

# THE CURRENT STATUS OF JAPANESE REAL ESTATE MARKET – SECURITIZATION OF REAL ESTATE

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## ABSTRACT

It has been a long time since ‘the Japanese bubble economy burst’. Japanese land prices have continued falling for the last ten years and real estate trade remains stagnant. To break this stagnation, much attention has been paid to the “securitization of real estate” as a way of “liquidation” of real estate. The related laws have been developed and gradually this system has brought some results. In the real estate and financial business, expectations are running high for developing a new real estate financial market (J-REIT).

### 1. Fundamental Structure

The ‘securitization of real estate’ is characterized by establishment of a special purpose company (SPC). The fundamental structure to raise funds directly from investors by issuing securities such as corporate bonds and stocks backed by cash flow (income of rent and capital gains etc.) which is generated by the assets which are transferred to SPC from an originator in order to separate from other assets.

### 2. The significance of securitization by SPC

Traditionally Japanese corporations have raised funds from finance institutions such as banks, backing their credit capability by the latent profits of their real estate. In the circumstances that real estate prices cannot be expected to soar after the bubble burst, fund procurement has become difficult for corporations with substantial real estate. Real estate separated from corporations themselves is considered to have its own credit capability and can establish new financing method. → **New financing method for originators**

Meanwhile, investors welcome various risk-return commodities. → **Expansion of opportunities for real estate investment and various choices for investment.**

Both needs match here and the securitization of real estate has been promoted rapidly backed by the law called the SPC Law established in September 1998. (The first product was released in November 1998.)

Since the SPC Law defines the protection for investors and disclosure rule, it becomes easier for general investors to enter the real estate investment market that used to be exclusive and complicated. At the same time, further sophistication is required for Due diligence (for assessment of real estate value), asset management and property management. → **Expansion of Business opportunities for real estate corporations and investigating corporations.**

### **3. The scope of securitization**

Amendment of the Securities Invest Trust Law in May 2000 made investment trust on real estate possible in Japan.

Securitization by SPC is a company-type and trust-type scheme. Investments trust, on the other hand, is an asset-management-type scheme which produces income through investing the money collected from investors (by issuing negotiable securities etc.) on real estate and real estate financial products, and divides the income to investors. In the case of corporate type investment trusts, the securities issued by the investing corporation become liquid as the corporation goes public. Hence, the emergence of the REIT market is anticipated also in Japan. The first investment corporation is scheduled to be listed in this April.

Our hopes rest on the degree to which **J-REIT** will attract into the real estate market the funds of the small-scale segment of individual financial investor sector.

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### **BIOGRAPHICAL NOTE**

**Hogiko Iwata** is a Licensed Real Estate Appraiser and a member of the Japanese Association of Real Estate. He was born in Gifu, Japan and has studied law at Hitotsubashi University Tokyo, where he graduated in 1980, working as the real estate appraiser since 1988. He is currently Manager of the Asset Management Department of Tokyo Land Corporation.