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Funds' property holdings to hit ¥10 tln

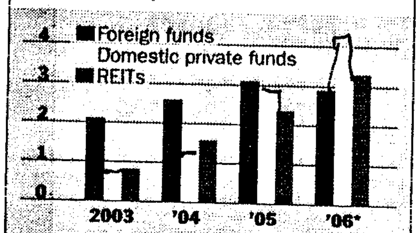
Real estate funds own 15% of rental properties amid warnings of overheating

The value of properties owned by investment funds specializing in real estate is expected to triple from three years ago to about ¥10 trillion ($91.7 billion) this fiscal year.

While financial institutions and nonfinancial firms are selling off properties, real estate funds have been picking up office and apartment buildings, with some funds taking on large-scale redevelopment projects in urban areas.

The value of properties for lease, including commercial and distribution facilities, totals about ¥70 trillion, according to an industry estimate. Exchange-traded real estate investment trusts, privately held real estate funds established by Japanese firms, and privately held funds set up mainly by foreign firms account for 15% of this.

Institutional landlords
Properties held by investment funds; in trillions of yen



As of March each year *Forecast

Sources: The Nihon Keizai Shimbun, STB Research Institute, Mizuho Securities Co.

In comparison, Japan's six major life insurers, including Nippon Life Insurance Co., hold about ¥4.2 trillion in real estate for lease.

The value of REIT-owned real estate came to slightly less than ¥3 trillion as of July 31. Because REITs continue to acquire properties after becoming listed, Takashi Ishizawa, chief real estate analyst at Mizuho Securities Co., said their assets will likely grow to ¥3.3-3.5 trillion by fiscal year-end.

Total assets held by 15 major foreign real estate funds are estimated at just over ¥3 trillion. Morgan Stanley Real Estate Funds, believed to be the biggest fund that invests in Japanese real estate, has about ¥1 trillion in assets.

Total assets of Japanese funds are estimated at ¥3.3 trillion, according to STB Research Institute. Based on these figures, the combined assets of REITs and domestic and foreign funds would be just shy of ¥10 trillion. Because "domestic funds are increasing their assets by over ¥100 billion each month," according to a senior analyst at the institute, the total will likely exceed ¥10 trillion by the end of the current fiscal year.

Major real estate companies are accelerating efforts to develop properties by tapping real estate funds, which enable these firms to raise money from many investors and reduce risks.

Investment funds calculate the value of real estate based on projected rent revenue, and there are more and more cases in which they acquire properties that have not been completed yet. One example is DaVinci Advisors KK's acquisition of a building being redeveloped in Tokyo's Shibuya district.

Investors can usually expect yields of 3-4% from REITs and about 5-10% from other real estate funds. On the other hand, there have been many cases recently in which real estate funds have been compelled to purchase properties at unreasonably high prices. REIT prices have been unstable since July, leading some market participants to point out that investors are exposed to greater investment risks.

Is Japan's overseas M&A era false dawn?

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YUSUKE MATSUZAKI
Staff writer

The era of mergers and acquisitions has arrived in Japan, or so many think.

Major Japanese companies pursuing forward-looking acquisitions aimed at spurring their growth are small in number — and as evidenced by the case of Takeda Pharmaceutical Co., such M&A deals are often difficult to push through.

View

Takeda has been in talks for several years to buy TAP Pharmaceutical Products Inc., a U.S. joint venture with drugmaker Abbott Laboratories. But at the end of June, Abbott filed a lawsuit against the Japanese drugmaker over alleged unfairness in practices regarding product supply to TAP.

