated to the stakeholders. The profit will be divided into the total REITs performance before the profit is distributed. But ARISTO is different, it is an association that owns real properties. If you invest in ARISTO you can benefit from the rent of the buildings as well. After you see capital gains, you can immediately share in those gains. This is one of the advantages ARISTO has over traditional REITs.”

In uncertain times, investors look for safe havens, and the Japanese real estate sector – backed by stability, predictability and profitability – has and will continue to be a safe investment option.

Why do institutional investors choose CBRE for their Japanese real estate needs?



"We have an excellent understanding of what overseas investors are looking for and can offer a multi-dimensional perspective that helps clients transform their business and find greater success."

Akira Nozu,
(akira.nozu@cbre.com),
Head of Asset Management,
CBRE K.K.
www.cbre.co.jp

Thanks to extensive national coverage, a series of specialized teams and a wide international network, CBRE Japan has become the go-to partner for foreign institutional investors looking to gain entry to Japan's lucrative real estate market.

Japan's reputedly stable real estate market has served as a safe haven for foreign investors in these uncertain times. Having proven its resilience in the face of the coronavirus pandemic, the Japanese real estate sector has seen the number of foreign players grow substantially in recent years, with many turning to CBRE K.K. – the Japanese arm of CBRE, the world's largest commercial real estate services and investment firm – as their first point of contact when entering the market.

Offering a wide range of real estate services, CBRE K.K. has focused heavily on strengthening its asset management services over the past two years, during which time its assets under management (AUM) have doubled to reach 392 billion yen ($2.9 billion – as of August 2022). And company senior director and head of asset management, Akira Nozu, reveals the company's target is to reach 700 billion yen within five years. But "beyond the numbers", Mr. Nozu says his "true passion is to maximize the potential of CBRE".

"I think our strength lies in our ability to bring together various specialists and interesting business opportunities. In the asset management team, we closely manage our clients on an individual basis. The great strength of CBRE is its ability to identify synergies, collaborate across departments, and provide an integrated service that unlocks the value of real estate in every dimension."

Among more than 100 real estate and asset management companies in Japan, CBRE K.K. has managed to differentiate itself as a globally-minded firm with unrivaled local know-how, thanks mainly to its vast coverage of the market through its nationwide network of offices. "With offices from Sapporo to Fukuoka, we have highly-knowledgeable local specialists in these areas who collaborate across teams and regions," explains Mr. Nozu.

"Another strength is the breadth and depth of our services. We have 17 different service lines that provide clients with integrated solutions. I work in the asset management department, but CBRE also has specialized teams in research, consulting, leasing, logistics, data centers and many other sectors."

Supported by CBRE's globally-reaching network, CBRE K.K. helps foreign investors to navigate through what can be a challenging entry into the Japanese real estate market, due to bureaucratic issues and complex documentation that is often only available in Japanese. Testament to the quality, depth and reputation of the company's services is the fact that overseas institutional investors account for 85% of its portfolio.

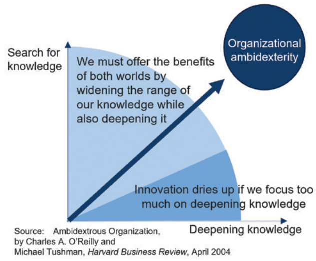
Among those international clients is a major U.S. developer that recently decided to hire CBRE's asset management team when making a large-scale investment in Japan. "From complex issues to basic requests, such as Japanese-to-English translation, we supported them every step of the way," says Mr. Nozu. "This stance is true for all our clients. We strive to be a one-stop service and strategic partner who provides intelligence that drives investment growth."

CBRE K.K.'s portfolio is mainly composed of offices, which represent roughly 58%, followed by logistics facilities and hotels. Moving forward, the company is looking to increase its investment in other areas such as data centers and healthcare and life science facilities, as well as growing its foothold in the hotels segment. "Our portfolio closely resembles the composition of the Japanese real estate market as a whole," adds Mr. Nozu. "We tailor our services to the individual investor we are working with. At CBRE, we work hand in hand with our investors to find the right assets for them."

As stressed by Mr. Nozu, CBRE has offices across the globe which equips its Japanese arm with both local and international expertise. "As such, we have an excellent understanding of what overseas investors are looking for and can offer a multi-dimensional perspective that helps clients transform their business and find greater success. Any entity or investor interested in the Japanese real estate market should connect with us to learn more."

