

Real estate booms amid Olympic buzz

As Tokyo prepares to host the 2020 Olympics, interest in the property market is heating up, with apartment prices in the capital city now at their highest levels since the early 1990s

The 2020 Tokyo Olympic and Paralympic Games are not only spurring new sports construction. The Japanese real estate market is also benefiting, especially from a surge in Chinese buyers who have been flocking to Tokyo for regular three-day property shopping trips, taking advantage of a favorable yen-to-yuan rate and betting on the Games to drive up prices, as happened in Beijing.

Their expectations appear to be confirmed. Over the past two years, real estate prices in Japan's main cities like Tokyo, Osaka, and Nagoya have been posting steady rises. The Real Estate Economic Institute Co. says that prices for apartments in Tokyo are now at their highest levels since the early 1990s, after a 14% jump in recent years.

For Asian buyers, Tokyo is a bargain. Prices for homes in Hong Kong, for example, are more than 160% higher than comparable properties in the Japanese city. A three-bedroom apartment in Tokyo goes for an average of \$440,000, while in Hong Kong, 600 square feet will cost you a cool \$1 million. That is because home prices in Japan have dropped about 70% from their peak in 1989, whereas prices in Hong Kong have more than doubled since 2008. Additionally, Japanese residential properties provide rental yields as high as 8%, compared to 1 to 2% in Hong Kong.

Tokyo also has a growing population, which makes rental properties an attractive bet. The projected growth in demand lends stability to foreign buyers, who are able to readily obtain financing for investment properties, sometimes up to 100%



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loans. The ultra-low interest rates, attractive rental yields, and the prospect of rising values ahead of the 2020 Games are highlighting the attraction of the market for overseas buyers.

High-quality buildings and abundant investment opportunities are also making Tokyo one of the best destinations for property investment in the region. High-end properties are the most in demand, with prices rising in some cases as much as 50%.

"Because Tokyo is an international city and a world-class economic center, constant demand can be expected for office buildings and buildings that serve as bases in Asia for foreign companies. The transportation infrastructure is developing ahead of the Tokyo Olympics in 2020, and there are plans for a great deal of attractive large-scale urban development in special nationally strategic wards," says Akira Mori, President and CEO, of Mori Trust.

Mr. Mori, who is involved in real estate, and hotel and resort development, recorded impressive growth of 82% last year alone. The company focuses on premium locations and premium construction. It has three new development plans for the center of Tokyo. "Because this is a high-value area, we are proceeding with plans that incorporate the features for working and next generation lifestyles, in addition to high-grade buildings using advanced techniques. By creating high-value urban assets in high-value locations, we will increase the value of cities in Japan," says Mr. Mori.

"In urban development, such as in the city center, we are developing attractive buildings that can comfortably support the vital needs of Tokyo, including buildings that combine luxury foreign hotels with functional buildings that are suitable for the business activities of leading corporate tenants."



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SEIICHIRO YAMAGUCHI,
President & CEO of Tosei Corporation

Toru Okusa, director of Mitsubishi Estate Co, Japan's top developer, says, "With the Tokyo 2020 Olympic and Paralympic games, more opportunities are being generated obviously for hotels and commercial properties, this is a fact. These large events will create strong opportunities for people and visitors to see and experience Japan as a country, and this will bring more opportunities for businesses in Japan as well."

Though Mitsubishi Estate Co. has operations in a vast variety of areas and properties, ranging from residential to commercial, including hotels, its main development area lies in the Marunouchi district in central Tokyo. The company has plans for five large-scale developments there over the next decade.

Seiichiro Yamaguchi, president & CEO of Tosei Corporation, which specializes in small to mid-size real estate investments, and which boasts

a portfolio of properties in Tokyo valued at over 10 trillion yen, says that opportunities are so abundant that they feel as if they are "swimming in a vast ocean."

"There are two kinds of real estate markets in Japan and in Tokyo. One is the buyer market and the other is the investor market. Regarding the buyer market, Abenomics has stimulated good economic conditions through salary rises, which led to an increase in consumption and private sector investment expansion. Mr. Abe is also planning to introduce government subsidies, to boost consumption in general and the real estate sector in particular," comments Mr. Yamaguchi.

"In the investor market, investors and developers are enjoying the negative interest rate which is used as a high leverage by them. Also the REIT (real estate investment trust) market is invigorated. The conditions in both sectors will remain favorable for the rest of 2016 due to the financial stability of Japan and negative interest."

As a result of the increased inbound tourist flow in Japan, which reached almost 20 million visitors last year and highlighted a shortage of hotels in Tokyo, Tosei is now entering the hotel market. "Hotel occupancy rates are around 80-90%, and with the upcoming 2020 Olympic and Paralympic games, these figures will only increase. I also believe that tourism growth will continue after the Olympics, as happened after the London and Seoul Olympics, for instance," says Mr. Yamaguchi.

"It is my view that many foreign visitors and businesses will be able to discover Japan and appreciate the country's merits. The country has sound and solid regulations,

a straightforward rule-of-law system, and a well-regulated real estate sector, with a very stable and sound market. All these factors will make it very attractive for foreign investors."

Property outside of Tokyo is also beginning to attract interest. Urban areas where the population is stable or growing, and there is more than a single industry like Fukuoka, Kawasaki, Kobe, Nagoya and Sapporo are drawing new investment, while many rural areas of the country have also launched campaigns to attract foreign buyers, highlighting their low prices for skiing or other tourist attractions.

Akira Mori says, "With the significant increase of foreign tourists in recent years, there are increasing investment opportunities not only in Tokyo, but in rural areas as well. I believe investment in hotels will be increasingly appealing going forward, and against this backdrop, investment has been stimulated among sovereign wealth funds."

With 10 factories throughout the country, Daiwa House is creating innovative and sustainable housing options outside of Tokyo. The company launched its Smart Town initiative in 2013. Company president Naotake Ohno comments, "We have developed Smart Towns in 16 locations, with a total of 1,000 units, and an additional three locations with another 300 units are now being considered. These houses feature solar power generation, storage cells, and HEMS to manage these systems. The specific design of each Smart Town differs from place to place. In some locations, we have included designs to incorporate natural ventilation and at others we have provided electric vehicles for car sharing."