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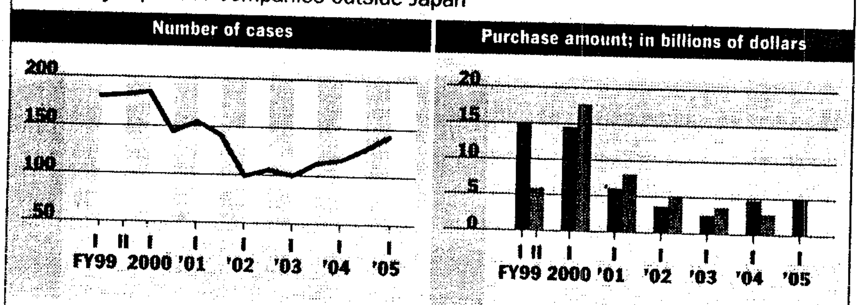
Turning inward
M&As by Japanese companies outside Japan



Source: Thomson Financial

under the category of overseas M&As by Japanese companies due to the involvement of a foreign holding company.

"Most of the deals are those with a minimal impact on earnings," said Koichiro Suzuki, senior investment manager at Sompo Japan Asset Management Co.

M&A negotiatio[illegible]

have not increased for a long time. To some extent, many business leaders have focused on cleaning up their own operations via reorganization. Also, o[illegible] as deals during the IT bubble purs[illegible] y such firms as NTT DoCoMo Inc. that did not end well may have also

Companies' efforts to strengthen themselves through restructuring alone are reaching a limit. Instead, they are being forced to consider investment to achieve profit growth in their operations. The overall rise in share prices reflects hope of an economic recovery, but eventually the market will focus on companies with growth potential and capital efficiency.

TDK Corp.'s announcement last month that it will purchase a major British engineering firm's power supply operations shined a spotlight on overseas M&As pursued by Japanese companies.

"We're increasingly offering M&A opportunities to rejuvenated Japanese companies," said Yoshihiko Yano, a managing director at Goldman Sachs (Japan) Ltd.

The focal point is the extent to which Japanese firms will turn to M&As t[illegible] strengthen growth. Instead of bein[illegible] preoccupied with defending against potential takeovers, [illegible]

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Because the buyout deal is said to be valued at some ¥300-500 billion, market participants are disappointed at the turn of events. Many believe the high-profile deal would help Takeda, which boasts the most cash on hand of ¥1.5 trillion among Japanese firms, improve its return on equity.

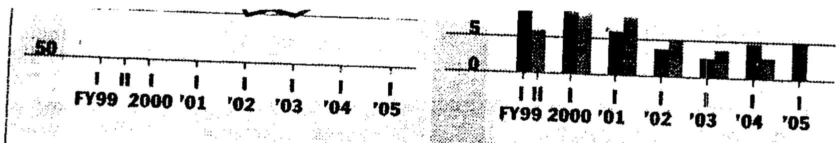
With the Takeda talks in danger of crumbling, market participants view the outlook for M&As in Japan with a certain level of pessimism, even though huge amounts of investment capital are flowing into Japan to help foreign firms acquire Japanese firms.

M&As targeting Japanese firms totaled 1,196 cases in the January-June half of 2005, setting a new record on a half-year basis, according to data from U.S. financial information services firm Thomson Financial. But the value and number of M&As carried out overseas by Japanese firms have declined since the information technology bubble burst.

Overseas M&As by Japanese companies totaled 142 cases valued at $5.1 billion in the January-June period, the Thomson Financial data shows. Among them are deals valued between ¥30-50 billion, such as Millea Holdings Inc.'s acquisition of a Brazilian insurance company.

The number and value of Japanese firms' overseas M&As were about 20% and 10% higher on the year, respectively, in the January-June period. But the number of such deals is less than 80%, and the value slightly under 40%, of the figures recorded in the first half of 2000.

The only major deal topping ¥100 billion was the reorganization of the Ito-Yokado Co. group, which was classified



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M&A negotiations can be complex, and there are a variety of reasons deals have not increased for a long time. To some extent, many business leaders have focused on cleaning up their own operations via reorganization. Also, overseas deals during the IT bubble pursued by such firms as NTT DoCoMo Inc. that did not end well may have also scared off potential M&A pursuers.

But the environment is changing.

... capital efficiency.

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The focal point is the extent to which Japanese firms will turn to M&As to strengthen growth. Instead of being preoccupied with defending against potential takeovers, Japanese firms will be put to the test in finding ways to take the offensive.