CBRE

AD Works aims to attract $14 trillion in personal financial assets to Japan's small and medium-sized businesses



AD Works Group is a leading real estate services firm led by president and CEO Hideo Tanaka. With foundations dating back to 1886, Eiichi Shibusawa, an extremely prominent businessman and the "father of Japanese capitalism", was involved in the company during its early years.

The management philosophy that underlies the AD Works' success is its ambidexterity management theory, which balances the "exploration" of new businesses with the "exploitation" of existing businesses, and has been used in recent years as a management theory in the face of the pandemic, WEB 3.0, and other uncertainties.

A recently established subsidiary, Angel Torch, Inc. is the driving force behind the Group's "search for knowledge" and is expected to play a role in raising the percentage of non-real estate business to a higher level in the future. The company is led by president Katsutoshi Hosoya, who also serves as CFO of AD Works Group. Angel Torch's finance arrangement business is attracting a great deal of attention in the market, with the company helping startups and small to medium-sized listed firms raise investment funds.

So why has this seemingly inconspicuous business field been attracting so much market attention? To answer this question, it is necessary to understand Japan's extremely unique capital market situation and traditional values. Why are there as many as 4,000 listed companies in Japan? And why is the number of unicorn companies in Japan so low?

The answers to these questions may not immediately come to mind for many. Of the 4,000 listed companies in Japan, more than 30% have a market capitalization of 10 billion yen or less. With small market capitalization and low liquidity, these companies are not considered investment targets by general institutional investors. Angel Torch is offering an unprecedented and groundbreaking fundraising method for these small to mid-sized listed companies.

The first such case is that of Chiiki Shinbunsha Inc., a regional newspaper company which is listed on the TSE Growth Market. Angel Torch became the largest shareholder of Chiiki Shinbunsha in late August 2022. On the advice of Angel Torch, Chiiki Shinbunsha held a shareholders' meeting on November 24, 2022, setting out plans to adopt a rights offering, a rarely used capital increase method in Japan.

Newspaper published by Chiiki Shinbunsha

AD Works Group has raised funds four times in the past through rights offerings, a method of capital increase of which there are less than 40 examples in Japan. The company has successfully conducted a series of capital increases by accumulating know-how through its own in-house operations without using a financial advisory firm. Through its own experience, AD Works Group is convinced that rights offerings can work for companies with small market capitalization and low liquidity, such as regional newspaper companies.

> "We are currently analyzing how the technology created for the Metaverse and the blockchain infrastructure for digital securities can be used in our business."
>
> **Hideo Tanaka**, President & CEO, AD Works Group

"We believe that we can contribute to the sustainability of Japanese firms by providing know-how to nearly 1,000 small and medium-sized listed companies in Japan, which is also part of our commitment to the SDGs," says Mr. Tanaka.

Another reason why unicorn companies have not emerged in Japan is that the investor base for startups and unlisted companies in Japan is much smaller than in the West. Despite this, many founding owner-managers are still reluctant to exit through mergers and acquisitions because of traditional values.

In the U.S., the market capitalization of companies that go through an IPO is at least around 40 billion yen (approx. $284m). In Japan, on the other hand, many companies go public with much smaller market capitalization, while the amount of funds provided to unlisted companies by angel investors, banks, institutional investors, VCs, and CVCs remains small in comparison to the U.S.

> "Angel Torch will leverage its budding expertise in new businesses to challenge traditional values in the capital markets and increase the economic value of Japan as a whole."
>
> **Katsutoshi Hosoya**, President, Angel Torch Co., Ltd. CFO, AD Works Group

In this environment, another of Angel Torch's mandates is to provide financing support to these unlisted companies, by building a conduit to channel private capital to these firms.

One of the ways it is doing so is through the use of blockchain-based secure token offerings (STOs), which have been rapidly gaining traction in recent years. In May 2022, Angel Torch and a mid-tier Japanese securities firm launched a joint venture that will focus on STOs.

"Angel Torch is a rare company that meets the financing needs of startups and small to medium-sized listed companies, which have a small investor base in Japan, through its financial arrangement business," says Mr. Hosoya. "As a company that plays a role in building a channel to redirect more than 14 trillion dollars' worth of personal assets from savings to investment, we hope to build a revitalized investment society."