

Why We are NOT a Big Fan of Japan Yet

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Stephen Chung BS BBA(HKU) MS in Real Estate(MIT) MRICS AHKIS MAACE MHIREA NAREIT FPFM PQS RPS-QS
Zeppelin Real Estate Analysis Limited - Phone (852) 24016388 / Fax (852) 2401 3084 stephenchung@zeppelin.com.hk

Recently there seems to be real estate investment interest on Japan (at least pre-September 11), especially in sectors such as Grade A Offices in Tokyo. Admittedly, the rental yield seems fair enough averaging at around 6%, notably much better than what banks can offer you these days for your deposits. Vacancy seems also low reportedly at around the 5% level, and the author has had his share of project tours and subsequent analysis. Still, notwithstanding the prospects of individual projects, the author has not become a fan of it yet. Some of the reasons are:

- a) **Japan's US\$33,000 GDP per capita remains a mystery** = Being a national figure, this is not only the highest in the region, but is one of the highest in the world. For benchmarking, one can refer to the following: the USA's GDP per capita is around US\$30,000, the UK is around US\$23,000, Germany is around US\$25,000, (South) Korea is US\$8,600, and Hong Kong is around US\$24,500. Notwithstanding its deteriorating economic conditions, its GDP figure has not changed much for the past several years, perhaps in part due to its governmental economic policies and stimuli.
- b) **The Yen is still strong** (or high) = we look at this issue more from a consumer angle as we are not economists or currency experts. Admittedly there are now quite a few "discount" stores through which all items are sold for 100Yen, and that a typical decent lunch or dinner nowadays in Tokyo does not cause a fortune anymore, many of the slightly better quality locally-made products are still quite expensive. Locals informed us they found these products relatively unaffordable too. This may be due to certain trade restrictions and other protective market measures which render competition scarce.
- c) **Unemployment feels higher than what is being reported** (around 5%) = this is based mostly on observations, especially in the subways. While there are the usual rush hours, there can also be many people in office attire during the other off-peak hours. Notwithstanding that some may be going to meetings, sales presentations and so on, there are quite a number whose facial impressions suggested that they were going nowhere (there can't be that many salespeople in Japan). Locals suggested that these people might be out of work though they would rather go out than stay at home.
- d) **Little is changed** despite a relatively new and young prime minister = there had been much speculation that the Japanese would now bite the bullet and take the economic pain so that recovery could have a chance to surface. Nonetheless, policies seem little changed to date. For instance, the current government has actually extended the time for the banks to deal with their bad debts from three to seven years.
- e) **Some jobs exist just to keep people employed** = for instance, being a modern country with sophisticated electronic technologies, the author was amazed that to find 'conductors' being posted at the more suburban railway stations just to "collect" tickets as one exited (where supposedly a exit ticket machine could have done the job more efficiently).
- f) **Fashion Setting No More** = Not long ago, Tokyo (at least to people in Hong Kong) had been a fashion trend setter in some ways. Now, except in districts such as Ginza, typical Tokyo residents do not dress very smartly or even up to date so to speak. Perhaps this is a reflection of the hard times and people rather save than spend. Reportedly, the savings are huge and the saving rate is high, hence pointing to a lack of (consumer) confidence.

When one looks at some of the investment projects individually, the numbers can look good with strong occupancy and tenants. Nonetheless, it is felt should the macro aspects and conditions not improve significantly, the micro advantages offered by individual projects may not mean much. Please note the above has not yet taken into account the various global possibilities due to the September 11 incidents, nor has it considered probable increased military spending by Japan.

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