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Economy

Investing in Japan

Incentivized by the economic policies of the Abe administration, the weaker yen and a sharp increase in the number of inbound tourists, investment in the Japanese real estate market is on the rise.

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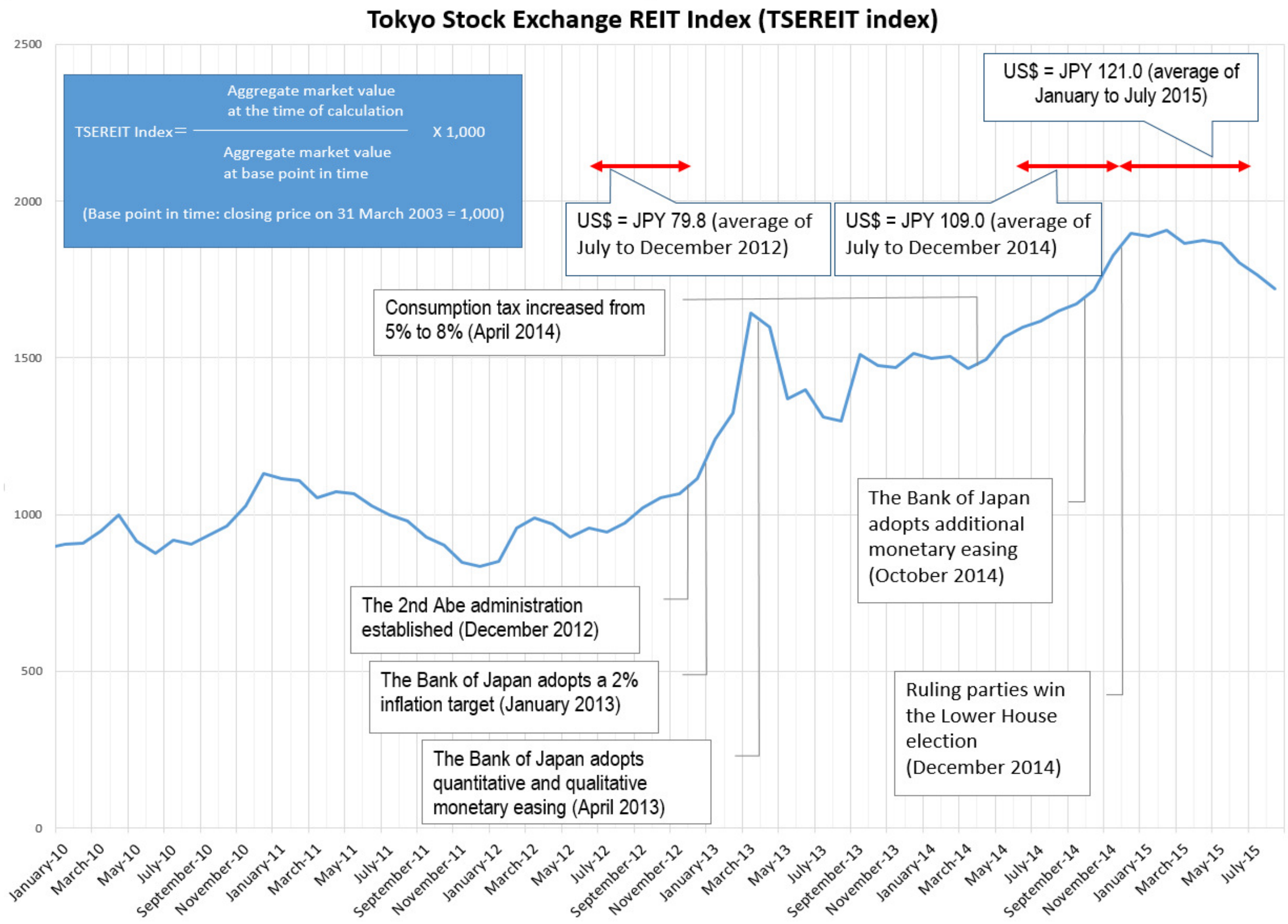
A marked increase in investment in the Japanese real estate market first became apparent in the months following the election of Abe Shinzo as prime minister in December 2012. The Bank of Japan's large-scale monetary easing in April 2013 arrested the steep rise of the previous months, as did the hike in the consumption tax in April 2014, but the general rising trend has continued through further monetary easing in October 2014 and the ruling coalition's victory in the Lower House election of December last year.

According to one private company, the turnover value of office building transactions by listed corporations and the Tokyo Stock Exchange (TSE) listed J-REITs (Japan Real Estate Investment Trusts) in FY 2014 rose by 45% year on year to a twenty-year high of 2,235.8 billion yen. The value of foreign corporation acquisitions meanwhile reached a record high of 524.1 billion yen. The capitalization-weighted index of all Real Estate Investment Trusts on the TSE, the TSEREIT Index, is also showing an uptrend (see **figure**).

Behind these trends are three main factors: the large-scale investments in department stores and other commercial installations taking place ahead of the 2020 Tokyo Olympics and Paralympics, active investments by corporations buoyed by the earnings recovery, and the weaker yen.

The weaker yen, among other factors, has served to increase the number of visitors to Japan. According to a survey by the Japan Tourism Agency, inbound tourists numbered 8,358,105 in 2012, rising to 10,363,904 in 2013 and 13,413,467 in 2014. Foreign traveler spending in 2014 was up 43.3% on the previous year at an estimated total of 2,030.5 billion yen, a record high.



Source: Tokyo Stock Exchange

Investment in commercial installations is sensitive to foreign tourism. In the popular Tokyo shopping district of Ginza, the city's first airport-style duty-free store will open in the Mitsukoshi department store this autumn. Foreign tourists as well as Japanese travelers headed for international destinations will be able to purchase duty-free items by presenting their passport and flight ticket. There are plans to open an even larger scale store selling goods that are exempt from consumption tax in November 2016.

This sharp expansion in real estate investment has given rise to bubble concerns. However, there has been almost no short-term trading of real estate of the type that is typically suggestive of a bubble economy. The model of real-estate deals in which non-banks played a primary role during the bubble economy period has long since changed. Non-banks are now the subsidiaries of major banks.

The majority view of economists is that there is no need for concern about another bubble period looming on the horizon. The focus of concern is rather on current trends in the Chinese economy and on the “post-2020” factor. When it comes to real estate prices and investment scenarios, we must look to maximize our experience and knowledge.

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